It’s the Economy, Stupid – But Which One?

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October has a spooky reputation in the market. Like the Halloween decorations we’re seeing in neighbors’ yards, scary things always keep popping up. This month is fitting the pattern. From Beijing to Brazil, animal spirits are roiling world markets.

With that in mind, we visited last week with two plugged-in observers to get their take on the state of the U.S. and global economies.

Just after the September job numbers came out, we spoke to the head of a U.S. asset manager. Given the bullish market reaction on the news that unemployment dropped below 6% for the first time since the Great Recession, he was surprisingly negative.

“The job numbers are bogus; everyone knows it,” he stated bluntly. “More and more people are giving up even looking for jobs. That’s the real number to focus on. Employment has structural problems that won’t be solved by the Fed keeping rates low.”

What about rates? “We don’t see a lot of rate pressure anywhere,” he said. “Japan and the euro-zone have zero or negative rates which puts a blanket on rates globally. Capital will continue to flow to higher rate countries which will further lower yields.”

But aren’t markets signaling better growth? “Demographics are playing a big role in the U.S. As the boomer cycle plays out, that cohort will save more and spend less. So consumers will not be as big a role in the recovery as they have historically.”

Looking for a more upbeat message, we then caught up with an equity analyst for a global investment manager. We reprised the cheerless views from our previous conversation. The analyst could not have disagreed more.

“There are signs of real growth all over the place,” he said. “Job growth is the first indicator. Two years ago, before the presidential election, we were at 8.2% unemployed. If I had said we’d be below 6% today, you’d have taken that all day long.”

But isn’t it masking real structural issues, we asked, doing our best economist impersonation. “Yes,” he answered, “but the job additions are real. Consumers always lead us out of recessions. Look at housing. There’ve been bumps, but the general trend is up.”

“Job gains will begin to put upward pressure on wages,” he continued. “That’s the inflation risk. It’s tame now, but this is a $17 trillion economy. Change comes slowly month-to-month, but a year from now could be a very different picture. That’s why the Fed is saying mid-year 2015 is a good time to target a rate hike.”

These disparate perspectives reflect the daily schizophrenic headlines. One day markets leap on employment reports, the next day they crash on slowing global growth worries. Hard to figure out which represents the true future course of the economy.

Still plenty of October for investors to figure out whether it will be trick or treat.