

America the _____

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Regardless of the fact that I mocked making “year-end” predictions ([2023 Predictions](#)) last week, it is a good time to think about the year ahead. As I struggled to put my thoughts in a coherent (or at least semi-coherent) framework, one thing kept popping into my head. Whether I was thinking about inflation, debt, taxes, supply chains, the global economy, war, markets, etc., one over-riding thought kept popping into my head, over and over: **many things will boil down to how America acts, perceives itself, and is perceived by others.**

Maybe that is the case every year, but it hasn’t resonated the way it does for me as we approach 2024. **How we fill in the blank (in America the _____) will determine so many things this year.** With over 330 million people, 50 states, and countless allies and enemies (and those in between) across the globe, America won’t likely be defined as any one thing. But how it is defined will play a crucial role in how the economy (domestic and global) and markets evolve over the course of the year.

In any case, how will the “blank” be filled in this year?

America the Divided

There are lots of ways for that “blank” to be filled in, but unfortunately, “divided” is high on my list. For years, issues no longer seem “grey” or “complicated.” There is an “easy” solution to every issue or problem. It just happens that one portion of the population thinks that the answer is one extreme, and another large segment of the population thinks that the “obvious” answer is the other extreme. There seems to be little ground for compromise or for addressing the pros and cons of each issue and thinking about optimal solutions.

As we head into an election year, that divisiveness seems to be getting more rather than less apparent. I went to ChatGPT to try to get some thoughts on the upcoming election. According to ChatGPT:

“Most Americans do not seem enthusiastic about a potential rematch between President Joe Biden and former President Donald Trump in the upcoming presidential election. Public polling indicates a general dissatisfaction with both candidates.”

I am not sure how we have created a system that seems likely to create a rematch of an election that people really don’t want to see. Maybe that is just my impression, but it does seem to be supported. Problems that could be caused by increased “divisiveness” include:

- **Shutdowns in DC. Failure to Pay our debt** (though I don’t think that is a 2024 issue given what was done with the Debt Ceiling in 2023). All problems for the economy and for our markets. **I remain convinced that “something broke” this year after the debt ceiling and shutdown negotiations seemed even more intractable than usual.** The NRSROs (colloquially known as rating agencies) highlighted the problems that are obvious to everyone about the trajectory of our debt and spending. The ratings actions aren’t a big deal in their own right, but they make it harder for people to ignore the obvious issues. We’ve discussed in past T-Reports that while Treasuries are still safe, they just don’t seem quite as safe as before (kind of like the concept of different orders of infinity). More theoretical than anything, but each future wave of doubt will push yields more than they did last year. **If sentiment and positioning could take the 10-year to 5% this year, what will happen the next time the market fixates on this risk?**
- **How our allies commit to us.**
 - **How NATO coalesced around the Russian invasion was nothing short of amazing.** Any

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friction was put aside and a comprehensive, multinational effort was put into effect. That has been fraying at the edges and America's commitment is being questioned by some (at least to anyone who spends time on social media).

- **Israel's war with Hamas** has an almost "Monday Morning Quarterback" type of feel. While I am not comparing arguing over whether a team should have gone for it on fourth down or not to the loss of lives, it seems slightly weird to me that so many people have such vocal opinions on how the war should be prosecuted. We were not the ones attacked. We are not the ones facing an enemy that is still capable and seems committed to launching similar attacks in the future if it is left as a viable force. This is an enemy that purposefully places civilians in harm's way (against Geneva Convention rules) as a key component of their defense strategy. I do not know how this war should be prosecuted. What is right or wrong? But I suspect that at least some people in other countries will question whether the U.S. has done enough to control (or attempt to control) many of their actions.
- **It may well be more difficult over time for "allies" to commit to "us" as "we" become more divided internally.**
- **Can our "Enemies" use this against us?**
 - There was likely some amount of "meddling" with prior elections and there is without a doubt a lot of misinformation being spread by our adversaries to sway public opinion. With AI, it seems more than plausible that the social media "bots" will get better and better at getting that information distributed while being less and less obvious that they are "bots" and not people. Deepfakes and other technologies will only make it easier to spread misinformation. The realization that the nation so often seems to get quickly divided into two camps (apparently heavily influenced by social media) is likely to ramp up efforts by those who want to sway the population one way or the other (presumably by outside actors, but they could be domestic too).

As we enter 2024, I fear that America the Divided is the biggest risk that we all face and a lot of pressure will be exerted by various groups (domestic and international) to try to force this issue. The fact that this is an election year makes an already compelling target/opportunity even that much more attractive for those who wish to push us in this direction.

America the Great (Geopolitically)

If America the Divided is the biggest risk, let's look at the potential for the "blank" to be filled in with Great, or Global Leaders, or something else indicating that America is helping to drive nations across the globe in a free, democratic, and legal direction.

Could we re-emerge as the nation that everyone literally has to follow? General (ret.) Spider Marks is adamant that the world is best when America leads from the front. There were some positive signs. America led the effort to get NATO support for Ukraine. The U.S. is leading the way to protect shipping in the Middle East. America is also a staunch supporter of Taiwan, which is crucial to the overall global support of Taiwan.

There are reasons to be optimistic, but some things really concern me:

- **From "Pariah State" to please produce more oil.** I'm talking about **Saudi Arabia** here, not Venezuela. We did have leadership that claimed that they wanted to make the Saudis a "Pariah

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State,” but I don’t think that any leader ever specifically said that about **Venezuela** (though the sentiment seems to be there on that front too). “We” have turned a somewhat blind eye to **Iran** “allegedly” selling far more oil than they should be selling based on the sanctions in place. **It may be difficult to “lead” when we’ve exposed our inflation fears as a weakness.** My view is that we must do more to encourage a realistic plan to produce more than enough energy to be self-sufficient for decades to come, while building out a more sustainable energy ecosystem (both on the use and production side of the equation). Until we do that, our weakness may be exploited. While I’ve stuck to “energy” here, virtually everything we need in terms of rare earths and critical minerals could be substituted for energy (and the processing of them remains outside of our control).

- **We’ve kicked the can too far.** Some of what is going on in the Middle East seems to be occurring because “we” collectively across the globe preferred “kicking the can” to facing truly difficult decisions. **I am also increasingly convinced that the U.S. will rue the day that we accepted “One Country, Two Systems” as a viable policy!** What the heck does that really mean? It is very complex, but we’ve seen the power of social media and its ability to trounce complexity. There are many “**domains of war**,” and increasingly social media is one of them (and one that we don’t seem as adept at as some of our adversaries). **For some very good reasons, the U.S. doesn’t spread disinformation as the main example, but that doesn’t help us win.**

There is a chance that America really re-emerges as THE global superpower, which would be great for the domestic economy and markets, and should spur growth globally. But America the Divided seems more likely to win.

America the Great (Economically)

I was also thinking of **America the Clever**, **America the Ingenuity Leader** (but that was too wordy), or even **America the Creative**.

- **Artificial Intelligence.** While I like to think in terms of “more and more computing power, applied to more and more data” to drive analysis and decision making, I’ll stick with AI for now since it is all the rage.
 - **The opportunities are immense, and the U.S. is a leader.** Collectively our Geopolitical Intelligence Group, especially General (ret.) Groen, is involved in policy making and thinks that the U.S. is headed down a viable path. Protective but not overly restrictive.
 - **The costs (especially in getting data into usable formats) may slow progress, but this trend that started in 2023 as a crucial investment theme will continue.** If (or when) the efficiencies are realized, we could see all stocks trade at higher multiples. So far, the winning has been concentrated in the hands of the current providers (rather than the users), but that distribution should change if it can deliver on the promise.
 - **Boundless creativity versus state sponsored programs.** One of the big bets on AI will be whether a “bunch” of for-profit enterprises (people trying to create their own wealth) will outperform a heavily funded and very directed effort in countries like China. **I’m willing to bet on creativity and ingenuity in that competition and that self-interest will beat state-interest.** The funding is enormous, but it can be plodding.
- **Space.** Another area of opportunity (and threats), which we will discuss in more detail in our next X-Report (early January).

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- **Blockchain.** In all likelihood, there will be so-called “spot” ETFs for Bitcoin in the U.S. by the end of the first quarter of 2024, if not sooner. The resurgence in price of these assets is helping attract attention, but even while cryptocurrencies languished, the development of tools and products using blockchain continued (less funded and in relative obscurity), but this could be an emerging sector of growth.
- **Biotechnology.** Outside of my “comfort” zone, but for an area that held such promise from a science and investment standpoint during the height of ZIRP and FOMO, I still see a lot of promise in the science, at much cheaper valuations in most cases.
- **Semi-conductors.** I applaud the efforts to build foundries domestically and attempts to own and control these crucial components of our daily life and future. If anything, more needs to be done to speed this along.

If the economy and markets are to do exceptionally next year, it will likely be due to the creativity, inventiveness, and even genius of engineers and developers!

I am concerned that the cost versus benefit equation may slow things down in the quarters ahead. The potential wave of IPOs and secondary offerings from growth companies could weigh on prices (it could be a lot of supply), but I think that whether it is this year or next year, betting on this makes sense!

America the Consumption Nation

I was thinking that this could also be America the **Greedy**, America the **Credit Nation**, or America the **Irresponsible**, but it is the start of the year, so I should at least start with a positive title for this section.

I expect that the American consumer will slow down, the job market will be less robust, widespread/large pay gains will be a thing of the past, and the “soft landing” crowd will be wrong. It might not be a “hard” landing, but look for the American consumer, who has done their “duty” above and beyond all expectations, to finally slow down. That will help yields, but not enough to keep stocks at or near their highs.

America the Divided Creator

My base case is that two main themes will drive the economy and markets this year. We will flip-flop between them. Whenever “Divided” is the word of the day (for an extended period), yields will be inclined to move higher, and stocks will trend down as companies delay decisions or make very tentative commitments due to too much uncertainty. Whenever everyone is chatting about “Creativity” (could be AI, Space, etc.), markets will do well.

I see no reason, sadly, why 2024 won’t be as challenging as 2023 was from a capital allocation standpoint (at least for those who don’t make a decision on January 1 and keep it for the year without having to justify themselves to anyone), but I do think that how America is defined will be a big driver. That will encompass (and influence) things like the Fed, inflation, supply chains, global relationships, etc.

Next week we can return to a more “granular” analysis, but at the start of the year, “going big” picture and thinking about America the _____ is a good way to frame your thoughts. I suspect that this will be an easy one to revisit as the year and the election progress!

I wish you all a happy and successful 2024 and thanks again for all of your help and support in 2023!

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