JADE INVESTMENTS
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JADESPEAK

SUMMER: Third Quarter 2023

RECESSION OR NO?

"To be, or not to be -- that is the question..."

No doubt, you recognize the opener of the prince's soliloquy in William Shakespeare's *Hamlet*. My version these days reads a little differently:

"Recession, or no Recession -- that is the question."

By TIMOTHY A. PHILLIPS

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Daily I am reading and listening to experts and economists state their case for why they either feel we are or aren't headed into a recession. Case in point: Recently Jamie Dimon, CEO of JP Morgan -- after stating his concerns regarding the U.S. government's printing and spending of money – was asked point blank if recession is looming. His answer? "I'm not sure of the outcome."

I think more people are going to feel this way the longer we go without experiencing a recession. Pair that with a market that seems to believe a recession isn't going to happen, and the uncertainty becomes palpable.

Milton Friedman, an economist who received a Nobel Memorial Prize in 1976, was famously known for his research on monetary history and theory. One measure he used is the M2 money supply measure. Friedman's belief was that M2 money supply growth should be in range of 4- to 6 percent annually to maintain healthy economic growth.

However, since the onset of the COVID-19 pandemic, the government printed and put into circulation nearly $6 Trillion. That caused the M2 money supply to grow at rates greater than a 20% annualized rate in 2020-2022.

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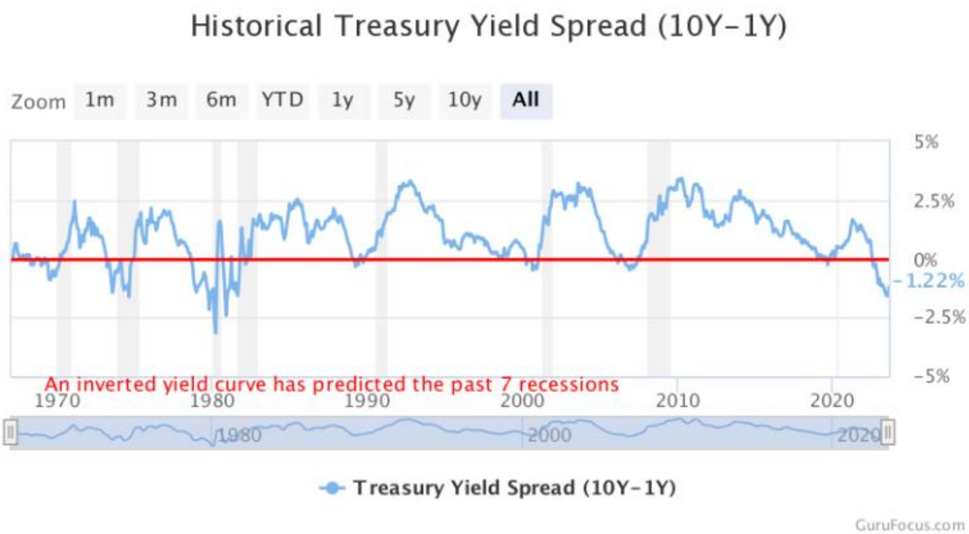
RECESSION



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This is no doubt the reason for our current state of inflation. According to Friedman's theory of monetarism, this rapid M2 growth serves as a warning sign. We have begun to see a drop in the measure, but we have a long way to go before the money supply falls back to the average trend line it followed prior to the pandemic.

Another economic indicator is the yield curve. In normal environments, the longer we loan an institution, government, or government agency money, the higher the yield/interest we would receive. Yet there are times when this yield curve becomes inverted, meaning we would receive a higher yield/interest for loaning money out for a shorter period of time.

On the surface, you can see how that just doesn't make any sense when that happens. And you're right.

Historically, when our yield curve does invert, it is a good indicator that a recession is more than likely possible. If you look at the chart dating back to 1967 of historical treasury yield spread between the 10 year and the 1 year, you can see a red line. Inversions happen when the graph drops below this red line. The grey zones, meanwhile, indicate U.S. recessions.

Inversions predicted the past seven recessions.

The time may vary on how long after the yield curve inverts before our economy enters a recession. Data by Statista -- a software suite used to analyze and visualize data – indicates that, over the last five decades, 12 months, on average, has elapsed between the initial yield curve inversion and the beginning of a recession in the United States. The shortest period was in September of 1980 with the recession coming just 10 months later. The longest was January 2006 with the recession coming 22 months later.

This current yield inversion began in April of 2022. It has been 15 months since this inversion began, and we are still in the timeframe of not being able to rule out the possibility of a recession.

Only time will tell who is right or wrong, but in times of uncertainty we believe looking at historical data serves as a guide of what may be.

Education is our passport to the future, for tomorrow belongs to the people who prepare for it today.

- Malcolm X

Jade Investments & Retirement Solutions

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