Thoughts From The Bar Stool…

Readers of this blog will be aware that I have been bearish about global economic and political conditions for some time now. Yet I find things to buy. I leave for my vacation and will return in 2 weeks and will endeavor to monitor news and markets as little as possible. But befor e I go, a few thoughts.

I do think that the global situation is far from ideal. We are in a synchronized slow down, yet it is one that isn't dangerously sharp. The risks are that central banks are not prepared to deal with it having never come out of emergency mode since the last crisis. Growth is slowing, but it should. In fact, what I object to is our continuing efforts to avert a slowdown at all costs, even a mild one.

The problems I see are deeply fundamental and will manifest over time with durable effects. The immediate impact will be difficult to distinguish from normal market volatility.

Finally I give you this. Investors are so focused on the global slowdown that they are unprepared for an adjustment in the business cycle. We saw the same in 2017 when a 5 year slowdown in trade and manufacturing reversed, primarily as a result of lag effects in capex and restructuring, and caught many bears off guard. Today, European PMIs are dismal, India's growth is slipping, China's economic data is awful, even the US is slowing down. Everything looks bad. But the nature of cycles is recovery and the current data are so bad that they are ripe for recovery. It is likely that the deterioration in manufacturing has peaked and that manufacturing and trade data will improve from here, and this is with or without a US trade deal. It is likely that a new capex cycle has begun, in part driven by the restructuring in global supply chains.

I don't think it will all reverse in the 2 weeks I am off the grid, but it will happen gradually over the next few weeks and months, and it will catch the bears unawares. The longer term problems remain and that means the longer term prospects remain poor, but for traders (as opposed to investors) who are willing to gamble on a little decompression in the pessimism trade, there is some upside.

A hedge fund manager friend of mine sold me the doom and gloom scenario back in 2015, and I told him he was right but that central banks had rigged the market, and he’d better not short it too aggressively. Well he did and paid handsomely for it. The markets are still rigged and the central banks still have some funny money to print and if you couple that with some improvement in conditions, it could be a bit of a relief.