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MONTHLY MARKET PERSPECTIVE

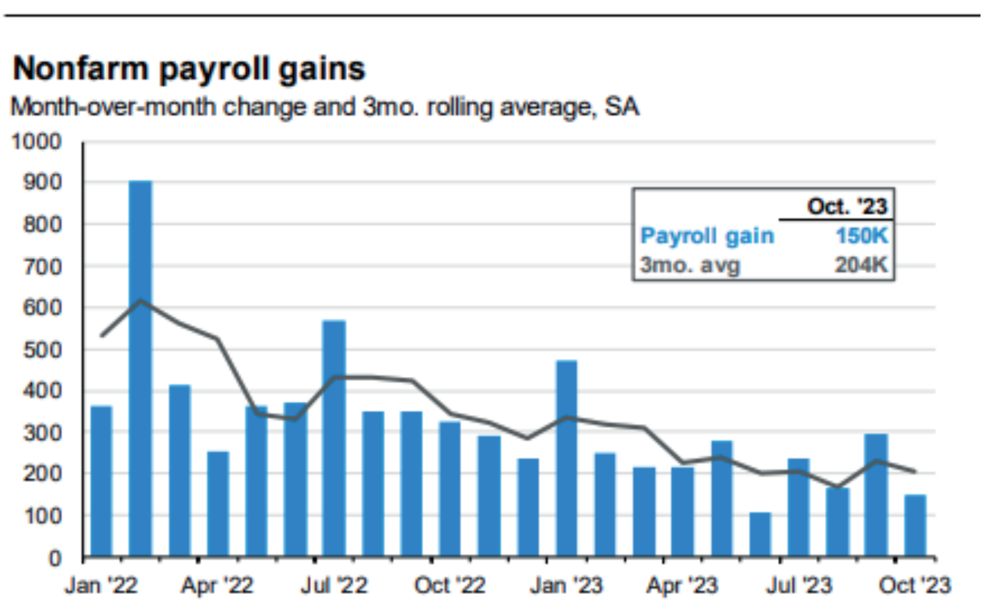
Strong Consumer Tailwinds Are Fading

By James M. Walden, CFA

Robust consumer spending, up 4% in the third quarter, was the driver of this summer's surge in economic growth. But it appears that tailwinds underpinning consumers are blowing much less forcefully, which calls into question the sustainability of the economy's surprising resilience.

A historically tight labor market has provided more people with paychecks. However, hiring in the United States has slowed substantially. In October, the economy added just 150,000 jobs, the second-lowest monthly amount in two years and a number that extends the declining trend of monthly payroll gains (see exhibit). At the same time, the unemployment rate continues to tick up, to 3.9% in October from the low of 3.4% in the spring.

Exhibit: U.S. Hiring Has Slowed Substantially



Source: Bureau of Labor Statistics, J.P. Morgan Asset Management, Clayton Wealth Partners.

DASHBOARD

- Business Cycle
- Valuation
- Trend

One of the unique aspects of this cycle is the approximately $2.6 trillion excess savings consumers had accumulated because of Covid stimulus. (For perspective, current dollar U.S. GDP is $27.6 trillion.) Estimates of how much is left vary, but it's safe to assume most has been spent, which reduces a significant amount of purchasing power consumers have enjoyed the past couple of years.

Also, consumers are saving even less of their traditional sources of income. In September (the latest data available), Americans saved just 3.4% of their disposable personal income, near a decades-low sustainable personal savings rate. With savings already so low, it'd be difficult to shift more of their income from savings to spending.

Finally, record credit card debt and high interest rates mean consumers are incurring record-high credit card interest expense. Not only does this crowd out spending on things other than credit card interest, all else equal, but heavier credit card burdens are starting to show up in higher numbers of delinquent credit card accounts.

With consumer tailwinds fading while the economy likely has yet to feel the full and delayed impact of the Fed's most aggressive tightening in 40 years, we remain cautious.

Bullish

- The Fed has made good progress in reducing inflation.
- The services sector of the U.S. has remained strong.
- The most attractive yields for fixed income and cash in years.
- Consumer and corporate balance generally remain healthy.

Bearish

- Global inflation remains too high.
- Slowing global economic growth with recession pressures mounting.
- Banks are tightening lending standards.
- Housing affordability remains at a decades-low.
- Leading indicators of unemployment are generally trending down.
- Delinquency rates on consumer loans are rising.
- Russia-Ukraine war, Israel-Hamas conflict, and other geopolitical concerns.
- China's post-Covid economic rebound has lost momentum, with deflation fears growing.
- Federal debt and deficits have ballooned.

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As Partner and Chief Investment Officer, James Walden strives to maximize our clients' long-term, risk-adjusted portfolio returns. This includes determining strategic and tactical asset allocations, as well as specific investment analysis and prudent rebalancing. Jim is also a partner and management team member. His expertise includes advanced investment research and valuation, and he is passionate about his role in helping clients reach and exceed their financial goals.

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