

January 23, 2018

Global CIO Outlook

Davos as Contra-Indicator



Scott Minerd
Global Chief Investment Officer
and Chairman of Investments

Two years ago, when I last attended the World Economic Forum in Davos, a growing consensus saw the global economy at the brink of recession. The spread between credit securities like bank loans and high yield bonds had dramatically increased relative to lower risk assets like U.S. Treasury securities. Stocks had sold off, and many pundits predicted that we were at the brink of a new bear market. Oil was collapsing toward our earlier established target price of \$25 per barrel for West Texas Intermediate. Declining asset prices were offered up as full evidence that the U.S. and probably the entire global economy was at the precipice of recession.

At the time, we argued that correlation was not causality and that oil, stocks, and high yield bonds were approaching a bottom. In our clients' accounts we were increasing exposures to high beta asset classes like mezzanine collateralized loan obligations (CLOs), bank loans and high yield bonds. While we stayed the course with our client portfolios, the consensus at Davos led me to conform by allowing for further price erosion when I should have pounded the table that it was time to buy. Fortunately, my words didn't exactly match our actions. I remember explaining on a CNBC appearance that no one can time the bottom and despite any comments to the contrary, it was time to start buying on weakness. The good news is our investments performed well as we continued to load up on energy exposures and leveraged credit risk in the form of mezzanine CLO securities.

As things kick off here in Davos, the sentiment couldn't be more radically different from January 2016. Global growth is accelerating and risk assets are soaring. Sentiment is so positive, it feels like the discussion will focus on "How high is up?" This is occurring in the face of U.S. tariffs on solar panels and washing machines, while CNN and the BBC run documentaries on a rising tide of nationalism, and against a backdrop of discussions on restricting immigration just when healthy Western economies are starting to experience labor shortages in certain key industries.

While I am still a Davos neophyte—it is only my fifth visit to Davos—I am starting to consider that Davos may be a valuable contra-indicator. A few years back the big story here was about the emergence of Africa onto the global scene as an important component of future global growth. While I think that view is ultimately correct, the immediate experience proved very disappointing for investors. Rather than a buying opportunity, investors would have done better to go short for the near term.

While I am hesitant to jump to a conclusion, I'm troubled by the euphoria undergirding the gathering here. I will be listening closely and speaking occasionally, most likely asking more questions than providing opinion. I have seen bull market tsunamis before. They can be both rewarding and destructive. The key is to know when to get out.

Important Notices and Disclosures: This material is distributed or presented for informational or educational purposes only and should not be considered a recommendation of any particular security, strategy or investment product, or as investing advice of any kind. This material is not provided in a fiduciary capacity, may not be relied upon for or in connection with the making of investment decisions, and does not constitute a solicitation of an offer to buy or sell securities. The content contained herein is not intended to be and should not be construed as legal or tax advice and/or a legal opinion. Always consult a financial, tax and/or legal professional regarding your specific situation.

This material contains opinions of the author or speaker, but not necessarily those of Guggenheim Partners or its subsidiaries. The opinions contained herein are subject to change without notice. Forward looking statements, estimates, and certain information contained herein are based upon proprietary and non-proprietary research and other sources. Information contained herein has been obtained from sources believed to be reliable, but are not assured as to accuracy. There is neither representation nor warranty as to the current accuracy of, nor liability for, decisions based on such information. Past performance is not indicative of future results. No part of this material may be reproduced or referred to in any form, without express written permission of Guggenheim Partners, LLC.

Guggenheim Investments represents the following affiliated investment management businesses of Guggenheim Partners, LLC: Guggenheim Partners Investment Management, LLC, Security Investors, LLC, Guggenheim Funds Investment Advisors, LLC, Guggenheim Funds Distributors, LLC, Guggenheim Real Estate, LLC, GS GAMMA Advisors, LLC, Guggenheim Partners Europe Limited and Guggenheim Partners India Management.

©2018, Guggenheim Partners, LLC.