The Equus Report

—BY BARNABY LEVIN

The Battle between the HAVES and HAVE NOTS

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When we think of things like **"What the 'Next Big Risk' will be,"** you'll find all kinds of opinions.

For example, Ida Liu (Global Head of Citi's Private Bank) believes conflict between the **US and China** over **Taiwan** is (or should be) our country's top concern (and it's only a question of when, not if). We agree: it ***is*** a Risk – and a big one – and we've spoken of this and China on many occasions in past Podcasts and Reports.

Where people differ, I think – given China's military buildup in the South China Sea – is whether the US will back down when it happens. ***I*** think there's a 50/50 chance that China (if *their* guy doesn't win Taiwan's upcoming election) will simply surround the island at some point and build a Blockade – cutting off all shipping in or out so they can starve Taiwan into submission – in which case it isn't clear we could claim any Pact (stated or inferred) has actually been violated, egregiously enough to merit all-out war. In the end, it's possible we might simply walk away, like Obama did with Crimea or Biden, Afghanistan – especially if (by then) we've moved enough of our Fabs to other locations, like Mexico and Vietnam.

That's a big "IF," of course, and many hope and believe (when faced with the prospect of mutual destruction or because they're too distracted with their own, economic slowdown) there's a chance China will change its mind and back off. Because, if they don't – because of our dependence on Taiwan for more than 80% of our semiconductors – if China tries to disrupt that access, the US would have no choice but to respond to protect its economic interest.

But one thing's for sure. Even though I understand why – and (in some ways) don't blame the Chinese for thinking the way they do about outsiders who, for centuries, have taken advantage of them – now's not the time for us to ***invest*** there and (from a Portfolio Manager's point of view) it's pretty tough to "plan" for war, given how Binary an event it is. Making a "bet" one way *or* the other is too extreme and – because the timing is virtually impossible to guess – it's fruitless to try.

Another "favorite" Risk of mine is the size of our Debt and (more importantly) the increasing cost to ***service*** that debt, given the rise in rates. Boaz Weinstein (Founder of Saba Capital) feels Government Balance Sheets have become so bloated, neither they nor their Central Banks will be able to step in as they have and (therefore), we'll face steeper, more prolonged sell-offs when Markets hit bumps.

Again, we agree – that Sell-Offs will be steeper and more prolonged – especially with rates on Short-Term Treasuries back over 5% and (contrary to what Ray Dalio once said) "Cash is no *longer* trash." Ever since the demise of Silicon Valley Bank, we've seen less liquidity in the system and banks that are much less willing to lend. And, as borrowing costs have skyrocketed and defaults are beginning to rise for both Consumer *and* Commercial loans, people are (according to Fidelity) beginning to tap their Retirement accounts to pay for things like food and rent and we can see the pieces beginning to fall in place for tougher times ahead.

But there ***is*** another, greater Risk I heard Dave Rubinstein (at Carlyle) suggest, which ***he*** refers to as the "**Battle of the Haves and Have Nots**"[1] – a battle between both Young & Old and Developed- versus Emerging-Market economies which he thinks will last for decades.

When it comes to the ***economy*** – and to the Laws of Supply & Demand – ***these*** are largely driven by Demographics and by the generational Life Cycle, which has repeated itself throughout history and which (together) have been the most important factors in ***my*** thinking since I read "Age Wave" by Ken Dychtwald in 1989. But I think he's talking about something else.

We've noted how (on a global basis, by 2026) Gen Z will number more than 2.5 billion, accounting for 30% of the world's population and 40% of Consumers. We know how they've been challenging today's leaders and the Status Quo on everything from Climate Change to the Re-distribution of Wealth and, according to Neil Howe in "The Fourth Turning is Here," younger generations have been souring on democracy itself, considering it a "bad" or "very bad" way to run the country. And, to tell the truth, the only thing I sometimes cling to in the face of this is (on the one hand) our capacity to Innovate – and (in the ***Preface*** to Howe's book) when he says "every Generation is what it ***has*** to be. They're all causal agents in history…driving the pace and direction of social change in the modern world," but that this isn't ***necessarily*** "good" or "bad." It's simply (as Mr. Smith said in "The Matrix") "inevitable" – and, as Marcel Proust once wrote, "what we call our future is but the shadow our past projects in front of us." The "secret" (according to Howe) is "to get ***out*** of the shadow" and to recognize the deeper patterns at work, so we can ***do*** something about it.

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[1] *"David Rubenstein on the Risks of Global Inequality," Bloomberg Markets The Close, July 20, 2023*

But it did come as a shock – after all I've read and said about the Boomers; the Millennials; ***and*** Gen Z – when (reading Howe's book) I realized I've ignored Gen ***X*** altogether (to which ***they'd*** say "So? What *else* is new?!")

Gen X (born between 1961 and 1981) first made their debut as the "Brat Pack" in movies like "The Breakfast Club" and "St. Elmo's Fire." They established a new breed of celebrity with the likes of Michael Jordan and Tom Cruise. And they were the last teens to graduate high school before the bursting of the Dot Com Bubble in 2000.

But when it comes to commerce and the economy, Xers have become one of the most innovative generations in American history – from Larry Page and Sergey Brin at Google; to Jeff Bezos (at Amazon) and Elon Musk (at Tesla). It's thanks to them (and a few dozen others), that US companies have grown to a position of such dominance, in our own and the global economy.

Again, while odd how I've skipped an entire generation until now – Elon Musk didn't. He was born smack dab in the middle of his generation, in 1971, and he's been obsessed with the letter "X" for most of his life! His first company (which became PayPal) was named X.com. With the money he made from that, he founded SpaceX. He named one of his sons (with Claire "Grimes" Boucher) "X." And when he bought Twitter last year, he changed *its* name to "X." So there's ***one*** person (at least) who's embraced the spirit of his Generation like none other.

So, what's this have to do with the "Battle of the Haves and Have Nots"?

Well – on the more ***hopeful*** side of things – who do you think will be our country's Leaders as we head into Howe's "Fourth Turning," between now and the end of the decade? We've seen the diminishing grip our aging Boomers face politically and shown how all indications are we're on the verge of great change. We've spoken at length about the Millennials and how they and Gen Z are worried about the world they'll inherit – with all our excess debt and what ***that*** will mean for Social Security and Medicare (not to mention the polarization we see in everything from the Media to politics). And, while Gen X ***has*** been conspicuously absent from politics, I think that will soon change as that "absence" – given their inherent libertarianism – may be because these "Latch-Key Kids" were raised to take care of themselves. Until lately, they've believed Society works better Bottom-up than Top-down – and, like Michael J. Fox said in "Family Ties," "people who have money don't need people!" The truth is, their entire generation is like a microcosm of this divide we're discussing.

Some (like Musk and Bezos) have become fabulously wealthy; some are "comfortable" – and a large number are desperate, relying on "gig" work to supplement their income, with no health insurance or pensions to rely on when they retire. I guess they figure they'll figure it out when they get there! But as is true of every generation, they've done things differently than their parents. As parents (Howe says) "they've become every teacher's worst nightmare: the not-with-my-child-you-don't Mom or Dad and – except for their ***own*** children – what happens to everyone else's has meant little." So far. So, as we've said, this may mean those parent-teacher confrontations we've been watching in places like Louden County are about to broaden out to a much wider, political arena. That as they've grown older, Gen X is beginning to wonder if their withdrawal may only have added to their own predicament and will soon decide it's time to get more involved.

I hope so. Because as I always say, "**Where you Sit depends on where you Stand**." It's easy to cheer for slogans like "Defund the police" until you're the one who's attacked or someone close to you is hurt. All of a sudden, having that protection matters. You may be the Leader of the Teacher's Union in Chicago – but when it comes to ***your*** kid, you're sending them to the best school money can buy. And when it comes to increasing taxes on those making over a certain amount or with "X" Net Worth =), when you get that promotion or your parents pass away and the Government tells you they're entitled to more than half, there's a good chance they'll change their thinking – like the **Boomers** (so wonderfully captured in the movie, "The Big Chill") did. Perhaps there's hope Gen X and some of the Millennials will step up to bridge the gap between Gen Z and the Baby Boomers before things reach a breaking point.

But ominously – whether because of the influence of Tik Tok or (unbeknownst to many) so many of our schools – the fact is, younger people have been souring on Democracy and on America itself.

Back in May, in my article titled "**Maslow's Hierarchy of Needs**," I suggested the name "TikTok" is actually the sound of a ticking Time Bomb – created by China's Bytedance (in 2016) to chip away at the very fabric of our Society, undermining us from within, starting with our children when they're most impressionable. Why, for example, is it that China won't allow TikTok in ***China***? Except to promote things like

Math and Science, ***they*** don't let their people post Selfies of themselves twerking or talking about things like self-image. And, combined with the rise in Crime and the proliferation of demonstrations that are increasingly prone to violence, it does feel unsettling – that after years of this drip-drip-dripping, things are beginning to unravel.

Take **Unions**, for example. It was really quite brilliant, the way it only took 40,000 members of the 145,000 United Auto Workers to bring production at Ford, GM and Stellantis to its knees, by targeting one plant at a time, until they had no choice but to "cave." Yet these three companies have more than ***600***,000 employees between them – and that's not counting the millions of other, non-union people who ***serve*** the Automotive and Entertainment industries and who were idled or laid off while the UAW and Screen Actor Guilds refused to settle until their ***own*** needs and demands were met. And yet – while all this was going on for *months* – none of these others made a peep in protest.

Going back to George Floyd and the way so many of those "mostly peaceful" demonstrations were allowed to take place – there has been little or no intervention or consequence for ***any*** of those who killed dozens of others, or who looted and set things on fire because they were done under the guise of a "virtuous" cause like "Black Lives Matter;" the invasion of Ukraine; and (not forgetting the nearly 1,400 Jews who were horribly murdered by Hamas) the plight of the Palestinians. These demonstrations have often turned into riots rivaling those of the Vietnam era and – besides the billions of dollars in damage to cities, from Seattle to New York – they've cost ***hundreds*** of innocent lives without the outcry they deserve.

How did this ***happen***?!

Regarding this "new" trend toward Unionization, let's step back a moment for some historical perspective. The resurgence of Organized Labor has been many years in the making. Labor Unions were originally formed to protect workers' rights and advance their interests, negotiating with Employers through a process known as Collective Bargaining. They were instrumental in ending the practice of child labor; creating safer working conditions; and providing many other benefits, from Healthcare to a 5-day work-week. They trace their origins back to the 18th-century Industrial Revolution in Europe and, in the US, their power and numbers reached their peak in the 40's and 50's, culminating with the merger of the AFL and CIO in 1955. And yet, a recent Gallup poll (in August, 2022) found ***71***% of Americans now support unions (which is *astonishing*, because less than *10*% of them are actually ***members*** of one).

In its earliest forms, the labor movement was meant to prevent exploitation – inspired by the concept of a "Just Society" and was (in fact) based on many of the ideals of the American Revolution – including the notion of social equality and the right a person should have to benefit from the fruits of their own, honest labor.

But in many ways, Unions have become about "Us" versus "Them" – where "Management" is the "Enemy" and their leader's Mission (like Shawn Fain at the UAW) is to "defeat" the Evil Empire. The reality is – while unions ***do*** benefit ***some*** workers, they harm plenty of others and the main victims (unfortunately) are often the poor and low-skilled folks whose jobs are likely to be outsourced or cut back, once the dust settles. By raising the minimum wage (for example) for fast-food or agricultural workers – it adds hundreds (if not thousands) of dollars to the cost of food and other necessities each year – and even families with dual incomes are having a hard time, making ends meet.

Some of that has to do with Inflation, of course – and "Management" certainly hasn't helped their own cause in the process. After asking workers to sacrifice, back in 2008 (when GM was forced into bankruptcy and needed a Government bailout to survive) total compensation (with base, bonus and stock) for then CEO, Rick Wagner, was $14.9 Million. The package for the current CEO, Mary Barra, is more than **double** that, at $29 million (last year) and, according to another Gallup poll (on Job Satisfaction), 24% of union members are finding themselves 'actively ***disengaged***' at work, compared to only 17% for ***non***-union. "That," according to Gallup, suggests they're "not just unhappy at work – they're ***resentful***."[2]

Again, part of this may be because unions tend to concentrate on some of the tougher jobs – in frontline and production work that can be more **hazardous** (like Teachers and Actors). Just kidding – like the Teamsters and International Longshoremen's Association. The huge divide (when it comes to compensation) is undeniable. And in the public sector, when people see profits soaring – as companies cut costs; outsource; or (understandably) move more aggressively to things like automation – workers can't help but fear their own security will soon be at risk and they're just looking for ways to protect themselves in this fast-changing world of ours. I get there are those who want to work from home and who want a shorter

[2] *"The American Public is back in love with labor unions, so why aren't workers?" Eric Rosenbaum, CNBC, September 6, 2022.*

work-week. I understand (like "AI expert" Ben Goertzel posted on YouTube earlier this year) that, long-term, "people can find better things to do with their life than work for a living"[3] and that the wage disparity simply aggravates the battle between the "Haves" and "Have Nots." And the truth is, I'm not sure ***what*** needs to be done about it – so people can achieve a Basic, Minimum Standard of Living and this disparity narrows, to ***some*** degree, at least.

As I just said,"Where you Sit ***always*** depends on where you Stand" and, like Felix Rohatyn advised, "A democracy, to survive, must at the very least ***appear*** to be fair."[4] But I've been surprised how bold and confrontational Unions are becoming – like in Sweden, where 90% of their workers are already members of unions like IF Metal. **IF Metal** has been able to enlist the help of a bunch of other unions – from dock workers to the Postal Service – and is threatening to shut down Tesla's *business* there if ***they*** don't join too. Yet Tesla only has 130 employees in the entire country – and no one seems to have asked *them* if they even ***wanted*** to unionize in the first place. According to one employee at least, "Tesla's the best employer I've ever had!"[5]

As far as I'm concerned, that kind of power is frightening. And, just the other day, news crossed the tape about two Wells Fargo offices (one in New Mexico and another, Alaska) who notified the National Labor Relations Board they're planning to hold elections, to unionize: "We'd be foolish," said Jessie McCool (a Compliance Officer of theirs in St. Louis) "***not*** to strike while the iron's hot."[6] I mean, is that the best reason they can come up with? To impose dues and insert this adversarial wedge between themselves and Management, simply because – well, "Why Not?"

It's wild. Especially in light of what Ron Baron recently said about business models that may be reinforcing "bad behaviour." Think how, more and more, we're becoming a transactional, impulse-driven society, with most of our lives tethered to our smartphones, that offer endless means of distraction. Our attention spans have shrunk and companies have, in many ways, made it too easy to act on our impulses, when everything's a swipe or click away – especially when young people are getting most of their "news" on social media – from unverified, anonymous sources that are pushed by mysterious algorithms nobody seems to understand. According to Pew

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[3] On YouTube, June 7, 2023
[4] "Felix G. Rohatyn Dies at 91," by Sewell Chan, The New York Times, December 23, 2019. Rohatyn was an investment banker, who spent most of his career at Lazard Freres, but famously helped rescue New York City from insolvency in the 70s.
[5] "Tesla employee laments escalating union strike in Sweden," by Simon Alvarez, Teslarati, Nov 17, 2023
[6] "Unions Are So Hot Even Megabank Employees Are Trying to Join," by Ben Eisen, WSJ, Nov 20, 2023

Research, only 9% of young people age 18-29 got their "news" from TikTok in 2009. By 2021, that number had doubled, to 18%. And today? It's 32%![7]

But if all this is true, how do we ***invest*** in a world that's filled with anger; impulsive behavior; and growing divides? For the moment, the Market seems to care more about profits and the outlook for next *Quarter* – or whether interest rates will rise or fall. And the truth is, if they *don't* fall soon, that "divide" will (likely) grow wider, as young people already can't afford to own a home as it is. According to Fidelity, Americans are (again) beginning to tap their Retirement Savings, just to cover housing and medicals bills.

In answer to this, we've been saying for years how one can invest in Private Credit – in funds that specialize in lending to small business and (thereby) fill the gap when Community and Regional banks are increasingly stressed by non-performing, Commercial loans that are resetting at significantly higher rates – to the point where the Borrowers are finding it less costly to hand back the property to the bank and simply walk away.

We can invest in the creators and beneficiaries of Artifical Intelligence; Machine Learning; and Robotics that make people and companies more productive at lower cost. Companies are using these tools to anticipate and plan for bottlenecks in their Supply Chain; to increasingly shift from "Off Shoring" to "Near Shoring," so everthing they need is more localized to the market their serving; to inventing new materials to replace those (like "Rare Earths") we now rely on others to produce and from which we could easily be cut off because of a political shift in the wind.

We can take ***advantage*** of today's higher rates by (finally) buying short- and intermediate-term Treasuries (or High-Grade Corporate bonds) to lock in yields of 5% or more on a low- or relatively risk-free basis.

And we can invest in companies providing essential services or (of course) innovation in (for example) transportation, including space travel and cleaner vehicles, and (given some of these growing, global conflicts we mentioned at the outset) in cybersecurity and defense.

And for those with children – or who are working and thinking about going back to school themselves – people can always consider a 529 Plan which, in some states,

[7] *America Reports with John Roberts, CNBC, November 20, 2023*

offer a tax deduction and where the money (if used for higher education) can grow tax-free, forever, like a Roth IRA. We know younger people (like Gen Z) would prefer to live for today and experience "life," instead of saving. But think of the Power of Compounding we've spoken about so often – knowing that (at different stages in life) our needs and priorities will change and some of the things today's younger people will want (like owning a home; having children themselves; or retiring early) will take money and the time to raise it. A ***lot*** of time and a ***lot*** of money.

These actions won't protect us from the outbreak of war; from our rising Debt (which is in the hands of Congress); or from Neil Howe's "Fourth Turning." But they **can *mitigate*** things to some degree and (for "insurance") we've got bitcoin and gold, don't we? That is, if things ***really*** start to fall apart!

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