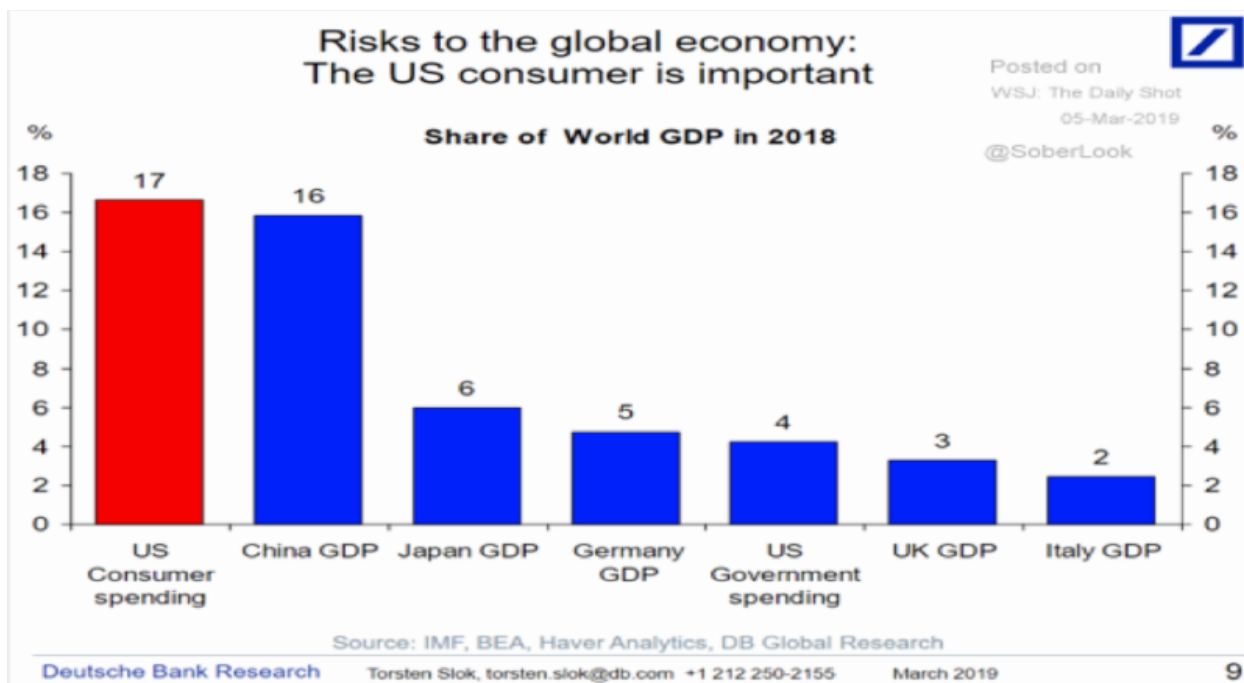


THE IMPORTANCE OF THE AMERICAN CONSUMER....

One of the central themes of our work at the [Global Investment Letter](#) is that all markets are interconnected and should, therefore, be considered in the investment process.

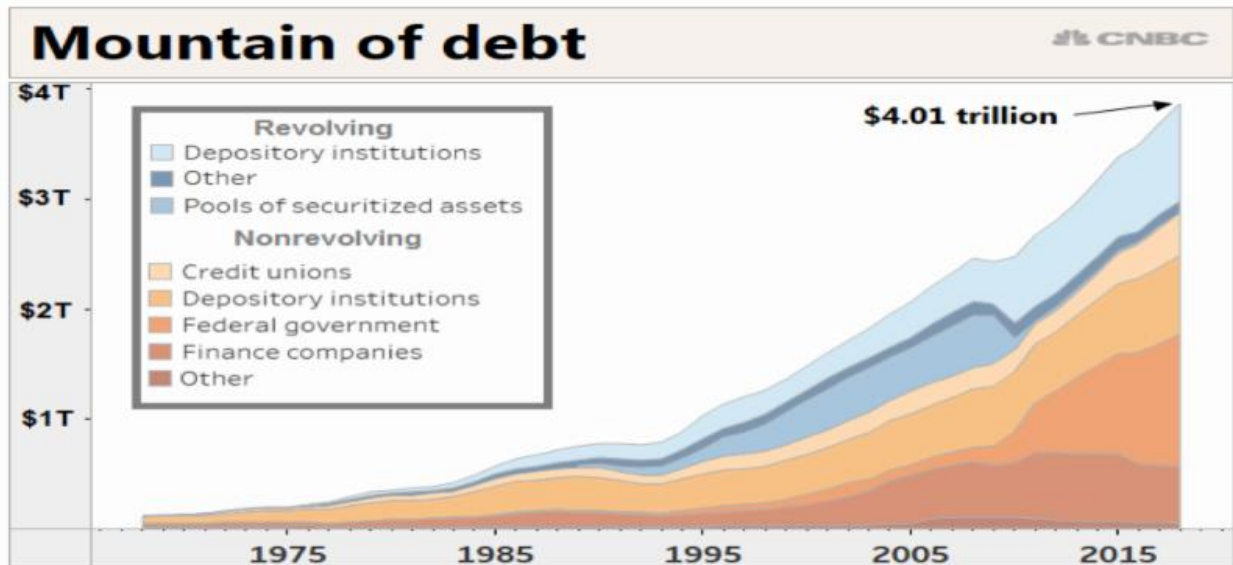
The chart below illustrates this point, and a number of useful conclusions can be drawn from it.



The obvious inference of this chart is the enormous economic importance of the U.S. consumer, contributing fully 17% to global GDP. This is an enormous number for the population of one nation. It is even more impressive when one considers the U.S. consumer contributes more to the global economy than the GDP of China, the world's second largest economy. It is, therefore, important to monitor the condition of the U.S. consumer for insights into the current and future direction of the U.S. and world economy.

American consumer spending since the financial crisis of 2008 has been supported by unprecedented economic stimulus by the Fed, which has produced the strongest economy in the developed world. Though Quantitative Easing has officially ended, and the Fed has raised interest rates a host of times, rates remain low in absolute terms from an historical perspective. Low interest rates have made larger purchases such as homes and automobiles more affordable for more consumers.

The product of an extended period of low interest rates is also an unprecedented level of consumer debt, as demonstrated in the following chart.



SOURCE: Federal Reserve, consumer debt outstanding, as of Dec, 2018

The current elevated level of debt was built during an unusually long economic expansion characterized by low interest rates. The consequences of this debt burden will be felt during the next recession, with the rising unemployment levels and tighter lending standards typical of a recessionary environment. Interest rates can be expected to decline in a recession, but declining rates will not completely offset the risks for those most vulnerable.

The pressure of a recession on those financially extended will have both a practical and psychological impact on spending. We can anticipate a sharper decline in consumer spending than is typical, making the next recession more severe. The large share of global GDP accounted for by the American consumer will mean that significantly decreased spending will have negative consequences for the global economy.

Both charts support our long-held beliefs that the next recession will be sharper than most and that there is great value in considering a broad range of markets to get a clearer picture of the investing landscape.

The charts above made an impression on me when I came across them, and I wanted to share them with you. I hope you found them as thought provoking.

By Jonathan Baird CFA

Knowledge is power..... Just one idea or insight a year can be worth many times the subscription price.

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