

June 10, 2014

Carry On

Long ago in my youth, I served in the U.S. Navy as a Yeoman in an Anti-Submarine Warfare squadron. When a superior officer addressed you, the officer would end the conversation with the words “Carry On.” For those who haven’t served in the military, this phrase means what it sounds like – you are permitted to “carry on” with your business.

The world’s economy and stock market was surrounded by news this past week, but at the end of the week the only thing I could think of is ... “carry on.” Nothing occurred which altered our view of the economy or markets. The more meaningful economic events of the week are summarized below.

- Mario Draghi, President of the European Central Bank, cut the overnight rate it pays for deposits from banks to -0.1%. In other words, the ECB will now charge banks to keep deposits at the ECB. This is an attempt to get banks to actually loan money to creditworthy borrowers rather than to sit on deposits. Additionally, the ECB cut its main refinancing rate to 0.15%.
- Europe is slowly clawing its way out of recession. The Euro-Area economy grew by a whopping 0.8% during the first quarter of this year. That is an improvement from last year’s -0.4% growth and better than the -1.0% growth the U.S. generated during our first quarter of the year. We anticipate Europe will show some degree of economic acceleration this year – probably not exceeding 1.5% overall growth. Sorry, Mario the “stuff” the central bank can do primarily generates higher asset prices and wealth, but does little to help the overall economy – just ask Ben Bernanke or Janet Yellen. They have been actively pumping monetary policy to little effect in the U.S. over the past year.
- The Bureau of Labor Statistics (BLS) reported that the U.S. economy added 217,000 jobs in the month of May, as the unemployment rate held steady at 6.3%. The headline trumpeted that the U.S. economy has generated enough new jobs to offset the jobs lost during the 2008-2009 Great Recession. Good news until one understands that through overall demographic growth, the U.S. employment base grew from 154.4 million at the end of the recession to 155.6 million today. That leaves 1.2 million more unemployed today than was the case 5 years ago.
- The world’s stock markets continued to grind higher during the week – nothing new here. The S&P 500 index rose by 1.4% during the week. The iShares MSCI ACWI ETF (global stock markets ETF) rose by a similar 1.4%. Again, nothing new here, the world’s stock markets

continue to grind higher, confounding the insistent bears on the Street.

- Interest rates remain low. The 10-year Treasury note yielded 2.60% at the close on Friday, up from 2.48% the week before. No real change of note here.

Something Meaningful

While few economic or capital market developments occurred this past week, something very meaningful occurred 70 years ago this past weekend.

Of course, I'm talking about the Allied powers invasion of Normandy in June 1944. The largest invasion force attacked the northern coast of France, which brought forward the second effective offensive front against the Nazis in Europe. The invasion signaled the effective end of the war for Germany. While the war ground on for another 10 months, Germany didn't have the power to resist the overall clout and force of allied air domination, superior land force and determination for victory. Kansas' favorite son, Dwight Eisenhower, was the commanding general of the Normandy invasion (see picture below).

Our nation's "greatest generation" paid the price during all World War II activities, both abroad and at home. The Normandy invasion, commonly called "D-Day," was a massive invasion of 160,000 allied troops, including 24,000 airborne (paratroop) invaders the night before the beach



landings. More than 8,000 allied troops paid the ultimate price with their lives or were wounded during the offensive attack. One of the 8,000 casualties was my mother's cousin, a paratrooper with the vaunted 101st Airborne, who participated in the invasion and paid with his life.

Free people the world over should pay homage to these great men. They saved the world from the fascist stranglehold. They literally helped save the world for

democracy.

Most of the survivors of the Normandy invasion are gone – the invasion took place 70 years ago. The celebration in Normandy this past weekend will be the last reunion of the gallant heroes – the survivors of the greatest invasion conducted by members of the Greatest Generation. Our nation should be proud of all who served.

Upcoming Piece

Every once in a while, we get enthused to create a thought piece, which we hope will be helpful for our readers, not only in their investment thoughts and activities, but also in their daily work. Over the next few weeks, we will produce a series (2 or 3 installments) that addresses the deep issue of economic productivity. It will cover not only where we are today with labor productivity and what it means to economic growth and market returns, but also provide some historical

thoughts on productivity. We will address and provide insight on:

- Historical economic productivity – what does history tell us?
- What are the fundamental factors that have historically driven economic productivity?
- Why, from a societal standpoint, is productivity important?

We will be back next week.



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