Ropes Wealth Delves Into This Week's Economic Data

November gave investors reason to be thankful, as markets posted a second consecutive month of gains. The S&P 500 rallied for the second straight month for the first time since July and August of last year. Treasury yields also saw a strong rally, with 10-year notes falling from around 4.2% to 3.7% (and 3.5% today!). This pushed the gap between the 2-year and 10-year note to its most inverted level – when short-term yields exceed long-term – since 1981. Better-than-expected inflationary data and signals from the Federal Reserve that its interest rate hikes may soon slow – though continue – drove markets higher.

The consumer showed its resilience over the holiday shopping weekend. According to Adobe Analytics, online traffic was hefty with shoppers spending a record $9.12 billion on Black Friday purchases online, a 2.3% increase from last year. Additionally, according to Adobe Digital Insights, Cyber Monday sales are expected to have surged by 5.1%, potentially topping the forecasted $11.2 billion. With that strong spending though, we also learned that the personal savings rate is now down to 2.3%, its lowest level since 2005.

This morning we learned nonfarm payrolls rose by 263k in November, surpassing the 200k gain expected. October payrolls, meanwhile, were revised higher from a 261k gain to a 284k increase. Most categories were strong but goods-producing payrolls stood out, rising 37k due to a 20k gain in construction and a 14k rise in manufacturing. Government payrolls also continued to surge, rising 42k in November, following a 36k increase in October.

The unemployment rate remained steady at 3.7% in November for the second consecutive month. The labor force participation rate unexpectedly fell from 62.2% to 62.1% in November, a four-month low. Particularly noteworthy for Fed watchers, average hourly earnings jumped 0.6% in November, double the rise expected and following a 0.5% increase in October. Year-over-year, wages rose 5.1% in November.

In other news, third quarter GDP was revised up from a preliminary estimate of 2.6% to a 2.9%, following the -0.6% drop in Q2. Meanwhile, the Fed's preferred inflation measure (Personal Consumption Expenditure price index-PCE) rose less than expected in October, adding to hopes that inflation momentum may be cooling. The headline PCE moved from 6.3% to 6.0% and the core rate dropped from 5.2% to 5.0%, respectively.

While better inflation data and the Fed's softening language are encouraging, investors should expect more challenges ahead, especially as the lagging, cumulative effect of higher interest rates catches up. It is also worth reiterating that the Fed will likely continue to raise rates into the foreseeable future, even if they do it at a slower pace, and this will continue to be a headwind for markets. Powell reiterated that point during a speech at the Brookings Institution this week: he signaled a likely downshift in the size of rate hikes, while indicating the ultimate level of rates is likely to be markedly higher than previously expected. Some say that ultimate level of rates could be as high as 6%. And while stronger-than-expected performance in terms of Q3 growth and on the consumer front is a good thing, that momentum also gives Fed officials the confidence that they have the room to continue to move at a robust pace.

For that reason, it is simply too early to say whether we've seen the worst of the bear market, but evidence gives reason to look toward 2023 with some cautious optimism. While we are likely to experience recession, it will have more "typical" characteristics than our more recent experiences. The 2007-2009 global financial crisis and the

2020 pandemic-induced downturn were recessions of a different breed. Under more “typical” recession conditions, unemployment has risen by ~2.5% and the downturn has lasted 10 months. Keep in mind that in almost every case, the S&P 500 has bottomed out roughly four months before the end of a recession. The index typically hits a high seven months before the start of a recession. In other words, the worst is over for stocks before it’s over for the rest of the economy.

However, as the saying goes, often fools rush in where angels fear to tread when it comes to complicated markets like these. As always, we urge a steady, methodical approach grounded in your personal investment and financial plan that prioritizes liquidity, quality, and diversification. Opportunities as we have seen and grabbed onto in fixed income, and in pockets of equities after this large sell-off, will continue to be our focus on your behalf even as we still recommend a measured and balanced approach for this challenged landscape.

Thank you for your interest in our investment commentary. If you would like to speak personally with a member of our team at any time, please click **here**.

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