Insights and Observations: First Quarter 2024

The vacancy rate for U.S. office-buildings was at 11% before Covid-19. According to real-estate consulting firm Colliers, vacancy rates have risen to 17% today, which is higher than at any time during the 2008 global financial crisis.

While most tenants are still paying rent, many are reducing their space requirements by 30% to 40% when contracts end. Lenders are also being careful not to further disrupt a weak commercial real-estate market by forcing borrowers to sell.

There were $35.8 billion of office loans that came due last year in the commercial mortgage-backed securities market. Only about one-quarter were paid-off in full. Other loans were either extended or sent to a special servicer for modification. Only about 3.5% of U.S. office deals involved a distressed seller.

It is estimated that U.S. landlords face at least a $70 billion refinancing shortfall from now to the end of 2025.

> **A flood of "For Sale" signs looks inevitable, but they are taking longer than expected to arrive … And when a flood of distressed assets does eventually hit the market, it will put further pressure on office values that have already fallen 35%.**
>
> **Carol Ryan – WSJ 3/17/24**

The Organization for Economic Cooperation and Development (OECD) estimates that its member countries will see their debt levels rise to $56 trillion this year from $54 trillion in 2023. About half of the debt is attributed to the U.S., almost double its share in 2008.

With rates now much higher, the cost of interest payments to governments rose to 2.9% of annual economic output in 2023 … from 2.3% in 2021. That percentage is expected to rise over the next couple of years.

The central banks of OECD members own government bonds with a value equivalent to 30% of annual economic output. With many central banks reducing their bond inventories, some governments could struggle to find future buyers for their debt.

> **As central banks begin to shrink their balance sheets through quantitative tightening, the net supply of bonds to be absorbed by the broader market will increase to record levels.**
>
> **OECD – WSJ 3/7/24**

The annual issuance of U.S. Treasurys, the safest and most liquid securities on Wall Street, reached a record $23 trillion in 2023. The Treasury market has increased more than 60% to $27 trillion since the end of 2019, and it is about 6 times larger than before the 2008-2009 financial crisis.

The world's largest, most-important financial market is growing by leaps and bounds. On Wall Street, that is making people nervous.

Eric Wallerstein – WSJ 3/24/24

The Treasury Department raised a net $2.4 trillion last year alone to cover the federal deficit. The Congressional Budget Office anticipates government spending to continue to escalate, as an aging population drives up the cost of entitlement programs … particularly Medicare and Social Security.

Running a nearly $2 trillion deficit during a peacetime economic expansion – that's a lot of bonds for the market to absorb.

Stephen Miran, Manhattan Institute – WSJ 3/24/24

Budgets will be further constrained by servicing the ballooning balance of federal debt. Interest costs are scheduled to exceed the entire U.S. defense budget this year. Ten years from now, annual interest costs are projected to increase by more than $1 trillion (yes, one trillion!).

“The current fiscal path is unsustainable”. This stark warning comes from the US Treasury Department’s Bureau of the Fiscal Service’s fiscal year-end projections. Based on current appropriations and tax law, these projections display steadily rising federal spending and flat tax receipts, as a percentage of GDP. Our resulting deficits push projected federal debt held by the public up from near 100% of GDP today to 200% by the mid-2040s and above 500% before 2100.

Chris Brightman – Research Affiliates 1/19/24

Most nonprofit organizations rely heavily on volunteers. According to data from the Bureau of Labor Statistics, the percentage of the U.S. population that volunteers has declined by 28% over the past decade.

Volunteers are a core part of what helps the nonprofit engine run.

Rick Cohen, National Council of Nonprofits – Barron’s 3/23/24

According to the latest available census data, about 60.7 million Americans (23% of the population) participated in formal volunteering in 2021. That is down from 2019 data (prepandemic) that showed 30% of Americans reported volunteering. In addition, total charitable giving in 2022 declined by 10.5% in that year after adjusting for inflation.

Almost 30% of nonprofits surveyed in 2022 reported less funding and paid staff than before the pandemic. Leslie Lenkowsky, a professor at Indiana University and an expert in volunteering and civic engagement attributes the decline to both social and economic factors:

- While belonging to religious congregations influences the giving of time and money, less than half of Americans today describe themselves as religious.
- There are more single-family households, which live on tighter budgets and have less spare time.
- Americans are spending more of their free time at home.
- Americans are working longer, with the average retirement age at 62 last year, up from 57 in 1991.
- The evolution of the gig economy offers more flexible work, and some Americans are taking advantage by picking up extra shifts to boost their earnings.

Over time, declining volunteerism in the U.S. could meaningfully alter nonprofits' labor costs and reshape the nonprofit sector. Many organizations will need to focus less on individual donations and more on planned giving and donor-advised funds.

Megan Leonhardt – Barron's 3/23/24

About 4.1 million Americans will reach the age of 65 this year … that is about 11,200 each day, compared to the 10,000 daily average during the previous decade.

> **More Americans are turning 65 this year than any prior time in history. Today's 65-year-olds are redefining a milestone long associated with retirement parties and the end of productive years. They are wealthier and by many measures, healthier, and expected to live another 20 years.**
>
> **Clare Ansberry – WSJ 2/6/24**

According to Pew Research, about 20% of Americans 65 and older were employed in 2023, which is nearly double the percentage of those working 35 years ago. In addition, two-thirds of those 65 and older employees are working full time, compared to nearly half in 1987.

More 65-year-olds are meeting federal activity guidelines for aerobic and strength training than in 1998, according to researchers from the Centers for Disease Control and Prevention. Also, "*having a purpose"* matters more than youthfulness among people 50 and older, according to a Harris Poll survey conducted for Age Wave. It's good for health and happiness, and can lower the risk of Alzheimer's disease, heart disease and stroke.

Being 65 is not just thinking about who you were, but what you might become in a new chapter. A lot of people are thinking forward. What am I going to do? Where am I going to live? How can I have a legacy?

Ken Dychtwald, Age Wave CEO – WSJ 2/6/24

According to a report by the Pew Research Center on adults under age 35, about 59% of parents acknowledged helping their young adult children financially. Among adults under the age of 25, 57% live with their parents … up from 53% in 1993.

Economists and researchers suggest that younger people now take longer to reach many adult milestones because *getting there* is more expensive today. Some parents have the means to help, due to a rising wealth gap between older and younger Americans.

Parents have always supported their children into adulthood, from funding weddings to buying a home. Now the financial umbilical cord extends much later into adulthood. In short, adulthood no longer means moving off the parental payroll.

Julia Carpenter – WSJ 1/25/24

Elevated home prices and rising interest rates, have made it very difficult for first-time home buyers. About a fifth of first-time buyers say they received some financial help from a relative or friend. Overall, nearly a third of young adult children between the ages of 30 to 34 reported getting financial assistance from their parents.

Births in China fell by more than 500,000 last year. Officials noted there were three million fewer women of childbearing age than the previous year. Researchers from Victoria University in Australia and the Shanghai Academy of Social Sciences estimate that China will have just 525 million people by the end the century. That is down from their previous forecast of 597 million, and an enormous tumble from the current population of 1.4 billion people.

The rapid shift underway today wasn't projected by the architects of China's one-child policy – one of the biggest social experiments in history, instituted in 1980. Four decades later, China is aging much earlier in its development than other major economies did … Beijing is at a loss to change the mindset brought about by the policy.

Liyan Qi – WSJ 2/12/24

The "architects" certainly did not take into consideration China's traditional preference for males. If couples could only have one child, they wanted a boy. As a consequence, there are fewer young women today, and many are reluctant to have children.

China’s current fertility rate is close to one birth for every woman. That is less than half the 2.1 replacement rate required to maintain a stable population. The fertility rate was at or around 3 in the late 1970s.

> **All of China’s population policies for decades have been based on erroneous projections. China’s demographic crisis is beyond the imagination of Chinese officials and the international community.**
>
> **Yi Fuxian, University of Wisconsin-Madison – WSJ 2/12/24**

A study on career paths of college graduates, by labor analytics firm Burning Glass Institute and nonprofit Strada Education Foundation, found the following:

- 52% of college graduates ended up in jobs where their degrees were not needed.
- Of the graduates in non-college-level jobs a year after leaving college, the vast majority were underemployed a decade later.
- More than any other factor, what a person studies determines their odds of getting on a college-level career track.
- Internships are also critical.
- Bachelor’s degree holders in college-level jobs earn nearly 90% more than people with just a high-school diploma.
- Underemployed college grads earn 25% more than high-school grads.

- Almost half of the people who majored in biology and biomedical sciences remained underemployed five years after graduating.
- Business majors less focused on quantitative skills were twice as likely to be underemployed than those with math-intensive business degrees, such as accounting or finance.

> **The findings add fuel to the debate over the value of a college education as its cost has soared – and whether universities are producing the kind of knowledge workers that employers say they need.**
>
> **Fuhrmans/Ellis – WSJ 2/22/24**

In case you didn't notice, there are a bunch of new bitcoin ETFs available for your *speculative* enjoyment. Still, that hasn't solved the mystery of trying to explain bitcoin's investment merits.

It would seem that stockpiling bitcoin defeats the purpose of its original intent – to be used for online transactions. Also, as James Mackintosh (WSJ 1/16/24) suggests, the new ETFs simply reconnect bitcoin both to Wall Street's old financial infrastructure and to the dollar. Either way, it would appear that bitcoin has no inherent value beyond the basic dynamics of supply and demand.

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