What the Best Global Strategist in the World is Saying

Each year over 14,000 investment professionals vote on the best analysts in various categories in the Extel Survey. For the last 15 years, the same financial analyst has been voted the best in the world in terms of predicting what would occur in the global economy. His name is Albert Edwards of the French bank Societe Generale.

Back in the late 1990s, Mr. Edwards saw what was going on, particularly in the U.S. and European economies, and he created what he called his "Ice Age" thesis. This was the view that U.S. and European markets were going to follow in Japan's footsteps. This means they were going to use their central banks to keep expanding debt to try to keep the economy from crumbling due to too much debt. Of course, this has not worked out well at all in Japan, where their economy has nearly ceased to grow for well over two decades. It also led to two outcomes: 1) Their bond yields dropped to zero and then fell into negative territory, and 2) Their stock market crashed horrendously and never recovered.

Thus far Mr. Edwards has certainly been correct on his bond market prediction, as overall yields have gone down, down, and down (driving prices higher and higher). And his stock market predictions have looked to be correct twice, as we have had two of the three largest stock market crashes in 100 years since 2000.

However, neither Mr. Edwards - nor anyone else - could have predicted central banks would respond in 2009 with the largest monetary experiment in history, printing nearly $20 trillion! This resulted in the dramatic rebound in stocks we have seen since the bottom in 2009, and it has kept us from falling into the more frequent recessions expected due to our extreme over-indebtedness.

So what does the acknowledged "best global financial analyst" in the world say today? He certainly has not thrown in the towel on his final outcome for this economic cycle. Here are three quotes by Albert Edwards from a June 9, 2018 article by Paul Murphy which appeared in the Financial Times:

"The proof of the pudding will come with the next recession, which will arrive. Bond yields will come right back down. I think they will go negative... The question, though, is how deep the equity collapse will be. If I'm right we will see another leg down in this long-term secular trend that will take the equity market to a lower ratio than we saw in 2009."

"But if you have the biggest credit bubble in history, which we saw going into 2007, there's going to be years of payback and sluggish growth."

"Quantitative Easing (QE) might look good for a few years, but it makes the problem worse. With a normal cycle, with interest rates going up quickly, these companies would have gone out of business quicker."

That first quote is the most important. If he's correct about bond yields, long-term U.S. government bonds or Treasuries will make around 60% in price gain in the next recession.

And stocks? If he's correct, the U.S. stock market will plunge. To be precise, it will fall 75%. Now the best, i.e. most historically accurate, analyst on this topic is Dr. John Hussman. His extensive research indicates the stock market is "only" likely to fall 65%. So the best economic forecaster in the world says the coming stock market crash will wipe out three-quarters of the value of stocks, while the best in the world at analyzing stock prices says it will lose two-thirds. Either way, we are going to have a crash like none other since the 1930s.

Could they turn out to be wrong in the end? Of course. We could get quite lucky and only see the stock market cut in half.