BESPOKE Market Intelligence

Key Takeaways: Sentiment

MAY 2022

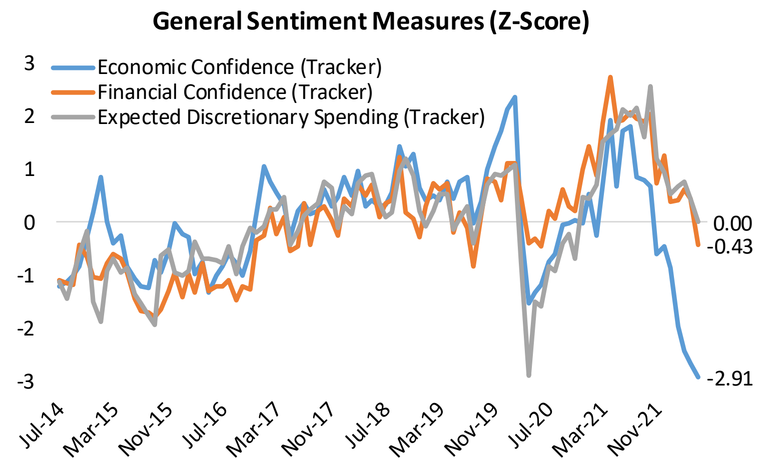
Key Takeaways

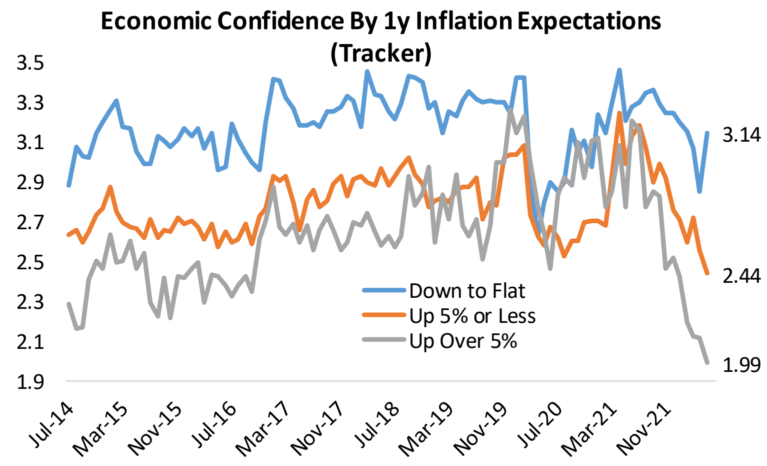
- *Economic confidence remains far weaker than other measures of sentiment.*

- *Inflation perception is a significant predictor of economic confidence.*

There are two remarkable aspects of the collapse in consumer perceptions of the economy that have taken place over the past year. The most obvious is just *how* negative consumers say they are about the economy. Net sentiment is the most negative in our survey's history and is roughly one standard deviation *more negative* than the prior record low (from the period during the COVID shock). The second remarkable feature is how disconnected from other measures of sentiment that economic confidence has gotten. For most of our survey's history, economic confidence has been reasonably correlated with both financial confidence and expected discretionary spending. But now, there's a huge gap between them, even as the weak economic confidence readings appear to be dragging down the other two.

The overriding driver of economic confidence is clearly inflation. As shown in the chart at right, respondents that expected prices either down or flat over the next year have a dramatically higher level of economic confidence than both the group that see prices up no more than 5% and the group that sees prices up more than 5%. The fact that the group expecting the highest inflation has both the lowest confidence and has seen the largest decline in confidence of late is a good sign as to what is driving perceptions of the economy: inflation.





Key Takeaways: Labor Market

MAY 2022

Key Takeaways

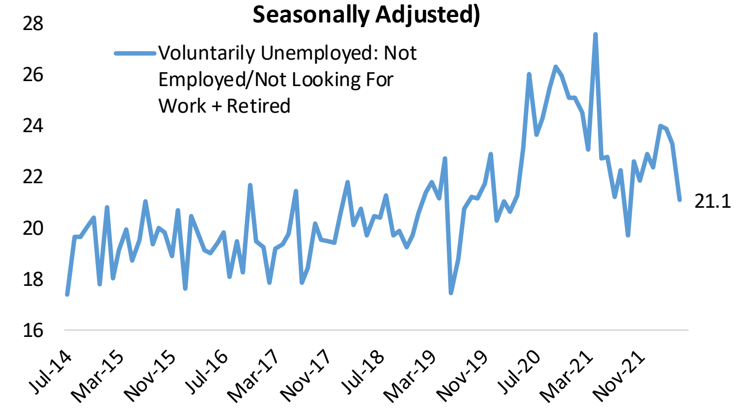
- *During the peak of the pandemic, voluntary unemployment soared; since, it's started to unwind.*

- *Concerns about job losses had collapsed but are once again on the rise.*

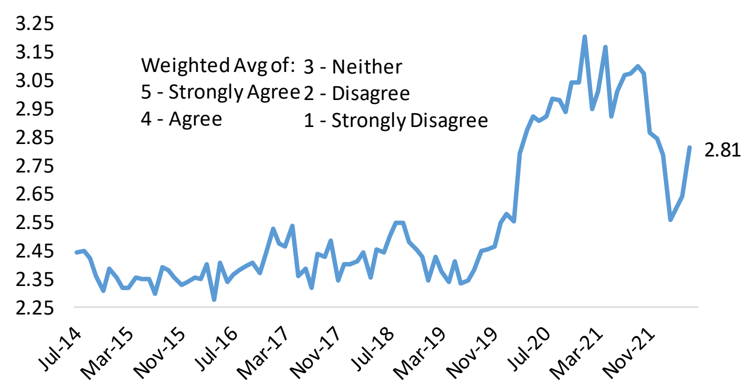
Prior to the pandemic, roughly one in five of our respondents reported that they fell in to one of two categories- those not employed but not looking for work and those retired. Obviously, some share of retired persons are not physically or mentally capable of returning to work, but broadly speaking, these two categories of workers are not part of the labor force (either looking for work or employed) because they *choose* not to be. During the pandemic, it made sense that many people would fall into that category: generous fiscal support, a public health interest in keeping people at home, and the need to look after family members all qualify as "good" reasons for elevated levels of voluntary unemployment. That is starting to change, though, as the share of our respondents reporting voluntary unemployment has fallen back to the typical pre-pandemic range. That's a source of labor supply that can respond to the significant price signals (strong wage growth) attempting to draw workers back into the labor force.

While more people are returning to the labor force, concerns over job losses are on the rise. These concerns soared during the pandemic and stayed high throughout the recovery, only starting to collapse amidst the very hot labor market that emerged as-of the middle of last year. But now they've undone much of that progress and are moving sharply higher amidst high inflation, stock price declines, and recession fears.

Post-Pandemic Decline In Voluntary Joblessness (%, Seasonally Adjusted)



"I am concerned that I will lose my job" (Tracker)



Key Takeaways: Finances

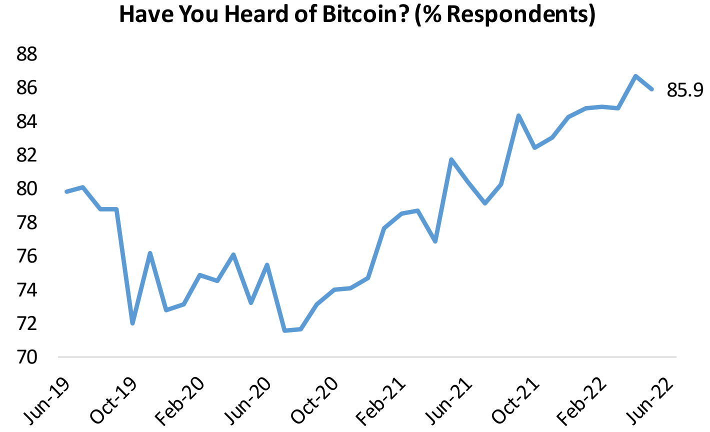
Key Takeaways

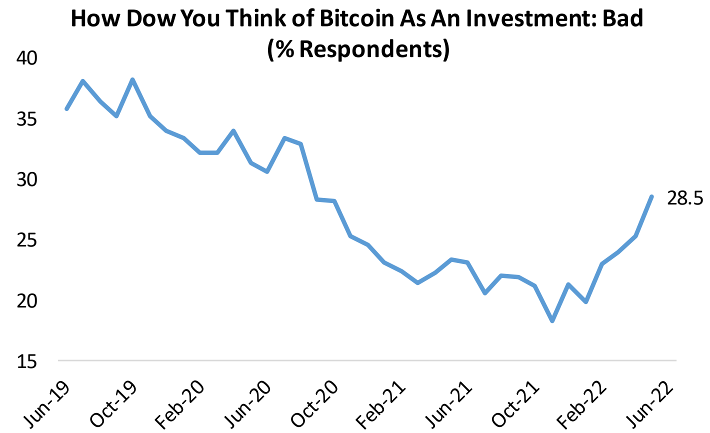
- *The vast majority of respondents we survey are familiar with bitcoin.*

- *Recent poor performance has driven a sharp increase in the share of respondents who view bitcoin as a bad investment.*

More than 85% of our respondents report they have at least heard of bitcoin. That number has been surprisingly high for some time. At this point, bitcoin has achieved widespread visibility among American households. In our view, it's unlikely that a large pool of potential investors exists to add inflows to bitcoin due to newly learning about it. While that may be true for other cryptoassets *on a relative basis*, the aggregate crypto space may be a lot closer to reaching maximum penetration than it might appear.

The recent run of new lows for crypto has also stirred up a fair bit of negative sentiment among respondents to our survey. Almost 30% of respondents think crypto is a "bad" investment, up from a low of 18.2% last November and the highest since August of 2020. This is of course a contrarian bullish indicator – extremes in low bearishness corresponded to bitcoin price highs and the opposite should also be true, but this negativity could get more extreme before a bottom.





Key Takeaways: Housing

MAY 2022

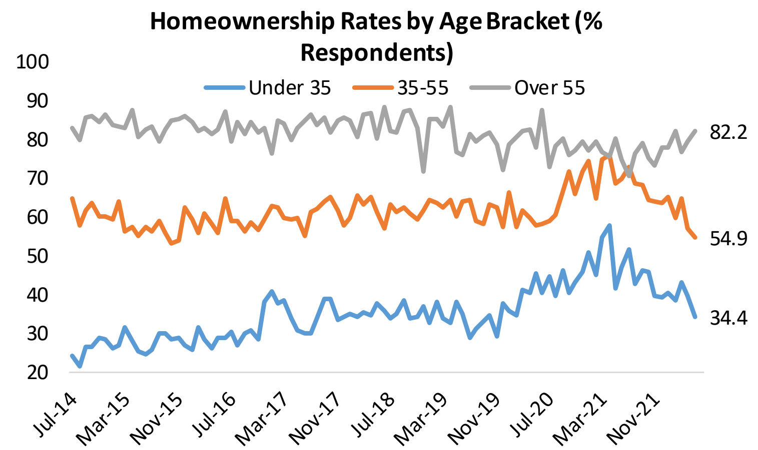
Key Takeaways

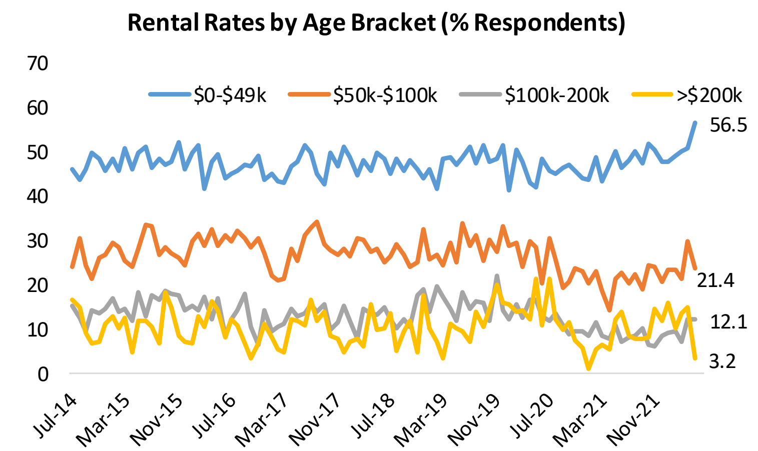
- *Only one-third of under-35s own homes, while over 80% of respondents over 55 are homeowners.*

- *Rental burdens are most felt by those with lower incomes, with higher income groups generally not renting.*

Homeownership is sharply stratified by age in the United States. As shown at right, among our respondents, those under the age of 35 have a homeownership rate of only slightly better than one in three. A bit more than half of those in the next 20-year block of ages own their homes, while the oldest block (those over 55) have a home ownership rate in excess of 80%.

On the other hand, respondents with higher rental rates tend to be lower income. More than half of respondents reporting incomes below $50,000 also report renting their home. Conversely, only one in five respondents with incomes between $50,000 and $100,000 are renters while higher income groups have a combined renter rate of less than 10%. In other words, high rental inflation falls hardest on lower income groups as well as those who are younger and don't own homes.





Key Takeaways: Activity

MAY 2022

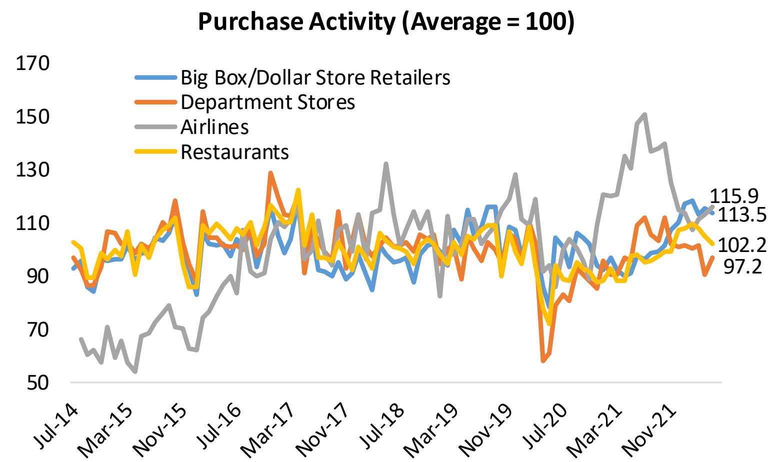
Key Takeaways

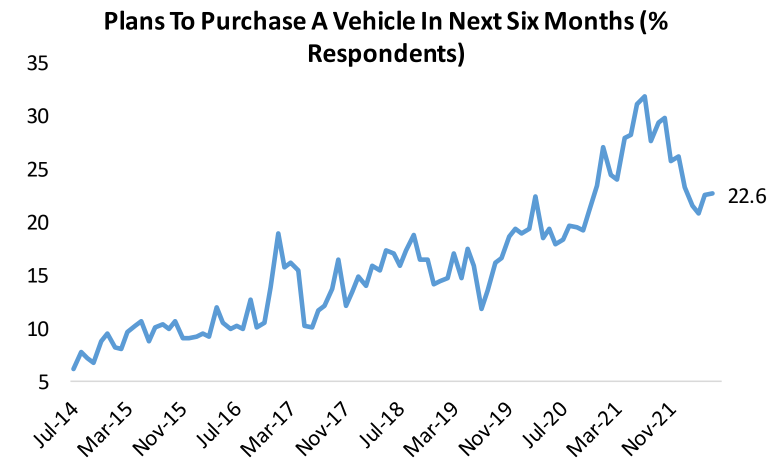
- *Purchase activity at traditional retailers was mixed in April.*

- *Auto purchase intentions rose sequentially after a series of drops over the past six months.*

Purchase activity from airlines soared last year and remains strong but has clearly not surpassed the levels reported by our respondents in 2021. Notably, restaurants have seen declining activity as well; they're actually below pre-COVID levels after returning there earlier this spring. Department store sales have also trailed off, with both that category and restaurants clearly trailing off amidst very high inflation. On the other hand, big box and dollar store retailers like Wal-Mart, Target, and Dollar Tree have held up reasonably well.

We also note a small bounce in auto purchase intentions over recent months. While new car and truck prices are rising at a healthy clip, new supply is clearly giving consumers more optimism about their ability to buy a new vehicle. While much lower than the peak from 2021, the share of respondents who report plans to purchase a vehicle over the next six months is higher than any period prior to the onset of the pandemic.





Key Takeaways: Investors

MAY 2022

Key Takeaways

- *High inflation expectations are correlated with more negative stock market sentiment among our respondents.*

- *General risk appetite has fallen sharply over the last 9 months.*

In addition to the relationship between inflation perceptions and economic sentiment that we discussed earlier in this report, we also note a similar effect on stock market expectations. As shown at right, investors that expect prices to be either flat or lower over the next year are net stock market bulls. Investors expecting prices up, but by less than 5%, are neutral on the market, but their sentiment is deteriorating materially. Finally, investors with expectations for prices up over 5% in the next year are net bearish on the market and have the lowest confidence of any group.

Overall, risk appetite has pulled back in the past 9 months. The share of respondents who are investors that report risk appetite either higher or much higher versus a year ago hit a record early in 2021, but the decline in equity and bond markets this year has led to a moderation. That said, fully 30% of investors report higher or much higher general risk appetite than a year ago.