May 31, 2020

NJ Is The Last Place

where people want to spend their golden years. Almost 67% of all New Jersey moves were outbound last year according to a survey from United Van Lines. The relocation company polled 26,998 of its customers who moved last year through November 30.

A third of people who left New Jersey also cited retirement as a primary reason for their decision to pack up and go. In all, United logged 4,430 total shipments in the Garden State. Of these, 2,959 were sent out of state.

The top states to relocate to, of all relocations in the U.S., were New Mexico, then Florida and Arizona.

New Jersey has an effective property tax rate of 2.13% according to the Tax Foundation and is the highest in the country.

The Garden State also has high individual tax rates as well as taxes on retirement income. *Aging IQ 3/30/20.*

Will Fashion Shift After The Quarantine End?

After the Spanish Flu, which killed approximately 675,000 Americans, and the death toll of World War I, fashion became more formal as people wanted to dress up again saying " I did not die". Also, they wanted to have fun. Women's skirt hemlines, which were creeping up before World War I, became the shortest skirts in Western fashion history. Men wore cashmere and the Gatsby look was in during The Roaring 20s.

Will athleisure linger post-lockdown or will people want to wear clothes that show they have bodies?

How Did Coronavirus Nearly Break The Markets?

Up until March 13, 2020, the financial markets held up well. On March 16, a microscopic virus brought the financial system to the brink of collapse. The Dow Jones Industrial Average plunged nearly 13% that day, the second biggest, one-day fall while stock market volatilely spiked to a record high. Investors struggled to unload even safe bonds, like Treasurys. Prime money-market funds that are owned by big institutional investors who buy a lot of short-term corporate debt - normally safe and boring - had outflows of $60 billion in the week ending that Wednesday.

The Federal Reserve set the stage for the downturn on Sunday, March 15. Most investors were expecting the central bank to announce its latest response to the crisis the following Wednesday. Instead, it announced at 5 pm that evening that it was slashing interest rates and planning to buy $700 billion in bonds to help unclog the markets. Rather than take comfort in the Fed's actions, many companies, governments and investors viewed the decision as reason to prepare for the worst possible outcome from the Pandemic. A downdraft in bonds became a rout!!

The next day, on Monday, investors no longer believed certain money funds were cashlike at all. As they pulled their money out, managers struggled to sell bonds to meet redemptions. Rumors circulated that some companies would be forced to prop up their funds. Within days both Goldman Sachs and Bank of New York Mellon Group stepped in to buy assets from their funds.

This was bad news for thousands of companies and communities dependent upon short-term loan markets to pay their employees. The Sunday emergency Fed rate cut had swung a swath of interest rate swap contacts in banks' favor. Companies had locked in super low interest rates on future debt sales over the past year. But when rates fell even further, the companies suddenly owed additional collateral. On that Monday, banks had to account for that new collateral as assets on their books. Banks were prevented from buying bonds and other assets and still remain in compliance with tougher Dodd Frank guidelines imposed by regulators after the 2008 financial crisis.

At the same time, falling prices on mortgage bonds had forced margin calls on many investment funds. The additional collateral they owed banks was also booked as assets, adding billions more.

For decades, investors eagerly scooped up state and local government bonds. But that came to a standstill on March 16. Terrified investors sold municipal debt at fire sale prices, underwriters cancelled billions of dollars worth of deals and new borrowing stopped. For those few days in March, investors lost faith in America's public infrastructure as schools and universities shut down and airports and public transit emptied; the market began to question what had been previously considered gold-plated bets on the core institution that make up community life in the U.S. Cities and states often rely upon short-term debt issued through bond dealers who then resell the securities to investors. Billions of dollars of that paper was up for resale the following day. Rates, which had been around 1.28% looked like they could go up 500% and reach 6%. At the same time, long-term municipal bond deals were being pulled.

The liquidity panic then leaked into the stock market. Stock futures dropped the maximum 5% before trading was halted.

Malachite Capital Management, a hedge-fund firm, shut down on Tuesday March 17. JD Capital Management, another hedge fund lost 75% of its value.

On March 2, at the bottom of the market, Allianz Structured Alpha Funds which had been a big seller of insurance against a market sell off, closed two of its funds stating they had lost 97% of the value and would be liquidated. *Wall Street Journal May 21, 2020 p. 1.*

So, to recap, a misinterpretation by the hedge funds and a misstep by the Fed caused the collapse, not anything wrong with the economy.

As always, if you have any questions about these or any other matters, do not hesitate to call us.