First Trust
Monday Morning OUTLOOK

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This Rally Shouldn't Last

It's that special time of the year, and we will all hear and read a great deal about Black Friday, Thanksgiving Weekend, and Cyber Monday during the next few days. Many pundits are going to make sweeping conclusions about the economy based on these very limited reports.

Our recommendation: please feel free to ignore this news. Christmas-time spending is a marathon, not a sprint. Slow sales early could be bad news, or it could just mean shoppers are waiting to pounce later; fast sales early could be good news, or it could mean consumers get tapped out sooner. Past patterns are no indication of this year's results. Even more important: it's not how much consumers are *spending* that matters, but how much the economy is *producing*, which is the ultimate source of future purchasing power.

Instead, focus on fundamentals, like monetary policy and corporate profits. It's these fundamentals that determine the path of markets in the next year or so. And in that regard, the near future is flashing many warning signs.

With results in from 97% of S&P companies for the third quarter, according to FactSet, it looks like corporate profits are up only 2% from a year ago. We would not be surprised at all if the GDP report (due Wednesday morning) shows economy-wide corporate profits fell in Q3 and, given bottom-up earnings estimates so far, continue to decline in Q4.

The stock market depends on two important factors. Profits and interest rates. As the Federal Reserve has lifted short rates, the entire yield curve has risen, and higher interest rates have been a big drag on stocks. Now stocks look like they'll also have to grapple with stagnant to declining earnings. This is why we think the recent rally does not signal the end of a bear market, just like the rally from mid-June through mid-August, which ended with the S&P 500 peaking just north of 4300.

The lowest close so far this year is 3577. We think the market will test that low and likely go lower before the next recession is through. (We will provide more clarity on what to expect in 2023 before year end.)

The only way the recent rally turns out to signal that the worst is behind us is if the US somehow avoids a recession. But with monetary tightening (highlighted by a significant slowdown in M2), avoiding a recession is unlikely. This is especially true when we add in the fact that much of the economy, especially in the goods sector, has to get back toward normal after being artificially supported by trillions in temporary stimulus in 2020-21.

Yes, some recent economic reports have been solid, including retail sales, manufacturing output, and new home sales. Meanwhile jobs have kept growing. But the link between tighter money and less economic growth is long and variable.

Back in 2020-21 we consistently said that the bill for massive over-stimulus would eventually come due. We are now much closer to getting that bill. Don't let the time lag, or the belief that the Fed can reverse course just in the nick of time, convince you it's not coming at all.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
11-30 / 7:30 am	Q3 GDP Second Report	2.8%	**2.8%**		2.6%
7:30 am	Q3 GDP Chain Price Index	4.1%	**4.1%**		4.1%
8:45 am	Chicago PMI – Nov	47.0	**45.6**		45.2
12-1 / 7:30 am	Initial Claims – Nov 27	235K	**235K**		240K
7:30 am	Personal Income – Oct	+0.4%	**+0.5%**		+0.4%
7:30 am	Personal Spending – Oct	+0.8%	**+0.9%**		+0.6%
9:00 am	ISM Index – Nov	49.8	**49.9**		50.2
9:00 am	Construction Spending – Oct	-0.2%	**+0.4%**		+0.2%
afternoon	Total Car/Truck Sales – Nov	14.6 Mil	**14.1 Mil**		14.9 Mil
afternoon	Domestic Car/Truck Sales – Nov	11.6 Mil	**11.3 Mil**		11.9 Mil
12-2 / 7:30 am	Non-Farm Payrolls – Nov	200K	**185K**		261K
7:30 am	Private Payrolls – Nov	188K	**185K**		233K
7:30 am	Manufacturing Payrolls – Nov	18K	**20K**		32K
7:30 am	Unemployment Rate – Nov	3.7%	**3.7%**		3.7%
7:30 am	Average Hourly Earnings – Nov	+0.3%	**+0.3%**		+0.4%
7:30 am	Average Weekly Hours – Nov	34.5	**34.5**		34.5

Consensus forecasts come from Bloomberg. This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.