

“LEAVING ON A JET PLANE”

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By Brahm Satov

The thing about soft landings is that they are not only rare, but also often misunderstood. I met a colleague who works for another firm not long ago, he told me that for him, 2022 was a rough year, and so was 2023 and that this year has only been slightly better. He also shared with me that he was relieved that we have had a soft landing. Perhaps coincidences really don't exist, as I think he may have shared that with the wrong person. I asked him how could this be a soft landing when a plethora of the data continues to get worse and the economy continues to weaken. What I explained, was that if a plane was coming in for landing, and it is still going down, it had not yet landed. Similarly, in terms of the economy, as it continues to deteriorate, we could not say yet that we have experienced a soft landing. I did offer him some advice which I sincerely hope helps him as well as his clients. The title of the newsletter is an ode to Henry John Deutschendorf Jr., aka John Denver, who wrote “Leaving on a Jet Plane” in 1966, at 23 years old. He tragically died in a plane crash on October 12, 1997, he is missed by many, including me.

Since 1950, we have seen 14 rate hike cycles by the Federal Reserve (“Fed”), 11 landed in recession and only 3 in soft landings. That means almost 80% of the time, rate hike cycles lead to recessions and only 21% of the time they end up as soft landings. In other words, historically the Fed has a poor track record in terms of orchestrating a soft landing. While soft landings are not unprecedented, they are infrequent and I should reiterate that the yield curve is still inverted, this is one of the best indicators of a recession. We have never seen an inversion like this, without a recession to follow. Keep in mind that as the economy slows, for a period of time it could feel like a soft landing, that is until we realize that the economy is not stabilizing or improving and that, we have not yet landed.

THERE HAVE BEEN 14 FED HIKING CYCLES, 11 LANDED IN RECESSION!

First Hike	Last Hike	Result
October 1950	May 1953	Recession
October 1955	August 1957	Recession
September 1958	September 1959	Recession
December 1965	September 1966	Soft Landing
November 1967	June 1969	Recession
April 1972	September 1973	Recession
May 1977	March 1980	Recession
August 1980	December 1980	Recession
March 1983	August 1984	Soft Landing
January 1987	May 1989	Recession
February 1994	February 1995	Soft Landing
June 1999	May 2000	Recession
June 2004	June 2006	Recession
December 2015	December 2018	Recession

I know that many believe that the employment picture has been strong, but for those of you who really look at the data, much of it still appears to be weakening. Take a look at full-time workers, the trend is still trending lower, sorry, no sign of soft landing here.



Another good leading indicator is housing starts, (housing starts is an economic indicator that reflects the number of new houses (technically housing units) on which construction has been started in a given period). Historically, this has been a very good leading economic indicator, and again, no soft landing yet.



In terms of the stock markets, we have continued to see very few stocks lead certain markets higher. When a handful of stocks are trending higher and the rest of the market is not participating, we call this negative breadth and this is a sign of an unhealthy market. It is better if many or most of the stocks are hitting new highs, but this has not been the case for quite some time. I continue to be cautious on the economy and stock markets, I realize that sometimes a pocket of the market can become irrational, and take off like a jet plane, but eventually, even that jet plane comes down.

Thank you for taking the time to read this, please feel free to e-mail me any feedback or comments.

Sincerely,

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