Chief Strategist At J.P. Morgan Tells Advisors: U.S. Could Avoid Recession

JP Morgan Asset Management BRANDVOICE | Paid Program

By Renée Sylvestre-Williams

Dr. David Kelly, chief global strategist at J.P. Morgan Asset Management, prefers not to predict the future—even though he's often asked to do just that.

"The secret to success in investing is not seeing the future with some kind of mythical vision," he told the country's top wealth advisors at a recent Forbes event. "It's seeing the present with some kind of clarity."

To help those gathered in Las Vegas for the Forbes/SHOOK Top Advisor Summit sharpen their understanding of market conditions and prescribe the right strategies in response, Kelly delivered a four-part presentation with clients' concerns top of mind.

Here's what he covered during his keynote:

Part 1: Economic Growth

The big concern is whether the U.S. economy could face a recession. Kelly attributes slowing growth to several factors, including fiscal drag, which saw inflation affect individuals.

"It's slowing down income going to particularly lower- and middle-income consumers and dragging on consumer spending," he said.

Other factors include the dollar, whose 40-year high is making exports more expensive, and mortgage rates, which have more than doubled since the beginning of 2022.

"Economic growth has slowed sharply," he explained. "But recession isn't inevitable because cyclical sectors aren't at extremes."

Kelly pointed to growth in housing, capital spending, automotive and inventories.

He also said labor demands, apart from the tech sector, continue to far exceed supply. The October unemployment rate from the U.S. Department of Labor sits at 3.7%, up slightly from the previous month.

This low unemployment rate, combined with strong wage growth, could keep the U.S. out of a recession.

"If we're creating 250,000 jobs per month, it is buying us time. That's why we didn't fall into recession at the start of this year," he said.

Part 2: The Dollar's Dominance

Kelly says global economic momentum is also slowing sharply as the world struggles with high inflation and hawkish monetary policy. However, the U.S. dollar is strong against several other currencies that took a dive recently, one being the British pound. That's because U.S. growth is slow but still trending upward, the Fed's tightening monetary policy has made the yield on U.S. treasuries significantly higher and investors tend to flock to the U.S. dollar for safety and liquidity.

A strong dollar makes exports more expensive and lower profits for companies. Should the Fed become more dovish,

the dollar could fall, which would be good, Kelly said, because the dollar is overpriced.

Part 3: Investment Opportunities

Market turmoil aside, Kelly pointed out that what everybody has been neglecting is the current price of certain assets compared with the start of this year. Fixed income and insurance do better when the economy slows down, he said.

Even equity markets are reasonably priced. After a decade of underperformance, international equities look particularly cheap.

"If you look at the equity market at the start of this year, we have P/E (price-earnings) ratios well above their 25-year average," he recalled. "Now we are 10% below that average."

Value stocks, however, are the attractive sector, as they would have to go about 15% from their current position just to get back to their long-term average relationship with growth stocks.

Part 4: Forget Timing The Market

Kelly acknowledged that people found 2022 a difficult year and are exhausted, but it did highlight some of the basic principles of investing: diversification and logic.

Forget timing the markets, he said. A diversified portfolio is an excellent option at the moment. Plus, it's a great time to buy those cheaper assets.

Overall, a recession might happen, but it won't be like the one in the 1970s. The economy will slow but will return to where it was five or six years ago. He was skeptical of the Federal Reserve's position of aggressively raising rates to counter inflation instead of letting it gradually come down, as seen in the historical data.

Kelly concluded his remarks by urging advisors to put their faith in the data.

"We're going to be an economy in slow growth and low inflation. And guess what? Again, low interest rates and high profit margins. And that might not be great for the average person in America, but it is a great basis for financial markets," he said. "So, this is a time when I hope you can talk to your clients about just seeing the world for the way the world is. Don't give in to their fears. Don't give in to all the complexity and all the politics of it. Just look at the numbers and look particularly at the price of assets."

JP Morgan Asset Management