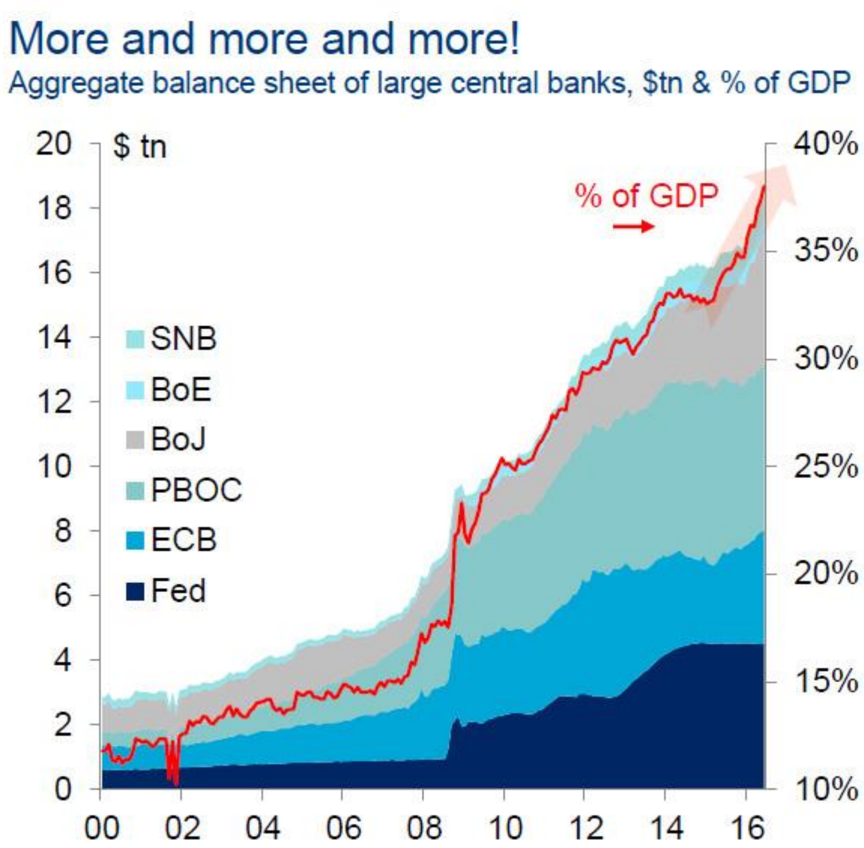
Expecting Economic Data To Play Catch-Up Is A Dangerous Game

When “hard” economic data like industrial production, utility output and commodity prices diverge significantly from “soft” data like consumer confidence or sentiment readings in ISM data, it can be challenging for investors. At present, hard data from around the world paint a picture of a slowing global economy even as resolute soft data and surging markets lull investors into a sense of security.

Beware that safe feeling.

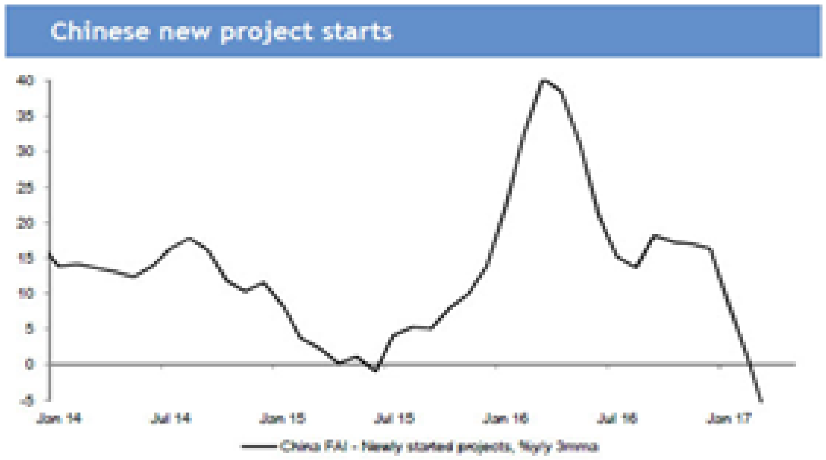
Even though much has been made of the Federal Reserve’s steps to slowly start tightening U.S. monetary policy, central banks globally have continued to add stimulus by buying assets for their own balance sheets. That expansion has picked up the slack for any headwinds caused by the Fed’s few rate hikes.

These increasing central bank balance sheets may be bumping up against the limit of effectiveness though. For instance, the global central bank balance sheets are near $20 trillion, a staggering sum, with little to show for the increase and diminishing returns as the rate of increase slows globally.



Source: Citi Research, Haver.

Meanwhile, China, the single biggest driver of global growth, is unlikely to be a savior for global growth. Consider that new projects have fallen sharply. More projects are being completed than started. This can also be seen in new credit flows which are now flat.



Source: J.P. Morgan

Global economic growth and central bank balance sheet growth are both slowing or reversing. So not only have the fundamentals not kept up with the stock market's race higher, but the hard data that paint the most convincing picture are pointing to tougher conditions for equities.