WEALTH ADVISORS

TRUST MATTERS.

December 2022

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.

Ben Bernanke’s view on crypto currencies.

Former Fed Chair Ben Bernanke, in an interview published by the Swedish journal Dagens Nyheter on December 7, stated he does not think cryptocurrencies constitute a threat to the current financial system because no bank is sitting on a large pile of these assets. He added, “I believe that so far cryptocurrencies have not been shown to have any economic value at all.”

In May, Bernanke said bitcoin was used “mostly for underground economy activities and often things that are illegal or illicit.” He further explained that while bitcoin is being used as a speculative asset, he does not think it can reach the status of an alternative currency. In his latest interview, Bernanke opined, “Either they are not regulated and then they will collapse because people distrust them, or they are regulated and then they will collapse because they are mostly used for criminal activity.”

Source: Yardeni Research, Inc., *Morning Briefing,* December 13, 2022.

What’s new?

- Cooler CPI
- LEI down again
- Yield curve inverting
- Still strong hiring data
- Still strong earnings estimates
- Stronger services PMI
- Strong retail sales
- Oil down

Soft Landing?

THE WALL STREET JOURNAL.

Markets Show More Confidence In Soft Landing

A few months ago, Wall Street rebuffed the idea that the Federal Reserve would be able to pull off a soft landing.
Now, a growing crowd is betting on exactly that happening.
… analysts and economists at a number of firms, including Goldman Sachs, BMO Wealth Management and Credit Suisse Group AG, are predicting the economy will be able to avoid a hard landing next year

Stocks are up significantly from their October lows. But the S&P 500 is still down 17% for the year, on course for its worst annual performance since the financial crisis of 2008. The stock market has typically fallen roughly 30% in recessions going back to 1929, according to Dow Jones Market Data.

Source: *The Wall Street Journal.* “Markets Show More Confidence in Soft Landing”, by Akane Otani. December 12, 2022.

Hard Landing?

BARRON'S

Buckle Up: Signs Now Point to Higher Rates And a Harder Landing

Source: *Barron's*, "Buckle Up: Signs Now Point to Higher Rates And a Harder Landing", by Megan Cassella, December 12, 2022.

WSJ survey of economists

THE WALL STREET JOURNAL.

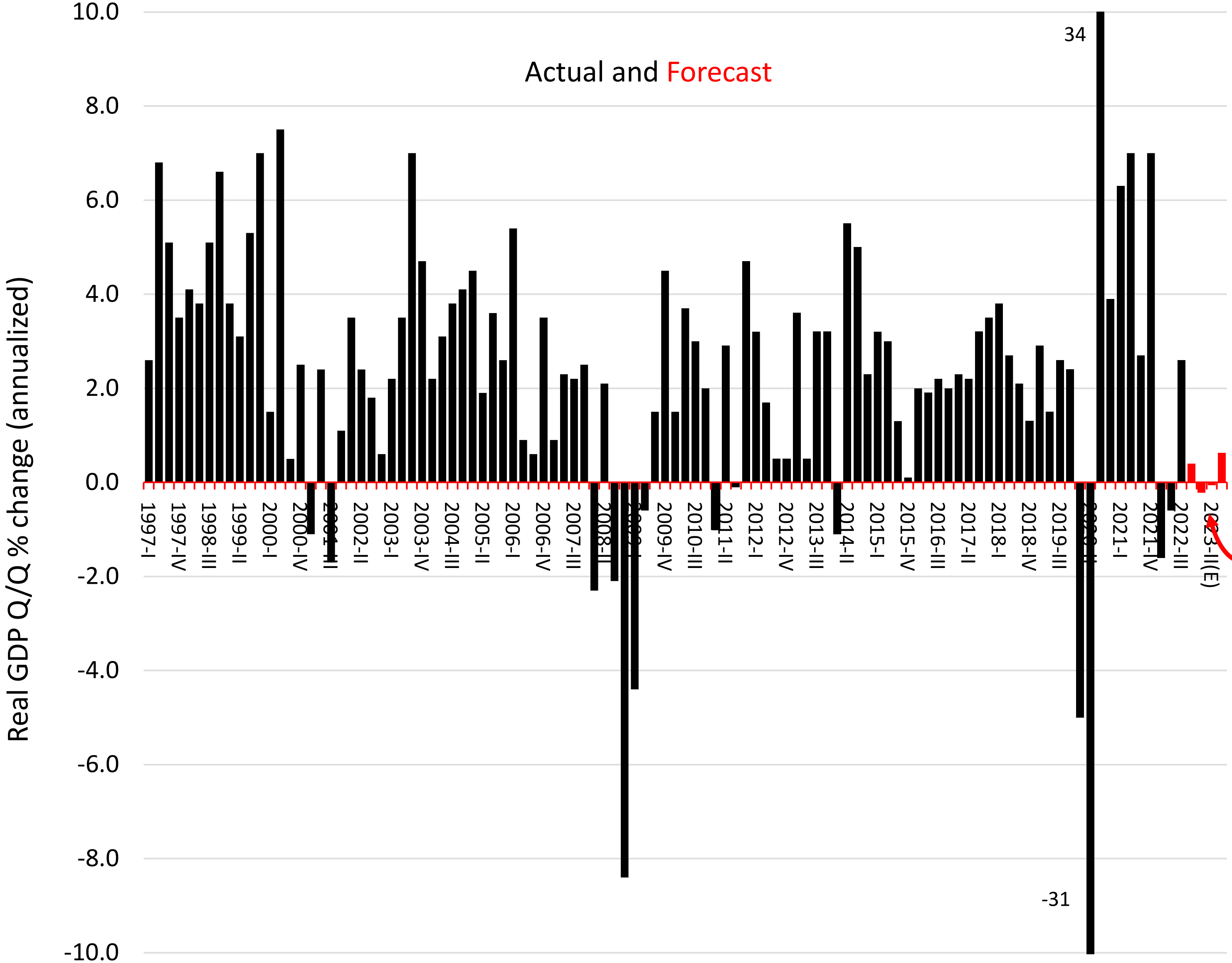
Economists Now Expect a Recession, Job Losses by Next Year

On average, economists put the probability of a recession in the next 12 months at 63%, up from 49% in July’s survey.

Source: *The Wall Street Journal*, October 17, 2022.

Consensus GDP forecast

GDP



The 60 economists surveyed in October <u>see recession ahead.</u>

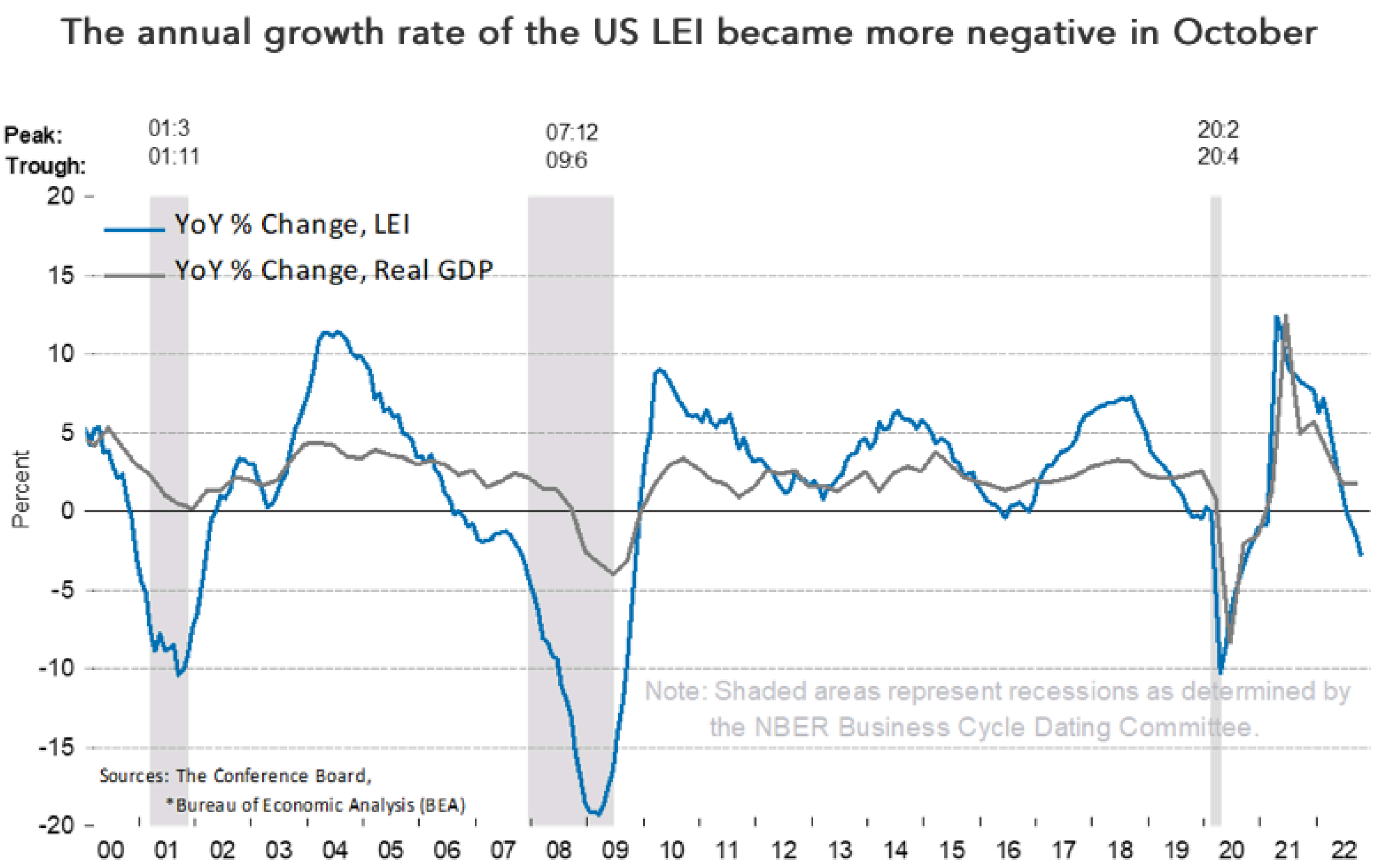
Mild recession forecasted in first and second quarters of 2023.

Sources: Bureau of Economic Analysis, actual quarterly data through September 2022. *The Wall Street Journal* survey released October 17, 2022.

Jamie Dimon – recession coming

Source: *CNBC* screenshot, October 11, 2022.

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



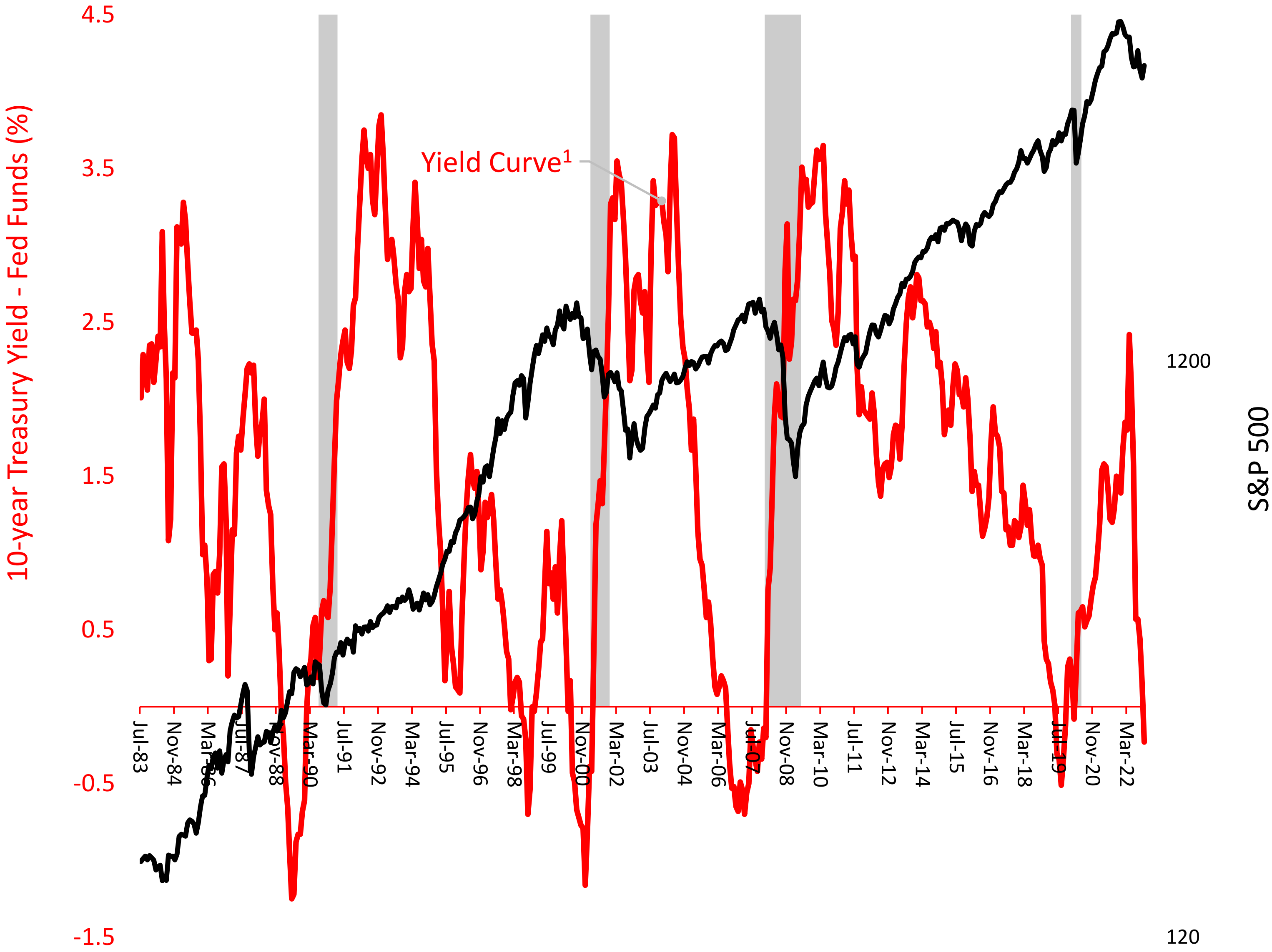
"The US LEI fell for an eighth consecutive month, suggesting the economy is possibly in a recession. The downturn in the LEI reflects consumers' worsening outlook amid high inflation and rising interest rates, as well as declining prospects for housing construction and manufacturing. <u>The Conference Board forecasts … a recession is likely to start around yearend and last through mid-2023."</u>

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 October released November 18, 2022.

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, <u>the yield curve has inverted.</u>

Sources: NBER, Federal Reserve and Standard & Poor's. Data through November 2022.

[1]The interest rate on the 10-year Treasury bond (long term) minus the fed funds rate (short term).

Atlanta Fed's GDPNow forecast

Latest estimate: 3.2 percent — December 9, 2022

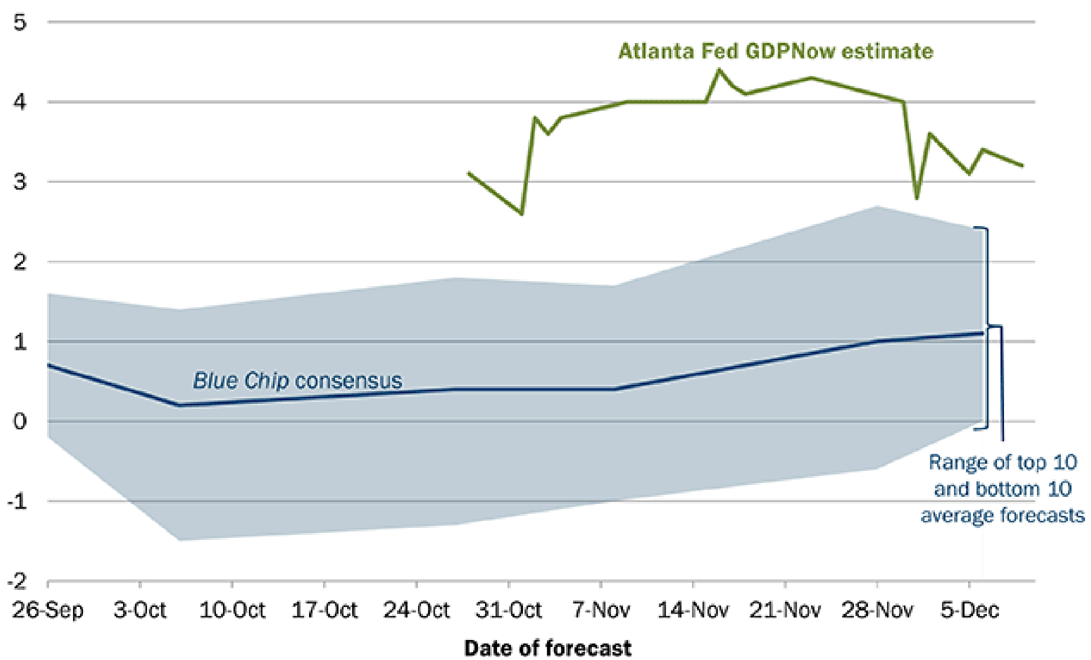
The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the fourth quarter of 2022 is **3.2 percent** on December 9, down from 3.4 percent on December 6. After this morning's releases from the US Census Bureau and the US Bureau of Labor Statistics, the nowcast of fourth-quarter gross private domestic investment growth decreased from 1.7 percent to 0.7 percent.

*The next GDPNow update is **Thursday, December 15**. Please see the "Release Dates" tab below for a list of upcoming releases.*

GDPNow is much higher than Blue Chip consensus.

Evolution of Atlanta Fed GDPNow real GDP estimate for 2022: Q4

Quarterly percent change (SAAR)



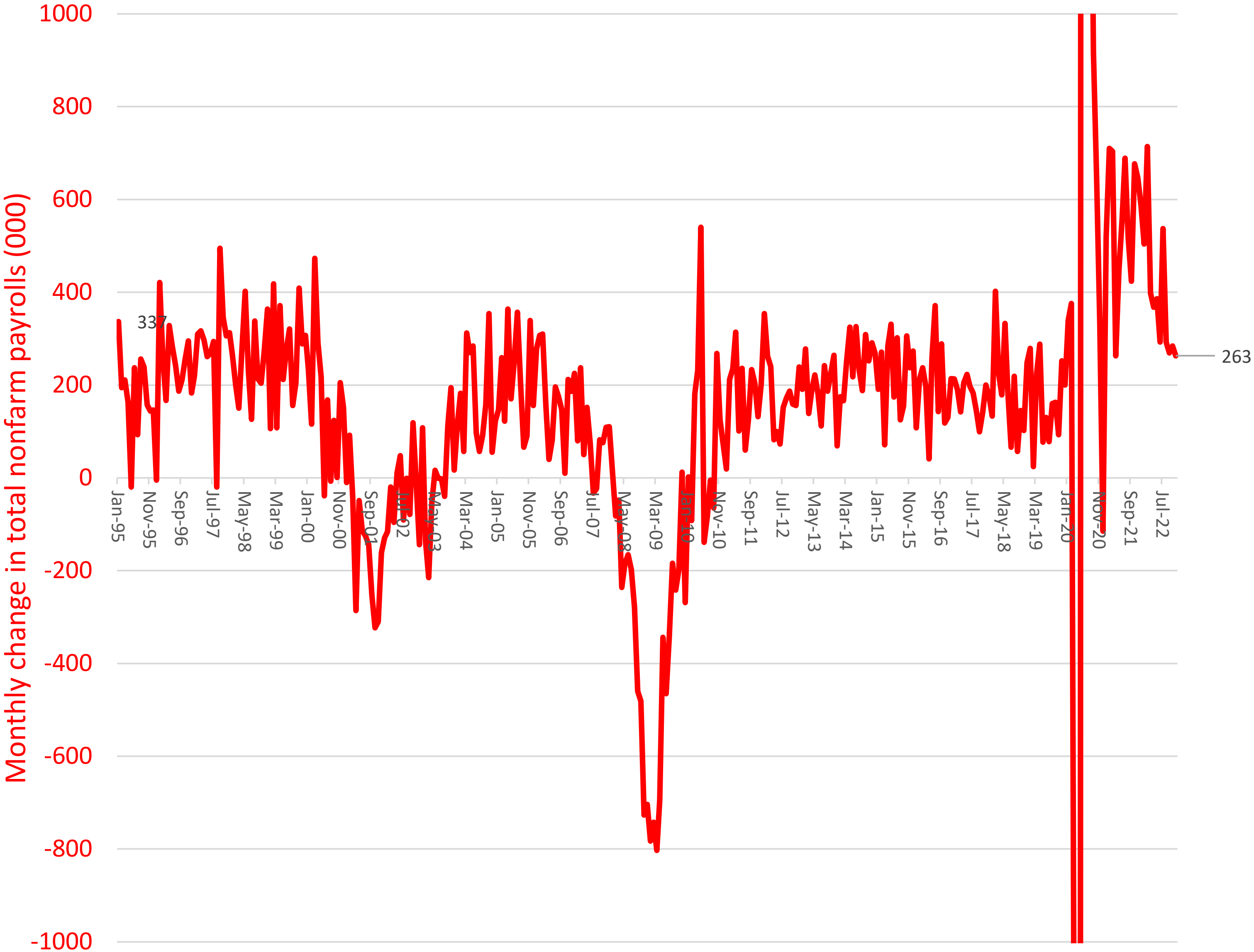
Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*

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, December 9, 2022.

Economic data

Net new job formation



263,000 jobs gained in November on the establishment survey.

Source: Bureau of Labor Statistics. Data through November 2022.

Net new job formation

THE WALL STREET JOURNAL.

The U.S. Is Still Hiring on All Cylinders

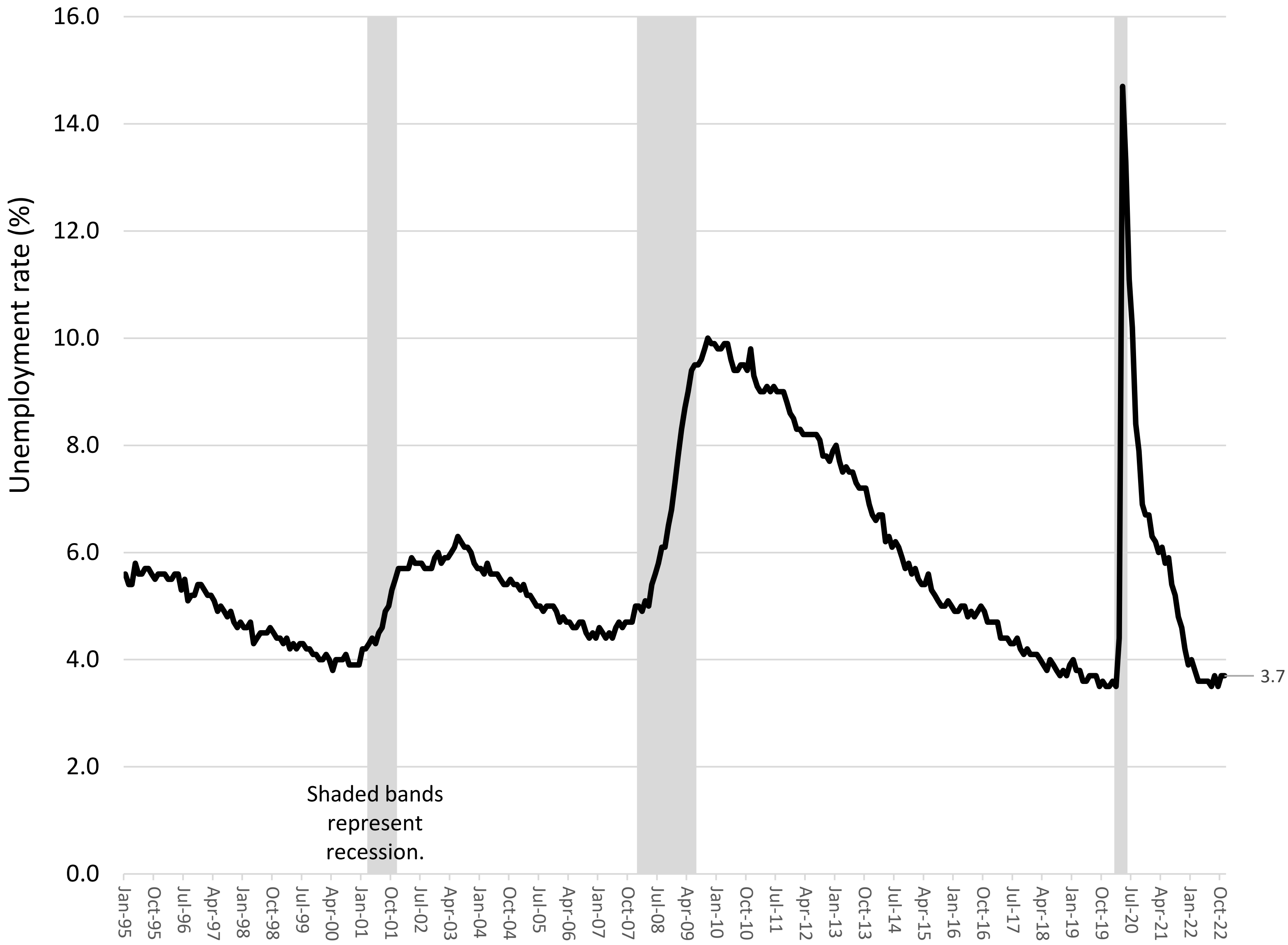
America's jobs market shows no meaningful sign of slumping despite recession fears.

The labor market is cooling. That isn't to say it isn't hot.

Source: *The Wall Street Journal.* "The U.S. Is Still Hiring on All Cylinders", by Justin Lahart. November 5-6, 2022.

Economic data

Unemployment rate

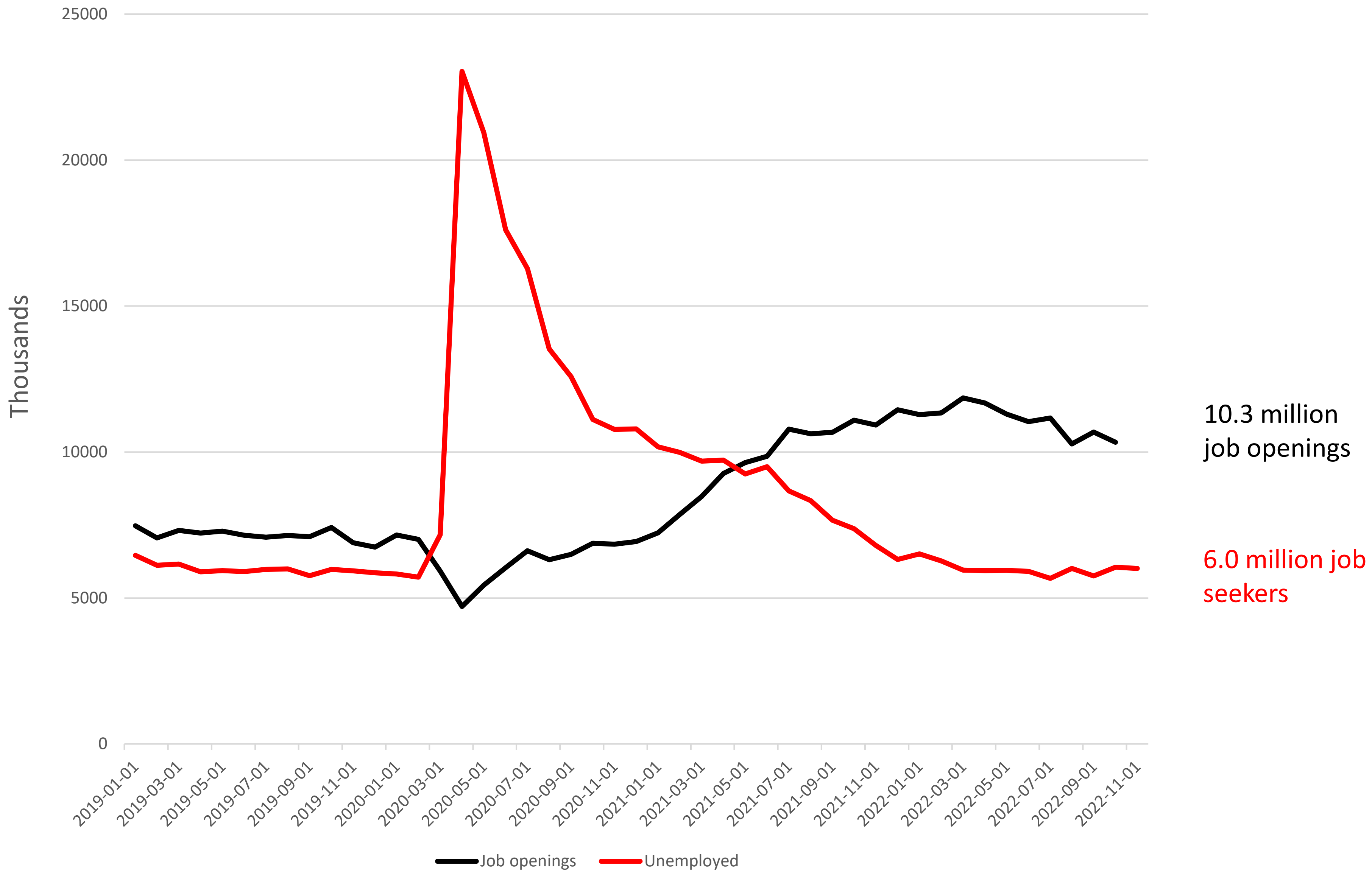


3.7% in November.

Source: Bureau of Labor Statistics. Data through November 2022.

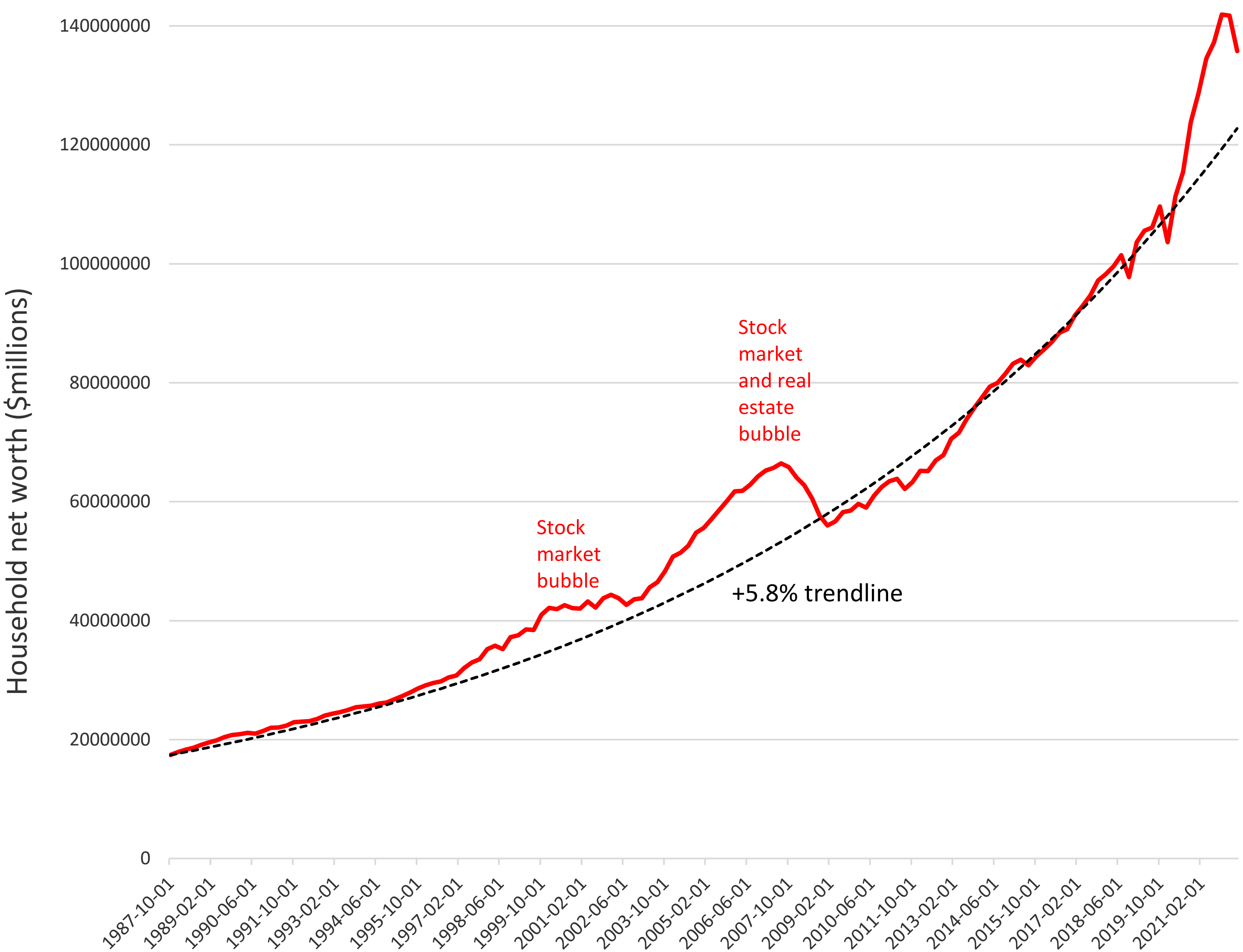
Economic data

Job openings vs. unemployed job seekers



Source: Bureau of Labor Statistics. Data through October 2022 for job openings, November 2022 for unemployed.

Household net worth – the wealth effect

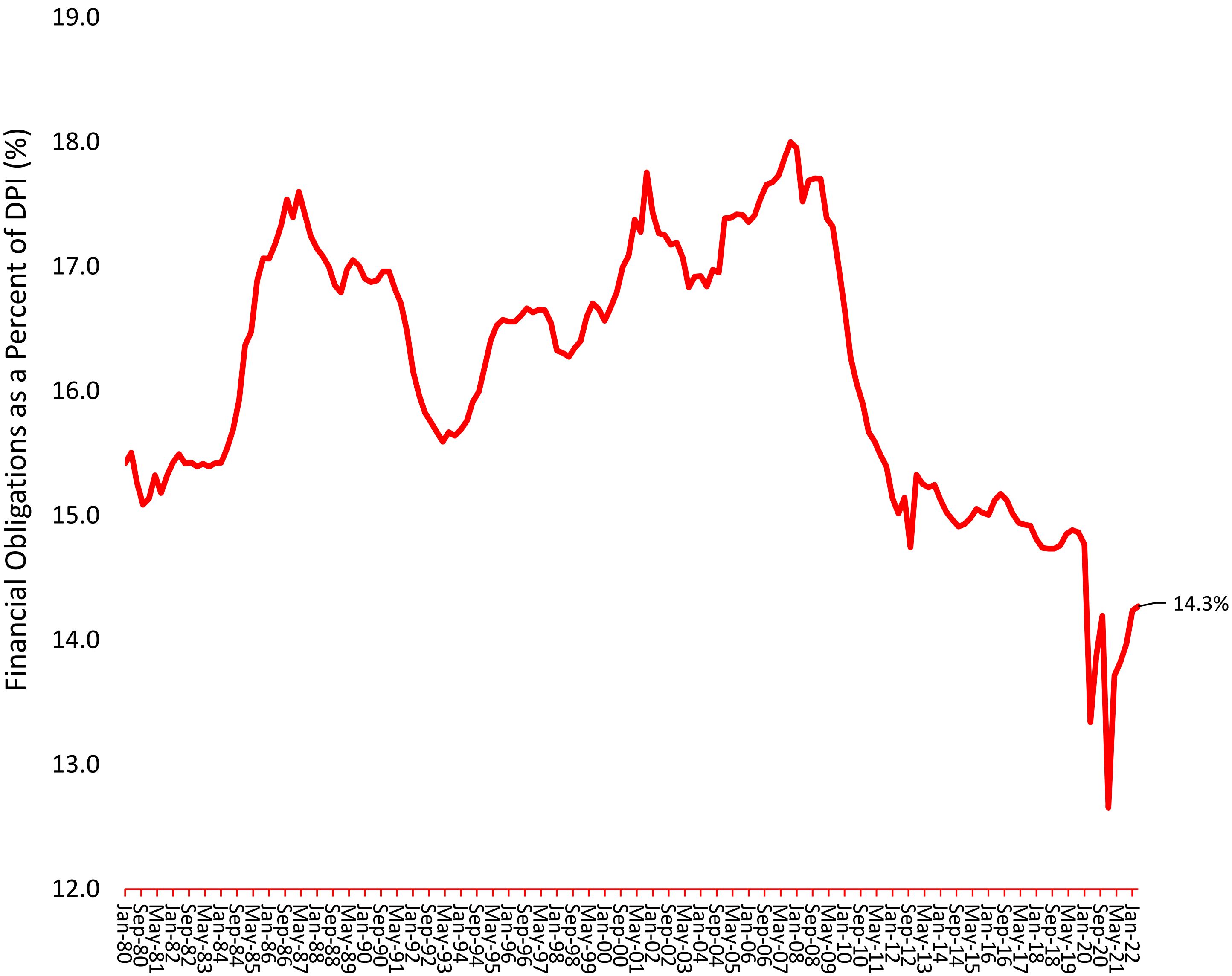


Household net worth surged, then pulled back.

Source: Federal Reserve, FRBSL. Quarterly data through June 2022, released September 9, 2022.

Household balance sheets

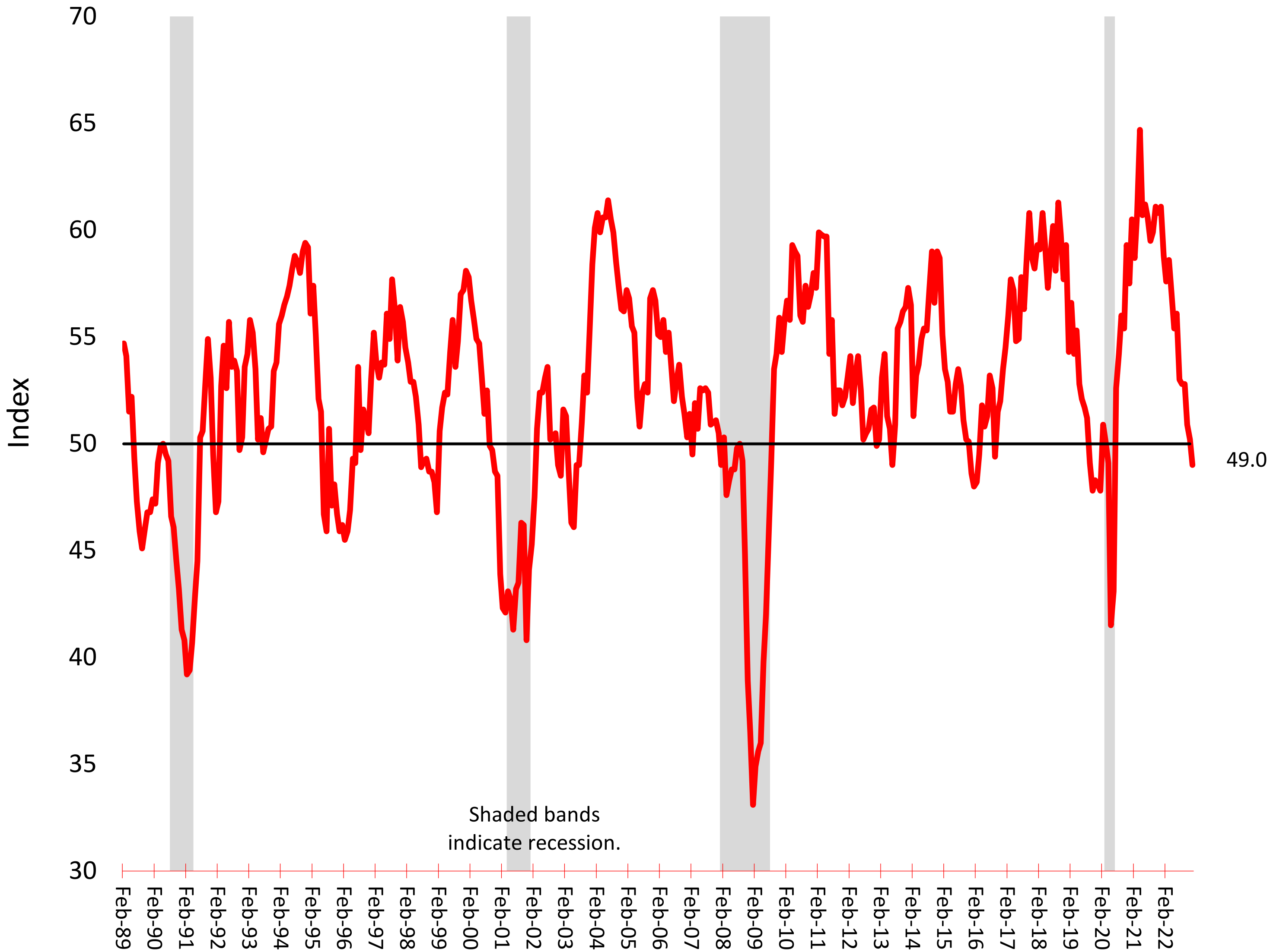
Financial obligations ratio – near record low



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 June 2022.

ISM manufacturing PMI



November at 49.0.

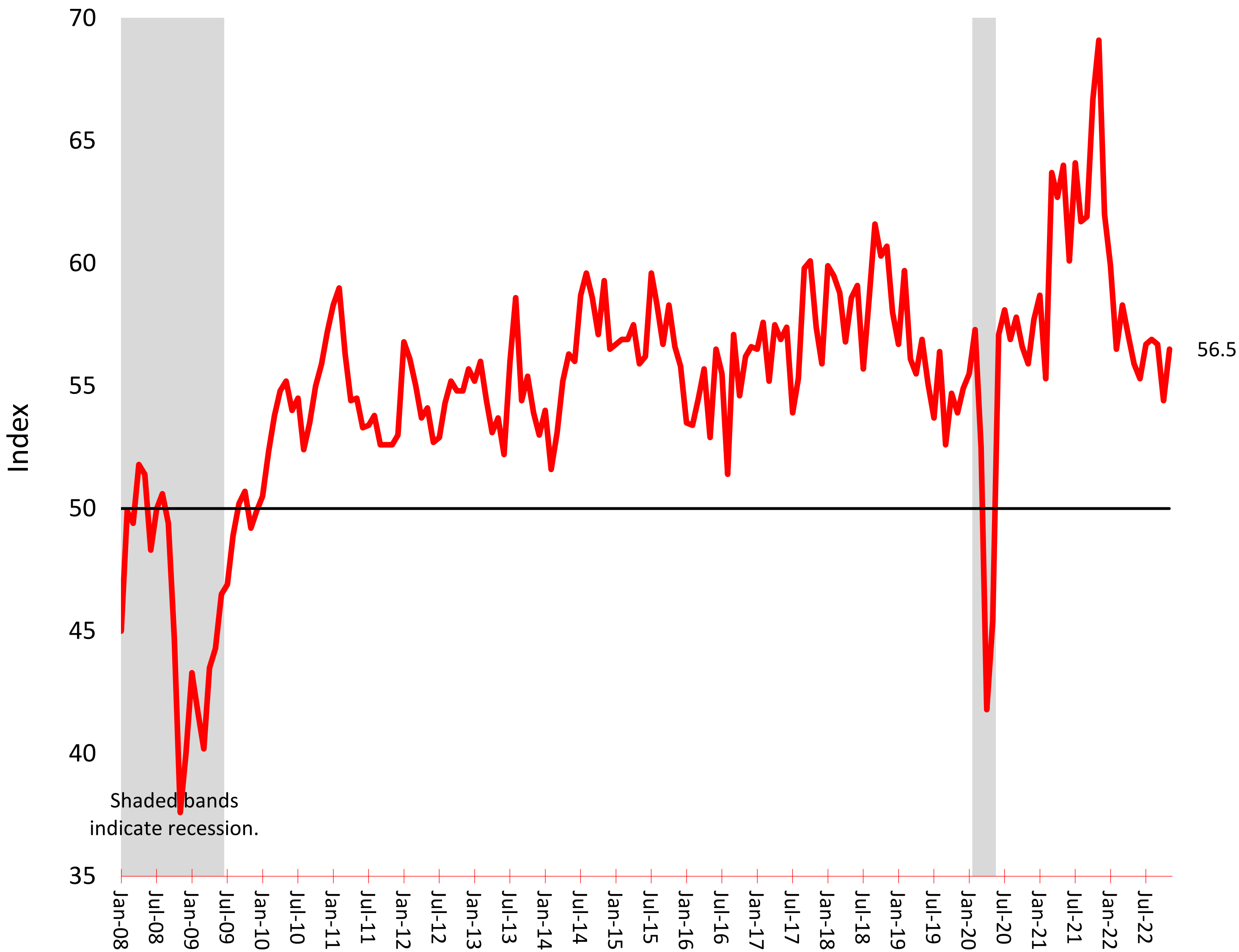
November new orders 47.2.

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 2022, Institute for Supply Management. Data through November 2022.
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.”

ISM services PMI



November at 56.5.

November new orders 56.0.

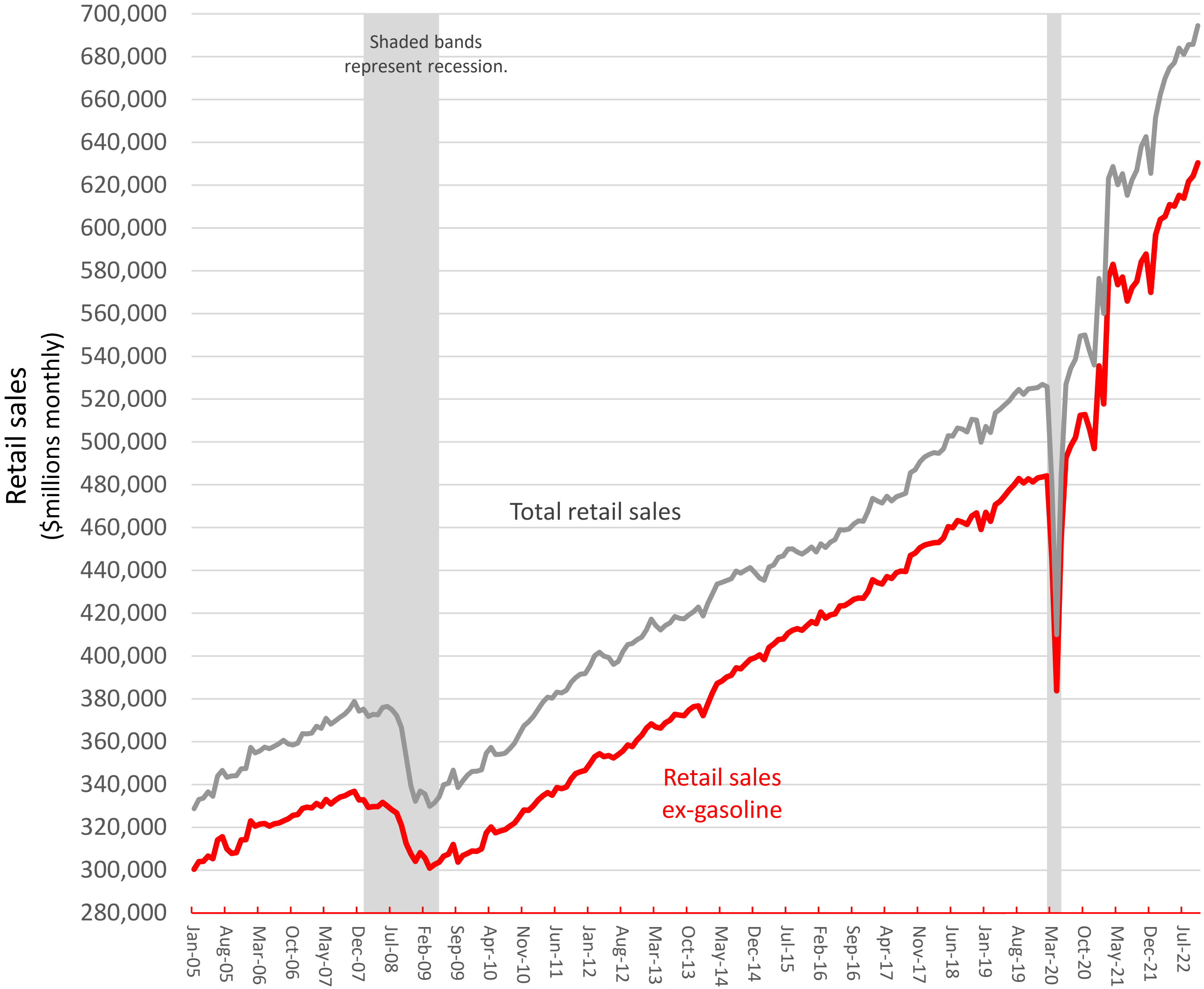
Services comprise 89% of the U.S. economy[1] and 91% of total nonfarm jobs.

Source: Copyright 2022, Institute for Supply Management; data through November 2022. 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.

Consumer spending

Source: *CNBC* screenshot, November 2, 2022.

Retail sales – coronavirus collapse, resurgence



Source: U.S. Census Bureau. Data through October 2022.

October retail sales ex-gasoline up +7.9% y/y. October core CPI up +6.3% y/y.

Retail sales are mostly goods (12% services) and compose 30% of GDP.

Retail sales

THE WALL STREET JOURNAL.

Retail Sales Climb 1.3% In Clear Sign of Strength

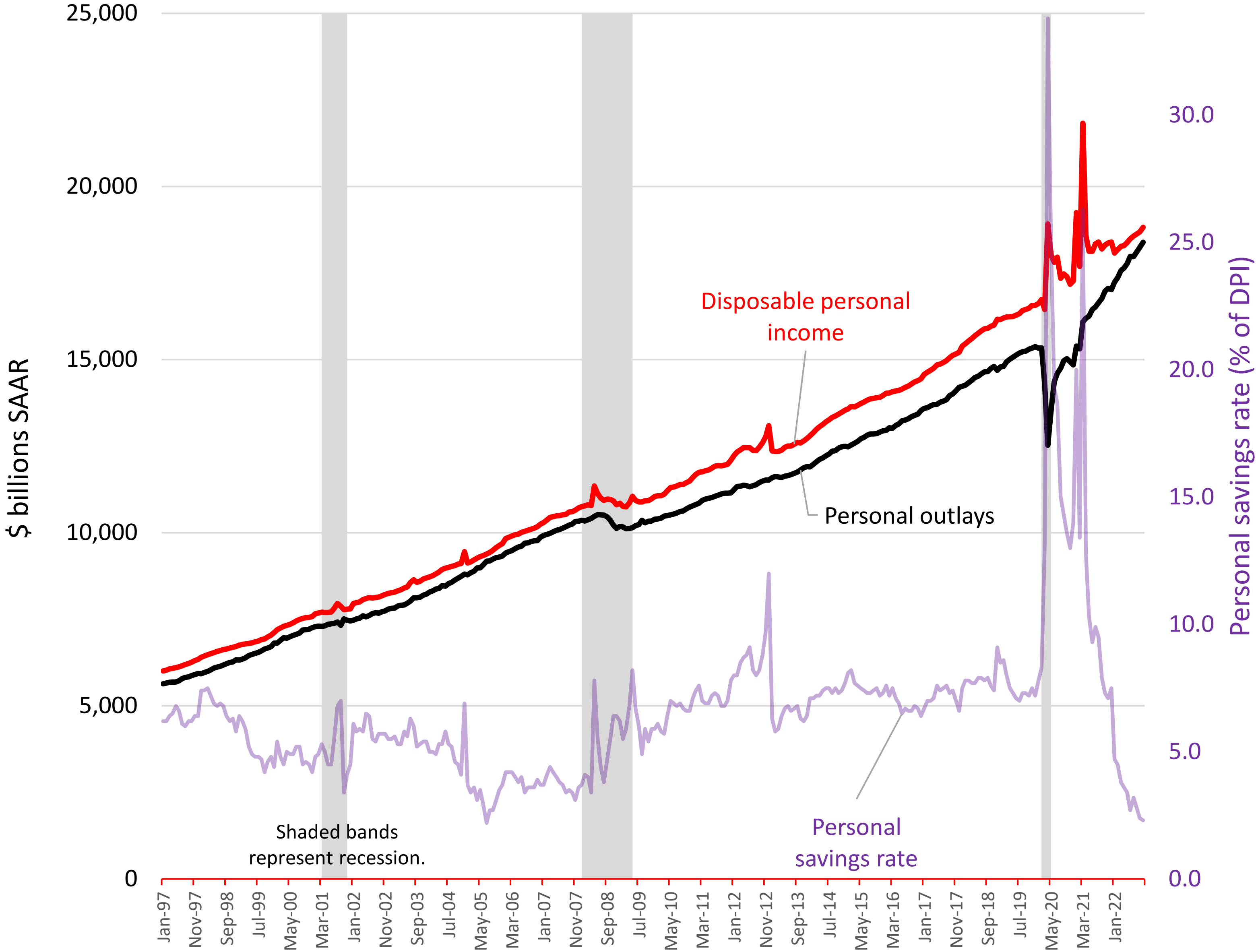
U.S. retail sales rose sharply in October, a sign of economic strength that leaves the Federal Reserve likely to keep raising interest rates as it tries to reduce persistently high inflation.

The jump in sales showed households continued to have the resources to increase their spending despite inflation running close to a four-decade high, climbing interest rates and economic uncertainty. Many households built up savings earlier in the pandemic because of trillions of dollars in government stimulus, fewer opportunities to spend and higher wages. Additionally, jobs remain plentiful, despite an increase in layoffs in some sectors such as tech.

Source: *The Wall Street Journal.* “Retail Sales Climb 1.3% In Clear Sign of Strength”, by Austen Hufford. November 17, 2022.

Consumer income

Disposable personal income, spending and saving



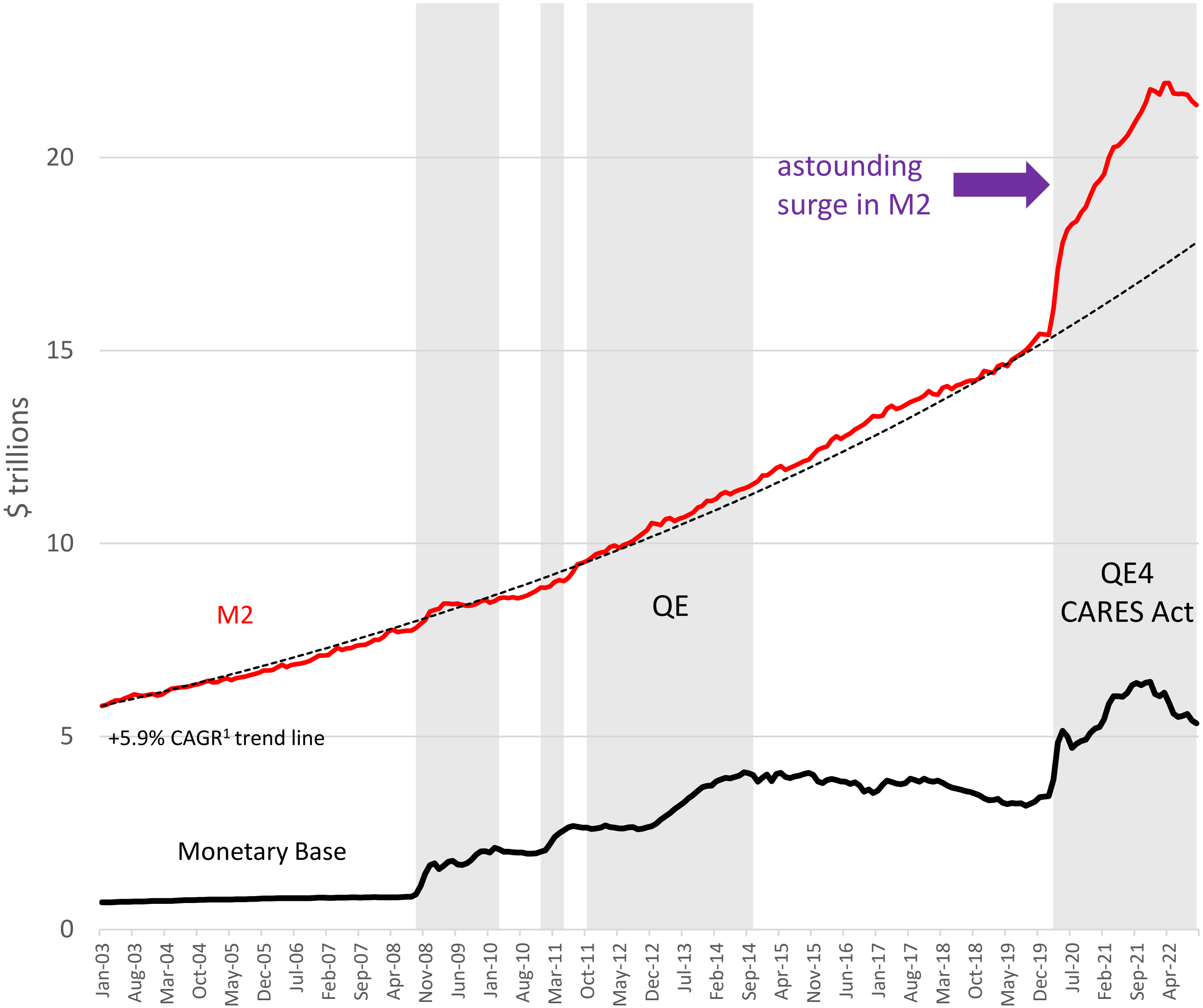
Source: Bureau of Economic Analysis, monthly data through October 2022.

DPI up just +2.8% y/y, with the PCED up +6.0% y/y.

Personal outlays up +8.4% y/y.

The savings rate, at 2.3%, is way below pre-Covid levels.

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 October 2022.
[1]CAGR = compound annual growth rate.

Flush consumers

THE WALL STREET JOURNAL.

As Savings Shrink, Spending at Risk

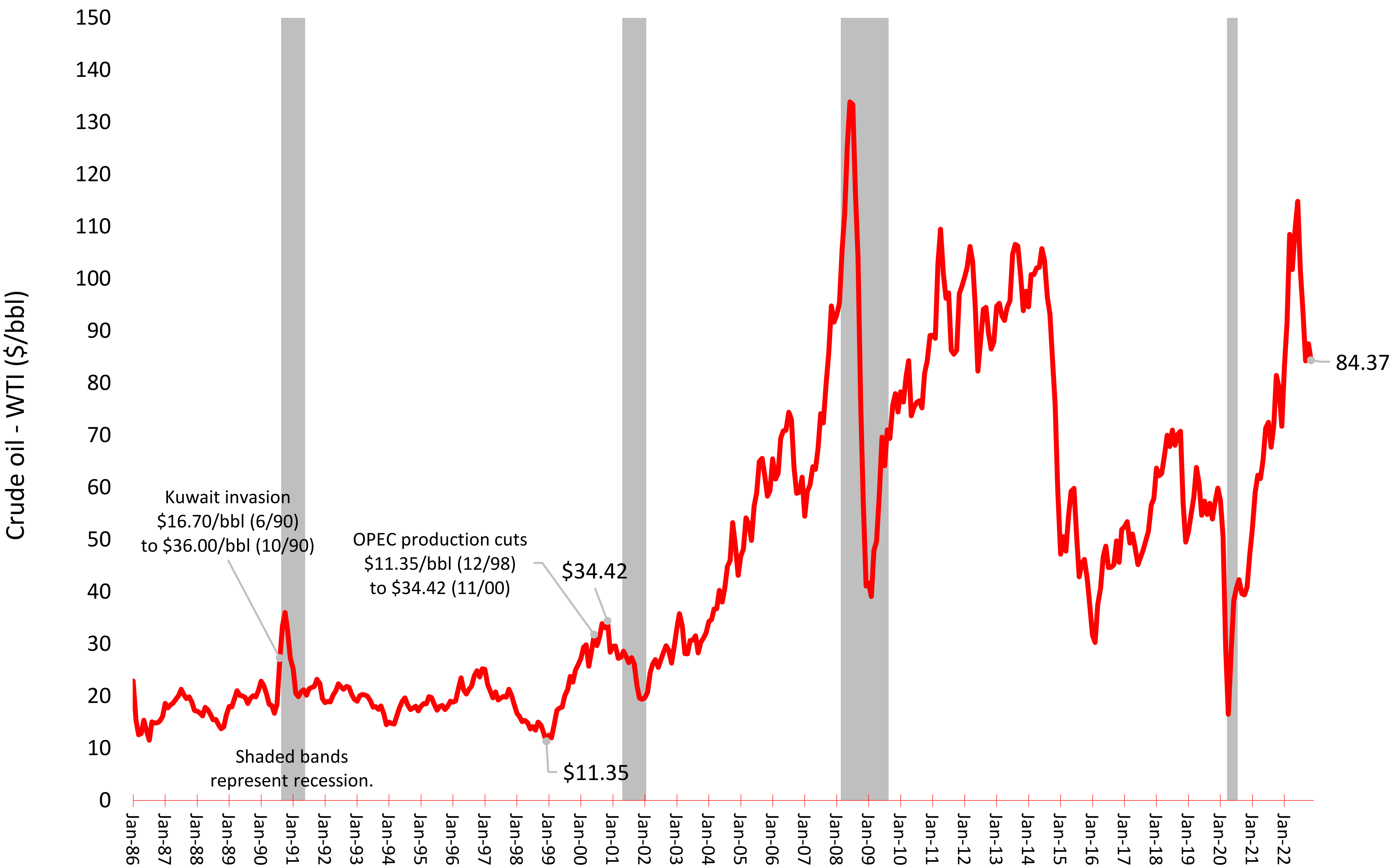
It is the $1.7 trillion question for the U.S. economy: How long can the savings consumers built up during the pandemic keep their spending going?
The answer: about nine to 12 more months.

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



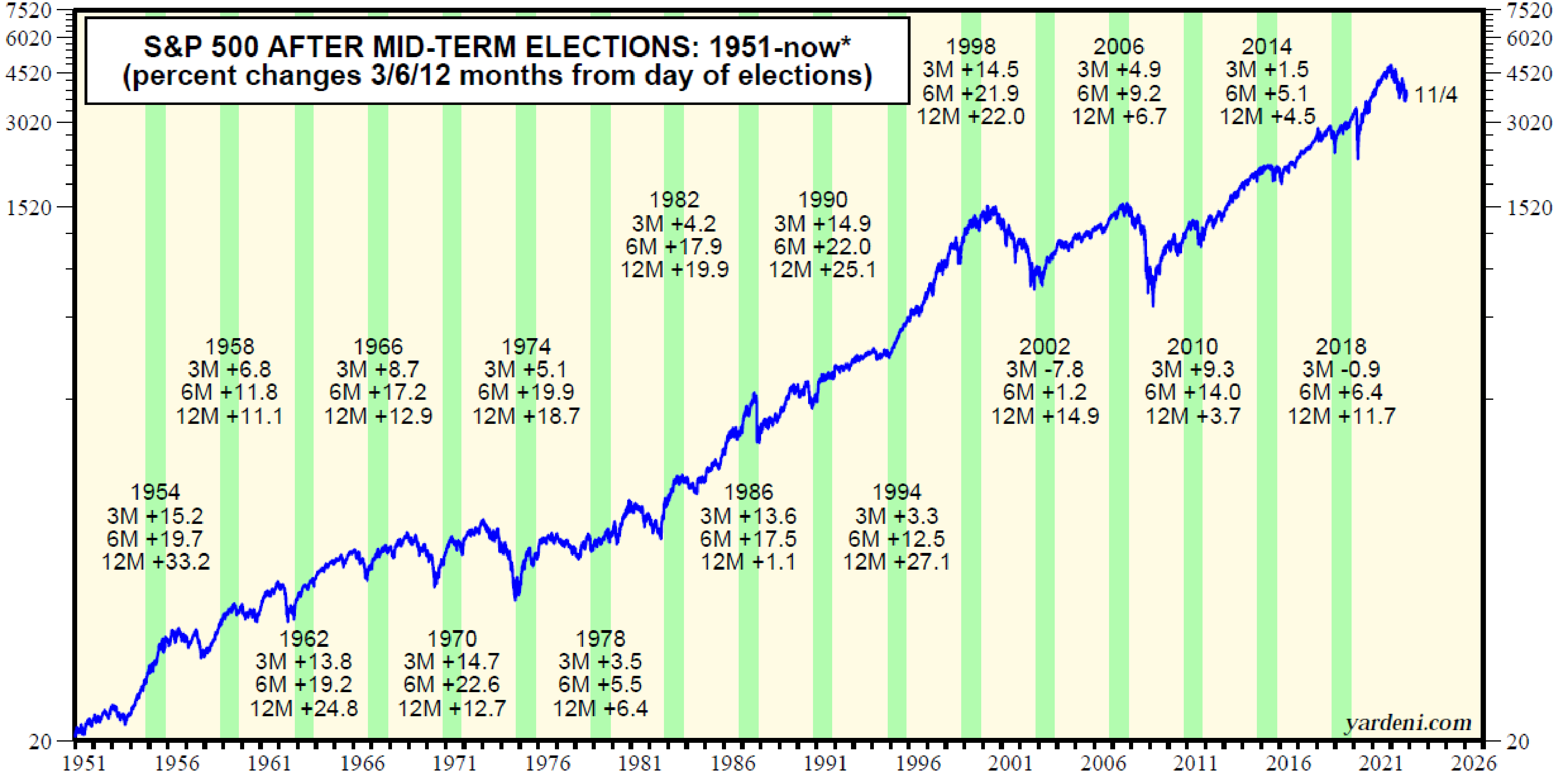
Source: U.S. Energy Information Agency. Data through November 2022.

Stock Market

- bear market
- stocks vs. fed funds rate and bond yields
- 2000 bubble vs. now
- “parabolic” is normal
- skeptical of 2023 earnings estimates
- What is the right P/E multiple?

S&P 500 and mid-term elections

Figure 3.

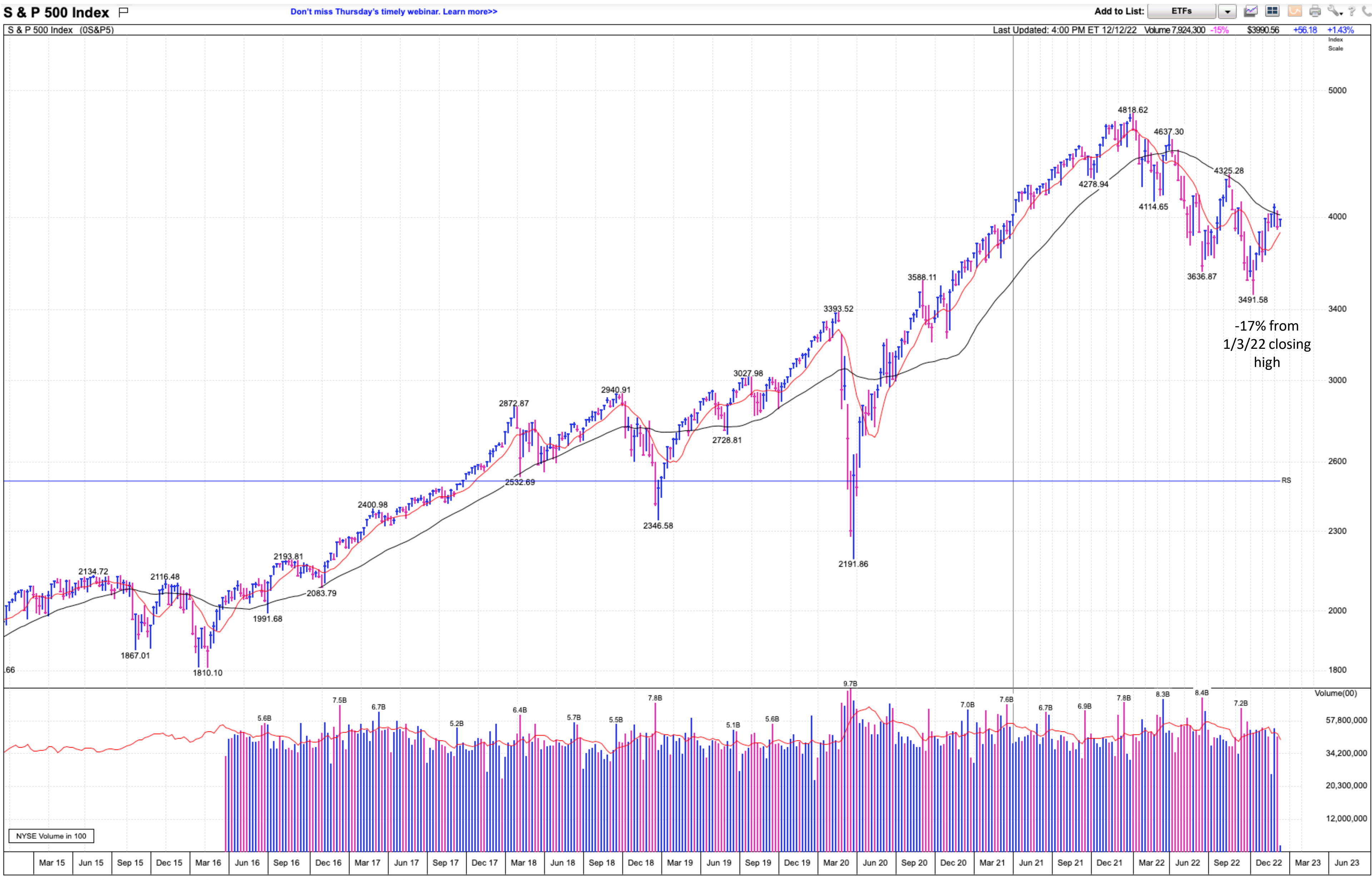


* S&P 500 up (down) during 12-month span following election day in green (red) shaded area. Prior to 1969, markets were closed on election day, therefore used "latest close" for those dates.
Source: Haver Analytics, Standard & Poor's, YRI calculations.

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

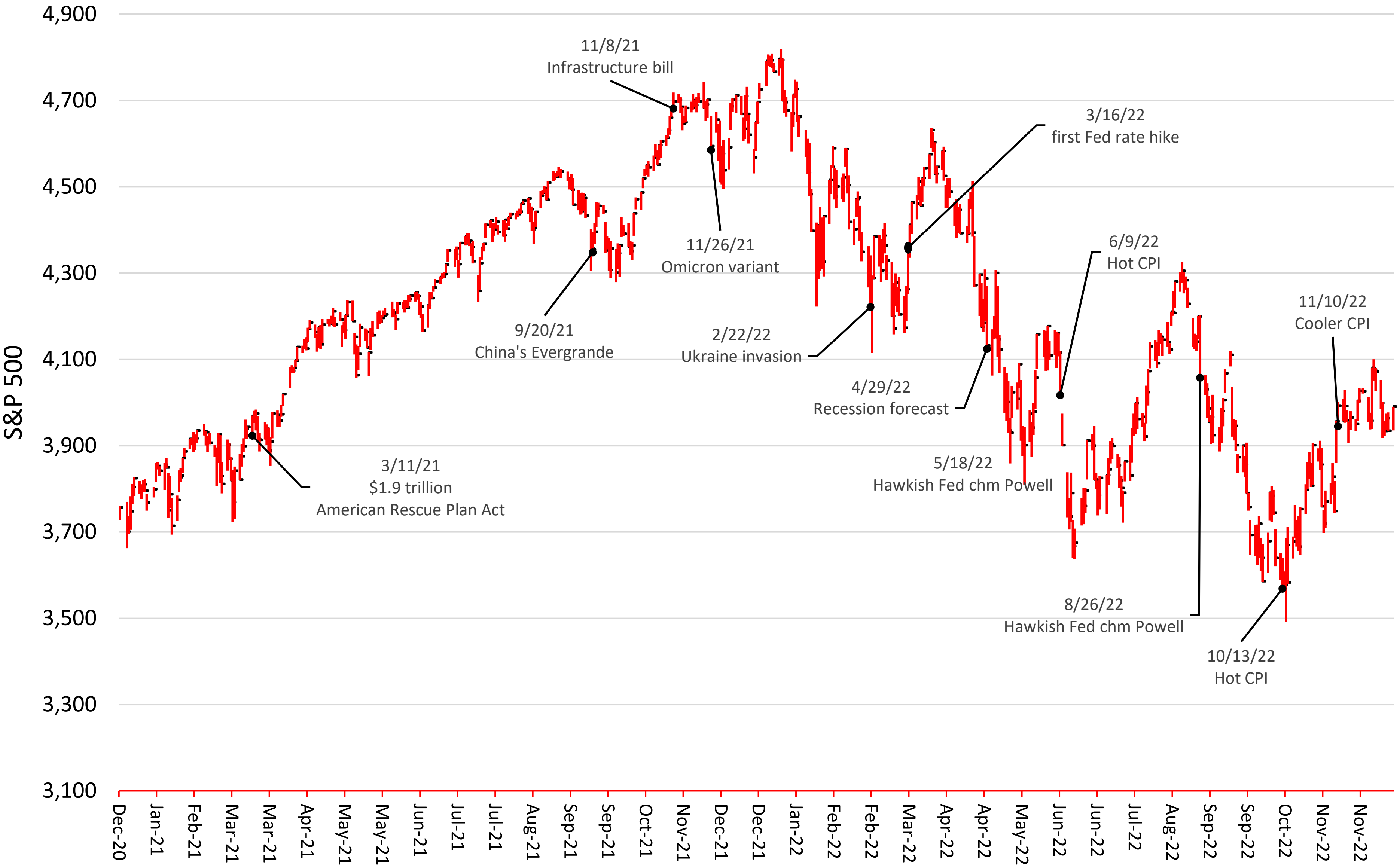
Stock market

S&P 500 – bear market



Source: Standard & Poor's and MarketSmith, Inc. Data through December 12, 2022.

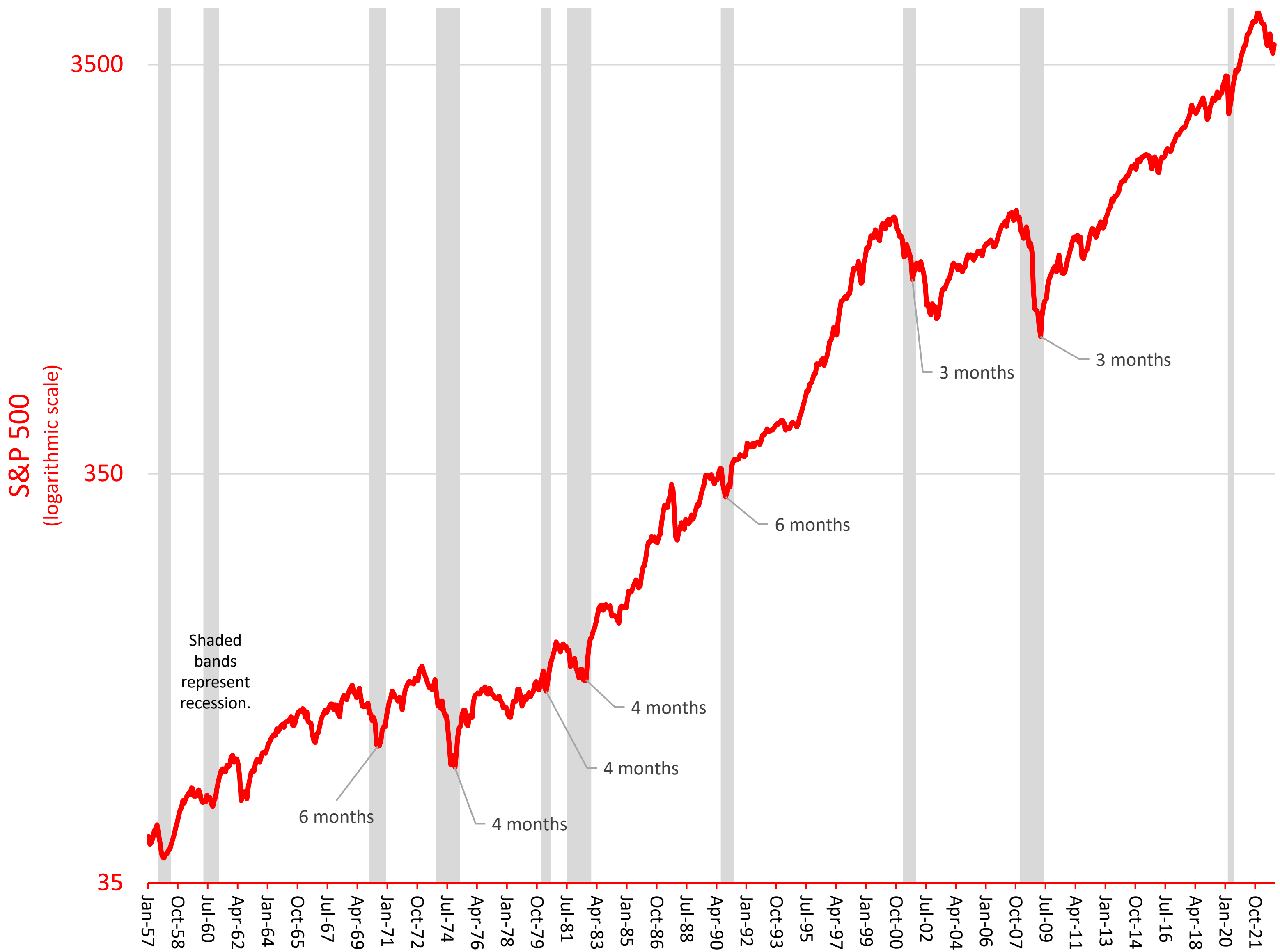
S&P 500



Source: Standard & Poor's. Data through December 12, 2022.

Stock market

S&P 500 vs. recessions

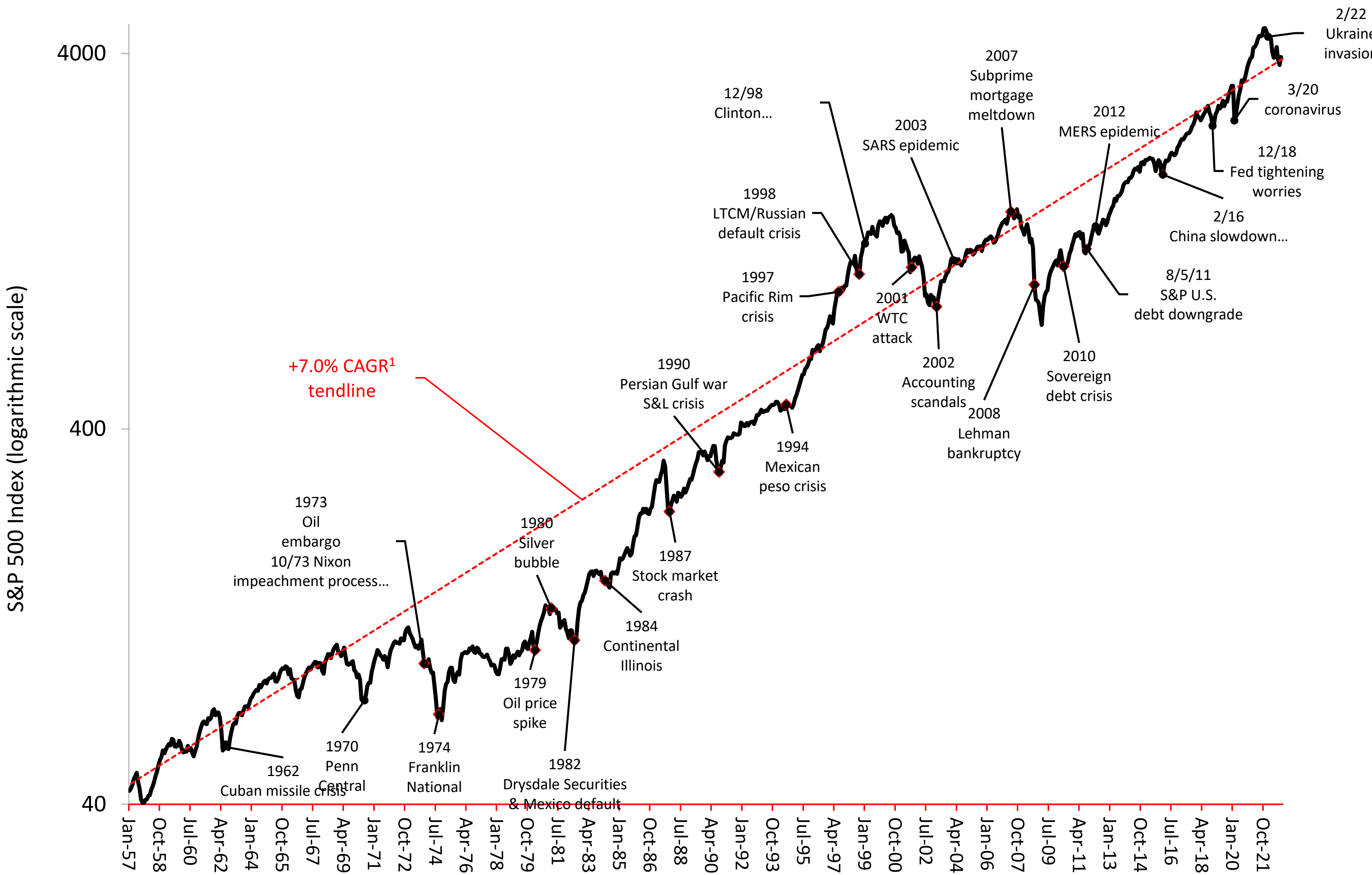


Big declines are associated with recessions.

Stocks often bottom months before recession-end.

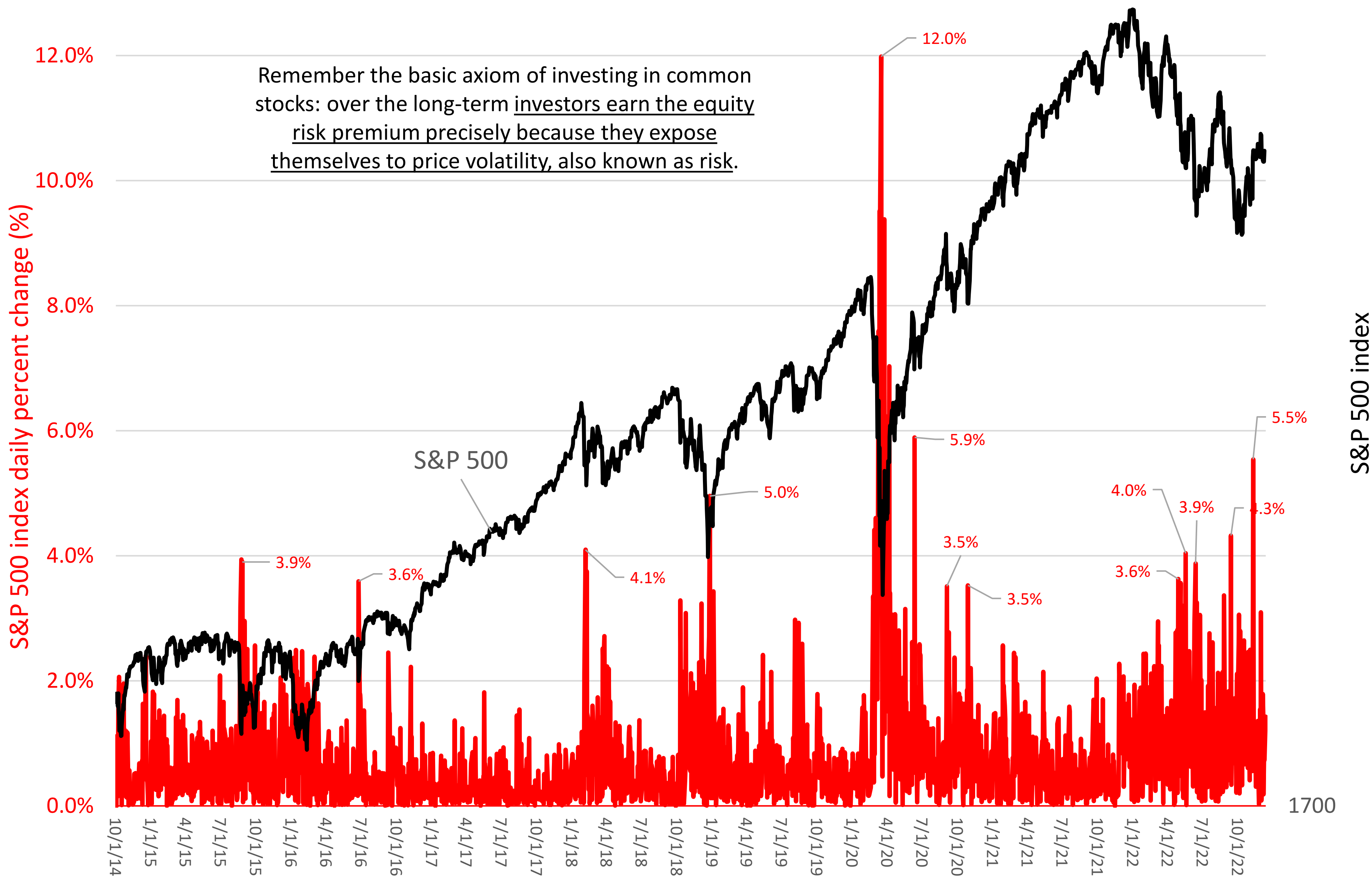
Source: Standard and Poor's Corporation, National Bureau of Economic Research. Data through November 2022.

S&P 500 and crises



Source: Standard and Poor's. Data through November 2022. [1] Compound annual growth rate.

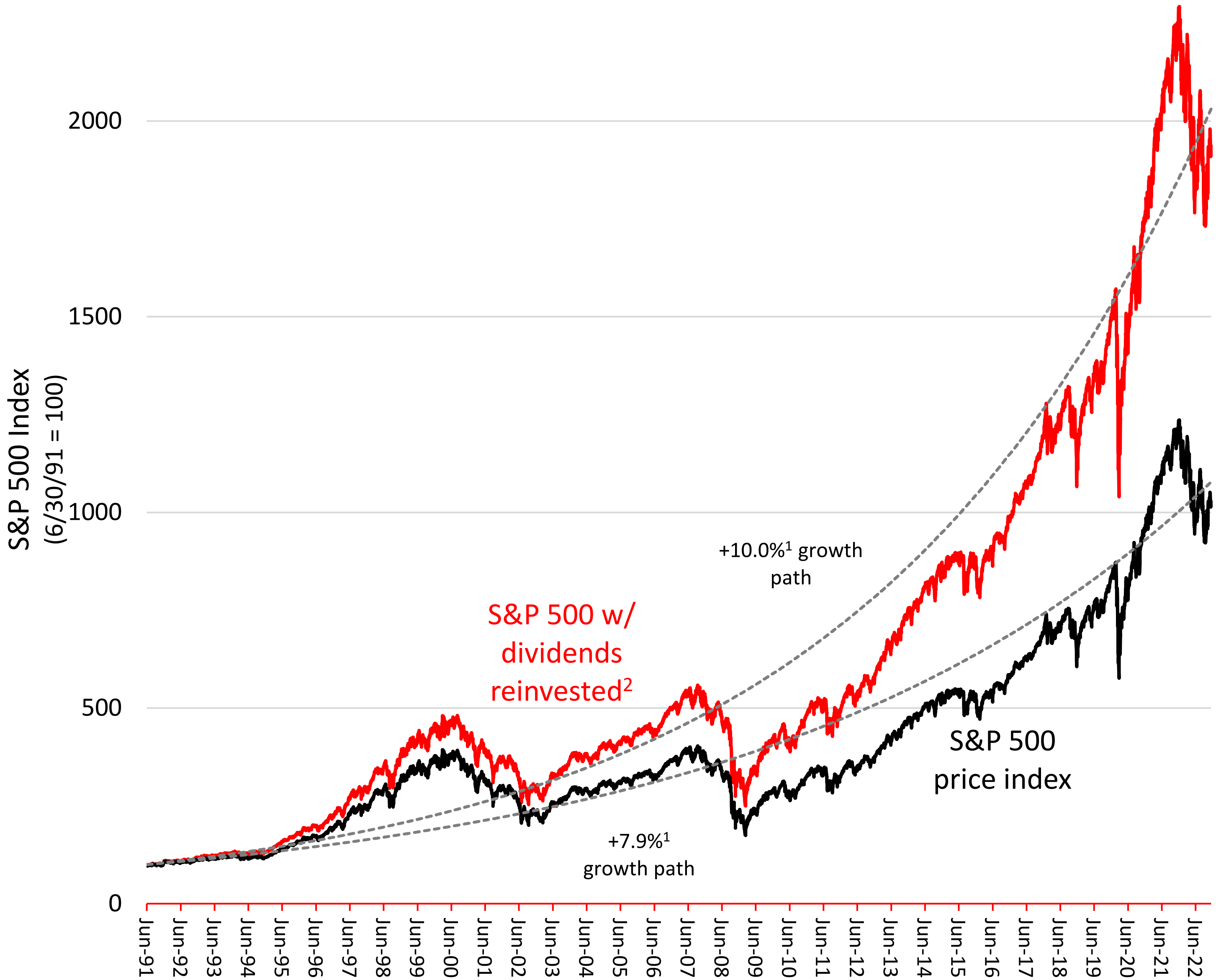
S&P 500 volatility



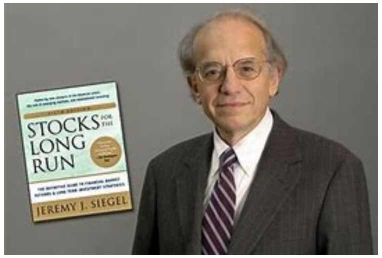
Source: Standard & Poor's, data through December 12, 2022.

Stock market arithmetic

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



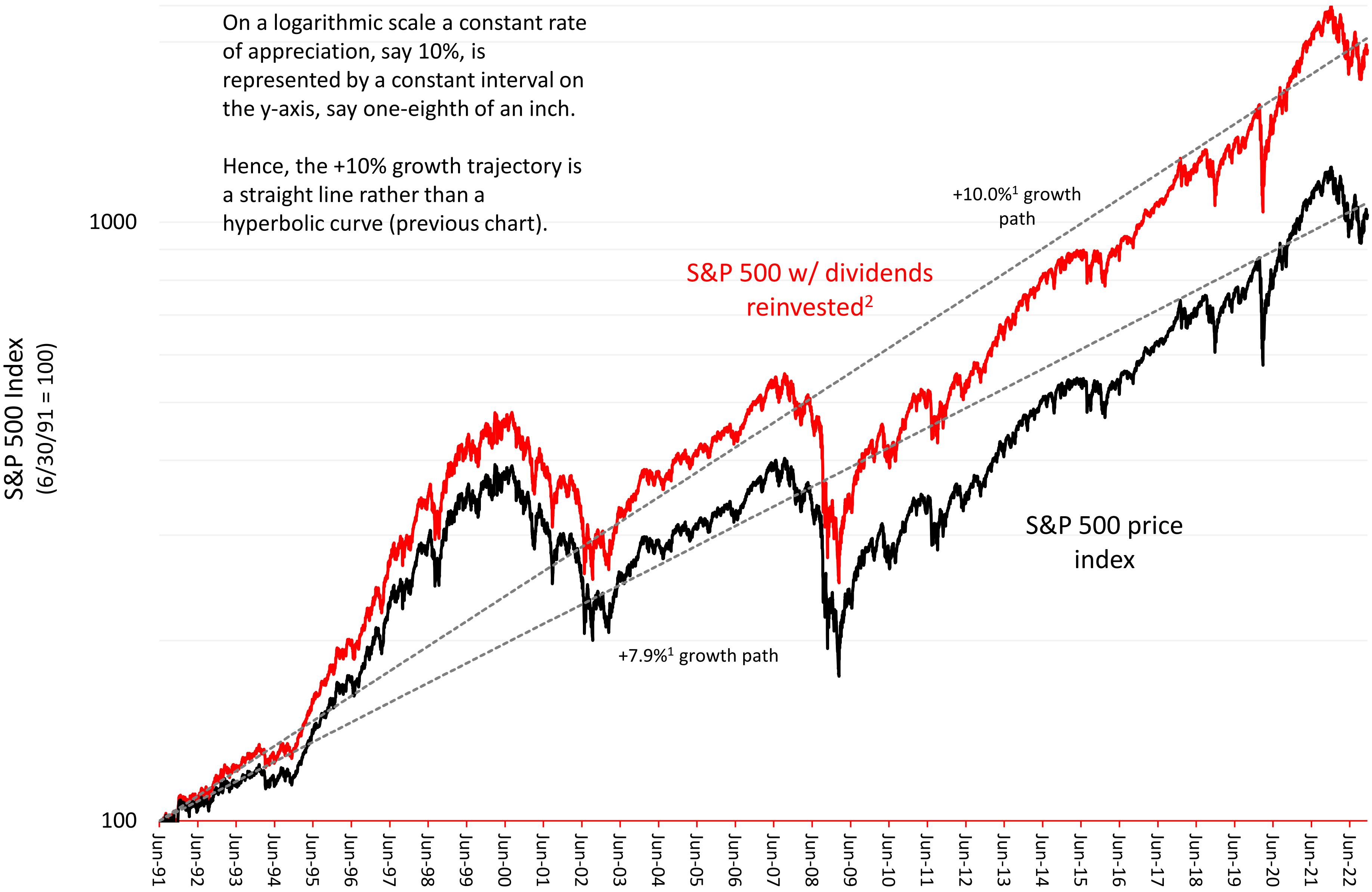
+10% per year S&P 500 total return over the last 30 years is in line with the stock market's long-term returns going back to 1926, or back even further to 1871.[3]



Source: Standard and Poor's. Data through December 12, 2022.[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.

Stock market arithmetic

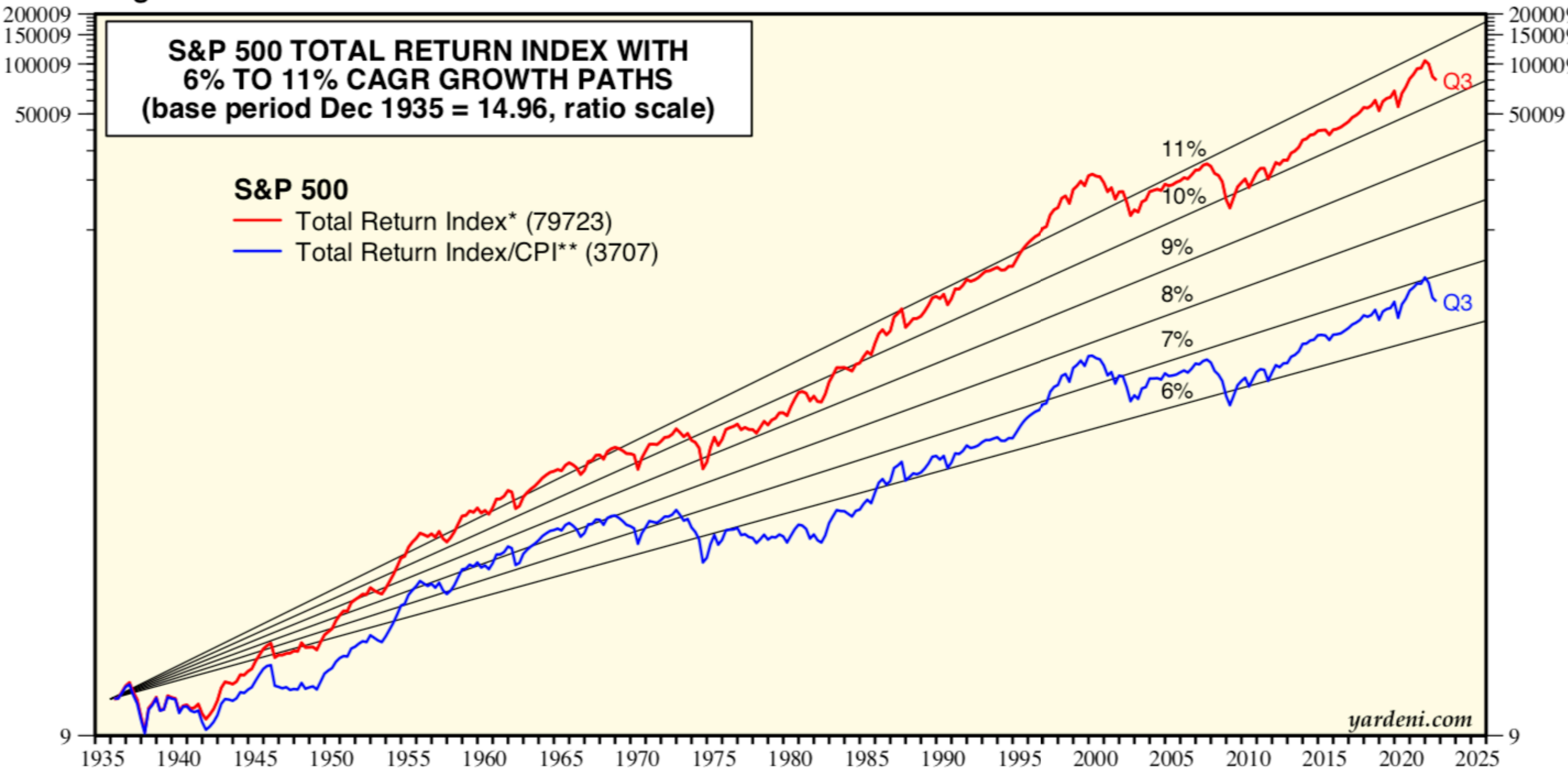
Total return = 7.9% earnings-driven price + 2.1% dividends reinvested



Source: Standard and Poor's. Data through December 12, 2022. [1] Compound annual growth rate. [2] S&P 500 total return index.

Total return and real total return

Figure 6.

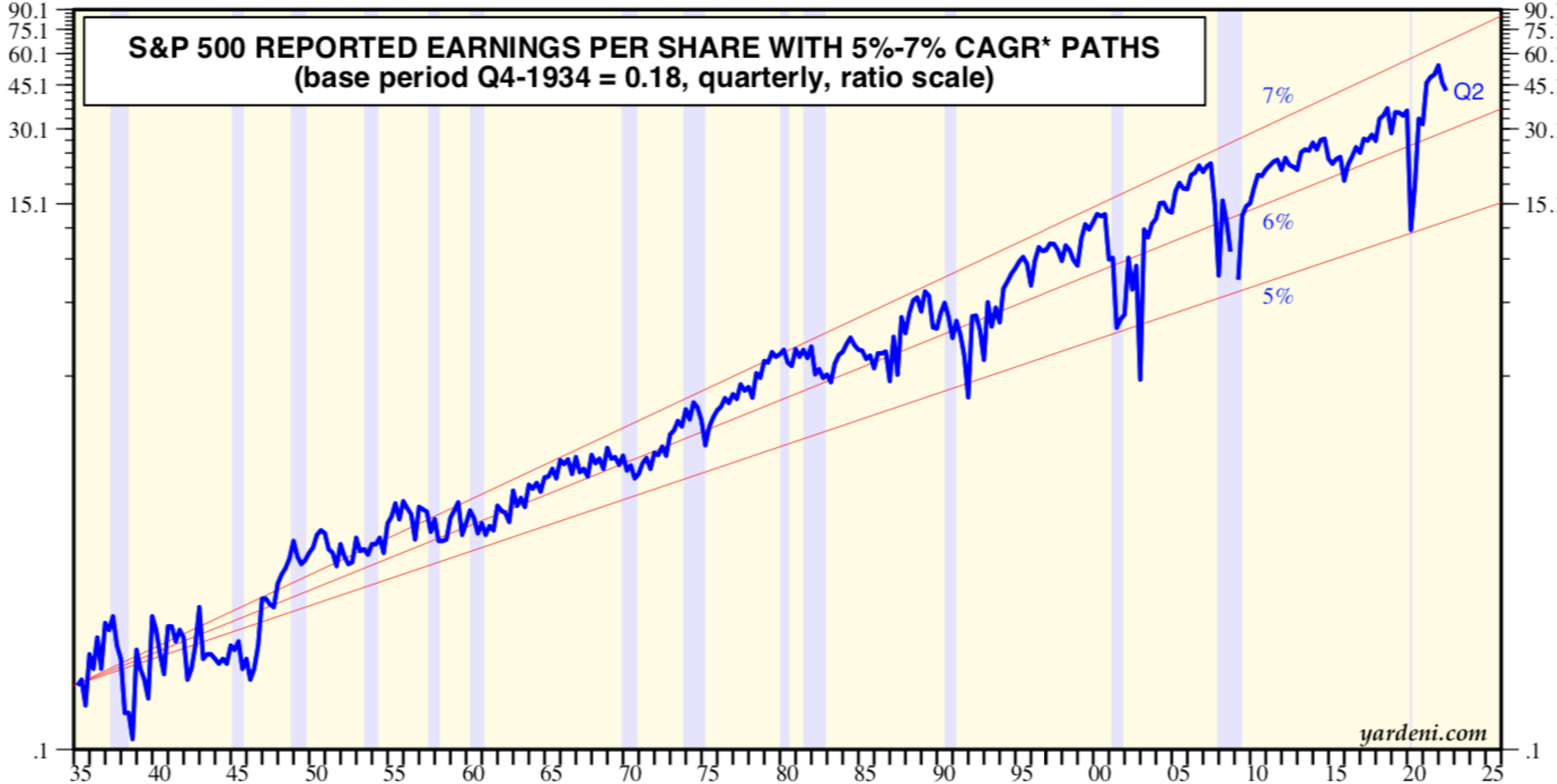


* Includes reinvested dividends.
** Using last month of quarter CPI. Compounded monthly using base value.
Source: Standard & Poor's.

Source: Yardeni Research, Inc., with permission.

85 years of S&P 500 earnings growth

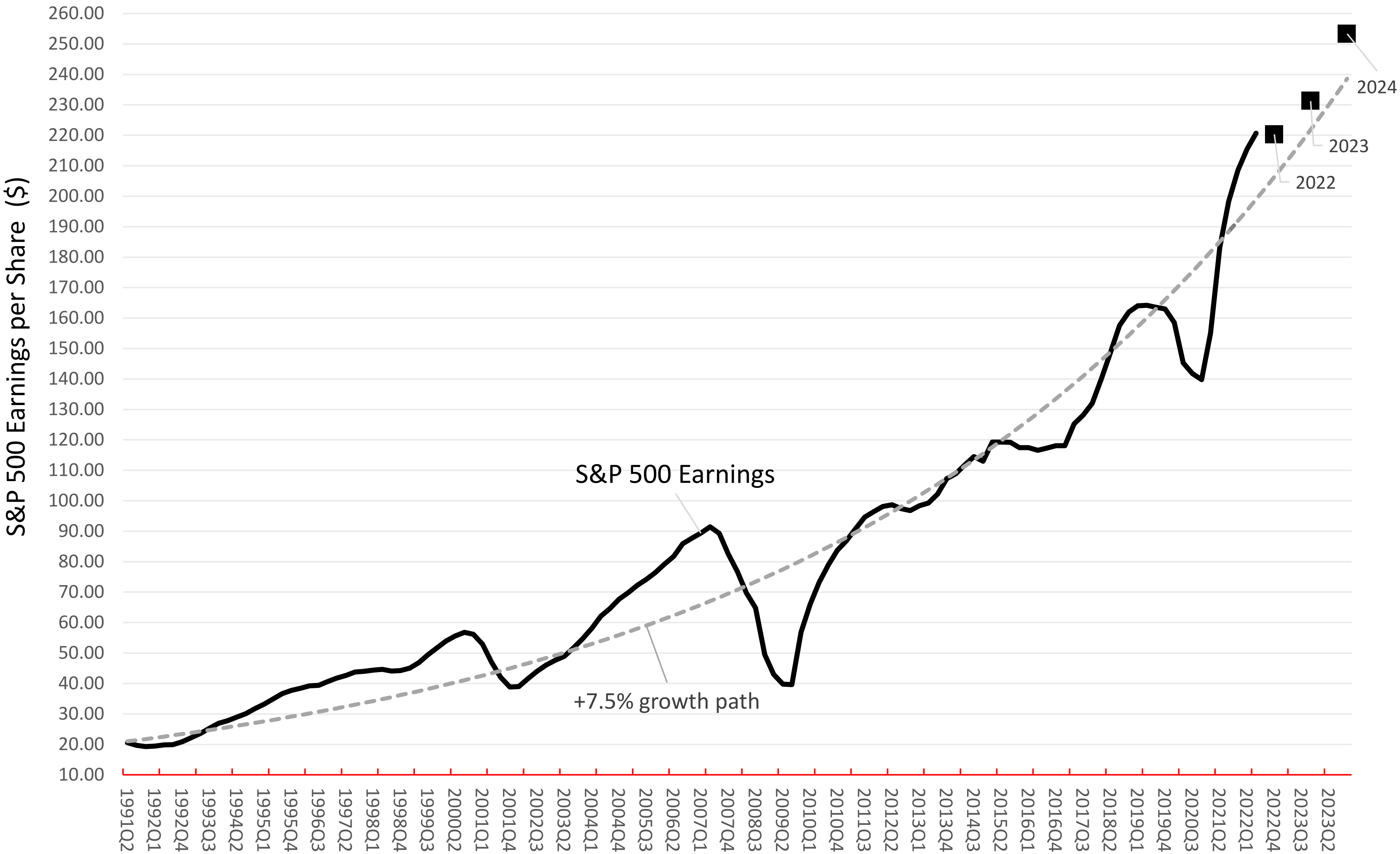
Figure 9.



* 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.

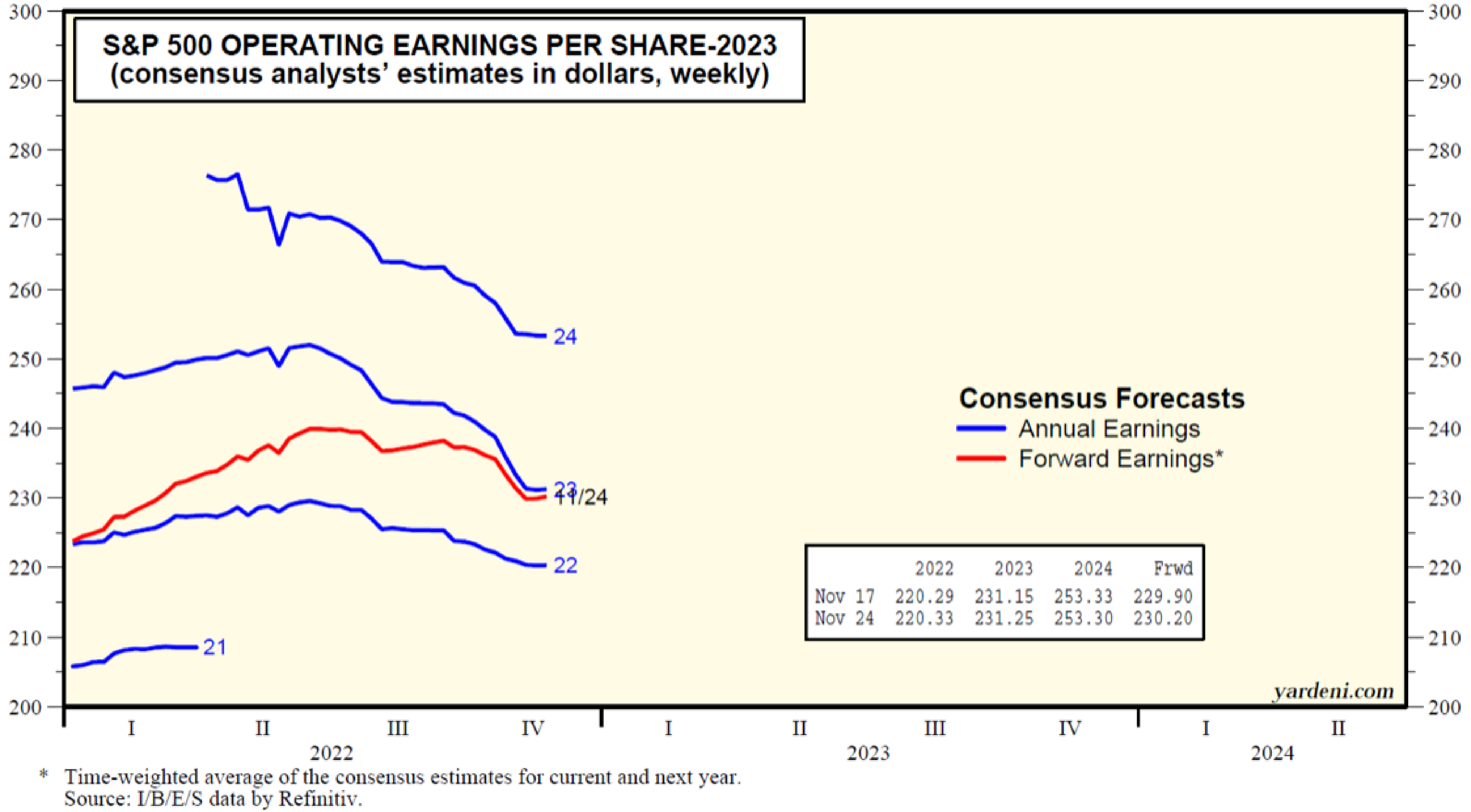
S&P 500 earnings – actual and I/B/E/S estimates



2022 (estimated), 2023 (estimated) and 2024 (estimated) bottom-up S&P 500 operating earnings per share as of November 28, 2022: for 2022(e), $220.33; for 2023(e), $231.25; for 2024(e), $253.30. 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.

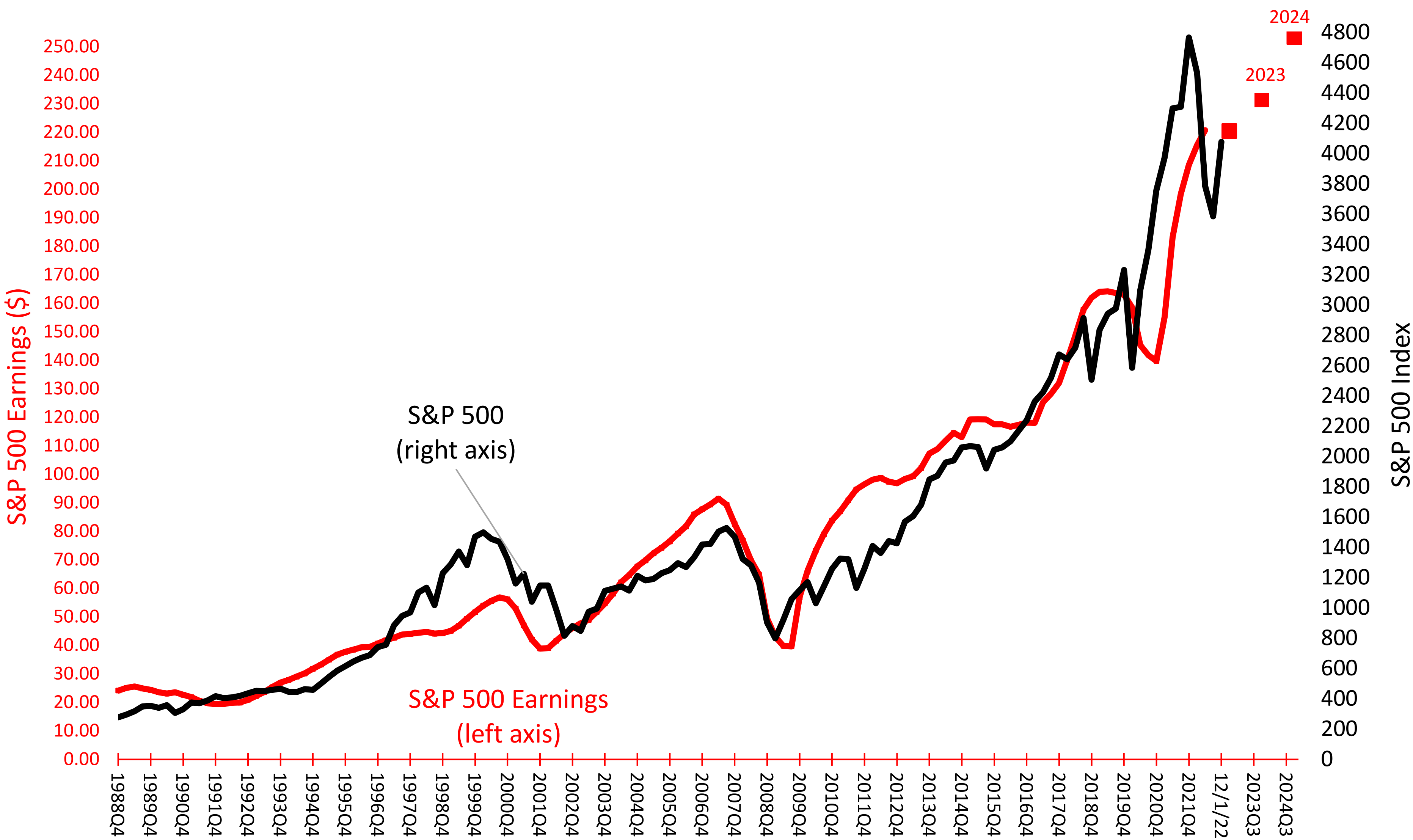
S&P earnings estimates

Figure 3.



Source: Yardeni Research, Inc., with permission. November 30, 2022.

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



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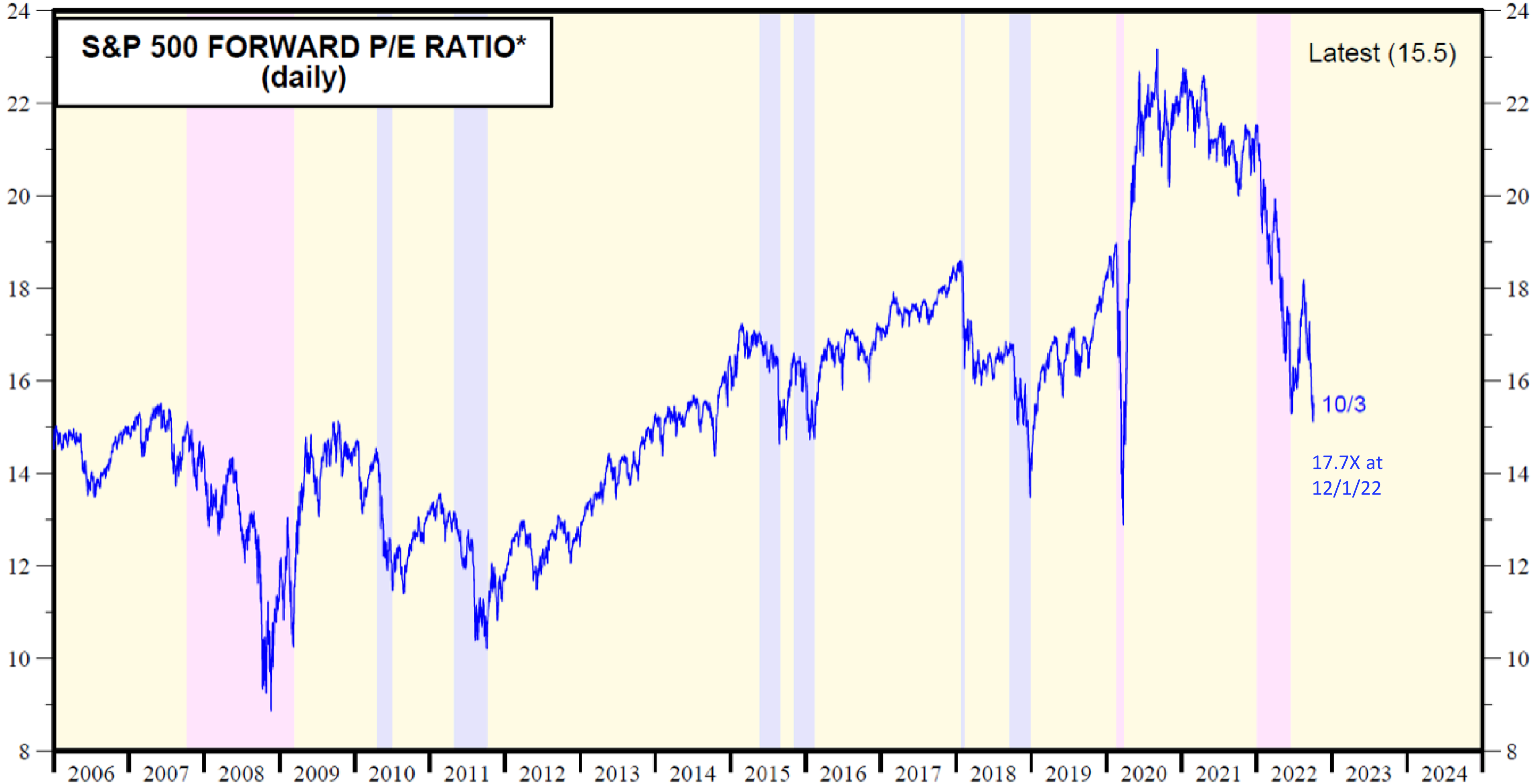
Valuation

S&P index forward P/E ratio

Figure 3.



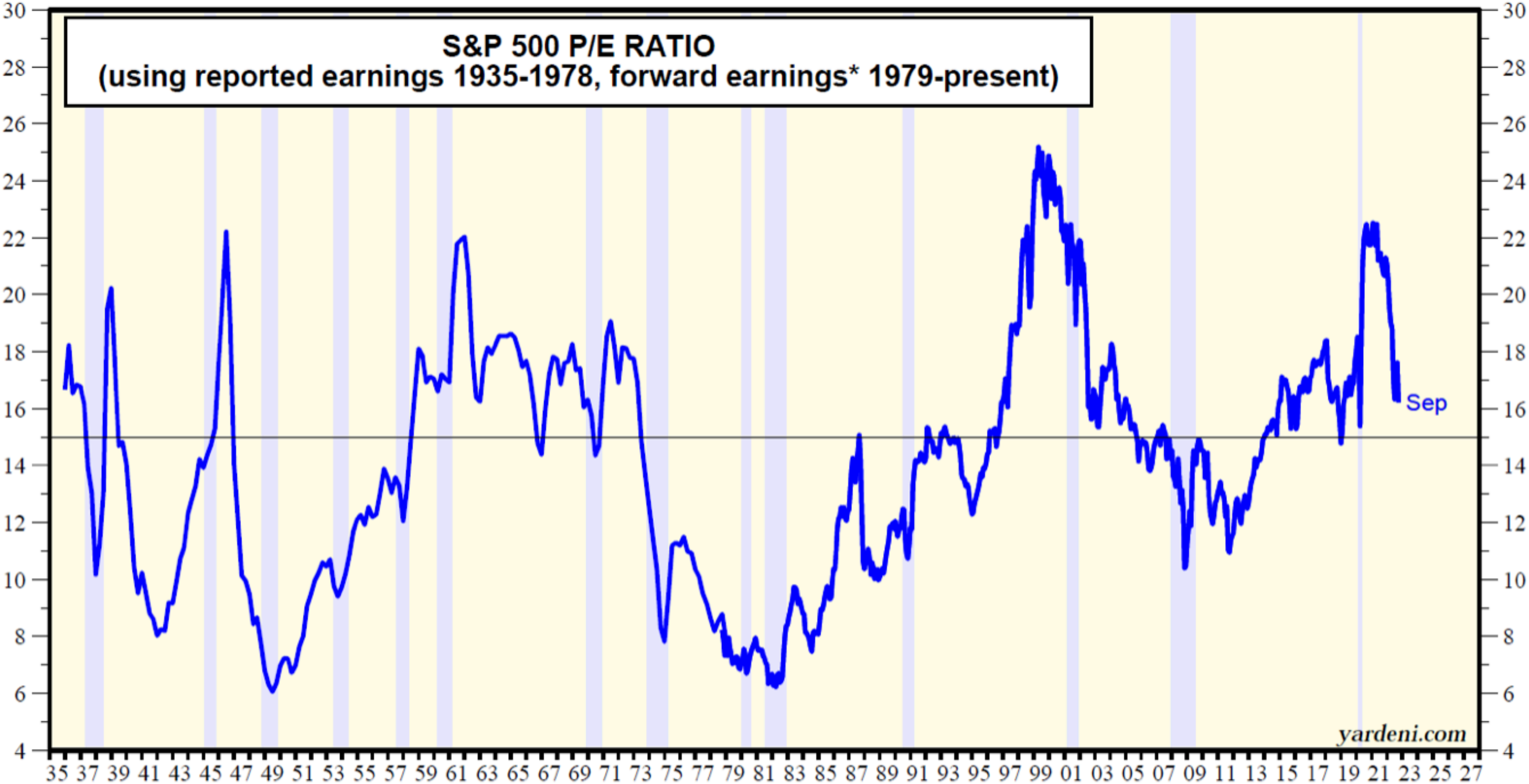
* Price divided by 52-week forward consensus expected operating earnings per share.
Note: Shaded red areas are S&P 500 bear market declines of 20% or more. Blue shaded areas are correction declines of 10% to less than 20%.
Yellow areas are bull markets.
Source: I/B/E/S data by Refinitiv and Standard & Poor's.

Source: Yardeni Research, Inc., with permission, October 5, 2022.

Valuation

S&P index forward P/E ratio

Figure 2.



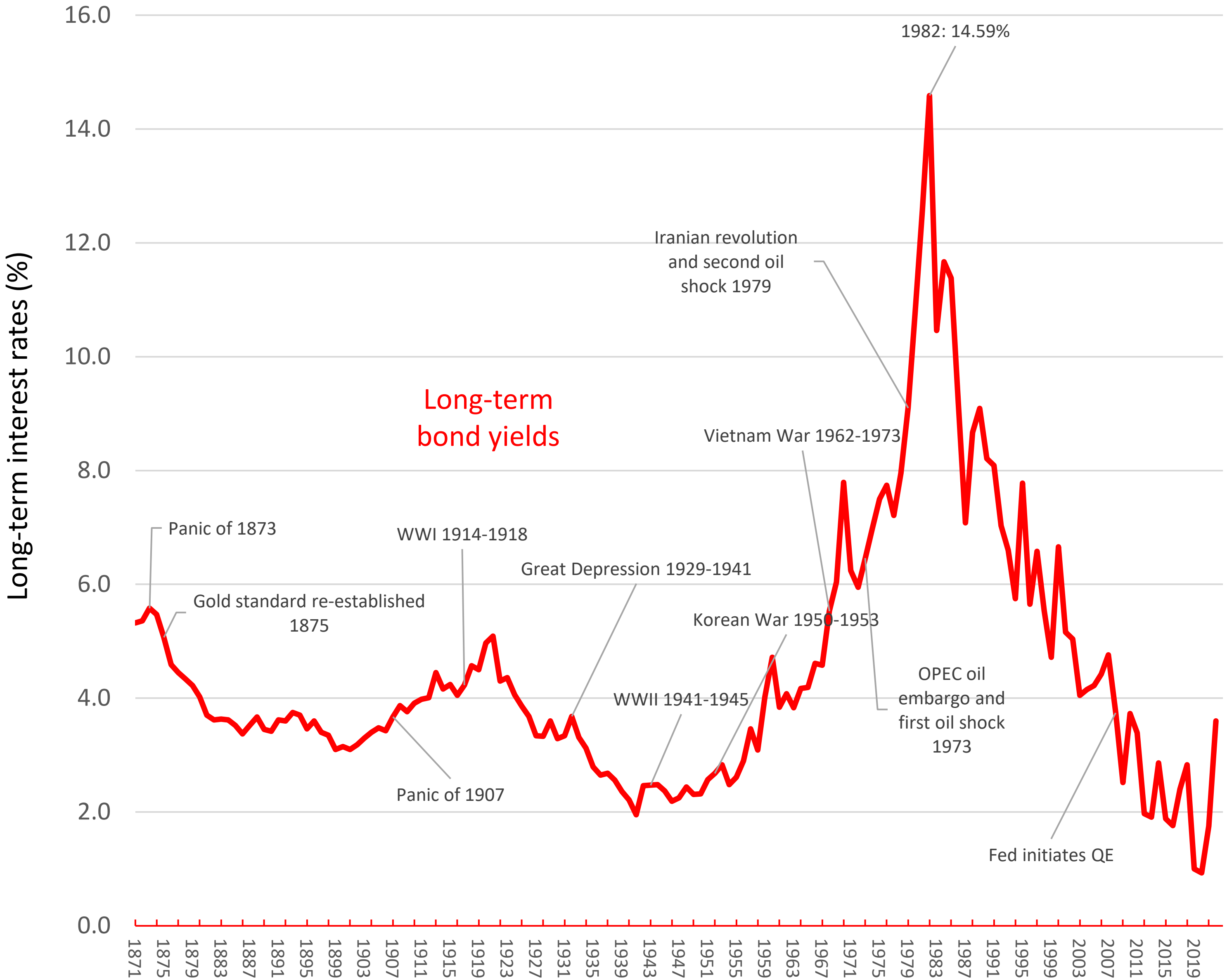
* Four-quarter trailing sum of reported earnings through 1978, then time-weighted average of analysts' consensus estimates for S&P 500 operating earnings per share for current year and next year. Monthly from January 1979.
Note: Shaded areas are recessions according to the National Bureau of Economic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

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

Bond Yields

- High-yield spread turned down
- Very low yields by historic comparison

U.S. Treasury bond yields



Rising from the lowest long-term interest rates in U.S. history.

Source: Online Data Robert Shiller, data through 2016; 10-year U.S. Treasury bond yield data from 2017; data through November 2022.

Fed policy

Source: *CNBC* screenshot, November 2, 2022.

More rate hikes ahead

THE WALL STREET JOURNAL.

Fed Lifts Rates, Signals ‘Ways to Go’

After the decision, Chairman Jerome Powell said officials would contemplate a smaller hike at their next meeting in December. But he cautioned that they might raise borrowing costs next year more than they have projected.
“The question of when to moderate the pace of increases is now much less important than the question of how high to raise rates and how long to keep monetary policy restrictive,” he said at a news conference.
Mr. Powell also warned that reducing the size of rate increases didn’t mean the Fed thought it was close to pivoting away from raising rates.

“It is very premature to be thinking about pausing,” Mr. Powell said. “We think we have a ways to go.”

Source: *The Wall Street Journal*, “Fed Lifts Rates, Signals ‘Ways to Go’, Nick Timiraos. November 3, 2022.

Federal Reserve

Central tendency forecast

For release at 2:00 p.m., EDT, September 21, 2022

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, September 2022

Percent

Variable	Median[1]					Central Tendency[2]					Range[3]				
	2022	2023	2024	2025	Longer run	2022	2023	2024	2025	Longer run	2022	2023	2024	2025	Longer run
Change in real GDP	0.2	1.2	1.7	1.8	1.8	0.1–0.3	0.5–1.5	1.4–2.0	1.6–2.0	1.7–2.0	0.0–0.5	-0.3–1.9	1.0–2.6	1.4–2.4	1.6–2.2
June projection	1.7	1.7	1.9		1.8	1.5–1.9	1.3–2.0	1.5–2.0		1.8–2.0	1.0–2.0	0.8–2.5	1.0–2.2		1.6–2.2
Unemployment rate	3.8	4.4	4.4	4.3	4.0	3.8–3.9	4.1–4.5	4.0–4.6	4.0–4.5	3.8–4.3	3.7–4.0	3.7–5.0	3.7–4.7	3.7–4.6	3.5–4.5
June projection	3.7	3.9	4.1		4.0	3.6–3.8	3.8–4.1	3.9–4.1		3.5–4.2	3.2–4.0	3.2–4.5	3.2–4.3		3.5–4.3
PCE inflation	5.4	2.8	2.3	2.0	2.0	5.3–5.7	2.6–3.5	2.1–2.6	2.0–2.2	2.0	5.0–6.2	2.4–4.1	2.0–3.0	2.0–2.5	2.0
June projection	5.2	2.6	2.2		2.0	5.0–5.3	2.4–3.0	2.0–2.5		2.0	4.8–6.2	2.3–4.0	2.0–3.0		2.0
Core PCE inflation[4]	4.5	3.1	2.3	2.1		4.4–4.6	3.0–3.4	2.2–2.5	2.0–2.2		4.3–4.8	2.8–3.5	2.0–2.8	2.0–2.5	
June projection	4.3	2.7	2.3			4.2–4.5	2.5–3.2	2.1–2.5			4.1–5.0	2.5–3.5	2.0–2.8		
Memo: Projected appropriate policy path															
Federal funds rate	4.4	4.6	3.9	2.9	2.5	4.1–4.4	4.4–4.9	3.4–4.4	2.4–3.4	2.3–2.5	3.9–4.6	3.9–4.9	2.6–4.6	2.4–4.6	2.3–3.0
June projection	3.4	3.8	3.4		2.5	3.1–3.6	3.6–4.1	2.9–3.6		2.3–2.5	3.1–3.9	2.9–4.4	2.1–4.1		2.0–3.0

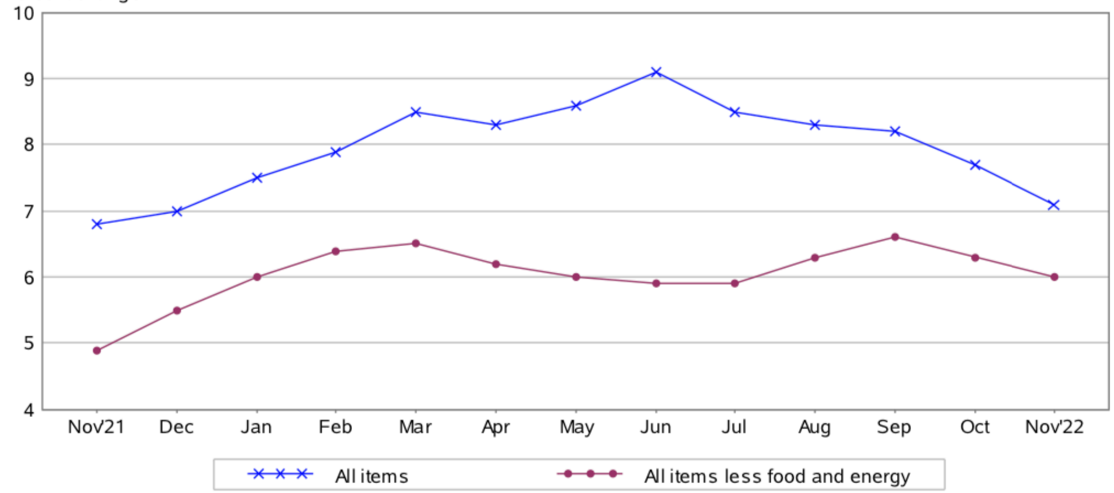
Source: Federal Reserve, September 21, 2022.

Inflation

- headline PCED +6.0%, +5.0% core
- inflation breaking 10-year trend
- demand shock driving inflation
- M2 driving inflation
- inflation expectations (TIPS spread) falling
- productivity offsets rising employment costs

CPI – headline and core

Chart 2. 12-month percent change in CPI for All Urban Consumers (CPI-U), not seasonally adjusted, Nov. 2021 - Nov. 2022



Up +7.1% y/y in November.

Up +6.0% y/y in November.

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

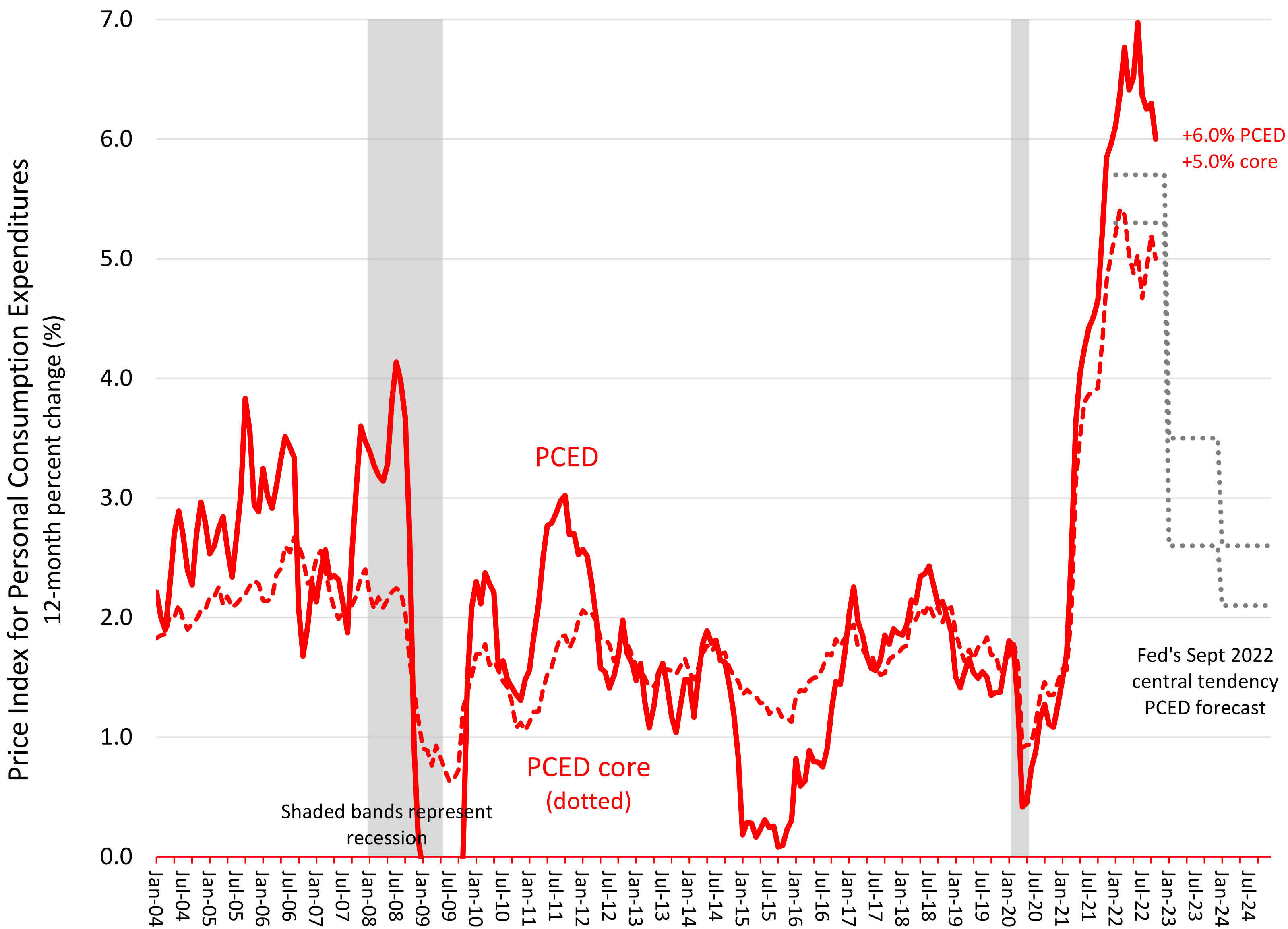
	Seasonally adjusted changes from preceding month							Un-adjusted 12-mos. ended Nov. 2022
	May 2022	Jun. 2022	Jul. 2022	Aug. 2022	Sep. 2022	Oct. 2022	Nov. 2022	
All items	1.0	1.3	0.0	0.1	0.4	0.4	0.1	7.1
Food	1.2	1.0	1.1	0.8	0.8	0.6	0.5	10.6
Food at home	1.4	1.0	1.3	0.7	0.7	0.4	0.5	12.0
Food away from home[1]	0.7	0.9	0.7	0.9	0.9	0.9	0.5	8.5
Energy	3.9	7.5	-4.6	-5.0	-2.1	1.8	-1.6	13.1
Energy commodities	4.5	10.4	-7.6	-10.1	-4.7	4.4	-2.0	12.2
Gasoline (all types)	4.1	11.2	-7.7	-10.6	-4.9	4.0	-2.0	10.1
Fuel oil[1]	16.9	-1.2	-11.0	-5.9	-2.7	19.8	1.7	65.7
Energy services	3.0	3.5	0.1	2.1	1.1	-1.2	-1.1	14.2
Electricity	1.3	1.7	1.6	1.5	0.4	0.1	-0.2	13.7
Utility (piped) gas service	8.0	8.2	-3.6	3.5	2.9	-4.6	-3.5	15.5
All items less food and energy	0.6	0.7	0.3	0.6	0.6	0.3	0.2	6.0
Commodities less food and energy commodities	0.7	0.8	0.2	0.5	0.0	-0.4	-0.5	3.7
New vehicles	1.0	0.7	0.6	0.8	0.7	0.4	0.0	7.2
Used cars and trucks	1.8	1.6	-0.4	-0.1	-1.1	-2.4	-2.9	-3.3
Apparel	0.7	0.8	-0.1	0.2	-0.3	-0.7	0.2	3.6
Medical care commodities[1]	0.3	0.4	0.6	0.2	-0.1	0.0	0.2	3.1
Services less energy services	0.6	0.7	0.4	0.6	0.8	0.5	0.4	6.8
Shelter	0.6	0.6	0.5	0.7	0.7	0.8	0.6	7.1
Transportation services	1.3	2.1	-0.5	0.5	1.9	0.8	-0.1	14.2
Medical care services	0.4	0.7	0.4	0.8	1.0	-0.6	-0.7	4.4

[1] Not seasonally adjusted.

Source: BLS. Data through November 2022.

Inflation

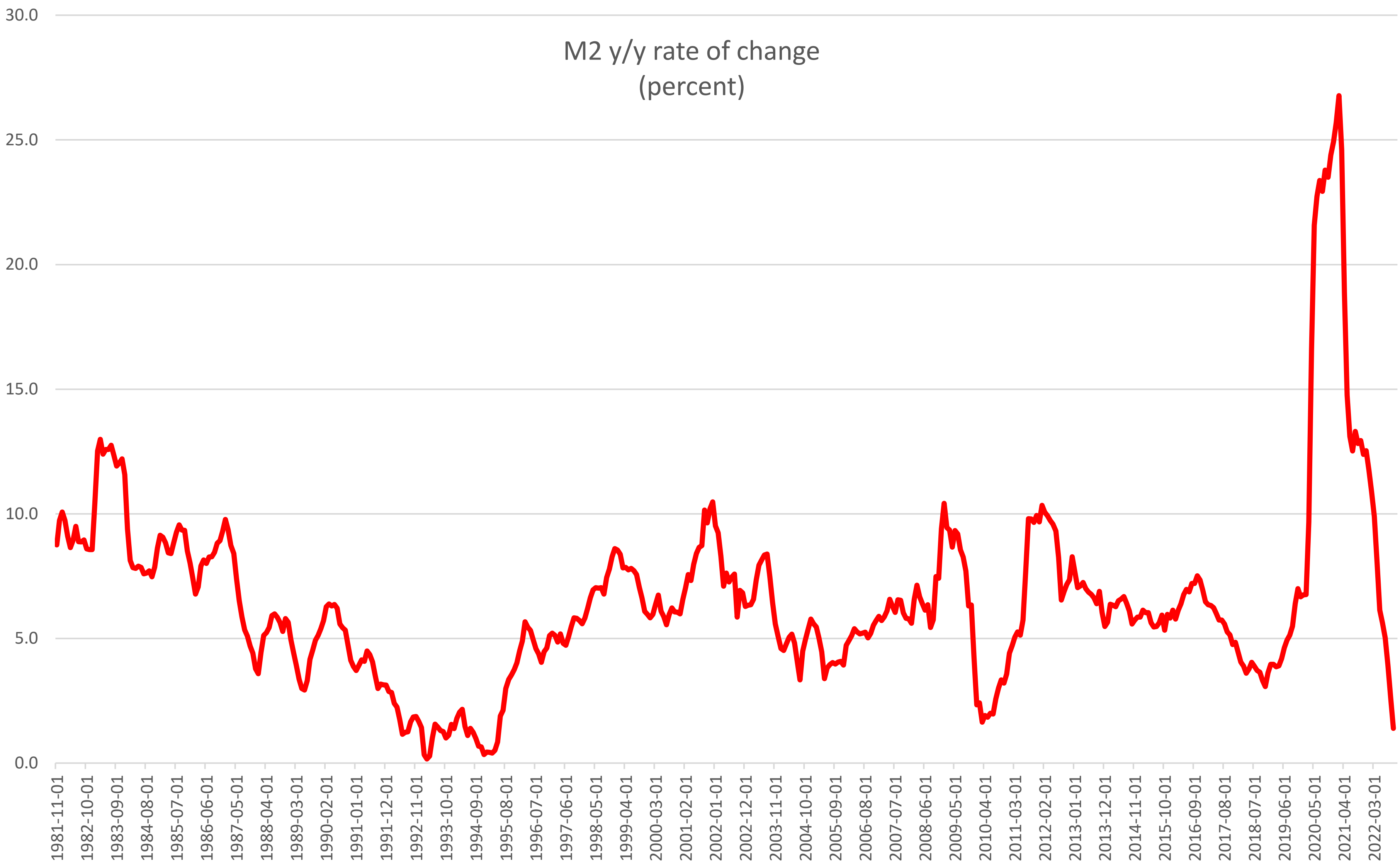
PCED – headline and core



Inflation looks to have peaked, following the post-Covid surge.

Source: NBER, Federal Reserve Bank of St. Louis. Data through October 2022.

The money supply – y/y rate of change



Source: Federal Reserve Bank of St. Louis. Data through October 2022.

M2 vs. inflation

THE WALL STREET JOURNAL.

Why Inflation Is on the Way Down

Yet the relationship between money-supply growth, as measured by M2 and subsequent inflation has been statistically near-perfect in the pandemic era, with a 13-month lag. Year-over-year M2 growth began to accelerate during the pandemic recession in April 2020, and core inflation started to accelerate 13 months later, in May 2021. M2 growth peaked at a history making, off-the-charts 27% in February 2021, and core CPI peaked 13 months later, in March 2022. Both M2 growth and core CPI have been falling every month since their respective peaks.

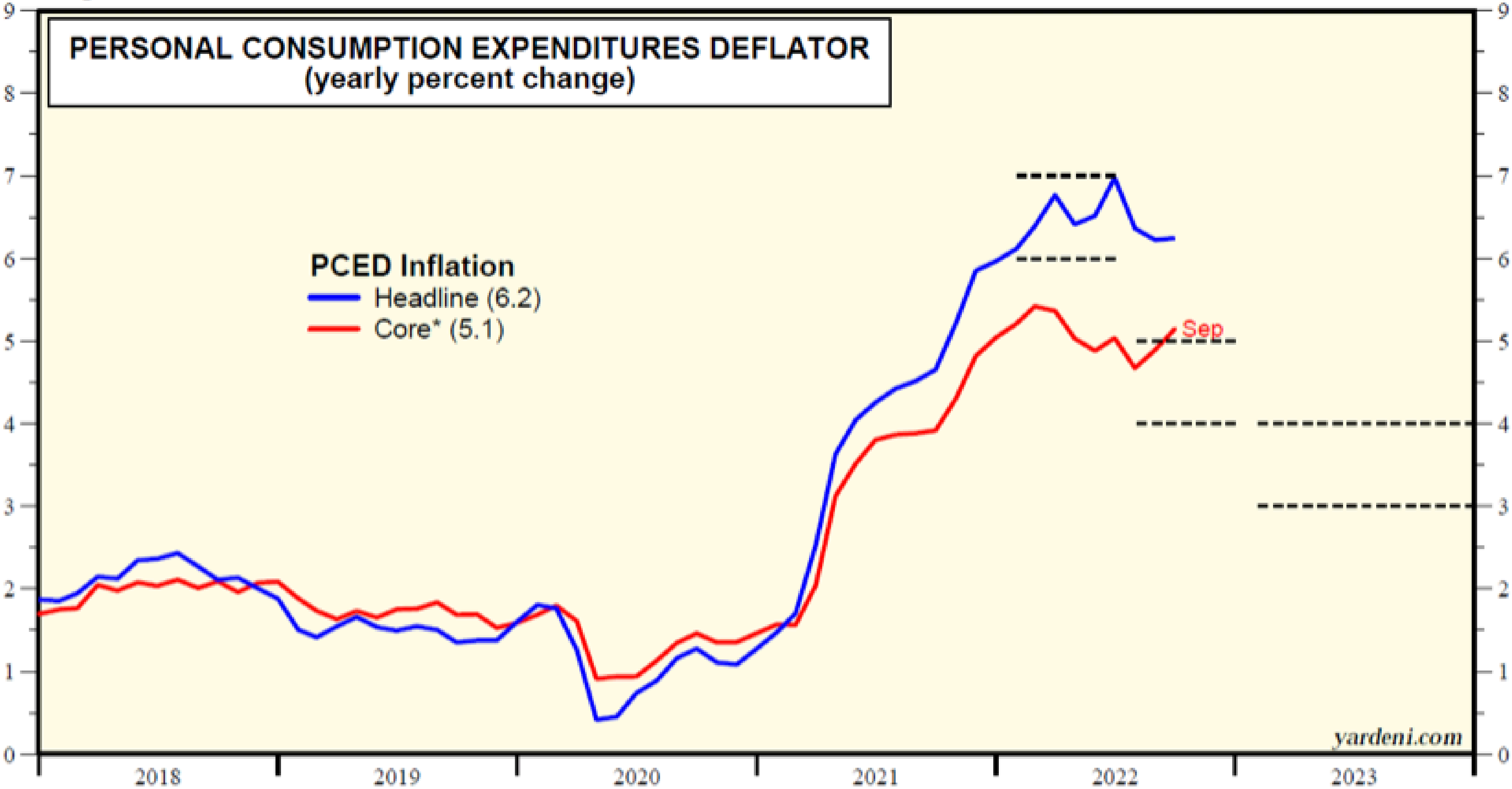
Experience is proving, 40 years after Friedman taught Volcker, that inflation is still a monetary phenomenon.

<u>If the relationship with inflation continues, core inflation will be at only 2.3% in 13 months, in June 2023</u>.

Source: *The Wall Street Journal*, July 26, 2022. Opinion section. Author: Donald L. Luskin.

Ed Yardeni's inflation forecast

Figure 6.



* 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, November 2, 2022.

Inflation forecasts

THE WALL STREET JOURNAL.

JPMorgan Chase's decomposition of the CPI leads it to project headline inflation falling from 8.2% this past September to 3.2% next September. UBS, using a similar exercise, sees it hitting 2% by December of next year. Inflation-linked bonds and derivatives have reached a similar conclusion, projecting headline inflation of 2.9% a year from now, according to Intercontinental Exchange.

Source: *The Wall Street Journal*, "True Inflation Rate Proves Difficult to Discern" by Greg Ip. October 27, 2022.

Housing costs

THE WALL STREET JOURNAL.

Housing Costs Appear Poised to Ease

The end is in sight for one of the biggest sources of inflation. Surging housing costs helped keep inflation high this year but have likely already swung into reverse, economists say. The signal comes from private-sector indexes of rents on new leases, which tend to lead the consumer-price index measures by a little less than a year, said Alan Detmeister, economist at UBS.

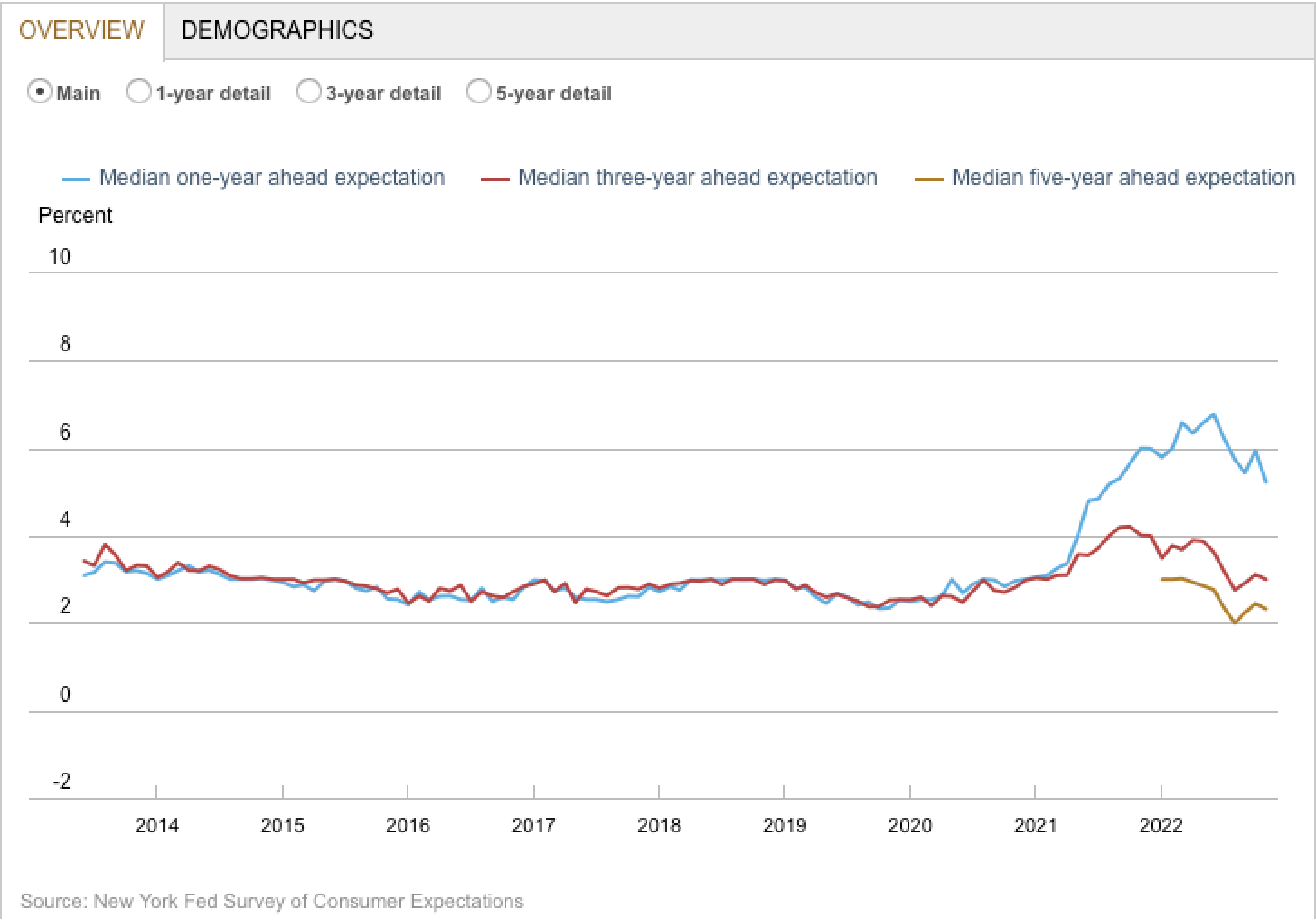
"Last year we saw huge increases in these market rent measures in June, July and August, but they're now coming in at or below their prepandemic pace," he said. "That suggests we should now be past the peak for monthly CPI rent increases." As a result, he predicted, inflation could be below the Federal Reserve's 2% target by 2024.

Source: *The Wall Street Journal*, "Housing Costs Appear Poised to Ease" by Gwynn Guilford. December 7, 2022.

Inflation expectations

Inflation expectations

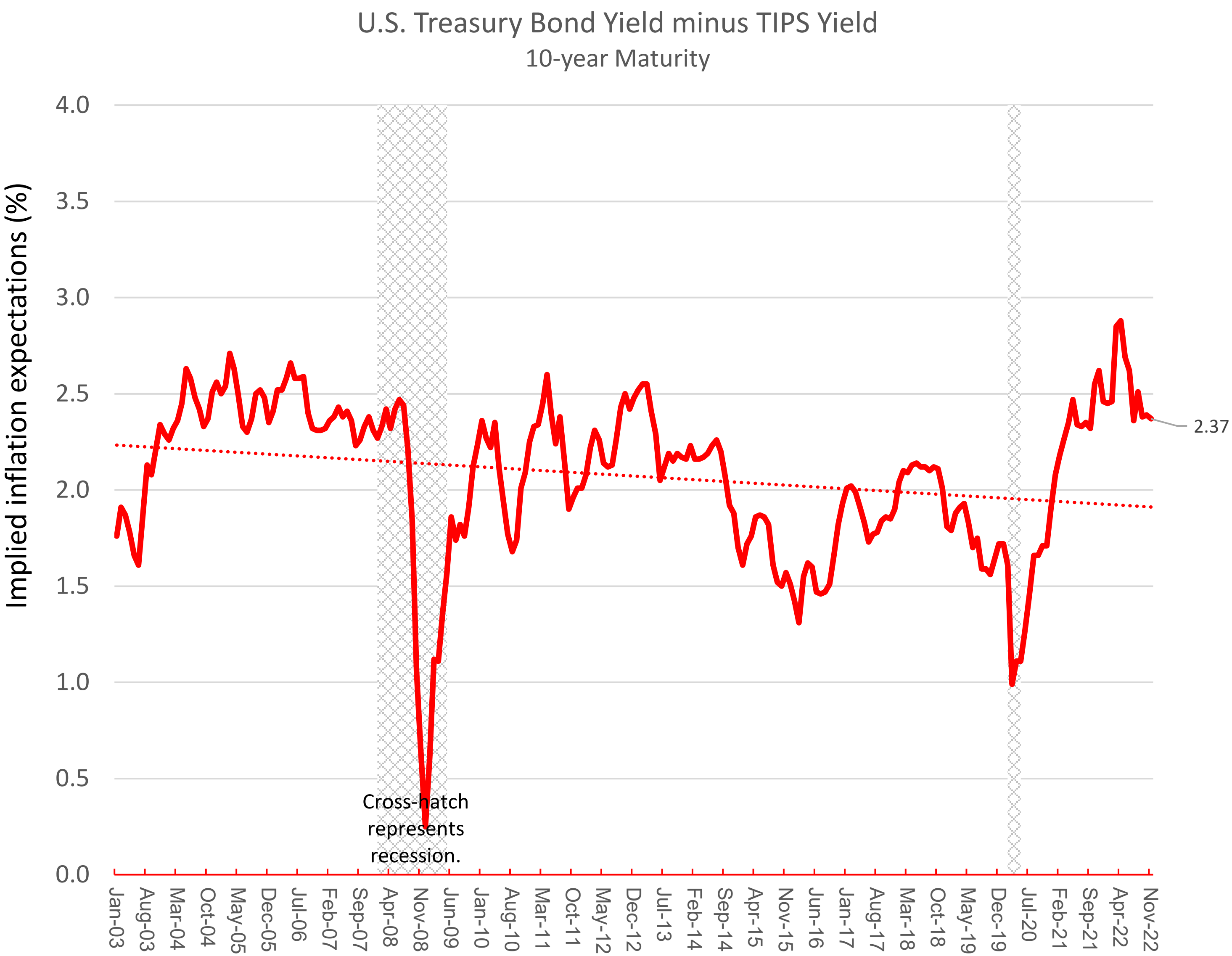
Median one-, three-, and five-year ahead expected inflation rate



Consumers expect substantially moderating inflation.

Source: Federal Reserve Bank of New York, *Survey of Consumer Expectations*. Data through November 2022.

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 November 2022.

Stocks and inflation

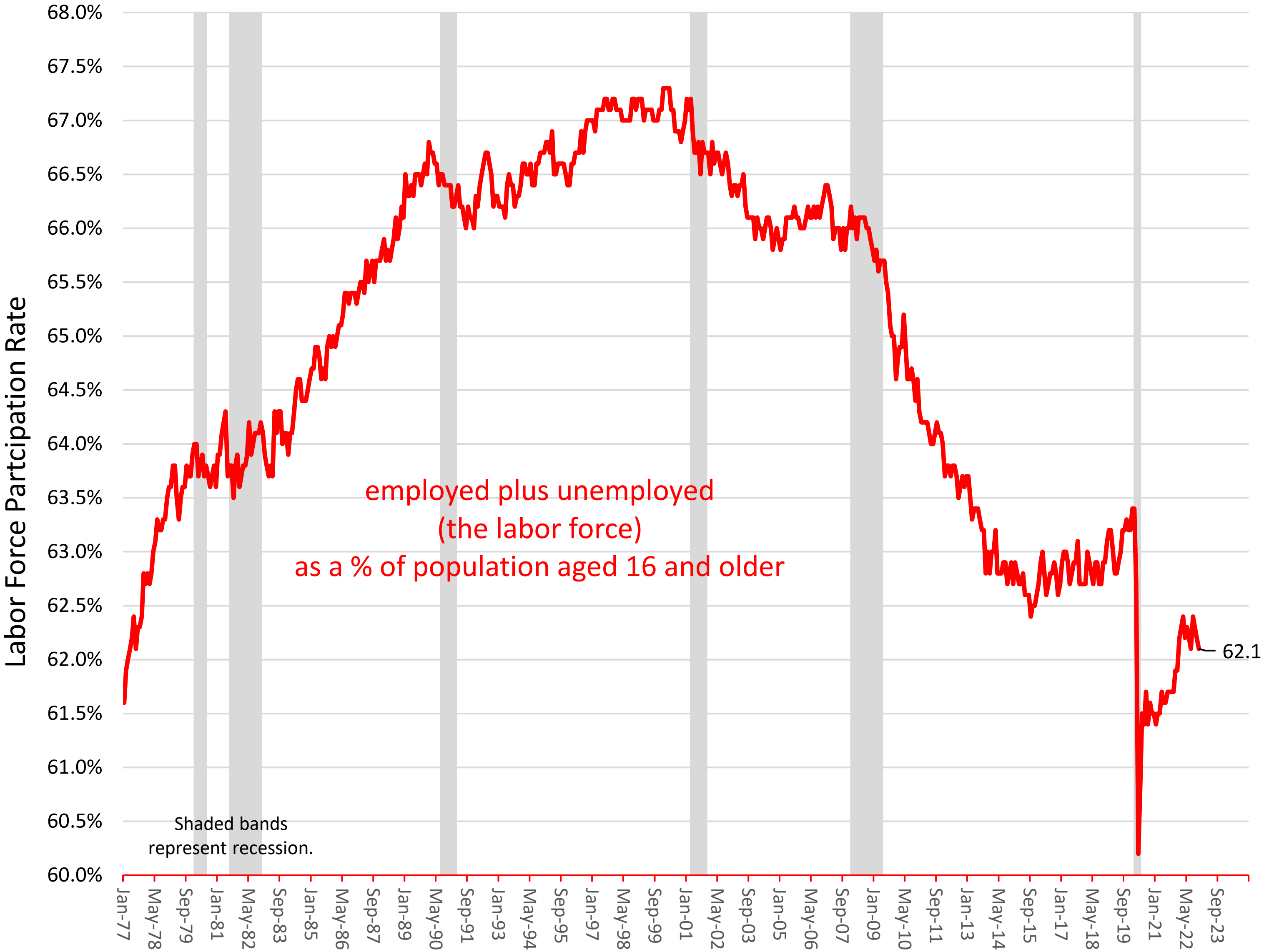
THE WALL STREET JOURNAL.

An Investor's Guide to Deflating Inflation Fears

Fortunately, the stock market overall has outpaced moderate rises in the cost of living. From 1927 through 2020, according to Dimensional, U.S. stocks as a whole outperformed inflation by an average of 4.9 percentage points annually in years when rises in the cost of living were above the median. If your stock portfolio is already well diversified, it should be able to keep pace with modestly rising prices.

Source: *The Wall Street Journal*, October 30-31, 2021.

Labor force participation rate[1] – hit by Covid



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

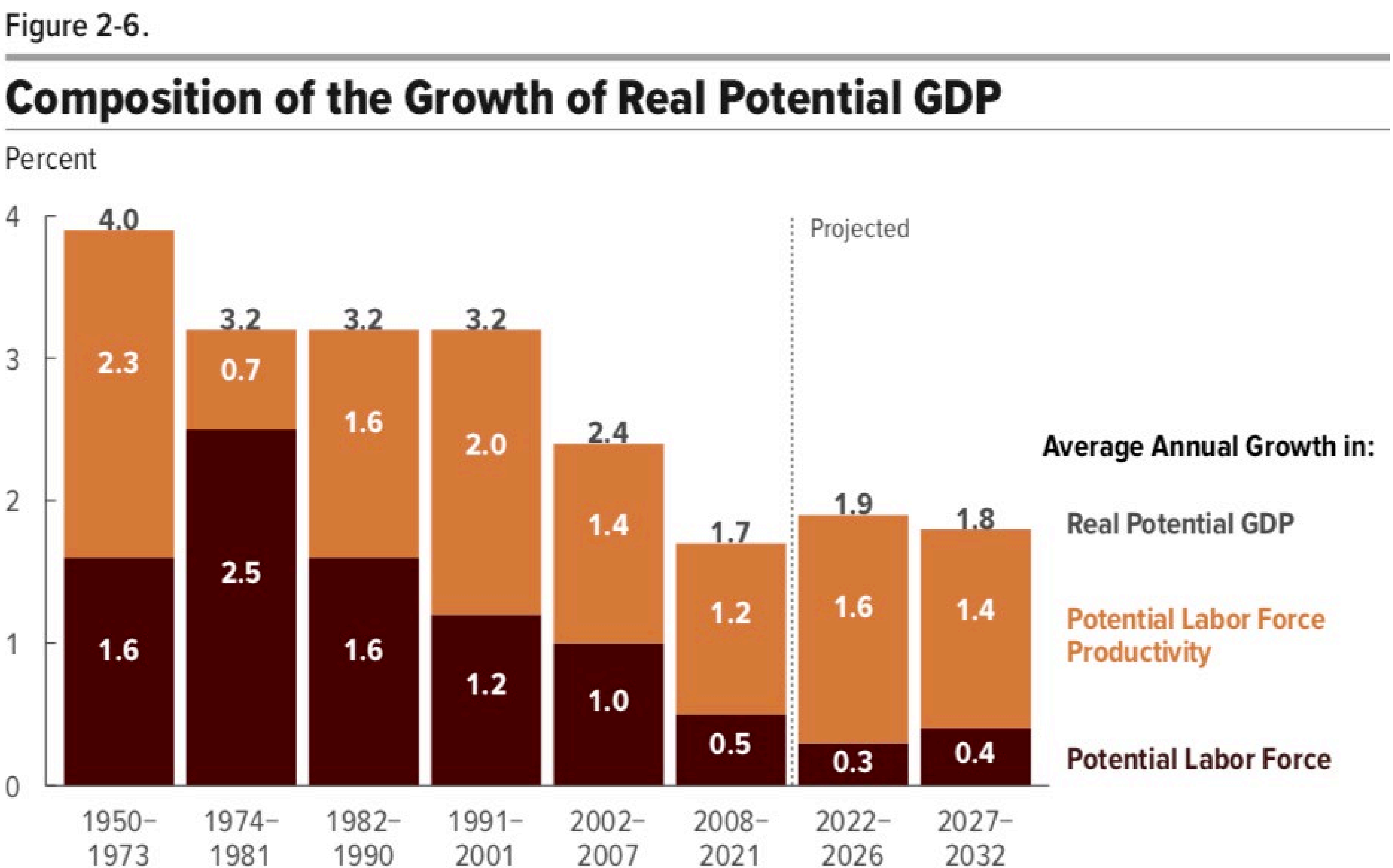
A reduction in immigration and a surge in retirements have subtracted from the labor force.

Source: BLS. Data through November 2022.

[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.

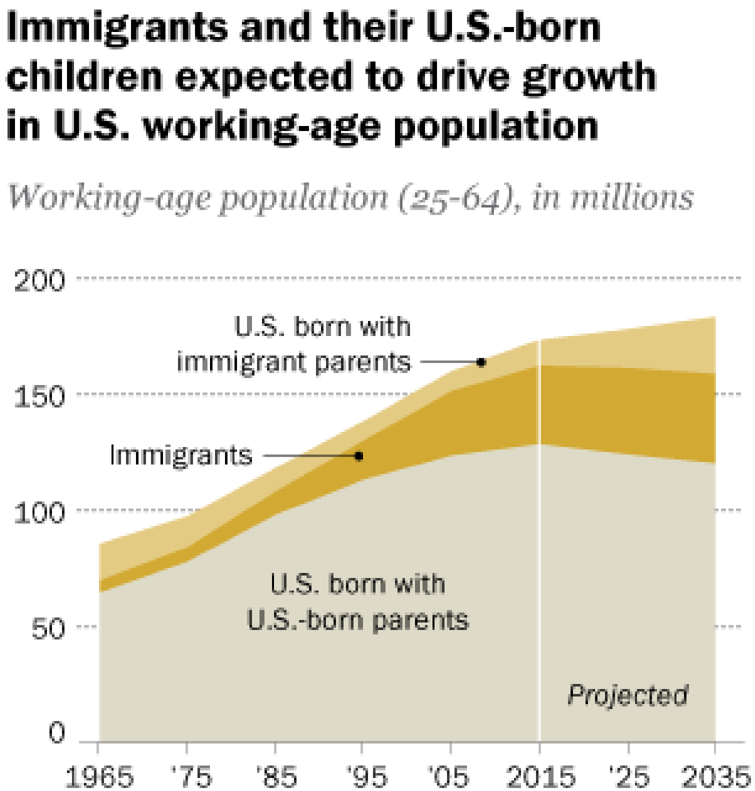
GDP growth potential = Δ productivity + Δ labor force

CBO's potential growth calculations



Source: Congressional Budget Office, *The Budget and Economic Outlook: 2022 to 2032,* released May 2022.

Immigration



Without future immigration the U.S. working-age population would decrease.

Source: Pew Research Center, *Immigration projected to drive growth in U.S. working-age population through at least 2035,* published March 8, 2017.

Important Information

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

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