



CORBETT ROAD



# MACRO MUSINGS

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## CHARTING THE COURSE 2019

### SUMMARY

- **The latest MACROCAST™ score remains at a level that suggests a low risk of both a recession and major bear market.**
- **Every August, we “Chart the Course” by looking at key charts focused on the most important trends in the economy and markets. We find that the data in many of the following charts is consistent with what we see in MACROCAST™. We hope you enjoy these, and we will publish our next traditional Macro Musings at the end of September.**



### CHARTING THE COURSE: MACROCAST™

**MACROCAST™ is signaling a low probability of a major bear market.** According to the model, there is a low probability of recession and/or a major bear market. The average score in 2019 is lower than the past two years, a development we are monitoring carefully.

### CHARTING THE COURSE: THE ECONOMY

**Solid jobs data.** Initial claims for unemployment tend to rise before a recession begins. Current data remains near historic lows.

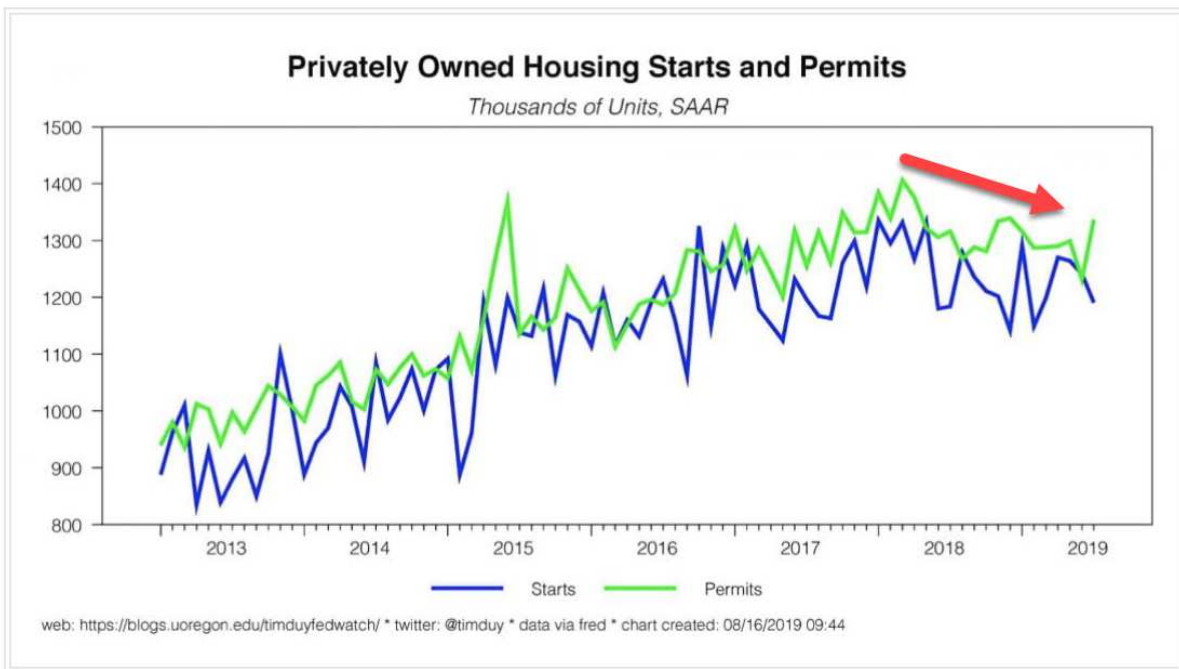




**Heavy truck sales suggest no recession.** Truck sales dropped sharply before the last four recessions. They are still in an uptrend. (from Sentimentrader):



**Weakness in housing, but nothing overly concerning.** Housing starts and permits peaked in early 2018. They have trended lower since then but should improve thanks to lower mortgage rates (from Tim Duy):

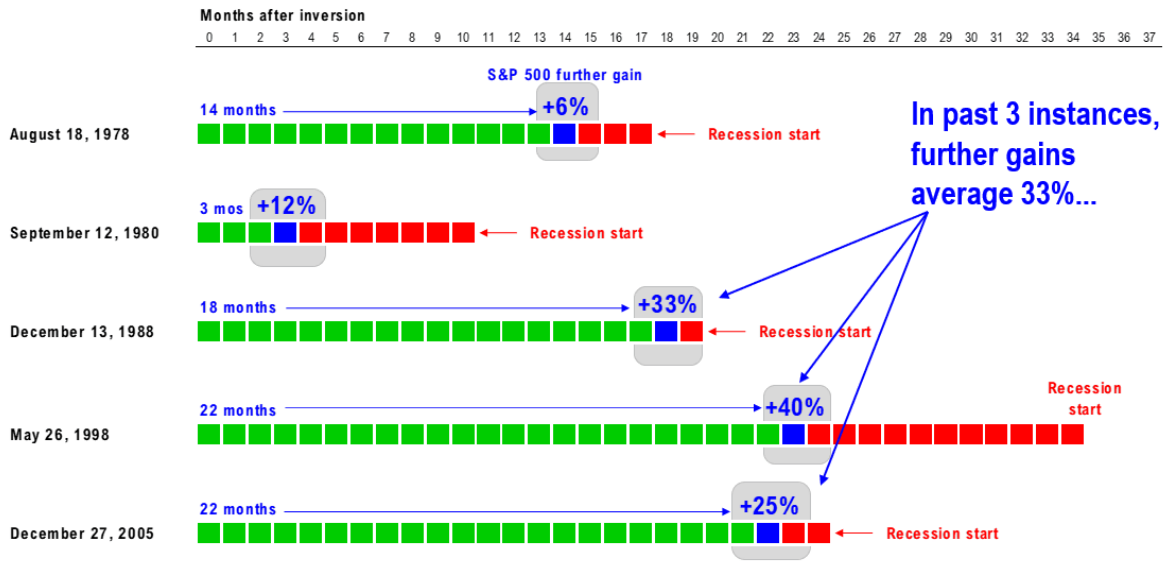




### CHARTING THE COURSE: THE YIELD CURVE

**Yield curve inversions have a long lead time before the economy turns south.** The yield curve turns negative or “inverts” when short-term interest rates rise above long-term interest rates. This often happens before a recession, but the lead time can be years. Last week, the 2-year treasury bond briefly rose above the 10-year bond, but historically, the market has produced further gains after the yield curve inverts (from Fundstrat):

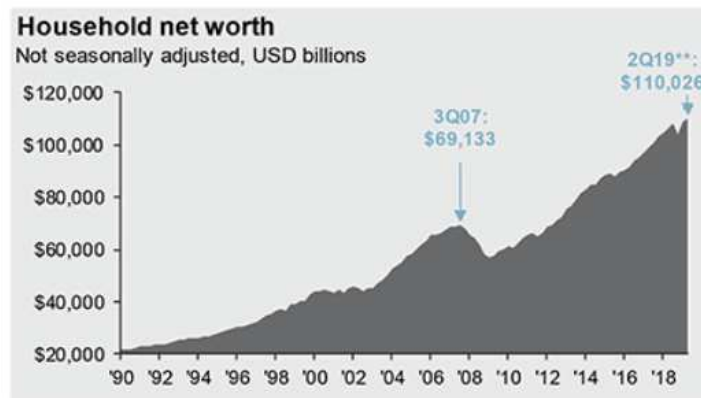
Figure: Time from first inversion of 10Y-2Y until the equity market peaks and the cumulative S&P 500 gain Since 1976



Source: Fundstrat, Bloomberg, Factset

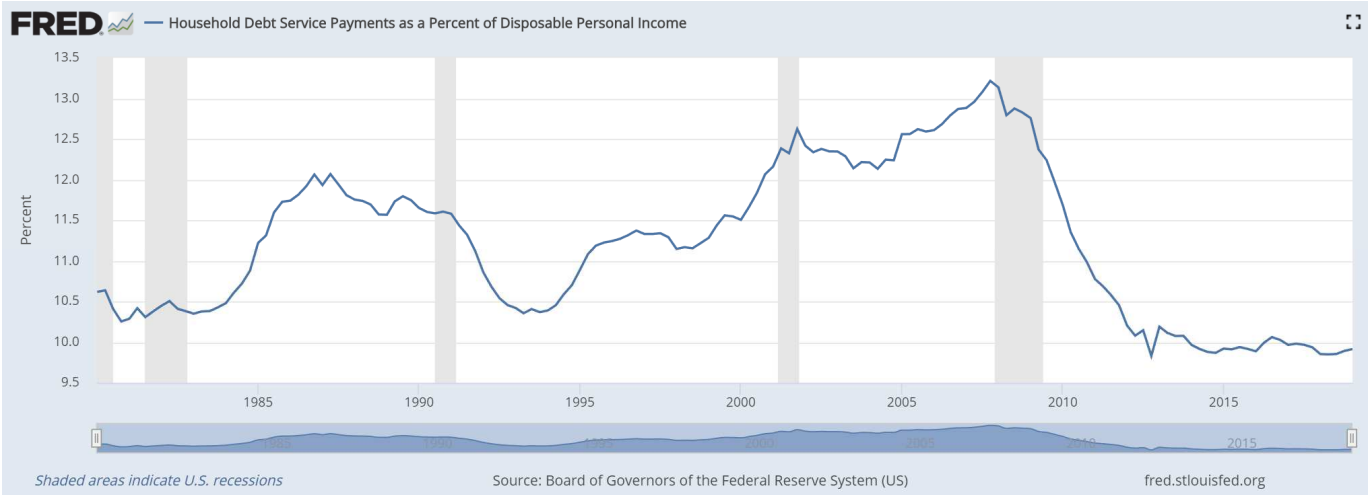
### CHARTING THE COURSE: THE CONSUMER

**Households are in excellent shape.** Thanks to a bull market in stocks and a recovery in housing, the net worth of US households is at a record high (from JP Morgan):

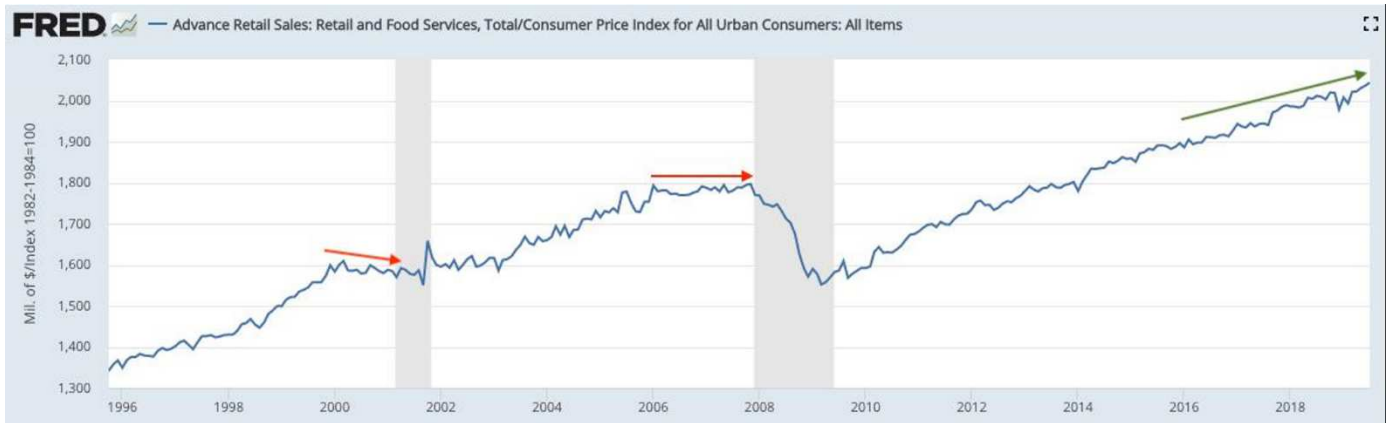




**And their debt burden remains manageable.** The average household has low debt obligations relative to their income. This suggests interest rates could rise or consumers could take on more loans before it becomes a major issue.



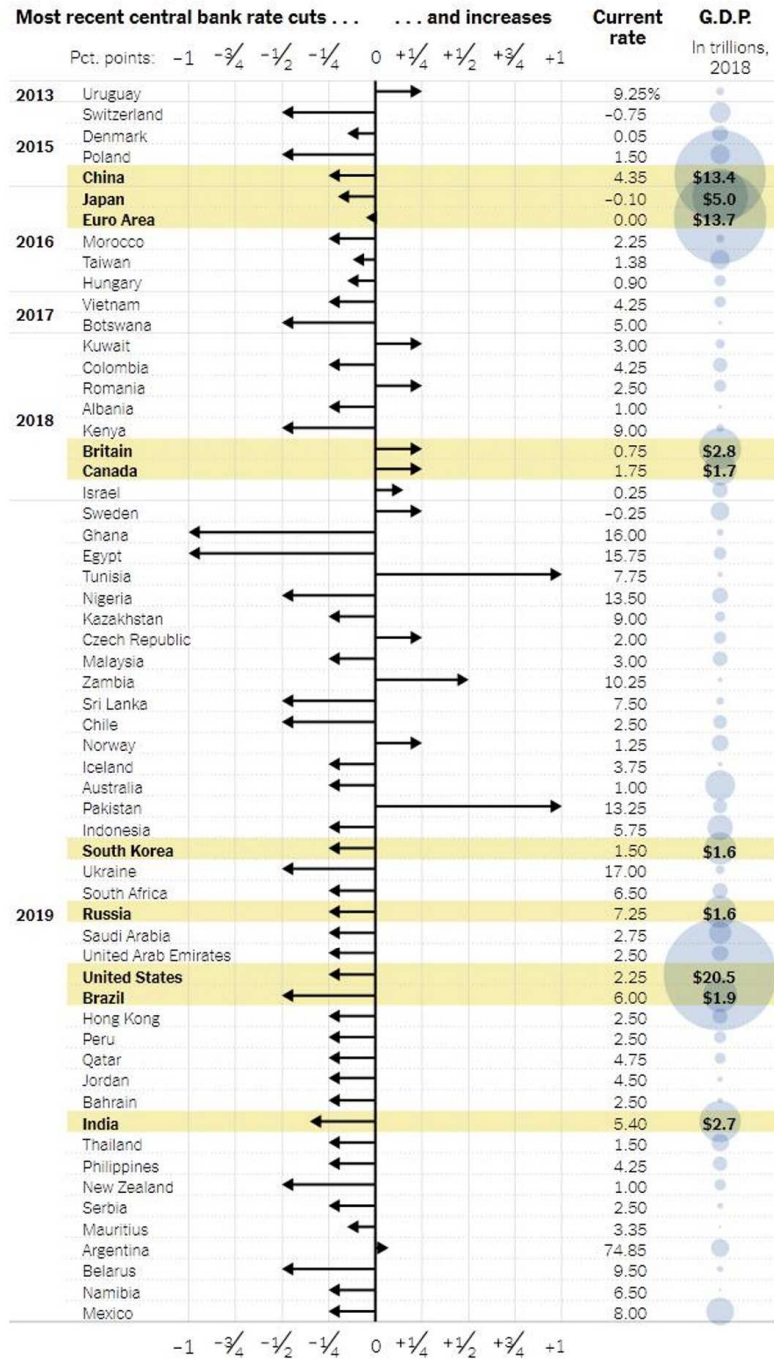
**Both developments helped in pushing retail sales to another all-time high.** This is crucial, since consumers make up two thirds of the economy. Retail sales typically flatten before a recession begins.





CHARTING THE COURSE: CENTRAL BANKS

Central banks across the globe are cutting rates. The key central banks, highlighted below, are in easing mode. The countries raising rates the most have smaller economies (from the New York Times):

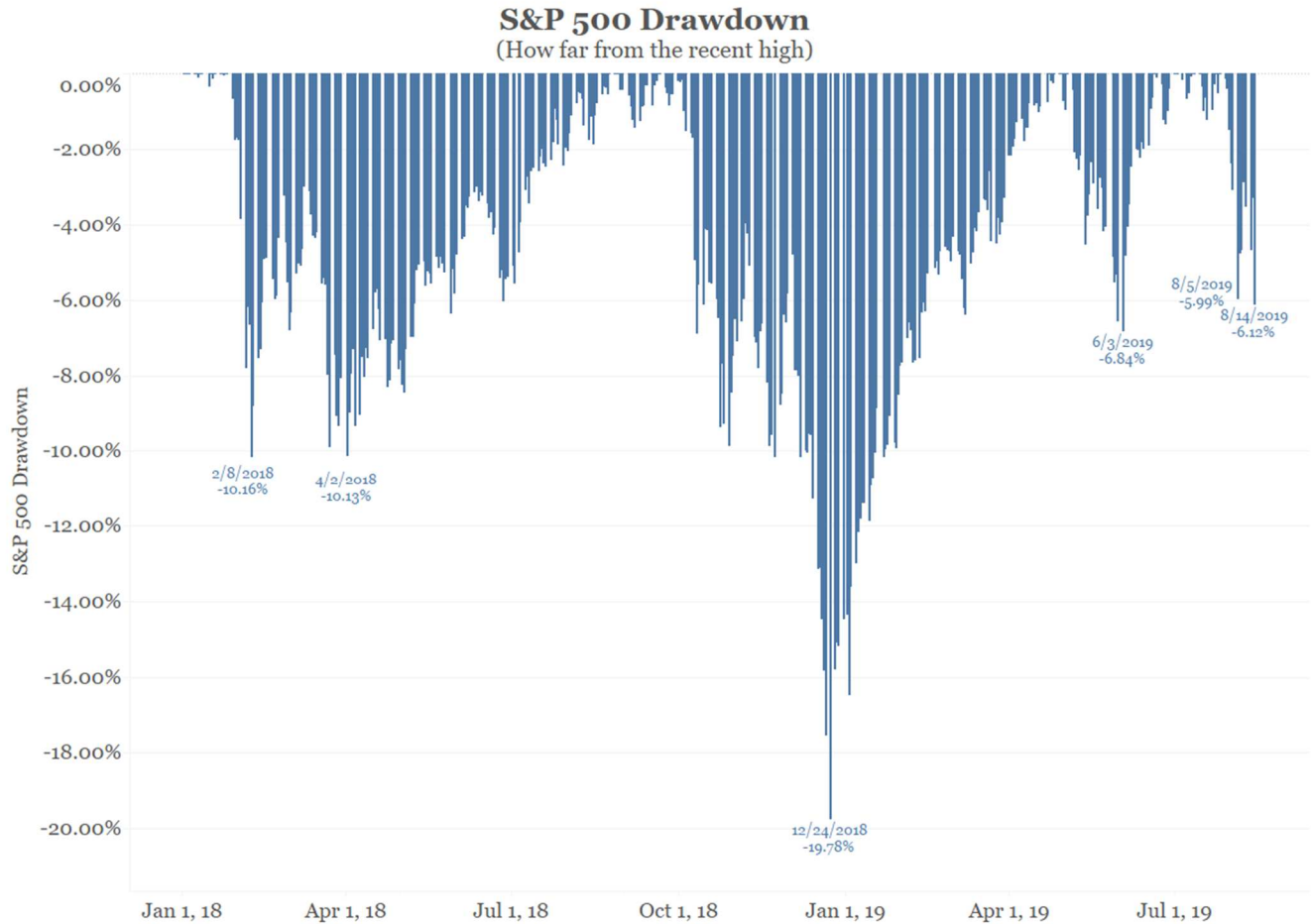


Data as of Aug. 15. A rate cut of 4.25 percentage points in Turkey this year is not shown. - Sources: FactSet (interest rates); International Monetary Fund (G.D.P.)



CHARTING THE COURSE: THE MARKET

*The headlines are negative, but the selloff hasn't been that bad.* Despite talk of trade wars and yield curve inversions, the market selloffs in 2019 have been quite ordinary (from Bianco Research):



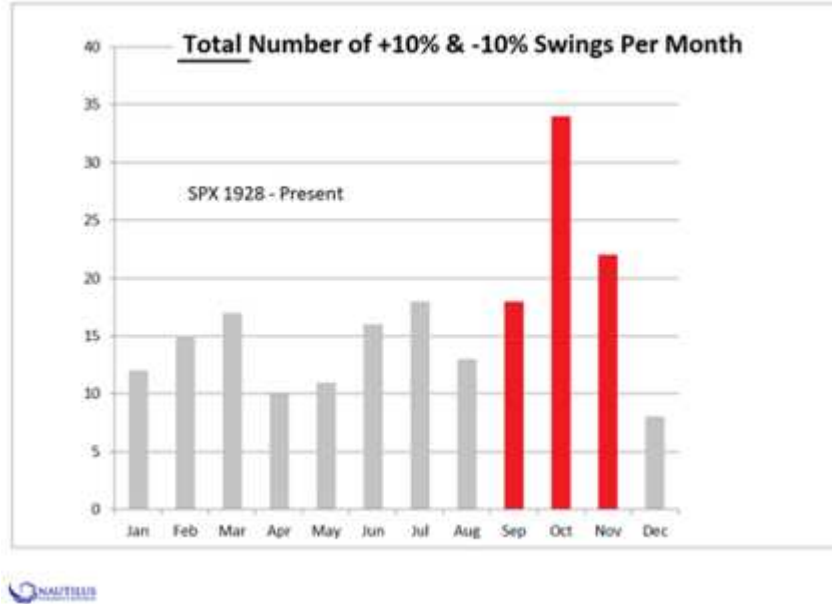
Source: Bloomberg

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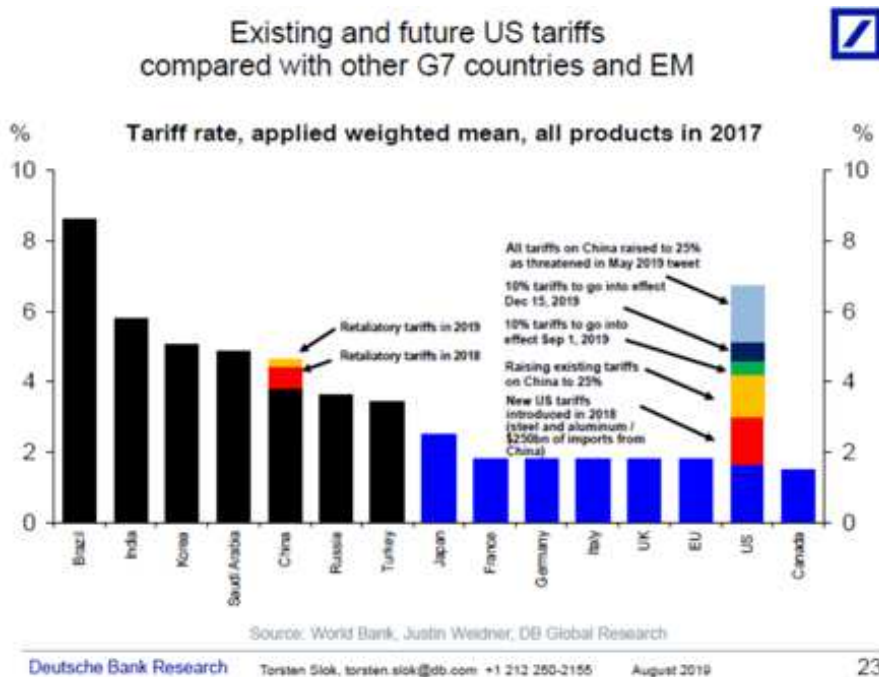
*However, we're entering a seasonal period that tends to be the most volatile.*

The upcoming three months have had more large market swings than any other period (from Nautilus Research):



CHARTING THE COURSE: THE TRADE WAR

*The tariffs on China could escalate.* If all of the promised tariffs go through, the US will have the second largest amount of imposed tariffs out of all the major economies (from Deutsche Bank):







**Concerns about future trade policy have hurt CEO expectations.** Although the direct impact on the economic output has not been large (yet), CEOs are worried, and that could negatively impact future business investment (from Schwab):





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