



Basis Points – September 12, 2019

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Above the Fold

Should (Could) the Fed Drop Rates to Zero? – It seems as though the media has become numb to the dramatic impact that interest rates have on our lives. The term “interest rate” is searched nearly 250,000 times a month on Google alone, and it’s not uncommon to read hundreds of related stories weekly. As dozens of nations’ fiscal policies shift, with many dropping rates aggressively to near zero or less, it seems logical that America should join in the game, refinance government debt and stimulate economic activity. Unfortunately, there are ramifications to ultra-low rates, some of which might not be immediately realized (think inflation, investors forced to take unnecessary risks for yield, etc).

The President's Tweet for the Federal Reserve to lower rates to zero or less to capitalize on cheap money, refinance Treasury debt and give the economy a jolt might be a good idea in theory, but a swift drop to zero might leave fewer options for addressing the next downturn. Perhaps the biggest risk with ultra-low or negative interest rates lies with the tens of thousands of pension funds, worth tens of trillions of dollars, that hold U.S. Treasuries. Many of these funds are underfunded and in need of yield; lower rates add stress to that equation which could negatively impact beneficiaries; Social Security would also be adversely affected.

We also know the Fed does not have a history of dropping rates quickly unless the economy is in severe contraction — and that's certainly not the case now. At the moment, expectations for another rate cut next week are high, but a cut to zero is not in the cards yet.

Three Things

1. *China Tries "Honey" Approach* – As a show of good faith(ish), China removed tariffs on 16 American-made products from alpha and fish meal to cancer drugs and lubricating grease. Tariffs on big-ticket items like soybeans and corn remain in place ahead of talks next week.
2. *Hong Kong's British Bid* – The Hong Kong Stock Exchange made an unsolicited bid of \$36.6 billion for the London Stock Exchange. A union would make it larger than the Japanese Exchange Group (total market cap) and a leader in capital flows and financial data, linking developed and emerging markets.
3. *Cali Digs on the Gig Economy* – A proposed law in California would essentially force certain contract workers, such as drivers for Uber and Lyft, to be reclassified as employees, not contractors, entitling them to minimum hourly wages and even workers' compensation. If passed without exemptions, the bill could create a precedent across the U.S.

Did You Know?

Bone conduction earphones have been gaining popularity as they allow you to listen to your favorite tunes, podcasts and more without having your ears covered or obstructed in any way. The device works by decoding sound waves, and converting them into vibrations directed at your cochlea, bypassing the eardrum entirely. Users even report an unusual tickling sensation when listening to music at higher volumes.

And while these devices might sound like something out of science fiction, Beethoven used a similar device after he started to lose his hearing in his mid-20s. As his hearing deteriorated, the musical genius discovered that if he held an object like a pencil or metal pole in his mouth, with

the other end on the sounding board of the instrument, he could “hear” the tones through vibration. Beethoven also utilized lower notes that were easier for him to hear (and feel) as his audio faculties worsened.

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