



CONWAY • JARVIS LLC

Investment Outlook

Volume 31 Issue 2

June 11, 2021

An Awakening for the Woke: Playing by the Rules

This summer, we're likely to see the dark side of the policy formation process in Washington. It holds the *potential* for imparting significant and long-lasting effects on the economy, some good, some not so good. For the past 20 years we've seen bipartisanship in government relegated to the status of a "concept" more so than a practice. Both parties share the blame. It's given rise to an almost constant state of gridlock where only a few big, important things get done and each party's ideological wish list remains largely unfulfilled. As investors, we like that and believe that's what The Founders had in mind when they devised the construct of our democracy. We think they viewed the Balance of Power as a *unifying* force for the country and were mindful of the divisiveness of mob rule. That construct could be tested in the months ahead by a cadre of lawmakers who want to subvert a legislative process that has endured for centuries. While the outcome is still down the road, we believe they're unlikely to succeed. However, the headline risk surrounding their attempt could present a challenge for investors in the short term.

Historical and Economic Literacy Matters

While we prefer to avoid discussions of politics, it's unavoidable when addressing the effects of policy on the economy. It's especially true this year as we've seen extremists in both parties weaponize the legislative process to further their political ambitions. At the root of that process are precepts that for more than 200 years provided a path for crafting policy and resolving conflict. While those rules and laws have *evolved* over that period many of the party currently in power are clamoring for Change (that word again) by *reconstructing* the rules to promote their version of a social construct. Their wish list suggests an abandonment of the idea of the US as a meritocracy while demonizing an economic system that has made us *the* most desired destination for those in search of opportunity.

Sadly, while well intended, they appear to be largely illiterate when it comes to history and the science of economics as they ignore the lessons of the same failed policies they now espouse, such as a wealth tax. Frustrated by a failure to win a mandate in the most recent election, they and the leadership of their slim majority in Congress have declared that the Rules must be changed for the good of the country: Court packing, open borders, unregulated voting, ending the filibuster, and legislating through reconciliation. We're among those that view these as "gaming" the system to perpetuate the power structure of their party rather than moving the country ahead. This is just a guess, but we think that may not be what the Founders had in mind when they crafted the "Balance of Power" design of government.

Fortunately, there's a handful of lawmakers in the Senate who are mindful of the Founders intent and have shown a commitment to put the country above politics. They've been vilified and publicly attacked by many in their own party with an assist from the mainstream and social media which

often appear to be one and the same. Given that *every* vote is now critical in the Senate, Joe Manchin and Kyrsten Sinema have made preserving The Rules and seeking bipartisanship a prerequisite to garnering their support for enacting policy. They serve as a reminder to their party that the recent election didn't deliver a mandate as many of their fellow lawmakers in the Senate and House believe. They apparently see this as one of those instances where *just because you can doesn't mean you should*.

Will the concept of bipartisanship become a practice once again as it existed before the famous hanging chad of 2000? We think it could if the grown-ups in Washington emerge to take on the leadership of their respective parties. The newly emerged willingness of some moderates to interact in a professional and respectful manner with those across the aisle could prove instructive to others in Congress and the administration. They'll hopefully come to realize that activism is not a substitute for experience and accomplishment in a meritocracy. It appears that some newcomers in Congress may confuse being elected with being anointed as an expert in all things and mistake "Wokeness" for Wisdom. As more moderates who value playing by the rules emerge, we believe cooler heads will ultimately prevail as we look to a bipartisan result later this summer. We'll keep you posted.

Update on our list of Risks to Recovery and Economic Expansion

COVID-19: Widespread vaccination has fueled the reopening in the US while Canada and Europe lag. Deflation worries have been replaced by those of inflation. Remains **Benign**

The Fed: Inflation narrative ramps up pressure for a response from the Board. They're holding fast to their stated protocol. Any change in policy will be announced well in advance of any action. Remains **Benign**

Trade War: The retreat from America First is done. Tax and trade policy with Europe rests on the US assuming an anti-competitive stance. China and Russia remain problematic. For now **Benign**

Global Economy: US leads the post-COVID recovery. Canada, Europe, and Emerging Markets playing catchup with their vaccination rates. Global minimum corporate tax looms. Risk remains **Moderate**

Policy Formation: Still awaiting budget and fiscal policy enactment. Centrists vs. Extremists. Pragmatists vs. Ideologues. Potential for return of bipartisanship borne out of necessity. Risk remains **Moderate**

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