

# 42ND ANNUAL AGLF CONFERENCE

MAY 2-4, 2022 THE DON CESAR ST. PETE BEACH FL



## 2022 ECONOMIC OUTLOOK AND FINANCIAL MARKET UPDATE

*May 2022*

**Scott Colbert, CFA**

*Executive Vice President*

Director of Fixed Income & Chief Economist

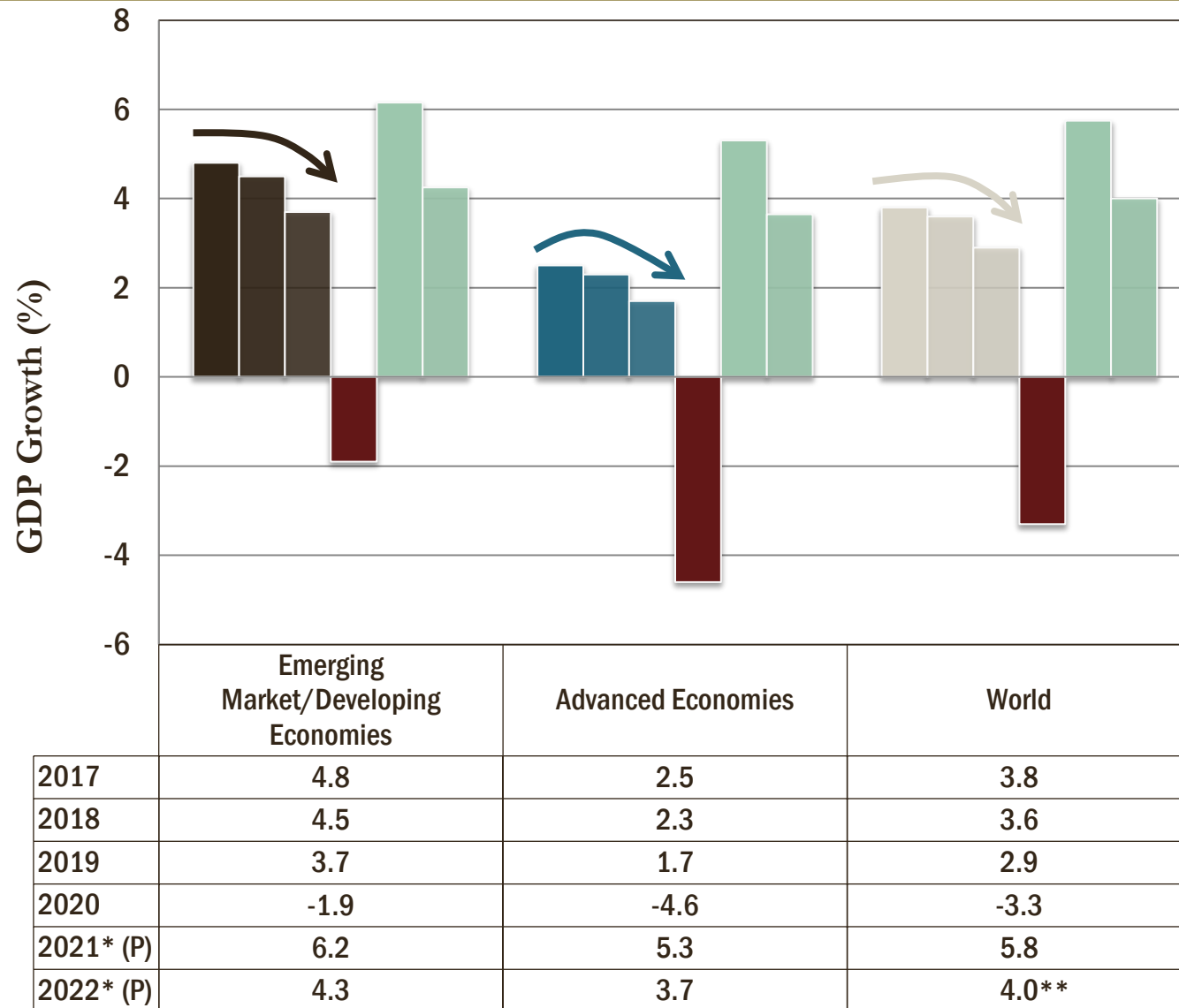
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# GLOBAL GROWTH REBOUNDED STRONGLY IN 2021 (AND WAS ON FIRM FOOTING PRIOR TO THE WAR)

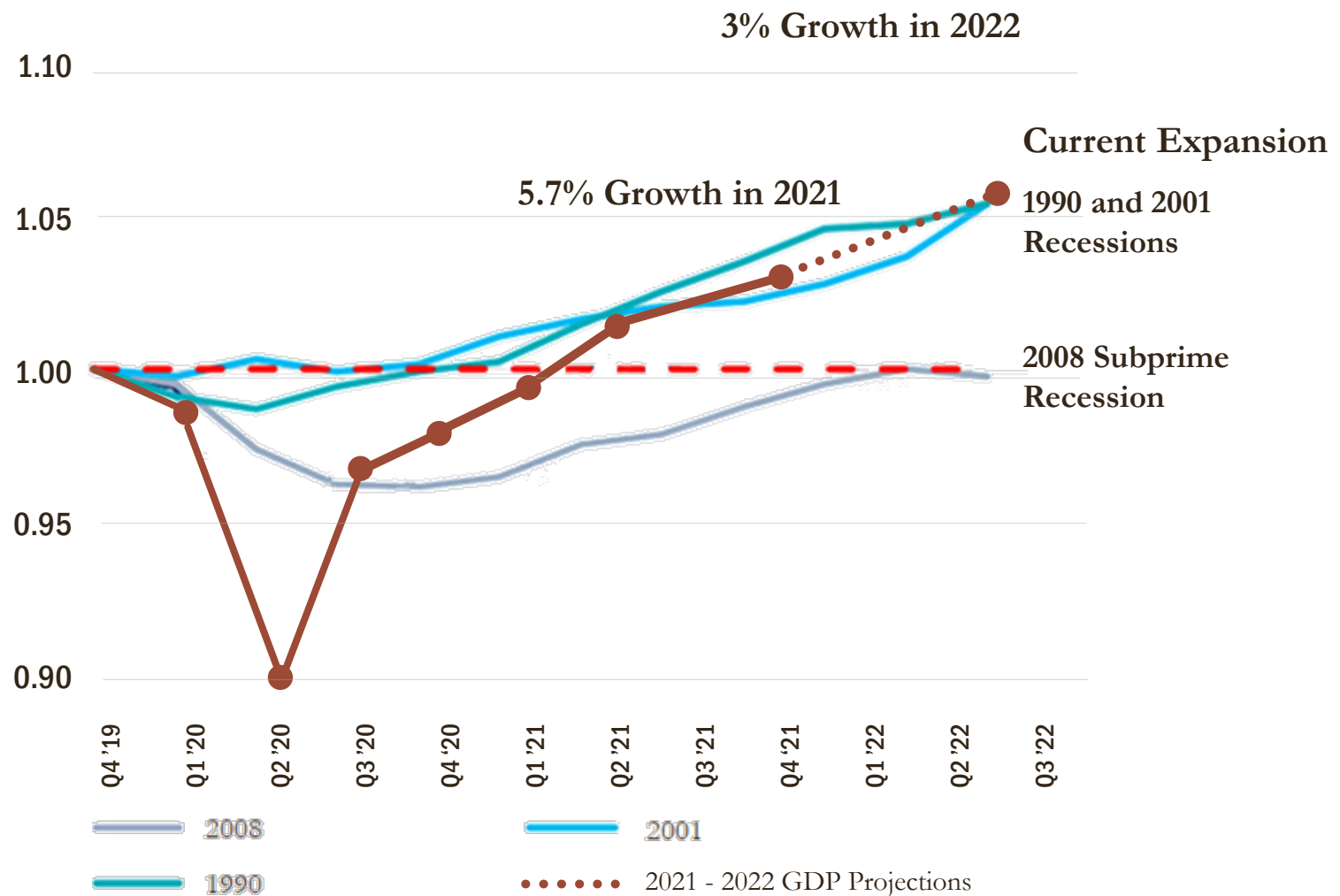


Source: International Monetary Fund, World Bank

\*Projections based on average of both sources

\*\* We project an additional 15% reduction in global output

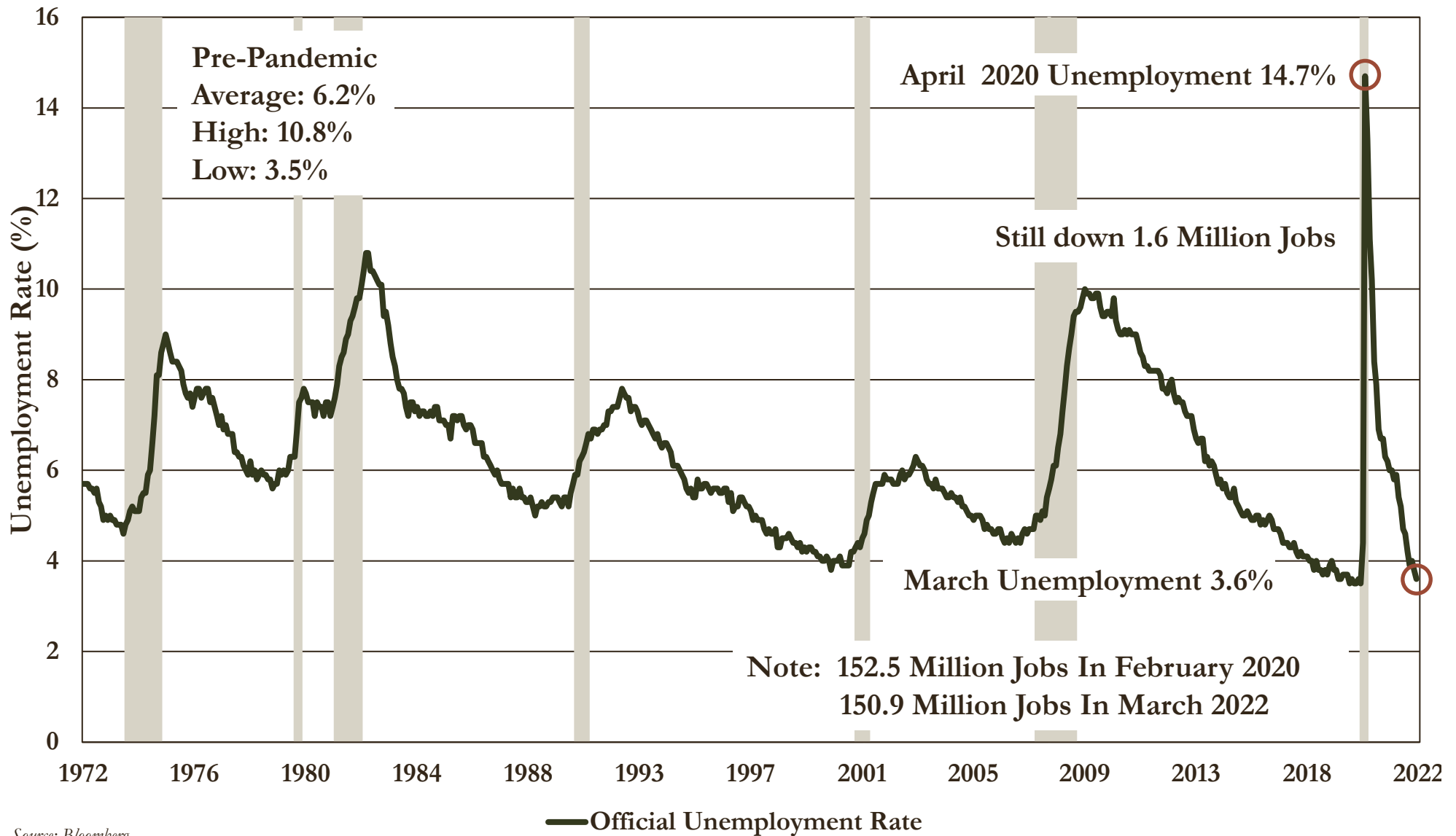
# U.S. GDP PLUNGED, RECOVERED MORE QUICKLY THAN ANTICIPATED BUT NOW SLOWS



Source: Citi Research, Commerce Trust Company

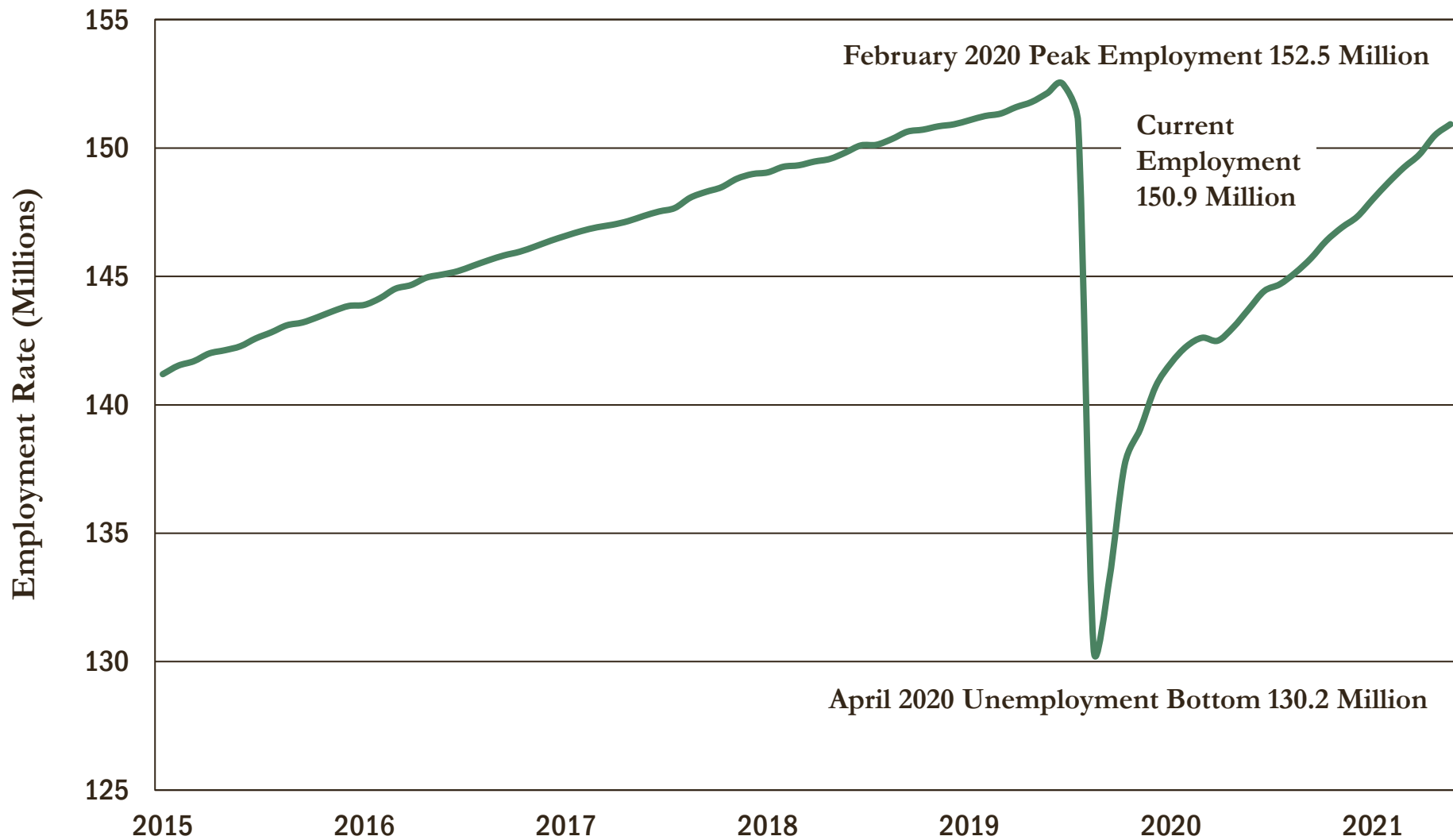
# OFFICIAL UNEMPLOYMENT RATE

(LOWER THAN NORMAL DUE TO LESS WORKFORCE PARTICIPATION)



Source: Bloomberg

# TOTAL NON-FARM EMPLOYMENT (FILLING A LARGE GAP)

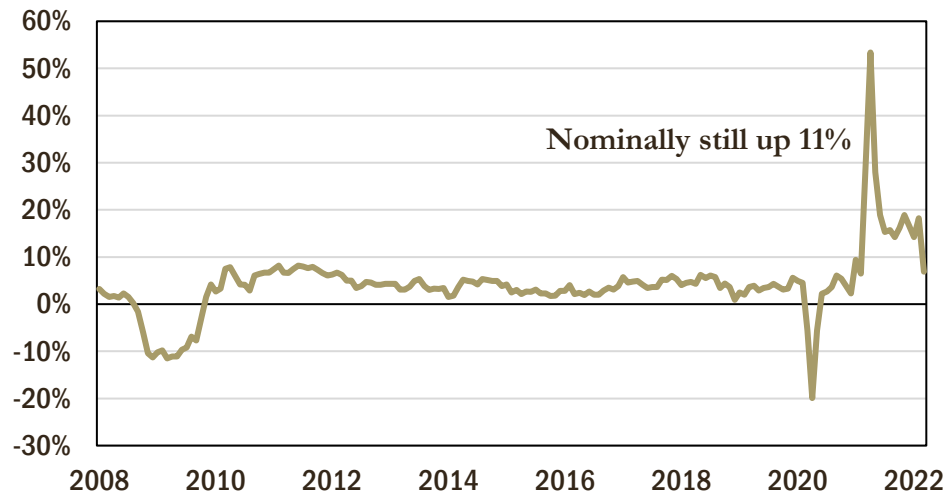


Source: Bloomberg

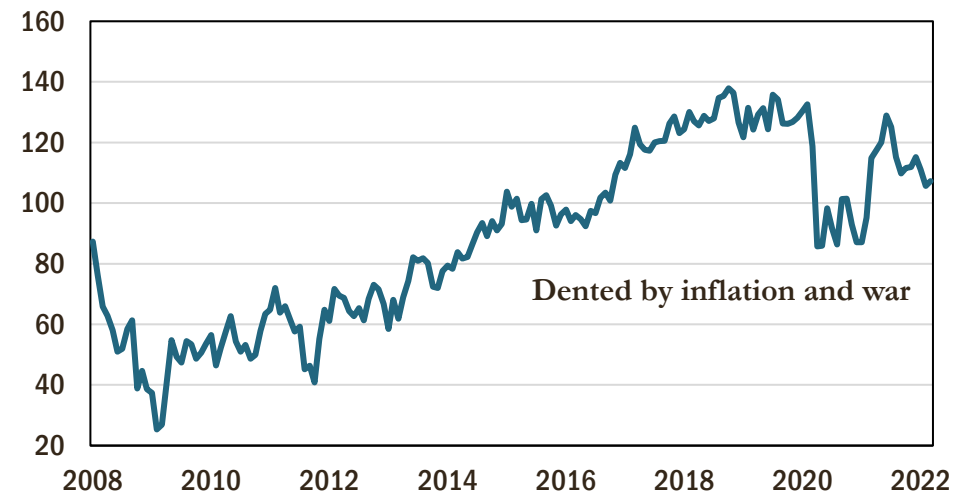


# CONSUMER – SHAKEN BUT NOT STIRRED YET

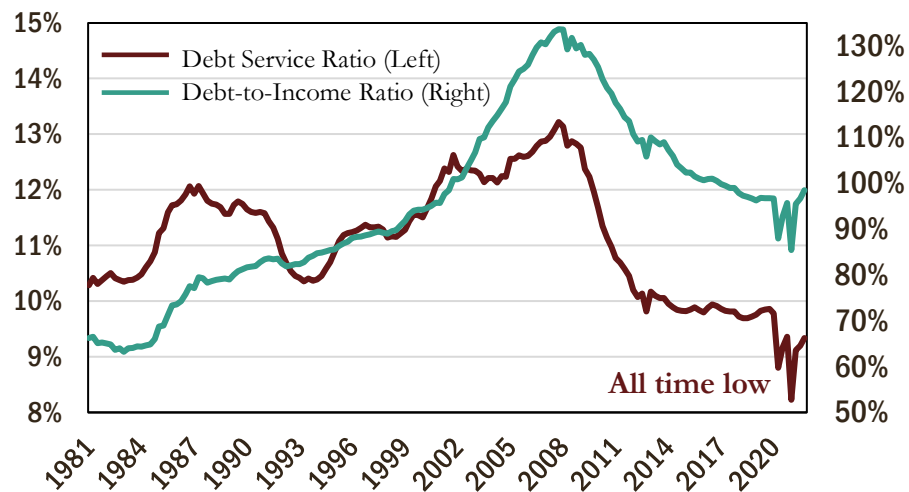
## RETAIL SALES (YOY%)



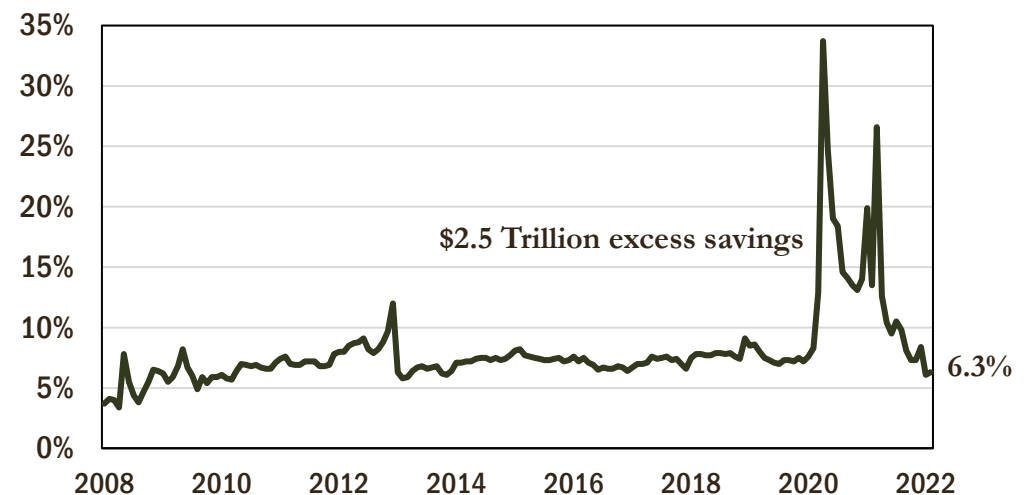
## CONSUMER CONFIDENCE



## CONSUMER BALANCE SHEETS



## HOUSEHOLD SAVINGS

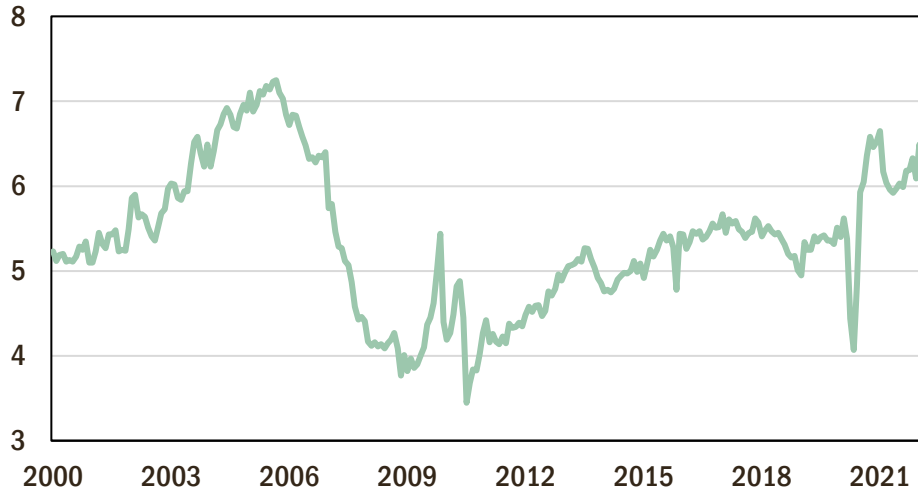


Source: Bloomberg, FRB, BEA, Goldman Sachs Global Investment Research, Baird

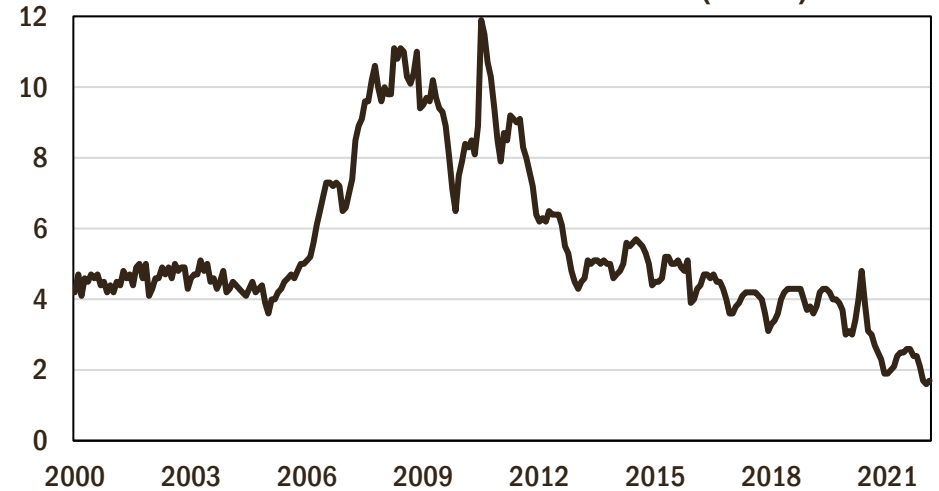
# HOUSING MARKET STILL EXCEPTIONALLY STRONG

(BUT AFFORDABILITY TIED TO THE 10 YEAR TREASURY)

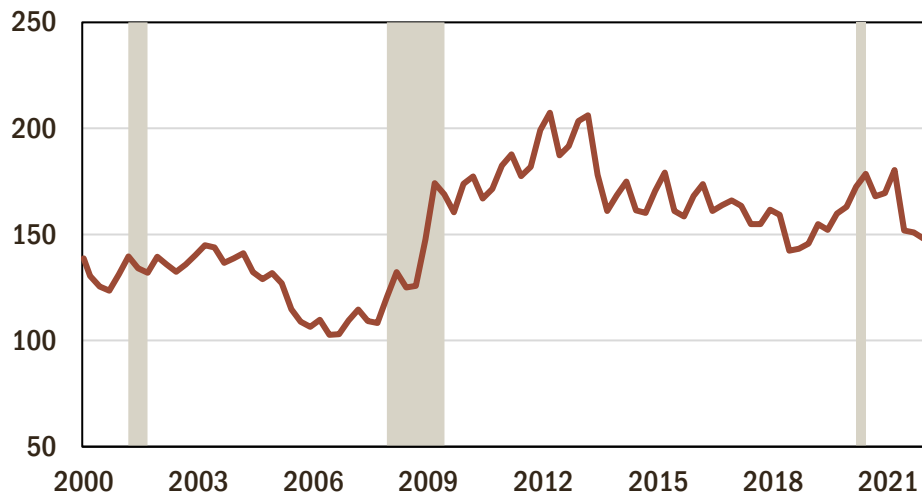
EXISTING HOME SALES (MILLIONS)



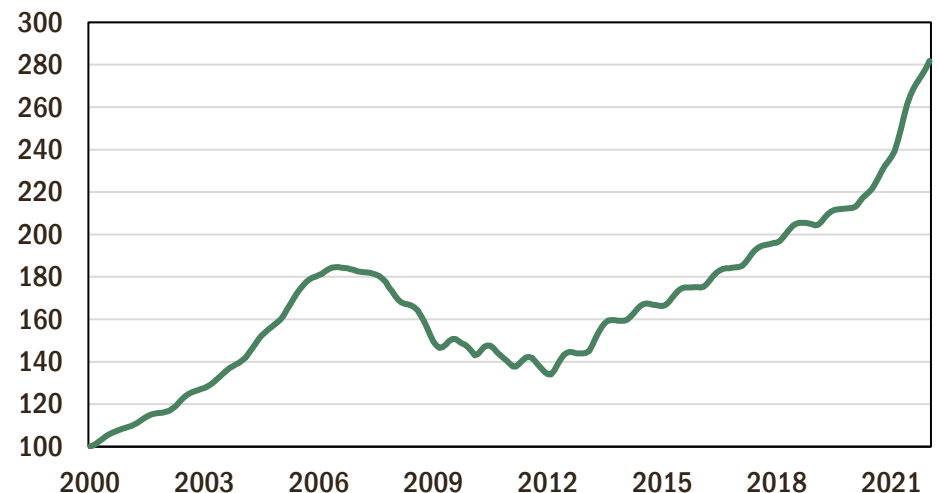
EXISTING MONTHS SUPPLY (TIGHT)



HOUSING AFFORDABILITY INDEX (DROPPING)



CASE SHILLER NOMINAL HOME PRICE INDEX

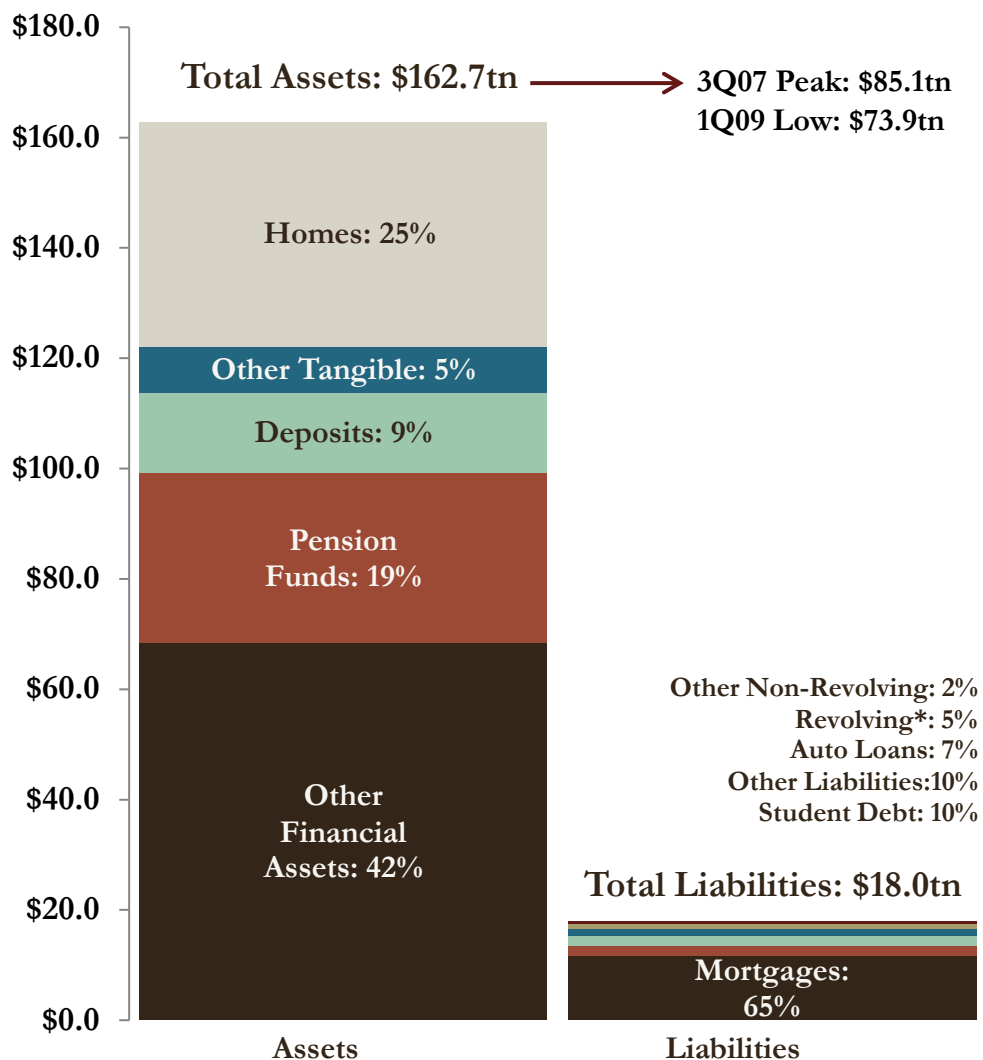


Source: Bloomberg, Baird

# CONSUMER FINANCES – LARGE POSITIVE WEALTH EFFECT

## Consumer Balance Sheet

4Q21, Trillions of Dollars Outstanding, Not Seasonally Adjusted

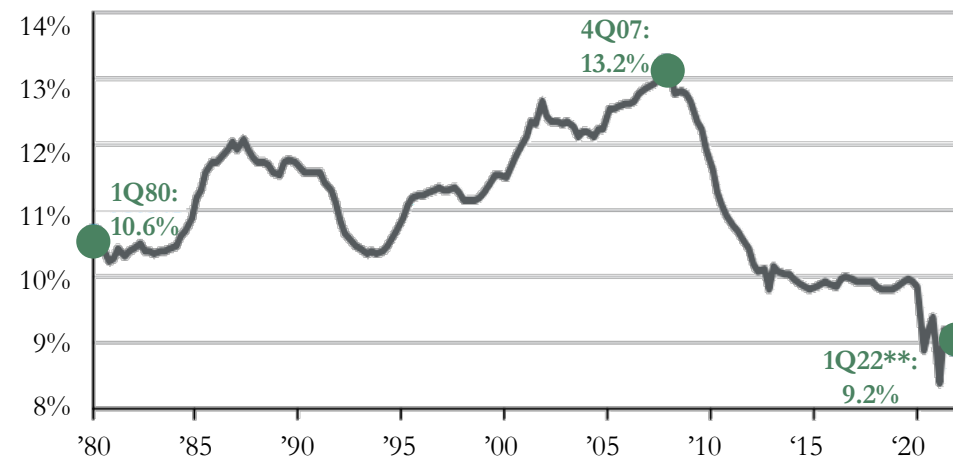


Source: FactSet, FRB, JP Morgan, BEA

\*Revolving includes credit cards

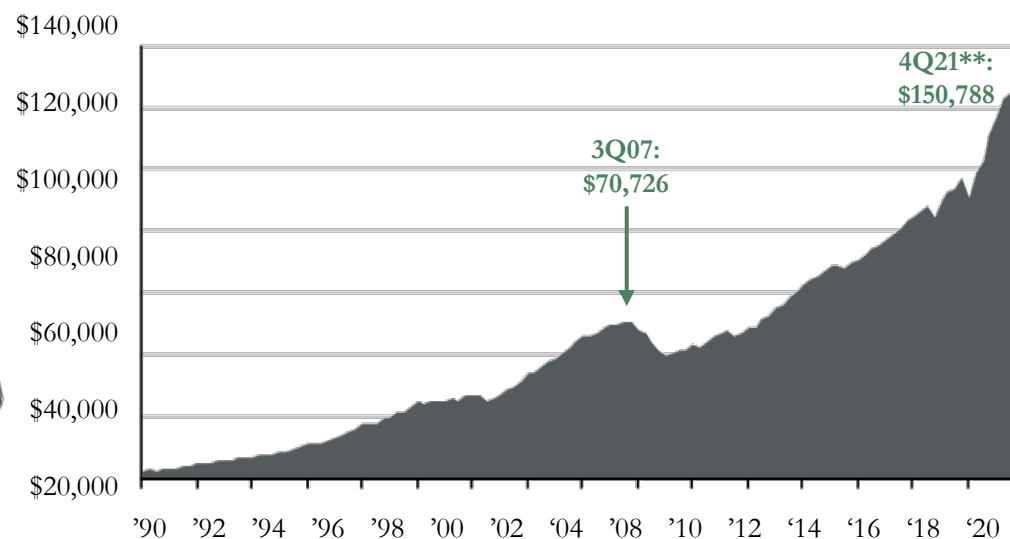
## Household Debt Service Ratio

Debt Payments as % of Disposable Personal Income, SA



## Household Net Worth

Not Seasonally Adjusted, USD Billions



\*\*4Q21 figures for debt service ratio and household net worth are J.P. Morgan Asset Management estimates.

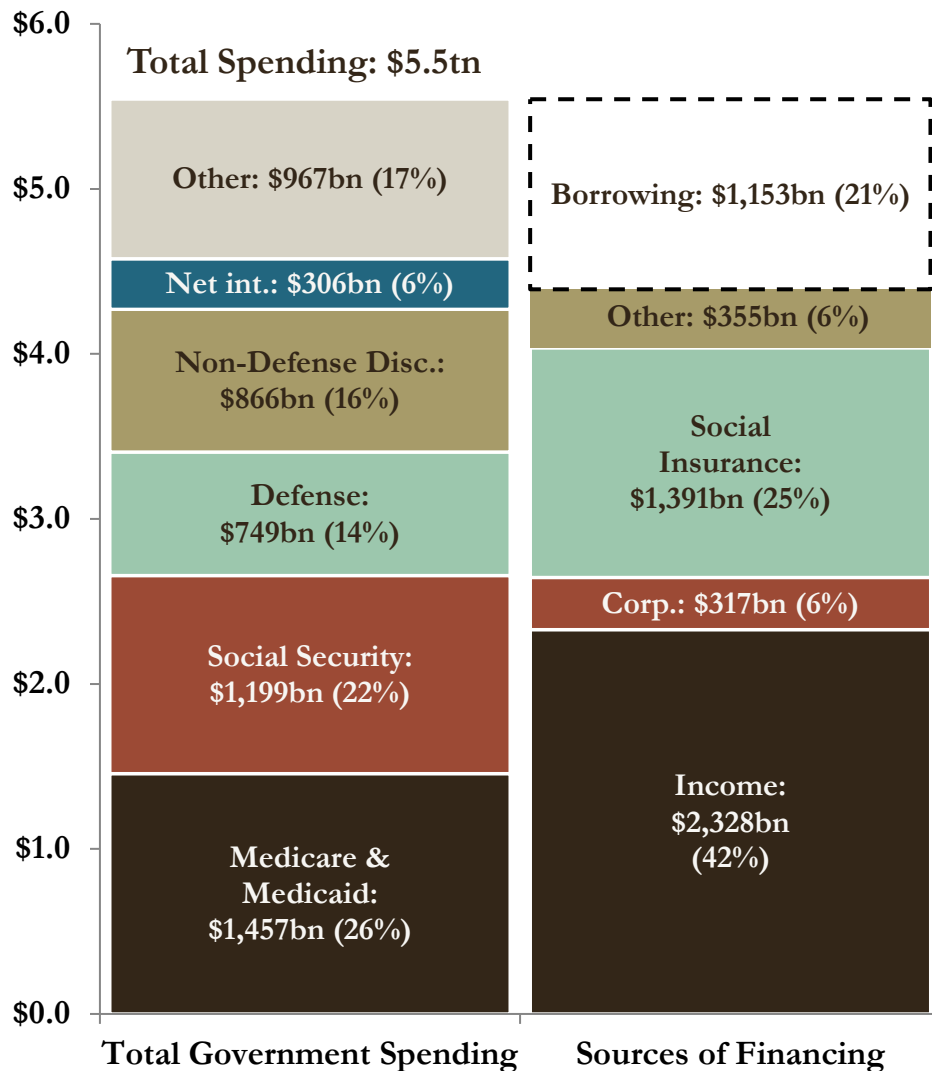


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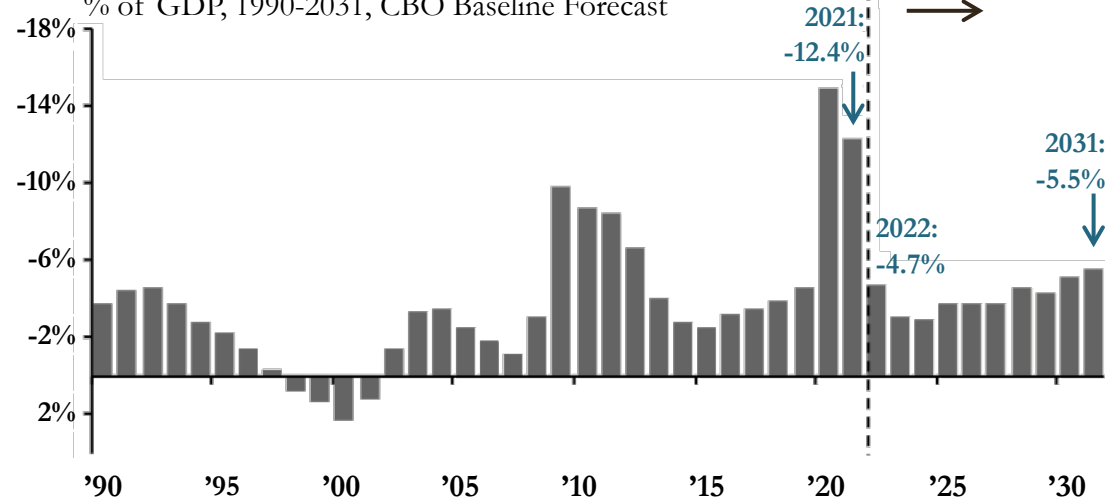
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# LIMITATIONS ON FISCAL POLICY

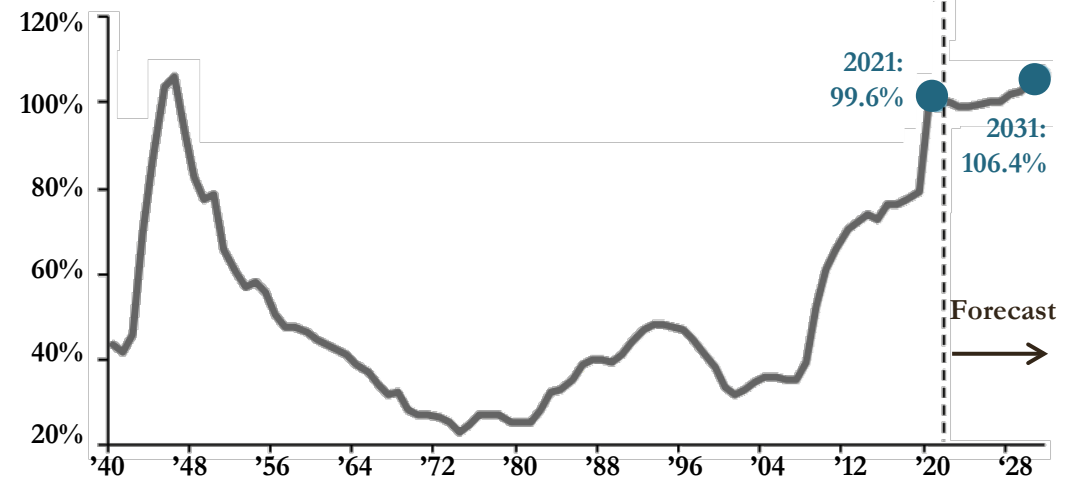
The 2022 Federal Budget,  
CBO Baseline Forecast, USD Trillions



Federal Budget Surplus/Deficit  
% of GDP, 1990-2031, CBO Baseline Forecast

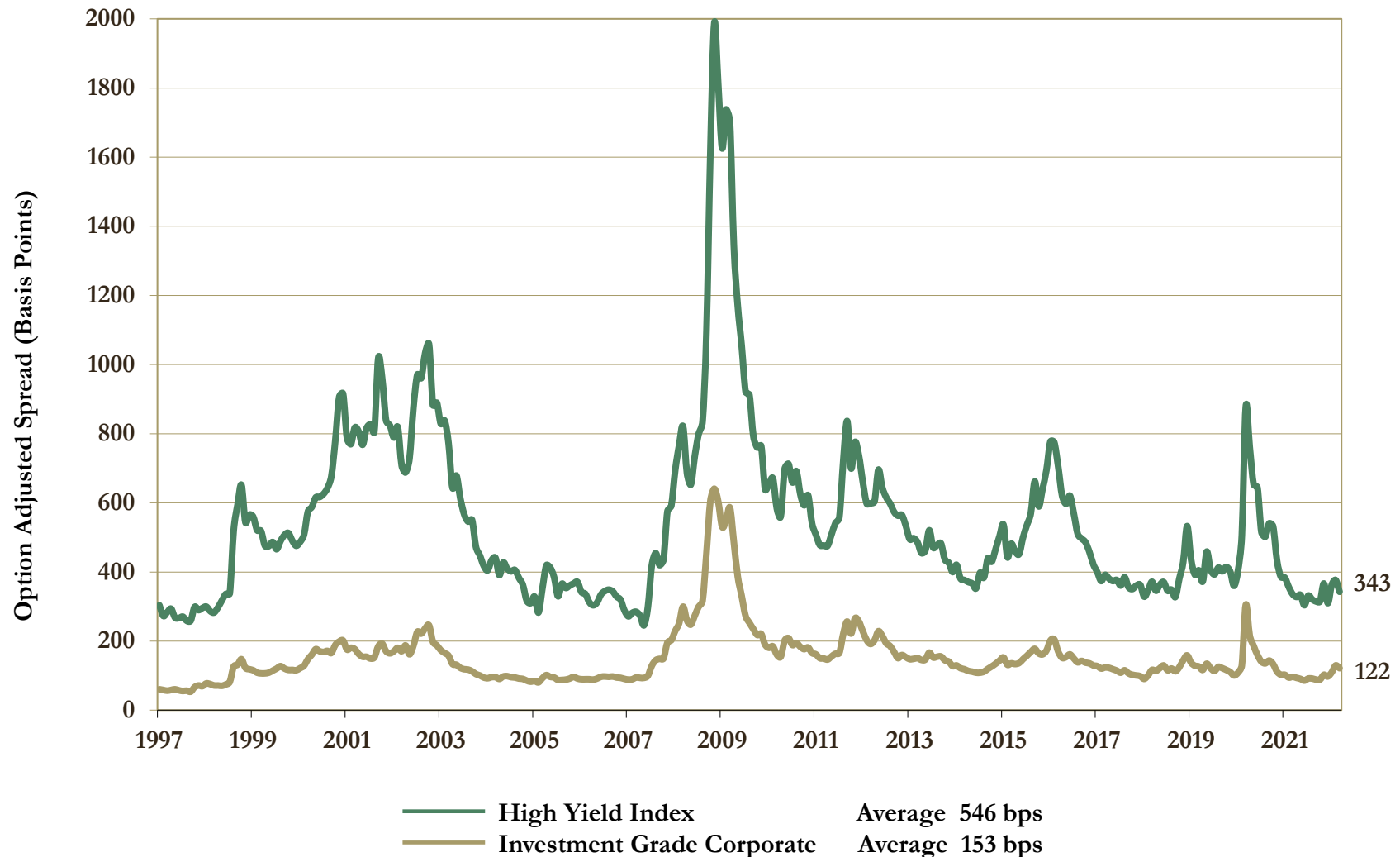


Federal Net Debt (accumulated deficits)  
% of GDP, 1940-2031, CBO Baseline, End of Fiscal Year



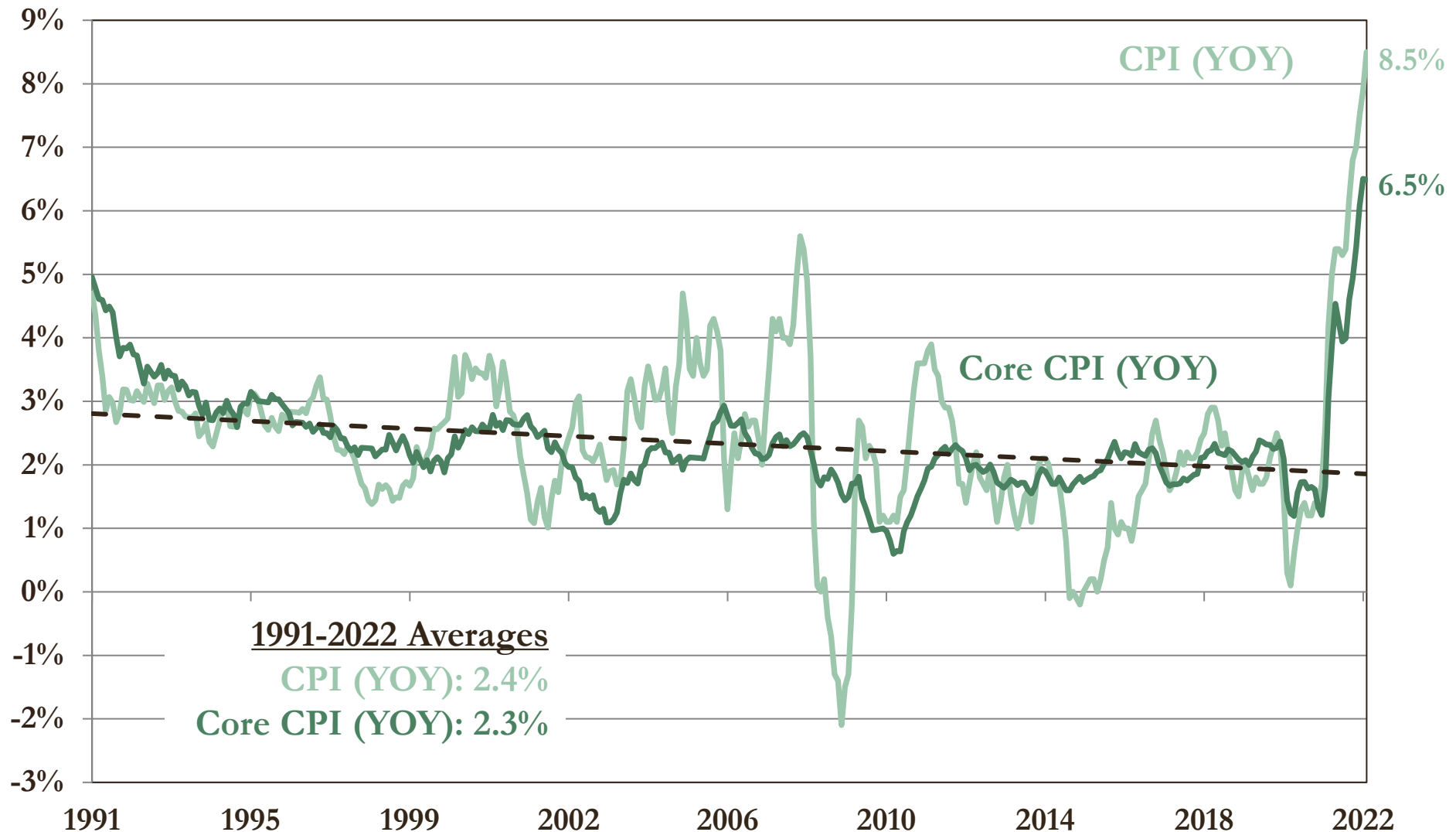
Source: JP Morgan, CBO, BEA, Treasury Dept

# CORPORATE CREDIT SPREADS – 1/31/97 through 03/31/22



Source: BBG Barclays, ICE BofA ML

# INFLATION – AGGRESSIVELY TURNING UP

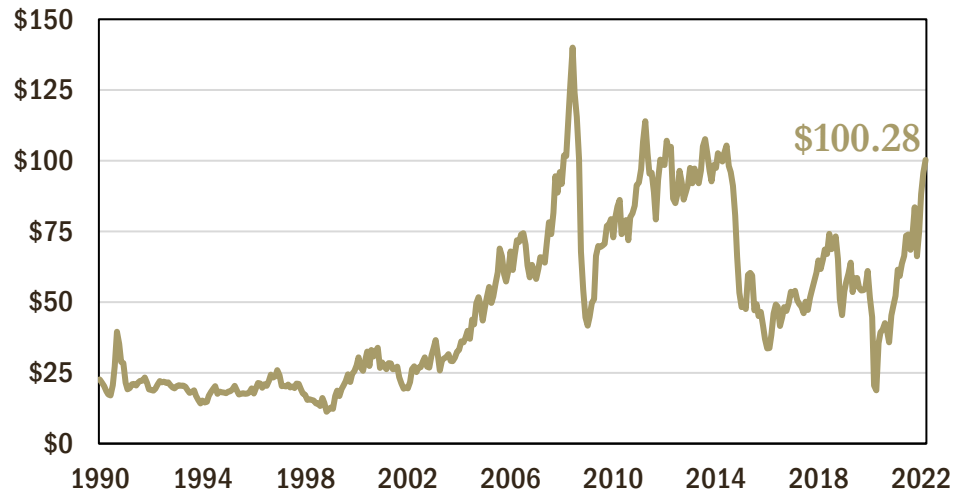


Source: Bloomberg

# COMMODITY PRICE SURGE

as of 03/31/2022

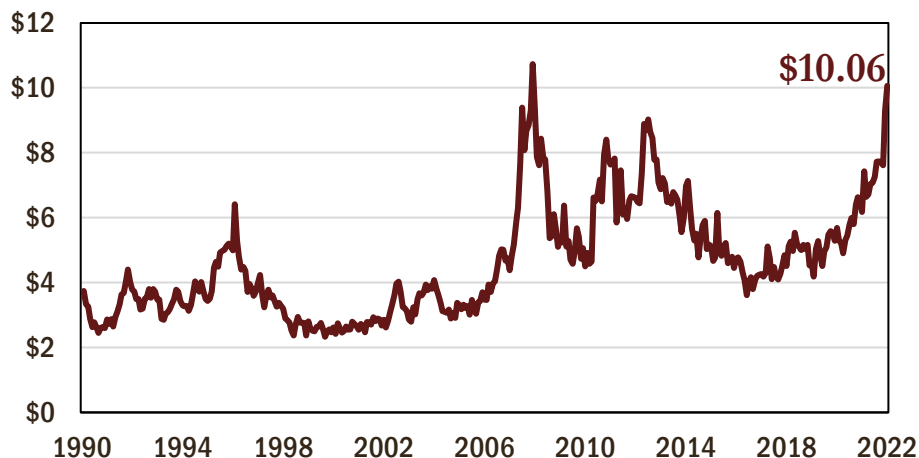
PRICE OF OIL (\$/BARREL)



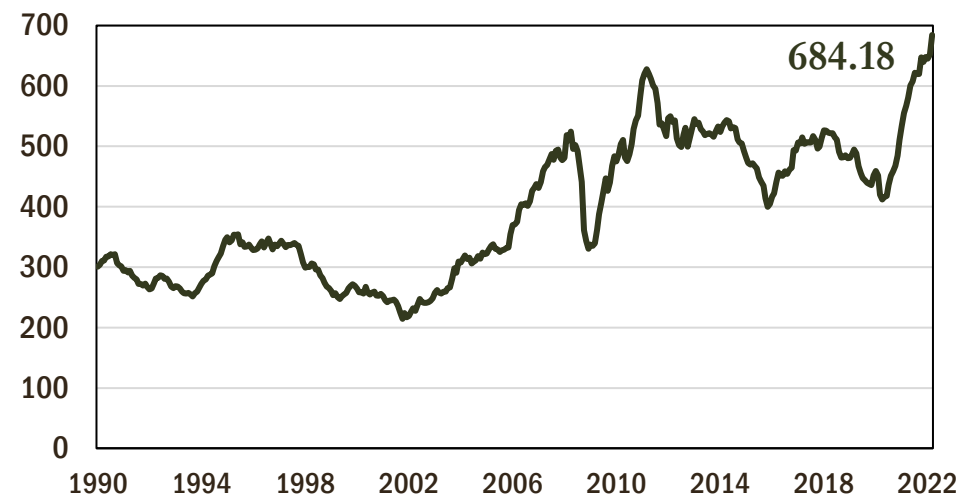
NICKEL (\$/TON)



PRICE OF WHEAT (\$/BUSHEL)

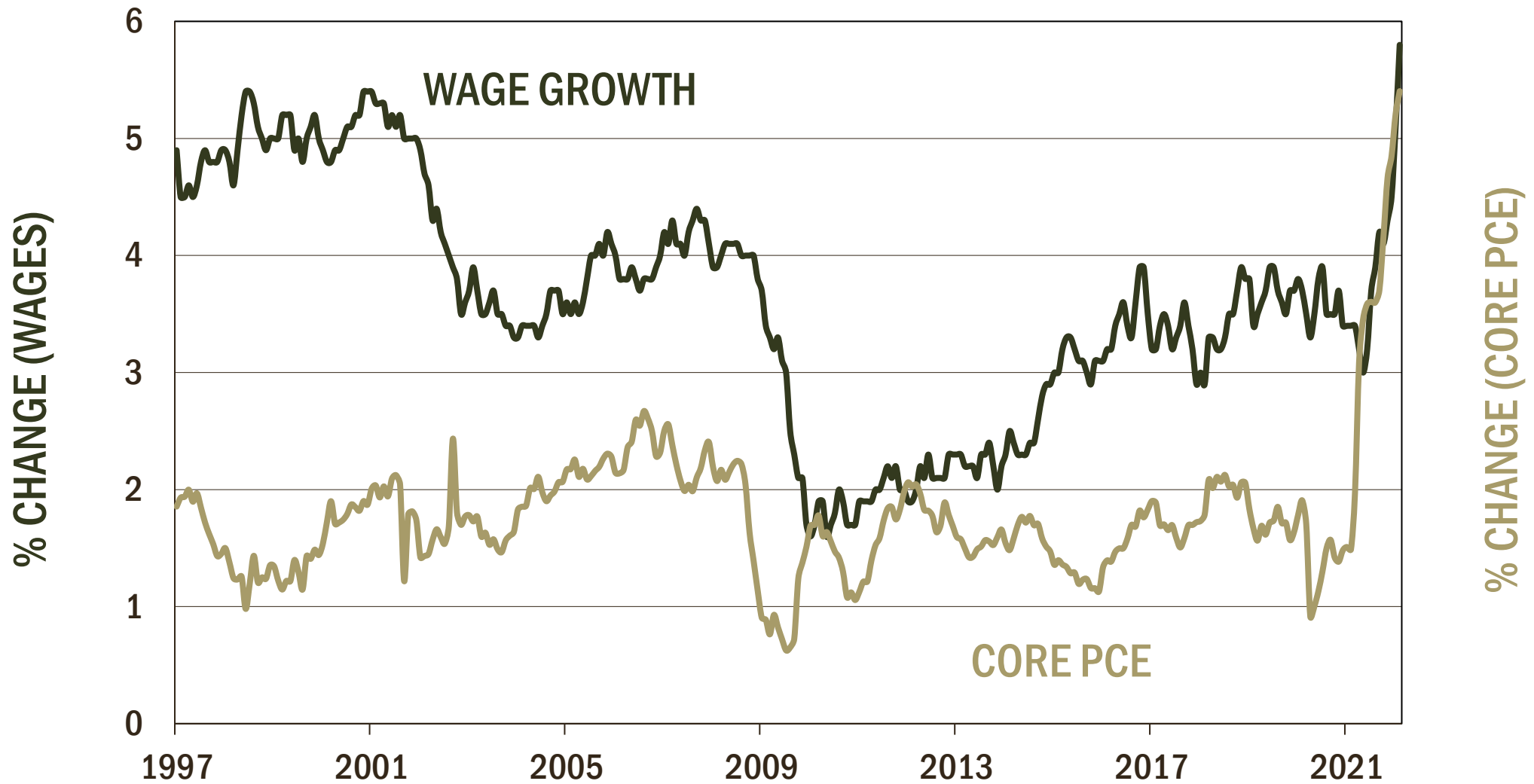


CRB RAW INDUSTRIALS INDEX



Source: Bloomberg

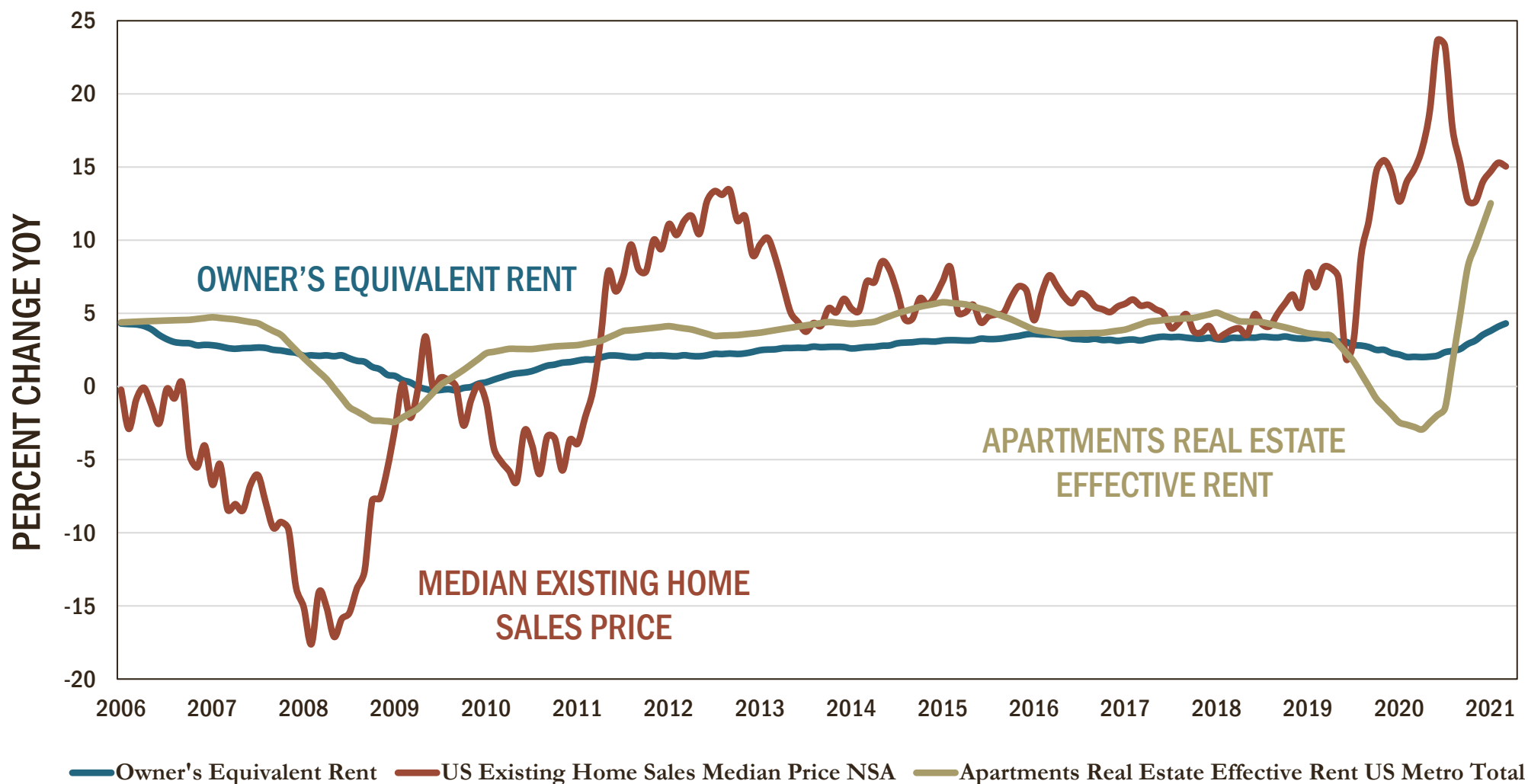
# WAGE GROWTH AND CORE PCE



Source: Bloomberg



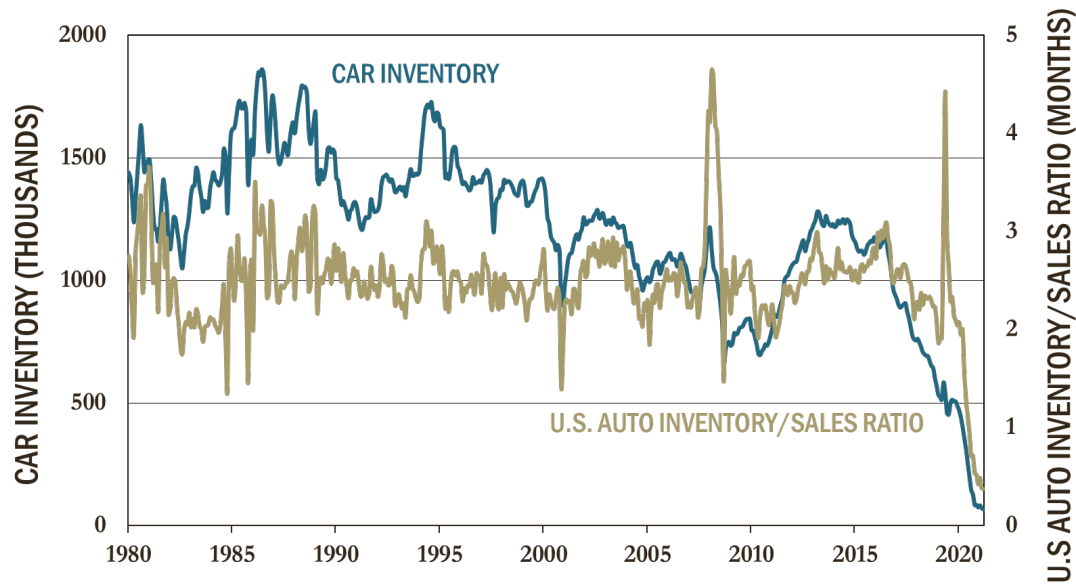
# OWNER'S EQUIVALENT RENT LAGS HOME PRICES AND FORWARD RENTS



Source: Bloomberg / Federal Reserve

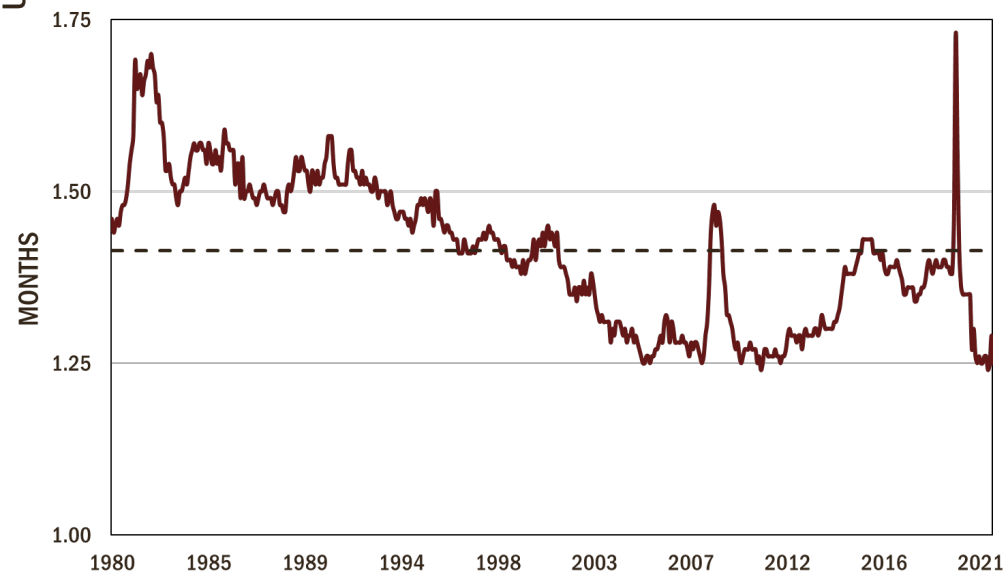
# INVENTORIES AT ALL TIME LOWS

## (RE-STOCK IN 2022)



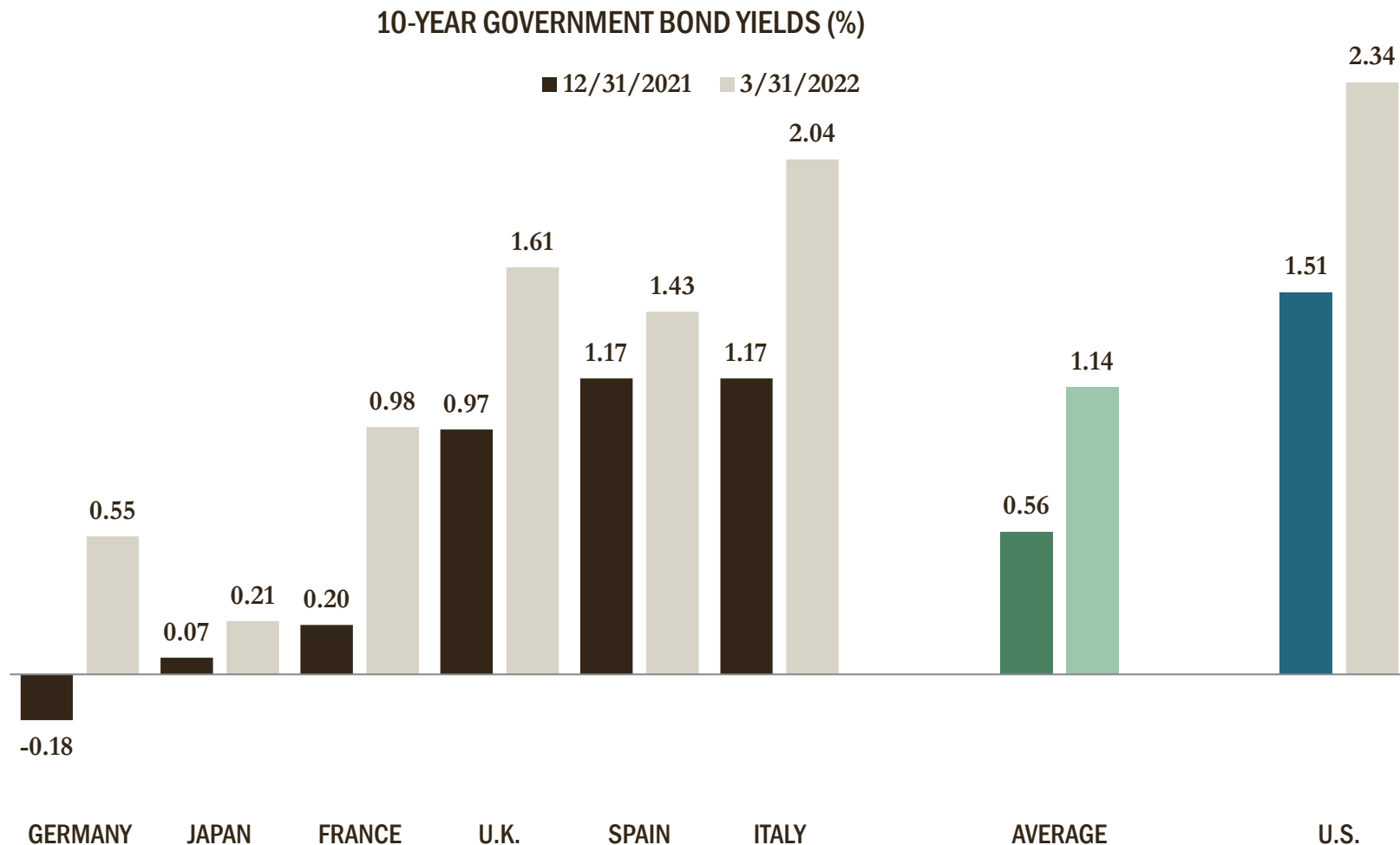
- U.S. car inventory has declined by more than 95% to less than 75,000 light vehicles
- The auto inventory to sales ratio is at an all time low

- Total U.S. manufacturing inventory to sales ratio is also at an all time low



Source: Bloomberg

# INTEREST RATES ARE NOT AS LOW AS THEY WERE



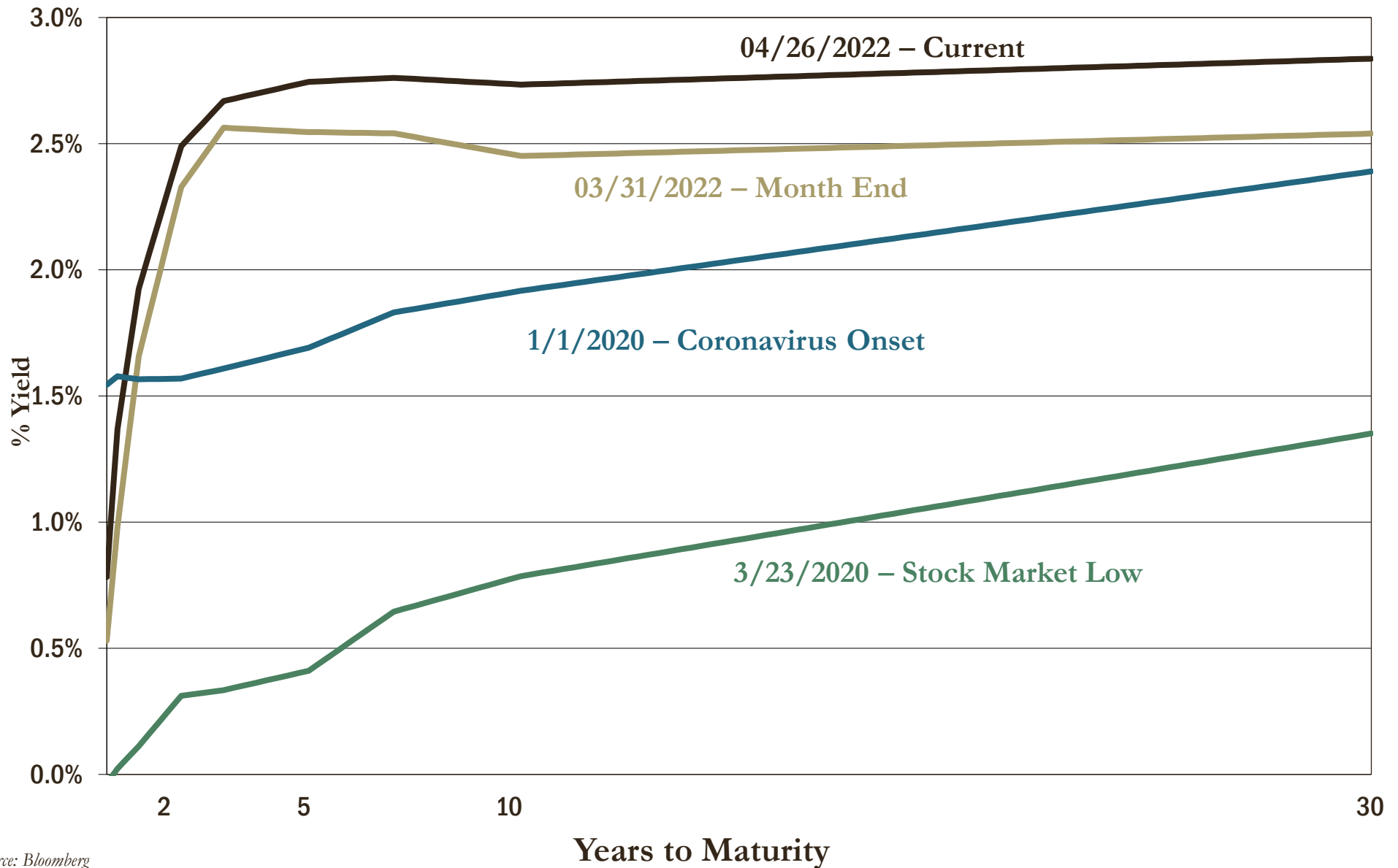
Source: Bloomberg



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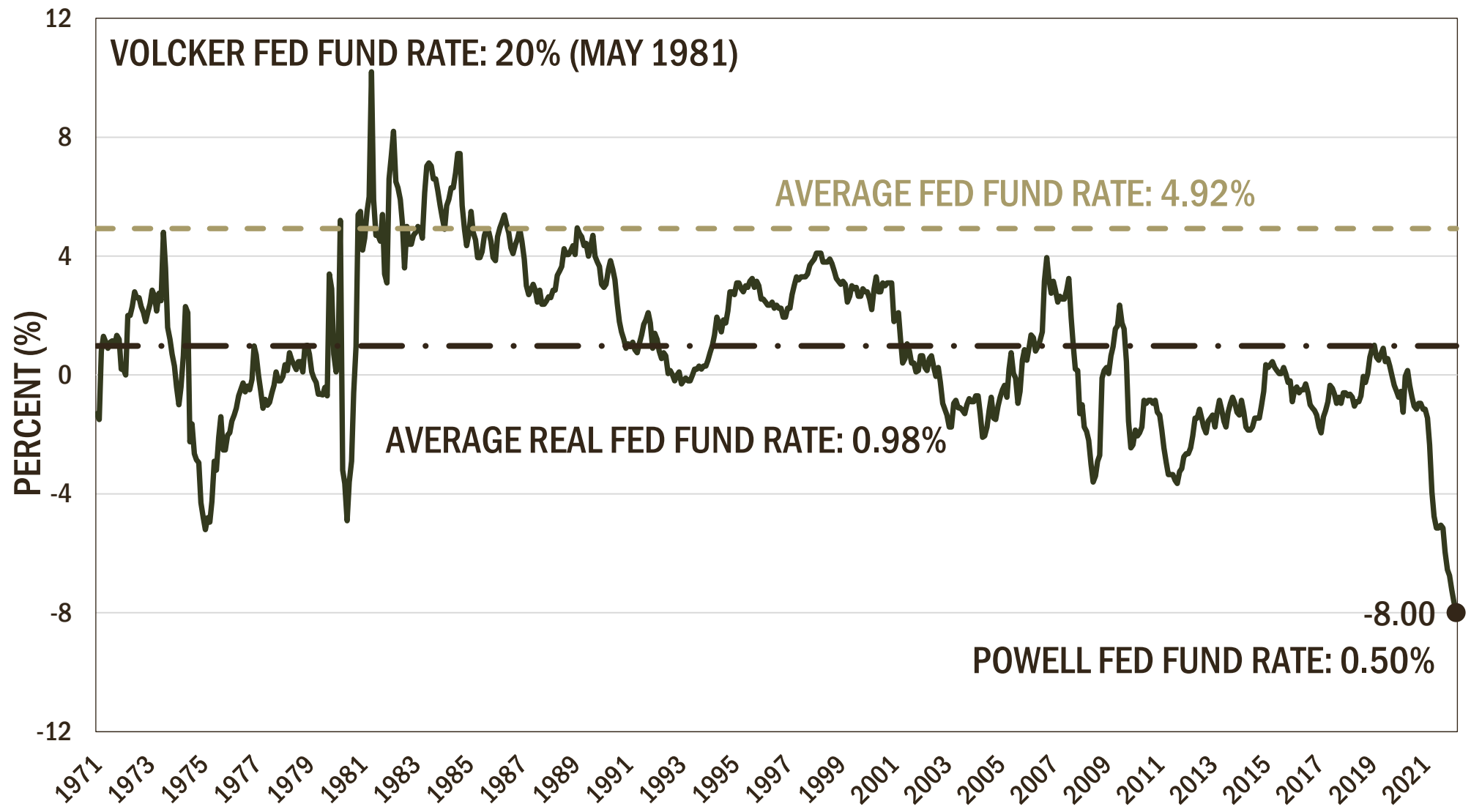
# TREASURY YIELD CURVE

AS OF 04/26/2022



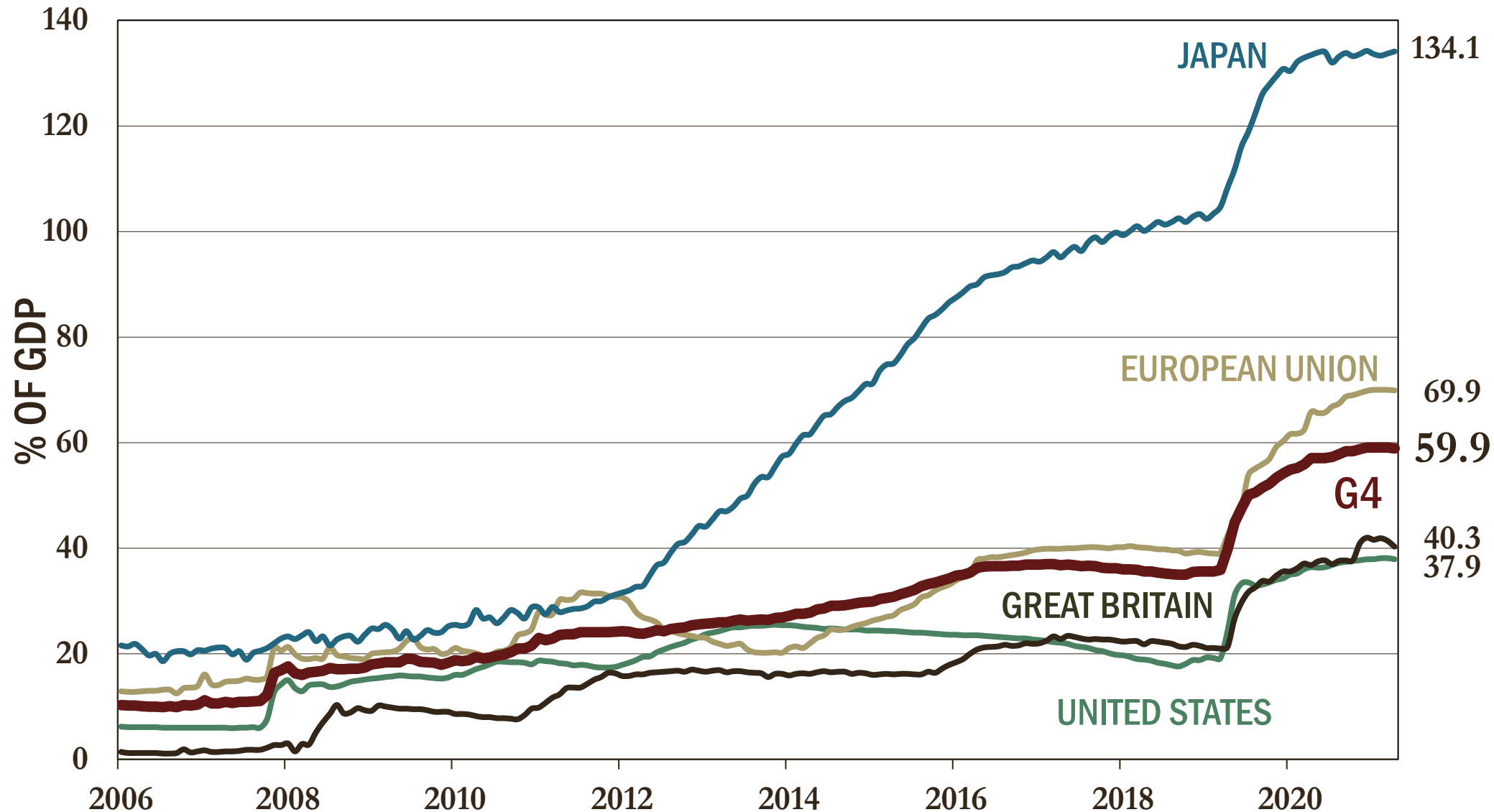
Source: Bloomberg

# FED FUND RATE MINUS INFLATION (Y-O-Y CPI)



Source: Bloomberg

# QUANTITATIVE EASING AS A PERCENT OF GDP



Source: Bloomberg

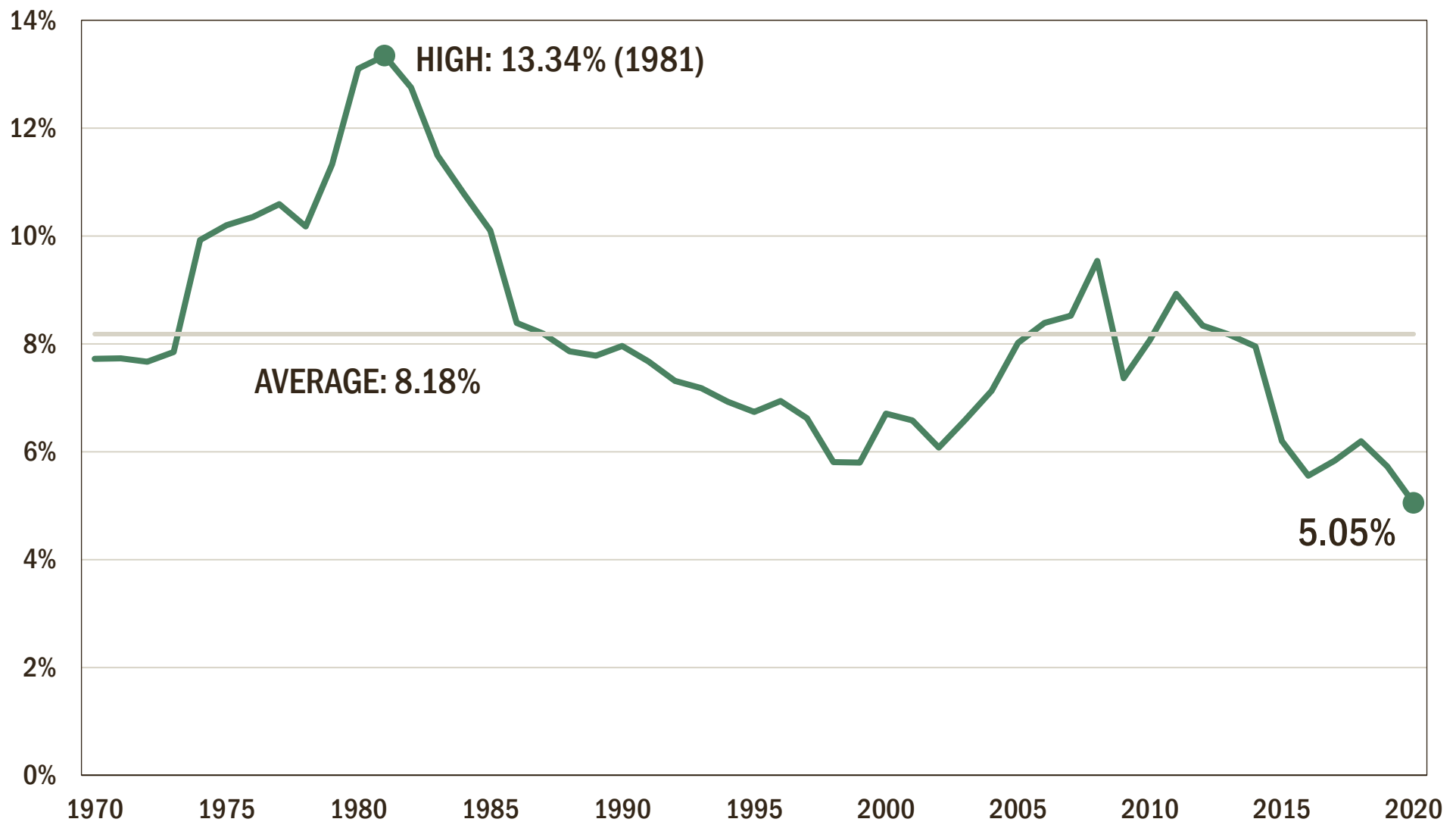


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# U.S. TOTAL-END USE ENERGY EXPENDITURES (1970-2020)

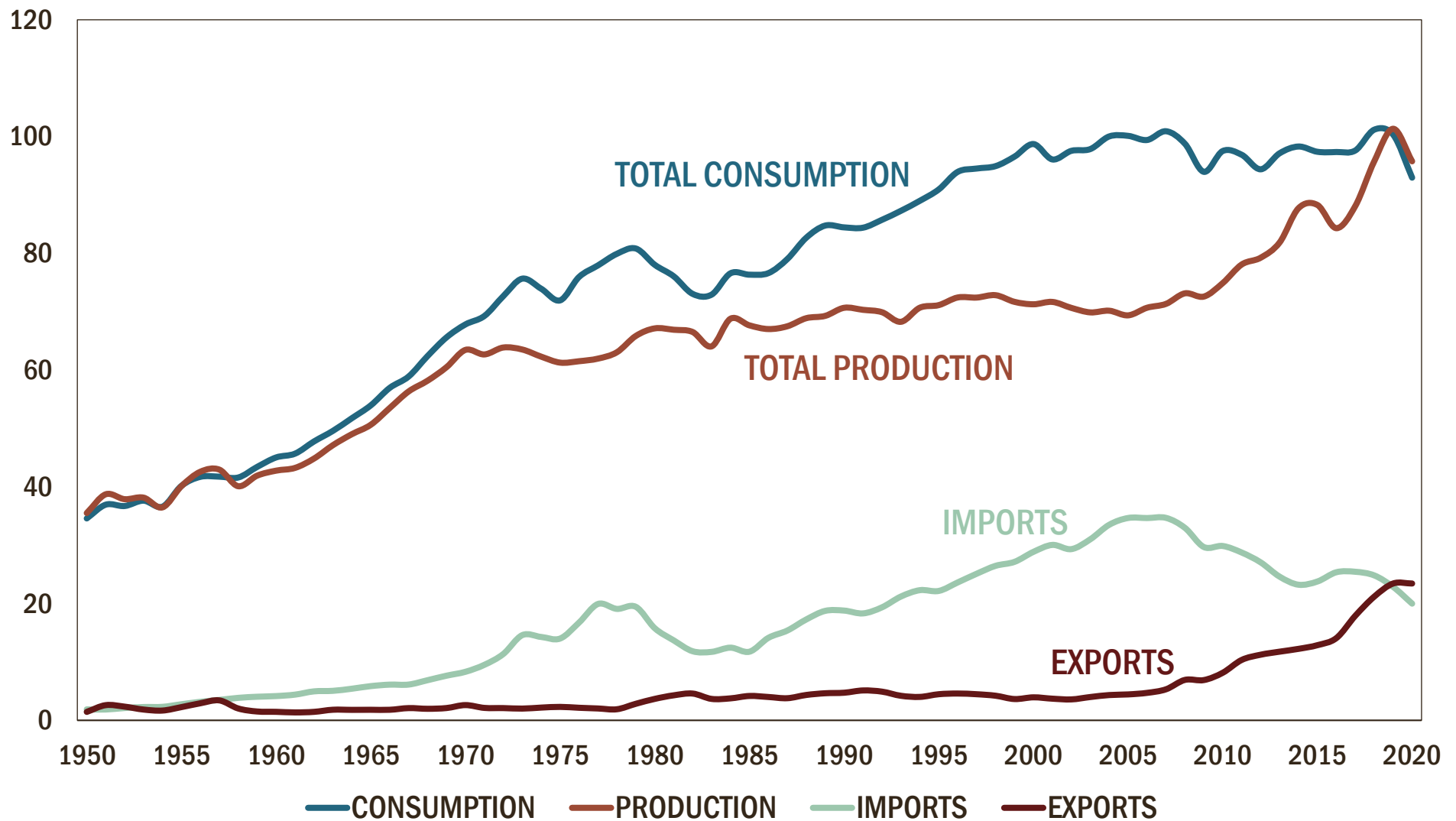
Percent Of Gross Domestic Product (GDP)



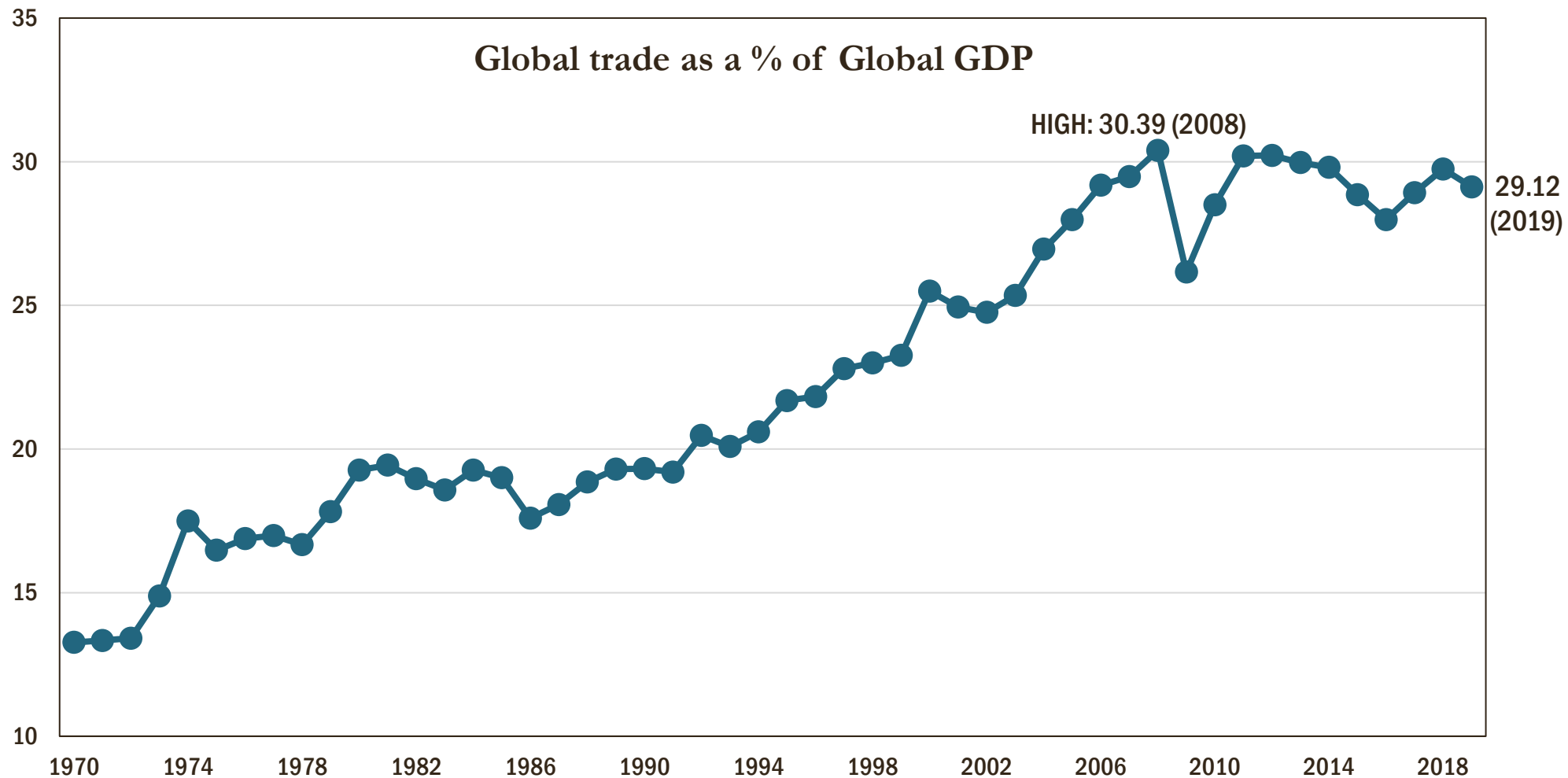
# U.S. PRIMARY ENERGY OVERVIEW

## 1950-2020

Quadrillion British Thermal Units (BTU)



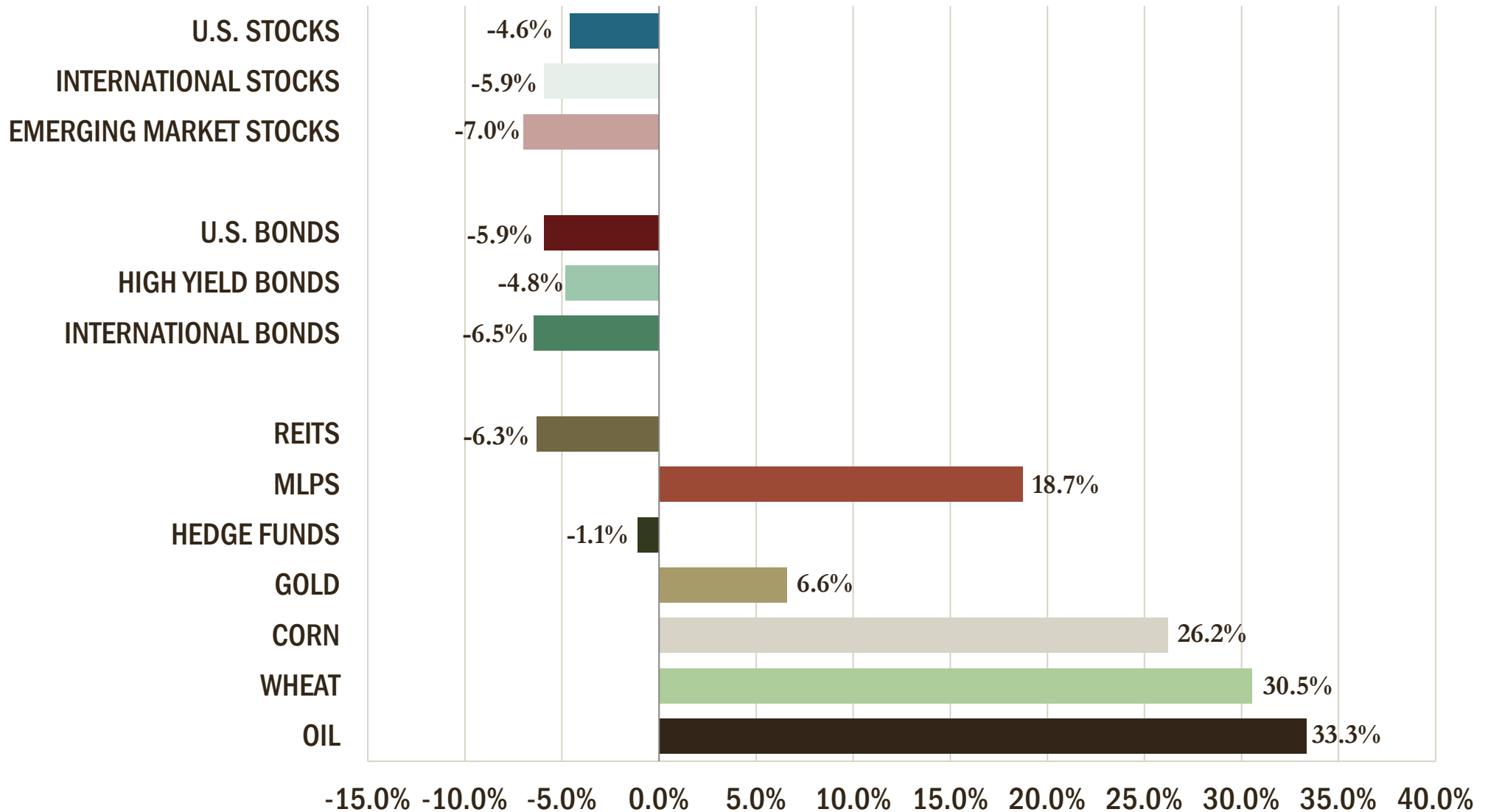
# WORLD TRADE TO GDP RATIO



Source: MacroTrends; World Bank

# YTD INDEX RETURNS

as of 03/31/2022



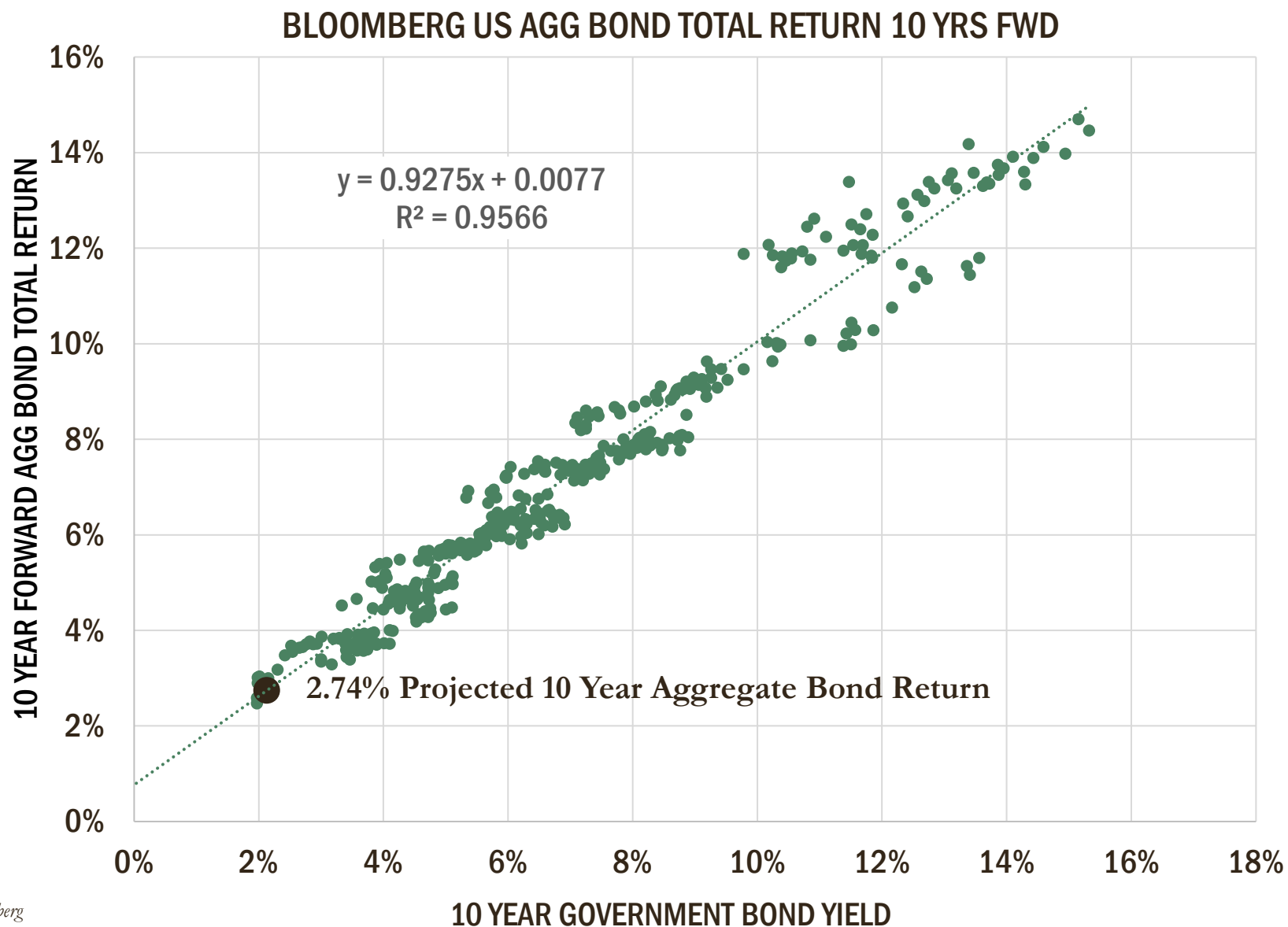
Source: Bloomberg



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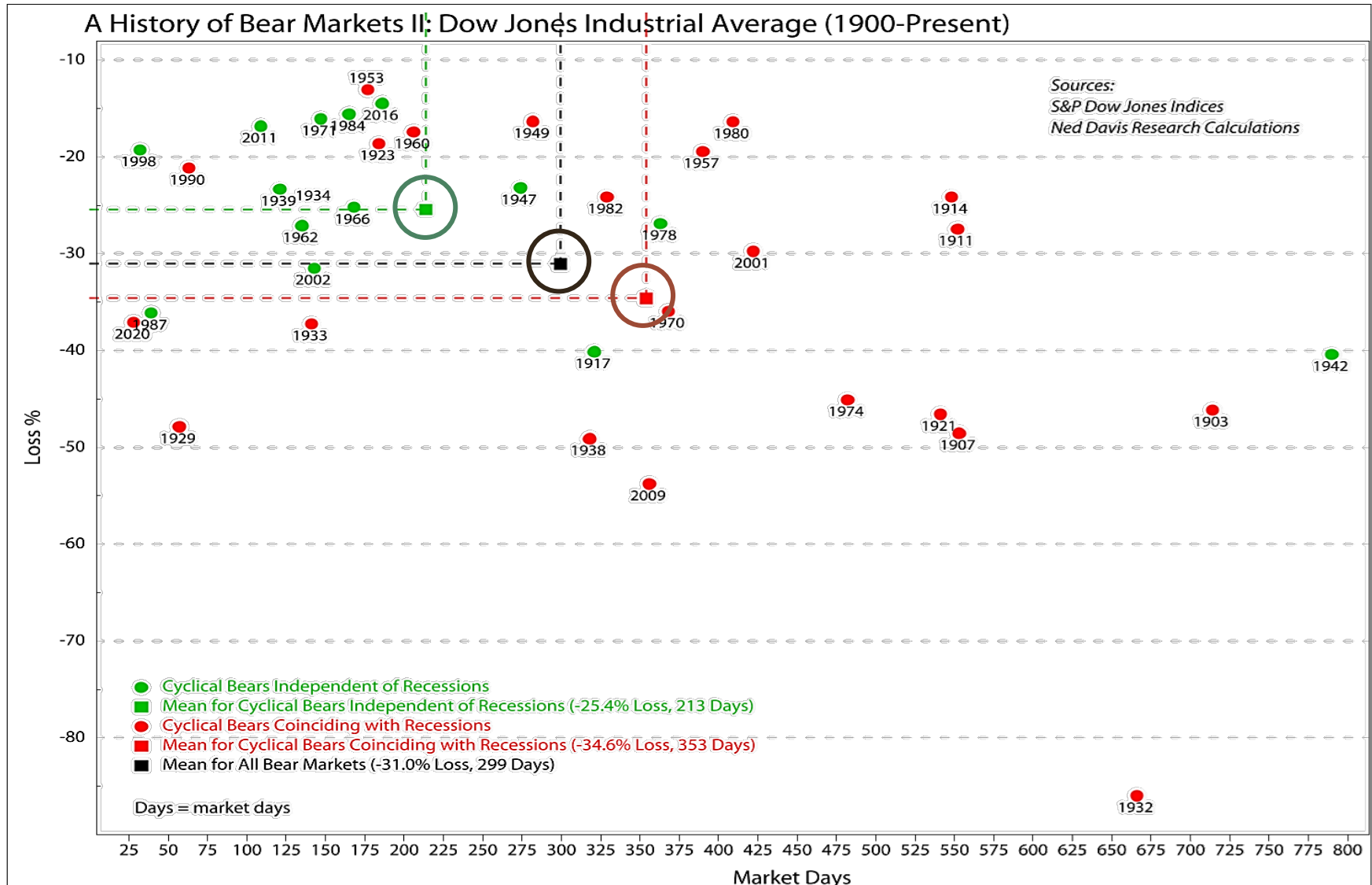
# BLOOMBERG US AGGREGATE BOND TOTAL RETURNS (10 YEARS FORWARD PROJECTION)



Source: Bloomberg

# A HISTORY OF BEAR MARKETS

## DOW JONES INDUSTRIAL AVERAGE (1900 – PRESENT)



502020



**NDR**

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# FREQUENCY OF STOCK MARKET DECLINES

- The recent return of stock market volatility is a reminder that market corrections are a normal part of stock market action.
- Corrections are common occurrences, and a correction does not preclude future strong returns.

## STOCK MARKET CORRECTIONS

1/1/1928 – 12/31/21

	MAGNITUDE OF CORRECTION			
	5% OR MORE	10% OR MORE	15% OR MORE	20% OR MORE
Number of Corrections	319	99	45	26
Average Number of Corrections Each Year	3.4	1.1	0.5	0.3
Historical % of Corrections Moving to Next Stage (e.g., 10% decline moving to a 15% decline)	31%	45%	58%	N/A

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# WHAT HAPPENS AFTER THE FIRST-RATE HIKE?

## S&P 500 INDEX PERFORMANCE AFTER THE FIRST FED RATE HIKE

DATE OF FIRST HIKE	NEXT THREE MONTHS	S&P 500 INDEX FUTURE RETURNS	
		NEXT SIX MONTHS	NEXT TWELVE MONTHS
8/8/1983	2.0%	-0.7%	2.1%
4/1/1987	19.1%	20.9%	1.5%
5/11/1988	3.4%	8.6%	20.7%
2/4/1994	-5.9%	-2.5%	2.4%
3/25/1997	13.6%	20.6%	39.6%
6/30/1999	-7.6%	6.6%	6.0%
6/30/2004	-2.3%	6.4%	5.2%
12/16/2015	-1.1%	0.1%	9.1%
AVERAGE	2.7%	7.5%	10.8%
MEDIAN	0.5%	6.5%	5.6%
% POSITIVE	50.0%	75.0%	100.0%

Source: LPL Research, Bloomberg 01/10/2022

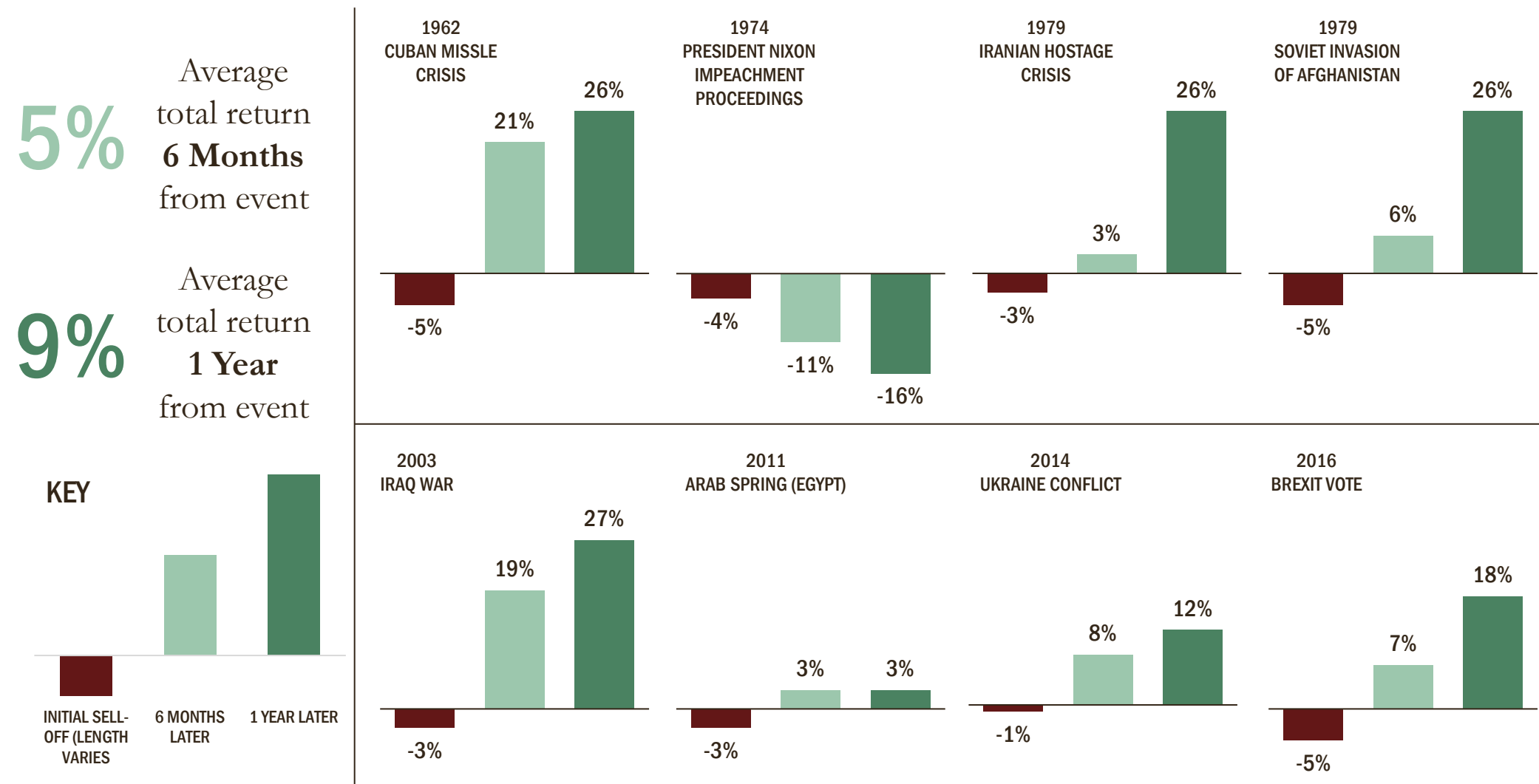
All indexes are unmanaged cannot be invested into directly. Past performance is no guarantee of future results.



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# GEOPOLITICAL SELL-OFFS ARE TYPICALLY SHORT-LIVED



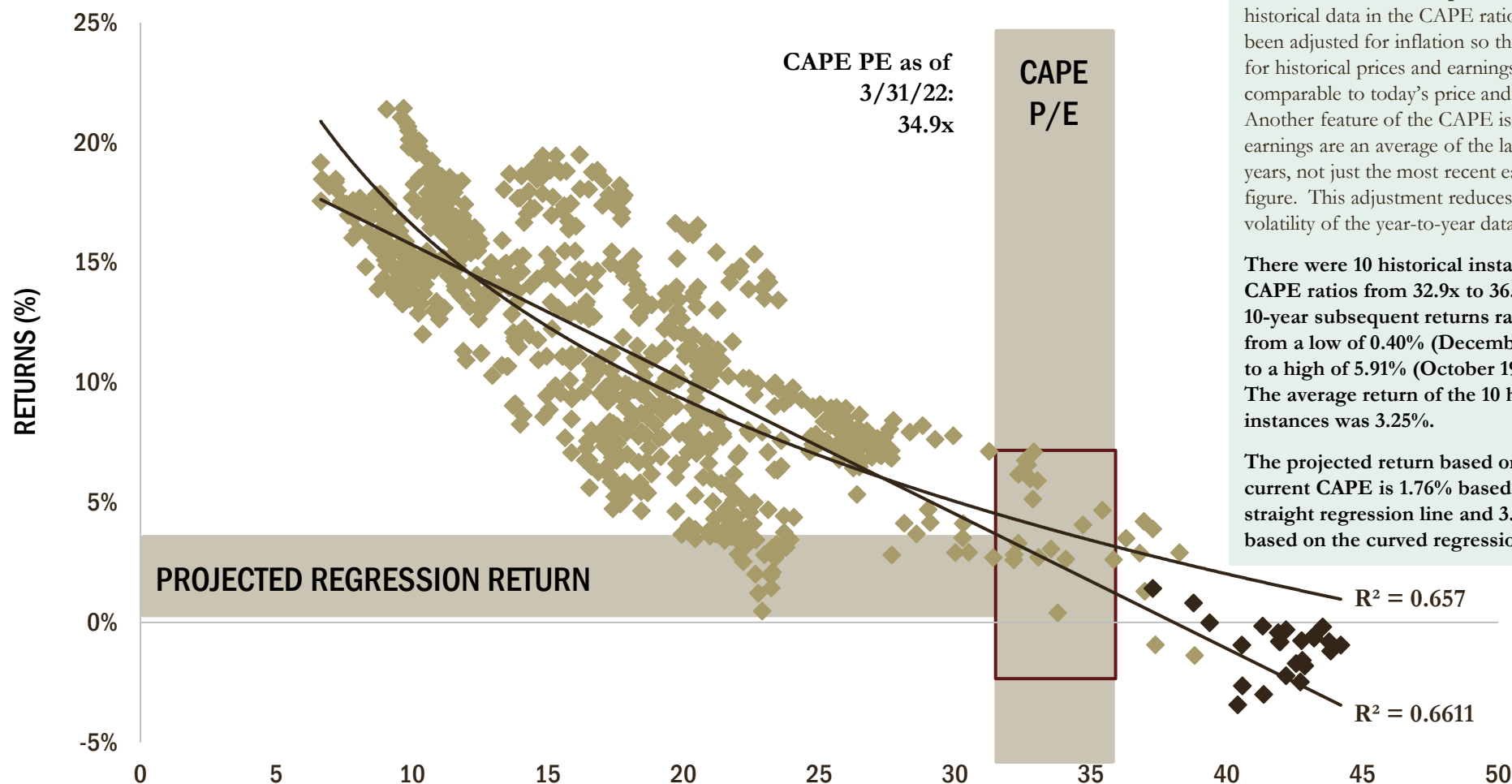
Source: Vanguard calculations as of December 31, 2021, using data from Refinitiv.



# CAPE RATIO & S&P 500 INDEX 10-YEAR SUBSEQUENT ANNUALIZED RETURN (%)

## HISTORICAL CAPE MULTIPLE VS. SUBSEQUENT DECADE'S RETURN

1/1/1946 – 3/31/2012



CAPE is the Cyclically Adjusted P/E ratio for the S&P Composite. The historical data in the CAPE ratios have been adjusted for inflation so that values for historical prices and earnings are comparable to today's price and earnings. Another feature of the CAPE is that earnings are an average of the last 10 years, not just the most recent earnings figure. This adjustment reduces the volatility of the year-to-year data.

There were 10 historical instances of CAPE ratios from 32.9x to 36.9x, with 10-year subsequent returns ranging from a low of 0.40% (December 1997) to a high of 5.91% (October 1998). The average return of the 10 historical instances was 3.25%.

The projected return based on the current CAPE is 1.76% based on the straight regression line and 3.44% based on the curved regression line.

Calculations based on LA SBBI US Large Stock TR USD and Cyclically Adjusted Price/Earnings Ratio for S&P Composite

Source: Ibbotson, Robert Shiller

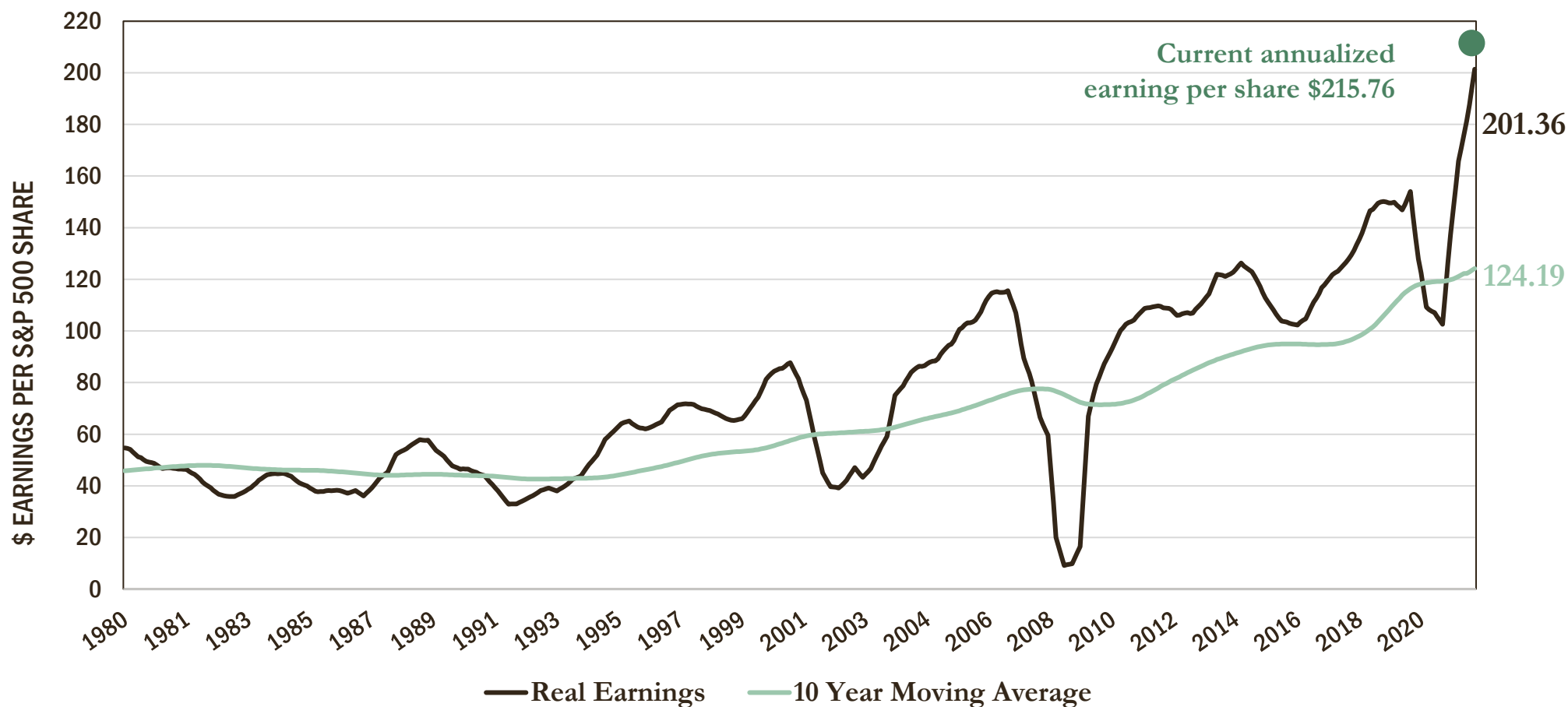
Dark brown diamonds represent the data points from January 1999 through December 2000.



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# S&P 500 REAL EARNINGS GROWTH AND 10-YEAR MOVING AVERAGE (AS OF 12/31/2021)

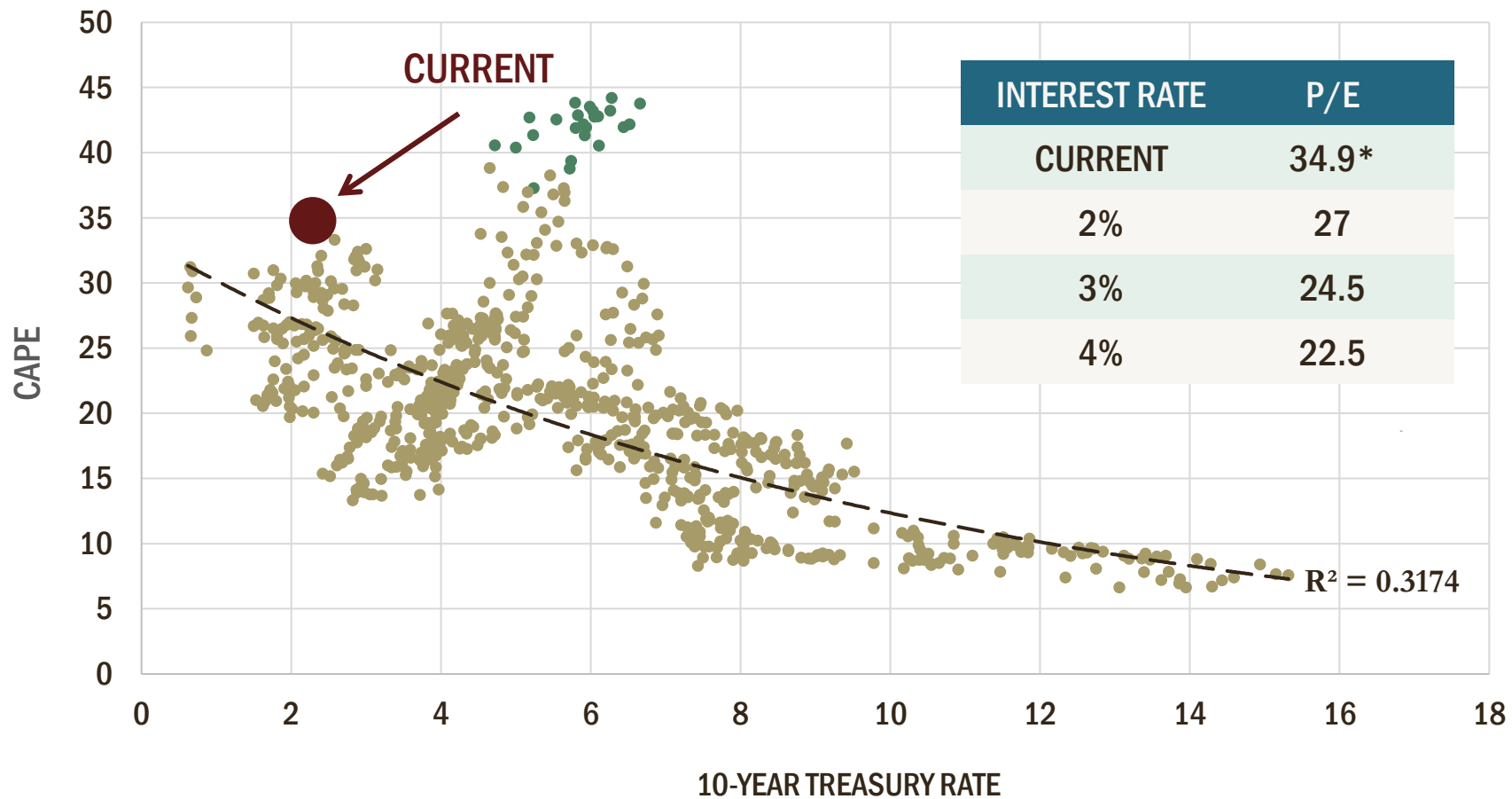


Source: Schiller Data, S&P Global website

# YIELD IMPACT ON P/E MULTIPLE

## (VALUATION WILL COMPRESS)

TEN YEAR TREASURY RATE VS. CYCLICALLY-ADJUSTED P/E MULTIPLE  
1/1/1955 – 3/31/2022



Calculations based on Cyclically Adjusted Price Earnings Ratio for S&P Composite

Source: Ibbotson, Robert Shiller & Federal Reserve Economic Database

Green dots represent the data points from January 1999 through December 2000.

\*CAPE is the cyclically adjusted P/E ratio for the S&P Composite. As of 3/31/22

# POST RECESSION STOCK MARKET RETURNS DURING ECONOMIC RECOVERIES

RECESSION START	RECESSION END	RECESSION MONTHS	RECOVERY DURATION MONTHS	STOCK MARKET RECESSION BOTTOM	STOCK MARKET RECESSION RECOVERY PEAK	RECOVERING MARKET DURATION MONTHS	RETURN	ANNUALIZED RETURN
APR-60	FEB-61	10	105	NOV-60	DEC-68	97	162%	12.7%
DEC-69	NOV-70	11	36	JUL-70	JAN-73	30	75%	25.2%
NOV-73	MAR-75	16	70	OCT-74	JAN-80	74	198%	19.4%
JUL-80	NOV-82*	28	92	AUG-82	JUL-90	95	355%	21.1%
JUL-90	MAR-91	8	120	OCT-90	SEP-00	119	525%	20.5%
MAR-01	NOV-01	8	73	OCT-02	NOV-07	61	108%	15.2%
DEC-07	JUN-09	18	128	MAR-09	FEB-20	131	450%	16.9%
FEB-20	APR-20	2	23	MAR-20	?	24	109%**	?
AVERAGE		13	89			87	248%***	18.7%

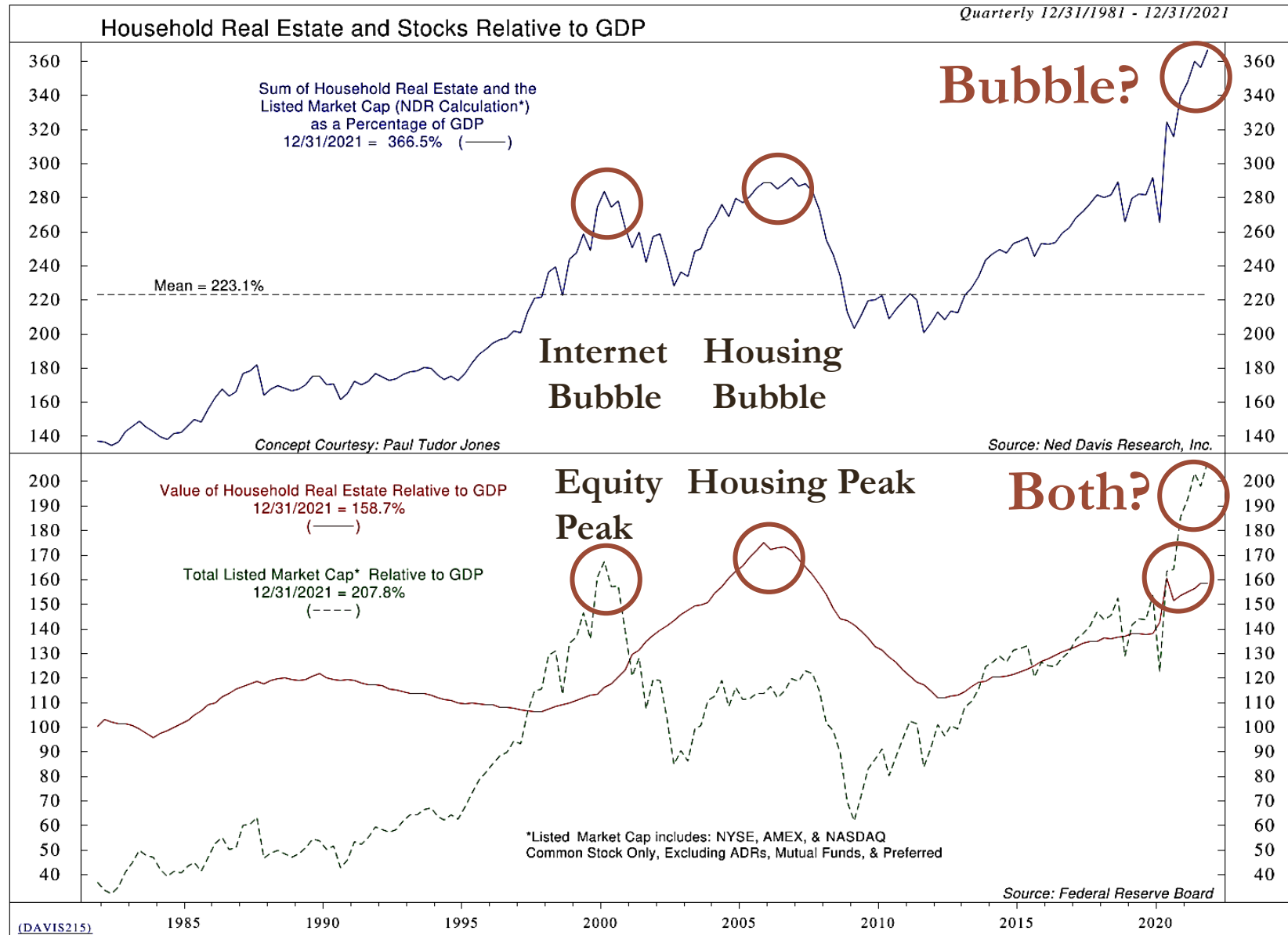
Source: Commerce Trust Company

\*Combined both the 1980 and 1981 recessions

\*\* Recovery and returns as of 03/31/2022

\*\*\*Standard Deviation = 172%

# HOUSING AND STOCKS VS. GDP (EXPENSIVE)



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