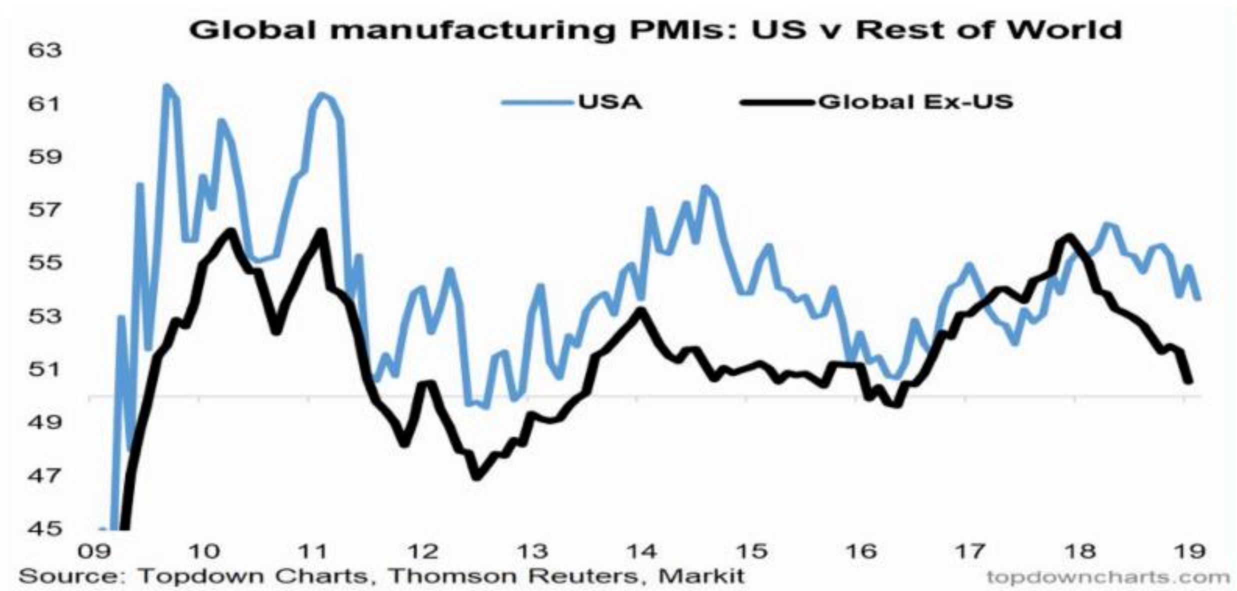
THIS ECONOMIC CHART OFFERS CLUES TO THE FUTURE

Things continue to grow more interesting, if not disturbing, on the geopolitical front, with the upcoming meeting between Donald Trump and Kim Jong-un, a decision on Brexit and the supposed release of the Mueller Report.

I ask you to consider the chart below, which illustrates the contrast, over the past decade, between the Purchasing Managers Index (PMI) in the United States and that of the rest of the world. It not only provides support for the behaviour of markets in the past decade but offers valuable insights into what we may expect going forward.



The PMI is a measure of economic strength based on a monthly survey of pertinent private sector companies. It is calculated such that a measure of 50 indicates no change in conditions, measures above 50 suggest growth and measures below 50 indicate a contracting economy.

A conspicuous observation from the chart is the powerful rebound in global economic growth that has taken place from the trough in early 2009. The recovery is largely the result of an unprecedented co-ordinated intervention by the world's central banks. Vestiges of central bank stimulus remain to this day, most obviously in the form of low or negative interest rates in much of the world.

A second obvious development depicted in the chart is the significant outperformance of the United States economy versus others in the past decade. Several reasons for the superior performance of the American economy were discussed in one of my early LinkedIn posts published in 2015 entitled *The Best Investment over the Next Five Years?*, which is available at no charge on the Global Investment Letter website. The article suggested that U.S. dollar-denominated assets would outperform competing assets based on the strength of the U.S. dollar and economy. The outperformance of the American economy over the past 10 years owes much to its breadth and depth. Its more recent relative strength is due to stimulus measures such as major tax cuts, which other major economies have yet to resort to.

A third observation can be drawn from the chart…..one that may provide a useful glimpse of what we can expect moving forward. The line that reflects the PMI for the "rest of world" tends to act as a leading indicator for the U.S. economy. Over the past year, non-U.S. economies have slowed considerably and are precariously close to slipping below 50 and into contraction, aka recession mode. The rate of growth of the American economy has weakened as well but has been supported by tax cuts and increased deficit spending. The positive effects of tax cuts tend to be greatest in the short-term and then have a steep decline curve. We can, therefore, infer that the slowing of the U.S. economy will continue and perhaps accelerate.

In conclusion, the chart suggests that the global economy has yet to slip into recession, with the economies of both the U.S. and the "rest of world" registering PMIs above 50. However, the steep decline in growth in non-U.S. economies is troubling, particularly given how close they are to slipping into recession. Enormous global debt levels, a deteriorating geopolitical picture and limited weapons available to central banks to combat recession add to concerns. The chart suggests we are in the late stages of a very long-lived economic expansion. A lessening of protectionist trade policies and a more positive geopolitical environment may forestall the next recession temporarily, but the prospect of a global recession looms on the horizon. Investors should monitor the PMI reports for both the trends and absolute numbers reported for valuable input into their decision making.

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