July Commentary

Unexpected Accolades and Mediocre Egg Rolls

I have the honor of serving on the board of a local not-for-profit that held their annual fundraising soirée last month. The company's CEO gave all the Board members in attendance a brief individual introduction and asked each of us to stand so the crowd could acknowledge our commitment and service. Trust me, I could get used to that sort of thing. A round of applause simply for standing up? The rest of my family doesn't realize how fortunate they were to have not been there to witness this, because if they had been, I would forever be telling them: "You guys should do yourselves a favor and begin listening to what I have to say." Now, the downside to getting my ego stroked by the unexpected applause, if you want to call it a downside, was answering questions about the markets and economy as I attempted to make an inconspicuous exit. After all, everyone in attendance now knew who I was and what I did for a living. Don't get me wrong. I love sharing my opinion with anyone who will listen, as I rarely get to do it at home.

Even so, a couple of queries about the possibility of an emergency rate cut between scheduled FOMC meetings as I was headed home for the evening caught me off-guard. My seemingly uncomplicated yet frank answer: "I sure hope not, because if they do, it will indicate the data the Fed is privy to is much more dire than what the government has been feeding the rest of us." Now, I am not so naïve as to think Chairman Jerome Powell and his cronies are pouring over the same information we get to see. If they are, that revelation would be more surprising than the applause I received after being introduced at the recent dinner event. That said, I will posit that interim changes to monetary policy could happen if economic data/news comes in shockingly weaker than anyone thought possible. I mean many standard deviations to the left of the median analysts' estimates. As a matter of fact, I don't recall a single time during my career when the Fed changed its policy stance because the stock market had a few lousy trading sessions in a row.

It goes without saying that the most recent jobs report was not great, but it wasn't a haymaker knockout blow, either. Likewise, the rout in the Japanese Nikkei on August 5 was concerning, though Japan's economic clout isn't what it used to be, and their stock market has been unpredictable for decades. But should our FOMC embark on an easing policy because domestic investors get restive after an impressive run in their stock portfolios? While that move might be nice in the short term, would it be a good thing in the long haul? The central bank mandating the price of money, arguably somewhat artificially, in the financial system would cause great consternation for many.

Stay with me for a little longer and follow this simple illustration. Have you ever been to an all-you-can-eat buffet? If so, you know the food offered is usually mediocre in nearly every instance. If it were truly awful, very few would ever eat there. If it were excellent, the restaurant owners wouldn't allow patrons to consume untold amounts of their fare at a set price. Think about it—does it really matter if it is a Shoney's, Golden Corral, Duffy's, CeCe's Pizza, or any of the numerous international cuisine establishments dotting our country's landscape? No matter your preferred culinary preference, they are almost always mediocre at best, even if you and I want to convince ourselves otherwise. Yes, there are exceptions to this broad statement, but you must admit they are rare. If you can come to grips with my "all-you-can-eat buffet" scenario, you should also be able to envision that the economic data and a large swath of corporate earnings have been mostly mediocre this year. Just as some buffets are marginally better than others, so too have the government's economic releases and earnings reports of various companies been thus far in 2024. Combined, very few experts would staunchly argue the U.S. economy has been hitting on all cylinders through the first seven months.

On the contrary, our domestic stock market has been relatively stout. Sure, a handful of companies were the primary contributors to the eye-popping 15%+ return the S&P 500 posted through the end of July. However, many investors utilizing index or target-date funds in their retirement accounts also benefitted. Continuing with my "not-so-fine-dining" analogy, imagine your favorite Chinese buffet offers decent egg rolls, and let's assume you have eaten four already. Most reasonable people would say that should be enough. However, your wife isn't with you, which is crucial, and the buffet is all-you-can-eat, so why not have some more? That is sort of how the market has performed this year. So, you (let's be honest, you probably realize by now I am talking about myself) saunter back to the serving station to discover there are no more egg rolls. You ask one of the servers when there will be more, and they reply: "It will be about five minutes. The kitchen is already making some because we noticed you really like them." Ouch! If waiting a few minutes for more egg rolls wasn't bad enough, the wait staff has been watching my rapacious indulgence! Is it fair to say you might be slightly annoyed at this juncture? Should you rush to the cashier, pay the check without any pleasantries, and vow subconsciously to never visit The China Star Palace & Buffet again? Well, maybe not everyone would feel that strongly. But inwardly, it would probably roil even the most laidback of individuals. That, my friends, is how the markets behaved during the recent, shall we call it, unpleasantness.

As I sit here and type, there appears to be nothing thus far in the official economic data that would dictate that the Fed needs to make any changes to monetary policy before the upcoming FOMC meeting in the middle of September. Sure, a lot can happen between now and then. Perhaps we get a dreadful Employment Situation report for August or the upcoming inflation releases will be woeful and alter the committee's thinking. Or maybe the Institute for Supply Management (ISM) Reports on Business could plummet to 40 (a reading above 50 generally indicates expansion, while a reading under 50 indicates contraction). Worse yet, the world could become embroiled in a much larger and devastating conflict in the Middle East. So, a lot can happen over the next few weeks, which could force the Fed to change course. However, through the end of July and including the most recent economic releases, I haven't seen anything that would give the Fed any reason for panic. Of course, we could certainly debate the FOMC's wisdom of keeping the overnight rate at 5.50% when the 10-year Treasury Note hovers around 4.00%, but that is neither here nor there.

Through the first seven months of 2024, the most pleasant surprise is how strong the U.S. stock markets have performed. Hey, don't get me wrong. I am most certainly not looking a gift horse in the mouth. We should all be thrilled with making money in a slow-moving economic environment and at a time when corporate results have been decent but nothing in the realm of stellar. What is not to like? It's almost like getting a round of applause simply for doing nothing more than standing up and waving to a crowd. It is great when that happens. However, we shouldn't go "I want more egg rolls" crazy when it doesn't.

Until next month—

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