ECONOMY

Boxers or briefs?

THINK STRATEGICALLY:

The Men's Underwear Index

When Disposable Income Increases, People Make Purchases Based on Level of Confidence

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The MUI

The Men's Underwear Index (MUI) is an economic indicator coined by former Federal Reserve Chairman Alan Greenspan in the 1970s that points out sales of men's underwear as measures of an economy's performance. Greenspan indicated that an economy on the upswing would show increases in men's underwear sales, whereas a poorly performing economy would show decreasing sales of the same garment.

The science behind Greenspan's selection of this index as a barometer of economic progress seems rather unorthodox. However, he argued that when people are confident about the economy, they will spend money on things they may not necessarily need. When disposable income increased, people would select to purchase new undergarments based on how confident they were with their current level of wealth, wages and employment.

The world men's underwear market reached $10.14 billion in 2018 and was expected to increase 5.3 percent from 2019 to 2025. One of these growth drivers is increased health awareness combined with personal hygiene, and a better fit from millennials is driving the surge.

Does the MUI work? Greenspan seems to believe so. One thing is for sure: After reading this piece, some of you guys may want to buy some new ones.

The Brics: Is this investment or gimmick worth another look?

Jim O'Neill, chief economist of investment-bank giant Goldman Sachs, coined the term BRIC in 2001 to describe the four-largest developing countries, which at that time included Brazil, Russia, India and China, and later, in 2010, added South Africa, and changing the acronym to Brics. At that point, Goldman Sachs predicted Brics would overtake, in terms of gross domestic product (GDP), the G7 nations of the U.S., Canada, Japan, United Kingdom, Germany, France and Italy by 2050.

The Brics group could not be further apart or more asymmetrical; thus, after showing promise as a significant investment, some faltered to the point that its creator, Goldman Sachs, had to close its Brics fund at the end of 2015—after the vehicle's assets lost $700 million and closed at $100 million.

Considering that forecast and the world's current status since the term was coined, Brics and the G7 have faced considerable economic turmoil.

From 1990 to 2014, Brics has delivered on part of its promise, growing from 11 percent of the world's GDP to nearly 30 percent, until the financial crisis that provided long-lasting economic damage.

As it stands, the G7's GDP has reached $34.4 trillion, and Brics is at $16.6 trillion, or at less than 50 percent of the G7's GDP. While per capita income remains quite low for Brics, at $5,401, compared to the G7's $45,453, the growth has been consistent; however, the Brics are a far cry from the standards of most countries in the G7.

The one area in which the G7 cannot compete is in terms of population. G7 nations have a total population of 800 million people while the Brics have 3.1 billion.

While Brics still have significant gaps to meet their promises, we like selective investing in Brics economies, with some forgotten trades in Brics as popular as ever, and the original Brics enjoying increased inflows during the year, and fund flows to the four countries reaching their highest level since July 2015.

Week in markets: Saudi attack impacts markets

The stock markets ended the week with losses, after recording three weeks of gains. The attack on Saudi Arabia's oil supply proved too powerful to sway investors, even as the Federal Reserve Bank reduced rates by 25 basis points for the second time during 2019.

The attack on Saudi Aramco's critical oil infrastructure had an impact on more than 6 percent of the world's oil supply. With oil prices initially recording 15 percent increases, prices soon came down as the Saudis informed that the oil supply would normalize by month's end, However, the attack may be one of many more to come in the region, which is famous for being volatile.

A finely tuned Federal Reserve Bank may be able to support the U.S. as it attempts to continue the economic expansion.

The Dow Jones Industrial Average closed the week at 26,935.07 for a loss of 283.82 points, or minus-1.05 percent, and a year-to-date (YTD) return of 15.50 percent. In addition, the S&P 500 closed the week at 2,992.07, for a loss of 15.32, or minus-0.51 percent, and a YTD return of 19.40 percent.

The Nasdaq closed the week at 8,117.67 for a loss of 59.04, or minus-0.72 percent, and a YTD return of 22.30 percent. Meanwhile, the U.S. Treasury's 10-year note rose during the week, closing at 1.72 percent, or a loss of minus-9.47 percent, with a YTD return of minus-0.78 percent. The U.S. Treasury 2-year note decreased during the week to 1.68 percent, a decline of minus-6.67 percent for the week.

Will lower Fed rates work this time?

Looking into the past, it may be helpful to understand how effective rate cuts were used to avert a recession.

- 1995: The Fed made rate cuts that extended the expansion.
- 1998: The Fed implemented rate cuts that continued development for several additional years.
- 2001: A recession soon followed rate cuts.
- 2007: A prolonged recession followed rate cuts.

As a matter of reference, the rate action during 2001 and 2007 was initially made at 50 basis points, and is a crucial signal that the cuts were made after considerable economic downturns had shown their face. However, the 1995 and 1998 rate cuts were 25 basis points, which were similar to 2019, so only time will tell if the rate action was timely or not.

Final word: How is the economy, by the way?

As the U.S. economy is performing well overall, and the expansion has continued, let's examine three parameters.

- Unemployment is at 3.7 percent, close to the lowest level in 50 years.
- Jobs growth has increased for 107 succeeding months, the longest streak on record.
- U.S. GDP growth has averaged 2.7 percent over the past two years.

While there is no certainty about what will happen with the current economic expansion, rate decreases will have an immediate impact on investments and business. However, the protracted U.S.-China trade war continues to impact the economy and the markets with volatility.

In summary, we believe the overall economic fundamentals are robust enough to allow the expansion to last well into 2020, if not longer.

Group	G7	BRICS
Population	800mm	3.1B
% of the World	10	42
GDP	34.4T	16.6T
% of the World	46	22
Exports	7.2B	3.5B
% of the World	34	16
Imports	7.5B	3.1B
% of the World	37	19
Per Capita	45,453	5,401

Weekly Market Close Comparison	9/20/19	9/13/19	Change	YTD
Dow Jones Industrial Average	26,935.07	27,219.52	-1.05%	15.50%
Standard & Poor's 500	2,992.07	3,007.39	-0.51%	19.40%
Nasdaq	8,117.67	8,176.71	-0.72%	22.30%
U.S. Treasury 10-Year Note	1.72%	1.90%	-9.47%	-0.960%
U.S. Treasury 2-Year Note	1.68%	1.80%	-6.67%	-1.030%

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