

Macro Update: Are We Heading For Recession?



Presented by:

Mayur Thaker, CFA
Equity Strategist
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Disclosures

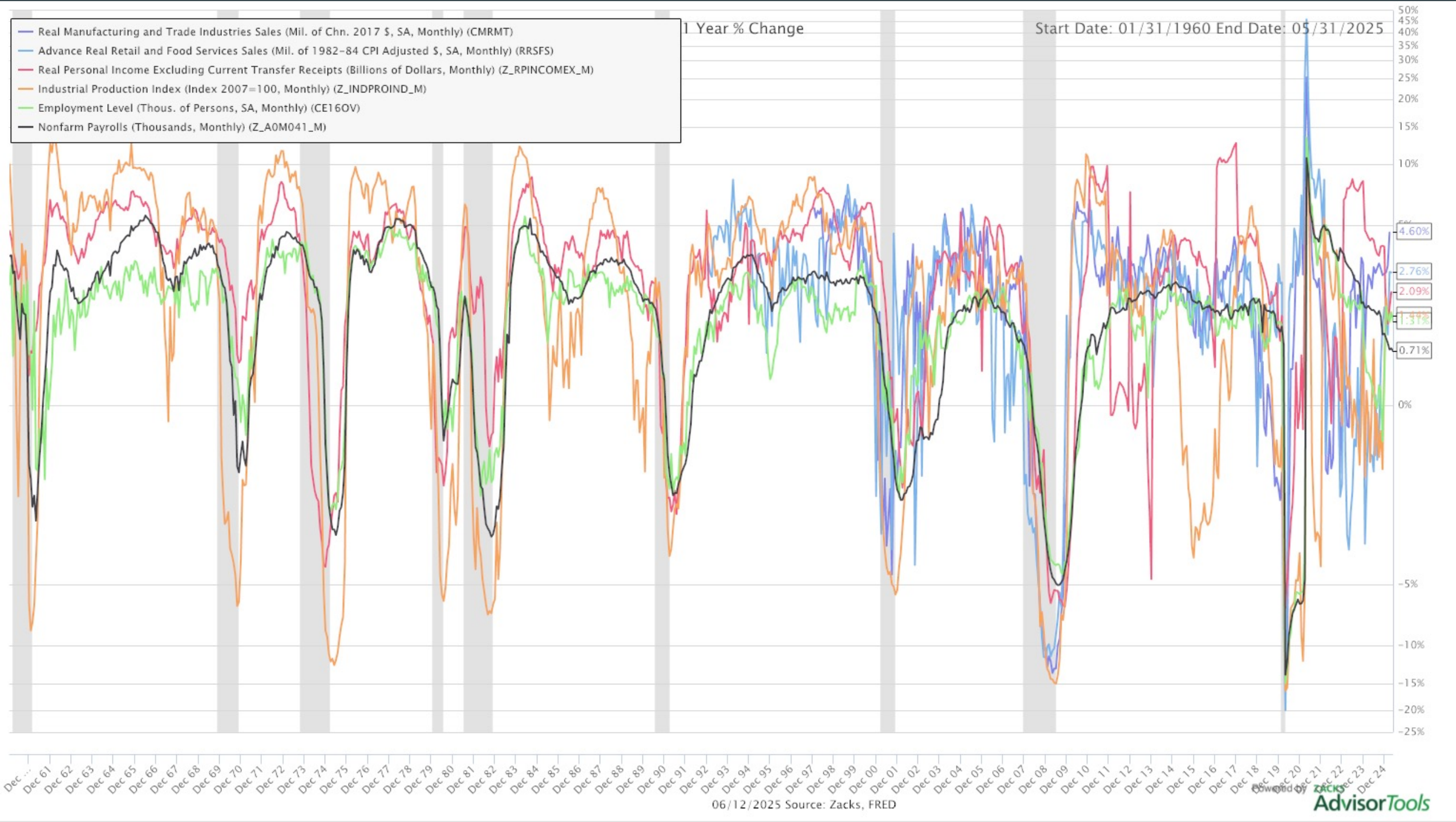


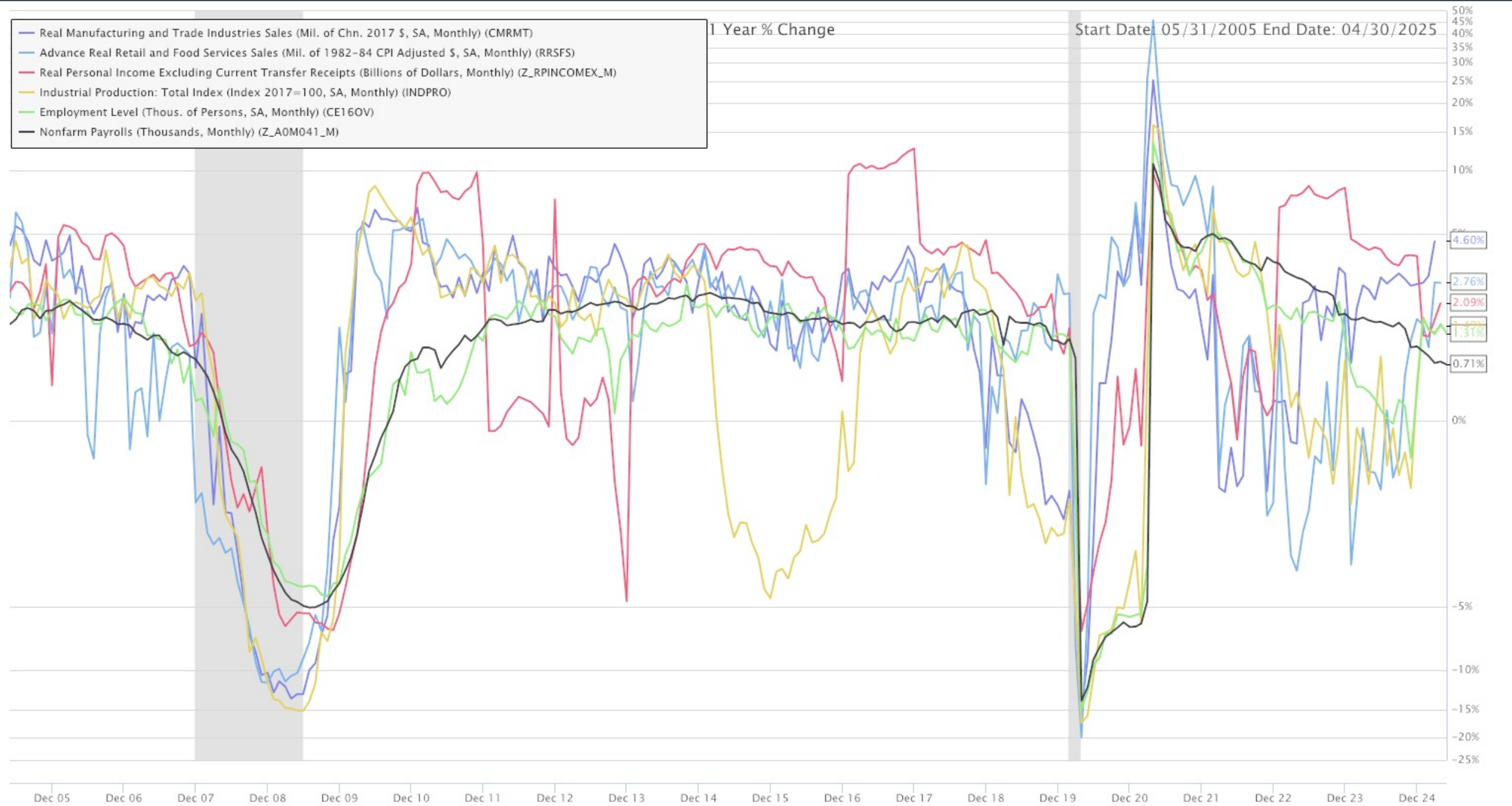
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The National Bureau of Economic Research (NBER) Business Cycle Dating Committee calls recessions based on six broad economic data:

1. Real personal income
2. Nonfarm payrolls
3. Real PCE
4. Manufacturing & Trade Sales
5. Household employment
6. Industrial Production







Series	Current Value	Trend
Real Manufacturing & Trade Sales	+4.6%	Accelerating
Real Retail Sales	+2.76%	Accelerating
Real Personal Income	+2.09%	Decelerating
Employment Level	+1.53%	Accelerating
Industrial Production	+1.49%	Accelerating
Nonfarm Payrolls	+0.79%	Decelerating

Many of these series are quite noisy, which is why we assess three characteristics when deciding the state of the business cycle:



Depth

Diffusion

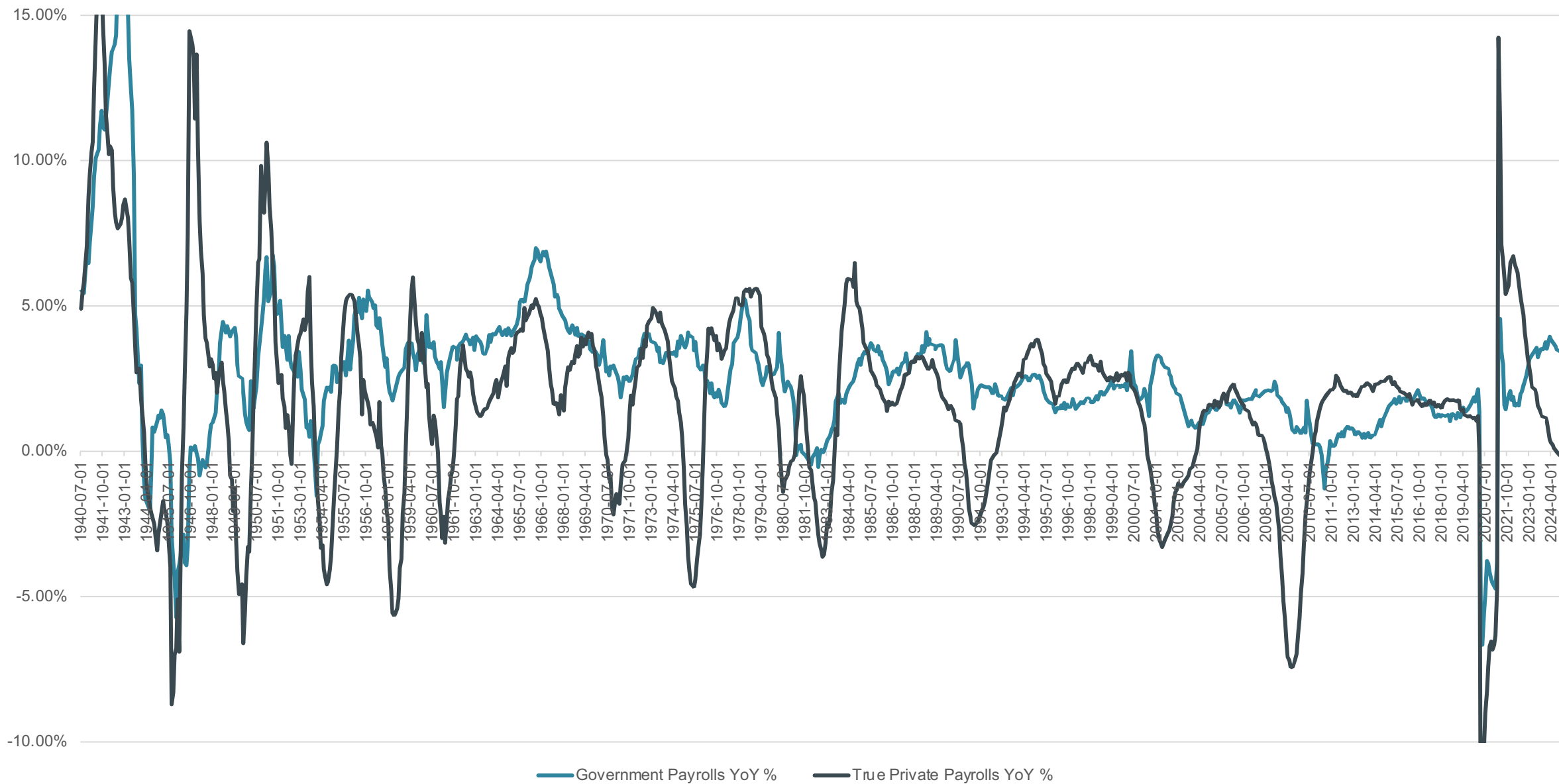
Duration

Currently none of the six are in contraction.



The weakest link of the six is nonfarm payrolls, but there's a catch.

Nonfarm Payrolls - YoY Growth Government vs True Private





The primary reason nonfarm payrolls have decelerated (and continuing unemployment claims have accelerated) is because government hiring has contracted.

However, true private sector hiring (nonfarm payrolls ex government, healthcare & education) is accelerating. This is not the trend we typically see entering recessions.



Takeaways

- ❖ S&P 500 trades at a highly elevated 22x forward P/E with very bullish growth expectations next year. The bar is extremely high—in the top decile over the past 30 years.
- ❖ As such, the forward earnings yield of the market is at parity with the 10-year yield. Historically, market returns over the following 5 years have been poor at these levels.
- ❖ However, it no longer appears the economy is headed for recession, while corporate earnings growth even outside Mag7 remain durable.
- ❖ Remain long the S&P 500 as long as it remains above the 10-week Average True Range (ATR), which sits at 5358 for the SPX. But in my view, the best gains over the next 4 years are going to come from high quality cyclicals with strong balance sheets, high ROIC, and attractive valuations.

Zacks Earnings Certain Proxy: Recession-Resistant, Durable Moat-Protected, Low Volatility, Steady Compounders





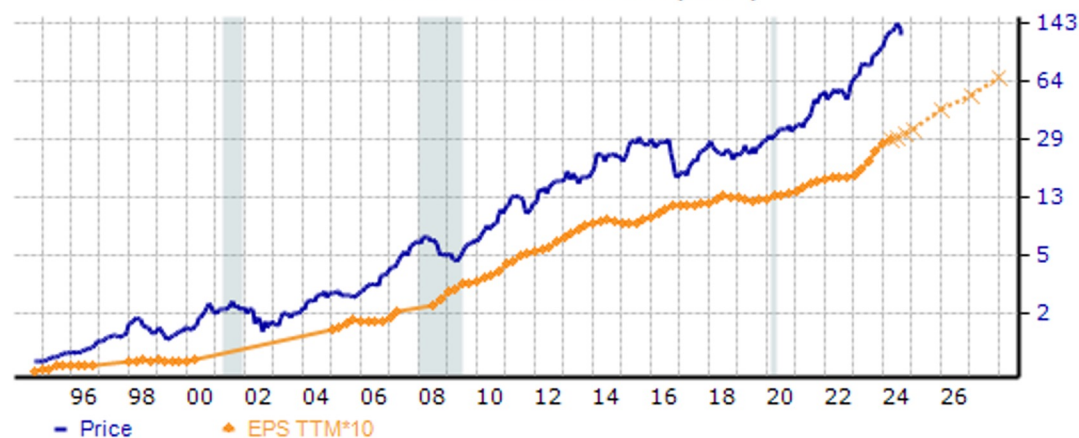
Price & Earnings
CHECK PT SOFTW (CHKP)

Price \$ | EPS*10



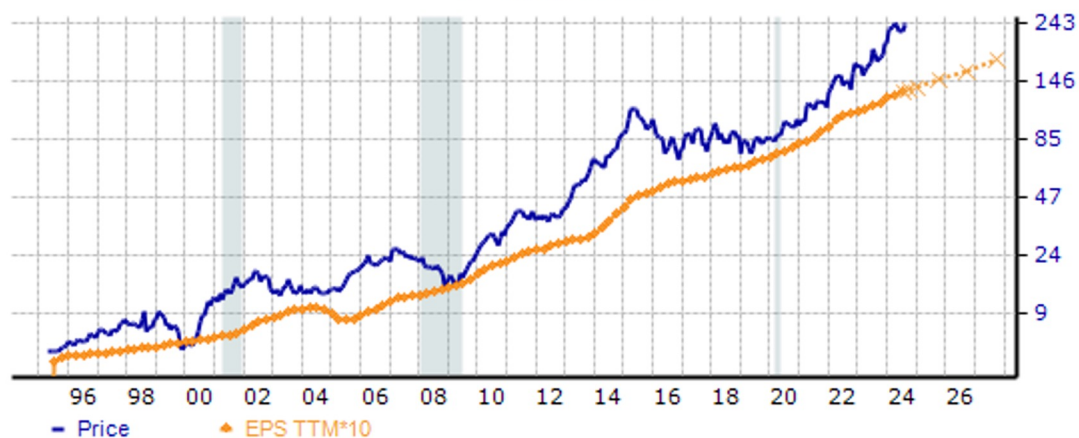
Price & Earnings
NOVO-NORDISK AS (NVO)

Price \$ | EPS*10



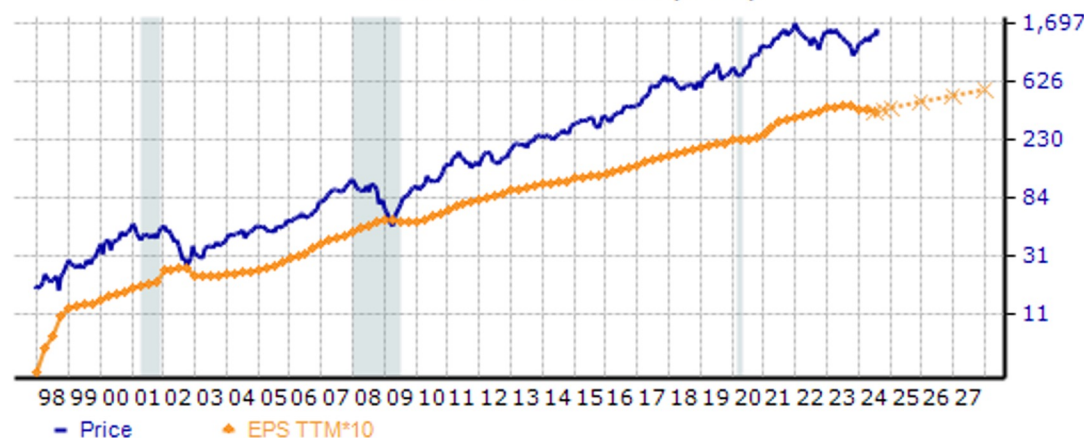
Price & Earnings
CENCORA INC

Price \$ | EPS*10

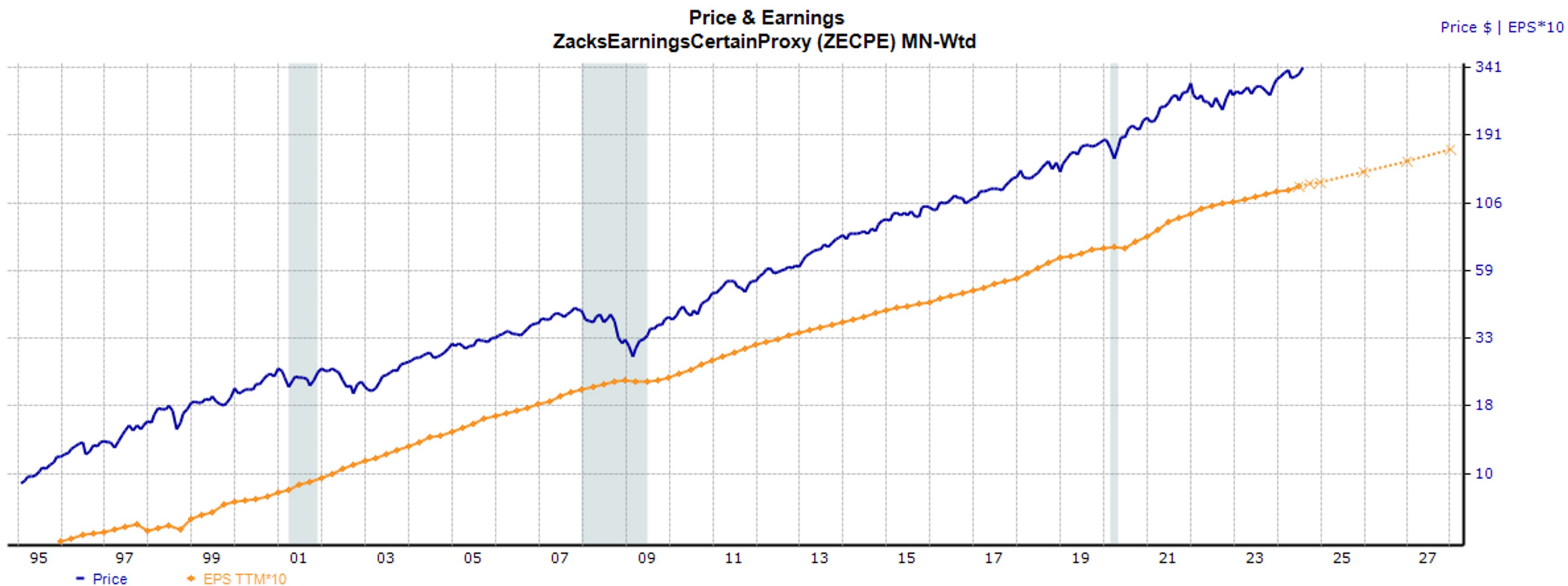


Price & Earnings
METTLER-TOLEDO (MTD)

Price \$ | EPS*10



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Mayur M Thaker, CFA

Equity Strategist

Zacks Professional Services

Support: 866.794.6065 | info@Zackspro.com

Twitter: @freshjiva

[linkedin.com/in/mayur-m-thaker-cfa-86234235/](https://www.linkedin.com/in/mayur-m-thaker-cfa-86234235/)

866-794-6065

strategycall@zackspro.com

www.zackspro.com



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