2023 Q4 Commentary

Prepare by:
Philip Chao

Chief Investment Officer

December 29, 2023

2023 – the year that did not happen!

- The most anticipated and talked about event in 2023 was the arrival of a recession, but there was "nada". This discussion started in March 2022 when the Federal Reserve (Fed) began its interest rate hiking cycle to combat rising inflation. After a rapid and unprecedented 525bp increase from years of the zero bound interest rate environment, it seems reasonable that the economically restrictive action would surpress lending, borrowing and consumption to such an extent that leads to an economic contraction (a.k.a. a Hard Landing). This means we would experience consecutive "negative" growth rates over at least two quarters accompanied by higher unemployment. The recession not only did not transpire, but talk of No Landing, where we continue with high inflation and high economic growth, began to surface. By mid-year, the chorus turned to a Soft Landing in 2024. This latest scenario is based on the notion of an immaculate disinflation, meaning that inflation will continue to come down while the economy continues to expand without increasing unemployment in any meaningful way. After the December FOMC meeting, Chair Powell's press conference cemented the Soft Landing view with the acknowledgement that we have likely passed the interest rate peak and the Fed is looking to pivot its policy in 2024. Increasingly, the consensus is that there is no recession even in 2024. Although not a base case, we believe a short and shallow recession is still a reasonable scenario
- A slowdown in the U.S. economy would naturally lead to poor stock performance and a rise in bond price as the Fed would be forced to cut rates. This also did not happen. Most have missed the unexpected stock rally in 2023 with much assets left parked in the high yielding safe haven asset – U.S. treasuries and CDs. Bonds were losing value all year until mid-October as the market anticipated the end of the Fed's hiking policy and confirmed a pivot next year by Chair Powell.
- Most have expected a significant and world lifting economic revival after China abandoned its zero Covid policy last year in 2022. Massive travel and consumer spending were anticipated. Well, that did not happen either. In fact, China is struggling with high youth unemployment, serious depreciation in housing value led banking dilemma, unmotivated consumers that saw disinflation touching on deflation.
- Oil and energy prices were expected to be sustained at a high price as a result of two military confrontations, one with oil exporter Russia and the other in the Middle East. This also did not happen.

2023 Q4 Commentary: Everything Everywhere All at Once

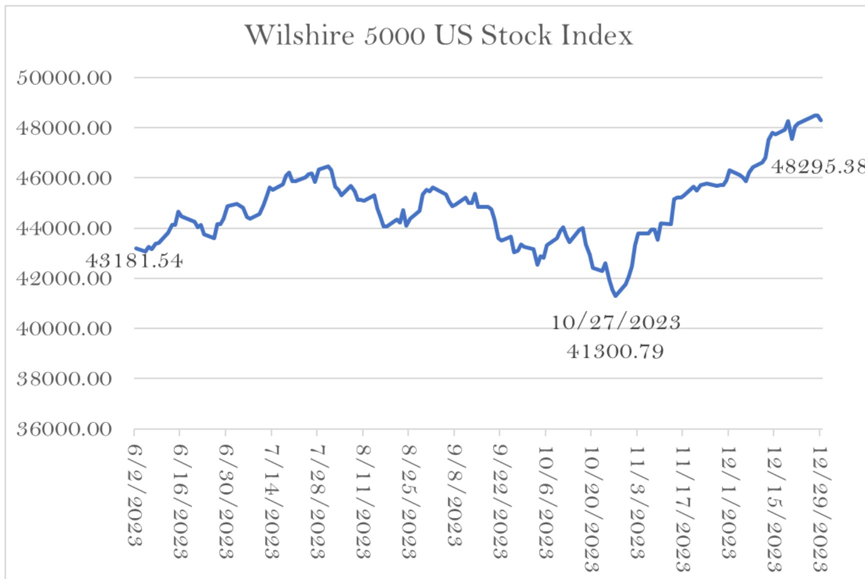
- 2023 reminds me of the "Everything Everywhere All at Once" movie. The most anticipated hard landing or recession did not happen even after a rapid 525bp increase in interest rates since 2022. Chair Powell said that the FOMC is "navigating by the stars under cloudy skies" in his August Jackson Hole speech about where the long-run "r star" (the neutral interest rate) will settle in this cycle.
- Many market participants were very critical about Chair Powell's "transitory" comment regarding inflation during his March 17, 2021, press conference. In hindsight, the bulk of the inflation has been transitory. Much of the inflation was caused by COVID's impact on the global supply chain. This exogenous shock caused significant fractures in the global supply chain and the transportation infrastructure. At the time, the demand for goods spiked as consumers had no ability to spend on and access services as the economy was shut down. This jump in demand for goods pushed prices of raw materials, finished goods, and transportation and delivery significantly upward. As the world learned to manage COVID and the supply chain recovered, goods prices began to fall, including energy and food prices. The drop in prices pushed the inflation rate (CPI) down from almost 9% in June 2022 to today at almost 3% (18 months). Although the Fed's speedy rate hike of 525bp contributed to disinflation (i.e., the rate of price change from high to low), the drop in goods inflation was indeed transitory. If the Fed's and the market's current expectation proves to be right, CPI should be at or close to 2% by 2025. But the back and forth of the Fed policy rate hinged on every granule of economic data has been exhausting.
- 70% of the U.S. economy is based on the service sector, and consumers gradually moved away from buying goods to accessing services (revenge travel is one good example) during the past 18-months. As such, the prices for services have remain elevated for an extended period. This is partly exacerbated by the shortage and imbalance in the labor economy (in absolute numbers as well as a mismatch of skill and labor) and the rise in rental rates under a low supply of housing for purchasers.
- Most have not fully comprehended and thus underestimated the impact and the duration of the massive COVID related federal fiscal transfers on American workers, businesses, and local governments. Investors consistently underestimated the spending power and the willingness to spend by consumers. Additional uncertainties were created by unusual investor emotions, adjustments to an unprecedented policy path, and the application of old frameworks on new realities.
- Also, let's not forget that the world is living with two regional military conflicts which could expand at any time to a wider theater and further destabilize the globe.

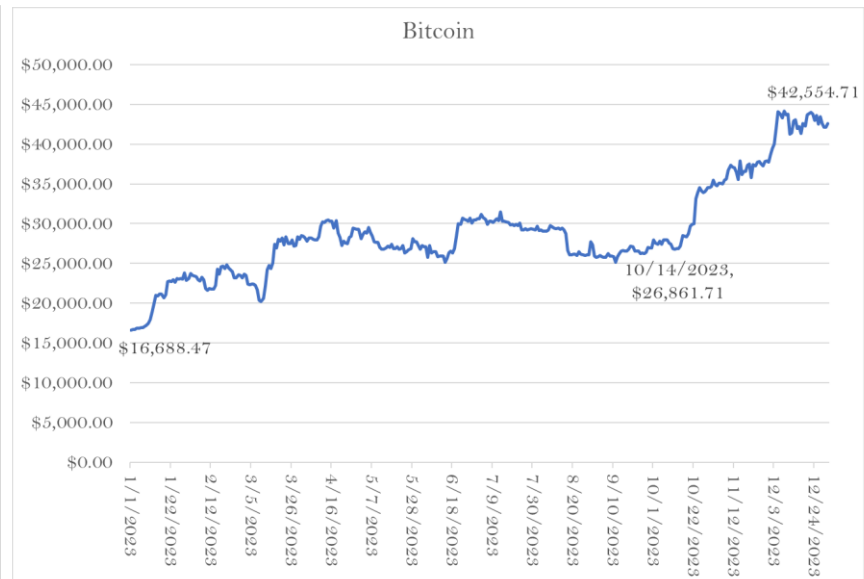
Uncertainty from a Complex System

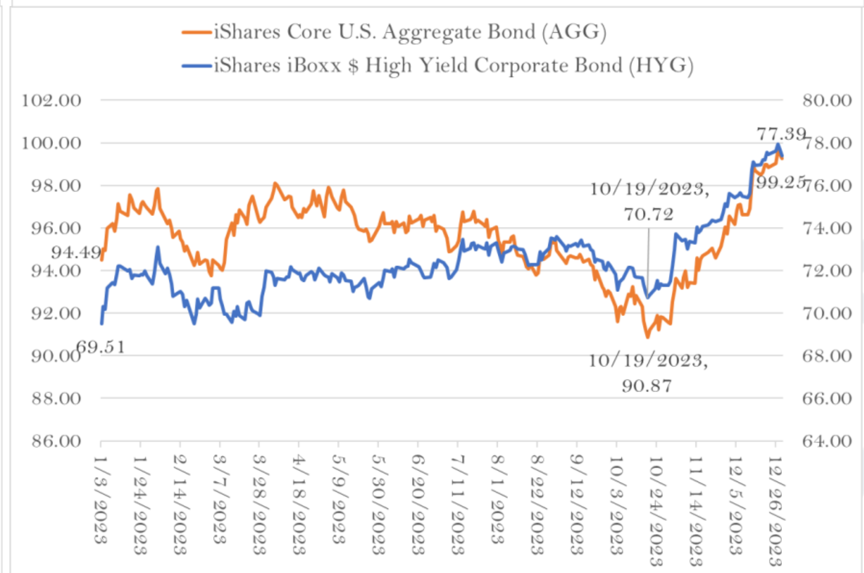
- The economy is a complex system. Complex systems exhibit several defining characteristics, including feedback, strongly interdependent variables, extreme sensitivity to initial conditions, fractal geometry, self-organized criticality, multiple metastable states, and a non-Gaussian distribution of outputs (see Kastens et al., 2009[1]).
- The abstract to W. Brian Arthur's January 29, 2021, paper[2], *Foundations of Complexity Economics*, states that "Conventional, neoclassical economics assumes perfectly rational agents (firms, consumers, investors) who face well-defined problems and arrive at optimal behavior consistent with — in equilibrium with — the overall outcome caused by this behavior. This rational, equilibrium system produces an elegant economics, **but is restrictive and often unrealistic**. Complexity economics relaxes these assumptions. It assumes that agents differ, that they have imperfect information about other agents and must, therefore, try to make sense of the situation they face. Agents explore, react and constantly change their actions and strategies in response to the outcome they mutually create. The resulting outcome may not be in equilibrium and may display patterns and emergent phenomena not visible to equilibrium analysis. The economy becomes **something not given and existing** but constantly forming from a developing set of actions, strategies and beliefs — something not mechanistic, static, timeless and perfect but organic, always creating itself, alive and full of messy vitality" – unpredictability results.
- Investing in a complex system equals investing with persistent uncertainty. To operate, we need to remain alert, agile, responsive, and willing to change our minds and positions. The saying by economist Paul Samuelson "When the facts change, I change my mind" is an important framework.
- The prudent way to invest during periods of enhanced uncertainty is equivalent to "crossing the river by touching the stones"[3]. This suggests the method should be grounded and anchored on baby steps for stability as you cross the investing river to your destination.

[1] https://serc.carleton.edu/NAGTWorkshops/complexsystems/introduction.html#systems
[2] https://www.nature.com/articles/s42254-020-00273-3
[3] Deng Xiaoping

Everything Rallies in Q4







Chair Powell Press Conference: The Pivot In View

- Inflation has eased from its highs, and this has come without a significant increase in unemployment. That is very good news. (*maintaining dual mandate commitment*)
- But inflation is still too high, ongoing progress in bringing it down is not assured, and the path forward is uncertain. Restoring price stability is essential to achieving a sustained period of strong labor market conditions that benefit all. Fully committed to returning inflation to our 2% goal. (*minimizing reputational risk*)
- The lower inflation readings over the past several months are welcome, but we need to see further evidence to build confidence that inflation is moving down sustainably toward our goal. (*steadfast commitment to the 2% inflation target*)
- Policy rate well into restrictive territory - interest rate at 5.25%.
- Restrictive territory means that tight policy is putting downward pressure on economic activity and inflation.
- The full effects of tightening likely have not yet been felt. (*the long and variable lag*)
- Future decisions about the extent of any additional policy firming and how long policy will remain restrictive (will be) based on the totality of the incoming data, the evolving outlook, and the balance of risks. (*data dependent*)
- The policy rate of 5.25% is likely at or near its peak for this tightening cycle. While FOMC members do not view it as likely to be appropriate to raise interest rates further, neither do they want to take the possibility off the table. (*near or at peak, pause for now*)
- Ongoing progress toward the 2% inflation objective is not assured, and they are prepared to tighten policy further if appropriate. FOMC members didn't want to take the possibility of further hikes off the table. "[T]hinking that we have done enough but not feeling that really strongly confidently and not wanting to take the possibility of a rate hike off the table. Nonetheless, it's not the base case anymore". (*maintain policy optionality*)
- The phases of rate policies are: (1) how fast, (2) how high, and (3) dial back (pivot). The FOMC is still at phase (2) even though phase (3) is now "in view." The FOMC "wouldn't wait to get to 2% to cut rates…it would be too late. [You would] want to be reducing restriction on the economy well before 2% so you don't overshoot". (*pivoting is in view*)
- "Committed to achieving a stance of monetary policy that is sufficiently restrictive to bring inflation sustainably down to 2% over time and to keeping policy restrictive until we are confident that inflation is on a path to that objective." (*higher for longer continues*)

EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

Immaculate Disinflation Leading to a Soft Landing

- Soft Landing = Disinflation with a clear path to the Fed rate target of 2% in core inflation without causing an economic recession which is comprised of higher unemployment (likely over 5%) and an economic contraction. A mild and shallow "technical" recession (a back-to-back economic contraction without serious unemployment) is also included in this loosely defined term.
- With the final third quarter GDP affirmed at 4.9% and 2% in Q1 and 2.1% in Q2 inked, the economy is growing at an above trend rate of 3%. The Atlanta Federal Reserve GDPNow projects Q4 to be growing at a 2.6% rate. If this projection holds, real GDP for 2023 would be at 2.9%. This is higher than the Federal Reserve Summary of Economic Projections (SEP) of 2.6% for the year.
- The headline unemployment rate (U3) is 3.7%, and the broader unemployment measure – U6 – was at 7% in November. Further, the employment participation rate is 62.8%, and the employment-to-population ratio is at 60.4%. Today, we have 161.969 million in the labor force. These data show that the U.S. labor market is fully back to and exceeding pre-COVID levels. The November 199,000 new jobs created shows the labor market remains healthy which supports a stronger-than-expected economy. Also, according to the Employment Cost Index report, wages and salaries for civilian employees increased at 4.6% for the 12-month period ending in September 2023. Although the rate of increase has slowed, it is now above the CPI (3.7% for September). This means real wages have grown.
- Financial conditions are becoming progressively more supportive with Chair Powell signaling the end of the hiking cycle and interest rate cuts on the horizon. The market is pricing in 6 rate cuts even though the December Summary of Economic Projections only projects 3 rate cuts totaling 75bp. As a result, the market, in its anticipation, is neutralizing the impact of the "long and variable lag" of high interest rate restrictive effects on the economy to bring inflation back to the 2% target.
- The consensus of the base case for 2024 is for the Fed to victoriously and softly "land" without causing a recession. The problem is that there are known and unknown exogeneous factors that are lurking (economic, geopolitical, and environmental) that could derail the landing. The market is getting too complacent with this Immaculate Disinflation scenario which would add more market (bonds and stocks) volatility next year.

EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

CME Fed Watch Tool – 9-20 vs 12-22 – perfect soft landing?

Future Meeting	Projection Date	525-550bp	500-525bp	475-500bp	450-475bp	425-450bp	400-425bp	375-4090bp
January 2024	12-22-2023	85.50%						
	12-13-2023	85.50%						
	09-20-2023	54.60%						
March 2024	12-22-2023		75.60%					
	12-13-2023	65.40%						
	09-20-2023	51.90%						
May 2024	12-22-2023			73.60%				
	12-13-2023			54.30%				
	09-20-2023	47.10%						
June 2024	12-22-2023				66.20%			
	12-13-2023				52.50%			
	09-20-2023	38.70%						
July 2024	12-22-2023					63.10%		
	12-13-2023					44.40%		
	09-20-2023		34.60%					
September 2024	12-22-2023						58.80%	
	12-13-2023					39.10%		
	09-20-2023		30.90%					
November 2024	12-22-2023							41.50%
	12-13-2023						39%	
	09-20-2023			29.90%				
December 2024	12-22-2023							37.30%
	12-13-2023						28.10%	
	09-20-2023				27.90%			

CME Fed Watch Tool uses Fed Funds futures contracts to estimate the probability of a rate hike or cut. At the end of the September FOMC meeting, the market projected 3 rate cuts starting with the July 2024 meeting. At the end of the December FOMC meeting, the market projected 4 rate cuts starting in May 2024, and as of 12-22, the market shifted even more and now expects the FOMC to cut rates 6-times next year starting in March and to cut 25bp per meeting thereafter through its November 2024 meeting for a total of 150bp cut in 2024. The shift is substantial and shows increasing market confidence (probability).

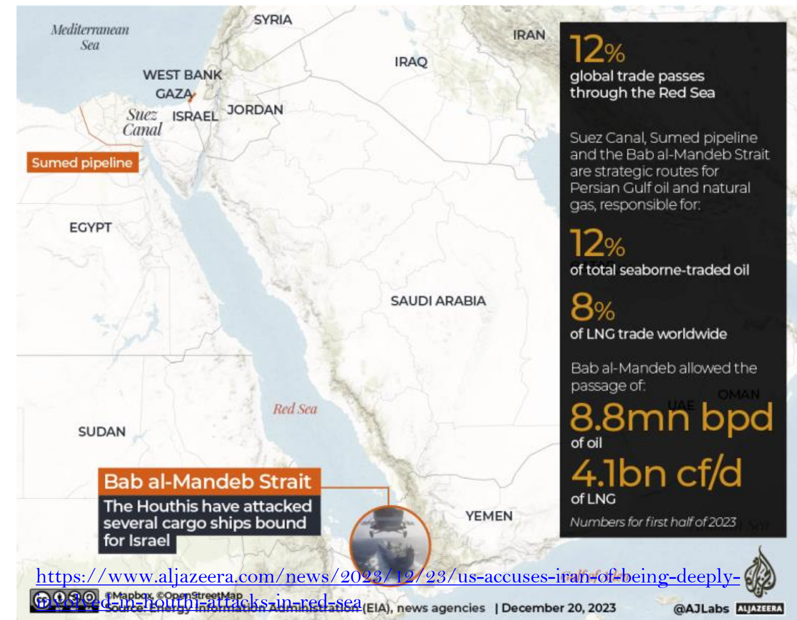
The market has been hoping and betting that the Fed will cut rates sooner than later based on rapid disinflation and a strong labor economy. The December FOMC meeting and the Chair Powell press conference that followed suggest the rate hikes are done and 3 rate cuts are in the cards for 2024.

The Fed's Balancing Act

1) Chair Powell suggested that the Fed is at the end of the hiking cycle; the question is how long should the current interest rate (525-550bp) hold (i.e. how long should we remain in a restrictive environment). Chair Powell acknowledges that the Fed must balance the risk of pivoting too soon and letting inflation raise its head again and pivoting too late and contributing to unnecessary economic/labor pain.
2) Broadcasting the end of the rate hiking cycle and that rate cuts are on the table works against the full effect of the restrictive stance of using high interest rates to dampen economic activities. The market is always trying to price itself at where the "puck" is going and not where the "puck" is right now. As such, we have witnessed a loosening of financial conditions. This makes the Fed's job that much more challenging.
3) Uncertainty results from the Fed delivering policy transparency vs the market frontrunning the policy thereby making the policy immediately less effective and forcing the rates to remain higher for even longer than perhaps necessary. We are hoping that inflation will return to 2% sooner rather than later so that the engineering of an economic soft landing can coincide with the market's expectation of rate cuts.
4) The Fed has always maintained itself to be independent from politics. With 2024 being an election year, should the Fed act earlier to avoid being blamed for playing politics or would the Fed be totally unmovable under political pressure?
5) The Fed's policy action (which continues to be data dependent) and how the bond and stock market will project, anticipate, act, and reposition will continue to add to market volatility in 2024. We do not see a straight line from here to 2% (core inflation) by the end of this year. In fact, it is not certain that 2024 will be a soft landing year.
6) The Fed's continuation of Quantitative Easing (QE) will add pressure on the supply and demand relationship in the longer term treasury market. Balancing the need to shrink its balance sheet while not contributing to a supply-demand mismatch (thereby inadvertently pushing rates higher) will likely be magnified next year as the U.S. Treasury is issuing massive amount of bonds.

Geopolitics: Time is not our Friend

- Oil prices have dropped since the October Hamas attack on Israel. For now, world markets believe that this ongoing conflict will not affect access to Middle East oil. The world is watching Iran's reaction as it could create significant supply disruptions in the global crude market.
- Almost 20% of the world's oil travels through the Strait of Hormuz daily. The Strait is located between the Persian Gulf and the Gulf of Oman. It is the only pathway from the Persian Gulf to the open ocean.
- In response to the Israel-Hamas conflict, the Houthis (aligned with Iran), who controls much of Yemen, have been attacking ships passing through the Bab al-Mandab Strait, a 20-mile wide channel that splits Eritrea and Djibouti on the African side and Yemen on the Arabian Peninsula.
- Although the U.S. Navy has successfully defended against drone attacks, world shipping in the area can be severely disrupted. These attacks have caused many companies to reroute cargo ships around the southern tip of Africa. The longer journeys adds at least 10 days to shipping times at significant fuel costs.



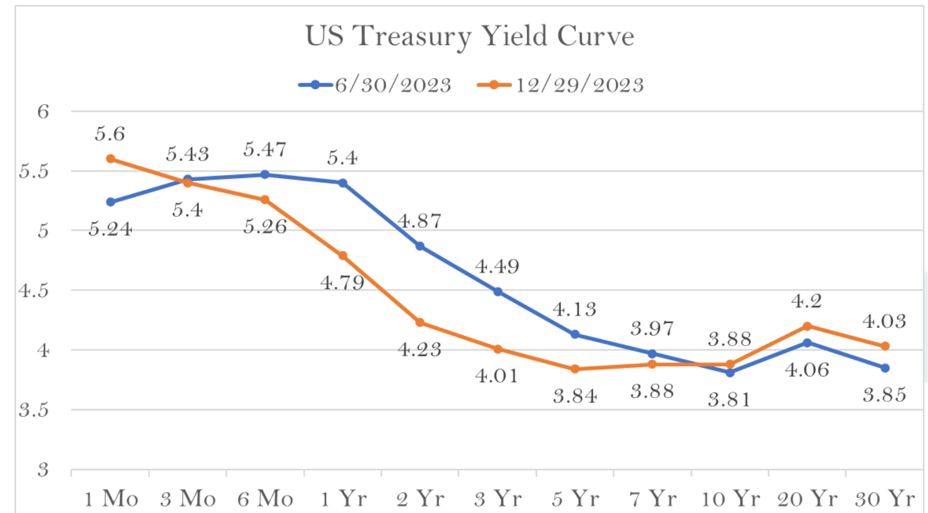
https://www.aljazeera.com/news/2023/12/23/us-accuses-iran-of-being-deeply-involved-in-houthi-attacks-in-red-sea

- The Iranian Revolutionary Guards have warned that they could force the closure of waterways other than the Red Sea. On December 23rd, the U.S. accused Iran of launching a drone attack on a chemical tanker in the Indian Ocean causing structural damage.
- At a minimum, these disruptions are inflationary, and depending on if the incidences escalate or if Iran takes on an expanding role, they could impact LNG and crude oil delivery globally.
- On Christmas Day, an Israeli air strike in Damascus killed Seyyed Razi Mousavi, a senior commander of the Iranian Revolutionary Guard. Mousavi was serving as a military adviser in Syria. The Iranian President said Israel will pay a price for this action.

EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

How will the interest yield curve respond in 2024?

- The current U.S. treasury yield curve is even more inverted as the market anticipates rate cuts (the Fed is responsible for setting short rates only) as compared to the middle of this year.
- Term premium (buyers are not being compensated for buying the longer maturity portion of the yield curve) remains negative.
- Assuming we are able to get back to 2% inflation in 2025, the Fed will cut rates months in advance of that expectation. This would lower the front end of the yield curve and begin normalization.



- The uncertainty is the tug of war between the Fed's timetable and the pace for rate cuts in the front end and the market expectation or anticipation when pricing the rest of the yield curve on the back end. The market getting both the pace and number of cuts right is highly unlikely as the Fed itself is not certain. As such, the market will likely overreact to any data that falls short of or exceeds expectations – more volatility.
- Now that the Fed has stopped using "forward guidance" as a policy tool, it is literally making policy decisions on a meeting-by-meeting basis. This adds more to volatility.

EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

Where should the 10-year treasury rates be?

- One way to estimate the 10-year treasury yield under a normal (non-recessionary) positive yield curve[1] environment is to get a base line for the yield spread[2] between the 3-month treasury and the 10-year treasury (i.e., the 3-10 spread). Using FRED dataset[3] beginning 1-4-1982 and removing the sustained periods of negative 3-10 spread (representing extraordinary periods of 7/7/2000 to 1/19/2001, 7/17/2006 to 5/29/2007, 5/23/2019 to 10/10/2019, and 10/25/2022 until now), we have a total of 9,954 trading days (the "Adjusted Period'). The average 3-10 spread is 1.783%. This means the 10-year U.S. treasury has had a term premium[4] of 1.783% above the 3-month U.S. treasury bill rate over the Adjusted Period.
- If we assume that the inflation rate is back to the Fed's 2% target and the Fed fund rate (or r*) is 0.75% above the inflation rate, the 10-year would be around 4.533% (i.e., 2% + 0.75% + 1.783%).
- Today, the 10-year U.S. treasury is yielding at 3.9%. If we apply the same assumptions, this implies a term premium of only 1.15%.
- Alternatively, if the market has correctly priced the 10-year treasury yield at 3.9%, and if the 3-10 spread remains at 1.783%, then the 3-month U.S. treasury is expected to be yielding 2.117% which is only 0.117% above the target 2% inflation rate – not likely.
- Using this set of general assumptions and the curated set of historical rate data, the current 10-year U.S. treasury bond yield is likely too low. One reason for the current low rate could be due to the market's emotion of anticipating lower inflation which drives lower Fed Fund rates and pushes lower yields across the entire yield curve.
- Further, with a growing federal deficit and waning foreign (non-economically driven) buyers, the supply/demand relationship should tilt the rates to be higher rather than lower. Furthermore, if the Fed continues its Quantitative Tightening program of not reinvesting maturing securities, this further reduces demand.
- We expect the10-year bond yield will settle at higher than where it is now, but the timing and the market rate remain unknowable.

[1]A curve on a graph in which the yield of fixed-interest securities is plotted against the length of time they have to reach maturity.
[2]Bond spread is the difference in yield between two different bonds
[3]https://fred.stlouisfed.org/series/T10Y3M
[4]Term premium is the excess yield that investors require to commit to holding a long-term bond instead of a series of shorter-term bonds

2023Q4 Stocks & Bonds Performance in USD & 60/40

Index as of 2023 12 29	QTD TR	YTD TR	Y2022 TR	3y Anlzd TR
DJ Industrial Average NR USD	12.91	15.43	-7.44	8.72
S&P 500 TR (1989)	12.00	26.64	-18.11	10.31
S&P 500 Growth TR USD	10.47	30.48	-29.41	6.77
S&P 500 Value TR USD	13.87	22.48	-5.22	13.60
Russell Mid Cap TR USD	12.82	17.23	-17.32	5.92
Russell Mid Cap Growth TR USD	14.55	25.87	-26.72	1.31
Russell Mid Cap Value TR USD	12.11	12.71	-12.03	8.36
Russell 2000 TR USD	14.03	16.93	-20.44	2.22
Russell 2000 Growth TR USD	12.75	18.66	-26.36	-3.50
Russell 2000 Value TR USD	15.26	14.65	-14.48	7.94
NASDAQ 100 TR USD	15.09	55.80	-32.38	10.48

Index as of 2023 12 29	QTD TR	YTD TR	Y2022 TR	3y Anlzd TR
Bloomberg US Agg Bond TR USD	6.83	5.54	-13.01	-3.25
Bloomberg US Corp IG + HY TR USD	8.35	9.40	-14.91	-2.21
Bloomberg Municipal TR USD	7.87	6.38	-8.53	-0.40
Bloomberg High Yield Corporate TR USD	7.14	13.42	-11.19	2.02
Bloomberg Global Aggregate TR USD	8.42	6.02	-16.25	-5.25
Bloomberg EM Local Currency Broad TR USD	9.59	11.40	-12.72	-4.72
Bloomberg EM Hard Currency Agg TR USD	8.54	9.70	-16.60	-3.68

US 60/40 Portfolio US$ as of 2023 12 29	QTD TR	YTD TR	Y2022 TR	3y Anlzd TR
S&P 500 TR (1989)	12.00	26.64	-18.11	10.31
Bloomberg US Agg Bond TR USD	6.83	5.54	-13.01	-3.25
Total Blended Index Return (no fee)	8.73	15.54	-14.26	3.85

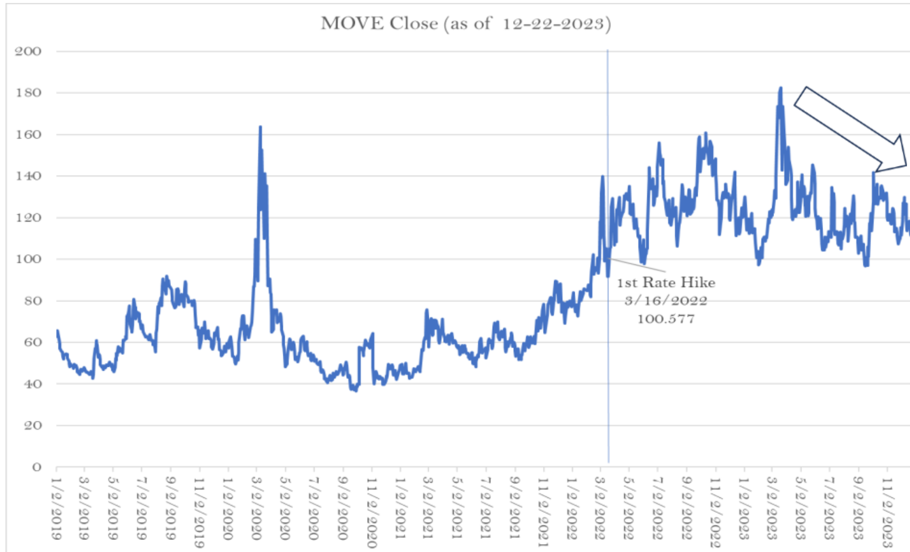
Global 60/40 Portfolio US$ as of 2023 12 29	QTD TR	YTD TR	Y2022 TR	3y Anlzd TR
MSCI ACWI All Cap GR USD	11.25	22.06	-18.04	5.89
Bloomberg Global Aggregate TR USD	8.42	6.02	-16.25	-5.25
Total Blended Index Return (no fee)	10.11	15.64	-17.32	1.44

Index as of 2023 12 29	QTD TR	YTD TR	Y2022 TR	3y Anlzd TR
S&P 1500 Cons Discretionary TR	13.90	41.53	-35.70	4.57
S&P 1500 Cons Staples TR	5.56	1.18	-0.74	6.11
S&P 1500 Energy TR	-6.53	-0.32	63.77	36.39
S&P 1500 Financials TR	14.74	12.08	-10.15	11.11
S&P 1500 Health Care TR	6.56	1.95	-3.31	7.70
S&P 1500 Industrials TR	13.47	20.73	-6.43	11.53
S&P 1500 Information Technology TR	17.29	57.02	-27.91	14.73
S&P 1500 Materials TR	11.28	14.08	-10.78	9.60
S&P 1500 Media TR	1.58	19.09	-30.54	-5.34
S&P 1500 Commun Services TR	11.50	55.07	-39.66	4.34
S&P 1500 Utilities TR	8.69	-7.38	1.37	4.12
S&P 1500 TR	12.16	25.90	-17.78	10.15

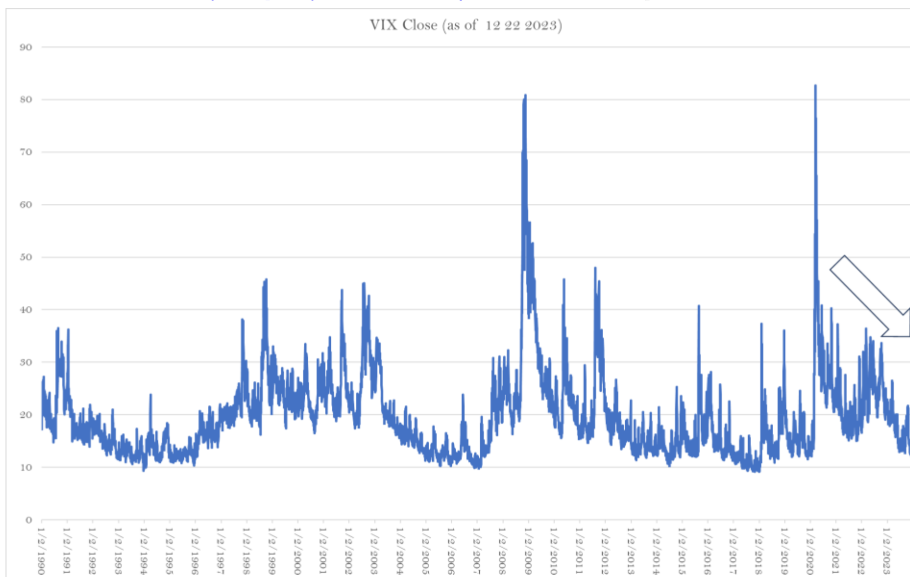
Index as of 2023 12 29	QTD TR	YTD TR	Y2022 TR	3y Anlzd TR
MSCI ACWI ex USA All Cap GR USD	9.96	16.18	-16.24	2.49
MSCI EAFE GR USD	10.72	19.12	-14.01	4.85
MSCI Europe GR USD	11.44	21.02	-14.53	6.65
MSCI AC ASEAN GR USD	3.76	0.62	-4.09	-1.07
MSCI EM GR USD	7.84	10.17	-19.74	-3.71
MSCI Frontier Emerging Market GR USD	7.90	12.84	-17.84	-0.73
MSCI Australia GR USD	15.27	14.92	-5.13	6.10
MSCI Brazil GR USD	18.48	33.86	14.61	8.98
MSCI Canada GR USD	11.27	16.25	-12.17	8.97
MSCI China GR USD	-4.56	-11.36	-21.80	-16.92
MSCI France GR USD	10.36	22.28	-12.67	8.80
MSCI Germany GR USD	13.04	23.97	-21.62	0.96
MSCI Hong Kong GR USD	3.29	-14.87	-4.71	-7.70
MSCI India GR USD	11.98	21.29	-7.49	12.43
MSCI Italy GR USD	13.02	38.79	-13.42	11.74
MSCI Japan GR USD	8.22	20.77	-16.31	1.04
MSCI Korea GR USD	15.42	23.59	-28.94	-6.83
MSCI Mexico GR USD	19.44	42.28	-1.64	20.31
MSCI UK All Cap GR USD	7.80	14.30	-10.16	6.53
MSCI ACWI All Cap GR USD	11.25	22.06	-18.04	5.89

Source: Morningstar Direct, Experiential Wealth 12-29-2023

The Market: Bond and Stock Volatility



https://finance.yahoo.com/quote/%5EMOVE/history?period1=1546473600&period2=1688428800&interval=1d&filter=history&frequency=1d&includeAdjustedClose=true, Experiential Wealth



https://finance.yahoo.com/quote/%5EVIX/history, Experiential Wealth

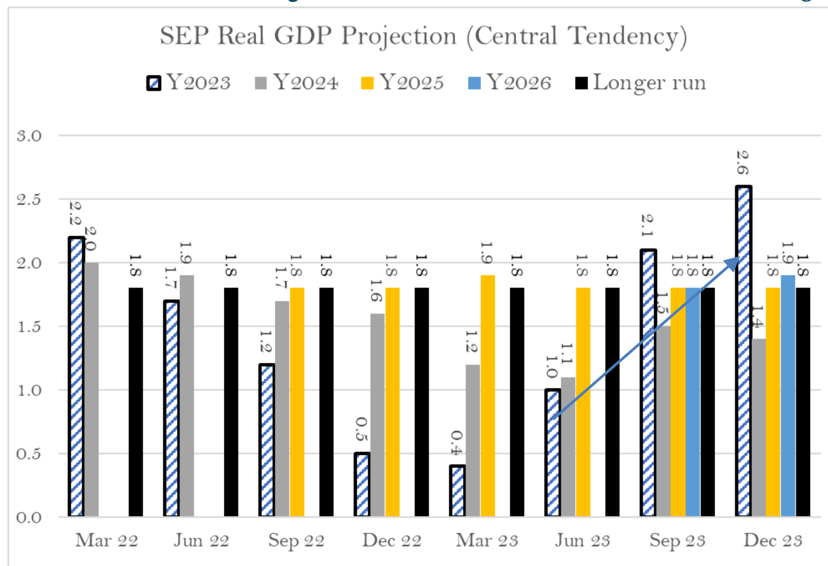
ICE MOVE Index - Merrill Lynch Option Volatility Estimate - is one measure of U.S. interest rate volatility and can provide a signal for changing risk sentiment in fixed income markets. A high MOVE index value is interpreted to mean an increase in Treasury market volatility and potentially heightened risk and uncertainty. A low MOVE index value indicates low risk and high certainty. The lower Treasury market volatility signals to market participants to expect stable interest rates. Chair Powell's December dovish posture continues the soft landing narrative. The market is pricing in cuts even more frequently than the FOMC has signaled.

The VIX - a measure of the S&P500 index volatility - has also dropped as the market is interpreting the disinflation trend and the Fed's dovish stance to mean rate cuts are around the corner. This affirms the soft landing narrative which is constructive for the economy and the stock market.

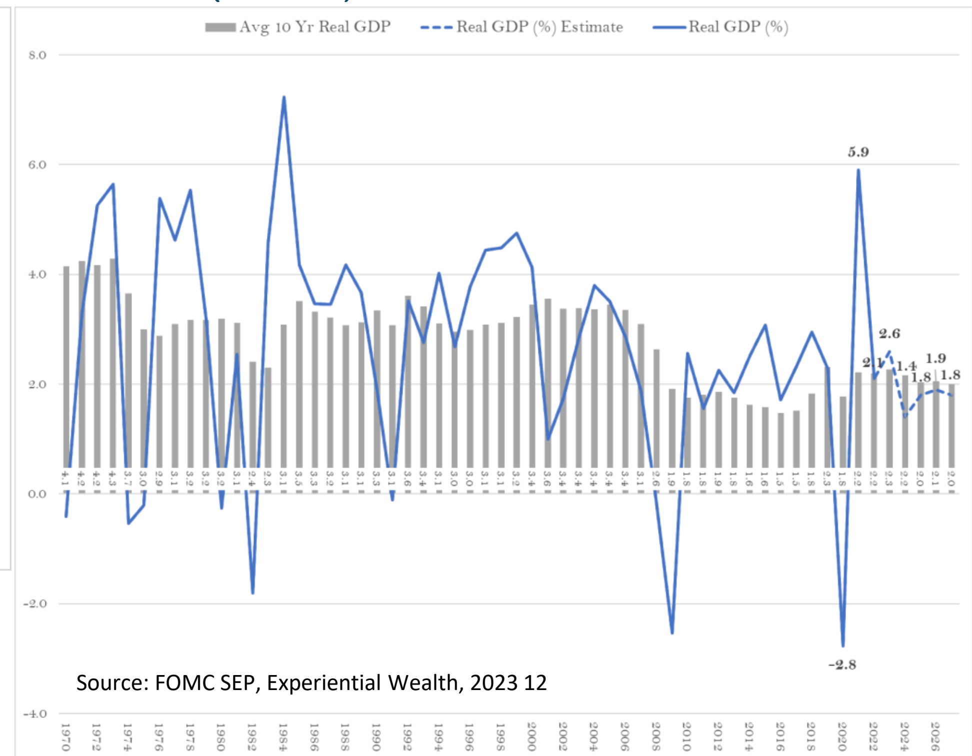
Financial conditions are easing.

EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

Summary of Economic Projections (SEP) – GDP 12-2023



Source: FOMC SEO, Experiential Wealth, 2023 12



At its September meeting, the Federal Open Market Committee (FOMC) released its quarterly Summary of Economic Projections (SEP). FOMC participants submit their projections of the most likely outcomes for real gross domestic product (GDP) growth. Participant projections are based on information available at the time of the meeting together with their assessment of appropriate monetary policy and assumptions about other factors likely to affect economic outcomes. Historically, SEP projections are more instructive in terms of directionality rather than the actual projections.

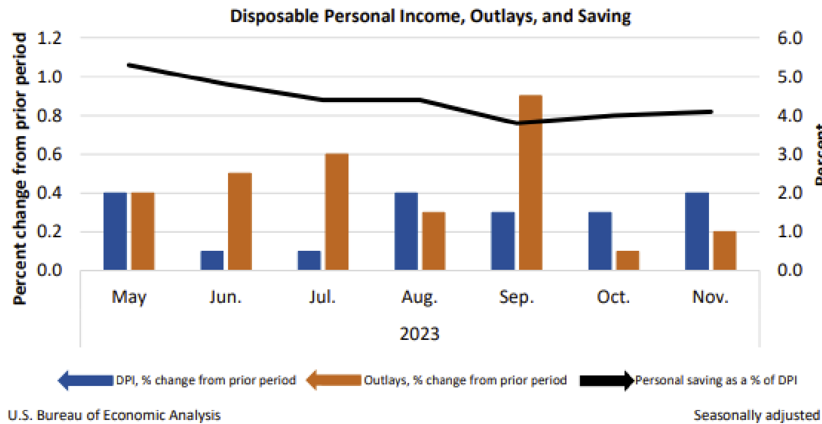
The SEP has significantly revised upward its 2023 economic growth projection. This is a recognition of an economy with continuing moderate expansion.

The SEP should NOT be deemed as the official position of the FOMC. It is a collection of individual indications about the future.

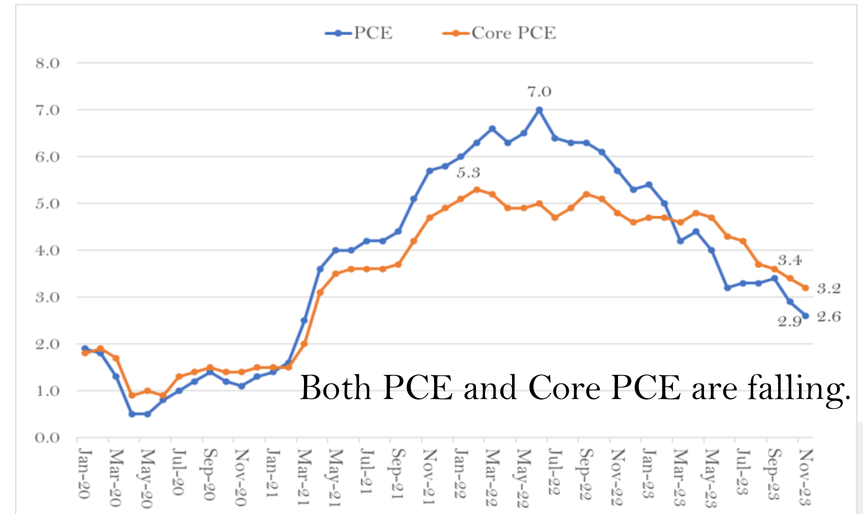
According to the December 2023 SEP, the central tendency average estimate for real GDP has revised up from **2.1% in September's meeting to 2.6%** for 2023, slightly dropped the projection for 2024 from 1.5% to 1.4%, and **stayed the course** for 2025. This suggests that the FOMC's central tendency is for continuing economic expansion (at an even faster speed) in 2023 and continuing to project a slower or more normalized economy in 2024 and 2025 – a "soft" landing. On a trailing 10-year average basis, the real GDP continues at a rate of 2% although the SEP projects a 1.8% GDP in the longer run.

EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

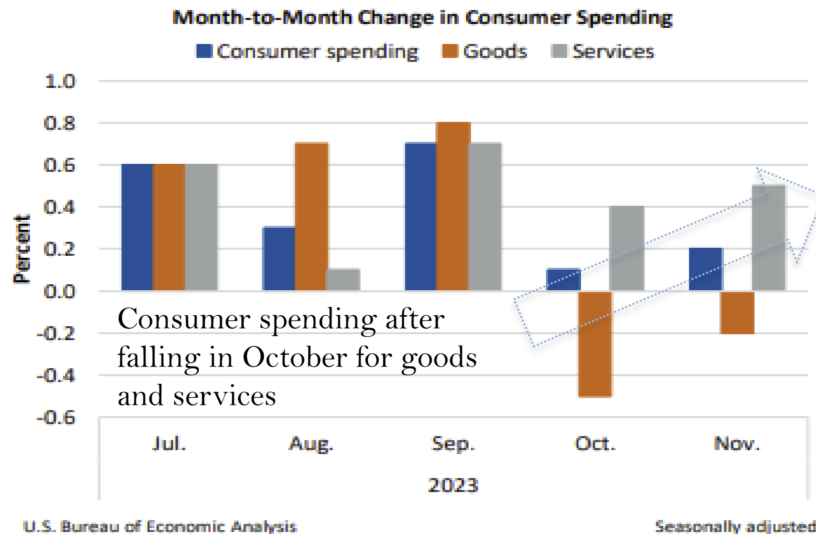
The U.S. Economy – GDP – Consumers are Still Spending

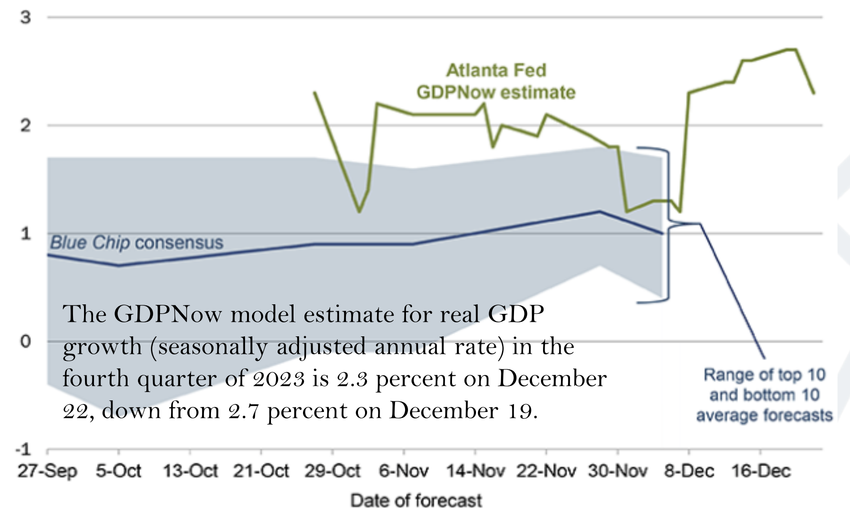


Personal income increased 0.4% in November. Disposable personal income increased 0.4%, and personal consumption expenditures increased 0.2%.



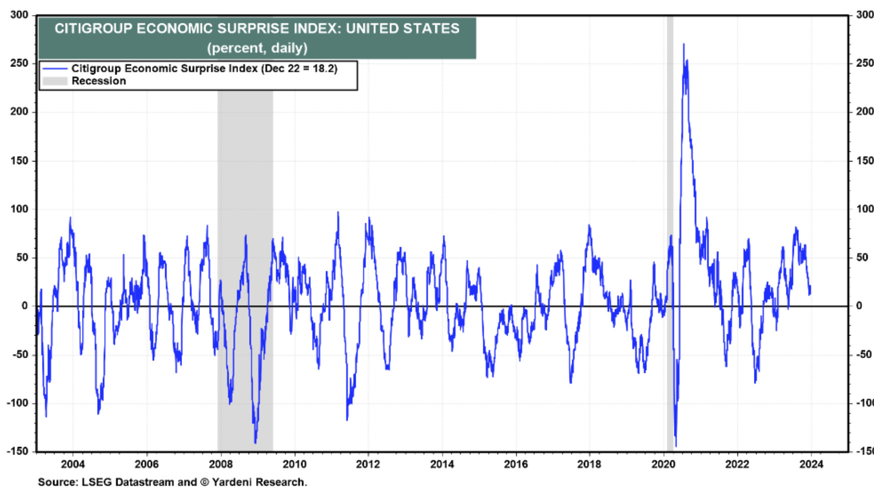
Source: BEA, Experiential Wealth
https://www.bea.gov/data/income-saving/personal-income





https://www.atlantafed.org/cqer/research/gdpnow (12-28-2023)

High Frequency Economic Data – 12-2023



https://yardeni.com/charts/citigroup-economic-surprise/

Source: Authors' calculations based on data from Haver Analytics, Redbook Research, Rasmussen Reports, the Association of American Railroads, and Booth Financial Consulting. https://www.dallasfed.org/research/wei

Citi's Economic Surprise Index, which measures the degree to which economic data is either beating or missing expectations, continued to positively improve in the current quarter even though expectations and reality are getting more aligned.

The Weekly Economic Index (WEI), now produced and maintained by the Dalles Fed, provides a signal of the state of the U.S. economy based on data available at a daily or weekly frequency. It represents the common component of 10 different daily and weekly series covering consumer behavior, the labor market, and production. The WEI is currently 2.92 percent, scaled to four-quarter GDP growth, for the week ended December 23 and 1.89 percent for December 16. The 13-week moving average is 1.98 percent. This is compared with 2.93 percent four-quarter GDP growth through the third quarter of 2023.

National Federation of Independent Business (NFIB) 11-2023

Index Component	Seasonally Adjusted Level	Change from Last Month	Contribution to Index Change
Plans to Increase Employment	18%	1	*
Plans to Make Capital Outlays	23%	-1	*
Plans to Increase Inventories	-3%	-3	*
Expect Economy to Improve	-42%	1	*
Expect Real Sales Higher	-8%	2	*
Current Inventory (too low)	0%	3	*
Current Job Openings	40%	-3	*
Expected Credit Conditions	-11%	-2	*
Now a Good Time to Expand	8%	2	*
Earnings Trends	-32%	0	*
Total Change		0	

Based on a Survey of Small and Independent Business Owners
https://strgnfibcom.blob.core.windows.net/nfibcom/SBET-Nov-2023.pdf

NFIB's Small Business Optimism Index decreased 0.1 points in November to 90.6, which marks the 23rd consecutive month below the 50-year average of 98. Twenty-two percent of owners reported that inflation was their single most important problem in operating their business, unchanged from October but 10 points lower than this time last year.

Small Business Optimism

Index Component	Net %	From Last Month
Plans to Increase Employment	18%	▲ 1
Plans to Make Capital Outlays	23%	▼ -1
Plans to Increase Inventories	-3%	▼ -3
Expect Economy to Improve	-42%	▲ 1
Expect Real Sales Higher	-8%	▲ 2
Current Inventory	0%	▲ 3
Current Job Openings	40%	▼ -3
Expected Credit Conditions	-11%	▼ -2
Now a Good Time to Expand	8%	▲ 2
Earnings Trends	-32%	▬ 0

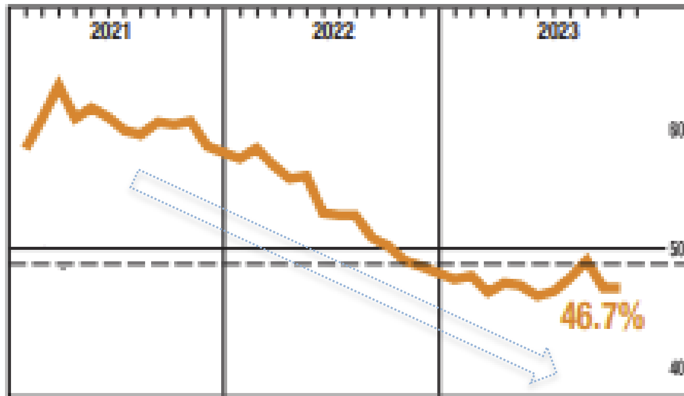
https://www.nfib.com/surveys/small-business-economic-trends/

Key findings include:

- Owners expecting better business conditions over the next 6 months increased 1% from October to a net negative 42% (seasonally adjusted).
- A net negative 17% of all owners (seasonally adjusted) reported higher nominal sales in the past 3 months, unchanged from October and the lowest reading since July 2020.
- 40% (seasonally adjusted) of owners reported job openings that were hard to fill, down three points.
- A net 30% of owners (seasonally adjusted) plan to raise compensation in the next 3-months, up 6% from October and the highest since December 2021.
- The net percent of owners raising average selling prices decreased 5% from October to a net 25% (seasonally adjusted).
- The net percent of owners who expect real sales to be higher increased 2% from October to a net negative 8% (seasonally adjusted).

Manufacturing Sector still challenging

ISM Manufacturing PMI Index
> 50 is expansionary



The U.S. manufacturing sector contracted in November as the Manufacturing PMI registered 46.7 percent, the same figure recorded in October. This is the 13th month of contraction. All the five subindexes that directly factor into the Manufacturing PMI are in contraction territory, up from four in October. Of the six biggest manufacturing industries, two — Food, Beverage & Tobacco Products and Transportation Equipment — registered growth in November. A reading above 50 percent indicates that the manufacturing sector is generally expanding; below 50 percent indicates that it is generally contracting.

https://www.ismworld.org/globalassets/pub/research-and-surveys/rob/pmi/rob202311apmi.pdf

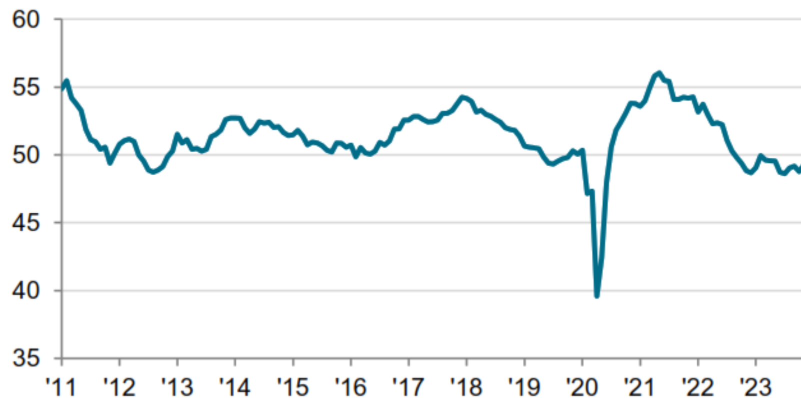
Manufacturing at a Glance

INDEX	Nov Index	Oct Index	% Point Change	Direction	Rate of Change	Trend* (months)
Manufacturing PMI®	46.7	46.7	0.0	Contracting	Same	13
New Orders	48.3	45.5	+2.8	Contracting	Slower	15
Production	48.5	50.4	-1.9	Contracting	From Growing	1
Employment	45.8	46.8	-1.0	Contracting	Faster	2
Supplier Deliveries	46.2	47.7	-1.5	Faster	Faster	14
Inventories	44.8	43.3	+1.5	Contracting	Slower	9
Customers' Inventories	50.8	48.6	+2.2	Too High	From Too Low	1
Prices	49.9	45.1	+4.8	Decreasing	Slower	7
Backlog of Orders	39.3	42.2	-2.9	Contracting	Faster	14
New Export Orders	46.0	49.4	-3.4	Contracting	Faster	6
Imports	46.2	47.9	-1.7	Contracting	Faster	13
Overall Economy				**Contracting**	**Same**	**2**
Manufacturing Sector				**Contracting**	**Same**	**13**

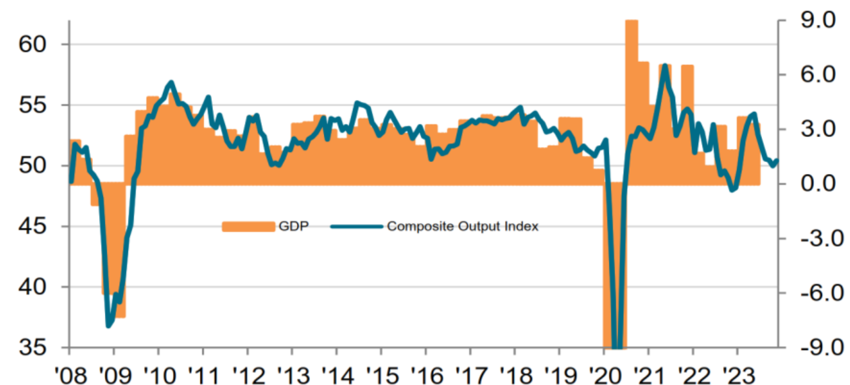
*Number of months moving in current direction. Manufacturing ISM® *Report On Business®* data has been seasonally adjusted for the New Orders, Production, Employment and Inventories indexes.

The New Orders Index remained in contraction territory at 48.3 percent, 2.8 percentage points higher than the figure of 45.5 percent recorded in October. The Production Index reading of 48.5 percent is a 1.9 percentage point decrease compared to October's figure of 50.4 percent. The Prices Index registered 49.9 percent, up 4.8 percentage points compared to the reading of 45.1 percent in October. The Backlog of Orders Index registered 39.3 percent, 2.9 percentage points lower than the October reading of 42.2 percent. The Employment Index registered 45.8 percent, down 1 percentage point from the 46.8 percent reported in October. The Inventories Index increased by 1.5 percentage points to 44.8 percent; the October reading was 43.3 percent.

Global Activities



Source: J.P.Morgan, S&P Global PMI.



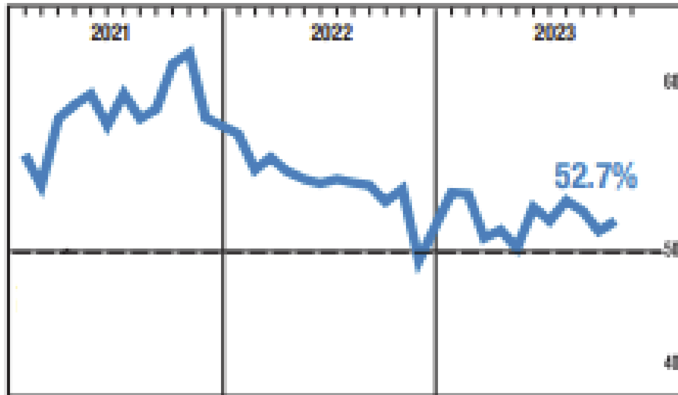
Source: J.P.Morgan, S&P Global Market Intelligence.

The November PMI surveys saw the global manufacturing sector move closer to stabilization. Although the downturn in output extended to six consecutive months, the rate of contraction was negligible and was the weakest during that sequence. Business optimism also ticked higher, as companies' outlooks brightened despite the current continued market uncertainty and cost-caution. The Global Manufacturing PMI rose to a six-month high of 49.3 in November, up from 48.8 in October, but remaining below the neutral 50.0 mark for the fifteenth month in a row. Although all five of the PMI components continued to signal a deterioration in overall operating conditions, four (new orders, output, stocks of purchases and employment) signaled lesser rates of decline than in the prior survey month. November data indicated that the downturn in world manufacturing production was mainly centered on the intermediate goods sector, where output contracted for the sixth month in a row (albeit at a slower pace).

November saw the global economy edge back into growth territory as a stabilization in new order intakes supported a mild increase in output. The Global Composite PMI Output Index rose to 50.4, up from 50.0 in October, to signal expansion for the ninth time in the past ten months. That said, employment growth came close to stalling. The service sector again outperformed its manufacturing counterpart in November. Services business activity rose moderately, as growth in the business and financial services categories more than offset the first decline in consumer services activity since January. There were also some positive signals coming out of the manufacturing industry. Although production volumes decreased for the sixth successive month, the rate of contraction was negligible and the weakest during that sequence. Sub-sector data highlighted mild expansions for consumer and investment goods producers (output fell in the intermediate goods category).

Service Sector Still Expanding with Prices Up

ISM Services PMI Index
> 50 is expansionary



In November, the Services PMI registered 52.7 percent, a 0.9 percentage point increase compared to the October reading of 51.8 percent. A reading above 50 percent indicates the services sector economy is generally expanding; below 50 percent indicates it is generally contracting. A Services PMI above 49.9 percent over time generally indicates an expansion of the overall economy. Therefore, the November Services PMI indicates the overall economy is growing for the 11th consecutive month after one month of contraction in December 2022.

https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/

Services at a Glance

INDEX	Nov Index	Oct Index	% Point Change	Direction	Rate of Change	Trend* (months)
Services PMI®	52.7	51.8	+0.9	Growing	Faster	11
Business Activity	55.1	54.1	+1.0	Growing	Faster	42
New Orders	55.5	55.5	0.0	Growing	Same	11
Employment	50.7	50.2	+0.5	Growing	Faster	6
Supplier Deliveries	49.6	47.5	+2.1	Faster	Slower	2
Inventories	55.4	49.5	+5.9	Growing	From Contracting	1
Prices	58.3	58.6	-0.3	Increasing	Slower	78
Backlog of Orders	49.1	50.9	-1.8	Contracting	From Growing	1
New Export Orders	53.6	48.8	+4.8	Growing	From Contracting	1
Imports	53.7	60.0	-6.3	Growing	Slower	6
Inventory Sentiment	62.2	54.4	+7.8	Too High	Faster	7
Overall Economy				**Growing**	**Faster**	**11**
Services Sector				**Growing**	**Faster**	**11**

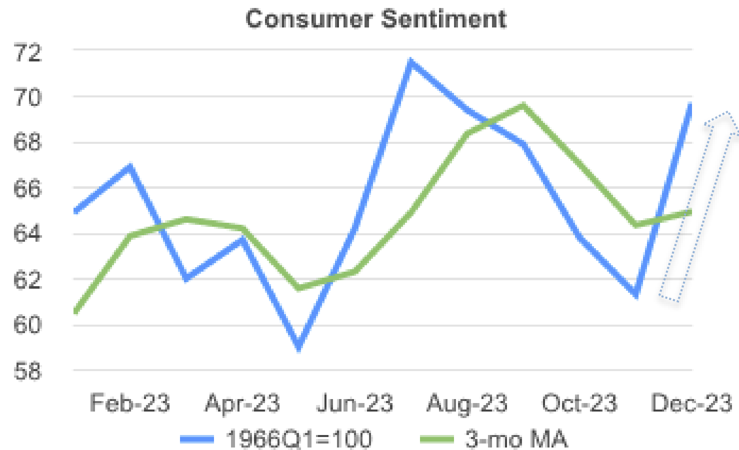
*Number of months moving in current direction. Services ISM® *Report On Business®* data has been seasonally adjusted for the Business Activity, New Orders, Employment and Prices indexes.

The Business Activity Index registered 55.1 percent, a 1 percentage point increase compared to the reading of 54.1 percent in October. The New Orders Index expanded in November for the 11th consecutive month after contracting in December for the first time since May 2020; the figure of 55.5 percent equals the October reading. The Supplier Deliveries Index registered 49.6 percent, 2.1 percentage points higher than the 47.5 percent recorded in October. The index remained in contraction territory for the second consecutive month, indicating that supplier delivery performance was "faster" in contrast to the "slowing" status in September. In the last 10 months, the average reading of 48.1 percent (with a low of 45.8 in March) reflected the fastest supplier delivery performance since June 2009 when the index registered 46 percent.

EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

Consumer Sentiments & Confidence – December Rising

UMich Consumer Sentiment
12-2023



Conference Board Consumer Confidence Survey

Consumer Confidence Index®

https://www.conference-board.org/topics/consumer-confidence

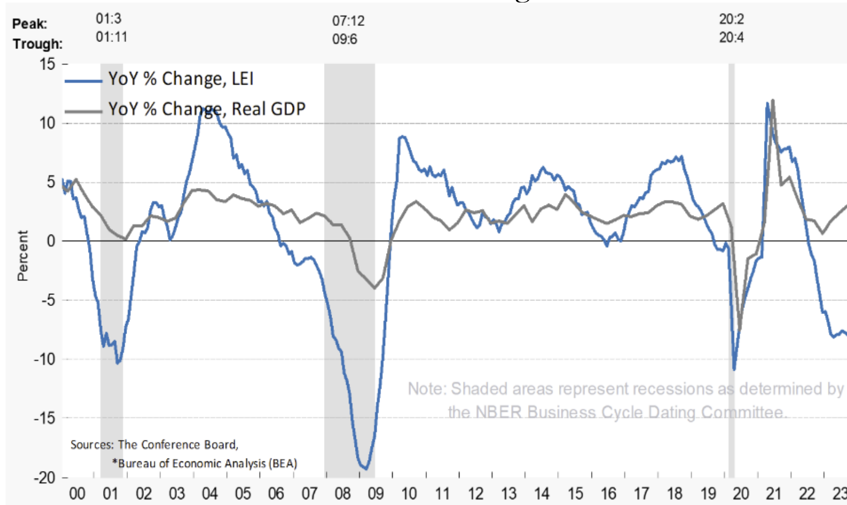
The University of Michigan consumer sentiment index soared in December as inflation expectations plunged, according to the final report. The index jumped to 69.7 in December from 61.3 in November. This was the first gain since July and took the index to its highest level since that month. Inflation expectations improved dramatically. Median 12-month inflation expectations tumbled from 4.5% to 3.1%, the lowest since March 2021. Five-year expectations fell from 3.2% to 2.9%. The index was revised up from a preliminary 69.4. The change in confidence from November was led by the expectations component which rose 10.6 points. The present conditions component gained 5 points.

The Conference Board Consumer Confidence Index increased in December to 110.7 (1985=100), up from a downwardly revised 101.0 in November. The Present Situation Index—based on consumers' assessments of current business and labor market conditions—rose to 148.5 (1985=100) from 136.5 last month. The Expectations Index—based on consumers' short-term outlook for income, business, and labor market conditions—leapt to 85.6 (1985=100) in December, up from its downwardly revised reading of 77.4 in November. This sharp increase brings expectations back to the levels of optimism last seen in July of this year. December's renewed optimism saw the gains were largest among householders aged 35-54 and with income levels of $125,000 and above. December's write-in responses revealed the top issue affecting consumers remains rising prices in general.

EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

Leading Indicators – a Mixed Bag

Conference Board Leading Indicator



[Source: https://www.conference-board.org/topics/us-leading-indicators](https://www.conference-board.org/topics/us-leading-indicators)

The Conference Board Leading Economic Index® (LEI) for the U.S. declined by 0.5 percent in November 2023 to 103.0 (2016=100), following a (downwardly revised) decline of 1.0 percent in October. The LEI contracted by 3.5 percent over the six-month period between May and November 2023, a smaller decrease than its 4.3 percent contraction over the previous six months (November 2022 to May 2023). The U.S. LEI continued declining in November, with stock prices making virtually the only positive contribution to the index in the month. Housing and labor market indicators weakened, reflecting warning areas for the economy. The Leading Credit Index and manufacturing new orders were essentially unchanged, pointing to a lack of economic growth momentum in the near term.

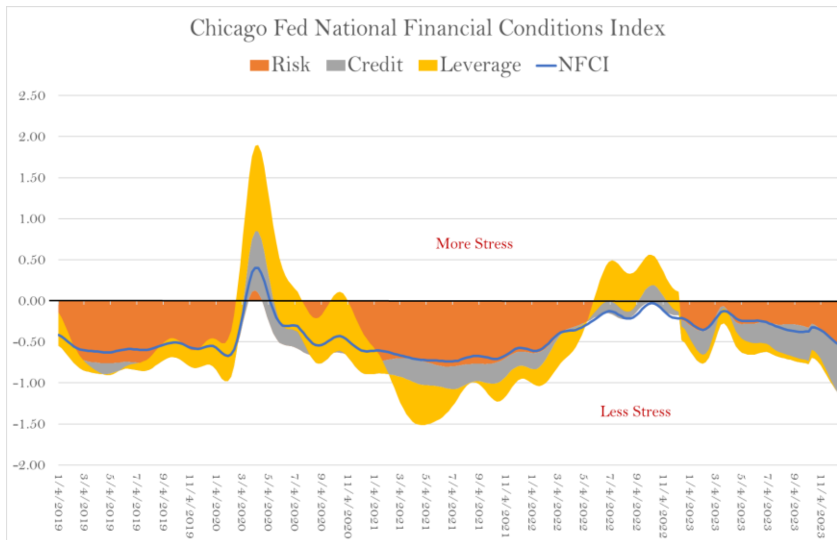
Despite the economy's ongoing resilience and December's improvement in consumer confidence, the U.S. LEI suggests a downshift of economic activity ahead. As a result, **the Conference Board forecasts a short and shallow recession in the first half of 2024.**

The Conference Board Coincident Economic Index (CEI) for the U.S. rose by 0.2 percent in November 2023 to 111.2 (2016=100), after no change in October. The CEI is now up 1.0 percent over the six-month period between May and November 2023, compared to 0.7 percent growth over the previous six months. The CEI's component indicators—payroll employment, personal income less transfer payments, manufacturing and trade sales, and industrial production—are included among the data used to determine recessions in the U.S.. All four components of the index were positive in November, with personal income less transfer payments being the strongest contributor, followed by much smaller positive contributions from the remaining three components.

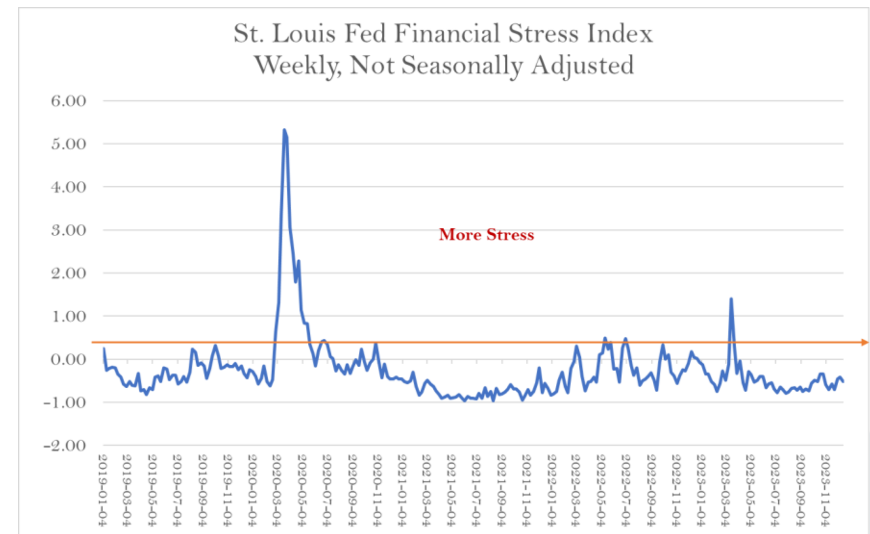
The Conference Board Lagging Economic Index® (LAG) for the U.S. rose by 0.5 percent in November 2023 to 119.2 (2016 = 100), following an increase of 0.3 percent in October. The LAG is up by 0.8 percent over the six-month period from May to November 2023, an improvement compared to 0.5 percent growth over the previous six months.

EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

Financial Stress – not so much



Source: https://www.chicagofed.org/publications/nfci/index, Experiential Wealth

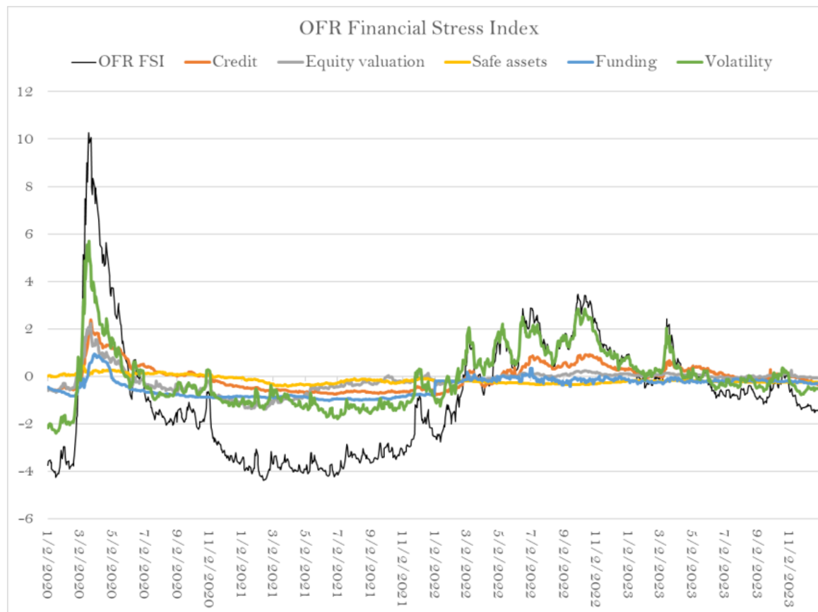


Source: https://fred.stlouisfed.org/series/STLFSI4, Experiential Wealth

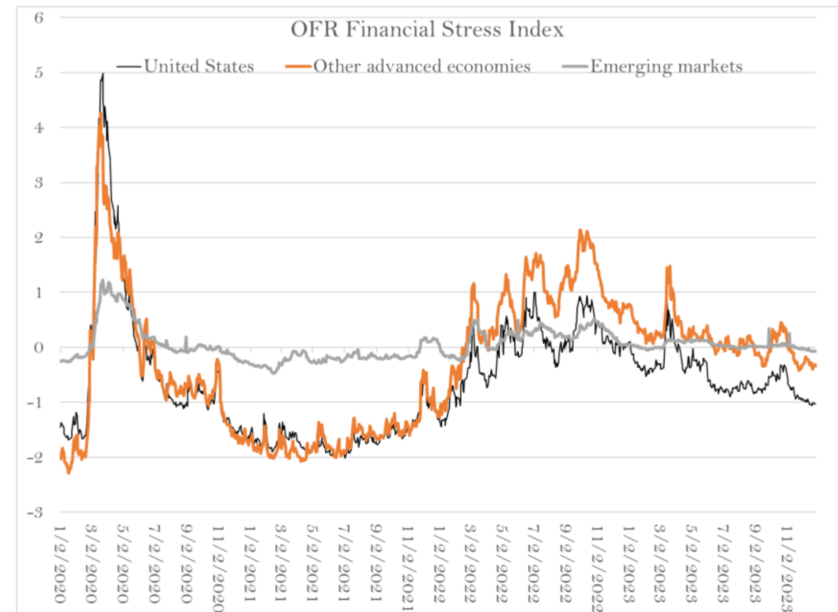
The Chicago Fed's National Financial Conditions Index (NFCI) provides a comprehensive weekly update on U.S. financial conditions in money markets, debt, equity markets, and the traditional and "shadow" banking systems. The NFCI ticked down to –0.53 in the week ending December 15. Risk indicators contributed –0.24, credit indicators contributed –0.14, and leverage indicators contributed –0.15 to the index in the latest week. The financial conditions continuing to be more accommodative.

The St. Louis Federal Reserve Bank's Financial Stress Index measures the degree of financial stress in the markets and is constructed from 18 weekly data series: 7 interest rate series, 6 yield spreads, and 5 other indicators. Each of these variables captures some aspect of financial stress. Accordingly, as the level of financial stress in the economy changes, the data series are likely to move together. The Index continues to show below-average financial market stress.

Financial Stress – signs of less stress continue across the globe



FSI, Experiential Wealth



FSI, Experiential Wealth

https://www.financialresearch.gov/financial-stress-index/#ae

The OFR Financial Stress Index (OFR FSI) is a daily market-based snapshot of stress in global financial markets. It is constructed from 33 financial market variables, such as yield spreads, valuation measures, and interest rates. The OFR FSI is positive when stress levels are above average, and negative when stress levels are below average. The OFR FSI incorporates five categories of indicators: **credit, equity valuation, funding, safe assets,** and **volatility**.

The overall financial stress in the U.S. continues to drift down further below the neutral 0 value.

The FSI also shows stress contributions by three regions: United States, other advanced economies, and emerging markets.

Other advanced economies: Variables measuring stress from advanced economies other than the United States, including primarily the eurozone and Japan

Emerging markets: Variables measuring stress from emerging markets

Overall global financial stress continues to drive further below the neutral 0 value.

JPM World Manufacturing PMI Heat Map (2023 Dec)

World Manufacturing PMI Heat Map

Tutorial	2022												2023											
	01	02	03	04	05	06	07	08	09	10	11	12	01	02	03	04	05	06	07	08	09	10	11	12
Global	53.2	53.7	52.9	52.3	52.3	52.2	51.1	50.3	49.8	49.4	48.8	48.7	49.1	49.9	49.6	49.6	49.5	48.7	48.6	49.0	49.2	48.8	49.3	
United States	57.6	58.6	57.1	55.4	56.1	53.0	52.8	52.8	50.9	50.2	49.0	48.4	47.4	47.7	46.3	47.1	46.9	46.0	46.4	47.6	49.0	46.7	46.7	
Canada	50.7	60.6	74.2	66.3	72.0	62.2	49.6	60.9	59.5	50.1	51.4	49.3	60.1	51.6	58.2	56.8	53.5	50.2	48.6	53.5	53.1	53.4	54.7	
Europe	58.7	58.2	56.5	55.5	54.6	52.1	49.8	49.6	48.4	46.4	47.1	47.8	48.8	48.5	47.3	45.8	44.8	43.4	42.7	43.5	43.4	43.1	44.2	44.2
Germany	59.8	58.4	56.9	54.6	54.8	52.0	49.3	49.1	47.8	45.1	46.2	47.1	47.3	46.3	44.7	44.5	43.2	40.6	38.8	39.1	39.6	40.8	42.6	43.1
United Kingdom	57.3	58.0	55.2	55.8	54.6	52.8	52.1	47.3	48.4	46.2	46.5	45.3	47.0	49.3	47.9	47.8	47.1	46.5	45.3	43.0	44.3	44.8	47.2	46.4
France	55.5	57.2	54.7	55.7	54.6	51.4	49.5	50.6	47.7	47.2	48.3	49.2	50.5	47.4	47.3	45.6	45.7	46.0	45.1	46.0	44.2	42.8	42.9	42.0
Spain	56.2	56.9	54.2	53.3	53.8	52.6	48.7	49.9	49.0	44.7	45.7	46.4	48.4	50.7	51.3	49.0	48.4	48.0	47.8	46.5	47.7	45.1	46.3	
Italy	58.3	58.3	55.8	54.5	51.9	50.9	48.5	48.0	48.3	46.5	48.4	48.5	50.4	52.0	51.1	46.8	45.9	43.8	44.5	45.4	46.8	44.9	44.4	
Greece	57.9	57.8	54.6	54.8	53.8	51.1	49.1	48.8	49.7	48.1	48.4	47.2	49.2	51.7	52.8	52.4	51.5	51.8	53.5	52.9	50.3	50.8	50.9	
Japan	55.4	52.7	54.1	53.5	53.3	52.7	52.1	51.5	50.8	50.7	49.0	48.9	48.9	47.7	49.2	49.5	50.6	49.8	49.6	49.6	48.5	48.7	48.3	47.7
Australia	55.1	57.0	57.7	58.8	55.7	56.2	55.7	53.8	53.5	52.7	51.3	50.2	50.0	50.5	48.7	48.0	48.4	48.2	49.6	49.4	48.7	48.2	47.7	47.8
New Zealand	52.2	53.4	53.4	51.0	52.8	50.2	53.3	54.9	51.6	48.9	47.3	48.0	51.0	51.6	48.2	48.7	48.6	47.5	46.7	46.0	45.3	42.9	46.7	
China	50.1	50.2	49.5	47.4	49.6	50.2	49.0	49.4	50.1	49.2	48.0	47.0	50.1	52.6	51.9	49.2	48.8	49.0	49.3	49.7	50.2	49.5	49.4	
Taiwan	56.2	58.8	57.8	56.3	53.5	53.6	47.8	47.2	44.9	45.4	43.9	43.7	40.4	51.4	47.3	42.8	41.3	48.3	46.1	45.5	48.2	47.1	46.8	
South Korea	52.8	53.8	51.2	52.1	51.8	51.3	49.8	47.6	47.3	48.2	49.0	48.5	48.5	48.5	47.6	48.1	48.4	47.8	49.4	48.9	49.9	49.8	50.0	
Hong Kong	48.9	42.9	42.0	51.7	54.9	52.4	52.3	51.2	48.0	49.3	48.7	49.6	51.2	53.9	53.5	52.4	50.6	50.3	49.4	49.8	49.6	48.9	50.1	
India	54.0	54.9	54.0	54.7	54.6	53.9	56.4	56.2	55.1	55.3	55.7	57.8	55.4	55.3	56.4	57.2	58.7	57.8	57.7	58.6	57.5	55.5	56.0	
Thailand	51.7	52.5	51.8	51.9	51.9	50.7	52.4	53.7	55.7	51.6	51.1	52.5	54.5	54.8	53.1	60.4	58.2	53.2	50.7	48.9	47.8	47.5	47.6	
Philippines	50.0	52.8	53.2	54.3	54.1	53.8	50.8	51.2	52.9	52.6	52.7	53.1	53.5	52.7	52.5	51.4	52.2	50.9	51.9	49.7	50.6	52.4	52.7	
Singapore	50.6	50.2	50.1	50.3	50.4	50.3	50.1	50.0	49.9	49.7	49.8	49.7	49.8	50.0	49.9	49.7	49.5	49.7	49.8	49.9	50.1	50.2	50.3	
Malaysia	50.5	50.9	49.6	51.6	50.1	50.4	50.6	50.3	49.1	48.7	47.9	47.8	46.5	48.4	48.8	48.8	47.8	47.7	47.8	47.8	46.8	46.8	47.9	
Vietnam	53.7	54.3	51.7	51.7	54.7	54.0	51.2	52.7	52.5	50.6	47.4	46.4	47.4	51.2	47.7	46.7	45.3	46.2	48.7	50.5	49.7	49.6	47.3	
Indonesia	53.7	51.2	51.3	51.9	50.8	50.2	51.3	51.7	53.7	51.8	50.3	50.9	51.3	51.2	51.9	52.7	50.3	52.5	53.3	53.9	52.3	51.5	51.7	
Brazil	47.8	49.6	52.3	51.8	54.2	54.1	54.0	51.9	51.1	50.8	44.3	44.2	47.5	49.2	47.0	44.3	47.1	46.6	47.8	50.1	49.0	48.6	49.4	
Mexico	46.1	48.0	49.2	49.3	50.6	52.2	48.5	48.5	50.3	50.3	50.6	51.3	48.9	51.0	51.0	51.1	50.5	50.5	50.9	51.2	49.8	52.1	52.5	
Russia	51.8	48.6	44.1	48.2	50.8	50.9	50.3	51.7	52.0	50.7	53.2	53.0	52.6	53.6	53.2	52.6	53.5	52.6	52.1	52.7	54.5	53.8	53.8	
Turkey	50.5	50.4	49.4	49.2	49.2	48.1	46.9	47.4	46.9	46.4	45.7	48.1	50.1	50.1	50.9	51.5	51.5	51.5	49.9	49.0	49.6	48.4	47.2	

https://en.macromicro.me/dynamic_chart/pmi_heat_map

EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

OECD – September 2023 Economic Interim Projection

Table 1. **Global growth is projected to remain moderate**

Real GDP growth, year-on-year, per cent

	2022	2023		2024	
		Interim EO projections	Difference from June EO	Interim EO projections	Difference from June EO
World	3.3	3.0	0.3	2.7	-0.2
G20[1]	3.1	3.1	0.3	2.7	-0.2
Australia	3.7	1.8	0.0	1.3	-0.1
Canada	3.4	1.2	-0.2	1.4	0.0
Euro area	3.4	0.6	-0.3	1.1	-0.4
Germany	1.9	-0.2	-0.2	0.9	-0.4
France	2.5	1.0	0.2	1.2	-0.1
Italy	3.8	0.8	-0.4	0.8	-0.2
Spain[2]	5.5	2.3	0.2	1.9	0.0
Japan	1.0	1.8	0.5	1.0	-0.1
Korea	2.6	1.5	0.0	2.1	0.0
Mexico	3.9	3.3	0.7	2.5	0.4
Türkiye	5.5	4.3	0.7	2.6	-1.1
United Kingdom	4.1	0.3	0.0	0.8	-0.2
United States	2.1	2.2	0.6	1.3	0.3
Argentina	5.0	-2.0	-0.4	-1.2	-2.3
Brazil	3.0	3.2	1.5	1.7	0.5
China	3.0	5.1	-0.3	4.6	-0.5
India[3]	7.2	6.3	0.3	6.0	-1.0
Indonesia	5.3	4.9	0.2	5.2	0.1
Russia	-2.0	0.8	2.3	0.9	1.3
Saudi Arabia	8.8	1.9	-1.0	3.1	-0.5
South Africa	1.9	0.6	0.3	1.1	0.1

OECD has revised down the economic activities or growth in most of the countries. In the advanced economies, the Euro Area has the largest mark down for 2024. China and Europe saw their growth decline for 2023 further since June's projection. The U.S. is one of a handful of countries having its growth marked up for 2024.

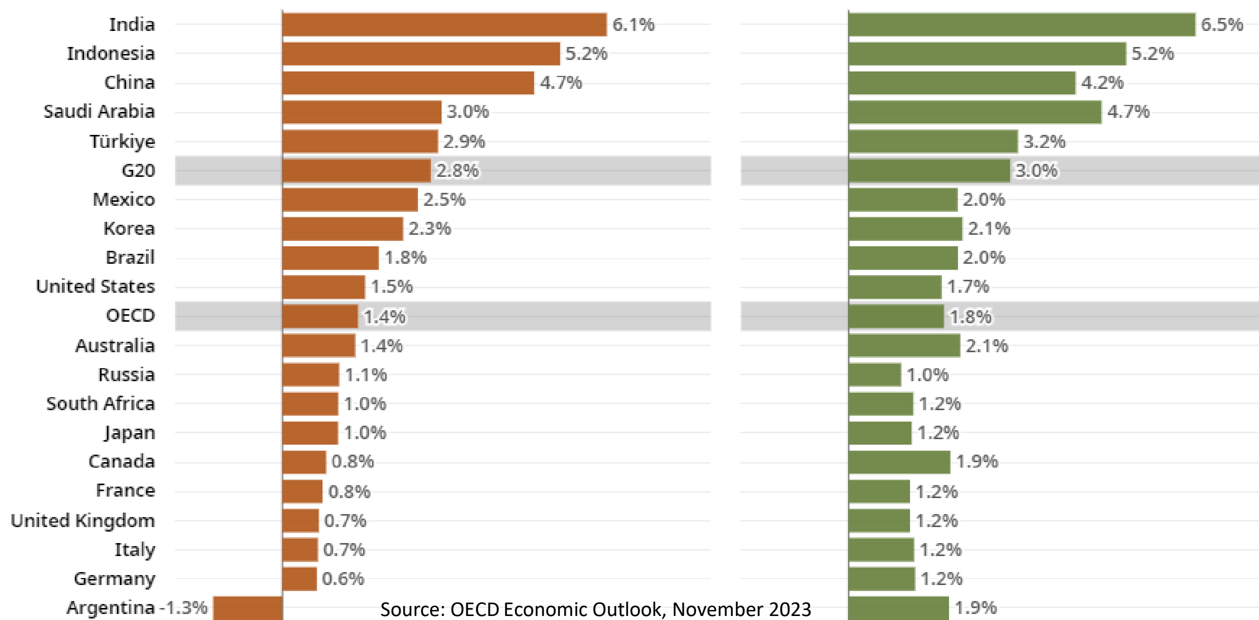
1. The European Union is a full member of the G20, but the G20 aggregate only includes countries that are also members in their own right.
2. Spain is a permanent invitee to the G20.
3. Fiscal years, starting in April

Source: Interim Economic Outlook 114 database; and Economic Outlook 113 database.

The Organization for Economic Co-operation and Development (OECD) is an international organization that aims to build better policies for better lives. It works towards shaping policies that foster prosperity, equality, opportunity, and well-being for all. The OECD works with over 100 countries to promote policies that improve the economic and social well-being of people around the world. It provides country-specific reviews at the request of governments and helps inform debates in parliaments, the media, and research work.

https://www.oecd-ilibrary.org/sites/1f628002-en/index.html?itemId=/content/publication/1f628002-en

OECD –2023 Economic Outlook Summary –Nov 23



- The global economy continues to confront the challenges of persistent inflation and subdued growth prospects. GDP growth has been stronger than expected so far in 2023 but is now moderating as the impact of tighter financial conditions, weak trade growth, and lower business and consumer confidence are increasingly felt. Financial conditions are restrictive, with forward-looking real interest rates having generally risen further in recent months. Activity has slowed in interest-sensitive sectors, particularly housing markets, and in economies reliant on bank-based finance, especially in Europe. Heightened geopolitical tensions are also again adding to uncertainty about the near-term outlook. Headline inflation has fallen in almost all economies, easing pressures on household incomes, but core inflation remains relatively high.
- Global GDP growth is projected to ease to 2.7% in 2024, from 2.9% this year, before edging up to 3% in 2025 as real income growth recovers and policy interest rates start to be lowered. A growing divergence across economies is expected to persist in the near term, with growth in the emerging-market economies generally holding up better than in the advanced economies and growth in Europe being relatively subdued compared to that in North America and the major Asian economies. Annual consumer price inflation in the G20 economies is projected to continue easing gradually as cost pressures moderate, declining to 5.8% and 3.8% in 2024 and 2025 respectively from 6.2% in 2023. By 2025, inflation is projected to be back on target in most major economies.

https://www.oecd-ilibrary.org/sites/7a5f73ce-en/1/3/1/index.html?itemId=/content/publication/7a5f73ce-en&_csp_=ff1338015957b6cc89df6710d74ff9f1&itemIGO=oecd&itemContentType=book

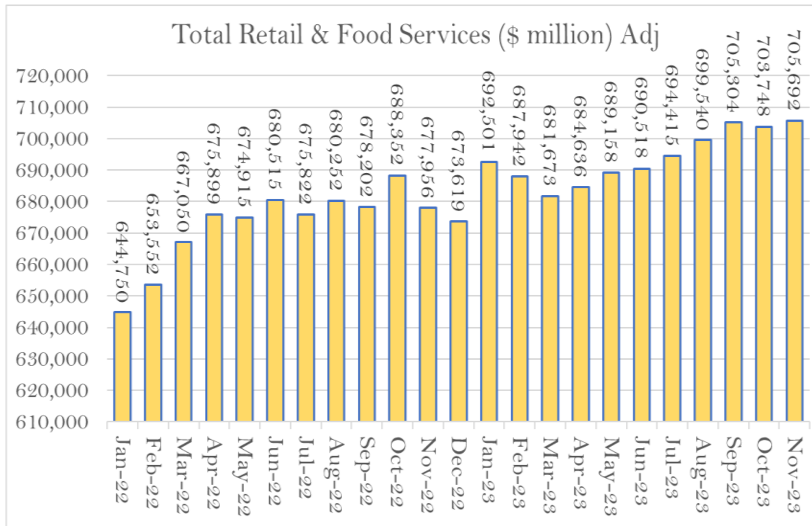
EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

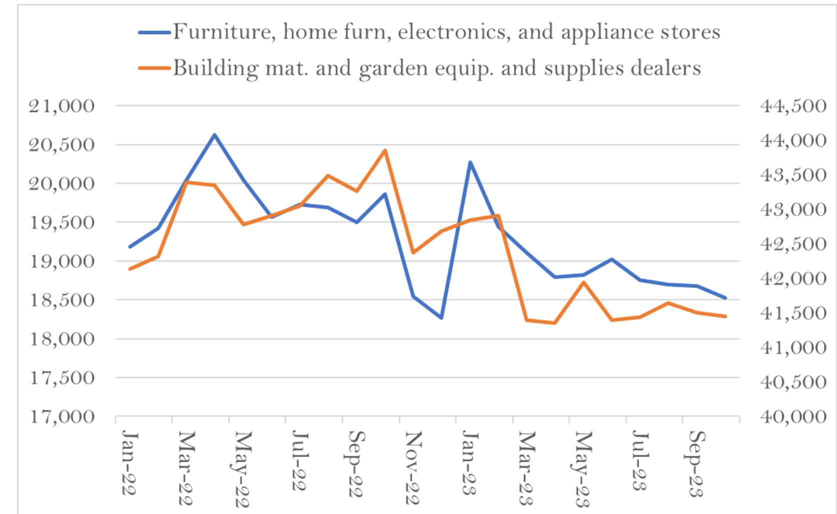
World Economic Forum Survey (Uncertainty and Volatility)

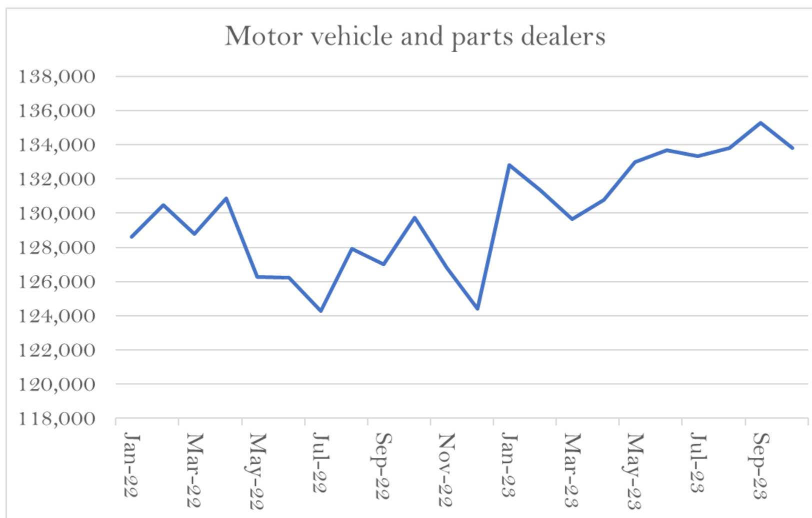
- The global economy is likely to weaken in the coming year according to 61% of respondents in the World Economic Forum's latest Chief Economists Outlook.
- A majority (86%) of chief economists are optimistic that the global inflationary surge will ease.
- Economists warn that the economic outlook could undermine progress towards development goals with 74% saying geopolitical tensions will have the same effect.

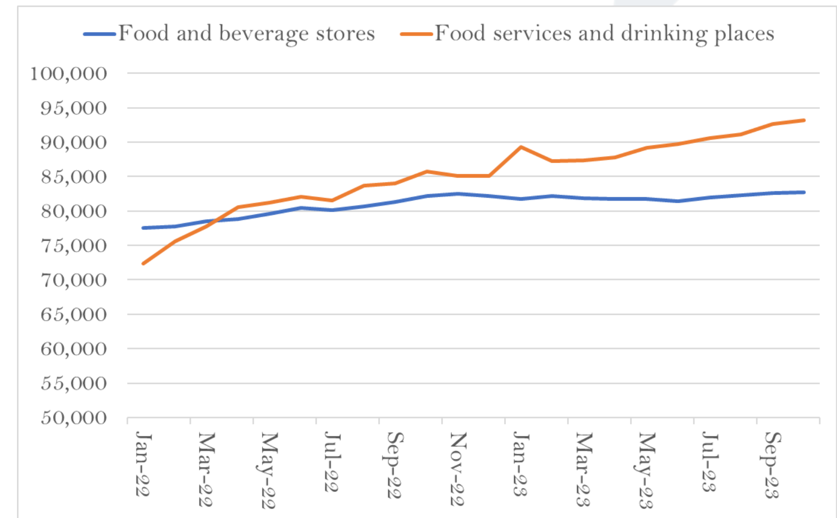
EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

Overall Retail is Strong but signs of Slowing





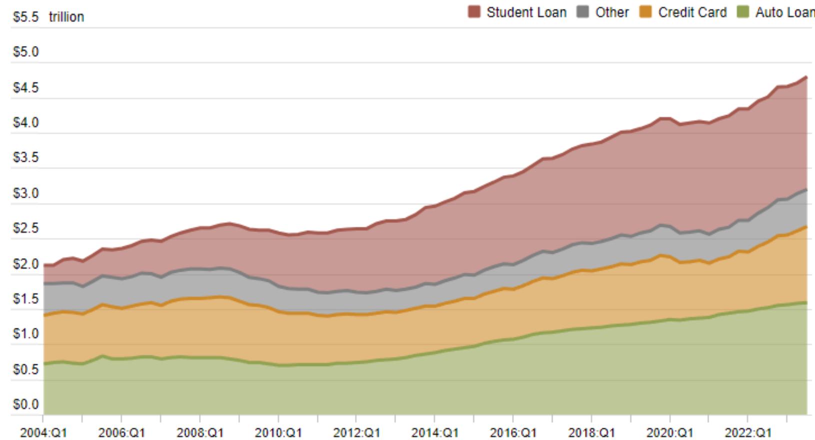


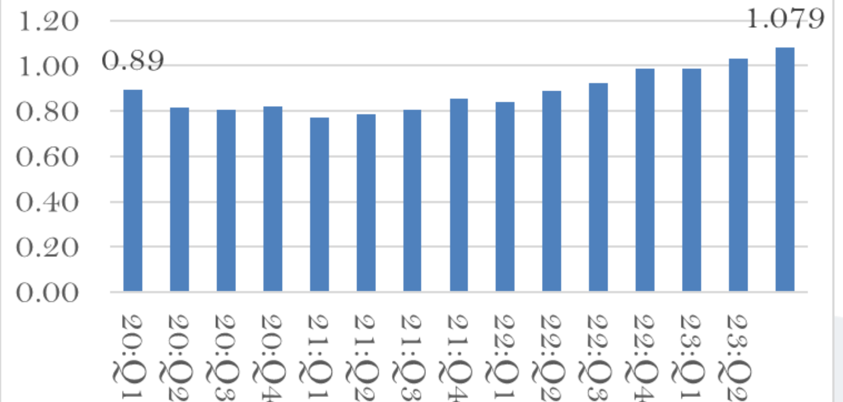


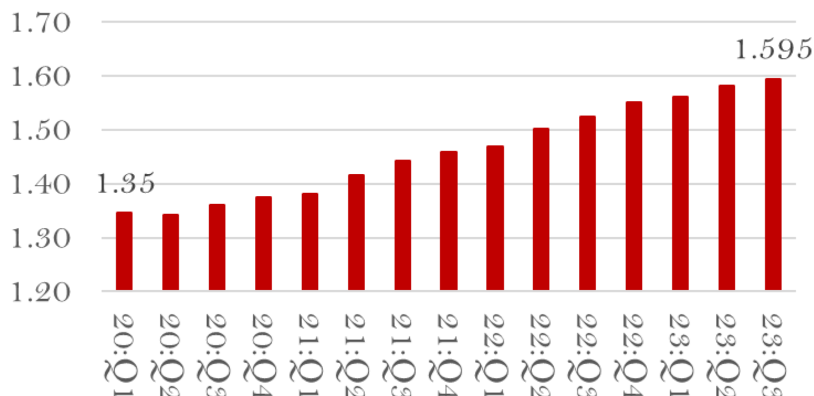
https://www.census.gov/retail/sales.html

EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

Consumer Debt - Rising







https://www.newyorkfed.org/microeconomics/hhdc

Household Debt Rises to $17.29 Trillion. Total household debt rose by 1.3 percent to reach $17.29 trillion in the third quarter of 2023, according to the latest Quarterly Report on Household Debt and Credit. Mortgage balances increased to $12.14 trillion, credit card balances to $1.08 trillion, and student loan balances to $1.6 trillion. Auto loan balances increased to $1.6 trillion, continuing the upward trajectory seen since 2011. Other balances, which include retail credit cards and other consumer loans, were effectively flat at $0.53 trillion. Delinquency transition rates increased for most debt types, except for student loans.

EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

Bankruptcy filings, % change yr. ago, 3-mo ending, NSA

		21Q4	22Q1	22Q2	22Q3	22Q4	23Q1	23Q2	23Q3
Total personal		-18	-15.9	-13.1	2.9	4	16.4	14.9	13.9
	Chapter 7	-28	-29.5	-30.3	-15.3	-7.8	9.8	12.9	16
	Chapter 11	13.7	5.8	-11.3	23.3	-31	-21.9	-11.9	-26.8
	Chapter 13	7.8	19.7	38.3	43	24.3	26.6	18	11.3
Total business		-36	-27.6	-11.4	12.1	11.4	32.6	37	37.7
	Chapter 7	-31	-22.2	-21.6	0	5.2	23.6	29.2	36.3
	Chapter 11	-45	-35.2	10.1	34.5	20.4	51.7	53.6	43.3
	Chapter 13	-19	5	0	45.9	34.9	40.7	27.9	17

•Bankruptcy filings remain low, but the trend is unfavorable as household finances are under pressure on many fronts, including still-high inflation, higher interest rates, increased borrowing, and the gradual depletion of the excess savings accumulated during the pandemic. Non-business filings usually fall in the third quarter as excesses from the prior year's holiday season have passed, although this did not occur last year or this year. However, year-over-year growth still moderated as this year's gain lagged last year's.

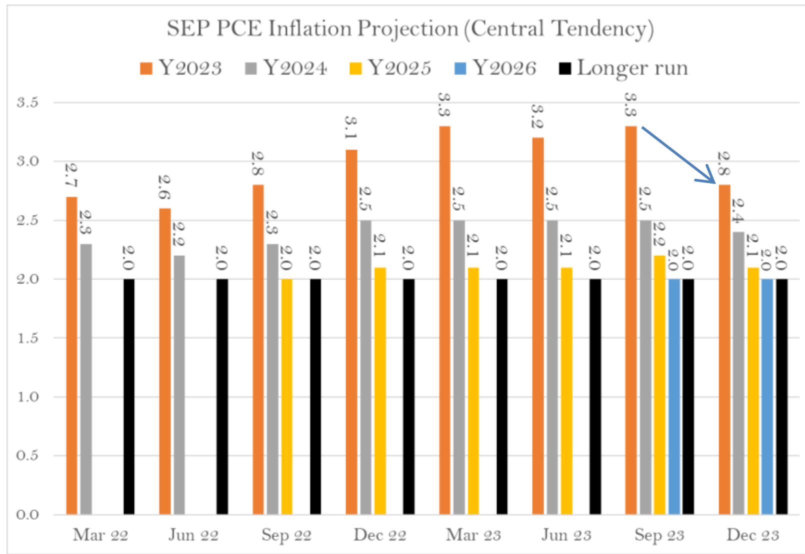
•The upward trend in filings, after adjusting for seasonal movements, highlights that the impact of the Federal Reserve's interest rate increases only hit consumer finances with a lag. More than 80% of consumer debt at present is fixed rate. However, this does not insulate new debt or credit card balances. Another mitigating factor for consumers is that stock and house prices are rising again, at least temporarily. Real income has been growing at a healthy rate for more than a year, but from a low level. Abundant job openings and remaining excess saving are still cushions for some, but both are declining. The question for the outlook is not whether filings will rise further, but how much and how fast.

•There is a significant lag from when households begin to face strained finances and when credit problems become severe and lengthy enough to push large numbers of consumers into bankruptcy. Households usually do not file for bankruptcy until forced by collection efforts. That will generally not happen until the loans go into default, usually following many months of nonpayment. With most student loan forbearance not ending until October, jobs available, and excess saving only gradually being spent, the clock may only recently have started ticking for many of the households that are suffering financially because of high inflation or other difficulties. This suggests the outlook is bleak.

Source: Moody's Economics 2023 12

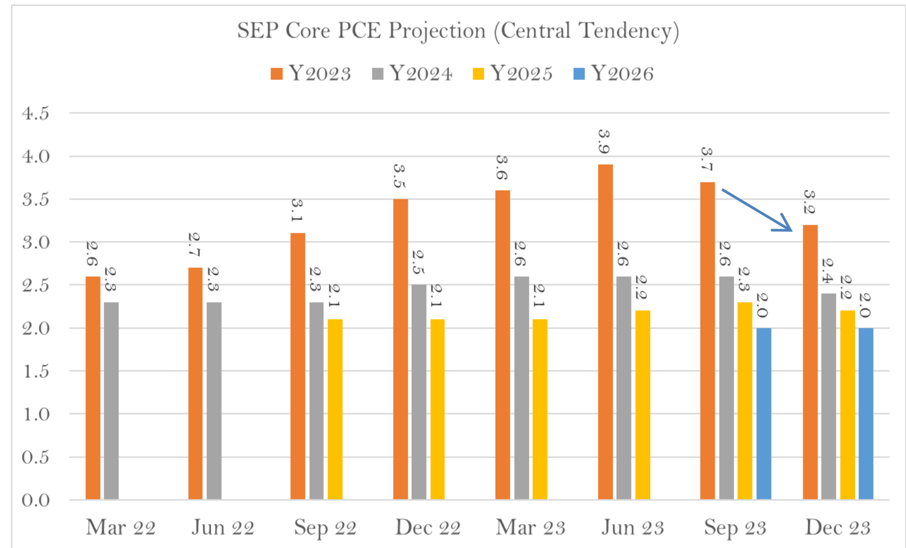
EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

Summary of Economic Projections – Inflation (Core PCE)



FOMC, Experiential Wealth

In the latest SEP, the central tendency average member expects PCE inflation to move much lower for 2023 from September's 3.3% to 2.8%. This is a large shift from projections since March 2022 until September 2023. At the same time, the projection for 2024 and 2025 moved down by 0.1% per year to 2.4% and 2.1% respectively.



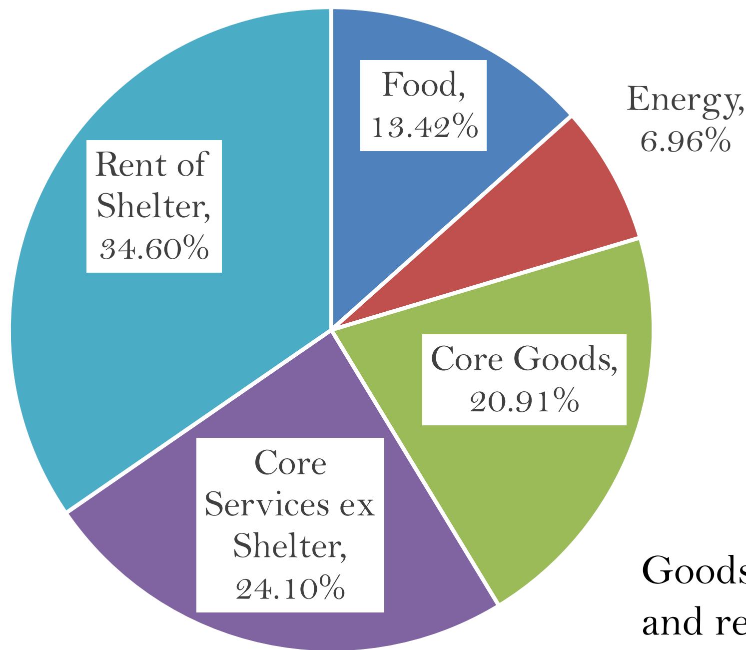
FOMC, Experiential Wealth

At the same time, projections for Core PCE (ex-food and energy) inflation moved lower as well. In September, the projection for 2023 was at 3.7%, and now, in December, the projection is 3.2%, a fairly sizable drop for the year since its spike in June. The projection for Y2024 moves down to 2.4% from September's 2.6%, and for Y2025, it moved down from 2.3% to 2.2%. If these projections turn out to be accurate, the FOMC will be cutting rates next year with more cuts in 2025.

With the impact of a long and variable lag to rate actions, the Fed will not wait until 2025 to begin to pivot. Yet, at this point it remains unclear as to the path of reaching the 2% targeted rate and the pace and the timetable for cutting rates in 2024 and 2025.

EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

CPI Components & their contributions (Nov 23)



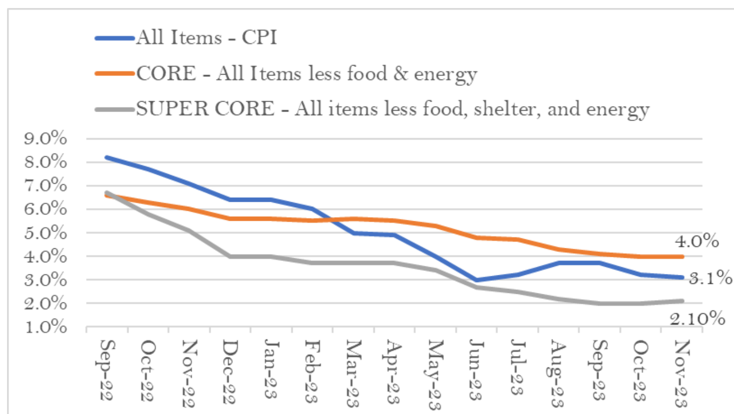
Source: BLS, Experiential Wealth 2023 11

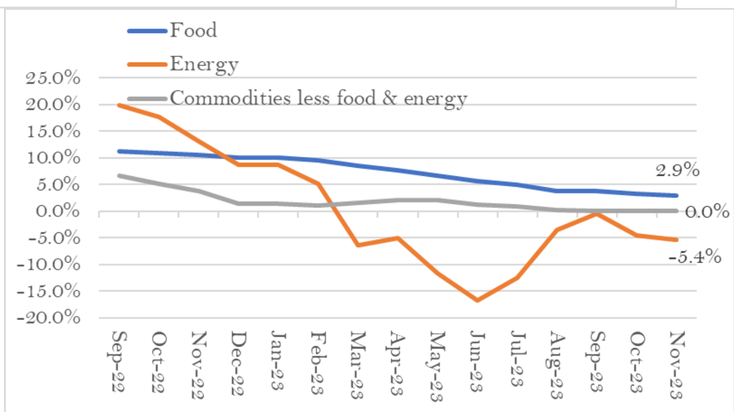
Categories	1Yr Change Nov 23 CPI	
Food	2.90%	Goods
Energy	-5.40%	Goods
Core Goods	0.00%	Goods
Core Services ex Shelter	**3.50%**	Services
Shelter	**6.50%**	Services
CPI	3.10%	
Core CPI	4.00%	

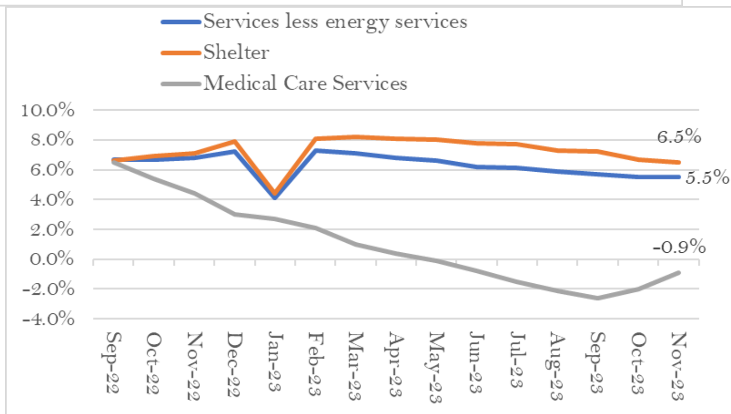
Goods and commodity inflation continues to come down and recovers from the COVID supply chain price shock. Services also are on a disinflationary path but at a significantly slower pace. The shelter component remains sticky. Although revenge spending on services may have slowed, consumers continue to spend, and this is supported by a strong labor market and improving inflation-adjusted wages.

EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

Components of CPI – Nov 2023







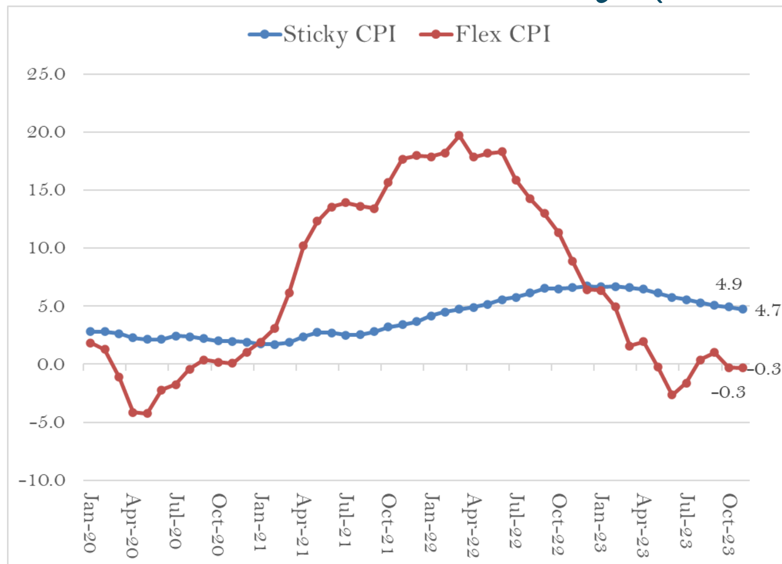
On a trailing 12-month basis, the headline CPI of 3.1% for **November 2023** has improved significantly from 8.2% in September 2022. The major contributing factors have been the significant reductions in energy and food prices. The core CPI value has also dropped for the same period but at a much slower pace and is now at 4%. The "service" component remains more stubborn. Its major component, shelter, is now at 6.5%. Finally, the Fed is also focused on the super core (i.e., CPI stripping out food, energy, and shelter components) which is now at 2.1%.

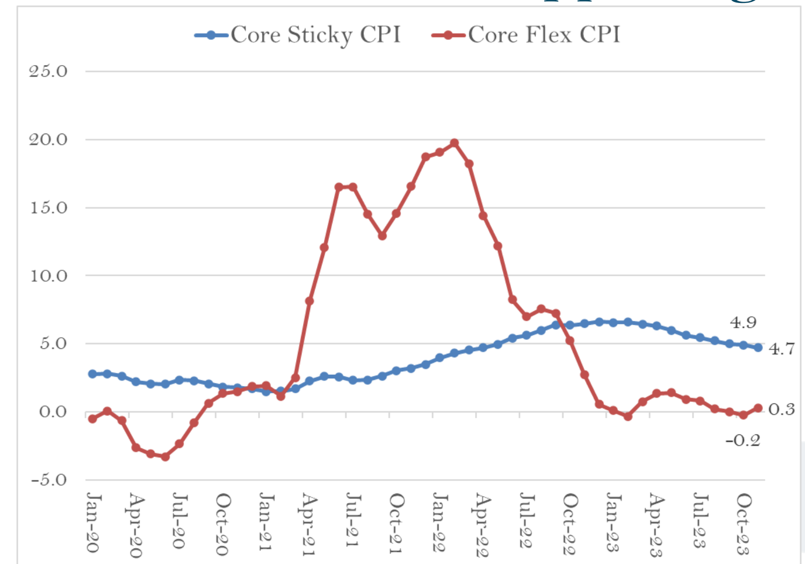
In sum, headline inflation is coming down much faster than most thought, but the core CPI remains far away from the Fed target of 2%. The drop in energy prices has been the largest component to headline inflation drop, and this can reverse at any time.

Source: BLS CPI Table7, Experiential Wealth https://www.bls.gov/cpi/tables/supplemental-files/

EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

CPI – Flex and Sticky (11-2023) – Disinflation is Happening





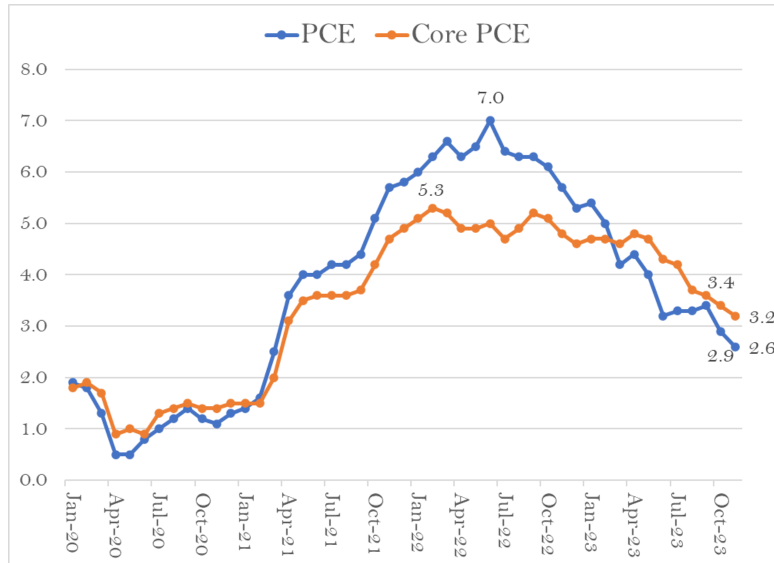
Source: https://www.atlantafed.org/research/inflationproject/stickyprice, Experiential Wealth

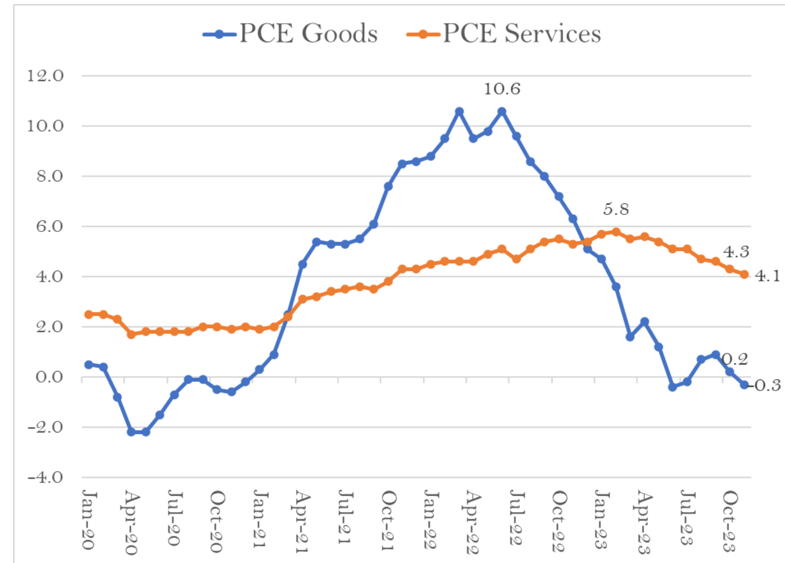
The Atlanta Federal Reserve uses the published components of the CPI to compute two subindexes: a **sticky-price composite** of the CPI and a **flexible-price** CPI. The evidence indicates that the flexible-price measure is, in fact, much more responsive to changes in the economic environment— slack—while the sticky-price variant appears to be more forward looking. Price setters understand that it will be costly to change prices; they will want their price decisions to account for inflation over the periods between their infrequent price changes. The Atlanta Fed divides the published components of the monthly CPI (45 categories derived from the raw price data) into their "sticky-price" and "flexible-price" aggregates.

Flex and sticky are further divided into core and non-core. Core excludes energy and food prices. Historically, flexible price and flexible core price CPI have shown much more volatility than the alternative sticky-price and sticky core price measures. Although imperfect, separating CPI categories into these two measures and further separating core categories from non-core provides a view of future inflation (i.e., removing the more volatile priced categories from the CPI). As of November, the sticky-price CPI increased 4.7% (on an annualized basis), and the flex CPI was down 0.3%. The more refined division of Core Flex CPI moved up 0.3%, while the Core Sticky moved up by 4.7%. These are all signs of the "last mile" being the most challenging part of returning to the 2% Fed target.

EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

Inflation (PCE) Remains Elevated



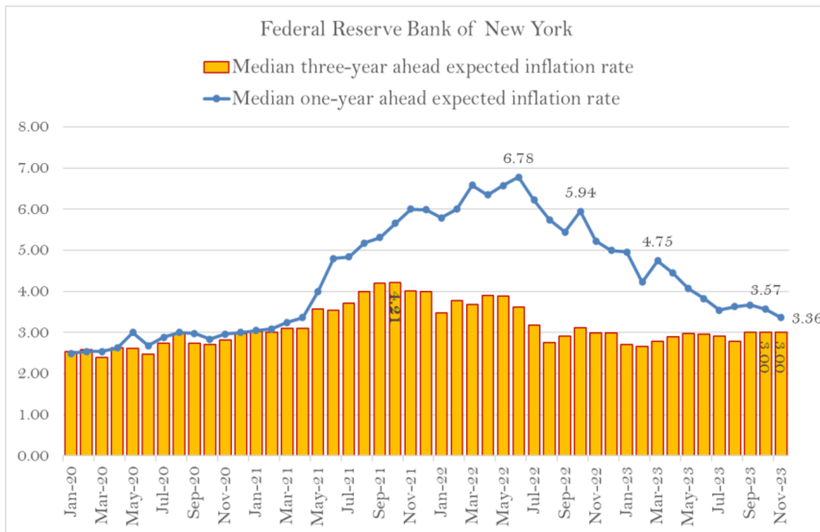


The preferred inflation gauge for the Fed is the core Personal Consumption Expenditure (PCE). As of **November 2023** (latest) data, PCE is now at 2.6%, dropping 0.3% from October (2.9%) and 2.8% since January (5.4%) The core PCE (the Fed's main focus) is now at 3.2%, falling 1.5% from the January 4.7% rate. The Fed target is 2% core PCE, so this is still too high.

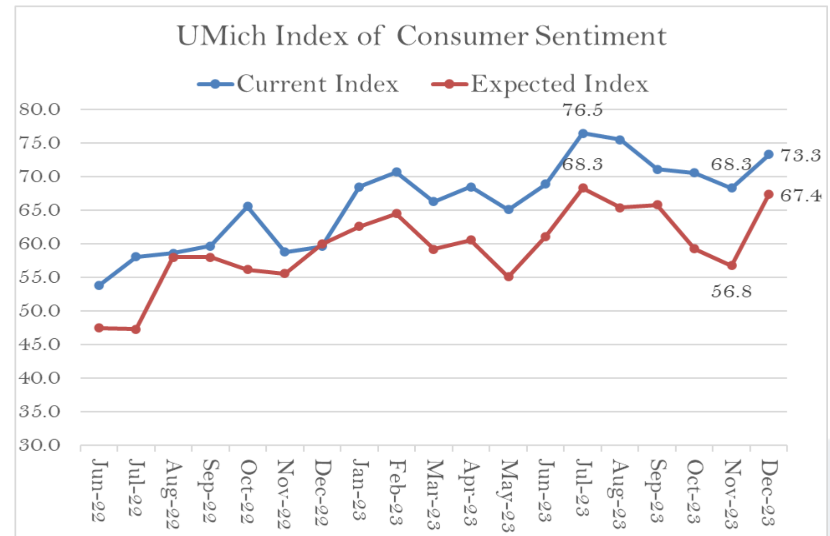
Breaking down the PCE further into its services and goods components tells us goods' prices are again continuing the general disinflationary trend since the middle of 2022 as the restoration of the global supply chain is likely complete. However, the services component continues to dis-inflate at a much slower pace. November saw a reduction of 0.2% from the October reading of 4.3% to now 4.1% - the largest contributor to the slow price reduction of the shelter component.

EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

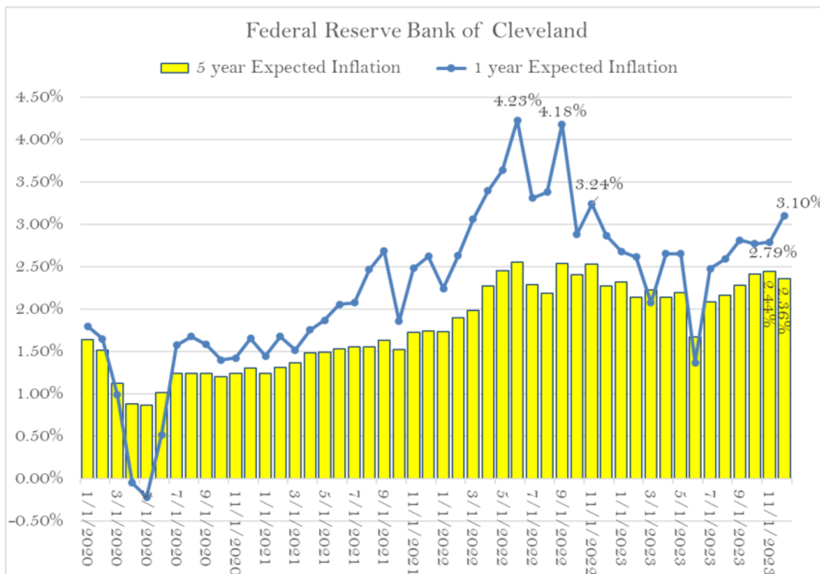
Inflation Expectation – Survey-Based – flat to up



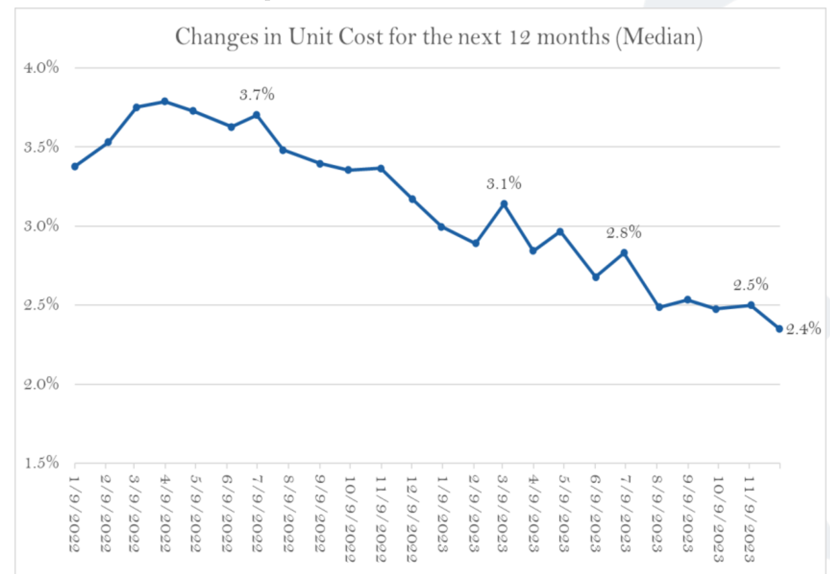
Source: New York Fed, Experiential Wealth



Source: UMich & Experiential Wealth

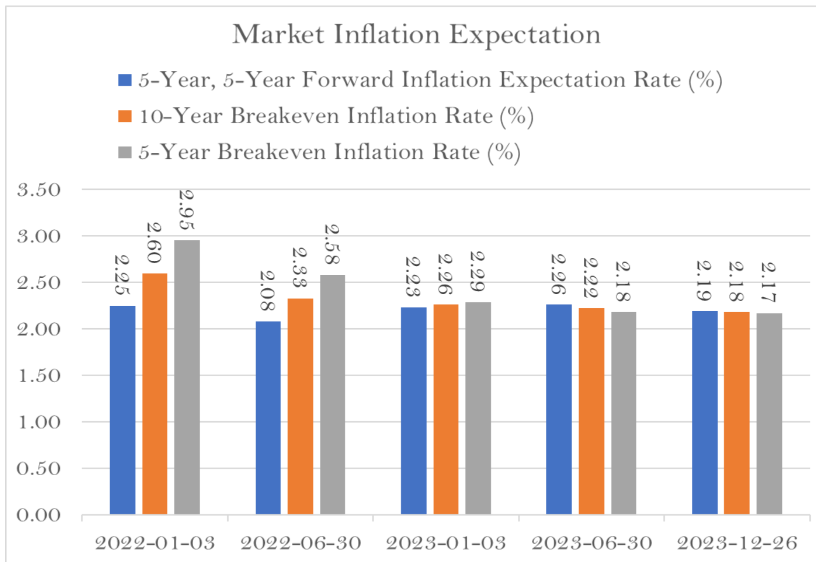


Source: Cleveland Fed, Experiential Wealth

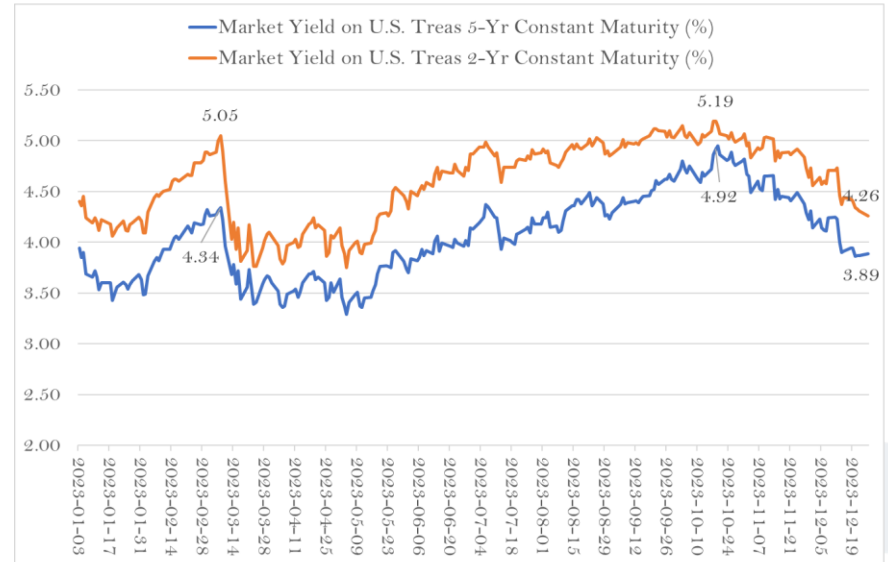


Source: Atlanta Fed & Experiential Wealth

Inflation Expectation – Market-Based –rates moved up since June

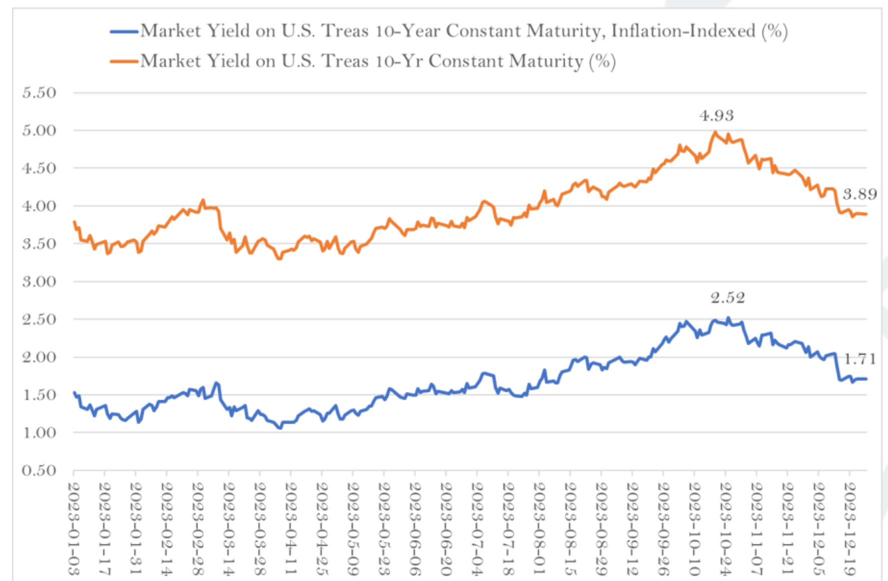


Source: FRED, Experiential Wealth



Source: FRED, Experiential Wealth

5-Year, 5-Year Forward Inflation Expectation Rate is a measure of expected inflation (on average) over the five-year period that begins five years from today. **10-Year Breakeven Inflation Rate** is a measure of expected inflation derived from 10-Year Treasury Constant Maturity Securities and 10-Year Treasury Inflation-Indexed Constant Maturity Securities. **5-Year Breakeven Inflation Rate** is the measure of expected inflation derived from 5-Year Treasury Constant Maturity Securities and 5-Year Treasury Inflation-Indexed Constant Maturity Securities. Market expectation of inflation appears well anchored around 2%. **2-Year Constant Maturity Rate** is the nominal rate of the 2-Year U.S. Treasury. **5-Year Constant Maturity Rate** is the nominal rate of the 5-Year U.S. Treasury. **10-Year Constant Maturity Rate** is the nominal rate of the 10-Year U.S. Treasury. **10-Year Constant Inflation Indexed Maturity Rate** is the real rate of the 10-Year U.S. Treasury. The current market yields along the yield curve are dropping quickly, maybe too quickly.



EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

Global disinflation continuing with a few exceptions

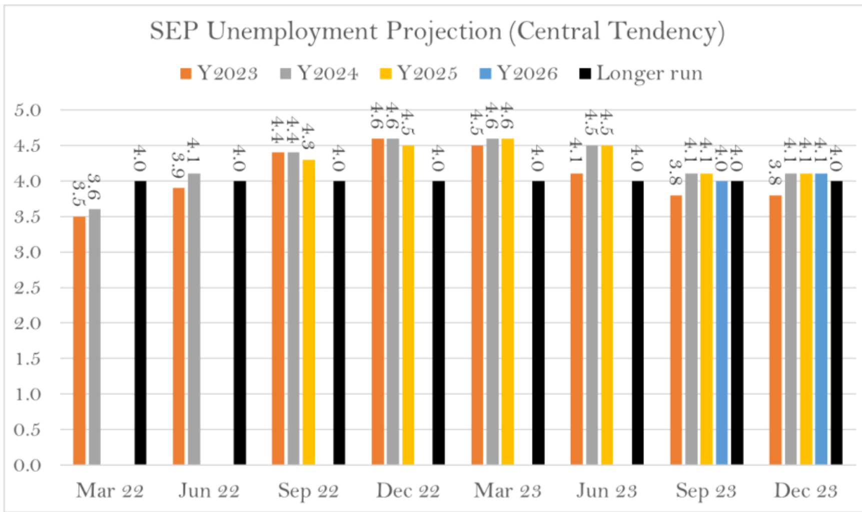
Country	Last	Previous	Reference
Argentina	161	143	23-Nov
Australia	5.4	6	23-Sep
Brazil	4.68	4.82	23-Nov
Canada	3.1	3.1	23-Nov
China	-0.5	-0.2	23-Nov
Euro Area	2.4	2.9	23-Nov
France	3.5	4	23-Nov
Germany	3.2	3.8	23-Nov
India	5.55	4.87	23-Nov
Indonesia	2.86	2.56	23-Nov
Italy	0.67	1.69	23-Nov
Japan	2.8	3.3	23-Nov
Mexico	4.32	4.26	23-Nov
Netherlands	1.6	-0.4	23-Nov
Russia	7.5	6.7	23-Nov
Saudi Arabia	1.7	1.6	23-Nov
Singapore	3.6	4.7	23-Nov
South Africa	5.5	5.9	23-Nov
South Korea	3.3	3.8	23-Nov
Spain	3.2	3.5	23-Nov
Switzerland	1.4	1.7	23-Nov
Turkey	61.98	61.36	23-Nov
United Kingdom	3.9	4.6	23-Nov
United States	3.1	3.2	23-Nov

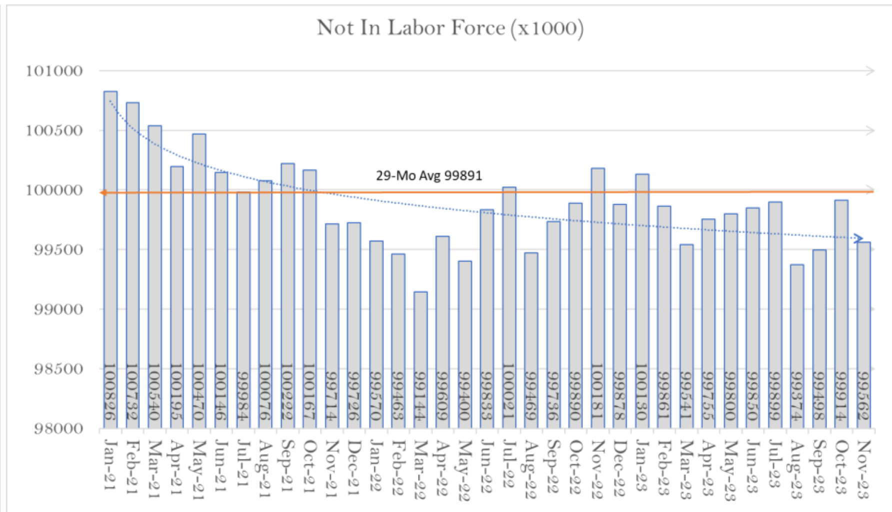
Source: Trading Economics, Experiential Wealth
https://tradingeconomics.com/country-list/inflation-rate

Most countries are reporting continuing disinflation in the 4th quarter of 2023.

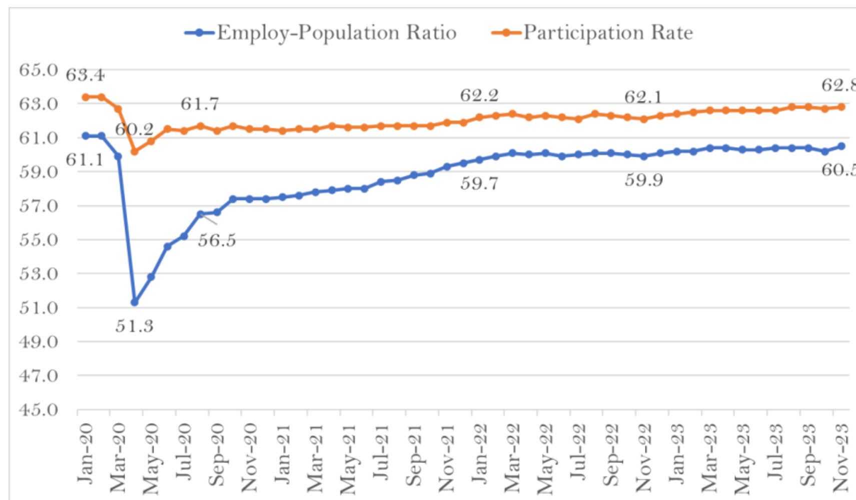
EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

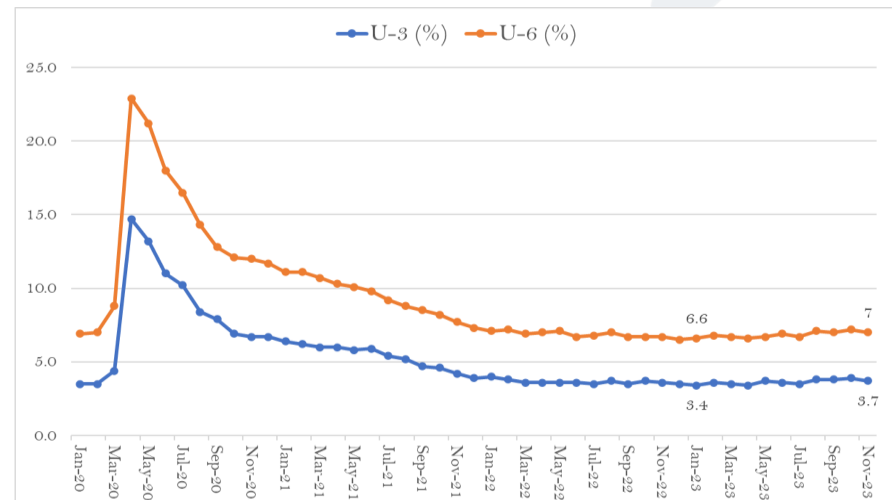
Summary of Economic Projections – Unemployment (U3)





Source: FOMC, Experiential Wealth

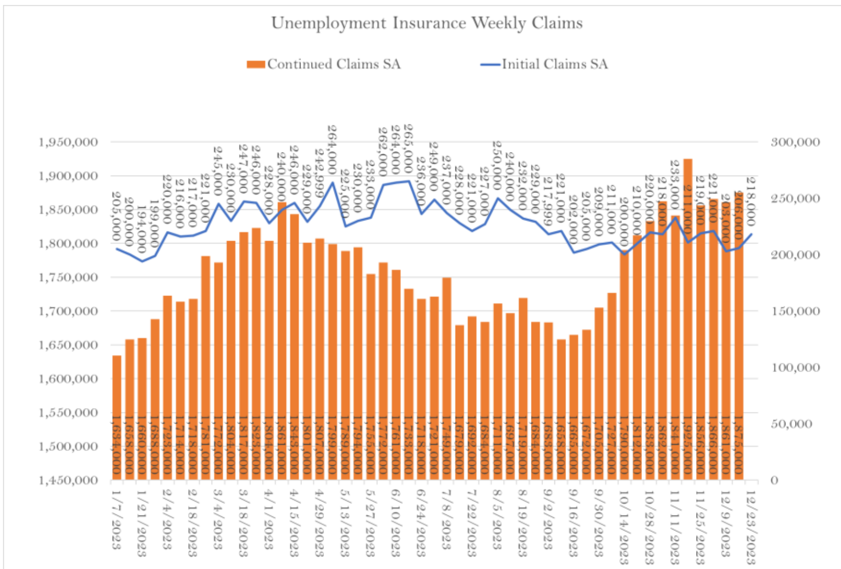


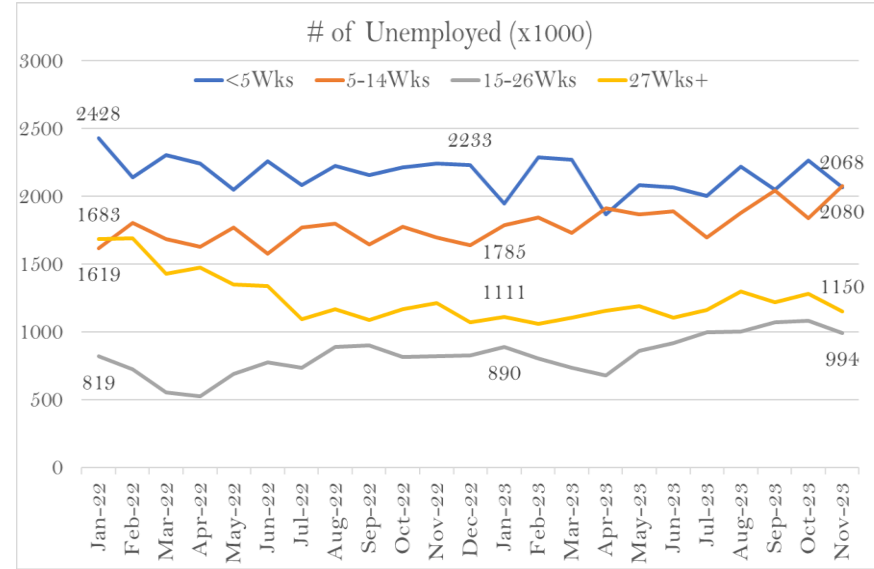


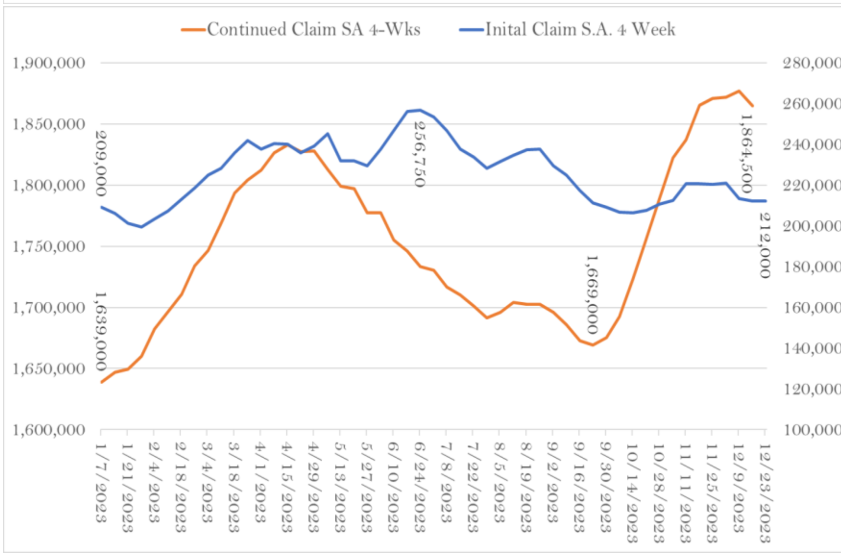
BLS, Experiential Wealth

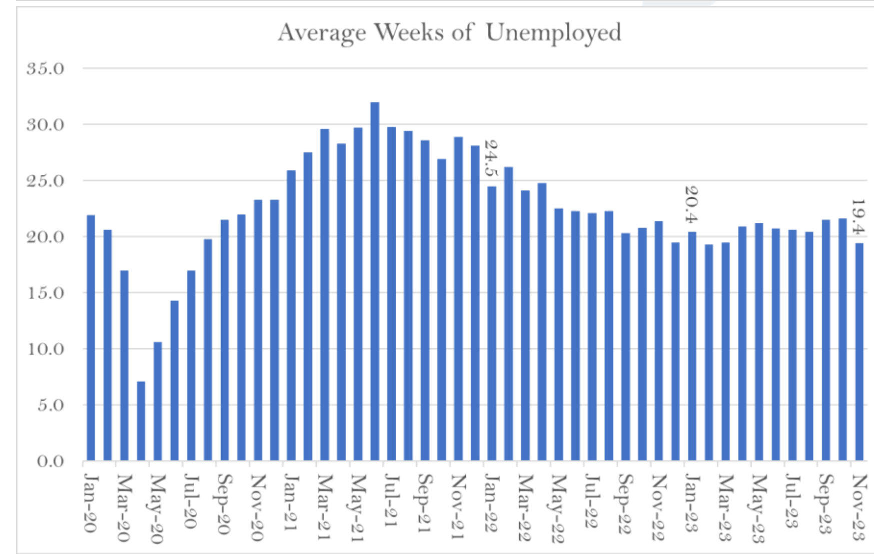
https://www.bls.gov/ces/data/employment-situation-table-download.htm

Labor Market Data



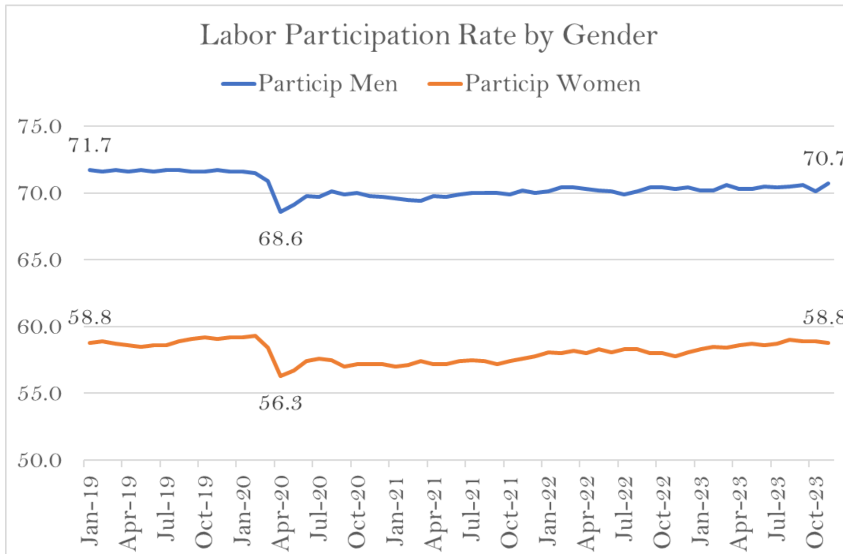


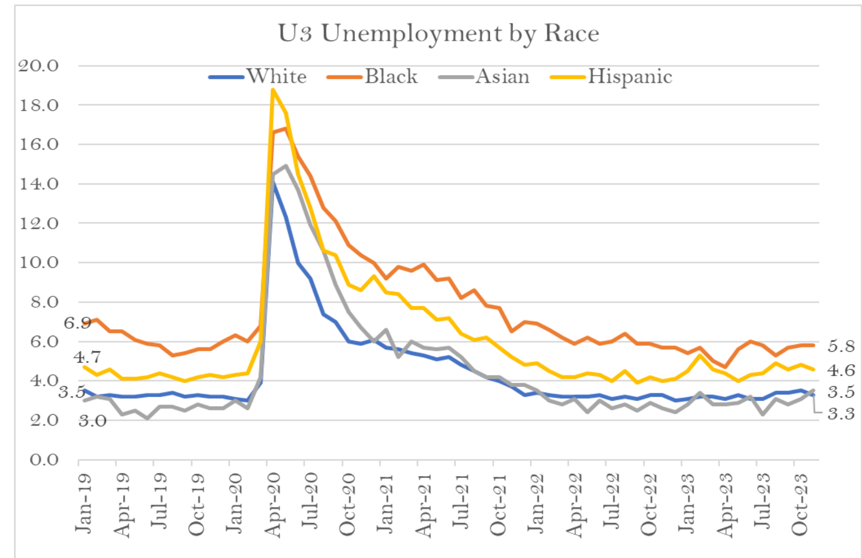


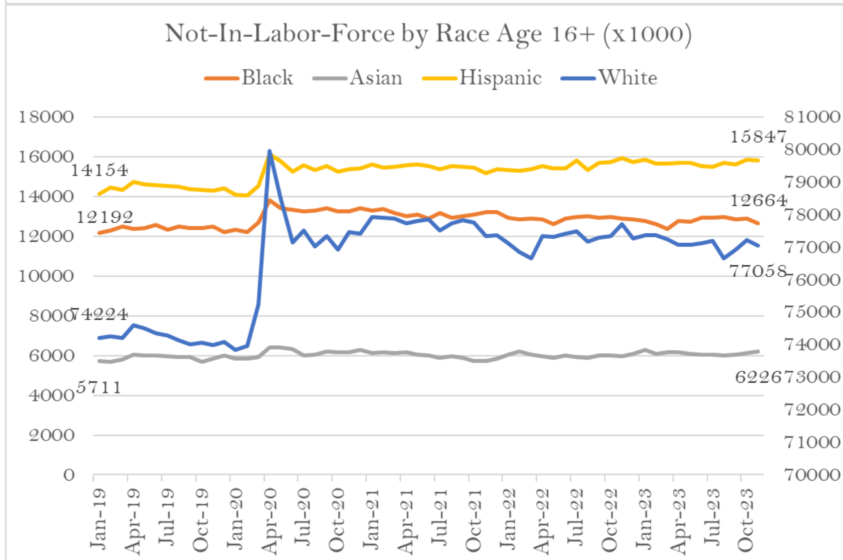


Source: BLS, Experiential Wealth

Employment by Gender and Race







Headline unemployment (U-3) by race shows White, Asian, and Hispanic are back to COVID levels (Jan. 2019). Black American workers now have a lower unemployment rate (5.8%) than January 2019 (6.9%). At the same time, the labor participation rate for women has returned to pre-COVID levels with men getting close (1% lower). In the case of workers age 16+ by race, White workers account for most of the not-in-the-labor-force even though Black, Asian, and Hispanic groups also have a higher not-in-labor-force population. This can be structural – retirement, long COVID, etc. Bottom line: we have fully recovered from COVID downturn, and the labor market remains very tight.

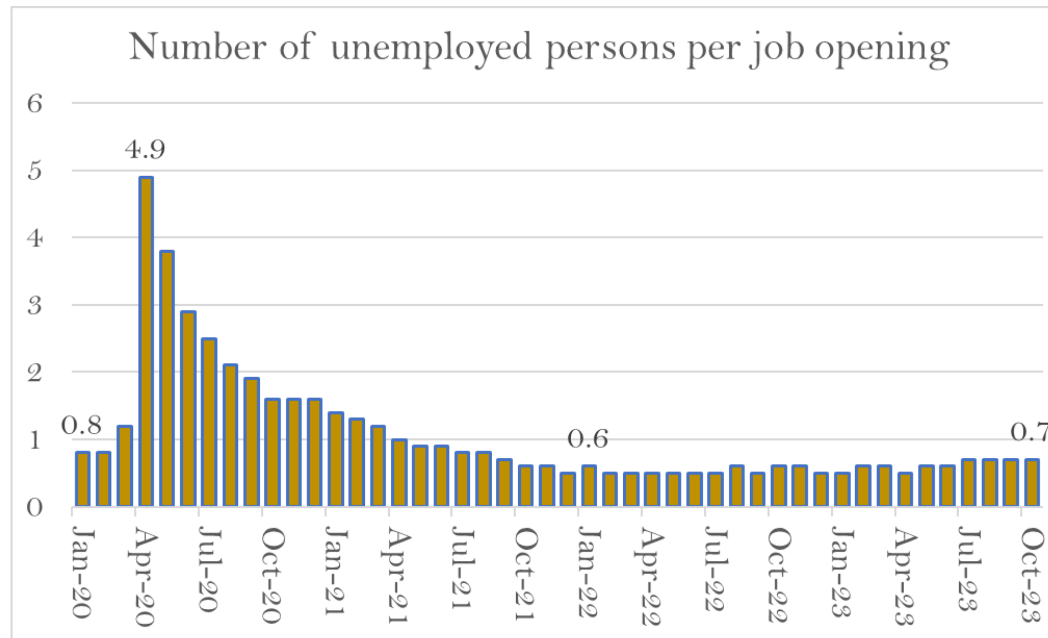
EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

Where New Jobs are…One Year and One Month Hence

	Industry Sector (x1000)	Oct-22	Sep-23	Oct-23
More Hiring	Mining and logging	19	20	25
	Construction	359	304	381
	Manufacturing	393	387	361
	Transportation, warehousing, and utilities	320	269	315
	Finance and insurance	124	121	133
	Professional and business services	1,094	1,056	1,171
	Education and health services	737	760	786
	Health care and social assistance	667	674	717
	Financial activities	203	203	203
Less Hiring	Durable goods	199	211	202
	Nondurable goods	195	176	159
	Trade, transportation, and utilities	1,218	1,150	1,122
	Wholesale trade	155	147	140
	Retail trade	743	734	667
	Information	93	80	65
	Real estate and rental and leasing	79	82	70
	Educational services	70	86	69
	Leisure and hospitality	1,213	1,321	1,094
	Arts, entertainment, and recreation	172	262	170
	Accommodation and food services	1,041	1,059	924
	Other services	202	206	177
	Government	319	342	273
	Federal	41	42	39
	State and local	277	300	234
	State and local education	118	122	97
	State and local, excluding education	159	177	138

Source: BLS, Experiential Wealth 2023 10

People looking should still find a job



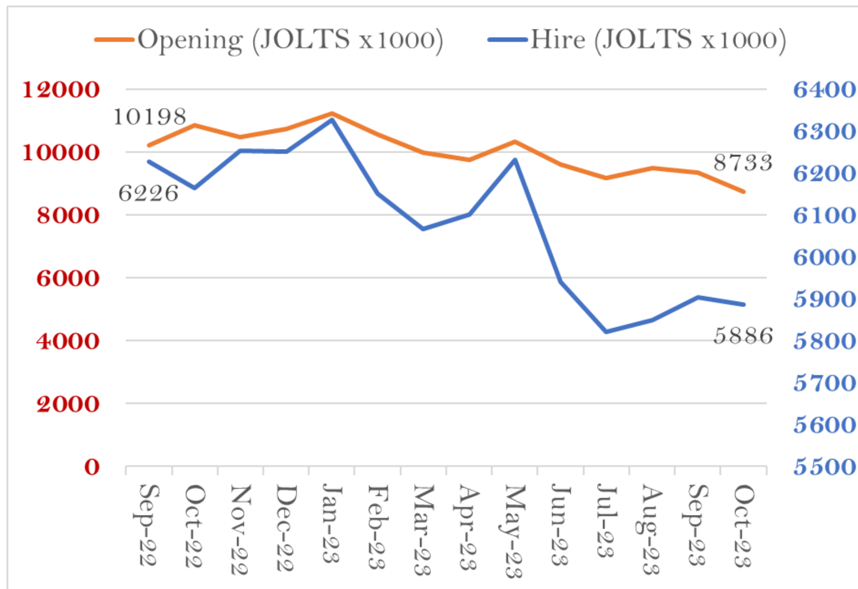
Source: BLS & Experiential Wealth 2023 Oct

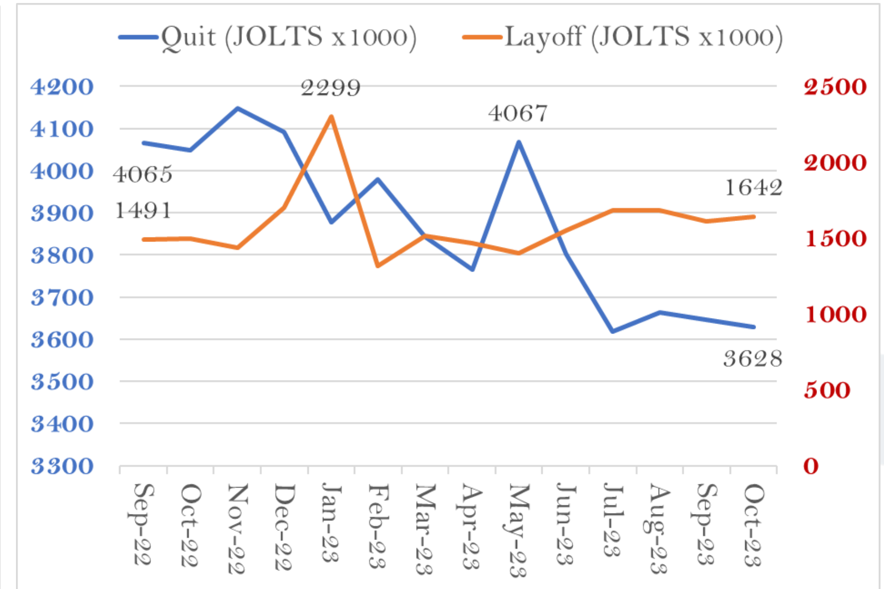
According to Moody's Analytics:
The October JOLTS report was overwhelmingly positive. Most important, hiring held steady while the number of layoffs remains low and stable. On another positive note, the sharp decline in job openings conforms to the expectation that overall labor demand should also be cooling in the current economic environment. Job openings have returned to a trend of moderation and hit a post-pandemic low, and again more closely align with Indeed's job posting data after deviating over the last few months.

Job openings fell more than expected to 8.7 million, but this followed an outsize increase over the summer. The hiring rate ticked lower to 3.7% but has been little changed in recent months as firms still look to fill open positions. The quits rate held steady at 2.3% for the fourth month in a row, while layoffs remained low and stable. The return of the quits rate to its pre-pandemic norm makes it increasingly likely that wage growth will moderate further.

EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

JOLTS Data – 2023 October, strong but slowing labor market



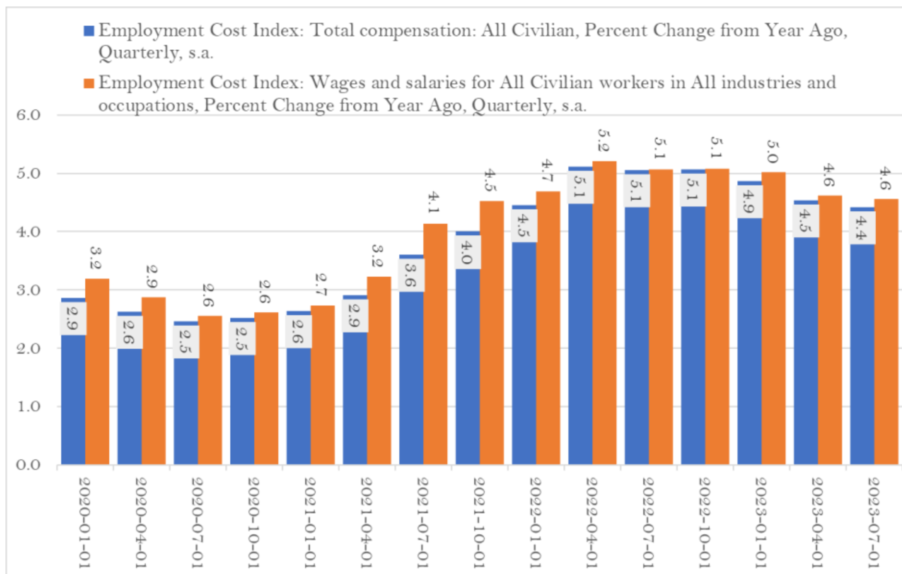


HIRES (x1000)	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
Total private	4.4	4.2	4.1	4.1	4.1	4.1
1 to 9 employees	4.4	4	3.9	4	4.2	4.3
10 to 49 employees	4.2	4.1	3.9	4	3.9	3.9
50 to 249 employees	4.5	4.6	4.5	4.5	4.6	4.6
250 to 999 employees	4.9	4.2	4.4	4.4	4.2	4.3
1,000 to 4,999 employees	4.1	3.5	3.8	4	3.9	3.5
5,000 or more employees	2.3	2.1	2.1	1.9	1.9	1.8

QUITS (x1000)	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
Total private	3,869	3,618	3,409	3,422	3,460	3,441
1 to 9 employees	626	514	416	437	362	485
10 to 49 employees	1,420	1,256	1,213	1,171	1,292	1,057
50 to 249 employees	1,165	1,191	1,146	1,155	1,197	1,123
250 to 999 employees	450	445	429	456	418	505
1,000 to 4,999 employees	169	165	163	160	154	238
5,000 or more employees	39	47	42	43	38	32

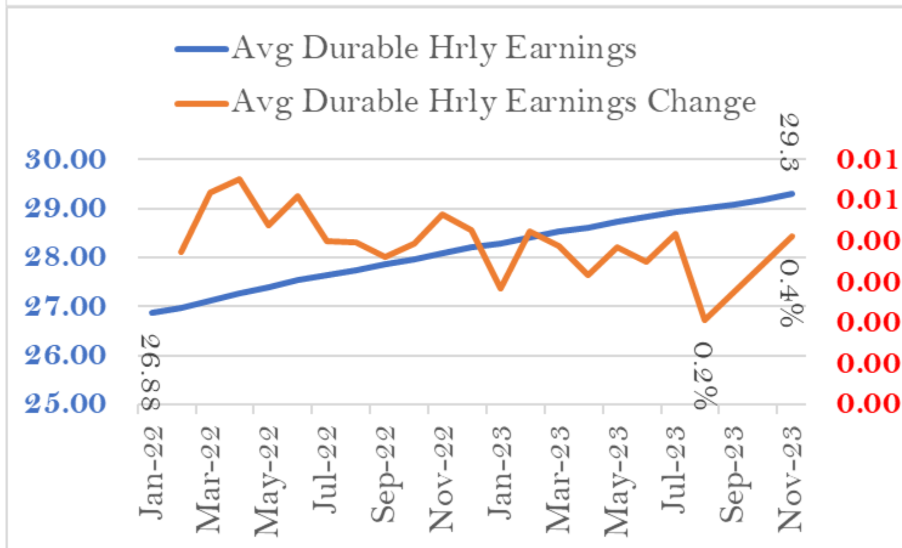
EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

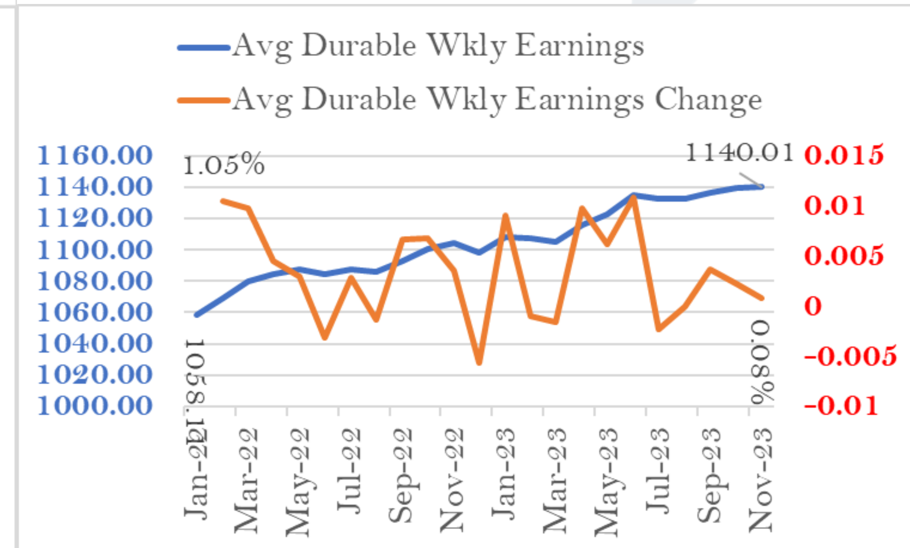
More Labor Market Data



Compensation costs for civilian workers increased 1.1%, seasonally adjusted, for the 3-month period ending in September 2023, or 4.2% on an annualized basis. Wages and salaries increased 1.2 percent and benefit costs increased 0.9 percent from June 2023. Compensation costs for civilian workers increased 4.3% annualized ending in September 2023. Wages and salaries increased 4.6% annualized basis. Benefit costs increased 4.1% over the year. Although wages and benefit costs continue to come down, with inflation fallowing as a faster rate, makes the increases more meaningful.

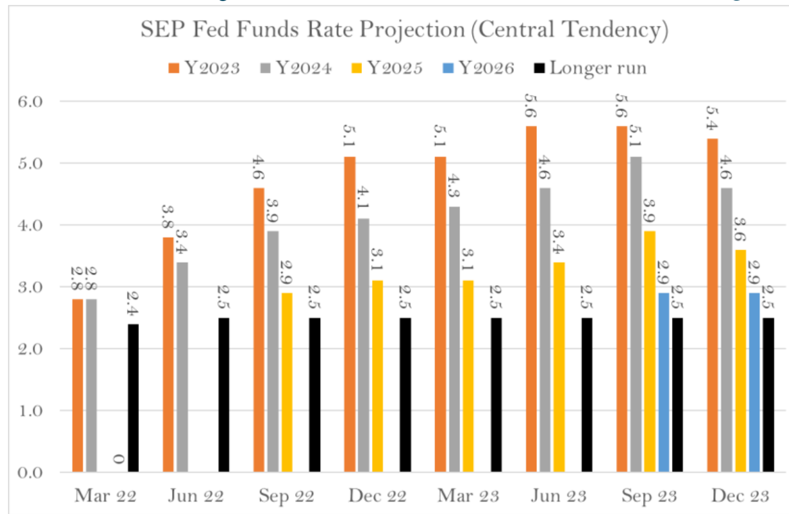
Source: Employment Cost Index & Experiential Wealth



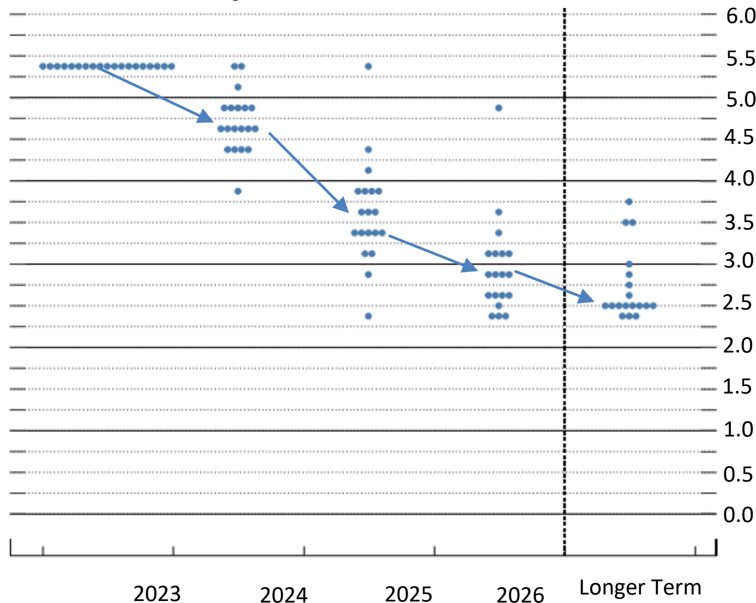


Source: Monthly Employment Situation Report & Experiential Wealth

Summary of Economic Projections (SEP) – Fed Fund Rate



Source: FOMC, Experiential Wealth



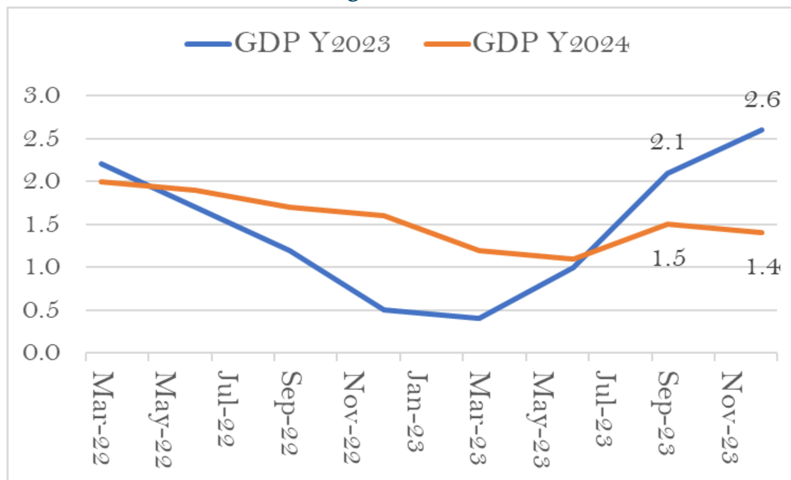
Source: FOMC, Experiential Wealth 12 2023

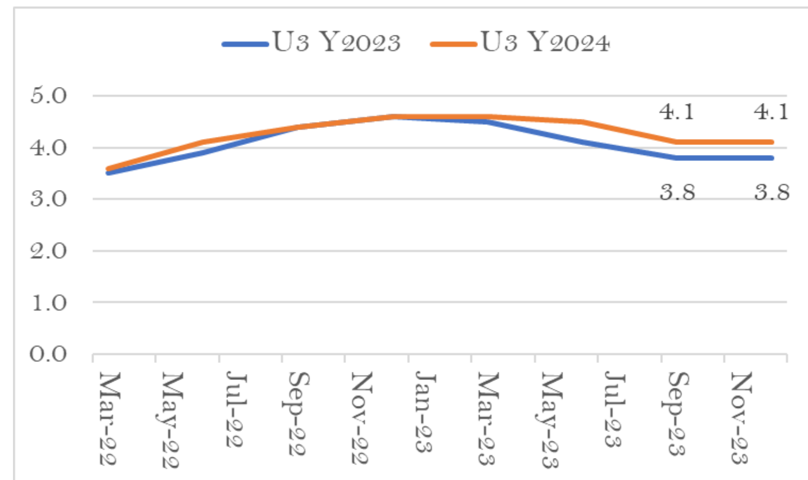
The central tendency (among all FOMC members) rate for 2023 remains between 525 and 550 since the June meeting. The 2024 rate has dropped from the September rate of 510 bp to 460bp. The dot plots suggest 8 members project fewer cuts in 2024 while 5 members project more rate cuts. This is a bit of a reversal back to the dot plot projections made in the June meeting.

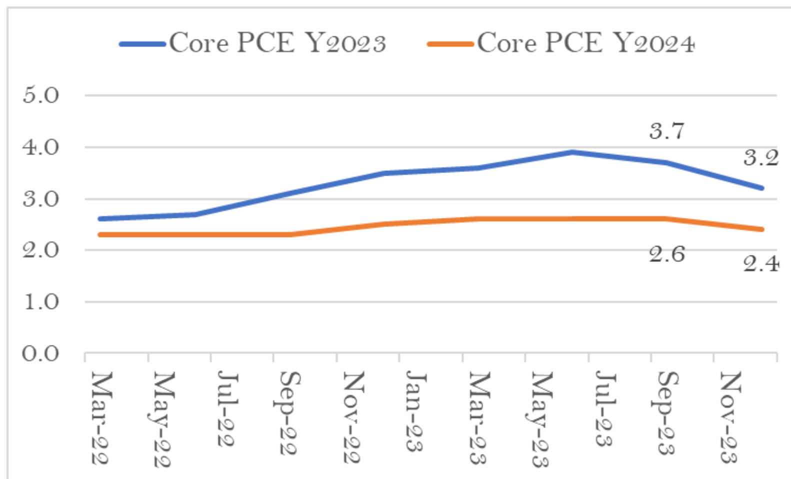
Please note that these dots are constantly changing based on incoming data and each regional bank survey. Investors should not solely rely on these dots as the definitive direction of the FOMC as a whole. Each member makes his/her best estimate based on respective regional economics and survey data to forecast rate policy. Nonetheless, the dot plot offers a window into what members are expecting currently.

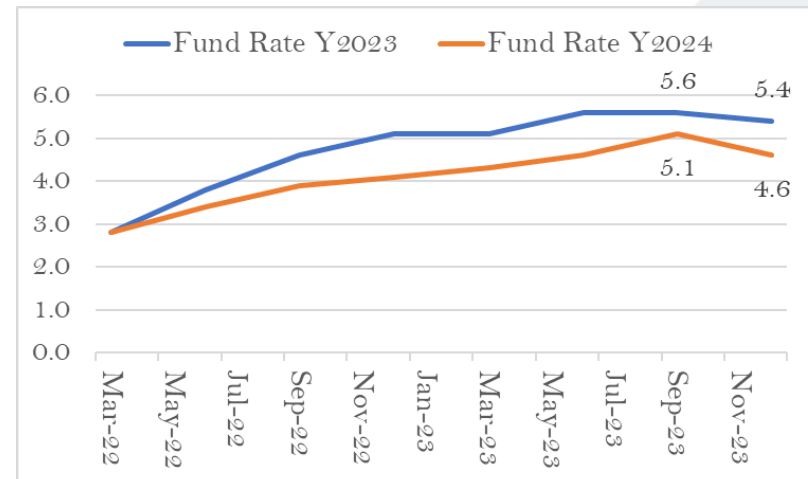
Be cautious that one is not over reliant on the dot plot, especially in today's highly uncertain economic and geopolitical environment. These dots could change quickly. The base case for most Fed officials, market economists, and investors is a soft landing in 2024 with inflation continuing to trend downwards toward the 2% target, and a little increase in unemployment, even under a slowing economic trend. This is a very optimistic scenario, and assets and interest rates are priced towards this benign direction.

SEP Dots Project Lower Rates in 2024





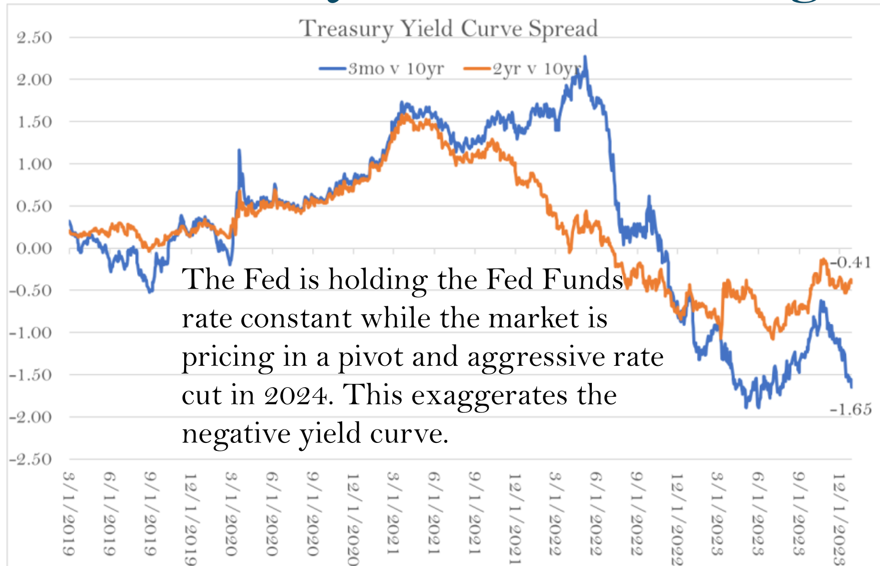


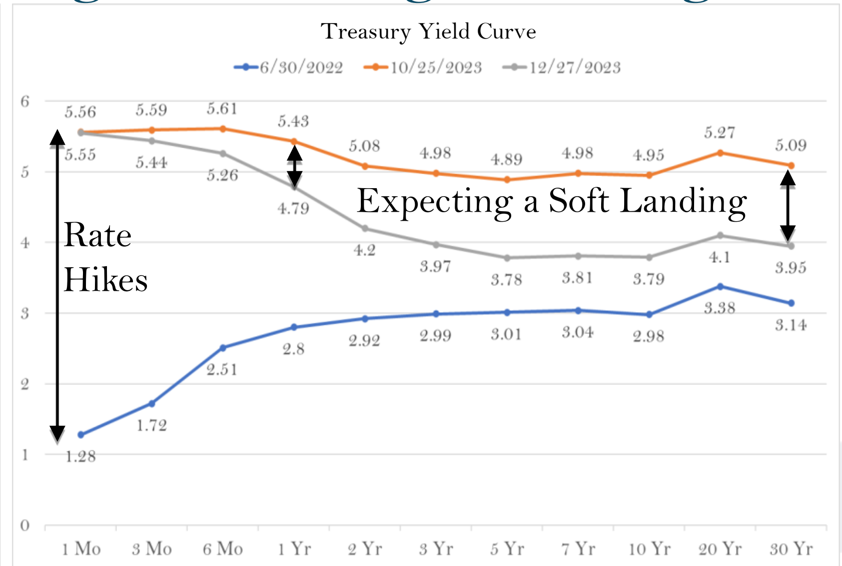


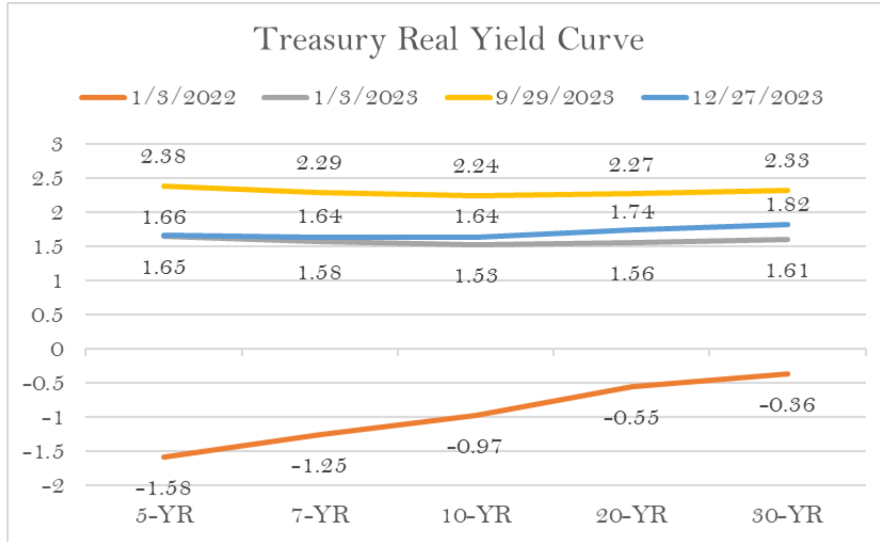
CURRENT IMTERPRETATION of the Dot Plot:
Lower economic growth in 2024 (GDP) + Higher unemployment in 2024 (U3) + Lower core inflation in 2024 (PCE) = SOFT LANDING = anticipate lower rates in 2024

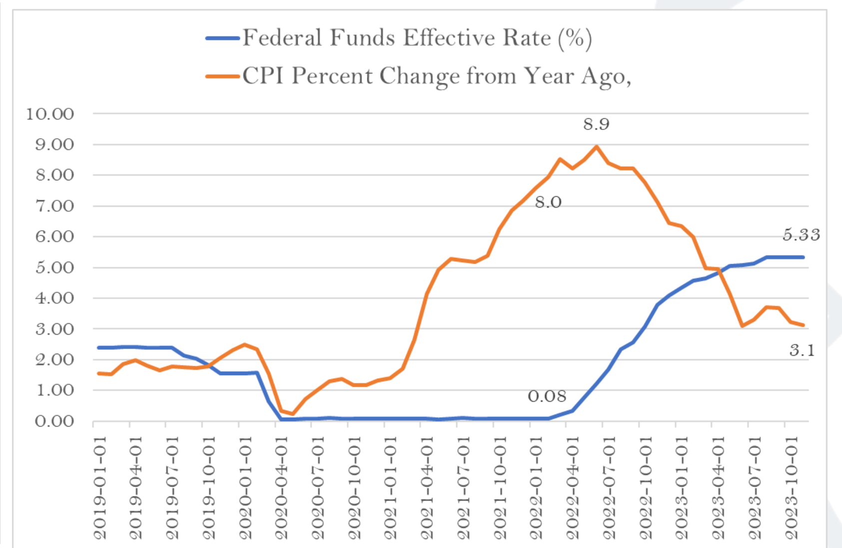
EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

U.S. Treasury Yield Curve: Signaling the 2% target is in sight









https://home.treasury.gov/policy-issues/financing-the-government/interest-rate-statistics

Source: U.S. Treasury, FRED, and Experiential Wealth

Our Base Case Forward – Macro and Super Macro

- Energy transition, climate impacts, de-globalization/regionalization of friend-, near-, and on-shoring, nationalism/national security driven self-reliance, and geopolitical tensions and conflicts are all contributing factors to higher neutral inflation rate. Historically, trade wars, tariffs and market fragmentation have led to lower standards of living and widened further the income and wealth divide.
- The UN predicts that the world population will reach 10 billion people in 2057, and the 2 additional billions will be concentrated from the following countries: Nigeria, DR Congo, Tanzania, Pakistan, Ethiopia, Angola, Niger, Egypt, US, and Sudan. At the same time China will experience a loss of 374 million (Pew Research, 2019[1]). Many of these countries are in the emerging and developing economies and in geographical locations that are subject to the impact from climate change. Historically, groups of young men in low-income countries struggling with low economic prosperity and few opportunities tend to become militant and destabilizing. Mixing this with tribalism and religion could have significant geopolitical ramifications.
- On the other hand, the bleak economic and living standard predication for a rapidly aging society (such as China, Japan, Korea, Germany, and other RIC and EU countries) may not end in the common destiny. In her book, 8-Billion, Jennifer Sciubba alerts readers that each country's policies have greater impacts to the future of any aging society. Although a country's average age over time is pre-destined, the impact may not be so. This can be especially so with the invention and development of AI, robotics, super computing, biotech, DNA sequencing/CRISPR, and new pharma which can and will have impact and consequences that we are yet to understand. Articles are popping up that we should all be thinking about soon humans will live to 100 and beyond. However, no one government has figured out exactly how the future retirement security and healthcare costs and infrastructure will be paid for.
- The end of the U.S. unipolar hegemony and the transition to a multi-polar world will be messy. The U.S. will not exit gracefully, and not unlike the British Empire before, it is hard for number one to let go as others want a seat at the table. How we get from here to there remains to be written and contributes to global uncertainty.
- De-dollarization is already occurring (does not mean the end of the U.S. dollar as a reserve currency) and sped up by the confiscation of Russia Central Bank assets parked in USD. This will likely impact long-term inflation in the U.S. and its ability to continue to support its ever-growing budget deficit as countries look for alternatives.

[1] https://www.pewresearch.org/short-reads/2019/07/10/for-world-population-day-a-look-at-the-countries-with-the-biggest-projected-gains-and-losses-by-2100/ft_19-07-05_worldpopulation-2/

EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

Rates: Next 12- to 18-months

- In the U.S., the biggest market risk is the current dominant narrative of a soft landing NOT coming to fruition. Many events can affect this growing popular "base case" for the U.S. economy. Hopefully, the 4th quarter market excitement anticipating a significant drop in interest rates is not overdone.
- The biggest contributor to the "soft" landing case is a continuation of disinflationary forces driving down the core inflation rate towards 2%. The headline CPI has dropped impressively in 2023 to end in the 3% range. The Core CPI is now at 4% with the super core (i.e., stripping out shelter) in the 2% range.
- However, using the Fed's preferred measure of PCE and, more specifically, core-PCE, it is at 4.1% currently. The Atlanta Fed's Sticky and core Sticky inflation are both at 4.7%, which is quite a bit of distance from the target 2% inflation rate.
- Thus far, the high interest rates in speeding disinflation have not been at the cost of higher unemployment. This is the good news. However, with a tight labor market and positive real wage growth, it becomes challenging for the Fed to dampen consumer spending, which supports higher prices and thus stickier inflation. The balancing act of keeping interest rates at levels that is economically restrictive and yet not tipping the economy into a full-blown recession (i.e., economic contraction plus high level of unemployment) is difficult. So far, the full impact of high rates has not been fully experienced by the economy. Part of the delay is due to the significant savings or excess reserves from the COVID era fiscal transfers. Another reason is both homeowners and much of corporate America are still holding onto low-cost mortgages and debts that do not need to be refinanced at a much higher rate. Unless the current interest rates continue to fall (e.g., to a 3% to 3.5% range), the cost of money in a high interest rate environment is expected to negatively impact the wider economy sooner or later.
- We are not going back to the zero-interest rate policy (ZIRP) unless there is a serious systemic risk such as that gave rise to the GFC and the COVID pandemic. There is no reason to return to an uber accommodative policy of the past, which was needed to fight off deflation, and make available ample liquidity to stave off a negative feedback loop in the economy.
- "Higher for longer" interest rate policy remains the base case even though it is not clear how high and how long. Higher is higher than ZIRP for sure. Even the Fed is not certain as to when the policy pivot will be (i.e., first rate cut) and the frequency of cuts over the next 18-months. If the economy does contract, which naturally adds to the curtailment of consumer demand, it would be reasonable to assume rate cuts would be more frequent.
- We expect heightened uncertainty and market volatility remain the dominant theme in 2024. This does not necessarily mean a market crash, but the ride can be quite rocky as the market continues to calibrate between expectation, economic data, geopolitics and endogenous and exogenous shocks. We also have an election year in 2024!

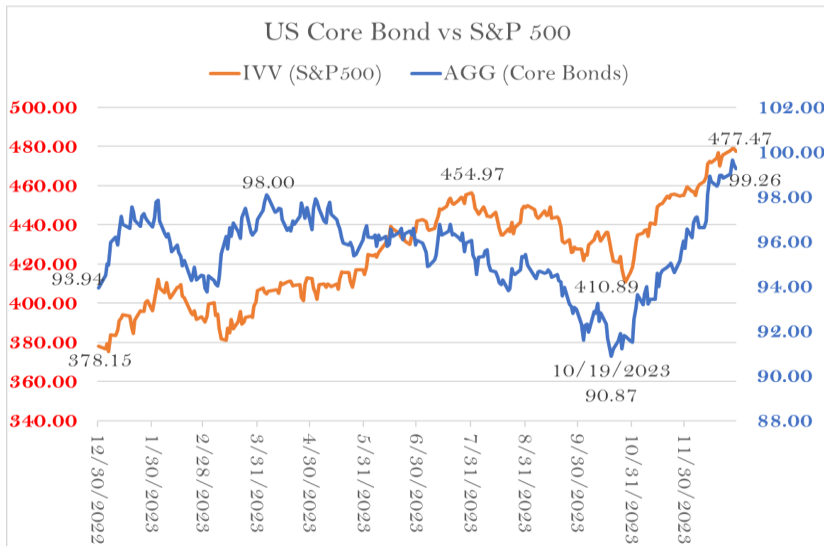
Election Year Stock Market Return History

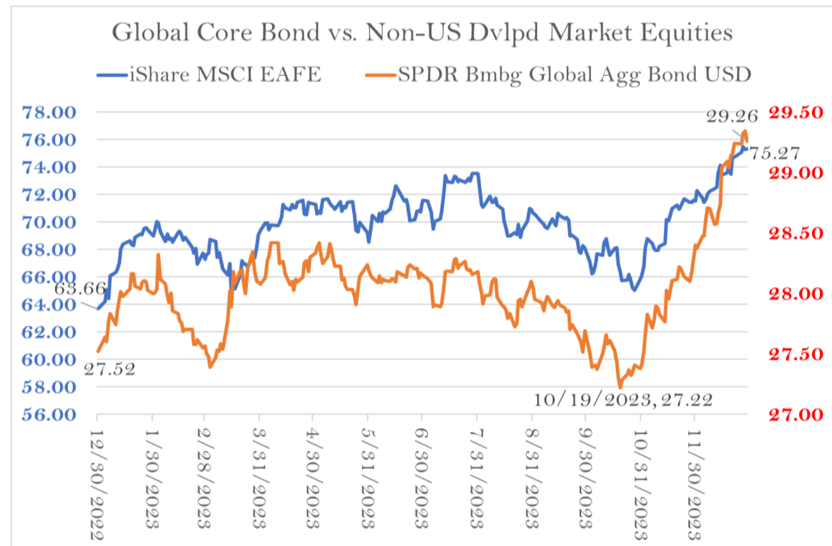
Year	Annual % Change	Election Year	Year	Annual % Change	Election Year	Year	Annual % Change	Election Year	Year	Annual % Change	Election Year
1928	43.61	Hoover vs. Smith	1952	**18.37**	Eisenhower vs. Stevenson	1976	**23.84**	Carter vs. Ford	2000	-9.1	Bush vs. Gore
1929	**-8.42**		1953	**-0.99**		1977	**-7.18**		2001	**-11.89**	
1930	**-24.9**		1954	52.62		1978	6.56		2002	**-22.1**	
1931	-43.34		1955	31.56		1979	18.44		2003	28.68	
1932	-8.19	Roosevelt vs. Hoover	1956	6.56	Eisenhower vs. Stevenson	1980	**32.42**	Reagan vs. Carter	2004	**10.88**	Bush vs. Kerry
1933	53.99		1957	**-10.78**		1981	**-4.91**		2005	4.91	
1934	**-1.44**		1958	43.36		1982	21.55		2006	15.79	
1935	47.67		1959	11.96		1983	22.56		2007	5.49	
1936	**33.92**	Roosevelt vs. Landon	1960	0.47	Kennedy vs. Nixon	1984	6.27	Reagan vs. Mondale	2008	-37	Obama vs. McCain
1937	**-35.03**		1961	26.89		1985	31.73		2009	26.46	
1938	31.12		1962	**-8.73**		1986	18.67		2010	15.06	
1939	-0.41		1963	22.8		1987	5.25		2011	2.11	
1940	-9.78	Roosevelt vs. Willkie	1964	**16.48**	Johnson vs. Goldwater	1988	**16.61**	Bush vs. Dukakis	2012	**16.00**	Obama vs. Romney
1941	**-11.59**		1965	12.45		1989	31.69		2013	32.39	
1942	20.34		1966	**-10.06**		1990	**-3.1**		2014	13.69	
1943	25.9		1967	23.98		1991	30.47		2015	1.38	
1944	**19.75**	Roosevelt vs. Dewey	1968	**11.06**	Nixon vs. Humphrey	1992	7.62	Clinton vs. Bush	2016	**11.96**	Trump vs. Clinton
1945	36.44		1969	-8.5		1993	10.08		2017	21.83	
1946	**-8.07**		1970	4.01		1994	1.32		2018	**-4.38**	
1947	5.71		1971	14.31		1995	37.58		2019	31.49	
1948	5.50	Truman vs. Dewey	1972	**18.98**	Nixon vs. McGovern	1996	**22.96**	Clinton vs. Dole	2020	**18.4**	Biden vs. Trump
1949	18.79		1973	**-14.66**		1997	33.36		2021	28.71	
1950	31.71		1974	**-26.47**		1998	28.58		2022	**-18.11**	
1951	24.02		1975	37.20		1999	21.04		2023	26.58	

- Out of the 24 U.S. general election years since 1928, 4 had a negative S&P 500 total return (in red) while two of them had a negative return the prior year (in orange). This means 20 had a positive return the prior year (83%), just like 2023.
- 15 of the years prior to the election year had a double-digit return (in blue), and 5 had a single-digit return (in green).
- If history is a guide (not suggesting here), the odds are that next year should be a positive year for the stock market.

EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

2023 Stock and Bond Journal – Volatile





In 2023, many questioned the relationship (correlation) between public (liquid) stocks and bonds. The standard 60% equities (stocks) and 40% fixed income (bonds) portfolio was challenged as the standard bearer for a long-term portfolio allocation. The fast and furious rise in interest rates have beaten down fixed income (interest rate and bond price have an inverse relationship) as well as stocks in 2022. Most market observers believed the same conditions would hold for 2024. Well, it did not quite turn out that way. Those who sold at the end of 2023 most likely regrated their actions. However, in 2023, public bonds and stocks were still more correlated (moving substantially in the same up and down directions). This was particularly pronounced in the fourth quarter where bonds and stocks both jumped in anticipation of a super dovish Fed in the new year.

EXPERIENTIAL WEALTH
FIDUCIA PERPETUA

Our Investment Thinking (not advice)

- The tried-and-true way to manage (not trade) an investment portfolio is risk diversification. Historically, a properly diversified portfolio offers the long-term benefits of muting extreme movement of each portfolio asset while achieving the expected return over long periods and with rebalancing.
- To put it another way, in times of uncertainty, portfolio stability is even more valued. Consider including assets that have been performing poorly in the recent past and some of their performance in the future may surprise all of us (reversion to the mean concept).
- For the right investment time horizon, investment temperament, and willingness to have a portion of the portfolio being illiquid, private markets (equity, credit, real estate and infrastructure) could add more diversification and long-term return benefits. First, many private market investments have access to investments simply not available in the public markets, and second, being less or illiquid, private investments counter typical behavioral biases of selling low and buying high (fully invested over long periods). Investors should be well educated in and understand the risks associated with private markets before considering if any allocation may make sense with the right temperament and liquidity needs.
- 2023 U.S. equity performance has surprised almost everyone, and on a relative value basis, it is not cheap. With the economy slowing and uncertainty with disinflation and thus uncertainty to the Fed's reaction function with rate policies, upside potential may be more limited. On a relative basis, other assets and markets may have better value as a starting point.
- Some emerging and international markets have done well this year partially because of a weakening dollar and the anticipation of central bank rate cuts. There are many opportunities in these markets (both stocks and bonds), and for long-term investors, reducing significant home bias (i.e., all or substantial investments are in U.S. companies and denominated in USDs) could make sense from a diversification perspective in the long-term.
- High quality, investment grade fixed income will likely continue its recent (may be a bit over done in the short-term) performance. Bonds are starting out at a much higher interest rate (coupon), and historically, this starting point has delivered above average returns as the interest rate falls (either due to disinflation or a recession/slow growth environment). However, inflation and policy volatility in the near term could make investors uncomfortable. Active management in fixed income is typically a better route because one relies on seasoned managers to timely adjust to changing factors in the market.

Disclosures and Limitations

- Experiential Wealth is an investment advisory[1] firm.
- This quarterly commentary is prepared for educational and informational purposes only and should not be deemed as this Firm or any member of this Firm offering investment advice to the public.
- Information provided or discussed regarding any one specific issue or trend are insufficient or incomplete for investors to rely upon in making any financial decisions.
- This document is not an offer to buy or sell any investment products and investors should consult with their independent fiduciary investment advisor before taking any related action.
- This Firm has no obligation to update this quarterly commentary going forward.

©12-29-2023

Prepared by:
Philip Chao, CIO
Experiential Wealth, Inc.
pchao@experientialwealth.com
www.experientialwealth.com

[1] *Investment advice offered through Pensionmark Financial Group, LLC ("Pensionmark"). Pensionmark is an investment adviser registered under the Investment Advisers Act of 1940. Pensionmark and Experiential Wealth are unaffiliated entities.*

EXPERIENTIAL WEALTH
FIDUCIA PERPETUA