APRICUS 10.24

Paradoxes like the design philosophy "Less is More" often illustrate seemingly contradictory outcomes. In complex systems like economics, markets, and public policy, paradoxes are commonplace, and the relationships among competing objectives, such as now, later, or never, can be intricate. Saving for future emergencies requires deferring consumption. The "Paradox of thrift" is an economic condition that occurs when consumers anticipate a recession, spend less, and save more, which amplifies the recession and reduces future savings. The opposite also happens; natural disasters, war, and health emergencies initially support economic growth as stored resources (insurance policies, armories, and savings) are used to address the crisis.

The U.S. personal saving rate as a percentage of disposable income in 2023 was 4.7%, compared to the 60-year average of 8.3% (BEA data). Over half of baby boomers have not saved $80,000, the median household income in 2023.

How much each generation currently has in savings

	Gen Z	Millennials	Gen X	Baby Boomers
Under $1,000	32%	31%	27%	20%
$1,000 - $5,000	21%	21%	14%	9%
$5,001 - $10,000	10%	9%	8%	5%
$10,001 - $25,000	8%	9%	8%	9%
$25,001 - $50,000	8%	9%	10%	5%
$50,001 - $100,000	8%	7%	9%	8%
$100,001 - $250,000	3%	4%	13%	11%
$250,001 - $500,000	1%	2%	3%	8%
Over $500,000	2%	4%	4%	17%

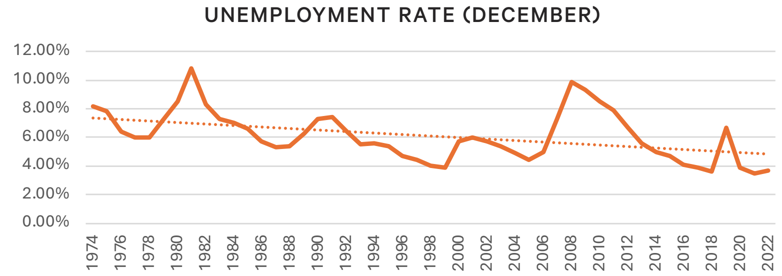
Source: Forbes Advisor

Every generation will likely need to consider how a "less is more" lifestyle will help them prepare for the future. There is some good news. Generation Z is saving earlier and more than their parents.

The U.S. Federal Reserve Bank (Fed) recently lowered its short-term interest rate by ½%, marking the start of a normalization process for interest rates. This move follows the Fed's aggressive rate hikes throughout 2023, which pushed the Federal Funds Rate above 5%.

The Fed has two primary objectives: a job for everyone or "full employment" and stable prices. In August, the Personal Consumption Expenditures Price Index (PCE) was 2.2%, and the unemployment rate was 4.2%. Paradoxically, the U.S. Federal Reserve Bank's target for PCE price stability is a 2% annual increase, and a 5% unemployment rate is generally considered full employment.

The fact that the unemployment rate is currently below full employment (NAIRU) is both a victory and a curse because the statistic has three historical characteristics: it is rarely stable for long, it revolves around an average rate that is over 6%, and it usually moves in the same direction for several years.



Because we expect the Fed to focus on keeping unemployment low, we forecast lower short-term interest rates over the next few years, which will lower interest rates on car loans, credit cards, and bonds. The Federal debt is about $35 trillion or 7.5 years of Federal revenue, so every 1% decline in average borrowing costs will "save" the government $350 billion annually.

Looking forward:
We expect short-term interest rates to continue to fall and longer-term rates to stabilize or rise over time as markets reconsider credit risk. We worry the battle against inflation may not be over due to several structural factors. These include government interventions in trade and production, ongoing deglobalization trends, and geopolitical conflicts. There's a risk that inflation could resurface when the economy is weaker, potentially complicating efforts to combat it. In this environment, broad equity markets may underperform long-term averages. Still, we see good value in sectors and industries with stable business models, conservative balance sheets, and the capacity to return capital to shareholders.

Once again, we find ourselves approaching the end of a year filled with gratitude for our relationships and the privilege of being of service. —Joe, Jim, Ernie, Rusty, Susi, and Lisa