Economic Confusion - RIA

In our Commentary [2023 Challenge: Contradiction](#), we discussed Lance?s recent article, [The Technicals Vs. The Fundamentals](#). Specifically, the two pieces aim to raise awareness that technical studies are a reason for bullishness, while fundamentals tend to argue a bearish case. As if the divergence between technicals and fundamentals was not enough to grapple with, there is a lot of confusion and divergence of economic data. A week ago, the unemployment rate hit a 53-year low. However, many leading economic indicators point to high odds of a recession.

The MacroBond graph below highlights the prevailing economic confusion.

Financial conditions are extremely easy, and consumer confidence is robust, and, as we noted earlier, the labor market is among the strongest in recent history. At the same time, three critical leading indicators, OECD, business confidence, and the 2/10yr UST yield curve, point to elevated recession risk. MacroBond helps break the economic confusion tie as follows:

> Industrial production ? moving from neutral to borderline red over the past six months ? might be the tiebreaker.

United States Economic Indicators

Percentile rank relative to historic data.
Financial Conditions Indicator barometer reversed.

Sources: Federal Reserve, S&P Global, International Monetary Fund (IMF), BIS (The Bank for International Settlements), Conference Board, OECD (Organisation for Economic Co-operation & Development), Institute for Supply Management (ISM), U.S. Bureau of Labor Statistics (BLS), U.S. Department of Treasury

Percentile

● Today ● 6 months ago ■ Low recession risk ■ Medium ■ Elevated recession risk

MACROBOND

United States Economic Indicators

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What To Watch Today

Economy

- *No notable reports are scheduled for release.*

Earnings

	Company	Time	Estimate		Growth Show only confirmed?	Surprise			
✓ CX	Cemex S.A.B. de C.V.	BMO	-	$3.89 B	7.5%	+	=	.	⊕
✓ FE	FirstEnergy Corp.	4:20 PM ET	$0.53	$2.54 B	-4.5%	+	=	.	⊕
✓ CAR	Avis Budget Group, Inc.	4:00 PM ET	$6.85	$2.71 B	5.5%	+	=	.	⊕
✓ ES	Eversource Energy	4:15 PM ET	$0.94	$2.70 B	8.8%	+	=	.	⊕
ACGL	Arch Capital Group Ltd.	4:15 PM ET	$1.34	$2.41 B	4.2%	+	=	.	⊕
✓ AMKR	Amkor Technology, Inc.	4:05 PM ET	$0.70	$1.85 B	7.3%	+	=	.	⊕
THS	TreeHouse Foods Inc.	6:55 AM ET	$0.91	$1.03 B	-11.7%	+	=	.	⊕
✓ IAC	IAC	4:10 PM ET	($0.24)	$1.24 B	6.9%	+	=	.	⊕
✓ DDL	Dingdong (Cayman) …	6:20 AM ET	$0.03	$945.78 M	9.9%	+	=	.	⊕
✓ ASTL	Algoma Steel Group Inc	5:35 PM ET	($0.32)	$510.22 M	-39.6%	+	=	.	⊕
✓ ANET	Arista Networks, Inc.	4:05 PM ET	$1.21	$1.20 B	45.5%	+	=	.	⊕
✓ CDNS	Cadence Design Syst…	4:05 PM ET	$0.92	$882.72 M	14.2%	+	=	.	⊕
✓ MKSI	MKS Instruments, Inc.	4:30 PM ET	$1.31	$996.70 M	30.5%	+	=	.	⊕
✓ MRC	MRC Global Inc.	4:15 PM ET	$0.28	$872.18 M	27.1%	+	=	.	⊕
✓ CHKP	Check Point Software…	5:00 AM ET	$2.19	$631.84 M	5.5%	+	=	.	⊕
✓ SEDG	SolarEdge Technologi…	4:00 PM ET	$1.54	$875.38 M	58.6%	+	=	.	⊕
✓ TDC	Teradata Corp	BMO	$0.30	$422.75 M	-11.0%	+	=	.	⊕
✓ IRBT	iRobot Corp	AMC	($0.33)	$298.76 M	-34.4%	+	=	.	⊕
✓ PLTR	Palantir Technologies…	AMC	$0.03	$505.95 M	16.9%	+	=	.	⊕
✓ VNO	Vornado Realty Trust	4:25 PM ET	$0.67	$438.91 M	4.2%	+	=	.	⊕

Market Correction Has Started

In **[our newsletter the week before last,](#)** we discussed the bullish signals the market was giving despite the Fed?s continued hawkish stance on monetary policy.

> *The market surge continued last week but ran into resistance on Friday as markets are pushing well into 3-standard deviations above the 50-DMA.* **However, while the weakness on Friday was not unexpected, it is also necessary to determine whether the current breakout is legitimate.**

> *If the ?bear market? is ?canceled,? we will know relatively soon.* **To confirm whether the breakout is sustainable, thereby canceling the bear market, a pullback to the previous downtrend line that holds is crucial.** *Such a pullback would accomplish several things, from working off the overbought conditions, turning previous resistance into support, and reloading market shorts to support a move higher. The final piece of the puzzle, if the pullback to support holds, will be a break above the highs of this past week, confirming the next leg higher. Such would put 4300-4400 as a target in place.*

> *A break BELOW the downtrend line, and the current intersection of the 50- and 200-DMA, will suggest the breakout was indeed a ?head fake.? Such will confirm the bear market remains, and a retest of last year?s lows is likely.*

The commentary remains vital to this week?s analysis as our primary short-term *?sell?* indicator has been triggered for the first time since early December. While that sell signal does NOT mean the market is about to crash, it does suggest that over the next couple of weeks to months, the market will likely consolidate or trade lower. Such is why we reduced our equity risk last week ahead of the Fed meeting.

The previous analysis remains crucial heading into next week. There are currently multiple levels of support for the S&P 500, as shown in the chart below.

1. *4045 is the downtrend line from the June and December rally peaks (dotted black line)*
2. *4010 is the previous 38.2% retracement level from the October lows.*
3. *3969 is the rising 50-DMA moving average which has now crossed above the 200-DMA (orange line)*
4. *3942 is the intersection of both the neckline of the inverse head-and-shoulders bottoming pattern and the 200-DMA (black line)*

S&P 500, 1D O4068.92 H4094.36 L4060.79 C4090.46 +8.96 (+0.22%)
Moving Average Double (50, 200, Simple) 3969.07 3944.80
BB (50, 2) 3969.07 4180.93 3757.21
BB (50, 3) 3969.07 4286.86 3651.29

1(4811.59)

0.618(4319.15)

Neckline

0.5(4167.04)

4090.46

Support

0.382(4014.92)

Support

Right Shoulder

Left Shoulder

0(3522.49)

Head

Mar   Apr   Jun   Aug   Sep   Nov   2023   Mar

TradingView

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If the market violates all of those supports, such will suggest the *?bear market?* remains intact and the rally from the October lows was another *?head fake.?*

However, the underlying technicals remain bullish until those support levels are violated. A correction that works off the overbought condition and tests and holds support will add further support to the bullish thesis.

The one certainty is that since January, the market has resembled the next Fast & Furious movie title: *?Too Far, Too Fast.?* Furthermore, retail investor sentiment has become increasingly bullish, suggesting a near-term correction is likely.

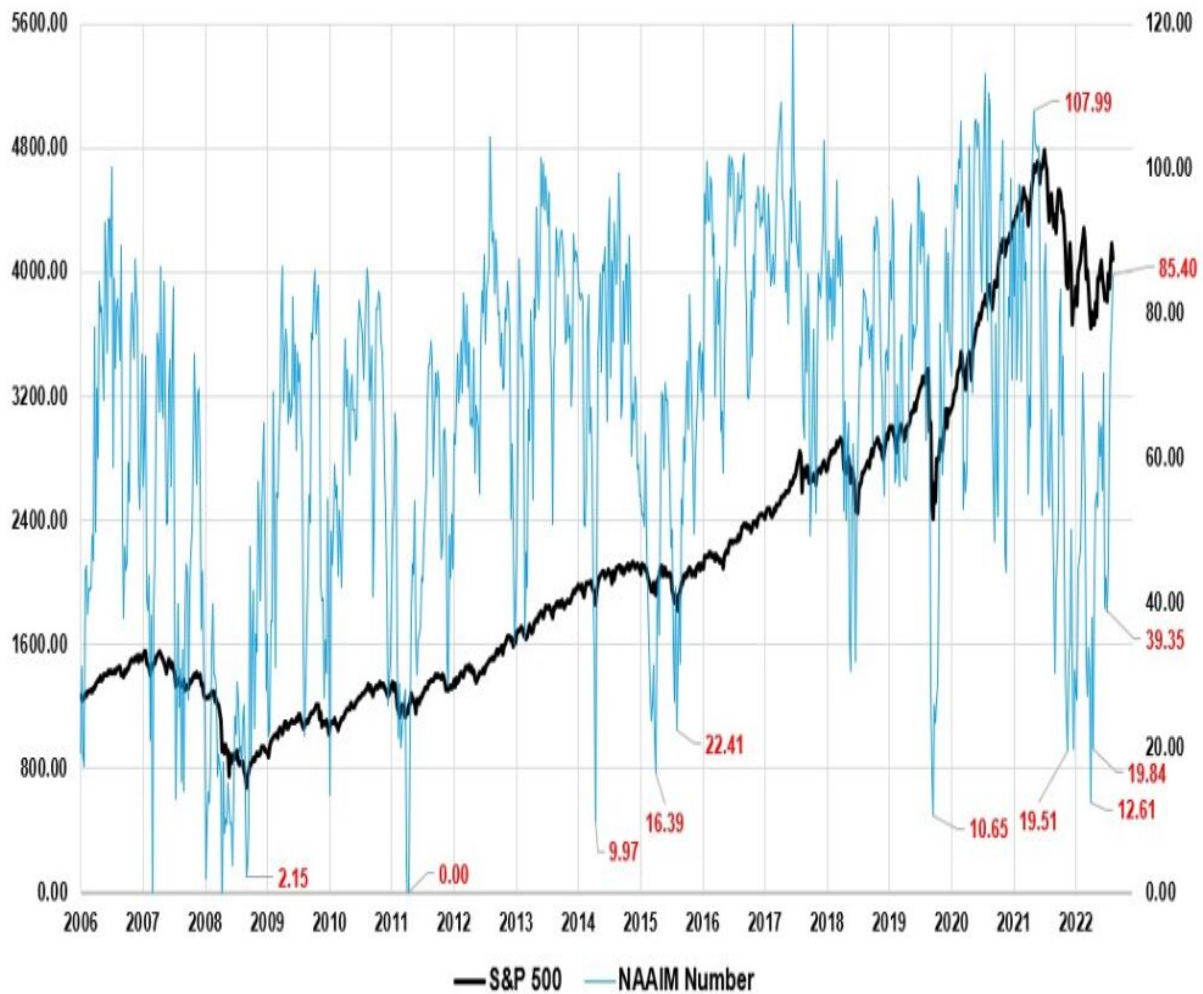Net Bullish Sentiment (Retail & Institutional Composite) vs S&P 500
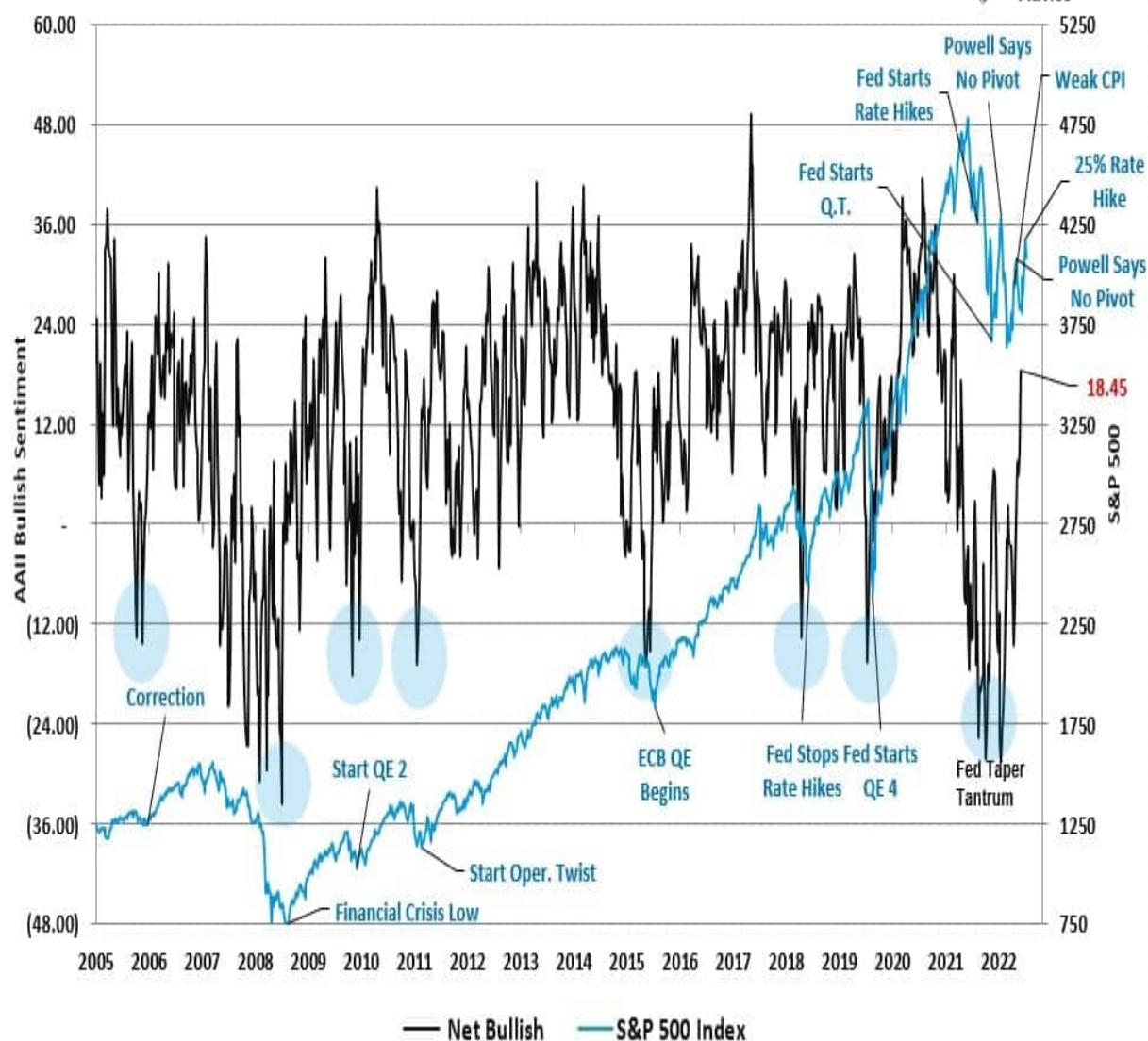
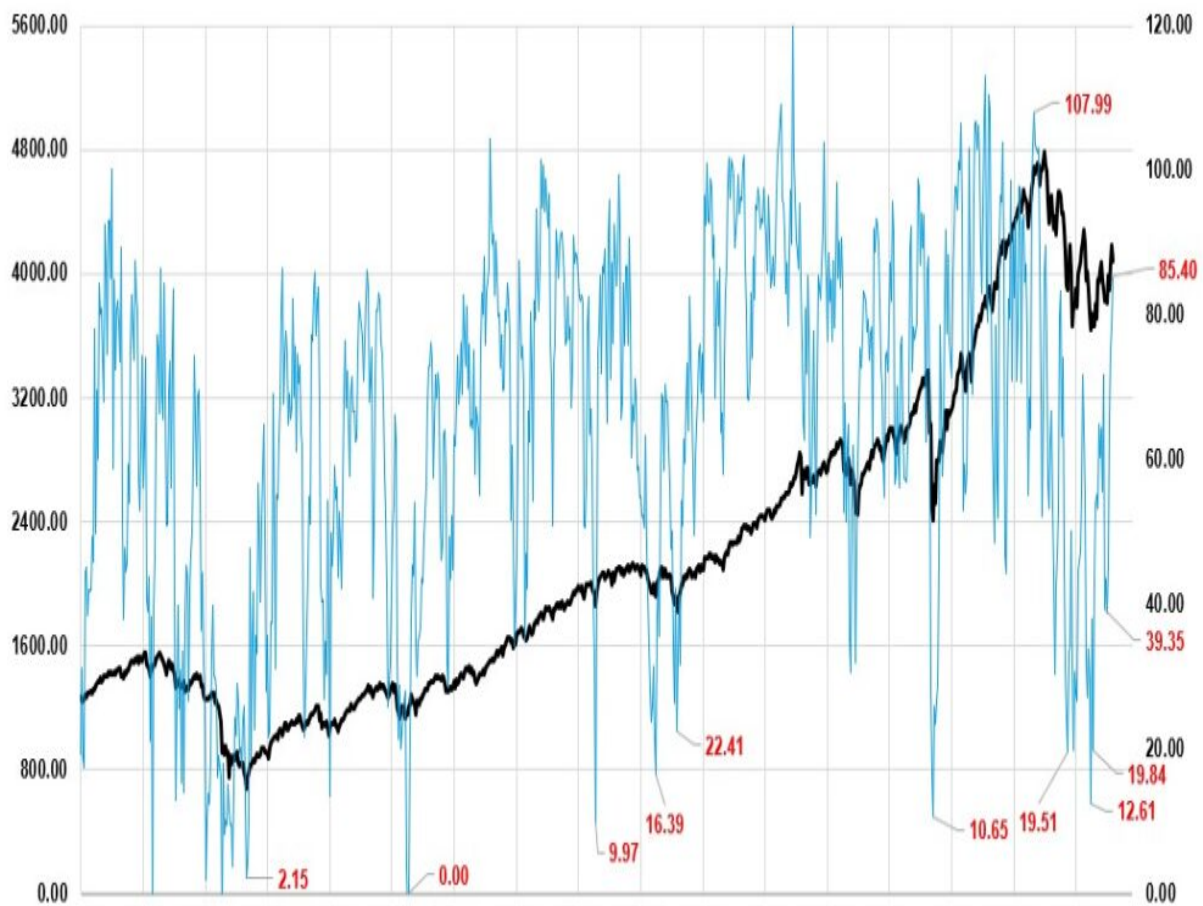Net Bullish Sentiment (Retail & Institutional Composite) vs S&P 500
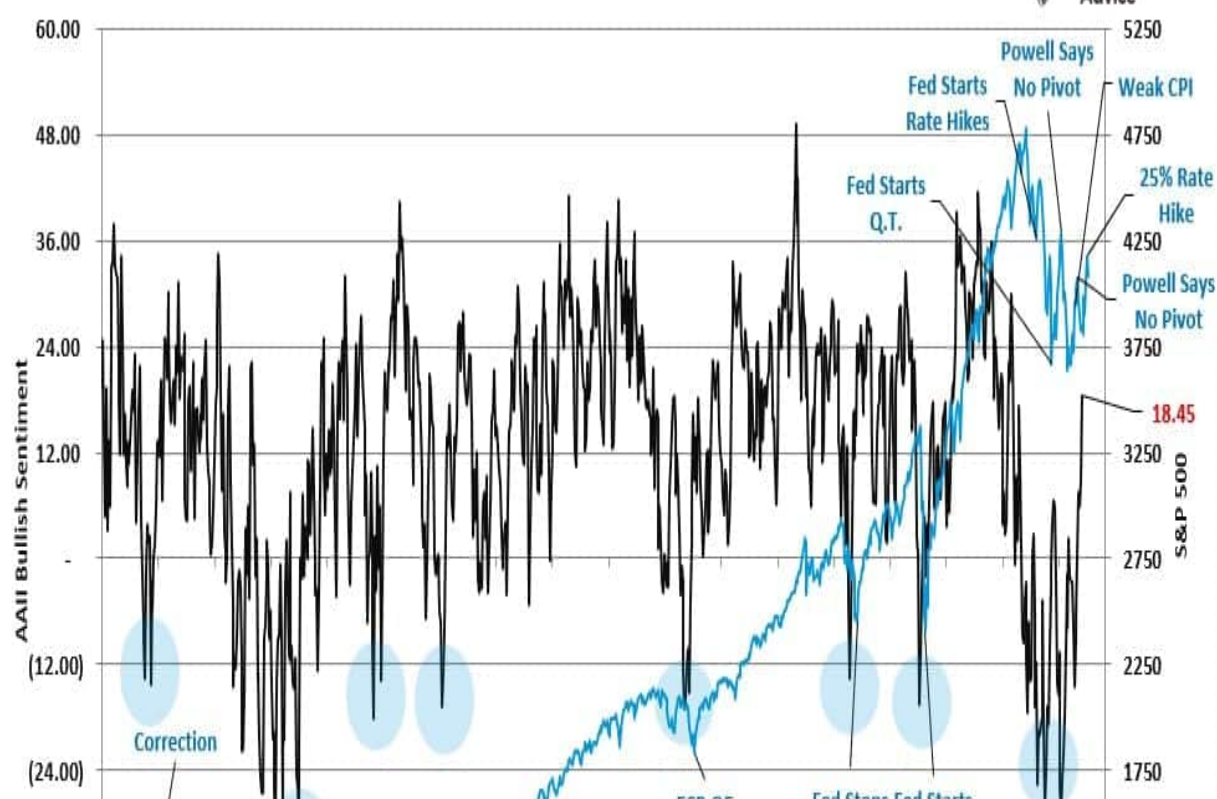
Also, professional investors have piled into the market in recent weeks, pushing exposures to more bullish levels.

NAAIM VS. S&P 500 INDEX

SimpleVisor™

Chart data points (top chart):
- 107.99
- 85.40
- 39.35
- 22.41
- 19.84
- 16.39
- 12.61
- 10.65
- 9.97
- 19.51
- 2.15
- 0.00

Legend: — S&P 500   — NAAIM Number

X-axis years: 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022

Left axis: 0.00 to 5600.00
Right axis: 0.00 to 120.00

In the near term, a correction is needed to work off the froth of the market and allow the bulls a chance to prove their case.

The Week Ahead

This week, three economic measures the Fed heavily relies on will be released. On Tuesday, the BLS will release CPI. The consensus expects the monthly figure to increase from +0.1% last month to +0.4%. The year-over-year rate should fall from 5.7% to 5.5%. On Friday, the BLS revised December?s monthly CPI data from -0.1% to +0.1%. Following CPI, on Wednesday will be retail sales. Given personal consumption accounts for nearly two-thirds of economic activity, investors will be on guard for signs of economic deterioration. Current expectations are for a 1.5% gain following last month?s 1.1% decline. More inflation data ensues on Thursday with PPI. Economists expect PPI to rise by 0.4%, following a 0.5% decline last month. Given the recent volatility of prices in many sectors, we may get another instance of economic confusion regarding inflation.

We expect the Fed to continue with its relatively hawkish rhetoric. As they did last week, they will stress the ?higher for longer? outlook for Fed Funds. The bond market appears to be listening. As we show in the CME graph below, the price of the December 2023 Fed Funds contract fell approximately 50bps over the last week. The contract implies Fed Funds will end the year at 4.96% (100-95.06). It was south of 4.50% at the start of February.

The Labor Market is Hot, But its Breadth is Questionable

While a plethora of data paints the picture of a hot labor market, there are concerning signs beneath the surface. In the past, we have mentioned that job losses are occurring in higher-paying
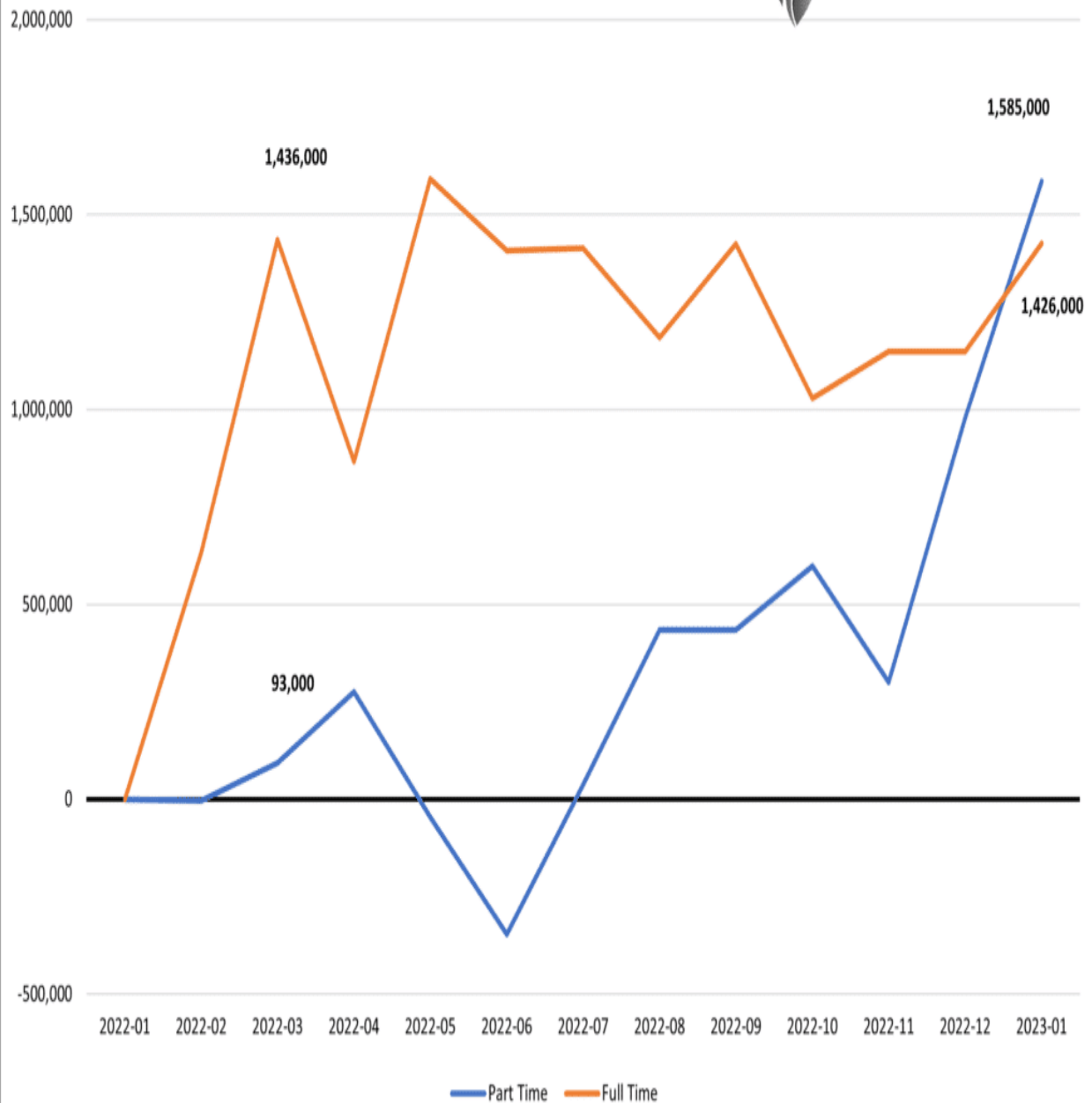
sectors and are being replaced with significant job growth in lower-paying sectors like leisure and hospitality. While the number of net jobs is rising, the quality of jobs is deteriorating. The graph below points to another worry. Since March 2022, the number of full-time jobs has shrunk slightly. However, the number of part-time jobs has increased by 1.5 million. The entire growth of the labor force for the last ten months is over 100% due to part-time jobs.

It?s worth noting the BLS non-farm payroll data is based on surveys of companies. These surveys can result in double and triple counting of individuals. For instance, the BLS may survey my three employers and count me as three people if I have three part-time jobs. The BLS will revise the data to correct for such faults, but such often occurs well after it is reported. We will likely find out next year that today?s labor market is not as hot as it appears.

Cumulative Change Full and Part Time Jobs

Chart legend: Part Time (blue), Full Time (orange)

Data labels visible: 1,436,000 · 1,585,000 · 1,426,000 · 93,000

X-axis: 2022-01, 2022-02, 2022-03, 2022-04, 2022-05, 2022-06, 2022-07, 2022-08, 2022-09, 2022-10, 2022-11, 2022-12, 2023-01

Y-axis: -500,000 · 0 · 500,000 · 1,000,000 · 1,500,000 · 2,000,000

Real Investment Advice

Recollections of Prior Soft Landings

The following graphics are courtesy of Michael Kantro of Piper Sandler. He shares them to remind us that it?s not uncommon for the Fed, Wall Street economists and investors to wrongly believe that higher interest rates and slowing economic activity will produce a soft landing and not a recession. What higher interest rates hold in store this time has yet to be seen. However, we mustn?t wholeheartedly buy into a soft landing scenario just because those often considered the most knowledgeable about the economy and financial markets think such will occur.

2006-2007

REUTERS

U.S. MARKET NEWS
SEPTEMBER 26, 2007 / 2:36 PM / UPDATED 15 YEARS AGO

U.S. economy on track for soft landing -Dallas Fed

By Reuters Staff

WASHINGTON, Sept 26 (Reuters) - U.S. inflation pressures are easing and the economy should manage a soft landing, the Federal Reserve Bank of Dallas said on Wednesday.

Fed chairman projects 'soft landing' for U.S. economy - Business - International Herald Tribune

By Edmund L. Andrews
Feb. 15, 2007

WASHINGTON — The chairman of the Federal Reserve Board, Ben Bernanke, has given Congress an upbeat view of the U.S. economy, predicting that unemployment was likely to remain low over the next two years even as inflation declined slightly.

As Fed meets, investors bet on soft landing

Originally published December 12, 2006 at 12:00 am | Updated December 12, 2006 at 12:09 pm

Call him a brilliant economist or just lucky, but Federal Reserve Chairman Ben Bernanke appears to be guiding the economy to a soft landing...

By Seattle Times staff

Call him a brilliant economist or just lucky, but Federal Reserve Chairman Ben Bernanke appears to be guiding the economy to a soft landing, in which growth slows — but doesn't stop — and inflation remains in check.

Fed sees soft landing for economy

Krishna Guha in Washington FEBRUARY 14 2007

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Stocks and bonds jumped on Wednesday after Ben Bernanke laid out a fundamentally benign analysis of the US economy in his twice-annual testimony to Congress.

The Federal Reserve chairman painted a picture of recovering growth, moderating inflation and reduced economic risks that evoked memories of the "Goldilocks" economy of the late 1990s – so-called because it was neither too hot nor too cold.

Mr Bernanke struck a temperate tone on inflation, reiterating the Fed's view that it was still a bigger risk than growth but he made no effort to prepare the ground for another interest rate rise.

Instead, he dropped a heavy hint that rates might stay on hold at 5.25 per cent for some time, saying: "The current stance of policy is likely to foster sustainable economic growth and a gradual ebbing of core inflation".

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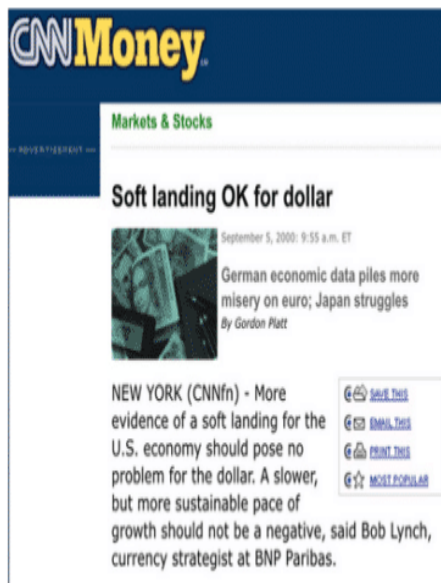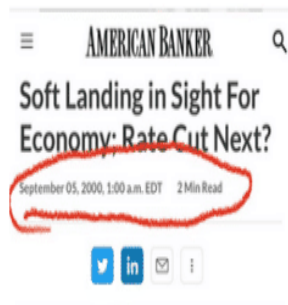
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2000-2001

AMERICAN BANKER

Soft Landing in Sight For Economy: Rate Cut Next?

September 05, 2000, 1:00 a.m. EDT 2 Min Read

CNN Money

Markets & Stocks

Soft landing OK for dollar

September 5, 2000: 9:55 a.m. ET

German economic data piles more misery on euro; Japan struggles
By Gordon Platt

NEW YORK (CNNfn) - More evidence of a soft landing for the U.S. economy should pose no problem for the dollar. A slower, but more sustainable pace of growth should not be a negative, said Bob Lynch, currency strategist at BNP Paribas.

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National and District Overview: Was That A Soft Landing, Or Have We Not Touched Down Yet?

October 01, 2000

By Adam M Zaretsky

By and large, the U.S. economy continues to demonstrate just how much thrust the current expansion still has left. Even after six hikes in the federal funds rate target since mid-1999, output has continued to grow at a rate that many economists consider too fast to sustain. In fact, output hasn't grown at what would normally be considered a sustainable rate—between 3 and 3.5 percent a year—since the second quarter of 1999. Just this year, second-quarter growth was more than half of a percentage point faster than it was in the first. Which begs the question: Has the economy really landed softly? Let's check with the pilot

The Washington Post
Democracy Dies in Darkness

A Soft Landing?

By **Robert J. Samuelson**
June 21, 2000

Modern economics makes itself intelligible by adopting everyday analogies. If inflation worsens, we say the economy is "overheating." If the Federal Reserve raises interest rates, it's "applying the brakes." If it cuts rates, it's "stepping on the gas." The metaphor of the moment is "soft landing." The economy slows enough to avoid higher inflation but not so much that it suffers a "hard landing" (a recession). It's an enticing vision--which may or may not come true.

Tweet of the Day

Carl Quintanilla ✓ @carlquintanilla · 1h · · ·

MORGAN STANLEY: "Anecdotes from our $F dealer contact: .. 'We're just blown away by how strong January was... the best used car month we've had in three years.'

"Implications for autos:... the party doesn't look like it's quite over yet. The Fed may have more work to do?" [Jonas]

Morgan Stanley | RESEARCH

February 9, 2023

Autos & Shared Mobility | North America

Real Time US Dealer Feedback: "Used Car Demand Is Strong and We Don't Know Why"

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