Of Bubbles and Gum

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Her name was Lola. At least that's what Danish archeologists are calling the female whose DNA was discovered in birch bark she had chewed 5,700 years ago. The sticky resin was used prehistorically to fix broken tools, for medicinal purposes, and for gum.

The discovery was notable because no other remains of this ancient inhabitant were found. Lola's complete genetic makeup – eye color (blue), hair (dark), and health (lactose intolerant) – was determined entirely from the saliva left behind in the gum.

Reported a researcher from Uppsala University, "It's as close as we'll ever come to standing face to face with an individual from the Stone Age."

As the father of two girls, ages 10 and 6, we are no strangers to finding well-preserved gum in unexpected places. Still, reconstructing whole persons from it is eye-raising.

No less surprising was the strength of credit markets as we wrapped up 2019. Gone were fears of a US downturn signaled by an inverted yield curve, as the long-end rebalanced. Unemployment remained at fifty year lows, as the job outlook brightened. And public equities ended the year at record highs.

Investors also switched from "risk-off" to "more-yield." That pushed new-issue junk bond yields down to 5.1% in December, per S&P/LCD – the lowest level in fifteen years. Ironically, last month also was marked by continued in-flows to mutual bond funds (*Chart of the Week*). For the full year, that number was a positive $19 billion.

While fears about bad economic news or asset-bubble bursting were generally quieted going into the holiday break, the new year began on a off-note. 2020 kicked off with one of those one-off – so-called exogenous – events – often invoked by analysts as inciting factors of the next downturn.

It's unclear whether the situation in the Middle East will be this factor, or whether (like other candidates) it will prove a bust. Liquid markets seemed to shrug off the worst-case scenario. But we expect this geopolitical risk will lurk in the background for a while.

What other sticky surprises await us? 2019's bugaboo, US/China trade wars, waned after the phase one agreement seemed to be in hand. North Korea continues to rattle sabers, but news from there was drowned out by other global noise.

Even the old 1970's definition of exogenous risk, the price of oil, was quiescent in the face of Middle East turmoil. Brent crude barrel prices rose to $68.00 on Monday, but no further; pretty much where they ended the year.

One analyst put it succinctly, "The Fed has drugged the market into submission. [It] doesn't need to price risks properly because the Fed has underwritten risk."

Whether the Fed can continue mainlining enough liquidity all year to overcome any exogenous risks – bubbles or stickier stuff – remains to be seen.