“Prepare for a recession” – grim warning from leading investment strategists

By Henry Chia  On Jul 3, 2022

A research note, published by Rob Arnott and Campbell Harvey of prominent investment strategy advisory firm, Research Affiliates, has warned business owners and individuals to plan for a recession in the United States.

Image: Pew Research Center

https://www.asiamarkets.com/prepare-for-a-recession-grim-warning-from-leading-investment-strategists/
“It’s not too late to prepare, if we are not already slipping into recession, we see a substantial probability that a recession could start in late 2022 or 2023,” the note co-authored by Arnott and Harvey said.

“If we are right, then the CEO of a company that gets into real trouble in the recession can’t go on stage at the shareholders’ meeting or on the quarterly earnings call and say management was blindsided by the recession. That’s not good enough. People would laugh at them.

Arnott and Harvey provided practical examples of the types of activities that should not undertaken in the current environment.

“For a consumer maybe it isn’t the time to take that trip to Disney and use your credit card to finance it.

“Business leaders should actively manage their risk... A company that chooses not to undertake new investment in a proposed plant will likely survive the recession, but if it rolls the dice and forges ahead, it might not survive.”

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Recession risk enhanced by Fed’s inaction

Research Affiliates highlighted how the impotence of the Federal Reserve’s inflation-busting tool kit, could actually become one of central causes of a recession.

“Being late to the game (on recognising the inflation issue) increases the probability that the Fed overreacts, because it didn’t act soon enough. This increases uncertainty and elevates the probability of a hard landing, which is what everybody wants to avoid.”
“Hard landing means we go into a serious recession, like the one associated with the global financial crisis.”

And now, according to Arnott and Harvey, it’s unlikely interest rate rises will be enough to control inflation in the foreseeable future.

“Unfortunately, the Fed has no control over most of the current causes of inflation. One of the main things we worry about is that the Fed board members believe that increasing interest rates is sufficient to fine tune inflation. If they really believe that, it’s dangerous.”

The rate of inflation in the United States hit 8.6% in May – a 40-year high. Research Affiliates believes there’s a strong chance the inflation rate could end the year at above 10%.

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