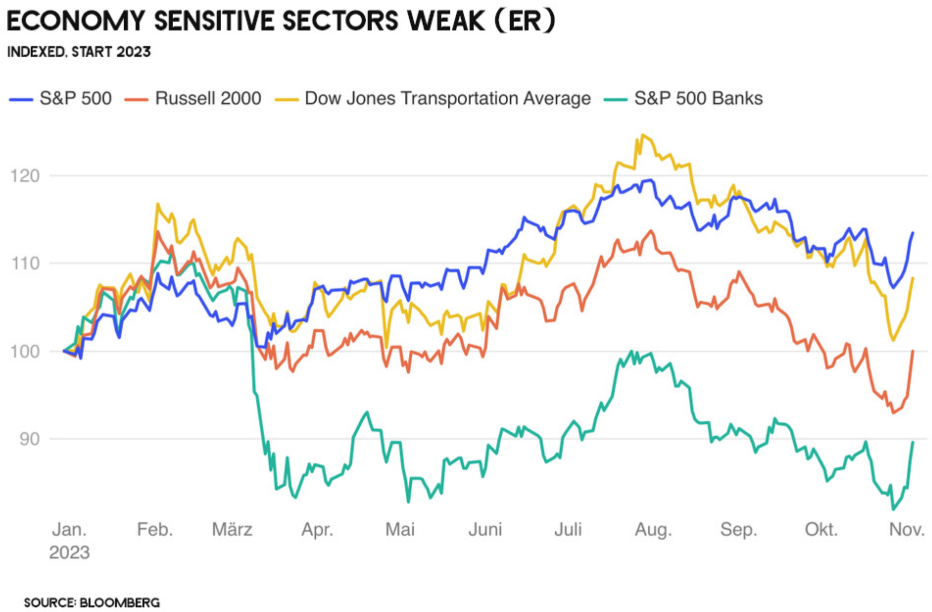
# Signs of trouble?

The comparatively calm mood on the surface of the broad indices hides some signals that point to a significantly worse economic situation.

For example, although the S&P 500 has gained 13.5% since the beginning of the year, economically sensitive barometers such as the small-cap index Russell 2000, the Dow Jones Transportation Average and the S&P 500 Banks Index are performing much weaker in some cases:

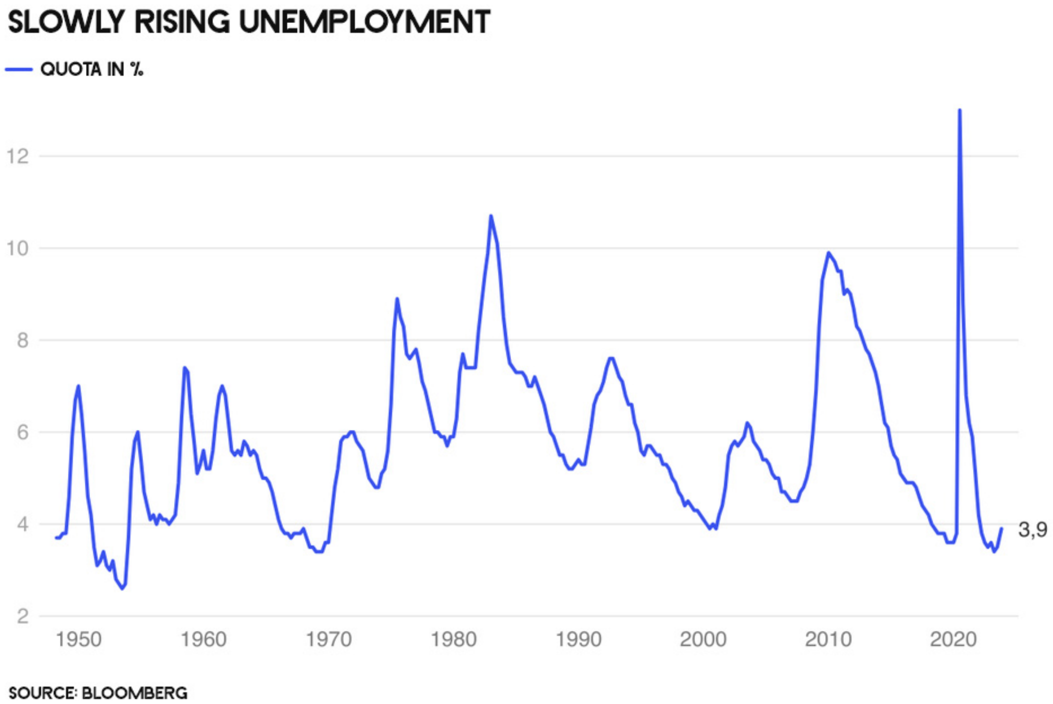



US bank stocks are currently trading at their lowest levels relative to the S&P 500 in at least 80 years:

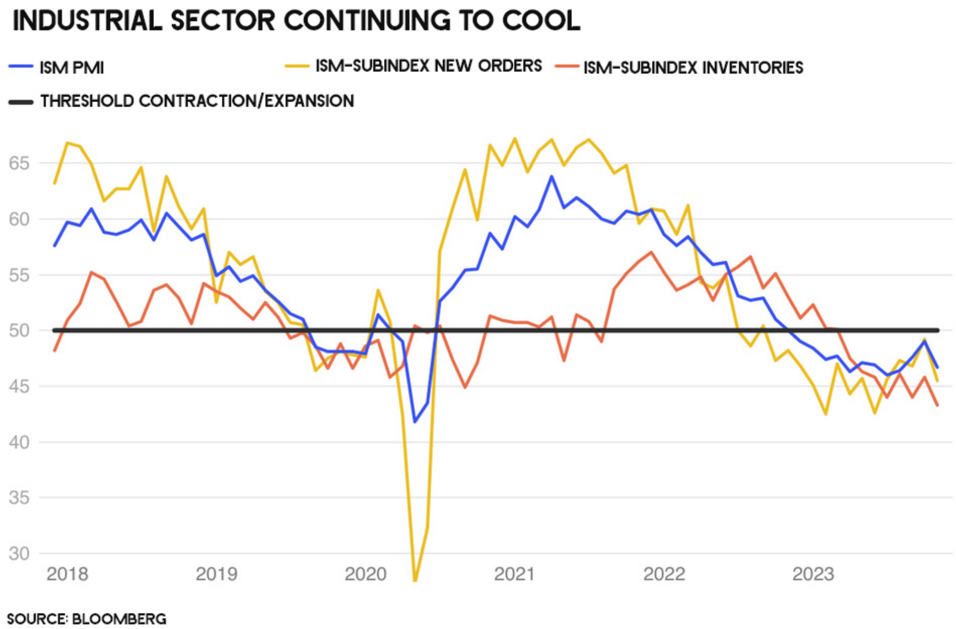
This should present a terrific buying opportunity over the course of the coming year, as bank stocks are considered early cyclicals and are usually the first to anticipate the next upswing during a recession - but at present, the weakness of banks must be read as a warning signal rather than a buying opportunity.

The construction machinery giant Caterpillar also sent out a disappointing economic signal at the end of October when its order intake in the past financial quarter disappointed analysts' expectations.

In the meantime - finally? - the labor market is also showing signs of weakness. In October, the US economy only created 150,000 new jobs, disappointing economists' expectations for the first time in a long time. The unemployment rate rose to 3.9%. Although this is still low in historical terms, it is still 0.5 percentage points above the level in February of this year.



The ISM Purchasing Managers' Index for the manufacturing sector in the US was extremely weak. The much-noticed leading indicator fell surprisingly sharply to 46.7 in October, indicating a contraction in the industrial sector. The sub-components of new orders and inventories also slumped.




The weak purchasing managers' indices (PMIs) has also been confirmed in Europe and Asia in recent days.

The global industrial PMI calculated by JPMorgan fell to 48.8 in October, down from 49.2 in the previous month.

The danger of a (if then probably mild to modest) recession is therefore far from over. It could become the dominant theme of the coming year.