



## Market Insights: New Orders Diverge From the S&P 500

Here's an interesting and noteworthy comment from a recent Gary Shilling research report. Dr. Shilling notes the divergence in new durable goods orders and the S&P 500:

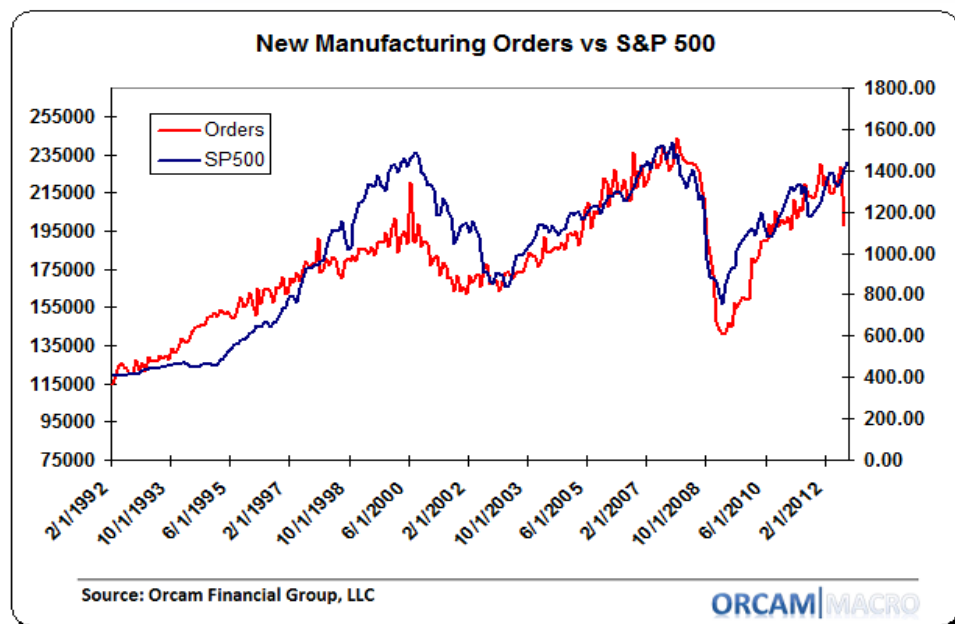
"The U.S. economy, then, is weakening and may already be in recession. Data revisions, which continue to be largely negative, will tell the tale in time (how's that for alliteration?). You wouldn't know it, however, from the recent strength in the stock market. Chart 46 (page 18) shows clearly the recent divergence between the fundamental economy and investor addiction to monetary and fiscal stimuli. Durable goods orders and the S&P 500 have been highly correlated over time (Chart 46), with a correlation coefficient of 0.90 and no meaningful lead or lag. Notice, however, the sharp fall in orders recently while stocks continue to rise."

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"the recent strength in the stock market...shows clearly the recent divergence between the fundamental economy and investor addiction to monetary and fiscal stimuli. " - Dr. Gary Shilling



This is a notable divergence given the very high correlation between new manufacturing orders and the S&P 500. But one month does not make a trend. This is certainly no reason to panic, but it is consistent with the current environment where investors have become accustomed to believing that the Fed can solve all of our economic problems by “keeping asset prices higher than they otherwise would be”. We are of the opinion that there’s no need to panic over market conditions here, but complacency is not warranted. The 4th quarter tends to be characterized by asset managers chasing prices higher into the year-end in addition to other positive catalysts, but we’re not inclined to chase the market here. We’ll have more details on market insights in coming notes.

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