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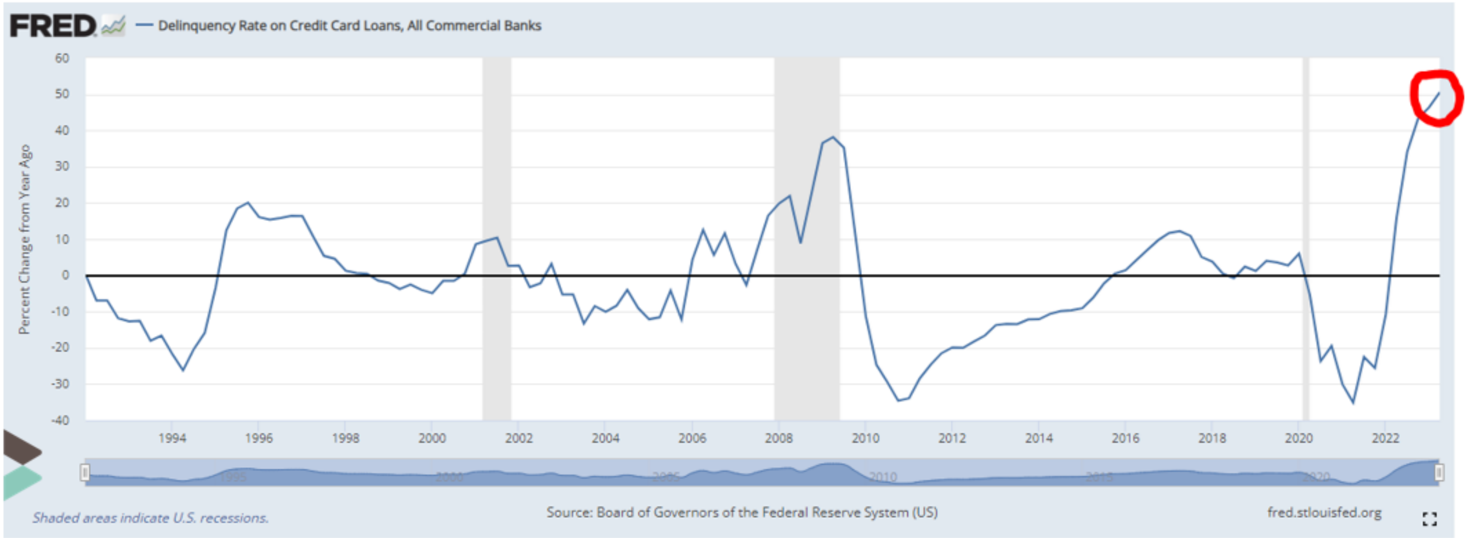
BALLENTINE PARTNERS

A Tale of Two Headlines.

Same data. Two very different headlines. One to scare you. One to calm you. Guess which one gets used?

Pete Chiappinelli, CFA, CAIA, Chief Investment Officer

In the last few days, four different colleagues at my firm sent me links to some financial blogs and posts that referenced the chart below from FRED – Federal Reserve Economic Data, the official website of the Fed - on credit card delinquency rates.



Delinquency rates - running late on payments - is an important indicator of whether the American consumer is starting to feel financially stretched, typically a bad omen for the health of the economy. Banks have to report their credit card delinquency rates quarterly.

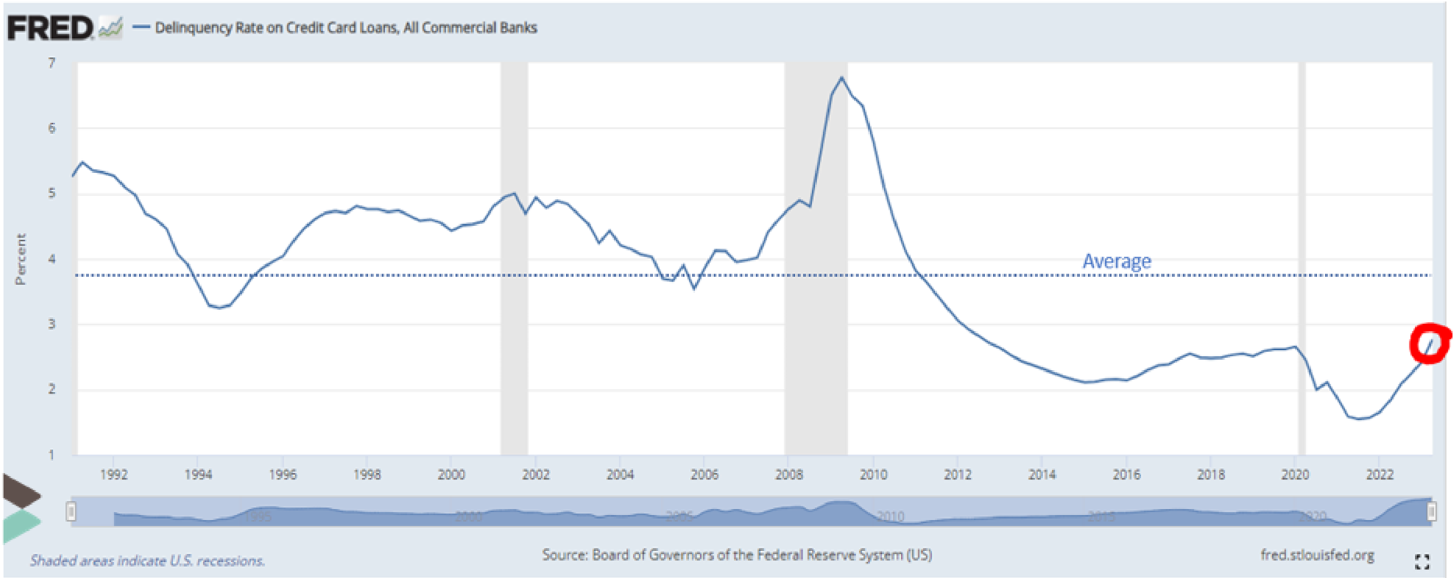
The chart above shows the *annual percentage change* in these rates, going back 31 years. The most recent reading, the red circle that was often added for effect, was 50.5%. That's right, a 50% increase in delinquency rates from a year ago. That, admittedly, is a notable spike.

The headlines, therefore, on all of these blog posts all were shouting with the same sheer panic:
Consumers Drowning in Debt –Delinquency Rates Go Through the Roof
Higher Rates Killing The Consumer --- Delinquency Rates Worse Than The Great Financial Crisis.
Batten Down the Hatches --- The Consumer is Overleveraged, Over Their Skis, and Over a Barrel.

You get the idea. [Even my heart skipped a beat when I saw it, and I should know better.]

It actually gets worse. The comments on these blog posts showed that the doomsday "reporting" was working. Anybody who saw this chart was getting riled up. Nearly everybody jumped on the panic wagon, agreeing wholeheartedly with the premise of the scary headline. Higher interest rates were going to be the ruin of the economy, the consumer was going over a cliff, and the U.S. economy was, without a doubt, on the road to ruin.

Here's the problem. That chart is completely misleading. Yes, commercial banks around the country did report to the Fed, as they are obligated to do, a delinquency rate on their credit card loans. The number was 2.77%. And yes, the delinquency rate did jump from a year ago. But the *absolute* level of delinquencies...well, that was a completely different story. See the chart below, which is over the same 31-year time frame.



It turns out that a delinquency rate of 2.77% is still notably low by historical standards. This is a GOOD thing, not a BAD thing. The consumer is not in trouble. They're recording some of the lowest delinquency rates in the history of collecting this data. The latest reading, the red dot, was actually 26% lower than average.
And you cannot even compare today to the height of the Great Financial Crisis in 2008 -2009. Unemployment is recording some of the lowest levels in 60 years. Wages are rising faster than the rate of inflation. Inflation, itself, is coming down significantly from a year ago. And the economy just posted GDP growth of 4.9%, one of the best numbers we've seen in over 20 years.

The headlines should have been saying this:
Everything's OK – Consumer Delinquency Rates Still Well Below Normal.
The Consumer Is Fine – No Worries
Delinquency Rates Up, But No Need To Panic.

But honestly, who would click on those headlines?

Same data. Two very different tales. One designed to scare you, telling you it's the worst of times. While the other, more accurate in my humble opinion, is telling you that things - while perhaps not the best of times - are still pretty OK.

About Pete Chiappinelli, CFA, CAIA, Chief Investment Officer

Pete is Chief Investment Officer at the firm. He is focused primarily on Asset Allocation in setting strategic direction for client portfolios. Pete has 30 years of experience in research, investment strategy, and thought leadership regarding the management of multi-asset class portfolios, inclusive of equities, fixed income, and alternatives. His work has been featured in leading financial publications such as *The Wall Street Journal*, *The New York Times*, *Barron's*, and others in Canada, Europe, and Asia. His market commentaries have been featured at major industry conferences, in TV documentaries on capital markets history, and on social media outlets. Prior to joining Ballentine Partners in 2022, he was a Senior Portfolio Strategist on GMO's Asset Allocation team. Prior to that, he was an Institutional Portfolio Manager at a specialized unit within Fidelity Investments and was the Managing Director of Institutional Investment Strategy & Research at Putnam Investments. He is a graduate of Carleton College and holds his MBA from The Wharton School at the University of Pennsylvania. Pete holds the Chartered Financial Analyst (CFA) designation, is a member of the CFA Institute and CFA Society Boston, and he holds the CFA Institute Certificate in ESG Investing. He also holds the Chartered Alternative Investment Analyst (CAIA) designation and was the founding President of CAIA Boston. Pete lives in Hingham, MA with his wife, Cheryl, and enjoys travel, cooking (definitely not a "foodie," but a "foodie wannabe"), sourdough breadmaking, and conjuring up ways to embarrass his three children.