

J. Michael Locke

Musings

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The biggest driver of financial markets and economic activity right now is the Fed's dramatic escalation in rates. Unclear when it will end. Historically, the Fed has raised rates until the Fed funds rate exceeded the inflation rate and we are not there yet. While there is a developing consensus that inflation has peaked, the question now is will it return to historical norms or stay higher. The determinant might be the arrival of some softness in the labor market and wages, but Covid is still relevant. *"[A] new academic paper finds that about 7% of US adults, or around 19 million people, still suffer from long covid. And of those with long covid, 25%, or about 5 million people, report that their day-to-day activities are impacted 'a lot'. The bottom line is that long covid is why the labor force participation rate has not recovered to pre-pandemic levels, even in a situation with solid wage growth"* (<https://academic.oup.com/cid/advance-article/doi/10.1093/cid/ciac961/6948437>). Thanks Michael Schodrof.

Here is the view of CIBC on markets in 2023:

1. Inflation pressures should abate in 2023, but likely at the price of a global recession.
2. The Federal Reserve (Fed) will likely tighten further in early 2023 but is not far from the end of its rate hike cycle.
Markets may be disappointed when the Fed does not immediately shift to rate cuts.
3. Gathering risk of recession and falling inflation likely means that long-term government bond yields have peaked in this cycle. Credit spreads may experience further widening as economic conditions worsen.
4. The equity bear market is likely in its final stage, but it could last for much of the first half of the year. Corporate earnings are likely to falter, and current valuations may not have fully priced in a recessionary environment yet.
5. While there may be more economic gloom in the months ahead, stock markets have typically begun to rise in the midst of recessions. Thus, we expect a new bull market to begin sometime in 2023.

Companies are all getting a good feel for their demand elasticity. Remember your college economics course where demand volume goes down as price goes up but the key question is the rate of the slope (the elasticity) and thus what is the best way to maximize revenue. We are now at a point where companies like P&G are reporting declining volumes but still revenue increases because they raised prices so much. I think this strategy has run its course as consumer sentiment has deteriorated and I would not count on future price increases.

The labor market is increasingly moving to a competency model where jobs and people are identified by a composite of the requisite skills sets. The college degree used to be a labor market signal on the competencies of the holder but now things are getting more refined and this "blunt instrument"

approach is antiquated. Burning Glass Institute does a lot of work in this area and recently released a big report ([how-skills-are-disrupting-work](#)) They identified four of the fastest-growing, highest-demand emerging skill sets:

1. Artificial intelligence / machine learning
2. Cloud computing
3. Product management
4. Social media

One challenge is the first competency may take over the rest as AI gets unleashed. A senior Tesla software engineer (Andre Karpathy) is using an AI coding tool from Microsoft called Github Copilot to do some of his coding. He tweeted: *"Copilot has dramatically accelerated my coding, it's hard to imagine going back to 'manual coding". Still learning to use it but it already writes ~80% of my code, ~80% accuracy. I don't even really code, I prompt. & edit."*

The ChatGPT momentum continues to grow. Microsoft announced it will go into all MSFT products. Interesting back story on how the organization behind it - OpenAI - was originally formed as a non-profit to counter the secret projects underway at Google and others but then switched to a for-profit company to access capital. Good short podcast here: podcasts.apple.com/us/podcast/the-journal/chatgpt

Staying on ChatGPT – a crazy story on how OpenAI hired a bunch of Kenyan workers at \$2 an hour to screen its algorithms to prevent magnifying and repeating the toxicity found by scraping the web. Thanks Barbara Kandemir. *"The work was vital for OpenAI. ChatGPT's predecessor, GPT-3, had already shown an impressive ability to string sentences together. But it was a difficult sell, as the app was also prone to blurting out violent, sexist and racist remarks. This is because the AI had been trained on hundreds of billions of words scraped from the internet—a vast repository of human language. That huge training dataset was the reason for GPT-3's impressive linguistic capabilities, but was also perhaps its biggest curse. Since parts of the internet are replete with toxicity and bias, there was no easy way of purging those sections of the training data."* [openai-chatgpt-kenya-workers](#)

In 2022, 6% of private sector employees are in a union compared to 33% of public employees. Who do public employees need protection against? The vicious school board which easily hands out taxpayer money? Doesn't make sense.

New term for me — Green Markets. From BCG: *"Green markets are broadly defined as goods and services exchanged that are lower in carbon than their traditional alternatives and are based on the use of sustainable materials, such as biogas and low-carbon hydrogen, biofuels and synthetic low-carbon fuels, low-carbon steel, and cement produced with renewable energy and carbon capture and storage."*

All the fancy global jet set crowd was in Davos for the World Economic Forum. The world's richest 1% got nearly two-thirds of all new global wealth over the last two years, amassing \$26 trillion out of \$42 trillion. I feel these elitists are out of touch with the mainstream of our society and should go have a Budweiser at the local bar like JCs. Some critics go way out there and call it a cult. [davos-is-a-grift-and-a-cult-but-its](#)

China is in trouble. Declining population (even though they eliminated one child rule about six years ago), slowing economic growth at only 3% and now major Covid outbreaks as limited immunity has been

built up due to previous hard lock down approach. They cracked down on their internet sector (Ant group, alibaba, didi) so now have lost momentum there. Not very good leadership.

Some interesting statistics on the growth of female physicians. 37% of practicing physicians are now female and growing as 47% of medical students are female. Interesting though on the difference in specialties. 86% of Ob/Gyn residents are female but only 10% of sports/orthopedic residents. (Stats from Association of American Medical Colleges).

Scott Galloway quote: *"Harry and Meghan are the Covid-19 of monarchies."*

Satya Nadella quote: when describing the challenge of hybrid work and how to make the office more vibrant – *"the new management technique is that we are all event managers."*

I believe that our education system is biased against lower socio-economic groups. This starts with poor elementary schools which rely on shallow real estate tax funds (this is why I support school choice) but continues to the labyrinth of the college admission process. The trend of private colleges to more heavily lock-in their freshmen classes through early decision (where the student must make a binding commitment without knowing of institutional scholarships) works against those who are very cost sensitive. From Inside Higher Ed *"More significantly, colleges began to realize they could limit demands on their financial aid budgets by attracting and locking in high-wealth students for whom college cost is a small consideration in deciding where to matriculate," they added. "In fact, according to a review of Common Data Set reports submitted by institutions of higher education, students from the wealthiest zip codes are twice as likely to apply early decision. International students are three times as likely to apply early decision. Those who attend private schools are three and a half times as likely to apply early as their public school counterparts."*

I am stunned by what can "catch on" and go viral with social media. Now, apparently if you want to be cool by Tik Tok standards, you should buy a flip-phone, eat tuna from a can and go watch Livvy Dunne do gymnastics. Seriously, 25 million views of videos with hashtag #tinnedfish. [the-latest-tiktok-star-is-canned-tuna](#) Also say Hello Moto with your flip razor bejeweled on the back. [why-is-gen-z-ditching-smartphones-for-flip-phones](#). Finally, Dunne is making over \$2mm a year licensing her NIL (name, image, likeness) rights.

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