



# The Year of the Pig (Lipstick won't help!)

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## NO LAUGHING MATTER!

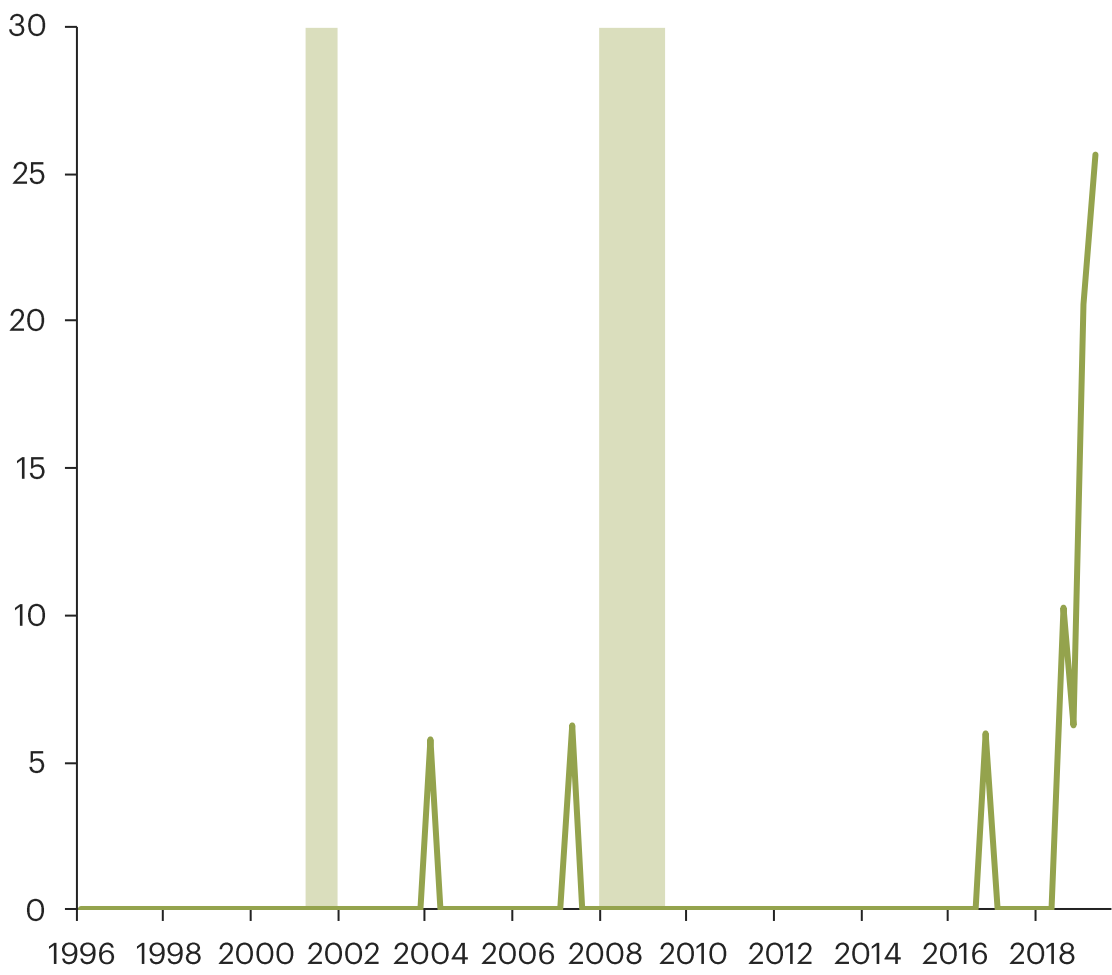


# THE BULL MARKET IS IN “UNCERTAINTY”

## Trade Uncertainty Index

### United States

(index; higher = more uncertain)

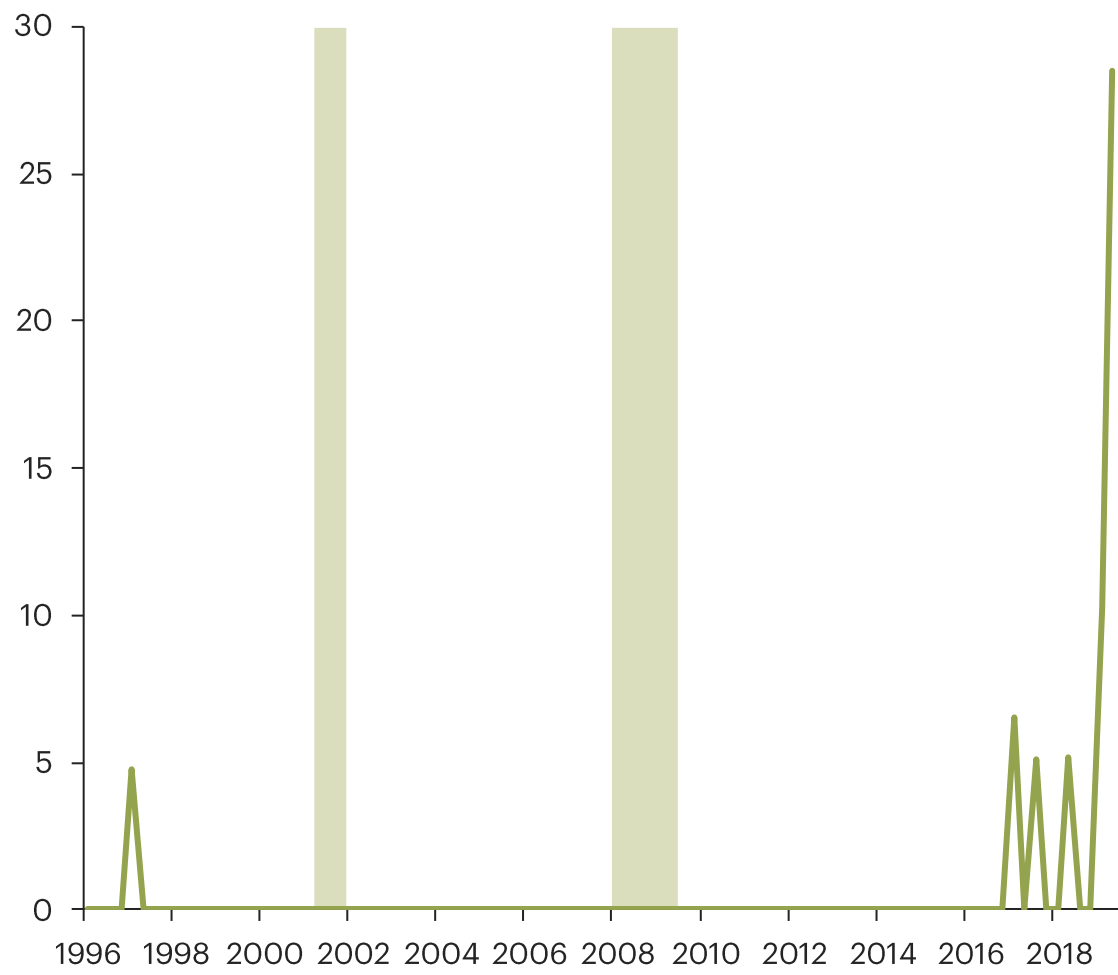


**Notes:**  
Shaded regions represent periods of U.S. recession  
Source: Haver Analytics, Gluskin Sheff

GluskinSheff.com

### China

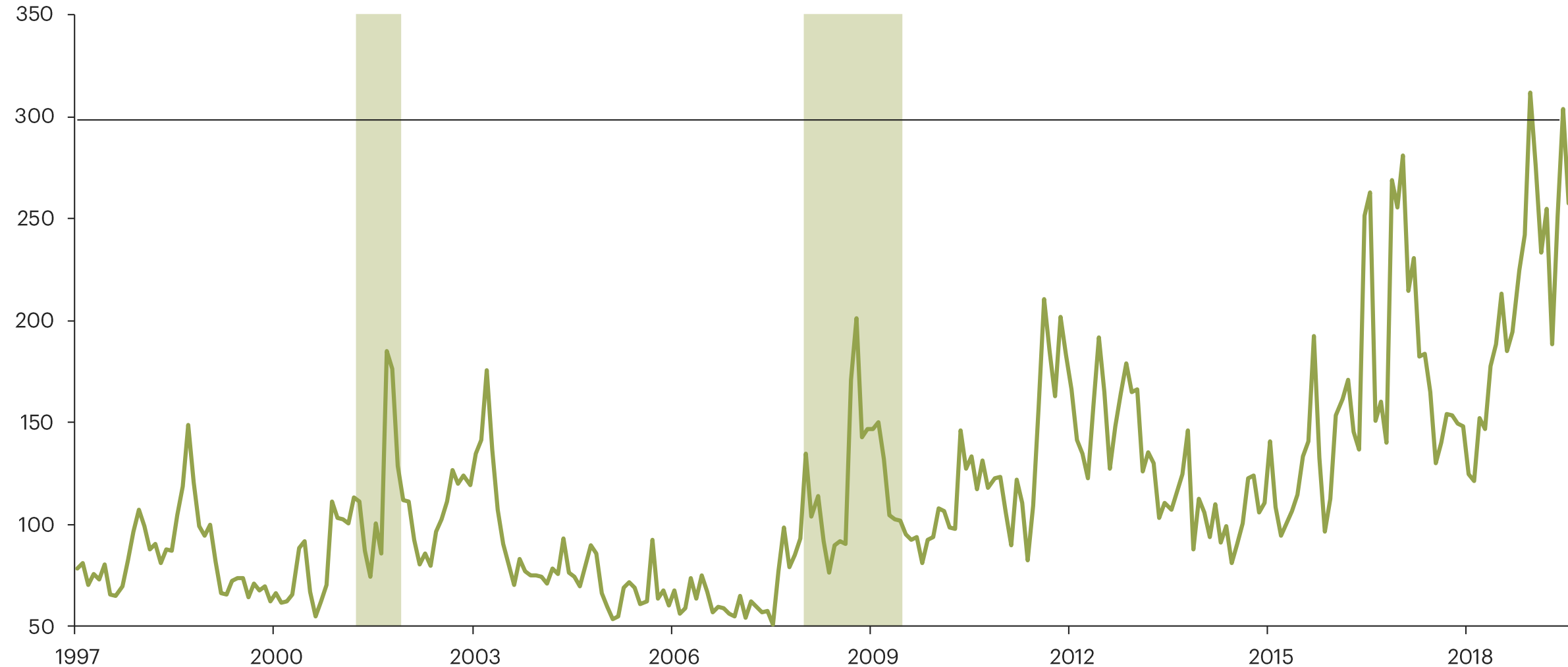
(index; higher = more uncertain)



# WHAT'S TRUE FOR THE USA AND CHINA IS TRUE FOR THE WORLD

## Global: Economic Policy Uncertainty Index

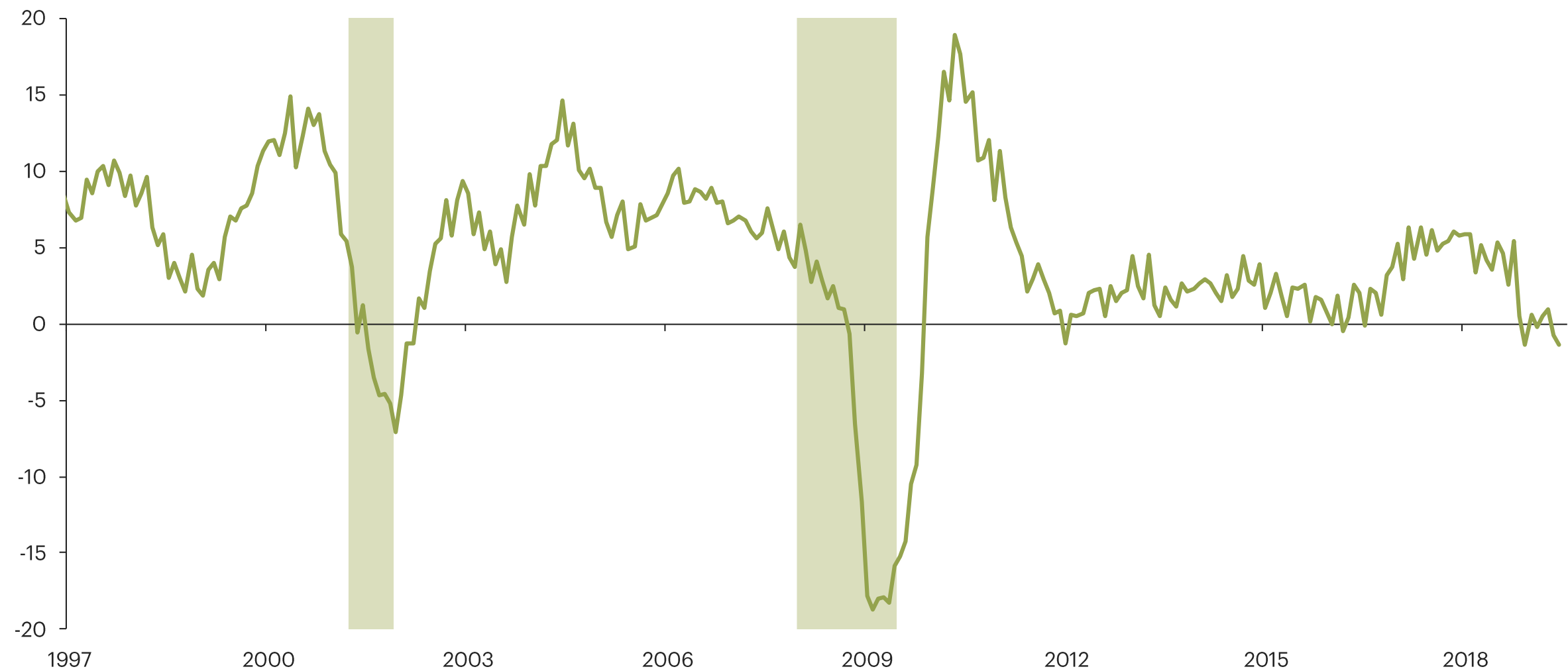
(index)



**Notes:**  
Shaded regions represent periods of U.S. recession  
Source: *Haver Analytics, Gluskin Sheff*  
**GluskinSheff.com**

# THE WORLD IS NOW SHRINKING

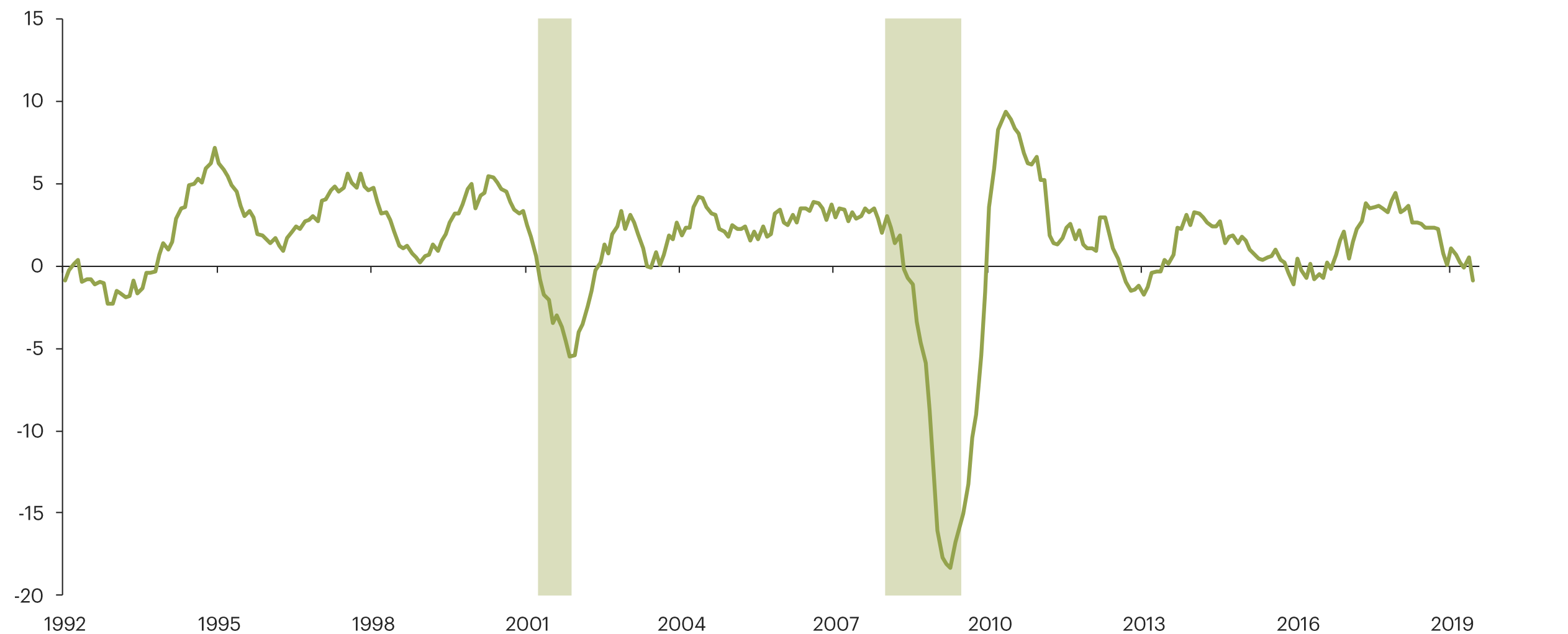
## Global: Trade Volumes (year-over-year percent change)



**Notes:**  
Shaded regions represent periods of U.S. recession  
Source: *Haver Analytics, Gluskin Sheff*  
**GluskinSheff.com**

# CONTRACTION IN DM INDUSTRIAL PRODUCTION

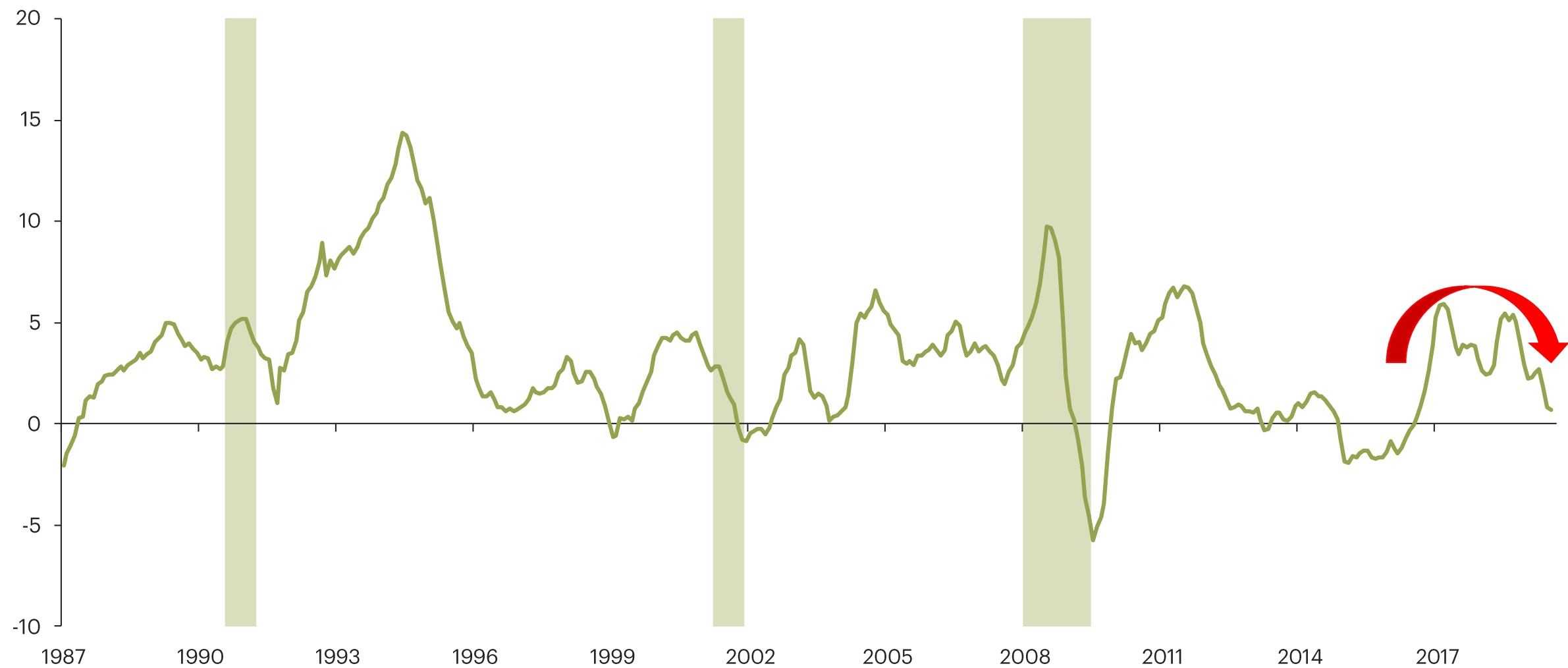
Advanced Economies: Industrial Production ex. Construction  
(year-over-year percent change)



**Notes:**  
Shaded regions represent periods of U.S. recession  
Source: Haver Analytics, Gluskin Sheff  
GluskinSheff.com

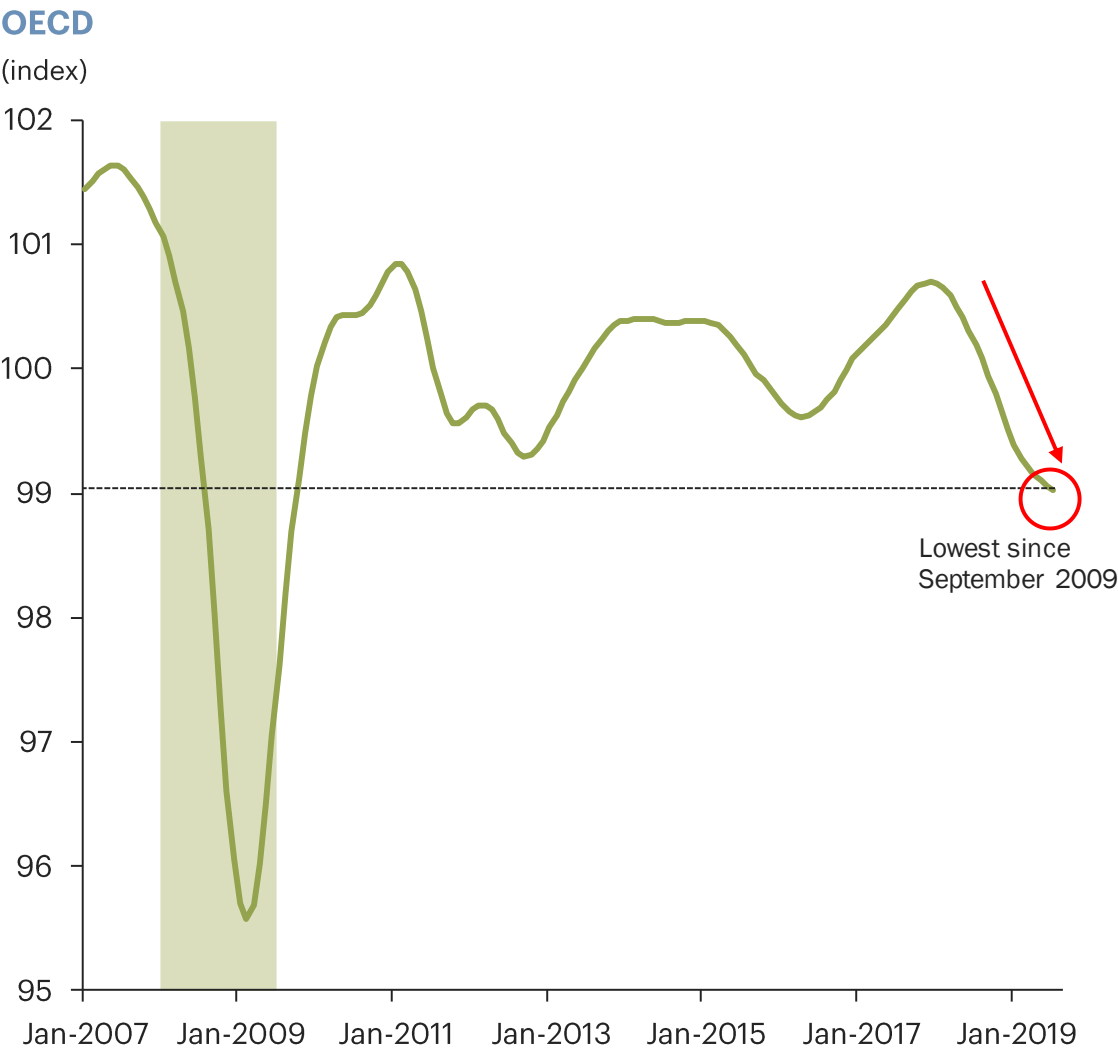
# DEFLATION PRESSURES ARE INTENSIFYING

World ex. USA: Producer Price Inflation  
(year-over-year percent change)



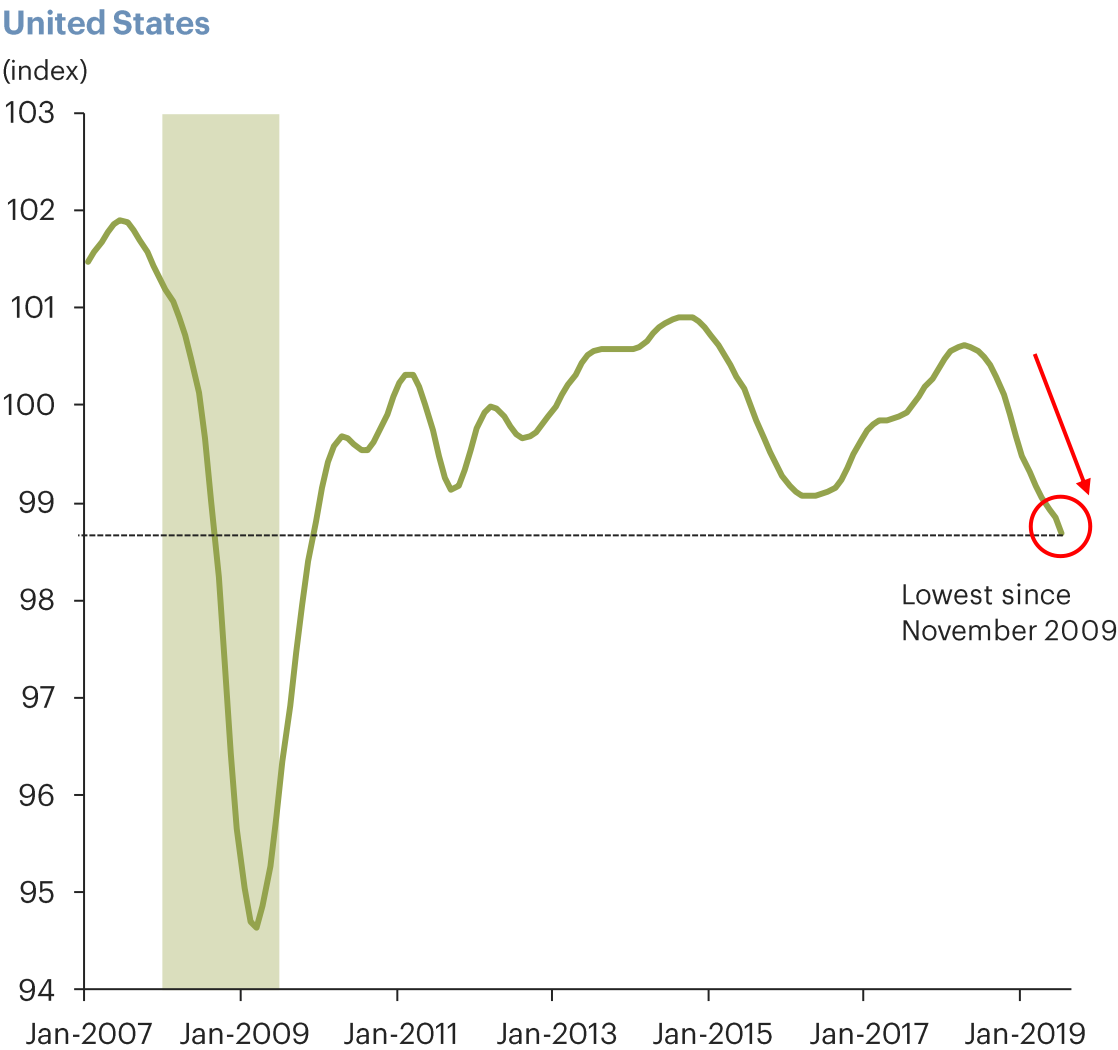
**Notes:**  
Shaded regions represent periods of U.S. recession  
Source: *Haver Analytics, Gluskin Sheff*  
[GluskinSheff.com](http://GluskinSheff.com)

# LEADING ECONOMIC INDICATORS IN A DOWNTREND



**Notes:**  
Shaded region represents period of U.S. recession  
Source: OECD, Gluskin Sheff

GluskinSheff.com

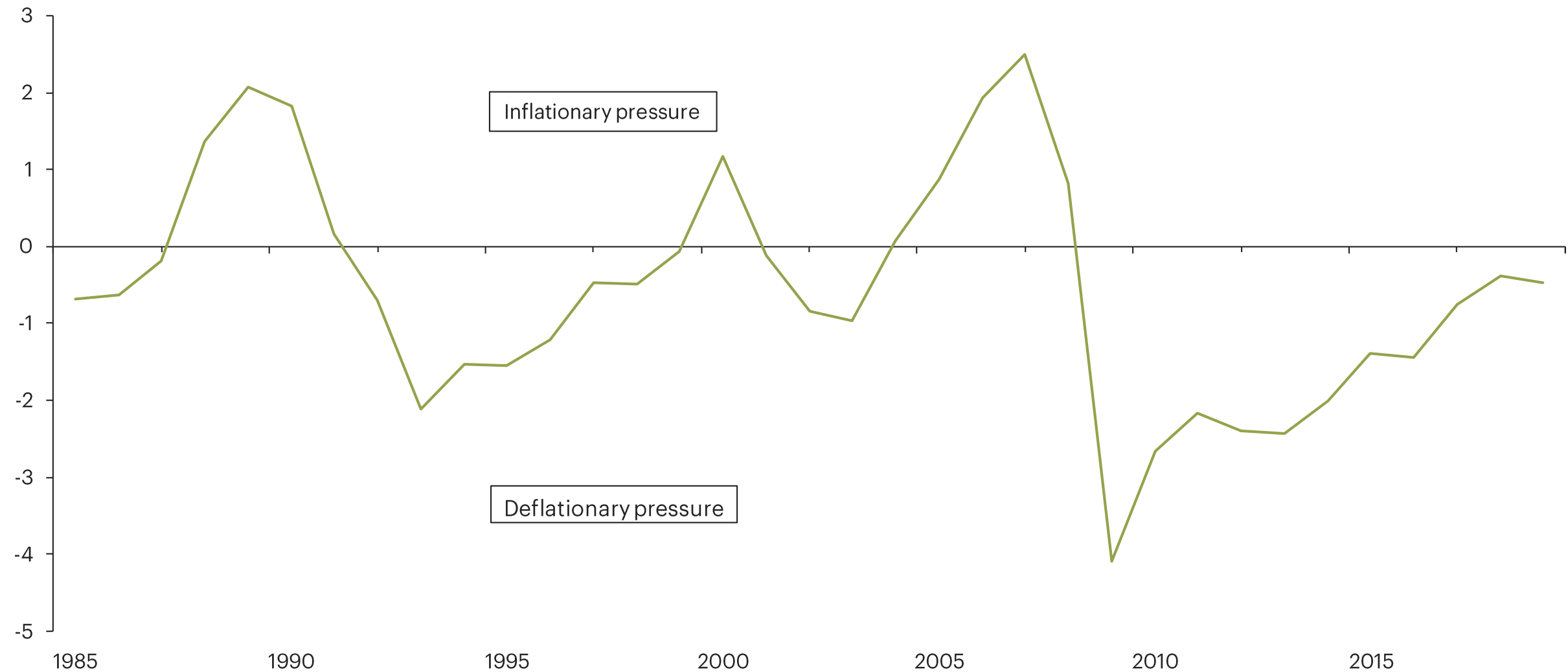




# FOR THE FIRST TIME EVER THE OUTPUT GAP NEVER CLOSED

## OECD: Output Gap

(percent)



Notes:  
Source: OECD, Gluskin Sheff

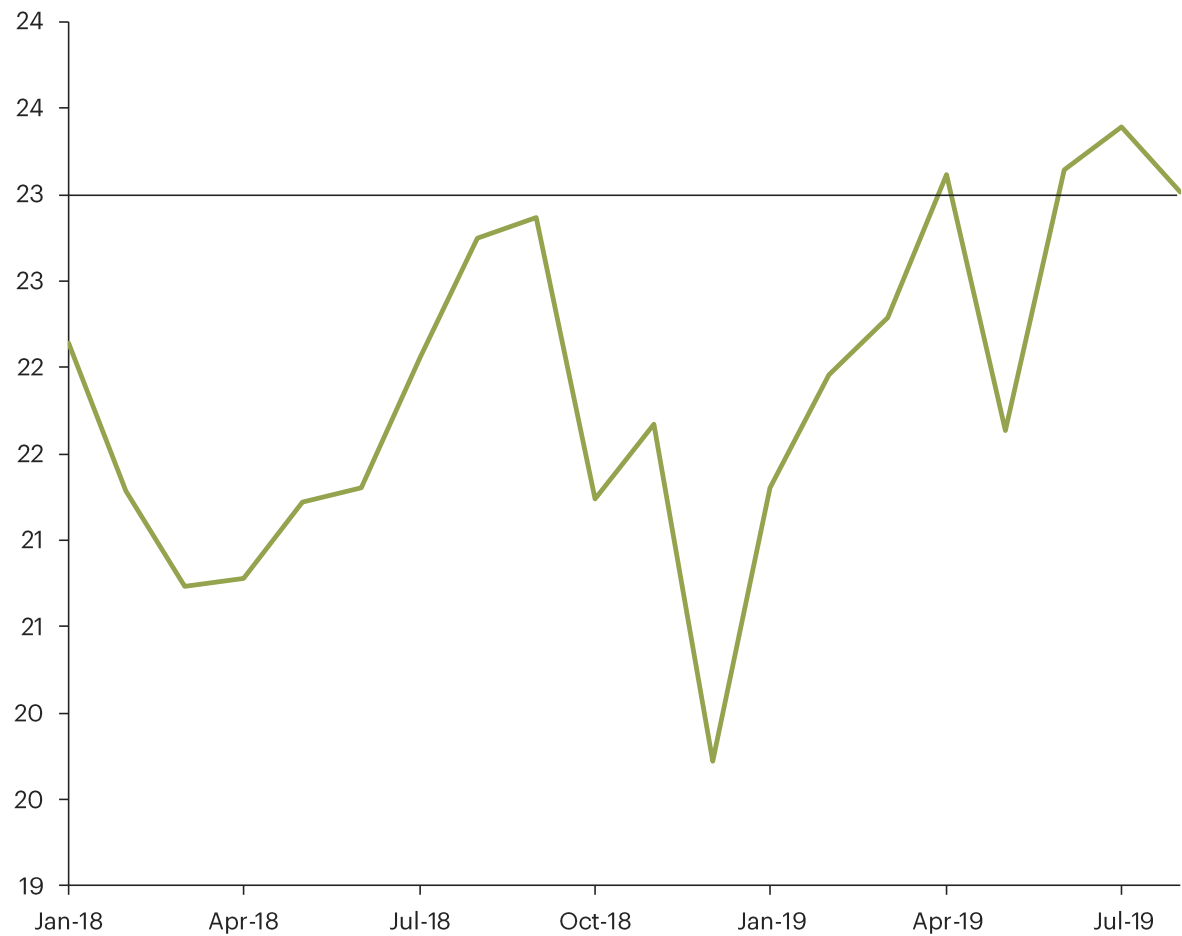


# BONDS NOW HAVING MORE FUN

## United States

S&P 500 Total Return Index in REAL Terms

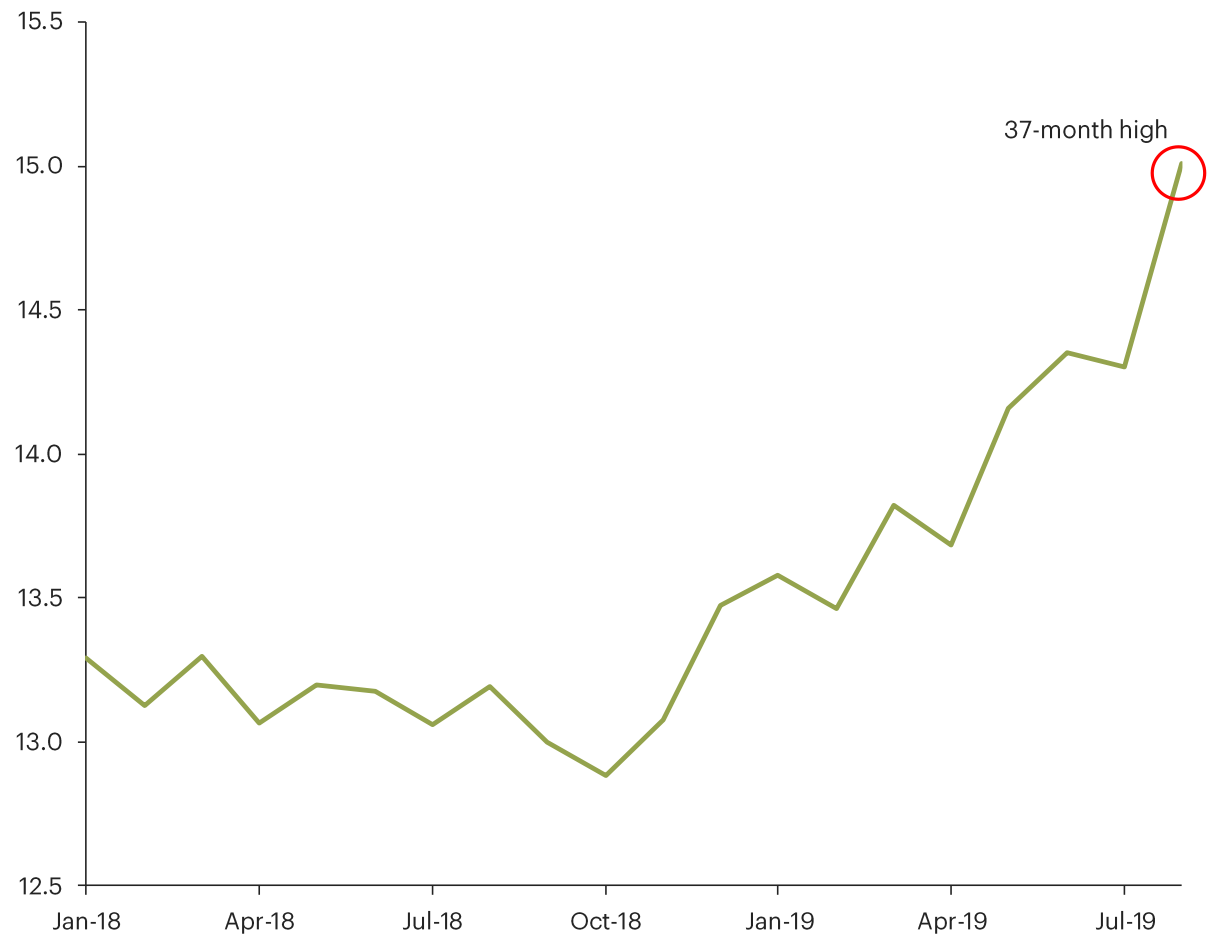
(index)



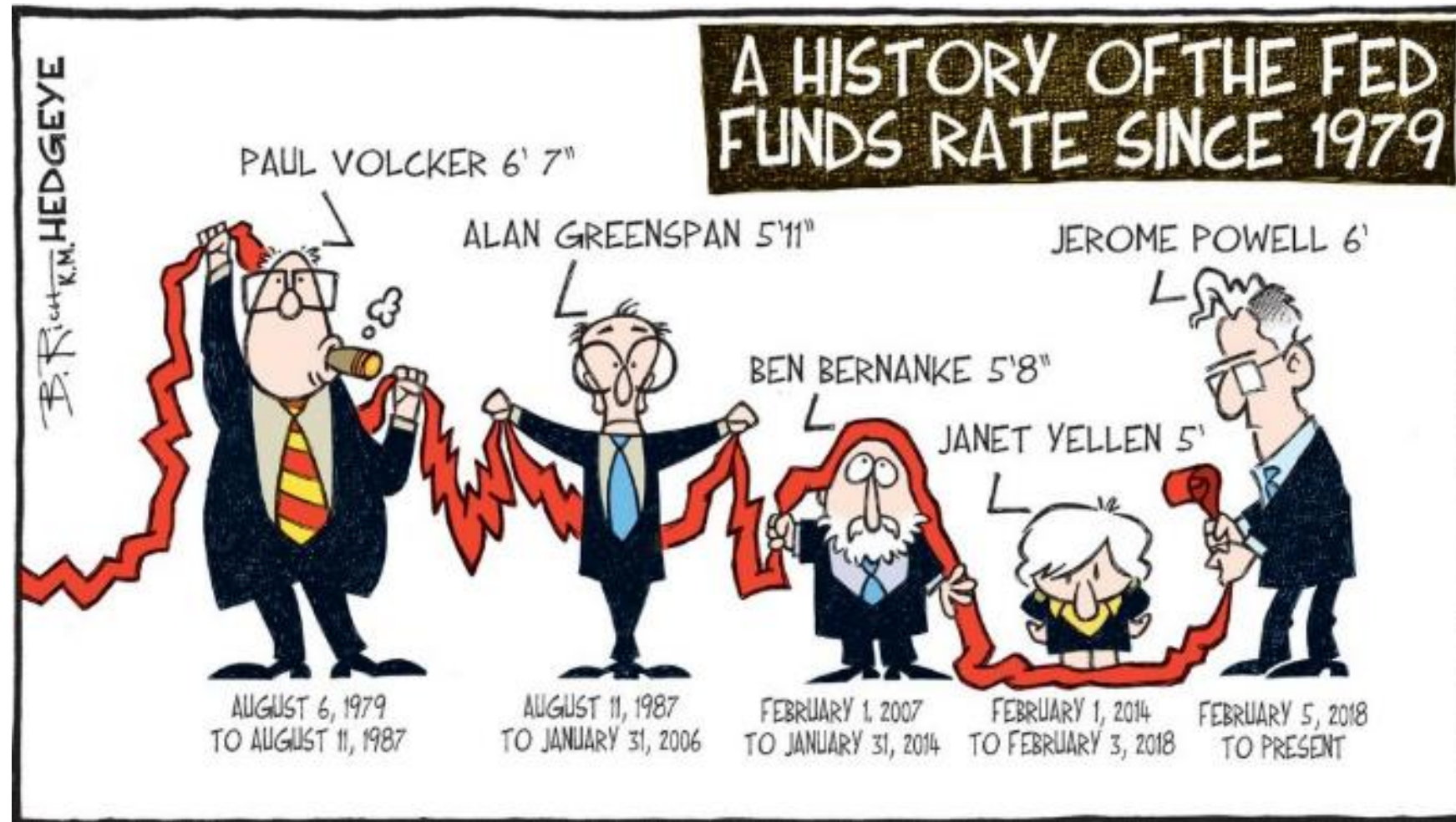
**Notes:**  
Source: *Haver Analytics, Gluskin Sheff*  
**GluskinSheff.com**

10-Year T-Note Total Return Index in REAL Terms

(index)

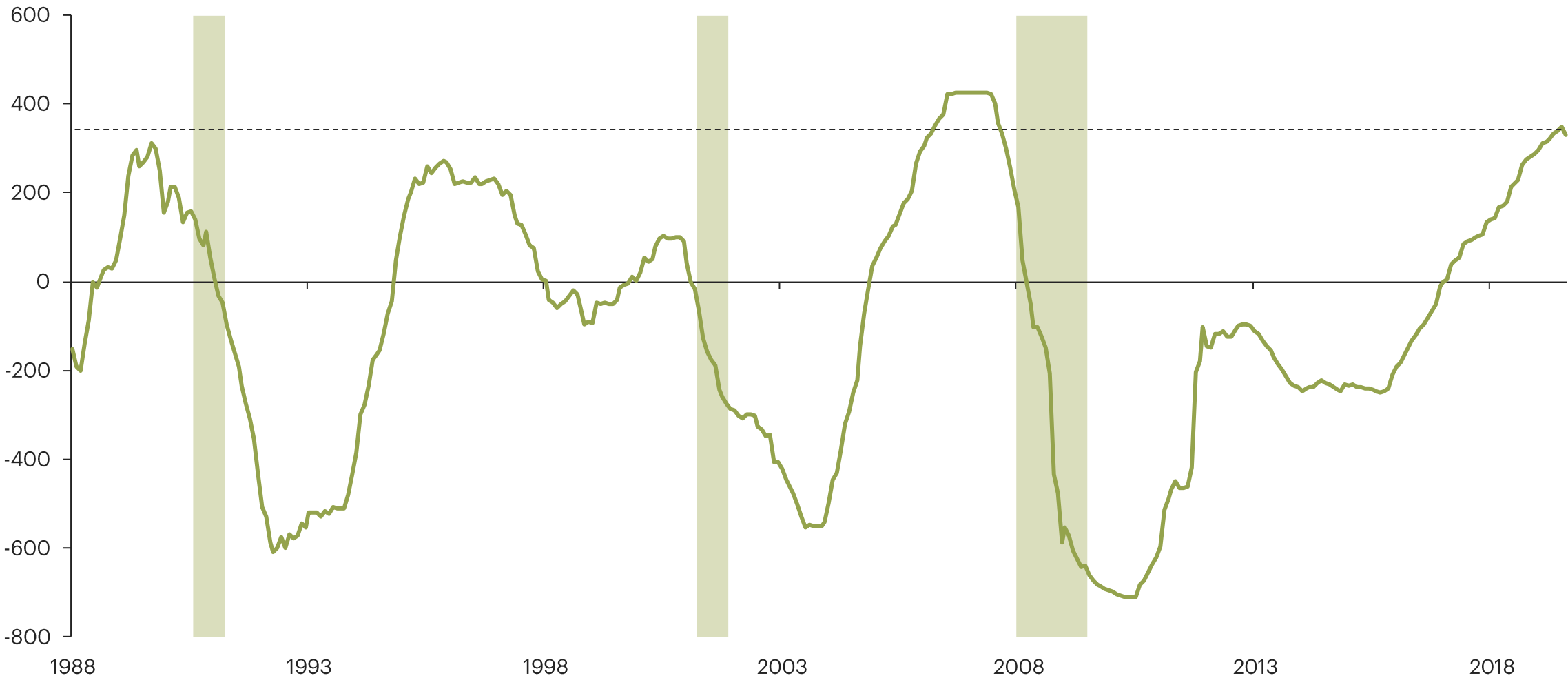


## RATES WILL BITE WITH EXTRA HEIGHT



# RECESSIONS FOLLOW FED TIGHTENING CYCLES OF 300 BASIS POINTS OR MORE

United States: 'Balance Sheet Adjusted' Fed Funds Rate  
(3-year basis point change)



**Notes:**  
Balance sheet adjustments begin with QE1; unadjusted Fed funds rate used prior  
Shaded regions represent periods of U.S. recession  
Source: Haver Analytics, Gluskin Sheff



# BARRON'S

## Can the Fed Stave Off the Next Recession?

The central bank believes it doesn't need to raise rates much more, if at all, to keep the economy on an even keel



THIS PAST WEEK'S Federal Reserve meeting gave investors both good news and bad news.

The good news is that, as I had expected after the mid-December meeting, America's monetary-policy makers ended up listening to the message coming from financial markets: The Fed is now wary of accidentally strangling growth by raising interest rates too high and by shrinking its bond portfolio too much.

The bad news is that the Fed's caution reflects its concerns about the next recession—something more than 80% of U.S. chief financial officers believe will start before the end of 2020, according to a recent survey by Duke University.

According to the Fed's latest statement, released on Wednesday, "further gradual increases" in the level of short-term interest rates are no longer necessary to pre-



Federal Reserve Chairman Jerome Powell

The downturn in inflation expectations could lead to slower price increases and give the Fed even less room to cut real interest rates in a downturn, undermining confidence even further. As Williams put it in a recent paper with Thomas Mertens, "the inherent asymmetry of the lower bound" on interest rates means that central banks will consistently undershoot their inflation targets during downturns, which in turn "exacerbates the effects of the lower bound on the economy."

The solution, according to Williams, is to systematically run the economy hot during expansions to offset the times when prices rise too slowly during recessions. In other words, monetary policy might have to become systematically looser than it has been to have a hope of achieving the Fed's longer-run goal of 2% annual inflation. Regular yearly price increases would have to be significantly larger than 2% to cancel out the impact of those periods when the Fed will

### Notes:

Source: Barron's (February 4, 2019)

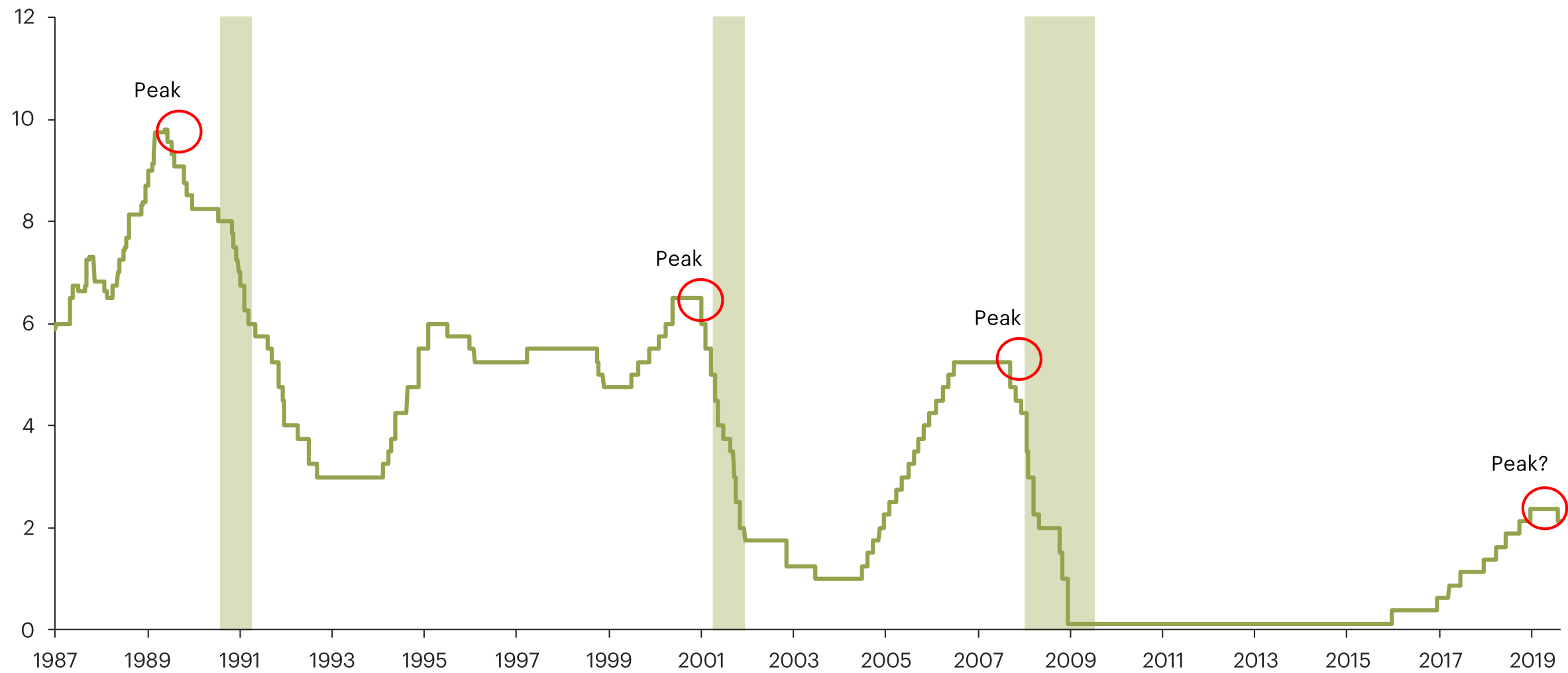
GluskinSheff.com

## RECESSION WAS TWO MONTHS OLD!



# CYCLE PEAK FOLLOWS FED FUNDS PEAK

United States: Fed Funds Rate  
(percent)



**Notes:**  
Shaded regions represent periods of U.S. recession  
Source: Haver Analytics, Gluskin Sheff  
[GluskinSheff.com](http://GluskinSheff.com)



## THERE HAVE BEEN 13 FED HIKING CYCLES, 10 LANDED IN RECESSION!

First Hike	Last Hike	Result
October 1950	May 1953	Recession
October 1955	August 1957	Recession
September 1958	September 1959	Recession
December 1965	September 1966	Soft Landing
November 1967	June 1969	Recession
April 1972	September 1973	Recession
May 1977	March 1980	Recession
August 1980	December 1980	Recession
March 1983	August 1984	Soft Landing
January 1987	May 1989	Recession
February 1994	February 1995	Soft Landing
June 1999	May 2000	Recession
June 2004	June 2006	Recession
December 2015	???	???

# THE SAN FRAN FED: ECONOMIC FORECASTS WITH THE YIELD CURVE

## FRBSF Economic Letter

2018-07 | March 5, 2018 | Research from Federal Reserve Bank of San Francisco

### Economic Forecasts with the Yield Curve

Michael D. Bauer and Thomas M. Mertens

*“The term spread—the difference between long-term and short-term interest rates—is a strikingly accurate predictor of future economic activity. Every U.S. recession in the past 60 years was preceded by a negative term spread, that is, an inverted yield curve. Furthermore, a negative term spread was always followed by an economic slowdown and, except for one time, by a recession. **While the current environment is somewhat special—with low interest rates and risk premiums—the power of the term spread to predict economic slowdowns appears intact.**”*

**Notes:**

Source: Economic Forecasts with the Yield Curve; San Francisco Fed (March 5, 2018)

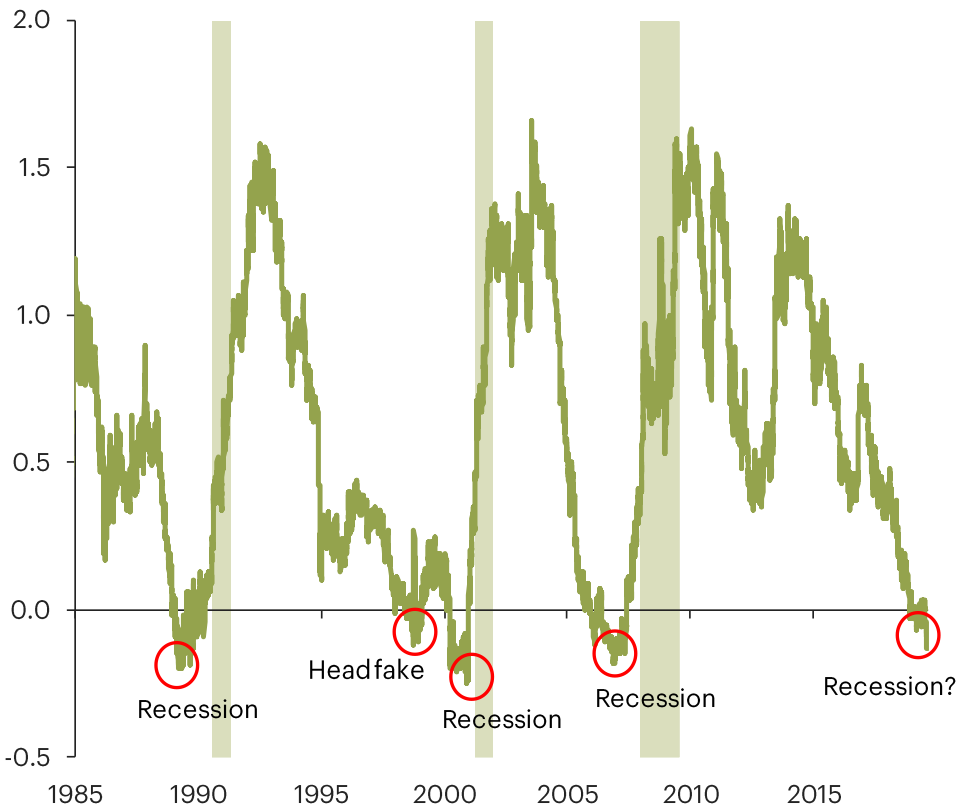
GluskinSheff.com

# THIS IS WHAT THE ST. LOUIS FED HAS TO SAY...

## United States

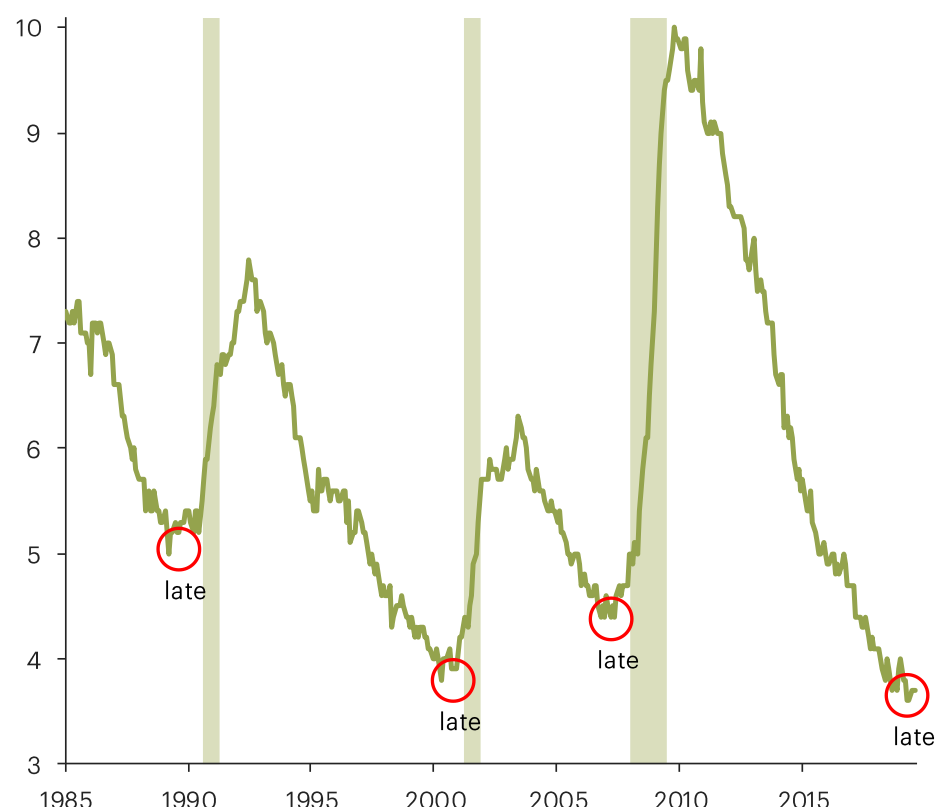
U.S. 5-Year T-Note Yield LESS U.S. 2-Year T-Note Yield

(percent)



Unemployment Rate

(percent)

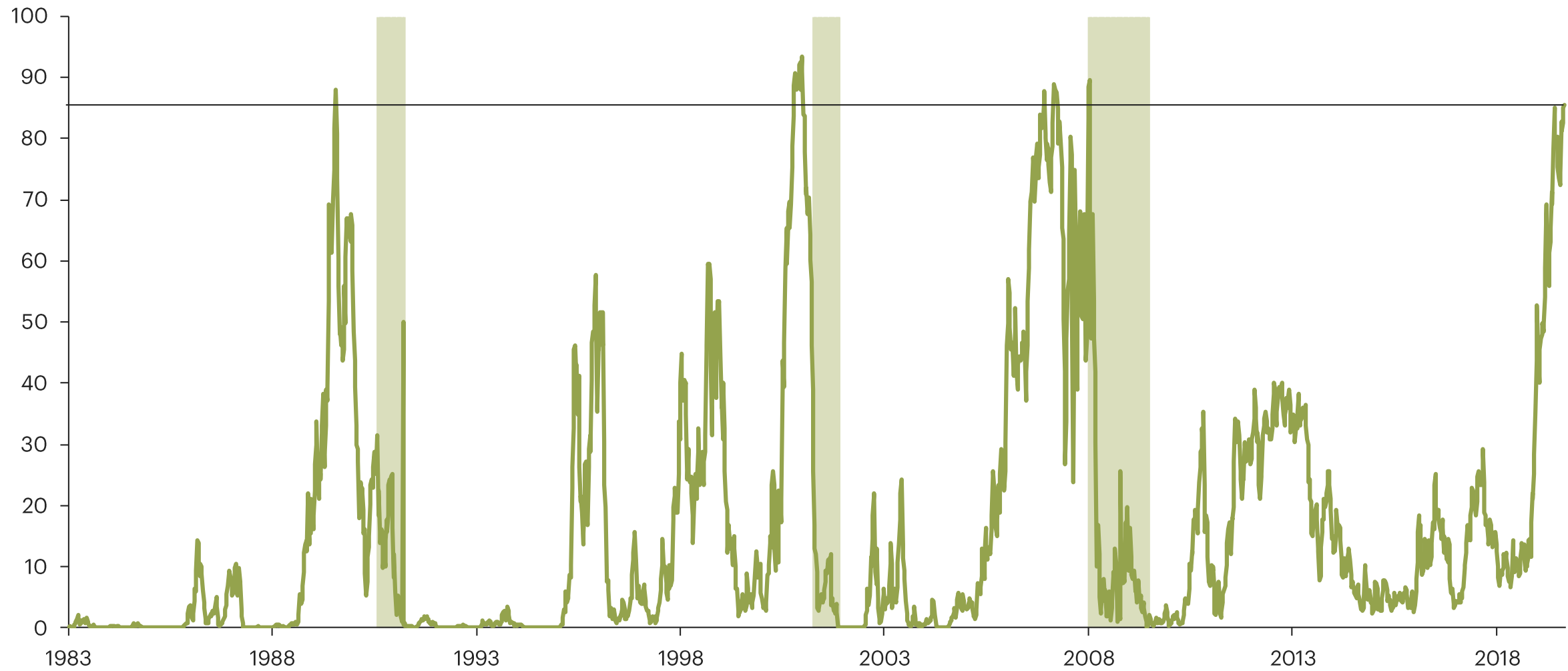


*"On average, since 1969, the unemployment rate trough occurred nine months before the NBER-determined recession trough, while the yield curve inversion occurred 10 months before...based on this evidence, it appears that both indicators tend to be reliable predictors of a business recession."*

**Notes:**  
Shaded regions represent periods of U.S. recession  
Source: St. Louis Fed Economic Synopses; Recession Signals: The Yield Curve vs. Unemployment Rate Troughs (June 1, 2018), Haver Analytics, Gluskin Sheff  
**GluskinSheff.com**

# RECESSION PROBABILITIES ARE INCREASING

United States: Probability of a U.S. Recession 12-Months Ahead  
(percent)



**Notes:**  
Probability derived from the near-term Treasury spread  
Shaded regions represent periods of U.S. recession  
Source: Haver Analytics, Gluskin Sheff



# WHAT 'IF' WE GET A RECESSION?

## United States: S&P 500

		Peak to Recession Start		Recession Start to Recession Trough		Peak to Recession Trough	
Expansion Date		Months	% Decline	Months	% Decline	Months	% Decline
Oct-49	Jul-53	6	-7.2	2	-8.2	8	-14.8
May-54	Aug-57	12	-9.1	2	-13.8	14	-21.6
Apr-58	Apr-60	8	-10.4	6	-3.8	14	-13.9
Feb-61	Dec-69	13	-15.1	5	-24.7	18	-36.1
Nov-70	Nov-73	10	-20.2	11	-35.1	21	-48.2
Mar-75	Jan-80	0	-0.9	2	-14.0	2	-14.7
Jul-80	Jul-81	8	-6.8	13	-21.8	21	-27.1
Nov-82	Jul-90	0	-3.5	3	-17.0	3	-19.9
Mar-91	Mar-01	12	-24.0	6	-16.8	18	-36.8
Nov-01	Dec-07	2	-6.2	15	-53.9	17	-56.8
Average		7.1	-10.3	6.5	-20.9	13.6	-29.0

Notes:  
Source: Haver Analytics, Gluskin Sheff  
GluskinSheff.com

# YIELDS DECLINE DURING RECESSIONS

## United States: 10-Year Yield Before, During and After Recessions

		Peak Before	Recession	Low in	End of
Expansion Date		Recession	Start	Recession	Recession
Feb-61	Dec-69	8.1	7.9	6.3	6.5
Nov-70	Nov-73	7.6	6.7	6.7	8.1
Mar-75	Jan-80	11.2	11.3	9.5	10.8
Jul-80	Jul-81	14.7	15.0	10.4	10.7
Nov-82	Jul-90	9.1	8.3	7.8	8.1
Mar-91	Mar-01	6.8	5.0	4.2	4.8
Nov-01	Dec-07	5.3	4.0	2.1	3.6



The 10-year yield declines 160  
basis points in recessions

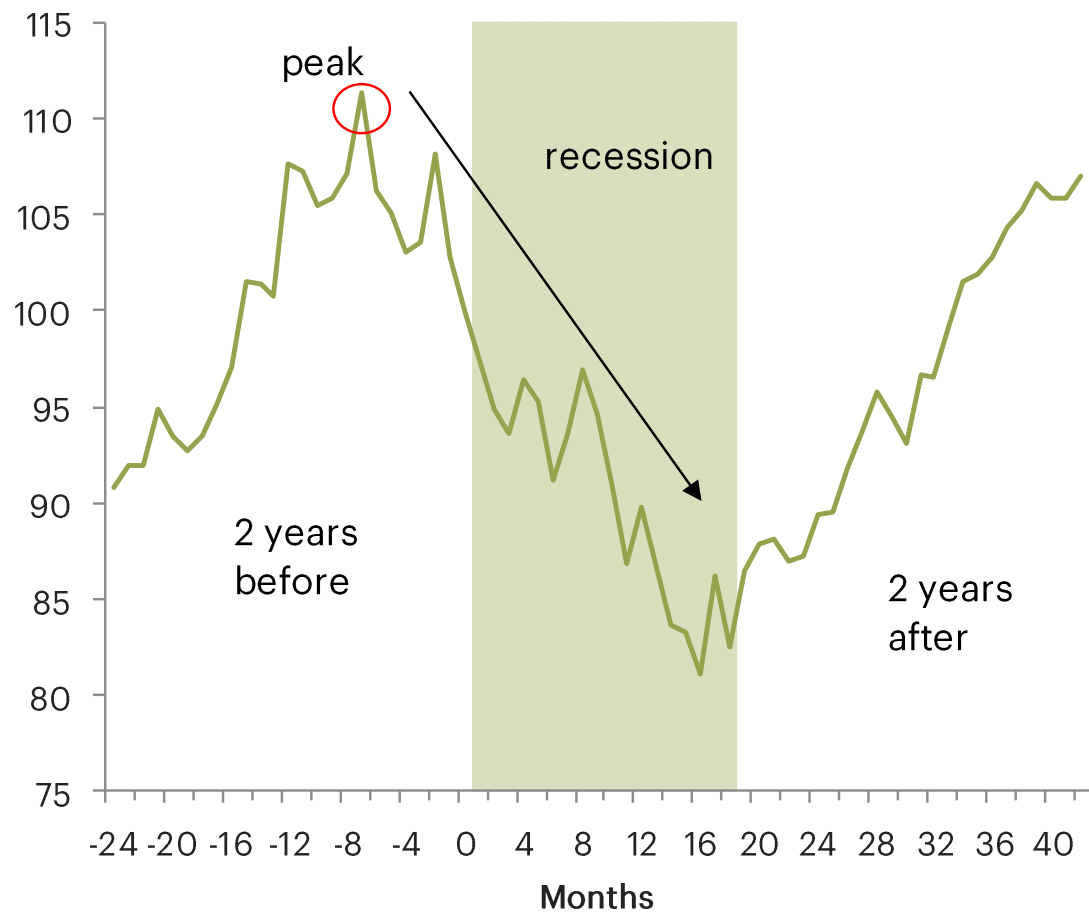
Notes:  
Source: Haver Analytics, Gluskin Sheff  
GluskinSheff.com

# STOCKS AND BONDS THROUGH THE CYCLE

## United States

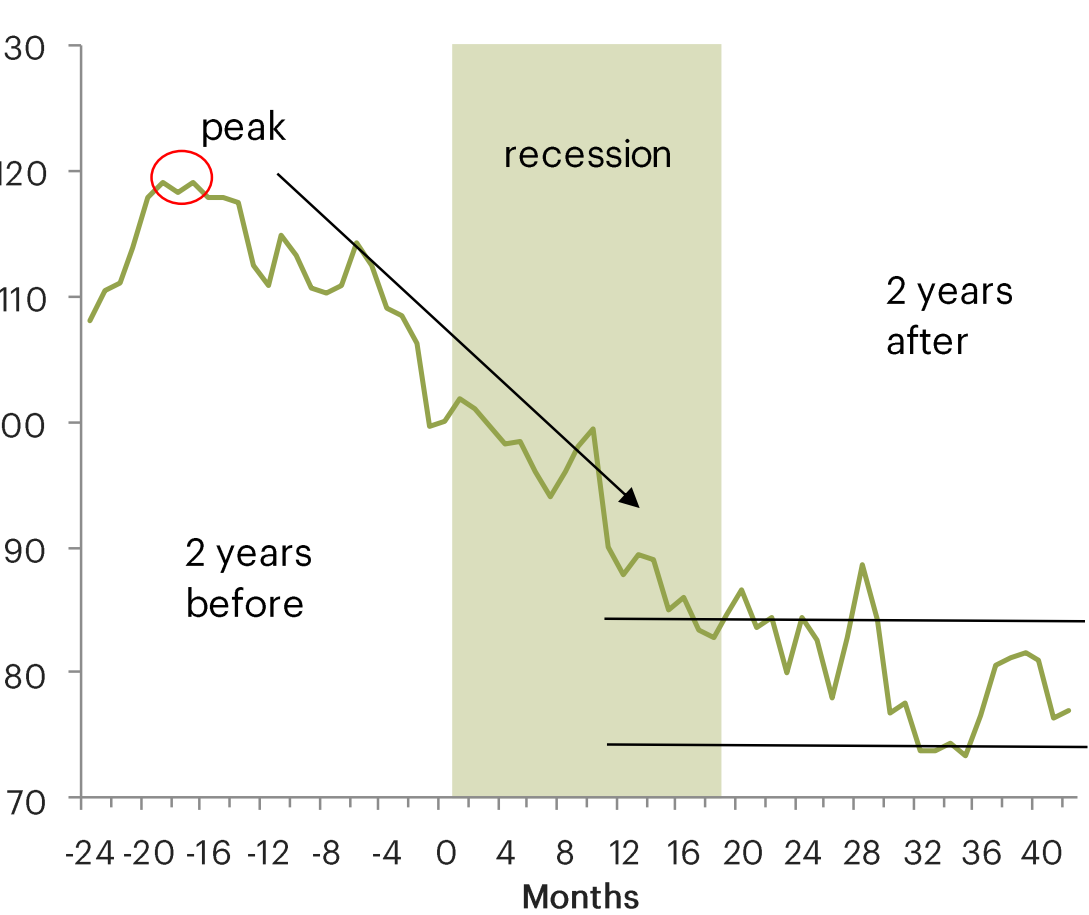
### S&P 500

(start of recession = 100)



### 10-Year T-Note Yield

(start of recession = 100)

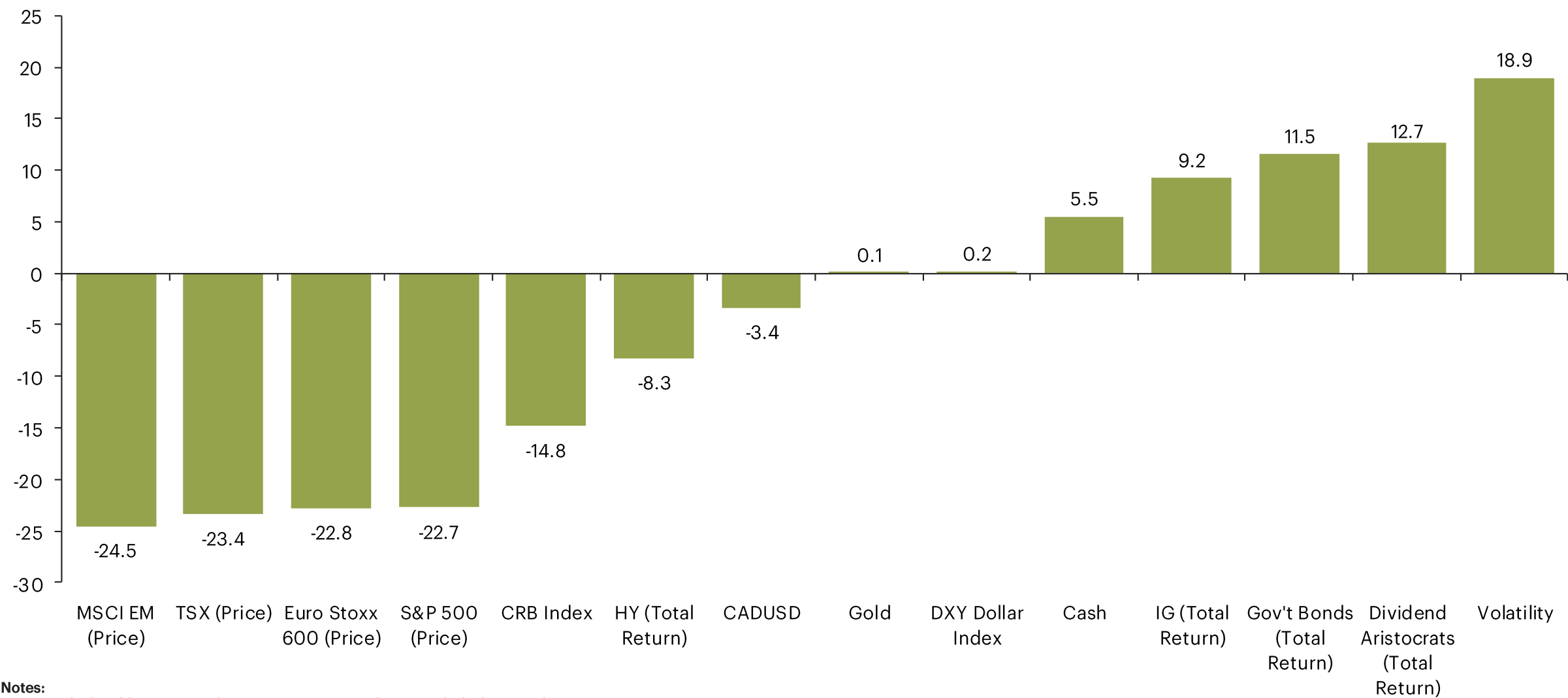


Notes:  
Source: Haver Analytics, Gluskin Sheff  
GluskinSheff.com



# HOW TO BE POSITIONED IN A RECESSION

Median Return  
(annualized percent change)

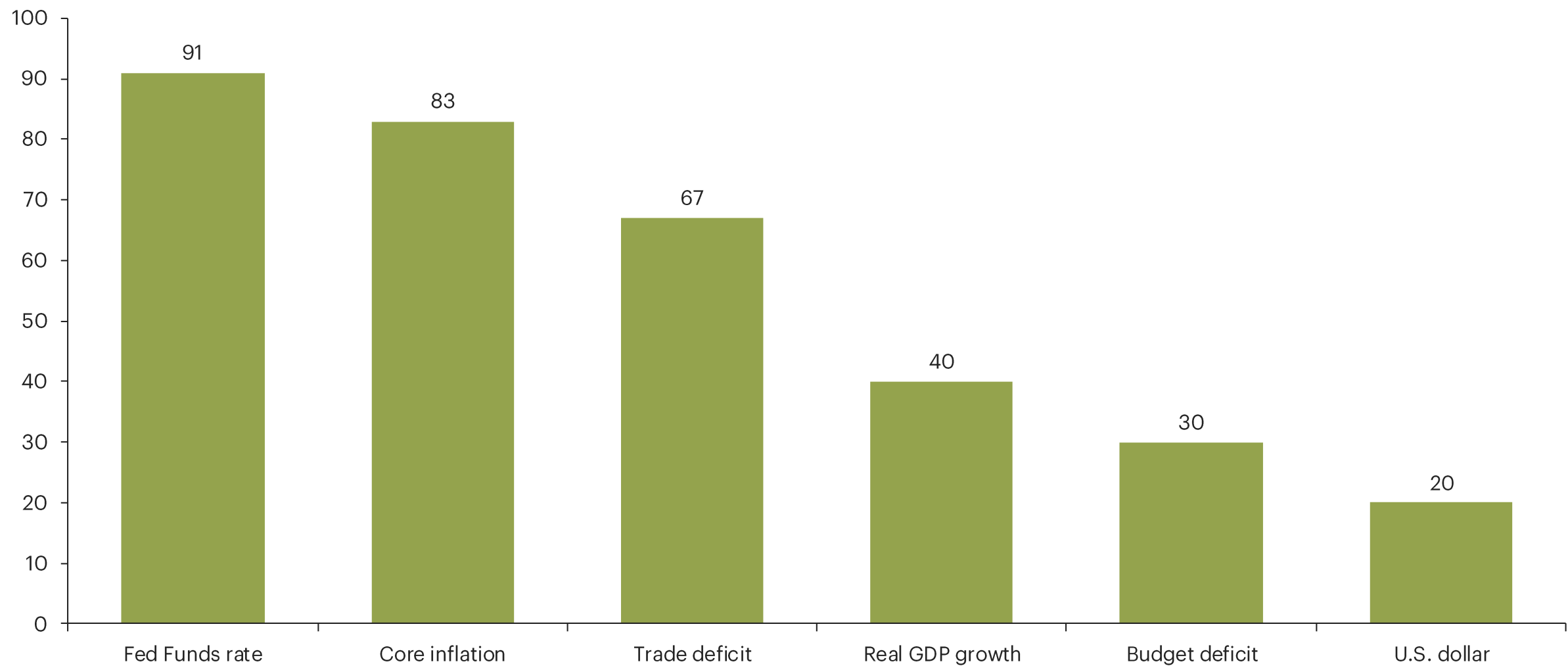


**Notes:**  
Returns calculated from six months prior to recession to three months before it ends  
Source: Bloomberg, Gluskin Sheff  
[GluskinSheff.com](http://GluskinSheff.com)



# WHAT BEST CORRELATES WITH 10-YEAR T-NOTE YIELDS?

United States  
(percent)



Notes:  
Source: Haver Analytics, Gluskin Sheff  
GluskinSheff.com

## THE FED WILL HAVE VERY LITTLE LEEWAY IN THE NEXT DOWNTURN

		Federal Funds Rate (%)		
Start	End	Start Level	End Level	Delta
Oct-57	May-58	3.50	0.57	-2.93
May-60	Jul-61	3.83	1.18	-2.65
Nov-66	Jul-67	5.74	3.79	-1.95
Feb-70	Feb-71	8.95	6.03	-2.92
Sep-71	Feb-72	5.53	3.30	-2.23
Jul-74	May-75	12.91	5.22	-7.69
Apr-80	Jul-80	17.43	9.01	-8.42
Jul-81	Dec-81	19.10	12.44	-6.66
Aug-84	Dec-84	11.50	8.13	-3.38
May-89	Sep-92	9.81	3.00	-6.81
Dec-00	Jun-03	6.50	1.00	-5.50
Aug-07	Dec-08	5.25	0.13	-5.13
Average		9.17	4.48	-4.69

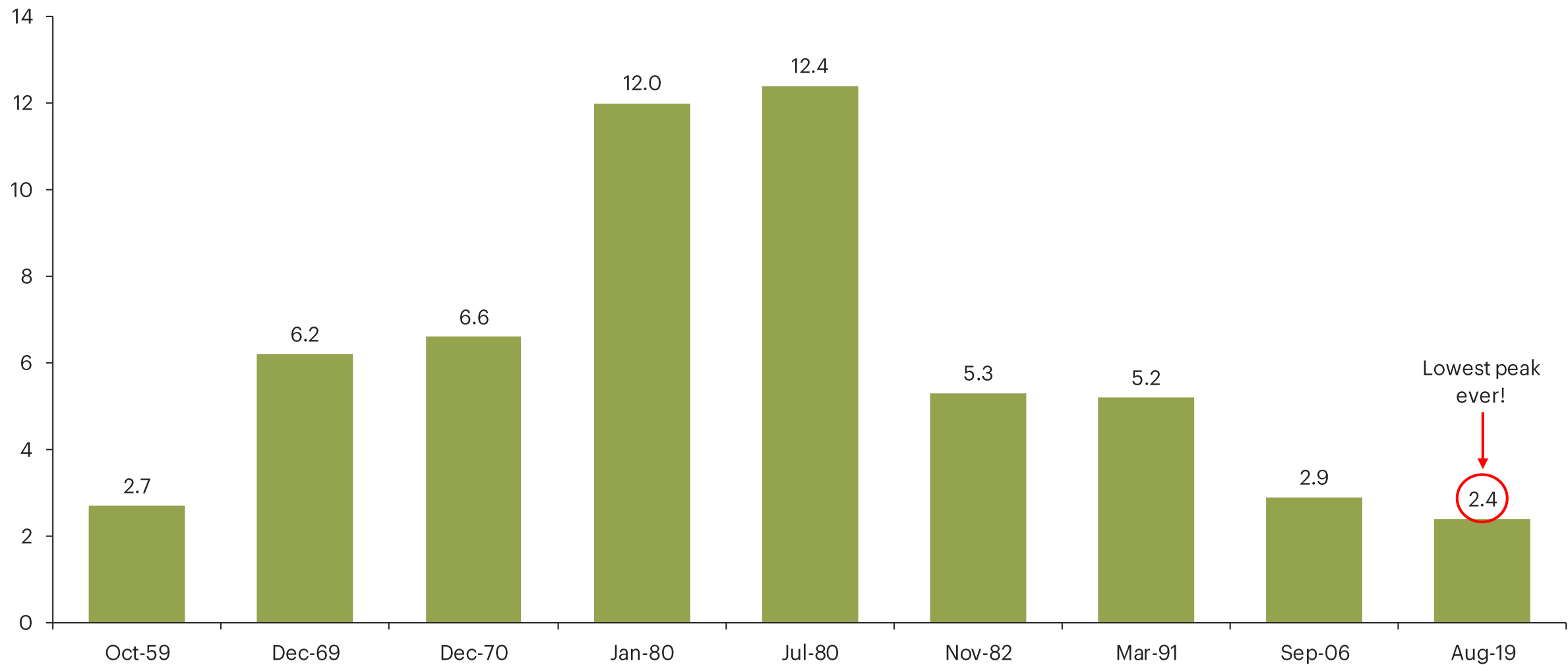
**Notes:**

Source: Haver Analytics, Gluskin Sheff

[GluskinSheff.com](http://GluskinSheff.com)

# PEAKS IN CORE INFLATION GETTING LOWER...AND LOWER!

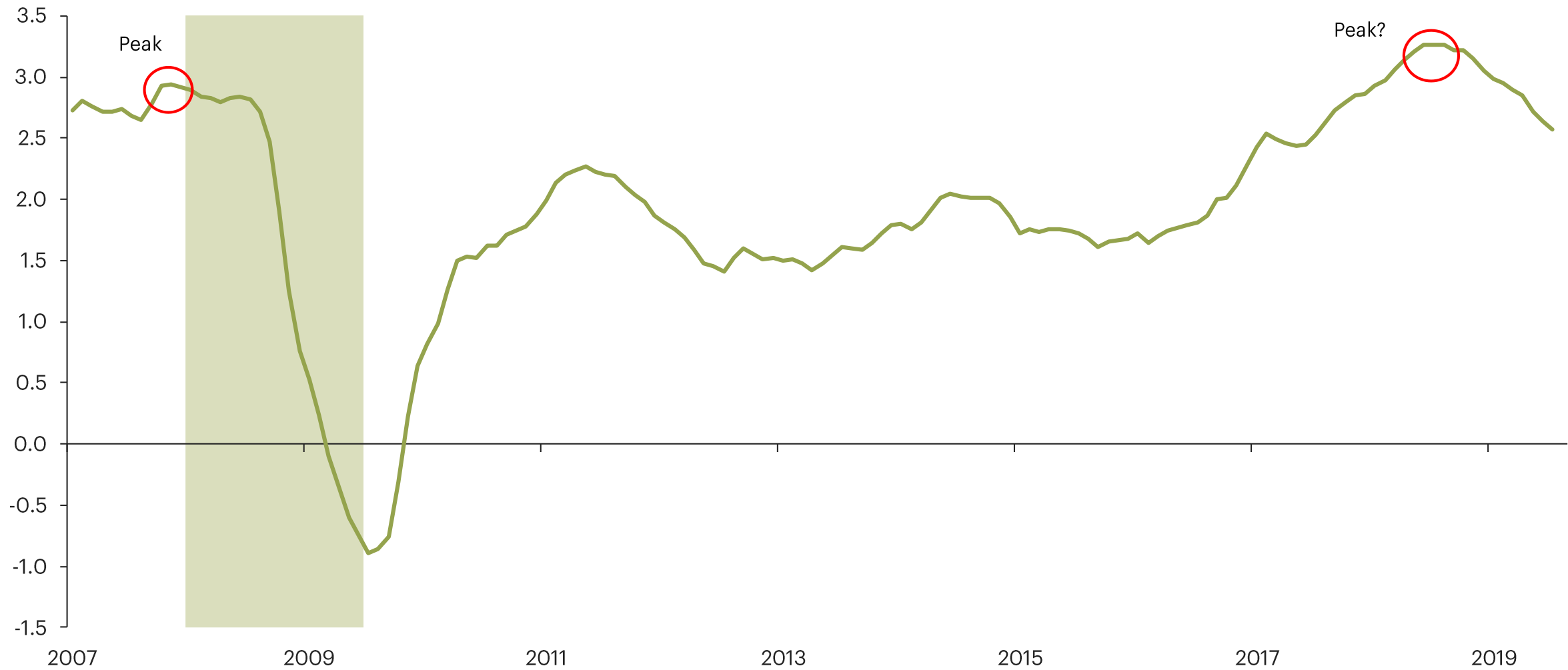
United States: Core CPI  
(year-over-year percent change)



Notes:  
Source: Haver Analytics, Gluskin Sheff  
GluskinSheff.com

# HAS INFLATION PEAKED FOR THE CYCLE?

United States: New York Fed Underlying Inflation Gauge  
(year-over-year percent change)

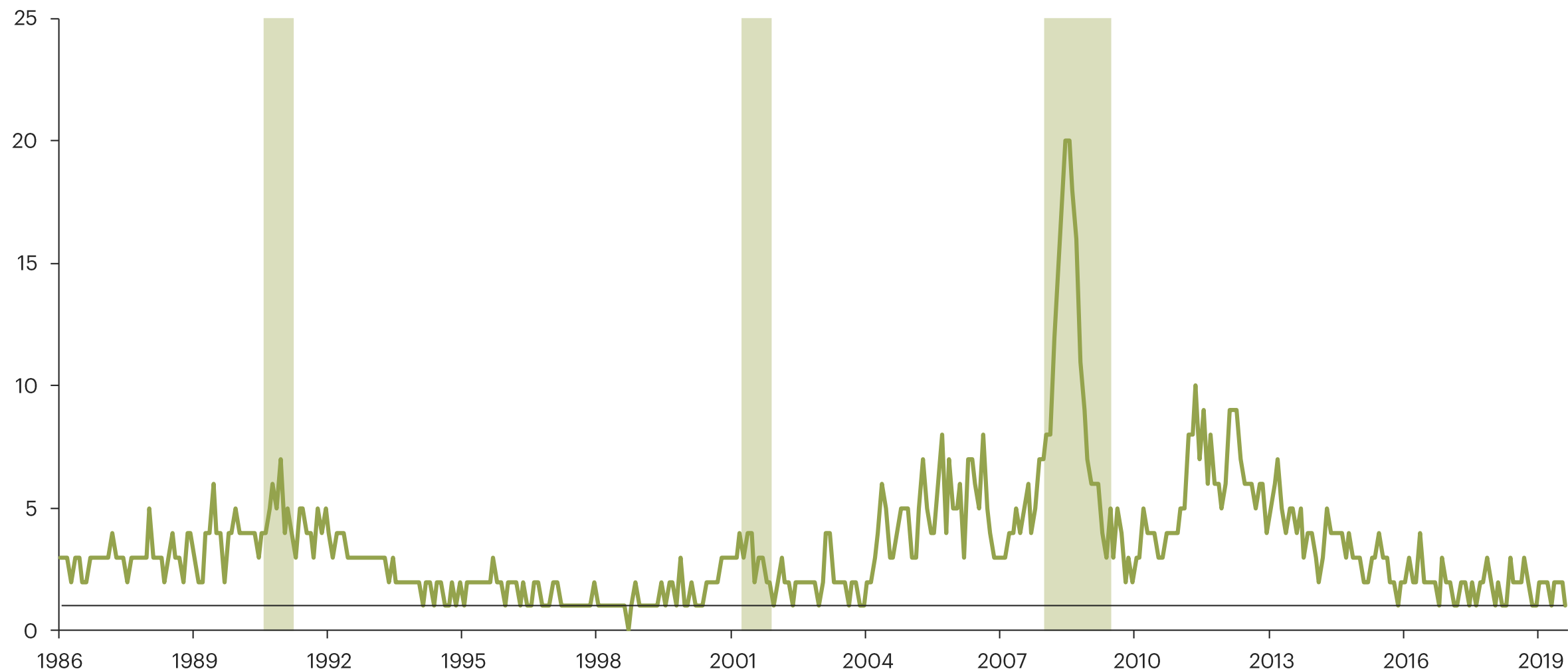


**Notes:**  
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Source: Haver Analytics, Gluskin Sheff

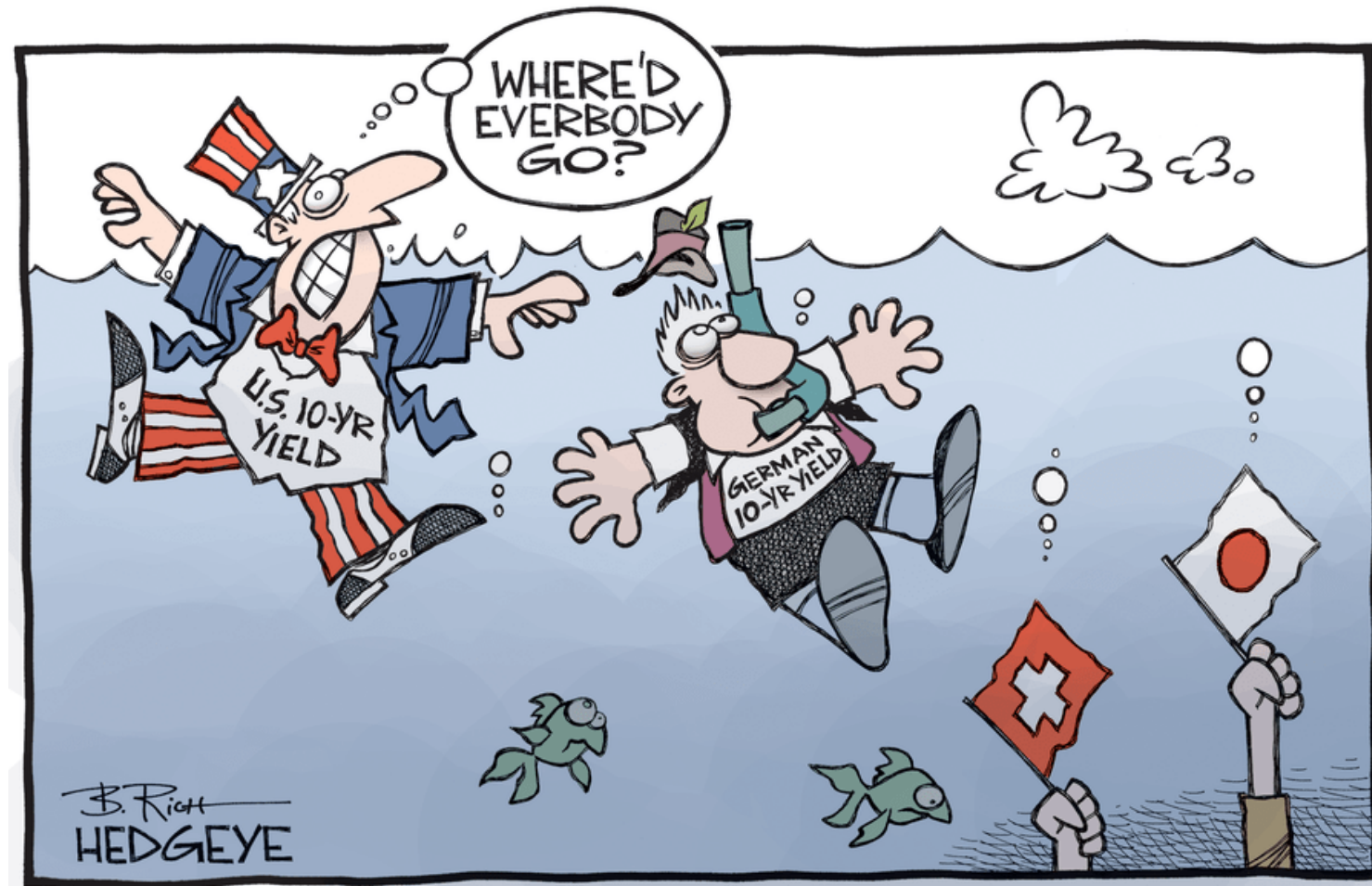
# IF BUSINESSES AREN'T NERVOUS ABOUT INFLATION, NEITHER SHOULD INVESTORS

## United States: NFIB: Inflation as Single Most Important Problem

(percent share of respondents)



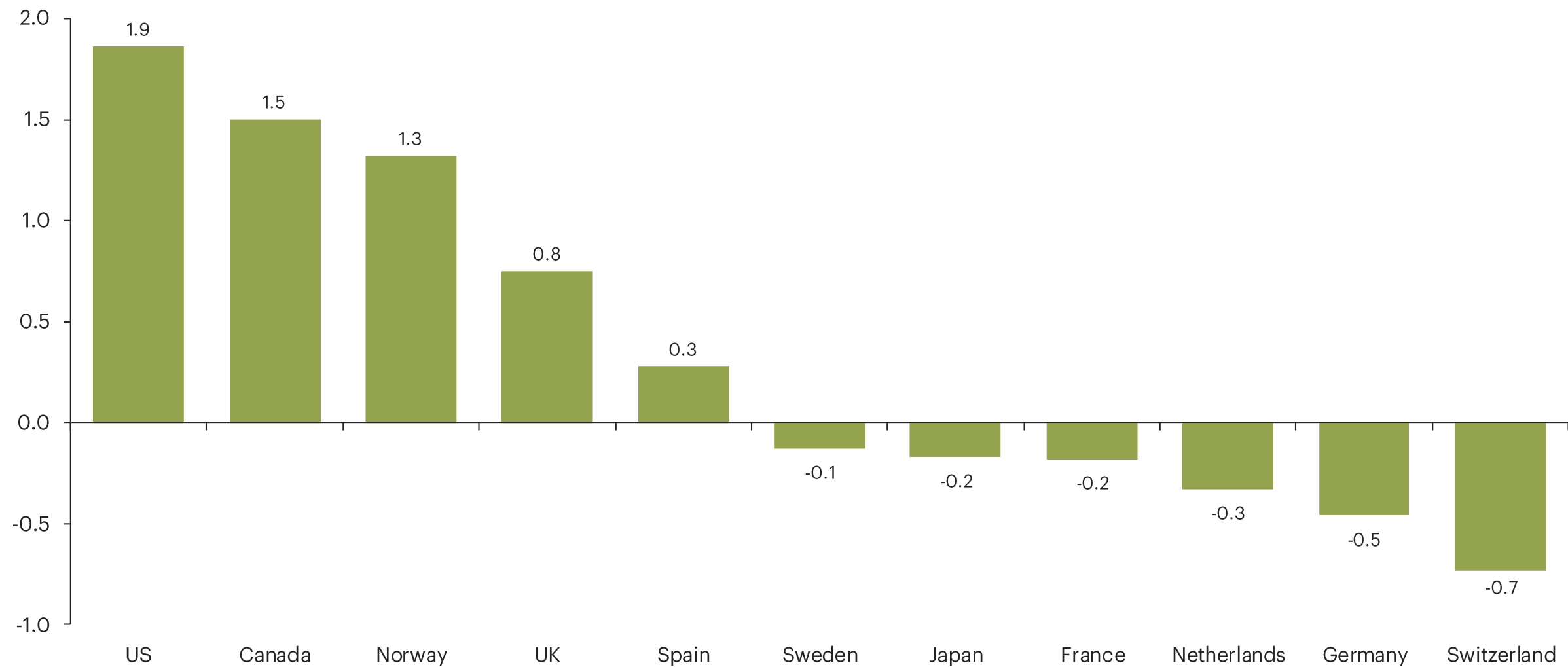
**Notes:**  
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Source: Haver Analytics, Gluskin Sheff  
[GluskinSheff.com](https://www.gluskinsheff.com)





# U.S. TREASURIES: THE WORLD’S “BEST HORSE IN THE GLUE FACTORY”

Global: 10-Year Government Bond Yields  
(percent)



**Notes:**  
As of September 13, 2019  
Source: Bloomberg, Gluskin Sheff  
**GluskinSheff.com**

# WE HAVEN'T BROKEN OUT OF THE DOWNTREND JUST YET

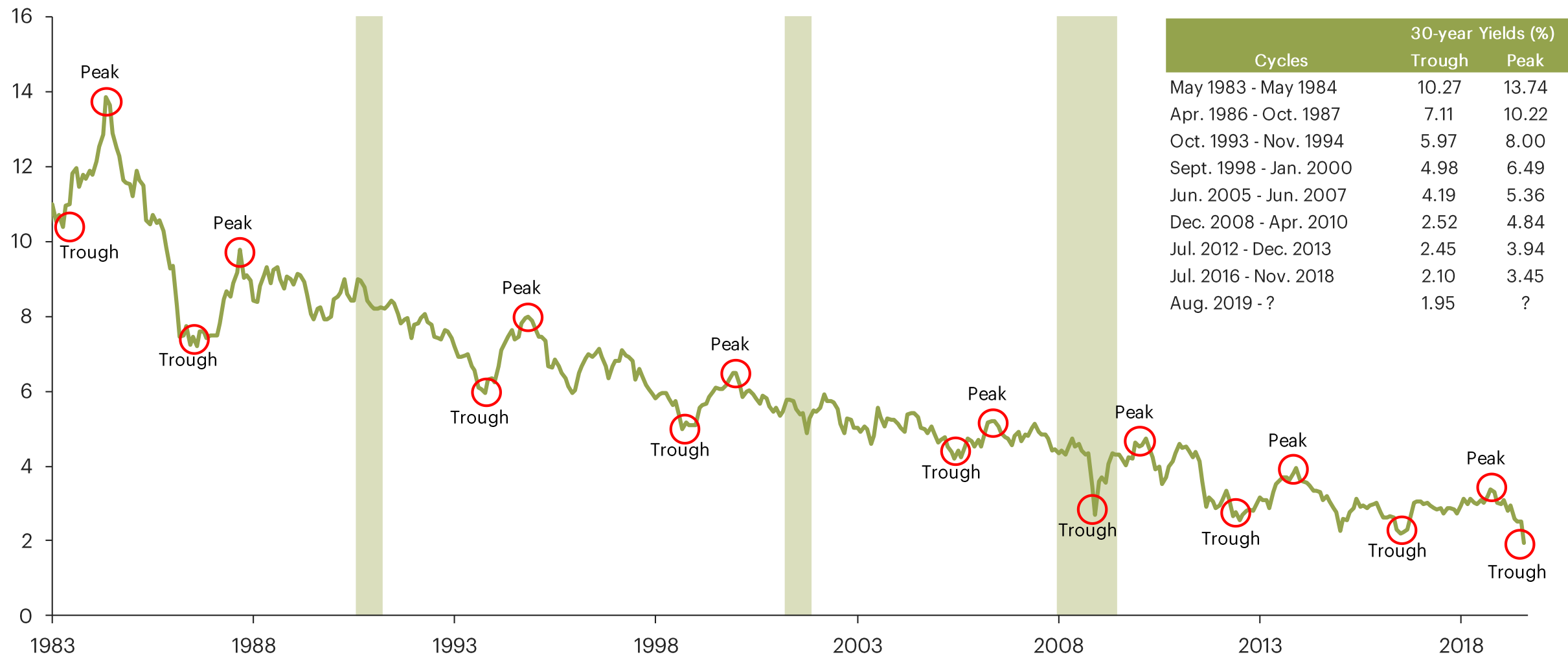
United States: 10-Year Treasury Note Yield  
(percent)



**Notes:**  
Shaded regions represent periods of U.S. recession  
Source: Haver Analytics, Gluskin Sheff  
[GluskinSheff.com](http://GluskinSheff.com)

# WE HAVEN'T BROKEN OUT OF THE DOWNTREND JUST YET

## United States: 30-Year Treasury Bond Yield (percent)



**Notes:**  
Shaded regions represent periods of U.S. recession  
Source: Haver Analytics, Gluskin Sheff  
[GluskinSheff.com](http://GluskinSheff.com)

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