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INSIGHTS & OBSERVATIONS

YOUR GUIDE TO FINANCIAL MARKETS AND INVESTMENTS June 2024

Welcome back. With the halfway mark of 2024 rapidly nearing, we are noticing another split between the two sides of many current events.

The various conflicting crosscurrents in the world today are one reason for our recent caution on markets in the near term, as we don't see many bargains and prefer to watch closely as these trends play out through summer.

The political divide is widening even further in many countries with middle ground parties losing support to more extreme viewpoints. With more elections to come we wouldn't be surprised to see greater volatility connected to ballot box outcomes.

In technology the promise of artificial intelligence (AI) to boost productivity and raise living standards is a clear benefit, however we also notice technology enabling even more surveillance and intrusion into our lives.

Rising interest rates have 'normalized' the cost of borrowing which is unquestionably more healthy for economies, but those who guessed wrong and took on too much debt without considering higher rates in future are now paying a steep price for their mistakes.

These stresses have landed particularly hard on governments and the lower income portion of the population. One side effect of this trend is a rise in calls to 'tax the rich' with the claim they aren't paying their fair share. Despite clear evidence the rich usually are paying more than their fair share in countries like ours, the push continues because governments refuse to slow down their unproductive spending.

Given the unusually wide ranges of outcomes to some of these issues, and the fact stock markets have done fairly well over the past few quarters despite these problems, we're most comfortable today with slightly more than normal cash levels as we pay close attention to all of the above.

Ideally, we'd hope to see greater empathy and cooperation politically, along with more responsibility from governments. Instead our caution stems from a reality which at least for now unfortunately appears to be heading in the exact opposite direction.

Longer-term our progress will continue and likely accelerate – see our first article this month – but in the near term, patience and prudence seem like the better side of the split to land on.

Have a great month as our long-awaited summer finally begins – and take care.

Philip

June's Articles

The issue of scarcity when it comes to resources has long been a popular one in the media, regularly appearing from time to time with scary predictions attached. Bad news always sells more than good news, so a forecast which predicts a shortage or the end of a vital resource is a reliable attention-getter.

Investors understand better than most just how difficult the prediction business can be, yet some still fall for scarcity stories despite a reality which consistently disproves scarcity fears.

In the article linked below we see a look at how mankind's progress and the compounding of our ideas has allowed us to move forward while consuming resources at a growing clip. Author **Joakim Book** sums up how this apparent contradiction between Earth's limited resources and its growing population has evolved.

As you'll read, the reality of this is more subtle than the media usually presents. We have never run out of any resource we really need and wish we had back today. The reason has never been that we decided to conserve or limit use of a resource, rather it's us finding more efficient replacements and uses for what we do have.

Not mentioned in the article is the fact that global population is expected to peak in the next 20-30 years, and then go into gradual decline. With fewer humans on the planet in future and possibly even access to other planets' resources by then, things could even become much better.

Presumably this might finally silence the scarcity gloom of the media…but I'm not predicting that!

https://www.aier.org/article/unlimited-growth-forever/

Debt is trouble. With interest rates returning to normal after two years of increases, we are seeing more articles about debt and its consequences.

Never before in history had we seen interest rates fall to the levels they did after the 2008-9 financial crisis. They then remained near these levels for years, which allowed debt growth to accelerate as borrowers became confident rates would stay low. From corporations to individuals and governments, everyone joined the party.

A few years ago many companies began to anticipate higher rates and pay down debt or lock in the low rates still available at the time. Consumers did some of this, and governments did the opposite. With rates where they are today, many corporations are in great shape financially, but the ones who did not take these actions are squirming.

In another article from a favorite of ours, **Morgan Housel**, we find an interesting look at a few Japanese companies and their debt philosophy. As you'll see, these firms truly understand how debt combined with higher rates equals trouble.

This reality is one we've taken to heart as investors, both in our investment choices and in how we conduct our financial affairs in general. Its also why we don't borrow to invest and aren't afraid to hold cash reserves when can't find buy ideas.

https://collabfund.com/blog/how-i-think-about-debt/

WHAT THEY SAID

"If you think nobody cares if you're alive, try missing a couple of car payments."

Earl Wilson