

HIGHTOWER MARKET NOTE

with Stephanie Link

HIGHTOWER MARKET NOTE – SPECIAL EDITION

Does the GDP Report Mean a Recession? We Think Not.

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This morning, the Commerce Department announced that Gross Domestic Product (GDP) in the U.S. declined at a 1.4% pace in the first quarter. That print is well below analyst expectations of a 1.0% gain. The natural question to ask is “are we headed for a recession?” which is technically defined as two quarters in a row of GDP contraction.

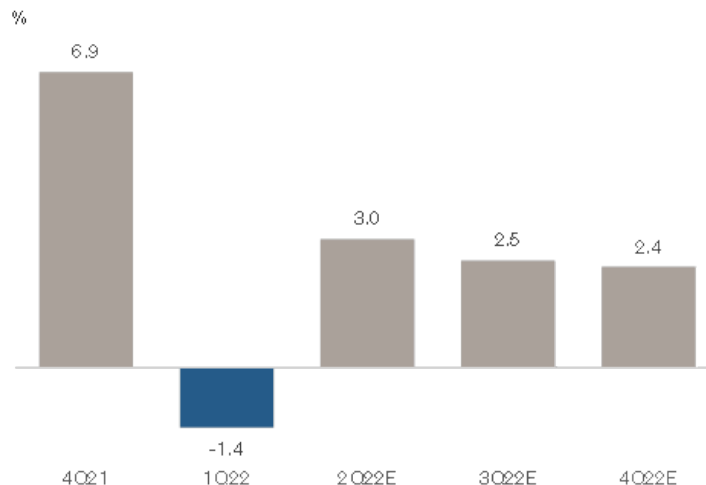
We think the answer is no. Digging into the data, we observe trends consistent with those that we have been saying keep us constructive on the economy, today’s headline print notwithstanding. Notably:

- Consumer spending held up well, rising 2.7%. Importantly, services spend rose 4.3% — this segment represents 70% of consumer spending.
- Business investment was up 9.2%, the best figure since 2Q 2021.
- There was a 0.8% inventory subtraction from GDP and a -3.2% impact from net trade. These are volatile parts of GDP that can create noise and may obfuscate the broader message.

We — like the Fed — remain data dependent as we look forward. We will be watching tomorrow’s inflation report and next week’s CPI report. Further, we note that the Fed meets next week on May 4 and is likely to raise the Fed Funds rate by 50 bps to begin to address inflation.

It would not surprise us to see a “relief rally” post Fed action next week. Markets hate uncertainty, and the Fed action that we anticipate is likely to create more clarity around its future path.

Real GDP % q/q with Consensus Estimates¹



¹ Source: Credit Suisse (chart)

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