Caron's Corner Transcript – 2.2.2026

Make a $20 Hamburger Affordable Again

- It used to be that you could go to a diner and get a hamburger deluxe – lettuce, tomato, pickle and fries – for $12. Now it's $20.
- This is the "inflation" people feel every day and there is no convincing them that inflation is under control.
- However, I think the problem is framed incorrectly and misunderstood: **As price levels are unlikely to come down, the solution is to increase incomes.**
- So to make a $20 hamburger affordable again there must be an increase in income **without increasing inflation**. And how do you do that?
- Let's get into it!

Jim Caron: Hello, this is Jim Caron, CIO of the Portfolio Solutions Group. Welcome to another edition of Caron's Corner powered by The BEAT, our asset allocation framework across Bonds, Equities, Alternatives, Taxes and short-term Transitional (cash) investing.

The title is "Make a twenty dollar hamburger affordable again." It used to be that you could go to a diner and get a hamburger deluxe with lettuce, tomato, pickles and fries for twelve dollars. Now it's twenty dollars. This is the inflation people feel every day, and there's no convincing them that inflation is under control. But I think the problem is being framed incorrectly and misunderstood. Price levels are unlikely to come down. The solution is to increase incomes. So how you make a twenty dollar hamburger affordable again? Increase incomes without increasing inflation. How do you do that? Let's get into it.

The answer is economic productivity. Productivity is an economic identity. Simply put, it's a measure of higher output per unit of cost, including labor. More goods produced more efficiently. But if you just lower labor costs, then you have the same level of output. Productivity can actually increase. But there is no benefit to the consumer. The hamburger at twenty dollars is still unaffordable. This is a countercyclical scenario. It lowers wages, which causes growth to slow. But prices remain high, which is stagflationary, which isn't anything anyone wants. But there's another way. If productivity is done in a procyclical way, it raises potential GDP growth.

Let me define potential GDP. It's the maximum sustainable level of real economic output. The goods and services an economy can produce when all resources, labor, capital and technology are fully utilized without generating inflationary pressure. More simply, you can think of higher productivity as the non-inflationary speed limit of higher and more optimal growth. This means that you can run the economy hotter, compete for labor and pay people more, while maintaining margins with better productivity as an offset. Wage gains needn't translate into higher inflation, as seen the 1990s. That means real compensation, meaning living standards can actually grow.

Now, is all of this too good to be true? No. It's happened before, and it's not unusual. How do you get higher productivity? By working smarter, not harder. High levels of economic productivity is a natural part of an economic cycle, but is mainly connected and driven by good policy. And it's important to make this connection. Some of the key drivers of economic productivity are technology, capital deepening, which is investment in people, plant equipment, capital expenditure (CapEx), business investment, tools and machinery, research and development, innovations, cost efficiencies which is energy, materials, inputs, etc. Resource allocation, more efficient deployment of people, plant, equipment, plans shifting toward higher productivity areas from lower productivity areas. As stated in prior audio casts, the last time we saw a high productivity driven cycle was the 1990s, which was a CapEx driven cycle. The internet had a lot to do with it. So just think of the AI impact in present day.

Let's talk policies. Current economic tax policies support business investment from the One Big Beautiful Bill act for accelerated depreciation and business investment. Deregulation policies also make for higher supply side efficiencies and productivity. What about tariffs? It's possible that tariffs increase resource allocation into higher productive sectors. Now many can debate this. Ultimately what we're trying to find is the investment impact. Higher productivity can support higher asset valuations. An additional benefit if it raises higher potential GDP, then it increases cash flows, earnings, profitability and margins, which all support valuations. Higher productive benefits are typically found in the private sector, not the public sector, which is less productive. Current economic policies to reduce public or government share of GDP accretes a positive gain to the private sector. Supply side growth a positive for asset prices. Ultimately, this can lead to more productive hiring and stronger labor markets to support the consumer and consumption. All together, this can support valuations.

We think the U.S. and its policies will create the highest levels of productivity and thus substantiates our overweight in U.S. equities versus the rest of the world and our optimism for this year. It can also lead to a cyclical broadening, another investment theme of ours.

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