Perspective from
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Quieting the Recession Talk

With the ongoing volatility in risky assets and global bond yields flashing warning signs by falling sharply in recent weeks, the chorus of recession talk has grown even louder. While the U.S. Citigroup Economic Surprise Index has fallen to an eight month low and the U.S. ISM Manufacturing Index has been in contraction territory for the past four consecutive months, it is understandable the market jitters are surfacing. However, our “fab five” economic indicators, which we view as a real time gauge of the true health of the U.S. economy paints a more optimistic picture and suggests U.S. economic growth is on solid footing. Our “fab five” indicators include:

1. Jobless claims – claims have moved modestly higher but still remain below 300K, a level that has historically been supportive of ongoing improvement in the labor market.
2. Withholding tax receipts – tax receipts remain near record highs suggesting more people are working and should support consumer spending.
3. Motor vehicle sales –vehicle sales are a good gauge on the true health of the consumer because a consumer would not make a big ticket purchase if they were concerned about their job or wage prospects. Monthly vehicle sales are hovering near the highest level since 2005.
4. ISM production – Despite weakness in the overall Index, production rose for the second consecutive month and is back in expansion territory.
5. Commercial and industrial loans – Demand for commercial and industrial loans has been strong for 20 consecutive quarters.

Week Ahead

Next week we will receive a number of economic data points that will give us better insight into the condition of the U.S. economy. Looking at the labor market, we will receive both the NFIB Small Business Optimism Index and JOLTS report (Tuesday). While the NFIB Index will also give us a good indication of the sentiment among small business owners, we will look closely at the hiring plans component of the report. In addition, the report also outlines owners views on raising wages and their plans to increase capital spending. With respect to JOLTS, job openings are expected to remain near a cyclical high, pointing to additional strength in the labor market. From a consumer perspective, both consumer sentiment and retail sales will be released Friday. Despite the equity market volatility, consumer sentiment is expected to rise to 93.0. Retail sales are also expected to rise (+0.1% MoM), which would be the third month in the past four of retail sales gains.

Outside of economic data, the key focus will be on Janet Yellen’s semi-annual testimony before congress (Wednesday & Thursday). Given the softening in U.S. data and volatility in financial markets, her thoughts on the health of the U.S. economy and opinion on the ongoing weakness in other major regions will be important. Additionally, we look to see if the Fed Chairwoman provides any further indication to the timing and pace of Fed rate hikes. Currently, the futures market is not pricing in a Fed rate hike until 2017 at the earliest, while Fed projections continue to show four rate hikes in 2015.

Q4 2015 Earnings Winding Down

Next week, ~10% of the S&P 500 market cap will release earnings. Some key companies include, Twenty-First Century Fox (Monday); Coca-Cola, Walt Disney and Viacom (Tuesday), and Time Warner (Wednesday).

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