America and Germany are already in recession | The view of our portfolio manager Maurizio Novelli

We translate and publish the market view of our portfolio manager Maurizio Novelli, taken from La Stampa. The original article in Italian can be found at this link: https://bit.ly/3K8yj61

For years in the West we have criticized China for disseminating false economic statistics. But are we sure that ours are more reliable? Or to be more precise, that political authorities interpret them objectively? Maurizio Novelli, manager of the Lemanik Global Strategy Fund, has collected a series of official data (underline the detail: official) and noted that the U.S. and German authorities draw the conclusion from them that recession is not upon us, while (in Novelli's opinion) the opposite is inferred from those same numbers, namely that the U.S. is already in recession and Germany as well, or at best is at zero growth.

> *The United States and Germany recently released growth data for the fourth quarter of 2022," Novelli notes. "Strangely enough, despite all the calamities, the world economy seems to be showing abnormal resilience to recession. However, many doubts about the veracity of these data remain.*

First, real U.S. GDP growth at 2.9 percent in the fourth quarter was calculated by applying an inflation rate of 3.5 percent, while known inflation is at 6.8 percent. "If we were to subtract," Novelli says, "from real GDP (nominal GDP minus inflation rate) the extra 3.3 percent inflation, fourth quarter GDP would be negative 0.4 percent. The exact same

thing was done with the calculation of third-quarter GDP, which came out with inflation measured at 4 percent when it was at 7 percent. In that case, too, real GDP would have been negative.

Same in Germany. “Despite the biggest energy crisis in the country’s history, a halt in automobile production and a slump in exports, the German economy avoids recession and closes 2022 with zero growth. Going on to read the reasons for this anomaly, the German government’s statistics office points to the strong performance of domestic consumption, which would have been decidedly tonic after Covid. Strange, since the monthly survey of retail sales data published by the same office shows an annual trend at -6%

Numbers cannot be disputed; on interpretations, however, the debate is open. Novelli’s opinion is clear: “We have entered the last phase of defending a failed economic system that invents data that threatens to undermine the credibility of institutions. All to continue to defend to the bitter end a system based on past choices, made by economic and monetary policies that were never sustainable, and which are now showing the structural damage caused. We are thus entering a new virtual world where inflation is always ‘transitory,’ recession is always ‘technical,’ and profits of listed companies maybe negative but ‘always beat estimates.’ If we need a soft landing we will have it, at least in the numbers, if we need inflation at 2 percent we will have it, if profits of listed companies contract they will beat estimates. But the reality is that the system is already in recession now, profits will continue to contract and consumption will as well.”

Maurizio Novelli

With more than 35 years of experience in portfolio management and proprietary trading, Maurizio Novelli in 2007 launched one of the first Luxembourg UCITS funds with a Global Macro strategy, of which he is currently the Senior Portfolio Manager, boasting one of the longest track records in the asset class…

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