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"Turkeys, Hawks and Elephants, Oh My!"

It's a financial and economic circus as we head into the end of a year we may want to forget

- Carol Roth

In this informative newsletter, Carol covers all the animals making for a very odd economic circus filled with lots of freaks at year end; why you need to buy your holiday turkeys asap and how much more they may cost; how the Fed has gone from a dove-in-hawk's-clothing to a legitimate hawk; how the Fed is creating issues domestically and abroad that impact your wealth; why a handful of elephants doesn't help the economy enough as we look ahead to 2023; and more.

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As we head into Thanksgiving, despite a challenging macroeconomic environment and a not-so-pretty look ahead, it is important to have gratitude for what we do have. Be thankful for your blessings, but also be aware of what is coming. Financial doves turned into hawks, a handful of elephants replacing donkeys, and a few scapegoats are making for a very odd economic circus filled with lots of freaks.

Turkeys are having a tough time—between inflation, supply shortages caused by avian flu and other factors, as well as supply chain strains, the price of turkey is going through the roof, if you can even find one. Add that to your fixings and sides and your turkey dinner could cost, by one source's estimates, up to twice as much this year!

It's probably not much of a surprise that your turkey is expensive. What isn't? And prices across the board aren't coming down fast enough for the doves to come back to the show, although perhaps the October CPI, while still at 7.7% year-over-year, may portend well for a return in 2023.

The Fed Hawks

The Fed has turned from a dove-in-hawk's-clothing to a legitimate hawk. In layman's terms, that means the Fed is willing to stay with tighter monetary policy, faking out some in the market that were anticipating a pause or a pivot (if you have been reading and following my recent commentary, a possible outcome that you, unlike other investors, were prepared for).

On the back of a whopping fourth consecutive 75 basis point raise (100 basis points is one percent, 75 is three-quarters of a percent), taking the Fed funds target rate up to 3.75%-4.0%, a level we haven't seen in around 15 years, the Fed is playing games. They are signaling that there may be smaller individual raises, but a higher terminal rate.

That's like you forgoing your turkey dinner main course but going back over and over again to eat the appetizers, ultimately consuming 2,000 calories instead of 1,500. It seems like you are doing less, but the result is worse.

The Fed wants desperately, or so they say, to bring down inflation. Inflation, I remind you, that the Fed with their excessive money printing, along with insane government policy like the American Rescue Plan stimulus checks, caused.

The only “tools” at the Fed’s disposal impact demand. That means that they want you to be broke and unemployed so that you don’t have enough money to spend, and they seek businesses to make fewer investments, reducing demand (as they call it, “demand destruction”) as their method of trying to take down inflation. You paid for their mistakes in terms of more inflation, and now they want you to pay again to extinguish it.

On top of the domestic issues, the Fed continuing to raise rates will create more headwinds internationally, too. While your instinct might be to not care what happens abroad, those issues can become systemic and blow back on the US. Whether the strength of the US dollar creates a currency crisis, liquidity issues in the Treasury market or other financial contagions, the blowback could be substantial, even potentially costing US manufacturing jobs due to the higher cost of US goods for American companies that export.

Or worse, the Fed is intentionally trying to create a systemic financial issue. Whether the impetus is trying to take down Russia and/or China and letting Europe become cannon fodder or bringing about a financial reset as a backdrop to push a CBDC (central bank digital currency) in both an effort to gain more control over you and your freedoms or to create an excuse to reset debt, the push for more raises and a higher Fed funds terminal rate is not good news.

A Handful of Elephants

You would think that a country that can put men on the moon could perhaps count votes in a timely manner, but that seems to be too much of a challenge to ask for. It also increases the lack of trust in foundational US institutions, which I explored in my last piece.

It looks today as though the GOP “elephants” have regained control of the House by a small margin, with the Senate remaining blue.

While perhaps a slightly better outcome than the current stable of destructive politicians, of course, the damage has already been done. The US has an ever-growing debt load, now more than $31 trillion, being financed and re-financed at higher interest rates. The FY 2022 deficit was a whopping $1.4 trillion (and didn’t include any “emergency” covid relief) and the projection for FY 2023 is $1.2 trillion. This deficit may grow from additional spending or if tax receipts shrink due to less revenue collection brought about by deteriorating economic conditions.

The continued irresponsible over-spending by the government also stands in stark contrast to the Fed’s hawkish actions, making what was already a difficult task near impossible. The Fed is trying to slow demand and reducing spending and investment, and the government keeps spending money they don’t even have.

Anticipating the return of some "elephants" to the circus at least in part, Biden and friends had been planting seeds and setting up to throw them under the bus for what's predictably ahead. Biden has said several versions of the following quote made in a speech last month, ""If you're worried about the economy, you need to know this Republican leadership in Congress has made it clear they will crash the economy next year by threatening the full faith and credit of the United States." This is a very convenient scapegoat for an economic reality that everyone knows is coming. Now out of the technical recession we were in during the first half in the year and entrenched in stagflation, Bloomberg economists predict the odds of a 2023 recession at 100%.

The GOP, while perhaps capping the damage, are unlikely to be able to engineer a policy turnaround. It's doubtful that they can get Biden and his administration to shift their energy policy in a meaningful way that would either return the industry to making the much needed multi-billion dollar long-term investments or clear red tape for more fossil fuel production. (Note that OPEC has said recently that $12.1 trillion in investment is needed globally to meet world demand through 2045, illustrating that inflationary and supply concerns regarding energy aren't going away any time soon).

Another area that is messing with the inflation is the supply of workers. Of course, the Biden administration is trying to further kill supply via a Department of Labor proposal, as well as the proposed PRO Act, that are trying to eliminate independent contractor and gig work, affecting tens of millions of jobs. These proposals are against economic freedom under all circumstances, but particularly dangerous in a time of undersupplied labor. With around 1.9 jobs open for every job seeker, Republicans making it easier vs. more difficult to hire would help, although again it's not likely they can get that done.

That means that the Republicans have to pare back spending. The explosion of spending is partly to blame for inflation and servicing the debt will continue to become an increasing percentage of overall costs. Even with a potential decrease in revenue, dialing spending back just a few years to 2018 or 2019 levels could generate a breakeven or surplus position. Given the Republicans history, while accomplishing this would be a huge victory, but they don't have a great track record of the fiscal responsibility they like to talk about.

If we are being realistic, we shouldn't hold our breath on these. I would expect more bickering and posturing and less action. Congress, after all, is a place where political theater is performed and money is legally laundered, not a place of serious action or fiscal responsibility. It is the freak show in this macroeconomic circus, filled with far too many clowns.

We must remain grateful as it could be worse. Heck, we could be Europe. And, of course, we have much abundance, but we still want to preserve what we have worked hard to build. Surround yourself with friends, family, and other allies, build support systems and buckle up for a rough ride. If you haven't done enough hedging for the economic storm, get your house in order and consider giving my friends at Goldline a call to help you explore options that make sense for you.

While the circus usually has lions and tigers, we now have bears and elephants along with turkey, hawks and scapegoats, and of course a bunch of clowns. The economy is walking a tightrope; make sure that you have your safety net in place.