



Q4 Economic and Market Outlook Webinar

“Back to Normal”

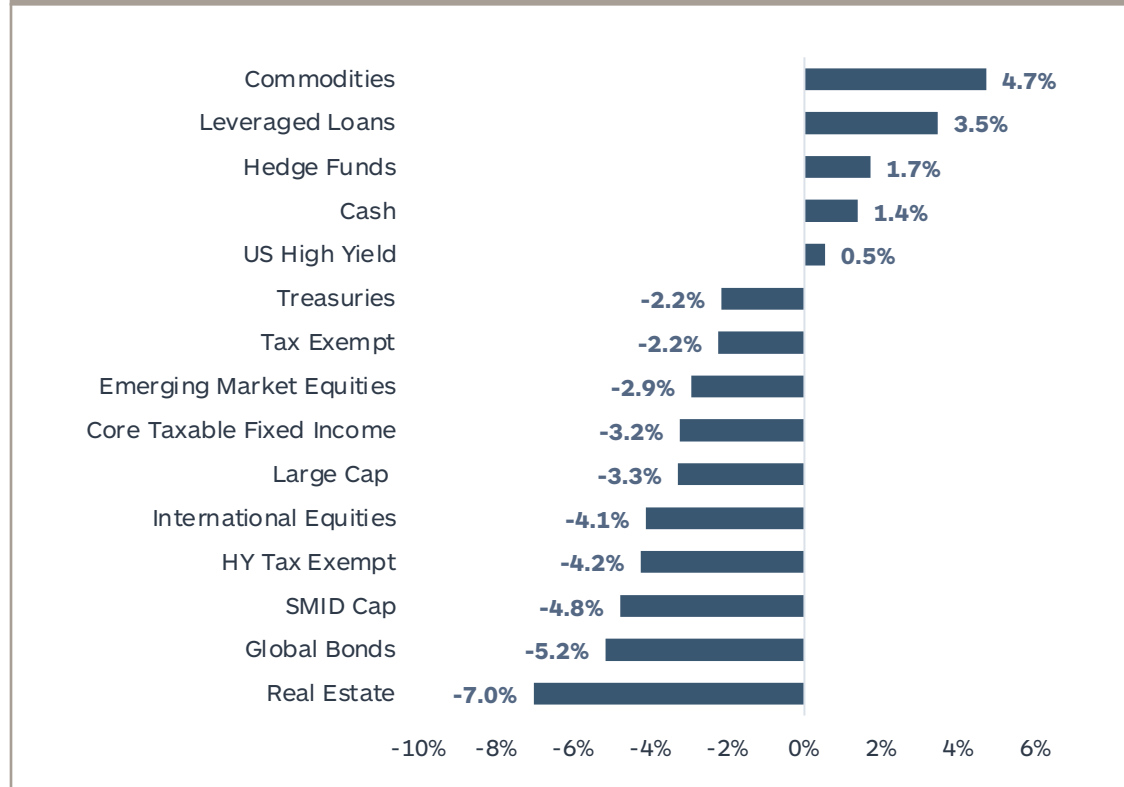
October 18th, 2023

Confidential & Proprietary

Q3 in Review

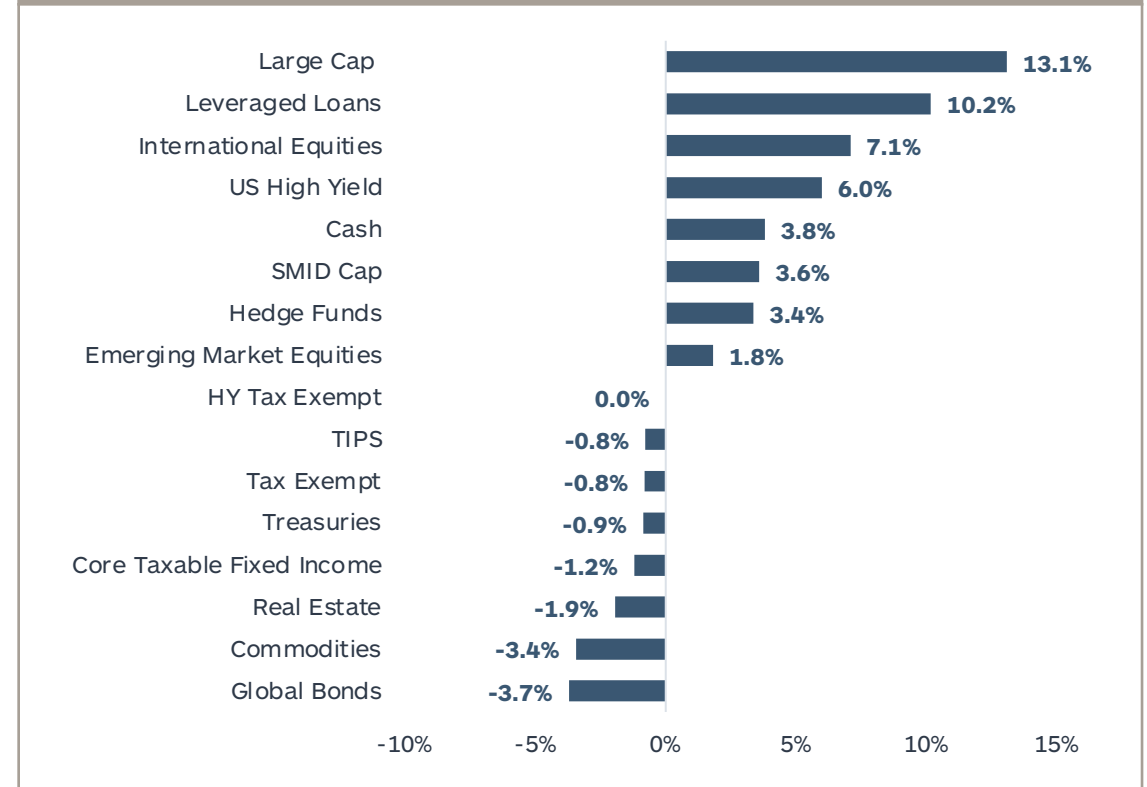
Equities took a step back but are mostly still positive. Meanwhile, fixed income is staring down another year of losses.

Q3 Total Return



Source: Morningstar Direct, 9/30/2023

Year-to-Date Total Return

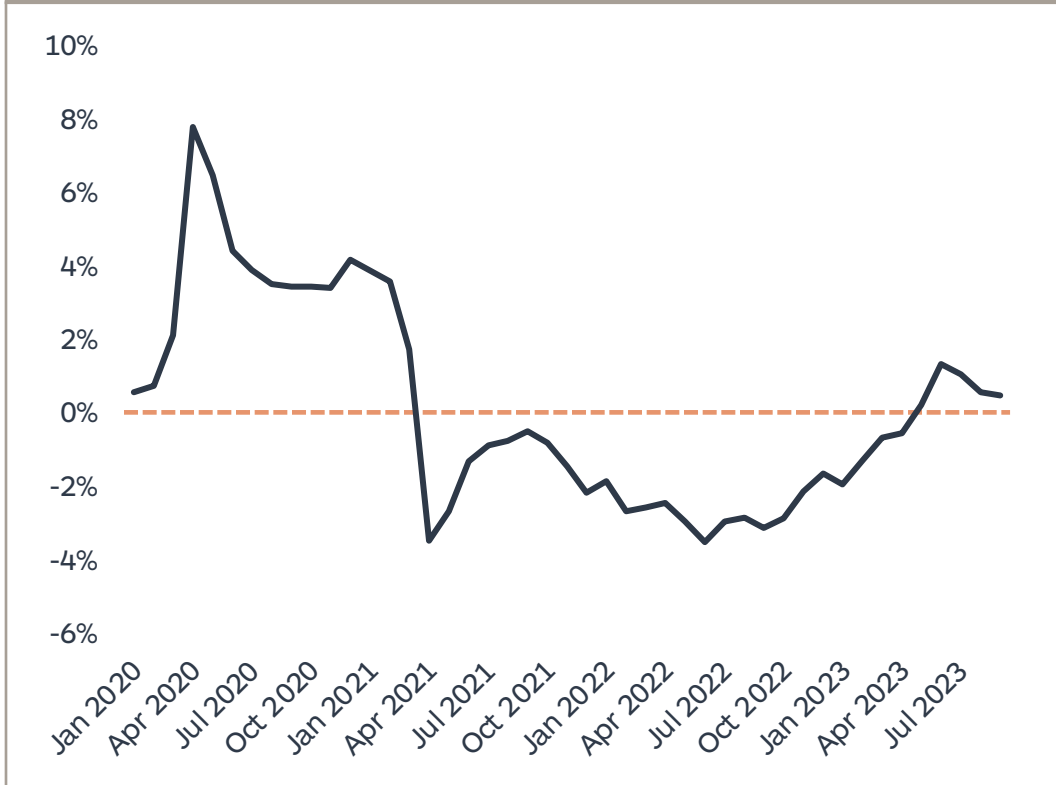


Source: Morningstar Direct, 9/30/2023

Consumption

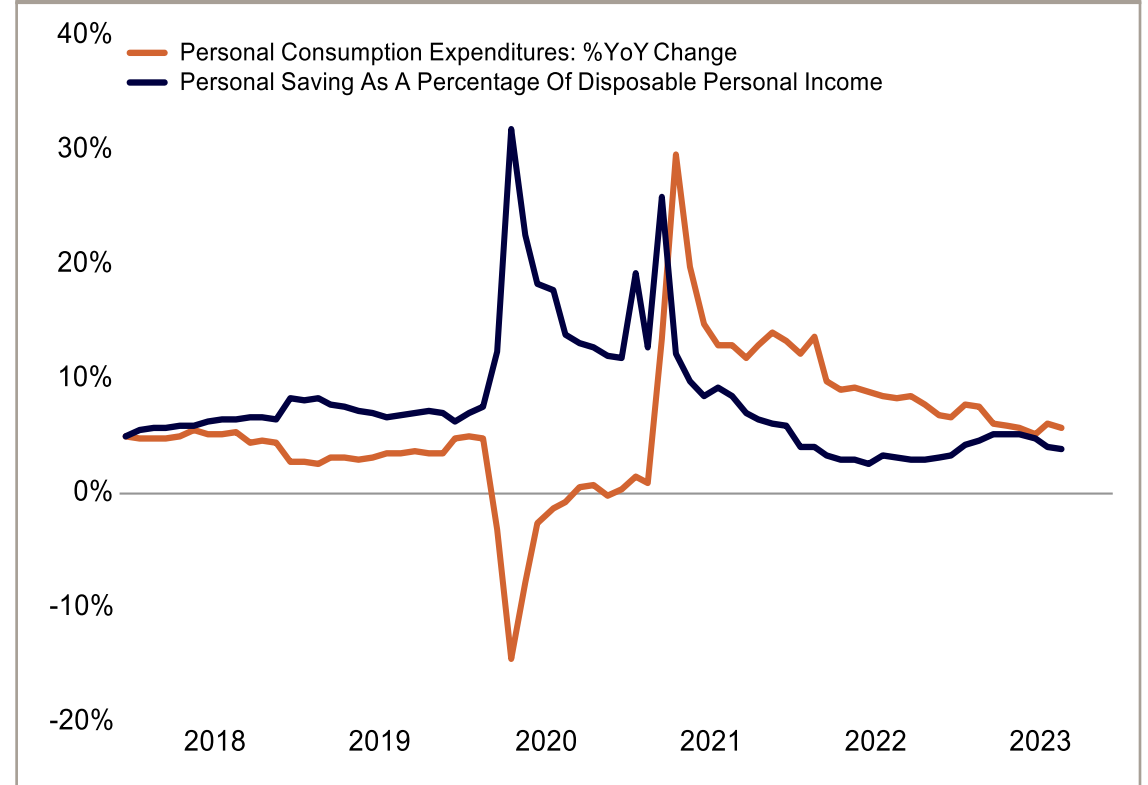
Rising real wages bolster consumer spending, even as pandemic savings dwindle.

Average Hourly Earnings % YoY Growth - CPI % YoY



Source: FRED, 9/30/2023

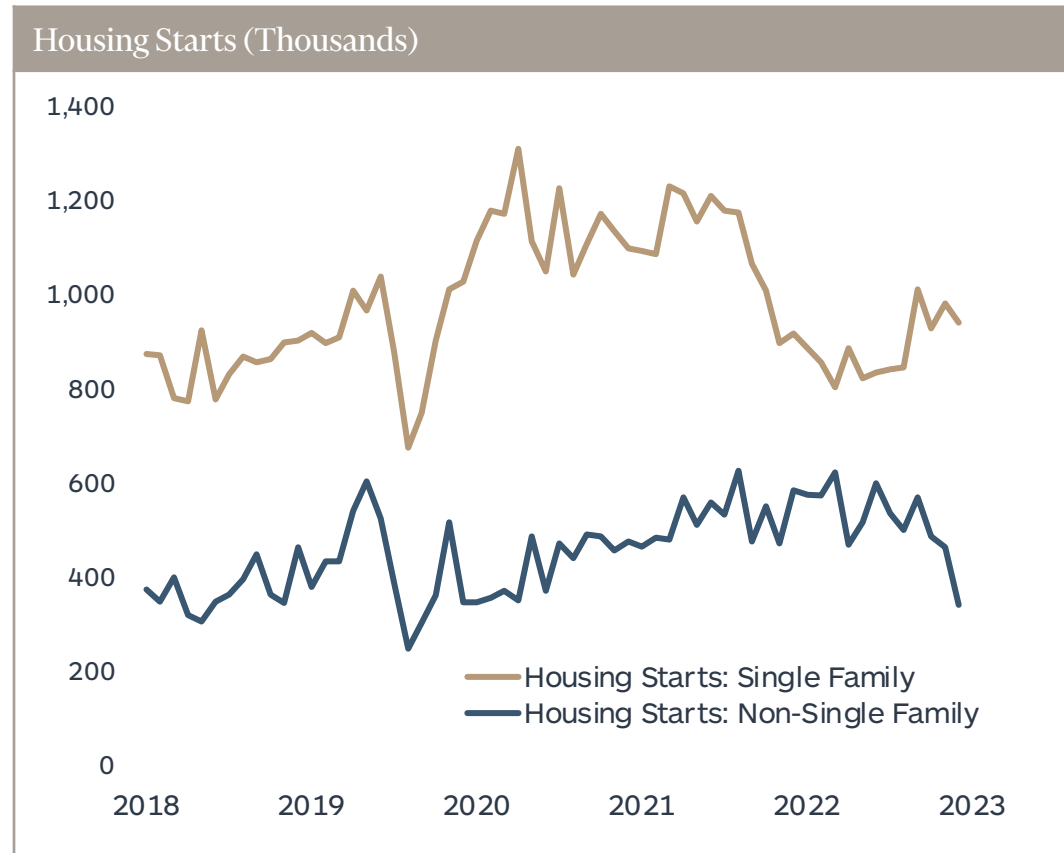
Personal Consumption Expenditures vs. Personal Savings Rate



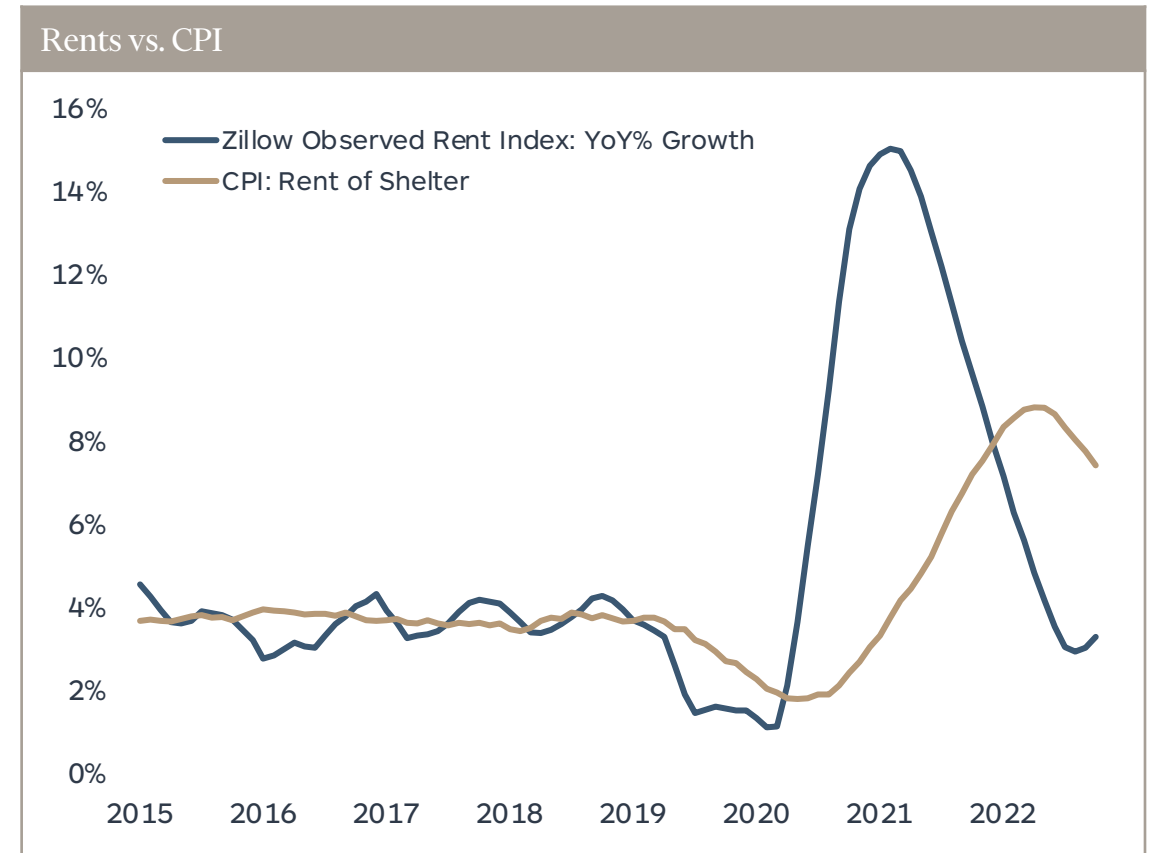
Source: Factset, 9/30/2023

Housing

Single-family housing starts are responding to strong demand. Cooling rents and expensive financing may be impacting multi-family.



Source: FRED, 9/30/2023

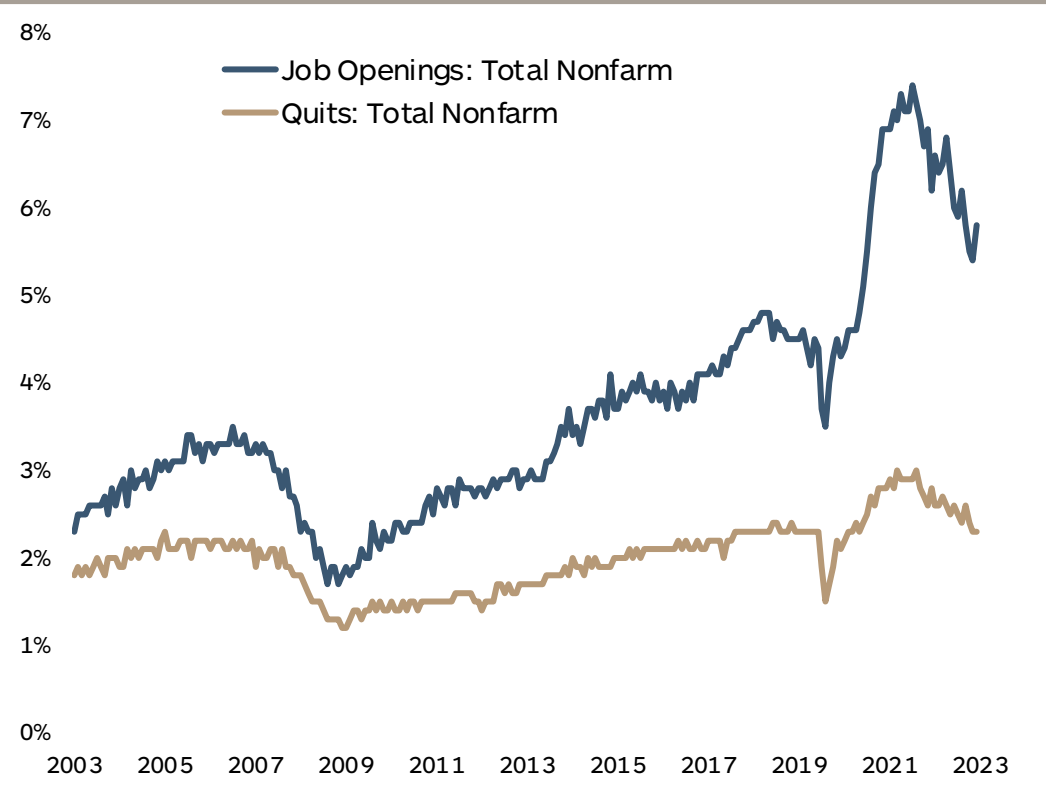


Source: Zillow, FRED, 9/30/2023

Labor Market

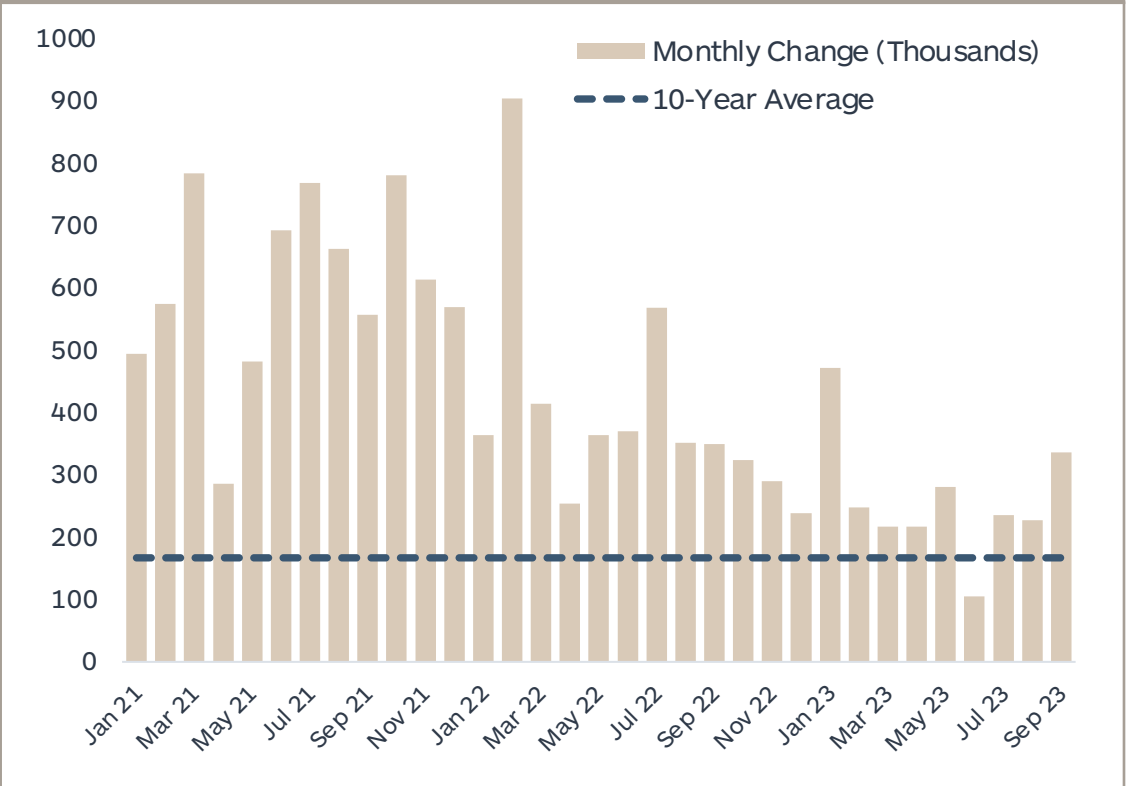
Openings and quits are down, but job gains remain above average.

Job Openings and Quits Headed Down



Source: FRED, 9/30/2023

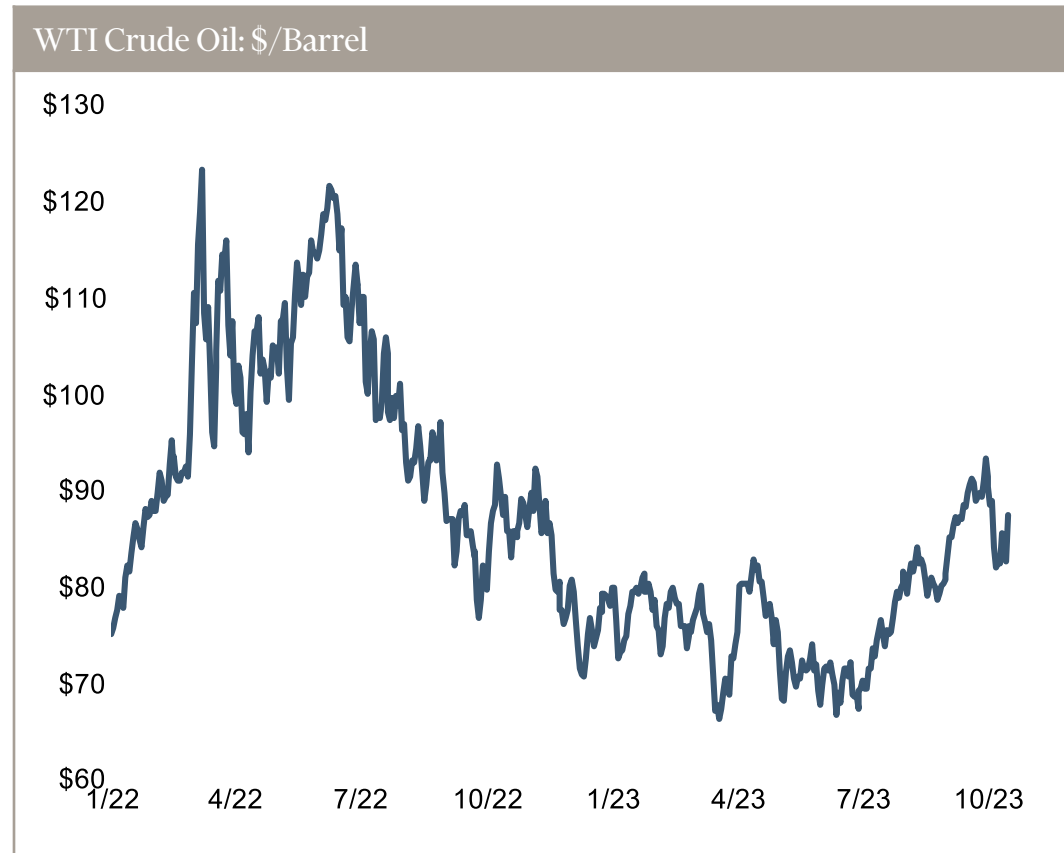
Non-Farm Payrolls



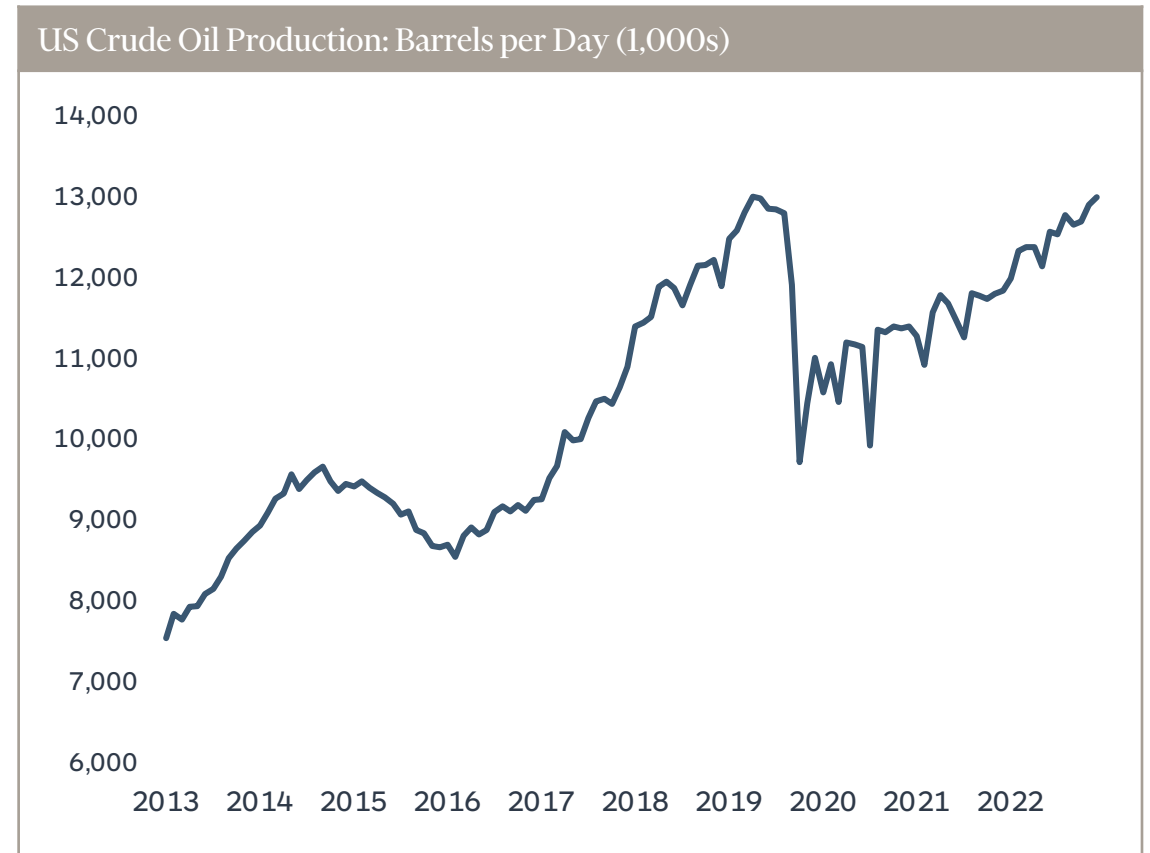
Source: FRED, 9/30/2023

Rebounding Energy Prices

Tight supply out of Russia and Saudi Arabia, but non-OPEC producers are trying to fill the gap.



Source: Factset, 10/13/2023

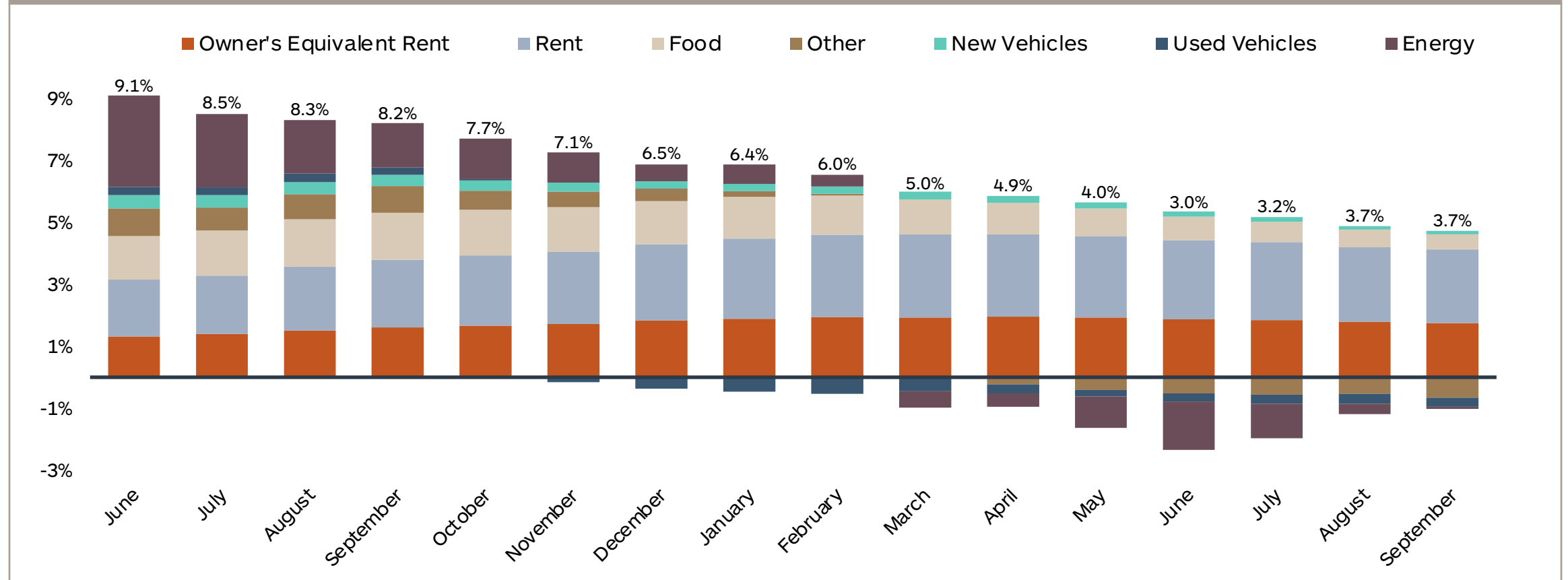


Source: U.S. Energy Information Administration, 7/31/2023

Inflation

At this point, most of the inflationary pressures are coming from shelter

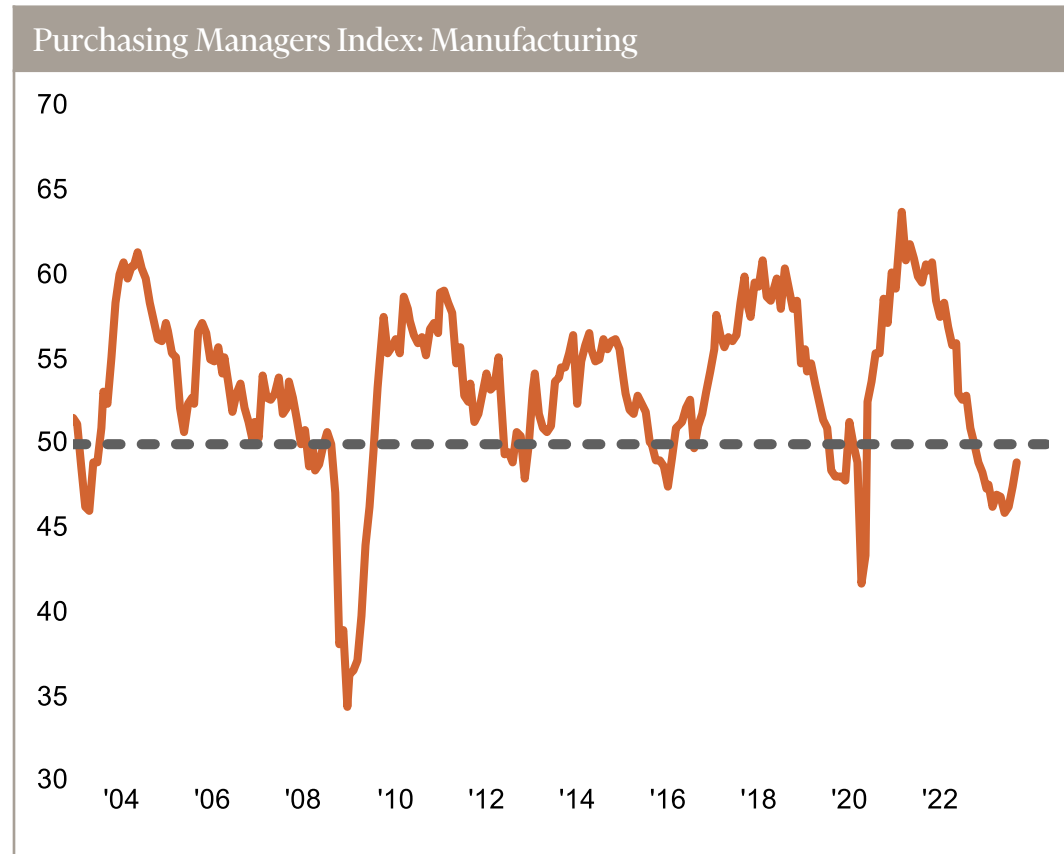
Contributions to Year-Over-Year CPI Inflation



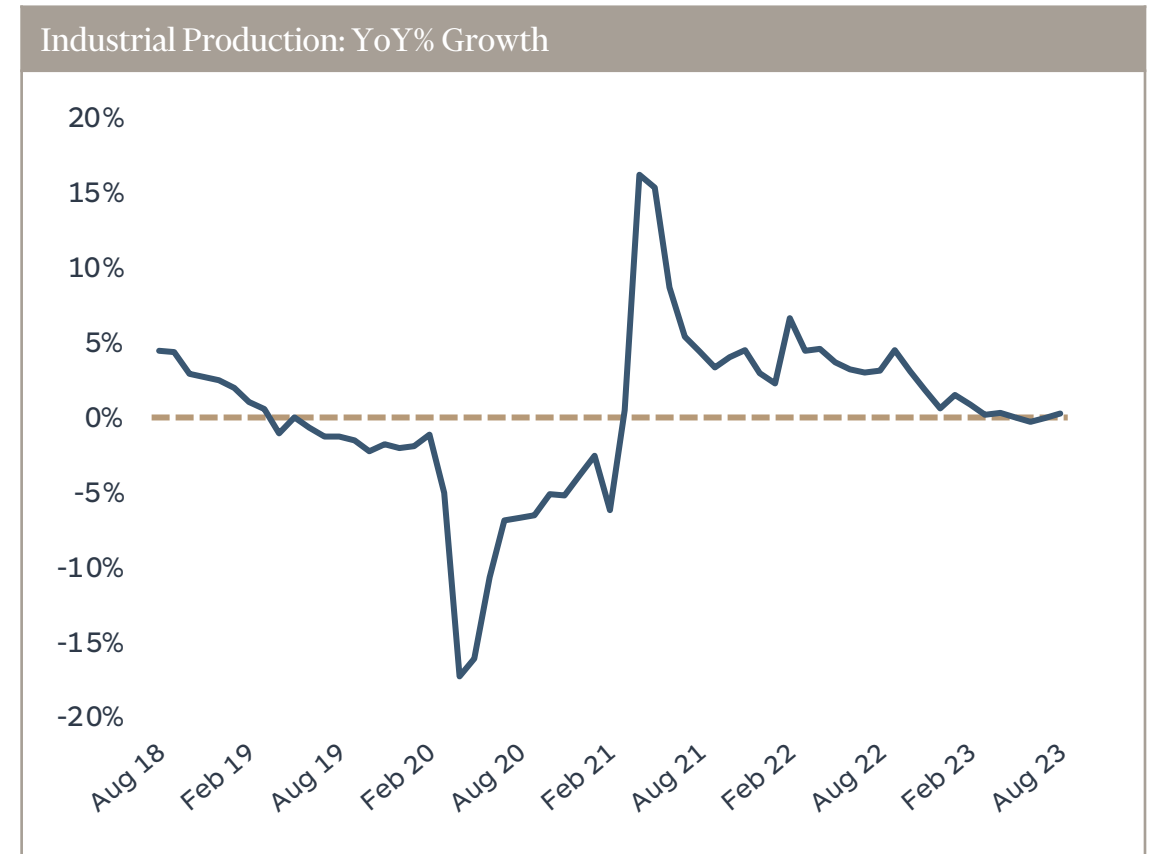
Source: BLS

Manufacturing

Weakness here should be short-lived, and in the meantime, offset by services strength



Source: Factset, 9/30/2023



Source: FRED, 8/31/2023

Labor Fights Back

Keeping an eye on the auto strike

Started at 13,000, then ~18,600; now 34,000
across 6 plants

8,700 walked out of Ford Louisville; Ford F-250 and Lincoln Navigator

Strike fund is still \$770m but workers won't get profit sharing checks

Ford at 23% wages; GM and Stellantis at 20%

Ford & Stellantis agree to COLA
Not showing up in claims....IP next month?

JOIN AN ACTIVE PICKET LINE

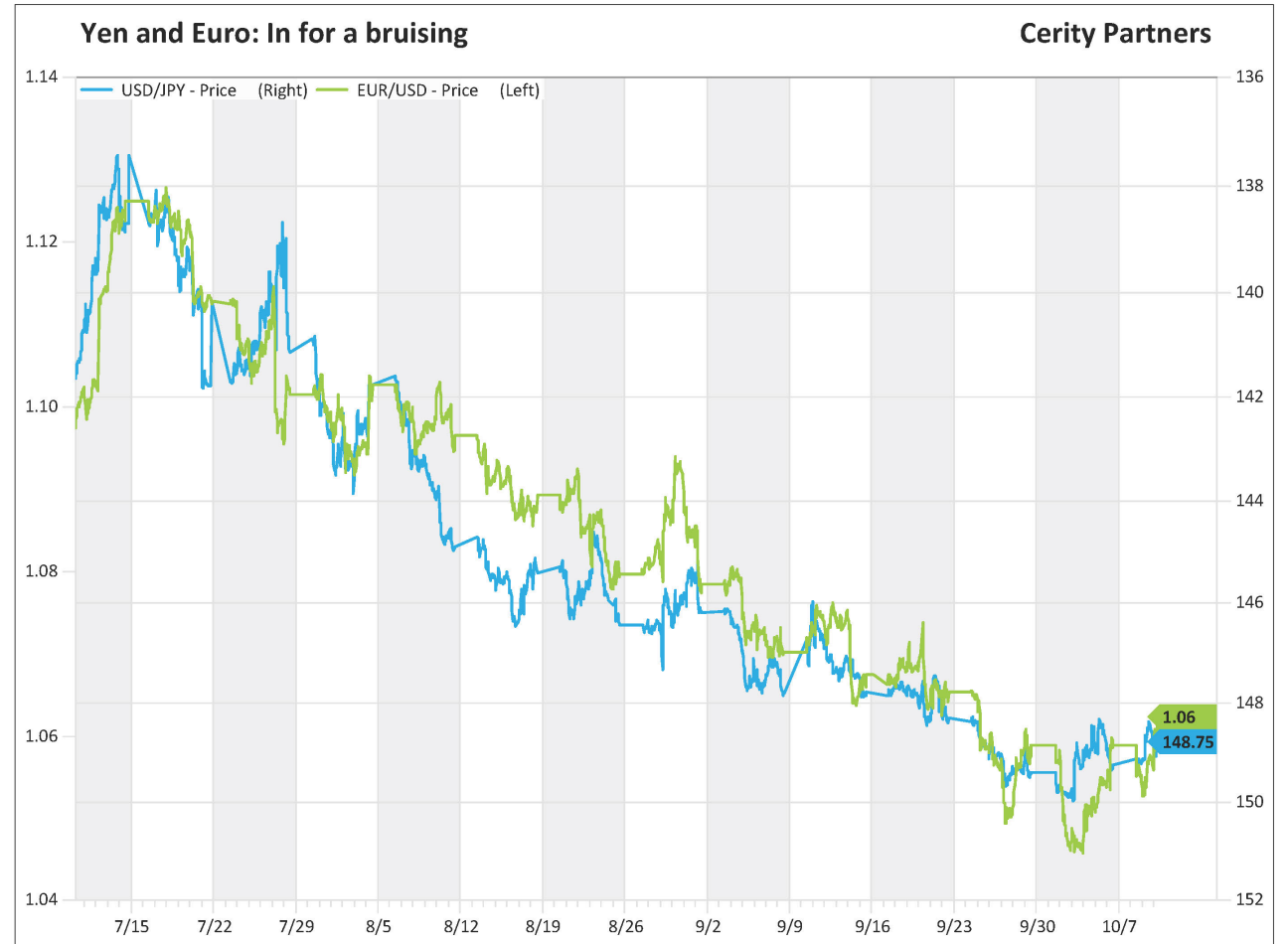


Dollar Strength

Reaching its limits

Growth and interest rate differential currently in favor of U.S. Dollar

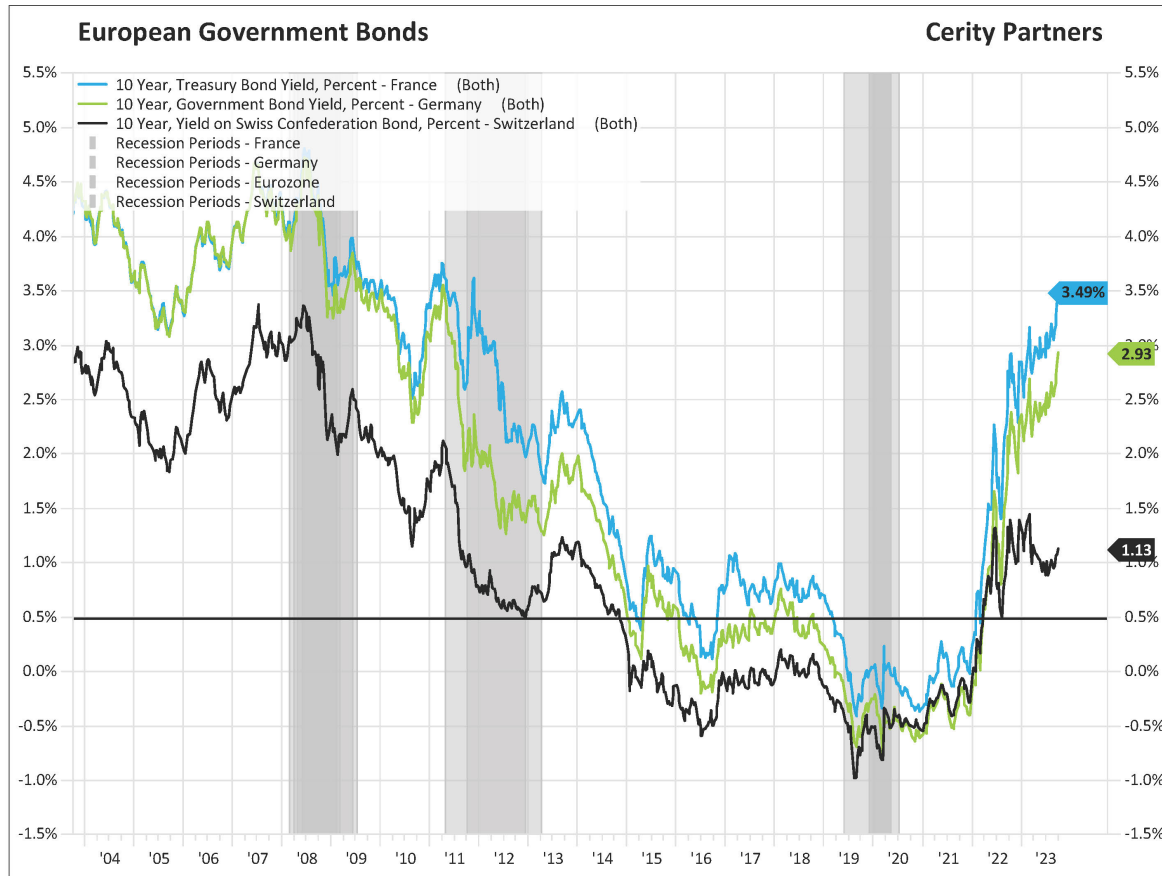
But creates inflation problems elsewhere



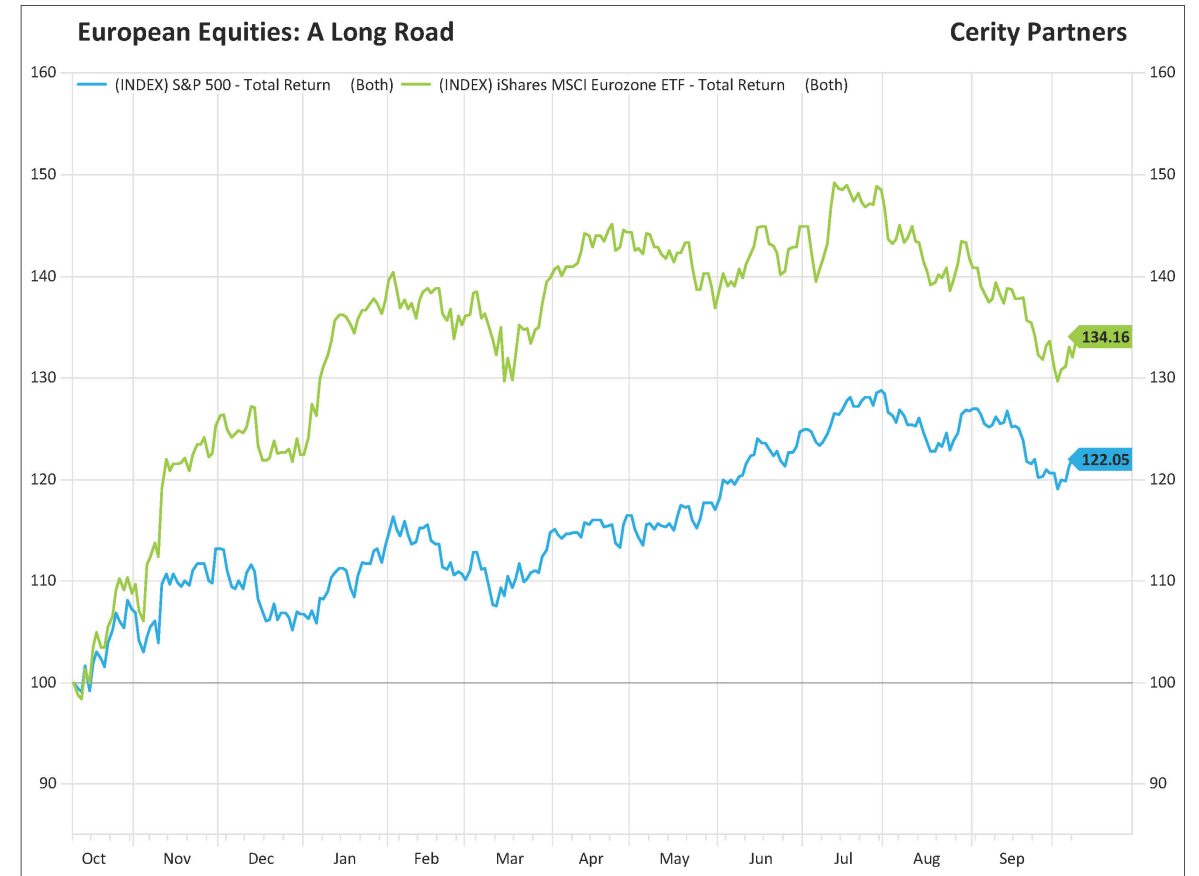
Source: Factset, 10/10/2023

Europe: A Changing World

Bonds and stocks on the move



Source: Factset, 10/10/2023



Source: Factset, 10/10/2023

China: Same Problems...No New Answers

Property slump drags on

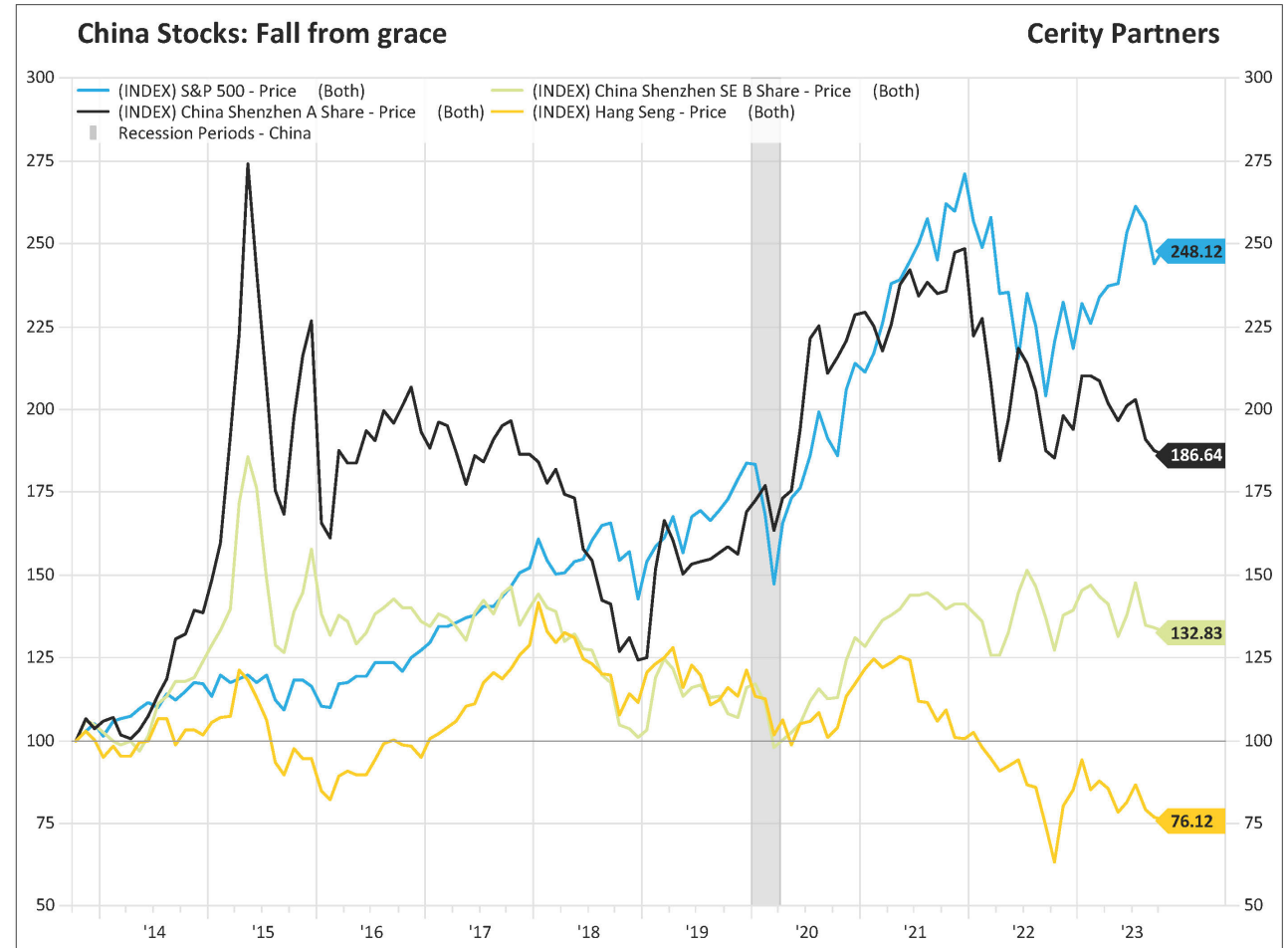
Lower export markets

Energy prices

Government controls

But consumer has no power

Stocks need a reason to go up



Source: Factset, 10/10/2023

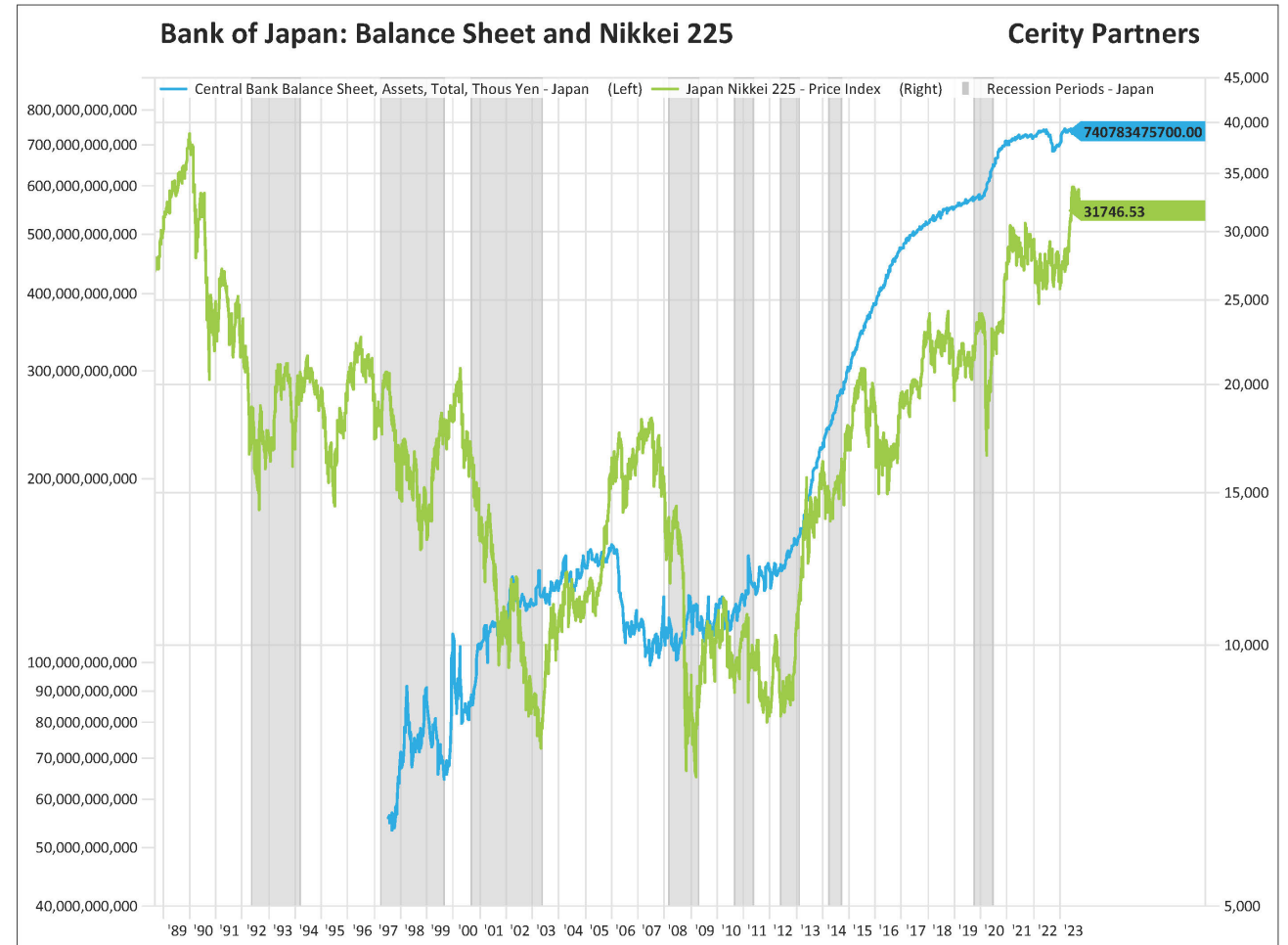
Japan: Different and the Same

Remarkable year for Japanese equities

New shareholder friendly regulations

A change from chronic deflation

Value opportunities



Source: Factset, 10/10/2023

Emergency Funding: Still There

Big drop the week of Oct 5th, 2023

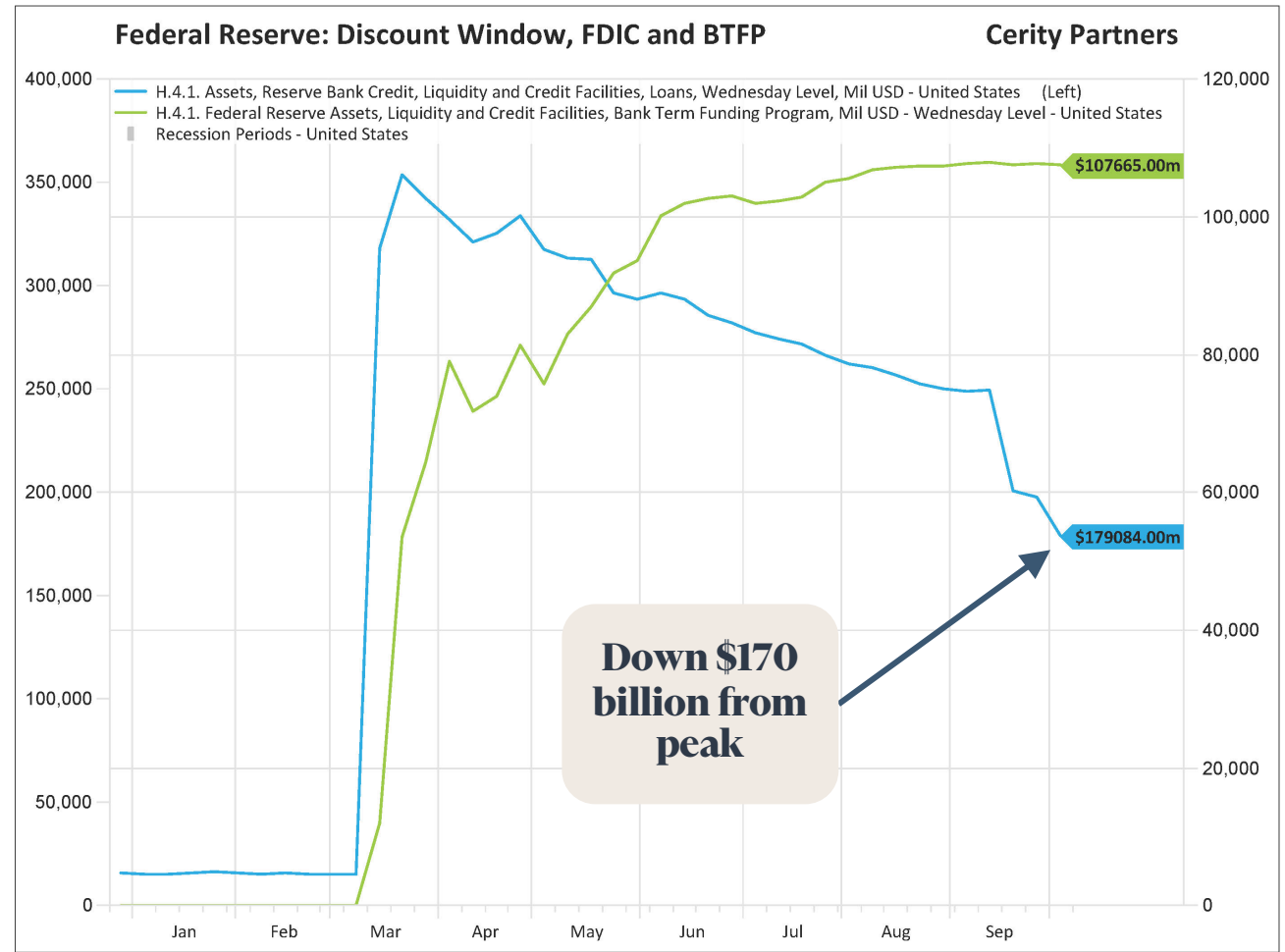
More FDIC loans sold off: \$165 billion since May

BTFP is increasing!

Was 25% of total, now 60%

Recent yield moves will probably hit banks HTM portfolio...so head to BTFP?

\$560 billion of unrealized bond losses in Q2...now?



Source: Factset, 10/10/2023

Fed Balance Sheet

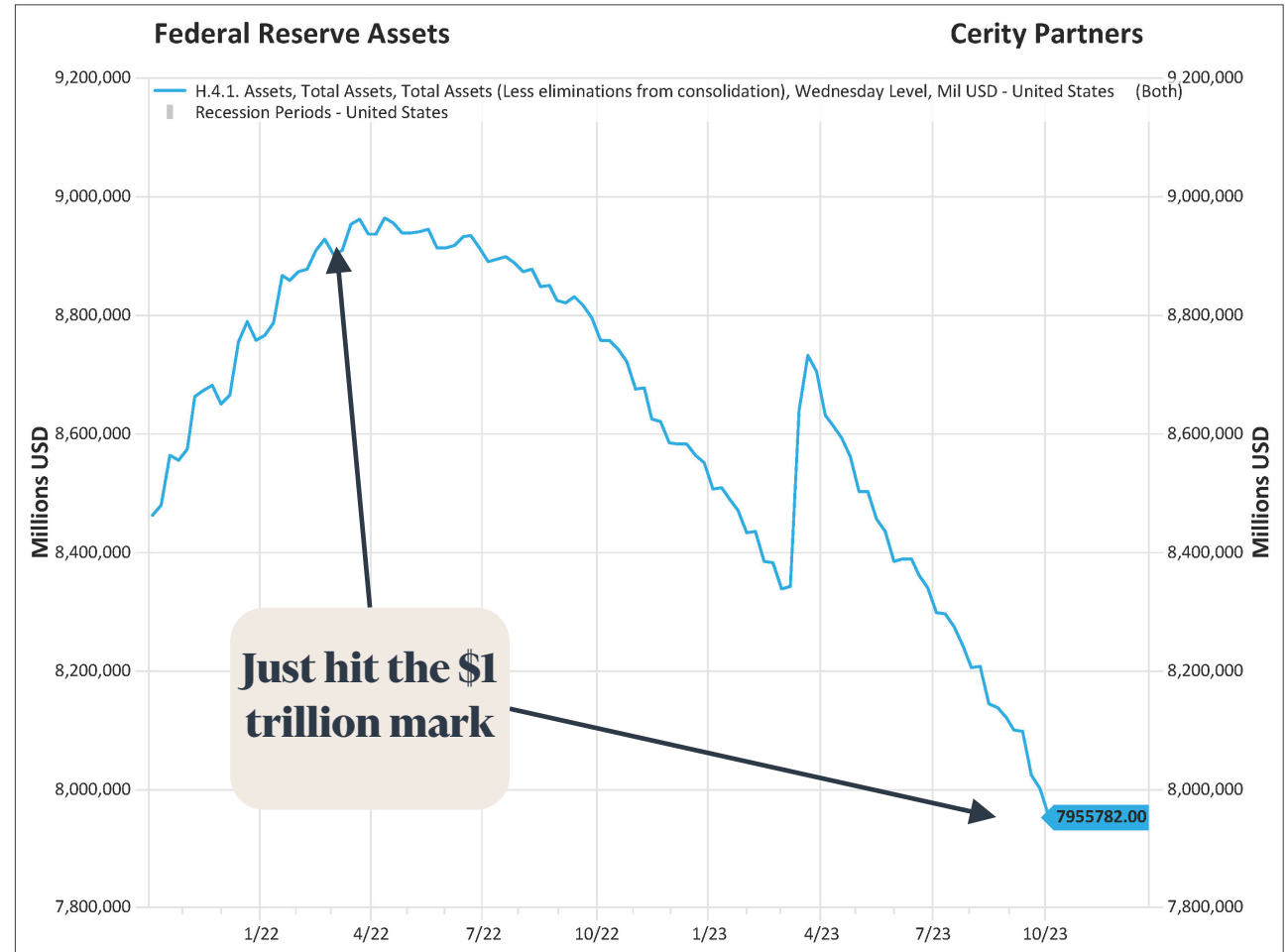
Continues to run off

MBS down \$240 billion

Treasuries down \$831 billion

Orderly run off

Continues the tightening theme



Source: Factset, 10/5/2023

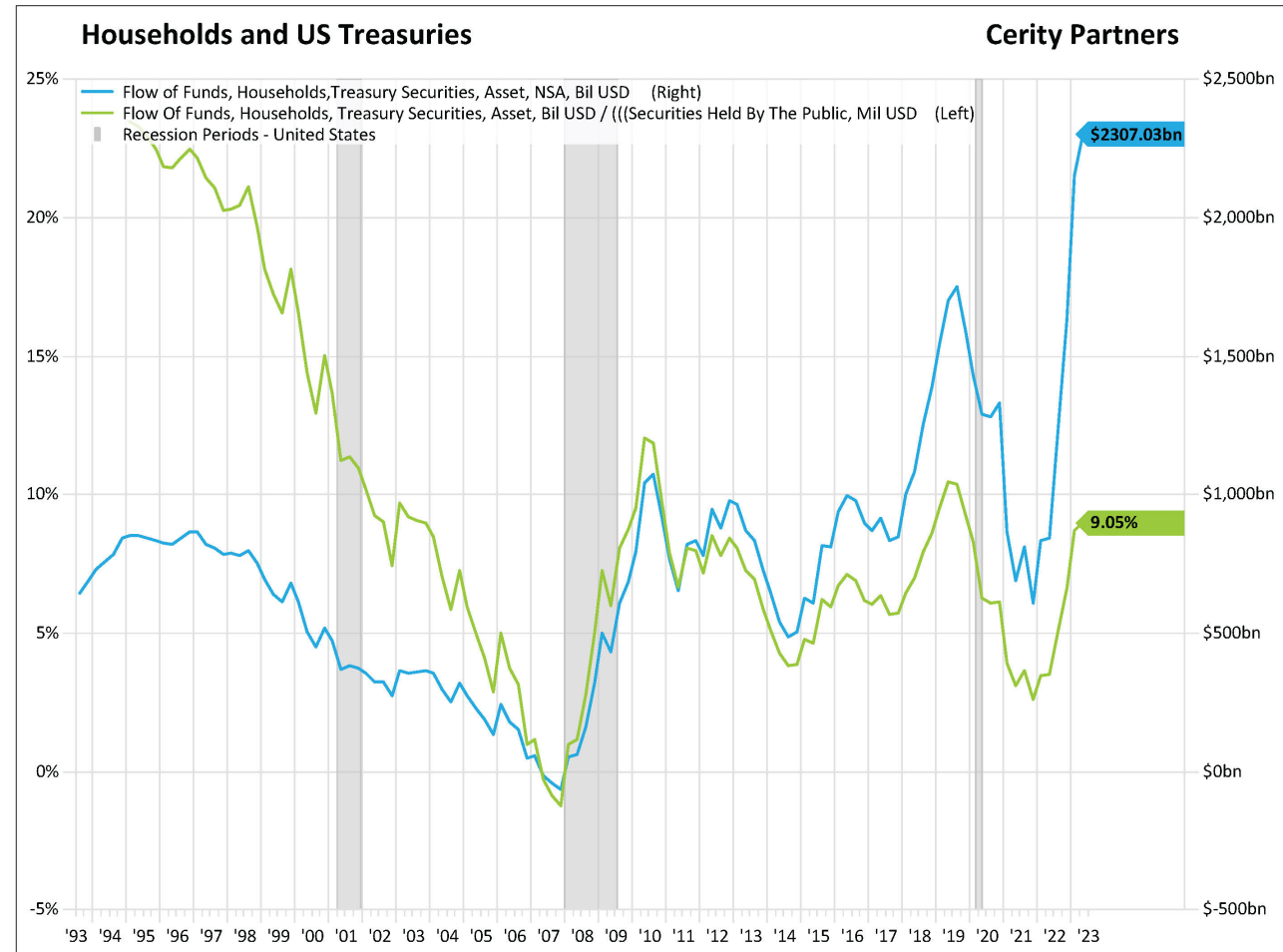
Interest and Dividend Income

Stocks and bonds earning more

Dividend Income is up +34% since pre-Covid-19

Interest Income +20%

And households seem very comfortable with Treasuries



Source: Factset, 9/27/2023

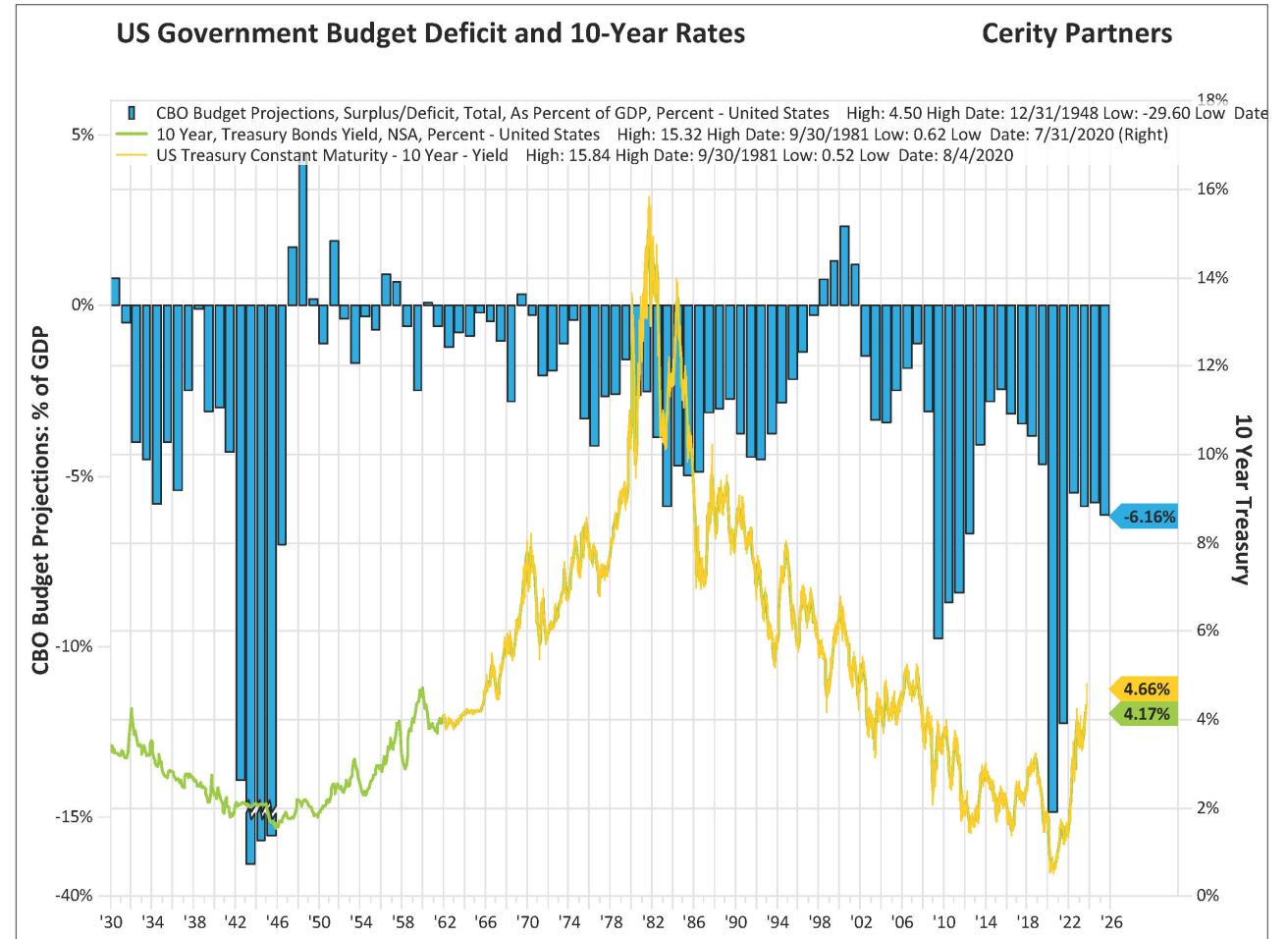
Deficits Haven't Mattered for a Time

They may become an issue now

The relationship of deficits and rates is mixed one

Deficits aren't growing but neither are they shrinking

Rates have moved higher for several reasons



Source: Factset, 10/10/2023

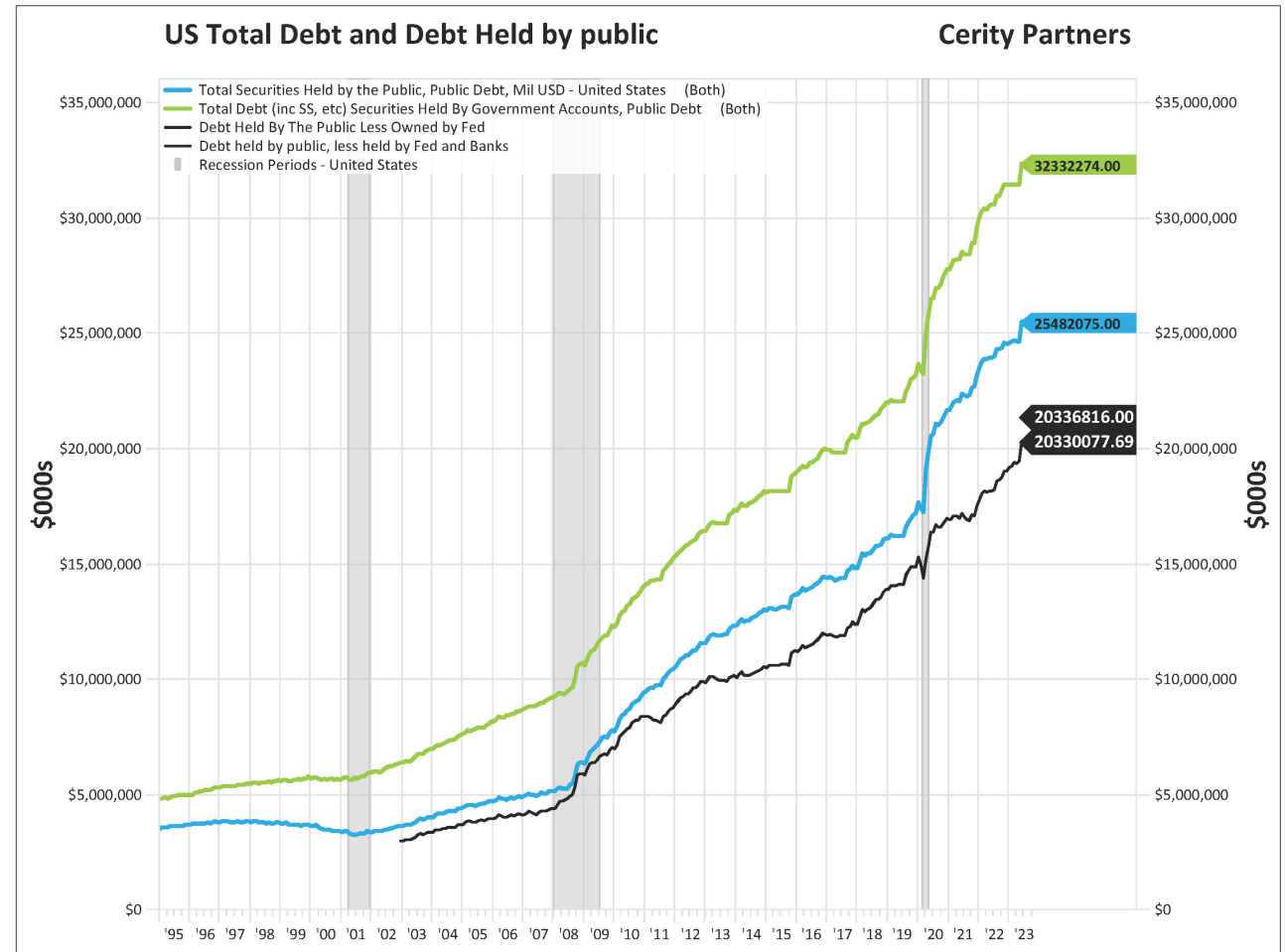
Treasury Issuance

Record amounts incoming

Since 2020:

- Total Debt: **+40%**
- Public Debt: **+47%**
- Public Debt less Fed and bank holdings: **+41%**

Crowding out and level of rates not always driven by issue size

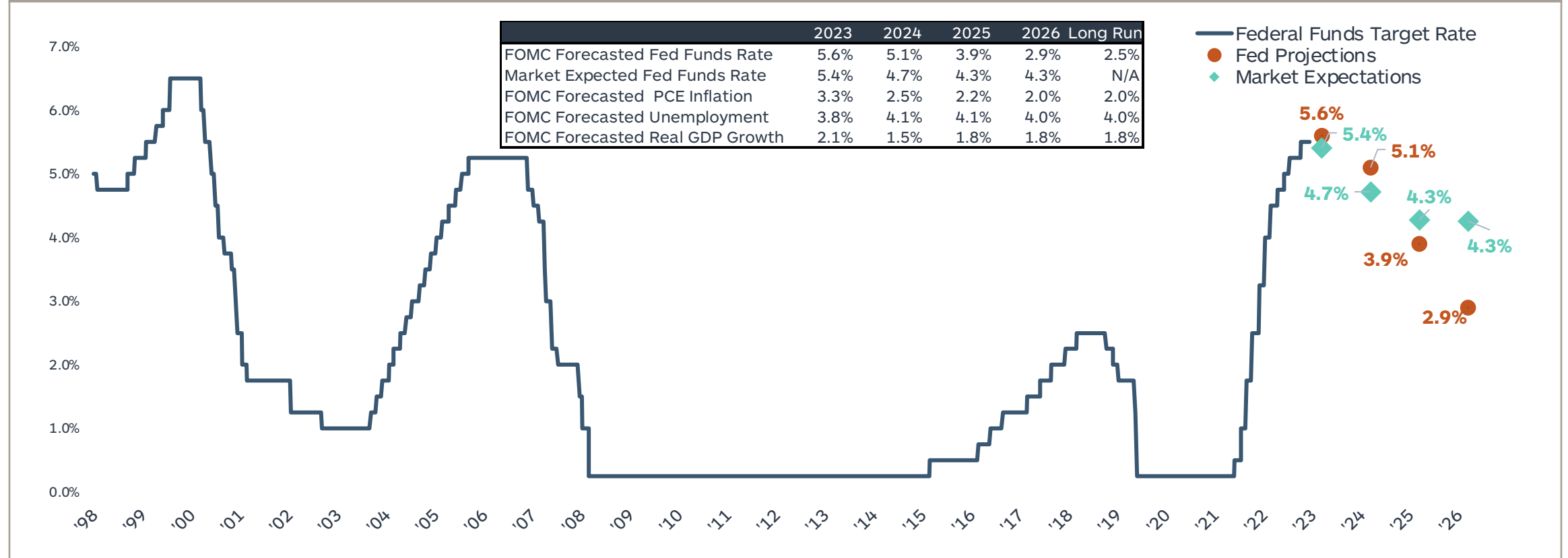


Source: Factset, 10/10/2023

The Path for Fed Funds

Markets are finally getting the message

Federal Funds Rate

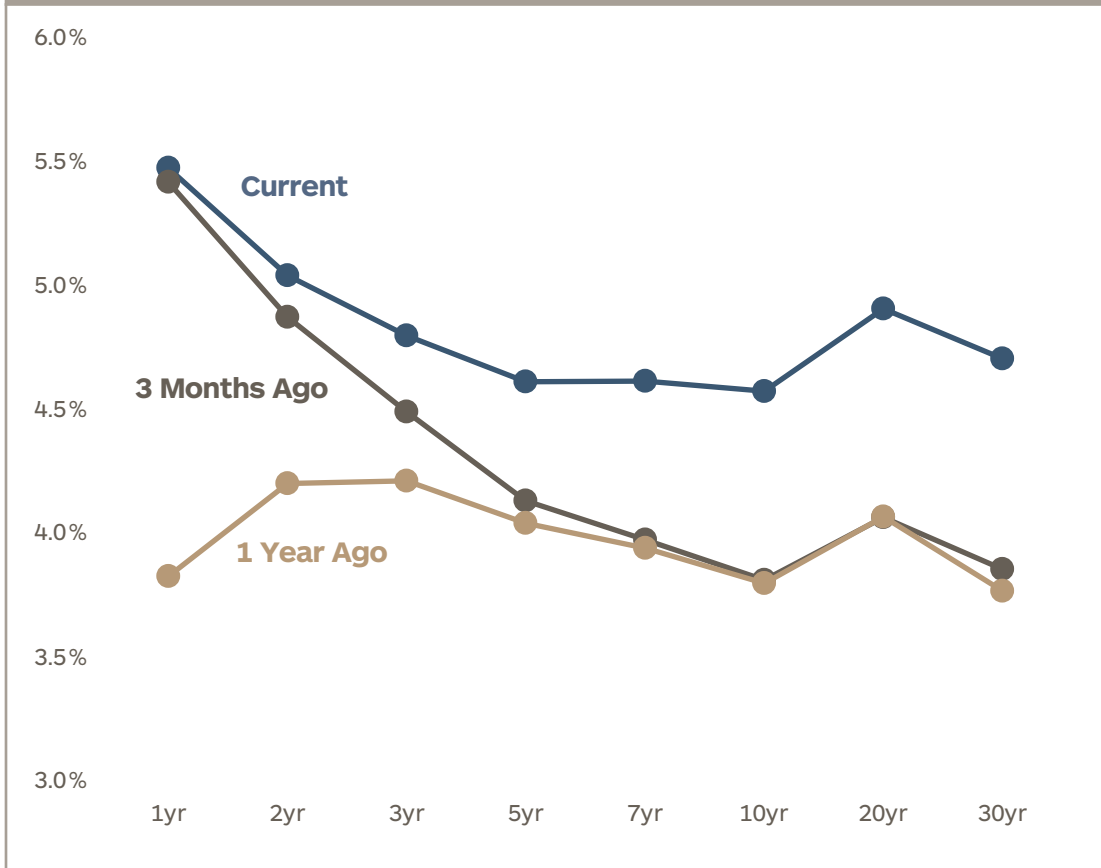


Source: Factset, FOMC, 9/30/2023. Market expectations derived from Fed Funds Futures

The Yield Curve

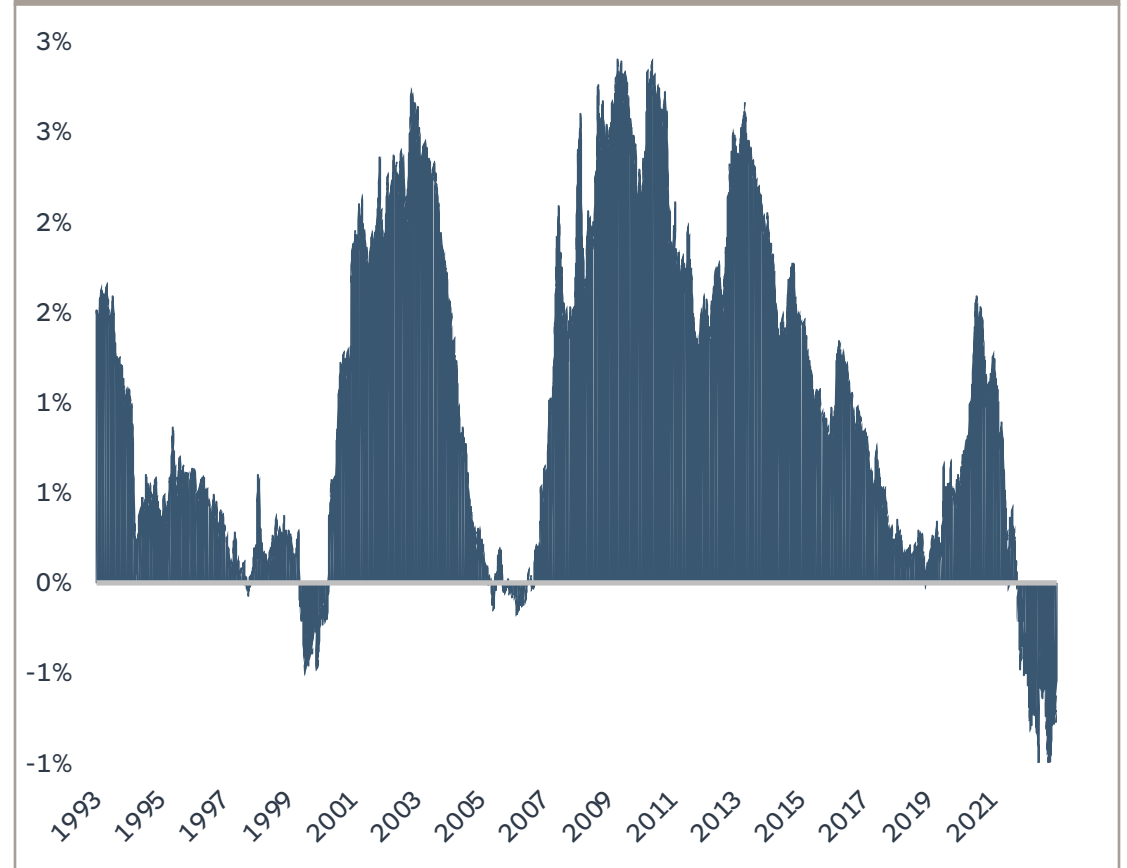
“Higher for longer” positioning becoming evident at the long end

Treasury Yield Curve: June 30th to September 30th



Source: Factset, 9/30/2023

10-Year Treasury Yield Minus 2-Year Treasury Yield

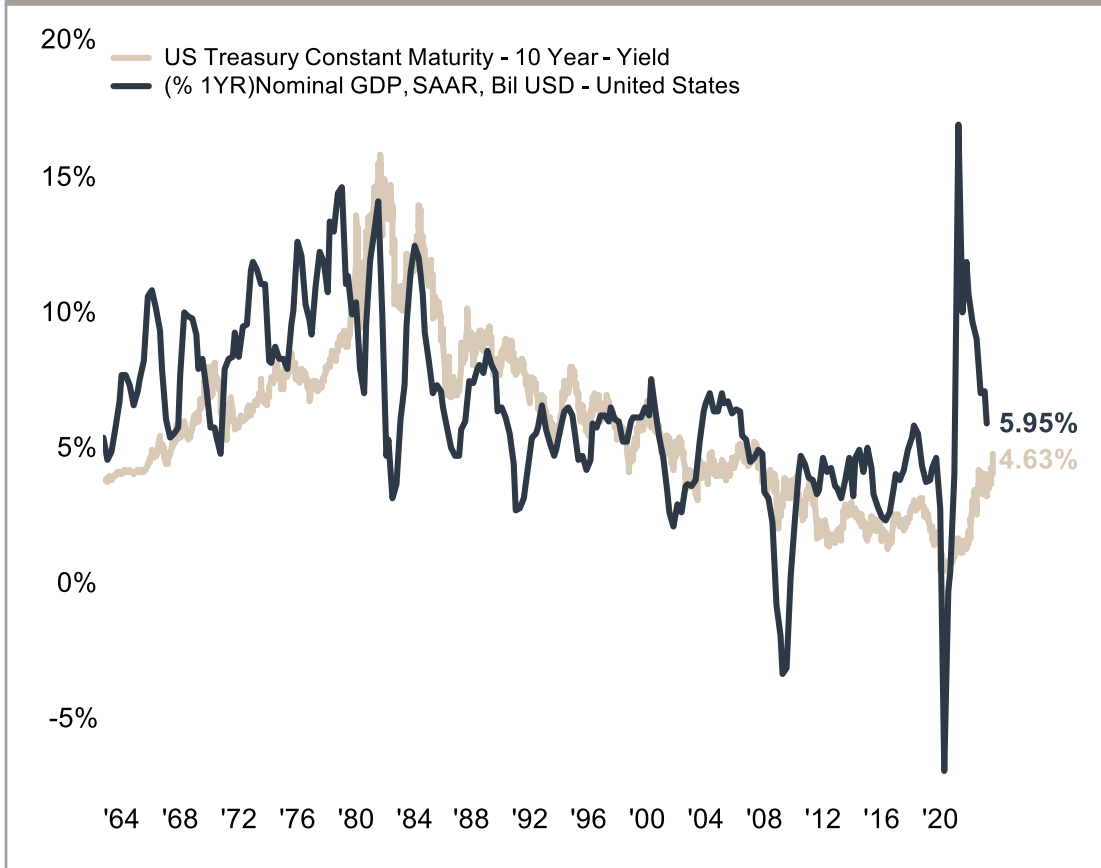


Source: FRED, 9/30/2023

Estimating “Fair Value” for Treasury Yields

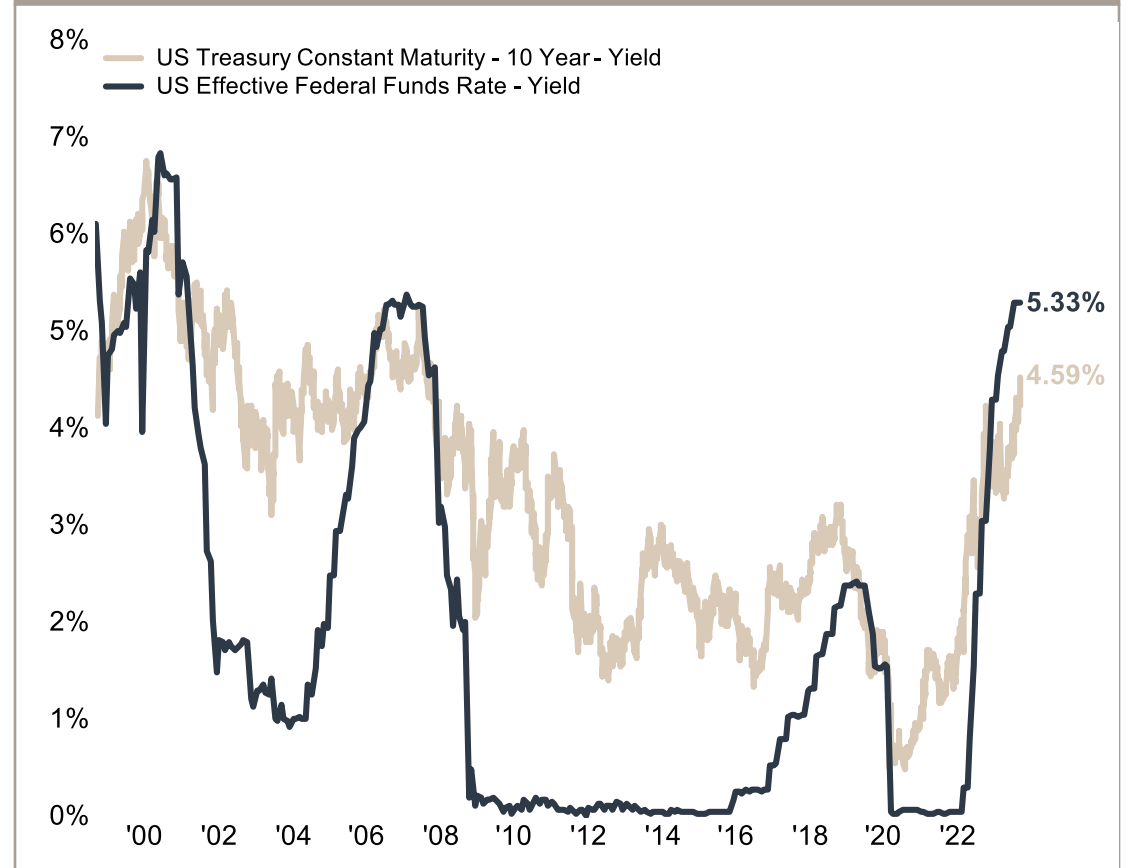
How much higher can they go?

10-Year Treasury Yield vs. Nominal GDP



Source: Factset, 9/30/2023

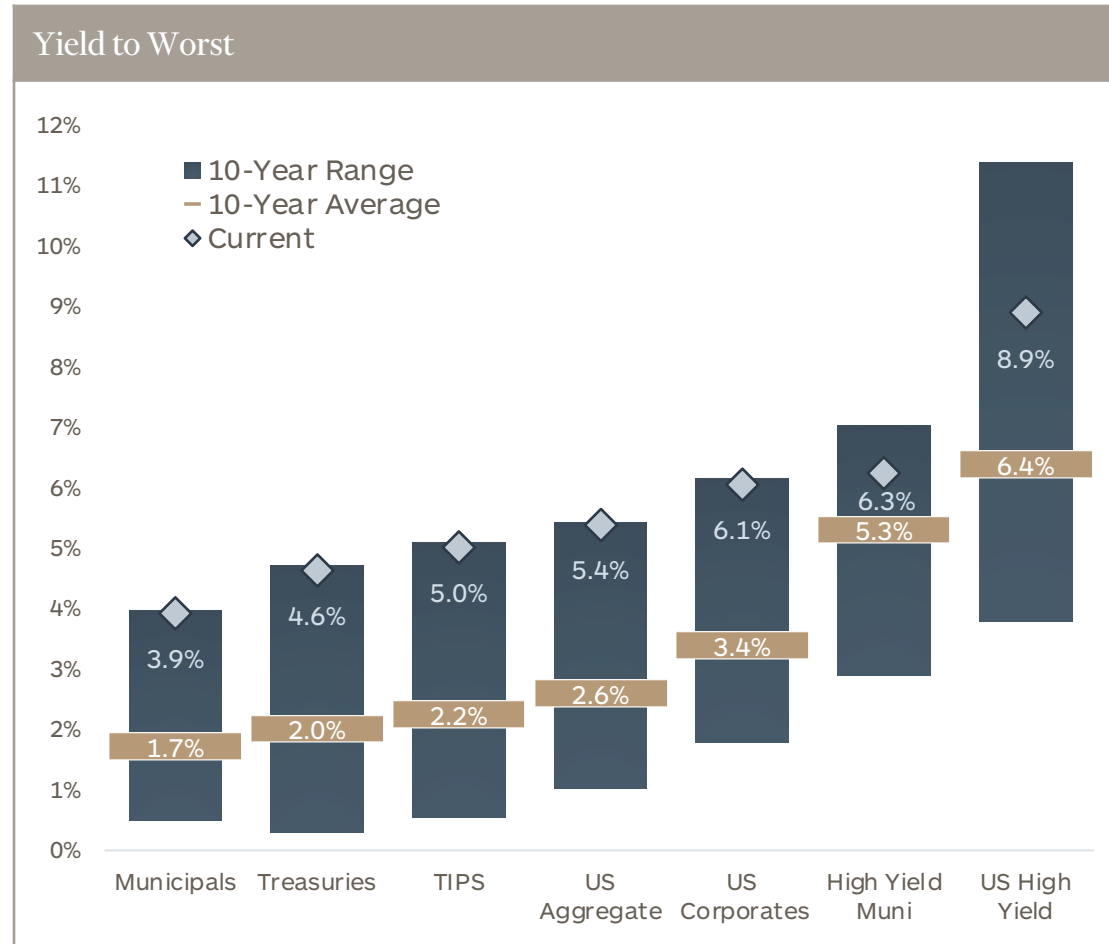
10-Year Treasury Yield vs. Fed Funds Rate



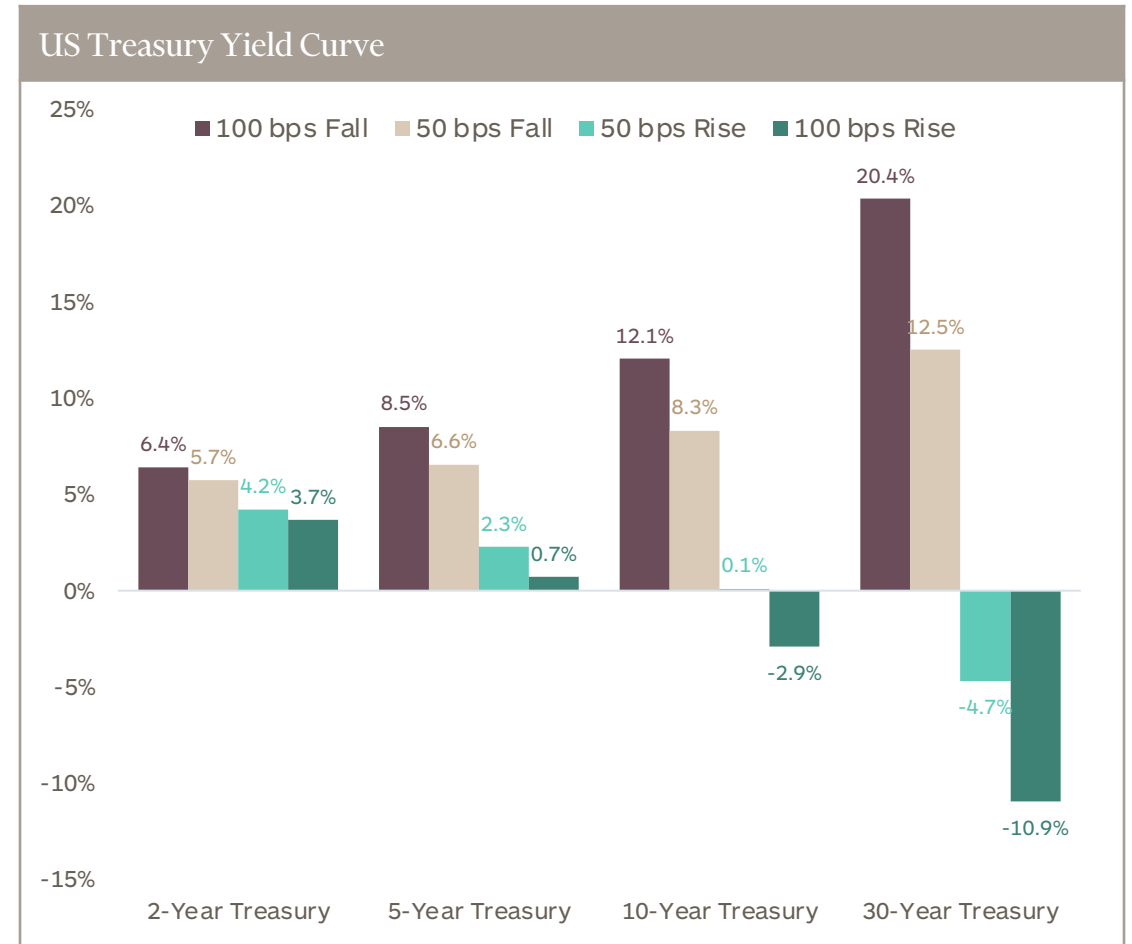
Source: Factset, 9/30/2023

Yields and Duration

With the hiking cycle likely near its end, fixed income finally offers a coupon to clip and the risk/reward is positive for most maturities.



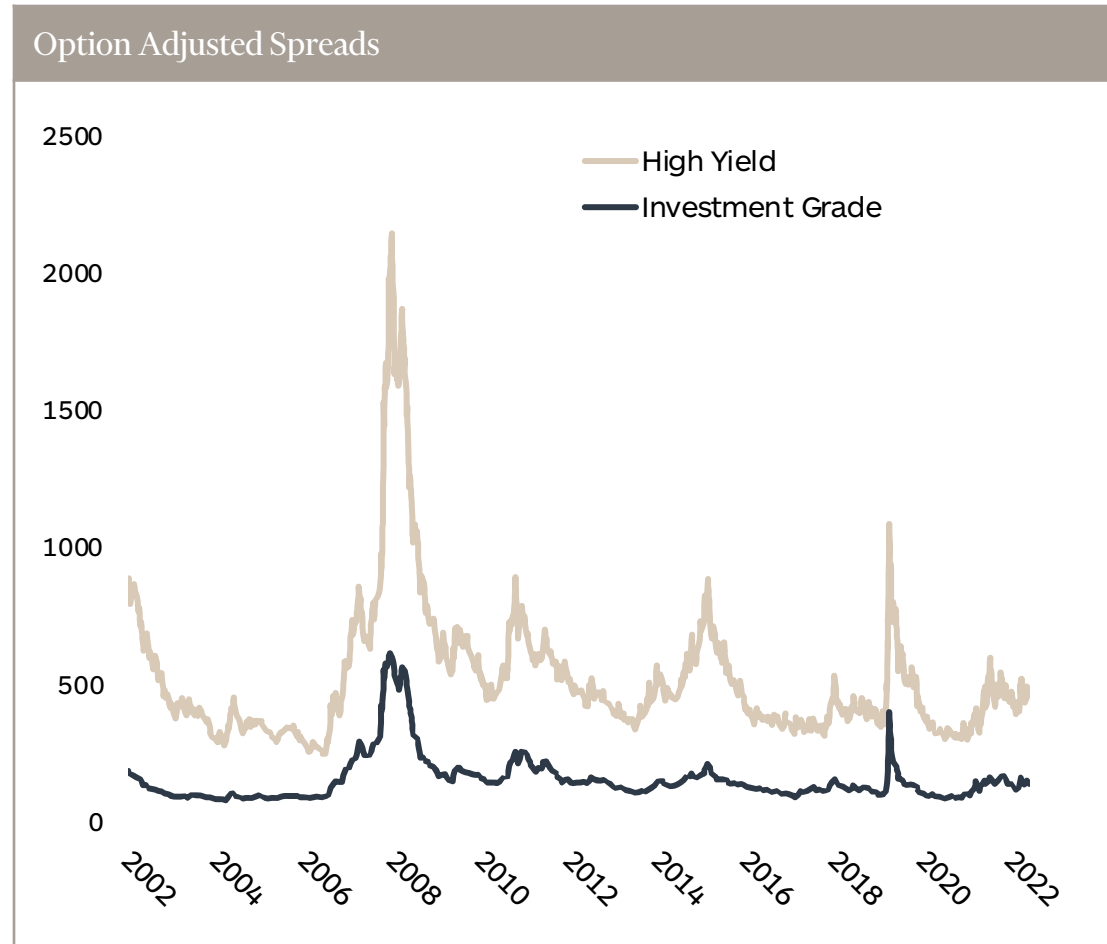
Source: Factset, 9/30/2023



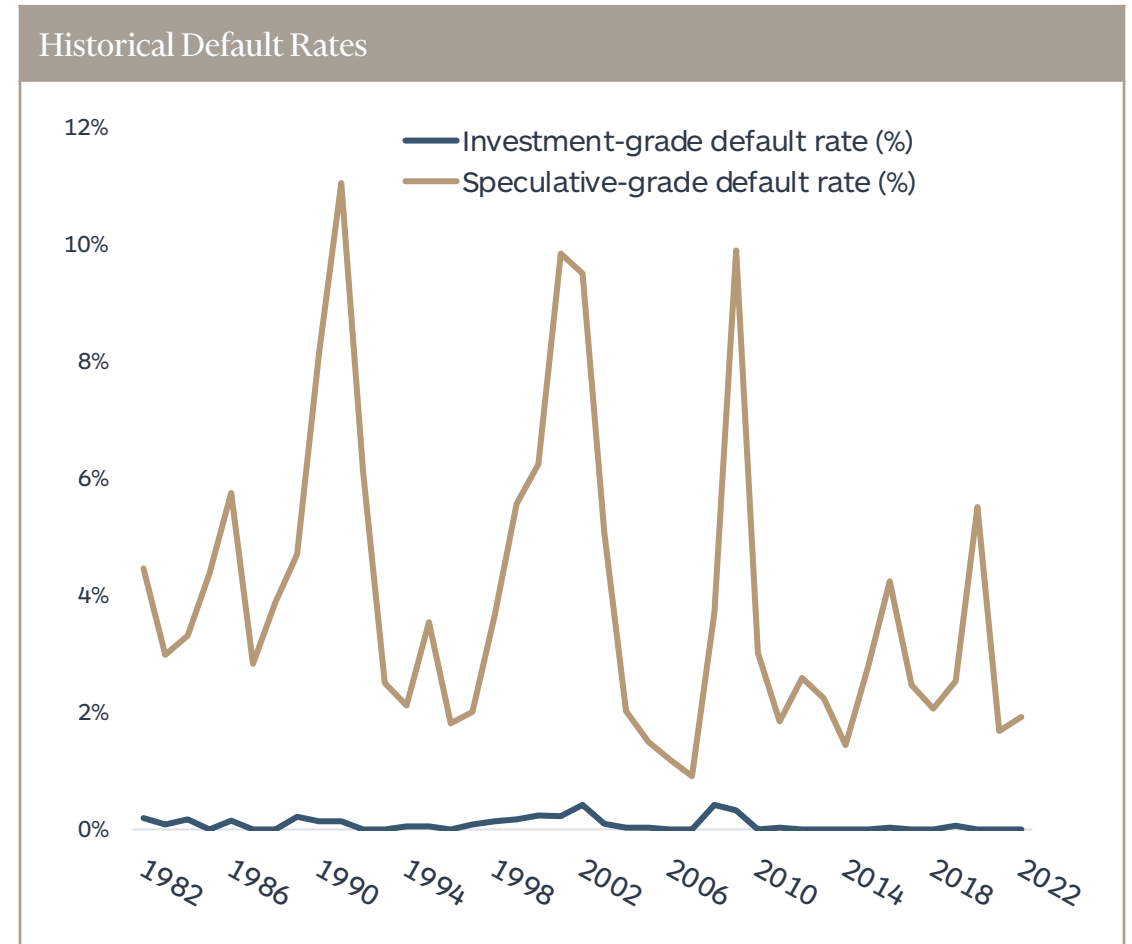
Source: Factset, 9/30/2023

Spreads and Default Rates

Spreads and default rates may be starting to turn up



Source: Factset, 9/30/2023



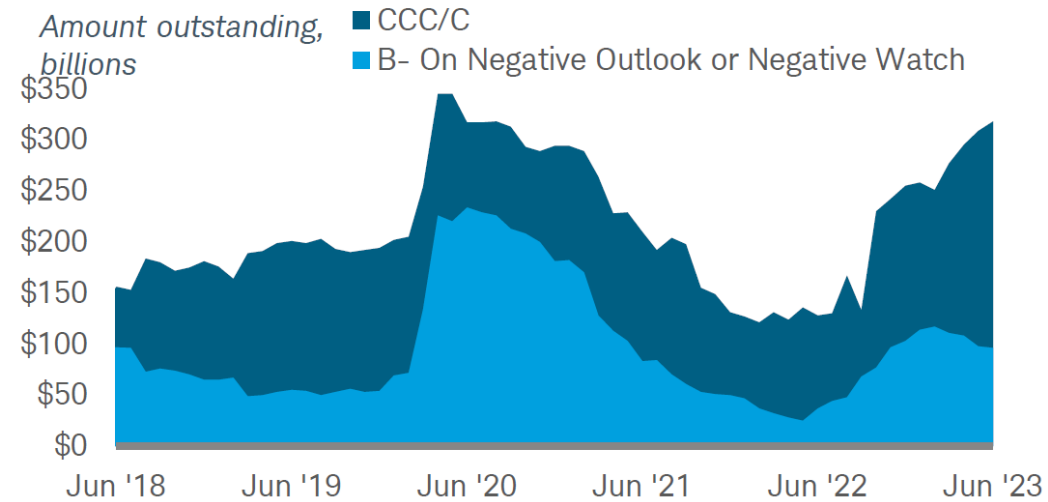
Source: Moody's, 12/31/2023

High Yield Bonds

Risk increasing in the high yield market

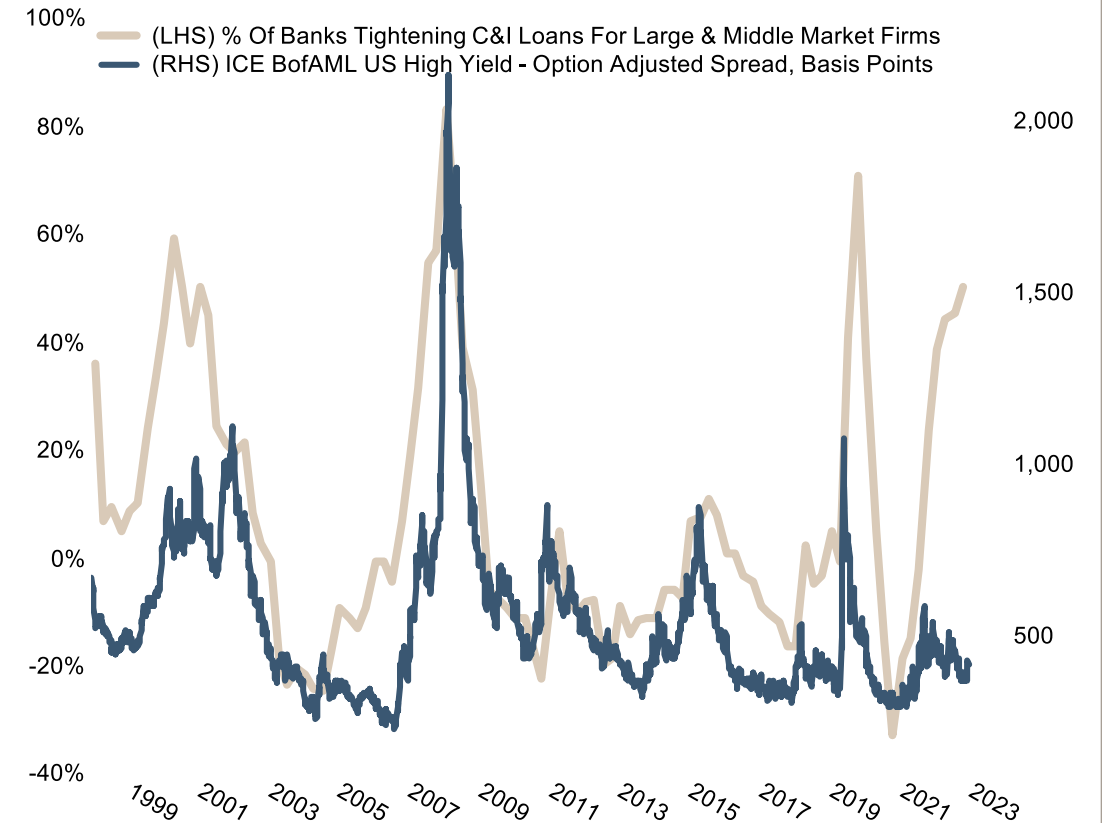
Breakdown of High Yield Bond Universe

The amount of high-yield bonds most at risk of default has increased lately



Source: Charles Schwab, Standard and Poor's Financial Services LLC, using monthly data as of 6/30/2023

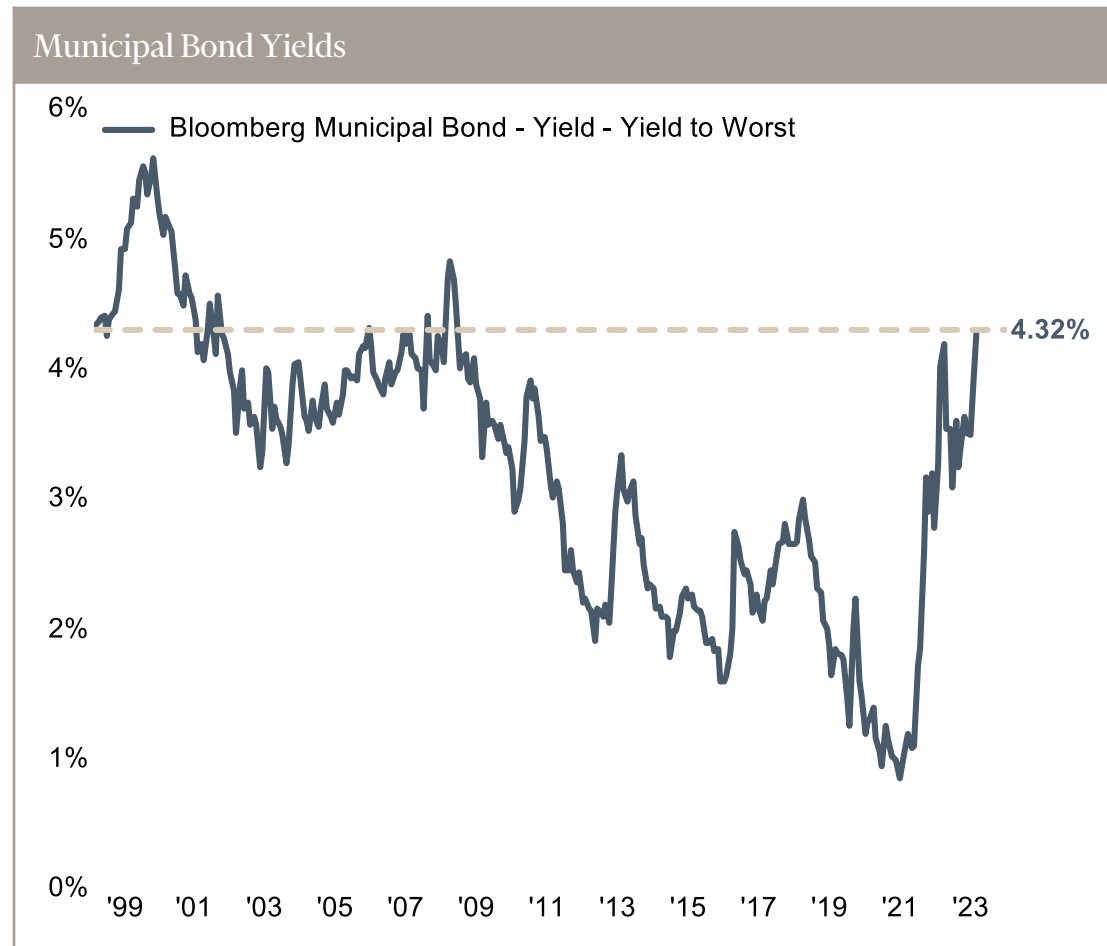
Bank Lending Standards vs. High Yield Spreads



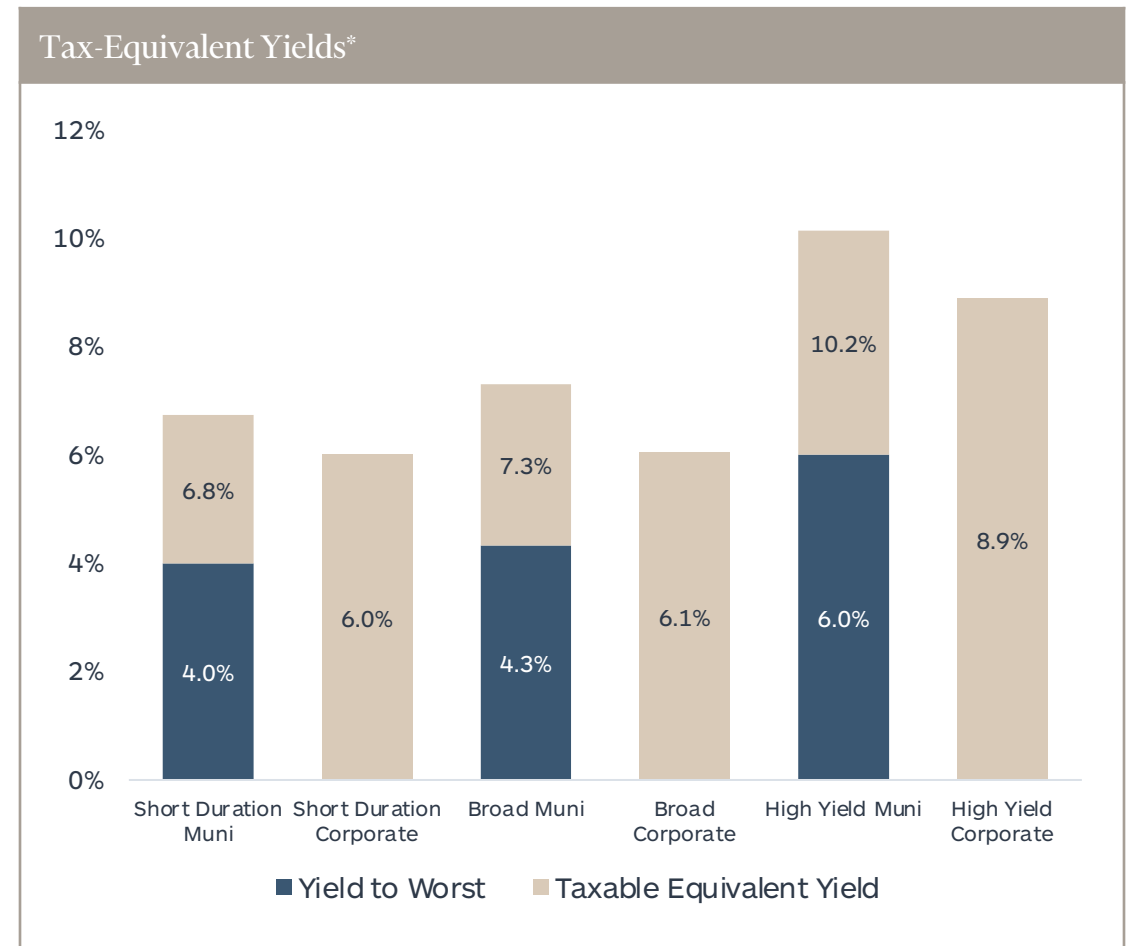
Source: Factset, 9/30/2023

Municipal Bonds

Investment grade tax-equivalent yields approaching 7%



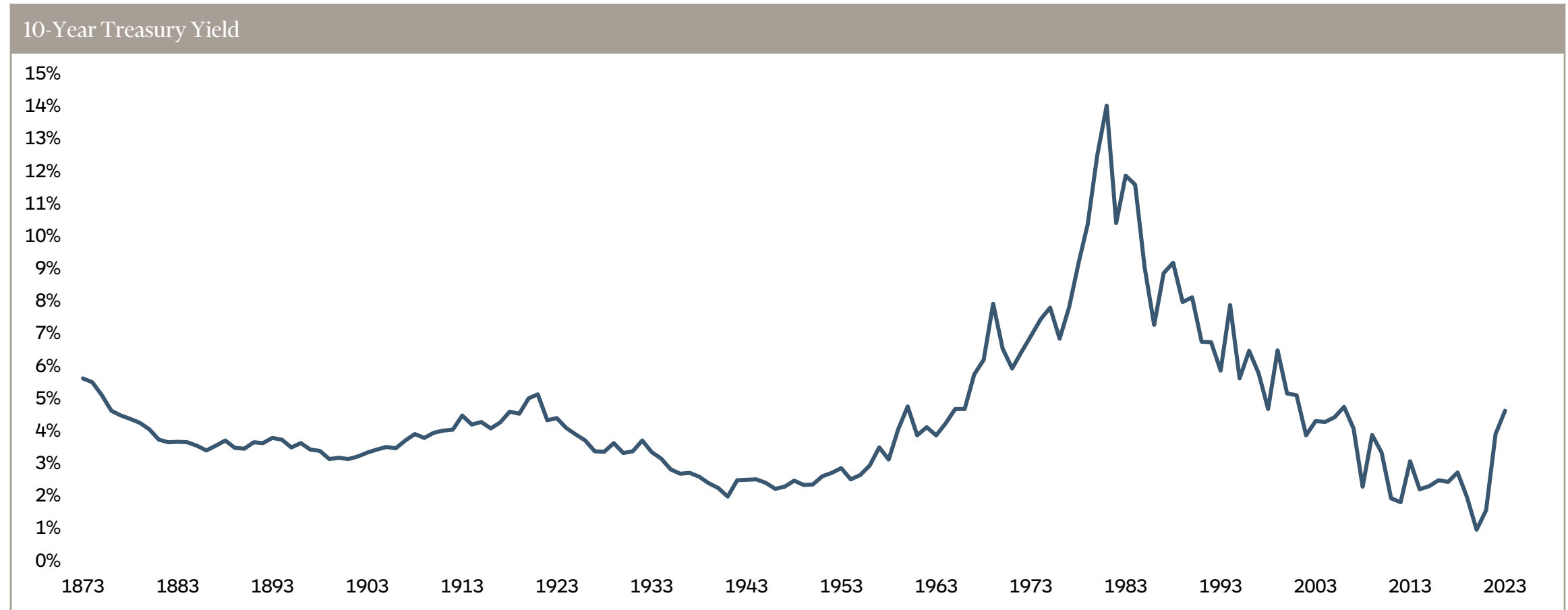
Source: Factset, 9/30/2023



Source: Factset, 9/30/2023. *Assuming 37% tax bracket + 3.8% ACA

Bond Yields: A Longer-Term Perspective

Back to "normal?"

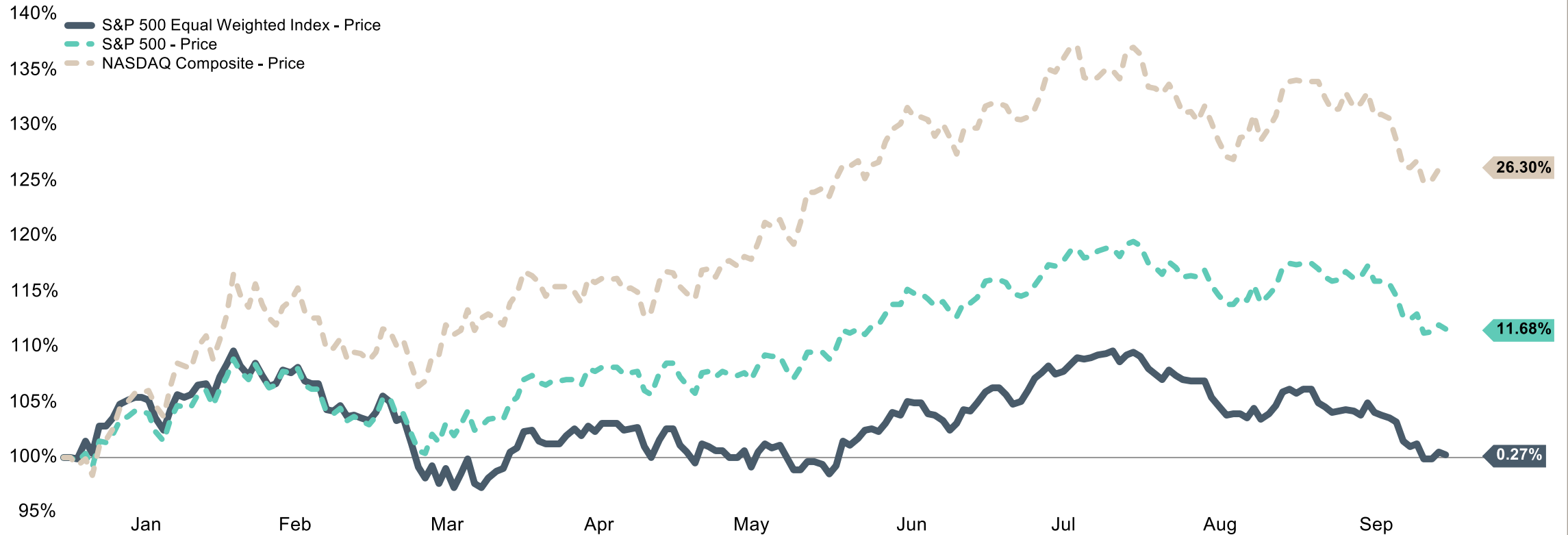


Source: Before 1964: Robert Schiller website; After 1964: Factset, 9/30/2023

2023 Has Not Been A Good Year in the Stock Market

A handful of stocks have rallied. The rest of the market has sputtered.

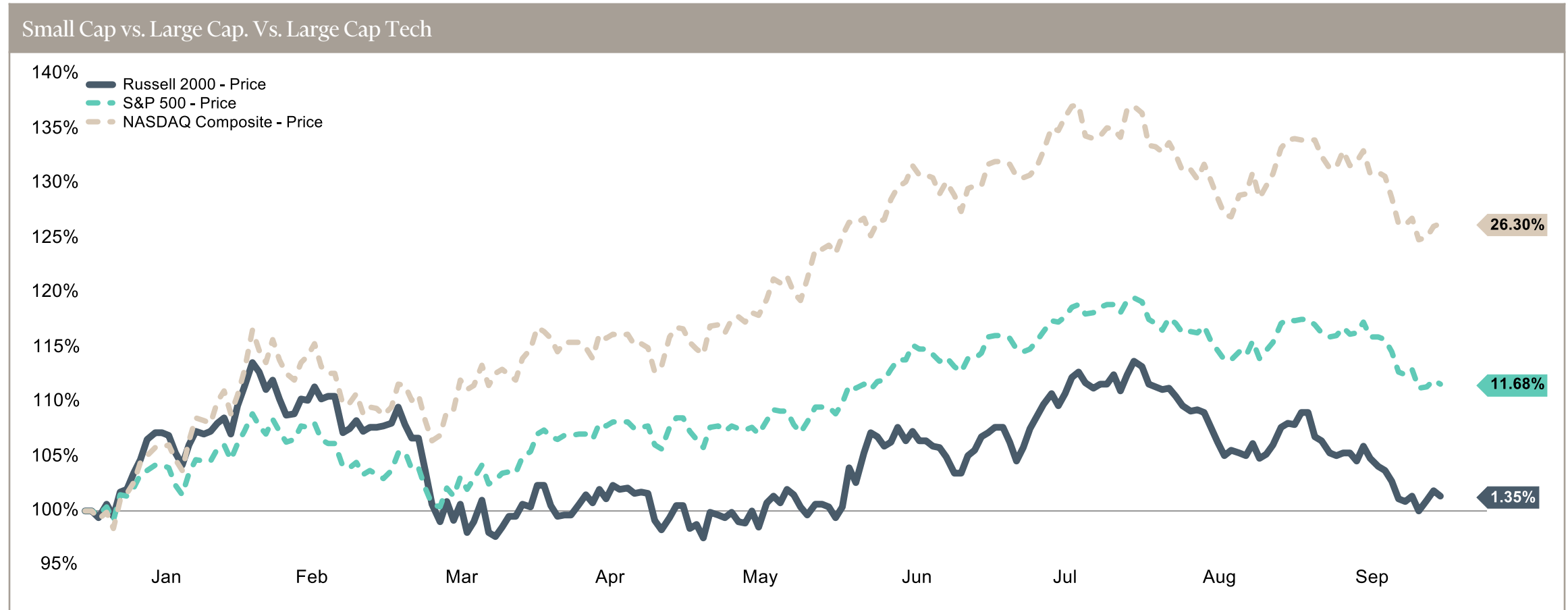
Large Cap Equal Weighted vs. Large Cap Market Cap Weighted vs. Large Cap Tech



Source: Factset, 9/30/2023

2023 Has Not Been A Good Year in the Stock Market

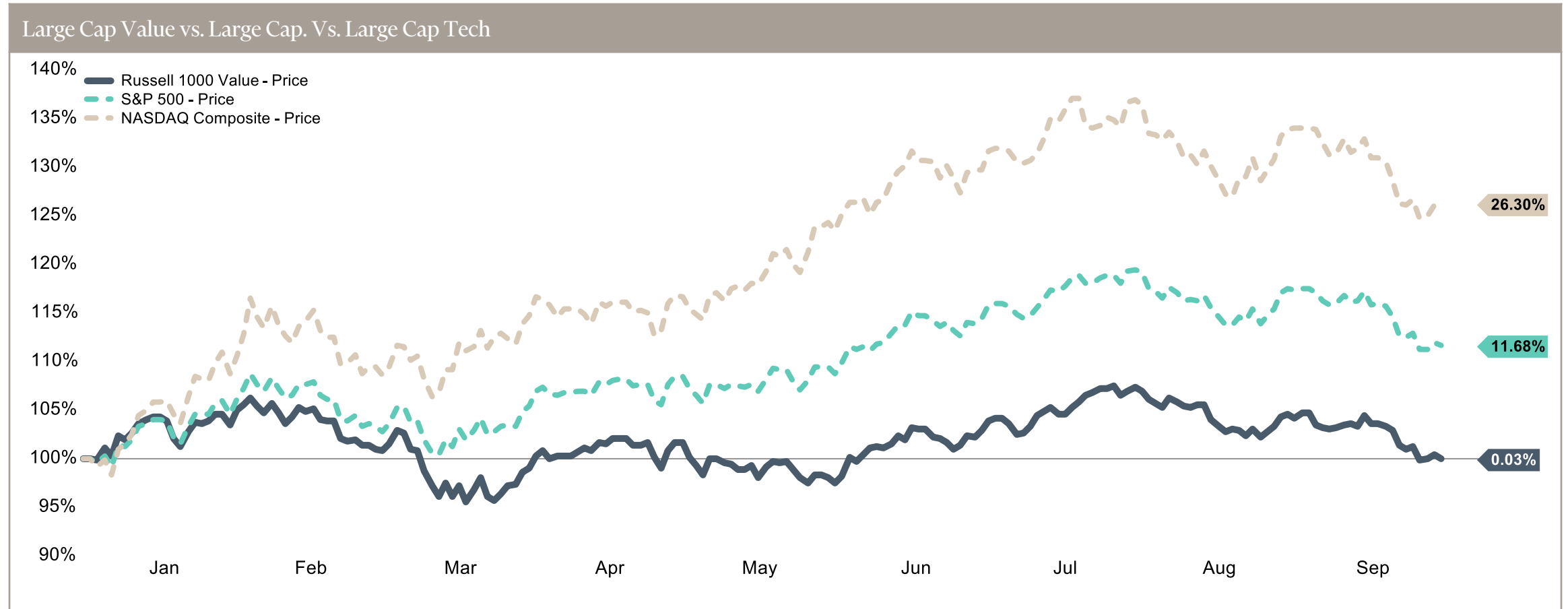
A handful of stocks have rallied. The rest of the market has sputtered.



Source: Factset, 9/30/2023

2023 Has Not Been A Good Year in the Stock Market

A handful of stocks have rallied. The rest of the market has sputtered.



Source: Factset, 9/30/2023

Is the Market Expensive? A Debate

Year-Over-Year Earnings Growth Projected at 12% in both 2024 and 2025

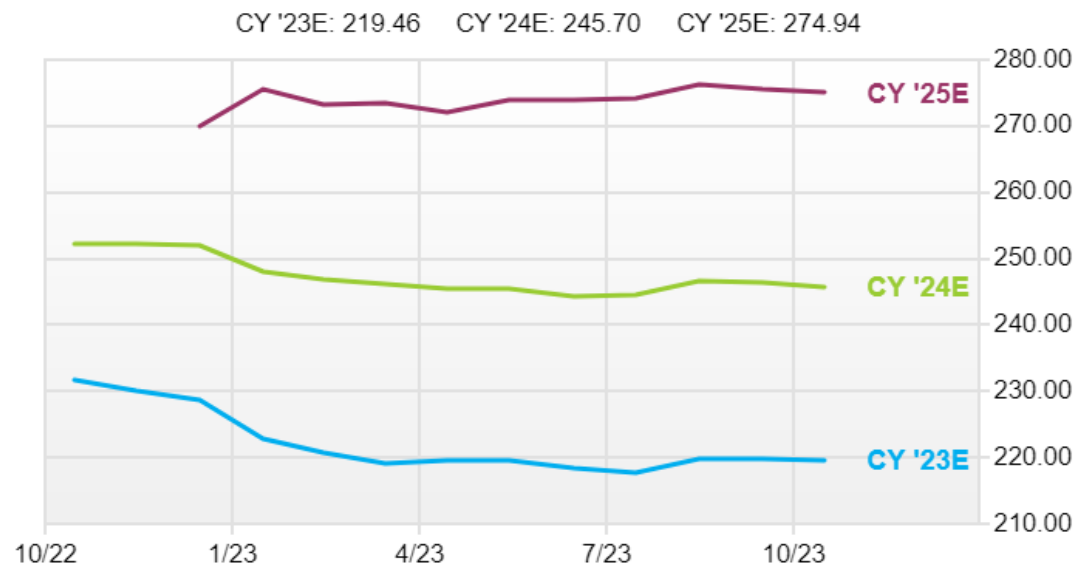
Change in S&P 500 Earnings Forecasts

S&P 500 (SP50)

\$4,327.78

[Key Statistics](#)

[FactSet Market Aggregates](#)



Source: Factset, 10/13/2023

Is the Market Expensive? A Debate

On a P/E basis, the market is neither cheap nor expensive

Large Cap Valuations



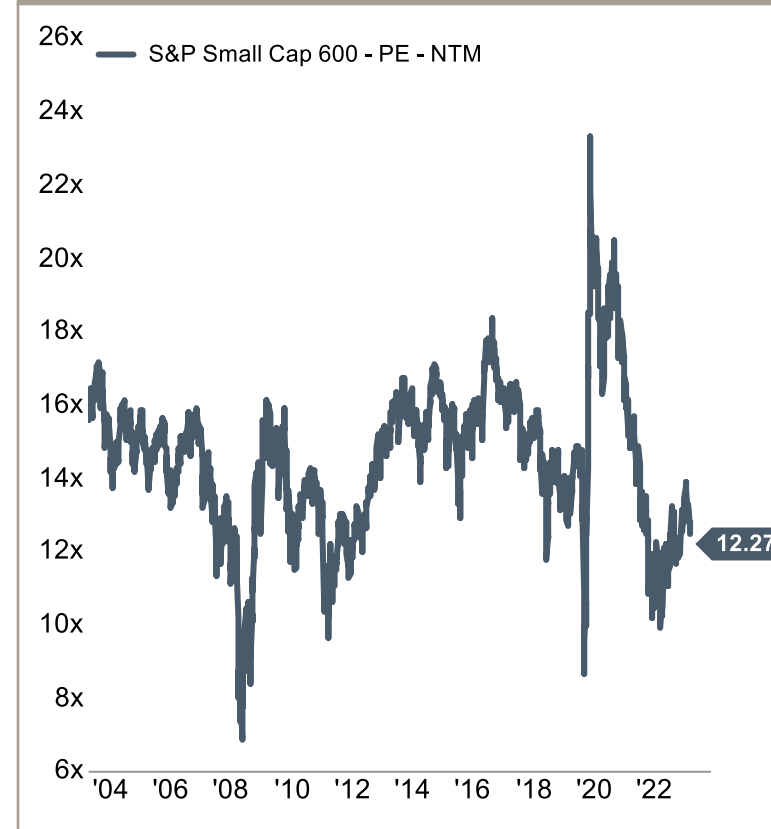
Source: Factset, 9/30/2023

Mid Cap Valuations



Source: Factset, 9/30/2023

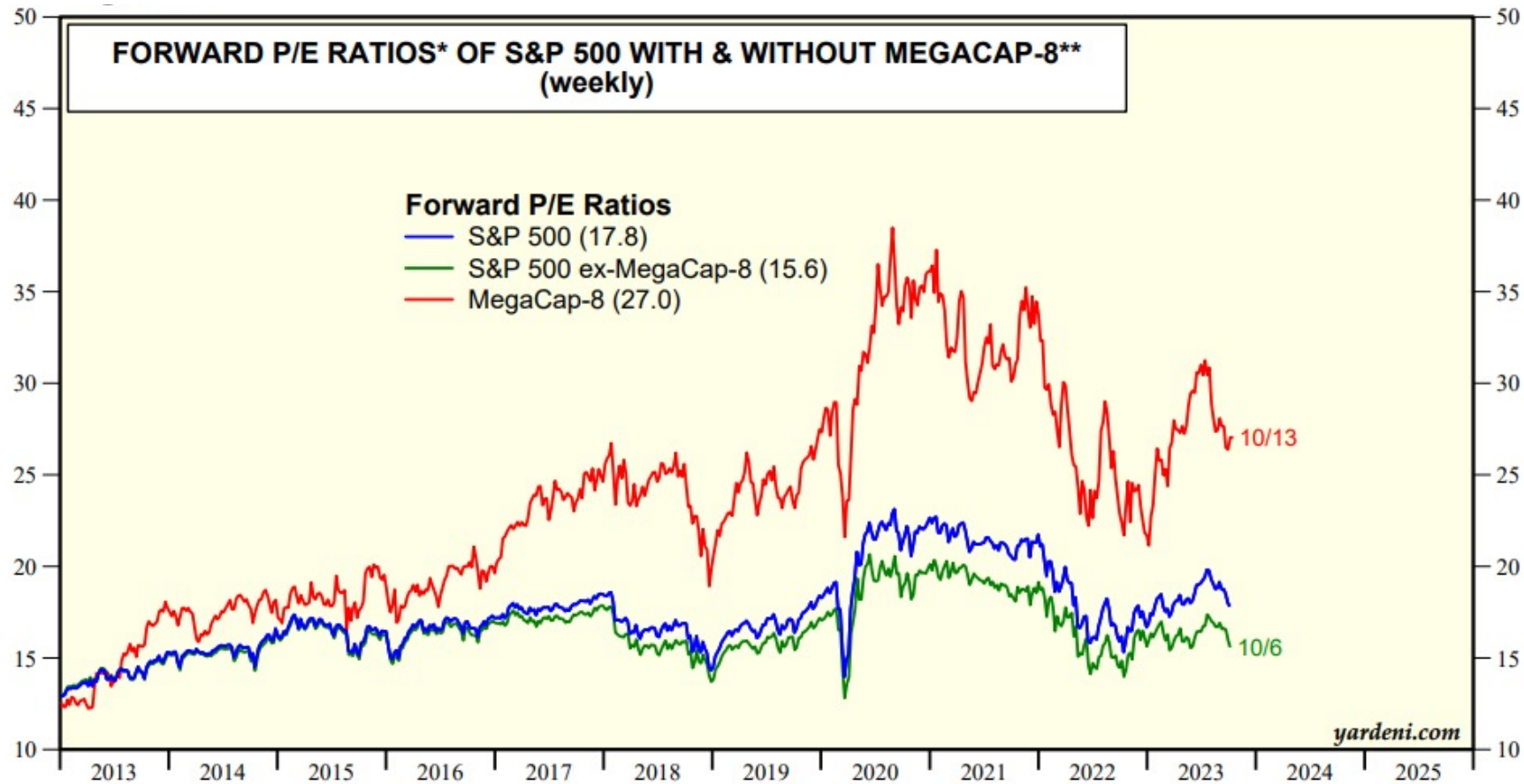
Small Cap Valuations



Source: Factset, 9/30/2023

Is the Market Expensive? A Debate

A little deeper dive may indicate the market is (arguably) cheap



* Price divided by consensus forward earnings forecast.

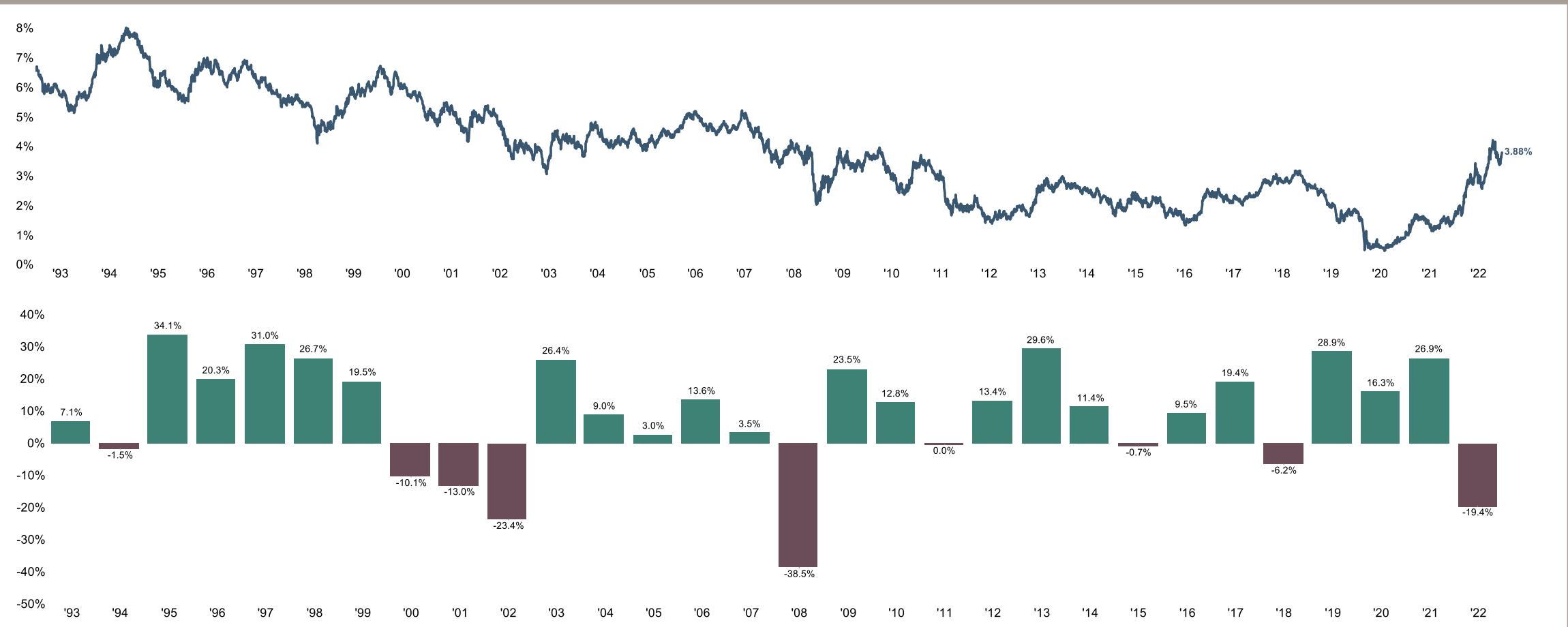
** MegaCap-8 stocks include Alphabet, Amazon, Apple, Meta, Microsoft, Netflix, NVIDIA, and Tesla. Both classes of Alphabet are included.

Source: I/B/E/S data by Refinitiv.

Is the Market Expensive? A Debate

Higher interest rates are not sufficient on their own to call the market expensive

10-Year Treasury Yield vs. S&P 500 Returns

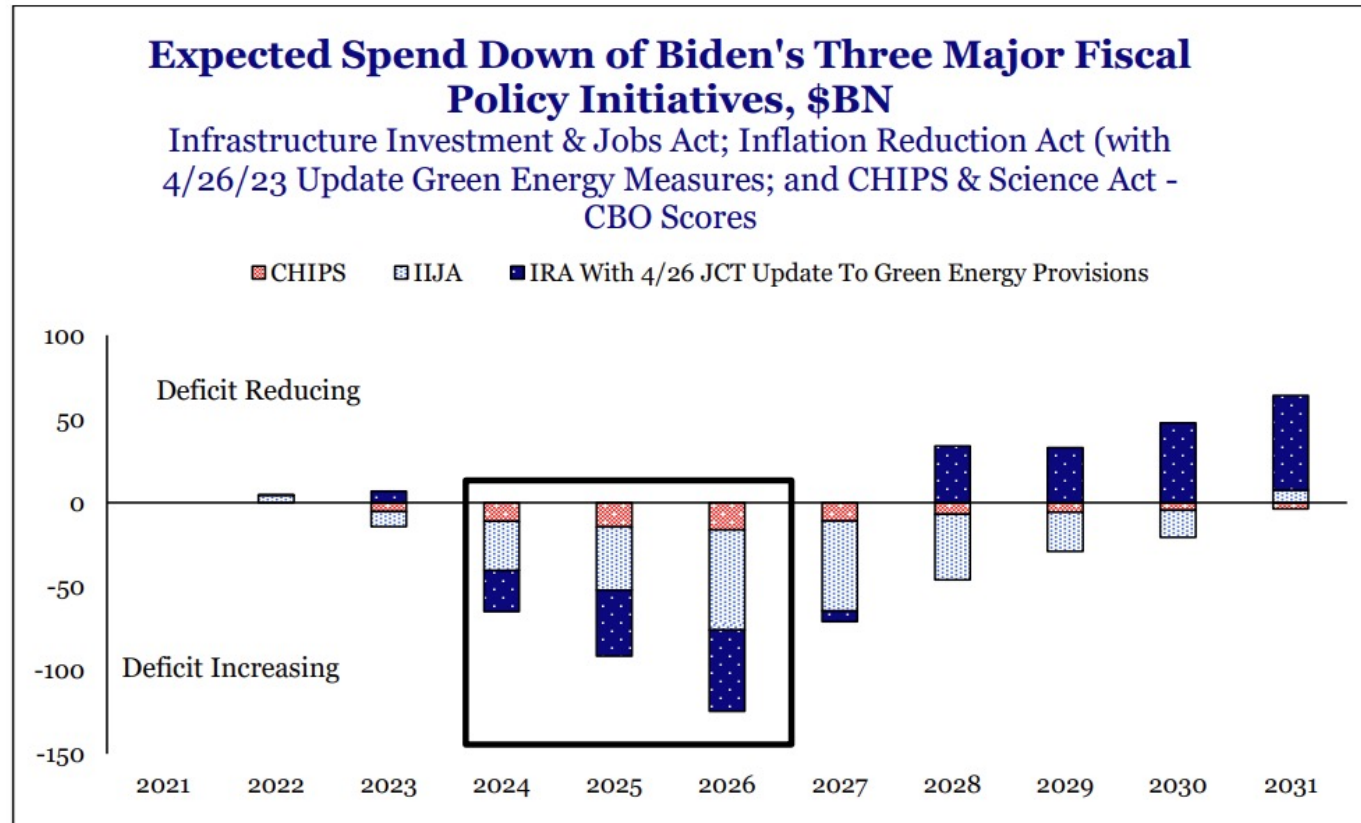


Source: Factset, 12/31/2023

Why Are We Bullish?

After the U.S. Federal Reserve is done raising rates, the markets may focus on this:

LONG LAG TIME OF INFRASTRUCTURE SPENDING: THE EFFORT REALLY DOES NOT START UNTIL 2024



Source: Strategas

Why Are We Bullish?



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