Goldilocks: Not A Happy Ending

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- Fairy tales are more or less, Western fables/folklore meant to help instill morals or teach life lessons to children in a calming fashion. However, original fairytales of the early 19th century were much darker than we know them to be today.
- For example, in the beloved children's fairy tale of Goldilocks and the Three Bears, there was never even a "Goldilocks" character. Instead, the protagonist is an older and deceitful grifter who stumbles upon a vacant home in the forest. And unlike today's "G-Rated" version, whereby Goldilocks escapes after eating the Bear's food, breaking their furniture, and passing out in one of their beds, older versions of the tale depict a more gruesome fate for the intruder. Depending on the adaptation, her ultimate demise spans from falling from the second-floor window and breaking her neck, to being set on fire and even impaled (I'm not making this up).
- **So why bring this up? We contend that the now widely expected "soft landing" for the economy over the next 12 months is driven by growing expectations for a Goldilocks economy. However, much like the original versions of the Goldilocks fairytale, there may not be a happy ending.**
- On the heels of our last note, "The Dog Days Are Here[1]," we reiterate our cautious stance toward the overall economy and warn of continued turbulence in the capital markets. In that note, we highlighted 36 reasons why investors should remain watchful following a positive 20% total return in 2023 through July 31. And while recent economic data is lauded by market participants, suggesting the latest rate-cycle is done, we once again warn investors there may not be a happy ending following a 550bp increase in FedFunds rates.
- Still, we stand by our "short and shallow" recession position first published in our 2023 Outlook[2], which was reiterated in our last note entitled, "The Waiting Is The Hardest Part[3]."
- However, we continue to remind our readers that the National Bureau of Economic Research (NBER) is typically late to the party, especially in determining shorter recessions. This implies even if we slip into a shallow but hard recession, the NBER may be late in calling it – once again!
- In our 2023 Half-Time Update & Outlook[4], we highlighted some concerns from above and their impact on equity market valuations. At that time, we also suggested "*a general risk-off backdrop associated with a liquidity drain as the Treasury seeks to replenish its General Account*." In other words, as the Treasury needed to fund the government following the near shutdown, the issuance of government debt could draw demand from risks assets (equities); a scenario that seems to be currently playing out.
- We will continue to monitor this very dynamic capital market and will provide additional thoughts as appropriate. To quote one of the most knowledgeable sell-side economists we follow, Ed Hyman from ISI, "…it is good, until it isn't!"

We'd love to hear your thoughts!

[1] https://static.fmgsuite.com/media/documents/beacd0af-39b4-446c-8099-2079e097c2d6.pdf
[2] https://static.fmgsuite.com/media/documents/a2342421-7e47-427e-b1bf-0f54454025c7.pdf
[3] https://static.fmgsuite.com/media/documents/e1893300-fa01-42a5-b1d9-f1aacc680642.pdf
[4] https://static.fmgsuite.com/media/documents/08ae7d95-c5b3-4e9c-b42b-ce13d33e5f72.pdf

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