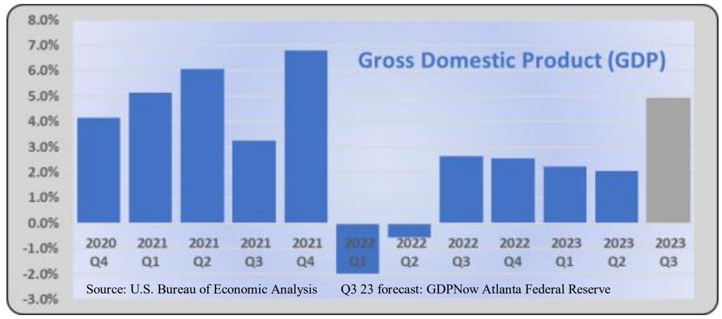
Investment Watch

3rd Quarter, 2023

Soft Landing?

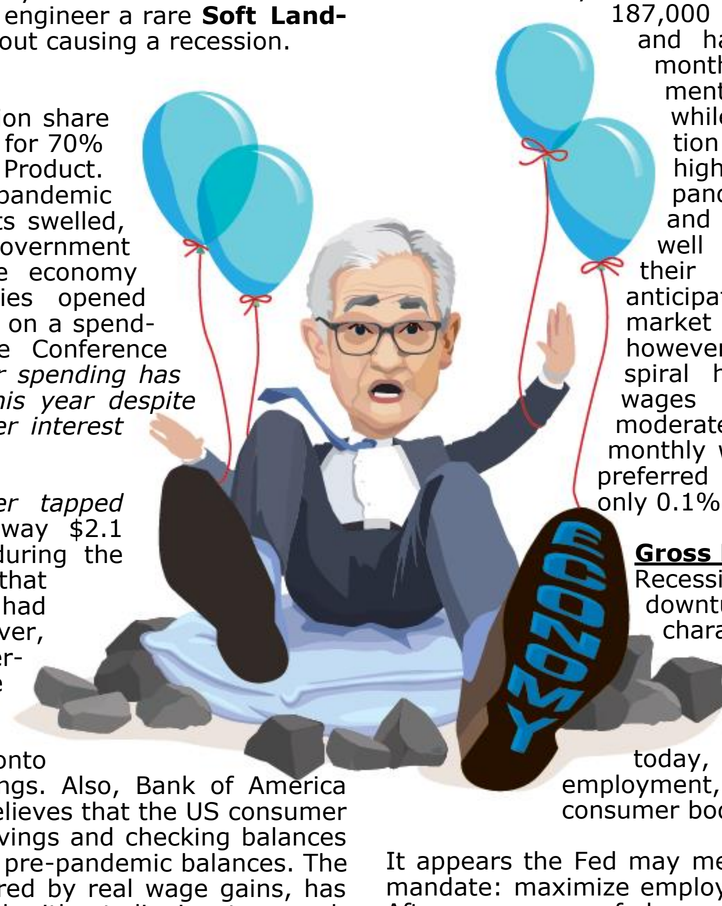


The Fed and its Chairman Jerome Powell *"Missed the Boat"* when they maintained a zero interest rate policy while post-pandemic inflation surged to a 40-year high by March 2022. The Fed's late start to fight the persistently high inflation forced them to rapidly ratchet up interest rates to a 22-year high of 5.25%. During the Fed's September meeting, they kept rates steady. This Fed pause was believed to be good for both the bond and stock markets, but most financial markets had the worst month of the year reacting negatively to the Fed's messaging that rates would remain **higher-for-longer**.

The Fed has a dual mandate to keep prices stable and maximize employment. In order to fight inflation, the Fed raises interest rates expecting the economy to cool, curbing consumer spending to stabilize prices, housing starts to slow due to higher loan rates, and workers to lose their jobs due to company layoffs. Most expected the Fed's aggressive inflation-busting campaign to result in a **Hard Landing** causing a recession, but the US economy has been remarkably resilient and now there's some talk that the Fed may engineer a rare **Soft Landing** controlling inflation without causing a recession.

Consumer Spending

Consumer spending is the lion share of our economy, accounting for 70% of the US Gross Domestic Product. Unable to spend during the pandemic lockdowns, consumer wallets swelled, inflated even more by government stimulus checks. Once the economy reopened, American families opened their wallets and have been on a spending spree ever since. The Conference Board noted, *"US consumer spending has held up remarkably well this year despite elevated inflation and higher interest rates."*



Is the American consumer tapped out? Consumers socked away $2.1 trillion in excess savings during the pandemic. Many thought that most of that excess cash had already been spent. However, recent reports by the Conference Board, suddenly made the American consumer look stronger than previously thought, still holding onto $1.3 trillion in excess savings. Also, Bank of America economist, David Tinsley, believes that the US consumer has dry powder left with savings and checking balances 40% higher than their 2019 pre-pandemic balances. The strong labor market, bolstered by real wage gains, has allowed Americans to spend without dipping too much into the excess savings built up during the pandemic.

Home Construction

Single-family homebuilding surged in July, and permits for future construction rose amid an acute shortage of previously owned houses with homeowners staying put due to high mortgage rates. This momentum reversed course with August's spike in mortgage rates hitting a multi-decade high. However, new home sales still have remained up 5.8% from a year ago. As mortgage rates reset, a large backlog of homes will ultimately come to the market which will give homeowners opportunity to purchase new construction. The Fed's higher-for-longer mantra suggests this will be later rather than sooner.

Employment

The US economy continues to add jobs at a robust pace. 187,000 jobs were added in August and have averaged 235,500 per month for 2023. The unemployment rate remains low at 3.8%, while the labor force participation rate rose to 62.8%, the highest since the onset of the pandemic. More people needed and joining the workforce bodes well for growth. The Fed, with their inflation-busting campaign, anticipated more slack in the labor market with higher unemployment; however their fear of Wage/Price spiral has not materialized. Both wages and core inflation have moderated. August's smaller 0.2% monthly wage increase and the Fed's preferred core inflation gauge was up only 0.1% for the month.

Gross Domestic Product (GDP)

Recession is defined as a significant downturn in economic activity characterized by negative GDP, high unemployment, and a drop in real personal income. Although there are many economic headwinds today, the current strength of employment, the economy, and a resilient consumer bode well for future growth.

It appears the Fed may meet both prongs of their dual mandate: maximize employment while taming inflation. After over a year of gloomy forecasts, some experts now have backed off recession predictions believing the Fed may beat the odds and engineer a **Soft Landing**.

ĒkonBenefits
YOUR TRUSTED PARTNER

September 30, 2023

4940 Washington Blvd.
St. Louis, MO 63108