Basis Points – August 22, 2019

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Above the Fold

The Consumer is Far From Dead

Even though the market tumult and ongoing trade dispute has certainly weighed on the minds of those "in the know," the average consumer and the U.S. economy for that matter, are doing just fine. There's no doubt that we are in late-stage expansion and that eventually there will be a period of flat to negative gross domestic product (GDP) growth, but that transition is likely to feel less like a light-switch and more like a gentle wave (hopefully not a tsunami).

First, it's important to remember that not all recessions are Great Depressions or complete financial crises. Even after the devastating burst of the dot-com bubble in 2000, massive accounting scandals and the horrific attacks of 9/11, the recession of 2001 was shallow as the economy only spent eight months in the red, preceding a massive recovery in jobs, real estate and wealth (of course the subprime meltdown cut those good times short). Eleven years prior in 1990, another small recession also lasting eight months, was triggered by the Gulf War. It led into a period of great prosperity for the U.S.

Even though trade concerns shook consumer sentiment as of late, most metrics show confidence and sentiment far above average. Stellar earnings reports from the likes of Lowe's, Target, Amazon and Walmart are also proof positive that while consumers' tastes are changing, we are still spending at a breakneck pace. Add in a decreasing interest rate environment, record low unemployment and a potential payroll tax cut (maybe?) on the table, and there's little reason to think the sky is falling here in the states.

Three Things

1. *Subprime is Back! (Sort of)* – Not only are interest rates nearing record lows, mortgage lenders are again allowing less creditworthy borrowers to obtain a loan. Rebranded as non-QM or non-qualified loans, these funds are available at higher rates to borrowers who don't qualify for standard mortgages. Of these loans, $45 billion were given in 2018, and lenders are seeing an increase this year. But don't worry, criteria for these loans is not as lax as you might fear.
2. *Buyback Slowdown* – Share buybacks have helped fuel share appreciation over the last decade, dumping $4.2 trillion back into the marketplace, but are now down to their lowest point since the fourth quarter of 2017. Some experts are concerned that companies are hoarding cash due to the trade conflict, while others see it merely as a strategy shift.
3. *Free Money for Germany* – Germany officially joined the $15 trillion worth of negative-yielding bonds that have amassed since 2016. The country issued $965 million worth of zero-coupon bonds maturing in 2050. Investors were more than willing to buy the money-losing bond, pushing its yield to -0.11%.

Did You Know?

You probably know that casinos use sights, sounds, temperature and even free drinks to keep you happy, comfortable and loose with your cash, but what you might not realize is that your nose is just as much a target as your wallet.

Back in the day (a few decades ago), casinos used fragrances to mask the stale, smoky air that lingered. As time, technology and know-how progressed (and some casinos went smoke-free), owners of gambling meccas turned to scent scientists and their marketers to increase gambling spend by tricking the brain.

Using a phenomenon called olfactory-evoked recall, gaming establishments pump massive amounts of pleasing scents through the HVAC systems to give you a pleasant experience. More importantly, your brain subconsciously associates gambling with pleasure … even if you lose money!

The science isn't that simple, and casino owners also want to evoke cleanliness and calmness (in addition to keeping you happy and awake), because many gamblers spend days on the gambling floor. This means that different casinos use unique blends and strengths at varying times to coincide with the "mood" they want you in. So next time you take a trip out to the casino, take a whiff … that's the real smell of money.