“The Baton Rightly Passes To Our Colleagues On The Left”

Saturday’s With Jim

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Dear Friends,

Today’s subject line was written by J. Bradford (Brad) DeLong, a Professor of Economics at the University of California, Berkeley, whose interview with Zack Beauchamp on March 4, 2019 is published on Vox.com. DeLong is a Clinton era Democrat who recognizes that the neoliberal ideas promulgated by the Clinton Administration require a strong center right party with which to align to get big things done. He said that, “Today’s politics do not offer such a choice on the other side of the aisle.”

Will a social democracy come to pass in the U.S.? We think it’s all but inevitable, as was the New Deal, because the standard for racial equality has been raised since the beginning of the civil rights movement in the 1960’s and because income inequality has nearly reached the extremes last seen in the 1920’s. To wit, worker wages rose about 1.7% last year after inflation while stock buybacks from savings received from the generous corporate tax cut mushroomed to its highest level in years. The middle class received a small tax cut, too but it paled in comparison to the rise in stock prices and profit margins from companies. Now, what are we saying here? We, who invest in companies, have done very well over the past ten years, yet most of us might be classed in the middle. We repeat the mantra we began when President Trump was elected. We are moving to a progressive era, quickly or slowly, but a progressive era is advancing on us.

John Authers, former Financial Times commentator who is writing now for Bloomberg, notes in his March 5, 2019 article, “The Tax Man Cometh,” discusses how average family incomes rose in the 34 years prior to Ronald Reagan’s 1980 election and have remained stagnant ever since. He, like us, feels that the coming period won’t be market friendly at all, putting pressure on corporate margins and the wealthy, who are most likely to invest in stocks and hedge funds.

Stock prices are a function of highly changeable investor enthusiasm and corporate earnings/profit margins. We will not be so one dimensional to predict that falling profit margins will lower stock prices in a linear way, but we will say that we will not expect high single or low double-digit stock returns over the next five to ten years. The lengthy business cycle that began in 2009 will not likely end within the next twelve to eighteen months, but it’s in a mature phase where volatility spawned by uncertainty springs up unexpectedly. We will say that the good stock investing times of the last ten years will probably be more muted going forward, at least so far as the U.S. is concerned.

We will maintain our extraordinarily large high yield bond positions to give us near to long-term stock returns but with high, more predictable income. We are not abandoning stocks but feel that they present much more risk now than they did even a few years ago.

Thank you for investing with us.

References:

Beauchamp, Zack. "A Clinton-era centrist Democrat explains why it's time to give democratic socialists a chance," *Vox,* March 4, 2019. https://www.vox.com/policy-and-politics/2019/3/4/18246381/democrats-clinton-sanders-left-brad-delong

Authers, John. "Let Me Tell You How It Will Be 'Cause I'm the Taxman. Talk of higher marginal personal tax rates and a Tobin tax on financial transactions is decidedly negative for markets," *Bloomberg Opinion: Markets*, March 5, 2019. *https://www.bloomberg.com/opinion/articles/2019-03-06/higher-taxes-will-doom-the-stock-market-jswqiqju*