



Prairie Wealth Advisors Insights: “Waiting for the Recession”

“There is no better teacher than history in determining the future. There are billion-dollar answers in \$30 history books.” - Charlie Munger-Berkshire Hathaway

By Craig Hundt Sr. | Winter 2023

Dear Friends,

We are close to seven weeks into the new year, about a year into rising interest rates, and going into two years since inflation started showing up in the economy. The past few days the U.S. Bureau of Statistics released the latest inflation numbers which indicated that inflation is down from its peak a few months ago, yet it remains elevated, and the new buzz word has become “sticky inflation”, meaning inflation that is slow to go away or hard to reverse, a trend that may be with us for some time.

The best and brightest minds are right now swimming in the economic data that is being released, trying to be the first to tell us when things will get better. My experience tells me that we will only know after we know. I do believe that a few things will need to happen before the Federal Reserve can declare victory over inflation. One big key is the labor market. If unemployment stays at record lows, it’s hard for me to see how inflation goes back down to their target rate of 2%. Another variable to watch is money supply. If people have money and keep spending money, the chances of inflation declining in a noticeable way will become a lower probability as well.

Once we see meaningful changes there, then the Fed may be able to start the reverse cycle of raising interest rates and begin to lower them. So, as long as interest rates stay high, it changes the valuation profile for many riskier asset classes, stocks, real estate, etc., but from what we can observe today, when studying the information that we have, this cycle may take many more months before we see a trend change. The financial engineering that occurred after the pandemic hit in early 2000 had an explosive effect for many asset classes in the years after. Now we will need to be patient and wait to see how the reverse engineering works out. My guess is that when it comes to the economy, a recession will need to occur before the new cycle can begin.

If we use history as our guide and rule out the “this time it’s different” reasoning, many things must change before the federal Reserve changes course with its higher interest rate policy and possibly a new economic cycle begins. History is not always identical, but many are similar in nature which we call “cousins” of past economic cycles. When studying the factors involved in past cycles, then comparing them to our current cycle, there seems to be many similarities between now and the 2000-2003 cycle, a close cousin. A big boom in the stock market from 1998 to early 2000 (everyone was going to retire at 40), then an unwinding that took several years to wash out. The Covid bubble seems more obvious with each month that passes, many young people quit their jobs thinking that they could just buy stocks and live off the earnings, and many thought that this cycle would never end either.

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Looking forward, I think that two meaningful things must happen before this countertrend cycle finds its floor and a new expansion cycle can find its way to begin. First, employment must become softer, or another way to put it is that the unemployment rate must go up, and up significantly. The second is that we need to see a noticeable decrease in the upward trend in prices, whether it is in goods, housing, or services somewhere there need to be decreases. Noticeable enough changes will cause the Fed to reverse course on its current high interest rate policy. Until that happens, it is my prediction that markets will have a challenging time beginning a new long-term uptrend.

In the meantime, portfolio diversification will be important, along with taking advantage of fixed rate returns. Both should help in stabilizing portfolio fluctuations, along with a heavy dose of patience.

As always, contact me or any of our team members to discuss your current situation. We are all happy to help in any way that we can.

Best Regards,



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