

Why were set for global rally, not recession

Recessions hit when people aren't talking about them, they've never struck when pundits call them ahead of time.

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While wisdom can be found in crowds, the consensus is not always correct. That's certainly the case with the current consensus that the global economy, led by the US, is about to dip into [recession](#).

Not only is a global or US recession unlikely, the inverse is probable, which will cause US and leading global equity bourses to [rip higher](#) – in other words, a sharemarket rally.

Quantitatively difficult to demonstrate but empirically easy to evidence, no recession or subsequent markets retracement has ever begun when the consensus has rung recessionary alarm bells. Recessions hit when people aren't talking about them - they've never struck when pundits are calling for them to begin.

Virtually no one was calling a crash before the October 1987 Black Monday collapse. Nor when the tech-fuelled dotcom bubble popped in March 2000. Those who called and took hedged positions before the global financial crisis of 2007 had Hollywood blockbusters made about them, lauding their prescience.

False narratives and misreading of the zeitgeist should not ride roughshod over sound and proven financial market principles.

For instance, the smartest thing Donald Trump has done since his accession to the presidency has been his nativist-fuelled mercantile stance against China, which has incorrectly been referred to as a “trade war”.

For a celebrity who became a politician primarily based on his "tough man" profile and one who lacked any form of serious policies, it was a deft move to proverbially click his fingers and begin a trade dispute – this is the only serious political position Trump holds and there is no chance he will give up his Trump card any time before re-election. 2024?

Not a real trade war

The origins of today's fracas are, if anything, pre-trade war and if further escalations continue will lead to a real one. But references to today's actions and countermeasures as a trade war are a misnomer.

Trump's stance against China has been politically his cleverest move yet. Just like President George W Bush's “war on terror” had no clearly defined enemy, end-date or limitations, so too Trump's dubbed trade war has no limitations, no set time frames nor measurable goals or end – the hegemonic tussle between China and the US will be fought over decades and most certainly not finished in weeks or months.

The surge in anti-fragile assets such as sovereign government bonds since May demonstrates that capital markets remain responsive to geopolitical and systemic risks and are operating as efficiently as can be expected in the eleventh year of the longest US economic expansion on record.

If these anti-fragile assets had not surged, it would be justifiable cause to at least press amber recessionary buttons.

Following the extraordinary and unconventional monetary measures taken during the nadir of the Great Recession, what transpired between 2012 and March 2016 was that developed and emerging markets rallied significantly thanks to nimble global hedge funds, which all claimed they had idiosyncratic and nuanced factors driving their investing methodologies.

What transpired in March 2016 was that one keystone factor – "momentum" – collapsed through the floor and exposed that the emperor had no clothes. Hedge funds had been talking up their false narratives but had actually been hyper-converging towards one and only one style of hedge fund investing, known as the "momentum trade".

This is why calendar year 2016 was the worst for hedge funds globally on record.

New narrative

The surprise victory of Trump in November 2016 gifted these market participants a new narrative to re-ignite their momentum locomotive, which cutely became "Trumponomics".

Since Trumponomics began, neither the US nor developed markets have retraced by any more than one standard deviation, which is unprecedented.

While the contemporary view is that Trump and Trumponomics are the beginning of the end of Western civilisation, leading US market participants have backed the Trumponomics momentum trade until its end, which at its earliest cannot be before Tuesday, November 3, 2020.

Shocking to some, this is why leading market players such as JPMorgan have this month called a rally in US equities advancing into the end of the year, on the justification that a string of positive catalysts could lift equities further. These could include the restart of the European Central Bank's quantitative easing program, the potential for a second and bigger rate cut by the Federal Reserve, along with signs that business activity may have bottomed out and improving technical indicators.

Similarly, Goldman Sachs posits that forward-looking signals from the second-quarter US earnings season support a forecast that the S&P500 will rise by 7 per cent by the end of the year.

There is nothing cute about recessions, nor is there a prize for trying to call the beginning of one early. What's important is to remain focused on what is sound and proven and as much as possible acknowledge but ignore those riding roughshod over reasonableness or reality.

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