# Recession in Trump's First Term?

A historical anomaly is making investors nervous: Since 1909 every single Republican president has experienced a recession during his first term in office. Ryan Vlastelica, writing for *MarketWatch*, calls it a "curious trend" that could serve as "yet another reason to be cautious" about holding stocks now.

There are certainly plenty of reasons to be cautious: The Federal Reserve remains steadfast in its determination to raise interest rates in order to head off incipient inflation. Its PCE index (the Personal Consumption Expenditures Price Index) is slowly moving slightly higher, giving the Fed all the excuse it needs to raise the cost of borrowing. There's North Korea (although Trump's strong rhetorical threats seem to have dampened that country's dictator's enthusiasm for continuing to poke Trump in the eye with his missile tests). There's the Iran deal, which appears to be unraveling as the president is just days away from announcing his decision to pull out of it. Stocks, which peaked in late January, have been unable to find a footing despite record earnings being reported in the last week. There's Robert Mueller's continuing search for something awful to hang around the president's neck. And so on.

Sam Stoval, chief investment strategist at CFRA (the Center for Financial Research and Analysis), says the historical anomaly is simply a "fluke of timing," adding that bull markets in stocks don't die of old age but because they see worsening economic conditions on the horizon.

*The New American* has continued to report on the economic miracle that is playing out following the inauguration of President Donald Trump: Unemployment continues to fall, job creation continues to beat forecasters' predictions, sentiment among consumers continues to climb, major companies' earnings continue to set records, the Conference Board's Leading Economic Indicators rose a healthy 0.3 percent in March. In other words, there's nothing on the horizon but blue skies.

But what about the chance of the yield curve becoming inverted? In simple terms this is when short term interest paid on the U.S. Treasury's two-year note rises above that paid on its 10-year note. This has been one of the best indicators of a recession within the next 12 months, as it reflects bond investors' expectations of a declining economy.

John Waggoner is an advisor to financial advisors and explains that "an inverted yield curve [two-year interest is higher than the 10-year interest] is one of the better recession indicators around. A recession typically follows an inverted yield curve within 12 months." But then he adds this caveat: "The short end needs to be about 0.6 percentage points higher than the long end to make a definitive signal."

Right now that's a very long way off: Long interest is more than 0.4 percentage points above the short interest. Translation: There would have to be huge reversal in interest rates to trigger a recession.

There's another indicator developed for market timers by iMarketSignals: its Business Cycle Index, or BCI. It looks at a number of economic indicators (interest rates paid on the 10-year Treasury note, the performance of the Standard and Poor's 500 Index, unemployment claims, job growth, new houses for sale and recently sold, among others) and translates all of that into a single number. Says iMarket: "Our weekly Business Cycle Index would have provided early reliable warnings for the past seven recessions."

Today? "The BCI is … above last week's upward revised level and no recession is signaled."

What about the "sell in May and go away" seasonal indicator? Is this what's behind the market's recent weakness and its inability to find a footing? Sometimes called the "Halloween Indicator," it poses an investment strategy to purchase equities the day after Halloween and sell them the last trading day in April. Although pooh-poohed by most academics, many investors are "taking the summer off" and moving some of their stock investments to cash.

Does this strategy work? According to three academics, Sandro Andrade, Vidhi Chhaoccharia, and Michael Fuerst, the strategy works. In 2012, they wrote "On average, stock returns [using the "sell in May" strategy] are about 10 percentage points higher in November-May half-year periods than in May-October half-year periods."

Donald Trump has already confounded history with his highly unlikely win over Hillary Clinton in November 2016. Perhaps he will confound history once again by enjoying (and celebrating!) a robust economy that appears to have legs long enough to reach well into his second term.

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