On Our Minds

Since one has not occurred for quite a while, apprehension has been on the rise over the start of the next economic recession. The consensus forecast at this time is for no sooner than late 2020. Apprehension is understandable as recessions generally are less-good times for both incomes and investments, especially stock markets. There has been some speculation (with no rigorous documentation) that we can talk ourselves into a recession. As the thought goes, so much talk of recession raises concerns to such levels that we pull back on our spending and investment activities, and a recession becomes self-fulfilling. Addressing apprehension with analysis can provide perspective and investment implications.

PERSPECTIVE

Google has a nifty tool to track over time Internet searches for certain words or phrases. Chart I shows the frequency of Internet searches for the word recession. The greater the frequency, the more the search item is on our minds. The data is gathered in monthly frequencies. The highest month is given a value of 100 and all other months are scaled lower from there. While a modest upward trend began in mid-2017, an extreme total in August pushed the frequency to a level not seen since the Great Recession. Holding aside questions of relevancy let alone accuracy, a continuation of high frequency this month and beyond likely should not be ignored.

What does economic data indicate at this time? To answer this question, we turn to the Chicago Fed National Activity Index ("CFNAI"). The index is a weighted average of 85 monthly indicators of national economic activity. Chart II plots CFNAI levels relative to recessions over the index's history. Around prior recessions, the index has declined sharply with meaningful declines underway before recessions began. As widely reported, economic activity since the Great Recession has been less robust than that of prior recoveries. This reality is confirmed in the moderate trend of the CFNAI. While the index has stalled more recently, it remains at a level quite consistent with continued economic growth.

If recession is more on our minds, perhaps it would be reflected in an increase in bearish investor sentiment. Chart III shows the level of bearish investor sentiment over time and relative to recessions. This sentiment measure is from a weekly survey conducted by the American Association of Individual Investors ("AAII"). The current level of bearish sentiment is not particularly elevated and is not at levels reached in two of the last three recessions. Perhaps more importantly, a separate AAII survey shows that investor stock allocations in August remained above the historical average for the 75th consecutive month.

INVESTMENT IMPLICATIONS

Apprehension perhaps is not a bad thing if it keeps us alert for potentially adverse investment outcomes. Apprehension is not helpful if it rises in a decision-making vacuum. Such a vacuum can occur if we do not have in mind clear goals, time horizons and tolerances for risk. With these in mind, we can adopt appropriate investment guidelines. And we can maintain a disciplined investment approach with prudent strategies. In so doing, a higher level of confidence in investment outcomes will be on our minds.

CHART I

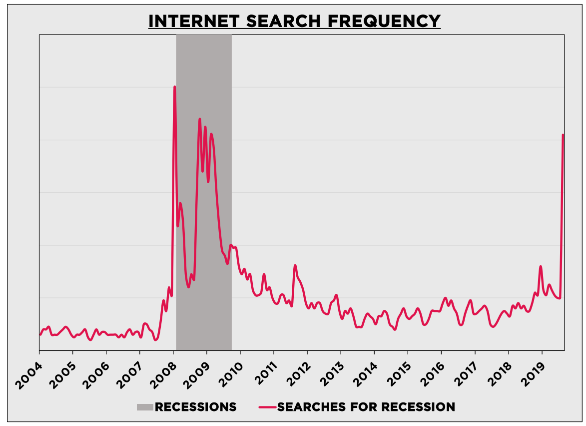

CHART II

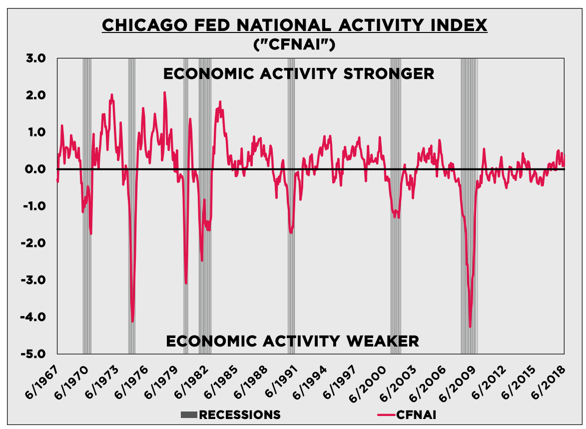

CHART III