

The Economic Perception Paradox

July 2023

“Better to get your dopamine from improving your ideas than having them validated.”
– Nat Friedman

Remember when several large banks collapsed a few months ago? Yeah, no one else does either. The debt ceiling? Old news. Despite a lot of commotion over the past few months, markets have quietly performed well as we continue to recoup the losses from 2022. Of course, this is common in markets. Things to worry about pop up and then become artifacts on a chart as we return to business as usual.

So, for the third consecutive quarter, returns have been strong. The S&P 500 has entered bull market territory once again as defined by a 20%+ rise in value since the bottom. US Large companies led the way, while international and small cap stocks posted modest returns. Bonds did turn in negative on the quarter as interest rates ticked up slightly, again.

One thing that has stuck out over the past several months is the sharp disconnect between the attitudes people seem to have toward markets and the economy and what is actually happening with markets and the economy. Anecdotally, the average person, the media, and even investors believe that the US economic situation is in shambles. However, the actual underlying measures of our economy are currently pretty strong and trending in positive directions. Jobs, GDP, wages, and yes, even inflation, are in very good shape!

With the inclusion of the June CPI number, annualized inflation is now at 2.97%. Among G7 countries, the US has the lowest level of inflation relative to our peers. In some cases, by a significant margin.

G7 Inflation (CPI)

Total, Annual Growth Rate, June 2023 or latest available

United States	2.97%
Japan	3.20%
Canada	3.36%
France	5.12%
Germany	6.38%
Italy	7.64%
United Kingdom	7.90%

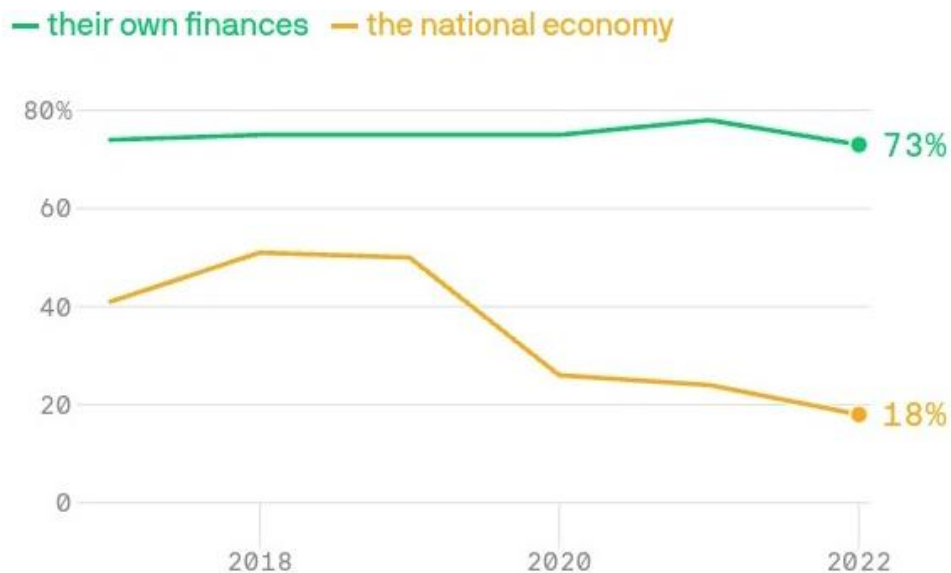
Source: Organization for Economic Co-operation and Development (OECD) as of July 13, 2023.

Of course, a disinflationary environment isn't a guarantee that the future holds further disinflation. Nor does it mean that the real price increases we have experienced over the past 18 months will reverse. Unfortunately, prices don't tend to go down very often. But, this news is an encouraging sign that any parallels to the 1940s or 1970s can hopefully be put to rest.

In the past few editions of this commentary, I've made allusions to Derek Thompson's theory that the mentality of most Americans is 'Everything Is Terrible, but I'm Fine'¹. By and large, it appears that Americans, when asked about their own personal finances are broadly positive, but that an overwhelming majority of those same individuals continue to believe that the national economy is a disaster.

Proportion of Americans who feel good about...

Survey of U.S. adults taken annually, 2017-2022



Source: Axios Visuals. Data from Federal Reserve Survey of Household Economics and Decision Making.

The question is, why is this happening? Why is there such a disconnect between our perceptions of the world and reality?

Between television and social media, we are under an unceasing deluge of current events and information. News tends to skew negative since we are biologically adapted to highlight and pay attention to threats because that's what helped our ancestors live to see another day. So, we drink from this fire hydrant of bad news all day, every day. We think the world is rotting because all it takes is a thumb-tap to see that rot in high-definition.

There is a fine line between staying informed and seeking a platform for aggrievement. Unfortunately, much of the news these days is designed to pander to their audiences' biases and impulses. The truth or reality of the situation is secondary to making sure the spin on events is consistent with the viewer's expectation for who the finger should be pointed at.

I don't fault anyone for their perceptions being misaligned – The systems in place to give us our information never let us stand a chance. But, I think it's pretty clear our collective attention could be better directed elsewhere.

Things are okay-ish for the moment. So, let's take a breath and try to enjoy ourselves a bit this summer. Visit a park or take up pickleball (it's a lot of fun!).

¹ Thompson, Derek. "Everything is terrible but I'm Fine. The Atlantic. June 2022.

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