Of Bulls, Bears and Goldilocks...

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BULL MARKET (BOOL MAR KIT) N. A market in which securities or commodities are persistently rising in value—generally an increase over 20%.

BEAR MARKET (BAR MAR KIT) N. A market in which securities or commodities are persistently declining in value—generally greater than 20%.

RECESSION (RI-SESH'EN) N. An extended decline in business activity, generally accepted as two consecutive quarters of economic decline as measured by the gross domestic product (GDP). The National Bureau of Economic Research, (NBER), a non-profit, private organization, will look at multiple factors and areas in the economy before labeling an economic downturn as a recession.

No doubt you've heard or read these words while keeping up with current events. Perhaps they've created a sense of dread, or in the case of a bull, optimism. The markets are forward looking, yet a bull, bear or recession cannot be known until afterwards. Isn't it ironic, then, that the emotions these terms provoke are anticipatory?

To counter some of the dread:

- Since World War II, no recession has lasted more than 1 year
- Of the last 42 years of the S & P 500 returns, 32 were bull markets
- Bear markets do not necessarily predict recessions: of the last 9 bear markets, only 5 coincided with recessions

CONSUMER SENTIMENT (CON SOO MER SEN TI MENT) N. Consumer sentiment is an economic indicator that measures how optimistic consumers feel about their finances and the state of the economy. The survey assesses current sentiment as well as how the participants believe they will feel in 6 months. Consumer spending makes up nearly 70% of our country's gross domestic product, so this monthly indicator is seen as a greater predictor of where our economy might be headed.

FEDERAL RESERVE BOARD N. ALSO KNOWN AS "THE FED" OR FRB The Board of Governors of the Federal Reserve System is a seven-member body that governs the Federal Reserve System, the US central bank in charge of making the country's monetary policy. This is considered an independent agency of the federal government. The Fed has a statutory mandate to maximum employment and stabilize prices at moderate long-term interest rates. The FRB chair, other governors and officials must testify before Congress; however, they are mandated to make monetary policy independent of the legislative or executive branch. The Federal Reserve Bank is structured like a private corporation.

The Federal Reserve must find the correct balance between maximizing employment and stabilizing prices. Their work must be "just right", and this tends to be the most worrisome for market watchers. If the Fed does too much or too little in one area of the economy over another, we could face protracted inflation or a recession. Here are a few areas they are watching:

- Consumer sentiment hit a 50 year low in June
- Unemployment is at 3.6% (50-year average is 6.2%)

- Job openings are almost two times more plentiful than applicants. At the end of April there were 11.4 million open jobs, nearly double the number of unemployed (June 19, 2022, The New York Times).
- Inflation, as measured by the Core Consumer Price Index (CPI) registered 9.1%, in June.

Consider the dynamic between consumer sentiment, news consumption and the inflation number. Inflation ticked higher at the CPI's last reading. How will consumers, now, rate their current sentiment and what they anticipate for 6 months out?

Broadly, what news or circumstance is weighing on the consumer mood—your mood? Headlines often cited are the Russian war on Ukraine; the January 6th committee hearings and partisanship; job prospects and wage growth; the changing pandemic landscape; and inflation. How often is the tone pessimistic or negative? When is the focus positive on what is working or optimistic on what can go right? If consumer sentiment drives the markets in the short-term, what might help turn this negativity around?

Thinking about our childhood lesson from Goldilocks, we are reminded that there is a desirable balance. Capitalistic forces are creative, yet they can also be destructive if not in harmony with broader long-term trends. Supply-chain issues induced by the pandemic and the Russia/Ukraine War, have created inflation, yet also opportunities for innovation addressing climate change among other outcomes. Our democracy was designed to keep balance among the three branches of government and between the two parties. It functions well, with a fine tension among entities. The stability of our systems— including economic— requires a functioning, steady, balance. We are feeling the effects of the pandemic lockdowns, yet more people were able to save, reduce debt and have begun re-examining their priorities as well as their careers. The United States was created by immigrants, yet immigration has been stunted due to past policies and the pandemic. We now have a greater appreciation of the role immigration plays in keeping our economy growing and our government is beginning to work towards more constructive policies. Equilibrium can be found, but the pendulum may swing more wildly than we'd like in the short-term.

We invest our clients for the long-term and that investment time horizon usually is much longer than the current business, economic or sentiment cycle. Patience is key.

In a summer mood, quotes from and about a famous bear and bull:

WINNIE THE POOH, BY AA MILNE (BEAR)

"Rivers know this, there is no hurry, we shall get there someday…"

"If the person you are talking to does not appear to be listening, be patient, it may simply be that he has a small piece of fluff in his ear."

FERDINAND, FROM THE STORY OF FERDINAND BY MUNRO LEAF (BULL)

"And for all I know he is sitting there still, under his favorite cork tree, smelling the flowers just quietly."