Financial Wanderings

September 2019

A masterful examination of the previous month's financial events, written by Brad Blackburn, CFP ®

(and made even awesomer by Andrea Dickerson)

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Although the commentary in this newsletter has been thoroughly researched, well-reasoned and contains many impressive multi-syllabled words, please enjoy it responsibly. There are many economic minds that are far smarter than mine—and even they can't agree on even the simplest economic questions. In other words, please enjoy this newsletter with the full understanding that it may be entirely wrong.

Who cares about the debt anymore?

According to the Trump administration's estimate, America's brand-new budget will add nearly a trillion dollars to our national debt – in just one year. That's because the budget included an 8% increase in government spending versus a 3% expected rise in tax receipts. There's one conclusion that is clear: The Tea Party is dead.

It seems that no one cares about the debt anymore, certainly not the financial markets. In theory, if you are already trillions of dollars in debt, and routinely spend more than you earn, any competent bank would charge you a very higher interest rate – or not loan money to you at all. However, the bond market is currently willing to loan the US government money at less than 2% for 30 years. It's not just the US government that is falling deeper and deeper into debt, corporate American has more debt than at any time in history – and the stock market doesn't seem to care about that either.

That makes me wonder: Perhaps Trump, the Republicans, the Democrats, the business world, the stock market, and the bond market have it exactly right. Maybe we don't have to worry about massive amounts of debt. There's a small, growing school of thought in the economics world called Modern Monetary Theory (MMT). The very basic idea behind it is that huge amounts of debt really don't matter, as long as a country can print its own currency and has low inflation. America checks both of those boxes. In fact, the last 10 years makes MMT seem like economic gospel.

However, we all know in our hearts this is not sustainable. Someday, there will be too much debt, and no one will be able to ignore it. That won't be a good day. Obviously, this is not a Trump problem – at least it's not only a Trump problem. But, when he was running for President, he said he would pay down the debt in 8 years. Clearly, that's not going to happen. Even worse, he's not even talking about it. If Trump isn't going to fix this, who is? If Trump supporters don't care, who will? It's unlikely

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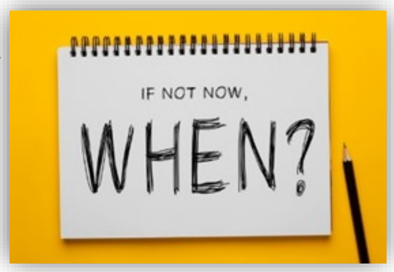
you'll see Democrats making our debt a major priority anytime soon.



It's a hard problem to solve, because the bad stuff might happen next year – or decades from now. I'm not the first person to express fear over our increasingly massive piles of debt. This column is almost certainly a rip-off of far smarter people than me who've been saying the same thing for decades. It's also a hard problem to solve because there are no easy solutions. However, there are obvious solutions: Raise taxes, and spend less on entitlements and the military.

But no one is winning an election on that platform. So, we will continue on this road until we can't anymore. In related news, maybe I'll retire soon.

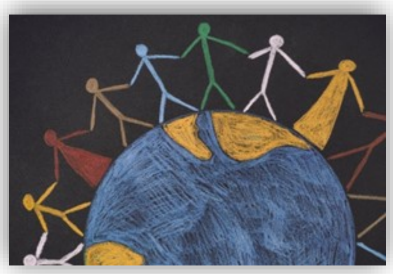
The "Deep State" cooked the books for Trump

A surprisingly bad employment report was recently released – and NO ONE cared. It turns out that 500,000 fewer jobs were created in 2018 than we previously thought. So, rather than adding 223,000 jobs per month in 2018, we only averaged 185,000. That is a very significant difference.

This demonstrates a couple things: First, even at its peak in 2018, the Trump economy was never booming. More interestingly to me, it also shows that the "deep state" isn't out to get Trump. In fact, this was a huge gift to Trump from the government pencil-pushers. Almost no one pays attention to these revisions – but everyone pays attention to the initial numbers. So, month after month after month, the jobs report showed an average of 40,000 more jobs than were actually created – which helped the Trump economy seem significantly stronger than it actually was.

Does China want "regime change" in America?

Just a few months ago, the stock market was celebrating a "cease fire" in our trade war with China. Since then, things have really calmed down.



Just kidding. Here's a quick synopsis of the last month or so: China devalued their currency, so Trump labeled them a currency manipulator and threatened more tariffs, but then backed off those tariffs a little bit. However, he didn't back off enough for China, so they retaliated with tariff threats of their own, which prompted Trump to claim he was the "chosen one" to fight China, and "hereby order" all American companies to stop doing business in China. Most recently, a new round of tariffs was officially put into place on September 1st.

Unfortunately, we are two years into the trade war, and there's no end in sight. Even if we get a big, beautiful, comprehensive deal tomorrow – that won't be the end of it. We just had a cease-fire in May, and neither side held to the deal for any amount of time.

As the trade war grows and lingers, it's hurting both sides more and more. The American manufacturing industry is in a recession, and the Chinese economy is weaker than it has been in almost 30 years.

I worry that China is trying to outlast Trump. Yes, they have endured more economic pain than us, but they've weathered the storm so far, and now we are only 14 months from an election. Not only that, the weaker the American economy is, the more likely the Chinese won't be negotiating against Trump. So, China has a lot of incentive to wait this thing out. You might even say that China is trying for "regime change" in America, which wouldn't bode well for the American economy, or the stock market.

A tale of two economies

The manufacturing industry in America is struggling. Over the first 6 months of the year, manufacturing activity fell nearly 5% -- which puts American manufacturing in a recession. That is almost certainly a direct result of the trade war, and the resulting uncertainty. However, the manufacturing industry only makes up about 12% of the US economy – and so far, the weakness hasn't spread.

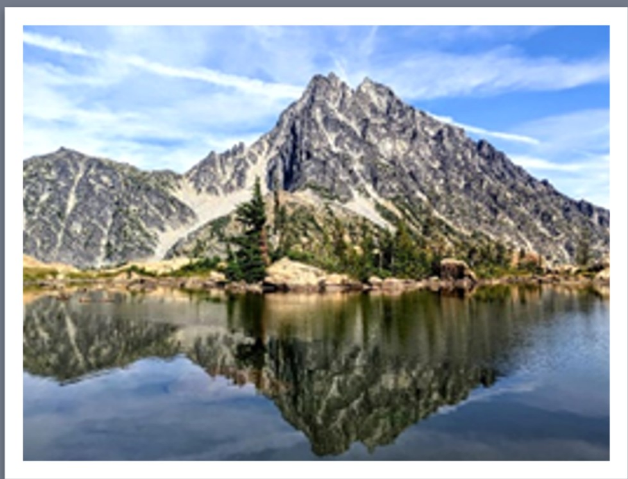
The workhorse of the US economy is the American consumer, which makes up 2/3rds of our economy. Thankfully, Americans are still consuming like, ummm… Americans.

So, the overall story of the economy remains the same as it's been for 10 years: Solid, but unspectacular. But, how long can that continue, and which direction will things go when "solid but unspectacular" stops? Is it more likely that a boom is next – or a bust?

Unfortunately, there are lots of things I can imagine that could bust our economy, but very few things that could push us into a boom. A complete and comprehensive deal to end the trade war would be a great start, but I'd also like to be a foot taller. So, it might just be that solid, but unspectacular growth is the best we can hope for.

Probably a mountain or a lake

At the very top of Ingalls Creek lies Lake Ingalls, with the impressive Mt. Stuart towering above.



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