RECCESSION RUMBLINGS

Regular watchers of TV financial channels will understand that most analysts and commentators seem to be ardent disciples of ***"The Church of what's working now."***

In other words, when stock markets are going up all the focus is on good news and even bad news gets a positive twist. When markets decline, everyone immediately switches to sage commentary on all the negative reasons why this is happening.

Often the very same facts that were quoted as helping stocks move higher are requoted as the reason for the decline. For an easy example: low interest rates, share are rising - it's easy money by central banks helping companies profit from low borrowing rates and boosting the economy. When stocks go down – central banks easing – a symptom of a declining global economy and futile efforts by central banks to thwart a looming recession.

This week, the "Sermon" was all about recession. For many months now the Tariff War issues have resulted in a week or so of turmoil sending risk assets lower, followed by longer periods of calm causing a rebound in positive sentiment and strong market performance. However, a line in the sand was perhaps crossed last week following the US announcements of new tariffs (see last week's "The Week That Was") and China's Central Bank, which has spent billions supporting its currency, deciding to let the renminbi slide against the US dollar. This move can potentially offset tariff effects by lowering costs for foreign purchasers of their goods.
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Add to this escalation:

- Weakening import / export data that suggests Germany (the world's 4th largest economy) may be close to recession.
- France reporting a large drop in industrial production.
- Oil dropping on slowing global demand, and forecasts for future demand being steadily ratcheted down.
- A number of other central banks cutting their rates sending bond yields even lower (see this week's Global Insight)

So, no surprise the talk was all about a global economic slowdown and recession, and while the week ended with relatively modest declines for stocks, it was a week with some notable up and down moves; the Dow Jones dropping some 1,700 points before recovering half of that by week's end.

Where do we stand now? For 2019, equity markets in North America are still showing gains in the double digit range, and foreign markets are naturally not doing as well . Chart patterns of most major North American indices have held above important price support levels but, as always, we will only know in hindsight if these levels don't hold, signifying perhaps worse times ahead.

I believe unless there is a dramatic de-escalation of rhetoric and, more importantly, action to resolve things, a recession is very likely. **BUT it is important to remember that the official "designation" of a recession is based on reported economic data,** and thus we always only know *in hindsight* if we are in one!! AND history shows while equity markets do not do well in recessions, often the worst price performance occurs in advance, and by the time it is announced the worst is over.

I shall be watching key price levels closely and if breached a move to reduce risk exposure in portfolios would be prudent.