Basis Points – August 16, 2022

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Above the Fold

Will Digital Layaway Really Become the Next Big Thing?

During periods of economic weakness or in recession, it's typical that consumers throttle back their spending and borrowing in order to keep cash in the bank and the essentials (like housing, food, utilities and basics) flowing. During these periods, credit card companies and traditional banks alike tend to see reduced revenue streams from lending as Americans work to reduce balances, while borrowing and spending less, but there is one fintech segment that could benefit.

“Buy now, pay later” is not a new concept. You can still step into some retailers, purchase an item and make periodic payments until it is paid off, at which point you could bring it home. But a slew of digitally-integrated “layaway” companies like Affirm, Klarna and others have created sort of a layaway, credit hybrid system that *could* benefit from economic weakness (at least according to Affirm CEO Max Levchin). Fintech payment specialist Affirm Holdings Inc. (which has been around 10 years) has seen its share price drop 77% from November 2021 highs as late payments rose and usage dwindled … But Mr. Levchin told the Wall Street Journal that the market is “wrong” about his company.

Affirm, like many of its peers, offers consumers a way to make a series of several equal payments (typically over three months) with no, or relatively low interest (for those with decent credit). The services are appealing to lower- and middle-class consumers who might not have the best credit, as companies like Affirm generally have lower approval standards for folks with less-than-perfect credit scores. But most of these companies, Affirm included, are NOT banks and have to borrow money (with interest) from banks or funds, and often engage in securitization deals that can be costly. CEO Levchin believes that revolving credit (traditional credit cards) are a problem for consumers as a whole and he believes the model will not only be profitable, but also benefit society’s debt issues.

Three Things

China Demand Doubt Sends Oil Lower

Brent crude oil futures were down more than 5% yesterday to levels not seen since February as investors took OPEC output hikes and waning Chinese demand into consideration. China’s economy experienced major weakness in July, prompting interest rate cuts from its central banking system. On the supply side, the world’s largest oil exporter, Saudi Arabia’s Aramco said that it was on track to expand output by 1 million barrels a day by 2027. Talks are also underway between Iran’s leaders, Washington and the European Union to revive a 2015 nuclear deal that could not only reduce global tension, but also add Iranian oil output to global stocks.

EV Tax Credits Could Be Harder to Come by with Inflation Reduction Act

Ironically, the Inflation Reduction Act, which is largely a climate change bill, actually makes cleaner transportation like electric vehicles (EVs) more expensive (adding to inflation, and slowing mass adoption). The bill sets strict rules around North American parts and/or assembly in order to qualify for any tax credit, and since many batteries, and other critical parts are manufactured overseas, those vehicles will not qualify for tax breaks. According to experts, roughly 70% of EVs sold in the U.S. will be ineligible for a credit when the bill is signed into law, and none will be eligible after 2029.

Got an Apple Product? Get Ready for More Ads

According to Bloomberg, Apple may be preparing to bring advertising to its native software, including Maps, Books and Podcasts. Already utilized in its app store, businesses who pay get to appear at the top of search results or in banners on the search page. Ads on maps could work in a similar way, as paying enterprises could be shown as top results depending on what you search for (think restaurants, gas stations and so forth). There’s also rumor of a lower-priced, ad-supported Apple TV+ streaming platform … even though Apple already runs some advertisements on Apple TV+.

In the Know

Sparking the Gold Rush

It was on this day in 1896 that George Carmack allegedly spotted large nuggets of gold in a creek near the Klondike River in Canada’s Yukon Territory. The account is contested as the two fishermen with him later agreed that Skookum Jim — Carmack’s brother-in-law — actually made the discovery. Regardless, the men staked claim on the land, laden with tons of gold deposits. News of their discovery spread like wildfire and more than 50,000 men headed west to make their fortunes in short order. “Klondike Fever” actually peaked just a year later as tons of gold were loaded on two steamships bound for San Francisco. Back then, gold was just $20 an ounce, but the sheer amount of gold produced created a ton of wealth for many prospectors.

The region remained a popular mining area until 1966 when the last of the large-scale operations shut down. Up until then, roughly $250 million in gold was pulled out of the territory. There are still a couple hundred small mines in operation in the region.