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This clock shows when we'll next have a recession

Tony Yoo 31 July 2020

The Investment Clock can determine whether you are laughing or crying. (Images: Getty)
More

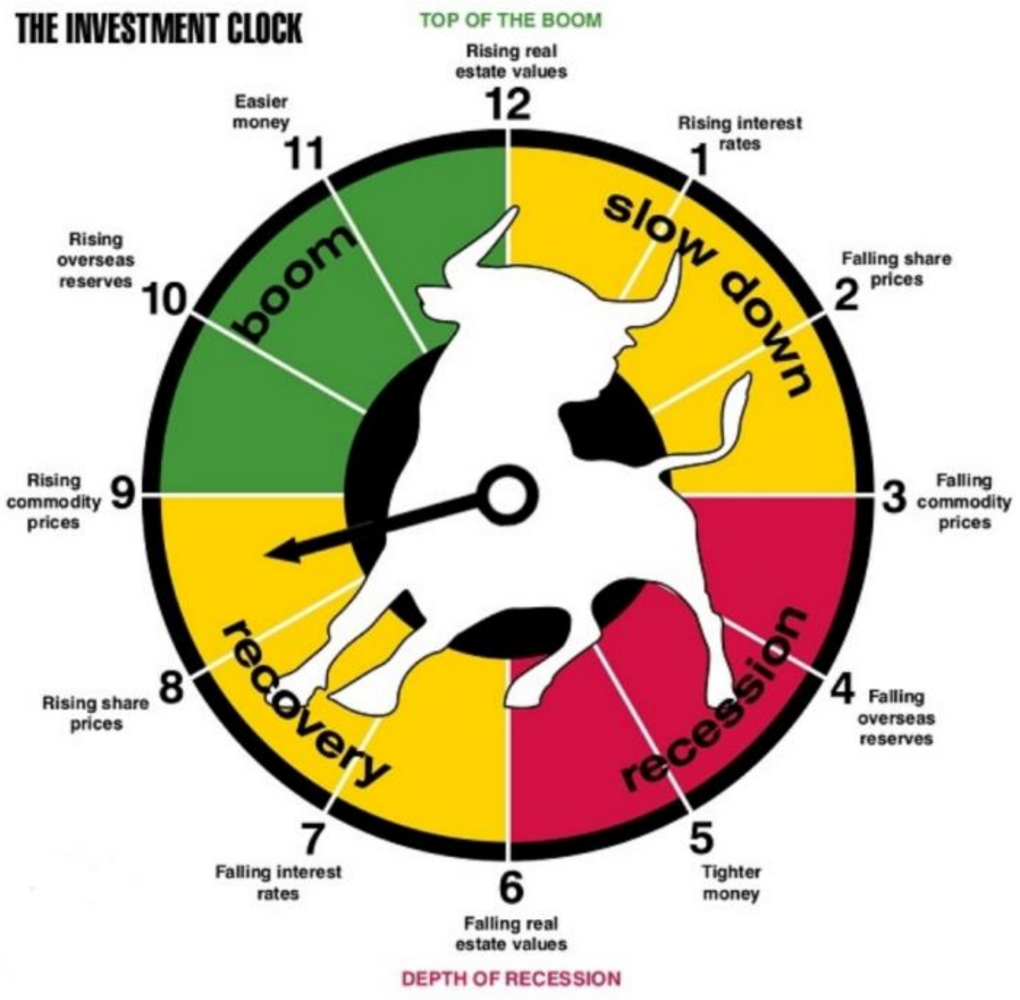
Australia is in its first recession in three decades as Covid-19 has knocked around the global economy.

Meanwhile the sharemarket plunged in February, then recovered with a sensational rally – but with worrying signs that it was driven by [retail investors buying up big while institutional investors quietly sold off](#).

So what has to happen to recover from this mess?

There is a useful graphic called The Investment Clock, which was first shown in London's Evening Standard newspaper in 1937.

It shows various parts of the economic cycle from peak to trough. While it's not perfect, it's a decent indicator of seeing where we are by matching up current events to the clock face.



(image: Bourse Communications)

For example, falling interest rates, at 7 o'clock, starts to lift the economy out of the trough.

Then the recovery picks up pace at 8 o'clock, with rising share prices – triggered by easier credit for businesses from the lower interest rates.

On the other side, falling share prices (2 o'clock) and commodity prices (3 o'clock) demonstrate a slide into recession.

What time are we on The Investment Clock at the moment?

The biggest debate with the clock is not the model itself but what "time" we are at this particular point in time.

Unfortunately the coronavirus crisis, as a once-in-a-lifetime event, has knocked the clock out of synch.

"Maybe as a result of a 'Black Swan' event like Covid-19, we need to add another category to The Investment Clock and call it the Meltdown Phase," investment commentator Rod North told *Yahoo Finance*.

"I think, come September, when a number of the government benefits and incentives… cap out or are reduced substantially – coupled with the full year reporting season for many ASX companies – the Investment Clock itself could take on more of a Salvador Dali style melted clock look."

Irrational behaviour

Perhaps predicated by retail investors dominating share purchases in the past five months, market behaviour has been wild and unpredictable.

"We now have investors buying bank shares when all bank dividends suspended, Qantas shares with little or no prospect of planes flying any time soon," said North.

"We all love the Flying Kangaroo but this behaviour is ridiculous. Just because shares are cheap, that is never a good reason to buy anything."

And it's not just the stock market going mad, according to North.

"We are still seeing record prices for blue chip inner city residential properties. Art and collectibles are selling like hotcakes and reaching record prices," he said.

"The gold price has rocketed over recent months and is at an all time high in Australian dollar terms at $2,709.00 an ounce. In 2006 the gold price was only $650 an ounce."

The weird state of affairs has even triggered a phenomenon not seen for 170 years.

"This has also created a gold boom in the Victorian goldfields not seen since the 1850s with the potential for 70 million to 100 million of ounces to still be discovered underground in Victoria."

What will happen next?

North suspects we'll soon see a similar pattern to the global financial crisis.

"The reality is like during the GFC. From 2007 to 2009 we saw a big fall in the sharemarket, a big rise and then another fall that took the index to a low of 3,109 in March 2009."

But there is so much uncertainty at the moment that no one can truly know where we are headed.

"The full consequences of the political, economic and financial impacts are not readily known and still have a long way to play out."

As well as coronavirus developments, there are events like the US presidential election this year that will influence the economy and investment markets.

And there could also be permanent effects that we will have to live with long after Covid-19 has disappeared.

"The main issue will be the long term and contagion effects of the economic and financial impacts on the world not seen since the Great Depression of the 1930s. This does not equate to the current status quo that an All Ordinaries index should still be at a figure above 6,000."

According to North, a return to pre-Covid-19 levels for the sharemarket is "not sustainable until the world returns to some form of geopolitical, economic and financial stability".

"This ‘new normal’ will mean that the world will have changed forever and be a totally different place from how it was until 20th February 2020 – and is not likely to be the same world that we always knew in the way we work, travel, play, get educated, interact with people, exercise, live and love in the future."

https://au.finance.yahoo.com/news/clock-shows-when-well-next-have-a-recession-210732612.html