"Is sea level a financial matter?"

By Tommy Williams, CFP®

Investors were pleased with the Federal Reserve's (Fed) new approach to its balance sheet. The Fed has delivered its semi-annual Monetary Policy Report to Congress. The report recapped the events of late 2018 and reiterated the Fed's intention to *"…be patient as it determines what future adjustments to the federal funds rate may be appropriate to support the Committee's congressionally mandated objectives of maximum employment and price stability."* In other words, rate hikes are on hold for now.


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The Fed also addressed issues related to its balance sheet, which grew from $900 billion at the end of 2006 – about 6 percent of the United States' gross domestic product (GDP) – to almost $4.5 trillion at the end of 2014 – about 25 percent of U.S. GDP. (GDP is the value of all goods and services produced in the United States in a given period.)

The balance sheet more than quadrupled during the past decade because the Fed began buying Treasuries and mortgage-backed securities, a policy called quantitative easing, in an effort to restore the U.S. economy to health, according to The Hutchins Center of the Brookings Institute.

The recent report indicated the Fed will not shrink its balance sheet to pre-crisis levels, reported Erwida Maulia for Financial Times. Markets responded positively to the news:

"U.S. stocks and Treasuries were comfortably higher at midday on Friday as the Federal Reserve signaled it will hold a much larger balance sheet in the long term than it did before the financial crisis, helping ease investor concerns about tightening financial conditions."

Investors also remained optimistic about trade talks between the United States and China. Major U.S. stock indices finished the week higher.

It would be a shame to avoid a controversial subject this week. So, what about global warming? One can argue about whether it is caused by human behavior or perhaps is a process happening naturally and is beyond our control. What seems to be beyond the debate is that salt water has an economic impact due to sea levels rising at a more rapid rate during the past three decades. That is according to the U.S. GLOBAL CHANGE RESEARCH PROGRAM'S CLIMATE SCIENCE SPECIAL REPORT. The report states that since 1900 sea levels have risen between 7 and 8 inches. Since 1993, they are up 3 inches.

As levels continue to rise, people and companies around the world are likely to be affected. Morgan Stanley reported, *"Many coastal cities around the world that look attractive to real assets investors – for example, Miami, New York, Boston, Osaka,*

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Guangzhou, and Mumbai – are particularly vulnerable to flooding and other weather-related problems. And, infrastructure assets favored by investors, like airports, cell towers, and oil and natural gas pipelines, are often located in places prone to storms and extreme heat…Insurance will continue to be an important safeguard, but a limited one."

Protecting property and improving infrastructure is likely to change demand for specific goods and services. Sarah Green Carmichael of Barron's reported, *"As we rush to protect basements and beach houses, companies in the home-improvement retail sector should benefit…So should companies that make products to cope with flooding, such as commercial-grade water pumps…Upgrades to infrastructure also mean good news for the construction sector…"*

The textile industry – think fabrics and clothing – may also be affected since major exporters like Bangladesh, Indonesia, and the Philippines, which supply 10 percent of the textiles and clothing imported by the United States, are vulnerable to coastal flooding. Sea level is a macroeconomic issue. It has the potential to affect output and income across the global economy. So now you can choose which side of this debate best reflects your opinion!

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