

Third Quarter 2023

Economic and Market Commentary

By Ray L. Lent, Founder, The Putney Financial Group LLC; Chairman, Portsmouth Financial Services

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About 55 miles north of London, England, sits a famous city roughly the size of Sunnyvale, California, with a population of about 150,000 people. Archeologists can trace clear evidence of a permanent community here to more than 3500 years ago. Originally a small farming community, evidence shows that the region remained permanently populated for the next 1500 years.

By the time of Roman occupation, the site prospered due to its fertile land and reliable water supply. These natural attributes, not lost on the Romans, prompted them to build a fort on the highest hill in the region. It's name was *Duroliponte*. The Fort was built around 70 A.D., and soon the community grew under the protective shadow of the Fort.

Duroliponte only served a military purpose for fewer than 50 years, yet the community continued to prosper and grow. By the time of the Roman withdrawal from Britain, the town had taken on the name of *Grantebrycge*. The Vikings found the community to their liking and commerce expanded. When the Saxons ultimately drove the Vikings out, they began building churches, wharves and mints. Coins from their mint took on an abbreviated version of the town's name and became known as "Grants."

Around 1068, the Normans put their own mark on the town by building a castle and using a Middle English version of the town's name. Ever since then, it has been known as Cambridge (the place where one fords a stream in a town).

For the next 150 years or so, Cambridge continued to prosper. King Henry I granted the town the right to charge tolls on its waterways. It became the site of the Region's Court, but then in 1209, its history would change forever.

The Oxford Exodus

Early in the 13th century, Oxford was the site of the second oldest university in the world—Oxford University. There, students and professors worked side by side in academic harmony until a dispute occurred between the government, the church and the school. Six professors were executed, and a mass exodus occurred when students and faculty alike ran for their lives. They landed in Cambridge, where the world's third oldest university, Cambridge University, was formed in 1209. Over the years, the university branched out into 31 distinct and separate

“colleges” under the Cambridge banner. The one we are particularly interested in in terms of this column was the 26th college, St Catharine’s College, founded and chartered by Royal Decree in 1473.

St Catherine’s had its own unique focus as did all of the colleges. Theirs was the study of theology and philosophy. Over the years, the college campus expanded, and here’s where the story becomes particularly interesting.

A Man Named Thomas

In the sixteenth century town of Cambridge lived a man named Thomas. Thomas was an honorable and philanthropic man to whom the king granted the government’s mail delivery service from London to Cambridge. To ensure that mail would be delivered in the most timely manner possible, Thomas developed a most prestigious stable that housed 40 horses. Being a keen businessman, he recognized that he could rent out the horses that were not involved in mail service at a particular time to the students and professors at Cambridge.

When customers would arrive at his stable, Thomas soon realized they would naturally gravitate to his best horses, a practice that would wear them out prematurely. After a brief period of observation, Thomas developed a policy that applied the same to any customer entering his establishment: he would tell them they could rent the horse closest to the stable door. This ensured that every customer was treated equally as were the horses. If a customer protested, Thomas would politely say, “This is what I offered to you, and if it’s not acceptable to you, you can leave.” In other words, take it or leave it. (Incidentally, after Thomas’s death, St Catherine’s bought the stable and incorporated the land into their campus. If you haven’t figured it out by now, you’ll kick yourself; Thomas’s last name was Hobson.)

Hobson’s Choice

Hobson’s Choice became a worldwide proverb immortalized by the seventeenth century English poet, John Milton. The term has come to be associated with a situation where one is offered a choice, but in fact one isn’t. It’s a “take it or leave it” proposition. Now, a Hobson’s Choice is not to be confused with a dilemma whose etymology comes from the ancient Greeks. A dilemma describes a situation where one is confronting two possibilities, and neither is acceptable or preferable.

Think of the old parable, “On the Horns of a Dilemma.” While researching for this commentary, I wanted to see the various ways Hobson’s Choice was illustrated by journalists throughout the centuries. Perhaps the one that best expressed the meaning appeared in the *London Times* back in the 1870s. This was a period during which the sun never set on the British Empire and William Ewart Gladstone, four-time prime minister, epitomized the rough and tumbled world of British politics. The political cartoon in question featured a harried Gladstone holding on to the top of a garden wall by his fingertips. Below him, nipping at his heels, is a vicious guard dog. Glaring at him from the other side of the fence is a huge brute ready to bash Gladstone’s head in. Talk about being on the “Horns of a Dilemma.”

Unfortunately...

At the time of this writing, our country has to deal with both a dilemma and a Hobson's choice. First up is the dilemma. More than two weeks have now gone by since Speaker McCarthy has been ousted (brought on by a very small minority within his own party). Is it surprising? No, not really. When you think back to less than a year ago when it took 15 ballots and him agreeing to untenable conditions to get him elected in the first place.

Next up came Congressman Scalise who was nominated one week later only soon to withdraw after not being able to secure 13 of the 17 nay votes that voted against him from his own party. Next comes Republican Congressman Jim Jordan who needed to convince 16 of the 20 members of Congress, in his own party, that voted against him just last week. No easy task to say the least. Meanwhile, the Democrats continue to vote in lockstep for House Minority leader Jeffries, a situation unheard of in our nation's history. Talk about being on the "Horns of a Dilemma."

Does it have to be this way? Absolutely not. The country has some pressing affairs to attend to and needs a fully functioning Congress. Here's a thought that's probably too much to expect, but what could happen is for the Democrats to suggest a moderate Republican like former Ohio Governor Kasich, or current New Hampshire governor John Sununu for the job. With Democratic support and just a modest amount of moderate Republican support, the nominee could easily garner the 217 votes needed to elect a new House Speaker.

The Speakership would remain in Republican hands which would enable Congress to address the urgent matters before them. Yes, democracy can be messy, but it's the best system in the world and has survived these past 250 years.

So, as I said, I hope by the time you receive this commentary, the dilemma of picking a House Speaker will be resolved and Congress can resume the business they were elected to do, i.e., dealing with our borders, avoiding a government shutdown which, in the words of Yogi Berra, will be "Like deja vu all over again." (You'll recall that my last commentary spoke of my hopes that we would avoid a shut down some 60 days ago.) Providing critical aid to Israel and Ukraine has to be at the top of the Congressional list, not to mention addressing China's designs on Taiwan with a functional and representative U. S. Government.

Let Me Bring It Home

Here's where Hobson's Choice comes into play. Remember, Hobson's Choice only makes it appear there is a choice when it's really a "take it or leave it" proposition. When Congress does get back to work, with hopefully a minimum of self-inflicted damage, its members will be wrestling with efforts to reduce the deficit through cuts and taxation or fund our security needs—Border, Israel, Ukraine and restocking American defense reserves.

In my mind, it's a no brainer, in spite of a near government shutdown just a few weeks ago along with a \$33 trillion national debt. In a recent Gallup poll, amazingly, only 2% of eligible voters said the national debt was their biggest concern. You heard me right, and I'll admit I was shocked by the survey results. With public concern being so low over the national debt, few

politicians in either party will have the incentive to press for deficit reductions this year or next. We'll have to wait and see what unfolds after the 2024 elections.

Remember: This is not counter intuitive; this is war time economics. Look back and you'll see the same patterns leading up to and through World War II when deficits took a back seat to defense.

But when you think about it, this is really nothing new. When faced with similar issues going back almost 250 years, Americans have almost always lived up to their promises, made the hard choice and came down on the side of doing the right thing— rendering aid to their allies as well as humanitarian relief to innocent victims on either side.

The Here and Now

Third Quarter 2023 proved much to be expected and probably calmer than one might have expected given the domestic and international landscape of the summer months.

The summer started off with a very robust July in the markets, fueled in large part by second quarter corporate earnings along with future guidance. Soon after hawkish commentary from the Federal Reserve along with rising energy prices and higher interest rates resulted in market declines in both August and September. During this time period, only two of what has been nicknamed “The Magnificent Seven” posted gains. They were Alphabet and Meta. Incidentally, the other five companies are Amazon, Netflix, Apple, Nvidia, and Tesla.

As the market has now regained much of its equilibrium with forward-looking price earnings ratios approaching fair value, we believe further market gains will be driven by a widening out of the market and won't be so dominated by mega cap technology. As the economy continues to slow, volatility will remain in the market. However, it does not appear that the slowdown will be long lived since the easing of supply constraints and our monetary policy tightening cycle appears to be winding down. While economic growth will be slow, most economists are now taking a previously anticipated recession off the market.

Looking Forward

Over the next several weeks, companies will be reporting earnings and giving future guidance. Most analysts anticipate respectable earnings and realistic guidance going forward given the headwinds world economies face. To illustrate the point, look at two important commodities prices these past three months: gold and copper.

Gold is followed as a doomsday measure. If the world is going to heck in a handbasket, spot gold prices historically will go up. Now, on the other hand, copper is considered (has been and still is) the barometer of world productivity. Simply put, copper is used in most everything. When manufacturing is up, so are copper prices. When manufacturing is on the decline (along with demand), copper prices go down. Since my last quarterly commentary to today, spot gold has gone from \$1964.40 per ounce to \$1931.80 per ounce, whereas spot copper has gone from \$3.84 per pound to \$3.57 per pound. These numbers are reflective of the acknowledged slowdown in the economy but are certainly not the numbers that would correspond with a

doomsday scenario financially, in spite of the shock and horror we must process in real time across the globe.

Conclusion

Year to date, the market has reacted with strength and some large amount of predictability on the heels of such a ghastly 2022 for world economies.

Clearly there is some heavy lifting to be done moving forward through Fourth Quarter 2023. Government needs to be functional and effective. (perhaps easier said than done). Regional conflicts need to be contained and not escalated into global conflicts (again, easier said than done).

Being a tempered optimist (not a Pollyanna), I look forward to the day to be able to write about the incredibly exciting and game changing advancements that are happening right now in medicine, manufacturing, generative artificial intelligence, life sciences and agriculture. I would be doing an injustice to try to cram so many positive developments in these closing statements, particularly in light of your kind indulgence, as a reader, to get this far along in my commentary.

With that said, let me just leave you with a few uplifting and remarkable developments going on right now just in the field of medicine.

Clearly the 800-pound gorilla in the room is in GLP-1 space (glucagon-like peptide -1) used for the treatment of both diabetes and obesity. Clinical trials have shown, when these drugs are taken for obesity, there has been more than a 20% reduction in the risk of cardiovascular events. When using these statistics as a baseline, and having more than 85 million Americans considered overweight, this could save two million lives just over the next 10 years.

The long-term positive effects can be staggering: reducing sleep apnea, hip replacements, knee replacements, lowering blood pressure, just to name a few of the potential benefits. Financially speaking, medical care costs could be reduced dramatically. It's been known for many years there has been no treatment for slowing the advancement of Alzheimer's disease. Well, that landscape is about to change substantially with full FDA approval of "Leqembi," produced by Eisai and Biogen. As delivery modalities become more manageable, these drugs can have an immensely positive effect in improving the quality of life to tens of millions of people around the world.

In recent years, the medical community has offered little to those suffering with chronic or acute pain. Tylenol and Ibuprofen can only do so much. Because of issues surrounding addictive painkillers in the opioid crisis, little research has been done in the field of non-addictive painkillers. Now, a generation of non-opioid painkillers are in Phase 3 trials, with very promising expectations. The same company, Vertex, that's leading the research in non-opioid painkillers, has introduced a new treatment for cystic fibrosis. This is an amazing breakthrough that has stabilized the lives of many young people that would have never been alive to celebrate their 40th birthday.

Before I leave you with one final reference to the amazing breakthroughs in medicine, I would be remiss not to mention the advancements in treating wet macular degeneration (one of the leading causes of blindness) or give a nod to the development occurring in the treatment of depression, kidney and liver diseases.

Saving the best for last, I'd like to briefly tell you about doctors Katalin Kariko and Drew Weissman, who were awarded the Nobel Prize in medicine earlier this month. Their contribution: recognizing a small modification to the building blocks of RNA made it "stealthy enough to slip past immune defenses." This recognition was pivotal to the mRNA research that resulted in the discovery of the Covid-19 vaccine. This has opened up a floodgate for scientists to try out this approach in the treatment of cancers, allergies, influenza and rabies, just to name a few.

Between horrendous acts of global terrorism, a land war in Europe, international saber rattling along with an often-dysfunctional government here at home, it is often too easy to lose sight of so many great and innovative things that are going on around us. It's my hope that by the time you do receive this commentary, Congress does have a new Speaker of the House and government can resume the work of the people. It's my hope that this fall is a happy and healthy time for you. As always, with...

Best Regards,

Ray Lent

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Enclosures