

# ECONOMY

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THINK STRATEGICALLY:

## The Fourth Life of Hell

Trump's Trade Wars Leading U.S. Down Path to Recession; Volatile Markets Close Out with Worst Trading Day to Date

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### The Fourth Life of Hell: Countdown to the 'Trumpcession'

Since what we now know as the United States of America became an independent nation, there has been more than 47 recessions in the United States dating back to the Articles of Confederation and Perpetual Union. For many of us who started to work in the late 1980s, we have seen three U.S. recessions, namely the following:

- The Early 1990s Recession** from July 1990 to March 1991, which I call the first life of hell.

- The Early 2000s Recession** from March 2001 to November 2001, the second life of hell.

- The Great Recession** from December 2007 to June 2009, the third life of hell.

The last three recessions persisted between eight months and 18 months. Why are we talking about recessions? On Aug. 14, 2019, the Dow Jones

Industrial Average fell 800.49 points, closing at 25,479.42. The main driver was the fact that an inverted-yield curve showed up and the two-year Treasury note was yielding more than the 10-year note. An inverted-yield curve is an indicator that a recession is looming. Most recession experts agree there's a long and variable lag between initial inversion and the start of recessions: 22 months on average, ranging from 10 to 36 months for the past five recessions.

As the market closed last Wednesday, the 10-year Treasury closed at 1.596 percent, its lowest since September 2016, and the two-year note settled at 1.592 percent, which is not entirely inverted but too close for comfort.

The inverted-yield curve by itself has a limited economic impact. However, for the financial markets, it is a crucial warning signal that a recession is coming. It also signifies that the health of the U.S. and overall global economy may be

weakening. The U.S.-China trade war has taken a turn for the worse. The current consensus from many economists is that the chances for a recession have increased and some see the probability of an economic meltdown as high as 40 percent.

### Drivers of the recession

- The U.S.-China trade war:** The U.S. and China have fractured the global economy with the trade war that has imposed 25 percent tariffs on \$250 billion worth of products. The result, for now, is that global economic growth for

2019 is only slightly above the 2.0 percent threshold for a world recession.

- The German economy is crumbling:** Economic data released Aug. 14 reveals that the German economy shrank 0.1 percent in the second quarter of 2019 as that nation's industrial output posted a 1.9 percent quarterly decrease. The decline of Germany's gross domestic product (GDP) shook markets to the core because this European powerhouse is the world's third exporter after the U.S. and China.

- Jobs growth:** The U.S. economy has added jobs for more than 105 months in a row, the longest ever. Unemployment is at 3.7 percent, which is very close to 1969 numbers. Should the economy turn, this jobs growth would immediately diminish.

- GDP:** Having two-consecutive quarters of economic contraction is needed to be considered a recession. So far, the U.S. has continued to grow its GDP, albeit at a slower 2.1 percent rate.

The Fourth Life of Hell, also known as the "Trumpcession," may be coming. We must be prepared to face an economic downturn. By now, investors should have made their portfolios recession-proof to ride out the current volatile period. The key is to maintain a predetermined set of goals, with a long-term perspective, and a diversified portfolio that includes the right balance of stocks and bonds that are in accordance with investors' risk-tolerance levels.

### Week in markets: DJIA falls 800.49 points

If you thought the past week was volatile for markets, with 2019's worst trading day to date, the next week promises to be full of economic-data results that may have an impact on the markets. On the calendar, we have:

- The Release of July minutes from the Federal Reserve Bank
- Purchasing Managers Index
- Existing Home Sales & New Home Sales
- The speech from Federal Reserve Bank Chair Powell at the annual Jackson Hole symposium

We believe President Trump's trade war is following "The No Plan Plan." One thing for sure is that if this trade war continues, the U.S. economy will

fall into a Trump-created recession or "Trumpcession."

The Dow Jones Industrial Average (DJIA) closed the week at 25,886.01, for a loss of 401.43 points, or minus-1.53 percent, and a year-to-date (YTD) return of 11 percent. In addition, the S&P 500 closed the week at 2,918.65, for a loss of 29.97, or minus-1.03 percent, and a YTD return of 15.20 percent. The Nasdaq closed the week at 7,895.99, for a loss of 26.85, or minus-0.76 percent, and a YTD return of 19 percent. Meanwhile, the U.S. Treasury's 10-year note lost ground during the week, closing at 1.55 percent, or a drop of minus-10.92 percent, with a YTD return of minus-1.13 percent. The U.S. Treasury two-year note fell to 1.48 percent, or a loss of minus-12.43 percent for the week, and a YTD return of 1.05%.

### Final word: Gov. Vázquez steady as she goes

Gov. Vázquez was sworn in on Aug. 7, 2019, and in the following 12 days, Puerto Rico has experienced a much-needed period of stability and normalcy that contrasts with the past month of July. The governor, like all new incumbents, is enjoying the honeymoon period that follows the beginning of any mandate. However, we must note that, in no small degree, having a governor who is an experienced civil servant—a former district attorney with 32 years on the job—has provided her with a fresh perspective demonstrated in the manner in which she has been handling her new role as governor.

There are dark days ahead for Puerto Rico and Vázquez faces very difficult decisions, ranging from reducing government pensions and benefits to consolidating overlapping municipal operations. The new governor must fill the posts of secretary of State and chief of staff, as well as confirming the Justice and Ethics appointments, among more than a dozen vacancies. The ultimate goal is to agree on a path that allows Puerto Rico to restructure its bonded debt, while achieving balanced budgets and keeping the government running smoothly.

Gov. Vázquez's success is Puerto Rico's success. We must renew our pledge of loyalty to the island, whose democratic beliefs we share, whose rights and liberties we respect, and whose laws we uphold and obey.

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Market Close Comparison	8/16/2019	8/9/2019	Change	YTD
Dow Jones Industrial Average	25,886.01	26,287.44	-1.53%	11.00%
Standard & Poor's 500	2,888.68	2,918.65	-1.03%	15.20%
Nasdaq	7,895.99	7,959.14	-0.79%	19.00%
U.S. Treasury 10-Year Note	1.55%	1.74%	-10.92%	1.13%
U.S. Treasury 2-Year Note	1.48%	1.69%	-12.43%	-1.050%