Most Predicted Recession in History!
6/9/2023 By: Brett Langer

This time last year, markets were in extreme volatility. Recession was considered imminent at the time. Conventional wisdom went like this back then: Inflation was institutionalized into the system, the housing market was going to crash, oil prices were going to $150 per barrel or higher, companies were about to lay off hundreds of thousands of workers, and company profits were about to crater. Since this time last year, the federal reserve has increased interest rates by 5%, and has tightened the money supply by amounts not seen since the Great Depression. When you think about where we are today, it's remarkable to think that inflation has decreased 10 months in a row, which is a new record. Inflation was over 9% last August, today we are under 5%. Some say we already had a recession last year. We did have negative growth for two quarters early in 2022, but where were the large layoffs, debt defaults, and much lower corporate profits that everyone was anticipating? Looking at that data, no recession really happened. Employment stayed higher, company's profits rose, and Americans spent more.

Last August, consumer sentiment reached all-time lows. One year later and we really aren't much higher from the lows and our economy hasn't imploded. On one hand, economists unanimously are predicting a recession within the next 6 months or so. Taking one step further, it's expected that we will see a credit crunch, a commercial property bust, and corporate route in earnings forthcoming. On the other hand, there seems to be a new growth driver in this economy, called AI, that seemed to come out of left field. As investors, it pays to look further ahead than all of the noise around us.

Several years ago, my sister treated me to a day at a race track with an instructor teaching me to find the fastest way around a race track. I learned two things rather quickly. One, stop looking at cars behind me in my review mirror. I witnessed this first hand as I came upon a car who was in front of me. I was driving much faster than they were, they got nervous and continued to look at me in their review mirror. When we got to the turn, they missed it completely and wiped out because they were more concerned about me than what was in front of them. The second and probably more important lesson was when coming to a turn, don't look directly in front of the hood of the car, but further into the corner. When looking in front of the hood, the ground is moving really fast and it is very difficult to react. Wherever your eyes are looking is normally where your car goes. By looking deeper into a corner, you begin positioning your car appropriately to get through the turn on a more efficient line. I mention this because investing is really the same. I can look in my rear-view mirror and focus on all of last year's predictions, but those are behind us and aren't going to help us position for what's right ahead of us. I can look directly in front of me, but all I'll see is a recession that everyone already knows about. As today's investors we need to look further into the turn so we exit properly. In my opinion, I think we have a good chance of having a mild recession by the end of this year. Because most of us are so focused on a recession, it's better now to look further into the turn so we exit the corner without missing the turn or losing too much time.

Looking further into the corner, I can see opportunities I would miss otherwise. Higher interest rates now give us an opportunity to get higher conservative returns than in the past. Secondly, defensive stocks this year have underperformed but have business models that historically do well during times of higher inflation and lower economic growth. Thirdly and more importantly, Artificial Intelligence (AI) and automation is more than likely a pathway to provide more growth in our economy when we need it the most.

As an investor, if we are looking in our rear-view mirrors, it would be super easy to load up on cash, cd's, and other safe investments. Because interest rates seem to be peaking after a year of increases, bond funds today offer higher yields and less risk than what we've witnessed in over a decade. This is good news for conservative investors. There is a better chance for you to earn higher interest rates and possibly keep up with inflation today. Also, if we did see a recession, investors generally move more monies into bonds which can provide a way to appreciation and the dividend to boot.

Defensive value stocks offer attractive positioning today. Last year, defensive stocks held up much better than growth stocks. This year, defensive stocks have been stuck in neutral but are seeing consistent growth within their companies. Think of this segment as a company offering a product or a service that you would normally consume in any economic climate. This includes them raising their prices but you would still purchase their product or service. We feel like there is a lot of value in this space today and offers an easier line coming out of the turn for the straight away coming ahead.

Lastly, economic strength is built upon worker productivity. Since the pandemic, we have been dealing with a smaller work force. I keep hearing in the news about the huge job creation that has occurred since the pandemic had started. Our opinion is that all we did was go back to work once the economy opened. The problem is, not all of us returned. Worker productivity doesn't seem to get the press it deserves. If a business can get their workers more productive, they can offer higher wages, sell goods at lower costs, and spend more money in research and development. In one of my email updates two years ago, I mentioned that business had been spending more money into artificial intelligence and automation than any other time in history. Just this year, the investments into those spaces are starting to appear. I think all of you at this point have been hearing about AI more and more. Artificial Intelligence will be used in all industries. In my industry, it already helps speed up time in analyzing, researching, and providing information in a quicker format.
Yes, we think that we will probably see a recession this year. We believe that much of the news about the recession is already out in the press. A lot of time can be spent on things that are just in front of us and coming in at high speeds. All that gets us is a greater potential of missing what's ahead of us.

Sincerely,

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