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Weekly Wire

Is a Recession Still Coming?

By Rusty Vanneman, CMT, CFA, BFA™

The economy continues to do better than most expected. One example is that the first quarter's earnings season is looking better than originally forecasted. With earnings season almost over, companies are currently on pace to grow top-line revenue growth by over 4% though bottom-line earnings growth is expected to be lower by 1% year-over-year. While these numbers are below long-term averages, they did beat expectations by more than average and by impressive margins. Also, given current expectations for earnings heading into year-end, it appears that trailing 12-month earnings have hopefully bottomed. That could explain why the stock market price lows are now seven months old. Stocks typically lead earnings. In addition, the overall economy continues to surprise to the upside. For example, the Atlanta Fed GDPNow Forecast Tool is now estimating Q223 GDP at 2.9% (as of 5/17/23). This number also continues to improve. Despite these economic numbers, and the nice gains in the stock market this year, investors and business leaders remain nervous about the future. Is a recession still coming? In times like these, here's a useful phrase from a recent Morgan Housel podcast called "A Few Things I'm Pretty Sure About" to lean on: "*A good bet in economics is that the past wasn't as good as you remember, the present is not as bad as you think, and the future will be better than you anticipate.*"

Stay invested. Stay diversified. Stay disciplined.

Interest Rates as of May 19, 2023		
Rate	**This Week**	**1 Wk Δ%**
13-Wk Treasury Yield	5.09%	0.06%
10-Yr Treasury Yield	3.71%	0.25%
Bloomberg US Agg Yield	4.74%	0.25%
Avg Money Mkt Yield	4.85%	0.02%
Avg 30-Yr Mortgage Rate	6.96%	0.07%

Key Economic Data This Week		
Data Point	**Expectation**	**Release Date**
New Home Sales	0.8%	5/23/2023
Durable Goods	-0.9%	5/26/2023
Personal Income	0.4%	5/26/2023
PCE YoY	-	5/26/2023
Core PCE YoY	4.6%	5/26/2023

Key Economic Data Last Week		
Data Point	**Expectation**	**Actual**
US Retail Sales	0.8%	0.4%
Industrial Production	0.1%	0.5%
Business Inventories	0.0%	-0.1%
Existing Home Sales	4.26M	4.28M
US Leading Economic Indicators	-0.6%	-0.6%

Stocks, Bonds, Alternatives, & Real Assets as of May 19, 2023						
Security Name	**Risk Score***	**1 Wk Δ%**	**1 Mo Δ%**	**QTD Δ%**	**YTD Δ%**	**12 Mo Δ%**
S&P 500 Total Return	110	1.71%	1.07%	2.24%	9.91%	9.34%
Morningstar US Large Cap	110	1.92%	1.72%	3.05%	11.96%	10.76%
Morningstar US Mid Cap	122	1.02%	-1.67%	-1.70%	1.92%	1.88%
Morningstar US Small Cap	128	1.54%	-1.84%	-1.75%	3.06%	2.42%
Morningstar US Value	98	1.09%	-2.35%	-0.50%	-0.32%	3.04%
Morningstar US Growth	146	2.61%	2.83%	2.68%	17.86%	10.47%
MSCI ACWI Ex USA	88	0.37%	-0.31%	1.75%	8.87%	7.67%
MSCI EAFE	94	0.38%	0.18%	2.86%	11.73%	12.52%
MSCI EM	86	0.52%	-1.05%	-0.94%	3.04%	-0.33%
Bloomberg US Agg Bond Index	35	-1.37%	-0.59%	-1.05%	1.88%	-2.10%
Bloomberg Commodity Index	94	-0.01%	-5.43%	-3.54%	-8.71%	-19.99%
Wilshire Liquid Alternative Index	23	0.00%	-0.15%	0.31%	1.51%	-0.12%
US Dollar**	42	1.50%	1.81%	1.05%	0.06%	-0.22%
Bloomberg US Treasury Bill 1-3mo	1	0.08%	0.33%	0.61%	1.71%	3.17%

*The Orion Risk Score represents risk relative to the global equity market. **As of 5/18/2023. Table Sources: Morningstar, Yahoo Finance, S&P Global, Crane Data, BankRate, MarketWatch, First Trust.

Brinker Capital Market Barometer

The balancing act for markets continued in April as participants continue to weigh the probability of an economic slowdown versus a recession. Despite the variety of headlines and risks, both equity and fixed income markets eked out small gains during the month. Inflation continues to moderate, and the consensus expectation is that the Federal Reserve will pause rate hikes after the additional 25 bp increase at the beginning of May. Despite the additional hike, the market is calling a bluff on the Fed's hawkish rhetoric as the 2-Year Treasury has continued to rally leading to a widening gap between the fed funds rate and two-year yield. The banking sector continues to be in focus as First Republic Bank was taken into receivership by the FDIC and ultimately purchased by JPMorgan. The big banks continue to get bigger, but for now additional financial stress on the regional banks appears to have subsided. The labor market remains robust as payrolls continue to come in above expectations. Actual payroll growth has now outpaced forecasts for 13 consecutive months, an unprecedented streak for a historically mean reverting dataset. The consumer continues to prop up an otherwise slowing economy which was highlighted by the Q1 GDP report released during the month. Earnings season got off to a solid start with over half the companies reporting and earnings declines less negative than analysts expected. This resiliency removes a headwind for the bullish trending market as we move into the summer months amid a cloudy macro environment.

Short-term Factors *(< 6 months)*

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum			●		Market momentum continued in April; 12-month US returns are flat but foreign markets faring better
Trend				●	Most global equity markets are above upward-sloping moving averages (small cap notable exception)
Investor sentiment				●	Sentiment remains subdued despite strong market YTD; tepid equity flows amid competition for capital
Seasonality	←		●		Sell in May heuristic is overstated but forward 3-month returns in this period only about average

Intermmediate-term Factors *(6-36 months)*

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy			●		Yellen has stated a June 1st X-date; increasing pressure for a deal to suspend or raise debt ceiling
Monetary policy			●		Fed hiked rates by an additional 25 bps but messaging opens the door for a pause moving forward
Inflation		●			Inflation continues its moderating trajectory but remains well above Fed's long term target
Interest rate environment		●			Deep yield curve inversion signals growth warning; elevated rate volatility affecting cost of capital
Macroeconomic			●		Global PMIs show contraction; labor market strength continues despite slowdown/recession fears
Business sentiment		●			Business confidence measures remain subdued as a growth slowdown is expected
Consumer sentiment		●			Consumer sentiment is off its lows but remains at depressed levels
Corporate earnings		●			Q1 earnings growth negative but decline not as bad as feared; margin compression stabilized for now
Credit environment				●	Spreads widened modestly on banking stress but overall environment remains relatively tame

Long-term Factors *(36+ months)*

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation			●		U.S. equity valuations near long-term averages; overseas markets below average valuations
Business cycle			●		Q1 GDP growth positive but well below expectations; consumer spending sustaining economic activity
Demographics			●		Emerging markets possess more favorable trends overall than developed markets

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