HOLDEN FAMILY OFFICE

The Federal Reserve's Recent Move & How We Think Through the Economic Environment

Market Insights | Sean Meunier

Announced today at 2:00 pm EST, the Federal Reserve has taken the decision to raise the target range for the federal funds rate to between 5.25 and 5.50 percent, marking a raise of twenty-five basis points. In studying the state of consumers and the broader economy, we remain confident that the resilience and robust employment figures in the U.S. provide substantive indications that a prolonged and severe recession is unlikely.

Our analysis suggest that inflation appears to be stabilizing and manageable, a sign that we might expect a less turbulent economic downturn and a gentle recession in 2024. Our advice and subsequent actions will be geared towards identifying companies trading below their intrinsic value and initiating acquisitions of such entities on behalf of our clients.

We assert the wisdom of adopting an investment and business ownership perspective, as opposed to pursuing a macroeconomic forecasting approach, given the inherent uncertainties surrounding future events. We are committed to concentrating on tangible present opportunities rather than speculative predictions.

For your reference, please read the press release from the Federal Reserve earlier today:

"Recent indicators suggest that economic activity has been expanding at a moderate pace. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated.

The U.S. banking system is sound and resilient. Tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain. The Committee remains highly attentive to inflation risks.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 5-1/4 to 5-1/2 percent. The Committee will continue to assess additional information and its implications for monetary policy. In determining the extent of additional policy firming that may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in its previously announced plans. The Committee is strongly committed to returning inflation to its 2 percent objective.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments."

How We Are Thinking Through This Time

To effectively illustrate our prospective, let us delve into a hypothetical scenario involving John, a seasoned entrepreneur who operates a successful chain of boutique coffee shops. As part of his ongoing pursuit for potential growth opportunities, he stumbles upon a distinctive local coffee bean farm, that's currently up for sale. The farm is celebrated for its superior quality beans, has a faithful customer base, and presents substantial room for expansion. Intriguingly, the asking price is significantly below what John perceives to be the farm's intrinsic value.

While there are predictions of an impending recession, John chooses to focus on the compelling opportunity that stands before him. He comprehends that if an opportunity is as enticing as this bean farm, with its exceptional reputation and potential for expansion, then wider macroeconomic uncertainties should not dictate the decision-making process. His experience has taught him that economic downturns can sometimes unlock additional prospects, as the demand for premium, locally sourced coffee beans often remains resilient.

Therefore, instead of allowing the fear of a potential economic downturn to dictate his decisions, John decides to concentrate on the immediate and promising potential of the coffee bean farm. Despite potential macroeconomic challenges on the horizon, he sees the potential for significant returns on this investment. After all, an opportunity that aligns so perfectly with his existing business model is too valuable to ignore. His primary focus, therefore, is on viable, promising endeavors in the present, rather than on speculative forecasts about the future.

In line with John's strategic approach, our primary focus will be on identifying and investing in companies whose current market prices are significantly below their intrinsic value. Instead of engaging in speculative predictions about the future, we will prioritize tangible investment opportunities, ensuring our decisions are driven by concrete valuation rather than economic speculation.

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