June 2024

ECONOMIC OUTLOOK

Last month, we introduced several data points to support the idea that areas of weakness were starting to appear in the economic landscape. We also opined that these data points are largely veiled by federal deficit spending, which currently appears to have an outsized influence on economic growth conditions in the U.S., compared to other developed countries.

Q1 2024 REAL GROSS DOMESTIC PRODUCT (GDP)	
U.S.	1.3%
Germany	-0.9%
France	0.2%
Japan	-2%
UK	0.6%
Italy	0.31%
Canada	1.7%

Consumers and businesses eventually reach a point where they are not able to borrow any more money. The U.S. government, on the other hand, theoretically can print money to cover spending programs – but that puts upward pressure on prices (inflation). The government can also borrow money by issuing U.S. Treasury debt to cover spending programs, but this also brings upward price pressure – which may be exacerbated if investors change their minds about their willingness or ability to continue funding U.S. debt. Our observation is that the Fed Fund rate, aimed at curtailing consumer and business activity to limit inflation, has limited effect on federal deficit spending. This could be why we see consumers being marginalized by higher interest rates, while inflation remains above the Fed's target.

It is interesting that survey responses show that many consumers think the U.S. economy is in recession. I recently read an article claiming that consumer surveys were wrong, and data shows the U.S. is not in recession. This is somewhat disingenuous. Consumers do not conduct themselves based on economic data; they act in a manner consistent with how they feel. Our May outlook summarized why consumers may be feeling recessionary-like pressure. This stress, felt by many families, is understandable and real.

Our economy develops at a very slow pace unless some major, unforeseen event shocks it. Just because consumers have become more marginalized does not mean an economic slowing will occur in the near term. This is one of thousands of data points – but given that consumers make up two-thirds of the U.S. economy, it should be watched more closely.

Greg Sweeney, CFA®
SVP/Chief Investment Officer

Tenure: 1992

Investment Experience: 38 years

Education: Bachelor's degree in business, University of North Dakota; Chartered Financial Analyst designation

Factoring risk into decision making seems to be diminished as a consideration for market participants. Equity markets show elevated price/earnings ratios in relation to historical averages. At the same time, favorable stock performance remains concentrated in just a few companies. The bond market also reflects a diminished risk consideration as the spread, or the incremental yield above U.S. Treasury bonds, is at the lower end of its range over the last 20 years. We continue to be perplexed about where money flows from to support market valuation levels. The S&P 500 total market capitalization is $44 trillion as of March 31. That figure is up $4 trillion since the end of the year and up nearly $10 trillion from a year ago. This information suggests a smaller economic shock could upset market conditions more easily.

We continue to keep this and other data in perspective when making investment decisions. As always, thank you for your business and confidence in Bell.