A Record Rise in Fed Funds

The Fed has increased rates at the fastest pace in more than four decades.

Source: FRB, Haver, SMBC Nikko
Tightening Into a Downturn

Rates increases have occurred at the same time Leading Indicators have collapsed.

Index of Leading Indicators YoY
Fed Funds Rate (RHS)

Source: Conference Board, FRB, Haver, SMBC Nikko
The deeply inverted yield curve signals recession as well as less money and credit creation.

Source: Bloomberg, FRB, SMBC Nikko
Tightening Credit Conditions

Banks are tightening lending standards at a recessionary rate.

Fed Senior Officers Survey: Banks Tightening C&I Loans to Large & Medium Sized Firms

Source: FRB, Haver, SMBC Nikko
Soaring Borrowing Costs

Consumers are facing the highest interest rates in over two decades.
Where is Neutral?

There are widely varying estimates of R-Star.

Natural Rate of Interest

- Richmond Fed: Lubik-Matthes
- New York Fed: Holston-Laubach-Williams
- New York Fed: Laubach-Williams

Source: Federal Reserve Banks of New York and Richmond, Haver, SMBC Nikko
Restrictive Real Rates

Our calculations show that real rates are the highest they have been since at least 1998.
Willingness to extend credit to households is also in recessionary territory.

Source: FRB, Haver, SMBC Nikko
Consumer Savings Back to Normal

Consumers have nearly exhausted their excess pandemic savings.

Source: BEA, Haver, SMBC Nikko
A Return to Trend

Look for a big retracement in consumer goods spending in the months immediately ahead.

Sources: BEA, NBER, SMBC Nikko
Fellow Travelers

Risk assets are highly influenced by Fed liquidity.
Stable Inflation Expectations

The bond market remains relatively sanguine on the inflation outlook.

10y Inflation Breakeven Rate

Sources: Bloomberg, FRB, SMBC Nikko
Getting Back to Normal

The yield curve steepens only when the Fed cuts.

Sources: Federal Reserve, Haver, SMBC Nikko
Whither Long-Term Interest Rates?

Breakeven inflation and the one-year forward fed funds contracts explain 90% of the yield on the 10-year treasury note.

Sources: Bloomberg, Federal Reserve, SMBC Nikko
Negative Equity Risk Premium

Equities have not been this overvalued relative to Treasuries since the late 1990s tech bubble.

Sources: BLS, Haver, SMBC Nikko

Sources: FRB, Standard & Poor's, Haver, SMBC
Falling Net Interest Payments

The Fed hiking cycle has yet to “bring pain to businesses” as financing was locked in at historically low rates.

Sources: Federal Reserve, BEA, Haver, SMBC Nikko
Fiscal Largesse

Despite sub 4% unemployment, government spending is growing at rates that parallel recessionary periods.
Homeowners have locked in mortgage rates that are well below current levels, thus removing an incentive for owners to sell.
Slowing Job Growth

Although still positive (for now), job growth is slowing sharply.

Sources: FRBSF, FRBNY, BLS, Haver, SMBC Nikko
Labor Market Nearly Back to Normal

The labor market is retreating back to its pre-pandemic trend, following three years of overheating.

The Normalizing Beveridge Curve

y = -0.3473x + 5.4
R² = 0.6072

Sources: BLS, Haver, SMBC Nikko
First Spending, Then Employment

Plunging real residential investment should lead to lower demand for construction jobs.

Sources: BLS, BEA, Haver, SMBC Nikko
Declining Quits Signals Lower Wage Costs

The quits rate is back to pre-pandemic levels.

Sources: BLS, Haver, SMBC Nikko
Inflation – Goods Prices vs. Import Prices

China is exporting deflation to the US.

Sources: BLS, Haver, SMBC Nikko
Supply Side Pressures Receding

Supply chains have normalized while the quits rate has declined.

Sources: FRBSF, FRBNY, BLS, Haver, SMBC Nikko
Inflation – Core Services ex Housing

Although the Fed’s “super core” inflation measure has trended sideways since last year, this is not the case with the CPI version, which has slowed considerably this year.

Sources: Federal Reserve, Haver, SMBC Nikko
Rent Relief Coming

Rents have yet to slow due to the nature of the BLS’ index construction. However, rental data from the Cleveland Fed suggests the opposite.

Sources: Cleveland Federal Reserve, BLS, Haver, SMBC Nikko
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