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Investment Institute

Market Commentary

Weekly perspective on current market sentiment **November 29, 2023**

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Last week's S&P 500 Index: +1.0%

Holiday shopping mistake

Key takeaways

- It appears the holiday shopping season is off to a decent start, but headwinds for the economy are still in place.
- We think it is a mistake to use Black Friday & Cyber Monday sales to gauge consumer spending in coming quarters.

Let's get to the main point of this piece right off the bat: Do not use Black Friday and Cyber Monday as gauges of consumer spending that are going to give you an accurate feel for what will happen in the first half of the new year. We believe that would be a mistake.

Now don't get us wrong — a strong holiday shopping season is important for many retailers and in some cases robust spending allows companies to finally crawl into profitability for the year. And we already know that spending by U.S. consumers is what has driven the economy forward over the last 18 months or more. As we have been saying for more than a year, pandemic-related supply disruptions (including a tight labor market) and trillions of dollars pumped into the domestic economy have been the main source of resilience. But the supply disruptions have largely passed, money supply is now contracting, and parts of the economy, including housing and parts of manufacturing, have cascaded into contraction.

The consumer remains the main support, and Black Friday, the day after Thanksgiving, saw record online sales totaling $9.8 billion according to Adobe Analytics. That is up 7.5% relative to last year per the same source. And at the time of this writing, it sounds as though Cyber Monday is going reasonably well based on financial network reporting throughout the day. As far as good old-fashioned brick-and-mortar in-store buying, that increased an estimated 2.5% last Friday. We know that online purchasing in general jumped dramatically during the pandemic period, but that trend was already solidly in place.

So, it appears the holiday shopping season is off to a decent start, but the headwinds that are resulting in a gradual economic slowdown are still in place. Perhaps the most important statistic to note is that consumer credit-card debt is at its own record high of over $1 trillion according to the Federal Reserve (Fed). Our U.S. central bank also reports that only the top 20% of income earners hold more cash now than prior to the pandemic when adjusted for inflation. Credit is tougher to get whether consumers are looking to purchase a house, car, or any other big-ticket item based on the most recent Fed Senior Loan Officer Survey. It also isn't unusual for consumers to overextend themselves, which the data shows is happening now. Delinquencies are rising quicky.

Holiday sales typically pick up compared to prior months. The essence of equity-market enthusiasm is that the economy can slow enough to bring down inflation and trigger lower interest rates. That's optimistic, we think. The economy is slowing, but it's difficult to imagine that overextended consumers will be able to bounce back quickly. We are sticking with our defensive advice.

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