

PETERSON FINANCIAL SERVICES

Limited Liability Company ♦ Registered Investment Advisory Firm

FINANCIAL
FOCUS

*NO COUNTRY,
NOT EVEN ONE AS
DOMINANT
ECONOMICALLY
AS AMERICA, CAN
CONTINUE
SPENDING MONEY
IT DOESN'T HAVE.*

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- Quarterly Market Recap
- The soul of our nation is being hollowed out by programs and policies that divide us between makers and takers.

Second Quarter 2023

July 3, 2023

QUARTERLY MARKET RECAP

The market recovery from the final quarter of 2022 and the first quarter of 2023 continued in the second quarter. Gains in certain sectors have been impressive, but they haven't been as broad-based as it might appear. Risks are still apparent for the time being.

Last quarter the DJIA continued its lagging relative performance, gaining 3.41%, the S&P 500 advanced 8.30%, and the NASDAQ maintained its lead with a 12.81% run-up. The small-cap Russell 2000 picked up the pace with a 4.79% rise, and foreign equities added 6.28%. The Fed continued its interest rate tightening cycle but paused in their last meeting, and have indicated some additional

tightening. The Barclay's Aggregate Bond Index floundered with a 0.88% decline. Months of upheaval in the banking sector has settled down, but hard-hit bank stocks are still sloshing around their bottoms. This will improve when rates stabilize. Inflation is slowing steadily each month, but has some distance still to go to get to the Fed's target level. In any event, the Fed's tightening cycle will soon be coming to an end. Labor markets are still strong, as are wage gains, and corporate earnings continue to hold up well. Also, GDP is still in the positive column, so a recession doesn't appear to be a risk in the near future. Geopolitical risks continue to build, but are on a longer-term timeline.

THE RECENT DEBATE OVER THE NATIONAL DEBT CEILING BRINGS TO LIGHT AN IMPENDING PROBLEM

As we started our last newsletter with, one of the two main reasons for the last couple years of historically-high inflation is the excessive level of government spending over the last few years. This problem has been brewing for decades (it started with the Budget Act of 1974 which eliminated the president's power to impound and not spend appropriated funds), but has reached crescendo levels in the last few years. We could debate, and have already discussed in previous newsletters, the wisdom of profligate pandemic and post-pandemic spending, but the real problem is two-fold.

First, whenever politicians describe emergency temporary spending, it is never really temporary. Not only does it never revert to previous levels, that new level of spending becomes the new baseline, from which all additional spending is launched. And, to make matters worse, any reduction in planned *increases* from these newly-elevated levels is decried as cruel "cuts" even though ever-more money is actually spent each year. Unless it's the defense budget. That does actually take real hits.

The second problem is that entitlement programs, which consume the vast majority of government spending on all levels, is on autopilot and not considered discretionary. Unless the programs themselves are radically redesigned, and they must eventually be, those outlays are considered off limits. On top of this, we are expanding the welfare state at an alarming and completely unsustainable rate.

We have about 4 million more job offerings in the economy than those looking for work. But labor force participation rates are still stuck at historically low levels, while the official unemployment rate is also at historic lows. How can this be? Because recently-instituted pandemic-era "emergency" policies have carried forward to the point where for many people it pays not to work. All told, a family of four who avails itself of all the government handouts offered can collect the equivalent of around \$100,000 annually in benefits. Why work when others will do it for you?

The Biden Administration wanted to flat-out forgive student loans for entire groups of borrowers, regardless of their ability and willingness to repay them. Who would pick up

that tab? Folks who pay their taxes, saved to pay for their or their kids' educations honorably, those who paid off their loans, and those who declined incurring the expense in the first place. At least the Supreme Court rightfully ruled that unconstitutional. We've developed a societal mindset whereby a significant portion of our population wants other people to pay their bills. By making the benefits of not working competitive with market wages, the left has done long-term damage to our work ethic.

The recent negotiations over the lifting of the debt ceiling punctuate the differences between those who understand we can't keep spending at these levels and those who keep punting the problem to the future. Adherents of the new Modern Monetary Theory, which posits that we never need to pay off our debt because we can just keep printing more money, have had a new reckoning with our recent inflation – but it is likely they do not make the connection.

There are folks in Washington and various state governments who think that any sound fiscal policy that reigns in this excessive spending is out of the question. They even opposed the modest proposal of just not spending already-allocated, but not yet spent and no longer needed, Covid money. That kind of thinking reveals the difficulty of getting this problem under control.

From the 1970s onward, we went to a budget deficit policy of spending more than was taken in as a matter of annual routine. Prior to that all the way back to our founding, deficit spending was only employed in extreme

emergencies, such as war times, and we spent within our means and used occasional surpluses to pay down existing debt. From 1950 to 1969 deficits averaged 3% of spending, and that period included two wars and two serious recessions. Deficits then rose to 10% of spending in the 1970s, 18% in the 1980s, and up to 22% in 2019 – before the recent blow-out. It is now well above that. Transfer payments to individuals in 1970 were 36% of the budget, and now consume 76%, and this percentage is rising. Soon, between entitlements and interest on the debt, there will be no money for defense, which is the only Constitutionally-mandated expense. This is the new political economy: the government provides large numbers of voters immediate personal benefits, at the expense of an ever-shrinking pool of earners who pay the bills, which greatly exceeds its income, shifting the burden of paying for it to those not yet born. This is immoral.

This is corrupting our society, creating huge members of our population to be wards of the State, fully dependent on their fellow man, absolving them of any responsibility for caring for themselves, and incrementally conditioning them to agitate for ever more payouts from the few who do pay but are excoriated for not “paying their fair share”.

Two simple reforms could reverse this train wreck, but we have no allusions they will ever happen in time: term limits for all politicians, and a return to presidential impoundment authority. That office is the only one held by a person accountable to the entire nation.

“In my many years, I have come to a conclusion that one useless man is a shame, two is a law firm, and three or more is a Congress.” - President John Adams

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Pursuant to SEC Rule 204-3 (C) of the Investment Advisors Act of 1940, we hereby offer, without cost, a copy of our “Disclosure Statement”, Form ADV Part II, which is the document attached to your copy of our Service Agreement. Please e-mail us, or mail us, a written request if you'd like another copy and we'll send it in February after we update our annual filing. Also, in conformance with Regulation S-P of the Gramm-Leach-Bliley Act, we are required to provide annual notice of our Privacy Policy. Our policy is posted to our website, and is mailed to each client.
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ABOUT PETERSON FINANCIAL SERVICES, LLC

As an aside, we wish to remind our clients of our various services. While we specialize in portfolio management, we continue to provide financial planning and insurance services. Longtime clients may have forgotten this, and newer clients may not be aware of this. Additionally, we build our business through referrals, and much appreciate them. Please keep us in mind as you come across friends, family and colleagues who might benefit from our financial services. We appreciate your business.

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Financial Focus is a quarterly market letter published by Peterson Financial Services, LLC, a Denver, Colorado Registered Investment Advisory Firm specializing in investment portfolio management and financial advisory services.

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