Market Commentary 11/06/24

An Oxford Harriman & Company Market Commentary

As we enter the second month of the fourth quarter, the economy is in relatively uncharted territory. Witness the Leading Economic Index (LEI), which tracks ten data points that tend to change before the overall economy does. Economists monitor the LEI because it includes data that can provide insight into future economic activity, such as unemployment claims, building permits, and manufacturing hours worked. A rising LEI signals improving economic conditions, while a declining LEI suggests worsening conditions.

In early 2020, the LEI declined as the pandemic led to economic shutdowns. Following a brief re-cession, the index rebounded later in 2020 and into 2021, driven by government stimulus, the re-opening of the economy, and low interest rates. The LEI peaked in November 2021, but it has de-clined steadily over the past few years and now sits at the lowest level since 2016.

Historically, when the LEI declines for several consecutive months, the economy is often entering or is already in a recession. For example, in 1979, the LEI declined for eight consecutive months leading up to the recession. In subsequent recessions, the number of consecutive monthly declines was three months ahead of the 1981 recession, four in 1990 and six in 2001. The longest streak of declines before a recession started was ten months in 2007. The latest data shows the LEI has de-clined for 30 consecutive months, which surpasses all prior levels. This trend is concerning because it is generally associated with recessions.

The steady decline of the LEI suggests that economic growth should be slowing more than it is, highlighting that today's economic cycle is unlike anything we've seen before. The disconnect may be explained by several demographic and fiscal changes brought on by the pandemic. Domestic migration surged, requiring investment in new neighborhoods, roads, and schools. The Federal Re-serve cut interest rates to near zero, enabling businesses and individuals to lock in low-cost debt. The government issued stimulus checks and passed multiple spending bills to invest in infrastruc-ture and incentivize domestic manufacturing. The

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pandemic exposed weaknesses in global supply chains, prompting companies to reinvest in U.S.-based production.

The LEI's recent trend doesn't necessarily mean that it's harbinger of an economic downturn is broken, just that it may now be different. It's unclear how long these changes will last, but the data referenced above are a reminder of just how much the economy changed during the pandemic.

We would like to conclude with the following:

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1. The longer we go without a recession, the closer we are to the next one. It does not take a "rocket scientist" to understand this and to predict that a recession is coming.

2. We believe most recessions and severe market declines come from something other than what the financial media is predicting and/or writing about.

As we conclude the year and gain an understanding on the next administration, we will continue to keep you informed and provide commentary.

Warm Regards,

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S&P 500 Index: The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.

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