

Economic Growth to Slow, Equities at Risk

Equities continue to rise or at the very least are resilient in the face of good and bad news., Sovereign bond yields head for zero. Meanwhile economic data seem to indicate a synchronized global slowdown. What gives?

1. Economic growth has fully recovered. The current tepid growth is a function of the necessary debt repayment and deleveraging which the world is undergoing. It is a mistake to anticipate a stronger recovery.
1. If you accept the above, then because the market doesn't read current growth as having fully recovered, it is misinterpreting the impact of the short term business cycle. Current growth is inclusive of a peak in the short term business cycle. Hence, earnings expectations are too high and equities will be vulnerable over the next couple of reporting periods.

I am wary of equities and other risk assets.