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Economic Update

February 16th 2022

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CONSENSUS FORECASTS (as of early February 2022)

	Q1 '22	Q2 '22	Q3 '22	Q4 '22	2022	2023
World GDP growth					4.3%	3.6%
U.S. GDP annualized	1.5%	3.9%	3.0%	2.5%	3.7%	2.5%
CPI	7.0%	5.7%	4.6%	3.3%	5.0%	2.5%
Unemployment Rate	3.9%	3.7%	3.5%	3.4%	3.6%	3.4%
Industrial Production, YoY%	4.4%	3.8%	3.8%	3.6%	4.0%	2.5%
Fed funds, lower bound	0.25%	0.50%	0.75%	1.00%		
10yr Treasury Yield	1.90%	2.05%	2.15%	2.25%		

Source: Bloomberg News Survey of 76 economists conducted from February 4, 2022 to February 10, 2022

What is the greatest risk to the consensus outlook?

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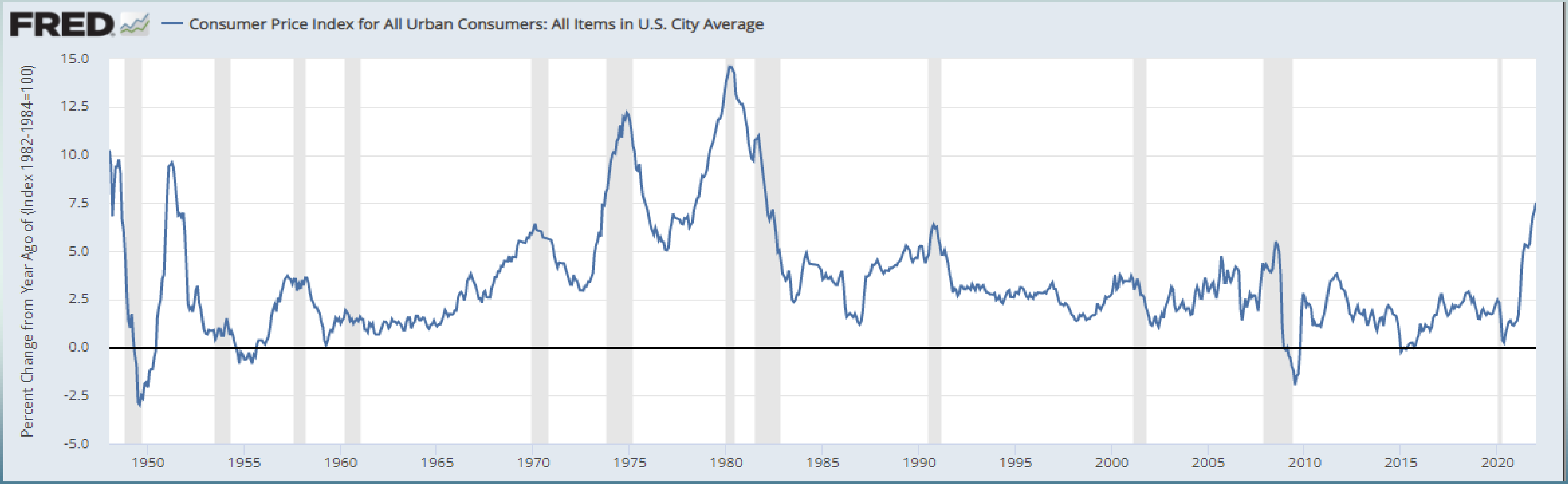
INFLATION

What are the drivers of higher Inflation?

Four Main Causes: Supply Shocks, Demand Shocks, Excess Liquidity and Business Confidence



INFLATION DRIVERS: Supply Shocks

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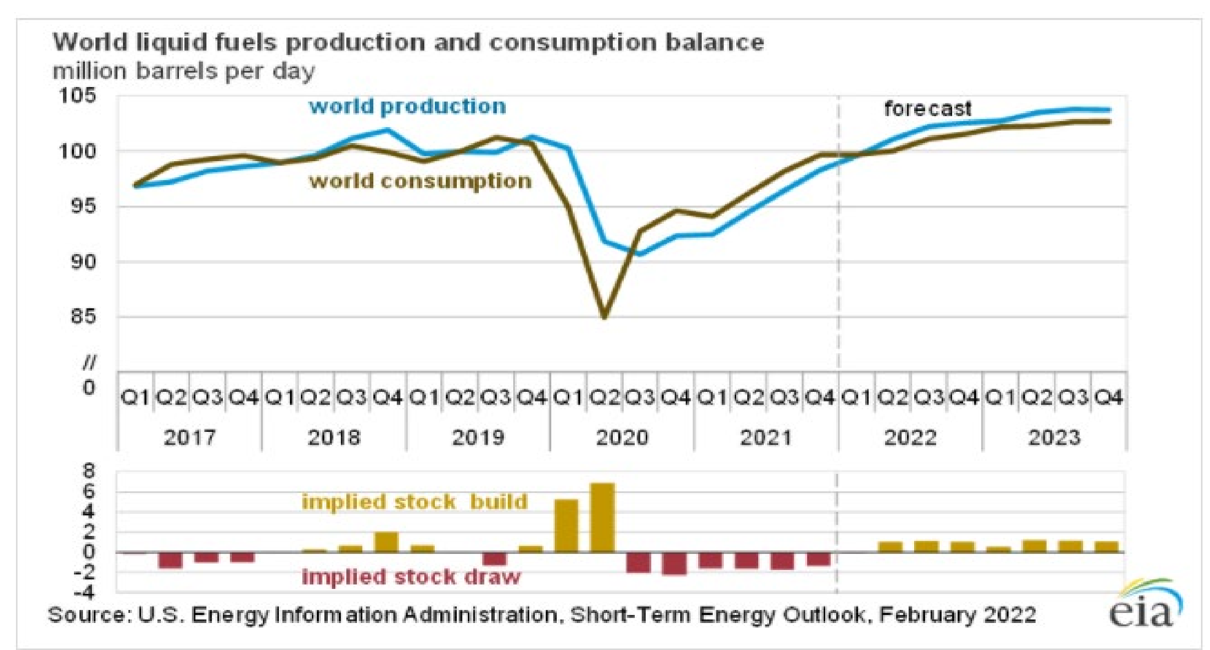
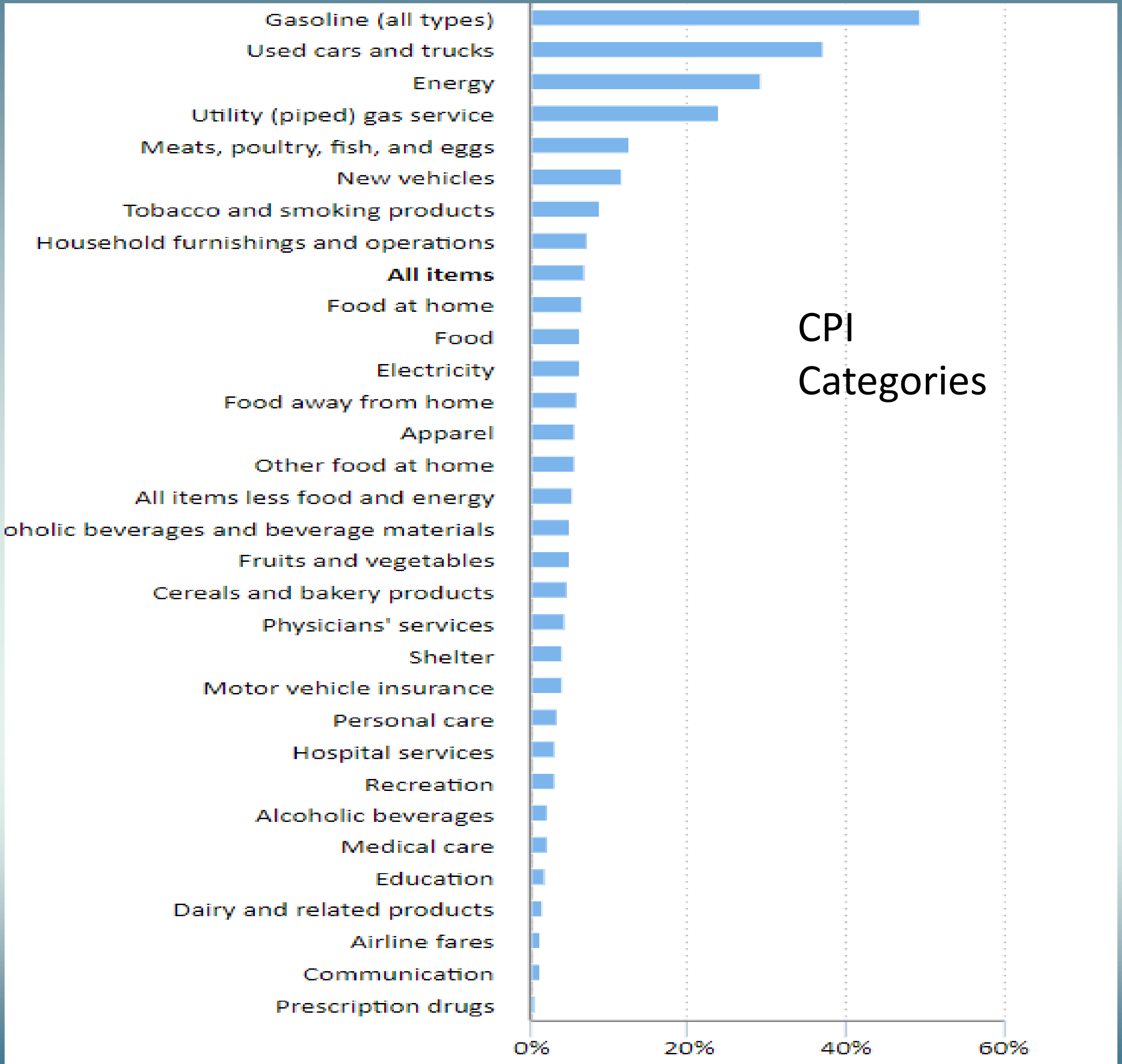
- Semiconductor chip supply & availability of labor constrained auto production.
- Underinvestment in energy sent oil prices soaring once consumption returned.





INFLATION DRIVERS: Demand Shocks

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COVID-19 drove a surge in durable goods consumption which would have been even higher if there was greater availability of autos. As the pandemic restrictions ease, consumer spending should be more balanced between goods and services.

INFLATION DRIVERS: Excess Liquidity

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While demand and supply are responsible for most of the surge in inflation, excess liquidity created by central banks is contributing to inflation in a variety of markets.

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Business Confidence Impact on Inflation

- Prices in sectors hit hard by Covid did not drop nearly as much as prices rose in other sectors.
  - Sometimes, demand was inelastic.
- While the statement below largely is true and small business has been responding to difficult uncertain conditions, businesses sensed consumers, flush with cash from the government, had the wherewithal to pay higher prices and have increased prices regardless of demand.
  - Inflation has become such a buzzword that companies that are not raising prices are the “dumb ones”.

> “More small business owners started the New Year raising prices in an attempt to pass on higher inventory, supplies, and labor costs,” said **NFIB Chief Economist Bill Dunkelberg**. “In addition to inflation issues, owners are also raising compensation at record high rates to attract qualified employees to their open positions.”

INFLATION OUTLOOK:

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We expect inflation to moderate from current levels as supply constraints ease; consumer spending normalizes between goods and services; and global central banks remove monetary stimulus and begin the process of tightening financial conditions.

CONSENUS FORECAST:

- CPI of 3.0% - 3.5% in Q4 '22
- Fed Funds lower bound of 1.00% on 12/31/2022

Economic Growth/Inflation Considerations: Inventory Re-build

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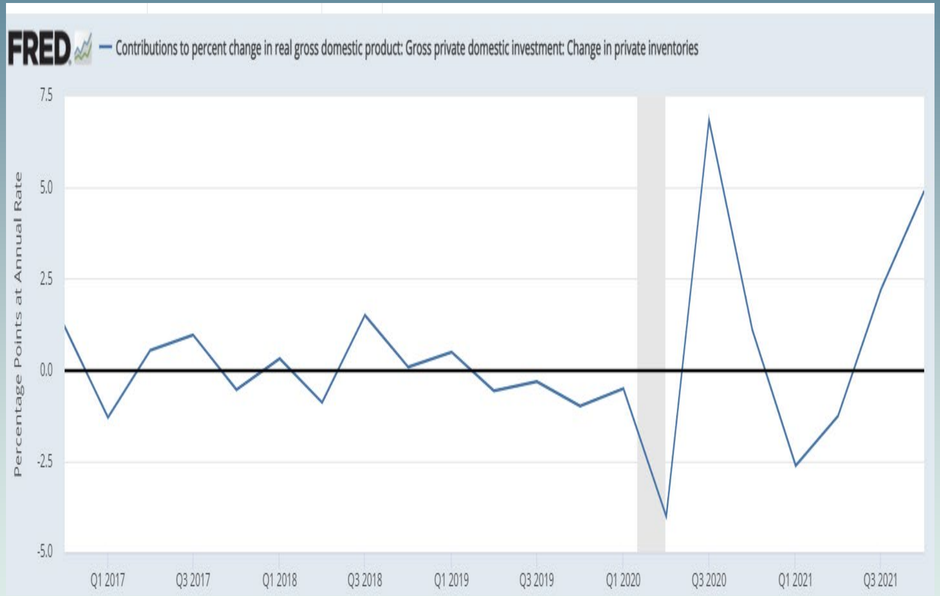
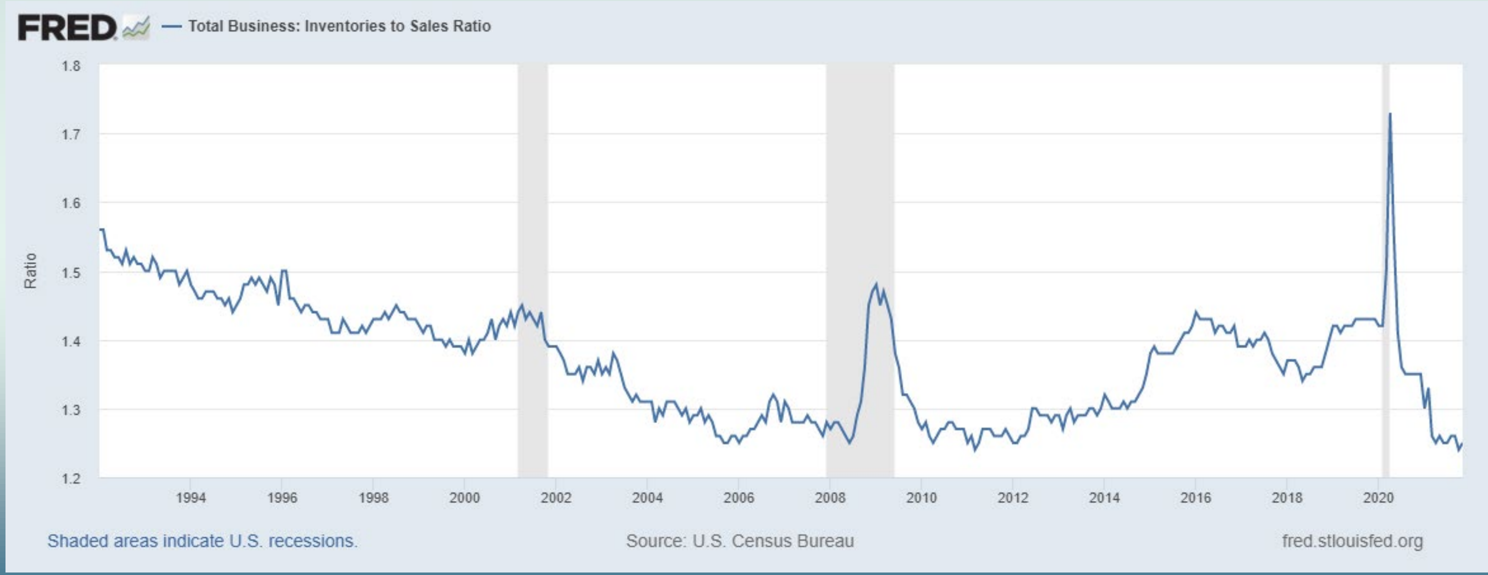


Inventory has begun to rebuild and contributed to GDP growth the last 2 quarters. This will help stem the inflationary surge from lack of supply.



Total Business Inventories are still very low relative to history and need to re-build. As they do, prices of durable goods should stabilize, and in some cases fall, which will improve their affordability.

Economic Growth/Inflation Considerations: Consumer Sentiment

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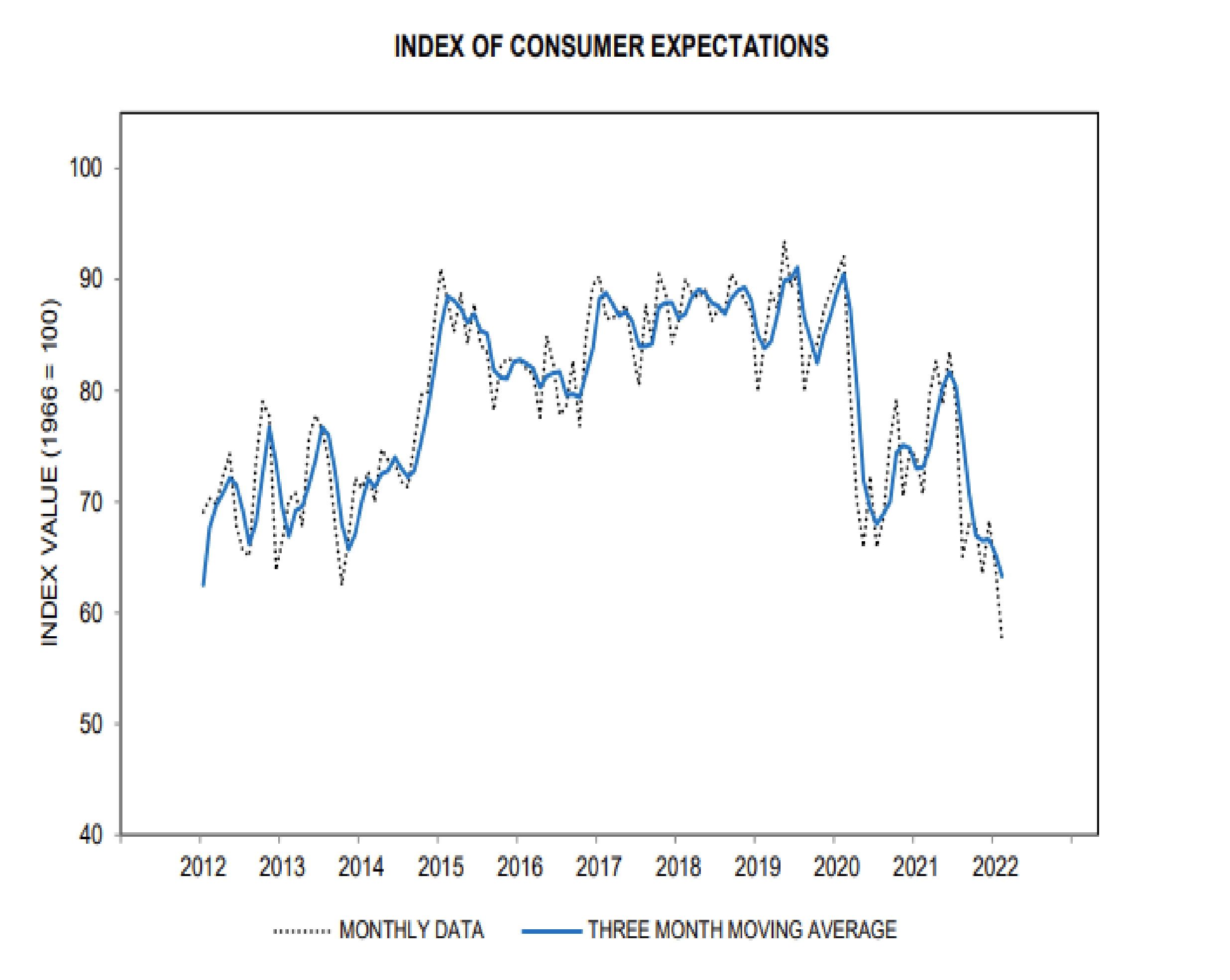
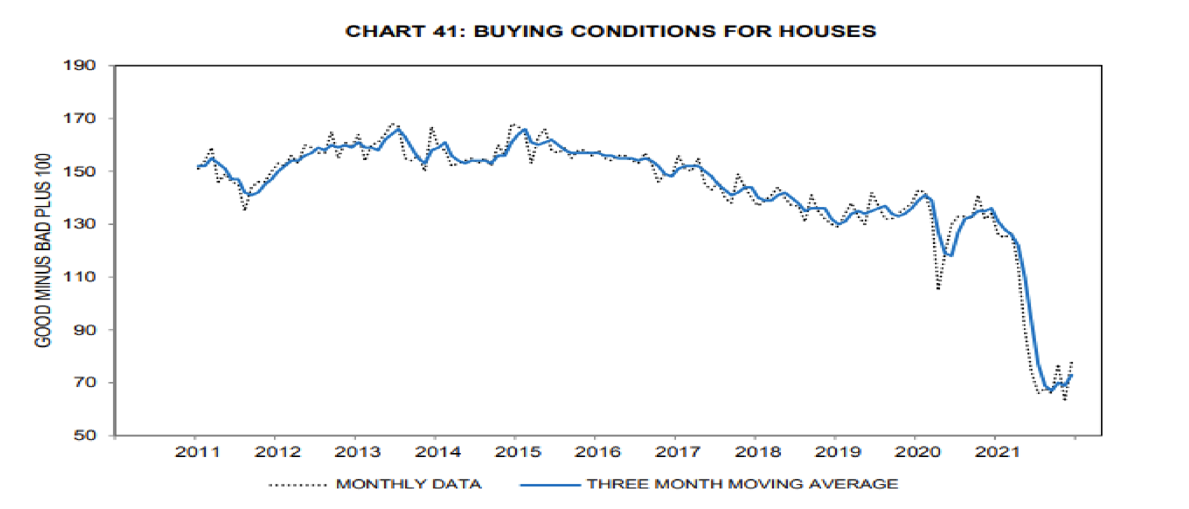
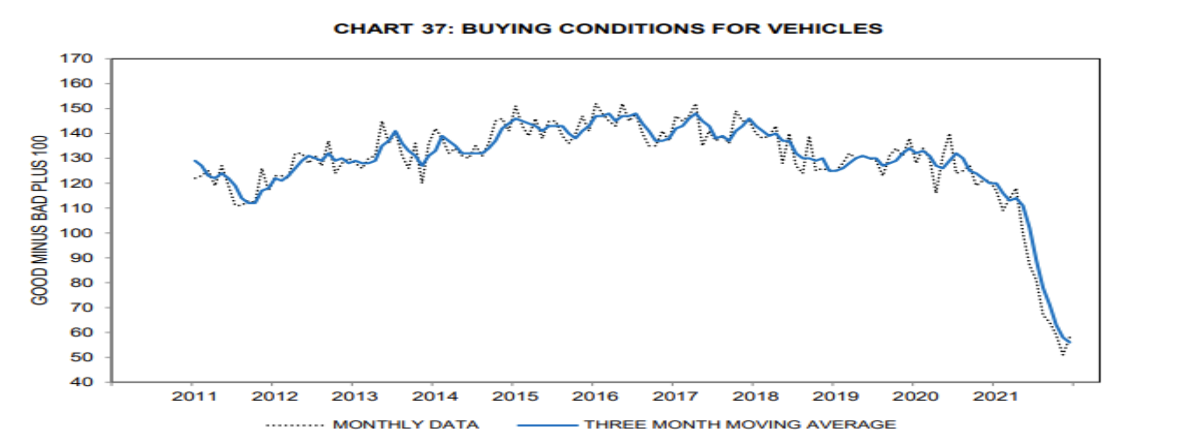
Overall consumer sentiment is at low levels. Auto and home buying conditions are low as well.







Economic Growth/Inflation Considerations: Wages

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Wages rising less than inflation is not sustainable over the long term. In the short-term, spending can be funded by savings. However, eventually either wages need to rise or inflation needs to break.

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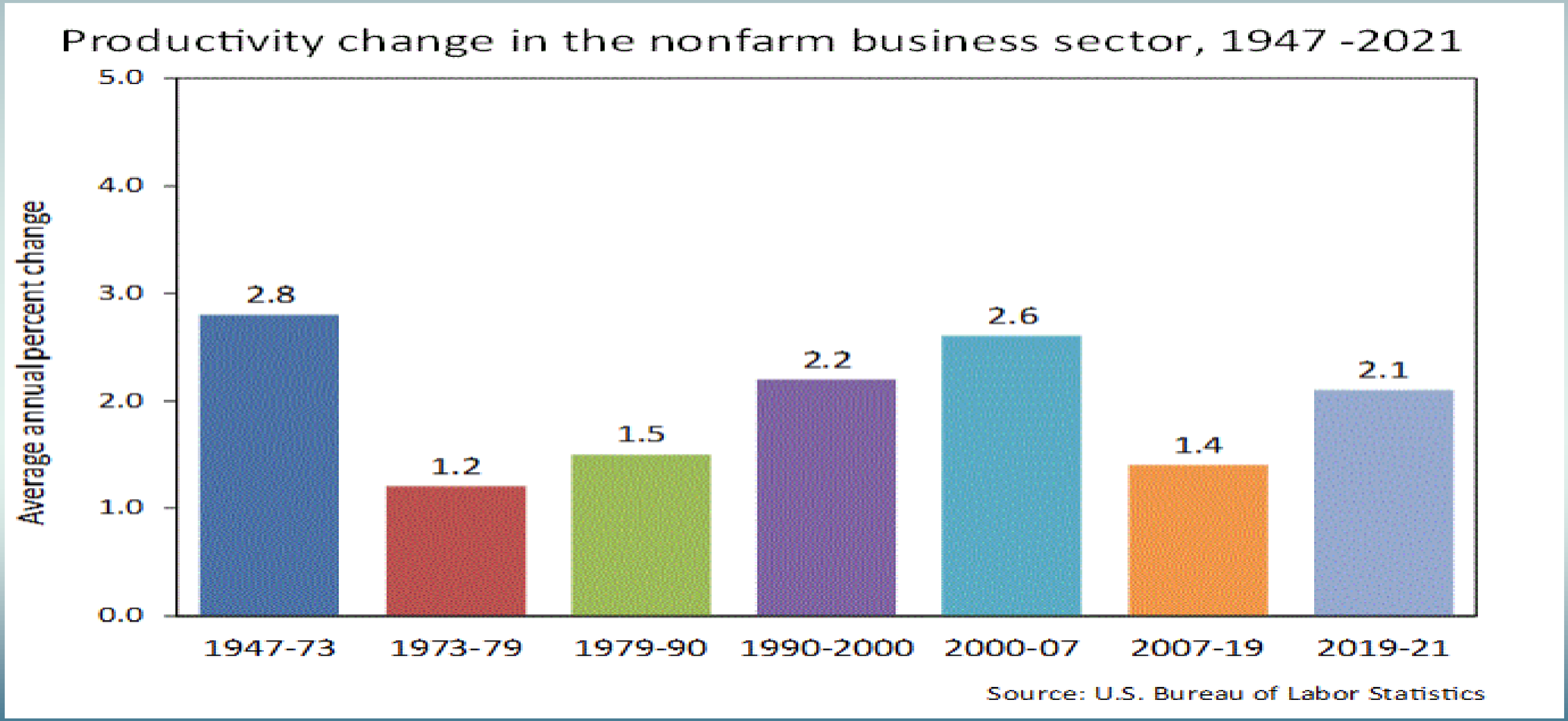
WAGES DRIVE BOTH INFLATION & GROWTH

In an equilibrium state, wage growth should be equal to inflation plus productivity growth.



INTEREST RATE OUTLOOK

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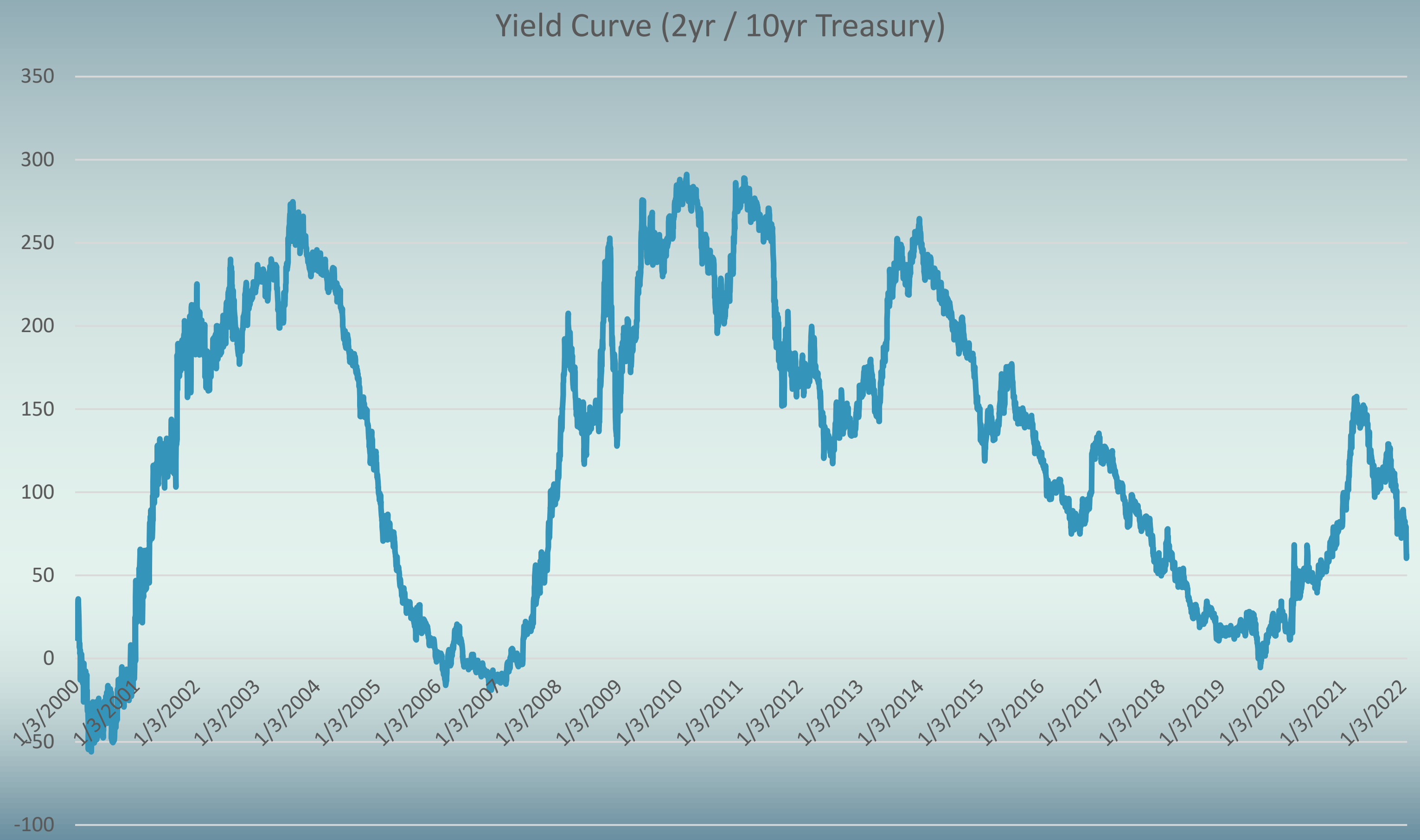

U.S. TREASURY YIELD CURVE

In periods of economic growth, the slope of the yield curve as measured using the 2yr & 10yr Treasury Notes is generally between 150bps – 250bps.

Given consensus expects the 2yr Treasury Note to be 1.69% in Q4 of 2022, assuming economic growth is stable, a 10yr yield >3.6% in Q4 of this year would be ‘normal’.

CREDIT MARKET OVERVIEW

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Credit Markets are an area to watch for early signals of concern over the outlook.

The ICE BofA US Corporate Index option-adjusted spread is tight by historical standards and consistent with a benign credit outlook.

The ICE BofA US High Yield Index option-adjusted spread is also tight by historical standards and indicative of little concern over the near-term credit outlook.

What Can Drive Sustainable Long-Term Growth?

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- The United States desperately needs strong productivity growth to drive economic growth this upcoming decade. While there are promising technology trends and companies are using Covid to drive labor productivity higher, questions remain.
  - Has this addiction to large deficit spending become an uncontrollable animal that politicians can't get away from?
    - Will voters simply vote for the ones that promise the most?
    - It could take a painful reset for our country to realize sustainable economic growth, which is based on strong productivity gains, will not come from just mailing checks to everyone to spend.
- Labor force participation trends were unfavorable before Covid and look even bleaker after.

QUESTIONS

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Disclosures

Past Performance Does Not Guarantee Future Results
Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns.
The investment(s) discussed may not be suitable for all investors. Investors must make their own decisions based on their specific investment objectives.
Any investment contains risk, including the risk of total loss.

The Opportunistic and Waterfront Strategies

The Strategies calculate performance as a composite of all separate accounts included in the strategy. Advisor fees (which may range from 0.35% to 1.50% depending on account size), trading costs, cash inflows and outflows will lead to differences (primarily reductions) in return.
Accounts are included in the strategy at the earlier of 1 month after model assignment within TradePMR or after 60% of available funds have been invested in the strategy. Balance data and de minimis cash inflows and outflows are exported to return software (EASY ROR PRO) at the end of each month or at interim periods within a month if new accounts join during the month or there are large cash flows into or out of one of the portfolios. The end of every month, new account start dates or dates with meaningful cash flows into or out of a portfolio creates a break point for calculating period to period returns. The returns shown are geometrically linked returns over all relevant periods. The composite returns are a weighted average of all the separate accounts in the strategy. Although the accounts are managed in close unison to one another, returns can differ from account to account based on small differences in security weightings and/or securities held