

Special Commentary — October 21, 2024

Short-Term Outlook Shaky for Animal Spirits

Summary

- The Animal Spirits Index (ASI) fell in September to 0.65 from 0.78 in August but remains elevated from a historical perspective.
- Every component was subtractive in September, with the exception of the S&P 500 Index.
- While the ASI may fall further this year, there is little cause to believe it will dip into the red, as economic growth continues to run at a sturdy pace. That said, the upcoming presidential election and its aftermath may create volatility in the near future.

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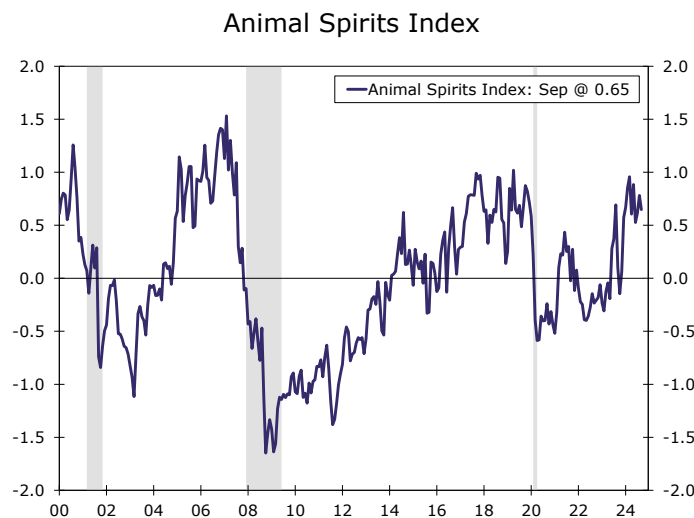
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September Blues

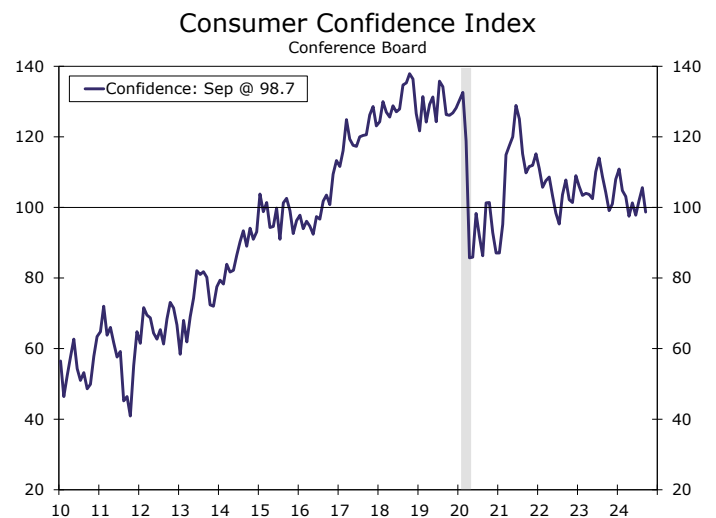
The Animal Spirits Index (ASI) fell to 0.65 in September from 0.78 in August. Previous reports detail the index methodology, but on a basic level, an index value above zero indicates optimism and a value below zero suggests pessimism.¹ With the U.S. presidential election around the corner, uncertainty is reflected in many of the index's components and contributed to the dip in spirits this month.

The ASI consists of five indicators: the S&P 500 Index, the Conference Board's Consumer Confidence Index, the yield curve (the spread between the 10-year and three-month Treasury yields), the VIX Index and the Economic Policy Uncertainty Index. The policy uncertainty and VIX indices inversely affect the ASI. In other words, a rise in uncertainty or volatility decreases the index, while a fall increases the index, all else equal.

Every component contributed negatively to the index in September, with the exception of the S&P 500 Index. The equity market's optimism has not been shared by the bond market. The yield spread between the 10-year and 3-month Treasuries remained negative in September, though it narrowed to -100 bps from -118 bps in August. The stock market provided a bit more relief to the ASI over the month as the S&P 500 Index rose roughly 114 bps to reach another record high. Year-to-date, the index is up 19% and has contributed positively to the ASI for eight of the nine months of 2024. That said, stock market volatility also rose over the month, and the VIX Index reached its highest level since October of last year.



Source: Wells Fargo Economics



Source: The Conference Board and Wells Fargo Economics

Consumer sentiment also weighed heavily on the index. The Consumer Confidence Index fell roughly seven points in September to 98.7, the largest month-over-month decline since August 2021. Consumers' sentiment about the present situation and expectations for the future both fell considerably, driven primarily by increased pessimism about labor market conditions. The Economic Policy Uncertainty Index provided no relief to the ASI, rising almost four points to 117 and remaining above its long-term average of 100 for the sixth consecutive month. The index has historically risen ahead of presidential elections, and with the election approaching, political uncertainty has scope to rise further. Even after the election is decided, consumer sentiment and political uncertainty may depress the ASI as the new president begins their term and irons out their policy agenda. As a result, until the dust settles, both components may create volatility for the ASI.

The ASI has trended downward after reaching a high in March of this year. That said, it remains historically elevated and has not dipped under 0.5 since November 2023. While the ASI may fall further this year, there is little cause to believe it will dip into the red. As we wrote in our latest [monthly outlook](#), economic growth in the United States continues to run at a sturdy pace. Inflation continues to trend downward, rapid labor market deterioration does not appear imminent and a strong start to the Fed's rate cut cycle looks to provide relief to interest-rate-sensitive sectors. However, the presidential election and its aftermath stand to create volatility for the spirits in the short term. Stay tuned.

Endnote

1 – Please see [The Roar of the Animal Spirits: A New Index](#) and [Finding Neverland: What Drives Animal Spirits?](#) (January 2018). ([Return](#))

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