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If you've had enough of experts, ask the bond markets.

"An expert is one who knows more and more about less and less."– Nicholas M. Butler

When considering where the UK economy will be heading by Christmas, one might spend time speculating about when, if or how Brexit happens on 31st October. Good luck with that. There's plenty of expert opinion about, of course, and the doomsters will also point to the disappointing UK Purchasing Managers Index hitting 6-month low following the second-quarter GDP figures which showed the first contraction in the UK economy since 2012. Sterling hit a two-year low against the US dollar in the wake of that data, reflecting an increased likelihood of an interest rate cut from the Bank of England. A cut which hasn't come, even after the US Federal Reserve cut rates in mid-September.

In the UK we have long become used to positive economic data on employment, wages and inflation. Articles starting with "in spite of Brexit" appear tinged with an element of frustration that things are going so well despite the experts' warnings of impending doom.

Nevertheless, it does look almost certain that the UK would enter a recession in the wake of a "no-deal" Brexit. This risk would appear to be priced into both Sterling and the inferior performance of the UK stock market when compared to the US stock market index of leading shares. But is it just Brexit?

If you look at the bond markets in the UK and USA, both are telling us that recession is on the way regardless of the outcome of Brexit. More attention is being drawn to the inversion of the yield curve in the US, when long-term future interest rates are lower than short-term rates, or base rates. It is a shift that has accurately predicted past recessions. The US bond markets were pricing 10-year bond yields at 1.55% this week, not much higher than the low a month ago, compared to targeted base-rates of 2% to 2.25%. In the UK, we have a similar inversion, as the 10-year Gilt yield is now at 0.45% compared to base-rates of 0.75%.

In late August, for the first time for any government, Germany issued a 30-year bond with no interest at all – a zero coupon. In fact, even this was keenly priced and investors who bought it signed up to paying the German government 0.11% per year for the privilege of holding onto their money. It is possible that investors could make money if the prospect of a global recession intensifies, but it is a sobering thought that EUR 820 million of investors money signed up to guaranteed losses if the bond were held to maturity 30 years from now.

So far, so bad. Of course, a US recession is not nailed on. Unlike the UK, where mortgage rates are calculated on base rates, US mortgages are purchased on a 30-year fixed rate. A notable pick-up in US re-mortgaging in recent months could therefore result in a boost in consumer spending resulting from lower mortgage payments. In addition, the US third quarter earnings season was marginally better than expected.

In the UK, where base rates are only 0.75%, the Bank of England doesn't have as much room as the Fed to cut rates in response to a hard Brexit. In the meantime, some exposure to Gilts, where the price of the bonds rise as yields fall, is no bad thing – particularly if we could be facing a challenging fourth quarter.

We believe the prospects of a "no-deal" Brexit are broadly priced into stocks, bonds and the Pound Sterling. However, the risk of a global recession, stemming from the US – predicted by bond markets today – is very real.

For this reason, we continue to keep client portfolios broadly-diversified, and cautious, but we will look to capitalise on any mis-pricing where we see that the opportunity outweighs the risks.

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