The Correlation Between Consumer Sentiment and Stock Market Plunges

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What does the stock market do when the University of Michigan's Consumer Sentiment Indicator rises, or when it drops sharply?

First of all, what prompts this question? Well, Consumer Sentiment just plunged to 66.0 in July, 2024 from 79.4 in March, 2024, according to the latest survey results released from the U. of M. Does this matter? Does this have any correlation to economic recessions or stock market plunges? Is this a leading indicator, or a lagging indicator? Let's explore.

Consumers are hurting badly. This is because of a doubling and tripling of the cost of living over the past four years, an unheard-of jump in such a short period of time. Wages have not kept up. Savings did not grow as much.

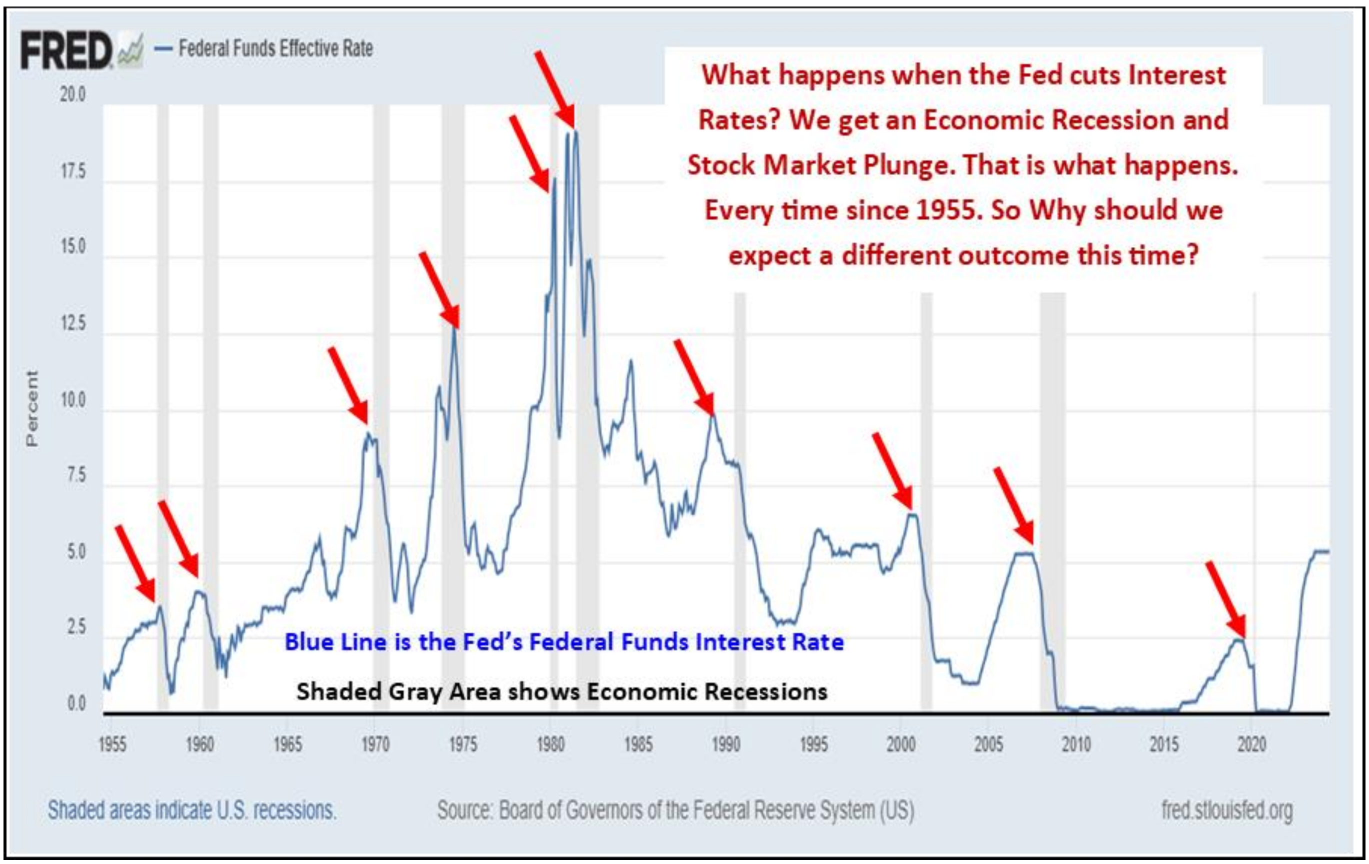
Talk of declining inflation is a joke, a farce. If the cost of a home budget grew from 5,000 a month in 2020 to 10,000 a month in 2024, and prices drop 1%, the budget is $9,900, and still almost double what it was 4 years earlier. No real relief. The damage is done. Prices will never return to pre-2020 levels, and will not drop even close to those levels. There has been a price paradigm shift that will not be reversed.


FRED — University of Michigan: Consumer Sentiment
Sharp declines in the University of Michigan's Consumer Sentiment Index lead to Economic Recessions and Stock Market Plunges.
Index 1966:Q1=100
Consumer Sentiment Plunges to 66.0 in July, 2024 from 79.4 in March, 2024.
Blue Line is the Consumer Sentiment Index Level
Shaded Gray Area shows Economic Recessions
Shaded areas indicate U.S. recessions.
Source: University of Michigan
fred.stlouisfed.org
$SPX S&P 500 Large Cap Index INDX
©StockCharts.com
12-Jul-2024 Open 5471.08 High 5655.56 Low 5446.53 Close 5615.35 Volume 20.7B Chg +154.87 (+2.84%)
RSI(14) 70.61
$SPX (Monthly) 5615.35
MA(50) 4252.33
MA(200) 2455.48
Volume 20,732,166,144
S&P 500's Plunges Shown in Purple Circles. Note the timing is right after Sentiment plunges.
Typically, Plunges in Consumer Sentiment lead to the start of Economic Recessions and Stock Market Plunges.
Next, a Stock Market Plunge and Recession??
Full STO %K(14,3) %D(3) 96.05, 93.52

Now households have to figure out how to double their income, and double their savings, to catch up. That could take a generation of time to occur.

Causal factors are primarily two: Supply shortages and an irresponsible injection of $6.0 trillion of dollars into the U.S. economy by the Federal Reserve in just two years, 2020 through 2021.

The cry heard from consumers is for the Fed to cut interest rates. They hope that will make their budgets better, their opportunities better. Will it? Take a look at this next chart.



What is clear from the above chart is, that when the Federal Reserve starts cutting short-term interest rates, specifically the Federal Funds interest rate, watch out!

Every time they did this since 1955, an economic Recession and Stock Market Plunge occurred within months or sooner.

Why? Because their rising rate cycle leading up to the cuts nearly destroyed the economy.

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