



THE OLDEST ASSET CLASS OF ALL STILL DOMINATES MODERN WEALTH NOVEMBER 14, 2021
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Most 21st-Century wealth still lives in bricks and mortar, the oldest asset class of all. The study entitled “The Rise and Rise of the Global Balance Sheet” looked at assets and liabilities held by households, both banks and non-financial corporations, and governments, and found that two-thirds of net worth is stored in real estate. Bricks and mortar are the new bricks and mortar. The McKinsey study authors believe that the declining interest rates have played a major role in inflating asset prices, as well as constrained land supply, zoning issues, and over-regulated housing markets. As a result, home prices have tripled across the 10 developed countries in the study, sending asset prices 50 percent higher than the long-run average relative to household income; net worth and GDP have historically moved in sync with each other but are now completely disconnected. Millennials are not, or cannot, participate in the same way as past generations because of the lack of affordable housing, which creates a headwind to consumption growth as younger generations are not buying the things they normally would have to fill said homes. Asset prices have accounted for about three-quarters of the growth in net worth from 2000 to 2020, while savings and investment made up only 28 percent. The problem is that money is not flowing into more productive places such as infrastructure, industrial equipment, machinery, and intangibles...places that actually drive productivity and innovation. Technology-driven mobility and increasing work flexibility in the post-pandemic area may ease some of the pressure organically. Nevertheless, affordable housing is the most pressing economic issue of the moment.

LS Comment: *Real estate valuations are especially vulnerable to rising interest rates. Infrastructure and capital spending, not as much.*