Commentary

Government Reopens, but Data Vacuum Persists

- Led by growth and technology stocks, equity indexes retreated yesterday.
- Uncertainty remains elevated as official government data will take time to compile.
- Volatility will likely persist but can provide opportunities for long-term investors.

As we have been noting for some time, a modest stock market pullback is likely, and it looks like we saw some of it yesterday. Without any one specific catalyst, equity markets retreated on Thursday as the S&P 500 fell by 1.66%, its worst decline in over a month. With growth and tech stocks leading the downside, the equally weighted S&P 500 outperformed. This comes a day after President Trump signed a bill to reopen the government, eliminating the uncertainty regarding how long the shutdown would last.

While there isn't a clear-cut catalyst for the sell-off, the biggest overhang right now is uncertainty around the lack of economic data and therefore Fed policy. Although the government is open for business once again, much of the missing economic data will still take time to compile as government agencies get back to work. However, the September jobs report will likely be one of the first key economic reports released. The Federal Reserve will likely be without the October jobs and CPI reports when they meet to decide interest rate policy in mid-December.

The Fed consistently reiterates that it is data dependent, so it may be tough to cut interest rates without key data. Many Fed officials have recently expressed this sentiment and in Fed Chair Powell's latest FOMC press conference he spoke at length about how Fed officials were split regarding what to do in the December meeting. In what was largely expected to be a noneventful meeting, we got an interesting peek into a divided Fed.

Since that meeting, expectations for a December rate cut have diminished. Looking at the CME Group's FedWatch tool, the probability of a December rate cut as implied by the 30-Day Fed Funds futures prices, went from 95.5% a month ago to 50.7% on November 13, and down over 10% from the day before.

With the holidays approaching, we have little insight into critical economic data. Is the job market recovering or still easing, and if so, to what extent? This data would hold clues into how much consumers will potentially spend this holiday season. Without official government data we are looking more closely at consumer and business surveys as well as private data for clues. The results are mixed.

- The University of Michigan Consumer Sentiment Survey recently revealed that the percent of respondents expecting a higher unemployment rate during the next year rose to recessionary levels.
- The NFIB Small Business Optimism Index reported that the percent of firms seeing higher sales over the past 3 months fell to a 9-month low.
- The Institute of Supply Management's (ISM) Services Index climbed to an eight-month high, however, it also showed inflationary pressures are still rising.
- The ISM Manufacturing Index decreased slightly in October and remains in contraction territory.
- The Challenger, Gray & Christmas report on U.S. monthly layoff announcements surged in October to the highest October total in 22 years.
- ADP's private payroll report indicated payrolls rose 42k in October topping expectations for 38k, marking the first increase since July. However, this report is not that correlated to official BLS reports.

Approaching the holiday season, consumer spending will be imperative. With equity valuations at high levels, Fed uncertainty rising, and a continued lack of economic data, volatility may persist. Diversification remains important as we saw in this recent sell-off. Volatility can bring opportunities, and one should not get distracted by short-term fluctuations which do not impact long-term goals and objectives. With that said, we do expect any selloff to be a buying opportunity as we look forward to strong 2026 earnings growth, significant fiscal and monetary stimulus entering our economy next year, and record levels of cash on the sidelines waiting for better valuations. Please consult your financial professional for guidance specific to your financial needs.

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