

Capital markets outlook

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So the topic du jour is, when and if there will be the next recession.

When I talk with financial advisors, the most common question is, "When is the next recession?" And some people say, "Should you be focusing on it?" Why not? Is it inevitable? No. And in fact, we have often, what's called soft landings, slowdowns without recessions. It's almost what is called Goldilocks, you know, not too hot and not too cold, growth good but not so good that inflation's high.

When you think about what are the biggest big-picture macro risks in the market, there are two: fire and ice. It's a poem I think Robert Frost wrote, where it's based out...I'll shorten it, "How will the world end, fire or ice? Either one would suffice." And the analogy is, fire could be a risk, which means inflation, it gets too hot. And if inflation gets too hot, then the interest rates go up and that will hurt the bond market and by definition, it also hurts the stock market. Or ice. Ice means it's too cold. The economy slows down, maybe gets into recession. Earnings don't grow, maybe they go down.

So if you think about the risks in the capital markets, it's always fire or ice. And I'm not going to say neither is possible. It certainly doesn't look like inflation or fire is about to break out anywhere, so I guess the predominant concern is ice, the next recession. But the outlook that most people are looking for is slowing growth, what's called the soft landing. So with Mr. Frost guiding us, I would say neither one will suffice this time.

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