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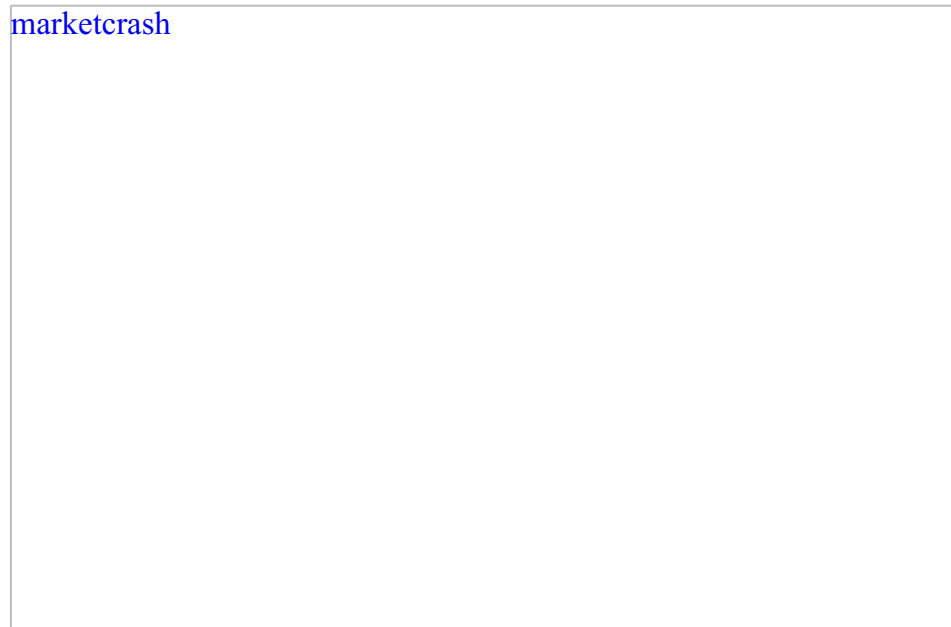


## Will A Market Selloff Turn Into Worldwide Recession?

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**ASSOCIATE EDITOR'S NOTE:** It's nice that the mainstream academic economists are finally getting with the program in terms of collapsing demand across the financial spectrum. Of course, it's too little too late. By the time this information is digested by the general public, it will be far too late for any of them to properly prepare for what's in store. Hopefully, the efforts of alternative economic analysts have educated enough people to make a difference when global fiscal mechanics grind to a halt. After all is said and done, it has been the mainstream financial media that has played a considerable role in the misdirection of the American public in particular, and such people deserve to be punished for it.

**Regards,**

***Brandon Smith***

*This article was written by Bob Adelman and originally published at [The New American](#)*

Olivier Blanchard, the former chief economist for the International Monetary Fund (IMF), [said back in October](#) that his biggest fear is the “herd” mentality of investors who sell even if they don't have any news to back up their decision: “Investors worry that other investors know something bad, and so they just sell, although they themselves have no new information.”

At bottom, it is said, markets are driven by expectations and not by numbers. When the numbers get bad enough, the “herd” mentality takes over, and investors who have been holding losing positions, finally cave, and liquidate, taking their losses.

The numbers are bad enough. Thomas Thygesen, the head of economics at the Swedish banking conglomerate SEB, [told 200 commodity brokers and analysts last month](#) that a global recession is on the way. He then recounted signals of recession:

- Commodity prices — not just oil — have dropped by two-thirds since the summer of 2014;
- Oil has suffered the worst price decline in recent history;
- Crude fell to \$10 a barrel in the late 1990s in the wake of the Asian financial crisis, suggesting that the same could happen again;
- The impact of the collapse in crude should have a positive impact as industry relies heavily on energy to drive itself, but it's not;
- The “tail” of the oil price decline is causing bankruptcies that are negatively impacting banks and forcing them to recast their balance sheets, cut back on loans to the oil industry, and, in some cases, cut their dividends;
- The decline is “imperiling the finances of producer nations from Nigeria to Azerbaijan”; and
- China's reports of 6 percent growth are increasingly being written off as unrealistic, perhaps even fraudulent.

Blanchard added to this litany, that the world economy may have reached a “tipping point,” noting, “This would be a serious shock. My biggest fear is precisely that the dramatic shift in mood becomes self-fulfilling.”

First, the average business cycle is five years. The start of the Great Recession was seven years ago. Second, the wave of bankruptcies in the oil sector will gain in number and ferocity, according to Blanchard. Third, the high-yield bond index “is now vulnerable” thanks to oil prices that are low and likely to remain low or even fall further.

In addition, the amount of debt that the oil and gas industry has accumulated worldwide is staggering: The industry has issued \$1.4 trillion of bonds and borrowed another \$1.6 trillion from banks for a total of \$3 trillion. With net free cash flows declining and in some cases disappearing altogether, the industry is increasingly threatened by its inability to service that debt. The ripple effect would reach far beyond the industry itself.

Bronka Rzepkowski of Oxford Economics is equally concerned: “Conditions that usually pave the way for mounting defaults — such as growing debt, tightening monetary conditions, tightening of corporate credit standards and volatility spikes — are currently [being] met in the U.S.”

And then there's history itself. Over the last 45 years the Standard & Poor's 500 Index (SPX) has suffered a loss of more than 12 percent on 13 occasions. Six of these have led to a recession in the United States, nearly half the time.

The same goes for Europe, according to Dennis Jose at Barclays Bank: “Of the 14 previous occasions [when] equities have had a similar decline, seven have been associated with recession.”

Michael Pento of Pento Portfolio Strategies and author of *The Coming Bond Market Collapse* points out that the average drop in stock prices — peak to trough — during the last six recessions has been 37 percent. That would take the SPX, currently trading at 1835, all the way down to 1300.

But, says Pento, “This one will be worse.” China, considered the driver of global economic growth for decades, has multiplied its debt by an astonishing 28 times since 2000. As that massive buildup is unwinding, the Shanghai stock market has declined 40 percent since June 2014, and the rout isn't yet complete. The problem, says Pento, is that China “has accounted for 34 percent of global growth” but without that, the global economy is in trouble.

There's the U.S. housing market, where the home price to income ratio is currently 4.1, way above the average of 2.6. This not only makes it increasingly difficult for first-time home buyers, it also means that existing home owners looking to move up can't find buyers.

There's the stock market in the United States, which, despite the recent selloff, has a "market capitalization to GDP" ratio of 110, compared to its long-term average of 75.

There's the debt taken on since 2007: Household debt is back to its former record of \$14 trillion; business debt has grown from \$10.2 trillion to \$12.6 trillion during that period; the national debt has ballooned from \$9.2 trillion to \$19 trillion; and the Fed's balance sheet is off the charts, moving from \$880 billion to \$4.5 trillion.

As the recession becomes more obvious, the Fed is left with few options. If it begins another program of monetary expansion — QE 4 — it "would cause an interest rate spike that would turn the recession into a devastating depression," said Pento, adding, "Faith in the ability of central banks to provide sustainable GDP growth [has] already been destroyed, given their failed eight-year [previous] experiments in QE."

Even economists at Citigroup, the third largest bank holding company in the country, are getting nervous. Jonathan Stubbs reported for the bank on Thursday, "The world appears to be trapped in a ... death spiral," adding,

[A] stronger U.S. dollar, weaker oil/commodity prices, weaker world trade/petrodollar liquidity, weaker [emerging markets and global growth] and repeat, ad infinitum. This would lead to Oilmageddon, a "significant and synchronized" global recession and a proper modern-day equity bear market.

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