The Weekly Market Update – 11/28/22: An Important Week of Data Starts with Healthy Holiday Spending

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	4,026.12	1.53%	12.29%	-15.53%	-12.58%	4,796.56	19.1%
Dow Jones Industrial Average	34,347.03	1.78%	19.57%	-5.48%	-4.11%	36,799.65	7.1%
NASDAQ Composite	11,226.36	0.72%	6.15%	-28.24%	-27.56%	16,057.44	43.0%
Russell 2000	1,869.19	1.05%	12.28%	-16.75%	-18.63%	2,442.74	30.7%
MSCI EAFE (USD)	1,962.94	2.11%	18.14%	-15.97%	-15.95%	2,398.71	22.2%
MSCI Emerging Markets (USD)	941.01	-0.21%	7.45%	-23.62%	-25.60%	1,444.93	53.6%
Bloomberg Commodity Index	114.92	0.11%	3.08%	15.88%	11.18%	237.95	107.1%
Barclays U.S. Aggregate Bond	89.31	1.02%	1.83%	-14.72%	-15.09%	112.07	25.5%

Source: FactSet

Black Friday spending comes in stronger than expected. The holiday shopping season got off to a better-than-expected start on Black Friday. Brick-and-mortar sales at retailers increased 2.9% Y/Y, according to Sensormatic Solutions, while online sales grew 2.3% Y/Y to $9.1B, based on Adobe Analytics data. That is ahead of the 1.0% growth Adobe estimated before the Thanksgiving Holiday. For the entire holiday season, the company estimates $209.7B in sales, an increase of 2.5% over 2021. The early indications point to a U.S. consumer that continues to spend, albeit at a moderating pace compared to the 8.6% Y/Y growth in 2021. The biggest discounts this year are in toys, electronics, and apparel. Additional discounts in computers, appliances, and televisions suggest that retailer inventory, stimulated by pandemic-driven consumption trends, continues to be worked down. The stronger-than-expected spending suggests the average consumer is not curtailing spending, in spite of weak sentiment and fears of a looming recession.

Consumer spending is an important part of the economy. Personal consumption accounts for roughly 70% of U.S. GDP. The majority of personal consumption is for services and non-discretionary items. Inflation trends first started in goods prices at the beginning of the pandemic, as people sheltered-in-place and altered their spending toward greater goods consumption. In 2022, inflationary pressure has shifted toward services. The October Consumer Price Index (CPI) showed services excluding energy increased 6.8% Y/Y and housing increased 7.9%. All items less food, shelter, and energy only increased 5.9% and durable goods prices moderated to 4.8%. Inflation continues to erode consumers' spend power. Inflation-adjusted hourly earnings have declined each of the last 12 months and declined -3.0% Y/Y in October, according to the U.S. Department of Labor. Lower real wages mean the U.S. consumer has deferred some purchases (like housing), while drawing down savings ($1.4T – Strategas), reducing the percentage they save (3.1% in September), and increasingly using more credit (up 6.4% Y/Y in September) to maintain consumption. Consumers' confidence to continue to spend appears to come from the tight labor market; current unemployment stands near record lows of just 3.7%. The most recent JOLTS figures in September showed there were 10.7M job openings, just under two for every unemployed worker. History suggests that Americans do not increase their savings rate until they start worrying about losing their job and struggling to find a new one.

Fed policy, employment, and the recent market rally. This week, the FHFA and Case-Shiller Indices (Tuesday) will give investors an updated view on the housing market and potentially an indication of the trend in future shelter inflation. Perhaps the most important readings of the week will come from employment and wage data. Wednesday's JOLTS Job Openings report for October could show that tighter financial conditions have reduced the number of open job postings, an indication that the Federal Reserve is making progress on reducing inflationary pressures. Fewer openings, combined with an in-line Non-Farm Payrolls report (Friday) and ADP Employment report (Wednesday), would likely be viewed as supportive of an "economic soft landing" or mild recession scenario. Additional readings on wholesale inventories (Wednesday), Personal Consumption Expenditure (Thursday), and real hourly earnings (Friday) all have the opportunity to support (or undermine) the S&P 500 rally since the 10/12/22 low of 3,577. Since then, the S&P 500 has rallied 12.6% (11/25/22 close) despite estimates for the next 12 months of EPS declining -2.1%. With the P/E multiple expanding to 17.5x, this week's economic data combined with holiday shopping trends will provide important updates on how durable corporate earnings might be.

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