THE FUTURE: STAGNATION
DON'S BLOG 2019.02.19

Most everything I see indicates we are presently in a recession or soon will be. Yet, the stock market continues to act as if there are only fair skies ahead. Please note chart #1 below as an example. Although the S&P 500 has really not gone anywhere over the last five months, you can see earnings (as well as the economy) since the first of the year have grown weaker. Another sign of possible weakness is chart #2. One can see there is a long relationship between Federal tax receipts and the economic cycle. This seems to be a rather strong leading indicator. So, if the stock market refuses to decline in the face of economic weakness, what could be the reason? Answer is maybe one or all of the following:

1. The Federal Reserve will come to the rescue.
2. The Federal government will inject spending into the economy.
3. The economy is about to turn strong again.

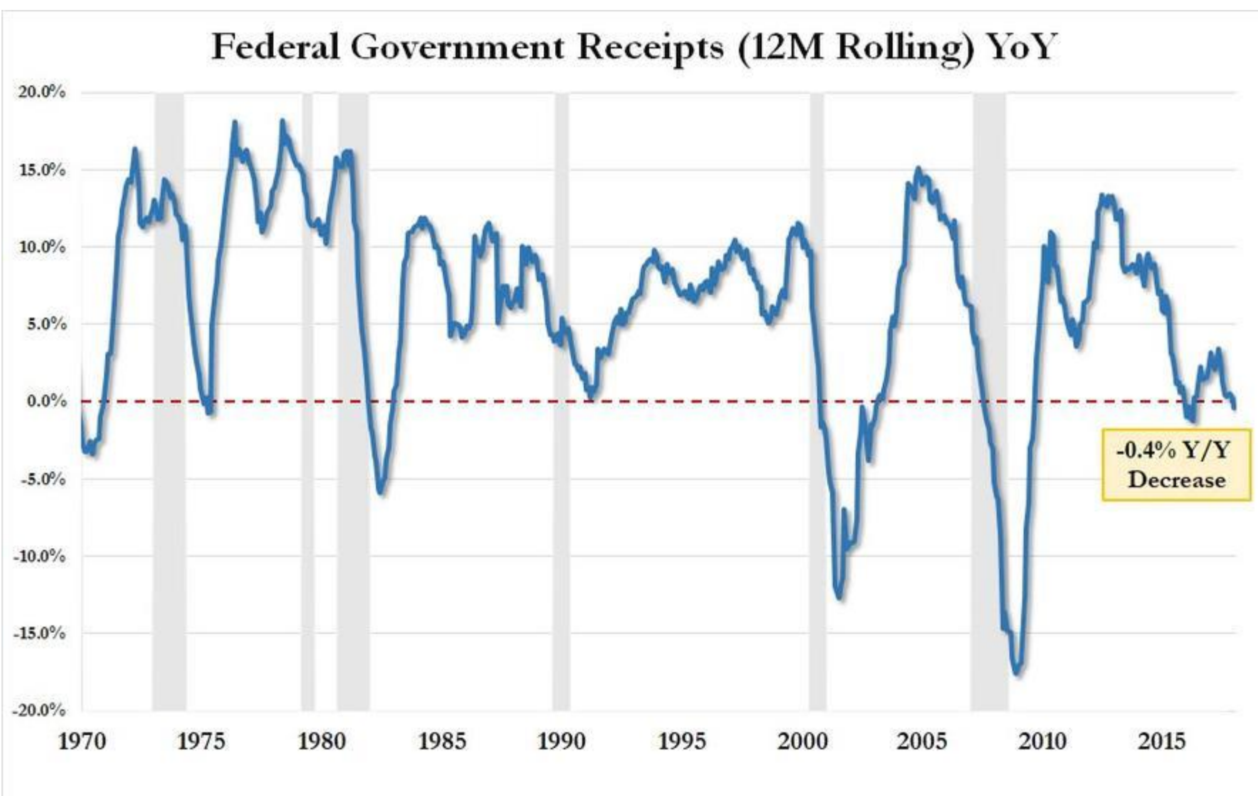
I don't believe any of the three would be of benefit at this stage of the game. Why? Too much debt and little to no increase in productivity. Various things work, until they don't. Papering over prior recessions and not allowing them to clear the playing field has its dark side.

There will be a better day. I don't expect the end of the world. However, good growth (+3%) on a sustainable basis is not in the cards. Total returns on stocks are bound to be 0-2% as far as one can see. On the other hand, the good news is there is little to no inflation for years ahead—baring a world war—which means low real growth and will be acceptable to many.

The following charts #3 and #4 give one another look at the debt problem, which gets worse every day. How will this change? I'm sorry to say, not much. Debt is a killer.

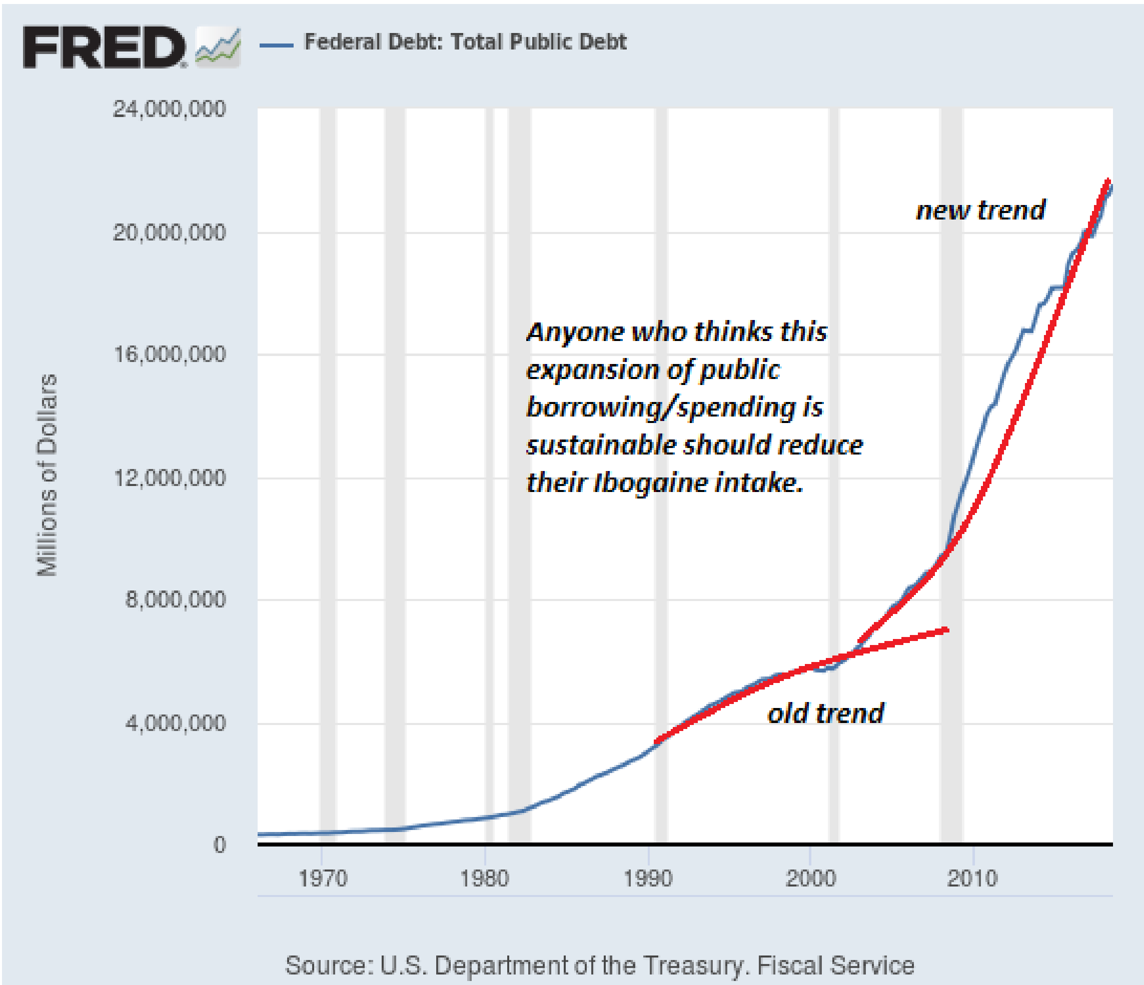
Chart #1

Chart #2



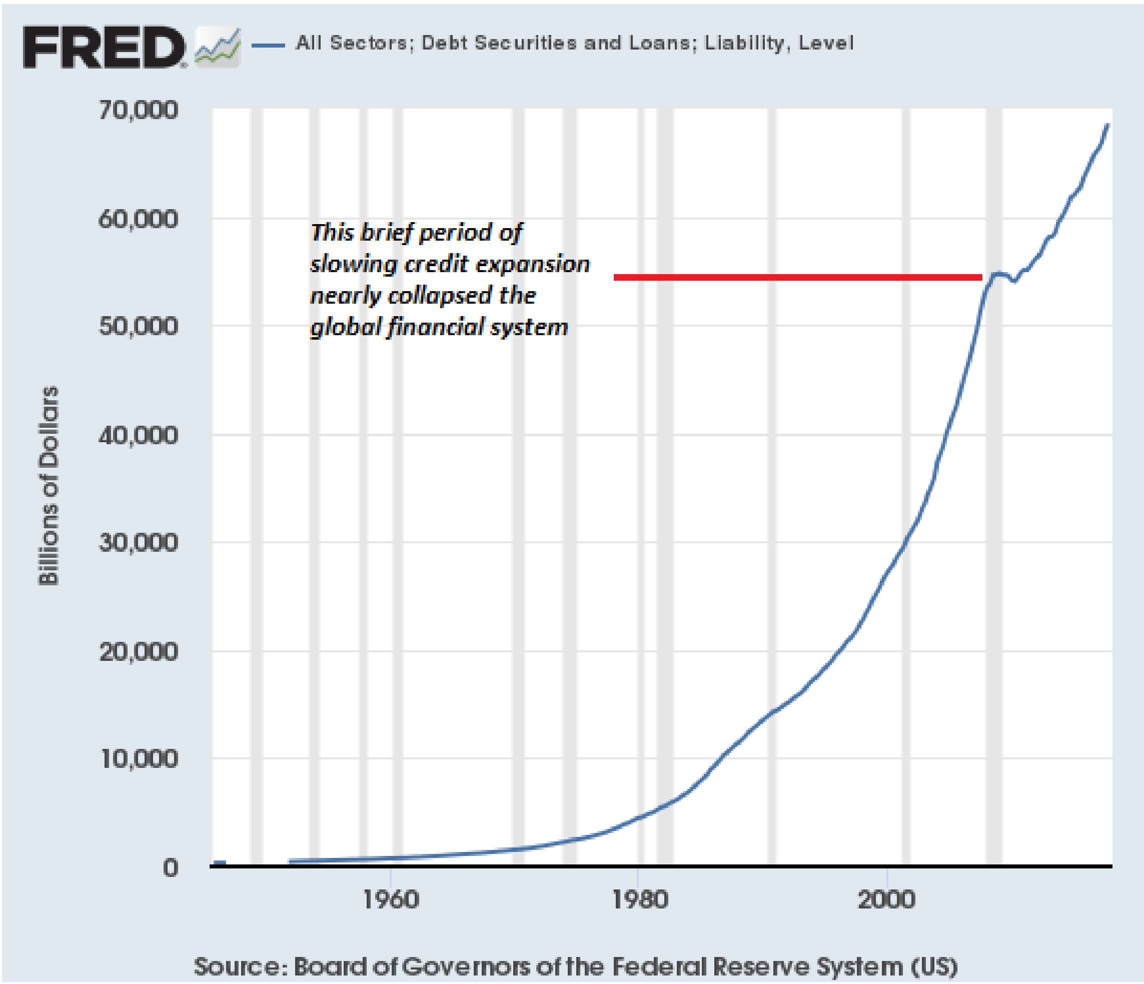
Adapted from zerohedge.com

Chart #3



FRED
Federal Debt: Total Public Debt
24,000,000
20,000,000
16,000,000
12,000,000
8,000,000
4,000,000
0
Millions of Dollars
1970
1980
1990
2000
2010
new trend
Anyone who thinks this expansion of public borrowing/spending is sustainable should reduce their Ibogaine intake.
old trend
Source: U.S. Department of the Treasury. Fiscal Service

Chart #4


FRED
All Sectors; Debt Securities and Loans; Liability, Level
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
Billions of Dollars
1960
1980
2000
This brief period of
slowing credit expansion
nearly collapsed the
global financial system
Source: Board of Governors of the Federal Reserve System (US)