The Next Recession?

New Canaan Rotary Club, January 31, 2019

- 12 Recessions since 1945.

- Peak to Bottom: 11 months.

Algorithms Veer to Bearish Bets

By Stephanie Yang

Investors have started to shake off last year's steep losses, helping markets regain some ground in 2019. But the robots are still almost uniformly bearish.

Trend-following investment strategies—a computer-based way of trading that has become a major force in some markets—have gone from bullish to bearish to a degree not seen in a decade, according to an analysis of algorithms that buy or sell based on asset-price momentum.

Funds that use such strategies likely went from holding net long positions, or betting that prices would rise, in four major asset classes—stocks, bonds, currencies and commodities—in the third quarter of 2017, to being short, or wagering against, everything but bonds by 2019. And even their embrace of bonds is bearish, signaling a flight to haven assets.
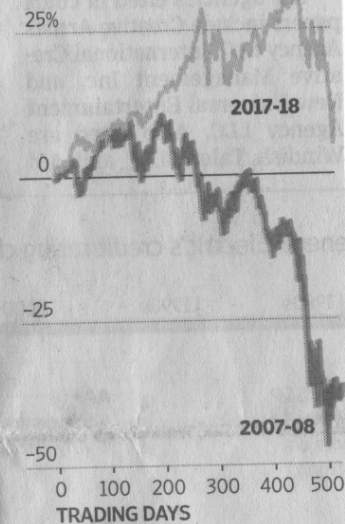
As global growth falters, trend-following programs are selling risky assets at a rate not seen since the financial crisis.

Net position of trend-following algorithms quarterly
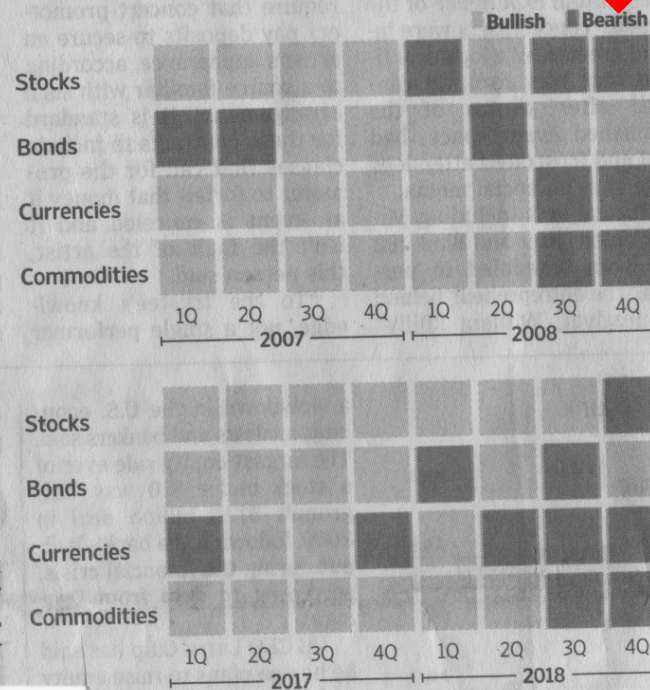
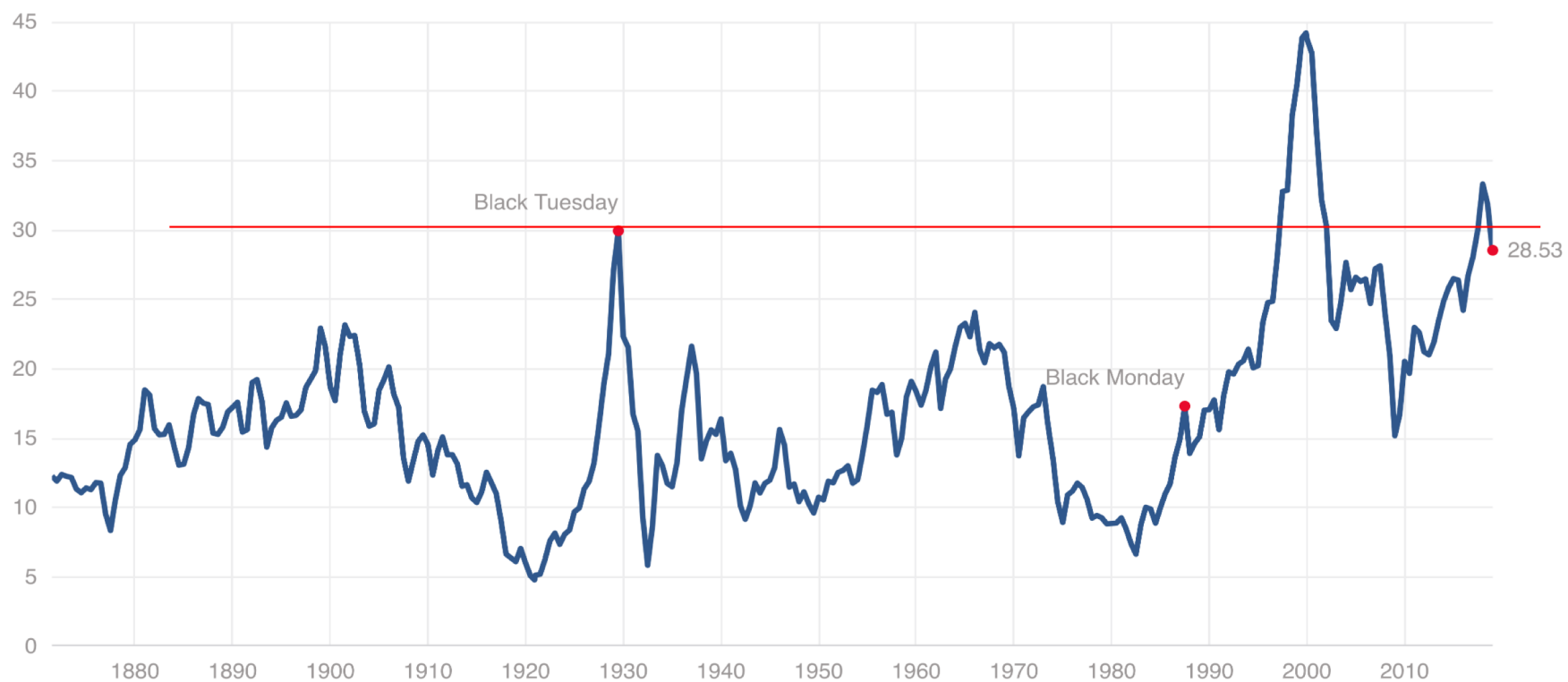Such strategies turned bearish as markets like stocks suffered declines.

S&P 500 two-year performance

Wall Street Journal, January 10, 2019, B1

- Computer Algorithms Anticipate Recession

- Time Since Last Recession: 12 Months.

Shiller PE Ratio

Yale University, January 11, 2019

Recession Indicator Close to 1929 P/E

Small Recession Effects on New Canaan

Range in 2016 Income	Population	% of Population
Less than $10,000	115	2%
$10,000 to $14,999	120	2%
$15,000 to $24,999	215	3%
$25,000 to $34,999	336	5%
$35,000 to $49,999	274	4%
$50,000 to $74,999	674	10%
$75,000 to $99,999	344	5%
$100,000 to $149,999	1,060	15%
$150,000 to $199,999	624	9%
$200,000 or more	3,256	46%
Total New Canaan Households	7,018	100%

https://factfinder.census.gov/faces/nav/jsf/pages/community_facts.xhtml

Half of NC Households Have Safeguards

US Has Half of Current Global Debt

Japan 8.6%

UK 6.1%

France 3.3%

Germany 3.2%

China 3.1%

Canada 2.9%

Switzerland 2.7%

Australia 2.4%

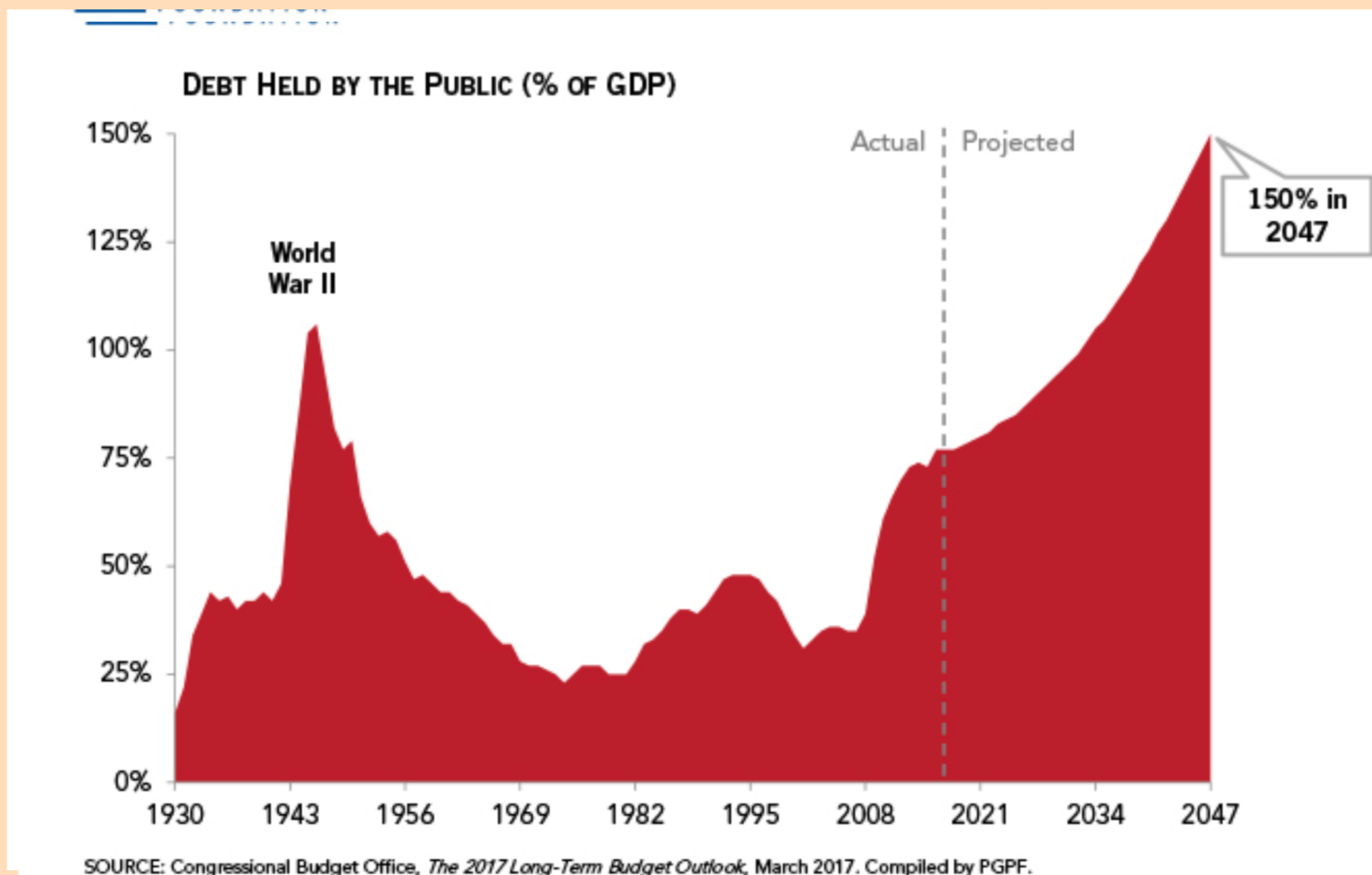Smaller Yearbook 7.1%

Not in Yearbook 9.3%

USA 51.3%
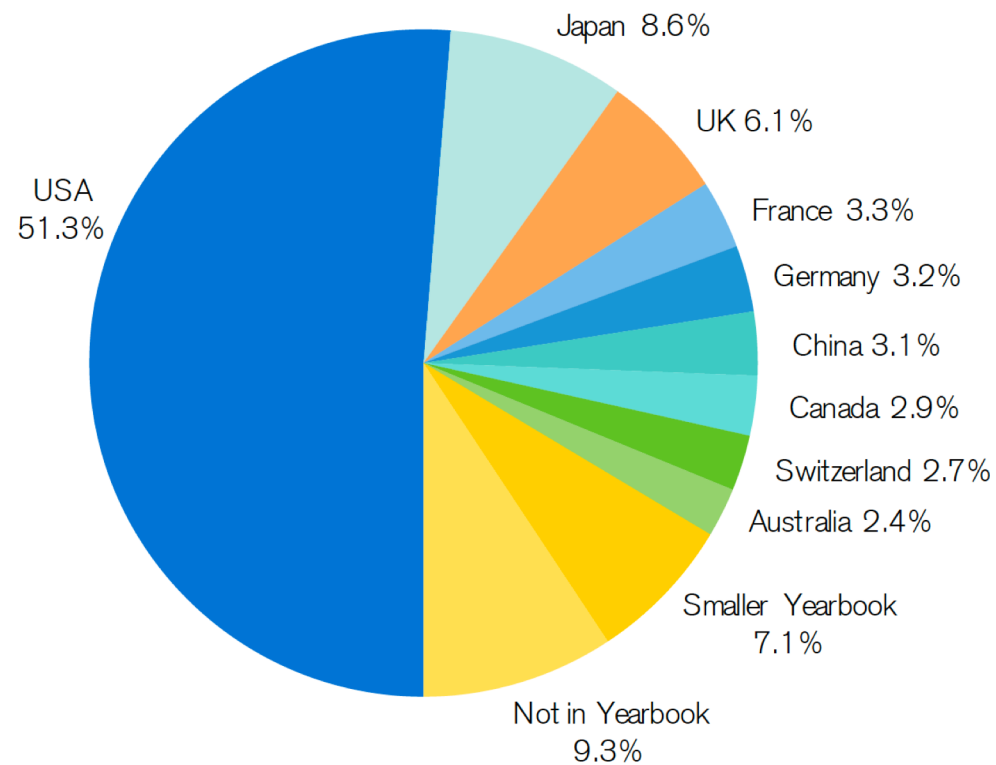
Source: FTSE Analytics FTSE All-World Index Series, December 2017

US 4.4% of World Population = 51.3% Debt

US Safeguarded Against Recession With 33.4% of World Wealth

	Wealth per Adult	Total Wealth - $ Trillions	Share of World Wealth
United States 2017	$388,585	$93.6	33.4%

Meanwhile US Debt Rise Increases the Risks of a Recession

DEBT HELD BY THE PUBLIC (% OF GDP)

World War II

Actual | Projected

150% in 2047

SOURCE: Congressional Budget Office, *The 2017 Long-Term Budget Outlook*, March 2017. Compiled by PGPF.

- Government Deficit
- Trade Deficit
- Social Security and Medicare
- Healthcare Costs
- Population is Aging
- Return on Capital Declining

Example of Largest Risk: Social Security Deficit About $6 Trillion

SOCIAL SECURITY SURPLUSES/DEFICITS (% OF GDP)

Actual | Projected

2017–2034 Deficit: $2.8 Trillion

Trust Fund Depleted in 2034
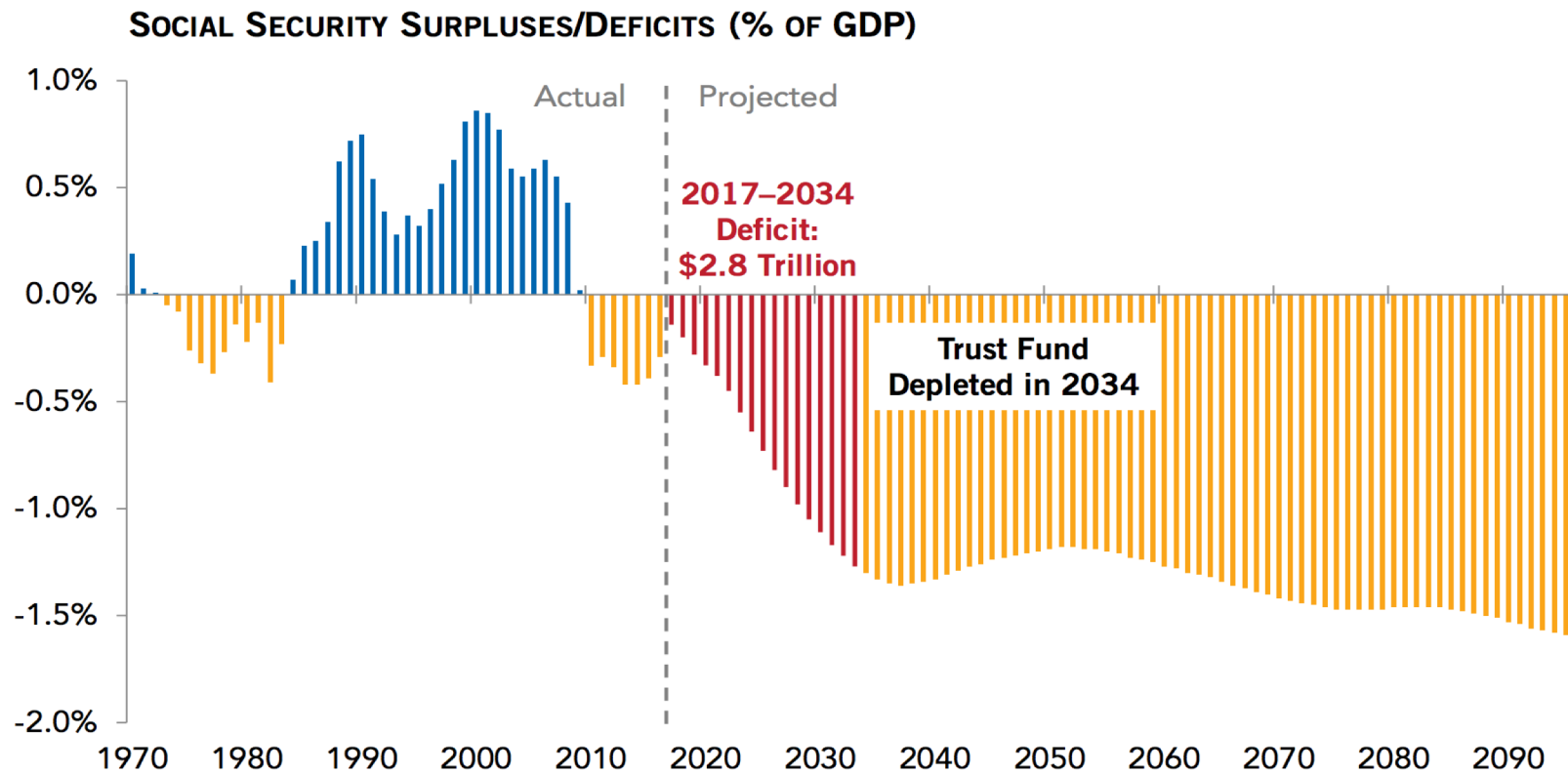
SOURCE: Social Security Administration, *The 2017 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds*, July 2017. Compiled by PGPF.
NOTE: Surplus/deficit numbers exclude interest income. The total deficit of $2.8 trillion is the present value of the cash deficits between 2017 and 2034.

What to Do:

- Reduce Your Risks