

J. Michael Locke

Musings

#255: Musing March 9, 2024

Higher and really longer? The very successful investor Apollo group does not think interest rates are coming down anytime soon. Many have held the “higher for longer” view that markets were too ambitious in their expectation on Fed interest rate cuts this year but Apollo is one of the more bearish. I find their argument pretty compelling. It was only bolstered by strong Friday jobs report. *“The market came into 2023 expecting a recession. The market went into 2024 expecting six Fed cuts. The reality is that the US economy is simply not slowing down, and the Fed pivot has provided a strong tailwind to growth since December. As a result, the Fed will not cut rates this year, and rates are going to stay higher for longer. How do we come to this conclusion?”*

1. The economy is not slowing down, it is reaccelerating. Growth expectations for 2024 saw a big jump following the Fed pivot in December and the associated easing in financial conditions. Growth expectations for the US continue to be revised higher
2. Underlying measures of trend inflation are moving higher
3. Supercore inflation, a measure of inflation preferred by Fed Chair Powell, is trending higher
4. Following the Fed pivot in December, the labor market remains tight, jobless claims are very low, and wage inflation is sticky between 4% and 5%
5. Surveys of small businesses show that more small businesses are planning to raise selling prices
6. Manufacturing surveys show a higher trend in prices paid
7. ISM services prices paid is also trending higher
8. Surveys of small businesses show that more small businesses are planning to raise worker compensation
9. Asking rents are rising, and more cities are seeing rising rents, and home prices are rising
10. Financial conditions continue to ease following the Fed pivot in December with record-high IG issuance, high HY issuance, IPO activity rising, M&A activity rising, and tight credit spreads and the stock market reaching new all-time highs.

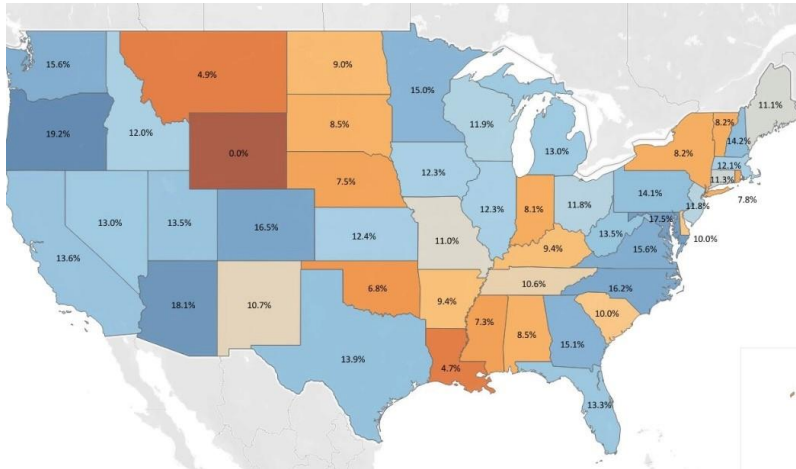
The bottom line is that the Fed will spend most of 2024 fighting inflation. As a result, yield levels in fixed income will stay high.” Lots of charts and supporting data here [the-fed-will-not-cut-rates-in-2024/](#)

Wealth managers should start marketing to millennials. According to CBS News, millennials will inherit \$90 trillion over the next 20 years. [new-data-millennials-richest-generation-by-2044/](#) Thanks Matt Bailey.

Sometimes you have to slow down to speed up. You want to move fast but be thoughtful. *“It's way too easy to fall into the trap of non-stop activity in the belief that activity is a proxy for productivity when, in fact, it's as often simply a performative masquerade that's not even useful. Busyness isn't the same as business. If you allowed it, per [Parkinson's Law](#), busy work and other wastes of time can easily expand to fill your days with lots of nothing of value.”* This article gives some good tips. [how-to-create-the-time-](#)

[you-need.html](#)

Work from home is not a uniformly accepted practice. Interesting to look at how it varies by state. The map presented below illustrates the proportion of individuals who primarily worked from home in 2022, by state, specifically among professionals and office workers (from Burning Glass):



We need to create a whole new set of management techniques around today's hybrid/remote workforce. How do you measure engagement of the remote employee? How do you build community with zoom? We also need to figure out what "modality" a meeting should be. I hate the default to zoom and am pushing more phone calls. To quote this WSJ article: *"The teams I work with develop norms as to what's a phone call, what's a Slack, and what's a Zoom. Zoom shouldn't necessarily be a default."* [hybrid-work-jobs-company-culture](#)

Online retail does not mean the death of physical footprints. I wrote about JP Morgan Chase opening up new branches a couple weeks ago. Home Depot is building and I liked how their CEO put it (in WSJ): *"As much as we invest in our digital assets and, increasingly, delivery capabilities, our apps, [and] our outside field salesforces, the store remains the center of the ecosystem"*

I give McDonalds an A for their latest campaign. Leaning into the rising popularity of anime, McDonald's changed their name to WcDonald's in a brand new marketing campaign (look at the logo on your Diet Coke cup). WcDonald's has anime shorts, manga chapters, and new packaging to bring the franchise in a new direction. Good YouTube video on it. <https://www.youtube.com/watch?v=VjQwg5Yv6kU> Thanks Jenn Heiker.

I would sell Apple. Last week, I wrote about them falling behind on AI and potentially missing the S curve. iPhone sales in China were way down due to competition. Warren Buffett trimmed his position. Now, a new EU law (Digital Markets Act) is going to make Apple take down its 30% AppStore "toll booth" and require that they permit other ways to download apps, third-party processing of in-app purchases as well as easier browser choice. Fortnite maker Epic Games already building its owns app store.

Last week, I wrote that patients coming off Ozempic et al. put their weight back on. Thanks to Dr. Lyle Berkowitz for the rebuttal. He cited a "data study" done by the big electronic medical records company Epic which shows that many patients keep the weight off. I had cited a small pharma study. From Epic: *"Two-thirds of patients are able to maintain weight loss achieved while on semaglutide or*

liraglutide even a year after discontinuing the medication. However, a portion of patients who stop taking either medication experience weight regain, with 18.7% of liraglutide users and 17.7% of semaglutide users regaining all the weight they had lost or more.” [many-patients-maintain-weight-loss-a-year-after-stopping-semaglutide-and-liraglutide](#)

We need to move out of the “segmented thinking” of working vs retirement. It is not a binary situation. Many (like myself) might not go to an office every day and receive a W-2 but not sure we fit the definition of “retired.” I think this is a very attractive labor pool for companies to tap into as it usually is less focused on compensation and has enormous experience. Employers just need to adapt to the flexible, fractional employee who doesn’t fit historical HR methods.

I liked this LinkedIn post from Kellogg professor Mohan Sawhney as he considers retirement. *“After some thinking, I came up with a framework that defines retirement, from my point of view. As I see it, retirement can be defined in terms of five shifts, or the "Five Do's". They are:*

- 1. DO WHAT: From singular focus on your job to developing a portfolio of activities – physical, intellectual, experiential, relational, spiritual.*
- 2. DO WHY: From making money and advancing your career to your passions and personal fulfillment.*
- 3. DO WHEN: From being controlled by your schedule to controlling your schedule, your workload, and the cadence of your work.*
- 4. DO WHERE: From a fixed location to a more flexible location that optimizes weather, family, and travel.*
- 5. DO WITH: From a focus on your children and extended family to your life partner, if you are fortunate to have one.*

Here is my definition of retirement: "The act of broadening your activities and experiences on your terms in the pursuit of a meaningful and enjoyable life."

One reason to reject the “segmentation” approach is most of our older Americans do not have the money to completely retire. With the decline of pensions and lifelong healthcare benefits, Americans are dependent on accumulated savings often in 401(k) but not much is being saved. From FoxNews: *“In America today, almost 45% of older Americans between the ages of 55 and 64 have no savings at all and no idea how they will be able to retire....one out of every four senior citizens in America are trying to live on an income of less than \$15,000 a year, while over half of our nation’s seniors are trying to survive on an income of less than \$30,000 a year.”*

Interesting article that 401(k)s and their reliance on target date funds and passive equity ETFs means everyone is stuck together like socialism. Target date funds allocate money across asset classes (equity vs stock) based on the anticipated (target) retirement date. So a younger person gets more equity and a 60 yr old more fixed income. These are the common default investment by 401(k) administrators on part because they protect them from liability. The company isn’t picking particular managers or stocks but default to everything on autopilot. Risk is this is setting us up for major volatility. [is-your-401-k-destroying-capitalism](#)

Be careful about emailing your doctor. Payors are starting to charge for that response. From Morning

Brew: *"The typical cost of an email message claim was \$39 in 2021, including both the portion paid by insurance and by the patient, according to a Peterson-KFF Health System Tracker analysis."*

I have written a lot about the epidemic around our youth and mental health. Big Tech and their dopamine release-designed tools are playing to the worst parts of adolescence around friendships, body image, and FOMO. Schools can play a positive role fighting this. One school I am involved with (Bennett Day School) has no letter grades in K12 for the college prep crowd to obsess over. They leverage project-based learning so kids are active and engaged rather than passive recipients directed to sit still and be compliant. The result is students are actually happy and describe school as challenging, fun, and collaborative. Bennett kids are six times less likely to have stress-related health issues than most students who associate school with being tired, bored, and stressed according to a study from Stanford. No surprise that applications at Bennett are up over 25% this year.

I am a big believer in dog ownership. About 45% of US households have dogs. I even think you can interpret something about a family based on the kind of dog or if there are multiple dogs. If you are getting a puppy, here are the top names according to US News and Report:

1. Bella
2. Luna
3. Max
4. Daisy
5. Charlie
6. Coco
7. Buddy
8. Lucy
9. Milo
10. Bailey

So depressing that our choice is Biden or Trump. The two party system is broken. Ranked-choice voting is complicated but it also would solve things. ted.com/talks/katherine_m_gehl_us_politics_isn_t_broken_it_s_fixed

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