

## “The Significance of the cost of a Big Mac”

By Tommy Williams, CFP®

We're off to a pretty good start. Investors who remained steady during December's wild ride are probably pleased with their decision as we've had a bit of a January rebound in the stock market. Unfortunately, those who reduced their exposure to the asset class may be questioning themselves.



Tommy Williams

Last week, the Dow Jones Industrial Average gained about 3 percent. The Index is up 5.9 percent year-to-date, which is its best start in more than a decade, according to Ben Levisohn of Barron's. The Standard & Poor's 500 Index (S&P 500) and NASDAQ Composite also moved higher last week.

Barron's reported investors were

encouraged by positive news about trade talks between the United States and China, as well as stronger-than-expected fourth quarter earnings. Eleven percent of S&P 500 companies had reported so far and, altogether, their earnings have beaten expectations by 3.2 percent, according to FactSet. (Quarterly earnings indicate how profitable a company was during the period being reported.) A large number of companies will report earnings in the coming week making it likely the most important week of the first quarter.

The FTSE All-World Index also moved higher last week. It is up almost 8.5 percent for the year. Richard Henderson, Emma Dunkley, and Robin Wigglesworth of Financial Times offered the opinion investors could have been overly pessimistic during December, and their change in attitude might be attributed to a more dovish (meaning a commitment to lower rates) tone at the U.S. Federal Reserve, as well as evidence the U.S. economy remains strong.

While investor confidence appears to be strengthening, consumer confidence doesn't. The University of Michigan Survey of Consumers showed consumer confidence was lower in January 2019 than it was in January 2018. The Survey's Chief Economist Richard Curtin wrote, *"The loss was due to a host of issues including the partial government shutdown, the impact of tariffs, instabilities in financial markets, the global slowdown, and the lack of clarity about monetary policies."*

Because I know that you would want to know, how much do hamburgers cost in Great Britain? Purchasing power parity, or PPP, is a straightforward idea with a tongue twister of a name. When two countries have PPP, people pay the same amount for the same goods, after adjusting for the exchange rate. For example, if one British pound is worth 50 U.S. cents, then an item that costs one British pound in the United Kingdom should cost 50 cents in the United States.

The Economist developed 'The Big Mac Index' to measure burger parity. It's an engaging way to look at local prices and exchange rates. The index measures the price of the seven-ingredient, double-decker burger in different countries and offers a rough estimate of whether a country's currency is overvalued or undervalued relative to the U.S. dollar.

This month the index served up the news that almost every currency, in developed and emerging economies, is undervalued relative to the U.S. dollar. The only countries with currencies that appear to be overvalued are Switzerland, Norway, and Sweden.

So, how undervalued are other countries' currencies?

- The Canadian dollar is 8.9 percent undervalued
- The European Union's euro is 16.8 percent undervalued
- The British pound is 27 percent undervalued
- The Chinese yuan is 45.3 percent undervalued
- The Russian ruble is 70.4 percent undervalued

The Economist explained, *"It is not*

*unusual for emerging-market currencies to look weak in our index. But, today the dollar towers over rich and poor alike. The English pound, for example, looked reasonably priced five years ago. Today, Americans visiting Britain will find that [burgers] are 27 percent cheaper than at home."* That's helpful, however for you Pulp Fiction fans please be aware that the price of a Big Mac has absolutely nothing to do with the reason you can't get a quarter pounder in Paris.

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