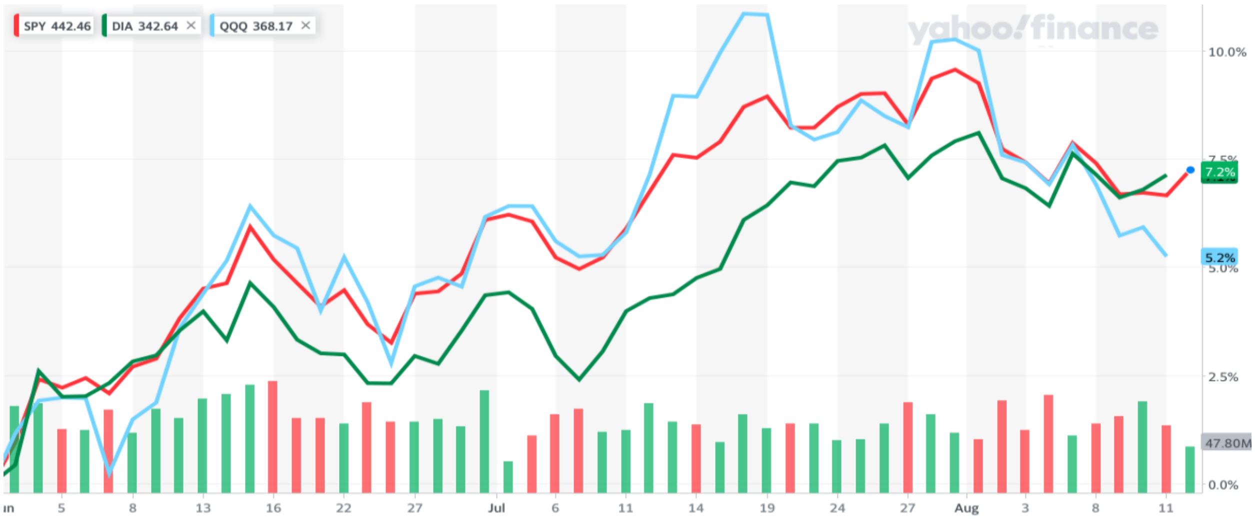
Lloyd Bridges: "Sure is quiet out there"
Robert Stack: "Yeah, maybe too quiet."

And there you have it. In one brilliant little exchange, between two legendary actors, in a film that was Oscar worthy, you have encapsulated everything you need to know about the summer of 2023 in terms of the economy and markets.

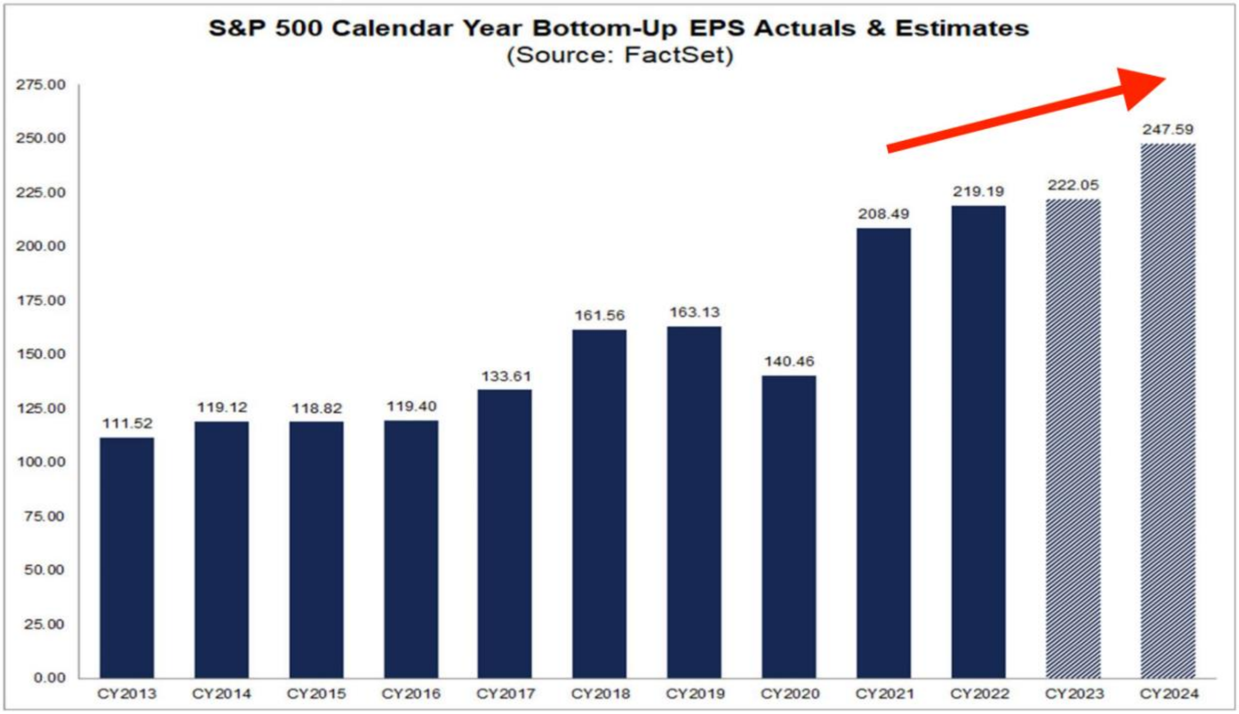
Here are the major averages since June 1st, and while they are all in the black, it's been a whole lot of sideways. And a whole lot of 'quiet out there'.



What gives, why lots of miles with not a lot of destination to show for it? Namely because…

One: Interest rates are high and getting higher. For perspective, this is a twenty-year look. If 3% to 4% on the 10-year is the new level, then we should be okay. If 4% to 5% is, that's more than the markets are factoring in at this point.

Two: Projected S&P 500 earnings for 2023 are expected to be just north of flat versus the previous two years. That would be $208.50 for 2021, $218.20 for 2022, and a not so robust $222 for the current year. That's three years of S&P earnings within $14 of each other. Maybe it's the potential for $250 next year that has the markets at least hanging in there, but robust growth it has not been.



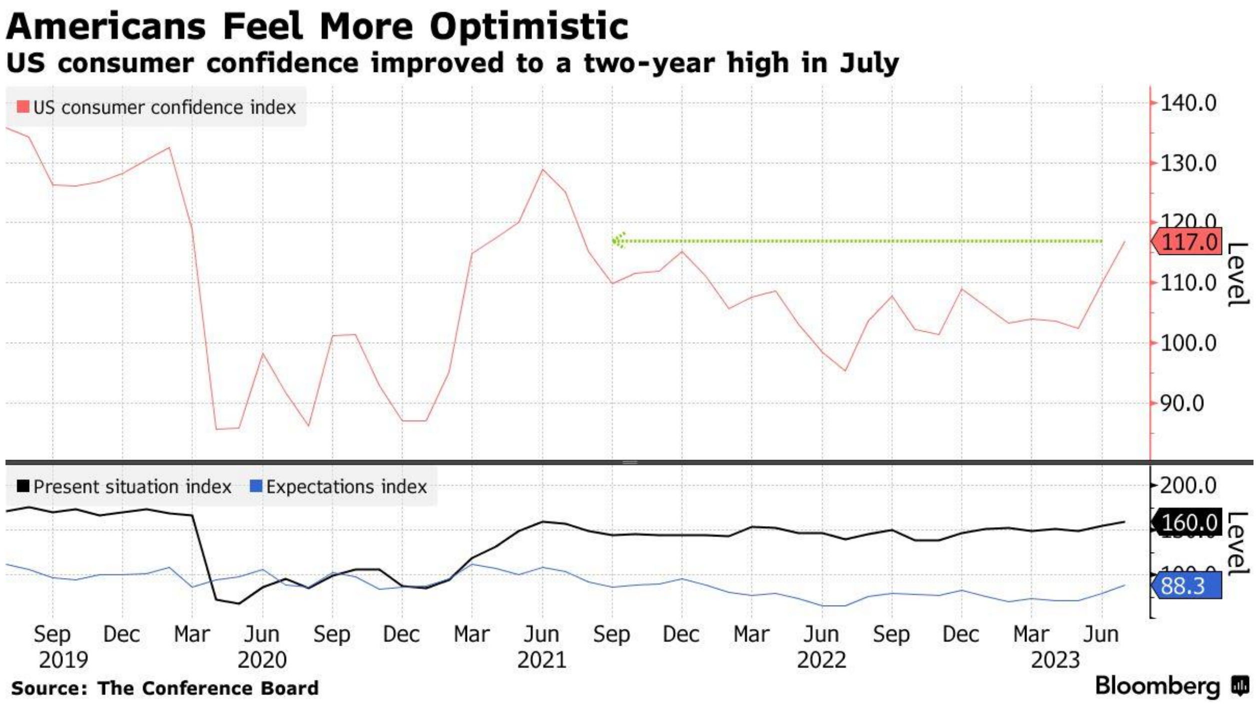
Three: There is still a better than 50/50 chance that a decent contingent of global economic pistons ends the year in recession. Now, full disclosure, this reading is from four months ago and the prospects of landings that are soft variety has entered the market psyche. Nonetheless, there are still red 'check engine' lights flashing on the economic dashboard.

And Wall Street is as confused as always…

Recession	No recession/soft landing
Barclays	Bank of America (changed call on Aug. 2)
Bloomberg Economics	Goldman Sachs
BNP Paribas	JPMorgan (changed call on Aug. 4)
Citi	Morgan Stanley
Daiwa Capital Markets	Regions
Deutsche Bank	Santander US Capital Markets
Jefferies	
Mizuho	
NatWest Markets	
Nomura	
Societe Generale	
TD Securities	
UBS	
Wells Fargo	

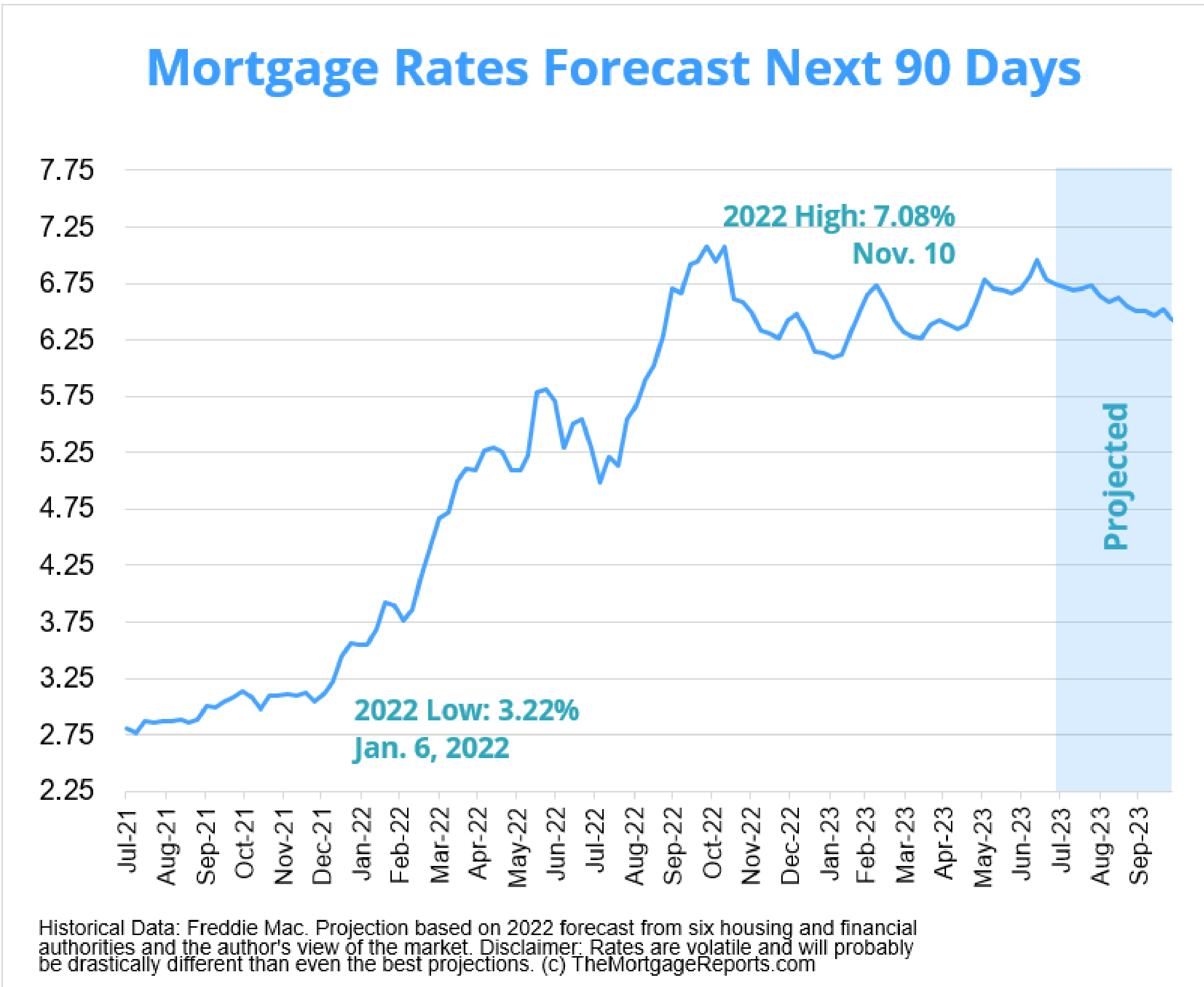
Source: Data compiled by Bloomberg News

Four: Consumer confidence is hanging in there, despite the outlying concern about where the economy is headed. Which is kind of important given that 70% of domestic GDP is consumer driven.

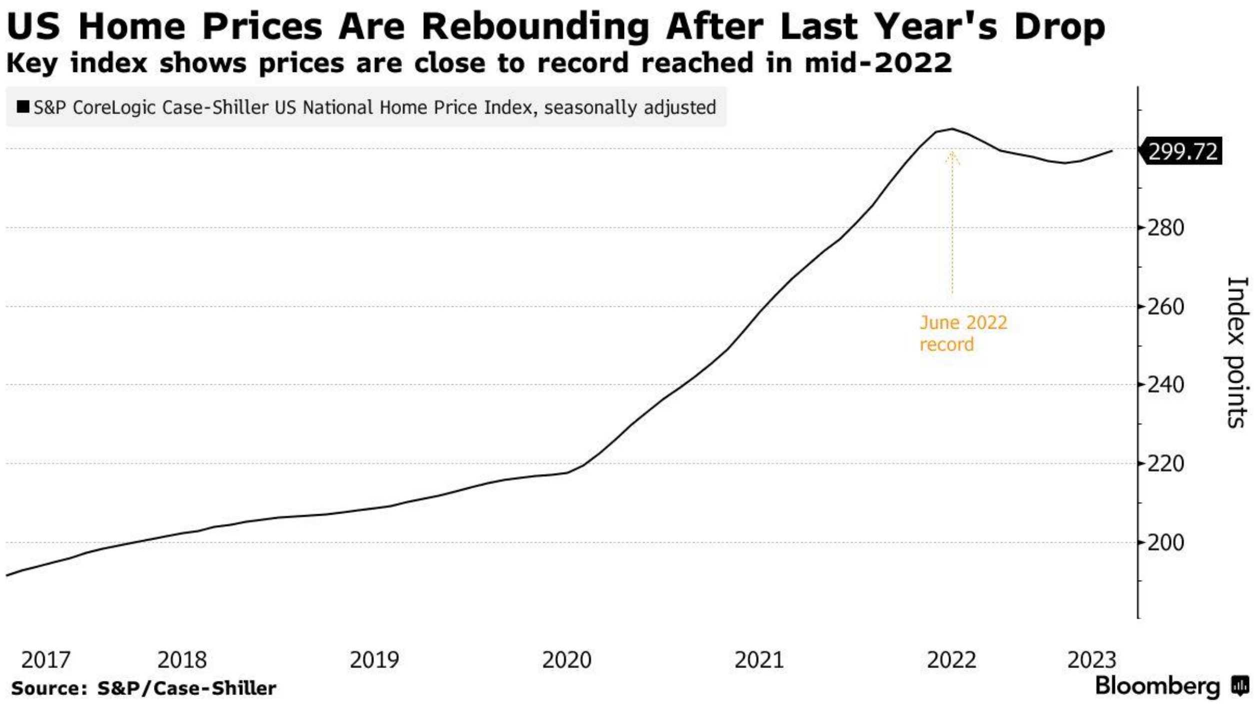


But get this, only two months ago the same publication, Bloomberg, ran consumer confidence for April and it was all gloom and doom. Looking at the two separate charts, I barely see the same thing.

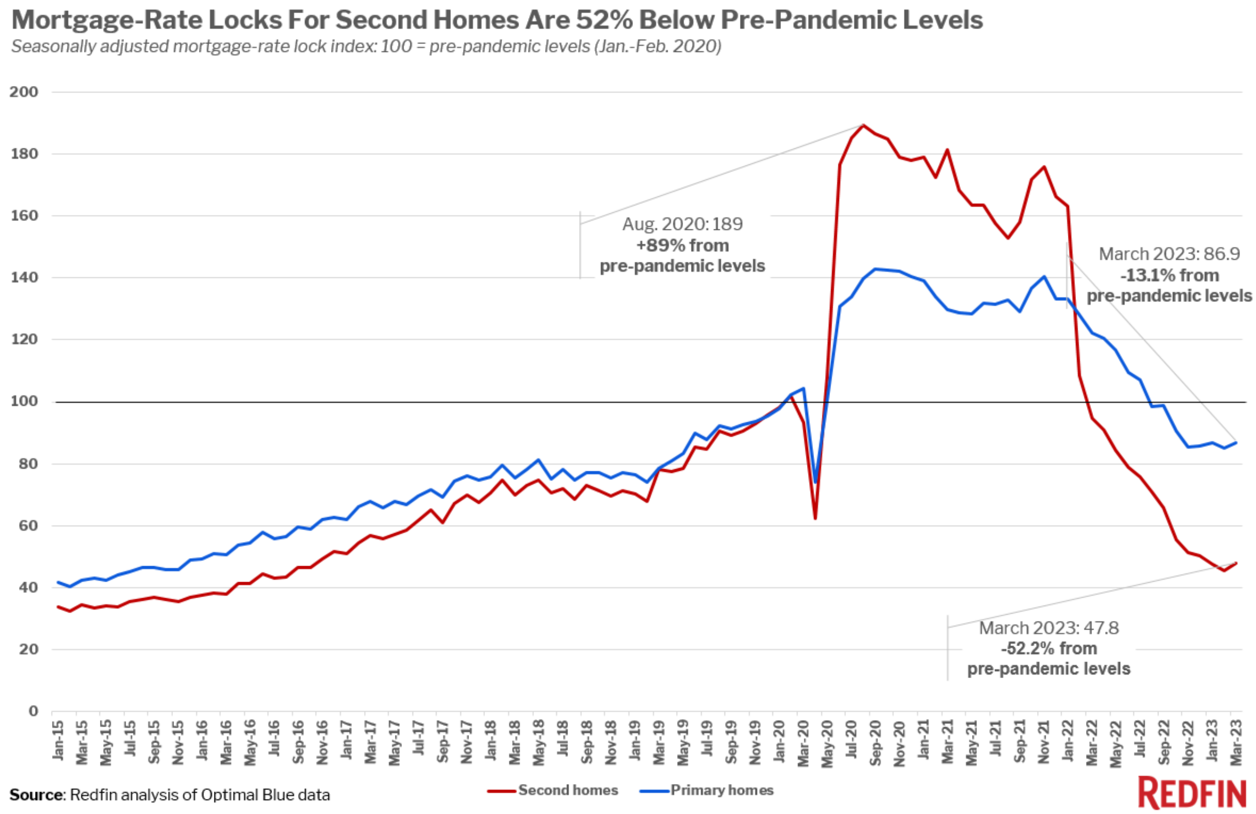
Five: In terms of what residential real estate is telling us, it's 'FUBAR' city all over the place. Keep in mind, the last letter in that acronym 'r' is for 'recognition'. None of it makes any sense. None of it. It's not recognizable. That interest rates on mortgages more than doubled and we are still doing okay doesn't make sense.



But home prices have barely budged, even after going up 50% in the last two years? And I'm being led to believe it's because everyone is locked in at a 3% mortgage and can't afford to move. Maybe sure? But when does a new narrative arrive? Maybe 'prices go down because nobody cancelled the rules of a real estate cycle'.



But now people aren’t interested in second homes. Confusing that is. Maybe it’s the same issue and all the places’ people wanted to buy have been bought, and there simply is no inventory. While I can’t find a chart to show it, word on the street is that VRBO type rentals are way off in terms of volume of bookings this year.



Then there is this little gem to further pound the living shyte out of anyone who wants to break into the California residential real estate market as a 'first time buyer'. What is the breaking point, sub 10%? Who really knows. All I can say is that's asset price inflation without the underlying economy to support it is simply an awful long term trend. But alas, stay as long as you can for as long as you possibly can. I can't believe I just wrote those words.

Only 16% of Californians Can Afford to Buy a Home

- Buyers need $208,000 income to qualify for a 30-year loan
- Loan payments are climbing even as purchase prices fall

Homes in Rialto, California. *Photographer: Kyle Grillot/Bloomberg*

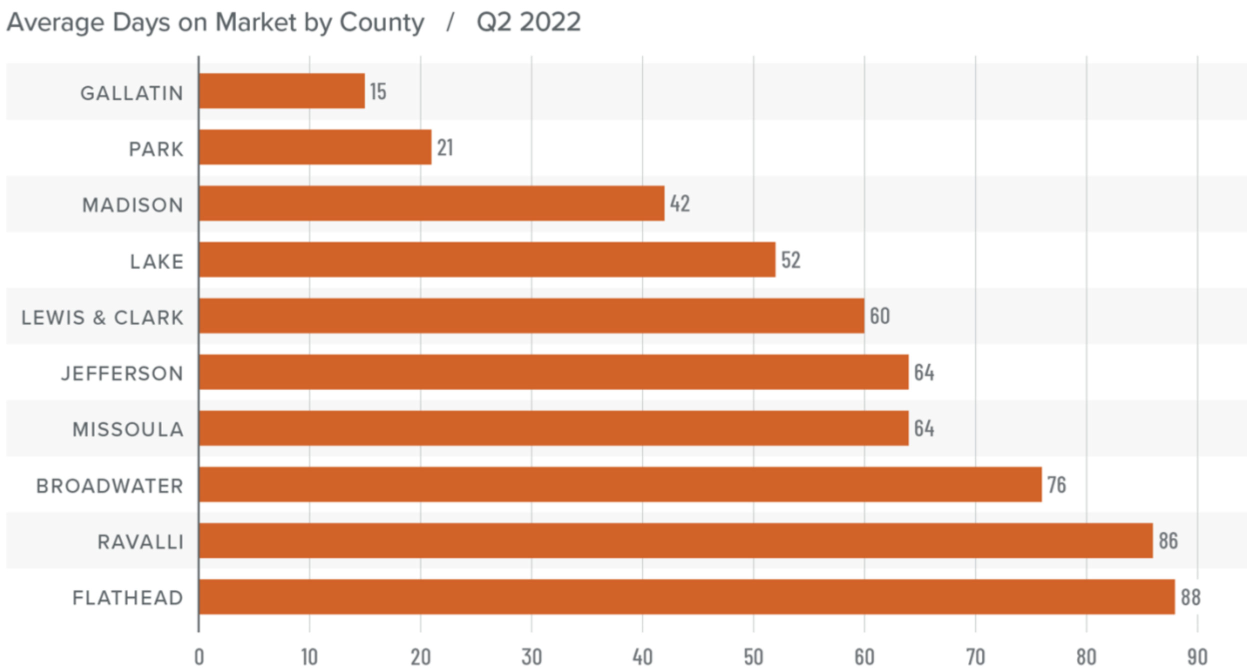
By John Gittelsohn
August 11, 2023 at 11:00 AM EDT

Listen 1:51

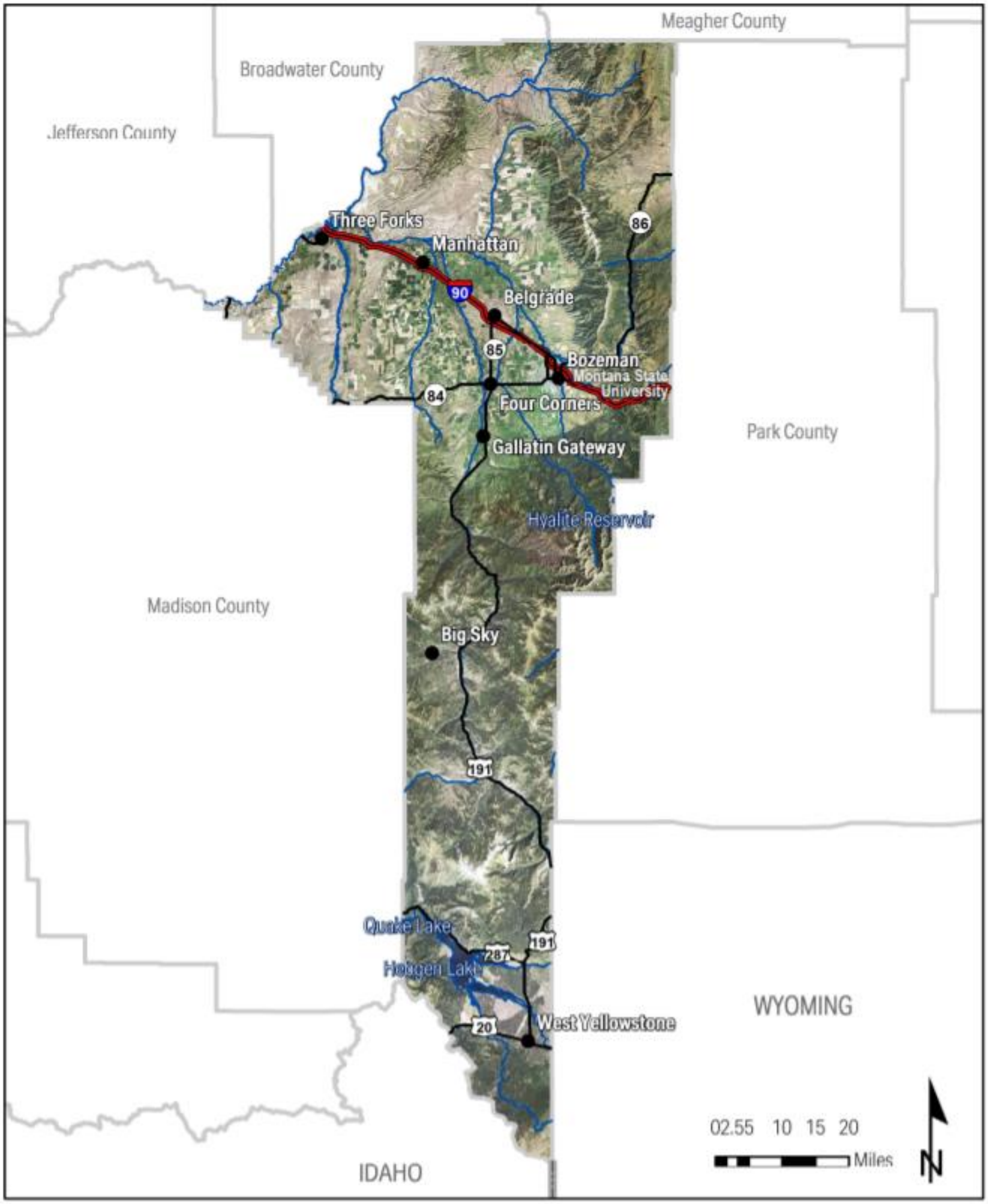
Buying a home in California slipped further out of reach as interest rates climbed and scarce inventory bolstered prices.

Only 16% of households could qualify to purchase a median-priced single-family home in the second quarter, the California Association of Realtors reported Friday. That's down from 19% in the first

Let me give you one positive piece of anecdotal evidence that says the times are a changing. On the mean streets of Montecito as well as the bucolic country roads of Montana, for sale signs are now out on the street. For the latter, it's out in force. Yes, when it comes to boots on the ground, there is inventory out there in the 406 to be had. Now, prices might still be out of whack, but at least there are things to look at.

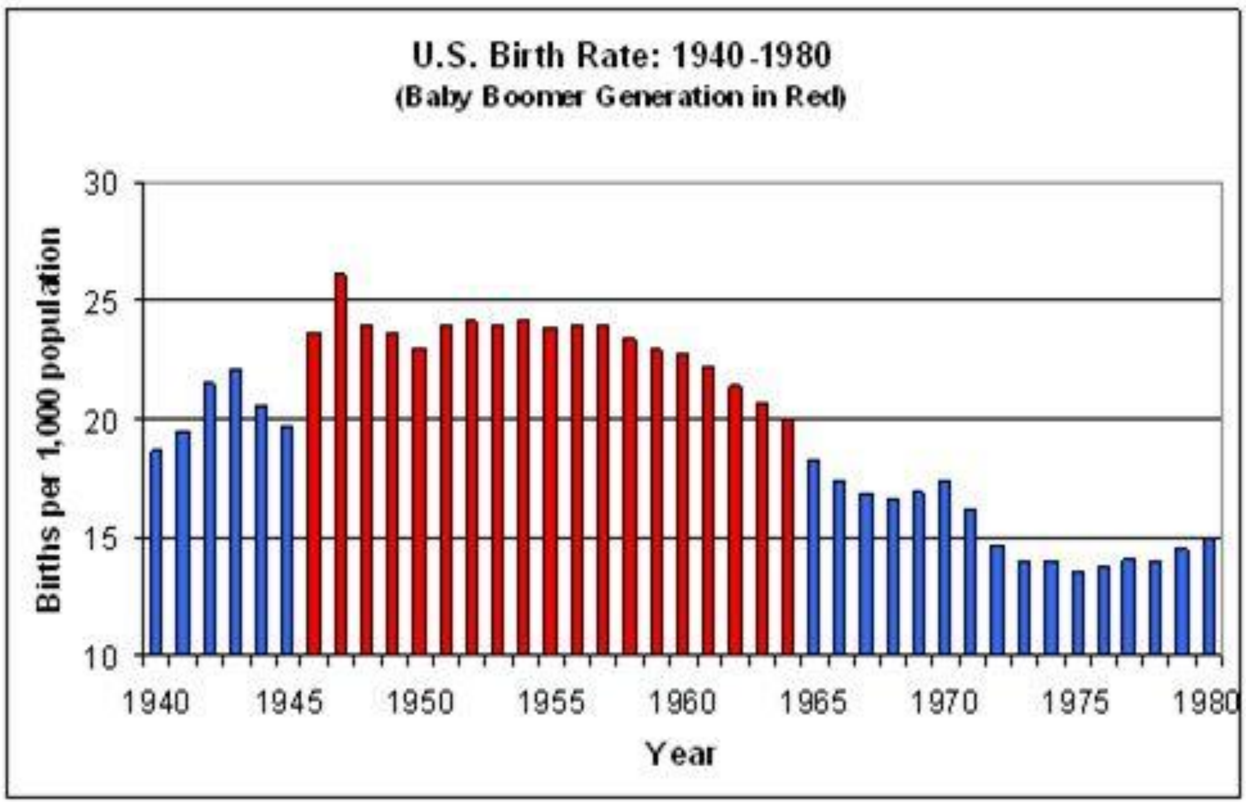


For reference, Gallatin County is home to Bozeman, Big Sky, and the uber bougie Yellowstone Club. The latter of which now has at least six private jet hangers at Bozeman Field (BZN). Good news for me, I'm three whole counties and a world away. Doesn't mean I haven't seen my first G-Wagon here this summer. Simply means I've got a little bit of a buffer between me and Boz Angeles. Ironically, I served a ten year tour of duty in the City of Angels twenty years ago. Please, don't tell my neighbors.

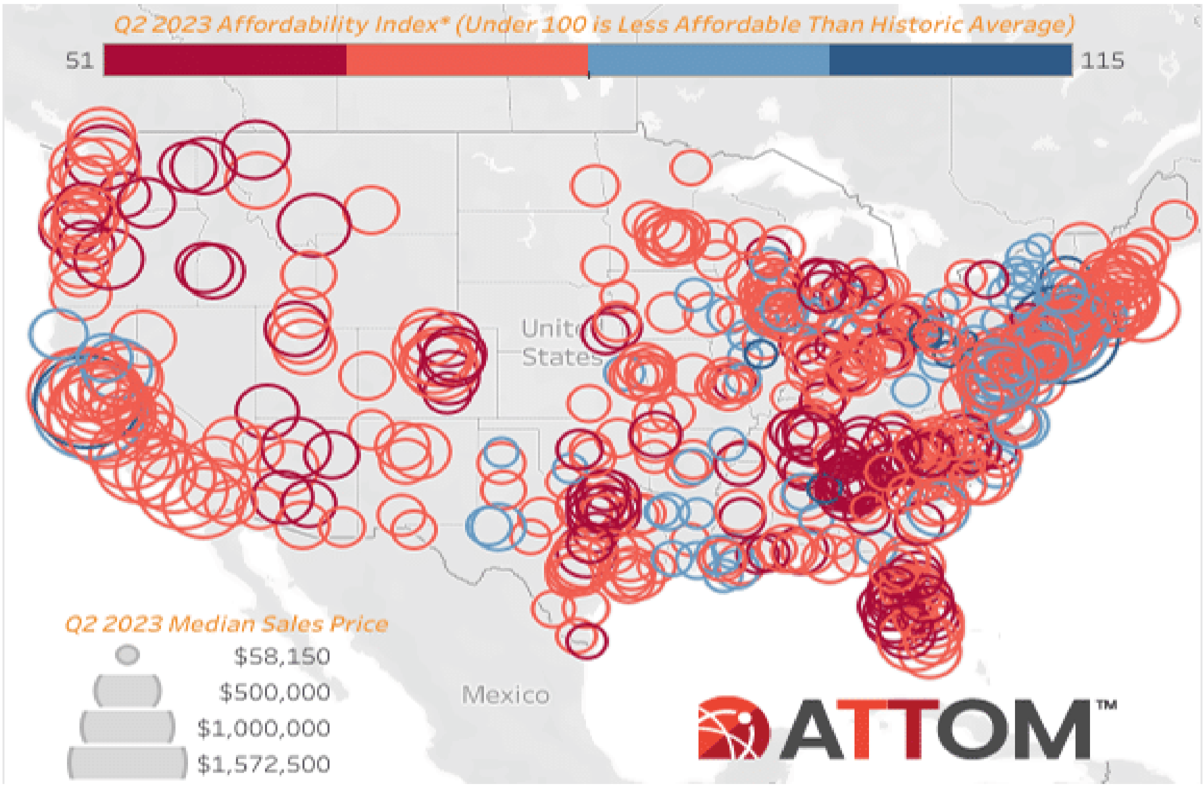


What does this all mean in terms of the future of residential real estate? Honestly, my emotions get in the way of my better judgment. The utter mental mind beat down that goes with seeing homes double in three years time is no small thing.

And trees aren't supposed to grow to the sky. That said, I don't know what cracks it this time. I mean, maybe just maybe, when the boomers start crossing over into the next world inventory will start to hit the market? Sounds as reasonable as anything else I can think of. Early boomers are just now cracking 80, and the very youngest are hitting 60.



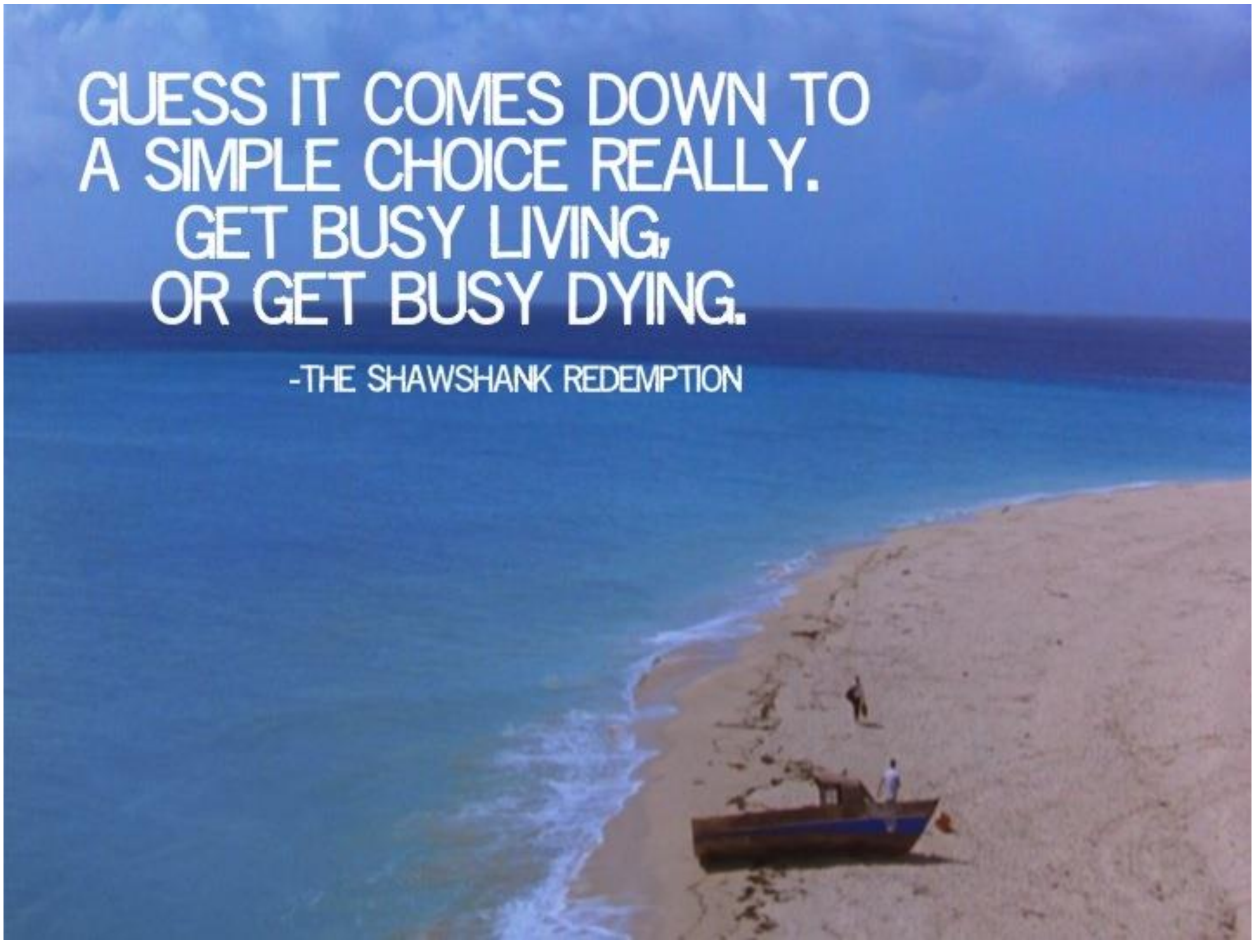
Something must change, or slow down, as the red circles below indicate areas that are below the 'affordable' line. Which is pretty much the 'fly-overs' and some blue circles in an otherwise sea of red. Which for the most part is everything. So please, Fed Governors and economists, do not anchor to CPI as your north star of inflation indicators. There is whole other world of reality out there and you are missing it, big time.



Six: And I'm going to end with this. Last week a fellow Homestead Mustang, eventual Cal Bear, and Indianapolis Colt, Sean Dawkins passed away from cardiac arrest at the young age of 52. He left behind a wife and three young kids. My phone has been lighting up ever since with the group of friends that knew him well early in his life.

The words that always come out first when talking about Sean always include ‘he was the kindest, nicest person I’ve probably ever met.’ That was him, and there is nobody out there except for maybe a DB from Stanford, Ucla, or Southern Cal that played against him who would say otherwise. I’m talking about you, number 9!

So where am I going with this? To the place you probably thought I was. Life is short, very short. Forget the day in and day out of where the economy is going, what home prices are going to look like in ten years, what will the yield be on the ten year. Step back and enjoy a good piece of life every single day. Sean did, until he couldn't. Be good to yourself. From everything I know, living is good, and dying sucks. Time to get busy doing the former.


GUESS IT COMES DOWN TO
A SIMPLE CHOICE REALLY.
GET BUSY LIVING,
OR GET BUSY DYING.
-THE SHAWSHANK REDEMPTION