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Commentary

Market Opinions and Topics of Interest

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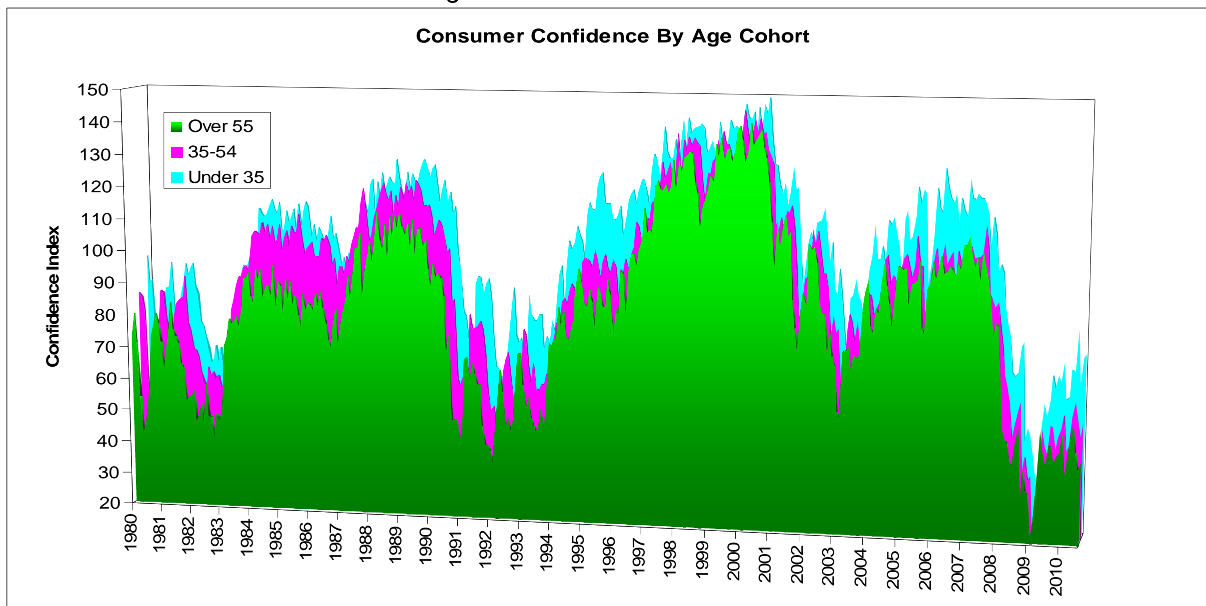
Age, Confidence And Financial Markets: Older Not Bolder

We last visited the topic of consumer confidence delineated along age cohorts in September 2009. The Conference Board has conducted consumer confidence surveys dissected by age cohort since 1980. The cohorts are Under-35 category (blue, all charts) relative to the Ages 35-54 and Over-55 categories (red and green, respectively, all charts).

We noted then:

> *The twice-shattered confidence of the Over-55 age cohort is intersecting with other phenomena not present in 2003, such as multi-trillion dollar deficits, the prospect of higher taxes, unemployment approaching 10% and underemployment in excess of 16%, uncertainties over healthcare funding and a Social Security system moving into unexpected deficit.*
>
> *This cohort has been told, loud and often, their house was their best investment and stocks performed other asset classes over time, an argument whose veracity increases with one's willingness to ignore reality.*

Confidence has rebounded for the Under-35 category, but levels for the Ages 35-54 and especially Over-55 cohorts have stagnated or declined over the past year. **A similar divergence at low levels occurred in 1993-1994; this was followed by a major shift in the American electoral landscape and by the late 1990s boom.**



Market Linkages

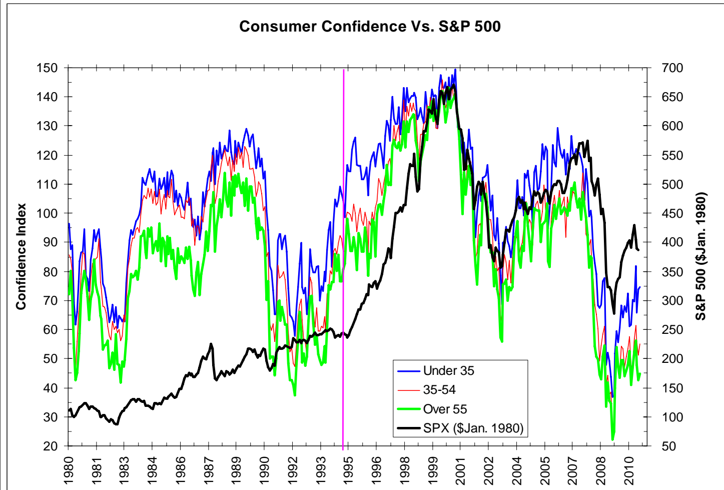
Is there a defined relationship between these consumer confidence readings and key financial markets, and can we expect the present miasma to resolve similarly to the 1990s episode?

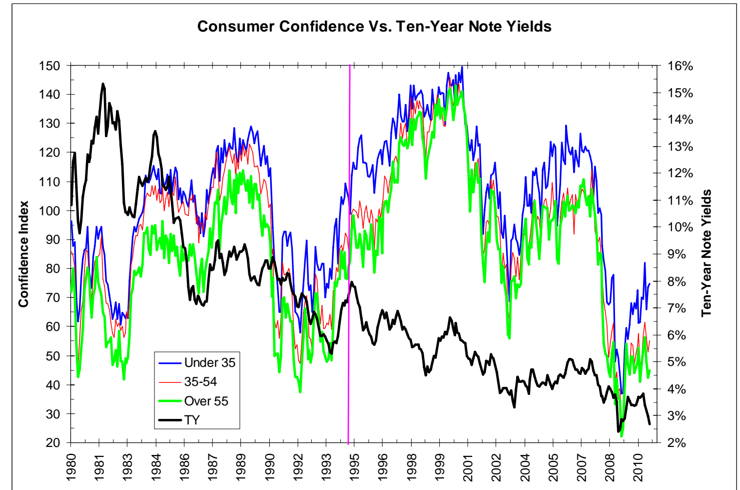
As before, let's map the confidence indices against the monthly averages for both the constant-dollar S&P 500 (black line, left-hand chart, following page) and ten-year Treasury note yields (black line, right-hand chart), we see a break in time occurring at the

end of 1994 (magenta vertical line). As noted in February 2009, this shift was attributable to the fiscal policy changes produced by the Republican Congressional victories in November 1994; speculation is rife the 2010 election will produce similar changes in Congressional control.

Prior to December 1994, note yields exhibited a modest positive covariance to the confidence levels; this disappeared afterwards into a long-term decline in Treasury yields regardless of confidence levels or trends therein.

The opposite occurred with the constant-dollar S&P 500. Here a non-existent relationship prior to 1995 turned into one of strong positive covariance across age cohorts. This changed after the March 2009 low; only the Under-35 group's confidence level has rebounded along with the constant-dollar S&P 500.





Conclusion

The most predictable report in our regular repertoire over the past year has been on monthly mutual fund flow data. The U.S. investor collectively is willing to assume duration and credit risk while shunning equity risk even as stocks become increasingly attractive on a relative valuation basis.

We bandy the term "Lost Decade" about; is it time we start classifying Baby Boomers as a Lost Generation to equities? The oldest Boomers are 64 this year and are facing unsavory choices in their taxable savings, defined contribution plans and a creaky Social Security system. As the last year recognized as being part of the Baby Boom is 1964, the flood of people entering this Over-55 cohort will continue into 2019.

This generation has seen its domestic equity investments move sideways, has been leery of venturing into emerging markets, has seen the value of residential real estate plummet and cannot hope to meet any sort of actuarial imperatives in fixed-income so long as interest rates are being kept unnaturally low.

At this cohort enters the stage of life when retirement either is chosen or dictated, depending on circumstance, can we reasonably expect a sudden embrace of equity risk?

The question is not, "Should they re-embrace equities?" The answer is "Yes" at some point if it is not "Yes" already." As the author learned years ago in the energy industry, expecting the public to agree with you if the facts can be demonstrated is a losing strategy. The question is, "Will they agree with you under any conditions, and if not, will they seek political protection at the public trough?"

The last question is likely to be answered affirmatively, and this is what the 112th Congress, however constituted, will face. Moreover, the 104th Congress began 1995 with a protean President willing to sacrifice ideology for pragmatism; this stands in stark contrast to the present environment.

The forthcoming political landscape for the financial industry will have issues joined on lines of age, and the financial services industry must understand this clearly lest it find itself guilty until proven innocent.

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