Ropes Wealth Reviews Jobs Report & Planning for the Year Ahead

2023 has been rung in by a buildup of recession chatter (and lots of failed votes for a certain Speaker of the House nominee, but I digress). From Washington to Singapore, anxiety about a downturn is intensifying. Worries about economic fragility are understandable. The year was only a few hours old when South Korea, a major exporter, reported another dive in shipments. Singapore Prime Minister, Lee Hsien Loong, told residents that 2023 would be challenging, with the U.S. and Europe staring at recession probability. International Monetary Fund Director, Kristalina Georgieva, warned that the global economy faces “a tough year, tougher than the year we leave behind,” and said to expect one-third of the world economy to be in recession. Even former Federal Reserve Chair, Alan Greenspan, got in on the action, saying a U.S. recession is the “most likely outcome” as the central bank tightens monetary policy to curb inflation.

And yet this morning, we had another rock-solid employment report for December, showing a gain of 223,000 jobs that following a revised 256,000 gain in November. The unemployment rate fell to 3.5%, a five-decade low, even as labor market participation increased. Jobs gains were by healthcare and social assistance, leisure and hospitality, and construction. Average hourly earnings rose 0.3% from the prior month and are tracking 4.6% growth year-over-year. But those wage increases are slowing in momentum and stabilizing in what is likely to be a welcome sign to monetary policymakers struggling to keep a lid on inflation. This strong jobs report follows a week of economic news that was otherwise on the weaker side, with mortgage applications in steep decline, car sales down, and the Institute of Supply Management (ISM) manufacturing survey sliding to a reading of 48.4, which is in contraction territory for the manufacturing sector.

All this conflicting and confusing data, coupled against a backdrop of a weak stock market, gives good reason to be dour about the prospects for the global economy and stock market in 2023. But the year ahead doesn’t have to be a write-off, and there is also the reality that a lot of bad news is already priced in. Additionally, it is worth noting that important forces that have dimmed the outlook may dissipate—China’s COVID lockdowns and Fed interest rate increases. China’s “zero COVID” policy was holding back economic activity in the second largest economy in the world and creating a huge disruption to the global supply chain. While there is no doubt the reopening is going to be bumpy, there is excitement building over the catalytic effects for the world economy given the pent-up demand of its citizens under what were draconian restrictions for the last three years. Keep in mind that this is not to downplay the reality of the illness and death the country is facing given low vaccination rates and the threat of new variants. Another catalyst we can expect is for interest rates in the major economies to likely take a break from the upward march that made 2022 so jarring. Policymakers are starting to talk about this prospect, something that would have been thought reckless a few months ago. That said, the idea of cuts is still contentious. Minutes of the Federal Open Market Committee’s December meeting, released Wednesday, warned against anticipating reductions anytime soon. Despite officials’ reluctance to countenance reductions, a pause on further hikes would signify a turning point after the most rapid global tightening in a generation.

For sure, corporate profits will be down for at least the next two quarters and likely to create market volatility as investors weigh and measure individual company performance. Our muscle memory of recent recessions draws to the massive swoons of 2020 and 2007-2009. A more “typical” recession across U.S. history lasts 10 months and has a peak-to-trough market decline of -29%. While never pleasant, mild recessions don’t have to provoke a significant change in your investment approach because they are so short-lived and price action moves so quickly it can leave you whipsawed. In contrast, in 2001 and 2008 you had to anticipate and in some cases make

meaningful changes in the way you invested money to order to have the liquidity and portfolio balance to endure what were prolonged downturns. While we all are experiencing uneasiness at the economic and market picture we are facing, we reiterate our strong instinct that this recession is likely to be more mild than the worst case, and markets have already priced in the majority of the risks. We continue to emphasize you maintain a healthy liquidity balance and stay focused on your plan by working closely with your advisor to ensure they have the most up-to-date information about you and your circumstances. We caution against getting whipsawed by trying to time the markets and make major bets in either direction; now is the time for balance and prudence in all respects.

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