



Warren Buffet's Favourite Economic Indicator Is Pointing to an Impending Recession

Description

We are in the midst of a record bull run. Almost a decade has passed without any meaningful bear market or sustained market correction. If you only started investing post-financial crisis, you would have known nothing but a rising market. In fact, we are in the midst of the longest period of economic expansion in history.

Beginning in June 2009, the boom has lasted for 123 consecutive months. Unfortunately, this can lead to a false sense of security and your portfolio may not be [well positioned](#) to withstand a downturn.

Are we finally on the verge of a bear market? One of the most reliable indicators of a bear market has been economic activity. Post 1950, approximately two-thirds of the bear markets are associated with a recession. A recession is defined as slowing economic activity identified by a fall in GDP over consecutive quarters.

In those cases, the bear market typically comes after the start of the recession. As recessions are declared only after the fact, if you wait for official confirmation, it will be too late.

Retail investors [must remain vigilant](#) and aware of some of the key indicators that could point to a recession, some of which have already occurred. Case in point: an inverted yield curve. Since 1955, the inverted yield curve has preceded every U.S. recession.

As per the Federal Reserve Bank of San Francisco, "Periods with an inverted yield curve are reliably followed by economic slowdowns and almost always by a recession."

It's important to note, however, that a recession doesn't begin day and date of the inverted yield curve. It typically occurs months afterwards. The most recent event occurred this past August — one of the first signs of an impending recession.

Another warning sign? Interest rates. It's rare for interest rates to rise during a recession. In fact, the opposite is true. When there is an economic downturn, the Feds cut rates in the hopes of spurring economic activity. Low interest rates make it less desirable to save and more appealing to borrow and

spend. In turn, this helps stimulate the economy.

In Canada, the federal government has thus far avoided an interest rate cut. That said, it has warned against a slower second half in 2019, and some economist are anticipating a cut over the next few months. South of the border, we have already seen two interest rate cuts, as economic activity has come in below expectations.

The most recent sign that we're on the verge of our first recession in a decade came courtesy of **Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)). CN Rail delivered mixed quarterly results this past week. While it beat on earnings estimates, it missed on revenue, and more important, revised its outlook downwards.

President and Chief Executive Officer JJ Ruest offered a fairly straightforward, yet concerning statement, "CN delivered strong results, despite a softening economy." Why is this important? Well, rail is the primary means of transporting goods across the country.

As such, rail traffic is a leading indicator of the economic health of a country. In fact, it's one of Warren Buffet's favourite economic indicators. In an interview back in 2010, Buffet was asked what he felt was the single most important economic indicator. His response? Rail traffic.

When the largest railway company in Canada is using phrases such as "deterioration in North American rail demand" and "as the economy continues to weaken" in its press release, investors need to stand up and take notice.

If you haven't done so already, now is the time to get a little bit more defensive with your portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:CNR (Canadian National Railway Company)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date

2025/08/24

Date Created

2019/10/26

Author

mlitalien

default watermark

default watermark