



WEEKEND READING

Shedding the light on what's happening - our world - our finances - our times

Friday the 13th

The news has been terrible. Yet again, conflict has broken out in the Middle East. The Palestinian militant group Hamas launched a surprise brutal terrorist attack killing over 1,000 Israelis. Israel has responded. The destruction and death toll rises. Israel launched strikes into Syria. Hamas called for 'resistance' on Friday. Iran has been accused of adding fuel to the flames. The war in Ukraine drags on. Russia devoted significant new military resources to the Donetsk front, again aided by Iran, and suffered equally significant losses. Ukraine continues to grind south through Russian defences.

For a summary of current conflicts see the Institute for Study of War (ISW) daily updates.

<https://www.understandingwar.org/>

Major media now has something besides US politics to discuss. The images have been pouring out. Pundits have been predicting recession. Little wonder investors are nervous. The Buyer's gallery has empty seats.

About that recession thing....

Weekly U.S. Recession Dashboard – National Bank October 9, 2023

Regular readers will note the fading red zones. The trend is your friend

U.S.: Economic and financial indicators 3 months before recessions

As of October 9, 2023

	Last reading	Prior reading*	Published last week?	Value 3 months before U.S. Recessions								Median
				2020	2007-09	2001	1990-91	1981-82	1980	1973-75	1970	
Financial/commodity												
S&P 500 (% drawdown from past year max)	-5.5%	-6.6%	yes	-1.3%	-0.4%	-13.6%	-7.7%	-5.6%	-7.8%	-13.3%	-14.6%	-7.7%
BBB spread (increase from past year min, bps)**	19.2	15.1	yes	2.0	46.2	133.8	6.0	0.0	41.0	43.0	23.0	32.0
Copper price (% drawdown from past year max)	-13.8%	-12.0%	yes	-10.6%	-2.2%	-9.5%	-12.0%	-16.2%	-1.2%	0.0%	-1.6%	-5.9%
Oil price (% drawdown from past year max)	-7.8%	-3.1%	yes	-16.0%	-4.0%	-31.0%	-21.0%	-4.0%	0.0%	0.0%	0.0%	-4.0%
U.S. Dollar (% increase from past year min)	5.2%	4.4%	yes	3.1%	0.0%	5.3%	8.3%	12.5%	4.5%	1.4%	NA	4.5%
Yield curve (10-year minus 3-month, bps)	-72	-90	yes	26	77	-76	98	-62	-127	-157	35	-18
Soft data												
Consumer sentiment (Michigan)	68.1	69.5	no	99.3	80.9	94.7	90.6	76.3	63.3	72.0	86.4	83.7
SME optimism	90.8	91.3	yes	102.7	96.1	96.4	99.4	97.4	93.3	NA	NA	96.9
CEO confidence (quarterly data)	48.0	42.0	no	43.0	44.0	31.0	48.0	61.0	32.0	NA	NA	43.5
ISM manufacturing	49.0	47.6	yes	47.9	52.8	42.3	49.5	53.5	48.0	63.5	54.6	51.2
ISM services	53.6	54.5	yes	55.7	53.5	52	NA	NA	NA	NA	NA	53.5
Hard data												
UI Claims 4-week ave. (% increase from past year min)	9%	11%	yes	6%	8%	26%	6%	2%	20%	12%	10%	9%
Temp. help services jobs (% drawdown from past year max)	-6.3%	-6.2%	yes	0.0%	-3.2%	-4.3%	NA	NA	NA	NA	NA	-3.2%
Average hours worked (% drawdown from past year max)	-0.9%	-0.9%	yes	-0.9%	-0.3%	-0.6%	-0.9%	-0.3%	-0.6%	-0.5%	-0.8%	-0.6%
Building permits (% drawdown from past year max)	-3%	-13%	no	-5%	-27%	-2%	-39%	-21%	-30%	-30%	-19%	-24%
Real consumption (3-month, % ann)	3.9%	4.2%	no	1.3%	2.4%	2.3%	1.8%	-0.1%	0.7%	4.1%	6.4%	2.1%

* Previous Friday for financial data, previous month for hard and soft data (quarter for CEO confidence)

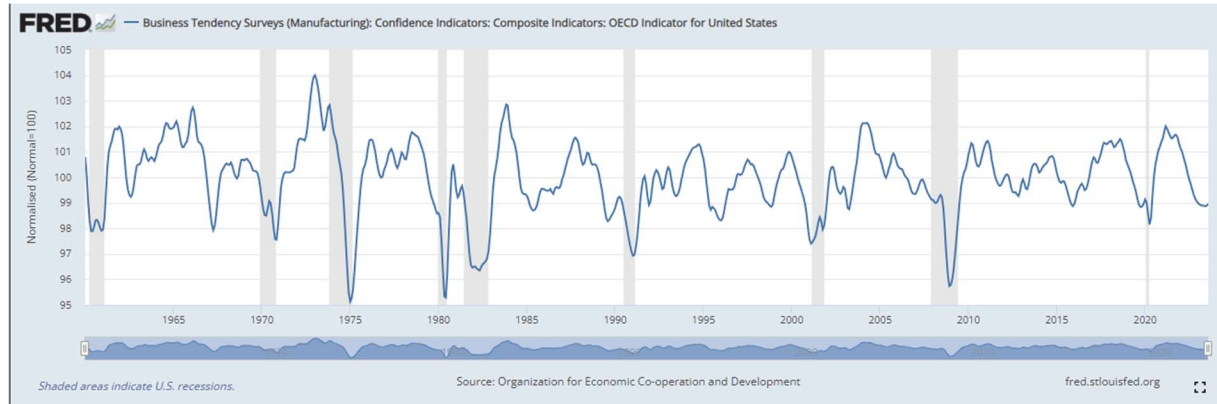
** As of Thursdays

NBF Economics and Strategy (data via Refinitiv, Bloomberg)

<https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=a4cacbdba-75c9-4f21-8728-efd949d30689&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail>

US recession risks appear to be receding, yet media headlines pointed to business confidence declines in September (end of August data) as sure signs of stock market troubles. Don't be so sure.

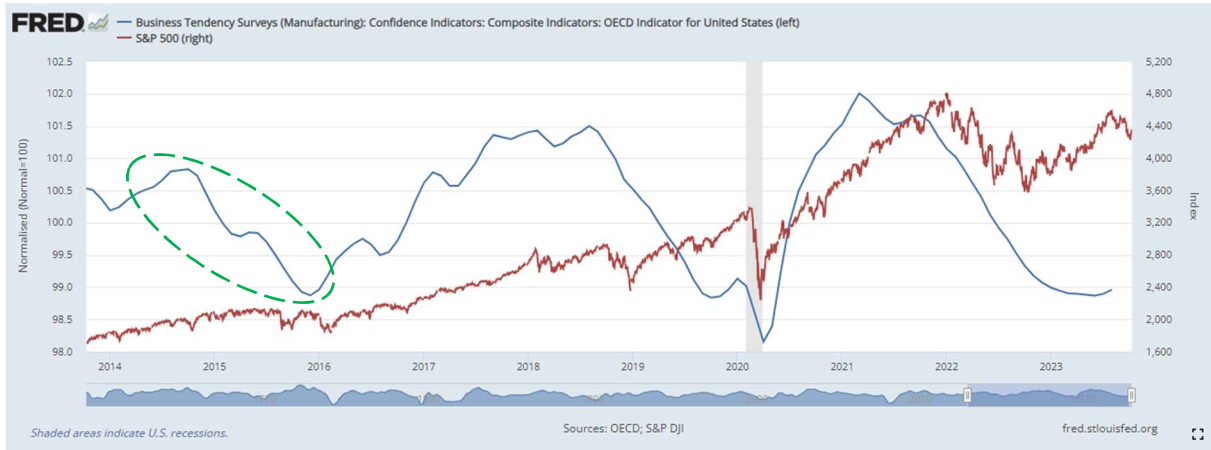
Fed Reserve of St. Louis (FRED) Business Tendency Survey Jan 1960 Aug 2023



Unsurprisingly, business confidence declines in recessions. Confidence also declines within the business cycle. Drops in business confidence happen roughly 3X more often than recessions. Declining business confidence has been a reliable confirmation of a recession, not a helpful predictor of one, nor a good indicator of stock market performance. Broadly, business confidence readings below 100 have made better long-term entry points for equity investors. The latest reading for August/2023 was 98.96. We see value. Some patience may be required. Let's zoom in the above chart to the preceding and current business cycle.

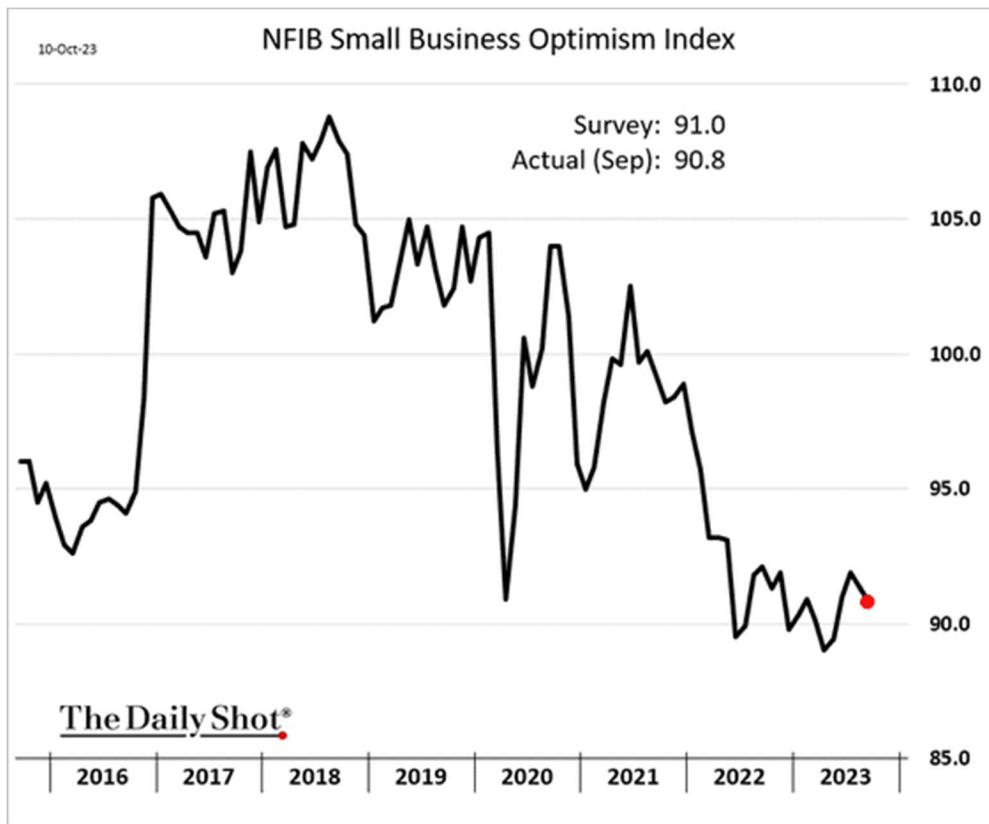


FRED Business Survey (blue) vs SP 500 (red): Aug 2013 Aug 2023



The 2009-2020 cycle saw business confidence decline in the middle of the cycle then rebound. The S&P500 doubled. We think its still early in this business cycle. Will we see a repeat of that pattern?

Small Business wasn't any more chipper in recent surveys. Note the previous lows were in, not before, the Feb-March/2020 COVID panic.



Repeat after me. Recognize Extremes

Are we at an extreme of Bullishness? (SELL-everything) or Bearishness (BUY-bet the farm)?

For an exhaustive examination of US investor sentiment see Ed Yardeni's latest post.



‘Stock Market Indicators: Bull/Bear Ratios’ – Yardeni Research Oct 11 2023

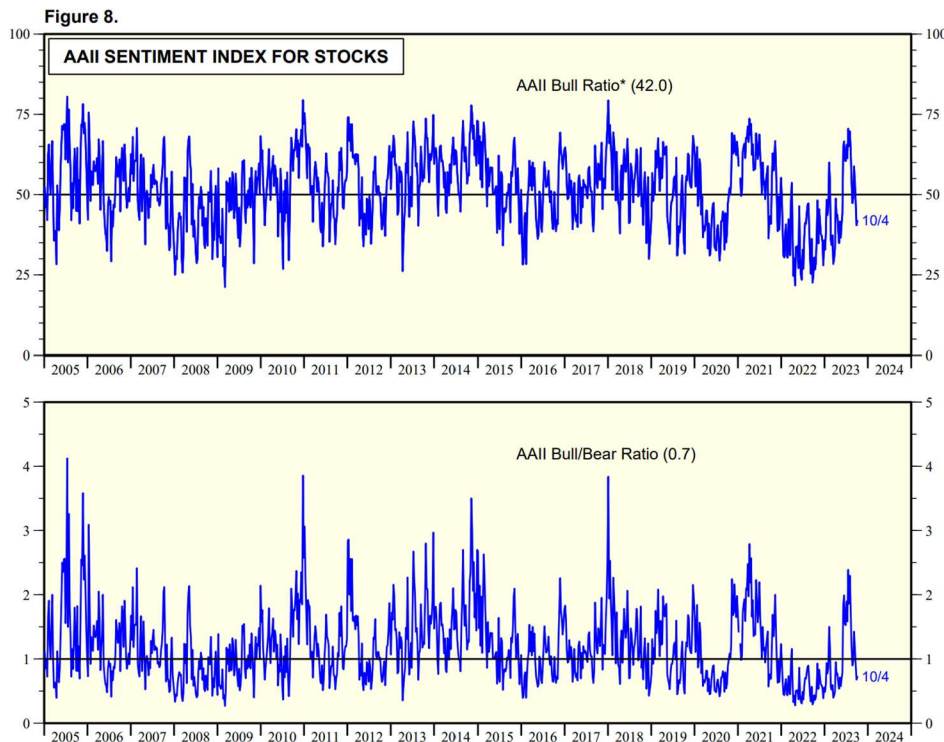
<https://www.yardeni.com/pub/stmktbullbear.pdf>

Mr Yardeni presents an array of charts (head spin time) laying out historical relationships between investor sentiment and subsequent price returns. I would of course find it fascinating. As he notes, sentiment readings change rapidly. Experience says relying on these readings is only useful at extremes. As we constantly ‘do the math’, extreme emotional readings simply confirm what the numbers already say. We find the sentiment readings more useful in understanding client emotions, what they’re seeing and how they may be feeling. After all, our client are investors reading the news media flow. Us too.

Of the various sentiment readings Mr. Yardeni features, we’ve found the **American Association of Individual Investors (AII) weekly Sentiment Survey** useful as a contrary indicator. <https://www.aaii.com/sentimentsurvey>

Mr. Yardeni summarizes AII sentiment in his report. His Oct 4 report data showed AII sentiment reading at 42, meaning 42% of respondents think stocks will decline. A reading over 50% is very bearish. Investors can BUY, HOLD or SELL their positions. Each seller requires a buyer. Holders don’t count. The ratio of bulls who want to buy vs bears who want to sell (higher ratio represents bullishness) is more meaningful. The current ratio is 0.7, implying (and confirming) bearishness.

AII Sentiment



The above supports our view that stocks aren’t are priced for tough times. In some cases, investors are willing to sell at decade-low prices (see last week’s review of the Canadian banks). The tone is decidedly glum, confirming why we see plenty of value.



When others want to sell, we want to own/buy from them. We see the chance to increase our dividend income streams, while getting paid to wait for the tide to turn...and then actually waiting!

While we will continue to be slaves to the numbers, clients could save themselves a lot of work following Steve Forbes' advice:

"When you feel bad about the market, that is the time to buy".

We are presenting our Fall Review for clients the last week of October.

Fall Review

Duncan - Oct 24: Arbutus Ridge Golf and Country club

Comox - Oct 26: Crown Isle Resort

Invitations are out in the mails this week. Please RSVP to Brandy

Brandy Addison at 250-715-3055 | brandy.addison@nbc.ca

Have a Great Weekend

Steve & Anna Hilberry



Steve Hilberry
Wealth Management Advisor, CIM

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FOR THE RECORD October 13, 2023

DOW INDUSTRIALS:	33,910
S&P 500:	4,308
S&P/TSX COMP:	19892
WTI:	\$67.98
LOONIE IN \$USD:	\$0.7481 \$US



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