NORTHEAST SEQUOIA
PRIVATE CLIENT GROUP

# Thinking Out Loud

## The Dog Days Are Here

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- The dog days of summer are starting to present a "**tails we lose, heads we lose**" outcome for investors. As of the close on 8/17/2023, the S&P 500 was higher by 15% YTD, while Corporate Bonds were up only 1.4%. Historically dating back 20 years, August has provided investors with the second worst return month for the S&P through the summer season, leading to into the worst month overall, September.
- While several pundits and investors are leaning into a "soft-landing" or "no-landing" scenario, the punch they didn't see coming was a more hawkish FOMC Minutes from the July meeting and the notion that the FOMC could leave rates higher for longer.
- Despite this, it is our opinion that investors continue to whistle past the graveyard, reassured by a seemingly resilient labor market and anesthetized to ever-growing recession signals associated with:
    - Inverted yield curve(s)
    - Resumption of student loans
    - NY/Philly Fed Recession Prob.
    - Unaffordable housing
    - Moody's downgrades US banks
    - 10yr note yield surging
    - S&P P/E too high
    - Tempered 2024 EPS guidance
    - Surge in Real Rates
    - US/China technology tension
    - Ave S&P stock up only10%
    - Real Retail Sales trends lower
    - Leading Economic Indicators
    - M2 contraction
    - Quantitative Tightening
    - China property sector
    - Credit card debt/defaults rising
    - Corporate profits rolling over
    - S&P earnings yield too low
    - US Government Shutdown 2.0
    - Union strikes/pay pressures
    - China/Taiwan tensions
    - Small Cap breadth waining
    - JOLTS Openings waining
    - Tightening lending standards
    - China re-opening miscue
    - Bitcoin falling abruptly
    - Fitch downgrades US debt
    - Commercial Real Estate
    - Home builder sentiment rolling
    - Hawkish July FOMC Minutes
    - Pandemic savings waining
    - Slumping mortgage apps
    - Russia/Ukraine War: Day 540
    - Revenge vacationing waining
    - Manufacturing PMI waining
- Still, we stand by our "short and shallow" recession position first published in our 2023 Outlook[1], which was reiterated in our last note entitled, "The Waiting Is The Hardest Part."
- However, we continue to remind our readers that the National Bureau of Economic Research (NBER) is typically late to the party, especially in determining shorter recessions. This implies even if we slip into a shallow but hard recession, the NBER may be late in calling it – once again!
- In our 2023 Half-Time Update & Outlook, we highlighted some concerns from above and their impact on equity market valuations. At that time, we also suggested "*a general risk-off backdrop associated with a liquidity drain as the Treasury seeks to replenish its General Account*." In other words, as the Treasury needed to fund the government following the near shutdown, the issuance of government debt could draw demand from risks assets (equities); a scenario that seems to be currently playing out
- We will continue to monitor this very dynamic capital market and will provide additional thoughts as appropriate.

***We'd love to hear your thoughts!***

[1] https://static.fmgsuite.com/media/documents/a2342421-7e47-427e-b1bf-0f54454025c7.pdf

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