

## **A 2023 U.S. Recession? – A Monday Club Event**

The Monday Club event took place at a Park Avenue location in New York on February 6<sup>th</sup>, 2023 and the topic for the evening was the U.S. economy and the speaker was Hans Nilsson, president and chief economist at the research firm Globicus Inc. The event was relatively well attended with participants from key financial institution such as Citigroup, Wells Fargo, MUFG and Stifel, but also from smaller entrepreneurial firm like DataArt and venture capital shops. Hans Nilsson initially based his speech on the Globicus monthly report and he mentioned that all Globicus Leading Economic Indexes were negative in the latest reading for January, suggesting that a US recession may start in the beginning of 2023 and may be deeper than most people expect. The Globicus model has an excellent historical record having predicted all recessions since the 1960s except the Covid 19 downturn and “recession” in 2020, which was primarily the result of the government’s shutdown of the economy. The coincident index showed continued growth although at a slower pace in December. With continued high inflation, the Fed is unlikely to reverse course. The market has reluctantly followed the Fed’s lead but is still not buying the Fed’s continuously hawkish signals. The anticipation is ongoing interest rate increases until the rate will be appropriate and sufficiently restrictive to return inflation to 2 percent over time.” Hans Nilsson pointed out that inflation is a lagging indicator and does not usually decline until unemployment, also a lagging indicator, rises and the economy enters a recession. The historic experience is that higher unemployment is necessary to reduce inflation significantly. This makes it exceedingly difficult for the Fed to tighten appropriately to reduce inflation while at the same time avoiding a recession. The job market is still strong and this is continuing the inflationary pressure. Hans also explained that the inverted yield curves usually precede a recession, particularly the spread between 10-year and the 3-month treasury securities normally turns negative before a recession. This spread has narrowed dramatically since the Fed got religion and turned negative on October 25 and as of February 2 was -1.26, the lowest level since 1981. This spread typically turn from negative to positive before the recession starts. Hans based his speech on his report, which is also attached. After this speech there were several discussion points and questions from the Monday Club participants. There was some disagreement regarding the potential recession and participants seemed more optimistic than the report shows. Also they belief the U.S. economy is fundamentally strong and will recover post Covid to a new level of economic prosperity. They foresaw a slowing down and even stop to the Biden administration pouring out trillions of dollars into the economy, causing inflation, due to the new split Congress. Conservative republicans in the House will definitely not sign up for more spending. There was also a rather lengthy discussion related to the \$100 billion plus the U.S. has sent to Ukraine in the conflict against Russia. This is in line with the third biggest military budget in the world. The participants predicted some more cautious fund distribution with more checks and audits given the conservative republicans, but overall, the consensus in the Monday Club group was that the U.S. will continue to send money and they will continue to send military equipment. This is Biden’s mission, and he will do anything to get Ukraine into NATO. The evening ended with suggestions for a new and even bigger Monday Club in the month of April.