

thoughts

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So too in parenting...

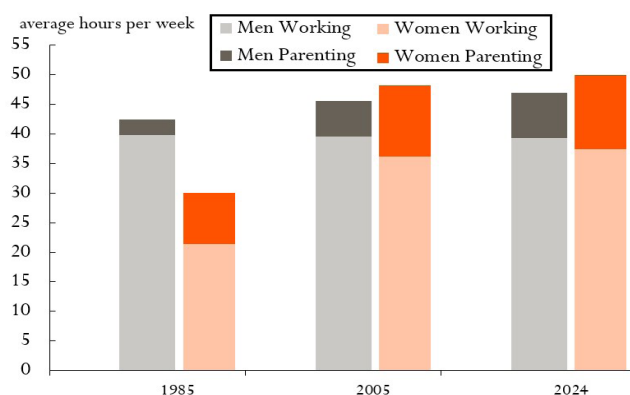
“Authoritarian,” “Free Range,” “Gentle” – these are not the names of professional race horses, but rather a small sample of the parenting styles available today in the information age.

In investing, certain styles move in and out of favor over time. So, too, in parenting. Indeed, the Silent Generation and Baby Boomers among us may be scratching their heads at what the kids, in this case young parents, are doing these days. Please allow me to shed some Millennial light on the subject.

My own upbringing occurred during the waning days of harsh punishment and authoritarianism and the waxing days of emotional intelligence. I still had threats of spanking and soap in the mouth, and plenty of “because I said so,” but also lots of praise, support, and communication. Now, as I raise my own children in the internet age, I am met with a torrent of information on how—and how not—to parent.

The pressure to engage constantly

NOT ENOUGH HOURS IN THE WEEK



Source: BLS, Office of the U.S. Surgeon General

and manage the lives of our children is enormous. It's gotten so bad, that the U.S. Surgeon General released an “urgent public health” Advisory on the mental health of parents. To put some numbers behind it, according to the “American Time Use Survey” from the Bureau of Labor Statistics, men are parenting nearly three times as much as they did in 1985 (from a low level), but the change has been even more drastic for women, who are parenting 50% more while working 75% more hours (*see chart below*).

And it's not just volume, the pressure to do things the “right” way is overwhelming as parents confront the barrage of advice coming across their news feeds daily. “Gentle parenting” is one style that has bubbled to the top with my generation.

Shedding the harsh parenting ways of old that relied on shame and the threat of punishment, gentle parenting is meant to teach and nurture children through calmly laid out logical consequences and clear boundaries. Well, it sometimes works. It depends on your child, and it depends on the situation.

The Wall Street Journal recently ran an article on how many parents are

becoming fed up with this gentle parenting and opting for a more brash, “mess around and find out” approach (note, to protect the sensibilities of our readers I have substituted “mess” for the original four-letter word). The idea here is to have a light touch and shift the consequences from logical to “natural” – to let kids experience what happens when they behave a certain way. The thesis behind this style is that the best lessons in life may sometimes be the hardest. Sage wisdom, it would seem.

The mess-around-and-find-out approach is a recognition that parenting styles have to work for both kids and parents. Of course, this isn't new. Effective parenting has always required carefully combining the norms of the day with what makes sense given your family's (and children's) individual needs and context. And no matter the pressure to conform to the latest style, no one has the same lived experience, and the distribution of what is “normal” for kids is wide. Parents are the only ones with all the data on their own child.

While this may seem obvious, especially to seasoned parents, it's also important. Parenting styles have a hand in shaping kids, their values, and emotional health. That matters for cultivating engaged and contributing citizens and can have echoes in generations to come. - Alex Watson



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Our not so irrational markets...

Why is the stock market performing so well given the extreme level of political, economic, and social uncertainty today? We have been getting different versions of this question a lot recently. Making sense of financial market prices can indeed be challenging – on any given day they reflect a mix of both economic forces and investor sentiment. But if you take a longer-term perspective, the answer to this question becomes clearer.

First, let's acknowledge just how good things have been for investors recently. All three major U.S. stock indices are near record highs. The S&P 500 is up almost 12% so far this year – a very respectable increase considering the 25%+ returns logged in both 2023 and 2024. International stocks produced strong double-digit returns in each of those years as well and are outpacing their U.S. counterparts year-to-date, up just under 16%. After a few anemic years, U.S. bonds have bounced back advancing 6% since January.

We should also acknowledge the negative news confronting investors this year. Ever-shifting trade policy has increased costs for a range of businesses and complicated their planning efforts. Political conflicts rage in several areas around the globe. Developed countries are struggling to rein in growing debt burdens, while back at home, questions around Federal Reserve independence continue. While I am sure each of us has our own list,

these are a few of the things that keep me awake at night.

To understand why these issues and others have not weighed down the market, it helps to first examine what drives share prices. Investor concerns can greatly influence stock prices over short periods of time, but over the long term it is corporate earnings growth that matters. Between 2001 and 2024, for example, earnings growth for companies in the S&P 500 tracked their share price gains with each rising 7%-8% annually. Corporate profits are expected to rise another 8%-11% in 2025 and 13% in 2026. Strong economic fundamentals, including still low unemployment and interest rates, and the unprecedented levels of AI-related capital spending, are helping support these buoyant forecasts.

It is also important to remember that while stock markets dislike uncertainty, they tend to react to what is known (and quantifiable) rather than speculation. This

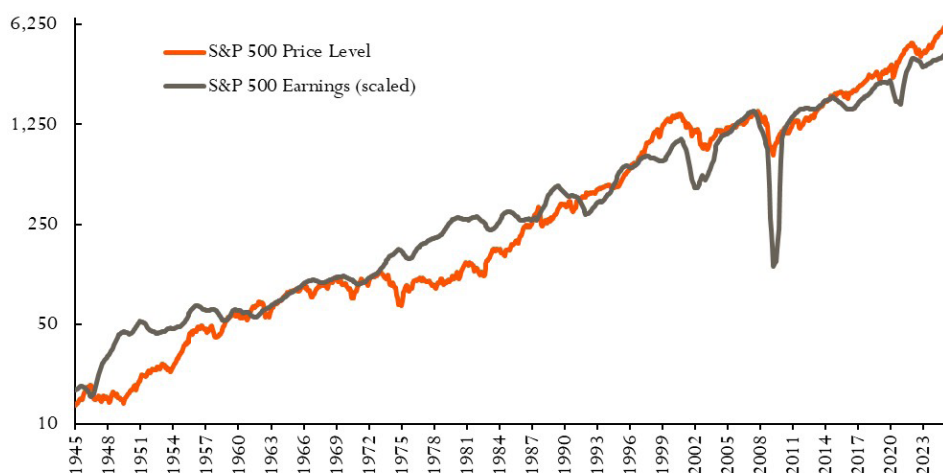
is particularly true in the current environment where the timing and ultimate economic effects of a number of critical issues are so uncertain.

U.S. stocks' resiliency, however, is not guaranteed. Several of the "legs" holding up the market to date are starting to look a little wobbly. A softening job market and uptick in auto loan and credit card delinquencies suggest consumer spending may come under pressure. Ever-widening federal deficits may well lead to higher long-term interest rates and the dampening economic effects that go along with them. Finally, after three years of double-digit returns, share prices are no longer cheap. The "Buffett Indicator," which compares the total market value of the country's publicly traded stocks to GDP, now stands at a record 2.1x. On a P/E basis, the S&P 500 trades at 22.2x forward earnings, above its 17.0x thirty-year average.

If stocks are overvalued, why shouldn't investors sell now? Unfortunately, the valuation metrics mentioned above have historically proven unhelpful when trying to identify market turning points. And, although the markets may seem expensive on average, that does not mean that all stocks look overvalued. Individual sectors or shares (especially outside of technology) appear more reasonably priced today, as do international stocks.

So, what should an investor do? It makes good sense to review your asset allocation (mix between stocks, bonds, and cash) to be sure it is in line with your return goals and risk tolerance. If the allocation still makes sense, rebalancing back to the original target may also be warranted after the most recent run.

S&P 500 PRICE AND EARNINGS MOVE TOGETHER



Source: Robert Shiller; logarithmic scale, earnings scaled 18.4x, the average trailing twelve month P/E since 1945

Where are the future workers?...

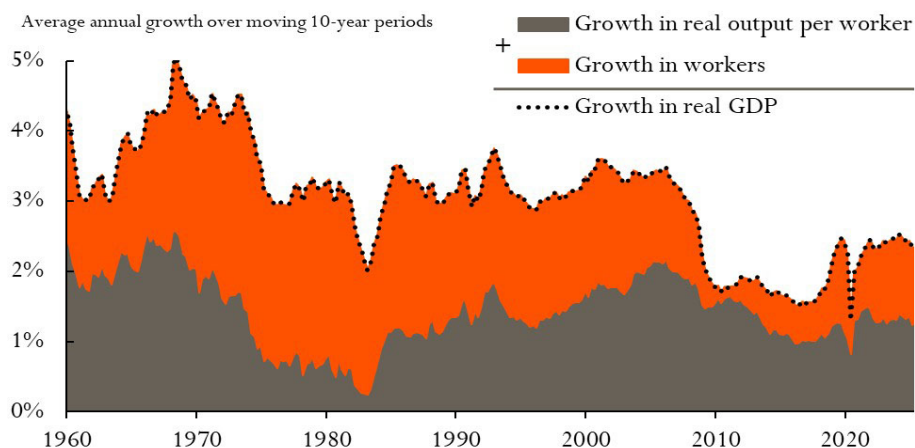
Last month, we discussed America's Total Fertility Rate (TFR), the average number of children a woman between the ages of 14 and 49 is expected to have over her lifetime. It's been falling. After holding steady for some years at around 2.1, a rate which ensures a stable population, America's TFR has fallen to 1.6. The Penn Wharton Budget Model expects this rate to stay steady over the next thirty years. If it does, deaths in America will exceed births by 2035 and total population could actually fall.

There is, however, another way population can grow – immigration – but as we know, this is a politically explosive issue. There are 52 million people living in America today who were born abroad, nearly 16% of the total population. This is the highest percentage of immigrants on record. Of the 52 million, 38 million are lawful immigrants, eight million have some legal protection (asylum seekers, etc.), and six million are unauthorized. *As the table below shows*, immigrants are an important part of the economy, accounting for nearly 20% of the total workforce.

Immigration in America has gone through a number of growth waves. Between 1840 and 1890, Northern Europeans dominated the immigrant lists. From around 1890 to the start of WWI, immigrants came mostly from Eastern Europe and Southern Europe. After immigration laws changed in 1965, Asians made up a large share of immigrant arrivals and more recently the majority of immigrants have come from Latin America. Some estimate that total immigration this year, legal and unauthorized, will come to a complete halt and be negative for the first time ever.

Immigration is vital today because, with the birth rate falling, it is the one way to increase the workforce. And a grow-

LONG RUN DRIVERS OF GDP GROWTH



Sources: JP Morgan Guide To The Market, BEA

ing workforce is important because there are only two ways to grow an economy, one, by adding more workers and two, by making those workers more productive. In broad-brush terms, productivity has increased 2% per year in the U.S. over the long term and the workforce has grown 1%. This has allowed real output to grow 3% per year. When real output increases, so does our standard of living.

The Penn Wharton Budget Model forecasts that even after the current lockdown on all forms of immigration, long-term lawful immigration ('green cards') will continue to average what it has in the past,

approximately one million people per year. This means immigration will offset some, but not all, of the slowdown in net births. Unless AI and other technologies can boost productivity more than currently expected, it is likely real growth in the U.S. will average 2% in the future, versus 3% previously. Slower growth could negatively affect corporate profits which in turn could affect the stock market. A problem for investors.

Going forward, the country will not only continue to debate the level of immigration but also the make-up of the immigrant pool. Do we want only the 'right' kind of immigrants, the highly educated who will add immediately to economic growth and use few human services? But what about family reunification and asylum seekers, and most importantly, what about the sectors of the economy – construction, farming, landscaping, house-keeping, etc. – which rely on low cost labor for their existence? Immigration will continue to be a thorny issue.

WHAT THE DATA SAY ABOUT IMMIGRANTS IN THE U.S.

Civilian labor force	Share of labor force			Labor force (millions)	
	Change (pct. pts)	2023	2003	2023	2003
U.S. born	-4%	81%	85%	141.2	124.5
Foreign born total	+4%	19%	15%	33.0	22.1
Lawful immigrant	+3%	13%	10%	23.3	15.2
Unauthorized immigrant	+1%	6%	5%	9.7	6.9
TOTAL		100%	100%	174.2	146.6

Source: The Pew Research Center

Observations on my return to China – innovation and uncertainty...

Over the summer, my family and I spent three and a half weeks in China and Japan, visiting five cities, including my hometown of Shenyang. Experiencing these places again after over a decade in the U.S. revealed how rapidly technology, consumer behavior, and demographics are reshaping Asia's two largest economies. Here's what I observed.

Automation is part of daily life.

When we landed in Tokyo and checked into our hotel, we were met not by front desks but a row of sleek self-service kiosks in the spacious lobby. After scanning my passport, the machines instantly pulled up my booking, processed payment, and issued my room key, all within two minutes. A staff member stood by politely, but the process was effortless. A few days later in a hotel in Dalian, we encountered a delivery robot gliding across the lobby, summoning elevators on its own and dodging people (to the delight of my kids, who tested that feature more than once). Designed to deliver meals straight to guest rooms, it felt like a preview of the future. With growing labor shortages and demand for contactless service, it's not hard to imagine fully-automated hotels becoming the norm.



Source: Jason Shi

Electric vehicles are everywhere.

Unlike in the U.S. and Japan, where Tesla dominates the EV market, China's EV landscape is filled with dozens of domestic brands competing vigorously. Conversations with friends and family confirmed what I was seeing – nearly everyone had already switched to an EV or intended to for their next car, mainly due to lower prices, cheaper energy costs, and advancing tech-



Source: Jason Shi

nology. According to McKinsey, about 50% of vehicles sold in China in 2024 were EVs. Furthermore, public policy is encouraging this transition - and by 2035 the government wants EVs to "dominate" new car sales. At this pace, China could become the first country where conventional gas-powered cars belong only in museums.

Mobile is the only way to pay.

Seven years ago, credit cards and cash were still widely accepted. Today, most businesses, from high-end shopping malls to local farmers market, only take mobile payments like WeChat Pay or Alipay. In fact, mobile payments accounted for about three quarters of all payments in China in 2024. When I mentioned my surprise to a close friend, he laughed and explained that his phone has become his all-in-one tool: car key, home key, wallet, ID, etc. – it has everything he needs to leave his home. While this digital integration is convenient and has even reduced theft, it also carries risks. If the internet goes down or data is compromised, the consequences can be serious. A quick reminder to future travelers to China, setting up mobile payments in advance is essential! Don't be like us, and find yourself stuck in a cotton candy kid meltdown with "only" cash and card in

hand and no way to pay.

No one is having kids.

One of the most surprising changes was that I hardly saw any pregnant women in China. This stands in stark contrast to the policy shift of the past decade. China ended its One-Child policy in 2016, moved to allow two children in 2021, and more recently has even begun to offer subsidies to encourage births. However, when I talked to families and friends, I understood that the incentives are insignificant compared to the high costs of raising a child. The fertility rate reflects this and has fallen to around 1.0 – far below the replacement level of 2.1. If this trend continues, China faces a shrinking younger generation, and that will have profound consequences for both its economy and society.



Source: Jason Shi

All these trends are emerging globally, but the pace and scale I witnessed in China – and to a lesser degree in Japan – are far beyond what I see in the U.S. Returning after more than a decade abroad offered not only a personal reconnection with familiar places and people, but also a reminder of how rapidly economies and society can transform.

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