
# ECONOMIC COMMENTARY - By Francois Stofberg

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## HAKUNA MATATA

*The United States (US), what a wonderful place.*
*The US, ain't no passing craze.*

Although the US caused much concern and worries leading up to the global financial crisis (GFC), much has changed since then:

+ new rules and laws were written to govern the game;
+ transparency increased as the age of digitisation took flight;
+ social responsibility has become a strategic advantage; and
+ watchdogs have grown big teeth.

All of this is aimed at protecting consumers from another bubonic-scale recession like the GFC. So, the expected slowdown, and possible recession in the US, will most likely look a bit different this time.

Recently, as fears of an impending recession reached a critical level, global investors rushed to safety-assets, most notably gold and the US 10-year treasury bonds. A higher demand increased the price of gold from roughly $1,400 per ounce to $1,515; an increase of 8.2%.

Similarly, a higher demand for bonds increases the price for the instrument. But higher prices mean lower yields, the inverse of price. As a result, yields on the US 10-year came down from around 2.08% to 1.55%; a rather dramatic move. This decrease in yield was exaggerated by a 32% shock fall in Argentina's emerging market. Although the reason for the fall in Argentina's market is political, it has very little to do with whatever is happening in local politics or the general state of affairs in South Africa. That's why our rand is happy above R15 to the US$, and why there's another outflow of short-term capital (most notably bonds).

So, where are we with all this talk of a recession? Yield-curve logic about US recessions suggests that after a yield curve inverts, a recession is usually about 22 months away. In December 1988 the yield curve inverted, and a recession followed in July 1990. Again, in March 1998 the yield curve inverted, and the recession followed in March 2001. Finally, two years after the yield curve inverted in December 2005 the first signs of the GFC hit in December 2007. Currently however, the US market is being kept alive by consumers, and not investors. Consumers are as healthy as they've ever been and continue to see strong wage growth and employment. Sentiment among the major banks is that the current cycle will continue if jobs are being created fast enough to absorb new market entrants. Using large nationwide companies like Walmart and Cisco as market-proxies, we can gauge additional information about consumption and investment in the US. Although Walmart's sales looked strong, forecasts suggest that spending in the US will be slowing down. Similarly, the fall in sales at Cisco, a US manufacturing technology conglomerate, highlights what we've known to be true about investors: businesses are weary of investing. Luckily, US companies have become capital-lean, able to continue producing favourable returns with aging capital.

If we follow yield-curve recession logic, and the additional information from market-proxies, a recession will most likely be a while away, 18-22 months, but it can also happen sooner. However, until the recession, the US Federal Reserve (Fed) will continue to support the US economy by cutting interest rates to boost consumption and reduce the cost of debt. Markets expect up to four rate cuts over the next 18 months. Not only will lower rates help to keep the US economy alive, but as markets continue to correct and buffer against headwinds the eventual impact will most likely be limited to a hiccup.

Hakuna Matata everyone!

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