Basis Points – January 8, 2019

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Above the Fold

- The stock market surged last Friday after a veritable Justice League of Fed Chairs came together to speak at a conference in Atlanta. Fed Chairman Powell, along with his immediate predecessors, Janet Yellen and Ben Bernanke, spoke at the American Economic Association's annual meeting, with Powell pledging that the central bank will be watching how the economy performs this year and will adjust policy should growth slow unexpectedly. The panel made comments that reassured a nervous market that the Fed has its finger on the pulse of the economy and will not purposely overshoot on interest rate hikes. Powell stated, "As always, there is no preset path for policy. And particularly with muted inflation readings that we've seen coming in, we will be patient as we watch to see how the economy evolves. The Fed is always prepared to shift the stance of policy and to shift is significantly in order to achieve its dual mandate of full employment and stable prices."

- CEO confidence declined sharply in December. Chief Executive Magazine's CEO Confidence Index declined to 6.44 in December, the lowest since October 2016. The enthusiasm around tax reform and deregulation has been replaced by worries of a global trade war and rising interest rates.
- A bright spot in the volatile global equity markets in the last two months is emerging market stocks. Since the Emerging Markets ETF (EEM) bottomed on Oct. 29, it has slowly gained ground and is now up 5 percent, compared to the S&P 500 index, which has declined 5 percent since that day. Emerging market stocks had a rough year in 2018, losing 15.3 percent, but this group of stocks seems to be recovering while developed market stocks remain depressed. Reasons for emerging market strength could include a sharp decline in energy prices, a decline in the strength of the dollar and more attractive valuations vs. developed market stocks.

Three Things

- Although the stock market has been volatile lately, employment numbers continue to be very solid. December's jobs report came in strong, even after adjusting for the mild weather. There are no signs yet that trade fears have weighed down job growth. The month's headline payroll gain of 312,000 was much stronger than expected, and the prior two months were revised up 58,000. The unemployment rate rose to 3.9 percent, suggesting that the labor market will be solid in the coming quarters. Average hourly earnings rose 0.40 percent sequentially, with a year-over-year gain of 3.2 percent. This growth is solid but still well below the 4 percent annual rate that typically leads to higher costs for business and slowing economic growth.
- In a Bloomberg interview last week, Dallas Fed President Robert Kaplan said the U.S. central bank should put interest rates on hold as it waits to see how uncertainties about global growth, weakness in interest-sensitive industries and tighter financial conditions play out: "We should not take any further action on interest rates until these issues are resolved, for better, for worse. So, I would be an advocate of taking no action in the first couple of quarters this year, if you asked me my base case, my base case would be to take no action at all. This is a very critical time. Patience is a tool we should be using during this period. We can get this right."

- A government shutdown had paralyzed the U.S. government and highlighted how dysfunctional and far apart the two political parties are. The market had corrected 18 percent from its summer all-time highs. The economy was weakening as a result of restrictive monetary policy enacted by the Federal Reserve, to reduce the threat of inflation. The cover of Time magazine showed a man hanging from a tree limb off a cliff, under the byline “High Anxiety: A Looming Recession, Government Paralysis, and the Threat of War are Giving Americans a Case of the Jitters.” Huge volatility in the energy market had shifted the balance of economic power between consumers and energy drillers and producers. And after eight years of a record economic expansion, investors worried that a recession was upon us. This day was Oct. 15, 1990. Fearful investors did not know it at the time, but the stock market had bottomed four days earlier, on Oct. 11. The S&P 500 would then fight through fears of war, a brief recession, high energy prices, political disagreements and a change of party in the White House to rise 45 percent over the next 15 months. Be wary when the conventional wisdom is bearish. The masses are rarely correct.

Did You Know

When an author publishes a book, how long does the copyright on the work last? For books published after 1977, the copyright lasts for the life of the author plus 70 years. After that period expires, the book enters the “public domain” and can be published, altered or sold by anyone. All works published in the United States before 1923 are now in the public domain.

However, The New York Times notes that due to Congressional legislation that was passed in 1998 which gave a one-time 20-year copyright extension for works published from 1923 to 1977, no books have entered the public domain in the last 20 years.

But that changed last week. Jan. 1, 2019, marked the first time in two decades that a large body of copyrighted works lost their protected status. A large trove of works by thousands of artists and writers, including D.H. Lawrence, Agatha Christie, Joseph Conrad, Rudyard Kipling and Robert Frost, are now part of the public domain for the first time.

Going forward, each upcoming January will bring a fresh crop of novels, plays, music and movies into the public domain. Over the next few years, the impact will be particularly fruitful, because the 1920s were such a prolific and experimental period for Western literature, with the rise of brilliant authors like F. Scott Fitzgerald, William Faulkner, Ernest Hemingway and Virginia Woolf.

Once books become part of the public domain, anyone can sell a digital, audio or print edition on Amazon. Fans can publish and sell their own sequels and spinoffs or release irreverent iterations of the original work, like the 2009 best-seller “Pride and Prejudice and Zombies.” The books can be altered to add more chapters or change the content, and the works can be used as source material in a movie, play or other production without paying a royalty to the original owner. Rival publishing houses can issue new print editions, scholars can publish new versions and interpretations and free digital copies can be available online.

Many scholars and legal experts argue that the current protected copyright period is far too long. When the first Copyright Act was passed in the United States in 1790, the maximum term was 28 years. Over the decades, however, lawmakers repeatedly extended the terms, which now stretch to over a century for many titles. Public pressure in recent years for a more open public domain has pushed Congress to stay out of the copyright extension arena.

The great-granddaughter of F. Scott Fitzgerald, who is trustee of the estate that owns the rights and still makes money off Fitzgerald's works, anticipates some creative new editions of Fitzgerald's "The Great Gatsby" when the copyright expires in 2021. The publisher, Scribner, released a new edition of the novel last April, hoping to position it as the definitive version of the book. The novel has sold more than 30 million copies worldwide and continues to sell very well, but in two years anyone with a laptop will be able to publish an e-book of the text or sell fan fiction based on the story.