August 14, 2019

**Recession Fear**

There are a many opinions on the definition of a recession, but the official one by the National Bureau of Economic Research is “a significant decline in economic activity” lasting more than “a few months.”

On Wednesday August 14, 2019 the 10-year treasury bond yield fell below the 2-year treasury bond yield. Normally we earn higher rates of interest the longer the term of the bond or CD. When the longer-term yield drops below the shorter term yield it is called “inverted” or an “inverted yield curve.” An inverted yield curve is one sign that an economic slowdown or recession is coming in the future. This news sent the DJIA down 800 points or 3% and left investors asking questions.

Since 1978, data shows that inverted yield curves have predicted recessions each of the last 5 times this has occurred. On average, it took 22 months for the U.S. to enter a recession following this inversion. The same data also points out that the S&P 500, on average, rallied 12% in the 12 months following the first inversion, but was negative 18 months later. These facts indicate that there is still time, on average, to make money before, or if, a recession hits our economy.

Other indicators that give clues as to whether or not a recession is coming include:

1. Weekly first-time applications for unemployment benefits – this is at a historically low (good) level
2. ISM survey of manufacturers – this has been weakening with lower automobile purchases, but not at recessionary levels
3. Debt vs. Income – Americans have lower debt today vs. the last recession
4. High Interest rates – interest rates are still historically low

None of these other indicators are showing a recession is near. Interestingly, if enough people fear a recession is around the corner, cut back on their spending, and start saving more money, a self-fulfilling prophecy may take place and a recession may occur. Of course, all of this is impossible to predict accurately. No one knows if an inverted yield curve is enough to predict a recession this time. Only more time and confirmation of other indicators will determine the path our economy takes from here.

Instead of wasting time with predictions, we are better off having a plan that will ultimately advance and protect our portfolios. Recession or not, that will be the next letter.

Until then, please remember this. At TPG, our proprietary **Maverick Momentum Models** (**MMM**) have two primary goals:

1. Make money for our clients over a 12-month period of time, regardless of economic conditions.
2. Outperform the market index.

Warmest Regards,

George Panopoulos

President

TPG Inc