

Investment Grade Junk

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According to Morgan Stanley the gap between the riskiest corporate bonds, popularly known as junk bonds, and the best investment grade bonds is the narrowest its been in 12 years – currently 60 basis points or 3/5th of one percent.

Clearly the flood of easy credit led to a surfeit of easy money, which in a capitalist economy is capital which must seek out ways to make more capital or cause its possessor to die of shame.

There is so much demand for investments with any yield that \$13 trillion have been stored (hopefully for short terms) in securities that have negative yield until better investment opportunities open up. That means if the possessor holds that security until maturity they will receive back less than the purchase price. An investor buying 10 year German bunds would give back to the government 2 euros for every 1000 euros invested after 10 years.

It's much like what the average person with a small bank account expects to achieve by having one. It's a safe place to store money for which one has no immediate need, and having such accounts opens up other useful financial possibilities. Bank fees may wipe out any interest income.

Investment in sovereign debt (government securities) contains no risk of loss unless the entire system collapses, but buying risky corporate securities has resulted in major losses because of economic crises, and the next one seems to lurking amidst the euphoria.

Economic Info

-- The economic issue under constant discussion concerns world trade. In mainstream reporting 'trade war' is usually said to be a cause of the creeping slump. Historically trade wars occur in economic crises when the only solution seems to be beggar thy neighbor. The lack of any real recovery gave us Trump and trade wars. According to the WTO world trade growth slowed to 3.0% in 2018 from the prior year's 4.6%. A Netherlands' office that monitors world trade reports that trade fell - 0.6% the last quarter of 2018 and - 0.3% the first quarter of 2019. From slow growth to falling growth is liable to give us something more than trade war talk.

-- Corporate share buybacks are the backbone of the current market bubble. Boeing can serve as a good example of what might better be done with profits other than stock inflation and dividends. According to economist William Lazonick Boeing between 2013-2019 spent 42% of its profits (\$17 billion) on dividends along with an additional \$43 billion on buybacks. Sure, there are

externalities such as 350 dead because Boeing cheaped-out on building safe planes, but shrewd capitalists can live with such things.

-- According to Oxford Economics home prices have fallen 10% since the 2008-2009 slump, and home investments by 8%. It expects the continuing housing slump to be a main factor in lowering world growth to 2.2% in 2020, the lowest since 2010.

-- Japan is often depicted as the sick nation of the giants of capitalism, having never recovered from a 1989 collapse. But unlike most nations, Japan has a declining population, and taking that into account transfers the sickness to a better candidate. On a per capita basis the Japanese economy has grown 1.4% since 1990. On a per capita basis the US economy has grown 2.3%, but only 0.8% since 2007. More than a decade of 0.8% growth. No wonder the sense of things falling apart.

-- You may wonder why stock markets around the world, even in Brexit scarred UK, are doing so well while their economies are sliding into a slump. According to Andrew Lapthorne of Societe Generale it's because 77 megacap (above \$100 billion in market cap) companies constitute 27% of the world's market cap. Because of their size and scale they are able to keep sales and profits up at the expense of smaller, weaker, companies, and create the illusion that all is well for all those not accustomed to looking beneath the surface.

-- Market bubbles have nothing to support them. According to Nordea Markets analysts, the gap between the S&P 500 performance and reports of weak economic performance is greater than it has ever been. Upcoming Fed cuts because of a slackening economy will add more bubble expansion further widening the economic breach.

-- Few would guess which company was most responsible for the runup of the DJIA from 26000 to a new all time record of 27000. It's Visa responsible for 390 of those points. But the big question is -- What the hell is a credit card company doing in the Dow Jones INDUSTRIAL Average? It along with about a half of the 30 companies that constitute the most reported market average have replaced real industrial firms because that's how you fool the average uninformed person that an economy is doing well when it isn't. All the news outlets that report new record highs without noting that there can be no meaningful historical comparison because of the made to look good changes are officially tried and convicted disseminators of fake news. Incidentally, industrial giants 3M and Caterpillar have been negative clunkers -- minus 564 and 247 respectively. Few would be motivated to invest if the Dow replaced confabulation with the truth.

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