KEEP CALM AND CARRY ON

STRIDER ELASS
ECONOMIST
TWITTER: @STRIDERELASS
The S&P 500 Index is Up, In Spite of Black Swans

Source: First Trust Advisors L.P. Note: This chart is for illustrative purposes only and not indicative of any actual investment. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. Stocks are not guaranteed and have been more volatile than the other asset classes. These returns were the result of certain market factors and events which may not be repeated in the future. Past performance is no guarantee of future results.
PRIVATE PAYROLLS, MONTHLY CHANGE

Source: Bureau of Labor Statistics Data Through January 2018
PART-TIME VS. FULL TIME

Source: Bureau of Labor Statistics Data July 2009 – January 2018
PERSONAL CONSUMPTION

Source: Bureau of Economic Analysis Data Through December 2017
HOUSEHOLD DEBT AT RECORD HIGHS

Source: Federal Reserve Board. Liabilities of Households & Non-Profits. Horizontal axis represents the years 1990-2017, quarterly data are shown for Q1 1990 – Q3 2017.
BUT HOUSEHOLD DEBT LOW VERSUS ASSETS

Source: Federal Reserve Board. Liabilities and Assets of Households & Non-Profits. Horizontal axis represents the years 1990-2017, quarterly data are shown for Q1 1990 – Q3 2017.
Source: First Trust Advisors L.P.

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U.S. REAL GDP PER CAPITA 1850-2016

Source: Measuringworth.com, FT Advisors
MONDAY MORNING OUTLOOK

US Needs Sensible Debt Financing

Instead of imposing strict fiduciary rules on Wall Street, banks, investment houses, and financial advisors, the government should apply similar rules to the managers of the federal debt. This is particularly true because unlike the private sector—which faces tough market competition every day—the debt managers at the Treasury Department have a monopoly. These federal debt managers have been flagrantly violating what should be their fiduciary responsibility to manage the debt in the best long-term interests of the US taxpayer.

Despite a roughly $19 trillion federal debt, the interest cost of the debt remains low relative to fundamentals. In Fiscal Year 2015, interest was 1.2% of GDP and 0.9% of federal revenue, both the lowest since the late 1960s. To put this in perspective, in 1995 debt service hit a post-World War II peak of 3.2% of GDP and 18.8% of federal revenue.

In other words, for the time being low interest rates have kept down the servicing cost of the debt even as the debt itself has swelled. You would think that in a situation like this, with federal debt set to continue to increase rapidly in the future, that the government’s debt managers would bend over backwards to lock-in current low interest rates for as long as possible.

But you would be wrong. The average maturity of outstanding marketable Treasury debt (which doesn’t include debt held in government Trust Funds, like Social Security) is only 5 years and 9 months. That’s certainly higher than the average maturity of 4 years and 1 month at the end of the Bush Administration, but still way too low given the level of interest rates.

The government’s debt managers have a hidden bias in favor of using shorter-term debt because the yield curve normally slopes upward, the government can save a little bit of money each year by issuing shorter terms debt. In turn, that means politicians get to show smaller budget deficits or get to shift spending to pet programs.

But this is short-sighted. The US government should instead lock-in relatively low interest rates for multiple decades, by issuing more 30-year bonds, and perhaps by introducing bonds that mature in 50 years or even longer.

At present, we find ourselves in the fortunate situation of being able to easily pay the interest on the federal debt. But this isn’t going to last forever. If the government locks-current low rates for an extended period it would give us time to catch our breath and fix our long-term fiscal problems, like Medicare, Medicaid, and Social Security.

There’s no reason this has to be a partisan issue. The government’s debt managers should treat the debt like it’s their own. If the government is determined to hold many others to a stricter standard, it should lead by example.

Any Questions? Feel free to reach out to me:

Email: selass@ftadvisors.com

Twitter: @striderelass

Linkedin: Strider Elass