

GUIDANCE WEALTH, LLC

PRIVATE CLIENT NEWSLETTER

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Will There be a Recession?

It is always interesting to listen to “notable economists” and some of the “financial talking heads” (collectively referred to as they and them) try to predict if and when the economy will slow down, and offer reasons why. *The running joke (and rather truthful joke) is that “they” have predicted 9 of the last 3 recessions.* And it’s hard not to wonder if some of “them” are actually wanting to be right about their predictions, and truly want to see markets experience a major correction. *Are they hoping the market will move down enough to buy in? Have they possibly bet against the markets with their own money - or worse, their clients’ money? Do they get paid to provide negative predictions? Are they selling gold or annuities or something contrarian where a market correction would help them?* There is nothing to gain by trying to convince other people there will be an economic recession – *unless you are poised to somehow take financial or political advantage of a correction.* You want to give people the benefit of the doubt, but if you listen closely, it seems that everyone has a hidden agenda, and so few of them appear to have anyone else’s best interest at heart when they speak. One could argue they are trying to warn investors to pull money out of the markets before a recession hits, though in reality, no one really has the ability to time market movements – at least not well enough to do it consistently. And making decisions based on fear is absolutely the wrong thing to do if you are invested for the longer term.

It is absolutely true that the threat of putting significant tariffs on imported goods from the various countries who want to sell their products in the U.S. is new to us – even though that is how America did without an income tax system until the early 20th century – through Import/Export/Excise taxes. The news that the Trump administration was going to start doing this again - over 100 years later - quickly riled the markets on Wall St., and sent shudders through businesses, both large and small. So many American businesses rely on supplies and products from foreign nations, to either assemble finished goods or simply re-sell imported finished products to American consumers. And, we have gotten so comfortable paying lower prices for things made by the cheaper labor (sometimes young children) in developing countries. The “recession” fear is that if these imported products are going to be more expensive because of the new tariffs: *How much less will U.S. consumers be able to buy? And will that cause companies to start laying off workers in advance of a recession and create enough concern that investment markets might seriously falter? If so, is this the new normal? And will we still be able to afford the basic essentials we have been used to getting from China, Cambodia, Vietnam, Pakistan and India, etc.?* Again, there is no shortage of predictions of financial calamity if these tariffs are fully implemented permanently across the board. But is this possibly a short-term strategy to level the playing field?

Nearly every country around the world puts some level of import tax on products made in America.

When countries allow our goods to be imported into their country, some of these tariffs are over 100%, which means that goods made in America may cost twice as much to buy in foreign nations as they do in America. To say that it doesn’t seem fair is correct, however we have been playing on this same uneven field for decades.

So if tariffs are bad, why do other nations use them on us when we try to sell our products overseas?

1. *Because they are a major source of tax revenue for their respective governments.*
2. *Because they offer protections for their own businesses who produce competing goods.*
3. *Because they can keep their own taxpaying citizens employed by their own domestic producers.*

Another big reason... because we have allowed them to do it. *But if the U.S. employs more of our own people, our government can take in more taxes and pay out less in subsistence benefits to the unemployed. And, if we can also collect taxes on imported goods, we can reduce our own government’s annual deficit, begin rebuilding our own nation’s infrastructure - and allow our own government to start taking better care of our own citizens.* This seems like such common sense, yet we have not seen it happen in this country since Dwight D. Eisenhower.

The Ultimate Goal of the Tariff Talks is to Encourage Fairness in the EU - AND Contain China.

If you watch closely, and try to ignore the hyperbole from the media, what you might see is the administration maneuvering to contain the Chinese government's quest for market and world dominance. The U.S. is now crafting trade deals with our allies and including specific language to help prevent China from securing a manipulative influence over strategic global regions. The belief is that China cannot economically survive on a level playing field - *not without currency manipulation, dishonest business practices and restricting foreign goods into their markets* - and therefore, it is believed that China will eventually come to the table to negotiate.

IN THE MEANTIME... we do not see any need to panic or even change lanes.

Despite the fact that this has been a roller coaster ride, we have been through much worse – even recently. So, one of the things we should not do is assume the worst and make investment decisions based on fear. Historically, when markets pull back considerably, especially when there is an unnecessary 'fearful' selloff, there is a subsequent rally that ends up reaching new record high levels. Some of us remember Black Monday (1987), the Dot.com bubble (2000) then 9/11 (2001), Mortgage Crisis (2007-2009), Covid (2020), followed by the Fed Rate Hikes (2022). Each market pullback was followed by upward trends and higher market valuations.



Will there be continued volatility? YES, for a time. However, volatility means markets move both up and down.

Investors and mutual fund managers who have available cash to invest can take advantage of the volatility. If you have a prudently designed investment portfolio, rather than just a few volatile stocks, the movement of your portfolio shouldn't be enough to make you feel queasy, *even when the media predicts impending doom*. As always, if you have questions or concerns about your account(s) or about your level of risk, or what effect this is all having on your portfolio(s), please do not hesitate to call us. Your calls and emails are always welcome!

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