MONDAY, FEBRUARY 6, 2023

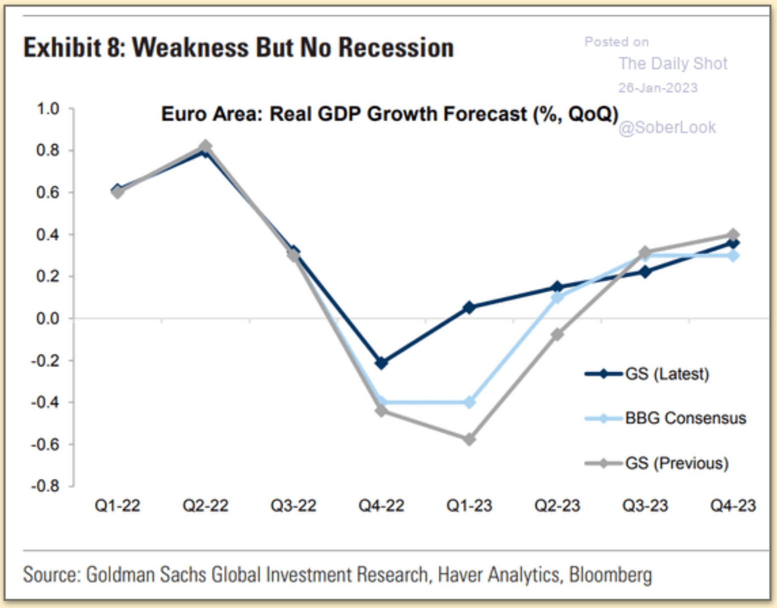
ECONOMIC COMMENTARY

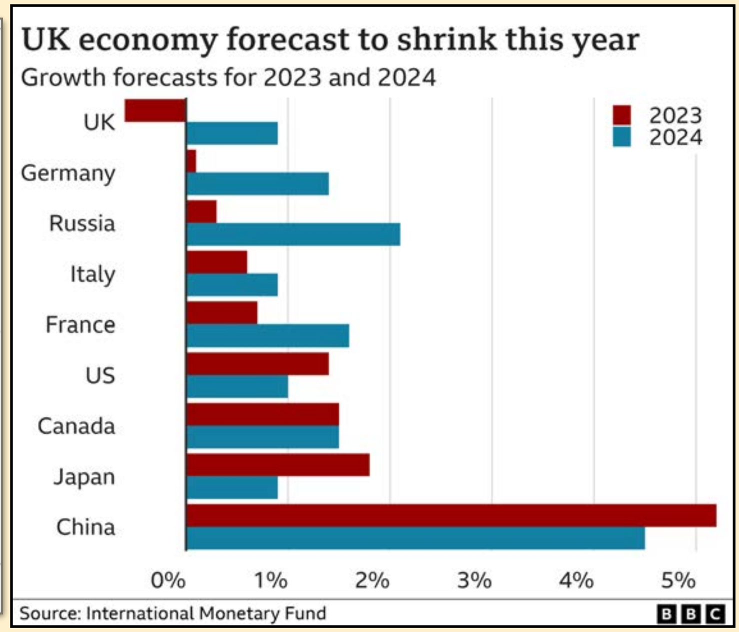
MONTHLY REPORT

THOUGHTS OF THE MONTH

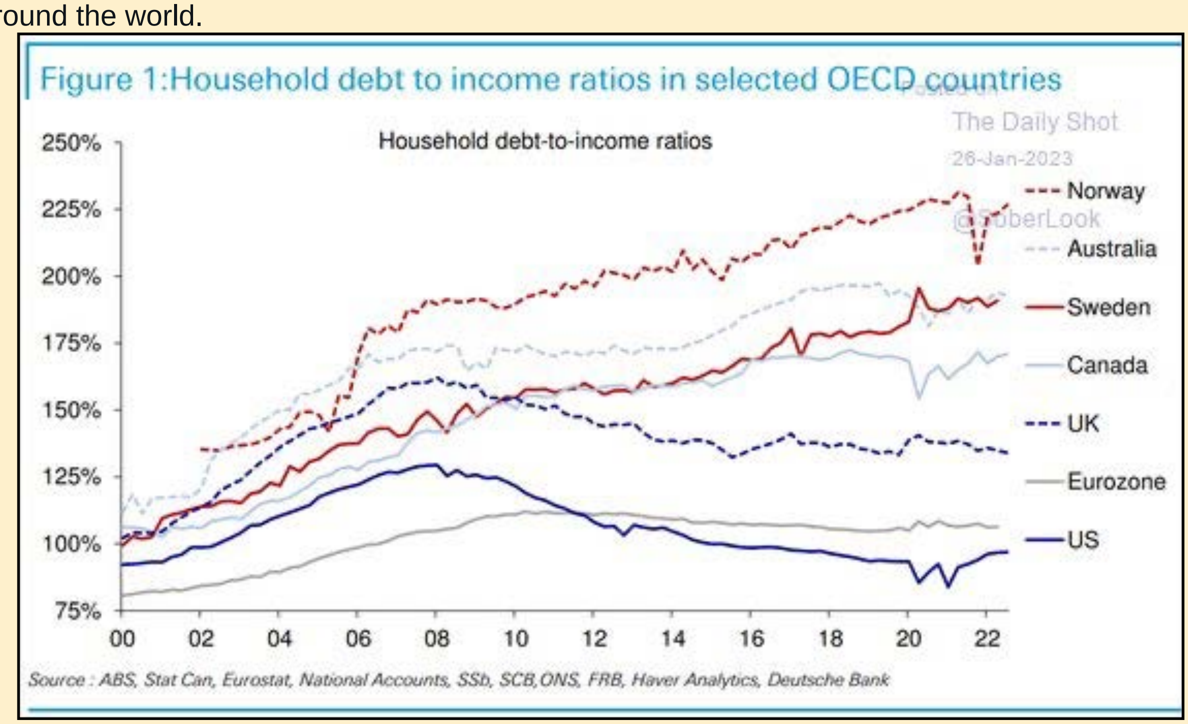
INTERNATIONAL MACROECONOMIC

Downward revision from Goldman Sachs (GS) on the European future growth, despite the energy crisis being milder than expected. The IMF forecasts a similar increasing trend in economic growth in most developed economies in 2024.



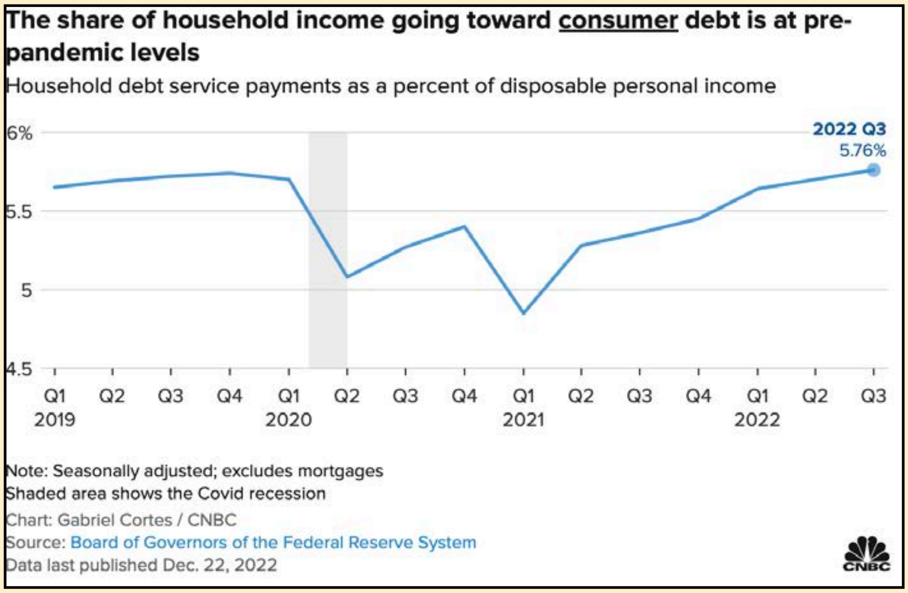


U.S. Debt to Income ratios are low in comparison to developed markets, and comparatively to historical numbers. An optimistic view for consumers in the United States as compared to their counterparts around the world.

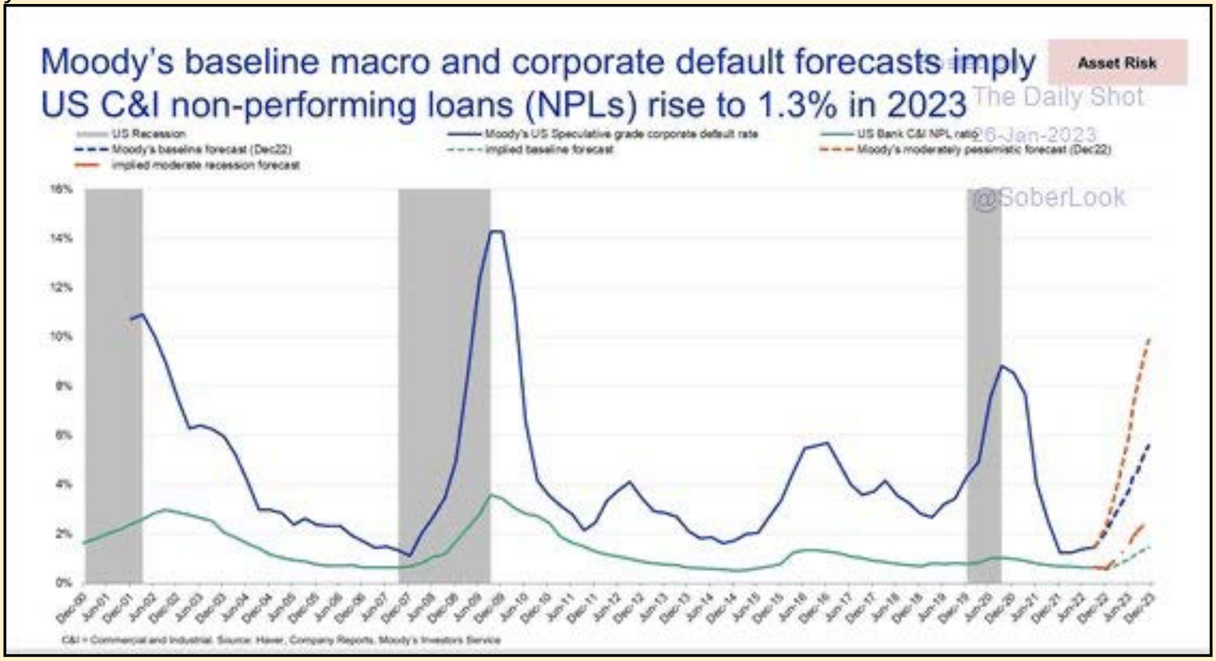


CORPORATE & CONSUMER CREDIT

Interest rates on credit cards are at 20% and climbing. Meanwhile, more consumers are leaning on credit to afford increasingly expensive necessities, like food and rent. Additionally, a concerning increasing trend among credit card issuances for new borrowers with credit scores below 600. This will be a key measure as delinquency rates stay historically low.

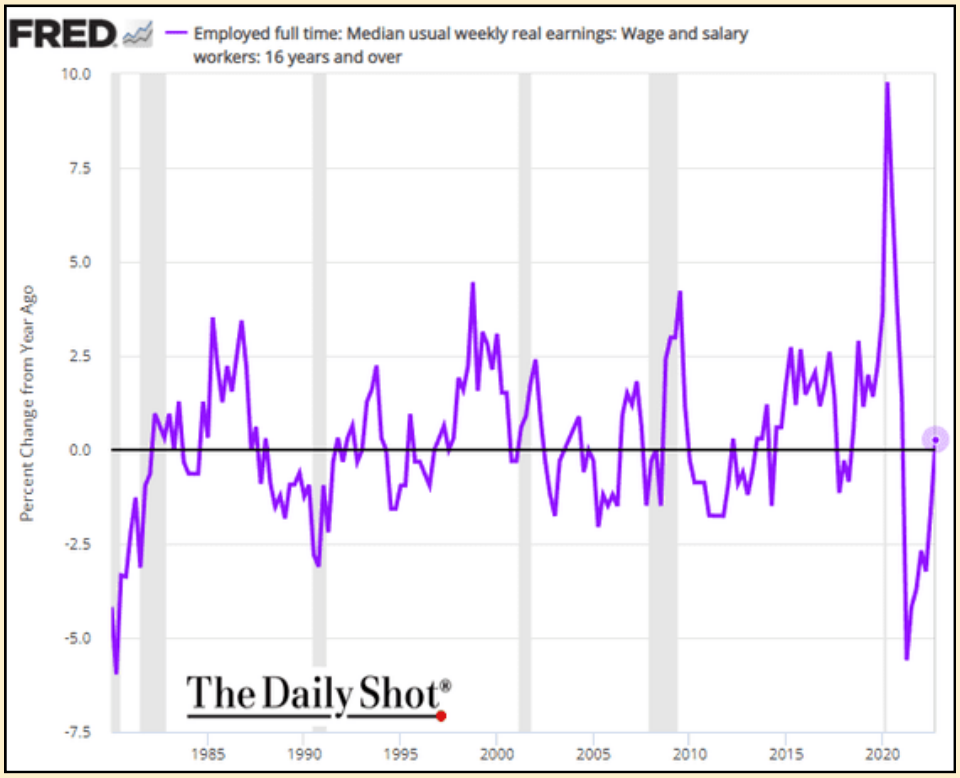


'Moody's expects an uptick in corporate defaults and nonperforming loans this year as recession risks rise in the United States'. This is following the long-term cyclical trend upwards, thus its not concerning yet.

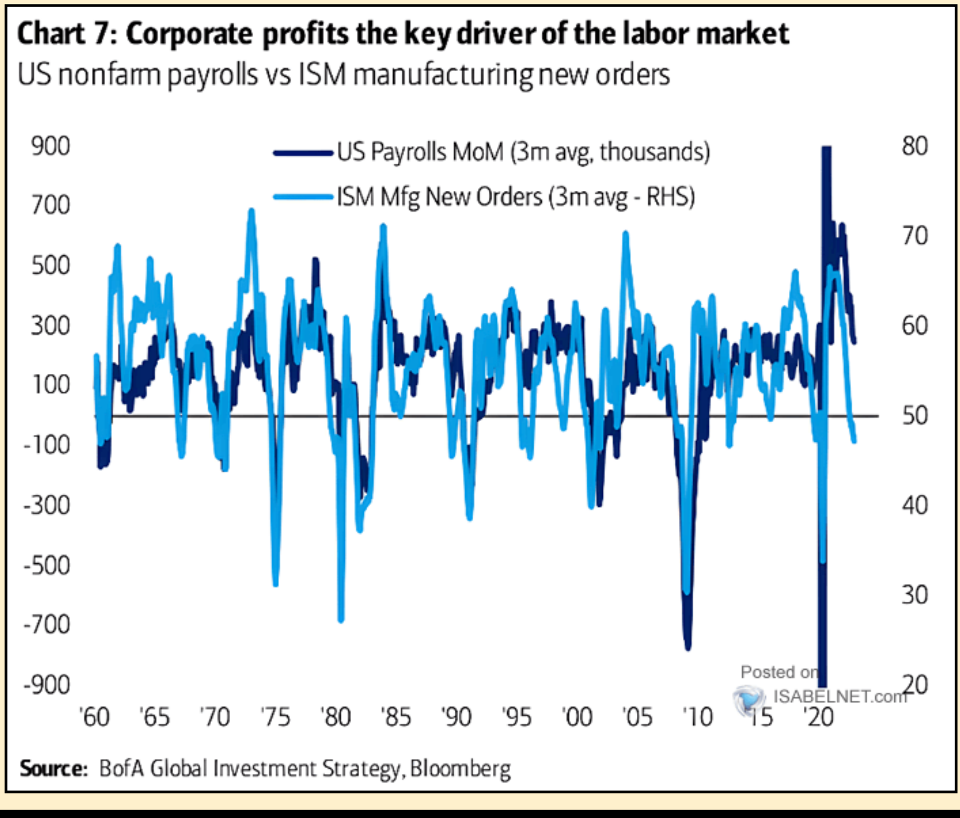


EMPLOYMENT

After remaining negative for the better 2H of 2022, full-time workers' real (adjusted for inflation) wage growth has turned positive, thus making Fed job more difficult.

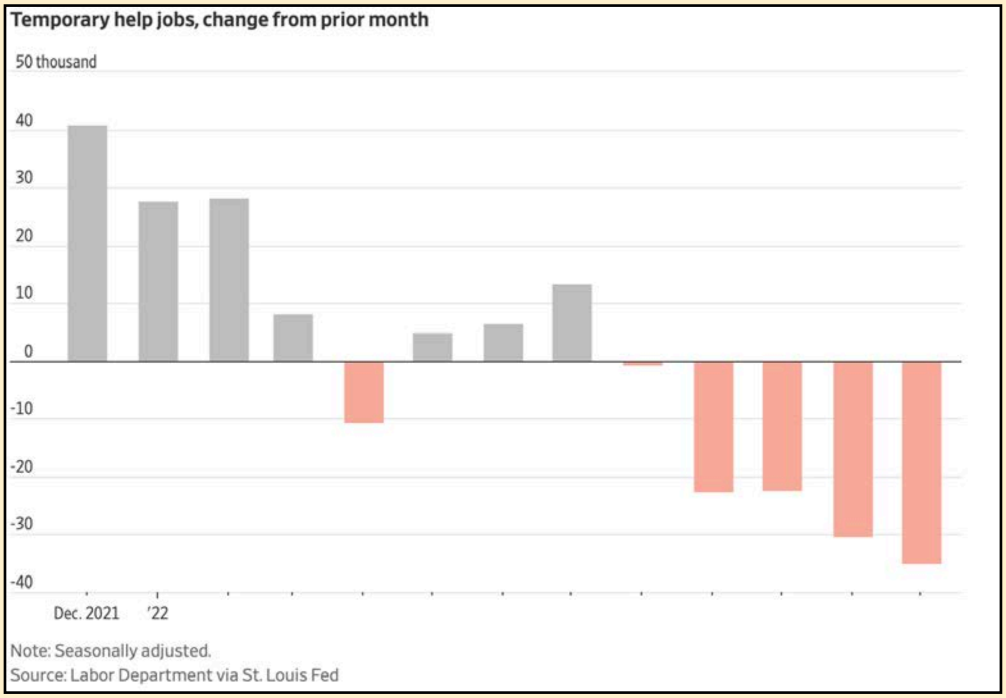


US non-farm payrolls could potentially decline in 2023 due to a weakening US economy. Higher sustained interest rates are expected to be one of the catalysts for further layoffs.



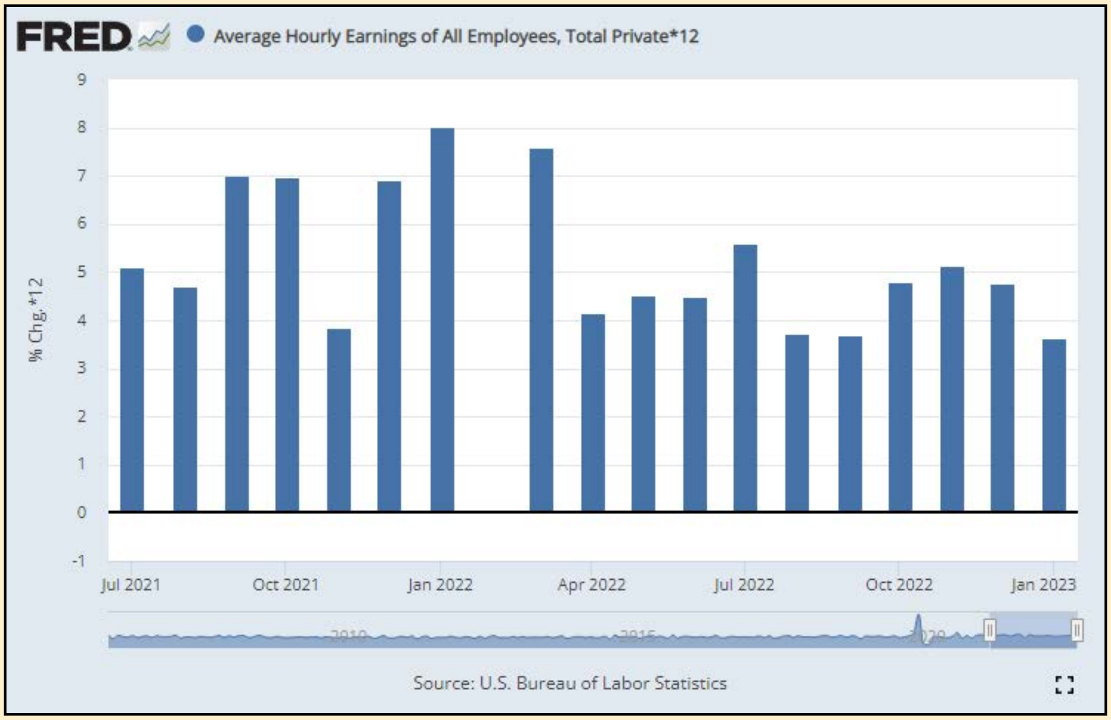
EMPLOYMENT CONT.

After looking at the graph on the Econ presentation on February 8th depicting a decreasing trend of temporary & permanent jobs' unemployment (non-seasonally adjusted). After seasonally adjusting temporary jobs there is less demand than expected, and if this trend continues across labor markets in the coming months it could be concerning for employment.

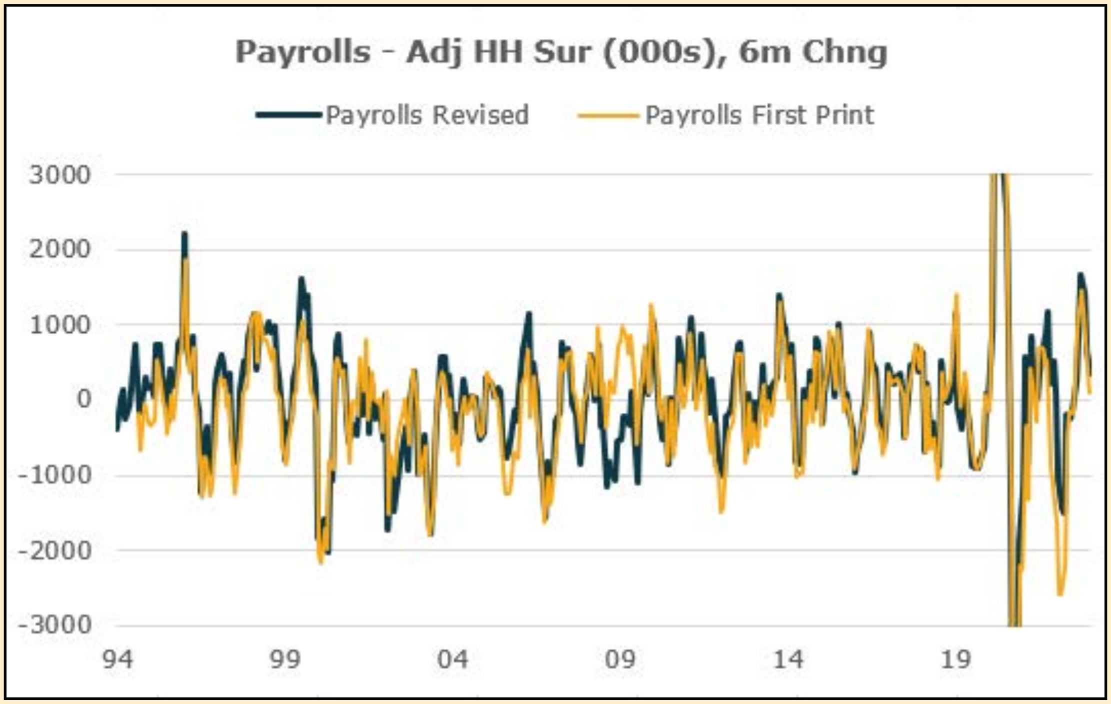


Goldilocks jobs report for the Fed: Likely overstates gains, but the basic picture of secularly low unemployment and more limited wage pressures is as good as it gets.

EMPLOYMENT CONT.

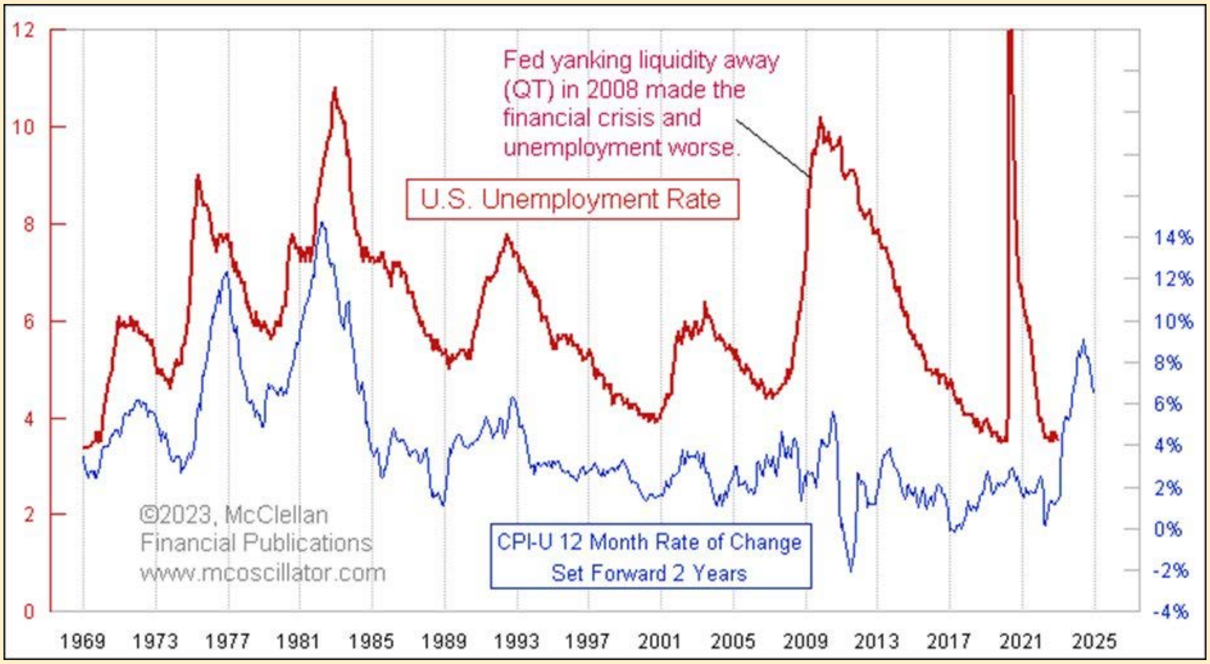


Full-time workers ticked up about 300k in the HH survey, and part-time up 600k. Continues trend over the last year where full-time (+1.1%) has grown slower than part-time (6%). So maybe you could say well it's all part-time workers. But 300k full-time is a big gain (2.5% ann).

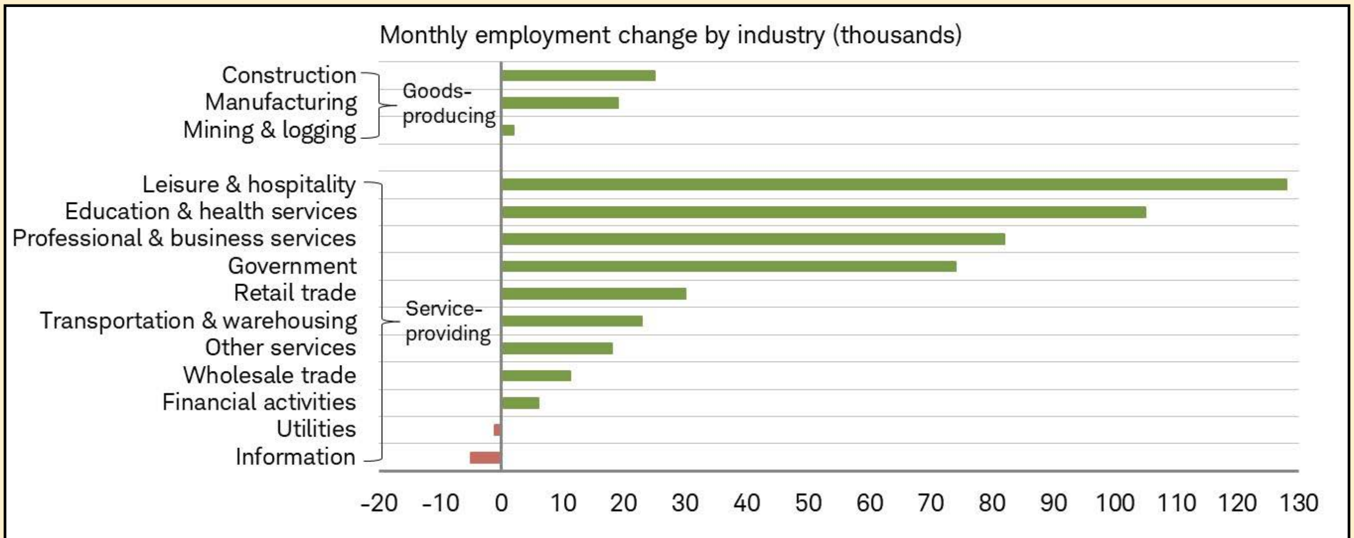


EMPLOYMENT CONT.

The 2-year lag in how unemployment responds to inflation tells us to expect a big spike in unemployment (a euphemism for a recession). While this is an interesting graph, there is an obvious disconnect in the lag starting in 2013. An interesting statistic to watch as we head into 2023.



Januarys' job report showed strong demand in specific sectors. Leisure and hospitality made 25% of all the new jobs that were added. Further evidence supports resilience amongst consumers, and travel being essential to the U.S. economy.

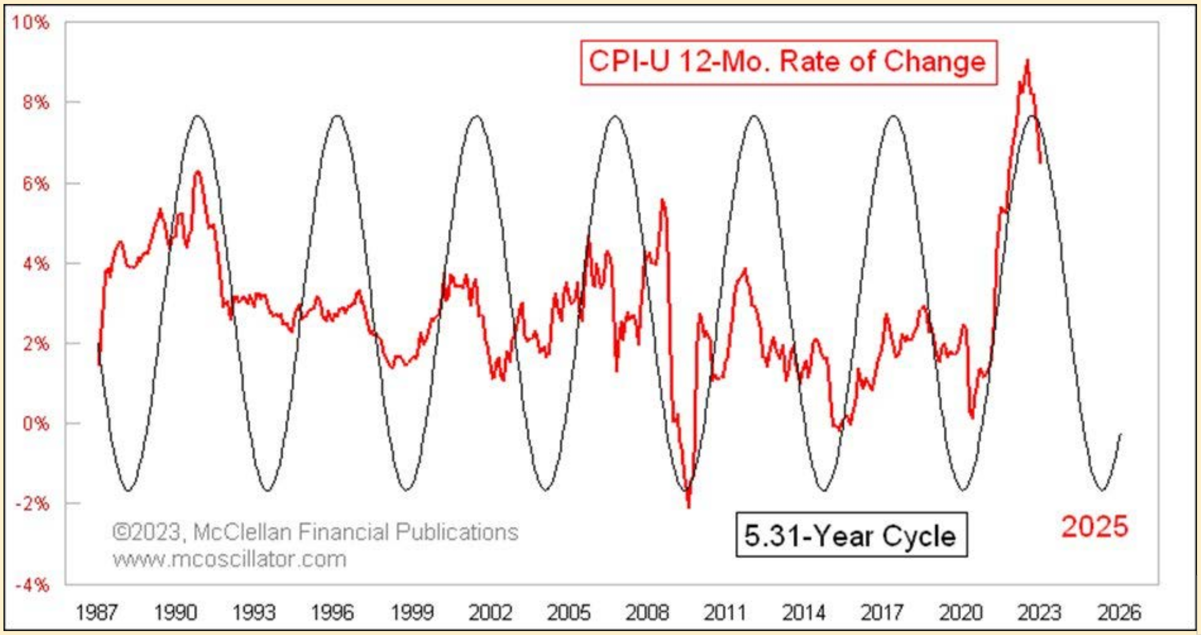


Source: Charles Schwab, Bureau of Labor Statistics, as of 1/31/2023.

INFLATION

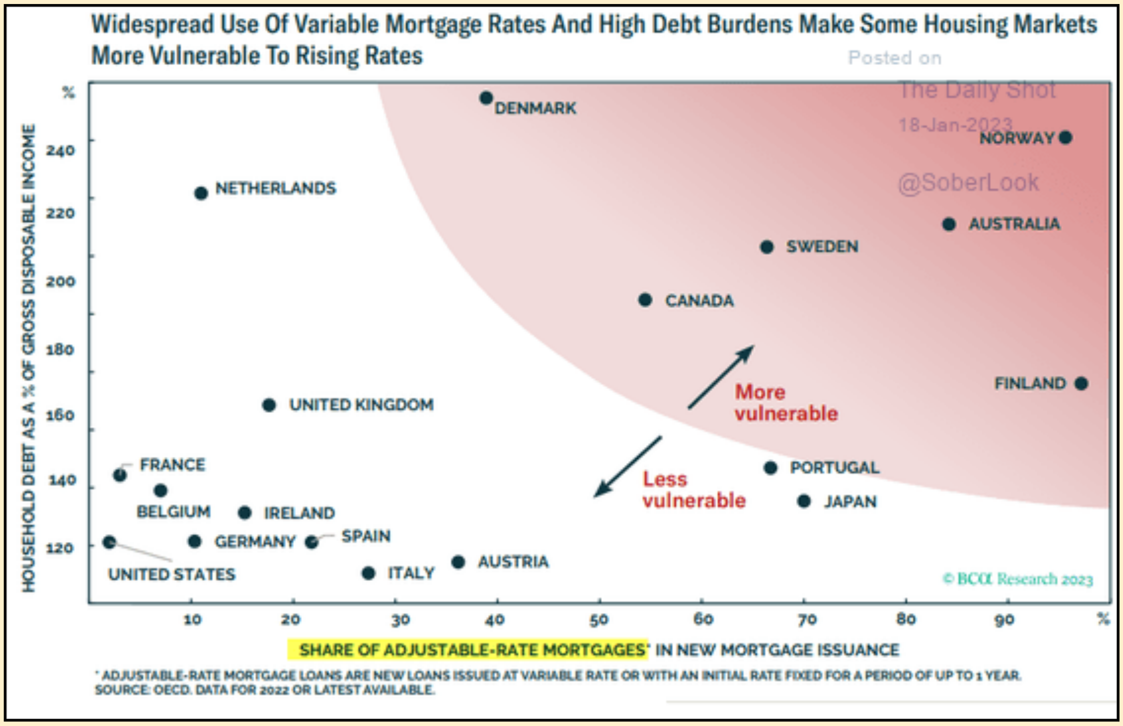
'Healthcare inflation is about to surge as wage growth in the sector accelerates.'

It might seem like a point in the bulls' favor that the dominant cycle length affecting inflation rates (5.31 years) calls for a decline in the inflation rate from now to 2025. Yet, some economists are predicting a second peak in inflation.



HOUSING

Which housing markets are most vulnerable? This scatterplot shows household leverage vs. the share of adjustable-rate mortgages. Despite the steep decline in home sales, the US housing market is not at major risk.



Existing home sales were very weak in December, down 36% in 2022. This is the most significant annual decline in decades that should ease home prices and assist the Fed fight the sticky part of inflation. This had edged slightly upwards in January of 2023.

ROUND-UP
INTERNATIONAL ECONOMICS

Towards the end of 2022 we witnessed economists around the world turn pessimistic for Europe as Russia-Ukraine war continued with no end in sight. The fear was Europe's heavy dependence on energy supplies was going to cripple Europe as they headed into a once feared cold winter. However, we witnessed a milder than expected winter, with most European countries buying LNG from others, and they have already built up their reserves.

This brings more optimism to European markets as we head into the spring. In addition, we believe that since the European economy is poised to recover at a quicker pace than the United States. Yet when looking at the debt-to-income levels we notice that the USA is in better shape, and the housing markets are at less risk. The question now is will Europe recover from a recession faster than the United States?

CORPORATE & CONSUMER CREDIT

In our visit to Evercore ISI in New York, we were advised to never bet against US consumers. However, with no more stimulus checks ahead, sticky inflation, increasing rates, and rent prices not cooling quick enough, we believe consumers will have a tough year ahead. There is an obvious trend of increasing credit card balances as consumers struggle to pay for necessities such as food and rent. If this was hypothetically coupled with sticky inflation, higher rates for longer, negative wage growth, and rising unemployment, than it can quickly to choppy waters for consumers. We do want to emphasize that betting against US consumers is not wise, and thus we should proceed with caution as we continue to monitor the economy, and the spending appetite of US consumers in the coming months.

EMPLOYMENT

Employment has been making big headlines in recent weeks as companies continue reporting earnings. However, many indicators are optimistic such as real wage growth has turned positive after being negative for most of the 2H of 2022. In the short-term, if this trend continues, it should potentially help consumer build back savings that have been eroded by inflation.

Despite this we see that demand is slowing as shown in the manufacturing index, which trickles down to corporate profits. We must continue monitoring this interesting relationship between new orders and employment. If the US economy continues to weaken combined with higher rates for longer could potentially trigger an increase in unemployment.

Temporary workers, after seasonally adjusting, turns negative in January. A decreasing trend amongst temporary workers reflects lower demand across the economy. While we saw a massive increase in employment in January (+500k), it was mainly driven by the services sector. More specifically, we noticed an increase in leisure and hospitality as they increased their workforce by 25%. We should continue monitoring this, because if we expect the economy to slow down, and consumer demand to weaken, than it will be interesting to see which sectors begin freezing new hires.