



Macro Strategy:

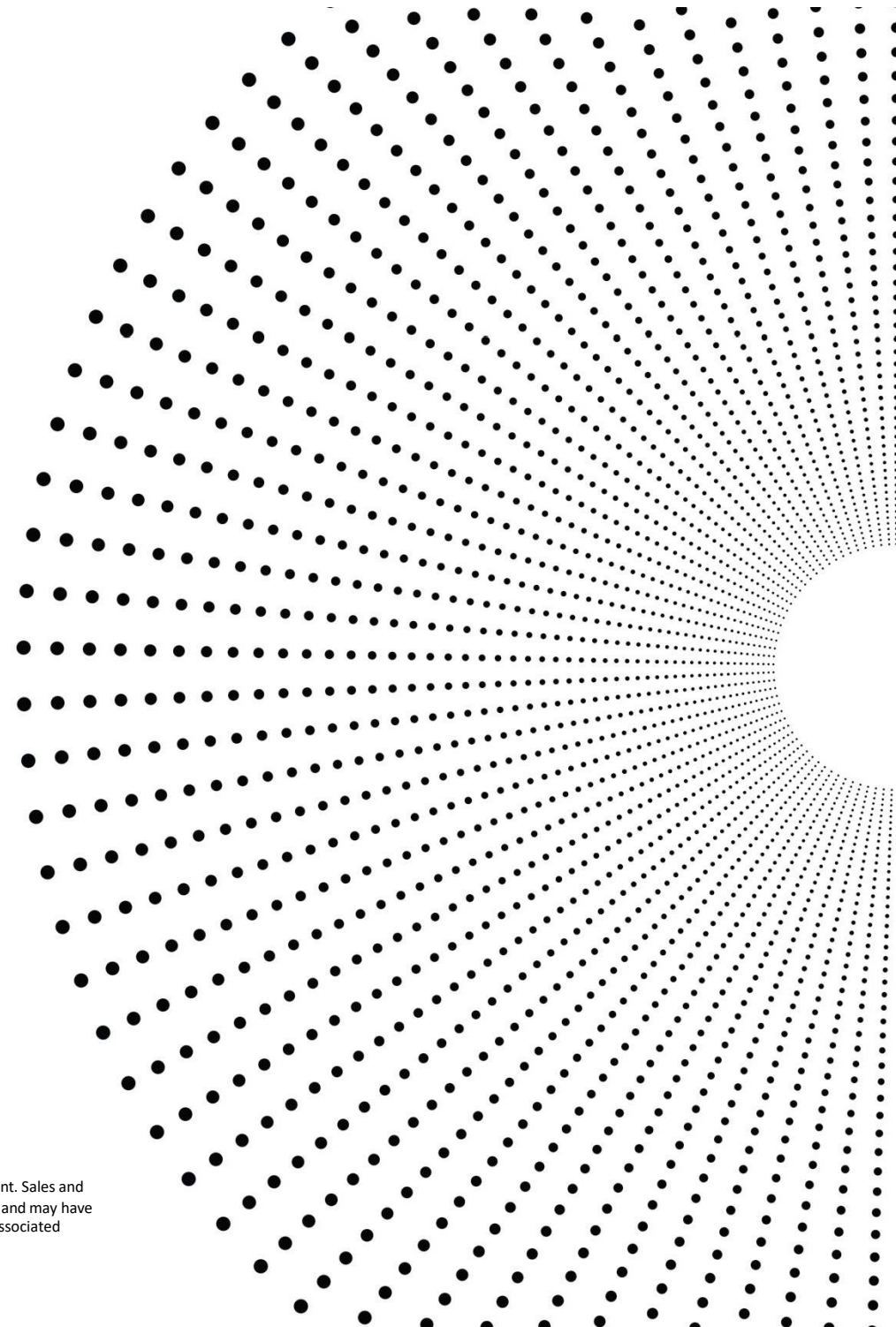
The coming recession

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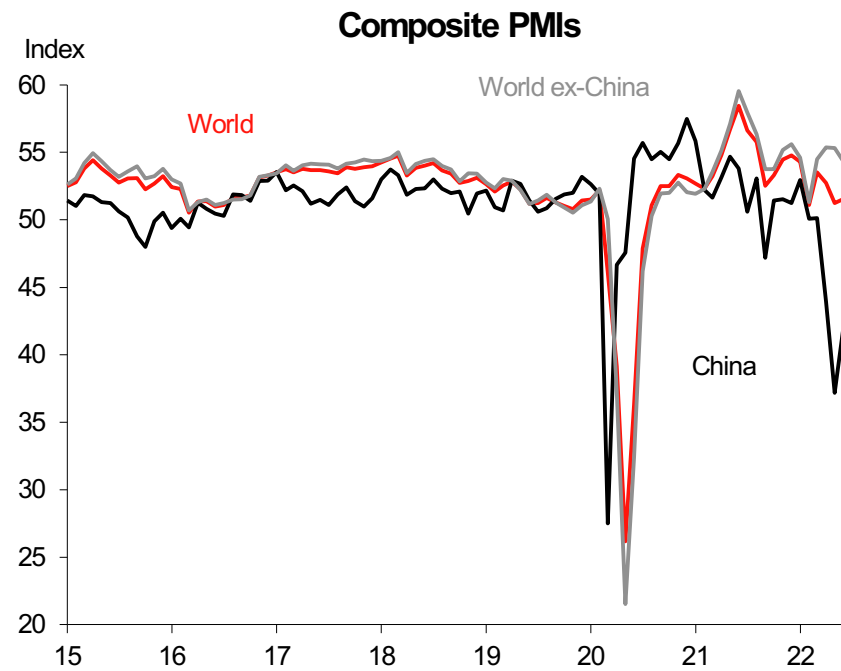
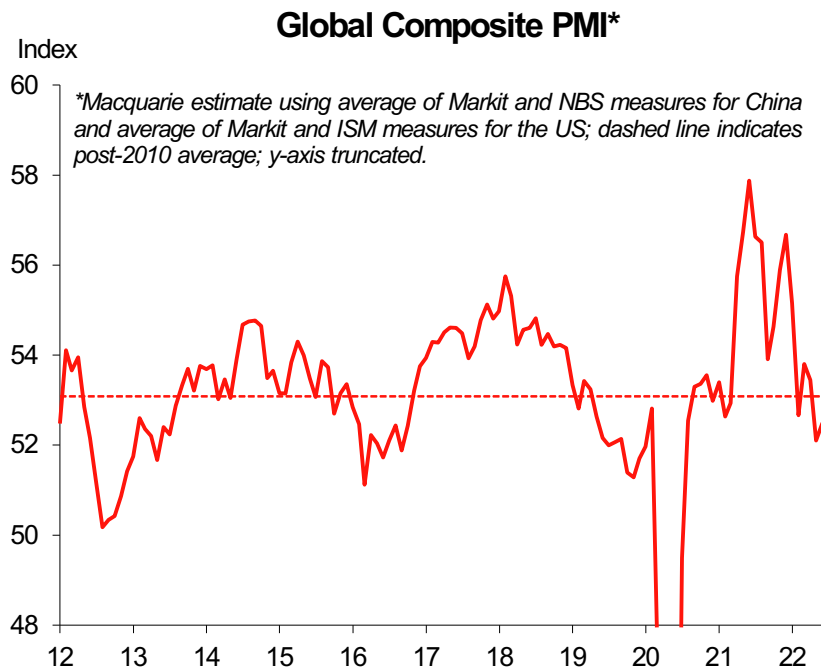
July 2022



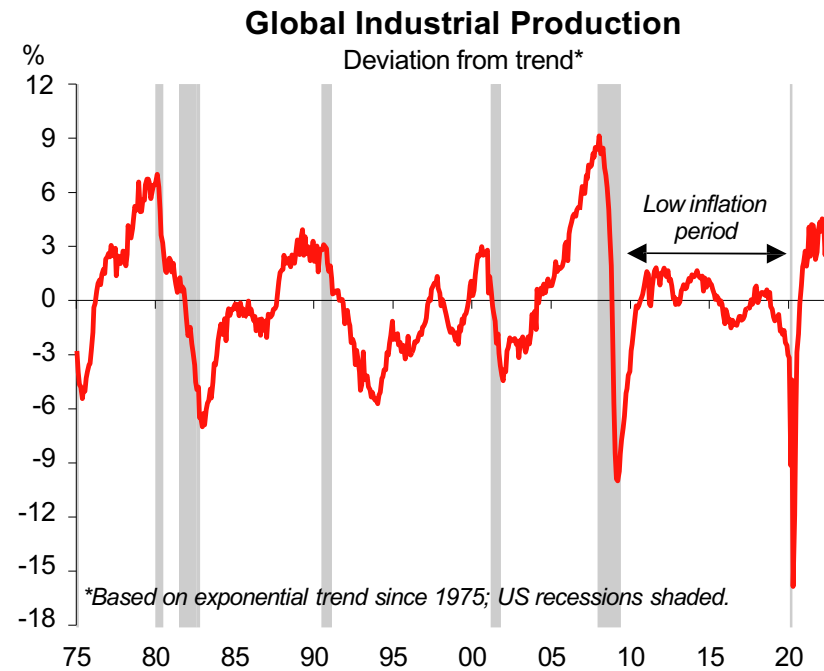
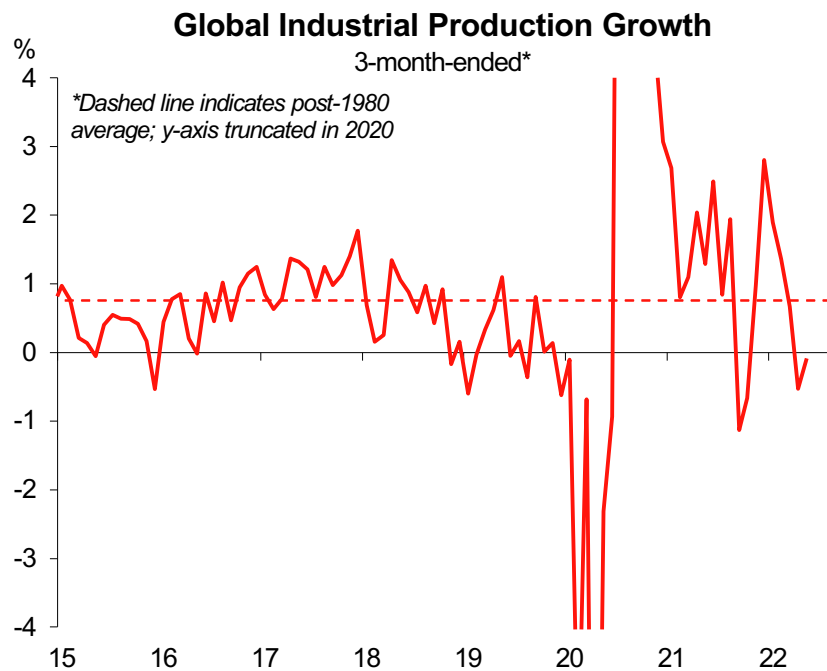
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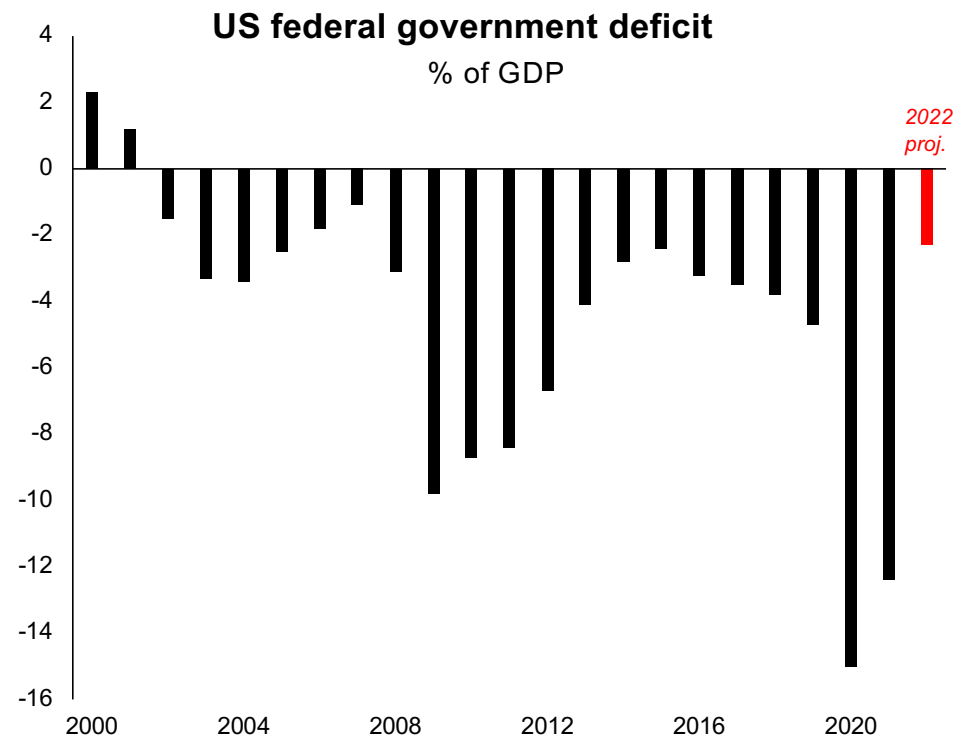
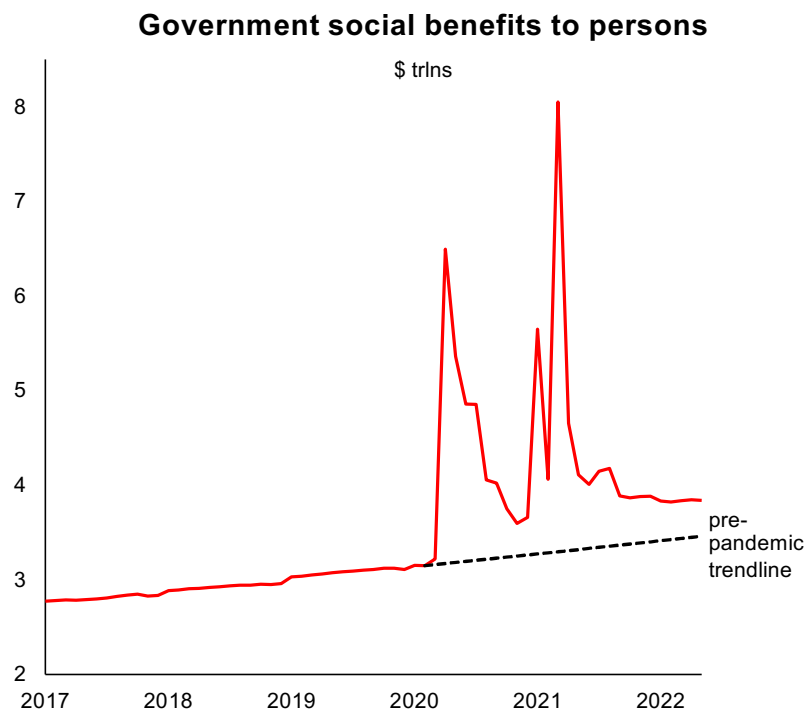
The Chinese lockdowns have had a major impact on global growth, but is now showing signs of a rebound amidst easing restrictions



Despite slipping on China's lockdown, global IP growth remains stretched relative to its trend, a foreboding signal for the expansion



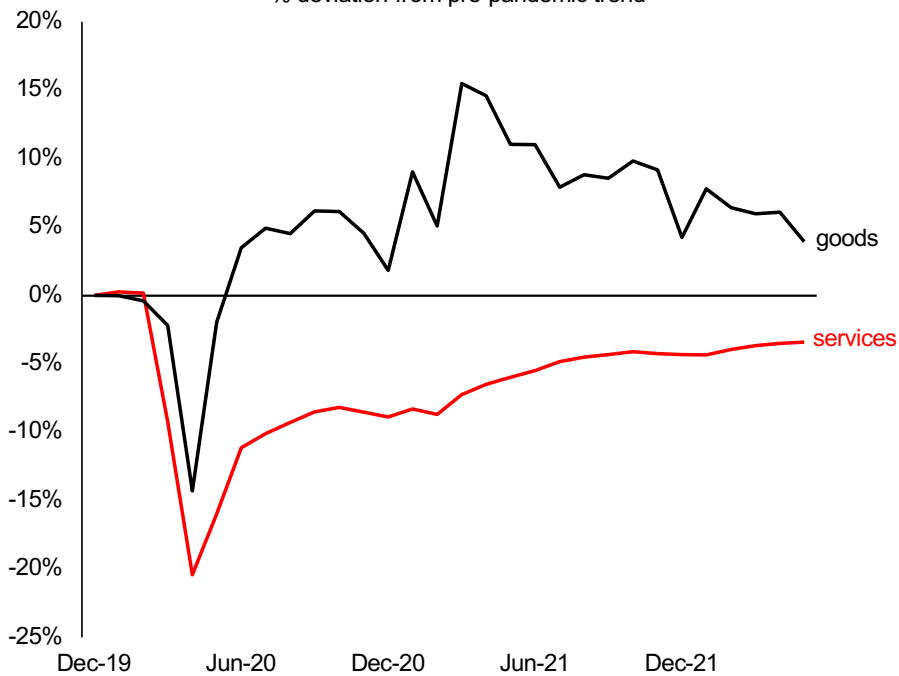
Fiscal withdrawal in the US has been substantial



US real consumption patterns are gradually rotating away from goods and towards services

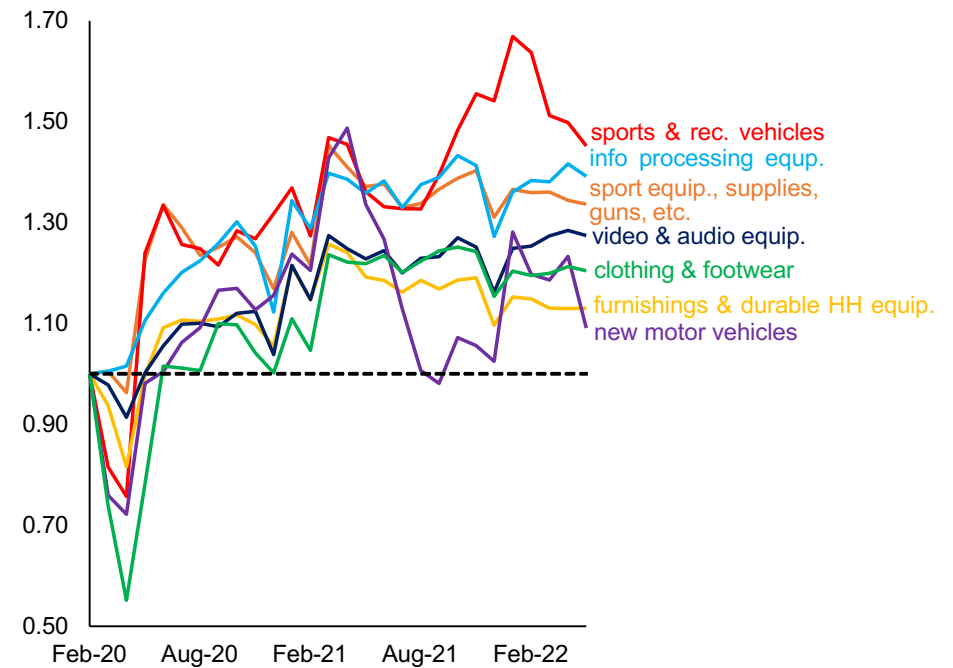
US real personal consumption expenditures

% deviation from pre-pandemic trend

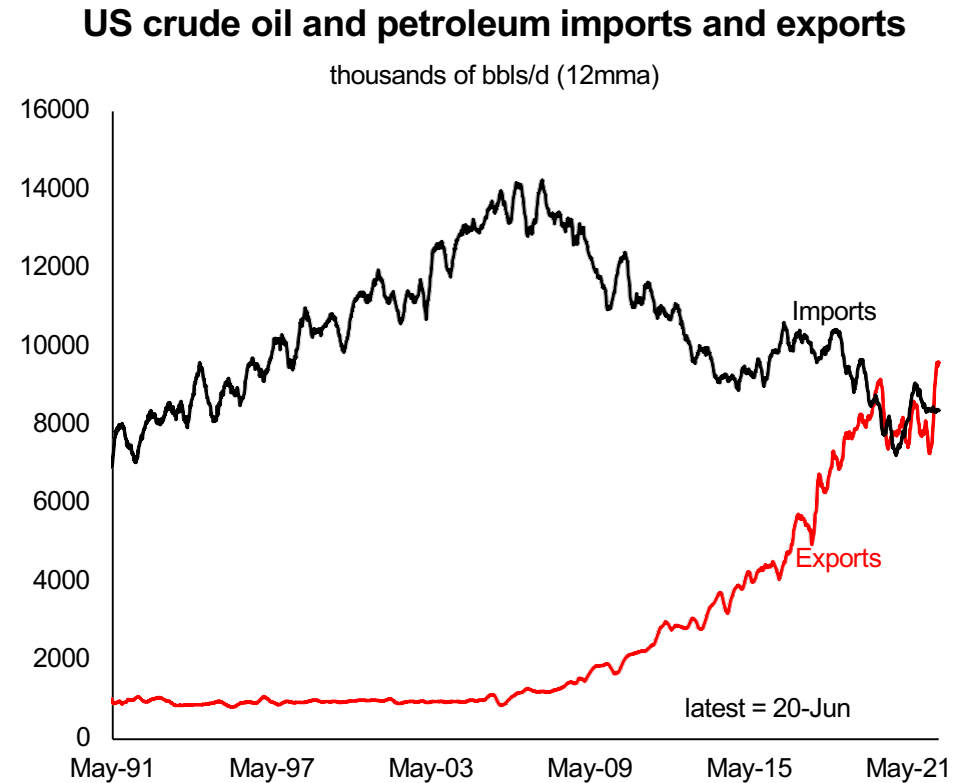
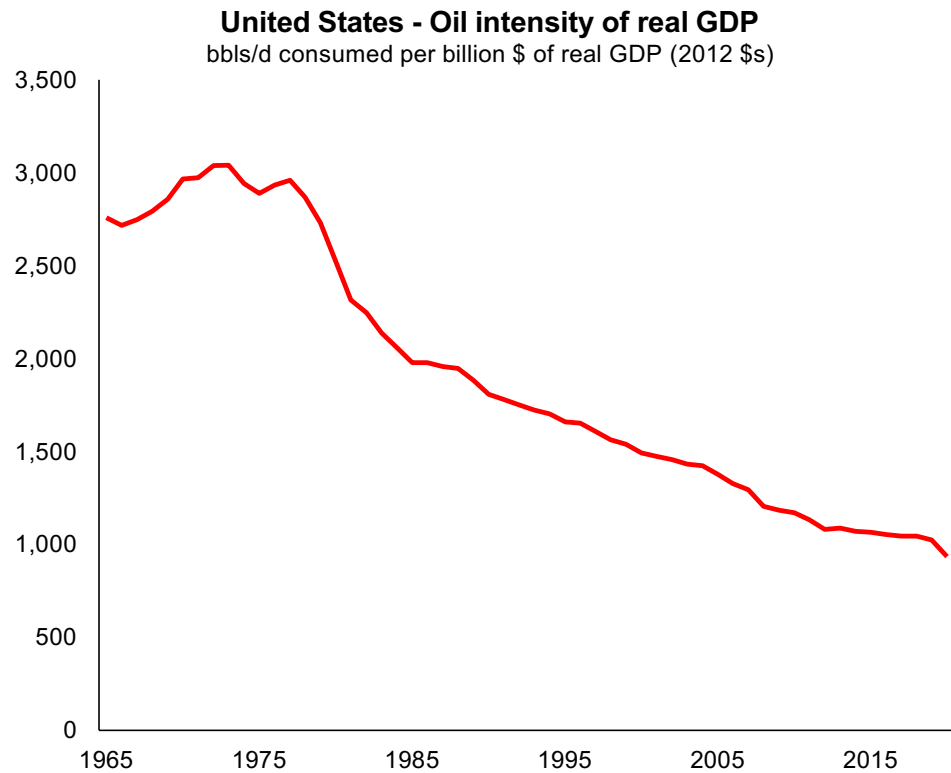


US real personal consumption expenditures

1.00 = Feb-20 level

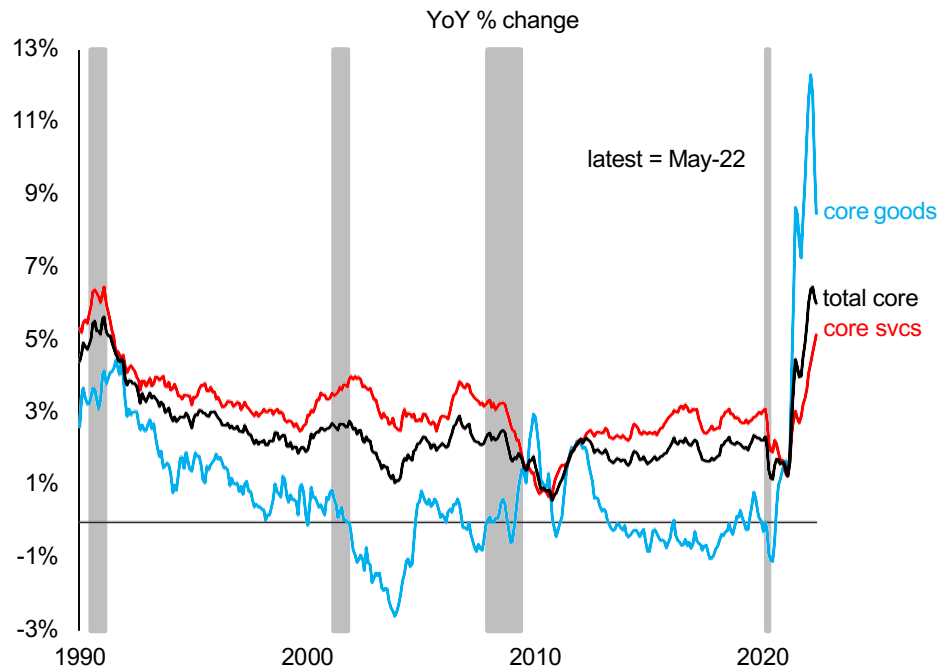


The US economy is more resilient to oil price spikes than in past decades

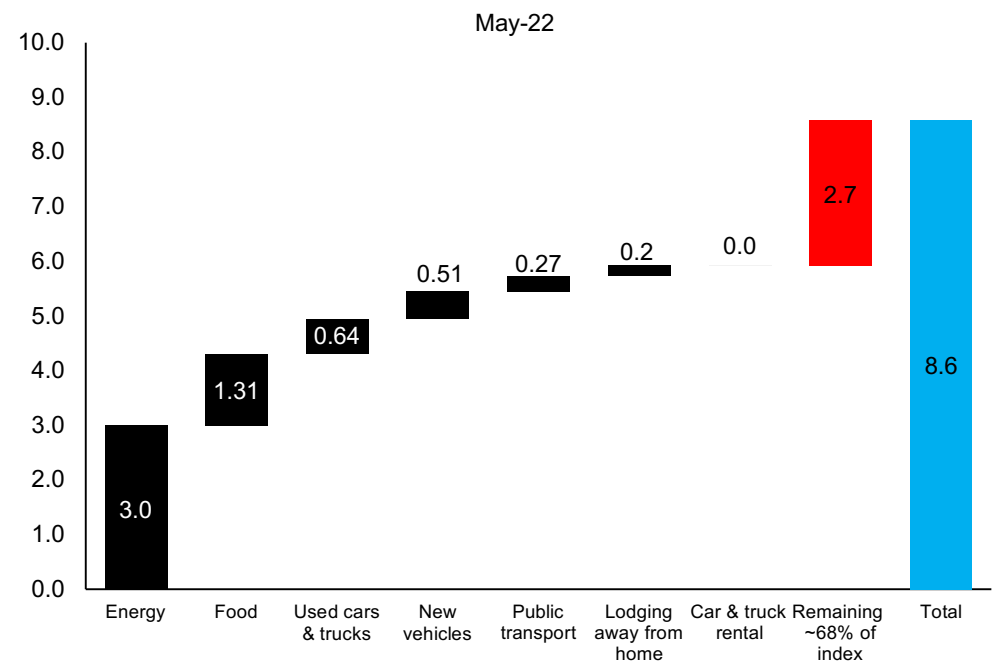


The more concerning impact from the oil price spike is on inflation

US CPI by subcategory



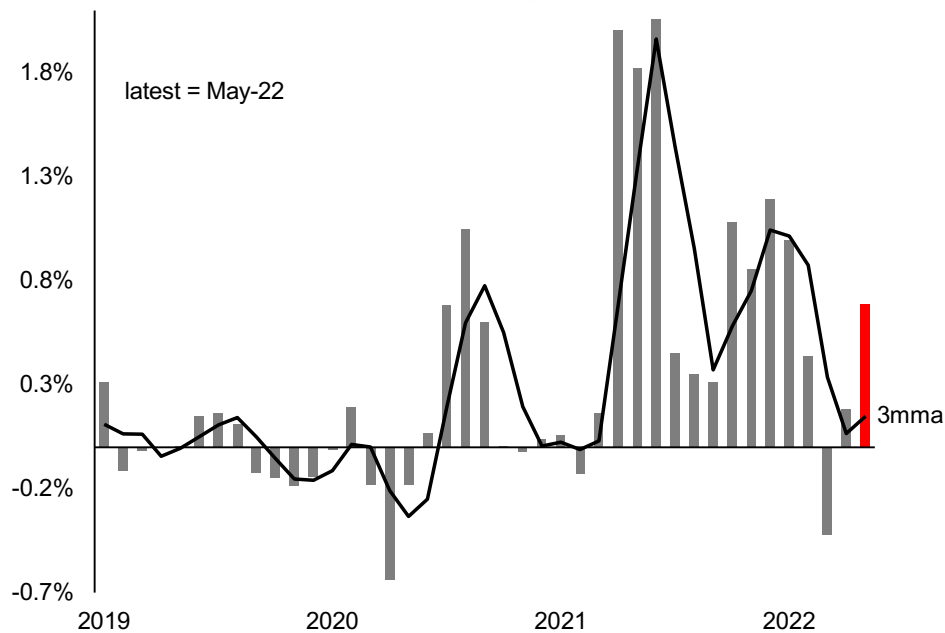
YoY ppt contrib to headline CPI



In recent months, the inflation impulse has broadened into services

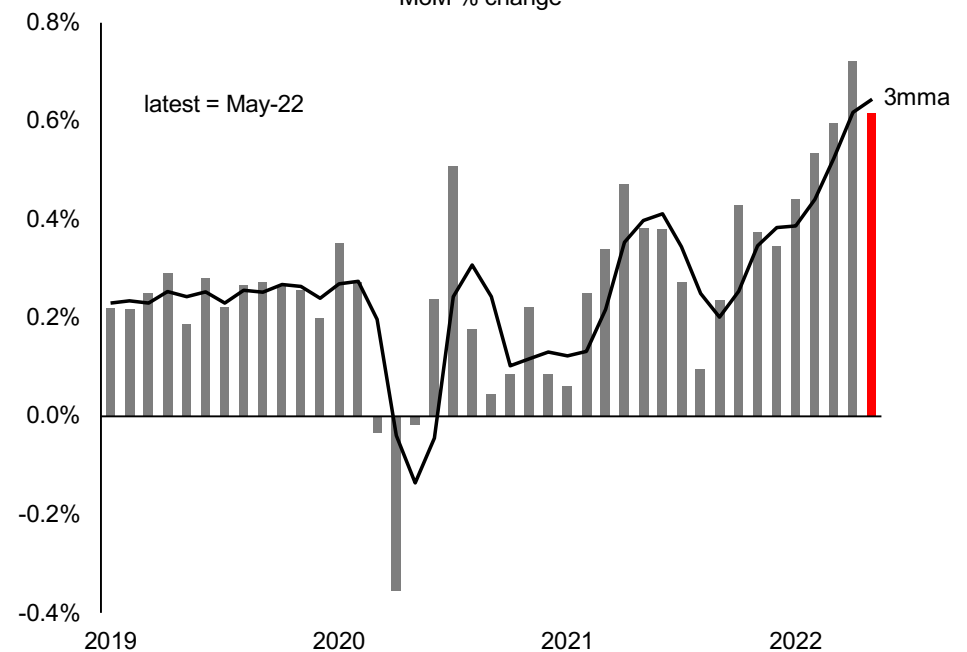
US core goods CPI

MoM % change



US core services CPI

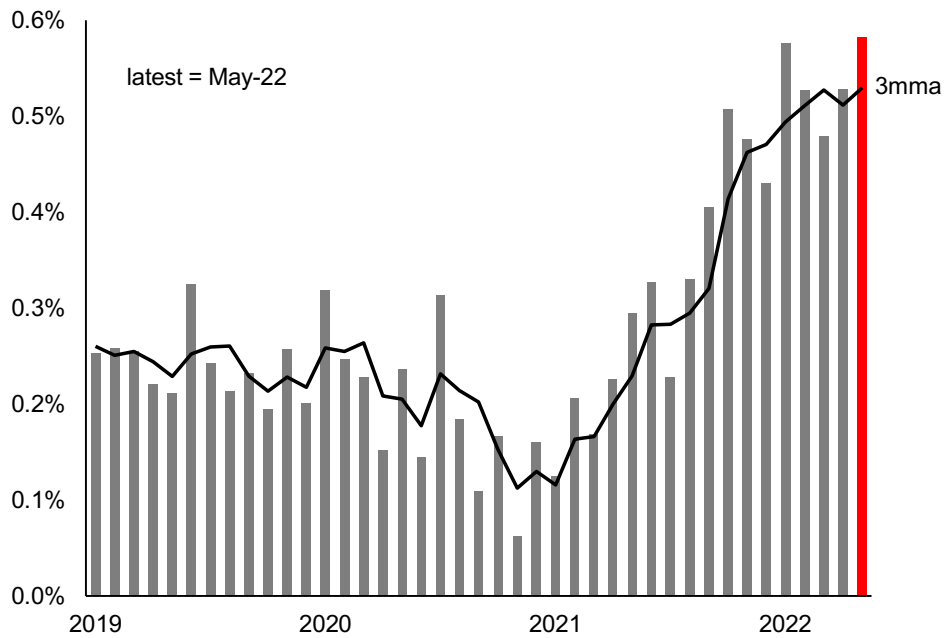
MoM % change



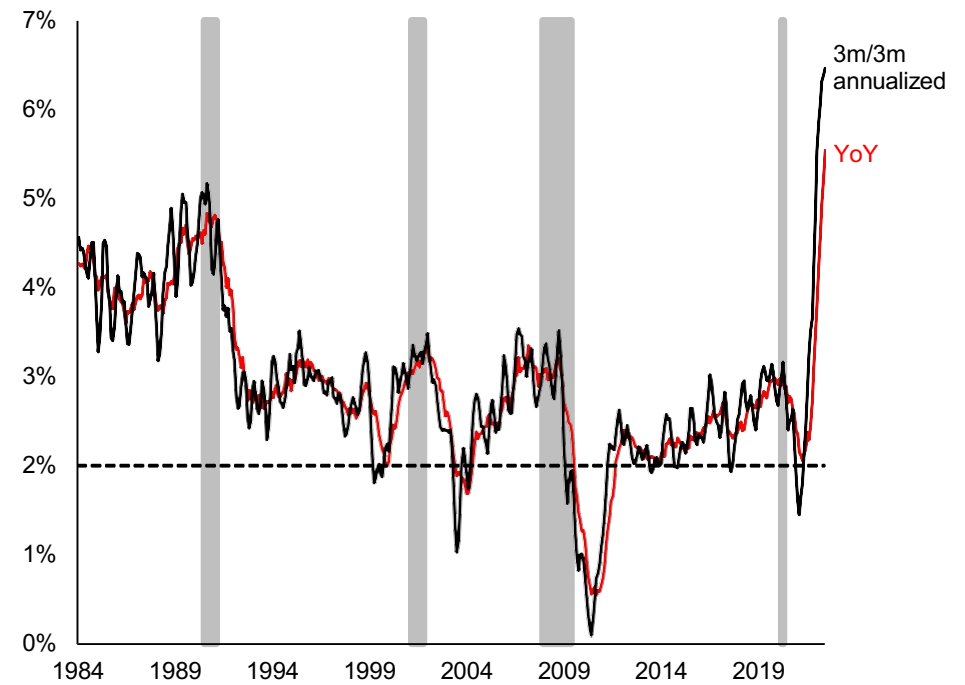
The breadth of inflation remains elevated and highly problematic

US median CPI

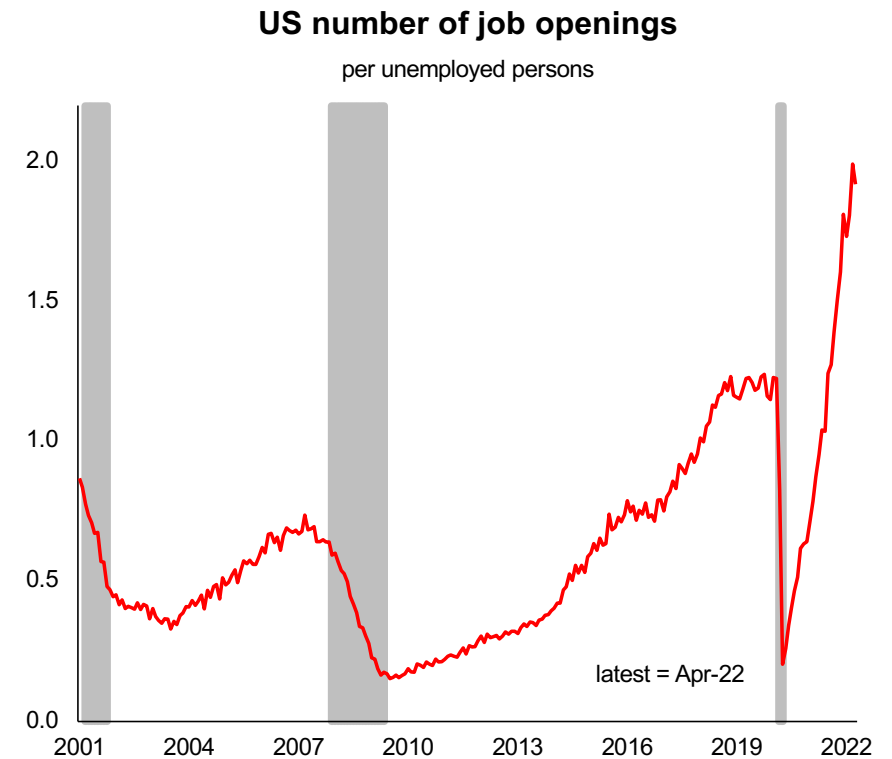
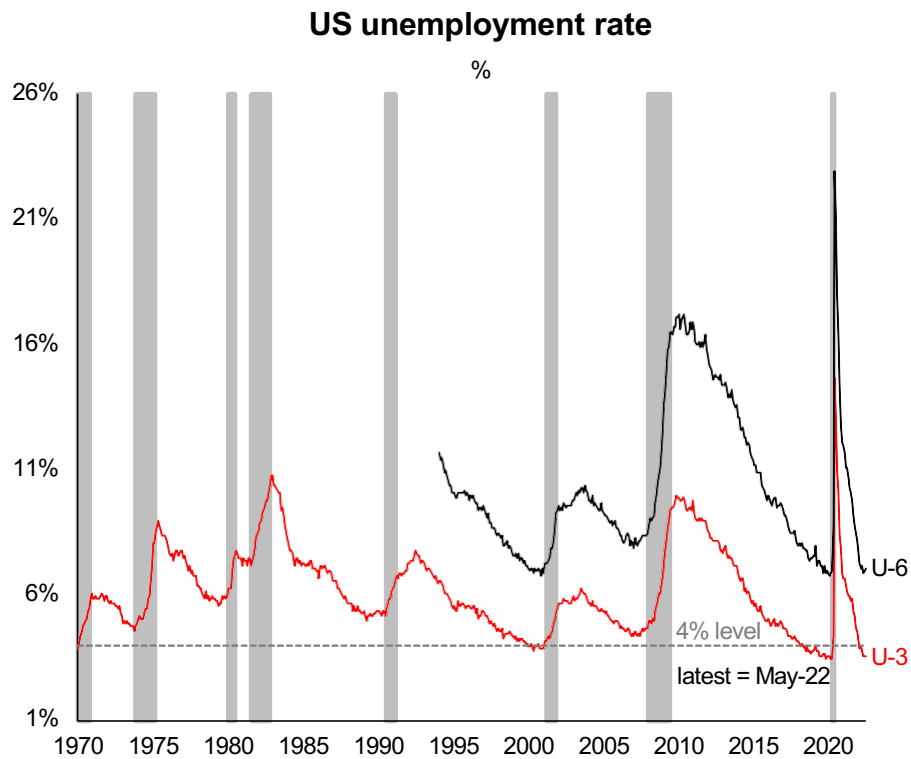
MoM % change



US median CPI

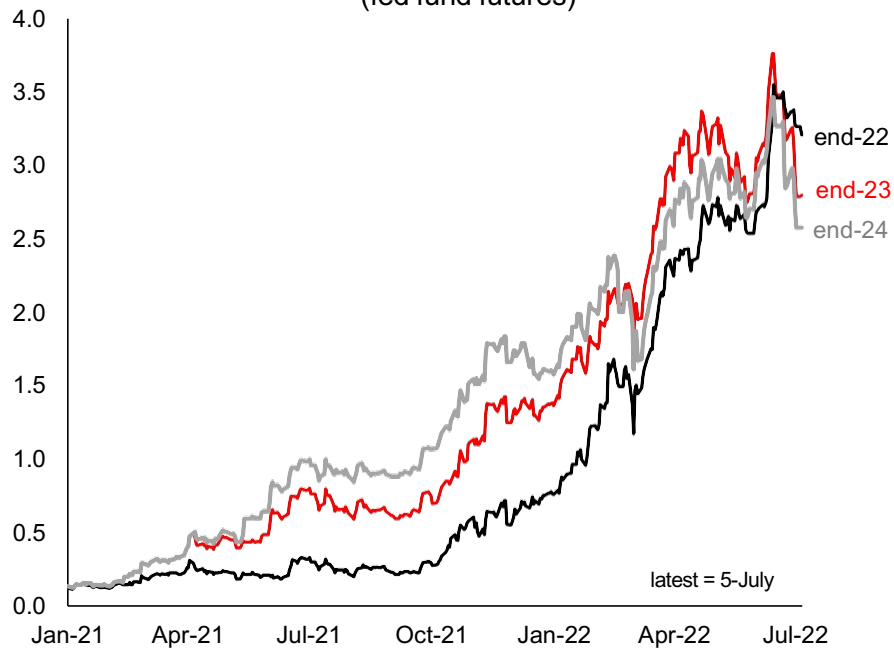


The labor market is overheating: unemployment is low and there are roughly 2 job openings per unemployed person

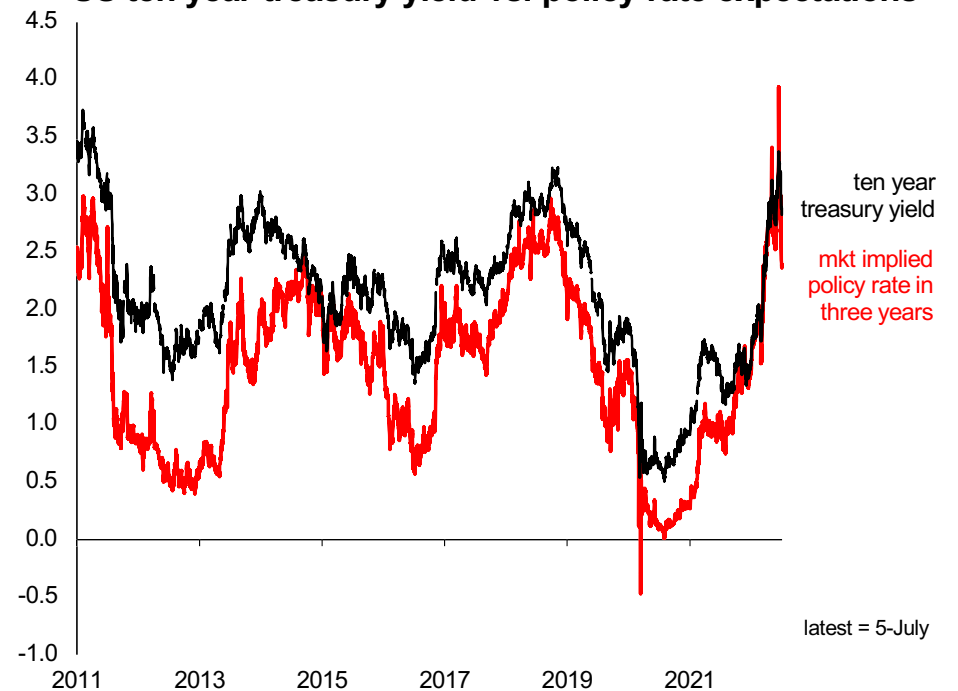


Market pricing is that the sharp rate hike cycle could trigger a recession (and Fed cuts) in 2023

Market implied end-year fed funds rate
(fed fund futures)



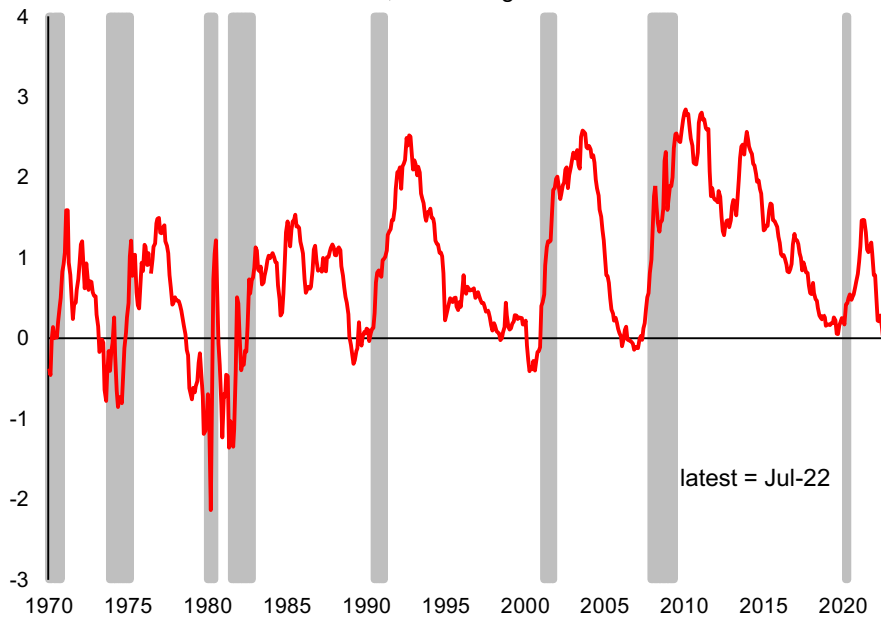
US ten year treasury yield vs. policy rate expectations



The yield curve is on the cusp of sustainably inverting, a warning sign for the expansion

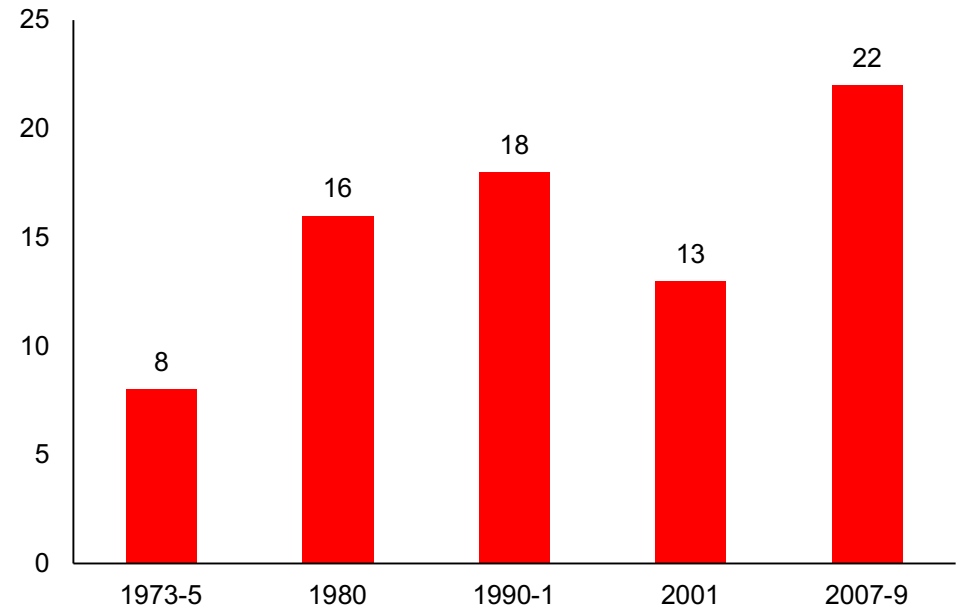
10-2 yield curve spread

%, month-avg basis



Months from 10-2 yield curve inversion to recession

month-avg basis

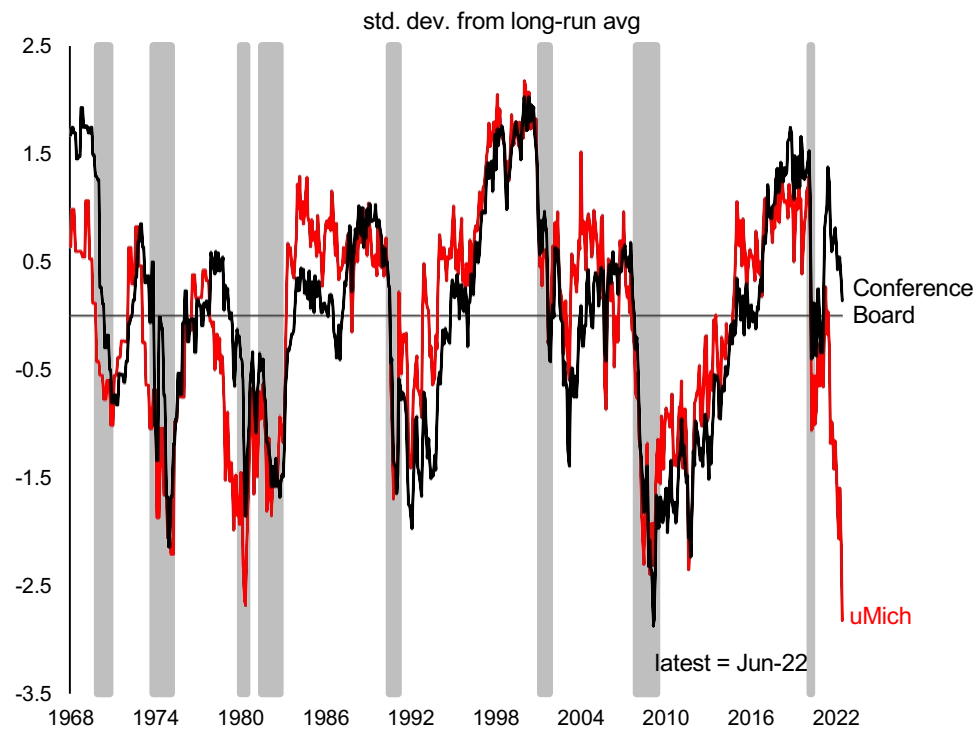


Leading indicators are consistent with recession commencing within the next 12 months

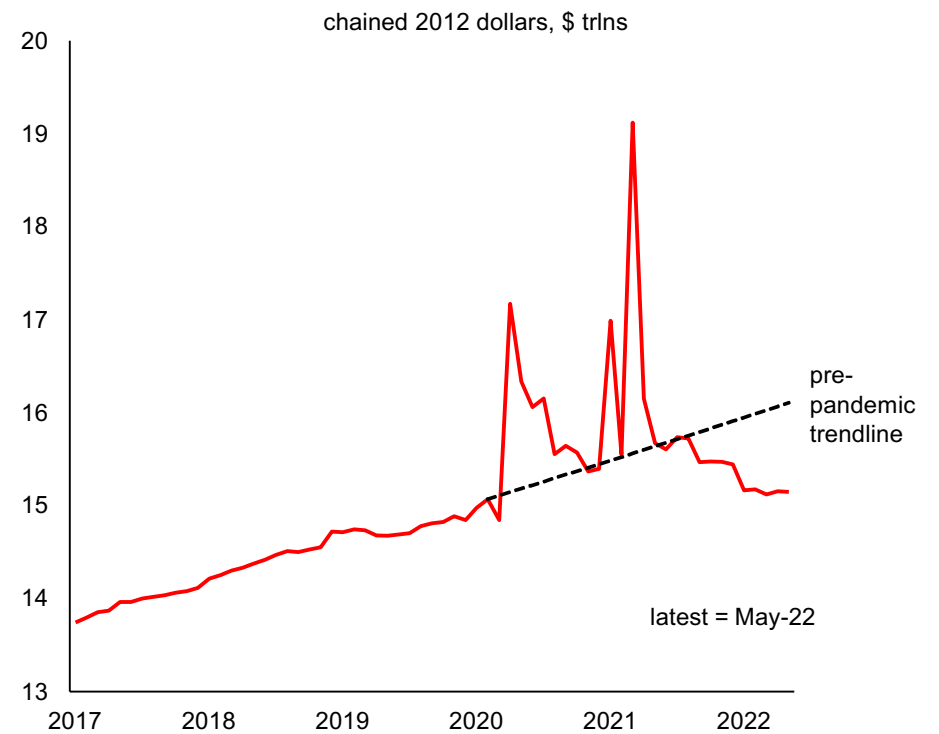
Macquarie US Business Cycle Assessment Framework								
Category	Variable	Recession Signal	Median lead time ahead of recession excl. 2020 (months)	Range of lead-times excl. 2020 (months)	Assessment	Outlook	Has criterion been reached	Signal
I - Yield curve	10 year less 3 month yield (1 mma)	falls below 100 bp	18	9 to 29	Remains above the 100 bp threshold at -157bp currently	This threshold is likely to be breached in July or August as the Fed hikes rates sharply	no	yellow
	10 year less 2 year yield (1 mma)	falls below zero	16	8 to 22	Remains only modestly above zero at -12bps currently	This threshold is likely to soon be breached alongside the Fed's sharp rate hikes ahead	no	yellow
II - Consumer sentiment	Conference Board's consumer confidence index	peaks	14	5 to 21	current level is 98.7 (Jun-22)	This appears likely to have peaked in Jun-21 and has trended lower since	likely	red
	Conference Board's consumer confidence index MINUS uMich's consumer sentiment index	peaks	13	1 to 19	current level is 48.7 (Jun-22)	The spread rose higher in the most recent month	likely	red
	Conference Board's consumer confidence index MINUS uMich's consumer sentiment index	exceeds 25	25	11 to 45	current level is 48.7 (Jun-22)	The spread breached 25 in March 2021, 13 months ago	yes	red
III - Cyclical momentum	Truck and bus equipment share of non-residential investment ex-mining and oil & gas	peaks	24	9 to 84	peaked in 1Q21 and currently stands at 4.6%	Has declined for the past four quarters, but this could be due to supply chain issues and the uniqueness of COVID	potentially	yellow
	Total cyclical business investment share of non-residential investment ex-mining and oil & gas	peaks	20	6 to 87	peaked in 4Q20 and currently stands at 8.0%	Has declined for the past five quarters, but this could also be due to supply chain issues and the uniqueness of COVID	potentially	yellow
	Duncan leading indicator	peaks	9	3 to 45	peaked in 2021	Rebounded in 1Q22 after declining in 2H21, but remains below cycle peak. Faces headwinds ahead from durable goods consumption	likely	red
IV - Housing	Single-family nominal residential investment (% of nominal GDP)	peaks	21	9 to 36	current (1Q22) = peak at 1.9%	Reached a new cycle high in 1Q22, but this is likely to mark the peak in the cycle	likely	red
	Single family housing starts (3mma)	peaks	23	13 to 26	Reached a cycle high in Dec-20 and currently stands ~7% below this peak	Single family housing starts have trended lower since Feb-22 and are ~7% below the cycle high (3 mma basis)	likely	red
	Residential structures employment share	peaks	20	14 to 27	current level is 0.595% (May-22)	At 0.595%, the current share of residential structures employment is now at the highest level since mid-2008	no	green
V - Labor market	Unemployment rate (3 mma)	troughs	9	1 to 15	current 3mma is 3.6% (May-22), the lowest level since Feb-20	Potential for this to fall further. Employment growth trends are decelerating, but are well above labor force growth	no	green
	Temp help services employment	peaks	15	11 to 19	Reached a new all-time high in May-22	Has risen over the past year and has reached a new all-time high in each of the past seven months.	no	green
	Initial unemployment insurance claims (13 wk ma)	troughs	12	6 to 20	current level is 206K (June 25, 2022)	This measure has risen modestly higher over the past six weeks (+10K), but remains low and still suggests continued health in the labor market	potentially	yellow

Consumer confidence has been deteriorating largely due to falling real incomes

US consumer sentiment measures

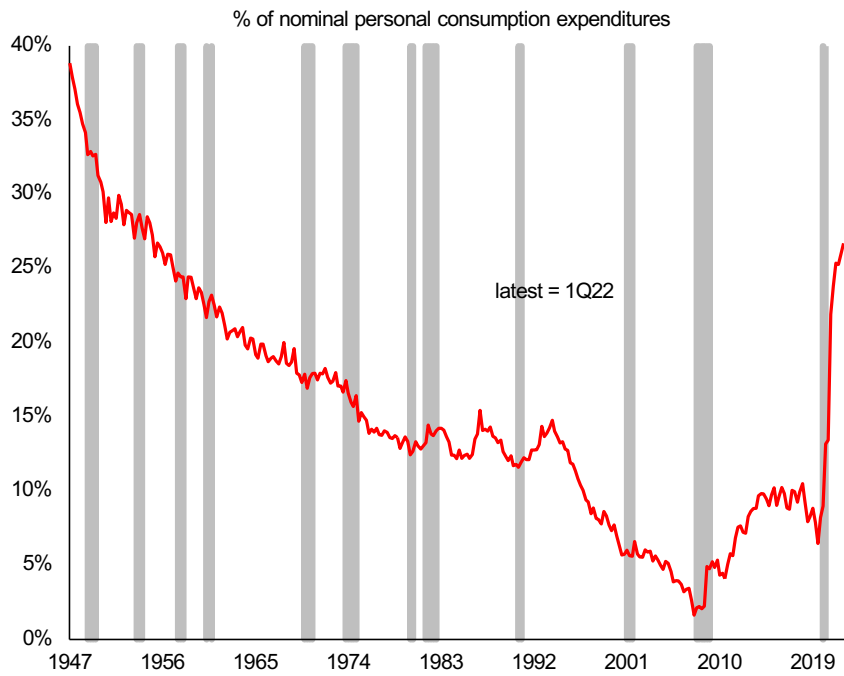


US real disposable personal income

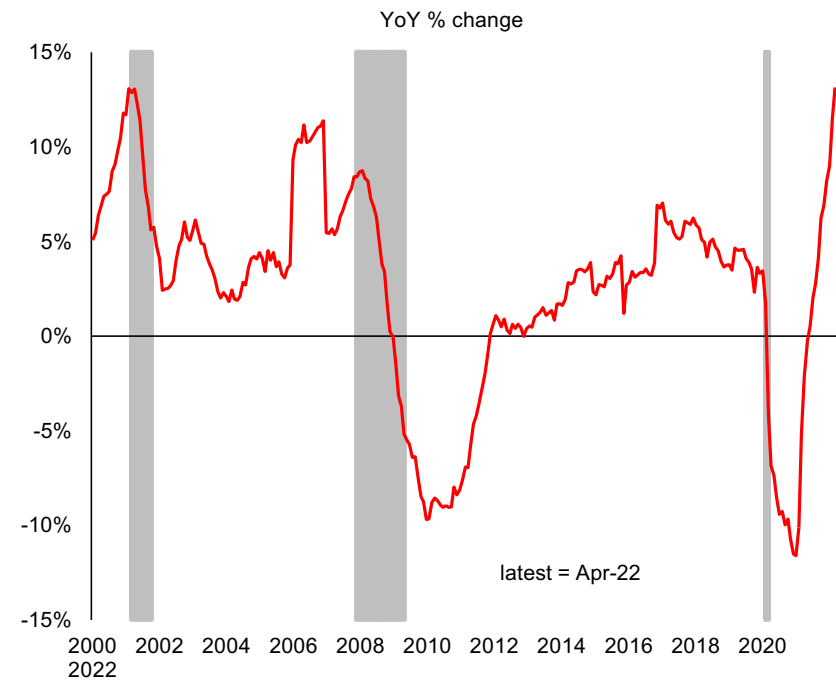


For now, an elevated stock of savings and strong credit card debt growth have helped to sustain consumption

Households and nonprofits - checkable deposits and currency

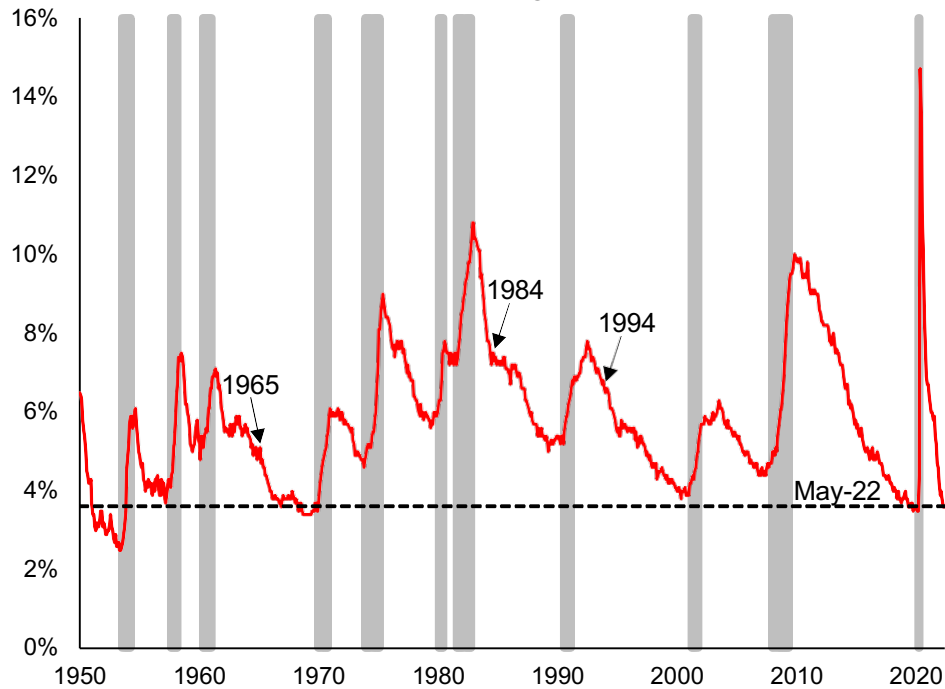


US revolving consumer credit outstanding

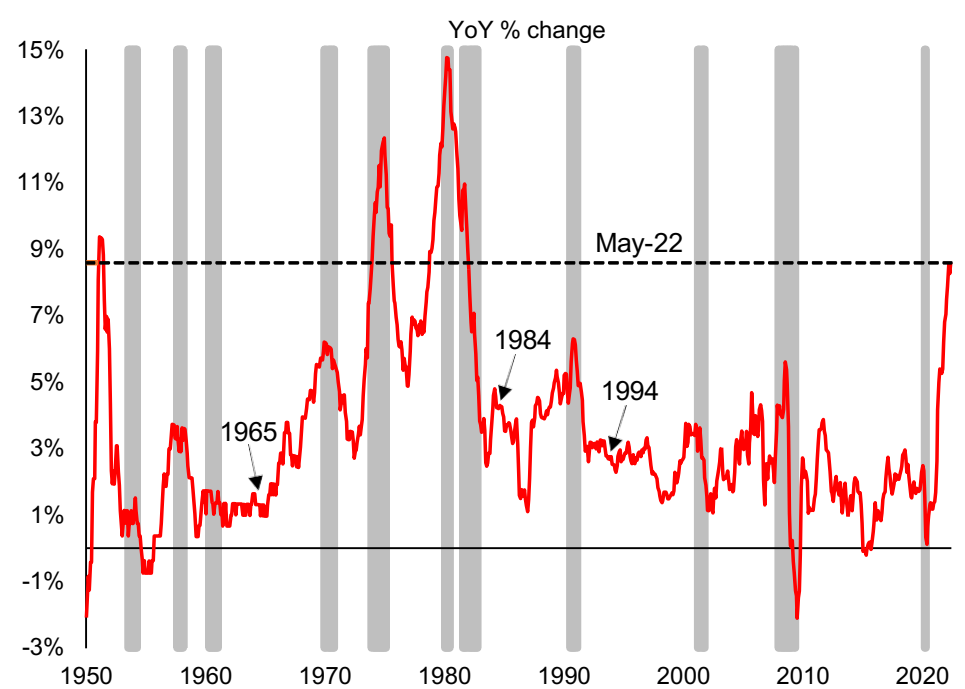


A soft landing will be extremely challenging to achieve in the current context

US unemployment rate



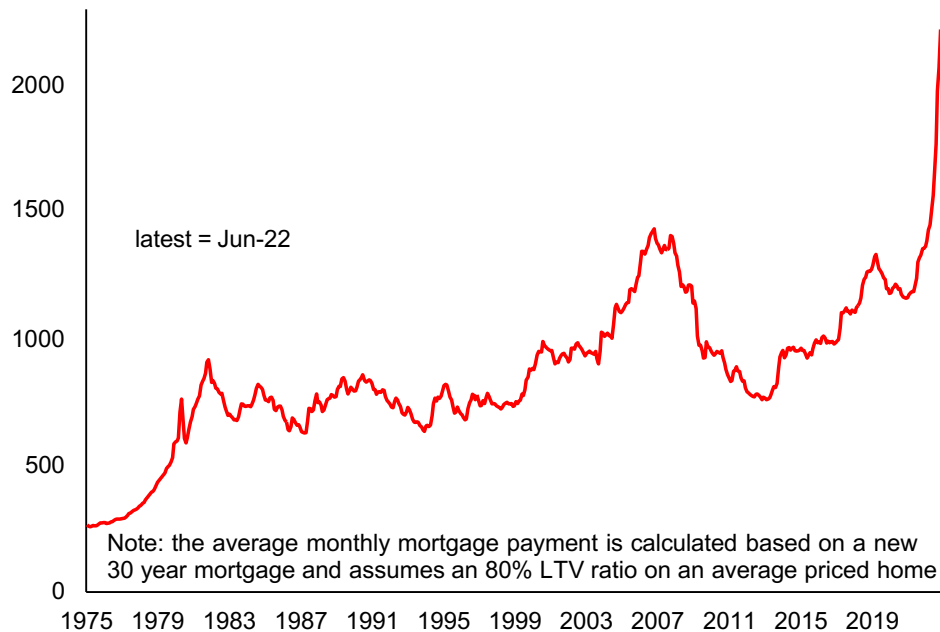
US headline CPI



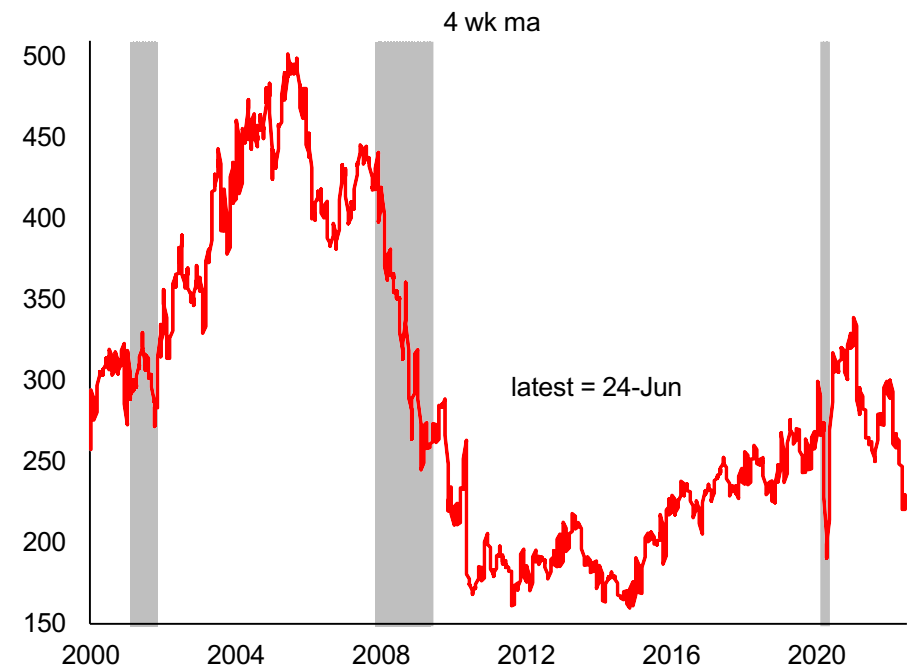
US housing will be key to watch for signs of weakness amidst the affordability shock

US monthly mortgage payment on average priced home

newly purchased, principal and interest combined (\$)



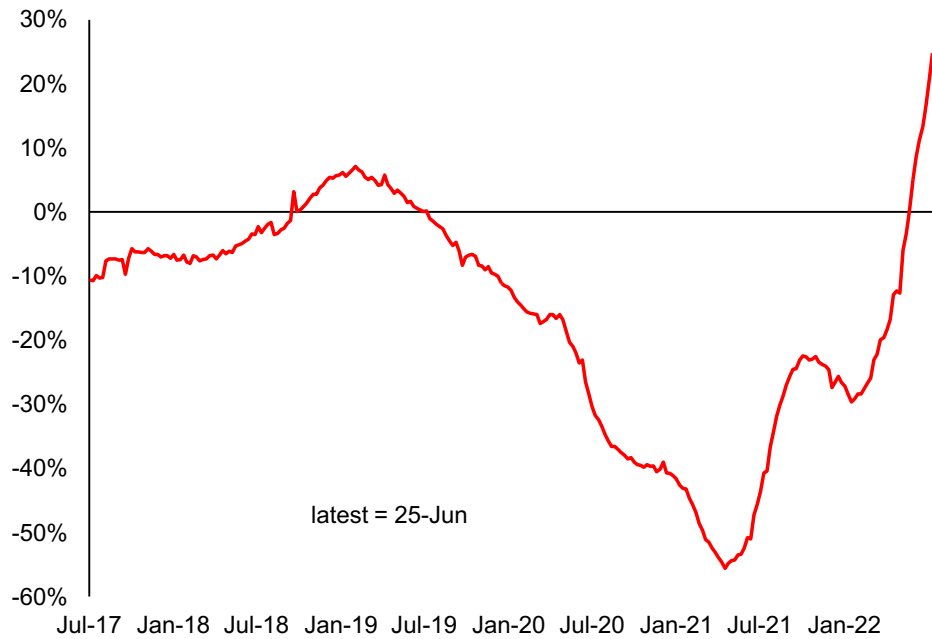
Mortgage purchase application index



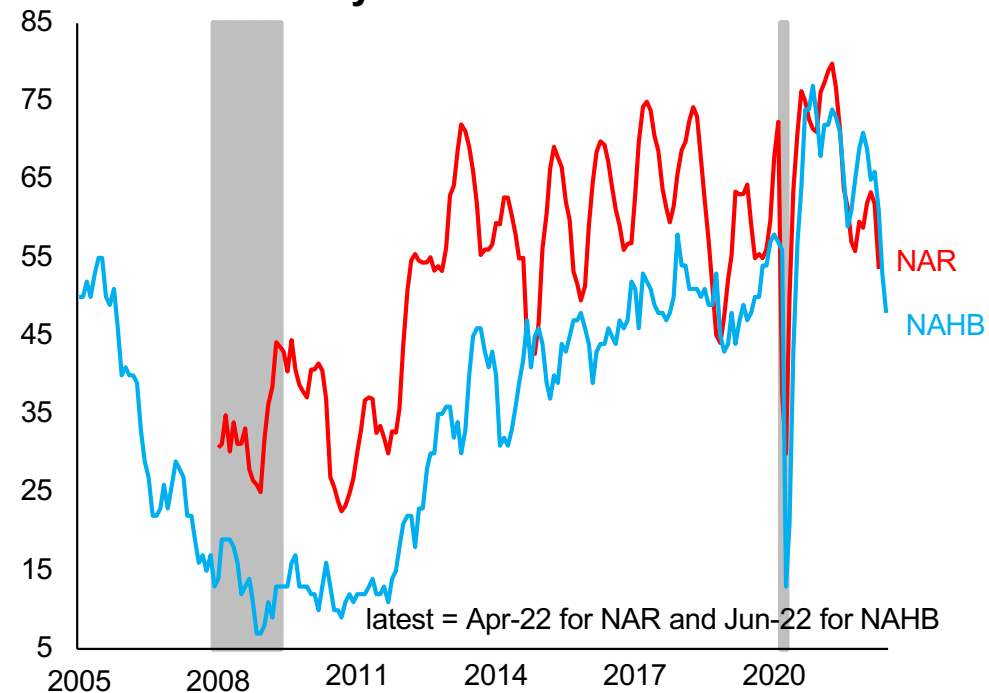
Inventories of homes for sale in the US are on the rise again, while buyer traffic has begun to moderate

Weekly active listings of homes for sale

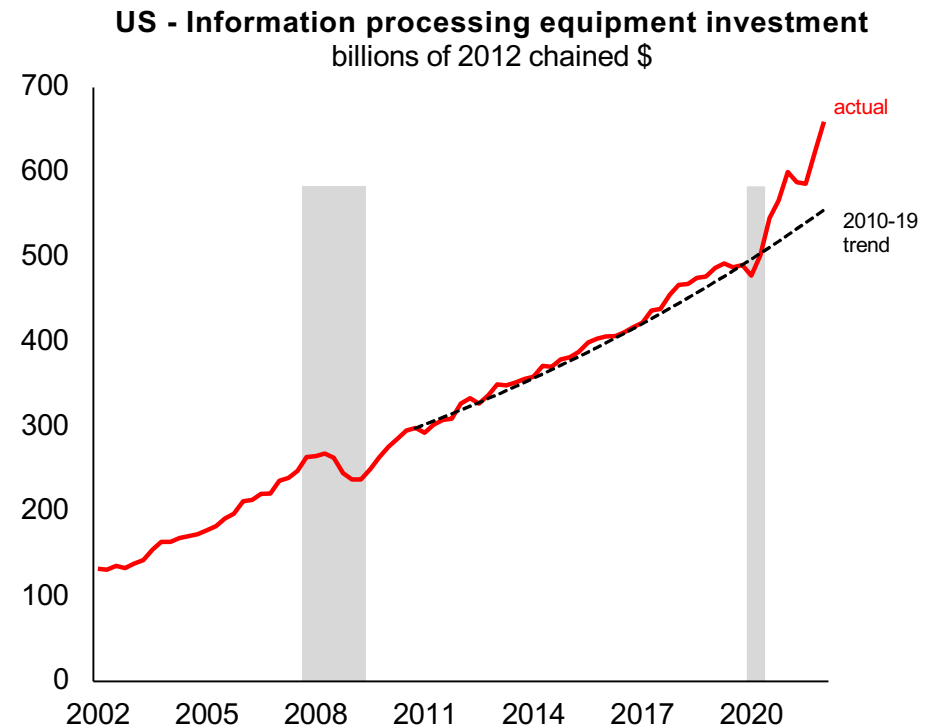
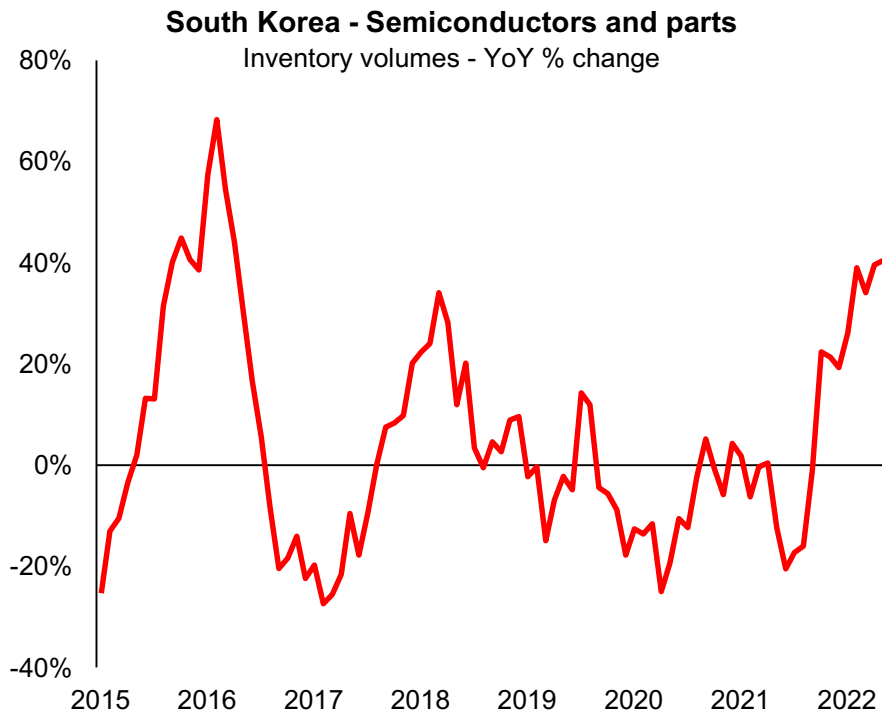
YoY % change



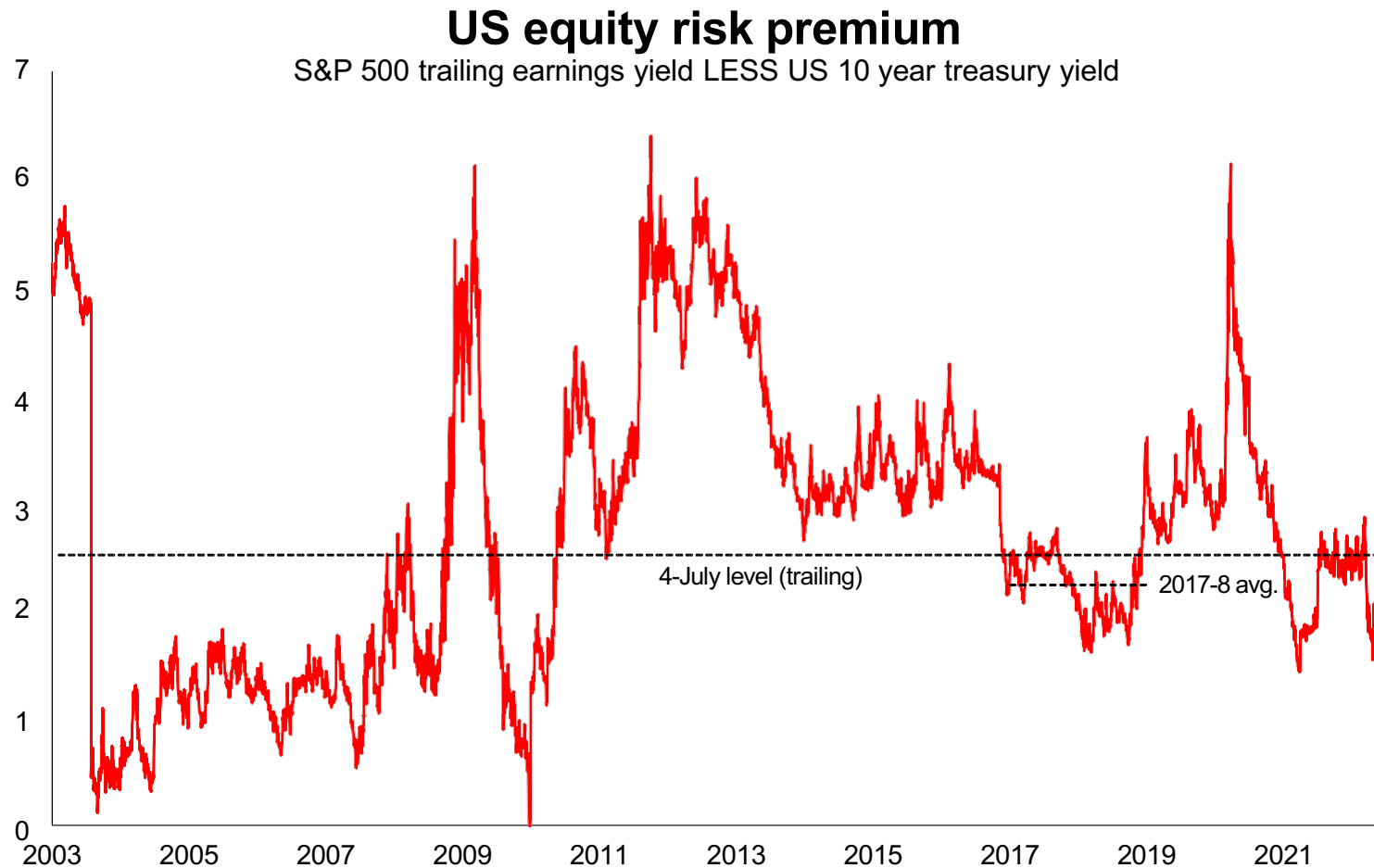
Buyer traffic indices



Semiconductor inventories have begun to build rapidly at a time when demand is stretched relative to its pre-pandemic trend

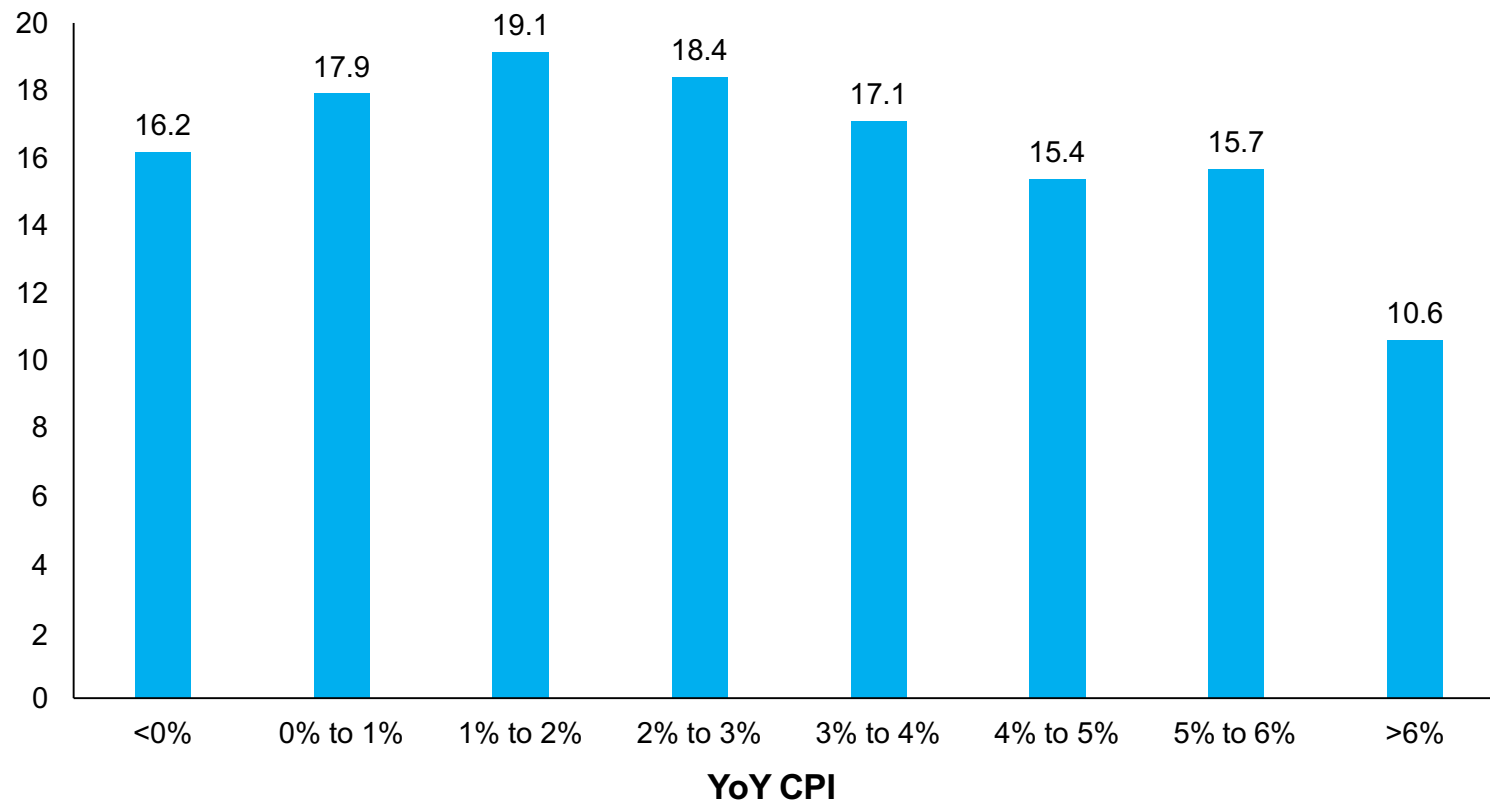


Equities still look expensive by the post GFC standard



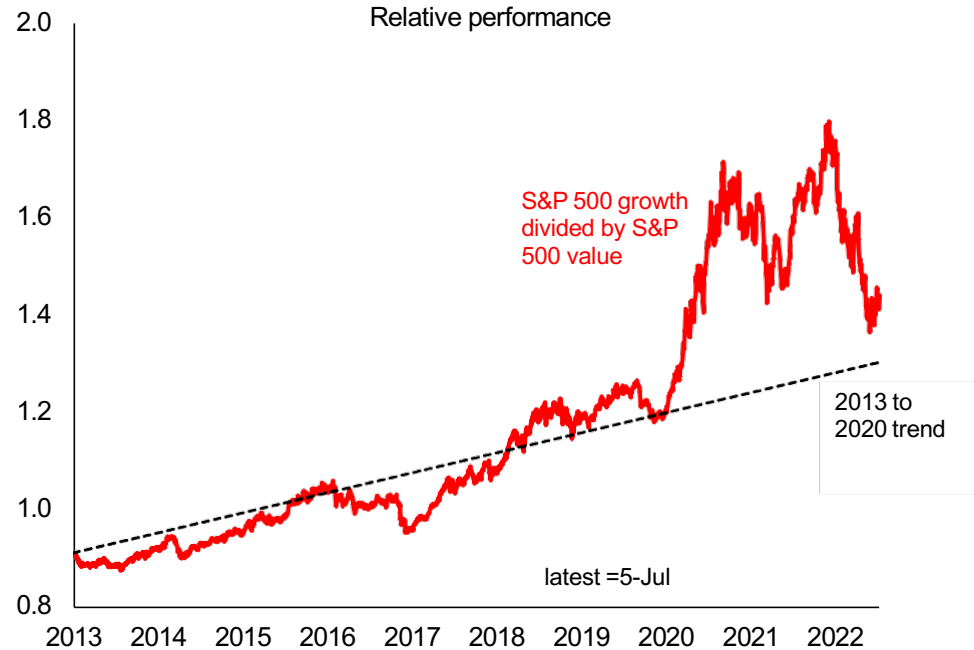
The long-run risk to equity markets is sustained inflationary pressure

S&P 500 - average trailing 12M P/E multiple vs. YoY CPI
1872 to 2021



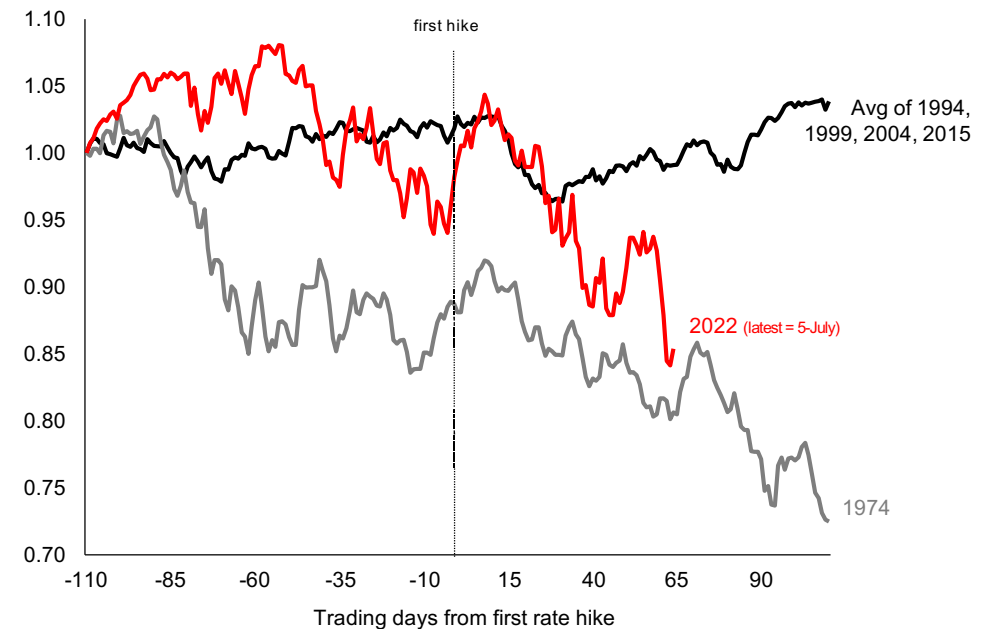
Softness in equities so far has been more concentrated in “growth” companies than “value” companies ... it has tracking a more severe market downturn (1974) compared to recent rate hike cycles

S&P 500 Growth vs. Value
Relative performance



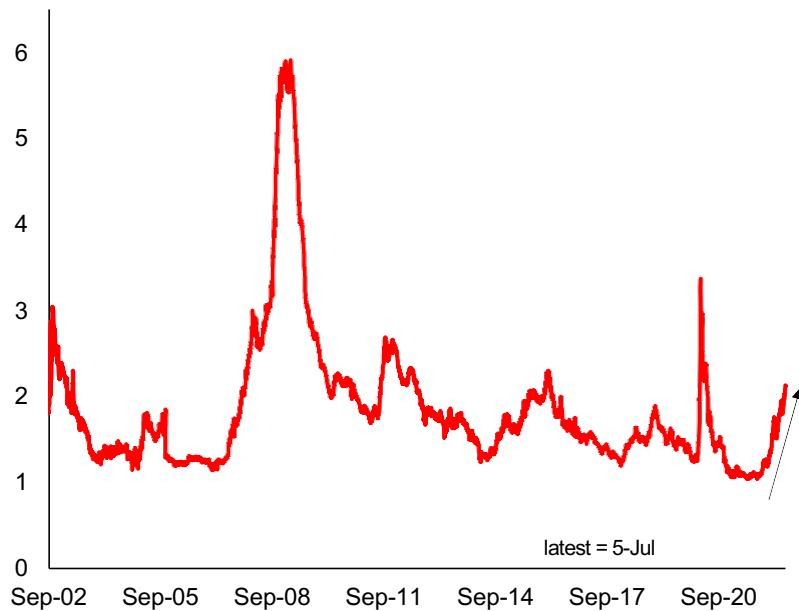
S&P 500 performance surrounding first rate hikes

(level 110 trading days before first hike = 1.00)



Financial conditions have been tightening ...a trend that should continue in the months ahead

US Corporate BBB/BBA to 10 year treasury spread



DXY Index



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