NEXUS338

2024 Q2 Commentary

Prepared by Philip Chao 2024 06 30

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Federal Reserve's Dual Mandate

- Almost without variation Federal Reserve ("Fed") Chair Powell in his press conferences states that "*the Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run.*" Since the post-Covid inflation spiked in June 2022, the Fed has been focused on bringing the inflation rate down to the 2% target.
- Since the April 2020 unemployment rate (U3) at 14.8%, it has dropped to 4% in January 2022 and since June has been at 4.1%. Historically, a 5% unemployment rate would have been deemed full employment in the U.S. It is under this tight labor market that the Fed is given the opportunity to intensely focus on manging the price stability (containing inflation) mandate.
- The rapid hiking policy from March 2022 (at 0% - 0.25%) to August 2023 (at 5.25% to 5.50%) and holding it at this level since was deemed to be "restrictive". Yet inflation (core CPI or core PCE) remains stubbornly above 2%. Chair Powell persistently states that 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 toward 2 percent.*"
- What could give greater confidence for the Fed to cut rates is a period of higher unemployment rate (more balanced in Fed Speak) coupled with core inflation moving unidirectionally downward. This would signal a slowdown in the U.S. economy, and it would begin to pivot its focus to the full employment mandate. Under this circumstance, the Fed will cut rates to support the economy as inflation falls towards 2%. (Higher unemployment leads to lower economic activities/GDP, which leads to lower consumption, which leads to lower demand driven inflation.) The pace and the amount of rate cuts will be predicated on the speed and the jaggedness of change in unemployment as well as a slew of other economic data to support the "***greater confidence*** *that inflation is moving sustainably toward 2 percent.*" This is where bad economic news is good news for cutting rates, and for a short while, it excites the stock and bond markets. In the longer run, lower inflation drives lower wages and lower corporate earnings, and the markets will sooner or later reflect the new reality.

The Fed is well aware of the Two Americas

The following is from Fed Chair Powell's June 12, 2024, press conference (slightly edited to make reading more natural)[1]

- CHAIR POWELL: My colleagues and I are acutely aware that high inflation imposes significant hardship as it erodes purchasing power, especially for those least able to meet the higher costs of essentials like food, housing, and transportation.

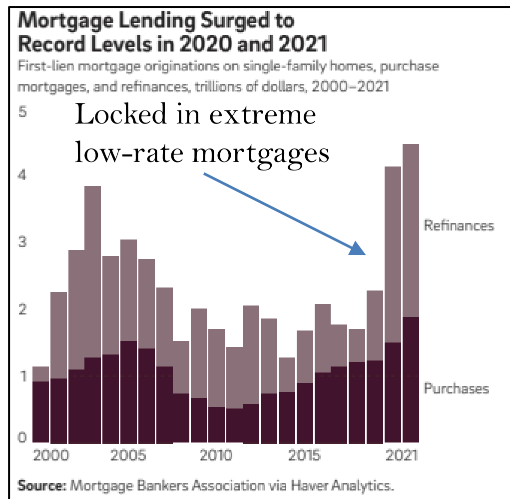
- JO LING KENT: What's your message to Americans who are seeing encouraging economic data, but don't feel good about this economy?

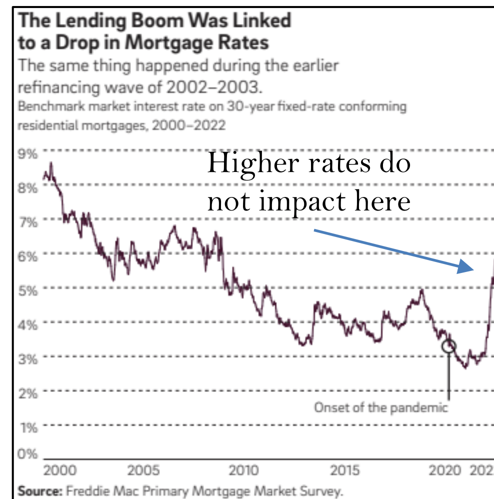
- CHAIR POWELL. "I don't think anyone knows, has a definitive answer why people are not as happy about the economy as they might be. And we don't tell people how they should think or feel about the economy. That's not our job…people experience what they experience. All I can tell you is what the data show, which is, we've got an economy that's growing at a solid pace, we've got a very strong labor market with unemployment at 4 percent. It's been a long time since we've had a long stretch of time with unemployment at or below 4 percent. We had a period of high inflation. Inflation has come down really significantly and we're doing everything we can to bring that inflationary episode fully to a halt and fully restore price stability. We're confident that we'll get there. And, in the meantime, it's going to be painful for people, but the ultimate pain would be a long period of high inflation. It is lower income people who are at the margins of the economy who have the worst experience, who experience the most pain from inflation. So, for all Americans, but particularly for those people, that we're doing everything we can to bring inflation back down under control."

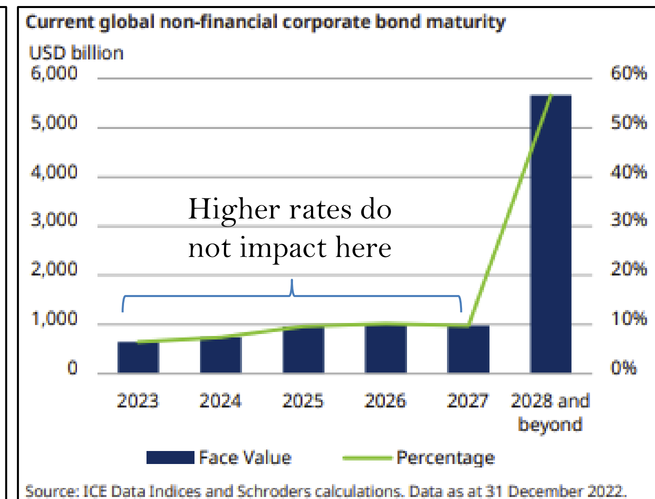
[1] Page 18 https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20240612.pdf

Restrictive Fed Policy with Diminished effects

- Historically, when the Fed raises rates quickly and steeply, the impact on the economy is widespread even though it may not be uniformly within 18 to 24 months. The unique once in a century pandemic event on the heels of a long recovery from the once in a lifetime Great Financial Crisis (GFC) has somehow distorted the impact. This means we need the high rates for longer to gain the full intended impact.
- Under the Fed's zero interest rate policy (ZIRP) during the GFC (Dec 2008 through Nov 2015) and again during the pandemic (Apr 2020 through March 2022), homeowners and corporate America were able to borrow at extremely low interest rates[1].



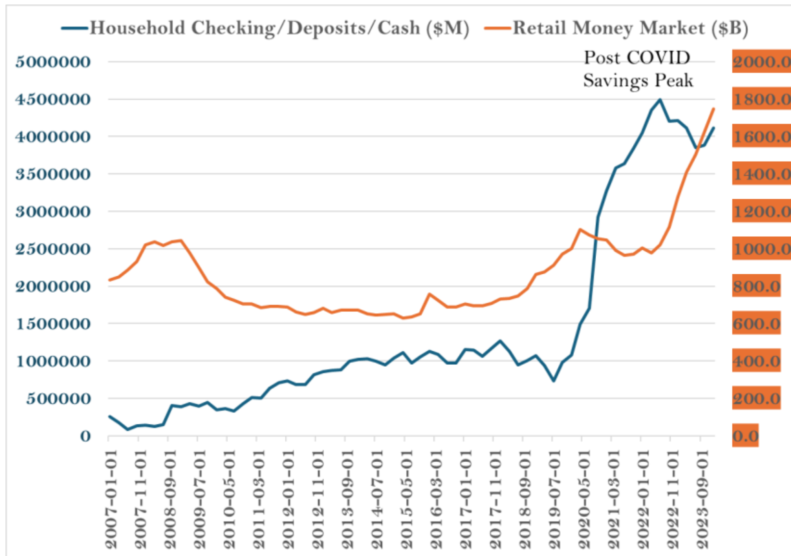


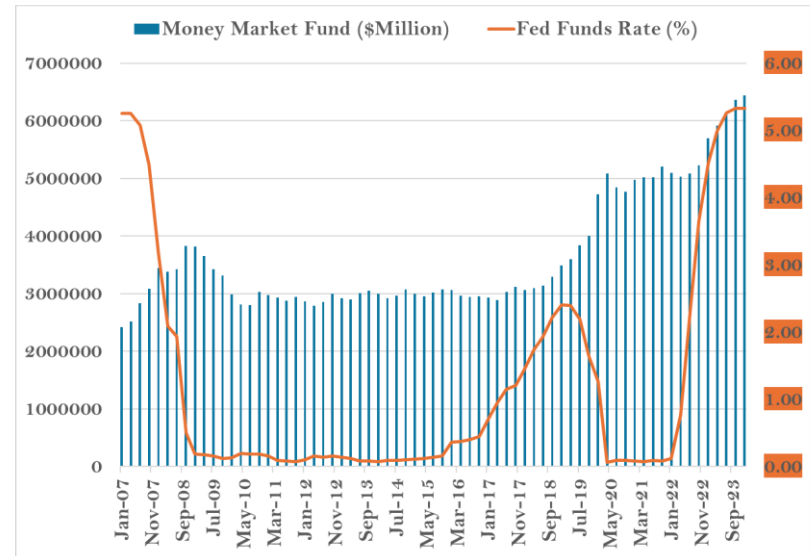


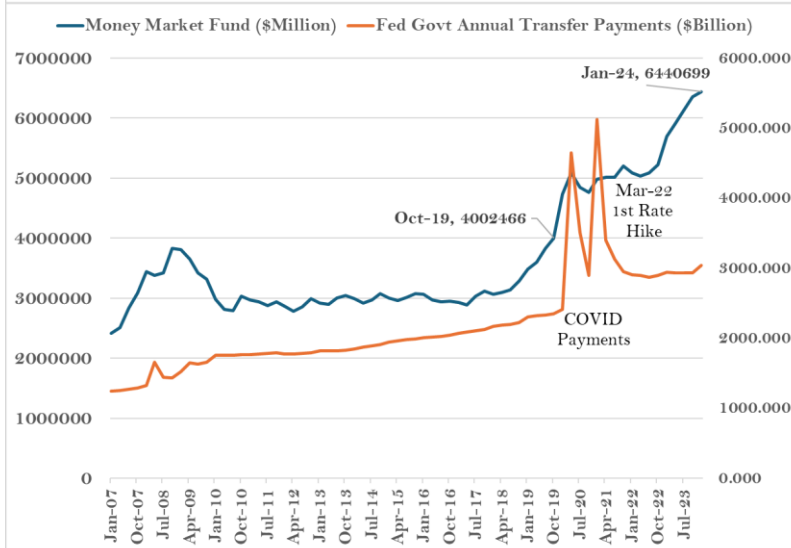
- Higher for longer interest rates affect new borrowers and non-existing homeowners or corporate borrowers. The charts show the amount of mortgages issued during the pandemic in purchases, and refinances are keeping existing homeowners in sustained low interest rates. (Statistics suggest that almost 65% of all mortgages are at or below 3%.) For corporate America, they have refinanced their debt and extended their maturities so that they too are in low interest rates for longer. Thus, the higher Fed fund rate environment is not making the impact as broadly as in the past cycles.

[1] https://www.philadelphiafed.org/-/media/frbp/assets/economy/articles/economic-insights/2022/q3-q4/eiq3q422-the-pandemic-mortgage-boom.pdf
https://www.nibs.org/files/pdfs/NIBS_HousingReport_2024.pdf
https://mybrand.schroders.com/m/549c184bf16998fc/original/Corporate-Bond-Regime-Shift.pdf

Fiscal Transfers + Sustained Higher Interest Rates







Source: FRED, Experiential Wealth

- In July 2022, the total amount of money in bank checking, savings, and cash peaked as households began to spend down their savings. The average household continued to spend down until Oct 2023.
- Money market asset (both total and retail) continues its ascend and especially so after the Fed raised interest rates. Total Money Market assets went from $4 trillion in Oct 2019 to over $6.4 trillion in Jan 2024. (Retail money market assets went for the same period went from $972 billion to $1.75 trillion in assets.)
- The higher interest rate environment is significantly rewarding asset owners/savers who are typically high earners and high net worth households, which enables them to continue to consume and spend.

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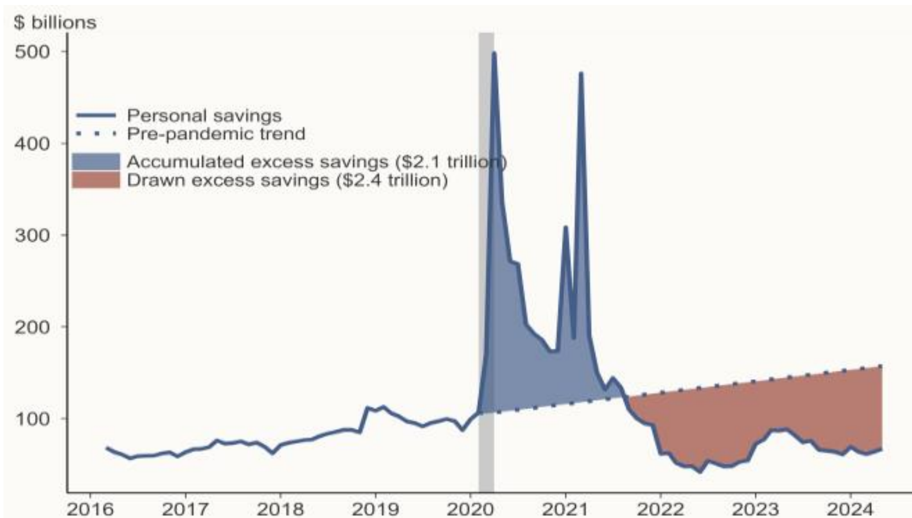
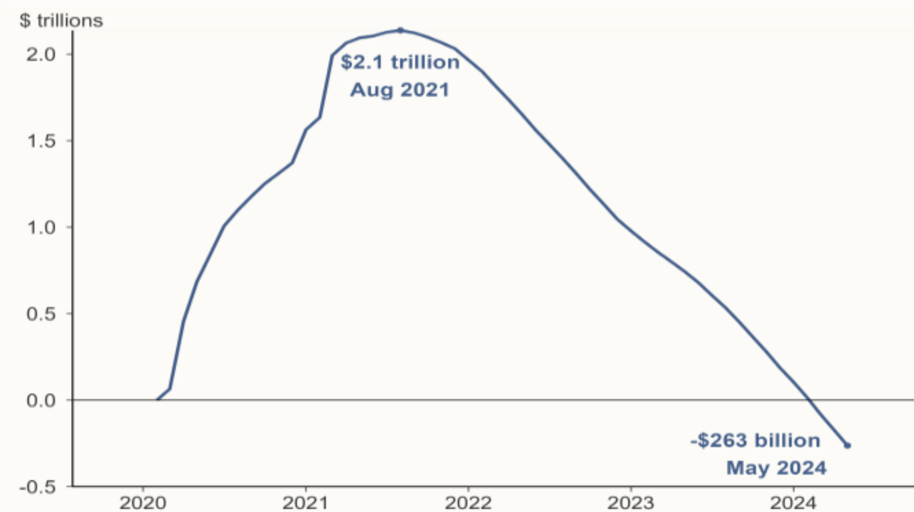
Pandemic Excess Savings - Spent





Source: Bureau of Economic Analysis and SFFed

The above chart compares actual personal savings and the pre-pandemic savings trend. The blue area represents the accumulation of excess savings in the U.S. economy during the massive fiscal transfers during COVID. The red area represents the cumulative drawdown of those excess savings.

The above chart plots the monthly accumulation of excess savings since the onset of the 2020 pandemic recession. The most recent data point represents an estimate of the remaining stock of excess savings in the aggregate U.S. economy.

- Pandemic-related fiscal support combined with a drop in household spending contributed to a sizable increase in household savings in the overall U.S. economy. Aggregate personal savings rose rapidly, well above its pre-pandemic trend. As U.S. economic activity began to recover, households utilized their excess savings to support spending. By late 2021, household savings dipped below the pre-pandemic trend, signaling an overall drawdown of pandemic-related excess savings.
- With higher price levels and "defending lifestyle", average consumers started to use revolving credits.

https://www.frbsf.org/research-and-insights/blog/sf-fed-blog/2024/05/03/pandemic-savings-are-gone-whats-next-for-us-consumers/

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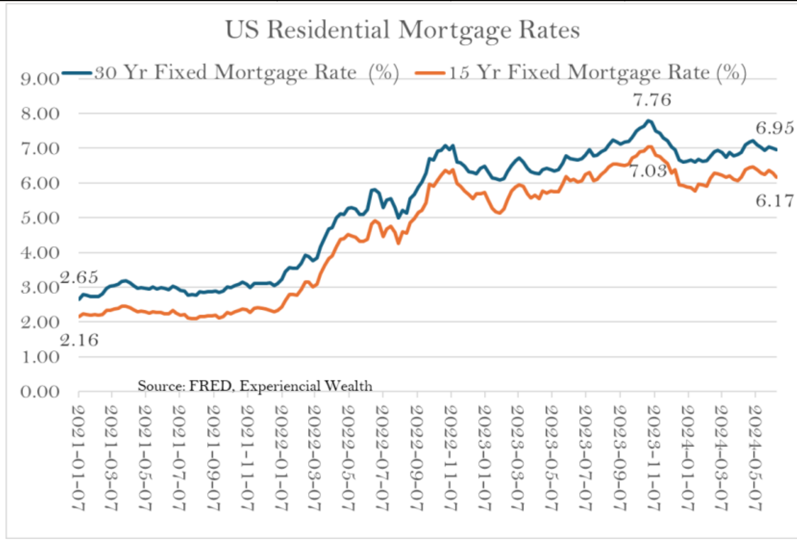
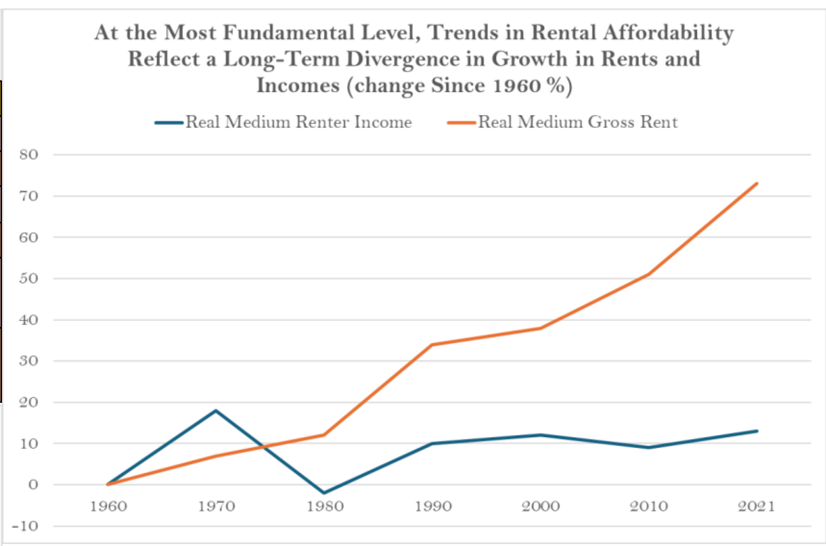
Unaffordable home prices ⇨ More Rental Demand ⇨ Rent ⇧

- Higher interest rates and the lack of availability (existing homeowners rather renovate than sell and the lack of new home construction) are negatively impacting home buyers.

The Number of Renters with Incomes High Enough to Qualify to Buy the Medium Home Has Been Nearly Cut In Half

	March-22	March-23	September-23
Median US Home Price ($)	379,300	375,400	394,300
Interest Rate (%)	4.2	6.5	7.2
Downpayment and Closing Costs	24,700	24,400	25,600
Total Monthly Owner Costs	2,500	3,000	3,300
Annual Income Needed # Maximum 31% debt to income	97,400	117,100	129,500
Renter Households in 2022 with Income Needed	8.8 Million	6.1 Million	4.9 Million





- Those who cannot afford to purchase turn to rental. At the same time, the increase in demand for rental housing (especially after Covid, with many relocating due to remote work) is causing rental prices to increase significantly as well, simple economics of supply vs demand.

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Inflation Rate Change ≠ Price Level Change

McDonald's item	End-of-2019 price	May 24-2024 price	Price increase
Medium French Fries	$1.79	$4.19	134.10%
McChicken	$1.29	$3.89	201.60%
Big Mac	$3.99	$7.49	87.70%
10 McNuggets	$4.49	$7.58	68.80%
Cheeseburger	$1.00	$3.15	215%
Average price increase across these 5 items: 141.4%			

Taco Bell item	End-of-2019 price	May 24-2024 price	Price increase
Beefy 5-Layer Burrito	$1.69	$3.69	118.30%
Nachos Bellgrande	$3.29	$5.89	79%
Spicy Potato Soft Taco	$1.00	$1.19	19%
Cheesy Bean And Rice Burrito	$1.00	$1.19	19%
Crunchwrap Supreme	$3.49	$5.29	51.60%
Average price increase across these 5 items: 57.4%			

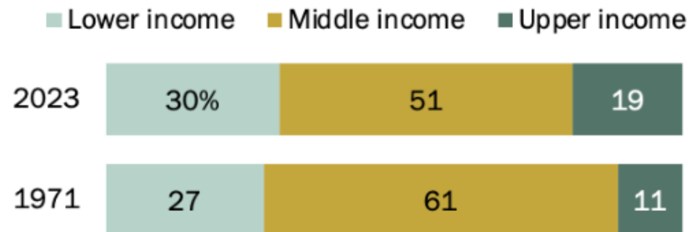
Chick-fil-A item	End-of-2019 price	May 24-2024 price	Price increase
Deluxe Chicken Sandwich	$3.65	$6.55	79.50%
8 Chick-fil-A Nuggets	$3.05	$5.99	96.40%
4 Chick-n-Strips	$4.39	$7.85	78.80%
Medium Waffle Fries	$1.65	$2.99	81.20%
Large Milkshake	$3.15	$5.19	64.76%
Average price increase across these 5 items: 80.1%			

In-N-Out Burger item	End-of-2019 price	May 24-2024 price	Price increase
Double Crunch wrap	$3.45	$5.65	63.80%
Cheeseburger	$2.40	$3.95	63.60%
Hamburger	$2.10	$3.50	66.70%
French Fries	$1.60	$2.30	43.80%
Shake	$2.15	$2.95	37.20%
Average price increase across these 5 items: 55%			

https://www.thestreet.com/personal-finance/fast-food-chains-price-increases

Wealth and Income Distribution

- According to the Urban Institute[1], in the past 60 years, America witnessed a massive transfer of wealth from the middle class to the wealthiest families, increasing wealth inequality. In 1963, the wealthiest families had 36 times the wealth of families in the middle of the wealth distribution. By 2022, they had 71 times the wealth of families in the middle.
- According to Pew Research[2], the share of Americans who are in the middle class is smaller than it used to be. In 1971, 61% of Americans lived in middle-class households. By 2023, the share had fallen to 51%, according to a new Pew Research Center analysis of government data.



- The middle class has fallen behind on two key counts. The growth in income for the middle class since 1970 has not kept pace with the growth in income for the upper-income tier. Thus, the share of total U.S. household income held by the middle class has plunged.
- Tesla's (NASDAQ: TSLA) shareholders voted to restore Chief Executive Elon Musk's 10-year pay plan, valued at $44.9 billion by the electric-vehicle maker in April.[3]

[1] https://apps.urban.org/features/wealth-inequality-charts/
[2] https://www.pewresearch.org/race-and-ethnicity/2024/05/31/the-state-of-the-american-middle-class/
[3] https://www.msn.com/en-us/money/companies/elon-musk-s-pay-package-dwarfs-median-ceo-compensation/ar-BB1ojLNn

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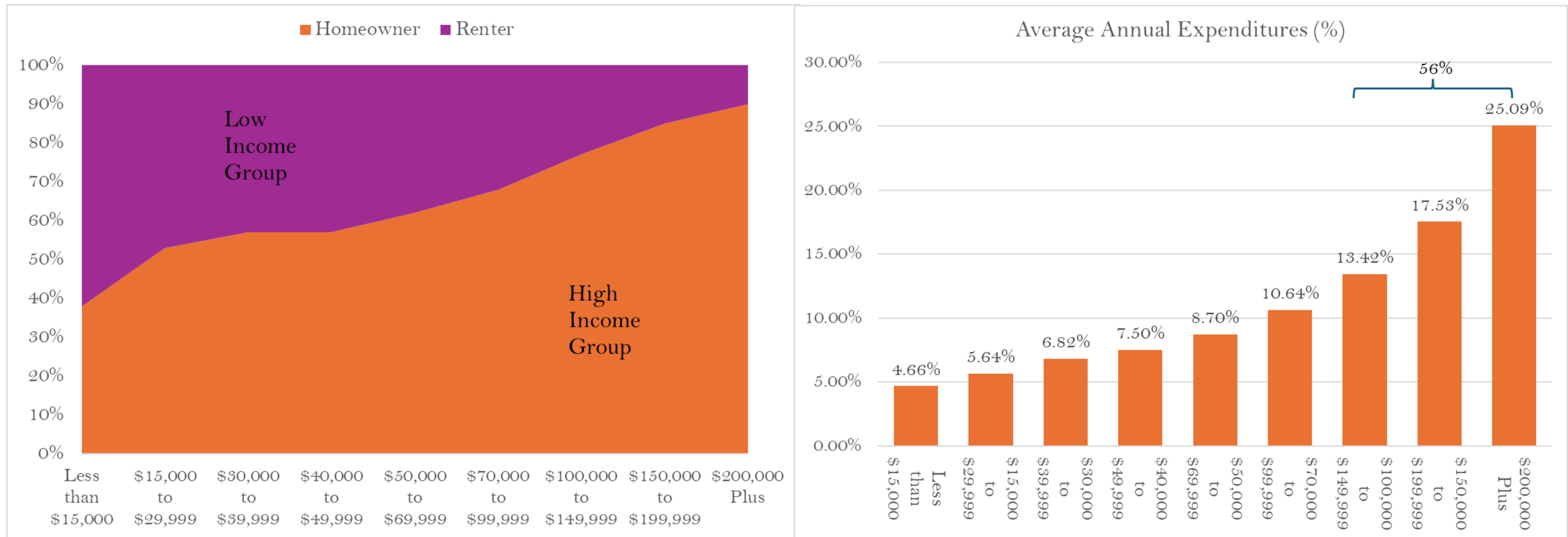
Wealth and Spending



Source BLS Table 1203 Income before taxes: Annual expenditure means, shares, standard errors, and relative standard errors, Consumer Expenditure Surveys, 2022
Experiential Wealth

- According to the 2022 (most recent) Bureau of Labor Statistics (BLS) data, the higher the income group, the higher the percentage of home ownership, or the lower the income group, the more likely to be renters. With rent spiking, the impact is more on the lower income segment. At the same time, homeowners are seeing their real estate value spike up since COVID, a wealth effect here.
- Over 56% of the total annual expenditure in the U.S is from the top three income groups. As such, even as the lower seven income groups feel the impact of inflation (or price level increase), the top three income groups have been and continue to do the heavy lifting/spending, and the aggregate numbers are masking this divide.

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K Shape Reality - Opposite effects of the Fed Policy

- During the zero interest rate policy years, savers were subsidizing borrowers. In fact, in Europe and Japan, with negative interest rates, savers have to "pay" banks to keep their money. Today, savers can easily receive 5% interest on their savings and cash.
- According to Zillow, the total value of private residential real estate in the U.S. grew by a record $6.9 trillion in 2021 (one year alone), to $43.4 trillion – more than double the level from a decade ago.
- The much-anticipated hard landing or recession never materialized, and the stock market continues to deliver 3-year average positive returns since Covid.
- 401(k) millionaires hit a record high in the first quarter of 2024. The millionaires average 26 years of investing, with a 17 percent contribution rate.[1]
- Overall, asset owners and savers (i.e., higher income households) are feeling pretty comfortable and secure financially and continue to spend. The Fed's high interest rate does not seem to have impacted this segment of the population. In fact, this segment has benefited from it.
- Quite the contrary, the other segments of the population are challenged from keeping up with food, energy, and shelter price levels, as well as the generational high in interest costs from credit card to mortgages. The long and variable lag of monetary policy is slow in affecting the top 30% income group, but impacts are felt by the rest of the country.
- The aggregate economic data, such as low unemployment, healthy GDP, and disinflation, are masking the two Americas with increasing wealth and income divide. This will have political implications during this year's general election. (Are you better off than 4-years ago?) Consumers are confused with inflation rate (rate of change slowing) from prices levels (going up and staying high). Most don't understand that for prices to go back to 2019 level, we would be in a prolonged deflation, which is much more painful and damaging.

[1] https://www.washingtonpost.com/business/2024/05/31/401k-millionaires-how-to/

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2024Q2 Stocks & Bonds Performance in USD & 60/40

Index (as of 6-28-2024) Total Return USD	TR 2024 Q2	TR YTD 2024	TR Y2023	TR Annlzd 3 Yr
DJ Industrial Average	-1.41	4.49	15.43	5.77
S&P 500 TR	4.28	15.29	26.29	10.01
S&P 500 Growth	9.59	23.56	30.03	9.42
S&P 500 Value	-2.10	5.79	22.23	9.59
Russell Mid Cap	-3.35	4.96	17.23	2.37
Russell Mid Cap Growth	-3.21	5.98	25.87	-0.08
Russell Mid Cap Value	-3.40	4.54	12.71	3.65
Russell 2000	-3.28	1.73	16.93	-2.58
Russell 2000 Growth	-2.92	4.44	18.66	-4.86
Russell 2000 Value	-3.64	-0.85	14.65	-0.53
NASDAQ 100	8.05	17.47	55.13	11.50

Index (as of 6-28-2024) Total Return USD	TR 2024 Q2	TR YTD 2024	TR Y2023	TR Annlzd 3 Yr
Bloomberg US Agg Bond	0.07	-0.71	5.53	-3.02
Bloomberg US Corp	0.10	0.00	9.34	-2.22
Bloomberg Municipal	-0.02	-0.40	6.40	-0.88
Bloomberg High Yield Corporate	1.09	2.58	13.45	1.64
Bloomberg Global Aggregate	-1.10	-3.16	5.72	-5.49
Bloomberg EM Local Currency Broad	-2.18	-5.21	11.28	-5.26
Bloomberg EM Hard Currency Agg	0.55	1.87	9.63	-2.87

US 60/40 Portfolio USD as of 2024 06 28	TR 2024 Q2	TR YTD 2024	TR Y2023	TR Annlzd 3 Yr
S&P 500 TR	4.28	15.29	26.29	10.01
Bloomberg US Agg Bond (core)	0.07	-0.71	5.53	-3.02
Total Blended Index Return (no fee)	2.60	8.89	17.98	4.80
Foreign 60/40 Portfolio USD as of 2024 06 28	**TR 2024 Q2**	**TR YTD 2024**	**TR Y2023**	**TR Annlzd 3 Yr**
MSCI ACWI ex USA All Cap GR	1.10	5.56	16.06	0.60
Bloomberg Global Aggregate (core)	-0.92	-2.98	5.72	-5.44
Total Blended Index Return (no fee)	0.29	2.14	11.92	-1.81

Index (as of 6-28-2024) Total Return USD	TR 2024 Q2	TR YTD 2024	TR Y2023	TR Annlzd 3 Yr
S&P 1500 Cons Discretionary	-0.27	5.30	40.58	2.01
S&P 1500 Cons Staples	1.15	8.89	1.30	7.12
S&P 1500 Energy	-2.66	10.65	-0.63	23.83
S&P 1500 Financials	-2.12	9.32	11.66	5.64
S&P 1500 Health Care	-1.07	7.48	1.92	5.75
S&P 1500 Industrials	-3.22	7.44	20.38	8.23
S&P 1500 Information Technology	13.44	27.75	56.53	19.26
S&P 1500 Materials	-5.08	2.60	13.50	4.58
S&P 1500 Media	-5.23	-8.33	18.34	-12.29
S&P 1500 Commun Services	9.20	25.96	54.29	5.97
S&P 1500 Utilities	4.60	9.83	-7.51	5.59
S&P 1500	3.66	14.35	25.47	9.43

Index (as of 6-28-2024) Total Return USD	TR 2024 Q2	TR YTD 2024	TR Y2023	TR Annlzd 3 Yr
MSCI ACWI ex USA All Cap	1.10	5.56	16.06	0.60
MSCI EAFE	-0.17	5.75	18.85	3.43
MSCI Europe	0.92	6.36	20.66	4.55
MSCI AC ASEAN	-0.37	-0.45	0.83	-0.64
MSCI EM	5.12	7.68	10.27	-4.68
MSCI Frontier Emerging Market	-1.91	3.68	12.48	-0.20
MSCI Australia	1.66	2.49	14.92	3.45
MSCI Brazil	-12.14	-18.58	33.38	-2.36
MSCI Canada	-1.95	2.15	16.44	3.08
MSCI China	7.16	4.82	-11.04	-17.53
MSCI France	-6.96	-1.43	22.28	3.50
MSCI Germany	-0.75	6.34	23.97	-0.08
MSCI Hong Kong	0.95	-10.83	-14.77	-14.15
MSCI India	10.36	17.11	21.29	13.93
MSCI Italy GR	-2.73	10.76	38.79	11.78
MSCI Japan	-4.24	6.45	20.77	2.67
MSCI Korea	-1.06	0.70	23.59	-8.64
MSCI Mexico	-15.94	-15.49	41.53	8.29
MSCI UK All Cap	3.53	6.40	14.30	4.52
MSCI ACWI All Cap	2.49	10.47	22.06	5.10

Source: Morningstar Direct, Experiential Wealth 6-28-2024

BoA Fund Manager Survey – May 2024

- Bank of America's May global fund manager survey:
  - Magnificent 7 has become a crowded trade, inflation worries, and Federal Reserve policy were among the key talking points among participants
  - 51% of fund managers say that being long the Magnificent 7 stocks (AAPL) (AMZN) (GOOG) (GOOGL) (META) (MSFT) (NVDA) (TSLA) is the most crowded trade currently.
  - The next most crowded trades include being long the U.S. dollar (DXY) at 12% and being short China equities at 11%.
  - The number-one tail risk of the fund managers is high inflation at 41%. The second- and third-highest tailwind risks were geopolitics (18%) and an economic hard landing (15%).
  - 82% anticipate that the Fed will cut rates in the second half of the year with 78% expecting the Fed to cut at least two times in the next 12 months.

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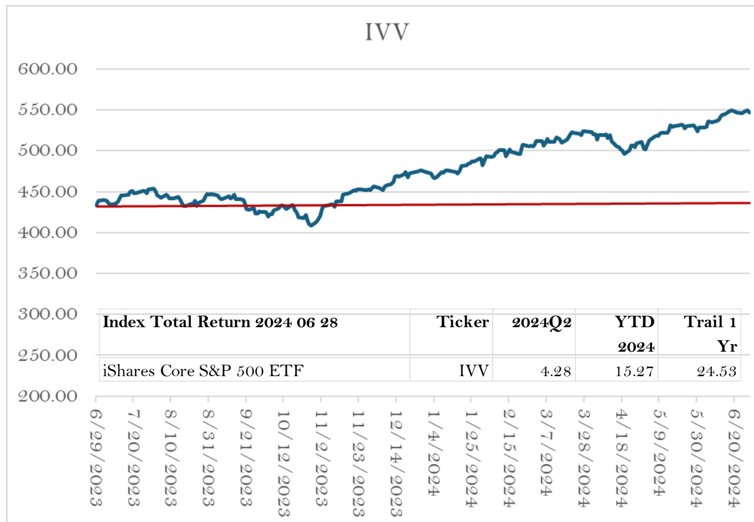
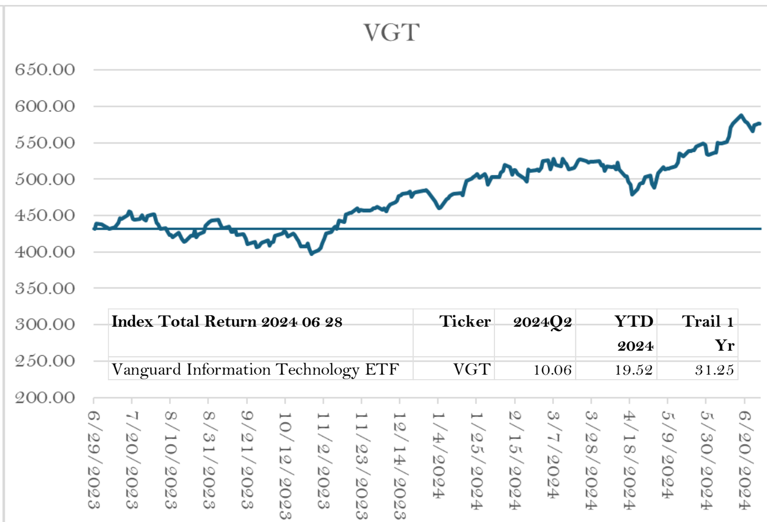
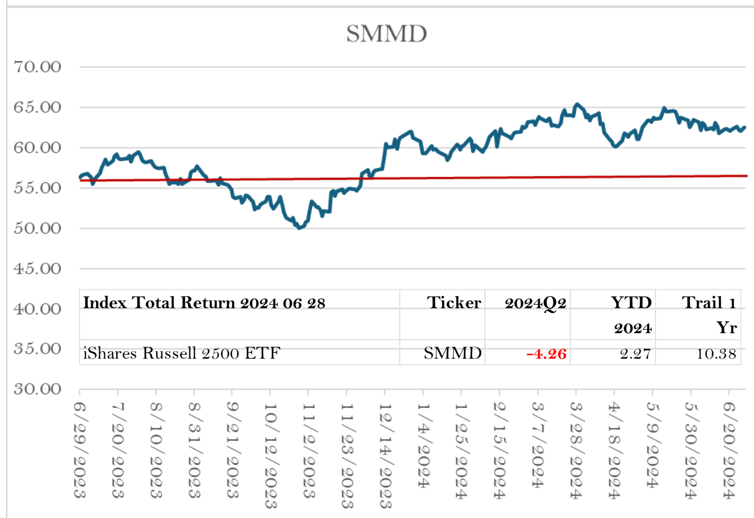
2024Q2 Large Growth outperformed Bonds and other Stocks



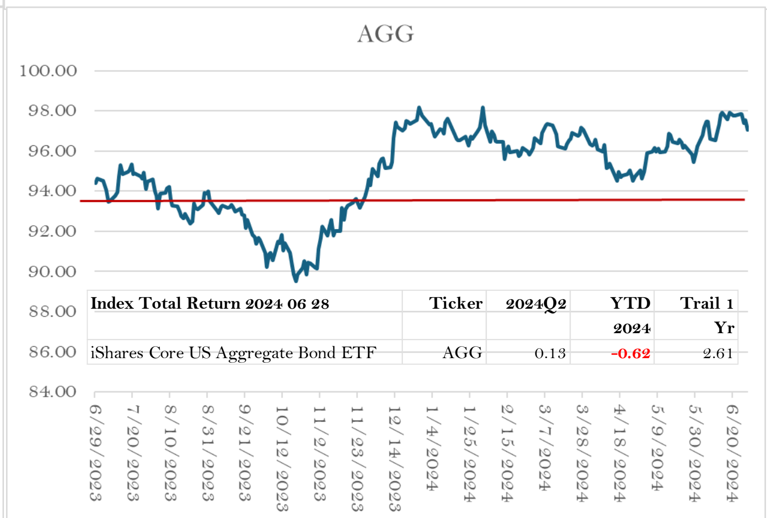
Index Total Return 2024 06 28	Ticker	2024Q2	YTD 2024	Trail 1 Yr
iShares Core S&P 500 ETF	IVV	4.28	15.27	24.53



Index Total Return 2024 06 28	Ticker	2024Q2	YTD 2024	Trail 1 Yr
Vanguard Information Technology ETF	VGT	10.06	19.52	31.25



Index Total Return 2024 06 28	Ticker	2024Q2	YTD 2024	Trail 1 Yr
iShares Russell 2500 ETF	SMMD	-4.26	2.27	10.38



Index Total Return 2024 06 28	Ticker	2024Q2	YTD 2024	Trail 1 Yr
iShares Core US Aggregate Bond ETF	AGG	0.13	-0.62	2.61

Source: Morningstar Direct, Experiential Wealth 6-28-2024

Investment Style Summary – 2024 Q2 Total Return

2024 Q2			
	Value	Blend	Growth
Large	-2.10%	4.28%	9.59%
Mid	-3.40%	-3.55%	-3.21%
Small	-3.64%	-3.28%	-2.92%

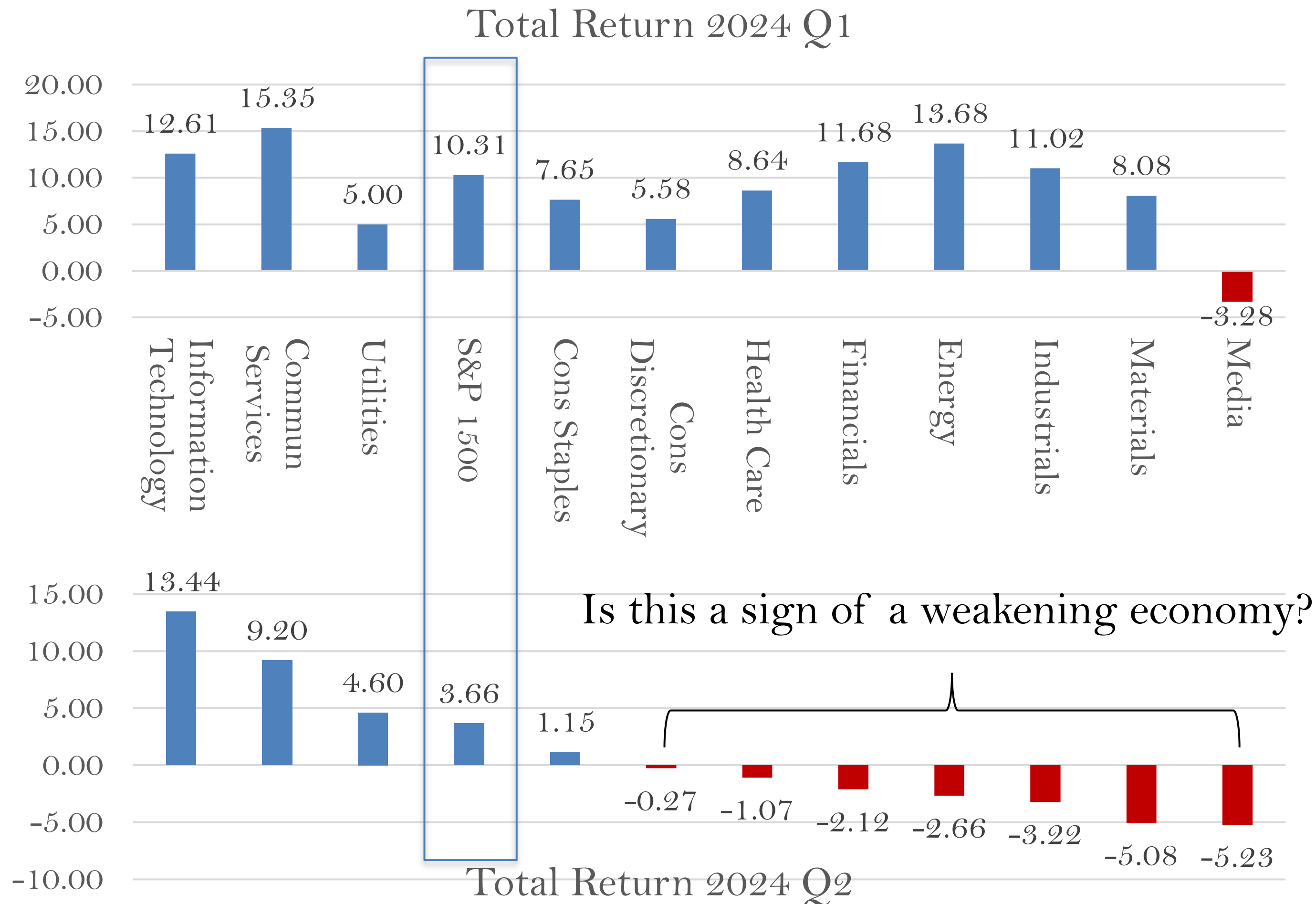
2024 YTD			
	Value	Blend	Growth
Large	5.79%	15.29%	23.56%
Mid	4.54%	4.96%	5.98%
Small	-0.85%	1.73%	4.44%

Y2023			
	Value	Blend	Growth
Large	22.23%	26.29%	30.03%
Mid	12.71%	17.23%	25.87%
Small	14.65%	16.93%	18.66%

3 Year Annualized			
	Value	Blend	Growth
Large	9.59%	10.01%	9.42%
Mid	3.65%	2.37%	-0.08%
Small	-0.53%	-2.58%	-4.86%

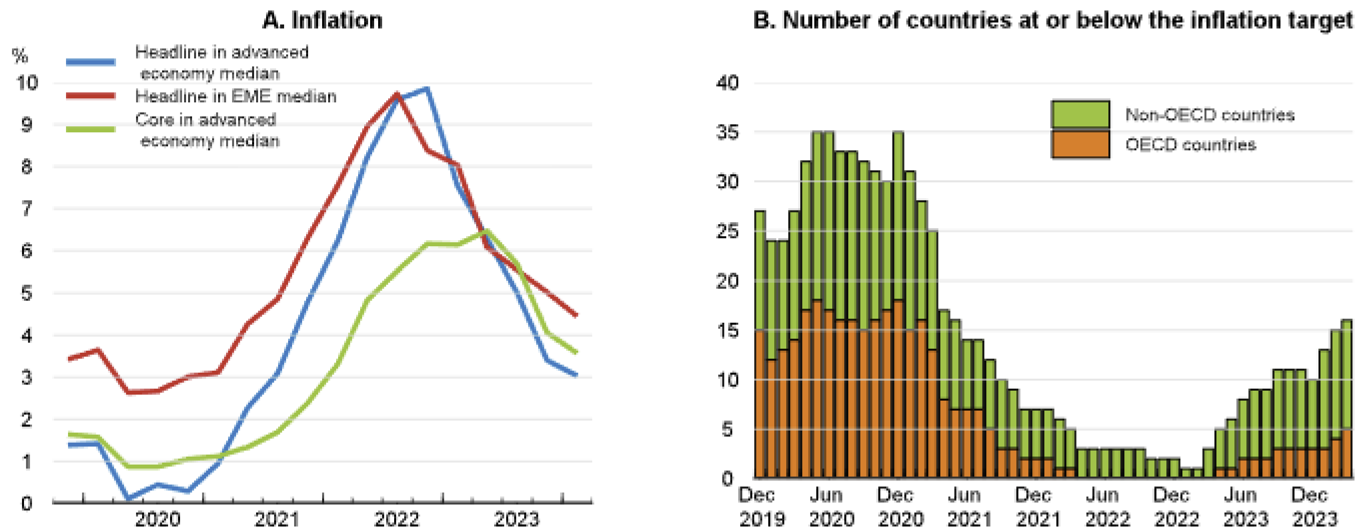
Since the end of COVID, US large cap and growth style stock have dominated. The main drivers are the future promise of artificial intelligence and the significant revenue and free cash flows from mega technology companies. In a way. these stock are deemed "safe" from economic turmoil.

S&P 1500 Sector Performance



OECD - Update (04-2024)

- Headline inflation fell rapidly in most economies during 2023, helped by generally restrictive monetary policy settings, lower energy prices, and continued easing of supply chain pressures.
- Food price inflation also came down sharply in most countries, as good harvests for key crops such as wheat and corn resulted in prices falling rapidly from highs reached after the start of the war in Ukraine.
- Average inflation in the median advanced economy fell from 9.9% in the last quarter of 2023 to 3% in the first quarter of 2024.
- Annual inflation was also generally easing among emerging-market economies, expect for Argentina and Turkey, where inflation has risen further into 2024. Inflation in China has remained very low, standing at 0.1% in March 2024.
- Headline inflation is now at or below target in about a third of economies worldwide.



Panel A: Based on 34 advanced economies and 16 emerging-market economies Panel B covers 22OECD economies (euro area as a single representative) and 25 non-OECD countries. For central banks targeting a range, the mid-point was used. SCOURCE: OECD Economic Outlook 115 database, OECD Consumer Price database, Eurostat, various Central Banks; and OECD calculations.

https://read.oecd-ilibrary.org/economics/oecd-economic-outlook/volume-2024/issue-1_69a0c310-en#page11

NEXUS338

OECD – Global Growth Projection

	Average 2013-2019	2022	2023	2024	2025	2023 Q4	2024 Q4	2025 Q4
				Per cent				
Real GDP growth[1]								
World[2]	3.4	3.4	3.1	3.1	3.2	3.3	3.1	3.2
G20[2]	3.5	3.1	3.4	3.1	3.1	3.6	3.0	3.1
OECD[2]	2.3	3.0	1.7	1.7	1.8	1.7	1.7	1.9
United States	2.5	1.9	2.5	2.6	1.8	3.1	1.8	1.9
Euro area	1.9	3.5	0.5	0.7	1.5	0.0	1.2	1.6
Japan	0.8	1.0	1.9	0.5	1.1	1.3	1.0	1.0
Non-OECD[2]	4.4	3.7	4.4	4.2	4.3	4.7	4.3	4.2
China	6.8	3.0	5.2	4.9	4.5	5.6	4.7	4.5
India[3]	6.8	7.0	7.8	6.6	6.6			
Brazil	-0.4	3.1	2.9	1.9	2.1			
OECD unemployment rate[4]	6.5	5.0	4.8	5.0	5.0	4.9	5.1	5.0
Inflation[1]								
G20[2,5]	3.0	7.9	6.3	5.9	3.6	5.3	4.5	3.1
OECD[6]	1.6	9.4	7.1	4.8	3.5	5.7	4.1	3.1
United States[7]	1.3	6.5	3.7	2.4	2.0	2.8	2.5	1.9
Euro area[8]	0.9	8.4	5.4	2.3	2.2	2.7	2.3	2.0
Japan[9]	0.9	2.5	3.3	2.1	2.0	2.9	1.6	2.0
OECD fiscal balance[10]	-3.2	-3.3	-4.8	-4.5	-4.1			
World real trade growth[1]	3.4	5.3	1.0	2.3	3.3	1.9	2.5	3.5

1. Per cent; last three columns show the change over a year earlier.
2. Moving nominal GDP weights, using purchasing power parities.
3. Fiscal year.
4. Per cent of labour force.
5. Headline inflation.
6. Moving nominal private consumption weights, using purchasing power parities.
7. Personal consumption expenditures deflator.
8. Harmonised consumer price index.
9. National consumer price index.
10. Per cent of GDP.

Source: OECD Economic Outlook 115 database.

https://www.oecd-ilibrary.org/sites/69a0c310-en/1/3/1/index.html?itemId=/content/publication/69a0c310-en&_csp_=3184060ecf59639d0f609174b10264b5&itemIGO=oecd&itemContentType=book

NEXUS338

OECD – Geopolitical Risk (04-2024)

- High geopolitical tensions remain a significant near-term adverse risk, particularly if the evolving conflicts in the Middle East were to intensify and disrupt energy and financial markets. For instance, around 30% of the global trade in oil and 20% in liquefied natural gas is transported via the Strait of Hormuz, with no alternative means to bring these volumes to market (IEA, 2024). Conflict is unlikely to halt the flow of energy through the Strait entirely, but even short-lived disruptions to energy trade would have large impacts.
- The National Institute Global Econometric Model (NiGEM) highlights the near-term implications of an unexpected surge in oil prices. The scenario considers a rise in oil prices of 25% on average in the first year and 10% in the second year, with an initial spike of 40% in oil prices in the first quarter of the shock. This initial spike would briefly take oil prices back to the peaks seen in the immediate aftermath of Russia's invasion of Ukraine. Global financial conditions are also assumed to tighten, due to risk repricing in the aftermath of the shock, with a 10% decline in global equity prices and higher investment risk premia. Policy interest rates will likely rise in many economies to help ensure inflation expectations remain anchored since short-term inflation expectation tends to be relatively sensitive to changes in oil prices.
- The impact of an intensification of the evolving conflicts in the Middle East and resultant energy price spikes could be magnified if it pushed up shipping costs substantially further and increased the extent to which these are passed through to import pieces.
- There is a wave of replacing or weakening the existing political parties and replacing them with new alternatives or majorities. It is not clear if this is a statement of disliking the current or confidence with the new alternatives. These changes from the UK to France to India to Taiwan and ultimately awaiting the U.S. election will have geopolitical implications.

https://www.niesr.ac.uk/nigem-macroeconomic-model

OECD – Inflation and Interest Rate Risks (04-2024)

- Another and could be related risk is that ongoing disinflation may proceed more slowly than anticipated. In the baseline projections, core and headline inflation both continue to move down over the next 12-24 months. By assumption, there are no surges in energy or food commodity prices, while the growth of unit costs is projected to subside as productivity picks up, wage gains moderate, and markup eases. In this scenario, the rate of increase of service prices, which are disproportionately influenced by labor costs, comes down steadily to normal levels (pre-COVID) by 2025. The projected easing of inflation is consistent with inflation expectations remaining anchored around central bank objectives.
- However, the "last mile" of central bank disinflation could still prove to be slower and more difficult than the progress made to date. In addition to the risks from evolving conflicts in the Middle East, renewed spikes in energy or food prices could also occur if the OPEC+ countries intensified production cuts or if extreme weather of conflict affected key food supplies.
- Further if the positive assumptions about productivity gains, normalizing wages, and other factors do not improve, this could be a risk to inflation expectations to drift upwards, making it more difficult to get inflation back to target. In this case, central banks would have to maintain restrictive policy settings for longer, raising risk of weakening demand significantly and triggering sharp falls in bond and equity prices.
- Financial markets have so far proved resilient to the tightening of monetary policy. But vulnerabilities remain, with risks of rapid asset repricing if expectations of future interest rate reduction prove too optimistic. Global interest rates remain volatile., and uncertainty about the future size and timing of policy interest rate changes remain high. If market expectations of forthcoming policy rate cuts prove misplaced, risk and term premia are likely to rise, potentially leading to a sharp correction in bond markets. Repricing could also occur in other asset classes. Equity valuation remains stretched by some metrics, adding to repricing risks if interest rate expectations change or growth disappoints.

Chair Powell June 12 Press Conference Summary[1]:

The following is a summary of the press conference with minor adjustments to the actual transcript for clarity.

- Squarely focused on achieving our dual mandate goals of maximum employment and stable prices for the benefit of the American people. (*affirming commitment*)
- Inflation has eased notably over the past two years but remains above the longer-run goal of 2 percent. Total PCE prices rose 2.7 percent over the 12 months ending in April; excluding the volatile food and energy categories, core PCE prices rose 2.8 percent. We are fully committed to returning inflation to our 2 percent goal (preserving credibility).
- Do not expect it will be appropriate to reduce the target range for the federal funds rate until gaining greater confidence that inflation is moving sustainably toward 2 percent…will need to see more good data to bolster our confidence that inflation is moving sustainably toward 2 percent. So far this year, the data have not given that greater confidence. The median projection in the SEP for total PCE inflation is 2.6 percent this year, 2.3 percent next year, and 2.0 percent in 2026. (*the very long last mile*)
- 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*)
- Prepared to maintain the current target range for the federal funds rate as long as appropriate. (*higher for longer*)
- The gains in bring inflation down have been due to (1) the reversal of the unwinding of the pandemic-related distortions to both supply and demand and (2) complemented by an amplified supported by restrictive monetary policy. So, the policy is restrictive and is having the expected effects. But the question of whether it's sufficiently restrictive is going to be known over time. (*restrictive policy effect sufficiency remains uncertain*).

[1] https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20240612.pdf

NEXUS338

FOMC members' range of Economic Projections (06-12-2024)

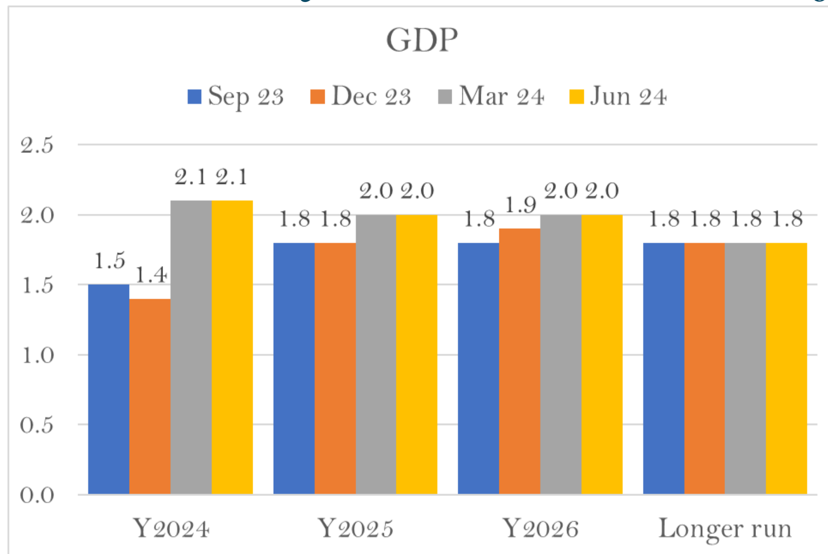
	Y2024		Y2025	
Real GDP	**Low**	**High**	**Low**	**High**
Jun-24	1.4%	2.7%	1.5%	2.5%
Mar-24	1.3%	2.7%	1.7%	2.5%
U3 Unemployment	**Low**	**High**	**Low**	**High**
Jun-24	3.8%	4.4%	3.8%	4.3%
Mar-24	3.8%	4.5%	3.7%	4.3%
PCE Inflation	**Low**	**High**	**Low**	**High**
Jun-24	2.5%	3.0%	2.2%	2.5%
Mar-24	2.2%	2.9%	2.0%	2.5%
Core PCE	**Low**	**High**	**Low**	**High**
Jun-24	2.7%	3.2%	2.2%	2.6%
Mar-24	2.4%	3.0%	2.0%	2.6%
Fed Funds	**Low**	**High**	**Low**	**High**
Jun-24	4.9%	5.4%	2.9%	5.4%
Mar-24	4.4%	5.4%	2.6%	5.4%

This table summarizes the latest complete range of member projections for each of the economic factors and the Fed Funds level for 2024 and 2025 (Summary Economic Projections). The table shows the projection range published after its June 2024 meeting as compared to the prior projections in March. The table is color coded to show **higher estimates** in red, **same estimates** in green and **lower estimates** in blue.

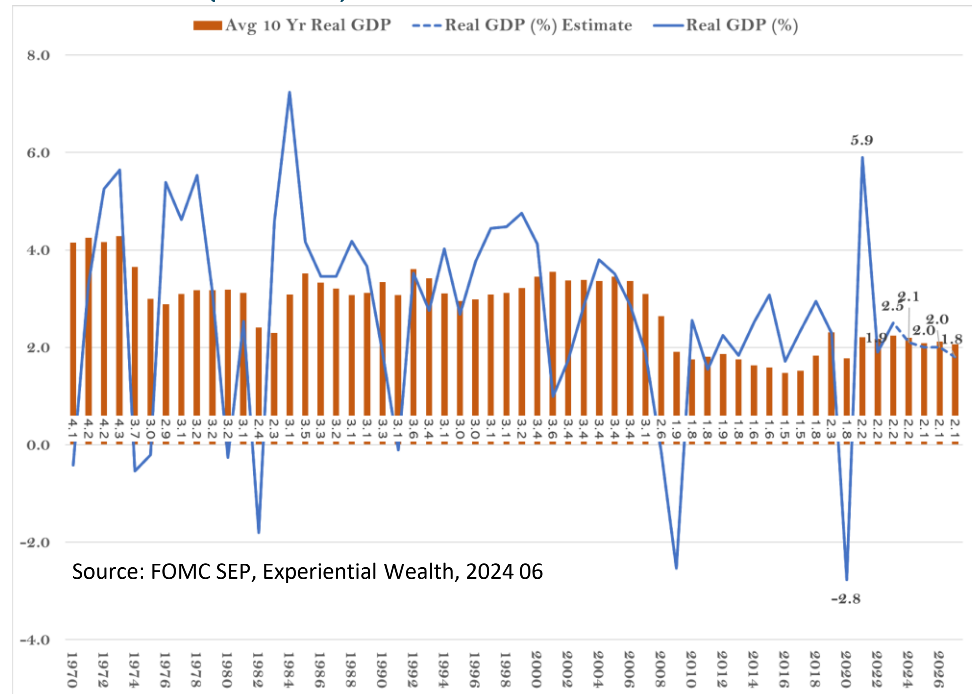
For 2024, the low end of GDP went up by 0.1%, the higher end of U3 is lowered by 0.1%, while both PCE and Core PCE are all higher than the March projections. As a result, the low end of the Fed Fund estimate has jumped from 4.4% to 4.9%.

This make sense. The FOMC members (or at least the members who have been underestimating the strength of the economy) are now recognizing a stronger U.S. economy with tighter employment and stickier inflation for longer. This all leads to a slower start and pace to the cutting cycle in 2024.

Summary of Economic Projections (SEP) – GDP 06-2024



Source: FOMC SEP, Experiential Wealth, 2024 06



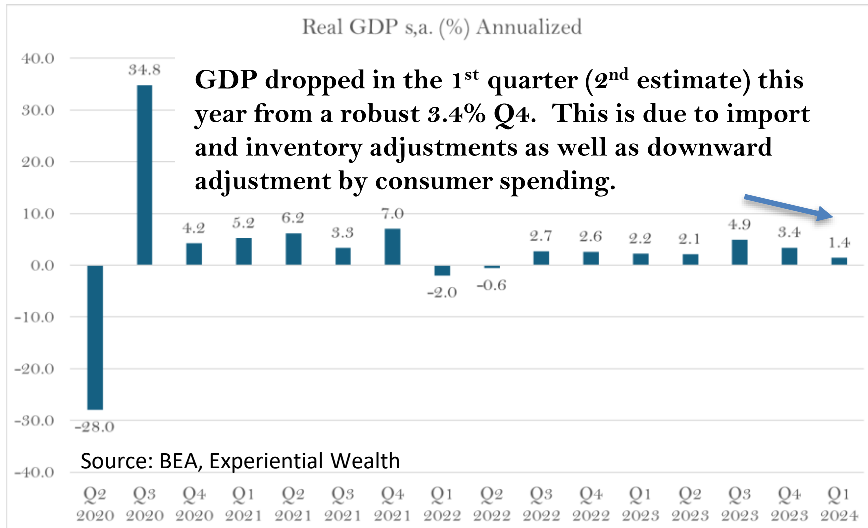
At its June meeting, the Federal Open Market Committee (FOMC) released its quarterly Summary of Economic Projections (SEP). FOMC participants submit their projections of the most likely outcomes for real gross domestic product (GDP) growth. Participant projections are based on information available at 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.

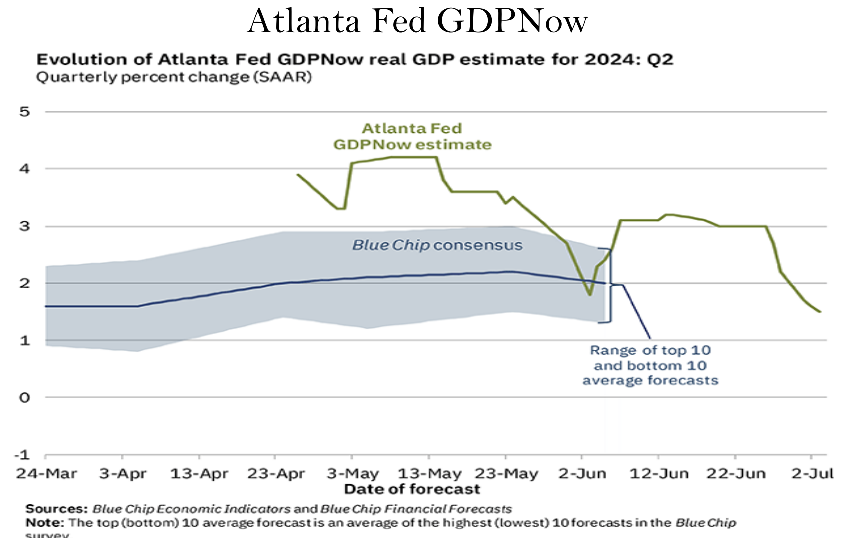
The SEP maintained its 2024, 2025, and 2026 median economic growth projections as the same as March. This is in recognition of an economy with continuing expansion with no recession in sight. The SEP should NOT be deemed as the official position of the FOMC. It is a collection of individual indications about the future.

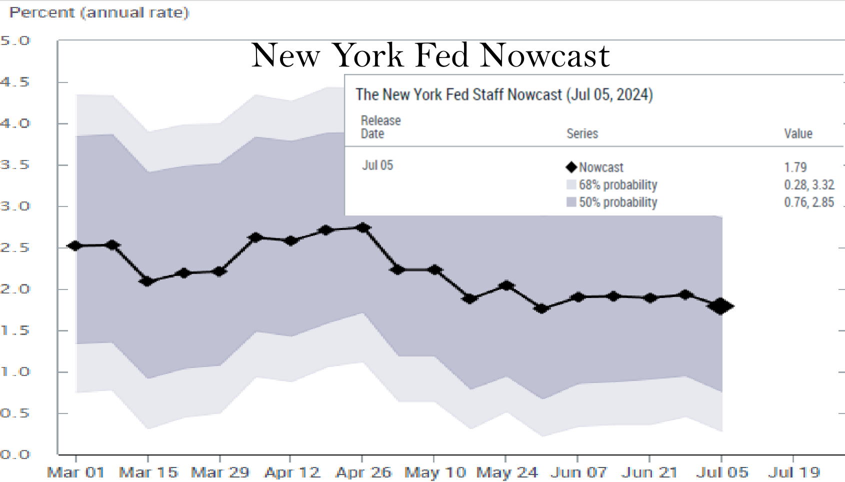
According to the June 2023 SEP, the central tendency average estimate for real GDP has edged down the range of 2.0-2.4 to 1.9-2.3 for 2024 ; for 2025, from 1.9-2.3 to 1.8-2.2; and for 2026, kept the range unchanged at 1.8-2.1. For the longer run, it remains at 1.7-2.0. This suggests that the FOMC's members are recognizing a slight weakness in the economy going forward and yet, do not foresee a recession during the next two years. Members are still projecting a soft-landing environment through 2025.

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

The U.S. Economy – GDP slowing and still positive







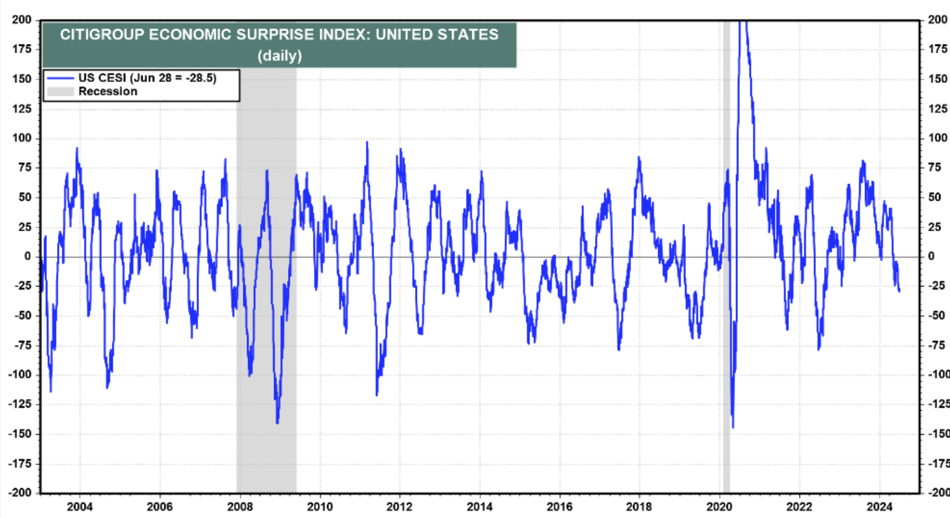
https://www.newyorkfed.org/research/policy/nowcast#/nowcast

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 second quarter of 2024 is 1.5 percent on July 3, down from 1.7 percent on July 1.

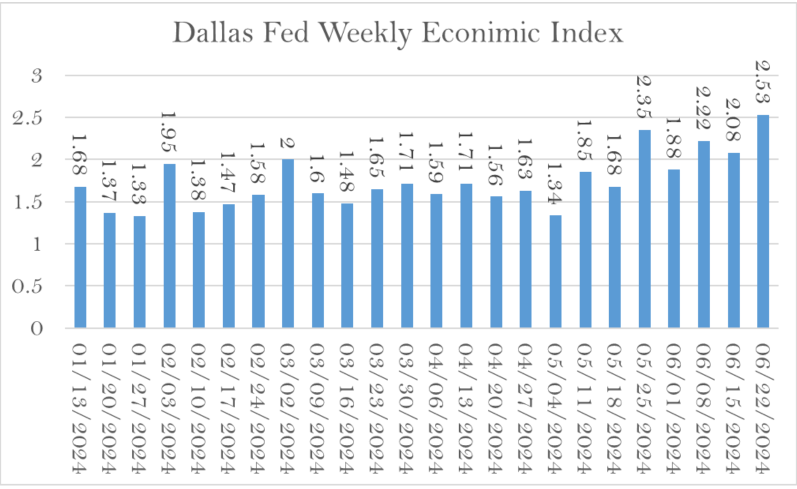
Through the New York Fed Staff Nowcast, it intends to read the real-time flow of information and evaluate its effects on current economic conditions. The platform is designed to digest incoming data as "news," mimicking the way markets work. On Jul 05, 2024, the New York Fed Staff Nowcast for 2024:Q2 is 1.8%, with the 50% probability interval at [0.8, 2.9] and the 68% interval at [0.3, 3.3]. The Staff Nowcast is 2.1% for 2024:Q3.

Source: NY Fed, Experiential Wealth

High Frequency Economic Data – 06-2024



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

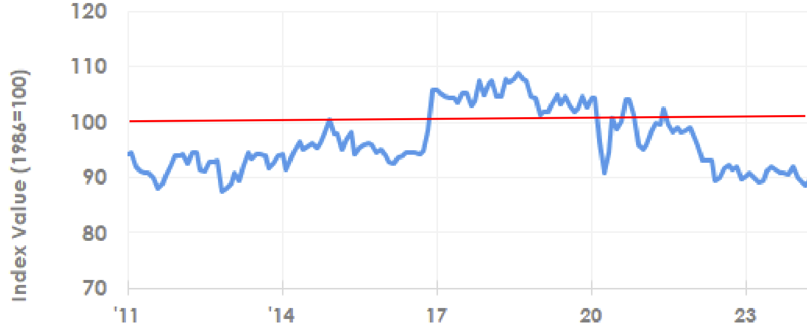
Citi's Economic Surprise Index, which measures the degree to which economic data is either beating or missing expectations, continued to positively improve, although at a slower rate, in the current quarter even though expectations and reality are getting more aligned. As of 6-28-2024, it is now in negative territory (i.e., "missing" expectation).

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 2.53 percent, scaled to four-quarter GDP growth, for the week ended June 22 and 2.08 percent for June 15. The 13-week moving average is 1.86 percent. This is compared with 2.92 percent four-quarter GDP growth through the first quarter of 2024. The economy is slowing.

National Federation of Independent Business (NFIB) 02-2024

Small Business Optimism Index at 90.5

Based on 10 survey indicators, seasonally adjusted, Jan. '10 – May '24



The Optimism Index rose 0.8 of a point in May to 90.5, the highest reading of this year. This is the 29th consecutive month below the 50-year average of 98. The last time the Index was at or above the average was December 2021. The Uncertainty Index rose 9 points to 85, the highest reading since November 2020. Of the 10 index components, 5 increased, 3 decreased, and 2 were unchanged. The economy is still growing, but the edges are starting to fray.

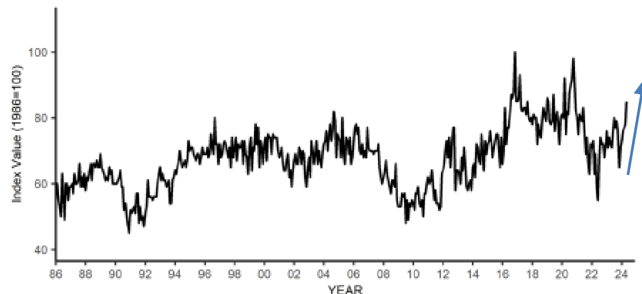
Index Component	Seasonally Adjusted Level	Change from Last Month	Contribution to Index Change
Plans to Increase Employment	15%	3	*
Plans to Make Capital Outlays	23%	1	*
Plans to Increase Inventories	-6%	0	*
Expect Economy to Improve	-30%	7	*
Expect Real Sales Higher	-13%	-1	*
Current Inventory (too low)	-8%	-4	*
Current Job Openings	42%	2	*
Expected Credit Conditions	-7%	2	*
Now a Good Time to Expand	4%	0	*
Earnings Trends	-30%	-3	*
Total Change		7	

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

Small Business Uncertainty

UNCERTAINTY INDEX

Sum of "Don't Know" & "Uncertain" Answers on 6 Questions
(Seasonally Adjusted 1986=100)

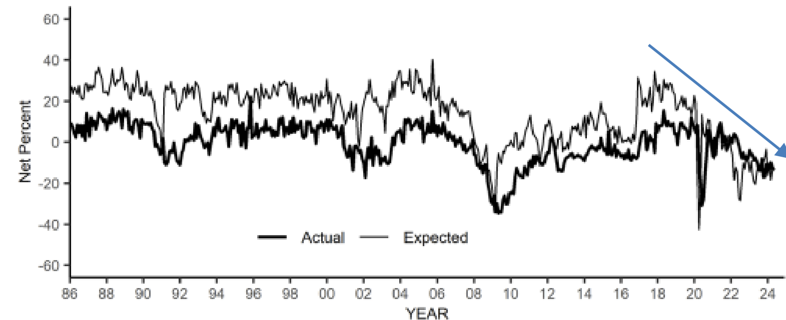


https://www.nfib.com/surveys/small-business-economic-trends/

Small Business Sales

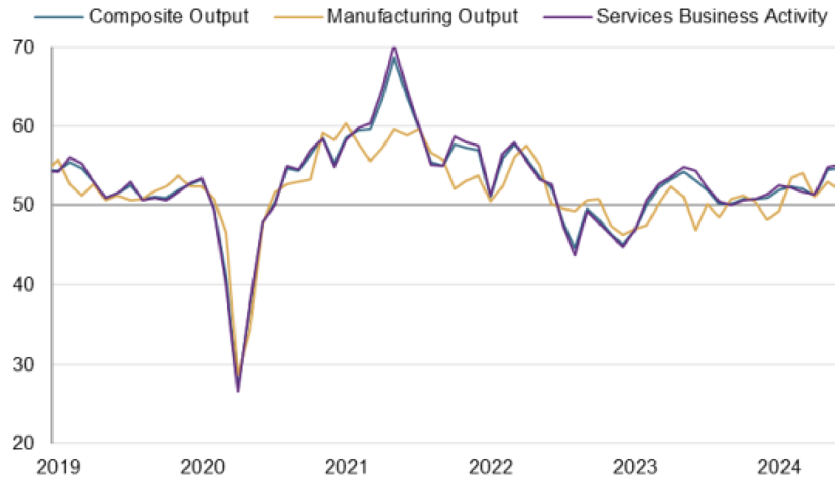
SALES

Actual (Prior Three Months) and Expected (Next Three Months)
January 1986 to May 2024
(Seasonally Adjusted)

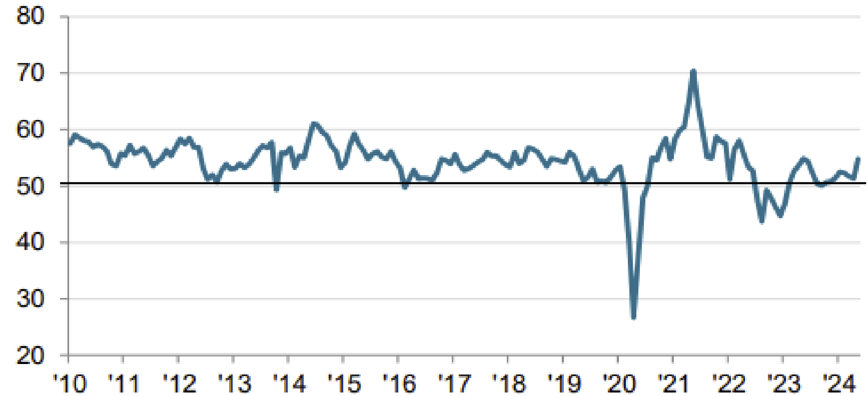


NEXUS338

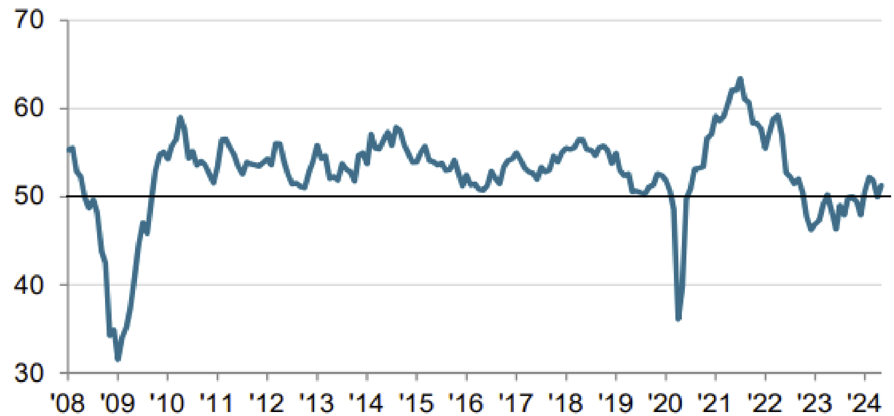
S&P Business survey still show service strength for Q2



U.S. business activity growth accelerated to its fastest for 26 months in June, according to provisional PMI survey data from S&P Global, signaling a strong end to the second quarter. The service sector led the upturn with additional support from manufacturing, albeit with the latter's recent revival losing some momentum. Improved business confidence for the year ahead, notably in the service sector, as well as renewed pressure on operating capacity from rising demand, meanwhile encouraged firms to boost payroll numbers for the first time in three months. The survey's gauge of selling price inflation meanwhile fell, linked to slower growth of input costs, to point to a moderation of inflationary pressures.



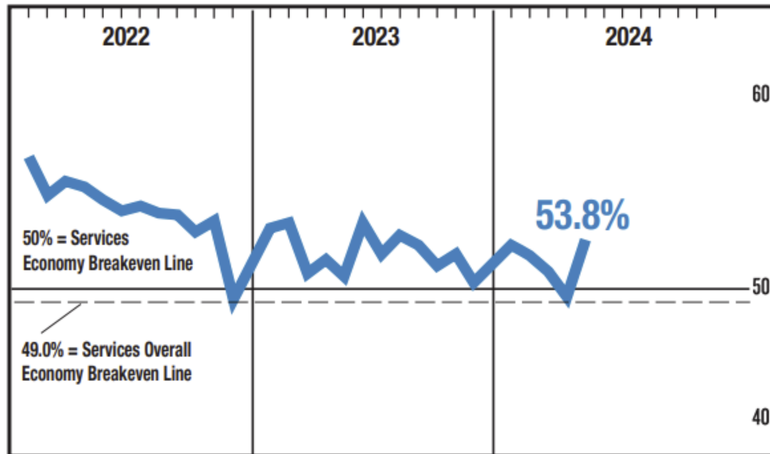
Data were collected 10-29 May 2024.
Source: S&P Global PMI.



Source: S&P Global PMI.
Data were collected 10-28 May 2024.

NEXUS338

ISM Service Sector Still Expanding with Prices Up



Services at a Glance

INDEX	May Index	Apr Index	% Point Change	Direction	Rate of Change	Trend* (months)
Services PMI®	53.8	49.4	+4.4	Growing	From Contracting	1
Business Activity	61.2	50.9	+10.3	Growing	Faster	48
New Orders	54.1	52.2	+1.9	Growing	Faster	17
Employment	47.1	45.9	+1.2	Contracting	Slower	4
Supplier Deliveries	52.7	48.5	+4.2	Slowing	From Faster	1
Inventories	52.1	53.7	-1.6	Growing	Slower	2
Prices	58.1	59.2	-1.1	Increasing	Slower	84
Backlog of Orders	50.8	51.1	-0.3	Growing	Slower	2
New Export Orders	61.8	47.9	+13.9	Growing	From Contracting	1
Imports	42.8	53.6	-10.8	Contracting	From Growing	1
Inventory Sentiment	57.7	62.9	-5.2	Too High	Slower	13
Overall Economy				**Growing**	**Faster**	**17**
Services Sector				**Growing**	**From Contracting**	**1**

*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.

Economic activity in the services sector grew in May after contracting in April for the first time since December 2022, say the nation's purchasing and supply executives in the latest Services ISM Report On Business. The Services PMI registered 53.8 percent, indicating sector expansion for the 46th time in 48 months. The contraction in April ended a string of 15 months of services sector growth following a composite index reading of 49 percent in December 2022; the last contraction before that was in May 2020 (45.4 percent).

The 13 services industries reporting growth in May — listed in order — are: Real Estate, Rental & Leasing; Health Care & Social Assistance; Other Services; Educational Services; Utilities; Wholesale Trade; Construction; Transportation & Warehousing; Public Administration; Management of Companies & Support Services; Finance & Insurance; Information; and Professional, Scientific & Technical Services. 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.

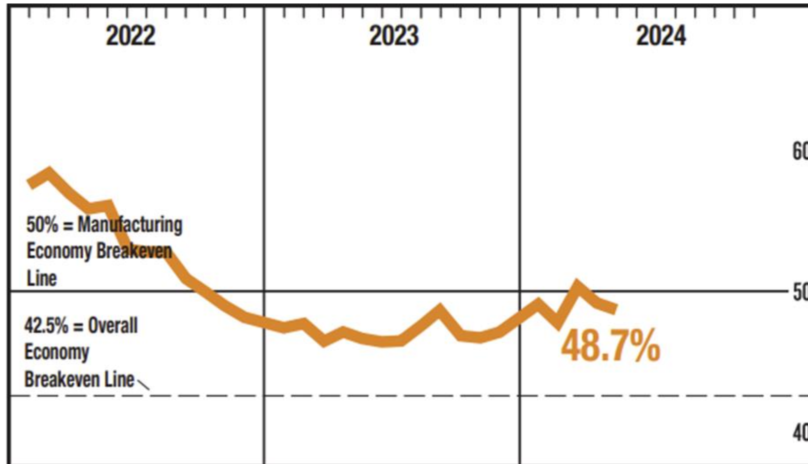
https://www.ismworld.org/globalassets/pub/research-and-surveys/rob/nmi/rob202406svcs.pdf

NEXUS338

Manufacturing is still weak

NEXUS338

ISM Manufacturing Sector Continues to Contract



Economic activity in the manufacturing sector contracted in May for the second consecutive month and the 18th time in the last 19 months, say the nation's supply executives in the latest Manufacturing ISM Report On Business®. The Manufacturing PMI registered 48.7 percent, down 0.5 percentage points compared to April's reading of 49.2 percent. After breaking a 16-month streak of contraction by expanding in March, the manufacturing sector has contracted the last two months, and at a faster rate in May.

https://www.ismworld.org/globalassets/pub/research-and-surveys/rob/pmi/rob202405pmi.pdf

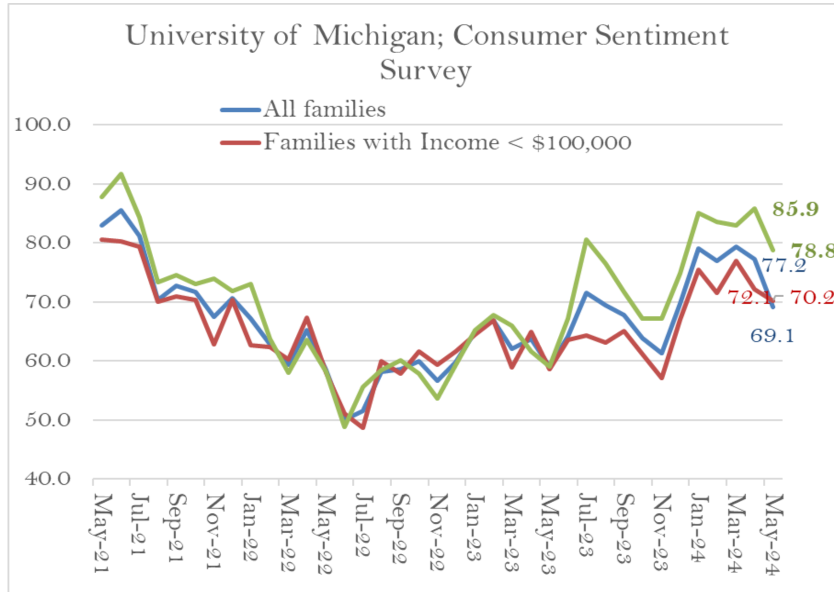
Manufacturing at a Glance

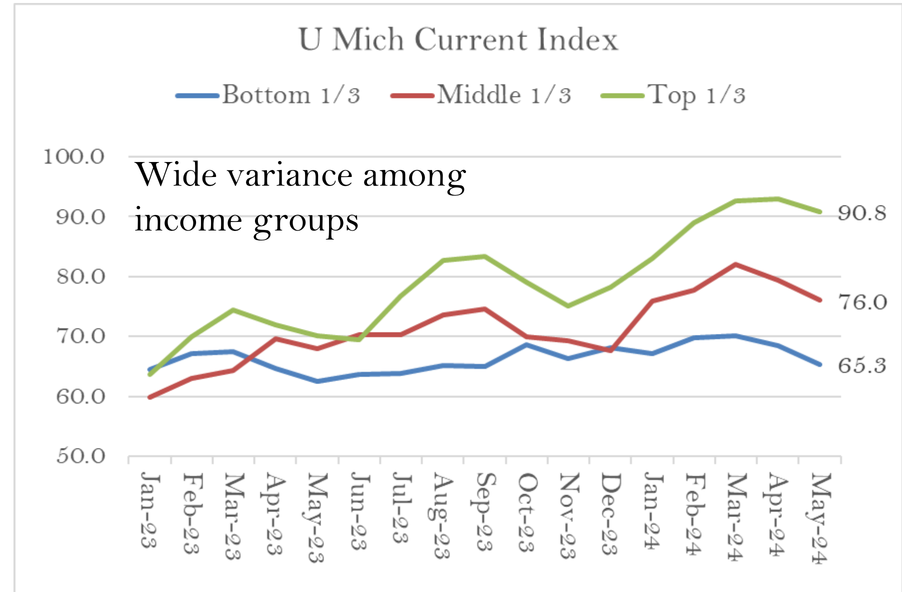
INDEX	May Index	Apr Index	% Point Change	Direction	Rate of Change	Trend* (months)
Manufacturing PMI®	48.7	49.2	-0.5	Contracting	Faster	2
New Orders	45.4	49.1	-3.7	Contracting	Faster	2
Production	50.2	51.3	-1.1	Growing	Slower	3
Employment	51.1	48.6	+2.5	Growing	From Contracting	1
Supplier Deliveries	48.9	48.9	0.0	Faster	Same	3
Inventories	47.9	48.2	-0.3	Contracting	Faster	16
Customers' Inventories	48.3	47.8	+0.5	Too Low	Slower	6
Prices	57.0	60.9	-3.9	Increasing	Slower	5
Backlog of Orders	42.4	45.4	-3.0	Contracting	Faster	20
New Export Orders	50.6	48.7	+1.9	Growing	From Contracting	1
Imports	51.1	51.9	-0.8	Growing	Slower	5
Overall Economy				**Growing**	**Slower**	**49**
Manufacturing Sector				**Contracting**	**Faster**	**2**

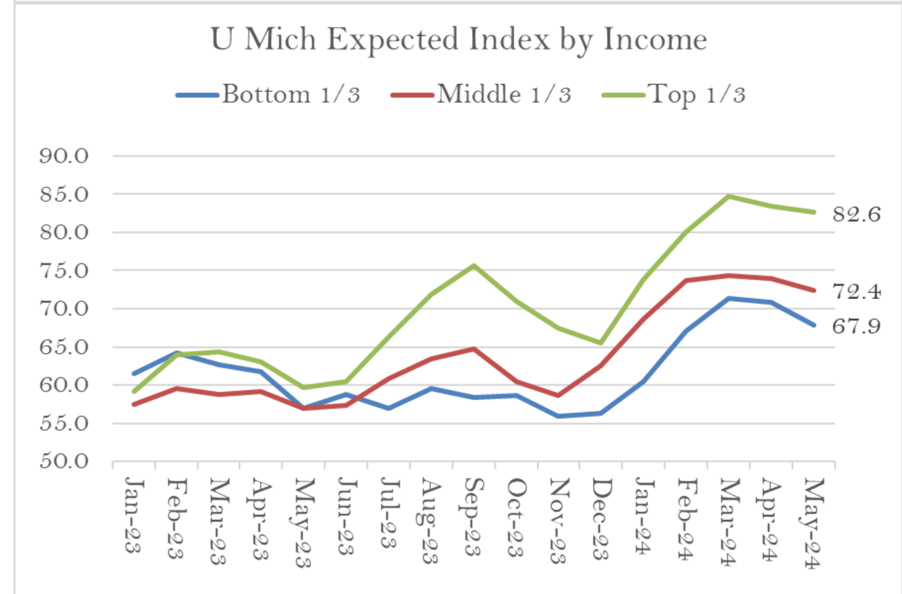
*Number of months moving in current direction. Manufacturing ISM® *Report On Business*® data has been seasonally adjusted for the New Orders, Production, Employment and Inventories indexes.

The seven manufacturing industries reporting growth in May — in order — are: Printing & Related Support Activities; Petroleum & Coal Products; Paper Products; Textile Mills; Primary Metals; Fabricated Metal Products; and Chemical Products.

UMich Consumer Sentiments & Confidence - Weakens



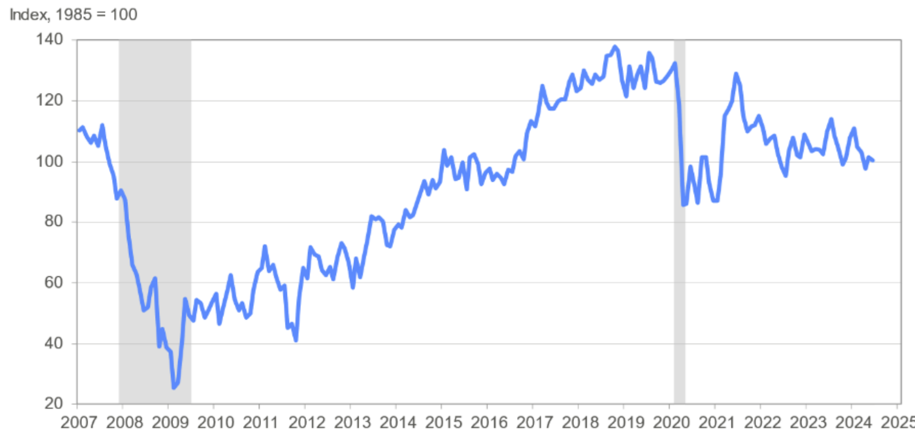


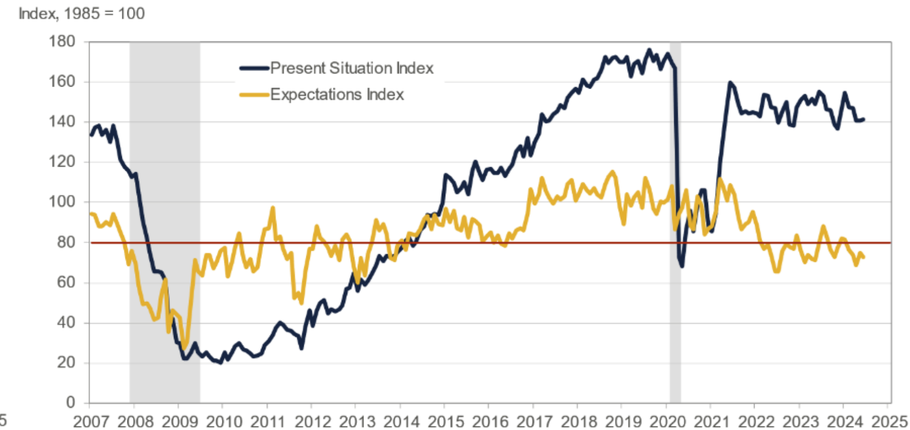


Consumer sentiment fell back about 10% this May following three consecutive months of very little change. This 8.1 index-point decrease is statistically significant and brings sentiment to its lowest reading in about five months. The year-ahead outlook for business conditions saw a particularly notable decline, while views about personal finances were little changed. Consumers expressed particular concern over labor markets; they expect unemployment rates to rise and income growth to slow. The prospect of continued high interest rates also weighed down consumer views. These deteriorating expectations suggest that multiple factors pose downside risk for consumer spending. Still, sentiment remains almost 20% above a year ago and about 40% above the all-time historic low in June 2022, reflecting how much consumer views have improved as inflation eased.

https://data.sca.isr.umich.edu/tables.php

Conference Board Sentiments & Confidence





Consumer Confidence Index® dipped in June to 100.4 (1985=100), down from 101.3 in May. The Present Situation Index—based on consumers' assessment of current business and labor market conditions—increased to 141.5 (1985=100) from 140.8 last month. However, the Expectations Index—based on consumers' short-term outlook for income, business, and labor market conditions—fell to 73.0 (1985=100) in June, down from 74.9 in May. The Expectations Index has been below 80 (the threshold which usually signals a recession ahead) for five consecutive months. 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. 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.

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

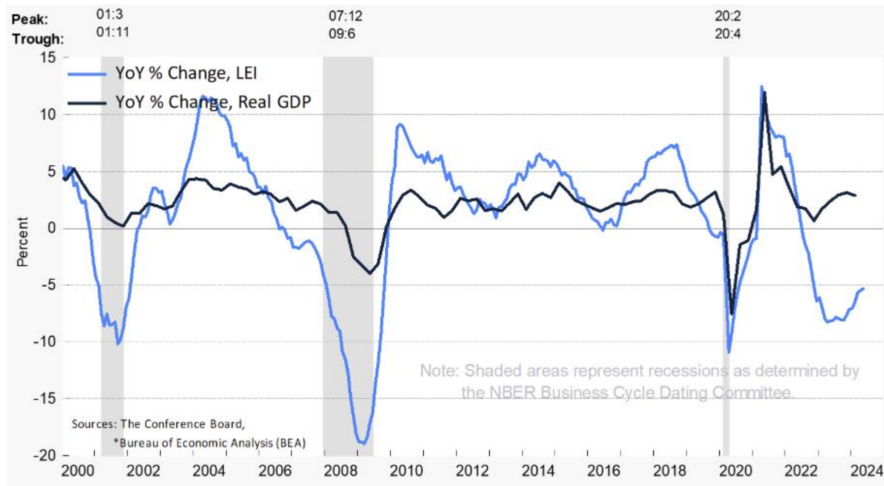
Consumers' assessment of current business conditions was, on balance, slightly less positive in June. 19.6% of consumers said business conditions were "good," down from 20.8% in May. But 17.7% said business conditions were "bad," also down from 18.4% last month.

Consumers' appraisal of the labor market improved in June. 38.1% of consumers said jobs were "plentiful," up from 37.0% in May. 14.1% of consumers said jobs were "hard to get," down from 14.3%.

Expectations Six Months Hence - Consumers were less optimistic about the short-term business conditions outlook in June. 12.5% of consumers expected business conditions to improve, down from 13.7% in May. 16.7% expected business conditions to worsen, down from 16.9%.

Consumers' assessment of the short-term labor market outlook was a tad less negative in June.

Conference Board Leading Indicators – a Mixed Bag



The Conference Board Leading Economic Index (LEI) for the U.S. decreased by 0.5 percent in May 2024 to 101.2 (2016=100), following a 0.6 percent decline in April. Over the six-month period between November 2023 and May 2024, the LEI fell by 2.0 percent—a smaller decrease than its 3.4 percent contraction over the previous six months.

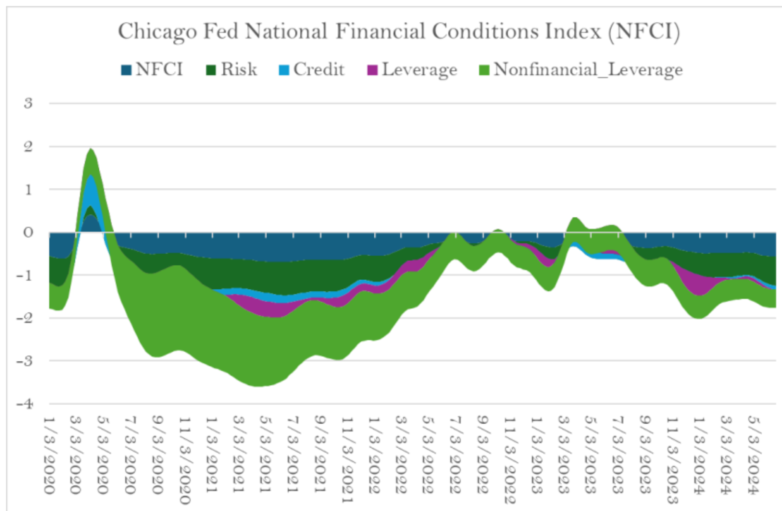
The Conference Board Coincident Economic Index® (CEI) for the U.S. rose by 0.4 percent in May 2024 to 112.4 (2016=100), after increasing by 0.1 percent in April. The CEI grew 0.6 percent over the six-month period ending May 2024, down from its 1.0 percent increase over the previous six months. The CEI's 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 improved last month, with industrial production making the largest positive contribution to the Index.

The Conference Board Lagging Economic Index® (LAG) for the U.S. inched down by 0.1 percent in May 2024 to 119.4 (2016=100), after increasing by 0.3 percent in April. As a result, the LAG's six-month growth rate softened to 0.7 percent between November 2023 and May 2024, down from 0.8 percent over the previous six months.

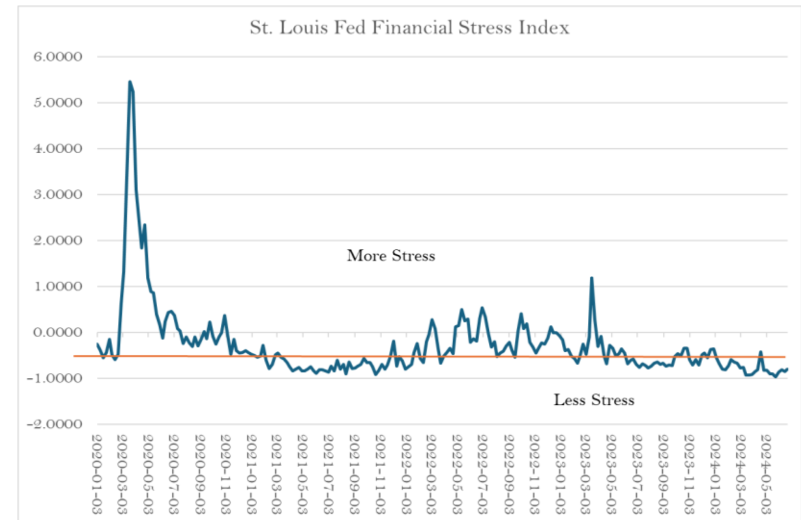
Source: https://www.conference-board.org/topics/us-leading-indicators

NEXUS338

Financial Condition & Stress – Remain Supportive



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



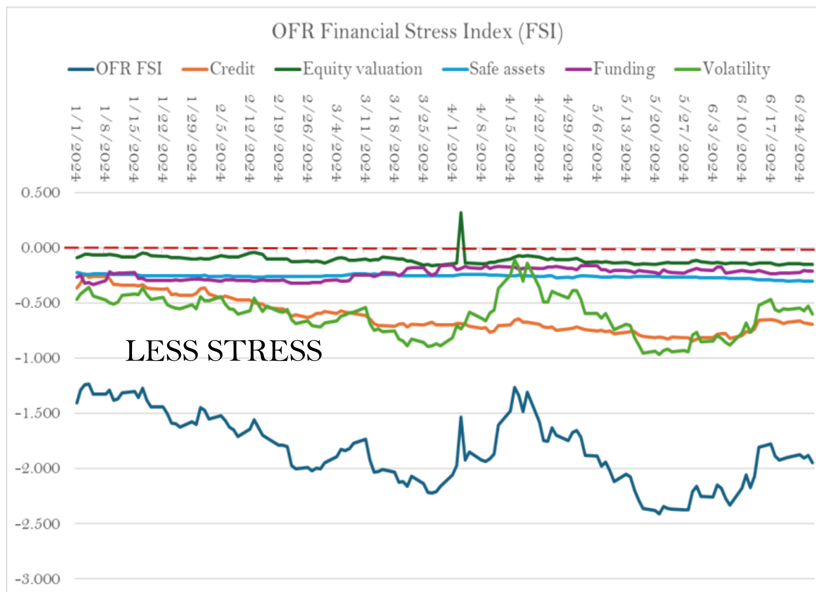
Source: https://fred.stlouisfed.org/series/STLFSI4, Experiential Wealth

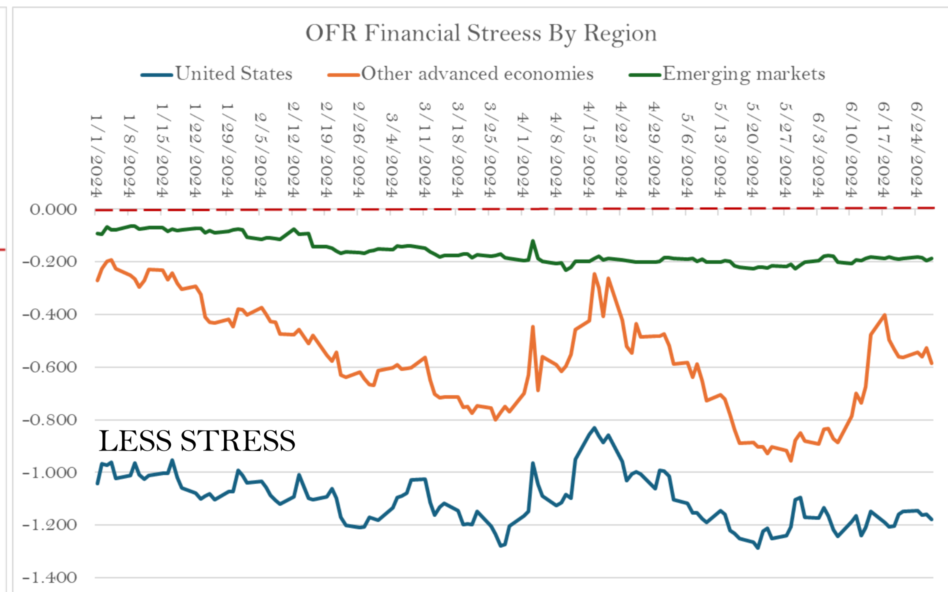
Chicago Fed's National Financial Conditions Index (NFCI) provides a comprehensive weekly update on U.S. financial conditions in money markets, debt, equity markets, and the traditional and "shadow" banking systems. The NFCI was unchanged at –0.57 in the week ending June 21. Risk indicators contributed –0.27, 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 – not much





Source: FSI, Experiential Wealth

Source: 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**.

Overall financial stress in the U.S. continues to remain 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 remain below the neutral "0" value.

NEXUS338

Overall Retail is Still Holding Steady

	Percent Change[1]				
	Jan-24	Feb-24	Mar-24	Apr-24	May-24
Kind of Business					**(p)**
Retail & food services, total include motore vehicle, parts & Gas Station	-1.1	0.9	0.6	-0.2	0.1
Retail	-1.1	1.0	0.8	-0.3	0.2
Auto & other motor veh. Dealers	-2.2	2.7	-0.4	-0.5	0.8
Furniture & home furn. stores	0.2	-0.3	-2.3	0.9	-1.1
Electronics & appliance stores	2.8	1.3	-3.1	2.2	0.4
Building material & garden eq. & supplies dealers	-4.3	2.3	0.4	0.3	-0.8
Food & beverage stores	-0.3	0.2	0.5	0.7	-0.2
Grocery stores	-0.1	0.0	0.6	0.6	-0.4
Health & personal care stores	-1.4	0.0	0.2	-0.3	0.1
Gasoline stations	-1.4	1.6	2.1	1.9	-2.2
Clothing & clothing accessories stores	-0.8	0.2	-2.0	1.7	0.9
Sporting goods, hobby, musical instrument, & book stores	-0.4	0.7	-1.3	-2.4	2.8
General merchandise stores	0.0	0.6	1.3	-0.9	0.1
Department stores	1.0	-0.4	-1.3	0.3	0.0
Miscellaneous store retailers	0.2	1.0	2.5	-1.6	0.4
Nonstore retailers	-0.3	0.2	2.5	-1.8	0.8
Food services & drinking places	-1.0	0.5	-0.1	0.4	-0.4

(p)Preliminary estimate

(1)Estimates shown in this table are derived from adjusted estimates provided in Table 1 of the monthly report

Source: U.S. Census Bureau, Advance Monthly Retail Trade Survey, June 18, 2024. (Project No. P-7504206 / Approval CBDRB-FY24-0003),

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

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

	24Q1	23Q4	23Q3	23Q2	23Q1	22Q4	22Q3	22Q2
Total personal	12.9	19.0	13.9	14.9	16.4	4.0	2.9	-13.1
Chapter 7	16.8	23.1	16.0	12.9	9.8	-7.8	-15.3	-30.3
Chapter 11	-21.0	13.8	-26.8	-11.9	-21.9	-31.0	23.3	-11.3
Chapter 13	7.9	13.9	11.3	18.0	26.6	24.3	43.0	38.3
Total business	34.6	53.2	37.7	37.0	32.6	11.4	12.1	-11.4
Chapter 7	27.2	39.0	36.3	29.2	23.6	5.2	0.0	-21.6
Chapter 11	42.5	84.7	43.3	53.6	51.7	20.4	34.5	10.1
Chapter 13	35.7	32.9	17.0	27.9	40.7	34.9	45.9	0.0

- Bankruptcy filings remain low, but the trend is concerning since household finances are under pressure on many fronts such as still-high inflation, the growing impact of the past increases in interest rates, increased borrowing, and the depletion of excess savings accumulated during the pandemic, especially among lower-income households. Nonbusiness filings usually rise in the first quarter as the holiday season takes a toll on household finances. Year-over-year growth did moderate as this year's gain lagged last year's outsize jump, however.
- The upward trend in filings, after adjusting for seasonal movements, highlights that the impact of the Federal Reserve's interest rate increases is hitting consumer finances with a lag. More than 80% of consumer debt at present has a fixed rate, and the share was even lower at the start of the rate increases in early 2022. This does not insulate new debt or credit card balances, however. Another mitigating factor for consumers is that stock prices and house prices are rising again. Real income has been growing for nearly two years, 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 so severe and lengthy that they push large numbers of consumers into bankruptcy. Households usually do not file for bankruptcy until forced to 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 2023, 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 2024 06

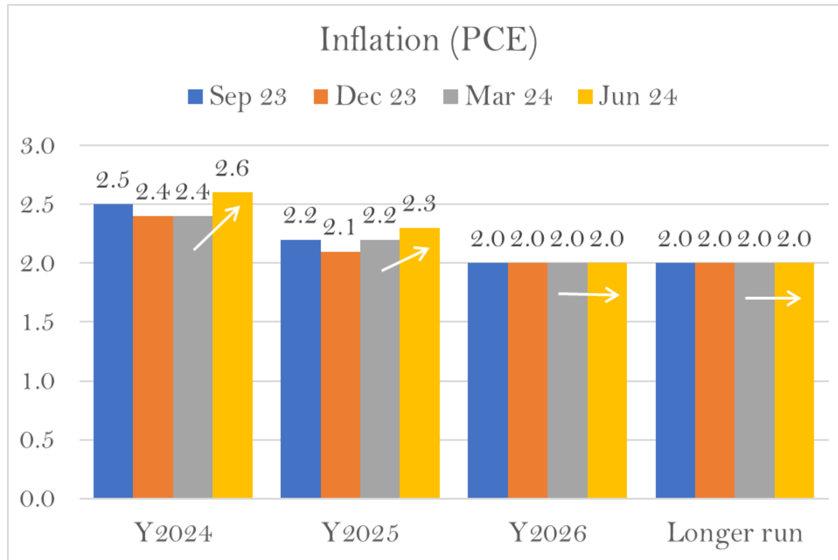
JPM World Manufacturing PMI Heat Map (2024 06)

Annual						2023												2024					
Month	08	09	10	11	12	01	02	03	04	05	06	07	08	09	10	11	12	01	02	03	04	05	06
United States	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	50.3	49.2	48.7	
Europe	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	46.1	45.7	47.3	45.6
Germany	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	41.9	42.5	45.4	43.4
France	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	46.2	45.3	46.4	45.3
Italy	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	50.4	47.3	45.6	
United Kingdom	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	50.3	49.1	51.2	51.4
China	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	50.8	50.4	49.5	49.5
Japan	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	49.6	50.4	50.1
South Korea	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	49.8	49.4	51.6	
India	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	59.1	58.8	58.5	
Indonesia	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	54.2	52.9	52.1	
Australia	53.8	53.5	52.7	51.3	50.2	50.0	50.5	49.1	48.0	48.4	48.2	49.6	49.6	48.2	48.2	47.7	47.6	50.1	47.7	47.3	49.6	49.7	47.5
Canada	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	57.5	63.0	52.0	
Brazil	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	53.6	55.9	52.1	
Mexico	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	52.2	51.0	51.2	
Russia	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	55.7	54.3	54.4	
Turkey	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	50.0	49.3	48.4	
South Africa	52.1	48.2	50.0	52.6	53.1	53.0	48.8	48.1	49.8	49.2	47.6	47.3	49.4	46.2	45.4	48.2	50.9	43.6	51.7	49.2	54.0	43.8	

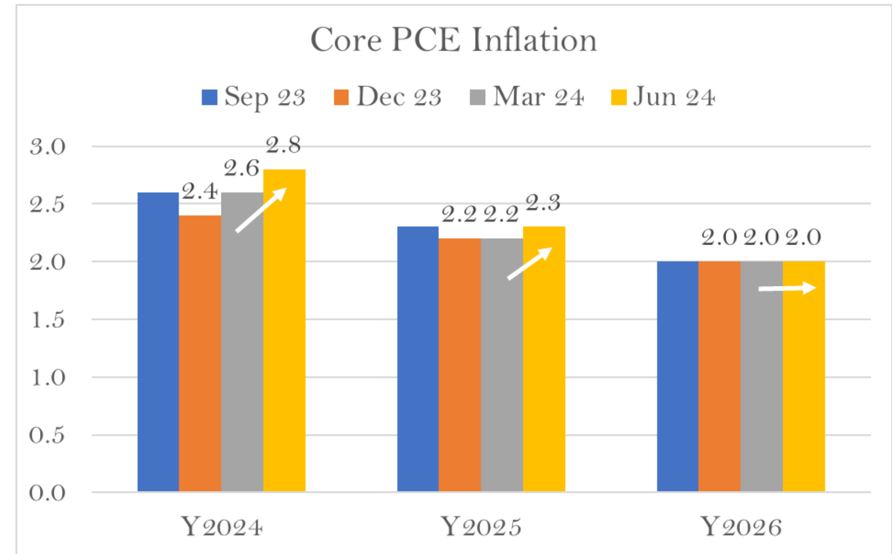
https://en.macromicro.me/dynamic_chart/pmi_heat_map

NEXUS338

Summary of Economic Projections – Inflation (June 2024)



FOMC, Experiential Wealth



FOMC, Experiential Wealth

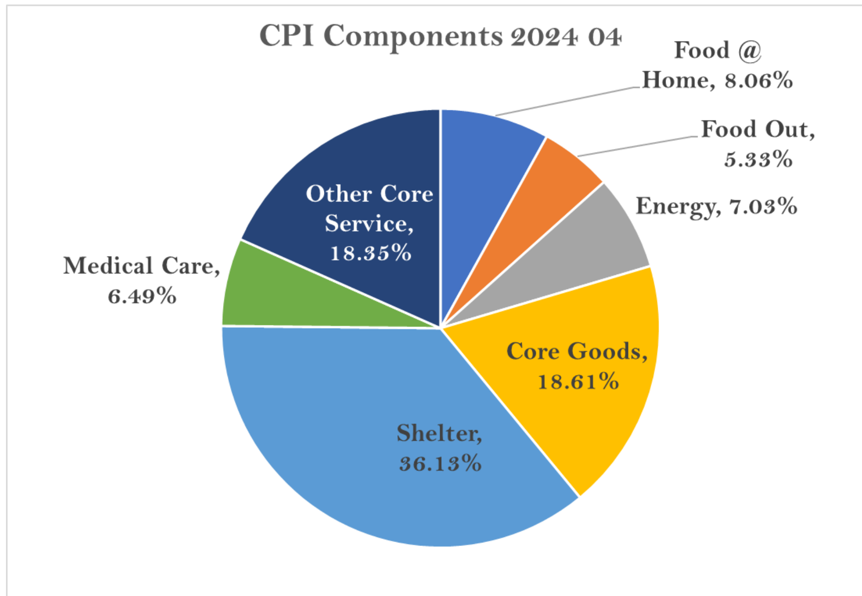
In the latest SEP, the central tendency average member expects PCE inflation to move up for 2024 and 2025 recognizing its stickiness even though for 2026 and beyond the Fed is sticking with reaching and staying at the 2% target. The "central tendency" project a 2.5% - 2.9% inflation for 2024 and 2.2%-2.4% for 2025. Both ranges moved up from their June projections. This helps to explain the Fed's action of staying higher for longer.

At the same time, projections for Core PCE (ex-food and energy) inflation also moved higher for 2024 from 2.4% to 2.6%. Core PCE is projected to return to the 2% to 2.1% target in 2026..

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

NEXUS338

CPI Components & their contributions (May 24)



CPI Table 7	2024-03	2024-04	2024-05	Change
CPI	3.50%	3.40%	3.30%	↓
Food	2.20%	2.20%	2.10%	↓
Energy	2.10%	2.60%	3.70%	↑
Core CPI	3.80%	3.60%	3.40%	↓
Core Goods	-0.70%	-1.30%	-1.70%	↓
Core Services	5.40%	5.30%	5.30%	=
Shelter	5.70%	5.50%	5.40%	↓
Super Core	2.40%	2.10%	1.90%	↓
Medical Services	2.10%	2.70%	3.10%	↑

The CPI has moved down by 0.1% in the May 2024. Core CPI moved down by 0.2%. A good sign. Core goods continue to contribute to disinflation even though broad core service prices (including shelter) remain high and unchanged at 5.3%. as shelter sees a 0.1% drop.

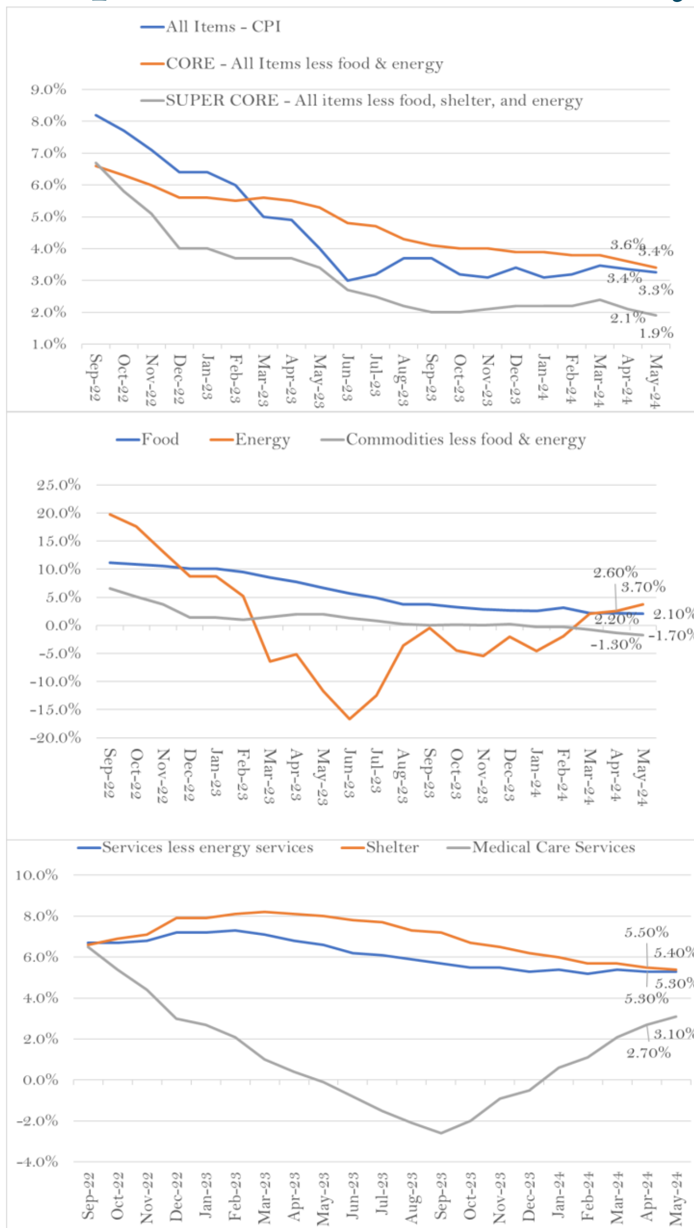
NEXUS338

Compare highest and lowest price increases in CPI Basket

Expenditure category (**Highest Increases**)	12-Month Unadjusted % change Apr. 2023-April 2024	12-Month Unadjusted % change May 2023-May 2024	Expenditure category (**lowest increases**)	12-Month Unadjusted % change Apr. 2023-April 2024	12-Month Unadjusted % change May 2023-May 2024
Admission to sporting events	15.4	21.7	Apples	-12.7	-13.2
Video discs and other media	29.0	20.7	Telephone hardware, calculators, and other consumer information items	-10.5	-12.4
Motor vehicle insurance	22.6	20.3	Smartphones	-9.8	-11.5
Frozen noncarbonated juices and drinks	29.2	19.5	Women's outerwear	-5.4	-10.2
Care of invalids and elderly at home	13.9	11.1	Used cars and trucks	-6.9	-9.3
Transportation services	11.2	10.5	Laundry equipment	-11.6	-8.8
Motor vehicle repair	9.8	9.5	Car and truck rental	-10.1	-8.8
Photographic equipment and supplies	8.8	9.2	Other video equipment	-9.1	-8.3
Admissions	8.1	9.1	Toys, games, hobbies and playground equipment	-6.8	-8.3
Apparel services other than laundry and dry cleaning	9.2	8.8	Dishes and flatware	-6.5	-8.1
Photographic equipment	8.0	8.7	Information technology commodities	-6.6	-8.1
Cigarettes	7.4	8.5	Toys	-7.4	-7.8
Outpatient hospital services	8.2	7.9	Health insurance	-11.6	-7.7
Uncooked other beef and veal	7.8	7.7	Education and communication commodities	-6.0	-7.4
Veterinarian services	7.1	7.6	Other furniture	-8.3	-7.2
Hospital and related services	7.9	7.3	Nonelectric cookware and tableware	-6.8	-7.1
Frankfurters	7.1	7.3	Other linens	-6.8	-6.7
Hospital services	7.7	7.2	Televisions	-8.2	-6.6
Motor vehicle maintenance and repair	7.6	7.2	Audio equipment	-6.3	-6.6
Parking fees and tolls	7.3	7.2	Computer software and accessories	-2.6	-6.6
Men's shirts and sweaters	7.2	7.0	Other recreational goods	-6.3	-6.5
Inpatient hospital services	7.1	6.5	Ham, excluding canned	-3.8	-6.3
Uncooked beef roasts	10.1	6.0	Major appliances	-5.8	-6.2
Other fresh fruits	7.8	5.9	Airline fares	-5.8	-5.9
Nonprescription drugs	7.7	5.9	Motor oil, coolant, and fluids	-4.6	-5.5
Food from vending machines and mobile vendors	7.3	5.7	Ham	-3.4	-5.4
Beef and veal	7.0	5.7	Men's suits, sport coats, and outerwear	-8.4	-5.4
Window coverings	9.6	5.4	Margarine(5)	-1.2	-5.2
Purchase, subscription, and rental of video	9.0	5.4	Outdoor equipment and supplies	-6.1	-5.0
Ship fare	7.1	3.3	Appliances(4)	-5.6	-4.9
Other condiments	8.7	-1.0	Public transportation	-4.6	-4.7

Source: CPI Table 7. Consumer Price Index for All Urban Consumers (CPI-U): U.S. city average, by expenditure category, April 2024, 12-month analysis table[1982-84=100, unless otherwise noted]

Components of CPI – May 2024



The Consumer Price Index for All Urban Consumers was unchanged in May on a seasonally adjusted basis, after rising 0.3 percent in April. Over the last 12 months, the all-items index increased 3.3 percent before seasonal adjustment.

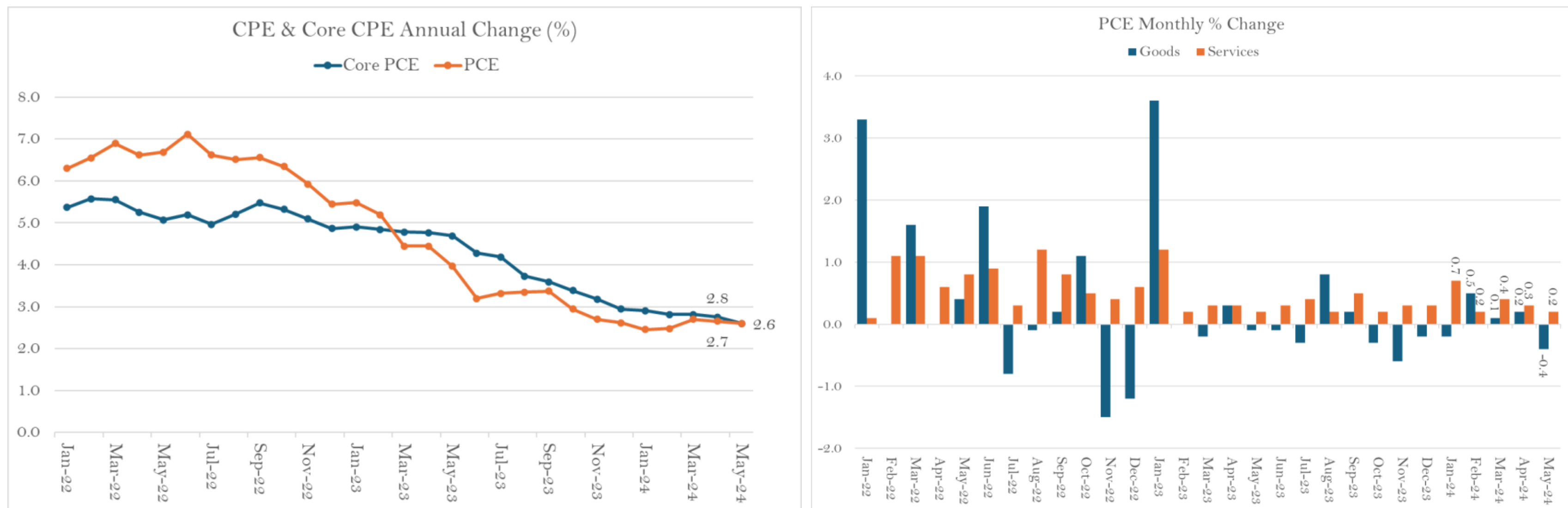
More than offsetting a decline in gasoline, the index for shelter rose in May, up 0.4 percent for the fourth consecutive month. The index for food increased 0.1 percent in May. The food away from home index rose 0.4 percent over the month, while the food at home index was unchanged. The energy index fell 2.0 percent over the month, led by a 3.6-percent decrease in the gasoline index.

The core index rose 0.2 percent in May, after rising 0.3 percent the preceding month. Indexes which increased in May include shelter, medical care, used cars and trucks, and education. The indexes for airline fares, new vehicles, communication, recreation, and apparel were among those that decreased over the month.

The all items index rose 3.3 percent for the 12 months ending May, a smaller increase than the 3.4-percent increase for the 12 months ending April. The core index rose 3.4 percent over the last 12 months. The energy index increased 3.7 percent for the 12 months ending May. The food index increased 2.1 percent over the last year.

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

Inflation (PCE) Remains Elevated – Sticky Service Sector (5-2024)

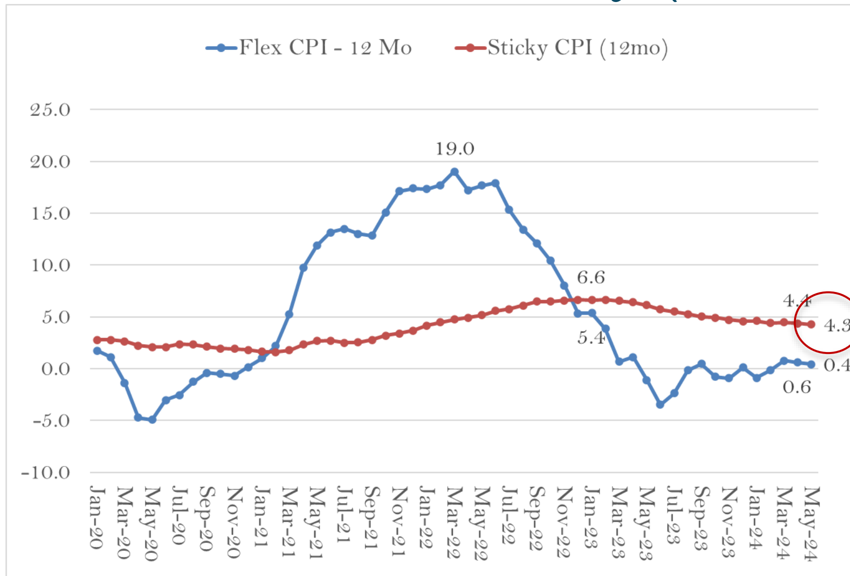


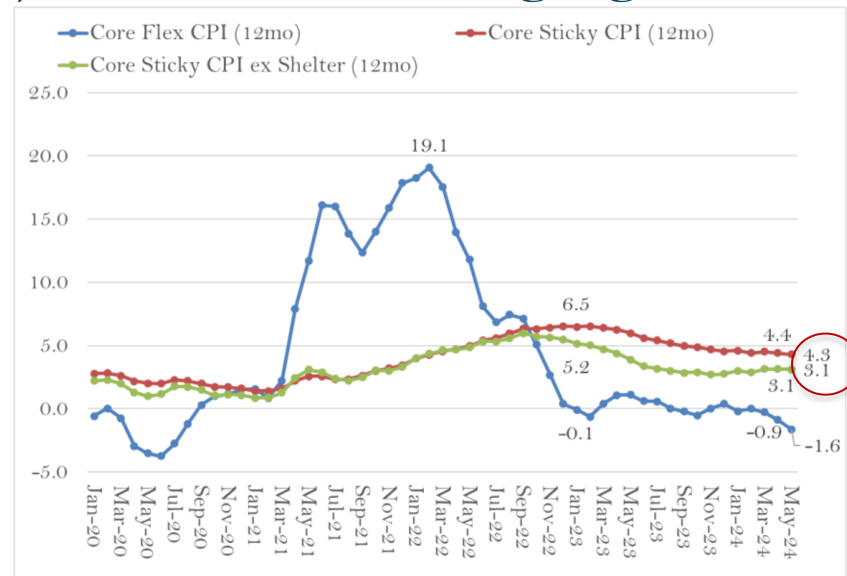
The preferred inflation gauge for the Fed is the core Personal Consumption Expenditure (PCE). As of **May 2024** (latest) data, core PCE is now at 2.6%, falling 0.2% from the April 2.8% rate., so this is still too high. PCE is now also at 2.6%, down 0.1% from April (2.7%). The Fed target is 2% core PCE.

Breaking down the PCE further into its services and goods components tells us goods' prices are continuing the general disinflationary trend as the global supply chain continues to heal from the pandemic.

The services component continues to disinflate at a consistent pace now. The monthly Service section is dropping by 0.1% per month since February this year.

CPI – Flex and Sticky (05-2024) – Core is not budging





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 May, the **sticky-price CPI increased 4.3%** (on an annualized basis), moving down 0.1% while the flex CPI was down 0.2% for the month. The more refined division of **Core Flex CPI is a -1.6%**, while the **Core Sticky is at 4.3%**, down 0.1%. Shelter is a big part of the Core-Sticky CPI. The Fed is also focused on core ex-shelter, referred to as the Super Core or Core CPI after stripping out the Shelter component. For May, this is unchanged from the prior month at 3.1%. In conclusion, inflation is slowly slowing but remains elevated, and the Fed will continue to focus on Core inflation to see when it is sustainably moving closer to the target 2% rate (not yet).

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

NEXUS338

Trimmed Mean PCE inflation – 05-2024

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. In any given month, the rate of inflation represented by the Personal Consumption Expenditures (PCE) can be thought of as a weighted average, or mean, of the rates of change in the prices of all the goods and services that make up the index. Calculating the trimmed mean PCE inflation rate for a given month involves looking at the price changes for each of the individual components of personal consumption expenditures. The individual price changes are sorted in ascending order from "fell the most" to "rose the most," and a certain fraction of the most extreme observations at both ends of the spectrum are thrown out, or "trimmed."

The inflation rate is then calculated as a weighted average of the remaining components. **As of May 2024**, the one-month and one-year trailing PCE, PCE ex Food & Energy and Trimmed mean were all trending lower than April 2024.

One-month PCE inflation, annual rate

	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24
PCE	1.5	5.2	4.0	4.1	3.2	-0.1
PCE ex F&E	1.8	6.2	3.1	4.1	3.2	1.0
Trimmed mean	1.8	5.6	3.2	3.3	2.7	1.4

Six-month PCE inflation, annual rate

	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24
PCE	2.1	2.7	2.6	2.5	3.0	3.0
PCE ex F&E	1.9	2.7	3.0	3.0	3.2	3.2
Trimmed mean	2.5	3.0	3.1	3.0	3.1	3.0

12-month PCE inflation

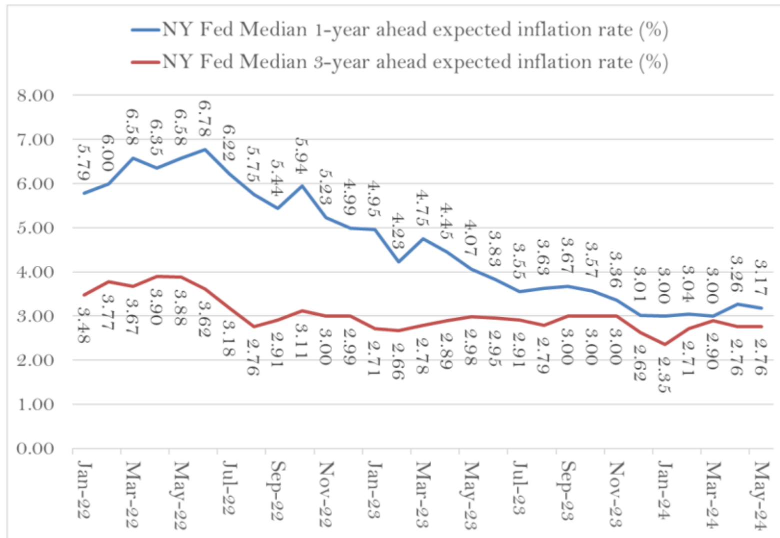
	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24
PCE	2.6	2.5	2.5	2.7	2.7	2.6
PCE ex F&E	2.9	2.9	2.8	2.8	2.8	2.6
Trimmed mean	3.2	3.2	3.1	3.0	2.9	2.8

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

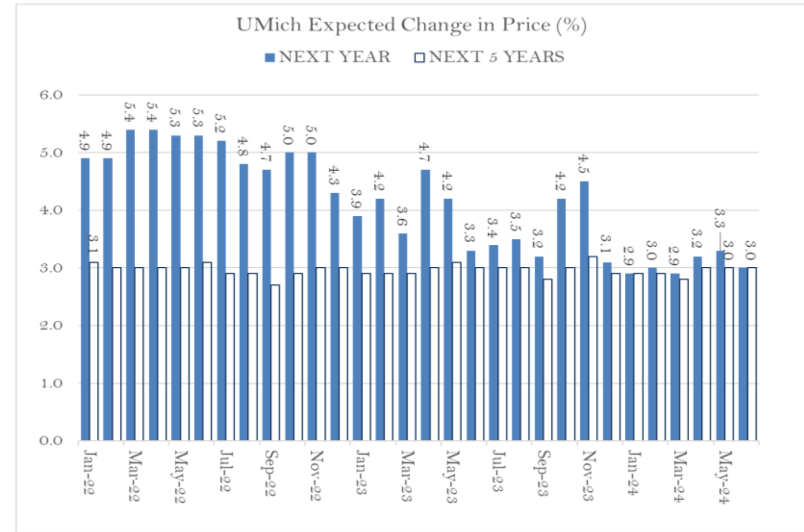
[1] https://www.dallasfed.org/~/media/documents/research/papers/2005/wp0506.pdf

NEXUS338

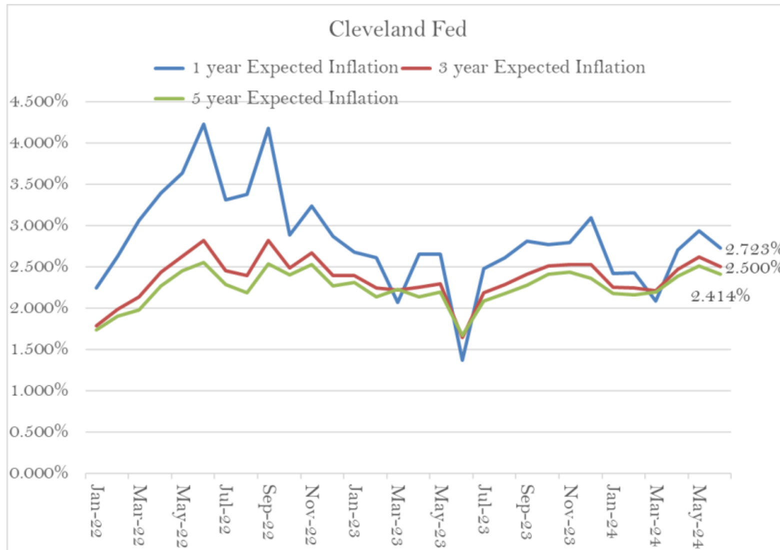
Inflation Expectation



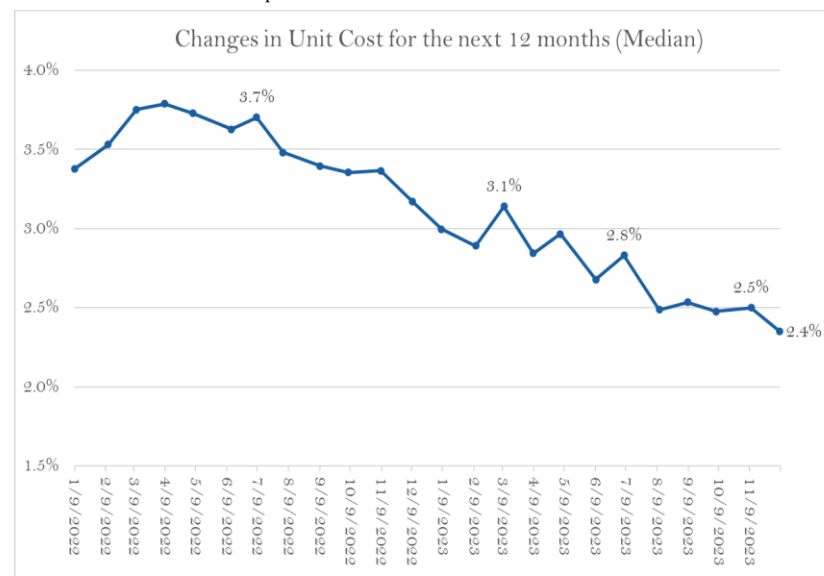
Source: New York Fed, Experiential Wealth



Source: UMich & Experiential Wealth



Source: Cleveland Fed, Experiential Wealth



Source: Atlanta Fed & Experiential Wealth

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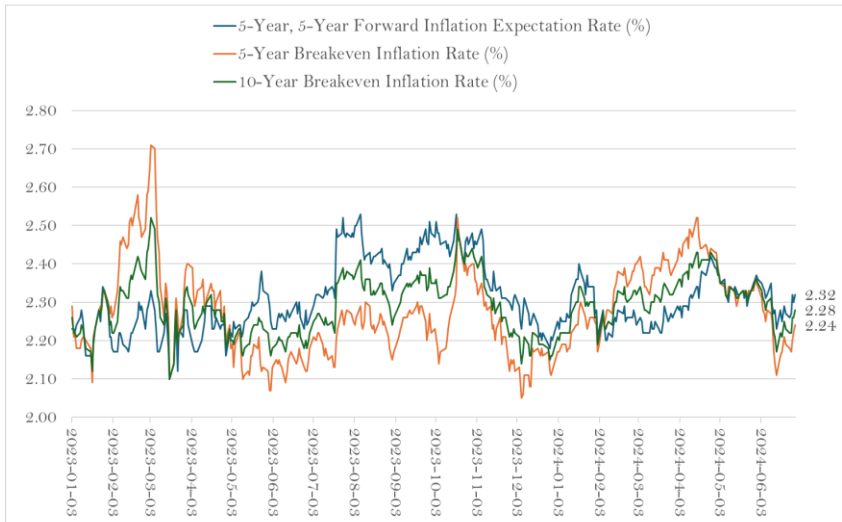
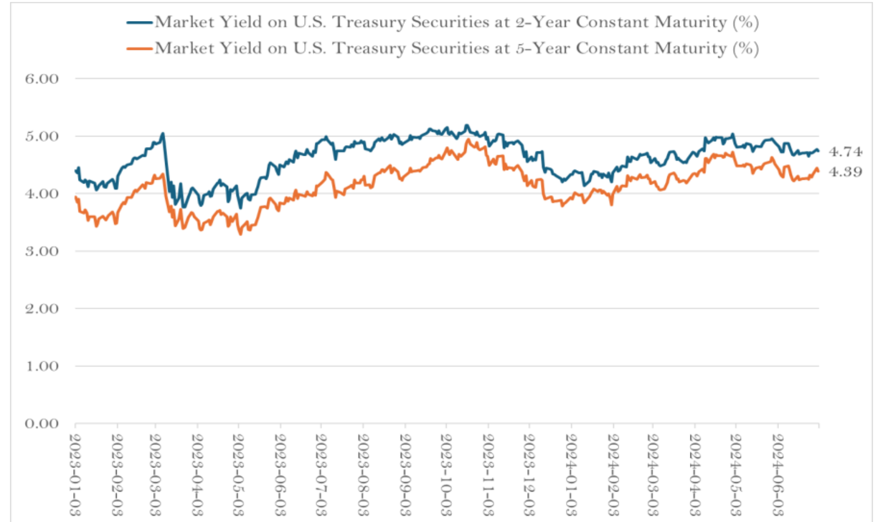
Inflation Expectation & Market-Based Rates (06-2024)



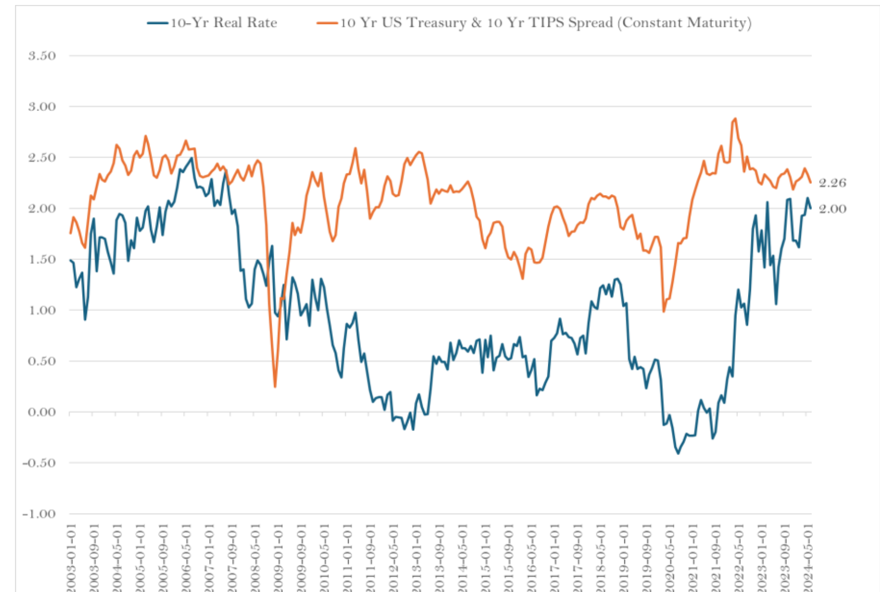
Source: FRED, Experiential Wealth



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-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.



NEXUS338

Global Inflation

Headline inflation for most countries is either drifting slightly lower or maintained at the same level. Europe is an exception where inflation notched up a bit. In the case of China, it appears the country's general aggregate may escape deflation after all. This is good news for the world economy.

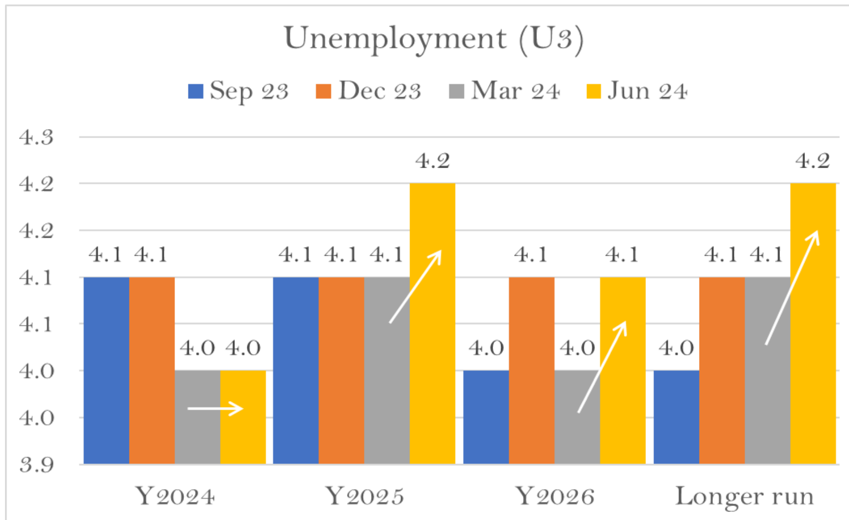
Country	Last	Previous	Reference
Argentina	289	288	24-Apr
Australia	3.6	4.1	24-Mar
Brazil	3.93	3.69	24-May
Canada	2.7	2.9	24-Apr
China	0.3	0.3	24-May
Euro Area	2.6	2.4	24-May
France	2.2	2.2	24-May
Germany	2.4	2.2	24-May
India	4.75	4.83	24-May
Indonesia	2.84	3	24-May
Italy	0.8	0.8	24-May
Japan	2.5	2.7	24-Apr
Mexico	4.69	4.65	24-May
Netherlands	2.7	2.7	24-May
Russia	7.8	7.7	24-Apr
Saudi Arabia	1.6	1.6	24-Apr
Singapore	2.7	2.7	24-Apr
South Africa	5.2	5.3	24-Apr
South Korea	2.7	2.9	24-May
Spain	3.6	3.3	24-May
Switzerland	1.4	1.4	24-May
Turkey	75.45	69.8	24-May
United Kingdom	2.3	3.2	24-Apr
United States	3.3	3.4	24-May

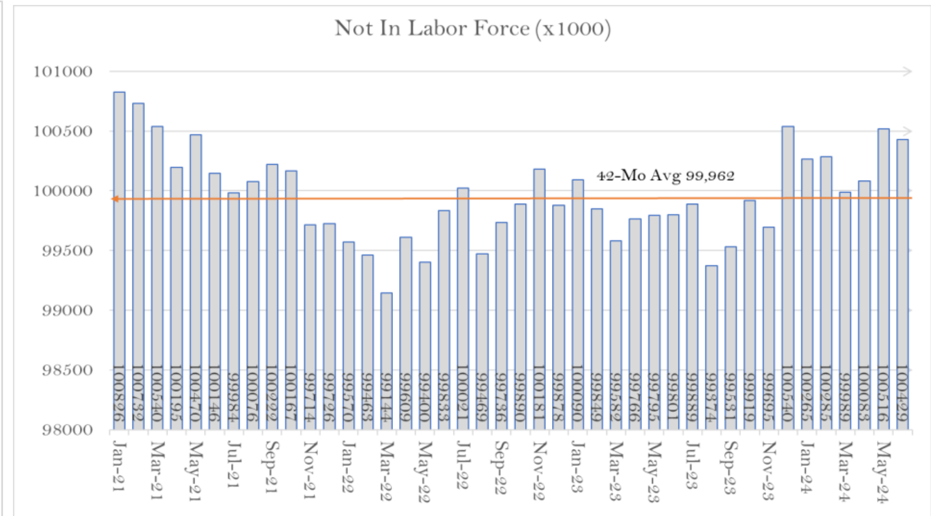
https://tradingeconomics.com/country-list/inflation-rate

Source: Trading Economics, Experiential Wealth 2024 06

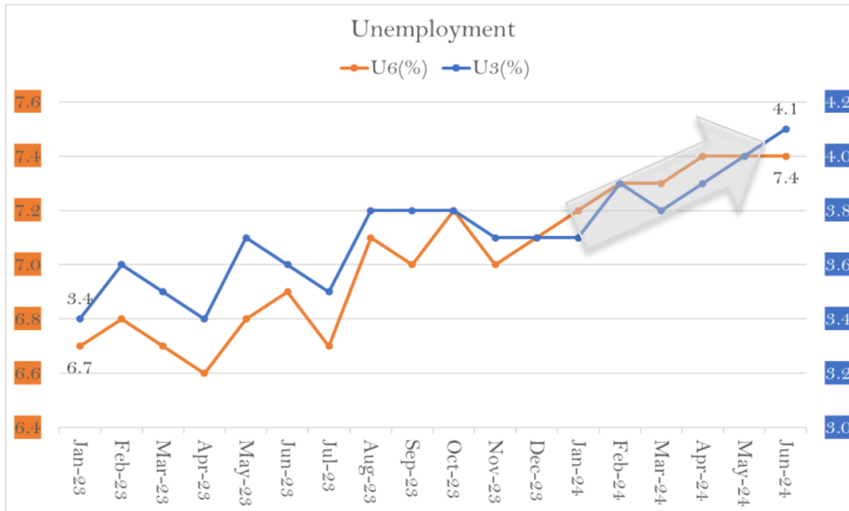
NEXUS338

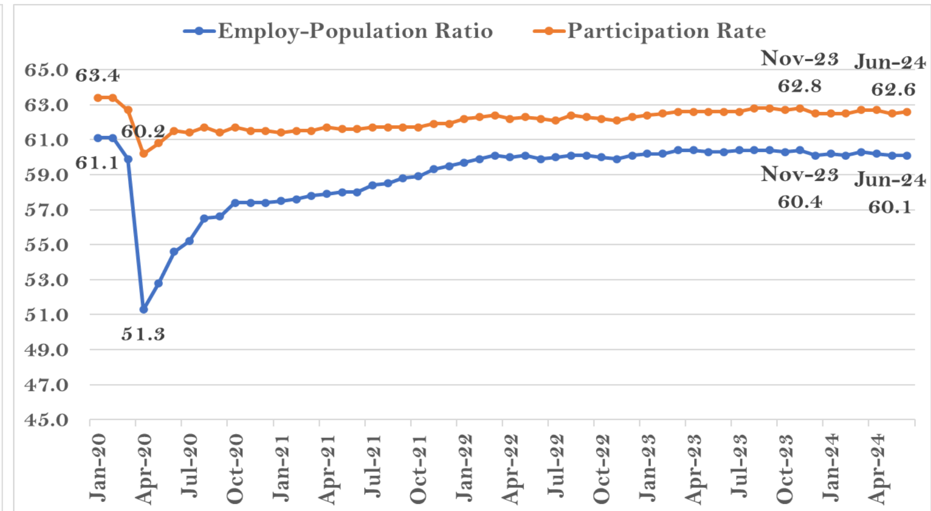
Summary of Economic Projections – Unemployment (U3)





Source: FOMC, Experiential Wealth

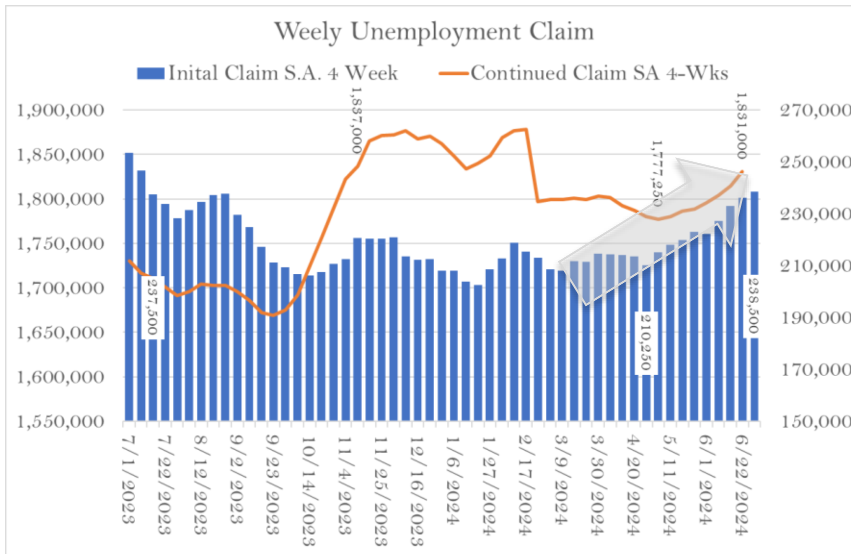


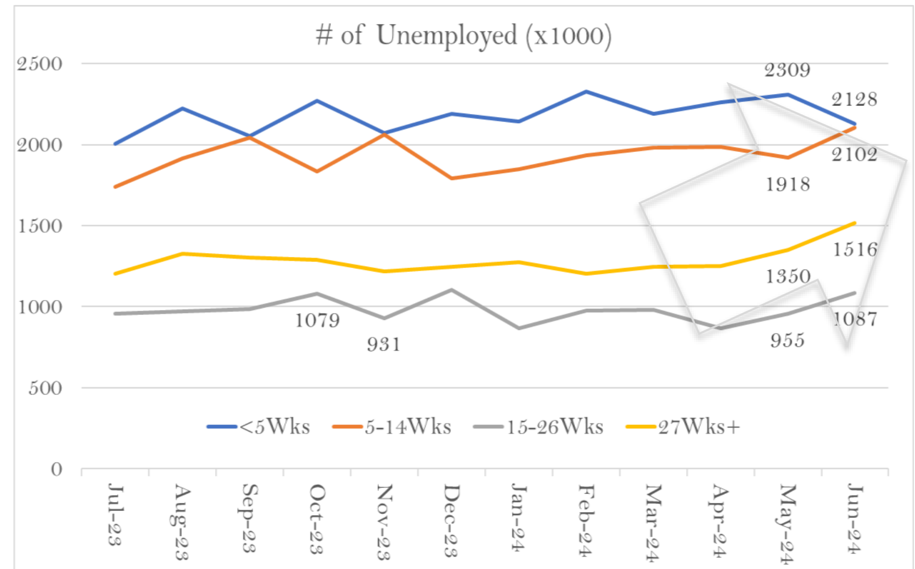


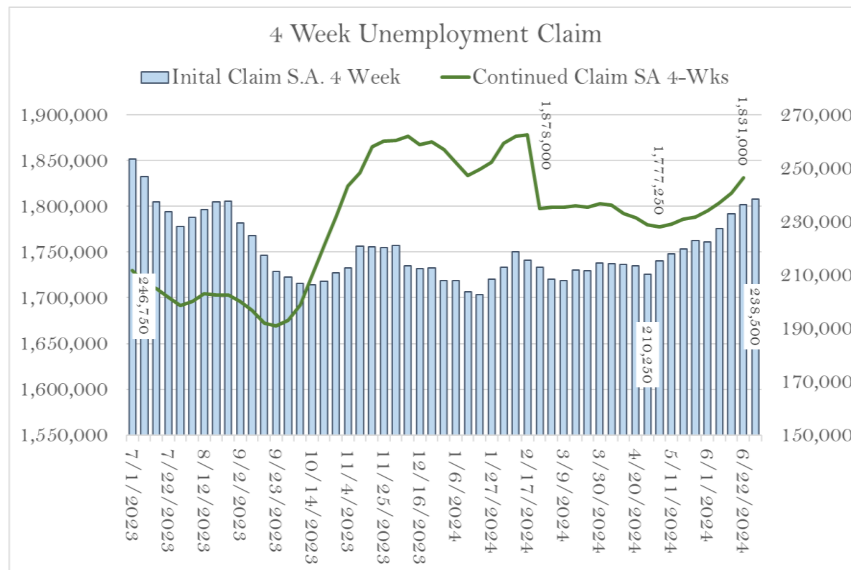
BLS, Experiential Wealth

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

Labor Market Data – June 2024





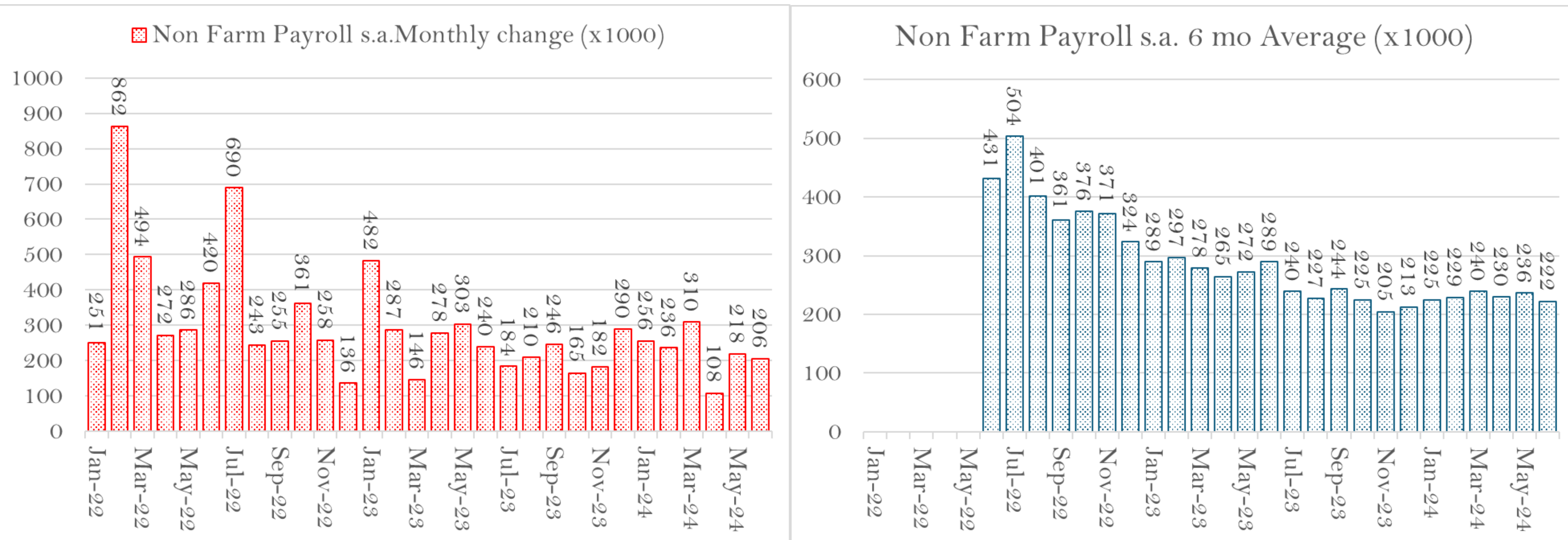


Initial unemployment claims and continued claims have both been moving higher since the last quarter. This consistency is also shown in the 4-week average for both statistics. At the same time, the number of people remaining in unemployment for 5 weeks to 14 weeks, 15 to 26 weeks, and 27 weeks or more have also increased. This means that people are staying a bit longer in unemployment looking for a job.

Source: BLS, Experiential Wealth

NEXUS338

Non-Farm Payroll Monthly and Trailing 6 Month Average



Non-farm payroll (i.e., those with jobs) continues to increase, and in June it was averaging 222,000 per month. Most of the increases came from State & Local Government and Social & Healthcare sectors.

Yes, it is slowing a bit but not falling off a cliff. As Chair Powell often states, the labor economy is coming more into balance. When it is too tight a labor market, there is inevitable wage pressure and that would support higher inflation or even higher inflation for longer.

NEXUS338

Non-Farm Jobs – Monthly change by Sector 06-2024

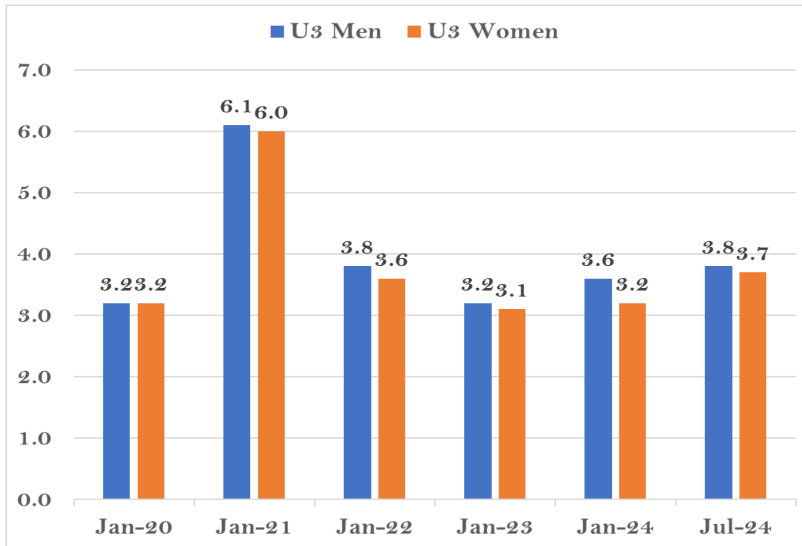
	Mar-24	Apr-24	Mar to April Change	May-24	April to May Change	Jun-24	May to June Change
Mining and logging	643	638	-5	634	-4	634	0
Construction	8,207	8,202	-5	8,218	16	8,245	27
Manufacturing	12,951	12,958	7	12,958	0	12,950	-8
Wholesale trade	6,159	6,165	7	6,167	2	6,181	14
Retail trade	15,662	15,676	14	15,683	7	15,675	-9
Transportation and warehousing	6,553	6,574	21	6,586	12	6,594	7
Utilities	587.4	587.4	0	588.7	1	589.6	1
Information	3,019	3,016	-3	3,021	5	3,027	6
Financial activities	9,226	9,223	-3	9,235	12	9,244	9
Professional and business services	22,953	22,936	-17	22,967	31	22,950	-17
Private education and health services	26,087	26,185	98	26,266	81	26,348	82
Leisure and hospitality	16,893	16,884	-9	16,906	22	16,913	7
Other services	5,896	5,900	4	5,908	8	5,924	16
Federal government	2,993	2,993	0	2,996	3	3,001	5
State government	5,444	5,448	4	5,439	-9	5,465	26
Local government	14,832	14,828	-4	14,859	31	14,898	39
Total nonfarm	158,106	158,214	108	158,432	218	158,638	206

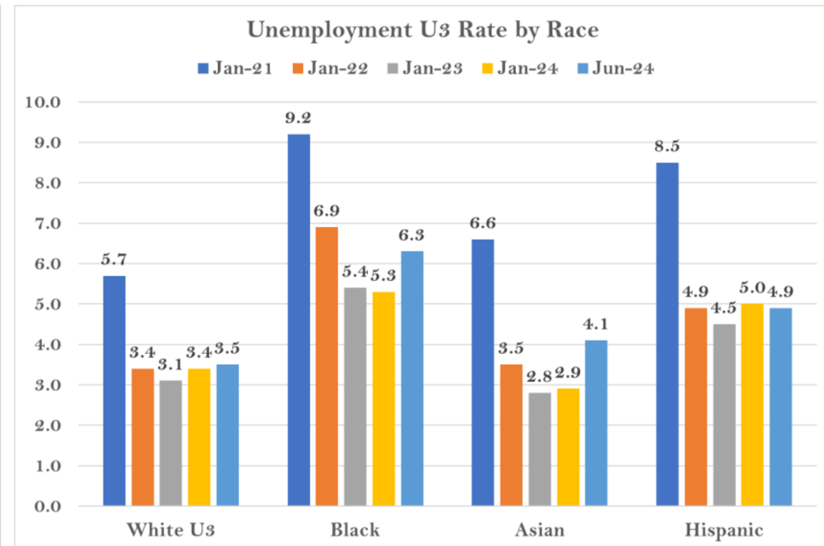
Source: BLS, Experiential Wealth 2024 06

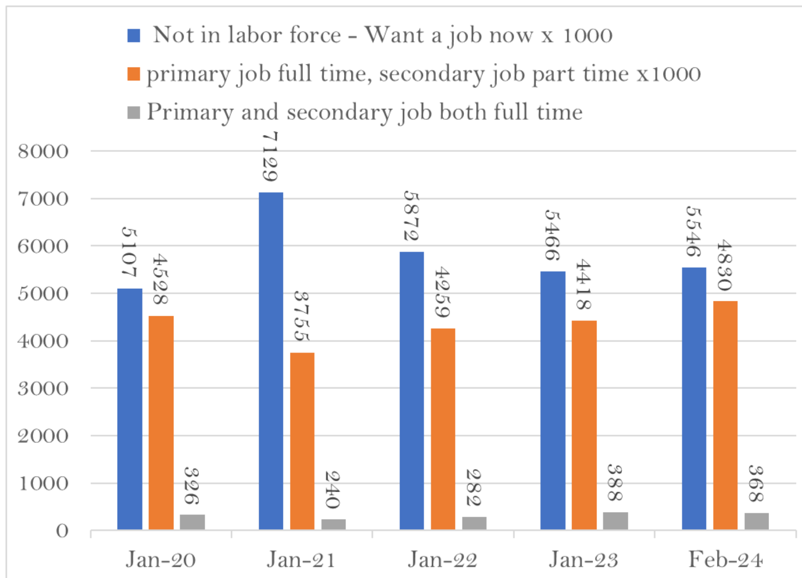
https://www.bls.gov/charts/employment-situation/employment-levels-by-industry.htm

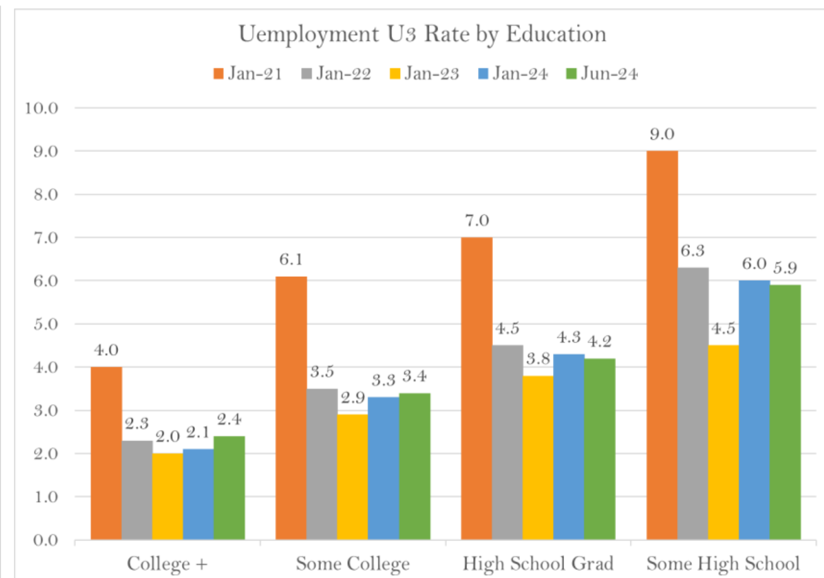
NEXUS338

Employment by Gender, Race, Education



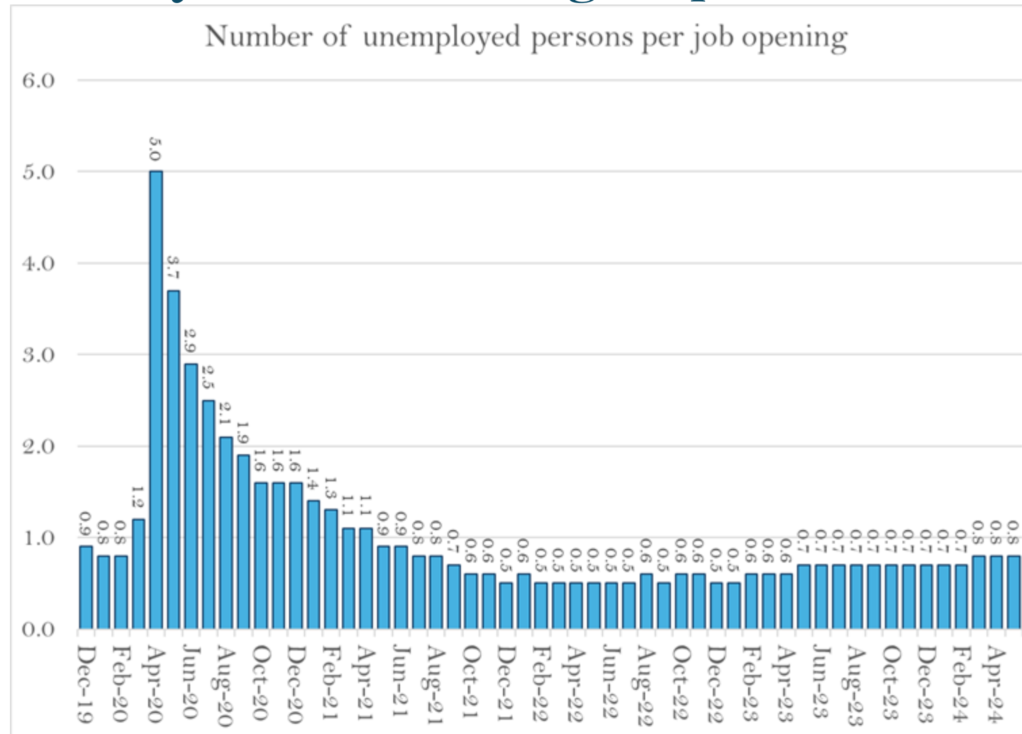






Source: BLS, Experiential Wealth

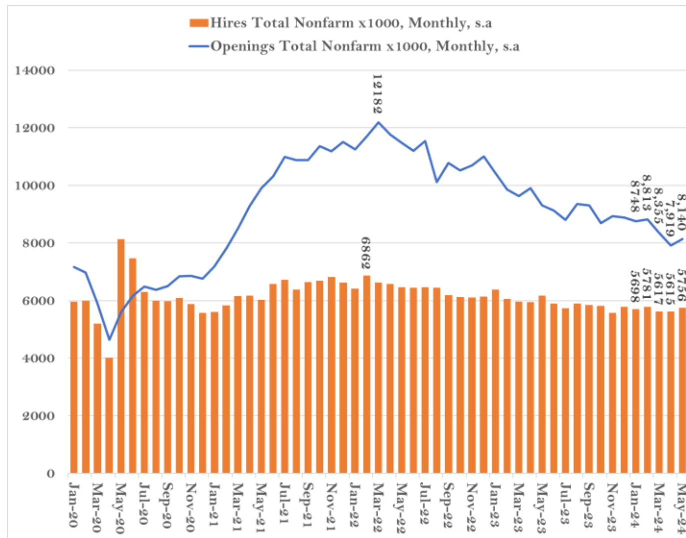
The Labor Economy – normalizing to pre-Covid era

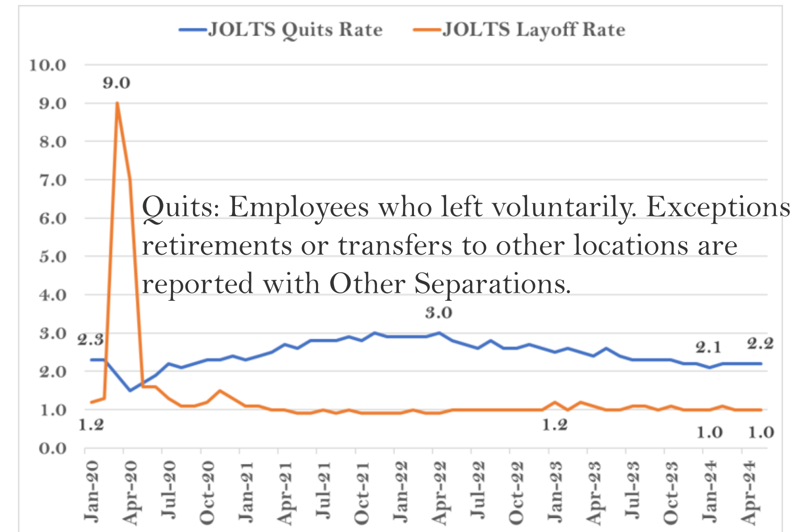


According to Moody's Analytics:
The May JOLTS report does not alter Moody's view of the labor market. Any previous concerns about the deterioration in hiring seem to be overblown as the recent rebound leaves the level of hiring nearly unchanged over the last year. The pace of hiring from 2021 and 2022 was clearly unsustainable, and while the hiring rate has dropped below the pre-pandemic average, this is due in part to the low level of quits and layoffs necessitating less hiring. Importantly, with the quit rate holding at a cycle low, it has taken some pressure off wage growth.
Job growth has been volatile of late but has averaged an impressive 250,000 over the last three months. The most recent JOLTS data imply a net job gain of 334,000 in May, a significant uptick from the 264,000 average in the first four months of the year as the rebound in hiring outpaced a modest increase in separations. While Moody's still expect that net job growth will cool slightly as the year goes on, all signs point to a strong close to second-quarter job gains.

Source: BLS & Experiential Wealth June 2024

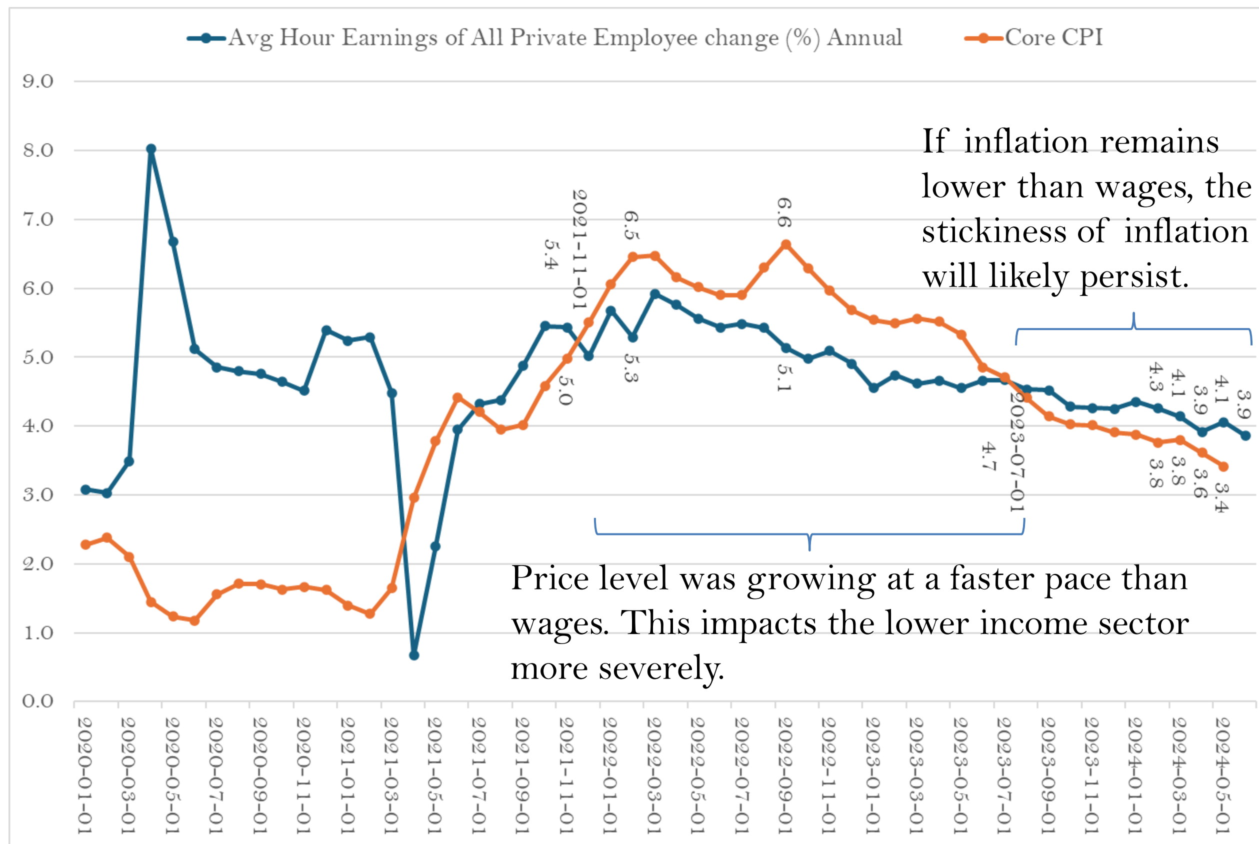
JOLTS Data – May 2024





		Feb-24	Mar-24	Apr-24	May-24	1 Mo Change	Feb-24	Mar-24	Apr-24	May-24	1 Mo Change
	Total	5781	5617	5615	5756	141	3.7	3.6	3.5	3.6	0.1
More Job Created 05-24	Professional and business services	1092.0	1113.0	1001.0	1114.0	**113.0**	4.8	4.9	4.4	4.8	0.4
	Construction	400.0	374.0	341.0	383.0	**42.0**	4.9	4.6	4.2	4.7	0.5
	Finance and insurance	115.0	115.0	123.0	145.0	**22.0**	1.7	1.7	1.8	2.2	0.4
	Other services	214.0	180.0	200.0	219.0	**19.0**	3.6	3.1	3.4	3.7	0.3
	Arts, entertainment, and recreation	207.0	193.0	153.0	171.0	**18.0**	7.9	7.3	5.8	6.4	0.6
	Real estate and rental and leasing	79.0	79.0	73.0	85.0	**12.0**	3.2	3.2	2.9	3.4	0.5
	State and local	354.0	341.0	333.0	341.0	**8.0**	1.8	1.7	1.6	1.7	0.1
	Mining and logging	20.0	20.0	15.0	19.0	**4.0**	3.2	3.1	2.3	3.0	0.7
	Wholesale trade	163.0	134.0	156.0	159.0	**3.0**	2.6	2.2	2.5	2.6	0.1
	Private educational services	82.0	91.0	94.0	94.0	**0.0**	2.1	2.3	2.4	2.4	0.0
Less Job Created 05-24	Information	89.0	86.0	80.0	78.0	**-2.0**	3.0	2.9	2.7	2.6	-0.1
	Federal	45.0	44.0	37.0	35.0	**-2.0**	1.5	1.5	1.2	1.2	0.0
	Health care and social assistance	778.0	786.0	804.0	801.0	**-3.0**	3.5	3.5	3.6	3.6	0.0
	Transportation, warehousing, and utilities	292.0	244.0	286.0	282.0	**-4.0**	4.1	3.4	4.0	3.9	-0.1
	Durable goods Manufacturing	176.0	182.0	232.0	224.0	**-8.0**	2.2	2.2	2.8	2.7	-0.1
	Nondurable goods Manufacturing	148.0	137.0	152.0	143.0	**-9.0**	3.1	2.9	3.2	3.0	-0.2
	Accommodation and food services	852.0	845.0	843.0	815.0	**-28.0**	6.0	5.9	5.9	5.7	-0.2
	Retail trade	676.0	654.0	693.0	647.0	**-46.0**	4.3	4.2	4.4	4.1	-0.3

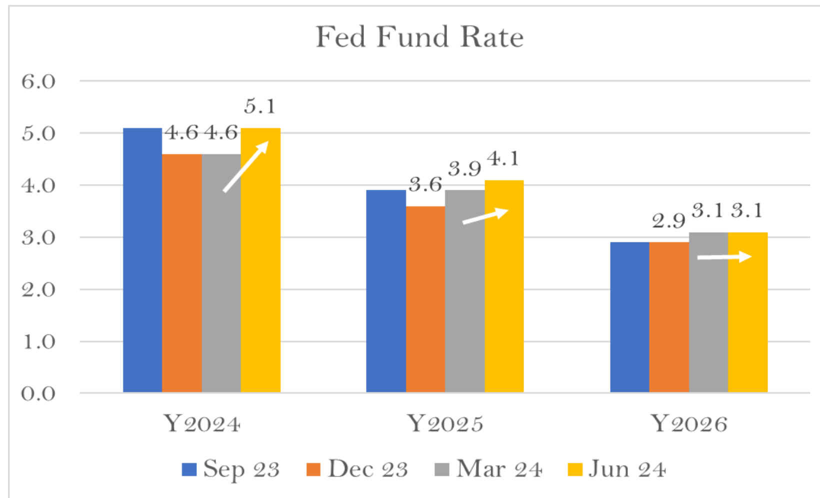
Wages vs Inflation since the Pandemic



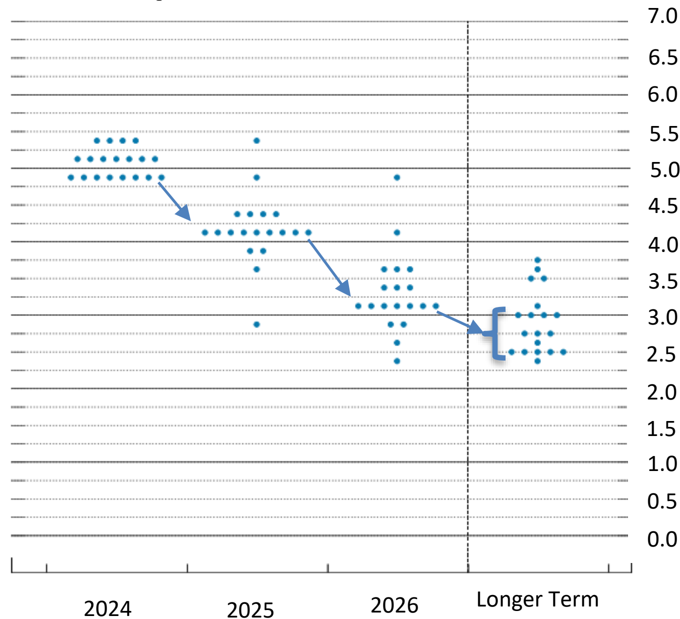
Core CPI started to rise in Feb 2021 and hit its high point in September 2022. As the economy recovers from the Pandemic, wages (average hourly earnings for all private industry workers) have fallen below the core CPI rate each month after November 2021 through July 2023. As inflation continued to fall, wages have been growing at a higher rate then core CPI since then. This latest data shows in May for example, wages were growing on an annualized basis at the rate of 4.1% while core CPI was at 3.4%

NEXUS338

Summary of Economic Projections (SEP) – Fed Fund Rate



Source: FOMC, Experiential Wealth



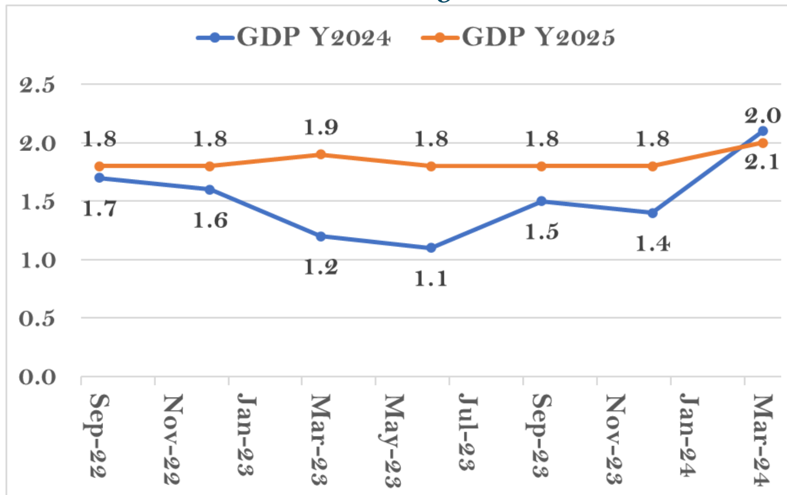
The median (among all FOMC members) rate for 2024 moved up from 4.6% to 5.1%. The dot plots suggest 4 members project no cuts in 2024 while 7 members project 1 rate cut and 8 project 2 rate cuts. For 2025, the median rate is at 4.1%, from, 3.9%. For 2026 the projection holds steady at 3.1%. These revised projections suggest higher for longer or fewer cuts than previous projections for 2024 and 2025.

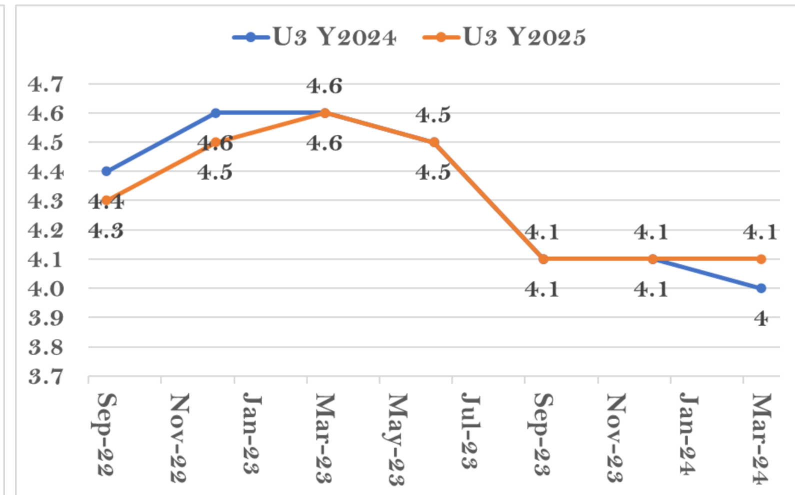
Please note that these dots change are based on incoming data and each regional bank survey. Investors should not solely rely on these dots as the definitive direction of the FOMC as a whole. Each member makes his/her best estimate based on respective regional economics and survey data to forecast rate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

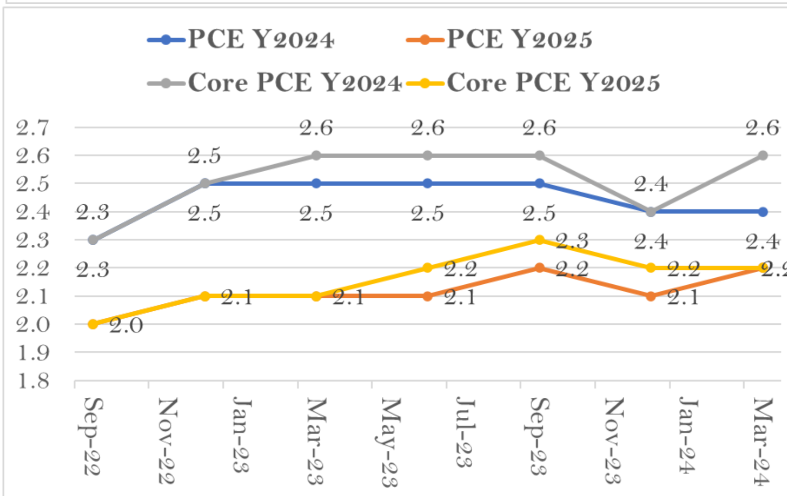
Be cautious that one is not over reliant on the dot plot, especially in today's highly uncertain economic and geopolitical environment. These dots could change quickly. The base case for most Fed officials, market economists, and investors remains a soft landing in 2024 with inflation continuing to trend lower toward the 2% target and softening in employment under a slowing economy. The question is if the real economy and the labor economy are "returning" to a normal economic state or is this the beginning steps towards the end of this economic cycle.

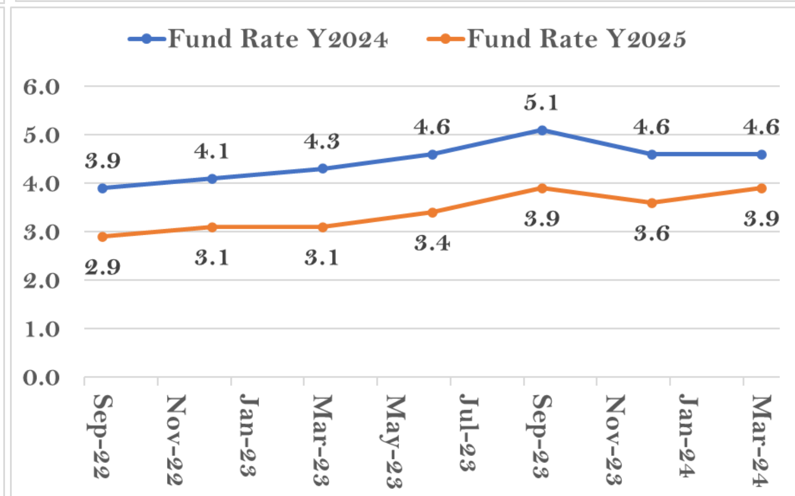
NEXUS338

SEP Medium Projection for 2024 & 2025 since 09-2022





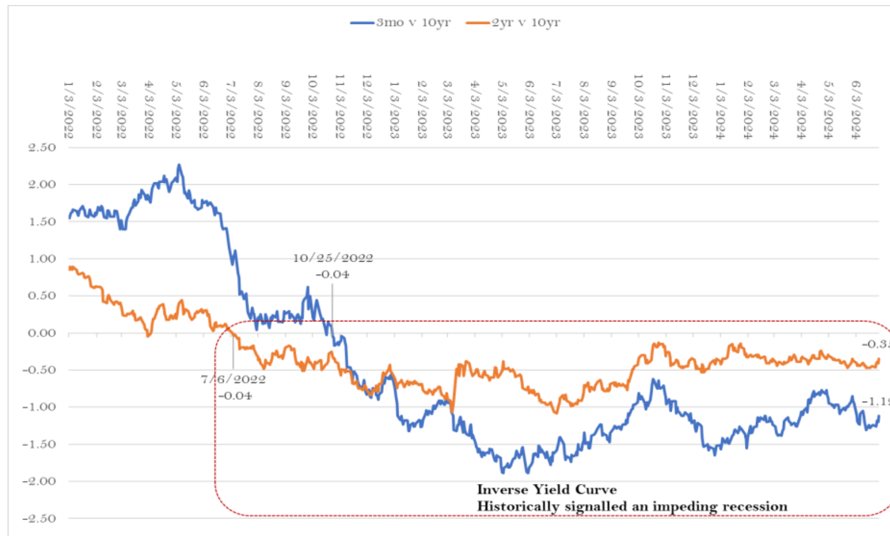


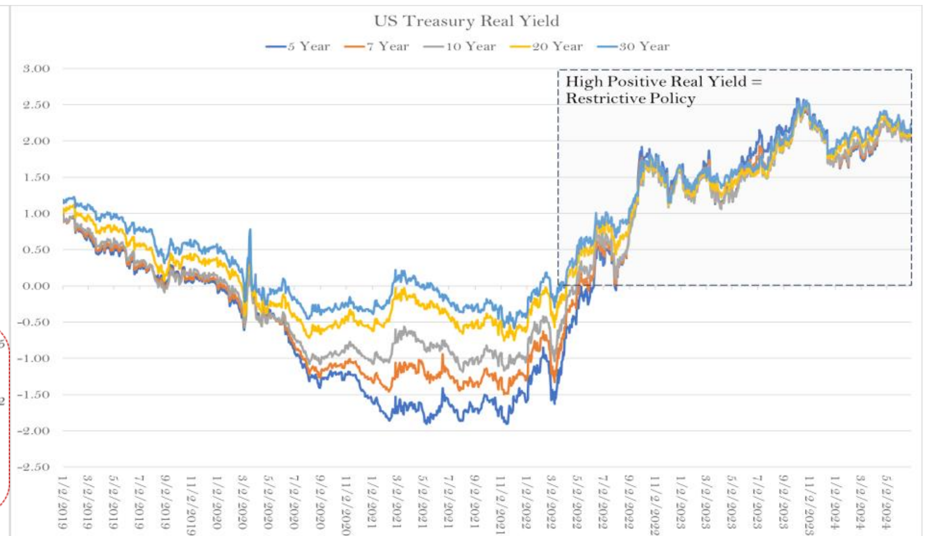


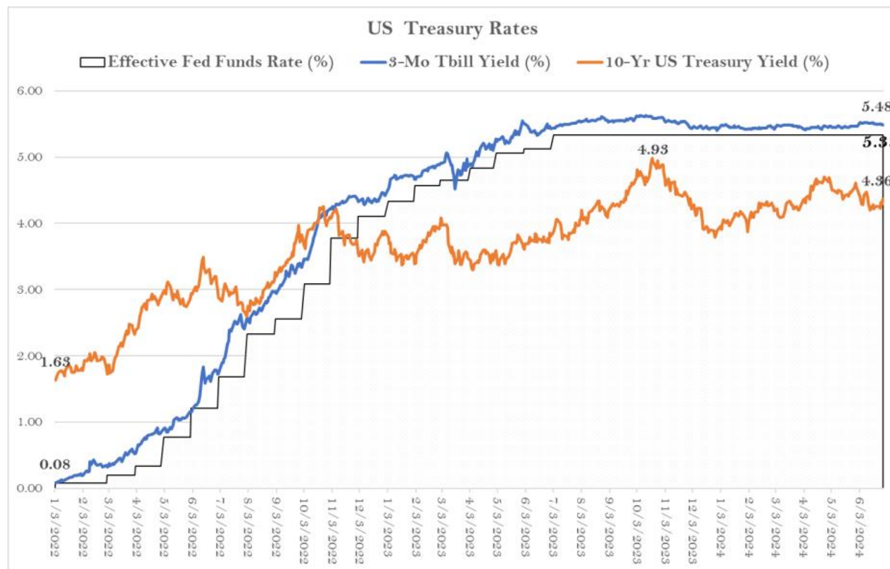
CURRENT IMTERPRETATION of the Dot Plot:
Higher economic growth in 2024 & 2025 (GDP) + lower unemployment in 2024 (U3) + higher core inflation in 2024 (Core PCE)

NEXUS338

U.S. Treasury Yield Curve – Nominal & Real







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

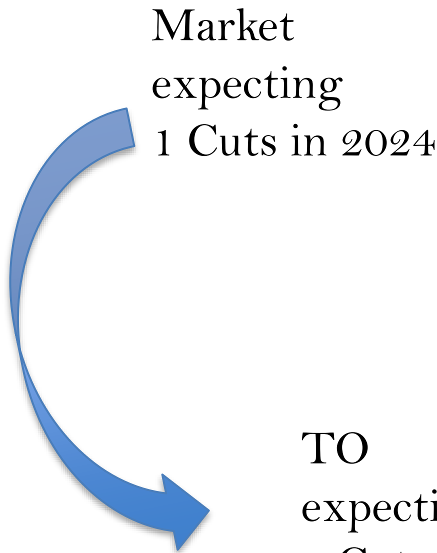
Interest rate yield curve remains negative (lower interest rates in the longer end vs the shorter end of the interest yield curve).

Real rates remain in positive rate territory. If the Fed keeps rates unchanged as inflation rate trends further downward, the real rates will naturally increase and become even more restrictive.

CME Fed Watch Tool – 2 cuts

Market
expecting
1 Cuts in 2024

6-7-2024	CME FEDWATCH TOOL - CONDITIONAL MEETING PROBABILITIES							
MEETING DATE	375-400	400-425	425-450	450-475	475-500	500-525	525-550	550-575
① 6/12/2024		0.0%	0.0%	0.0%	0.0%	0.6%	99.4%	0.0%
7/31/2024	0.0%	0.0%	0.0%	0.0%	0.1%	8.8%	91.1%	0.0%
9/18/2024	0.0%	0.0%	0.0%	0.0%	3.9%	45.0%	51.0%	0.0%
② 11/7/2024	0.0%	0.0%	0.0%	1.3%	16.9%	46.9%	34.9%	0.0%
12/18/2024	0.0%	0.0%	0.7%	10.4%	34.4%	39.9%	14.6%	0.0%



TO
expecting
2 Cuts in 2024

6-28-2024	CME FEDWATCH TOOL - CONDITIONAL MEETING PROBABILITIES							
MEETING DATE	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550
7/31/2024				0.0%	0.0%	0.0%	0.0%	12.4%	87.6%
① 9/18/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	7.1%	55.3%	37.7%
11/7/2024	0.0%	0.0%	0.0%	0.0%	0.0%	3.2%	29.2%	47.2%	20.4%
② 12/18/2024	0.0%	0.0%	0.0%	0.0%	1.9%	18.2%	39.6%	31.7%	8.6%

CME Fed Watch Tool[1] uses Fed Funds futures contracts to estimate the probability of a rate hike or cut. After the May 2024 FOMC meeting, the market projected one rate cut in November 2024 meeting. The market was digesting the small resurgence in inflation. After the June FOMC meeting and the latest economic (GDP, CPI, PCE and employment), the market is now expecting two rate cuts starting in September 2024.

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

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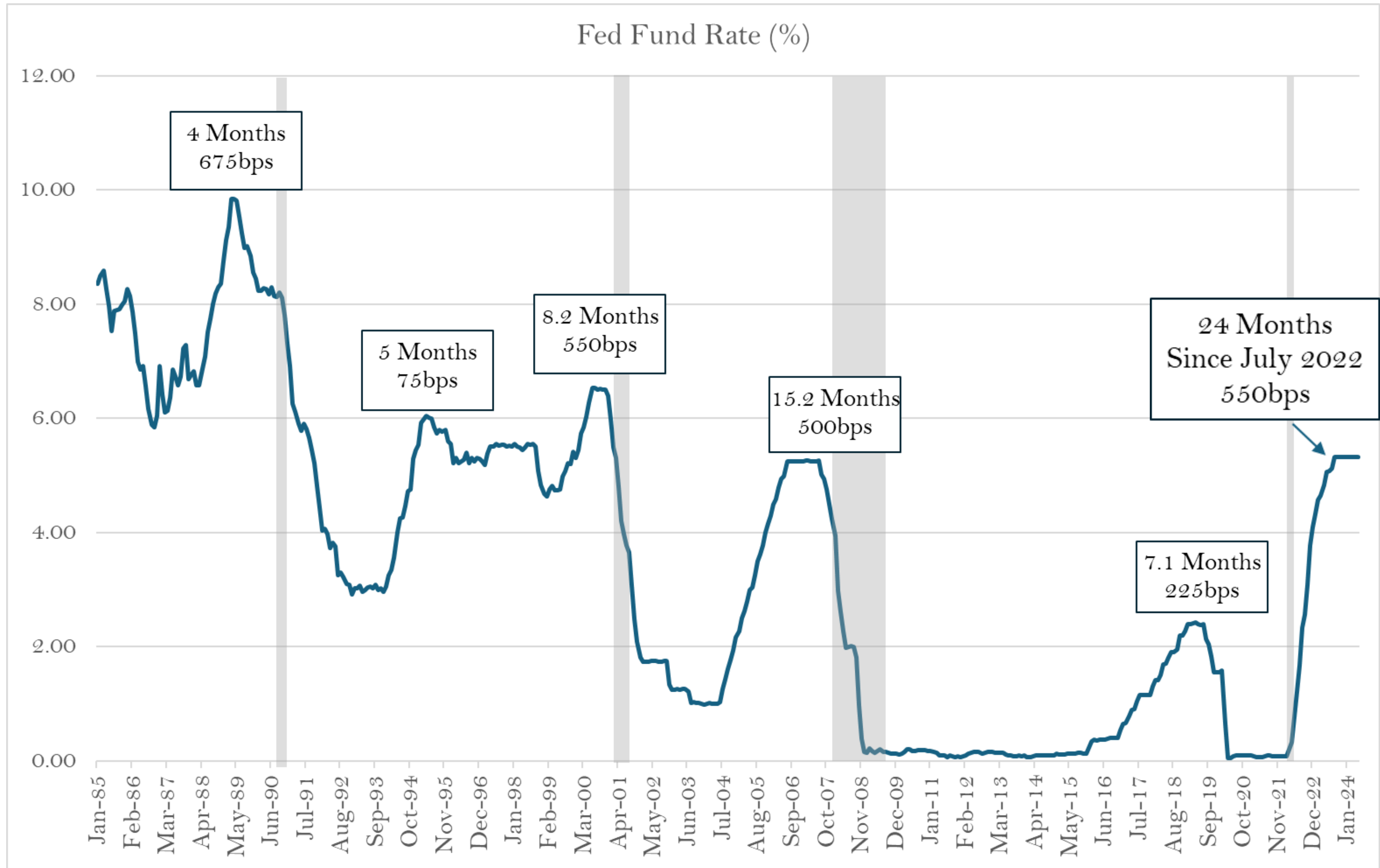
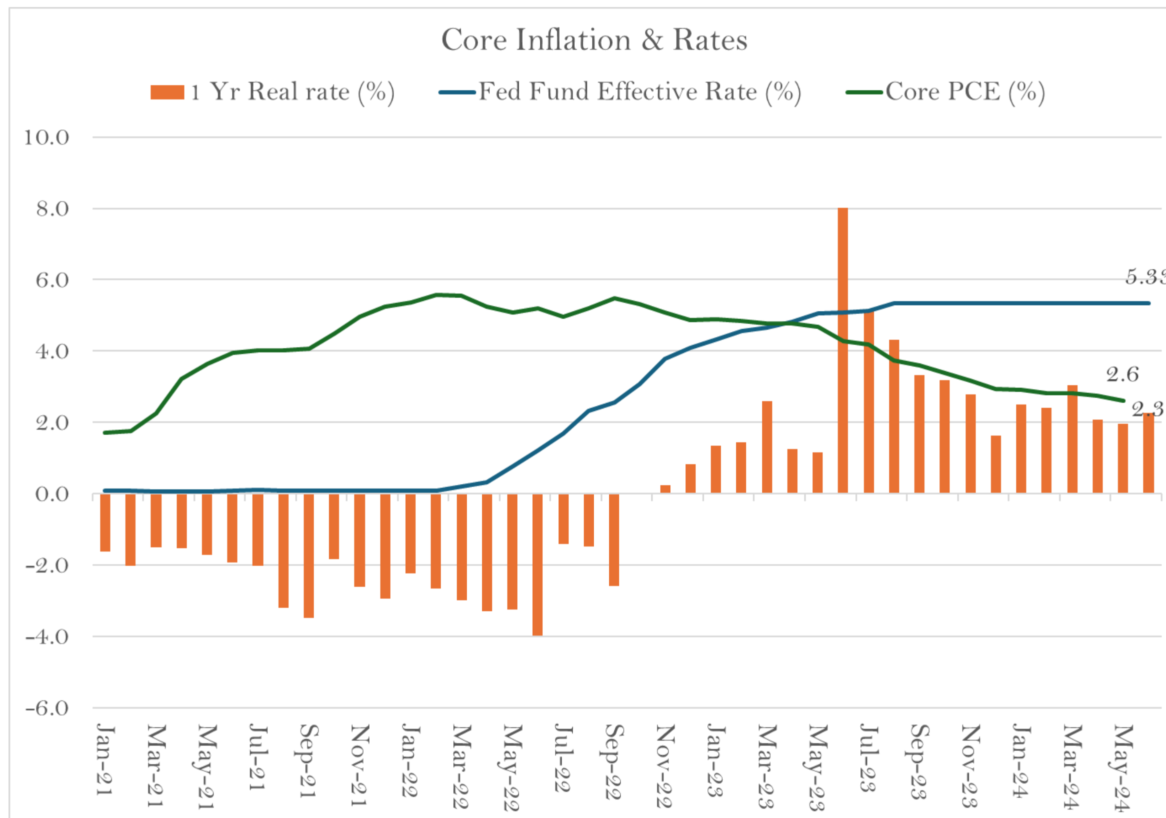
Rate Hiking Cycle – a recent history



NEXUS338

Restrictive Policy Rate – slow and variable lag

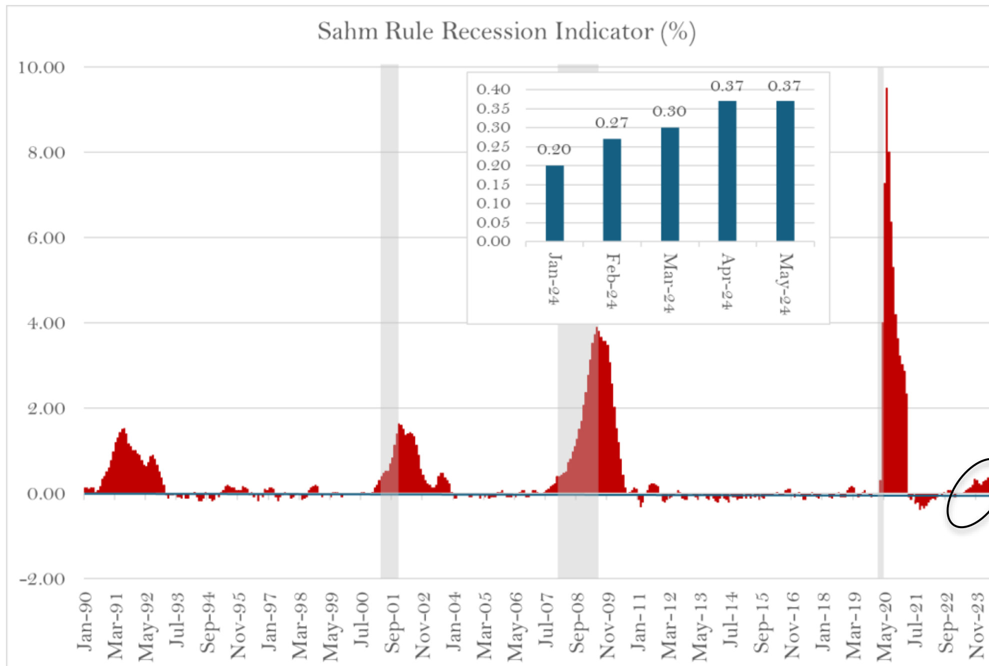


- Historically, the full impact of the Fed's rate hiking cycle is averaging around 14 to 24 months after the first rate hike, although the full range is 4- to 29-months[1], often referred to as the long and variable lag. This graph illustrates the delayed impact since the first rate hike in March 2022. July 2024 marks the 27th month since lift off. We are witnessing a gradual lowering of the inflation rate. The Fed is looking to cut rates this year, but the Fed wants to make sure that inflation is under control and moving towards the 2% target before shifting policy.

[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.

Sahm Recession Indicator – unemployment rate change

- Sahm Recession Indicator signals the start of a recession when the three-month moving average of the national unemployment rate (U3) rises by 0.50 percentage points or more relative to the minimum of the three-month averages from the previous 12 months
- The rule is based on history, and it has a strong precedent, that almost every time unemployment has risen past this threshold, a recession has ensued.



Claudia Sahm, an ex-central bank economist, published a step-by-step guide explaining how Sahm and the Fed calculate it. Here are the key points:

(1) Uses the three-month average of the monthly unemployment rate, instead of taking the latest rate in isolation.
(2) The current average is then compared with the lowest three-month average from the past year.
(3) The 12-month low is subtracted from the current three-month average, and if the difference is 0.5 percentage point or greater, it means the rule has triggered.

Source: FRED, Experiential Wealth, 2024 06 20
https://fred.stlouisfed.org/series/SAHMREALTIME

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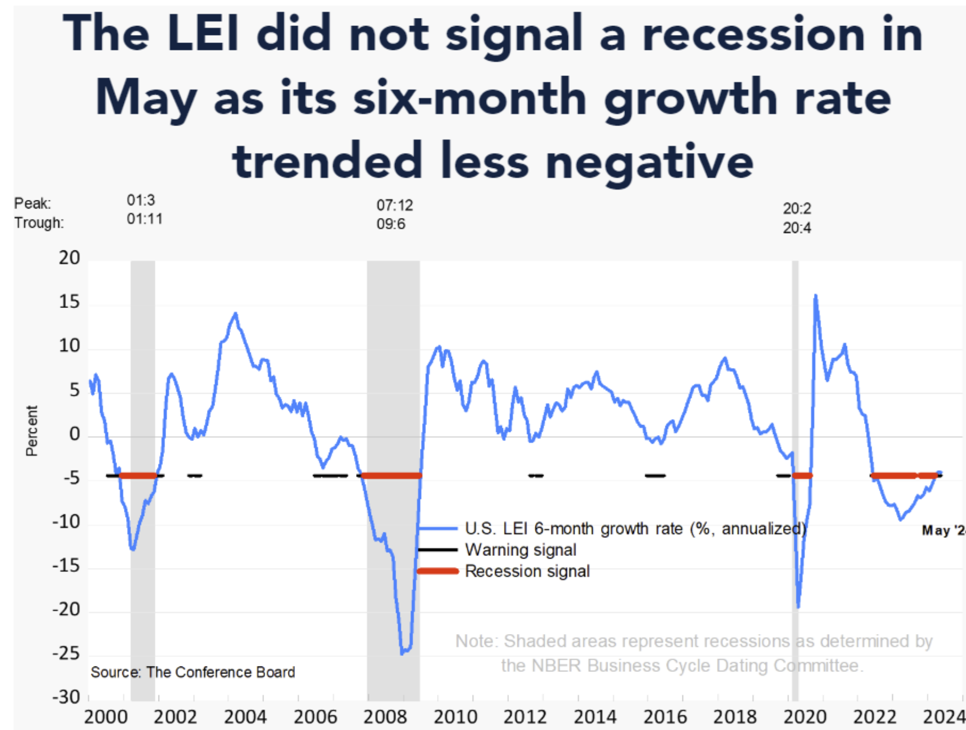
Conference Board Forecasts No Recession



- The chart illustrates the so-called 3Ds—duration, depth, and diffusion—for interpreting a downward movement in the LEI. Duration refers to how long the decline has lasted. Depth denotes the size of decline. Duration and depth are measured by the rate of change of the index over the most recent six months. Diffusion is a measure of how widespread the decline is among the LEI's component indicators—on a scale of 0 to 100, a diffusion index reading below 50 indicates most components are weakening.
- The 3Ds rule signals an impending recession when: 1) the diffusion index lies below 50, shown by the black warning signal lines in the chart; and 2) the LEI's six-month rate of decline falls below the threshold of −4.4 percent. The red recession signal lines indicate months when both criteria are met simultaneously—and thus that a recession is likely imminent or underway.

Our Investment Thinking (not advice)

- The financial, emotional, geopolitical, demographics, financial and economic impact and effects (especially exposing the system vulnerability and behavioral finance) from the Pandemic have a very long tail. Changes in some areas are more structural and fundamental rather than simply a passing moment in time and returning back to the past.
- We started with the shortest and severe recession on record combined with the largest fiscal transfer with uber dovish monetary policies unleashed. Since then, supply chain recovered and exposed vulnerabilities with national security implications; inflation spiked, and price levels gradually stabilized. Labor market was tight initially due to immigration, long COVID and retirement and now closer to a supply and demand rebalance. The economy also grew with companies showing their ability to pass on increased prices and consumers willingness to pay which led to higher revenue and profit; thanks to higher inflation and the Federal Government for the bail out money.
- Soon or later all these temporary conditions will come to an end, as they should, and "normalcy should step in. We are still experiencing that journey today with higher inflation, higher interest rates, and discontent around the world about their government and how the Pandemic era policies and inflation have further exacerbated the income and wealth divide. Let's also throw into the mix the geopolitical instability from Russia-Ukraine-EU to Israel-Hamas-Middle East to US-China as well as country specific political instabilities. It seems that we cannot stay in power if we play nice and get along. We have a grievance-stricken world where the majority are dissatisfied. Oh, don't forget about how climate change effects are and will continue to have real impacts on all of us, but even more so on the vulnerable.
- The future is always uncertain and unpredictable no matter how much we try to anticipate. It is unknowable. As such, from a portfolio construction standpoint, what has been tried-and-true should continue to be the foundation for asset allocation – DIVERSIFICATION. Even investment professionals fall prey to the trade off between greed and fear. Emotion and the justification for such behavior would cause us all to sooner or later make mistakes. We all understand that, at times, an asset class moving upward seems unstoppable, and draws people in. This has seldom ended well. In times of enhanced uncertainty, confirming investment objectives, time horizon, liquidity needs, and expectations is critical. Thereafter, properly diversify the investment portfolio among investments that are not highly correlated (i.e., moving up and down at the same direction at the same time). Then finally, rebalance over time the portfolio back to the "neutral" position.

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Our Investment Thinking (not advice)

- The benefit of diversification is NOT delivering the highest return possible under all market conditions. Quite the contrary, a diversified portfolio is one that offers portfolio stability, within reason, where the extreme ups and downs cancel each other out and we're looking for a long-term payoff. Never confuse investing from trading.
- We continue to favor quality stocks with high free cash flow. This is the same for fixed income. We prefer investment grade and high up in the capital structure. As the economy slows from here forward, more caution about taking risk is warranted.
- We are in the one rate cut camp for 2024 unless the economy and employment show more severe warning signs of a slow down. As such, short-term high quality fixed income is an easy decision for now even considering re-investment risk.
- There are opportunities in emerging markets, but watch out for currency exchange risk. Every currency pair may have its own unique reasons for strength or weakness. However, with the higher for longer US interest rate and a strong (thus far) economy and the occasional geopolitical risks, the Dollar remain resilient against other currencies.
- Private markets (assuming a good understanding of liquidity need) such as infrastructure, private credit, and long-term private equities remain interesting. But picking the segment of the private markets where exposure makes sense and selecting the manager carefully is the key.
- Finally, the labor market is now the cannery in the coal mine for Fed policy. We do not take the position that the labor market will significantly weaken from this point. We believe that a major part of the recent weakening trend is likely a normalization or continuing rebalancing of the labor economy. Even a 4.3% unemployment rate is not necessarily a disaster. However, we are more concerned about the consumer (bottom 70%) and their ability or willingness to continue spending at the current high price levels. Service sector represents roughly 70% of the US economy. Perhaps what we are seeing is just the beginning of the end of an extraordinary economic cycle punctuated by the Pandemic.
- We maintain that core inflation (sticky CPI or PCE) will remain higher than the past (we are not talking about super high here). This means even when the Fed cuts it will be more controlled and contained.

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