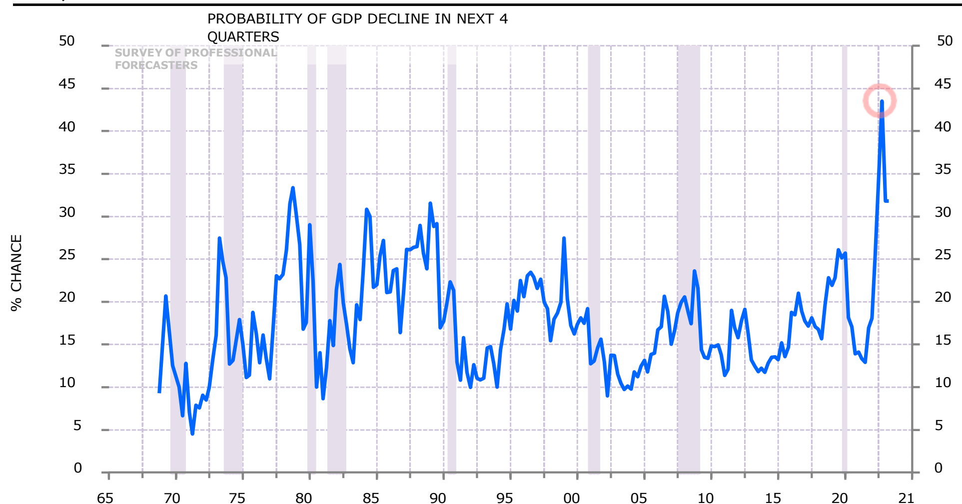
WHAT RECESSION?

What Recession? As we approach the halfway point of 2023, it is worth noting there are still no imminent signs of a recession in the U.S. despite many economists' predictions. Admittedly, we too have been in the camp of a forthcoming recession. Gerard Minack is a veteran macro strategist who has been analyzing, forecasting, and advising on financial markets for over 35 years. He was the former Head of Global Developed Markets at Morgan Stanley, and more recently the Founder of Minack Advisors, a firm that provides fundamentally based research on the financial markets. Perhaps he is most well-known for his *Down Under Daily* publication which has become a must read among the investment community. In his May 30th edition, he illustrates that this has been the most forecasted recession of all time.



Source: Philadelphia Fed, NBER; Minack Advisors

He points to several factors contributing to the resiliency of the U.S. economy which has delayed, but in his opinion has not averted, the expected economic contraction.

1. Less sensitivity to higher interest rates. Many investors likely overestimated the sensitivity of the U.S. economy to higher interest rates. During the prolonged period of time in which interest rates were near zero, many households and businesses refinanced at historically favorable rates.

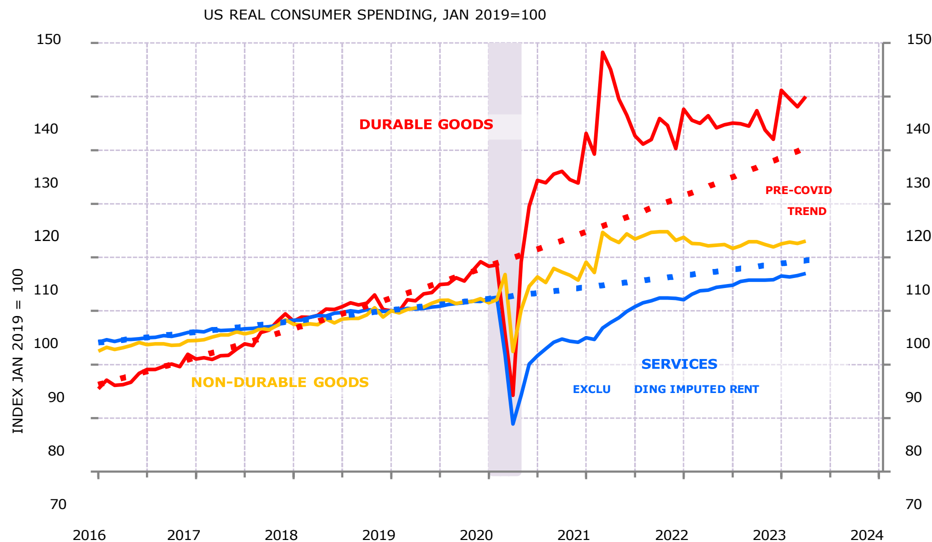
2. Unusual behavior of long-term rates. Treasury yields usually peak very late in the Fed tightening cycle. The 10-year treasury has historically crested at or above the peak fed funds rate. The private sector tends to be more impacted by long-term rates versus short-term rates. Ever since the fed funds rate hit 4%, the 10-year treasury yield has moved sideways and lower, despite the Fed raising the rates another 1.25% (to 5.25%). The market seems to be expecting the Fed to change monetary policy and begin to lower rates in the near future. As a result, the last 1.25% worth of rate hikes have likely done very little to tighten financial conditions.

3. Excess savings accumulated by the household sector during the pandemic. During the pandemic, most households accumulated excess savings which have allowed spending to accelerate despite rising inflationary pressures. Mr. Minack points out that the excess savings are quickly being depleted, especially amongst the lower income earning households. He believes this buffer will offer significantly less support to the economy during the second half of 2023.

ADVISORY SERVICES OFFERED THROUGH FIDELIS CAPITAL PARTNERS, LLC., AN INVESTMENT ADVISER REGISTERED WITH THE U.S. SECURITIES AND EXCHANGE COMMISION. REGISTRATION DOES NOT IMPLY A CERTAIN LEVEL OF SKILLS OR TRAINING. PLEASE REFER TO OUR ADV BROCHURE FOUND AT https://adviserinfo.sec.gov/ FOR A COMPLETE DESCRIPTION OF SERVICES OFFERED THROUGH FIDELIS AND FOR A COMPLETER DESCRIPTION OF FEES.

4. Unusual behavior of consumers. During the pandemic, most consumer spending was focused on goods rather than services. However, that pendulum has shifted back towards services as the pandemic subsides.

The unusual behaviour of consumers



Source: BEA, NBER; Minack Advisors

Most leading economic indicators place a heavier emphasis on goods-sector data versus services. As such, many of those indicators pointed towards a recession during the first half of 2023. It is likely the weakness in goods over the past 18 or so months was more a reflection of demand normalization than a signal of broad economic weakness.

5. Unusual behavior of inflation. Inflation is a lagging indicator. Mr. Minack says that core inflation typically lags changes in unemployment by 9 months. As a result, core inflation itself normally falls either late in a recession or early in recovery. During this cycle, it has fallen late in the expansion (versus late in the recession) due to the pandemic-driven surge in goods sector inflation. This decline in inflation, which he believes is unlikely to continue, temporarily boosted real consumer spending power. However, real gross domestic income has now been falling for two successive quarters, which is a strong indicator that a recession is probable in the second half of the year.

Our Takeaway. We believe that many of the above-mentioned factors are likely temporary and should wane sometime during the second half of the year. It remains our opinion that a recession is coming, yet later than we initially anticipated. As always, do not hesitate to contact any member of your relationship team with any questions, concerns, or for a copy of the original article.

Imagine the peace of mind you feel when you can work with a partner you trust enough to simplify the financial complexity in your life and who can advise you on all, not just some, of your financial matters.

Now stop imagining.... Come experience Fidelis Capital Partners.

We invite you to hear more about Fidelis Capital Partners and our team-based model at www.fideliscapital.com or email us at info@fideliscapital.com.

ADVISORY SERVICES OFFERED THROUGH FIDELIS CAPITAL PARTNERS, LLC., AN INVESTMENT ADVISER REGISTERED WITH THE U.S. SECURITIES AND EXCHANGE COMMISION. REGISTRATION DOES NOT IMPLY A CERTAIN LEVEL OF SKILLS OR TRAINING. PLEASE REFER TO OUR ADV BROCHURE FOUND AT https://adviserinfo.sec.gov/ FOR A COMPLETE DESCRIPTION OF SERVICES OFFERED THROUGH FIDELIS AND FOR A COMPLETER DESCRIPTION OF FEES.