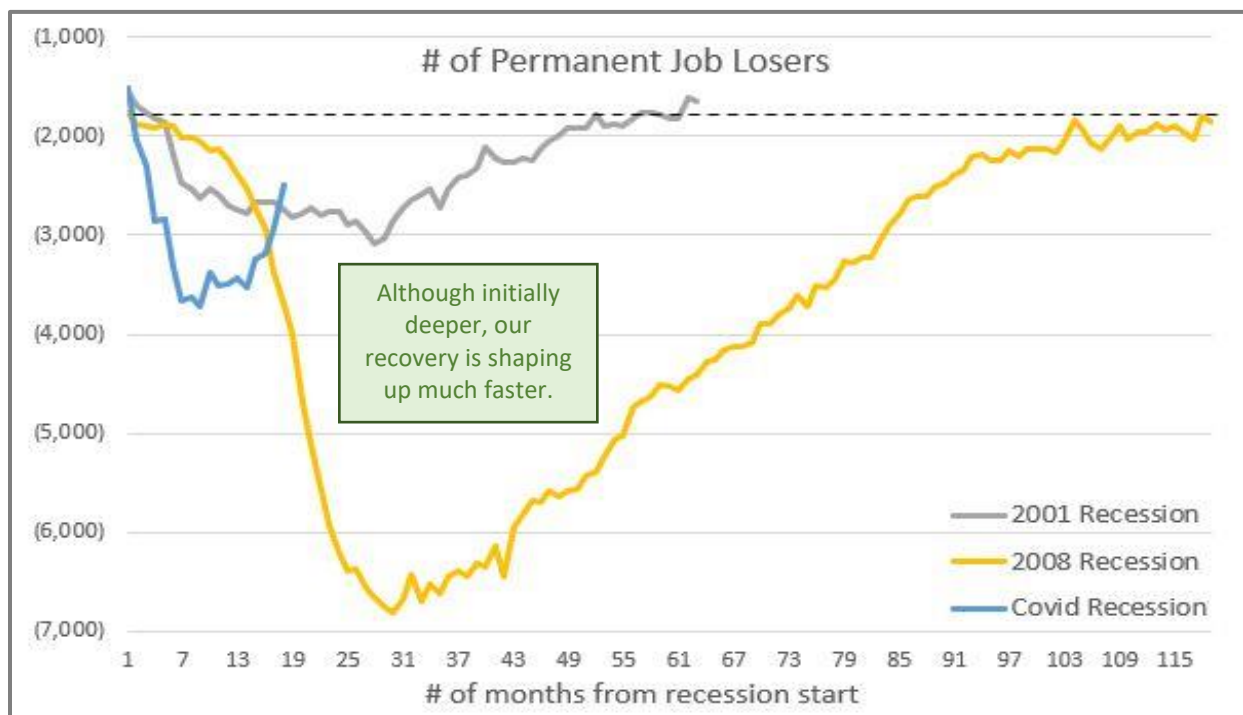


Have you thought about why this recovery has been so robust compared to the recent past? The post-Covid GDP recovery has been the fastest in the post-WWII period. As with everything there are multiple variables, but the simplest answer here is that “the fiscal response was the biggest ever”. What does that mean? And what about all of the buzz words floating around: *inflation -supply chains -shortages -wages?* Let’s cut to the very core of the US economy using an analogy of the most American sport there is – football (*it’s opening weekend after all!*).

To make the business of football work, there are three parts. The same is true of the US economy. There is the league (government), the teams (businesses/capital), and the fans (workers/labor). And each party wants the same goal over time: to make football more valuable. The league to get paid bigger fees, the teams to make more profits, and the fans to have bigger and better teams. No one disputes that goal, but the argument lies in “how do we do it?”

politics has entered the chat

Understandably, this is where lines are drawn. But to be honest, nearly all arguments here are about distributions **within** the league, taking from one part to boost up another. Not much thought is put into how you grow the whole pie – making the league bigger, the teams better, and the fans stronger. For that to work, everything revolves around incentives. Let’s break it down and remember that the league = government, teams = businesses, fans = workers, and fees = taxes.



Incentives:

1. The league's incentive is to make football bigger. They aren't structured to make a profit. They want the teams to be huge and the fan base to be dedicated.
2. A team's incentive is to generate profits. Its primary focus is the return generated on investments. e.g., a better training facility = better players = more wins = more sold merchandise.
3. A fan's incentive is, by and large, happiness. It's more psychological, and there isn't an exact equation to it. *In an economic sense, Americans work to get money, and use most of that money to buy things, presumably for happiness (or whatever, but the point is that most money made is spent for personal consumption).*

Theory 1: Focus on the teams. Let's say by cutting the league fees. This is the easiest and most immediate way to inject money into the system and would net an immediate cash benefit to all of the teams. In turn, the teams would follow their profit equation: *a better training facility = better players = more wins = more sold merchandise*. Some teams have plenty of room to invest, but others may already have the best money can buy. What good is adding more Pelotons if you already have one for every player? But teams (businesses) will always find something profitable – that's what they are built to do. So they will instead invest in something like a soccer team in France? Maybe a good decision for them, but it doesn't help the American football league much at all (and that was the whole point). So, the outcome here is – 1) the league pulls in less \$ (*fee cuts*), 2) the teams that invest it for more success get more fans and make more \$ (*success*), but 3) the teams that don't lose fans to the up-and-coming teams but gain assets elsewhere.

Net all of this out and what you see is one big share shift + leakage to other assets. *We don't need to look much farther to understand why the GFC recovery was tepid.*

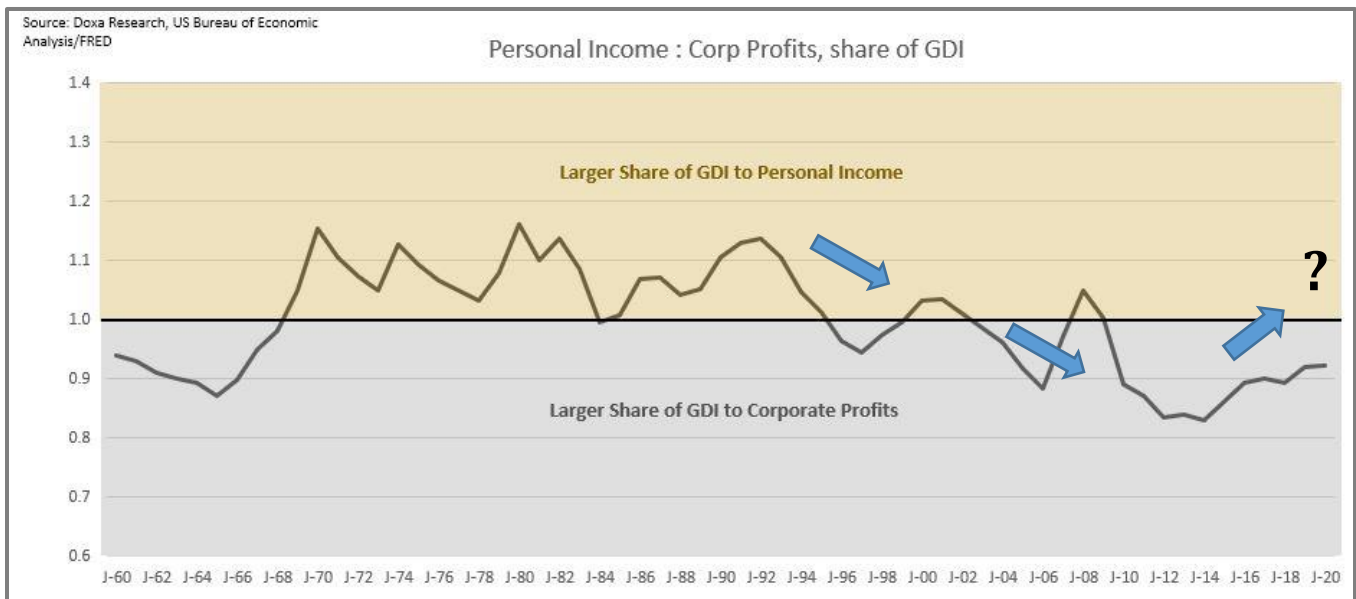
Theory 2: Focus on the fans. Let's take a different tack and say that the league cuts fees for the fans, or rather gave them all a \$400 credit (stimulus check!) to spend on their favorite team. Remember, the fan couldn't care less about maximizing profit, they just want a new jersey and a good tailgate party. Why is this different than the team, you might ask? *The technical term is because of the marginal propensity to consume (MPC)* e.g., the fan is going to spend nearly all of their extra dollars on consumption. Give them more dollars and they don't save it, they spend it. That's the American way. Teams (biz), on the other hand, only spend dollars on the most profitable forecasted option (*that's what they were created to do!*)

The outcome in this scenario is that fans are happier consuming more stuff, teams make more money from the fans, and the league makes more money from the higher overall revenue. The whole pie grows. Over time asset leakage still happens, but the firepower per dollar is much higher by focusing on the fans rather than on the teams. **Said differently, people are a much more reliable source of consistent spending than businesses.**

Scenario 2 is exactly what the US did post-Covid and it worked very well. We focused on the tried-and-true American consumer and that generated one of the fastest recoveries in history. Business profits are soaring, households are healthy, and wage gains are robust. Yes, the windows are backordered 10 weeks because supply chains are a mess. And the price of old Hondas doubled in a week - there are some pretty serious dislocations out there. But these issues are to be expected and will be transitory as the entire supply side of our economy resets to a high demand environment. **In short, the recovery out of 2008 brought on a surplus of cheap stuff and**

cheap labor, but a weak demand side accompanied it. Now, demand is running hot and the “stuff and labor” side is scrambling to catch up. We’d much prefer this set up to last time around, and it’s central to our theme of the current cycle being “hotter but quicker”.

As our themes usually go, I come back to cycles one way or another. Zooming out, this whole labor/capital (*fans/teams*) zeitgeist operates on a cycle too. Maybe we’re starting a new shift in focus back toward the fans? It’s something to keep an eye on as we navigate into the mid-2020s.



At the end of the day, moderation here is always best. Sometimes too much focus is put on the teams for too long. Sometimes too much is put on the fans. That’s why this chart gyrates back and forth over time. The economy got a little one-sided after the financial crisis, and it appears like a snap back to the consumers is just what the economy ordered.

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