HHM

WEALTH ADVISORS

TRUST MATTERS.

June 2023

Point of View – Economy – Markets

Important Information

The views and opinions expressed are those of the speaker and are subject to change based on factors such as market and economic conditions. These views and opinions are not an offer to buy a particular security and should not be relied upon as investment advice. Past performance cannot guarantee comparable future results.

Important Information

Performance quoted is past performance and cannot guarantee comparable future results; current performance may be higher or lower.

Results shown assume the reinvestment of dividends.

An investment cannot be made directly in an index.

Investments with higher return potential carry greater risk for loss.

Investing in small companies involves greater risks not associated with investing in more established companies, such as business risk, significant stock price fluctuations and illiquidity.

Foreign securities have additional risks, including exchange rate changes, political and economic upheaval, the relative lack of information about these companies, relatively low market liquidity and the potential lack of strict financial and accounting controls and standards.

Investing in emerging markets involves greater risk than investing in more established markets such as risks relating to the relatively smaller size and lesser liquidity of these markets, high inflation rates, adverse political developments and lack of timely information.

Fluctuations in the price of gold and precious metals often dramatically affect the profitability of the companies in the gold and precious metals sector. Changes in political or economic climate for the two largest gold producers, South Africa and the former Soviet Union, may have a direct effect on the price of gold worldwide.

Mixed signals

THE WALL STREET JOURNAL.

Signs Point to a Recession – or Not

Predicting an economic downturn isn't crazy, but being confident about it right now might be.

It is OK to say a recession is about to hit the U.S., and it is OK to predict one won't. What probably isn't OK is to put too much confidence in either forecast these days.

It can seem wishy-washy to not express certainty about what will happen. But for those who need to balance the risks of recession with the opportunities of continued expansion, a willingness to utter a hard-to-say three-word sentence might still be in order: "I don't know."

Source: *The Wall Street Journal.* "Signs Point to a Recession—or Not" by Justin Lahart. June 8, 2023.

Diverging Data

Bad news

- LEI
- Inverted yield curve
- Weak manufacturing PMI
- Weak services PMI
- Negative sentiment

Good news

- Strong hiring data
- Strong Q1 GDP
- Strong Q2 GDPNow forecast
- Strong May S&P Global survey
- Strong May car sales
- Strong May housing starts
- Strong May retail sales
- Oil down
- Consumers still have cash – M2
- Strong corporate balance sheets
- Strong bank capital
- Inflation is moderating

Bad news

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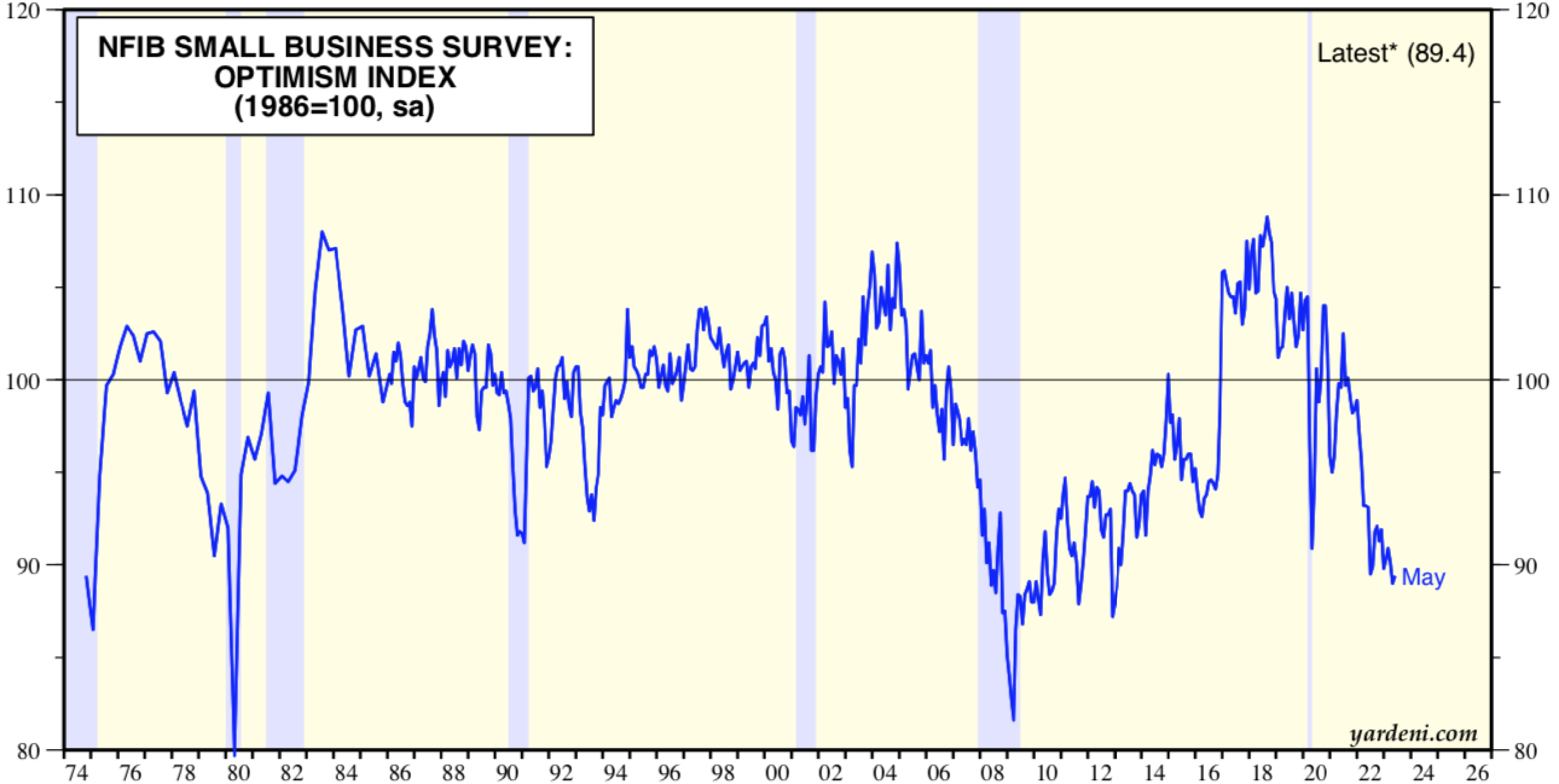
- Negative sentiment

NFIB Small Business Optimism Index – gloomy

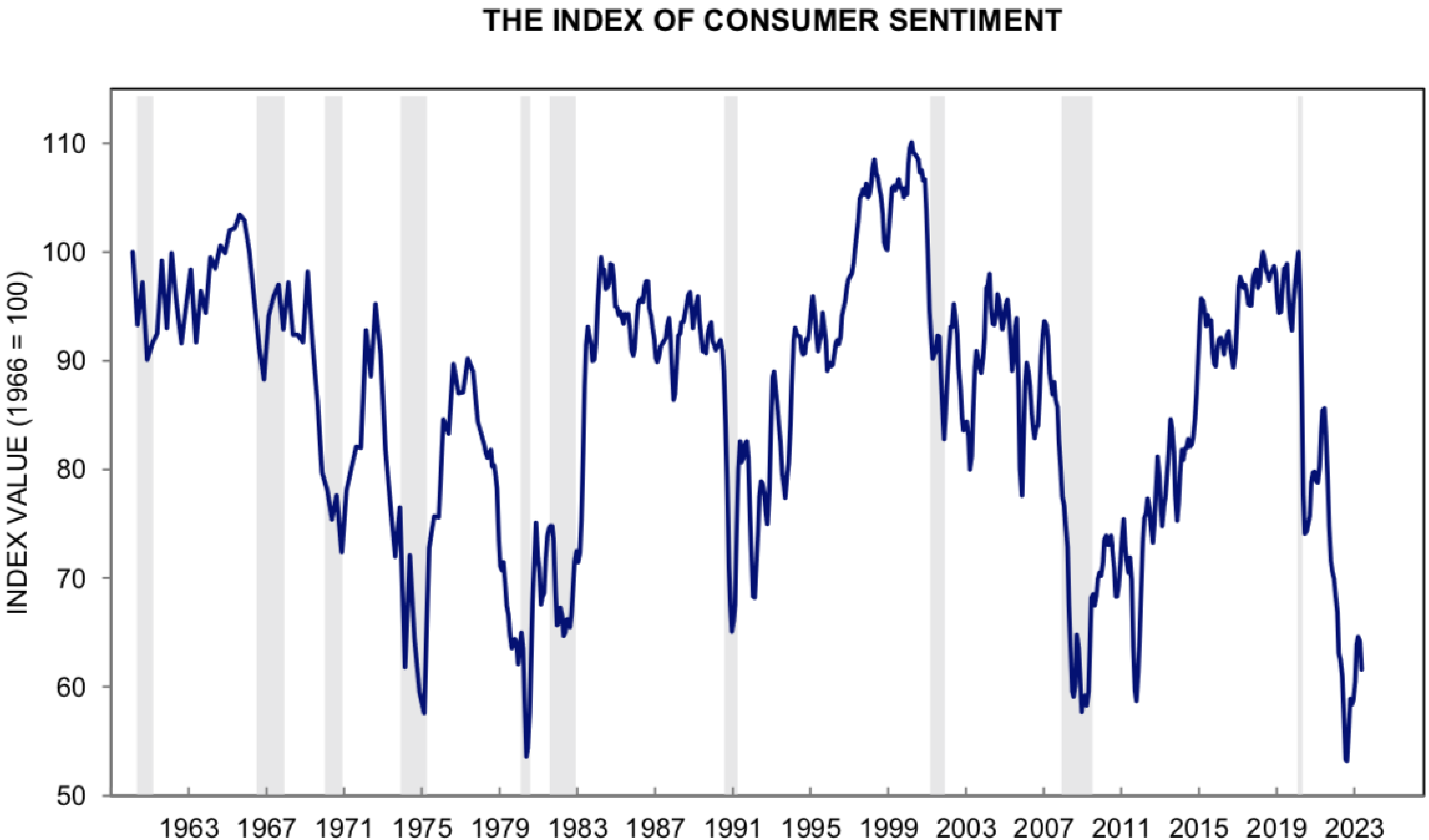
Figure 1.



* First month of every quarter from 1974 to 1986, then monthly.
Note: Shaded areas are recessions according to the National Bureau of Economic Research.
Source: National Federation of Independent Business.

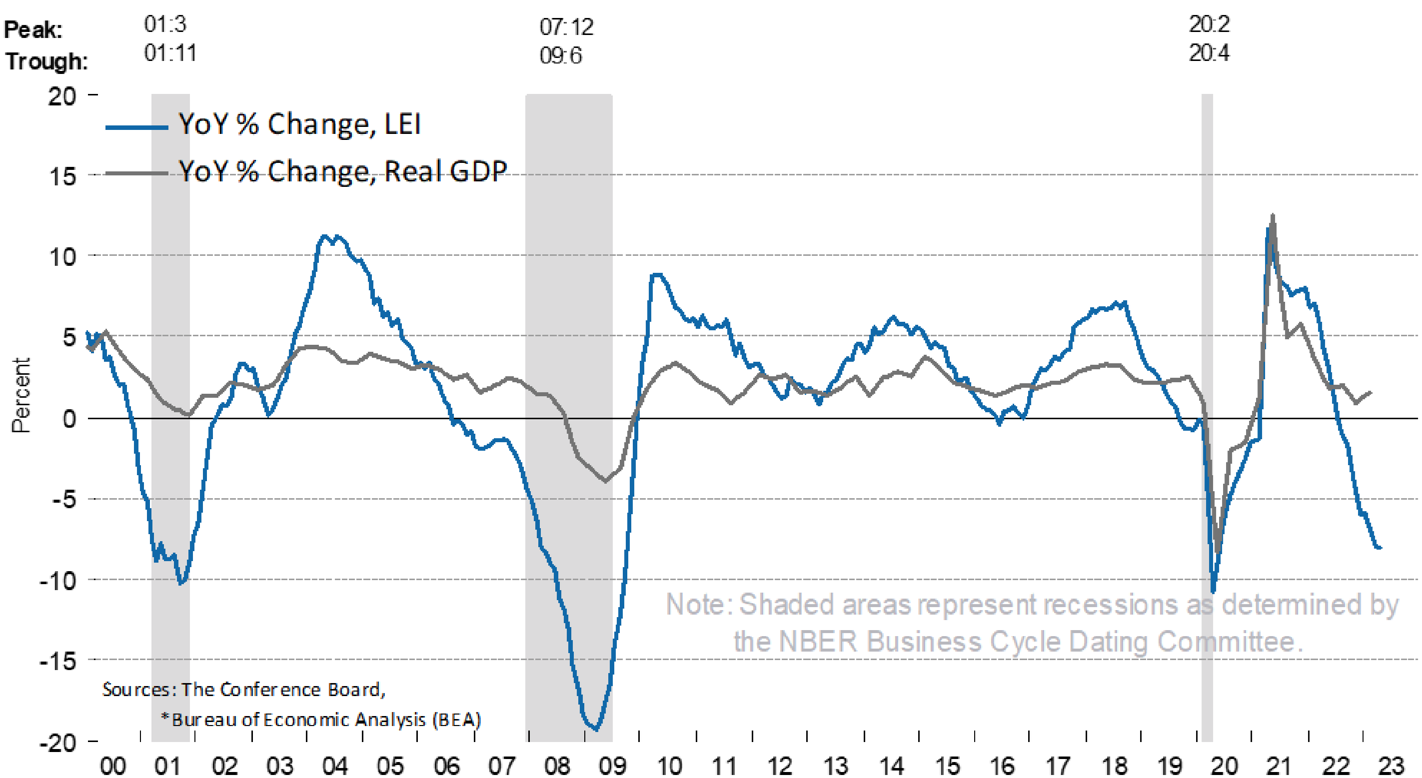
Source: Yardeni Research, Inc., with permission. June 13, 2023.

U Mich consumer sentiment – gloomy



Source: The University of Michigan. Data through May 2023.

U.S. index of leading economic indicators – signaling recession

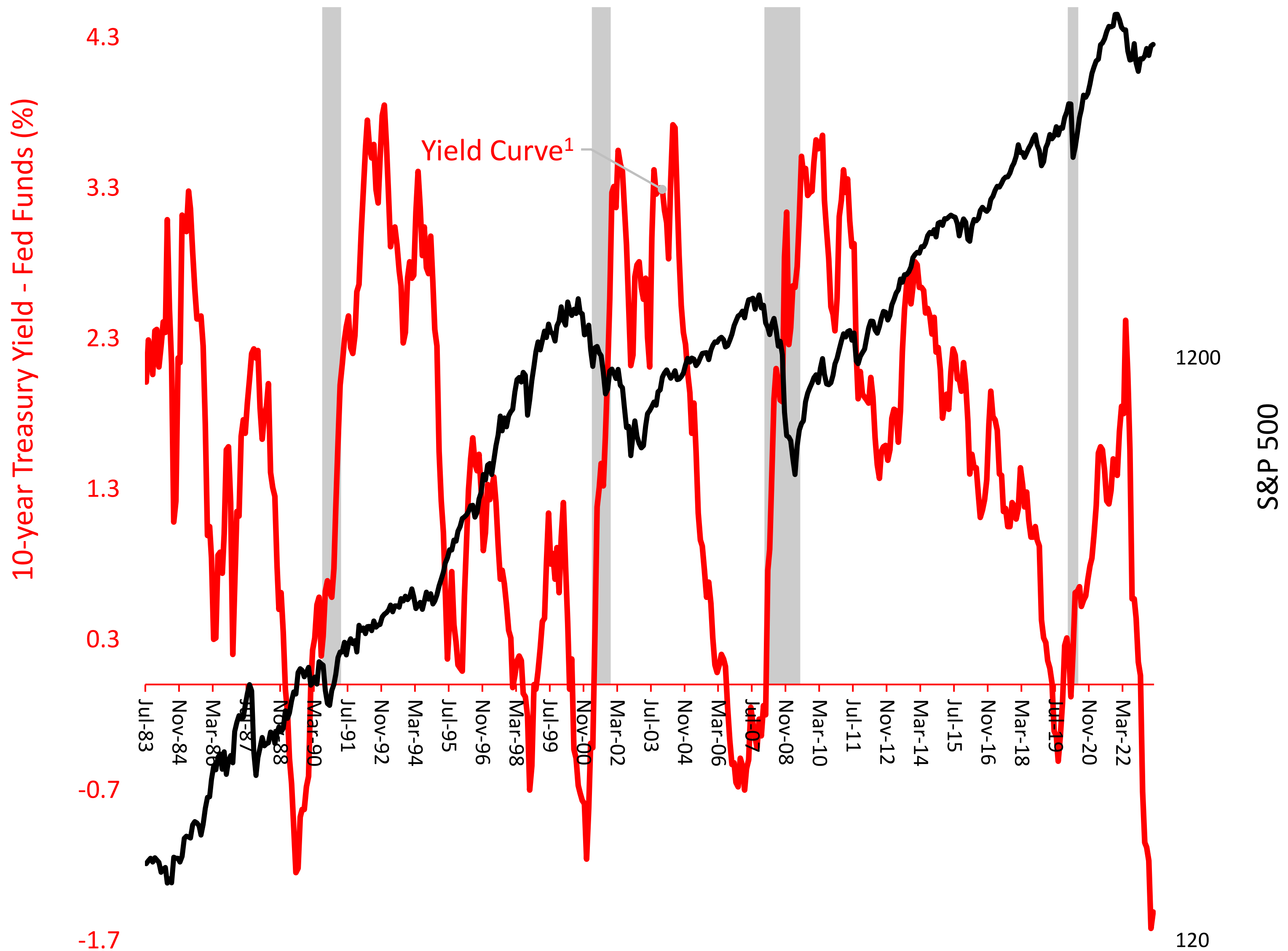


"The LEI for the US declined for the thirteenth consecutive month in April, signaling a worsening economic outlook. … The Conference Board forecasts a contraction of economic activity starting in Q2 leading to a mild recession by mid-2023."

This chart shows how the LEI has definitively rolled over well in advance of the last recessions.

The Conference Board Leading Economic Index® (LEI) components: 1) average weekly hours worked, manufacturing; 2) average weekly initial unemployment claims; 3) manufacturers' new orders – consumer goods and materials; 4) ISM index of new orders; 5) manufacturers' new orders, nondefense capital goods; 6) building permits – new private housing units; 7) stock prices, S&P 500; 8) Leading Credit Index™; 9) interest rate spread; 10-year Treasury minus fed funds; 10) index of consumer expectations.
Source: ©The Conference Board. Data through April released May 18, 2023.

Yield curve vs. the S&P 500

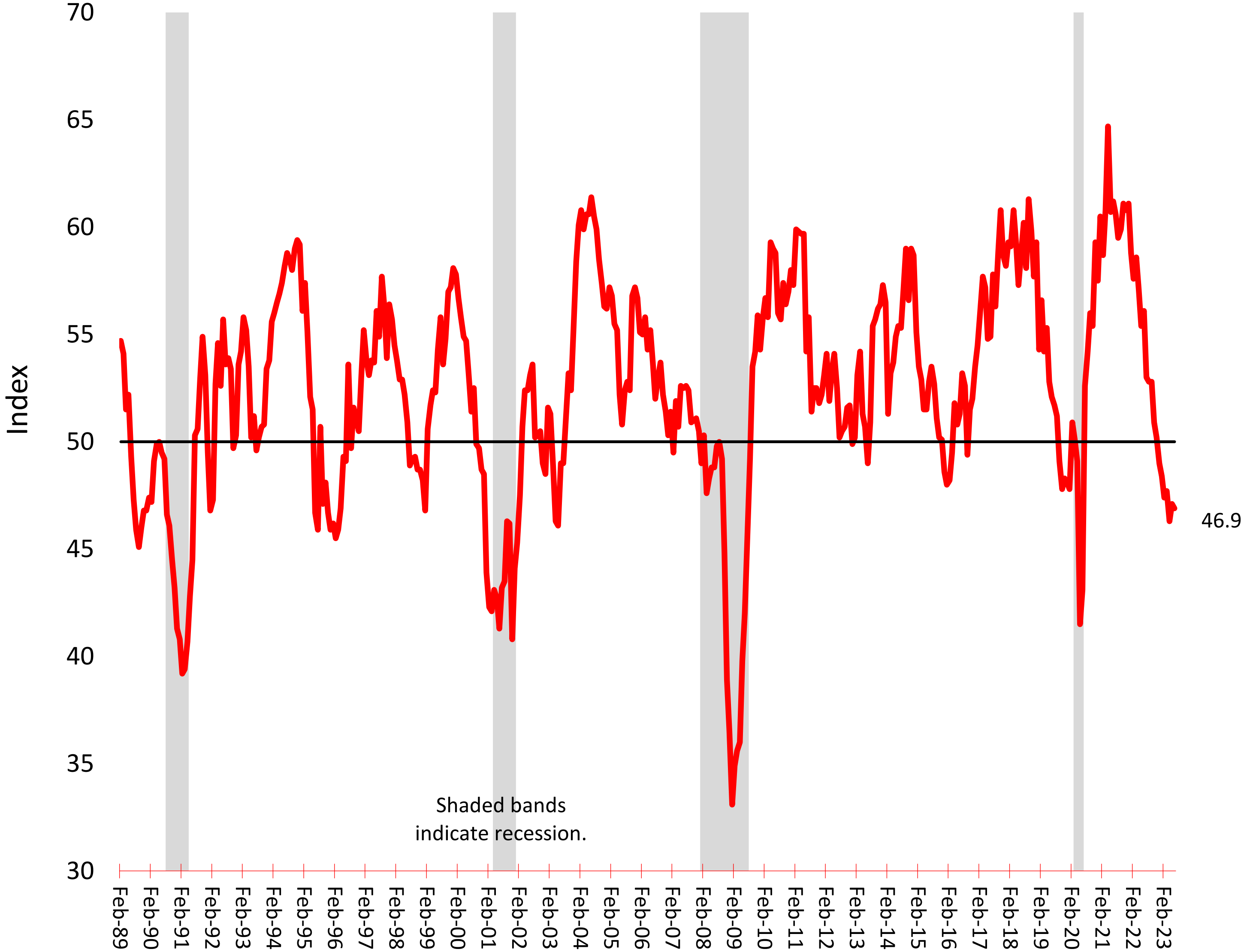


When the yield curve has inverted the economy has usually turned down into recession with a lag of a year or more.

Today, the yield curve is inverted.

Sources: NBER, Federal Reserve and Standard & Poor's. Data through May 2023.
[1]The interest rate on the 10-year Treasury bond (long term) minus the fed funds rate (short term).

ISM manufacturing PMI



May at 46.9.

May new orders 42.6.

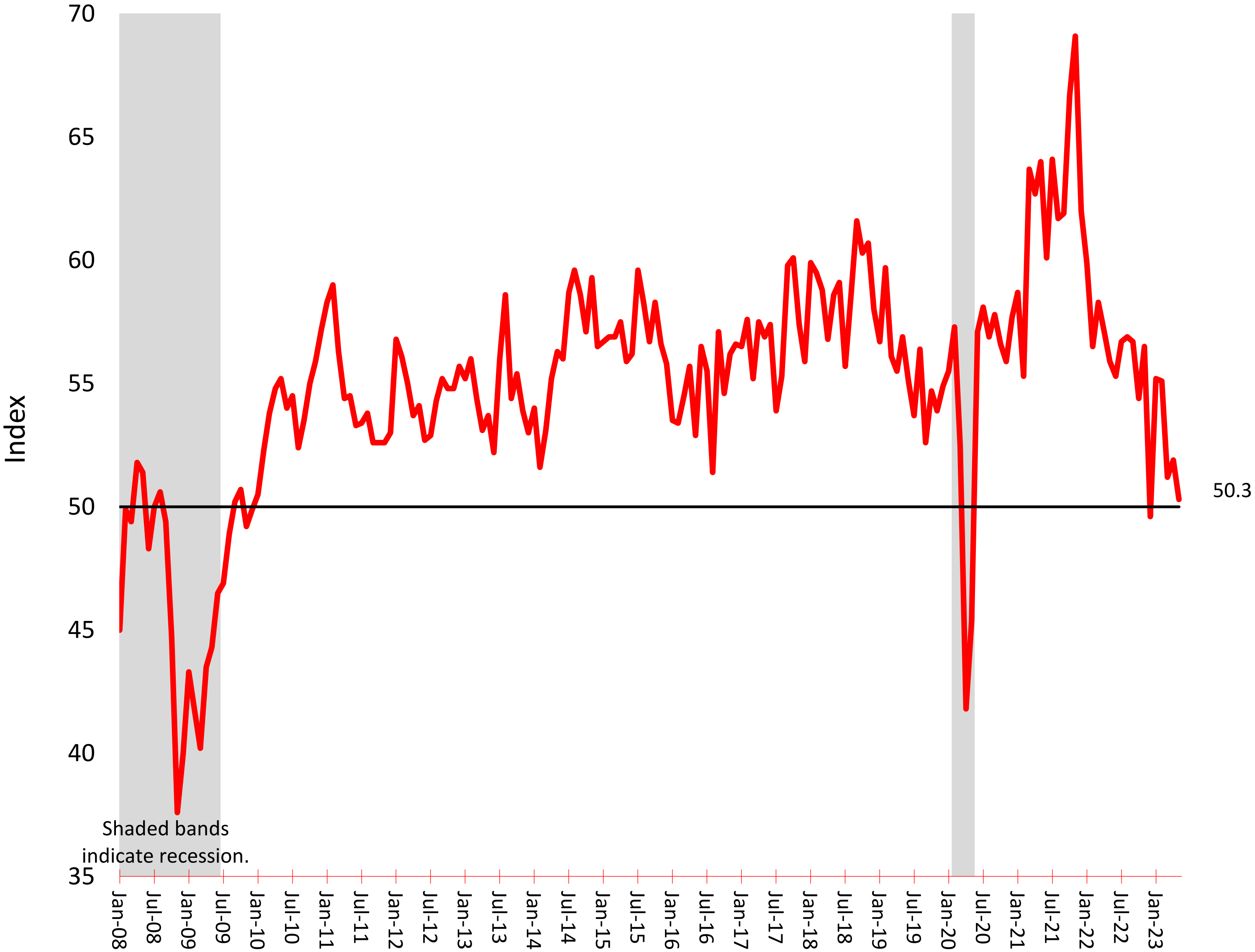
Note the historic volatility in the manufacturing PMI.

Note how this indicator has slumped well below 50 even during periods of strong economic expansion, eg. 1995, 1999, 2003, 2013, 2016.

Source: Copyright 2023, Institute for Supply Management. Data through May 2023.
ISM: "A reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally contracting. A Manufacturing PMI® above 48.7 percent, over a period of time, generally indicates an expansion of the overall economy."

Economic data

ISM services PMI



May at 50.3.

May new orders 52.9.

Services comprise 89% of the U.S. economy[1] and 91% of total nonfarm jobs.

Source: Copyright 2023, Institute for Supply Management; data through May 2023. This data series was created in 2008. ISM: "A reading above 50 percent indicates that the services sector economy is generally expanding; below 50 percent indicates that it is generally contracting." "A Services PMI® above 50.1 percent, over time, generally indicates an expansion of the overall economy." [1]Value added as a percent of GDP.

Good news

- Strong hiring data
- Strong Q1 GDP
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- Strong May S&P Global survey
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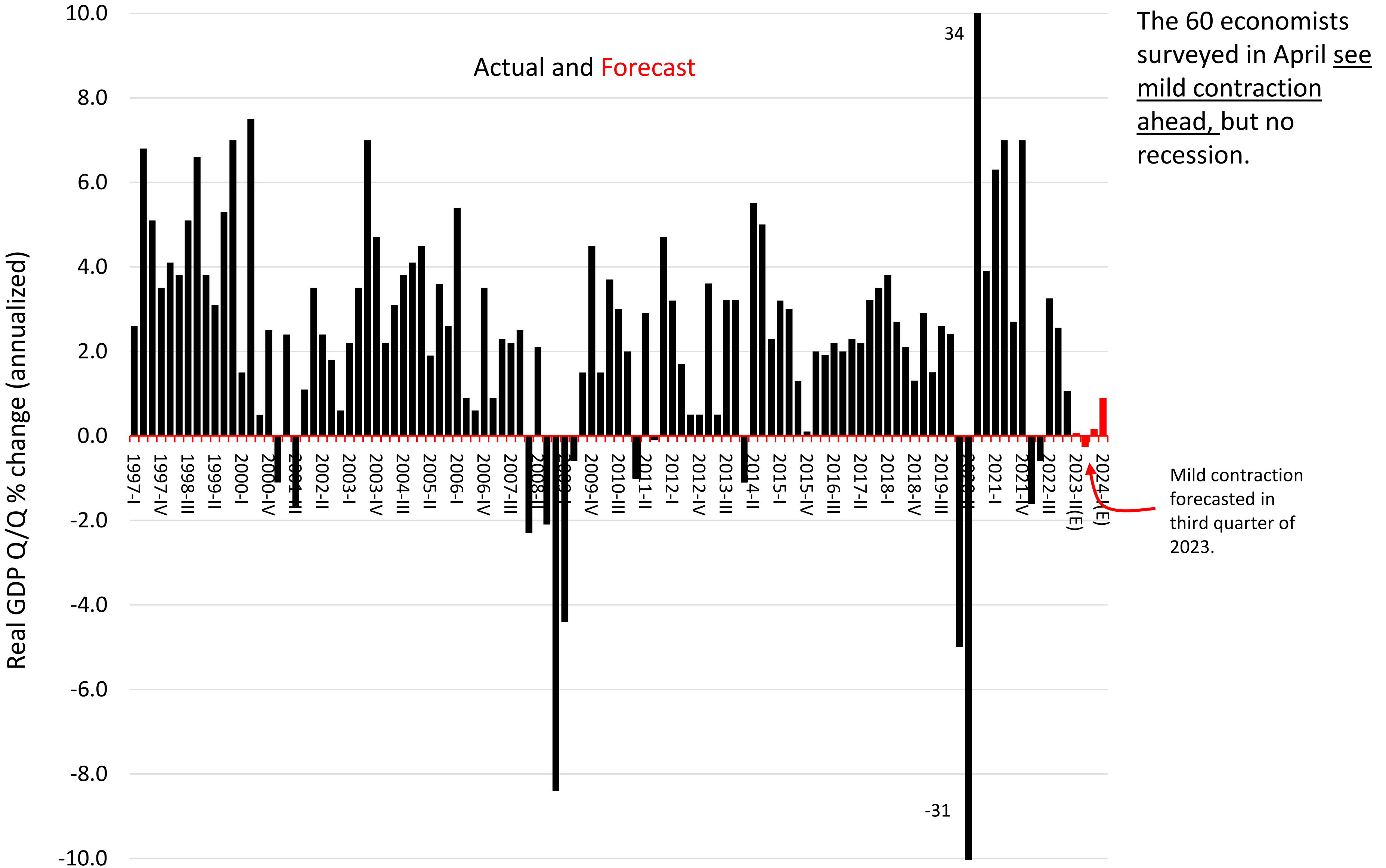
Consensus GDP forecast

GDP



The 60 economists surveyed in April <u>see mild contraction ahead,</u> but no recession.

Sources: Bureau of Economic Analysis, actual quarterly data through March 2023. *The Wall Street Journal* survey released April 2023.

Strong demand for services

THE WALL STREET JOURNAL.

U.S.'s Growth Rate Hits 13-Month High

Economic output in the U.S. posted the sharpest rise this month since April 2022, according to data firm S& P Global's surveys of purchasing managers released Tuesday. The gain was led by service-providing businesses, which reported stronger demand for travel, dining out, and other leisure activities. The improvement was offset by cooling activity among U.S. manufacturers.

"While service sector companies are enjoying a surge in postpandemic demand, especially for travel and leisure, manufacturers are struggling with overfilled warehouses and a dearth of new orders as spending is diverted from goods to services," said S& P Global economist Chris Williamson.

Source: *The Wall Street Journal.* "U.S.'s Growth Rate Hits 13-Month High" by Paul Hannon and Harriet Torry. May 24, 2023.

Atlanta Fed's GDPNow forecast

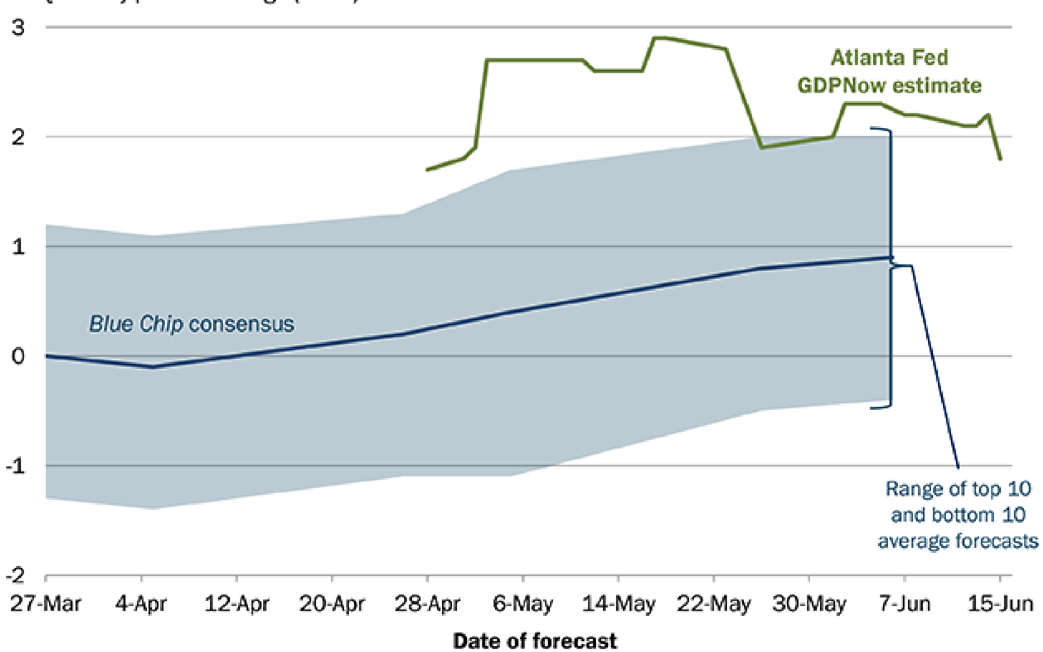
Latest estimate: 1.8 percent -- June 15, 2023

The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the second quarter of 2023 is **1.8 percent** on June 15, down from 2.2 percent on June 8. After recent releases from the US Bureau of Labor Statistics, the US Census Bureau, the Federal Reserve Board of Governors, and the US Department of the Treasury's Bureau of the Fiscal Service, the nowcasts of second-quarter real personal consumption expenditures growth and second-quarter real government spending growth decreased from 1.4 percent and 2.7 percent, respectively, to 0.9 percent and 2.3 percent.

*The next GDPNow update is **Tuesday, June 20**. Please see the "Release Dates" tab below for a list of upcoming releases.*

Evolution of Atlanta Fed GDPNow real GDP estimate for 2023: Q2

Quarterly percent change (SAAR)

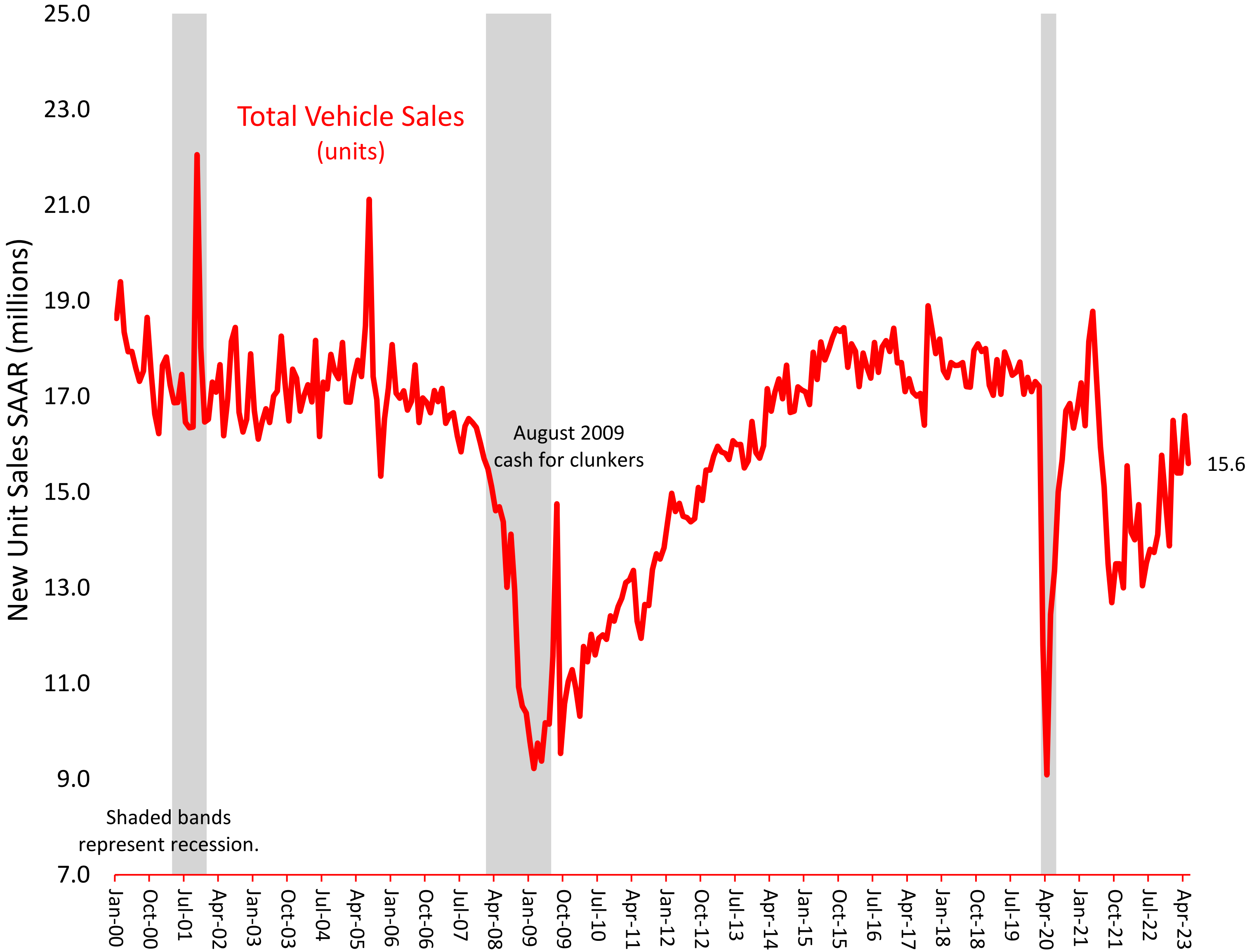


Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

Source: Federal Reserve Bank of Atlanta, June 15, 2023.

GDPNow is much higher than Blue Chip consensus.

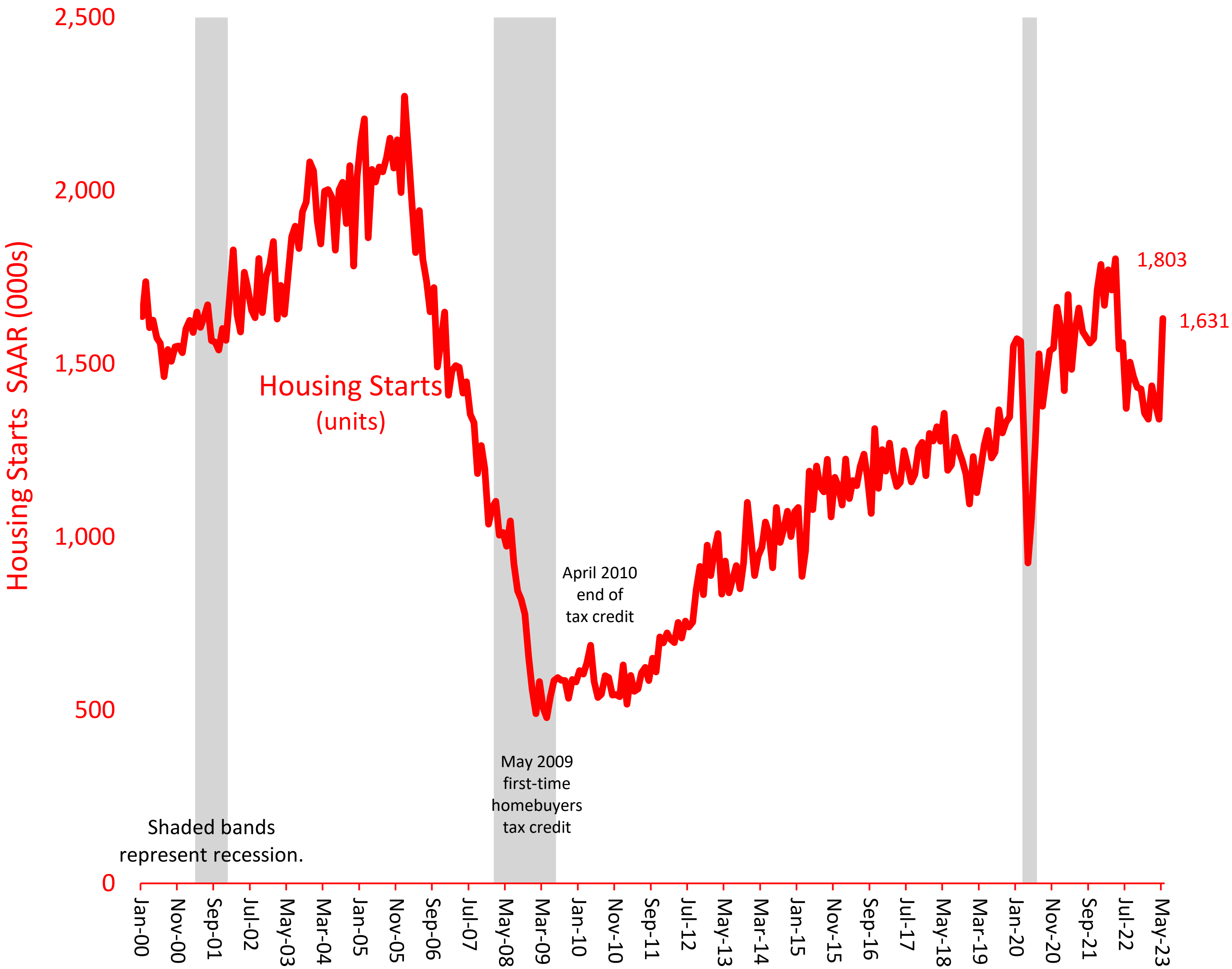
Vehicle sales



Car sales recovering.

Sources: BEA. Data through May 2023.

Housing starts



1.631 million in May.

May permits at 1.491 million.

"Housing starts also remain(ed) well below the projected rate of 1.6 to 1.8 million that is consistent with long-term demographics and the replacement of the existing housing stock (Herbert, McCue, and Spader 2016)." [1]

Sources: BEA and U.S. Census Bureau. Data through May 2023.

[1] *Economic Report of the President*, Council of Economic Advisors, February 2018

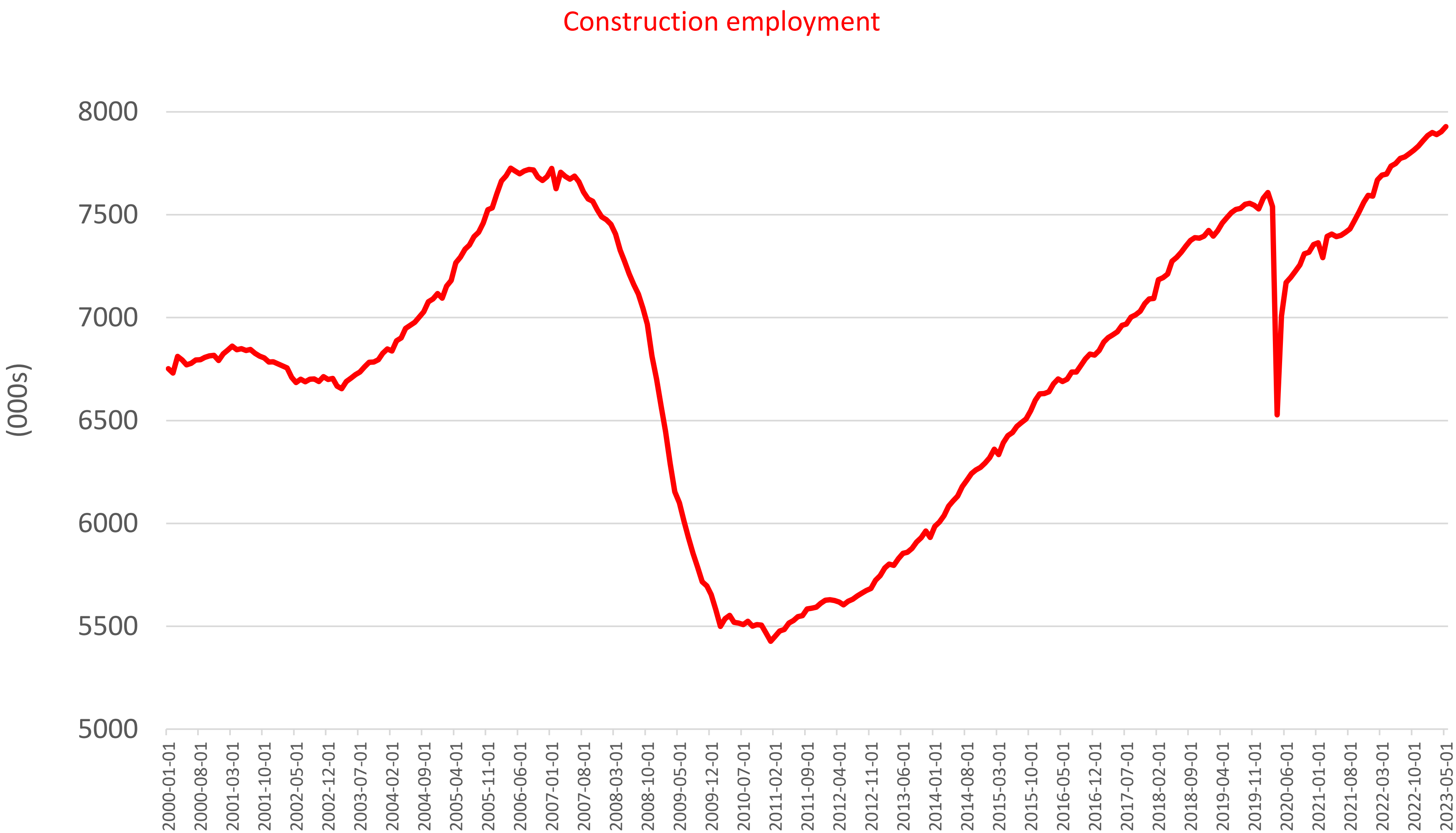
Construction boom

THE WALL STREET JOURNAL.

Excavator Sales Surge to Record on Heels of Boom in Construction

Source: *The Wall Street Journal.* “Excavator Sales Surge to Record on Heels of Boom in Construction”, by Bob Tita. June 9, 2023.

Construction employment – record high



Source: BLS. Data through May 2023.

Retail sales

THE WALL STREET JOURNAL.

Spring Spending Surge Boosts Growth

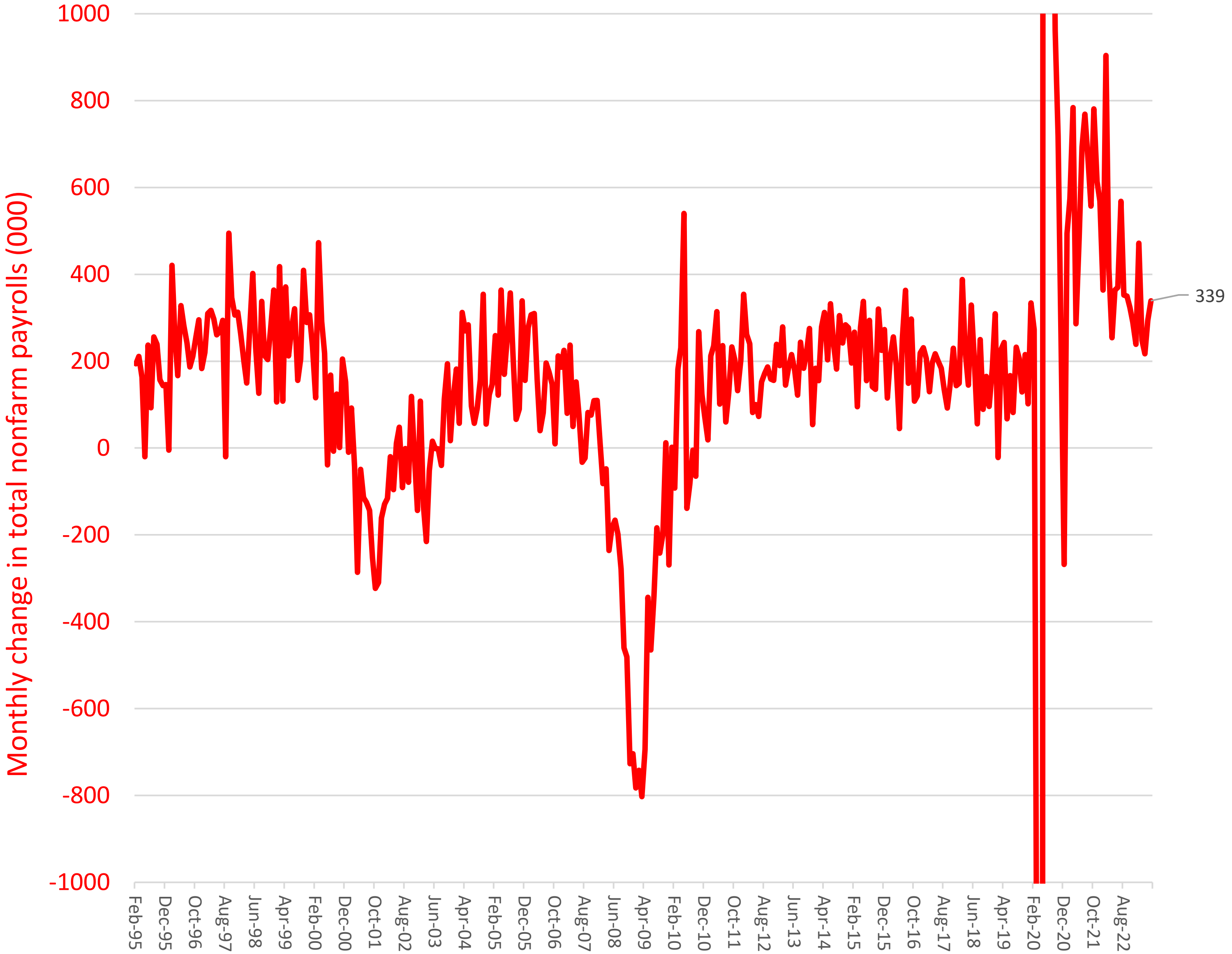
Retail sales rose 0.3% in May, despite high rates, after a strong April gain.

That growth reflected robust hiring and rising wages that pumped up incomes in recent months, further defying recession predictions in early 2023.

Source: *The Wall Street Journal.* “Spring Spending Surge Boosts Growth”, by Austen Hufford and Sarah Nassauer. June 16, 2023.

Economic data

Net new job formation

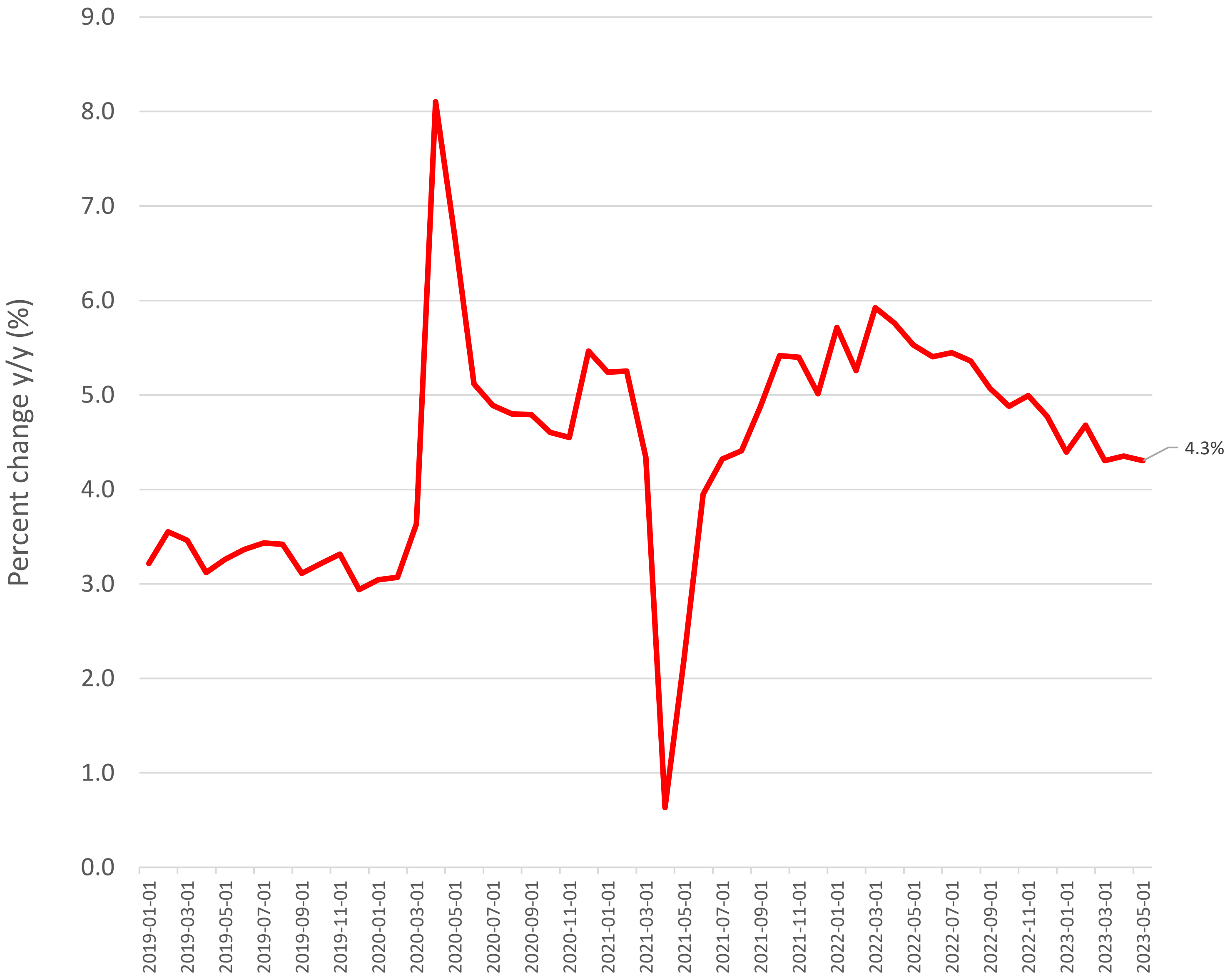


339,000 jobs gained in May on the establishment survey.

Source: Bureau of Labor Statistics. Data through May 2023.

Economic data

Average hourly earnings

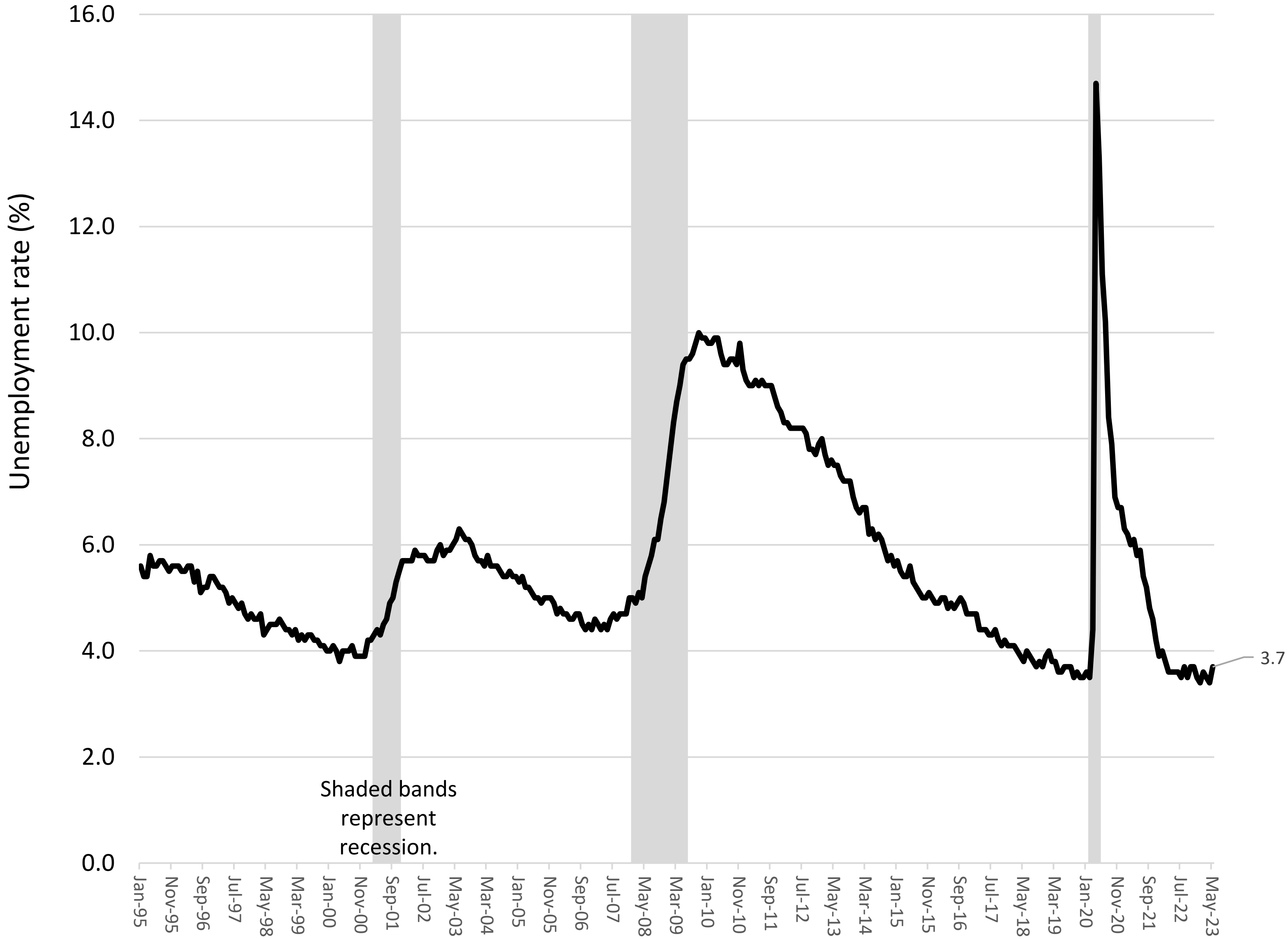


Ticked down in May.

Source: Bureau of Labor Statistics. Data through May 2023.

Economic data

Unemployment rate

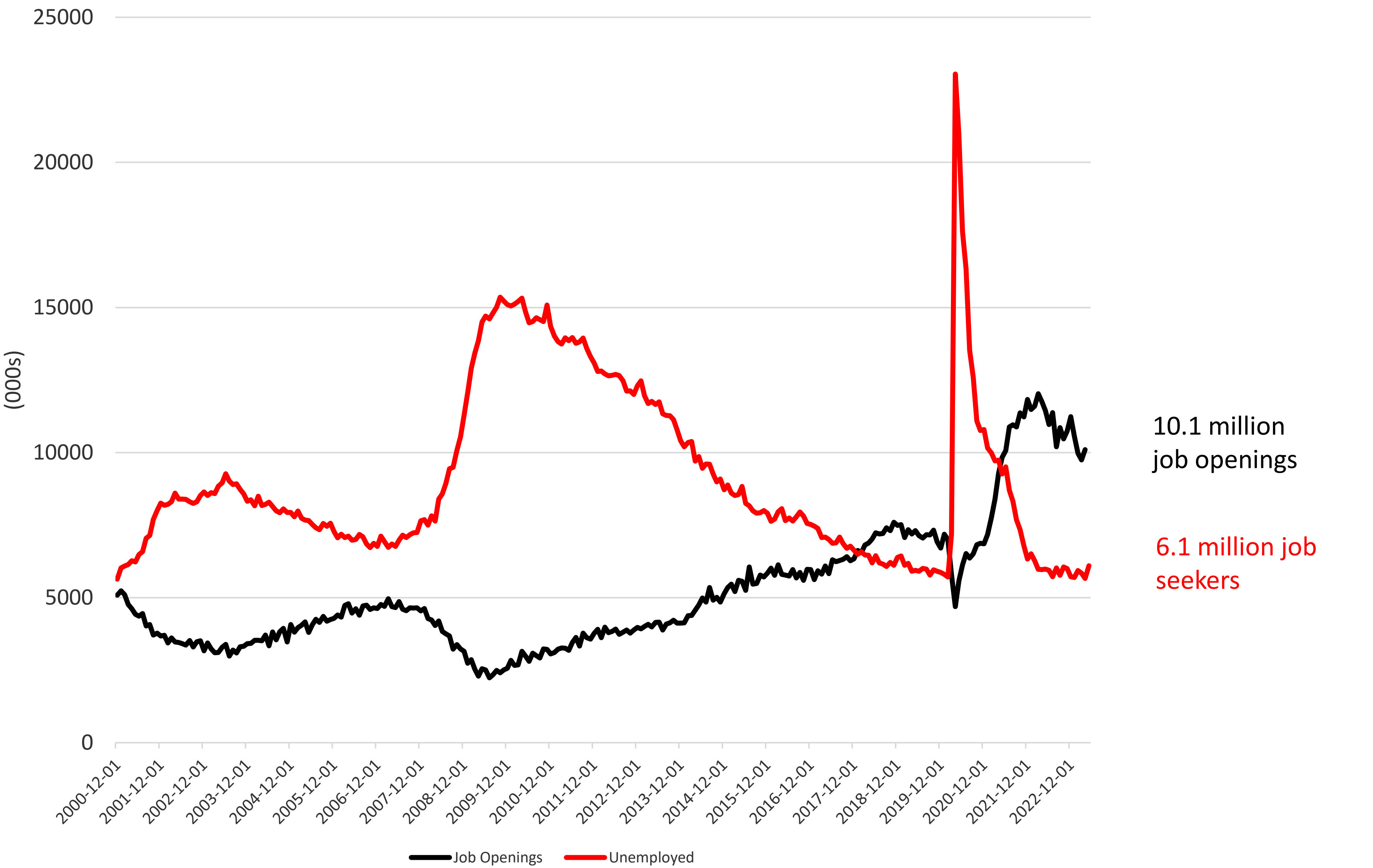


3.7% in May.

Source: Bureau of Labor Statistics. Data through May 2023.

Economic data

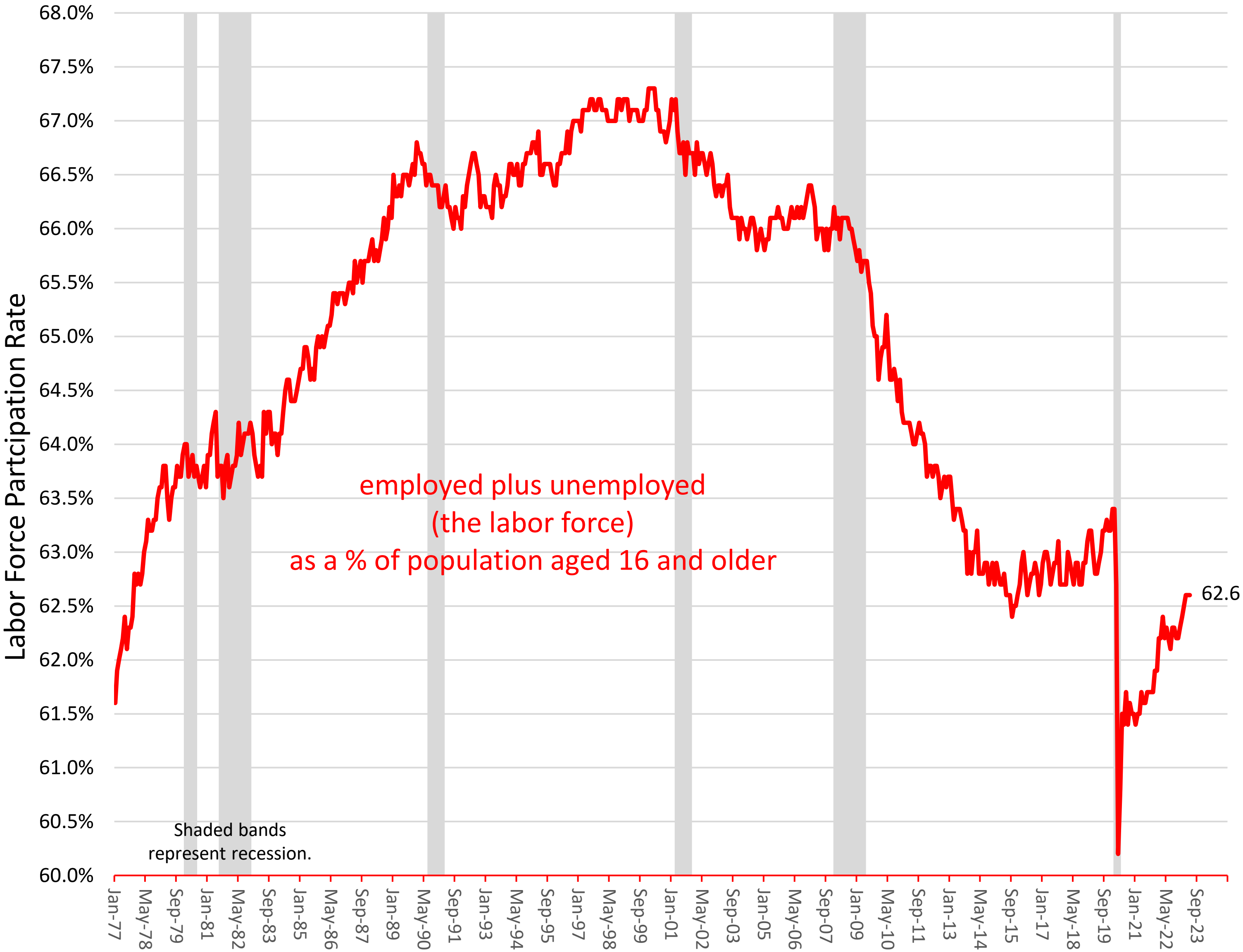
"Excess demand" for labor – this time is different



Source: Bureau of Labor Statistics. Data through April 2023 for job openings, May 2023 for unemployed.

Economic data - jobs

Labor force participation rate[1] – recovering from Covid



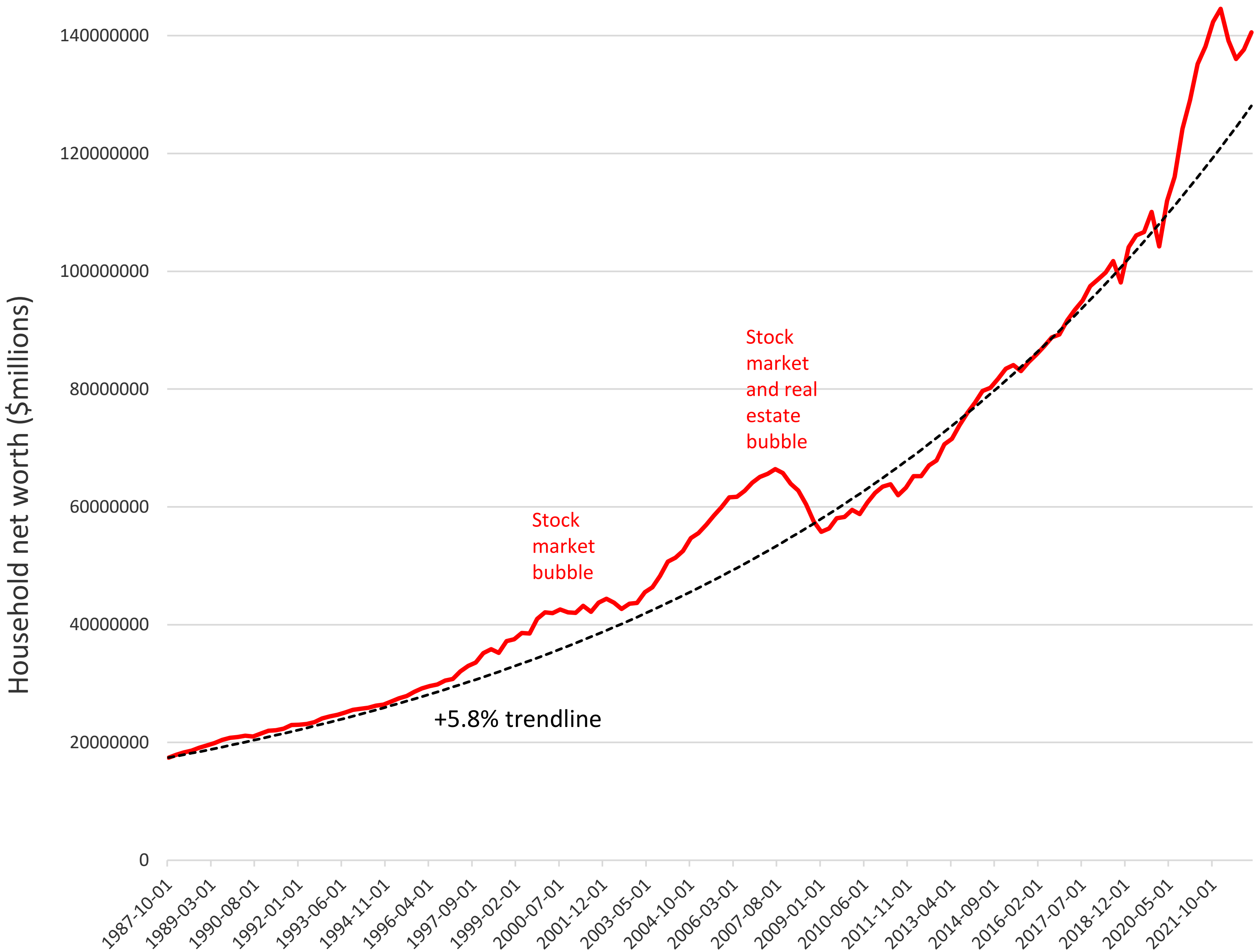
Americans were joining and staying in the labor force in increasing numbers … until Covid-19.

A reduction in immigration and a surge in retirements have subtracted from the labor force.

Source: BLS. Data through May 2023.

[1]Labor force participation rate: the proportion of the civilian noninstitutional population 16 years of age and older either at work or actively seeking work.

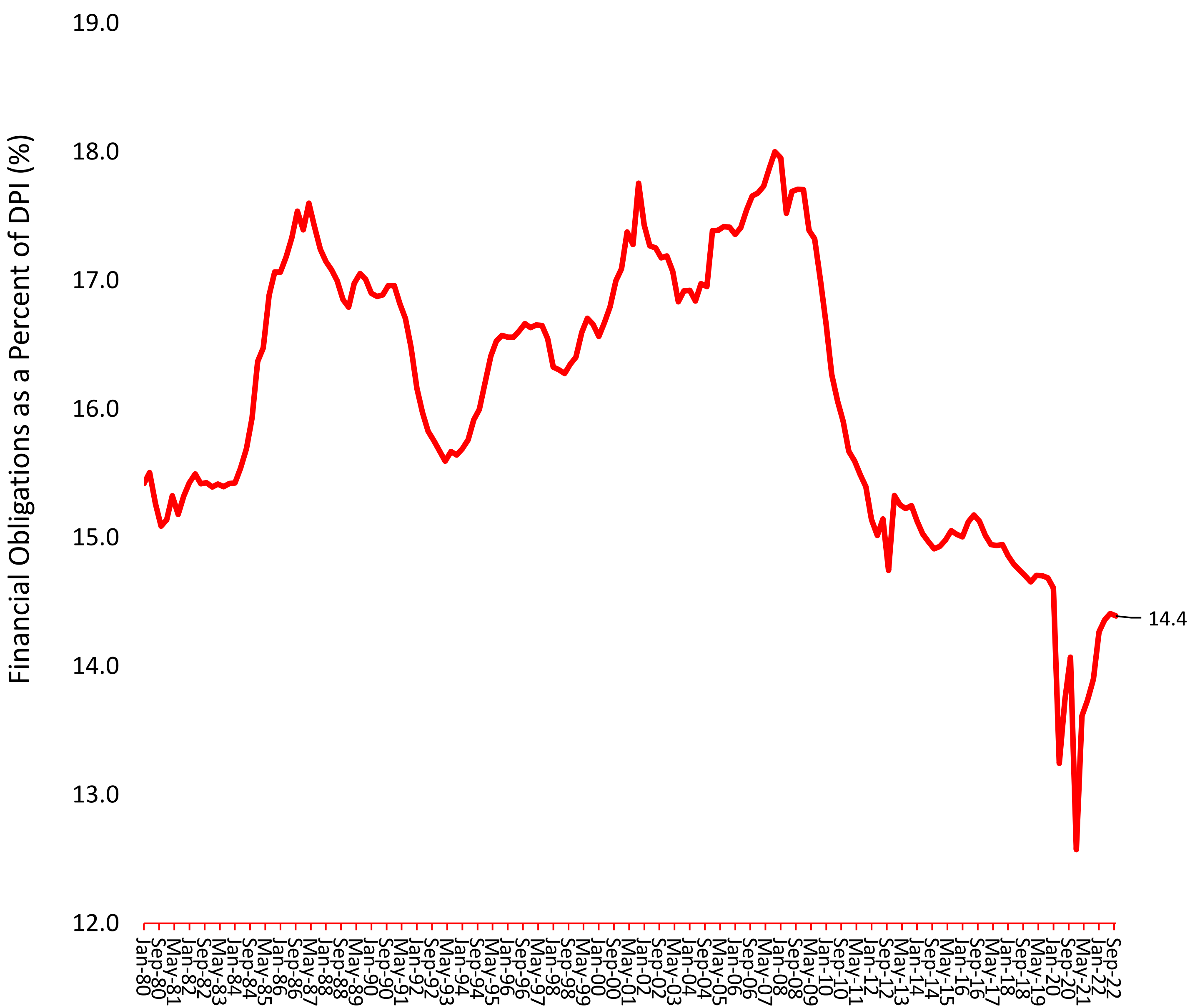
Household net worth – the wealth effect



Household net worth surged.

Source: Federal Reserve, FRBSL. Quarterly data through March 2023, released June 8, 2023.

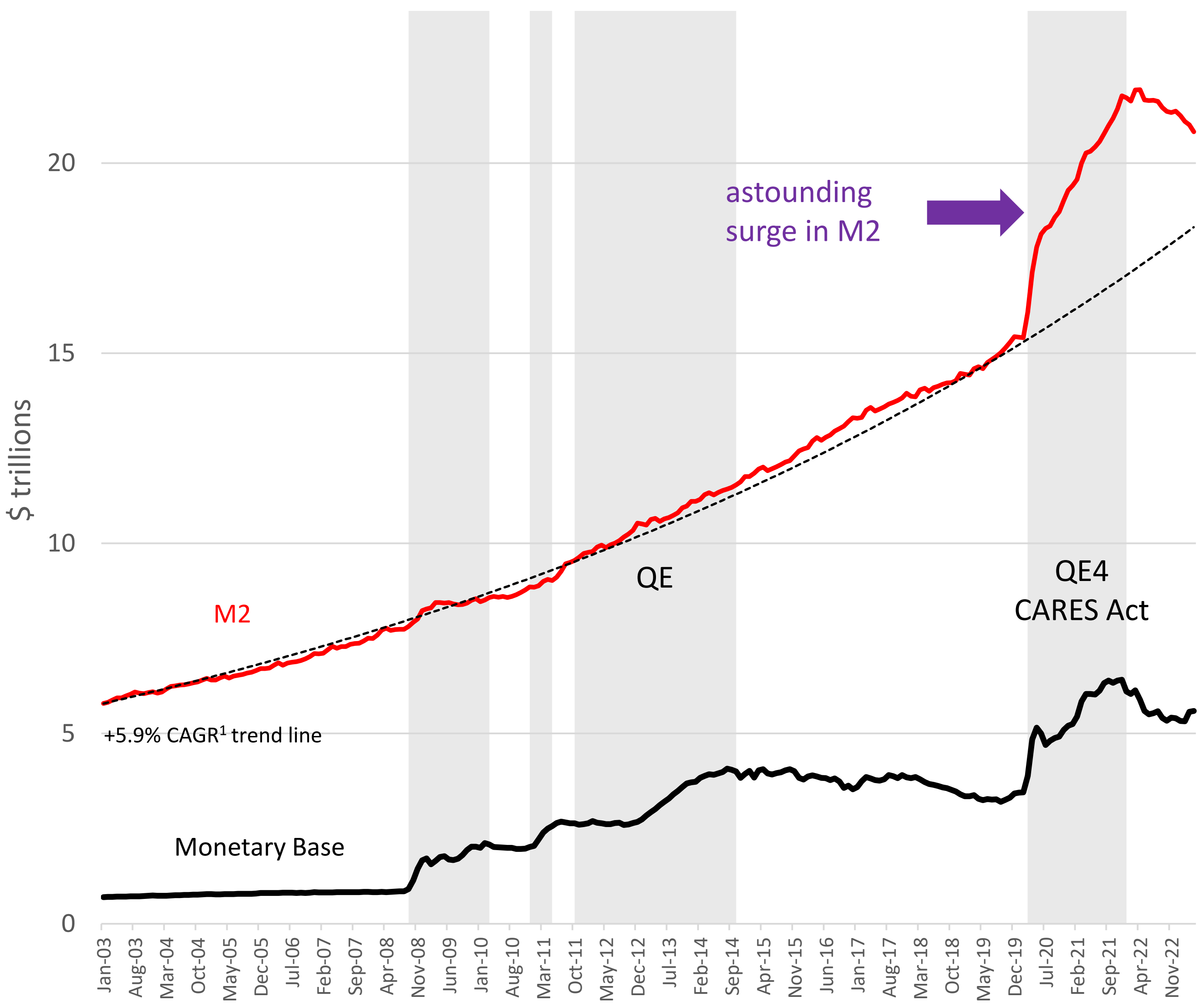
Financial obligations ratio



This measure shows that percent of monthly after-tax income that the average household pays for fixed recurring monthly obligations, such as a mortgage, car payment, utilities, real estate taxes, etc.

Source: Federal Reserve. Quarterly data through December 2022.

The monetary base and the money supply



M2: currency held by the public plus checking, savings and money market accounts.

A quadrupling of the monetary base with QE did not affect M2 growth. The CARES Act and subsequent stimulus did … by putting money directly into consumers' and businesses' accounts.

Monetary base: currency in circulation plus reserve balances (deposits held by banks in their accounts at the Federal reserve).

Source: Federal Reserve, statistical release H.6. Data through April 2023.
[1]CAGR = compound annual growth rate.

Consumers' cash balances high and declining

THE WALL STREET JOURNAL.

As Savings Shrink, Spending at Risk

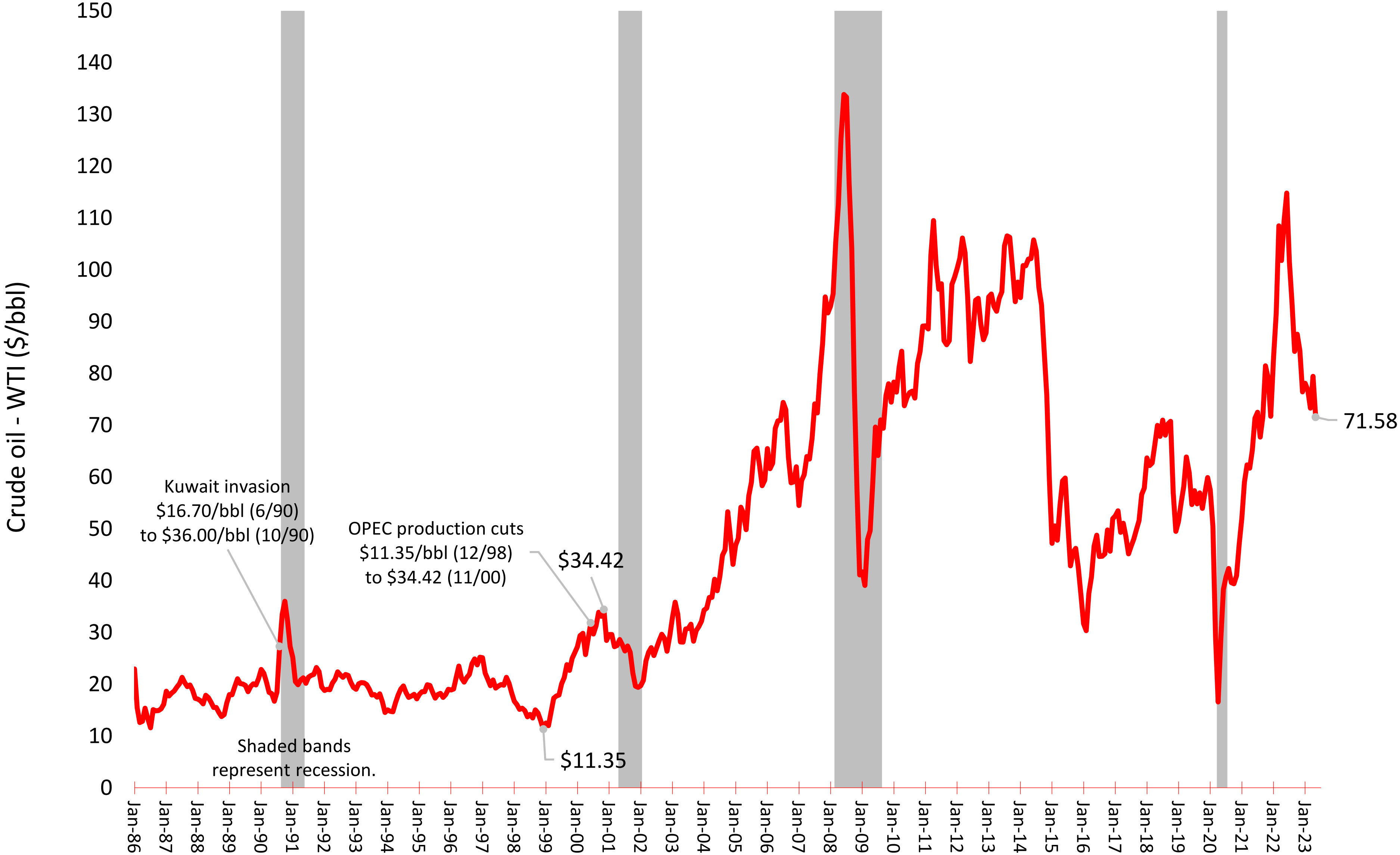
It is the $1.7 trillion question for the U.S. economy: How long can the savings consumers built up during the pandemic keep their spending going?
The answer: about nine to 12 more months.

Economists estimate that headed into the third quarter of this year, households still had about $1.2 trillion to $1.8 trillion in "excess savings"—the amount above what they would have saved had there been no pandemic.

Source: *The Wall Street Journal*, "As Savings Shrink, Spending at Risk", Harriet Torry. November 21, 2022.

Oil

WTI spot crude oil prices



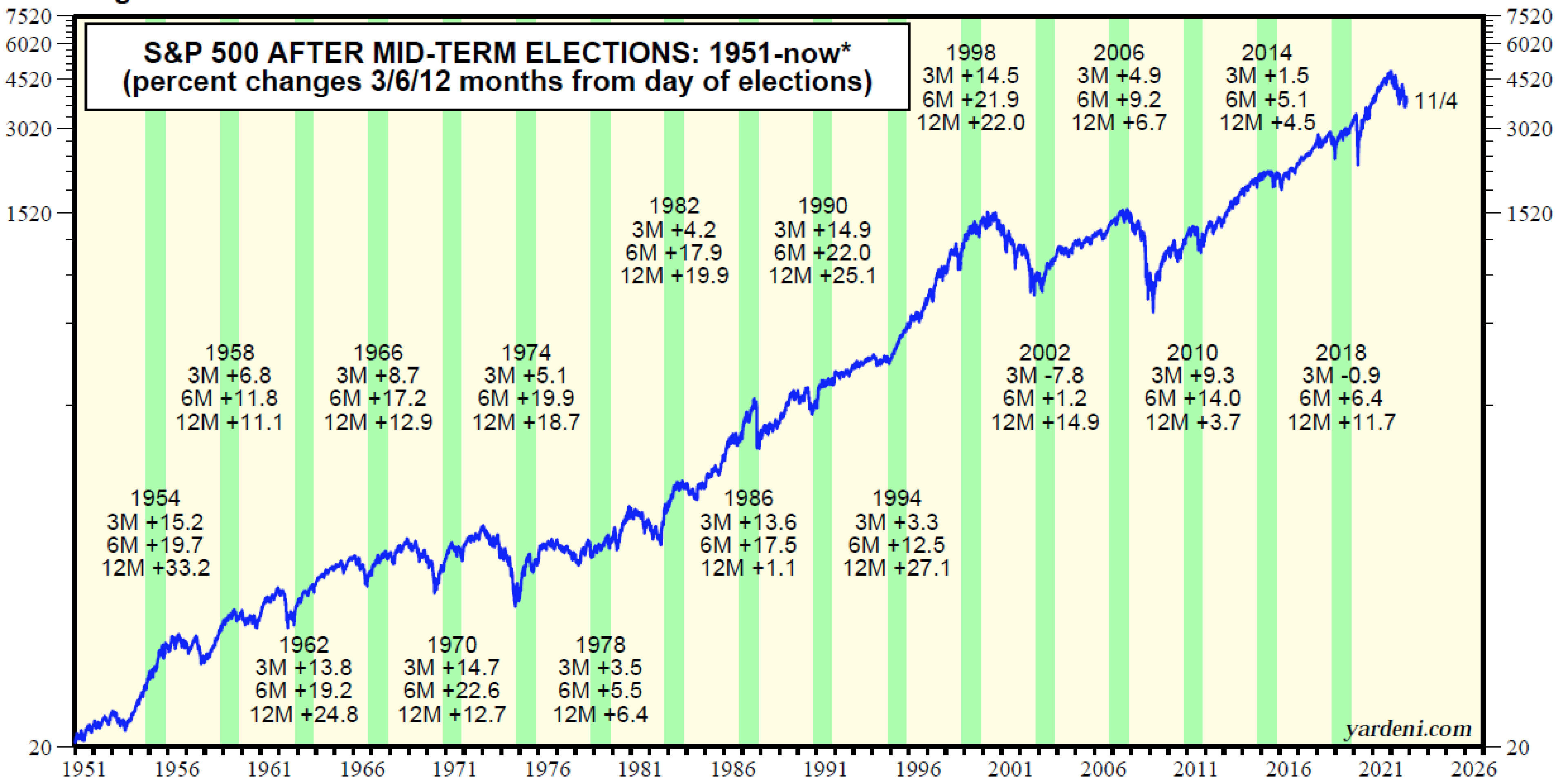
Source: U.S. Energy Information Agency. Data through May 2023.

Stock Market

- mid-term election years
- bull market
- stocks vs. recessions
- “parabolic” is normal
- 2023/2024 earnings estimates
- P/E multiple

S&P 500 and mid-term elections

Figure 3.



* S&P 500 up (down) during 12-month span following election day in green (red) shaded area. Prior to 1969, markets were closed on election day, therefore used "latest close" for those dates.
Source: Haver Analytics, Standard & Poor's, YRI calculations.

Source: Yardeni Research, Inc., with permission. November 6, 2022.

New bull market

THE WALL STREET JOURNAL.

S&P 500 Starts a New Bull Market

Stocks rose, ending the S&P 500's longest bear market since the 1940s and marking the start of a new bull run. The broad index powered higher over the past few months, in large part due to a handful of companies posting outsize gains. This helped the S&P rise 26.41 points, or 0.6%, to 4293.93, allowing the index to finish up 20% from its October low.

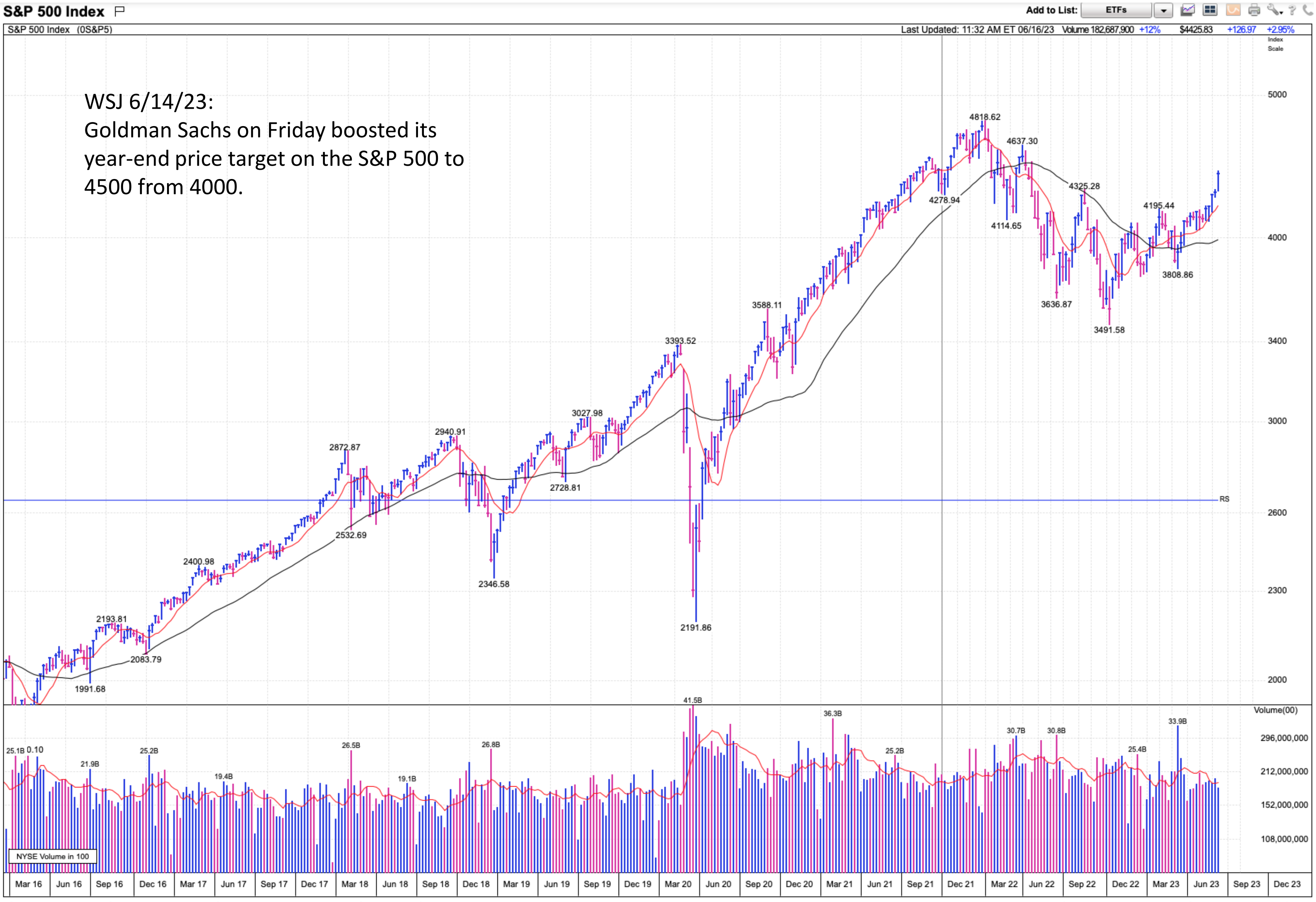
Source: *The Wall Street Journal*, "S&P 500 Starts a New Bull Market", Akane Otani and Anna Hirtenstein. June 9, 2023.

Cover story

Source: *Barron's*, June 12, 2023.

Stock market

S&P 500

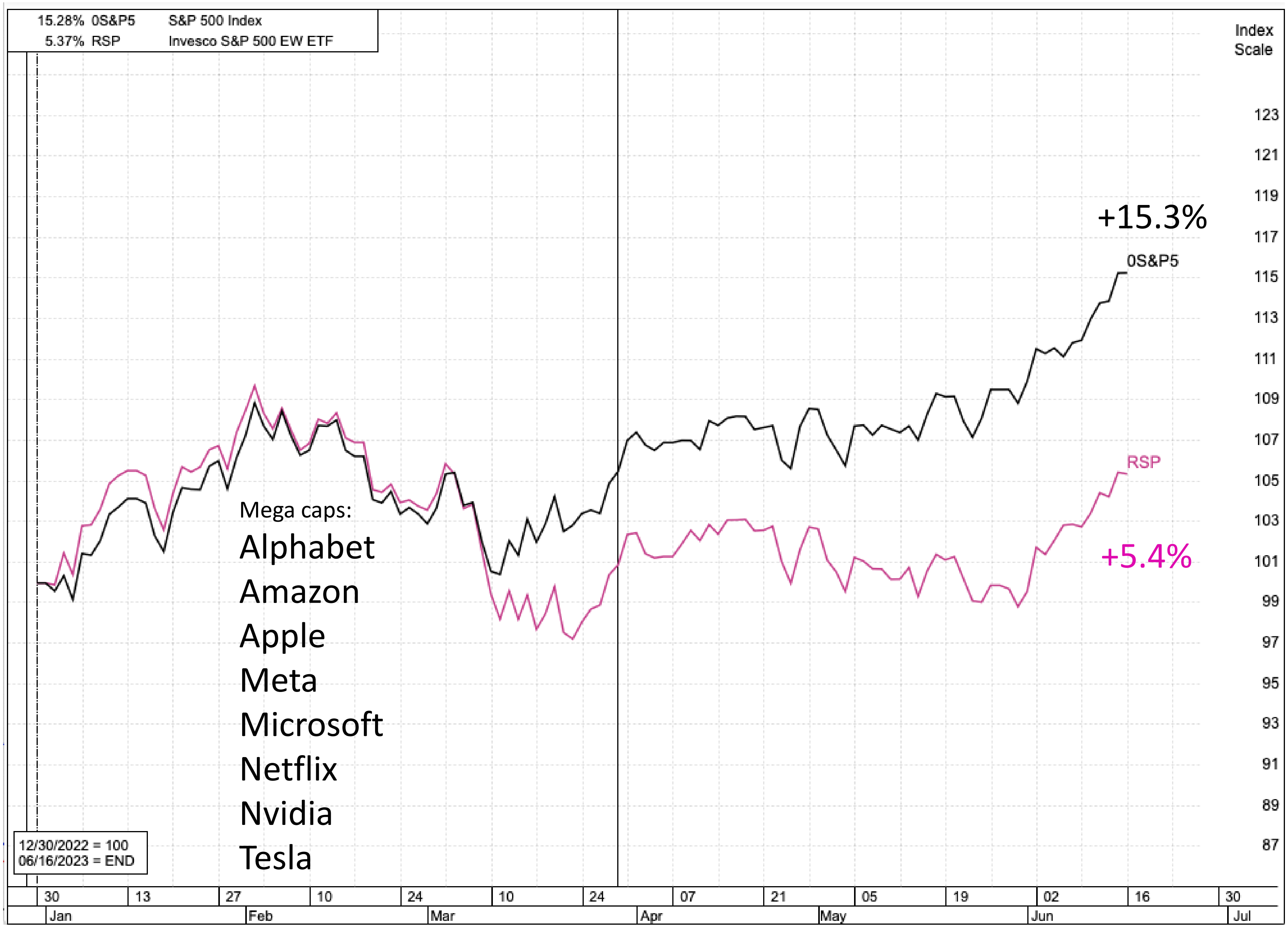


WSJ 6/14/23:
Goldman Sachs on Friday boosted its year-end price target on the S&P 500 to 4500 from 4000.

Source: Standard & Poor's and MarketSmith, Inc. Data through June 16, 2023.

Stock market

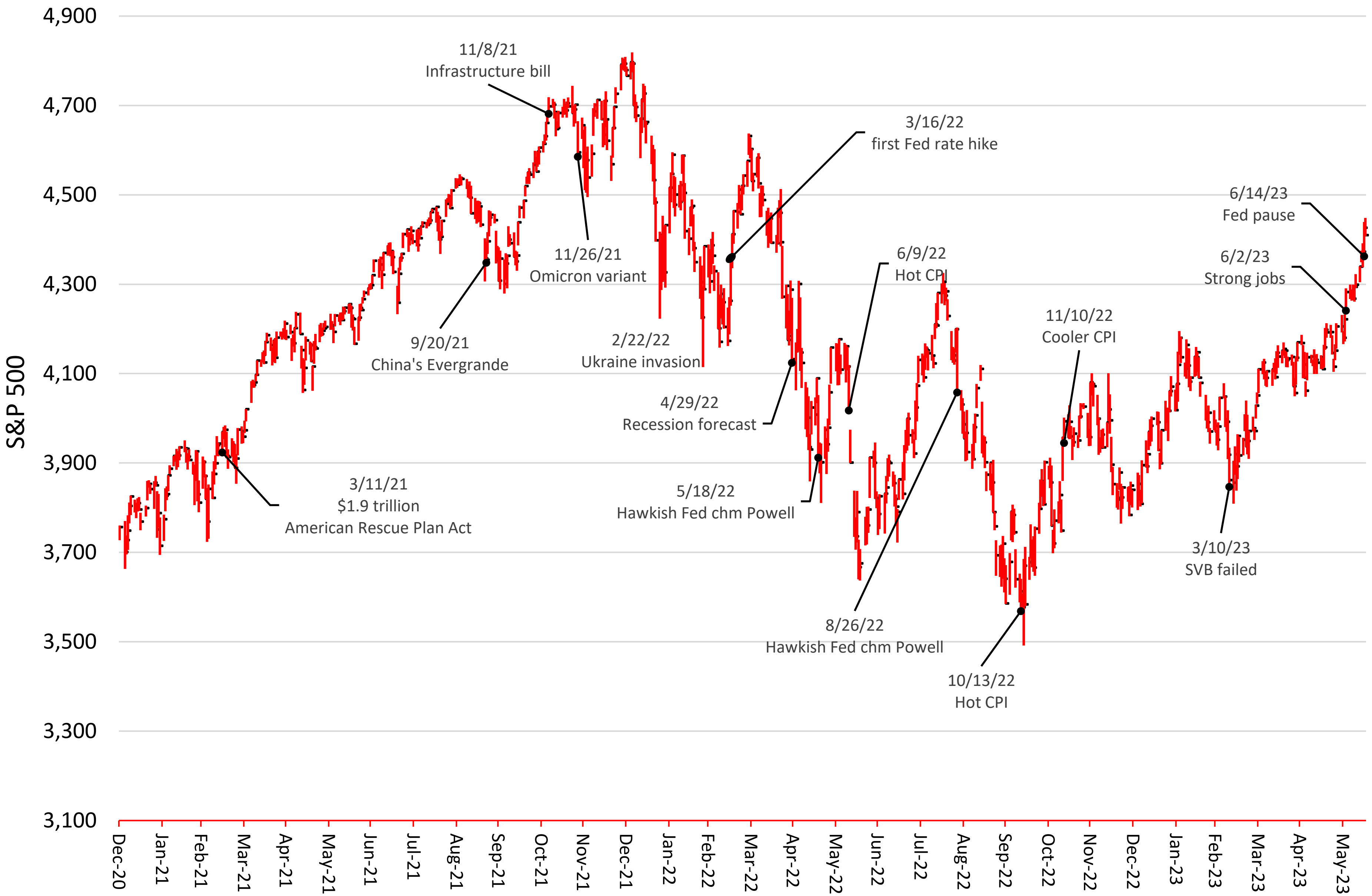
S&P 500 vs. S&P 500 equal-weighted



Source: Standard & Poor's and MarketSmith, Inc. Data through June 16, 2023.

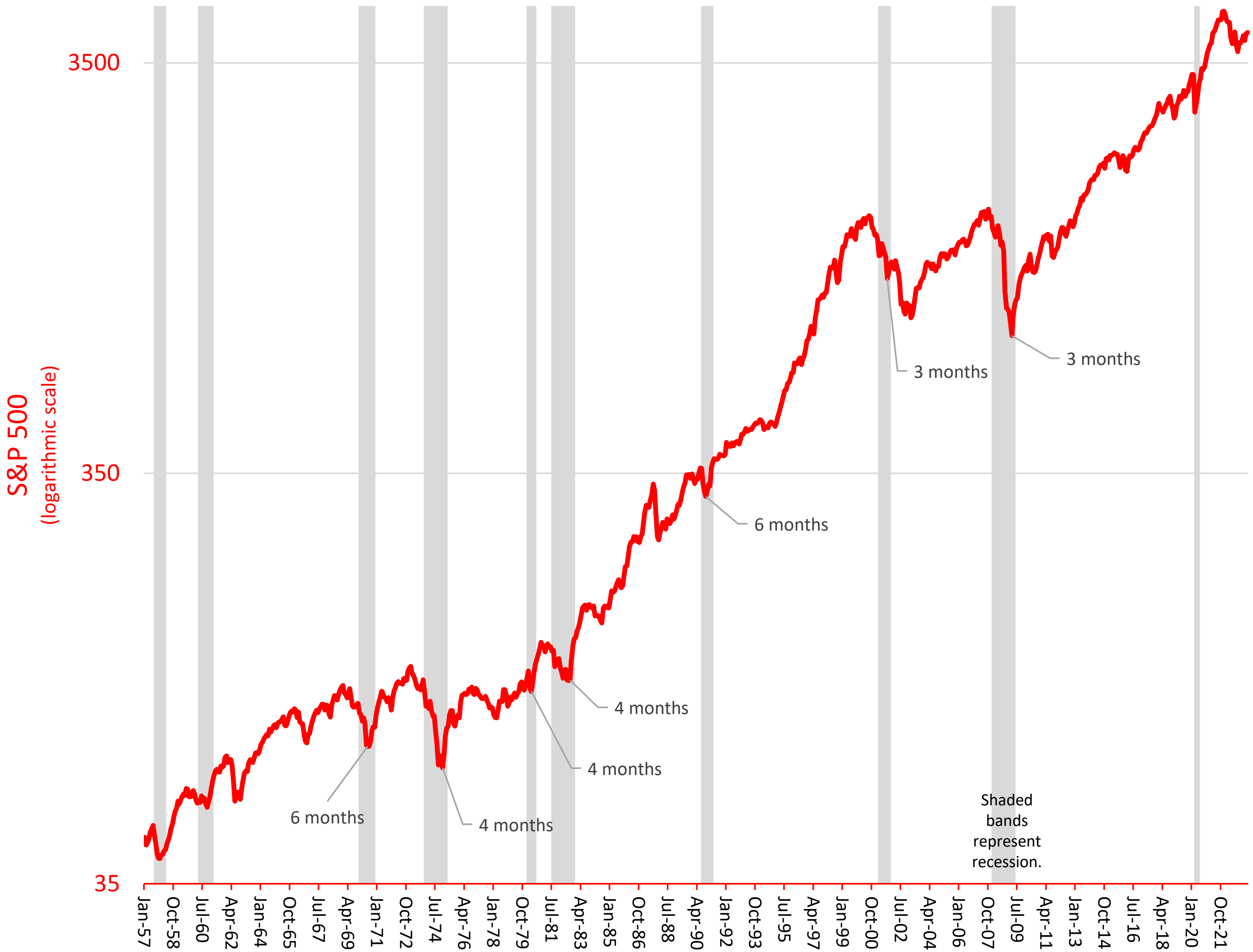
Stock market

S&P 500



Source: Standard & Poor's. Data through June 16, 2023.

S&P 500 vs. recessions



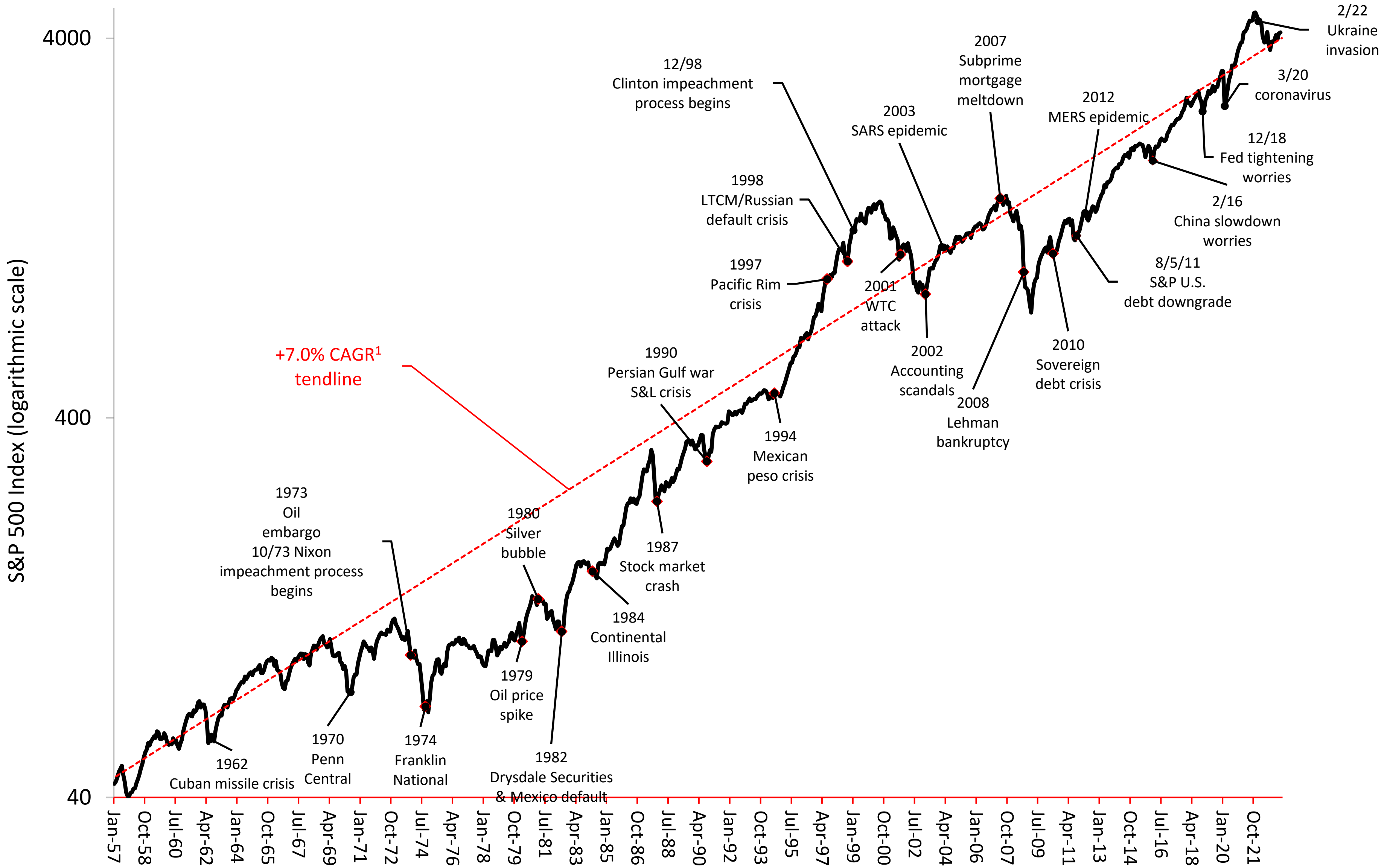
Big declines are associated with recessions.

Stocks often bottom months before recession-end.

Source: Standard and Poor's Corporation, National Bureau of Economic Research. Data through May 2023.

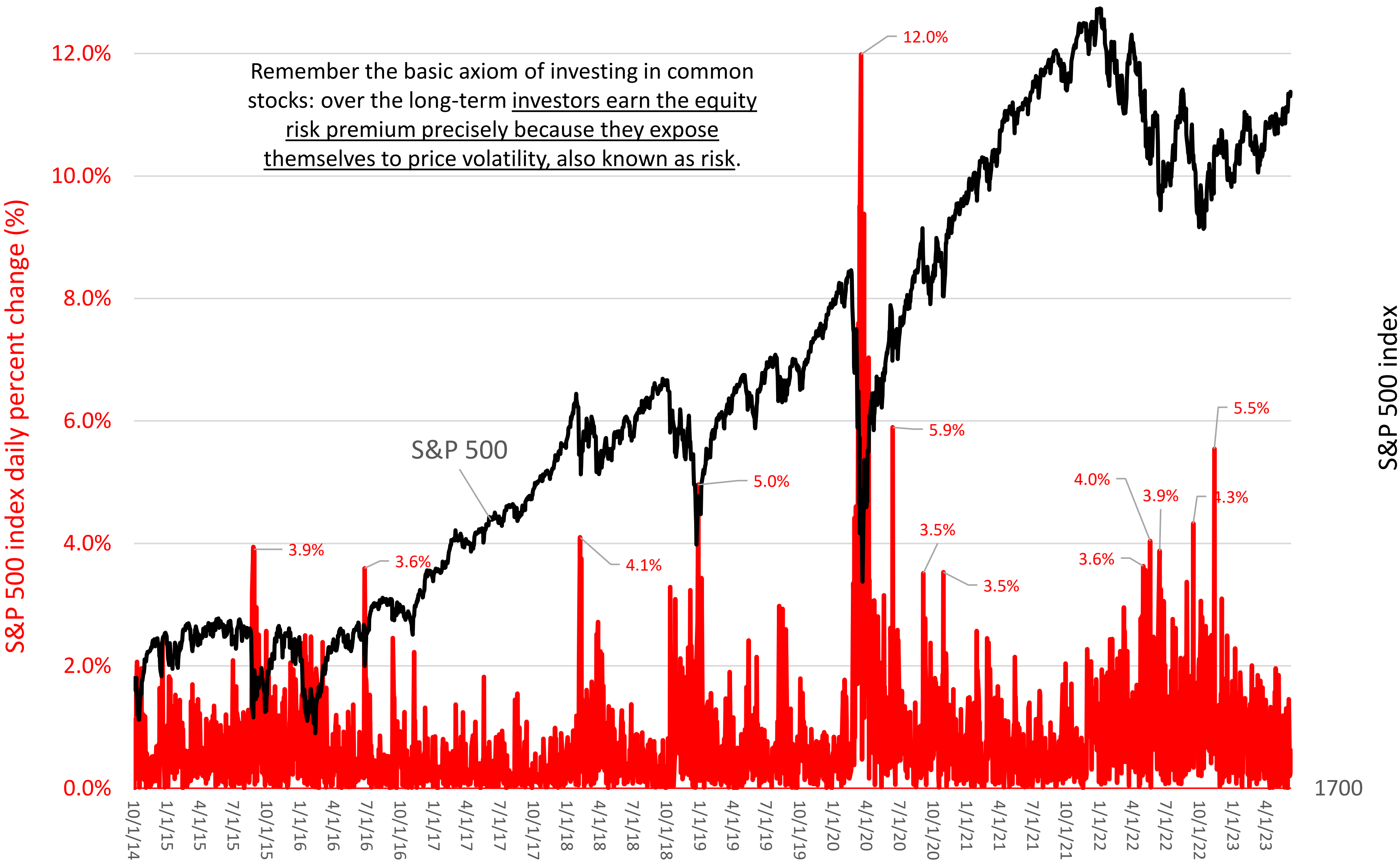
Stock market

S&P 500 and crises



Source: Standard and Poor's. Data through May 2023. [1] Compound annual growth rate.

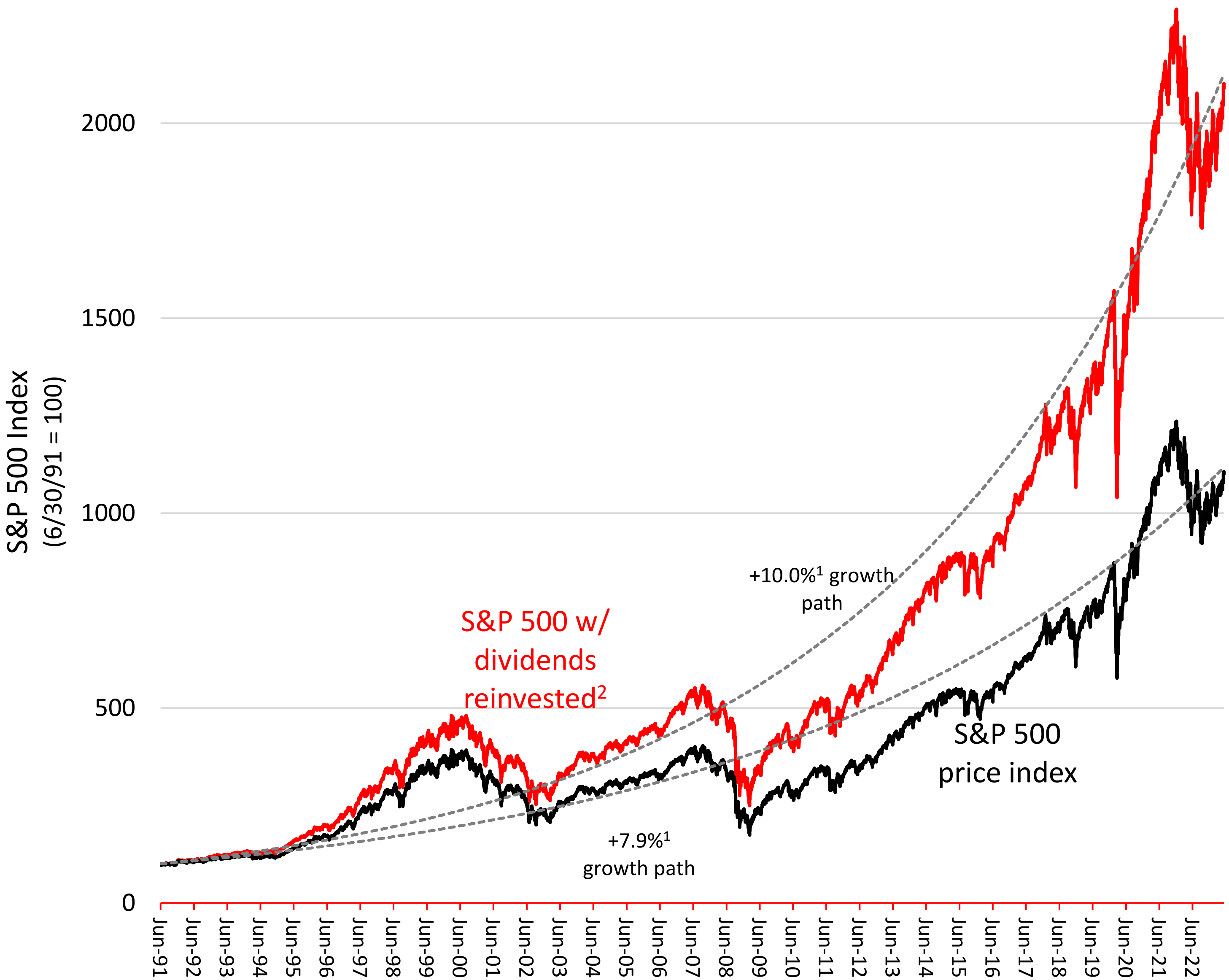
S&P 500 volatility



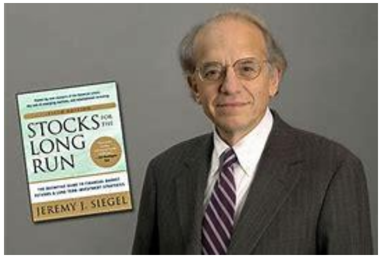
Source: Standard & Poor's, data through June 8, 2023.

Stock market arithmetic

Total return = 7.9% earnings-driven price + 2.1% dividends reinvested



+10% per year S&P 500 total return over the last 30 years is in line with the stock market's long-term returns going back to 1926, or back even further to 1871.[3]



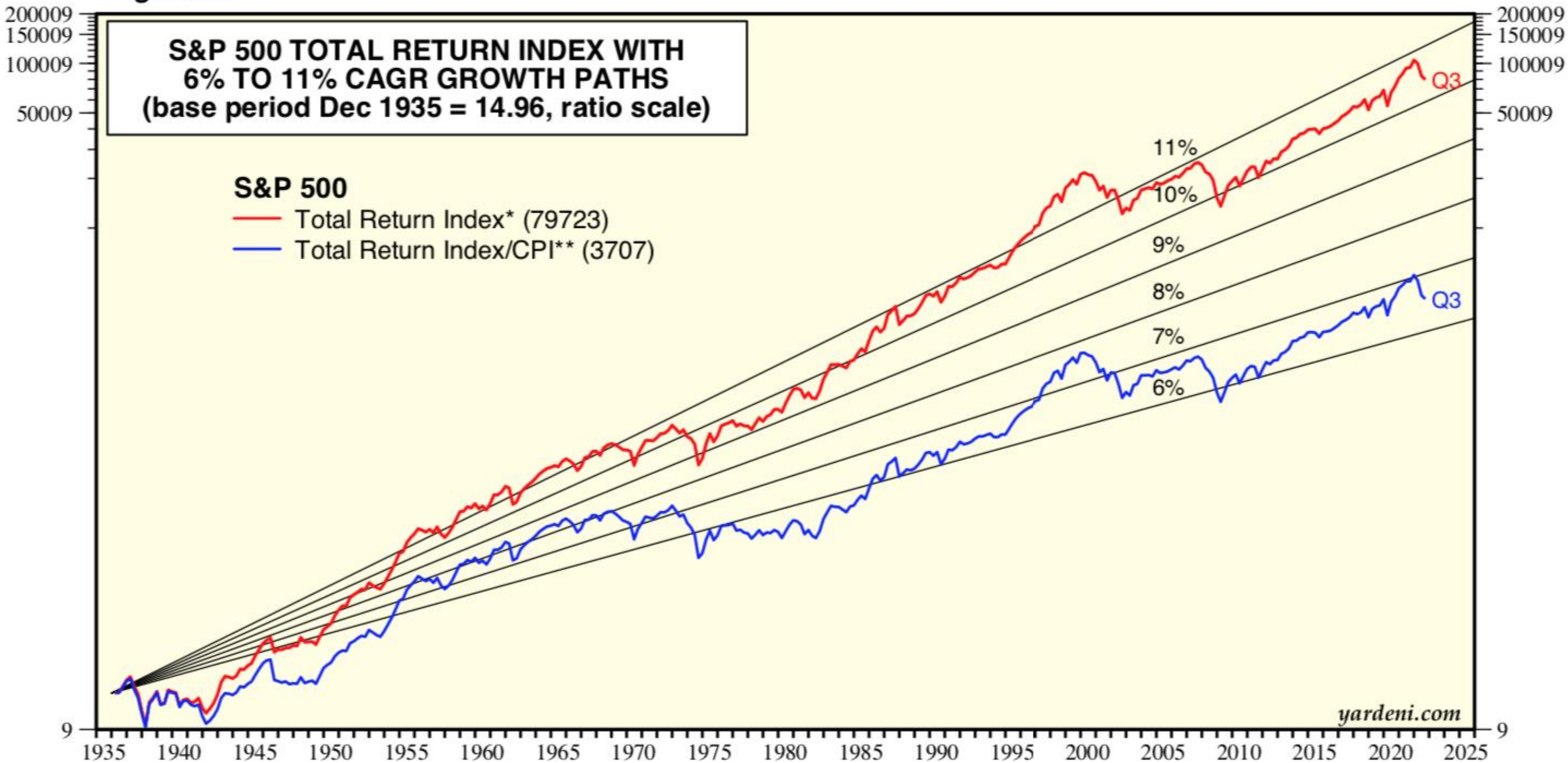
Source: Standard and Poor's. Data through June 8, 2023.[1] Compound annual growth rate. [2] S&P 500 total return index.
[3] per Professor Jeremy Siegel's seminal *Stocks for the Long Run*, first published in 1994.

Total return = 7.9% earnings-driven price + 2.1% dividends reinvested

Source: Standard and Poor's. Data through June 8, 2023. [1] Compound annual growth rate. [2] S&P 500 total return index.

Total return and real total return

Figure 6.

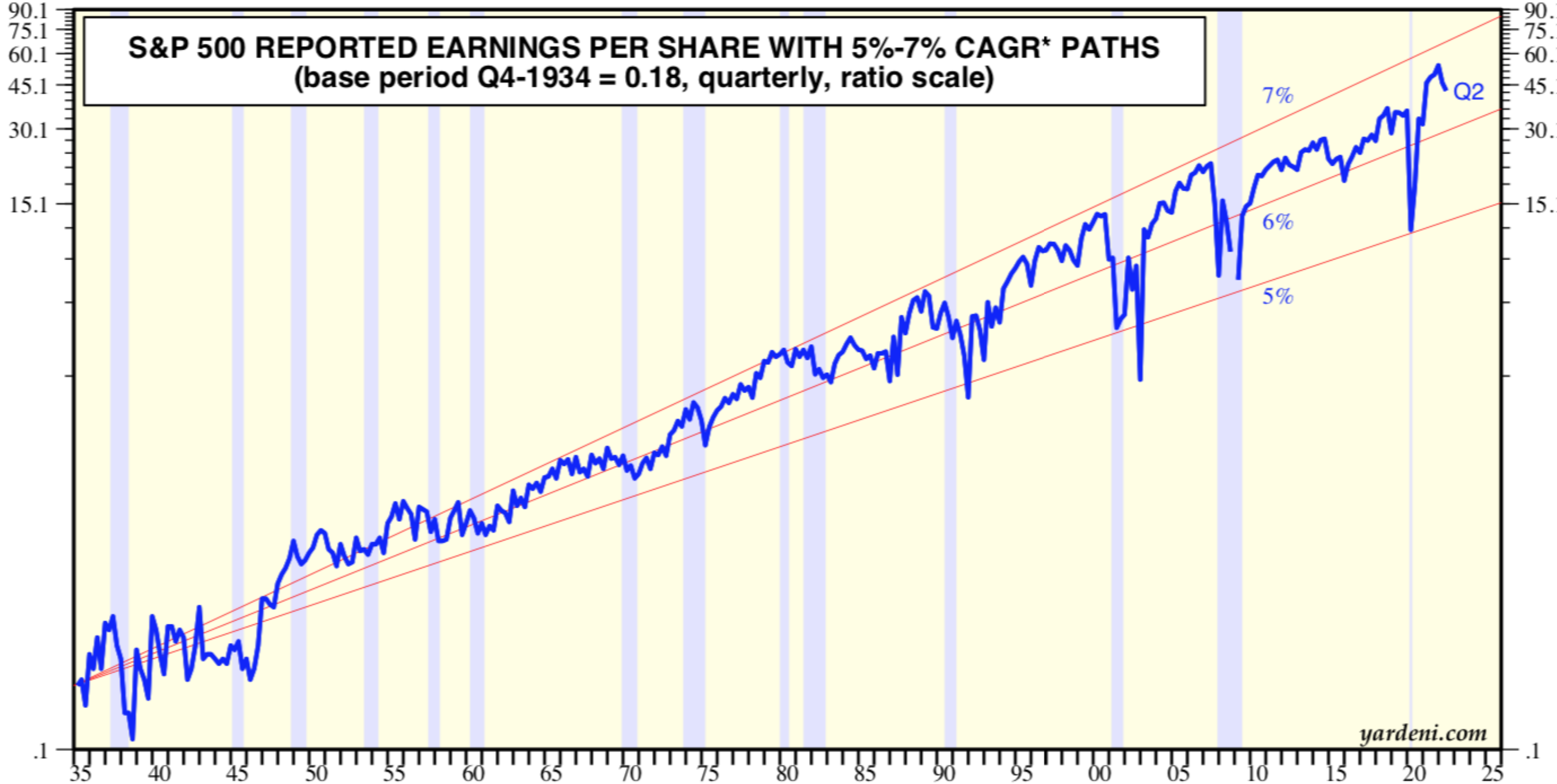


* Includes reinvested dividends.
** Using last month of quarter CPI. Compounded monthly using base value.
Source: Standard & Poor's.

Source: Yardeni Research, Inc., with permission.

85 years of S&P 500 earnings growth

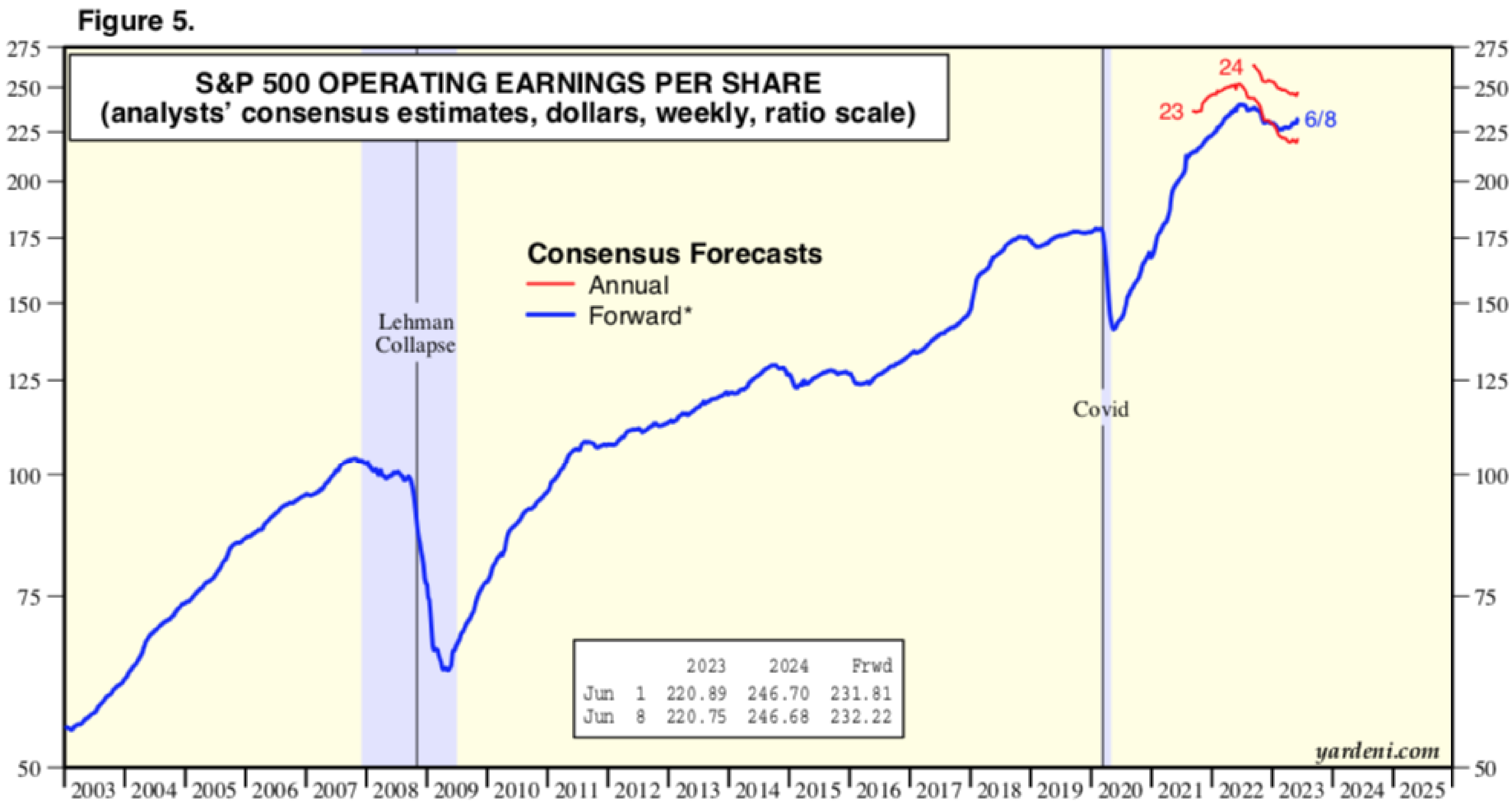
Figure 9.



* Compounded annual growth rate from base value using monthly data. Q4-2008 not shown because of large negative value.
Note: Shaded areas denote recessions according to the National Bureau of Economic Research.
Source: Standard & Poor's.

Source: Yardeni Research, Inc. with permission.

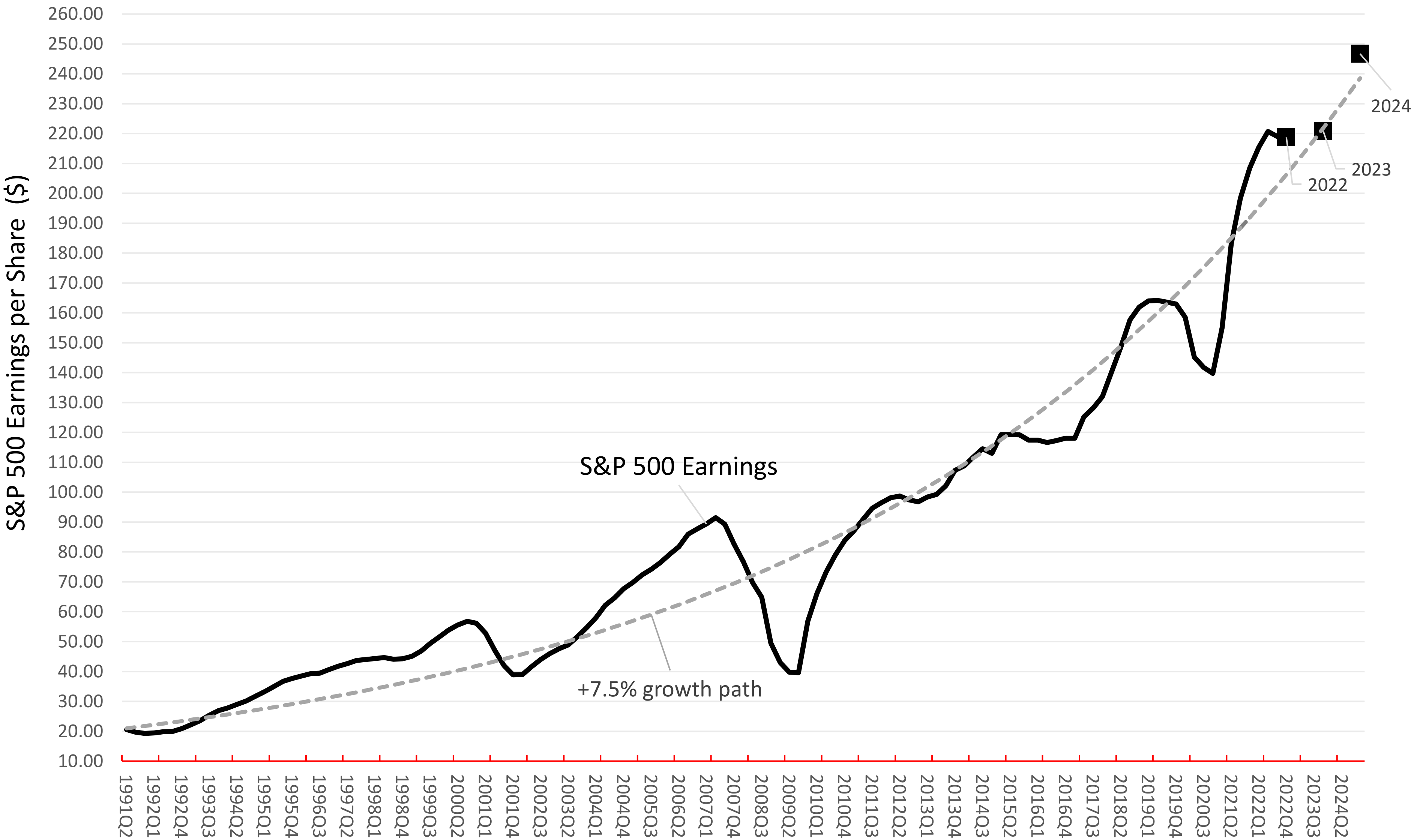
S&P forward earnings estimates have bottomed



* Time-weighted average of analysts' consensus estimates for S&P 500 operating earnings for current year and next year.
Note: Shaded areas are recessions according to the National Bureau of Economic Research.
Note: Lehman collapsed 9/15/2008. COVID-19 = WHO declares global pandemic on 3/11/2020.
Source: I/B/E/S data by Refinitiv.

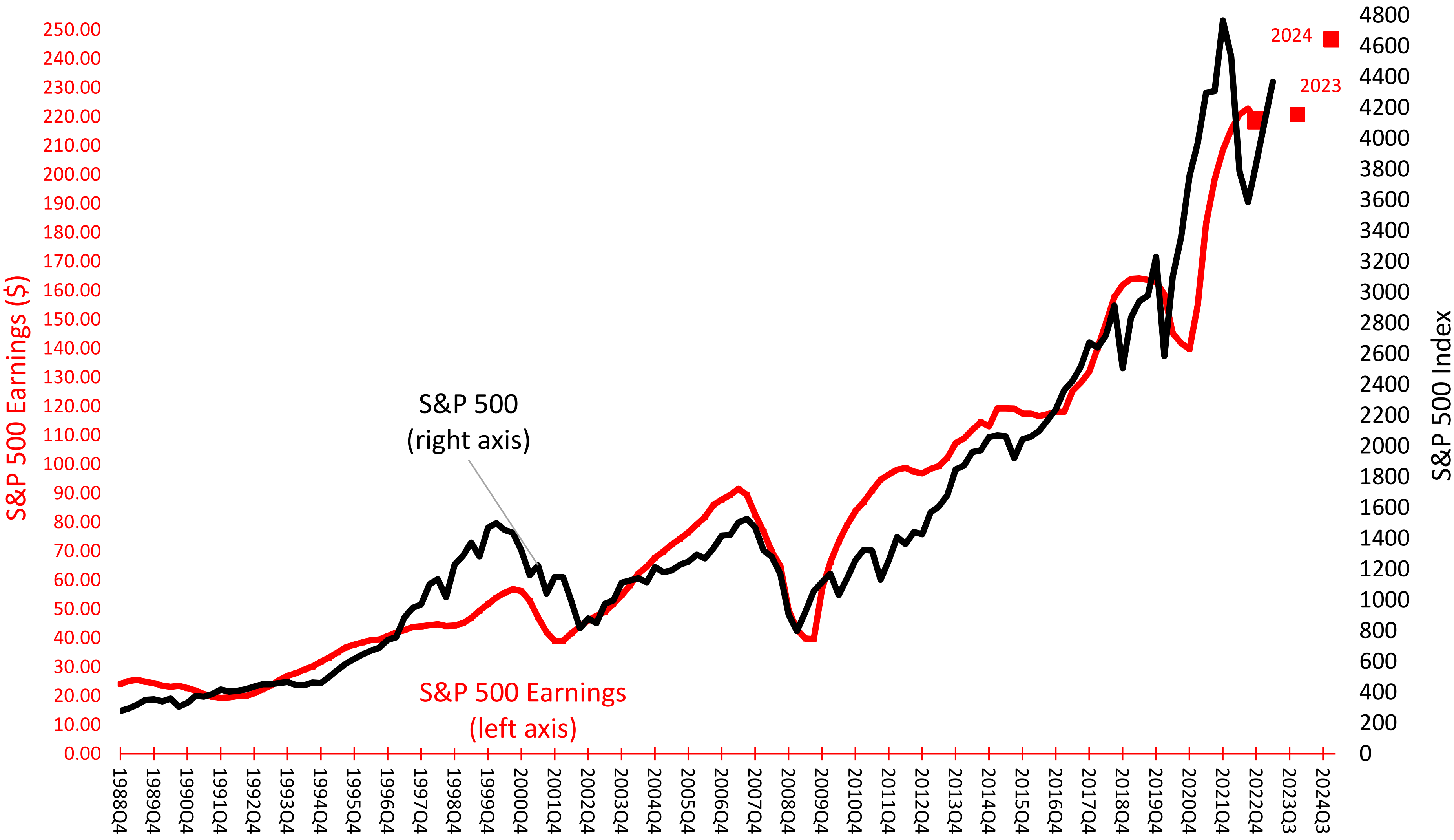
Source: Yardeni Research, Inc., with permission. June 12, 2023.

S&P 500 earnings – actual and I/B/E/S estimates



2023 (estimated) and 2024 (estimated) bottom-up S&P 500 operating earnings per share as of June 12, 2023: for 2023(e), $220.75; for 2024(e), $246.68. Sources: Yardeni Research, Inc. and Thomson Reuters I/B/E/S for actual and estimated operating earnings from 2015. Standard and Poor's for actual operating earnings data through 2014.

S&P 500 vs. actual and I/B/E/S estimated earnings



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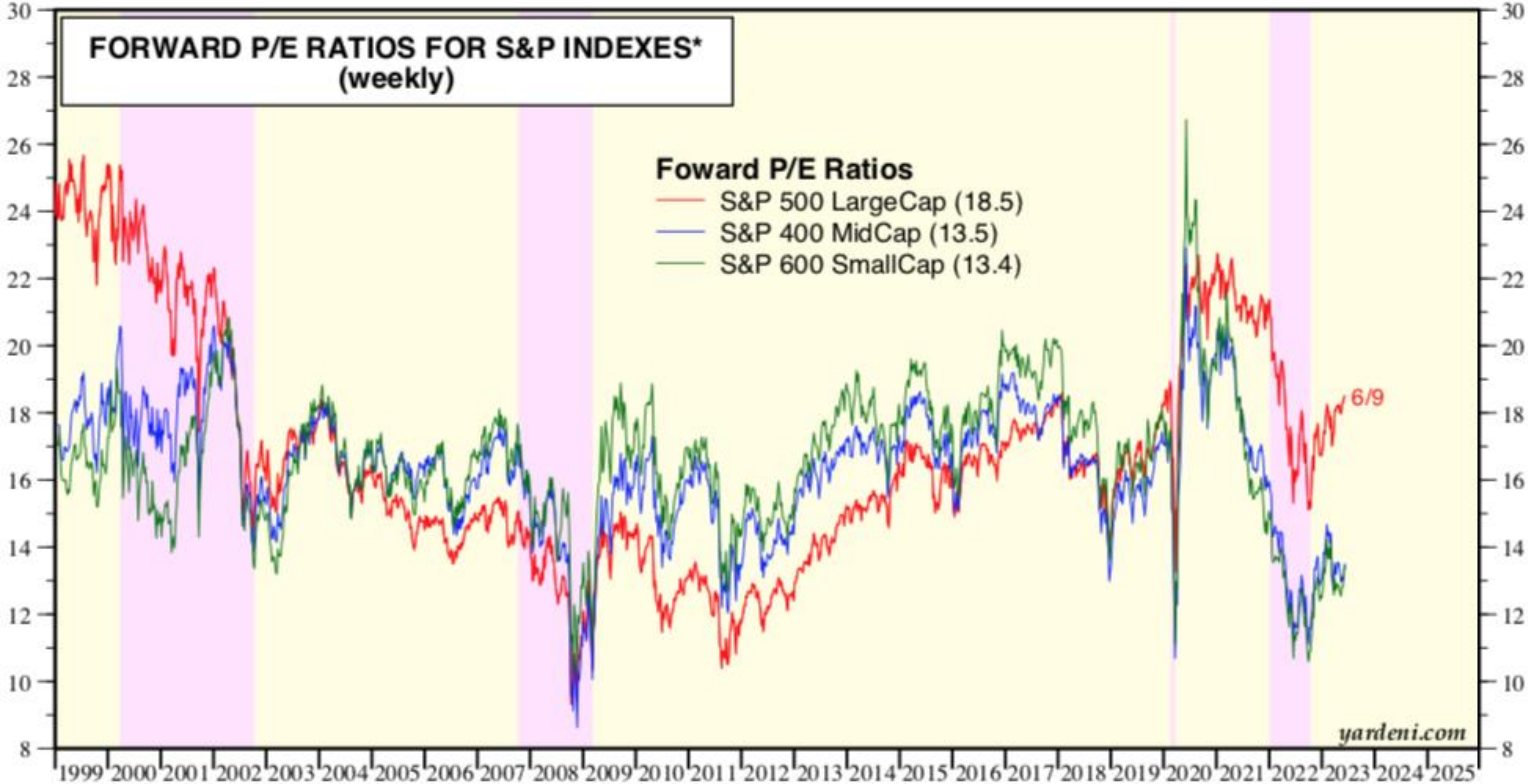
Sources: Yardeni Research, Inc. and Thomson Reuters I/B/E/S for actual and estimated operating earnings from 2015. Standard and Poor's for actual operating earnings data through 2014; index price data through June 13, 2023.

Valuation

S&P 500 index forward P/E ratio

Figure 4.

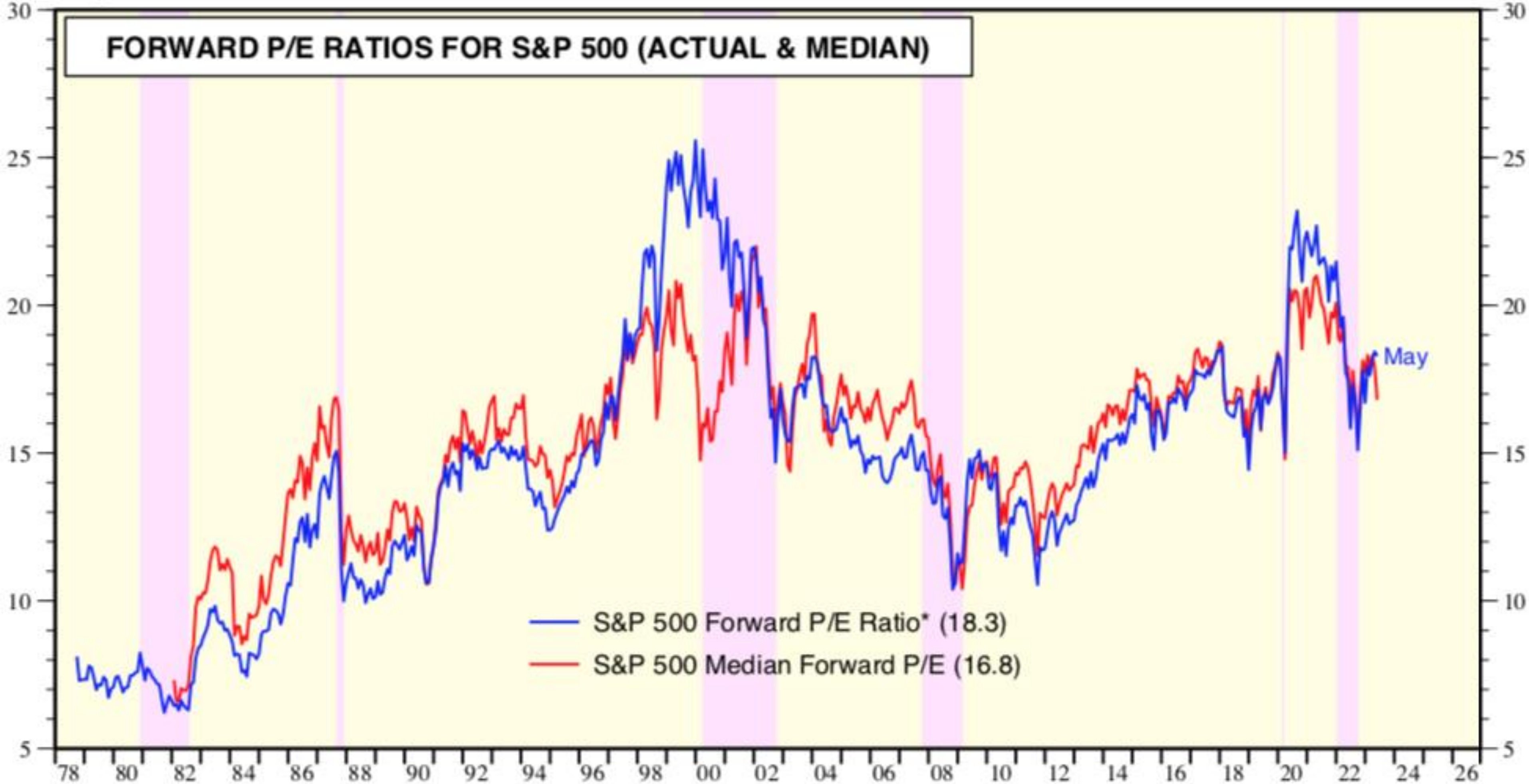


* Price divided by 52-week forward consensus expected operating earnings per share.
Note: Shaded red areas are S&P 500 bear market declines of 20% or more. Yellow areas show bull markets.
Source: I/B/E/S data by Refinitiv.

Source: Yardeni Research, Inc., with permission, June 13, 2023.

S&P 500 index forward P/E ratio

Figure 6.

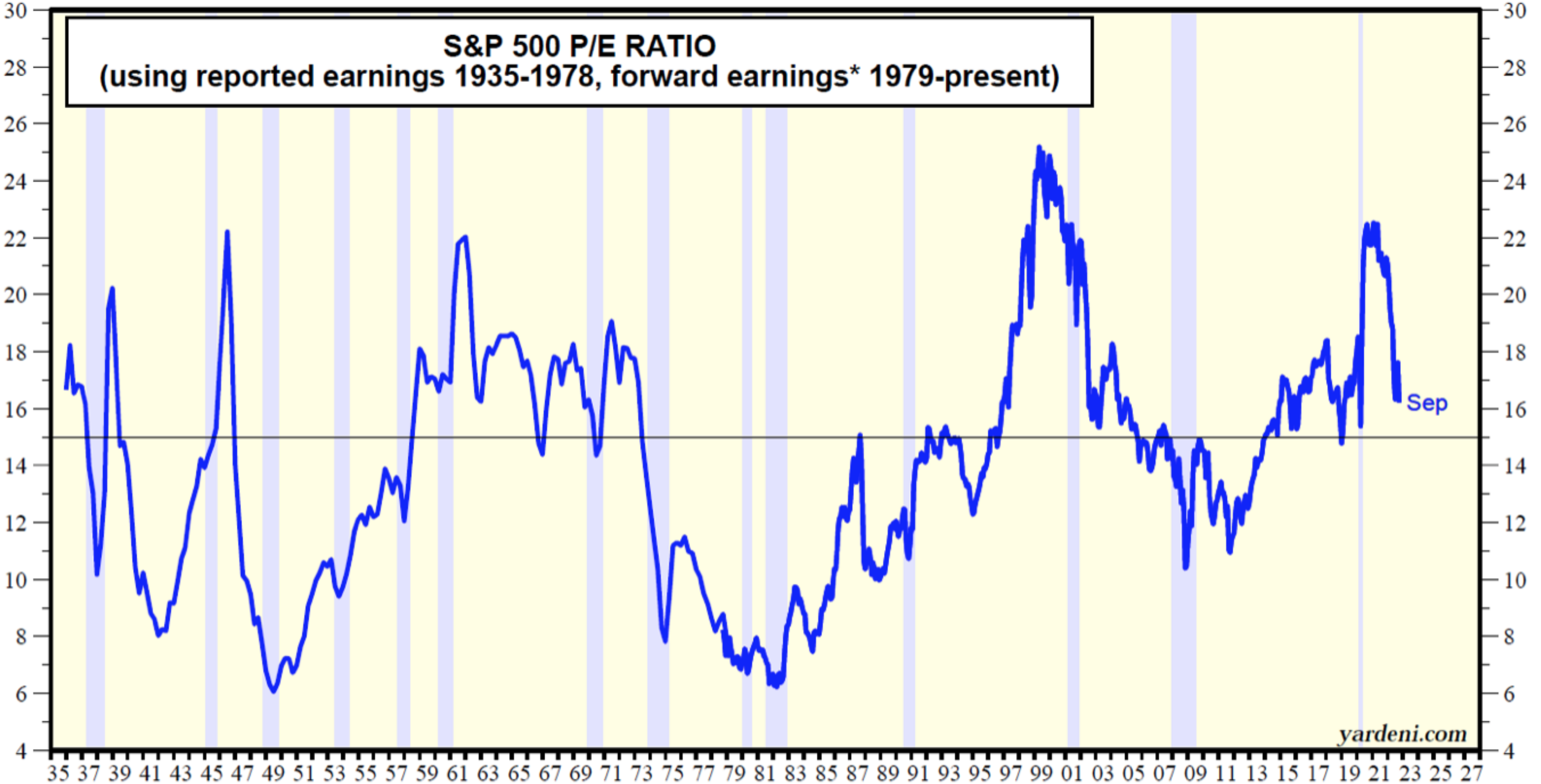


* Average weekly price divided by 52-week forward consensus expected operating earnings per share.
Note: Shaded red areas are S&P 500 bear market declines of 20% or more. Yellow areas show bull markets.
Source: I/B/E/S data by Refinitiv.

Source: Yardeni Research, Inc., with permission, June 13, 2023.

S&P index forward P/E ratio

Figure 2.



* Four-quarter trailing sum of reported earnings through 1978, then time-weighted average of analysts' consensus estimates for S&P 500 operating earnings per share for current year and next year. Monthly from January 1979.
Note: Shaded areas are recessions according to the National Bureau of Economic Research.
Source: I/B/E/S data by Refinitiv and Standard & Poor's.

Source: Yardeni Research, Inc., with permission, October 4, 2022.

Federal Reserve

- Paused rate hikes
- Inverted the yield curve
- Special liquidity facility
- Raised growth forecast

Powell pause

THE WALL STREET JOURNAL.

Fed Pauses Rate Hikes but Signals More

Federal Reserve officials agreed to hold interest rates steady after 10 consecutive increases but signaled they were prepared to raise rates next month if the economy and inflation don't cool more.

New economic projections, released Wednesday after their two-day policy meeting, strongly suggested officials were leaning toward slowing down their increases rather than stopping them. Most officials penciled in two more rate increases this year, which would lift them to a 22-year high, and boosted expectations for growth and inflation.

Source: *The Wall Street Journal.* "Fed Pauses Rate Hikes but Signals More", by Nick Timiraos. June 15, 2023.

Central tendency forecast

For release at 2:00 p.m., EDT, June 14, 2023

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, June 2023

Percent

Variable	Median[1]				Central Tendency[2]				Range[3]			
	2023	2024	2025	Longer run	2023	2024	2025	Longer run	2023	2024	2025	Longer run
Change in real GDP	1.0	1.1	1.8	1.8	0.7–1.2	0.9–1.5	1.6–2.0	1.7–2.0	0.5–2.0	0.5–2.2	1.5–2.2	1.6–2.5
March projection	0.4	1.2	1.9	1.8	0.0–0.8	1.0–1.5	1.7–2.1	1.7–2.0	-0.2–1.3	0.3–2.0	1.5–2.2	1.6–2.5
Unemployment rate	4.1	4.5	4.5	4.0	4.0–4.3	4.3–4.6	4.3–4.6	3.8–4.3	3.9–4.5	4.0–5.0	3.8–4.9	3.5–4.4
March projection	4.5	4.6	4.6	4.0	4.0–4.7	4.3–4.9	4.3–4.8	3.8–4.3	3.9–4.8	4.0–5.2	3.8–4.9	3.5–4.7
PCE inflation	3.2	2.5	2.1	2.0	3.0–3.5	2.3–2.8	2.0–2.4	2.0	2.9–4.1	2.1–3.5	2.0–3.0	2.0
March projection	3.3	2.5	2.1	2.0	3.0–3.8	2.2–2.8	2.0–2.2	2.0	2.8–4.1	2.0–3.5	2.0–3.0	2.0
Core PCE inflation[4]	3.9	2.6	2.2		3.7–4.2	2.5–3.1	2.0–2.4		3.6–4.5	2.2–3.6	2.0–3.0	
March projection	3.6	2.6	2.1		3.5–3.9	2.3–2.8	2.0–2.2		3.5–4.1	2.1–3.1	2.0–3.0	
Memo: Projected appropriate policy path												
Federal funds rate	5.6	4.6	3.4	2.5	$\boxed{5.4–5.6}$	4.4–5.1	2.9–4.1	2.5–2.8	5.1–6.1	3.6–5.9	2.4–5.6	2.4–3.6
March projection	5.1	4.3	3.1	2.5	$\boxed{5.1–5.6}$	3.9–5.1	2.9–3.9	2.4–2.6	4.9–5.9	3.4–5.6	2.4–5.6	2.3–3.6

Source: Federal Reserve, June 14, 2023.

Federal Reserve

Central tendency forecast

For release at 2:00 p.m., EDT, June 14, 2023

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, June 2023

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Change in real GDP	1.0	1.1	1.8	1.8	0.7–1.2	0.9–1.5	1.6–2.0	1.7–2.0	0.5–2.0	0.5–2.2	1.5–2.2	1.6–2.5
March projection	0.4	1.2	1.9	1.8	0.0–0.8	1.0–1.5	1.7–2.1	1.7–2.0	-0.2–1.3	0.3–2.0	1.5–2.2	1.6–2.5
Unemployment rate	4.1	4.5	4.5	4.0	4.0–4.3	4.3–4.6	4.3–4.6	3.8–4.3	3.9–4.5	4.0–5.0	3.8–4.9	3.5–4.4
March projection	4.5	4.6	4.6	4.0	4.0–4.7	4.3–4.9	4.3–4.8	3.8–4.3	3.9–4.8	4.0–5.2	3.8–4.9	3.5–4.7
PCE inflation	3.2	2.5	2.1	2.0	3.0–3.5	2.3–2.8	2.0–2.4	2.0	2.9–4.1	2.1–3.5	2.0–3.0	2.0
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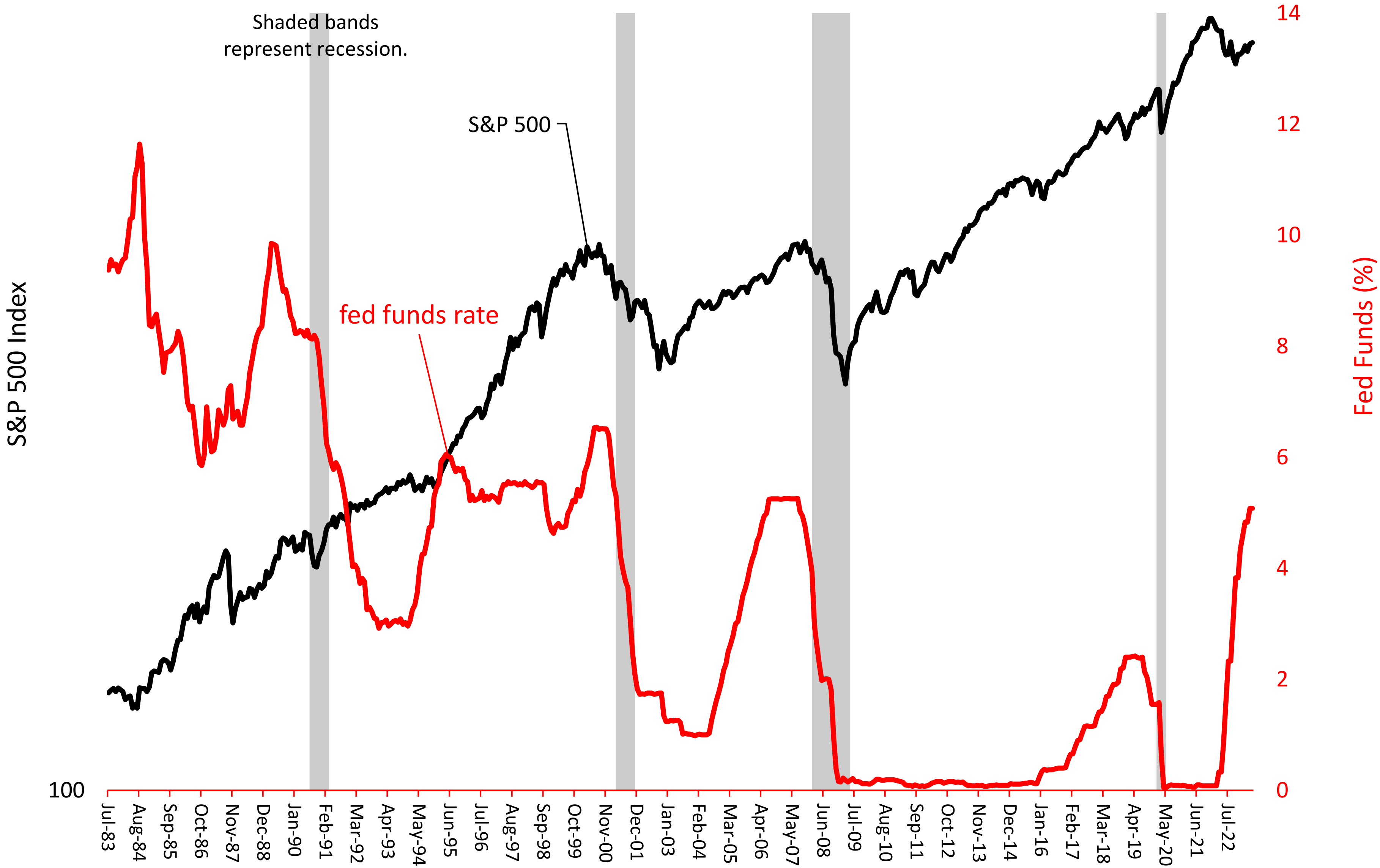
Federal funds rate	5.6	4.6	3.4	2.5	5.4–5.6	4.4–5.1	2.9–4.1	2.5–2.8	5.1–6.1	3.6–5.9	2.4–5.6	2.4–3.6
March projection	5.1	4.3	3.1	2.5	5.1–5.6	3.9–5.1	2.9–3.9	2.4–2.6	4.9–5.9	3.4–5.6	2.4–5.6	2.3–3.6

Source: Federal Reserve, June 14, 2023.

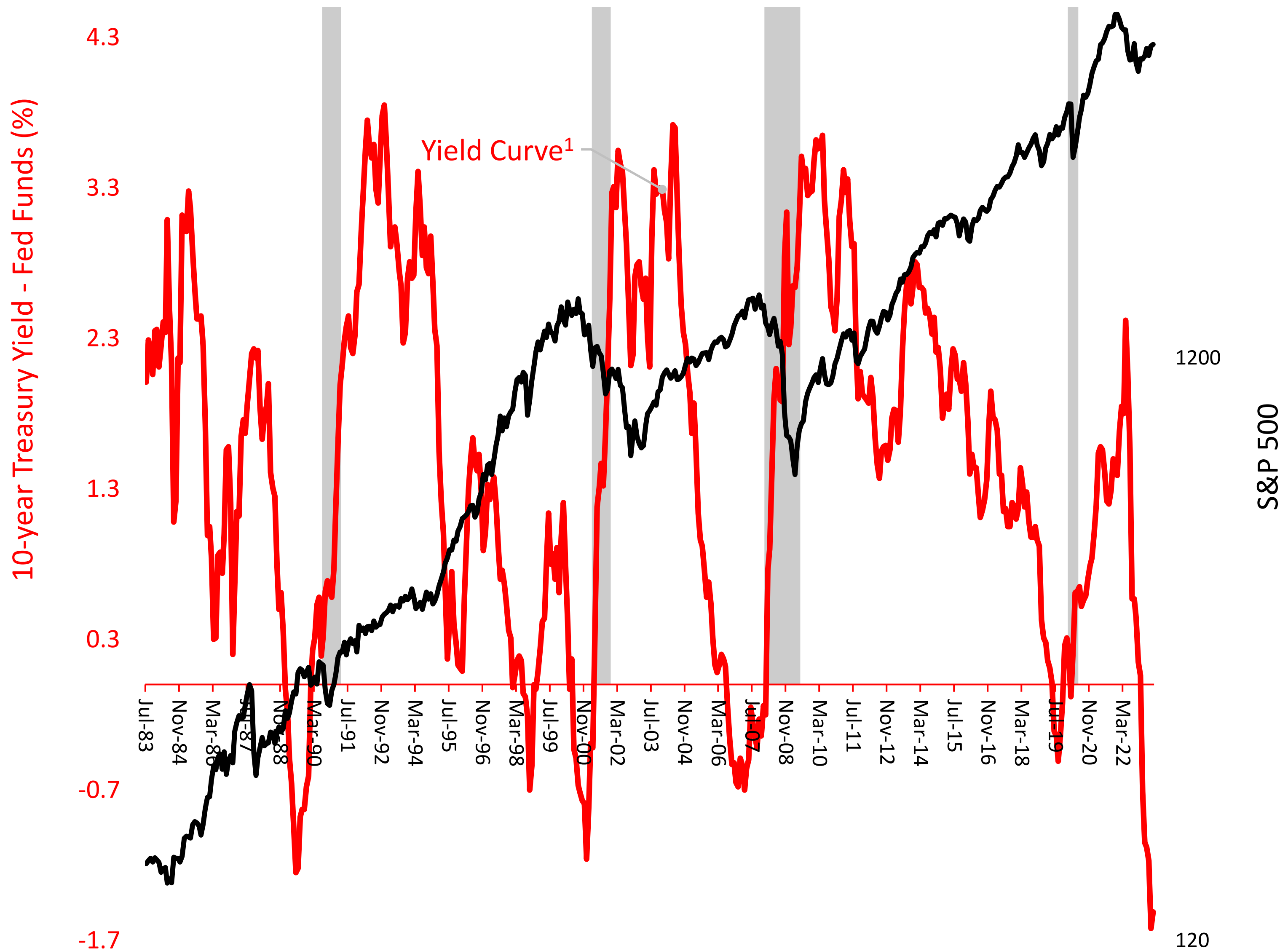
S&P 500 vs. fed funds rate



Sources: Federal Reserve, Standard & Poor's. Data through May 2023.

Federal Reserve policy

Yield curve vs. the S&P 500



When the yield curve has inverted the economy has usually turned down into recession with a lag of a year or more.

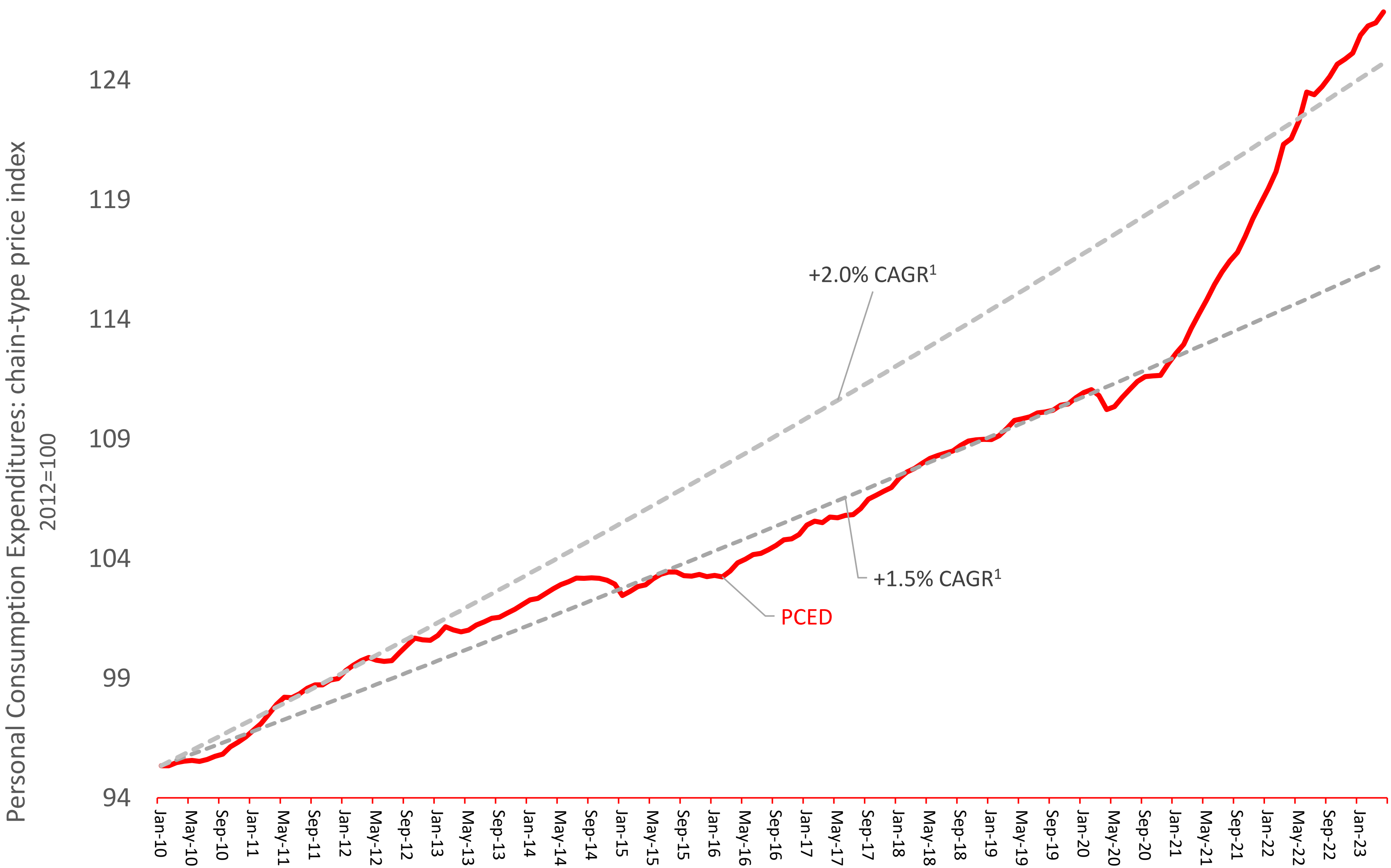
Today, the yield curve is inverted.

Sources: NBER, Federal Reserve and Standard & Poor's. Data through May 2023.
[1]The interest rate on the 10-year Treasury bond (long term) minus the fed funds rate (short term).

Inflation

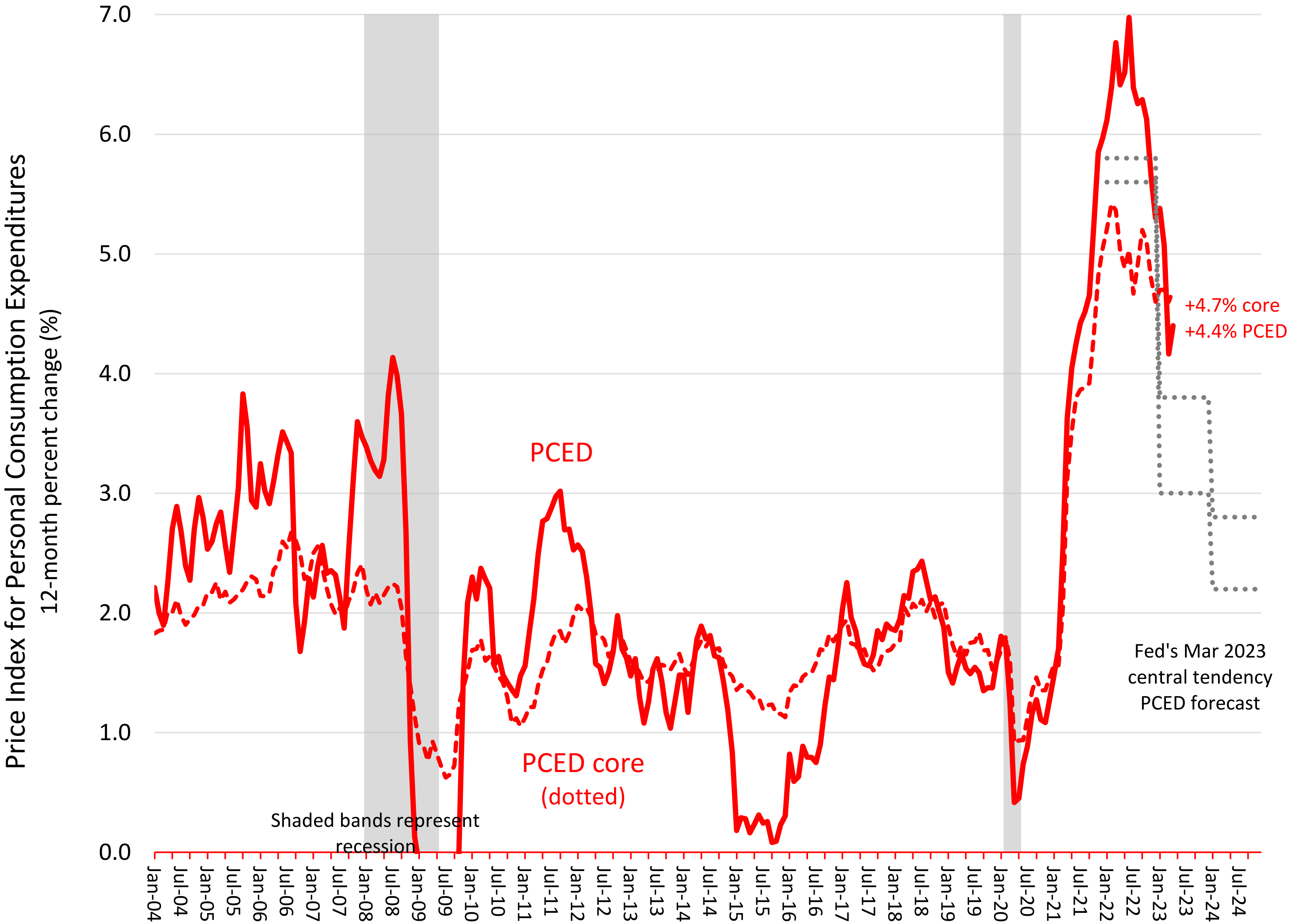
- Year-over-year headline PCED +4.4%, +4.7% core
- M2 driving inflation
- Inflation expectations (TIPS spread) falling

PCED – headline



Source: NBER, Federal Reserve Bank of St. Louis. Data through April 2023.

PCED – headline and core

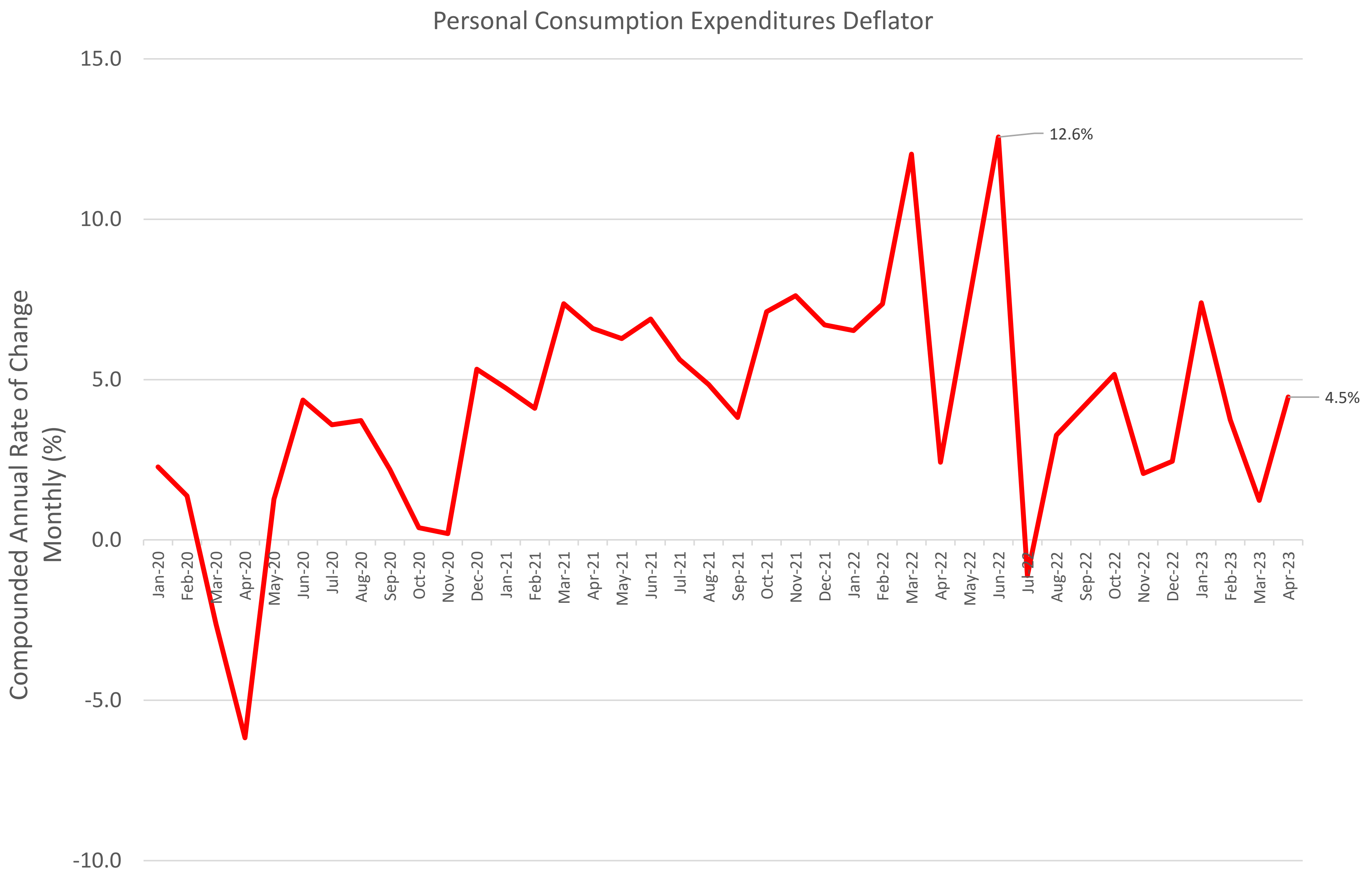


Inflation peaked, following the post-Covid surge.

Source: NBER, Federal Reserve Bank of St. Louis. Data through April 2023.

Inflation

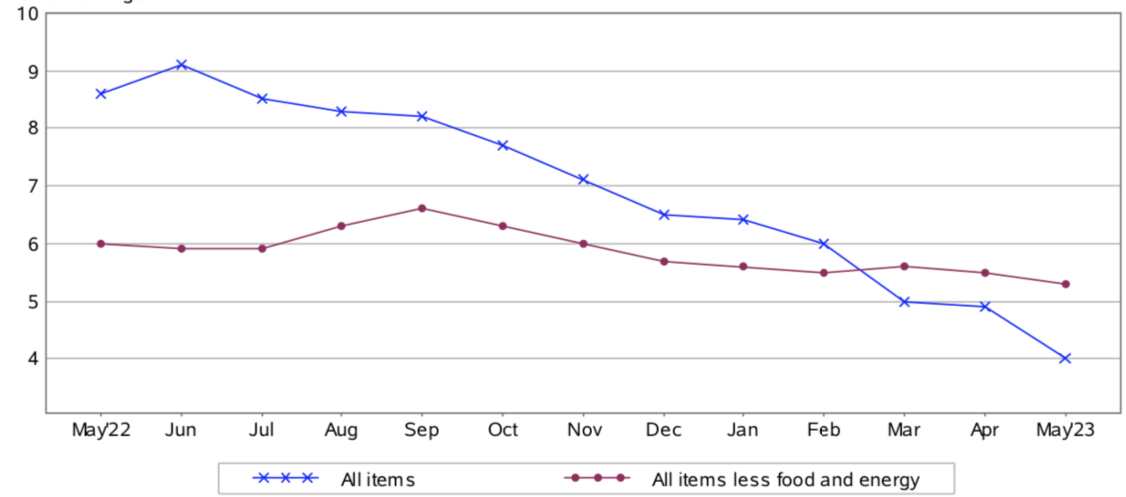
PCED – monthly rate of change annualized



Source: Federal Reserve Bank of St. Louis. Data through April 2023.

CPI – headline and core

Chart 2. 12-month percent change in CPI for All Urban Consumers (CPI-U), not seasonally adjusted, May 2022 - May 2023



Up +5.3% y/y in May.

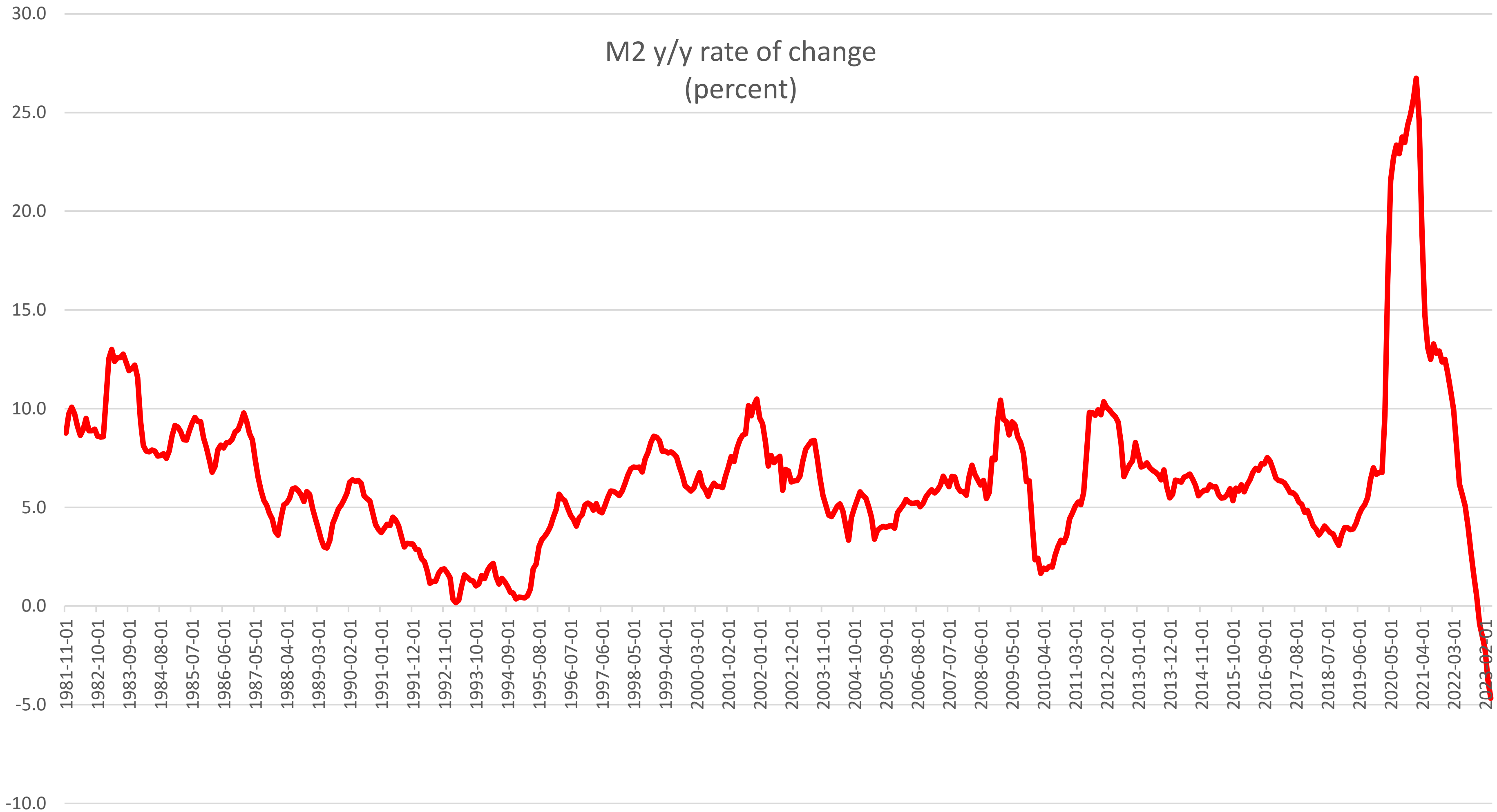
Up +4.0% y/y in May.

Table A. Percent changes in CPI for All Urban Consumers (CPI-U): U.S. city average

	Seasonally adjusted changes from preceding month							Un-adjusted 12-mos. ended May 2023
	Nov. 2022	Dec. 2022	Jan. 2023	Feb. 2023	Mar. 2023	Apr. 2023	May 2023	
All items	0.2	0.1	0.5	0.4	0.1	0.4	0.1	4.0
Food	0.6	0.4	0.5	0.4	0.0	0.0	0.2	6.7
Food at home	0.6	0.5	0.4	0.3	-0.3	-0.2	0.1	5.8
Food away from home[1]	0.5	0.4	0.6	0.6	0.6	0.4	0.5	8.3
Energy	-1.4	-3.1	2.0	-0.6	-3.5	0.6	-3.6	-11.7
Energy commodities	-2.1	-7.2	1.9	0.5	-4.6	2.7	-5.6	-20.4
Gasoline (all types)	-2.3	-7.0	2.4	1.0	-4.6	3.0	-5.6	-19.7
Fuel oil[1]	1.7	-16.6	-1.2	-7.9	-4.0	-4.5	-7.7	-37.0
Energy services	-0.6	1.9	2.1	-1.7	-2.3	-1.7	-1.4	1.6
Electricity	0.5	1.3	0.5	0.5	-0.7	-0.7	-1.0	5.9
Utility (piped) gas service	-3.4	3.5	6.7	-8.0	-7.1	-4.9	-2.6	-11.0
All items less food and energy	0.3	0.4	0.4	0.5	0.4	0.4	0.4	5.3
Commodities less food and energy commodities	-0.2	-0.1	0.1	0.0	0.2	0.6	0.6	2.0
New vehicles	0.5	0.6	0.2	0.2	0.4	-0.2	-0.1	4.7
Used cars and trucks	-2.0	-2.0	-1.9	-2.8	-0.9	4.4	4.4	-4.2
Apparel	0.1	0.2	0.8	0.8	0.3	0.3	0.3	3.5
Medical care commodities[1]	0.2	0.1	1.1	0.1	0.6	0.5	0.6	4.4
Services less energy services	0.5	0.6	0.5	0.6	0.4	0.4	0.4	6.6
Shelter	0.6	0.8	0.7	0.8	0.6	0.4	0.6	8.0
Transportation services	0.3	0.6	0.9	1.1	1.4	-0.2	0.8	10.2
Medical care services	-0.5	0.3	-0.7	-0.7	-0.5	-0.1	-0.1	-0.1

Source: BLS. Data through May 2023.

The money supply – y/y rate of change



 Source: Federal Reserve Bank of St. Louis. Data through April 2023.

M2 vs. inflation

THE WALL STREET JOURNAL.

Get Ready for Deflation

The record increase in the money supply caused by $6 trillion in pandemic relief payments in 2020 and 2021 unleashed the present inflation.

The aggressive tightening regime the Fed has undertaken, including an unprecedented four back-to-back 75-basis-point rate increases, deserves little credit for the recent decrease in inflation. The drop has been caused primarily by the sharp slowing in money-supply growth resulting from the end of federal pandemic stimulus payments.

Slowing money growth now is interacting with higher rates, and the result is contraction. M2 has shrunk 4.63% in the past year. This is the only contraction in U.S. history, so there is a lot we can't predict here, but it would be extraordinary if such a contraction didn't result in deflation, just as the large money-supply increase two years ago resulted in inflation.

Source: *The Wall Street Journal*, May 24, 2023. Opinion section. Author: Donald L. Luskin.

BARRON'S

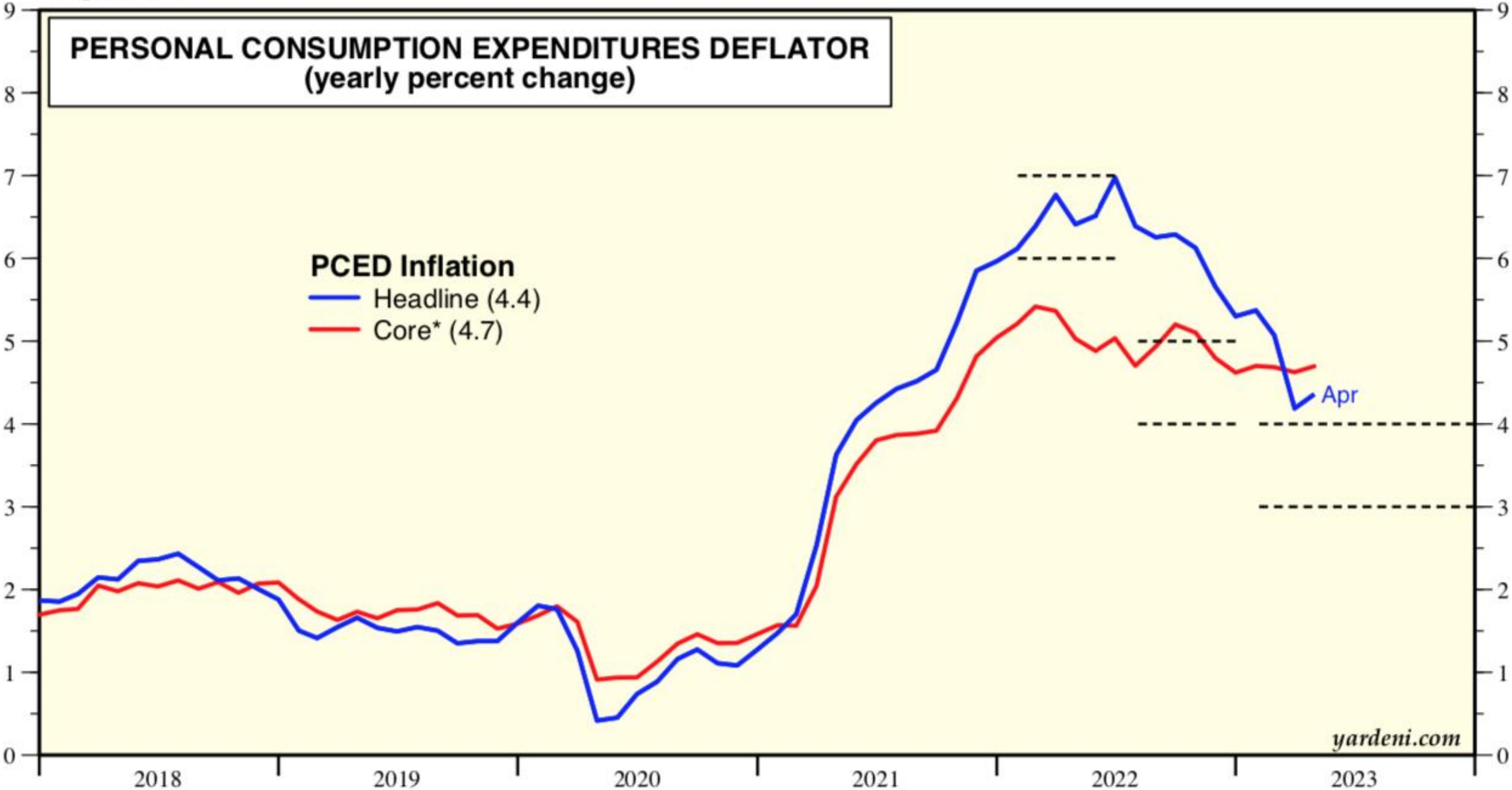
The Inflation Era Is Over. The Case for Fed Rate Cuts.

The forces that drove up inflation since the onset of the Covid pandemic are reversing rapidly. Over the next year, both the headline and core rates—the latter excludes food and energy prices—will drop sharply. By the end of 2024, inflation is likely to be below the Federal Reserve's 2% target, and policy makers will be trying to stop it falling too far.

Source: *Barron's*, "The Inflation Era Is Over. The Case For Fed Rate Cuts", by Ian Shepherdson, "Other Voices", June 5, 2023.

Ed Yardeni's inflation forecast

Figure 2.



* Excluding food & energy.
Note: Dashed ranges are YRI forecasts for headline PCED inflation rate.
Source: Bureau of Economic Analysis.

Source: Yardeni Research, Inc., with permission, May 26, 2023.

Inflation expectations

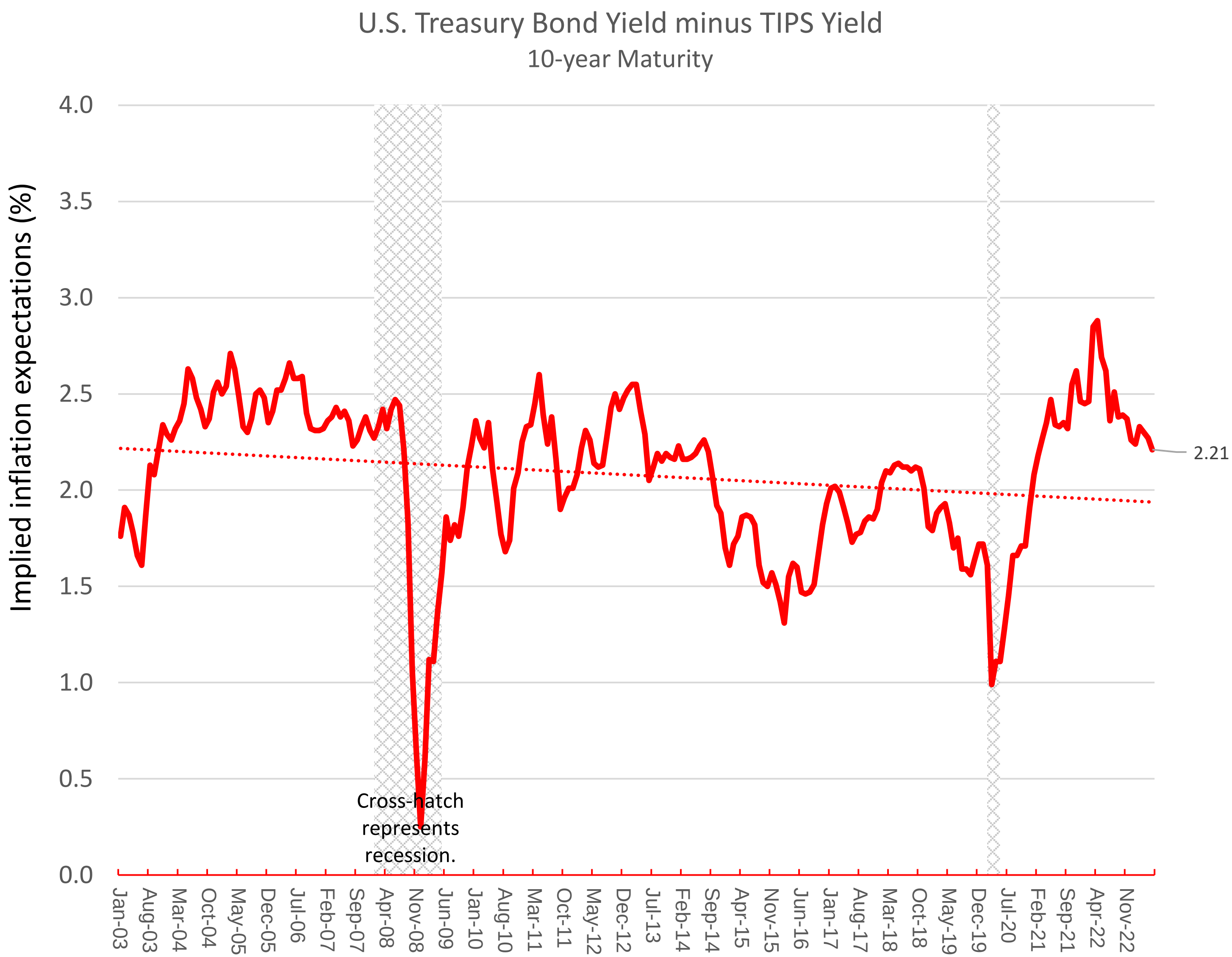
Inflation expectations

Median one-, three-, and five-year ahead expected inflation rate

Consumers expect substantially moderating inflation.

Source: Federal Reserve Bank of New York, *Survey of Consumer Expectations*. Data through April 2023.

Inflation expectations



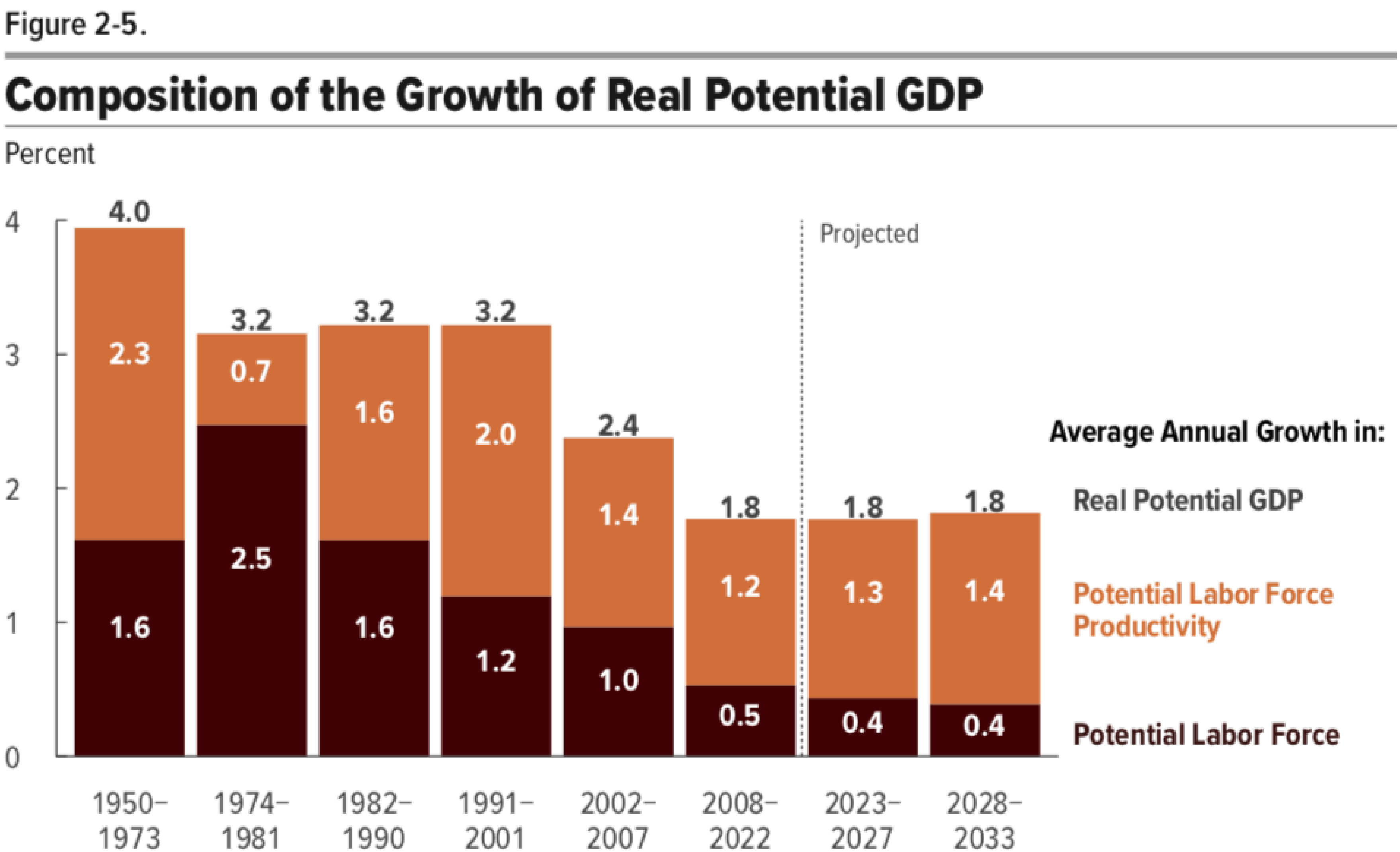
The difference between the nominal 10-year Treasury bond yield and the TIPS yield gives the market's opinion for a 10-year inflation forecast.

It had been trending lower for 15 years but has moved higher post-Covid.

Source: Federal Reserve. Data through May 2023.

GDP growth potential = Δ productivity + Δ labor force

CBO's potential growth calculations

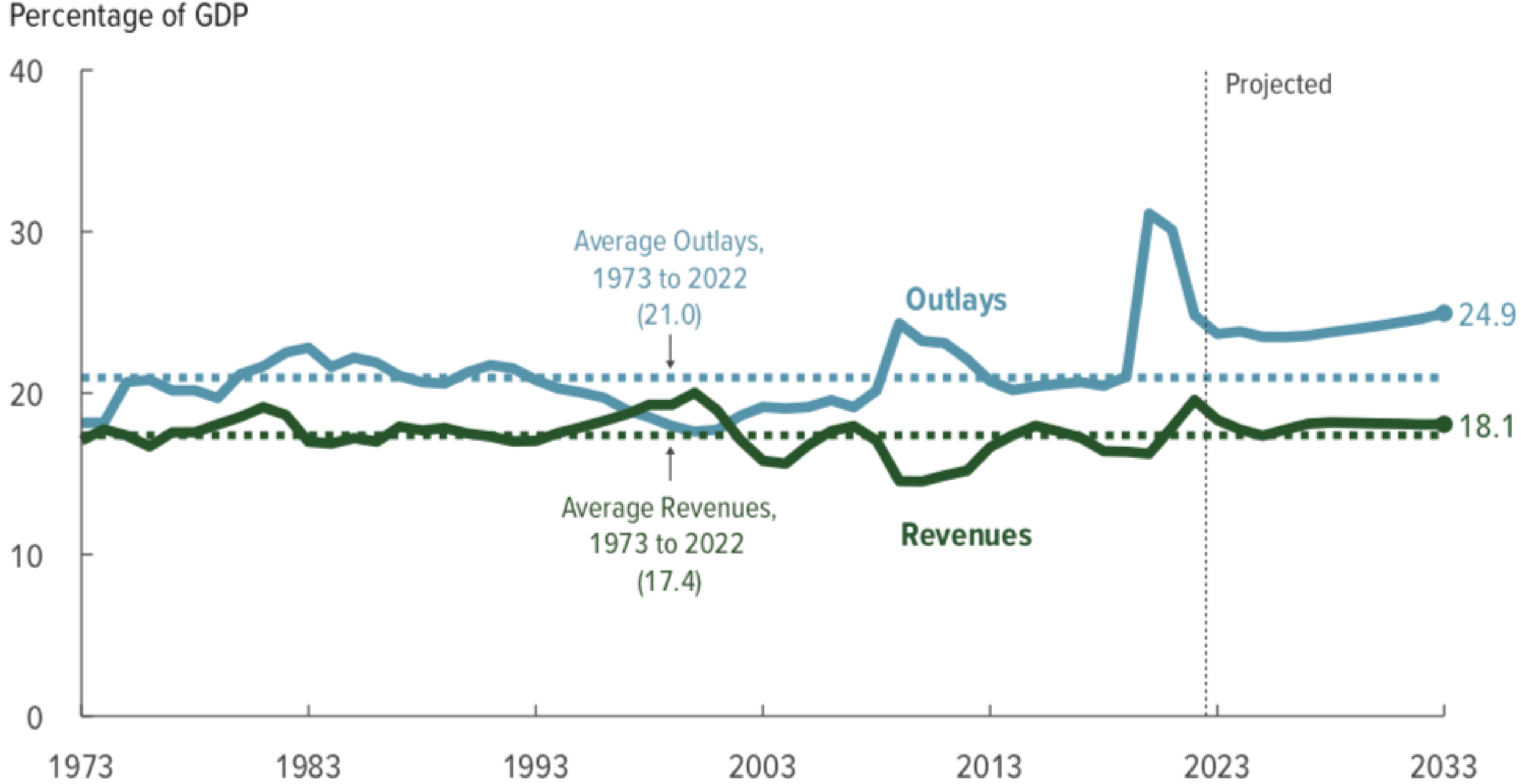


Source: Congressional Budget Office, *The Budget and Economic Outlook: 2023 to 2033,* released February 2023.

Federal revenues and outlays through 2033

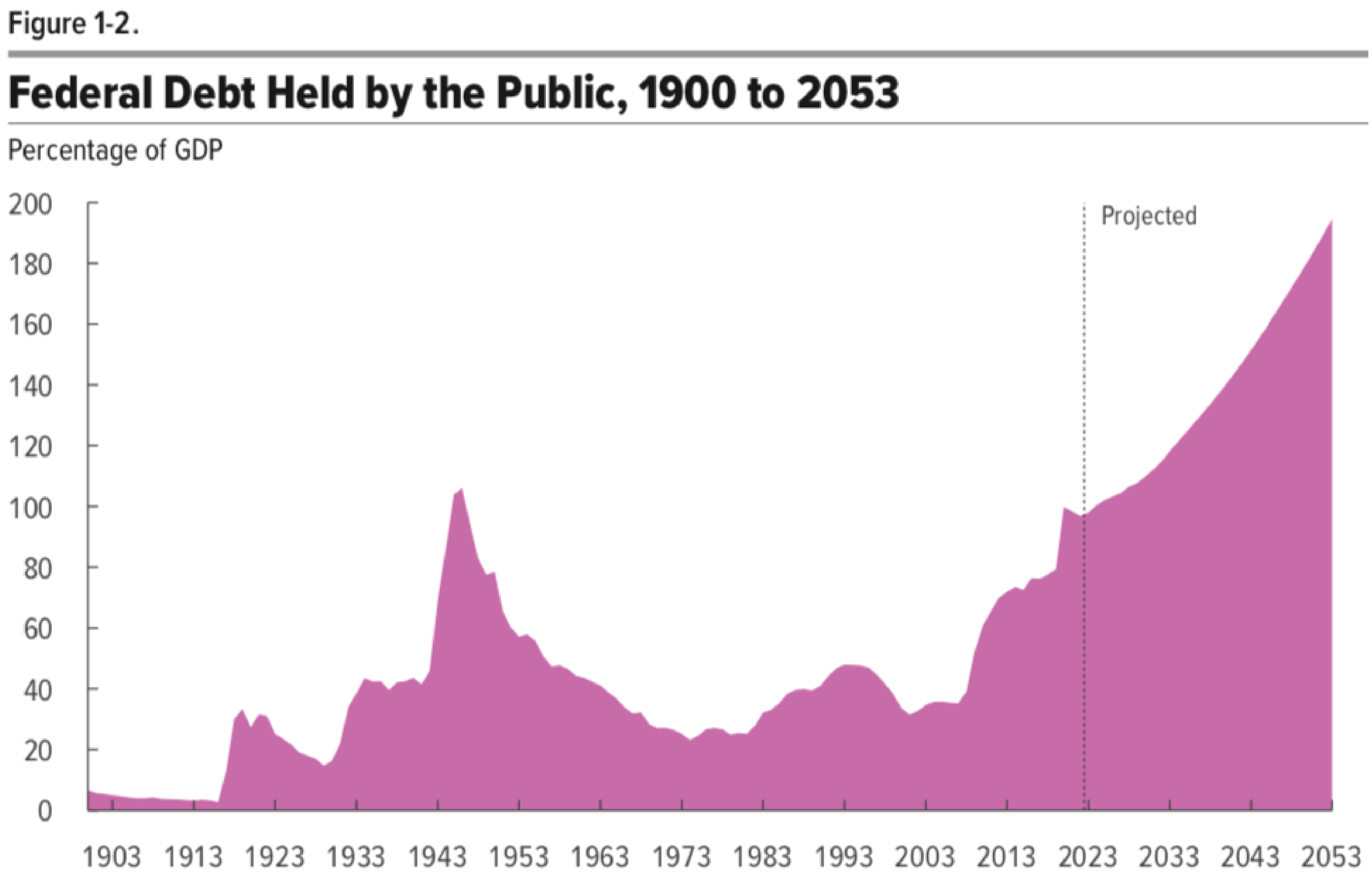
Figure 1-3.

Total Outlays and Revenues



Source: Congressional Budget Office, *The Budget and Economic Outlook: 2023 to 2033,* released February 2023.

Federal debt % of GDP though 2053



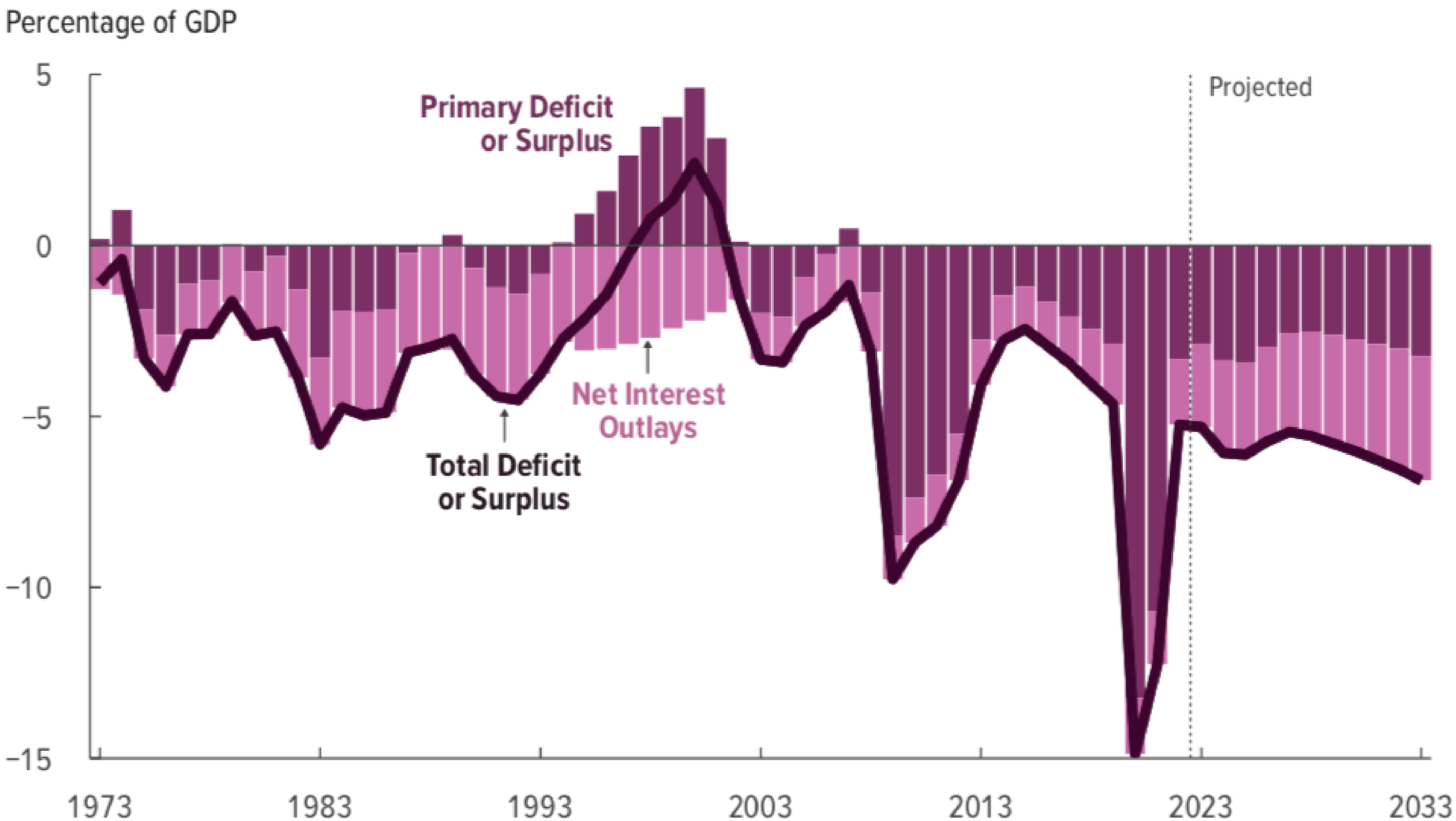
Debt/GDP grows significantly over 30 years.

Source: Congressional Budget Office, *The Budget and Economic Outlook: 2023 to 2033,* released February 2023.

Federal deficits % of GDP though 2033

Figure 1-1.

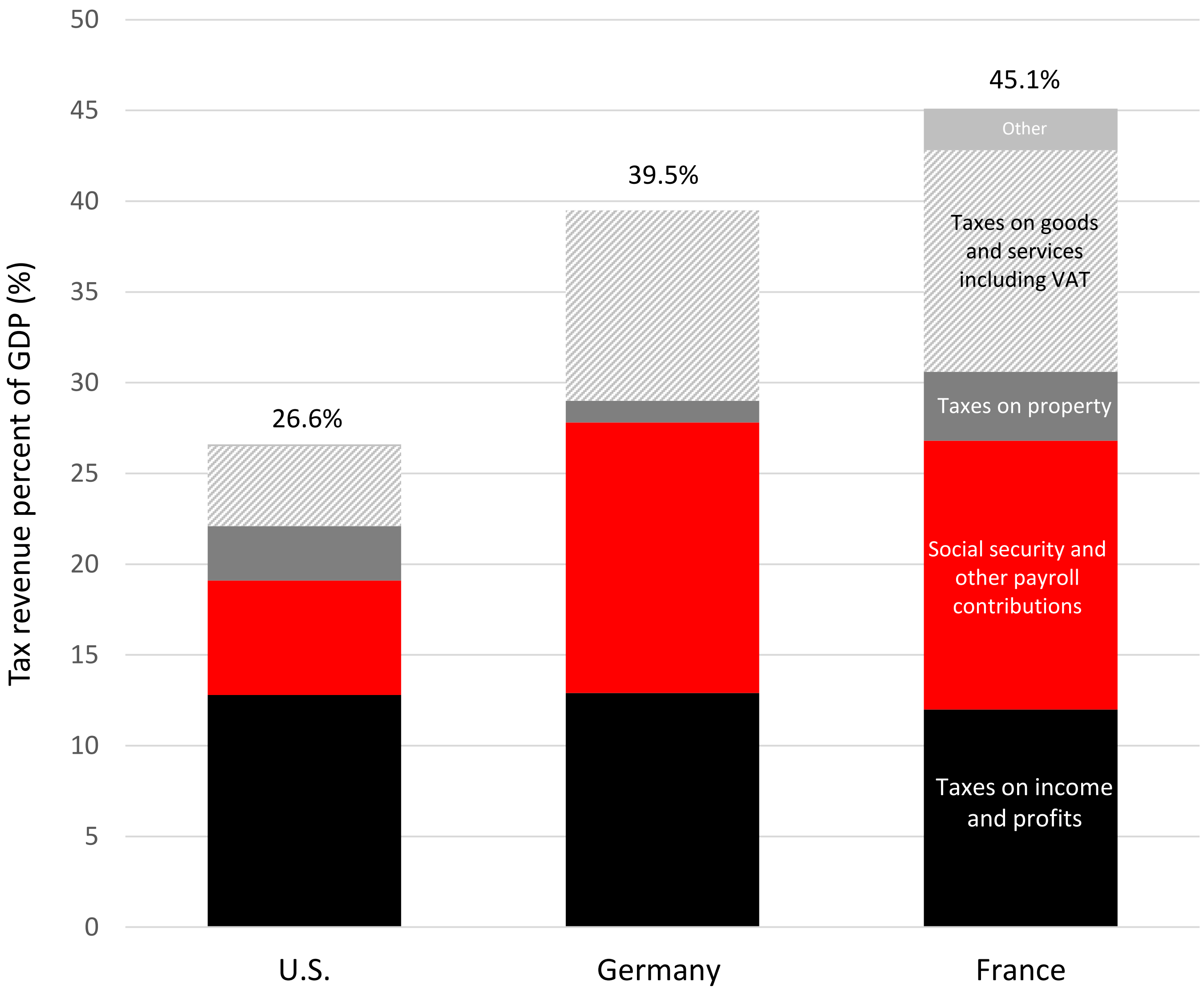
Total Deficits, Primary Deficits, and Net Interest Outlays



Net interest becomes the major part of deficits.

Source: Congressional Budget Office, *The Budget and Economic Outlook: 2023 to 2033,* released February 2023.

Tax structure U.S. vs. France and Germany



The U.S. has a much lower total tax burden and takes a very different approach to raising tax revenues compared to most other developed economies.

Source: OECD Revenue Statistics 2022, published November 30, 2022. Data for 2021.

Important Information

All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. This is not to be construed as an offer to buy or sell any financial instruments and should not be relied upon as the sole factor in an investment making decision. As with all investments there are associated inherent risks. Please obtain and review all financial material carefully before investing.

The opinions expressed are those of the author, are based on current market conditions and are subject to change without notice.

These materials may contain statements that are not purely historical in nature but are "forward-looking statements." These include, among other things, projections, forecasts, estimates of income, yield or return or future performance targets. These forward-looking statements are based upon certain assumptions, some of which are described herein. Actual events are difficult to predict and may substantially differ from those assumed. All forward-looking statements included herein are based on information available on the date hereof and Fritz Meyer assumes no duty to update any forward-looking statement. Accordingly, there can be no assurance that estimated returns or projections can be realized, that forward-looking statements will materialize or that actual returns or results will not be materially lower than those presented.

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