



Basis Points – March 26, 2019

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Above the Fold

- The flattening and inverting of the yield curve that we saw last week most likely points to a rate cut this year, rather than a signal of an upcoming recession, noted Janet Yellen, the former Fed Chair. Yellen led the Fed from 2014 to 2018 and was asked at a Hong Kong conference about the yield curve inversion and whether it signals a looming downturn, and she said, “My own answer is no, I don’t see it as a signal of recession. In contrast to times past, there’s a tendency now for the yield curve to be very flat, and in fact it might signal that the Fed would at some point need to cut rates, but it certainly doesn’t signal that this is a set of developments that would necessarily cause a recession.” The market seems to agree with a need for a rate cut, as the Fed Fund futures market now shows a 75% chance of a rate cut in 2019 and only a 25% chance that rates remain at current levels. That is a massive shift in sentiment over the past three months, as the Fed last raised rates as recently as December.

- Apple is aware that while their past strength has been in selling products such as the iPhone, iPad and iMac, their continued future success will come in building out their offerings in the services arena. Apple held a large meeting yesterday where it unveiled new service-based products, such as an Apple TV streaming service (Apple TV+), a new bundle of video games (Apple Arcade), a new Apple credit card (Apple Card) and an upgraded tier of Apple News (Apple News+) that will allow readers access to many current magazines and newspapers in a bundled service for \$9.99 per month.
- Existing home sales were much stronger than expected last month, as mortgage rates now average 4.3% vs. 5.0% a year ago, and buyers are on the hunt for homes again. The size of new homes under construction has been falling for years, as the demand for starter homes has increased with household formation numbers that are in a strong uptrend. There is also a strong trend in the baby boom generation, where homeowners are selling their large homes and downsizing to more manageable floor plans for their now empty nest and for safety concerns.

Three Things

- In perhaps the least interesting bar brawl ever, MillerCoors has filed suit against Anheuser-Busch, the parent company of Bud Light, for its recent ad campaign claiming that Miller Lite beer is brewed using corn syrup while Bud Light is not. Bud Light spent \$5 million each for many 30-second commercial spots to launch this new ingredients-based ad campaign during last month's Super Bowl. The suit accuses Anheuser-Busch of false advertising and federal trademark dilution. MillerCoors seeks an injunction to stop Bud Light from continuing the ad campaign and is asking for a trial by jury and for the defendant to pay its legal fees. The controversy comes as the term high fructose corn syrup has become very unpopular over the past few years, as diets have changed from processed foods to more natural ingredients. The truth in the beer brawl, however, is that all beer fermentation requires a sugar source, and typically wheat, corn, sugar cane or rice is used. Corn and rice are lower in calories so are used for light beer. Bud Light uses rice as its sugar source. Brewing experts say that at the end of the fermentation process, the yeast eats most of the sugar source anyway, so there is little if any left in the finished beer product, so it is basically a battle over an unimportant detail. Bring back the Clydesdales, please.

- Hold on to your wallets because they are getting the band back together. The WSJ notes that former Enron CEO and felon Jeff Skilling is looking to get back into the energy business after serving more than 12 years in prison for his role in the Enron fraud and scandal. After his recent release from prison following his 2006 conviction on fraud, conspiracy and insider-trading charges, Skilling has been holding meetings with former Enron executives, hoping to win backing for a new energy venture. Skilling has met with individuals who specialize in cryptocurrency, blockchain and software development in recent weeks. It is unclear how much Mr. Skilling retained of the money he made at Enron, which topped \$100 million. Skilling will need corporate partners, as an SEC judgment ruled that he is permanently barred from serving as an officer or director of a publicly held company. Skilling is now back in Houston and working out of an office near the city's River Oaks neighborhood, home to some of the energy world's richest executives. He has met with more than two dozen former Enron executives, and Skilling has been encouraged by what he viewed as a warm reception.
- Historically, as a society's income increases, so does its height. So why aren't Americans the tallest people in the world? They used to be. According to historians, for more than 200 years, Americans towered over everyone else. During the Revolutionary War, U.S. soldiers were 2 inches taller than their British counterparts. In World War II, they were 2 inches taller than the Germans. But today, Americans, and everyone else on the planet, look up to the Dutch. The average American woman is 5 feet 5 inches tall, and the average American man is 5 feet 10 inches tall. The average Dutch woman is 5 feet 7 inches tall, and the average Dutch man is 6 feet 2 inches tall. For pediatricians and parents, height is a sign of general well-being in a society. And for some unexplained reason, childhood growth spurts in the Netherlands start later and last longer.

Did You Know

The New Yorker notes that in the last 5,000 years there was a notable period in which the Earth cooled drastically, and the weather change had a dramatic and sometimes tragic effect on human life and the growth and decline of various societies. Beginning in about 1310, the Little Ice Age, as it is called, saw the temperature of the Earth decline about 3 degrees on average, and this cool period lasted for about 300 years.

The cause of the cooling is unknown; some have blamed decreased solar sunspot activity, some say increased volcanic activity blocked out the sun for long periods, and others believe that widespread plagues and disease decreased human activity which allowed the Earth's atmosphere to cool.

Whatever the reason for the decline in the Earth's atmospheric temperature during these centuries, one thing is certain — that the cooling led to some uncommon phenomena. The Ming Dynasty in China fell in 1644, undermined by erratic crop harvests which led to uprising of the peasants. In Europe, rivers and lakes froze, leading to annual "frost fairs" on the frozen River

Thames, a river that had rarely frozen before. In 1588, the Spanish Armada was destroyed by an unprecedented Arctic hurricane, and a factor in the great fire of London in 1666 was the very dry summer the previous year.

And the most admired violins in the history of music were created during this cold period, making the names of Stradivari and Guarneri synonymous with musical perfection. Experts theorize that during this mini-ice age trees took longer to mature in the cold climate, which resulted in a denser wood, with better sound qualities and more intense resonance.

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