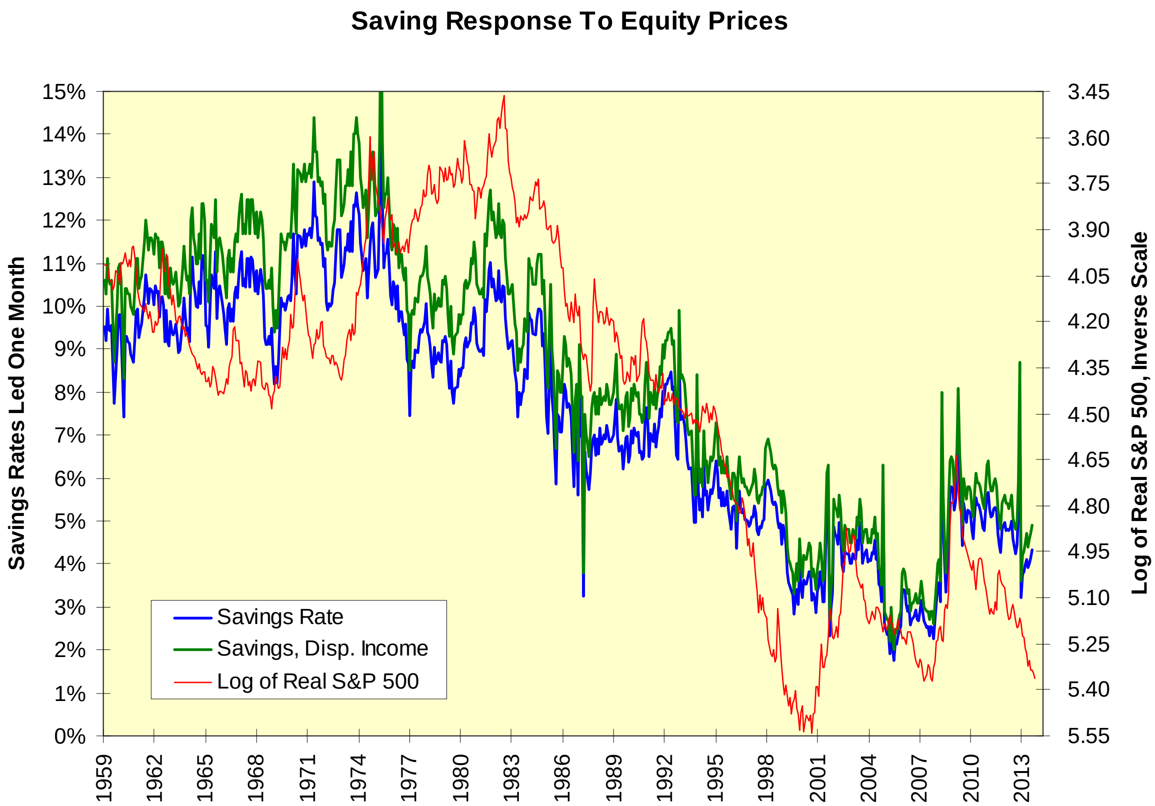
Savings Rates Indicate Plenty Of Risk Aversion

One of the worst aspects of any long-lived trend is its doubters and deniers become shriller over time in their prophecies of doom or worse. They would be better off taking a page from the conclusion of the prophecy scene in Monty Python's *Life of Brian*; yea, verily, tomorrow is going to look pretty much like today until it is not. I suppose the stupendous bull market since March 2009 has been especially hard on the perma-bears who will be right once again before the end of time as a bear market will follow surely as night follows day; in the meantime, I do not know how some of these camera-chasers can stand being this wrong for this long when even the E*trade baby has managed a little rock 'n' roll.

The latest trope is we are going to get a divine slap upside the head for the sin of risk-seeking, something not quite in the same league as its seven more famous siblings. The idea here is oodles of cash are going to come off the sidelines (personally, I have stood on several sidelines in my life and none of them had piles of cash or even a prepaid calling card to Uzbekistan sitting there; what gives?) and push stocks up to some insanely overvalued level from which they will crash. Whatever; and never mind how it is the fixed-income markets that are the complacent ones.

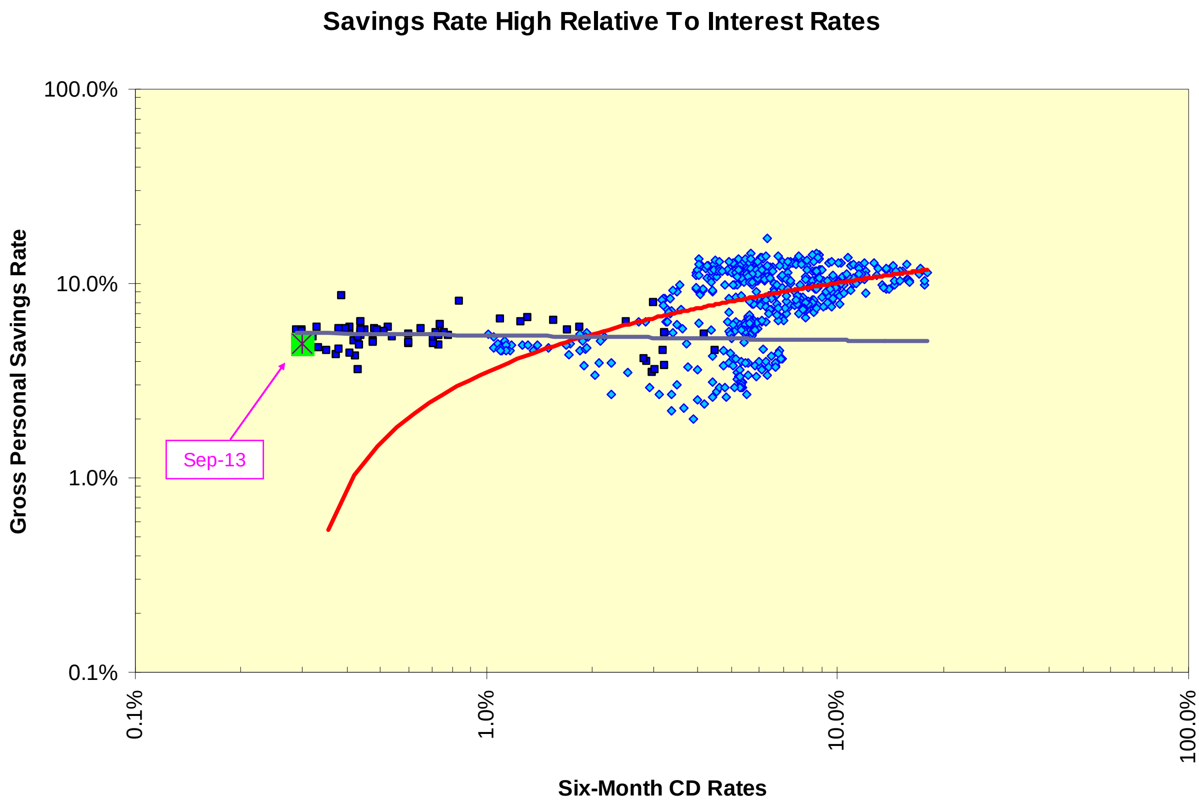
Ignore Equity Gains

Savings rates, both gross and as a percentage of disposal income, long have had an inverse relationship with real equity prices. Restated, investors reduced their saving when their portfolios marched higher, and vice-versa. However, savings rates have moved higher since January even as U.S. stocks have rallied. Investors understand the concept of easy-come/easy-go well enough to know 2013's gains are at risk to many factors, including a botched unwinding of the QE programs of the past five years.



Ignore Lower Interest Rates

A second relationship is observable as well, and that is the change in savings rates' response to short-term interest rates since the end of 2007; the 2008-onwards data points are marked in dark blue below. It used to be thought savers would increase their principal as short-term interest rates fell so they could generate the same amount of interest income. That started to break after short-term rates fell following the dotcom implosion; savers looked at those rates and realized they could not meet an income target regardless. The present relationship has a very high level of savings at very low nominal and negative real short-term rates. Savers are squirreling money away in allegedly safe short-term instruments even though they are losing real purchasing power in the process. This is risk-averse, not risk-seeking, behavior.



If one objective of monetary policy has been to chase investors out of cash and into stocks, it has succeeded to some extent for some portion of the population. It has succeeded as well at keeping others in self-defeating cash savings. I guess we can describe this as a barbell outcome; others might find some place to use the word “dumbbell.”