ROS – RECESSION OBSESSION SYNDROME

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Admit it, there are probably some of you out there who suffered from ROS at some point this year. That's OK, with yield curves inverting, trade wars heating up, data on manufacturing softening and the ultimate Federal Reserve (Fed) change in monetary policy resulting in three rate cuts all occurring simultaneously, it was hard not to succumb to the ROS forces. The good news is that it looks like the worst of ROS may have passed. Let's take a look…

- U.S. real GDP rose +1.9% in Q3, putting the 2019 pace thus far at +2.3%
- Yes, manufacturing and investment have turned lower, but consumer spending, which makes up 70% of the economy, is living up to its reputation and driving growth forward
- The consumer continues to be a key supporting factor due to a solid labor force setting
- Nonfarm payrolls rose by +128,000 in October, which was 43,000 more than expected, and the prior two months' job gains were revised upward by a combined +95,000
- Also, the GM strike and reversal of census hiring reduced the October payroll number by a total of 62,000 (it would have been a +190,000 gain without this impact). These forces will not be repeated going forward
- The jobless rate remains at a 50-year low
- The unemployment rate did tick up by 0.1 percentage points (pp) to 3.6%, but this was due to a robust gain of +325,000 in the civilian labor force—a sign of optimism, not pessimism, for jobs prospects
- Civilian employment posted another solid showing, but the +241,000 gain wasn't enough to offset the surge in the labor force
- Wages were back up to +3.0% on a year versus year basis and have now had a "3 handle" for 15 months in a row
- Certainly, the interest rate landscape is providing a supportive backdrop as well. Fed Funds are now 75 basis points (bps) lower than where they were just about three months ago, and the UST 10-Year yield is 154 bps lower versus a year ago
- The yield curve has "un-inverted," providing a less ominous outlook. The UST 3-month/10-year spread has gone from a low of -51 bps in late August to +21 bps, as of this writing, a 70-bps reversal.

Conclusion

Bottom line: While I fully acknowledge a slower growth backdrop and headwinds still exist (trade uncertainty, soft global growth), my base case is still no outright recession, where Treasury (UST) rates and U.S. corporate spreads remain range-bound for now.

Unless otherwise stated, all data sourced is Bloomberg, as of November 4, 2019.

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