

The Disciplined Investor Podcast – Show Notes (Guest Segment) - Episode 907: 2/9/2025

Quick recap – Danille DiMartino Booth

Andrew and Danielle discussed the current economic situation, including the impact of joblessness, the potential for rate cuts, and the strategies companies use to reduce headcount discreetly. They also touched on the influence of large companies, the impact of tariffs and government debt on the economy, and the challenges faced by the Federal Reserve in managing the economy. Lastly, they highlighted the current economic climate, the potential pressure on the Federal Reserve, and the importance of financial literacy.

Summary

Joblessness and Trump's Impact Discussed

Andrew and Danielle discussed the overwhelming news cycle dominated by Trump, likening it to speed tennis. They then shifted their conversation to the topic of joblessness, with Danielle highlighting the extended duration of unemployment and the lack of wage growth. She also noted the lack of support from overseas demand. Danielle emphasized the message from Federal Reserve chair Powell that if you have a job, don't lose it, as the median time of people being out of work is 10.4 weeks.

Economic Slowdown and Potential Rate Cuts

Andrew and Danielle discussed the current economic situation and the potential for rate cuts. Danielle suggested that the slowdown in the economy is a continuation of the higher-for-longer fed policy, and that the Fed's failure to aggressively lower interest rates is causing companies to go out of business. Andrew questioned whether this was a sign of a persistent slowdown, and Danielle agreed, stating that the Fed would likely have to play catch-up with rate cuts. They also discussed the probability of rate cuts, with Danielle stating that the probability is higher than previously thought. The conversation ended with a discussion about the potential for a 420 billion dollar cut, which Andrew suggested could be beneficial for the country.

Job Losses and Performance Improvement Plans

Andrew and Danielle discussed the impact of job losses and the strategies companies use to reduce headcount discreetly. They highlighted the example of a client who was laid off after a year of unclear performance expectations. Danielle emphasized the importance of not losing a job and the potential consequences of companies setting new performance benchmarks. They also discussed the practice of introducing performance improvement plans as a way to dismiss employees without providing severance. The conversation ended with a discussion on the influence of large companies like JP Morgan and Amazon in setting these precedents.

Economic Outlook and Monetary Policy

In the meeting, Daniel and Andrew discussed the current economic climate and its impact on various sectors. Daniel expressed concerns about the Fed's monetary policy, arguing that it is not catering to the needs of all Americans, particularly those with high borrowing costs. Andrew, on the other hand, was more optimistic about the economic outlook, emphasizing the importance of earnings over other factors. They also discussed the issue of inflation, with Daniel pointing out that despite a slowdown in the rate of inflation, prices are still higher than in 2019. They agreed that the Fed needs to address the disinflation problem by lowering interest rates. The conversation also touched on the impact of the bird flu on egg prices and its ripple effect on other products.

Federal Reserve Independence and Pressure

The discussion moved to the potential pressure on the Federal Reserve, particularly from the current US administration. They noted that the administration believes they are smarter than the Fed and that the Fed's independence is under scrutiny. They also discussed the possibility of the administration trying to reduce long-term borrowing costs, which they acknowledged is beyond the Fed's control. The conversation also touched on the potential for executive orders on interest rate capping, which they noted is anti-capitalistic. They concluded that Fed Chair Powell is likely to complete his term, despite potential pressure from the administration, due to Supreme Court precedent. They also discussed the upcoming changes in the Federal Reserve Board, with Trump set to replace several members.

Tariffs, Debt, and Economic Challenges

Next up – a discussion about the impact of tariffs and government debt on the economy. They agreed that while tariffs may not be inflationary in the short term, they can slow down growth and have a negative impact on global trade. They also discussed the challenges faced by the Federal Reserve in managing the economy, with Danielle suggesting that the Fed needs to be more communicative and acknowledge the reality of job losses. Andrew expressed concern about the Fed's ability to balance being more accommodative due to job situations while being cautious of inflation, particularly with the potential for tariffs. Both agreed that the situation is complex and difficult to predict.

Economic Stress and Passive Investing

Danielle discusses the current economic situation, highlighting falling rents and weak income growth as indicators of economic stress. She notes that companies are beating earnings estimates through cost-cutting measures, including layoffs. Danielle explains the impact of passive investing on the stock market and how it continues to drive stock prices regardless of fundamentals. She also emphasizes the challenges faced by the Federal Reserve in lowering interest rates, as it negatively affects retirees who own a significant portion of the stock market. The conversation concludes with Danielle promoting her financial literacy efforts and her daily newsletter.