Mitch on the Markets

Global Recession? Maybe Not Just Yet.

By Mitch Zacks
CEO & Senior Portfolio Manager

For several weeks now, readers have been inundated with news stories about the escalating trade war, the inverted yield curve signaling recession, ongoing geopolitical unrest (Iran, Hong Kong), and volatile stock markets. These stories all warrant watching and clearly point in the direction of a global economic slowdown.

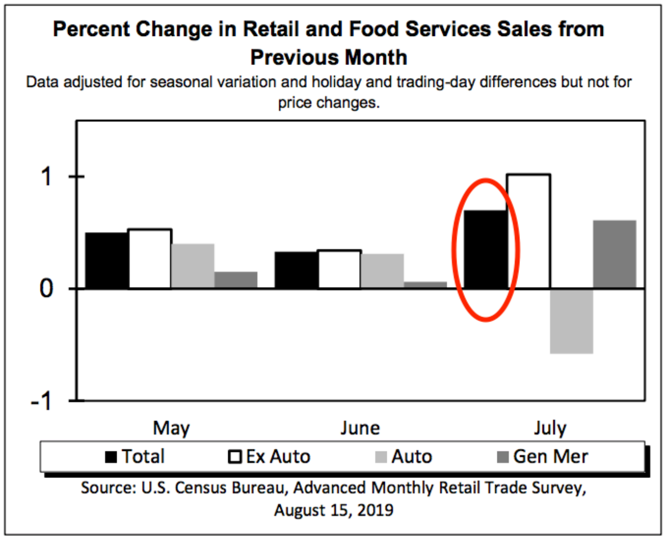
But it's not all doom-and-gloom in the global economy, and I'd argue that the onslaught of negative news stories today is more indicative of a growing "wall of worry" versus a flashing red signal of a bear market and recession. In my view, a global economic recession is headed our way – just not this year.

This week, I'm going to cut through the noise and highlight some positive economic data and trends happening in the global economy right now. In my opinion, with most news reports overlooking anything remotely positive in the economy – and in some cases with positive data being outright ignored – it could actually be viewed as a bullish sign. When everything is negative, a gap starts to form between perception (that the situation is dire and will only get worse) and reality (the situation isn't actually as bad as many believe).

When stock prices pull back on *perception versus reality*, I think it's only a matter of time before reality sets back in and new highs are reached.

The U.S. and Global Economy are Still Set to Grow in 2019

Let's start with the most important component of the U.S. economy – **the consumer.** Consumer spending accounts for more than 65% of our country's economic output.[1] So, when the U.S. consumer is strong, the U.S. economy tends to be strong too. Just last month, retail sales – which measures purchases in restaurants, stores, and online – posted strong month-over-month growth at 0.7% (circled in red below), which marks the strongest reading since March. In my view, a combination of low unemployment, low interest rates, and rising wages are resulting in confident consumers who are opening their checkbooks to shop.



Source: U.S. Commerce Department[2]

Strong retail numbers are good news for the economy. The Atlanta Fed recently adjusted its GDPNow forecasts *higher* because of the retail-sales report, bumping it from 1.9% to 2.2%. Remember, too, that the U.S. economy grew a solid 2.1% in the second quarter even as business investment slowed and the trade war gained steam.[3] Growth in the 2% range is not the most inspiring and exciting kind of growth, but it also doesn't look much like a recession to me.

Globally, the world actually saw a small *increase* in the rate of economic expansion in July. I realize for many readers that the idea of additional, accelerating growth is hard to fathom given all the bad news and the downside volatility. But readings from the Global Composite Output Index – which measures activity in services and manufacturing – showed that output growth accelerated to a three-month high (51.7) thanks to solid activity in services. Readings above 50 indicate expansionary conditions.

Manufacturing continues to weaken virtually across the board, which is concerning, but it's being outweighed by strength in services, which tends to matter more in developed economies anyway.

Bottom Line for Investors

Much like the U.S. economy, on balance the global economy is expected to grow in the ~3% range in 2019. Most investors may not *perceive* this type of growth to be possible given all the negative headlines and market volatility, but I think the economic *reality* supported by hard data currently suggests more strength than many believe. As long as volatility and the negative perceptions of the global economy persist, I'd argue that there remains a gap between perception and reality that equity prices are likely to fill. It's just a matter of time, in my view.

About Mitch Zacks

Mitch is the CEO & Senior Portfolio Manager at Zacks Investment Management. Mitch has been featured in various business media including the Chicago Tribune and CNBC. He wrote a weekly column for the Chicago Sun-Times and has published two books on quantitative investment strategies. He has a B.A. in Economics from Yale University and an M.B.A in Analytic Finance from the University of Chicago.

[1] The Wall Street Journal, Aug 15, 2019. https://www.wsj.com/articles/u-s-retail-sales-rose-0-7-in-july-11565872458

[2] U.S. Census Bureau, August 15, 2019. https://www.census.gov/retail/marts/www/marts_current.pdf

[3] J.P. Morgan, August 5, 2019. https://www.markiteconomics.com/Public/Home/PressRelease/b80f0526728e464588c914eb698267df

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