NEXUS338

2024 Q1 Commentary

Prepared by Philip Chao 2024 03 31

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What's morphed in 2024Q1?

- It's all about inflation and the Fed's interest rate reaction function. From the absence of forward guidance to the incessant data dependency – understandably in a time of uncertainty – the Fed is feeling its way to a landing.
- In the prepared remarks of every Jay Powell speech, he affirms the dual mandate: "the Fed's monetary policy actions are guided by our mandate to promote maximum employment and stable prices for the American people." This is somewhat unique to the U.S. for focusing both on (1) keeping the consumer inflation expectation anchored at the 2% target rate and (2) maintaining "full" employment. (Today it is lower than the past 5% unemployment neutral levels.) So, it is a balancing act of keeping interest rates at the "right" level and ultimately landing on the illusive neutral rate (or r*) on the one hand and yet being tight enough to keep inflation under control while maintaining "full" (including minority and women) employment on the other hand.
- Since 2022, the Fed has been focused on bringing down inflation fast enough to prevent the unanchoring of consumers' inflation expectations. The unprecedented speed and scale of raising interest rates tell us that the Fed was serious about the price stability part of its mandate at a time when the labor market was at a historically tight level coming out of COVID. The surprising speed of CPI coming back down that ensued (primarily due to the disappearance of goods inflation as supply chain and manufacturing production healed) led the Fed to stop hiking and determine that the cycle interest high was reached last year.
- Approximately 70% of the U.S. economy is made up of the service sector; thus, the efforts of reducing the lingering sticky inflation above 2% must be focused on consumer demand. There is a direct relationship between employment, wages, savings, financial conditions, and consumption. As the Fed awaits the full impact of the long and variable lag, it is hopeful that, by holding rates high and inflation grinding downward, the "real" interest rate would increase and make financial conditions more restrictive.
- The Fed is now pivoting more of its focus on the "full employment" mandate to see how a normalizing labor economy (more workers entering the job market and more immigration) would tamp down wage growth, labor market tightness, and excessive consumer demand on services. The Fed is NOT trying to engineer a recession (i.e., a hard-landing) to successively meet their dual mandate with the smooth interest rate glidepath to r*.

2024 Q1 Commentary: Waiting for the North Wind

- The outlook on the U.S. economy is continuing expansion as evidenced by the tight labor market (U3, U6, employment participation rate, and employment to population ratio), economic activities (real GDP and goods and services activities), consumer and business sentiments, and positive to quite positive financial conditions. This remains supportive of the current soft to no landing prognosis.
- Inflation (CPI and PCE) has come down significantly in a relative short period of time from its high in June 2022. The main disinflationary factors have been the normalizing of goods prices from the (1) recovery of the fractured supply chain during COVID, (2) demand destruction - the move from goods to service consumption as economies reopened, and (3) the surprising and significant drop in energy prices.
- A good economy means full employment (U3 at sub 5%), higher wages, and more consumption, which lead to sustained demand for goods and services as the economy expands. This makes the Fed more reluctant to cut rates and keep a higher hurdle for stocks to generate returns. And a good economy leads to increased revenue and better profits for corporations which support higher equity prices and avoids a recession. On the other hand, with a slowing economy or an economy trending towards a contraction with higher unemployment, the Fed would react and lower interest rates to stimulate the economy and both stock and bond markets would rally.
- The Fed continues to be data dependent. The question is: when was the Fed *not* data dependent? We believe the difference is that, during prior periods, the direction and the pace of travel were less uncertain and the Fed was able to provide "forward guidance". In July 2022, the Fed decided to make decisions on a meeting-by-meeting basis (i.e., each meeting is "live") depending on incoming data. This raised significant uncertainty as the "anchor" of forward guidance is removed with the market left deciphering (reading the tea leaves) each time there is a new set of economic data. This is where noise has often replaced signal. This conjures up the speech Chair Powell gave at the Economics Club of New York on Nov 28, 2018, – "like being in a room filled with furniture and the lights go out, you slow down, and you feel your way more."
- For now, the market continues to float on the open sea with no compass pointing out a clear direction of travel (3, 2, or 0 rates cuts in 2024) and awaits the north wind to blow. The March SEP affirms 3 cuts in 2024.
- The market hangs on every word of the press release, press conference, meeting minutes, and public comments of each Committee member about the next monetary policy action including changes in its balance sheet. The final neutral interest rate (r*), the amount of system liquidity, and the speed of travel all matter to global investors.

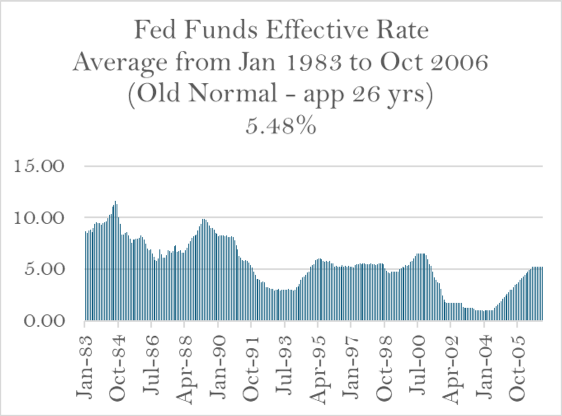
Chair Powell Semiannual Monetary Policy Report[1]:

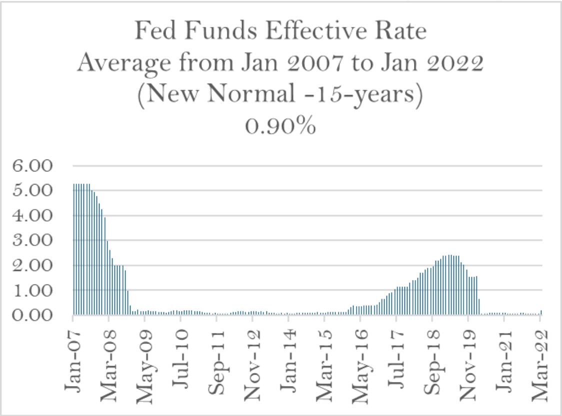
- "Interest rate policy. After significantly tightening the stance of monetary policy since early 2022, the FOMC has maintained the target range for the policy rate at 5¼ to 5½ percent since its meeting last July. Although the FOMC judges that the risks to achieving its employment and inflation goals are moving into better balance, the Committee remains highly attentive to inflation risks. The Committee has indicated that it does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent. In considering any adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks."
  - *OUR COMMENT: Under this well-established framework and the economy not being under extreme duress or exposed to known systemic risks (GFC, Pandemic, etc.), the Fed Fund rate is likely to be at least 1% or more above the inflation rate. A 3% to 3.5% fed fund's rate is reasonable, which is 2% below where we are now and not a 3% or 3.5% reduction from here.*
- "Balance sheet policy. The Federal Reserve has reduced its securities holdings, bringing the total reduction in securities holdings since the start of balance sheet runoff to about $1.4 trillion. The FOMC has stated that it intends to maintain securities holdings at amounts consistent with implementing monetary policy efficiently and effectively in its ample-reserves regime. To ensure a smooth transition, the FOMC intends to slow and then stop reductions in its securities holdings when reserve balances are somewhat above the level that the FOMC judges to be consistent with ample reserves."
  - *OUR COMMENT: Since "ample reserve" is not defined, it is uncertain at what balance sheet size Quantitative Tightening will stop, but it is reasonable to say that the Fed's balance sheet is not going back to the "Old" Normal as the world has changed. This also means the Fed is draining liquidity (from crisis level), and by reducing supply and if demand remains the same, the costs of leveraging and borrowing should be relatively higher as well.*

[1] https://www.federalreserve.gov/newsevents/testimony/powell20240306a.htm

Higher for Longer – With what are we comparing?

- We and many market participants have been projecting U.S. interest rates will remain higher for longer. At one time, higher for longer was thought of as interest rates need to stay higher for a period in order to bring down an almost double-digit headline inflation rate. Then, as the CPI and PCE began to drop at a rapid clip, the attention was focused on the "last mile" of bringing core PCE to the 2% target. This is where we are today, and we, along with many market observers, believe this would take more to much more time to reach the target. The Fed does not want to cause a recession or a significant rise in unemployment due to excessively restrictive financial conditions as a path to 2%. Since monetary policy is a blunt instrument, it is almost impossible to calibrate the timing for the rate policy as well as QT action when there are so many intended and unintended consequences of rate actions and factors that cannot be controlled. Thus, the Fed will continue to rely on incoming data to guide their rate decisions.
- The issue is anchoring the term. When one speaks of "higher" for "longer", what is the baseline to compare with and to what historical time period is being referred? Are they being compared to the period defined as the "Old" Normal or the "New" Normal? We suggest that we are going back to more like the "Old" Normal, and under this anchor, the Fed will not need to cut rates by a lot or too quickly. Rates were extremely low during the New Normal as a response to significant systemic risks which are absent today. We are not in an emergency environment and have substantially recovered from the COVID shock.





Chair Powell Press Conference 03-20-2024 – Remains Bumpy

- Inflation is still too high. Ongoing progress in bringing it down is not assured, and the path forward is uncertain. We are fully committed to returning inflation to our 2 percent goal. (*commitment and credibility*)
- Nominal wage growth has been easing, and job vacancies have declined. FOMC participants expect the rebalancing in the labor market to continue, easing upward pressure on inflation. (*factors contributing to disinflation*)
- Longer-term inflation expectations appear to remain well anchored. (*important factor for the 2% anchor*)
- We believe that our policy rate is likely at its peak for this tightening cycle. (*no more rate hikes*)
- If the economy evolves broadly as expected, it will likely be appropriate to begin dialing back policy restraints at some point this year. The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably down toward 2 percent. (*rate cut this year*)
- We know that reducing policy restraints too soon or too much could result in a reversal of the progress we have seen on inflation and ultimately require even tighter policy to get inflation back to 2 percent. (*be patient*)
- Reducing policy restraint too late or too little could unduly weaken economic activity and employment. (*not engineering a recession*)
- In considering any adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. (*data dependent*)
- It will be appropriate to slow the pace of balance sheet runoff fairly soon, consistent with the plans we previously issued. The decision to slow the pace of runoff does not mean that our balance sheet will ultimately shrink by less than it would otherwise, but rather allows us to approach that ultimate level more gradually. (*sensitive to market liquidity*)

Cyclical Interest Rates – Higher for Longer

- In June 2022, the headline inflation (CPI) was at 8.99%, and the Personal Consumption Expenditure (PCE) was at 7.12%. PCE Goods topped 10.6% in March 2022 while PCE Services topped one year later at 5.8%.
- The U.S. shut down its economy in March 2020, and a rolling reopening slowly began in June 2020 and continued through 2023 with significant fiscal support and transfers to citizens and businesses. Homebound Americans with no access to services, including many who moved out of urban areas, were buying goods online at a time when the supply chain was broken. Naturally, increasing demand coupled with reduction in goods and delivery bottlenecks created spiking goods inflation. As the economy gradually reopened, services came online. However, with many workers reluctant to go back to work and a constrained immigration policy, there was a shortage of workers for the following years (even today). This contributed to a supply-demand imbalance in services and labor, resulting in higher wages and higher prices. As goods inflation waned, service inflation took off and remains elevated today.
- The Fed has historically been reactive and not proactive. As such, its "measured" decision making process tends to be steady and slow in changing monetary policy. The Fed lifted off from the zero-bound interest rate policy (ZIRP) to (1) normalize policy as the pandemic crisis was "over" where extraordinary rate policy was no longer needed and (2) combat a fast-moving inflation rate. After 11 hikes, the Fed Fund's rate has been at 5.25%-5.50% since July 2023. At the same time, the Fed has been reducing its pandemic era, bloated balance sheet by over $1.2 trillion (which was aimed to lower longer term interest rates and to provide ample bank/market liquidity).
- The push to get inflation (core PCE) to 2% remains challenging. In January, the core PCE stood at 2.8% (est.) with core CPI at 3.9% (core commodities at -0.3%, core services at 5.4%, and shelter at 6%). The common understanding is that rate hike effects have a long and variable lag. This means that transmission effects of the 5.5% interest rate to fully impact (i.e., slow down) the economy take time (14- to 24-months average range). Fed Chair Powell considers the current interest rate to be in restrictive territory. Also, he's gaining confidence that inflation is moving down to the target 2% over time and is considering cutting rates sometime in 2024. (The Summary of Economic Projections is still averaging 3 cuts or a 75bp drop this year.)
- The questions are (1) is the current policy restrictive enough to bring inflation down to 2% in 2024 and (2) what is the neutral rate of interest (also called the long-run equilibrium interest rate or the natural rate and is referred to as the r-star or r*). This is the short-term interest rate where it is neither contractionary nor expansionary under full employment (less than 5% U3).
- Although no one is certain as to what the neutral rate will be this cycle, it is safe to expect a higher rate than the past 15-years. We expect r* to be in the range of 3% to 3.5% since inflation will likely be sustainably higher than 2% for a while.

Secular Inflation & Rates – Higher for Much Longer

- **FRICTION to FISSION**. The shift from a uni- to multi-polar world is illustrated by the systemic shift from globalization, that was based on trust and maximizing efficiencies in production (brittle) and arbitrage, to one that is now based on self-reliance (distrust) and resilience (diversification). This was accelerated by (1) the pandemic experience, which laid bare the dependence on the global supply chain that was not questioned over the past 30-years, and (2) intense great power competition and geopolitical rivalry between the U.S. and China. The lack of trust on all levels fostered more nationalism which was already present with the rise of right-wing populism (among those who felt left behind during the years of globalization which also gave rise to "strongmen" politics). The world is recoiling in times of uncertainty and would rather do business with those who share political, cultural, and/or religious commonalities; thus friendshoring.
- **VIRTUOUS TO VICIOUS CYCLE**. In the recent past when China was the low value/low price factory floor to the world, the U.S. happily consumed, and China willingly supplied basic, non-threatening goods. This helped China bring over 600 million people out of extreme poverty (low wage workers). This imported disinflation to advanced economies and kept short rates low in the U.S. as China left much of the trade surplus invested in U.S. government bonds. With long rates low, this in turn fueled an accommodative environment for domestic investment and risk taking (e.g., the residential real estate bubble became possible). This symbiotic relationship began to crumble as the U.S. saw that the growth of China (moving up the value chain, the state-led industrial policy of China 2025, beefing up its military, becoming politically more assertive, and BRI in the Global South) would make it a true competitor with a different political system. China wants a seat at the table and to be treated as an equal. This would upset the post-World War II, rule-based, liberal, international order and the post-USSR uni-polar hegemony where the U.S. makes and keeps rules through international organizations and allies in the advanced economies who are also under the U.S. security blanket.
- **NO SUBSTITUTION**. The earlier low labor cost of China (countryside, low wage peasants entering the urban manufacturing hubs) which made it the cheap goods producer since its entry into WTO until the recent past is over as China moves into higher, leading-edge manufacturing. This is a natural path for any country to climb the development ladder. India and Africa are not ready to replace China as the low-cost producers to the world and won't be for likely years to come. (Moving and training non-skilled peasants and building out the manufacturing, distribution, and transportation infrastructure took China 20-years.) Meanwhile, the advanced economy's labor cost is higher with the increased friction of doing cross border business with non compatible standards (resulting from years of alienation among the multi-pole, e.g., AI and phone OS, etc.). This is inflationary.
- **INTERDEPENDENCE TO SELF RELIANCE**. The great power competition will likely continue for the next two decades or longer, and along the way, the world will become more fragmented (diversifying, derisking, de-coupling, cold or hot war) with more emphasis on self-reliance under the auspices of national security (no trust). With the reconfiguration of the global supply chain (more friction), manufacturing costs will be higher in advanced economies and raw materials, including rare earth metals (needed for alternative energy), scarcer. This will likely increase government support to prime the pump.
- **HIGHER INFLATION & HIGHER INTEREST RATE**. The cost of U.S. public debt will likely increase with a projected ever increasing debt burden AND as the Global South (other poles) increasingly settles trades in local currencies instead of the U.S. Dollar. This means less foreign trade money will be invested in U.S. debt and U.S. dollars (de-dollarization partially due to U.S. weaponization of its financial power, resulting in the Global South seeking alternatives – a kind of currency reshoring). Also, higher input costs lead to higher inflation, resulting in an elevated interest rate regime for an extended timeframe. With a higher servicing cost to the ballooning U.S. debt pile, the U.S. will have even less room to fiscally maneuver the next time a systemic risk hits our shores. We expect the following 10-years to be in the 5% to 6% or more range when all this settles in.

Visiting Hong Kong 2024

- I visited Hong Kong in late January and early February and returned just before the Lunar New Year. I attended the Asian Financial Forum[1] (AFF) organized by the Hong Kong Trade Development Council. AFF was attended by over 3,600 people from all over the world. I also had the opportunity to meet up with asset managers, macroeconomists, and China economists to get a pulse of the region. It was wonderful to look at the world from a different region and to learn about their concerns.
- There was a clear absence of Americans at AFF. With the exception of Franklin Templeton CEO, Jenny Johnson, Bridgewater Associates Co-CIO, Bob Prince, Professor Jeffrey Sachs, and Professor Douglas Diamond (a Noble Laureate), there were very few Americans present in the audience. This is likely a reflection of the cooling relationship between China and the U.S. and the uncertain environment for Hong Kong/China investment.
- There was a clear presence of Middle Eastern delegations from UAE, Qatar, the Islamic Development Bank, Dubai, and Egypt. Also, delegations from the ASEAN region, represented by Thailand, Japan, Malaysia, and Indonesia, were in attendance. There were also some European banks' local representatives present. This combination is a clear sign that China/Hong Kong is looking to do more business with the Global South.
- Almost every panel discussion brought up climate risks. This is quite different than conferences I attend in the U.S. These may have discussions about alternative energy investments, but climate change and client risks are not front and center as ESG or climate issues continue to be divisive.
- Although U.S. representation was few and far between, what loomed large was the Federal Reserve's interest rate policy and the associated uncertainties. The U.S. soft power was felt, and Fed actions matter to the world. For example, except for Switzerland and Japan, no other advanced economies have front-ran the Fed policy.
- Hong Kongers' sentiment is overall subdued, and the economy has certainly not returned to pre-COVID levels. There are many layers to the Hong Kong story. Depending on who you ask, taxi drivers, housekeeping staff, small business owners, Hong Kong natives, China transplants, high paid professionals, middle class families, or ex-pats, their answers about Hong Kong today are vastly different. Hong Kong is going through a redefinition of itself. Today, Hong Kong is a part of the Greater Bay Region made up of Guangdong, Macau, and Hong Kong (including 9 mega cities in China). China is committed to making this special area an important commercial and high-tech region. What role and how Hong Kong will play are still being developed. The added complexity is the U.S.-China great power competition and how Hong Kong (its currency is pegged to the U.S.$) is now a victim of geopolitics.

[1] https://www.asianfinancialforum.com/conference/aff/en/programme

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2024Q1 Stocks & Bonds Performance in USD & 60/40

Index as of 03-31-2024	TR 2024 Q1	Annual Ret 2023	TR Annlzd 3 Yrs
DJ Industrial Average NR USD	5.98	15.43	7.99
S&P 500 TR (1989)	10.56	26.29	11.49
S&P 500 Growth TR USD	12.75	30.03	10.19
S&P 500 Value TR USD	8.05	22.23	12.17
Russell Mid Cap TR USD	8.60	17.23	6.07
Russell Mid Cap Growth TR USD	9.50	25.87	4.62
Russell Mid Cap Value TR USD	8.23	12.71	6.80
Russell 2000 TR USD	5.18	16.93	-0.10
Russell 2000 Growth TR USD	7.58	18.66	-2.68
Russell 2000 Value TR USD	2.90	14.65	2.22
NASDAQ 100 TR USD	8.72	55.13	12.63

Index as of 03-31-2024	TR 2024 Q1	Annual Ret 2023	TR Annlzd 3 Yrs
Bloomberg US Agg Bond TR USD	-0.78	5.53	-2.46
Bloomberg US Corp IG + HY TR USD	-0.10	9.34	-1.16
Bloomberg Municipal TR USD	-0.39	6.40	-0.41
Bloomberg High Yield Corporate TR USD	1.47	13.45	2.19
Bloomberg Global Aggregate TR USD	-2.08	5.72	-4.73
Bloomberg EM Local Currency Broad TR US	-3.09	11.28	-3.48
Bloomberg EM Hard Currency Agg TR USD	1.32	9.63	-2.15

US 60/40 Portfolio US$ as of 2024 03 31	TR 2024 Q1	Annual Ret 2023	TR Annlzd 3 Yrs
S&P 500 TR (1989)	10.56	26.29	11.49
Bloomberg US Agg Bond TR USD	-0.78	5.53	-2.46
Total Blended Index Return (no fee)	6.02	17.98	5.91

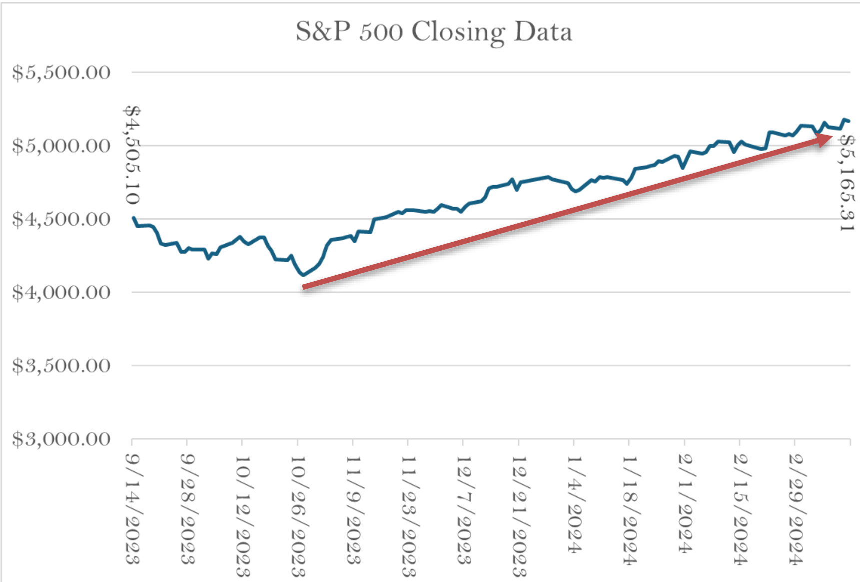
Flobal 60/40 Portfolio US$ as of 2024 03 31	TR 2024 Q1	Annual Ret 2023	TR Annlzd 3 Yrs
MSCI ACWI All Cap GR USD	7.79	22.06	6.71
Bloomberg Global Aggregate TR US	-2.08	5.72	-4.73
Total Blended Index Return (no fee)	3.84	15.52	2.14

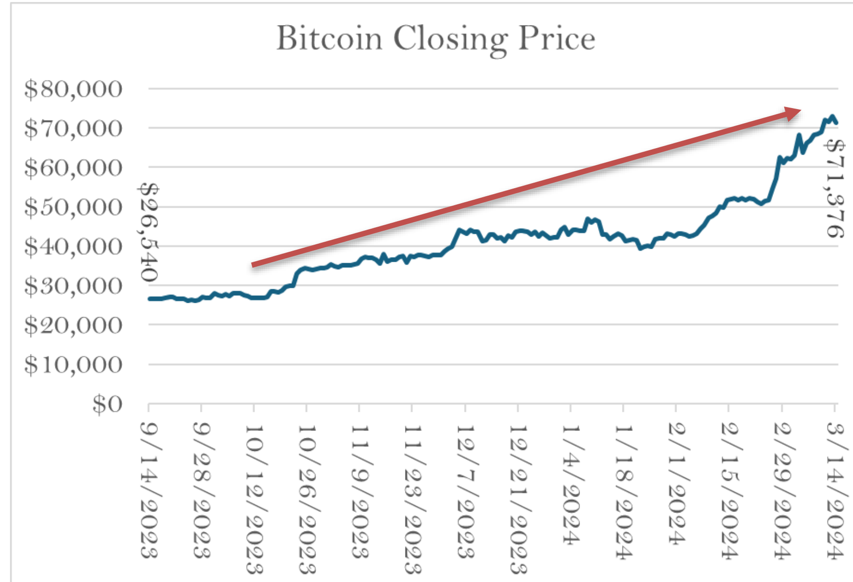
Index as of 03-31-2024	TR 2024 Q1	Annual Ret 2023	TR Annlzd 3 Yrs
S&P 1500 Cons Discretionary TR	5.58	40.58	4.31
S&P 1500 Cons Staples TR	7.65	1.30	7.98
S&P 1500 Energy TR	13.68	-0.63	29.75
S&P 1500 Financials TR	11.68	11.66	9.03
S&P 1500 Health Care TR	8.64	1.92	8.94
S&P 1500 Industrials TR	11.02	20.38	10.92
S&P 1500 Information Technology TR	12.61	56.53	18.45
S&P 1500 Materials TR	8.08	13.50	8.06
S&P 1500 Media TR	-3.28	18.34	-8.80
S&P 1500 Commun Services TR	15.35	54.29	6.41
S&P 1500 Utilities TR	5.00	-7.51	3.94
S&P 1500 TR	10.31	25.47	10.99

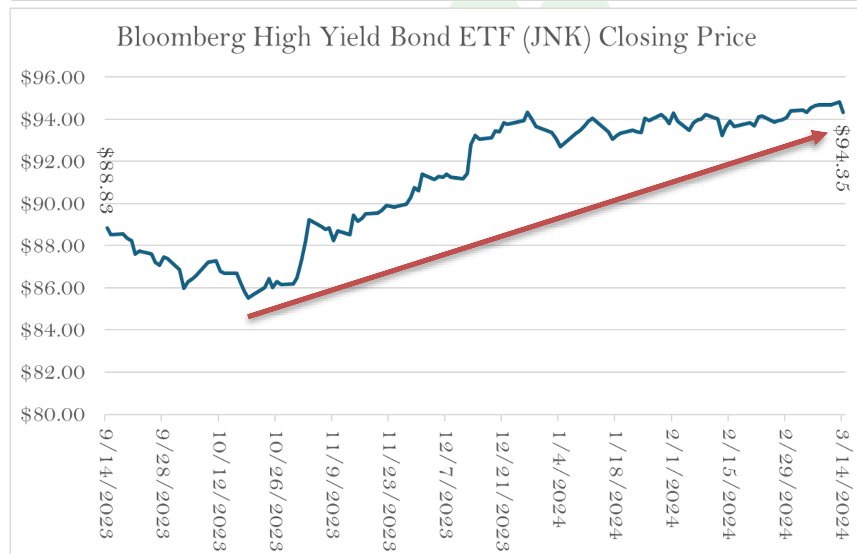
Index as of 03-31-2024	TR 2024 Q1	Annual Ret 2023	TR Annlzd 3 Yrs
MSCI ACWI ex USA All Cap GR USD	4.41	16.06	2.12
MSCI EAFE GR USD	5.93	18.85	5.31
MSCI Europe GR USD	5.39	20.66	6.85
MSCI AC ASEAN GR USD	-0.08	0.83	-1.08
MSCI EM GR USD	2.44	10.27	-4.68
MSCI Frontier Emerging Market GR USD	5.70	12.48	2.82
MSCI Australia GR USD	0.81	14.92	5.20
MSCI Brazil GR USD	-7.33	33.38	9.21
MSCI Canada GR USD	4.18	16.44	7.18
MSCI China GR USD	-2.19	-11.04	-18.79
MSCI France GR USD	5.94	22.28	9.30
MSCI Germany GR USD	7.15	23.97	1.87
MSCI Hong Kong GR USD	-11.67	-14.77	-13.70
MSCI India GR USD	6.12	21.29	12.77
MSCI Italy GR USD	13.86	38.79	14.28
MSCI Japan GR USD	11.16	20.77	4.08
MSCI Korea GR USD	1.78	23.59	-6.85
MSCI Mexico GR USD	0.53	41.53	18.17
MSCI UK All Cap GR USD	2.78	14.30	5.27
MSCI ACWI All Cap GR USD	7.79	22.06	6.71

Source: Morningstar Direct, Experiential Wealth 3-31-2024

Risk and Gold Rallied – trailing 6 months as of 03-14-2024







A Soft Landing is still the Base Case.

- Soft Landing = Disinflation with a clear path to the Fed rate target of 2% in core inflation without causing an economic recession, which is comprised of higher unemployment (over 5%) and an economic contraction for two consecutive quarters or more. A mild and shallow "technical" recession (a back-to-back economic contraction without serious unemployment of 5% or more) may also be included in this loosely defined term.
- No Landing = Continue good to reasonable economic expansion or positive GDP growth.
- The base case for just about everyone is a soft landing in 2024. We generally agree with this outlook (60% to 70% odds). We discount significantly the no landing scenario (10% odds), but there is still a 20% chance of a hard landing - a true recession with unemployment getting to or surpassing 5% with a back-to-back quarterly economic contraction. For now (backward-looking), the economy is strong but slowing. Employment is strong with labor supply and demand coming more in balance. Consumer and business sentiments remain positive. Consumer spending remains strong but is curtailing, and goods and manufacturing remain weak as most spending remains in the service sector.
- It is important to know that a recession or hard landing is not "called" until many months after the fact. This means we won't know until sometime in the first half of 2025 by the National Bureau of Economic Research (NBER) Business Cycle Dating Committee.
- In 2022 when inflation was increasing sharply, the Fed was focusing more, and rightfully so, on price stability and less or not at all on the labor economy part of the dual mandate. As we go forward towards 2024 and 2025, with labor supply and demand becoming more in balance, the Fed will become more sensitive to unemployment. The Employment Situation report and the JOLTS report will take center stage as we move further away from COVID recovery, even if core CPE inflation remains above the 2% target.
- Under a no landing scenario, the Fed is not likely to cut rates this year at all. Under a soft landing scenario (meaning that the economy continues to slow but not rapidly) and depending on when the economy begins to show more slowing (increasing unemployment and decreasing economic activities), the Fed will likely begin cutting interest rates, expected to be 3 cuts of 25bp each, totaling 75bp.

FOMC members' range of Economic Projections (03-20-2024)

	Y2024		Y2025	
Real GDP	**Low**	**High**	**Low**	**High**
Mar-24	1.3%	2.7%	1.7%	2.5%
Dec-23	0.8%	2.5%	1.4%	2.5%
U3 Unemployment	**Low**	**High**	**Low**	**High**
Mar-24	3.8%	4.5%	3.7%	4.3%
Dec-23	3.9%	4.5%	3.8%	4.7%
PCE Inflation	**Low**	**High**	**Low**	**High**
Mar-24	2.2%	2.9%	2.0%	2.5%
Dec-23	2.1%	2.7%	2.0%	2.5%
Core PCE	**Low**	**High**	**Low**	**High**
Mar-24	2.4%	3.0%	2.0%	2.6%
Dec-23	2.3%	3.0%	2.0%	2.6%
Fed Funds	**Low**	**High**	**Low**	**High**
Mar-24	4.4%	5.4%	2.6%	5.4%
Dec-23	3.9%	5.4%	2.4%	5.4%

(red)	**Higher**
(green)	**No Change**
(blue)	**Lower**

This table summarizes the complete range of member projections for each of the economic factors and the Fed Funds level for 2024 and 2025. The table also shows the projection range published after its December 2023 meeting. The table is color coded to show **higher estimates** in red, **same estimates** in green and **lower estimates** in blue. The ranges are: (1) Higher for real GDP, (2) lower for Unemployment, (3) higher for Inflation in 2024 and (4) higher on the low end of the range for 2024 Core Inflation. This leads to higher interest rates at the low end of the range for 2024 and 2025.

This make sense. As a whole, the FOMC members (or at least the members who have been under-estimating the strength of the economy) are now recognizing a stronger economy in the U.S. with tight employment and stickier inflation.

CME Fed Watch Tool – 3-22-2024 – 3 cuts still

FROM
expecting
6 Cuts in 2024

12-27-2023 CME FEDWATCH TOOL - MEETING PROBABILITIES

MEETING DATE	300-325	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
1/31/2024					0.0%	0.0%	0.0%	0.0%	16.5%	83.5%
1 3/20/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	14.2%	74.1%	11.7%
2 5/1/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	14.0%	73.1%	12.7%	0.2%
3 6/12/2024	0.0%	0.0%	0.0%	0.0%	1.0%	18.0%	69.0%	11.9%	0.2%	0.0%
4 7/31/2024	0.0%	0.0%	0.0%	0.8%	15.9%	62.8%	18.8%	1.6%	0.0%	0.0%
5 9/18/2024	0.0%	0.0%	0.8%	14.9%	59.5%	21.9%	2.8%	0.1%	0.0%	0.0%
6 11/7/2024	0.0%	0.5%	9.7%	43.0%	35.8%	9.9%	1.1%	0.1%	0.0%	0.0%
12/18/2024	0.4%	8.0%	37.0%	37.1%	14.5%	2.7%	0.2%	0.0%	0.0%	0.0%

TO
expecting
3 Cuts in 2024

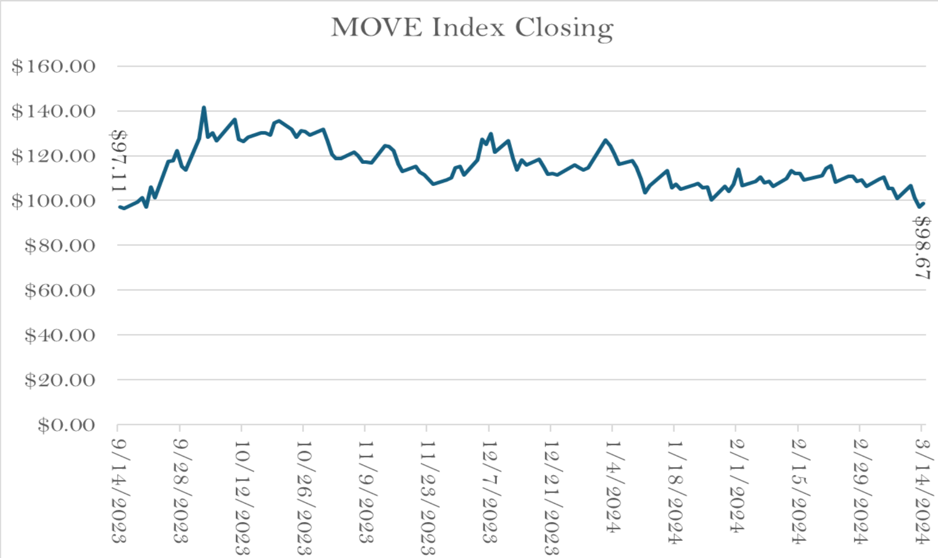
3-22-2024 CME FEDWATCH TOOL - MEETING PROBABILITIES

MEETING DATE	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
5/1/2024				0.0%	0.0%	0.0%	0.0%	15.7%	84.3%
1 6/12/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	10.9%	63.2%	26.0%
7/31/2024	0.0%	0.0%	0.0%	0.0%	0.0%	5.5%	37.3%	44.3%	12.8%
2 9/18/2024	0.0%	0.0%	0.0%	0.6%	9.0%	38.1%	40.9%	11.4%	0.0%
11/7/2024	0.0%	0.0%	0.0%	0.8%	9.8%	38.2%	40.0%	11.1%	0.0%
3 12/18/2024	0.0%	0.0%	0.8%	9.8%	38.2%	40.0%	11.1%	0.0%	0.0%

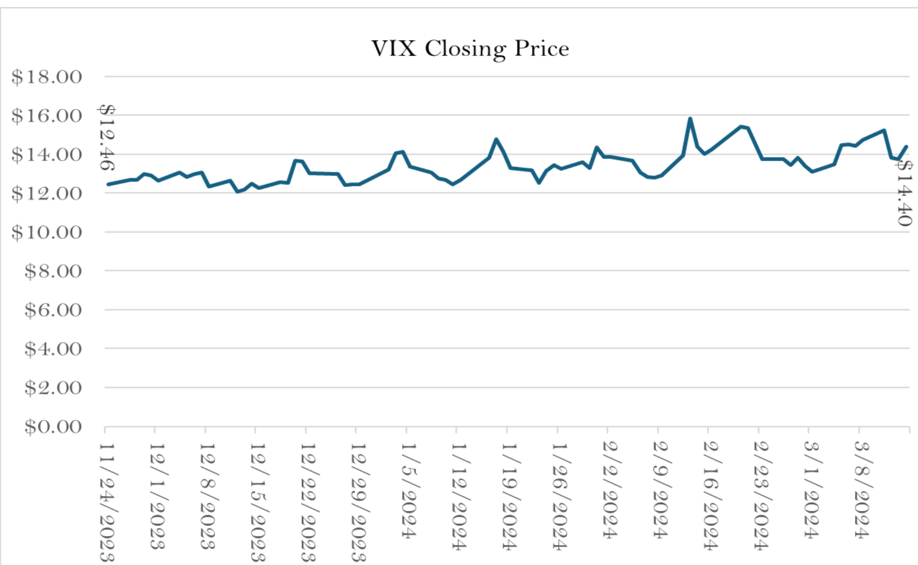
CME Fed Watch Tool[1] uses Fed Funds futures contracts to estimate the probability of a rate hike or cut. After the rather dovish press conference in the December 2024 FOMC meeting, the market projected 6 rate cuts starting with the March 2024 meeting. The market was far more aggressive than the SEP projections and was way ahead of what the Fed had in mind, with Chair Powell and other Committee members offering public comments to pull back rate cut expectations. As the March meeting approached, the market expectations were leaning increasingly towards 3 cuts. After the March SEP, the market is squarely in the three cuts expectation camp. There are now speculations that, with a strong economy and labor market, there will only be two or less cuts in 2024.

[1] https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html

The Market: Bond and Stock Volatility – Calm (03-14-2024)



https://finance.yahoo.com/quote/%5EMOVE/history?period1=1546473600&period2=1688428800&interval=1d&filter=history&frequency=1d&includeAdjustedClose=true, Experiential Wealth



https://finance.yahoo.com/quote/%5EVIX/history, Experiential Wealth

ICE MOVE Index - Merrill Lynch Option Volatility Estimate - is one measure of U.S. interest rate volatility and can provide a signal for changing risk sentiment in fixed income markets. A high MOVE index value is interpreted to mean an increase in Treasury market volatility and potentially heightened risk and uncertainty. A low MOVE index value indicates low risk and high certainty. The lower Treasury market volatility signals that market participants seem to be focusing more on the economy. The market has continued to adjust to fewer rate cuts and starting later in the year. This affirms the soft (or no) landing narrative which is constructive for the economy.

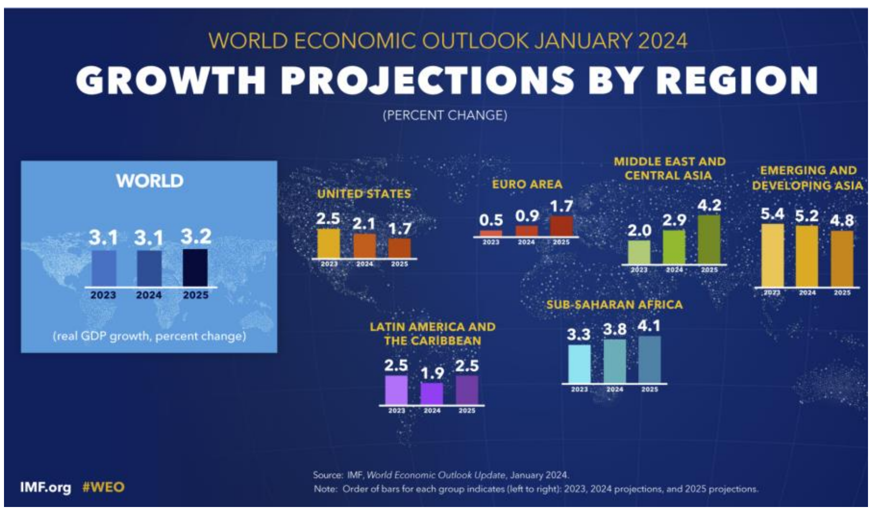
The VIX - a measure of the S&P500 index volatility – is also stable as the market is focusing on a more confident economy, thus positive corporate earnings in the future. In a way, the market is accepting a higher for longer scenario and is (for now) more focused on the economy. Of course, this could change on a dime.

IMF – January 2024 Update

- The risks to global growth are broadly balanced, and a soft landing is a possibility.
- Global growth is projected at 3.1 percent in 2024 and 3.2 percent in 2025, with the 2024 forecast 0.2 percentage points higher than that in the October 2023 World Economic Outlook (WEO) on account of greater-than-expected resilience in the United States and several large emerging markets and developing economies, as well as fiscal support in China. The forecast for 2024–25 is, however, below the historical (2000–19) average of 3.8 percent, with elevated central bank policy rates to fight inflation, a withdrawal of fiscal support amid high debt weighing on economic activity, and low underlying productivity growth. In the midst of unwinding supply-side issues and restrictive monetary policy, inflation is falling faster than expected in most regions. Global headline inflation is expected to fall to 5.8 percent in 2024 and 4.4 percent in 2025, with the 2025 forecast revised down.
- With disinflation and steady growth, the likelihood of a hard landing has receded, and risks to global growth are broadly balanced. On the upside, faster disinflation could lead to further easing of financial conditions. Looser fiscal policy than necessary and than assumed in the projections could imply temporarily higher growth, but at the risk of a more costly adjustment later on. Stronger structural reform momentum could bolster productivity with positive cross-border spillovers. On the downside, new commodity price spikes from geopolitical shocks—including continued attacks in the Red Sea—and supply disruptions or more persistent underlying inflation could prolong tight monetary conditions. Deepening property sector woes in China or, elsewhere, a disruptive turn to tax hikes and spending cuts could also cause growth disappointments.
- Policymakers' near-term challenge is to successfully manage the final descent of inflation to target, calibrate monetary policy in response to underlying inflation dynamics, and (where wage and price pressures are clearly dissipating) adjust to a less restrictive stance. At the same time in many cases, with inflation declining and economies better able to absorb effects of fiscal tightening, a renewed focus on fiscal consolidation to rebuild budgetary capacity to deal with future shocks, raise revenue for new spending priorities, and curb the rise of public debt is needed.

https://www.imf.org/en/Publications/WEO/Issues/2024/01/30/world-economic-outlook-update-january-2024

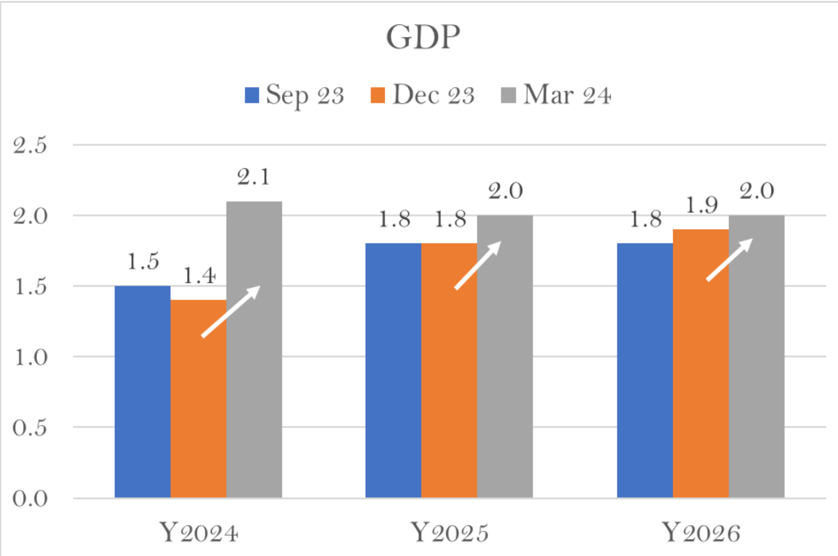
IMF Forecast (01- 2024)



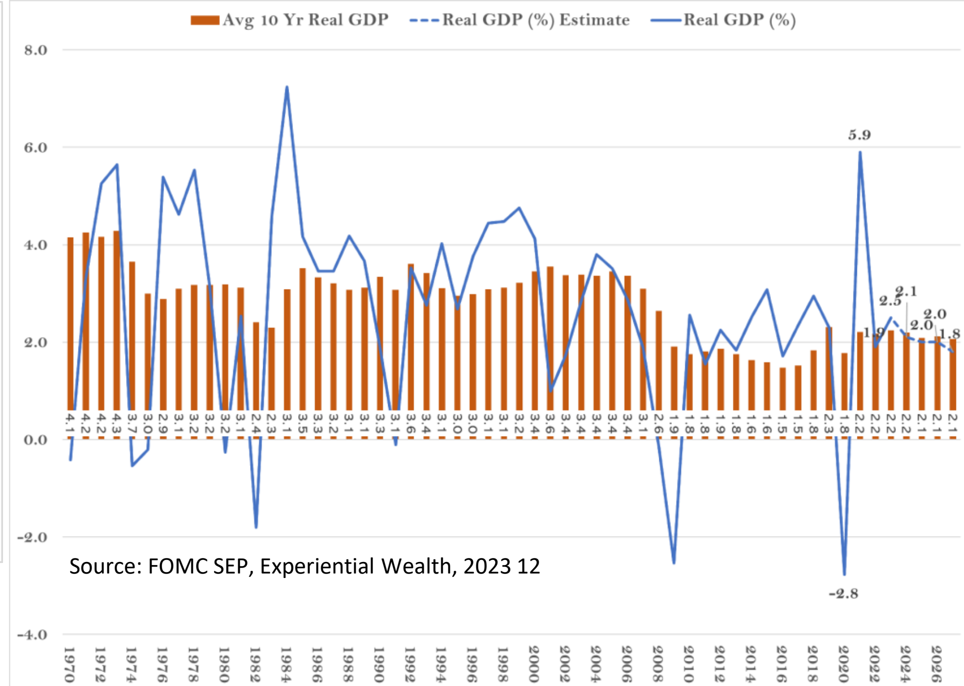
World Economic Outlook Growth Projections

(Real GDP, annual percent change)	ESTIMATE 2023	PROJECTIONS 2024	2025
World Output	3.1	3.1	3.2
Advanced Economies	1.6	1.5	1.8
United States	2.5	2.1	1.7
Euro Area	0.5	0.9	1.7
Germany	-0.3	0.5	1.6
France	0.8	1.0	1.7
Italy	0.7	0.7	1.1
Spain	2.4	1.5	2.1
Japan	1.9	0.9	0.8
United Kingdom	0.5	0.6	1.6
Canada	1.1	1.4	2.3
Other Advanced Economies	1.7	2.1	2.5
Emerging Market and Developing Economies	4.1	4.1	4.2
Emerging and Developing Asia	5.4	5.2	4.8
China	5.2	4.6	4.1
India	6.7	6.5	6.5
Emerging and Developing Europe	2.7	2.8	2.5
Russia	3.0	2.6	1.1
Latin America and the Caribbean	2.5	1.9	2.5
Brazil	3.1	1.7	1.9
Mexico	3.4	2.7	1.5
Middle East and Central Asia	2.0	2.9	4.2
Saudi Arabia	-1.1	2.7	5.5
Sub-Saharan Africa	3.3	3.8	4.1
Nigeria	2.8	3.0	3.1
South Africa	0.6	1.0	1.3
Memorandum			
Emerging Market and Middle-Income Economies	4.2	4.0	4.0
Low-Income Developing Countries	4.0	5.0	5.6

Summary of Economic Projections (SEP) – GDP 03-2024



Source: FOMC SEP, Experiential Wealth, 2024 03



At its March meeting, the Federal Open Market Committee (FOMC) released its quarterly Summary of Economic Projections (SEP). FOMC participants submit their projections of the most likely outcomes for real gross domestic product (GDP) growth. Participant projections are based on information available at the time of the meeting together with their assessment of appropriate monetary policy and assumptions about other factors likely to affect economic outcomes. Historically, SEP projections are more instructive in terms of directionality rather than the actual projections.

The SEP has revised upward its 2024, 2025, and 2026 economic growth projections. This is in recognition of an economy with continuing expansion with no recession in sight.

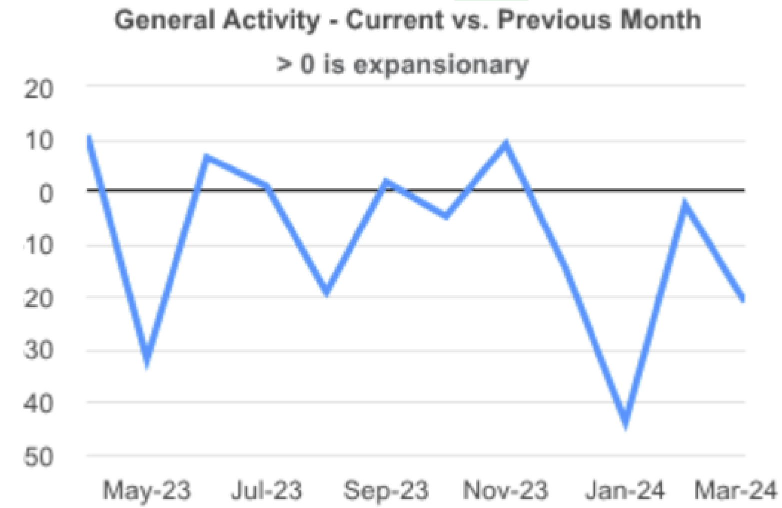
The SEP should NOT be deemed as the official position of the FOMC. It is a collection of individual indications about the future.

According to the March 2023 SEP, the central tendency average estimate for real GDP has been revised up from the range of 1.2-1.7 to 2.0-2.4 for 2024 ; for 2025, from 1.5-2.0 to 1.9-2.3; and for 2026, from, 1.8-2.0 to 1.8-2.1. This confirms that the FOMC's members are recognizing the strength of the economy going forward and do not foresee a recession during the next two years. Members are really projecting a no- to soft landing through 2025.

On a trailing 10-year average basis, the real GDP continues at a rate of 2% although the SEP projects a 1.8% GDP in the longer run.

Manufacturing is still weak – adjusting to excesses during COVID

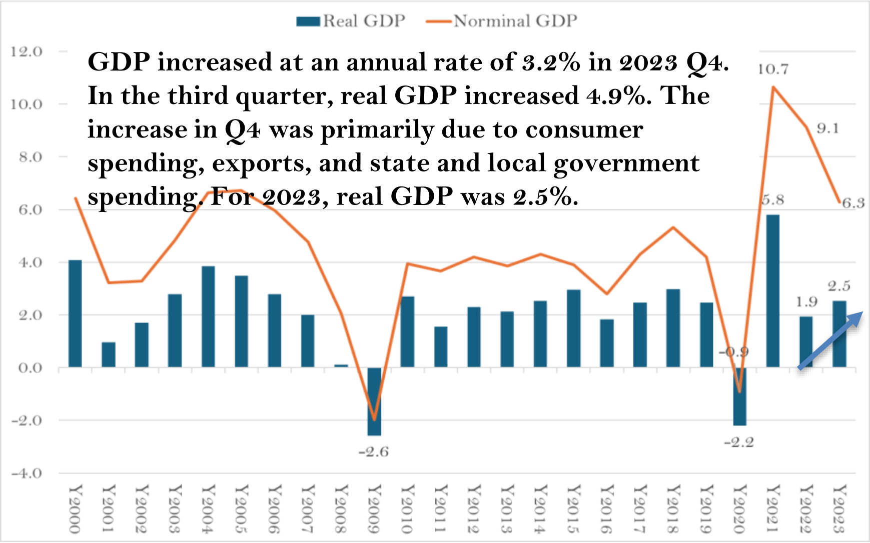
NY Empire State Manufacturing Survey



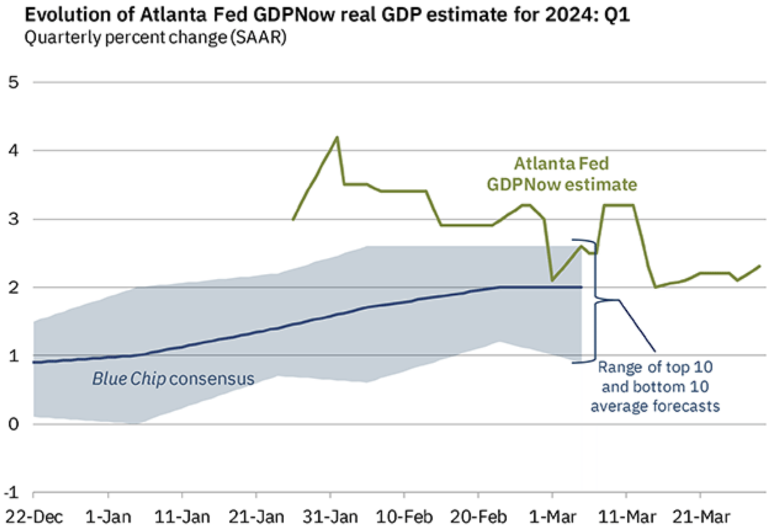
Kansas City Fed Manufacturing Survey

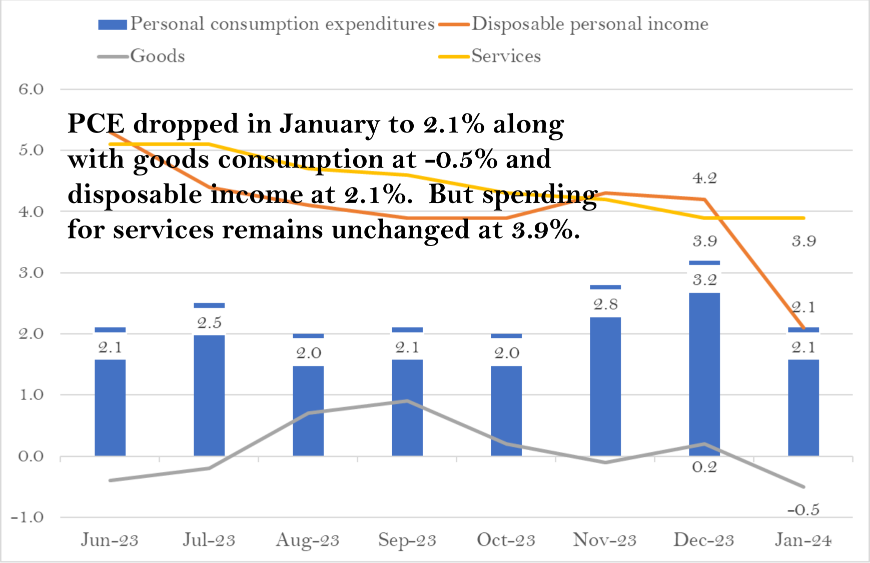
US Census Bureau Survey

The U.S. Economy – GDP – Consumers still Consuming



Source: BEA, Experiential Wealth





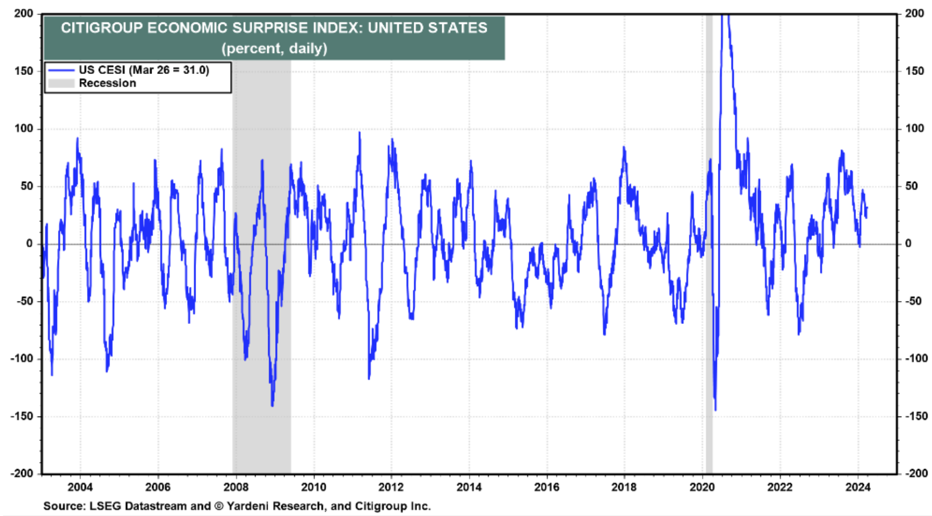
Source: BEA, Experiential Wealth

The Atlanta Fed GDPNow model is best viewed as a running estimate of real GDP growth based on available economic data for the current measured quarter. There are no subjective adjustments made to GDPNow—the estimate is based solely on the mathematical results of the model.

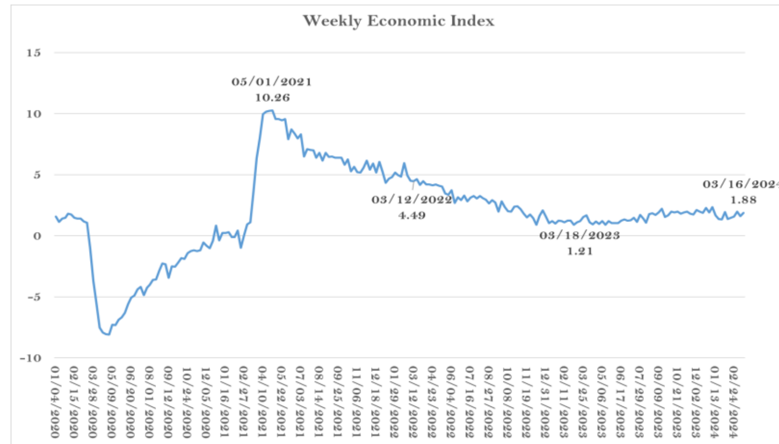
The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the first quarter of 2024 is 2.3 percent on March 29, up from 2.1 percent on March 26. After recent releases from the US Census Bureau and the US Bureau of Economic Analysis, the nowcast of first-quarter real personal consumption expenditures growth increased from 1.9 percent to 2.6 percent, while the nowcast of the contribution of the change in real net exports to first-quarter real GDP growth decreased from -0.16 percentage points to -0.47 percentage points.

https://www.atlantafed.org/cqer/research/gdpnow

High Frequency Economic Data – 03-2024



https://yardeni.com/charts/citigroup-economic-surprise/

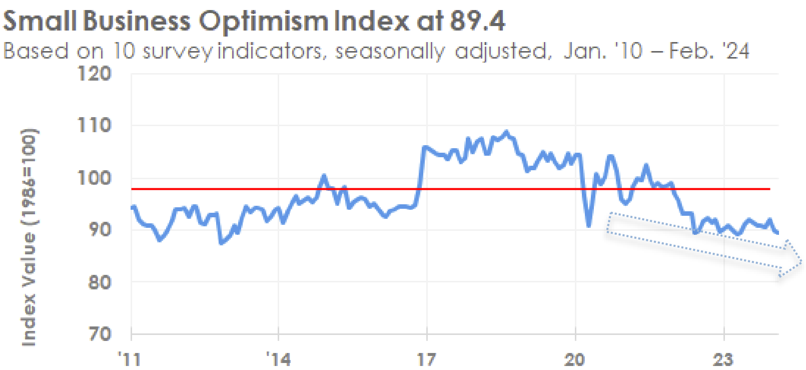


Source: Federal Reserve Bank of Dallas, Experiential Wealth as of 3-16-2024
https://www.dallasfed.org/research/wei

Citi's Economic Surprise Index, which measures the degree to which economic data is either beating or missing expectations, continued to positively improve, although at a slower rate, in the current quarter even though expectations and reality are getting more aligned. As of 03-26-2024, it remains in positive territory.

The Weekly Economic Index (WEI), now produced and maintained by the Dalles Fed, provides a signal of the state of the U.S. economy based on data available on a daily or weekly frequency. It represents the common component of 10 different daily and weekly series covering consumer behavior, the labor market, and production. The WEI is currently 2.9%, scaled to four-quarter GDP growth; for the week ended 3-16-2024, WEI is at 1.88%. The 13-week moving average is 1.75%.

National Federation of Independent Business (NFIB) 02-2024



Index Component	Seasonally Adjusted Level	Change from Last Month	Contribution to Index Change
Plans to Increase Employment	12%	-2	*
Plans to Make Capital Outlays	21%	-2	*
Plans to Increase Inventories	-7%	-4	*
Expect Economy to Improve	-39%	-1	*
Expect Real Sales Higher	-10%	6	*
Current Inventory (too low)	-4%	0	*
Current Job Openings	37%	-2	*
Expected Credit Conditions	-6%	2	*
Now a Good Time to Expand	5%	-3	*
Earnings Trends	-31%	-1	*
Total Change		-7	

Based on a Survey of Small and Independent Business Owners

https://strgnfibcom.blob.core.windows.net/nfibcom/SBET-Feb-2024.pdf

The NFIB Small Business Optimism Index decreased in February to 89.4, marking the 26th consecutive month below the 50-year average of 98. 23 percent of small business owners reported that inflation was their single most important business problem in operating their business, up three points from last month and replacing labor quality as the top problem.

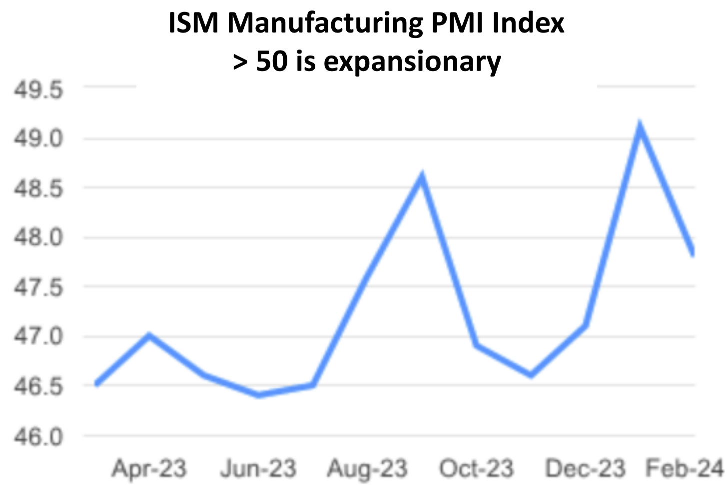
Small Business Optimism

Index Component	Net %	From Last Month
Plans to Increase Employment	12%	▼ -2
Plans to Make Capital Outlays	21%	▼ -2
Plans to Increase Inventories	-7%	▼ -4
Expect Economy to Improve	-39%	▼ -1
Expect Real Sales Higher	-10%	▲ 6
Current Inventory	-4%	— 0
Current Job Openings	37%	▼ -2
Expected Credit Conditions	-6%	▲ 2
Now a Good Time to Expand	5%	▼ -3
Earnings Trends	-31%	▼ -1

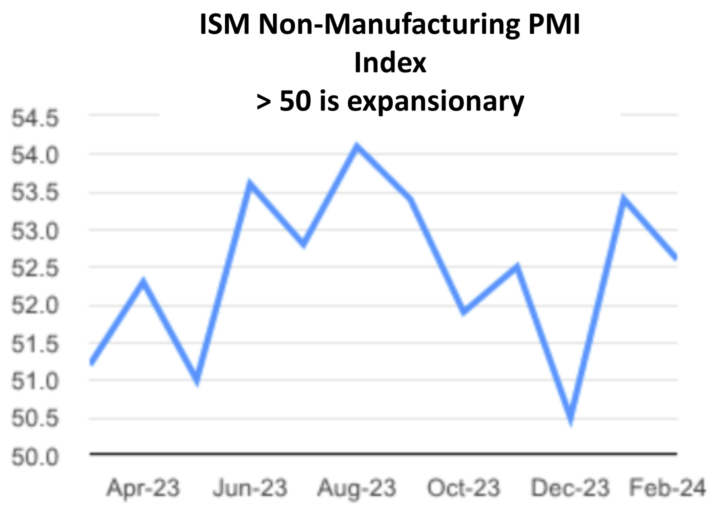
https://www.nfib.com/surveys/small-business-economic-trends/

Although the economy is still growing, the edges are starting to fray. Government statistics are more volatile and don't square with many independent measures of economic activity. Inflation is sticky. Goods prices have fallen as expected, but service prices are resisting a decline (two-thirds of consumer spending). For most small businesses, wage costs are the top operating expense for these labor-intensive firms. Although labor costs have never been ranked at the top as the Most Important Business Problem, it has risen to its highest levels in 50 years. 38% surveyed is raising compensation in February, a bit below the average for last year (40%), but "inflationary," and well above the historical average at 25%. Adding to the wage stickiness is an increase in various minimum wages, making fighting inflation harder. Labor costs will be passed on to customers through higher prices (or reductions in other services).

Service Sector Still Expanding with Prices Up



According to the ISM, U.S. manufacturing contracted for the 16th month in a row in February. After a month of improvement, the ISM manufacturing index fell from 49.1 in January to 47.8 in February. The new orders and production indexes both fell back into contractionary territory in February after moving into expansionary territory in the prior month.

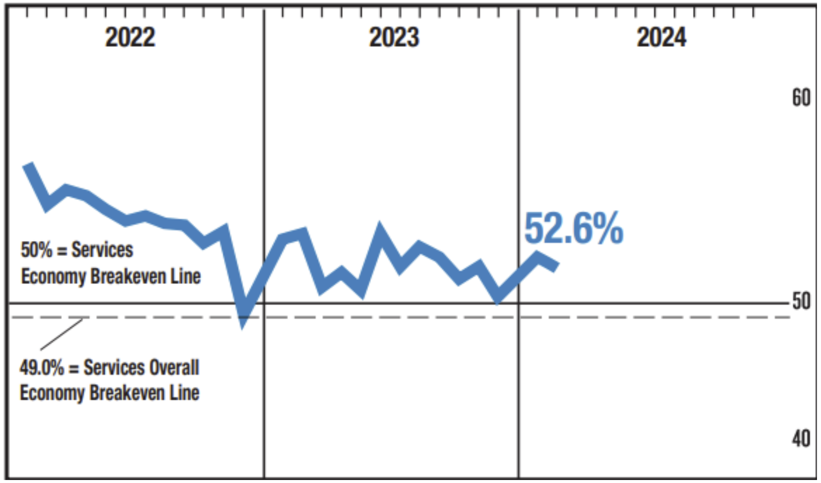


The U.S. nonmanufacturing sector expanded for the 14th consecutive month in February and has grown in 44 of the past 45 months, with the only contraction occurring in December 2022. In February, the ISM non-manufacturing survey's composite index took a slight step back, falling from 53.4 to 52.6. The employment index weighed on the headline as it slipped back into contraction territory. New orders and business activity, however, grew at a faster pace than in the previous month while the speed of supplier deliveries also improved. The U.S. services sector continues to contribute positively to economic growth, but the trend suggests that growth will continue to moderate.

https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/

Service Sector Still Expanding with Prices Up

ISM Services PMI Index
> 50 is expansionary



Services at a Glance

INDEX	Feb Index	Jan Index	% Point Change	Direction	Rate of Change	Trend* (months)
Services PMI®	52.6	53.4	-0.8	Growing	Slower	14
Business Activity	57.2	55.8	+1.4	Growing	Faster	45
New Orders	56.1	55.0	+1.1	Growing	Faster	14
Employment	48.0	50.5	-2.5	Contracting	From Growing	1
Supplier Deliveries	48.9	52.4	-3.5	Faster	From Slowing	1
Inventories	47.1	49.1	-2.0	Contracting	Faster	3
Prices	58.6	64.0	-5.4	Increasing	Slower	81
Backlog of Orders	50.3	51.4	-1.1	Growing	Slower	2
New Export Orders	51.6	56.1	-4.5	Growing	Slower	4
Imports	54.3	59.9	-5.6	Growing	Slower	2
Inventory Sentiment	56.7	59.3	-2.6	Too High	Slower	10
Overall Economy				**Growing**	**Slower**	**14**
Services Sector				**Growing**	**Slower**	**14**

*Number of months moving in current direction. Services ISM® *Report On Business®* data has been seasonally adjusted for the Business Activity, New Orders, Employment and Prices indexes.

In February, the Services PMI® registered 52.6 percent, an 0.8-percentage point decrease compared to the January reading of 53.4 percent. A reading above 50 percent indicates the services sector economy is generally expanding; below 50 percent indicates it is generally contracting. A Services PMI® above 49 percent, over time, generally indicates an expansion of the overall economy. Therefore, the February Services PMI® indicates the overall economy is growing for the 14th consecutive month after one month of contraction in December 2022.

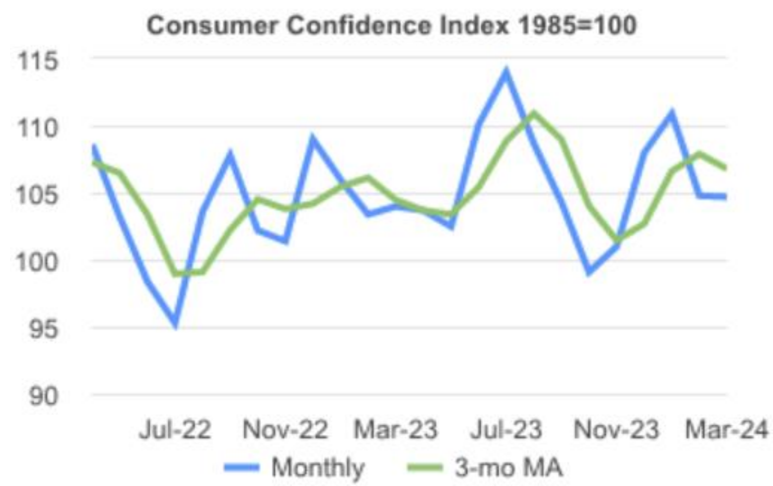
The 14 services industries reporting growth in February — listed in order — are: Construction; Retail Trade; Public Administration; Health Care & Social Assistance; Accommodation & Food Services; Utilities; Professional, Scientific &Technical Services; Management of Companies & Support Services; Finance & Insurance; Agriculture, Forestry, Fishing & Hunting; Wholesale Trade; Information; Educational Services; and Transportation & Warehousing.

https://www.ismworld.org/globalassets/pub/research-and-surveys/rob/nmi/rob202403svcs.pdf

Consumer Sentiments & Confidence – Flat to Declining

UMich Consumer Sentiment
03-2024

Conference Board Consumer Confidence Survey



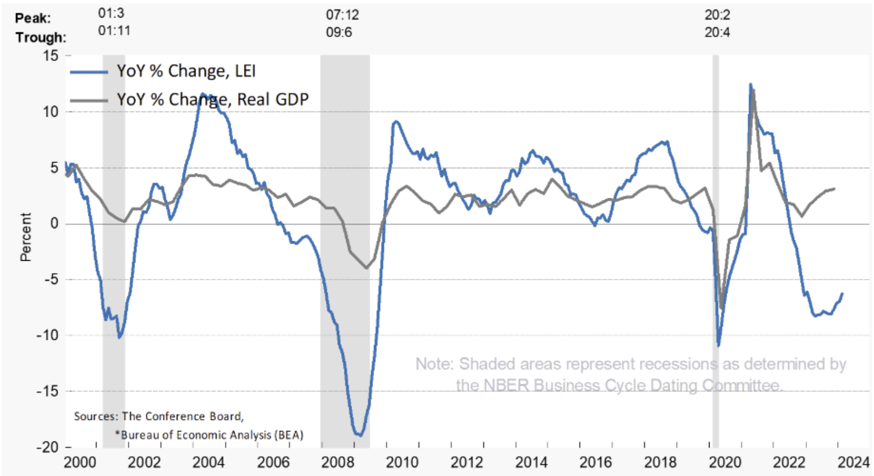
https://www.conference-board.org/topics/consumer-confidence

Confidence appears to have peaked in early February, according to the University of Michigan consumer sentiment index. The index came in at 76.5 in March, down from February's 76.9, according to the preliminary report. Confidence remains impressively up from November's 61.3 but is no longer rising. Inflation expectations were unchanged. Median 12-month inflation expectations remained at 3%. Five-year expectations held steady at 2.9%. The change in confidence from February was driven by the expectations component, which dropped 0.6 points. The present conditions component was unchanged.

U.S. consumer confidence was unmoved in March, according to the Conference Board. The headline index inched back from a downwardly revised 104.8 (previously 106.7) in February to 104.7. A slight increase in the present situation index was offset by a similar-sized decline in the expectations index, which remains below 80, the threshold typically associated with recession. Confidence rose among consumers aged 55 and older but weakened for those younger than age 55. Over the prior six months, consumer confidence has essentially flatlined.

Leading Indicators – a Mixed Bag

Conference Board Leading Indicator



The U.S. LEI rose in February 2024 for the first time since February 2022. Strength in weekly hours worked in manufacturing, stock prices, the Leading Credit Index™, and residential construction drove the LEI's first monthly increase in two years. However, consumers' expectations and the ISM® Index of New Orders have yet to recover, and the six- and twelve-month growth rates of the LEI remain negative. Despite February's increase, the Index still suggests some headwinds to growth going forward. The Conference Board expects annualized U.S. GDP growth to slow over the Q2 to Q3 2024 period, as rising consumer debt and elevated interest rates weigh on consumer spending.

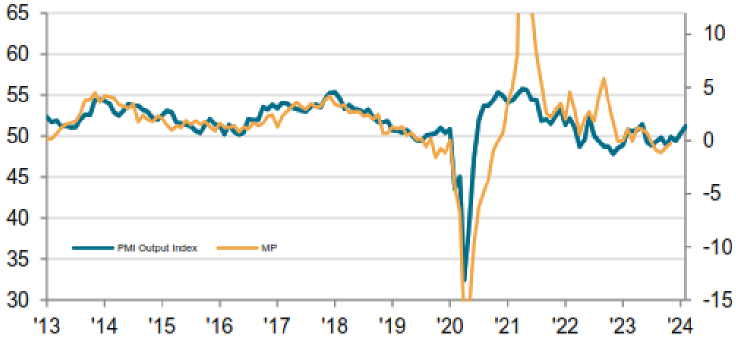
The Conference Board Leading Economic Index® (LEI) for the U.S. increased by 0.1 percent in February 2024 to 102.8 (2016=100), following a 0.4 percent decline in January. Over the six-month period between August 2023 and February 2024, the LEI contracted by 2.6 percent—a smaller decrease than the 3.8 percent decline over the previous six months.

The Conference Board Coincident Economic Index® (CEI) for the U.S. rose by 0.2 percent in February 2024 to 112.3 (2016=100), after a 0.1 percent increase in January. The CEI rose 1.1 percent over the six-month period ending February 2024, up from 0.8 percent over the previous six months. The CEI's component indicators—payroll employment, personal income less transfer payments, manufacturing and trade sales, and industrial production—are included among the data used to determine recessions in the US. All four components of the index were positive last month, with personal income less transfer payments and payroll employment having the strongest contributions to the Index.

Source: https://www.conference-board.org/topics/us-leading-indicators

Global Manufacturing Activities - Expansionary

Source: J.P.Morgan, S&P Global PMI.



Sources: J.P.Morgan, S&P Global.

The J.P.Morgan Global Manufacturing PMI® – a composite index produced by J.P.Morgan and S&P Global in association with ISM and IFPSM – posted 50.3 in February, up from 50.0 in January, its first reading above the neutral 50.0 mark in 18 months (since August 2022). Three of the five PMI subindices signaled growth (new orders, output, and stocks of purchases). February saw global manufacturing show signs of renewed vigor. Output expanded for the second successive month, supported by the first increase in new order intakes since June 2022. The outlook remained broadly positive overall, with optimism regarding the year ahead staying close to January's nine-month high. Consumer goods producers saw solid growth, whereas rates of expansion were marginal in both the intermediate and investment goods categories. China, the US, India, and Brazil were among the nations to see manufacturing output rise, in contrast to declines in places such as the euro area, Japan, and the UK.

The outlook for the global manufacturing sector remained positive in February, with optimism about the coming year staying close to January's nine-month high. Meanwhile, the cyclically sensitive ratio of new orders-to-stocks of finished goods edged up to its highest level since May 2022. February data indicated that average supplier lead times were broadly unchanged over the month. The aggregate reading masked divergent trends beneath the surface however. Some nations, including Germany, the US, and Austria, saw marked improvements in vendor lead times. In contrast, the UK, France, and Australia saw much longer times. Average input prices and output charges both increased during February and at similar, or identical, rates to the prior survey month.

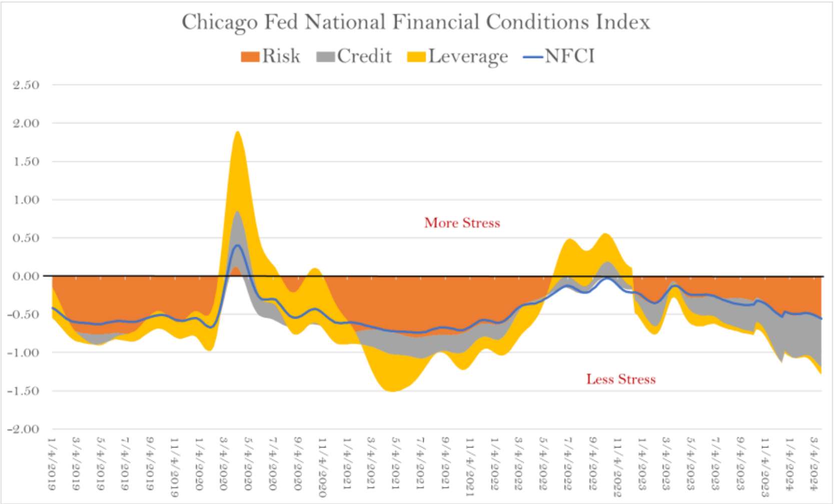
JPM World Manufacturing PMI Heat Map (2024 Feb)

World Manufacturing PMI Heat Map

	2022												2023												2024		
	01	02	03	04	05	06	07	08	09	10	11	12	01	02	03	04	05	06	07	08	09	10	11	12	01	02	03
Global	53.2	53.7	52.9	52.3	52.3	52.2	51.1	50.3	49.8	49.4	48.8	48.7	49.1	49.9	49.6	49.6	49.5	48.7	48.6	49.0	49.2	48.8	49.3	49.0	50.0	50.3	
United States	57.6	58.6	57.1	55.4	56.1	53.0	52.8	52.8	50.9	50.2	49.0	48.4	47.4	47.7	46.3	47.1	46.9	46.0	46.4	47.6	49.0	46.7	46.7	47.4	49.1	47.8	
Canada	50.7	60.6	74.2	66.3	72.0	62.2	49.6	60.9	59.5	50.1	51.4	49.3	60.1	51.6	58.2	56.8	53.5	50.2	48.6	53.5	53.1	53.4	54.7	56.3	56.5	53.9	
Europe	58.7	58.2	56.5	55.5	54.6	52.1	49.8	49.6	48.4	46.4	47.1	47.8	48.8	48.5	47.3	45.8	44.8	43.4	42.7	43.5	43.4	43.1	44.2	44.4	46.6	46.5	45.7
Germany	59.8	58.4	56.9	54.6	54.8	52.0	49.3	49.1	47.8	45.1	46.2	47.1	47.3	46.3	44.7	44.5	43.2	40.6	38.8	39.1	39.6	40.8	42.6	43.3	45.5	42.5	41.6
United Kingdom	57.3	58.0	55.2	55.8	54.6	52.8	52.1	47.3	48.4	46.2	46.5	45.3	47.0	49.3	47.9	47.8	47.1	46.5	45.3	43.0	44.3	44.8	47.2	46.2	47.0	47.5	49.9
France	55.5	57.2	54.7	55.7	54.6	51.4	49.5	50.6	47.7	47.2	48.3	49.2	50.5	47.4	47.3	45.6	45.7	46.0	45.1	46.0	44.2	42.8	42.9	42.1	43.1	47.1	45.8
Spain	56.2	56.9	54.2	53.3	53.8	52.6	48.7	49.9	49.0	44.7	45.7	46.4	48.4	50.7	51.3	49.0	48.4	48.0	47.8	46.5	47.7	45.1	46.3	46.2	49.2	51.5	
Italy	58.3	58.3	55.8	54.5	51.9	50.9	48.5	48.0	48.3	46.5	48.4	48.5	50.4	52.0	51.1	46.8	45.9	43.8	44.5	45.4	46.8	44.9	44.4	45.3	48.5	48.7	
Greece	57.9	57.8	54.6	54.8	53.8	51.1	49.1	48.8	49.7	48.1	48.4	47.2	49.2	51.7	52.8	52.4	51.5	51.8	53.5	52.9	50.3	50.8	50.9	51.3	54.7	55.7	
Japan	55.4	52.7	54.1	53.5	53.3	52.7	52.1	51.5	50.8	50.7	49.0	48.9	48.9	47.7	49.2	49.5	50.6	49.8	49.6	49.6	48.5	48.7	48.3	47.9	48.0	47.2	48.2
Australia	55.1	57.0	57.7	58.8	55.7	56.2	55.7	53.8	53.5	52.7	51.3	50.2	50.0	50.5	49.1	48.0	48.4	48.6	49.6	49.6	48.7	48.2	47.7	47.6	50.1	47.8	46.8
New Zealand	52.2	53.4	53.4	51.0	52.8	50.2	53.3	54.9	51.6	48.9	47.3	48.0	51.0	51.6	48.2	48.7	48.6	47.5	46.7	46.0	45.3	42.8	46.6	43.4	47.3	49.3	
China	50.1	50.2	49.5	47.4	49.6	50.2	49.0	49.4	50.1	49.2	48.0	47.0	50.1	52.6	51.9	49.2	48.8	49.0	49.3	49.7	50.2	49.5	49.4	49.0	49.2	49.1	
Taiwan	56.2	58.8	57.8	56.3	53.5	53.6	47.8	47.2	44.9	45.4	43.9	43.7	40.4	51.4	47.3	42.8	41.3	48.3	46.1	45.5	48.2	47.1	46.8	46.8	48.0	48.1	
South Korea	52.8	53.8	51.2	52.1	51.8	51.3	49.8	47.6	47.3	48.2	49.0	48.5	48.5	48.5	47.6	48.1	48.4	47.8	49.4	48.9	49.9	49.8	50.0	49.9	51.2	50.7	
Hong Kong	48.9	42.9	42.0	51.7	54.9	52.4	52.3	51.2	48.0	49.3	48.7	49.6	51.2	53.9	53.5	52.4	50.6	50.3	49.4	49.8	49.6	48.9	50.1	51.3	49.9	49.7	
India	54.0	54.9	54.0	54.7	54.6	53.9	56.4	56.2	55.1	55.3	55.7	57.8	55.4	55.3	56.4	57.2	58.7	57.8	57.7	58.6	57.5	55.5	56.0	54.9	56.5	56.9	
Thailand	51.7	52.5	51.8	51.9	51.9	50.7	52.4	53.7	55.7	51.6	51.1	52.5	54.5	54.8	53.1	60.4	58.2	53.2	50.7	48.9	47.8	47.5	47.6	45.1	46.7	45.3	
Philippines	50.0	52.8	53.2	54.3	54.1	53.8	50.8	51.2	52.9	52.6	52.7	53.1	53.5	52.7	52.5	51.4	52.2	50.9	51.9	49.7	50.6	52.4	52.7	51.5	50.9	51.0	
Singapore	50.6	50.2	50.1	50.3	50.4	50.3	50.1	50.0	49.9	49.7	49.8	49.7	49.8	50.0	49.9	49.7	49.5	49.7	49.8	49.9	50.1	50.2	50.3	50.5	50.7	50.6	
Malaysia	50.5	50.9	49.6	51.6	50.1	50.4	50.6	50.3	49.1	48.7	47.9	47.8	46.5	48.4	48.8	48.8	47.8	47.7	47.8	47.8	46.8	46.8	47.9	47.9	49.0	49.5	
Vietnam	53.7	54.3	51.7	51.7	54.7	54.0	51.2	52.7	52.5	50.6	47.4	46.4	47.4	51.2	47.7	46.7	45.3	46.2	48.7	50.5	49.7	49.6	47.3	48.9	50.3	50.4	
Indonesia	53.7	51.2	51.3	51.9	50.8	50.2	51.3	51.7	53.7	51.8	50.3	50.9	51.3	51.2	51.9	52.7	50.3	52.5	53.3	53.9	52.3	51.5	51.7	52.2	52.9	52.7	
Brazil	47.8	49.6	52.3	51.8	54.2	54.1	54.0	51.9	51.1	50.8	44.3	44.2	47.5	49.2	47.0	44.3	47.1	46.6	47.8	50.1	49.0	48.6	49.4	48.4	52.8	54.1	
Mexico	46.1	48.0	49.2	49.3	50.6	52.2	48.5	48.5	50.3	50.3	50.6	51.3	48.9	51.0	51.0	51.1	50.5	50.5	50.9	51.2	49.8	52.1	52.5	52.0	50.2	52.3	
Russia	51.8	48.6	44.1	48.2	50.8	50.9	50.3	51.7	52.0	50.7	53.2	53.0	52.6	53.6	53.2	52.6	53.5	52.6	52.1	52.7	54.5	53.8	53.8	54.6	52.4	54.7	
Turkey	50.5	50.4	49.4	49.2	49.2	48.1	46.9	47.4	46.9	46.4	45.7	48.1	50.1	50.1	50.9	51.5	51.5	51.5	49.9	49.0	49.6	48.4	47.2	47.4	49.2	50.2	

https://en.macromicro.me/dynamic_chart/pmi_heat_map

Financial Stress – continues to loosen and more accommodative



Source: https://www.chicagofed.org/publications/nfci/index, Experiential Wealth

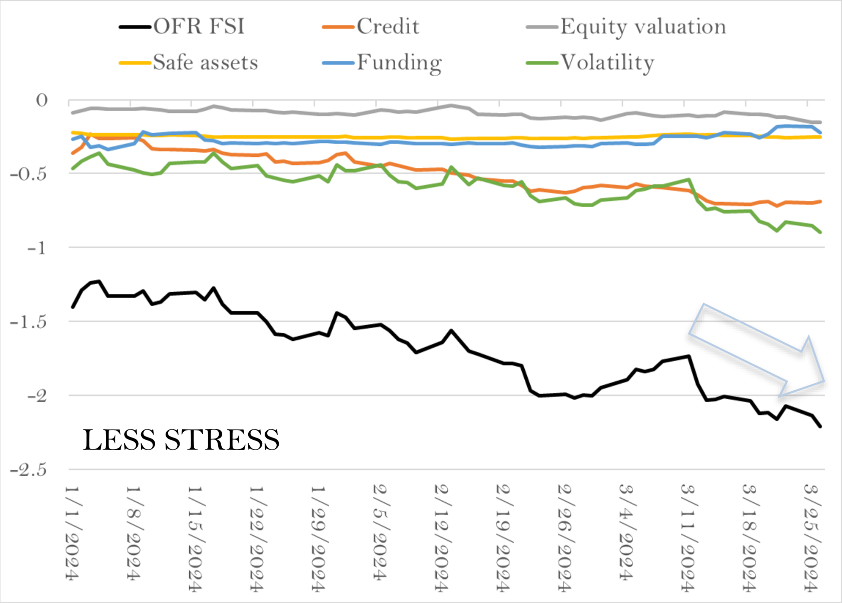
Source: https://fred.stlouisfed.org/series/STLFSI4, Experiential Wealth

Chicago Fed's National Financial Conditions Index (NFCI) provides a comprehensive weekly update on U.S. financial conditions in money markets, debt, equity markets, and the traditional and "shadow" banking systems. The NFCI decreased to –0.56 in the week ending March 22. Risk indicators contributed –0.25, credit indicators contributed –0.19, and leverage indicators contributed –0.10 to the index in the latest week.

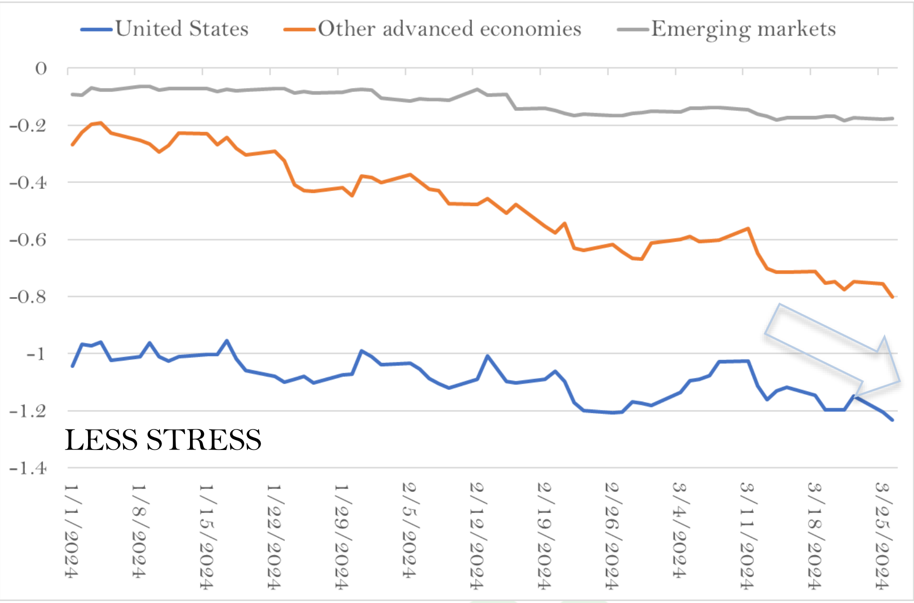
The St. Louis Federal Reserve Bank's Financial Stress Index measures the degree of financial stress in the markets and is constructed from 18 weekly data series: 7 interest rate series, 6 yield spreads, and 5 other indicators. Each of these variables captures some aspect of financial stress. Accordingly, as the level of financial stress in the economy changes, the data series are likely to move together. The Index continues to show below-average financial market stress.

NEXUS338

Financial Stress – signs of less stress continues across the globe



FSI, Experiential Wealth



FSI, Experiential Wealth

https://www.financialresearch.gov/financial-stress-index/#ae

The OFR Financial Stress Index (OFR FSI) is a daily market-based snapshot of stress in global financial markets. It is constructed from 33 financial market variables, such as yield spreads, valuation measures, and interest rates. The OFR FSI is positive when stress levels are above average and negative when stress levels are below average. The OFR FSI incorporates five categories of indicators: **credit, equity valuation, funding, safe assets,** and **volatility**.

The overall financial stress in the U.S. continues to drift down further below the neutral 0 value.

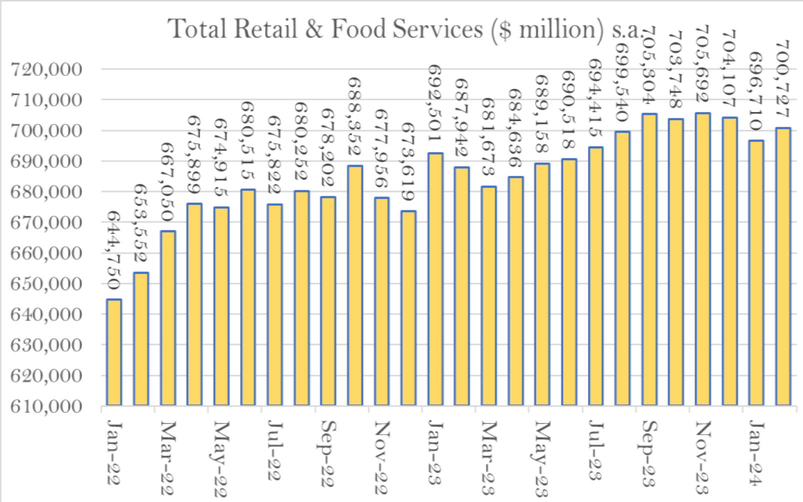
The FSI also shows stress contributions by three regions: United States, other advanced economies, and emerging markets.

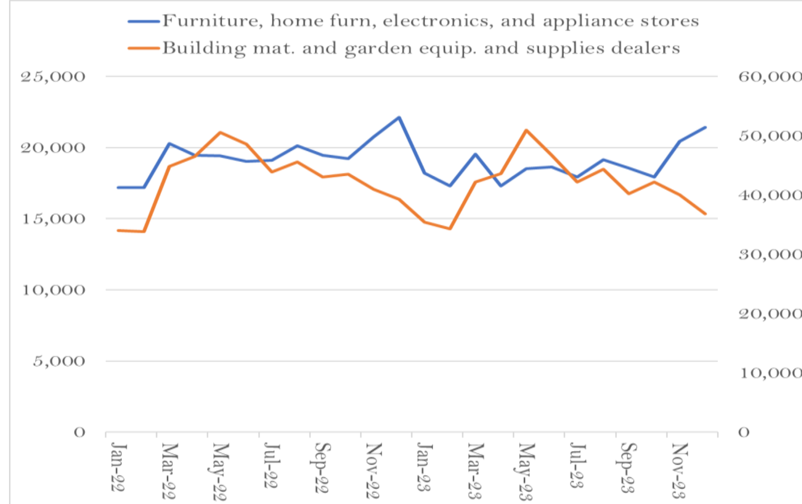
Other advanced economies: Variables measuring stress from advanced economies other than the United States, including primarily the eurozone and Japan

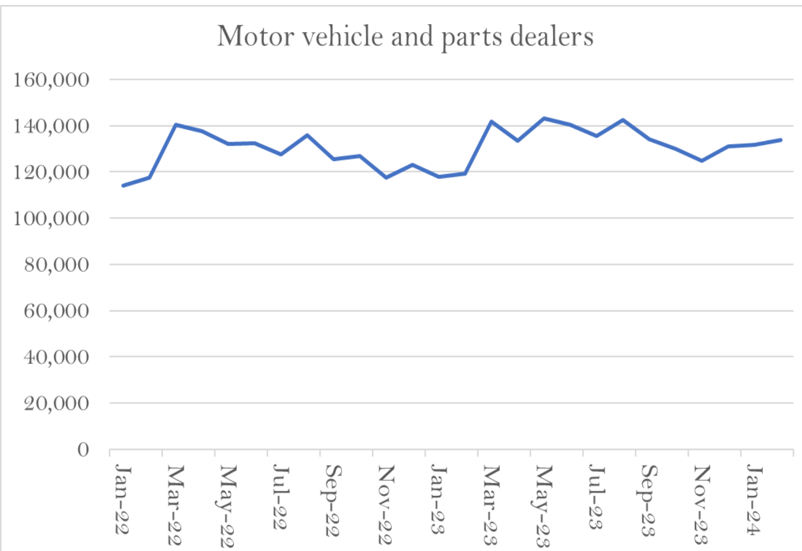
Emerging markets: Variables measuring stress from emerging markets

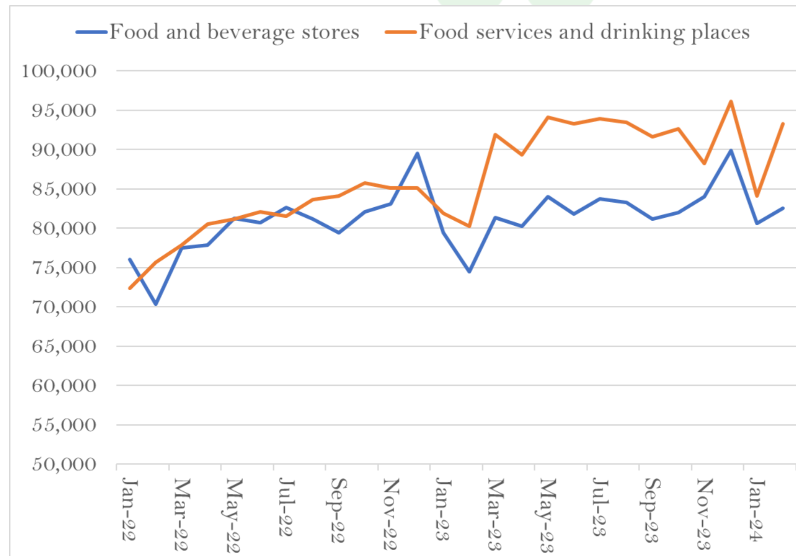
Overall global financial stress continues to drive further below the neutral "0" value.

Overall Retail is Strong but Shows Signs of Slowing



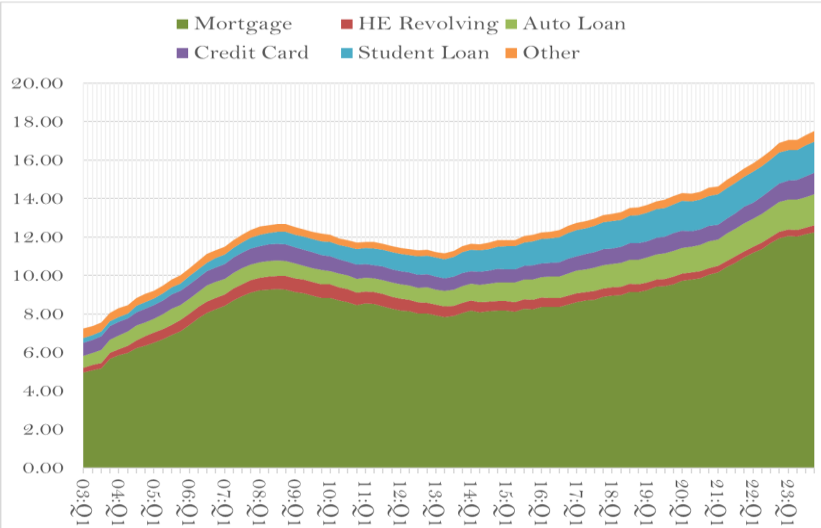


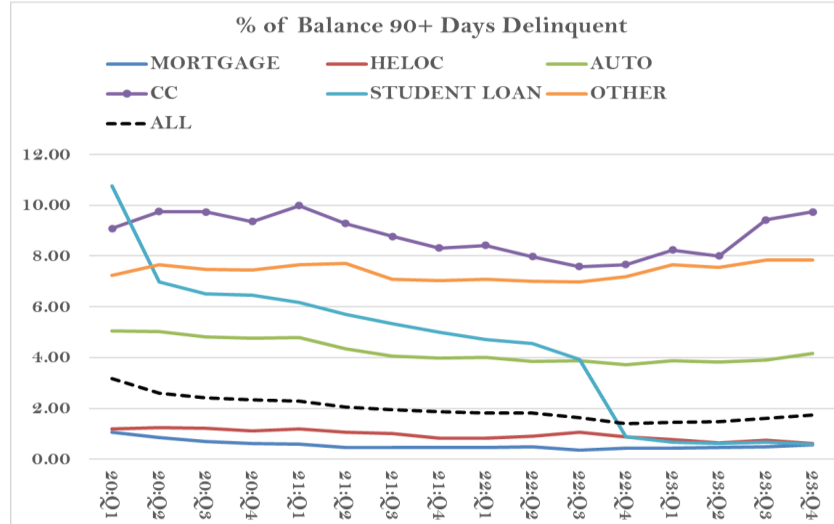




https://www.census.gov/retail/sales.html

Consumer Debt Rising and Delinquency Still Contained





Total household debt rose by $212 billion to reach $17.5 trillion in the fourth quarter of 2023, according to the latest Quarterly Report on Household Debt and Credit. Mortgage balances shown on consumer credit reports increased by $112 billion during the fourth quarter of 2023 and stood at $12.25 trillion at the end of December. Balances on home equity lines of credit (HELOC) increased by $11 billion, the seventh consecutive quarterly increase after 2022Q1, and there is now $360 billion in aggregate outstanding balances.

Delinquency transition rates increased for all debt types except for student loans. Credit card balances, which are now at $1.13 trillion outstanding, increased by $50 billion (4.6%). Auto loan balances increased by $12 billion, continuing the upward trajectory that has been in place since 2020Q2, and now stand at $1.61 trillion. Other balances, which include retail cards and other consumer loans, grew by $25 billion. Student loan balances were effectively flat, with a $2 billion increase and stand at $1.6 trillion. In total, non-housing balances grew by $89 billion.

https://www.newyorkfed.org/microeconomics/hhdc

NEXUS338

Bankruptcy filings, % change yr. ago, 3-mo ending, NSA

Bankruptcy filings, % change yr ago, 3-mo ending, NSA								
	23Q4	23Q3	23Q2	23Q1	22Q4	22Q3	22Q2	22Q1
Total personal	19.0	13.9	14.9	16.4	4.0	2.9	-13.1	-15.9
Chapter 7	23.1	16.0	12.9	9.8	-7.8	-15.3	-30.3	-29.5
Chapter 11	13.8	-26.8	-11.9	-21.9	-31.0	23.3	-11.3	5.8
Chapter 13	13.9	11.3	18.0	26.6	24.3	43.0	38.3	19.7
Total business	53.2	37.7	37.0	32.6	11.4	12.1	-11.4	-27.6
Chapter 7	39.0	36.3	29.2	23.6	5.2	0.0	-21.6	-22.2
Chapter 11	84.7	43.3	53.6	51.7	20.4	34.5	10.1	-35.2
Chapter 13	32.9	17.0	27.9	40.7	34.9	45.9	0.0	5.0

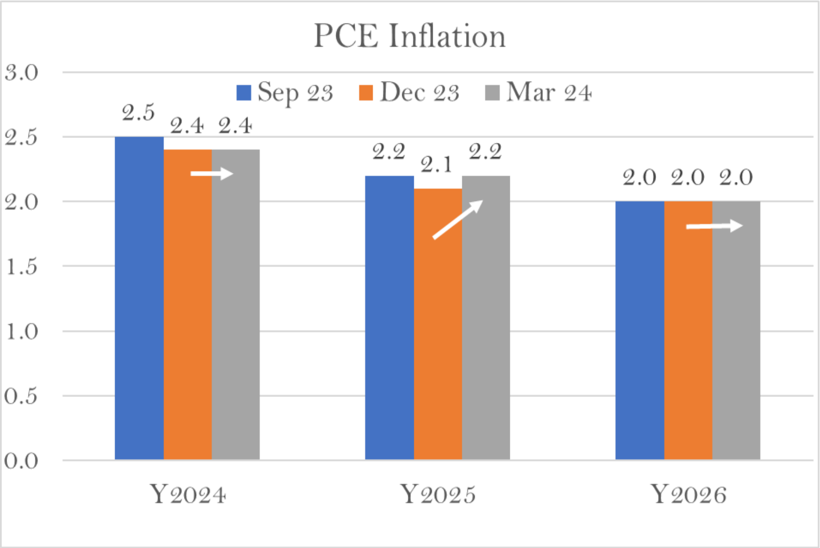
•Bankruptcy filings remain low, but the trend is unfavorable as household finances are under pressure on many fronts, including still-high inflation, higher interest rates, increased borrowing, and the gradual depletion of the excess savings accumulated during the pandemic. Non-business filings usually fall in the third quarter as excesses from the prior year's holiday season have passed, although this did not occur last year or this year. However, year-over-year growth still moderated as this year's gain lagged last year's.

•The upward trend in filings, after adjusting for seasonal movements, highlights that the impact of the Federal Reserve's interest rate increases only hit consumer finances with a lag. More than 80% of consumer debt at present is fixed rate. However, this does not insulate new debt or credit card balances. Another mitigating factor for consumers is that stock and house prices are rising again, at least temporarily. Real income has been growing at a healthy rate for more than a year but from a low level. Abundant job openings and remaining excess saving are still cushions for some, but both are declining. The question for the outlook is not whether filings will rise further but how much and how fast.

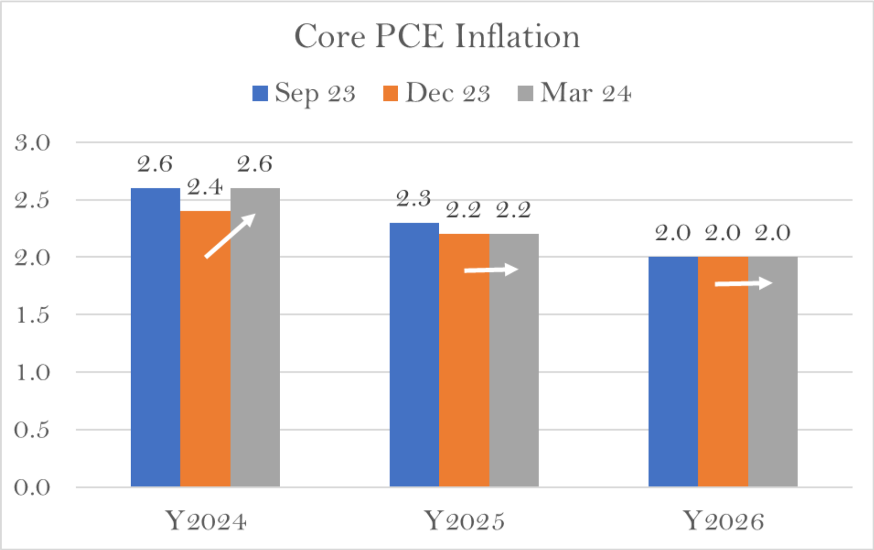
•There is a significant lag from when households begin to face strained finances and when credit problems become severe and lengthy enough to push large numbers of consumers into bankruptcy. Households usually do not file for bankruptcy until forced by collection efforts. That will generally not happen until the loans go into default, usually following many months of nonpayment. With most student loan forbearance not ending until October, the number of jobs available, and excess saving only gradually being spent, the clock may only recently have started ticking for many of the households that are suffering financially because of high inflation or other difficulties. This suggests the outlook is bleak.

Source: Moody's Economics 2023 12

Summary of Economic Projections – Inflation (March 2024)



FOMC, Experiential Wealth



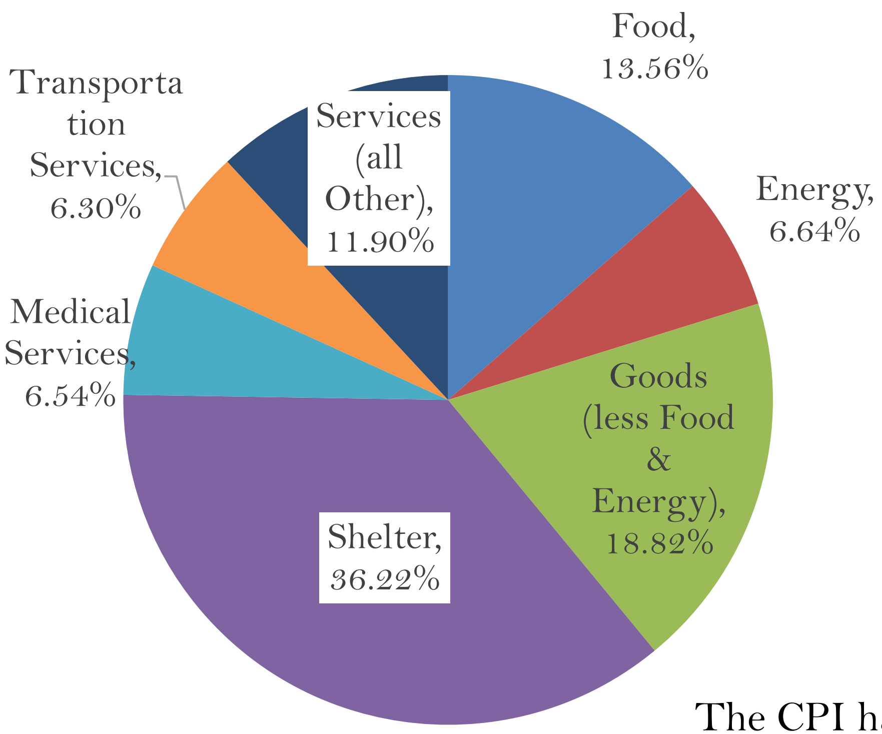
FOMC, Experiential Wealth

In the latest SEP, the central tendency average member expects PCE inflation to move sideways for 2024, holding at 2.4%. However, the average member expects a higher inflation from 2.1 to 2.2 for 2025. Further, the central tendency is that the Fed does NOT project inflation (PCE) to get back to the 2% target.

At the same time, projections for Core PCE (ex-food and energy) inflation moved higher for 2024 from 2.4% to 2.6% and Core PCE held constant at 2.2% in 2025. Core PCE is projected to return to the 2% target in 2026. These projections recognize the stickiness of services inflation, and there is likely less reason to rush into cutting interest rates.

For 2025 and 2026, the projections for both PCE and core PCE are projected to be in lockstep.

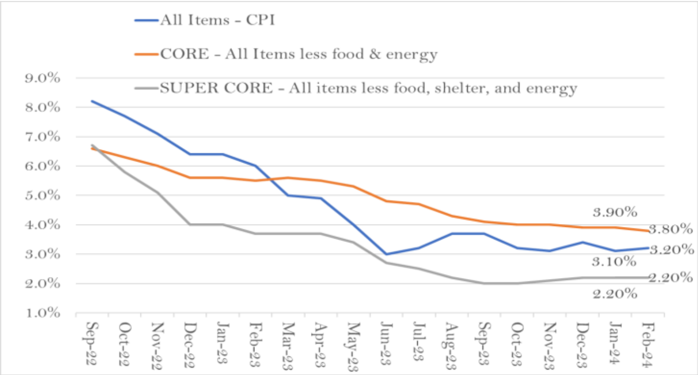
CPI Components & their contributions (Feb 24)

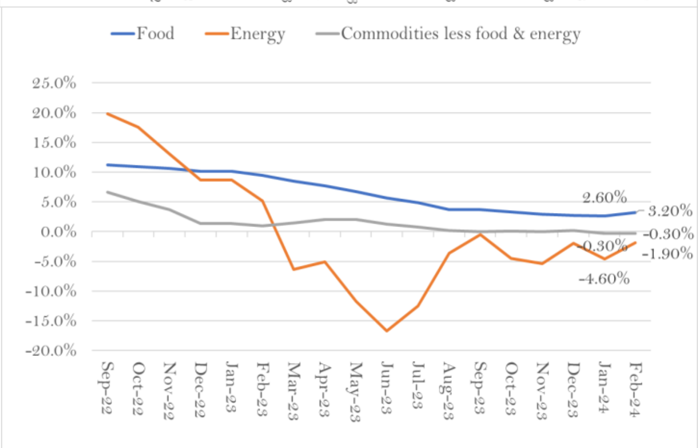


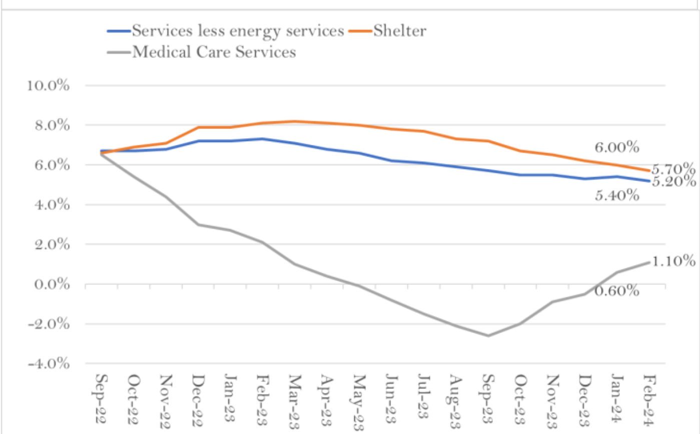
	2023-12	2024-01	2024-02
CPI	3.40%	3.10%	3.20%
Food	2.70%	2.60%	3.20%
Energy	-2.00%	-4.60%	-1.90%
Core CPI	3.90%	3.90%	3.80%
Core Goods	0.20%	-0.30%	-0.30%
Core Services	5.30%	5.40%	5.20%
Shelter	6.20%	6.00%	5.70%
Medical Services	-0.50%	0.60%	1.10%

The CPI has moved up by 0.1% in the latest month while food prices took a jump 0.6%. Energy continues to be the driver of some disinflation along with core goods. Core service prices (including shelter) remain sticky. Core CPI dropped by 0.1% but is still too high for the Fed to gain confidence that inflation is moving sustainably toward 2%.

Components of CPI – February 2024







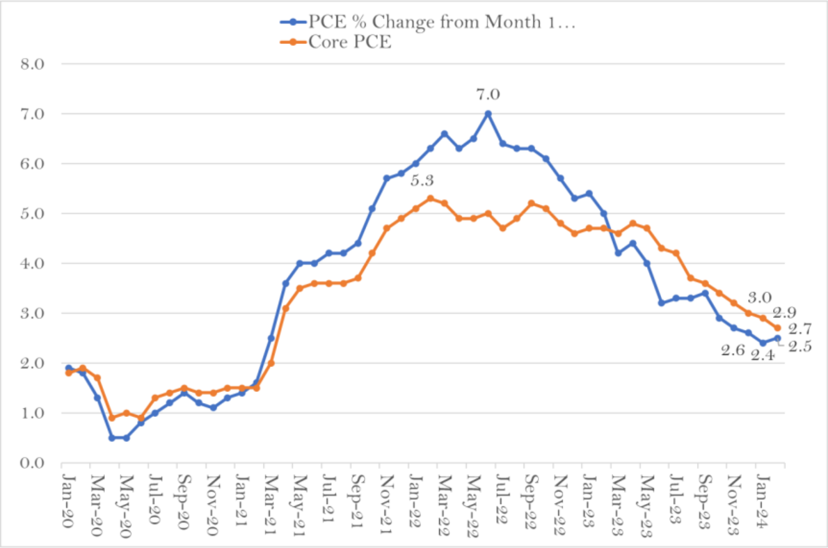
The CPI increased 0.4% in February, on a seasonally adjusted basis, after rising 0.3% in January. Over the last 12-months, the all items index increased 3.2% before seasonal adjustment. The index for shelter rose in February, as did the index for gasoline. Combined, these two indexes contributed over 60% of the monthly increase in the index for all items. The energy index rose 2.3% over the month, as all of its component indexes increased. The food index was unchanged in February, as was the food at home index. The food away from home index rose 0.1% over the month. The index for all items less food and energy (core CPI) rose 0.4% in February, as it did in January. Indexes which increased in February include shelter, airline fares, motor vehicle insurance, apparel, and recreation. The index for personal care and the index for household furnishings and operations were among those that decreased over the month.

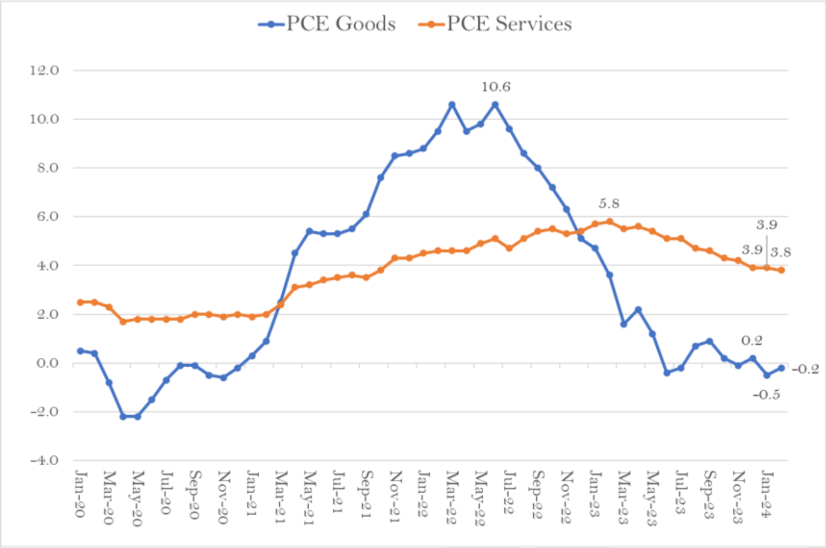
The all items index rose 3.2% for the 12-months ending February, a larger increase than the 3.1% increase for the 1-month ending January. The core CPI index rose 3.8% over the last 12-months. The energy index decreased 1.9% for the 12-months, while the food index increased 2.2% over the last year.

Once again, although the inflation rates have come down from their heights in 2022-2023, the recent increase in inflation suggests the inflation genie is not back in the bottle quite yet.

Source: BLS CPI Table7, Experiential Wealth https://www.bls.gov/cpi/tables/supplemental-files/

Inflation (PCE) Remains Elevated – Sticky Service Sector (2-2024)



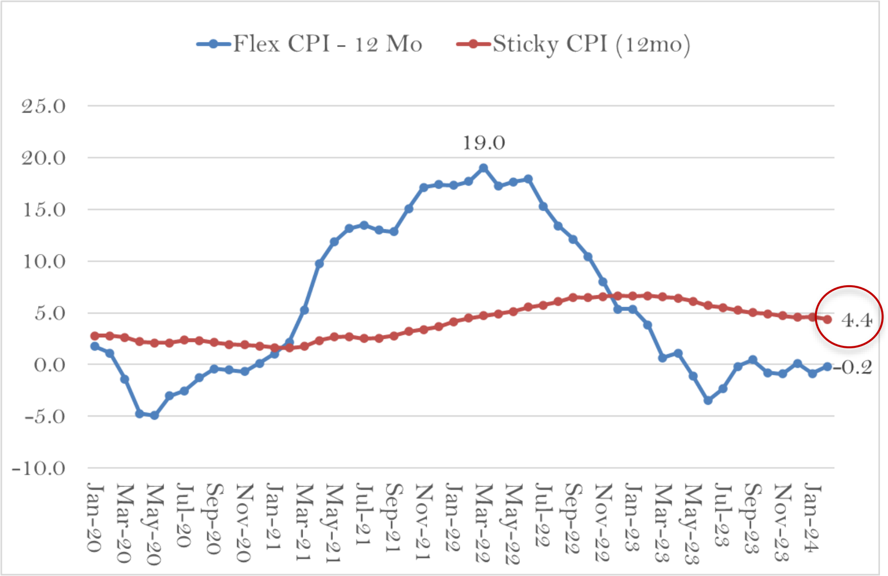


The preferred inflation gauge for the Fed is the core Personal Consumption Expenditure (PCE). As of **February 2024** (latest) data, core PCE is now at 2.7%, falling 0.1% from the January 2.9% rate. The Fed target is 2% core PCE, so this is still too high. PCE is now at 2.5%, up 0.1% from January (2.4%).

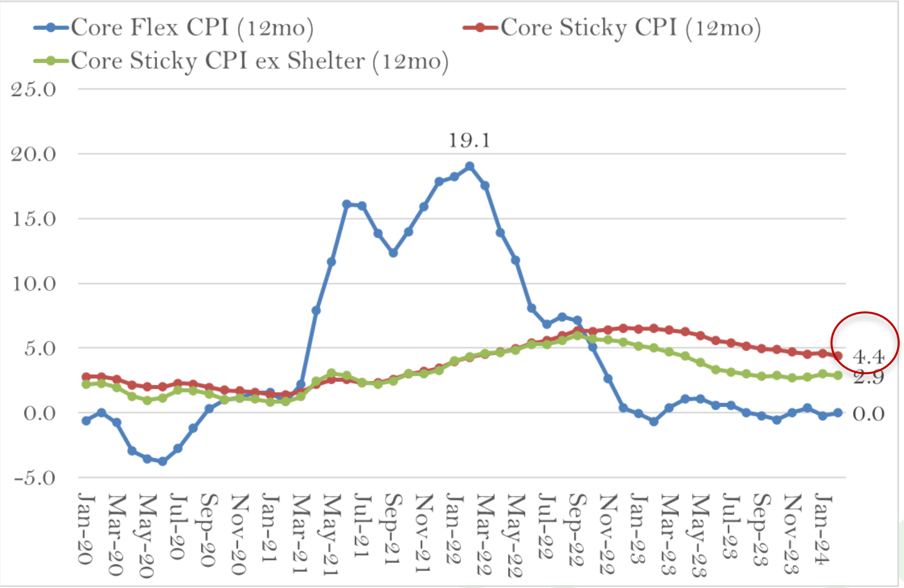
Breaking down the PCE further into its services and goods components tells us goods' prices are continuing the general disinflationary trend since the middle of 2022 as the restoration of the global supply chain is likely complete. It is not clear how long this goods sector will continue trending downwards.

The services component continues to dis-inflate at a much slower pace. February 2024 shows a 3.8% annual rate, down 0.1% from the January reading of 3.9%.

CPI – Flex and Sticky (02-2024) – Housing is sticky



Source: https://www.atlantafed.org/research/inflationproject/stickyprice, Experiential Wealth



The Atlanta Fed divides the published components of the monthly CPI (45 categories derived from the raw price data) into their "sticky-price" and "flexible-price" aggregates[1]. The evidence indicates that the flexible-price measure is much more responsive to changes in the economic environment while the sticky-price variant appears to be more forward looking. Sticky price setters understand that it will be costly to change prices; they will want their price decisions to account for inflation over the periods between their infrequent price changes.

Flex and sticky are further divided into core and non-core. Core excludes energy and food prices. Historically, flexible price and flexible core price CPI have shown much more volatility than the alternative sticky-price and sticky core price measures.

Although imperfect, separating CPI categories into these two measures and further separating core categories from non-core provides a view of future inflation (i.e., removing the more volatile priced categories from the CPI). As of February, the sticky-price CPI increased 4.4% (on an annualized basis), and the flex CPI was down 0.2%. The more refined division of Core Flex CPI is at 0%, while the Core Sticky is at 4.4%. Shelter is a big part of the Core-Sticky CPI. The Fed is now focused on not only the Shelter component of the Core CPI but also wants to know the Super Core or Core CPI after stripping out the Shelter component. For February, it is at 2.9%. In conclusion, inflation remains elevated, and the Fed will continue to focus on Core (and informed by Core-Sticky) CPI to see if inflation is sustainably moving closer to the target 2%.

[1] https://www.atlantafed.org/-/media/documents/research/inflationproject/stickyprice/sticky-price-cpi-supplemental-reading.pdf

Trimmed Mean PCE inflation -Feb 2024

The Trimmed Mean[1] PCE inflation rate is an alternative measure of core inflation in the price index for personal consumption expenditures (PCE). It is calculated by staff at the Dallas Fed using data from the Bureau of Economic Analysis.

One-month PCE inflation, annual rate

	Sept-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
PCE	4.7	0.4	-0.1	1.5	4.6	4.1
PCE ex F&E	4.0	1.7	1.1	1.8	5.6	3.2
Trimmed mean	3.7	2.5	1.8	1.8	5.7	3.4

Six-month PCE inflation, annual rate

	Sept-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
PCE	2.9	2.4	2.1	2.1	2.6	2.5
PCE ex F&E	2.7	2.3	1.9	1.9	2.6	2.9
Trimmed mean	3.1	2.8	2.6	2.5	3.0	3.1

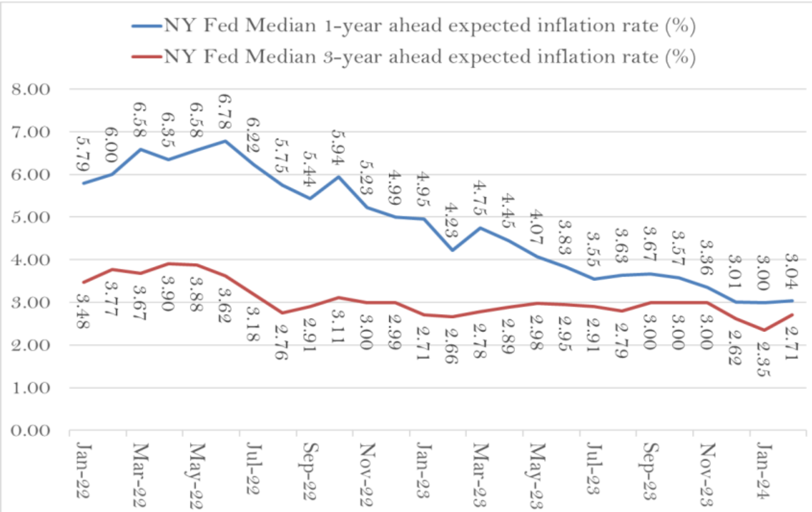
12-month PCE inflation

	Sept-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
PCE	3.4	2.9	2.7	2.6	2.4	2.5
PCE ex F&E	3.6	3.4	3.2	2.9	2.9	2.8
Trimmed mean	3.8	3.6	3.4	3.2	3.2	3.1

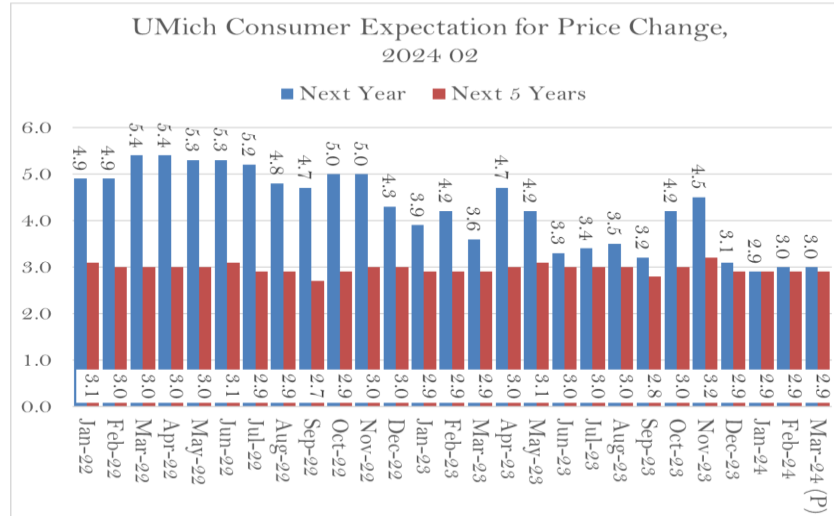
Source: https://www.dallasfed.org/research/pce#current

[1] https://www.dallasfed.org/~/media/documents/research/papers/2005/wp0506.pdf

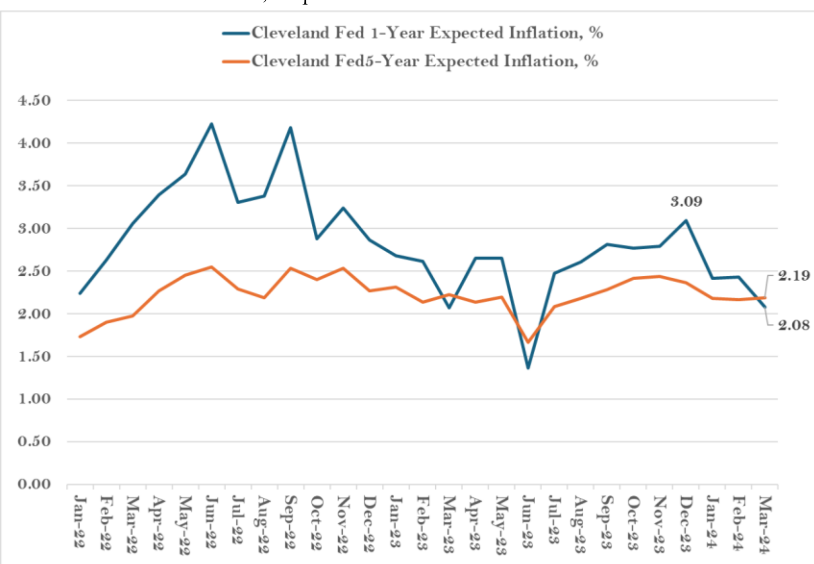
Inflation Expectation – Survey-Based – fairly well anchored



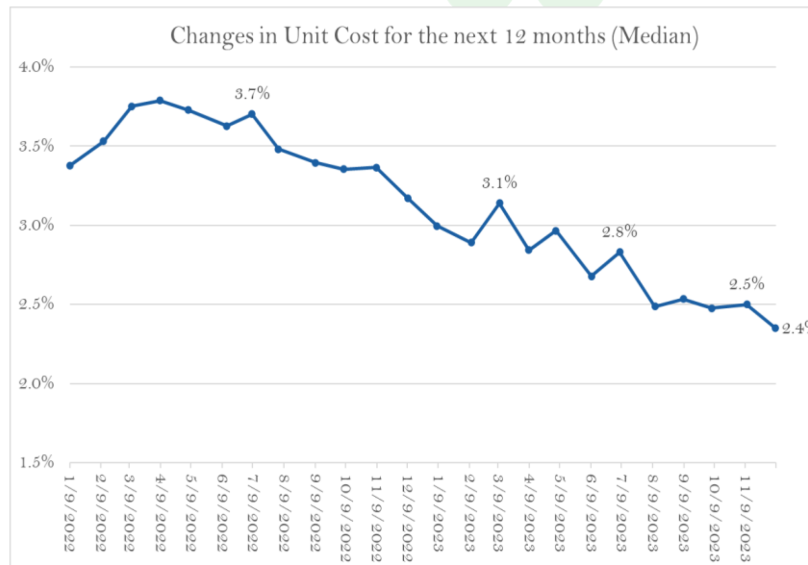
Source: New York Fed, Experiential Wealth



Source: UMich & Experiential Wealth

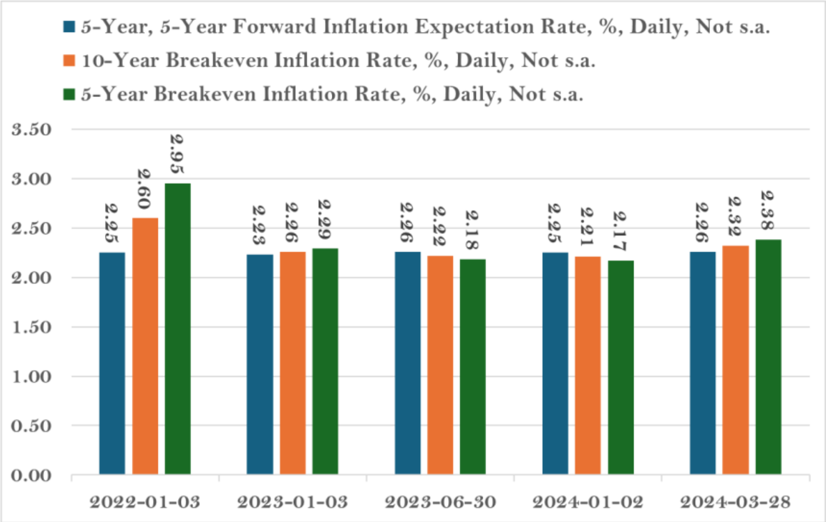


Source: Cleveland Fed, Experiential Wealth

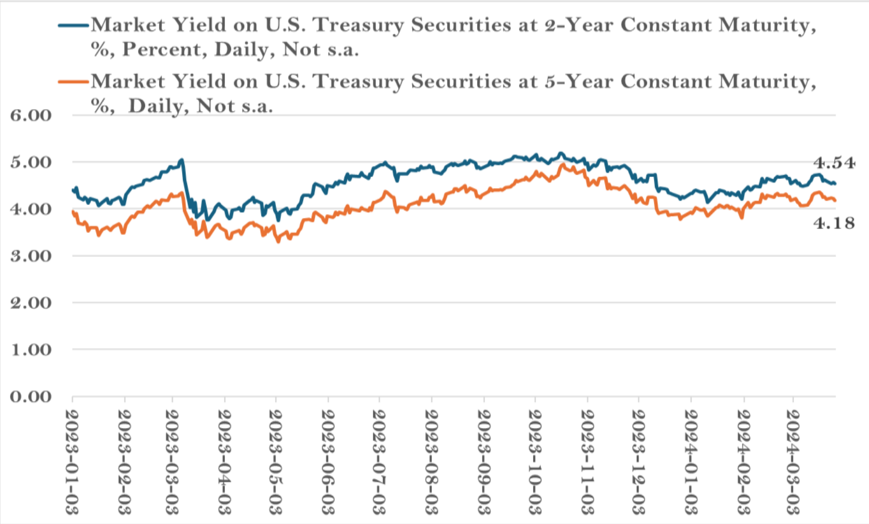


Source: Atlanta Fed & Experiential Wealth

Inflation Expectation & Market-Based Rates

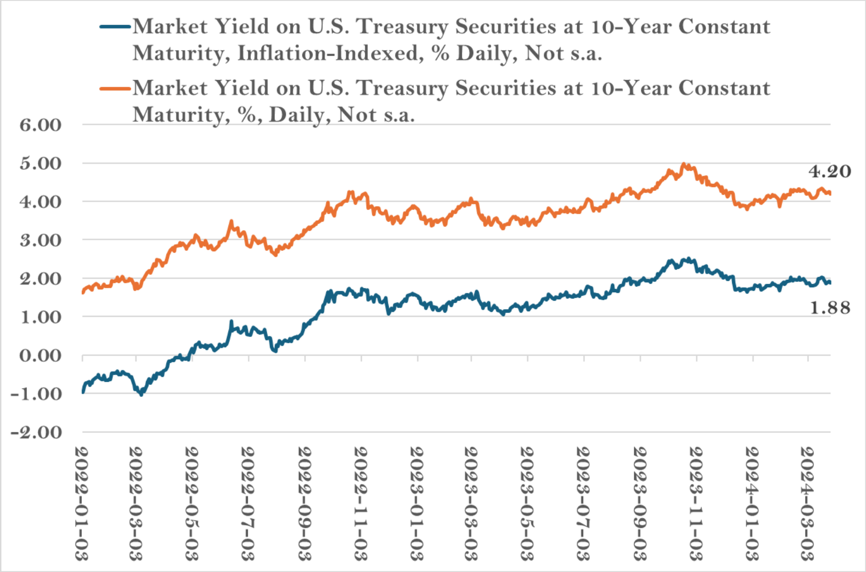


Source: FRED, Experiential Wealth



Source: FRED, Experiential Wealth

5-Year, 5-Year Forward Inflation Expectation Rate is a measure of expected inflation (on average) over the five-year period that begins five years from today. **10-Year Breakeven Inflation Rate** is a measure of expected inflation derived from 10-Year Treasury Constant Maturity Securities and 10-Year Treasury Inflation-Indexed Constant Maturity Securities. **5-Year Breakeven Inflation Rate** is the measure of expected inflation derived from 5-Year Treasury Constant Maturity Securities and 5-Year Treasury Inflation-Indexed Constant Maturity Securities. Market expectation of inflation appears well anchored around 2%. **2-Year Constant Maturity Rate** is the nominal rate of the 2-Year U.S. Treasury. **5-Year Constant Maturity Rate** is the nominal rate of the 5-Year U.S. Treasury. **10-Year Constant Maturity Rate** is the nominal rate of the 10-Year U.S. Treasury. **10-Year Constant Inflation Indexed Maturity Rate** is the real rate of the 10-Year U.S. Treasury. The current market yields along the yield curve are dropping quickly, maybe too quickly.



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Global Inflation & Central Bank Rates

Country	Last	Previous	Reference
Argentina	276	254	24-Feb
Australia	4.1	5.4	23-Dec
Brazil	4.5	4.51	24-Feb
Canada	2.8	2.9	24-Feb
China	0.7	-0.8	24-Feb
Euro Area	2.6	2.8	24-Feb
France	3	3.1	24-Feb
Germany	2.5	2.9	24-Feb
India	5.09	5.1	24-Feb
Indonesia	2.75	2.57	24-Feb
Italy	0.75	0.84	24-Feb
Japan	2.8	2.2	24-Feb
Mexico	4.4	4.88	24-Feb
Netherlands	2.8	3.2	24-Feb
Russia	7.7	7.4	24-Feb
Saudi Arabia	1.8	1.6	24-Feb
Singapore	3.4	2.9	24-Feb
South Africa	5.6	5.3	24-Feb
South Korea	3.1	2.8	24-Feb
Spain	3.2	2.8	24-Mar
Switzerland	1.2	1.3	24-Feb
Turkey	67.07	64.86	24-Feb
United Kingdom	3.4	4	24-Feb
United States	3.2	3.1	24-Feb

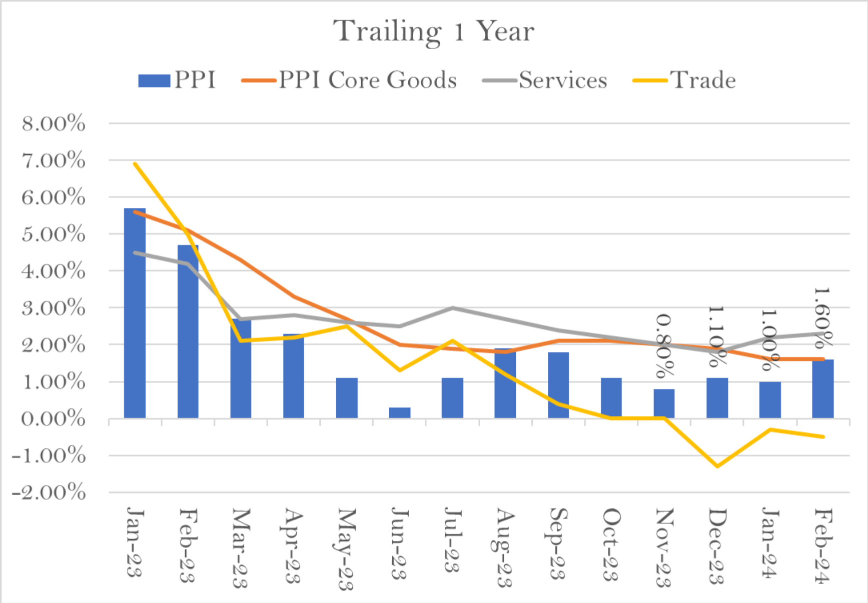
About half of the countries reported are experiencing a tick up in inflation in February 2024, including the U.S.

Country	Interest Rate	Previous	Reference
Japan	0	-0.1	24-Mar
Switzerland	1.5	1.75	24-Mar
China	3.45	3.45	24-Mar
South Korea	3.5	3.5	24-Feb
Singapore	3.96	3.85	24-Mar
Australia	4.35	4.35	24-Mar
Euro Area	4.5	4.5	24-Mar
Canada	5	5	24-Mar
United Kingdom	5.25	5.25	24-Mar
United States	5.5	5.5	24-Mar
Indonesia	6	6	24-Mar
Saudi Arabia	6	6	24-Mar
India	6.5	6.5	24-Feb
South Africa	8.25	8.25	24-Mar
Brazil	10.75	11.25	24-Mar
Mexico	11	11.25	24-Mar
Russia	16	16	24-Mar
Turkey	50	45	24-Mar
Argentina	80	100	24-Mar

https://tradingeconomics.com/country-list/inflation-rate

Source: Trading Economics, Experiential Wealth

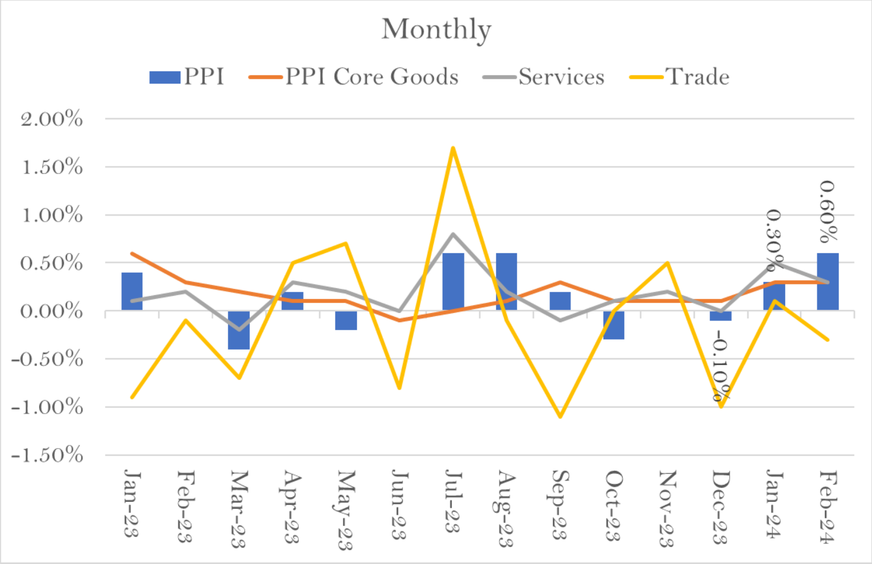
Producer Price Index (PPI) – Moving the Wrong Way



Source: BLS 2024 02, Experiential Wealth

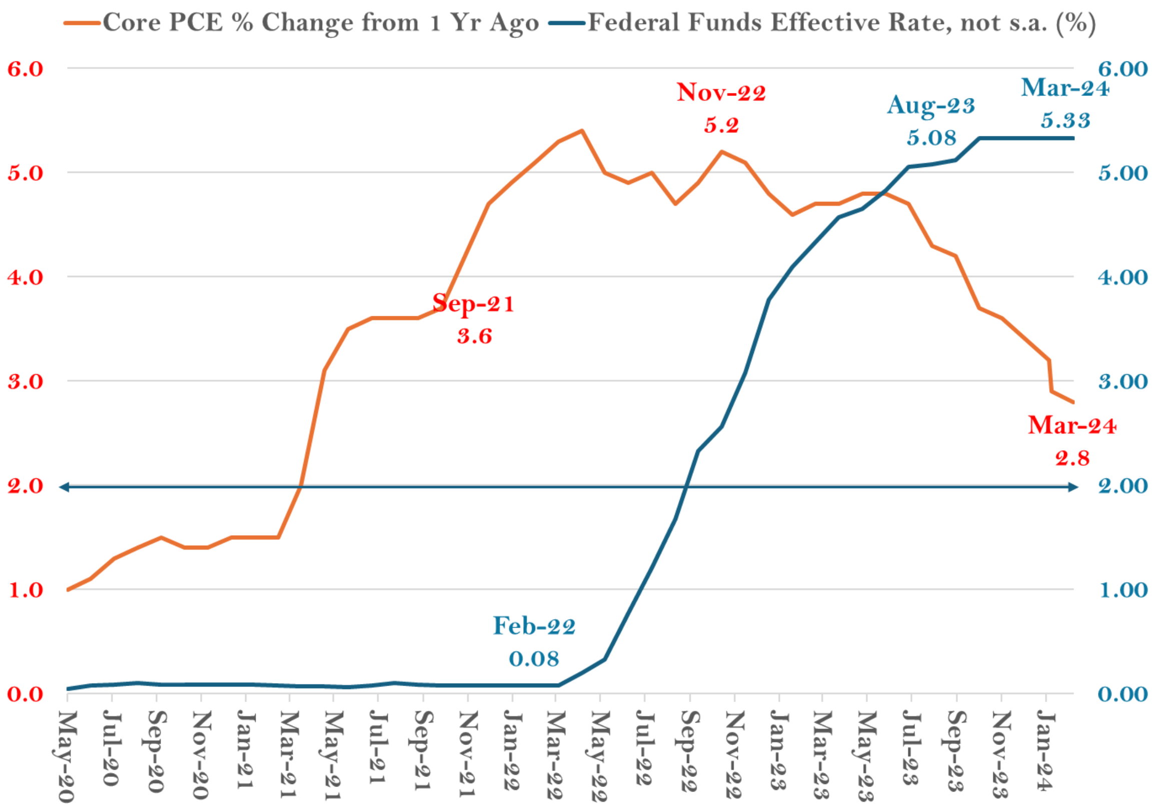
The Producer Price Index for final demand rose 0.6% in February (seasonally adjusted). On an unadjusted basis, the final demand index advanced 1.6% for the 12-months ended in February, the largest rise since moving up 1.8% for the 12-months ended September 2023. In February, nearly two-thirds of the rise in final demand prices can be traced to the index for final demand goods, which advanced 1.2%. Prices for final demand services moved up 0.3%. For the 12-months ended in February, prices for final demand less foods, energy, and trade services moved up 2.8%.

The Producer Price Index (PPI) measures the average price changes domestic producers receive for their output over time. It is a measure of inflation at the wholesale level that is compiled measuring producer prices by industry and product category. It is thought of as a leading indicator about inflation as over time wholesale inflation will be passed along to the consumer price index of CPI.



Source: BLS 2024 02, Experiential Wealth

Restrictive Policy Rate – slow and variable lag



- Historically, the full impact of the Fed's rate hiking cycle is averaging around 14 to 24 months after the first rate hike, although the full range is 4- to 29-months[1], often referred to as the long and variable lag. This graph illustrates the delayed impact since the first rate hike in March 2022. This month marks the 24 months since lift off. The speedy drop this time cannot be fully credited to Fed rate actions. In fact, much of the drop was due to the healing of the supply chain for goods as the world recovered from COVID. Nonetheless, we should expect some more impact from higher rates on the economy to come.

[1] https://www.stlouisfed.org/on-the-economy/2023/oct/what-are-long-variable-lags-monetary-policy#:~:text=Quantifying%20Long%20and%20Variable%20Lags&text=According%20to%20Dupor%2C%20Milton%20found,this%20range%20it%20would%20fall.

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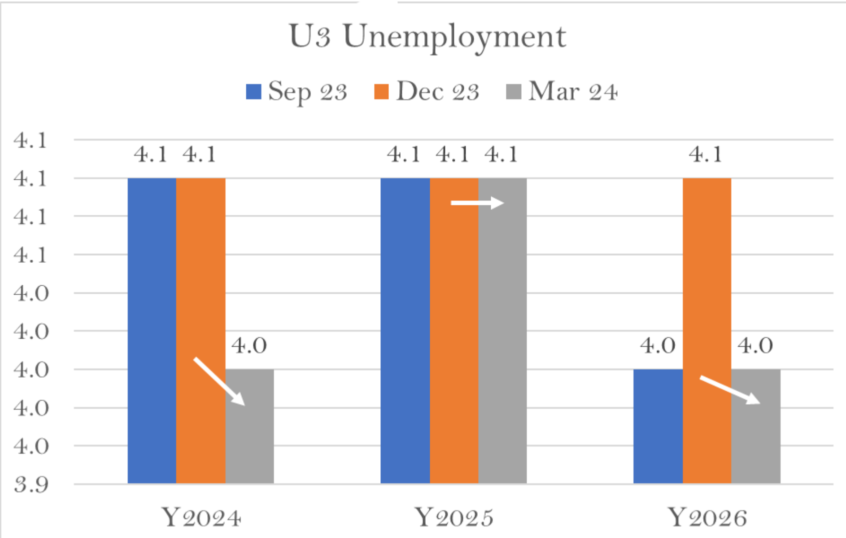
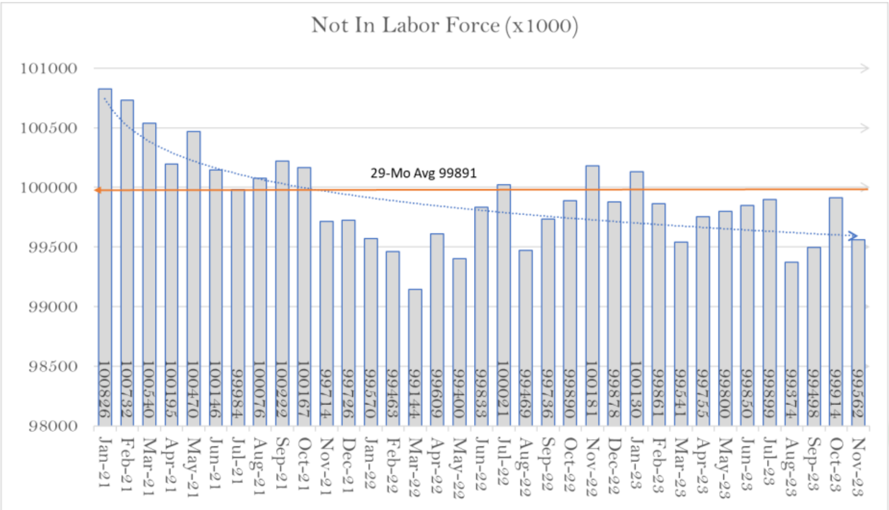
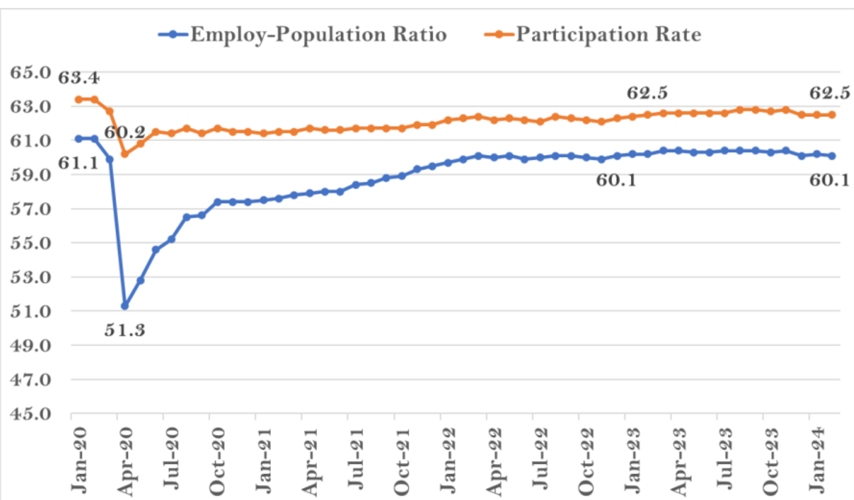
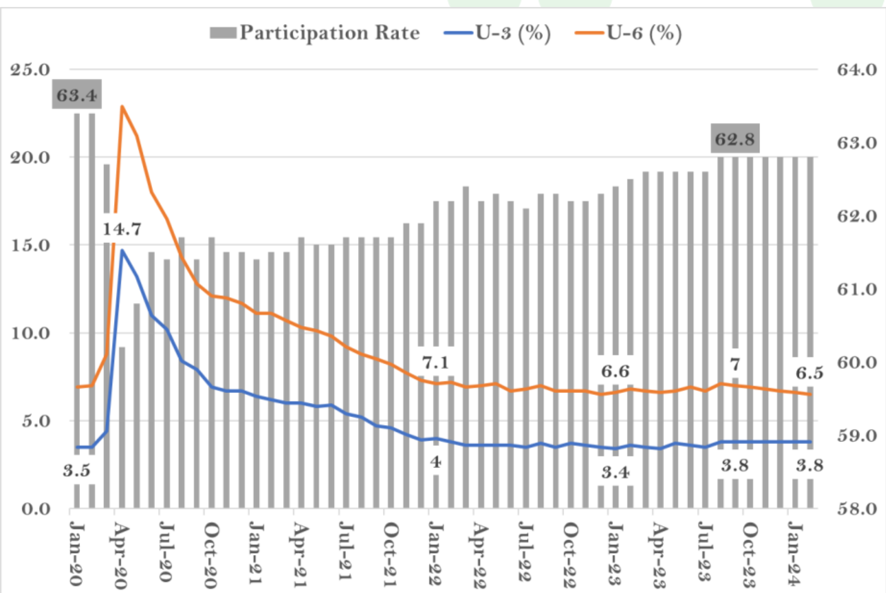
Summary of Economic Projections – Unemployment (U3)





Source: FOMC, Experiential Wealth

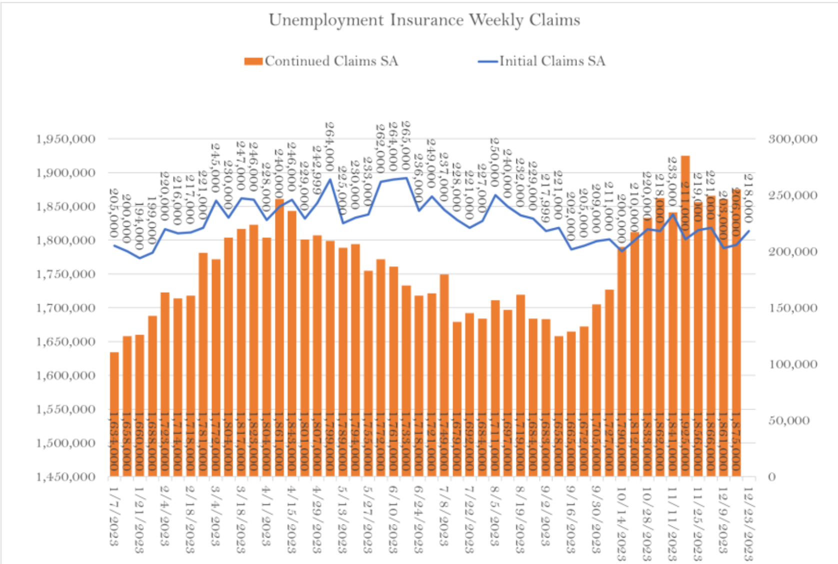


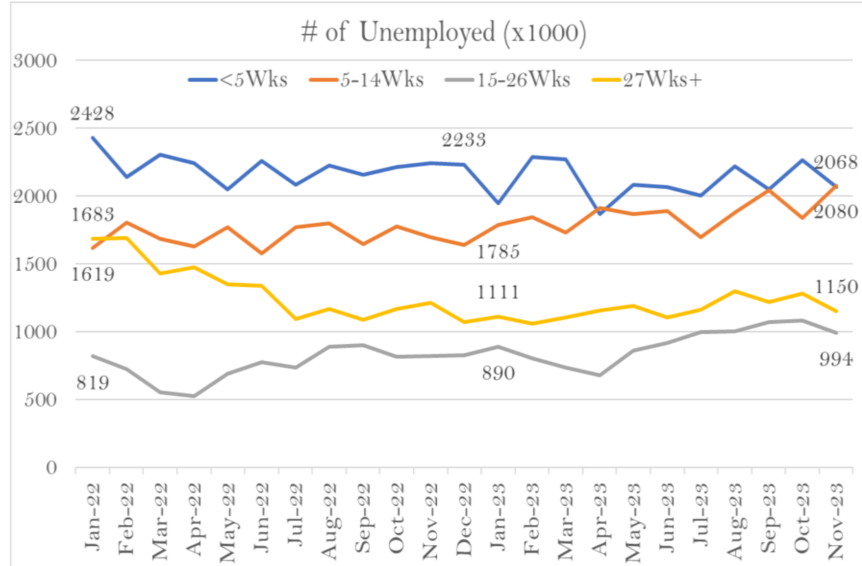


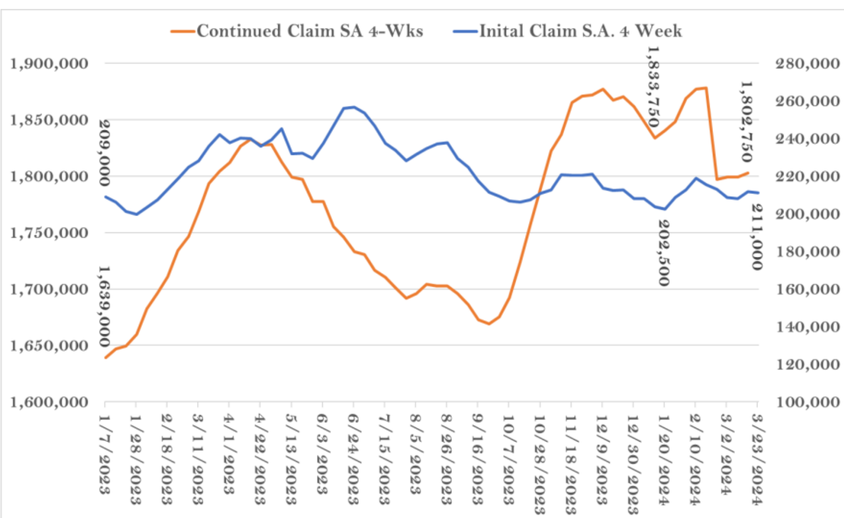
BLS, Experiential Wealth

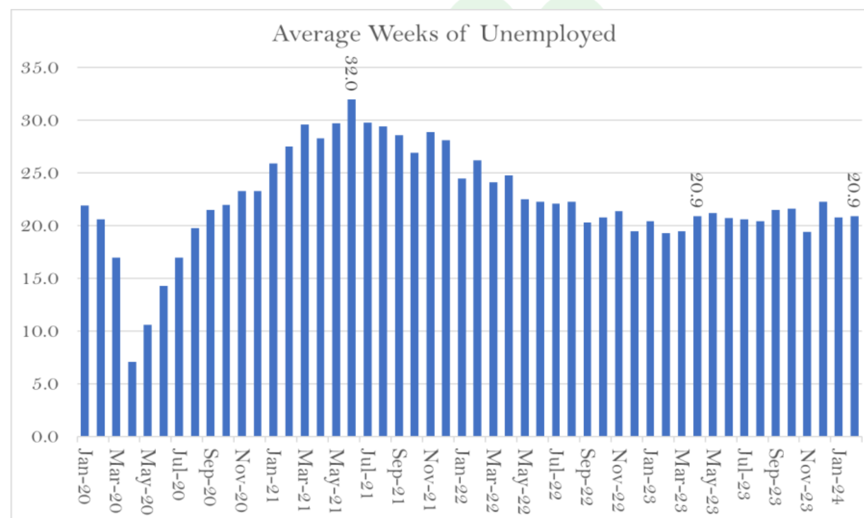
https://www.bls.gov/ces/data/employment-situation-table-download.htm

Labor Market Data



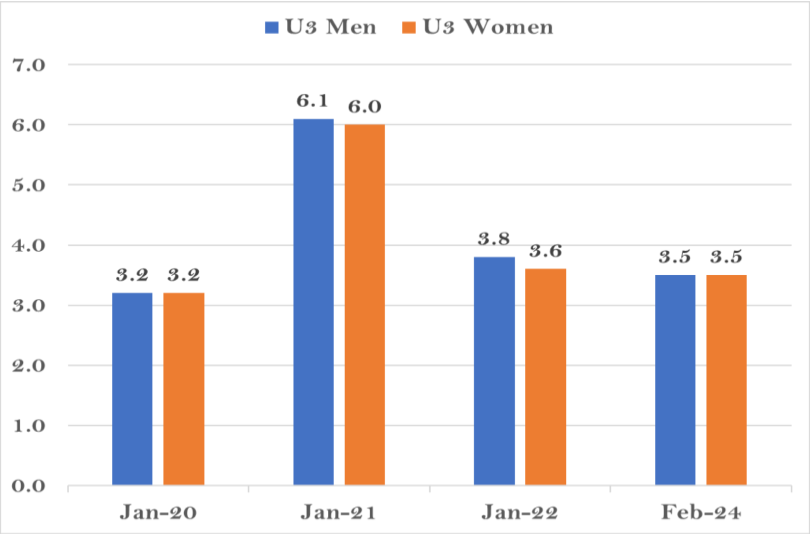


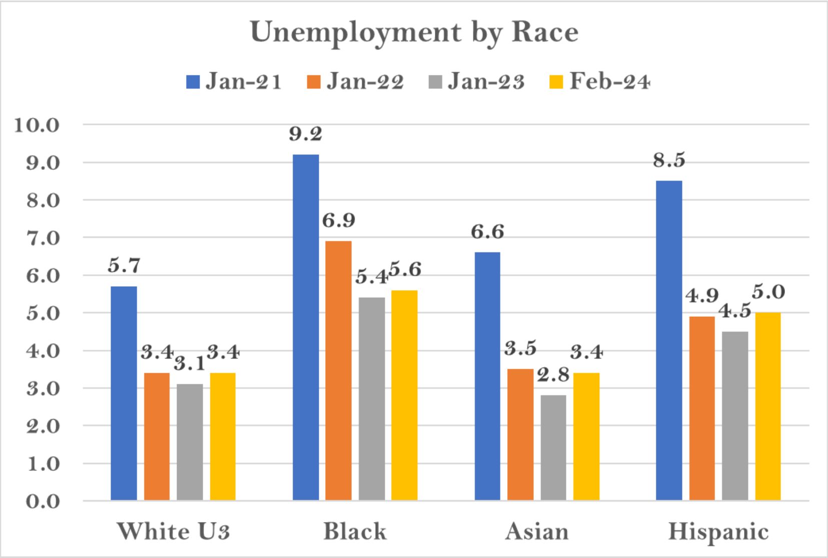


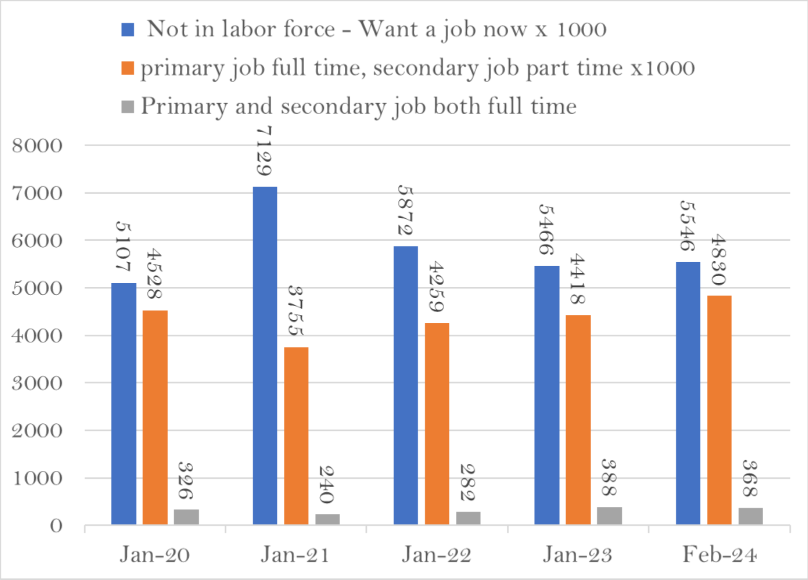


Source: BLS, Experiential Wealth

Employment by Gender and Race







Headline unemployment (U-3) by race shows White, Asian, and Hispanic are back to pre- COVID levels. Black American workers now have a lower unemployment rate (5.6) than January 2021 (9.2%). At the same time, the labor participation rate for women matches that of men (both at 3.5%). There is a slight increase in "not in labor force" group as well as those working full and part time jobs. We should keep an eye on how these numbers move going forward to inform us about the labor market. Would the increase in FT/PT job holders need both jobs because of inflation? Is the increase in the "want a job" group a sign of an economic slowdown coming?

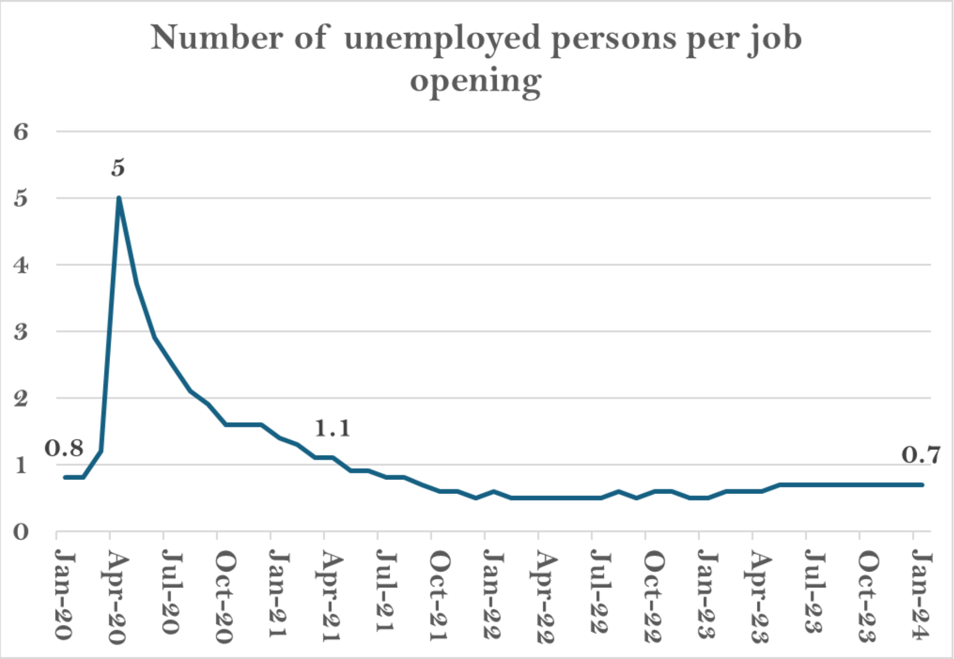
Where New Jobs are

	Industry Sector	Feb-23	Jan-24	Feb-24
More of Same Hiring	Total nonfarm	155,060	157,533	157,808
	Total private	132,509	134,405	134,628
	Mining and logging	633	640	640
	Construction	7,947	8,139	8,162
	Retail trade	15,606.80	15,617.90	15,636.60
	Transportation and warehousi	6,588.00	6,491.70	6,511.40
	Utilities	569.1	585.7	588.9
	Information	3,049	3,018	3,020
	Financial activities	9,146	9,232	9,233
	Professional and business serv	22,779	22,922	22,931
	Private education and health s	24,968	25,938	26,023
	Leisure and hospitality	16,412	16,824	16,882
	Other services	5,784	5,872	5,881
	Government	22,551	23,128	23,180
	Federal government	2,892	2,973	2,982
	State government	5,229	5,423	5,428
	Local government	14,430	14,732	14,770
Less	Manufacturing	12,940	12,968	12,964
	Wholesale trade	6,087.00	6,156.20	6,155.00

Source: BLS, Experiential Wealth 2024 02

https://www.bls.gov/charts/employment-situation/employment-levels-by-industry.htm

The Labor Economy is still tight.

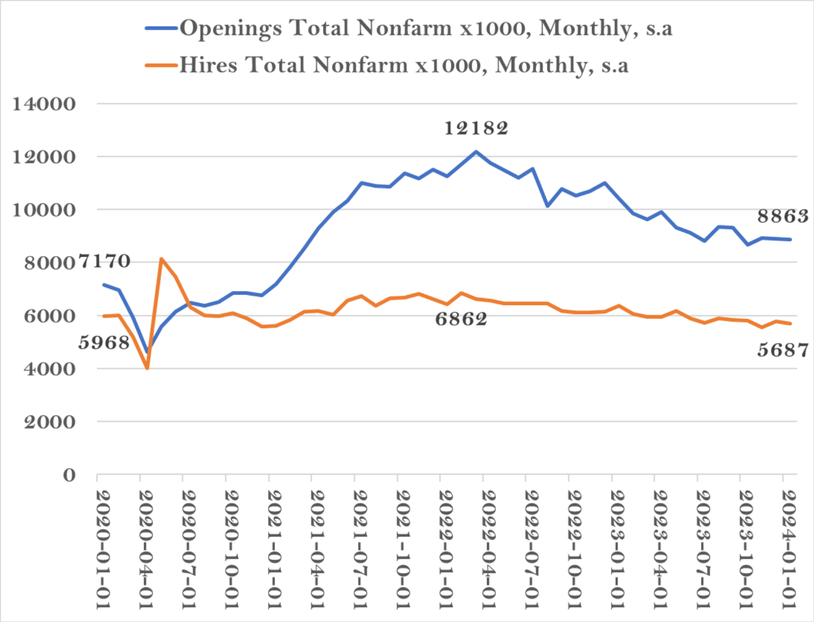


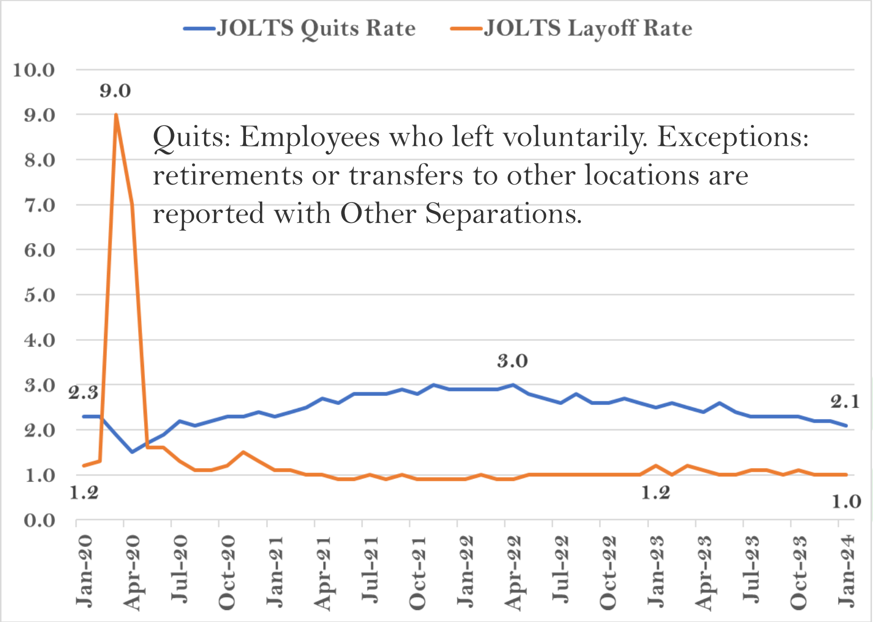
Source: BLS & Experiential Wealth Feb 2024

According to Moody's Analytics:
JOLTS report - On the last business day of January, the number of job openings changed little at 8.9 million; this measure is down from a series high of 12.2 million in March 2022. Over the month, the rate was unchanged at 5.3 percent. In January, job openings increased in nondurable goods manufacturing (+82,000) but decreased in private educational services (-41,000).

In January, the number and rate of hires were little changed at 5.7 million and 3.6 percent, respectively. Hires decreased in state and local government education (-37,000).

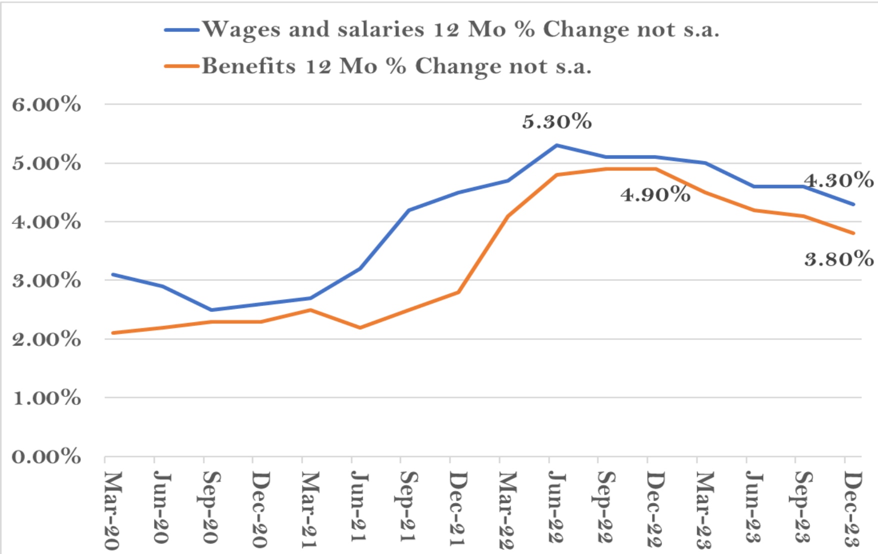
JOLTS Data – 2024 January



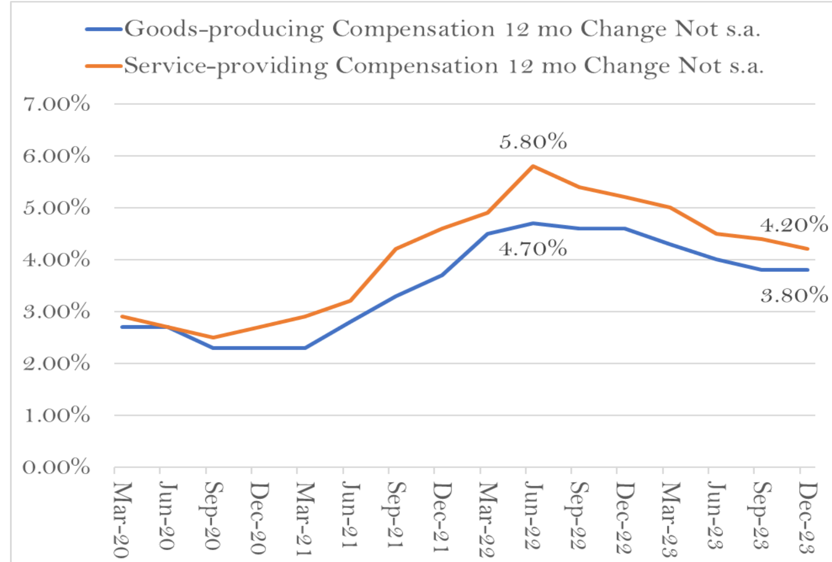


Hires by Industry (ex gov't) x1000	Oct-23	Nov-23	Dec-23	Jan-24	Hires by Industry (ex gov't) x1000	Oct-23	Nov-23	Dec-23	Jan-24
Professional and business services	397	325	361	446	Mining and logging	7	8	5	12
Trade, transportation, and utilities	286	317	318	297	Information	15	24	32	17
Construction	167	171	173	210	Private educational services	28	23	20	21
Leisure and hospitality	247	212	239	177	Finance and insurance	34	46	27	28
Retail trade	130	145	142	136	Real estate and rental and leasing	29	26	22	37
Private education and health services	189	166	161	121	Wholesale trade	53	59	43	48
Manufacturing	128	109	110	117	Nondurable goods	62	55	54	54
Transportation, warehousing, and utilities	102	112	133	113	Durable goods	67	53	56	63
Accommodation and food services	182	146	163	104	Financial activities	63	71	48	65

More Labor Market Data – Wages & Benefit Costs



https://www.bls.gov/charts/employment-cost-index/compensation-in-private-industry-and-state-and-local-government-3-month-percent-change.htm#

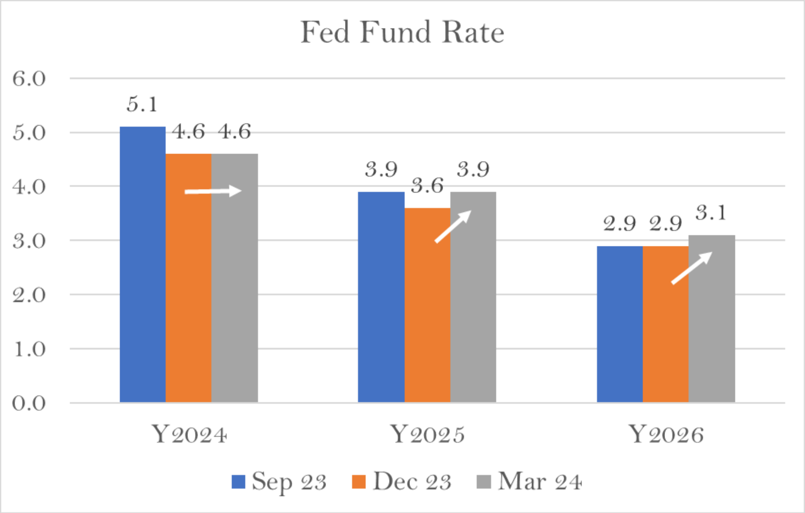


Source: Employment Cost Index/BLS & Experiential Wealth

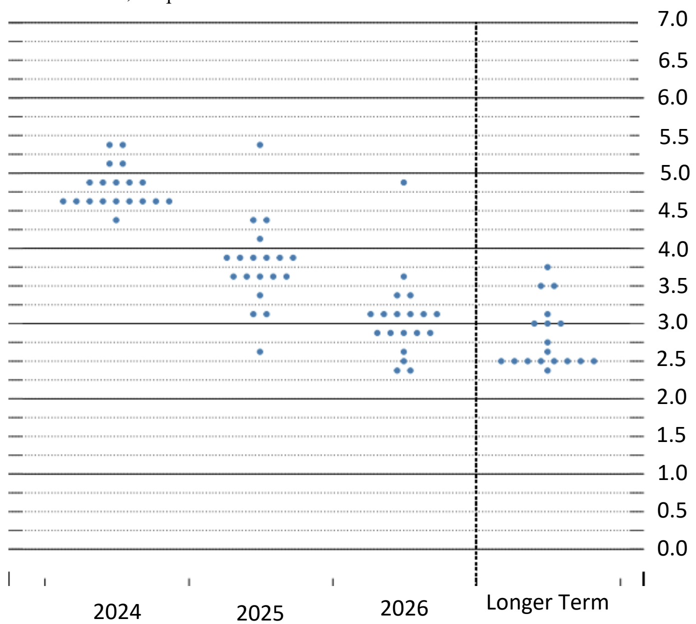
Compensation costs for civilian workers increased 0.9 percent, seasonally adjusted, for the 3-month period ending in December 2023 (the latest data). Wages and salaries increased 0.9 percent and benefit costs increased 0.7 percent from September 2023. Within the private industry, compensation costs increased 4.5 percent for union workers and 4.0 percent for non-union workers for the 12-month period ending in December 2023. Wages and salaries increased 5.4 percent for union workers and 4.2 percent for non-union workers for the 12-month period ending in December 2023. Benefit costs increased 3.4 percent for union workers and 3.6 percent for non-union workers for the period ending in December 2023.

Compensation costs for civilian workers increased 4.2 percent for the 12-month period ending in December 2023 and increased 5.1 percent in December 2022. Wages and salaries increased 4.3 percent for the 12-month period ending in December 2023 and increased 5.1 percent for the 12-month period ending in December 2022.
Benefit costs increased 3.8 percent over the year and increased 4.9 percent for the 12-month period ending in December 2022. The peak compensation growth, along with labor market tightness, likely have peaked in 2023.

Summary of Economic Projections (SEP) – Fed Fund Rate



Source: FOMC, Experiential Wealth



Source: FOMC, Experiential Wealth 12 2023

The median (among all FOMC members) rate for 2024 holds steady at 4.6%. . The dot plots suggest 4 members project no cuts in 2024 while 4 members project 1 rate cut and 9 project 2 rate cuts. For 2025, the median rate is at 3.9%, from, 3.6%. The same direction of travel is for 2026 with an increase of rates from 2.9% during the December meeting to 3.1%. This is another illustration of a good economy with inflation, thus rates, staying higher for longer.

Please note that these dots are constantly changing based on incoming data and each regional bank survey. Investors should not solely rely on these dots as the definitive direction of the FOMC as a whole. Each member makes his/her best estimate based on respective regional economics and survey data to forecast rate policy. Nonetheless, the dot plot offers a window into what members are expecting currently.

Be cautious that one is not over reliant on the dot plot, especially in today's highly uncertain economic and geopolitical environment. These dots could change quickly. The base case for most Fed officials, market economists, and investors is a soft landing in 2024 with inflation continuing to trend downwards toward the 2% target and a little increase in unemployment, even under a slowing economic trend. This is a very optimistic scenario, and assets and interest rates are priced towards this benign direction.

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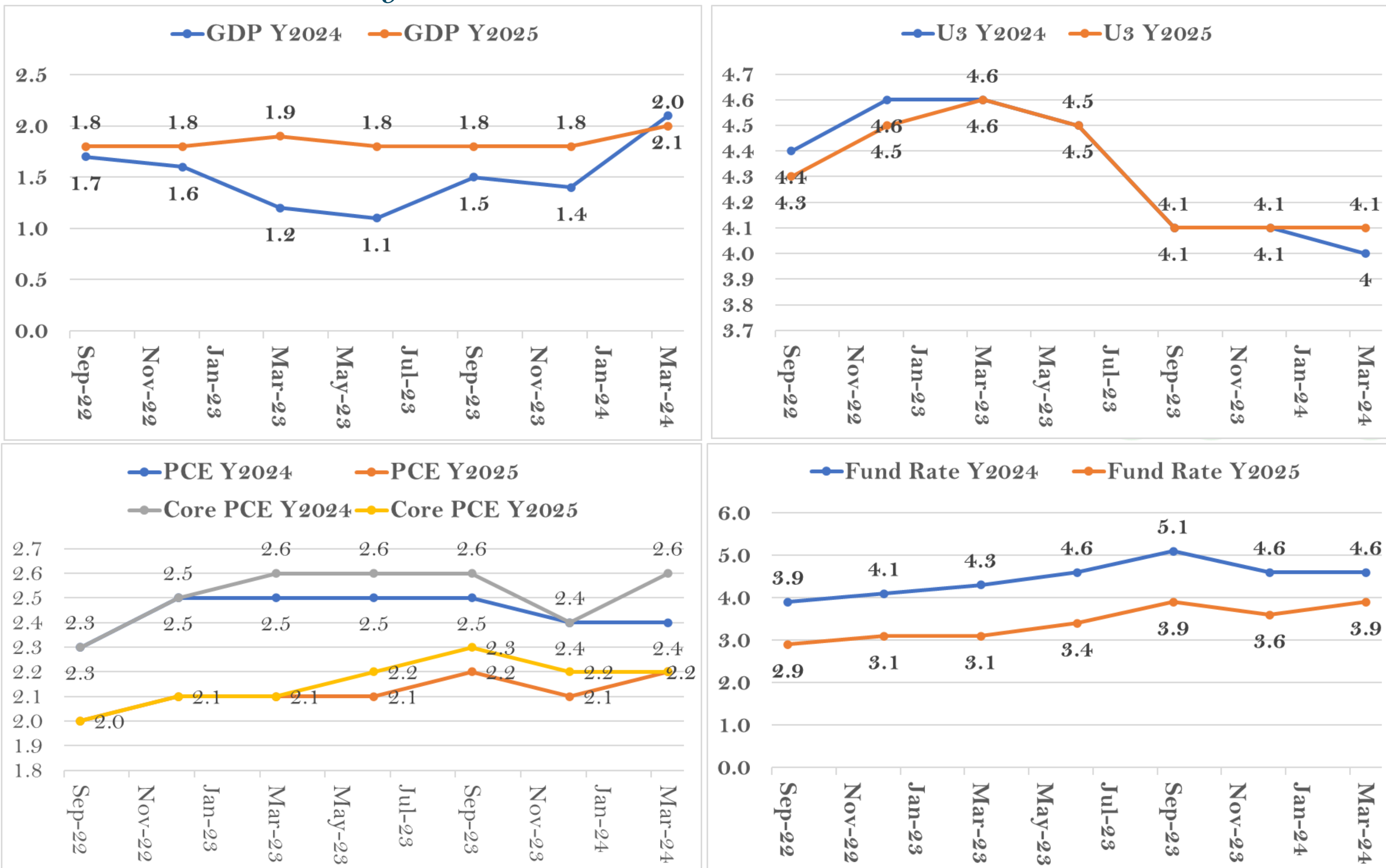
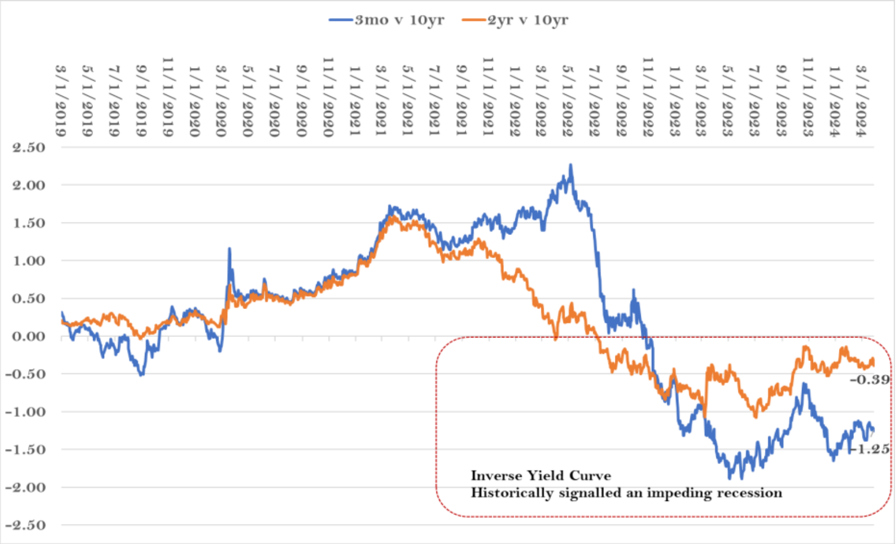
SEP Medium Projection for 2024 & 2025 since 09-2022

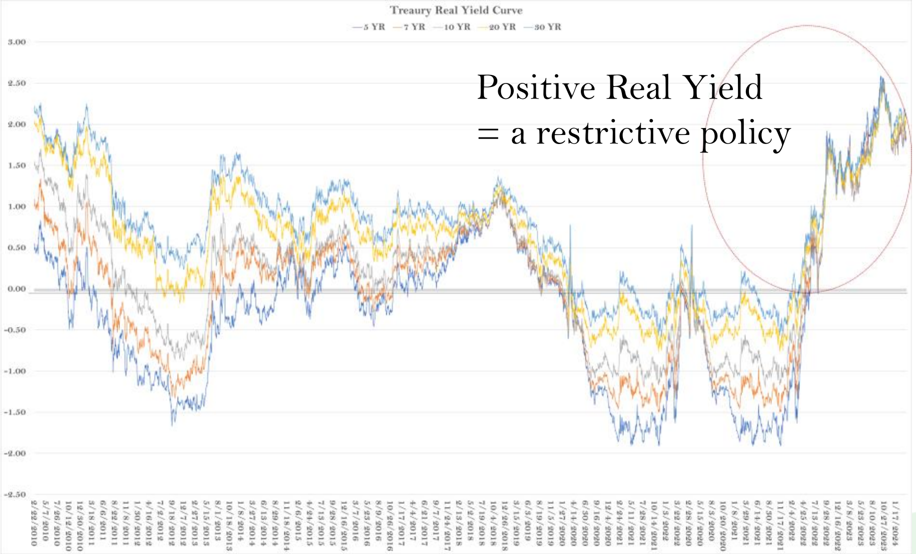


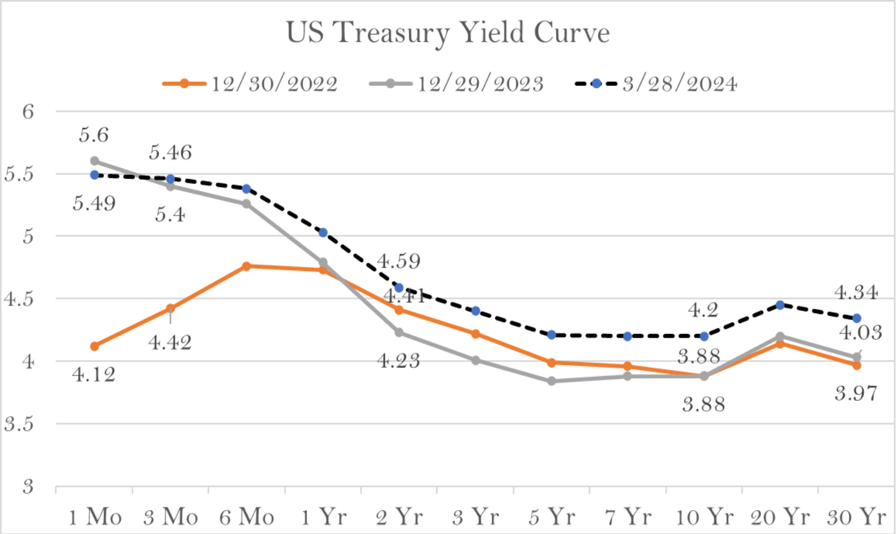
CURRENT IMTERPRETATION of the Dot Plot:
Higher economic growth in 2024 & 2025 (GDP) + lower unemployment in 2024 (U3) + higher core inflation in 2024 (Core PCE)

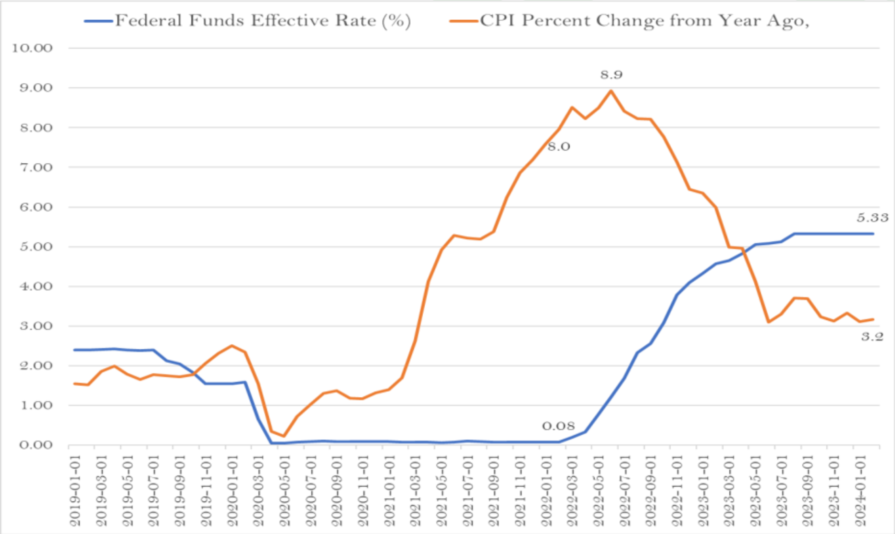
NEXUS338

U.S. Treasury Yield Curve – Nominal & Real









https://home.treasury.gov/policy-issues/financing-the-government/interest-rate-statistics

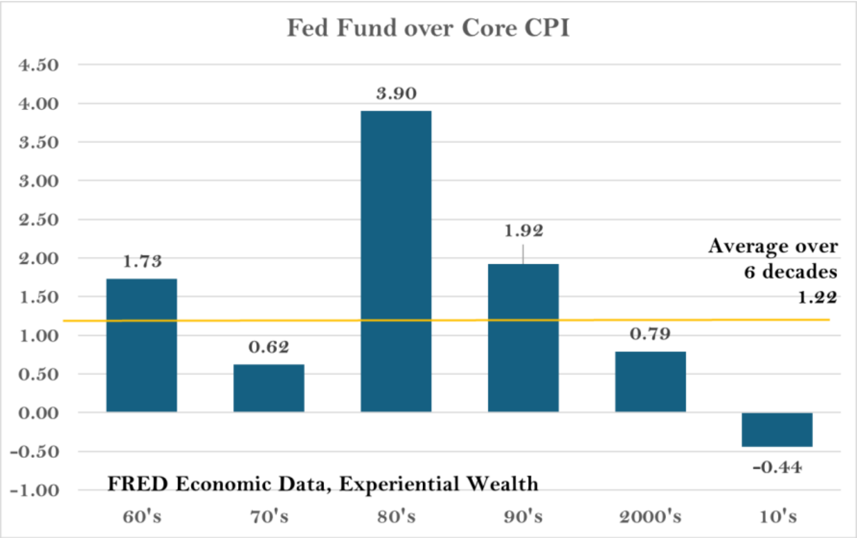
Source: U.S. Treasury, FRED, and Experiential Wealth

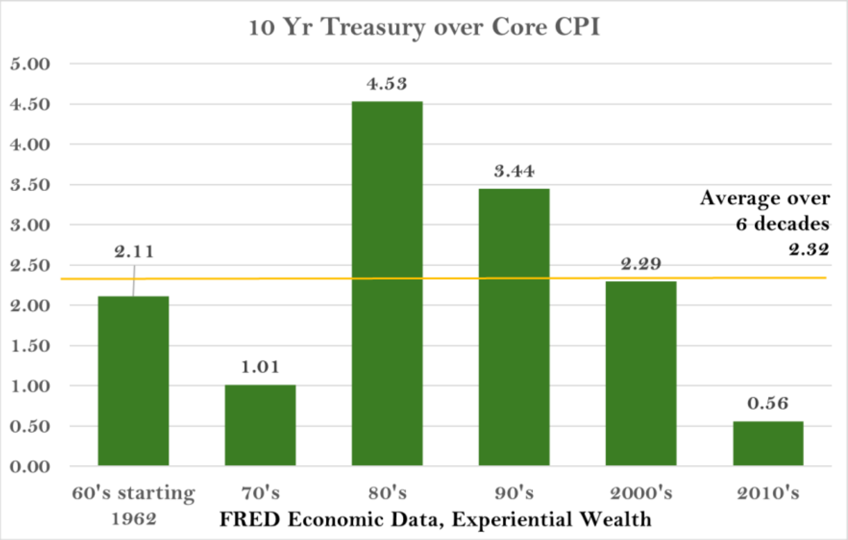
Long Term r* Should also be Higher

- According to the 10-24-2018 paper by ex-president of the Dallas Fed, Robert S. Kaplan, "[t]he neutral rate can be measured for different time horizons. Estimates of the 'shorter-run' neutral rate are typically influenced by nonmonetary drivers of near-term GDP growth such as changes in current fiscal policy. Estimates of the 'longer-run' neutral rate are typically influenced by nonmonetary drivers which reflect more enduring secular factors such as expected medium-term growth in the workforce and the expected rate of increase in labor productivity. Productivity growth, in turn, is influenced by investment in capital equipment and technology, regulatory policies, and policies which impact the education and skill levels of the U.S. workforce. In addition, the longer-run neutral rate is likely to be influenced by trends in the global supply and demand for safe and liquid financial assets. If the federal government passes a substantial tax cut or increases government spending, it may create a short-term stimulus that materially increases near-term GDP, which will likely be accompanied by an increase in the shorter-run neutral rate." And, if these policies fundamentally increase the medium- or longer-term growth potential of the U.S. economy, they may have a real impact on the longer-run neutral rate.
- The CHIPS Act, the Inflation Reduction Act, and the Infrastructure Investment and Jobs Act total over $1.2 trillion in fiscal commitment to invest in the U.S. along with private company investments. For example, the Commerce Department in late March announced under the CHIPS Act to provide up to $8.5 billion in direct funding to Intel to strengthen the U.S. supply chain[1]. Over the course of the next five years, Intel expects its investments in the United States to exceed $100 billion, as it expands capacity and capabilities in Arizona, New Mexico, Ohio, and Oregon, estimated to directly create over 10,000 manufacturing jobs and nearly 20,000 construction jobs. This type of industrial and fiscal policy will keep the U.S. competitive and more self-reliant, improve productivity, and likely push up r* and inflation.
- As we anticipate a new chapter of post-COVID, re-globalization growth in America, we should also be aware of a likely higher rate environment where there is a cost to capital and investors and owners will not be mindless again in allocating resources.

[1] https://www.commerce.gov/news/press-releases/2024/03/biden-harris-administration-announces-preliminary-terms-intel-support

Neutral Rate – r* where are you? A guess…





The neutral rate (or r*) is the theoretical federal funds rate at which the stance of Federal Reserve monetary policy is neither accommodative nor restrictive. It is the short-term real interest rate consistent with the economy maintaining full employment with associated price stability. r*is an "inferred" rate—that is, it is estimated based on various analyses and observations. This rate is not static. It is a dynamic rate that varies based on a range of economic and financial market factors.[1] According to Chair Powell, the current 5.25-5.50 Fed Fund's rate is in the restrictive category. Since r* is a theoretical and non-static rate, we took a look over the past decades starting in the 60's to see where the actual Fed Fund's rate and the 10-year U.S. treasury yield of the same period were as compared to the core CPI on average. Sure enough, the Fed Fund's rate per decade was unstable. It was 0.44% *under* core CPI in the 2010s vs. 3.90% *over* in the 1980s.

Most of the 2010's decade was an aftershock of the GFC, and the Fed was using extraordinary policies to drive up inflation and heal the animal spirit. In the case of the 10-year U.S. treasury yield, we see a positive yield throughout each decade, and the difference between the Fed Fund rates and the corresponding 10-year rates shows a spread for the duration. The average is approximately 1% or 100bp. Without knowing what the future looks like, what extraordinary events will transpire that may cause the Fed to take extreme policy measures again, or if we'll experience another period of extreme high inflation, it is impossible to know where r* should be. However, if we take an average of 1.22% over an average Core PCE of 2.32%, this would mean it is reasonable to assign a Fed Fund rate of 3.5% to 4% under a "normal" economy and global backdrop going forward. This would then further translate to a long rate under a positive yield curve of 5% to 6%.

[1]https://www.dallasfed.org/news/speeches/kaplan/2018/rsk181024#:~:text=The%20neutral%20rate%20is%20the%20theoretical%20federal%20funds,economy%20maintaining%20full%20employment%20with%20associated%20price%20stability

Our Investment Thinking (not advice)

- After almost 4-years since COVID landed on our shores and 16-years after the Global Financial Crisis (GFC) and the Great Recession that ensued, we are now living in an economy of old normal interest rate and old normal inflation rate. When PIMCO coined the term "New Normal" in 2009, it was a time of unprecedented monetary (zero interest rate policy – ZIRP and Large-Scale Asset Purchase by central banks – Quantitative Easing or QE) and fiscal support to stabilize the economy from systemic risks created by years of overexuberance for residential real estate. This was the period known as "financial repression" where asset owners earned zero and borrowers were favored. Risk on is the natural response with liquidity aplenty, and distortions to the investment risk-and-return relationship was a natural byproduct. Just as the world slowly came out of the GFC and interest rates began to lift off, COVID, a much more severe systemic risk, arrived in the U.S. The old playbook of ZIRP, QE, and extreme fiscal largesse from the government were the logical policies taken by the central bank and the federal government. This extended the New Normal environment until 2022. In March 2022, the Fed first raised rates and began its monetary policy normalization process to fight inflation.
- The labeling of China as a strategic rival during the Trump years saw the invocation of tariffs and other strategic methods to defend and protect American world status. More recently, the all-inclusive term of "cold war" is used to describe the great power competition with China. These have all amplified the push for more national security and creating and building new connections for supply chains with onshoring of critical industries such as chip making foundries here in the U.S. and in allied nations.
- We do not see the Fed cutting rates rapidly and abundantly this year. And when cutting begins, Fed actions will be measured unless there is strong evidence and likelihood of surging unemployment or a hard landing. With this assumption, we favor the shorter end of the yield curve where we can enjoy current high risk-free rates and participate in capital appreciation. (This is the inverse relationship between bond price and interest rate movements.) We believe normalization of the yield curve will keep rates higher along the entire yield curve while the curve turns positive. This means the front-end yields will drop while the longer end of the yield curve may move higher due to sticky inflation and massive borrowing by the government. This means investing in long bonds too early could lose value (the inverse relationship again for bond price and interest rate) and especially so when the market has been expecting a drop in the long yields as the rates normalize.
- We continue to like exposure to AI/Chips, Robotics, Cyber/Internet security, biotech/pharmaceuticals, and infrastructure. At the same time, we also believe that actively managed emerging market ex-China offers good diversification and growth in fixed income as well as equities. A selection of Global South countries offer interesting opportunities.
- For the right type of clients with a good understanding of their liquidity needs and the functions of private markets, we think private credit can be a diversifier with above average income generation – of course manager matters a great deal here.

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