

Impact of a Recession: Winners, Losers and the Biggest Losers

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The TMA Breakfast Forum, held on November 14, included a spirited discussion regarding industry "winners and losers" in today's unstable market. The Forum was moderated by John Rekenthaler, vice president of Research at Morningstar Inc. The three-person panel consisted of Rian Akey, vice president and COO of Cole Partners Asset Management; Mark Price, senior vice president and private wealth advisor for UBS Financial Services; and Bob Johnson, an analyst with Morningstar Inc.



Speakers included Bob Stegmann, Mark Price, John Rekenthaler, Rian Akey and Robert Johnson. Photos by Nicole Krakora.

The meeting commenced with Rekenthaler asking the panelists to provide their personal perspectives on the state of today's economy. Akey observed that as of late October,

the commodities market was experiencing new lows based on an inflationary atmosphere. He examined three changing dynamics in today's economy: A weak U.S. Dollar; inflation risk; and economic growth. Akey noted that while these dynamics have remained fairly constant during past years, we are currently experiencing a strong U.S. dollar, deflationary risk and an economic recession. He thought that these three factors would largely contribute to major asset re-pricing.

Price predicted a continued recession for 2009, suggesting that 2010 will bring a two-four percent growth in GDP. He believed that the financial sector of our economy is beginning to stabilize. Price stated that he feels as though the services industry will continue to consolidate, mentioning the major Citibank layoffs that had occurred just that morning. He also predicted that the ripple effect from the financial sector will soon be felt in retail. The auto industry, he felt, suffers from a broken business model. He asserted confidence, however, in the healthcare sector, as well as manufacturing companies such as Kimberly-Clark.

Johnson opined that the country has been in a recession since February 2008, albeit unofficially. He predicted that this recent downturn will hold for longer than 16 months, which he quantified as the "usual" cycle of a recession. Johnson felt that the current recession will reach its peak in mid-2009, and predicted that the close of 2008 will see an eight-nine percent unemployment rate. He cited examples of companies such as SAP, whose phones have

"stopped ringing," and Cisco Systems Inc. and Intel, whose sales have decreased 10-15 percent. This, in turn, has resulted in a lack of corporate spending. Per Johnson, while consumer spending is normally the bedrock of the economy, business spending and exports have been the crutch for our current market—this crutch having finally collapsed.

The panel also discussed the commodities bear market. Akey proposed that commodities such as lumber, coffee, cocoa and meats would end up as losers in the marketplace. Like Price, Akey thought that the healthcare sector could be among the winners. Akey, however, noted that hospitals would be the exception. Price further suggested that companies such as Novartis, a foreign producer of pharmaceuticals, would be the type of stock to purchase in this market.

Johnson observed that during previous recessions, the rate of consumer purchasing remained fairly stable, but that in the current market we have seen consumer GDP drop three percent since September alone. Johnson predicted increased bankruptcy filings for restaurants such as Ruth's Chris and Bennigan's, and losses for retailers such as Best Buy, who experienced their very first down quarter—a 15 percent decline.

Price stated that we have not yet realized the impact of consumers' astronomical levels of credit card debt. He emphasized that individuals used their home equity loans to effectively turn their homes into "ATMs." Akey agreed, and suggested that without home equity loans the recession would have hit us two years ago. He further observed that consumer balance sheets need to stabilize before our economy can move forward. Akey questioned whether consumers will go back to the excess spending that led us to our current situation, or whether their purchase processes will change as a result of this economic downturn.

The panelists also shared their predictions for what's next. Johnson observed that revenue from China will not be sufficient to save the U.S., due to China's own economic issues. Both Johnson and Price agreed that because the U.S. contributes between eight-ten percent of China's GDP and our spending has dropped three percent, China's economy will take a large hit. Price suggested that Europeans' investments in emerging markets will cause a number of problems. Akey mentioned that there will

continue to be major redemptions of money in hedge funds, and predicted that this will be followed by a consolidation of funds. Akey, however, did not predict hedge funds serving as a savior.

Finally, the panel discussed the automotive industry. Rekenthaler asked whether the government should bail out the Big Three. The panelists concurred that the government will likely take action; under Chapter 11 the automakers could receive major UAW concessions and equity holders would be wiped out. The three panelists further agreed that the automakers would be foolish to continue along with the same business model.



Breakfast attendees included (clockwise from top left): Bill Marra and Peter Roberts; Dan Letizia, Chase Bacon and Matt Vaccariello; Bruce Paul and Tom Pearson; and Debbie Sill and Gail Heldke.

