Economically it feels like 1997 all over again

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From Clinton and Obama to yield curves, the parallels are obvious

Can you fathom the big thing people forget from the decade we just completed? Answer: the overwhelming parallels between that period and the first two-thirds of the 1990s.

Once you see the similarities, it will raise all kinds of questions for you. Bear with me as I detail.

The obvious ones sometimes seem superficial. The boom and bust in housing dovetails with the US Savings & Loan crisis of 1989-90, which few recall now. Twenty-eight US financial institutions and $422bn in assets failed in 2007-09, while 911 institutions and $548bn in inflation-adjusted assets failed during the S&L crisis. Where Tarp cleaned up in the US after 2008, Bill Seidman's Resolution Trust Corporation mopped up after 1989-90. Early in both recoveries, Europe was gripped by major crises, producing double-dip recession — the debt crisis in 2010-12, and the ERM crisis in 1992-93.

Political parallels abound. In 2008, Americans elected Democrat Barack Obama as president and gave him both houses of Congress — just as they elected Democrat Bill Clinton and a Democratic Congress in 1992. Both sought a radical reorganisation of healthcare: Clinton tried and failed in 1994, while Obama succeeded in 2010. Both men subsequently lost their majority, and Republicans' resurgence brought six years of gridlock: then between 1994 and 2000, now from 2010. We even had US government shutdowns in both cases — in 1994, 1995 and 2013. And Clinton-oriented scandals embroiled both second terms — Monica Lewinsky then, Benghazi now.

What else? Israel elected Benjamin Netanyahu in 1996 and 2009. Syria's civil war and refugee crisis parallel the 1992-95 Bosnian War, which also displaced millions. Last year's Ebola scare recalls 1997's Asian flu panic. Emerging markets currency fears dominate today, just like 1997 and 1998. Did you recall Quebec voted against independence in 1995, just like Scotland last year? Even the Donald Trump-for-president move as a "rich outsider" has precedent — Steve Forbes in 1996.

Then come less obvious but likely more important correlations, such as the yield curve spread. One of the most reliable forward-looking indicators, the spread between short- and long-term interest rates influences loan growth and capital markets activity — it always has — and is officially one of the prime leading indicators. Banks borrow at short rates, lend at long rates and pocket the spread, so wider spreads make lending more profitable and boost growth, while slim or negative spreads hurt.

Plot the developed world's yield curve spread over time, and it correlates amazingly with the 1989-1997 period. Interest rates were higher then (inflation was too) and some swings vary in length, but directionally it's uncanny. Before the S&L and 2008 crises, the US spread turned negative and bounced around for about a year. Then it jumped, gaining 383 basis points from December 1989 to May 1993 — and 384 basis points from July 2007 to June 2009. Both times, it then bounced sideways several months, descended for roughly nine months, bounced fast, then sank — 260 basis points over 12 months in 1994-95 versus 190 basis points over 12 months in 2011-12.

Not coincidentally, US GDP growth crawled during each bull market's first three years, averaging 2 per cent from the fourth quarter of 1990 to the third quarter of 1993 and 2.1 per cent from the third quarter of 2009 to the second 2012. The spread then bounced sideways for a year before rising again — 136 basis points from January to May 1996 and 136 points from May to December 2013. We've had a long, mostly downward drift since then, just as in 1996 and 1997.

Folks now fear higher long-term rates, but that's exactly what came next after 1997-98, along with huge returns and amazing growth as the yield curve steepened. Wouldn't it be great if this happened today?

If you anchor these periods properly, they're two peas in a pod. The drop in commodity prices mirrors that of 1997, just starting from a higher level. Corporate debt spreads were bigger heading into this bull, but directionally moved similarly to the 1990s with near-identical lag times. The rate of descent of emerging markets currencies versus the dollar is near-identical to the late 1990s.

So what does this mean? People are too myopic. And few remember financial history well. As oft said, history doesn't repeat itself, but it does rhyme. Few fathom that we've paralleled our way to a 1997-ish reality. They fear weak commodities and higher rates, forgetting the 1990s bull market ran three more years with a near-identical backdrop. Could there be years of melt-up ahead? And euphoria? I don't know. When does this bull market end? Put simply, if you listen to history rhyme, now is not the time.

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