



The Smithfield Forecast

A QUARTERLY SURVEY OF TRENDS

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Smithfield Trust Company

20 Stanwix Street, Sixth Floor
Pittsburgh, PA 15222

Phone: (412) 261-0779

Fax: (412) 261-3482

www.smithfieldtrustco.com

A MESSAGE FROM OUR PRESIDENT & CEO

As all of our readers know, *The Smithfield Forecast* is synonymous with Bob Kopf. It was his thoughtful way to market Smithfield beyond its customer base, share economic and market commentary, and like no other newsletter, provide a community forum for book reviews. Mind you, this was done for twenty-seven years without the aid of social networks and the internet. I continue to be amazed by how many individuals over the years have commented on their enjoyment of reading *The Smithfield Forecast*, in large part because of the book reviews. As one of his Princeton classmates wrote to me after hearing of his death in March at the age of 80, "one of Bob's legacies is the collection of book reviews. I've found the reviews readable and informative, plus I feel they offer a unique window into Bob's wonderful personality."

Bob, and his entertaining and insightful book reviews, will be missed. I encourage friends of Bob and Smithfield to submit book reviews to forecast@smithfieldtrustco.com, as many have done in the past, to continue his legacy. In lieu of book reviews this quarter, please find Bill Morrow's homage to Bob in "book review style" for Part II of Bob's life where the chapters take place at Buchanan Ingersoll & Smithfield.

– Elizabeth J. Poggi

SMITHFIELD SECOND QUARTER 2024

The big story in the first quarter of 2024 has been higher than expected inflation – particularly in the super-core (services excluding energy and rent) that the Federal Reserve has singled out as the guidepost for a wage-price spiral. However, with strong immigration inflows loosening labor markets, particularly on the lower rungs of the job ladder, hourly earnings have remained well behaved. The result has been a squeeze on low-end workers, resulting in rising credit card use and the tapping of retirement earnings. Economic growth has cooled from the torrid pace in the second half of 2023, but the consensus has now coalesced around a 2.0% forecast for 2024...as well as for 2025 and 2026. Can Goldilocks persist?

We believe the outlook for 2024 remains positive, as corporate profit margins remain sound – just look at equity prices. Indeed, rising stock prices and narrowing credit spreads have had the same effect on liquidity as fifty basis points of easing by the Federal Reserve, which is a key reason that the Fed has not had to act. The latest dot-plot signaled that Fed officials expect slightly over two eases in 2024...and we expect the economy and inflation to perform well enough through mid-year that the Fed will wait until after the election to begin, rather than become embroiled in the political battle.

The approach of the election will have economic consequences, as the outcome remains quite uncertain and the direction of policy will veer sharply, depending on the winner of not only the Presidency, but both chambers of Congress as well. CEOs are likely to become more cautious until the path is clearer. We see firms lifting prices to pad margins, while trimming payrolls to enhance productivity. These tweaks should extend the period of solid profits for US multinationals, especially as a slow-developing recovery in the global manufacturing sector lifts the rest of the world out of the recent recessions impacting other countries. Elections in Europe, India and many other nations will also clarify their policy path by mid-2024, likely lifting growth.

A better world outlook in 2024 will not be achieved without some friction. Energy prices have been rising as demand strengthens, and prices of goods are less likely to decline as quickly in 2024 due to the global upswing. Meanwhile, rents and housing prices have refused to retreat despite much higher mortgage rates, which were supposed to undermine appreciation and, thereby, enhance affordability. The same wave of immigration that has loosened labor markets has tightened housing, providing a benefit to typically older homeowners, while burdening renters and the young. Similarly, rising interest rates have been a boon for those with deposits, while raising borrowing costs for those struggling to make ends meet.

Smaller businesses have also been on the defensive even as the economy boomed – as scale provides a significant comparative advantage for firms in accessing liquidity (via equity markets, bonds, or banks) and in making productivity enhancing technology investments, like artificial intelligence. Nevertheless, the aging of the baby boom into retirement has led to a wave of newly created firms, making the already competitive world of small business even more cutthroat.

Thus, despite our outlook for continued growth in 2024, we do not see a rising tide that raises all boats. Rather, the lack of bank lending following the SVB crisis a year ago has limited liquidity growth, making the fight for both price increases and market share more of a free-for-all. How that unevenness is reflected in the election (and in the policy decisions that follow) is the real guidepost for predicting growth in 2025 and beyond. Every President since Bush 43 had control of both Chambers of Congress sometime in their first term, but none in the second. For either candidate, this will be a second “lame duck” term. Most pundits currently expect both the House and Senate to flip control, leaving divided government that will result in serious implications for the courts and other appointments.

We are hardly going to wade into political prediction, however, we will note that the most accurate way to determine whether a county, district or state will vote Democrat or Republican is to look at population density. Since 2020, Covid and work-from-home policies have had significant impacts on where people live and work, with many shifting from urban centers to the suburbs and to lower tax environments. How these shifts have altered voting patterns will be critical to the election's outcome, particularly in the Presidential swing states of Pennsylvania, Michigan, Wisconsin, Georgia, and Arizona. Trump defeated Clinton in part because the first three states (formerly in the Blue Wall) all had declining urban cores as their populations moved. Biden won Georgia and Arizona because their urban cores were intensifying from immigration. Pennsylvania's 19 electoral votes are the linchpin of both party's strategy – get ready!

Internationally, the manufacturing recovery remains disappointingly slow, which means inflation remains a problem in Europe and deflation is a problem in Asia. Although the slide in the factory sector appears to have slowed since September of 2023, with the exception of

the US, no major developed nation is currently seeing an expansion in manufacturing yet. The service sector has rebounded better, with Japan and the UK now actually sporting better service and composite Purchasing Manager Index numbers than the US. Both countries had allowed a significant devaluation in their currencies during Covid... the UK to battle Brexit and Japan to fight deflation. Now, these countries' weaker currencies are generating quicker rebounds than in Europe, where Germany and France, the core of the Euro Area, are the weakest economies.

We wonder whether 2024 will be a race to the bottom on currencies, as still weakened industrial nations lower rates ostensibly because inflation is ebbing – but, in reality, to gain their share of the coming global factory rebound. China has recently allowed its currency to slip significantly, before stepping in to quell speculation. That action seems more to control a descent than to end it. China has long managed its currency against the euro, as the EU is a more price sensitive end customer than is the US. However, as China's strategy shifts from sales to developed nations to dominance of technology directed at the developing world, their competition is with Japan and South Korea – and their already weaker currencies.

Bottom line, the US recovery is now starting to climb the wall of worry, where the growth of others imposes higher costs as global demand begins to outstrip supply. In 2023,

improving supply from imports, immigration, and efficiency helped inflation fall faster than expected, releasing more spending power...especially at the lower rungs of the job ladder. As the story goes, you don't have to outrun the lion to survive...only the slowest competitor – and we believe US multinationals will continue to do fine. However, among the least efficient businesses and most exposed consumers, casualties will start to rise. The concentration of US spending power at the top implies that aggregate numbers may not be at risk, but anecdotes of decline are certain to rise...especially with a political campaign raging.

Manufacturing cycles tend to be roughly 18-24 months up, and then an equal slide down. This cycle's global upswing is still in the early innings, but it is not bursting out of the gate. Will a rise in nationalism stunt its speed and potential upside? In today's more contentious world, multinationals are faced with more difficult decisions about supply chain development, which suggests slower supply growth than in previous cycles, with winners benefiting from either cheap labor or control of technology. The ASEAN and South Asia have the former and the US the latter. The rest of the world is likely to be fighting to hang onto their current status quo...and that is likely to be top of mind for politicians facing elections this year.

– Michael Drury



We recognize that every person, family, institution,
trust or estate is not the same.

Therefore, we customize every account at Smithfield, regardless of type,
to achieve the goals at hand from a fiduciary, investment, and tax perspective.

BOOK REVIEWS: A MEMORIAL TRIBUTE

A LIFE WELL LIVED – PART II

By: *Robert Yates Kopf, Jr.*

Shortly after I joined Buchanan Ingersoll in 1990, Bob Kopf entered my office and, for absolutely no apparent reason, violently slammed down upon my desk a hard-rubber tomahawk, which, upon such strike, began to release bloodcurdling screams from a recording device contained within the toy. Bob immediately proceeded to laugh so loudly that the shrieks from the tomahawk were muted. At that moment, I realized the symbolic “white-shoes” that Bob sported at Buchanan were sneakers, or, more appropriately, tennis shoes. Over the almost thirty-five years that Bob and I worked together, I am most appreciative of his ability and desire to instill a significant amount of enjoyment in the daily tedium of work.

Bob Kopf was one of the shrewdest lawyers that I ever had the pleasure to meet. In an age of specialization, Bob’s legal nurturing was founded in what I believe to be the last great age of the practice of law, where attorneys at larger law firms would provide a variety of services for their clients...from business, tax and estate planning, to general litigation or family matters. The breadth of Bob’s knowledge in so many areas of the law was truly astounding...and was always conveyed in such a fluid and well-reasoned manner that anyone listening to Bob speak would be convinced that there was no opportunity, or need, for rebuttal. Bob’s primary legal focus was in the area of estate planning, within which his knowledge was extensive. While amazingly alert to any changes to the current law regarding trusts and estates, nothing excited Bob more than a chance to sink his teeth into a juicy

Statute of Mortmain case, or any matter involving some equally ancient and obscure area of the law. If reincarnation exists, I believe it is highly likely that Bob Kopf may have been born in 1723 as Sir William Blackstone.

I once labeled Bob as the “Forrest Gump” of Smithfield Trust Company, a comment which he initially rebuffed with great umbrage...believing that I was disparaging his mental acuity. However, my remark had nothing to do with Bob’s intelligence. Instead, my comparison of Bob to the lovable fictional character was simply an observation of the wide variety of stories involving many of Bob’s life experiences. Whether fishing in Idaho with Bob Wells when Arnold Schwarzenegger waded upstream...sitting in a London café and narrowly missing the Queen of England... or sharing a restroom with Jerry Lee Lewis...Bob seemed to have a knack for being in the right place at the right time (or, perhaps the “wrong” place at the “wrong” time). I cannot help but recall being engaged in countless conversations, when Bob would anxiously interject “Did I ever tell you about the time...” Whether or not he had, I always listened...as the retold story generally was relayed with more excitement than the level of enthusiasm contained in the original telling.

My favorite tale of Bob’s is quite ordinary...and has nothing at all to do with any well-known or celebrated person. I apologize in advance for my inability to capture the story’s beauty, which Bob was able to describe most colorfully when he originally relayed it to me; however, both my memory and story-telling ability pale in comparison to Bob’s.

It seems that when Bob and his new bride, Suzy, set off from their wedding in New Jersey and headed to Vanderbilt, where Bob was to begin the study of law, their only material possessions of any consequence were an old, beat-up automobile and a very nominal amount of cash in their pockets. Somewhere along the way, I believe in rural Virginia, Bob and Suzy lost fifty percent of their assets, as the barely running vehicle carrying them to Tennessee expired.

Fortunately for the newlyweds, the car faltered in relatively close proximity to the business establishment of an automotive mechanic, with whom Bob and Suzy discussed the problem at hand. The mechanic indicated that the car could be revived, but that the cost of making the necessary repairs would be considerable. With no other options, Bob and Suzy instructed the mechanic to proceed, adding an additional appeal for the work be completed as soon as possible, since Bob had to be in Nashville in order to begin his first-year law school classes. The mechanic worked

overnight, and, in the morning, the once lifeless vehicle was again operational. When Bob inquired about the fee for working this miracle, the mechanic, a complete stranger, told Bob and Suzy that there would be no charge...the mechanic's wedding gift to them.

What stayed with me most about this rather regular series of events is the degree to which Bob was touched by the actions of the mechanic, as evidenced by the delight and warmth that he displayed in recounting the story to me, more than fifty years after the incident occurred. In much the same way, Bob Kopf touched every one of us at Smithfield Trust Company...and we will miss him terribly.

For any of you who strive to obtain full enjoyment in your lives, I commend this life to your learning.

– Bill Morrow