HHM

WEALTH ADVISORS

TRUST MATTERS.

September 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.

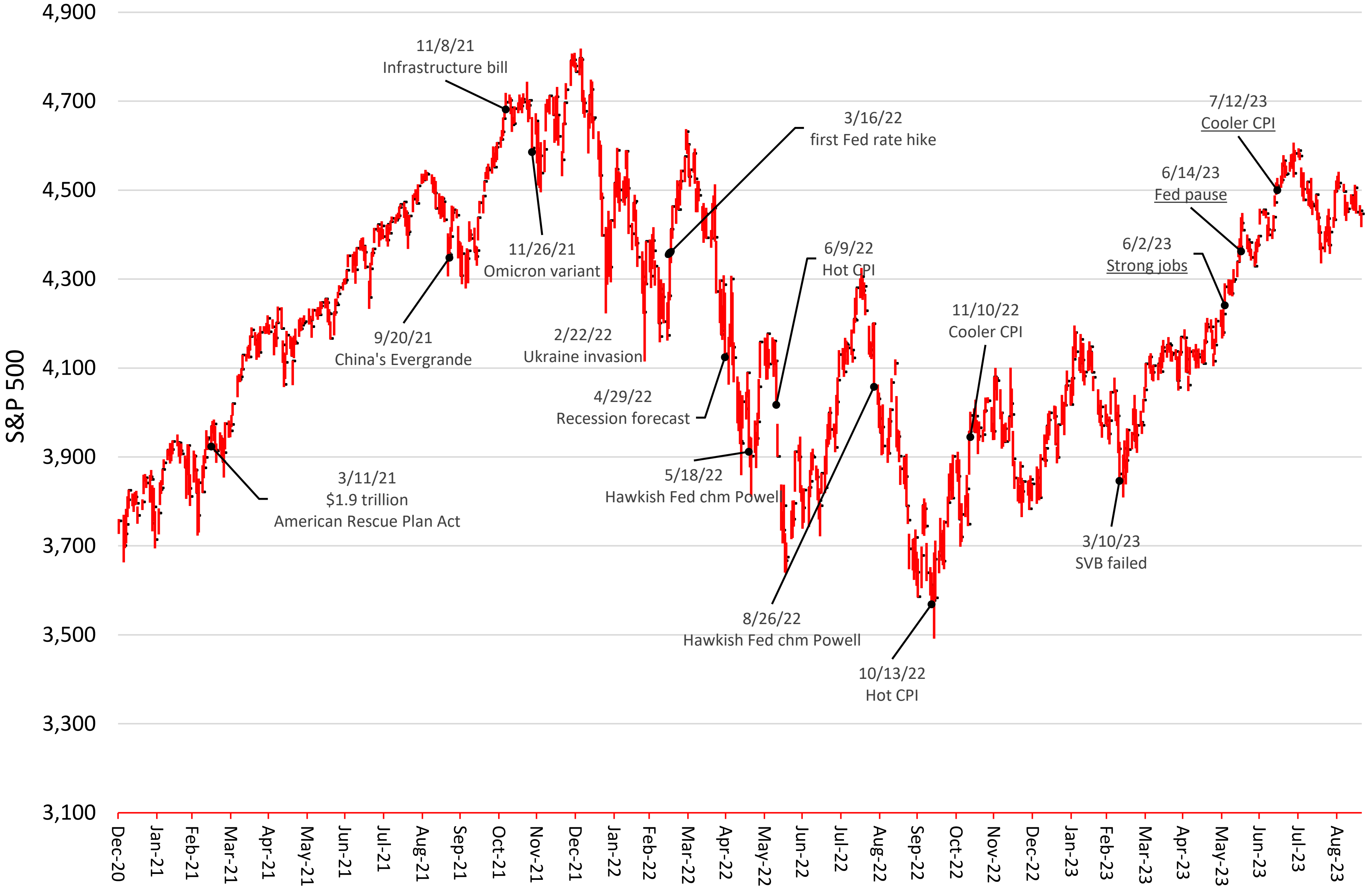
Investing in small companies involves greater risks not associated with investing in more established companies, such as business risk, significant stock price fluctuations and illiquidity.

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.

Stock market
S&P 500



Source: Standard & Poor's. Data through September 19, 2023.

Goldilocks

How to explain the stock market?

- Cooler inflation
- No recession
- Rising earnings

Soft landing – sentiment has shifted

THE WALL STREET JOURNAL.

A Soft Landing In Sight For U.S. Economy

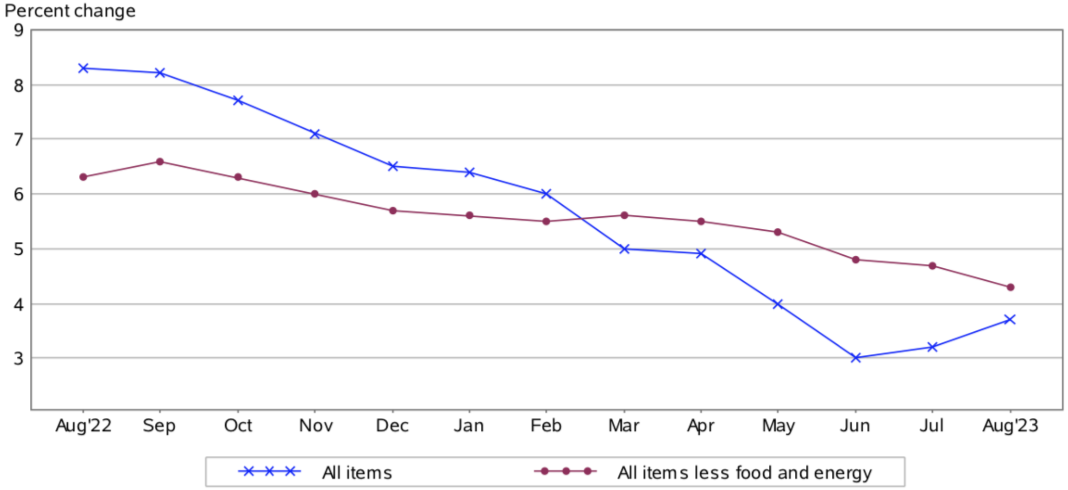
Economic output accelerated in recent months on the back of solid consumer spending. Inflation cooled to 3% in June, according to the Fed's preferred gauge. And wage growth, while still elevated, slowed, the Labor Department said Friday.

"We've seen so far the beginnings of disinflation without any real costs in the labor market. And that's a really good thing," Fed Chairman Jerome Powell said Wednesday after the central bank decided to raise interest rates to a 22-year high.

Source: *The Wall Street Journal.* "A Soft Landing In Sight For U.S. Economy" by Ruth Simon and Sarah Chaney Cambon, July 29-30, 2023.

CPI – headline and core

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



Up +4.3% y/y in August.

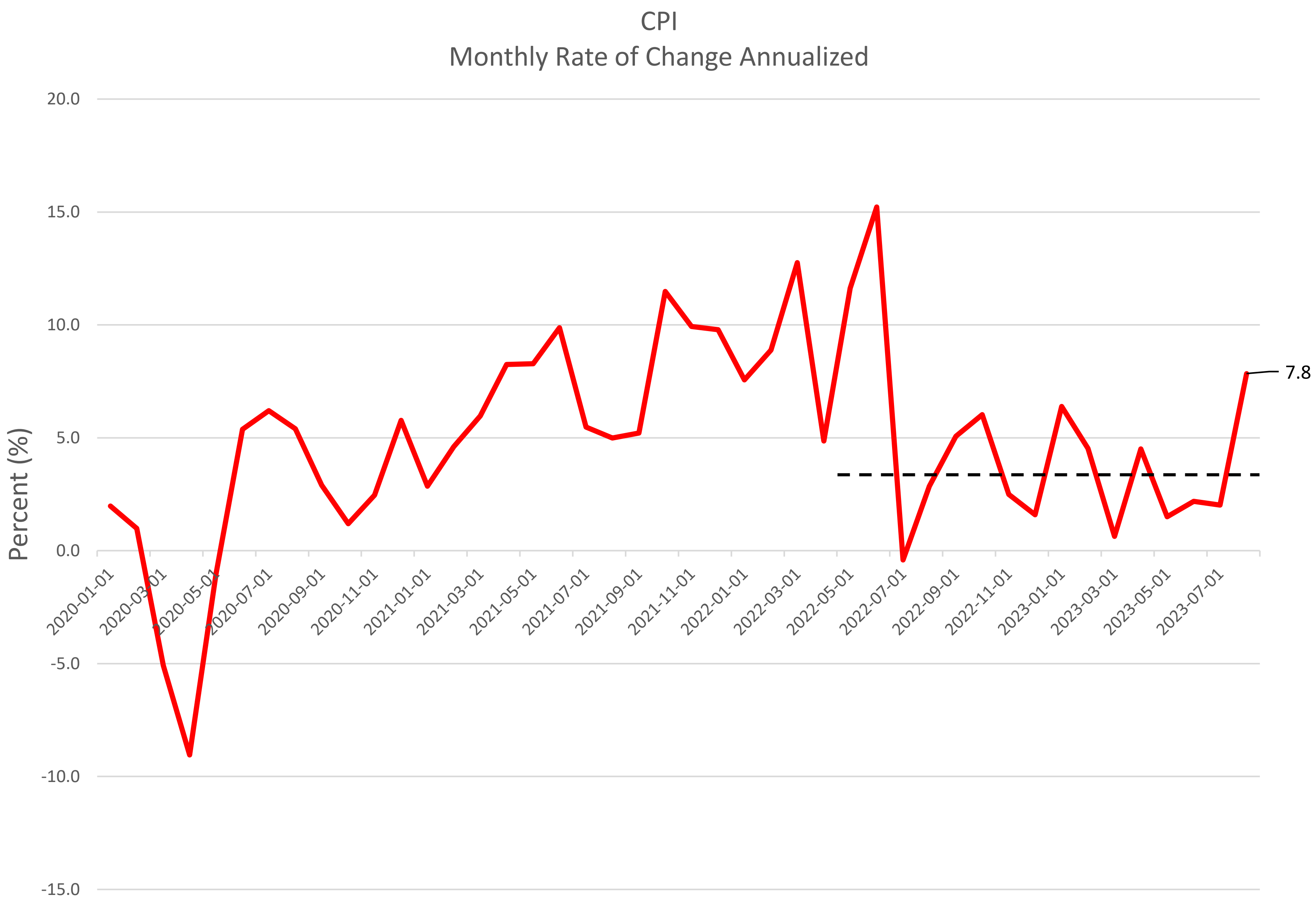
Up +3.7% y/y in August.

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 Aug. 2023
	Feb. 2023	Mar. 2023	Apr. 2023	May 2023	Jun. 2023	Jul. 2023	Aug. 2023	
All items	0.4	0.1	0.4	0.1	0.2	0.2	0.6	3.7
Food	0.4	0.0	0.0	0.2	0.1	0.2	0.2	4.3
Food at home	0.3	-0.3	-0.2	0.1	0.0	0.3	0.2	3.0
Food away from home[1]	0.6	0.6	0.4	0.5	0.4	0.2	0.3	6.5
Energy	-0.6	-3.5	0.6	-3.6	0.6	0.1	5.6	-3.6
Energy commodities	0.5	-4.6	2.7	-5.6	0.8	0.3	10.5	-4.2
Gasoline (all types)	1.0	-4.6	3.0	-5.6	1.0	0.2	10.6	-3.3
Fuel oil[1]	-7.9	-4.0	-4.5	-7.7	-0.4	3.0	9.1	-14.8
Energy services	-1.7	-2.3	-1.7	-1.4	0.4	-0.1	0.2	-2.7
Electricity	0.5	-0.7	-0.7	-1.0	0.9	-0.7	0.2	2.1
Utility (piped) gas service	-8.0	-7.1	-4.9	-2.6	-1.7	2.0	0.1	-16.5
All items less food and energy	0.5	0.4	0.4	0.4	0.2	0.2	0.3	4.3
Commodities less food and energy commodities	0.0	0.2	0.6	0.6	-0.1	-0.3	-0.1	0.2
New vehicles	0.2	0.4	-0.2	-0.1	0.0	-0.1	0.3	2.9
Used cars and trucks	-2.8	-0.9	4.4	4.4	-0.5	-1.3	-1.2	-6.6
Apparel	0.8	0.3	0.3	0.3	0.3	0.0	0.2	3.1
Medical care commodities[1]	0.1	0.6	0.5	0.6	0.2	0.5	0.6	4.5
Services less energy services	0.6	0.4	0.4	0.4	0.3	0.4	0.4	5.9
Shelter	0.8	0.6	0.4	0.6	0.4	0.4	0.3	7.3
Transportation services	1.1	1.4	-0.2	0.8	0.1	0.3	2.0	10.3
Medical care services	-0.7	-0.5	-0.1	-0.1	0.0	-0.4	0.1	-2.1

Source: BLS. Data through August 2023.

CPI – monthly annualized



Source: BLS. Data through August 2023.

Core prices cooling

THE WALL STREET JOURNAL.

Increase in Pump Prices Boosts Inflation

Milder pricing pressures excluding energy keep Fed pause on track

Consumer prices rose in August at the fastest pace in more than a year due to a jump in energy costs …

The consumer-price index, a closely watched inflation gauge, rose 0.6% in August from the prior month, the Labor Department reported Wednesday. More than half of the increase was due to higher gasoline prices. So-called core prices, which exclude volatile food and energy items, rose by a relatively mild 0.3% last month after even lower readings in June and July.

The monthly core reading likely keeps Federal Reserve officials on course to hold interest rates steady at their meeting next week without resolving a debate over whether they will need to raise them again this year to slow the economy and maintain recent progress on inflation.

Source: *The Wall Street Journal*, September 14, 2023. “Increase in Pump Prices Boosts Inflation”, by Amara Omeokwe and Nick Timiraos.

GDP forecast

Atlanta Fed's GDPNow forecast – 2nd quarter

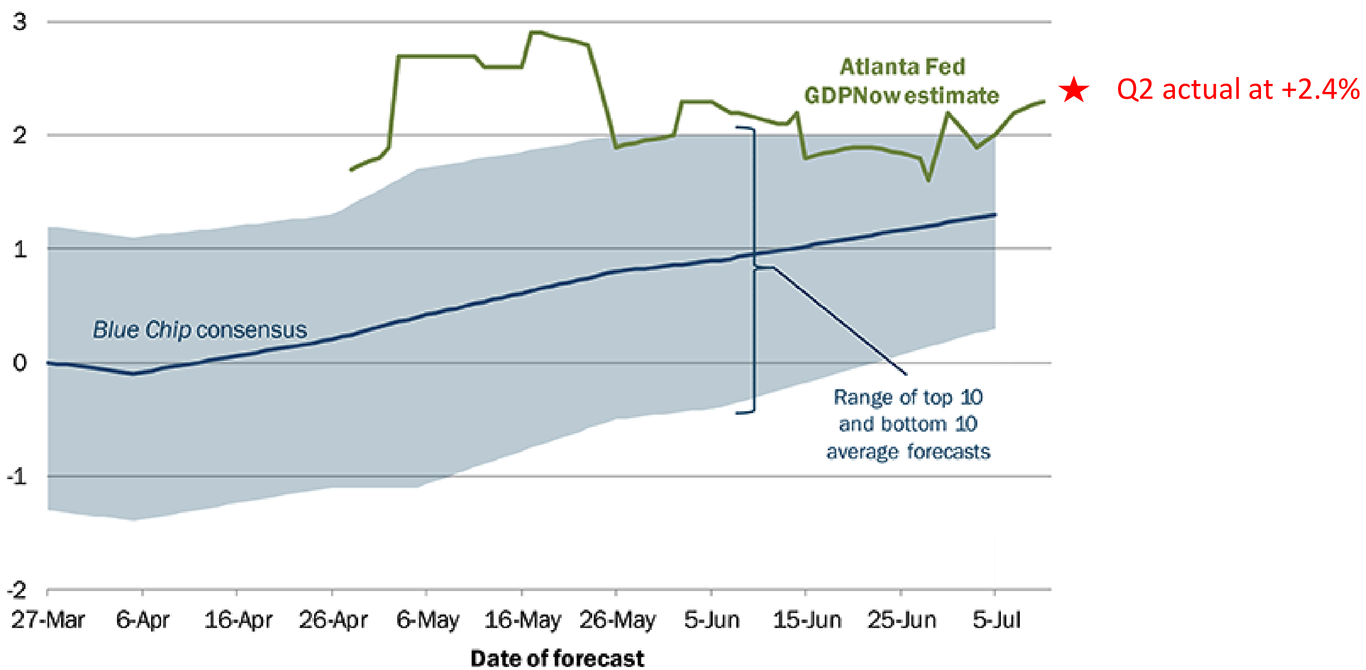
Latest estimate: 2.3 percent -- July 10, 2023

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.

*The next GDPNow update is **Tuesday, July 18**. 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, July 10, 2023.

Atlanta Fed's GDPNow forecast – 3rd quarter

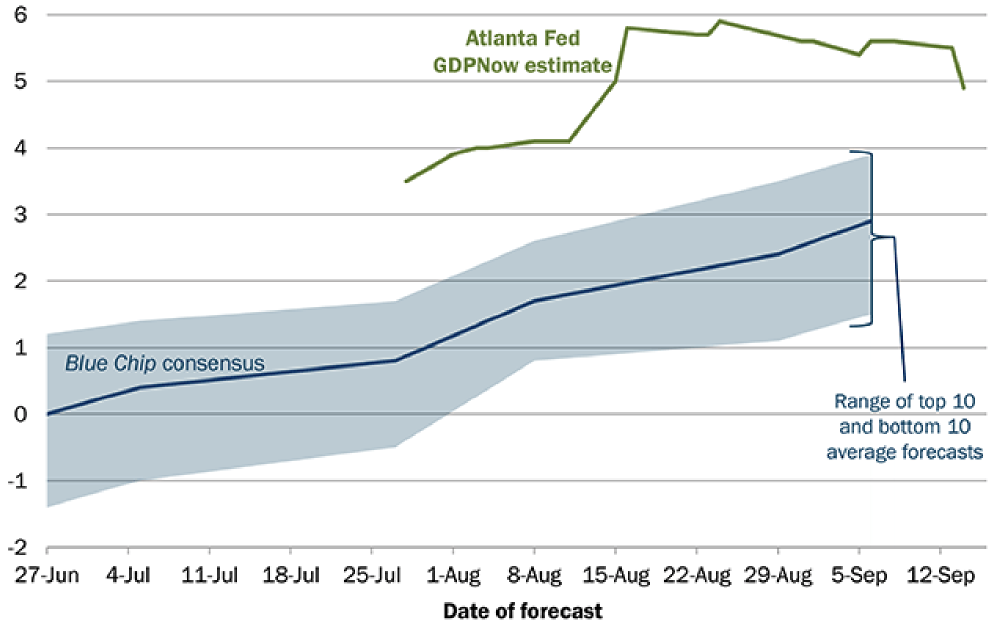
Latest estimate: 4.9 percent -- September 14, 2023

The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the third quarter of 2023 is **4.9 percent** on September 14, down from 5.6 percent on September 8. After recent releases from the US Census Bureau, the US Bureau of Labor Statistics, and the US Department of the Treasury's Bureau of the Fiscal Service, the nowcasts of third-quarter real personal consumption expenditures growth, third-quarter real gross private domestic investment growth, and third-quarter real government spending growth decreased from 4.0 percent, 11.7 percent, and 2.3 percent, respectively, to 3.5 percent, 10.6 percent, and 1.9 percent.

The next GDPNow update is ***Tuesday, September 19****. Please see the "Release Dates" tab below for a list of upcoming releases.*

Evolution of Atlanta Fed GDPNow real GDP estimate for 2023: Q3

Quarterly percent change (SAAR)

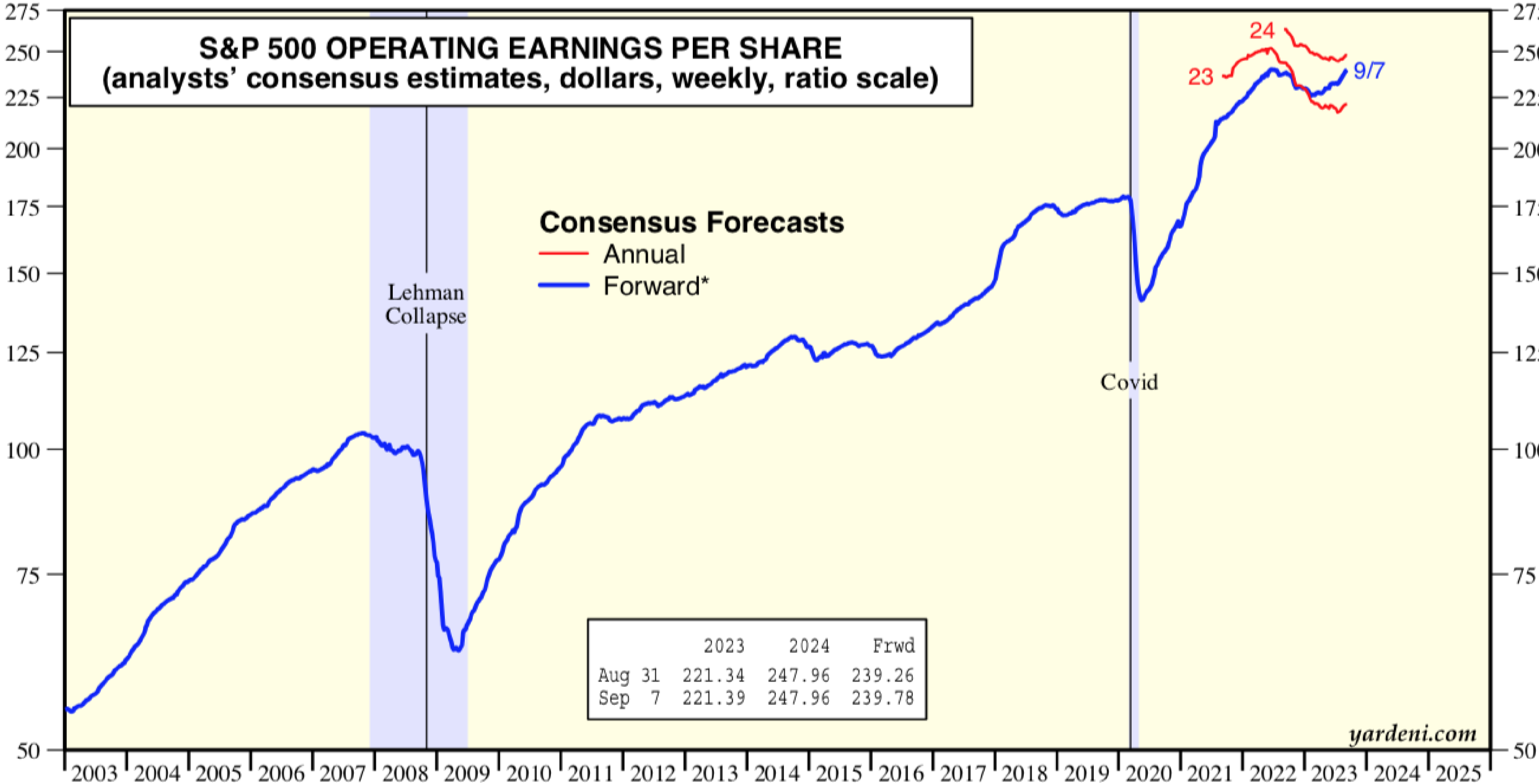


Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*
Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the *Blue Chip* survey.

Source: Federal Reserve Bank of Atlanta, September 14, 2023.

S&P forward earnings estimates moving higher

Figure 4.



	2023	2024	Frwd
Aug 31	221.34	247.96	239.26
Sep 7	221.39	247.96	239.78

* 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. September 15, 2023.

Diverging Data

Bad news

- LEI
- Inverted yield curve
- Weak August manufacturing PMI
- Federal budget deficit

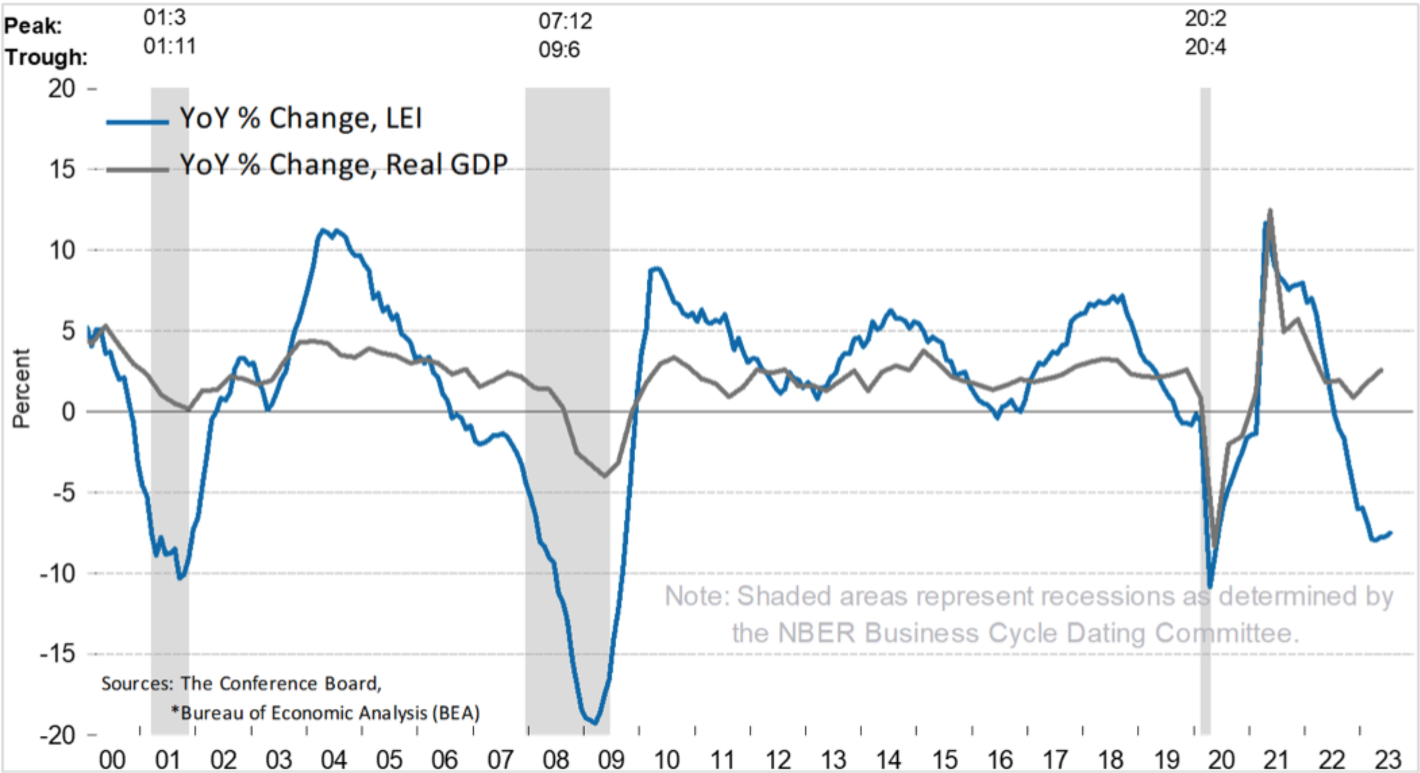
Good news

- Strong hiring data
- Strong Q2 GDP
- Strong Q3 GDPNow forecast
- Strong August services PMI
- Strong August car sales
- Strong August retail sales
- Strong August housing permits
- Oil down y/y
- Consumers have cash – M2
- Strong corporate balance sheets
- Strong bank capital
- Inflation is moderating

Bad news

- LEI
- Inverted yield curve
- Weak August manufacturing PMI
- Federal budget deficit

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

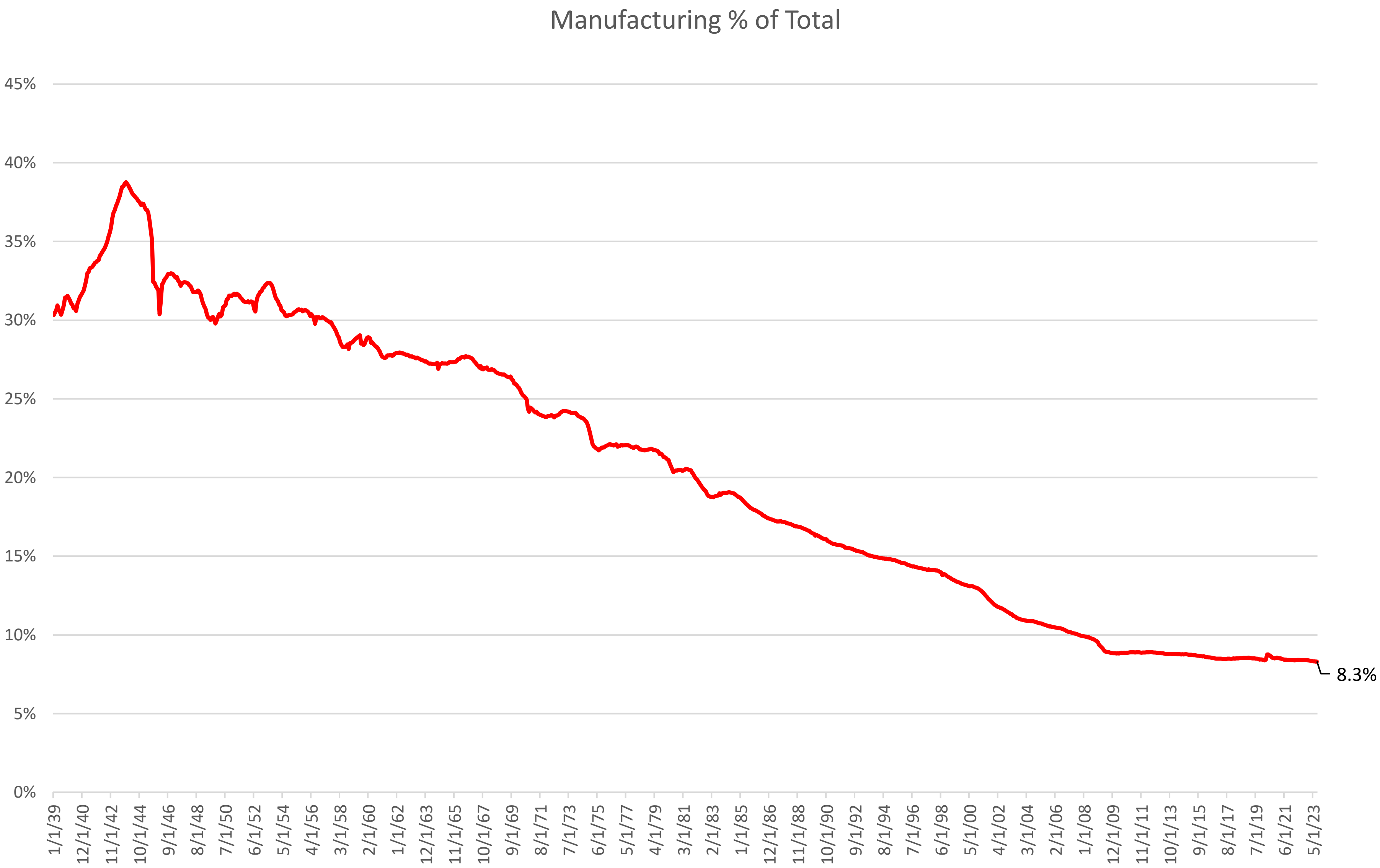


"The leading index continues to suggest that economic activity is likely to decelerate and descend into mild contraction in the months ahead. The Conference Board now forecasts a short and shallow recession in the Q4 2023 to Q1 2024 timespan."

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

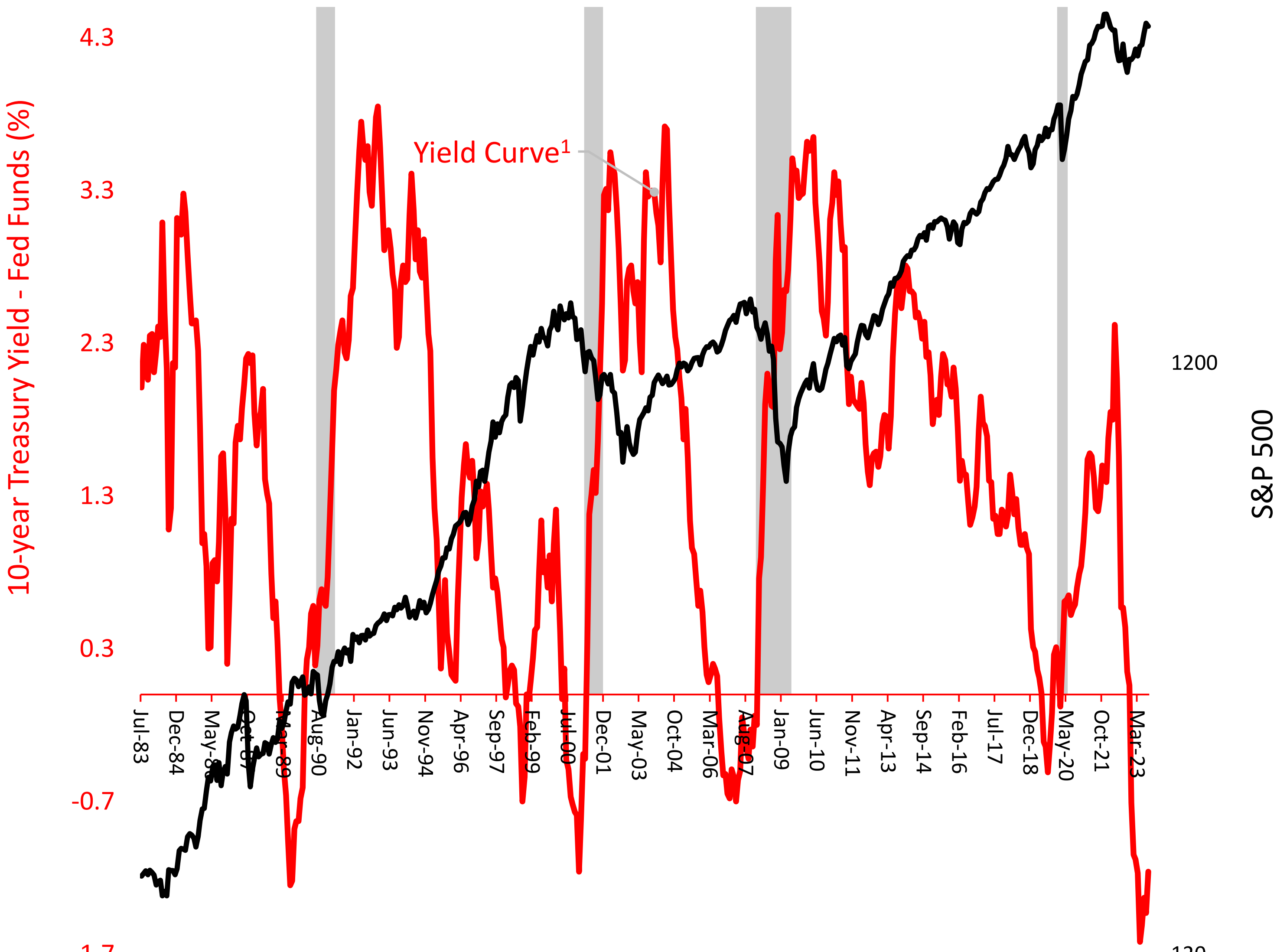
The Conference Board Leading Economic Index® (LEI) components: 1) average weekly hours worked, manufacturing; 2) average weekly initial unemployment claims; 3) manufacturers' new orders – consumer goods and materials; 4) ISM index of new orders; 5) manufacturers' new orders, nondefense capital goods; 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 July released August 17, 2023.

Manufacturing jobs % of total employment



Source: BLS. Data through August 2023.

Yield curve vs. the S&P 500

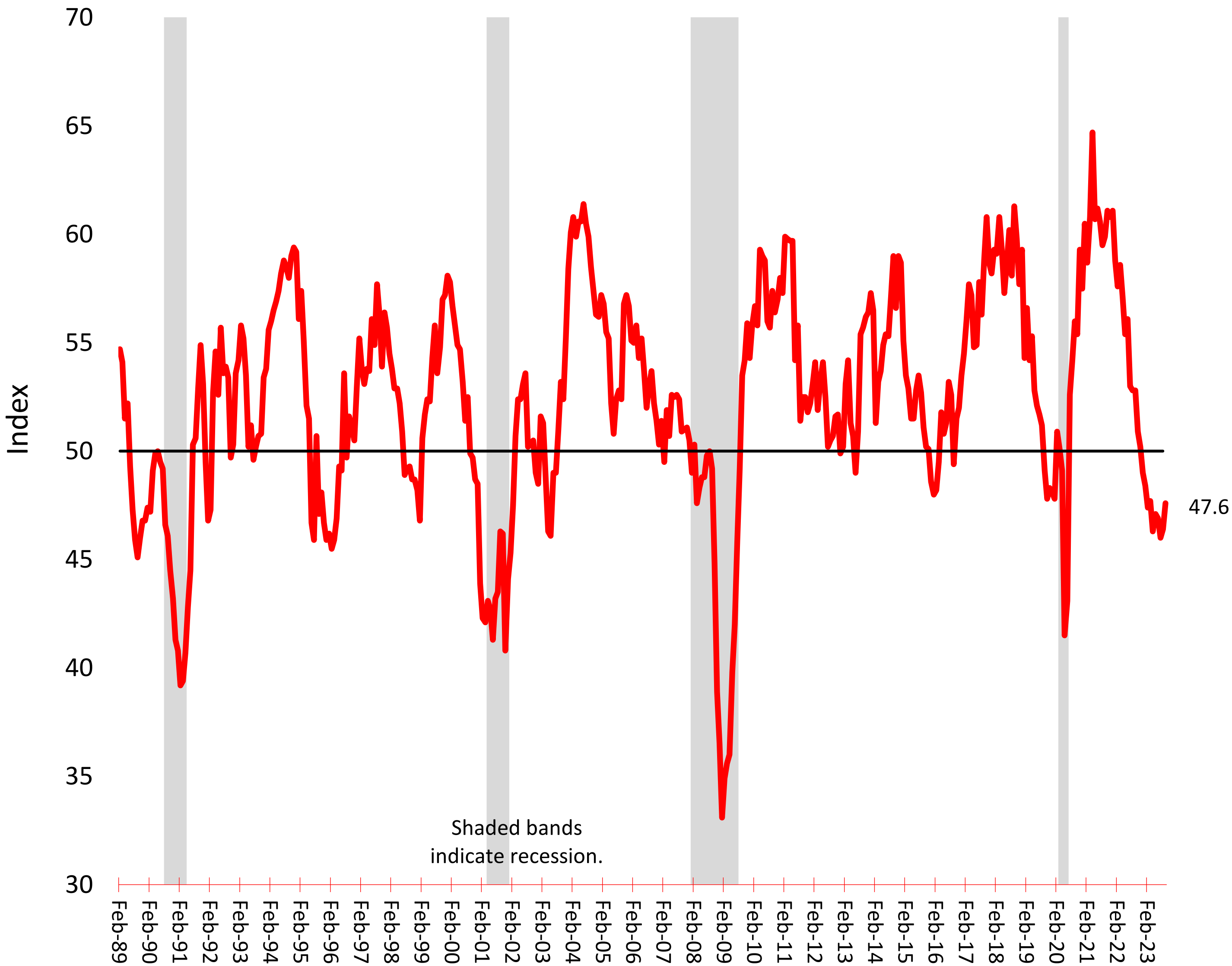


When the yield curve has inverted the economy has usually turned down into recession with a lag of a year or more.

Today, the yield curve is inverted.

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

ISM manufacturing PMI



August at 47.6.

August new orders 46.8.

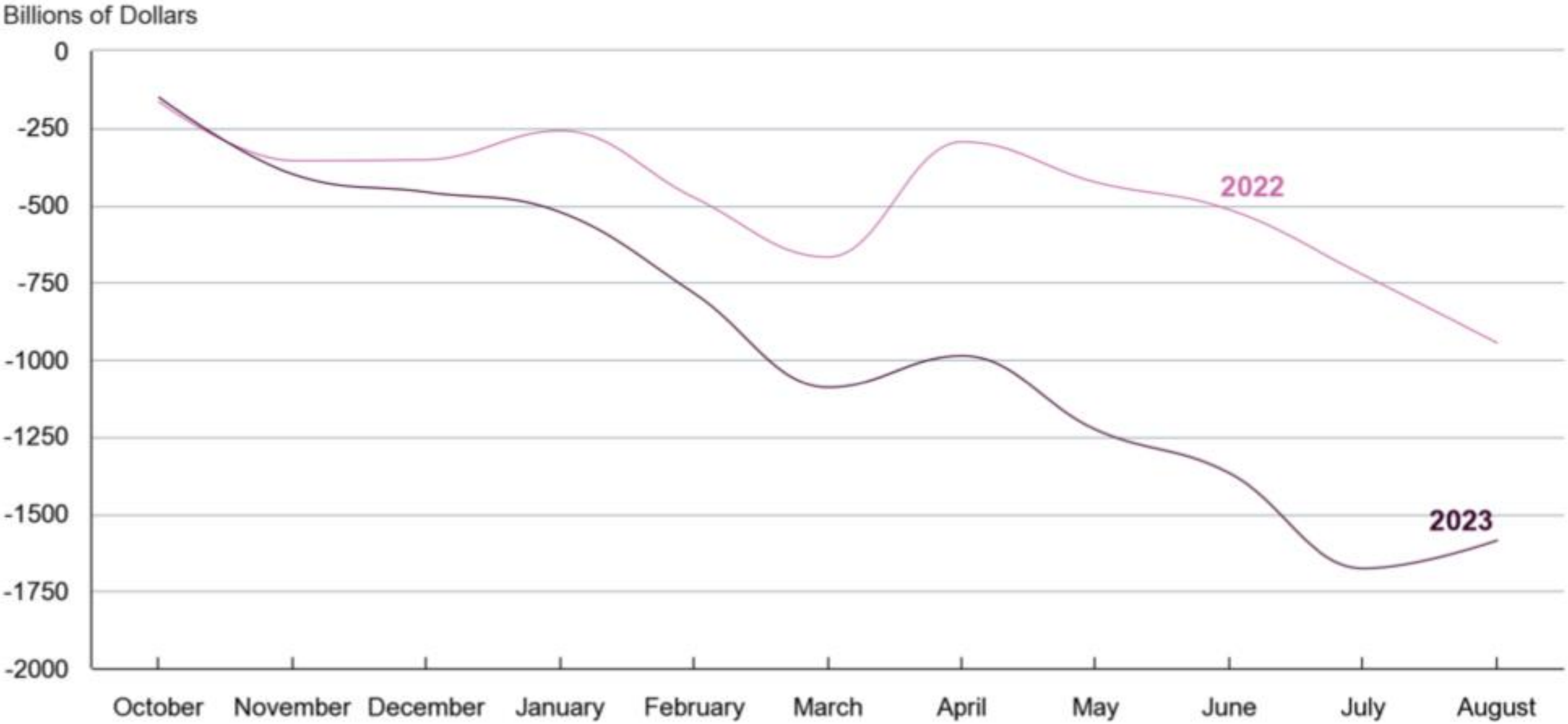
Note the historic volatility in the manufacturing PMI.

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 August 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.”

Federal budget deficit

Figure 1.
Cumulative Monthly Deficits
Fiscal Years 2022 and 2023



Data Sources: Congressional Budget Office; Department of the Treasury.
The value shown for August 2023 is CBO's estimate.
Values for all months have been adjusted to exclude the effects of timing shifts.

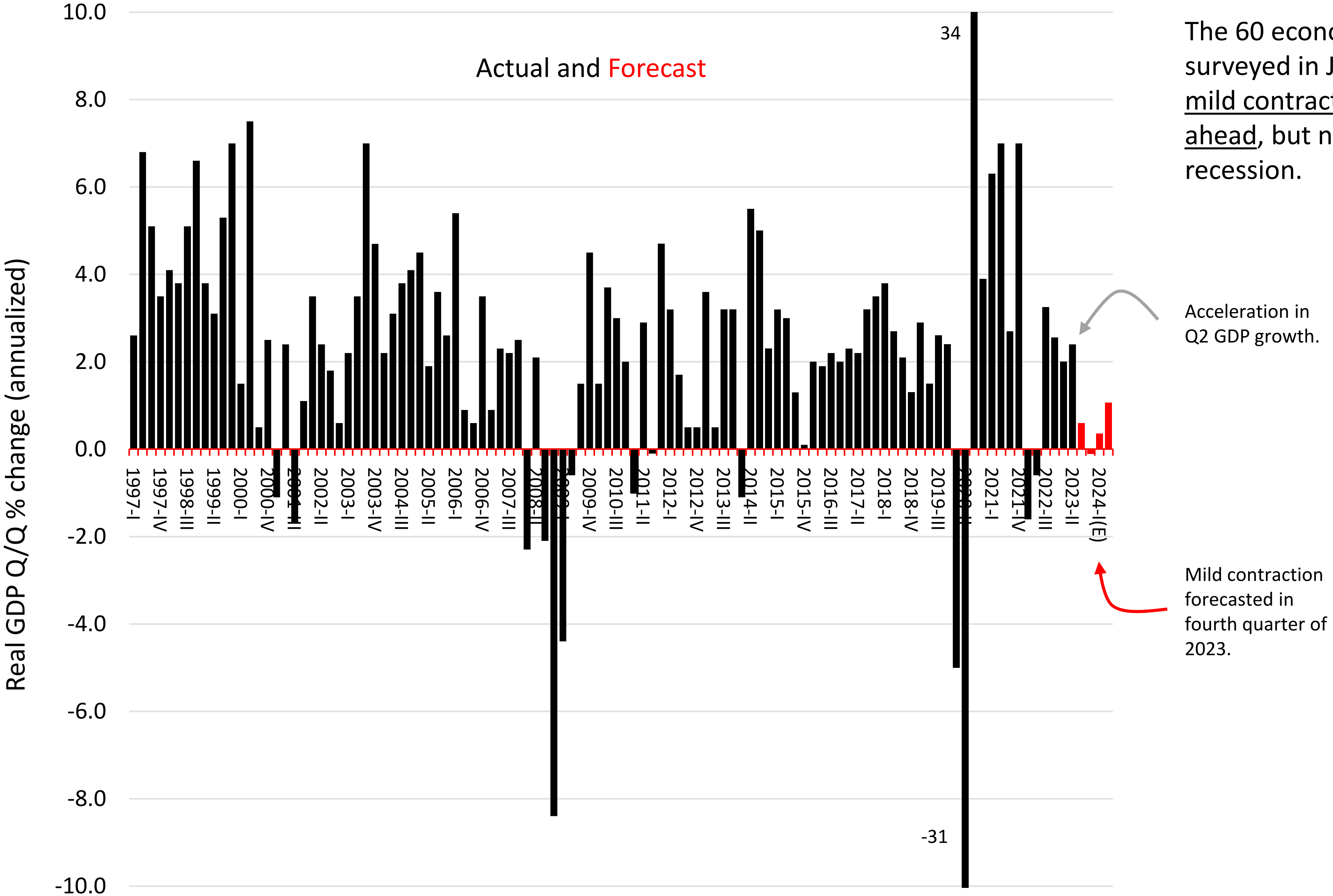
Source: Congressional Budget Office. *Monthly Budget Review: August 2023*.

Good news

- Strong hiring data
- Strong Q2 GDP
- Strong Q3 GDPNow forecast
- Strong August services PMI
- Strong August car sales
- Strong August retail sales
- Strong August housing permits
- Oil down y/y
- Consumers have cash – M2
- Strong corporate balance sheets
- Strong bank capital
- Inflation is moderating

Consensus GDP forecast

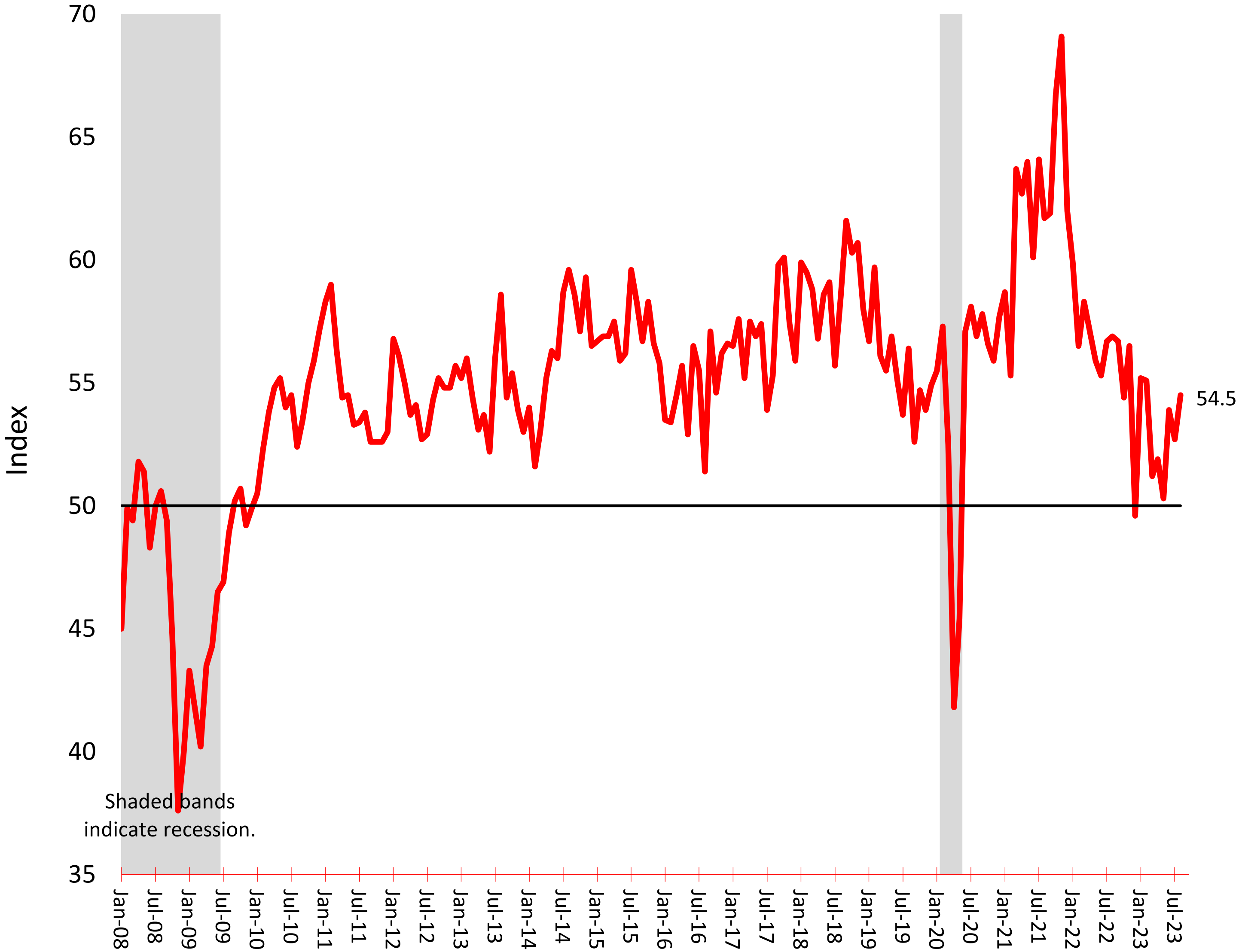
GDP



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

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

ISM services PMI



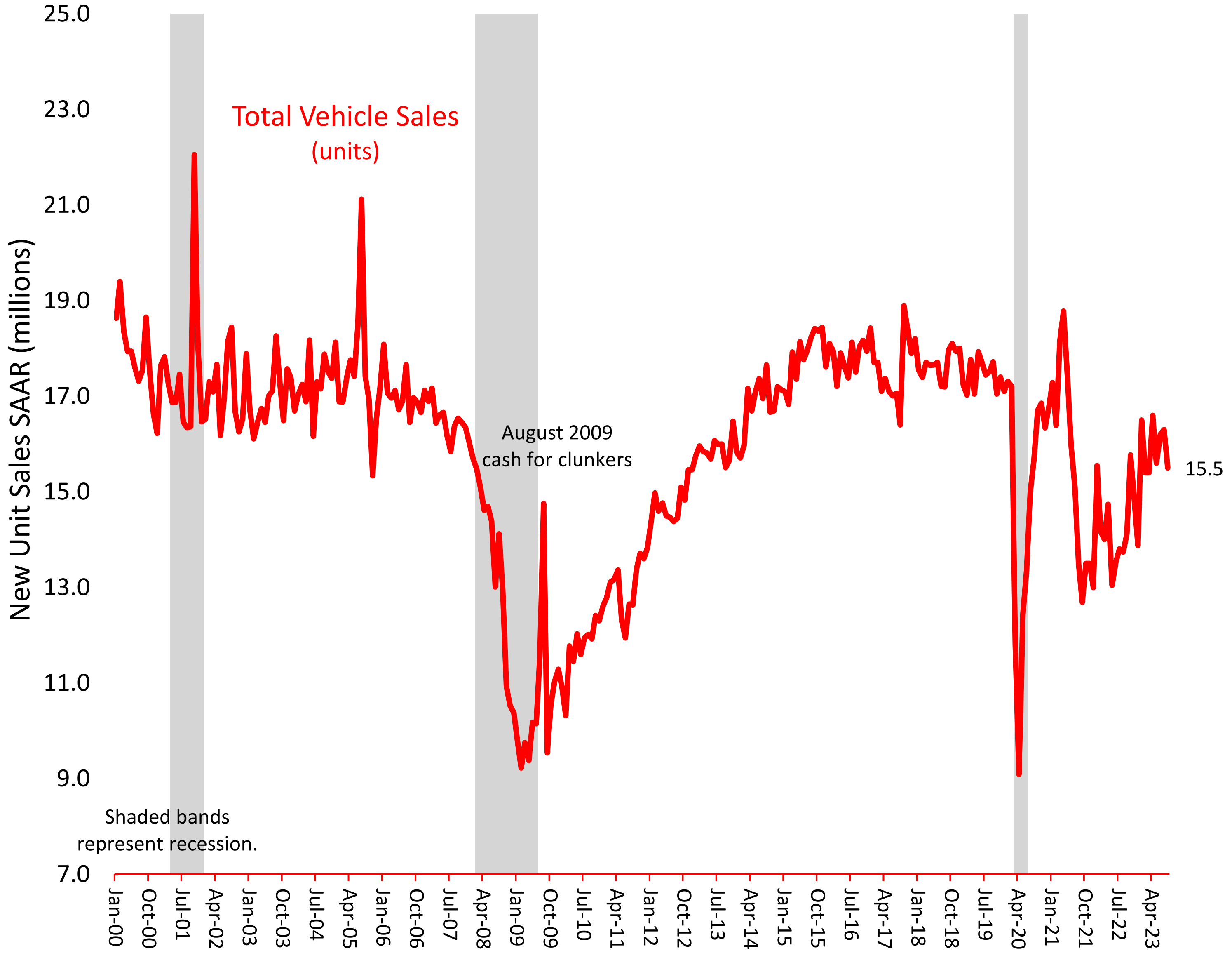
August at 54.5.

August new orders 57.3.

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

Source: Copyright 2023, Institute for Supply Management; data through August 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.

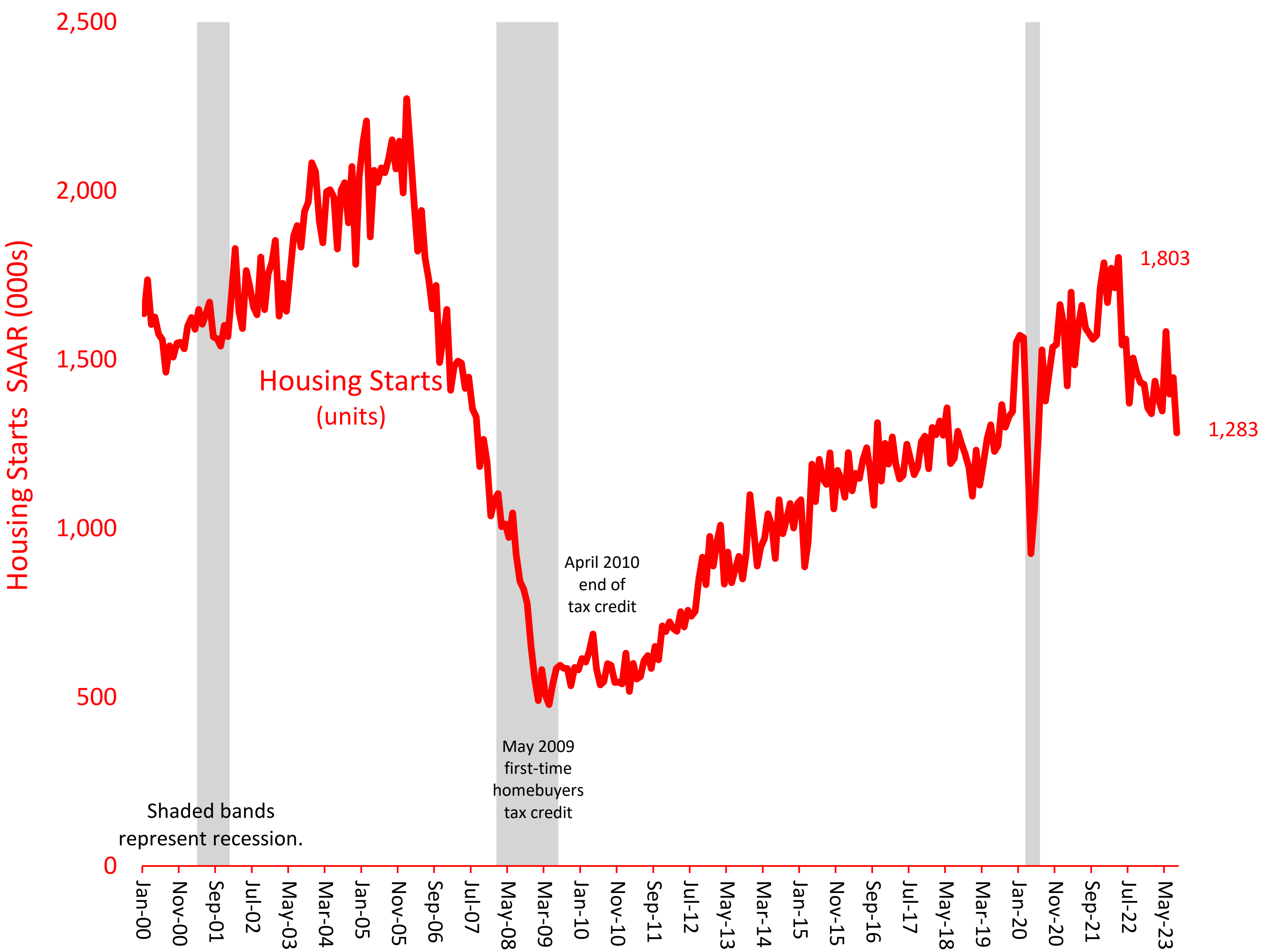
Vehicle sales



Car sales holding up.

Sources: BEA. Data through August 2023.

Housing starts and permits



1.283 million starts in August.

August permits at 1.543 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 August 2023.

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

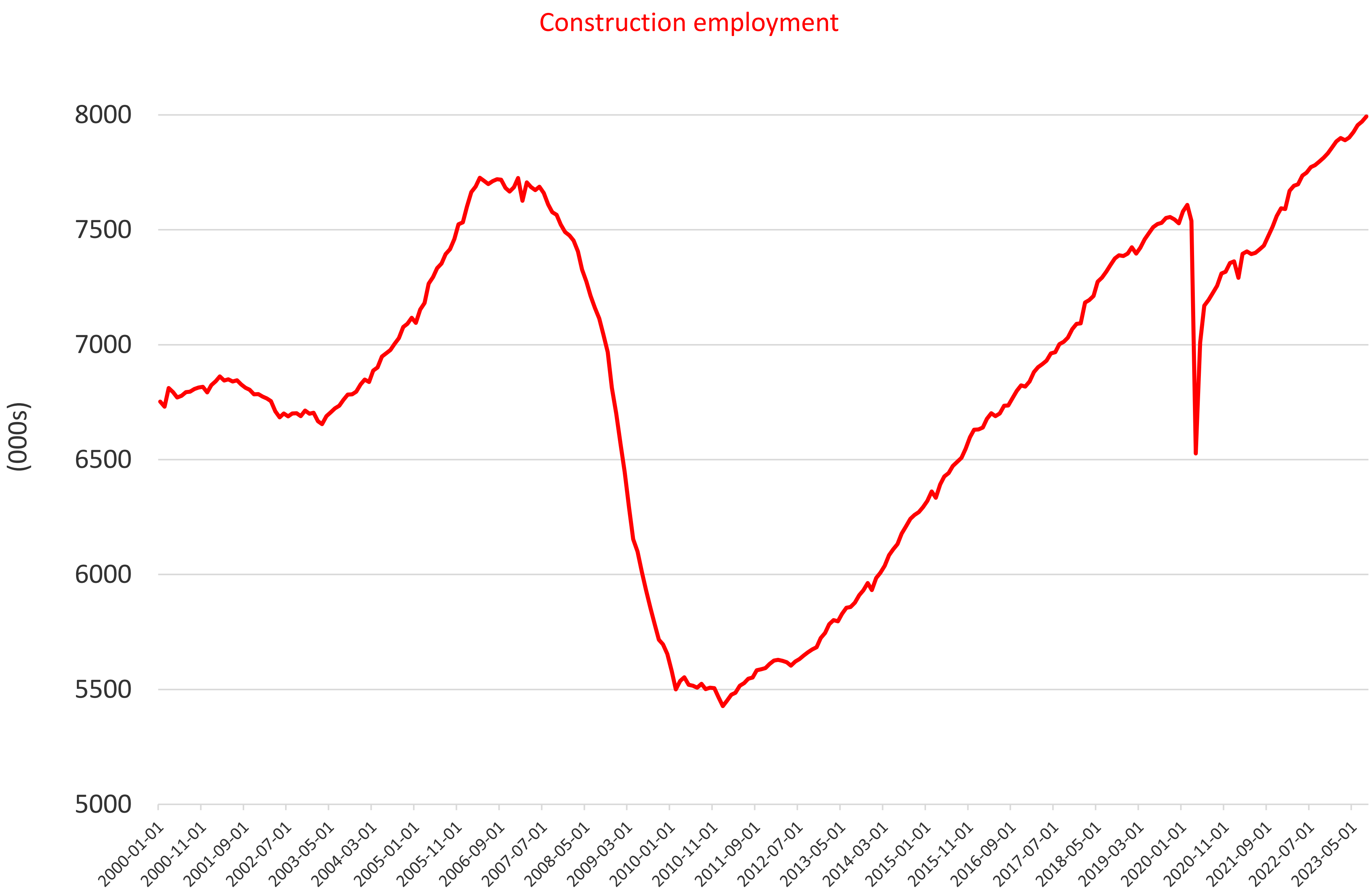
Construction boom

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 August 2023.

THE WALL STREET JOURNAL.

Don’t Wager Against the American Consumer Now

Americans might not be spending like there is no tomorrow, but they are certainly spending like they think tomorrow is going to be all right.

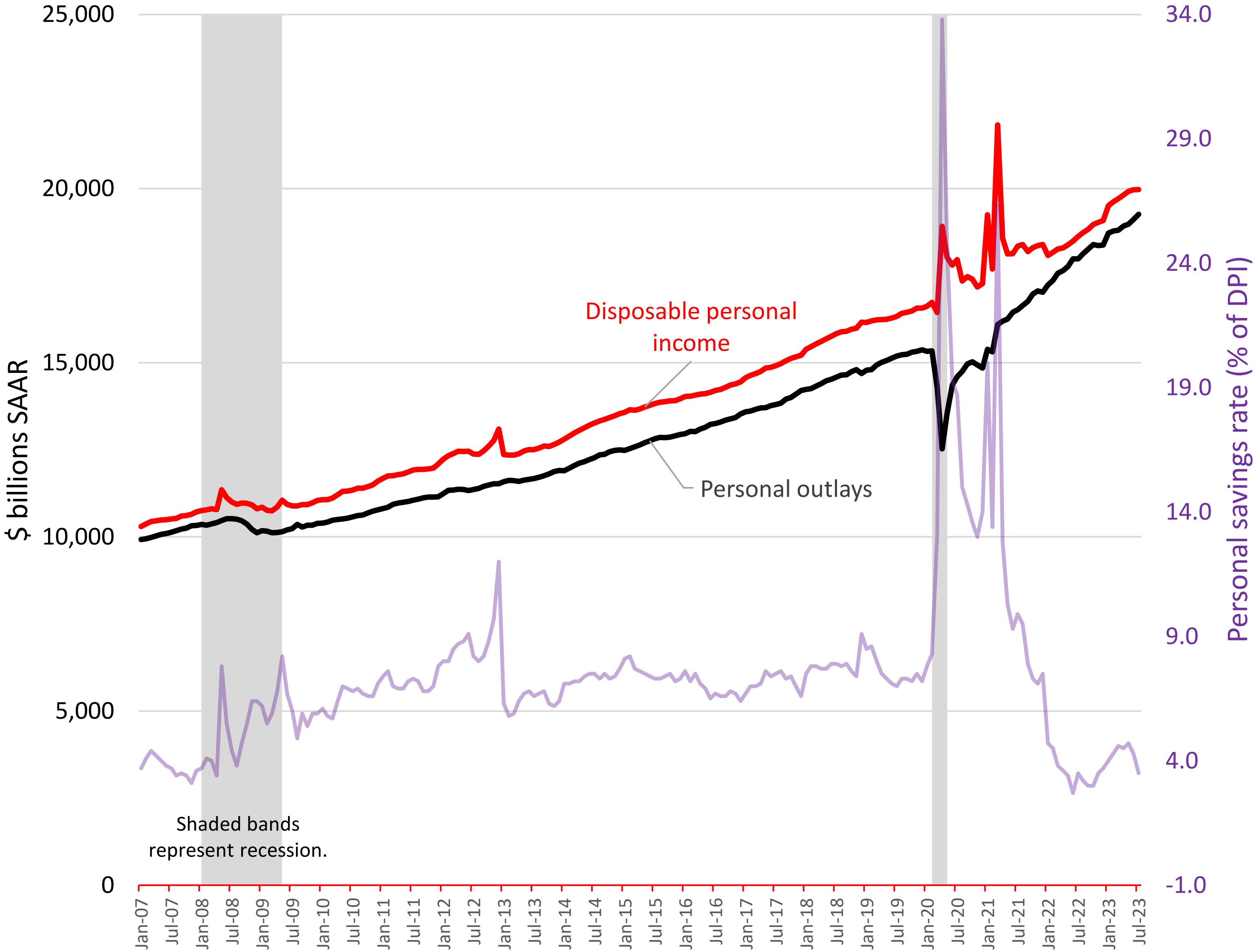
The Commerce Department on Thursday reported that retail sales rose 0.6% in August from the prior month. Even with the proviso that July and June figures were revised lower, that counts as a solid gain. And yes, a lot of that growth was driven by the increase in gasoline prices—gasoline-station sales jumped 5.2%—but most other sales categories registered gains as well.

<u>The (retail sales) report adds to evidence that gross-domestic-product growth in the current quarter will likely be very strong, powered by a big gain in consumer spending</u>.

Source: *The Wall Street Journal.* “Don’t Wager Against the American Consumer Now”, by Justin Lahart. September 15, 2023.

Consumer income

Disposable personal income, spending and saving



DPI up +7.2% y/y.

Personal outlays up +7.1% y/y.

The savings rate, at 3.5%, is below pre-Covid levels.

Source: Bureau of Economic Analysis, monthly data through July 2023.

Consumer spending

THE WALL STREET JOURNAL.

Surge in Consumer Spending Propels Growth

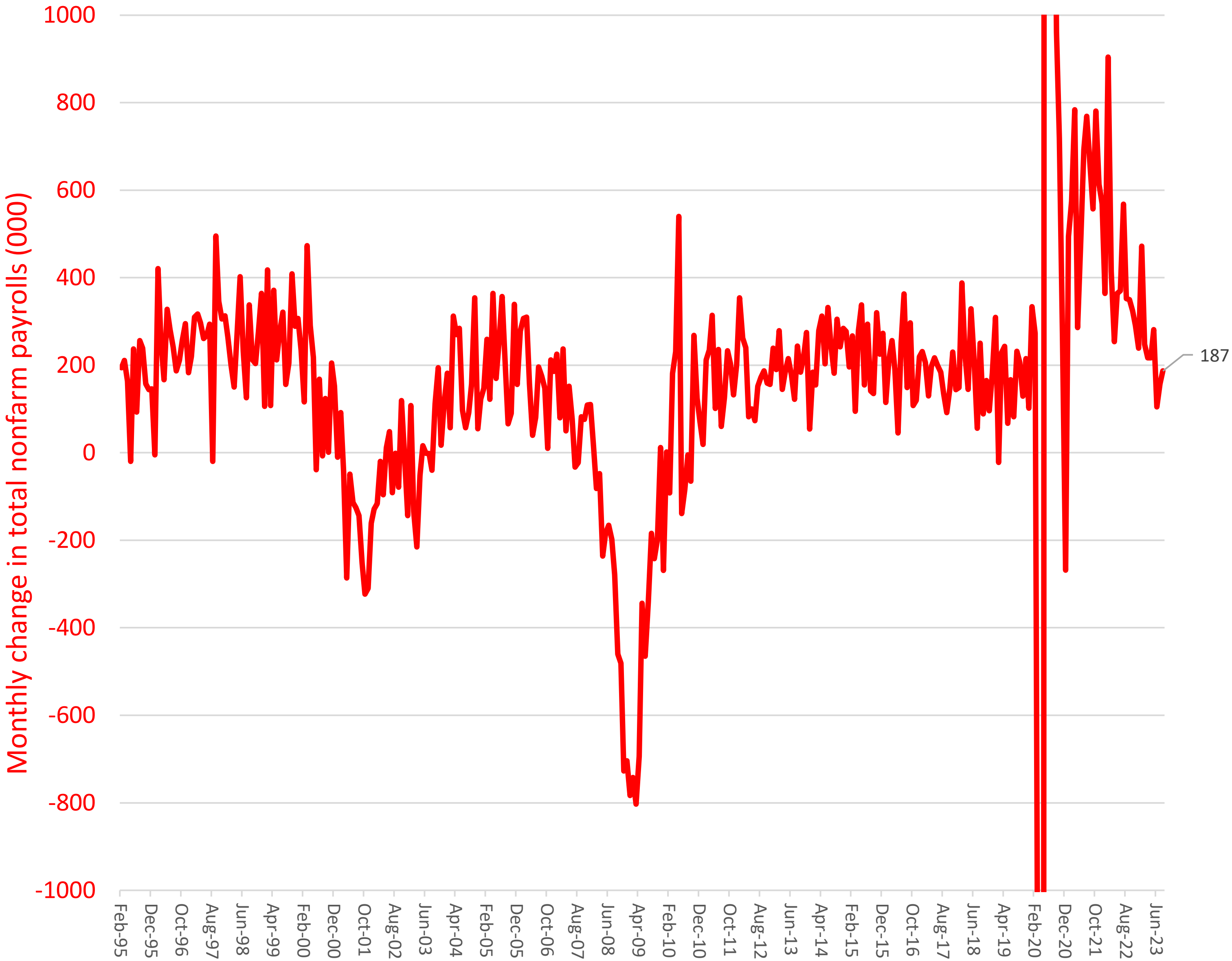
Consumers boosted their spending rapidly in July and price pressures remained modest, signs of continued U.S. economic strength amid rising interest rates.

The latest figures leave the Federal Reserve on course to hold rates steady this month as officials seek to bring down inflation without triggering a needlessly severe downturn.

Source: *The Wall Street Journal*, "Surge in Consumer Spending Propels Growth", by Harriet Torry and Nick Timiraos, September 1, 2023.

Economic data

Net new job formation



187,000 jobs gained in August on the establishment survey.

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

THE WALL STREET JOURNAL.

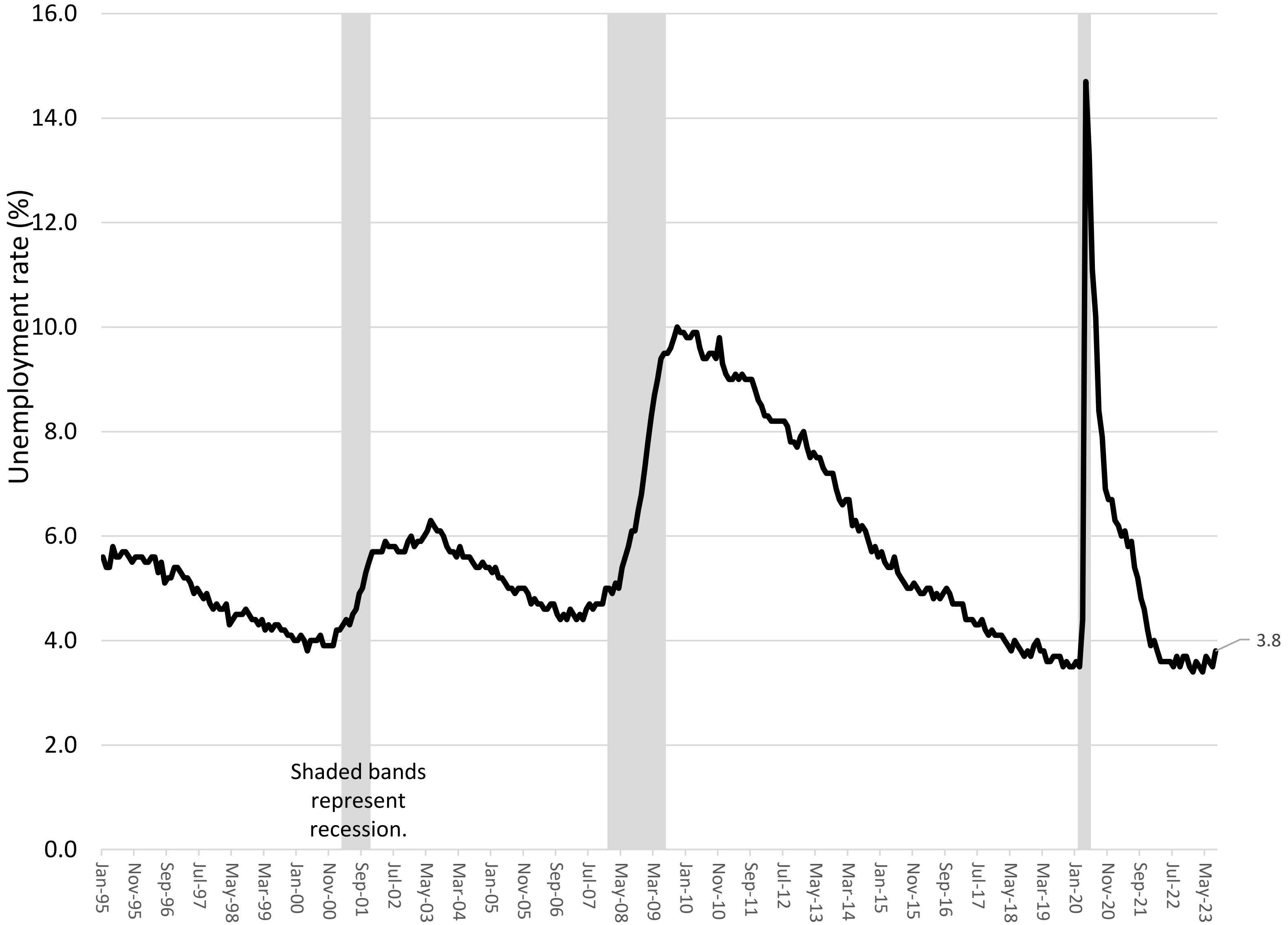
Job Market Cools but Is Far From Freezing

The pace of hiring is slowing but employers would rather hang onto their workers than lay them off.

Source: *The Wall Street Journal.* “Job Market Cools but Is Far From Freezing”, by Justin Lahart. August 30, 2023.

Economic data

Unemployment rate

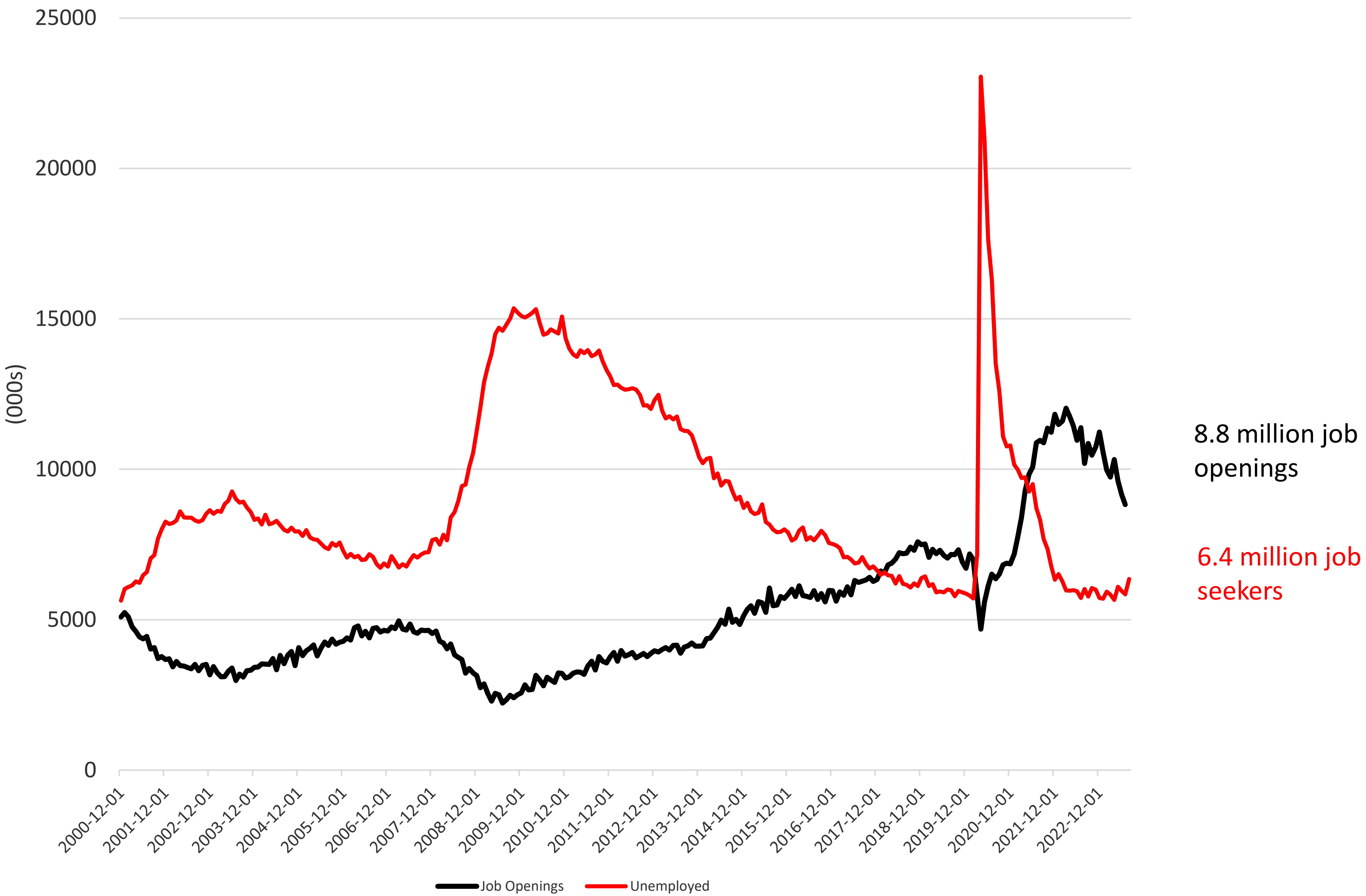


3.8% in August.

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

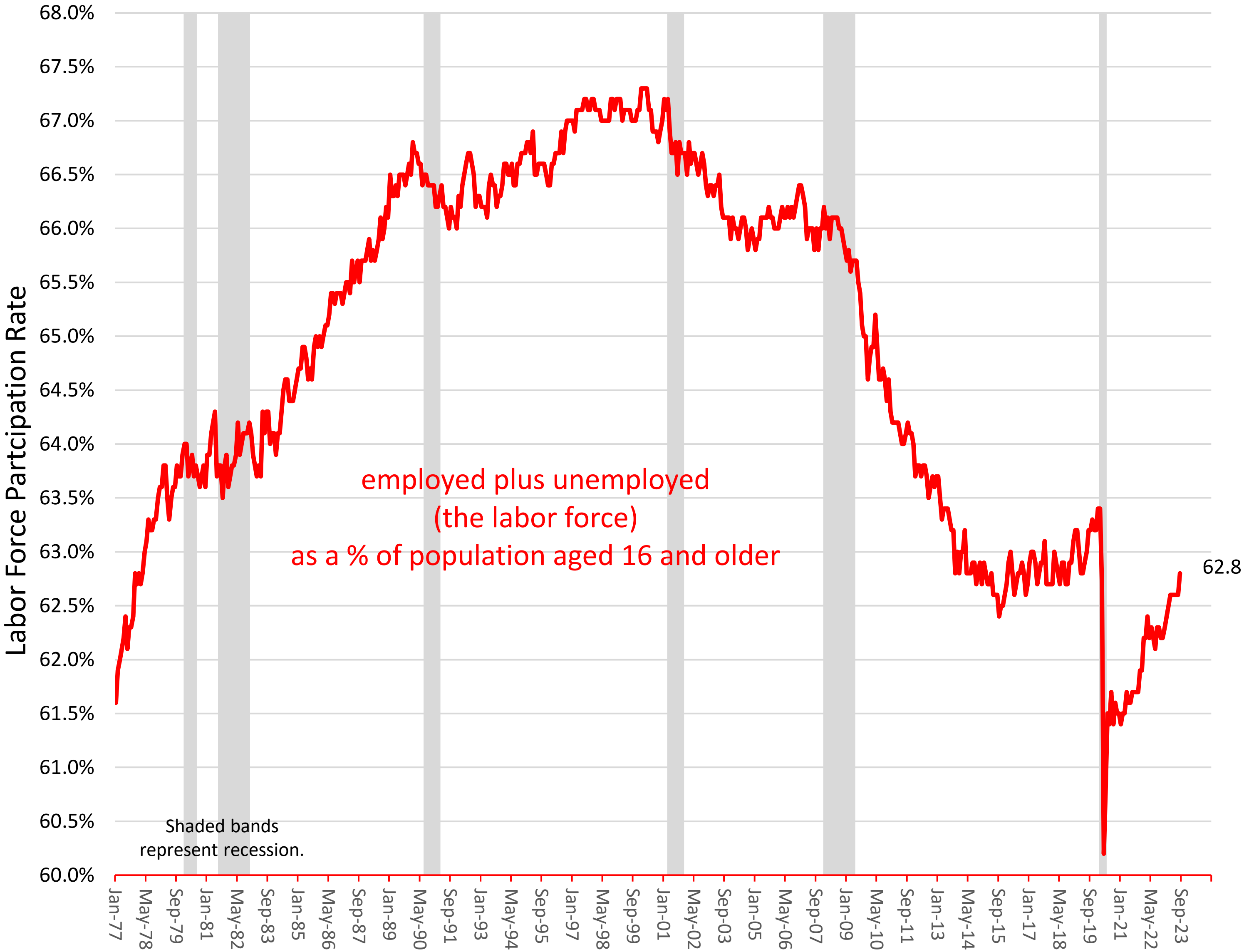
Economic data

"Excess demand" for labor – this time is different



Source: Bureau of Labor Statistics. Data through July 2023 for job openings, August 2023 for unemployed.

Labor force participation rate[1] – recovering from Covid



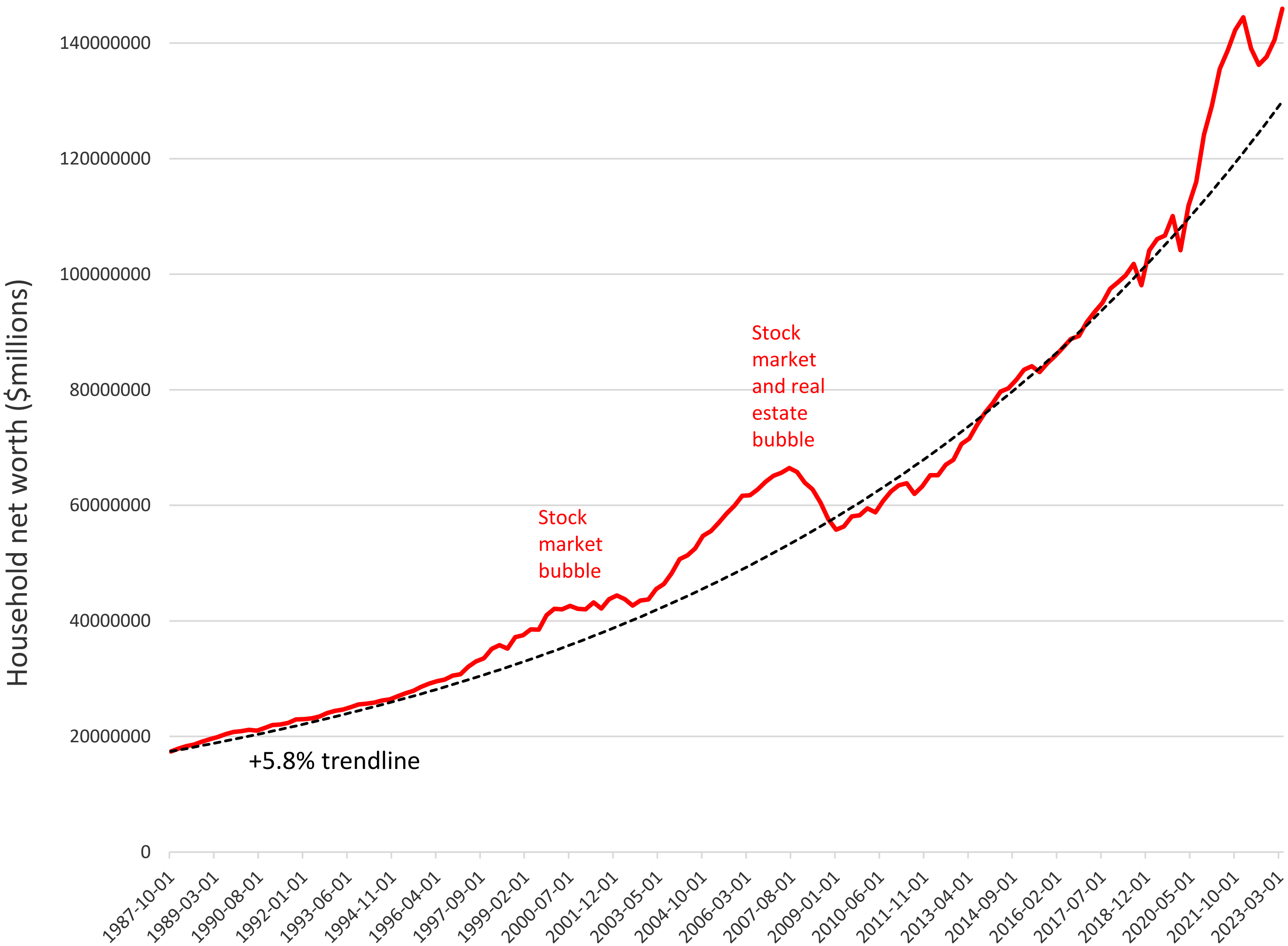
Americans were joining and staying in the labor force in increasing numbers … until Covid-19.

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

Source: BLS. Data through August 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.

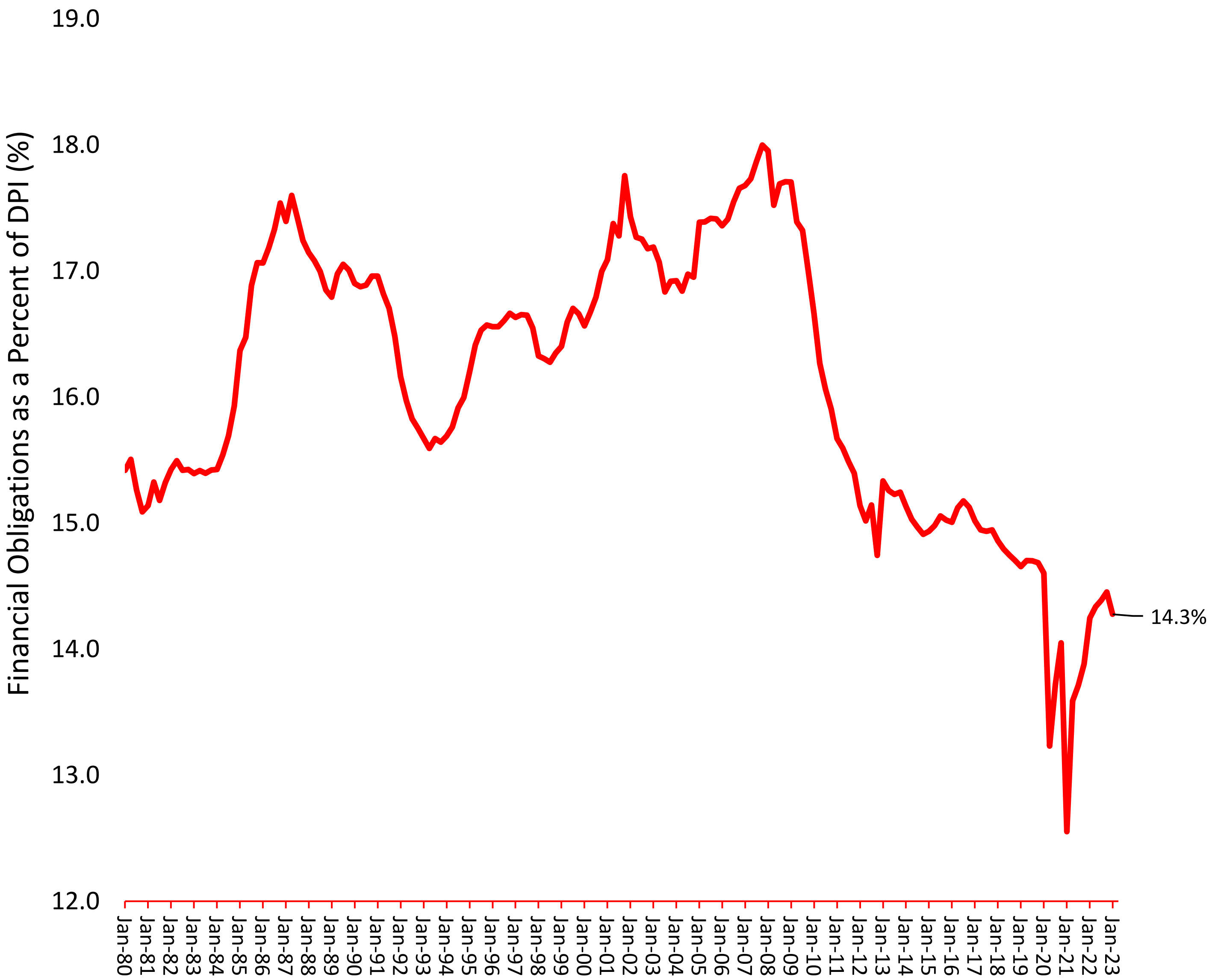
Household net worth – the wealth effect



Household net worth surged.

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

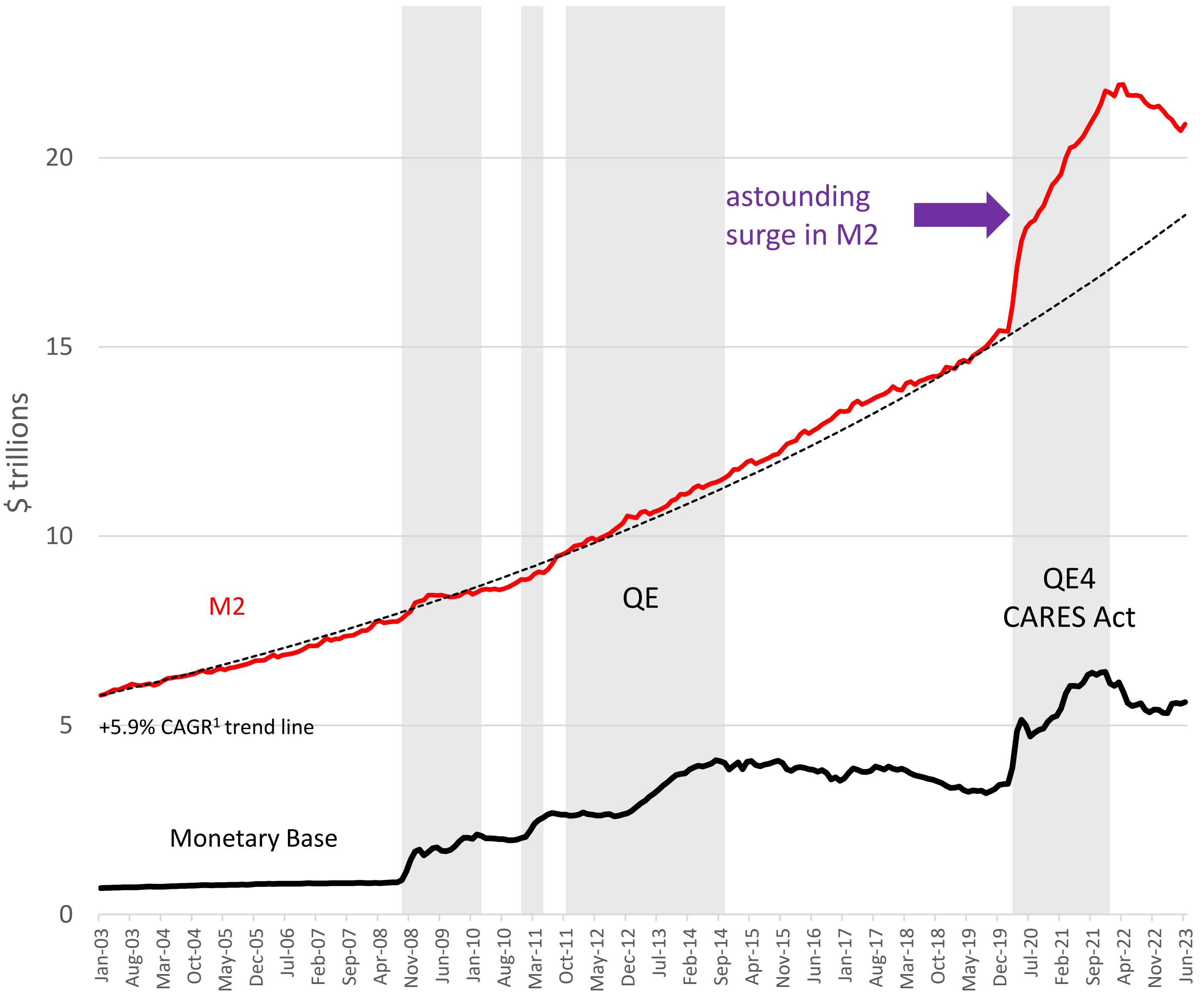
Financial obligations ratio



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 March 2023, updated June 16, 2023.

The monetary base and the money supply



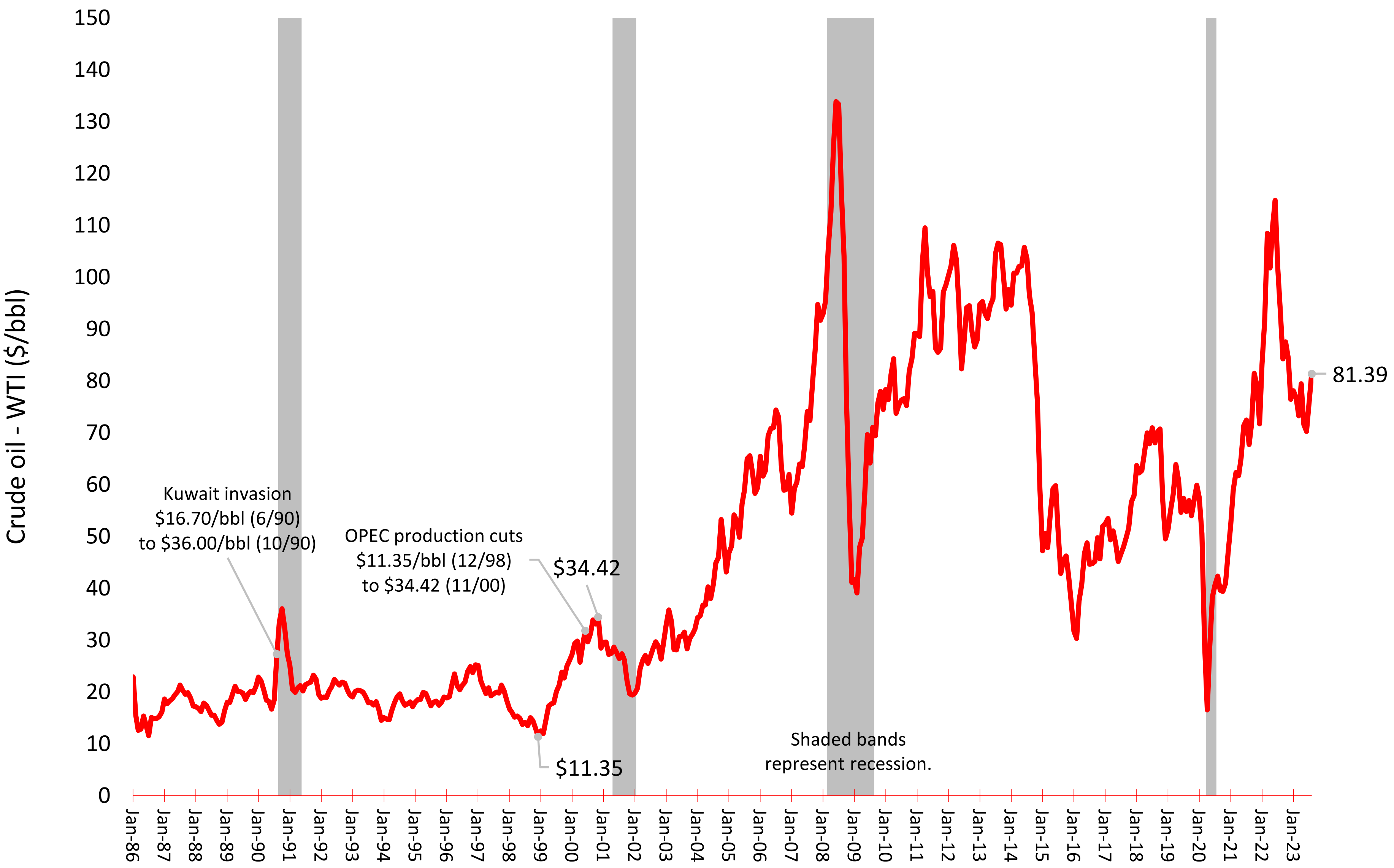
M2: currency held by the public plus checking, savings and money market accounts.

A quadrupling of the monetary base with QE did not affect M2 growth. <u>The CARES Act and subsequent stimulus did</u> … 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 July 2023.
[1]CAGR = compound annual growth rate.

WTI spot crude oil prices



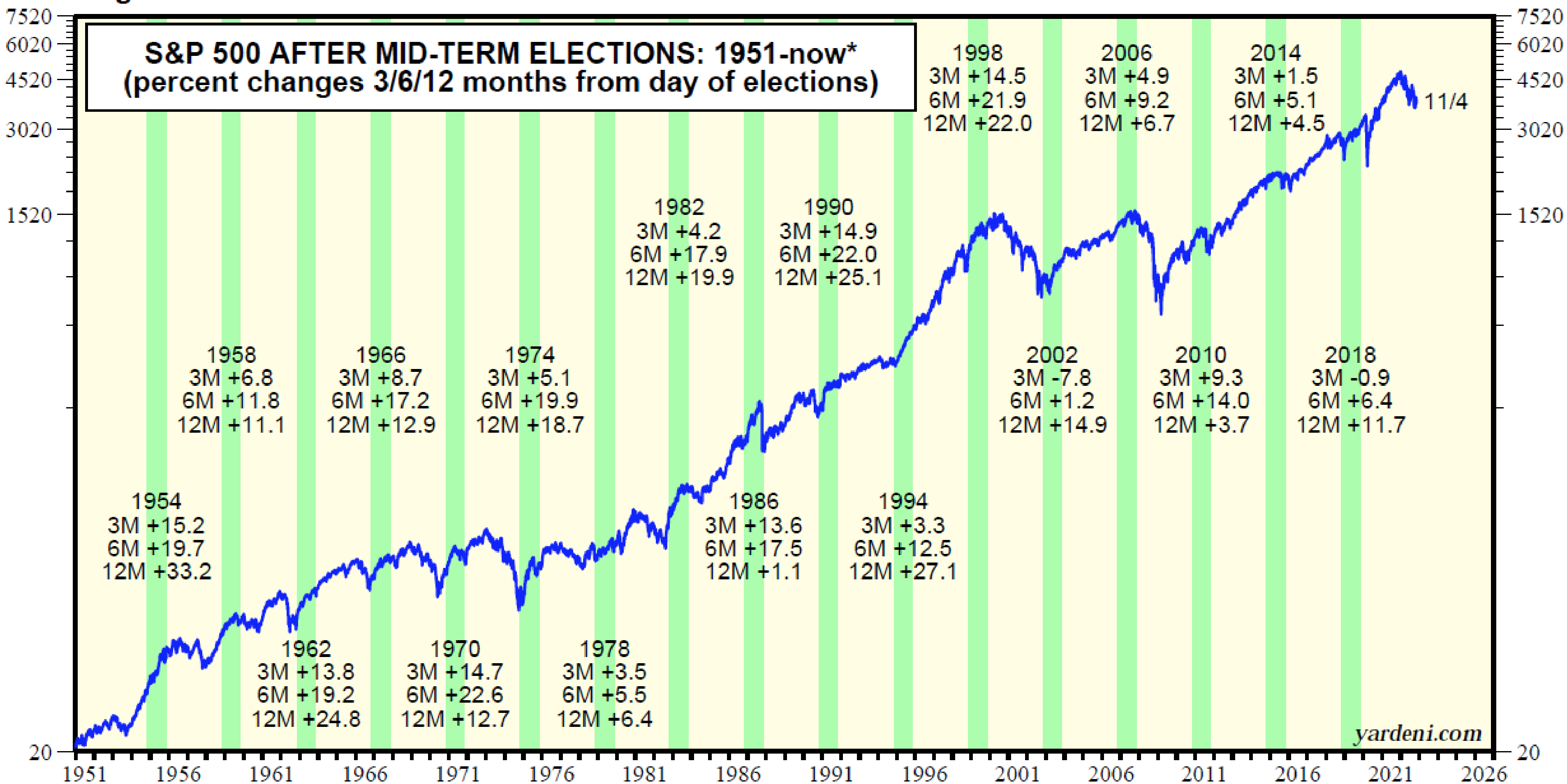
Source: U.S. Energy Information Agency. Data through August 2023.

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.

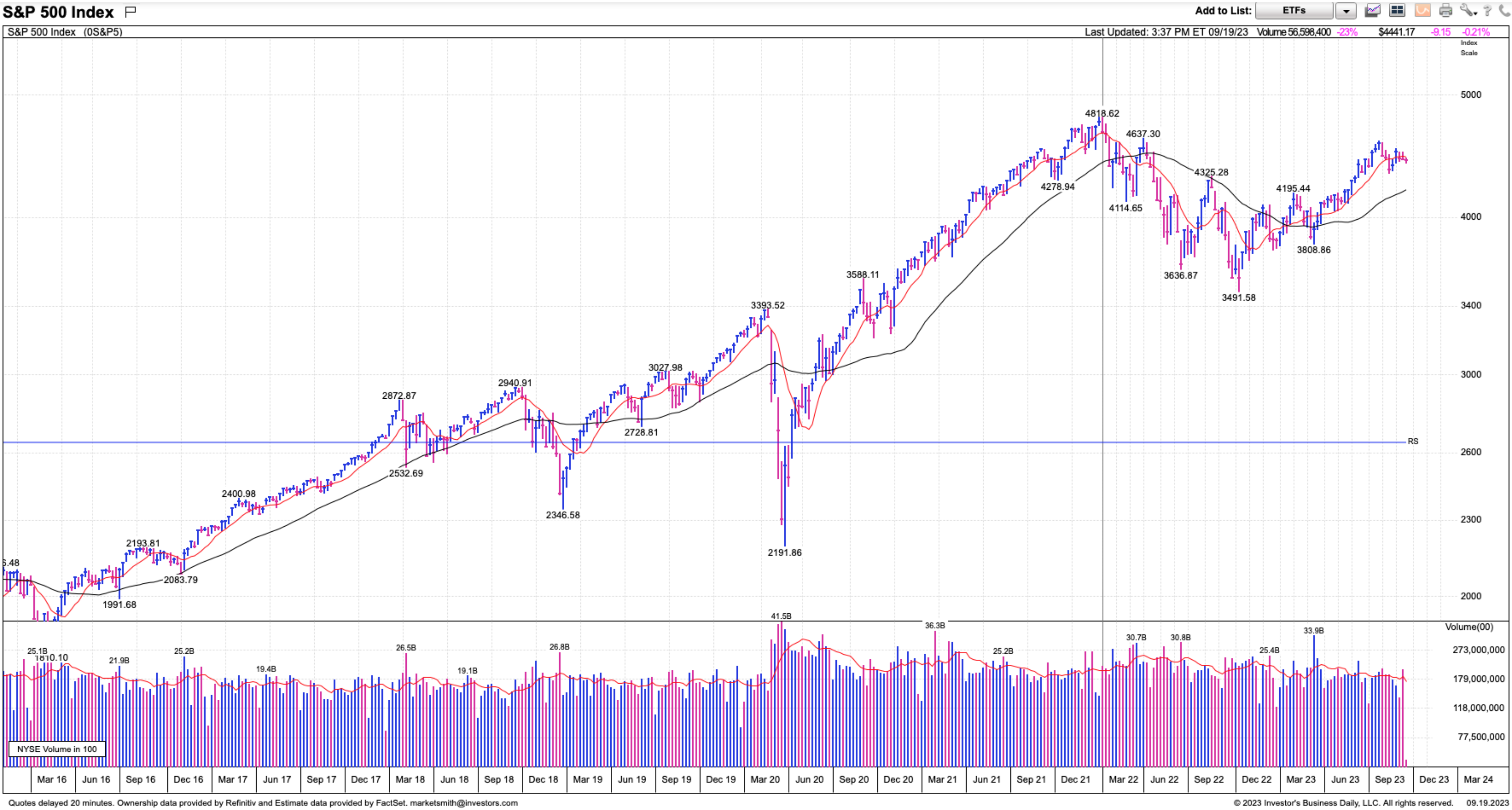
Source: *The Wall Street Journal*, "S&P 500 Starts a New Bull Market", Akane Otani and Anna Hirtenstein. June 9, 2023.

Cover story

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

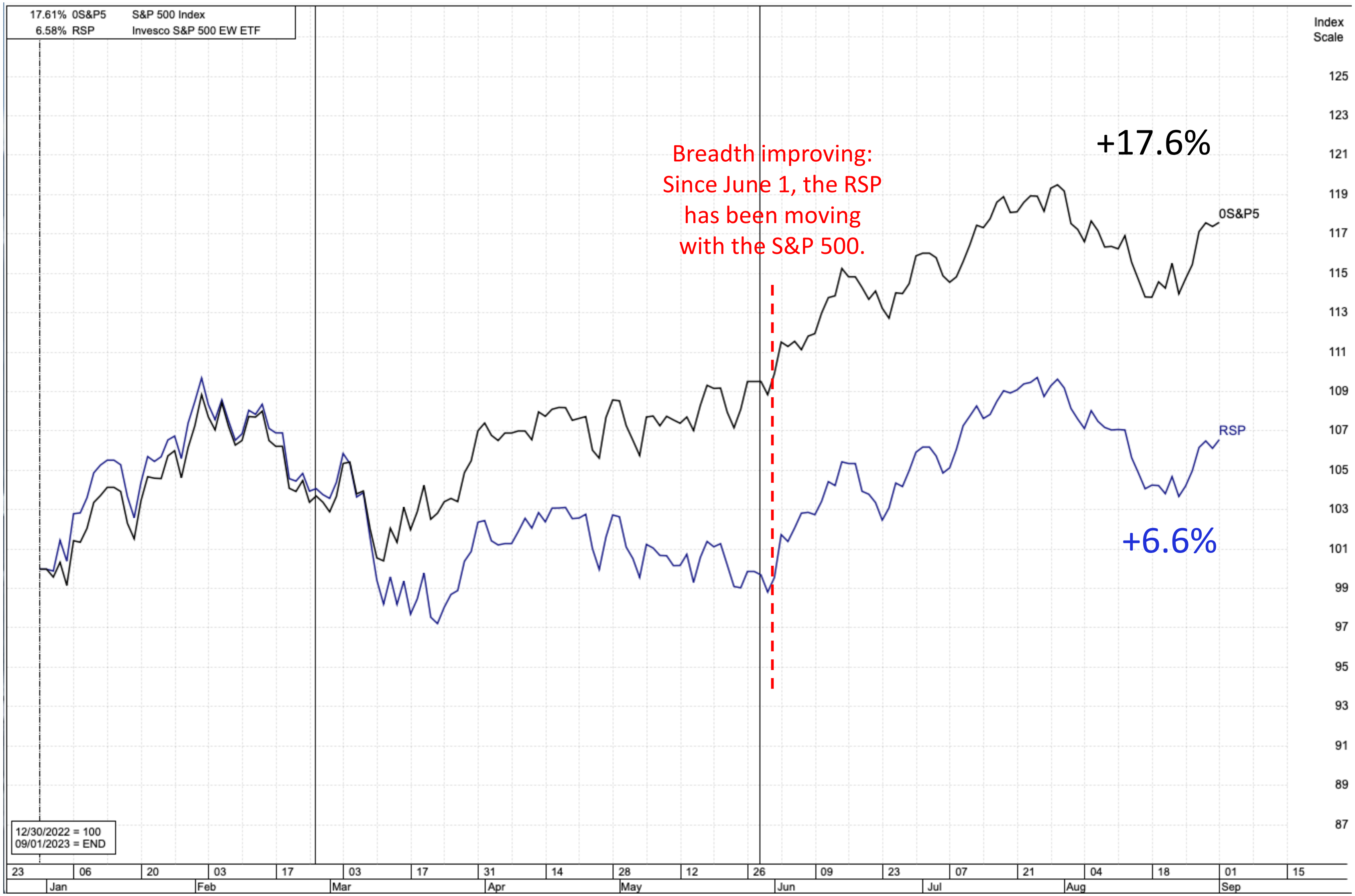
Stock market

S&P 500



Source: Standard & Poor's and MarketSmith, Inc. Data through September 19, 2023.

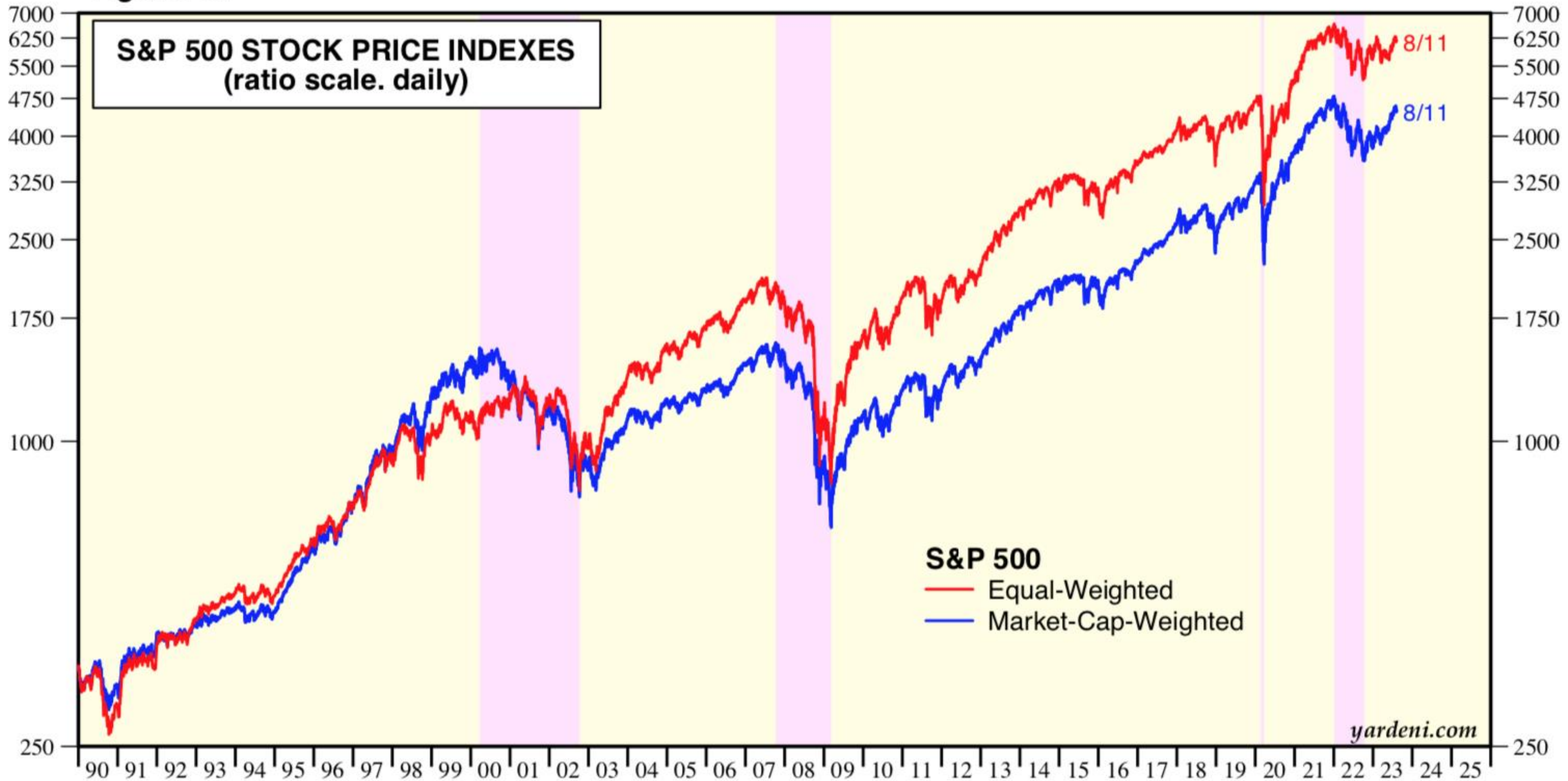
S&P 500 vs. S&P 500 equal-weighted YTD



Source: Standard & Poor's and MarketSmith, Inc. Data through September 1, 2023.

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

Figure 20.

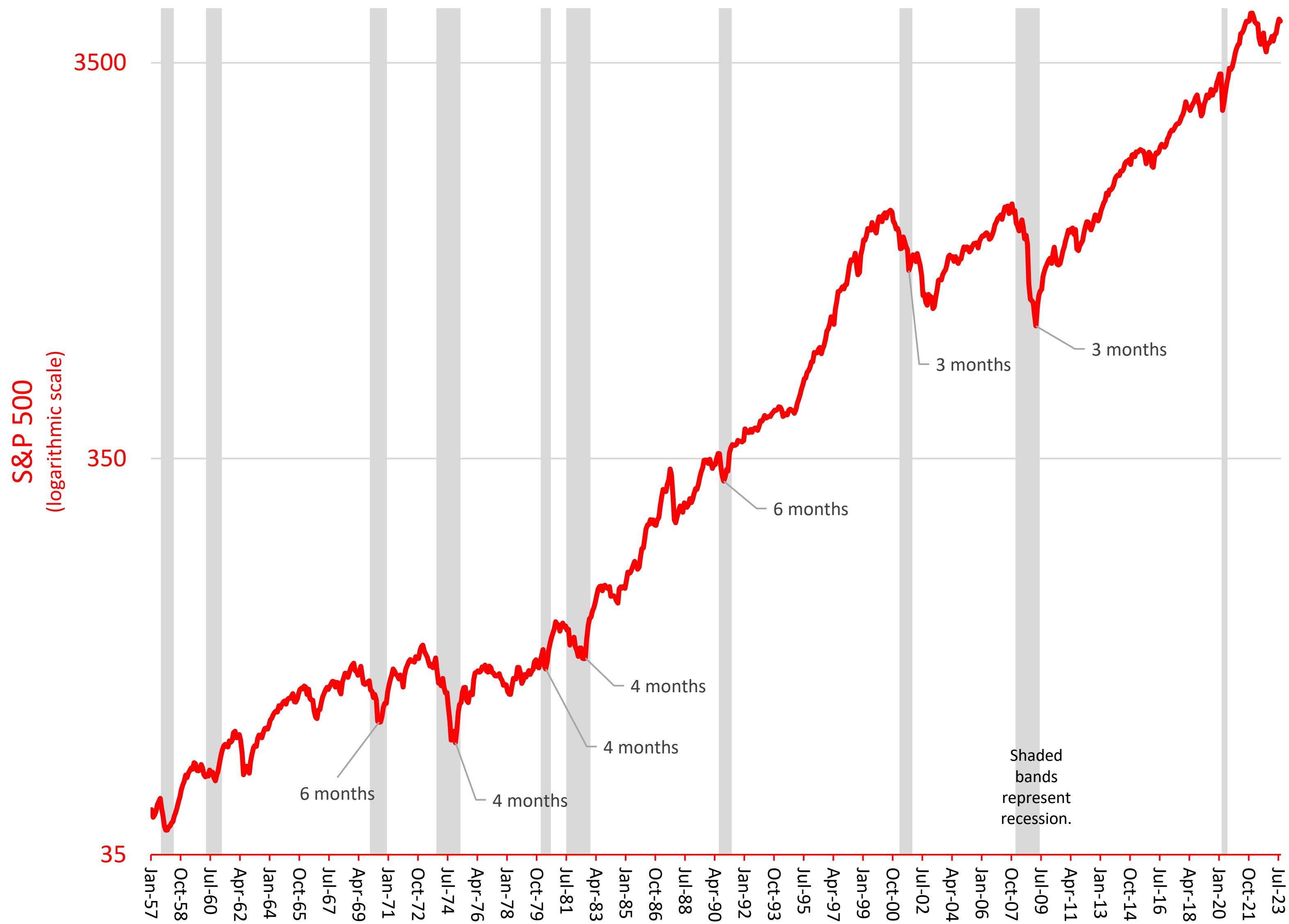


Note: Shaded red areas are S&P 500 bear market declines of 20% or more. Yellow areas are bull markets.
Source: Haver Analytics and Standard & Poor's.

Source: Yardeni Research, Inc., with permission. August 14, 2023.

Stock market

S&P 500 vs. recessions

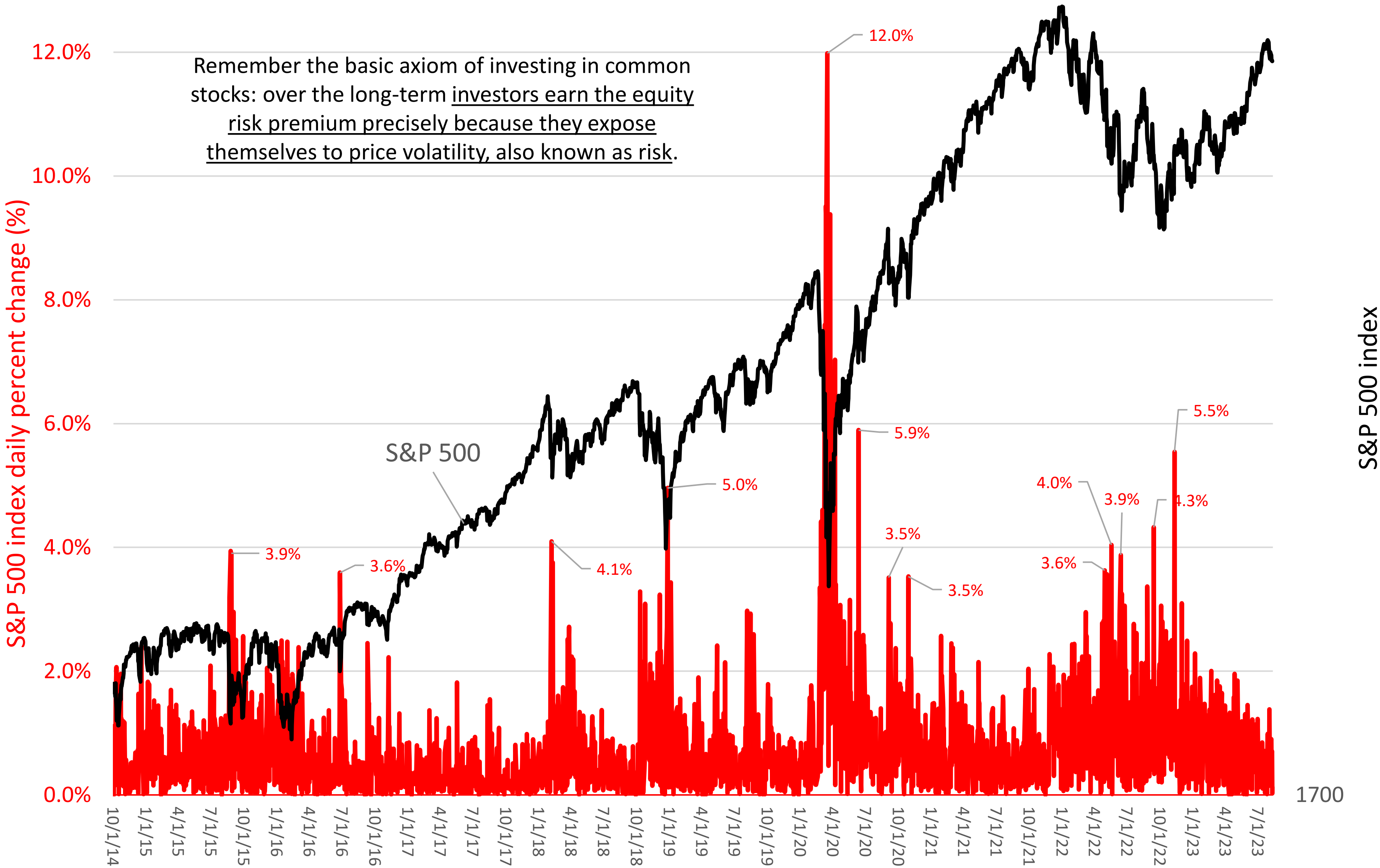


Big declines are associated with recessions.

Stocks often bottom months before recession-end.

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

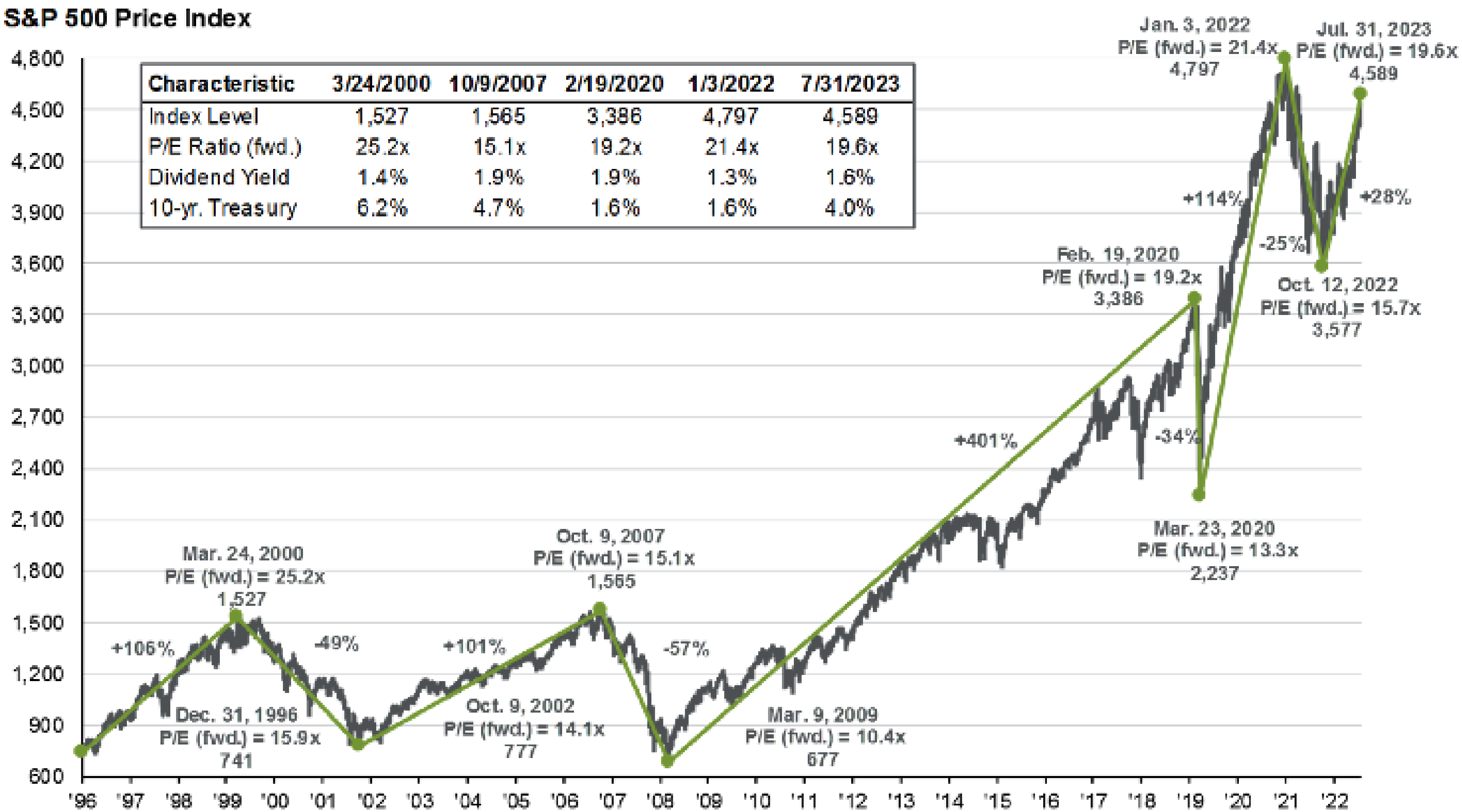
S&P 500 volatility



Source: Standard & Poor's, data through August 11, 2023.

Stock market

S&P 500

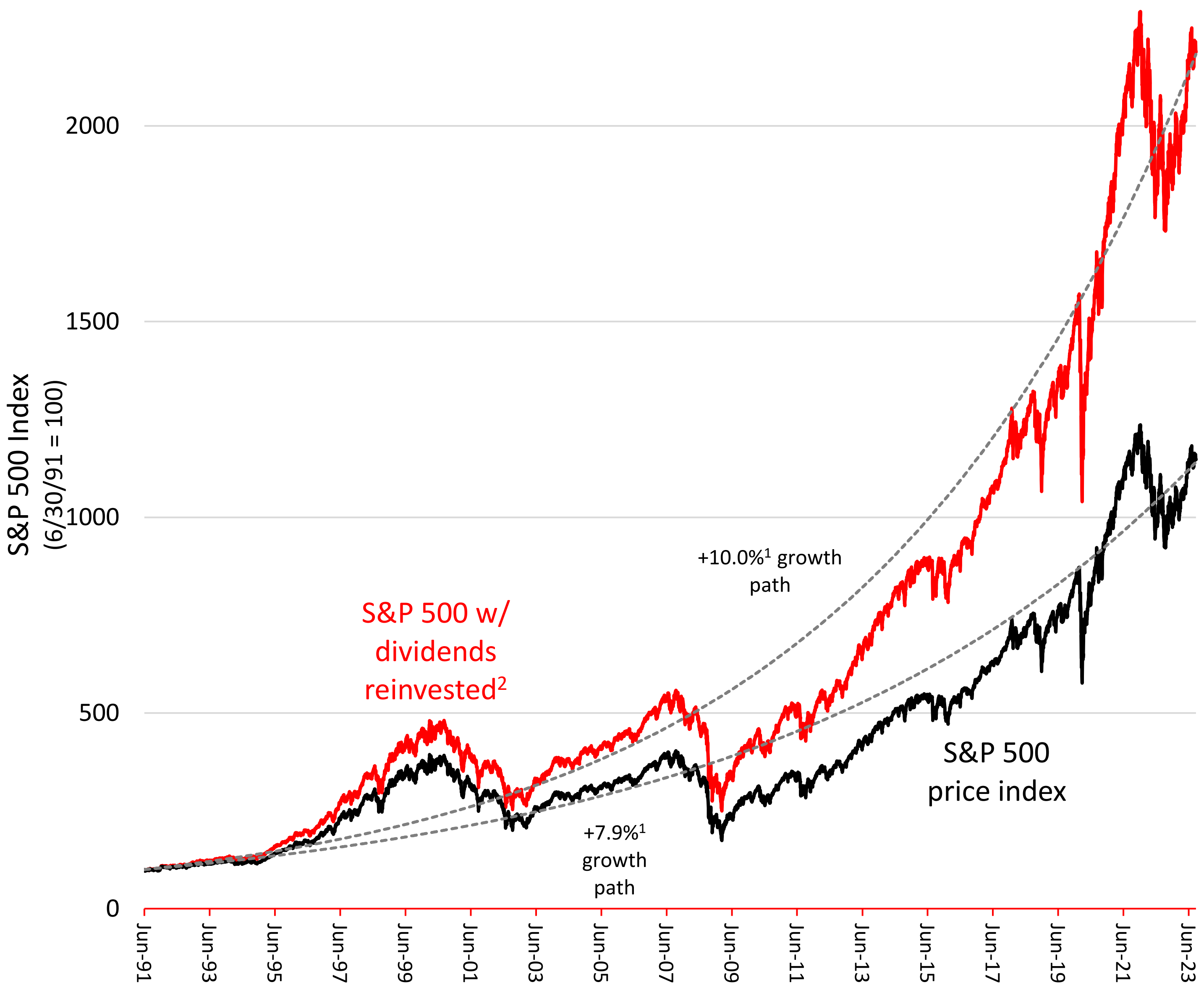


Characteristic	3/24/2000	10/9/2007	2/19/2020	1/3/2022	7/31/2023
Index Level	1,527	1,565	3,386	4,797	4,589
P/E Ratio (fwd.)	25.2x	15.1x	19.2x	21.4x	19.6x
Dividend Yield	1.4%	1.9%	1.9%	1.3%	1.6%
10-yr. Treasury	6.2%	4.7%	1.6%	1.6%	4.0%

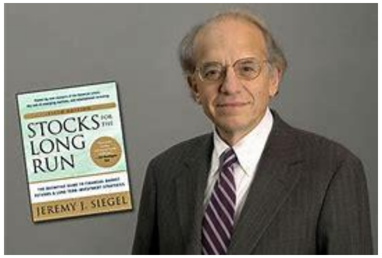
Source: J.P. Morgan's "Guide to the Markets" webpage, August 14, 2023.

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]



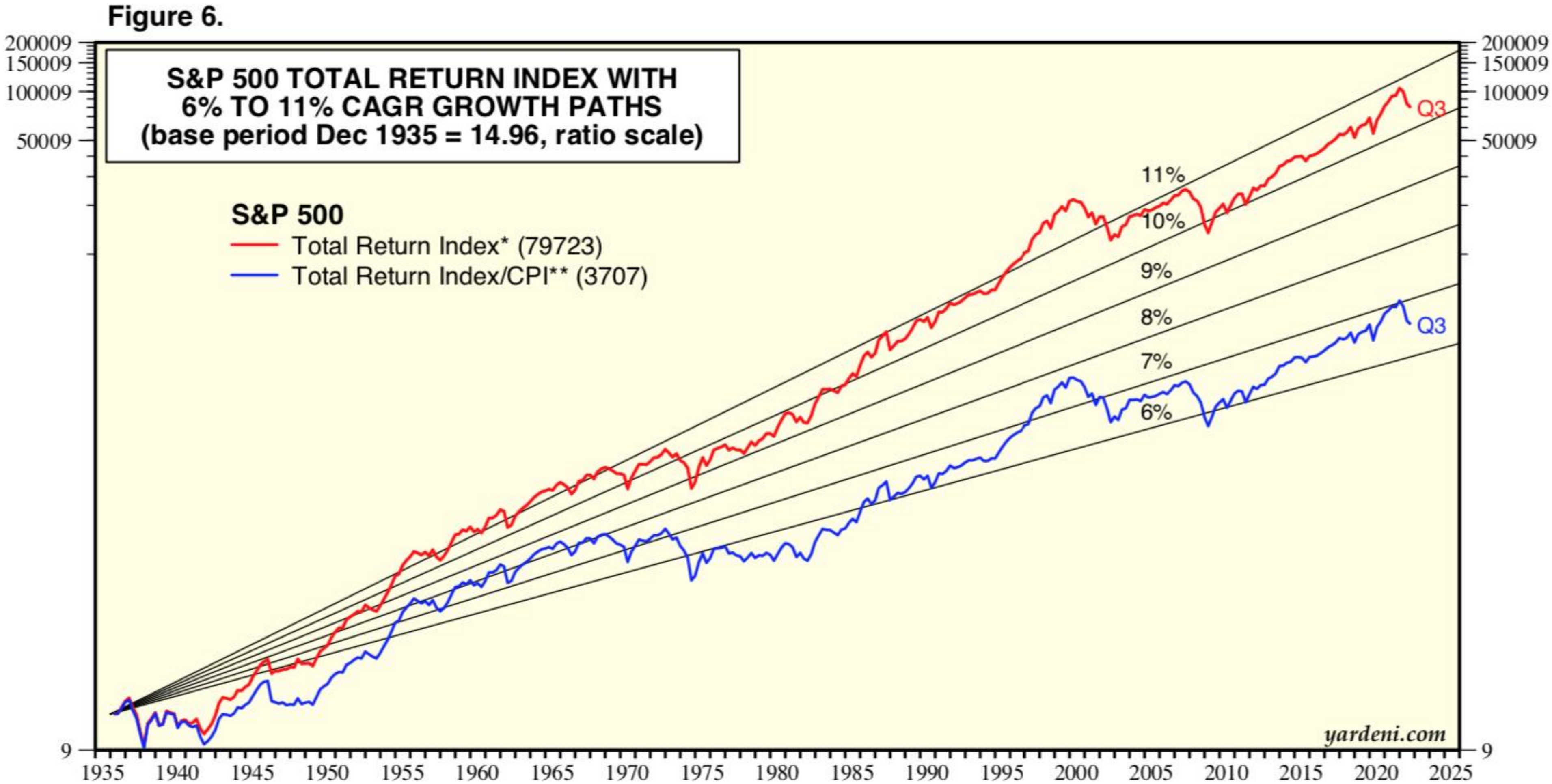
Source: Standard and Poor's. Data through September 18, 2023.[1] Compound annual growth rate. [2] S&P 500 total return index.
[3] per Professor Jeremy Siegel's seminal *Stocks for the Long Run*, first published in 1994.

Stock market arithmetic

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

Source: Standard and Poor's. Data through September 18, 2023. [1] Compound annual growth rate. [2] S&P 500 total return index.

Total return and real total return

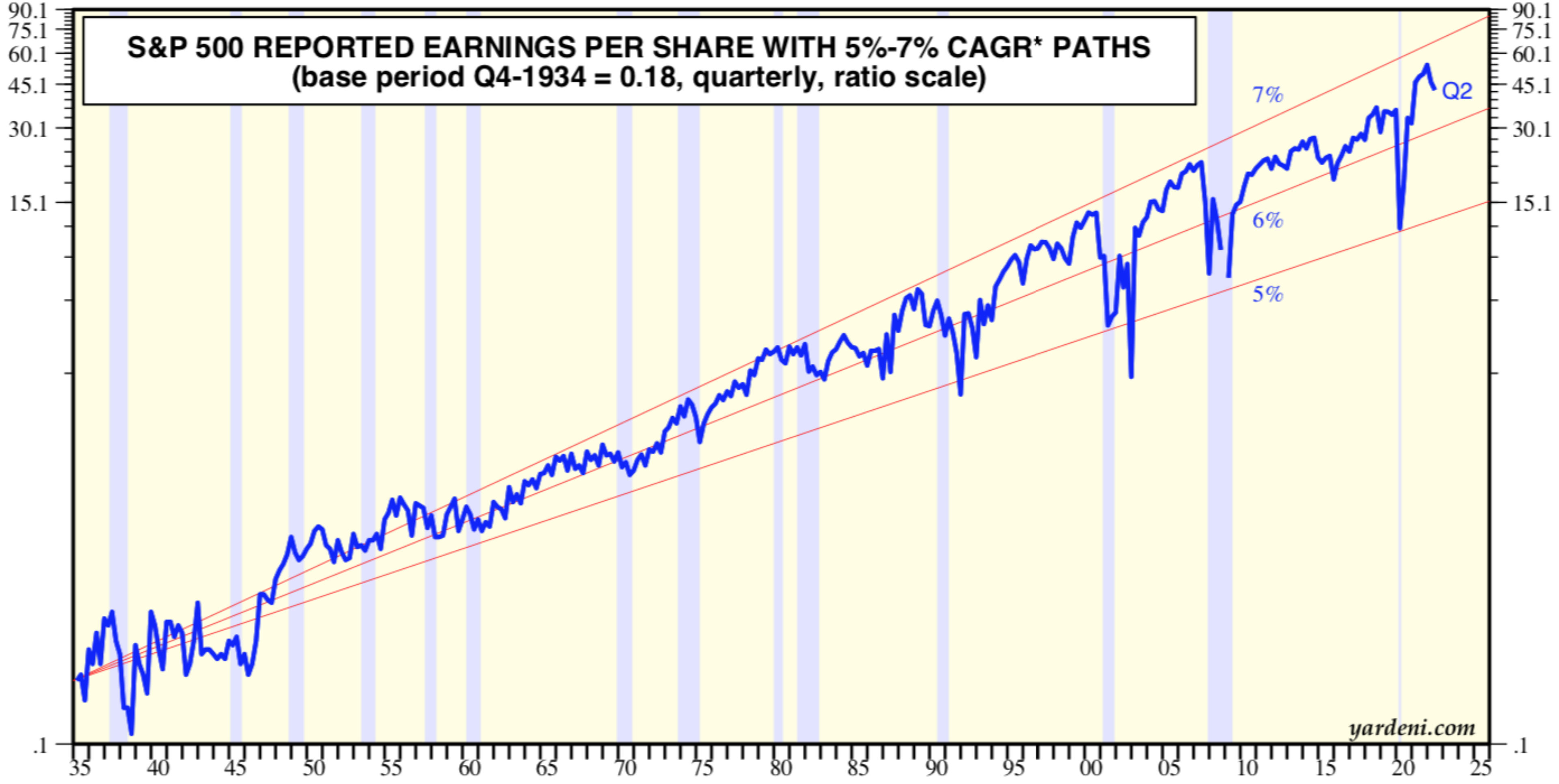


* Includes reinvested dividends.
** Using last month of quarter CPI. Compounded monthly using base value.
Source: Standard & Poor's.

Source: Yardeni Research, Inc., with permission.

85 years of S&P 500 earnings growth

Figure 9.

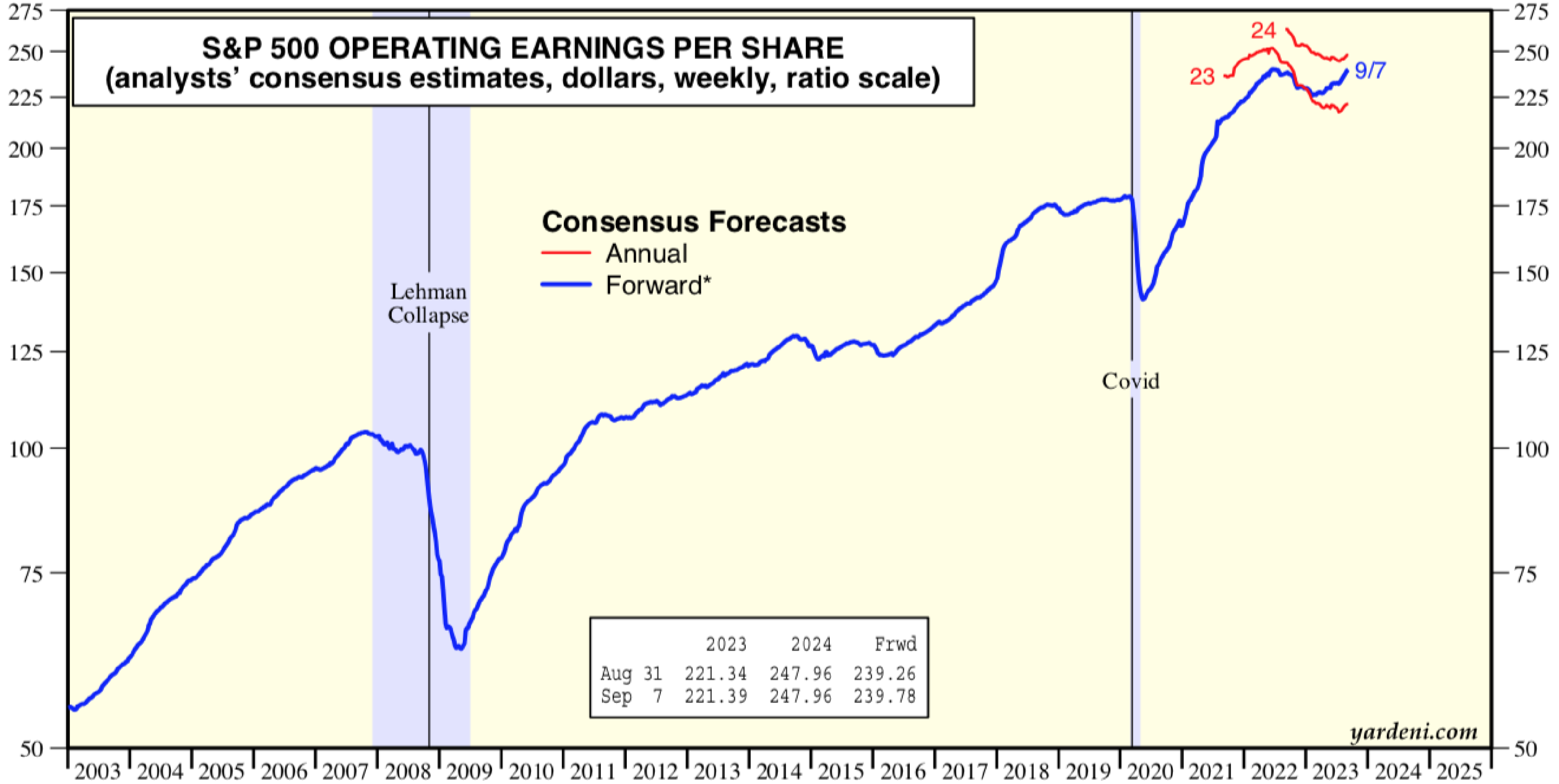


* Compounded annual growth rate from base value using monthly data. Q4-2008 not shown because of large negative value.
Note: Shaded areas denote recessions according to the National Bureau of Economic Research.
Source: Standard & Poor's.

Source: Yardeni Research, Inc. with permission.

S&P forward earnings estimates moving higher

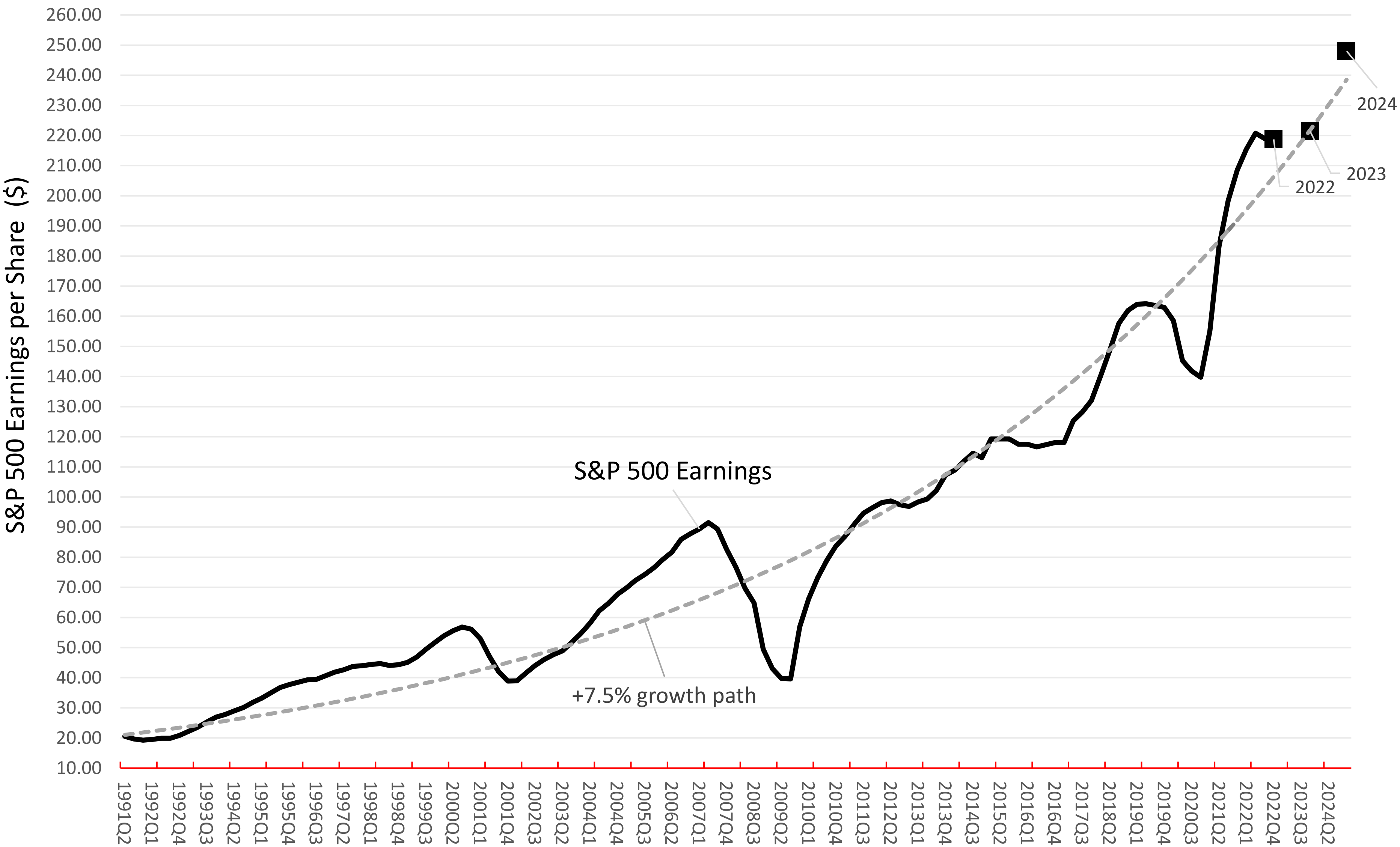
Figure 4.



* 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.

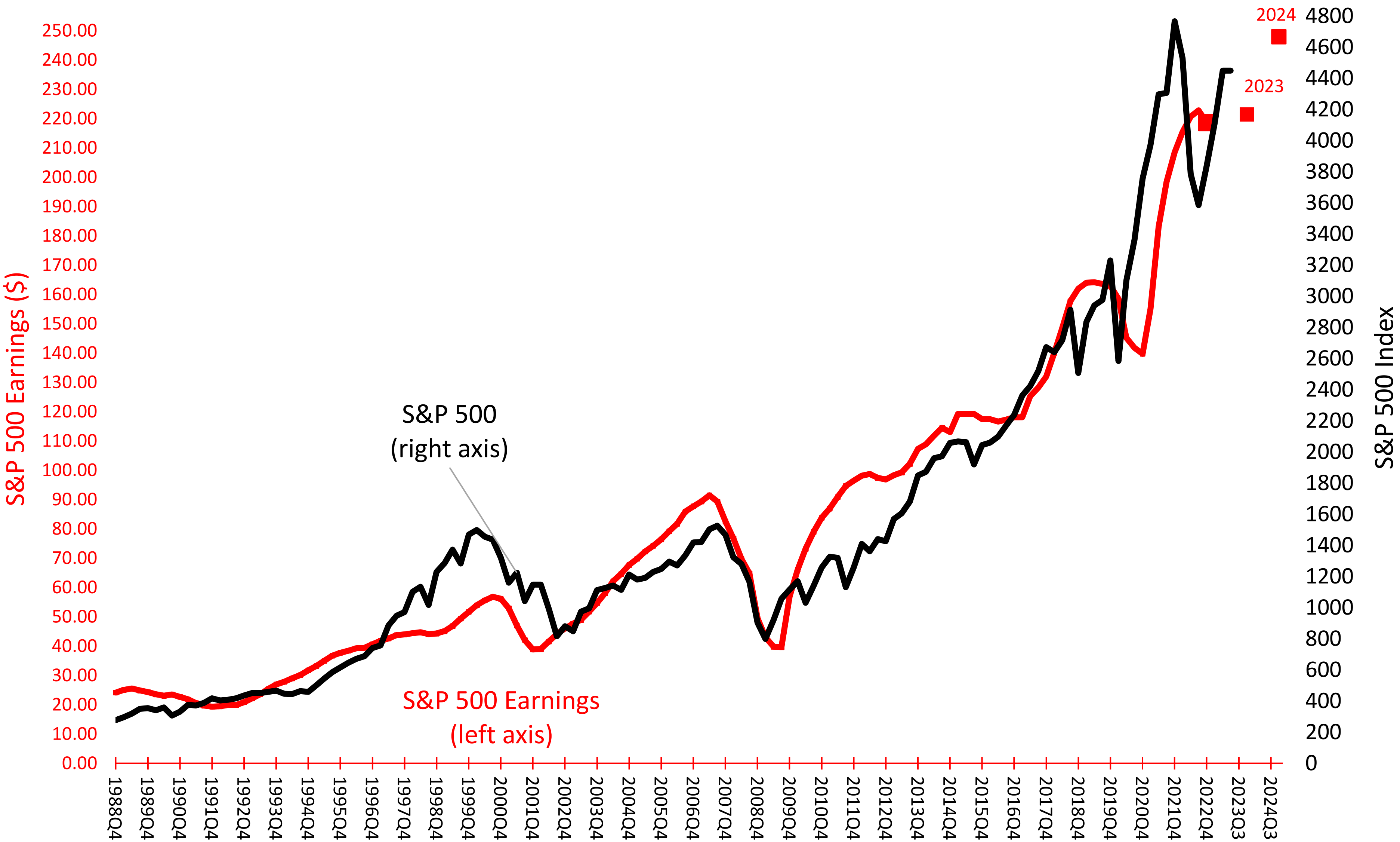
Source: Yardeni Research, Inc., with permission. September 15, 2023.

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 September 13, 2023: for 2023(e), $221.39; for 2024(e), $247.96 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.

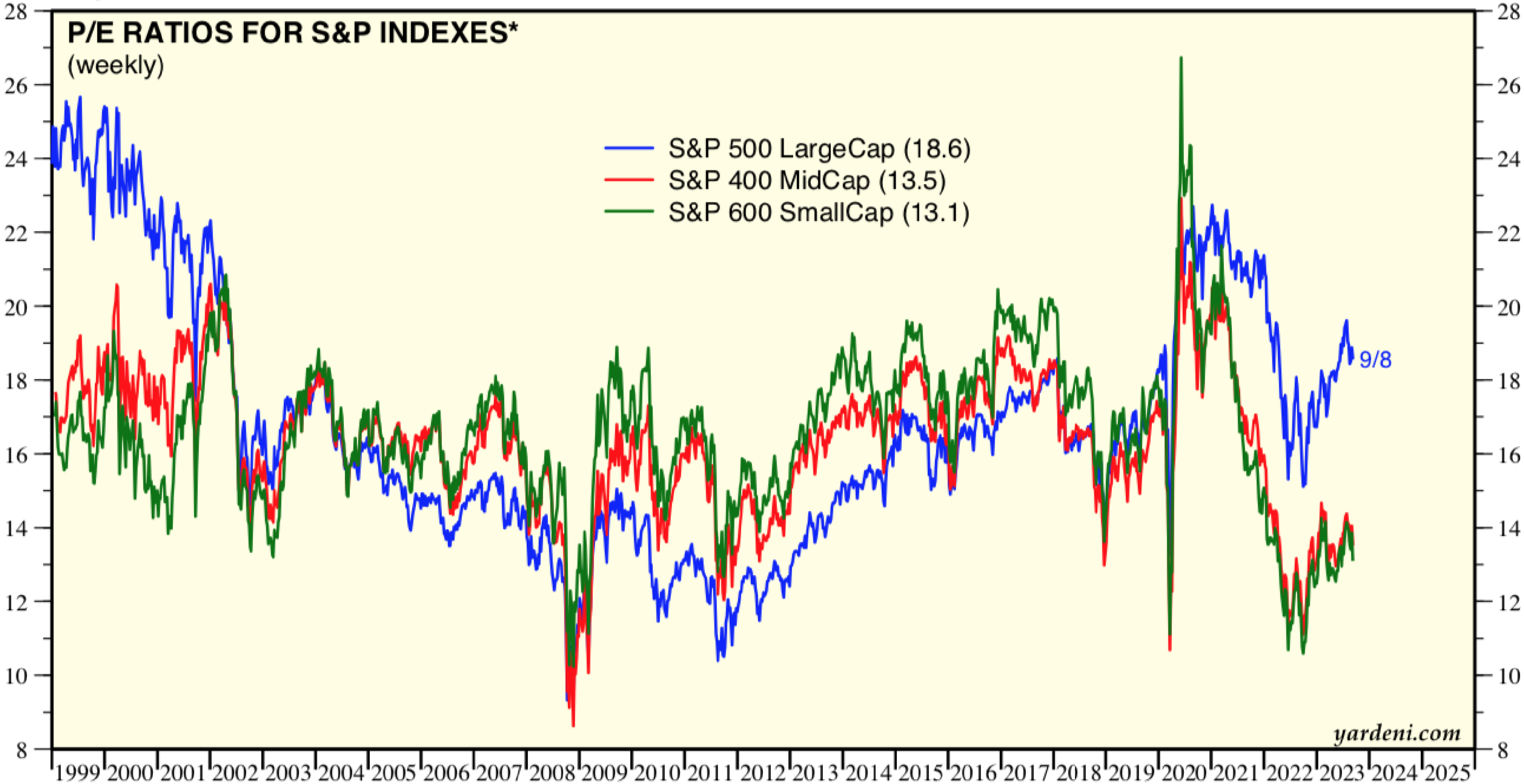
S&P 500 vs. actual and I/B/E/S estimated earnings



2023 (estimated) and 2024 (estimated) bottom-up S&P 500 operating earnings per share as of September 13, 2023: for 2023(e), $221.39; for 2024(e), $247.96. 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 September 15, 2023.

S&P 500 index forward P/E ratio

Figure 30.



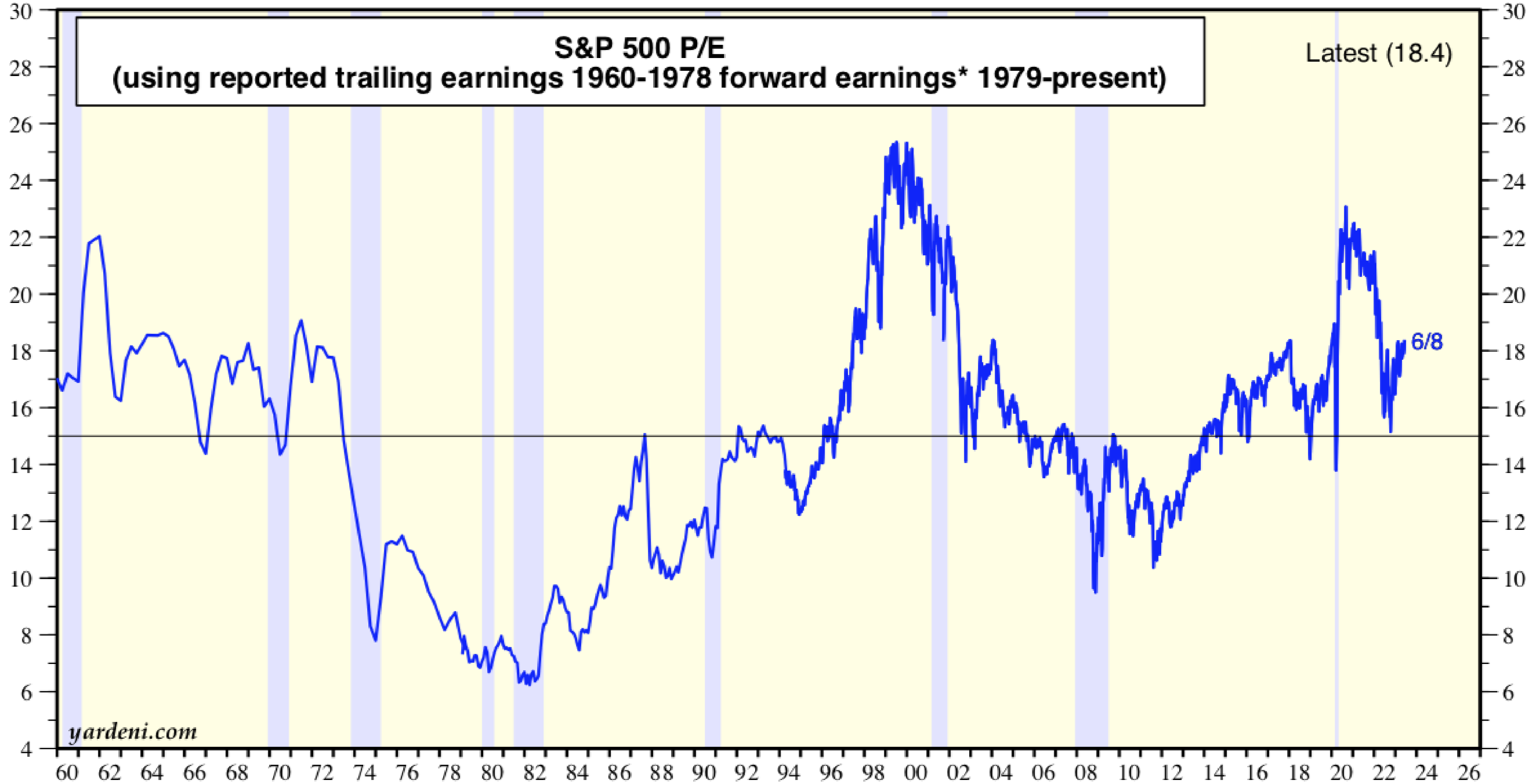
* Price divided by 52-week forward consensus expected operating earnings per share.
Source: I/B/E/S data by Refinitiv.

Source: Yardeni Research, Inc., with permission, September 15, 2023.

Valuation

S&P 500 index P/E ratio

Figure 9.



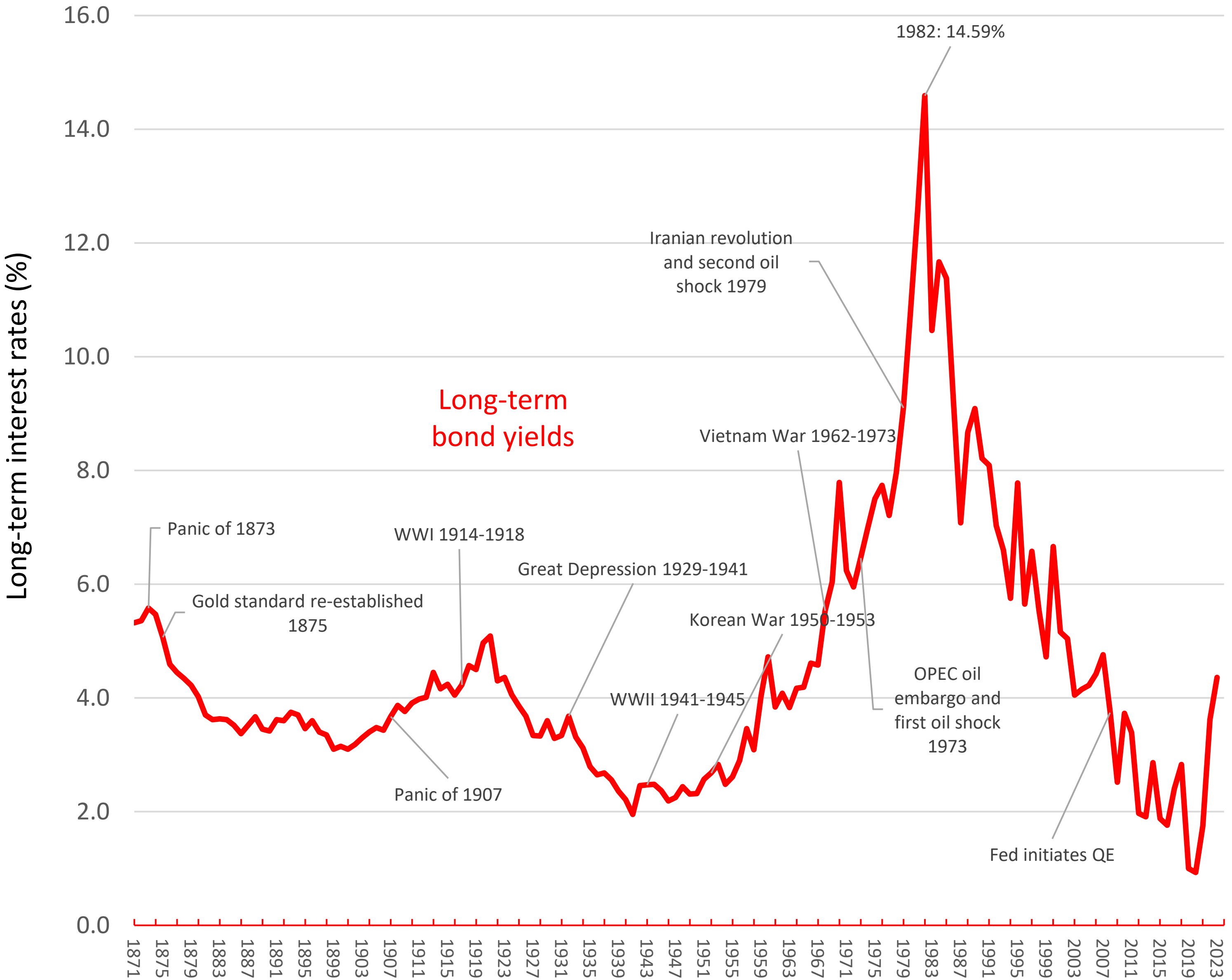
* Time-weighted average of consensus estimates of S&P 500 operating earnings per share for current year and next year. Monthly from January 1979 through April 1994, then weekly.
Note: Shaded areas are recessions according to the National Bureau of Economic Research.
Source: I/B/E/S data by Refinitiv and Standard & Poor's.

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

Bond Yields

- Normal 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 September 19, 2023.

Federal Reserve

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

Powell hike

THE WALL STREET JOURNAL.

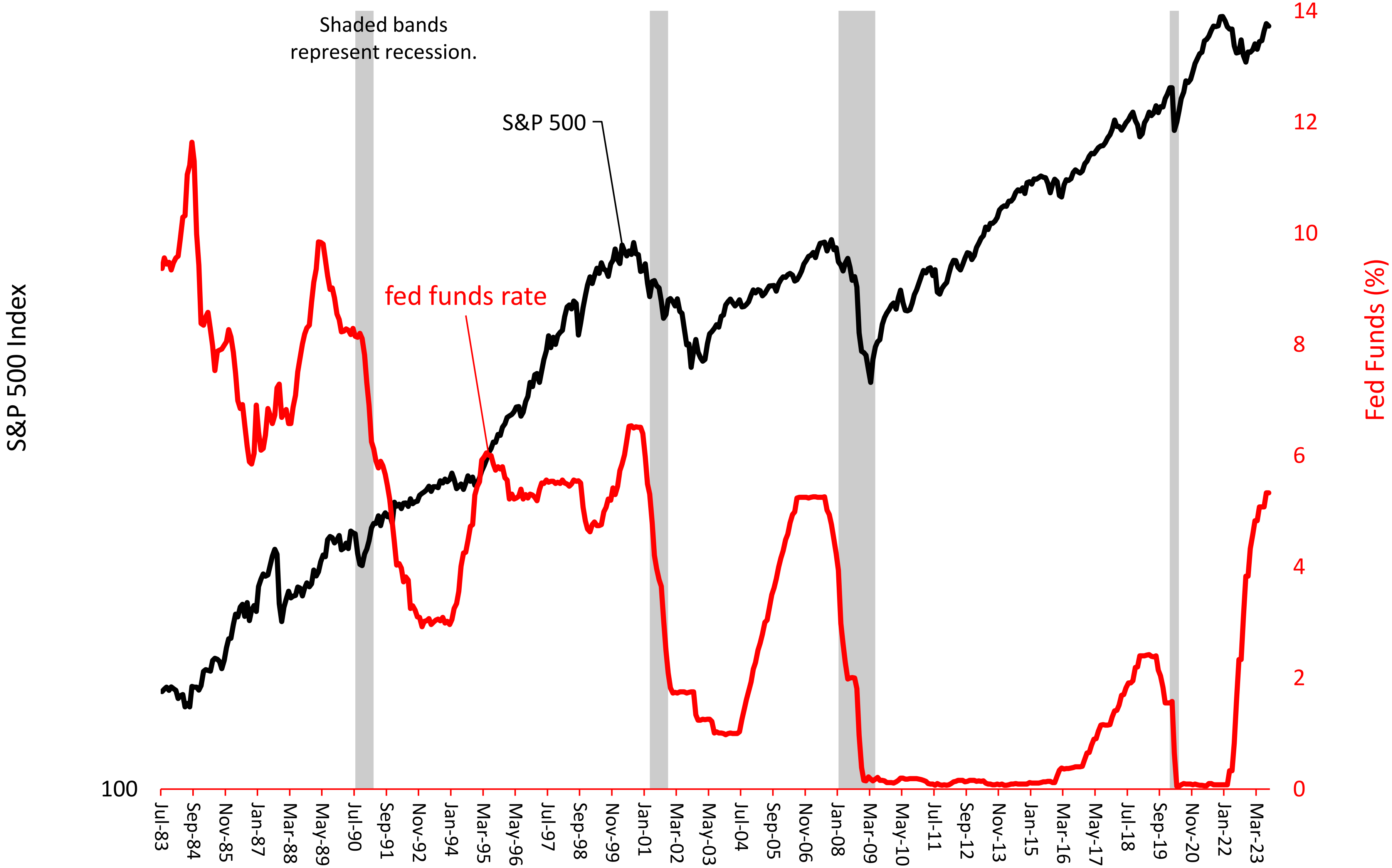
Fed Lifts Rates to Highest Level in 22 Years

The Federal Reserve resumed lifting interest rates Wednesday with a quarter-percentage-point increase that will bring them to a 22-year high.

Fed Chair Jerome Powell said it was too soon to tell whether the hike would conclude a series of increases aimed at cooling the economy and bringing down inflation. The central bank would decide whether to keep lifting rates based on how the economy fares in the months ahead, “with a particular focus on making progress on inflation,” he said at a news conference.

Source: *The Wall Street Journal.* “Fed Lifts Rates to Highest level in 22 Years”, by Nick Timiraos. July 27, 2023.

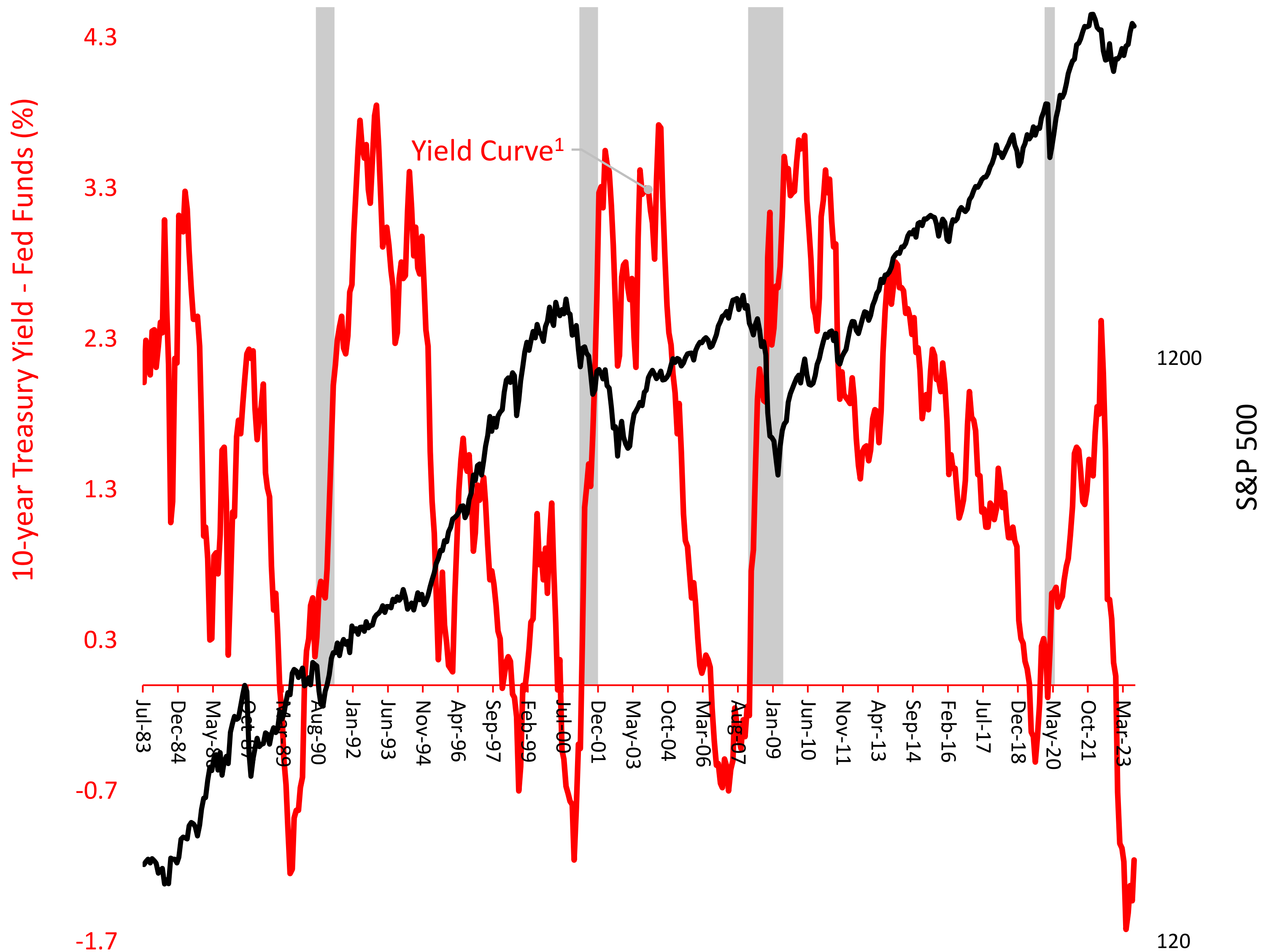
S&P 500 vs. fed funds rate



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

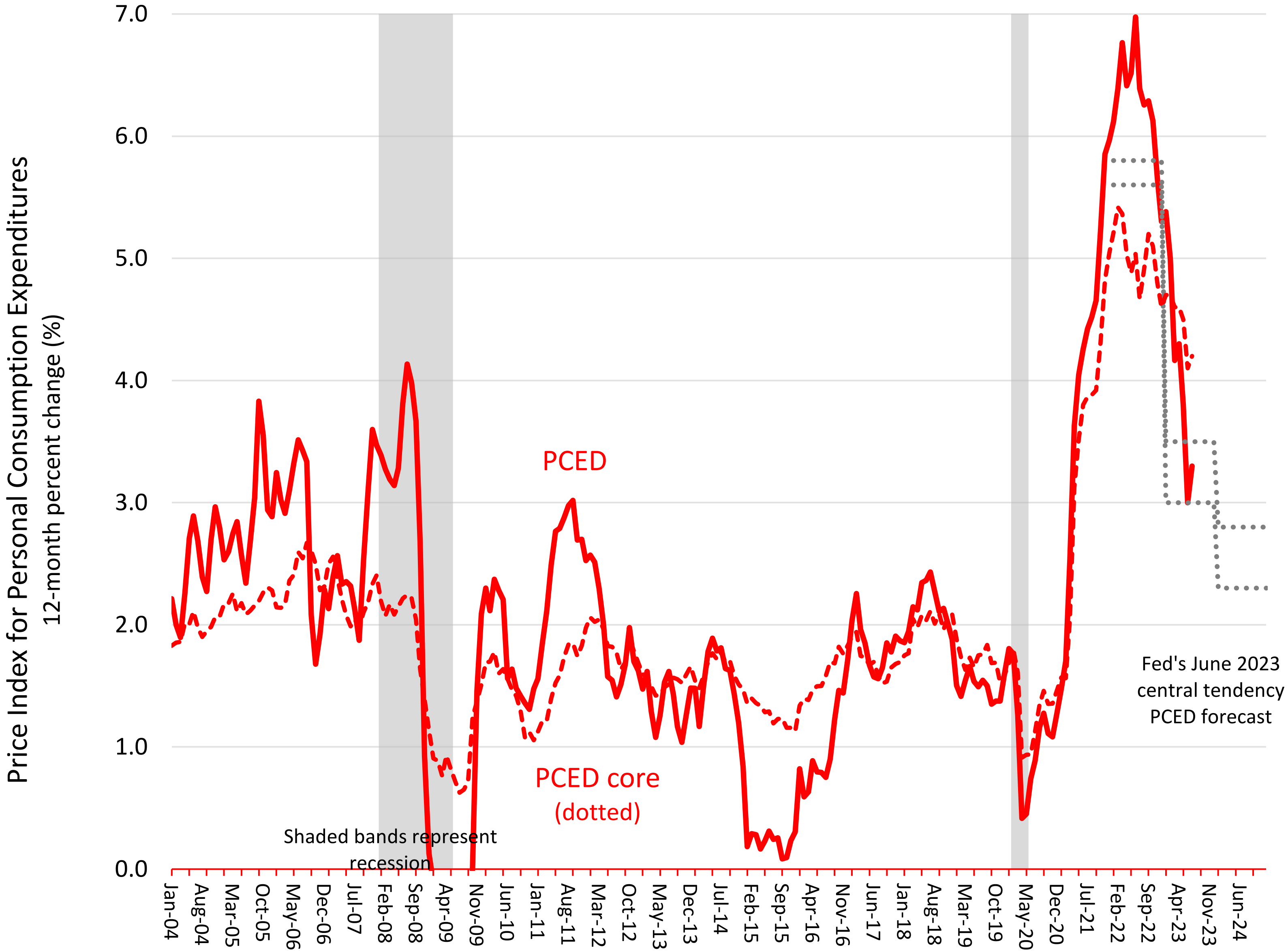
Sources: NBER, Federal Reserve and Standard & Poor's. Data through August 2023.
[1]The interest rate on the 10-year Treasury bond (long term) minus the fed funds rate (short term).

Inflation

- Year-over-year headline PCED +3.3%, +4.2% core
- M2 driving inflation
- Inflation expectations (TIPS spread) falling

Inflation

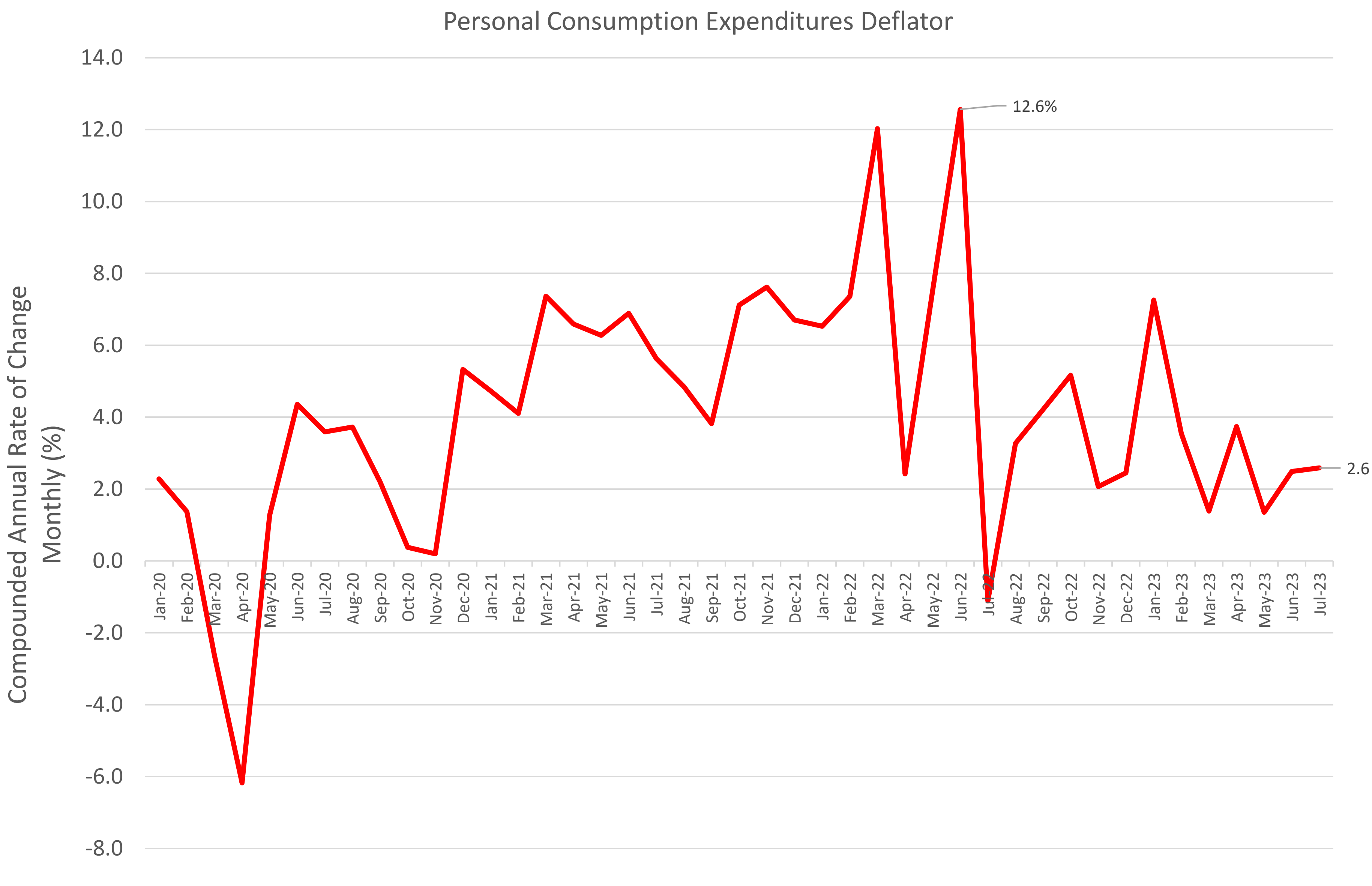
PCED – headline and core



Inflation peaked, following the post-Covid surge.

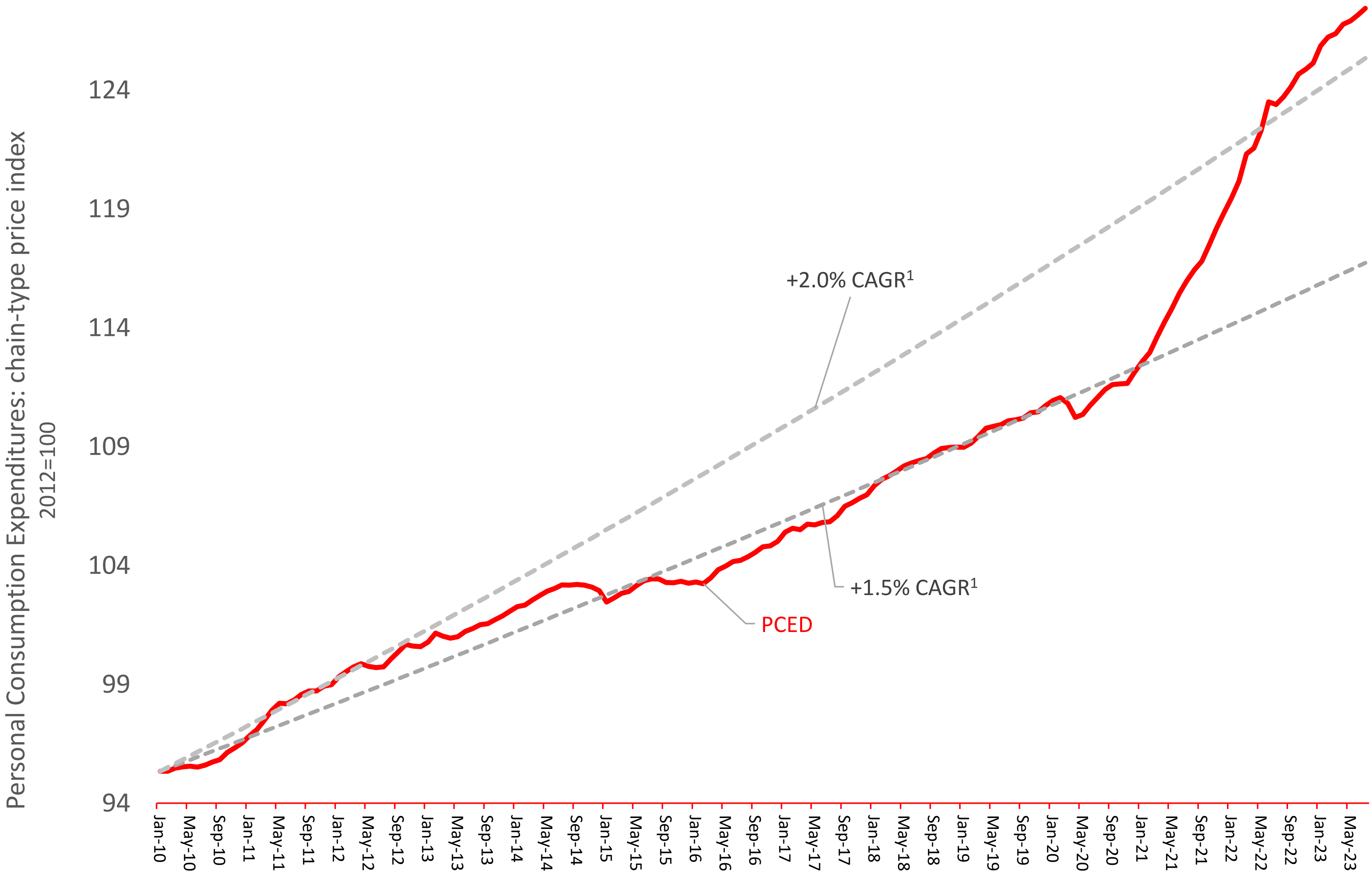
Source: NBER, Federal Reserve Bank of St. Louis. Data through July 2023.

PCED – monthly rate of change annualized



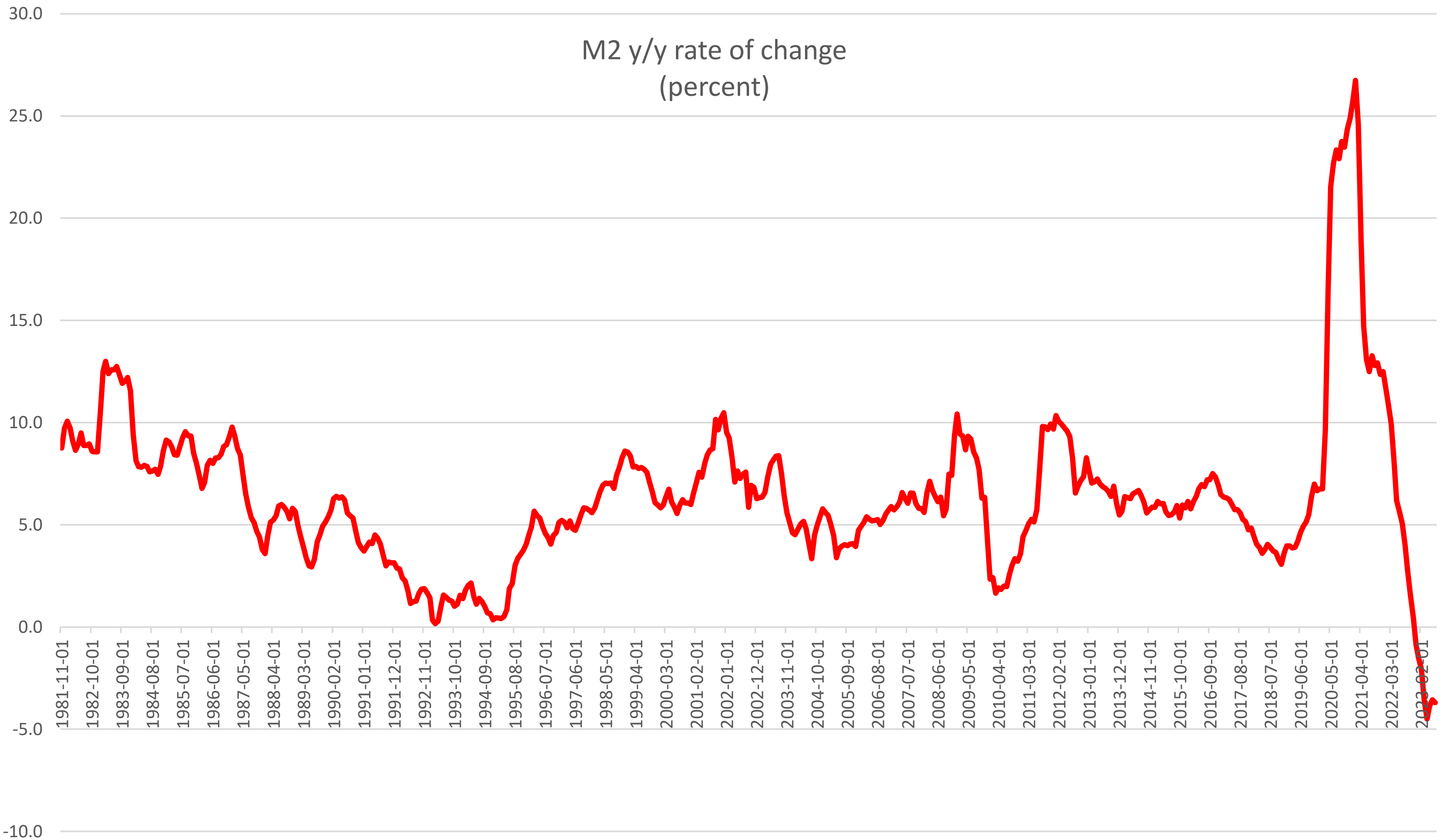
Source: Federal Reserve Bank of St. Louis. Data through July 2023.

PCED – headline



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

The money supply – y/y rate of change



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

M2 vs. inflation

THE WALL STREET JOURNAL.

Get Ready for Deflation

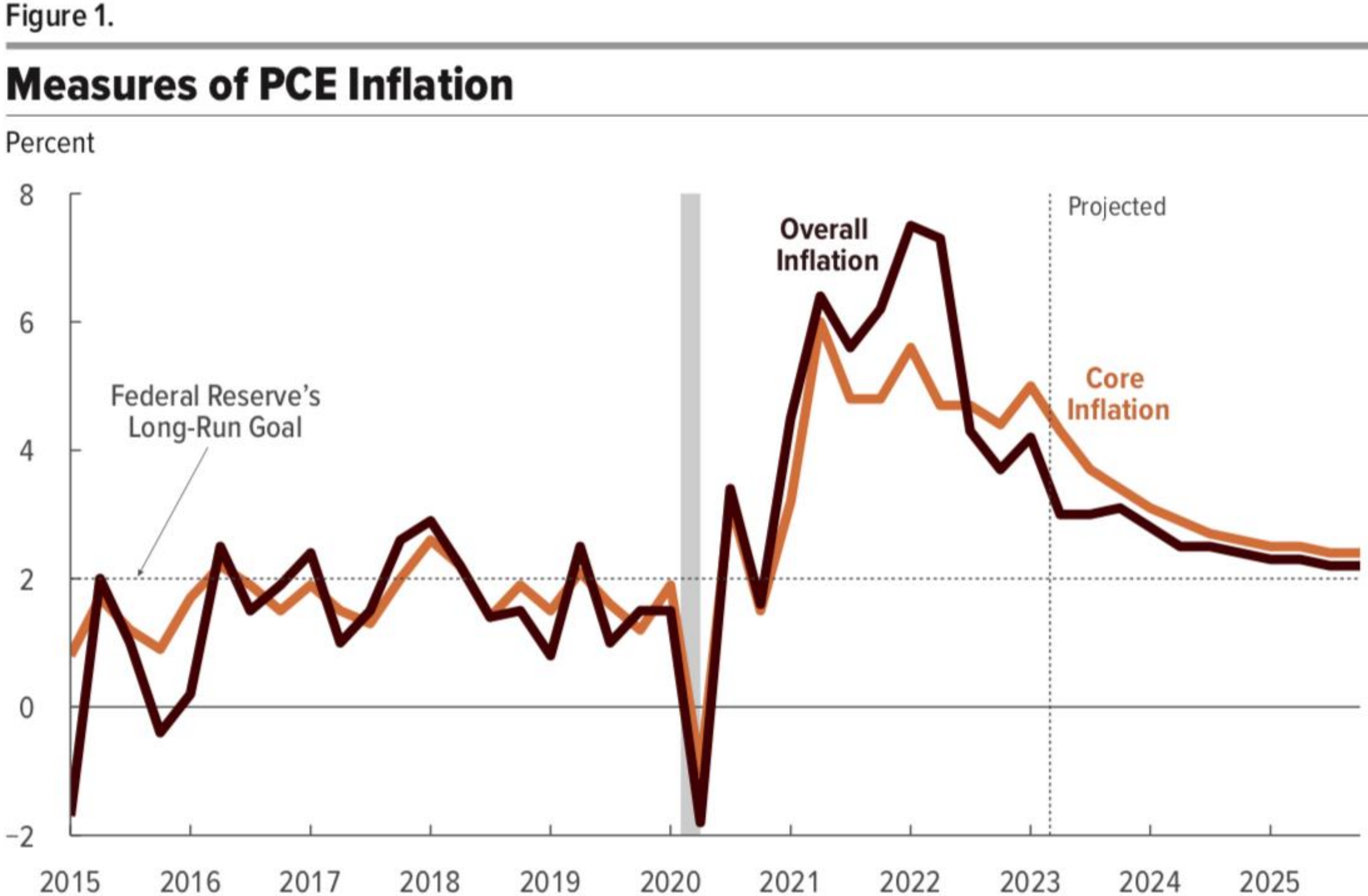
The record increase in the money supply caused by $6 trillion in pandemic relief payments in 2020 and 2021 unleashed the present inflation.

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. <u>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</u>, 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.

CBO’s forecast

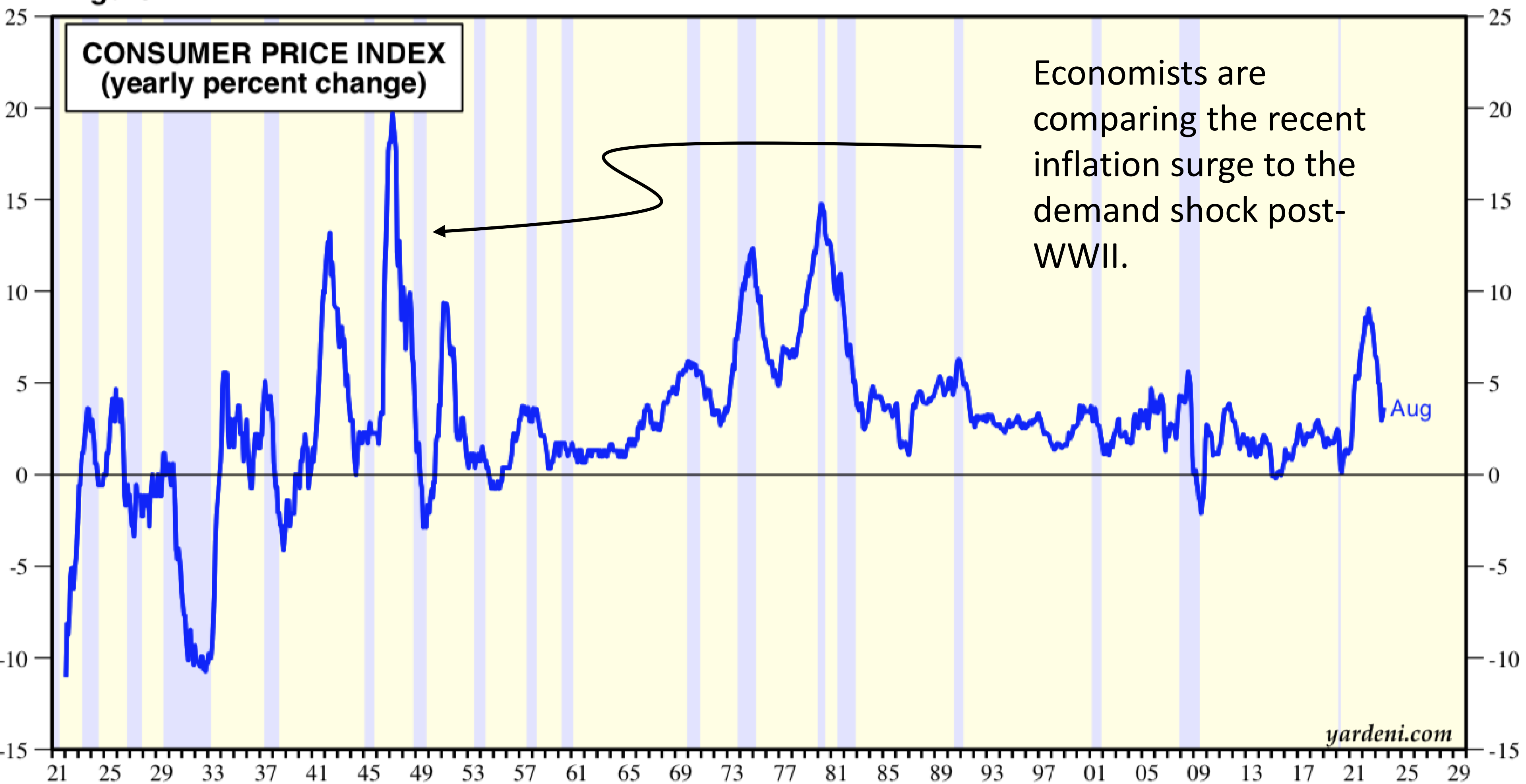


In CBO’s projections, inflation gradually slows as factors that caused demand to grow faster than supply in the wake of the coronavirus pandemic continue to ease. The rate of inflation continues to exceed the Federal Reserve’s long-run goal of 2 percent, but it approaches that goal in 2025.

Source: Congressional Budget Office, *An Update to the Economic Outlook: 2023 to 2025,* released July 2023.

CPI

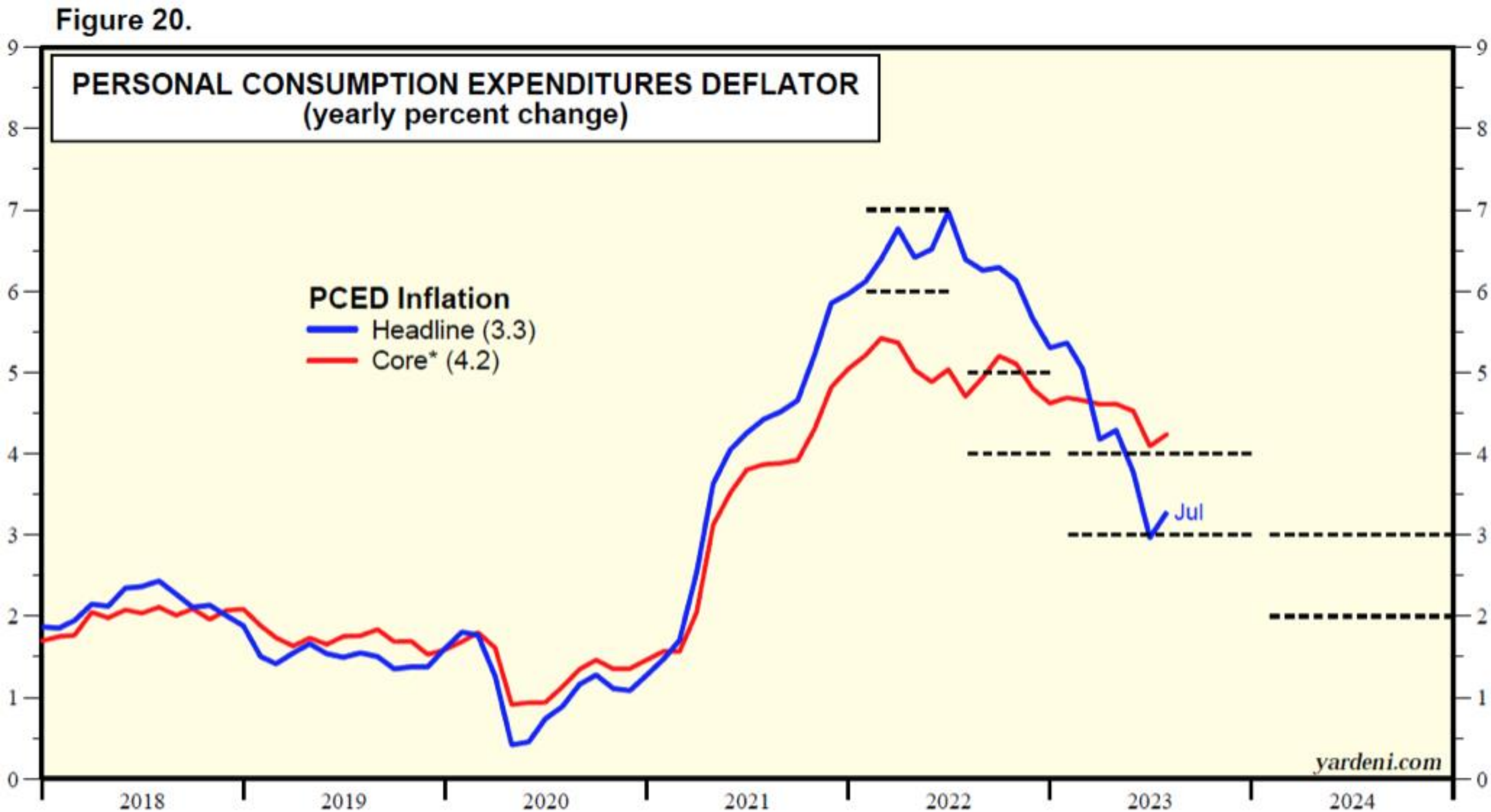
Figure 2.



Source: Bureau of Labor Statistics.
Note: Shaded areas are recessions according to the National Bureau of Economic Research.

Source: Yardeni Research, Inc., with permission. Data through August 2023.

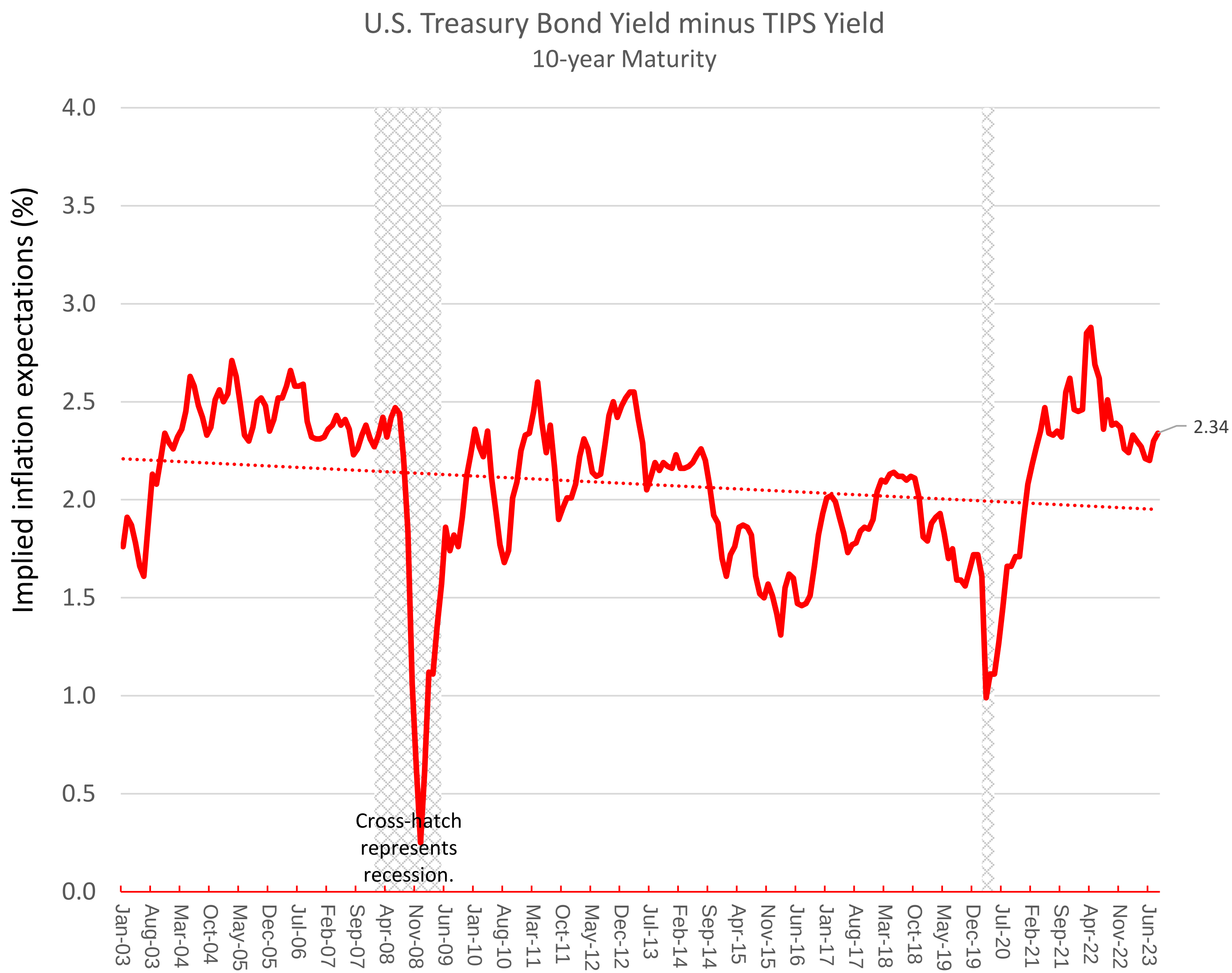
Ed Yardeni's inflation forecast



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

Source: Yardeni Research, Inc., with permission, September 5, 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 August 2023.

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.

Note: Not all products, materials or services available at all firms. Advisers, please contact your home office.