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OBSERVATIONS ON THE MARKET

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If it sounds too good to be true, it probably is. How many times have you heard that one? Last month, WeWork was a company that seemed to be defying gravity. They were losing huge amounts of money with a very simple business model, re-lease office space. If you have been following the financial news, the imminent public offering of WeWork, originally thought to be worth $48 billion, soon started to fall apart. The public started to wonder if the story was too good to be true and declined to pay $48 billion. After a few discounts, the offering was finally cancelled. The flamboyant CEO who appeared to be much better at spending money than making it, was fired. If any of us could be so lucky. He received a $1.7 billion exit payment for turning a company potentially worth $48 billion into one now valued at $8 billion, but it did take an entire month to accomplish this feat. Considering that this never happens to the rest of us, the average investor just knows that this is wrong. Does this matter to the rest of us? It does if everyone wants more trust in the markets. Markets perform better for longer periods of time when capital is allocated both efficiently and prudently.

Continuing along the *sounds too good to be true* theme, how can a country borrow money for 50 years and pay nothing in interest for the entire 50 years? With most of the world at or near negative interest rates, does this really matter? Especially when us common people who have mortgages, credit card balances, or any other debt, do not have the privilege of getting paid to borrow money. Even though CD rates have declined, credit card rates have not appeared to budge for years now. Many of those credit card offers in the mail have rates of 12%, 14%, or 18%. Some even higher. That seems to be unfair to the average person. Recently, there has been some speculation as to whether the US is about to enter the negative interest rate world. While this may sound appealing, be careful what you ask for. There are several issues that could have very negative consequences.

The first would be that if interest rates decline further from the current yield of 1.8% on ten-year treasuries, it is most likely the result of a slowing economy or a recession. The US is the only major economy that is showing much growth. One thing we do know is that nobody knows how to deal with negative interest rates, or what the consequences will ultimately be. If European and Japanese central bankers have been unsuccessful in stimulating their economies, who thinks the US joining the negative interest rate crowd will have any more success? What it does leave is uneasiness as to how the economic picture develops. When you see government interest rates decline due to fears of an economic slowdown, you see interest rates for low quality bonds increase. Last year CCC bonds where at 9.5%, now they stand at 12.2%. When investors worry about getting paid, they want a higher return for the risk. You may remember the European debt crisis several years ago, Greece was one of the countries that was in the front of the line to possible default. They seem to do it every few decades. Today, a ten-year Greek government bond pays 1.2%. If you are not paying attention, that is less than the US treasury bond. Low rated corporate bonds are going up in yield, as you would expect in weakening economy. Low rated government bonds are declining in yields, not what you would expect. Maybe the central bankers know exactly what they are doing, or maybe they just hope it works itself out. This is the best example yet of: *If it sounds to good the be true, it probably is*.

The stock market likes low interest rates, slow growth, and low inflation. But as CCC bonds suggest, if you wade out to far from shore, the currents could be deadly. **Nobody** knows how this will resolve itself, so don’t wade too far into the water. However, you should be getting wet, because the US economy has done something amazing almost every year for the last 125 years - go up by approximately 5% per year. It almost sounds *too good to be true,* but our economy is remarkably resilient over time.