Week in Review

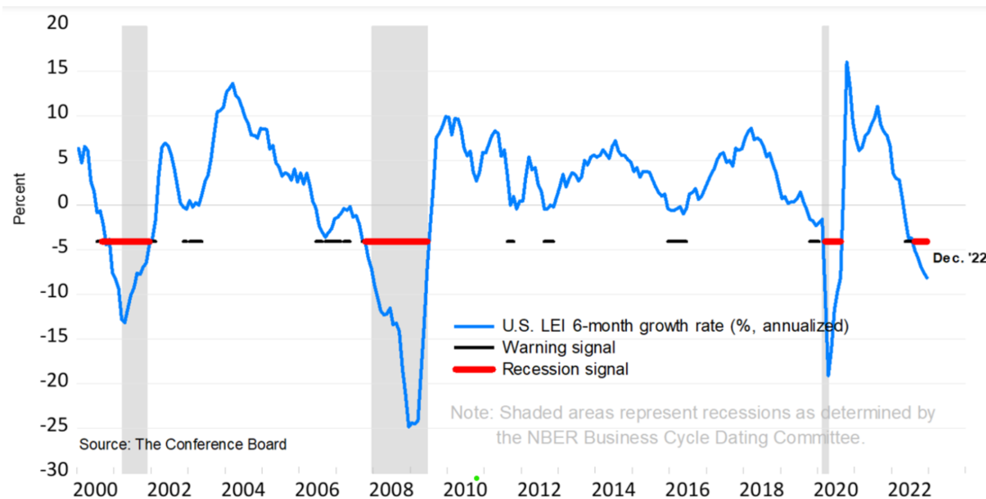
Friday, January 28, 2023

The view from here: Long-term optimism with steady volatility

While 2022 was the year of rising interest rates, with the Federal Reserve raising rates by a cumulative 425 basis points from near zero to combat inflation, 2023 is seen as the year that the economic impact of higher rates comes home to roost in the economy. This week saw the release of U.S. gross domestic product (GDP) for the last quarter of 2022 which showed the economy grew at an annualized pace of 2.9% during the period, faster than the consensus forecast. While decelerating from the 3.2% pace of the prior quarter, the takeaway is that the U.S. economy is not likely yet experiencing a much anticipated recession.

Other data points such as the Conference Board Leading Economic Index (LEI) are experiencing a steep rate of decline and have fallen to a level consistent with a signal of recession.

U.S. Leading Economic Index falls to a level consistent with recession signals



Source: The Conference Board

Other data supporting recession include consumer spending on goods declining, manufacturing slowing, residential investment plunging, and mounting announcements of corporate lay-offs, particularly among technology companies.

While the dramatic downturn in the LEI data appears ominous, troughing in the Leading Economic Index coupled with recession and declining payrolls have been good for financial markets returns when looking out 12 months. The counterintuitive performance of markets is likely linked to markets being forward-looking and an eventual economic slump. Subsequently, recovery is discounted before the actual occurrence.

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