

Economist Predicts Slow Recovery

By Andy Meek

Earlier this month, investment strategist David Kotok told National Public Radio that the hyper-partisan spending battles being waged in Washington “have nothing to do with money – it’s all a prelude to next year’s election.”

Kotok brought a similar version of that practical pessimism to an audience of Memphis business leaders Thursday night, when he spoke to the Economic Club of Memphis and forecast a period of slow recovery for the U.S. that will unfold over years, not months.

Kotok is a rare economist; he also holds a master’s degree in philosophy, which he got from the University of Pennsylvania. His writings have appeared in publications such as The New York Times and The Wall Street Journal, and he’s a frequent contributor to CNBC programs such as “Morning Call,” “Power Lunch” and “Squawk on the Street.”

His Memphis speech wasn’t all doom and gloom. Kotok, who co-founded Cumberland Advisors in 1973 and has been its chief investment officer since then, also praised “very high-grade, tax-free bonds” as one of the great assets to own right now.

He lamented the fact the municipal bond market is suffering “from the Whitney virus.” It was a reference to [Meredith Whitney](#), a banking analyst who recently drew fire for specifically predicting a wave of municipal defaults that sparked fears in the muni bond market – unproven fears, some people countered.

But Kotok, who enjoyed an excursion with his grandchild to the Memphis Zoo prior to his speech, left his audience with few, if any, reasons to expect the light at the end of the tunnel to get bigger any time soon.

There is a light that’s visible, he seemed to say, it’s just that it will stay roughly the same size for a while.

On pervasive joblessness in the U.S.: “We have not been in a situation like this in a very long time.”

Kotok said it would take as many as eight to nine years to whittle through the ranks of the unemployed before the nation returns to anything resembling the old normal of relatively full employment.

He made that same point in a recent market commentary he sent to clients.

“A lower participation rate means the job recovery engines of the U.S. economy remain rusted,” Kotok wrote. “It means slow growth in consumer income. It means weaker housing and worsening budgets at all levels of government.

“So far in this recovery, we see the latter. That means inflation pressures from labor are muted. This has big implications for markets that are discounting heavy future inflation pressures. We may not see the inflation everyone fears.”

He told his Memphis crowd that what is likely to be seen, however, is an economic recovery that is “slow, tepid and won’t be robust.”