

IT DON'T BOTHER ME (WELL, A LITTLE BIT)

Scott Welch – Chief Investment Officer, Model Portfolios
09/27/2023

*It don't bother me
It doesn't matter
It don't bother me
(Well, a little bit now)...*

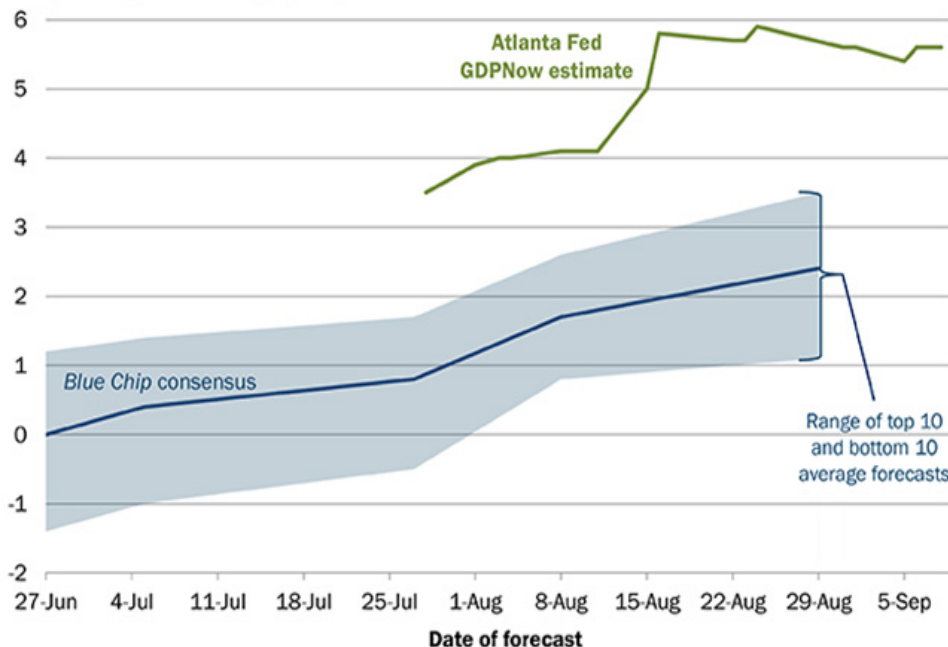
(From "It Don't Bother Me" by Jack Mack and the Heart Attack, 1990)

The consensus seems to be shifting to a more optimistic outlook on the economy and the market. The economy has proved more resilient than expected, the [Federal Reserve](#) seemingly has reached or is near the end of its [rate hike](#) cycle, earnings are expected to improve as we move through the next several quarters, inflation seems to be trending in the right direction (though is still higher than the Fed target of 2%, annualized), and both the stock and bond markets seem calm.

Look, for example, at the current Atlanta Fed GDPNow forecast, which, as of September 8, was suggesting 5.6% [GDP](#) growth in the third quarter.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2023: Q3

Quarterly percent change (SAAR)



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

Source: "GDPNow" estimate, Federal Reserve Bank of Atlanta, as of 09/08/23. This estimate may not prove accurate and can change quickly. It is not a prediction.

So, what is there to be "bothered" about? well, to me, "a little bit now." while the

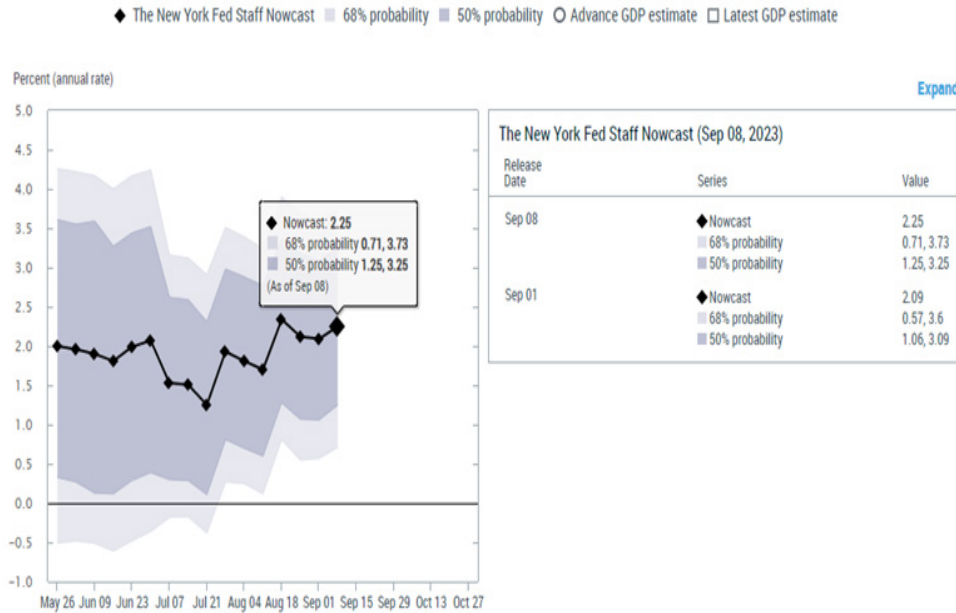
headline numbers seem reasonably positive, other indicators suggest there may be more fragility than indicated in the current consensus outlook.

Let's take a look.

Other Federal Reserve banks are much less sanguine

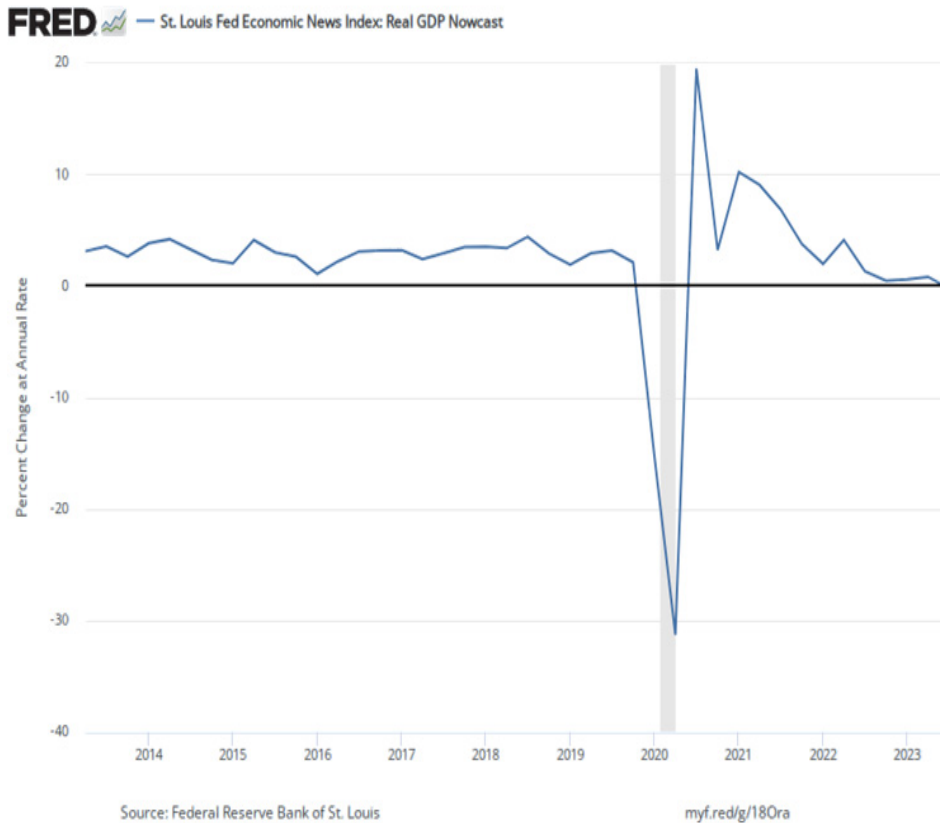
The recently reinstated "GDP Nowcast" from the New York Fed currently registers a still positive but much lower 2.25% GDP growth for the third quarter.

New York Fed Staff Nowcast



Source: "GDP Nowcast" estimate, Federal Reserve Bank of New York, as of 09/08/23. This estimate may not prove accurate and can change quickly. It is not a prediction.

Meanwhile, the St. Louis Fed is downright curmudgeonly, and currently is estimating a negative 0.25% GDP growth rate for the quarter.



Source: "Real GDP Nowcast" estimate, Federal Reserve Bank of St. Louis, as of 09/08/23. This estimate may not prove accurate and can change quickly. It is not a prediction.

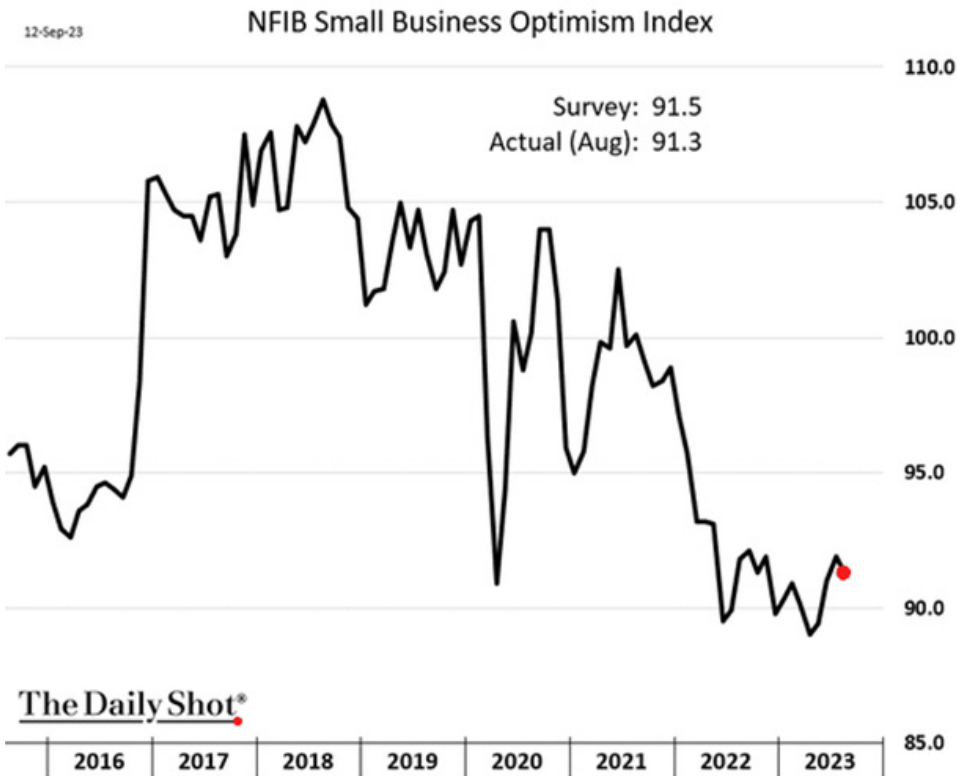
All these Fed banks use different measurements for their estimates, and it is not unusual to see dispersion between them. Nor have any of them proven to be especially accurate over time. But the wide discrepancies of their respective current estimates suggest there is more uncertainty regarding the economy than many seem to believe.

Small Business Owners Are Decreasingly Optimistic

Small businesses (generally defined as firms with fewer than 500 employees) employ roughly 50% of all U.S. workers, so how they see the economy is something to pay attention to.

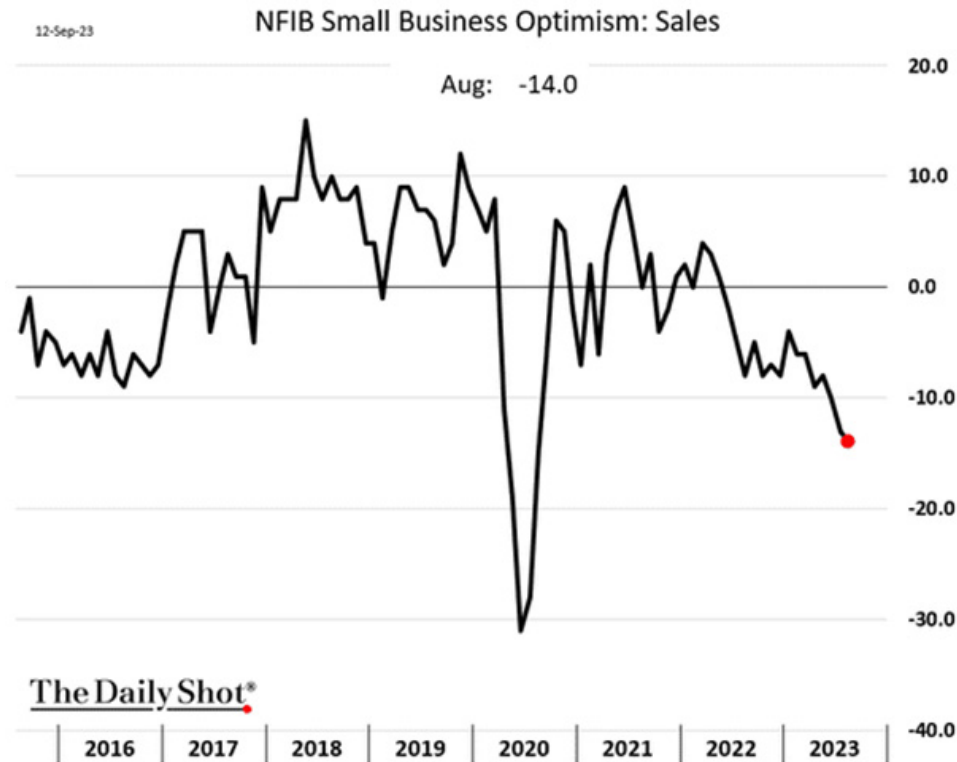
Recent survey results are trending in the wrong direction. The three following charts are sourced from the NFIB (National Federation of Independent Businesses), through the end of August.

Overall optimism is down.



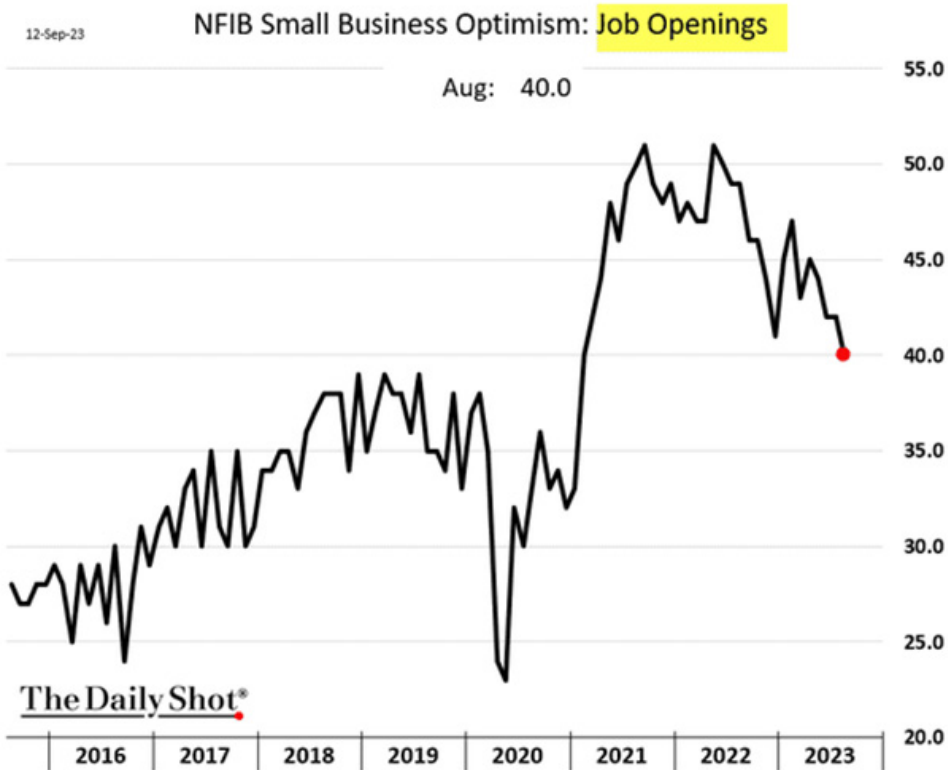
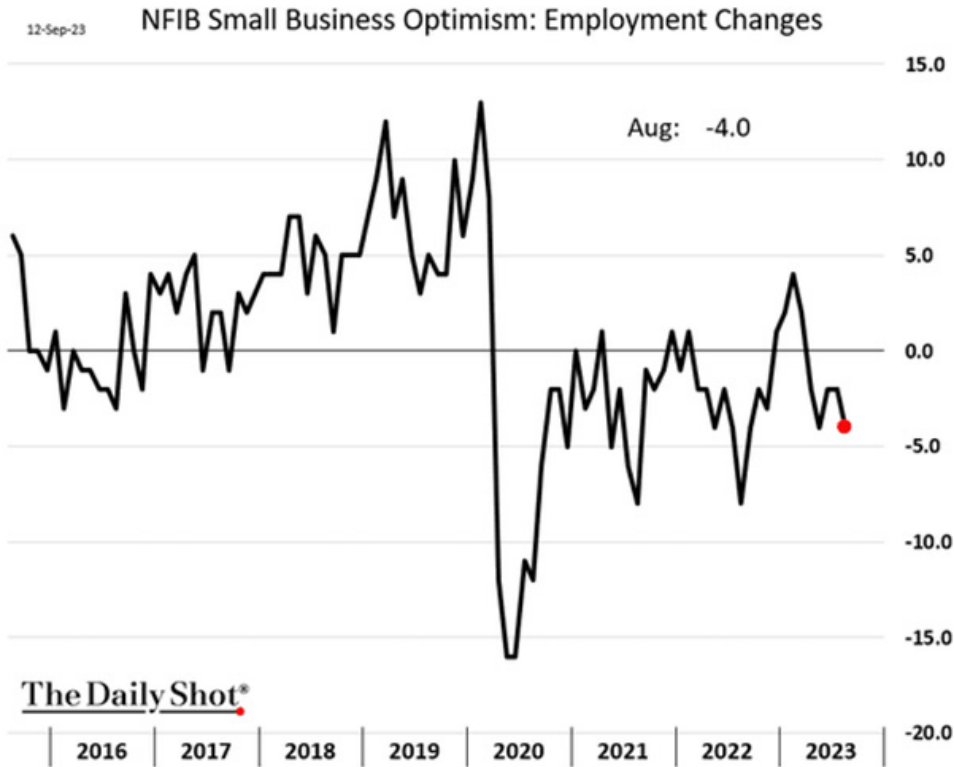
Source: The Daily Shot, as of 09/14/23.

Sales are down.



Source: The Daily Shot, as of 09/14/23.

And hiring is down.



Source: The Daily Shot, as of 09/14/23.

Other Indicators

Other indicators also seem to be trending in the wrong direction. The Citigroup Economic Surprise Index measures how forecasted economic measurements compare to the actual hard numbers when they come in. If the index is moving up, it means the actual numbers are

coming in above forecasts. If the index is moving down, it means the data are coming in weaker than forecasted.

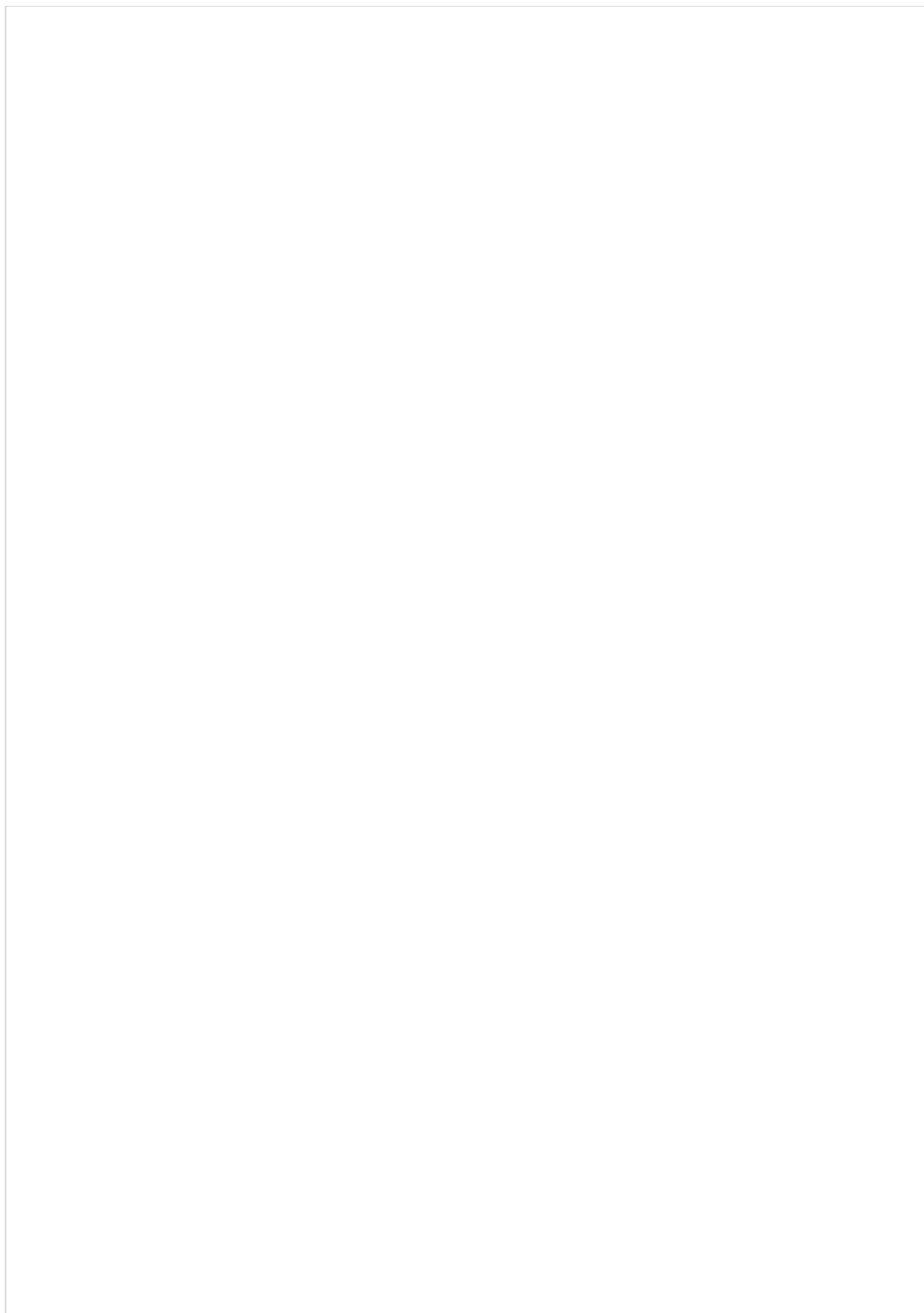
This index tends to be “mean reverting” so while the absolute level is relevant, what we focus on is the trend (i.e., which direction the index is moving). Currently, the index suggests the data are starting to come in worse than expected.



Another interesting indicator is consumer sentiment, since consumption drives such a large part of the U.S. economy.

Here we see an interesting disconnect. The following chart is a visualization between “hard vs. soft” economic data. Hard data is the actual numbers on quantitatively measurable metrics. Soft data is a variety of consumer sentiment indicators.

We currently are witnessing an historically wide dispersion between the “hard” data and consumer sentiment (though the gap is closing). Why does this matter? Because sentiment (or confidence) influences consumption, as can be seen in the bottom chart below.



Another angle on sentiment is investor sentiment, and one commonly reference metric here is the [“put/call” ratio](#). That is, how many investors are buying equity market put options (a bearish signal) versus call options (a [bullish](#) signal).

Based on this ratio, we see decreasing optimism regarding the future direction of the stock market.

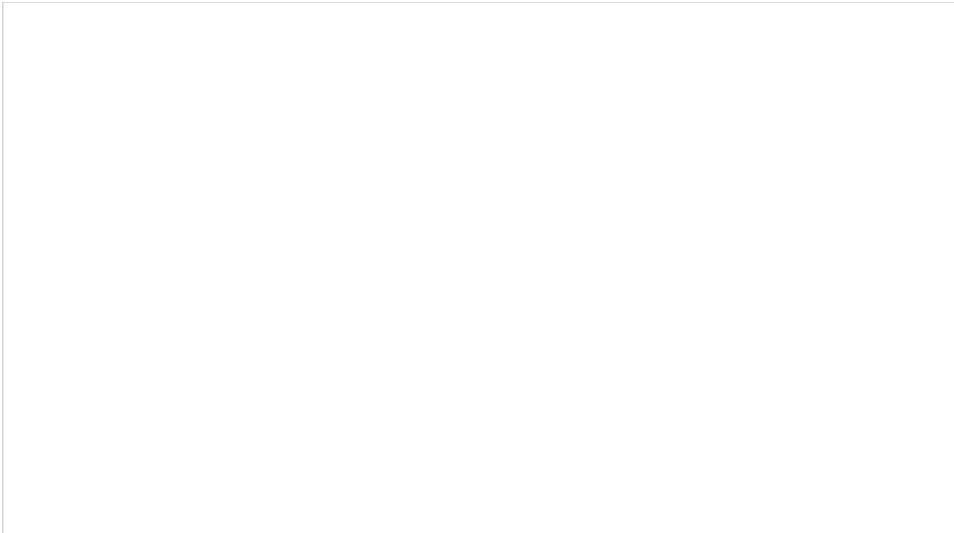


Finally, let's look at the labor market. The headline numbers (unemployment rate, jobless claims, etc.) are proving to be resilient and collectively are one of the base arguments for (a) a general view that the economy is doing ok, and (b) why the Fed maintains its tighter rate policy.

But look at some of the "numbers behind the numbers." Job openings, the "hires" rate, and the "quits" rate are all declining. Job openings and hires are self-explanatory, but the quits rate warrants an explanation.

When the quits rate is rising, it suggests that workers are more comfortable leaving their current jobs because they are more confident they can find another one. Conversely, when the quits rate declines it suggests they are less optimistic about finding another job, and so choose to remain in the one they have.

Why does this matter? From a top line view, the data suggests that jobs are becoming scarcer. At a more nuanced level, a declining quits rate suggests that workers are becoming more cautious, which may translate into their consumption habits.



Conclusions

The song cited at the beginning of this post captures nicely a certain economic scenario –*“It don’t bother me (well, a little bit now).”*

I am not suggesting the sky is falling—conversely, I think we will hold off recession in 2023, though we may find ourselves in one at some point in 2024.

But I get nervous when everyone leans in the same direction—in this case, that we are in for a “soft landing” or may avoid recession altogether. That may prove to be true, but I think there is more fragility in the economy than the headline numbers suggest.

To quote another song, this time from Billy Joel, *“You may be right/I may be crazy,”* but I think examining the “numbers behind the numbers” is always a worthwhile exercise.

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

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.

DEFINITIONS

Federal Reserve: The Federal Reserve System is the central banking system of the United States.

Rate Hike: refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

Gross domestic product (GDP): The sum total of all goods and services produced across an economy.

Put/call ratio: The ratio of the trading volume of put options to call options and is used as an indicator of investor sentiment in the markets.

Bullish: a position that benefits when asset prices rise.