Insights, Tacit Thought | Weekly Investment Insights

The long road to recovery

Published on: 12 May, 2017 | Author: Investment Team

At our recent ISG conference, we noted that "risks appeared to be more political than macro-economic."

Despite the undoubted upheaval associated with Trump, Brexit and the raft of European elections that will occur this year we tend to forget that large parts of the world economy are still operating well below potential, at least, relative to previous trends.

Even in the US, which is well on the way to full recovery, the Trump 4% growth target remains a long way off.

The point is that in a normal recovery episode we would now be seeing both stronger growth and higher inflation suggesting that the cycle was reaching the end of its natural life. This time around, the extent of the damage done by the last downturn has left economies profoundly scarred; the depth of the economic declines leaving a larger catch-up and the policy of austerity delaying the onset of mature recovery.

However, as we also noted at our conference, global growth indicators are signalling continued and, in some cases, accelerating recovery.

Greece is an interesting example. Oxford Economics has noted that the Greek depression has been worse than 95% of other crises including those in "war-torn" Congo in the early 1990s and Argentina in 1980 and 1995.

Nevertheless, despite all the privation, the Greek economy remains a member of the Euro and this year is likely to run a primary budget surplus of 4% or more. Much more importantly the yield on Greek government bonds has declined from a peak of 36% in 2012 to under 6% today. In other words, despite the politics, an economic recovery, of sorts, is setting in.

In many ways, Greece is just the very worst example of an economy that has simply failed to modernise.

Productivity is the key to growth and productivity demands investment. Greece still has a long road to travel but who can doubt that significant gains from economic modernisation cannot be made in Italy, Spain and Emmanuel Macron's France.

These large, important, economies are still operating below potential and therefore depriving themselves and the world of the demand that would go a long way toward absorbing abundant supply and restoring prosperity.

At Tacit we don't believe that that economies have yet "normalised." The length and depth of the downturn implies a long and difficult recovery.

Nonetheless, one telling signal of economic normalisation is rising bond yields in the US but falling bond yields in Greece.

Download Tacit Thought here

Opinions constitute our judgment as of this date and are subject to change without warning. Past performance is not a reliable indicator of future results.

sourced from information we believe to be reliable, we make no guarantee as to accuracy or completeness. Past performance is not a guide to future results, and the value of investments can go down as well as up.