60% Chance of Recession: Pimco

By Dhara Ranasinghe | CNBC – 06-11-2013

High debt levels have raised the chances of a global recession in the next three to five years to more than 60 percent, said Pimco, which manages the world's largest bond fund.

The world economy goes through a recession about every six years and the frequency of global recessions tends to rise when global indebtedness is high and falling compared with when indebtedness is low and rising, Pacific Investment Management Co (Pimco) said in a note published on its website late Tuesday.

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"Given that the last global recession was four years ago, and also given that the global economy is significantly more indebted today than it was four years ago, we believe there is now a greater than 60 percent probability that we will experience another global recession in the next three to five years," Saumil H. Parikh, a managing director and generalist portfolio manager at Pimco said in the note.

The U.S. had a debt to GDP ratio of about 101.6 in 2012, up from 99.4 in 2011. Japan, the world's third largest economy after China and the U.S., has a debt to GDP ratio of more than 200 percent.

"We have started to see more recessions than not, but I do think we have moved into a phase that we saw 10-20 years ago, where we have different pockets of growth," Sani Hamid, director wealth management at Financial Alliance, said referring to the Pimco report.

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"I think Europe will remain mired in a recession while the U.S. will chug along at a low rate of growth, while emerging markets move ahead especially those in Asia," he added.

According to Pimco, investors should reduce their risk exposure given its outlook for deteriorating economic conditions in the world economy.

Parikh said that while both U.S. stocks and bonds were expensive, that was not the case globally and that he favored government bond markets in Australia, New Zealand, Sweden, Mexico and Brazil.

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"In the equity space, we generally favor emerging market equities and specifically Chinese non-financial equities," Pariikh added in the note.

Emerging market assets have sold off sharply in recent weeks amid jitters about an outflow of funds as the investors brace for an unwinding of the U.S. Federal Reserve's monetary stimulus. That monetary stimulus has helped boost liquidity in markets globally in recent years.

http://finance.yahoo.com/news/60-chance-recession-3-5-031828485.html