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Spend baby, spend!

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For the first time in a few years, I did some Black Friday shopping, taking advantage of a deal that I couldn't pass up. And I already have items in my cart for Cyber Monday. Is this shopping activity representative of US consumers during the holidays?

Preliminary data as of Sunday night paints a mixed picture, with some suggesting consumers did open their wallets more than expected, while other data indicates softness. This is consistent with conflicting survey results on consumer spending plans going into the holiday season. We'll get official data soon enough to formally answer the question, and there's a good chance it will be market-moving, either positively or negatively.

The economic topic that is likely to be foremost currently in investors' minds is the state of the US consumer. Their spending resiliency has been one of the biggest macroeconomic surprises this year and the primary reason why US economic growth has far exceeded consensus expectations. But there are signs that the torrid spending pace in the first three quarters of the year is slowing. That spending will wane is not in dispute; its pace was unsustainable and higher interest rates are weighing on segments of consumers. The debate is over whether it will slow to a trend or a slightly-below rate for a few quarters, or fall enough to tip the economy into recession in 2024.

Hence, the intense focus on the holiday spending data. In fact, it could be disproportionately influential for market performance because that may be the only thing that investors really care about—along with jobs data—for the rest of the year and early in 2024. Recent inflation data all but assures that the Fed is done hiking rates and there are no other major policy events in the next month. In the absence of other news, investors and the media are quite likely to obsessively focus on spending data and whether it supports a soft landing or are signaling a recession. A handful of data points won't resolve the debate, but that won't stop investors from using it to support their views.

With the majority of investors in the soft or no-landing camp, chances are that the markets will brush off any tepid consumer spending data, at least for the next few weeks. It could even be rationalized as positive for the markets because it further cements the Fed being done with hikes and pulls forward when rate cuts could begin. But that sweet spot of spending moderation isn't a large range, and too much cooling will raise concerns that it's actually about to crack, tipping the economy into a recession. Nonetheless, that looks much more like a 1Q risk than a worry for December.

The bottom line: The markets are priced for a soft landing, and thus for consumer spending to hold up. This view will likely be neither validated nor refuted in the next few weeks—there just won't be enough data—but it should be in the next few months. We think that view will ultimately be justified. In the meantime, investors are likely to obsess over consumer spending data during the next few weeks, and any market reaction to it should be taken with a grain of salt until we know how the holiday season turned out. That's why our message is for investors to buy quality bonds and stocks for the time being. The ideal macro outcome this holiday season is for consumers to continue to spend, but in a price conscious way. That would be good for economic growth and inflation. It's also a pretty good outcome for those who might be on the receiving end of the Black Friday and Cyber Monday shopping.

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See the full blog, **Spend baby, spend!** 27 November, 2023.