

A Squishy Landing

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As the economy starts to show signs of slowing, inflation is dropping, gasoline prices are back to where they were a year ago, and China eases some of their zero-COVID policies, it is impossible not to talk about “landings.” Will it be a “soft” landing or a “hard” landing?

Consensus is a Squishy Landing

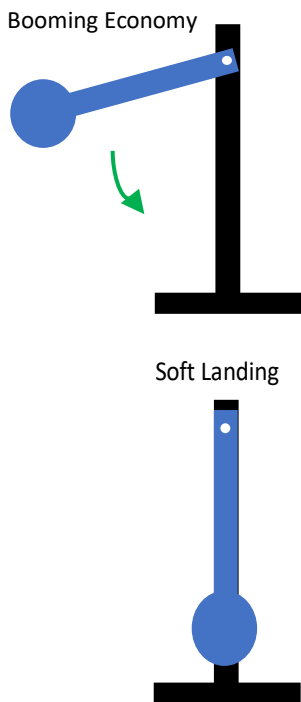
Currently, consensus seems to be towards what I will call a “squishy” landing. There are two types of “squishy” landings which fall somewhere between “soft” and “hard.”

- One way to think of this is like **landing in some Jell-O**. It won't stop you from sinking, but you won't really get hurt and eventually you will crawl (or eat) your way out of the Jell-O. **This is the “nice” version of “squishy.”**
- **The less “nice” version of “squishy”** is where your torso lands on a soft mattress while your legs miss the mattress and land on the ground. Probably **some broken bones, but nothing that cannot be healed without too much disruption**. This isn't really “squishy,” but it is somewhere between hard and soft, and I couldn't figure out a better term.

When analyzing data and the market/corporate responses, I'm assuming that some version of a squishy landing is priced in. **That is important because either a soft or hard landing will “surprise” markets and companies regarding their planning and positioning.**

The Stroboscopic “Soft” Landing

Yes, we could get an actual soft landing. Many are pointing out that possibility and it is certainly what the policy makers would like. But I think a “stroboscopic” soft landing is far more likely. We will describe this with some crude pendulum “diagrams” (no offense to the diagrams).

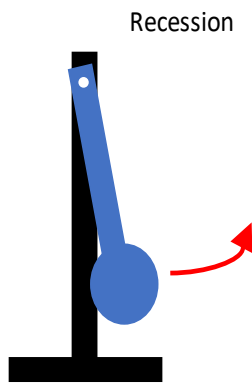


The economy is in “boom” times. Money is cheap and asset prices are skyrocketing. Inflation is high because we are running “hot,” “hot,” “hot.” But the policy makers (and the normal ebbs and flows of the economy) have already started the pendulum on its path down.

Since we only get “snapshots” of the economy, we will briefly see what looks like a “soft” landing. The pendulum swings down as the policies take effect and as company/individual reactions all combine to slow the economy. There are a lot of people that want this situation to occur. It is easy to believe that it will occur, especially **when we visualize the economy through a strobe light where only an instant is captured and something that is in motion is made to look stationary.**

This chart is missing something - the arrow showing the gravitational forces that will keep it swinging.

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The pendulum will keep swinging and head towards a recession. This is similar to the “domino” theory where the actors (the Fed, policy makers, corporations, and individuals) have already set in motion something that won't “stop” at a soft landing.

Yes, there are forces at work trying to engineer a soft landing. Unlike a pendulum that is freely swinging, there are actors trying to get it to stop in the middle. **However, my contention is that we've already pushed the pendulum so hard that it isn't just swinging on its own accord (i.e., the efforts to stop it at a soft landing won't succeed).**

I did warn you about the “childlike” nature of the diagrams, but we should be prepared to briefly “celebrate” a soft landing, only to be disappointed as the pendulum keeps swinging.

Landing in the Water

When you jump or dive into the water, two factors determine how smooth or painful it is.

1. **How you enter.** A graceful dive with pointed fingers/vertical body will displace the least amount of water and hurt less than a big old belly flop (my specialty and I may even have a trophy to prove it).
2. **How fast you enter.** The same posture will have very different results depending on how fast you enter the water (usually associated with how high up you jump or dive from). Even the worst form will barely hurt when jumping from the side of the pool. Few in their right mind would try a belly flop from the high board, though judging from the Olympics, people can do amazing things in the air and still land safely – presumably with lots and lots of practice. At some height, sadly, it is fatal.

So, let's take our “landing” analogy to the water. Maybe the market and the economy are currently thinking about an awkward belly flop from the springboard. It's going to leave a mark, but nothing that won't feel okay in a few minutes. Maybe the landing will be easier, but I suspect that given how high the starting point is (QE, 0% rates, stimulus, a global pandemic, war, a shift in China's relationship, etc.) even if we have perfect form (which is highly unlikely given how many factors are pushing on our proverbial diver), it will hurt.

Neither a Hard nor a Soft Landing is Priced in

My view is that we currently have some form of a “squishy” landing priced in.

We will briefly get excited about a soft landing (we may already have had that).

Then, as the pendulum keeps going, the Jell-O will turn into water, the mattress will be pulled, we will realize that the distance was greater than we thought, and we will have to price in a much worse situation than “squishy.”

I could, hopefully, be wrong and we will see the soft or even squishy landing, but I'm just not prepared to bet on that as it seems more wishful than logical with everything going on.

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