Should Diminished Consumer Confidence Make You Bullish?

According to a survey conducted in November, there were approximately 11 million available jobs in the United States, compared to 6.9 million unemployed people actively looking for work. Opportunities for Americans looking for work or looking for a job change are many, and it's also arguably a great time to negotiate higher wages and sign-on bonuses. Indeed, a recent survey by the Conference Board found that U.S. companies are setting aside an average of 3.9% of total payroll for wage increases in 2022.

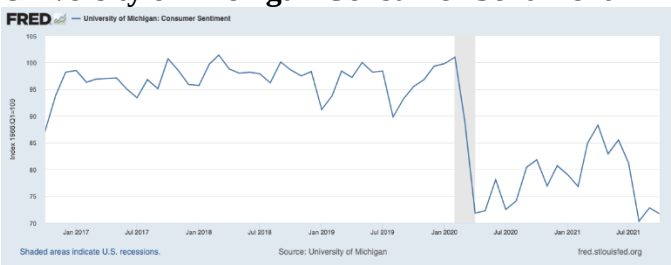
Retail spending has also been strong – the National Retail Federation expects that U.S. November-December retail sales will jump by approximately 10% from a year ago, bringing the total to as much as $850 billion or more.[1]

Finally, household finances are also in solid shape, in aggregate. Many households saved and paid down debt over the course of the pandemic, and total U.S. household net worth was up to $2.4 trillion by the end of the third quarter.[2] By these fundamental measures, the economy appears to be in great shape.

Yet few Americans are happy about it. In a recent poll conducted by the Associated Press, 64% of respondents described their finances as good, but only 35% felt the U.S. economy was in good shape. In October, the Gallup Economic Confidence Index dropped to levels last seen in April 2020[3] – *when the global economy was in lockdown*.

Two closely watched consumer sentiment measures – the University of Michigan index and the OECD confidence survey – both show a fairly steep decline in sentiment starting in the spring of 2021, with virtually no recovery since.

University of Michigan Consumer Sentiment



Source: Federal Reserve Bank of St. Louis[4]

OECD Consumer Confidence Survey

Source: Federal Reserve Bank of St. Louis[5]

Investors have followed a similar pattern. According to the American Association of Individual Investors (AAII), the past month indicates more bearish investors than bullish ones when looking out at the next six months.[6]

In short, there isn't much love for the U.S. economic recovery, and the reasons why are likely obvious to many readers – supply chain disruptions, worker shortages, and rising prices for food and energy have pushed inflation to a 39-year high.[7] Many services in the U.S. economy – from air travel to restaurants and hospitality – do not work as smoothly as they used to. Workers have not returned to offices, and folks spend less time socializing. A sense of normalcy remains elusive.

According to the survey director of the University of Michigan Consumer Sentiment index, Richard Curtin, persistently low consumer sentiment "reflects an emotional response, mainly from dashed hopes that the pandemic would soon end."[8] Non-stop coverage of supply chain disruptions and inflation pressures likely do not help boost sentiment either, in my view.

So, what does the somewhat dour consumer and investor mood mean for equity markets?

Probably that there is more runway for the bull market, in my view. The worst sign for stocks is when euphoria and greed grip investors and the headlines, e.g., when everyone is focused on how well stocks are doing and how much further up they're likely to go. We are not seeing these signs today, and I would argue that inflation and Omicron variant worries have arguably tilted sentiment back into outright negative territory. Anchored sentiment can lead to short-term volatility, but looking further ahead, I think it's a sign the wall of worry is still growing. And I view that as a positive forward indicator for stocks.

Bottom Line for Investors

The economy is largely in strong shape, but most people are unhappy about it. Indeed, what started as a year of investor and consumer enthusiasm for an economic boom has largely faded into a broad feeling of concern and disappointment. Some of the frothy signs I noticed at the beginning of the year – the SPAC boom, retail investors pouring into "meme stocks" and cryptocurrencies, etc. – have lost their luster, and the sentiment scales appear to be tipping firmly back into negative territory. Taken together, I think that means we have a very unloved economic expansion and bull market, which is usually good news for stocks.

ABOUT MITCH ZACKS

Mitch is the CEO & Senior Portfolio Manager at Zacks Investment Management. Mitch has been featured in various business media including the Chicago Tribune and CNBC. He wrote a weekly column for the Chicago Sun-Times and has published two books on quantitative investment strategies. He has a B.A. in Economics from Yale University and an M.B.A in Analytic Finance from the University of Chicago.

[1] Wall Street Journal. November 28, 2021. https://www.wsj.com/articles/black-friday-brought-shoppers-back-to-stores-11638111602?mod=djemRTE_h

[2] Market Watch. December 11, 2021. https://www.marketwatch.com/story/u-s-household-net-worth-increases-in-sixth-straight-quarter-fed-data-show-11639075876

[3] Gallup News. October 27, 2021. https://news.gallup.com/poll/356672/job-market-ratings-set-record-economic-confidence-slides.aspx

[4] Fred Economic Data. November 24, 2021. https://fred.stlouisfed.org/series/UMCSENT

[5] Fred Economic Data. November 12, 2021. https://fred.stlouisfed.org/series/CSCICP03USM665S

[6] American Association of Individual Investors. December 9, 2021. https://www.aaii.com/sentimentsurvey

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[8] Bloomberg. November 5, 2021. https://www.bloomberg.com/opinion/articles/2021-11-05/u-s-economic-boom-isn-t-making-americans-happy?campaign_id=9&emc=edit_nn_20211210&instance_id=47462&nl=the-morning&regi_id=73232473&segment_id=76615&te=1&user_id=6509608d7d654ad83dc4a4bbba63f920

Weekly Market Update

Important Market News We Think Worth Considering

IN FOCUS THIS WEEK

- **Big announcement from the Federal Reserve**
- **Rise of retail sales**
- **The U.S. housing market powered by millennials**

The Federal Reserve Makes a Big Announcement

The Federal Reserve wrapped up a two-day meeting on December 15, and with the post-meeting press conference came a largely surprising announcement: market participants should expect interest rate increases in 2022. Fed watchers have known that this mid-December meeting would result in a quickening of the Fed's 'tapering' plans. Fed Chairman Jerome Powell had largely telegraphed the Fed's goal to unwind the bond and mortgage security purchase program by next March instead of next June, and this plan was confirmed Wednesday by the Fed announcing a reduction of purchases by $30 billion a month instead of $15 billion a month. But the somewhat surprising news came when it was revealed that all 18 Fed officials expected fed funds rate increases next year. And not just one rate increase – *three.* This policy pivot indicates the Fed has become more concerned with inflation than with the jobs market, which continues to have more job openings than unemployed people actively seeking work. The stock market welcomed the Fed news, at least on the day of the announcement. The S&P 500 rallied over +1% for the day.[1]

U.S. Consumers Continue to Ramp-Up Purchases

Retail sales rose by 0.8% in November from the previous month, signaling that U.S. consumers have thus far been unfazed by the omicron variant and continue spending strongly this holiday season. The 0.8% increase in November marked a slowdown from October's robust 1.8% rise, but indicates momentum is carrying through the holiday shopping season. Some forecasters are wondering if consumers moved up their purchases to earlier in the season, given worries over inventory availability tied to supply chain issues. That makes December a key month to watch. Compared to a year ago, retail sales rose a stout 18.2% in November, which it should be noted is far higher than the year-over-year rate of inflation (6.8%) posted over the same period.[2]

U.S. Housing Market Powered by Millennials

The U.S. housing market continues to appreciate at a brisk pace. According to the National Association of Realtors, the median price of an existing home sold in October was approximately $354,000, which is up about 13% from a year ago and nearly marks a record. Home prices across the U.S. have climbed for a record 116 straight months. Where is all the strong demand coming from? Upon analysis of home-purchase loan applications over the last year, the answer is clear: millennials. More than half of all loan applications made in the last year were for people born between 1981 and 1996, with 67% of those applications being for first-time home purchases. The Covid-19 pandemic certainly contributed as well – the catalyzation

of remote, work-from-home capabilities spurred many millennials to leave cities for bigger spaces in the suburbs. The wave is seen by some economists as a one-time pull forward of sales that would have otherwise been spread out over many years, but that doesn't mean millennial demand for homes is likely to abate soon – the largest cohort of millennials just turned 30 in 2021, which is below the median first-time homebuyer age of 33. Prices continue to surge because this demand is not being met with enough supply. According to Freddie Mac, the U.S. housing market was 3.8 million single-family homes short of what would be needed to meet demand.[3]

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[1] Wall Street Journal. December 15, 2021. https://www.wsj.com/articles/fed-officials-project-three-rate-rises-next-year-and-accelerate-wind-down-of-stimulus-11639594785?mod=hp_lead_pos1

[2] Wall Street Journal. December 15, 2021. https://www.wsj.com/articles/us-economy-november-2021-retail-sales-11639498894?mod=hp_lead_pos1&mod=hp_lead_pos1

[3] Wall Street Journal. December 14, 2021. https://www.wsj.com/articles/millennials-are-supercharging-the-housing-market-11639496815?mod=djem10point

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