



## Important Topic: Even if you could predict the next recession, it does not mean you could profit from it

Eugene Fama and Ken French recently published a research paper on the topic called “Inverted Yield Curve and Expected Stock Returns”. Fama and French took their dataset back to 1975, across 11 major stock and bond markets to determine if an inverted yield curve could predict the stock market underperforming short-term treasury bills (a proxy for cash). They compared six different yield spreads, switching from stocks to t-bills when any of these yield curves inverted. Then they looked out over the next one, two, three, and five year periods to see what happened when switching from stocks to cash.

The duo’s conclusion states that, “We find no evidence that inverted yield curves predict stocks will underperform Treasury bills for forecast periods of one, two, three, and five years.” They compared three broad market indexes, using the U.S. stock market, the World stock market, and the World ex-U.S. stock market. The switching strategy of going from stocks to cash underperformed a long-only buy and hold strategy in all 24 instances using the U.S. and World markets. The yield curve signal also underperformed in 19 of 24 World ex-U.S. back-tests.

No one knows if the yield curve will work as a reliable economic indicator going forward. It’s possible the simple fact that investors are now aware of this signal could alter its usefulness going forward.

But even if an inverted yield curve does prove itself as a reliable recessionary indicator, the data doesn’t necessarily allow you to take advantage in the stock market on a consistent basis. The stock market and the economy rarely move in lock-step with one another. So while an inverted yield curve could mean we see a recession sometime in the next couple of years, that doesn’t make it any easier to time the stock market. (Fortune Magazine)



## Market Update – September 2019

While August was a difficult month, September recovered what was lost. However, volatility remains high and, unfortunately, we expect this to continue.

Responsibility for the volatility is placed at the feet of Trump and his continuing erratic behavior, concerns centered on International Trade, Interest Rate's unpredictable movements and negative yielding global government bonds. Economic indicators remain mixed.

However, all of this tells us little about how companies are doing. Earnings (revenue minus costs) is key to the success of any enterprise and by that measure current market levels are justifiable.

Of interest is that October has historically been a good month for the stock market with November and December being even better.

Year-to-date, the markets have remained strong posting attractive gains.

Looking forward, we believe the economy has

weakened slightly, political uncertainty and volatility remains high (and likely will for the foreseeable future), and inflation remains benign. As a result, we are neutral in the short term, but positive in the medium and long term. We continue to hold our positions and invest cautiously.

For the Quarter, the bond market was up 1.2%, the Canadian market was up 2.6%, the US market was up 1.9%, International markets were down 0.5%, the Emerging markets were down 3.2%, the Real Estate market was up 4.3% and the preferred market was down 0.6%. (Reuters 9/30/19)

Year-to-date, the bond market is up 8.0%, the Canadian market is up 18.3%, the US market is up 16.8%, International markets are up 11.8%, the Emerging markets are up 2.1%, the Real Estate market is up 19.8% and the preferred market is down 1.3%. (Reuters 9/30/19)

Have a great month and let us know if there is anything we can do for you,

Meir

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