

Rainbows, Unicorns and Soft Landings

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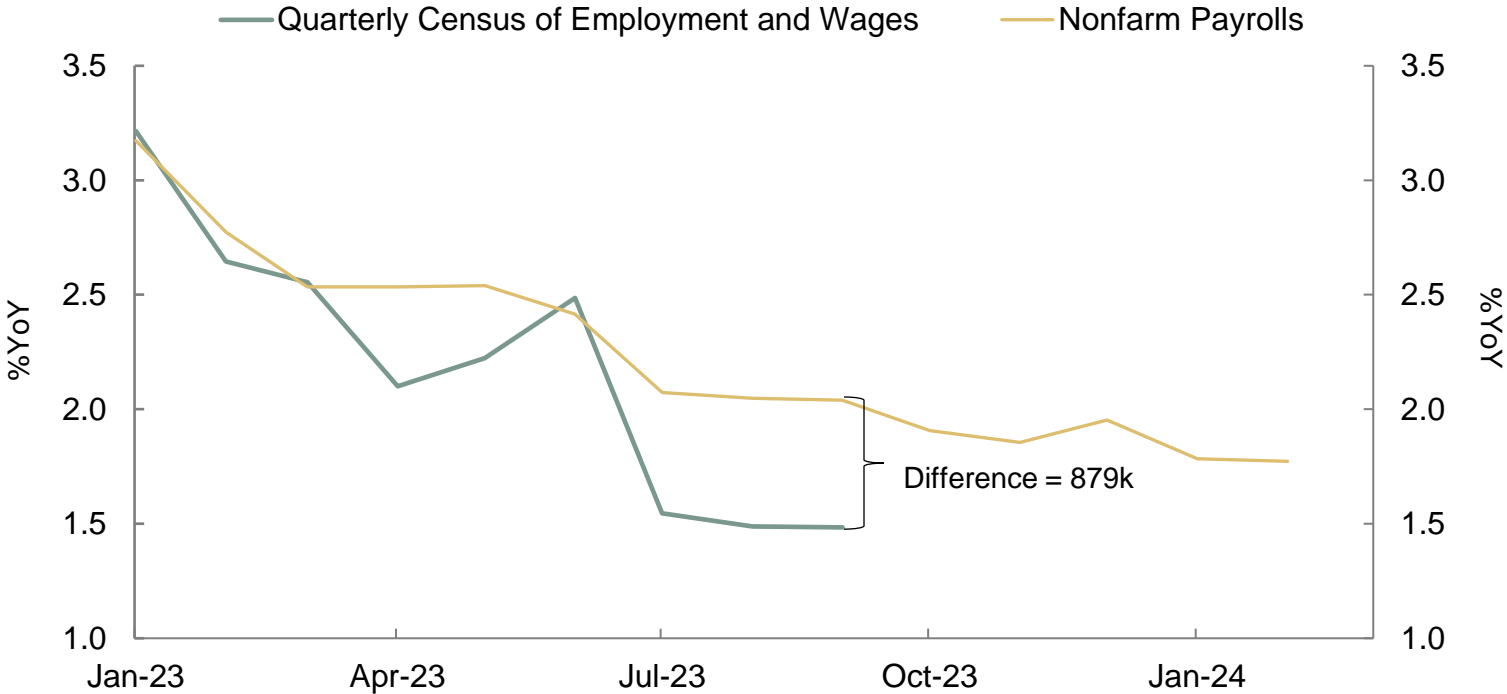
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Summary

- Job gains are overstated, and residential construction is overstaffed by upwards of 1 million workers.
- Monetary policy is tight and will become tighter if the inflation rate resumes its downward trend, which we expect. Hence, the Fed needs to cut rates.
- The probability of a soft landing has increased but is not the base case because the yield curve remains inverted, the LEI has crashed, and unemployment is up half of a point from its cyclical low.
- Excessive government spending, and the “locking-in” of low interest rates by corporates during the pandemic has temporarily blunted the effect of Fed tightening.
- The Treasury curve will steepen with short rates falling and long rates rising. Credit spreads will widen significantly. And stocks will correct as they are fundamentally overvalued.

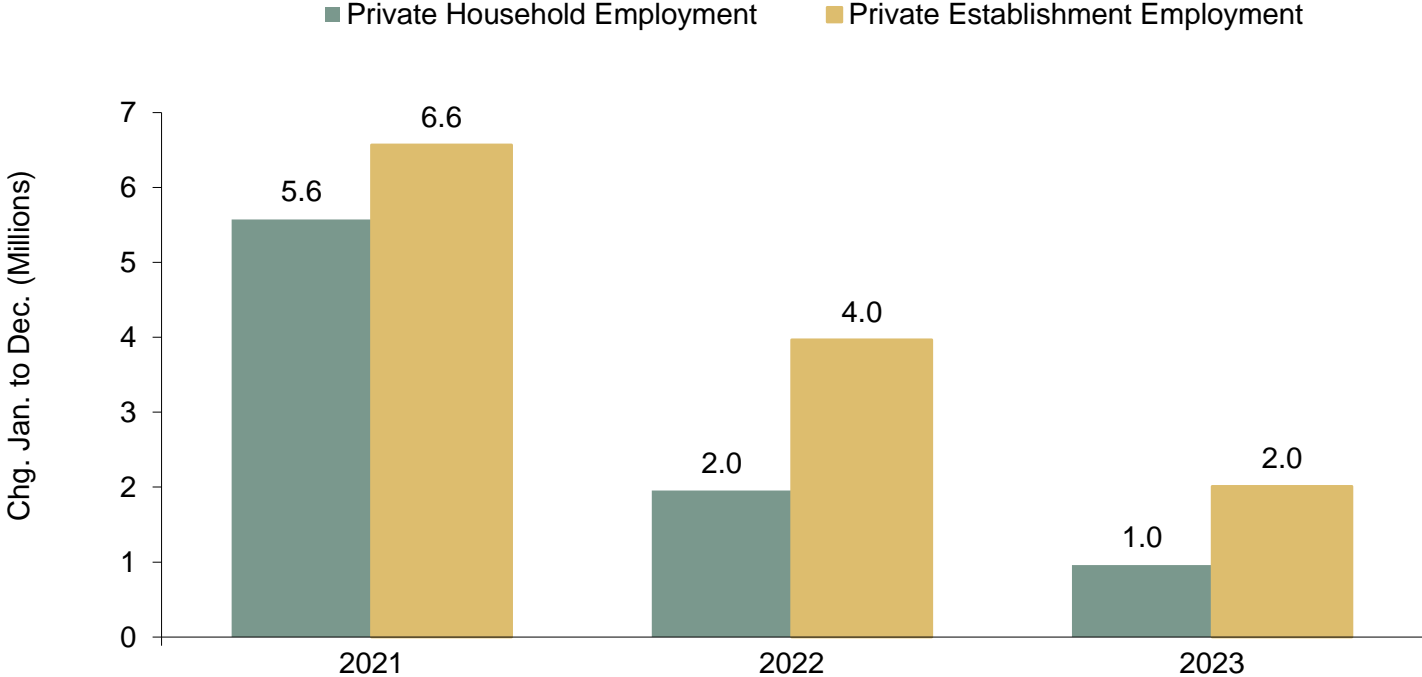
Job Gains Are Not What They Appear



Source: Census, BLS, Haver, SMBC Nikko



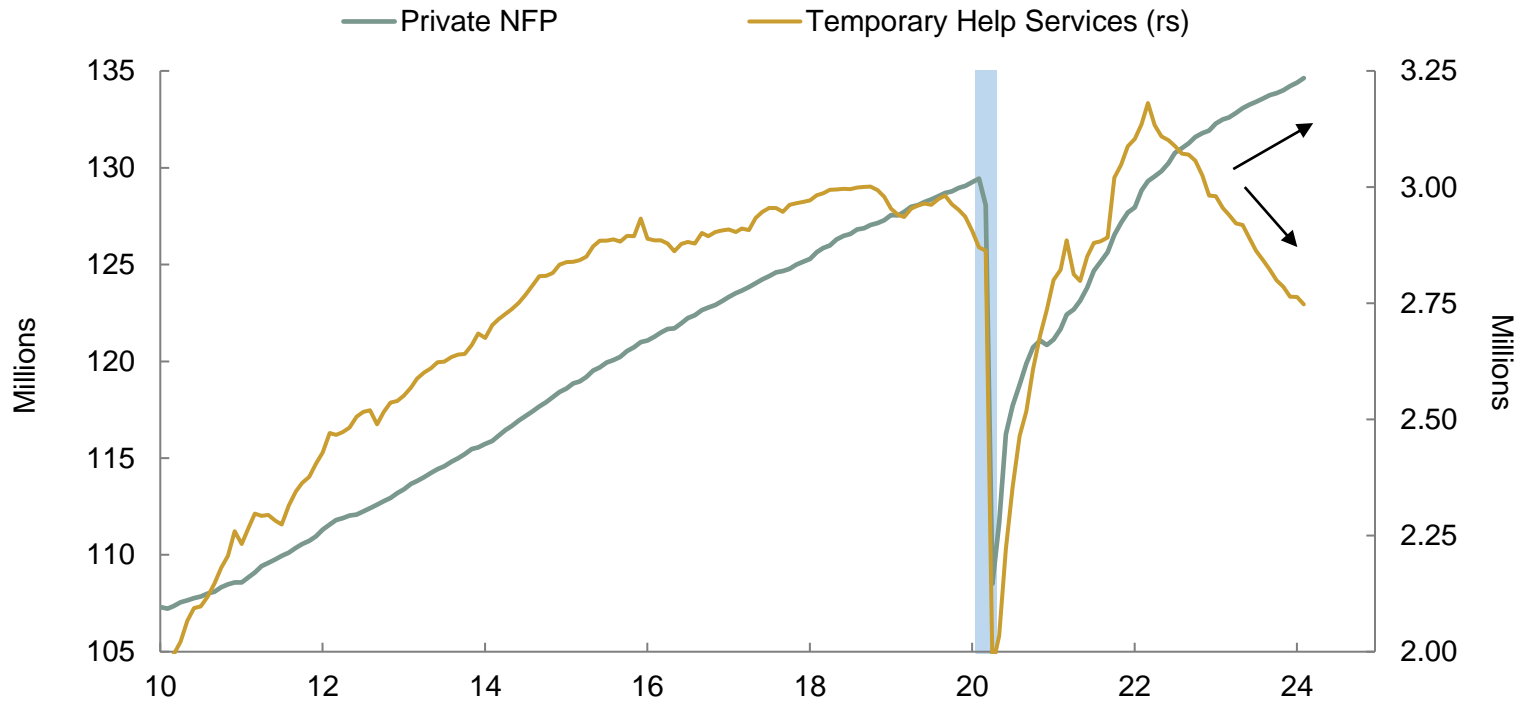
Another Reason to Doubt Payroll Strength



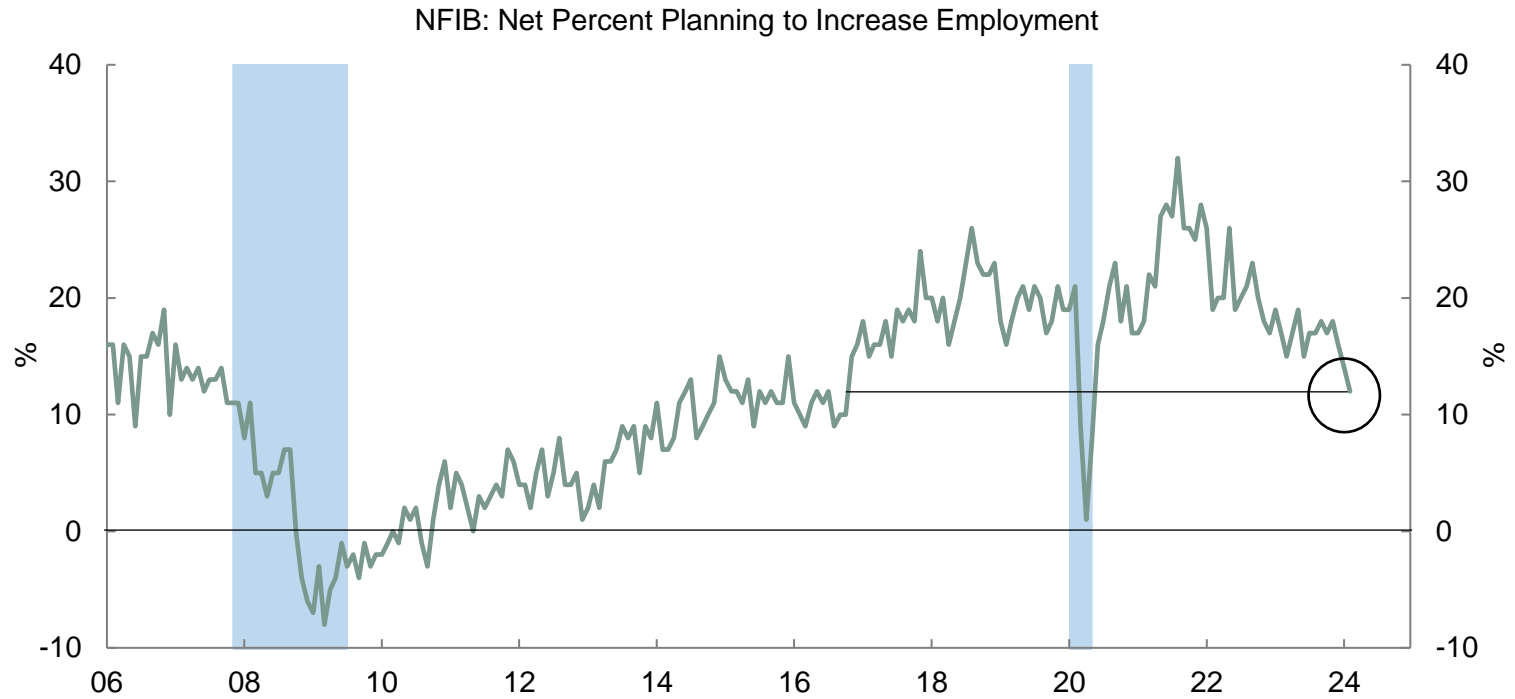
Source: BLS, Haver, SMBC Nikko



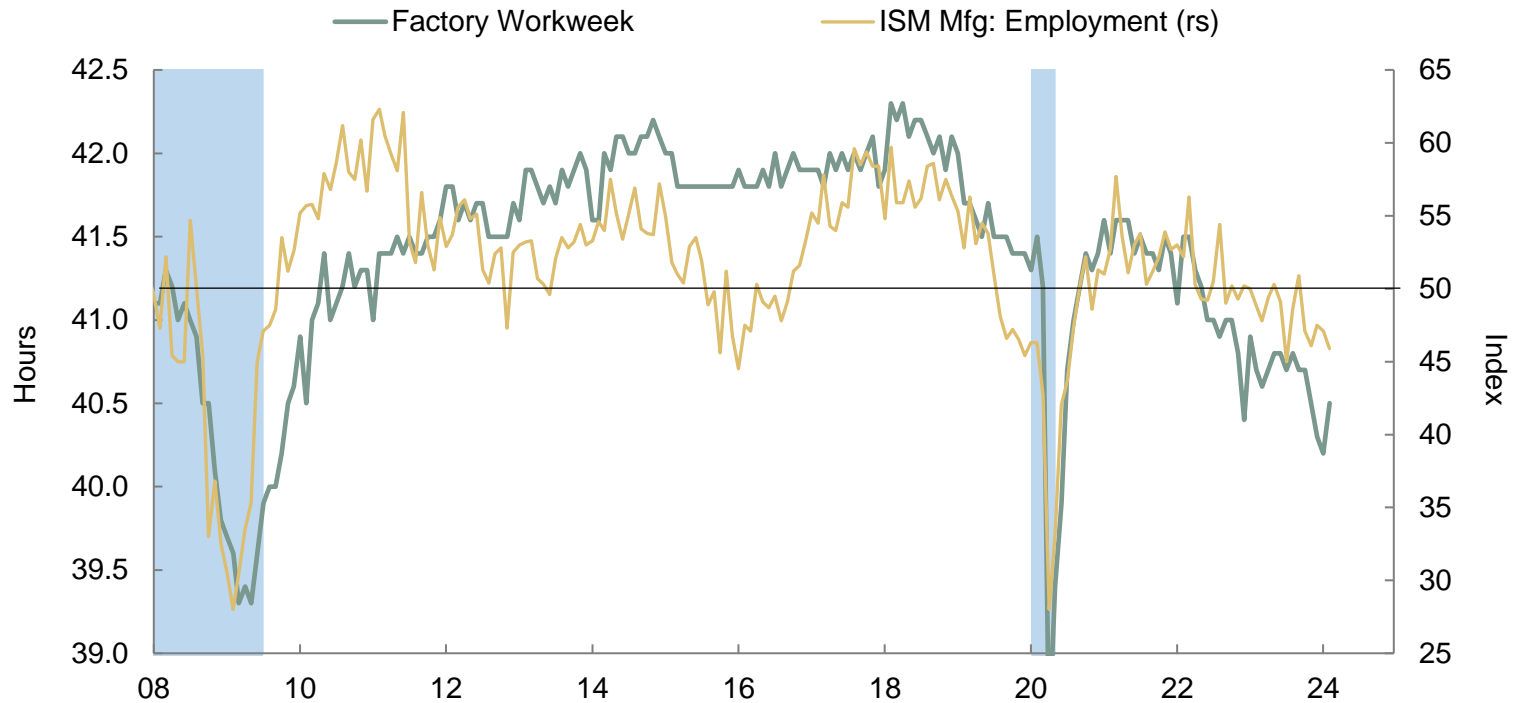
Forward Measure of Hiring Continues to Sour



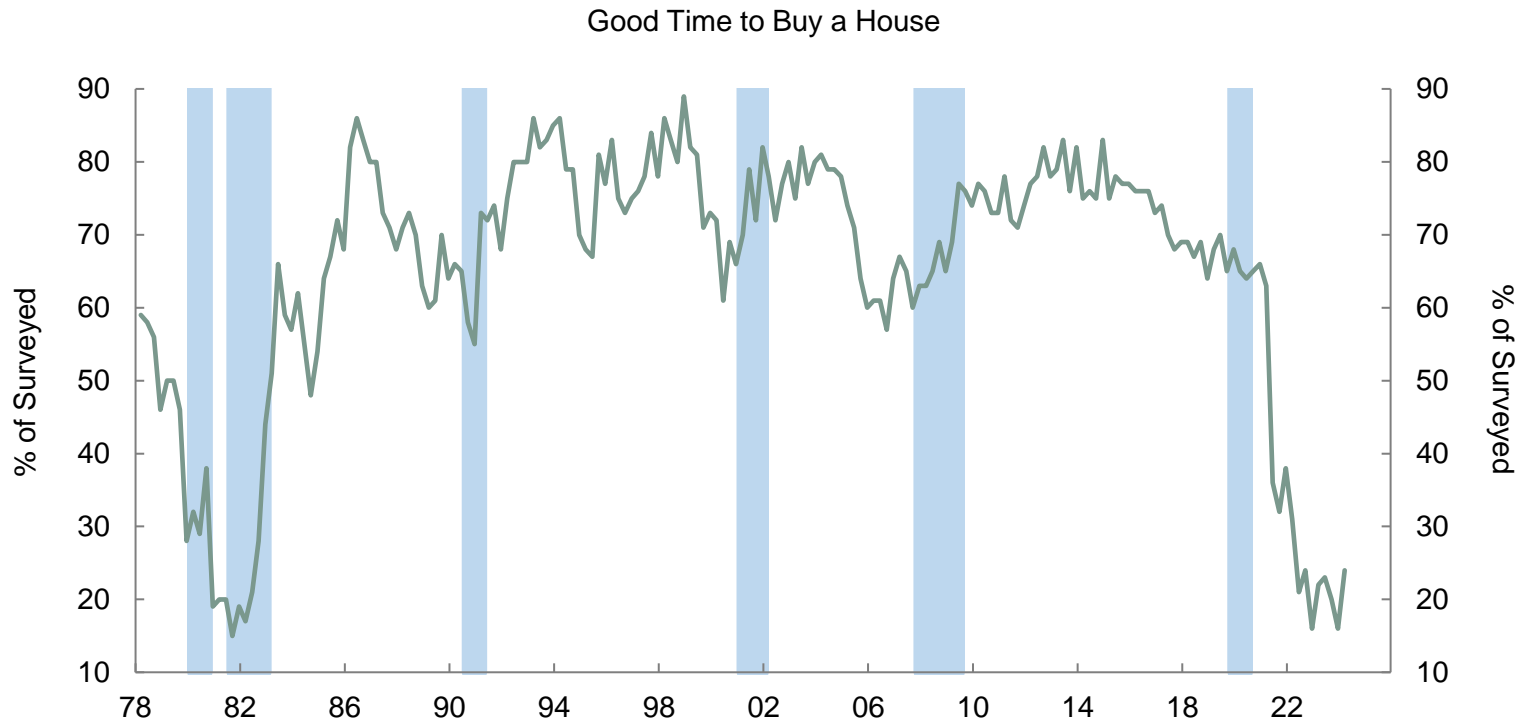
Small Business Blues



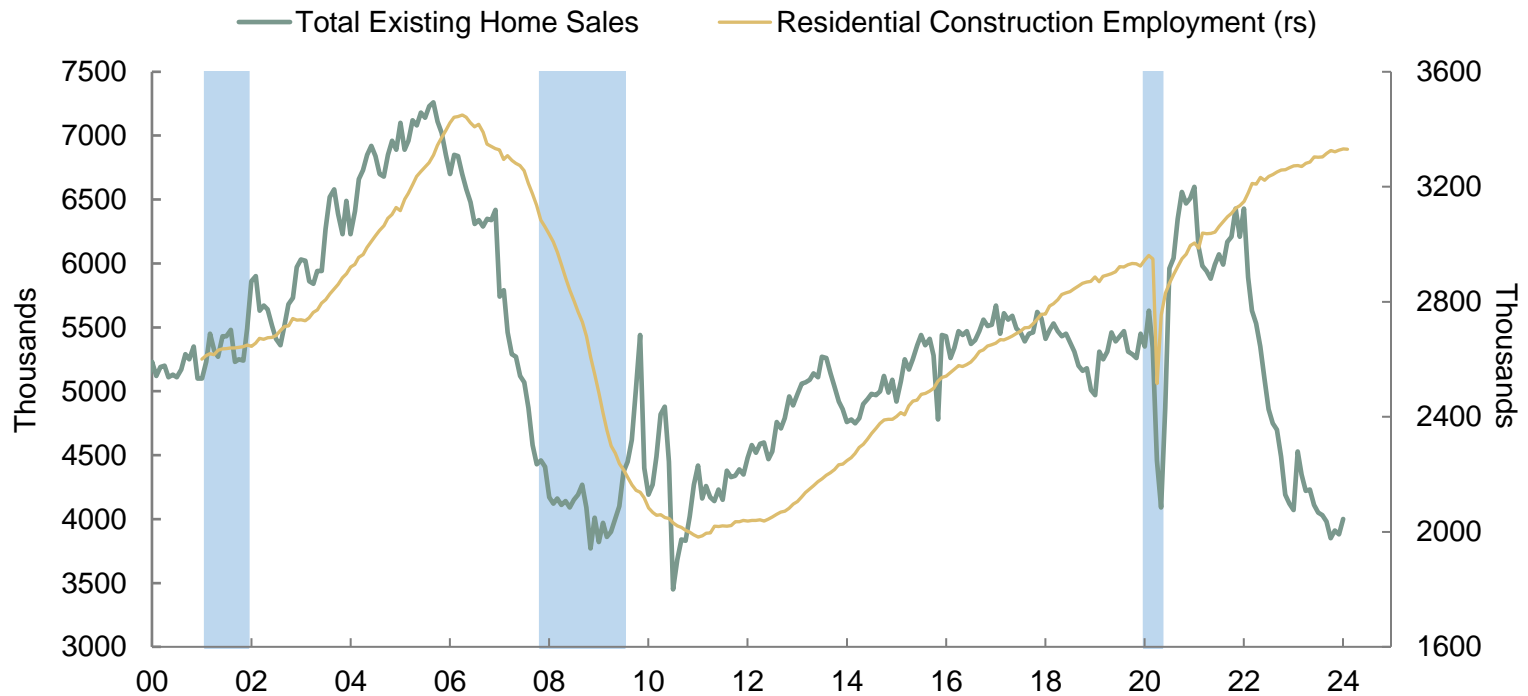
Manufacturing – First to Decline, First to Recover?



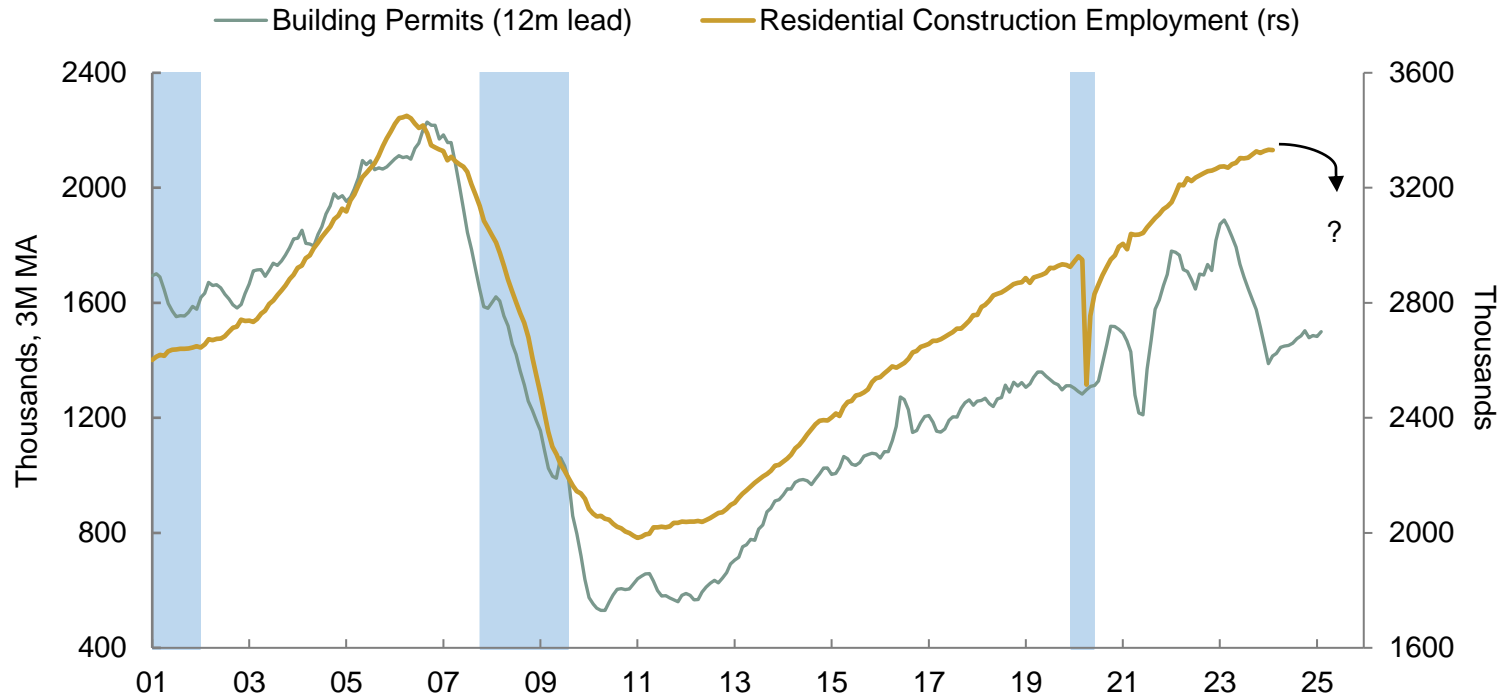
Rates and Prices Must Fall to Lift Affordability



Either Sales are Too Low or Jobs are Too High

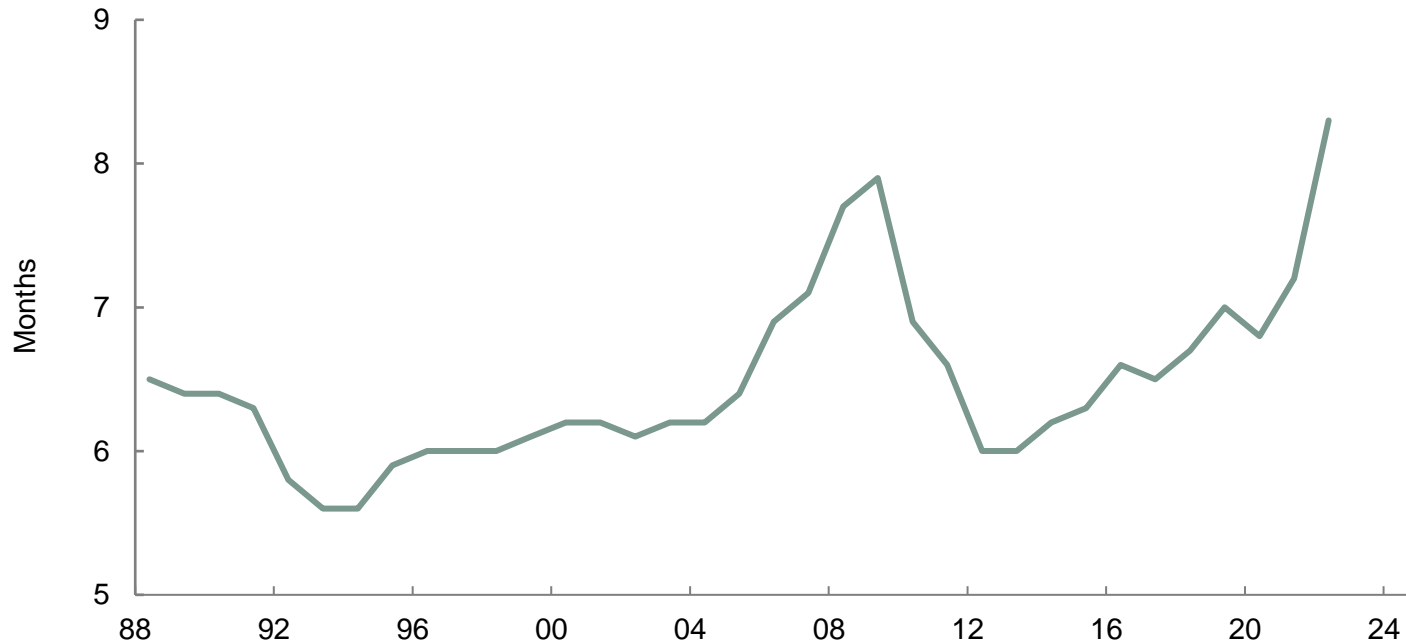


Is This Time Different?

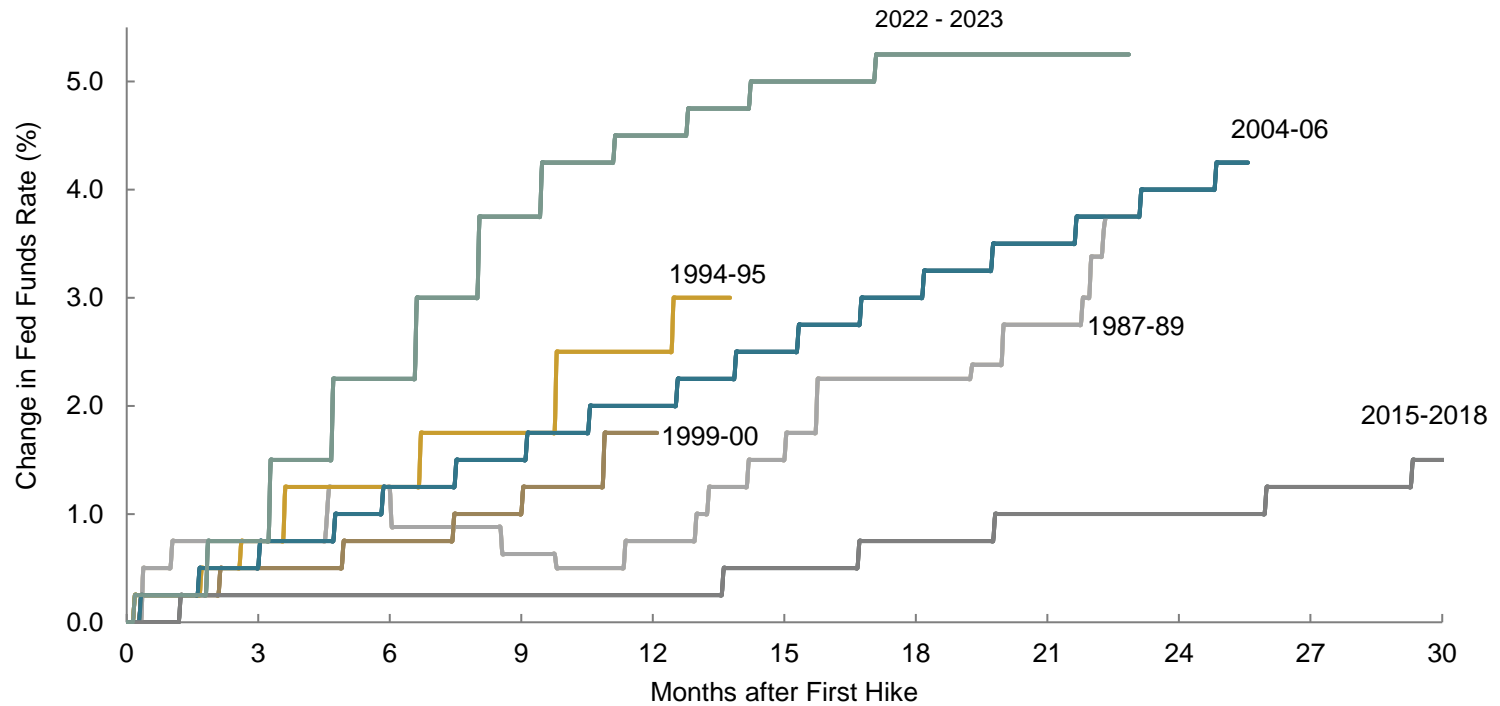


Why is Construction Labor Demand So Strong?

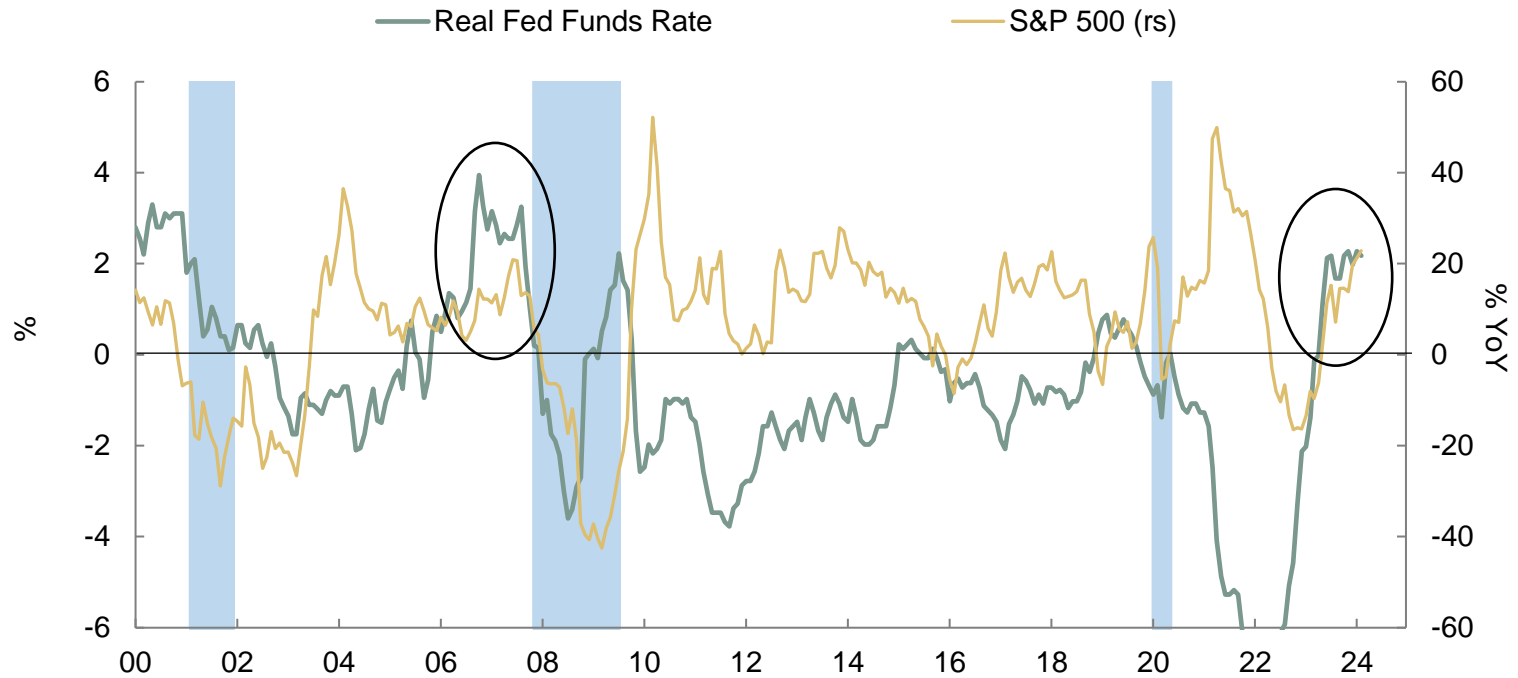
Average Length of Time from Start to Completion: 1-Unit Buildings



A Record Rise in Fed Funds

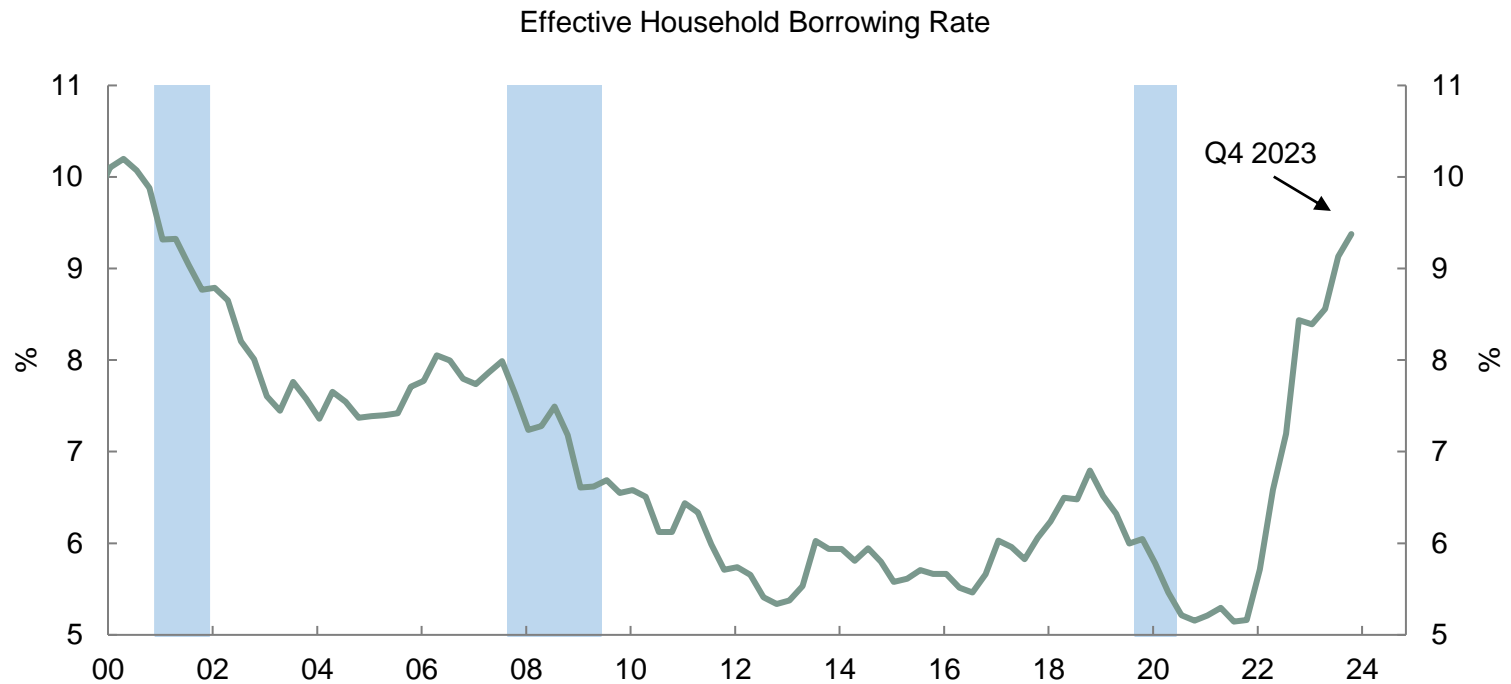


Parallels With The Past



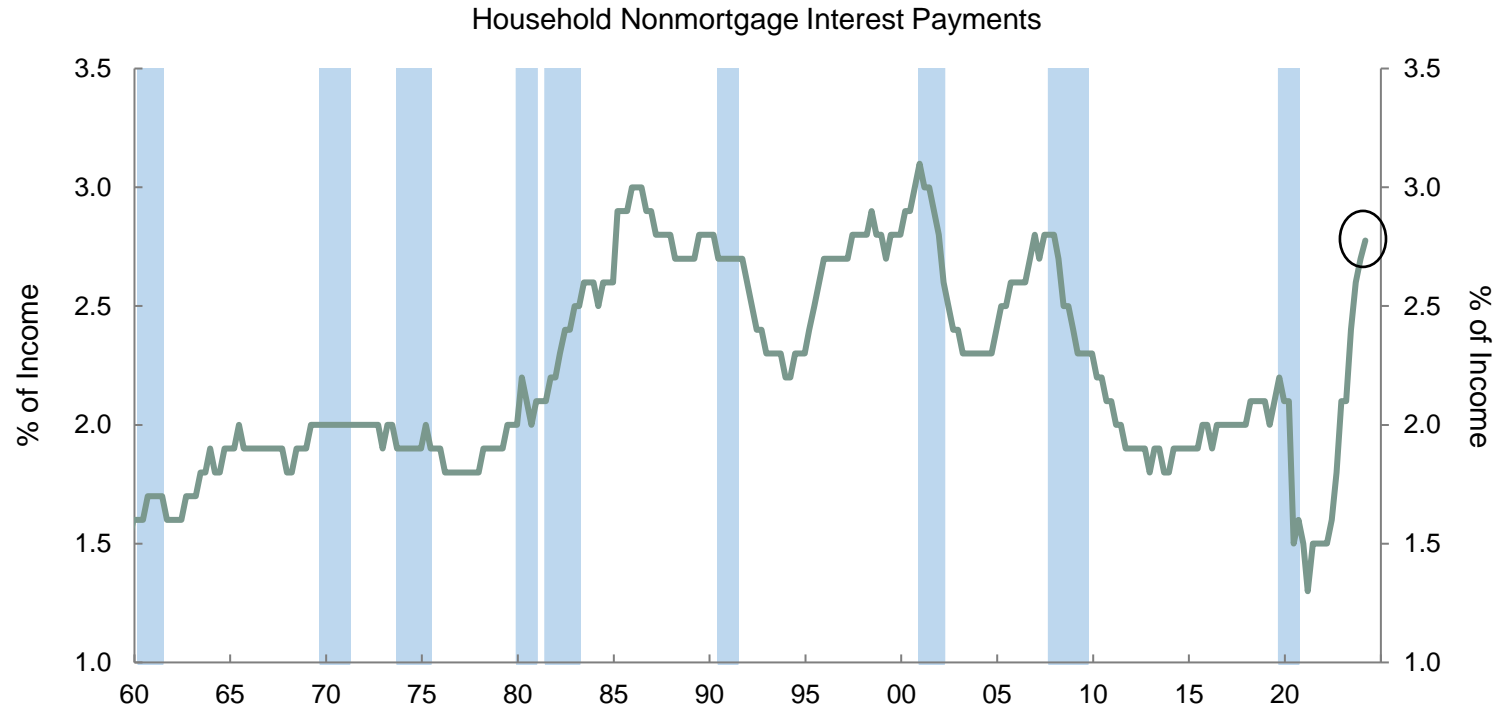
Source: FRB, BLS, S&P, Haver, SMBC Nikko

Financial Conditions Are Tightening For Consumers

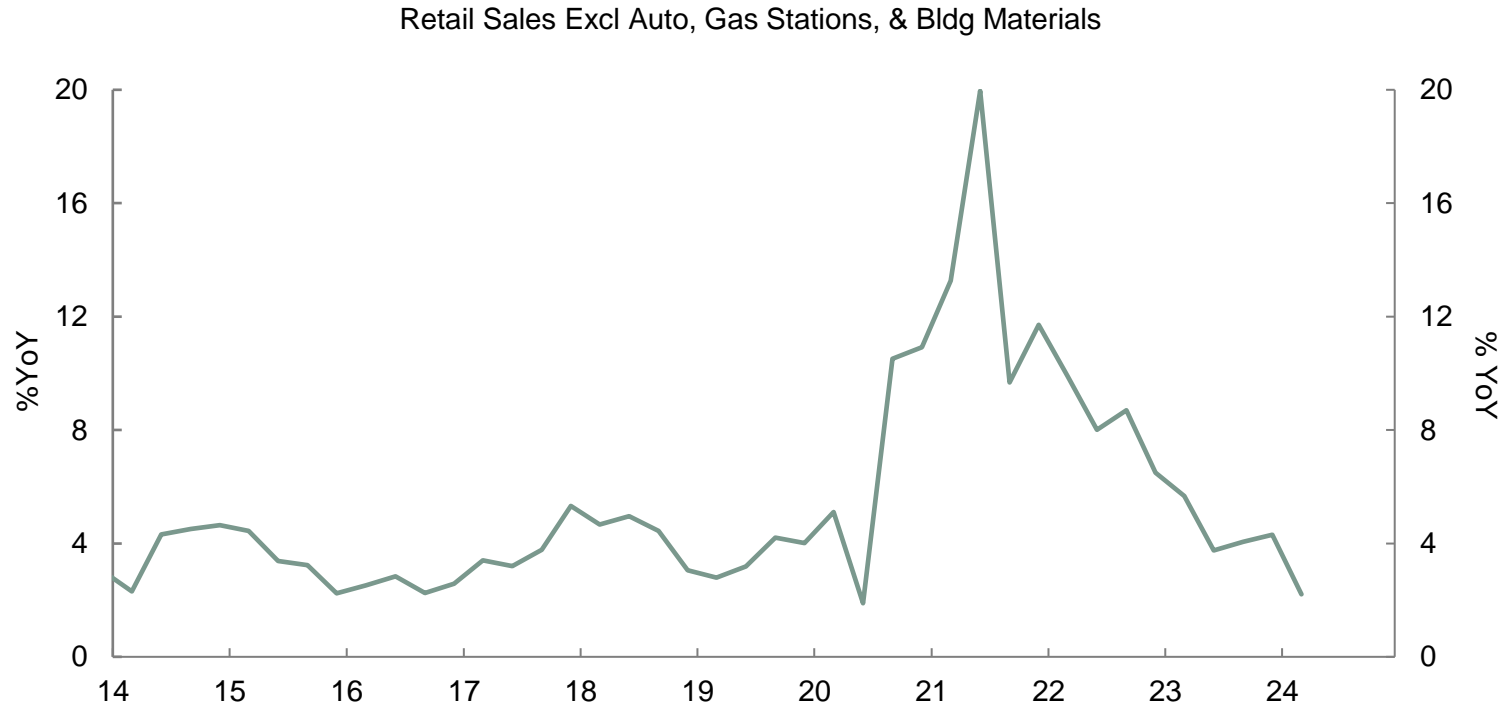


Source: FRBNY, Freddie Mac, FRB, Haver, SMBC Nikko

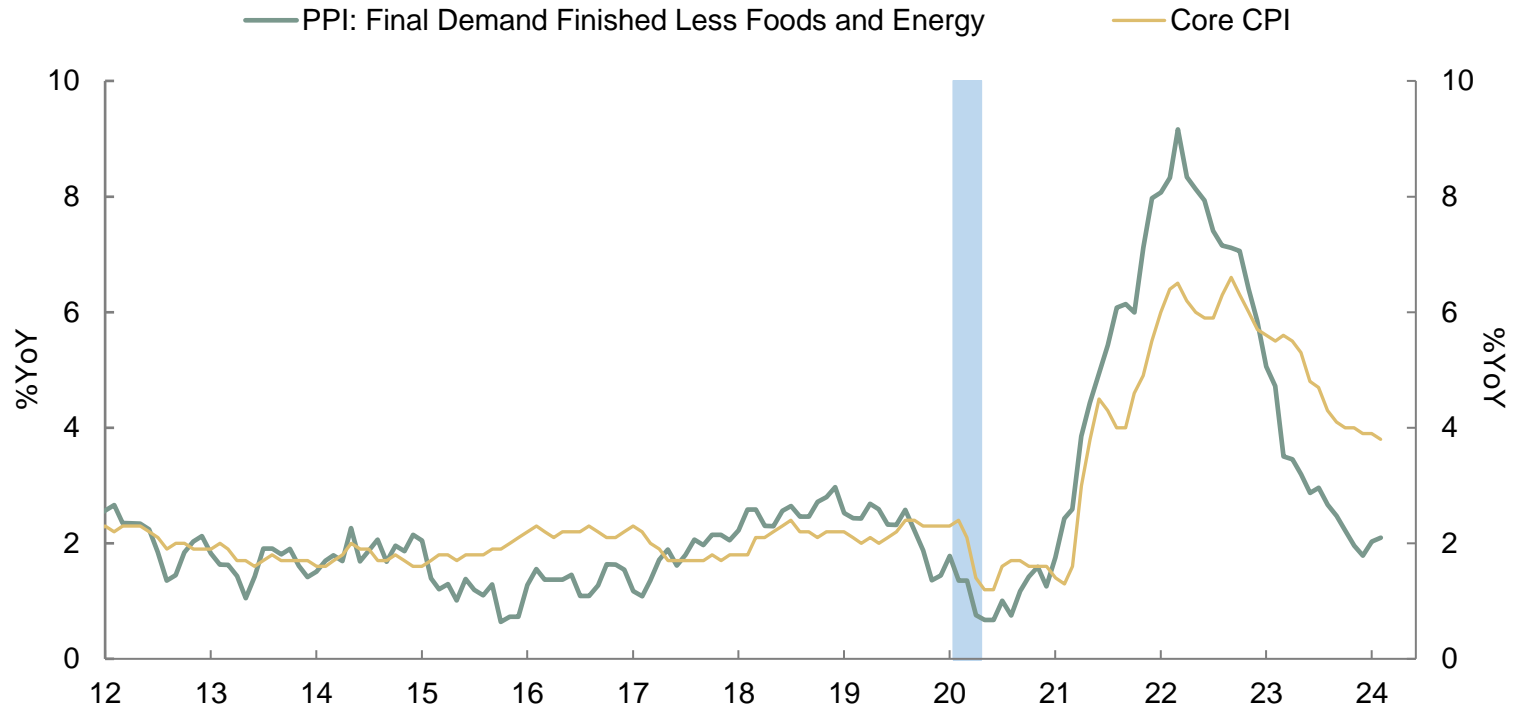
Monetary Policy Still Works...



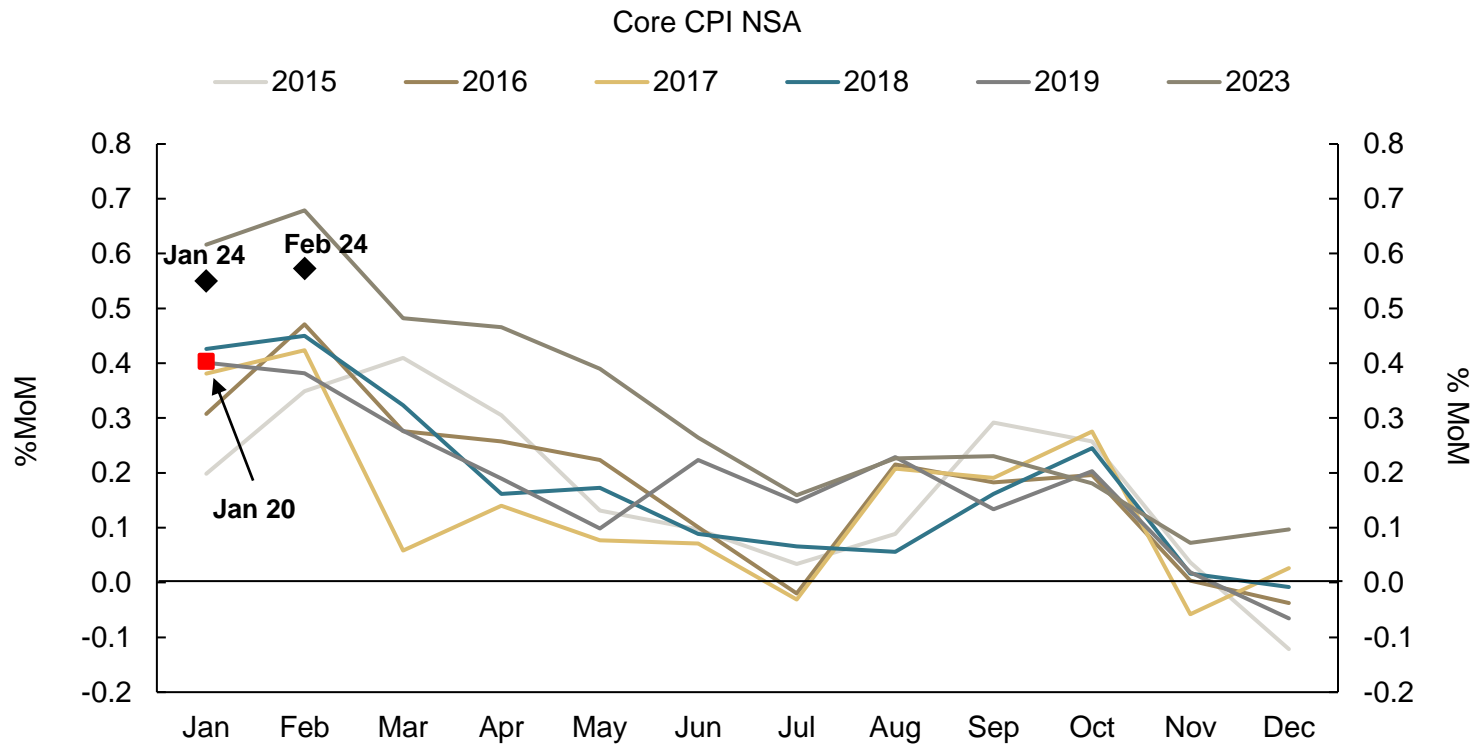
Weak Retail Sales May be a Harbinger of Things to Come



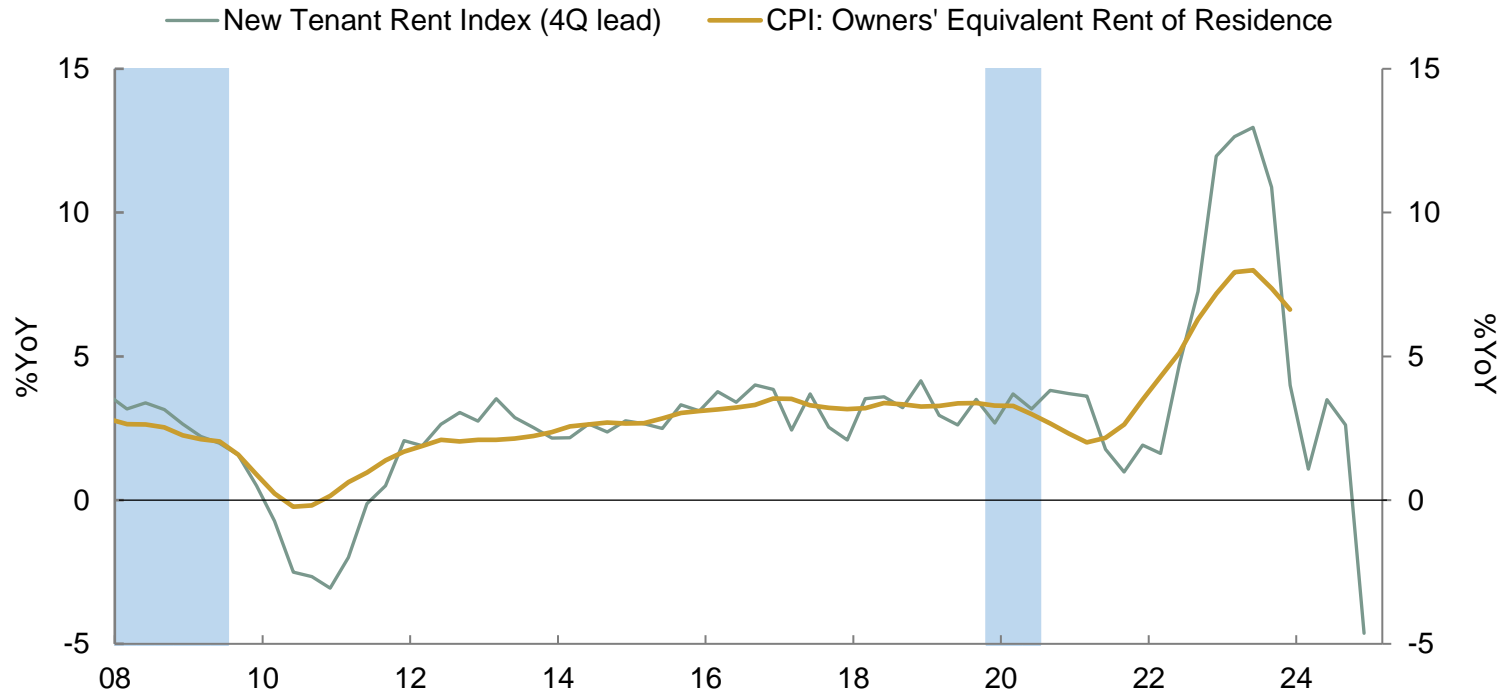
Trend Reversal or Residual Seasonality?



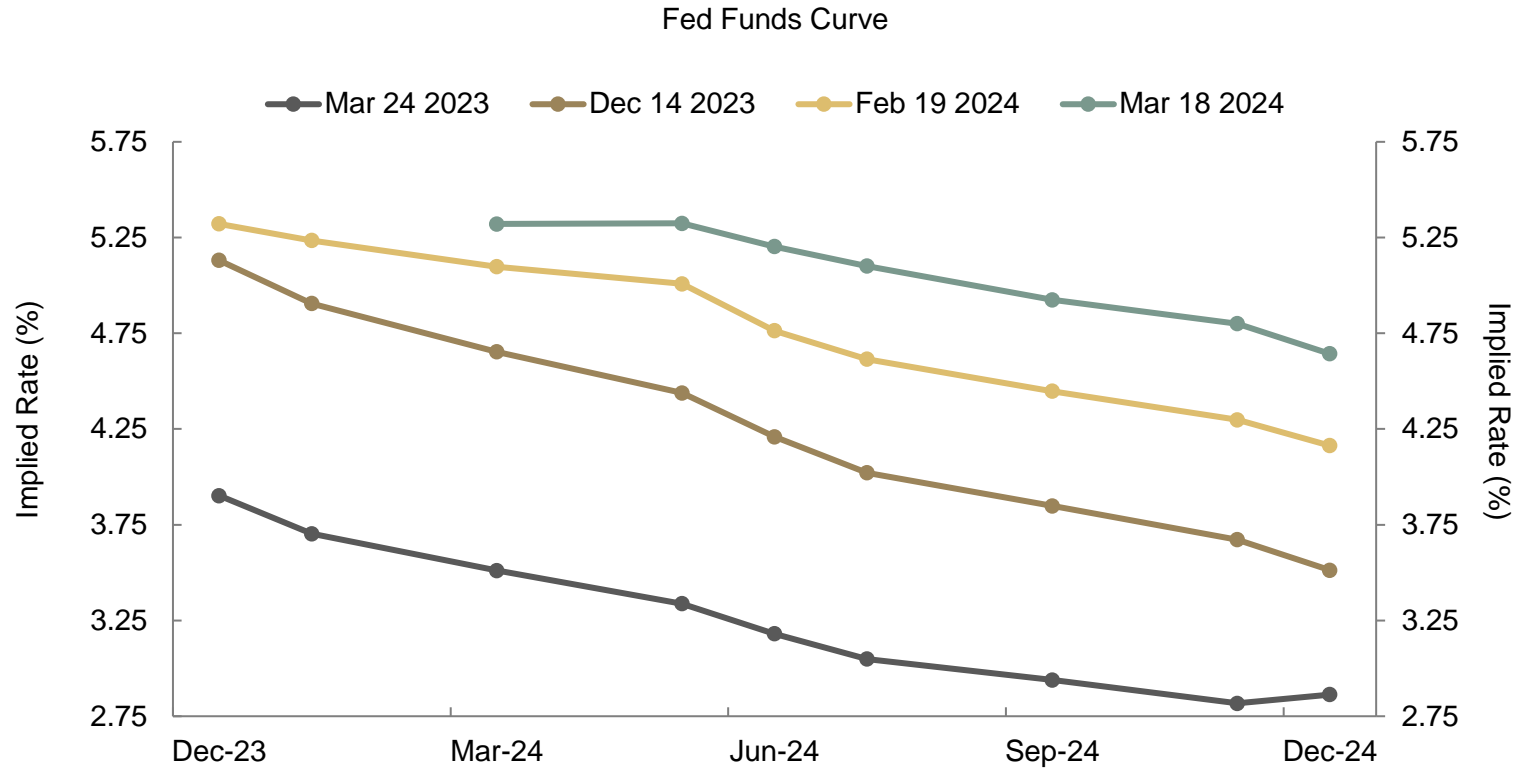
Another Upward Surprise



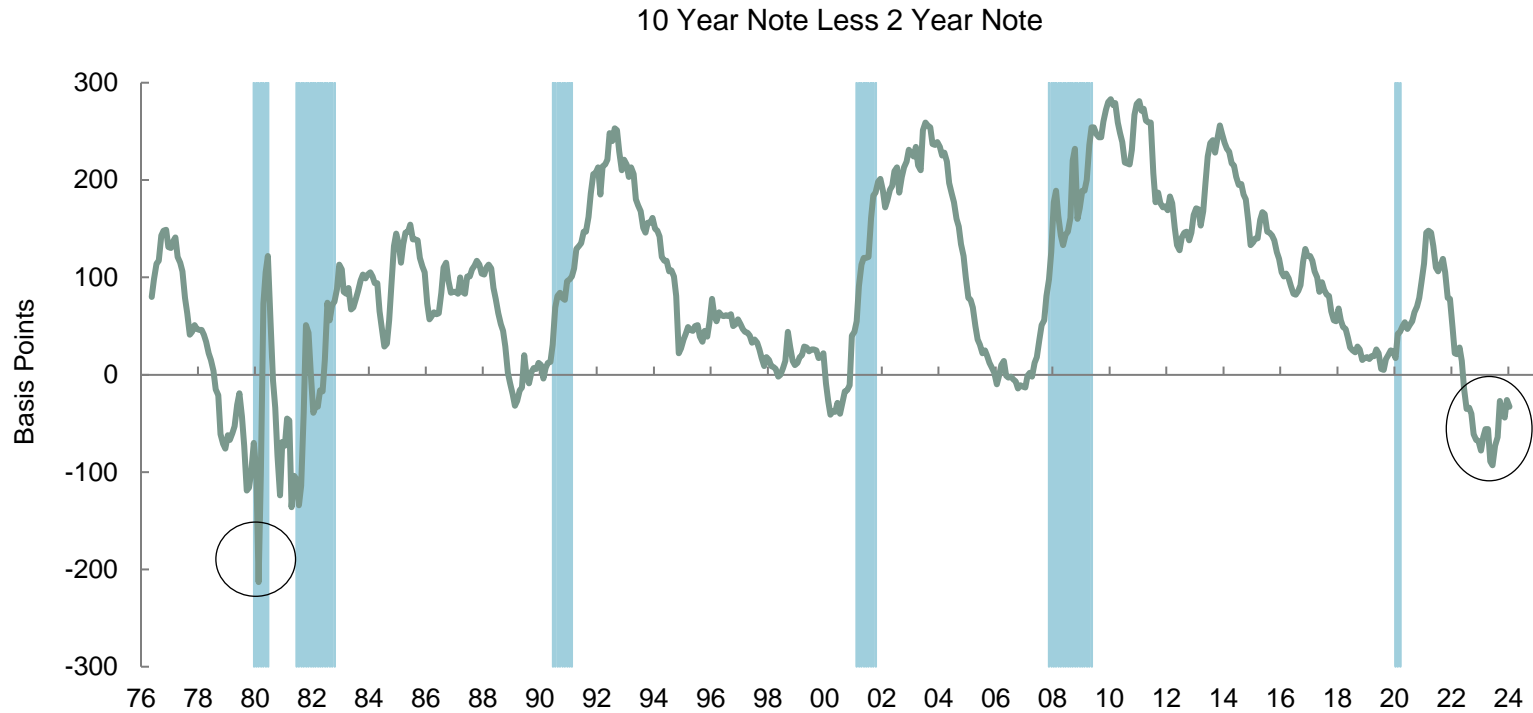
Rents Poised to Collapse



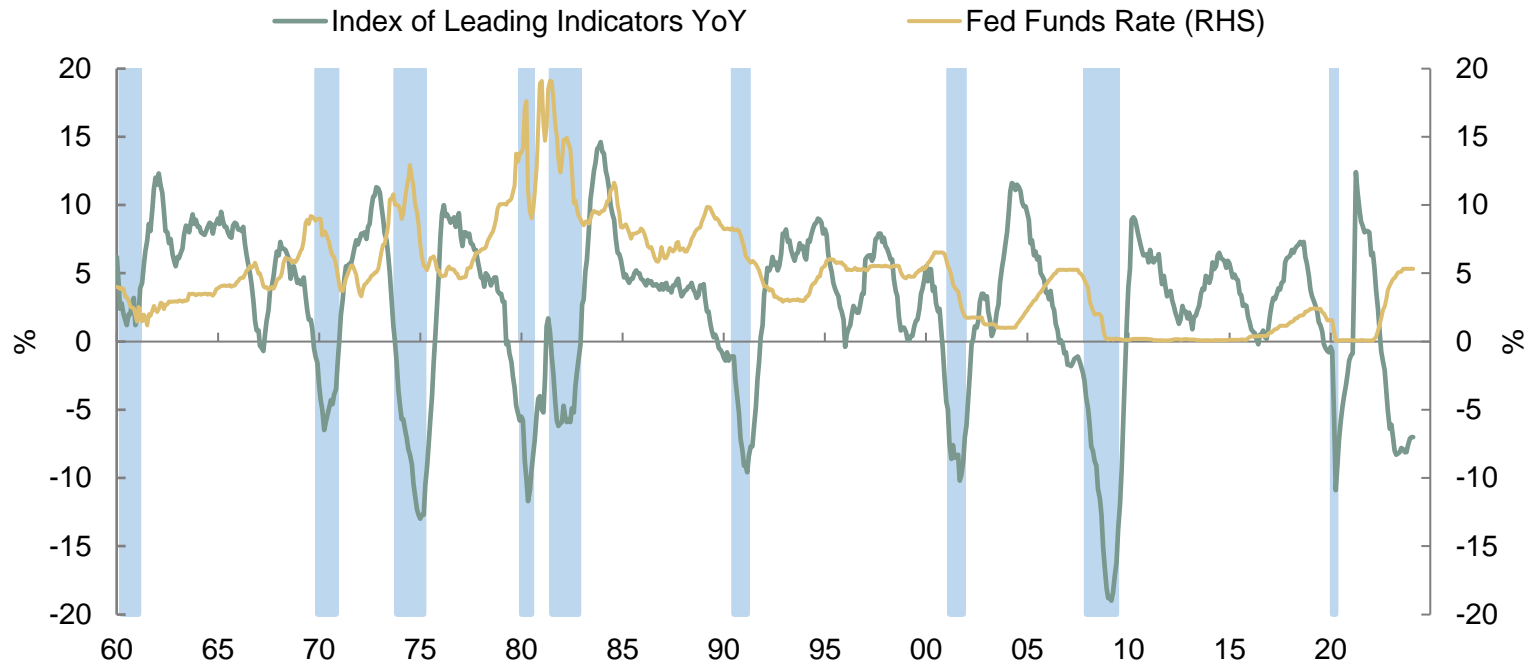
Dramatic Shift in Fed Expectations



Historic Curve Inversion



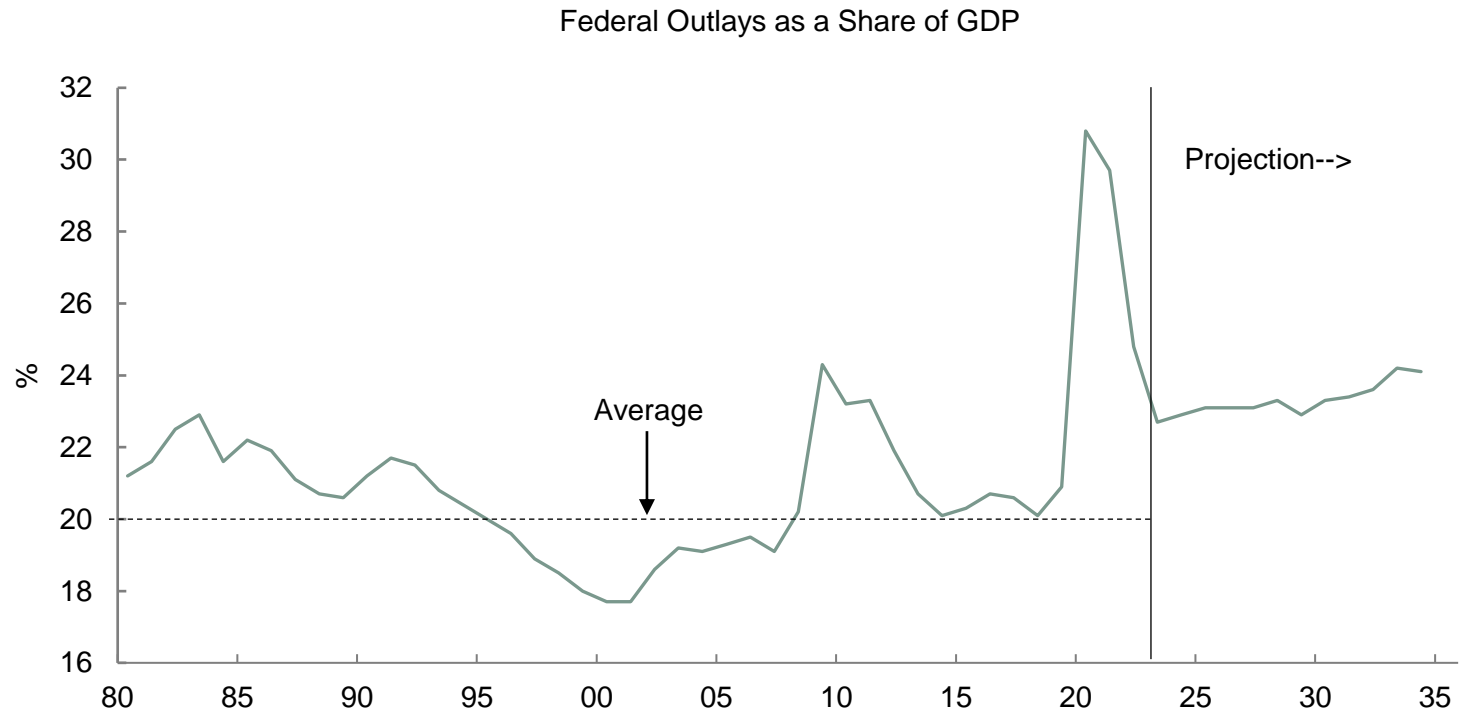
Still Deeply Negative



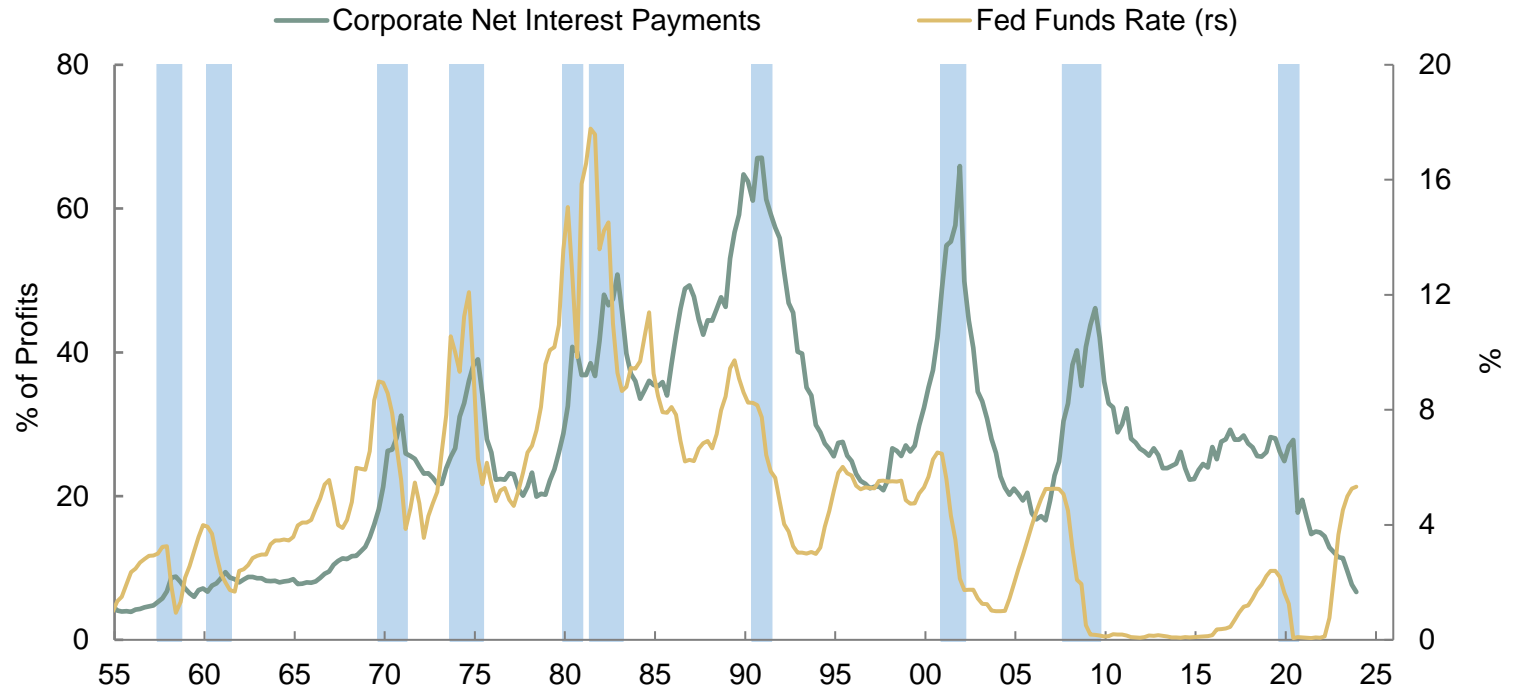
Is This Time Different?



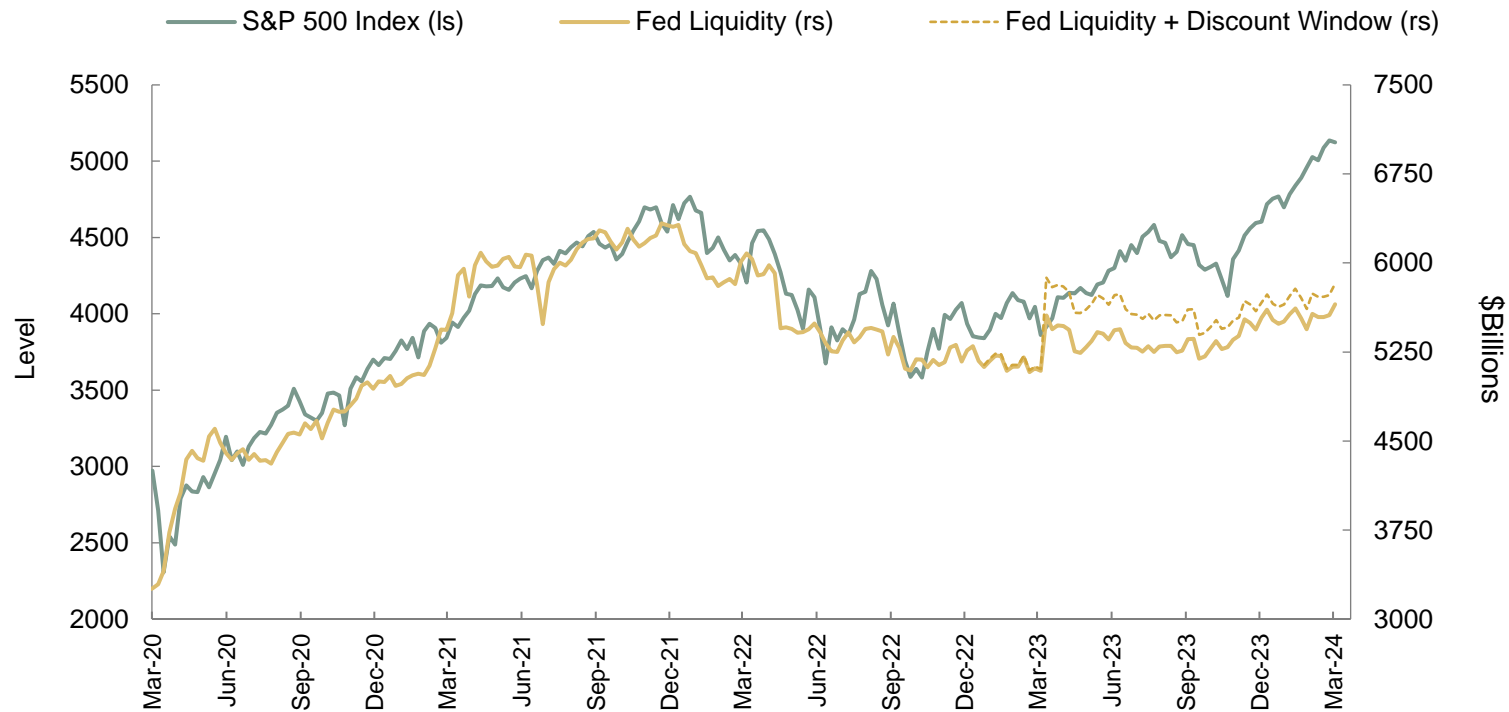
Fiscal Recklessness Temporarily Boosting GDP



Higher Rates Have Yet to Dampen Profits



Liquidity Alone Cannot Explain Stocks





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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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