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# Market Commentary

**Weekly perspective on current market sentiment** **November 8, 2023**

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Last week's S&P 500 Index: -0.7%

## Weakening trends

### Key takeaways

- Let's admit that last week's economic reports, while weaker than expected, were still not bad.
- But the current trends are not the economy's friend. We expect these weaker trends to continue.

To say the least, both stock and bond markets notched robust rallies in the second half of last week's trading. Given the large amount of important economic data released over that time frame, many investors are wondering why stocks rallied so strongly when the bulk of the data came in weaker than expected. After all, shouldn't news that the economy is weakening be a headwind for equities? A weaker economy should eventually equate to weaker earnings, all else being equal. That makes sense.

But as we have written many times over the years in this weekly piece, how financial markets react to data at different points in the economic cycle can be somewhat confusing. Sometimes, "bad" data ends up being good for the equity market, especially when the Federal Reserve is trying to slow inflation by slowing the economy. At other points in the cycle, bad economic news is just plain bad for the market. For the most part, at least right now, that doesn't appear to be the case. The equity market has risen on weaker economic news on numerous occasions in recent months. At some point down the road, we do think weaker economic news will further weigh on equity prices.

First, let's admit that last week's economic reports, while weaker than the consensus expected, were still not bad. Last week's data pointed to an economy that is still moving forward (growing). But what we want to pay close attention to is the trend in the data, and, based on our view, the trend is moving in a weakening direction. We expect this weaker trend to continue as we cross into 2024. Let's take a look at a couple of the weakening trends.

We will start with employment. The number of new nonfarm payroll jobs created has been deteriorating from the recent May high of 281,000 to the October total of 150,000. The unemployment rate is slowly rising, and wage gains are slowing. The average work week (measured in hours) is in decline. That means the economic cycle is adding fewer and fewer jobs. Consumer spending is what helped push the economy ahead this year.

Next, given the weakening trend in the labor market, we believe the trend showing consumers have funded their spending by emptying savings accounts and maxing out credit cards is nearing an end. As spending slows, businesses may actually not need as many employees. We expect to see more layoff announcements in coming months. We believe a further climb in the unemployment rate is likely.

We continue to believe a defensive portfolio posture is appropriate. We recommend that investors take advantage of higher interest rates to lock in longer-term fixed-income positions but also hold some funds in short-term fixed income to take advantage of potentially lower equity prices. The current trends are not the economy's friend.

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