INVESTMENT UPDATE
NEWSLETTER

ALLEN TRUST COMPANY

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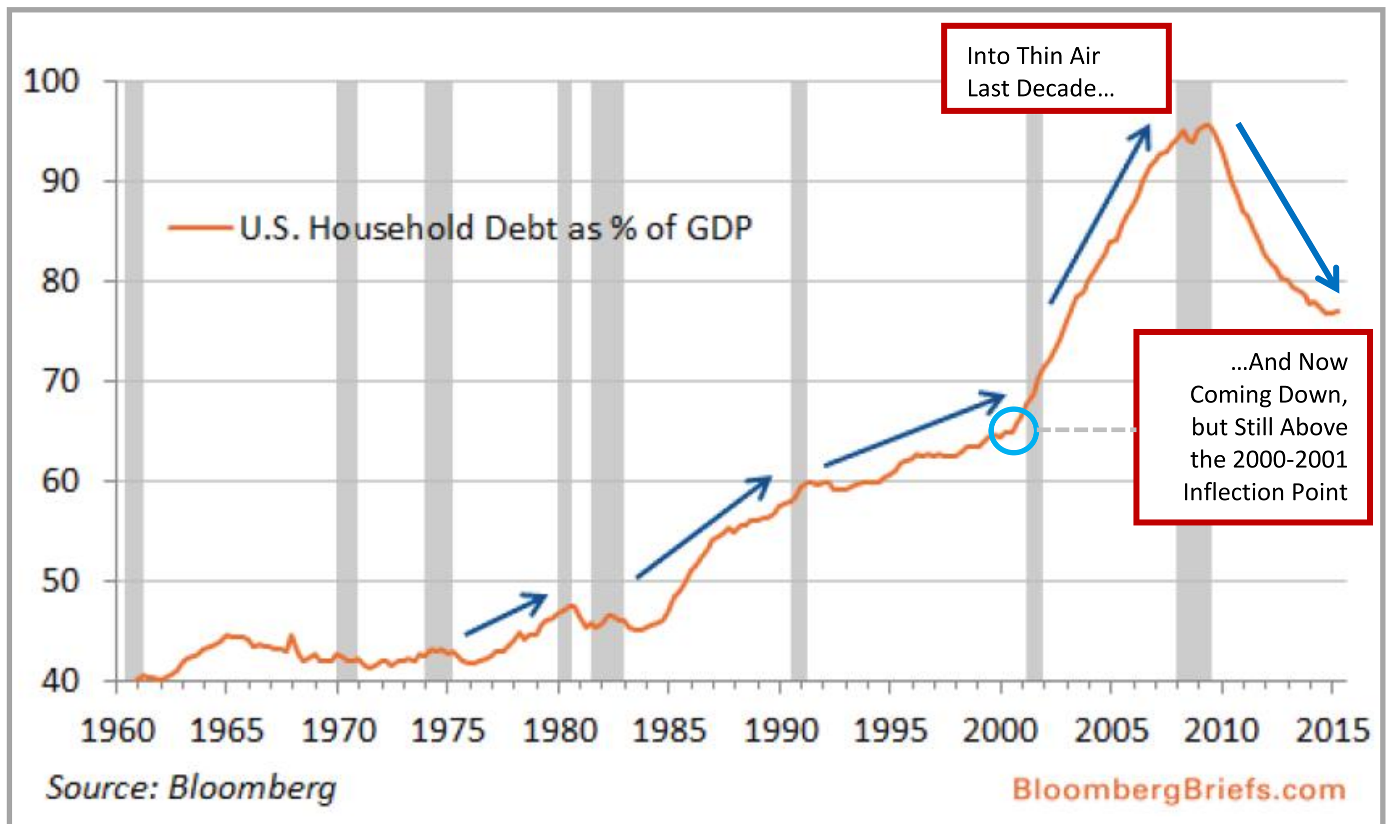
William A. Harris, CFA
Chief Investment Officer

Coming Down the Debt Mountain



With the passage of time (not to mention the clarity of hindsight), last decade's peak in U.S. household debt at nearly 100% of GDP looks even more dizzying. We've been shedding altitude for over five years, and now our pace of descent is slowing and perhaps even starting to level off.

Leveling off would be a good thing from a near-term economic standpoint – reductions in leverage associate with constricted consumer spending and hence throttle back general economic activity in a consumer-based economy – but perhaps premature from the standpoint of long-term stability. While the air here a fifth of the way "down the mountain" is hardly hypoxic, it's not oxygen-rich either. Our descent has only taken us back to where we were in 2003, when the housing bubble was becoming a gleam in the market's eye, and we are still above the post-millennial inflection point in debt growth.

Some investors fear that if the Fed lifts rates this year it could hasten the de-levering process, constrict activity and choke off the recovery. But let's not lose sight of one thing: sub-50% household debt-to-GDP levels typified much of post-WWII prosperity. And so did interest rates full percentage points higher than zero. Less debt, and positive interest rates? That's normal, and could actually help us breathe easy again.