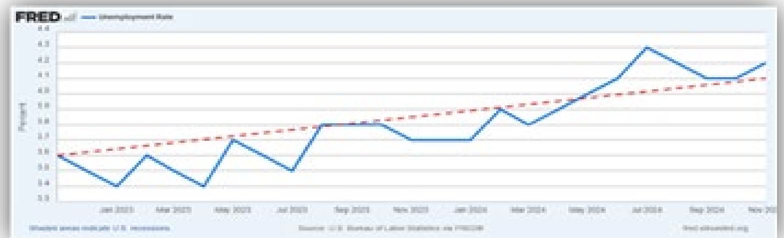
iSectors® Newsletter

Mixed Messages: Conflicting Signals from U.S. Government Data

December 2024

Figure 1



Loosening of Financial Conditions

The unemployment rate for November came in a tick higher than the previous month, up to 4.2%. This adds to the trend we have seen over the last 2 years of the unemployment rate slowly creeping higher and higher (Figure1).

Figure 2

At the same time, the average weekly hours worked has been decreasing over the same period, another sign of potentially slower economic output (Figure 2).

2 ways to view this trend.

1. An increasing rate of unemployment and fewer hours worked can be seen as a sign of weakness that could potentially result in slower economic growth.
2. A 4.2% unemployment rate is still well below the long-term average of 5.7% and lower than the 10-year average of 4.7% (seen in Figure 3, red line is the long-term average). With this long-term view, there is still some room for the unemployment rate to continue increasing without it negatively affecting GDP growth.

Figure 3

Speaking of GDP growth, it is also on a potentially worrisome short-term track but still hovering right around long-term averages. The year-over-year change in GDP is about 5.0%, which is the lowest it has been since 2020. In fact, over the last two years, GDP growth has been trending consistently downward, matching the upward trajectory in the unemployment rate and weekly hours worked. (Figure 4)

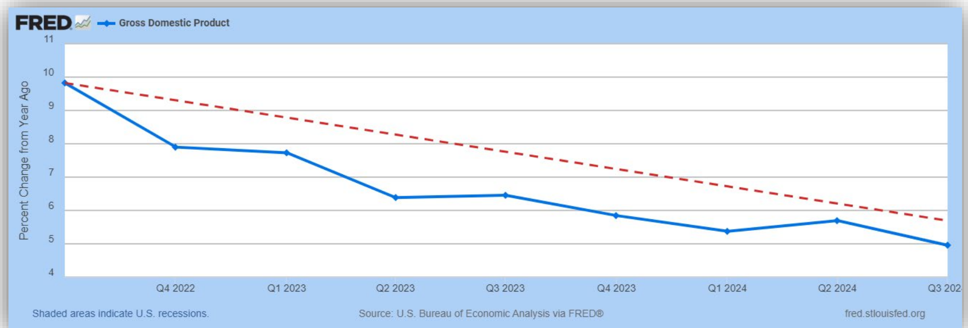


Figure 4

Once again, however, when viewed through a wider lens with a longer-term outlook, GDP growth is right in line with its long-term 10-year average of 5.2% (represented by the red line in Figure 5).

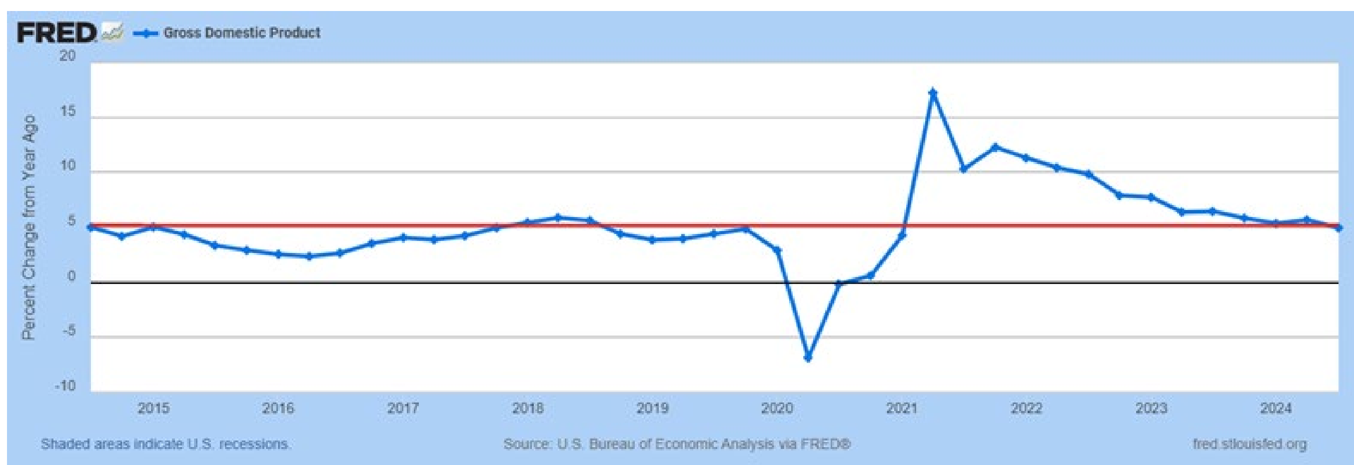


Figure 5

iSectors Interpretation

Stepping back and weighing these different factors over separate time horizons might send mixed signals to any market participant attempting to make sense of the current economic environment. The data is also sending mixed signals to the quantitative algorithm that powers our dynamic asset allocation models. Both models continue to be hedged for many different scenarios, with gold bullion and technology the most heavily weighted in each model portfolio. Technology exposure will help the models keep up with the stock market if growth stays in line with historical averages and earnings continue to be strong, while the gold bullion exposure can hedge against many different problematic scenarios and help to protect on the downside if the labor market deteriorates, growth slows, inflation picks up, or geopolitical tensions exacerbate.

Over the last few months, slight tweaks were made to the iSectors Post-MPT Growth Allocation to ensure it stays true to its higher risk tolerance as compared to the iSectors Post-MPT Moderate Allocation. This has manifested in Growth having higher allocations to equity sectors, adding leverage to the maximum 33% allowed, and eliminating treasury bonds entirely for now. Moderate still has a modest allocation to bonds and a higher allocation to defensive sectors such as utilities.

About the Author

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John began his career at iSectors during his final year at University of Wisconsin-Oshkosh. After receiving a Bachelor of Business Administration (BBA) in Finance, he joined the iSectors team full-time as an investment analyst. In 2018, John was promoted to Senior Investment Analyst

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