

# The Leuthold Group

Economic & Financial Market Outlook

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January 2023



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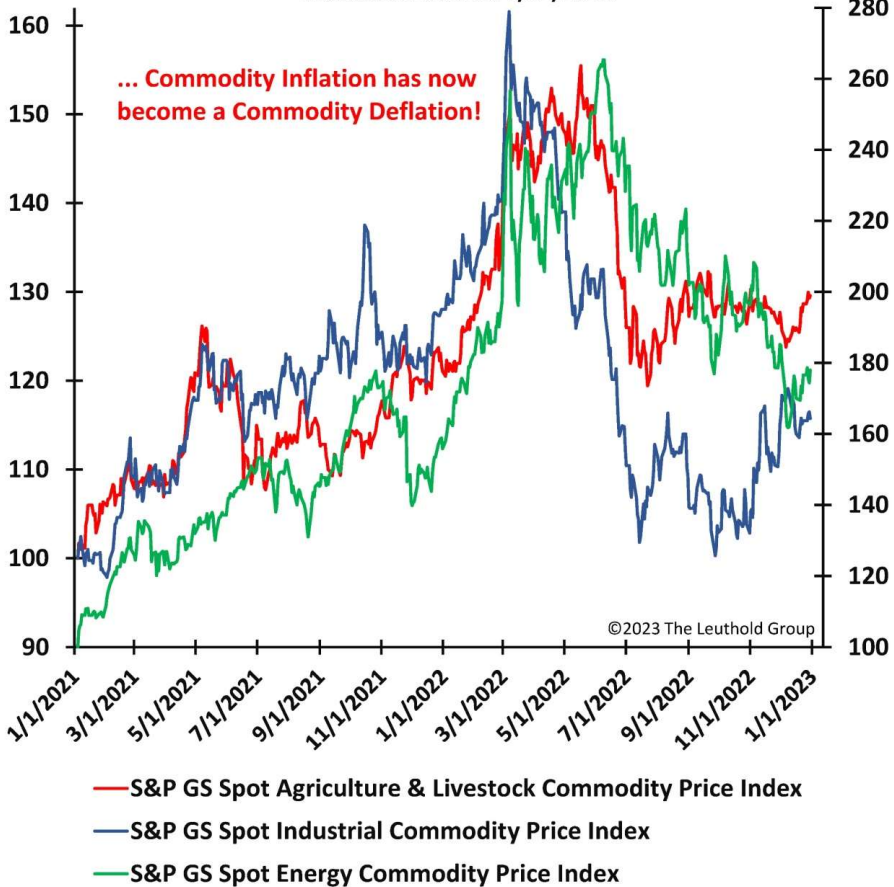
## CASE For Fed Tightening is FADING!?!

- Real Growth HAS Slowed
- Inflation IS SLOWING
- Past Policies will Do The Job
- Financial Markets Say “Time TO Pivot”
- Yields Now at Restrictive Levels

# Inflation Has SLOWED... Commodity Prices

**U.S. Spot Commodity Prices\***  
**Agricultural, Industrial, and Energy**

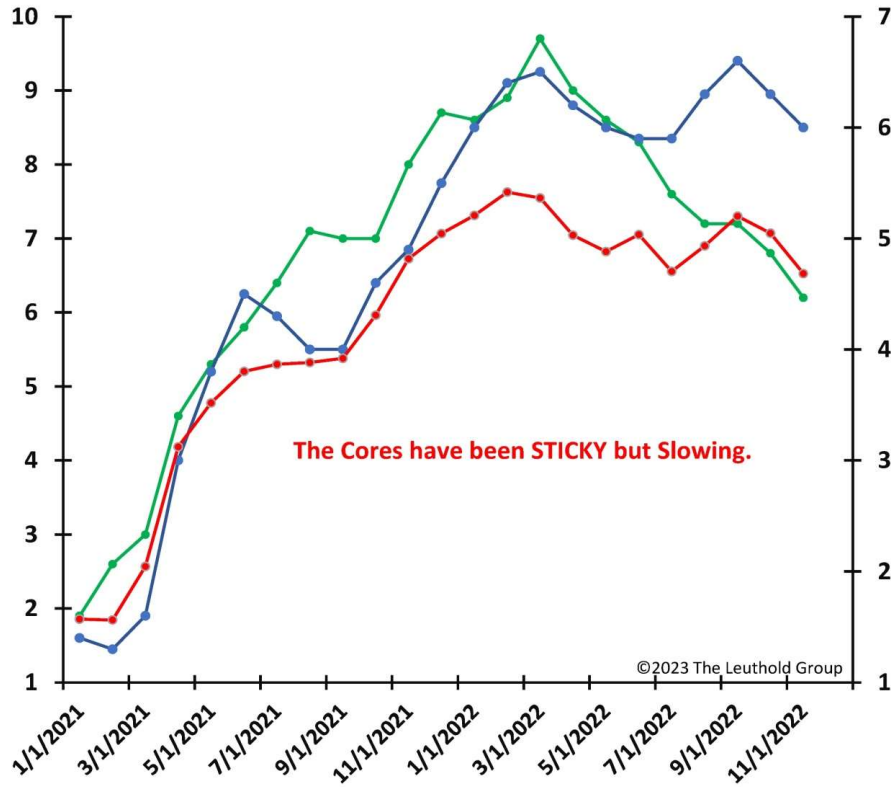
\*Indexed at 100 as of 1/02/2021.



# Inflation Has SLOWED... CORE & WAGE Inflation

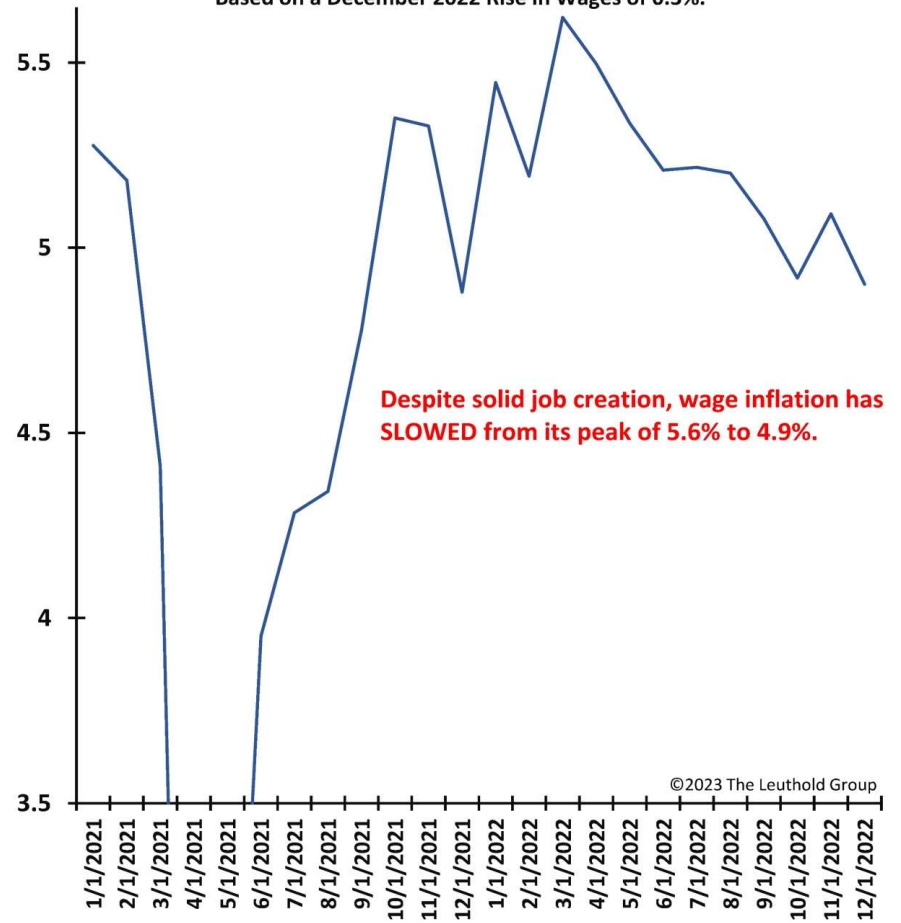
### The CORE Inflation Update

- Left Scale: Annual Core PPI Inflation Rate
- Right Scale: Annual Core CPI Inflation Rate
- Right Scale: Annual Core PCE Inflation Rate



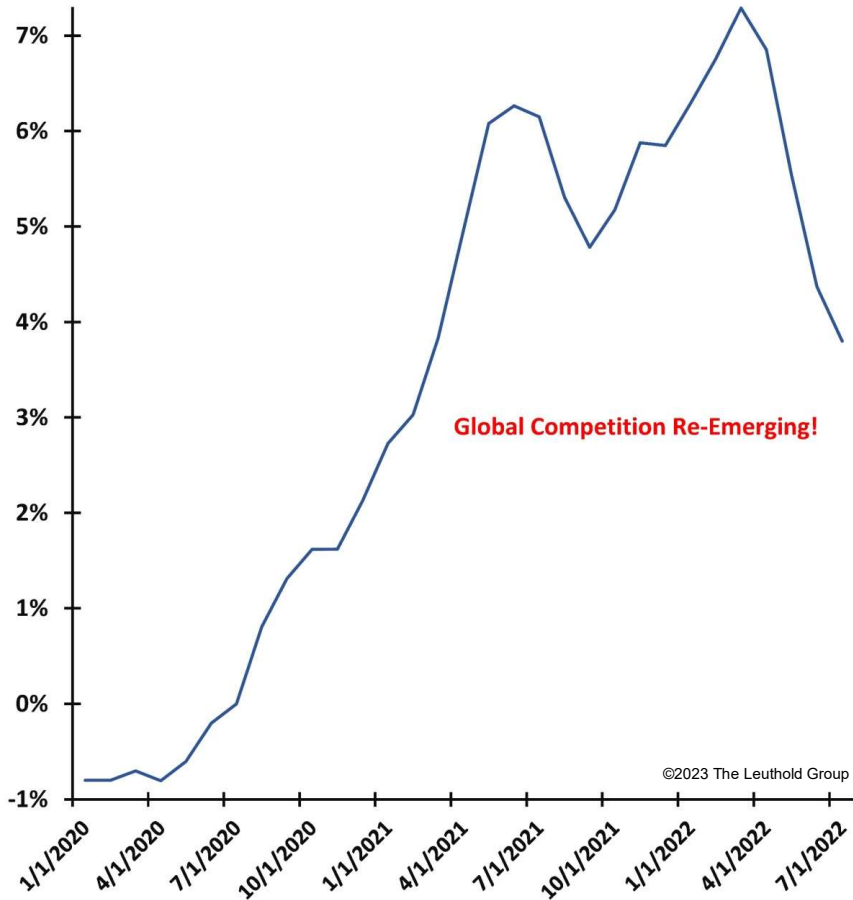
### Annual U.S. WAGE Inflation\*

\*Based on a December 2022 Rise in Wages of 0.3%.

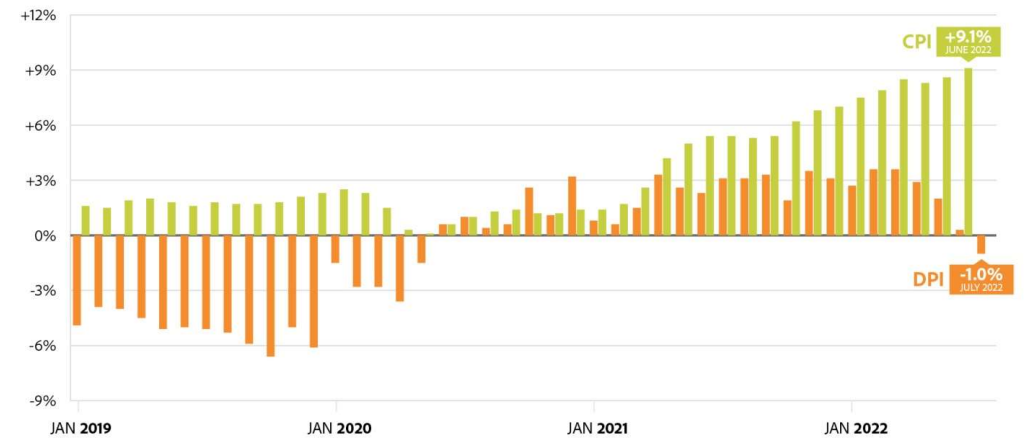


# Inflation Has SLOWED... Imports & Tech Prices

**U.S. CORE Import Price Inflation Rate**



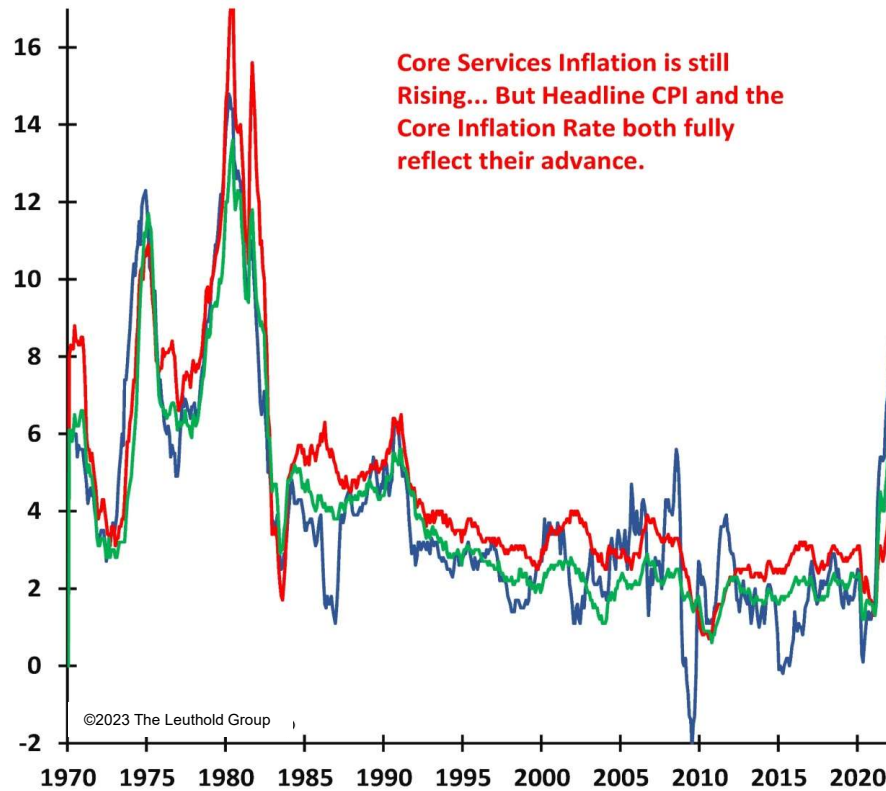
**Adobe Digital Price Index (DPI) vs. Consumer Price Index (CPI): U.S. Year-Over-Year Change in Online Prices by Month**  
Source: Adobe Analytics



# What About CORE SERVICE PRICES?

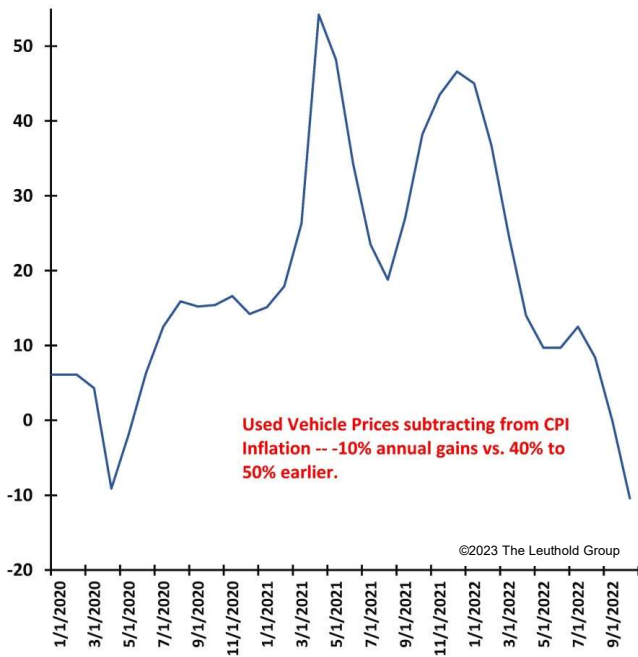
## Core Services Inflation vs. Overall CPI Inflation

- Annual Overall CPI Inflation Rate
- Annual CPI Consumer Services Less Energy Services Inflation Rate
- Annual Core CPI Inflation Rate

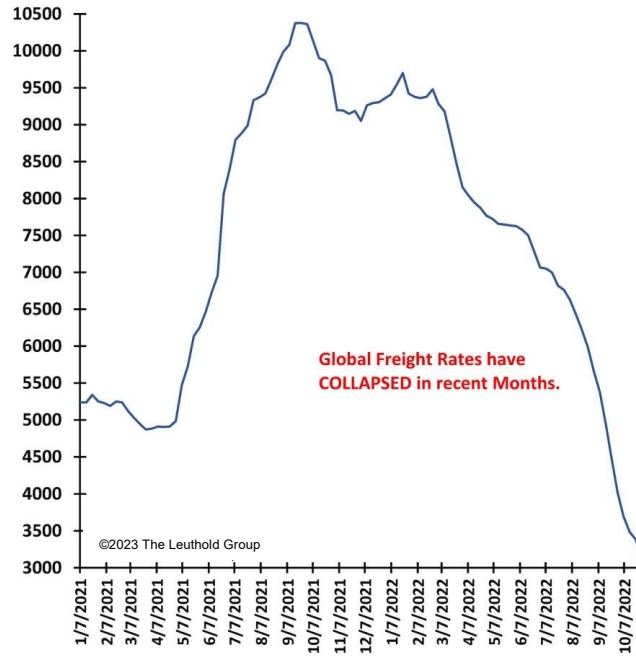


# Other Encouraging Inflation Signs!?!

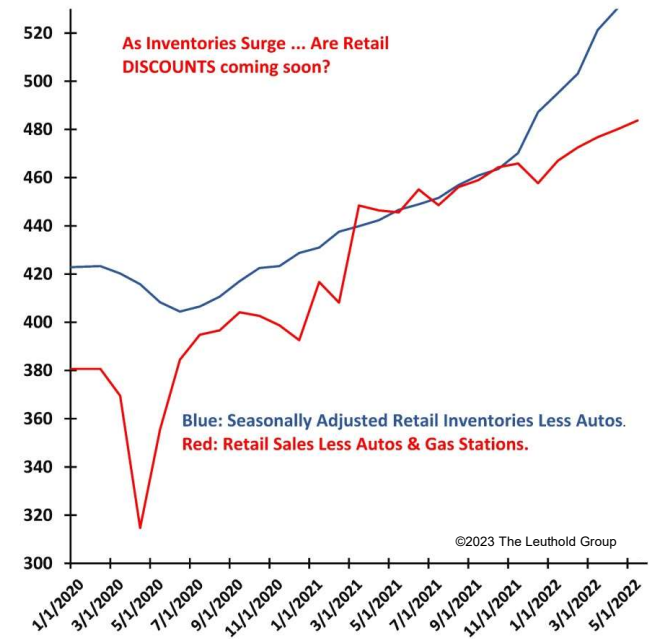
**Manheim U.S. Used Vehicle Price Index Annual Percent Change**



**WCI Composite World Container Freight Benchmark Rate**



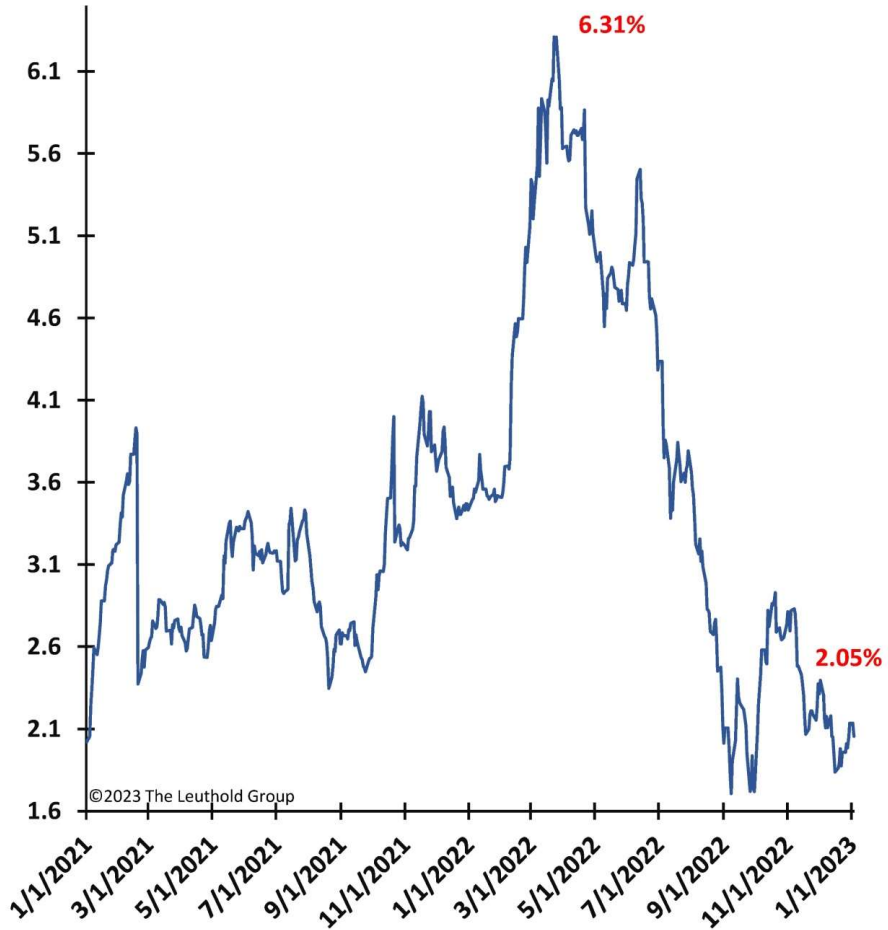
**Retail Inventories Less Autos vs. Retail Sales Less Autos & Gas**





# Inflation Expectations Back to Fed Target?!?

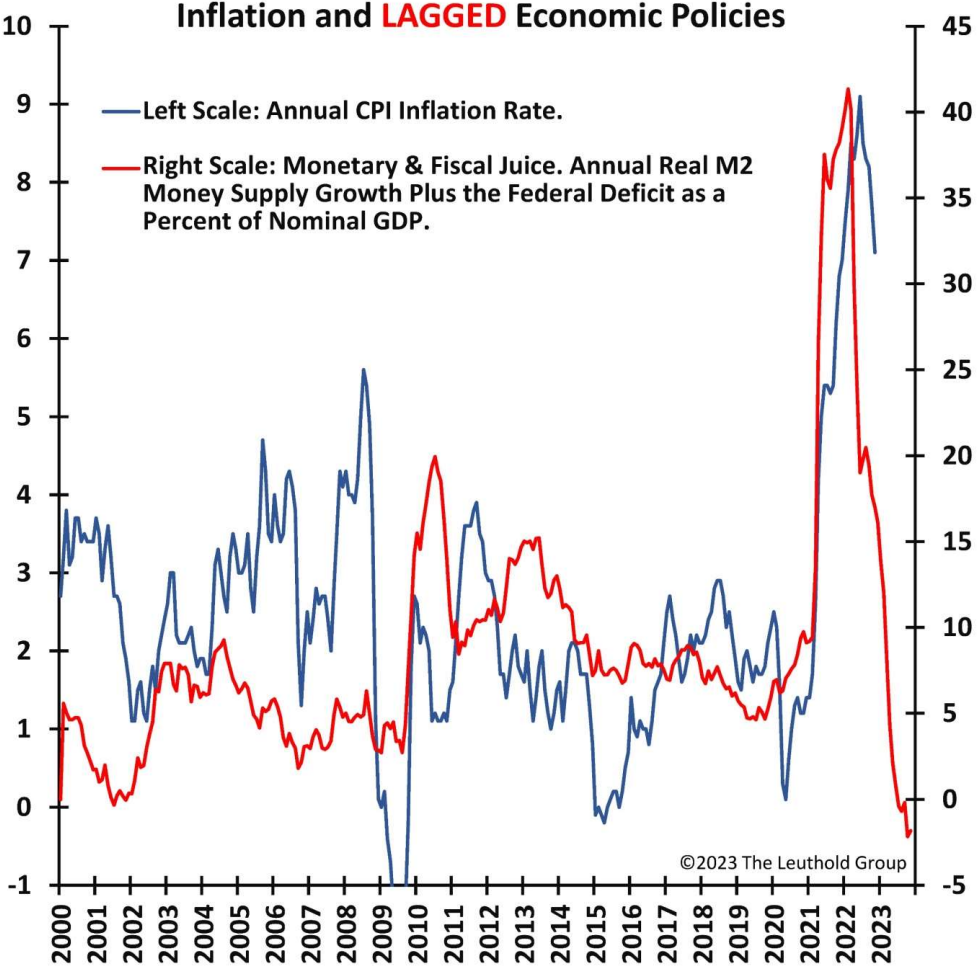
One-Year Treasury Breakeven Inflation Rate



## Pipeline Policy Tightening!?!

- M2 Money Supply Growth: 27% to 0%
- Fiscal Deficit/GDP Ratio: 18.5% to 3%
- U.S. Dollar: Up by 25%
- 10-Year Bond Yield: Rising Since August 2020

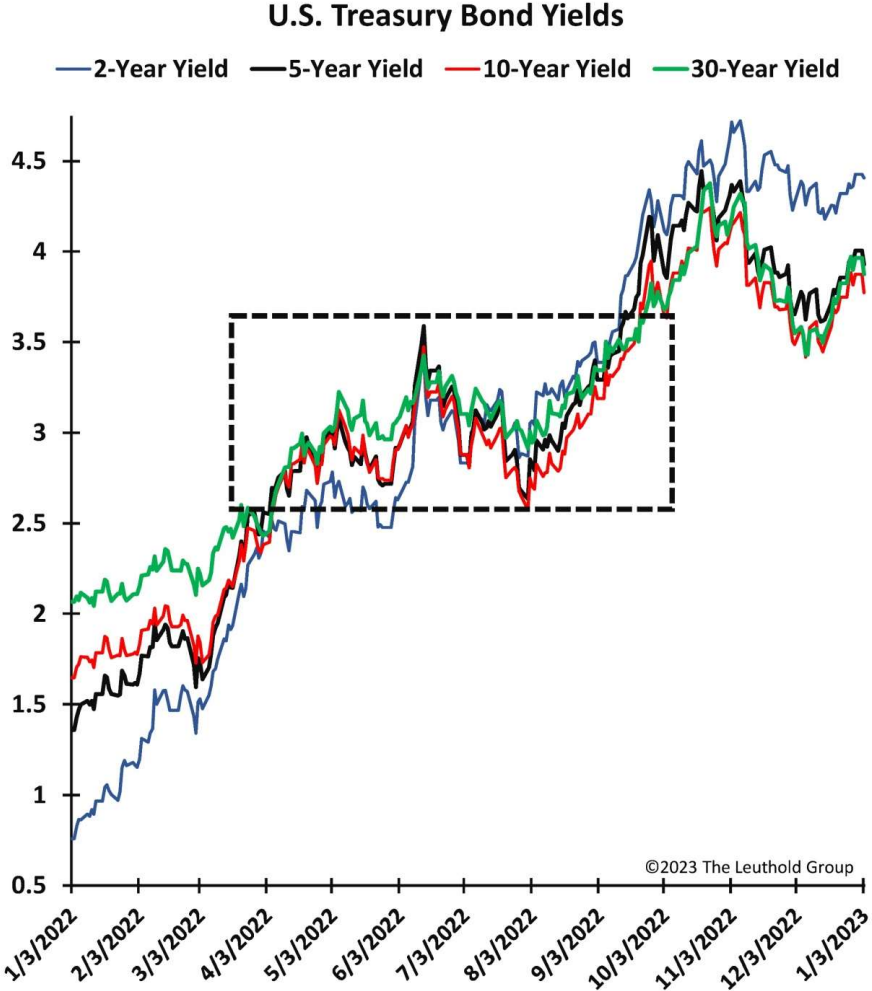
# Past Policy Tightening Will Do The JOB!!?



# Most Major Inflation Peaks are V-TOPS!!!



# Fed Ignoring Market Signals???



# Listen to the FED Or The Bond Market??!

### Bond Vigilantes & the Fed 1983-2022

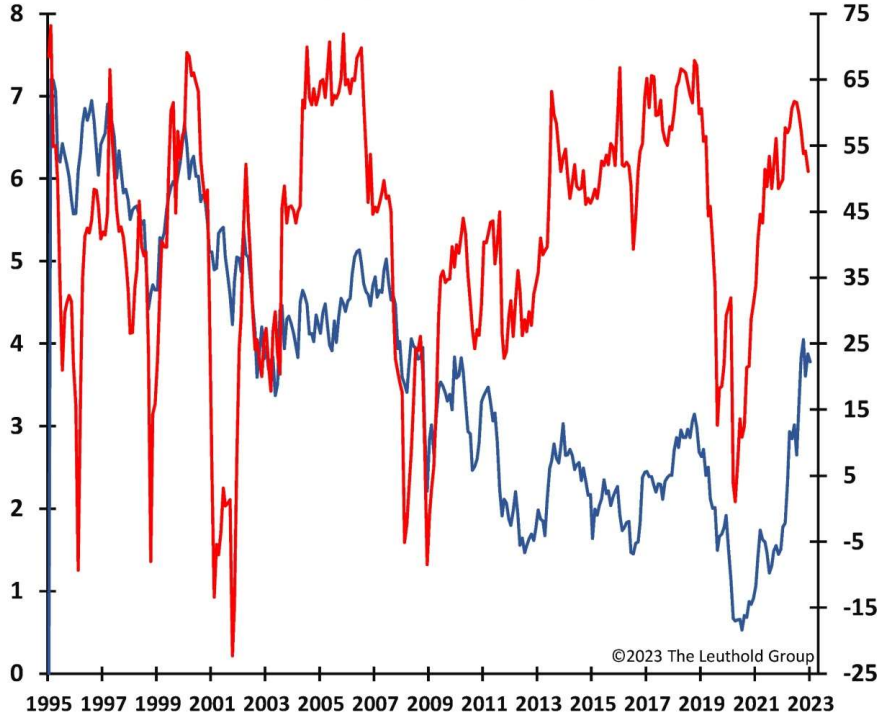


# Bond Buyers Relative to Bond Sellers?

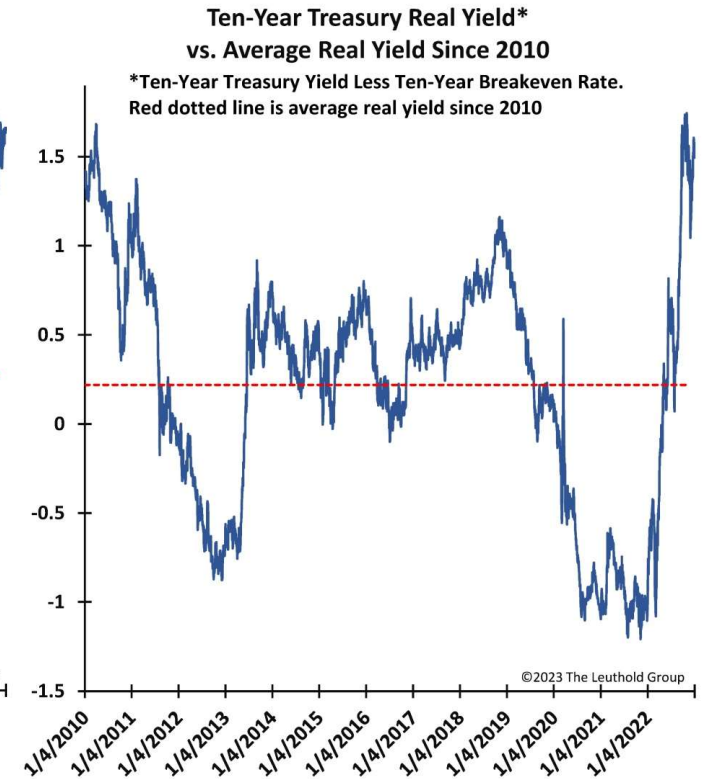
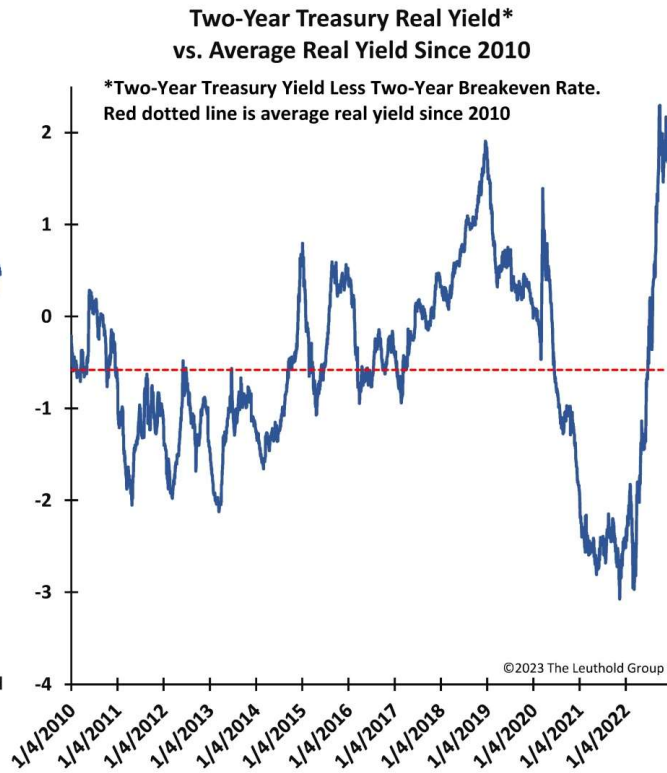
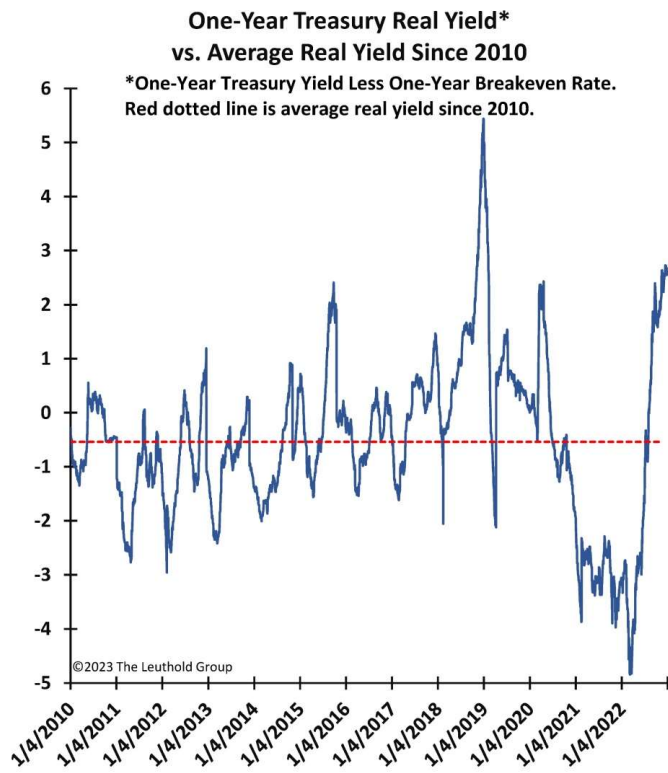
**U.S. 10-Year Treasury Bond Yield vs.  
Percent Expecting Higher less Percent  
Expecting Lower Bond Yields**

— Left Scale: 10-Year U.S. Treasury Bond Yield

— Right Scale: Conference Board Consumer Survey.  
% Expecting Higher less % Expecting Lower Yields

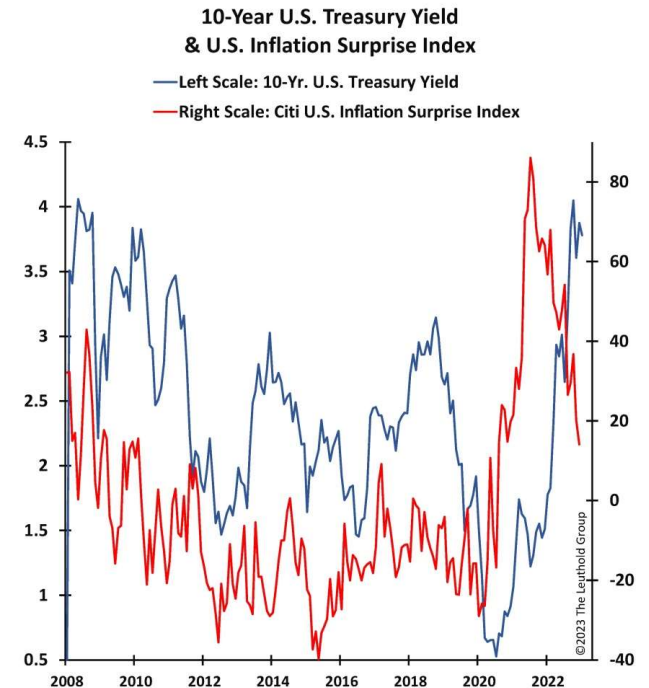
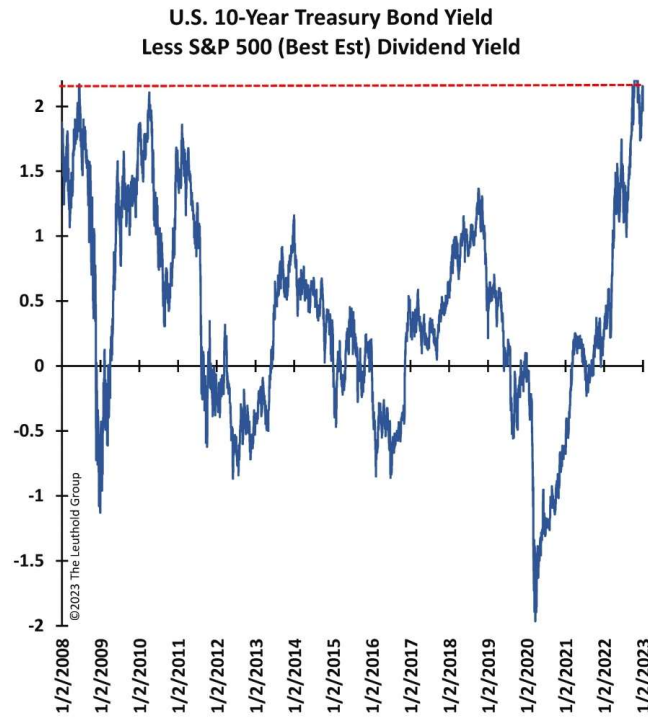
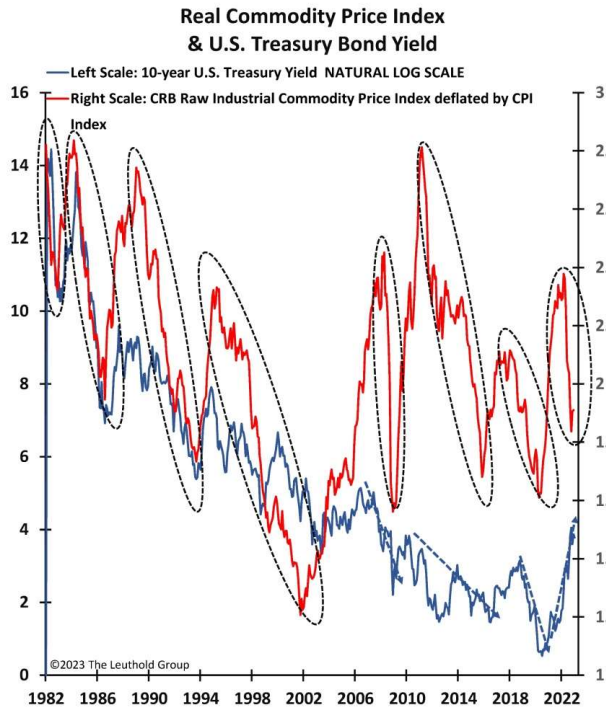


# Bond Yields Back to Equilibrium Levels!!?

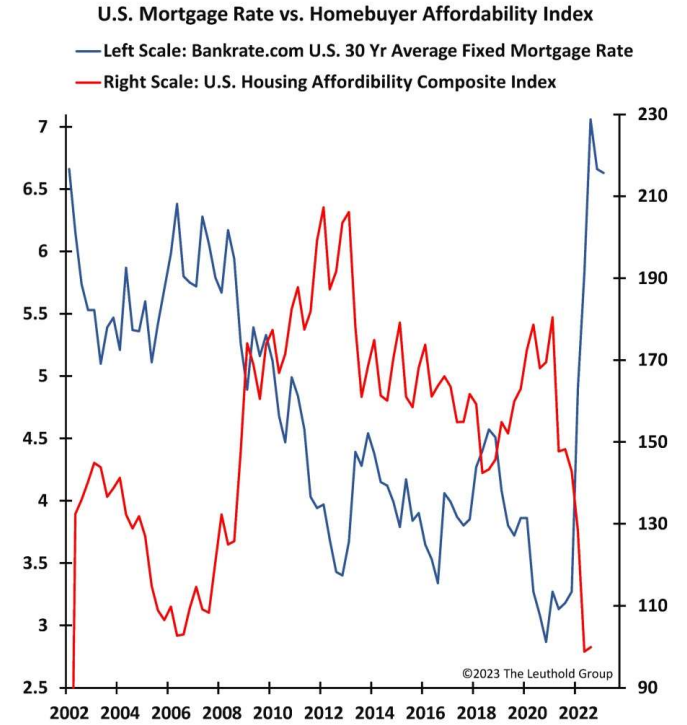
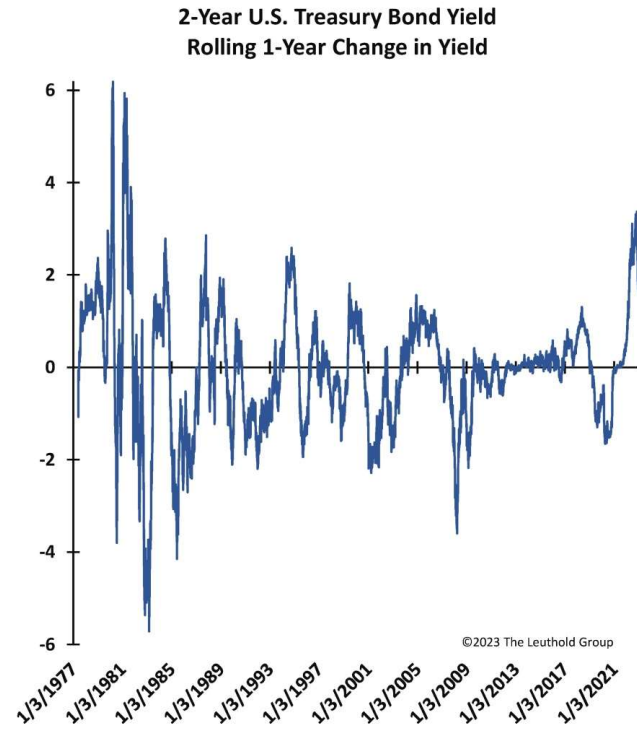
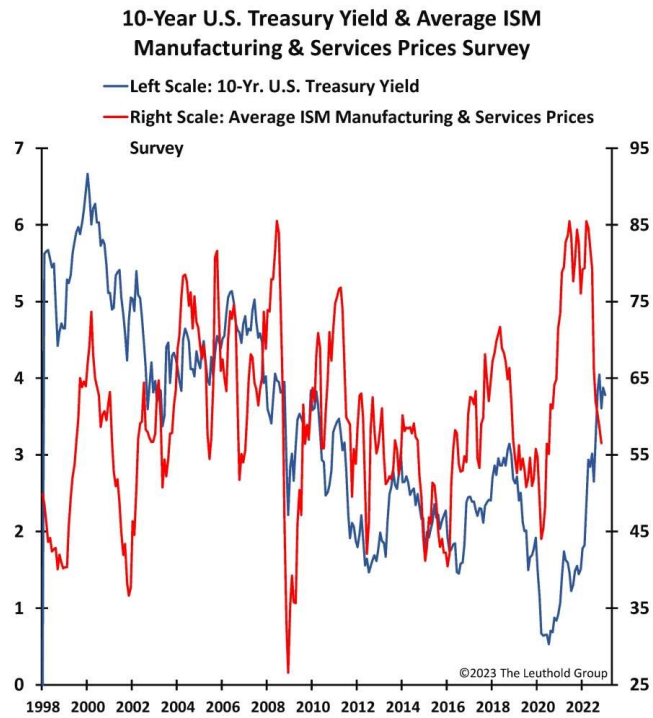




# Yields Increasingly “OUT OF BOUNDS”!?!?



# Yields Increasingly “OUT OF BOUNDS”!!?



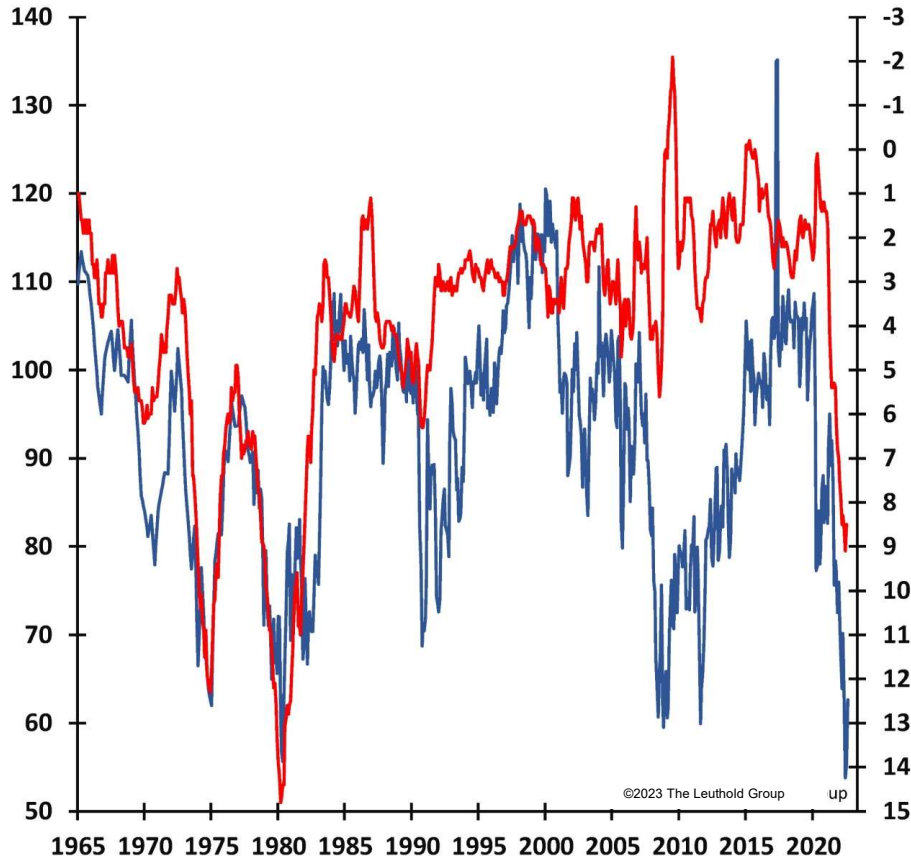
## A MILD RECESSION???

- Strong Untapped Balance Sheets
- Clean Banking System
- Confidence Revival
- Plenty of Dry Powder
- Supply-Side Improvements
- Profits Hold Up?
- Housing Recession Without Overall Recession
- CEO Behaviors

# Confidence Revival!!?

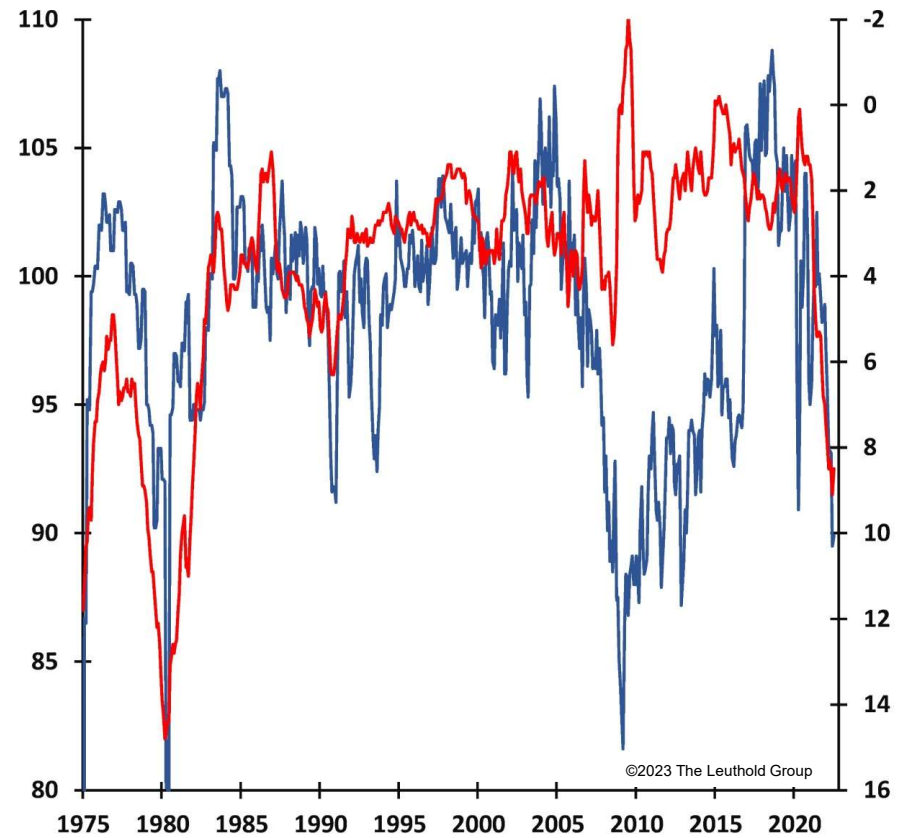
## U.S. Consumer Confidence & Inflation

— Left Scale: OECD US Consumer Confidence Index  
— Right INVERTED Scale: Annual US CPI Inflation Rate



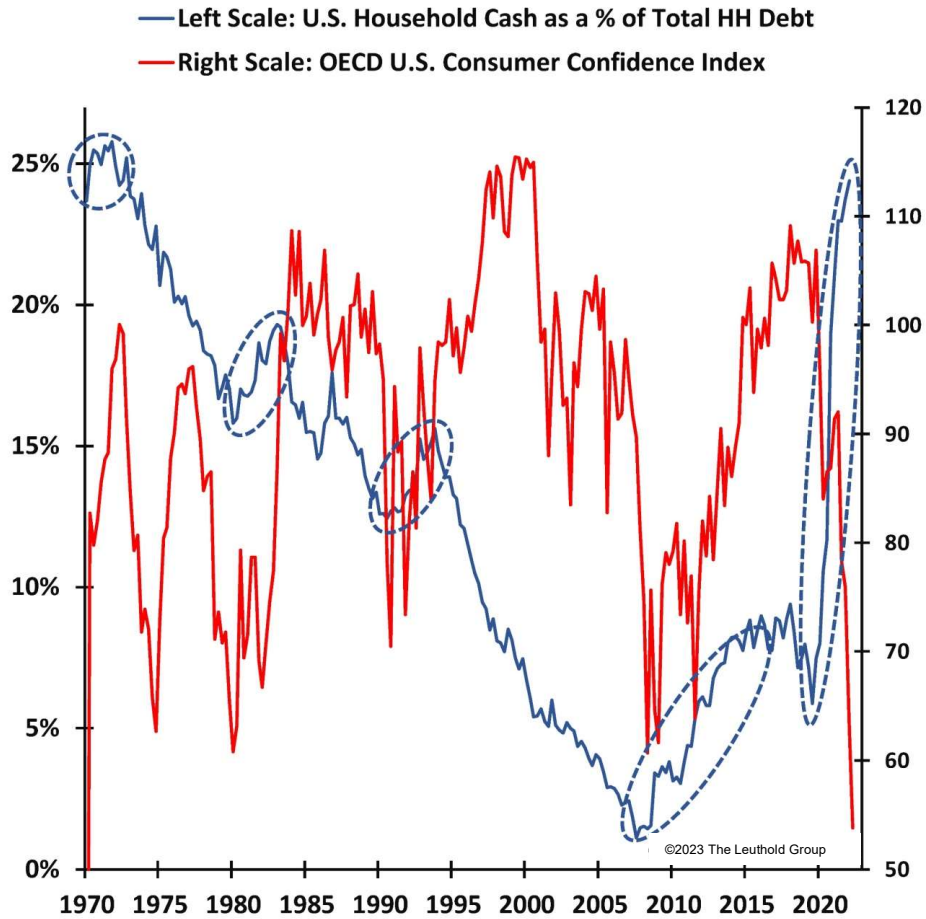
## Small Business Optimism Index vs. Inflation

— Left Scale: NFIB Small Business Optimism Index  
— Right INVERTED Scale: Annual US CPI Inflation Rate

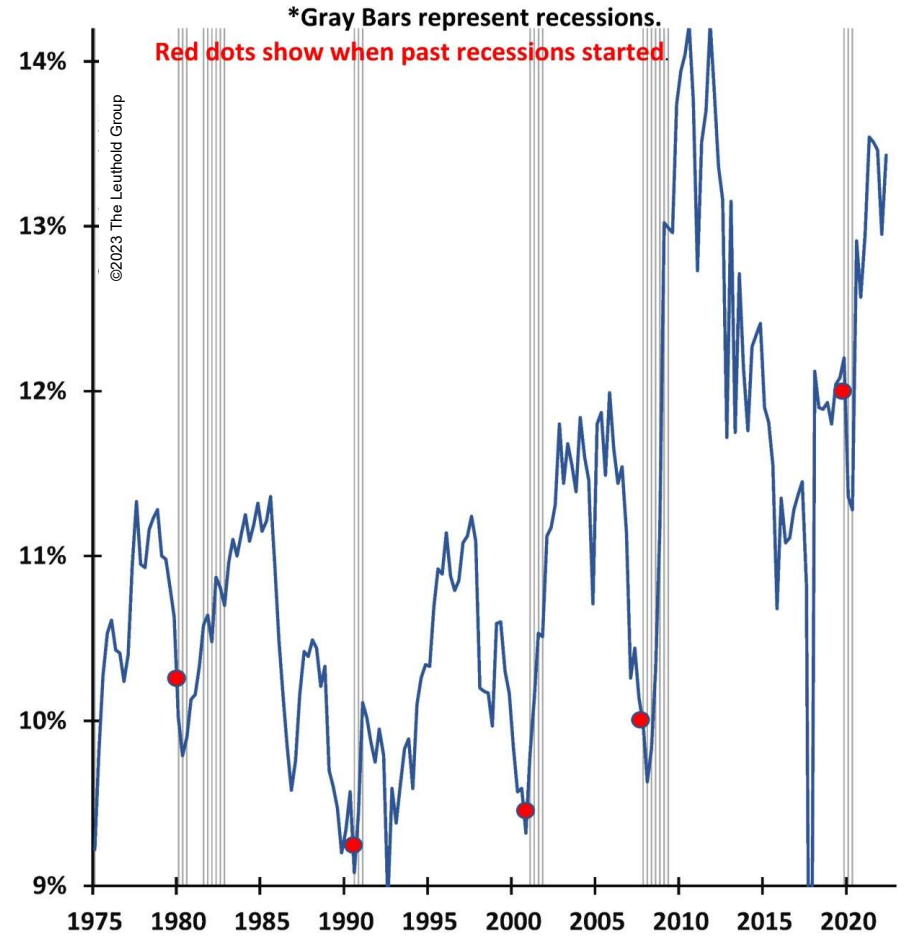


# Plenty of DRY POWDER!?!

**U.S. Household Cash to Debt Ratio vs. Consumer Confidence**



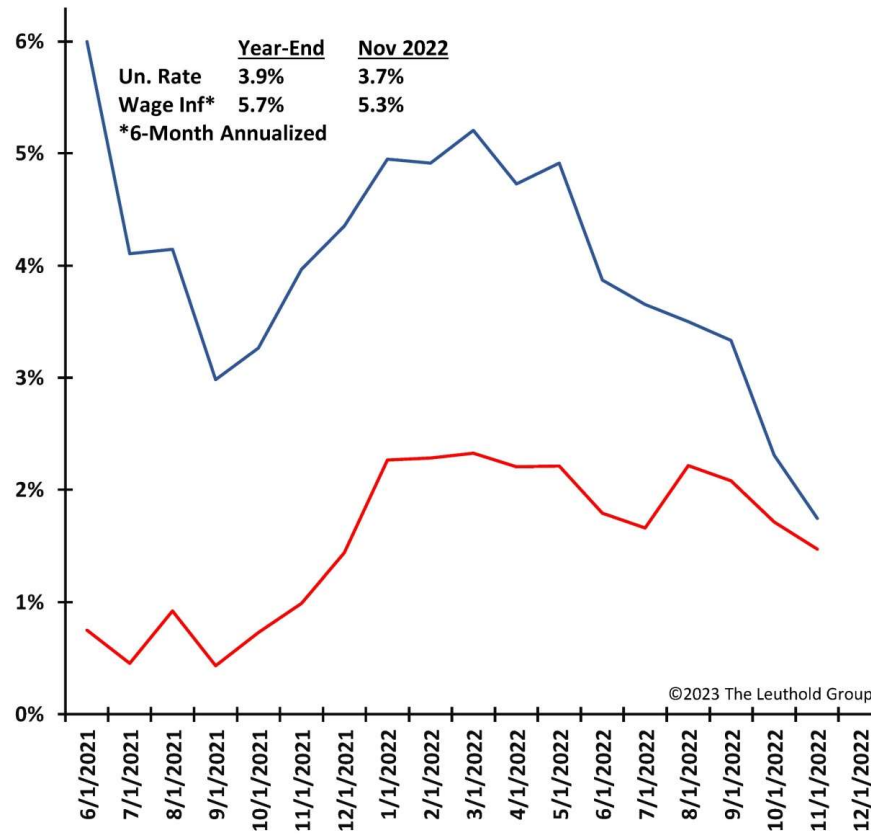
**Net U.S. Corporate Cash Flow as a Percent of Nominal GDP\***



# Supply-Side Jobs Market

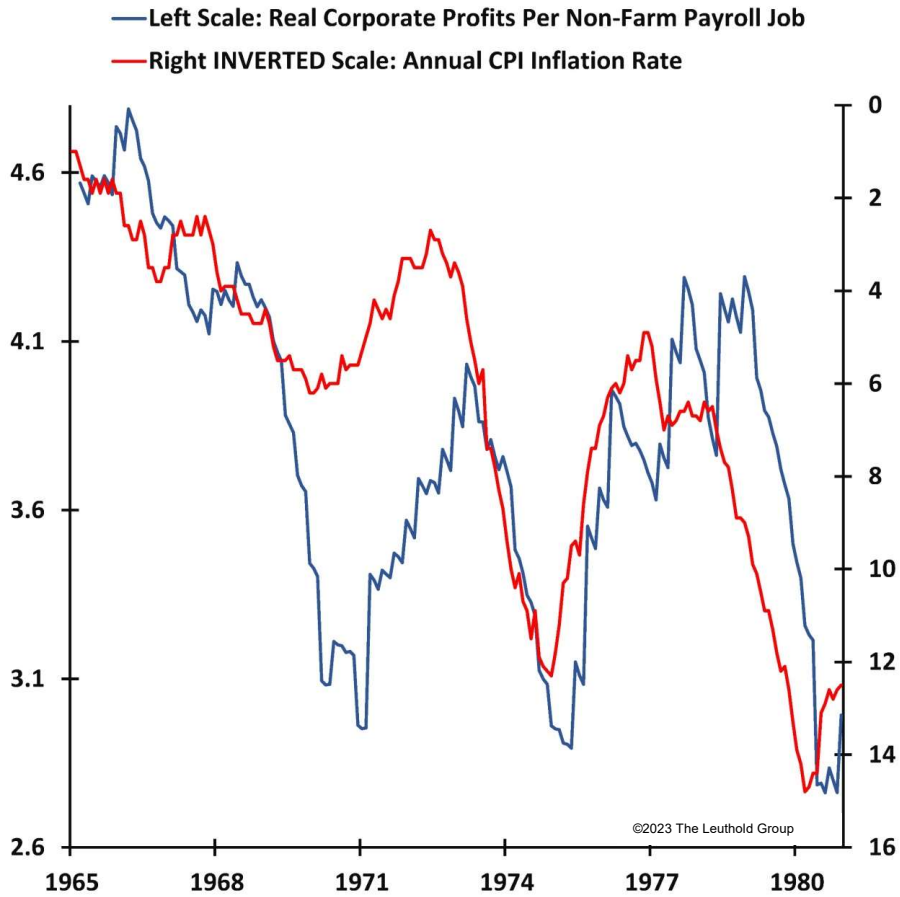
## Labor Demand & Supply Back in Balance

— YTD (11-months) Annualized U.S. Employment Growth  
 — YTD (11-months) Annualized U.S. Labor Force Growth

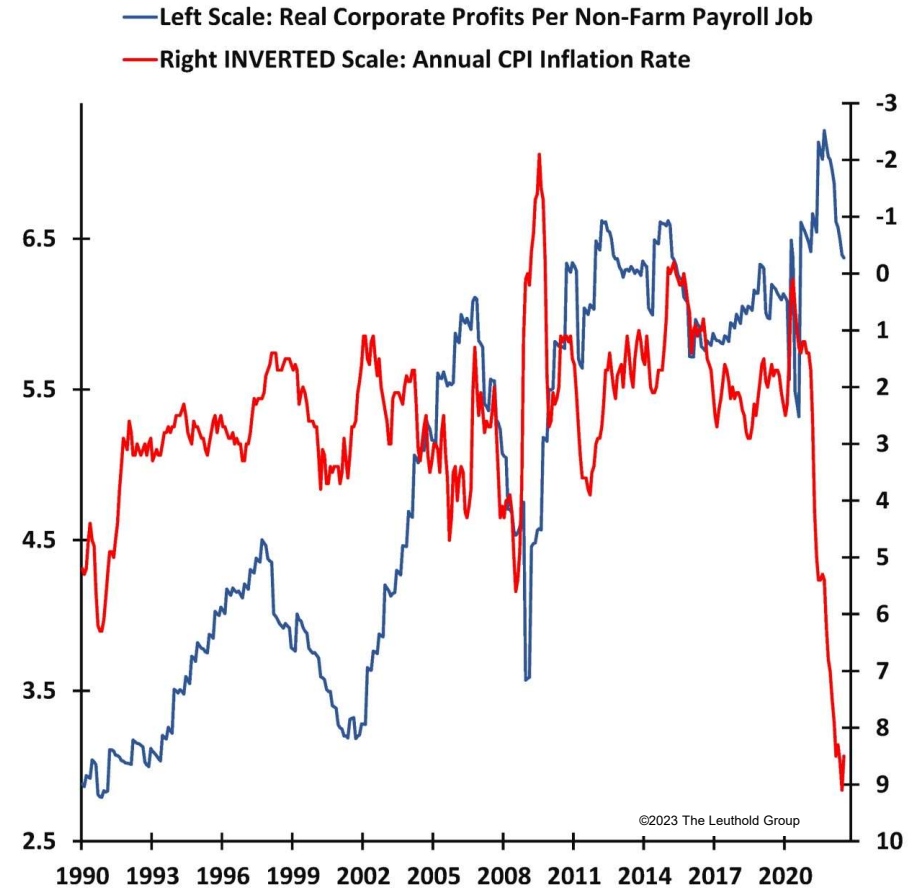


# Profit PRODUCTIVITY Holding Strong?

**Real Profit Per Job & CPI Inflation  
1965 to 1980**



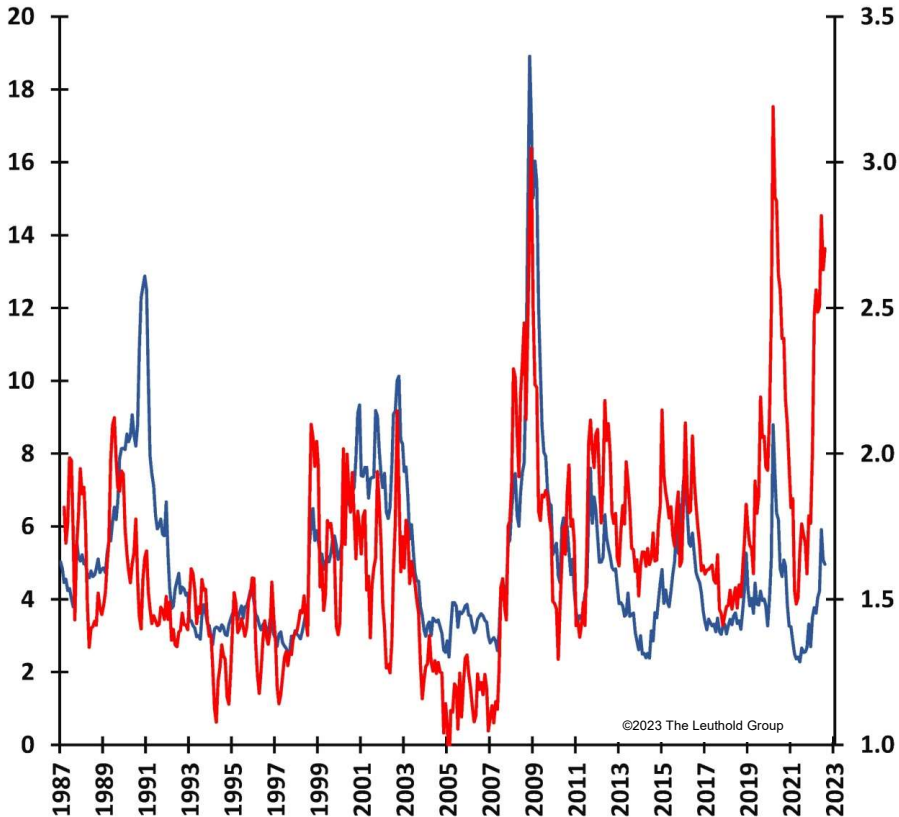
**Real Profit Per Job & CPI Inflation  
1990 to 2022**



# A Housing Recession Without an Overall Recession?

### Junk Spread vs. Mortgage Spread

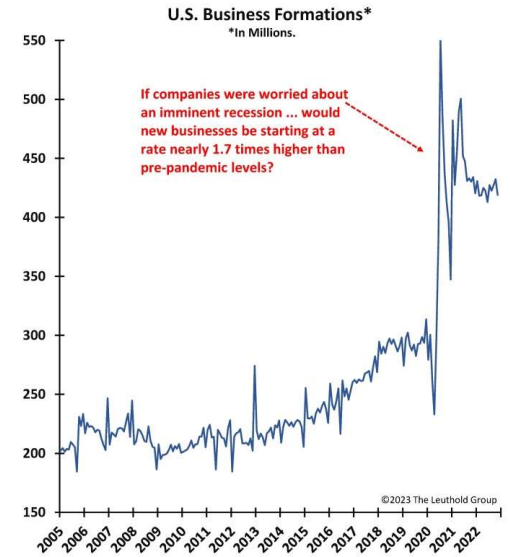
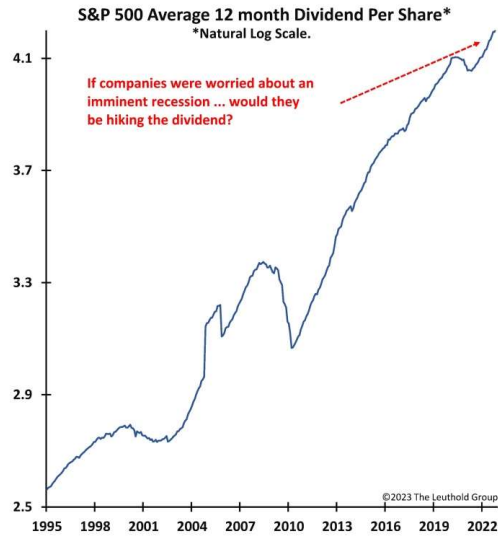
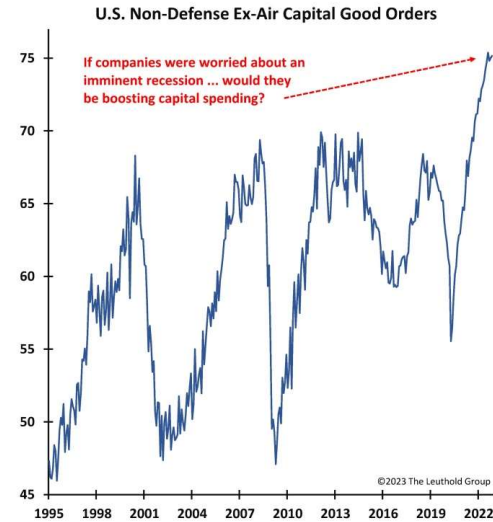
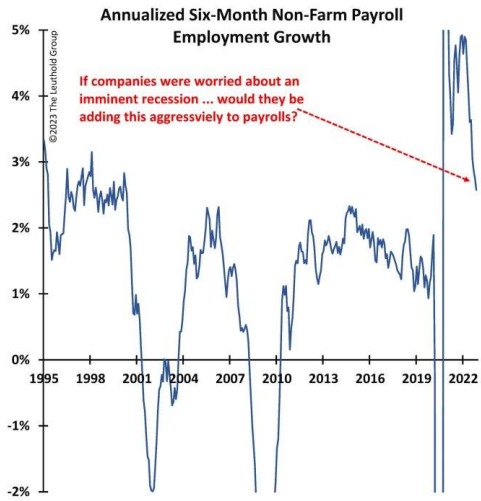
— Left Scale: BarCap U.S. Corporate High YTW/10-Year Spread  
— Right Scale: 30-Year Fixed Average Mortgage Rate less 10-Year U.S. Treasury Yield



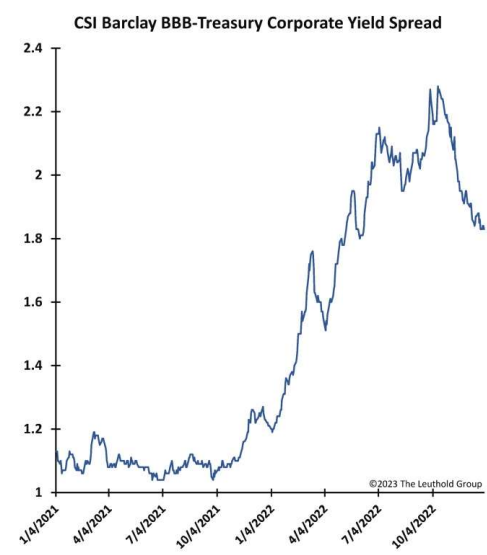
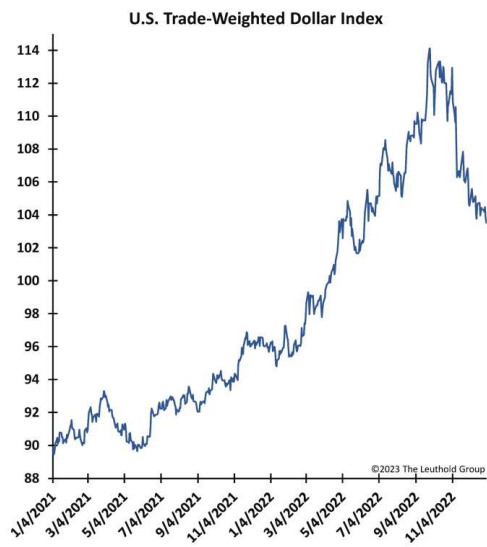
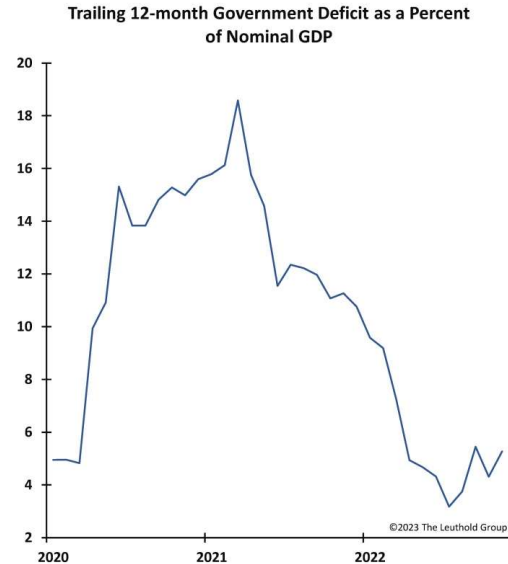
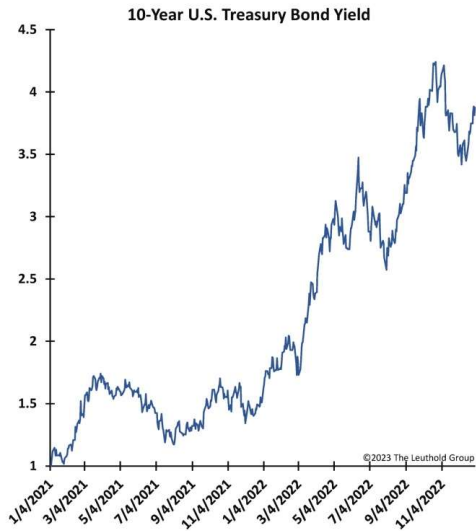
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# CEOs: Watch What I do... Not What I Say!??

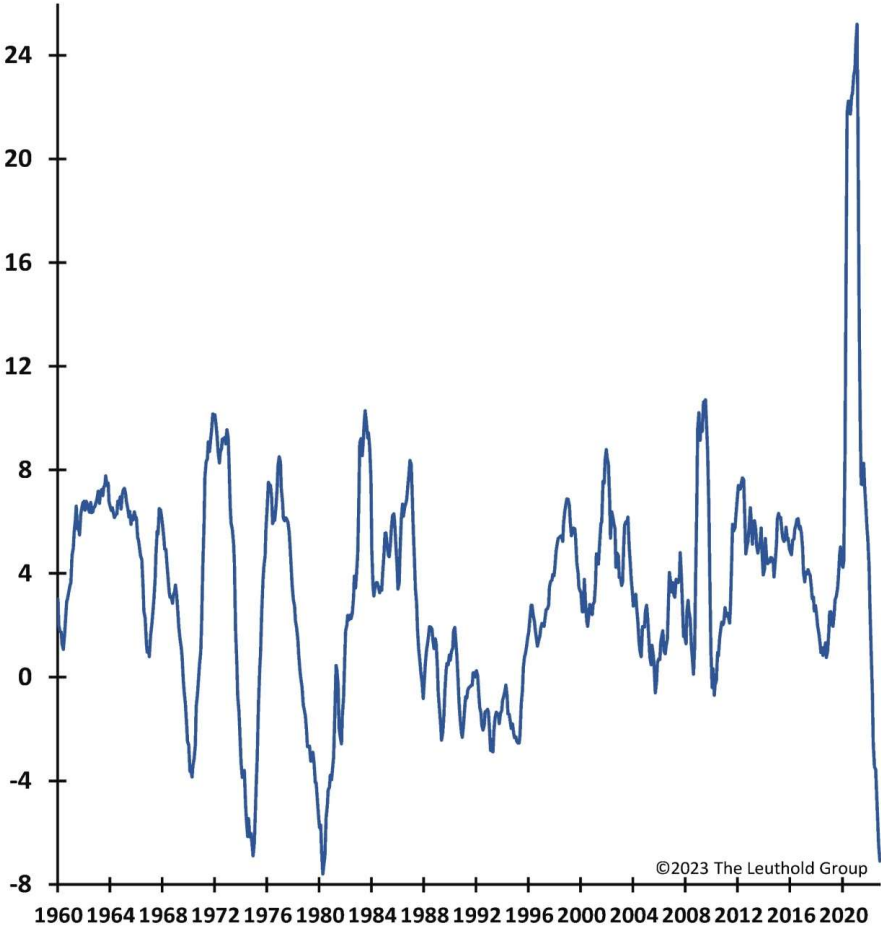


# A NEW EASING CYCLE HAS BEGUN!?!

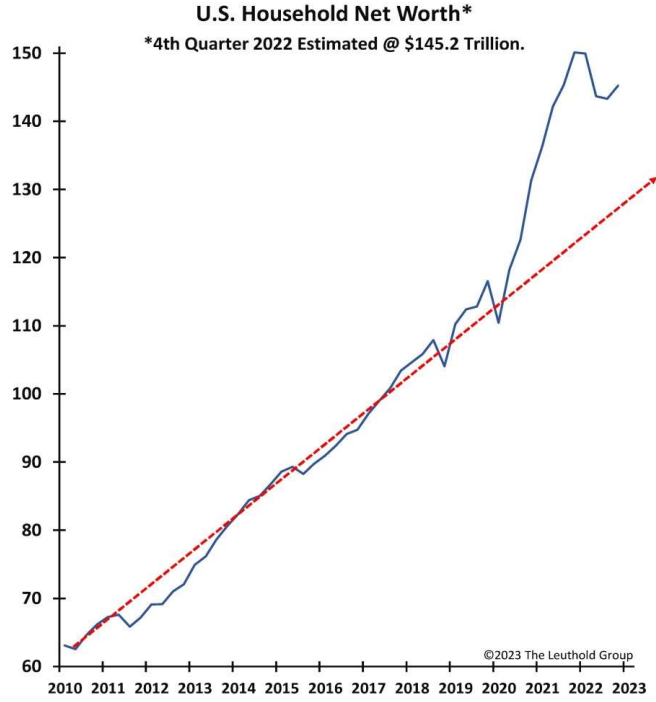
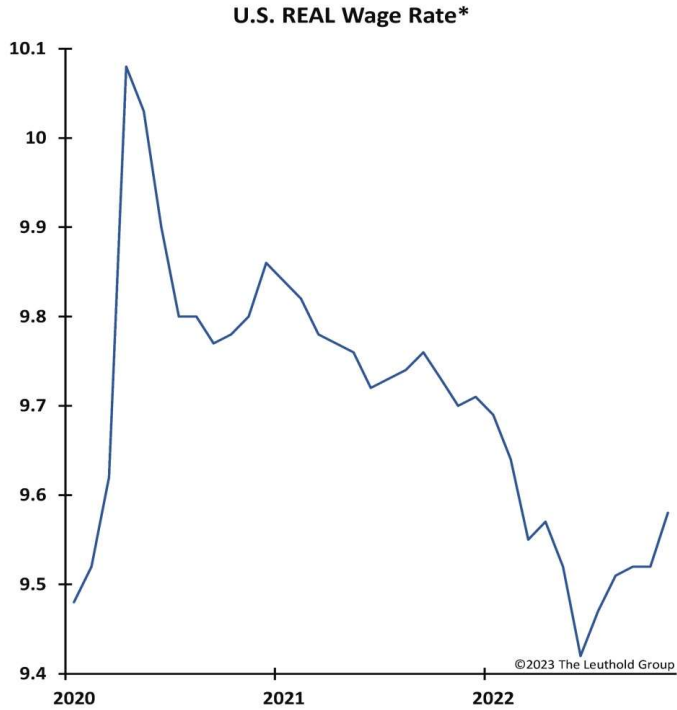
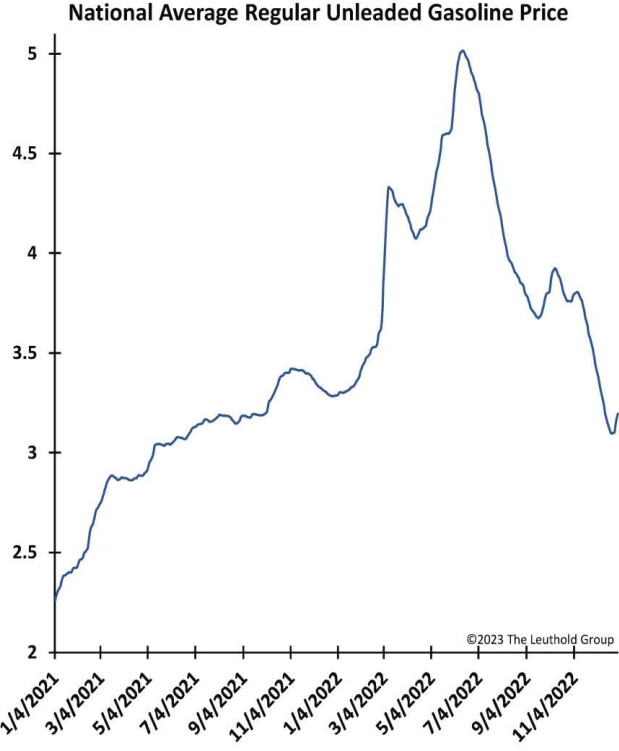


# REAL LIQUIDITY GROWTH EASING SOON?!?

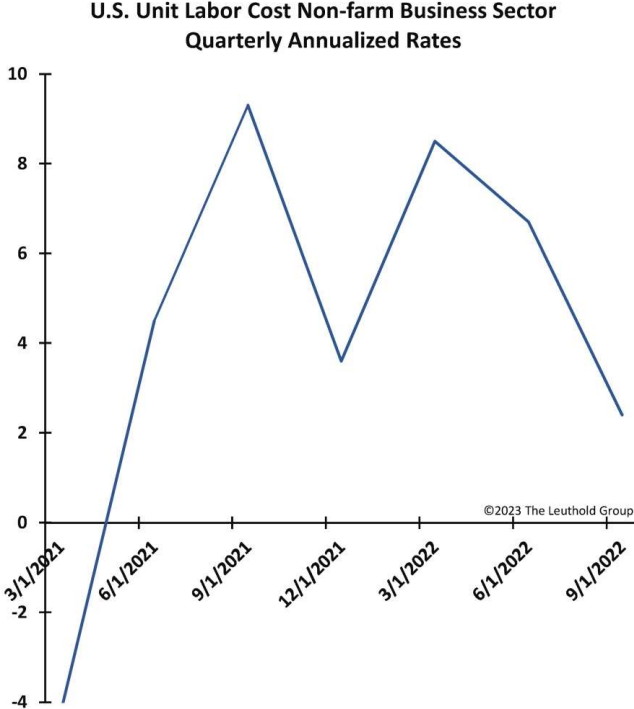
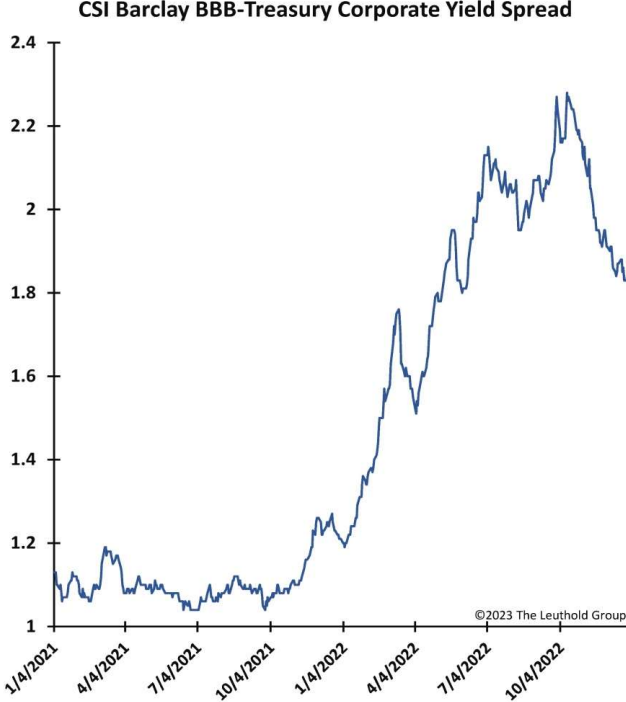
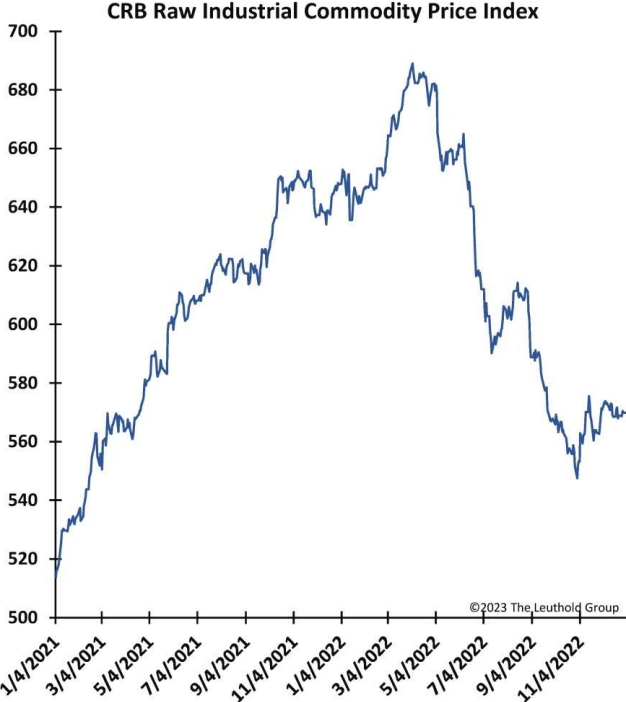
Real M2 Money Supply -- Annual Growth



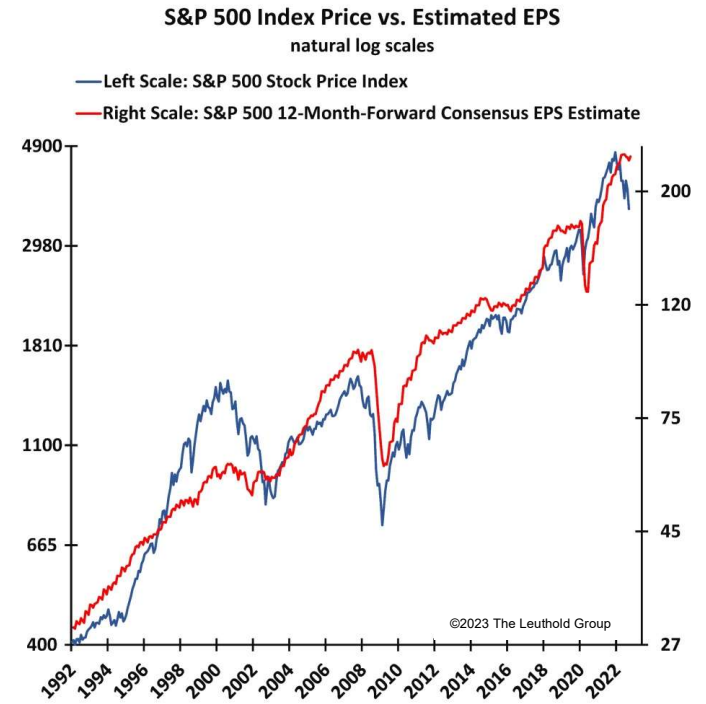
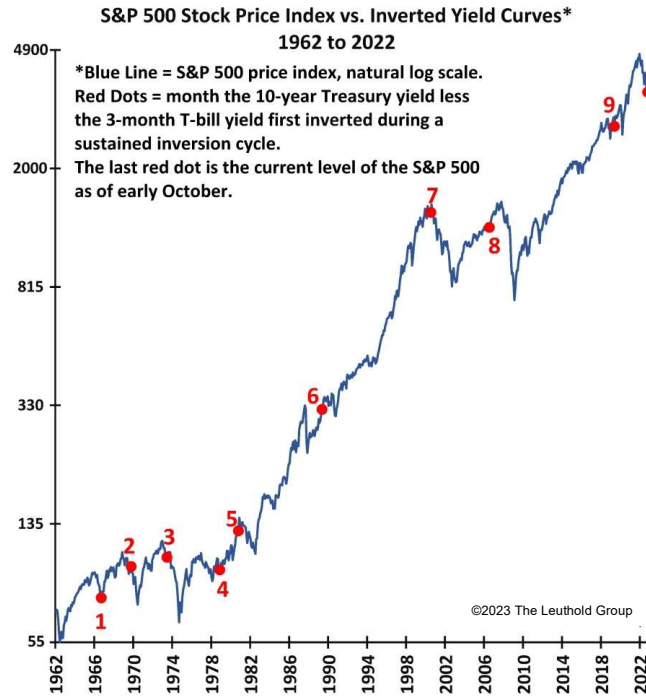
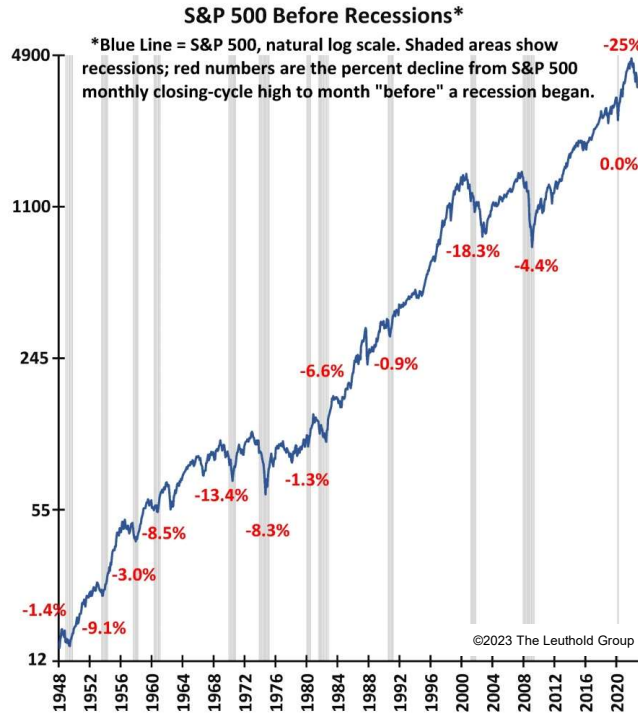
# EASING FOR HOUSEHOLDS!!



# EASING FOR BIZ!!



# Stock Market Already has Discounted Plenty of BAD!?!

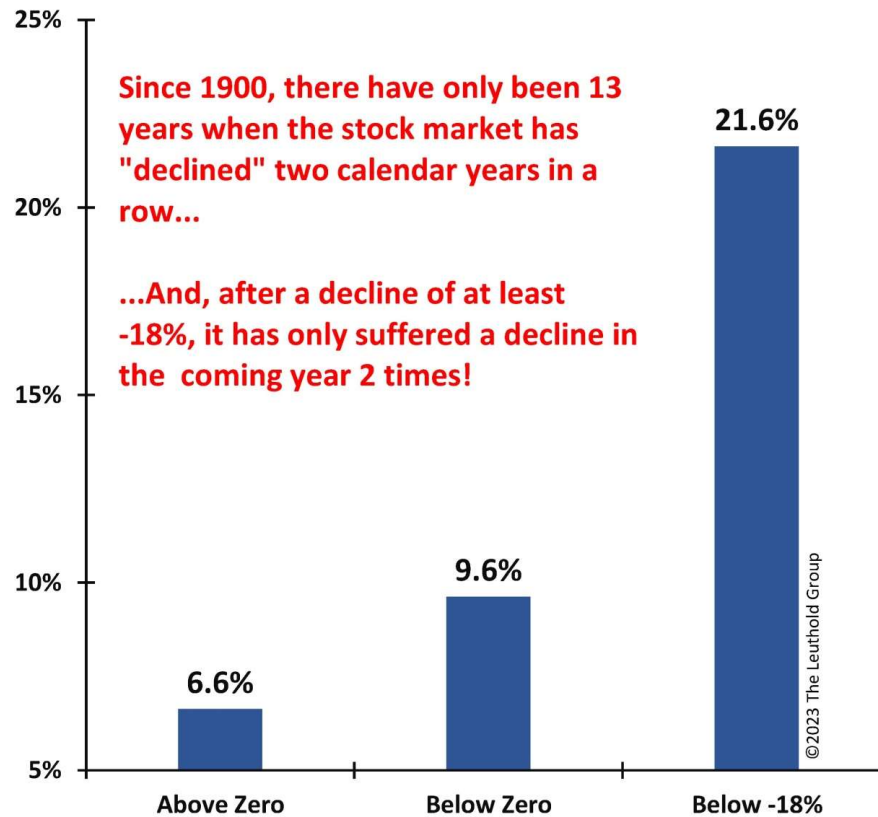


## WORRIED ABOUT EARNINGS???

- In the last 80 years, S&P 500 EPS have fallen in 30 years.
- Of these 30 yearly declines the S&P 500 “rose” in 22 of these years, 73% of the time by an average of 21%! In the other 8 years, it declined one average by only -13.8!

# U.S. Stock Market Does WELL After BIG BAD YEARS!!?

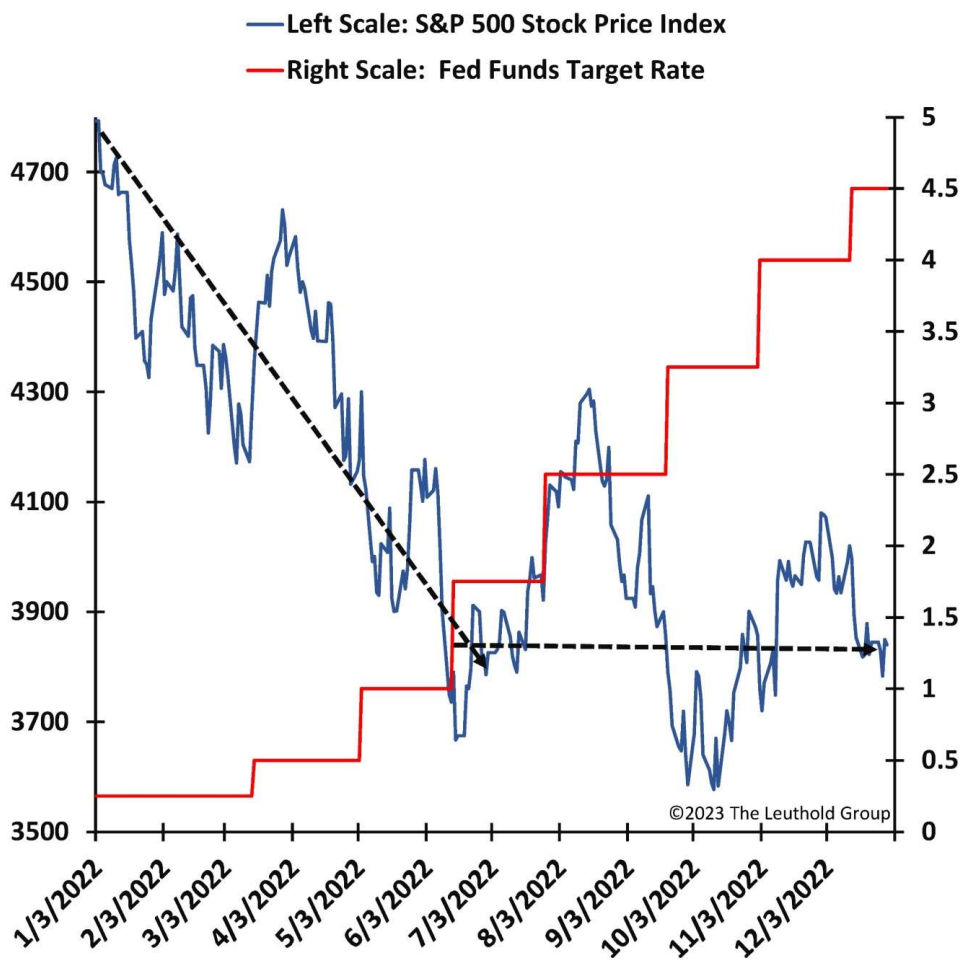
U.S Stock Market Since 1900  
Average Percent Price Gain in Years Following  
Above Zero, Below Zero, and Below -18%  
Performances





# Flat For Seven Months!

### S&P 500 Index & Fed Funds Rate 2022

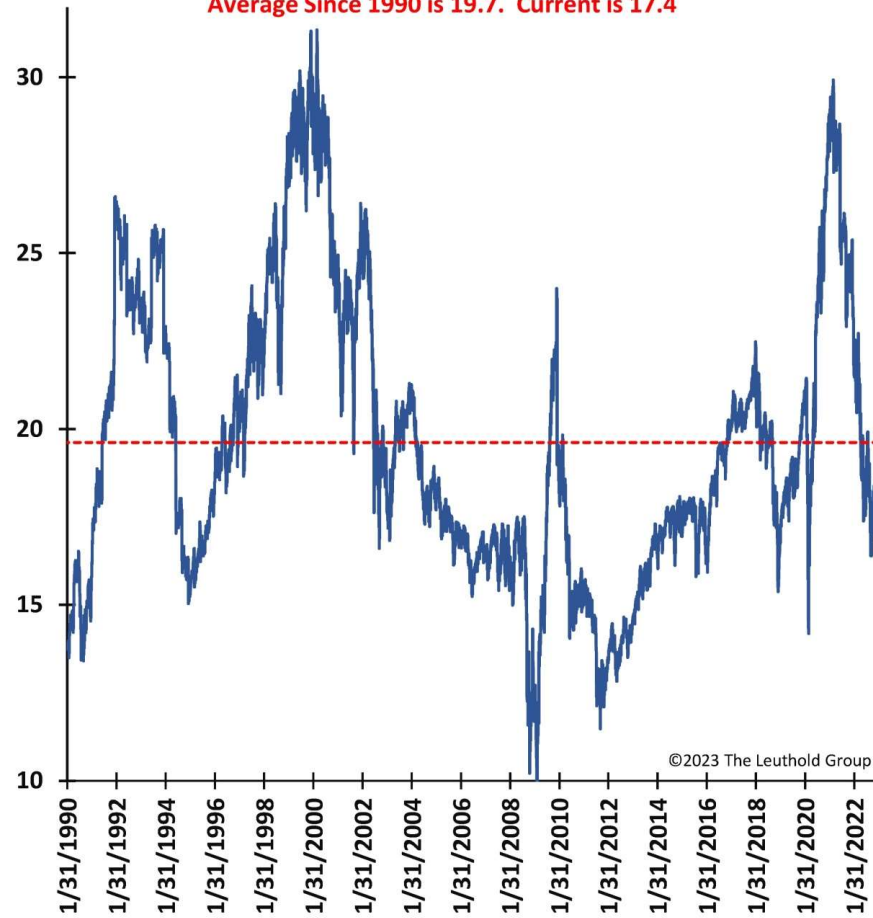


# Stock Market Valuation Attractive!?!

## S&P 500 Trailing 12-Month P/E Multiple\*

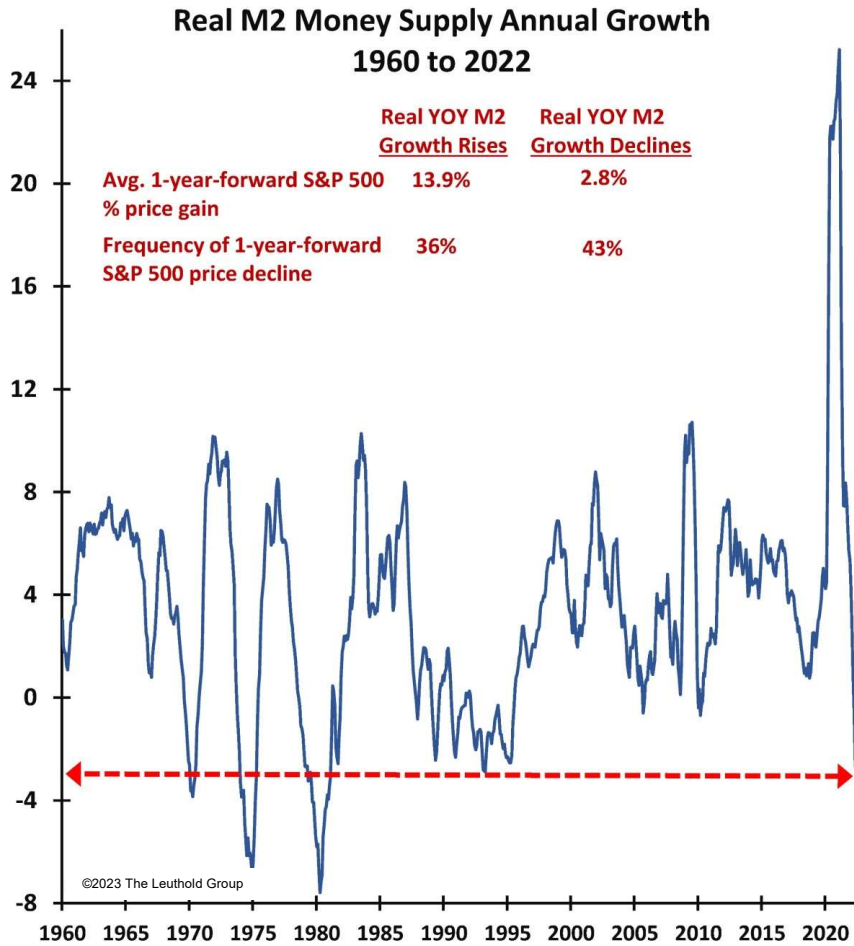
\*Estimate Comparable.

Average Since 1990 is 19.7. Current is 17.4



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# Liquidity & Confidence!?!



# Inflation PEAKS & the Stock Market!!

**Annual Consumer Price Inflation Rate\***

\*Recessions Shown By Gray Bars.

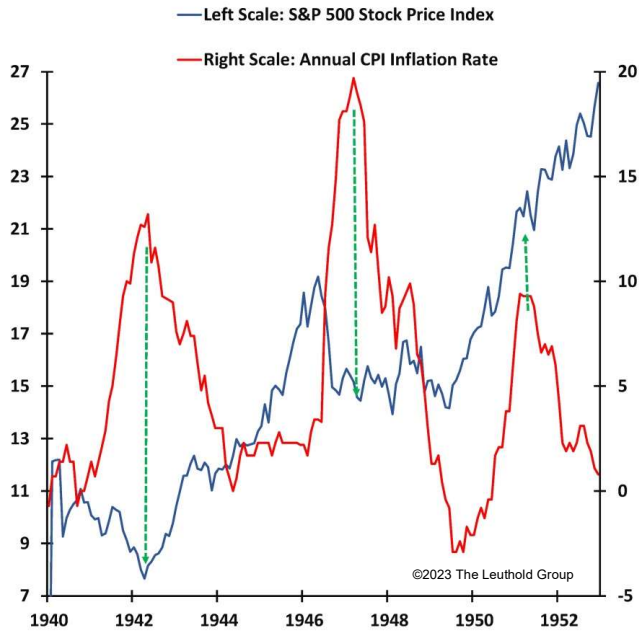


Date	Recession Within 12 Months	Number of Months to Next Recession	Last 12 Months S&P 500 % Price Change	Next 12 Months S&P 500 % Price Change	Last 12 Months 10yr Treasury Bps TBY Change	Next 12 Months 10yr Treasury Bps TBY Change
May-42	N	33	13.1%	47.9%	34	1
Mar-47	N	20	-15.9%	-0.6%	8	14
Apr-51	N	27	24.9%	4.0%	21	12
Apr-57	Y	4	-5.5%	-5.0%	30	-60
Apr-60	Y	0	-4.9%	19.2%	16	-50
Oct-66	N	38	-13.2%	17.1%	66	57
Feb-70	Y	-2	-8.8%	8.1%	105	-113
Nov-74	Y	-12	-27.1%	30.4%	95	37
Mar-80	Y	-2	0.5%	33.2%	363	38
Mar-84	N	76	4.1%	13.5%	181	-46
Oct-90	Y	-3	-10.7%	29.1%	71	-119
Dec-96	N	51	20.3%	31.0%	59	-49
Mar-00	Y	12	16.5%	-22.8%	103	-137
Sep-05	N	27	10.2%	8.7%	7	52
Jul-08	Y	-7	-12.9%	-22.1%	-99	-45
Sep-11	N	101	-0.9%	27.3%	-67	-26
Jul-18	N	19	14.0%	5.9%	57	-83
Mar-22	?	?	14.0%	?	60	?
<b>Average (ex-2022)</b>	8 out of 17	22.47	1.0%	13.2%	61.7	-30.4
<b>Average with Recession</b>	N/A	-1.25	-6.6%	8.8%	85.5	-56.1
<b>Average without Recession</b>	N/A	43.56	6.3%	17.2%	40.7	-7.6

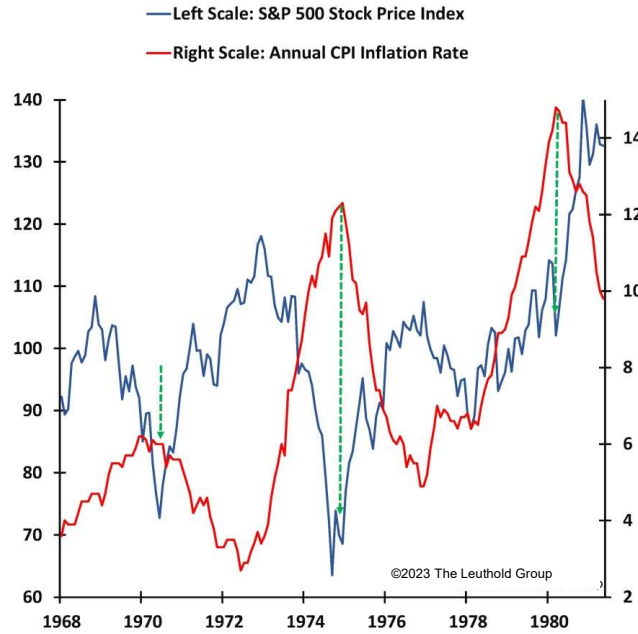
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# MAJOR INFLATION PEAKS & U.S. Stock Market?

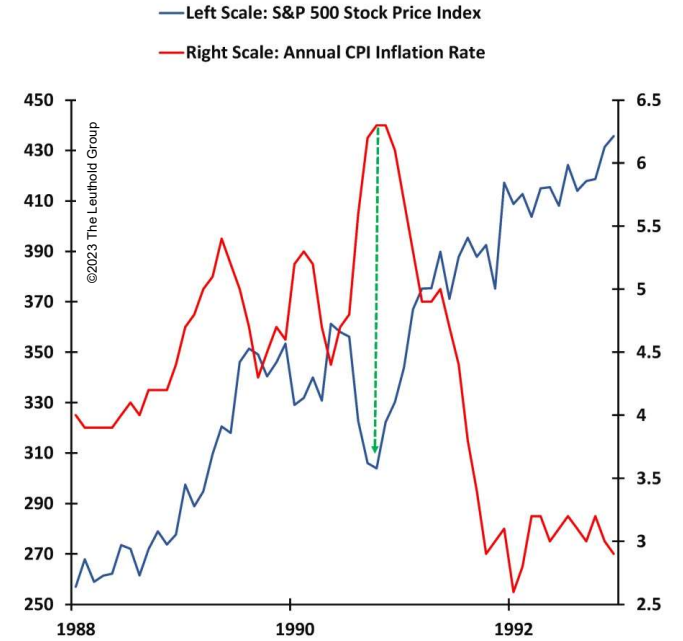
Major Inflationary Peaks & The Stock Market  
1940 to 1952



Major Inflationary Peaks & The Stock Market  
1968 to 1981

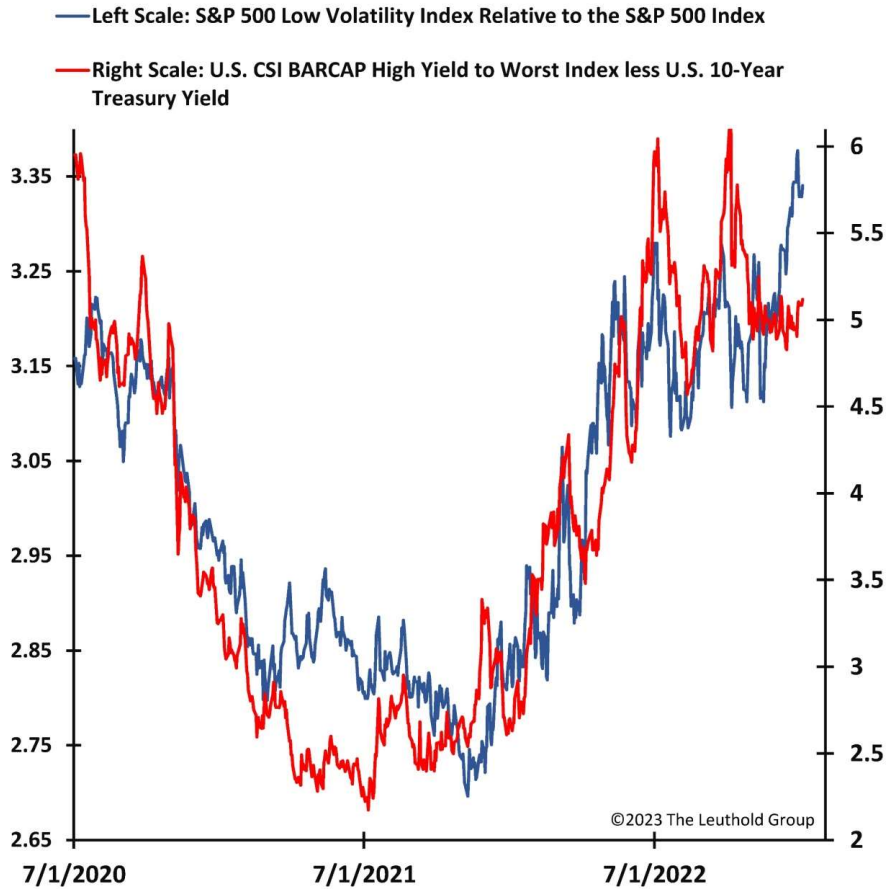


Major Inflationary Peaks & The Stock Market  
1988 to 1992

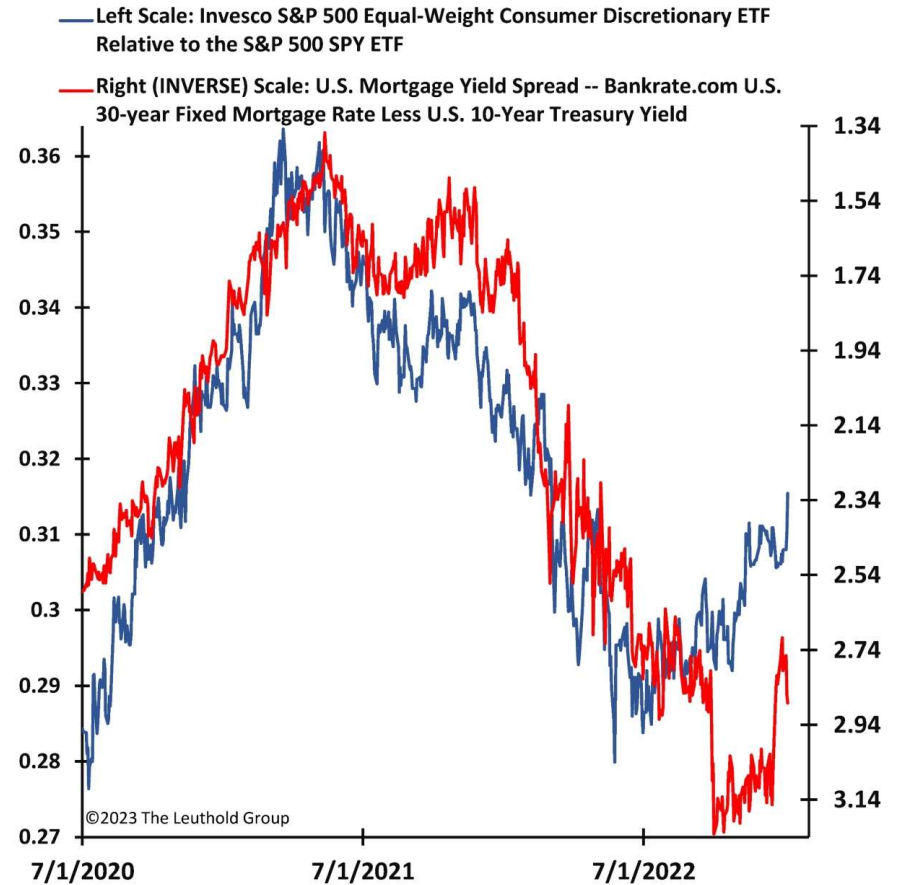


# Early-Cycle Stocks?

## Low Vol/Defensive Stocks & Junk Spreads

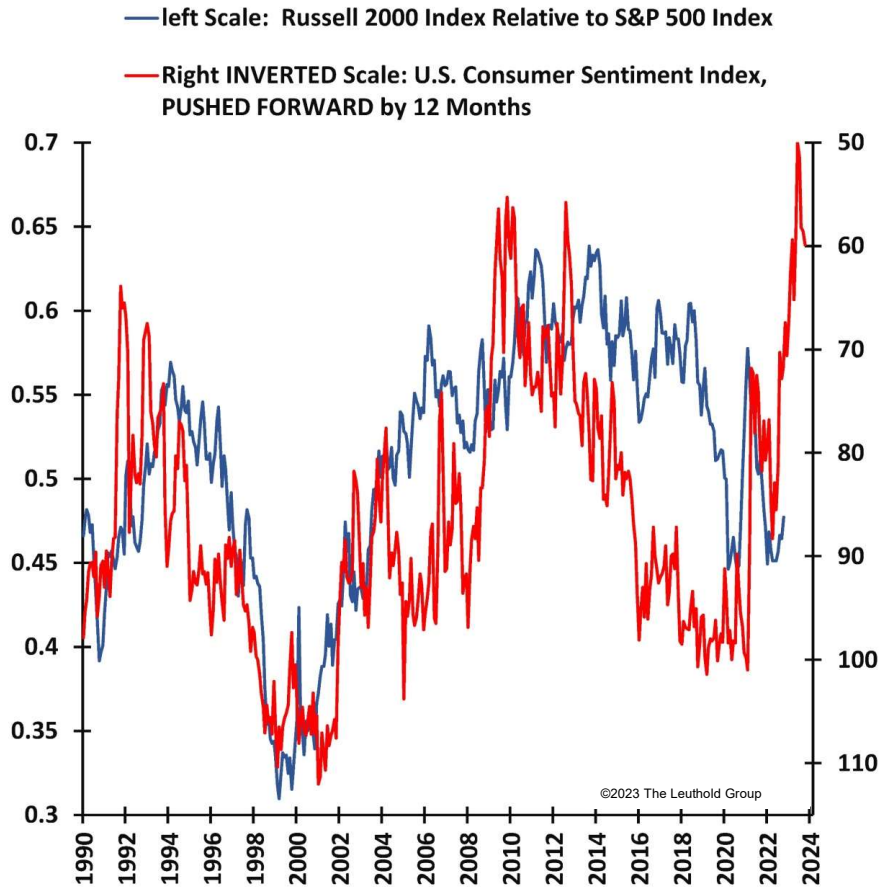


## Consumer Discretionary Stocks & Mortgage Spreads

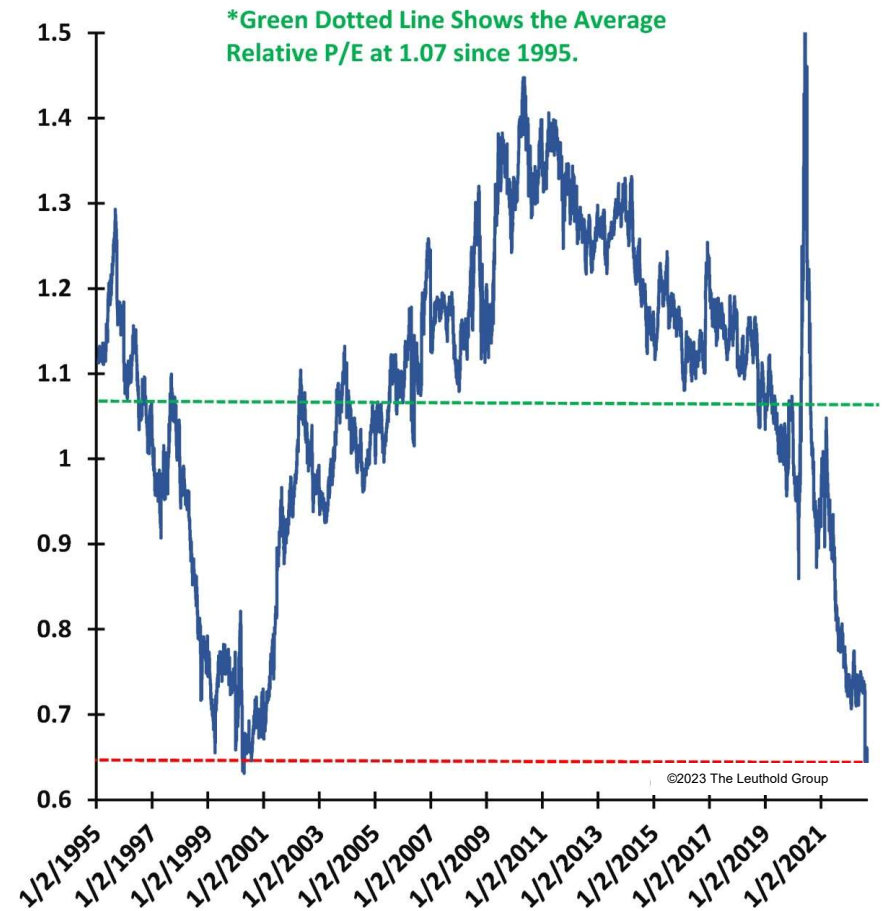


# Small Caps For Confidence Revival!

**Relative Small Cap Price vs. Lagged Consumer Confidence**

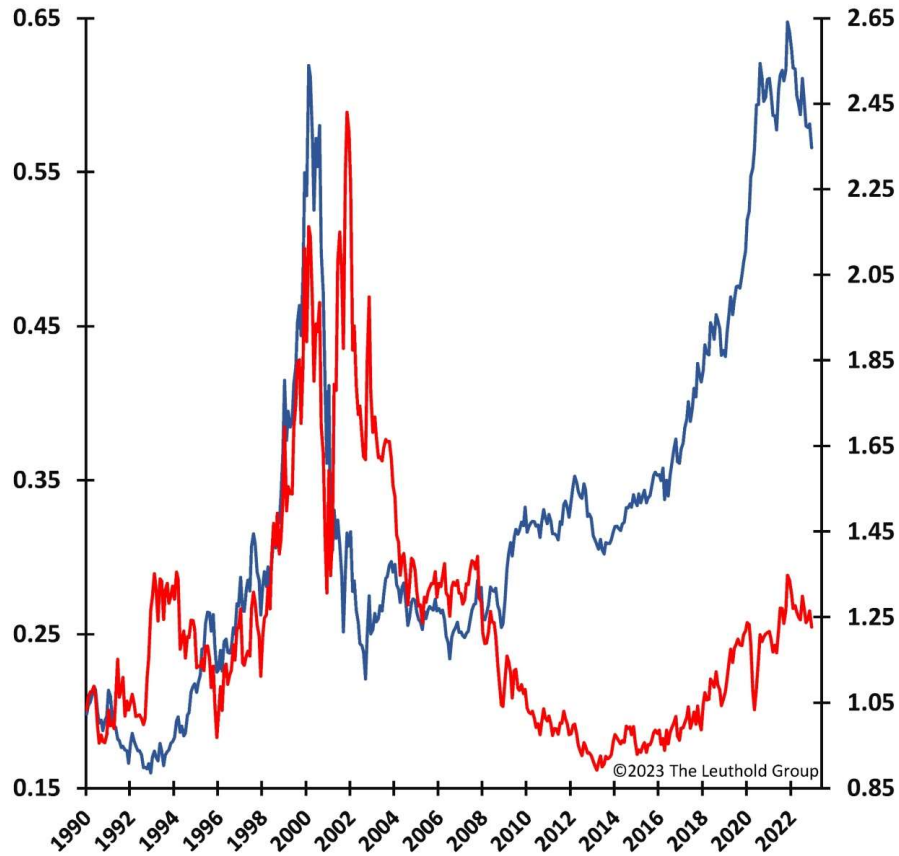


**S&P 600 Small Cap Index vs. S&P 500 Index Relative Forward 12-Month P/E Multiple\***



# Lean Back Toward Growth!?!

**S&P 500 InfoTechnology Sector  
Relative Price (Blue, Left Scale  
vs. Forward Relative P/E (Red, Right Scale)**



**Growth vs. Energy Investments**

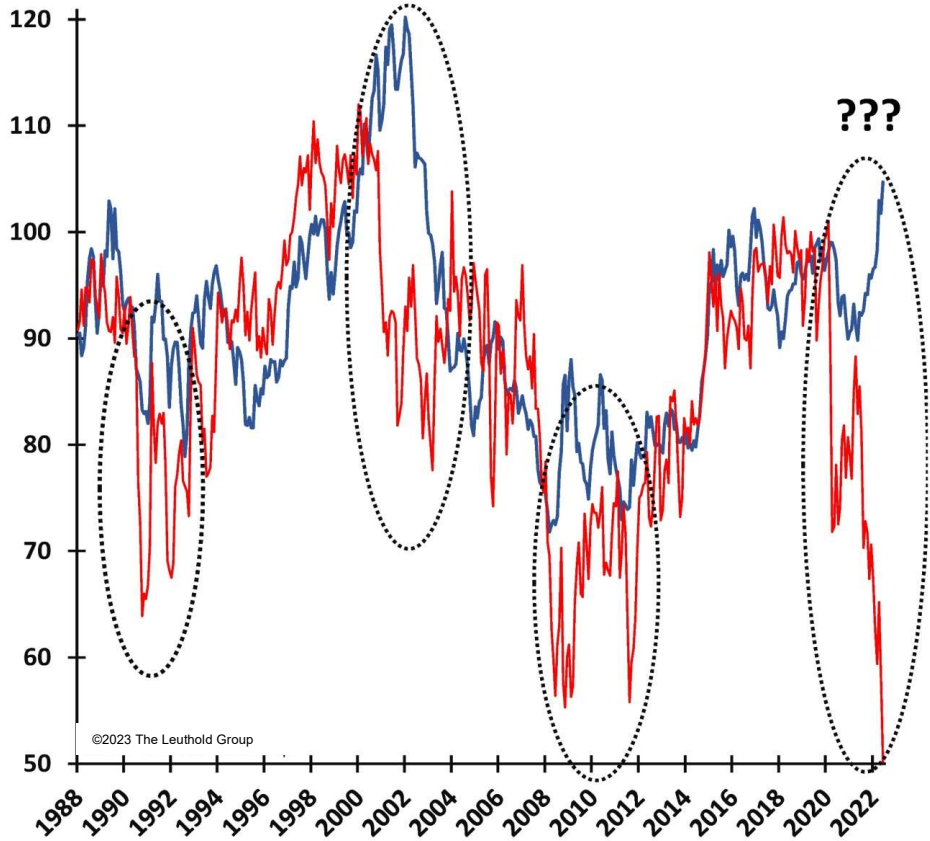




# Tilt Some Toward International Stocks?

U.S. Dollar has a BIG Safe-Haven PREMIUM?!?

- U.S. Trade-Weighted Dollar Index
- University of Michigan Consumer Sentiment Index



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## BIGGEST RISK?

- FED Tightening **OVERDONE**

## Invest For a BIG Year!!!

Bonds DO Well...But.. Stocks Do Better

Overweights:

- Consumer Discretionary, Industrials, and Financials
- SMALL CAPS
- Tend BACK Toward Growth as Year Progresses
- International Stocks Primarily EM Ex-China

Underweights:

- Inflation Plays (Commodities, Energy, Materials)
- DEFENSE