Roffman Miller
Wealth Management

Many have argued that the pendulum has swung too far

Reshoring American Manufacturing

The Fed has been signaling rate cuts in the coming months. The resulting lower interest rates will support the U.S. equity markets and make the ever-elusive “soft landing” more probable. Just about every economist has predicted at least two rate cuts before year-end. Traders are pricing in a 55% chance that the first rate cut will be in June. Just a week ago, traders were pricing in a 70% chance of a June rate cut. In his March briefing, Jerome Powell said he expects three quarter-point cuts by the end of the year. Shortly after Powell’s declaration, Fed Governor Christopher Waller said there was “no rush” to lower interest rates. Then, Atlanta Federal Reserve Bank President Raphael Bostic said he now expects just one quarter-point rate cut this year, down from his earlier view of two cuts. With the benchmark overnight borrowing rate between 5.25% and 5.5%, there’s plenty of room to lower rates. However, a strong economy, resilient job market, robust corporate earnings, and stubborn inflation may delay the highly anticipated rate cuts.

Bob Hofmann, CFP®
President

It wouldn't surprise me if there were no rate cuts this year. The U.S. unemployment rate rose in February to 3.9%. That’s only about 6.5 million people who are out of work. It’s been 54 years since we've seen unemployment this low. Our job market is strong, and when Americans work, they spend. Since about 70% of the U.S. economy comes from consumer spending, it’s safe to say that our economy looks good. The International Monetary Fund expects the American economy to expand by 2.1% this year.

After many years of offshoring manufacturing, there’s a trend toward reshoring. Almost twenty years ago, Thomas Freidman published his book “The World is Flat.” The book sold millions of copies and was the Financial Times Business Book of the Year in 2005. In his book, Friedman, a journalist for The New York Times, states that globalism has leveled the playing field, meaning that other countries outside the West can contribute more to the global economy. Freidman believes technology is the driving force that will allow the world to flatten. By flattening, he means the global competitive playing field is being leveled so everyone can participate due to real-time communication tools like email and other technologies. Business leaders have adopted his theories over the last two decades and witnessed massive global trade and manufacturing diversity. This offshoring propelled the rise of China and other developing countries.

Many have argued that the pendulum swung too far, and now we’re seeing some manufacturing return to the U.S. Maybe off-

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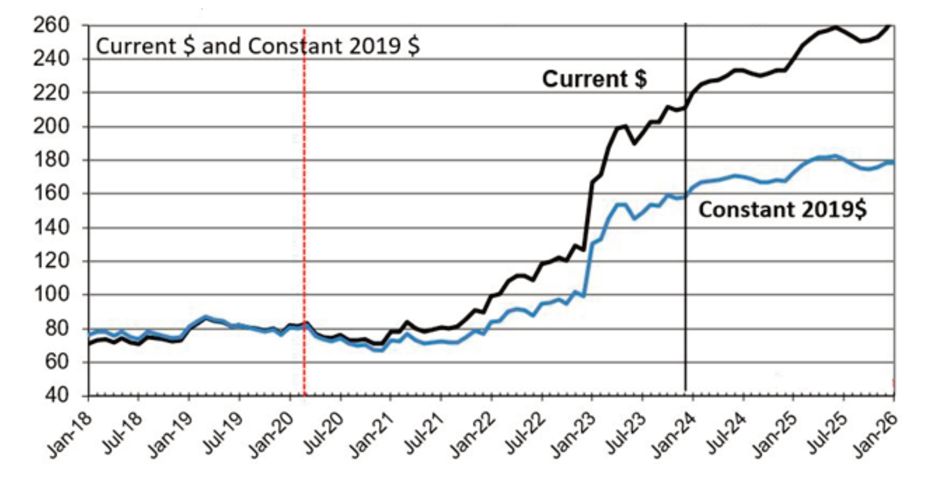
MANUFACTURING – INDUSTRIAL BUILDINGS

Construction Spending Annual Rate ($billion)



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shoring wasn't such a great idea, especially as it relates to issues like technological sovereignty and national security. Semiconductors and drug manufacturing are two industries that are beginning to reshore.

During the first quarter of 2020, the world shut down due to COVID-19. Friedman's flat world was no longer working. Factories shut down globally. Drug affordability no longer mattered as much as accessibility. Supply chains shut down, and once low-cost goods saw their prices soar due to a lack of supply. The auto industry was paralyzed due to a lack of semiconductors and other parts. Then, shipping costs skyrocketed.

Building overseas has lost its appeal. The world isn't flat after all—sorry, Kyrie Irving.

Yes, U.S. manufacturing costs are several times those of China. But there's more to consider. I think the most significant risk is geopolitical. China is becoming more aggressive and confrontational over Taiwan. They've formed alliances with Russia, Iran, and North Korea. We can't afford to rely so heavily on one nation. On Xi Jinping's last visit to the U.S., Treasury Secretary Janet Yellen told him that the U.S. needs to diversify its manufacturing base.

Our government has played an essential role in reshoring. Three sizeable pieces of legislation, each signed into law recently, created funding for domestic manufacturing: the Infrastructure Investment and Jobs Act (IIJA), the Creating Helpful Incentives to Produce Semiconductors (CHIPS) Act, and the Inflation Reduction Act (IRA). These initiatives will provide funds and tax incentives to help create jobs. The focus will be rebuilding infrastructure, clean energy, and improving our domestic semiconductor industry.

Artificial intelligence (AI) is helping reduce costs in manufacturing, which will help the U.S. compete with lower labor costs outside of the country. AI helps by predicting maintenance issues. For example, AI-powered visual inspection systems are faster and more accurate than human inspectors. Artificial intelligence has also proven valuable in terms of inventory management and repetitive task automation. The AI revolution is just beginning and will be part of the reshoring effort.

What are the consequences of reshoring? I see a country with a meager unemployment rate. Who's going to work in these new factories? What wages will these manufacturing jobs command? Will higher wages cause another stint of inflation? There are still many unknowns, and we won't have the answers for many years. Maybe we'll see our nation's youth leave the barista position at Starbucks and pick up a better-paying manufacturing job. There will be challenges, but the opportunity is exciting, as the U.S. may be on the verge of a manufacturing resurgence.

In addition to reshoring, U.S. companies are also nearshoring. Nearshoring brings manufacturing closer to home, and Mexico has been a big beneficiary. This practice will help us to reduce our dependence on China. By moving manufacturing facilities to Mexico, we'll have faster market access, decreased shipping costs, strengthened intellectual property controls, and lower customs expenses.

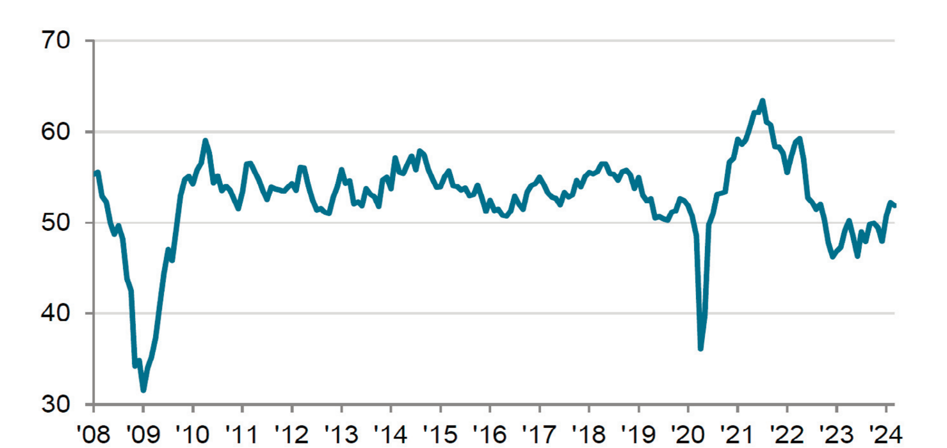
I'm very optimistic about the next couple of decades. Our long-term reshoring efforts can create a new wave of prosperity and opportunity. To make this next leap, we'll need the government, business leaders, and the private markets to provide the funds necessary for investment. We'll need more AI as well as more workers skilled in the trades. Having grown up in a blue-collar household, I'm happy to see the growing opportunity ahead for the working class.

If you would like to review your overall allocation and financial plan or discuss how to put additional cash to work, please get in touch with your Roffman Miller Investment Advisor. On behalf of our whole team, thank you for your trust and confidence.

Bob Hofmann, President

US MANUFACTURING PURCHASING MANAGERS' INDEX

Source: S&P Global PMI and Statista



In March 2024, the value of the Manufacturing Purchasing Managers' Index (PMI) in the United States stood at 50.3. An indicator of the economic health of the manufacturing sector, the Purchasing Managers' Index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. An index value above 50 percent indicates a positive development in the manufacturing sector, whereas a value below 50 percent indicates a negative situation.

outlook

Roffman Miller
Wealth Management

Fixed Income Corner

A Second Chance

In the 4th quarter of 2023, we saw the 10yr Treasury yield decline precipitously in a short timeframe of just two months from roughly 5.00% to 3.80%. It seemed like the word was just getting out that you could get 6% on some investment grade corporate bonds before the Fed indicated that the July rate hike would likely be its last. The market conversation changed quickly from rate hikes to rate cuts, and not just how much but how soon. As cuts came to the forefront of investor mindsets, so too did the prospect of losing the cherished 5% currently available in money-market funds and cash raced out of them to lock in yields for longer by buying bonds longer in maturity.

Ryan Crooks
Investment Manager

The quick move down in rates left many investors with the feeling that they had lost their chance to lock in for longer, many chasing the rates downward. However, quick and wholesale changes to portfolios can just as often lead to bigger mistakes. When the calendar turned to 2024 the market was pricing in 6 cuts that projected the Fed Funds rate to be 3.75-4%, down from 5.25%-5.5%, by the end of the year. Looking back, that seemed aggressive for an economy that had not displayed any drastic or broad-based signs of slowing down. As Q1 2024 wrapped up, economic growth and inflation figures were stronger than expected and this has lead to a moderation in the market's rate cut expectations and brought them more in line with Fed projections of just 3 this year. Some might argue (as Bob does in his article) that if this economic resiliency continues, those three may also end up being delayed as well. This change in expectations has boosted 10yr yields to roughly 4.35%, taking back almost half of the move down from the October highs.

As a consequence of the recent upward move in 10yr rates, much of the investment grade corporate bond market is back above 5% again, giving investors a second chance to do some income planning and to lock-it-in-for-longer by committing excess money-market funds to bonds that will have them enjoying these nice rates for years regardless of what the Fed does on the short end. Being able to roll cash out of the money market into bonds at comparable if not better yields should be a welcomed opportunity for investors who just three months ago thought they may have missed their chance. And if, by some unforeseen circumstances, we see 6% again, the short maturities in our current bond ladders will provide us with opportunity to take advantage then as well. But I wouldn't hold my breath.

Ryan Crooks, Investment Manager
Head of Fixed Income

10-YEAR NOTE
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