



Is It Really Different This Time?

Driving into the office this morning, we were listening to Bloomberg Radio recap some of their more thought provoking interviews from the World Economic Forum, held in Davos, Switzerland. The one interview we can't stop re-watching is with [Bob Prince](#), CIO of Bridgewater Associates.

Our big take-away from the interview was that following brief period in global **monetary tightening** (i.e. the raising the Fed Funds Rate while simultaneously shrinking the Federal Reserve's balance sheet) in late 2018, central banks quickly adapted to ease monetary conditions both here and abroad, in a move to reverse a sharp sell-off in global equities. These actions, according to Mr. Prince, ended the typical boom-bust cycle which will no longer be characterized by shifts in monetary policy (central banks lowering or raising interest rates to combat inflation or recession) and credit (ability for individuals or corporations to easily borrow money).

In Mr. Prince's view, central banks are stuck. Central banks cannot cut short term lending rates (our Fed Funds rate, for example), because there is not enough room to reduce rates further if the US or other developed economies enter a recession. Nor should they, as here in the U.S. the economy is exhibiting relatively solid employment trends, while several other economic data (in opposition to our more forward-looking or topping concerns) supports the case for a solid economy. At the same time, despite an inflation rate that is close to target, the U.S. will not dare raise rates, to avoid a 20% drop in equities like we saw in late 2018.

But in listening further to Mr. Prince, we were left confused as to what Bridgewater, institutional or individual investors should do, especially as most readers of this note do not run a global multi-strategy hedge fund. So, while we concur with Mr. Prince that central banks are stuck (a position we have held for the better part of 18 months), we believe investors still need to de-risk in the near-term.

When somebody of Mr. Prince's stature and experience uses words and phrases such as: stagnation, printing of money, geopolitical conflict, slow growth, and negative real interest rates; we scratch our heads into thinking, "Yes, now is the time I want to be overweight stocks!"

As we point out in our 2020 Outlook, we believe there are several unintended consequences of trying to ignite economic growth through monetary easing. First, lower central bank short rates pull down longer duration government and corporate credit yields. In turn, this results in reduced savings or, worse yet, causes investors to take on undue risk as they stretch for yield; this typically does not end well. Next, with so much liquidity in the global economy, the risk of inflation rises. Money is worth less when there is too much of it in the economy. Further, this compounds our initial concern, as the reduced savings level is worth even less. Also, labor is worth less as workers face reduced spending power, despite working the same number of hours. Third, with global rates already so low, there remains little slack to cut rates further if a recession were to take hold (as we pointed out earlier). For example, the typical Fed Funds interest rate cut here in the U.S. to promote growth during recessions is about 500bps or 5%. The current Fed-Funds rate post the recent "mid-cycle" adjustment is only 175bps, leaving five to six 0.25% cuts in short term rates if the economy stalls. Finally, we are also concerned regarding booming deficits and aggregate debt levels caused by next-to-nothing borrowing rates, **hence we doubt if anything is different this time**. Moreover, this could potentially lead to the acceptance of modern monetary theory (MMT), creating monetary imbalances and similar conditions that drove the 2007-2009 global market sell-off. We'd love to hear your thoughts.



Disclosure: The information in this publication and references to specific securities, asset classes and financial markets are provided for illustrative purposes and do not constitute an offer to sell, or solicitation of an offer to purchase, any securities, nor does they constitute an endorsement with respect to any investment area or vehicle. This material serves to provide general information to clients and is not meant to be legal or tax advice for any particular investor, which can only be provided by qualified tax and legal counsel. Certain information contained herein is based on outside sources believed to be reliable, but its accuracy is not guaranteed. Investment products (other than deposit products) referenced in this material are not insured by the FDIC (or any other state or federal agency), are not deposits of or guaranteed by Northeast Private Client Group, and are subject to investment risk, including the loss of principal amount invested. Portfolios are subject to investment risks, including possible loss of the principal amount invested. In addition, foreign investments may be less liquid, more volatile and less subject to governmental supervision than in the United States. The values of foreign securities can be affected by changes in currency rates, application of foreign tax laws, changes in governmental administration and economic and monetary policy. Investors should consider the investment objectives, risks, charges, and expenses of ETFs carefully before investing. This and other information are contained in the fund's prospectus, which may be obtained from your investment professional. Please read it before you invest. Investments in ETFs are subject to risk, including possible loss of the principal amount invested. This information is being provided to current Northeast Private Client Group clients and should not be further distributed without Northeast Private Client Group's approval. S&P 500 Index is a market index generally considered representative of the stock market as a whole. The index focuses on the large-cap segment of the U.S. equities market. Dow Jones Industrial Average is a widely used indicator of the overall condition of the stock market, a price-weighted average of 30 actively traded blue chip stocks, primarily industrials, but also includes financial, leisure and other service-oriented firms. Russell 2000 Index measures the performance of the smallest 2,000 companies in the Russell 3000 Index of the 3,000 largest U.S. companies in terms of market capitalization. NASDAQ Composite Index is a market value-weighted index that measures all NASDAQ domestic and non-U.S. based common stocks listed on the NASDAQ stock market. Each company's security affects the index in proportion to its market value. This commentary contains forward-looking statements and projections. Actual results may differ from current expectations based on a number of factors including but not limited to changing market conditions, leverage and underlying asset performance. Northeast Private Client Group makes no representation or warranty, express or implied that this information shall be relied upon as a promise or representation regarding past or future performance. This material contains the current opinions of the author but not necessarily those of Guardian or its subsidiaries and such opinions are subject to change without notice. Past performance is not a guarantee of future results. Indices are unmanaged, and one cannot invest directly in an index. Data and rates used were indicative of market conditions as of the date shown. Opinions, estimates, forecasts, and statements of financial market trends are based on current market conditions and are subject to change without notice. Securities products and advisory services offered through Park Avenue Securities LLC (PAS), member FINRA, SIPC. OSJ: 200 Broadhollow Road Suite 405, Melville, NY 11747, 631-589-5400. PAS is a wholly-owned subsidiary of The Guardian Life Insurance Company of America® (Guardian), New York, NY. Northeast Private Client Group is not an affiliate or subsidiary of PAS or Guardian. [2020-93336](https://www.northeastsequoia.com) Exp.4/20.