

The Slowdown in the US Economy. A Temporary Pause.

The US economy is currently in a slowdown. How significant is this? If we assume that trend growth for GDP is 4%, as was widely believed to be the case pre 2008, then 2.5% GDP growth would have indicated an economy failing to recover fully in its latest cycle, which would be quite negative. If, however, trend growth is 2% as I believe it is in a post 2008 world where the economy is not only no longer fueled by credit creation but also attempting to gradually deleverage itself, then 2.5% growth represents an overshoot, a cyclical high from which the US economy is currently climbing down, and therefore to be expected. It would be indicative of a normal recovery, albeit along a so-called 'new normal' equilibrium path of lower growth.

Caveat: A strong economy does not always imply a strong US stock market. Companies are global these days and need to be appraised individually on their peculiar merits. Many US companies are exporters and derive their income from markets which are slowing down, such as the emerging markets, or in depression, such as large swathes of Europe. Since the recovery from the depths of 2008 the right plays were exporters, today one should be sifting through US domestic businesses for opportunities. One asset type which is particularly domestically driven is residential real estate. US housing is on a steady path of recovery. Non agency mortgage backed securities provide senior claim as well as income together with upside to house prices.