

# Soft Landing, Hard Landing or Something Else?

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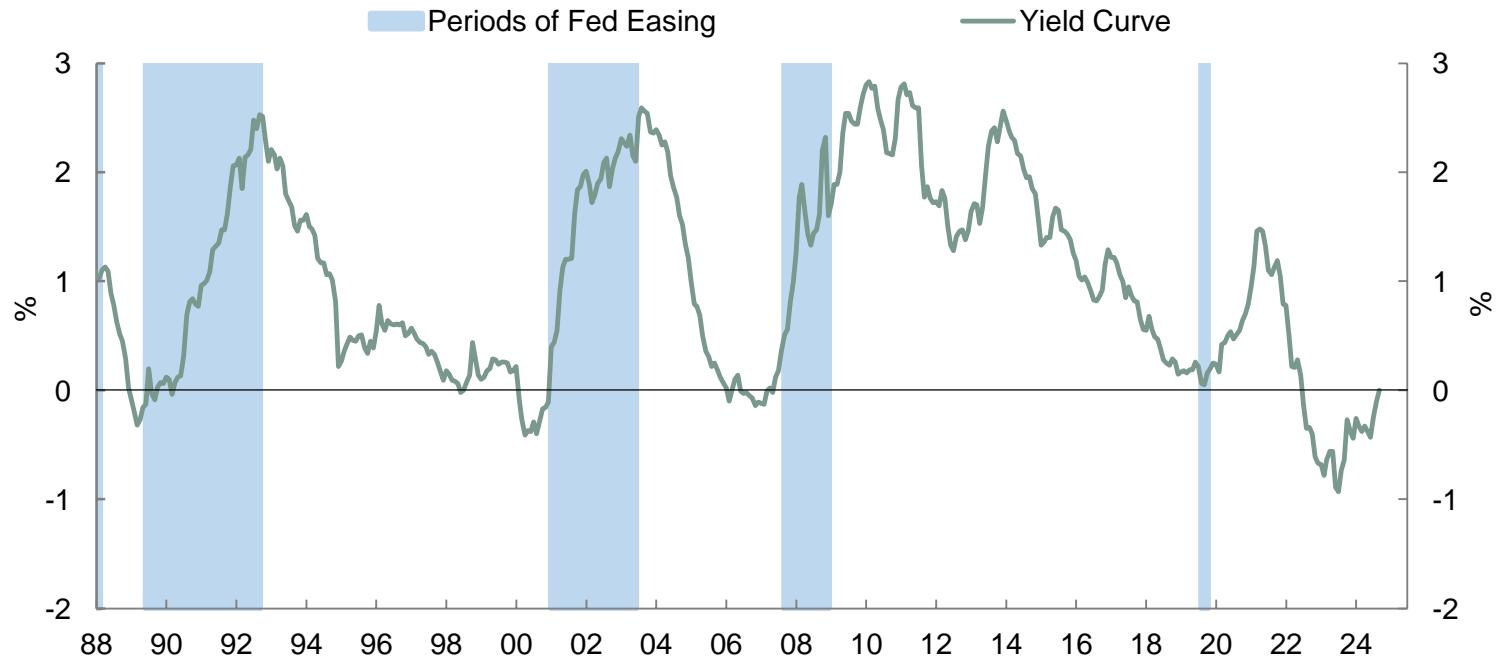
# Executive Summary

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- Treasury yield curve is flashing recession risk
- The yield curve is going to steepen significantly
- Unemployment continues to rise as employment slows
- Construction job losses could push unemployment rate sharply higher
- Initial jobless claims have lost their predictiveness for now
- Measuring the stance of monetary policy has become extremely difficult
- Rates are high but financial conditions are easy because of rising stocks
- The Fed is ultimately going to have to take rates below  $R^*$  to avoid a recession

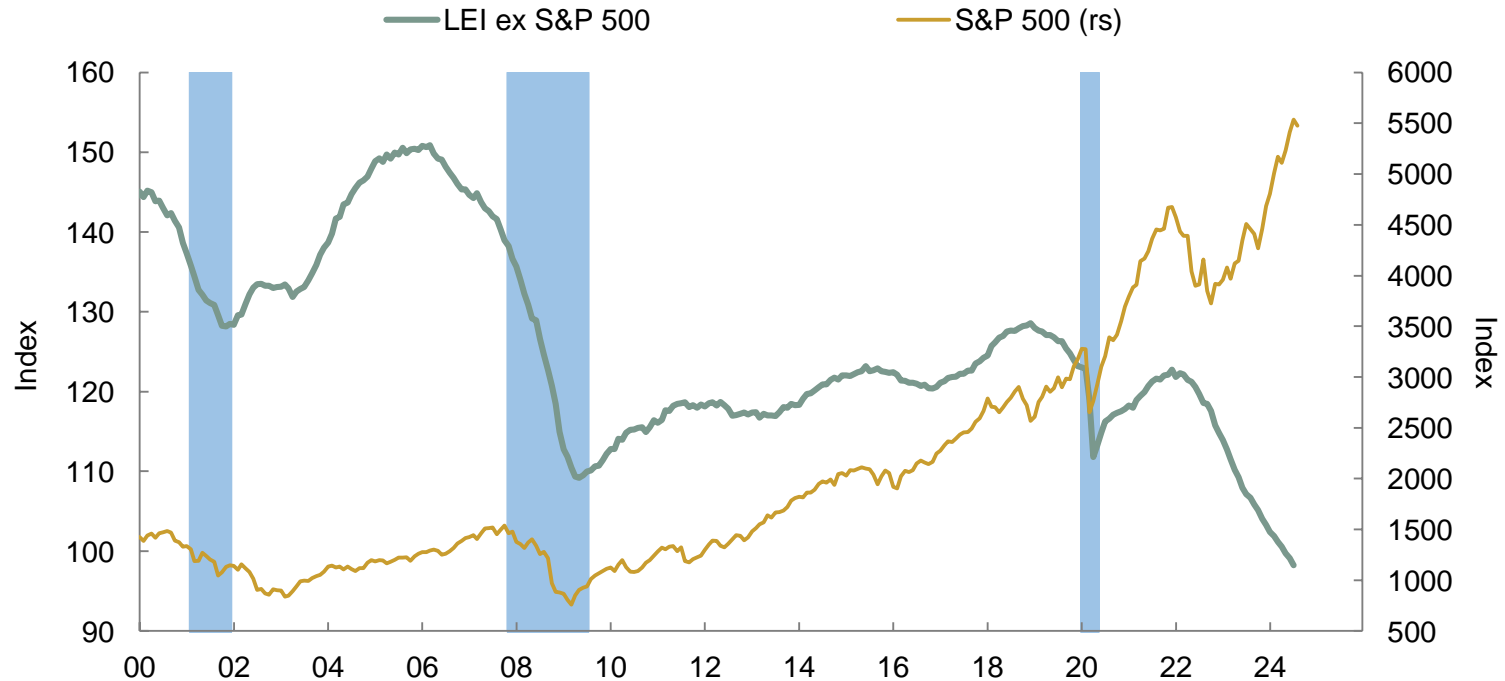
# Trouble Ahead

## An un-inverting curve foretells of imminent recession



# Wither Leading Indicators?

Except for stocks, leading economic indicators are almost universally flashing warning signs



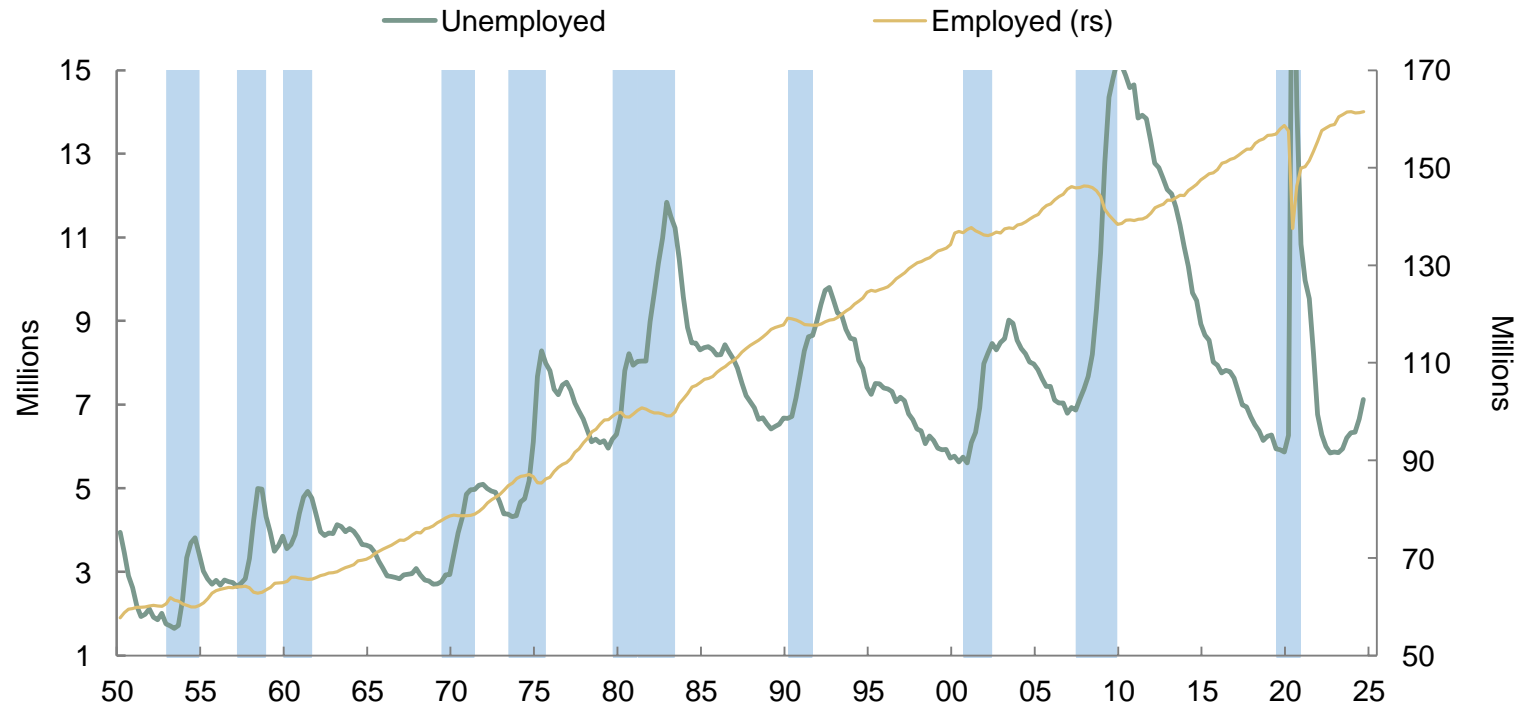
# Timing The Peak

Sometimes stocks do not provide much lead time

S&P 500	Peak in...	Lead Time (Months)
	Economy	
January 1953	January 1953	0
July 1957 *	August 1957	1
July 1959	April 1960	9
December 1968	December 1969	12
January 1973	November 1973	10
February 1980	January 1980	-1
November 1980	July 1981	8
July 1990	July 1990	0
August 2000	March 2001	7
October 2007	December 2007	2
February 2020	March 2020	1
Average -->		4

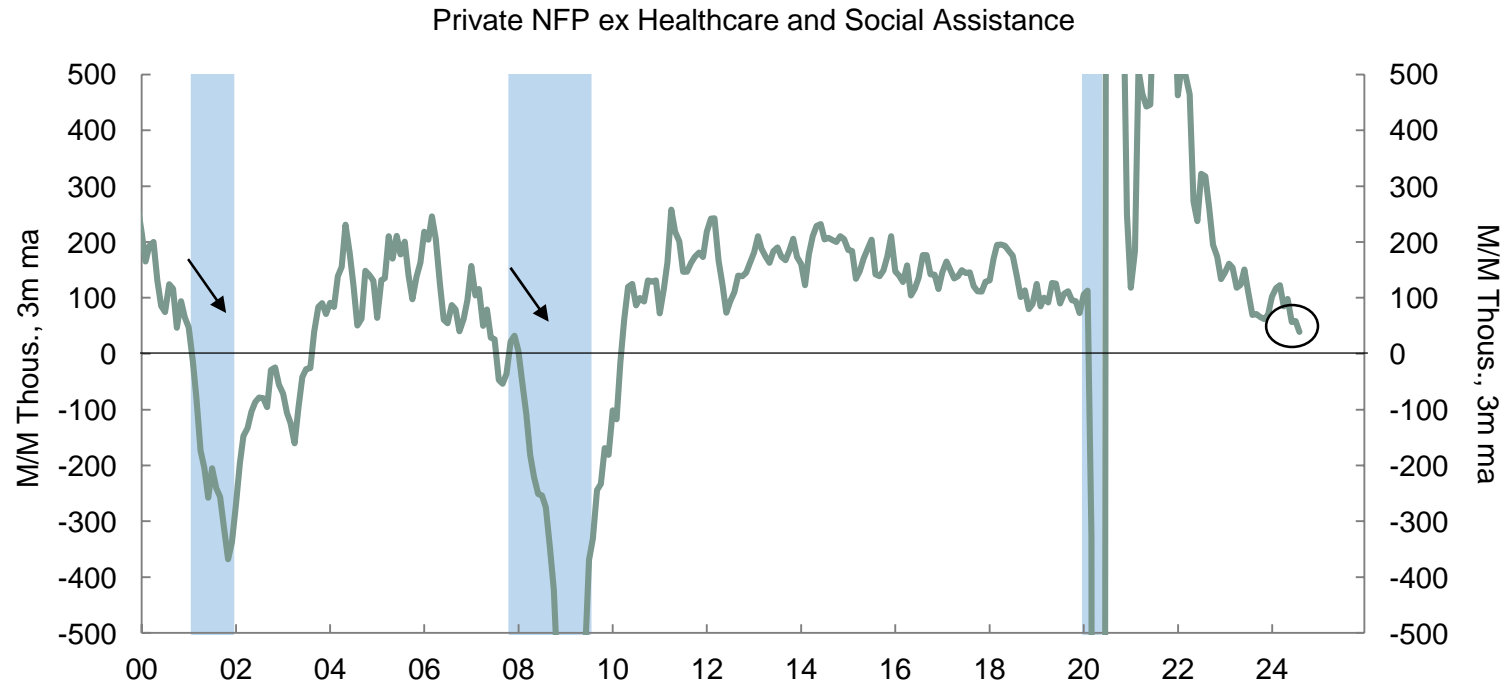
# Looking For Work

Measured unemployment always rises before job losses



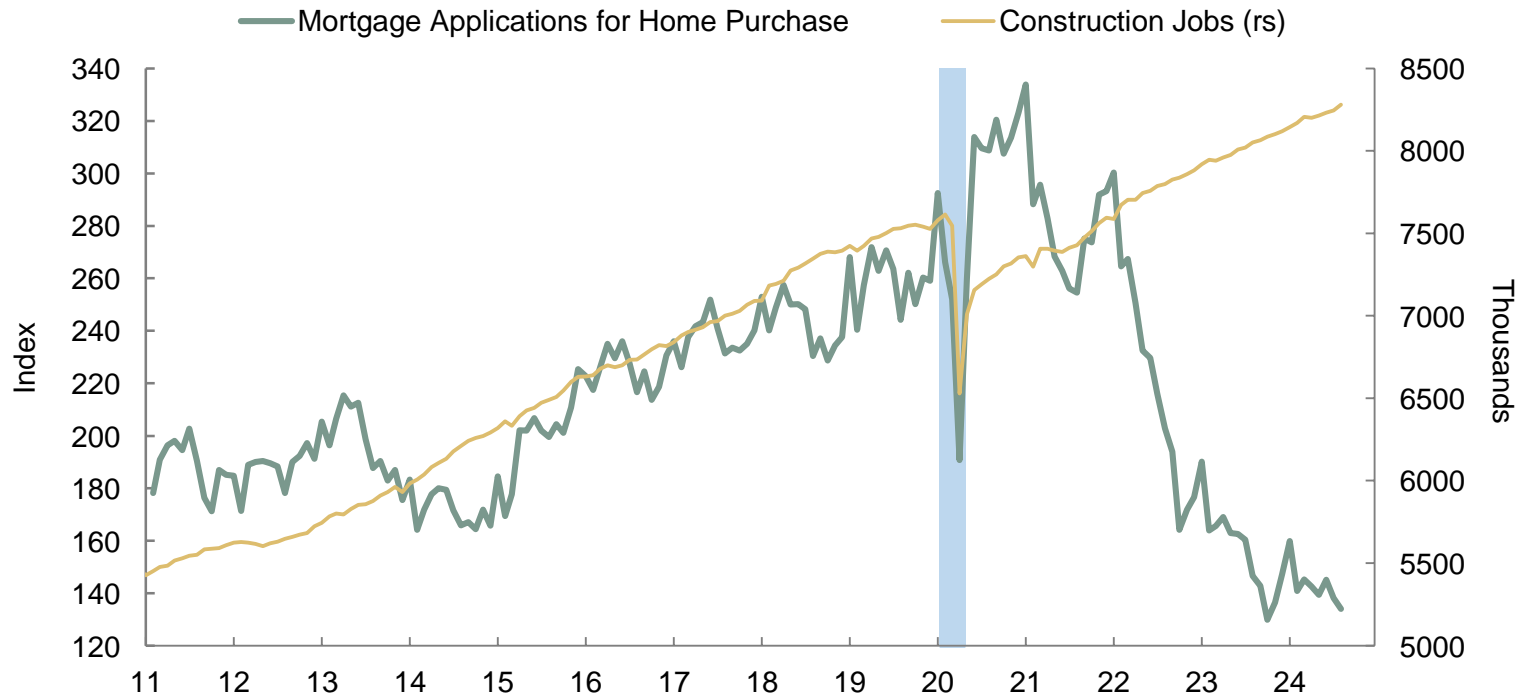
# Rapidly Losing Momentum

A key gauge of private sector job growth continues to trend lower.



# Boom To Bust?

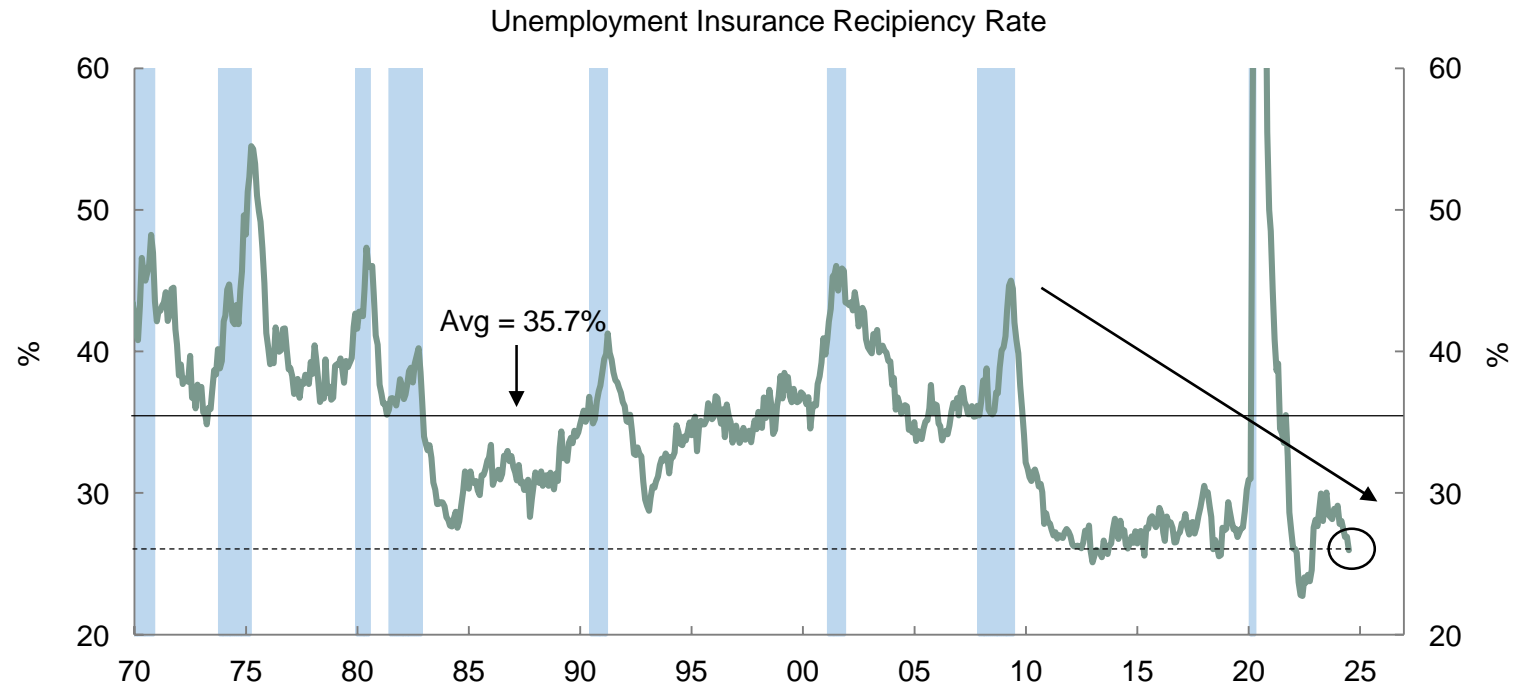
Residential construction could be overstaffed by 1 million workers





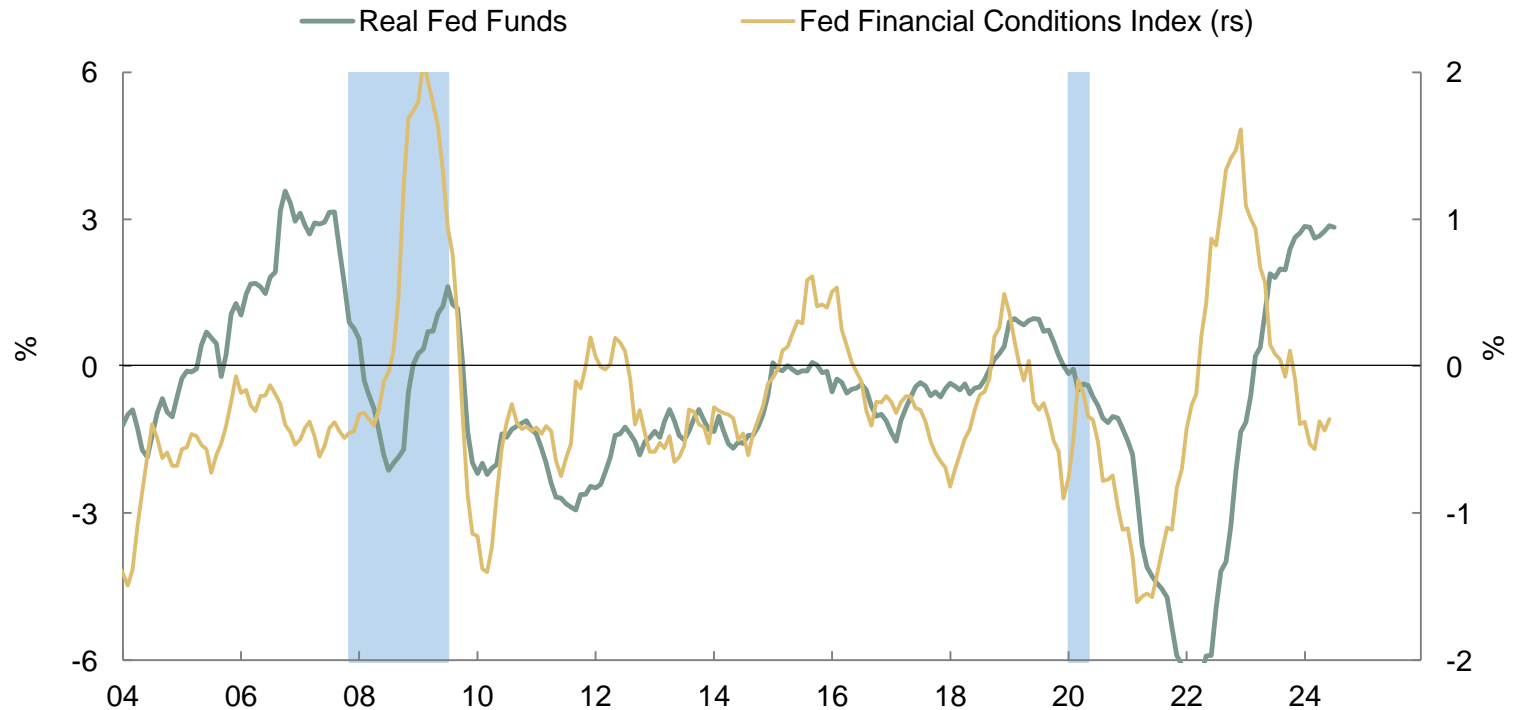
# Low Unemployment Insurance Uptake

Claims are artificially low because fewer people are applying



# Is Policy Tight?

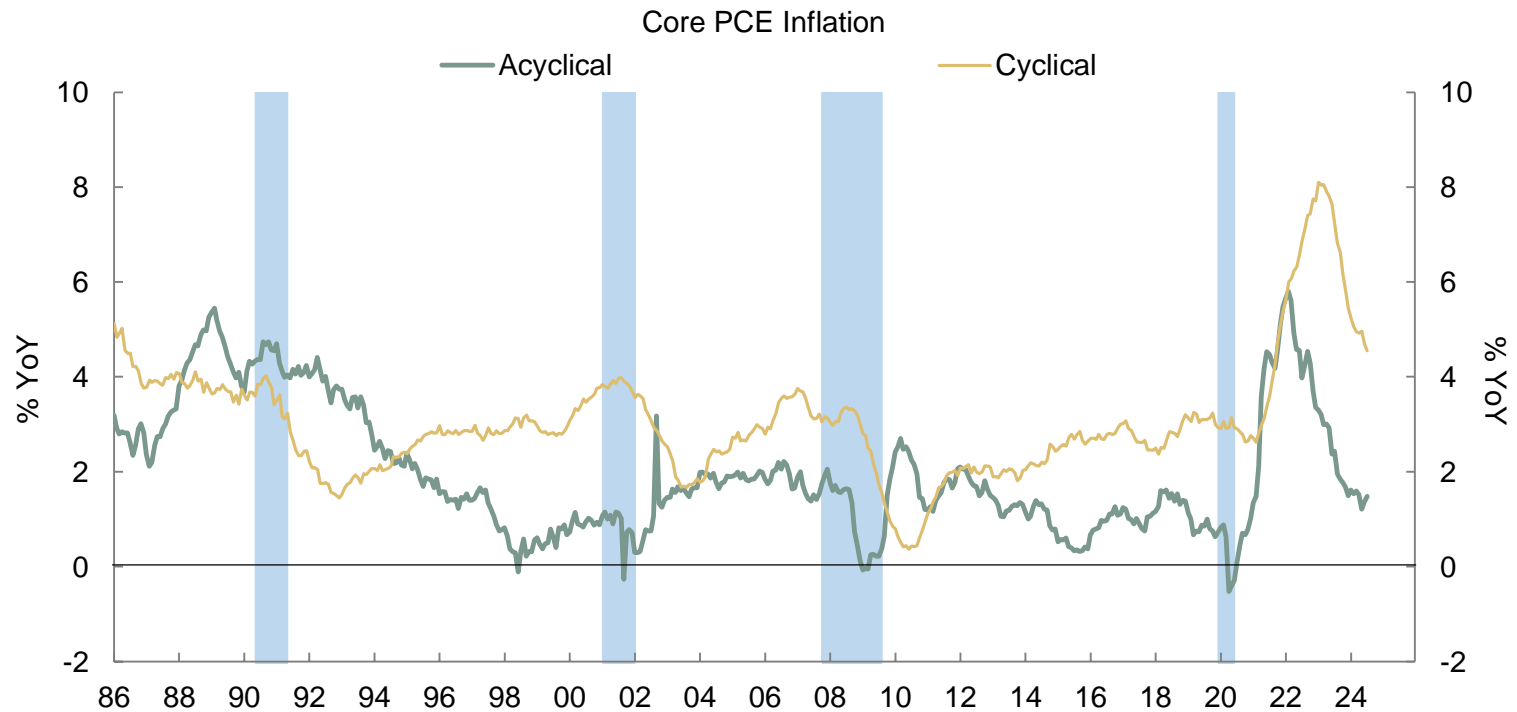
Real Rates are well above neutral, but the FCI remains loose



Source: Federal Reserve, BLS, Haver, SMBC Nikko

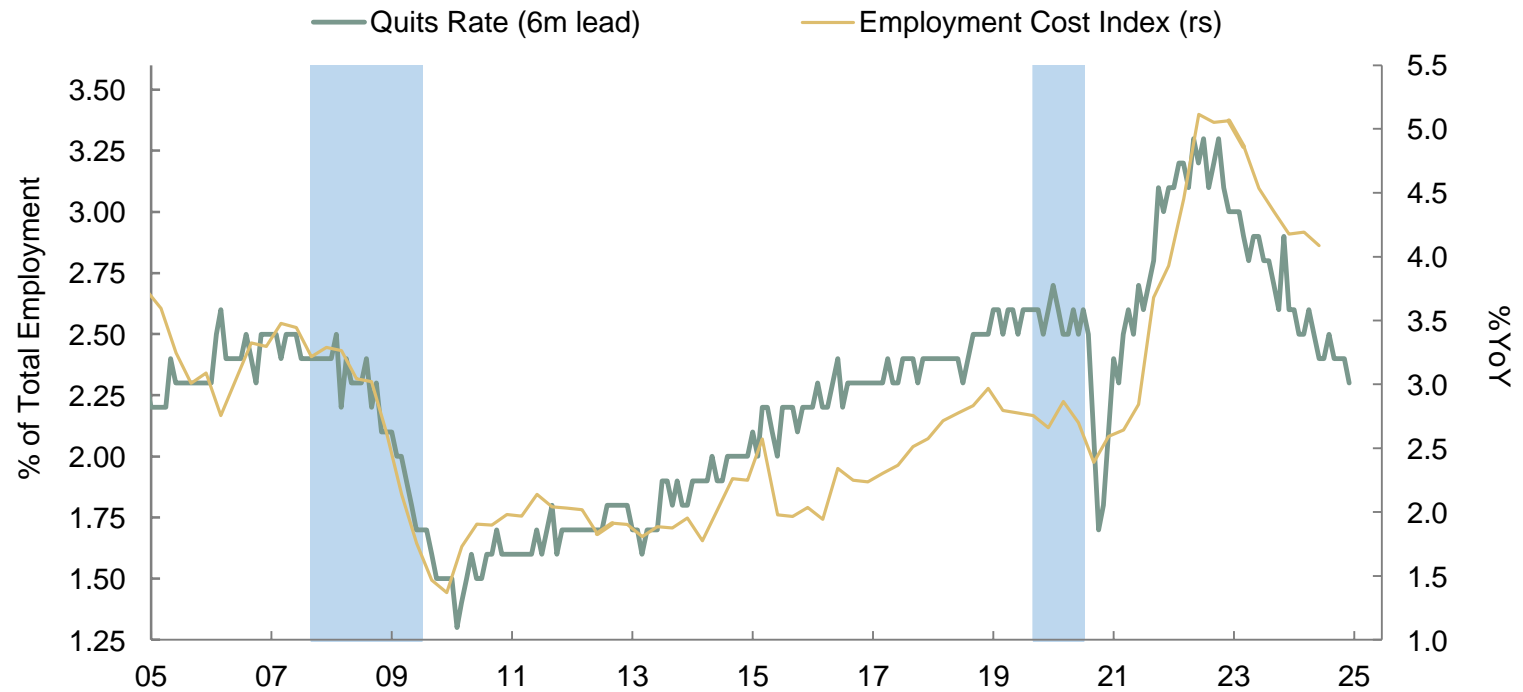
# Cooling Inflation

Growth in cyclical prices is likely to slow if demand continues to weaken



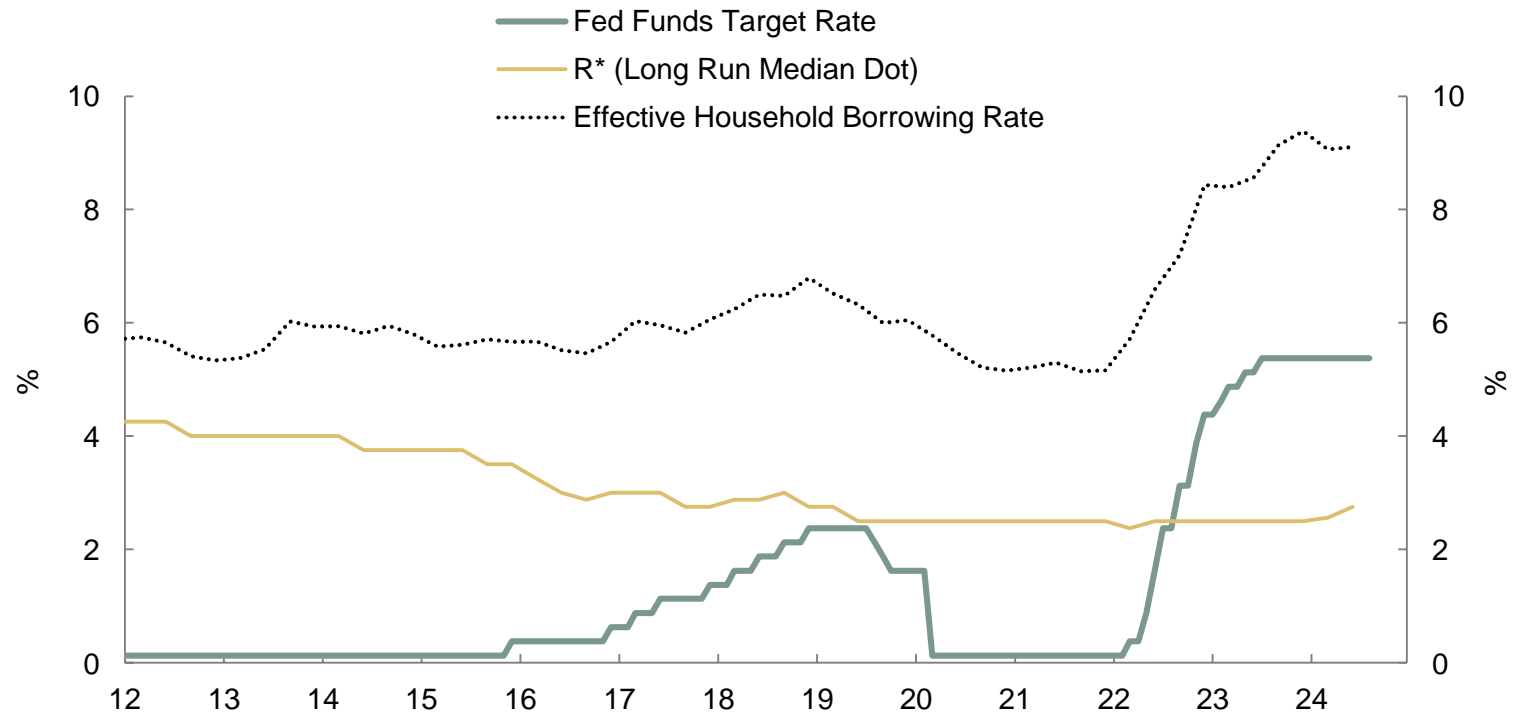
# Workers Staying Put

Plunging quits point to much weaker wage costs



# Far From Home

The Fed has room to cut significantly



Source: Federal Reserve, NY Fed, Bloomberg, Haver, SMBC Nikko

# A Wide Range Of Possibilities

Fed is going to cut a lot more than in previous soft landings

How Much does the Fed Cut in Easing Cycles?		
First Fed Rate Cut (Month)	Total Cuts (Bps)	Occurring over... (Months)
March 1960	280	17
December 1966	197	8
September 1969	547	18
October 1973	556	20
January 1980	479	7
February 1981	438	2
July 1981	1059	20
September 1984	563	24
November 1987*	81	4
June 1989	681	40
July 1995*	75	7
September 1998*	75	3
January 2001	550	30
September 2007	513	16
July 2019*	75	3
Average of soft landings>	77	4
Average ex. soft landings >	533	18

\* Represents soft landings

## Biography: Joseph A. LaVorgna

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Joseph (Joe) LaVorgna is a Managing Director and Chief Economist for SMBC Nikko Securities America, Inc. Joe joined the firm in September 2022 and is based in New York. Joe has spent more than 25 years in the financial services industry.

He was previously the Chief Economist for the Americas at Natixis. While there, Joe took a one-year leave of absence to serve at the White House, where he was Special Assistant to the President, and Chief Economist of the National Economic Council.

Prior to Natixis, Joe spent 20 years with Deutsche Bank Securities in the Global Markets Division, where he was considered one of the leading Wall Street economists. His team was perennially ranked in the prestigious *Institutional Investor* All-Star Fixed Income Survey.

Joe is also a Senior Fellow at the America First Policy Institute, a Washington, D.C.-based think tank. He holds a Bachelor of Arts degree in economics from Vassar College and did graduate work at New York University.

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