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**WEALTH ADVISORS**

**TRUST MATTERS.**

*July 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.

How to explain the stock market?

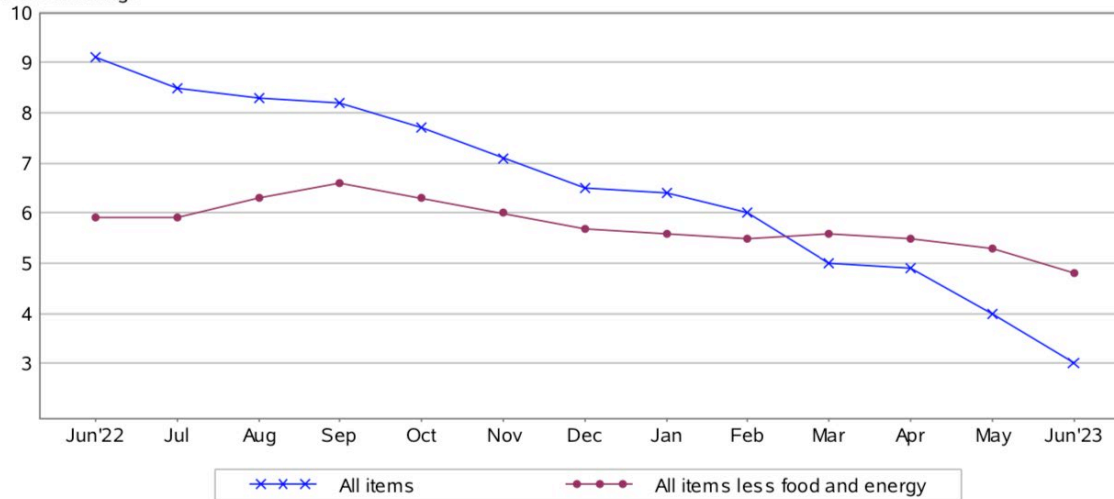
- Cooler inflation
- Economic growth
- Rising earnings

# Inflation

## CPI – headline and core

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

Percent change



Up +4.8% y/y  
in June.

Up +3.0% y/y  
in June.

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 Jun. 2023
	Dec. 2022	Jan. 2023	Feb. 2023	Mar. 2023	Apr. 2023	May 2023	Jun. 2023	
All items.....	0.1	0.5	0.4	0.1	0.4	0.1	0.2	3.0
Food.....	0.4	0.5	0.4	0.0	0.0	0.2	0.1	5.7
Food at home.....	0.5	0.4	0.3	-0.3	-0.2	0.1	0.0	4.7
Food away from home <sup>1</sup> .....	0.4	0.6	0.6	0.6	0.4	0.5	0.4	7.7
Energy.....	-3.1	2.0	-0.6	-3.5	0.6	-3.6	0.6	-16.7
Energy commodities.....	-7.2	1.9	0.5	-4.6	2.7	-5.6	0.8	-26.8
Gasoline (all types).....	-7.0	2.4	1.0	-4.6	3.0	-5.6	1.0	-26.5
Fuel oil <sup>1</sup> .....	-16.6	-1.2	-7.9	-4.0	-4.5	-7.7	-0.4	-36.6
Energy services.....	1.9	2.1	-1.7	-2.3	-1.7	-1.4	0.4	-0.9
Electricity.....	1.3	0.5	0.5	-0.7	-0.7	-1.0	0.9	5.4
Utility (piped) gas service.....	3.5	6.7	-8.0	-7.1	-4.9	-2.6	-1.7	-18.6
All items less food and energy.....	0.4	0.4	0.5	0.4	0.4	0.4	0.2	4.8
Commodities less food and energy								
commodities.....	-0.1	0.1	0.0	0.2	0.6	0.6	-0.1	1.3
New vehicles.....	0.6	0.2	0.2	0.4	-0.2	-0.1	0.0	4.1
Used cars and trucks.....	-2.0	-1.9	-2.8	-0.9	4.4	4.4	-0.5	-5.2
Apparel.....	0.2	0.8	0.8	0.3	0.3	0.3	0.3	3.1
Medical care commodities <sup>1</sup> .....	0.1	1.1	0.1	0.6	0.5	0.6	0.2	4.2
Services less energy services.....	0.6	0.5	0.6	0.4	0.4	0.4	0.3	6.2
Shelter.....	0.8	0.7	0.8	0.6	0.4	0.6	0.4	7.8
Transportation services.....	0.6	0.9	1.1	1.4	-0.2	0.8	0.1	8.2
Medical care services.....	0.3	-0.7	-0.7	-0.5	-0.1	-0.1	0.0	-0.8

Source: BLS. Data through June 2023.

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# Cooler Inflation Lifts Hope of Soft Landing

More encouraging is that underlying inflation has edged lower in recent months, even though the labor market has yet to weaken significantly. This suggests the odds of a soft landing, in which inflation returns close to the Fed's 2% target without a recession, are improving.

## GDP forecast

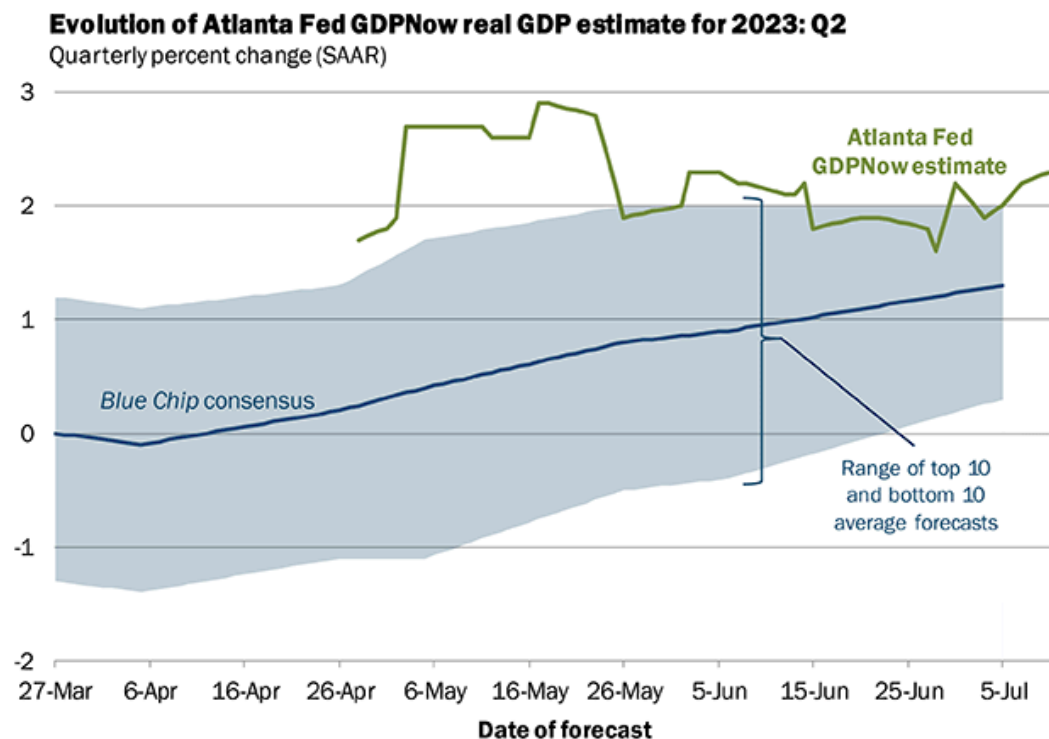
# Atlanta Fed's GDPNow forecast

Latest estimate: 2.3 percent -- July 10, 2023

The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the second quarter of 2023 is **2.3 percent** on July 10, up from 2.1 percent on July 6. After recent releases from the US Bureau of Economic Analysis, the US Bureau of Labor Statistics, and the US Census Bureau, the nowcast of second-quarter real gross private domestic investment growth increased from 9.6 percent to 10.5 percent.

GDPNow is higher than the rising Blue Chip consensus.

The next GDPNow update is **Tuesday, July 18**. Please see the "Release Dates" tab below for a list of upcoming releases.



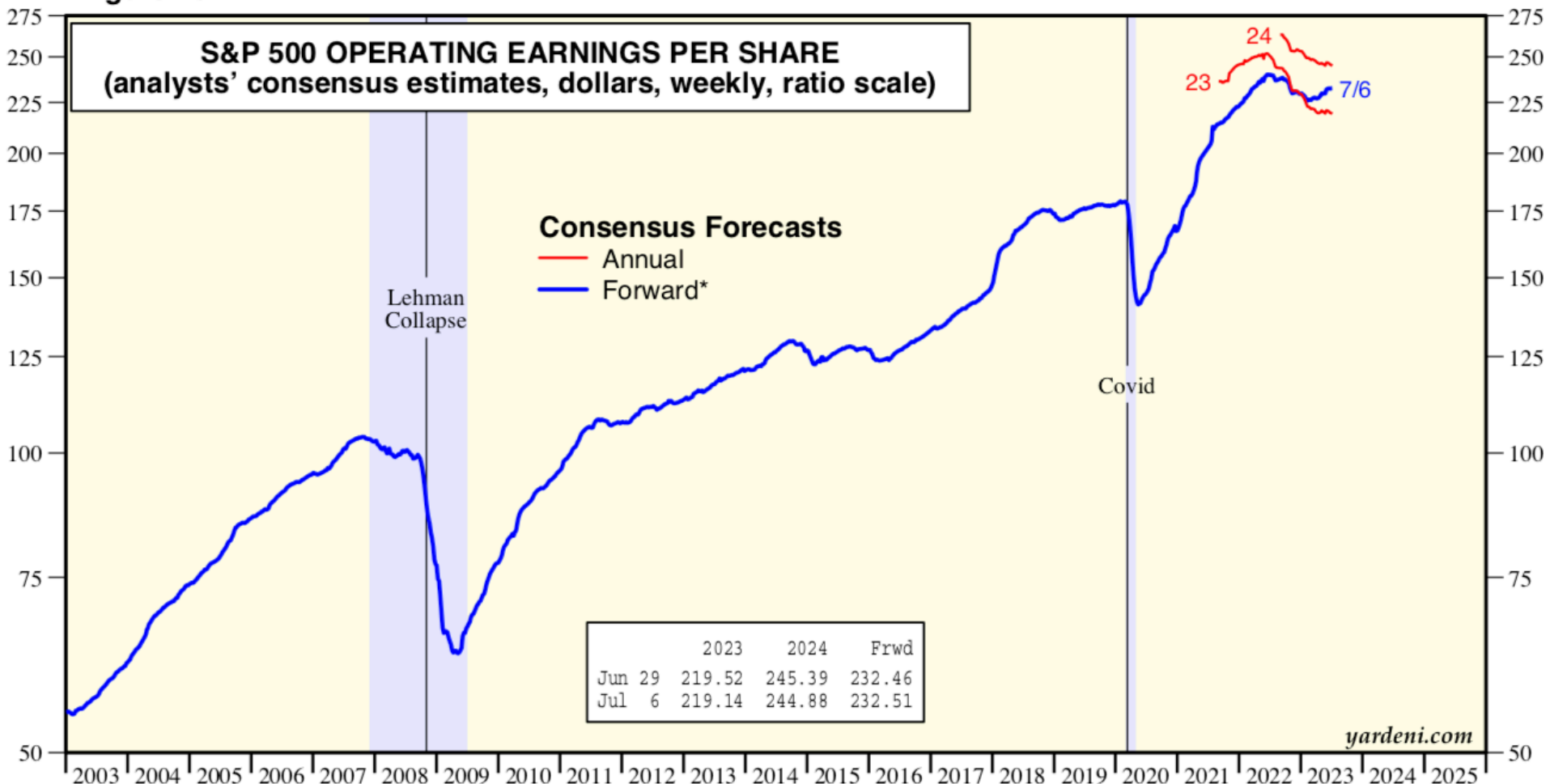
Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

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, July 10, 2023.

## S&amp;P forward earnings estimates have bottomed

Figure 16.



\* 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.



## 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.”

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# The Economy Can Be Quite Confusing

I'm confused. Contradictory economic gauges are telling different stories, standard leading indicators are in question, and markets appear to be prepping for both boom and bust.

To be fair, confusion should be the default state for anyone trying to predict where the economy or markets are heading. Overconfidence and inflexibility spells doom for investors, and I'm rarely sure about what to do. Still, these are unusual times.

# BARRON'S

## Did the Recession Already Happen? It Would Explain a Lot.

But there's a truism investors should fall back on: It's the direction, not the level. And since the direction of inflation is down, the direction of the stock market is up. It really is that simple, and it's a big part of why the stock market has raced higher in 2023.

... There is another option—that the U.S. already experienced its recession and is in a new expansion.

## Diverging Data

### Bad news

- LEI
- Inverted yield curve
- Weak June manufacturing PMI

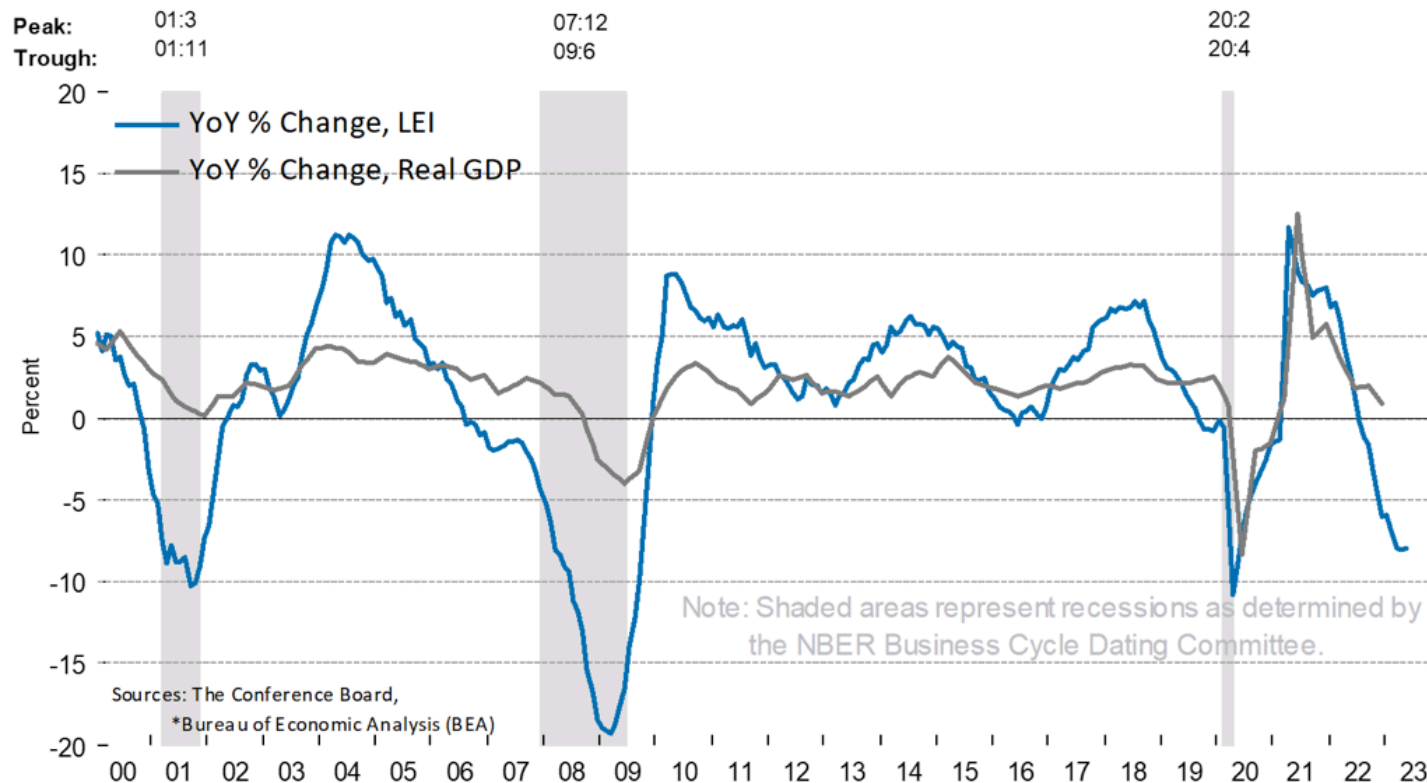
### Good news

- Strong hiring data
- Strong Q1 GDP
- Strong Q2 GDPNow forecast
- Strong June services PMI
- Strong June car sales
- Strong May housing starts
- Oil down
- Consumers have cash – M2
- Strong corporate balance sheets
- Strong bank capital
- Inflation is moderating

## Bad news

- LEI
- Inverted yield curve
- Weak June manufacturing PMI

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



“The US Leading Index has declined in each of the last fourteen months and continues to point to weaker economic activity ahead. ... we project that the US economy will contract over the Q3 2023 to Q1 2024 period.”

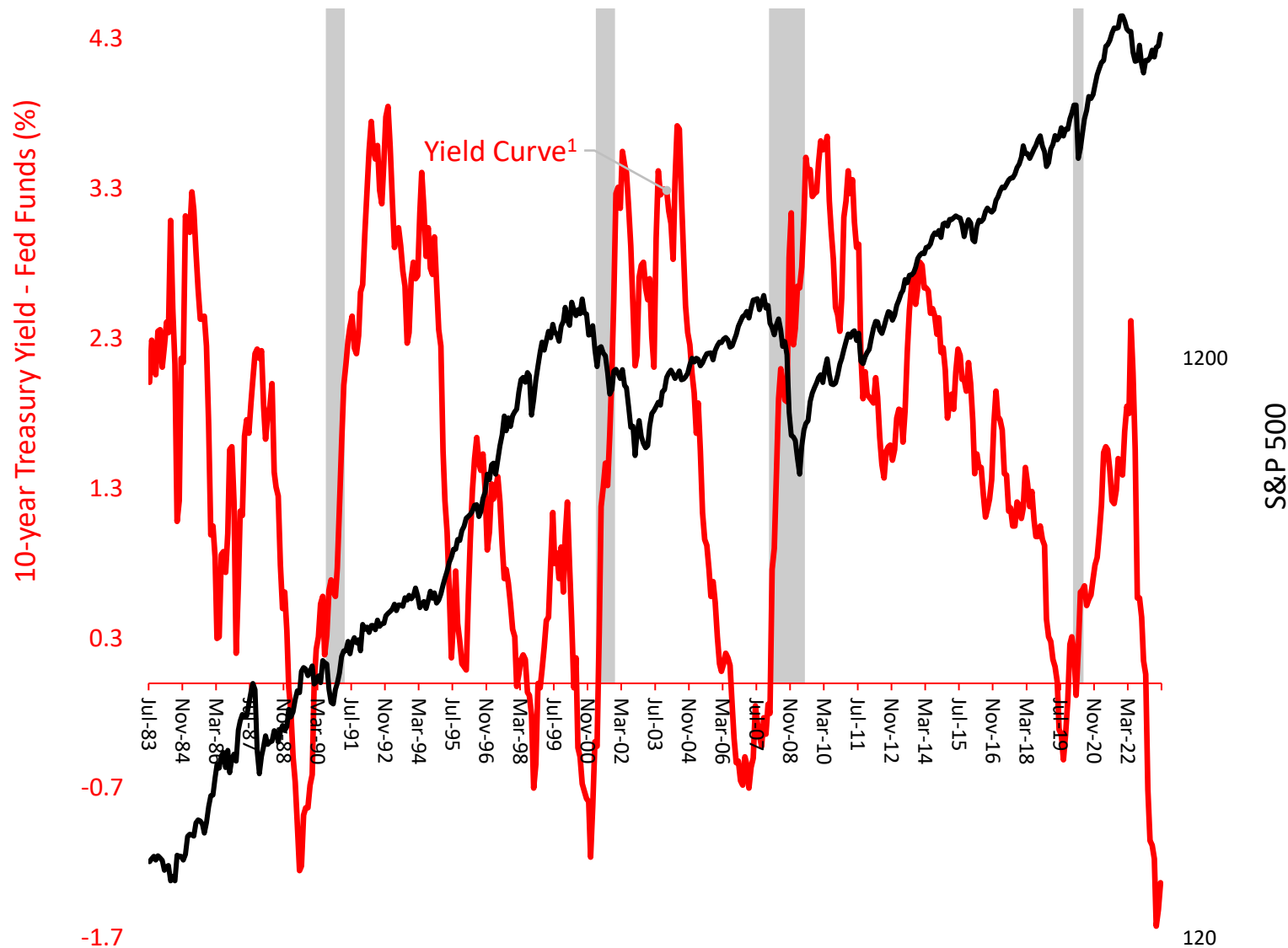
This chart shows how the LEI has definitively rolled over well in advance of the last recessions.

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 May released June 22, 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.

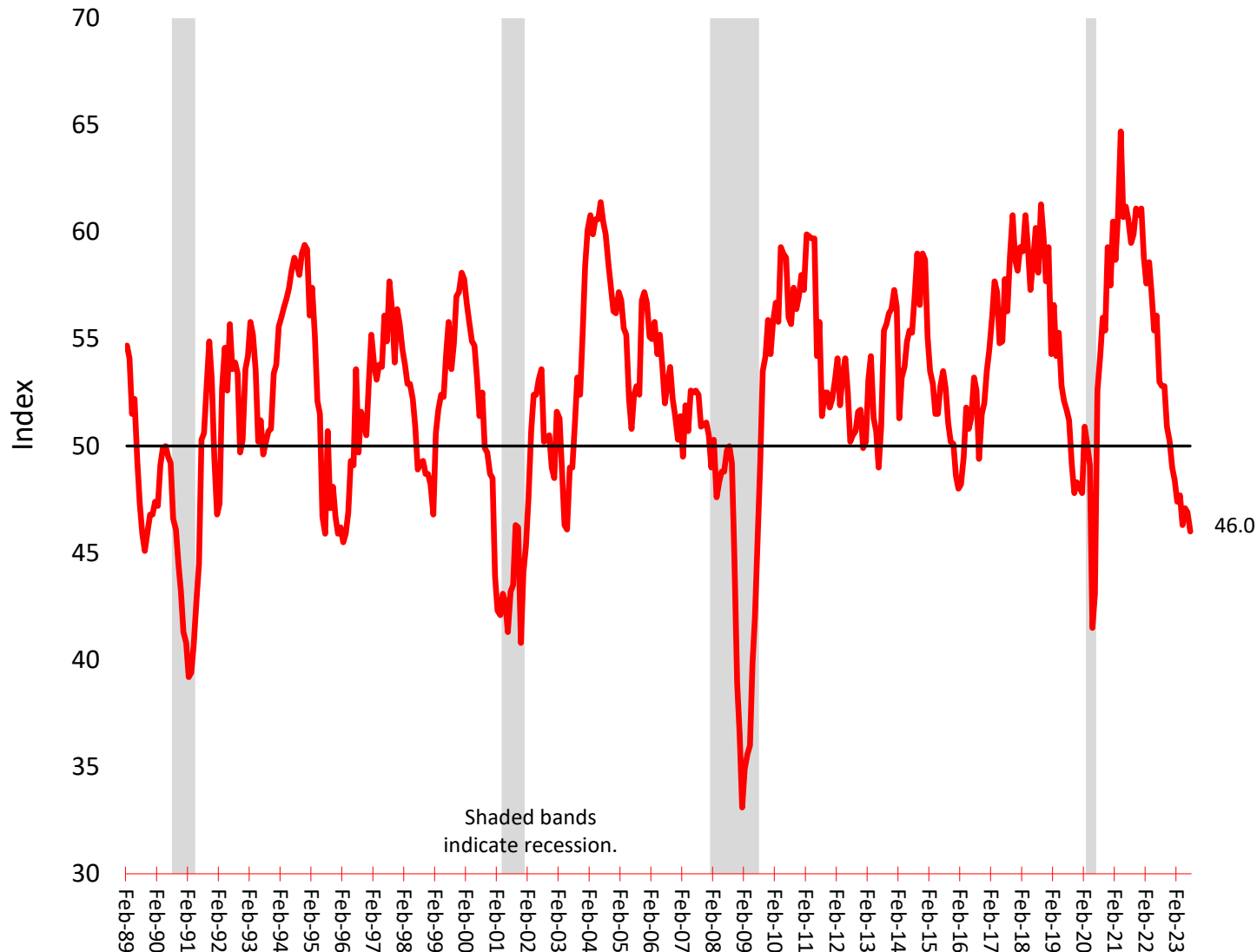
Today, the yield curve is inverted.

Sources: NBER, Federal Reserve and Standard & Poor's. Data through June 2023.

<sup>1</sup>The interest rate on the 10-year Treasury bond (long term) minus the fed funds rate (short term).

# Economic data

## ISM manufacturing PMI



June at 46.0.

June new orders 45.6.

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 June 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."

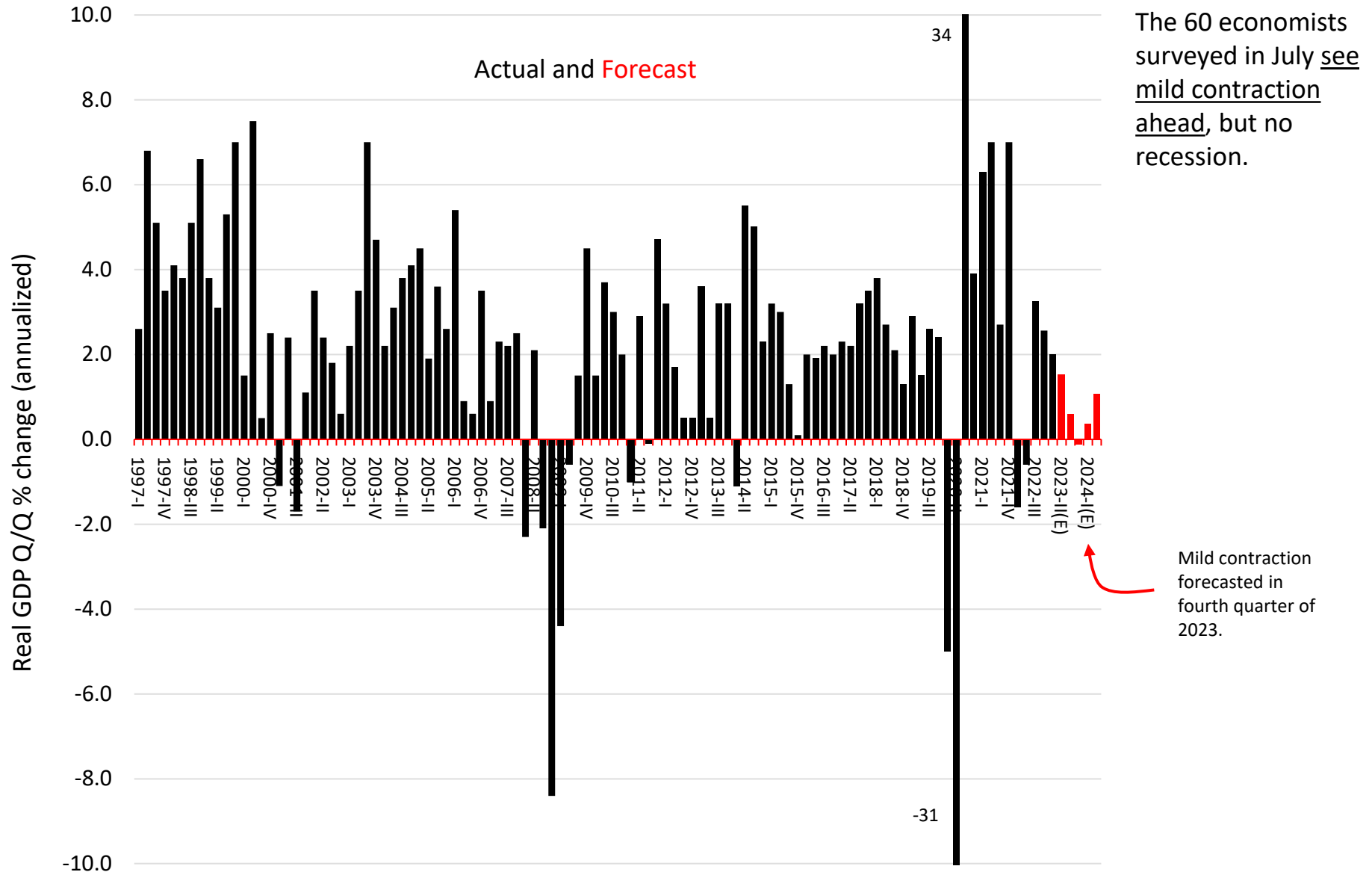


## Good news

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# Consensus GDP forecast

## GDP



## GDP forecast

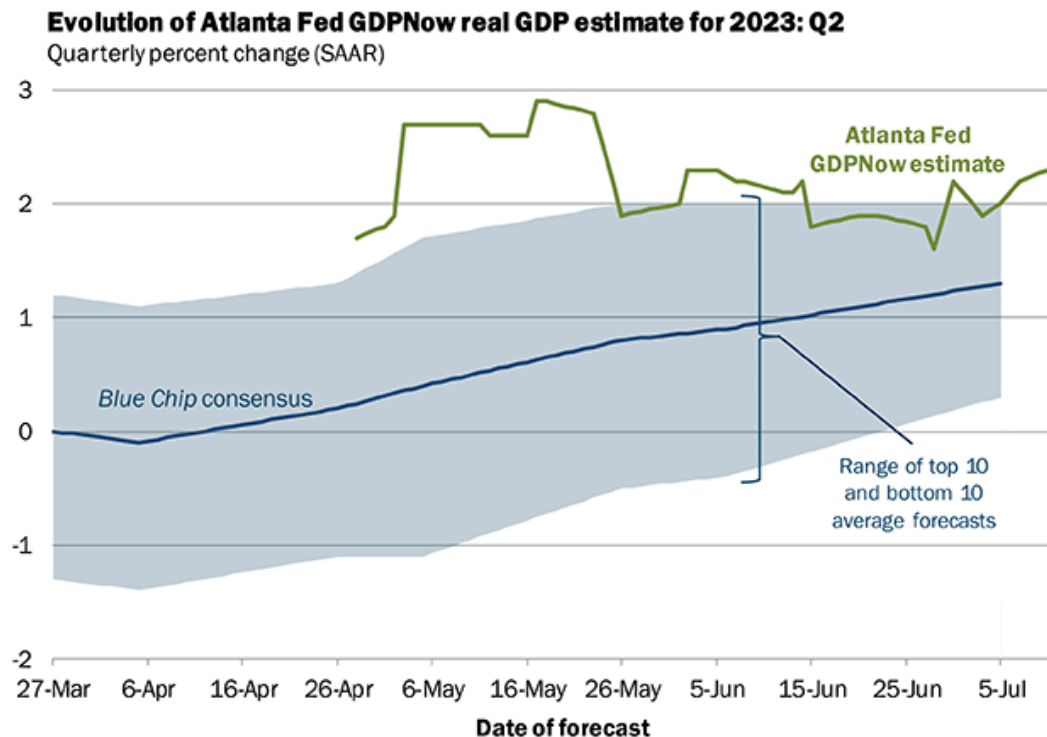
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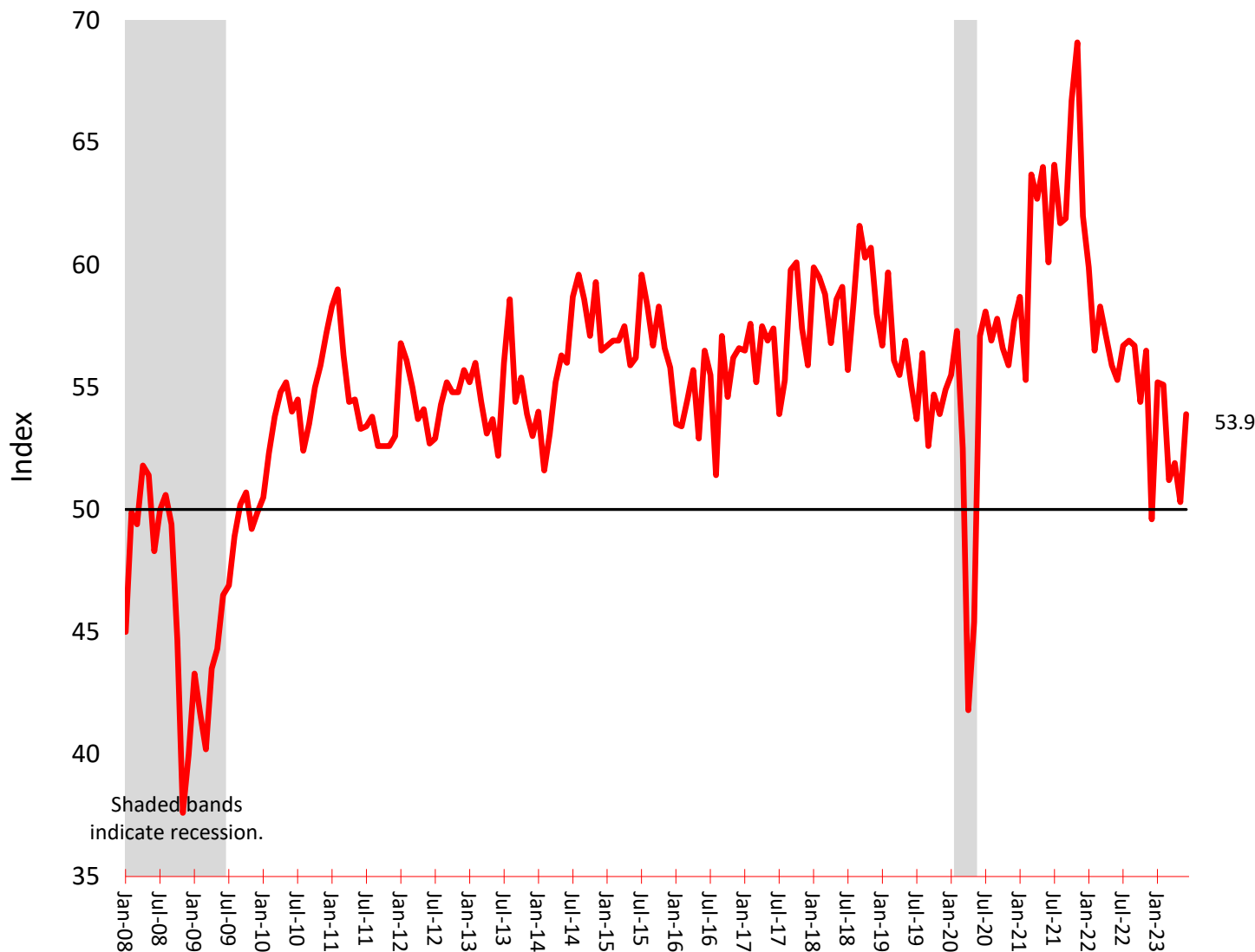
Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

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, July 10, 2023.

# Economic data

## ISM services PMI



June at 53.9.

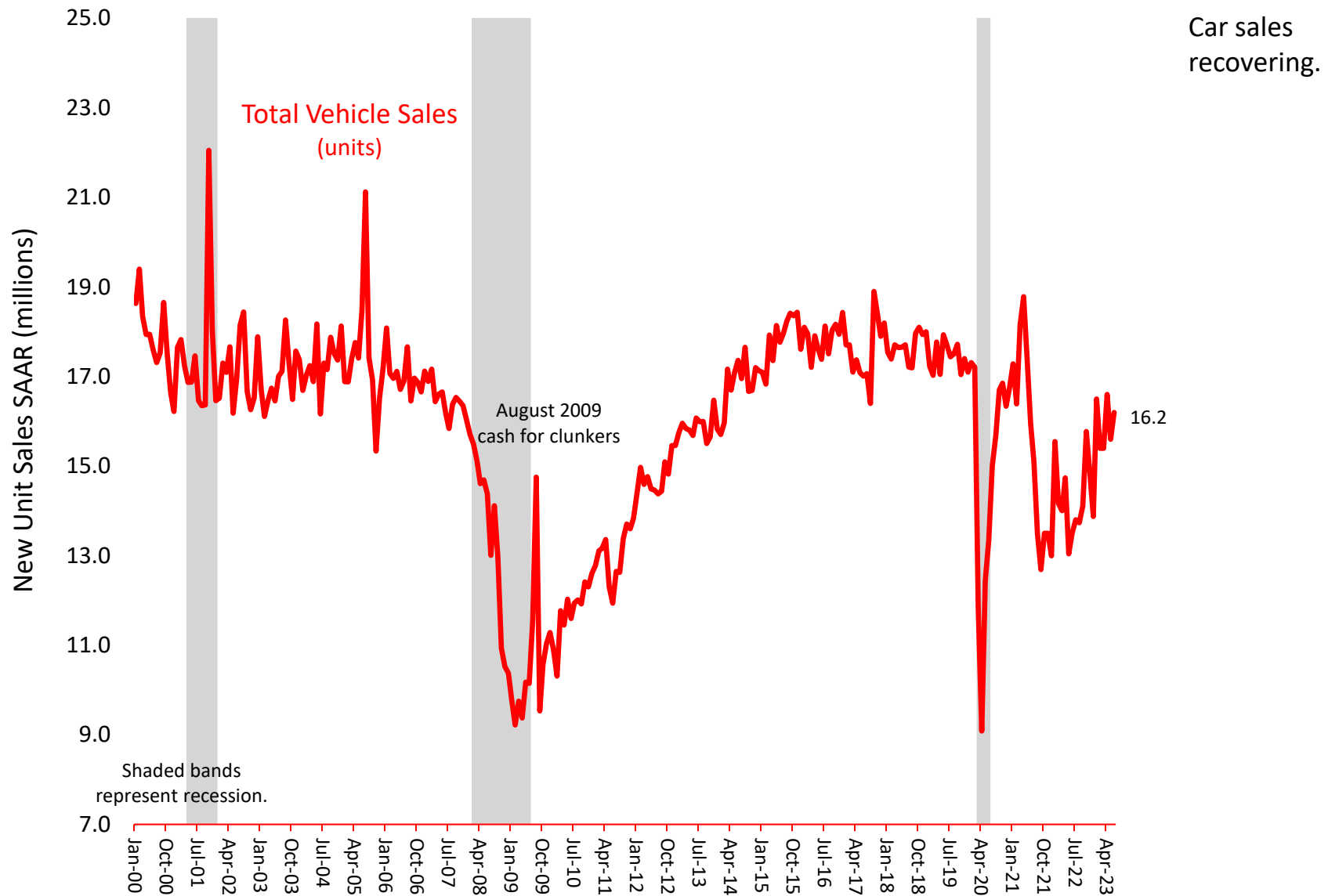
June new orders 55.5.

Services comprise 89% of the U.S. economy<sup>1</sup> and 91% of total nonfarm jobs.

Source: Copyright 2023, Institute for Supply Management; data through June 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." <sup>1</sup>Value added as a percent of GDP.

# Economic data

## Vehicle sales



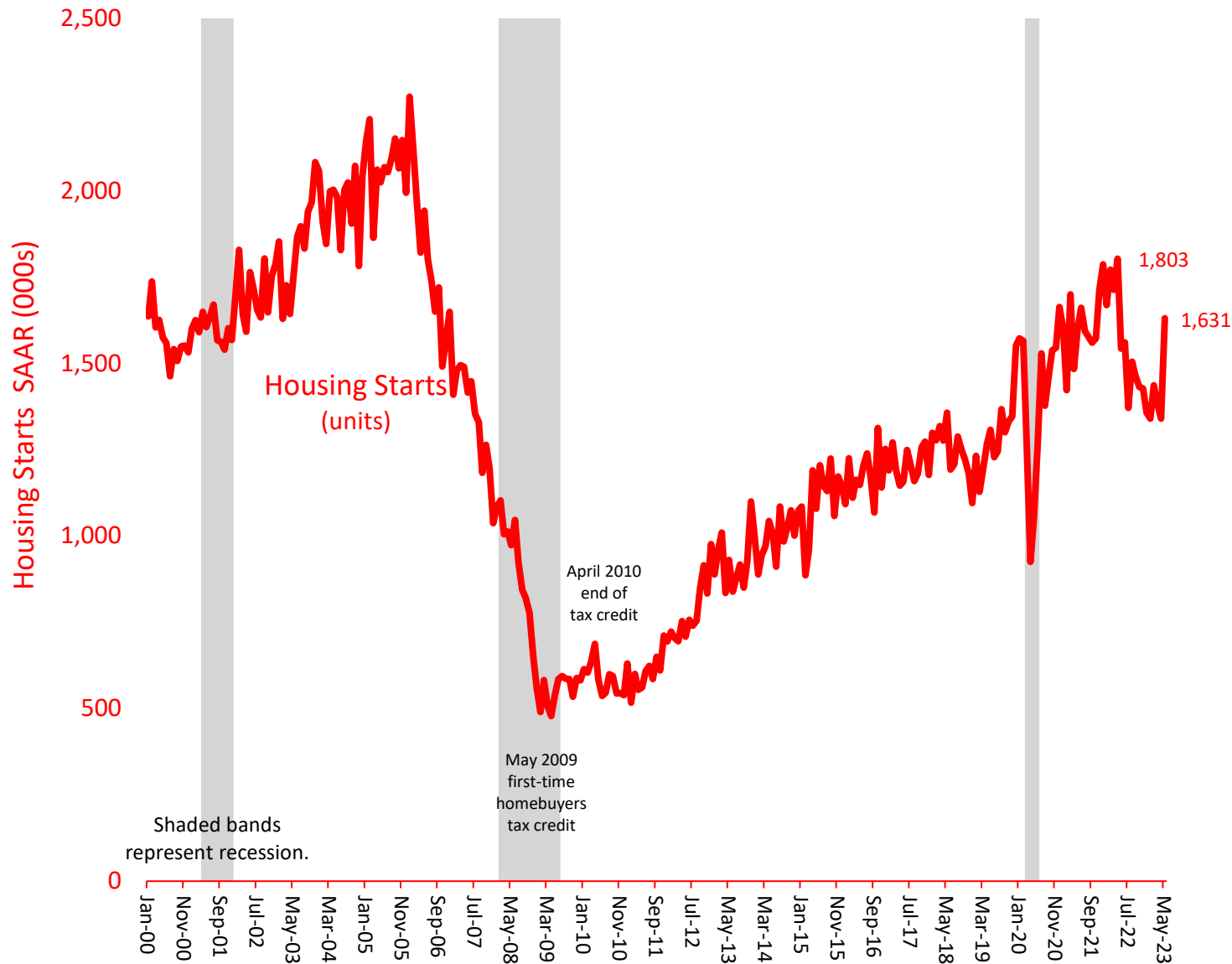
## THE WALL STREET JOURNAL.

# U.S. Auto Sales Defy Gloomy Forecasts

U.S. new-vehicle sales rose an estimated 13% during the first half of the year, a pace far ahead of industry forecasts as car buyers shake off concerns about rising interest rates and inflationary pressures.

# Economic data

## 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).”<sup>1</sup>

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

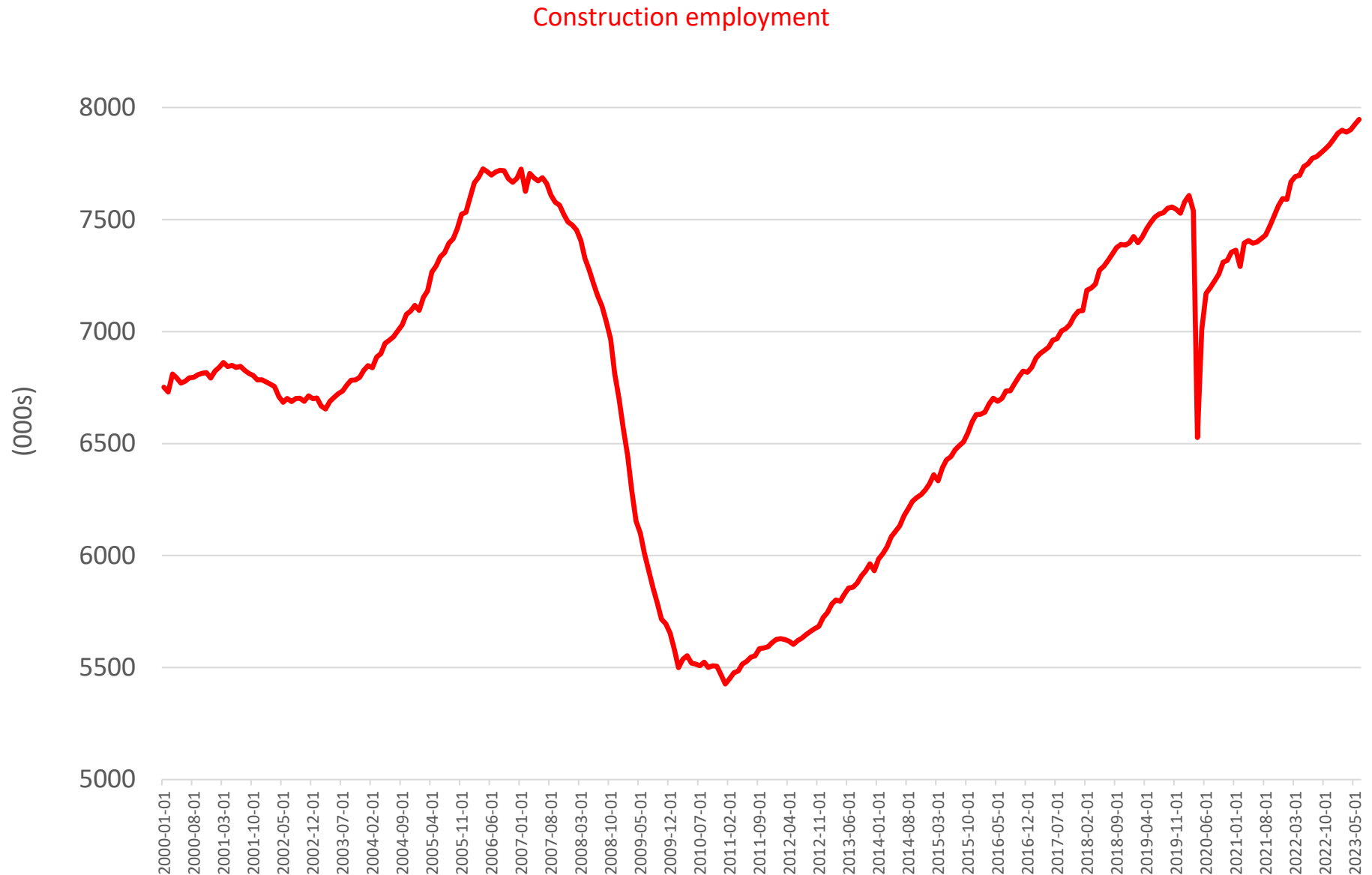
<sup>1</sup> *Economic Report of the President*, Council of Economic Advisors, February 2018

THE WALL STREET JOURNAL.

# **Excavator Sales Surge to Record on Heels of Boom in Construction**

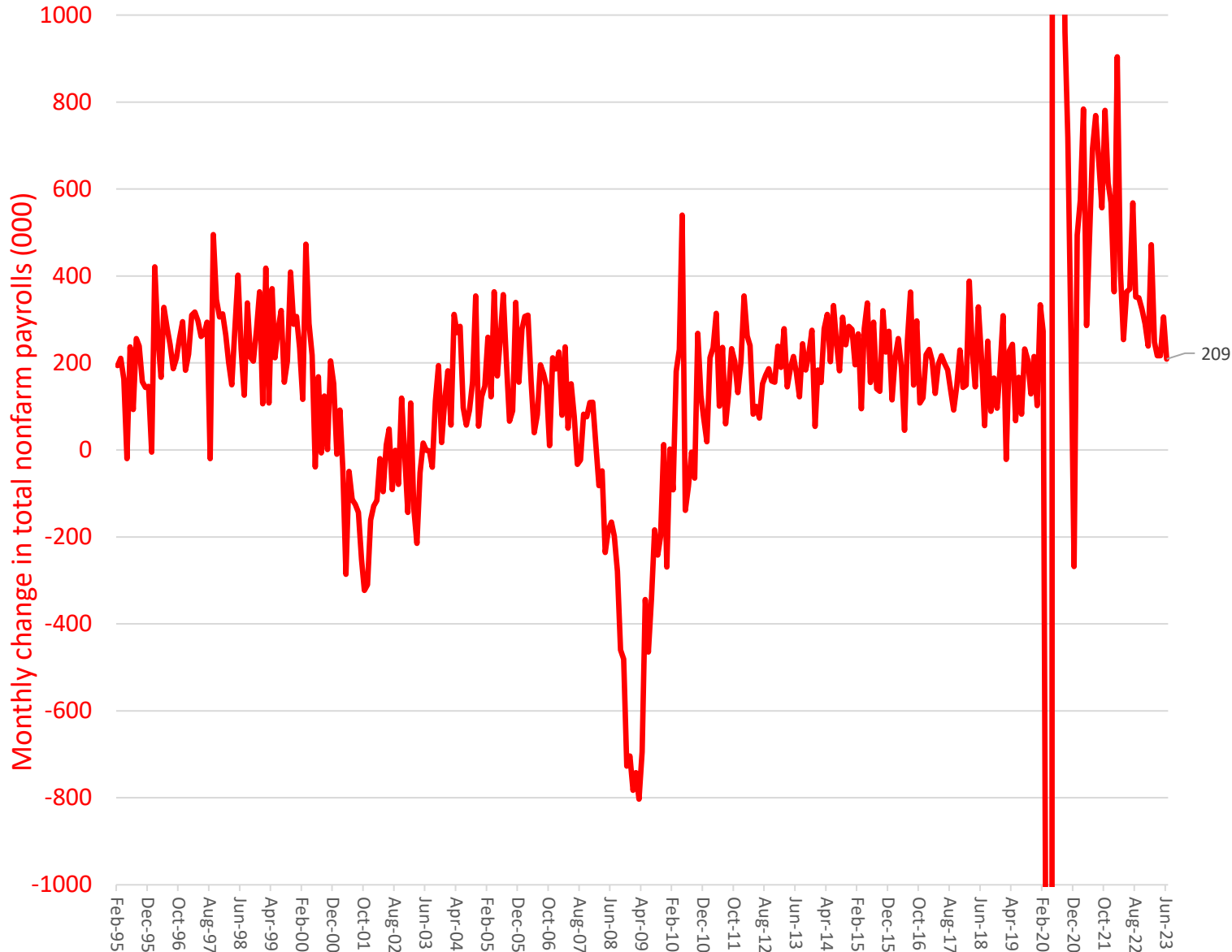


# Construction employment – record high



# Economic data

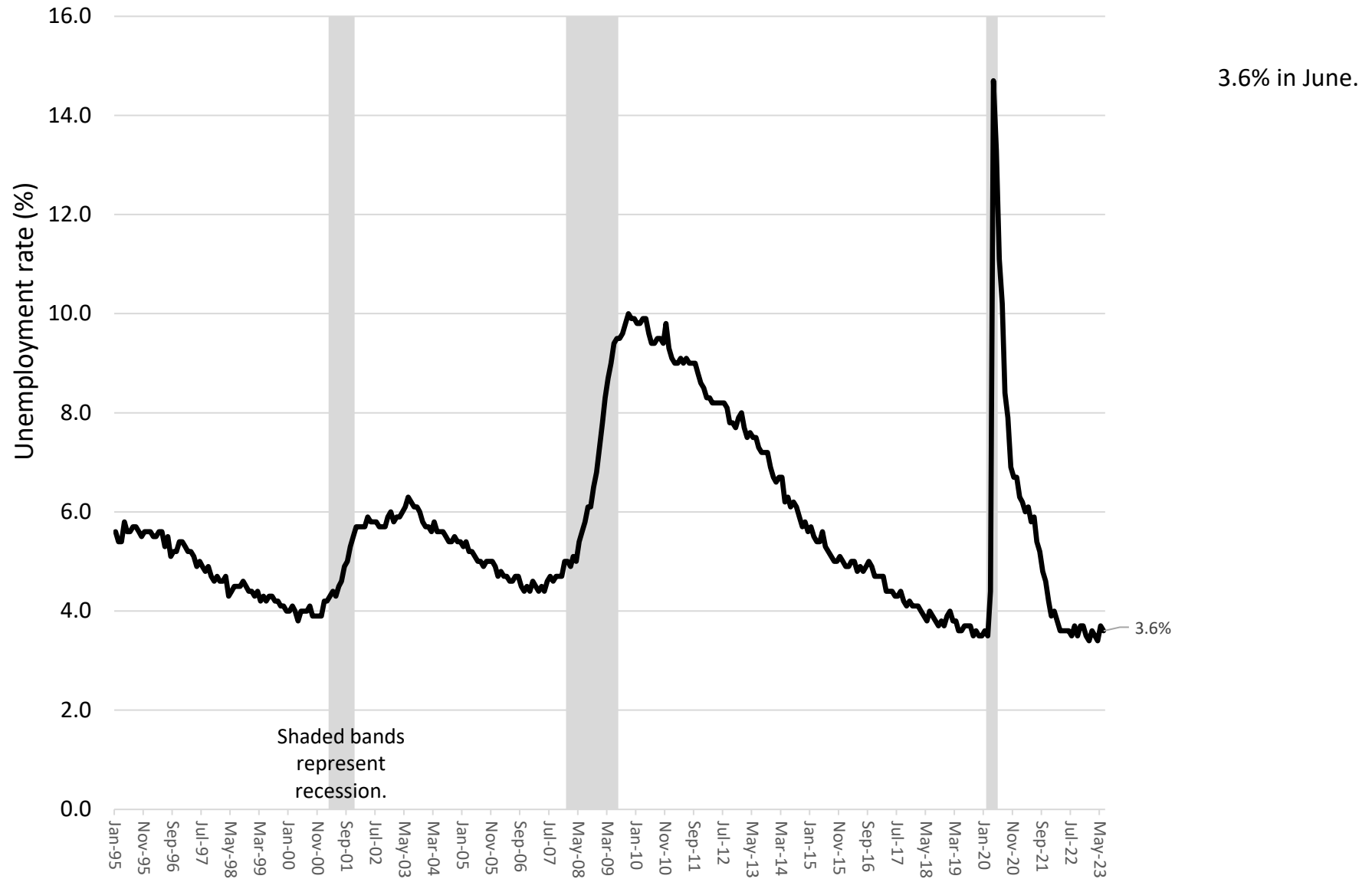
## Net new job formation



209,000 jobs gained  
in June on the  
establishment  
survey.

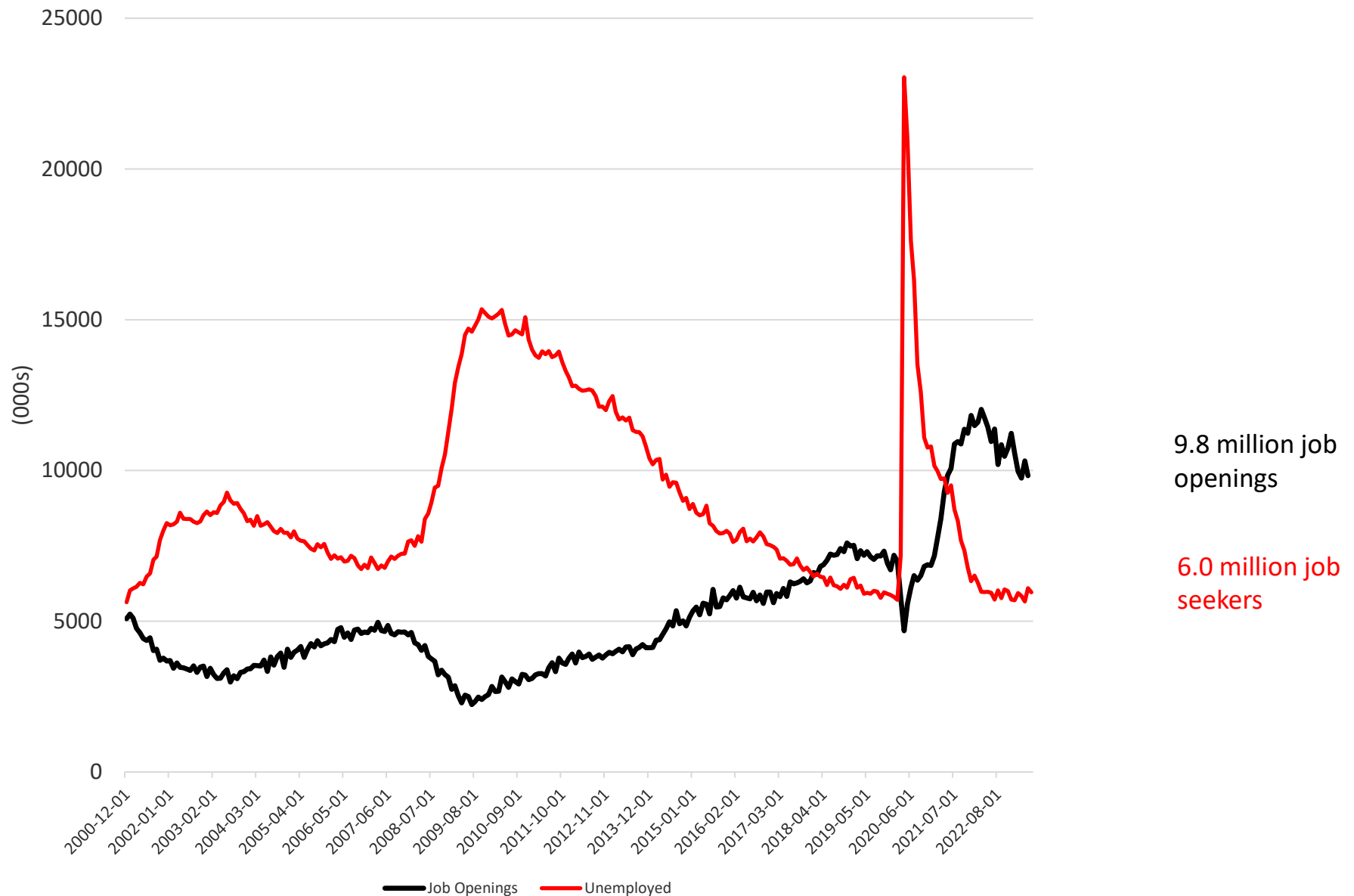
# Economic data

## Unemployment rate



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

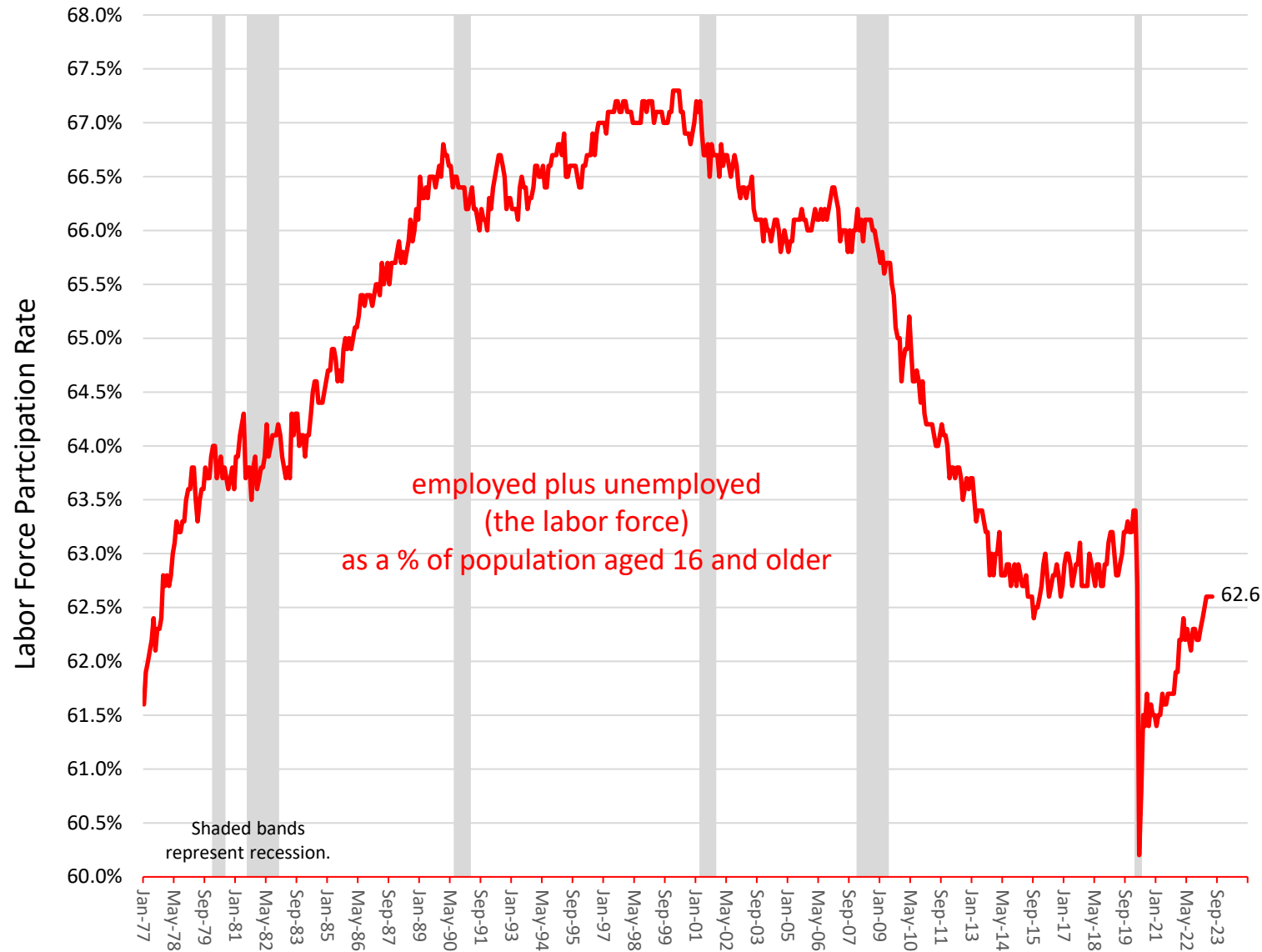
# “Excess demand” for labor – this time is different



# Labor force participation rate<sup>1</sup> – 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.

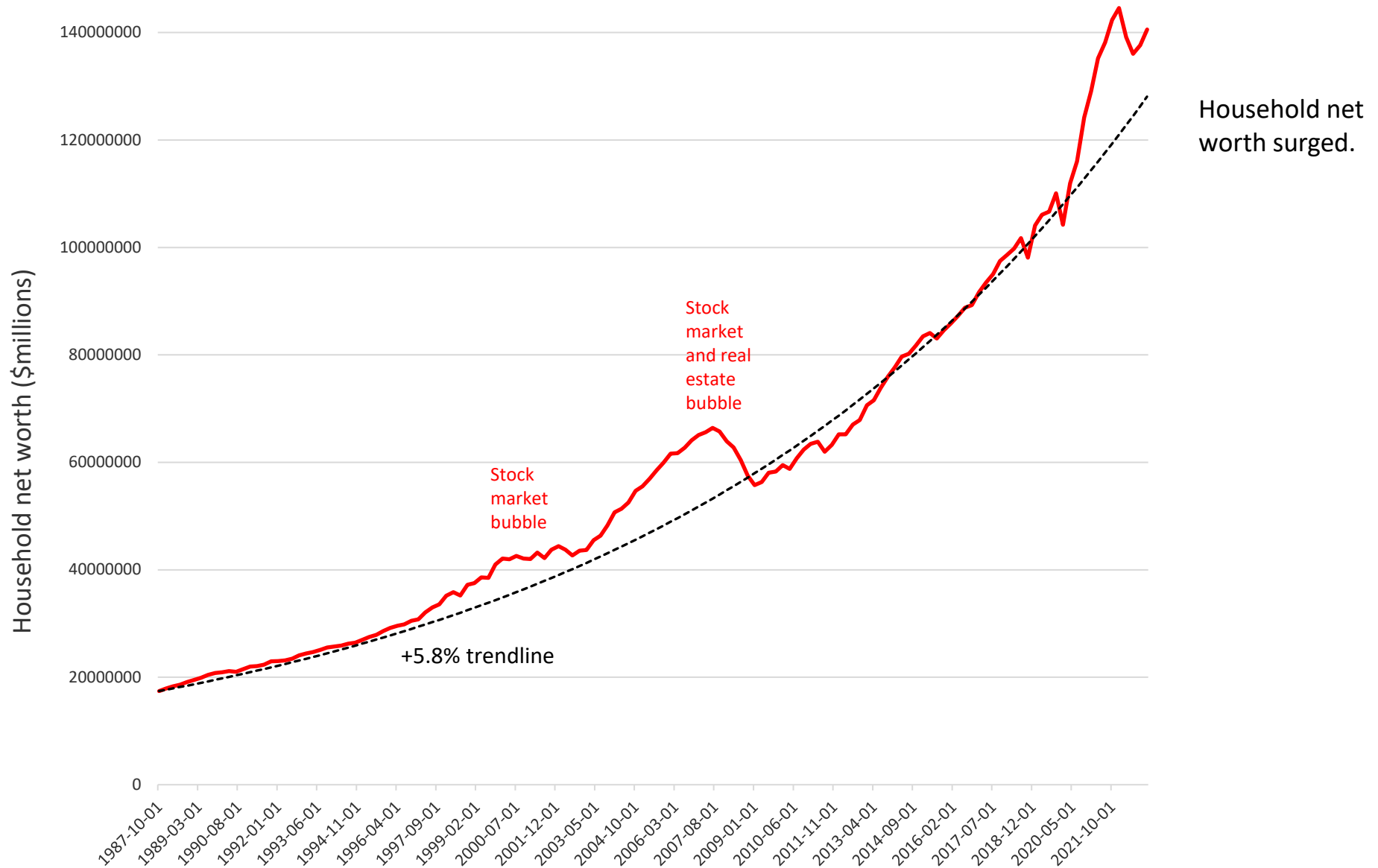


Source: BLS. Data through June 2023.

<sup>1</sup>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 balance sheets

# Household net worth – the wealth effect



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

# Household balance sheets

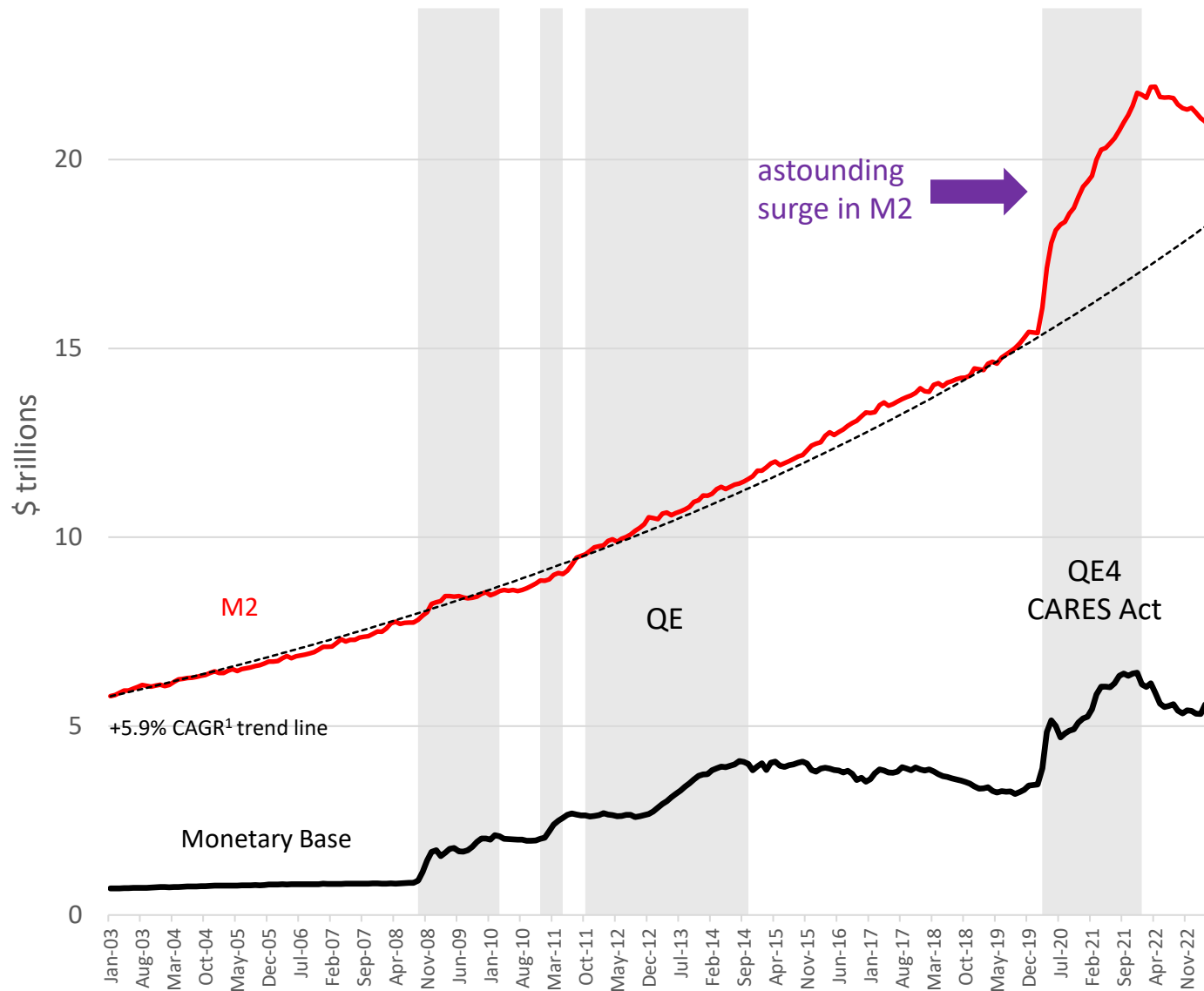
## Financial obligations ratio



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.

# Federal Reserve policy

## The monetary base and the money supply



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

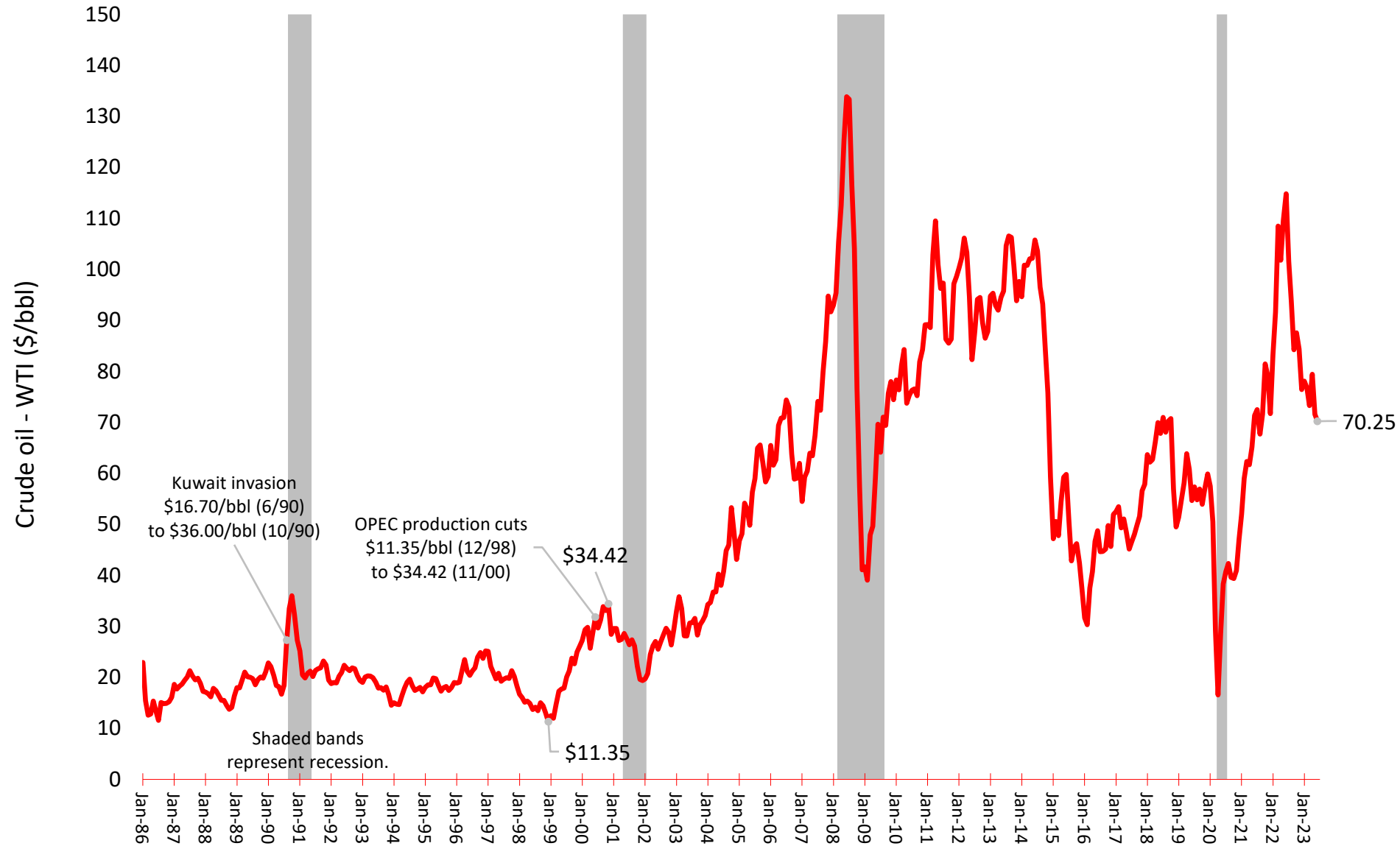
A quadrupling of the monetary base with QE did not affect M2 growth. The CARES Act and subsequent stimulus did ... by putting money directly into consumers' and businesses' accounts.

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



# Oil

## WTI spot crude oil prices



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

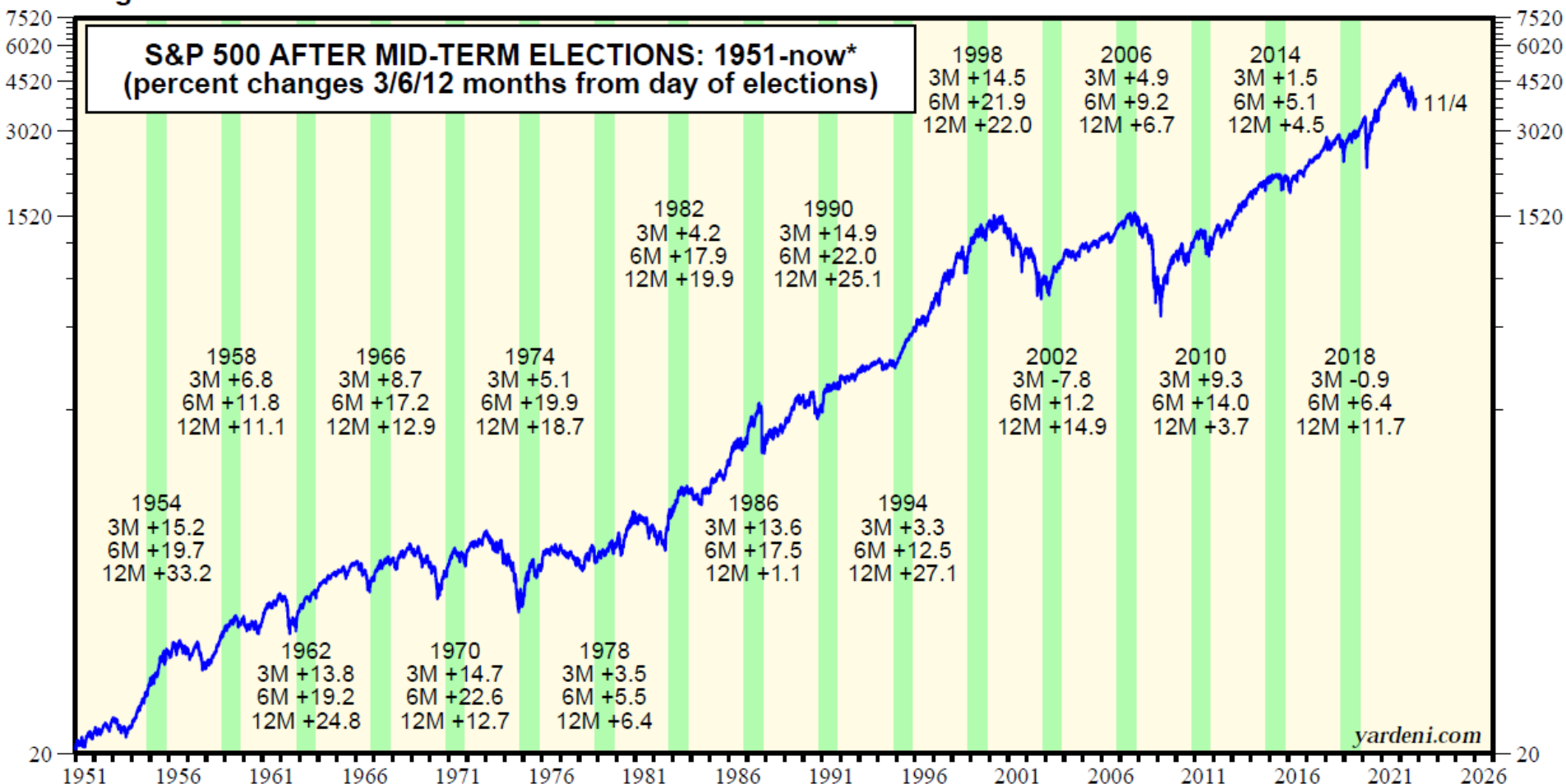
# Stock Market

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

# Stock market

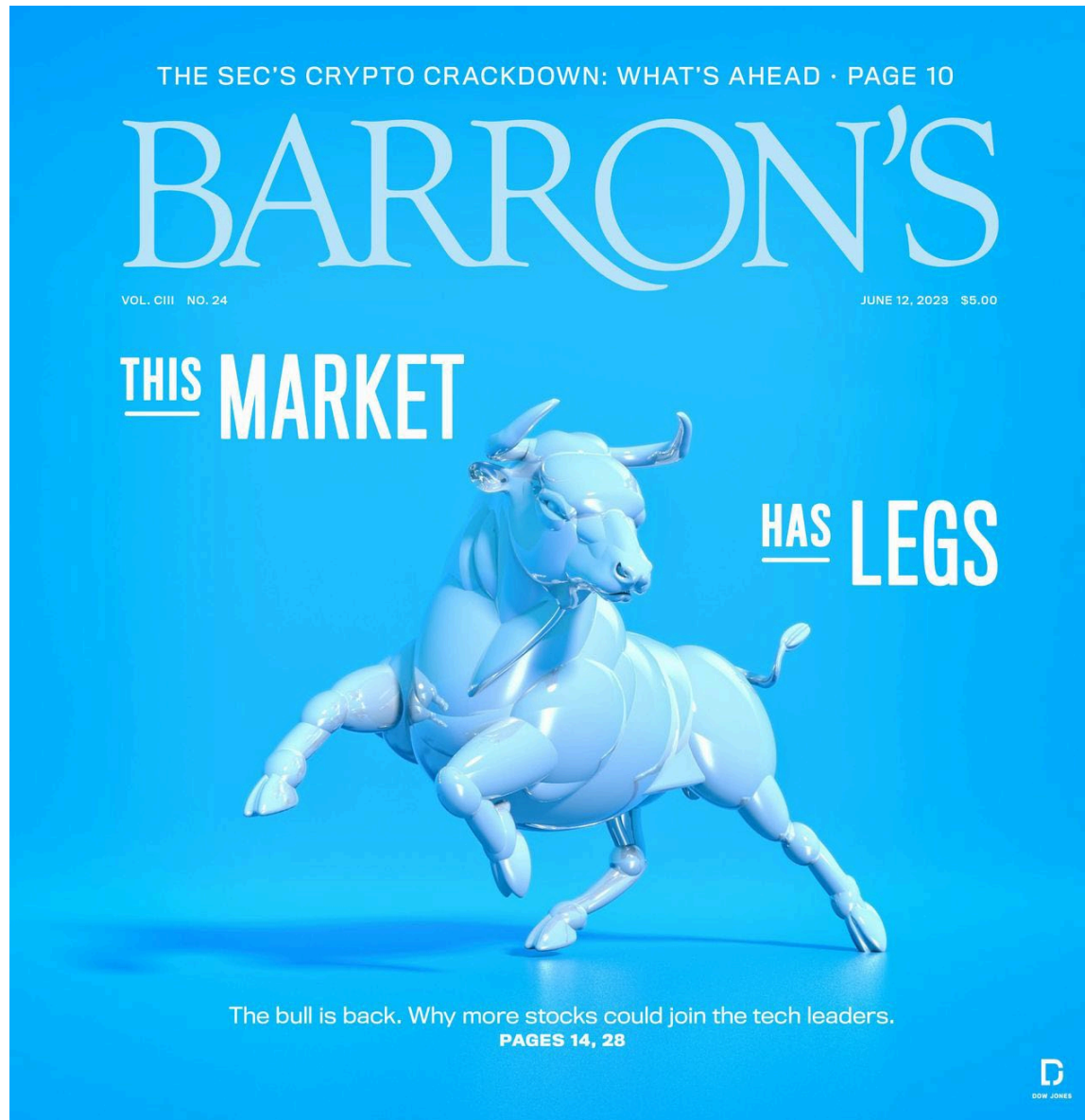
## S&P 500 and mid-term elections

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.



# Stock market

## S&P 500

S&P 500 Index

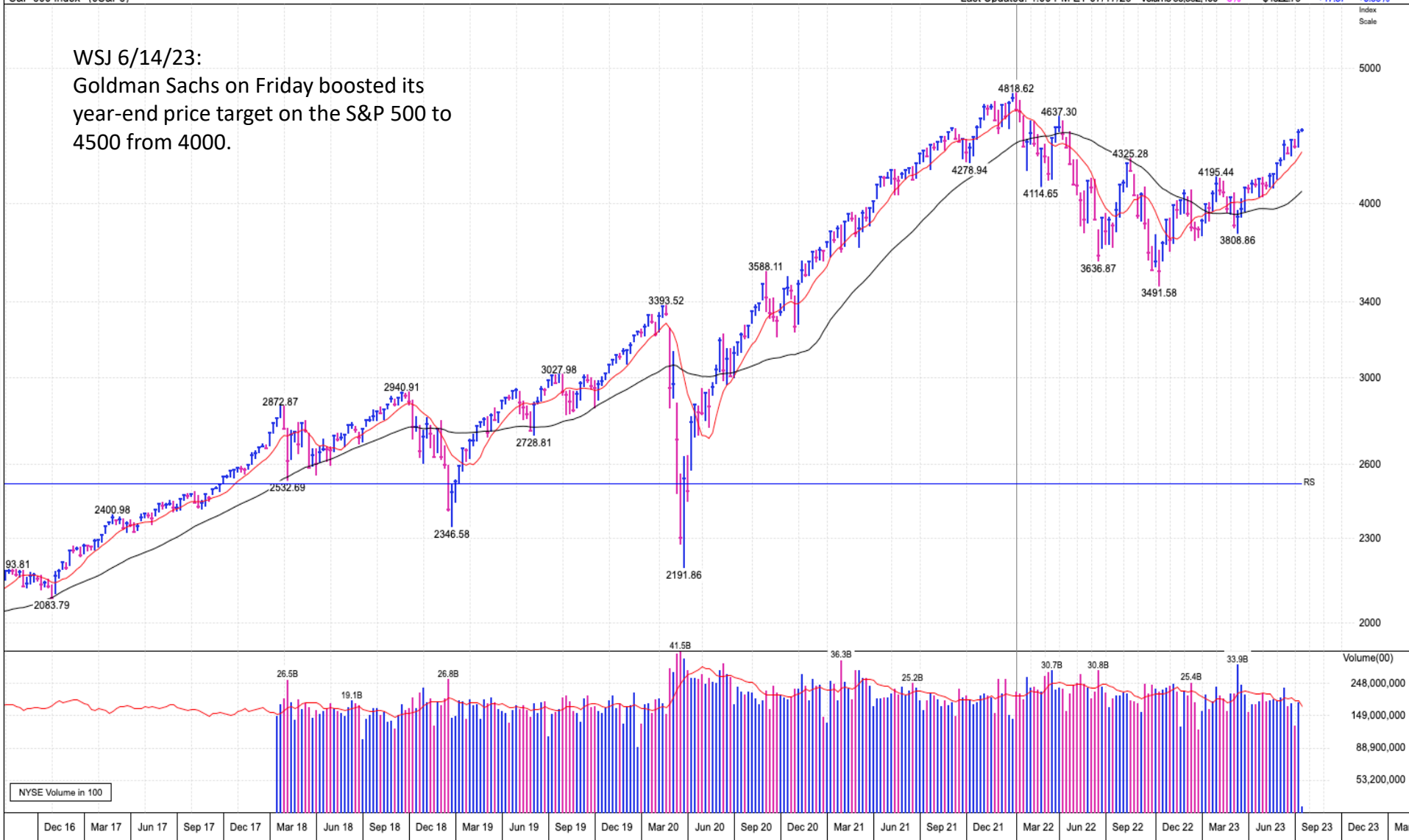
Add to List:

ETFs

Last Updated: 4:00 PM ET 07/17/23 Volume 35,382,400 -5% \$4522.79 +17.37 +0.39%

WSJ 6/14/23:

Goldman Sachs on Friday boosted its year-end price target on the S&P 500 to 4500 from 4000.



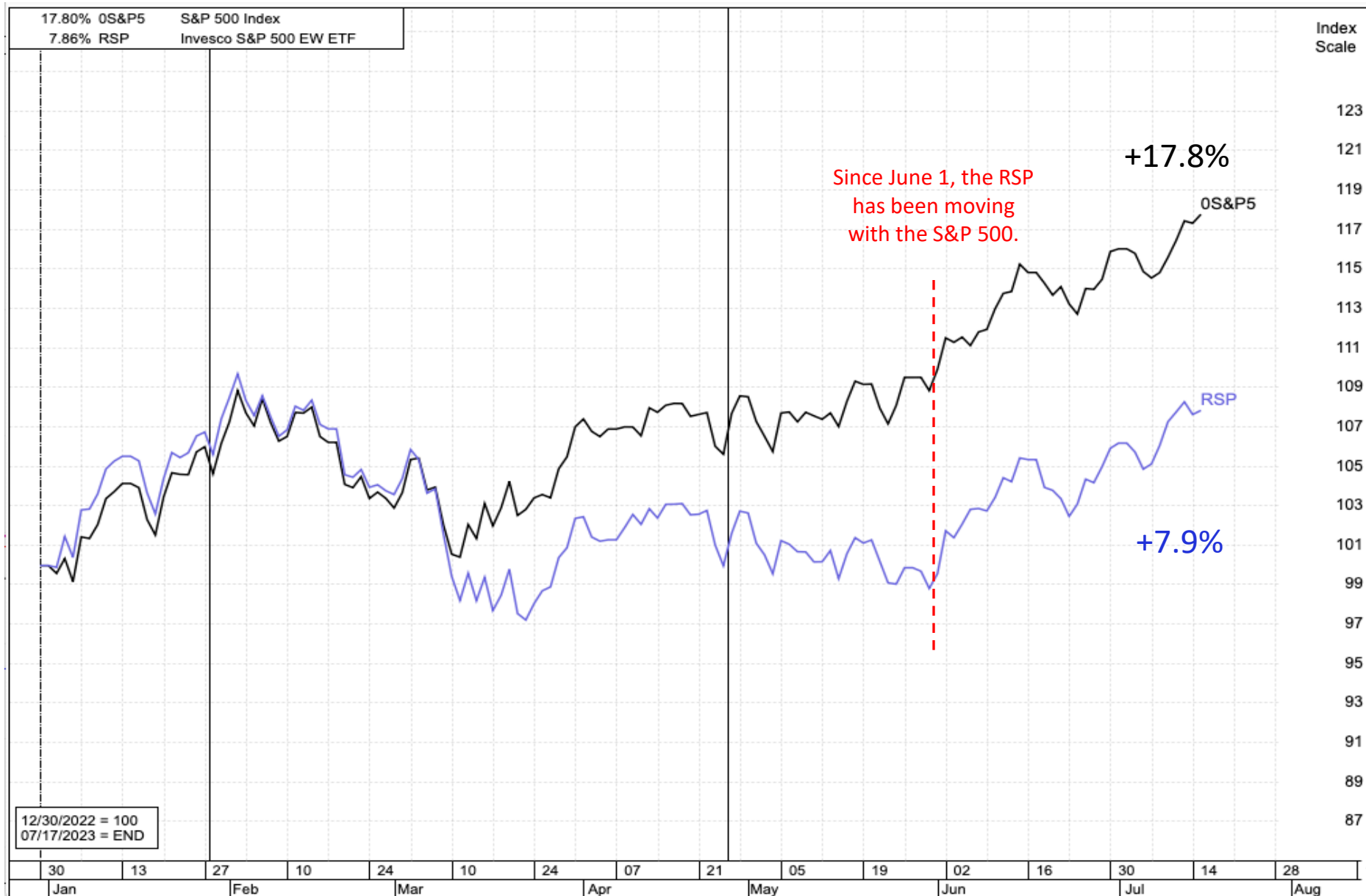
Quotes delayed 20 minutes. Ownership data provided by Refinitiv and Estimate data provided by FactSet. marketsmith@investors.com

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Source: Standard & Poor's and MarketSmith, Inc. Data through July 17, 2023.

# Stock market

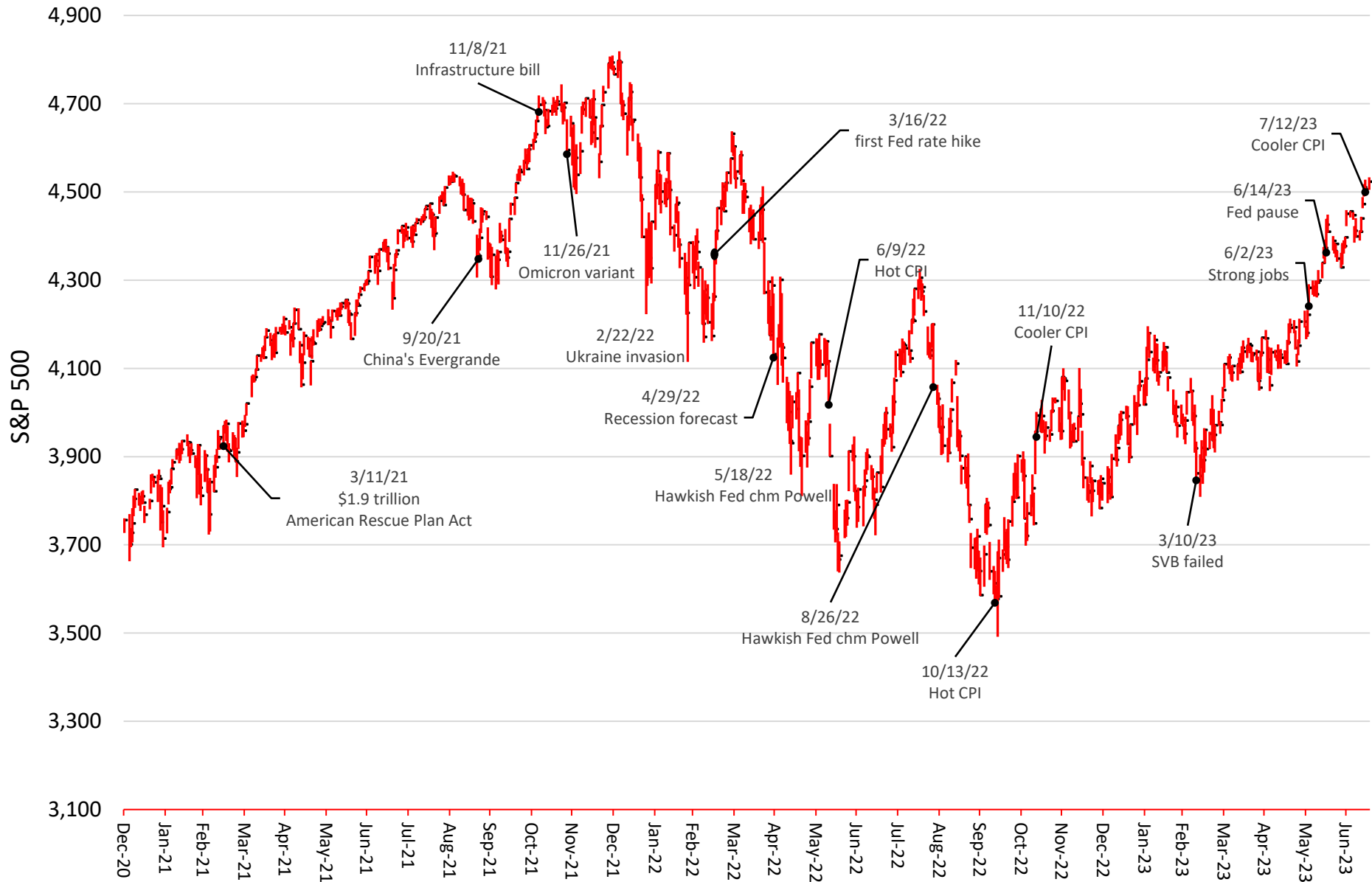
## S&P 500 vs. S&P 500 equal-weighted



Source: Standard & Poor's and MarketSmith, Inc. Data through July 17, 2023.

# Stock market

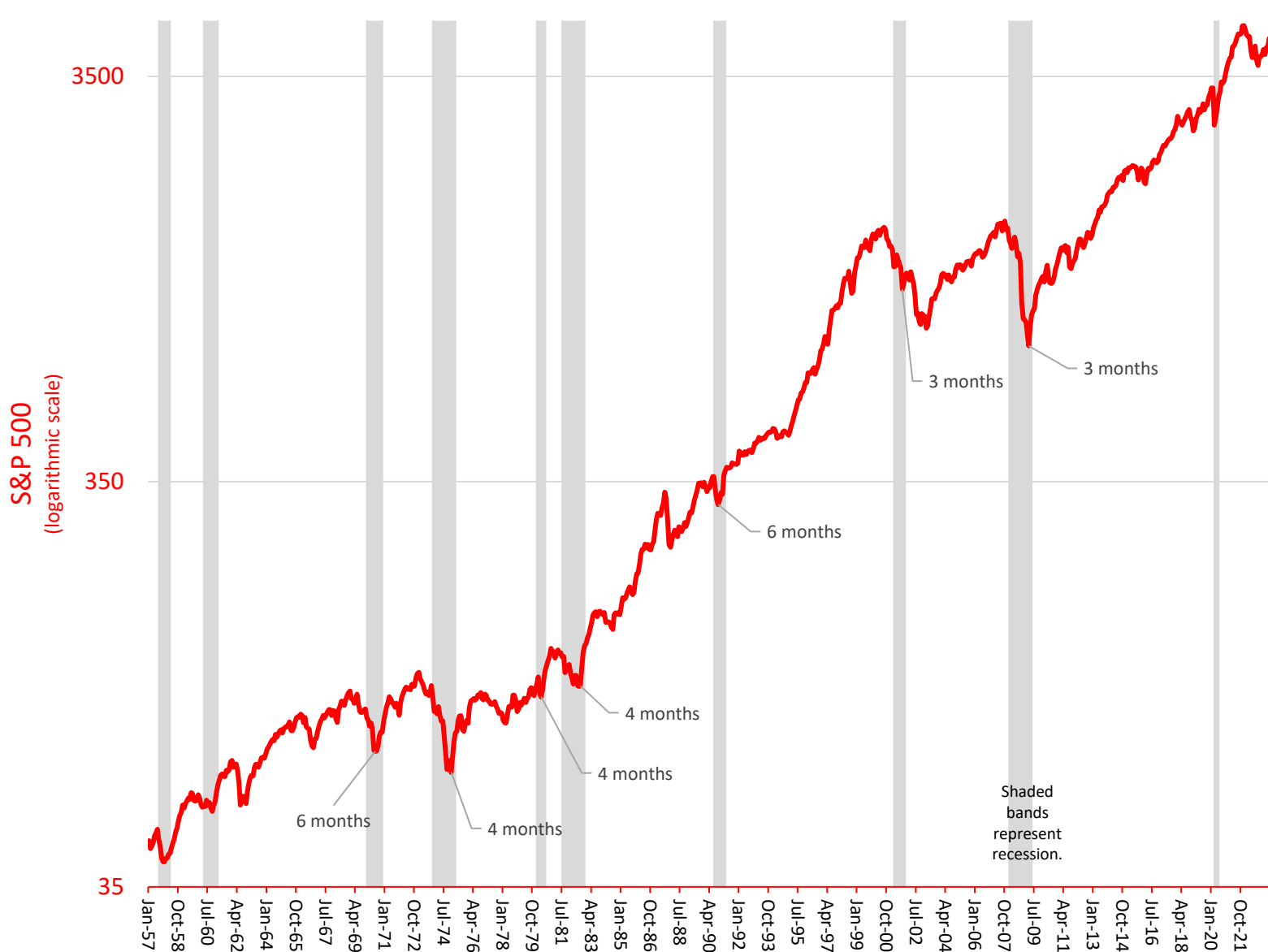
## S&P 500



Source: Standard & Poor's. Data through July 17, 2023.

# Stock market

## S&P 500 vs. recessions



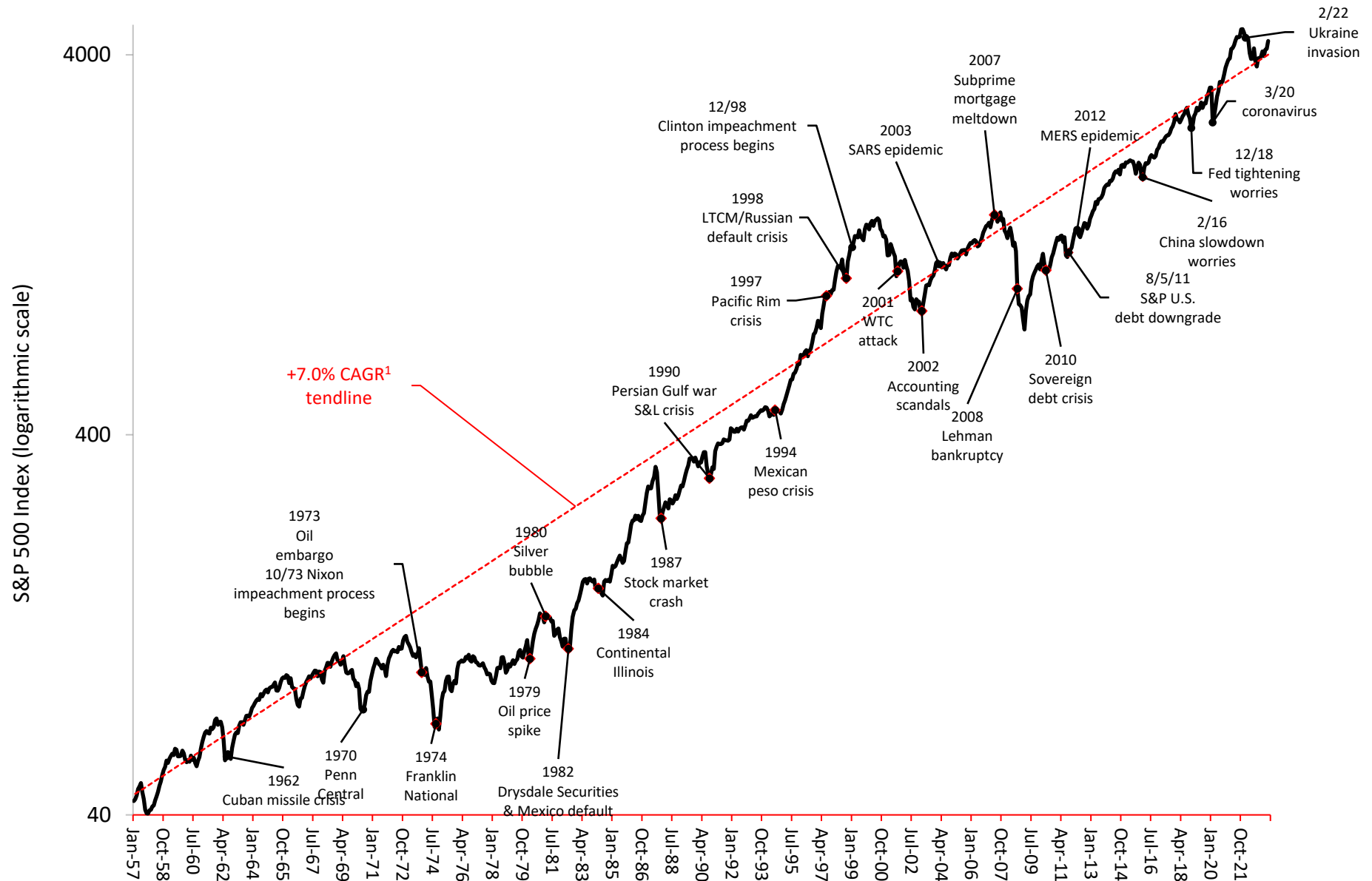
Big declines are associated with recessions.

Stocks often bottom months before recession-end.



# Stock market

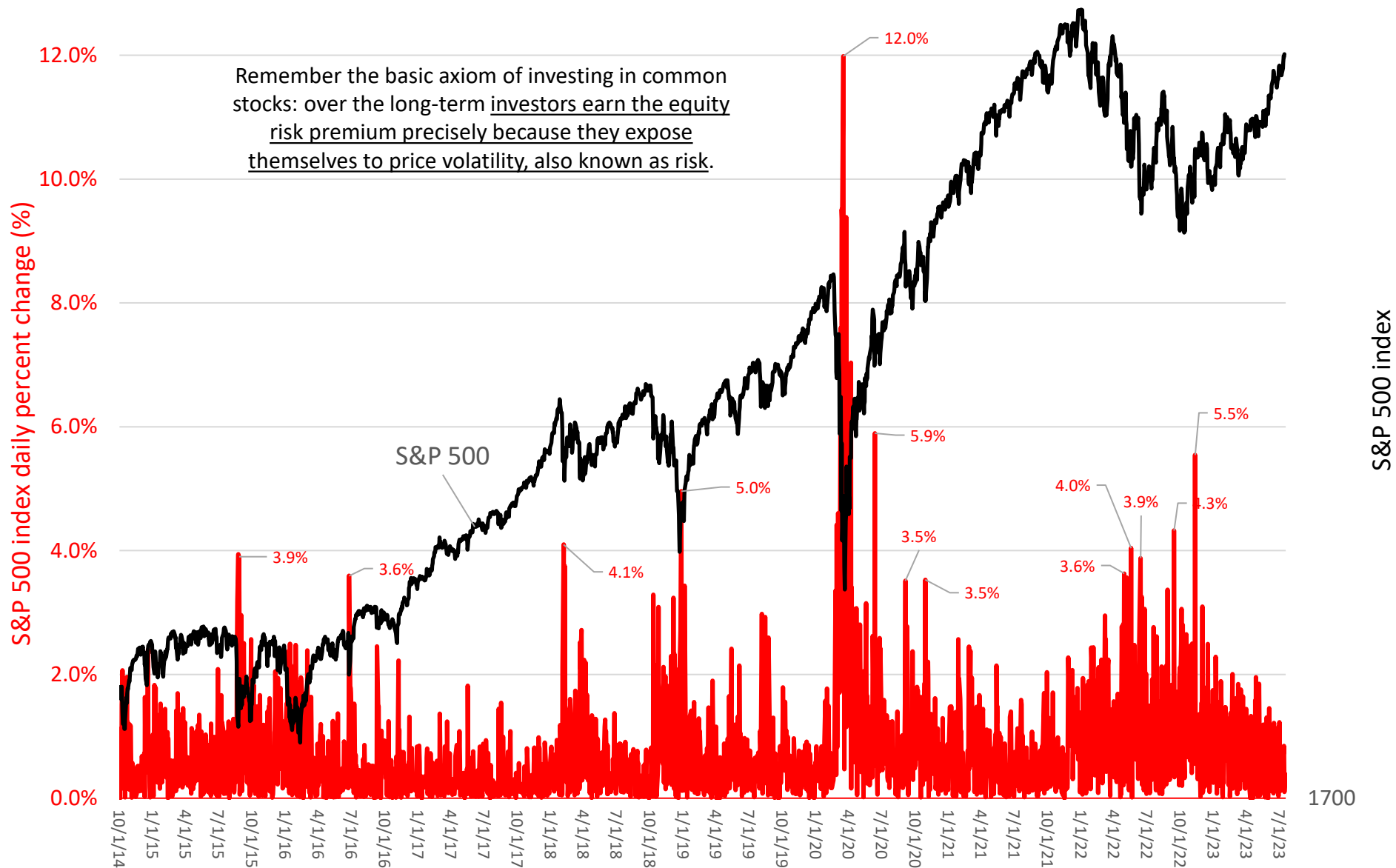
## S&P 500 and crises



Source: Standard and Poor's. Data through June 2023. <sup>1</sup> Compound annual growth rate.

# Stock market

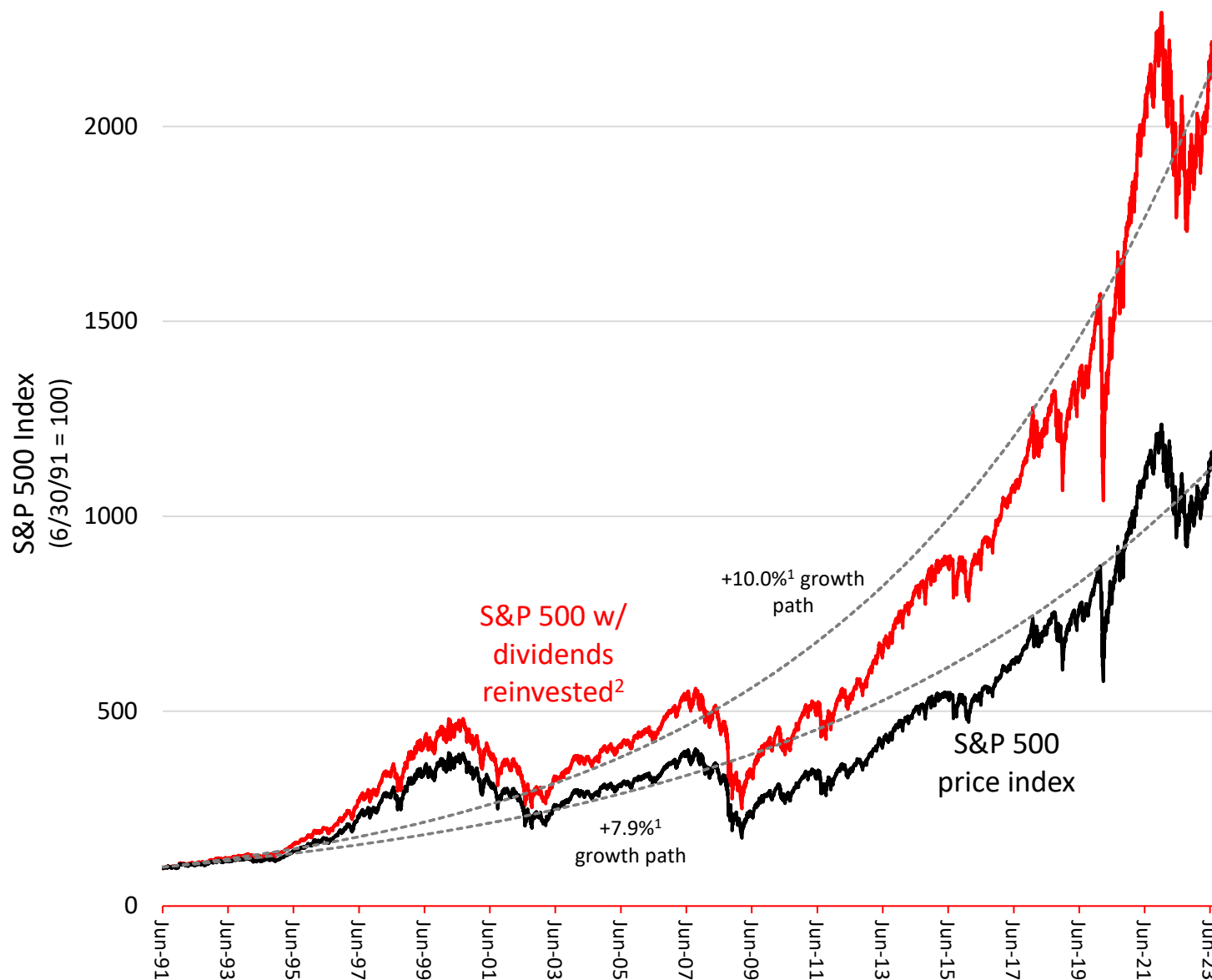
## S&P 500 volatility



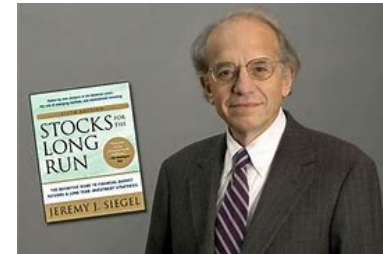
Source: Standard & Poor's, data through July 17, 2023.

## 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.<sup>3</sup>



Source: Standard and Poor's. Data through July 17, 2023.<sup>1</sup> Compound annual growth rate. <sup>2</sup> S&P 500 total return index.

<sup>3</sup> 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

On a logarithmic scale a constant rate of appreciation, say 10%, is represented by a constant interval on the y-axis, say one-eighth of an inch.

Hence, the +10% growth trajectory is a straight line rather than a hyperbolic curve (previous chart).

1000

+10.0%<sup>1</sup> growth path

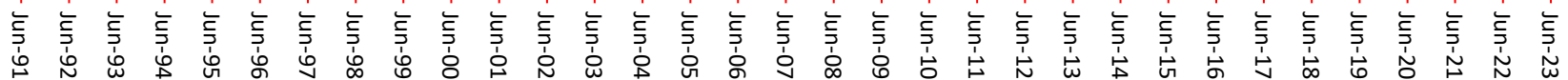
S&P 500 w/ dividends reinvested<sup>2</sup>

S&P 500 price index

+7.9%<sup>1</sup> growth path

S&P 500 Index  
(6/30/91 = 100)

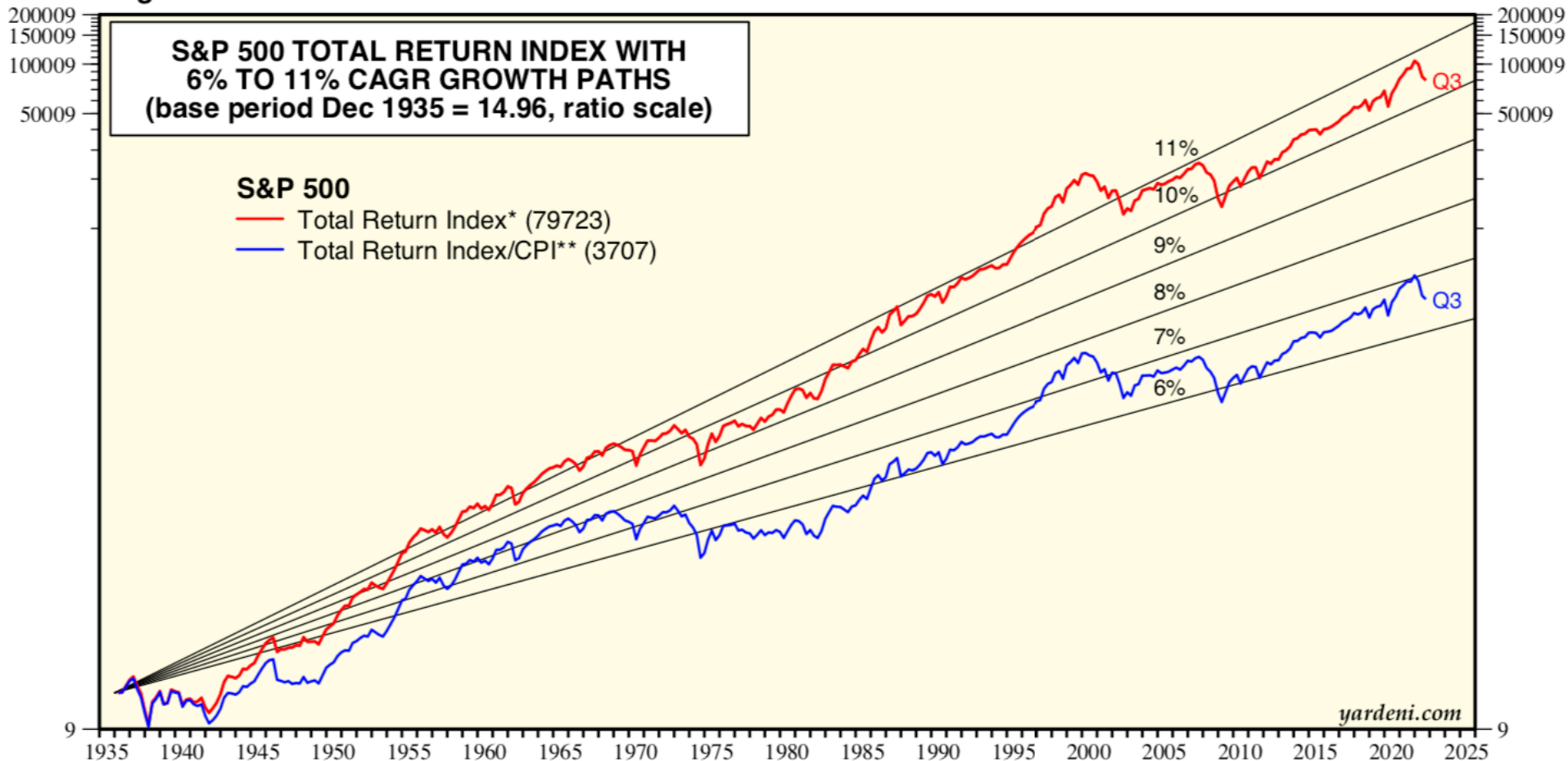
100



Source: Standard and Poor's. Data through July 17, 2023. <sup>1</sup> Compound annual growth rate. <sup>2</sup> S&P 500 total return index.

# Total return and real total return

Figure 6.



\* Includes reinvested dividends.

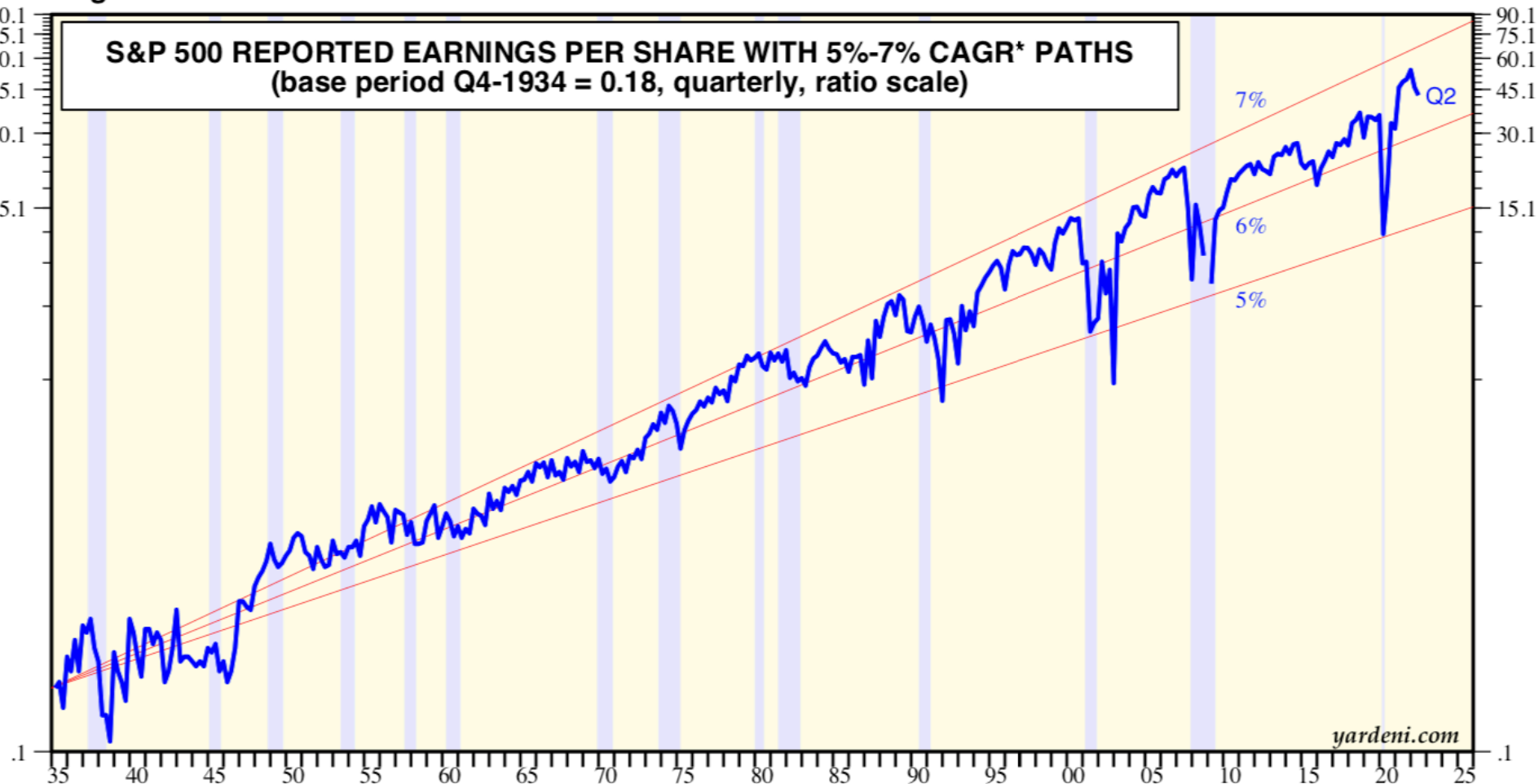
\*\* Using last month of quarter CPI. Compounded monthly using base value.

Source: Standard & Poor's.

# Stock market arithmetic

## 85 years of S&P 500 earnings growth

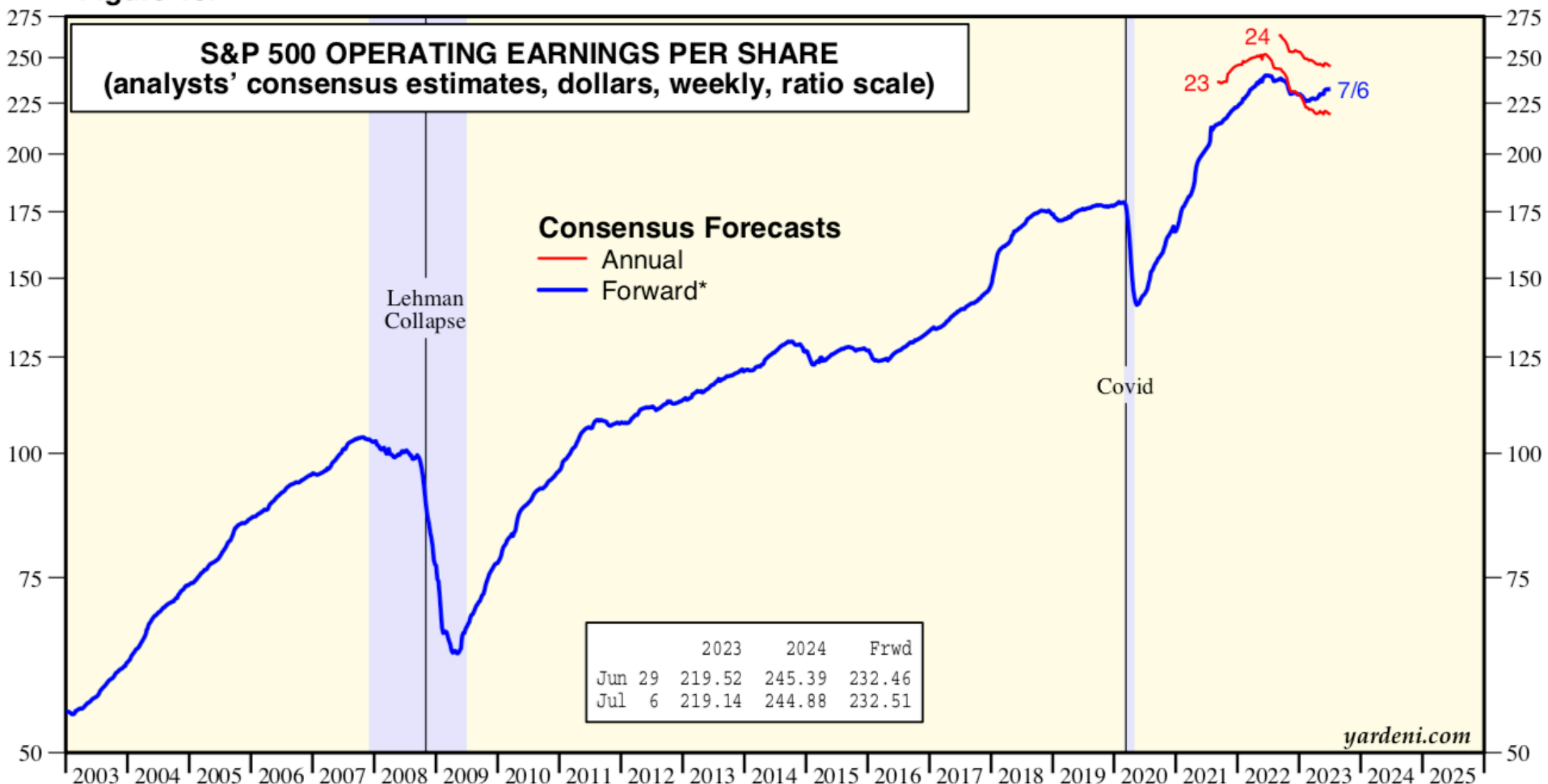
Figure 9.



\* 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.

# S&P forward earnings estimates have bottomed

Figure 16.



\* Time-weighted average of analysts' consensus estimates for S&P 500 operating earnings for current year and next year.

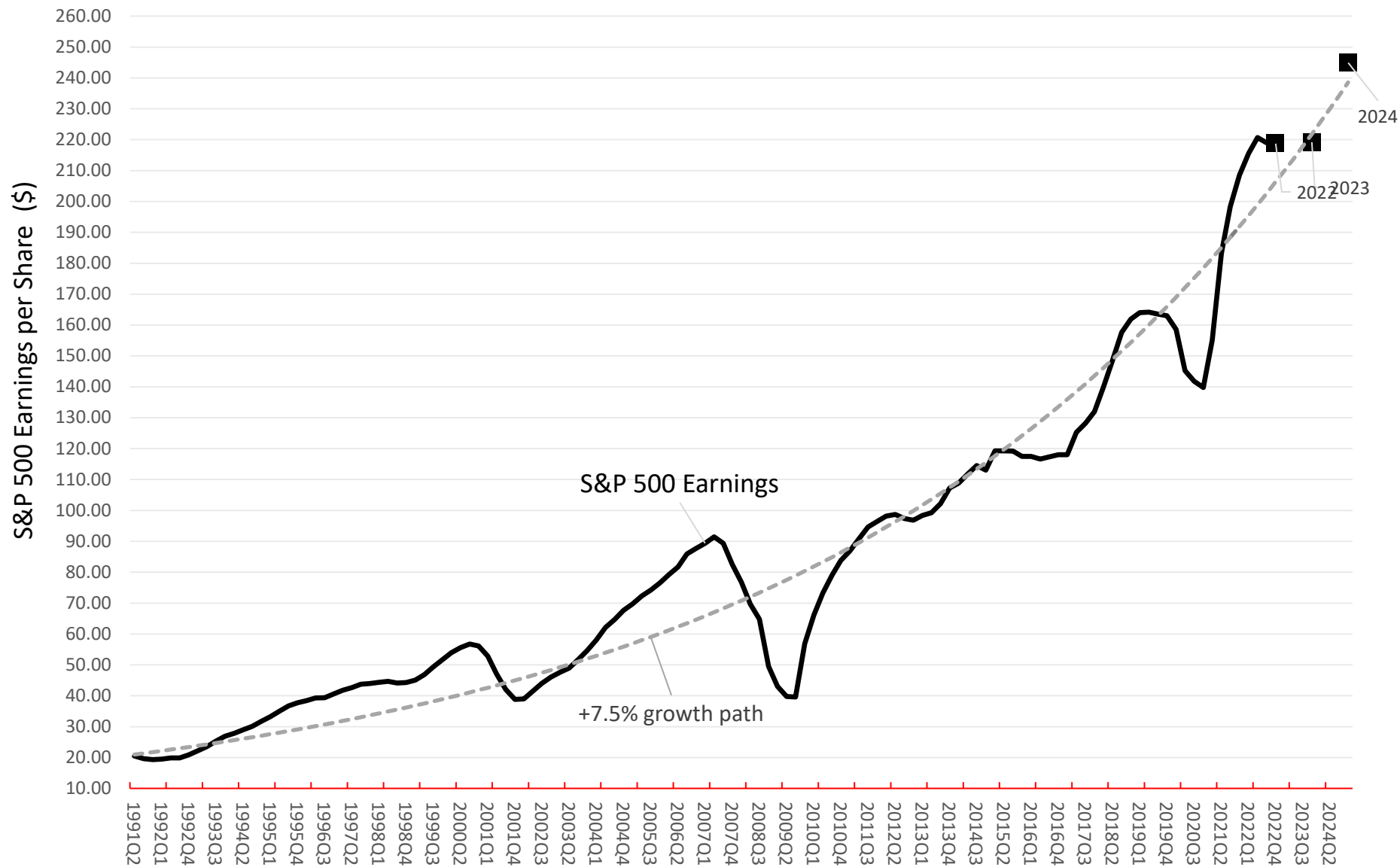
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Note: Lehman collapsed 9/15/2008. COVID-19 = WHO declares global pandemic on 3/11/2020.

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

# Earnings

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



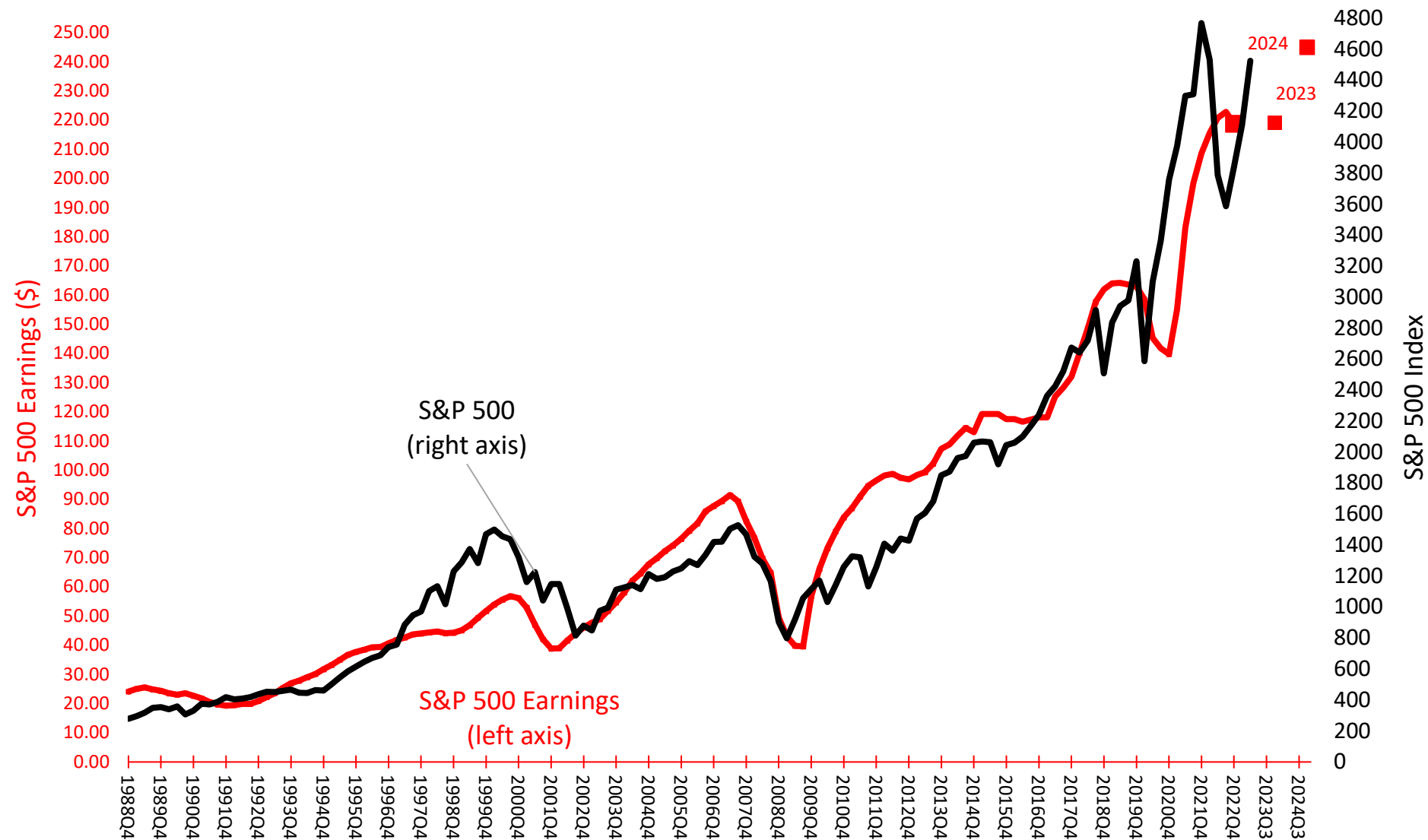
2023 (estimated) and 2024 (estimated) bottom-up S&P 500 operating earnings per share as of July 11, 2023: for 2023(e), \$219.14; for 2024(e), \$244.88.

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.



# Valuation

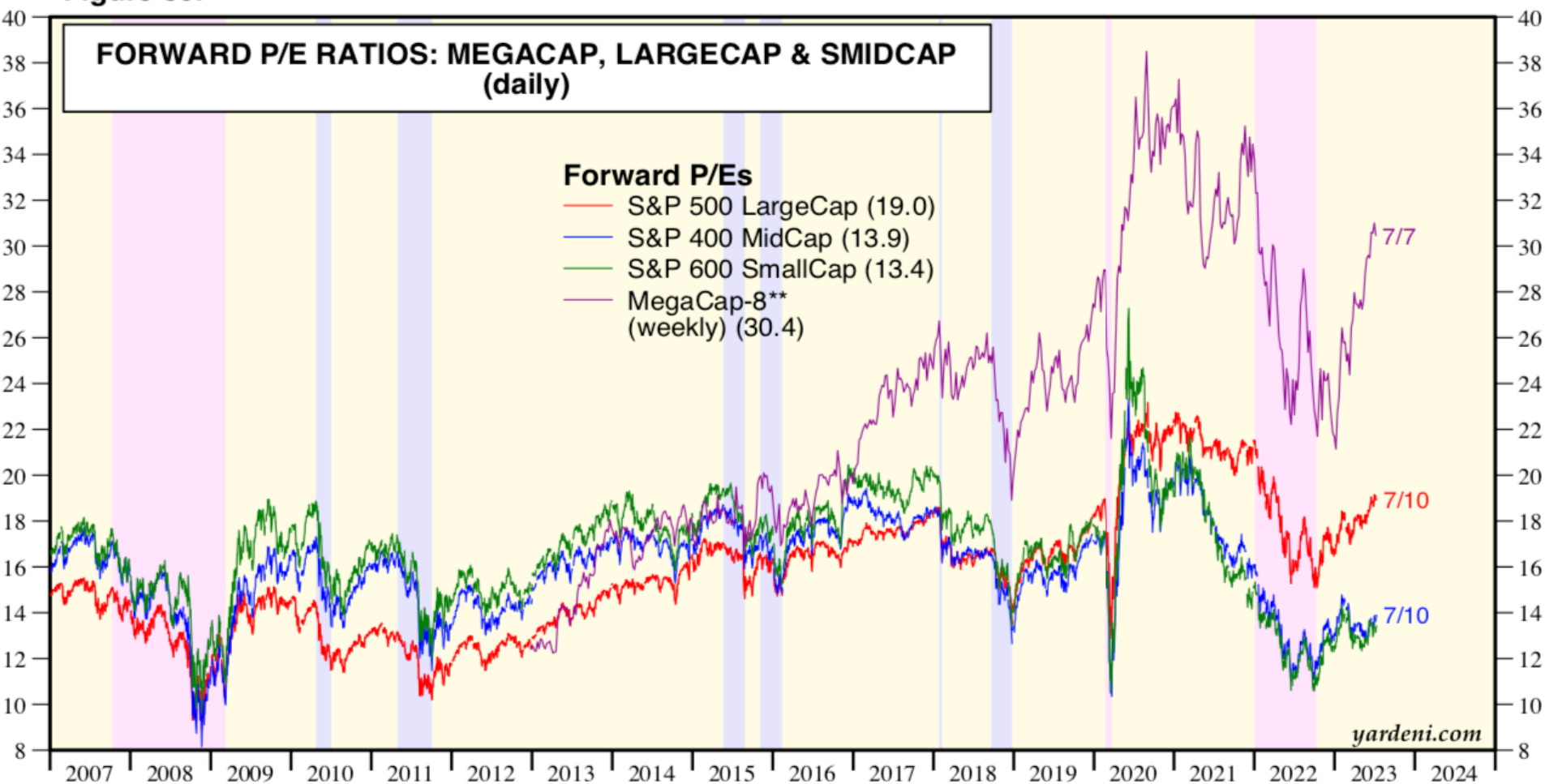
## S&P 500 vs. actual and I/B/E/S estimated earnings



2023 (estimated) and 2024 (estimated) bottom-up S&P 500 operating earnings per share as of July 11, 2023: for 2023(e), \$219.14; for 2024(e), \$244.88. 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 July 17, 2023.

## S&amp;P 500 index forward P/E ratio

Figure 30.



\* Daily stock price index divided by 52-week forward consensus expected operating earnings per share.

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

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.

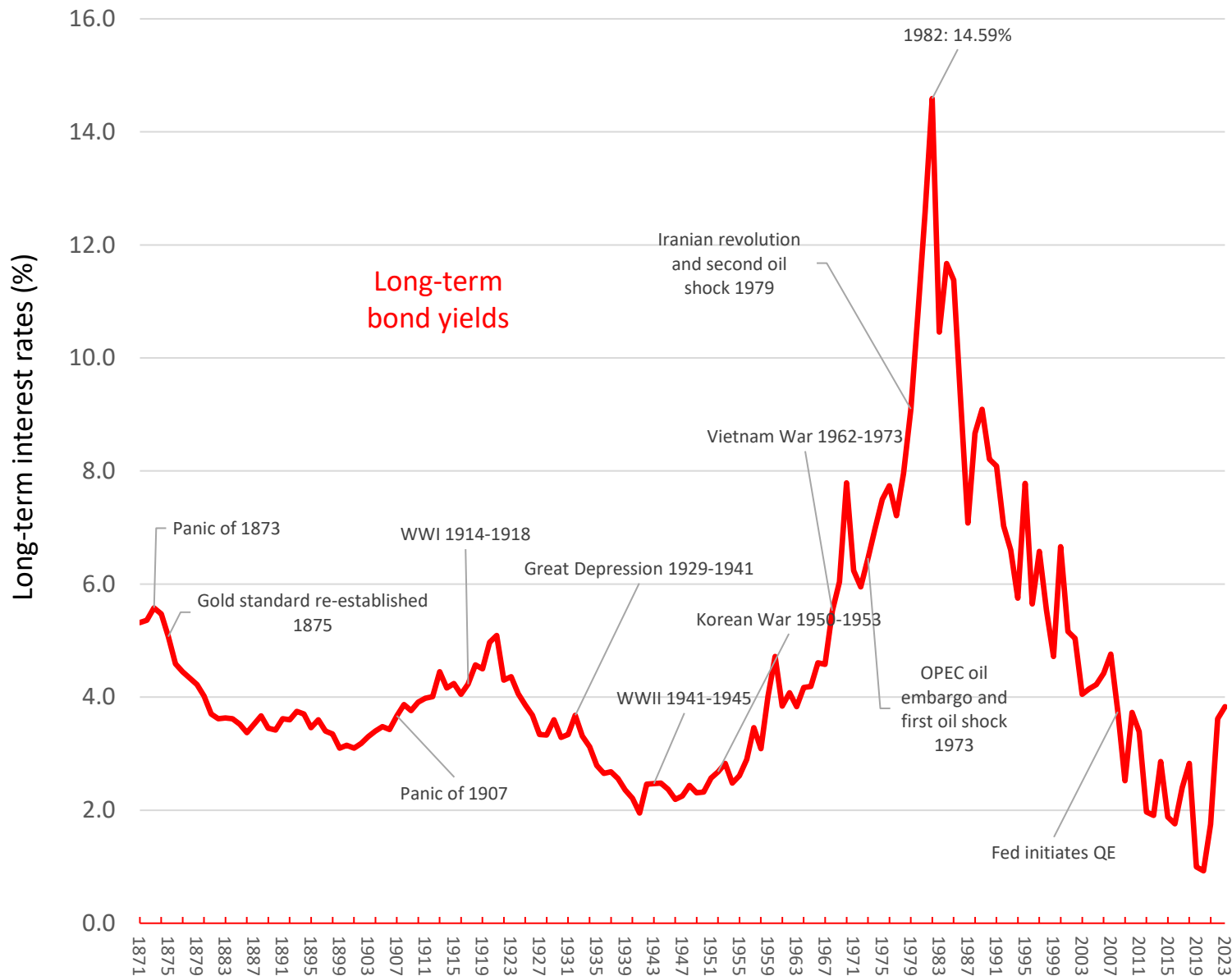
Source: Yardeni Research, Inc., with permission, July 11, 2023.

# Bond Yields

- Normal yields by historic comparison

# Bond yields

## U.S. Treasury bond yields



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

# Federal Reserve

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

## 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.

# Federal Reserve

## Central tendency forecast

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

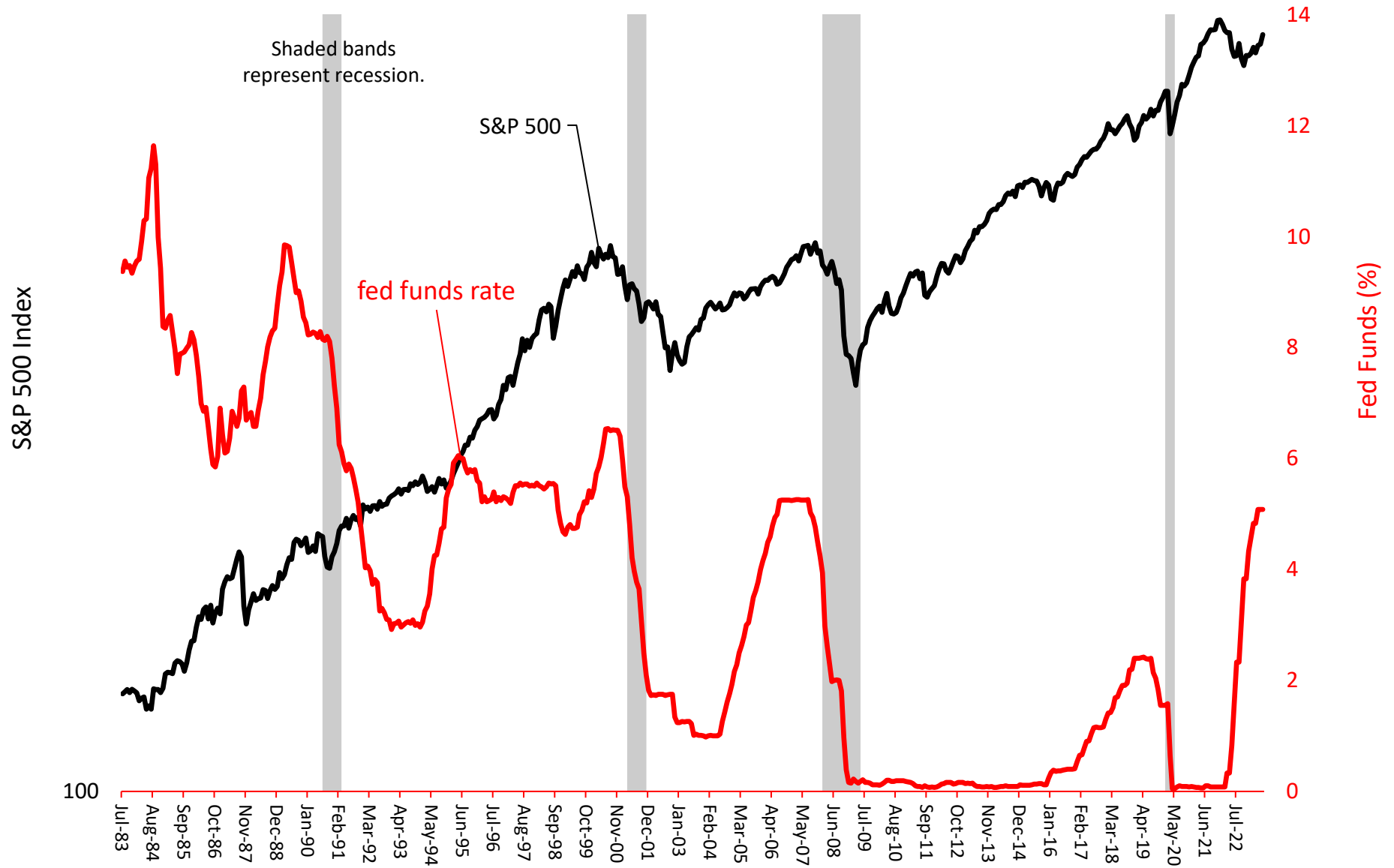
**Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, June 2023**

Percent

Variable	Median <sup>1</sup>				Central Tendency <sup>2</sup>				Range <sup>3</sup>			
	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 <sup>4</sup>	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	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

# Stock market

## S&P 500 vs. fed funds rate

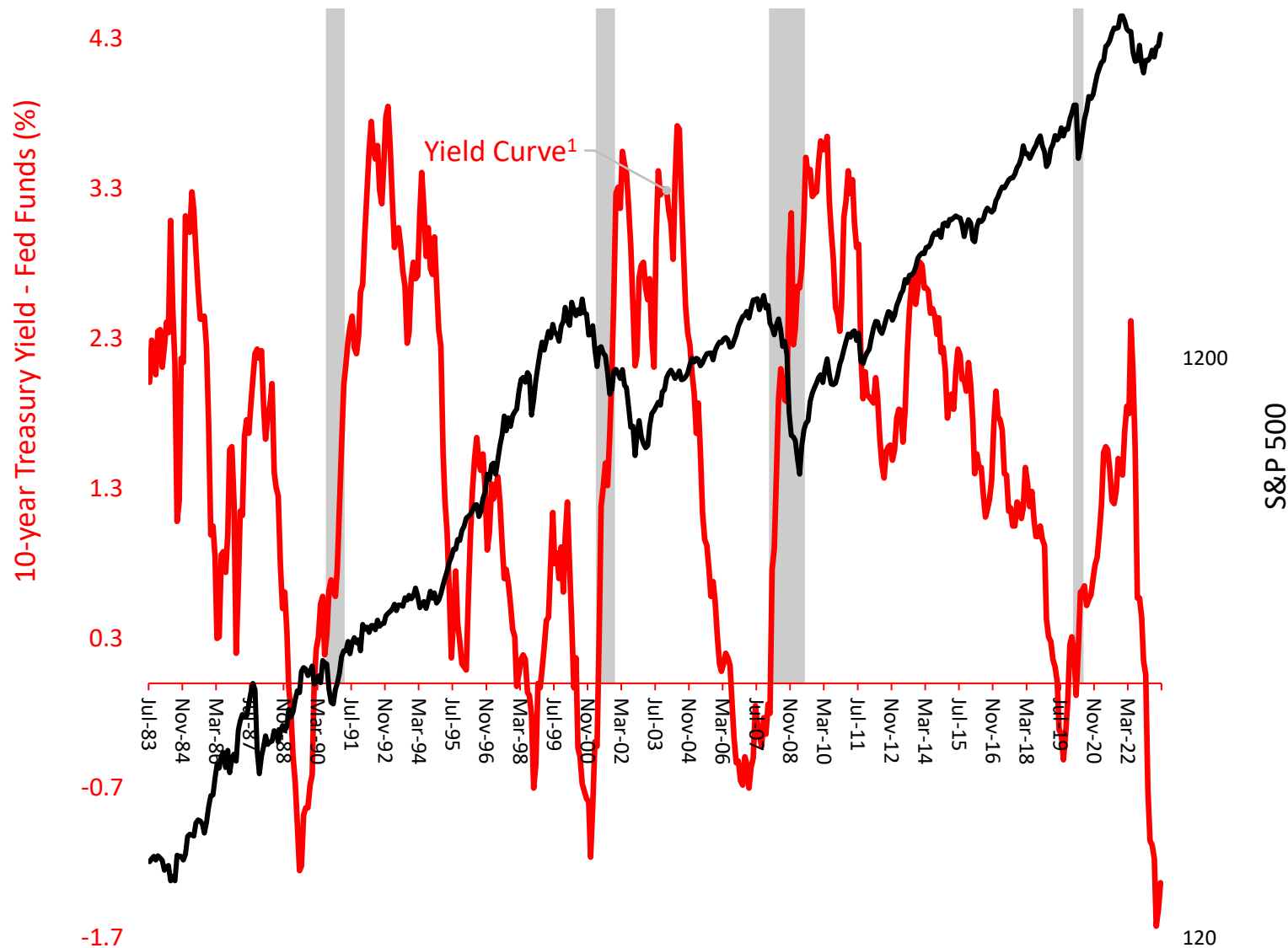


Sources: Federal Reserve, Standard & Poor's. Data through June 2023.



# 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 June 2023.

<sup>1</sup>The interest rate on the 10-year Treasury bond (long term) minus the fed funds rate (short term).

# 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**

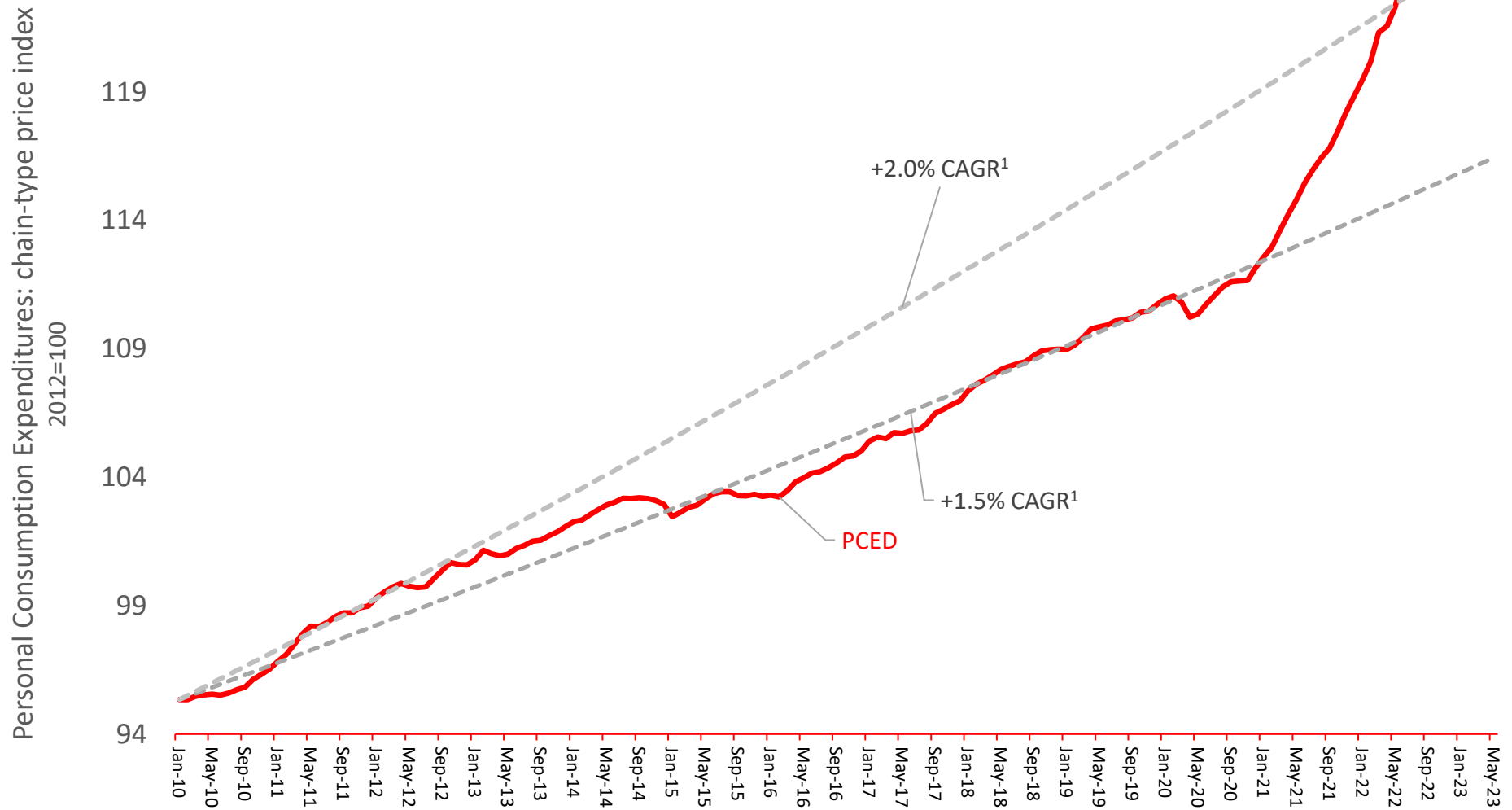
Percent

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	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
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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

# Inflation

- Year-over-year headline PCED +3.8%, +4.6% core
- M2 driving inflation
- Inflation expectations (TIPS spread) falling

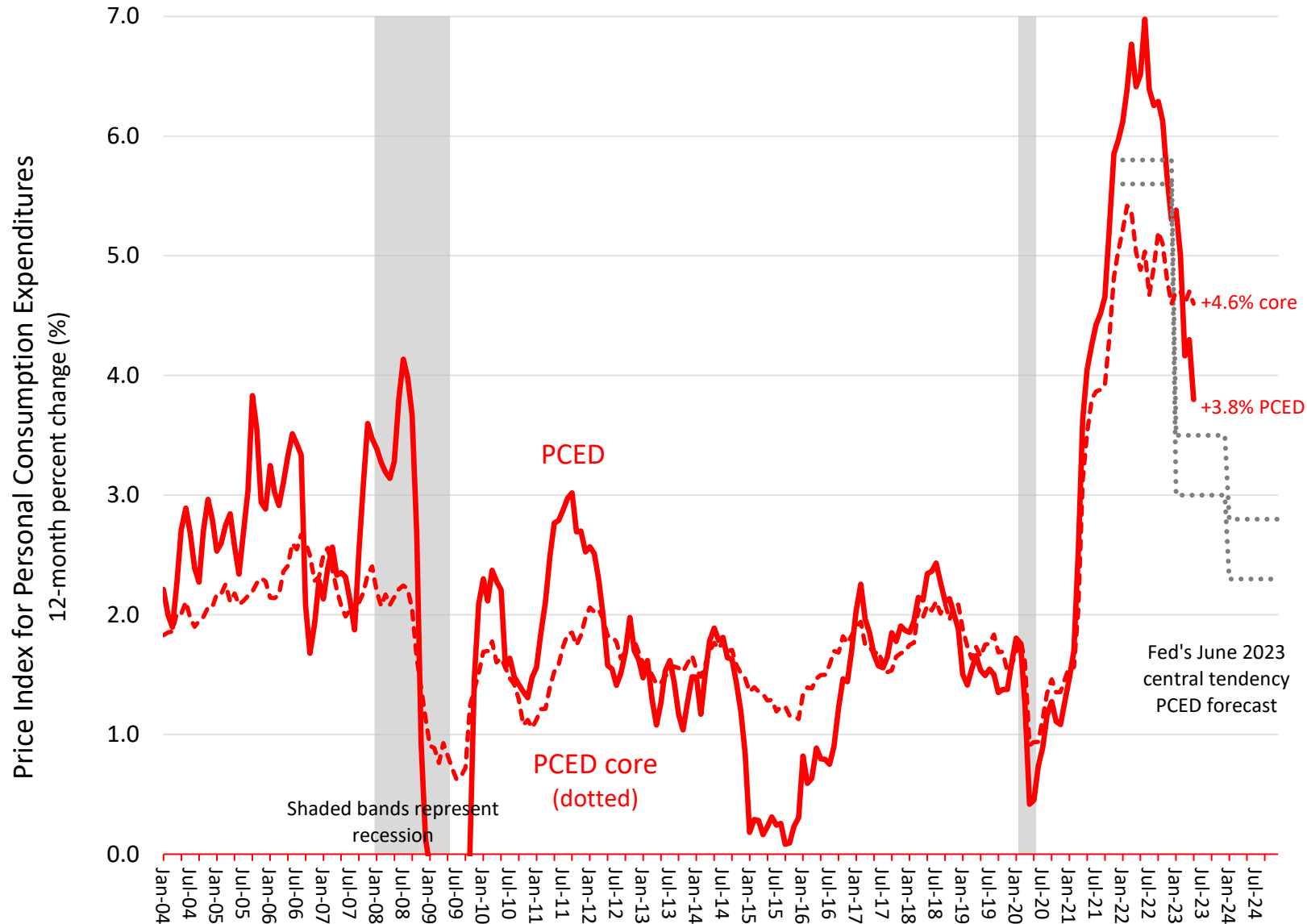
# Inflation PCED – headline



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

# Inflation

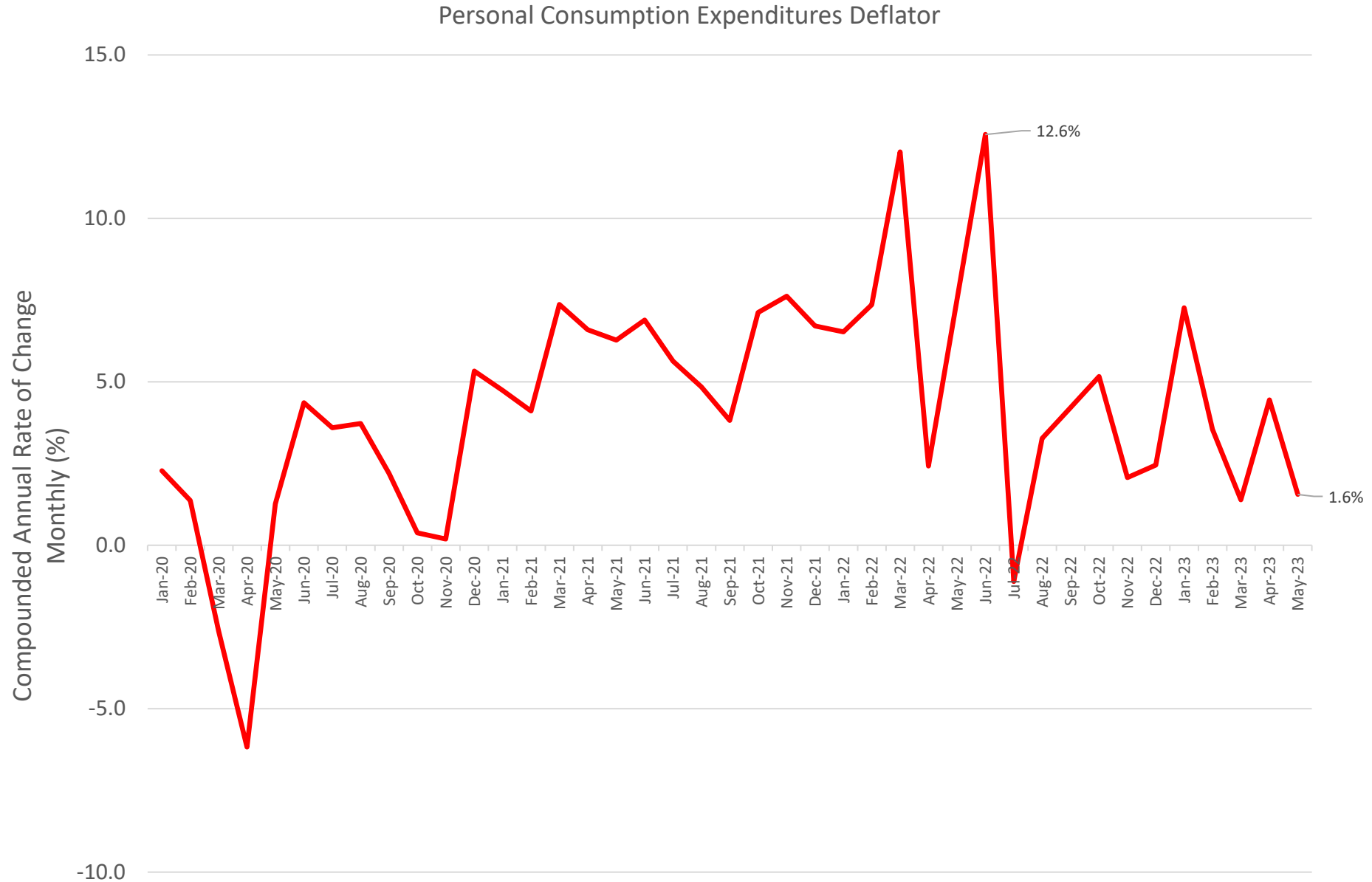
## PCED – headline and core



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

Inflation

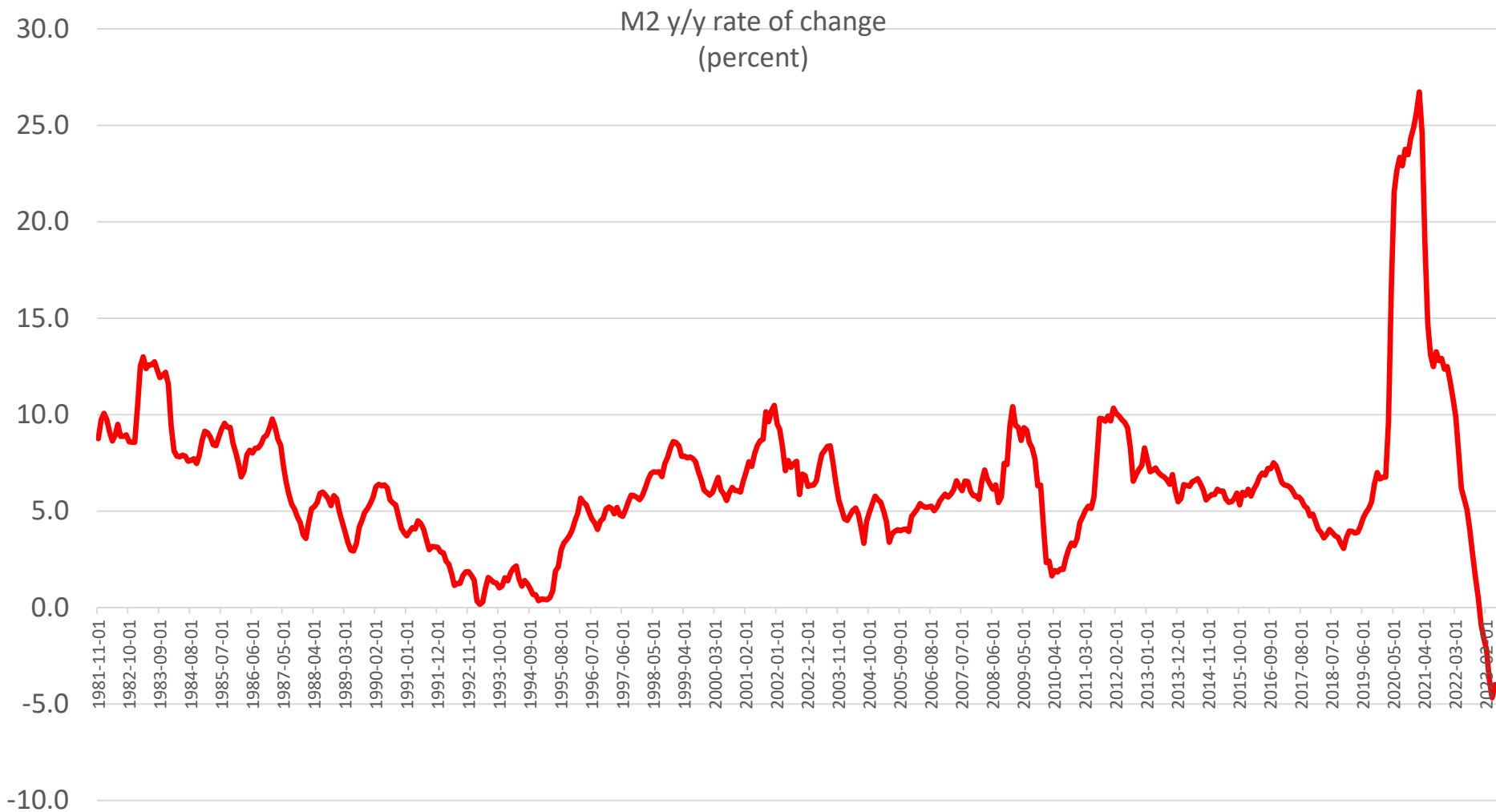
# PCED – monthly rate of change annualized



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

# Federal Reserve policy

## The money supply – y/y rate of change



## 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.

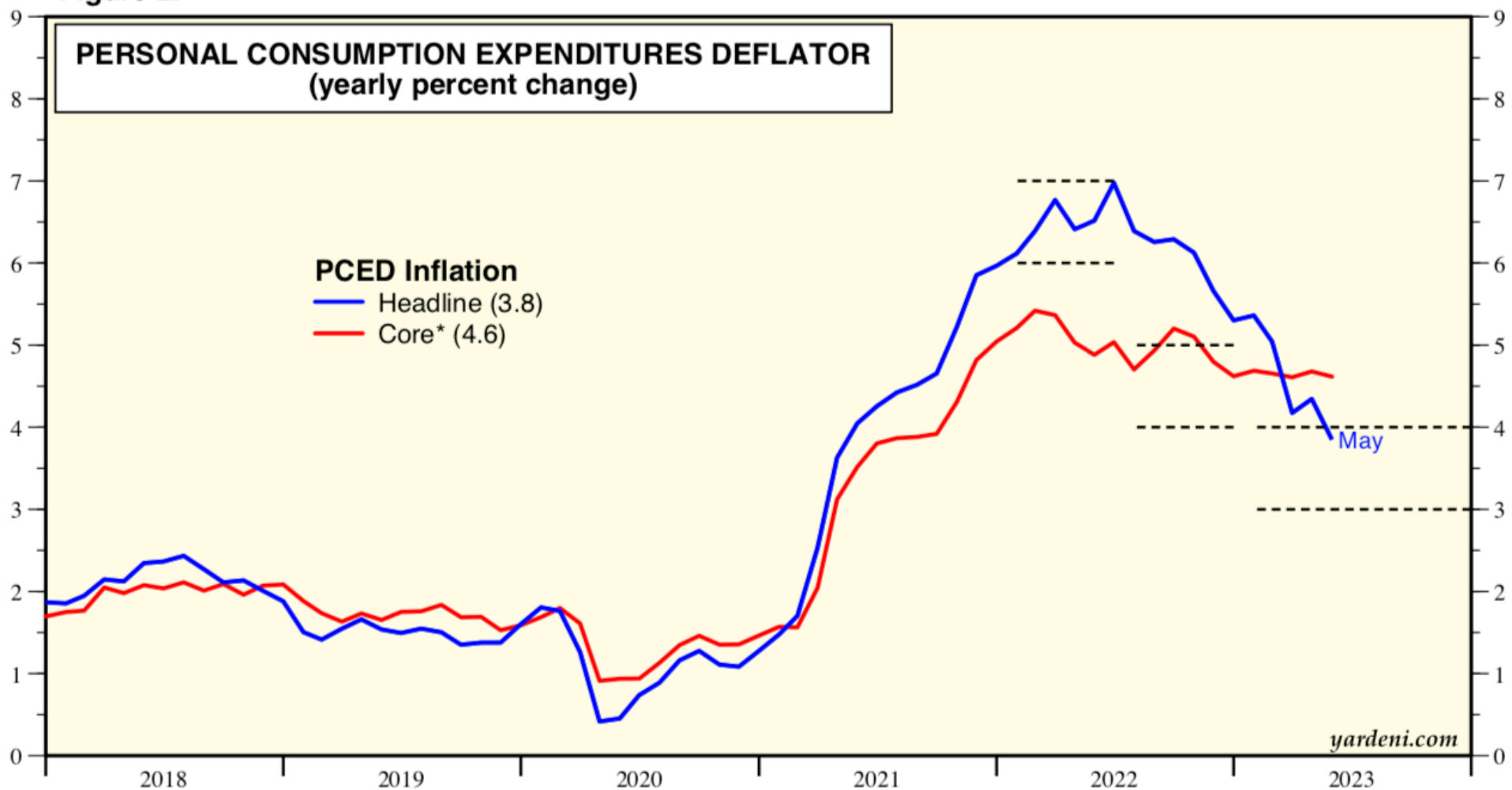


## BARRON'S

# 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.

Figure 2.



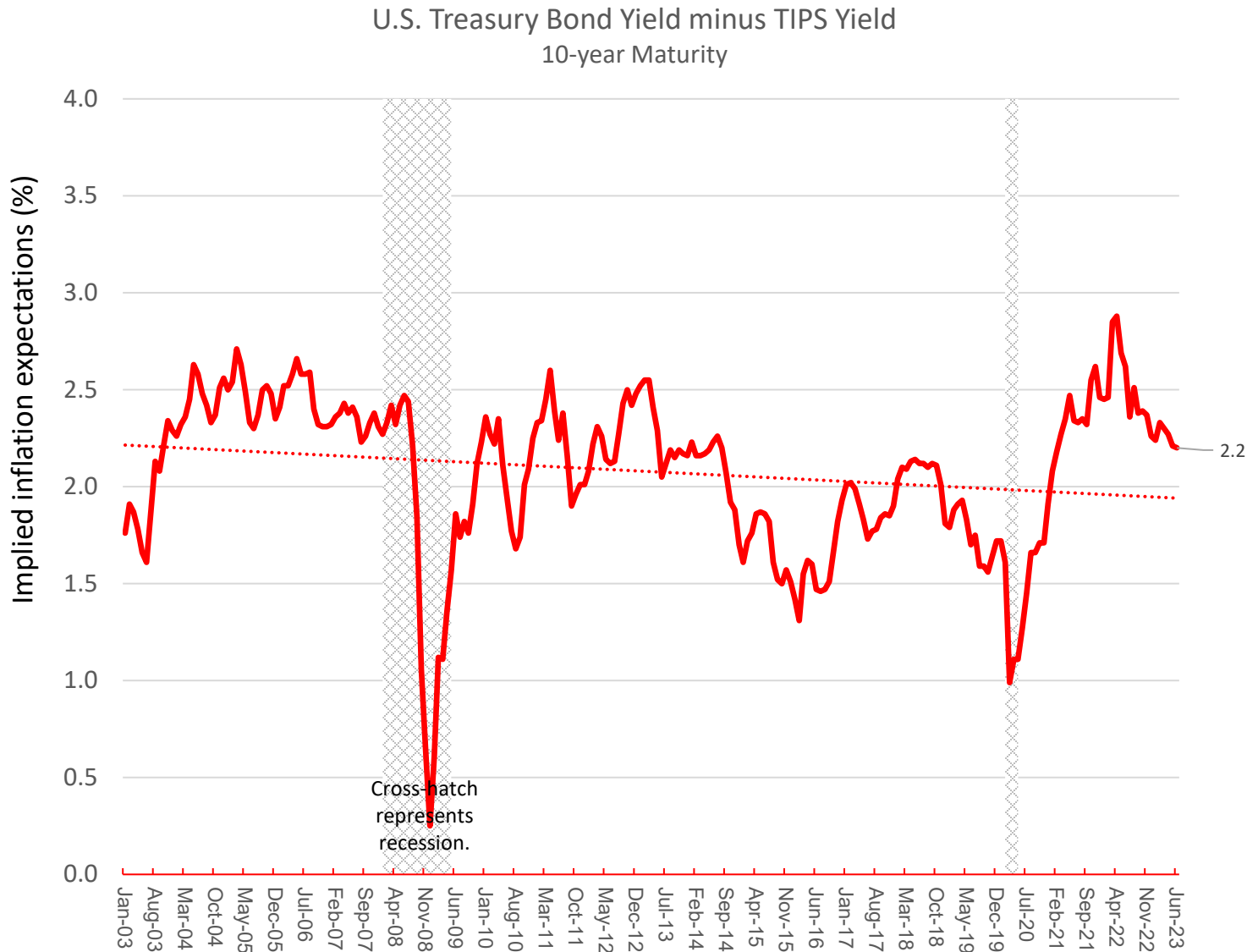
\* Excluding food & energy.

Note: Dashed ranges are YRI forecasts for headline PCED inflation rate.

Source: Bureau of Economic Analysis.

# Inflation

## 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.

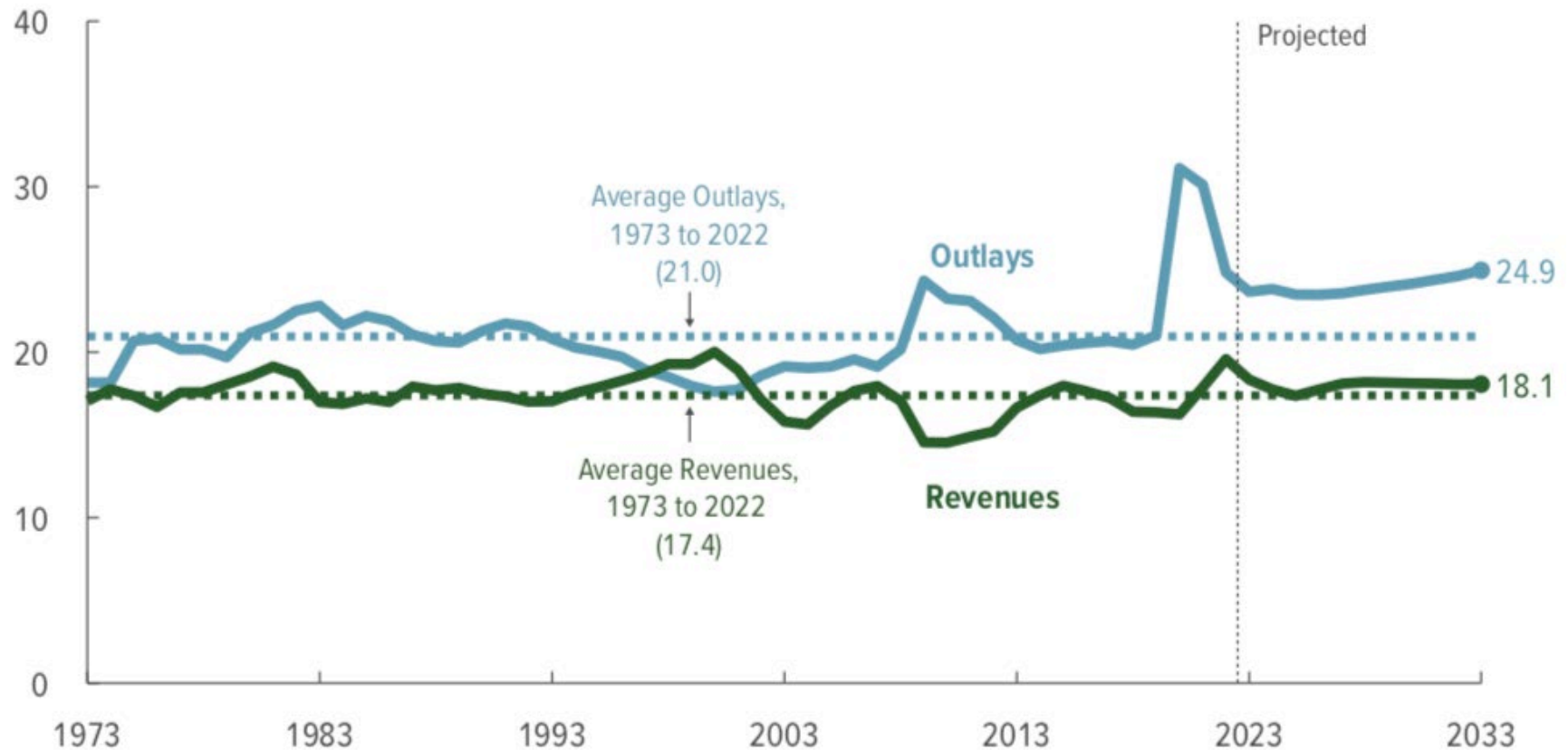
# Federal deficit and debt

## Federal revenues and outlays through 2033

Figure 1-3.

### Total Outlays and Revenues

Percentage of GDP



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

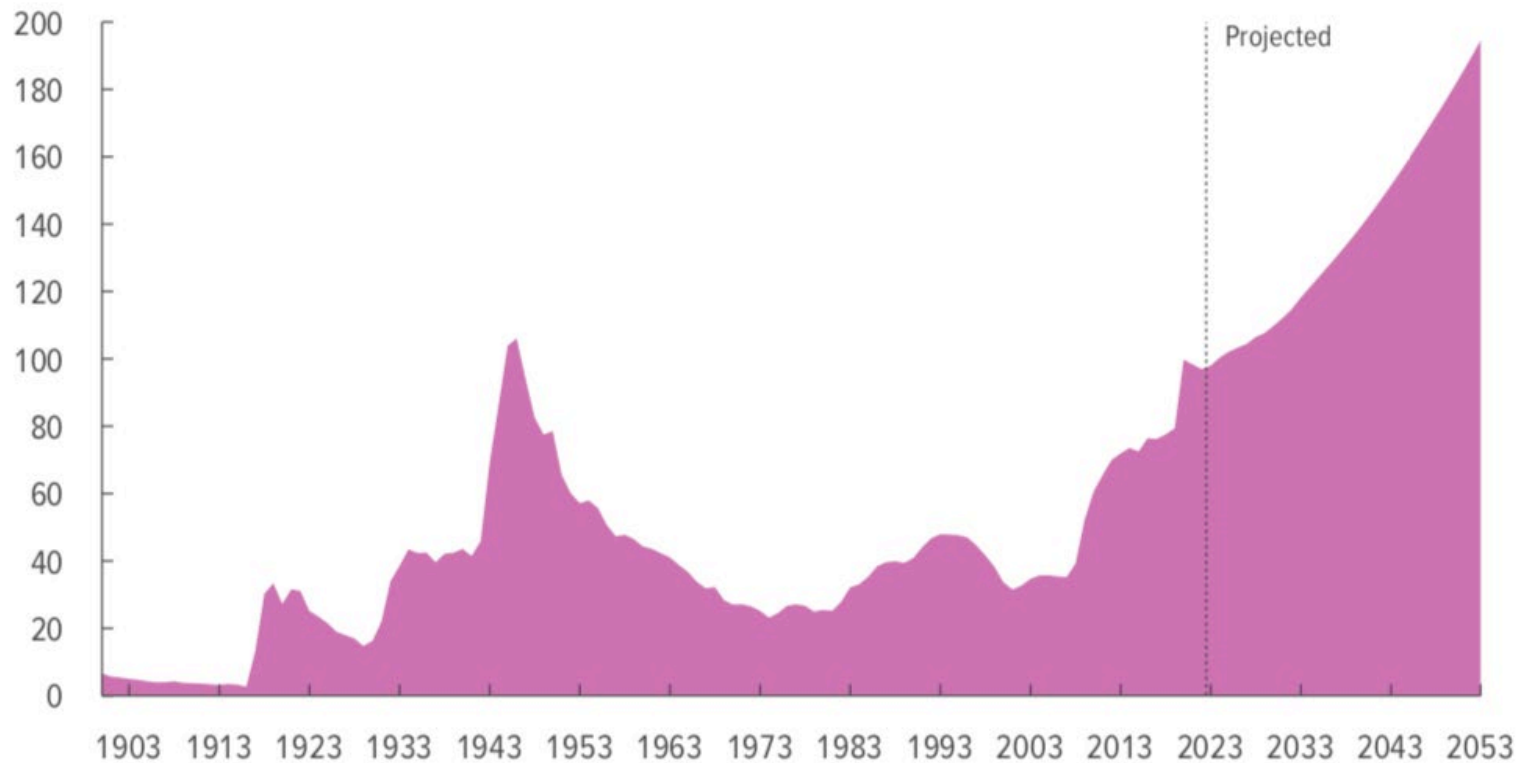
# Federal deficit and debt

## Federal debt % of GDP though 2053

Figure 1-2.

### Federal Debt Held by the Public, 1900 to 2053

Percentage of GDP



Debt/GDP grows significantly over 30 years.

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

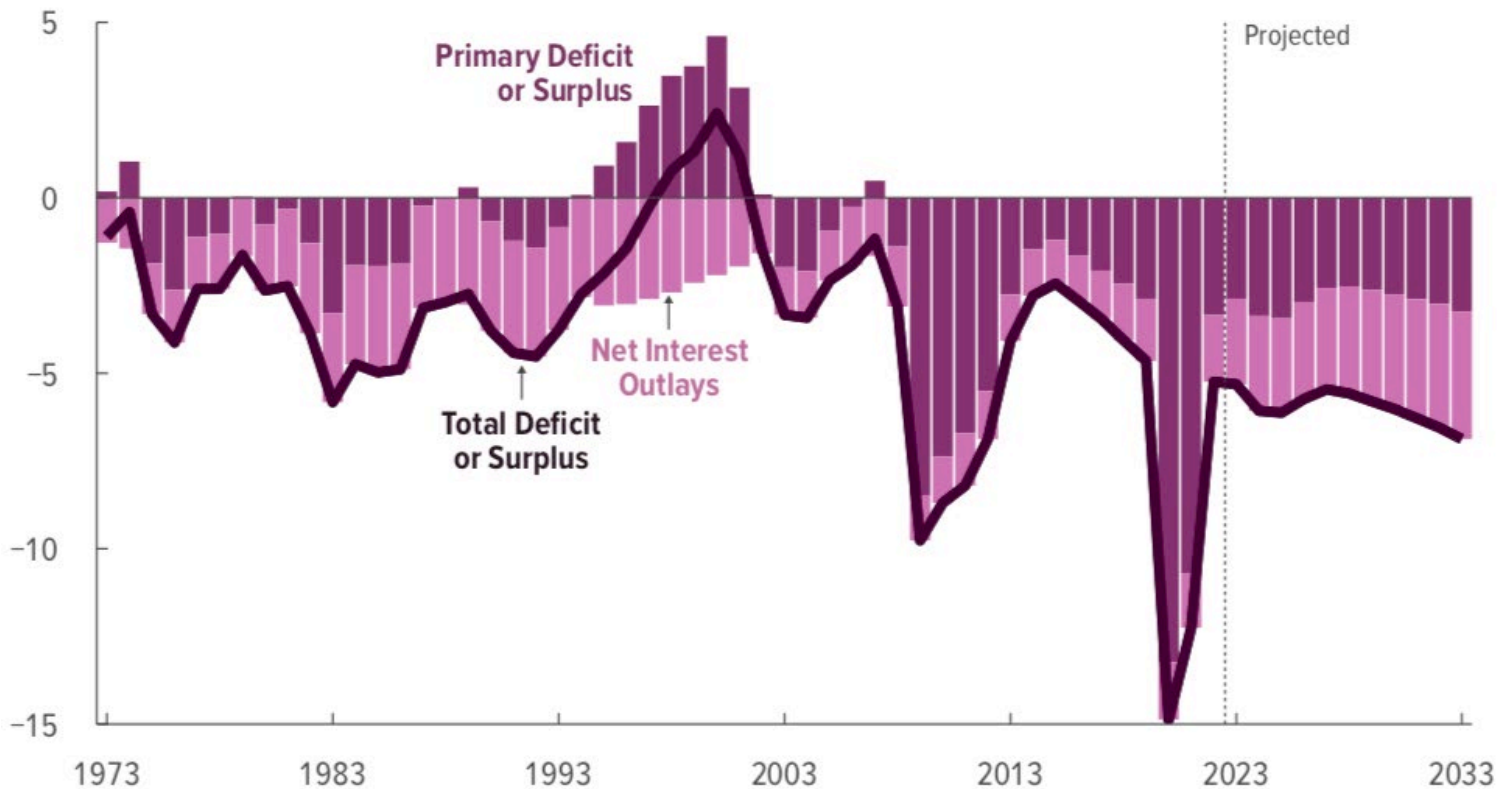
# Federal deficit and debt

## Federal deficits % of GDP though 2033

Figure 1-1.

### Total Deficits, Primary Deficits, and Net Interest Outlays

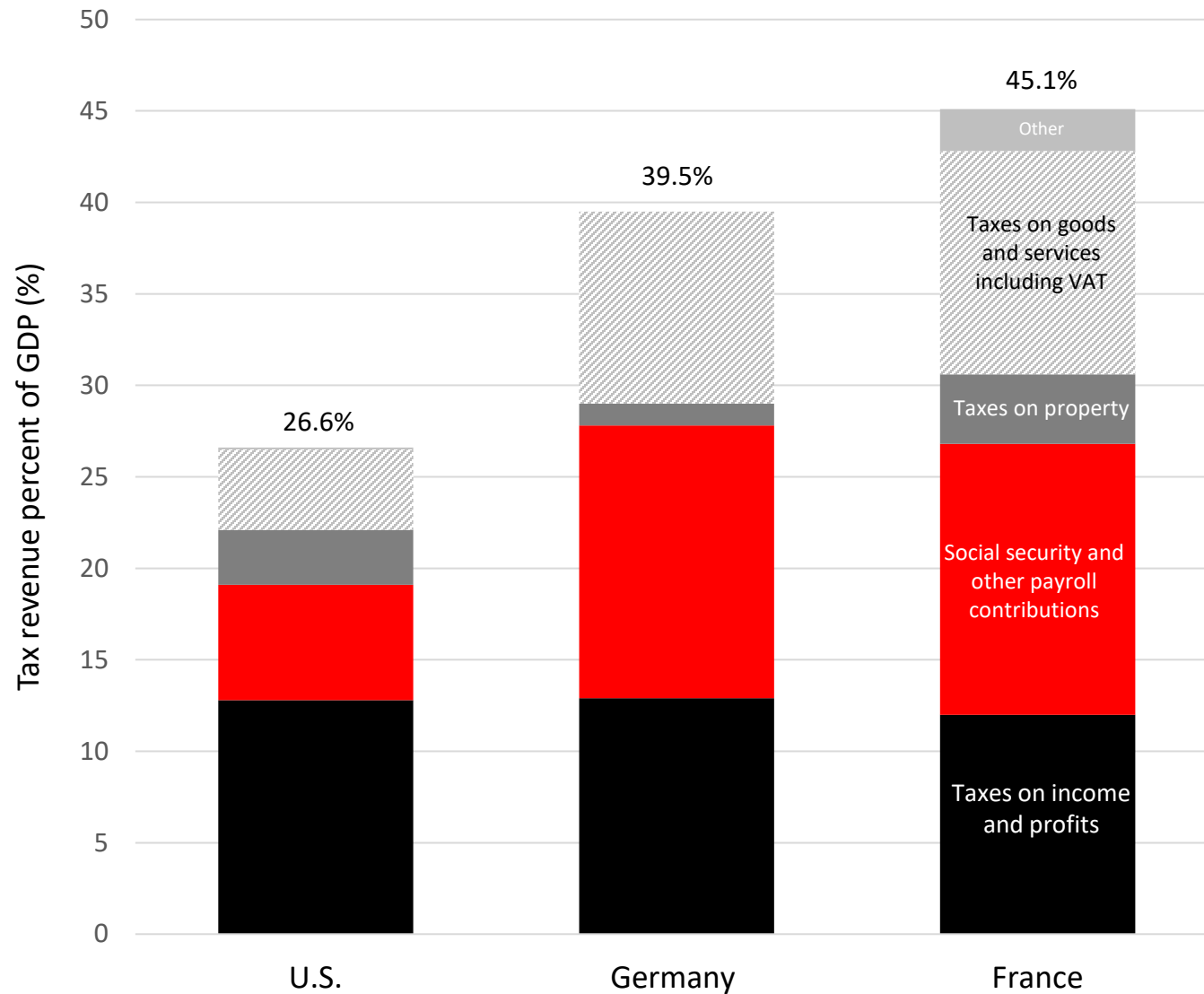
Percentage of GDP



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.

# 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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