MONDAY, MARCH 20, 2023

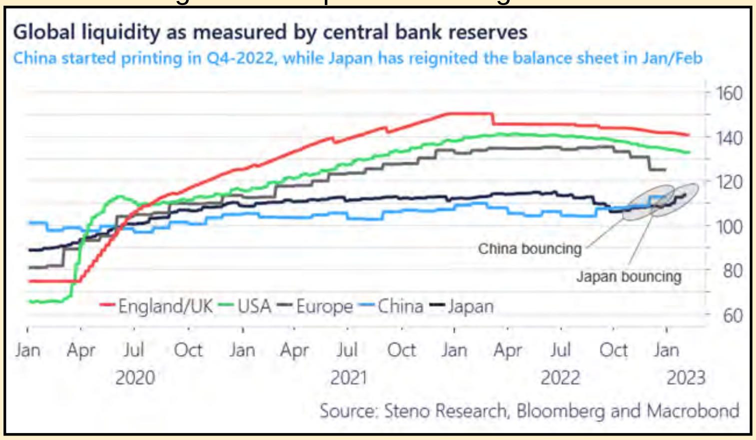
ECONOMIC COMMENTARY

MONTHLY REPORT

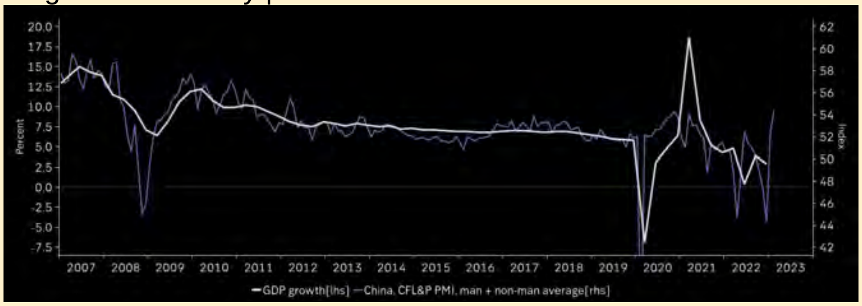
THOUGHTS OF THE MONTH

INTERNATIONAL MACROECONOMIC

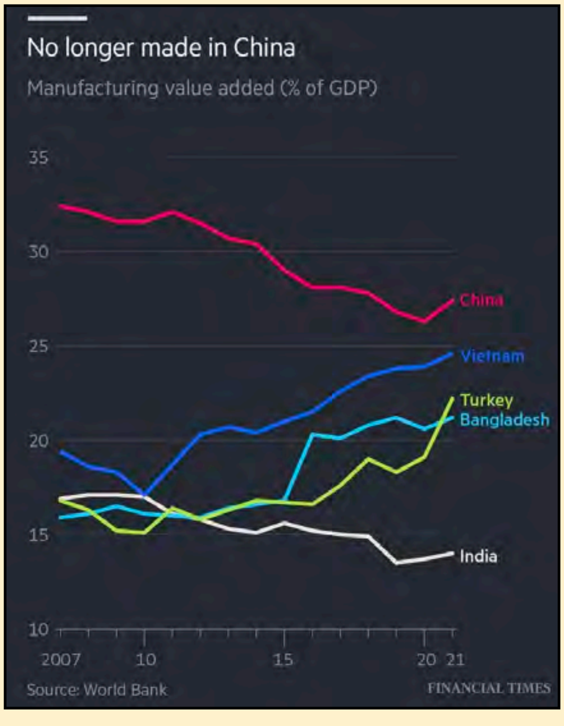
The monetary policies of major Western central banks and their Asian counterparts, such as the BoJ and PBoC, are increasingly diverging. This discrepancy, driven by differing economic circumstances, could have significant implications for global financial markets and the broader economy.



A significant acceleration in China's economy could potentially exacerbate inflation, as it may lead to a surge in commodity prices.



There has been a recent trend showing a decrease in China's exports since 2007. Are countries looking to decrease dependence and find cheaper alternative goods?



US MARKETS

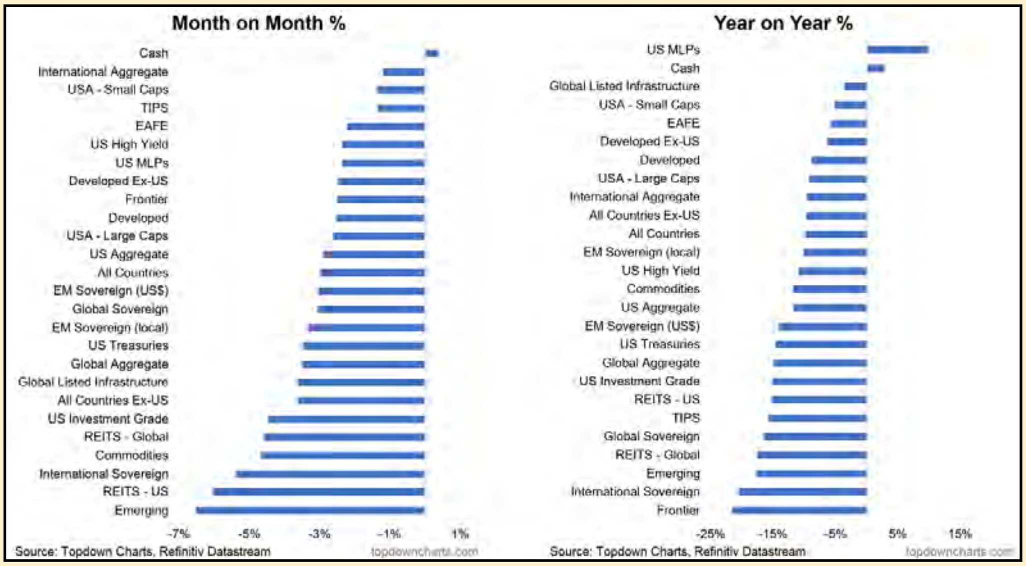
Despite worries of an earnings recession, S&P 500 consolidation leads trading close to 25-year average P/E Ratio.

Looking into the past, we see that USA and Europe valuations had been highly correlated. However, since 2012, the US has experienced higher valuations due to the larger technology weighting.

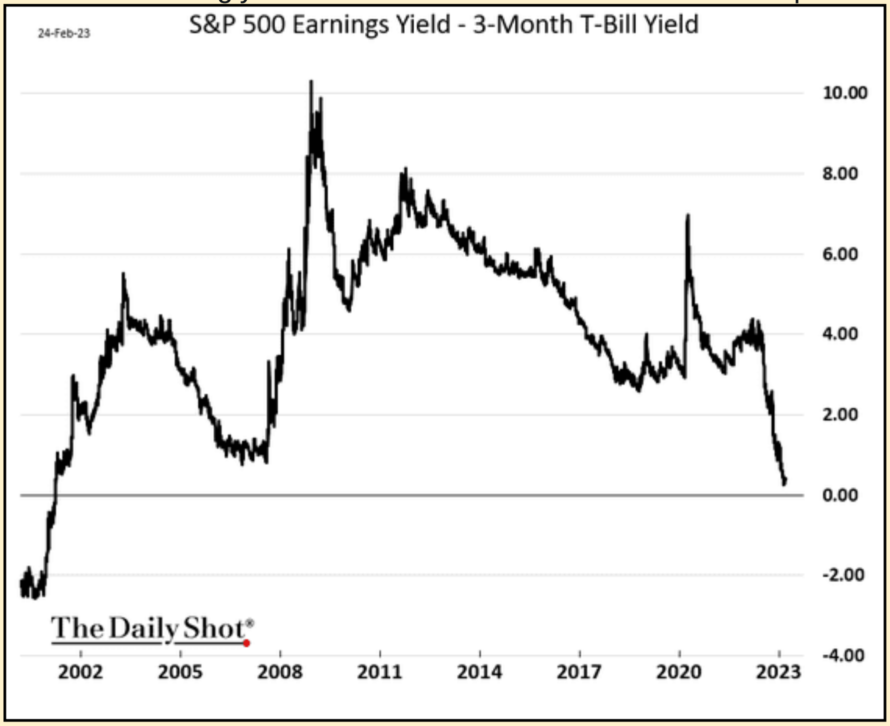
A different story is being told since the market peak in February in 2020. Value investing looks to make a comeback.

Since market peak (February 2020)	Value	Blend	Growth
Large	17.5%	18.8%	14.6%
Mid	16.5%	14.3%	4.7%
Small	17.2%	7.9%	-3.0%

Yet, everything is down except cash. Previous strong spots are the weakest. We are back to the same bonds and stocks both down of 22.

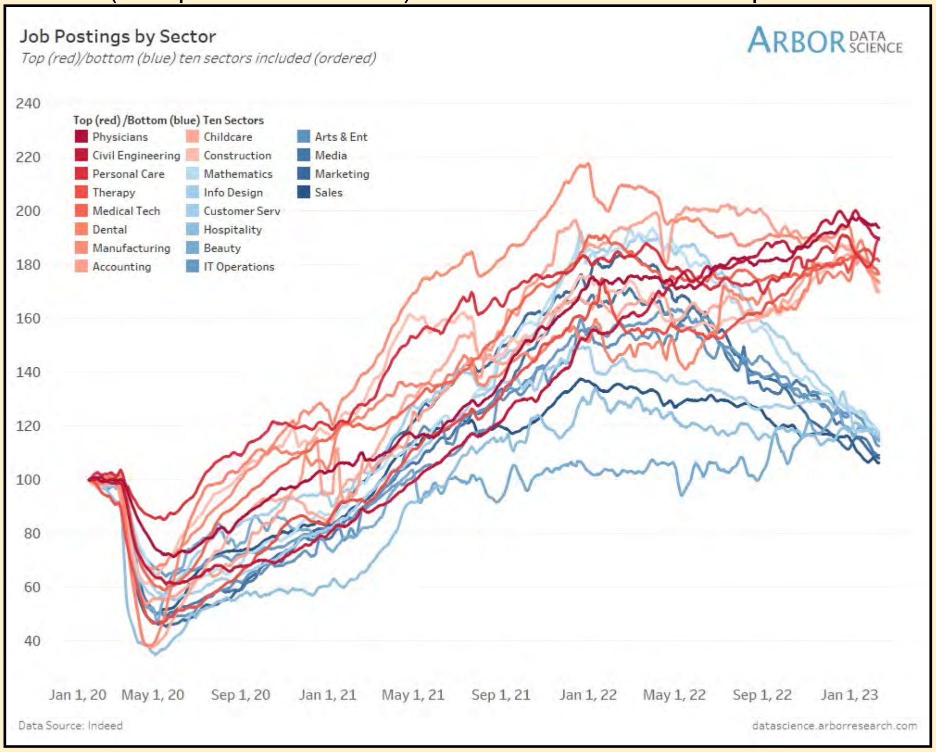


Stocks increasingly look unattractive relative to fixed-income products.

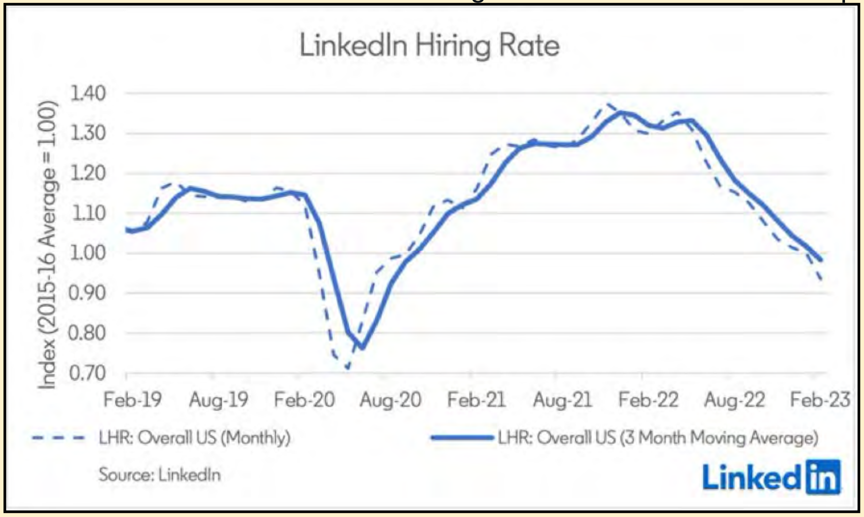


EMPLOYMENT

Examining job postings by sector on Indeed, high-skilled vacancies are more challenging to fill and remain listed for extended periods. DataArbor's findings indicate that postings in the bottom ten sectors (all represented in blue) have decreased over the past six months.



Similarly, the US LinkedIn hiring rate (LHR) was down 6.5% M/M seasonally adjusted, the biggest one month decline since 2020. Hiring is now down 30.8% from April 2022, and down 27.9% Y/Y.



EMPLOYMENT CONT'D.

Only 4 of 20 industries saw a M/M increase. Some industries have been resilient since last spring - government, education, consumer services. Others are really hurting - technology, info & media. Hiring is now just a little above its lowest level in spring 2020!

Rank	Industry (US)	Delta, Apr 22-Feb 23 Seasonally Adjusted	Delta, Jul 22-Feb 23 Seasonally Adjusted	Feb 23 M/M
1	Government Administration	-10.1%	-2.2%	-5.5%
2	Consumer Services	-11.5%	-2.3%	1.0%
3	Education	-12.8%	-0.6%	2.1%
4	Utilities	-13.5%	-8.3%	-8.0%
5	Hospitals and Health Care	-14.8%	-10.2%	-4.8%
6	Accommodation	-18.5%	-3.7%	1.3%
7	Entertainment Providers	-18.9%	-10.3%	-2.2%
8	Construction	-19.8%	-11.7%	-9.2%
9	Oil, Gas, and Mining	-21.0%	-14.1%	-7.9%
10	Retail	-22.2%	-12.7%	-1.2%
11	Administrative and Support Services	-23.4%	-17.1%	-2.5%
12	Transportation, Logistics, Supply Chain and Storage	-25.2%	-16.9%	-5.1%
13	Real Estate and Equipment Rental Services	-25.5%	-12.1%	3.7%
14	Financial Services	-27.7%	-15.1%	-8.1%
15	Wholesale	-27.7%	-18.1%	-1.1%
16	Manufacturing	-28.4%	-19.0%	-10.7%
17	Farming, Ranching, Forestry	-28.7%	-9.5%	-7.1%
	Overall US Hiring	**-30.8%**	**-19.9%**	**-6.5%**
18	Professional Services	-31.6%	-20.1%	-2.7%
19	Holding Companies	-32.2%	-16.4%	-6.3%
20	Technology, Information and Media	-47.5%	-33.2%	-9.6%

Source: LinkedIn

February provided a tricky employment report. There was strong jobs growth (311,000 versus 225,000 consensus forecast), minimal revision to January's report, higher unemployment rate (3.6%), labor force participation edged higher (62.5%), and lower-than-expected wage growth.

Chart 1. Unemployment rate, seasonally adjusted, February 2021 – February 2023

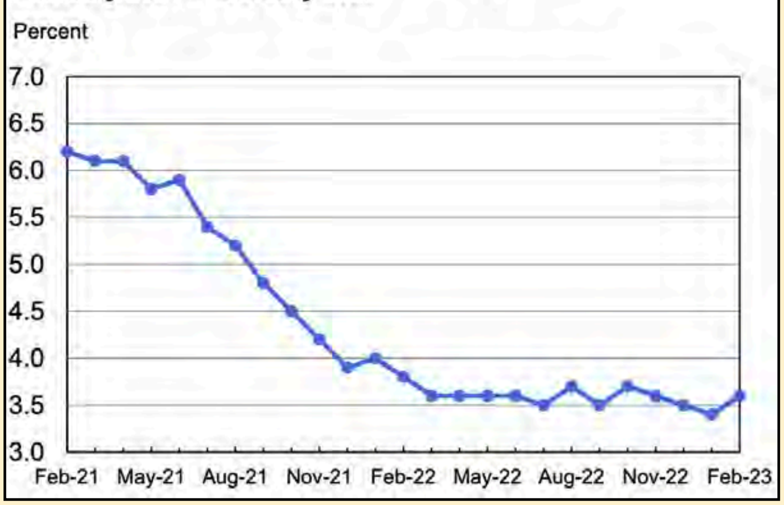
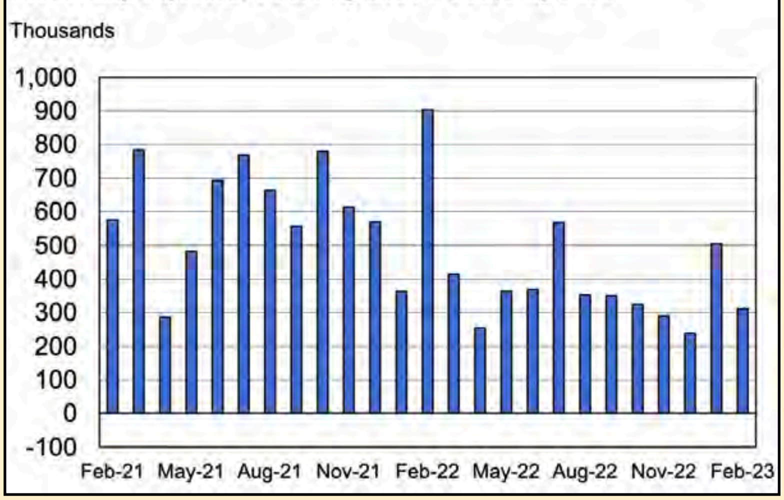
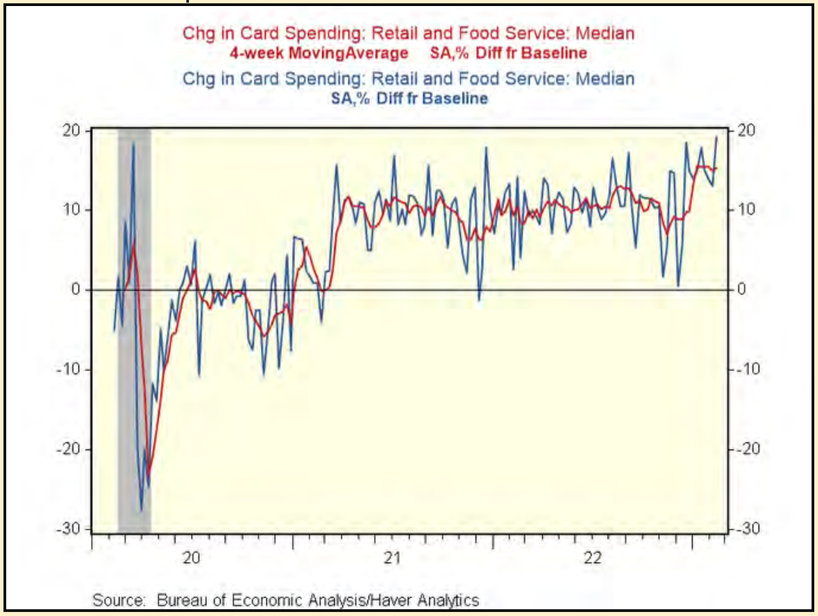


Chart 2. Nonfarm payroll employment over-the-month change, seasonally adjusted, February 2021 – February 2023

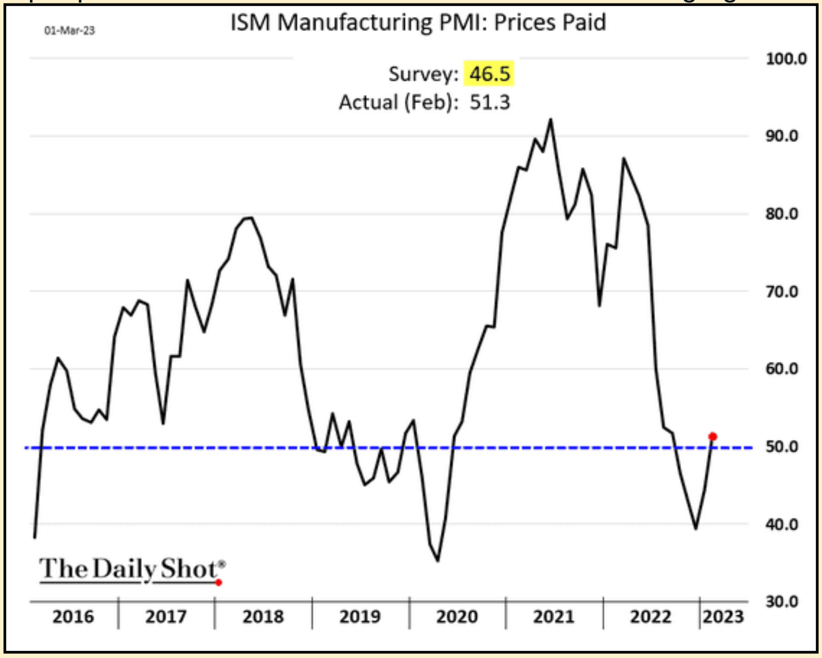


INFLATION

The big question is whether the Feb pop in spending is both real and persistent. Squinting at the broadest timely numbers plus volume & monthly changes combined with qualitative comments suggests elevated spending continued through Feb. BAC data suggests there may have been slowing in the last couple weeks.

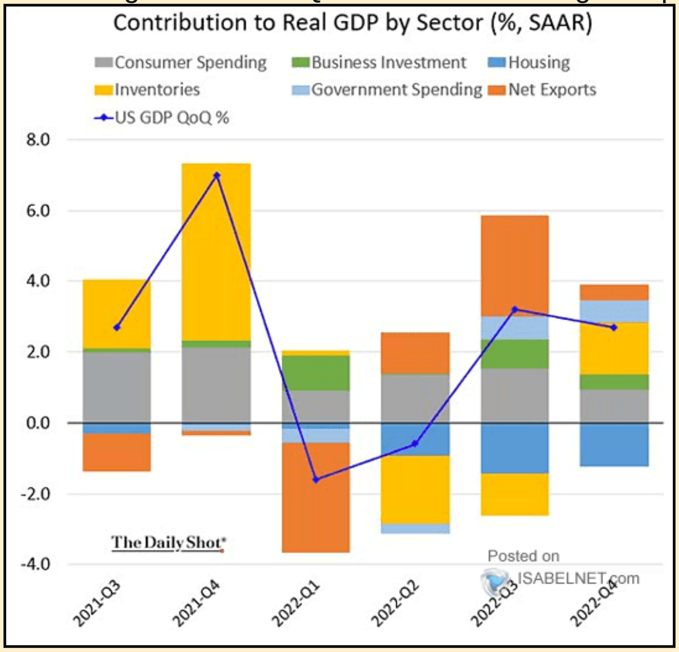


Input prices for manufacturers in the US started rising again last month, further spooking bond markets.

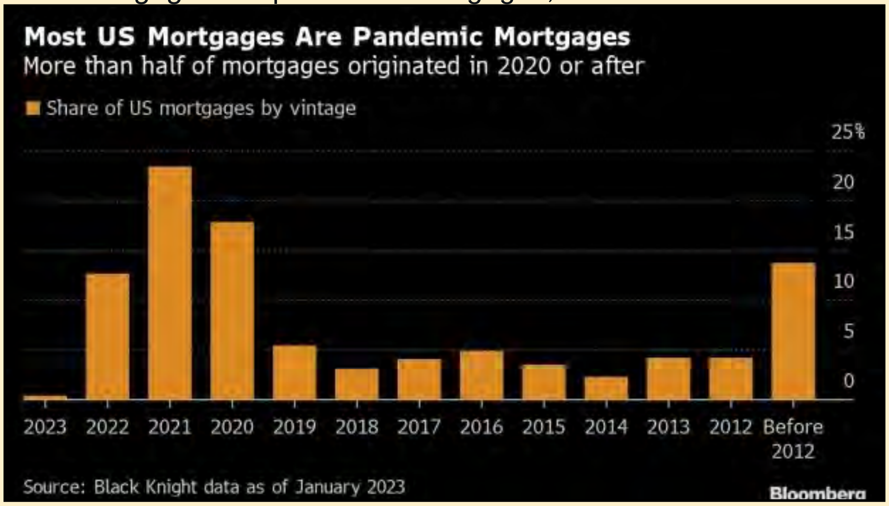


HOUSING

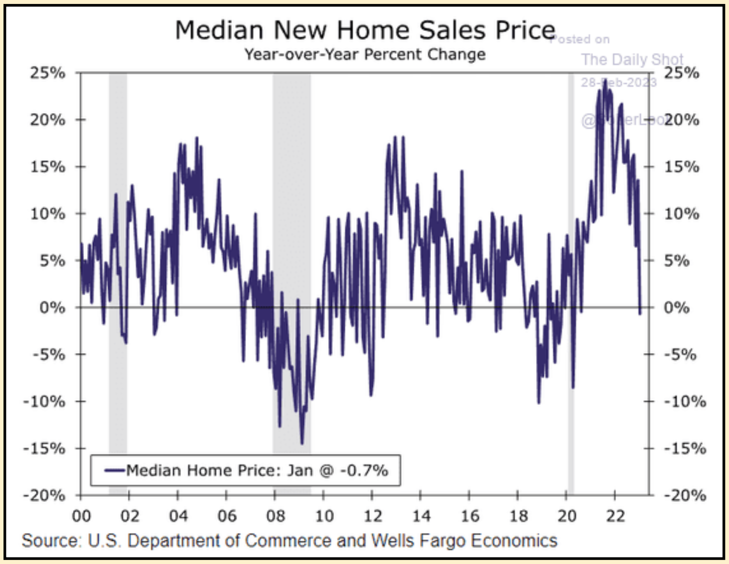
US GDP grew 2.7% in Q4 2022. The housing slump was a net drag on GDP, and it's not over yet.



Most mortgages are pandemic mortgages, issued when rates were very low.



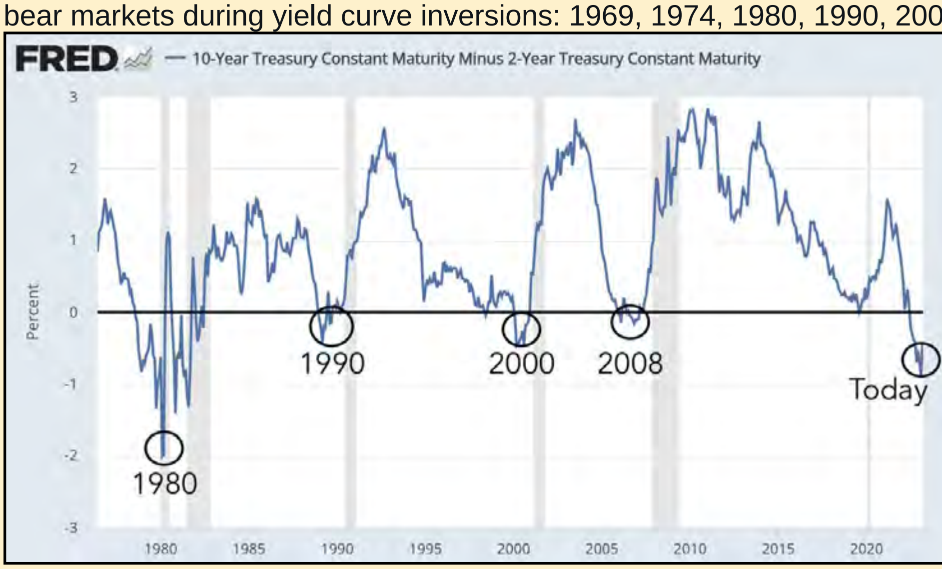
The median new home price is now down on a year-over-year basis.



READING BETWEEN THE LINES

The SP500 is following the footsteps of every major bear market since 1960. The current bear market resembles the Dot Com bubble bear market. Current levels are similar to 14 months into the 2000 bear market. This setup led to the most violent part of the decline.

Many investors believe the bear market is over, but the data shows the opposite. Lets explore past bear markets during yield curve inversions: 1969, 1974, 1980, 1990, 2000, 2008, 2022, and 2023.



2023 Macro: Today, the Fed is still tightening monetary policy. While the unemployment rate remains at record low levels. This is different from the latter half of the 2008 bear market.

2000 Macro: Despite similar price action, the macro environment was very different 14 months into the bear market. As unemployment rose, monetary policy eased.

1990 Macro: Similarly, below in the 90's, the Federal Reserve eased with rising unemployment. Similar to 2008 and 2000's.

1990 Price Action: The 1990 bear market was brief yet painful. Today's setup looks much different than back then!

1974 Macro: Monetary policy tightened and unemployment stayed low. The rise in unemployment led to capitulation. This resembles the current macro environment so far!
1974 Price Action: Today's bear market resembles the 1974 decline. We are trading at the same levels as 14 months into the 1974 bear market. A sell-off was imminent!

1969 Macro: The macro setup resembles today's environment. The Fed had tightened during the bear market's first half despite low unemployment. Soon as unemployment ticked up, the market capitulated.
1969 Price Action: The price action from 1969 to 2022 was similar, but 2022 had a much faster drawdown. We are currently trading at the same level as in 1969's pre-capitulation phase.

ROUND-UP
INTERNATIONAL ECONOMICS

There are several new developments in international politics and economies since January 2023. Per Peter Zeihan, the average Russian war ends with about 500K in casualties, so far we have seen close to 100K casualties. This is important, as we dive into micro and macro political events that affect economics. Towards the end of March, assuming the war continues, the grain export deal expires with Russia. While the contract states an extension of 120 days or 4 months, we believe Russia will not abide by the contract as they will look to stop sanctions on the agricultural exports placed by the West. This is significant as we may see an increase in commodities such as crops, and therefore inflation may increase.

Additionally, China is bolstering its public ties with Russia in its war efforts, and attempting to broker a peace treaty between Russia and Iran. Meanwhile, OPEC+, and South American nations (who control over 80% of global oil markets) are looking to join the BRICS alliance. While not yet significant, we could see further volatility in the oil markets driven by efforts to decrease oil supplies, while demand is picking back up as China reopens. This is significant as this could cause further increases in inflation, assuming China's demand remains strong.

Finally, European nations have seen inflation spike as mentioned in our weekly presentation. While the markets did not panic, it did bring additional stress to investors. We witnessed EU countries short-term government bonds spike again, while the long-end of the curve came down on worries of further hikes. The question remains, which economy is in better condition? And will the EU come out of a recession quicker than the USA?

US MARKETS

The year 1974 was a very volatile period for financial markets due to a combination of factors such as the oil crisis, high inflation, and the recession. The average daily range for the S&P 500 index during that year was around 1.7%, and the index lost over 25% of its value for the year. Comparing that to recent years, we can see that there have been periods of high volatility, but also some periods of relatively low volatility. For example, in 2020, the S&P 500 index experienced its highest level of volatility since the financial crisis of 2008, with an average daily range of around 5%, due to the impact of the COVID-19 pandemic on the global economy. However, in the years leading up to 2020, volatility had been relatively low, with average daily ranges of around 1%. More recently, we are seeing volatility in line with 1974.

In the 1970s, the personal savings rate in the United States was relatively high, averaging around 11% for the decade. This was due in part to a more frugal and cautious consumer culture at the time, as well as a high interest rate environment that made saving more attractive. In contrast, in recent years, the personal savings rate in the United States has generally been lower than in the 1970s, with an average rate of around 7% since 2010. However, it's worth noting that the personal savings rate increased significantly during the COVID-19 pandemic, reaching a record high of 33.7% in April 2020, as households reduced spending and received government stimulus payments. Yet, it continues to fall again.

EMPLOYMENT

Employment has been making big headlines in recent weeks as companies continue reporting earnings. However, there were a lot of expectations for the February jobs report, with construction jobs having a big impact moving forward. Historically, the Federal Reserve doesn't have control on employment and labor markets when attempting to slow down growth. Therefore, looking forward to the end of 2023, we can expect unemployment to rise. If the US economy continues to weaken and rates remain higher for longer, an increase in unemployment could potentially be triggered. Additionally, real wage growth remained positive in February.

Since employment is a lagging indicator of the economy, we decided to dig deeper into job openings as reported by Indeed and LinkedIn. While we are seeing employment still come in elevated yet slowing, we are seeing job openings decline significantly. If this trend continues combined with more layoffs, we can see unemployment spike between 4 and 5%. Our expectations are in line with this decreasing trend, as we do believe more layoffs are coming. As we mentioned in the last monthly report we saw the ISM index slow, however, it did rebound in February. We will continue monitoring this key analysis, because if we expect the economy to slow down, and consumer demand to weaken, then it will be interesting to see how this unfolds.