



The Weekly Market Update – 11/21/22: Despite Recent Strength, 2023 Recession Debate Is Real

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	3,965.34	-0.69%	10.59%	-16.80%	-13.90%	4,796.56	21.0%
Dow Jones Industrial Average	33,745.69	-0.01%	17.48%	-7.13%	-5.79%	36,799.65	9.0%
NASDAQ Composite	11,146.06	-1.57%	5.39%	-28.76%	-28.08%	16,057.44	44.1%
Russell 2000	1,849.73	-1.75%	11.11%	-17.62%	-19.48%	2,442.74	32.1%
MSCI EAFE (USD)	1,922.38	0.21%	15.70%	-17.71%	-17.69%	2,398.71	24.8%
MSCI Emerging Markets (USD)	943.01	0.78%	7.68%	-23.46%	-25.44%	1,444.93	53.2%
Bloomberg Commodity Index	114.79	-1.78%	2.96%	15.76%	11.06%	237.95	107.3%
Barclays U.S. Aggregate Bond	88.41	0.50%	0.80%	-15.58%	-15.95%	112.07	26.8%

Source: FactSet

Fourth quarter (4Q22) U.S. economic data has tracked ahead of expectations, but concerns remain regarding consumer spending trends in 2023. According to data provider FactSet, the consensus expectation (from Wall Street economists) for 4Q22 U.S. real gross domestic product, or GDP (the value of inflation-adjusted goods and services produced during the quarter), has increased to 0.7% as of 11/21/22, a modest increase from 0.6% growth expected at the end of October. An alternative GDP tracker from the Federal Reserve of Atlanta, the GDPNow, reflected a 4Q22 GDP trend of 4.4% as of 11/17/22. The Atlanta model adjusts as data is reported and does not estimate trends from numbers not yet reported. At this point, only October data is known, and November and December could weaken, but the U.S. economy in October was bolstered by the highest monthly vehicle sales (from the Bureau of Economic Analysis-BEA) since January 2022, by October jobs growth (from the Bureau of Labor Statistics-BLS) of 261 thousand that exceeded expectations, and by year-over-year (Y/Y) October retail sales that increased 7.9%. Consumer spending was the bright spot in October, as industrial production (from the Federal Reserve) missed estimates, but the Atlanta Fed model shows positive GDP contributions from both the consumer and business spending on equipment and research and development. This helps offset continued weakness in housing investment (according to the Census Bureau, October housing starts were the second lowest monthly number of 2022). We see headwinds for consumer spending in future periods as the U.S. personal savings rate (reported monthly by the BEA) has remained below 4.0% for the past seven months, and September's 3.1% savings rate was the lowest since April 2008. By contrast, the personal savings rate in February 2020 (pre-pandemic) was 9.3%. In addition, according to data from the New York Federal Reserve Bank, third quarter credit card balances increased 15% Y/Y, the largest annual quarterly increase in two decades. While ongoing jobs growth and wage increases provide a boost to consumer spending as well, we view the decrease in savings and increase in credit as a potential concern regarding more consumer caution ahead.

Economic growth uncertainty of 2022 is expected to continue in 2023. While U.S. real GDP was negative in 1Q22 and 2Q22, down 1.6% and down 0.6%, respectively, growth rebounded to 2.6% in 3Q22, creating a debate about whether or not the economy was in recession. While some view two quarters of negative GDP as a recession, the official call is made by the National Bureau of Economic Research (NBER). The NBER defines recession as "a significant decline in economic activity that is spread across the economy and that lasts more than a few months." On that measure, the first half of 2022 was likely not a recession as consumer spending remained positive and quarterly numbers were distorted by trade imbalances caused by repeated supply chain disruptions. The FactSet consensus GDP estimates for 1Q23 and 2Q23 as of 11/21/22 are -0.4% and -0.5%, respectively, which reflects a potential recession next year.

Markets will take a breather this week for the Thanksgiving Holiday, but investors will watch for the release of the November Fed minutes and the start of holiday spending. The Federal Reserve Bank (Fed) meeting minutes from 11/2/22 should provide context for future Fed interest rate decisions, ahead of the next meeting scheduled for 12/14/22. The National Retail Federation estimates a 2022 holiday shopping increase of 6% to 8% (vs. 2021), which largely begins on Friday this week.

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