HEFREN-TILLOTSON

ONE MINUTE MARKET INSIGHT

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Amid Market Volatility, Two Critical Indicators Suggest the Economy Remains Strong

A good rule of thumb for investors is that if a recession is not around the corner, then stocks tend to fare well.

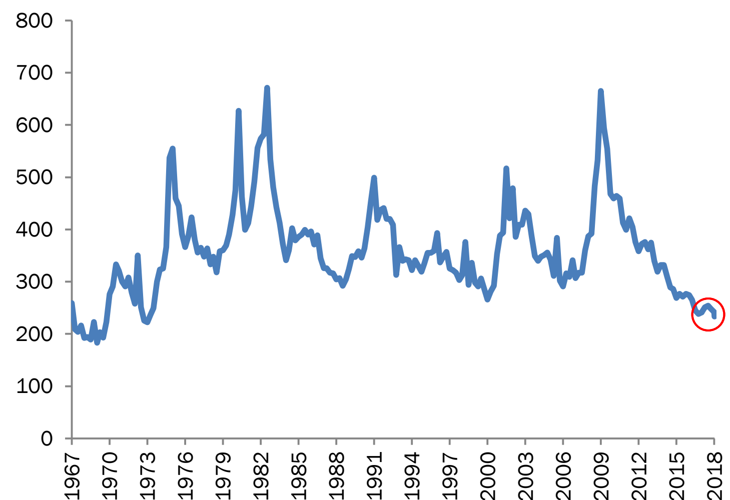
With that in mind, two economic indicators give reassurance that the economy remains strong despite recent stock market volatility.

The first is weekly jobless claims, which recently hit a 46 year low (top chart). This report tracks how many Americans filed for unemployment benefits in the previous week. It is one of the most reliable real-time indicators of economic activity. Turning points in the jobs data often coincide with tops and bottoms in the stock market.

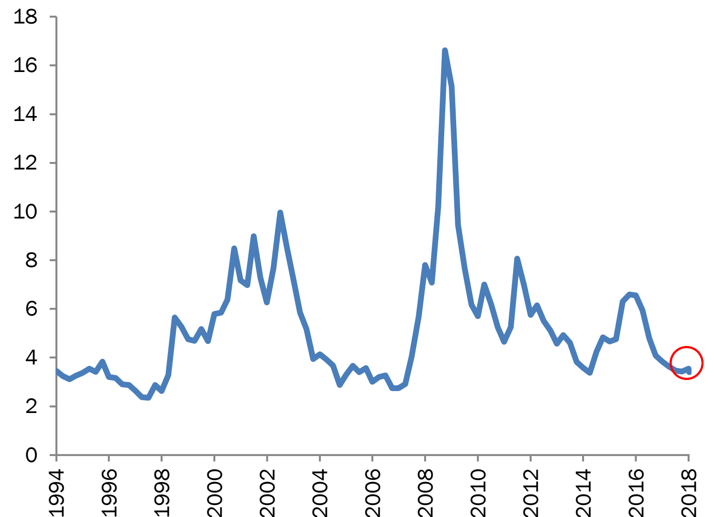
The second indicator is the spread between the yields on low quality corporate debt versus the yields on high quality government bonds. When the spread is high or rising, it means corporate finances are deteriorating– a common precursor to recession. Presently the spread is low, suggesting corporations remain in good financial shape (bottom chart).

Both of these indictors remain at encouraging levels. It would be rare for the stock market to suffer a significant further decline without deterioration in these two series. Accordingly, we do not believe recent market volatility represents the beginning of a new bear market. On the other hand, we do believe the bull market is in its later stages and therefore further market gains will be more modest than what investors have experienced in recent years.

Weekly Jobless Claims (in thousands)



High Yield Bond Spreads (%)



Source: Hefren-Tillotson, Bloomberg; PAST PERFORMANCE DOES NOT PREDICT FUTURE RESULTS

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