

Economists debate whether ‘animal spirits’ will bite



Tahn Sharpe
February 21, 2018 - 12.01pm

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Commentators have clashed over whether the global economy is on a healthy growth trajectory or over-leveraged and fundamentally broken.

Jonathan Pain, director of JP Consulting NSW and publisher of investment newsletter *The Pain Report*, told the 2018 Portfolio Construction Forum Markets Summit the full labour market and a thriving global economy will lead to interest rate increases in the immediate future.

“Love him or hate him, Donald Trump has undeniably released animal spirits in the markets of America,” he says. “Banks in Europe are lending again and eurozone economic sentiment is the highest it’s been since 2010.

“When you’re driving,” he concluded, “you need to look forward, not in the rearview mirror.”

The positive view was not shared by Chris Watling, chief executive at Longview Economics in London, who contended that the global economy is hampered by the absence of any “liquidity anchor”, and a glut of mortgage debt.

“Since the 1950s, we’ve seen three major economic fashions wax and wane,” Watling said. “Every generation or so, things in the economics wc break...and I think we’re at that point now.”

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“In the 1970s, you needed to wait in a queue for a mortgage in the UK, but after deregulation in the ’80s, BASEL I, II and III reduced risk weightings further and further.”

The winners are the wealthy, he said. An over-leveraged Western economy has produced a “zombified” corporate base that is benefitting from a lack of wage growth.

Ultimately, he concludes, “all they’ve done is create another credit bubble”.

Middle ground

The contrast in opinion between Pain and Watling was softened to an extent by Tim Farrelly, principal at Farrelly’s Investment Strategy, who concluded the round of talks with a reminder for advisers to “build your own narrative”.

“The critical piece to understanding all of this is to go back to your own philosophy,” Farrelly advised. “Focus on the logic of what people are saying and strip the rest away.”

Pain and Watling somewhat reconciled their opinions in a subsequent discussion panel, with Pain agreeing that “debt creation will cause trouble down the road”, and Watling admitting to being “worried about all the factors” Pain laid out.

This article first appeared on professionalplanner.com.au. Professional Planner and Investment Magazine are published by Conexus Financial, which is the official media partner of Portfolio Construction Forum.

2018 PORTFOLIO CONSTRUCTION FORUM MARKETS SUMMIT



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