

## Flash Notes 20/03/2019

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### The risk of recession recedes in the US.

As a rules-based investor, I must stick with the commitment of following certain principles. There is one that I particularly consider to be very reasonable and effective. This rule relates two key elements of the economy and markets: 1) The yield of corporate bonds BBB (as a proxy of the cost of financing in the economy) and 2) the yield of the 30-year risk free bond (as a proxy for potential growth - see Maurice Allais' works-, and therefore also a proxy for the Return on Capital -see Knut Wicksell's works-). When the difference between both parameters exceeds the 200 bp (the trigger point), this has historically been cause for concern because it usually triggers a recessive period, with potentially negative effect on profits.

In January and February we got dangerously above that level, and the alerts went off in my systems, so I had to be very attentive to the evolution of both variables in order to see whether this could be a temporary circumstance or on the contrary it could be something more permanent.

In reading this month levels, I could see, for my peace of mind, how that differential has returned to get well under the trigger point, with what I can say that the risk of recession in the US has receded, and instead a more favorable environment for investment, and thus, for mid-term profits, is being opened if the trend continues. The fall in the spread implies that the cost of funding has fallen more than the return on capital, which usually opens a bullish period for real investment, which in turn it must lead to gains in productivity, and with it, in margins.

