SEVENS REPORT

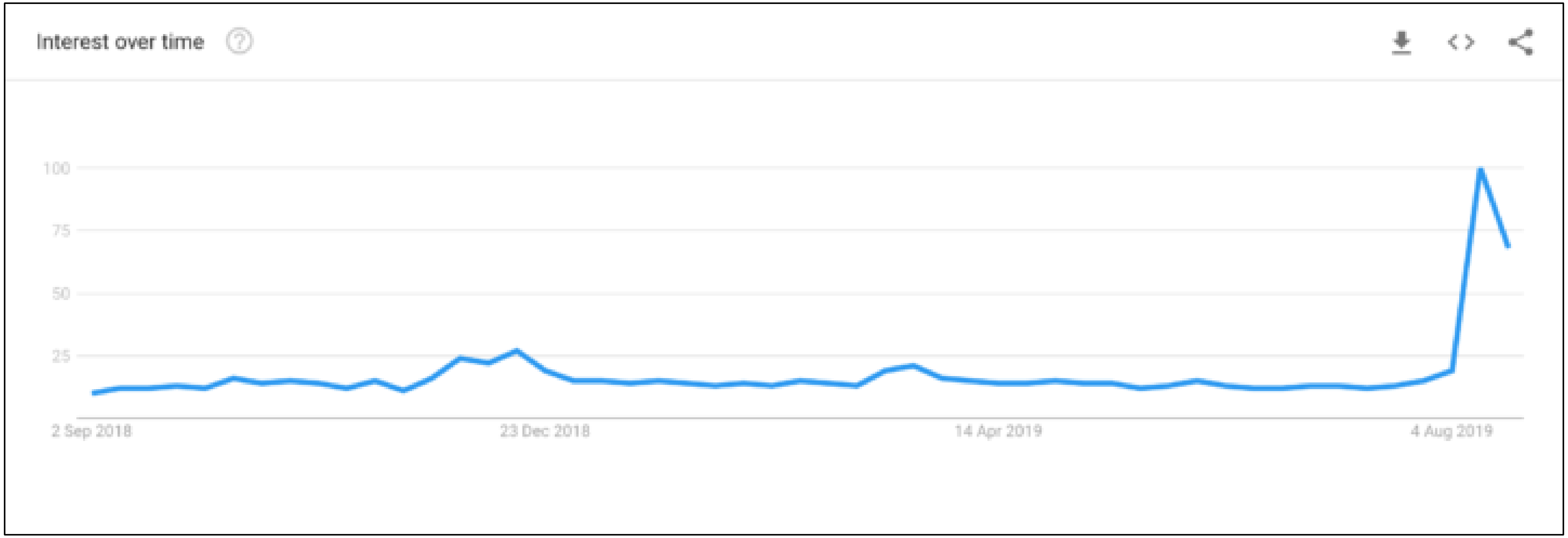
2020 Outlook: Are Recession Fears Overblown?

Thursday, November 14th, 2019

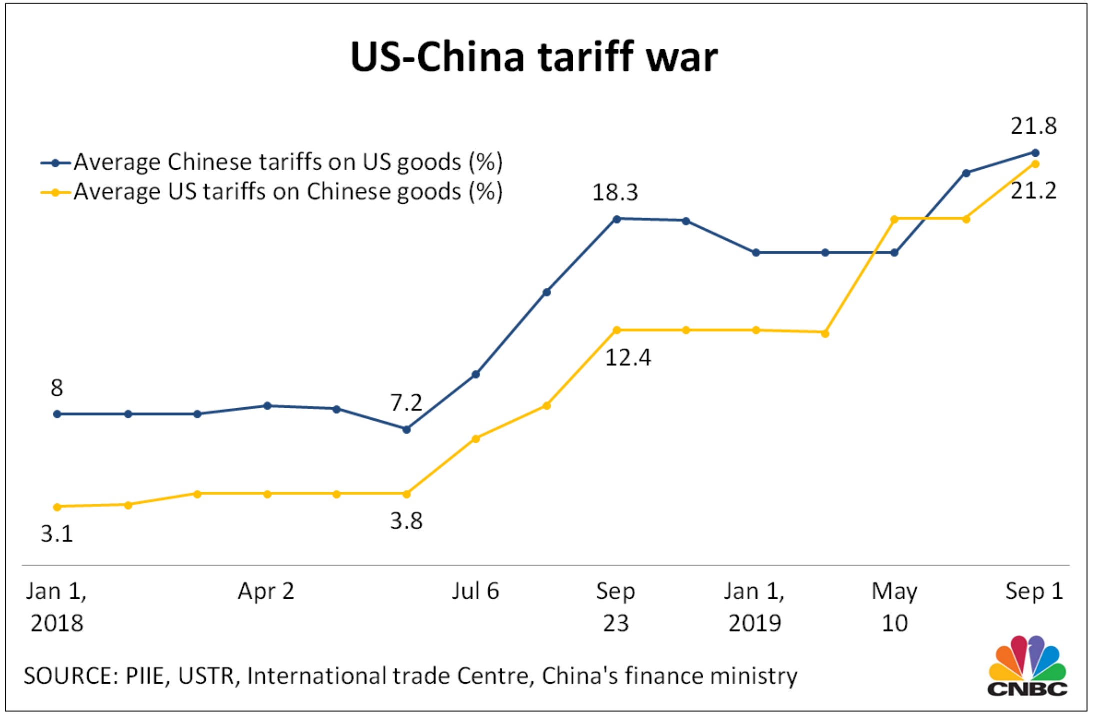
Tom Essaye, President Sevens Report Research

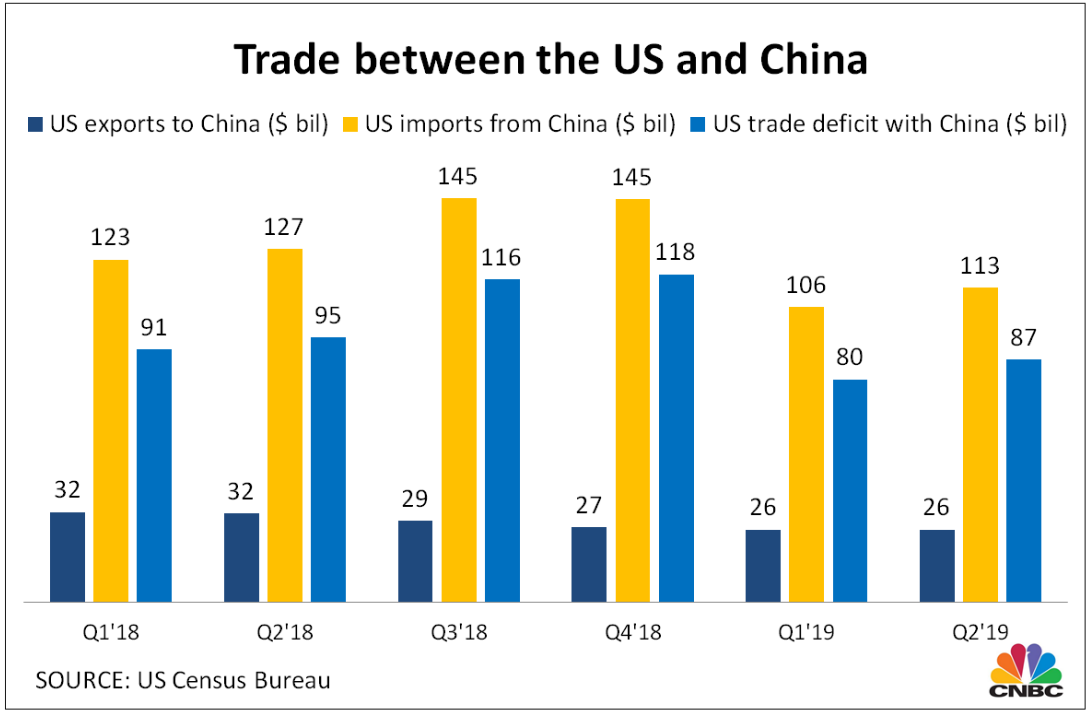
- **Goals for Today's Presentation:**
  - Why Are Recession Fears Elevated? (And How Did We Get Here?)
  - What's Happened Over the Past Three Months to Change the Outlook?
  - What Happens Next? (Indicators to Watch)

Google Searches for "Recession"



Q: How Did We Get Here? A: The Trade War





But It's More Than Just Tariffs…It's Uncertainty

Europe

Donald Trump threatens to impose 20 per cent tariff on European car imports

Stocks of Volkswagen, Daimler and BMW all fell in Frankfurt

Trump raises tariffs on Chinese goods as trade war escalates

By PAUL WISEMAN, JILL COLVIN and JOE McDONALD August 24, 2019

POLITICS

Trump Threatens Tariffs on Mexican Imports in Response to Migrant Surge

A tariff of 5% is set to become effective June 10, potentially rising to 25% on Oct. 1

Donald J. Trump
@realDonaldTrump

….better off without them. The vast amounts of money made and stolen by China from the United States, year after year, for decades, will and must STOP. Our great American companies are hereby ordered to immediately start looking for an alternative to China, including bringing..

9:59 AM · Aug 23, 2019 · Twitter for iPhone

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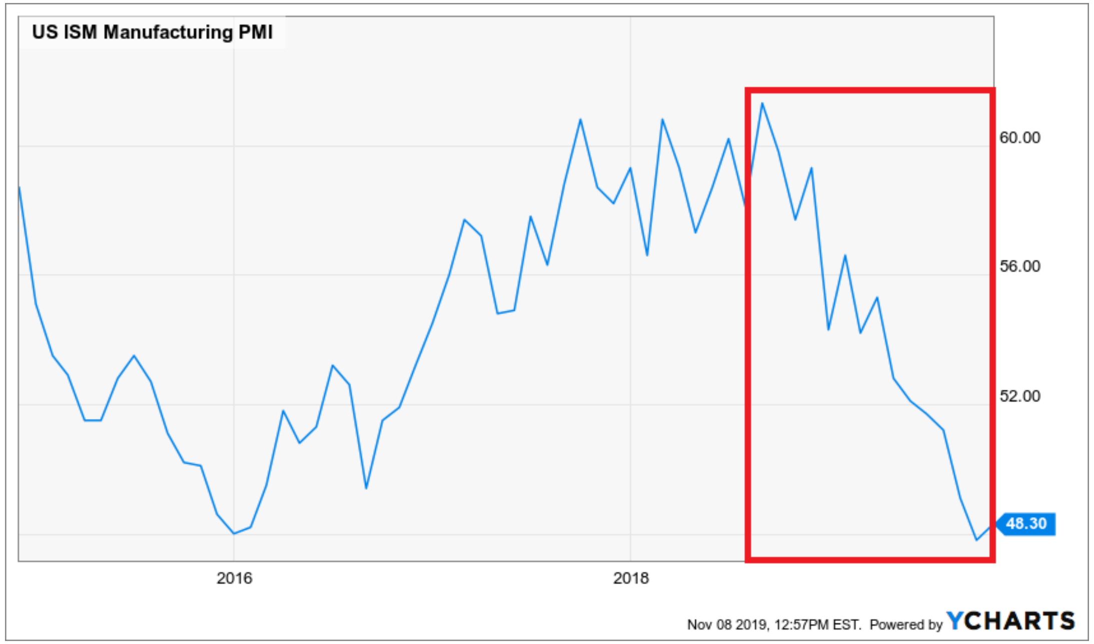
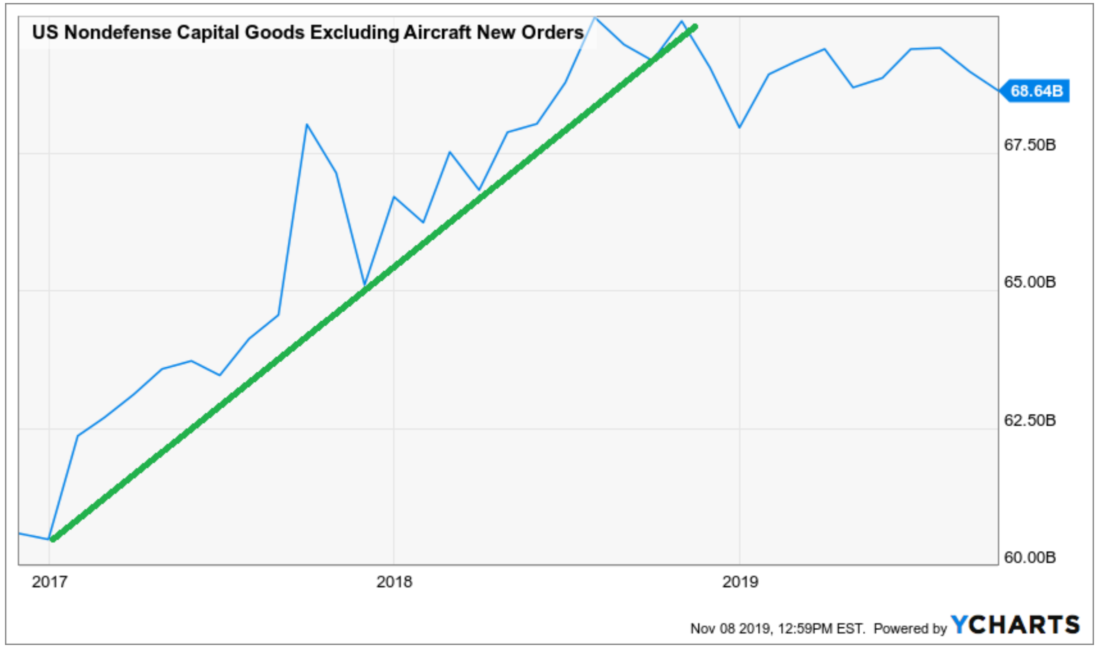
That Trade Uncertainty Has Caused 1) A Steep Drop In Manufacturing Activity and 2) Halted Business Spending

Manufacturing Index



Business Spending/Investment



Why Does This Matter? (Free Econ 101)

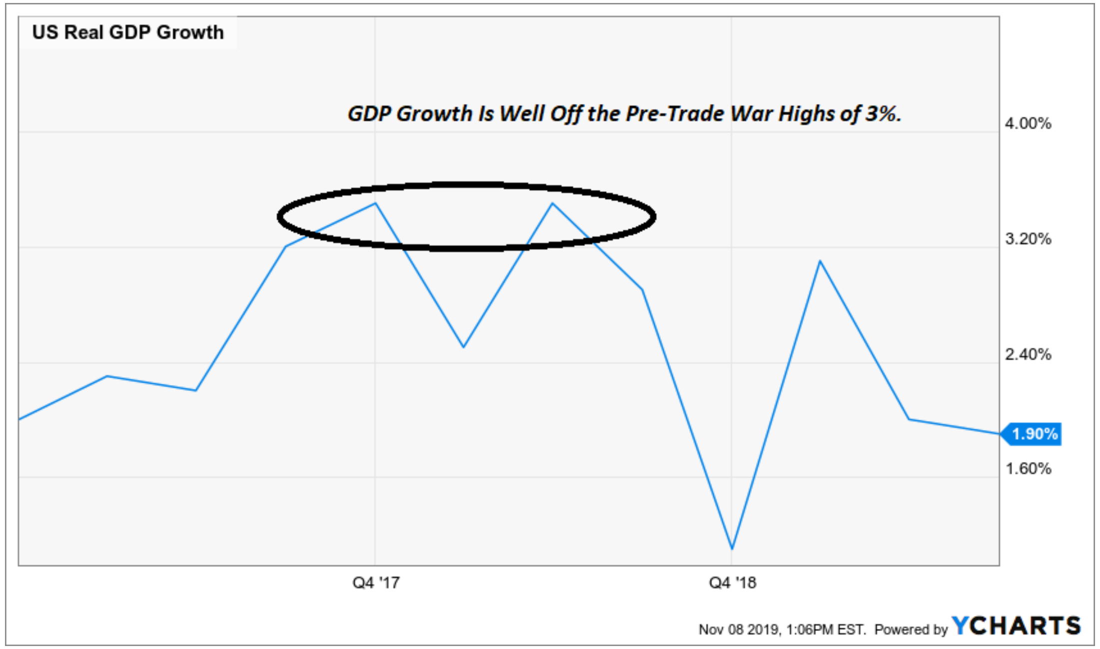
- Economic Growth = C + I + G

  C = Consumer Spending

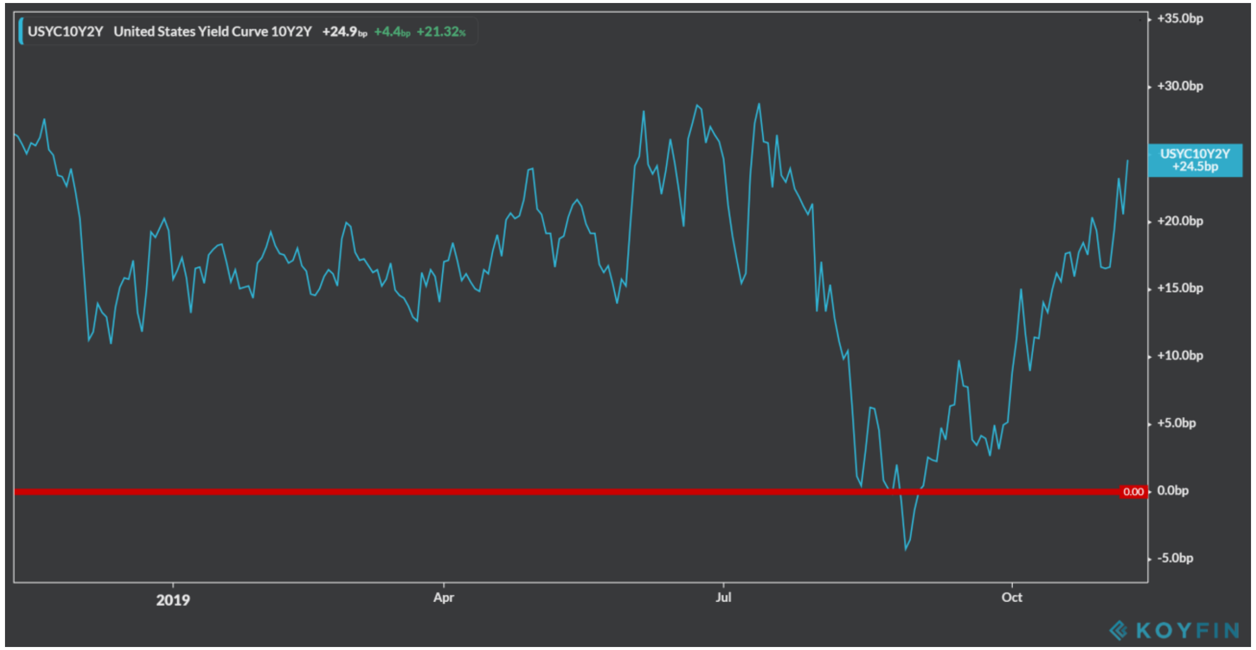
  I = Business Investment

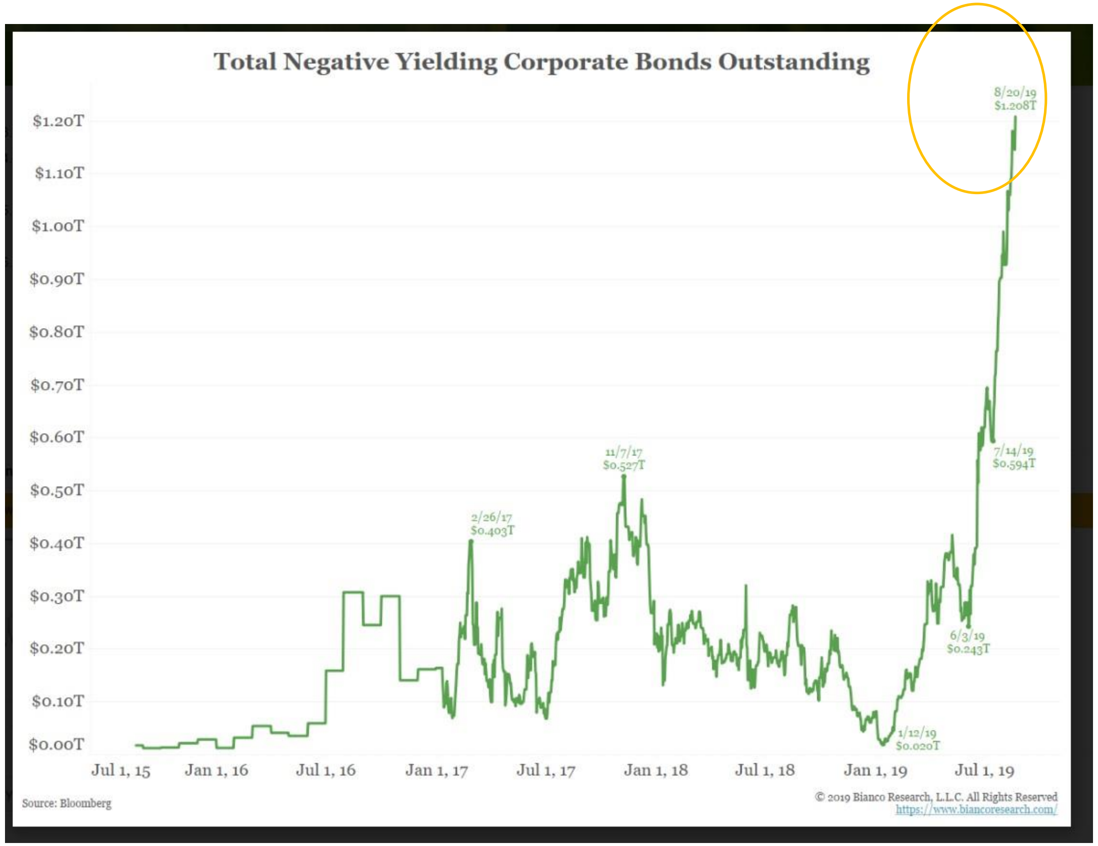
  G= Government Spending

- All three need to be moving higher to get good economic growth.
- Loose “C” or “I” and GDP growth will slow.
- We’ve lost “I” and that’s exactly what’s happened.



Recession Alarm Bells Going Off





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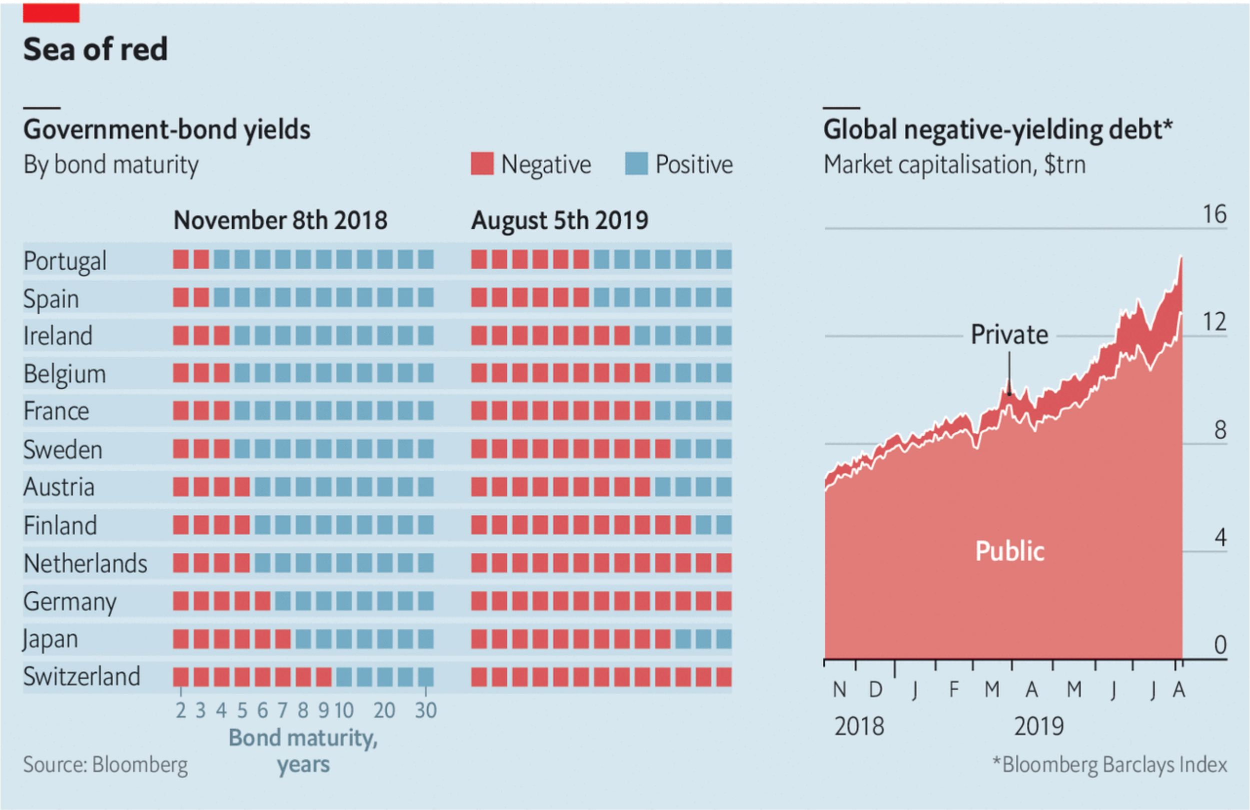
Why Are Negative Yields Important?

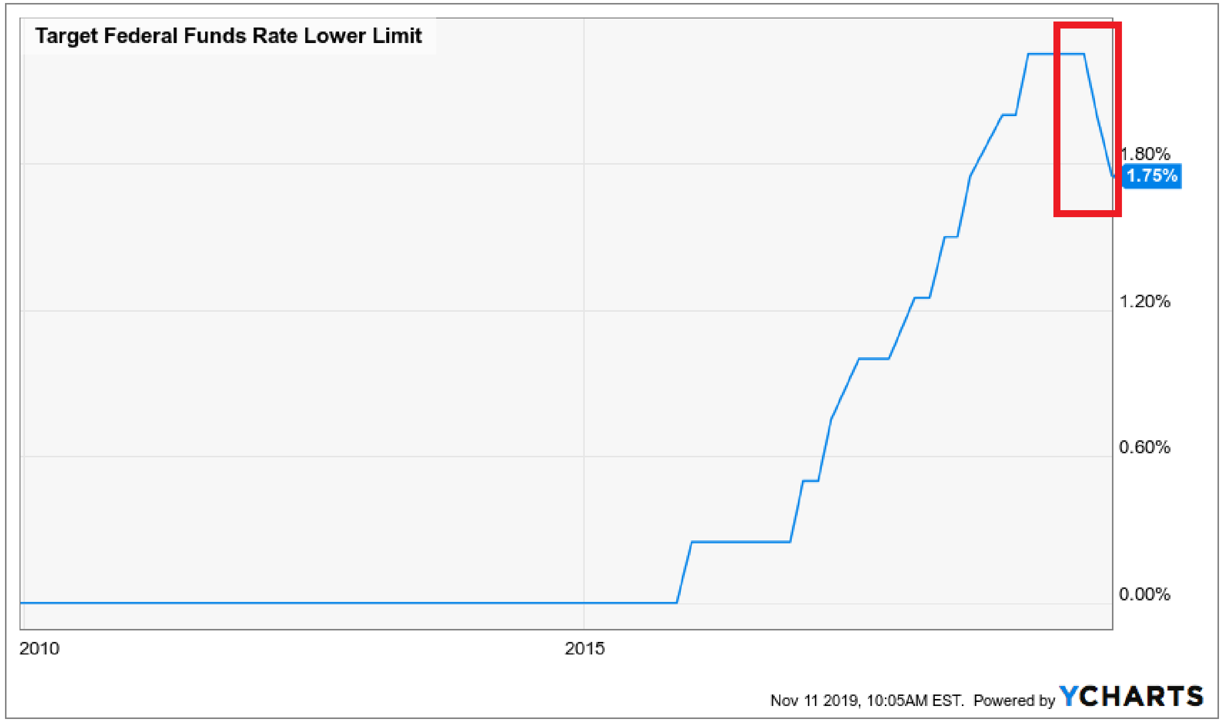
- A bond with a negative yield means that if you buy a bond, you don't get interest, you pay interest. You loan money and pay interest!
- Put differently, if you have excess cash, you have to pay to put it in the bank (You don't get interest, you pay interest).
- How can that be?



The Economist

Seeing These Risks, The Fed Reacted

- The Fed cut rates for the first time since 2008.
- Three cuts totaling 75 basis points of reduction.



Key Question Going Forward:

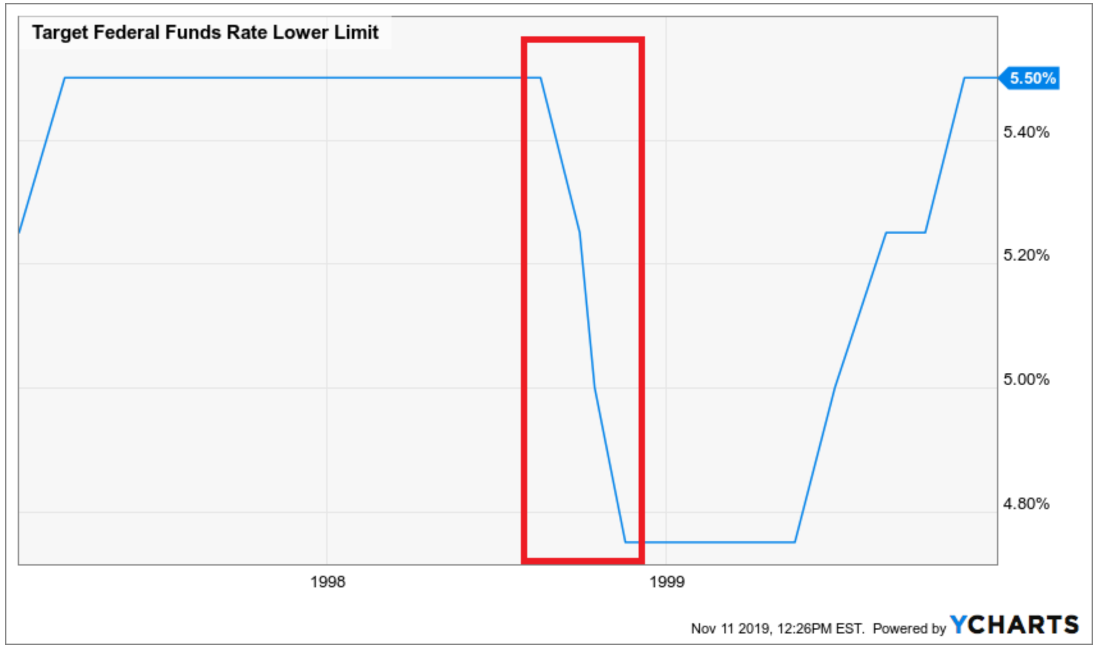
Is it 1998?

Or

Is it 2000?

1998: Three Rate Cuts Extend the Expansion

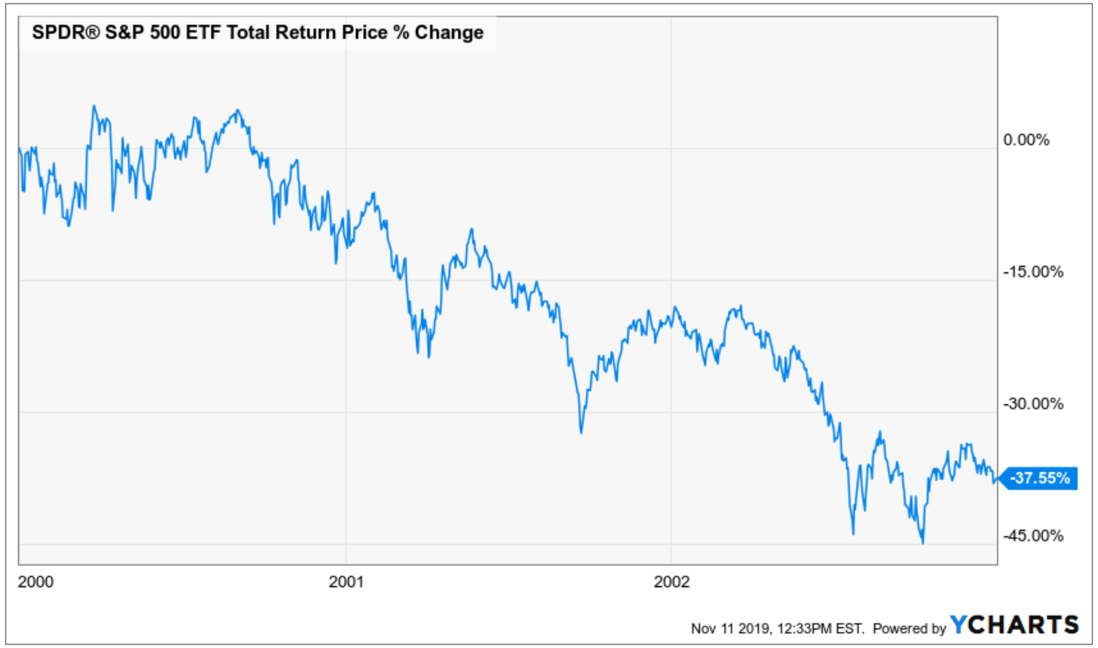
- In 1998 the Fed cuts rates three times and avoided a recession.



From June 1st, 1998 to January 1st, 2000, the S&P 500 rose 36% and the economy avoided recession.

2000: Rate Cuts Weren't Enough

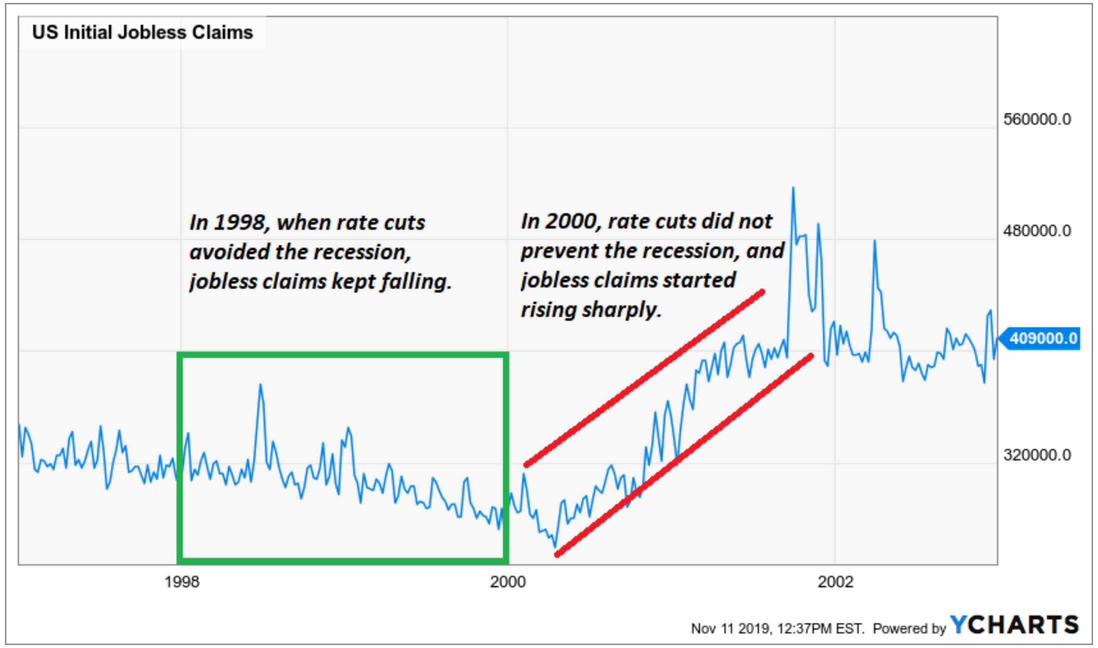
- In late 2000, the Fed cut rates, but it was already too late, and the economy was in recession within a year.

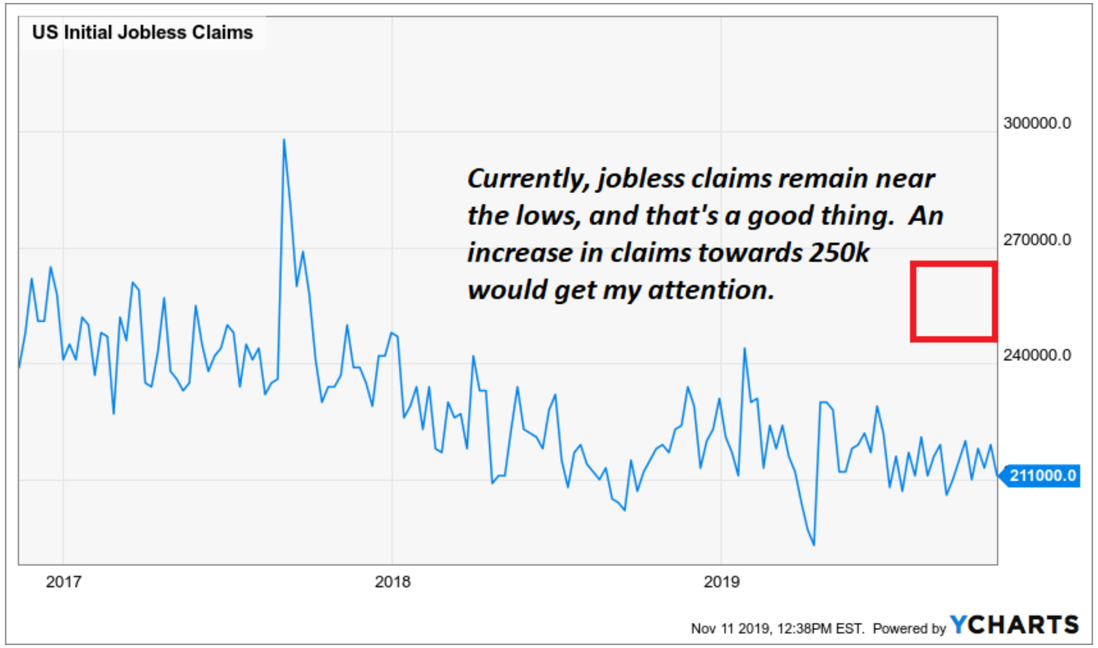


So, Is It 1998 or 2000?

We Don’t Know, but we know indicators to watch.

Indicator 1: Jobless Claims





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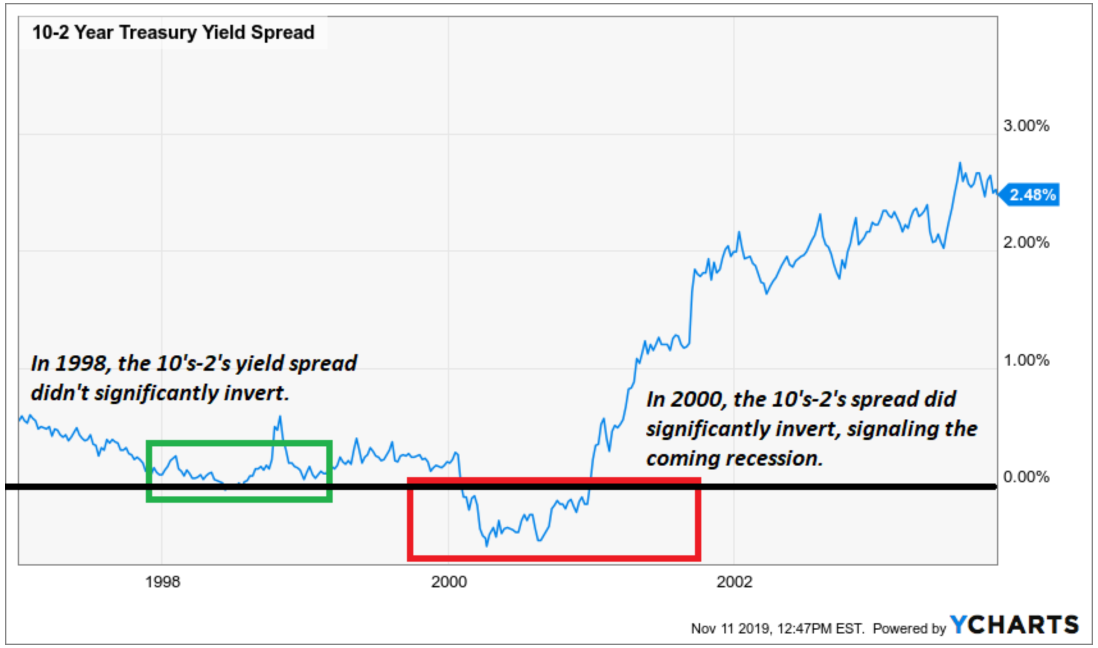
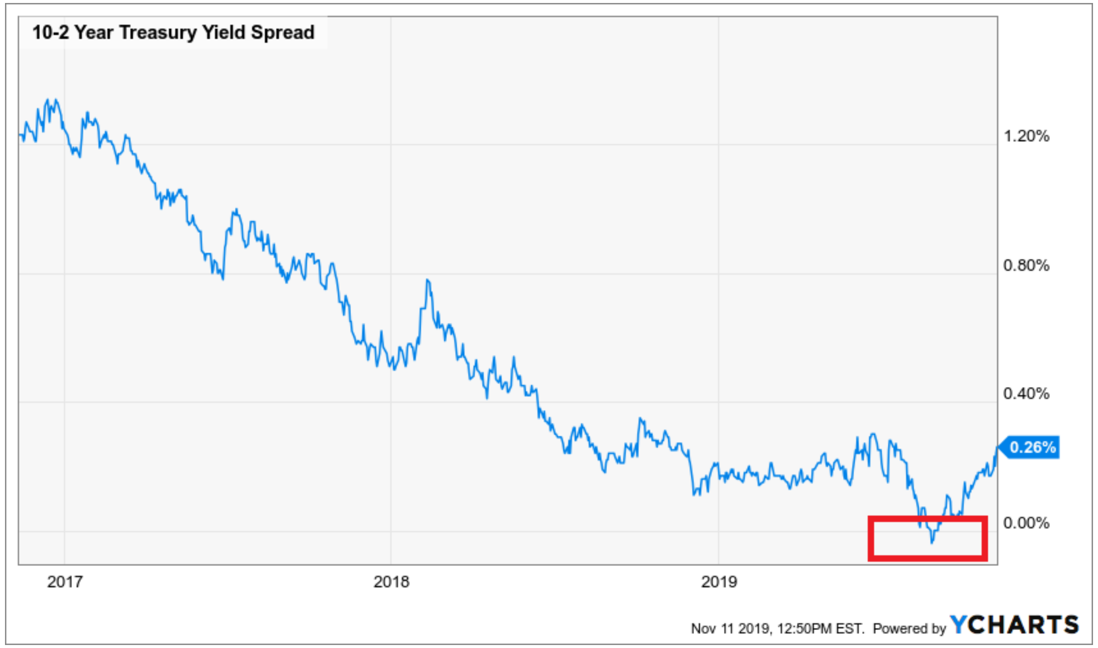
Indicator 2: 10's-2's Yield Spread





Bottom Line: Are Recession Fears Overblown?

- The Good News: Right now, it looks more like 1998 than 2000, at least according to jobless claims and the 10's-2's spread. That means an extension of the current good economy.
- The Bad News: There are still several indicators implying a recession is looming, including the previous yield curve inversion, negative bond yields, and depressed global economic activity.

- **So, are Recession fears overblown? Yes.**
  - They were in August. And a recession likely isn't coming in the next year (unless Elizabeth Warren or Bernie Sanders lead in the polls).
- That said, we're in late innings of the economic expansion, and a recession in the next few years is likely – so keep that in mind.