First Trust
Monday Morning OUTLOOK

Brian S. Wesbury – *Chief Economist*
Robert Stein, CFA – *Dep. Chief Economist*
Strider Elass – *Senior Economist*
Andrew Opdyke, CFA – *Senior Economist*
Bryce Gill – *Economist*
Nate Gerze – *Economic Analyst*

630-517-7756 • www.ftportfolios.com

October 30, 2023

It's the Same Bear Market

The S&P 500 closed at 4,117 on Friday, more than 10% below its recent peak in late July. Some are saying it's a brand-new bear market for stocks. In this view there was a bear market in 2022, a bull market from October 2022 through July this year, and a new bear market that started in August.

We don't think this is the appropriate way to look at things. This is *not* a new bear market. Instead, it's the same bear market. We had a bear market in 2022, a temporary rally, and then the bear market reasserted itself.

The driving forces behind the ongoing bear market have not changed. Federal policy of easy money and extremely loose fiscal policy during COVID kept a serious recession at bay. That is basically over now. The M2 measure of money is down 3.6% in the past twelve months. Second, the massive episodes of COVID-era government spending/stimulus had to eventually wear off, which is revealing lots of malinvestment and now generating economic headwinds.

We think much of the headwinds from these shifts are still in front of us. Yes, the economy grew at a rapid pace in the third quarter but that includes contributions from consumer spending and inventory accumulation that were unsustainably hot. Meanwhile, business investment should slow as companies can earn robust returns by hoarding cash with little to no credit risk. Speaking of interest rates, they are now above inflation across the yield curve. The artificial boost from artificially low rates is gone.

This is why we remain bearish. At the end of last year we forecast that the S&P 500 would finish 2023 at 3,900 and we haven't budged since, remaining bearish throughout the rally that took the S&P 500 all the way up to 4,600 this summer.

It hasn't been easy taking this position. Equities tend to trend upward over long periods of time, as the real economy and profits tend to grow, and the price level rises, as well. We still believe the US future is relatively bright: entrepreneurs are still creating and innovating, and artificial intelligence shows great promise. We are also hopeful that sometime in the next few decades there will be major technology breakthrough in the energy sector. Our natural tendency is toward bullishness.

Clearly, we are not "permabulls" and never have been. From 2009, all the way through 2021 we remained bullish. We didn't run with the herd of other forecasters worried that the world had come to an end in 2008. And, while we are bearish today, we don't think it's the end of the world now.

Eventually, stock prices will reflect fair value. More importantly, we expect the political pendulum to swing back toward the center. Big government directed economies eventually suffer…then recover when policy shifts back.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-31 / 8:45 am	Chicago PMI – Oct	45.0	**46.4**		44.1
11-1 / 9:00 am	ISM Index – Oct	49.0	**48.7**		49.0
9:00 am	Construction Spending – Sep	+0.4%	**+0.3%**		+0.5%
afternoon	Total Car/Truck Sales – Oct	15.6 Mil	**15.8 Mil**		15.7 Mil
afternoon	Domestic Car/Truck Sales – Oct	11.7 Mil	**12.3 Mil**		12.0 Mil
11-2 / 7:30 am	Initial Claims – Oct 28	214K	**209K**		210K
7:30 am	Q3 Non-Farm Productivity	+4.3%	**+4.3%**		+3.5%
7:30 am	Q3 Unit Labor Costs	+0.5%	**+0.7%**		+2.2%
9:00 am	Factory Orders – Sep	+2.2%	**+2.9%**		+1.2%
11-3 / 7:30 am	Non-Farm Payrolls – Oct	180K	**170K**		336K
7:30 am	Private Payrolls – Oct	143K	**140K**		263K
7:30 am	Manufacturing Payrolls – Oct	-8K	**10K**		17K
7:30 am	Unemployment Rate – Oct	3.8%	**3.8%**		3.8%
7:30 am	Average Hourly Earnings – Oct	+0.3%	**+0.3%**		+0.2%
7:30 am	Average Weekly Hours – Oct	34.4	**34.4**		34.4
9:00 am	ISM Non Mfg Index – Oct	53.0	**53.2**		53.6