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School of Business

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# 2023 Economic and Financial Forecast

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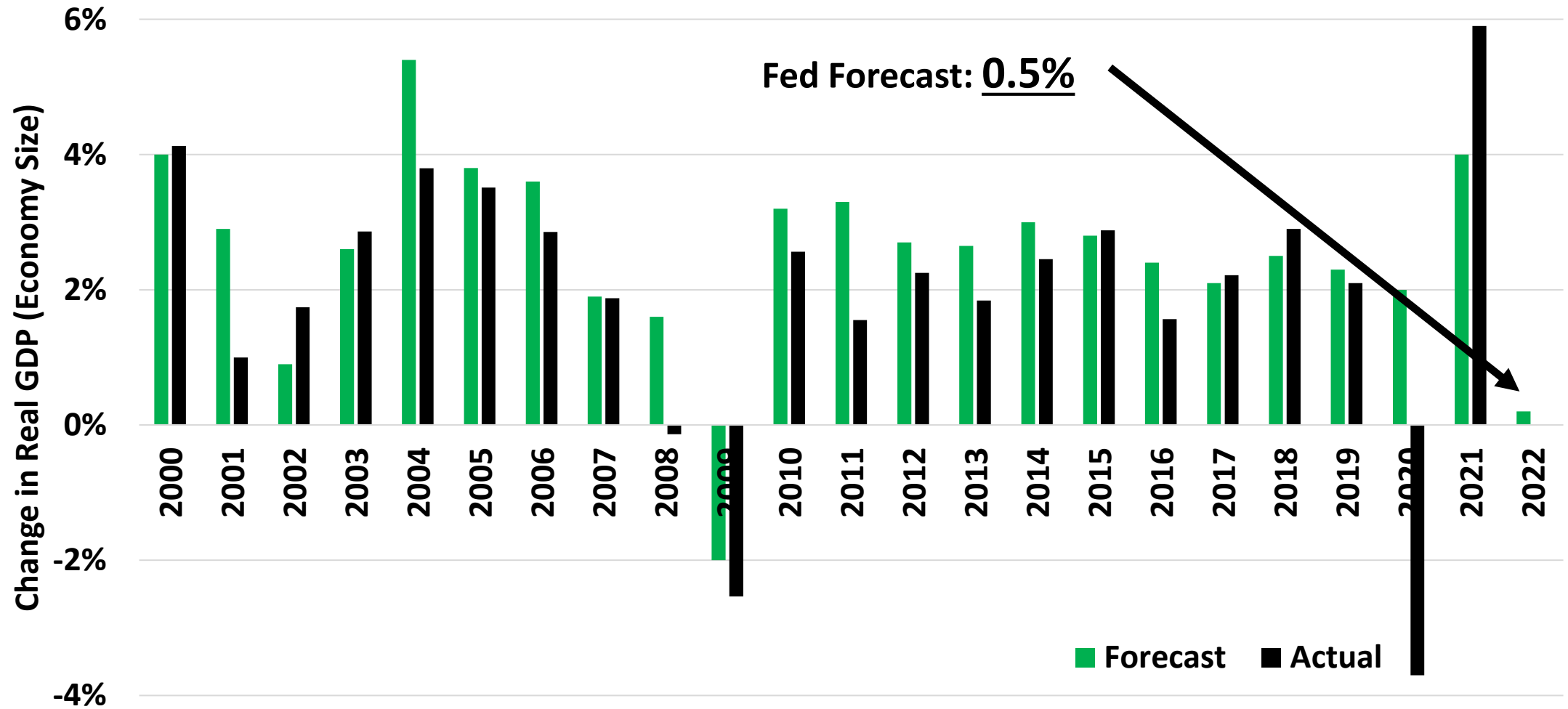
[Boundedfinance.com](https://www.boundedfinance.com)

March 22, 2023

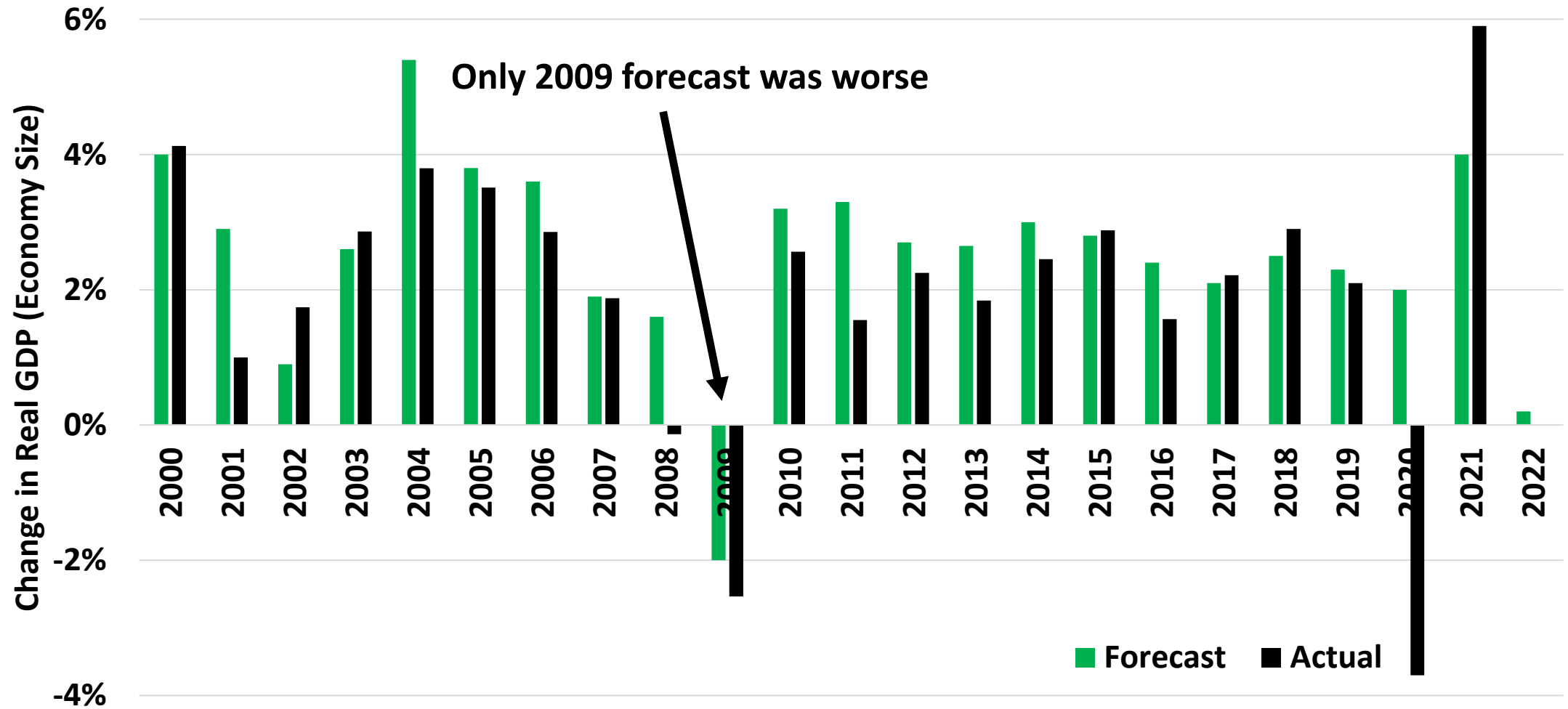
# General Thoughts

- Was thinking recession would start at end of the year... sooner now
  - Guessing severity will be very industry dependent
- Fed is likely to put on the brakes soon ... but 3 rate cuts by EOY?
- “Extreme” inflation is long gone already
- Financial markets are likely to be very choppy this year at best
  - Likely declining rates, flat stocks

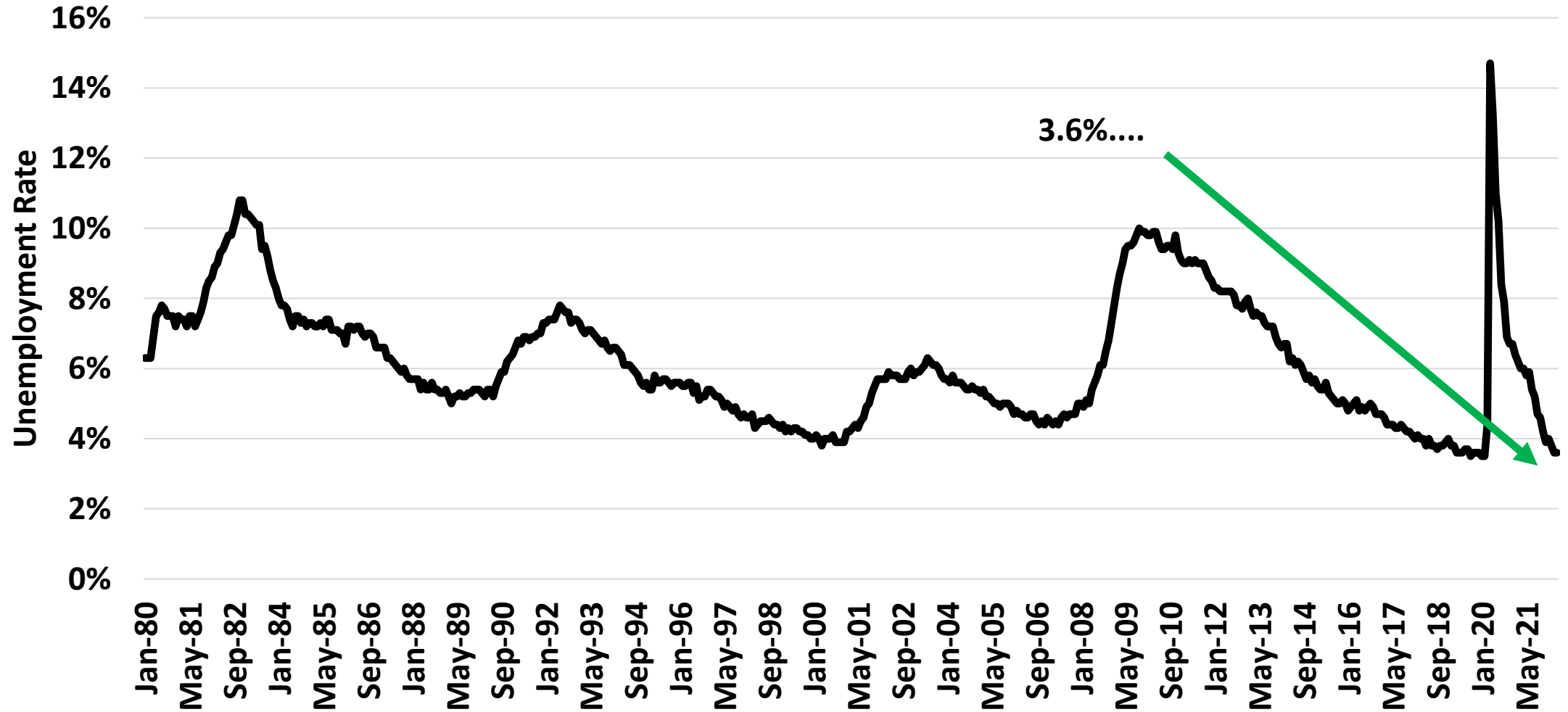
# GDP Forecast 2023



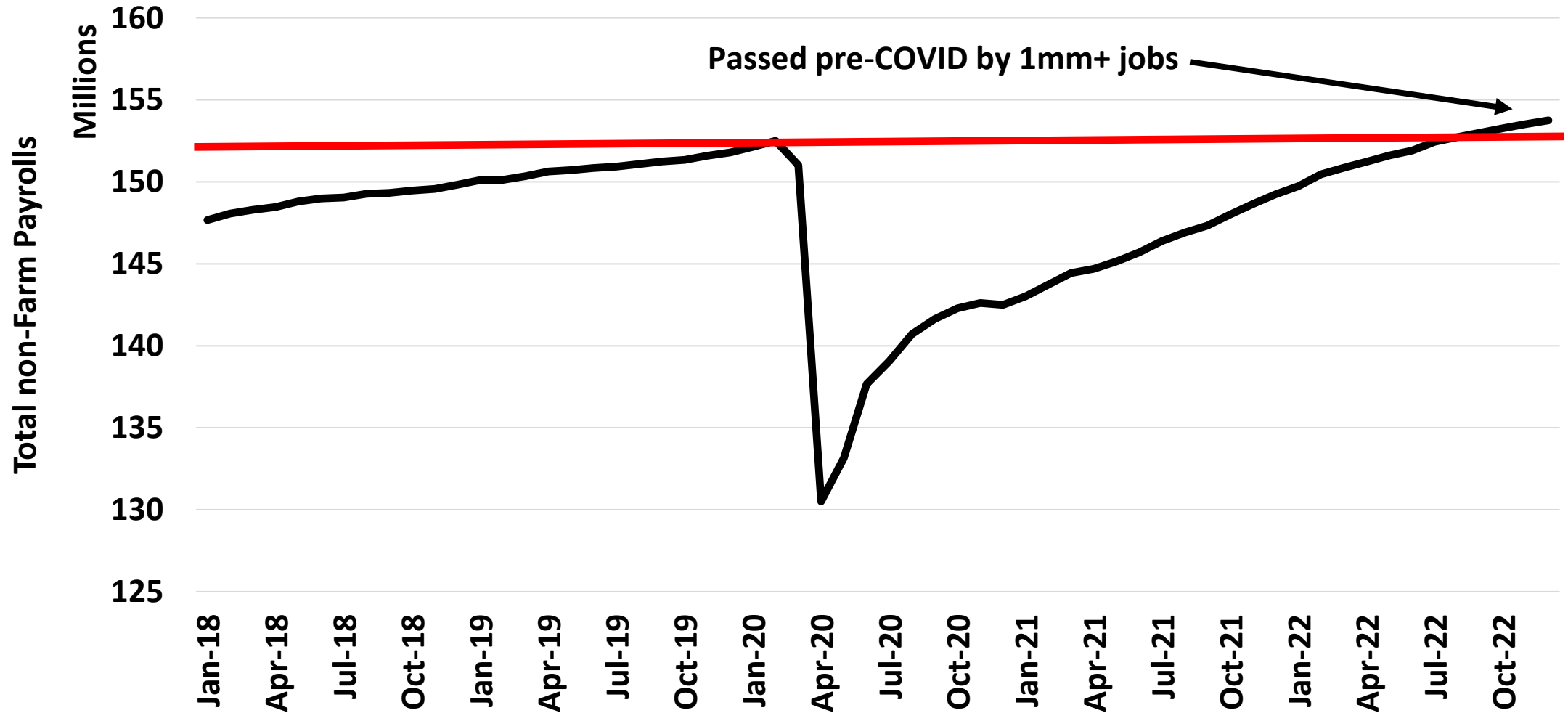
# GDP Forecast 2023



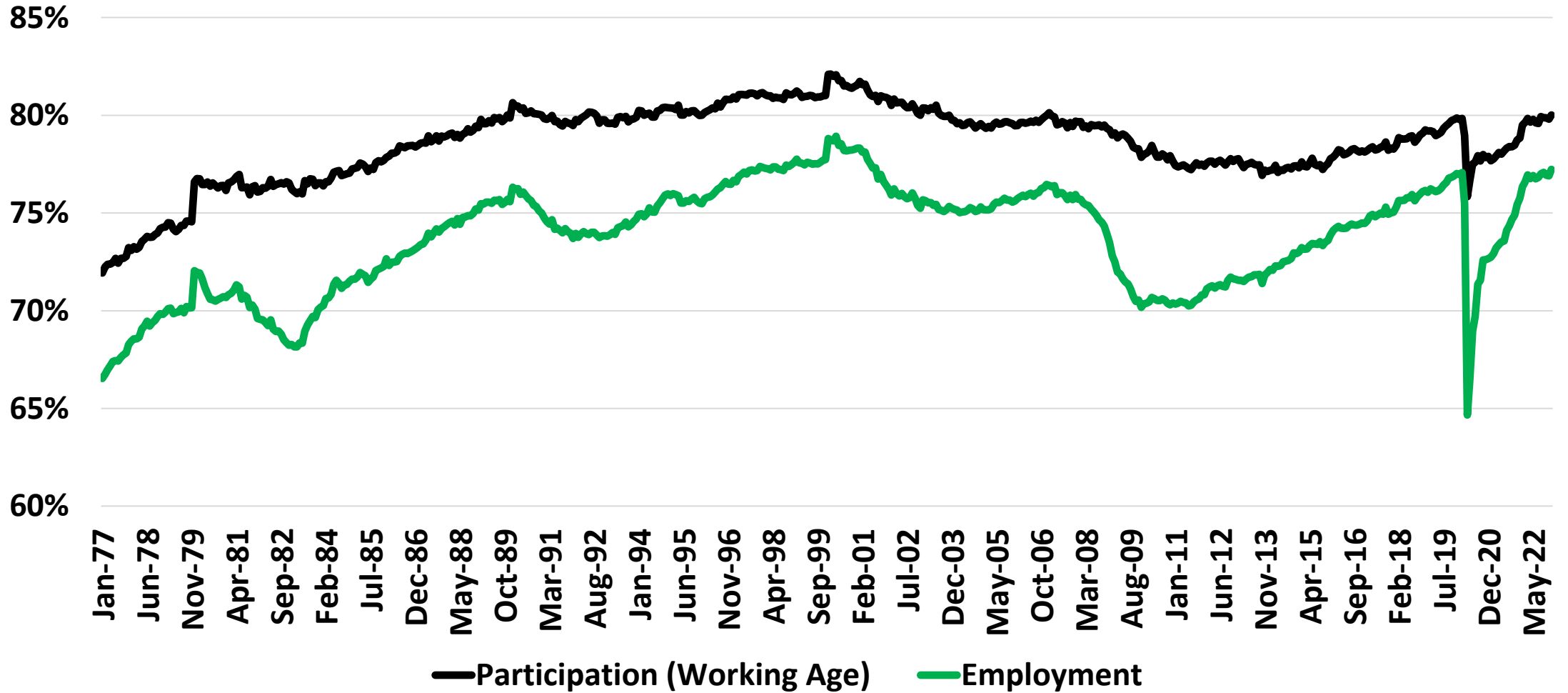
# #1 Reason: We Are STILL out of People



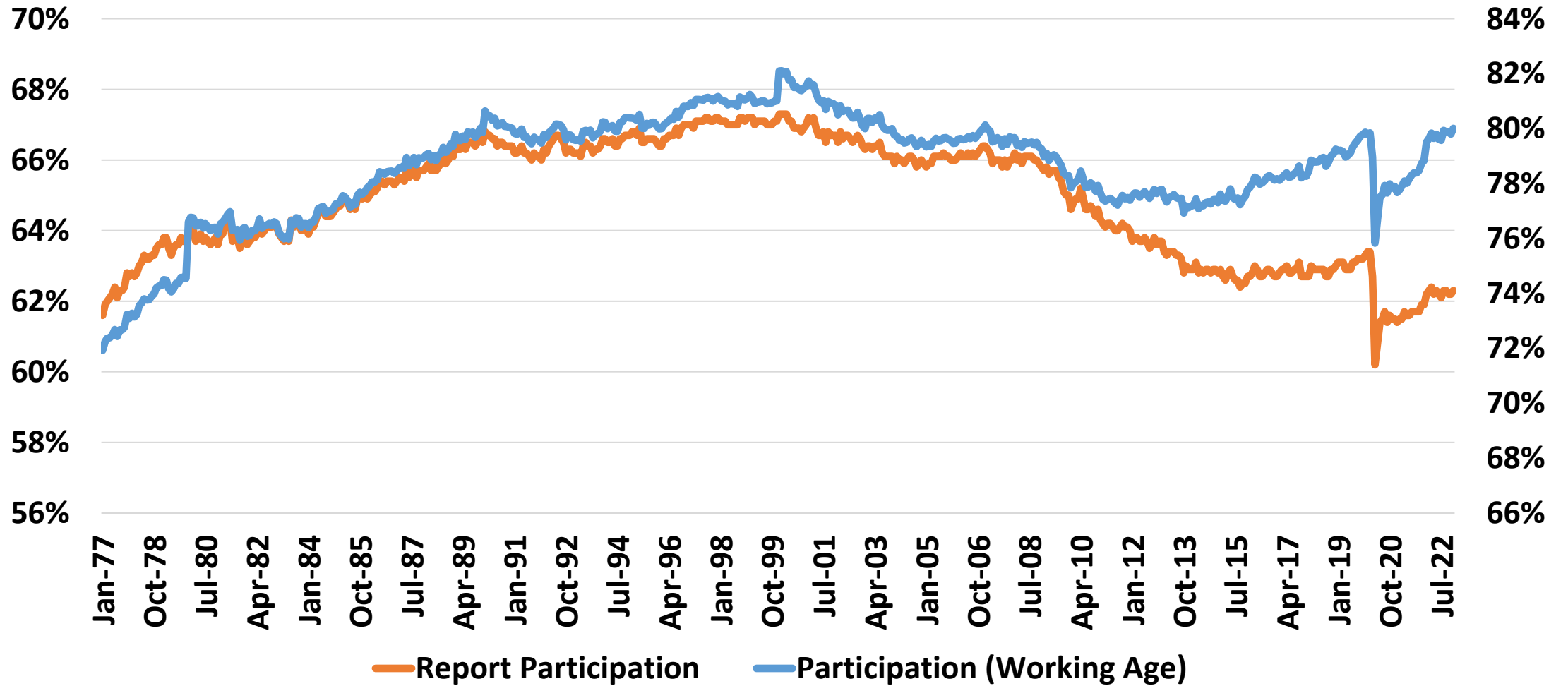
# And We Are All Back to Work



# Participation Rate and % Employed

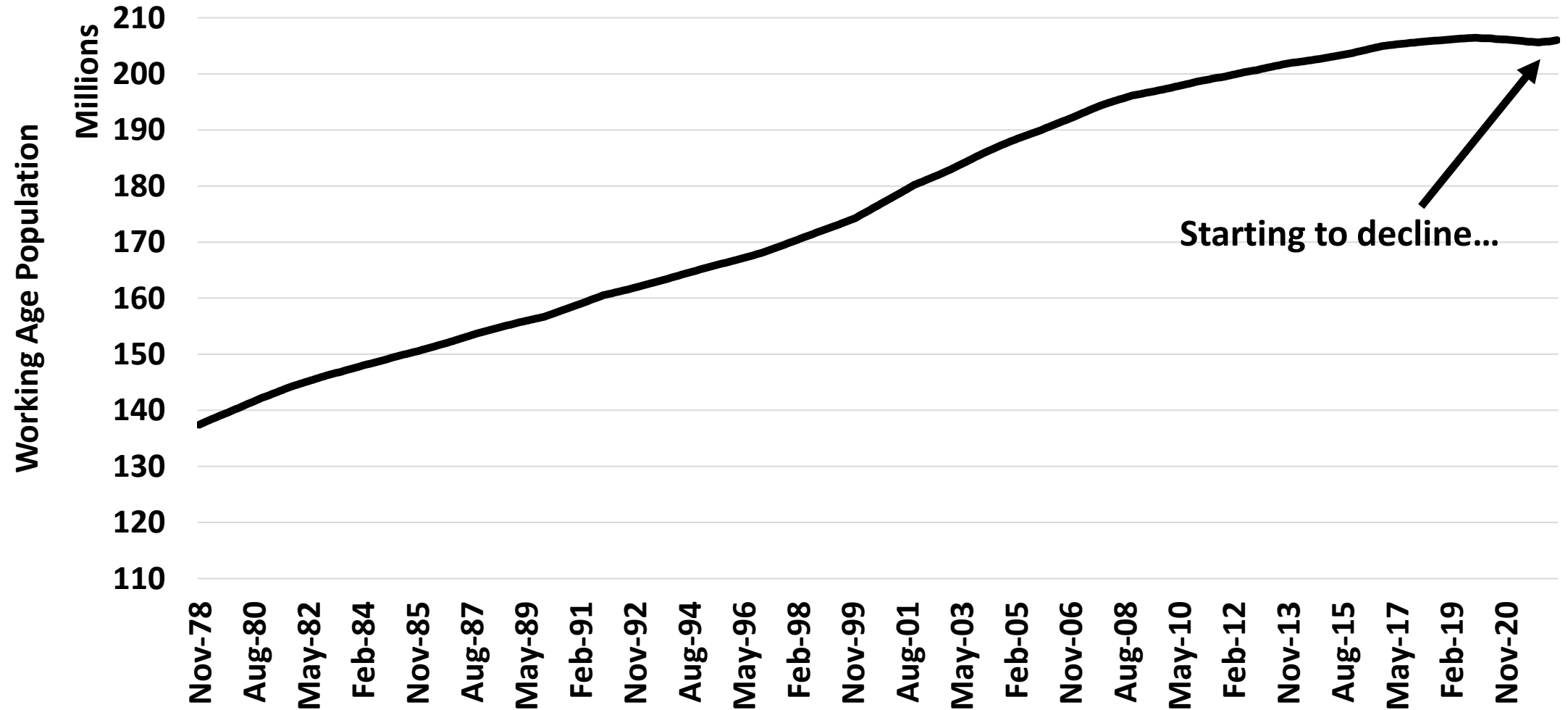


# Actual vs. Reported Participation Rate

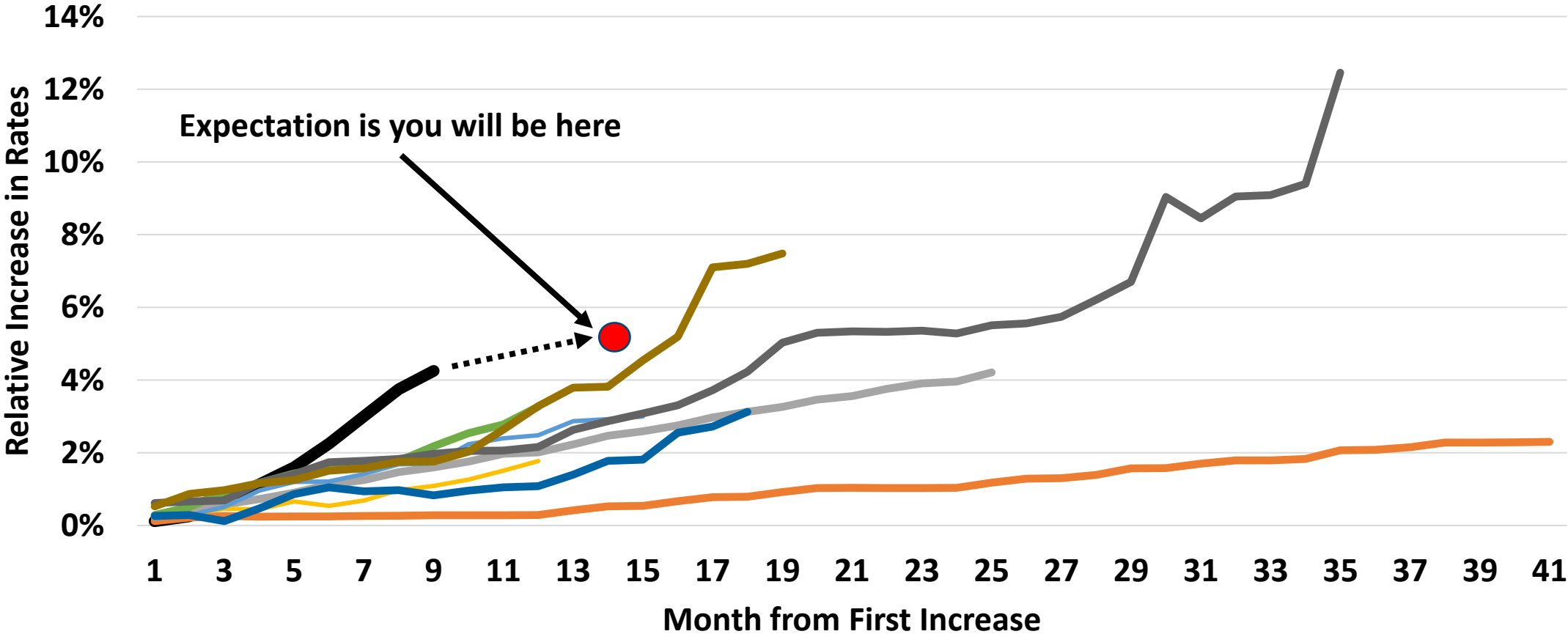




# Not Getting Any New People Anytime Soon

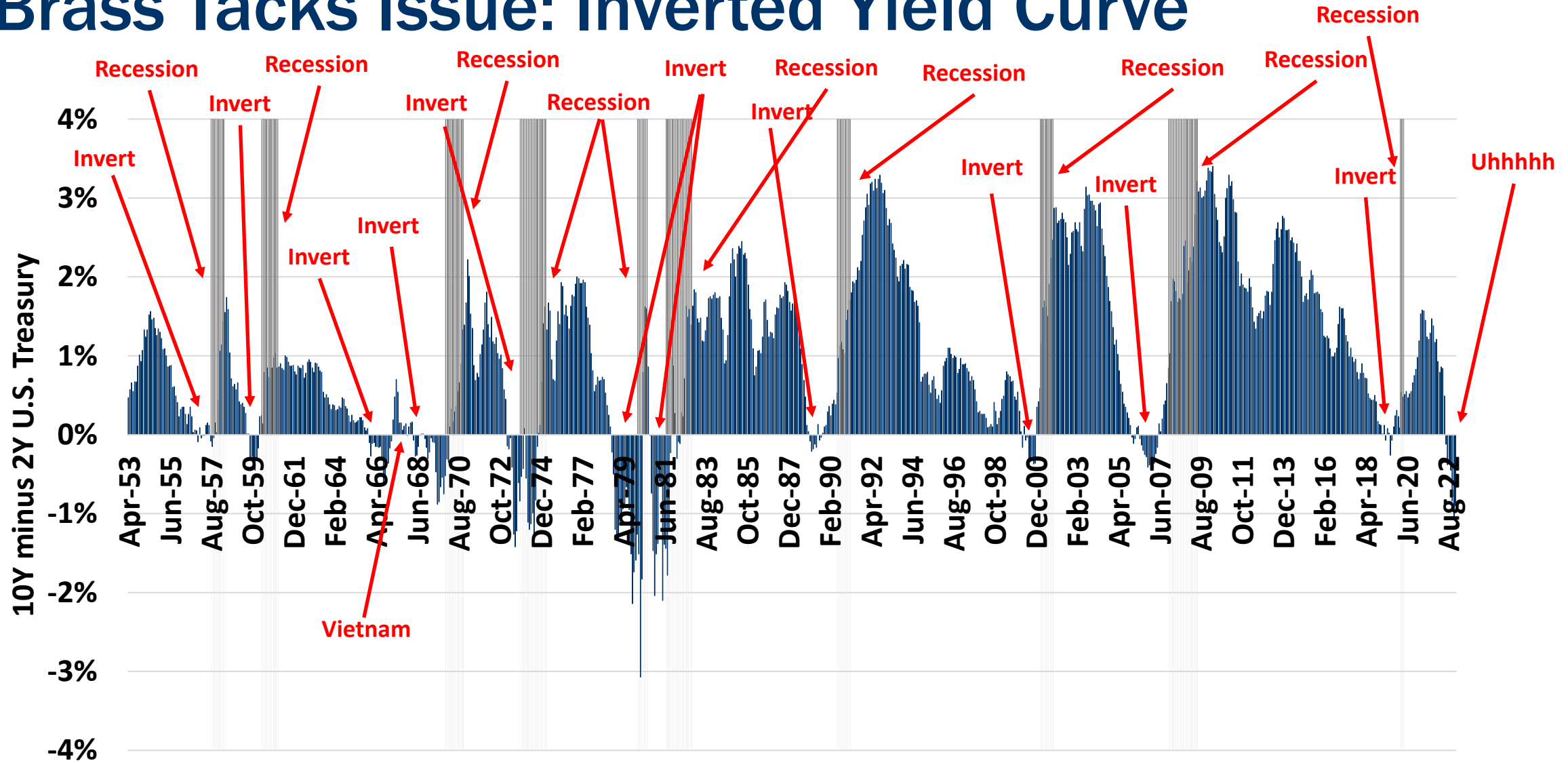


# Problem #2: Fastest Rate Increase. Ever.



2022 2015 2004 1999 1994 1988 1983 1977 1972

# Brass Tacks Issue: Inverted Yield Curve



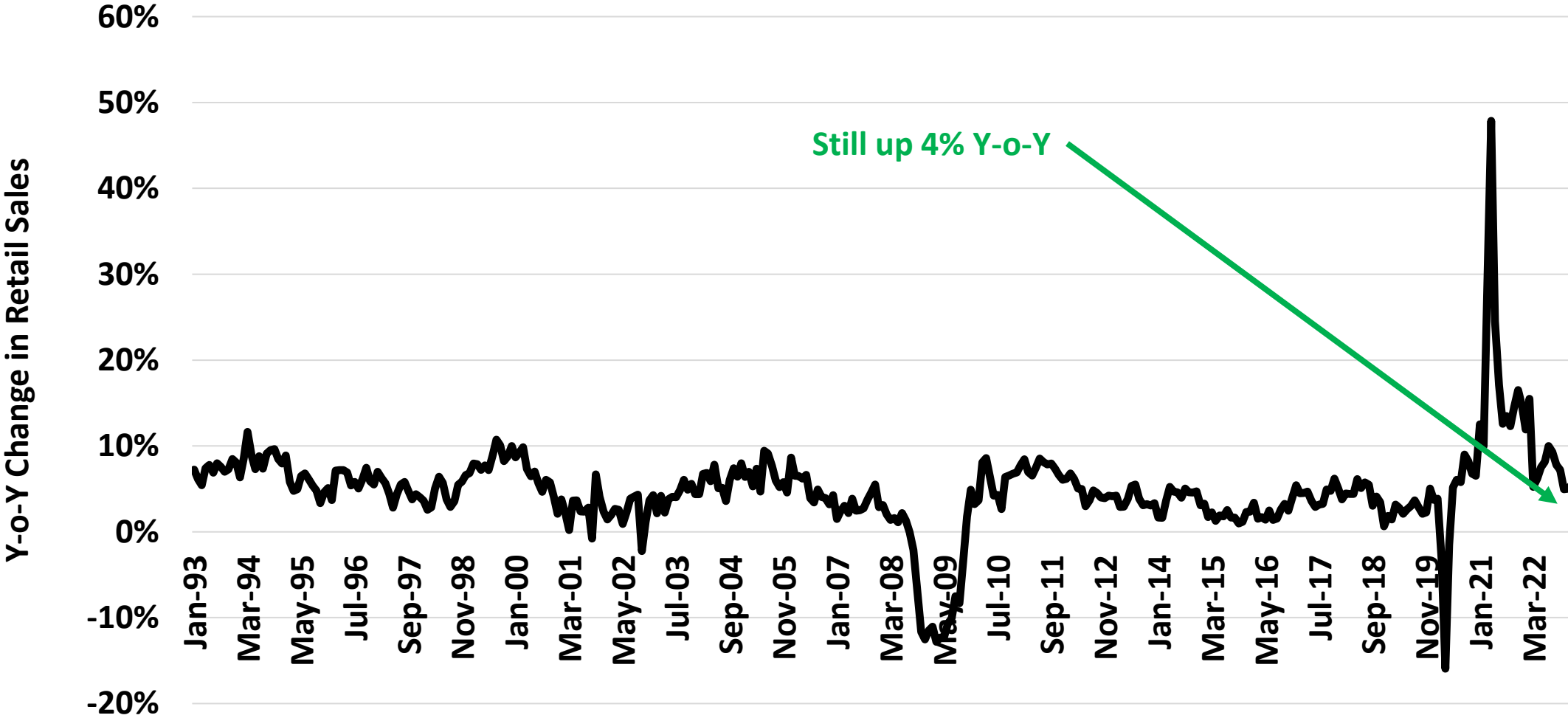
# Is Fed Policy Biting Yet?

- Consumer spending?
- Savings rate?
- Housing market?
- Job market?
- Government receipts and spending?

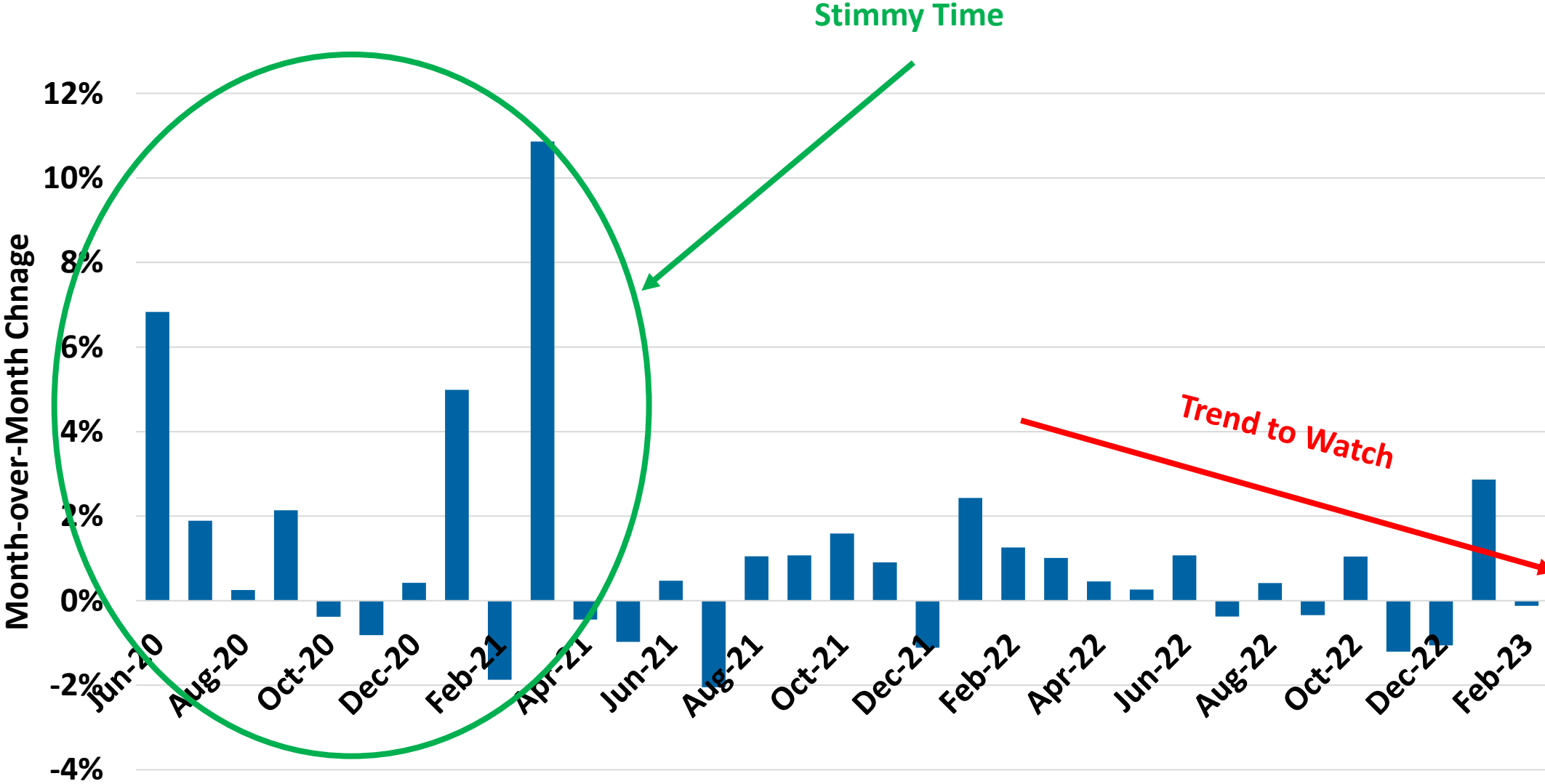
# Retail Sales



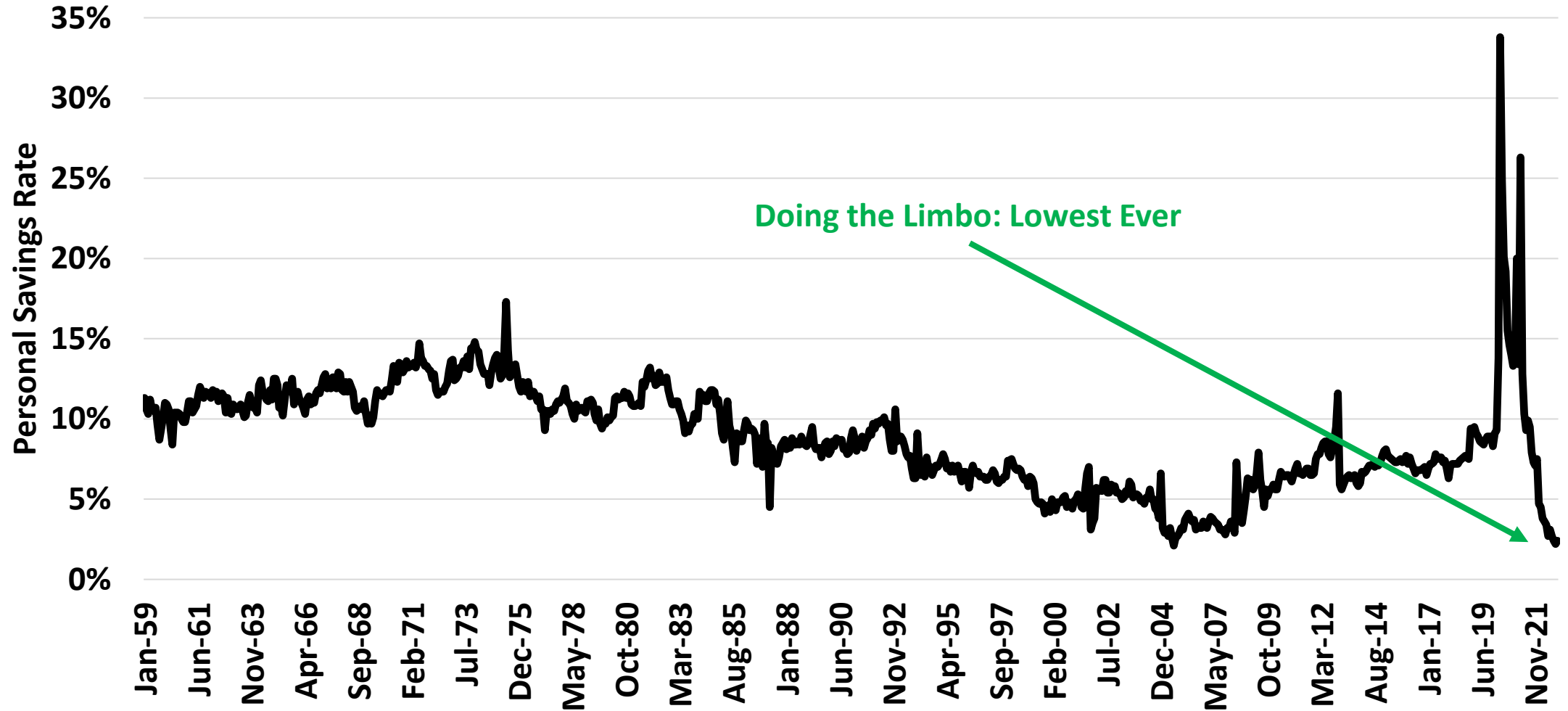
# Retail Sales



# Retail Sales

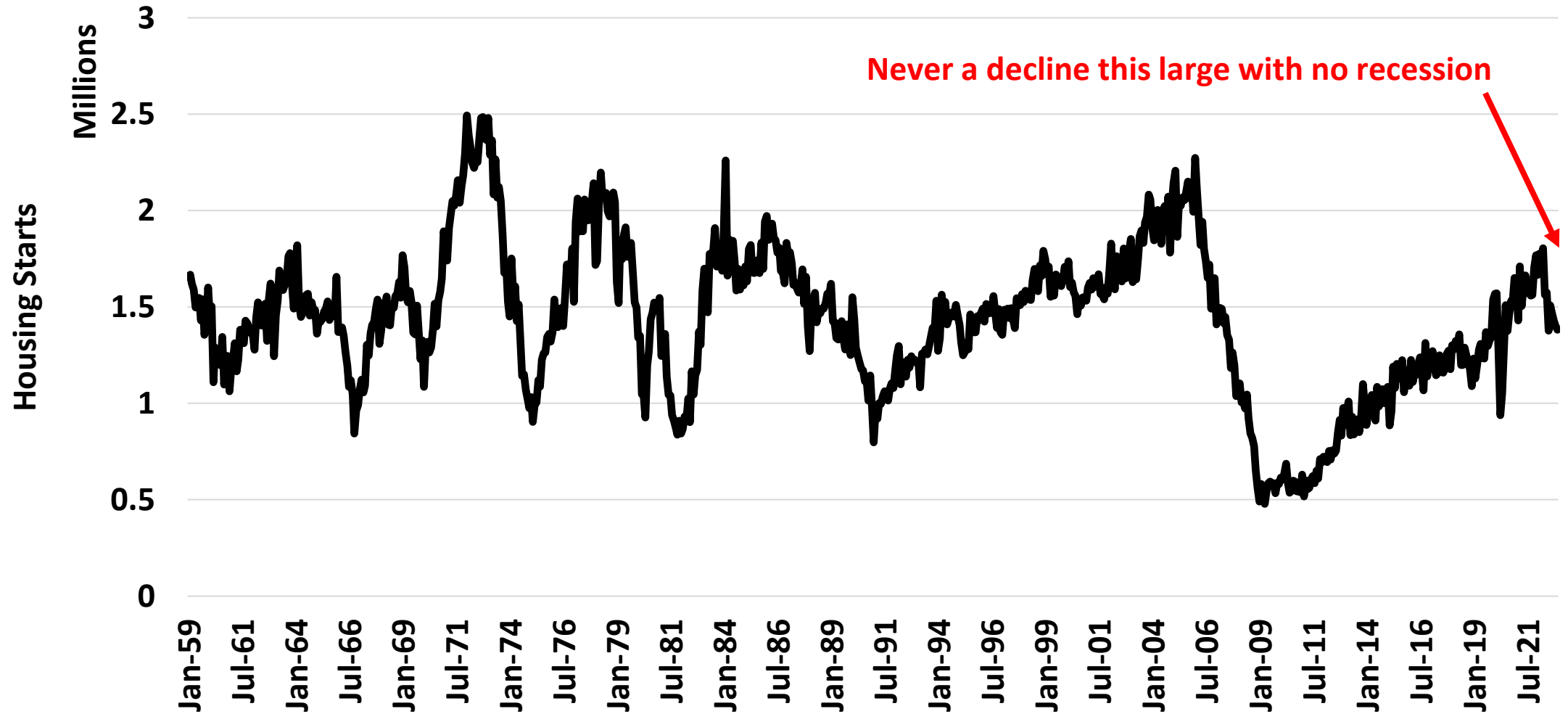


# Savings Rate

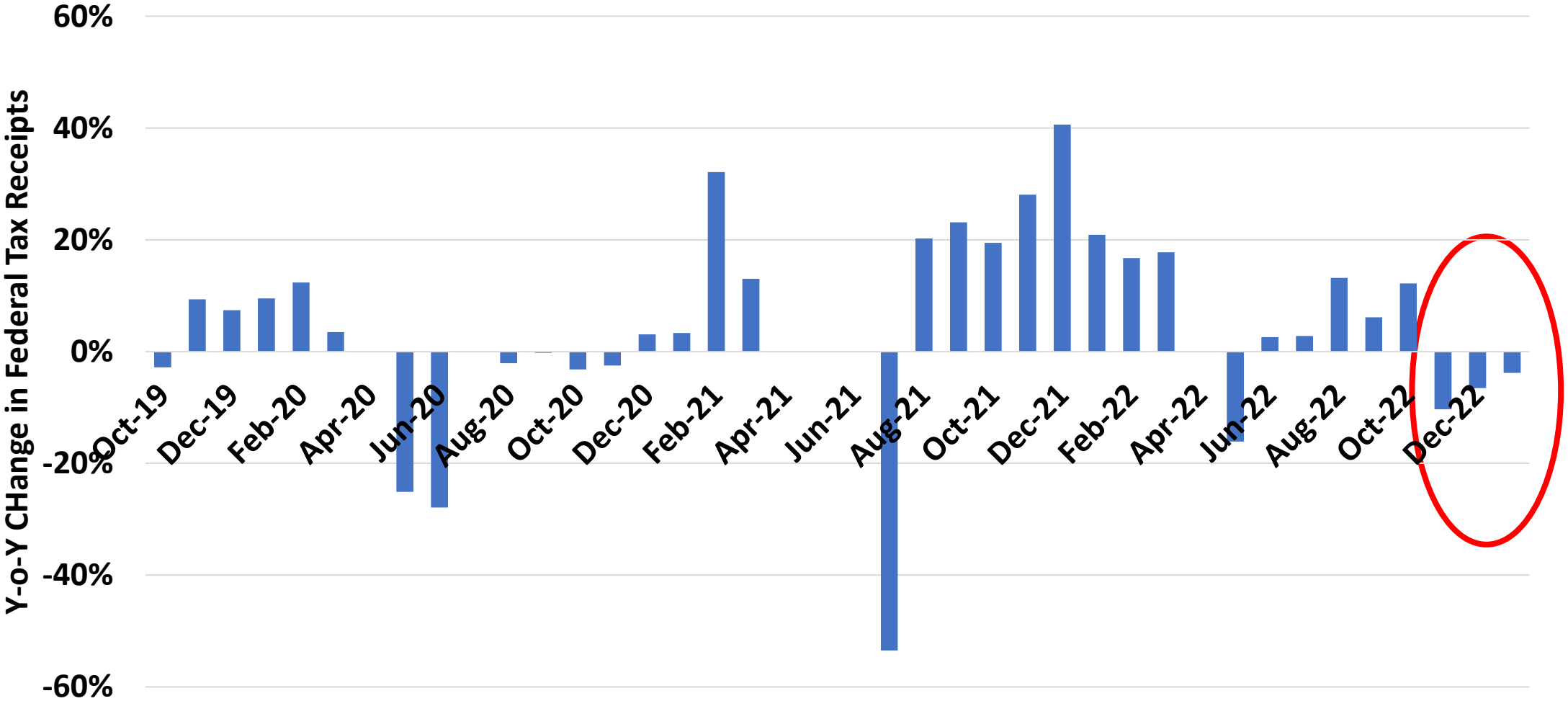




# Housing Starts



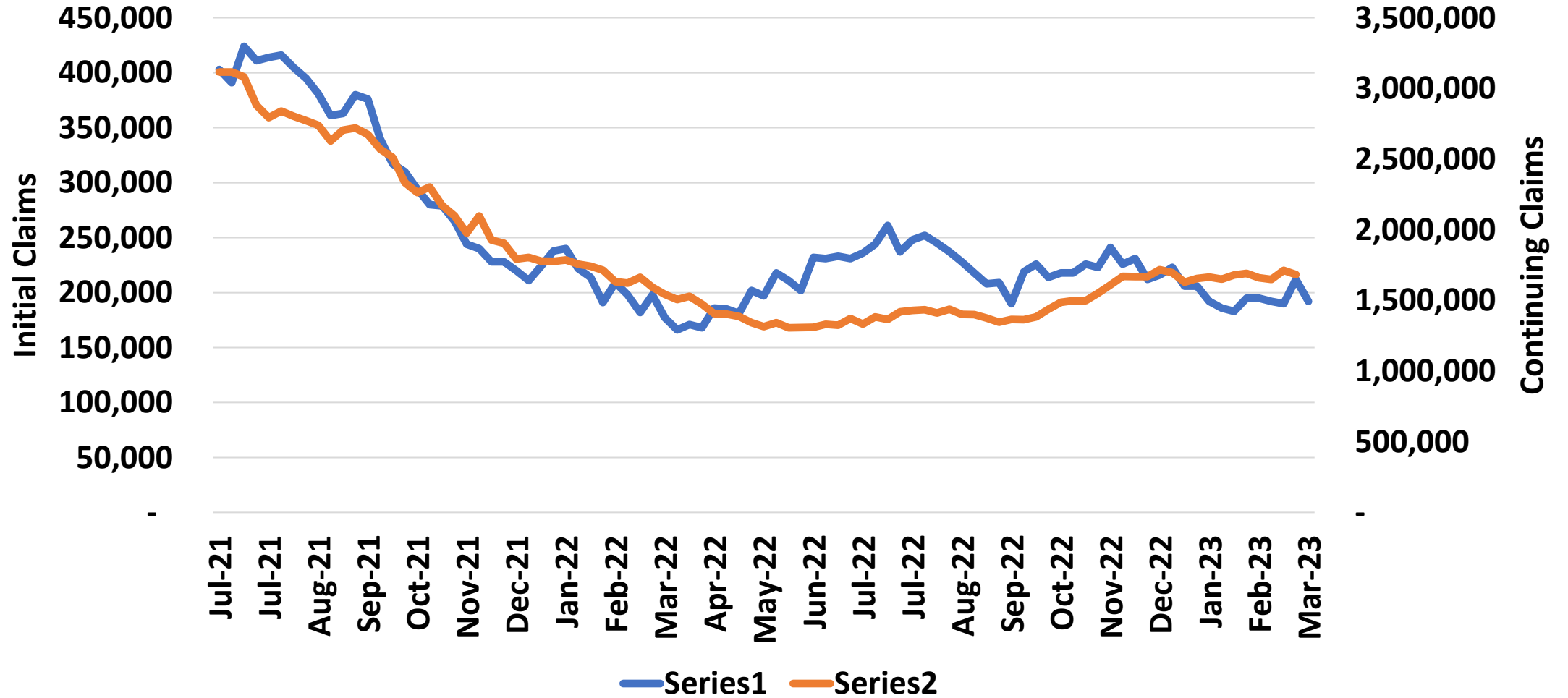
# Tax Receipts



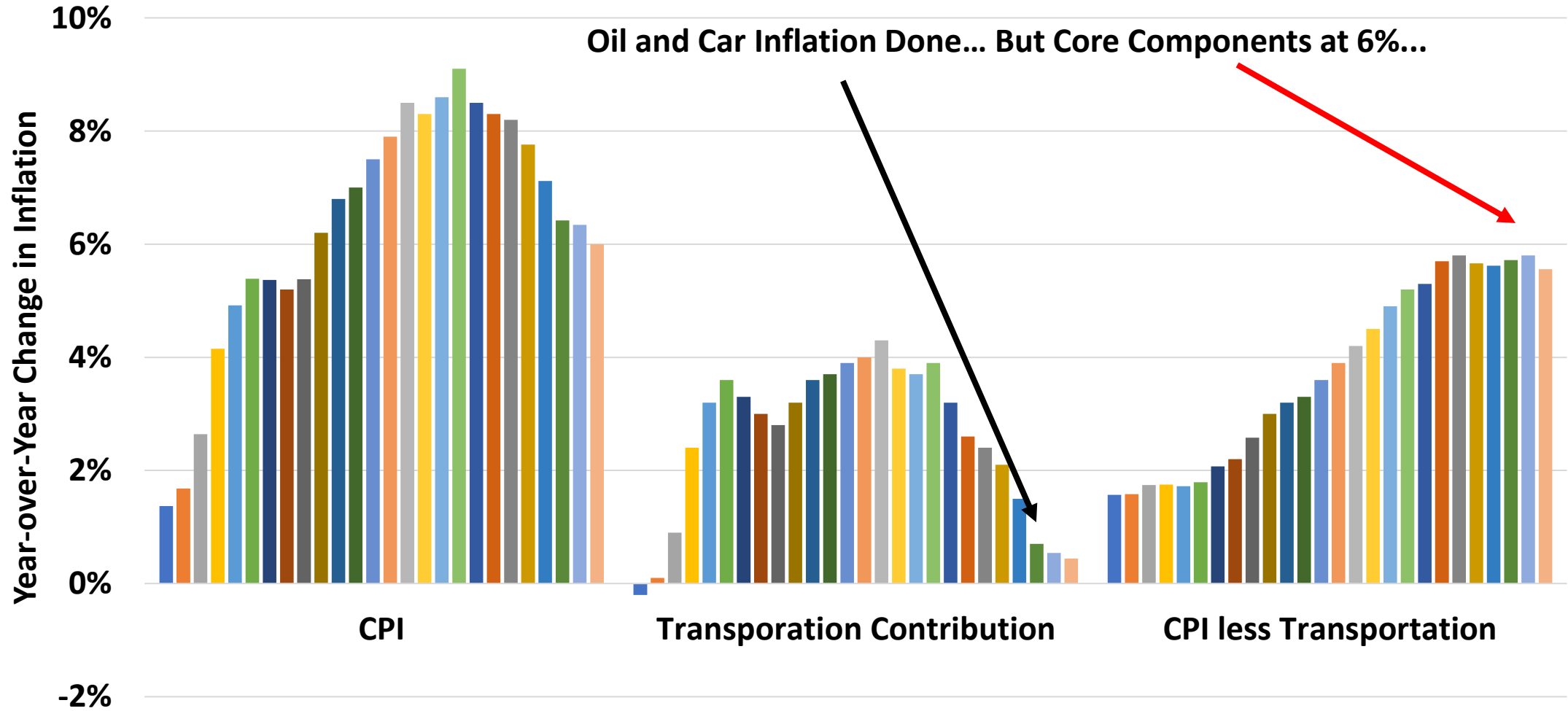
## **Problem#3: 00HHH I Know What It Is**

**Monster Survey: 96% Of  
Workers Are On The Job Hunt**

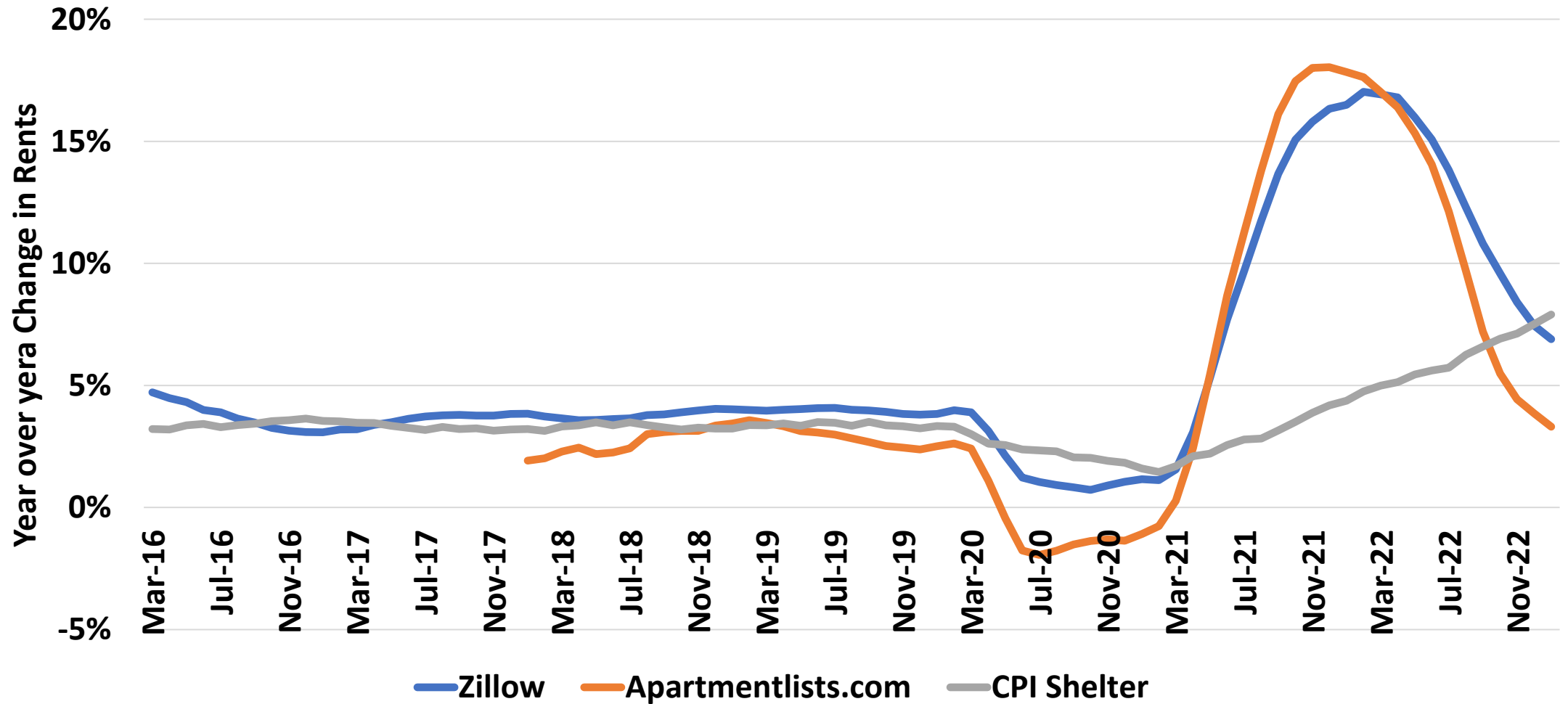
# Jobless Claims



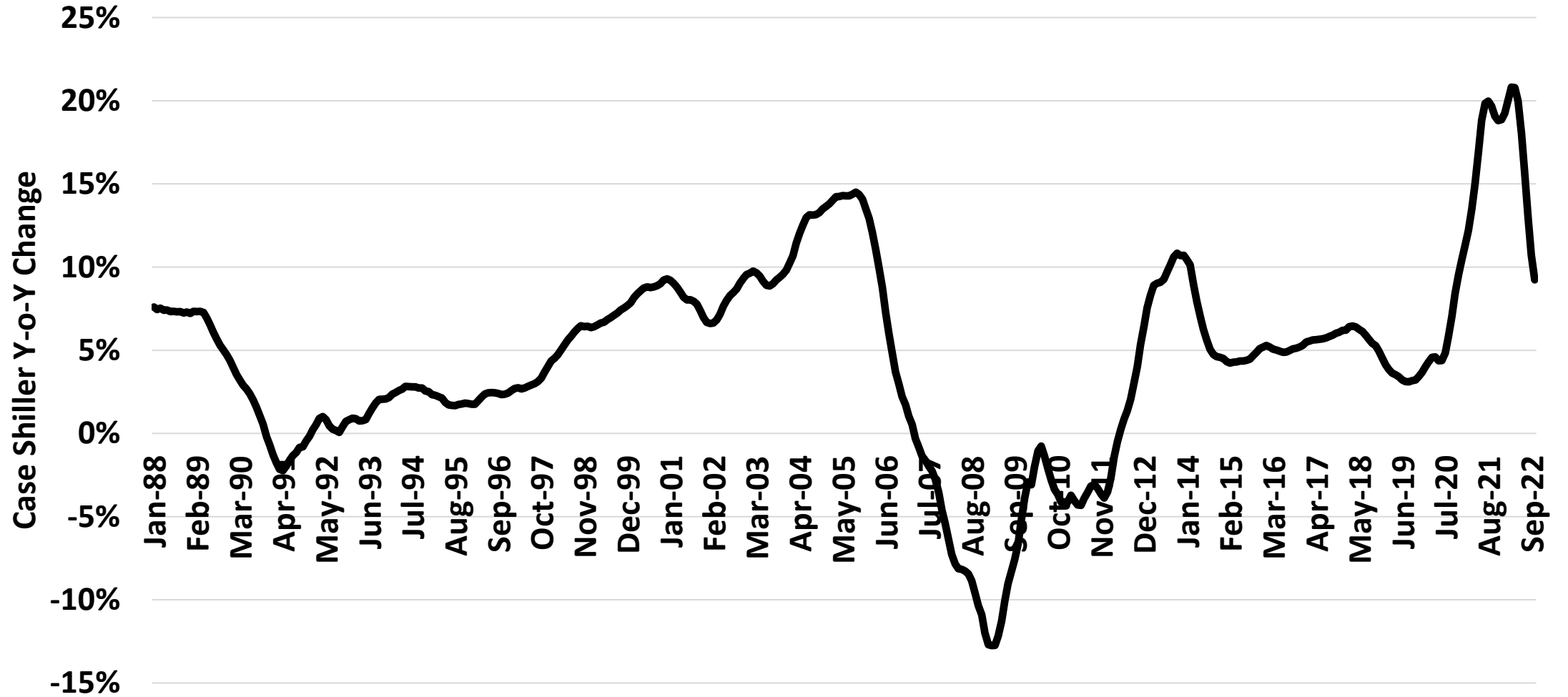
# CPI Less Used Cars and Oil



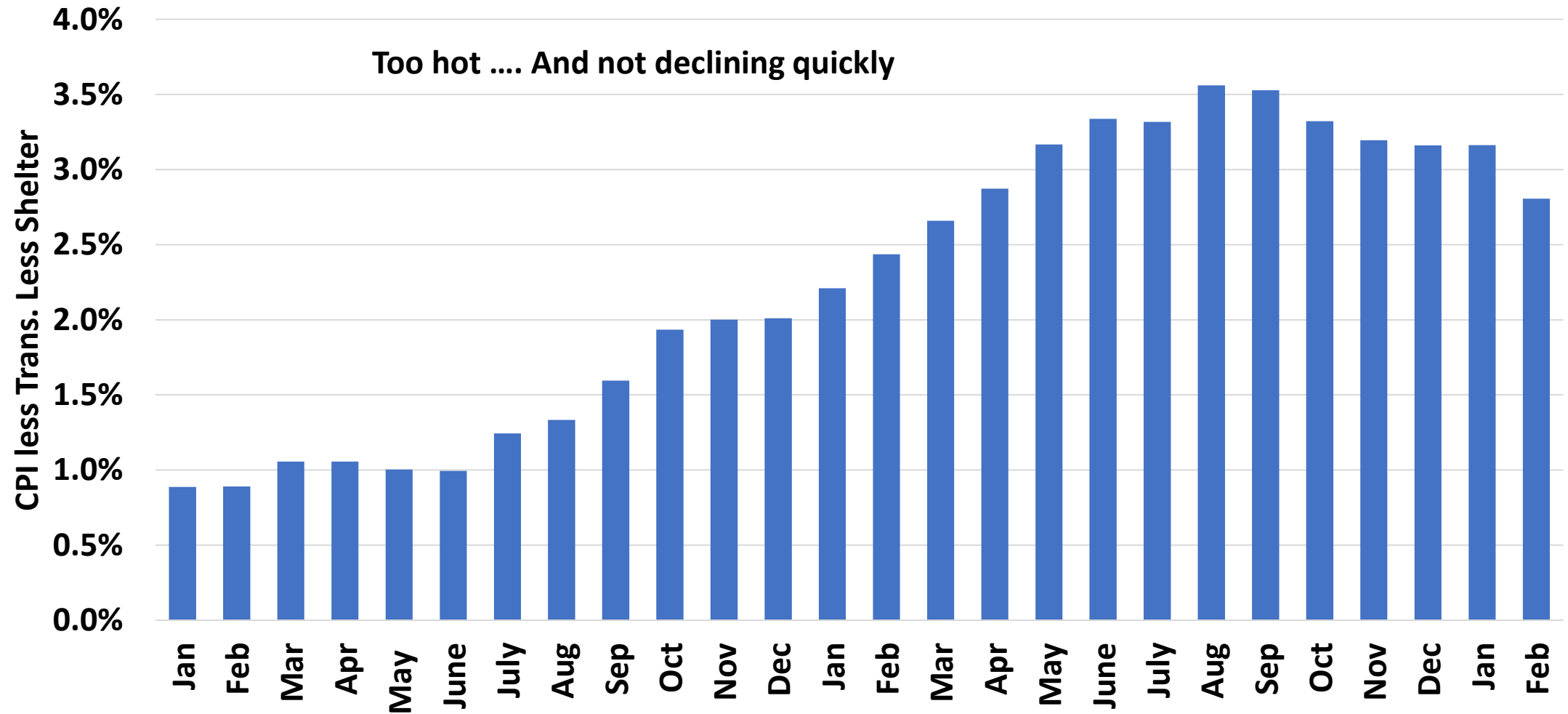
# Shelter is Lagging



# Housing Too...

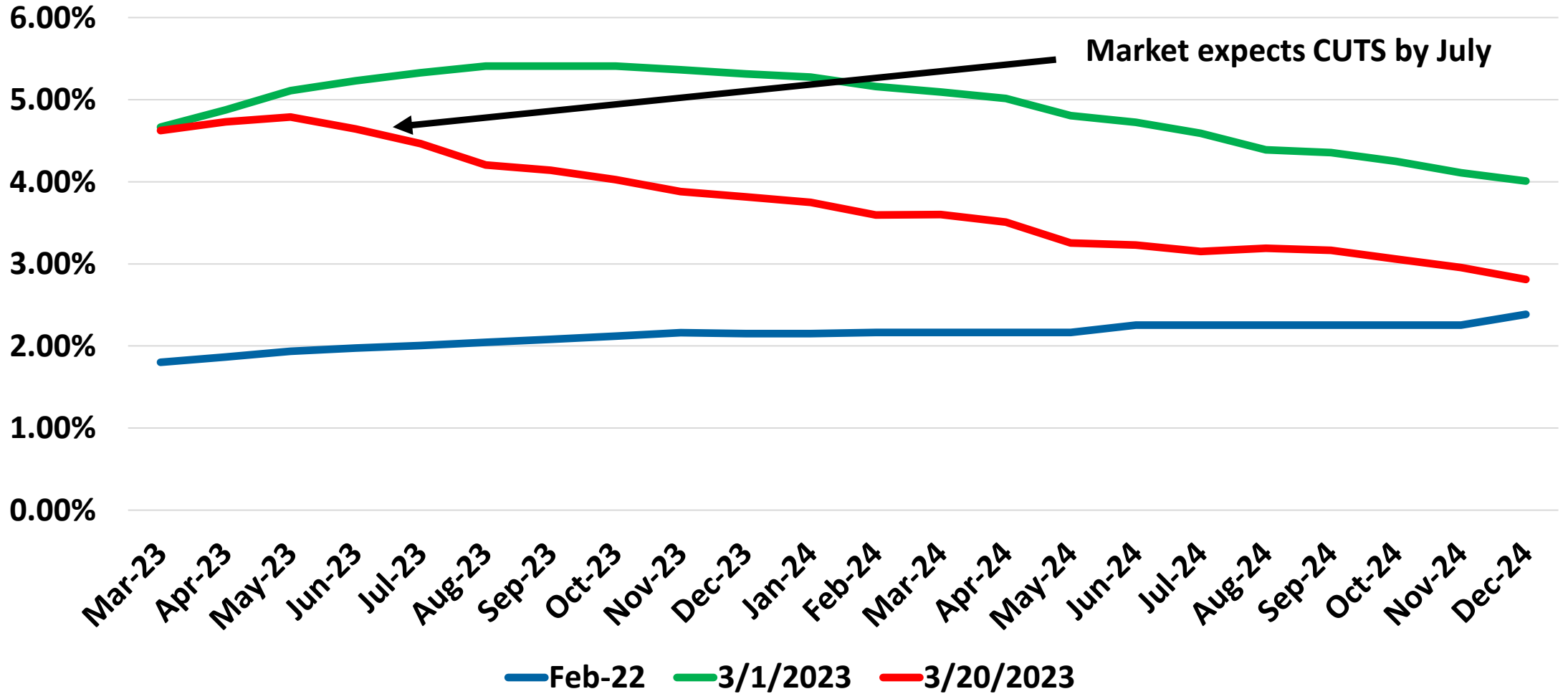


# CPI Less Transportation and Shelter and ...

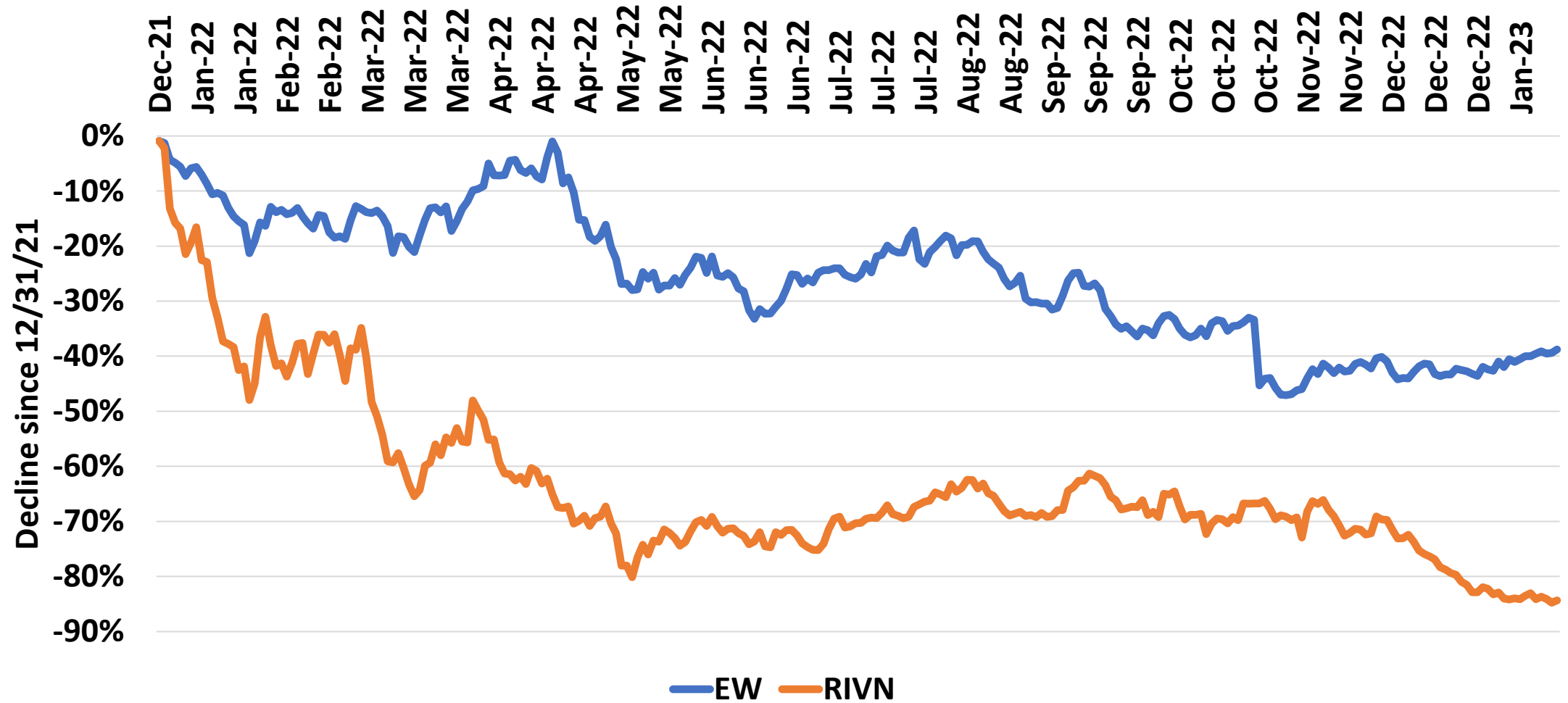




# Fed Funds Expectations Now



# Who's the Recession Going to Hit Harder?



# Economy Summary

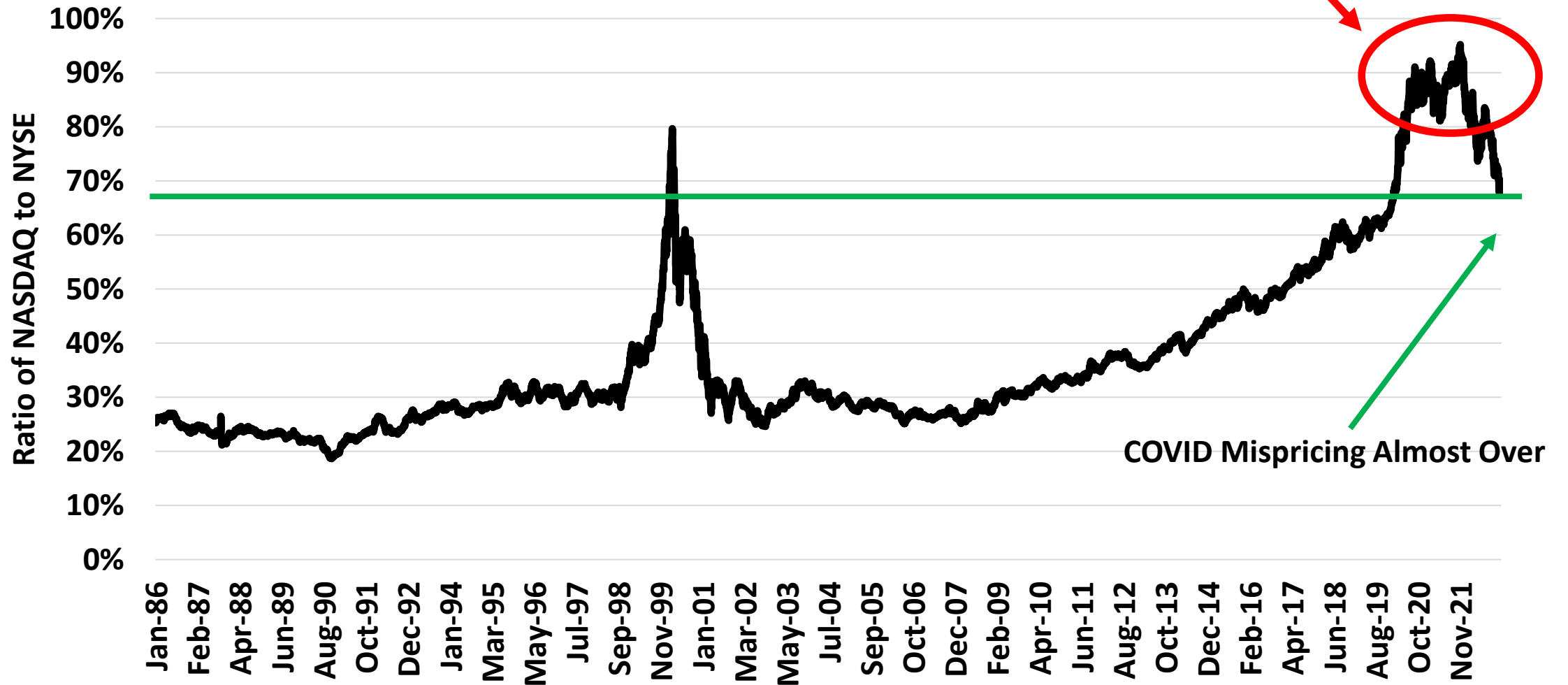
- Worried about economy next year - downside risk to growth
- Fed must soften labor market to tame inflation but banks are failing
- The real question is how aggressive will Fed be if inflation peaks but around 4%?
- Long-term growth will be on average <2%

# Equities in a No-Win Situation

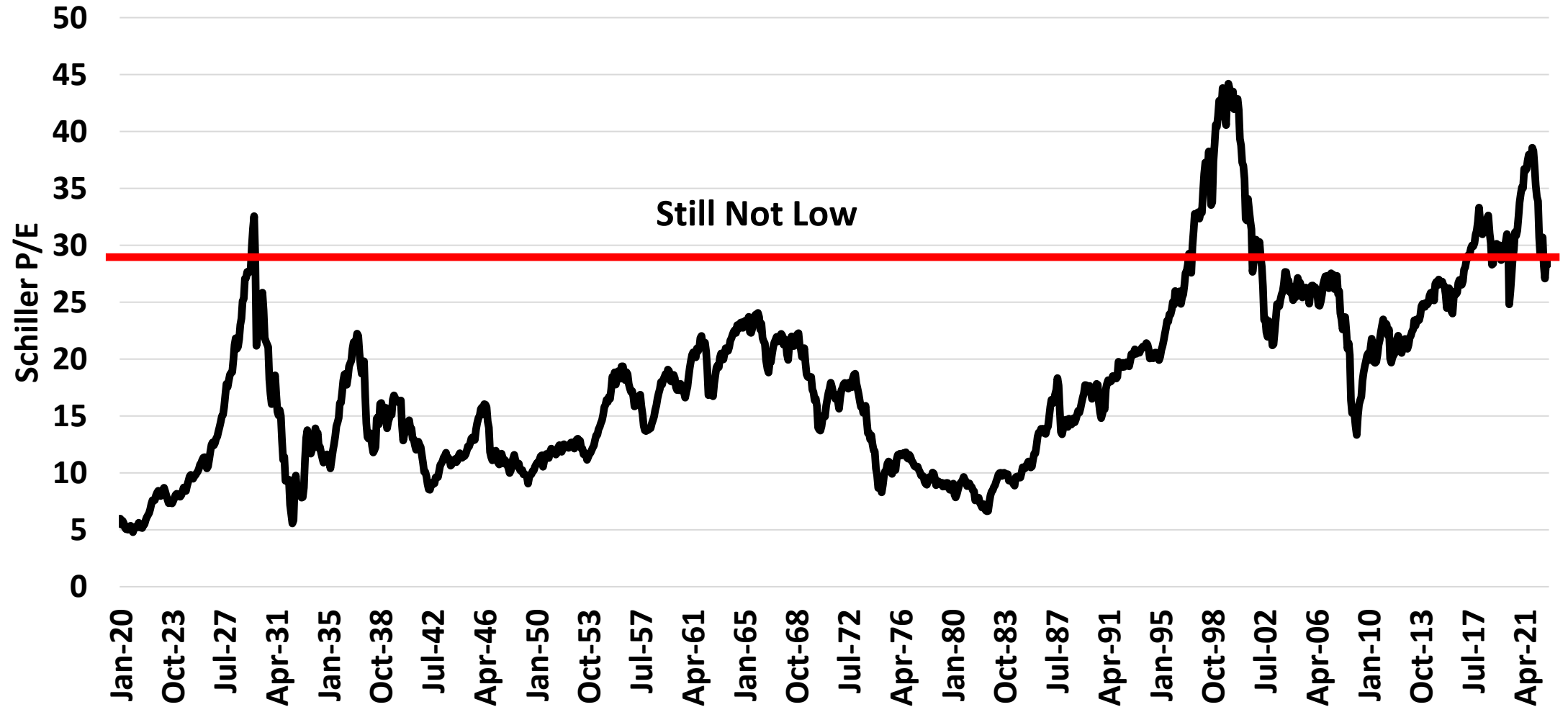
- If Fed tightens ... means economy/earnings good but...
  - Earnings up → Rates up → Stocks flat
- If Fed loosens ... means economy/earnings bad but...
  - Earnings down → Rates down → Stocks flat... or worse
- Guessing -/+ 5% year

# NASDAQ to NYSE

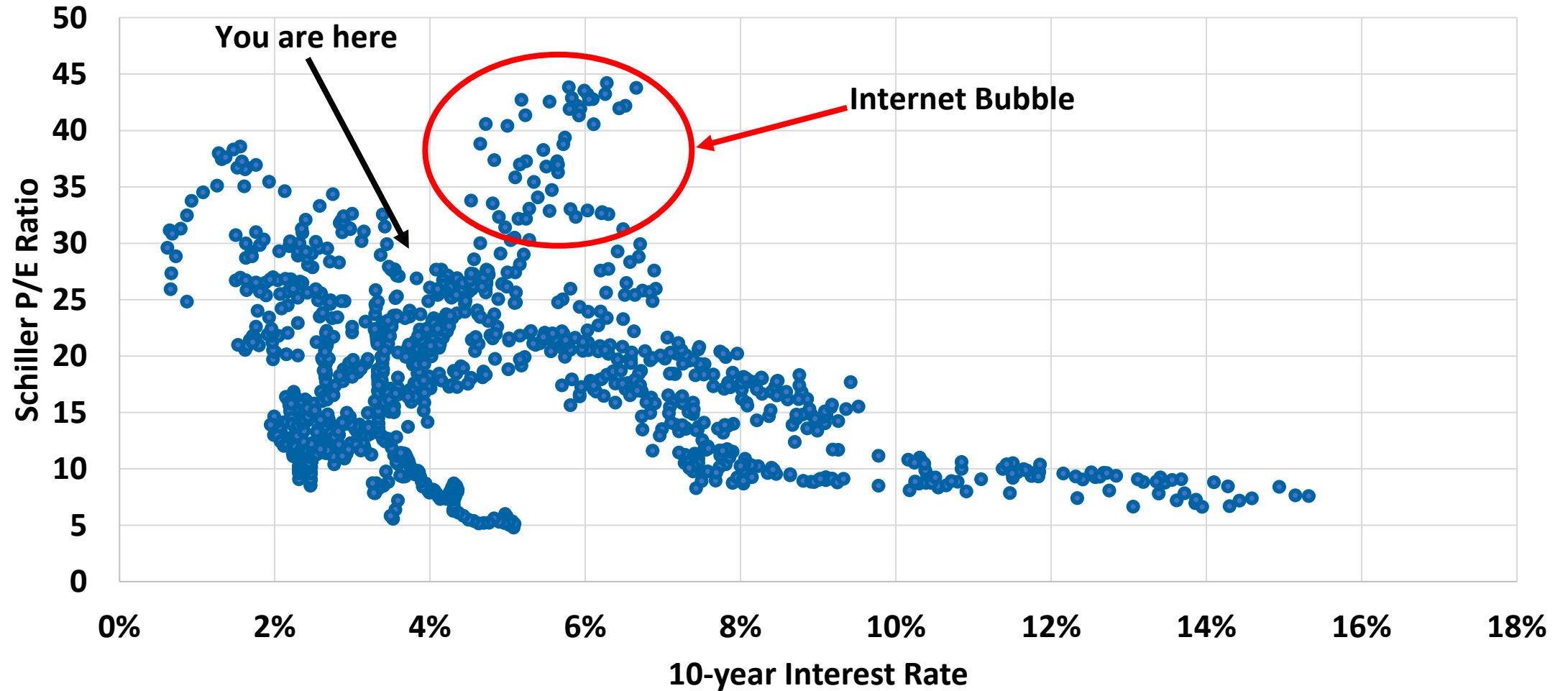
What could have possibly gone wrong?



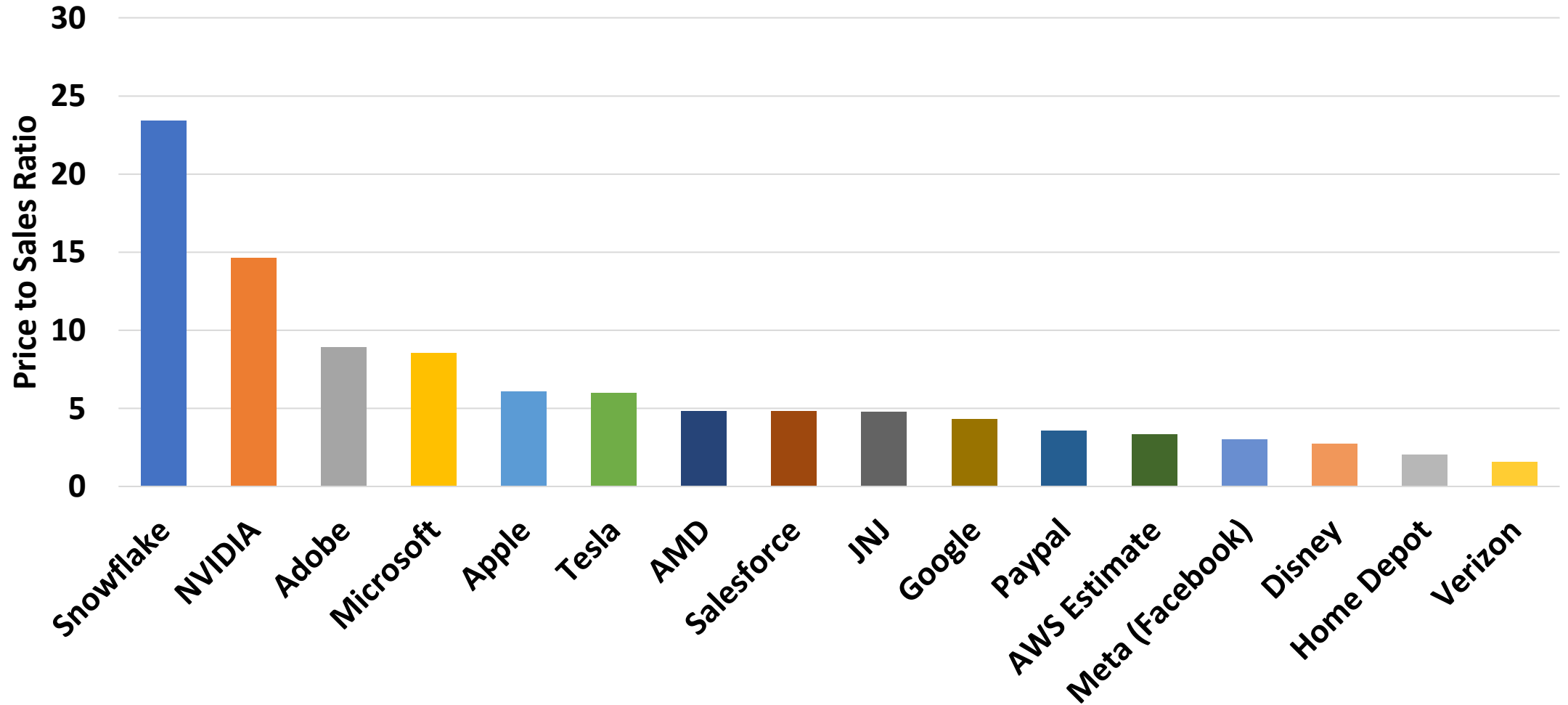
# Down a Lot ~ = Cheap



# Relation Between Rates and P/E

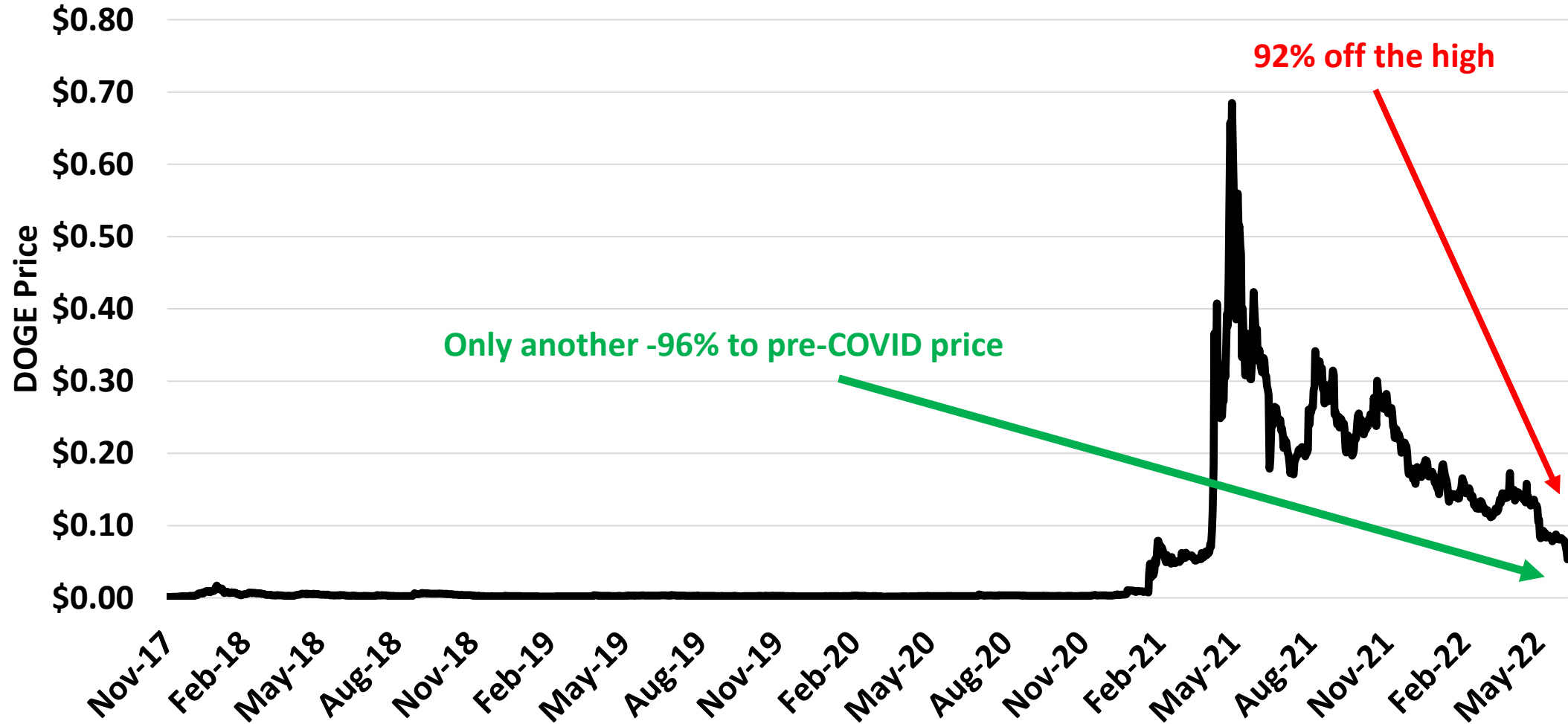


# Down a Lot ~ = Cheap (cont).

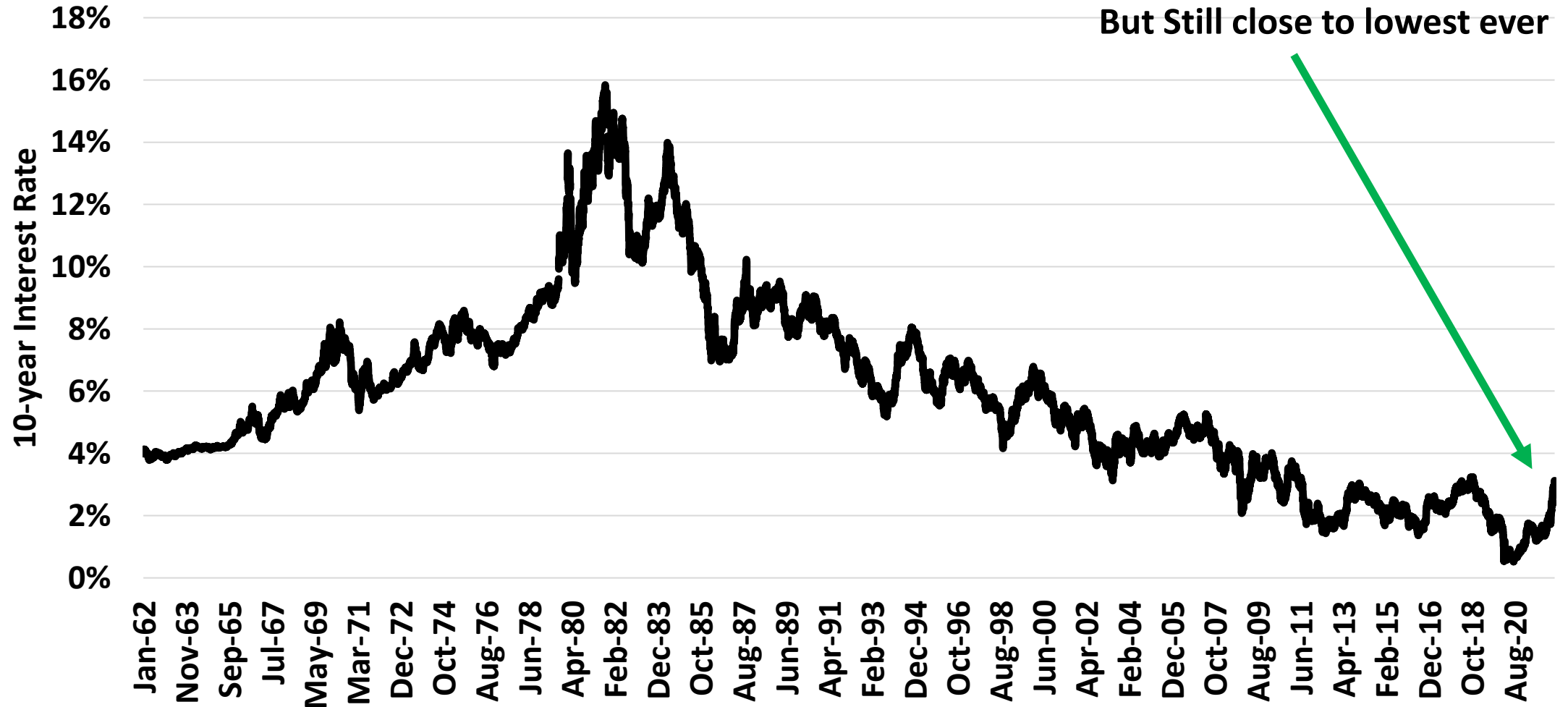




# Down a Lot ~ = Cheap (cont)



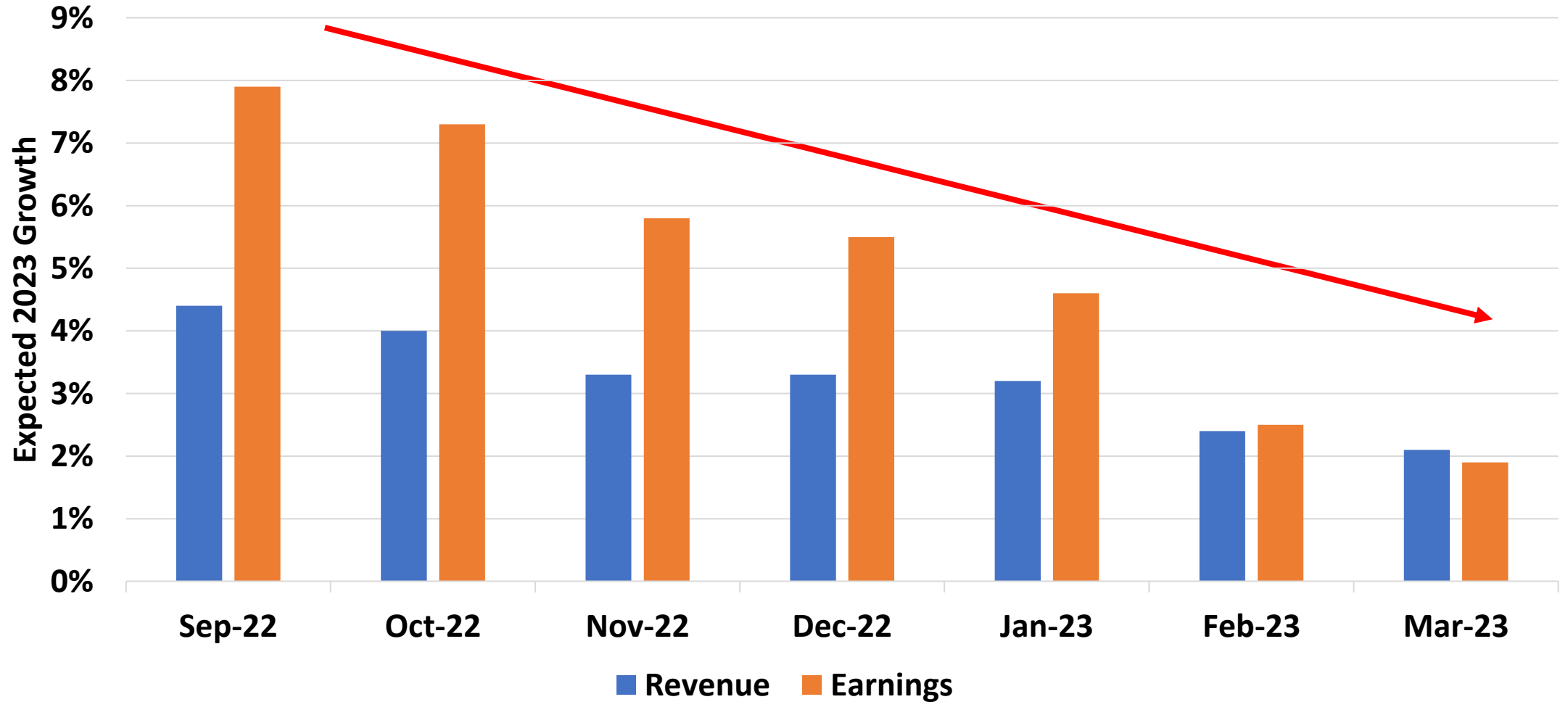
# Interest Rates Rose Rapidly...



# ... But Are Falling Now... Maybe



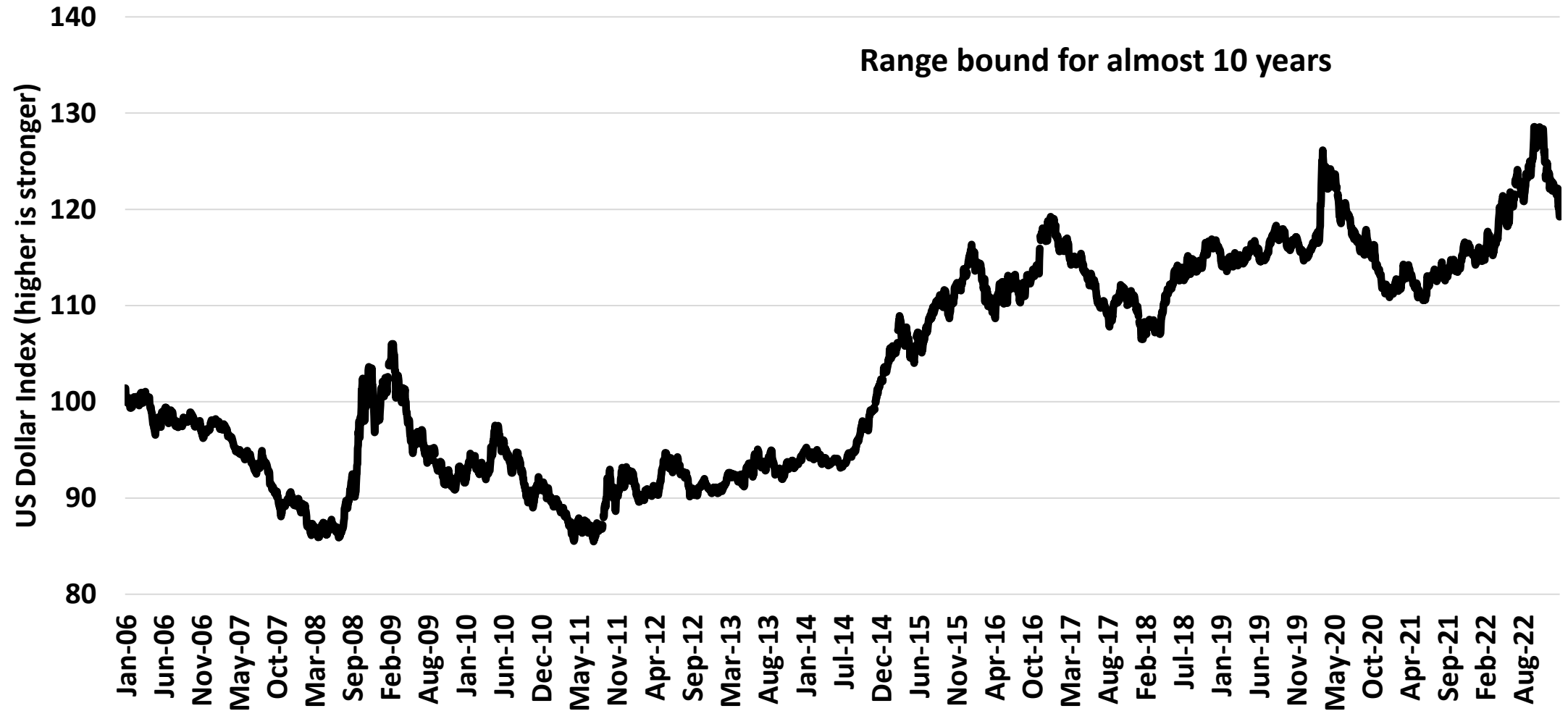
# Earnings Estimates Are Going the Wrong Way



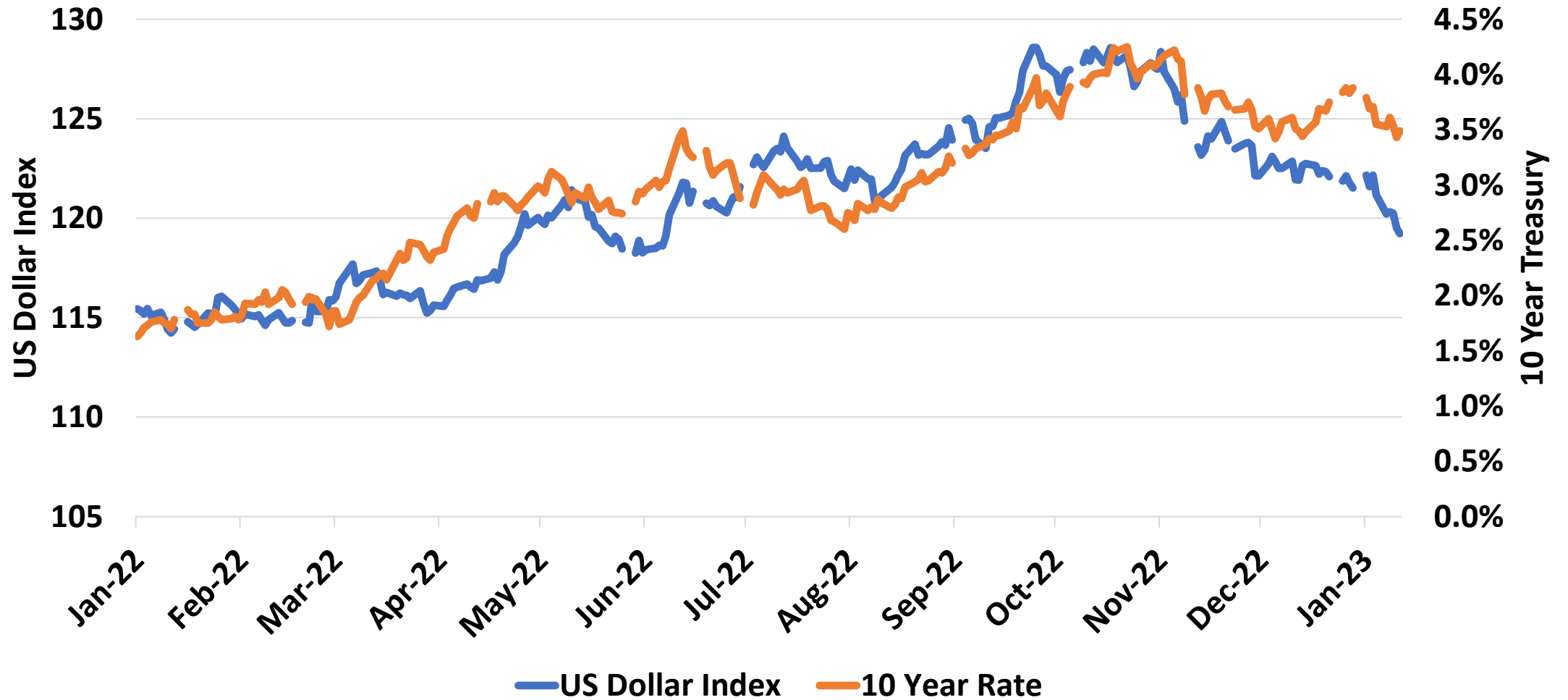
# Putting It All Together

- Markets likely aren't going anywhere fast – don't get FOMO/Fear
- Avoid pockets of crazy that still exist
  - Huge P/S stocks (aka delusional dreams), crypto, BBBY
- Believe long-term trend in bonds is down. Still Think LT Bonds good opportunity
- After markets price in recession, time to buy stocks

# Quick Thoughts on Dollar



# 2023 Dollar is ALLLLL about Rates



# Conclusions

- Fed is in a bad place with inflation still high and bank stress
- Still waiting for full impact of rate hikes
- Recession a strong possibility in 2023
  - Good for long-term rates
  - Bad for earnings growth
- Think long-term bonds are a good opportunity
  - Equities may have limited upside as all news is bad