Client's Corner

Financial Journalism and the Negativity Narrative

"U.S. HOUSEHOLDS TOOK ON $1 TRILLION IN NEW DEBT IN 2021"

That was the headline on a featured "news" story in the *Wall Street Journal* on February 9. And just in case you weren't sufficiently alarmed by it, the subhead helpfully pointed out that this was the largest increase since 2007—knowing we'd remember that that was the year the hideously overleveraged world began its descent into financial chaos.

Not content to leave it at that, a few paragraphs later the *Journal* added the factoid that Americans increased their credit-card balances by $52 billion in the fourth quarter of last year, the largest quarterly jump on record.

Did that get your attention? If not, have I got it now? Good, because I'd like to do a little exercise with (and for) you, the objective of which is to demonstrate—if only anecdotally—the extent to which we may all be submerged in a negativity narrative on the part of financial journalism.

To begin this exercise, I submit for your consideration an alternative headline of my own:

"U.S. Household Net Worth Surges to New All-Time High; Consumer Debt Service Obligations Hover Near Historic Lows"

I suspect—and even perversely hope—you will immediately hypothesize that ***both*** the *Journal*'s headline and mine cannot possibly be true. Surprise: ***they are***. As the old song says, "It depends on how you look at things."

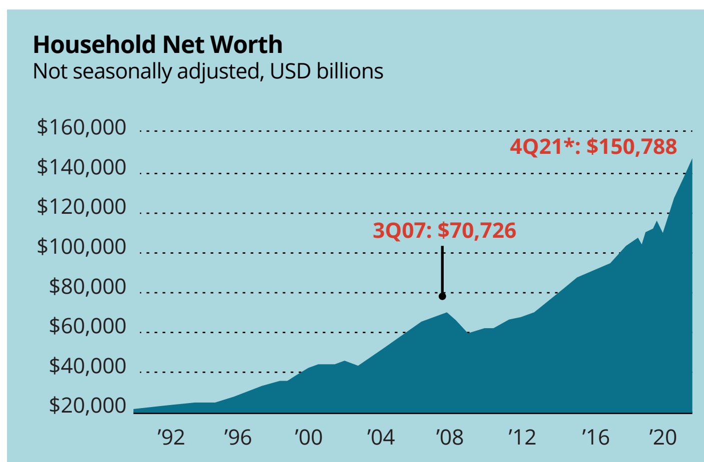
Here are a couple of wonderful charts that appear on page 23 of J.P. Morgan Asset Management's richly detailed monthly statistical publication *"Guide to the Markets."*

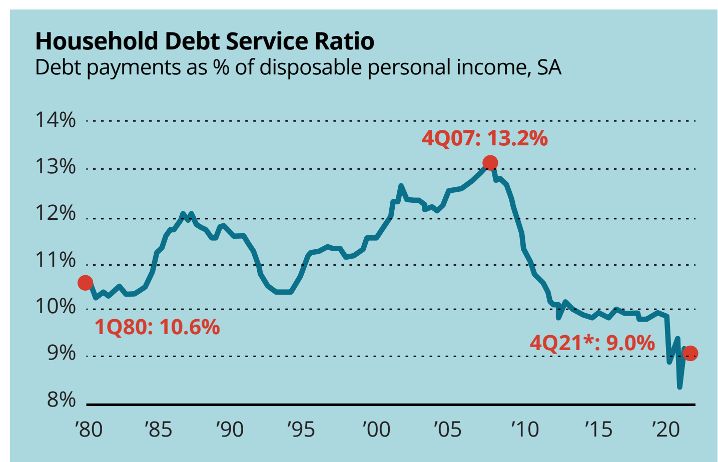
The first, as you see, tracks U.S. household net worth. Morgan's research projects that, when the final numbers are in for 2021, this will total something in excess of $150 trillion—a new high, and quite a bit more than twice what it was in the third quarter of 2007, just before the onset of the subprime mortgage crisis.

Please don't hurry past this. At the risk of laboring it, let me repeat: this is household net worth—generally defined, here on Planet Earth, as the family's ***assets minus liabilities***. Another moment's thought should yield up the realization that, although households may indeed have taken on a trillion dollars more debt this past year, ***assets must have increased considerably more***…or net worth, rather than surging into new high ground as it clearly has, would instead have declined.

This casts the issue in quite a different light, does it not? Indeed, we might begin to suspect that the potentially scary spike in consumer debt trumpeted by the *Journal*'s headline must only be a part of the story. And that liabilities can only be meaningfully assessed in relation to assets, ***which are oddly omitted from the*** **Journal*'s reportage.***

What is our theory concerning this? Do we think that the newspaper must surely have meant to include the assets—and therefore the significant uptick in net worth—but simply ran out





Source: FactSet, J.P. Morgan Asset Management. As of Jan. 31, 2022. Data includes households and nonprofit organizations. SA – seasonally adjusted.
*4Q21 figures for debt service ratio and household net worth are J.P. Morgan Asset Management estimates

of room on the page? Because if we ***don't*** think something along those lines, we're forced to at least consider the possibility that financial journalism—even that practiced at the very high level of the *Wall Street Journal*—does indeed seem to be operating from a systemic bias to the negative.

I think the point is fairly made, yet I can't forbear to draw your attention to the second Morgan chart, which tracks the U.S. household debt service ratio—that is to say, monthly debt obligations as a percentage of disposable personal income. In the plainest possible English, this seeks to answer the question, "How easy (or hard) is it for the American household to make ***the regular monthly payments on its debt out of its current income***?"

And we see that, though it has ticked up ever so slightly recently—as the household took a mortgage to buy today's more expensive home, and/or a loan to buy an increasingly pricey car—the debt service ***ratio***, at nine percent, is a good bit lower than it's been over the last 40-odd years. Again, one is distressed to note that the *Wall Street Journal*'s spiking-debt narrative inexplicably missed this.

You may think that this example of negative bias is so grotesquely one-sided that it must be some sort of outlier. I respectfully suggest that it isn't. Indeed, I invite you to consider that this is being done to us all the time—and that it is so pervasive that, like fish who don't know they're breathing water, we're unaware of it.

How much financial journalism have you been exposed to just in the last three or four months, speculating morbidly and even wildly about the extent to which monetary tightening by the Federal Reserve might tank the stock market and even (shudder) trigger a recession? A whole lot, you say?

OK, let me ask you another question: how much of that alarmist (nay, catastrophist) shrieking went on to add, "Of course, in the long run, a more restrictive Fed policy may be just the financial chemotherapy the economy needs to destroy the cancer of inflation"? If you answered "none, or thereabouts" you've demonstrated my point.

Financial journalism is no different from any and all other journalism; it operates on the principle that bad news is good copy. Permit me to suggest, as gently as possible, that—as with Americans' trillion dollars of new debt—the bad news is very rarely the whole story.

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