Signature Financial Group, LLC

Point of View
Economy – Markets – Investment Strategy
December 2023

Important Information

The views and opinions expressed are those of the speaker and are subject to change based on factors such as market and economic conditions. These views and opinions are not an offer to buy a particular security and should not be relied upon as investment advice. Past performance cannot guarantee comparable future results.

Important Information

Performance quoted is past performance and cannot guarantee comparable future results; current performance may be higher or lower.

Results shown assume the reinvestment of dividends.

An investment cannot be made directly in an index.

Investments with higher return potential carry greater risk for loss.

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

Foreign securities have additional risks, including exchange rate changes, political and economic upheaval, the relative lack of information about these companies, relatively low market liquidity and the potential lack of strict financial and accounting controls and standards.

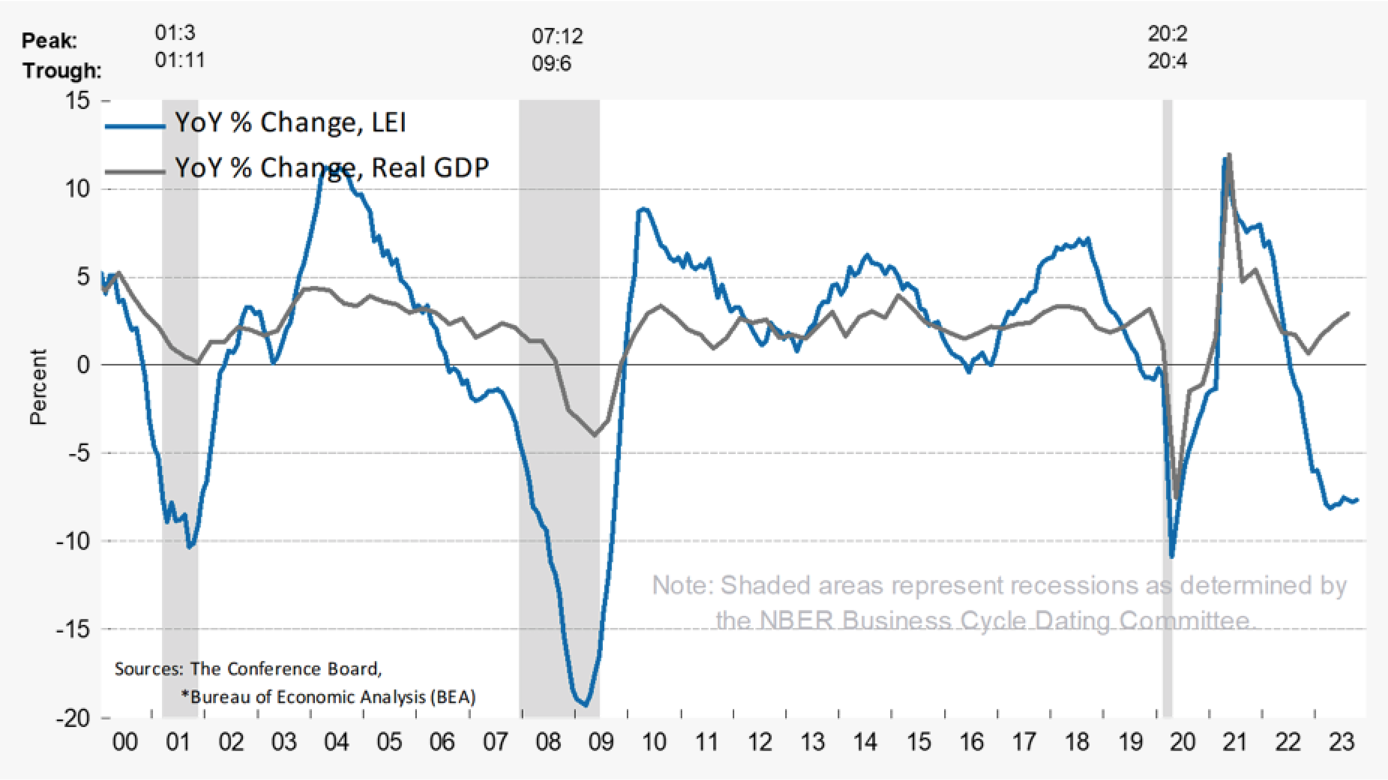
Investing in emerging markets involves greater risk than investing in more established markets such as risks relating to the relatively smaller size and lesser liquidity of these markets, high inflation rates, adverse political developments and lack of timely information.

Fluctuations in the price of gold and precious metals often dramatically affect the profitability of the companies in the gold and precious metals sector. Changes in political or economic climate for the two largest gold producers, South Africa and the former Soviet Union, may have a direct effect on the price of gold worldwide.

Soft landing rally

- cooling inflation
- cooling economy
- no recession in the forecast
- Fed finished

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



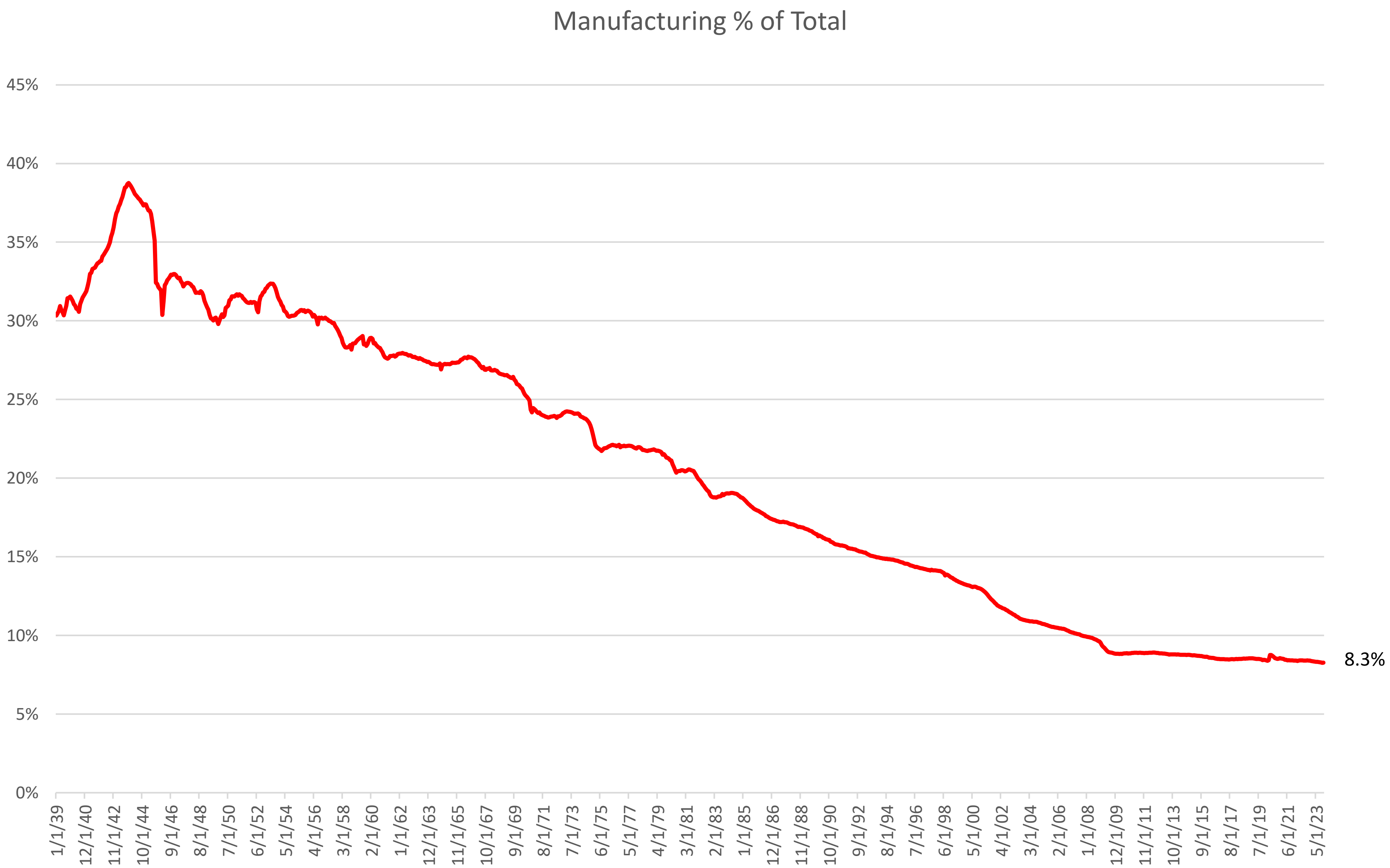
"The Conference Board expects elevated inflation, high interest rates, and contracting consumer spending—due to depleting pandemic saving and mandatory student loan repayments—to tip the US economy into a very short recession. We forecast that real GDP will expand by just 0.8 percent in 2024."

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

The Conference Board Leading Economic Index® (LEI) components: 1) average weekly hours worked, manufacturing; 2) average weekly initial unemployment claims; 3) manufacturers' new orders – consumer goods and materials; 4) ISM index of new orders; 5) manufacturers' new orders, nondefense capital goods; 6) building permits – new private housing units; 7) stock prices, S&P 500; 8) Leading Credit Index™; 9) interest rate spread; 10-year Treasury minus fed funds; 10) index of consumer expectations.
Source: ©The Conference Board. Data through October released November 20, 2023.

Economic data

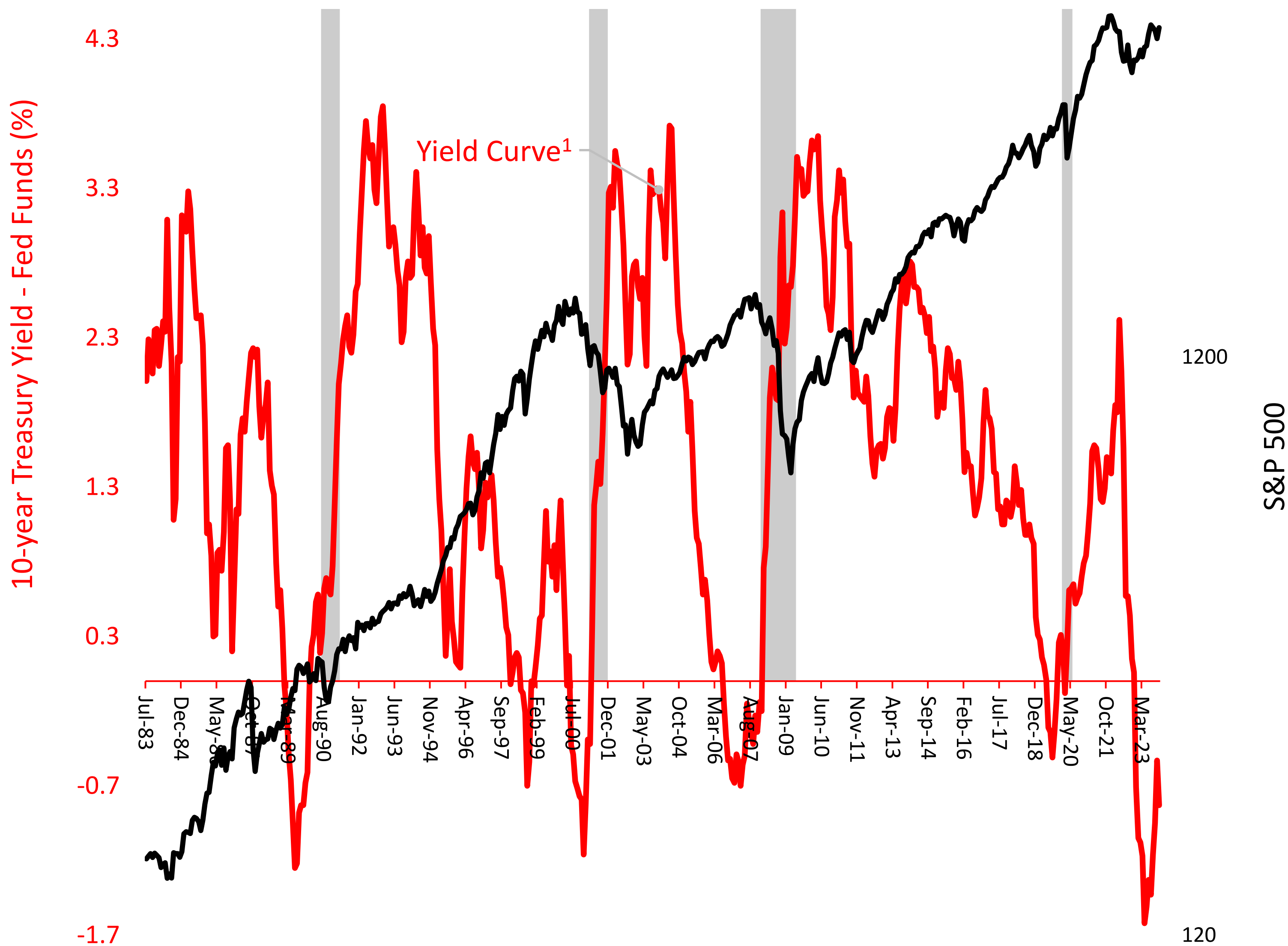
Manufacturing jobs % of total employment



Source: BLS. Data through November 2023.

Federal Reserve policy

Yield curve vs. the S&P 500

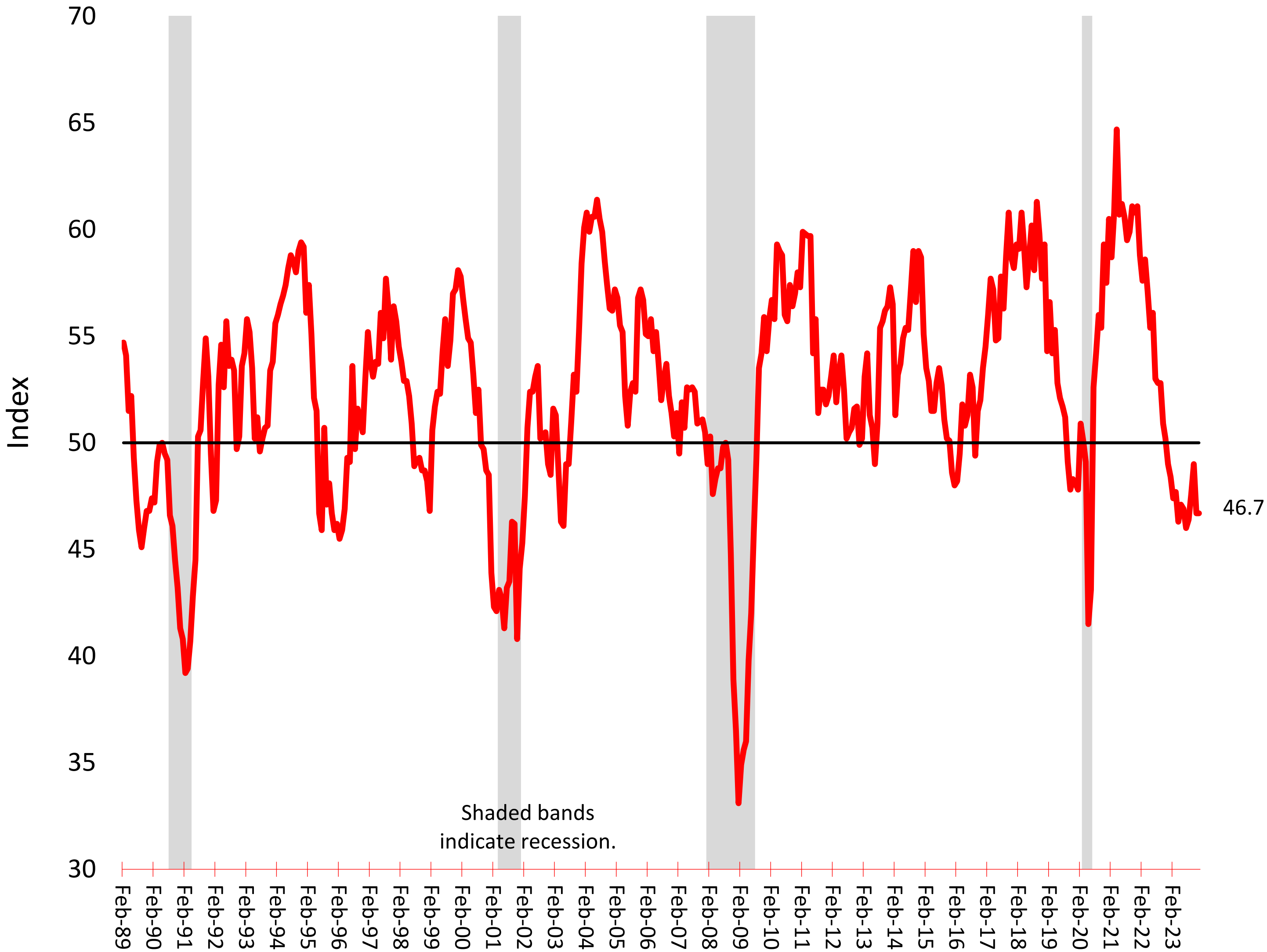


When the yield curve has inverted the economy has usually turned down into recession with a lag of a year or more.

Today, the yield curve is inverted.

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

ISM manufacturing PMI



November at 46.7.

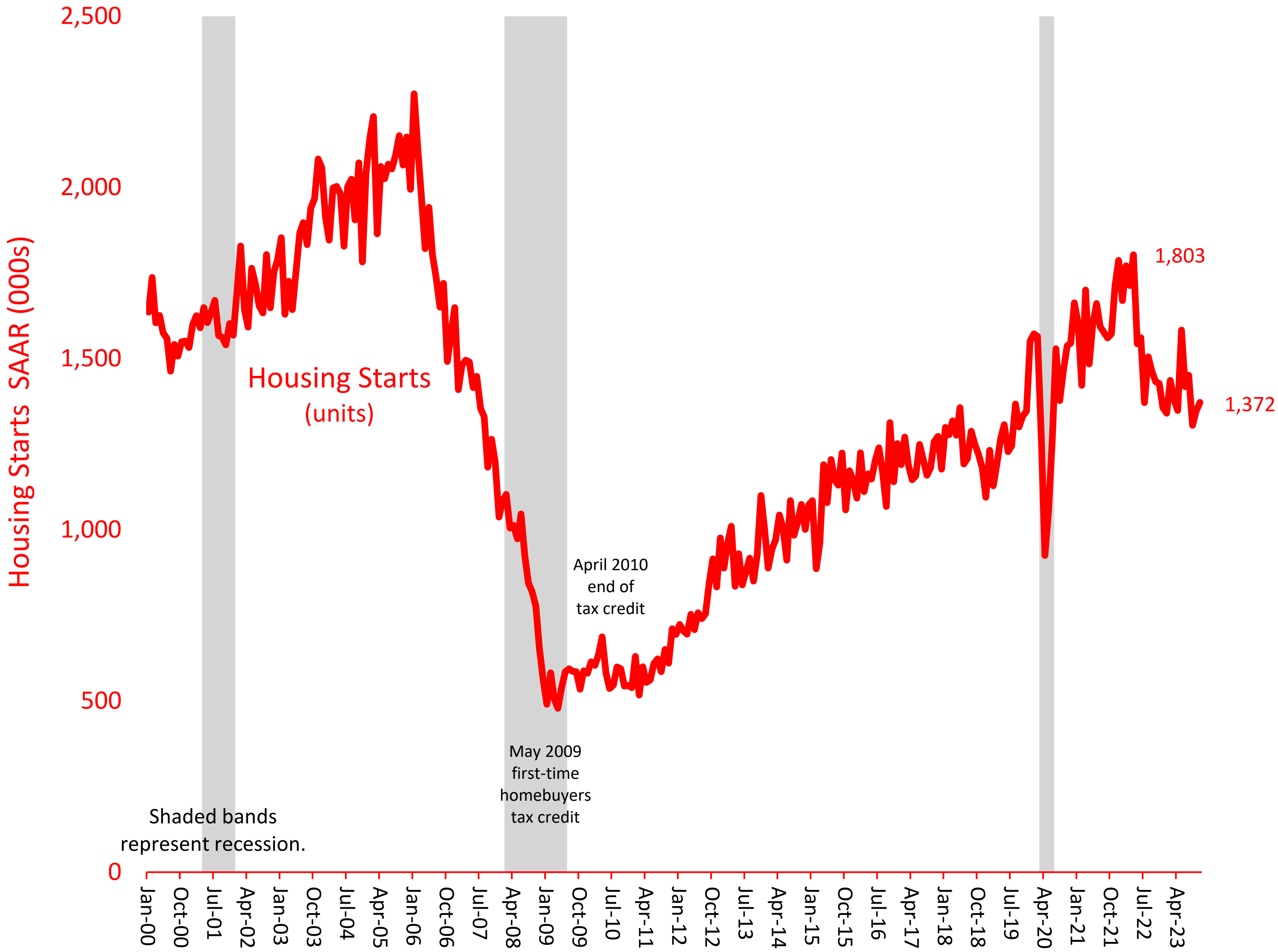
November new orders 48.3.

Note the historic volatility in the manufacturing PMI.

Note how this indicator has slumped well below 50 even during periods of strong economic expansion, eg. 1995, 1999, 2003, 2013, 2016.

Source: Copyright 2023, Institute for Supply Management. Data through November 2023.
ISM: “A reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally contracting. A Manufacturing PMI® above 48.7 percent, over a period of time, generally indicates an expansion of the overall economy.”

Housing starts



1.372 million starts in October.

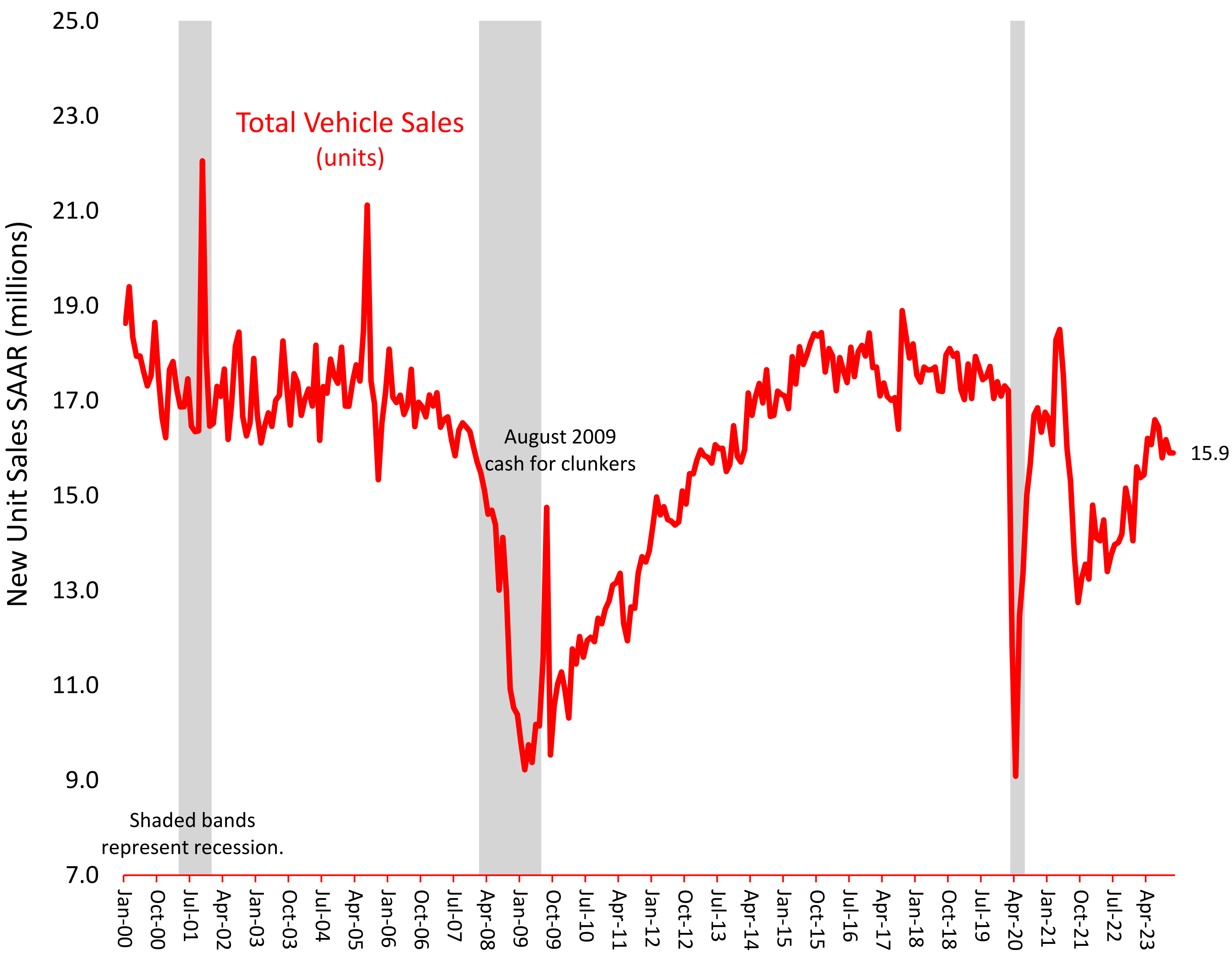
October permits at 1.487 million.

"Housing starts also remain(ed) well below the projected rate of 1.6 to 1.8 million that is consistent with long-term demographics and the replacement of the existing housing stock (Herbert, McCue, and Spader 2016)." [1]

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

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

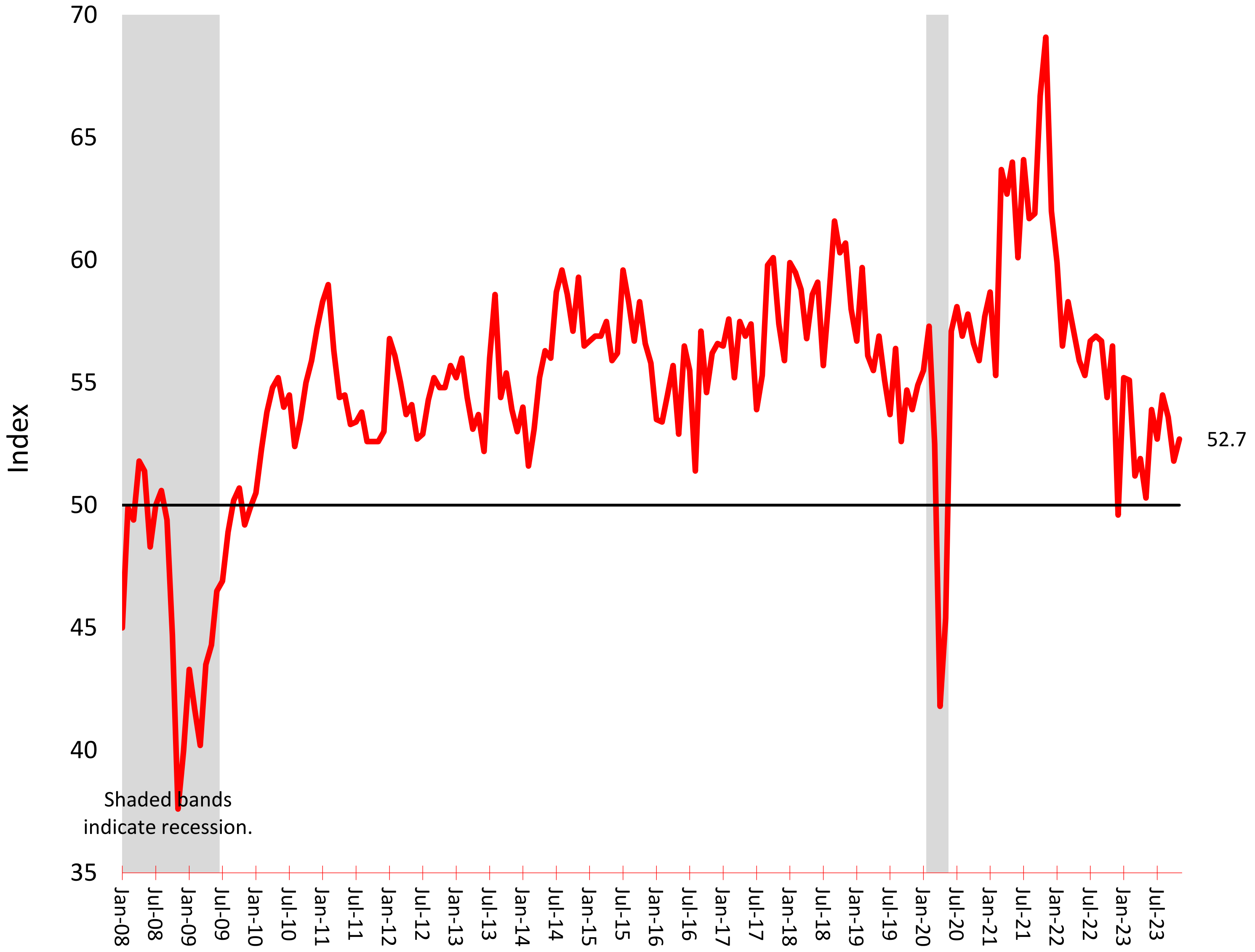
Vehicle sales



Car sales holding up.

Sources: BEA. Data through November 2023.

ISM services PMI



November at 52.7.

November new orders 55.5.

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

Source: Copyright 2023, Institute for Supply Management; data through November 2023. This data series was created in 2008. ISM: "A reading above 50 percent indicates that the services sector economy is generally expanding; below 50 percent indicates that it is generally contracting." "A Services PMI® above 50.1 percent, over time, generally indicates an expansion of the overall economy." [1]Value added as a percent of GDP.

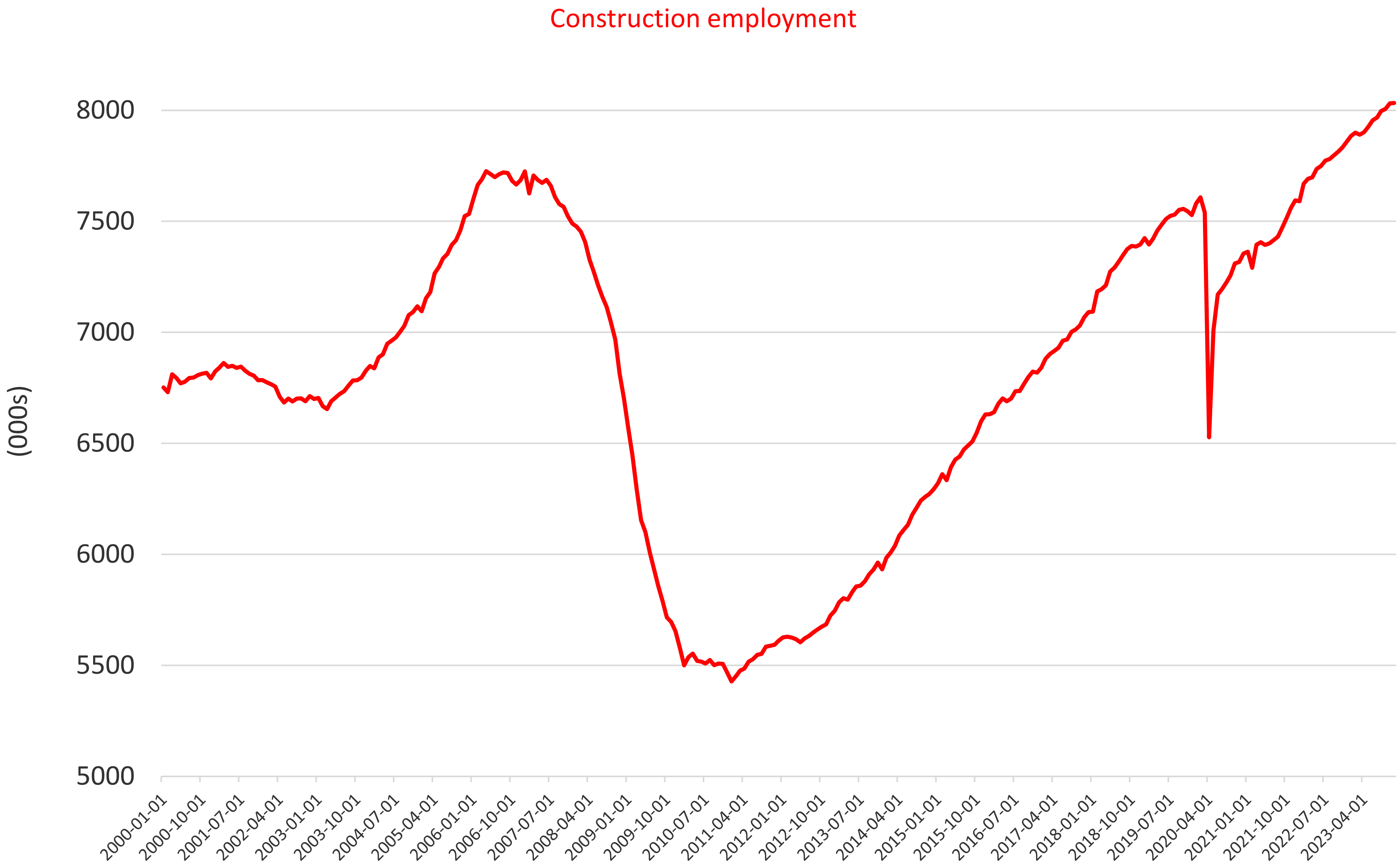
Construction boom

THE WALL STREET JOURNAL.

Excavator Sales Surge to Record on Heels of Boom in Construction

Source: *The Wall Street Journal.* “Excavator Sales Surge to Record on Heels of Boom in Construction”, by Bob Tita. June 9, 2023.

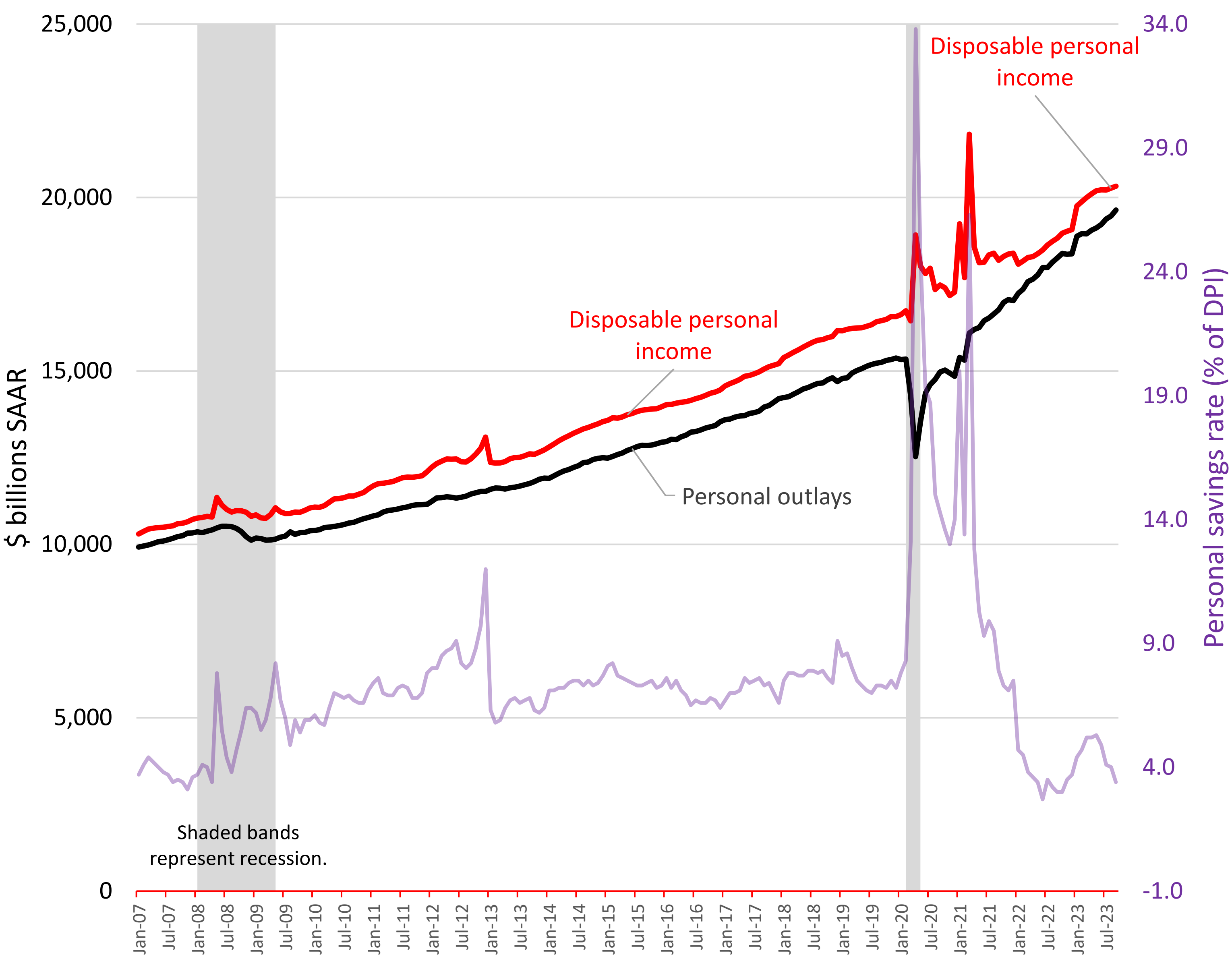
Construction employment – record high



Source: BLS. Data through November 2023.

Consumer income

Disposable personal income, spending and saving



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

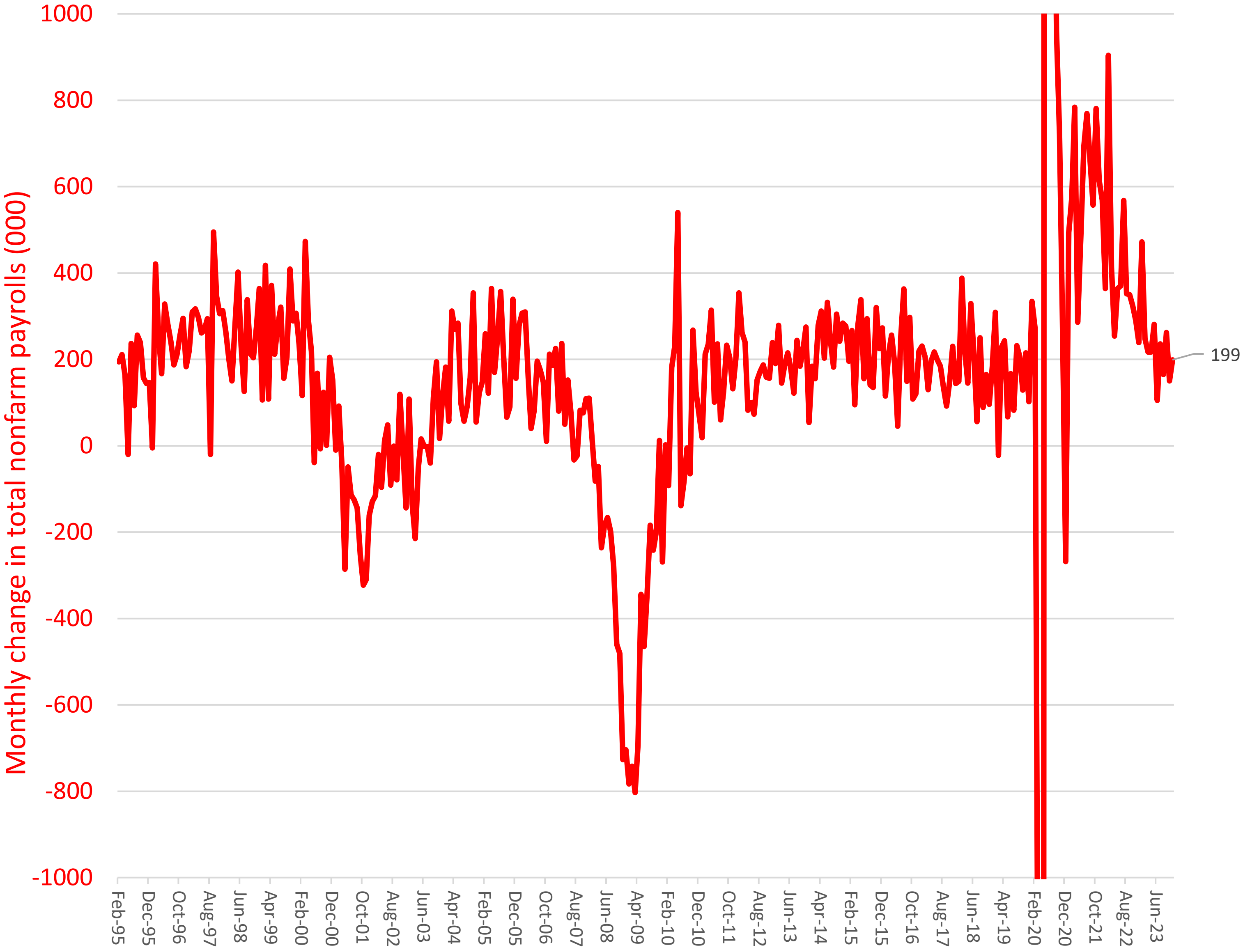
DPI up +7.9% y/y.

Personal outlays up +7.6% y/y.

The savings rate, at 3.4%, is below pre-Covid levels.

Economic data

Net new job formation — cooling

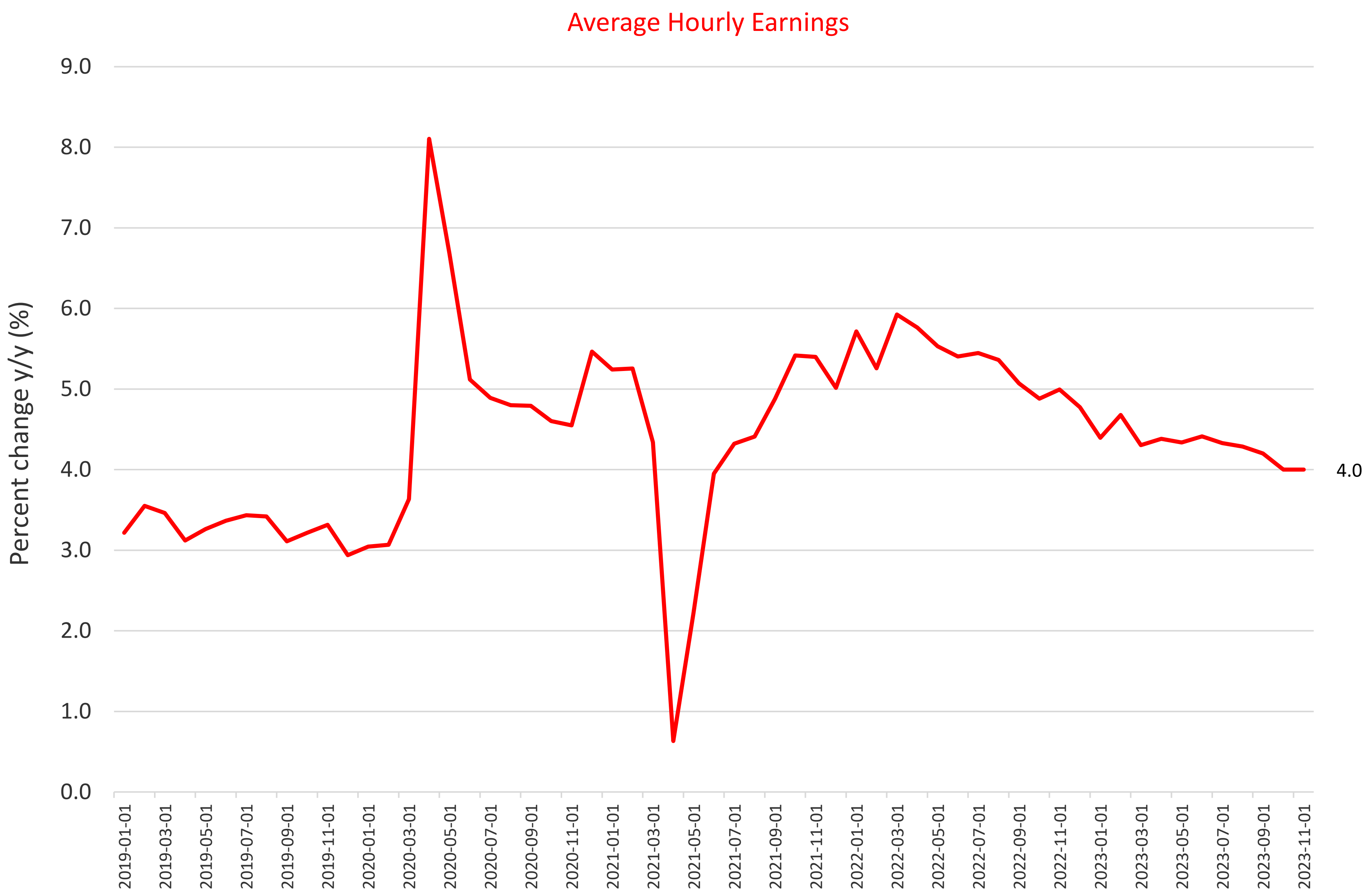


199,000 jobs gained in November on the establishment survey.

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

Economic data

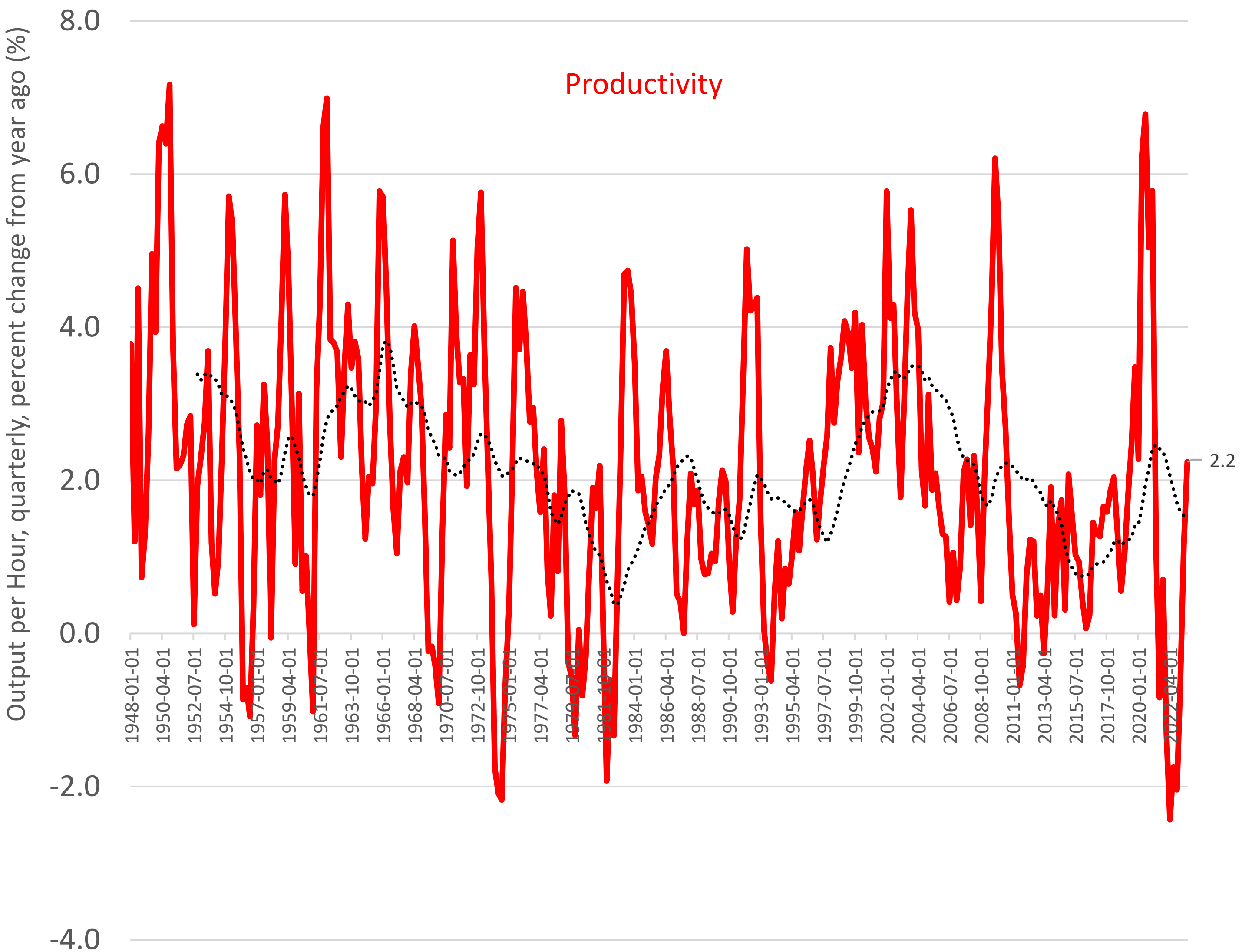
Average hourly earnings – y/y rate of change



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

GDP growth potential = Δ productivity + Δ labor force

Productivity

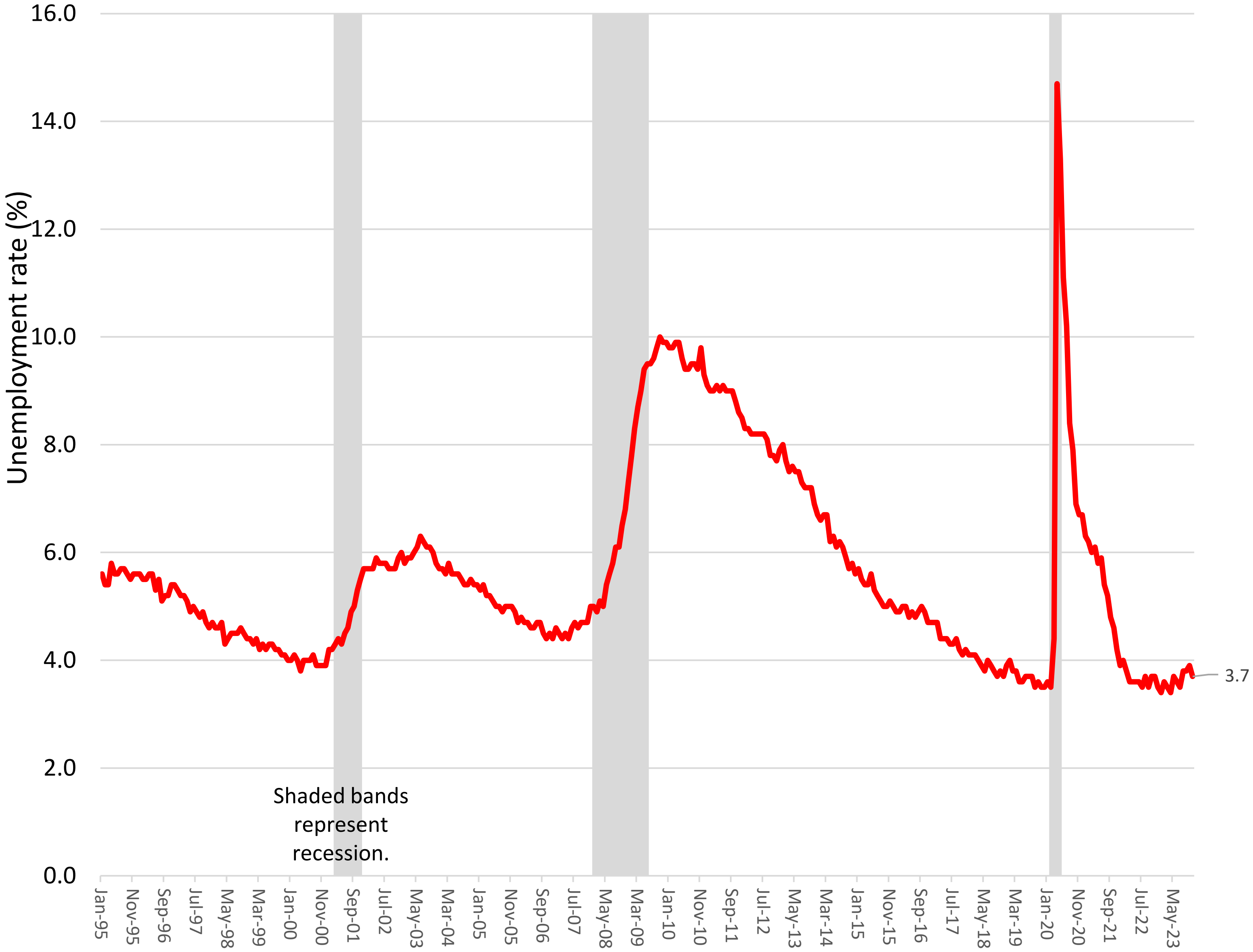


Productivity gains partially offset wage gains.

Source: FRBSL, quarterly data through September 2023. Dotted line is the 5-year moving average.

Economic data

Unemployment rate

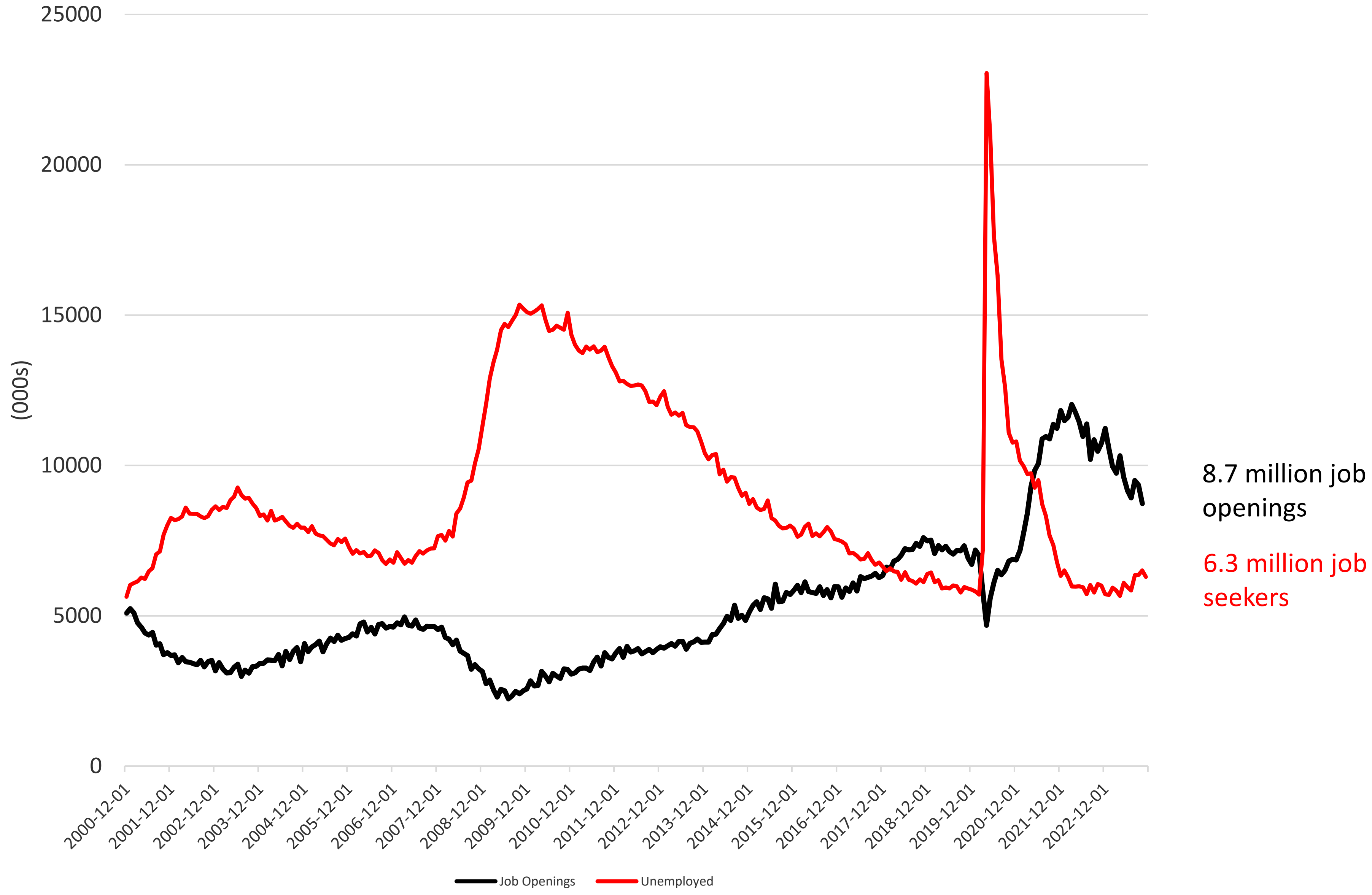


3.7% in November.

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

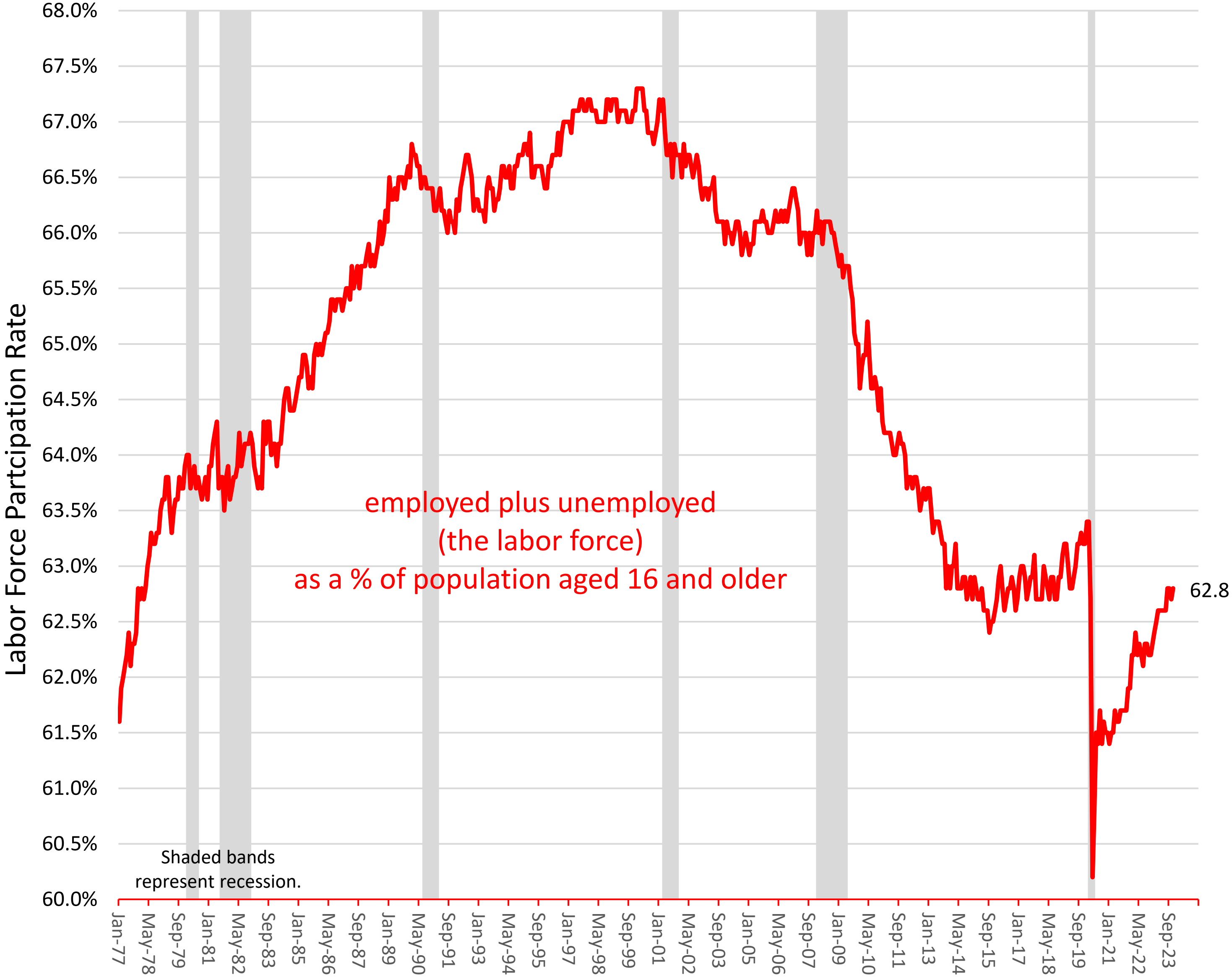
Economic data

“Excess demand” for labor – this time is different



Source: Bureau of Labor Statistics. Data through October 2023 for job openings, November 2023 for unemployed.

Labor force participation rate[1] – recovering from Covid



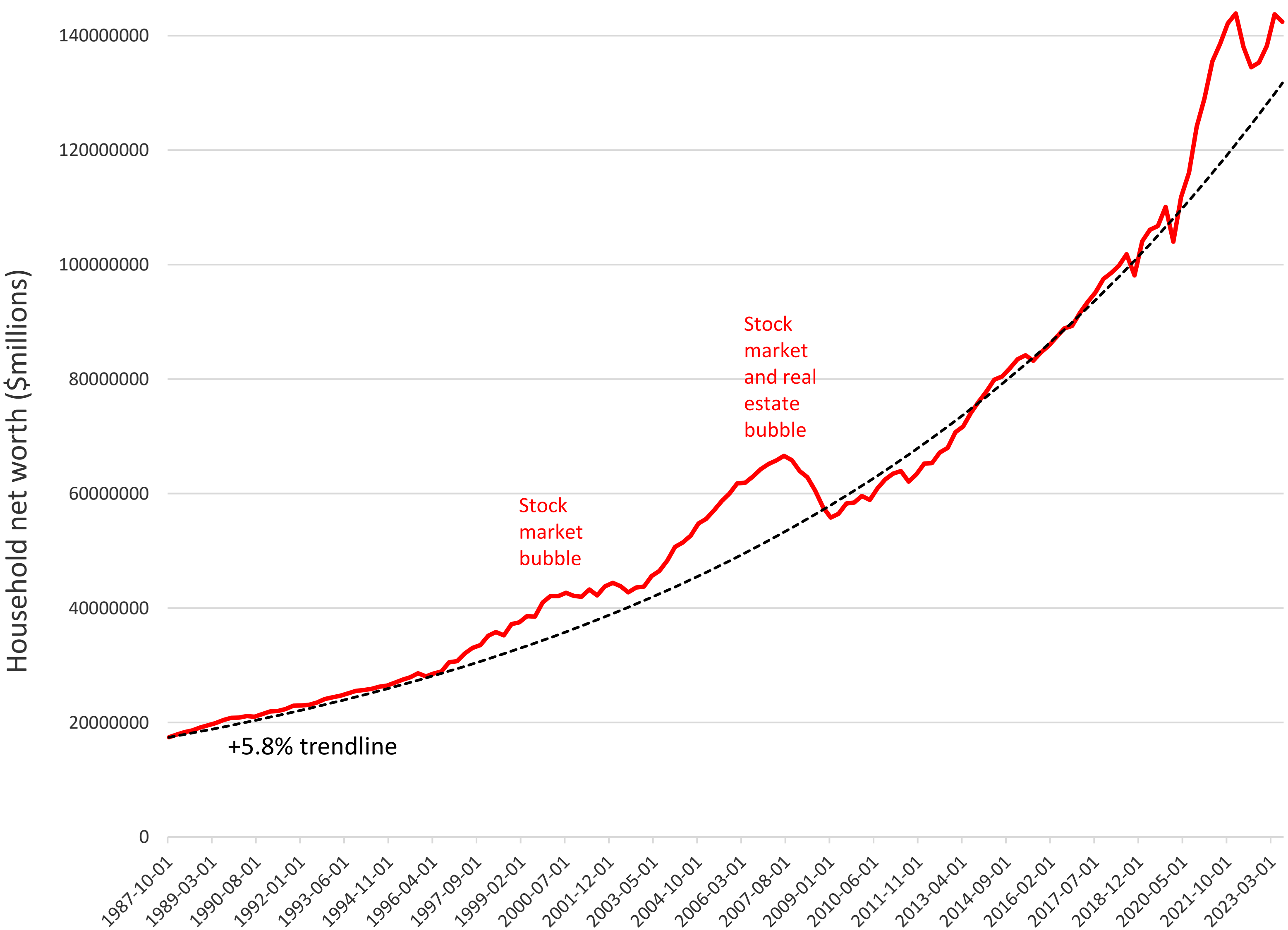
Americans were joining and staying in the labor force in increasing numbers … until Covid-19.

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

Source: BLS. Data through November 2023.

[1]Labor force participation rate: the proportion of the civilian noninstitutional population 16 years of age and older either at work or actively seeking work.

Household net worth – the wealth effect



Household net worth surged.

Source: Federal Reserve, FRBSL. Quarterly data through September 2023, released December 7, 2023.

Consumer spending

THE WALL STREET JOURNAL.

The U.S. Economy's Secret Weapon: Seniors With Money to Spend

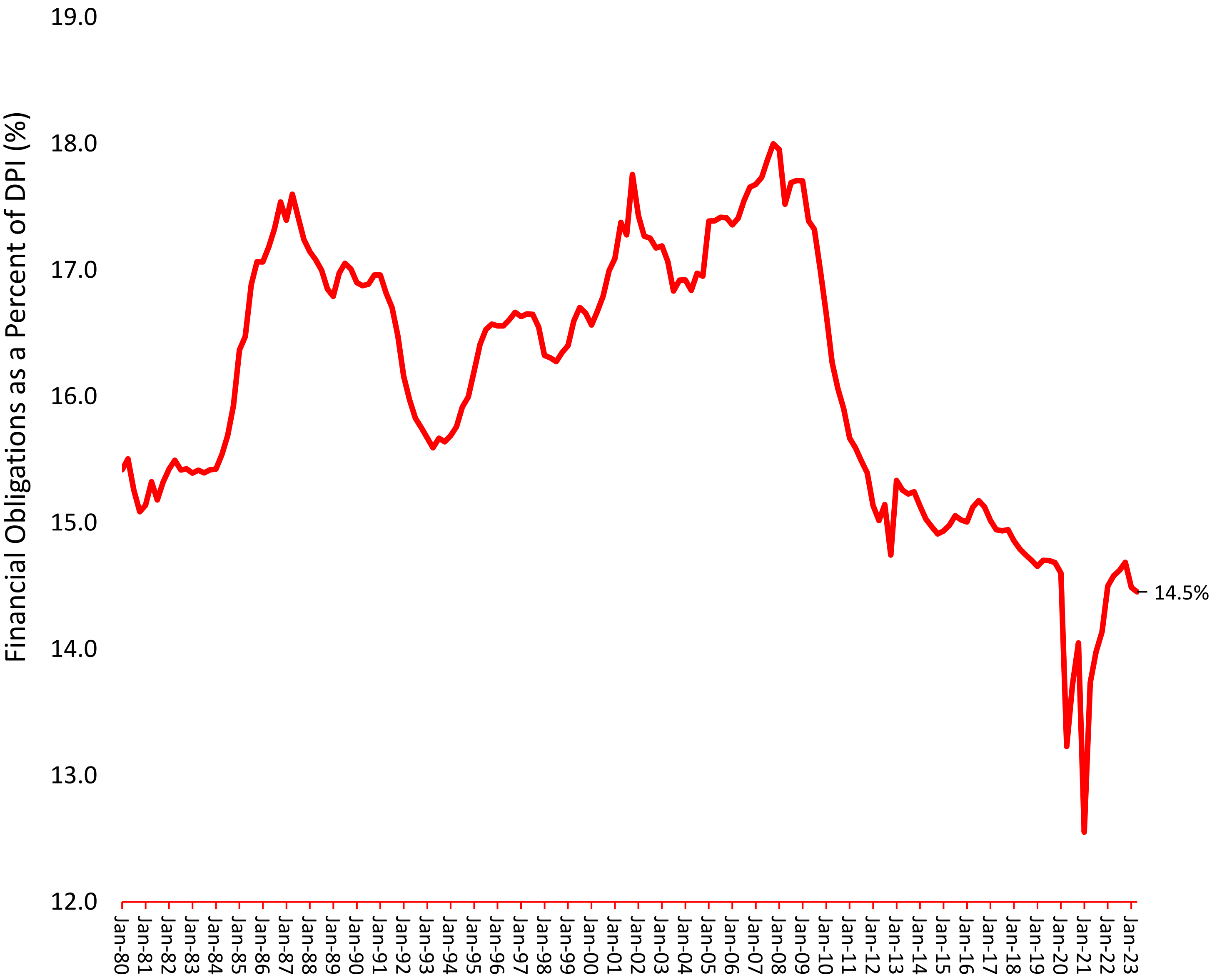
Why has consumer spending proven so resilient as the Federal Reserve has raised interest rates? An important and little-appreciated reason: Consumers are getting older. In August, 17.7% of the population was 65 or older, according to the Census Bureau, the highest on record going back to 1920 and up sharply from 13% in 2010. The elderly aren't just more numerous: Their finances are relatively healthy, and they have less need to borrow, such as to buy a house, and are less at risk of layoffs than other consumers.

This has made the elderly a spending force to be reckoned with. Americans aged 65 and up accounted for 22% of spending last year, the highest share since records began in 1972 and up from 15% in 2010, according to the Labor Department's survey of consumer expenditures released in September.

"These are the consumers that will matter over the coming year," said Susan Sterne, chief economist at Economic Analysis Associates.

Source: *The Wall Street Journal*, "The U.S. Economy's Secret Weapon: Seniors With Money to Spend", by Gwinn Guilford, October 8, 2023.

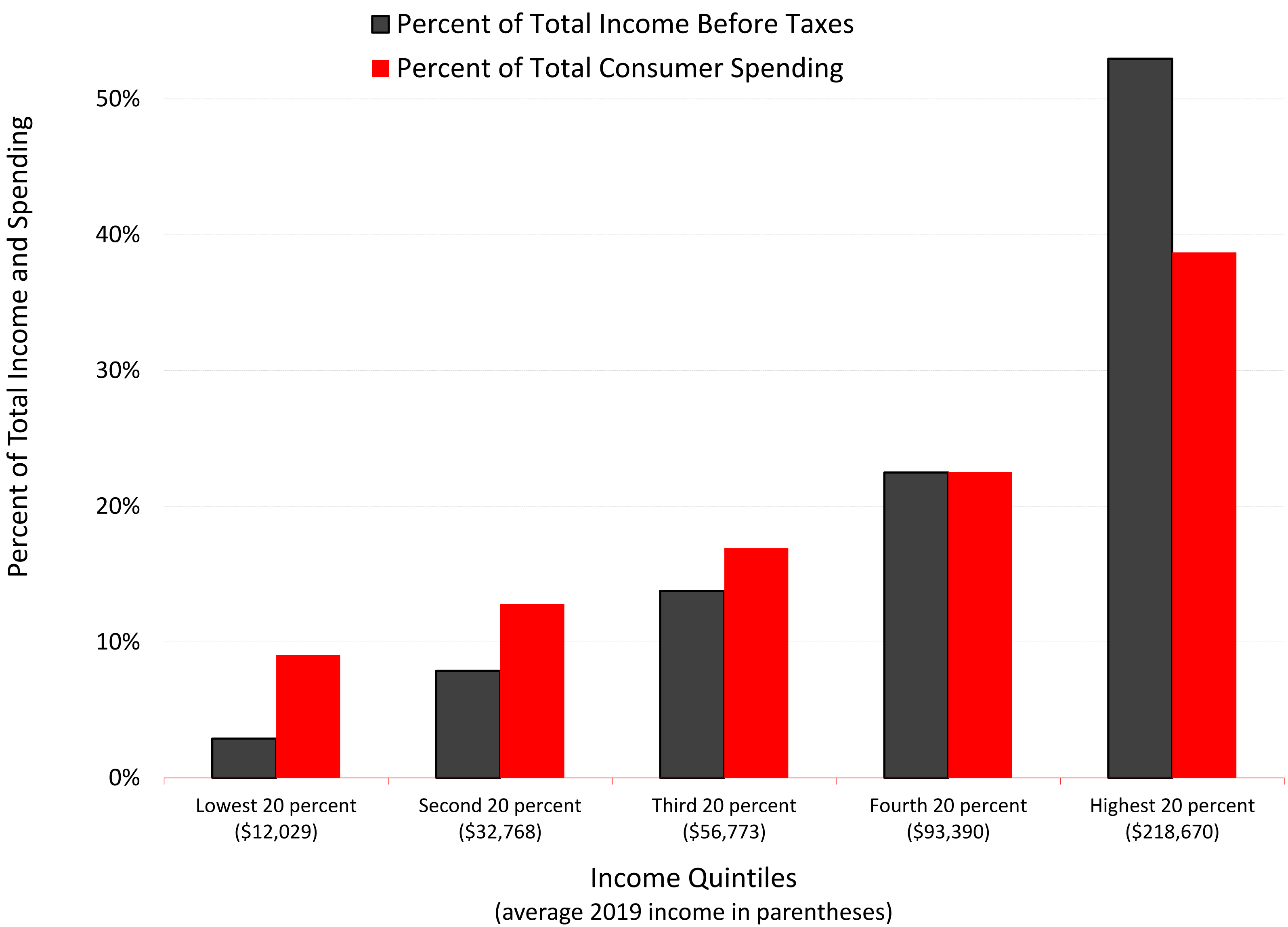
Financial obligations ratio



This measure shows that percent of monthly after-tax income that the average household pays for fixed recurring monthly obligations, such as a mortgage, car payment, utilities, real estate taxes, etc.

Source: Federal Reserve. Quarterly data through June 2023, updated September 22, 2023.

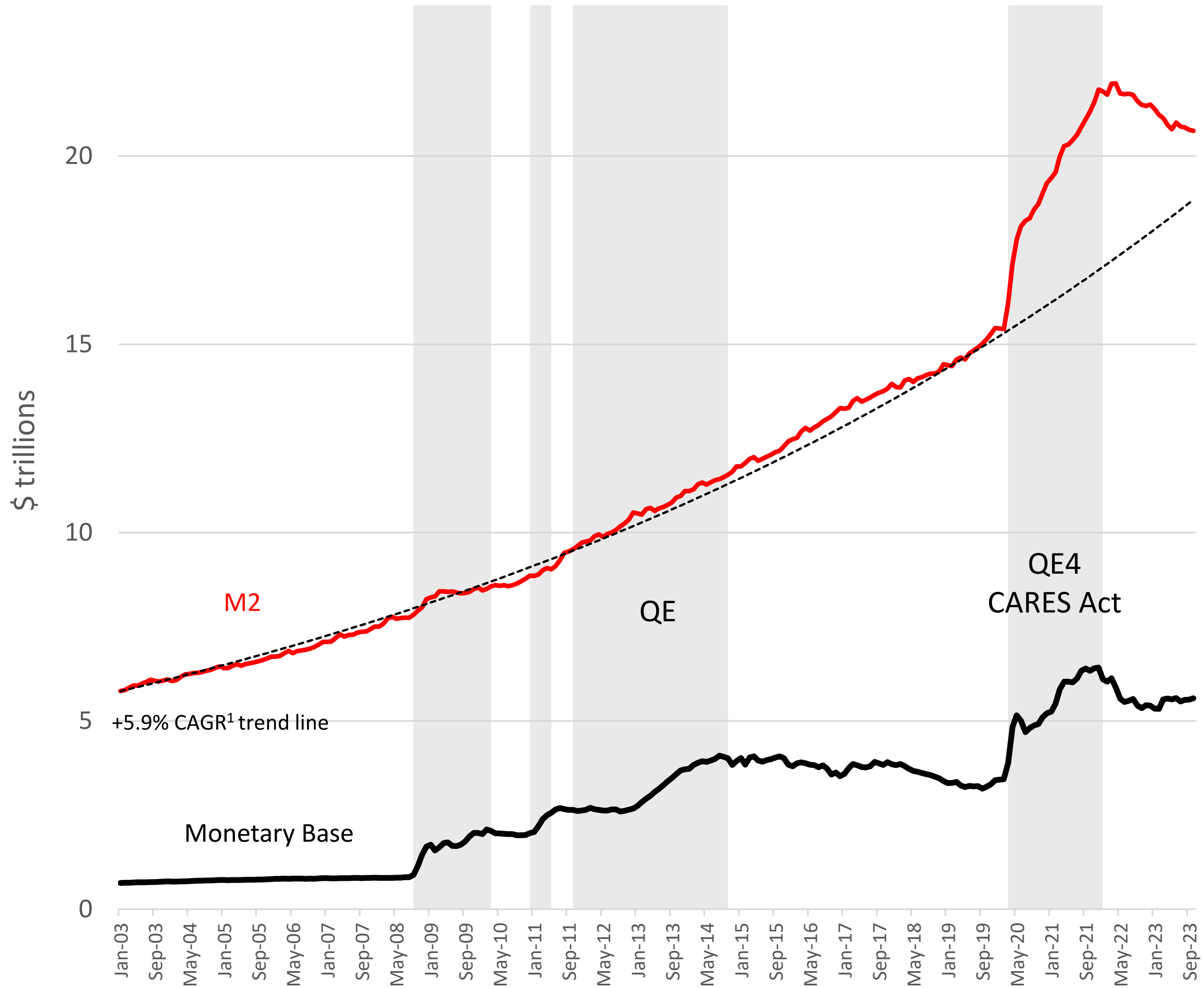
Distribution of consumer income and spending



Consumer spending is heavily skewed toward higher income consumers.

Source: BLS, Consumer Expenditure Survey 2019, released September 2020.

The monetary base and the money supply



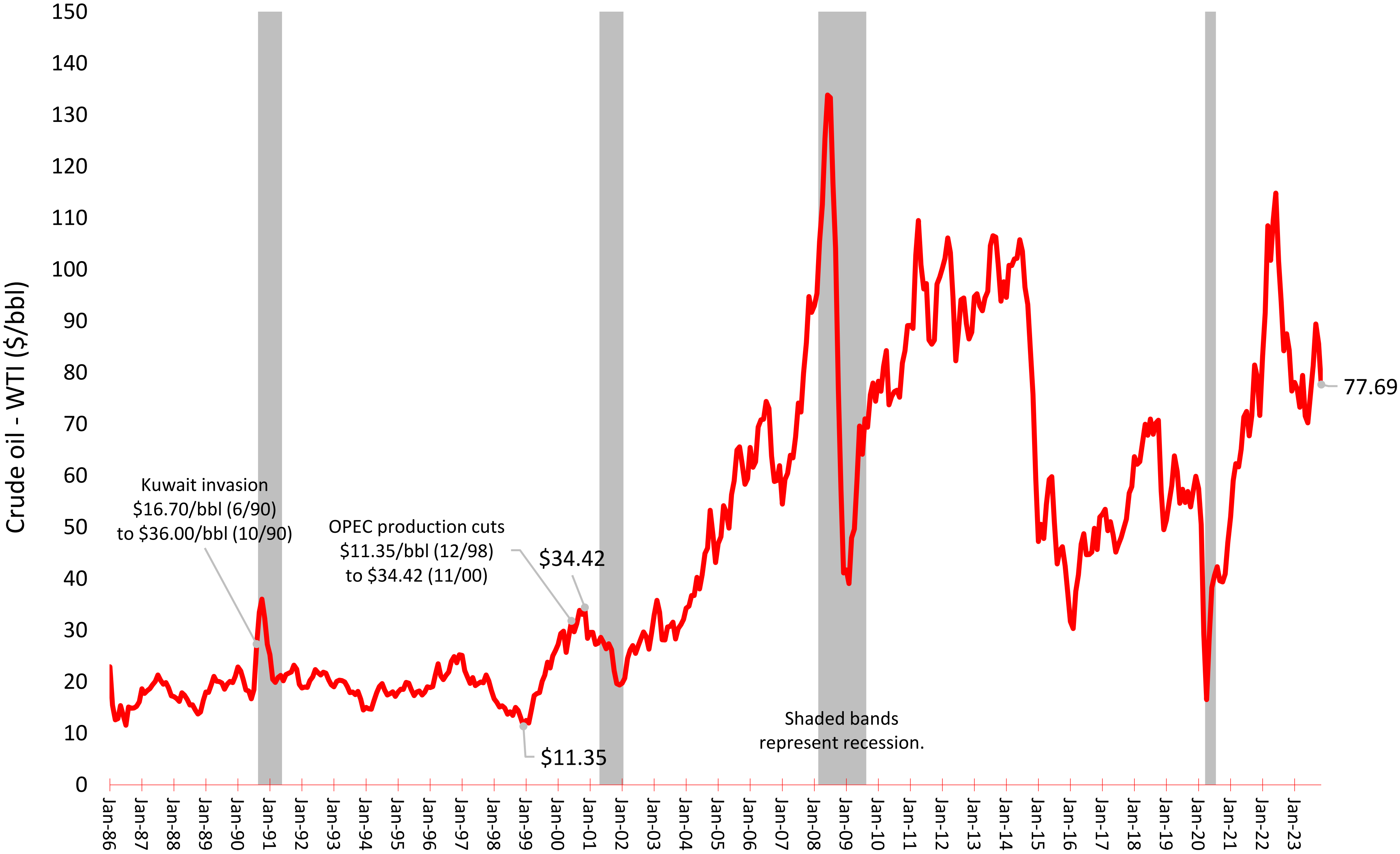
M2: currency held by the public plus checking, savings and money market accounts.

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

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

Source: Federal Reserve, statistical release H.6. Data through October 2023.
[1]CAGR = compound annual growth rate.

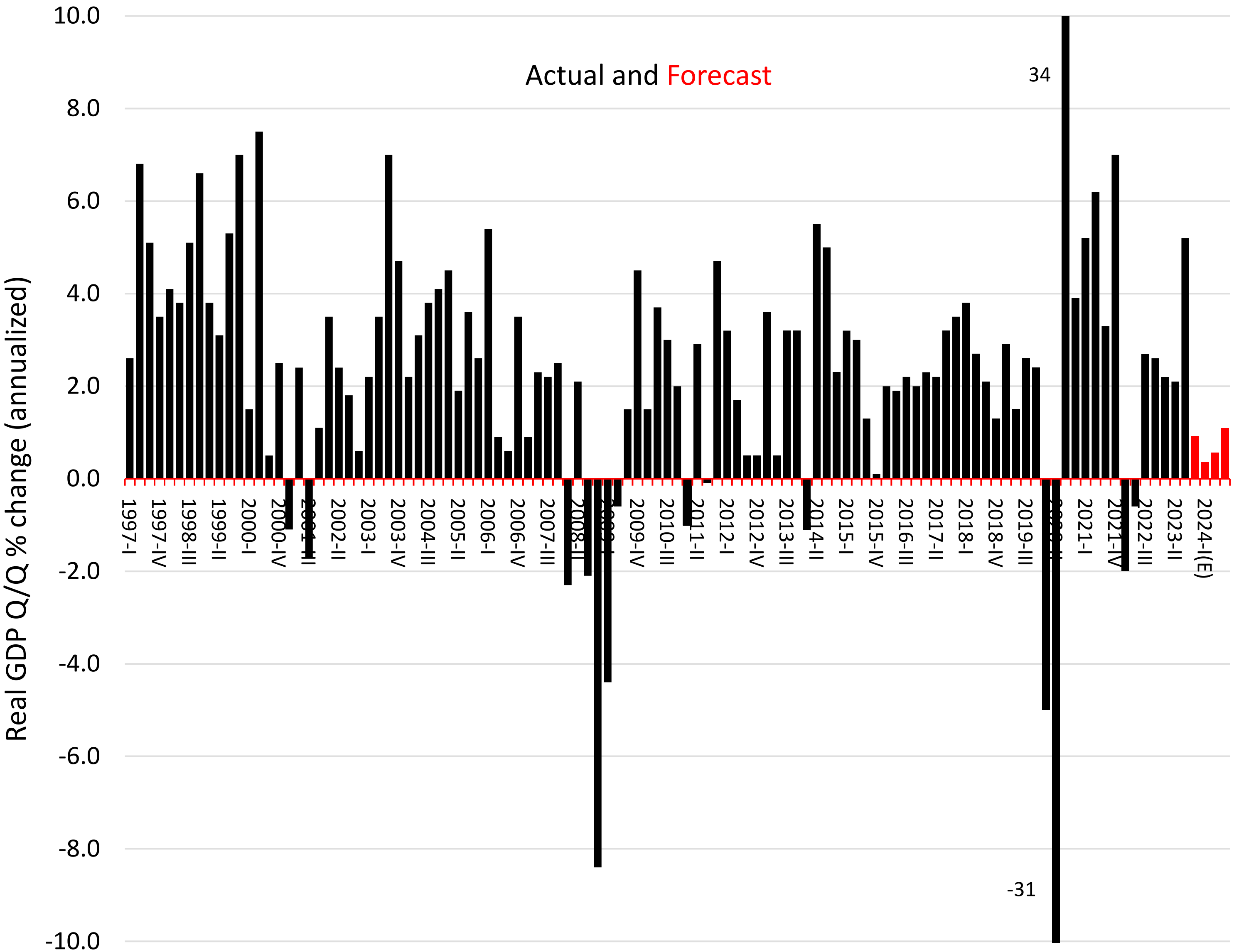
WTI spot crude oil prices



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

Consensus GDP forecast

GDP



The 60 economists surveyed in October see a slowdown ahead, but no recession.

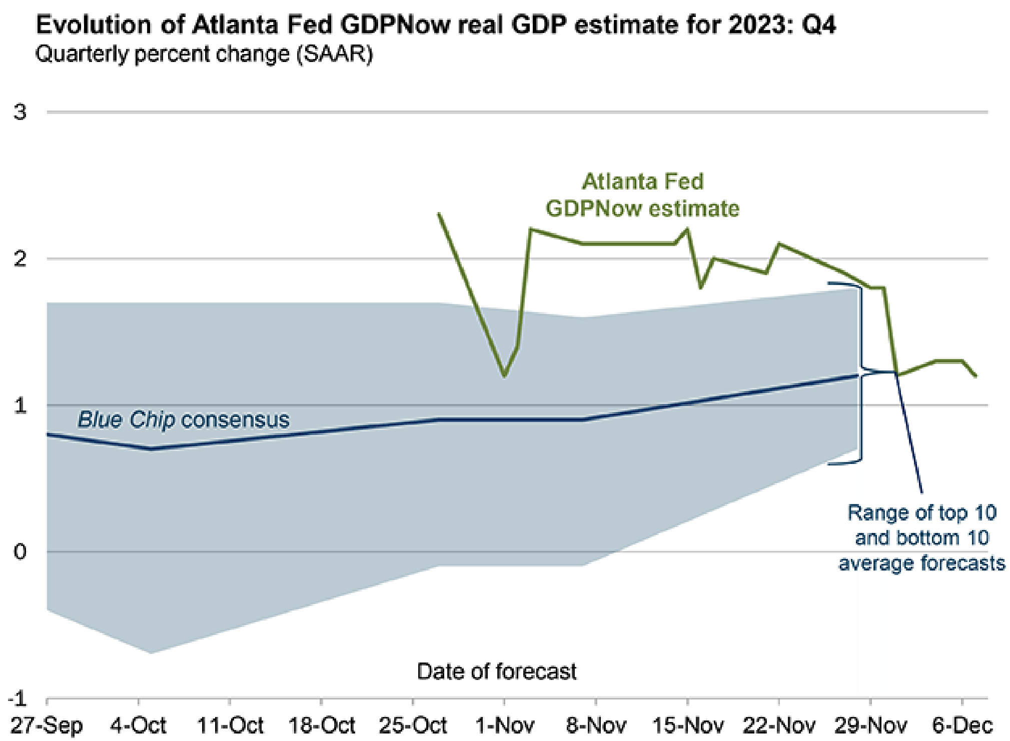
Sources: Bureau of Economic Analysis, actual quarterly data through September 2023. *The Wall Street Journal* survey released October 2023.

Atlanta Fed's GDPNow forecast – 4th quarter

Latest estimate: 1.2 percent -- December 07, 2023

The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the fourth quarter of 2023 is **1.2 percent** on December 7, down from 1.3 percent on December 6 after rounding. After this morning's wholesale trade release from the US Census Bureau, the nowcast of fourth-quarter real gross private domestic investment growth decreased from -2.9 percent to -3.0 percent.

*The next GDPNow update is **Thursday, December 14**. Please see the "Release Dates" tab below for a list of upcoming releases.*



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

Source: Federal Reserve Bank of Atlanta, December 7, 2023.

GDP forecast

NY Fed's Nowcast – 4th quarter

Dec 08, 2023

- The New York Fed Staff Nowcast stands at 2.3% for 2023:Q4, with the 50% probability interval at [1.3, 3.4]% and the 68% interval at [0.8, 3.9]%. The Staff Nowcast stands at 2.1% for 2024:Q1.
- News from this week's data releases left the 2023:Q4 reading largely unchanged and increased the 2024:Q1 reading by 0.1 percentage point.
- Positive surprises from unemployment, nonfarm payroll employment, and import data were offset by

Read More

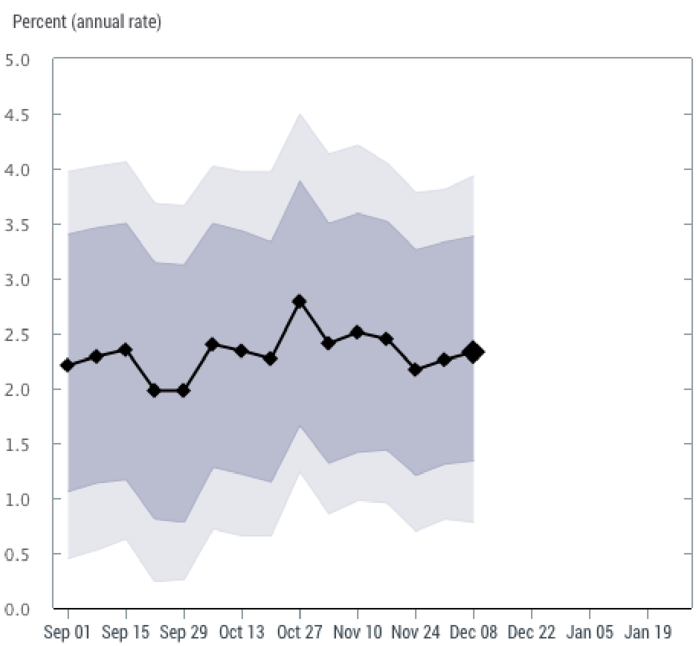
2023:Q4 | 2023:Q3 | 2023:Q2 | 2023:Q1

Latest Release 11:15am ET Dec 08, 2023

DOWNLOADS LAYOUT

New York Fed Staff Nowcast

◆ The New York Fed Staff Nowcast ▪ 68% probability ▪ 50% probability ○ Advance GDP estimate □ Latest GDP estimate



Expand

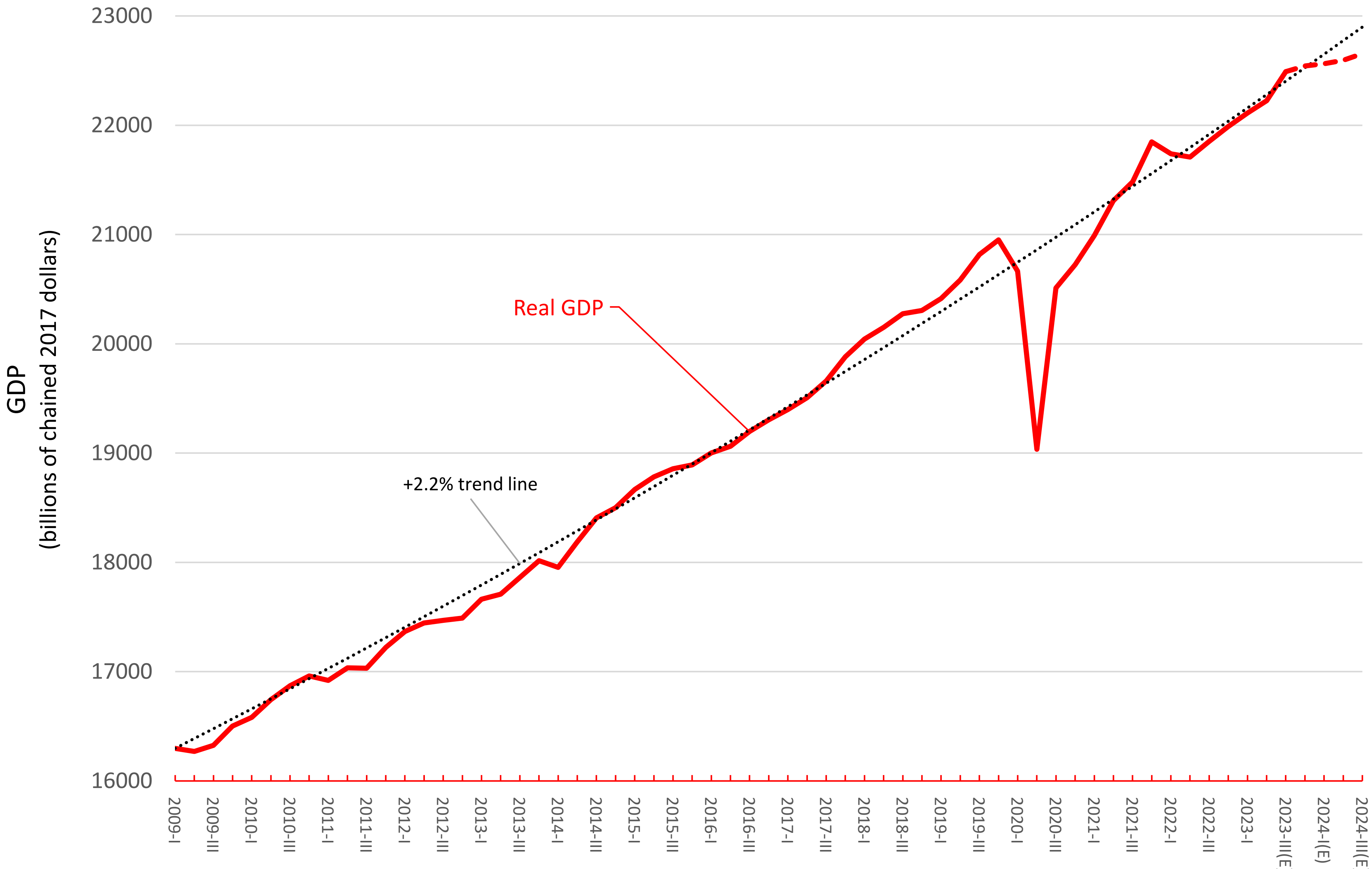
The New York Fed Staff Nowcast (Dec 08, 2023)

Release Date	Series	Value
Dec 08	◆ Nowcast	2.33
	68% probability	0.78, 3.93
	50% probability	1.34, 3.38
Dec 01	◆ Nowcast	2.26
	68% probability	0.81, 3.81
	50% probability	1.31, 3.33

Source: Federal Reserve Bank of New York, December 8, 2023.

GDP forecast

V-shaped recovery from Covid



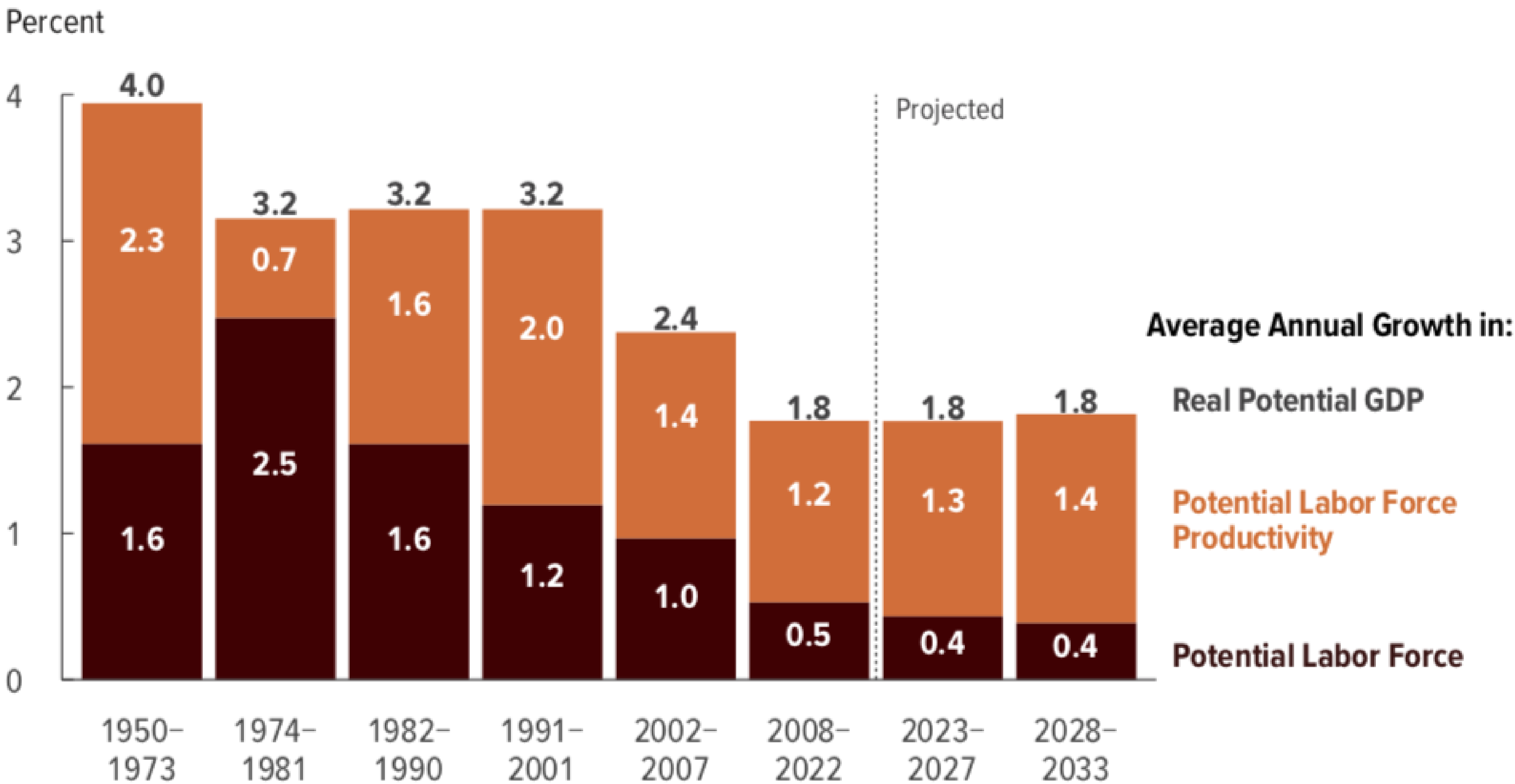
Sources: Bureau of Economic Analysis, actual quarterly data through September 2023. Dotted line represents the forecast from *The Wall Street Journal* survey released October 2023.

GDP growth potential = Δ productivity + Δ labor force

CBO's potential growth calculations

Figure 2-5.

Composition of the Growth of Real Potential GDP



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

Consumer sentiment

The New York Times

Americans Say Economy is Bad. Their Spending Begs to Differ.

By traditional measures the economy is strong. Inflation has slowed significantly. Wages are increasing. Unemployment is near a half-century low. Job satisfaction is up.

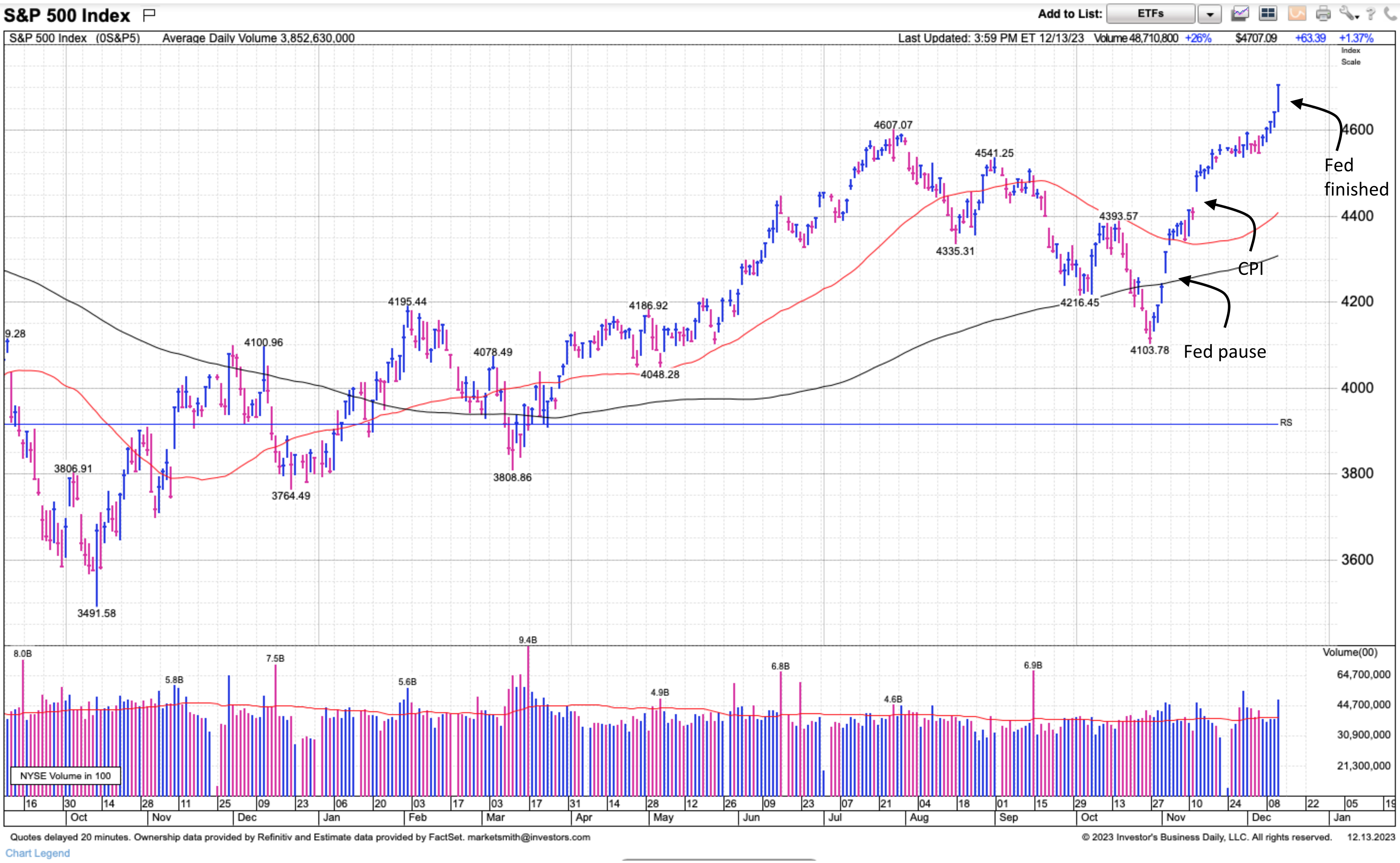
Yet Americans don’t necessarily see it that way. In the recent New York Times/Siena College poll of voters in six swing states, eight in 10 said the economy was fair or poor. Just 2 percent said it was excellent.

Source: *The New York Times*, “Americans Say Economy is Bad”, by Claire Cain Miller and Francesca Paris, November 22, 2023.

Stock Market

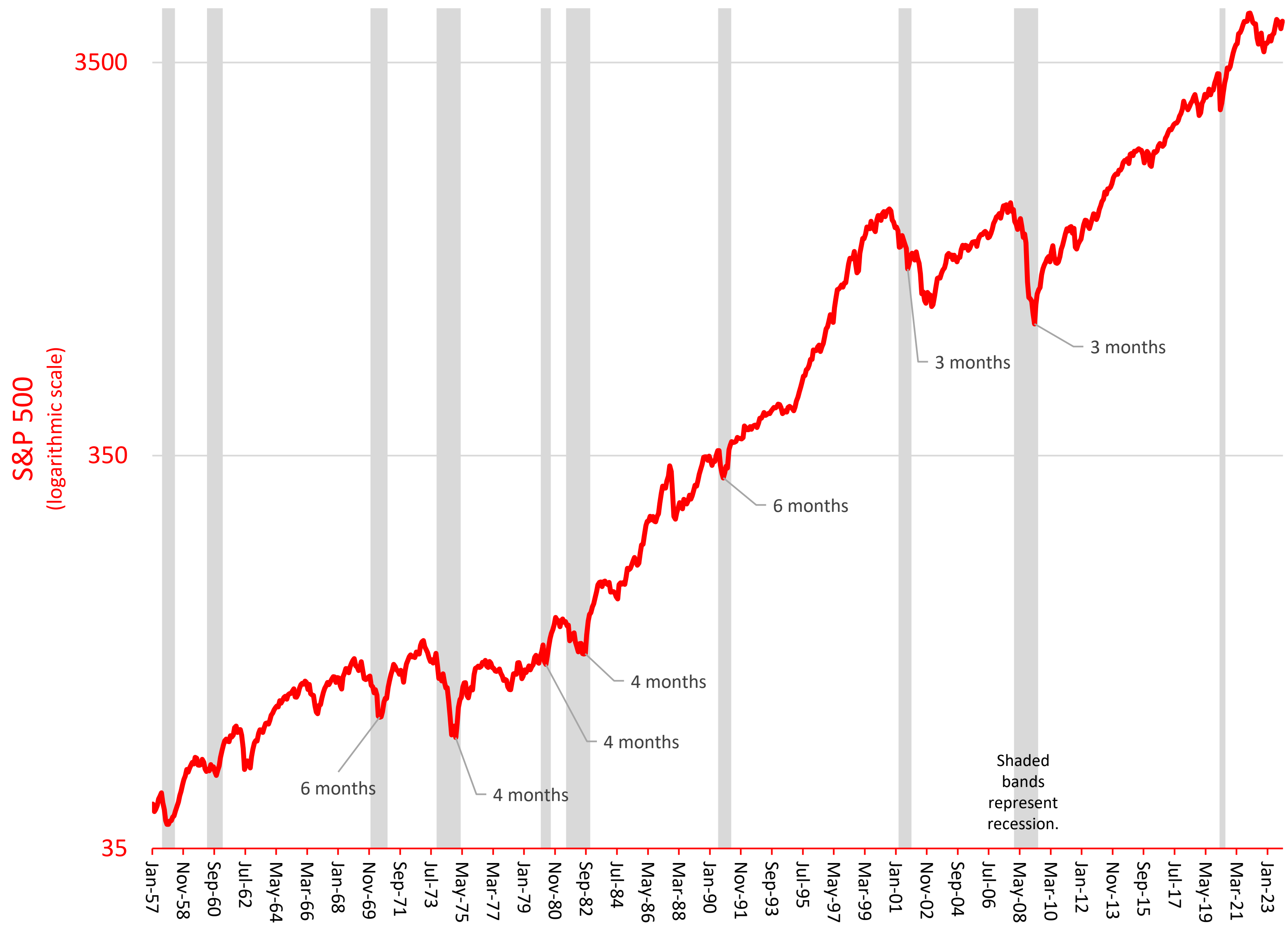
- bull market
- stocks vs. recessions
- “parabolic” is normal
- 2023/2024/2025 earnings estimates
- P/E multiple

Stock market
S&P 500



Source: Marketsmith and Standard & Poor's. Data through December 13, 2023.

S&P 500 vs. recessions

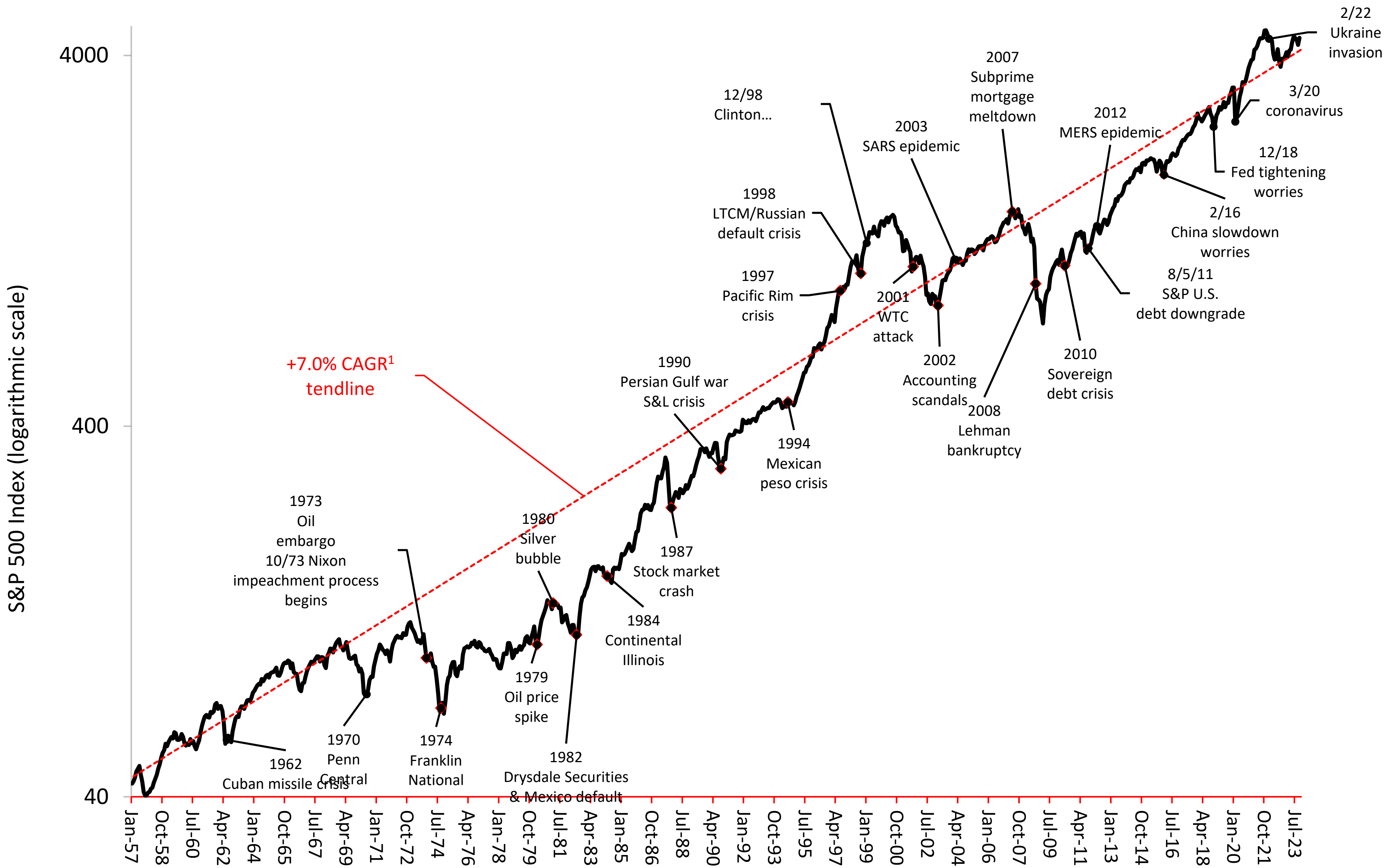


Big declines are associated with recessions.

Stocks often bottom months before recession-end.

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

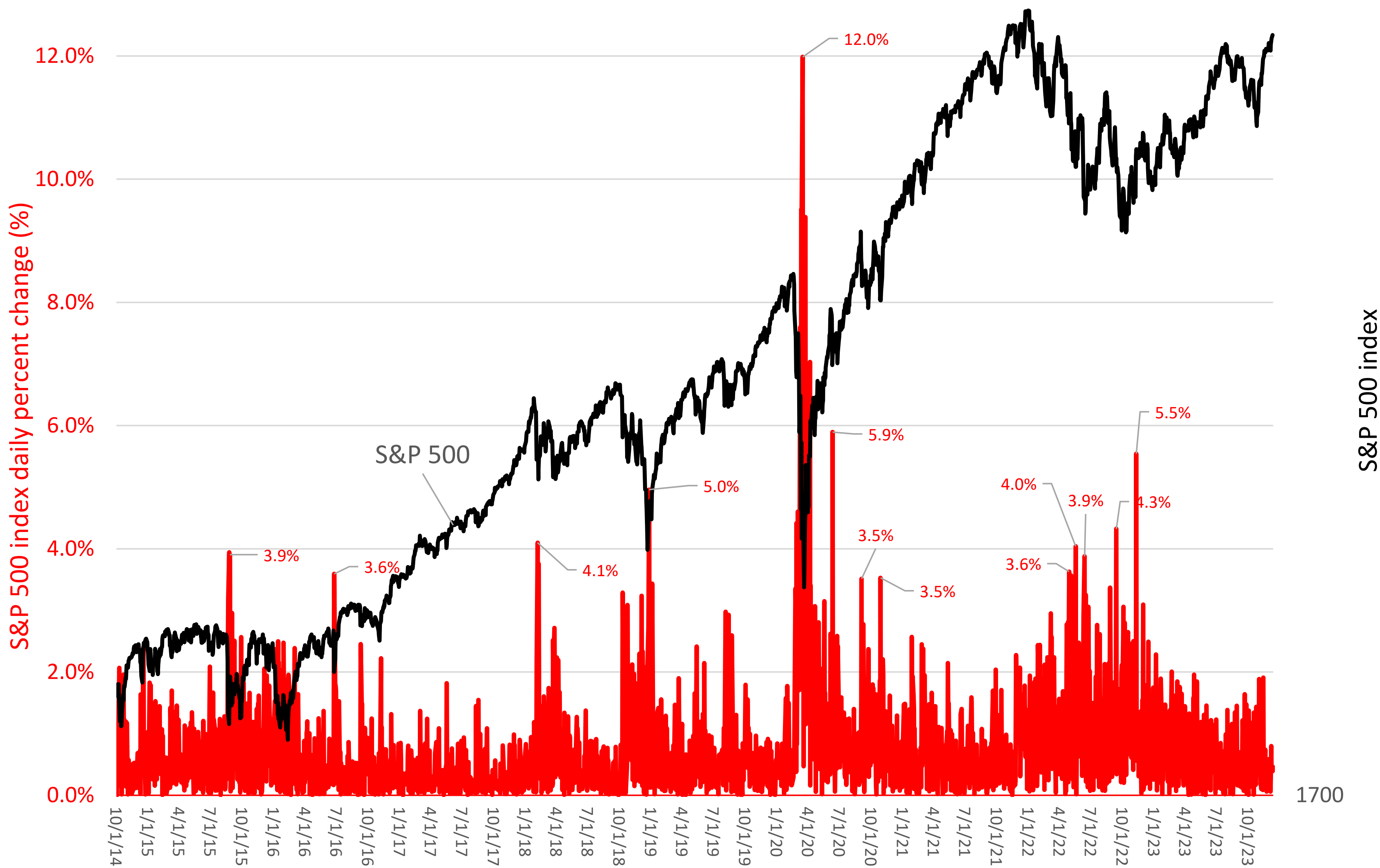
S&P 500 and crises



Source: Standard and Poor's. Data through November 2023. [1] Compound annual growth rate.

S&P 500 volatility

Remember the basic axiom of investing in common stocks: over the long-term investors earn the equity risk premium precisely because they expose themselves to price volatility, also known as risk.



Source: Standard & Poor's, data through December 12, 2023.

Stock market

S&P 500

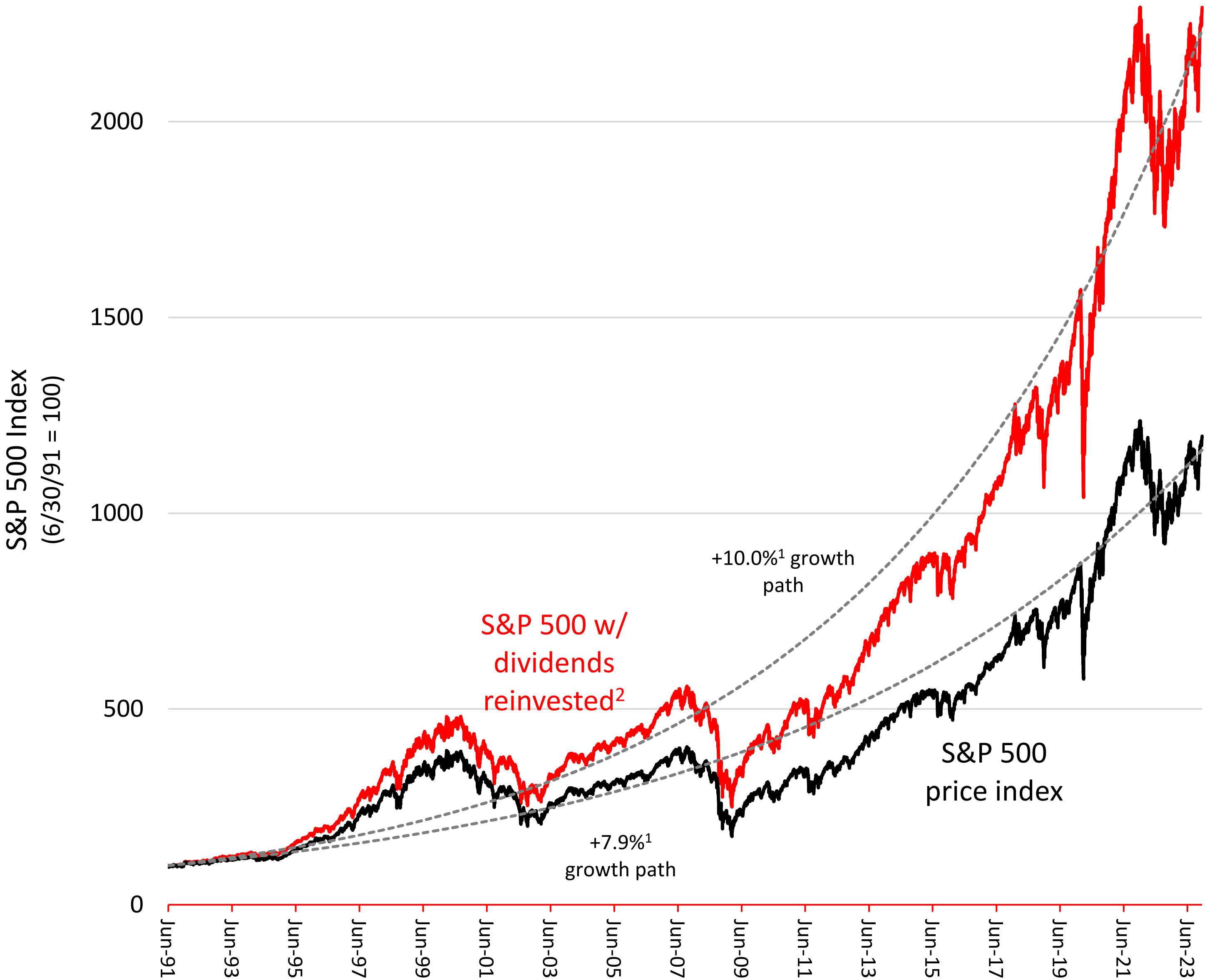
S&P 500 Price Index

Characteristic	3/24/2000	10/9/2007	2/19/2020	1/3/2022	11/30/2023
Index Level	1,527	1,565	3,386	4,797	4,568
P/E Ratio (fwd.)	25.2x	15.1x	19.2x	21.4x	18.7x
Dividend Yield	1.4%	1.9%	1.9%	1.3%	1.6%
10-yr. Treasury	6.2%	4.7%	1.6%	1.6%	4.4%

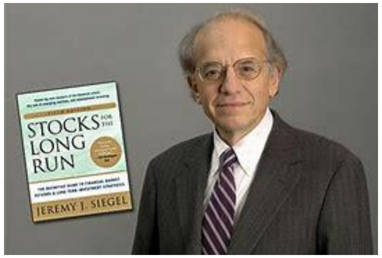
Source: J.P. Morgan's "Guide to the Markets" webpage, December 13, 2023.

Stock market arithmetic

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



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



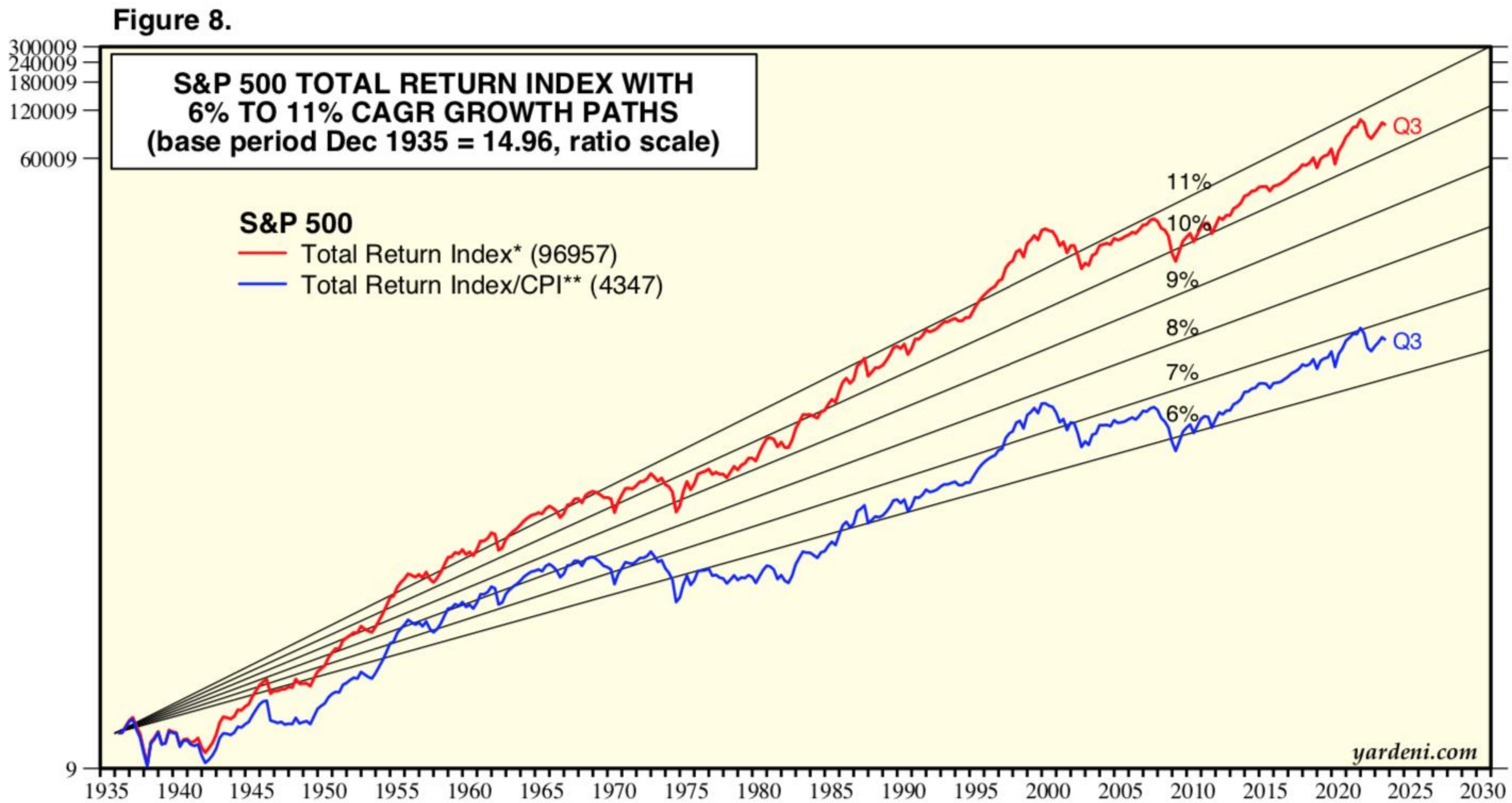
Source: Standard and Poor's. Data through December 12, 2023.[1] Compound annual growth rate. [2] S&P 500 total return index.
[3] per Professor Jeremy Siegel's seminal *Stocks for the Long Run*, first published in 1994.

Stock market arithmetic

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

Source: Standard and Poor's. Data through December 12, 2023. [1] Compound annual growth rate. [2] S&P 500 total return index.

Total return and real total return



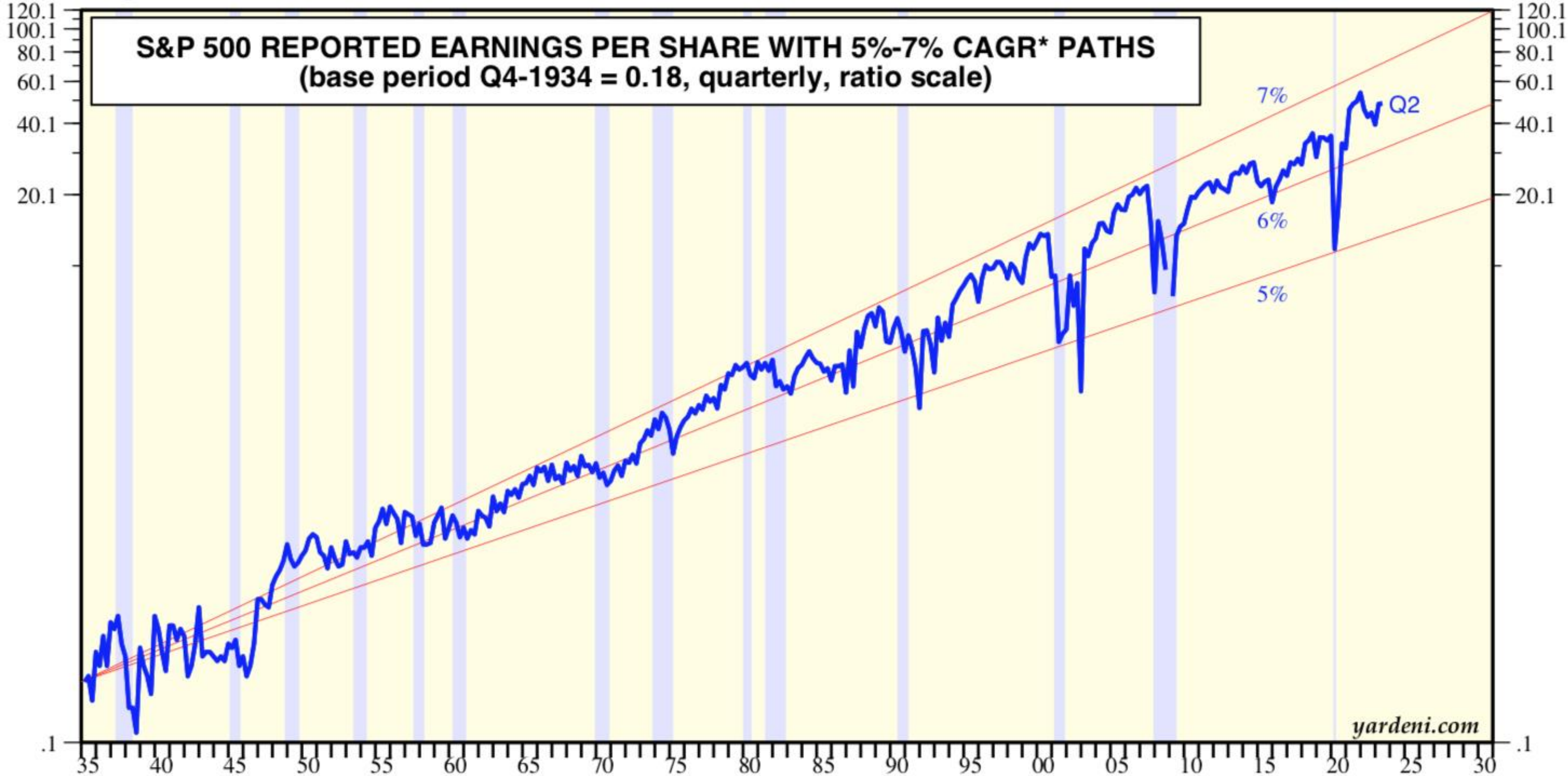
* Includes reinvested dividends.
** Using last month of quarter CPI. Compounded monthly using base value.
Source: Standard & Poor's.

Source: Yardeni Research, Inc., with permission.

Stock market arithmetic

85 years of S&P 500 earnings growth

Figure 13.

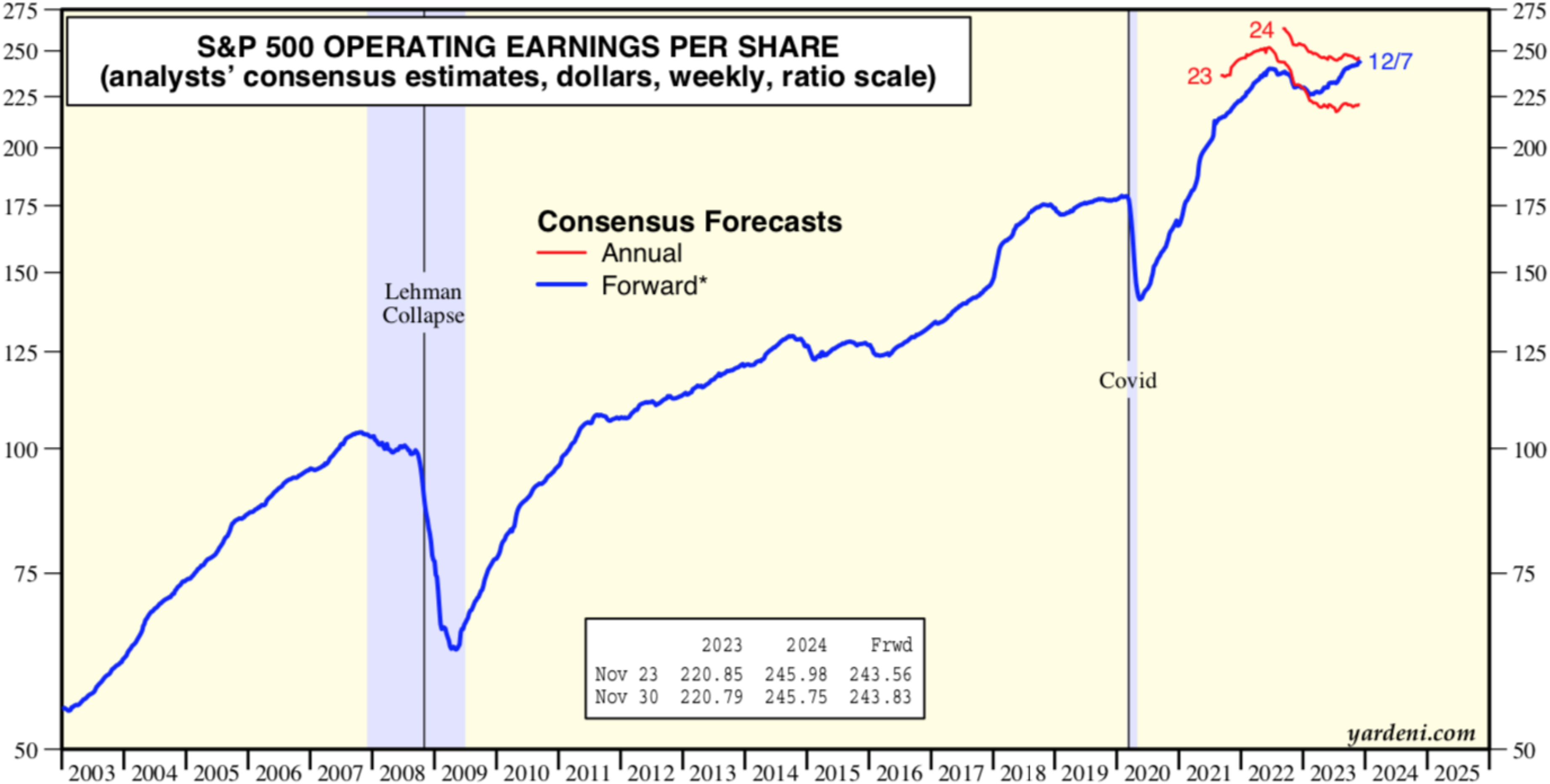


* Compounded annual growth rate from base value using monthly data. Q4-2008 not shown because of large negative value.
Note: Shaded areas denote recessions according to the National Bureau of Economic Research.
Source: Standard & Poor's.

Source: Yardeni Research, Inc. with permission.

S&P forward earnings estimates moving higher

Figure 16.

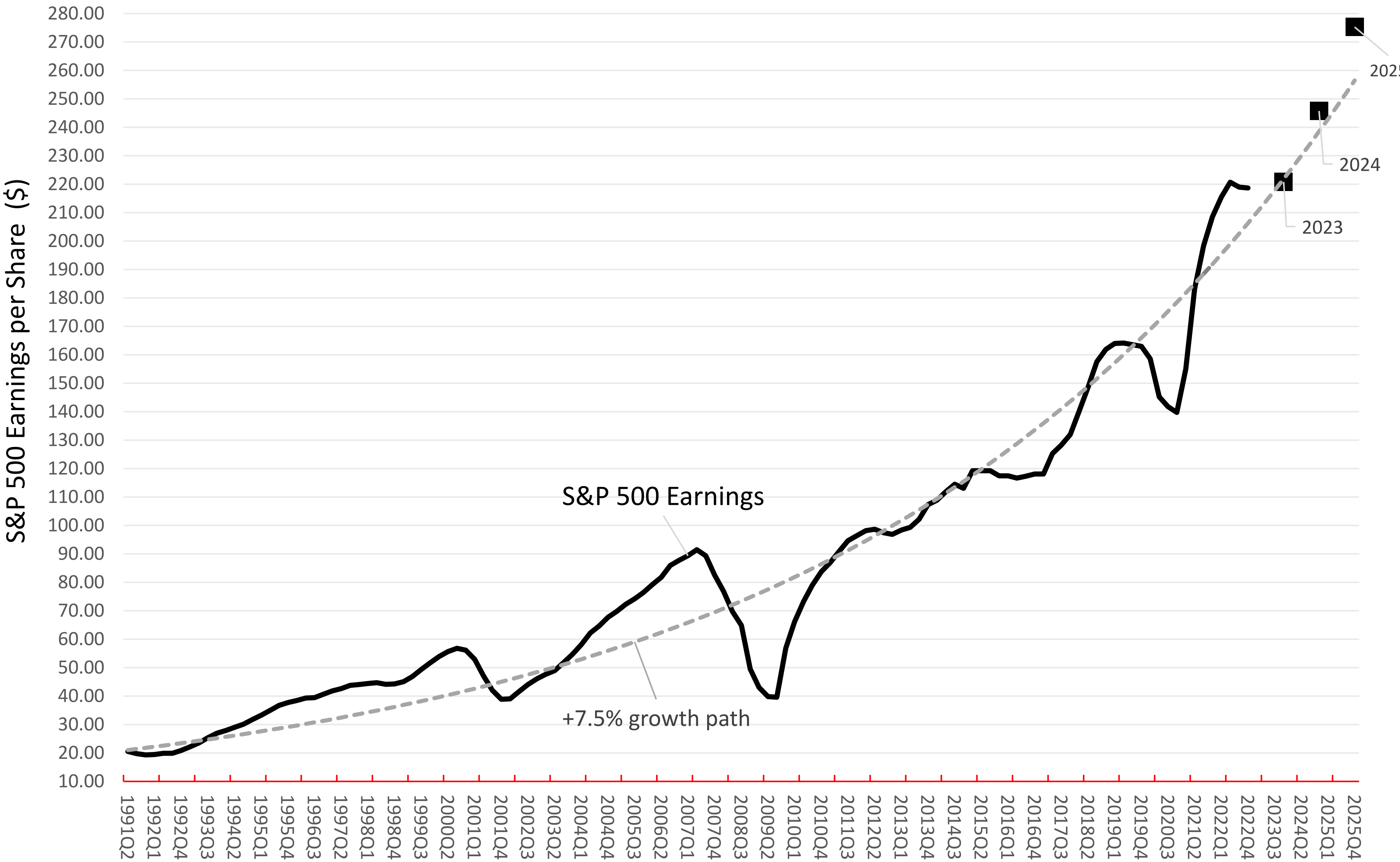


	2023	2024	Frwd
Nov 23	220.85	245.98	243.56
Nov 30	220.79	245.75	243.83

* Time-weighted average of analysts' consensus estimates for S&P 500 operating earnings for current year and next year.
Note: Shaded areas are recessions according to the National Bureau of Economic Research.
Note: Lehman collapsed 9/15/2008. COVID-19 = WHO declares global pandemic on 3/11/2020.
Source: I/B/E/S data by Refinitiv.

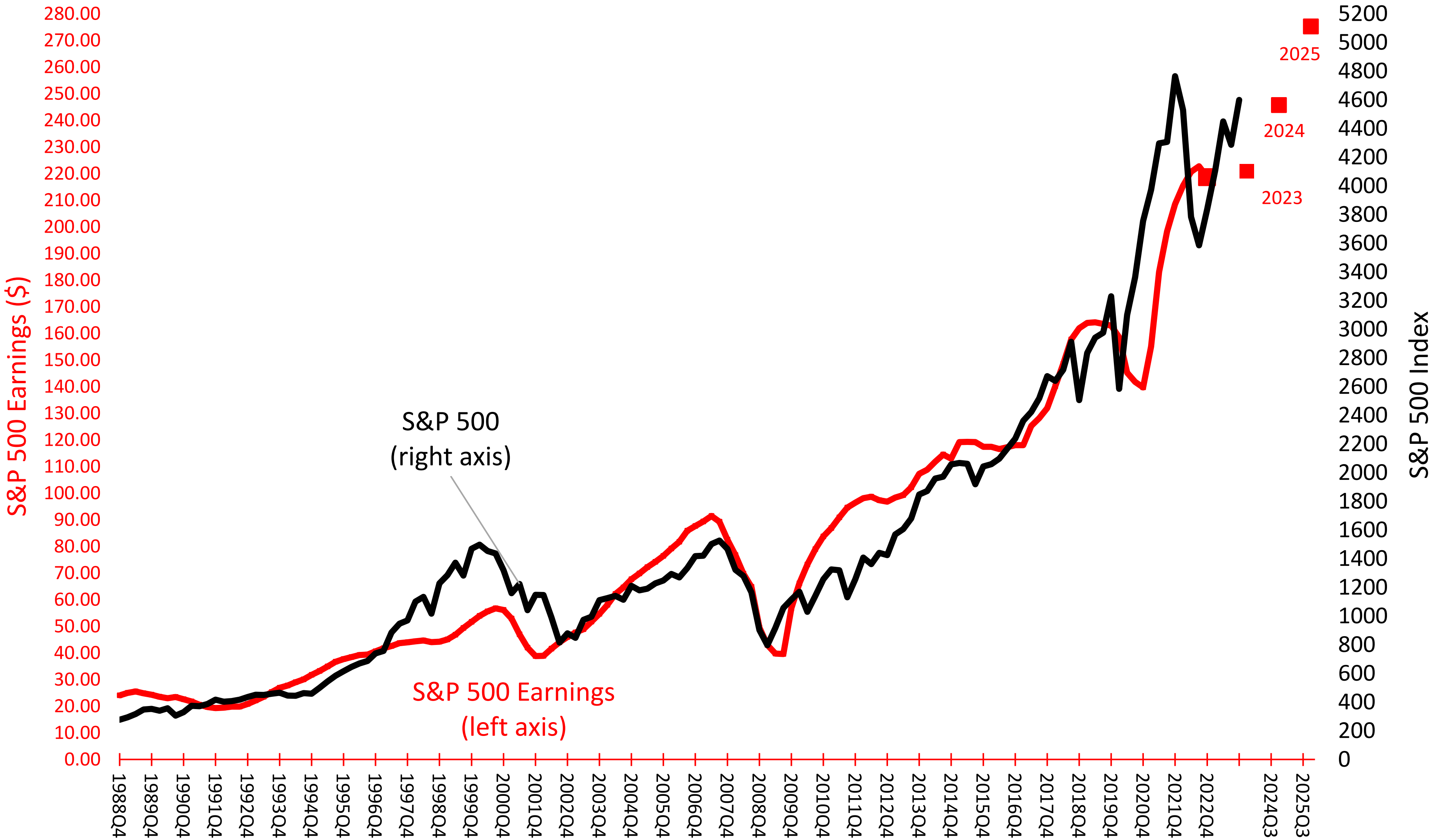
Source: Yardeni Research, Inc., with permission. December 12, 2023.

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



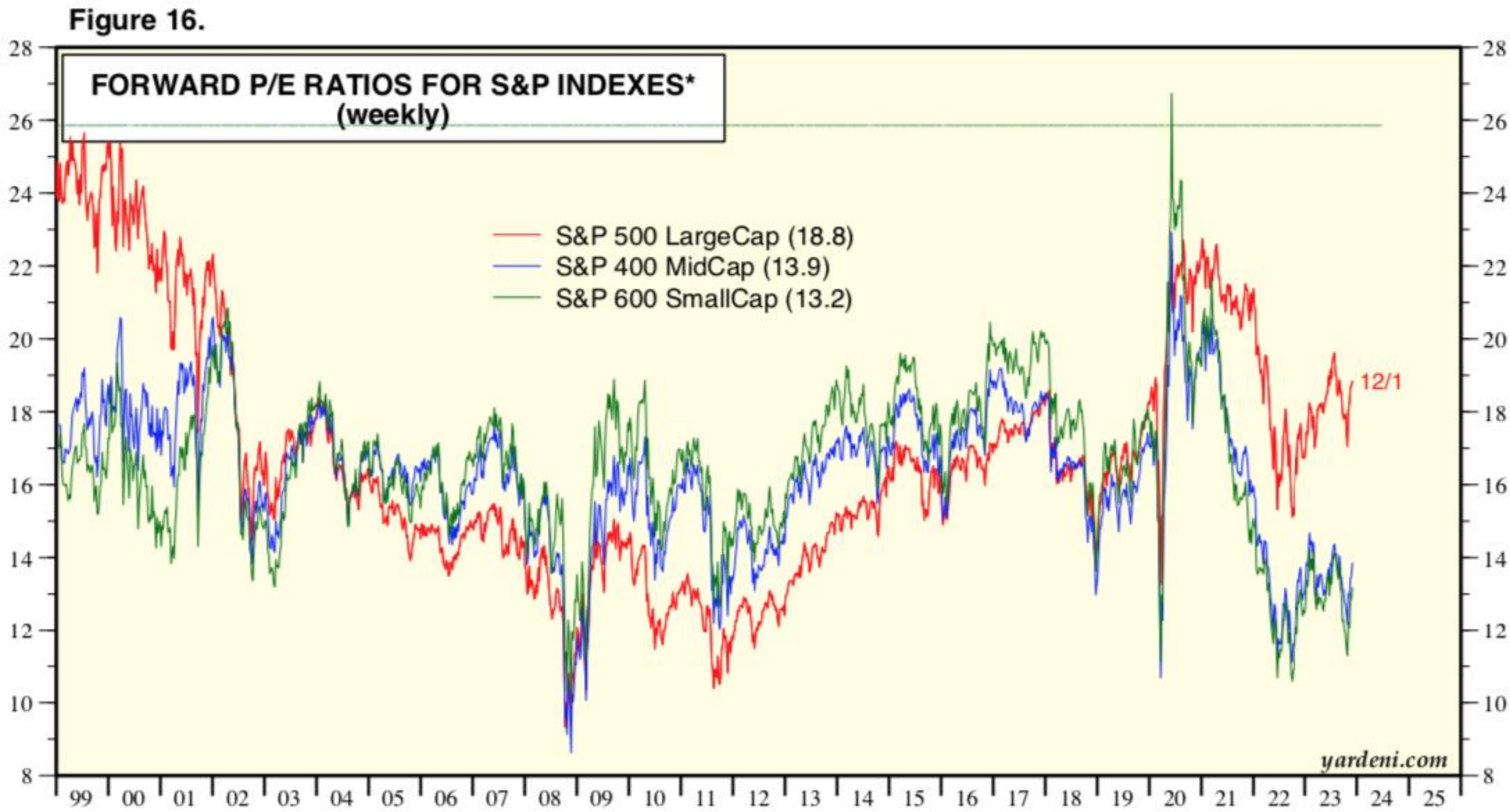
2023 (estimated), 2024 (estimated) and 2025 (estimated) bottom-up S&P 500 operating earnings per share as of December 7, 2023: for 2023(e), $220.79; for 2024(e), $245.75; for 2025(e), $275.28. Sources: Yardeni Research, Inc. and Thomson Reuters I/B/E/S for actual and estimated operating earnings from 2015. Standard and Poor's for actual operating earnings data through 2014.

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



2023 (estimated), 2024 (estimated) and 2025 (estimated) bottom-up S&P 500 operating earnings per share as of December 7, 2023: for 2023(e), $220.79; for 2024(e), $245.75; for 2025(e), $275.28. Sources: Yardeni Research, Inc. and Thomson Reuters I/B/E/S for actual and estimated operating earnings from 2015. Standard and Poor's for actual operating earnings data through 2014; index price data through December 8, 2023.

S&P 500 index forward P/E ratio



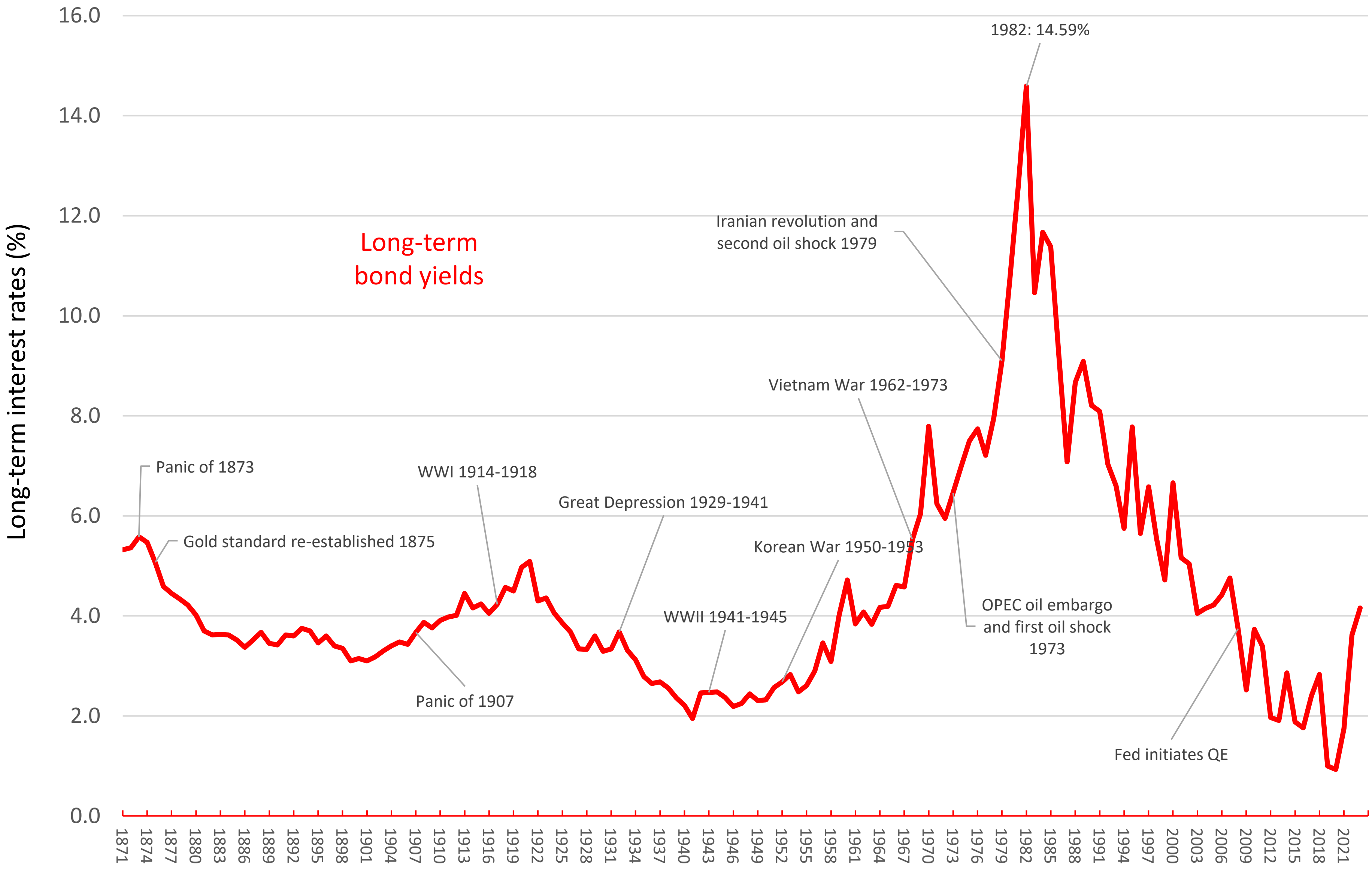
* Price divided by 52-week forward consensus expected operating earnings per share.
Source: I/B/E/S data by Refinitiv.

Source: Yardeni Research, Inc., with permission, December 7, 2023.

Bond Yields

- Normal yields by historic comparison

U.S. Treasury bond yields



Source: Online Data Robert Shiller, data through 2016; 10-year U.S. Treasury bond yield data from 2017; data through December 13, 2023.

Return to normal

THE WALL STREET JOURNAL.

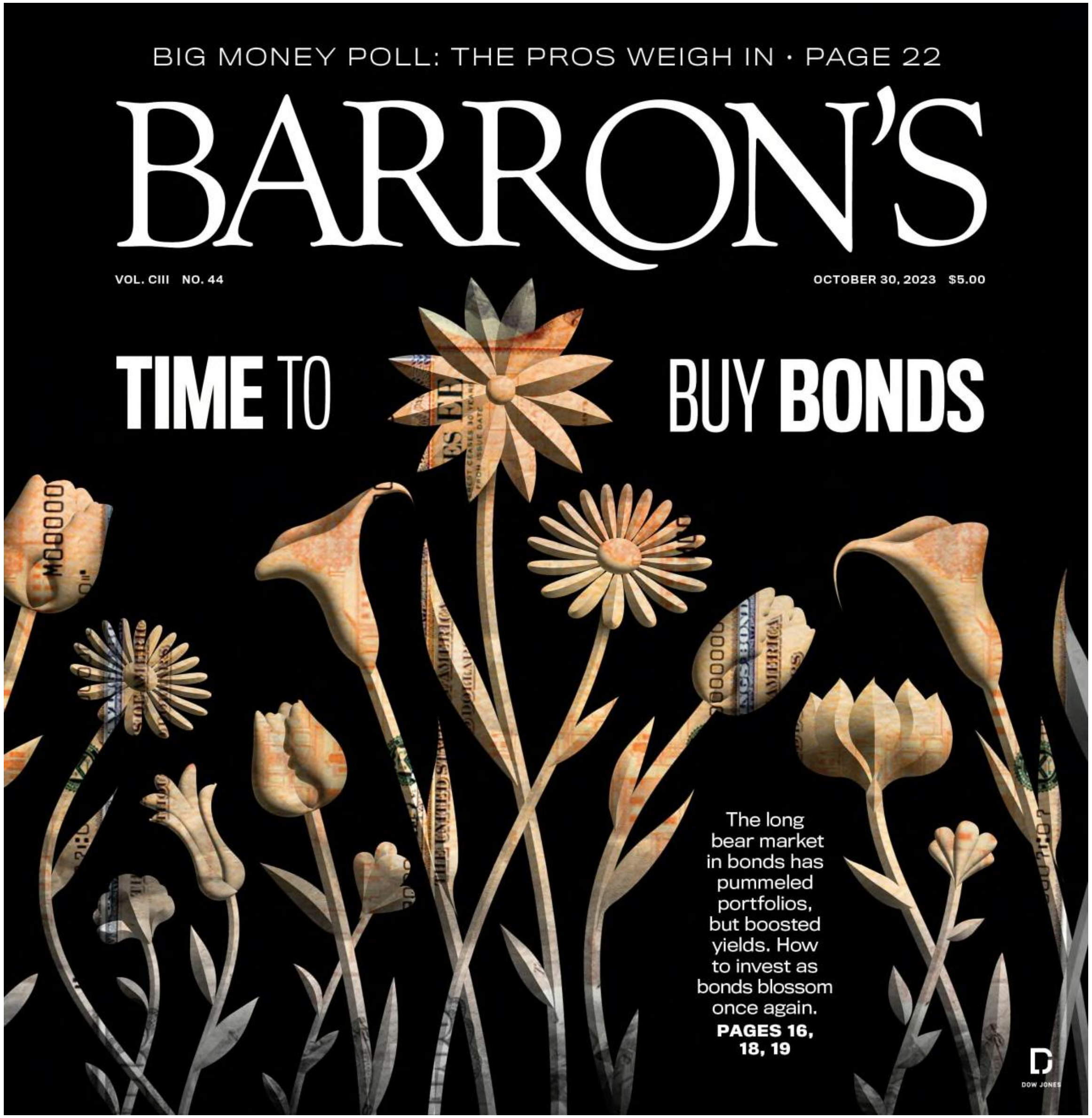
Welcome Back, Bond Market

What do you know: The U.S. has a bond market again. That's the underlying significance of the recent rise in yields for longer-term Treasurys, especially the all-important 10-year note, which is triggering a freakout in much of the financial press. This isn't to make light of this major economic event and its risks for the economy. But <u>15 or so years of unprecedented low interest rates and central-bank market distortions are making it impossible for some commentators to recognize "normal" when it arrives</u>.

… <u>a modestly positive inflation-adjusted long-term interest rate— which is what the U.S. finally has—is no great threat to prosperity</u>. More normal yields will discipline markets in ways that could boost growth over time.

Source: *The Wall Street Journal.* "Welcome Back, Bond Market", Review & Outlook. October 6, 2023.

"Time to Buy Bonds"



Source: *Barron's*, cover story, October 30, 2023.

U.S. Treasury bond yields

BARRON'S

Rarely in American history has it been this bad for bonds—and rarely has it been such an opportune time to buy.

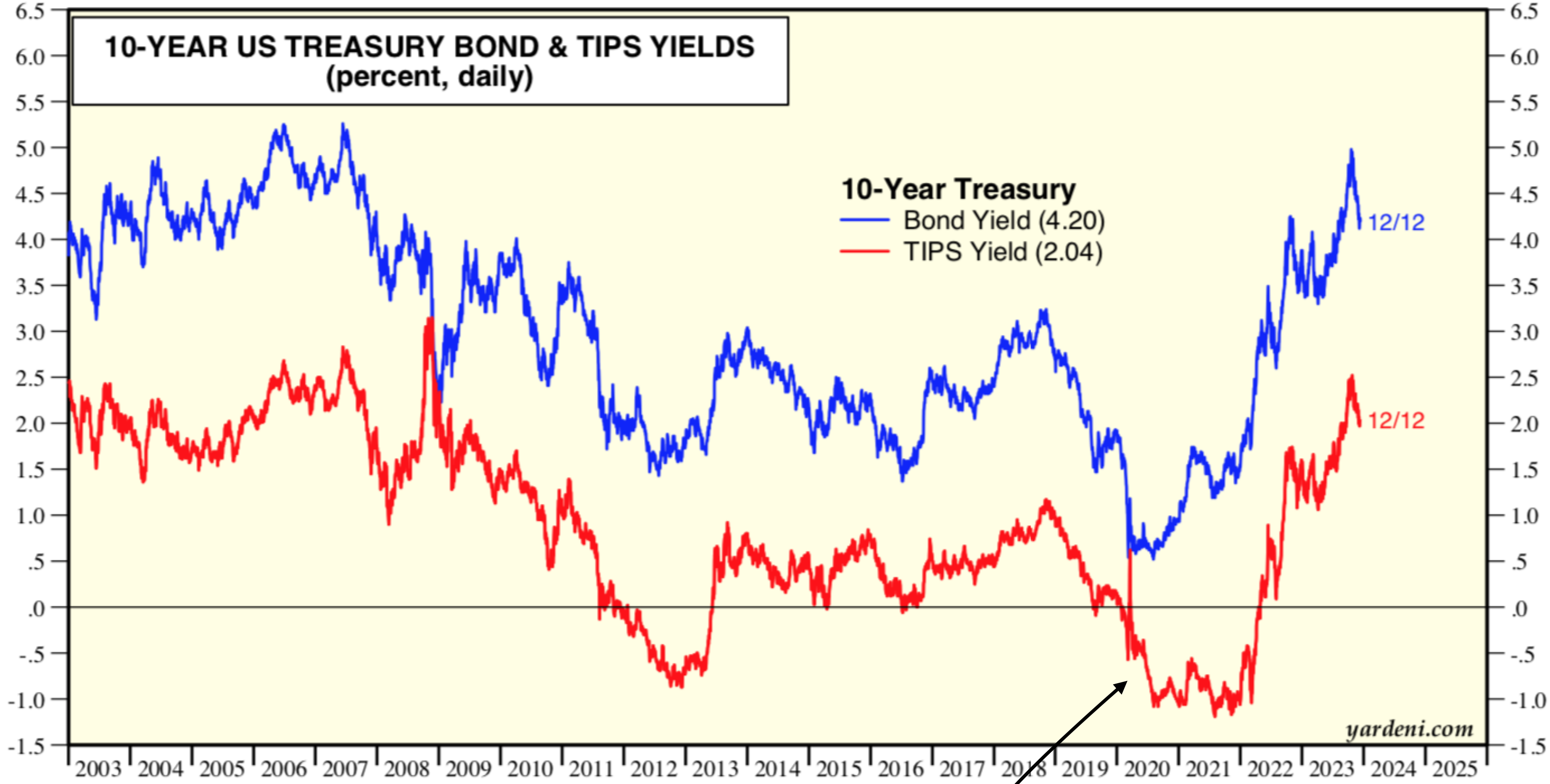
Treasury inflation-protected securities , or TIPS, maturing in both five and 10 years are pricing in inflation of 2.5%, implying that expectations are well anchored. At those levels, Treasuries are generating yields of 2.5% after inflation, the first time 'real yields' have been meaningfully positive in over a decade.

"The real rate is so attractive that you don't need to venture very far out on the curve and your yield will work for you," says Rick Rieder, chief investment officer of global fixed income at BlackRock.

Source: *Barron's*, "After the Fall: It's Time to Buy Bonds", October 30, 2023.

U.S. Treasury bond and TIPS yields

Figure 12.



Source: Federal Reserve Board.

Negative real returns didn't make sense.

Source: Yardeni Research, Inc., with permission. December 12, 2023.

Federal Reserve

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

Central tendency forecast – rate cuts next year

For release at 2:00 p.m., EST, December 13, 2023

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

Percent

Variable	Median[1]					Central Tendency[2]					Range[3]				
	2023	2024	2025	2026	Longer run	2023	2024	2025	2026	Longer run	2023	2024	2025	2026	Longer run
Change in real GDP	2.6	1.4	1.8	1.9	1.8	2.5–2.7	1.2–1.7	1.5–2.0	1.8–2.0	1.7–2.0	2.5–2.7	0.8–2.5	1.4–2.5	1.6–2.5	1.6–2.5
September projection	2.1	1.5	1.8	1.8	1.8	1.9–2.2	1.2–1.8	1.6–2.0	1.7–2.0	1.7–2.0	1.8–2.6	0.4–2.5	1.4–2.5	1.6–2.5	1.6–2.5
Unemployment rate	3.8	4.1	4.1	4.1	4.1	3.8	4.0–4.2	4.0–4.2	3.9–4.3	3.8–4.3	3.7–4.0	3.9–4.5	3.8–4.7	3.8–4.7	3.5–4.3
September projection	3.8	4.1	4.1	4.0	4.0	3.7–3.9	3.9–4.4	3.9–4.3	3.8–4.3	3.8–4.3	3.7–4.0	3.7–4.5	3.7–4.7	3.7–4.5	3.5–4.3
PCE inflation	2.8	2.4	2.1	2.0	2.0	2.7–2.9	2.2–2.5	2.0–2.2	2.0	2.0	2.7–3.2	2.1–2.7	2.0–2.5	2.0–2.3	2.0
September projection	3.3	2.5	2.2	2.0	2.0	3.2–3.4	2.3–2.7	2.0–2.3	2.0–2.2	2.0	3.1–3.8	2.1–3.5	2.0–2.9	2.0–2.7	2.0
Core PCE inflation[4]	3.2	2.4	2.2	2.0		3.2–3.3	2.4–2.7	2.0–2.2	2.0–2.1		3.2–3.7	2.3–3.0	2.0–2.6	2.0–2.3	
September projection	3.7	2.6	2.3	2.0		3.6–3.9	2.5–2.8	2.0–2.4	2.0–2.3		3.5–4.2	2.3–3.6	2.0–3.0	2.0–2.9	
Memo: Projected appropriate policy path															
Federal funds rate	5.4	4.6	3.6	2.9	2.5	5.4	$\boxed{4.4–4.9}$	3.1–3.9	2.5–3.1	2.5–3.0	5.4	3.9–5.4	2.4–5.4	2.4–4.9	2.4–3.8
September projection	5.6	5.1	3.9	2.9	2.5	5.4–5.6	$\boxed{4.6–5.4}$	3.4–4.9	2.5–4.1	2.5–3.3	5.4–5.6	4.4–6.1	2.6–5.6	2.4–4.9	2.4–3.8

Source: Federal Reserve, December 13, 2023.

Central tendency forecast – cooling inflation

For release at 2:00 p.m., EST, December 13, 2023

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

Percent

Variable	Median[1]					Central Tendency[2]					Range[3]				
	2023	2024	2025	2026	Longer run	2023	2024	2025	2026	Longer run	2023	2024	2025	2026	Longer run
Change in real GDP	2.6	1.4	1.8	1.9	1.8	2.5–2.7	1.2–1.7	1.5–2.0	1.8–2.0	1.7–2.0	2.5–2.7	0.8–2.5	1.4–2.5	1.6–2.5	1.6–2.5
September projection	2.1	1.5	1.8	1.8	1.8	1.9–2.2	1.2–1.8	1.6–2.0	1.7–2.0	1.7–2.0	1.8–2.6	0.4–2.5	1.4–2.5	1.6–2.5	1.6–2.5
Unemployment rate	3.8	4.1	4.1	4.1	4.1	3.8	4.0–4.2	4.0–4.2	3.9–4.3	3.8–4.3	3.7–4.0	3.9–4.5	3.8–4.7	3.8–4.7	3.5–4.3
September projection	3.8	4.1	4.1	4.0	4.0	3.7–3.9	3.9–4.4	3.9–4.3	3.8–4.3	3.8–4.3	3.7–4.0	3.7–4.5	3.7–4.7	3.7–4.5	3.5–4.3
PCE inflation	2.8	2.4	2.1	2.0	2.0	2.7–2.9	2.2–2.5	2.0–2.2	2.0	2.0	2.7–3.2	2.1–2.7	2.0–2.5	2.0–2.3	2.0
September projection	3.3	2.5	2.2	2.0	2.0	3.2–3.4	2.3–2.7	2.0–2.3	2.0–2.2	2.0	3.1–3.8	2.1–3.5	2.0–2.9	2.0–2.7	2.0
Core PCE inflation[4]	3.2	2.4	2.2	2.0		3.2–3.3	2.4–2.7	2.0–2.2	2.0–2.1		3.2–3.7	2.3–3.0	2.0–2.6	2.0–2.3	
September projection	3.7	2.6	2.3	2.0		3.6–3.9	2.5–2.8	2.0–2.4	2.0–2.3		3.5–4.2	2.3–3.6	2.0–3.0	2.0–2.9	
Memo: Projected appropriate policy path															
Federal funds rate	5.4	4.6	3.6	2.9	2.5	5.4	4.4–4.9	3.1–3.9	2.5–3.1	2.5–3.0	5.4	3.9–5.4	2.4–5.4	2.4–4.9	2.4–3.8
September projection	5.6	5.1	3.9	2.9	2.5	5.4–5.6	4.6–5.4	3.4–4.9	2.5–4.1	2.5–3.3	5.4–5.6	4.4–6.1	2.6–5.6	2.4–4.9	2.4–3.8

Source: Federal Reserve, December 13, 2023.

Central tendency forecast – no recession

For release at 2:00 p.m., EST, December 13, 2023

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

Percent

Variable	Median[1]					Central Tendency[2]					Range[3]				
	2023	2024	2025	2026	Longer run	2023	2024	2025	2026	Longer run	2023	2024	2025	2026	Longer run
Change in real GDP	2.6	1.4	1.8	1.9	1.8	2.5–2.7	1.2–1.7	1.5–2.0	1.8–2.0	1.7–2.0	2.5–2.7	0.8–2.5	1.4–2.5	1.6–2.5	1.6–2.5
September projection	2.1	1.5	1.8	1.8	1.8	1.9–2.2	1.2–1.8	1.6–2.0	1.7–2.0	1.7–2.0	1.8–2.6	0.4–2.5	1.4–2.5	1.6–2.5	1.6–2.5
Unemployment rate	3.8	4.1	4.1	4.1	4.1	3.8	4.0–4.2	4.0–4.2	3.9–4.3	3.8–4.3	3.7–4.0	3.9–4.5	3.8–4.7	3.8–4.7	3.5–4.3
September projection	3.8	4.1	4.1	4.0	4.0	3.7–3.9	3.9–4.4	3.9–4.3	3.8–4.3	3.8–4.3	3.7–4.0	3.7–4.5	3.7–4.7	3.7–4.5	3.5–4.3
PCE inflation	2.8	2.4	2.1	2.0	2.0	2.7–2.9	2.2–2.5	2.0–2.2	2.0	2.0	2.7–3.2	2.1–2.7	2.0–2.5	2.0–2.3	2.0
September projection	3.3	2.5	2.2	2.0	2.0	3.2–3.4	2.3–2.7	2.0–2.3	2.0–2.2	2.0	3.1–3.8	2.1–3.5	2.0–2.9	2.0–2.7	2.0
Core PCE inflation[4]	3.2	2.4	2.2	2.0		3.2–3.3	2.4–2.7	2.0–2.2	2.0–2.1		3.2–3.7	2.3–3.0	2.0–2.6	2.0–2.3	
September projection	3.7	2.6	2.3	2.0		3.6–3.9	2.5–2.8	2.0–2.4	2.0–2.3		3.5–4.2	2.3–3.6	2.0–3.0	2.0–2.9	
Memo: Projected appropriate policy path															
Federal funds rate	5.4	4.6	3.6	2.9	2.5	5.4	4.4–4.9	3.1–3.9	2.5–3.1	2.5–3.0	5.4	3.9–5.4	2.4–5.4	2.4–4.9	2.4–3.8
September projection	5.6	5.1	3.9	2.9	2.5	5.4–5.6	4.6–5.4	3.4–4.9	2.5–4.1	2.5–3.3	5.4–5.6	4.4–6.1	2.6–5.6	2.4–4.9	2.4–3.8

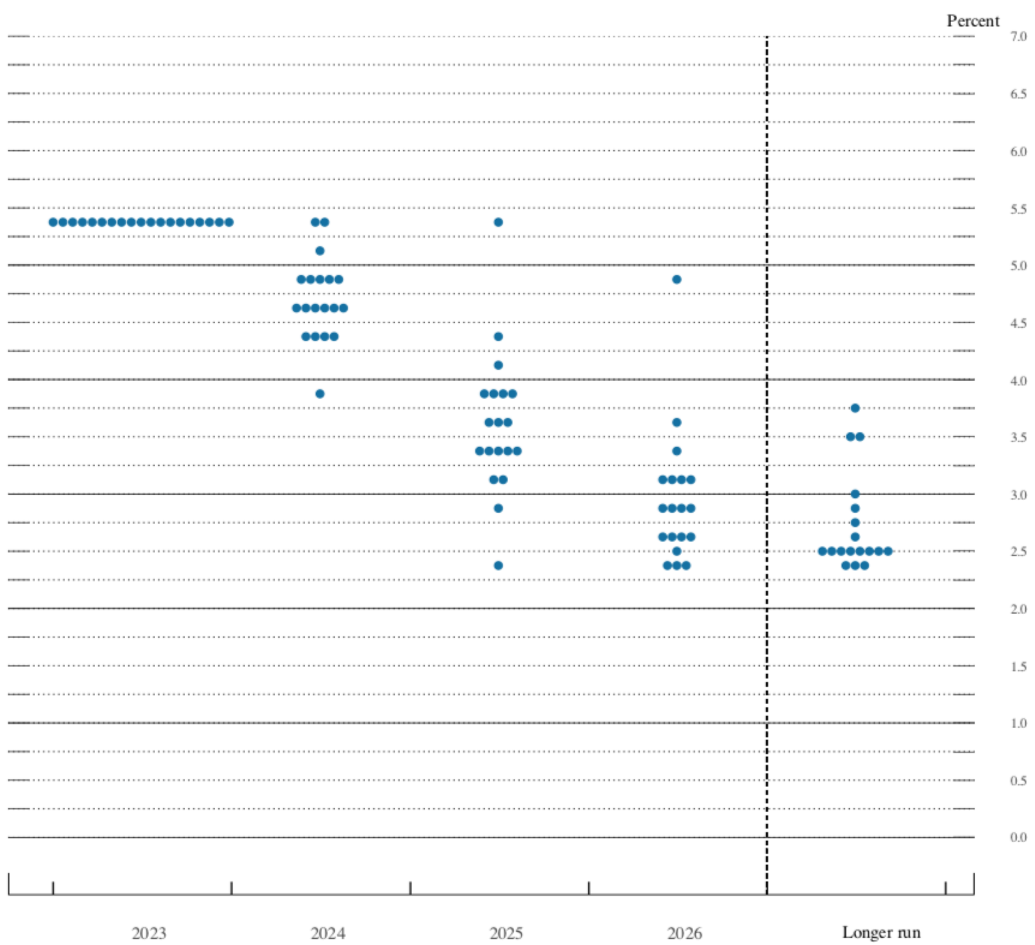
Source: Federal Reserve, December, 2023.

Federal Reserve

Dot plot – rate cuts next year

For release at 2:00 p.m., EST, December 13, 2023

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



Source: Federal Reserve, December 13, 2023.

Powell's December 1st speech

THE WALL STREET JOURNAL.

Rate Hikes Are Likely Over, but No One Will Say So Yet

On Friday, Fed Chair Jerome Powell offered the strongest signal yet that officials are likely done raising rates by saying that their policy is "well into restrictive territory, meaning that tight monetary policy" is slowing economic activity.

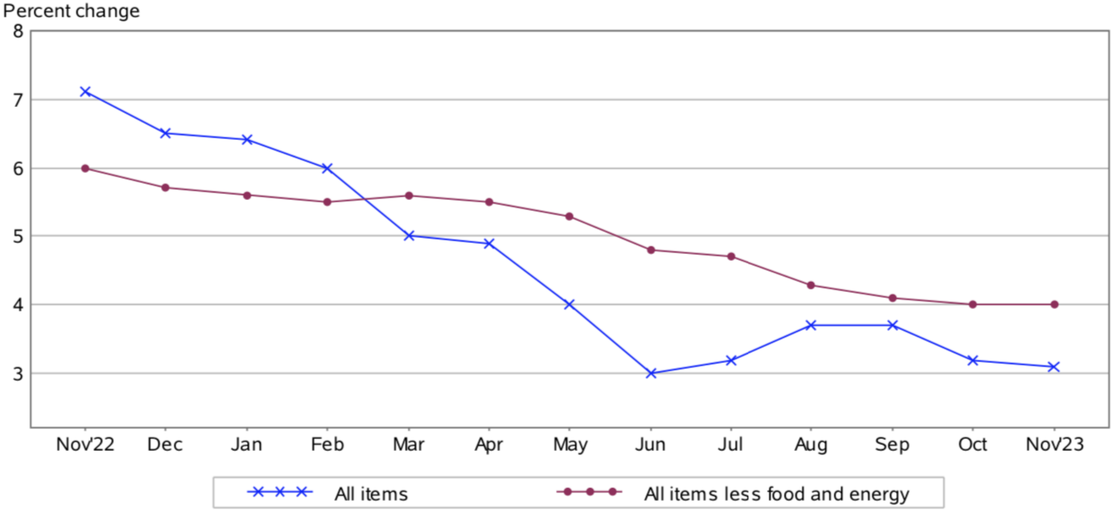
Source: *The Wall Street Journal.* "Rate Hikes are Likely Over, but No One Will Say So Yet", by Nick Timiraos. December 2-3, 2023.

Inflation

- Year-over-year headline PCED +3.0%, +3.5% core
- M2 driving (dis)inflation?
- Inflation expectations (TIPS spread) falling

CPI – headline and core

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



Core up +4.0% y/y in November.

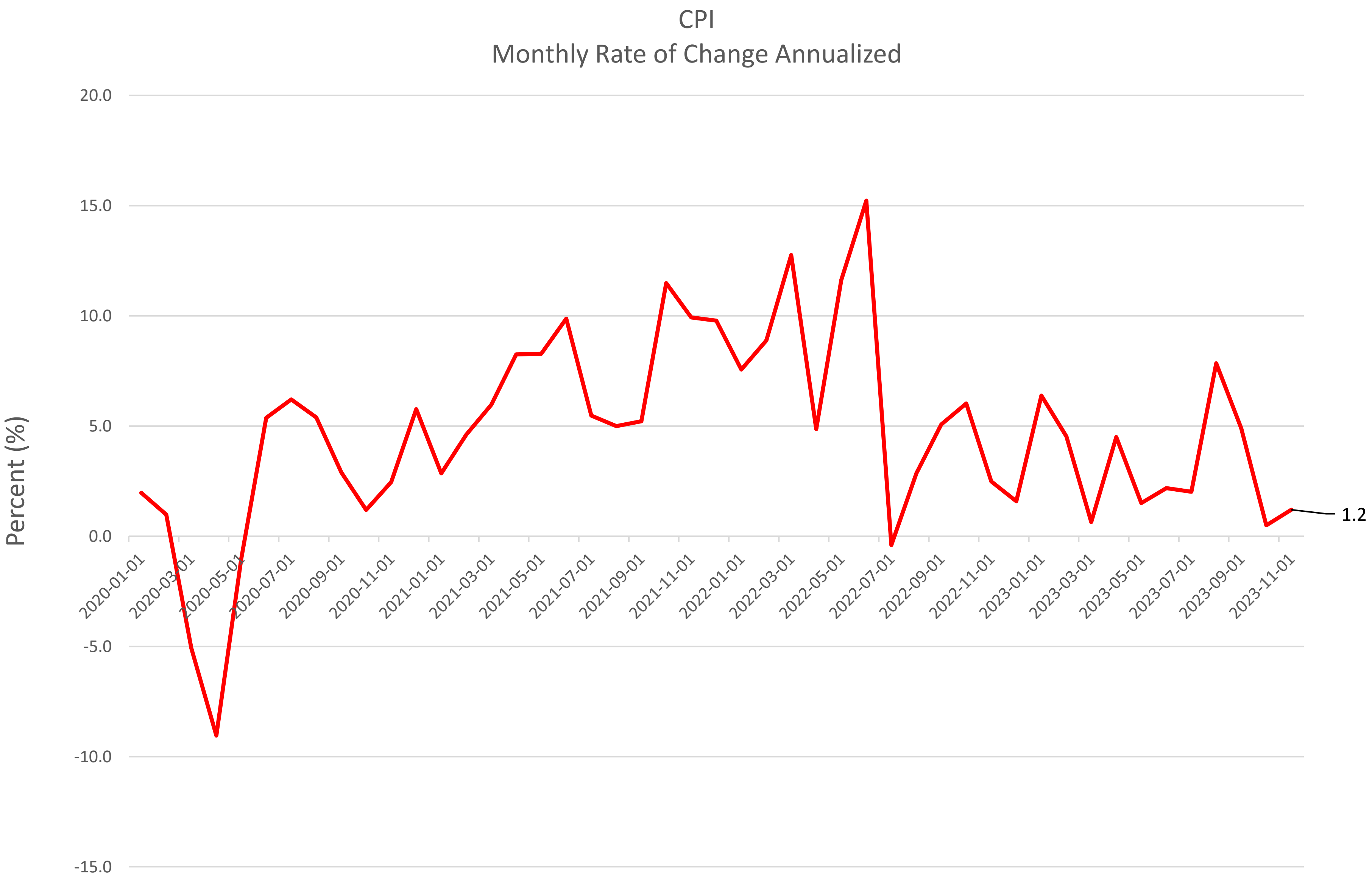
Up +3.1% y/y in November.

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

	Seasonally adjusted changes from preceding month							Un-adjusted 12-mos. ended Nov. 2023
	May 2023	Jun. 2023	Jul. 2023	Aug. 2023	Sep. 2023	Oct. 2023	Nov. 2023	
All items	0.1	0.2	0.2	0.6	0.4	0.0	0.1	3.1
Food	0.2	0.1	0.2	0.2	0.2	0.3	0.2	2.9
Food at home	0.1	0.0	0.3	0.2	0.1	0.3	0.1	1.7
Food away from home[1]	0.5	0.4	0.2	0.3	0.4	0.4	0.4	5.3
Energy	-3.6	0.6	0.1	5.6	1.5	-2.5	-2.3	-5.4
Energy commodities	-5.6	0.8	0.3	10.5	2.3	-4.9	-5.8	-9.8
Gasoline (all types)	-5.6	1.0	0.2	10.6	2.1	-5.0	-6.0	-8.9
Fuel oil[1]	-7.7	-0.4	3.0	9.1	8.5	-0.8	-2.7	-24.8
Energy services	-1.4	0.4	-0.1	0.2	0.6	0.5	1.7	-0.1
Electricity	-1.0	0.9	-0.7	0.2	1.3	0.3	1.4	3.4
Utility (piped) gas service	-2.6	-1.7	2.0	0.1	-1.9	1.2	2.8	-10.4
All items less food and energy	0.4	0.2	0.2	0.3	0.3	0.2	0.3	4.0
Commodities less food and energy commodities	0.6	-0.1	-0.3	-0.1	-0.4	-0.1	-0.3	0.0
New vehicles	-0.1	0.0	-0.1	0.3	0.3	-0.1	-0.1	1.3
Used cars and trucks	4.4	-0.5	-1.3	-1.2	-2.5	-0.8	1.6	-3.8
Apparel	0.3	0.3	0.0	0.2	-0.8	0.1	-1.3	1.1
Medical care commodities[1]	0.6	0.2	0.5	0.6	-0.3	0.4	0.5	5.0
Services less energy services	0.4	0.3	0.4	0.4	0.6	0.3	0.5	5.5
Shelter	0.6	0.4	0.4	0.3	0.6	0.3	0.4	6.5
Transportation services	0.8	0.1	0.3	2.0	0.7	0.8	1.1	10.1
Medical care services	-0.1	0.0	-0.4	0.1	0.3	0.3	0.6	-0.9

Source: BLS. Data through November 2023.

Inflation
CPI – monthly annualized



Source: BLS. Data through November 2023.

Whiff of deflation

THE WALL STREET JOURNAL.

Retailers See Price Increases Ebbing

"We may be managing through a period of deflation in the months to come, and while that would put more unit pressure on us, we welcome it, because it's better for our customers," said Walmart Chief Executive Doug McMillon on a conference call Thursday. Walmart would need to further reduce expenses as prices fall further, he said.

Source: *The Wall Street Journal*, "Retailers See Price Increases Ebbing", by Sarah Nassauer and Suzanne Kapner, November 17, 2023.

Whiff of deflation

Source: *CNBC*, December 6, 2023.

Headed lower

THE WALL STREET JOURNAL.

As Rent Rises Cool, So Will Inflation

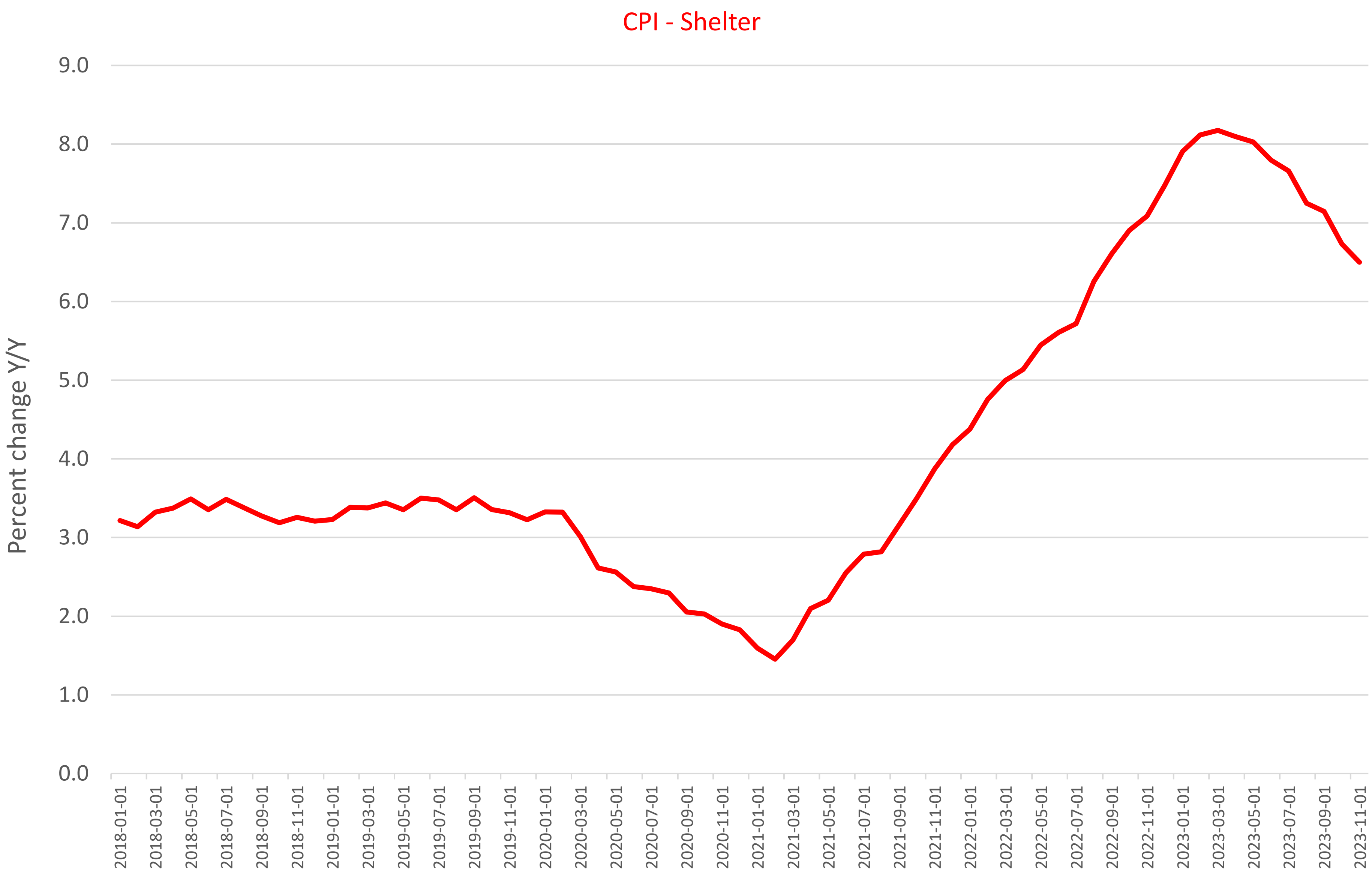
The Labor Department's measure of shelter inflation has come down a lot—it has a lot further to go.

Inflation has been cooling, and a big part of why is that rent increases have as well. That is also why inflation is likely to keep going lower in the months ahead.

Shelter costs, which account for about two-fifths of the Labor Department's measure of core spending, have played a large role in the decline in core inflation.

Source: *The Wall Street Journal*, "As Rent Rises Cool, So Will Inflation", by Justin Lahart, November 15, 2023.

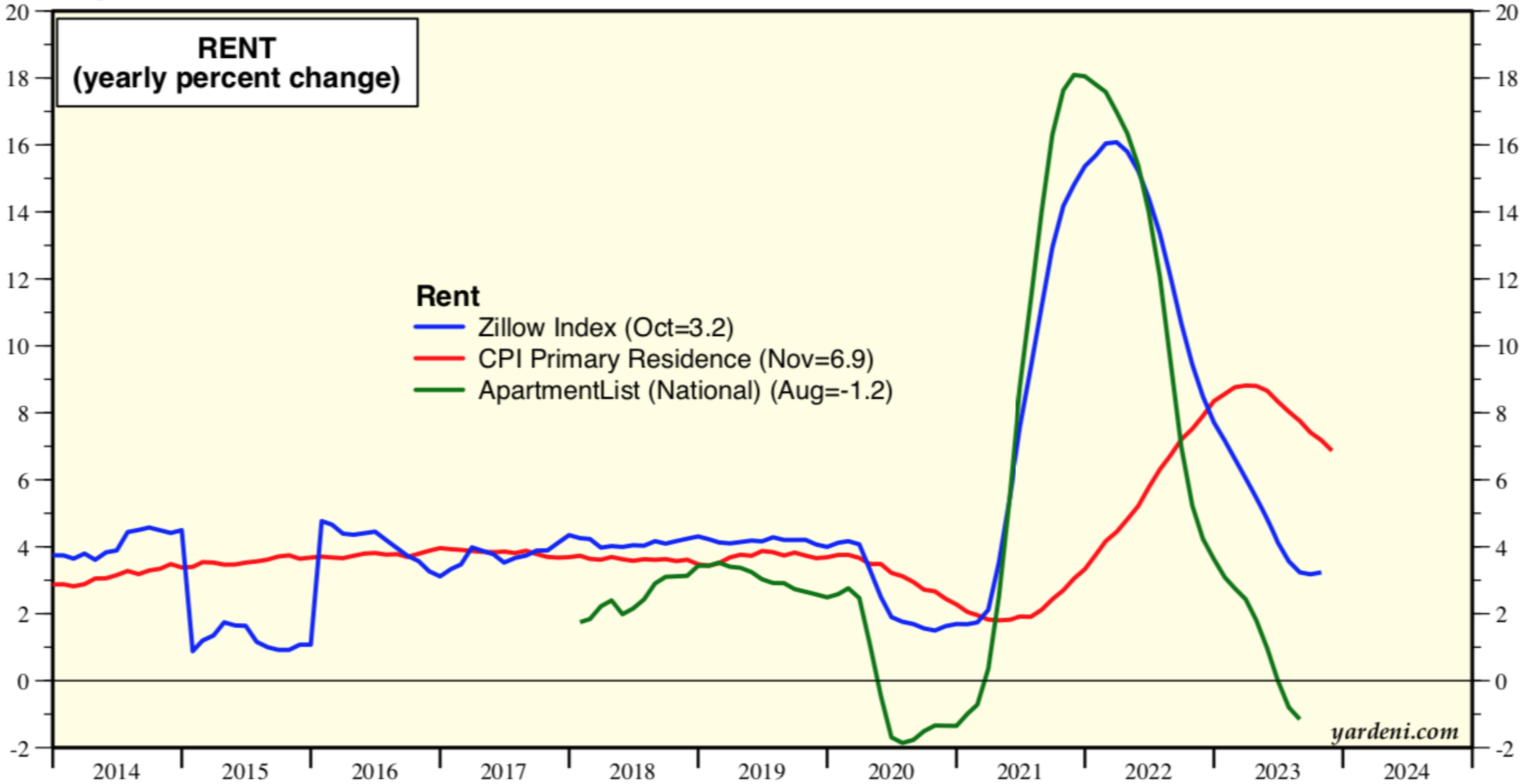
CPI – shelter[1] … a long way to drop



Source: BLS. Data through October 2023. [1]31% of the CPI.

CPI – shelter

Figure 8.

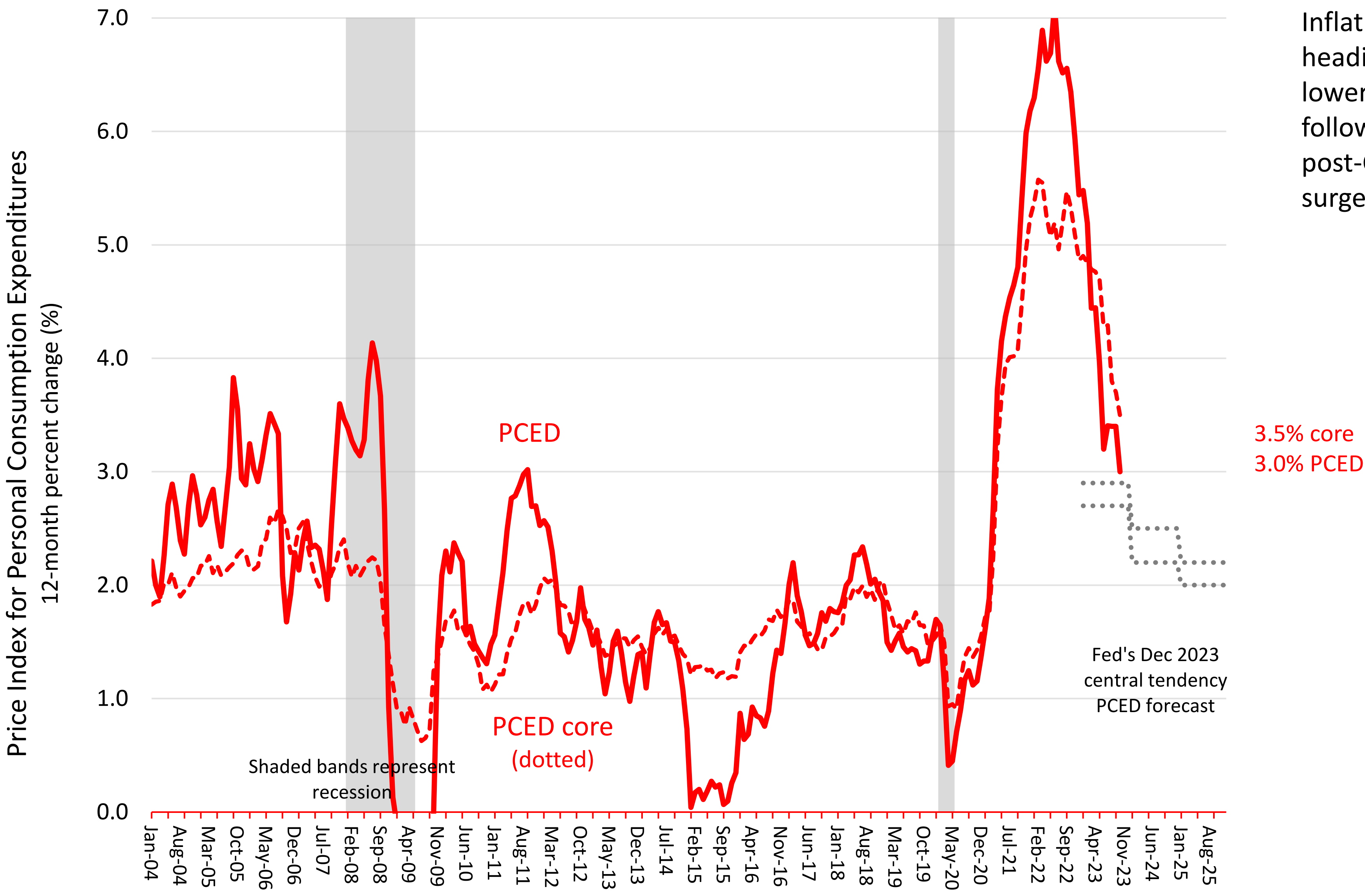


Source: Zillow, ApartmentList, and Bureau of Labor Statistics.

Source: Yardeni Research Inc., December 12, 2023.

Inflation

PCED – headline and core

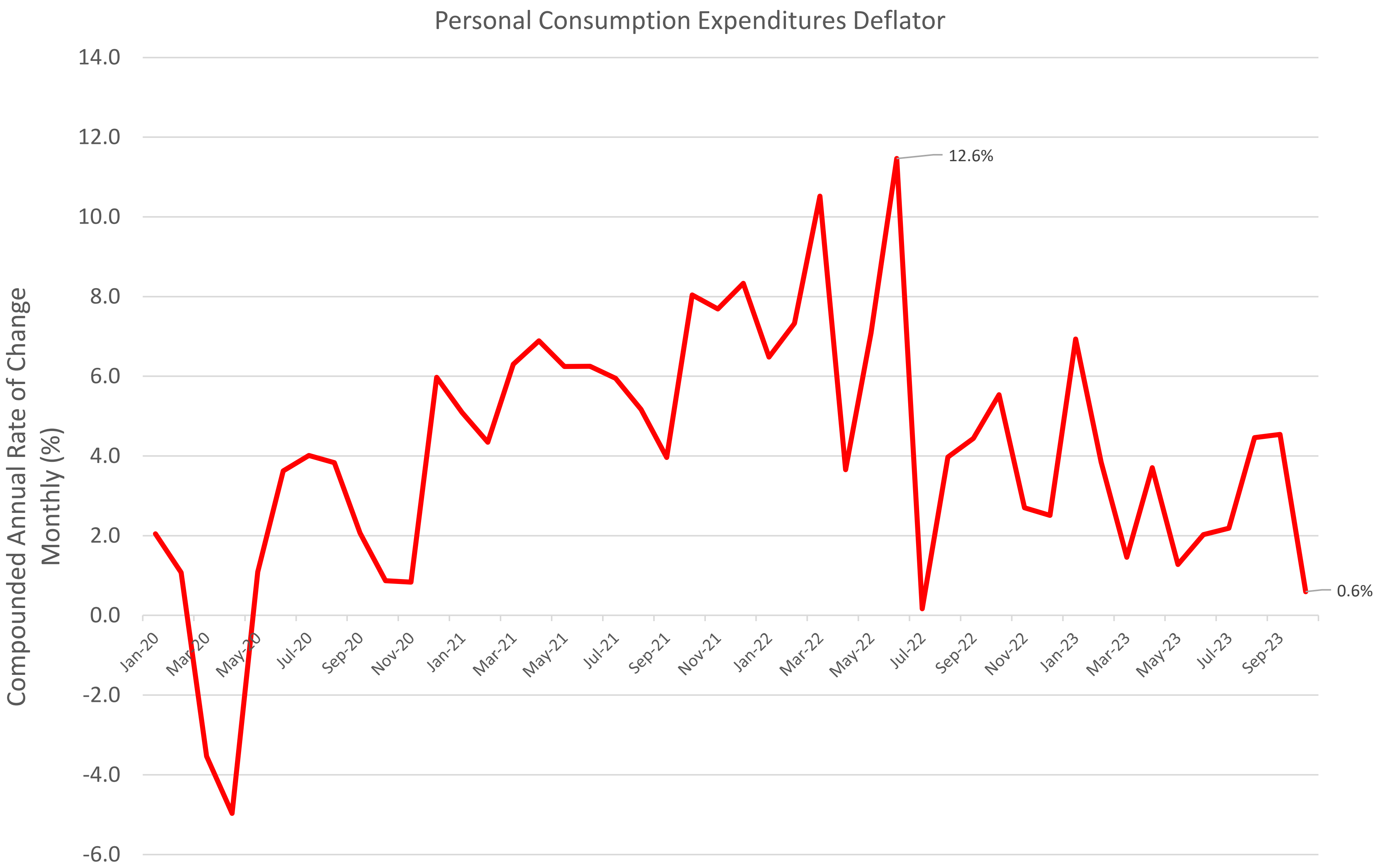


Inflation heading lower following the post-Covid surge.

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

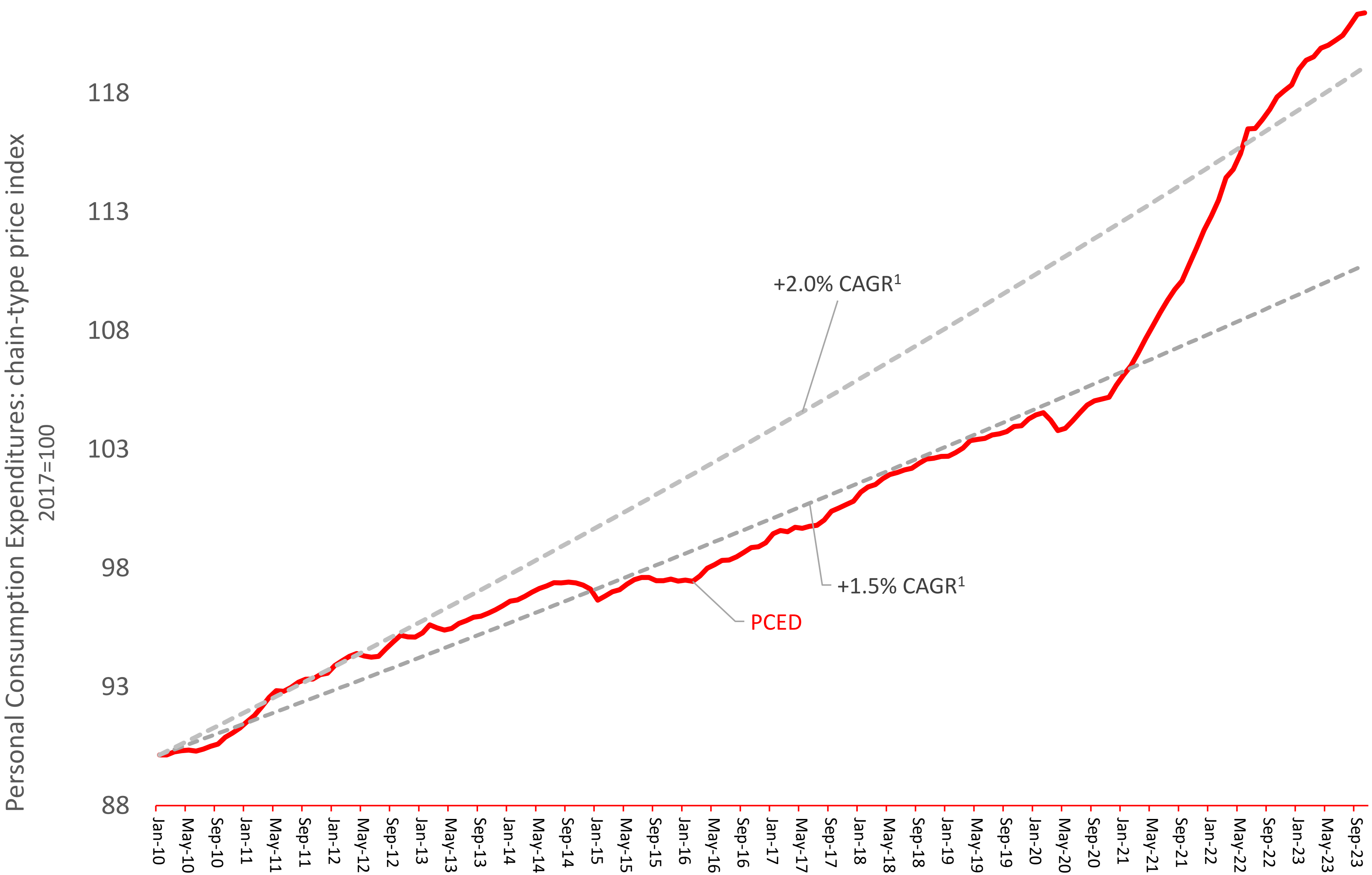
Inflation

PCED – monthly rate of change annualized



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

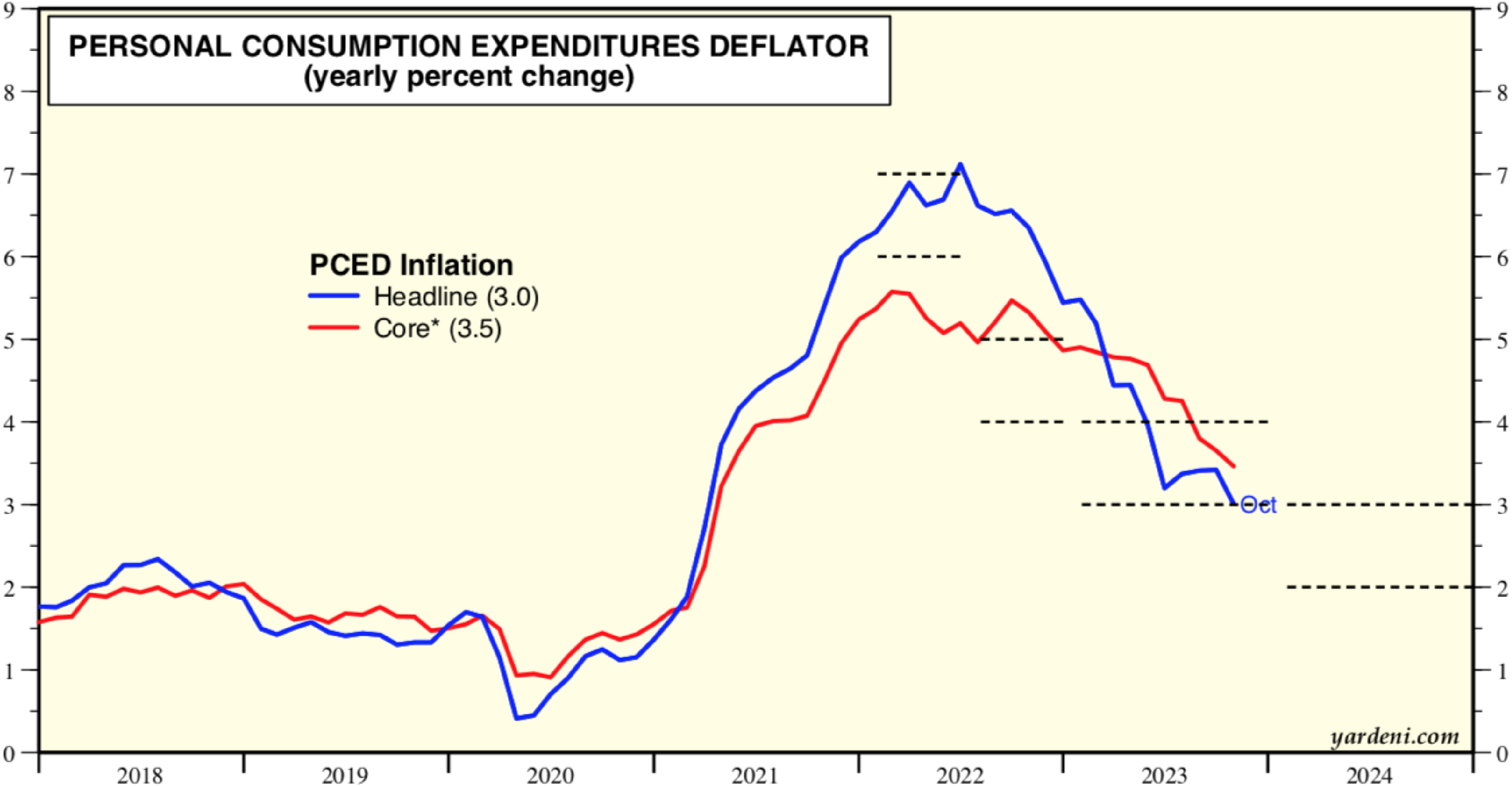
PCED – headline



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

Ed Yardeni's inflation forecast

Figure 2.



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

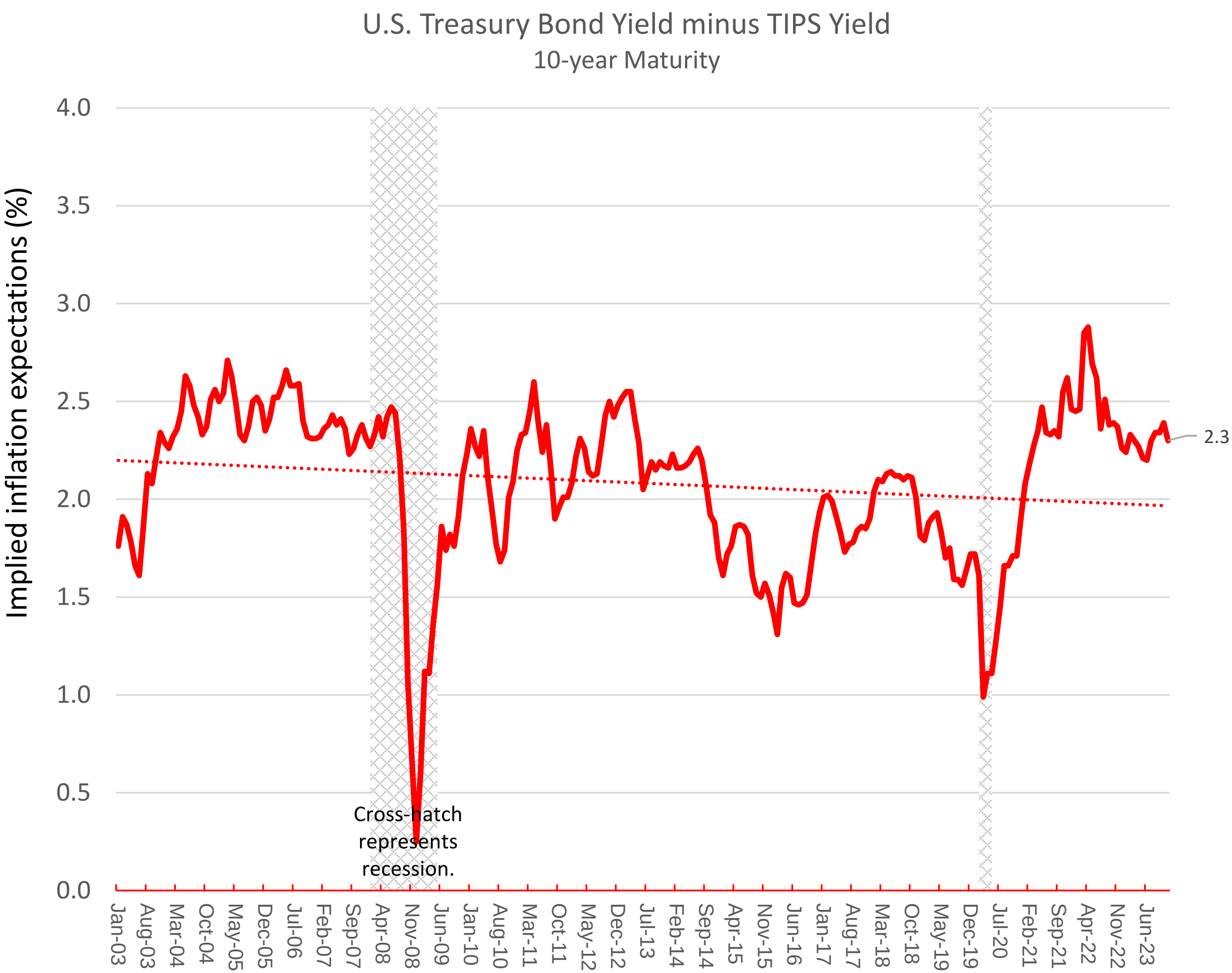
Source: Yardeni Research, Inc., with permission, December 12, 2023.

Inflation expectations

Consumers expect substantially moderating inflation.

Source: Federal Reserve Bank of New York, *Survey of Consumer Expectations*. Data through November 2023.

Inflation expectations



The difference between the nominal 10-year Treasury bond yield and the TIPS yield gives the market's opinion for a 10-year inflation forecast.

It had been trending lower for 15 years but has moved higher post-Covid.

Source: Federal Reserve. Data through November 2023.

Important Information

All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. This is not to be construed as an offer to buy or sell any financial instruments and should not be relied upon as the sole factor in an investment making decision. As with all investments there are associated inherent risks. Please obtain and review all financial material carefully before investing.

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

These materials may contain statements that are not purely historical in nature but are "forward-looking statements." These include, among other things, projections, forecasts, estimates of income, yield or return or future performance targets. These forward-looking statements are based upon certain assumptions, some of which are described herein. Actual events are difficult to predict and may substantially differ from those assumed. All forward-looking statements included herein are based on information available on the date hereof and Fritz Meyer assumes no duty to update any forward-looking statement. Accordingly, there can be no assurance that estimated returns or projections can be realized, that forward-looking statements will materialize or that actual returns or results will not be materially lower than those presented.

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