APRICUS

10.23

CAUSE... AND EFFECT

Gasoline futures in the United States closed today under $2.20 down 18% since Sept 14, 2023. But don't rush out to fill up your tank because according to the National Association of Convenience Stores, it generally takes on average 7 to 10 days for a change in price to reach a local pump. The roughly week-long lag between the wholesale and the pump prices results from a combination of transportation, marketing, and financial factors.

In this note, we would like to touch on the sometimes-extended amount of time between actions and consequences and reality and perception.

Are we there yet?

In its most recent report, the Commerce Department reported that core inflation, which excludes food and energy costs, has slowed to an annualized 3.7% from its 2022 average of 8%. In contrast, in a summer 2023 poll, the Pew Research Center found that 65% of Americans stated that inflation is still a "very big problem." It seems that high prices, especially on goods and services that we use every day like gasoline and bread continue to have an outsized impact on family budgets even as the increases in prices slow.

Here is the Important Part:

Interest rates or the price of money jumped in the third quarter. The important yield on the ten-year Treasury bond, which influences home mortgage rates, commercial lending, and stock prices ended the September quarter at 4.6%, up almost 1% and up almost 4% in three years.

At the end of 2021 we wrote "Because higher interest rates encourage saving and make spending more expensive, large upward changes usually result in less economic growth." To a much greater extent than in the retail gas trade, increases in long-term bond yields impact the economy with an extended lag. When mortgage and commercial credit rates increase, borrowers will often wait to sign contracts. We can see this occurring in real-time as the National Association of Realtors reports that existing home sales have fallen from an annualized rate of 5.5 million homes prior to COVID-19 to just over 4 million homes.

Our chief worry is that the Federal Reserve's 500+ basis point increase in the Federal Funds Rate and the 400-basis point increase in the ten-year Treasury bond will stall an economy that appears to be slowing down. At present, we see very little evidence outside of housing that the historically rapid interest rate increases have fully impacted demand. As this abrupt change is historically unique, we think additional caution makes sense.

Our forward view has gained some balance. We continue to view "soft landing" projections for the economy as likely to disappoint as we see interest rates constraining demand for several years. But, at this time, we cannot identify excessive areas of risk-taking that usually precipitate deep contractions. Our base case is that we expect to tip into a mild but possibly extended recession in early 2024. While we now broadly view equity and bond prices as close to fair, we know from physics, and from stock market history, that the pendulum rarely stops at equilibrium. We therefore believe it is a good time to focus on stable assets that will face minimal multiple contraction, and generate income, as we exercise patience while the economy adjusts to a normal interest rate environment.

APRICUS NOTES

WE ARE THRILLED TO WELCOME

Ruston J. Wolfe to Apricus Wealth. Most recently, Rusty was a Senior Investment Advisor for Bryn Mawr Trust, managing approximately $400 million of assets for individual and institutional clients. Rusty Wolfe is a CFA® charterholder and a CFP® professional with a Master of Science degree in finance from Loyola University. Rusty has over 25 years of experience as a portfolio manager and equity analyst. Rusty and his wife, Amy live in Pennsylvania and have three children, Jake, Isaac, and Megan.