

Hello Everyone,

Cold and flu season is upon us...just ask any elementary school teacher. Normally, people don't think in terms of "recession colds" but that is the direction today's missive will go.

And, just as teachers and second graders are in close proximity to pass on germs, economies are now so interconnected economic "viruses" can be passed on as well.

I hope you find today's missive helpful in seeing some issues that in play outside our borders.

Signed, Your Glad-I-Don't-Live-On-The-East-Coast-And-Must-Suffer-That-Bitter-Cold-Front Financial Advisor,

Greg

KKOB 11.16.2018 No Gridlock--Part 3-- Catching a Foreign Cold

Bob: I know it is old news that Wall Street believes the election means gridlock, but you want to make one more point about why you think that is not correct. Right?

Greg: I do. So, bear with me. Last week we talked about outside factors like currency manipulations and wars forcing action and thereby breaking gridlock. Then, on Monday we talked about real estate, rising rates, and deficits possibly doing the same. So, today, we're going to talk about something I'll call an imported recession.

So, let me set this up.

Do you remember 10 years ago when Lehman collapsed? A recession soon followed. Of course, we focused on the US, but because everything is so interconnected, the Lehman issue rippled around the globe. Our crisis affected banks in Europe and Asia. Globally, everything slowed down----and eventually, every major central bank in the world was forced to print trillions of Euros, Yen, and Yuan just to keep things going.

Thus, we caught an economic cold and then passed it on to our major trading partners.

Bob: OK. I think I see where you are going with this. Even though we

Bob: OK. I think I see where you are going with this. Even though we have a strong economy right now...unemployment is low, the GDP is growing, & corporate profits are still strong....if things got dicey in Europe or Asia, they could pass an economic cold to us.

Greg: Yes. It isn't reasonable to think colds can only flow one direction. And, it is becoming increasingly clear, China and Europe are getting sick. Let's start in Asia. The Chinese now have 50 million empty apartments. Let that sink in. They have speculated so much in real estate, 50 million (!) apartments now sit empty. Do you think there might be a housing bubble?

And, for the first time in 30 years, Chinese car sales are contracting. Yup, fewer cars were sold in China this year than last. That's a good recession indicator.

Bob: I get that....and, I could see how the two are connected. If you can't rent your apartment out, then you don't have cash flow to buy a car.

Greg: Right. So, now let's turn to Europe. Italy is having profound banking problems...and Italy and the EU are at each other's throats over Italy's budget. Plus, there is a growing movement for Italy to leave the EU---like Britain is doing with Brexit. And, remember, Italy isn't tiny, like Greece...Italy has the 8th largest economy in the world. Anyway, Italian issues are stressing German and French banks. In short, Europe is catching Italy's cold.

Bob: And, obviously, since Asia and Europe are huge trading partners of ours, we could be healthy, but if they both get sick, we would need a big economic flu shot to stay immune from their problems. Right?

Greg: Sure. But, the divisions in Washington are so deep it's hard to imagine anyone looking ahead and being proactive. Therefore, we'll end up reacting. And reacting politicians are not normally in gridlock mode... they'll want to "do something (!)." And, that "something" is usually throwing money at it.

Bob: Sure, they'll just want to make things go away until the next election. But, spending more money isn't usually the most efficient way to address problems. There are always consequences.

Greg: Sure. The dollar weakens, prices rise, interest rates go up. And,

Bob, I know you're aware, inflation is already creeping up. So, my advice for your intrepid listeners has been—and remains-- to see that trend and get it front of it.

Bob: I know----you started on this inflation theme about a year ago. And, you're right-----I am aware. Packages are shrinking, and prices are rising.

Greg: Yup—shrinkflation and inflation together. But that doesn't mean you must get doom-and-gloomy. There's investment opportunity in this trend. And, I'm with that I am out of time.

Bob: Yup, we all just have to adjust. How do people reach you?

Greg: My number is 508-5550, 508-triple-5-zero. Or, go to my website at zanettifinancial.com

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