BCWM
PROVIDING PEACE OF MIND

Portfolio Management
Richard W. Boyer, CFP®, CFA
Laura Carley, CFP®, CFA
Cory Bloodgood, CFA

Dollarization

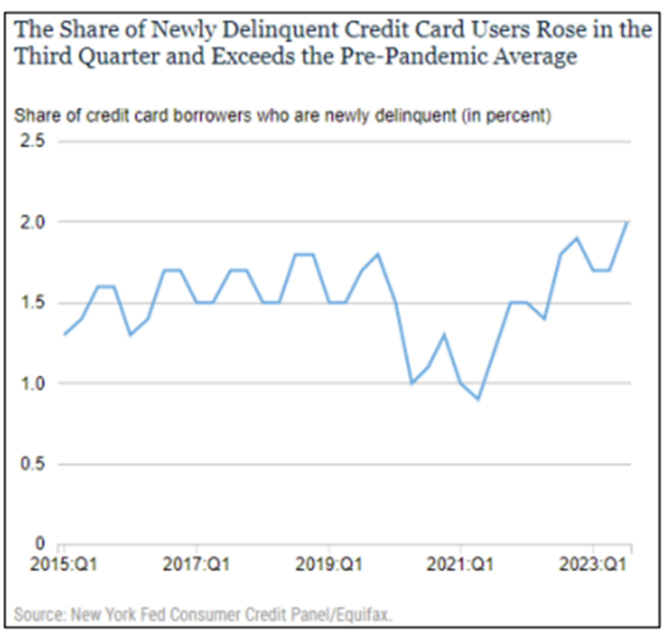
At the risk of being repetitive and potentially boring, we find it necessary to point out that inflation managed to find a new recent low. The annual inflation rate at the end of October came in at 3.2%, and the rate for the month of October (drum roll) was zero percent(!). That's right, for one full month, prices remained the same.

If you've been following our commentaries, this should not be a surprise.

Yeah, some prices went up, but fuel prices continue their downward trend. After hitting $120 per barrel in the summer of 2022, oil is now selling at around $70/barrel . . . which translates into significantly lower prices at the pump.

Ever since inflation hit 9.1% a year and a half ago (the most artificially induced inflation maybe ever), it has steadily declined and declined and declined. And we look for inflation to continue to fall as the U.S. economy suffers from a variety of problems all coming together this next year. In addition to 2024 shaping up to be a brutally polarizing election year, the following issues are likely to lead to bleak economic times.

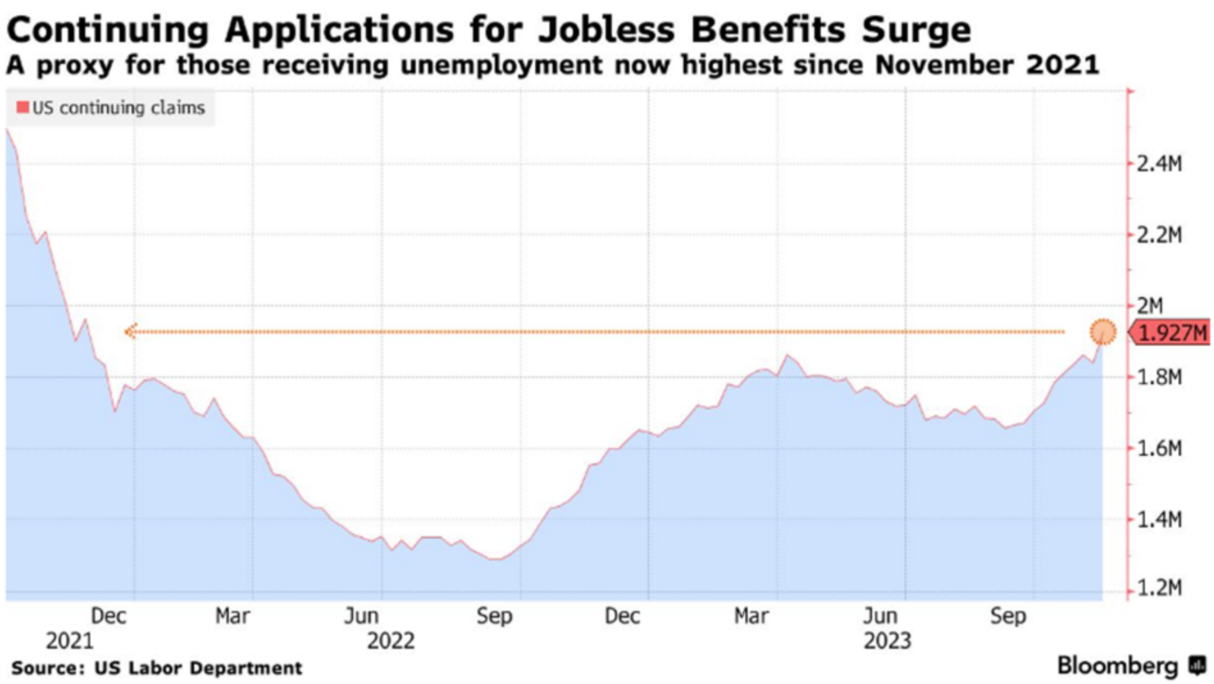
- Consumer staying power is starting to wane:
    - Borrowers are getting close to maxing out their credit cards. Average utilization rates for July 2023 were above February 2020 levels.
    - Credit card delinquencies have also hit their highest levels since before the pandemic.



BCWM, LLC
14221 Metcalf Avenue
Suite 201
Overland Park, KS 66223

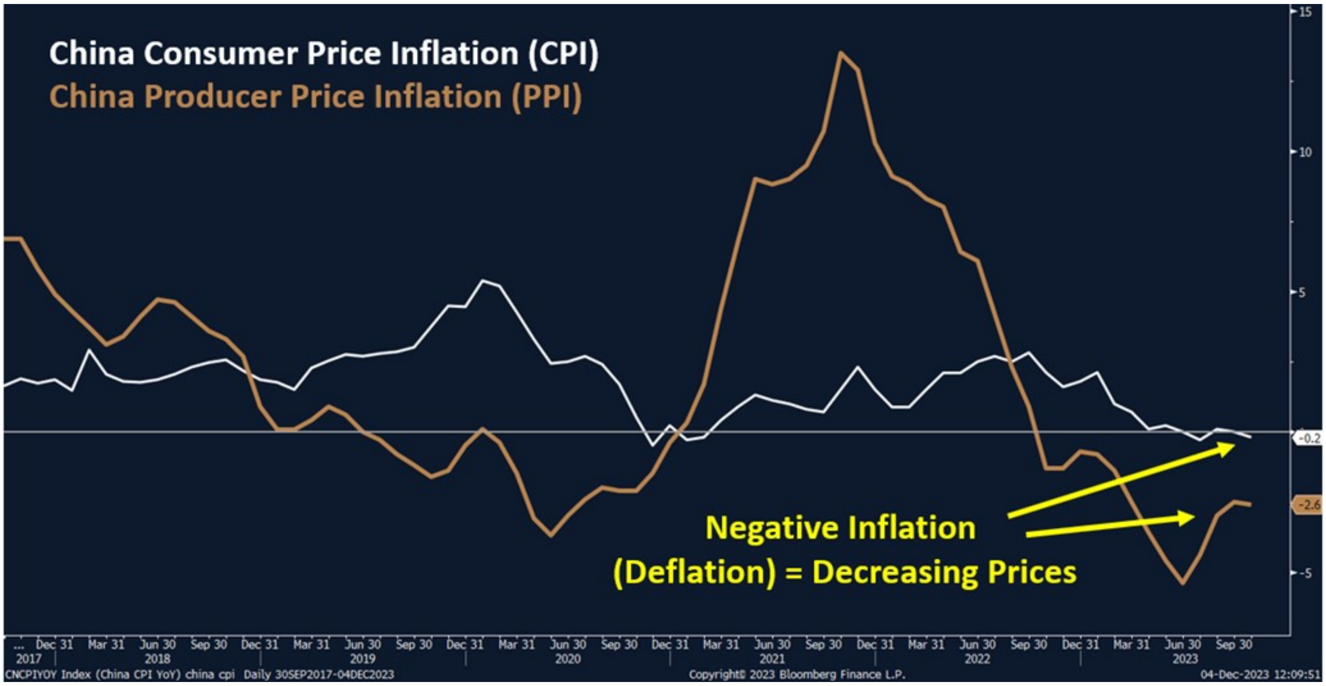
Phone: 913-685-2300
Email: info@bcwm.com

    - Student loan payments resumed in October, and it appears that the last of the COVID stimulus reserves have been spent.
    - Inventory is piling up in the automotive sector, with some dealerships reporting stalling sales. Is the consumer tapped out?
    - They are certainly pushing back on prices. Wal-Mart's CEO even mentioned the "D" word (DE-flation) during their November earnings call. That would be a welcome development to grocery shoppers.
  - Credit growth is slowing, making it more difficult for businesses to find capital.
  - The labor market, while still resilient, shows signs of cooling:
    - Unemployment has started to tick higher.
    - Wage gains have cooled.
    - Yesterday, it was reported that the number of open jobs declined to the lowest level in two years.
    - And the number of people receiving unemployment benefits (continuing jobless claims) jumped to the highest level in two years.



We think the squeezing of the average American's pocketbook is a long way from over. Economic pain resulting from the issues outlined above is just beginning to be felt. Lower inflation and lower interest rates are inevitable. As a result, bonds continue to be a very attractive investment.

We also consider it impossible for the U.S. economy to remain healthy while the second largest economy in the world is experiencing deflation. After emerging from the COVID lockdowns, Chinese consumers did not embark on spending sprees. Instead, they held on tight to their wallets, resulting in declining economic growth for the country.



Since 1979, when China [opened up its economy](), the country's growth model has relied on government spending (a LOT of government spending) on massive infrastructure projects, such as new airports, trains, highways, and bridges.

But forty years of breakneck building has left the country saturated in infrastructure.

The Chinese government wants to shift to a consumer-led economy, but it is struggling in the face of record-high youth unemployment (over 20%), terminal demographics, and household balance sheets concentrated in a property market that is seemingly [falling off a cliff]().

China has some economic pain to work through. And that pain (felt in lower prices) will not be contained to its shores. While the Chinese economy will continue to grow, there is no path back to the 10%+ annual growth rates it experienced over the past forty years. That's over. And it's not coming back.

And, oh by the way, as we were writing this commentary, Moody's lowered the outlook on China's debt rating from "stable" to "negative."

If you are still worried about the value of the dollar worldwide (aka "de-dollarization"), you should take note of the results of Argentina's recent presidential election. After experiencing decades of fiscal mismanagement and runaway inflation (142% this past year), Argentinians overwhelmingly elected a libertarian economist named Javier Milei.

Why is this significant? Because he likes the dollar.

If you recall, Argentina (along with Iran, Saudi Arabia, the UAE, and Ethiopia) was recently invited to join BRICS . . . which stands for Brazil, Russia, India, China, and South Africa. These are nations looking to devise a trading solution that circumvents the U.S. dollar.

This got a lot of Americans in a tizzy, because they thought the dollar's global dominance as the "reserve currency" might be in jeopardy. We have said over and over: nothing could be further from the truth. We have consistently maintained that this is a lot of worry about nothing, and de-dollarization is not happening any time soon.

And, as it happens, Argentina's new president is not so interested in forming a currency with the BRICS nations. Instead, his solution for eliminating hyper-inflation? Replace the Argentine peso with the U.S. dollar!! (Also known as "dollarization.")

We don't think Argentina will actually replace the Argentine peso with the U.S. dollar. That 's easier said than done. But we found it interesting (and telling) that he is not a fan of BRICS.

Put off worrying about the dollar for at least another decade.