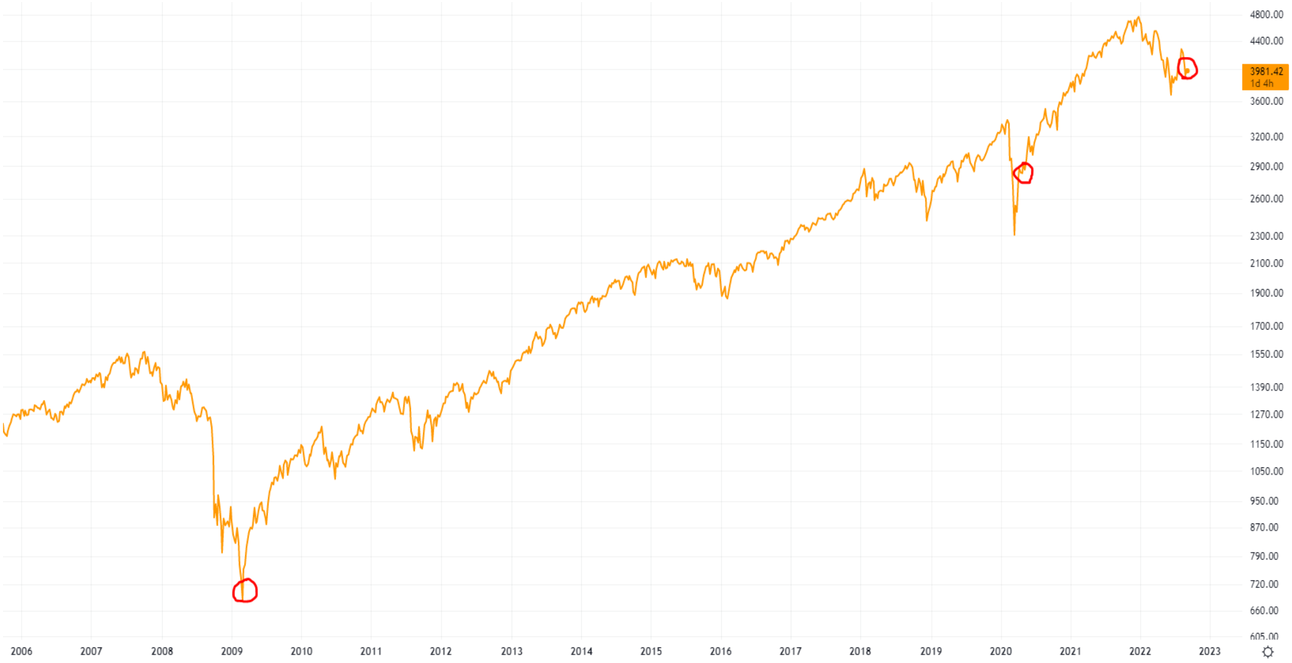
The 'R' word- Rebalancing the Economy?

- A log chart of the S&P 500 is laid out in orange on the chart below, with the additional red circles taken from a recent survey carried out by one of the large US investment banks to 300 institutional, mutual, and hedge fund managers, on whether or not they believe a recession is likely over the coming year.; March 2009, April 2020, August 2022. In the case of 2009, the peak in recession predictions from fund managers coincided with the low in the S&P. In 2020, while the recession prediction peak does not perfectly coincide with the low, equities did move immediately higher from this point and not look back.

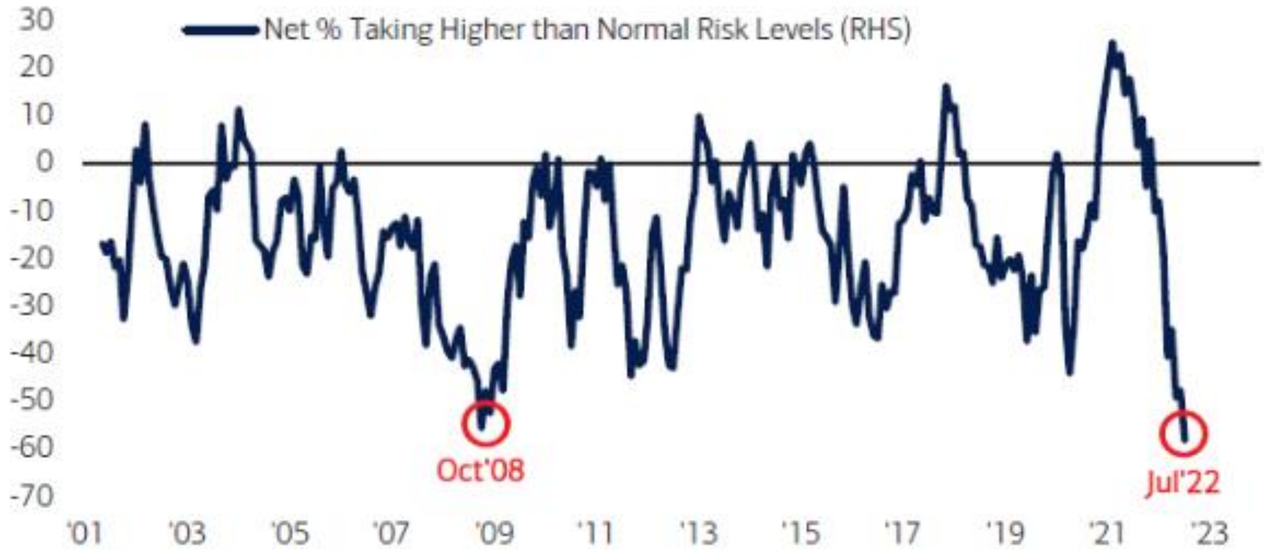


Source: Seaspray Financial Services

- So, what does this tell us? By the time most investors hear consensus views about recession (like on the first chart) it has already been priced into the market. If you were to act on consensus and make changes to your portfolio based on fears of a recession, history would suggest that you would actually be doing so at the worst possible time.

- As can be seen below, fund managers have reduced their exposure to risk assets to levels not seen even during the Global Financial Crisis (GFC), in what is likely a sign of full capitulation amid the slowing economic outlook. A net of 58% of managers said they are taking lower than normal risks. After capitulation events such as these, there are usually very few sellers left to push the market any lower, and the path of least resistance is higher.`

Net % Taking Higher than Normal Risk Levels



Source: Bank of America Global Research, Bloomberg

- Finally, we would like to point out that recessions are a normal part of the economic cycle and are to be expected every 5 to 7 years on average. Naturally, a looming recession can be quite concerning for clients. Most people hear the word recession and think of their most recent experience of a recession, which outside of Covid (which was very unique) was the GFC. The GFC in fact could also be described as 'very unique', since it was accompanied by a systemic banking crisis, and as a result was very sharp and very painful in many ways.
- We do not have to have a recession like that this time around. Senior Fed official Thomas Barkin was interviewed by the Financial Times during the week, stating that the word recession does not have to be indicative of a calamitous decline in activity, it can mean a slowdown, and that a slowdown is required at present to rebalance the economy.