

Thinking Out Loud



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Let The Good Times Roll

Thank you for reading the first installment of our new periodical, "Thinking Out Loud." We will frequently share our coarse thoughts relating to capital markets and economic trends. Today's installment is entitled "Let The Good Times Roll."

We believe there is a duality in life and art. As such, we are reminded of a song from one of my beloved and formative bands growing up, The Cars. The first track of their debut album was "Let the Good Times Roll." Some listeners believe the lyrics suggest following a life full of carefree happiness. While we concur to an extent, we would add the word "blithe." In the first verse, Ric Ocasek wrote, "**Let the good times roll, Let them knock you around, Let the good times roll, Let them make you a clown.**" Framing these lyrics against the current macroeconomic and capital market backdrop, we see several similarities and potential ominous outcomes.

The S&P 500 is up over 19% year-to-date on a total return basis, compared to being down over 18% in 2022. As a result, several [Wall Street strategists](#)¹, who now find themselves increasing year-end targets.

BUT a significant portion of the S&P's 2023 return to date has been driven by seven (7) stocks. The likes of Apple (+50% YTD through 7/21/2023), Microsoft (+45%), Amazon (+55%), Nvidia (+212%), Google (+35%), Meta (+151%), and Tesla (+113%) produced a market-cap weighted total return of positive 72% YTD (following negative 30% in 2022). Furthermore, the average S&P company is up by 11.3% YTD, and the median total return is only 8.6%.

Recession calls have also been walked back; the most notable recent [revision](#)² was from Goldman Sachs, as the economy is showing [more resilience](#)³, at least on the surface. And the labor [market remains tight](#)⁴, helping support consumer spending.

BUT the economy is slowing. You just need to see the forest through the trees. Recessions are difficult to define for most. In fact, the "official" government body that declares recessions ([National Bureau of Economic Research](#)⁵) typically doesn't do so until we [are well underway](#)⁶. While the employment market continues to [suggest economic resilience](#)⁷, we are not sounding the "all-clear" for the U.S. economy or a [soft landing](#)⁸ outcome, for that matter. We found that soft landings have [occurred only 30% of the time](#)⁹ since 1961.

AND our large/diverse client base of entrepreneurs and business owners continue to warn of soft business conditions. Further, broader macro-economic trends, such as [Leading Economic Indicators](#)¹⁰, remain negative, and [Small Business Sentiment](#)¹¹ remains challenged. The [Conference Board](#)¹² continues to forest a recession. And

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even the Federal Reserve's own [Recession Probability Indicator](#)¹³ is signaling potential weakness ahead, despite the [FOMC leadership](#)¹⁴ claiming the opposite.

FURTHER, we note that leading into the early '90s, early '00 and '07 recessions, GDP was positive.

FINALLY, the most compelling evidence of broad economic weakness ahead, in our view, is the [massively inverted](#)¹⁵ yield curve. Please refer to our [2023 Half-Time Update & Outlook for more current thoughts](#)¹⁶.

¹ <https://www.bloomberg.com/news/articles/2023-07-08/wall-street-forecasters-blindsided-by-tech-stock-rally-divided-on-2023-outlook?ref=H3gidcl>

² <https://www.goldmansachs.com/intelligence/pages/the-probability-of-us-recession-in-the-next-year-has-fallen-to-20-percent.html>

³ <https://www.businessinsider.com/us-economy-outlook-no-signs-of-recession-consumers-keep-spending-2023-7>

⁴ <https://www.reuters.com/world/us/us-weekly-jobless-claims-unexpectedly-fall-2023-07-20/>

⁵ <https://www.nber.org/>

⁶ <https://apnews.com/article/inflation-covid-health-economy-d2fd0bbc09fbc98d8fdb4840be29e826>

⁷ <https://www.morningstar.com/news/dow-jones/202307206279/us-jobless-claims-dipped-last-week>

⁸ <https://www.thestreet.com/dictionary/s/soft-landing#:~:text=years%2Dlong%20recessions>

⁹ <https://www.alger.com/Pages/OnTheMoney.aspx?pageLabel=AOM275>

¹⁰ <https://www.conference-board.org/topics/us-leading-indicators>

¹¹ <https://www.nfib.com/surveys/small-business-economic-trends/>

¹² <https://www.conference-board.org/research/economy-strategy-finance-charts/CoW-Recession-Probability>

¹³ https://www.newyorkfed.org/research/capital_markets/ycfaq#/interactive

¹⁴ <https://www.barrons.com/articles/fed-powell-interest-rates-inflation-recession-341fb2b5>

¹⁵ <https://www.cnbc.com/2023/07/07/yield-curve-inverted-the-lowest-since-1981-what-it-means-for-yo.html>

¹⁶ <https://static.fmgsuite.com/media/documents/08ae7d95-c5b3-4e9c-b42b-ce13d33e5f72.pdf>

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