



The C-130 Recovery - westwoodgroup.com

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The C-130 Hercules aircraft is a one-hundred-foot-long jack of all trades and a tireless workhorse for getting things done in the sky. It was first built in the 1950s and is still produced and used for both wartime and civilian needs. Since its first flight in 1954, it has dropped troops into Vietnam, doused forest fires in Wyoming, flown cargo to Afghanistan, landed on aircraft carriers in the Persian Gulf and ferried Red Cross supplies to tsunami victims in Indonesia. Over 60 countries own and use this versatile plane, and the model is still going strong after 65 years. The C-130 is known for its most unique attribute, which is also its nickname: Low and Slow. The C-130 can fly at only 28,000 feet and has a top speed of only 368 miles per hour but has a long range at 5,200 miles. The C-130 has repeatedly proven that you don't need to fly fast or high to get the job done.

While past economic recoveries in the U.S. were more like fighter jets, taking off at a sharp angle, rising quickly, completing their mission and landing, the current recovery can most accurately be described as the C-130 recovery, which until this year was surely cruising along low and slow. But even while moving low and slow, this recovery continues to take care of business.

In June of 2019, less than a year away, the current economic recovery will be the longest in our history. Many investors are therefore worried about an impending recession, because of the unprecedented length of the recovery. The three previous economic recoveries behaved more like jet fighters, with average GDP growth off the bottom of recessions of 4.0 percent, generating recoveries that lasted on average only 6.5 years. The current recovery has lasted nine years and counting, but until this year only averaged yearly GDP growth of 2.0 percent. A low and slow recovery indeed. Due to the severity of the economic depths of the 2008 financial crisis, the economy had a long way to climb after takeoff. Unemployment of 10 percent in 2009, combined with massive layoffs at a time where technology had advanced enough to replace many workers, has meant a long climb back to the strong economic altitude where we are flying today.

How many more miles does this C-130 recovery have to go before it needs to land? That is very hard to say. Economists and analysts usually predict the onset of a recession as 18 months in the future, as many pundits are predicting right now. Eighteen months in the future is near enough to cause investor angst and make the prognosticator appear intelligent, while far enough away that if he is wrong, few will remember. Eighteen months from today would put the start of a recession in mid-2020. However, based on past economic cycles, we may be “due” for a recession; there are no current economic data that indicate an economic downturn is imminent.

Typically wage growth rises sharply before a recession begins, but wage growth over the past nine years has been anemic. We are just now starting to see wage pressure benefits for the average worker, so wage growth still has a long way to run. Inflation typically spikes prior to a recession, but with a vigilant Fed board at the helm, inflation is still benign at 2.1 percent and well under control. Housing prices have risen, but the housing stock is still very under-built, given slow construction rates since the last housing crisis. Past recessions have begun when a financial bubble pops, but it is difficult to point to a specific area of the economy where a bubble has formed and is ripe to cause havoc. And a late-cycle fiscal stimulus in the form of the tax reform bill has caused both consumer and business confidence to hit all-time highs.

Because this recovery has been so low and slow, it may last a lot longer than most investors expect. While this economic recovery may have flown a great distance over the past nine years, much like the C-130 it may continue to stay airborne while getting the job done.

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