

Forecasts & Trends

Economic Good Times Projected!

By Gary D. Halbert

As you know, I have been a continuous subscriber to The Bank Credit Analyst for almost 30 years now. I continue to find BCA's advice on the economy, inflation and the major investment markets to be the most accurate of any source I have followed. And Martin Barnes, the Managing Editor of BCA, is kind enough to allow me to share BCA's thinking with you from time to time, as have previous Managing Editors over the years. For the last year or more, BCA has predicted that the US economy was headed for a slowdown, but they have maintained the view that the most likely outcome would not be a recession. Instead, the editors have predicted a slowdown that would last for two to three quarters, followed by a rebound in the economy this year. And so far, they have been right on the money, as usual, unlike the gloom-and-doom crowd that always predicts a recession or worse.

BCA's relative optimism, if you will, has been based primarily on two factors. First, the editors believe that the US inflation rate will trend lower in the months ahead, and we have started to see evidence of this, with more to follow in their opinion. Second, the editors believe that the slowing inflation rate would compel the Fed to stop raising interest rates. We have seen this as well.

These two factors, primarily, led BCA to become bullish on stocks in 2004 and even more bullish last year. They have been long-term bulls on energy for the last couple of years and believe we are at or near another low point now. They are not bullish on precious metals, and in fact, have been bearish for most of this year. As usual, BCA has been accurate in these forecasts, at least to this point.

With that background in mind, here is BCA's thinking as of the first week of December last year, as published in their latest weekly **U.S. Investment Strategy** report (along with my bracketed comments for better understanding).

"The case for a soft economic landing [no recession] remains intact, which is sustaining our bullishness on financial markets. Hopes that housing has troughed, or will even soon revive, are premature, underscoring that the gradual retrenchment in consumption has further to run. The slowdown has spread to manufacturing, with the ISM survey dropping below 50% in November. The silver lining in this slowdown is that inflation pressures have quickly receded, thereby providing the Fed with the leeway to ease down the road. The Fed is still talking hawkishly, but this has not been a roadblock to lower Treasury yields. Inflation expectations have more downside, and the Fed eventually will ease policy (undoubtedly only after the unemployment rate moves up). For stocks, the market is getting stretched, but still offers good value compared with other assets. The case for a re-rating [higher prices] in equities remains good, although much higher P/E ratios may not develop until the economic slowdown is nearing an end, and investors start to gain conviction in the durability of the economic expansion.

The correction in energy prices is probably over, and we have upgraded our stance on energy plays to overweight. Conversely, base metals prices still seem at risk of correcting [falling], or at least consolidating, given the slowing global economy, including the key source of demand - China. That said, the longer-term outlook is still favorable."

So, the editors at BCA continue to believe the most likely economic scenario is not a recession, and that the economy will rebound this year. They remain positive on stocks, and bonds to a lesser degree, and look for energy prices to rebound next year. They are mildly negative on the metals markets. These forecasts assume, of course, no major negative surprises such as terrorist attacks, wars, etc., etc. To subscribe to BCA, call **800-724-2942** or visit **www.bcaresearch.com**. Highly recommended!

*Gary D. Halbert is the president and chairman of Profutures, Inc. Subscription rates for *Forecasts & Trends* is \$197 for 12 issues and may be obtained by visiting his website at www.profutures.com.*