Points to Ponder

January 17, 2020

The First Tee...

Investor Almanac…key influencers to watch as financial markets start new decade:

- The economy is poised to extend its record expansion to an eleventh year as GDP growth is anticipated to rise at a 1.8% clip in 2020 (the recession talk of last year has disappeared from the current landscape):
  - The consumer remains the lead catalyst in propelling the economy forward…comprising 70% of total growth:
    - Consumption will remain supported by continued strong employment and stable wage growth *(stable but not spectacular!)*:
      - It is hoped factory employment will stabilize following the signage of the Phase One trade agreement with China.
  - The real-estate market is poised for a rebound as lower borrowing rates enhance buying leverage:
    - Family building by Millennials will lead the pent-up demand for housing…high prices and tight supply will continue to be hurdles.
  - Manufacturing is expected to emerge from contraction as confidence gains and trade tensions ease:
    - Exports will be hindered by continued dollar strength…factory spending is forecast to decline this year for the first time since 2009.
  - The November election will be a dominant event, drawing exhaustive media attention *(oh-boy!)*:
    - Barring surprising developments, market impact should be a little more muted than 4 years ago *(a distraction)*.
  - Trade will remain at the forefront with additional negotiations with China and a focus on the EU.
  - The Federal Reserve will hope to remain out of the limelight, preferring to leave policy unchanged:
    - The possibility of a rate increase this year currently looks like a non-starter given the stable inflation and job growth:
      - Political pressure to lower rates remains on the Fed as President Trump wants economic growth sustained into November.
  - Corporate earnings are hoped to recover after being flat in 2019 *(a fact that investors mostly ignored)*.
  - As always, there are risks that could flare-up hindering economic momentum…issues such as the afore-mentioned trade contentions, rising government debt, leveraged corporate debt, and prolonged low interest rates:
    - As seen recently, the volatility of the geopolitical landscape remains a wild-card…especially in the Middle East and North Korea.

Debt Diet…low interest rates have produced an unrestrained borrower feeding frenzy:

- The global debt-to GDP ratio hit an all-time high of 322% during the 3rd quarter:
  - Total debt outstanding increased by $10 trillion from a year earlier to $252.6 trillion:
    - Borrowing has spiked in all sectors, including government, private, corporate, household *(and my wife's credit cards!)*:
      - Household debt to GDP hit new record highs last year in Belgium, France, New Zealand, Norway, Sweden and Switzerland.
  - Government debt growth has been characterized by a lack of fiscal discipline (primarily on the spending side):
    - The U.S. is not an exception as government debt-to-GDP hit its own record high, rising by 1.6% to 102% last year.
  - Despite borrowing costs remaining close to record low levels, many countries are having difficulty maintaining a debt-driven economic growth model…high debt-to-GDP ratios are making debt service more challenging:
    - **A greater occurrence of debt distress and restructuring is expected to take place over the next ten years.**

TW-II…with the Phase One trade agreement with China in place, the second trade war could go beyond Phase Two with China and erupt on a second front with Europe:

- There are indications President Trump may us tariffs to leverage the EU in regard to Iran:
  - Tension with our European allies increased in 2018 when the U.S. invoked national security concerns to impose tariffs on European steel and aluminum…the EU responded with tariffs on items such Levi's and Harley's:
    - Recently, there has been new retaliation threats regarding EU aid to Airbus SE (classified illegal by World Trade Organization) and the implementation of a tax on digital-services by France impacting U.S. companies (Apple, Google, Amazon, etc.):
      - The EU has requested more time to reach an international accord on the taxation of digital businesses.
  - Treasury Secretary Mnuchin has increased pressure on the EU to abandon a payment system that is designed to shield European trade with Iran from U.S. sanctions…threatening penalties if any transactions take place:
    - The US and EU have engaged in tit-for-tat tariff responses to-date, there are concerns these issues could escalate.

At the turn...

The Back Nine…

Go Midwest young man…high student-loan debt loads are impeding Millennials ability to purchase a home, pushing younger buyers to more affordable housing markets:

- Tuition at public universities has expanded at four times the pace of average wage growth since 1986…for private university tuition the differential is seven times greater:
  - Student loan debt has spiked to record highs, with the average debt per student at $34,500.
- The median price for a Midwest region used-home is 51% lower than one in the West:
  - In Ohio, the average down payment on a median priced home is 53% of the average student loan balance in the state, the lowest ratio in the U.S. (the ratio of down-payment to student-loan balance exceeds 100% in nine states):
    - According to a Morning Consult poll, 50% of student loan borrowers said their debt has delayed home buying.

Stock Nirvana…raging bull equity rally dominated financial market last year:

- Data format: January 1, 2019 / October 1, 2019 / January 1, 2020:

Equities

Dow: 23327 / 26916 / 28634
S&P 500: 2506 / 2976 / 3230
NASDAQ: 6635 / 7999 / 8972
Russell 2000: 1348 / 1523 / 1668

Commodities

CRB: 169 / 173 / 185
Oil: $45.41 / $54.07 / $61.06
Gold: $1282 / $1472 / $1517
Copper: $263 / $257 / $283.35
Natural Gas: $2.94 / $2.33 / $2.18

Borrowing Benchmarks

Libor:
1mo: 2.502% / 1.892% / 1.762%
3mo: 2.807% / 2.088% / 1.908%
SOFR: **(U.S Secured Overnight Financing Rate)**
1day: 3.00% / 1.88% / 1.55%

Treasuries Issues

3mo: 2.31% / 1.88% / 1.51%
6mo: 2.41% / 1.83% / 1.60%
1yr: 2.52% / 1.75% / 1.59%
2yr: 2.49% / 1.63% / 1.58%
3yr: 2.46% / 1.56% / 1.62%
5yr: 2.50% / 1.55% / 1.69%
7yr: 2.58% / 1.62% / 1.83%
10yr: 2.68% / 1.68% / 1.92%
30yr: 3.01% / 2.12% / 2.39%

Currencies

Euro: 1.146 / 1.089 / 1.121
Yen: 109.69 / 108.08 / 108.61
Peso: 19.65 / 19.73 / 18.926
Canadian $: 1.363 / 1.324 / 1.299
Yuan: 6.878 / 6.712 / 7.148 / 6.963

Grain Futures

Corn: $3.75 / $3.88 / $3.87
Soybeans: $8.95 / $9.06 / $9.55
Wheat: $5.03 / $4.95 / $5.58

Job / Inflation Indicators

Unemployment: 3.9% / 3.5% / 3.5%
Consumer Price Index: 1.9% / 1.7% / 2.3%
Core PCE Index: 1.9% / 1.7% / 1.6%

Federal Funds Open: 2.40% / 1.85% / 1.56%
Prime Rate: 5.50% / 5.00% / 4.75%

19th Hole...

Learn from the mistakes of others. You can't live long enough to make them all yourself. Eleanor Roosevelt

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