Basis Points – January 19, 2023

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Above the Fold

Should You Be Worried About Gloomy Corporate Leaders?

For the last 26 years, PricewaterhouseCoopers (PwC) has surveyed tens of thousands of CEOs from 105 different nations annually to gain perspective on trends reshaping world economies and society. This year, the consulting firm posed nine tough questions, split into three categories, that leaders were asked to address. Two dramatic themes stood out from the results.

First was a clear deterioration in sentiment, which should be somewhat expected given current global economic stresses. Coinciding with a somber tone at the Davos economic conference this week, the study revealed that general concerns with the global economy have skyrocketed over the past year, with about three-quarters of CEOs turning bearish. Leaders are blaming a plethora of factors from labor issues (supply and cost), inflation, macroeconomic volatility, higher interest rates, as well as the Russia-Ukraine war. And while this may sound like cause for alarm, let's keep in mind that executives are supposed to be thinking ahead, preparing and adjusting for changes in the economic climate. The standout here was that 77% of CEOs surveyed at this time last year thought growth would improve — quite a dramatic reversal.

Along those same lines, but slightly more disturbing, was the revelation that more than 40% of CEOs don't believe their businesses could be viable in just 10 years … at least not in their current form. Going deeper into the data, 56% of respondents believe changing customer demand/preferences will impact profitability, while more than half believe regulatory and labor/skills shortages would be most challenging, and 49% were most concerned with technology disruptions.

Three Things

Microsoft Cuts 10,000 Workers

Citing the economic slowdown, Microsoft's Satya Nadella announced (via blog) that the company would slash 10,000 employees, nearly 5% of its total staff, from its roster. Mr. Nadella further noted that the tech giant is reacting to current and future potential recessions in countries around the world. In order to facilitate the layoffs, the company will take a $1.2 billion impairment charge to cover severance costs. Microsoft did not yet divulge what departments would see cuts, but it now joins a long list of large and small tech companies that have been thinning staff for months. Shares reacted positively to the news as the firings will reduce costs.

China's Baby Problem

The communist nation may face another hurdle as it strives to overtake the U.S. as the world's biggest economy, babies. For the first time in six decades, China's population, a critical input to its growth, shrank in 2022. The country's National Bureau of Statistics reported a drop of roughly 850,000 people for a population of 1.41175 billion at the end of last year. The decline, which has been building in trend since the 1970s, is now being called a demographic crisis. Some experts believe China's aging population will weigh heavily on its future prosperity as revenues drop and government debt increases due to soaring health and welfare costs. The decline is also expected to make India the most populous nation, but their census results have been delayed due to the pandemic.

(Good?) News as Retail Sales Further Weaken

The average consumer continued to scale back spending in December as retail sales (U.S. Census Bureau) fell by a seasonally adjusted -1.1%. This was the largest decline of the year and came on the heels of a downwardly revised November reading of -1% as well. The data also coincided with significant year-end contractions in hiring and wage growth, along with 10 straight months of reductions in existing home sales. And while it may seem odd to read this news as anything but bad, the data further supports the fact that the Federal Reserve's actions are working, and they may (hopefully) ease off the brake pedal and allow the economy to coast a bit before taking further action.

In the Know

What is the January Effect, and Should We Expect It in 2023?

Investors tend to follow some predictable patterns. It's one of the reasons some traders utilize technical (price/chart) analysis as a means of triggering entries and exits into stocks. One popular belief, that's become a sort of pattern, is the January Effect, which is the perceived seasonal increase in stock prices during the month of January. There are many theories around why it works (or doesn't), but statistics show that this month holds little advantage for traders and investors. Looking at the S&P 500 between 1928 and 2022, January actually holds the fourth-highest average returns per month after July, April and December. During that same period, January had 58 "up" years and 37 "down" years, slightly better odds than flipping a coin, but fairly average as far as monthly gains or losses go. December had 69 "up" years and April had 61. By the data, following a "Santa Claus" or "Easter Bunny" rally has been a better bet than the January Effect.