Is an Economic Crash on the Horizon?

October 14, 2022 - If you don't follow economic news regularly, then you may have never heard of Jamie Dimon. But in financial circles, he's very well known. Dimon is the CEO of JP Morgan Chase and in an interview that recently did with CNBC, he said some things that are downright chilling.

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Dimon is no stranger to the media. He does interviews on a pretty regular basis. Recently, he's said that he thinks the S&P 500 will drop another 20%. That would take it below the 3,000 level and play havoc with investment funds. In the CNBC interview, he spoke about the possibility of credit markets freezing up - much as they did in the financial crisis that began in 2007. He talked about the conditions that would precipitate such a freeze and mentioned that some of them had already occurred. But he also mentioned one condition that he thought might happen than nobody else seems to be talking about. A sovereign debt crisis. When speaking of this, his actual words were, "It could be a country." And that possibility is simply frightening.

A sovereign debt crisis would mean that a country has basically gone bankrupt and can no longer meet its payment obligations. If that happens in a western nation, it could pull down other countries in a domino effect.

Dimon seemed to take everything in stride... like such a crisis is a normal thing. It isn't. Obviously, he wasn't trying to panic anyone but it is somewhat appalling that the person conducting the interview didn't ask some questions about the comment.

Dimon didn't mention a country by name but there are a variety of candidates for such a crisis. Perhaps the best candidate to get the ball rolling is the United Kingdom. They have had some significant financial issues of late largely due to the missteps of country's new Prime Minister; Liz Truss. The result of these has been a rapid decline in the value of the British Pound, which is now trading at roughly the same value as the US dollar. Just today, Truss fired her finance minister who had been on the job for about a month.

The United Kingdom is one of the largest economies in Western Europe. A sovereign debt crisis there would impact economies around the globe, including here in the United States. But the UK isn't the only vulnerable country. Germany, France and Italy also face issues; largely due to their dependence on Russian energy. And they all have economies that could topple the Euro if things go the wrong way. And a disaster there could easily lead to one here.

The way that countries finance their debt is though the sale of bonds. And if investors lose faith in those bonds, then governments can't continue to spend and the value of their existing currency falls. Announcements in the United Kingdom by Truss had investors fleeing from their bond market and led to the recent fall in the pound sterling. That's a contagion that could spread to other countries.

All of this comes on the heels of what has been an abysmal performance for American markets over the past 20 months or so. Roughly $7 Trillion in investment value has evaporated. That's real money that has been taken out of the pockets of tens of millions of American investors. In many cases, wiping out the retirement hopes of those investors.

And the housing market in the United States is also falling apart; largely because of recent increases in interest rates. Housing markets are a bellwether for the state of the US economy.

Add to all of this a war in Europe and huge spikes in energy prices and you have the recipe for a potential economic disaster. While Jamie Dimon may think that a sovereign debt crisis is no big deal, it has the potential to become a very big deal for the average consumer. It could cause western economies to fall apart rapidly and that should concern all of us.
by Jim Malmberg
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