



Philadelphia Council for Business Economics (PCBE) Lunch

2024 Macro Outlook

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January 24

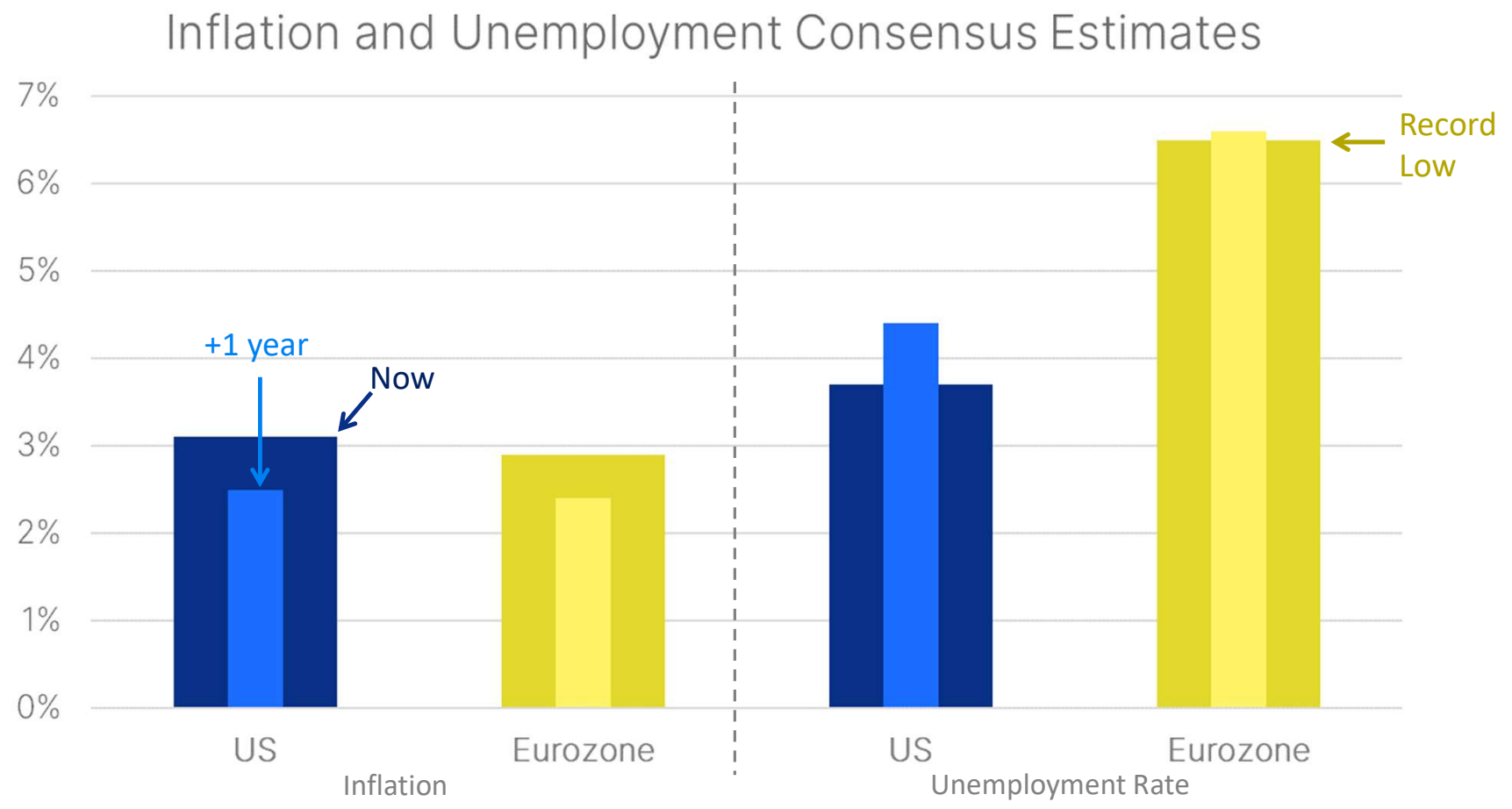
Fed Data is in a good place

Economy is fading (not failing)

Rates should fall

What does that mean for markets?

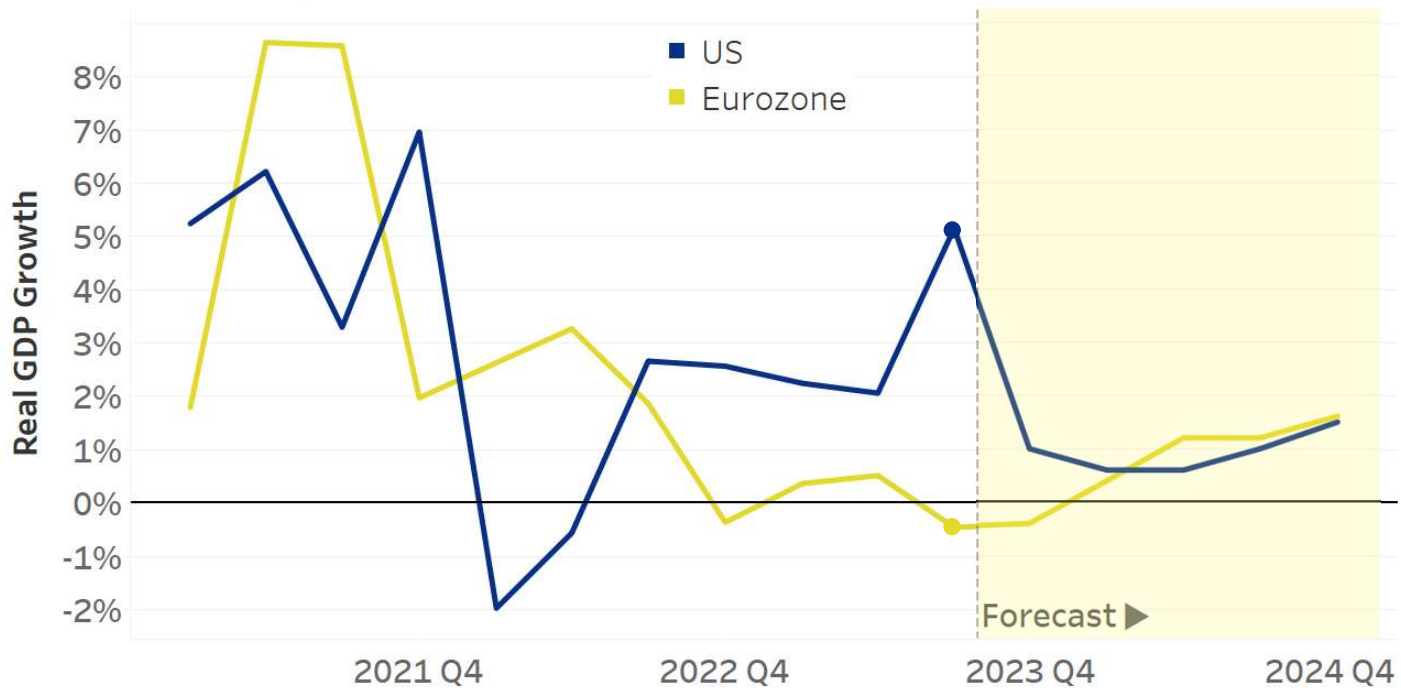
Inflation & employment are about as good as it gets!



GDP growth: Expected to be slow but positive

Real GDP Growth

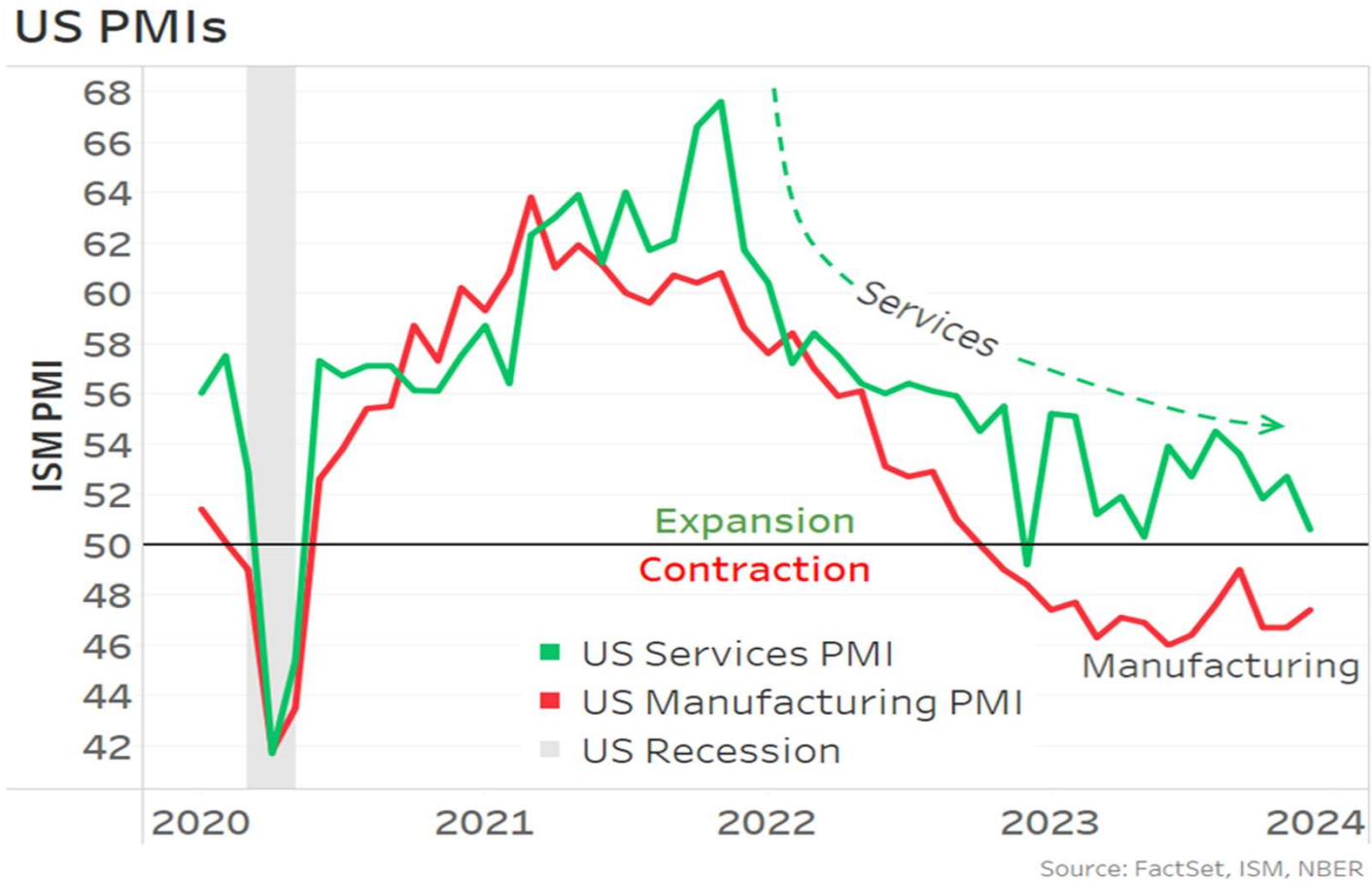
Quarter-on-Quarter, Seasonally Adjusted Annual Rate
Forecasts are FactSet Economic Estimates as of January 4, 2024.



Source: FactSet, BEA, Eurostat, Nasdaq Economic Research



Everything is slowing

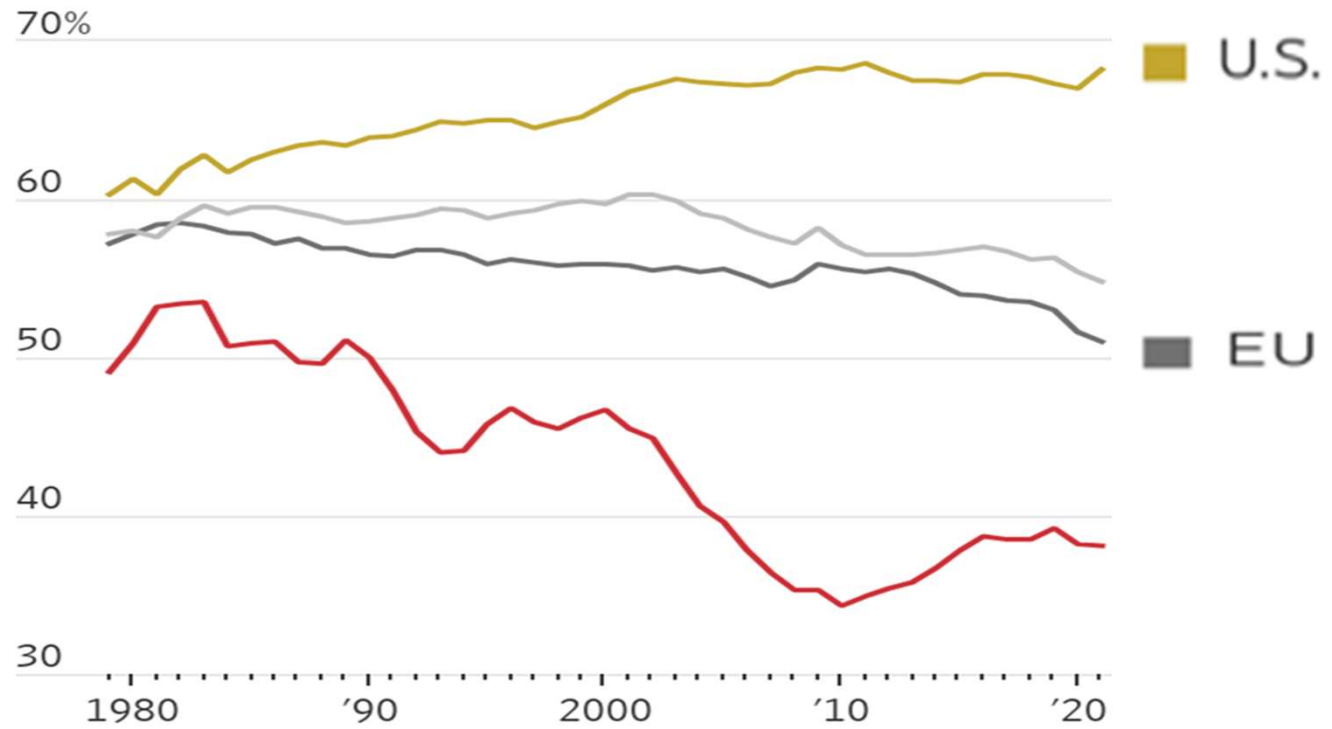


When will the US Consumer slow down?

US Consumer driving US economy

Household expenditure as a share of GDP

■ U.S. ■ World ■ EU ■ China

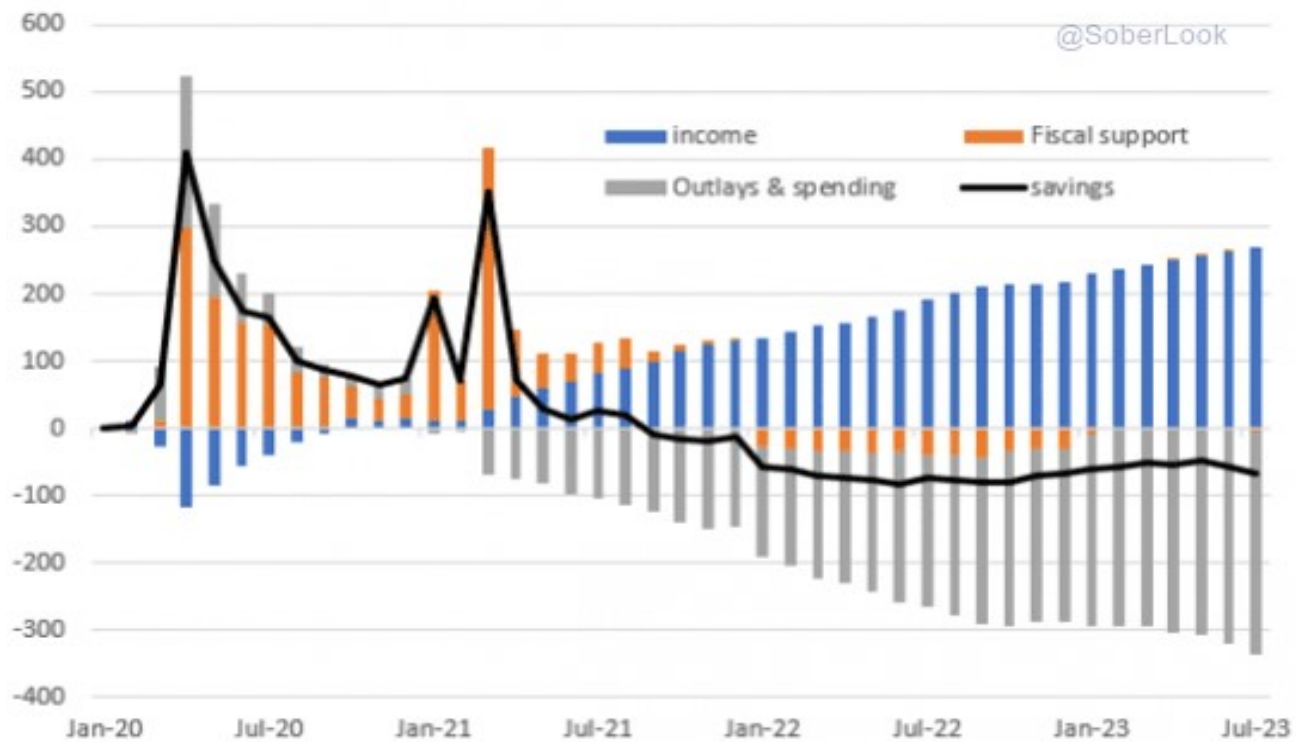


Source: World Bank



Consumers still seem to have savings

Contributions of monthly changes in income and spending to the flow of savings (\$bn)



The Daily Shot
01-Sep-2023

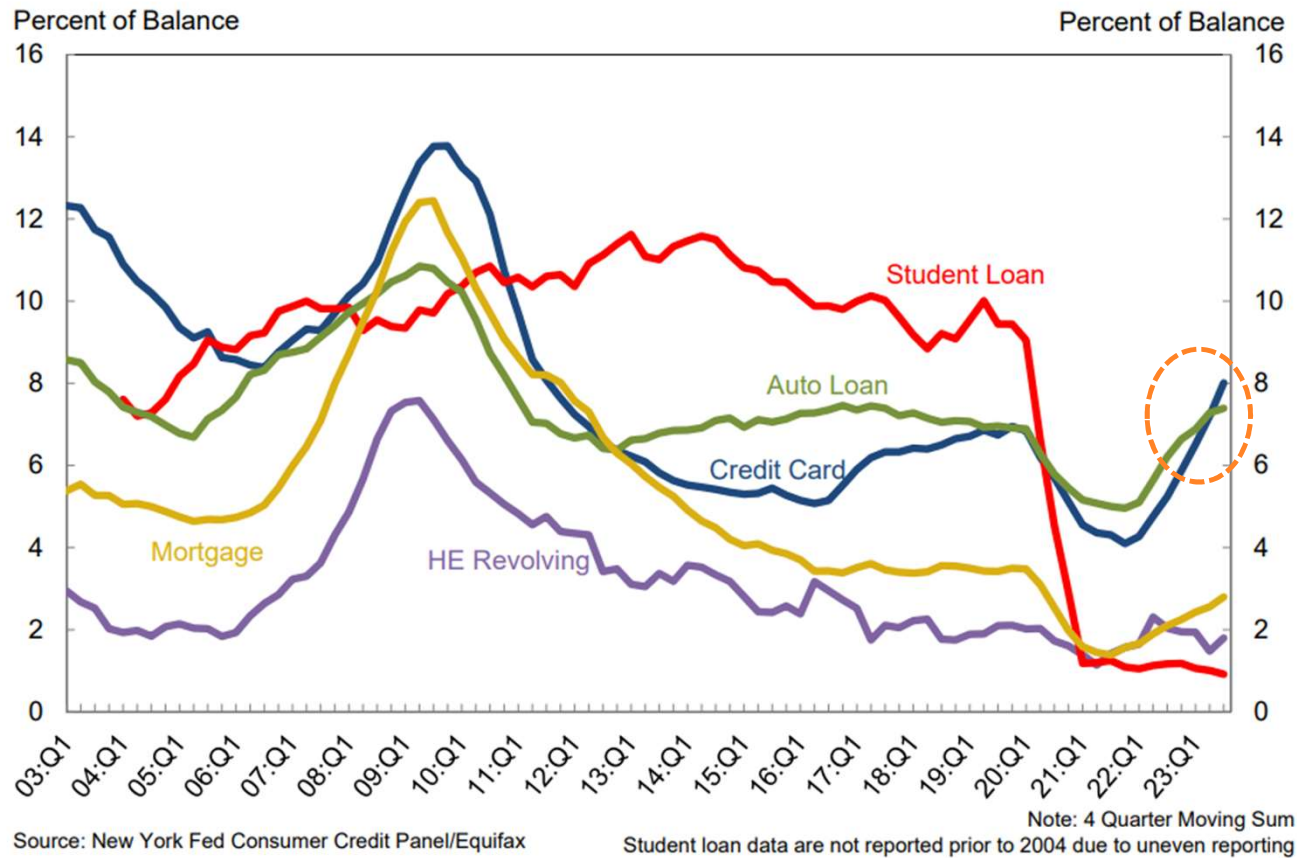
@SoberLook

Source: ING



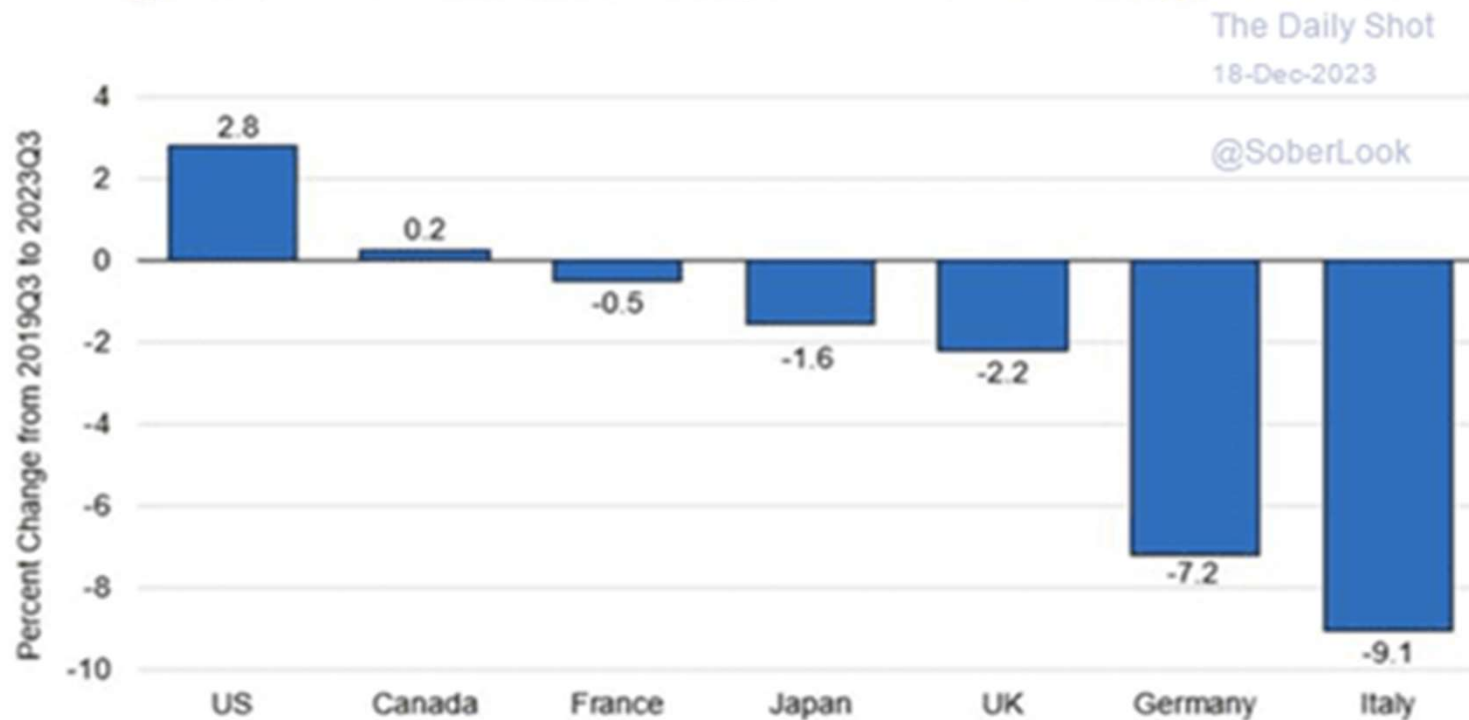
Consumer defaults ticking up (but not like 2007)

Transition into Delinquency (30+) by Loan Type



Real wages are helping US consumption

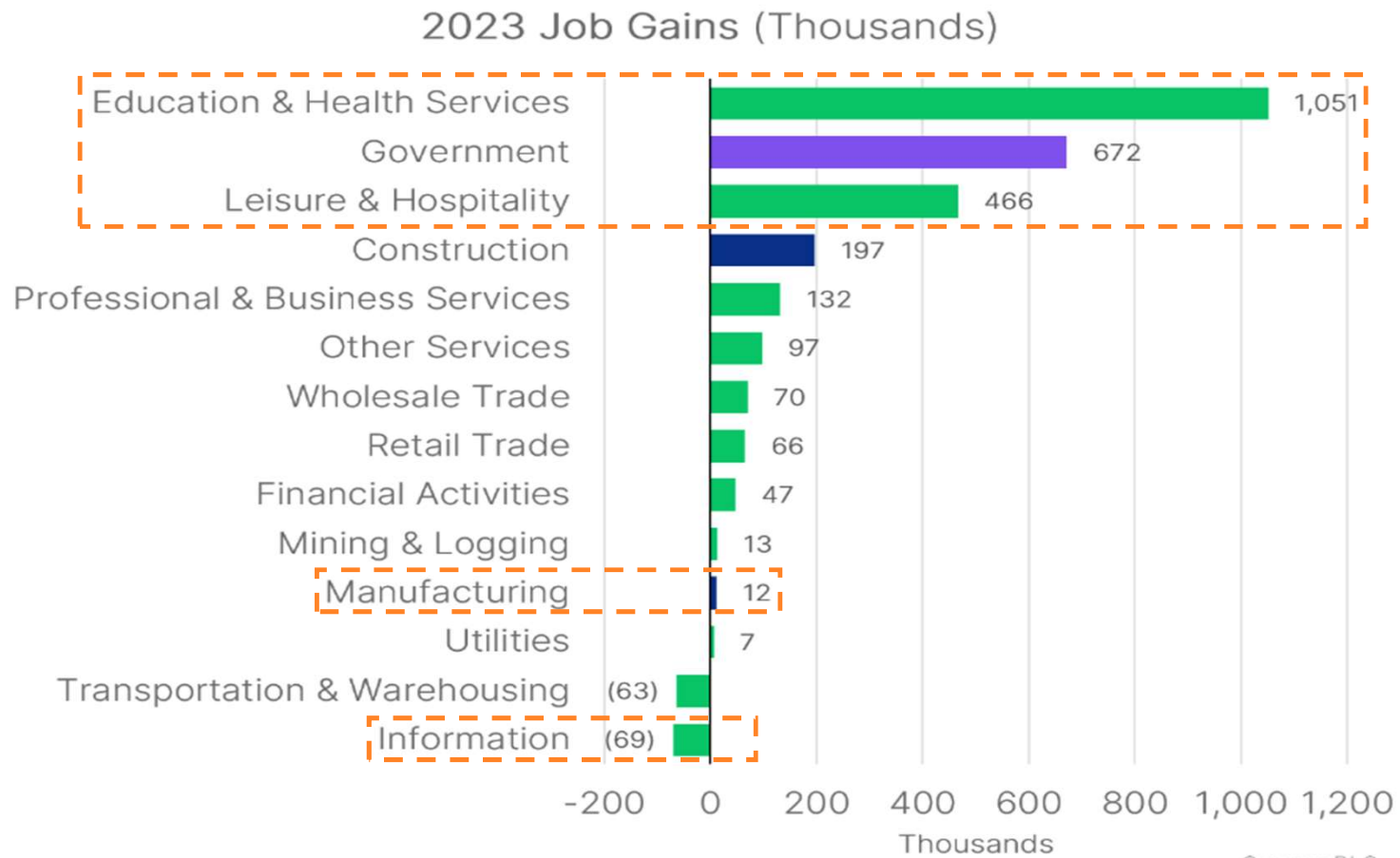
Figure 6: International Comparison of Real Wage Growth



Notes: Earnings (hourly, weekly, or monthly as available) deflated by national CPI. Data not seasonally adjusted.
Sources: National sources and the Organization for Economic Cooperation & Development via Haver Analytics.

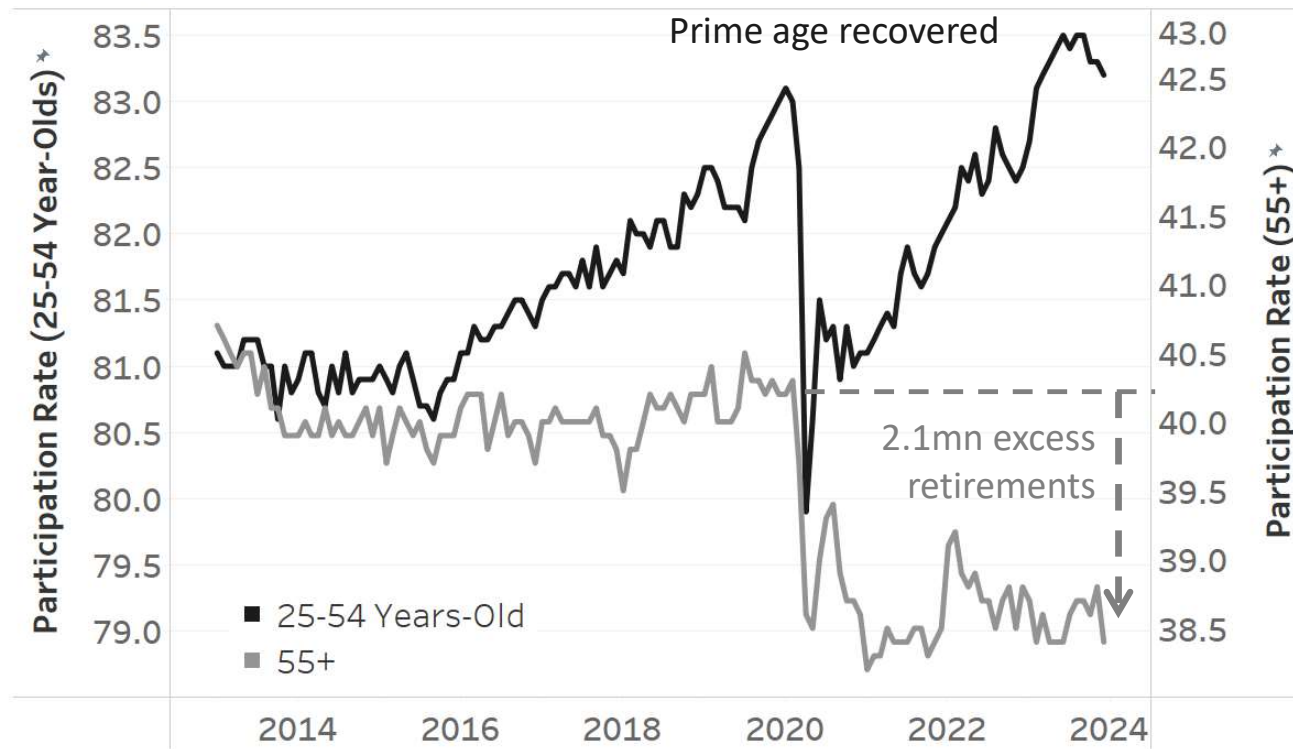


Few industries have seen layoffs



Supply of workers dipped (but has mostly recovered)

Participation Rate by Age



Source: BLS



Demand for labor recovered (but has now dipped)

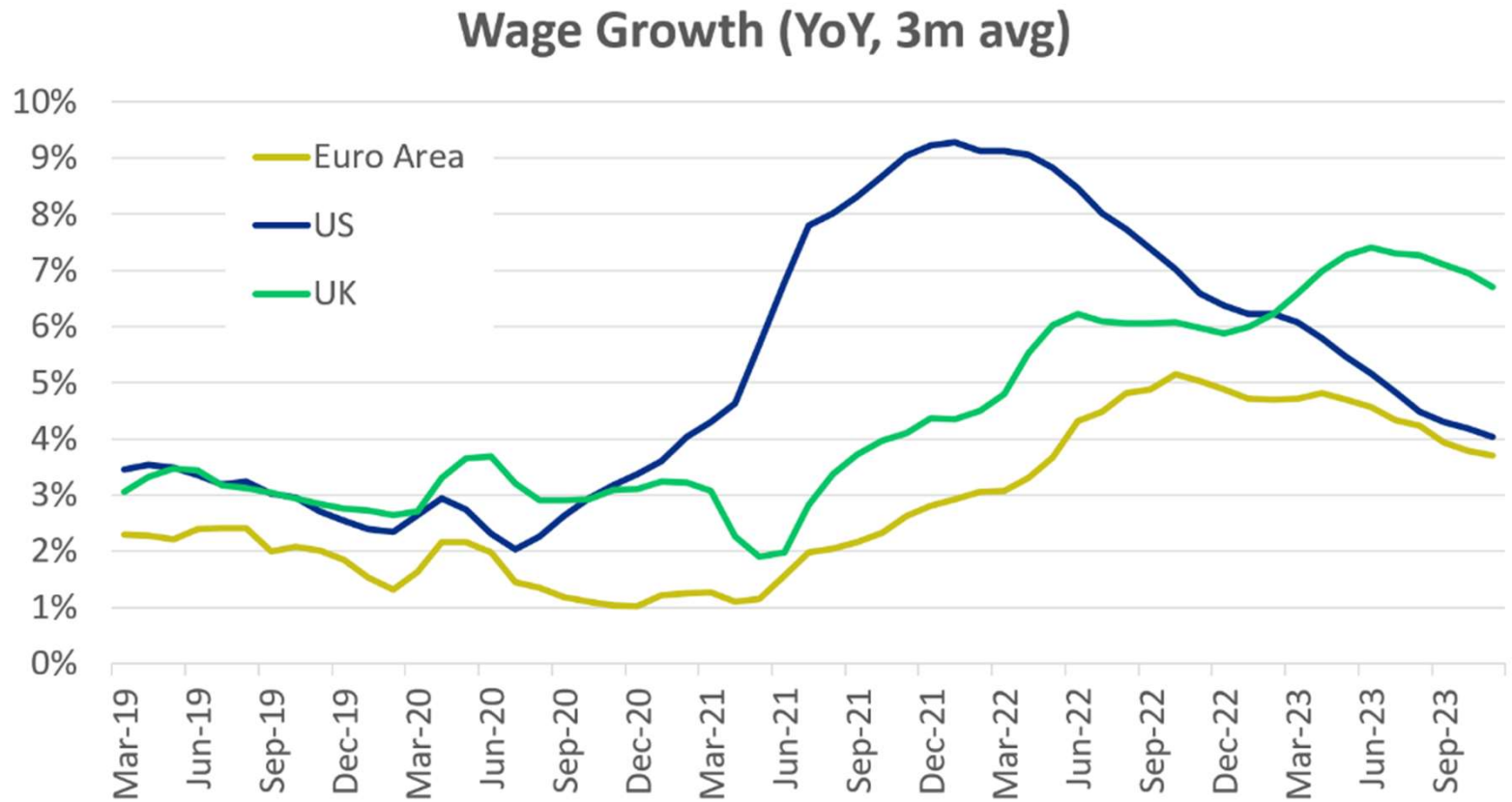
Still-Tight Labor Market Easing Faster



Source: FactSet, BLS



...wage growth is slowing (which is good for inflation)



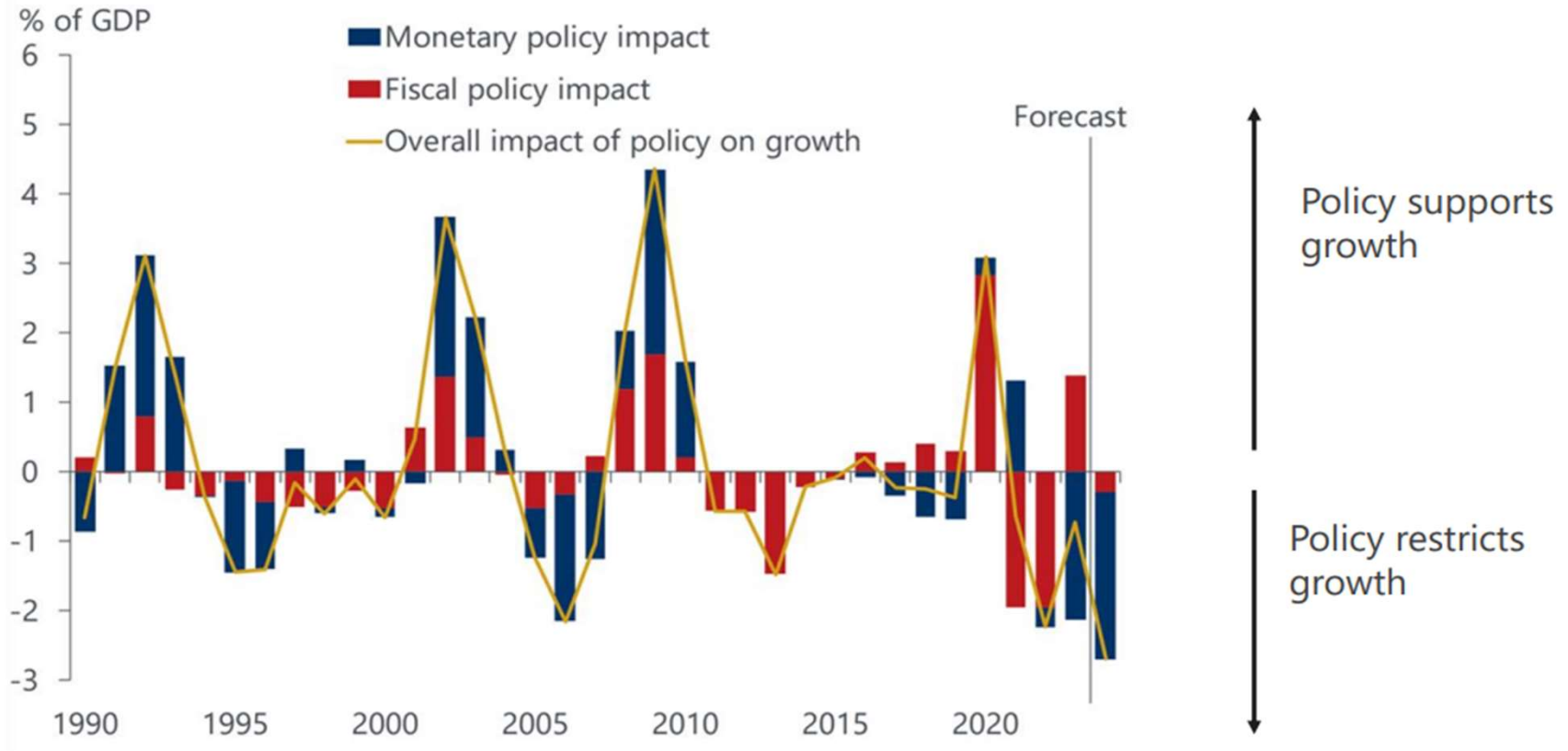
Source: Indeed



There are even more reasons rates
should fall

Monetary & Fiscal policy will drag

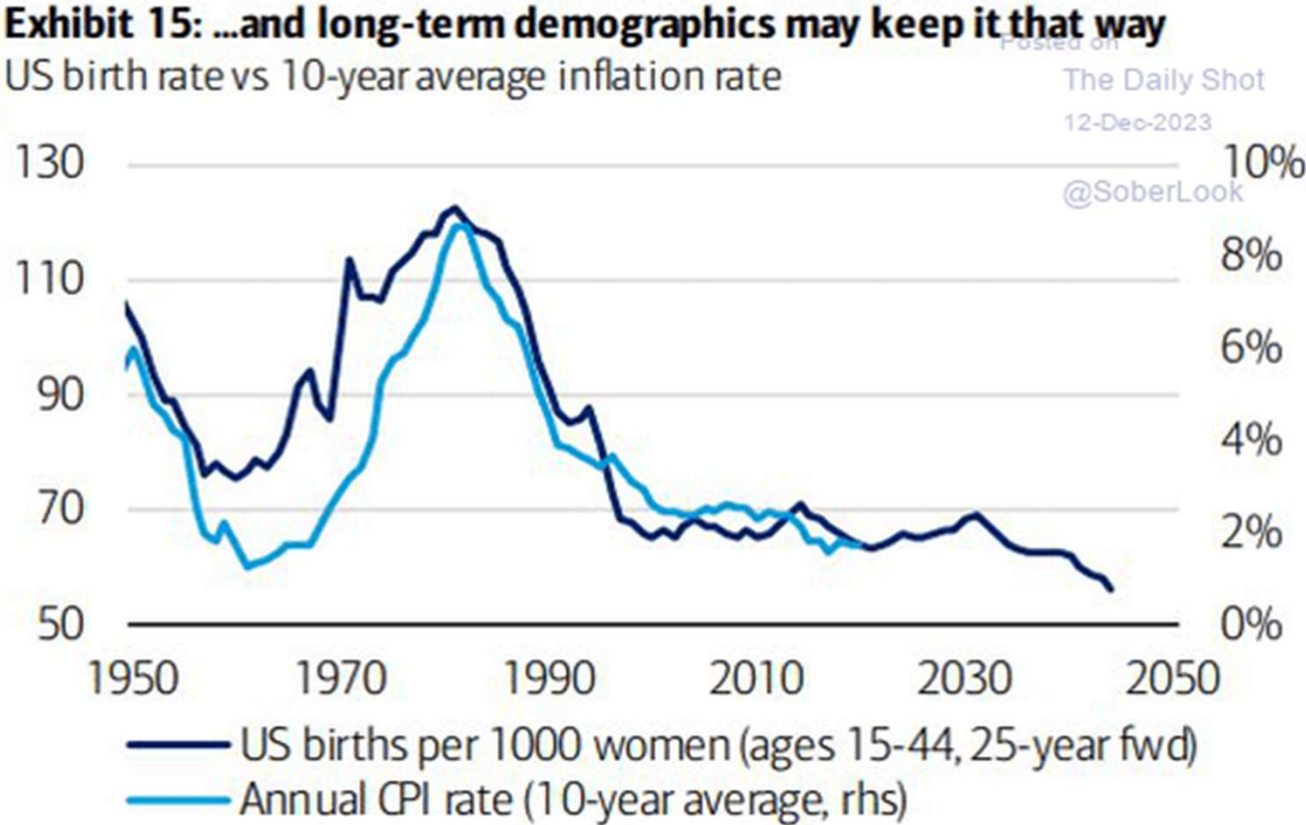
US: Macro policy is set to be more restrictive in 2024



Source: Oxford Economics/Haver Analytics



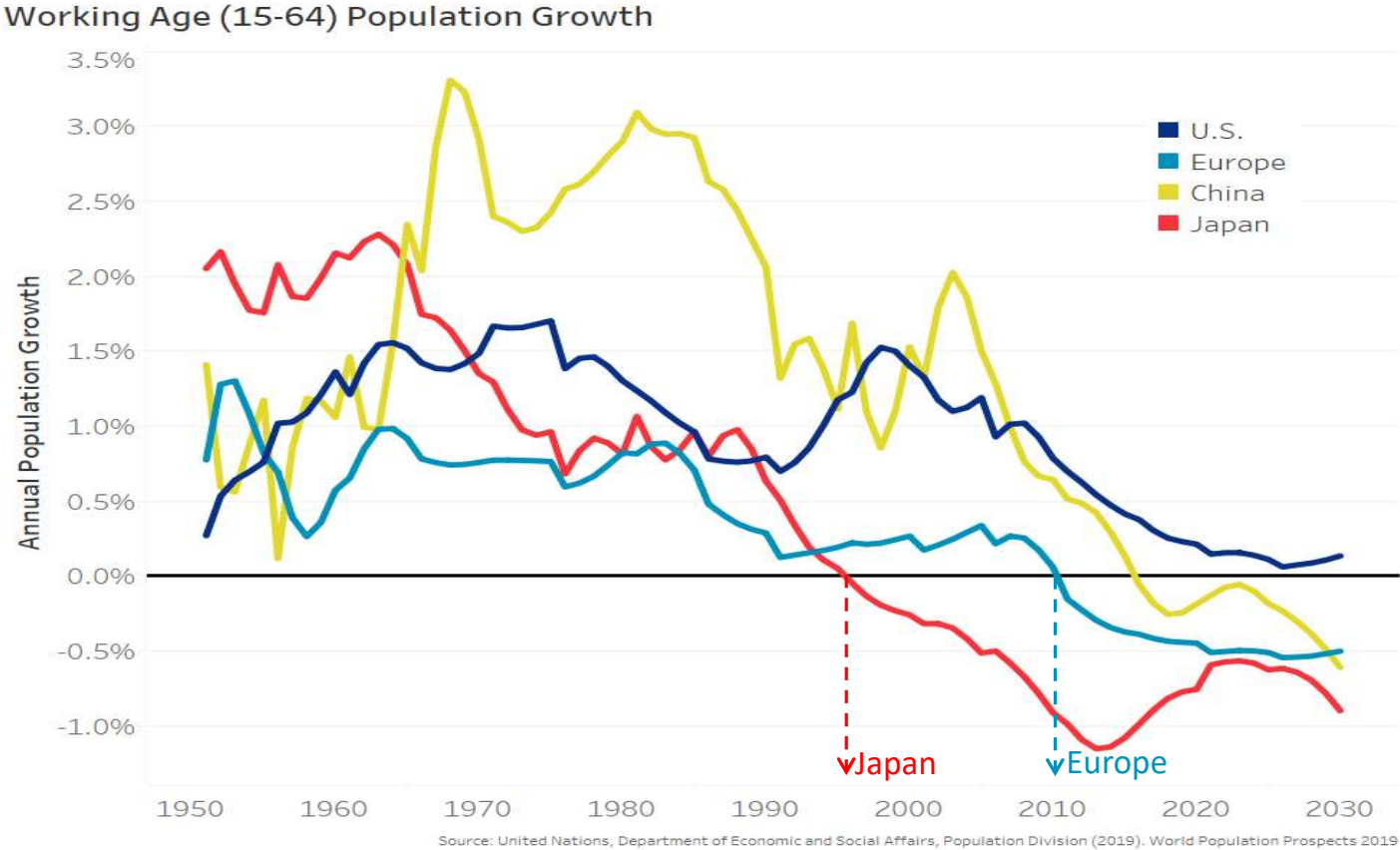
Demographics: a downward force on long-term rates



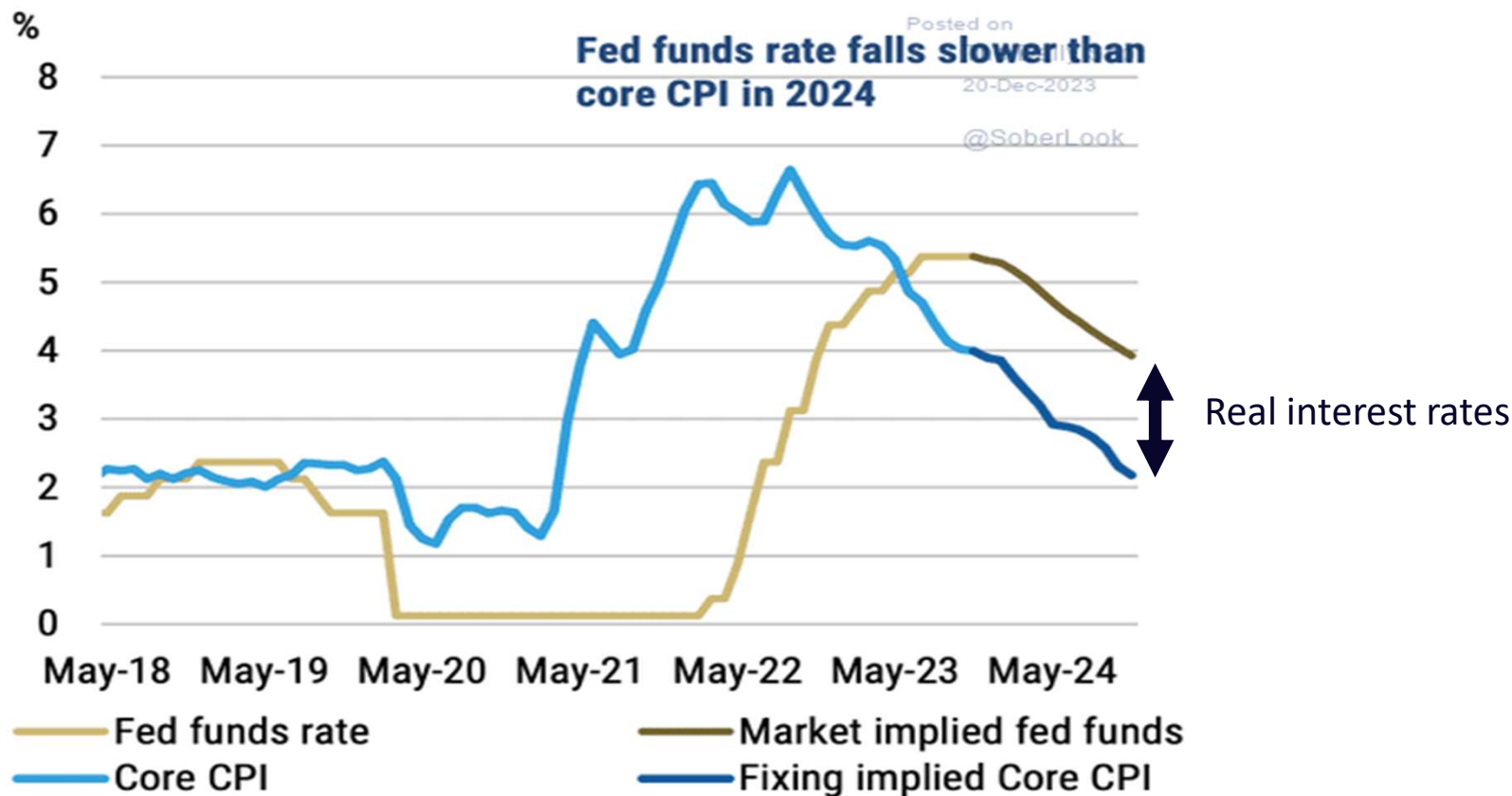
Source: BofA Research Investment Committee, Haver



Demographics: are a downward force on long-term rates



Without cuts, “real” rates are still rising

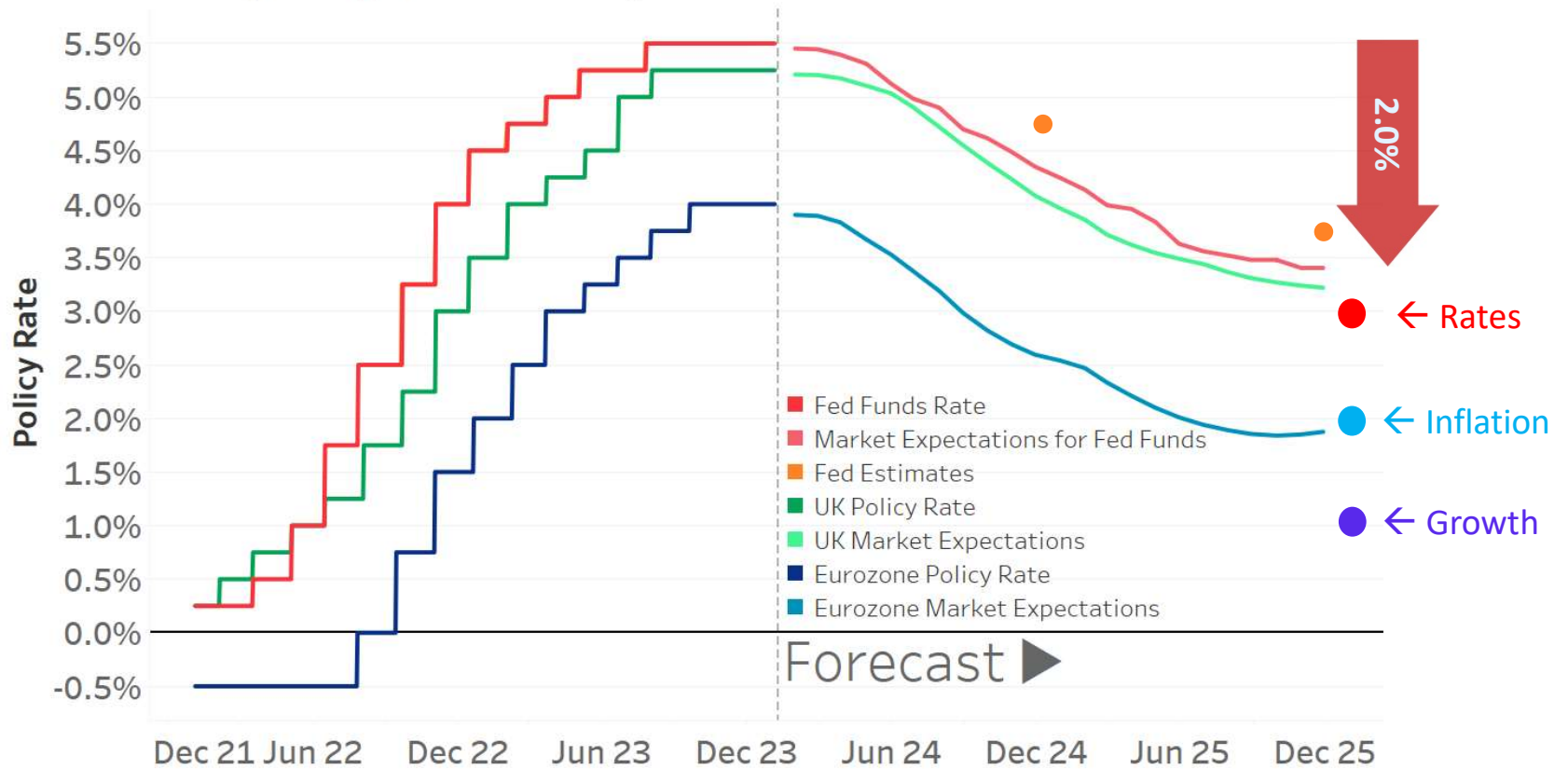


Source: Bloomberg, BGC, Morgan Stanley Research estimates



Lower rates...but no more “free money”

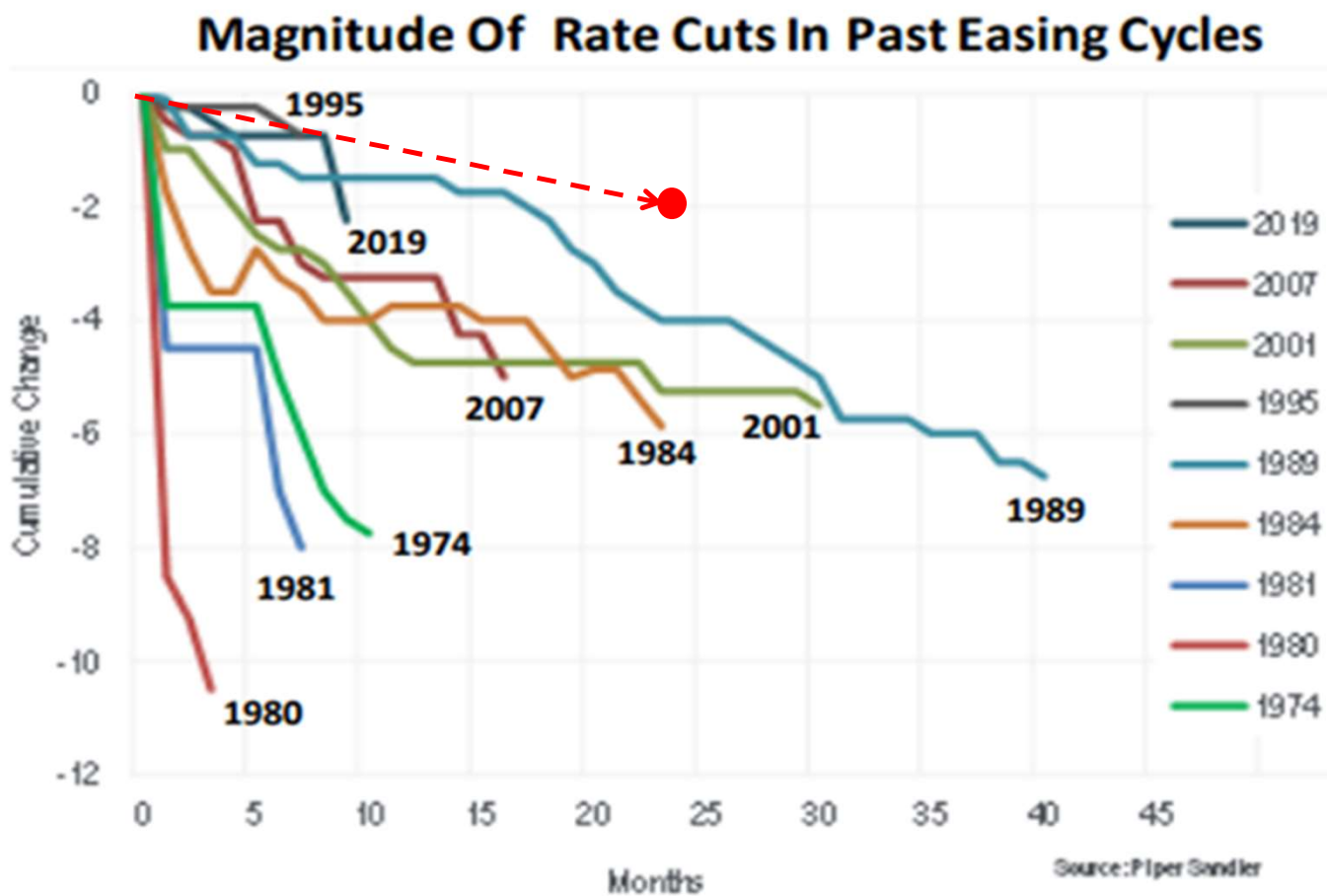
Note: Federal Reserve figures use upper limit of fed funds range.



Source: FactSet, Federal Reserve, Nasdaq Economic Research



US rates normally fall faster than current expectations



Lower rates:
What does this mean?

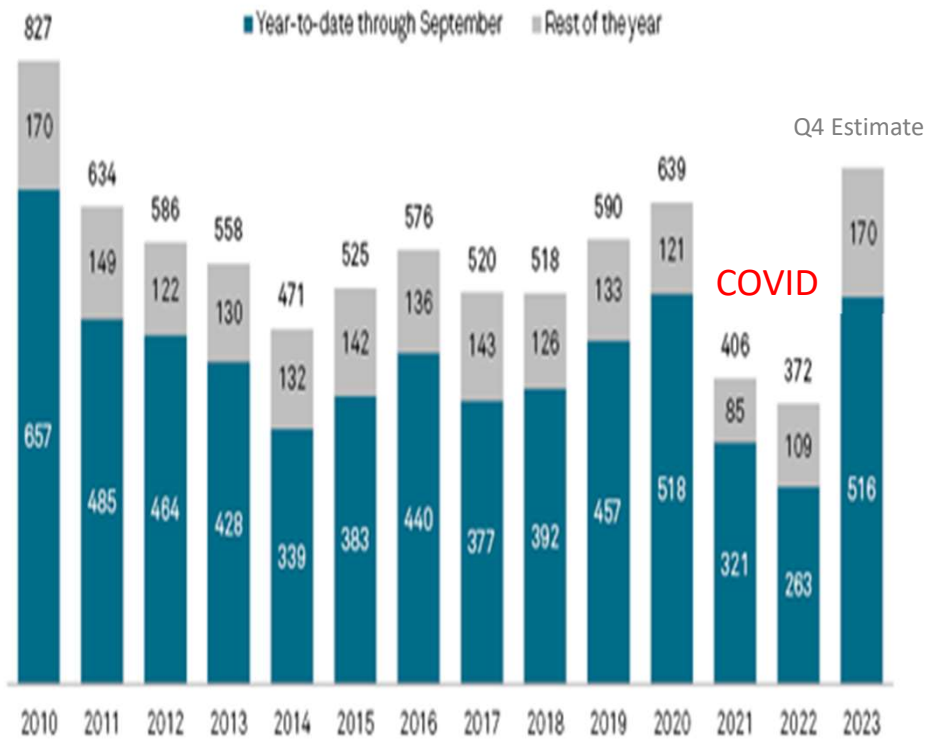


Companies will benefit



Companies: Bankruptcies in PPP catch up

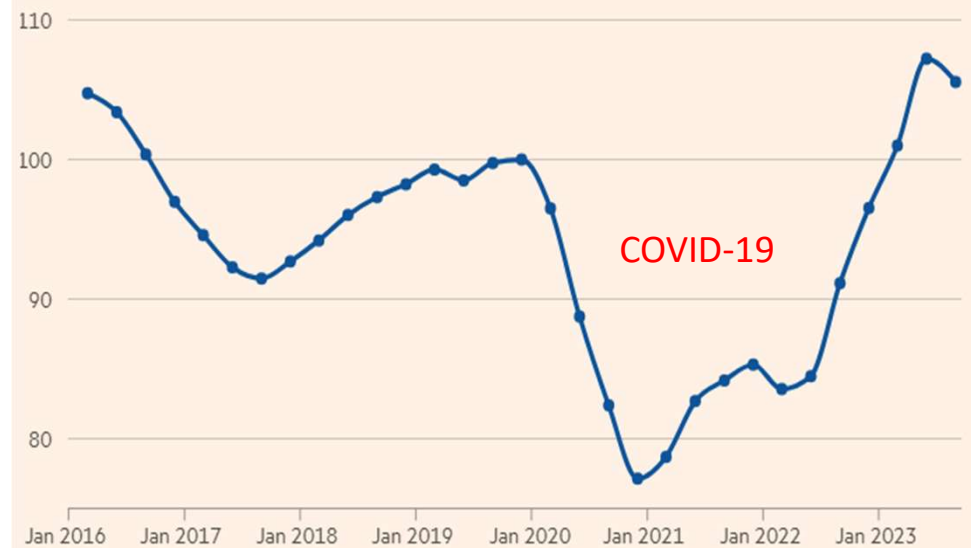
US bankruptcy filings by year



EU bankruptcies have risen in many sectors

Four-quarter average, index Q4 2019=100

■ Total
 ■ Industry
 ■ Construction
 ■ Trade
 ■ Transportation
 ■ Hospitality
 ■ IT
 ■ Professional services
 ■ Education & health



FINANCIAL TIMES

Source: Eurostat

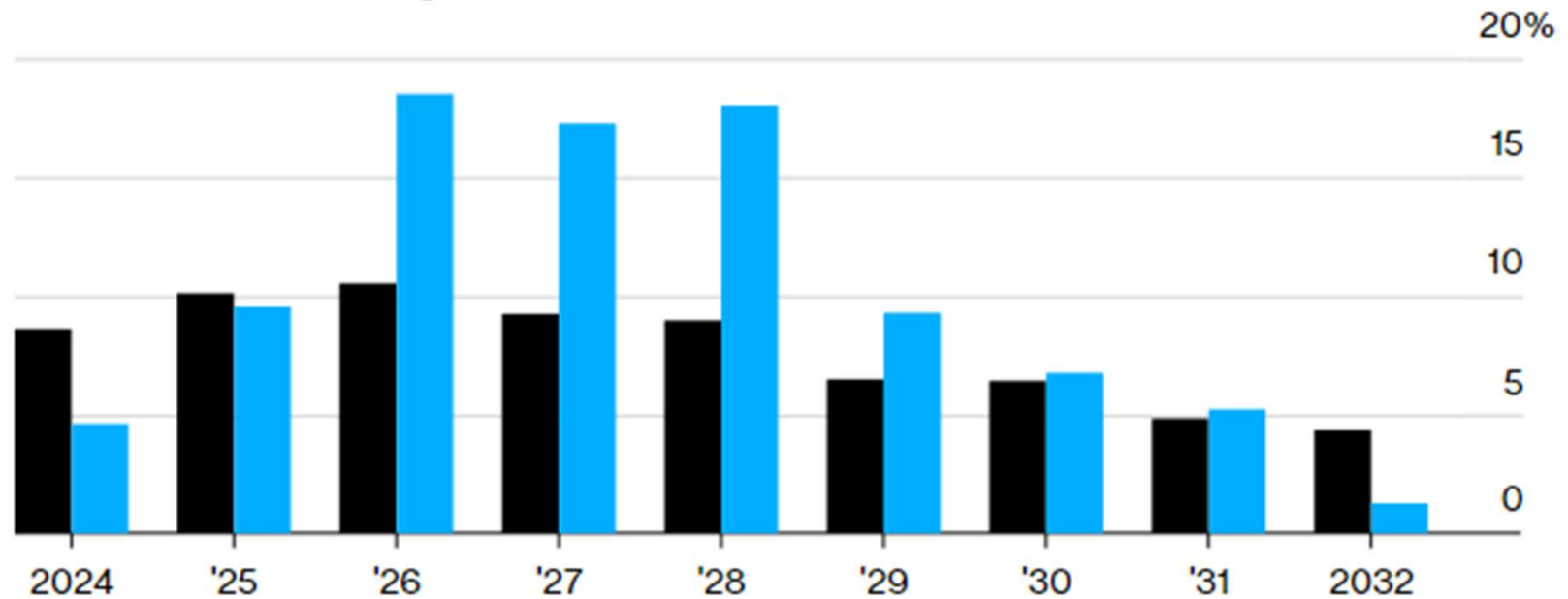


Rates might matter to more companies soon...

About Two-Thirds of US Small-Cap Debt Due in Five Years

That compares with less than half for S&P 500 firms

■ Share of debt maturing for S&P 500 Index ■ Russell 2000 Index

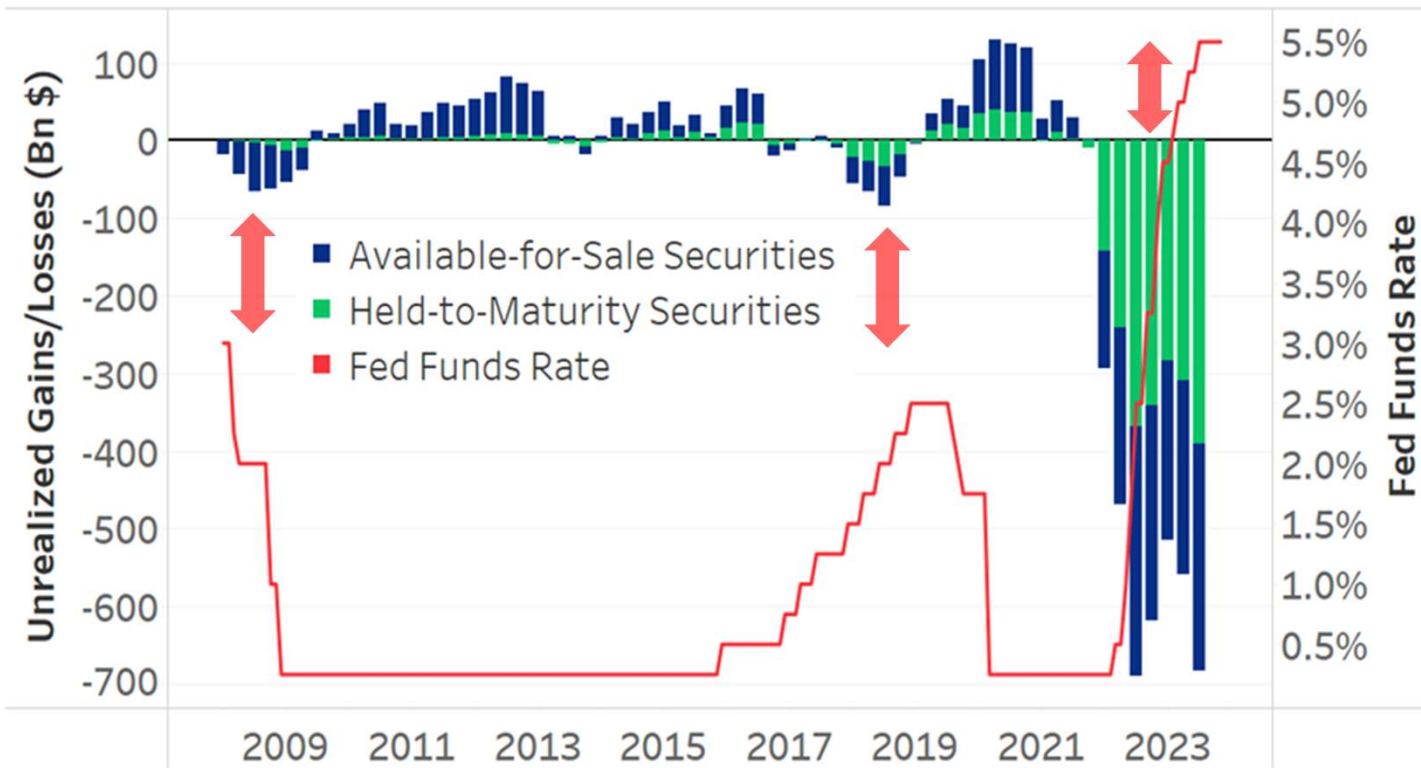


Source: Bloomberg



Lower rates relieve pressure on small banks...

Unrealized Gains (Losses) on Securities Held by FDIC Institutions

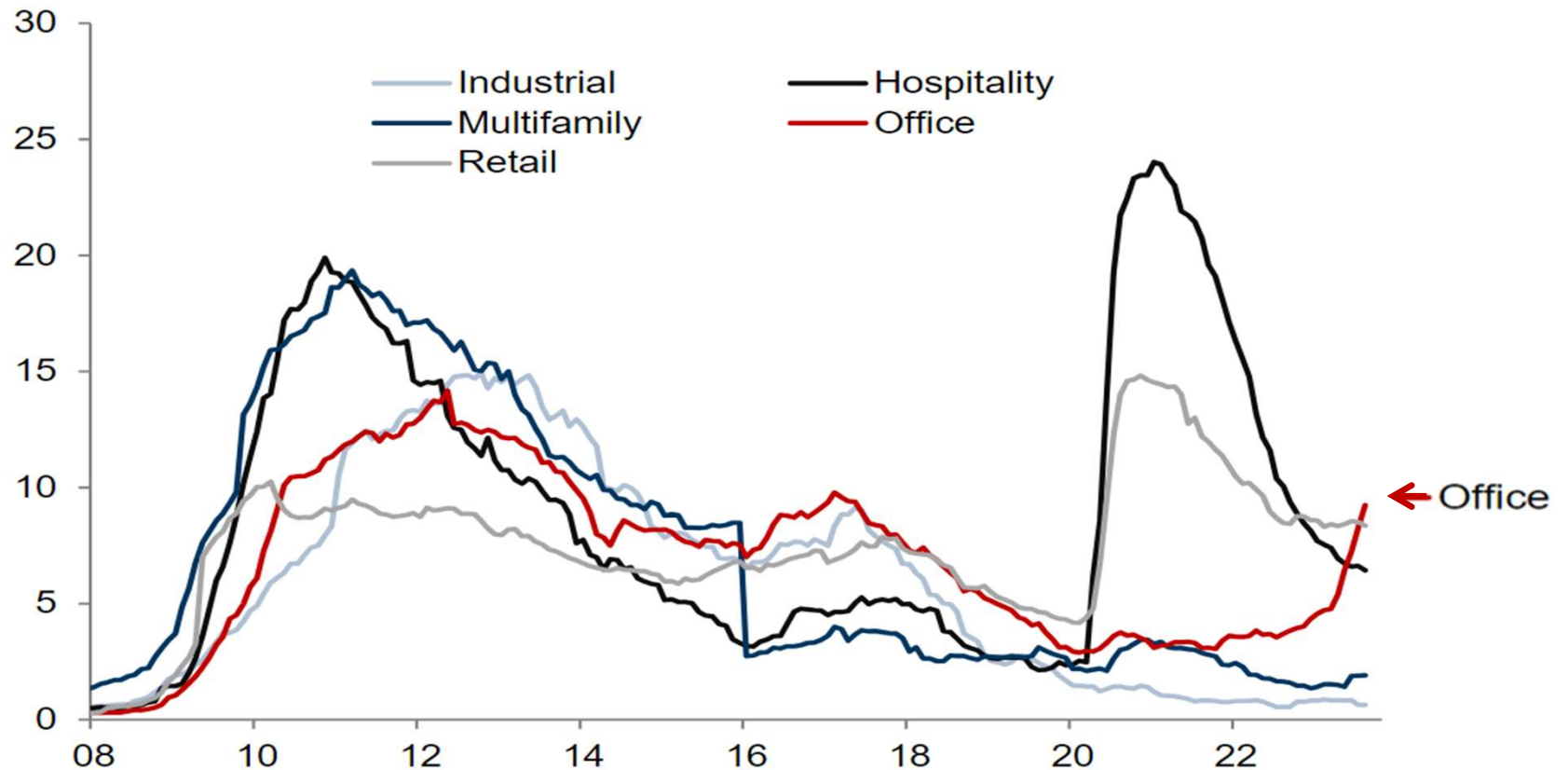


Source: FactSet, FDIC, Federal Reserve, Nasdaq Economic Research



Commercial: Only Office delinquency is rising

30+ day delinquency rates by property type, %

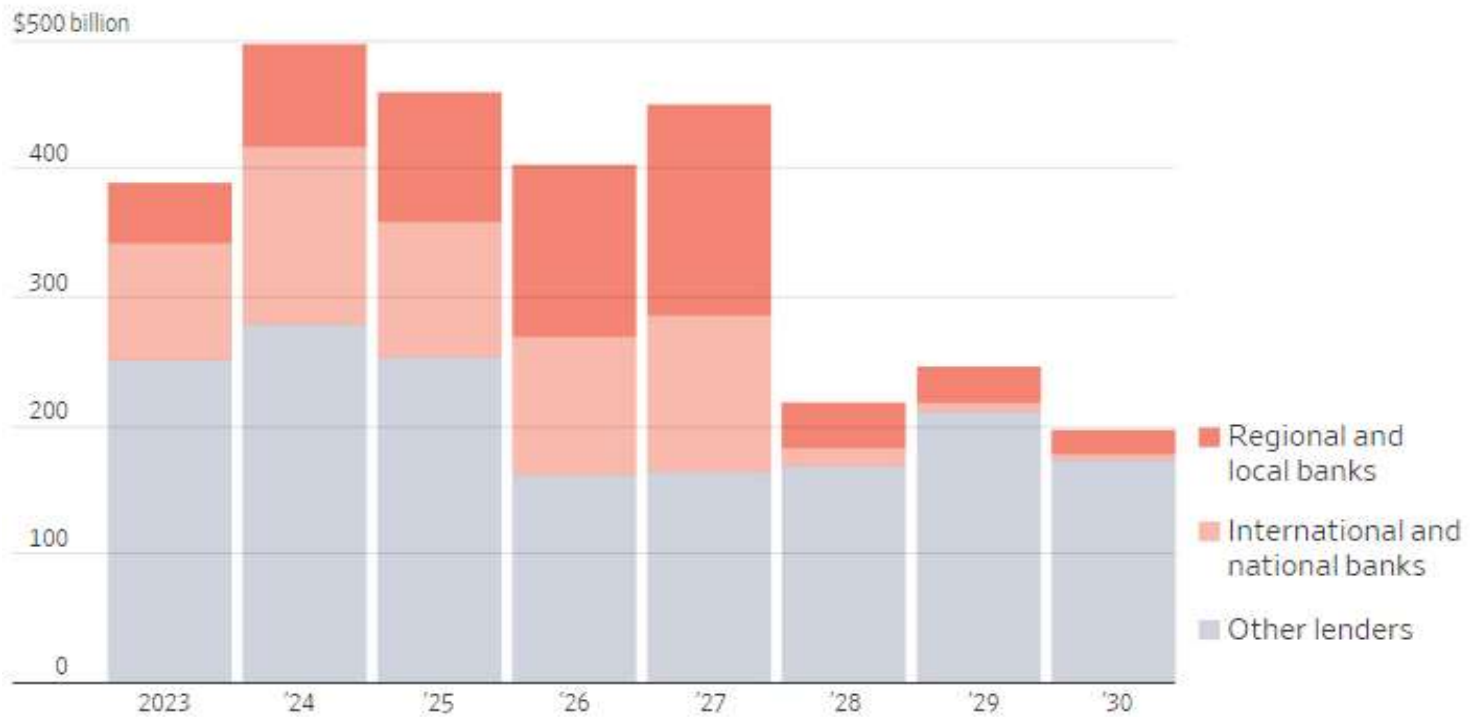


Source: Trepp, Goldman Sachs GIR.



Office loans mature over time

Maturing commercial property loans by lender type

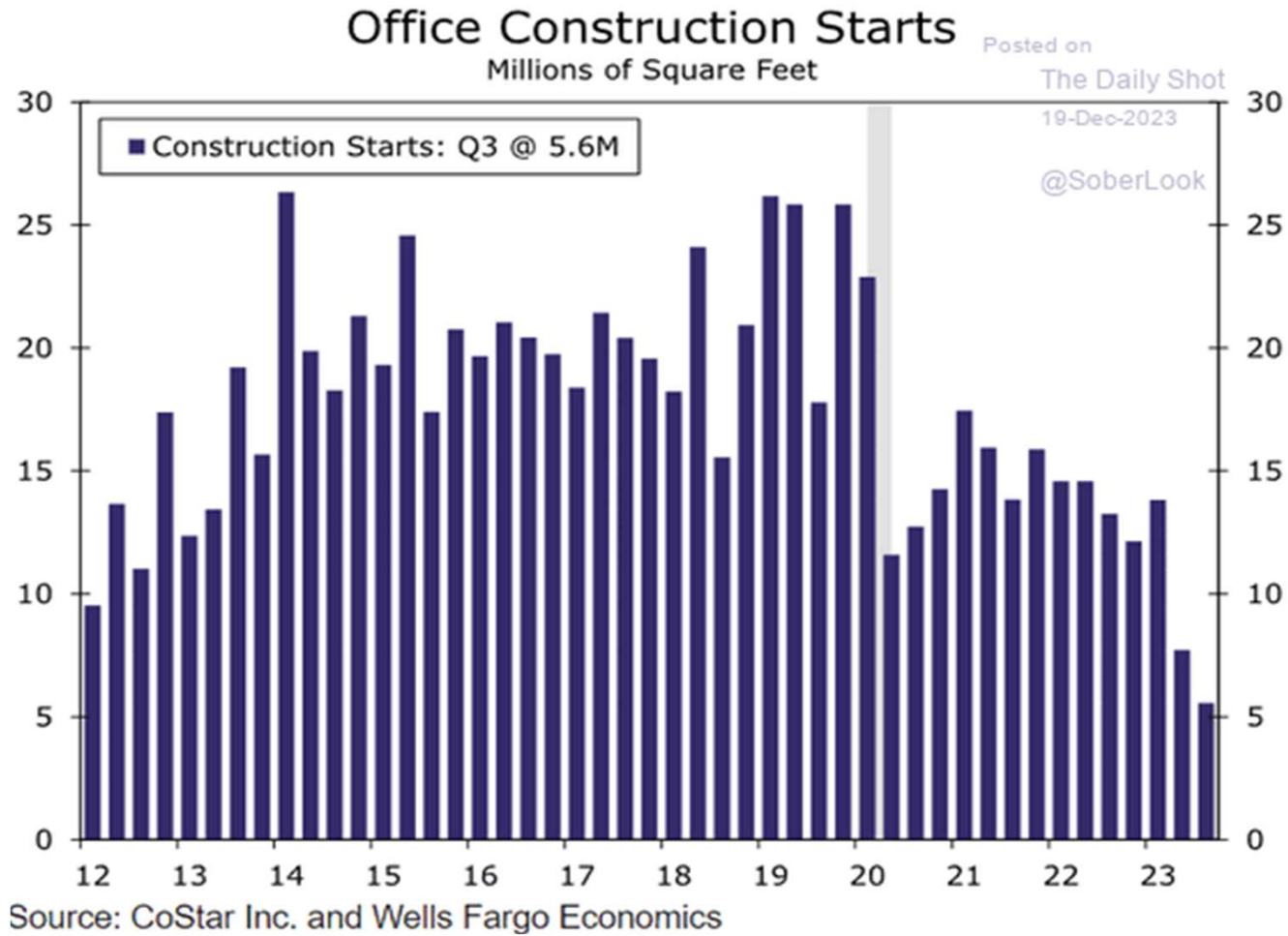


Note: Other lenders include commercial mortgage backed securities, insurance companies and private and government lenders.

Source: MSCI Real Assets, Wall Street Journal



Office construction slowing

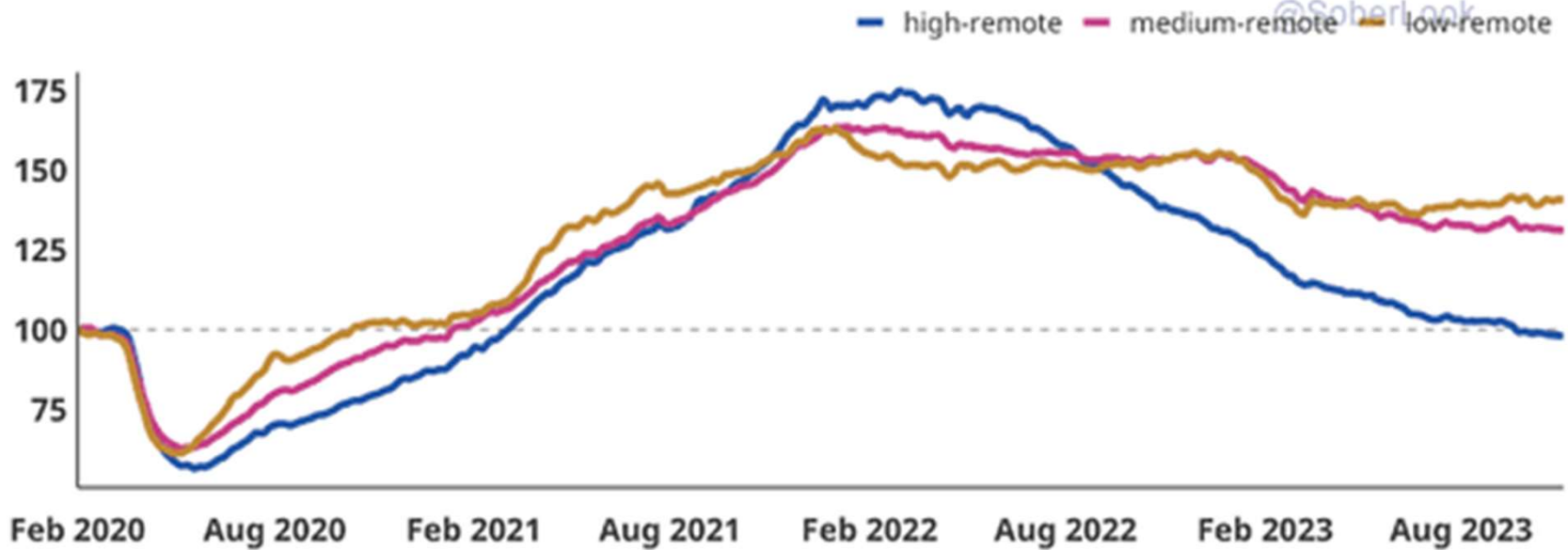


Although fully remote job adds are back to pre-covid trend

Postings are most resilient in sectors most likely to be in person

Posted on
The Daily Shot
27-Nov-2023

US Job Postings Index by remote-work tier, data through Nov 3, 2023



Source: Indeed Job Postings Index

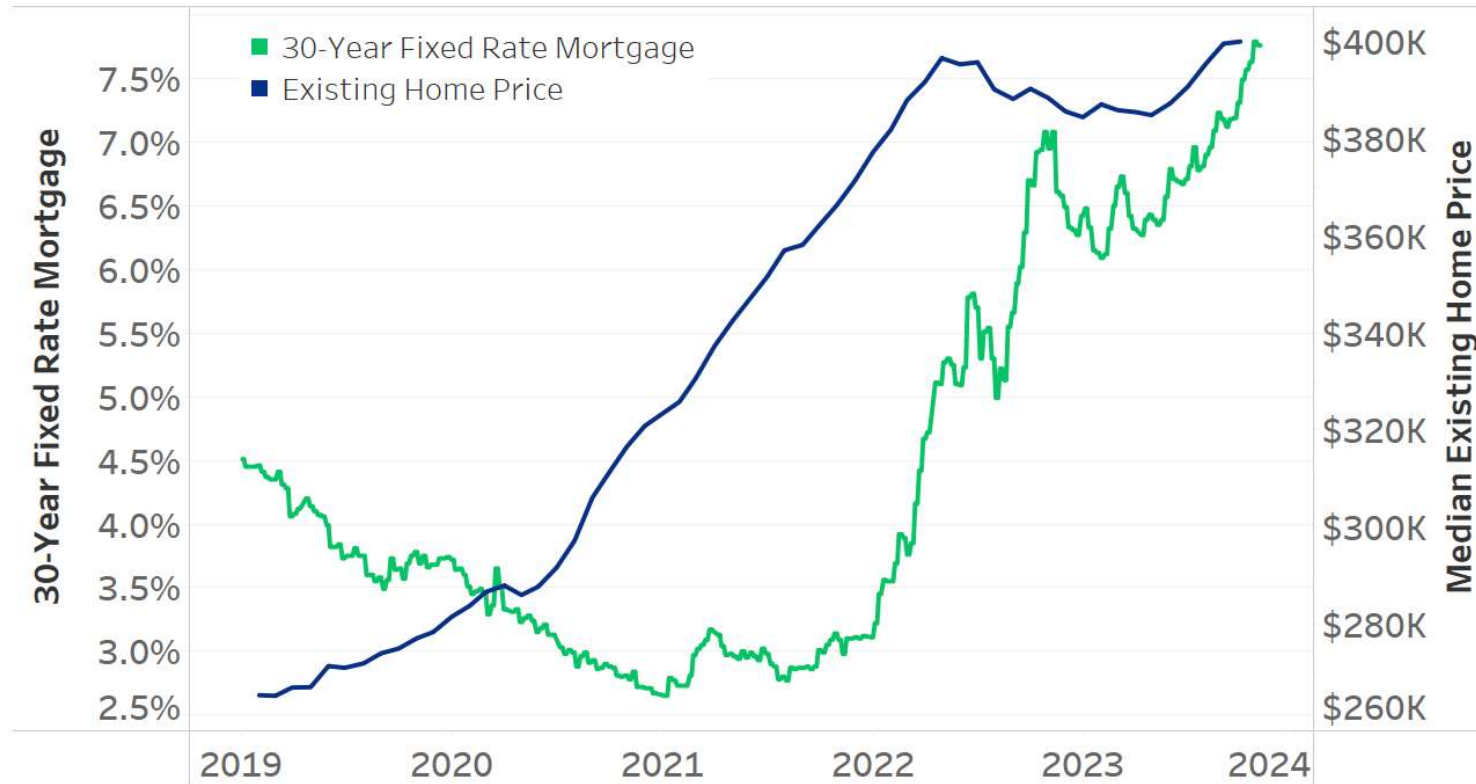


Households will benefit



Homes: Higher rates & higher prices?

Median Existing Home Price and Mortgage Rates



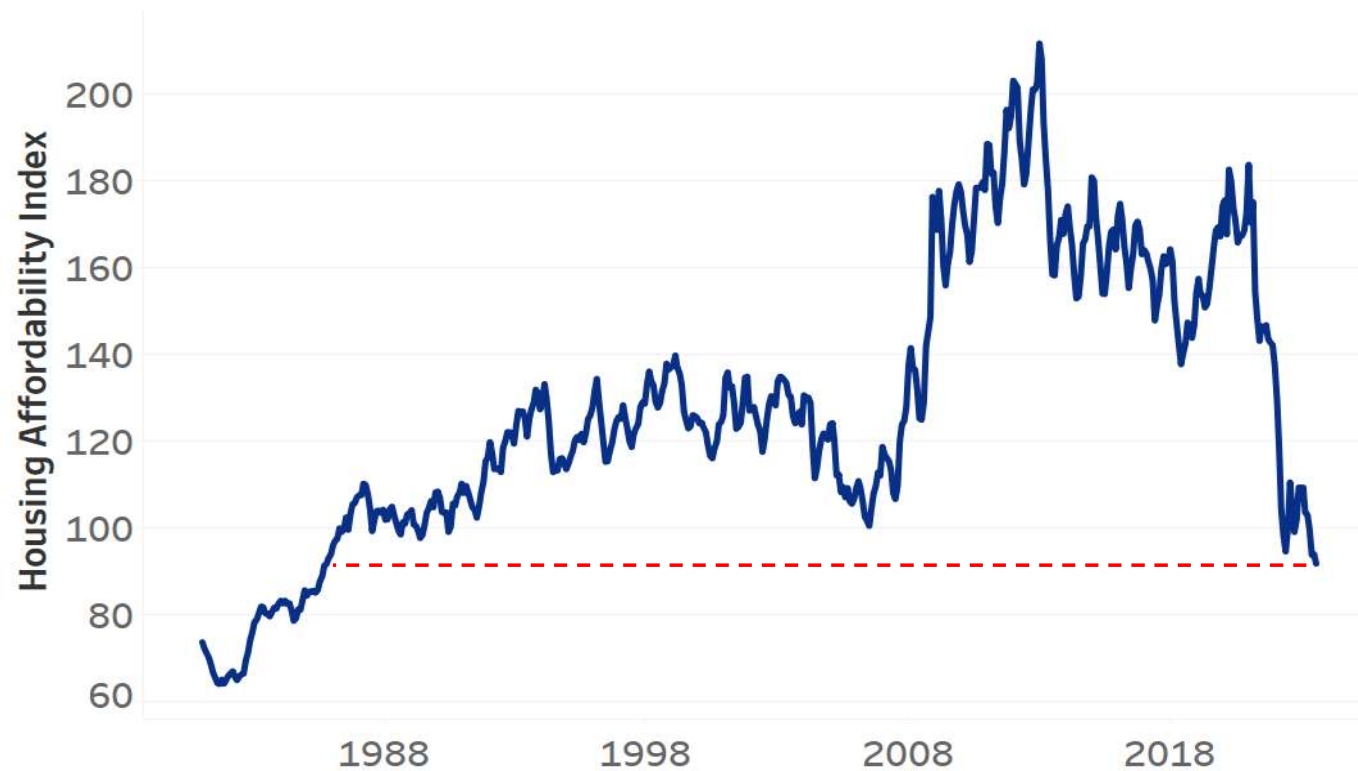
Source: FactSet, National Association of Realtors, Freddie Mac, Nasdaq Economic Research



...have made housing unaffordable

Housing Affordability

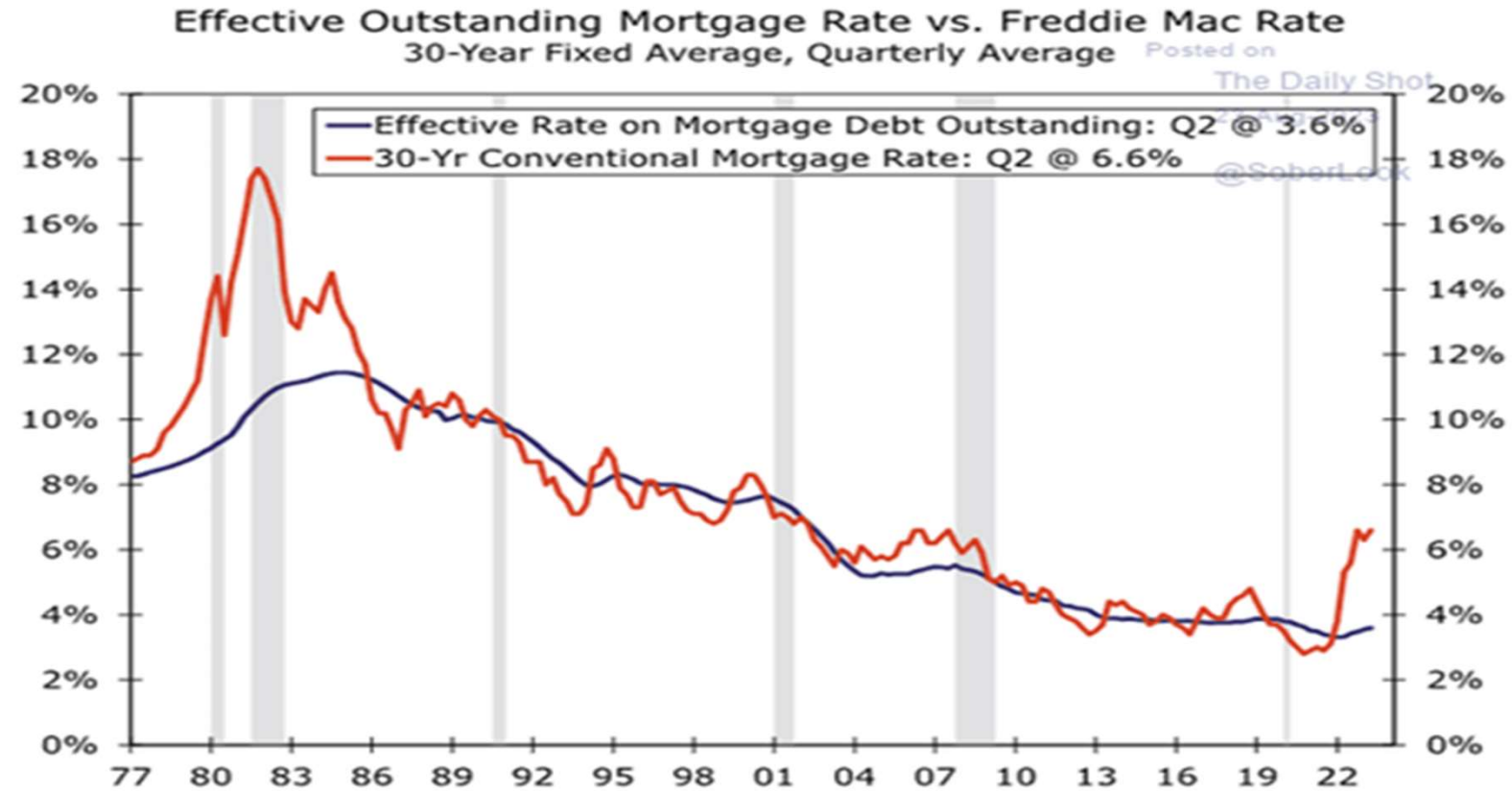
Fixed-Rate Index



Source: National Association of Realtors, Nasdaq Economic Research



Households locked at low long-term rates



Source: U.S. Department of Commerce, Freddie Mac and Wells Fargo Economics



Rates have boosted new home construction

Months' Supply of Homes for Sale



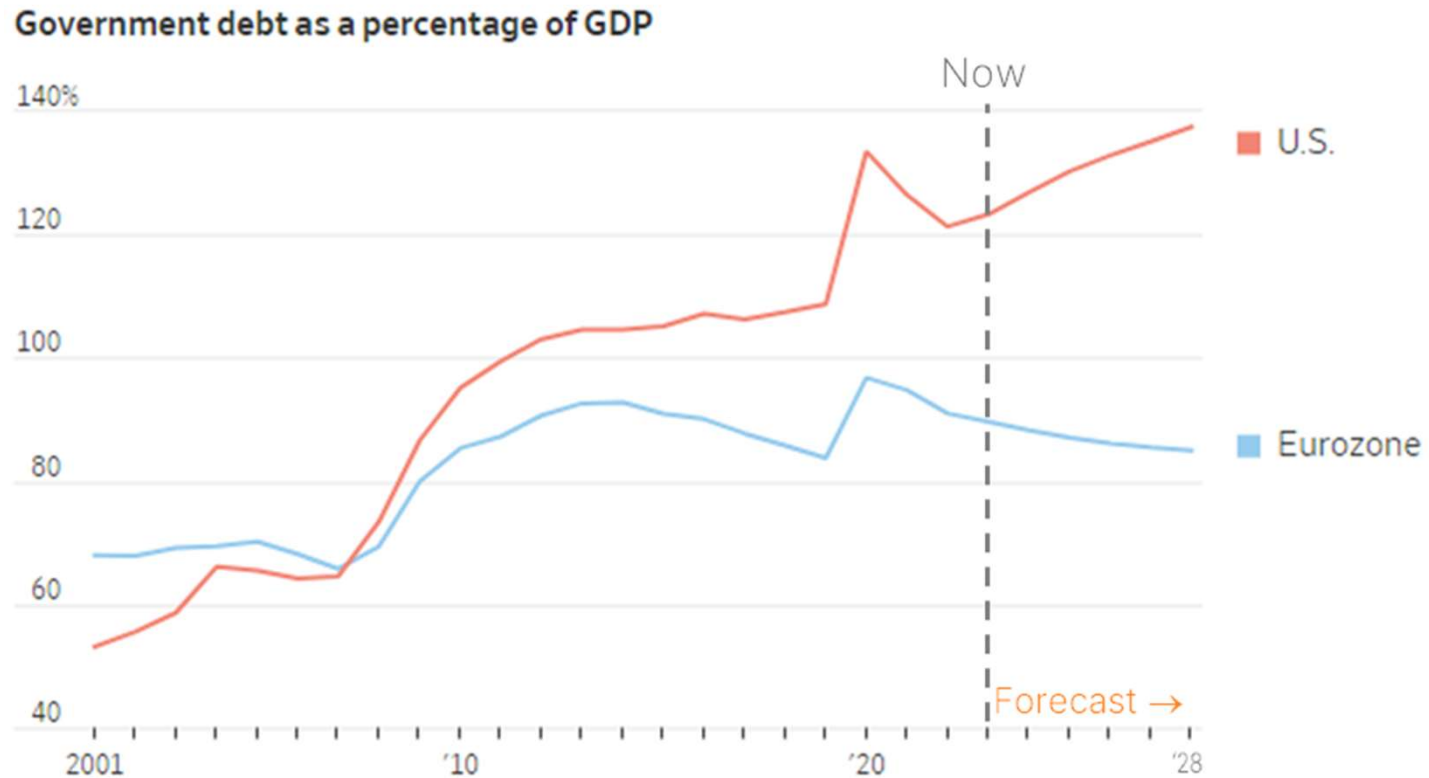
Source: National Association of Realtors and US Census Bureau



Government finances might
also benefit



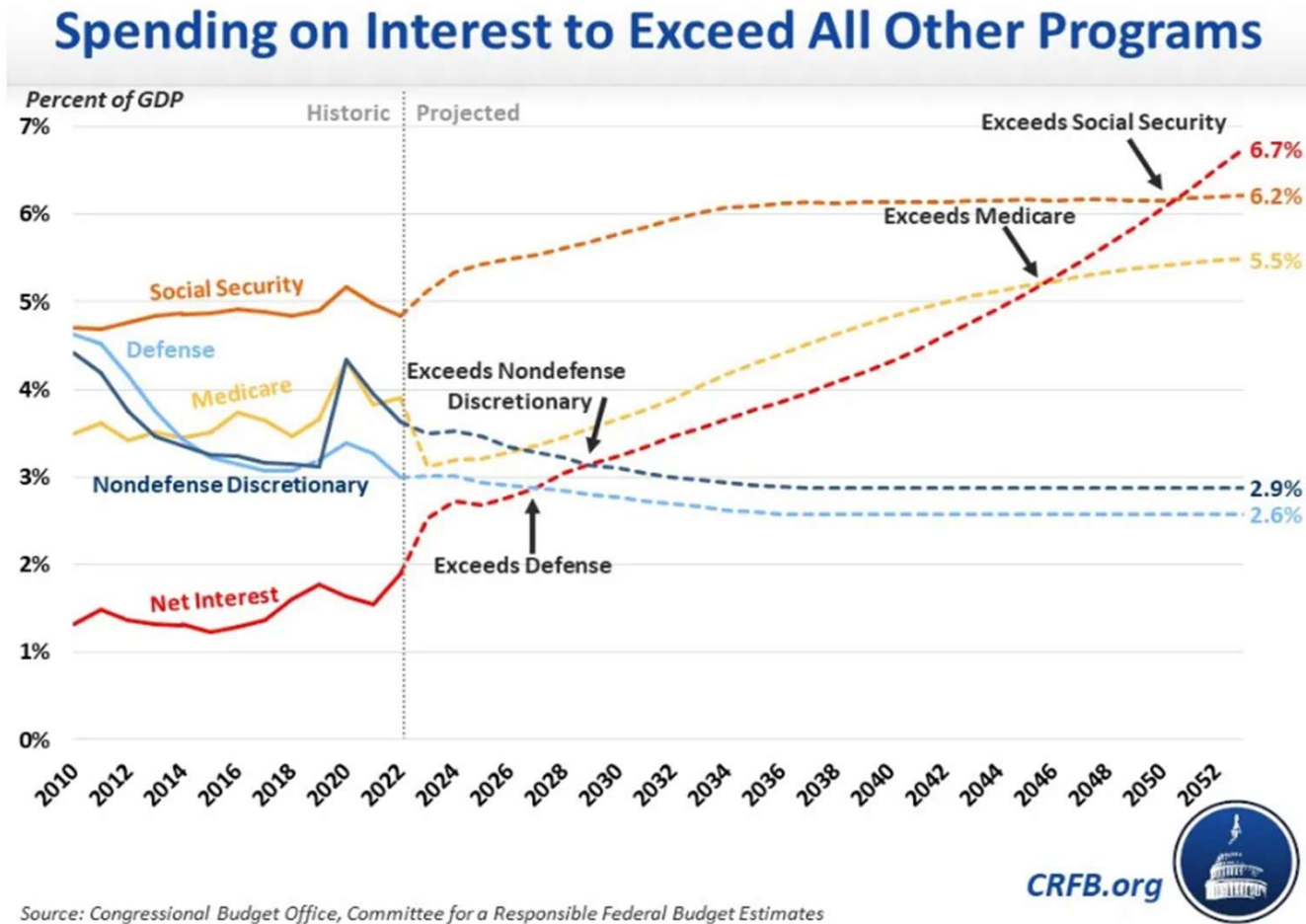
Rates matter to governments too...



Note: Figures after 2022 are projections.

Sources: International Monetary Fund; Barclays . Wall Street Journal.

Interest expense expected to increase

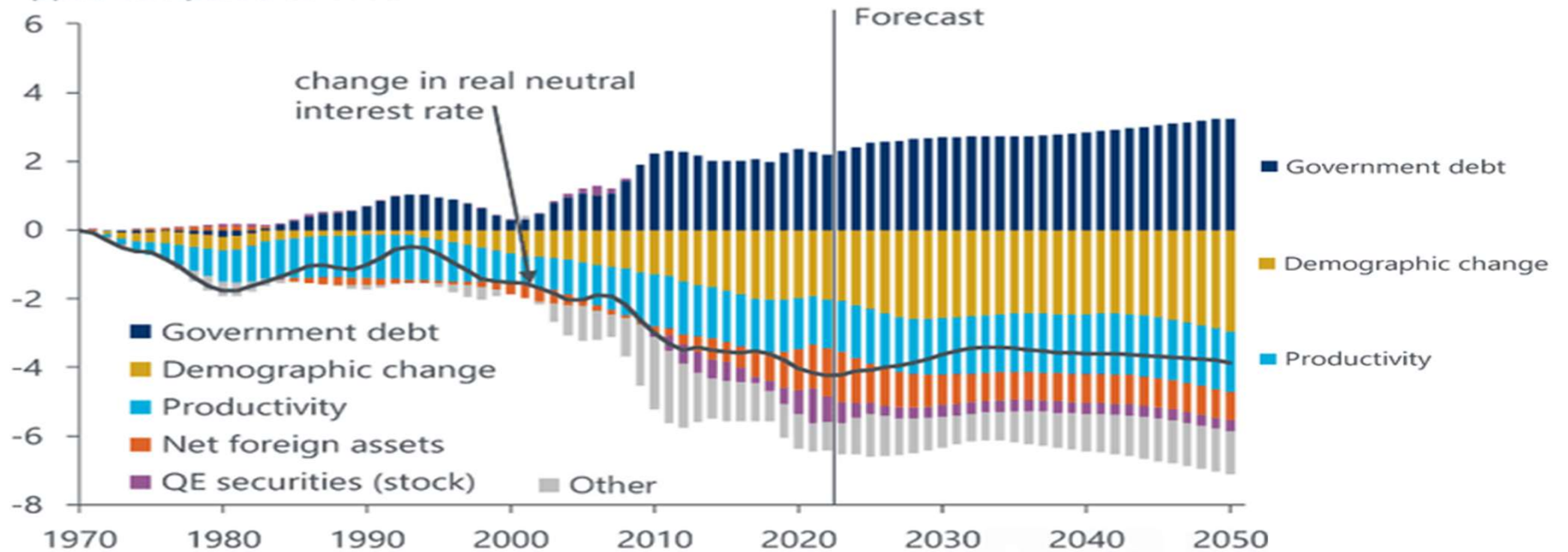


Rates might matter to bond markets too...

The upward pressure from rising government debt is offset by other secular forces

The Daily Shot
07-Nov-2023

US real neutral interest rate: Change and contributions
ppts, compared to 1970



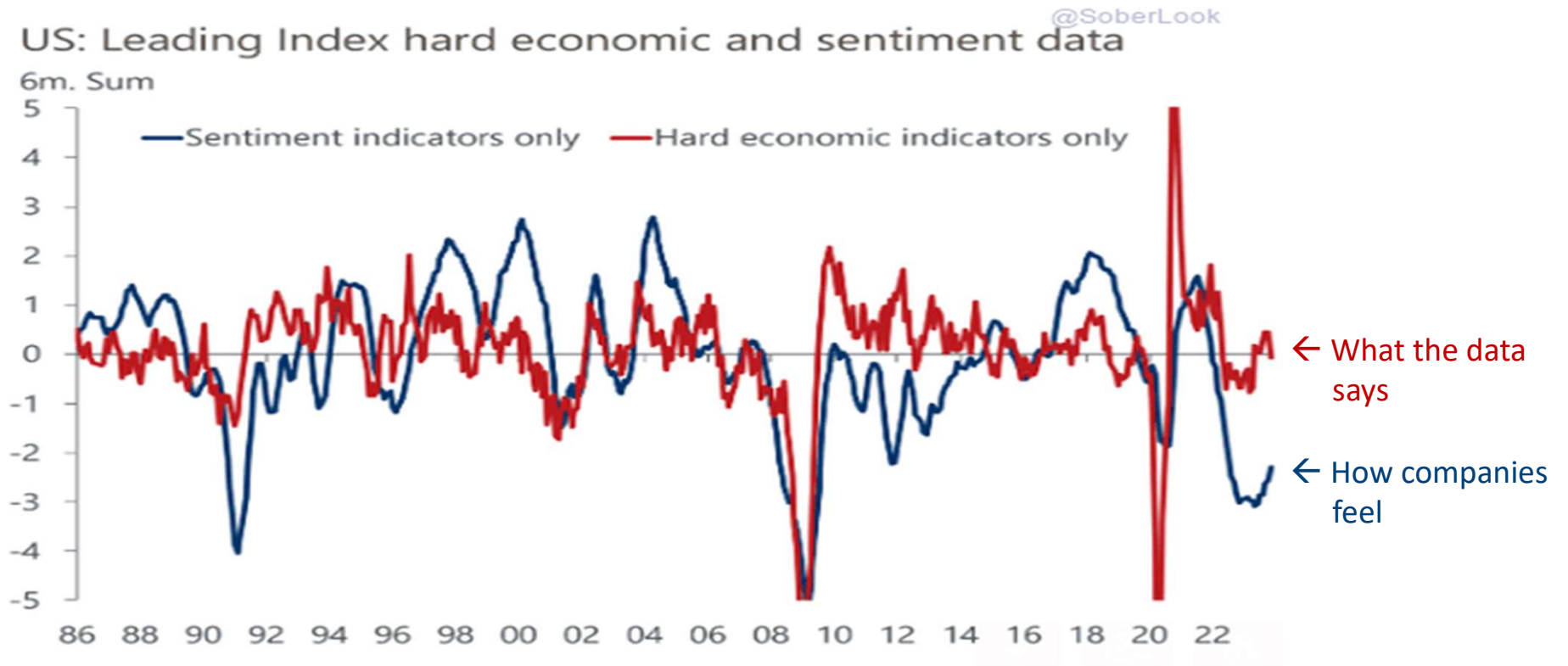
Source: Oxford Economics/Haver Analytics/United Nations/World Bank/ECB



What does this mean for stocks?

Businesses still don't trust the consumer

Chart 1: Sentiment indicators weigh on the LEI, but are improving

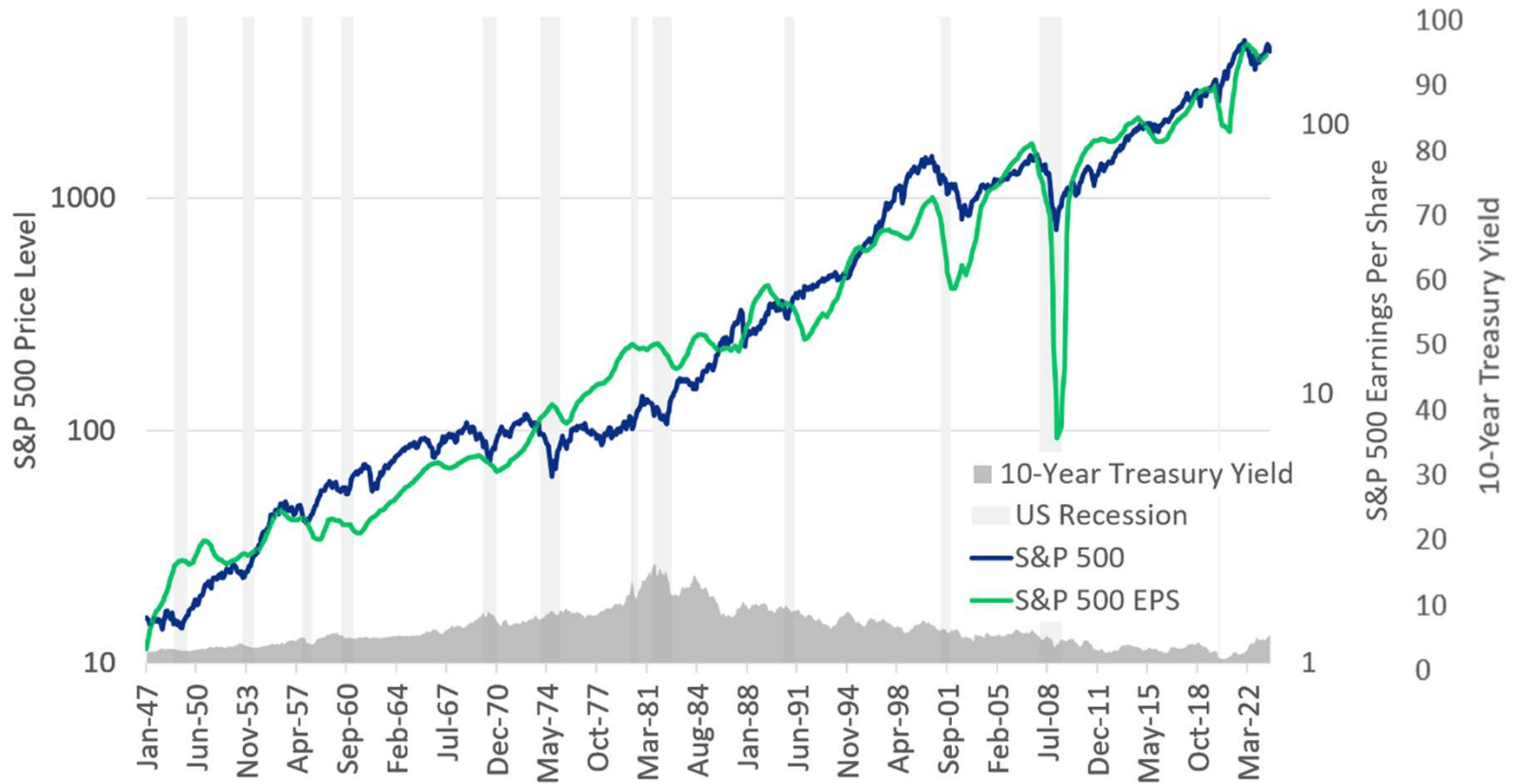


Source: Oxford Economics/Haver Analytics



Earnings drive long-term returns

S&P 500 Price and Earnings Move Together



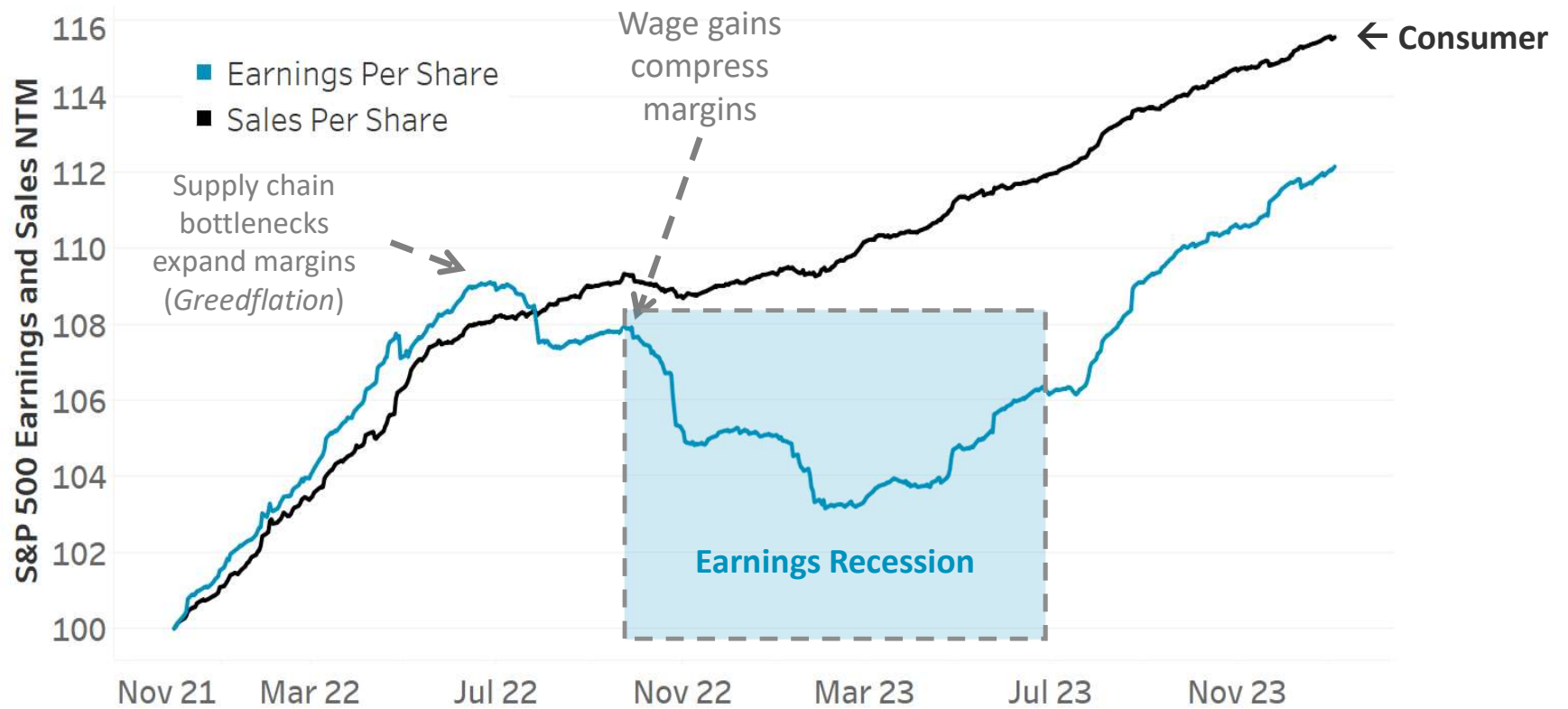
Source: FactSet, Robert Shiller, NBER, Conference Board, Nasdaq Economic Research



Wages dented margins, but not revenues

S&P 500 Earnings and Sales Per Share

Earnings and sales per share on rolling next 12 month (NTM) basis, indexed to December 1, 2021 = 100. Data through January 4, 2024.



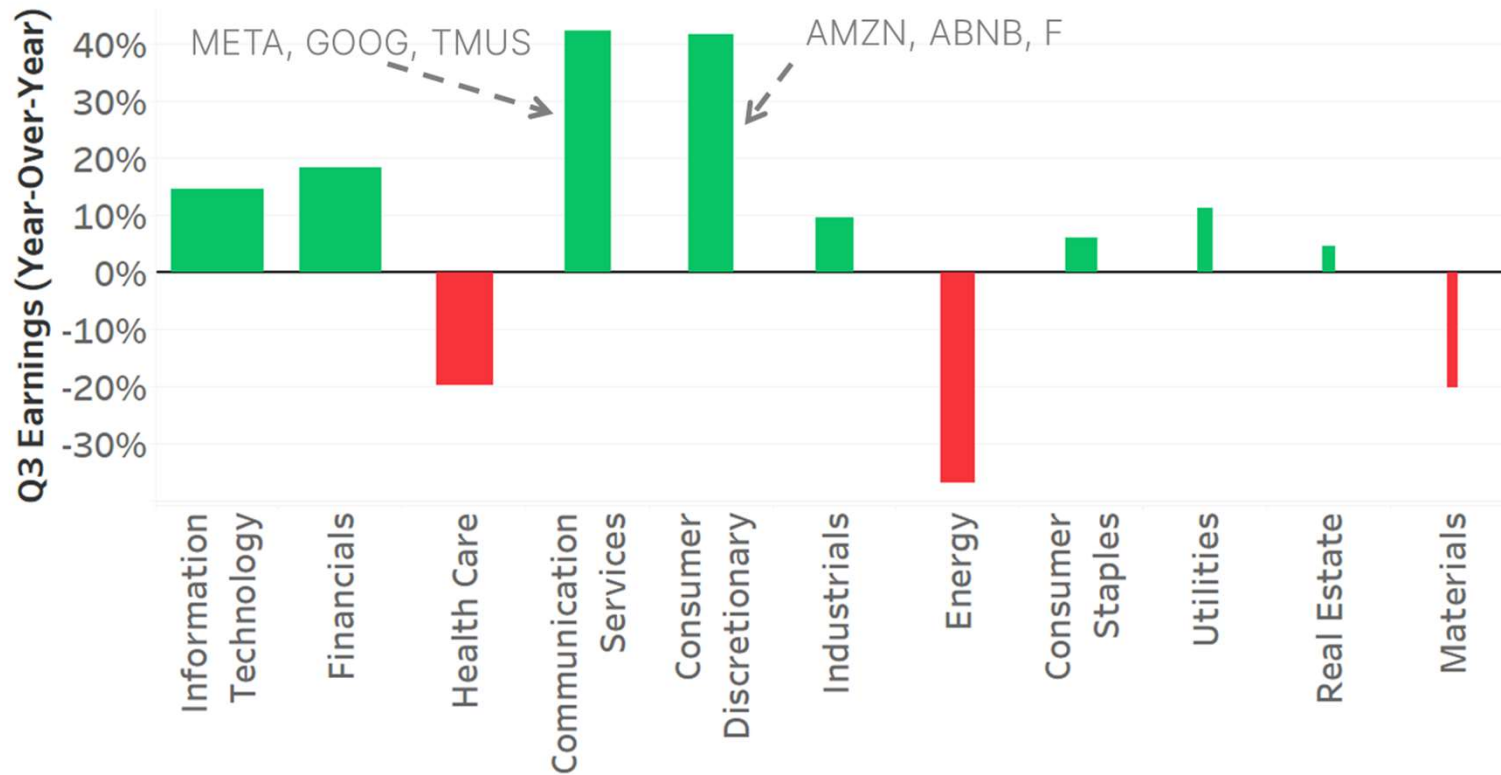
Source: FactSet, Nasdaq Economic Research



Consumer-driven sectors doing better

S&P 500 Q3 Earnings Growth

Bar width represents industry weight by share of net income. Data as of December 14, 2023.

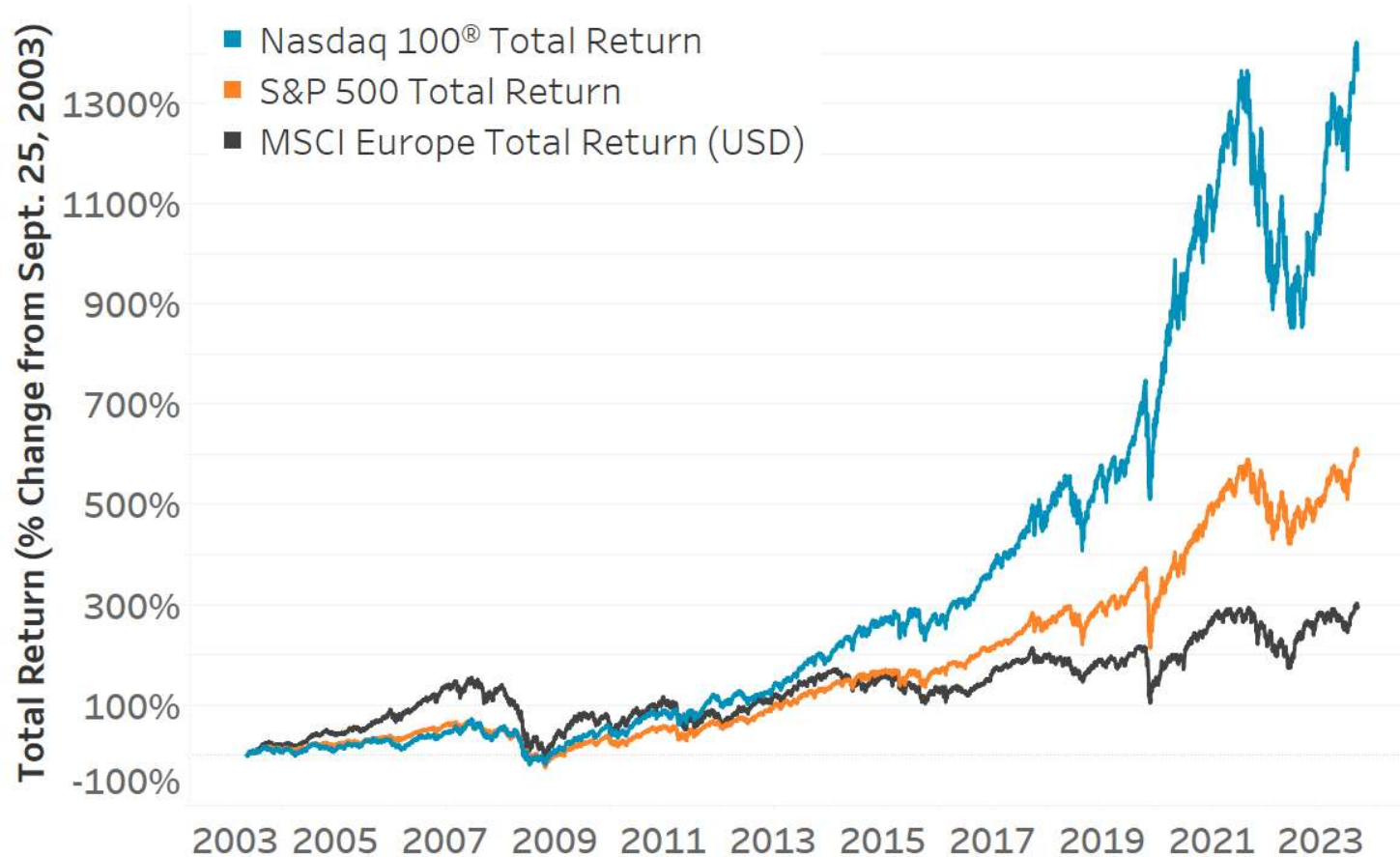


Source: FactSet, Nasdaq Economic Research



US stock Market has defied high rates

Data as of January 4, 2024



Source: Nasdaq Economic Research, FactSet

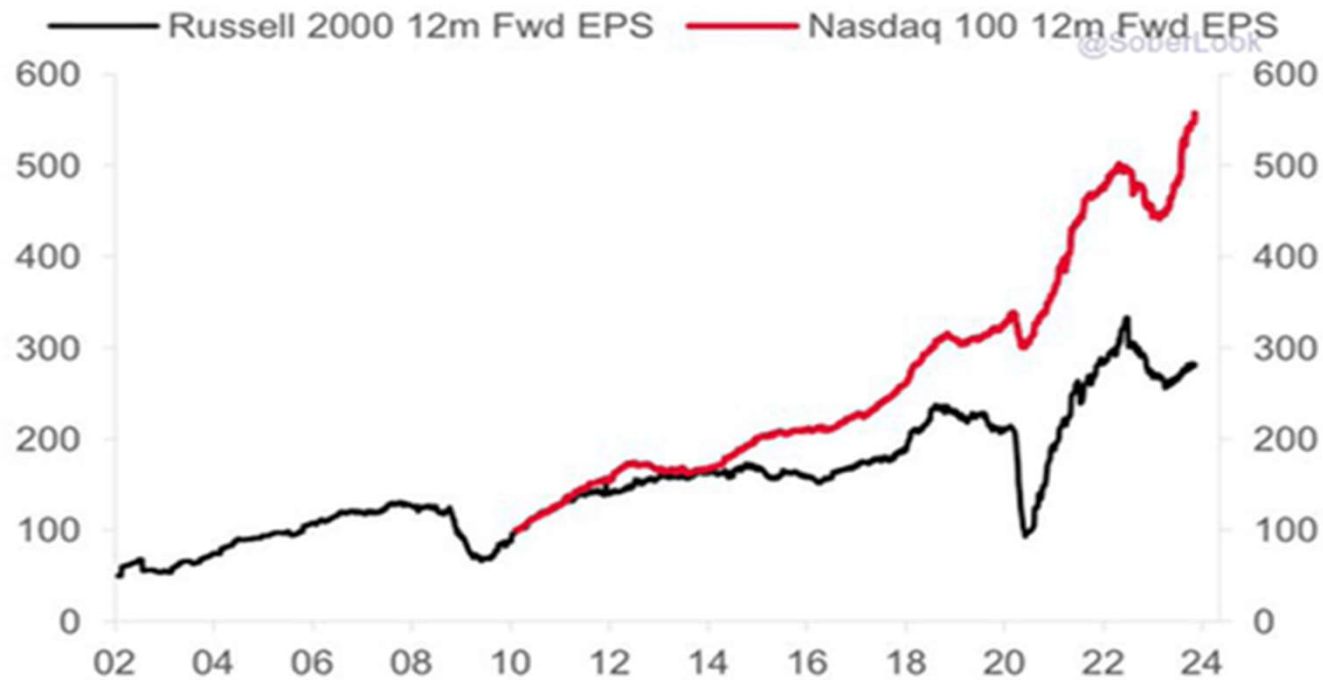


Large cap earnings growth & margins strongest

Nasdaq-100 EPS has surged by 19% from its troughs in the early part of 2023...

The Daily Shot

27-Nov-2023



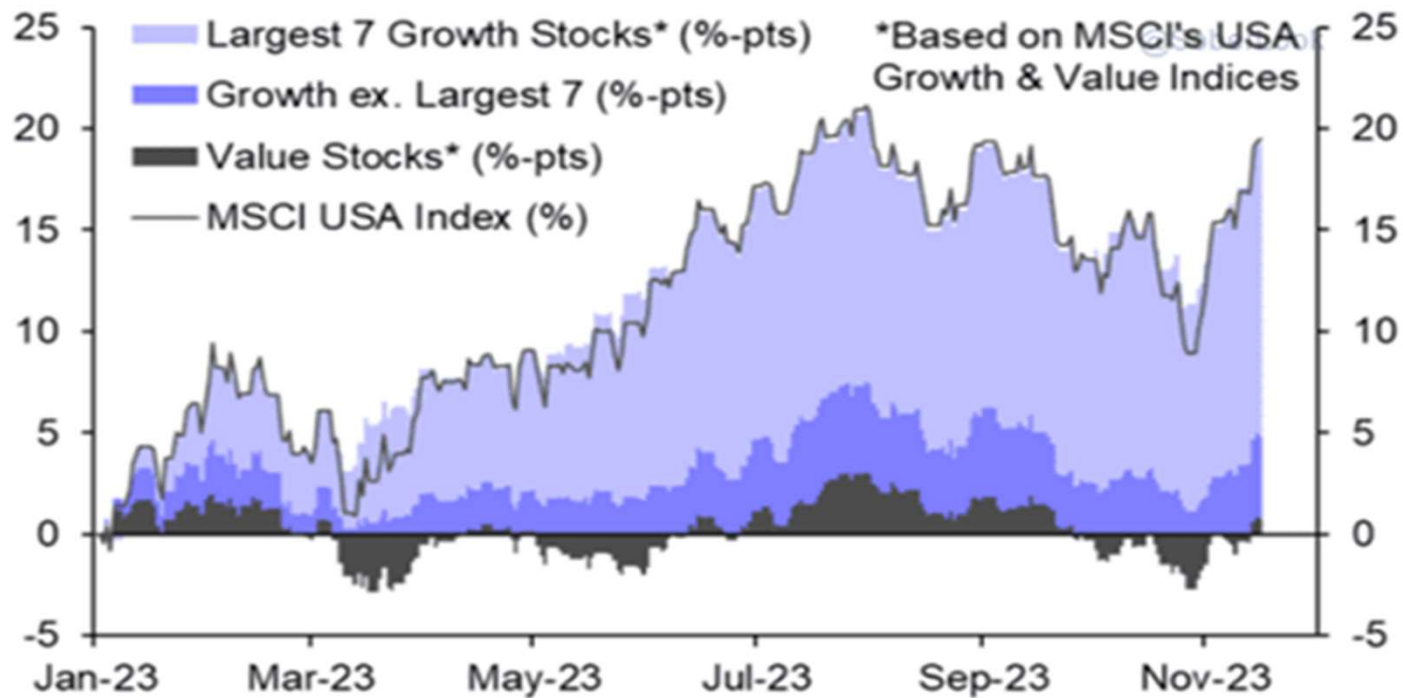
Source: SG Cross Asset Research/Equity Strategy Refinitiv. Data as of 3 Nov. 2023.



Market returns driven by Magnificent 7

Chart 2: Contributions To Year-To-Date Changes In MSCI USA Index

Posted on
The Daily Shot
21-Nov-2023

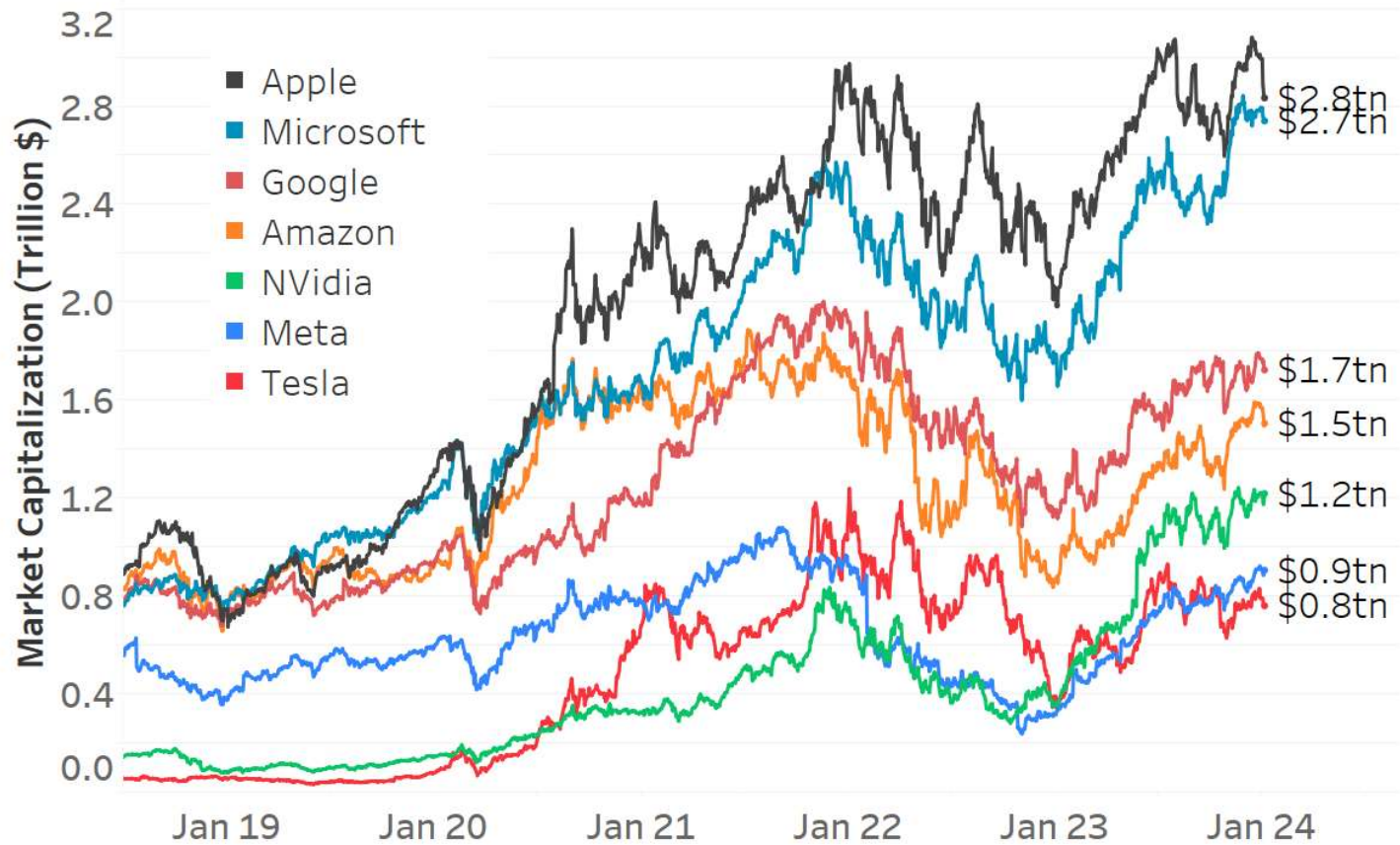


Sources: Refinitiv, Capital Economics



Magnificent 7: Trillion-dollar-company club

Data through January 4, 2024

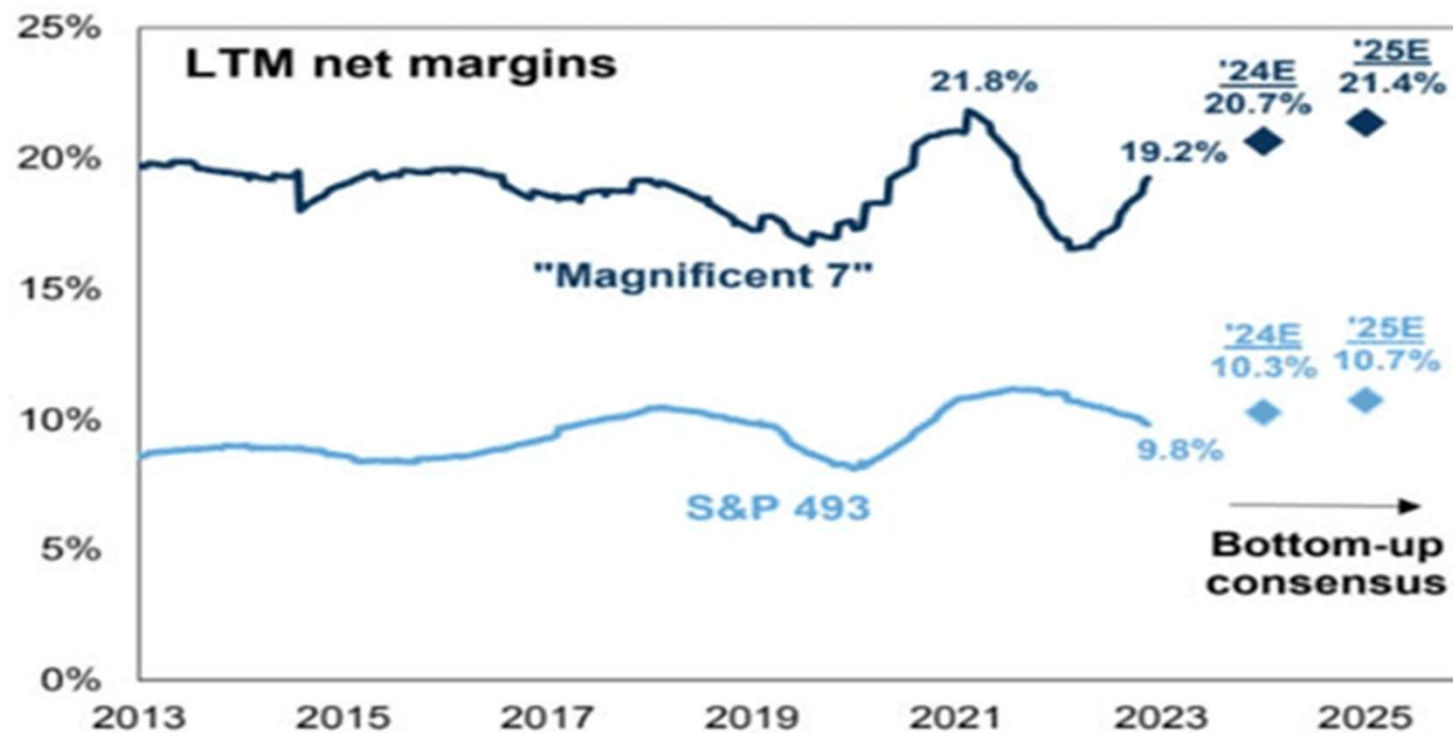


Source: FactSet, Nasdaq Economic Research



Magnificent 7 have superior margins & real revenues

Exhibit 29: Margins of Magnificent 7 vs. rest of S&P 500

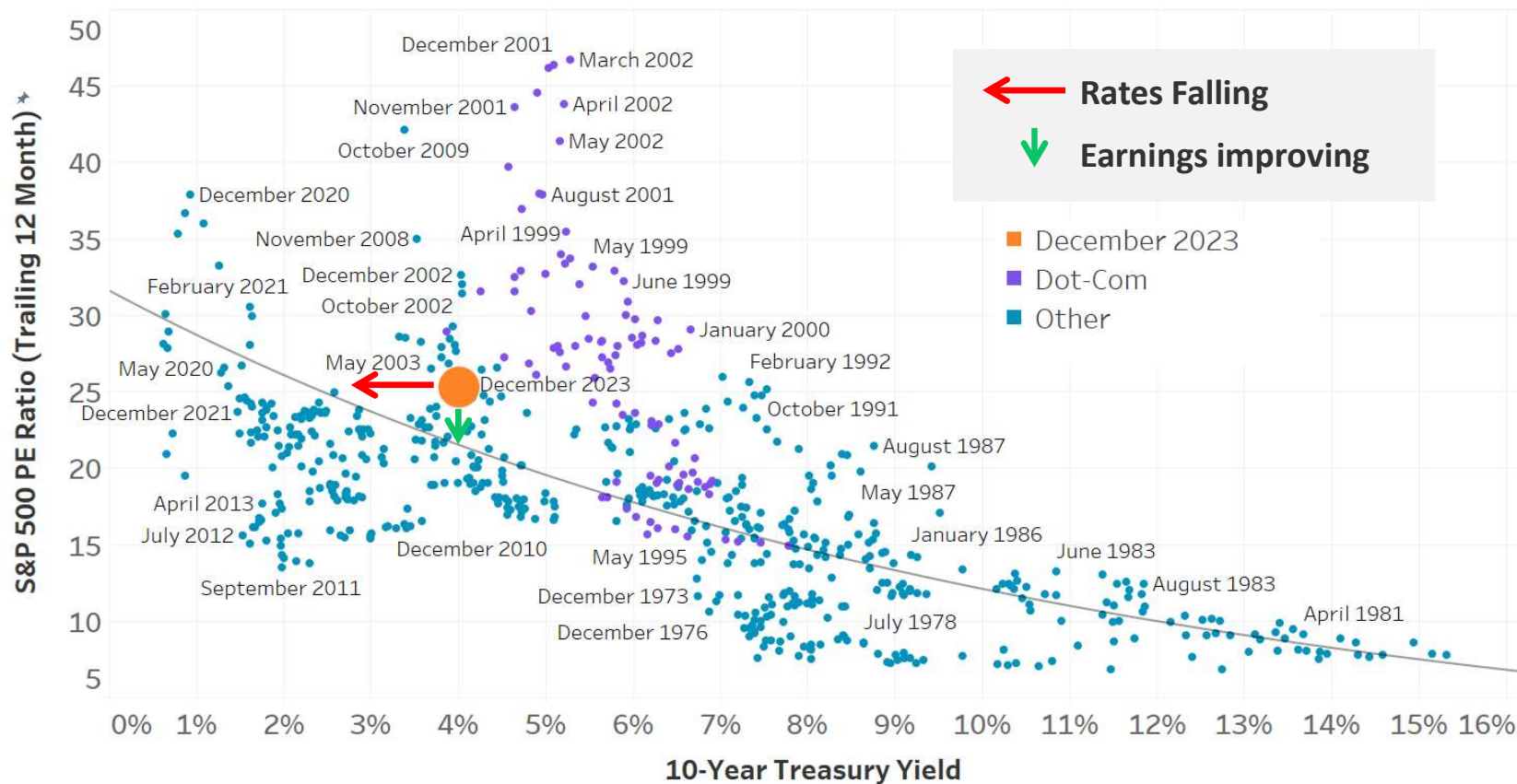


Source: FactSet, Goldman Sachs Global Investment Research



2024 Rates falling should be a tailwind for stocks

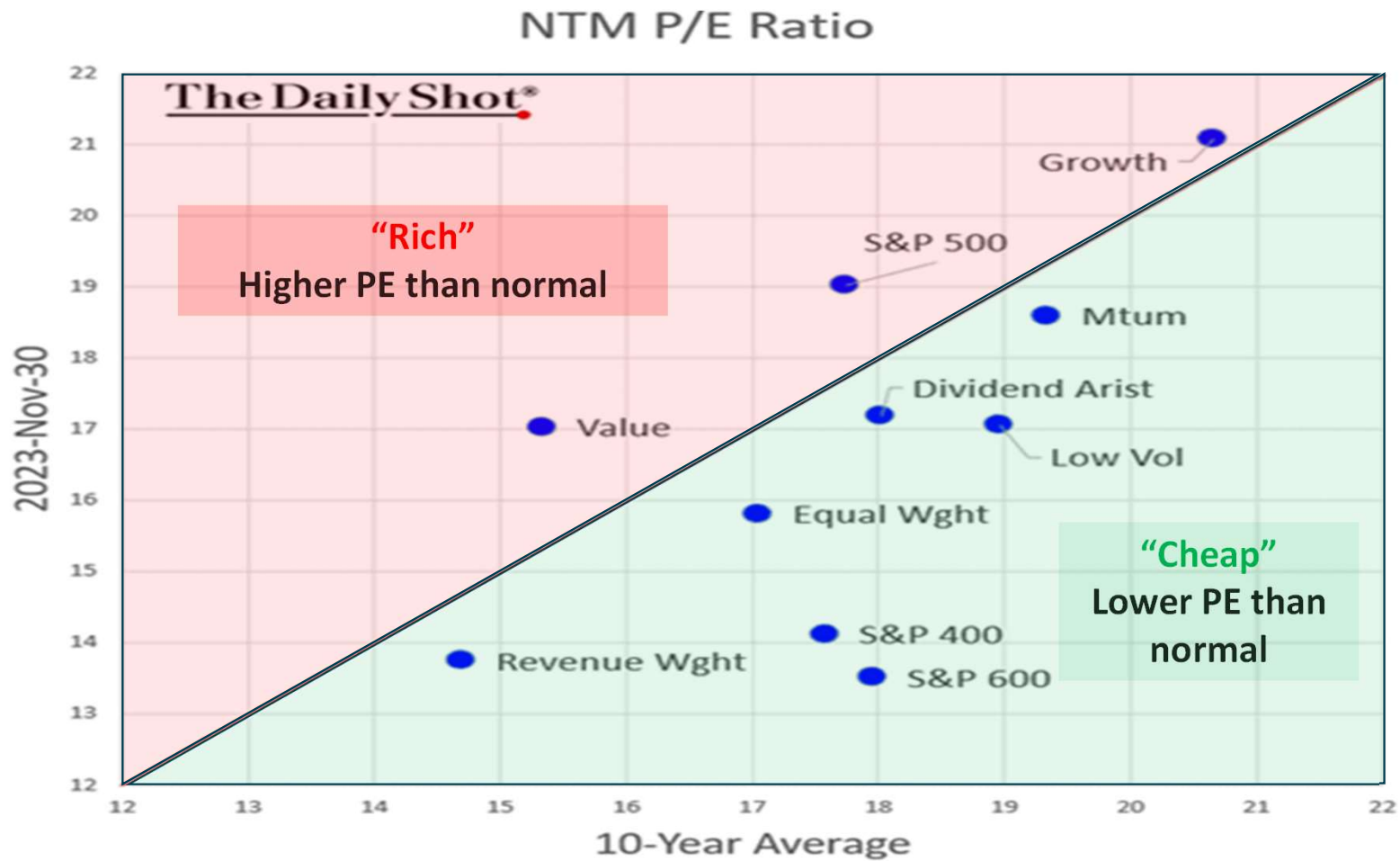
Note: Latest PE value is estimated.



Source: Multipl.com, FactSet, Nasdaq Economic Research

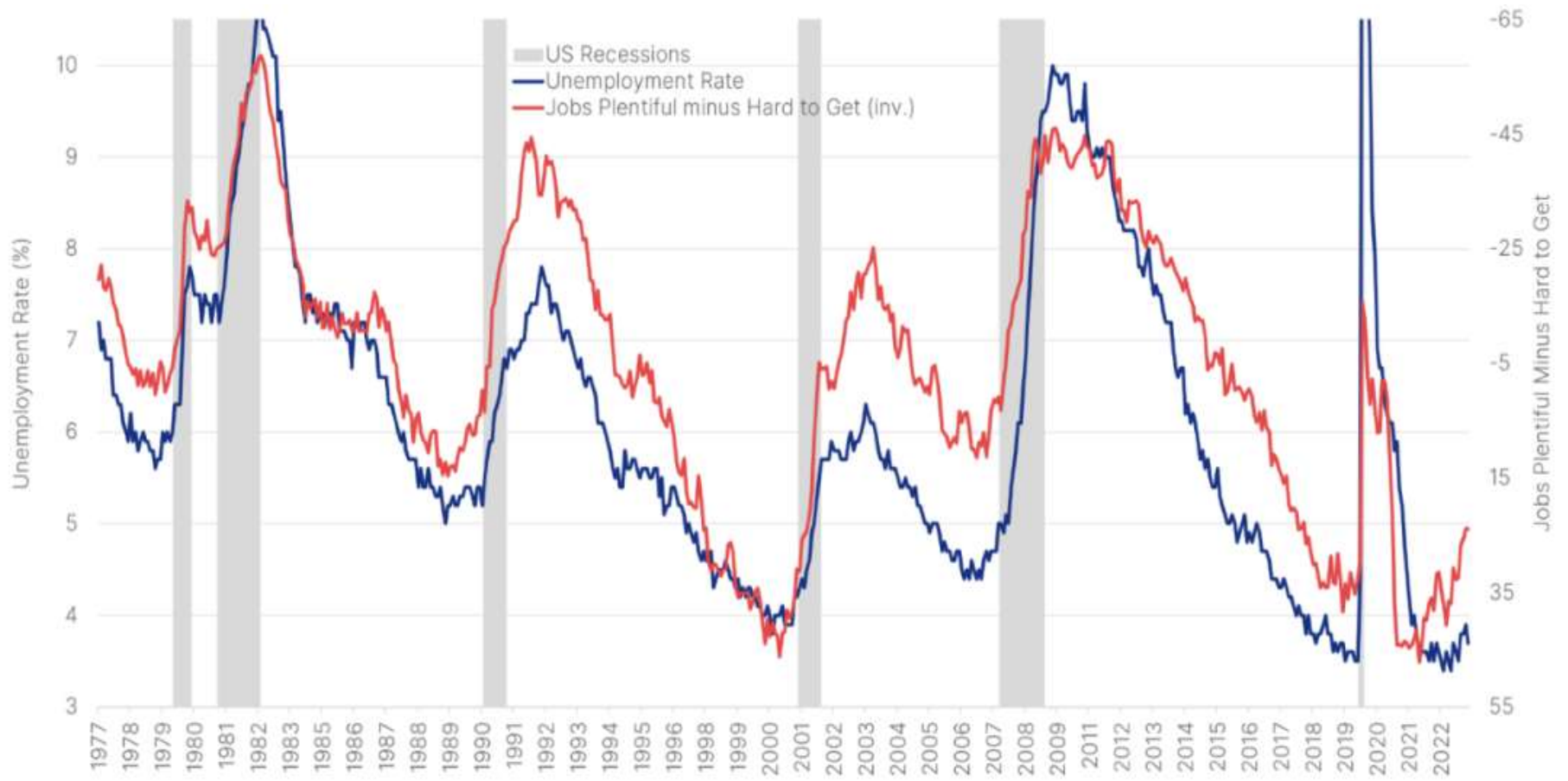


A valuation rotation in 2024?



What if we are wrong (about the soft landing)?

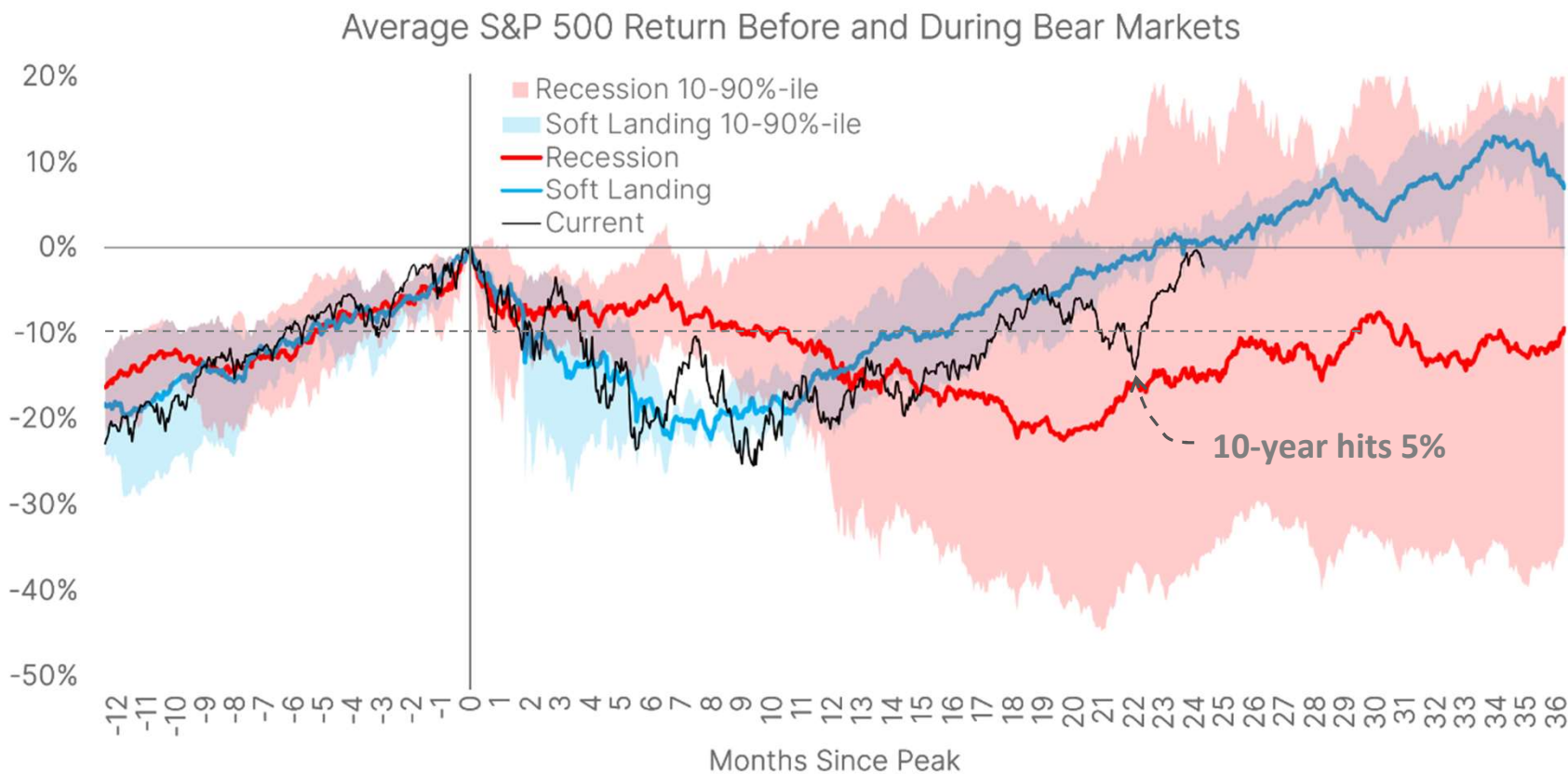
What if we are wrong about the soft landing?



Source: FactSet, BLS, Conference Board, NBER, Nasdaq Economic Research



What if we are wrong about the soft landing?



Note: All bear markets since 1960. Soft landings: 1961-62, 1966, and 1987.
Recessions: 1968-70, 1973-74, 1980-82, 2000-02, 2007-09, 2020.

Data through January 4, 2024
Source: FactSet, NBER, Nasdaq Economic Research



Questions?

Sign up for our research at:
nasdaq.com/authors/phil-mackintosh

