

WHAT'S AHEAD FOR THE U.S. ECONOMY?

Despite the gloom in financial markets, other leading indicators continue to suggest a rather benign outlook – and for good reasons.

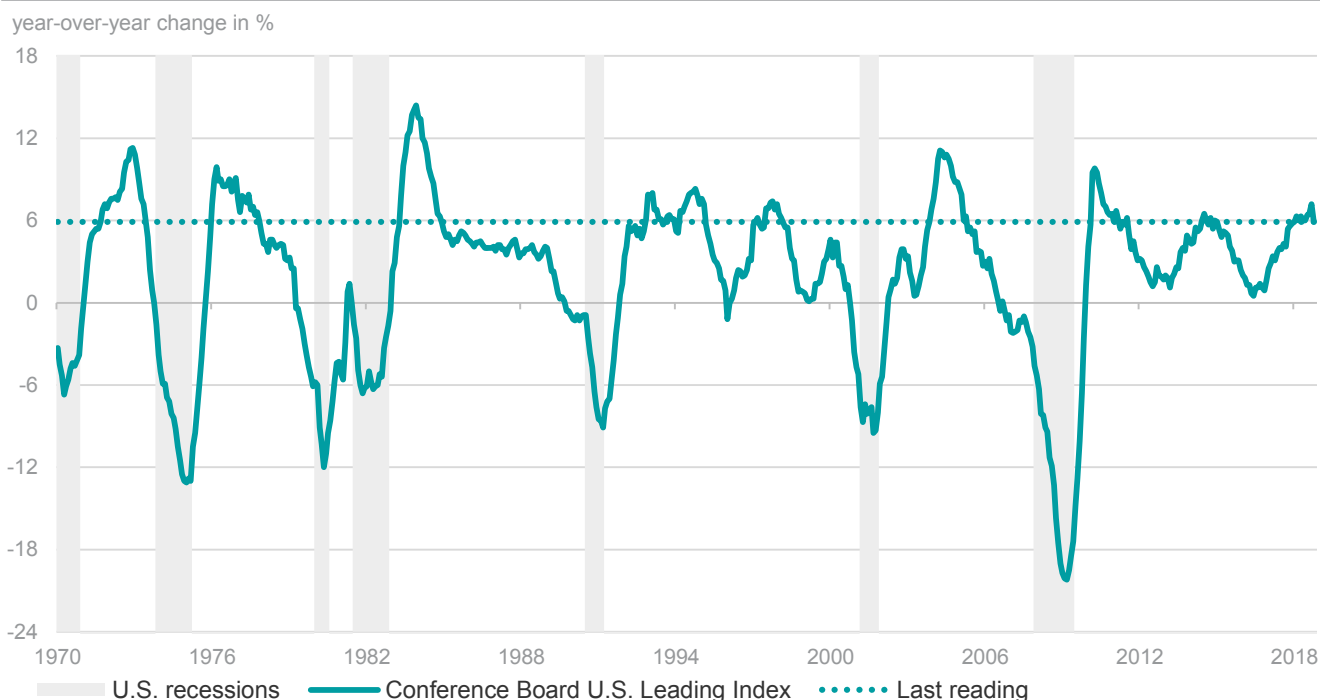
This fall, a common pattern started to emerge in several asset classes. Stock prices came down, with cyclical names most affected, credit spreads widened, commodity prices came under pressure, and inflation expectations were falling: taken together, the message from markets appears to be that a recession is around the corner. However, this contrasts with economic forecasts, which predict somewhat slower growth rates, but at levels which are still above potential growth. So, who is right?

This week, we are taking a look at the year-over-year change in the U.S. Leading Index, as it is published by the Conference Board. The leading indicator itself is a composition of several indicators, and it has a nice track record in predicting U.S. growth. The latest reading in the index was 5.9 points, which is lower than in the months before, but still at a quite decent level.

As our "Chart of the Week" shows, the U.S. economy has never fallen into a recession with the Leading Index hovering at current levels. Actually, looking at past experience, it

tended to take around three years, on average, before similar levels of the index on its way down were followed by a recession.

Amidst the tensions in early 2016, an experienced colleague remarked that usually, markets are too fast in pricing in a recession, while economists are too slow. Putting differently: the truth may well be in the middle. In this case, we might face a more substantial slowdown, but no recession. Of course, it is also quite possible that the past proves an unreliable guide this time around. A third option, though, should not be ignored either. With the U.S. economy already operating at full capacity, now is the time when you might expect wage growth to pick up. This could result in the economy continuing to develop reasonably well, while at the same time putting a dampener on companies' earnings, by squeezing corporate margins. It is too early to say which of these scenarios will come to past. With the benefit of hindsight, though, both economists and equity-market investors could turn out to be right.



Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 11/29/18

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GLOSSARY

Conference Board U.S. Leading Index

The **Conference Board U.S. Leading Index** is a leading indicator that provides a possible outlook for the future development of the U.S. economy.

Inflation

Inflation is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

Potential growth

Potential growth describes the possible long-term growth rate of an economy running at full capacity with a constant inflation rate.

Recession

A **recession** is, technically, when an economy contracts for two successive quarters but is often used in a looser way to indicate declining output.

Spread

The **spread** is the difference between the quoted rates of return on two different investments, usually of different credit quality.

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