ROS – RECESSION OBSESSION SYNDROME

Kevin Flanagan — Head of Fixed Income Strategy
11/06/2019

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.

For more investing insights, check out our Economic & Market Outlook

View the online version of this article here.

IMPORTANT INFORMATION

U.S. investors only: Click here to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.