

Special Commentary — April 12, 2024

## The Spring Spirits Have Sprung

### Summary

- The Animal Spirits Index (ASI) rose for the fifth consecutive month in March, marking the highest level seen since April 2019.
- Every component contributed positively to the index in March, with the exception of the Economic Policy Uncertainty Index.
- The ASI's positive streak aligns with still-strong economic data as of late, but there remains scope in the coming months to return to the red amid stubborn inflation data and economic policy uncertainty.

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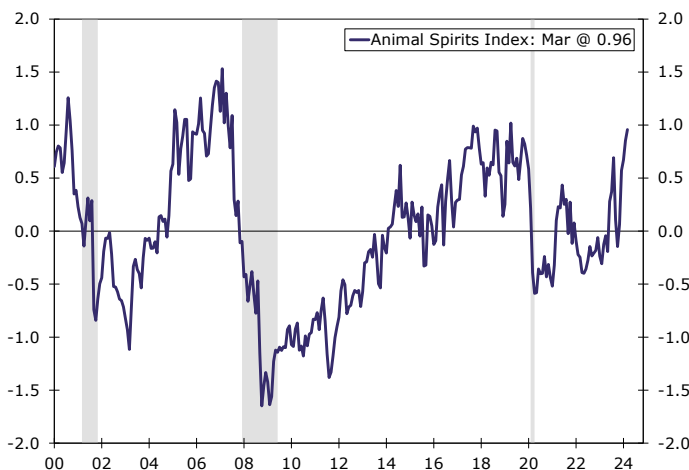
## The Spirits Have Blossomed

The Animal Spirits Index (ASI) started 2024 at a strong pace, increasing each month this year and rising further to 0.96 in March. 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.<sup>1</sup> March marks the fifth consecutive month that the ASI has remained positive and is the highest index value seen since April 2019.

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.

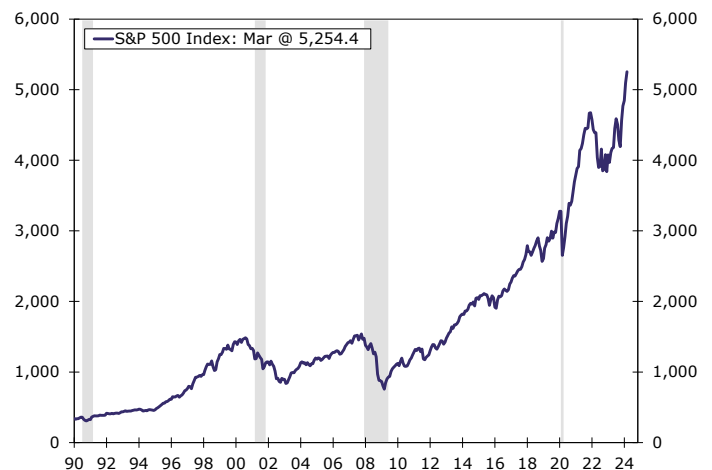
Every component contributed positively to the index in March, with the exception of the Economic Policy Uncertainty Index. The financial sector led the ASI's strong gain as the S&P 500 Index reached a record high. The S&P 500 Index climbed roughly 160 points over the month and closed out a fifth consecutive month of gains. Stock market volatility remained roughly the same in March, with the VIX Index falling slightly to 13.0 from 13.4 previously. In the bond market, the yield spread on the 10-year and 3-month Treasuries remained inverted at -100 bps with little change from the previous month.

### Animal Spirits Index



Source: Wells Fargo Economics

### S&P 500 Index



Source: Bloomberg Finance L.P. and Wells Fargo Economics

The Consumer Confidence Index more-or-less held steady in March, falling to 104.7 from 104.8 in February. Overall, households' perceptions of their present situation improved over the month, but they also became less optimistic about the future. Meanwhile, the Economic Policy Uncertainty Index rose over 5 points to roughly 101. While lower than the level seen in January, there remains scope for policy uncertainty to rise over the year with increasing geopolitical tension and the U.S. presidential election in November. As detailed in our [series on the 2024 U.S. election cycle](#), while presidential elections historically have little bearing on fiscal and monetary decisions, the *outcome* of the election will have implications for U.S. monetary and fiscal policy in 2025 and beyond.

The ASI's five-month streak in positive territory aligns with better-than-expected economic data over the past few months. As outlined in our latest [U.S. Economic Outlook](#), the U.S. economy remains resilient in the face of the highest fed funds rate in nearly 25 years. Nonfarm payrolls continue to grow at a robust pace, the unemployment rate remains low at 3.8% and real GDP growth is tracking to be a respectable 2.0%-2.5% in Q1. That said, inflation data have also come in stronger in recent months, pointing to a stalling out in the descent back to the 2% target. We now expect the FOMC to cut the fed funds rate by 25 bps at its September meeting, followed by 25 bps rate cuts at every other FOMC meeting through the end of next year. The stubbornness of economic data and increased policy uncertainty may weigh on the ASI in the coming months, creating scope for the index to return to the red. Stay tuned.

## Endnotes

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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