Deer in the Headlights?

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"If you fail to plan, you are planning to fail." - Benjamin Franklin

If you ever come upon a deer in the road while driving, you will most likely hit the brakes to hopefully avoid a collision. The deer on the other hand will have no idea of what to do and thus may literally freeze in its tracks. But the deer's uncertainty may be its undoing; if it simply continues to cross the road, rather than freezing in uncertainty, it will probably avoid being hit by the car.

What's the relevance, you ask? Well, the U.S. is currently going through very uncertain times, and we worry the uncertainty, and/or lack of confidence in the future, is what may ultimately cause collateral damage to the economy. Sure, you can blame the situation on political chaos (on both sides of the aisle, quite frankly), or newly issued tariffs, or any other governmental course of action, but we believe the reality of those governmental consequences could be less impactful than the uncertainty and lack of clarity.

Please don't take this as a comment on the Trump administration's policy course changes (as an aside, we remain very unhappy with *both* political parties, as well as bewildered by who and what they have both become in the last 10 years). Whether or not Trump's chaos is a voluntary or involuntary feature of his political process, our concern is about the *implementation* of some course changes. For instance, it makes sense to hit China with high tariffs and protectionist embargoes, but it does not make sense, in our opinion, to hit our allies with the same tactics at the very same time.

Which is when everyone wants to start talking about politics, so I'm sorry for having started this conversation - but these discussions are unavoidable when looking at the economy (and again, we believe there may be great consensus with our thought that both the Republicans and Democrats alike are doing a terrible job, and that Congress isn't even doing its job). So, whether you agree or disagree with the new or changed policies, the fact remains that the uncertainty will most likely have negative short-term consequences. As an example, some people may now decide not to make larger purchases, such as a car or house, as they're not sure they'll be able to afford them twelve months from now; these postponed or cancelled purchases may weaken the economy soon. Other people may actually accelerate purchases today instead of tomorrow to get ahead of perceived higher prices in the future, but this "pull-forward" phenomenon could actually cannibalize future purchases and again cause the economy to weaken soon.

As for businesses, we are starting to see some stress there as well; some companies have slowed or stopped hiring due to the uncertainty (and if people are not getting hired, they tend to spend less), and/or companies are increasing prices due to current or perceived future cost increases. In fact, Walmart recently noted that their prices will be going up soon to compensate for higher supply prices - and as the Wall Street

Journal noted, "[t]he worry is that if Walmart, the world's largest retailer by revenue and known for its low prices, can't avoid raising them to remain profitable, then others won't be able to, either."

This mix of potentially higher prices and a slowing economy likely explains the hesitancy on the Federal Reserve's part as it is the recipe for stagflation. If stagflation sets in, the Fed will be between a rock and a hard place as their dual mandate of maximum employment and stable prices are contrary aspirations; if the Fed lowers interest rates to stimulate the economy and increase employment that may in turn accelerate inflation, if it increases rates to fight higher prices then it may slow the economy even further and help employment deteriorate. In theory, the Fed can ignore short-term price increases for a short while, but every day of uncertainty that passes could mean reality will not resemble theory. Understandably, the Federal Reserve's hands are tied - it wants to be proactive but may be constrained until the fog clears and there's more clarity on the economy's direction. But just as the uncertainty symptom may be worse than the recession disease, so too may the Fed's hesitancy carry its own consequences.

But alas, all is not lost. This is simply the outlook based on uncertain variables, and there is, as always, a flip side to the coin; as much as the preceding sounded pessimistic, there are reasons to be optimistic as well. For instance, we seem to be making long overdue progress on trade imbalances with friends and foes alike. And though prices remain elevated in certain areas, the price of oil and gas has been steadily declining for the last six months. And remember, oil and gas prices flow through the economy's veins more so than any other cost; deflationary oil and gas can help everything we do, make, or eat (think HVAC, plastic production, food transportation, etc) more affordable.

We also believe that, in life and in business, sometimes you must take a step back before you take two steps forward. Accordingly, we think recession fears are overblown - not because it will not happen but more so because recessions are a painful yet natural part of every business cycle. In our opinion, trying to avoid a recession at all costs is not only folly but dangerous as well since it can lead to excesses that are more painful when finally corrected; the longer you postpone the inevitable the worse it may be.

The question is what to do? And our answer is always the same: plan for good times and bad during good times and bad. If you simply wait to see what happens, then you may get caught like the proverbial deer and be run over by circumstances that were avoidable; planning for the unexpected as well as the inevitable can help keep the uncertainty at bay and keep you from planning to fail.

As always, thank you for your friendship, your trust, and your referrals. Have a great weekend, and enjoy Memorial Day – but please also remember what it means to us all as Americans!

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