Stirling Bridge
Wealth Partners, LLC

MARKET COMMENTARY – June 1, 2023

Worm or beetle – drought or tempest -
On a farmer's land may fall,
Each is loaded full o' ruin,
But a mortgage beats 'em all. ~Will Carleton

The little tidbit above was written by a Hillsdale graduate well over a century ago. It is chock full of wisdom for both yesteryear and the future. And it is a warning to us all to flee from recklessness while running toward prudence.

Northern Ohio is in the midst of a moderate drought. It has not yet become widespread enough to send row crop prices skyrocketing. We'll see what happens. But as we think about being prepared for an undesired outcome in any situation, the drought is a fair reminder. Farmers carry crop insurance. Our younger clients with families and bills have life insurance. Seasoned clients with estate planning issues may have the same. Hopefully by now, all our clients have a cash reserve set aside for rainy (or dry) days.

But as bad as droughts or deluges may be, or as rough as infestations of fungi, insects, or arthropods are on the wherewithal of the farmer, nothing has the power to bring down the family farm (or family business or personal finances or a country) quite like leverage. In our youth, we witnessed this hard fact firsthand. When the grain market cratered in the 1980's after the soaring inflation of the 1970's, several highly mortgaged neighbor farms could no longer make payments. Those fields and buildings were bought out of receivership by more conservatively financed farmers.

As of this writing, the final nail has not been hammered into the debt ceiling bill. Recent polls showed that around two-thirds of voters favored a cut to spending. If the current "deal" ends up passing, the "cut" in spending for the coming fiscal year will be about 1% of the total Federal outlays. It will be smaller for the next fiscal year. It is important to note that nothing is being cut. We will still spend more for the next two years than today. The proposed spending is merely growing by a smaller amount. The deal's signatories are not serious about reducing Federal spending, deficits, or the debt.

Our readers might now expect us to say it is for these reasons, coupled with geopolitical friction, that, absent a recession, inflation will settle to a level hotter than we'd prefer. And that is just what we had said until the recent bank failures. Prior to the spate of insolvencies, the fact that the Federal Reserve and our profligate spenders in Congress and the White House were working at cross-purposes meant we'd entered a sort of death match. Who'd win, the spenders/inflators or the Fed?

That match goes on. But we now think credit tightening by banks in the wake of failures will be enough to slow the economy and broad inflation to a reasonable 3% range – higher than preferred, but an improvement over current readings.

Another word on banking. Our proposed solution – which has zero traction anywhere – has merit. Note that we merely proposed gates on interest bearing deposits to prevent uncontrolled runs. Insurance companies did not experience runs on their products in March. That is because they penalize such behavior. We are not saying banks ought to emulate awful insurance company practices. However, there are solutions to be found in other industries so banking isn't intentionally set up for perennial panics and consolidation into bigger entities. Our ideas could easily be a part of other reforms (e.g., requiring more equity capital on a bank's balance sheet).

Quick thoughts as we wrap up. We think bonds will have a decent year in 2023. The pace of rate increases has already slowed. Higher coupon payments are now able to absorb price decreases from future, small interest rate increases. Stocks may also have a modest year. However, it seems much of the gain for the year is had as future earnings look fragile from dollar stores to cybersecurity. We expect water treading (with volatility) until the final verdict is reached on inflation versus recession. See last month's commentary for details on inflation, banking, earnings, and stock leadership.

In closing, let our personal and Federal finances be prepared for the eventual locust or weevil, famine or flood while not succumbing to the immediate satisfaction granted by excessive debt. After all, the US would not have existed had Mother Britain not found it necessary to raise taxes inordinately to pay for extreme debts taken in prior years.

Stirling Bridge Wealth Partners, LLC is fortunate to count many of you as clients. In the good times and bad, we remain committed to providing customized investment solutions and robust financial planning wrapped in a package of exceptional service. We thank each of you for your dedication to us and for your trust.

Sincerely
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President