Entering the Twilight Zone

Eerie Parallels Between the 1950s and Today

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You may feel like you are traveling through another dimension, a dimension not only of sight and sound but of mind. But our next stop is not the Twilight Zone, or so we hope. It's a journey to a wondrous land whose boundaries are that of the imagination—one that may spark some feelings of familiarity.

Join us for a journey that compares today's marketplace with one of a not-so-distant past: the 1950s. At that time, the United States had very high debt levels, low bond yields, new technologies, an exodus to the suburbs, and the first space race.* Sound familiar? We explore what these parallel trends might tell us about our future.

* Although it was between nations, not billionaires.

Autorama

- **BURNIN' RUBBER.** No decade is more synonymous with car culture than the 1950s. From hot rods to family sedans, Americans were infatuated with their cars. The post-war economy shifted automobiles to a higher gear: total car registrations revved up from 25 million in 1950 to 67 million by 1958.[1]

- **DRIVE-IN.** As Americans spent more time in their cars, the 1950s quickly became the drive-in decade. The types of businesses providing drive-in services ranged from movie theaters and restaurants to churches and funeral parlors.[2]

- **DRIVE-THRU.** Car-loving California is the birthplace of the drive-thru revolution, a godsend for people on the go. Los Angeles-based chain In-N-Out Burger added a drive-thru in 1948[3] and San Diego-based fast food chain Jack in the Box became the first drive-thru-only restaurant in 1951. People still love drive-thrus—they account for roughly 70% of today's total fast food sales.[3]

- **DRIVE TO ME.** The days of rollerskating carhops bringing a burger and fries to our car window, like in a scene from "Happy Days", are largely over (with a few exceptions). The current pandemic led to a boom in food and grocery delivery services, a trend that will likely stay with us because of the convenience. There are obvious downsides, however: a milkshake isn't the same after it sits in a delivery car for 45 minutes.

- **IT'S ELECTRIC.** Electric vehicles are brightening the outlook for a new car revolution in the 2020s. While electric vehicles accounted for only 2% of total new car sales in the U.S. last year, some analysts project electric vehicle sales will surge to 20% of global new vehicle sales by 2025 and 50% by 2030.[4]

High Government Debt Levels

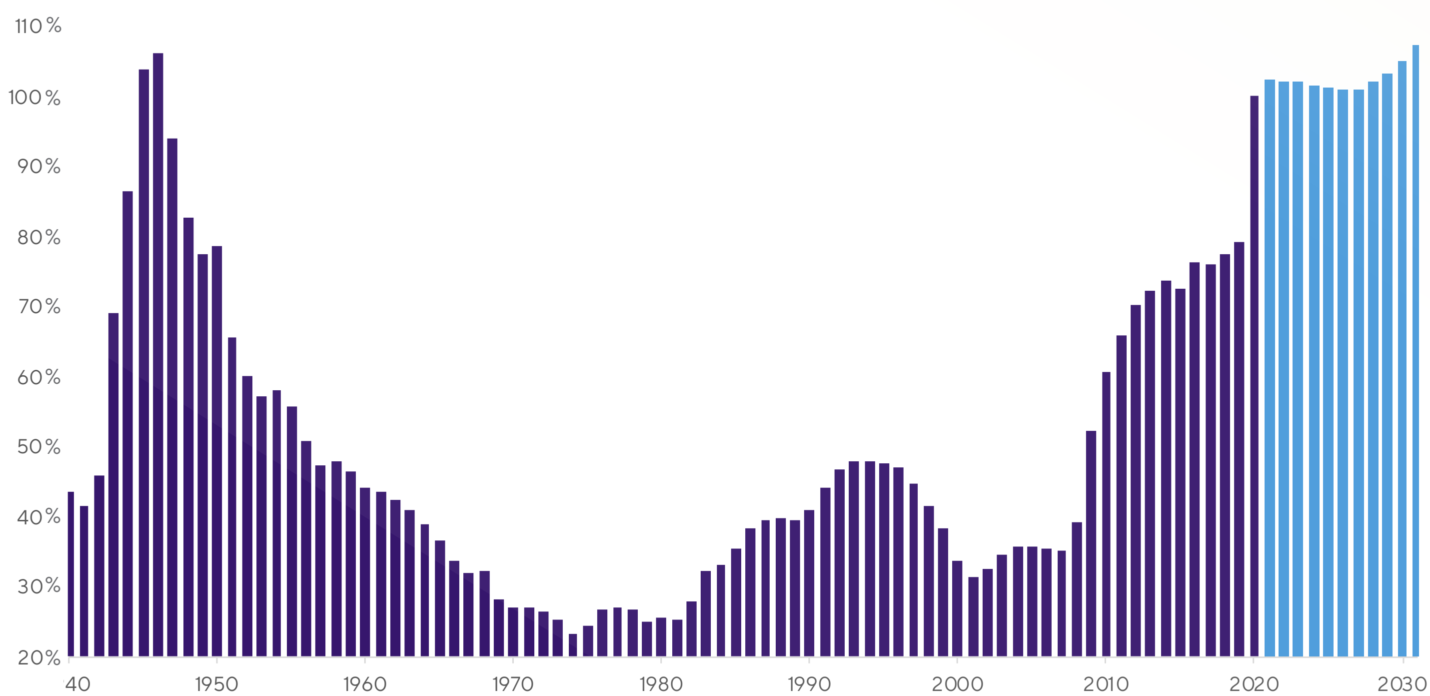
Before we get into national debt, we should mention that government debt has been a fixture of our country since the Revolutionary War. Alexander Hamilton,** acting as the first Secretary of the Treasury in the newly formed U.S. Treasury Department, began issuing debt in 1789 to manage the growing country and debt incurred from the war. Hamilton estimated the national debt in 1791 to be $75.4 million (37% of gross domestic product (GDP)).[5]

The government's responses to the Great Recession of 2008 and the COVID-19 pandemic may have saved the economy, but they also created a huge debt burden like we saw in the aftermath of World War II. When we think about the United States' $23 trillion dollars of federal debt, it's hard to comprehend the magnitude of that amount. Let's face it, these are not the types of numbers we deal with when calculating the tip for Friday night's dinner.

Putting numbers in context can help with our understanding. If we compare the debt to gross domestic product (GDP), this can give us a more relative picture. In simple terms, GDP is the total value of all the goods and services produced by a country each year. In **Figure 1**, you can see that on a relative basis, we have been at these debt levels before. Federal debt as a percentage of nominal GDP was over 100% after World War II and remained elevated in the early 1950s. The debt didn't return to pre-war levels until the early 1960s.

**Alexander Hamilton was a child of the '50s. He was born in 1755.

Figure 1:
Federal Debt as a Percentage of Nominal GDP



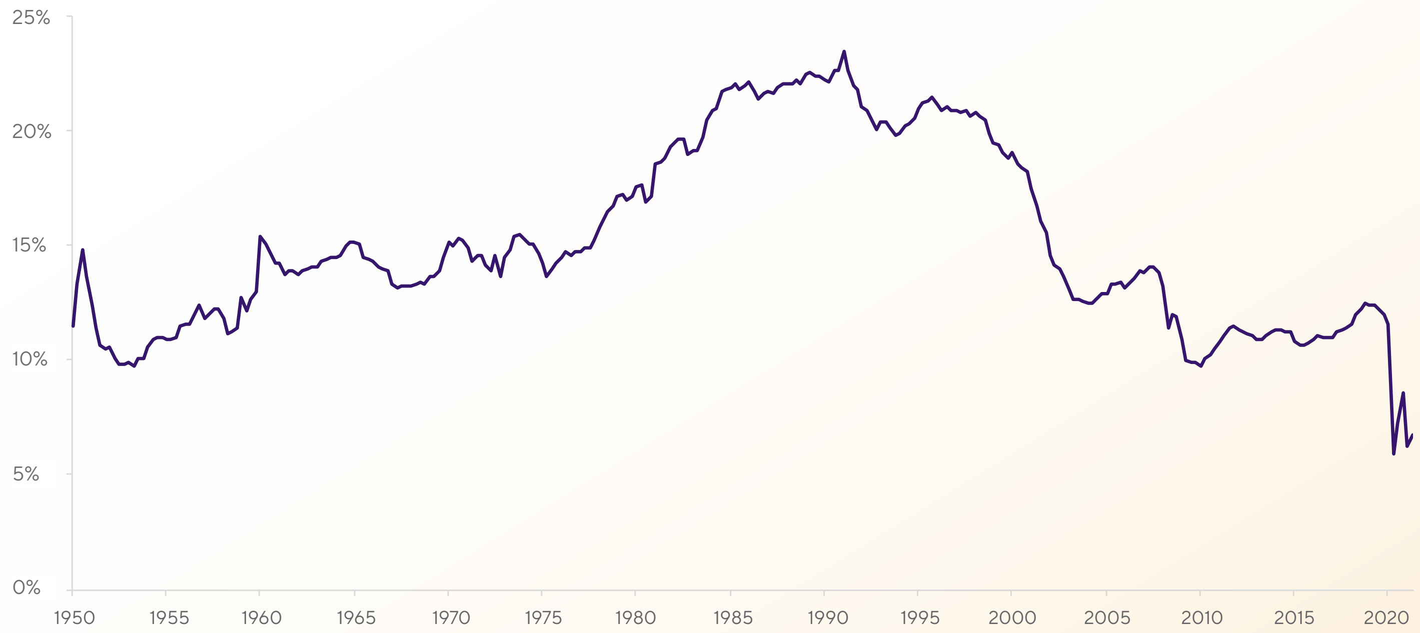
Cetera Investment Management, Congressional Budget Office (CBO). CBO projections in blue.

We don't want to minimize the large debt level and these are still extraordinary times, so managing the debt going forward is extremely important. In the 1950s, we dug our way out of this though. Luckily, high GDP growth, with help from low bond yields, got us out of these high relative debt levels.

Bonds in a Low-Yield Environment

When buying a home, one can afford a larger mortgage if the interest rate is lower. This is also true of government debt. If the U.S. government can issue debt at low rates, it can afford more debt than it could at higher rates. Interest payments that the government currently makes on debt are relatively low compared to its total expenditures. Interest payments relative to total expenditures was also relatively low in the 1950s as debt payments made up about 10% of total expenditures. It currently makes up just a bit under that, as you can see from **Figure 2.** The debt burden from paying interest is currently relatively low. Rising bond yields would eventually be problematic, as the government would have to issue new debt at higher interest payments to replace the low-yielding debt.

Figure 2:
Federal Government Interest Payments as a Percentage of Total Expenditures



Source: Cetera Investment Management, Federal Reserve Bank of St. Louis. Data as of 6/30/2021.

Just Charge It, Daddy-O

The government wasn't the only one taking on debt in the 1950s. The first modern day credit card called the BankAmericard, was launched in 1958 by, you guessed it, Bank of America in Fresno, California.[21]

These low bond yields are no coincidence. The U.S. Federal Reserve has bought a lot of bonds and thus influenced bond yields lower. Many now worry what will happen if or when bond yields rise, because when they rise, bond prices fall.

Looking at the 1950s may give us clues to what happens next, because bond yields rose from very low levels during this decade.

Figure 3:
1950s Bond Returns

U.S. Intermediate Term Gov Bonds	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959
Yield	1.44	2.03	2.22	2.57	1.56	2.57	3.16	3.56	3.06	4.40
Returns (Including Dividends)	0.70	0.36	1.63	3.23	2.68	-0.65	-0.42	7.84	-1.29	-0.39
Returns (Inflation Adjusted)	-4.81	-5.21	0.74	2.59	3.20	-1.02	-3.19	4.67	-3.00	-1.86

Cetera Investment Management, Morningstar. The Ibbotson Associates SBBI U.S. Intermediate Government Bond Index was used as proxy for the U.S. Intermediate Term Government Bond asset class.

Figure 3 shows U.S. Treasury intermediate-term bond yields and their returns for the decade. While not spectacular, the returns were nothing like a bad year in equities. And, U.S. large cap equities did very well during this decade of high growth and low bond yields, averaging over 19% annualized. However, we are in different times. Though economic growth is ramping up this year, we do not expect sustained growth at levels achieved in the 1950s. GDP growth exceeded 4% annually six times in the 1950s. Moreover, we may be stuck with high debt levels for a long time to come, fortunately with low debt servicing costs, at least for now.

Let's look at economic growth drivers that propelled some of the growth in the 1950s: technology, suburbanization, manufacturing and education.

The Golden Age of Television

On the evening of September 9, 1956, more than 80% of all U.S. televisions were tuned in to "The Ed Sullivan Show"[6] for the biggest TV event of the 1950s and one of the most influential moments in television history. To understand the cultural importance of that episode, we need to turn back the clock a few years. A Cleveland disc jockey named Alan Freed popularized the term "rock 'n' roll"[7] to describe the musical style of emerging musicians including Chuck Berry, Bill Haley, Fats Domino, Bo Diddley and Little Richard. Freed's "The Moondog Show," broadcasted throughout the Midwest, is considered the first to air rock 'n' roll music on the radio.

Rock 'n' roll essentially went viral among America's youth in the '50s. By 1956, a budding rock star in his early twenties had emerged from Memphis, by way of Tupelo, Mississippi: Elvis Aaron Presley. Following that fateful September 1956 appearance on "The Ed Sullivan Show" in front of 60 million viewers, Elvis's fame was launched into the stratosphere, eventually becoming the king of rock 'n' roll and a pop culture icon of the 20th century. The radio made Elvis a star, but it was the television that made him a superstar.

No appliance in history had faster adoption than the television:

- Less than 10% of households in the U.S. had a television at the start of the fifties.
- By the end of 1952, a thousand new stores that sold televisions opened each month to keep up with demand.[8]
- By 1955, nearly two-thirds of households had a TV set, and by 1960, more than 90% of homes in America had one.[2]

A similar dynamic is occurring today, with streaming platforms revolutionizing the way media is absorbed. Traditional TV viewership and movie theater attendance have declined, while streaming subscriptions have risen significantly over the last decade. In 2020 alone, online video streaming subscriptions increased 26% globally, while cable subscriptions fell 2%.[9]

Though the pandemic accelerated the viewership of streaming content, it was already an established and growing trend well before last year. Shows airing on streaming platforms received more than 300 nominations for the 2021 Emmys, totaling more than cable and traditional broadcast network nominations combined.[10] We are in a new golden age of television. Or shall we say, the digital age of television.

But from a growth perspective, online streaming doesn't necessarily require new purchases. Televisions come with these streaming capabilities included or small internet-enabled devices can be purchased inexpensively to gain access to these digital networks. So, though similar to the overwhelming growth of television sales and viewership in the 1950s, online streaming will not drive economic growth in the same way.

Did You Know?

"The Twilight Zone" made its debut in the fall of 1959 and aired 156 episodes until it left television for another dimension in 1964. Notable actors who appeared on "The Twilight Zone" include Robert Redford, Burt Reynolds, William Shatner, Ron Howard and Carol Burnett.[22]

Migration to Suburbia

Suburbanization took off in the 1950s. Of the 25 largest cities in America, 18 experienced a loss in population between 1950 and 1980 as people migrated from cities to the suburbs[8]. In total, the suburban population grew by 60 million people over that stretch.[8] Swelling population growth and the expansion of America's system of expressways and freeways accelerated suburban mass migration. The U.S. population grew 18.5% from 1950 to 1960 with the bulk of baby boomers born that decade. In fact, an average of 4 million babies were born each year during the 1950s,[11] and no decade over the last 100 years has had faster population growth.

The Federal Aid Highway Act of 1956 allocated $25 billion to build 41,000 miles of highway by 1969.[2] It is one of the most economically impactful pieces of U.S. legislation, allowing for increased interstate commerce and travel, and the emergence of dense housing further from city cores. Expressways made it easier to commute into the city for work from the outskirts of a metropolitan area.

Today, there has been a resurgence in suburban popularity since the start of the pandemic. With work-from-home arrangements allowing more people to work farther from their employer, demand for suburban houses exploded. Suburban homes provide larger yards and more room for a home office, which helped create the perfect storm for a large contingent of the population to escape the city. However, the dynamics are different than what was experienced in the 1950s.

From 2010 to 2020, the U.S. population only grew 7.4%, which was the second slowest rate of population growth of any decade in U.S. history.[12] On the other hand, the majority of the millennial generation is in their late twenties to mid-thirties, the peak age for household formation. Millennials have postponed marriage, childrearing, and homeownership to later in life more than prior generations, but they too will expand their families, albeit at a lower birth rate.

Though recent birth rates are half the level compared to the mid-50s,[13] the average size of a new single-family home constructed in 2020 was 2,487 square feet.[14] The average family had roughly twice as many children during the 1950s, but the average home size in 1950 was only 983 square feet.[15] Mid-century homes also had fewer amenities that are standard today. Only 24% of homes had a stove with an oven and cooktop,[2] a small percentage of houses had a window-unit air conditioner, and microwaves didn't even exist yet.*** So, suburbanization could once again help kickstart the economy but matching the explosive population growth rate will be a challenge.

*** Don't even bother looking for a USB outlet.

Manufacturing a Recovery

Global manufacturing capacity was stunted in the years after World War II because of the bombing raids that decimated infrastructure throughout Europe and Japan. The U.S. was able to step up and fill that void in the post-war era while Europe and Japan went through a rebuilding process. Domestic manufacturing capacity was unscathed during the war and millions of returning G.I.s were in high demand to work in our nation's factories.

More than 30% of the U.S. labor force worked in manufacturing in the 1950s.[16] The U.S. literally manufactured a recovery coming out of the war. The high-water mark for U.S. manufacturing employment was in the late 1970s, although the percentage of the labor force working in factories had slowed after the peak in the early 1950s.

Only 8.5% of the labor force, or 12.3 million people, works in manufacturing today, but there is optimism for a revitalization in domestic manufacturing, albeit at a smaller scale compared to America's manufacturing sector in the three decades after World War II. The pandemic exposed a major flaw in our global supply chain system: a small hiccup in one region can wreak havoc for our just-in-time inventory systems.

The current semiconductor shortage, which is impacting the manufacturing of everything from medical devices to cars, is just one example. Critical supplies and components became scarce throughout the pandemic and the global supply system's reliance on shipping containers worsened the problem when demand quickly reverted higher.

A regionalized approach to the manufacturing of critical inputs and supplies would reduce the risk of the supply chain problems exposed by the pandemic. The ISM Manufacturing PMI, a barometer for the change in manufacturing activity from month to month, reached a multi-decade high in March 2021 and remains at an elevated level. This is a positive sign for the strength of U.S. manufacturing as the economy heals from the damage caused by the pandemic.

Additionally, as America is less dependent on foreign energy, it makes energy costs and production cheaper. With the use of technology and automation, it's possible that America could manufacture goods stateside at a cheaper rate than using increasingly expensive foreign labor and paying higher shipping costs. The transition to automation requires a more educated workforce.

Education: Automation and Affordability

Before the 1950s, many believed that high school marked the end of your days as a student. During the decade, however, adults who had already completed their formal schooling began returning to the classroom. In 1950, 7.7% of the population aged 25 to 29 had completed four years of college or more; by the end of the decade, that number had risen to 11.1%.[17] The first actual student loans backed by the federal government were offered in the 1950s under the National Defense Education Act.

These loans were offered to encourage students to pursue math and science degrees after the Soviet Union's launch of Sputnik during the Space Race. Federal, state, and local governments also began funding educational programs, allowing adults to study agriculture or home economics. Alongside the trend for formal adult education, tuition continued to increase.

As of 2019, 39% of the population aged 25 to 29 has a bachelor's degree.[18] But automation may require us to think about education differently in the future. What the future of education will look like is unclear and hotly debated. Some think it could become more focused in certain areas like writing computer code, though this may be a bad example as artificial intelligence may be able to do this job as well. Others think the future of education may be broader and less technical. Regardless, automation will likely change education and hopefully help economic growth.

There is an economic overhang related to education though. Today, the average student loan debt is more than $39,000.[19] A combination of 3.2 million new federal student loan borrowers and a spike in unemployment during the pandemic contributed to the largest increase in total student loan debt balance since 2013.[20] This debt overhang will hinder homebuying and population growth as affording children becomes more difficult. Making education more affordable in the future will have to be a priority.

A Mirror Image or A World of Difference?

With all the eerie parallels with the '50s, anything is possible. Today, we're in a period of high debt levels and low bond yields, but we have been here before. Car culture is shifting gears from tricked-out hot rods with loud engines to electric cars with no sound at all.

The golden age of television is now the digital age of television, and suburbia is once again all the rage. Despite the challenges of the era, including some of the darkest days of the Cold War, optimism prevailed and the economy prospered.

We also face tremendous challenges brought on by the global pandemic. Positively, the economic recovery coming out of the pandemic-induced recession has been strong, and momentum from an elevated savings rate and low consumer debt servicing costs will give the economy an assist in the next stage of the expansion. The exact path from here is unknown, but our hope is the same as Twilight Zone narrator Rod Serling:

"A journey into a wondrous land whose boundaries are that of the imagination."

To avoid getting lost in another dimension with your investments, stay in touch with your financial professional, who can help you along your financial journey.

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