

# Fed Easing May Not Be Enough to Save the Economy

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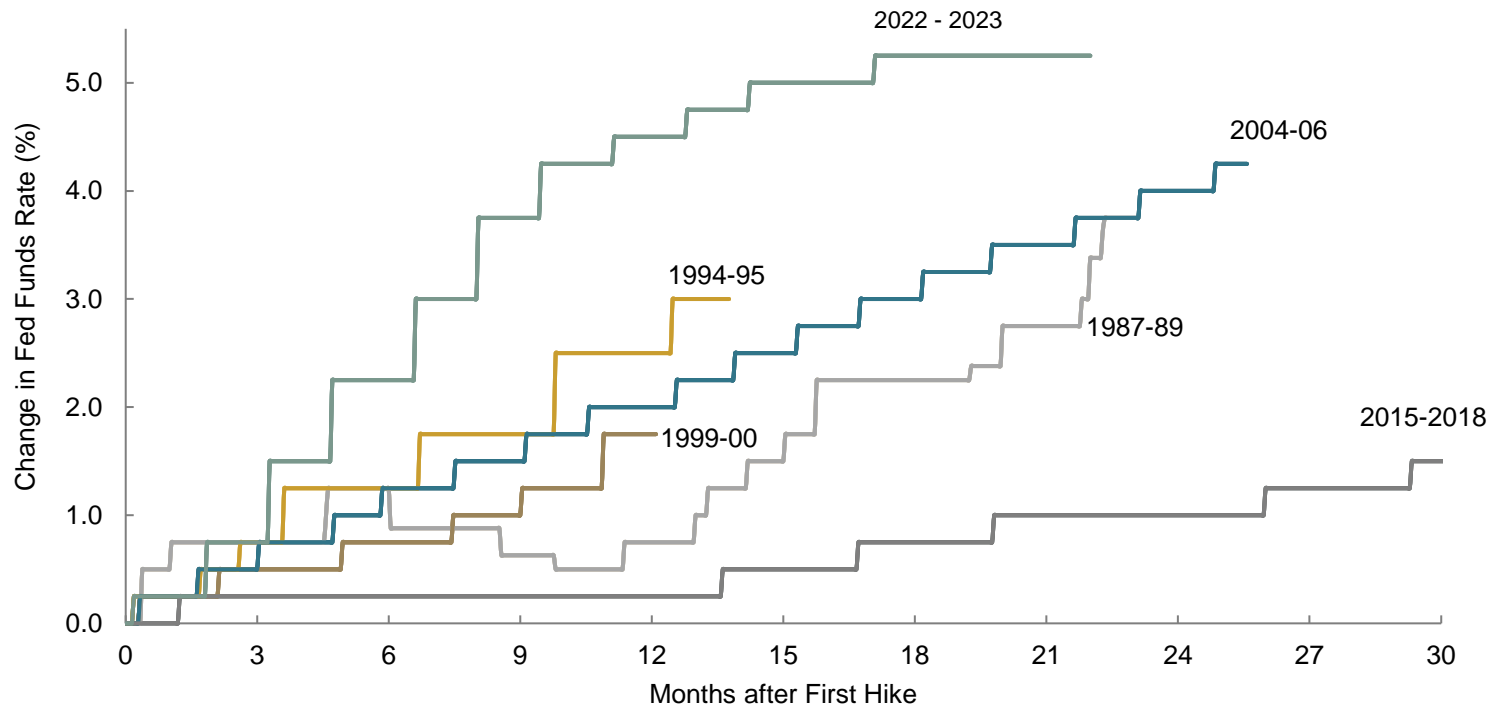
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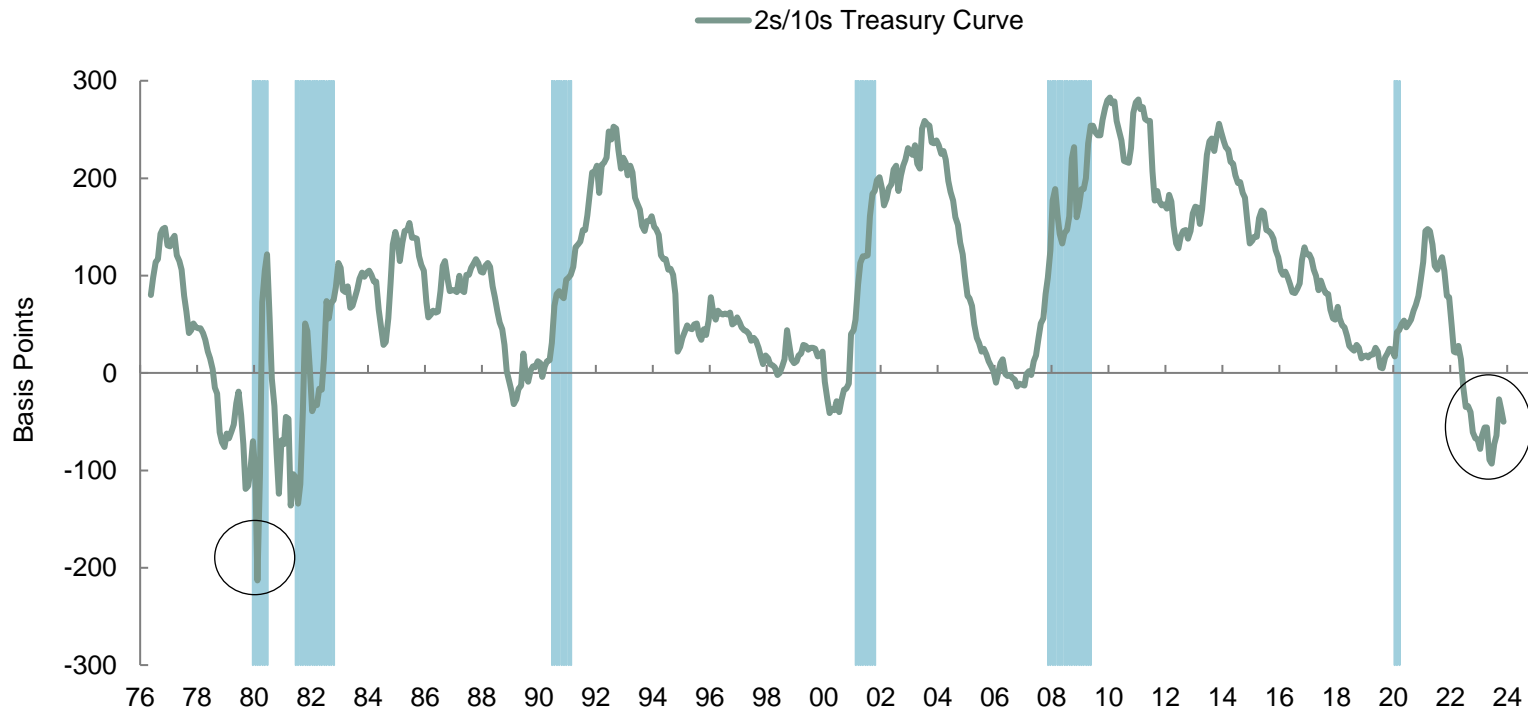
# A Record Rise in Fed Funds

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



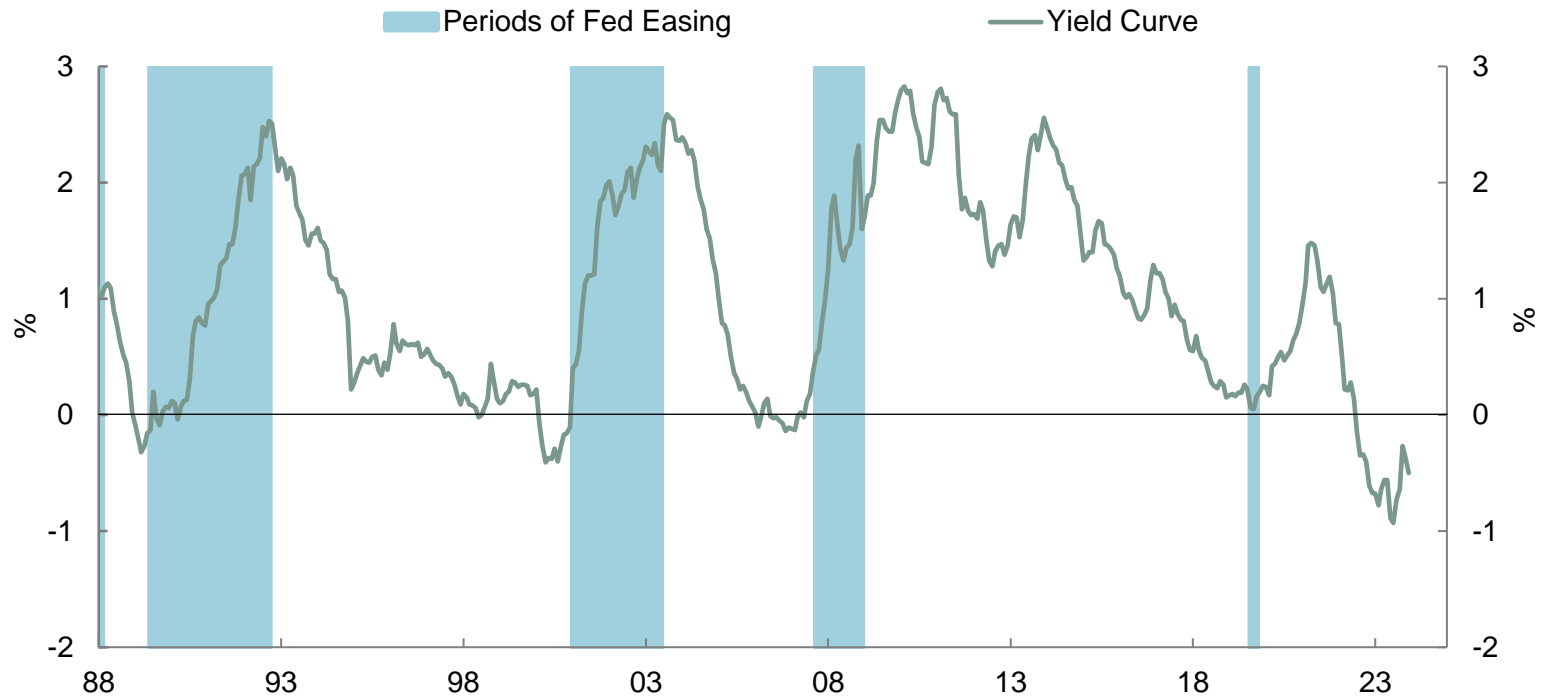
# Historic Curve Inversion

The deeply inverted yield curve signals recession and less credit creation.



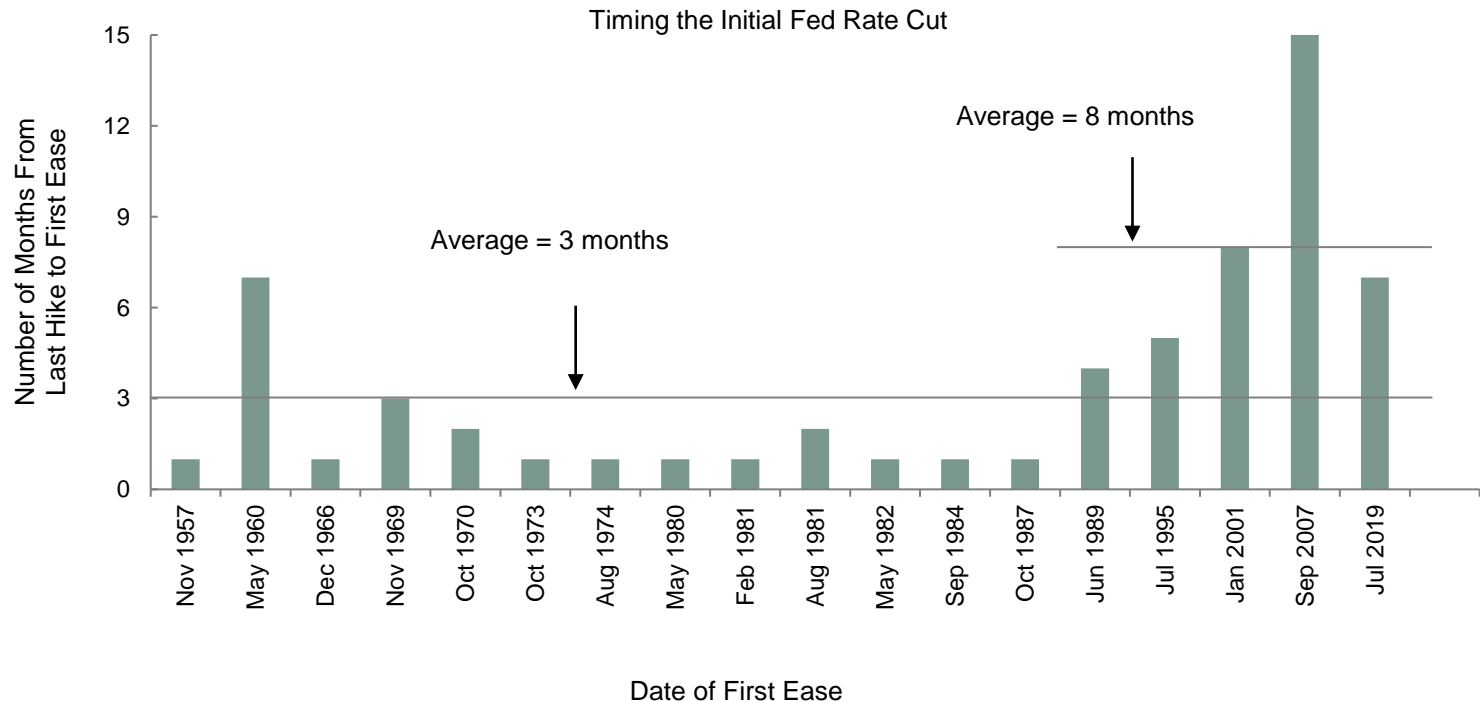
# Getting Back to Positive

The yield curve normalizes “only” when the Fed cuts.



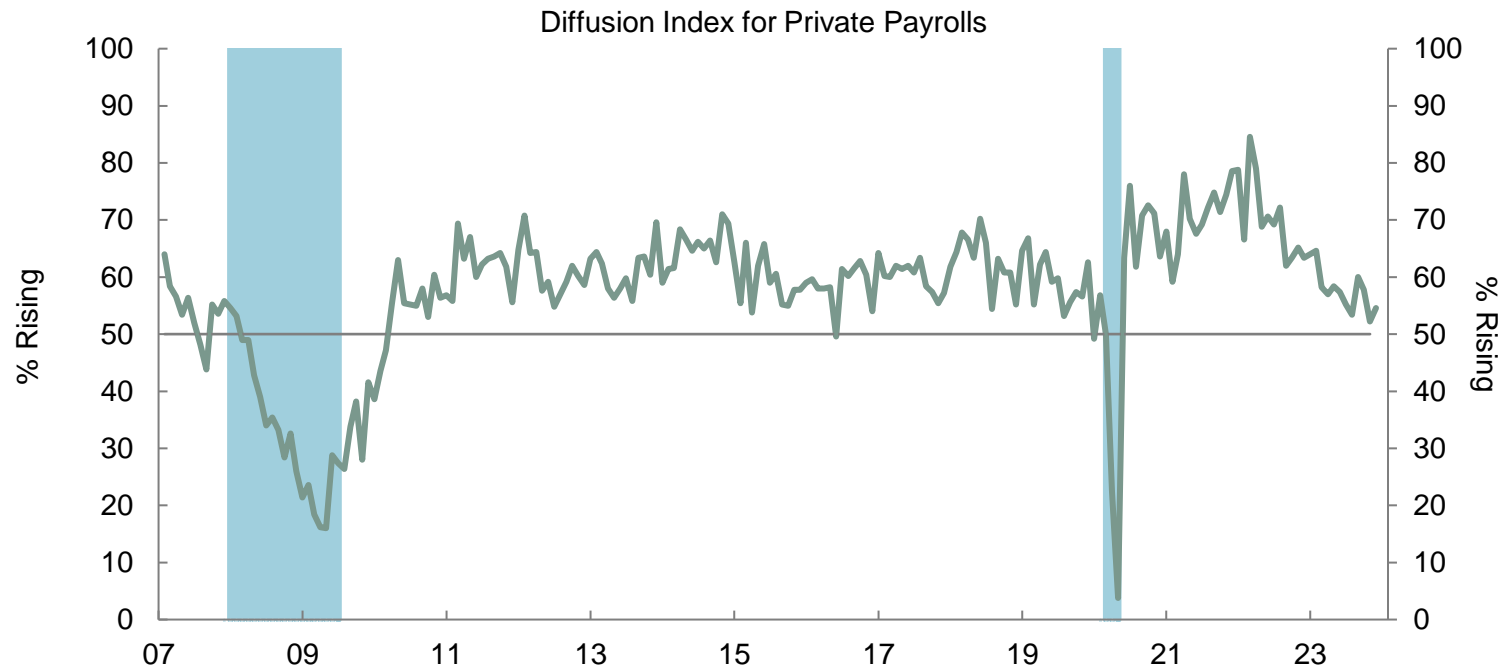
# Recent History Says March 2024

Over the last five cycles, the Fed has cut rates eight months following its last hike.



# Fewer Sectors Hiring

Jobs growth is waning across sectors, consistent with a labor market slowdown



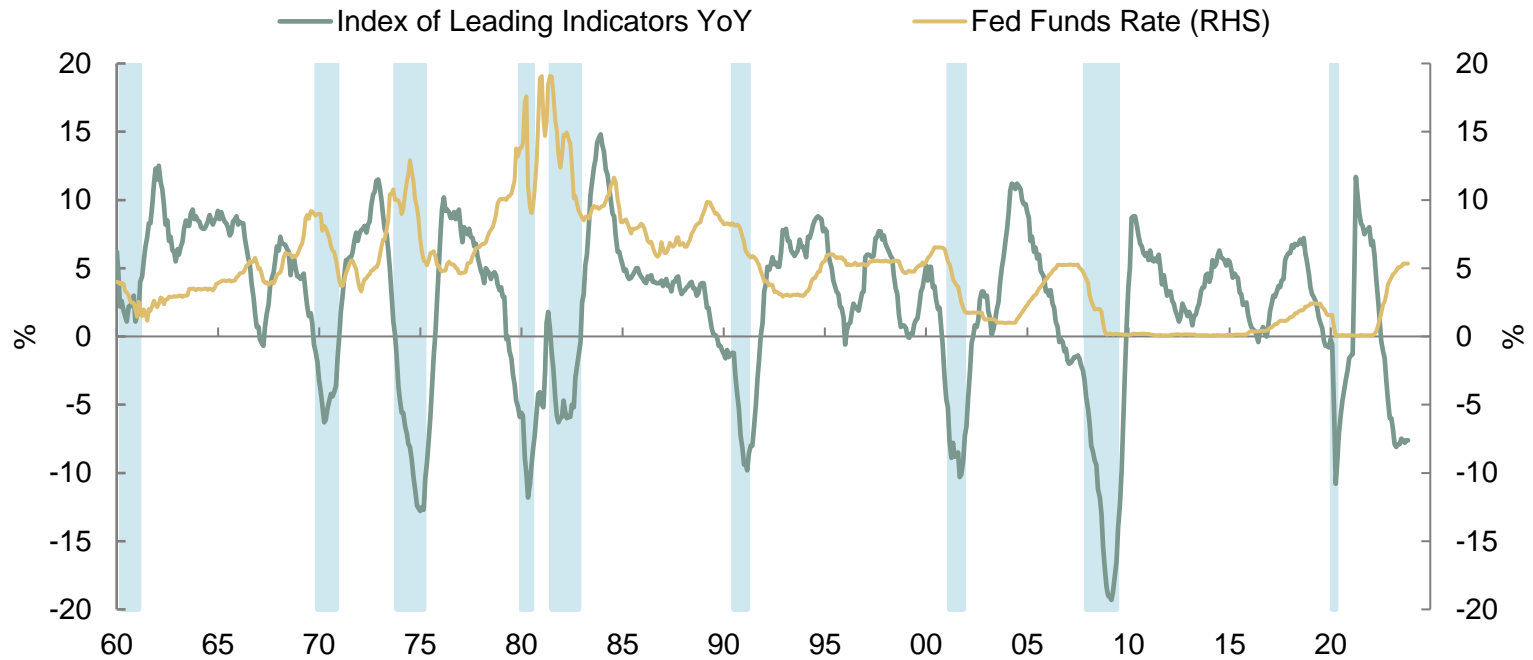
# Is This Time Different?

Unemployment recently dipped back below the “Sahm Rule”.



# Still Falling

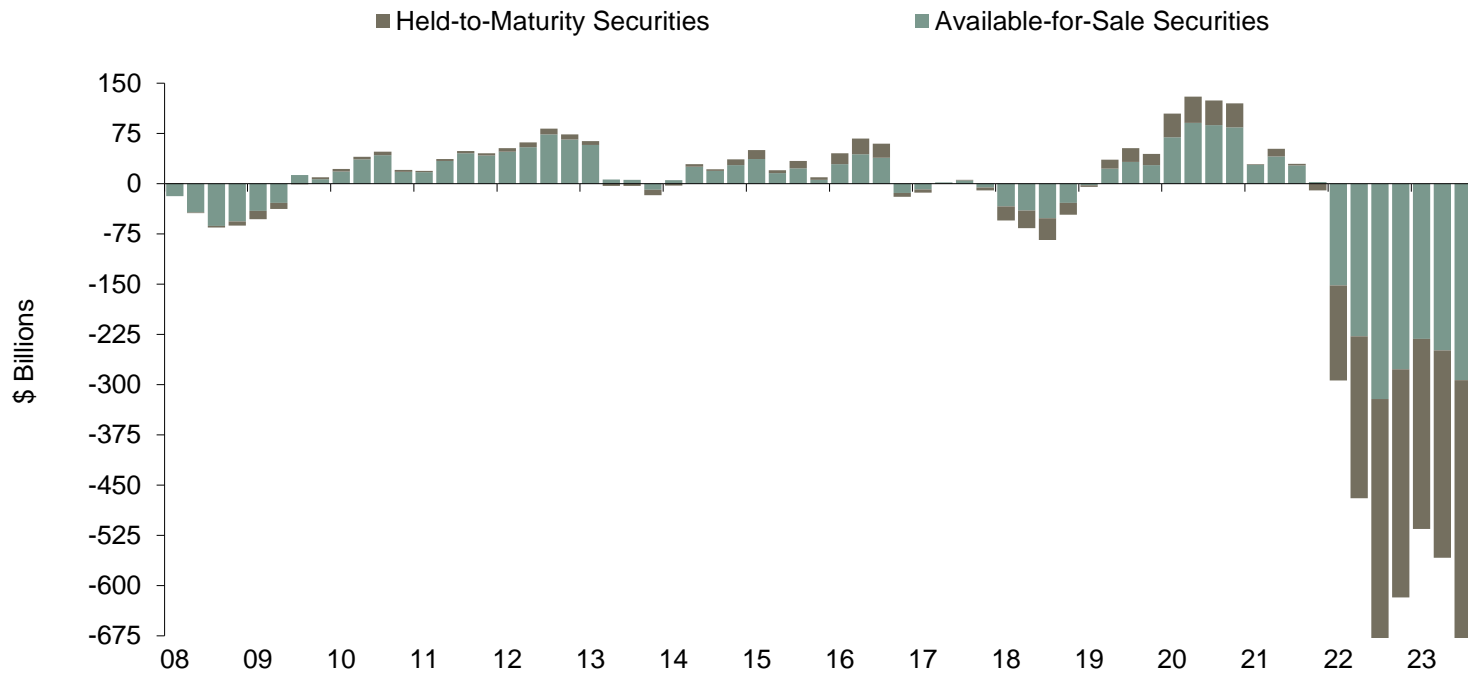
The Index of Leading Economic Indicators continues to weaken.





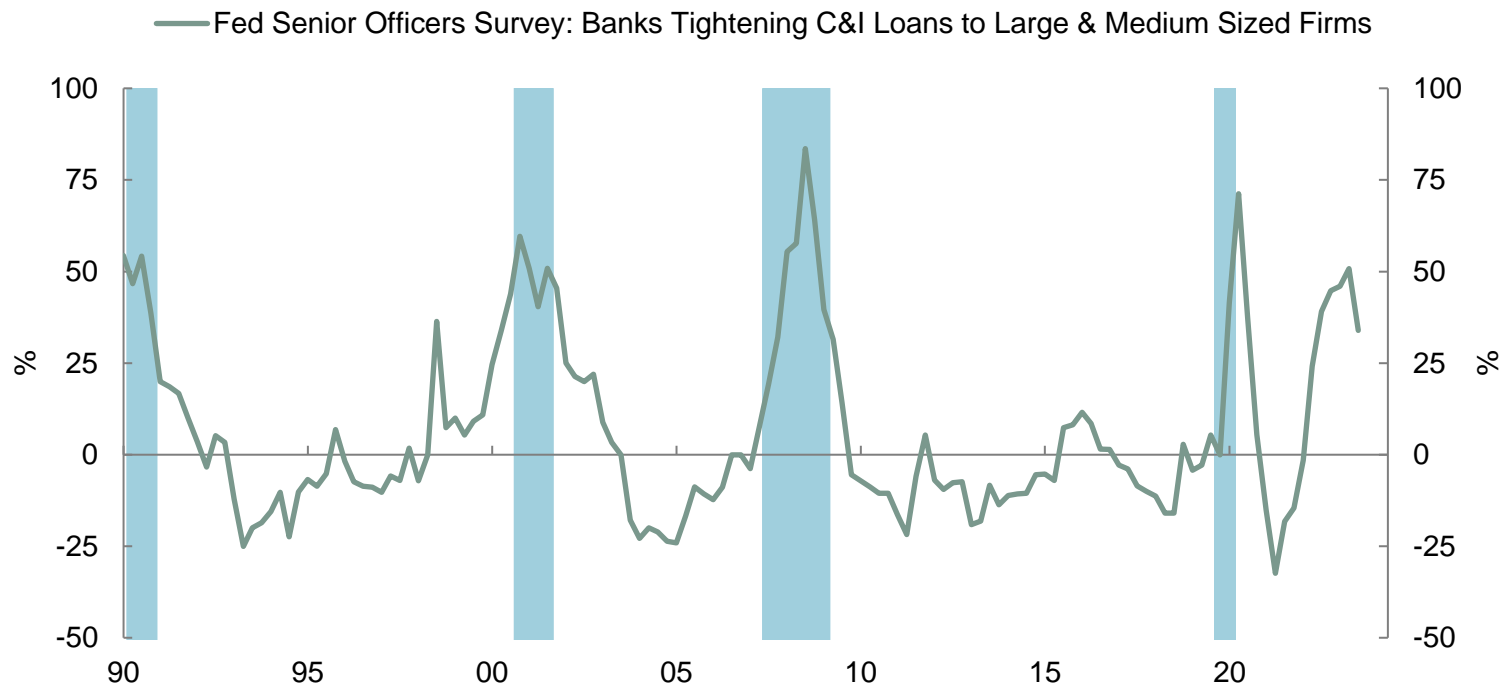
# Massive Balance Sheet Losses

Record Fed tightening has decimated commercial bank capital.



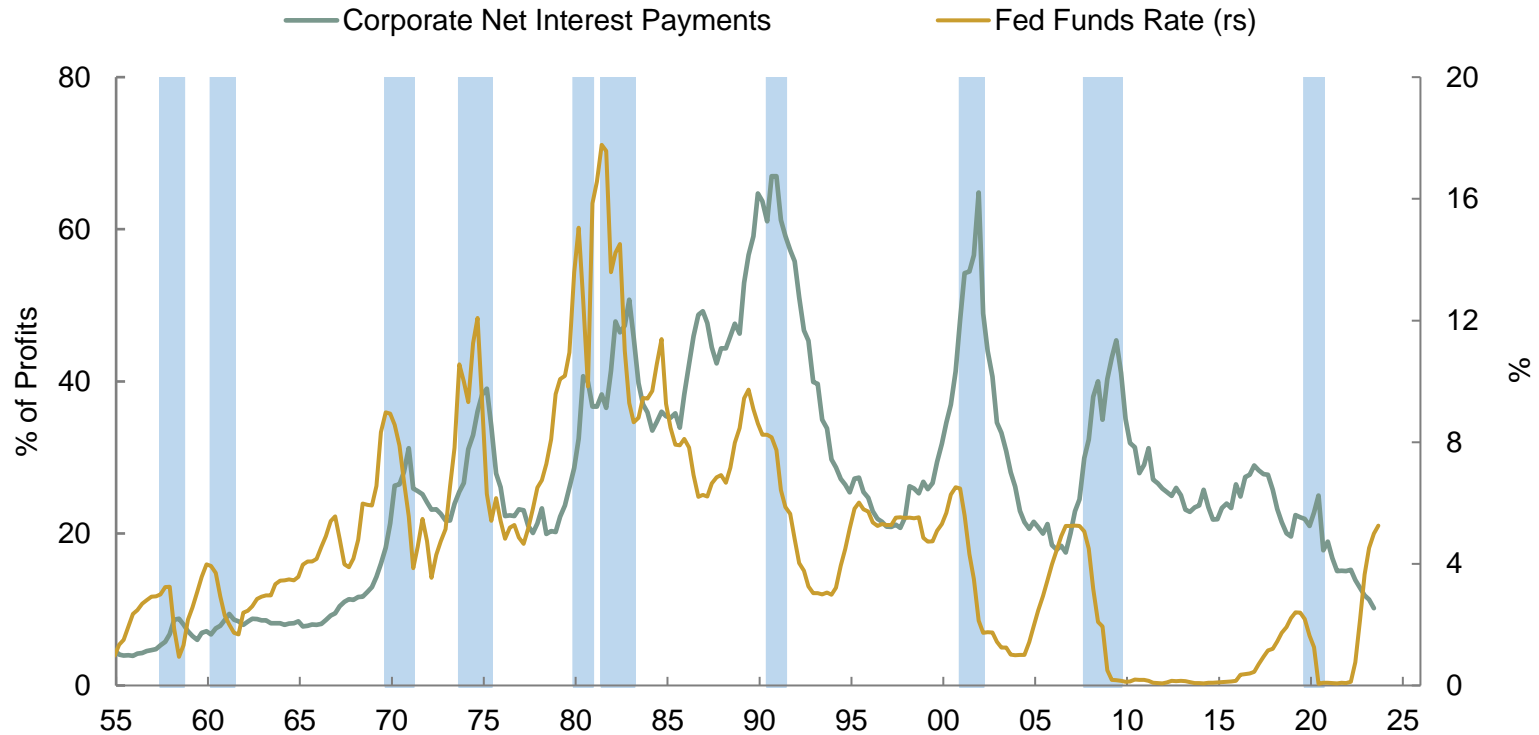
# Tightening Credit Conditions

Banks are still tightening standards at a recessionary level.



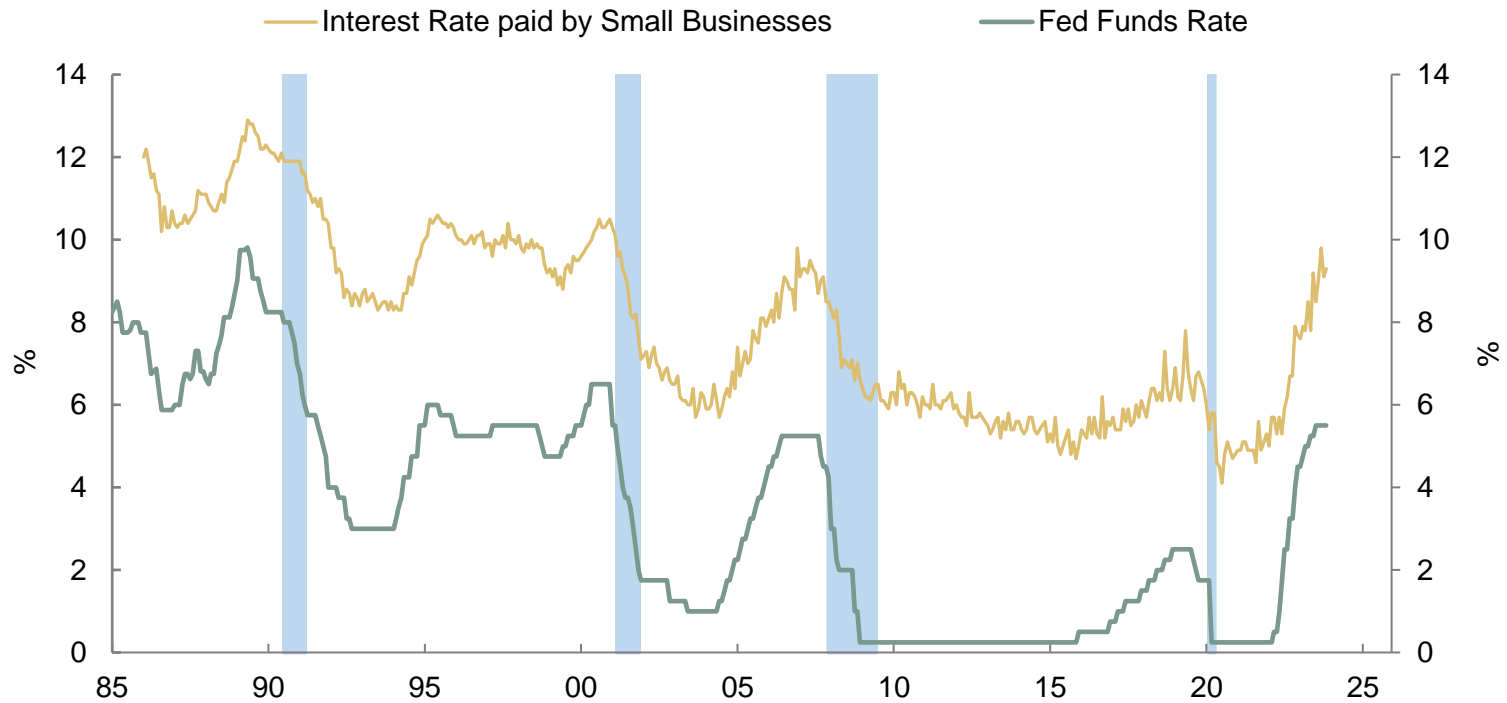
# Falling Net Interest Payments

Some large businesses have locked in historically low rates.



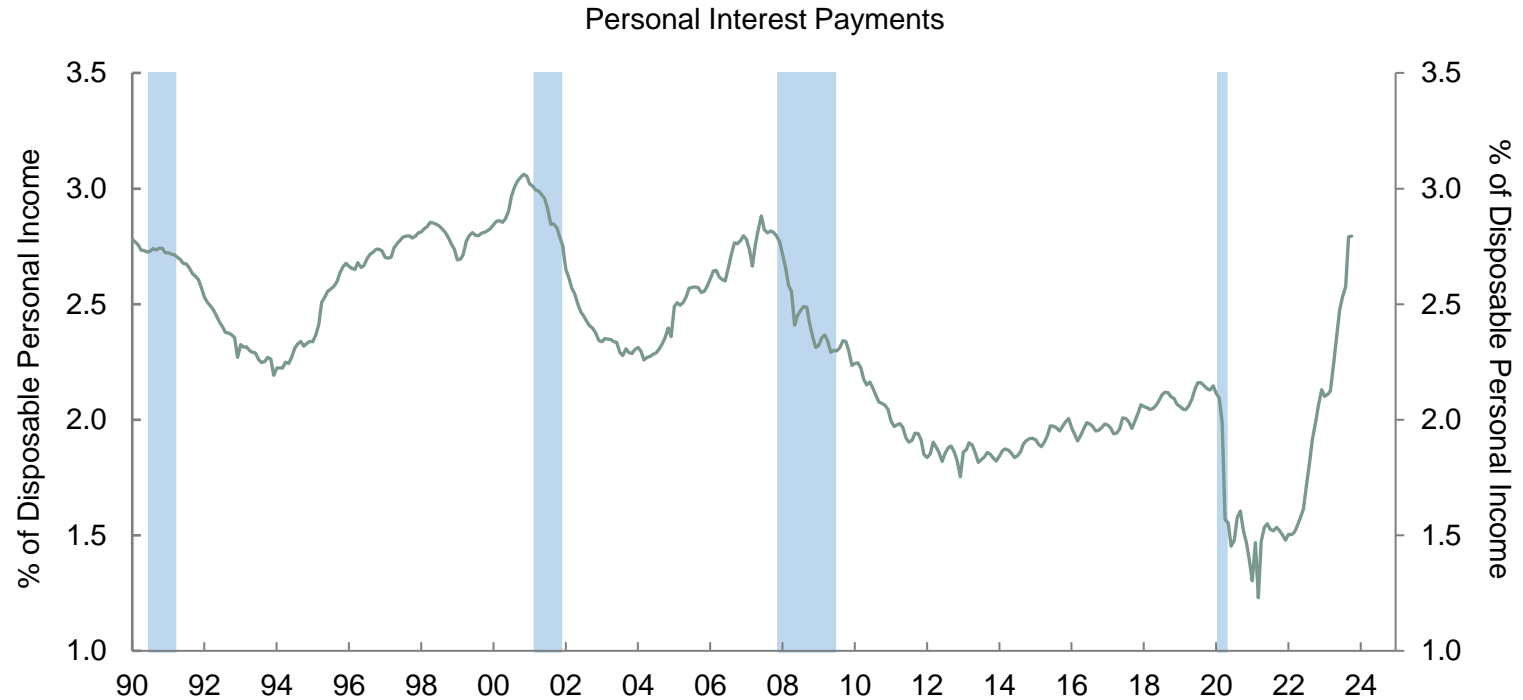
# Small Business Blues

But this has not been the case with small businesses.



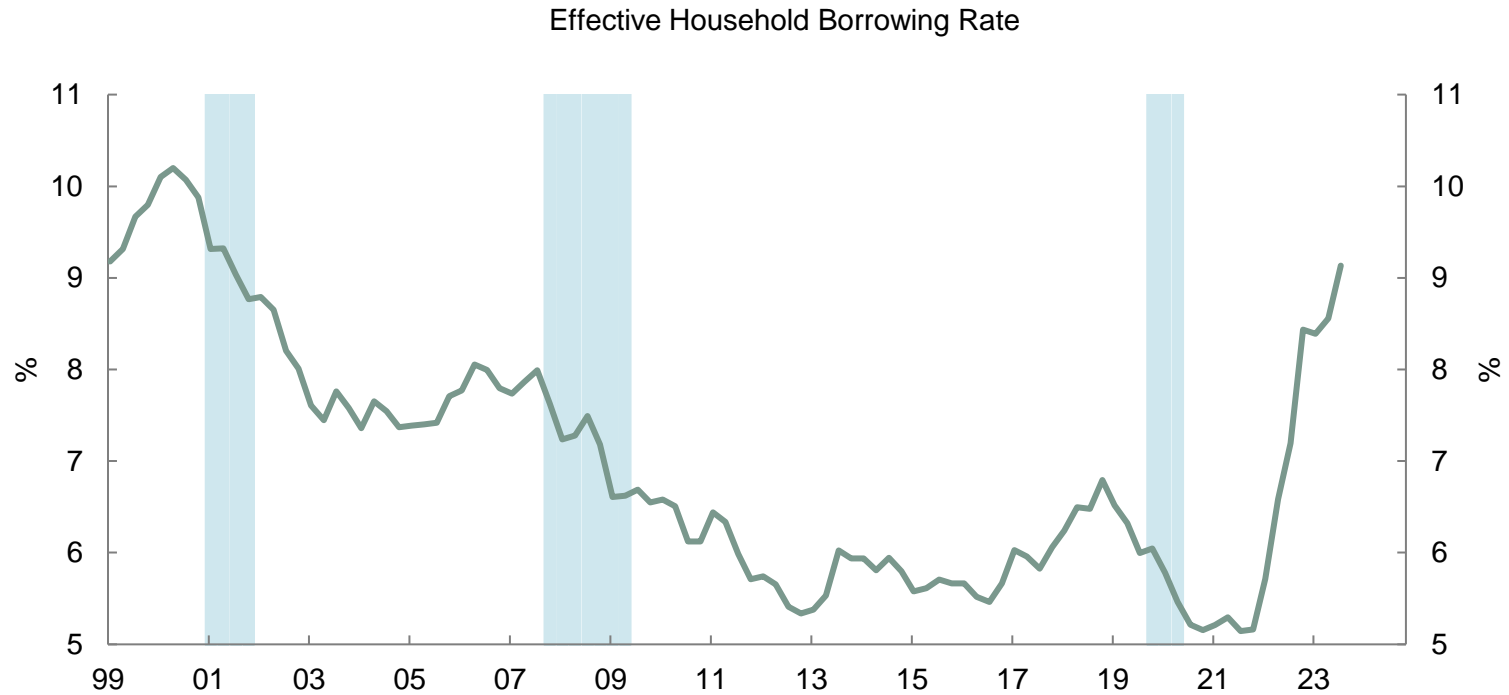
# Higher Interest Payments

And household non-mortgage interest payments haven't risen sharply, too.



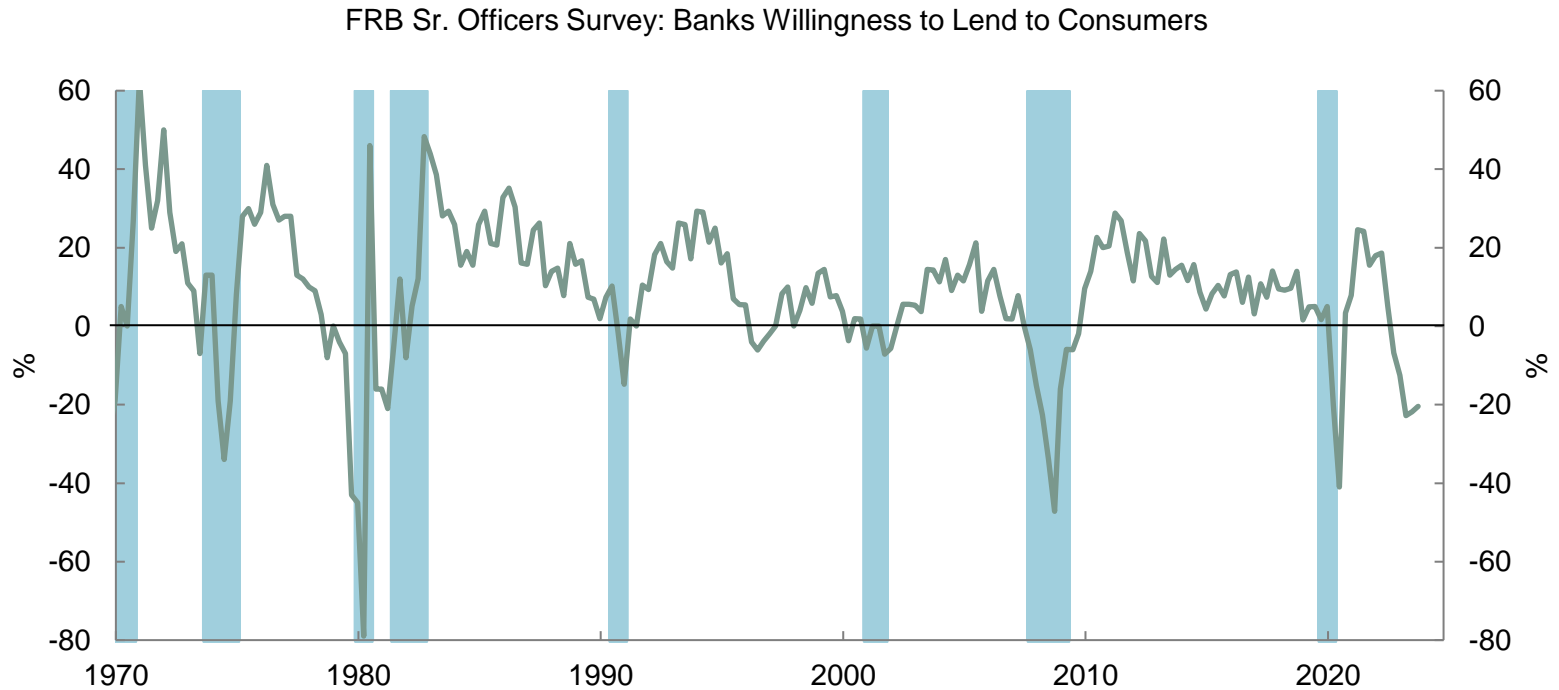
# Soaring Borrowing Costs

In fact, consumers are facing the highest interest rates in over two decades.



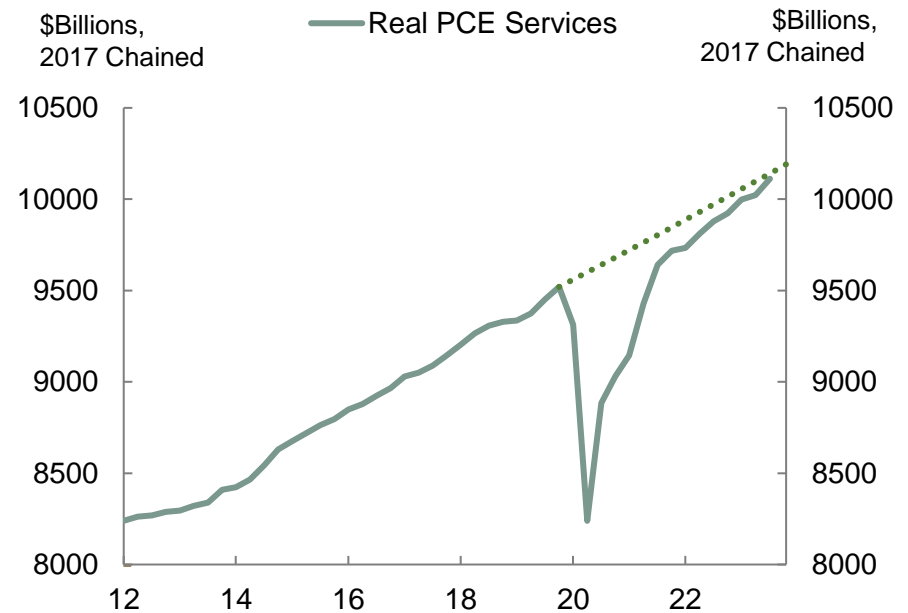
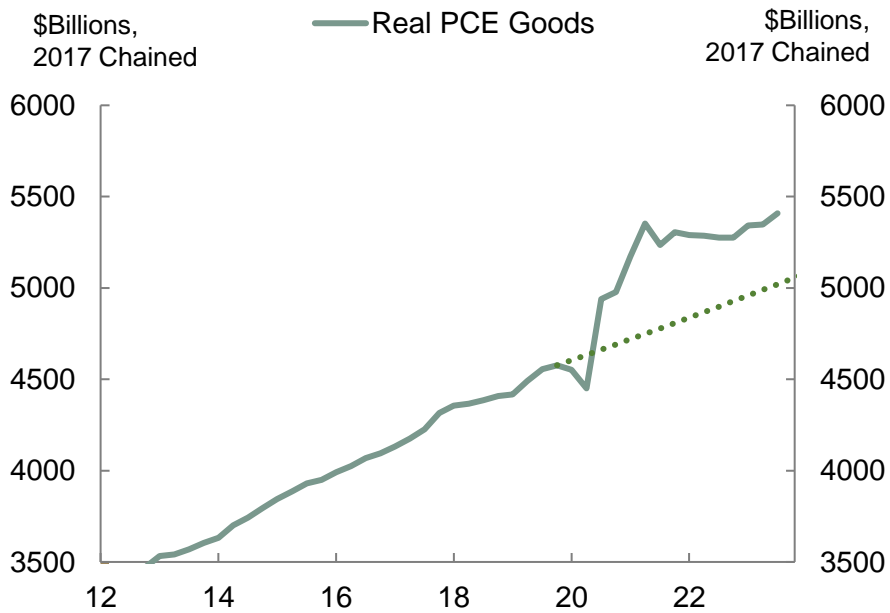
# Reining in Consumer Lending

Households are struggling to obtain credit.



# A Return to Trend?

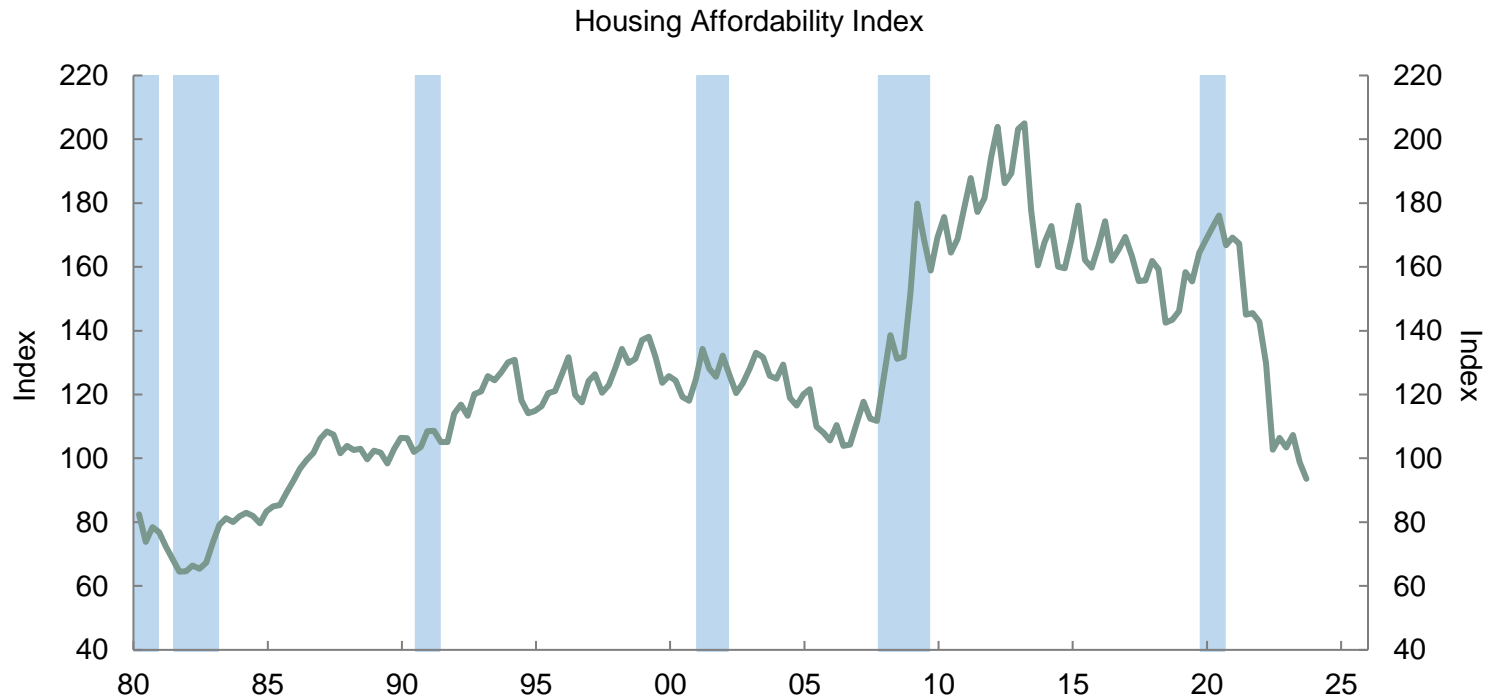
Goods spending is well above its pre-pandemic trend and poised for significant retracement.





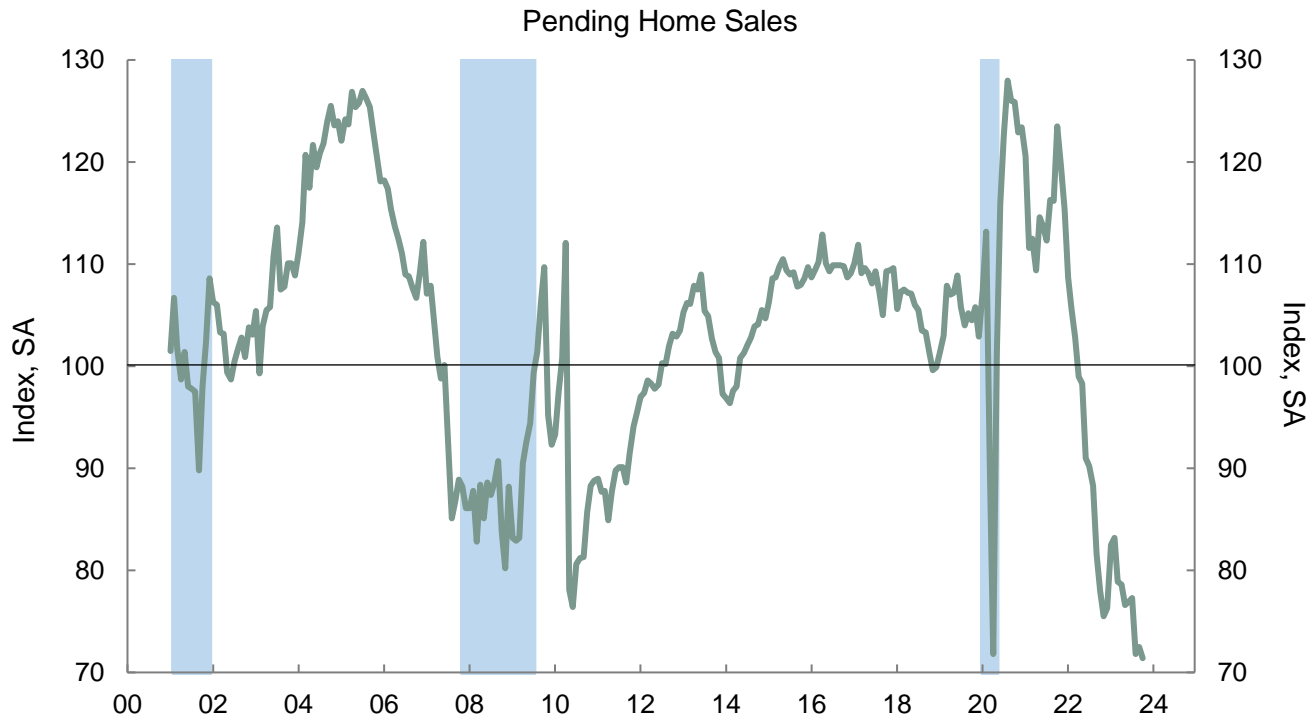
# Homes Are Expensive!

Affordability has declined to a multi-decade low.



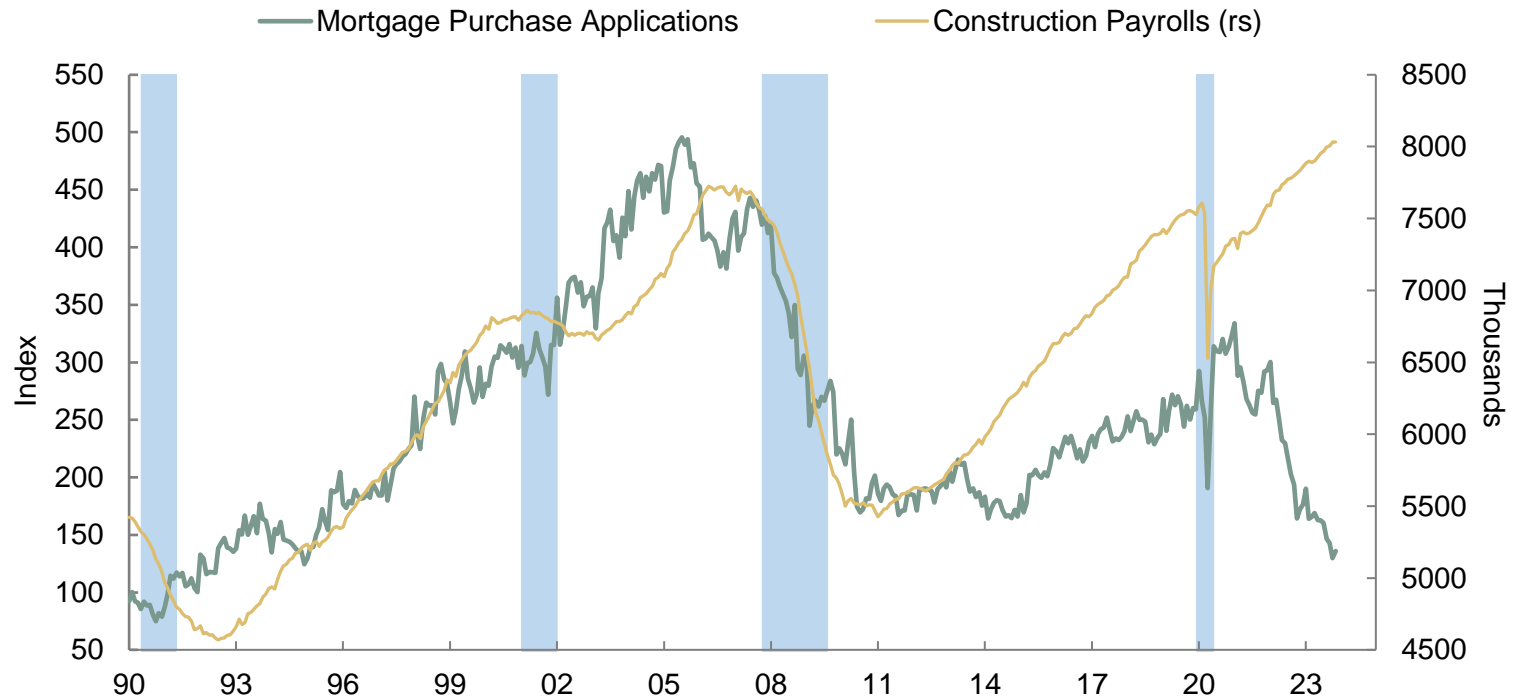
# A Frozen Market

Pending home sales are at all-time lows.



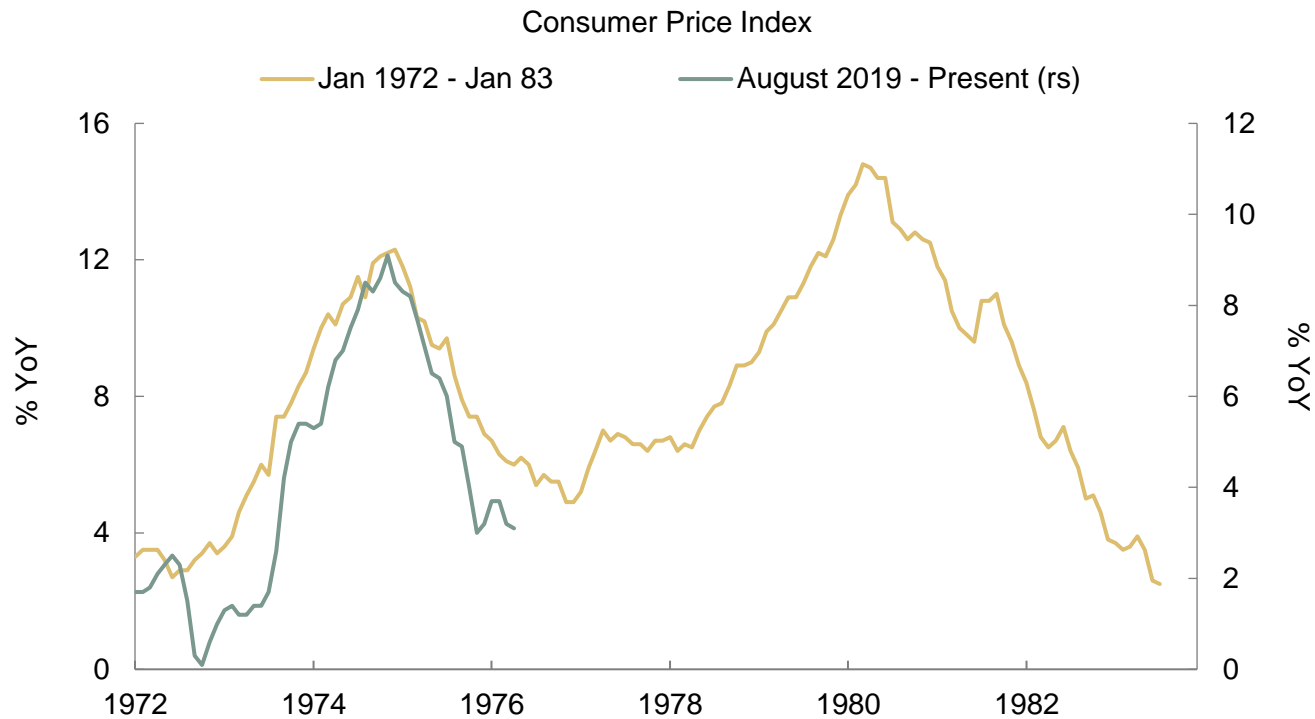
# Massive Disconnect

Construction employment is extremely elevated relative to current housing demand.



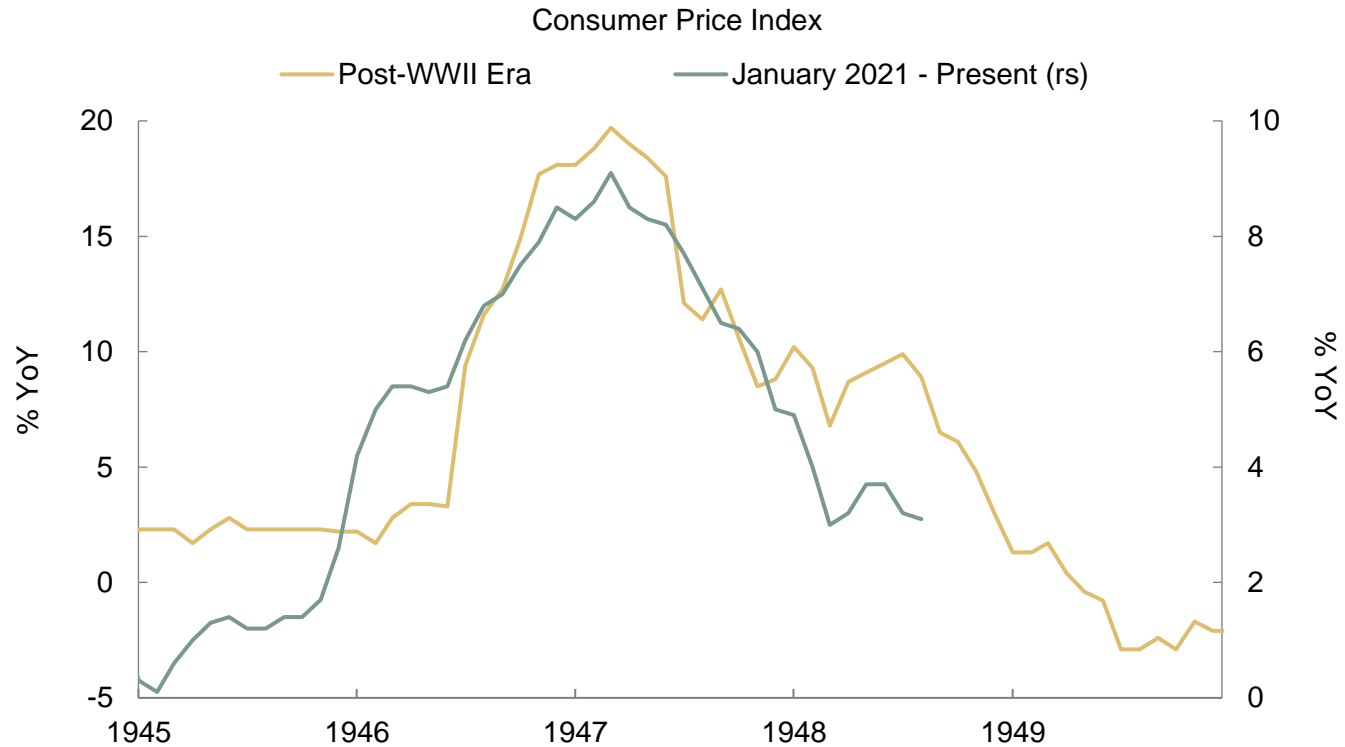
# Parallels With The 1970s

The Fed does not want to repeat the mistakes of the 1970s by easing rates too soon.



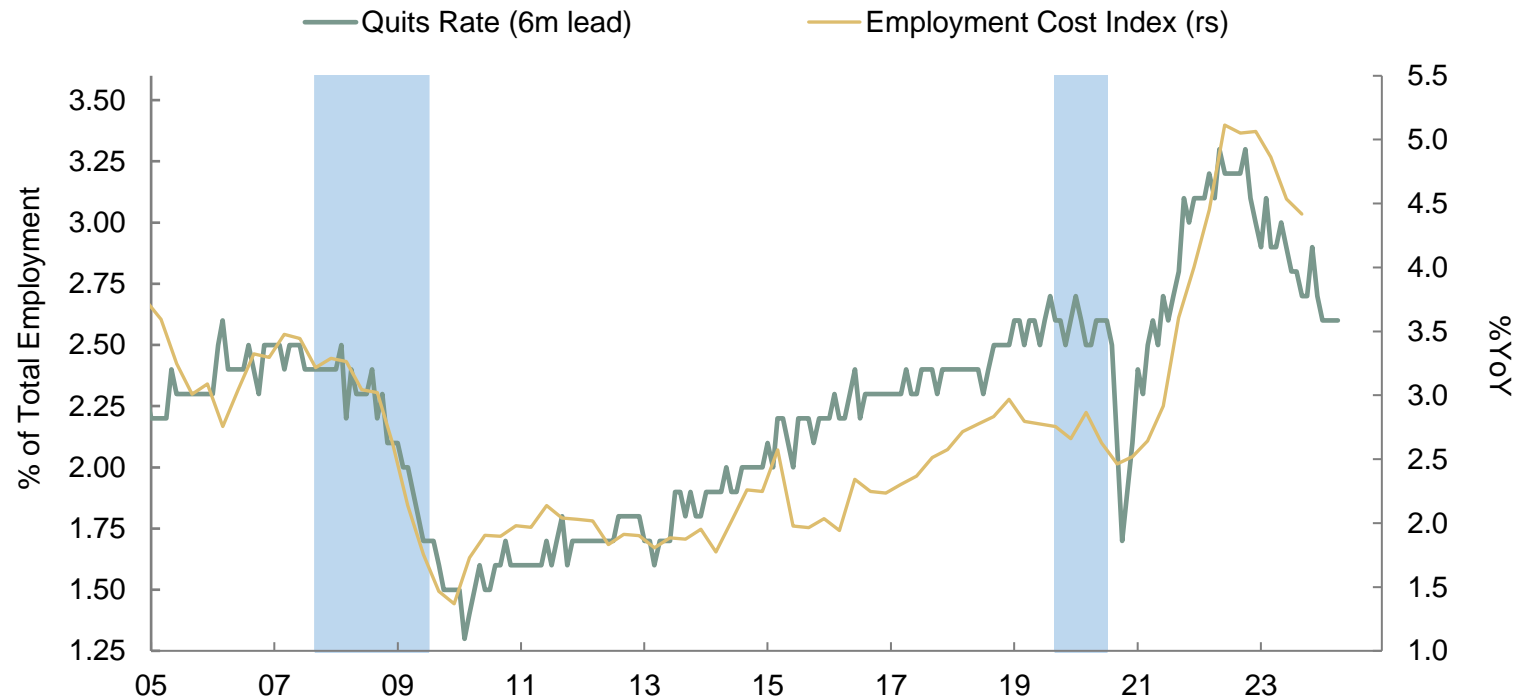
# Parallels To The 1940s

But what if today's environment is more like the post-WWII era?



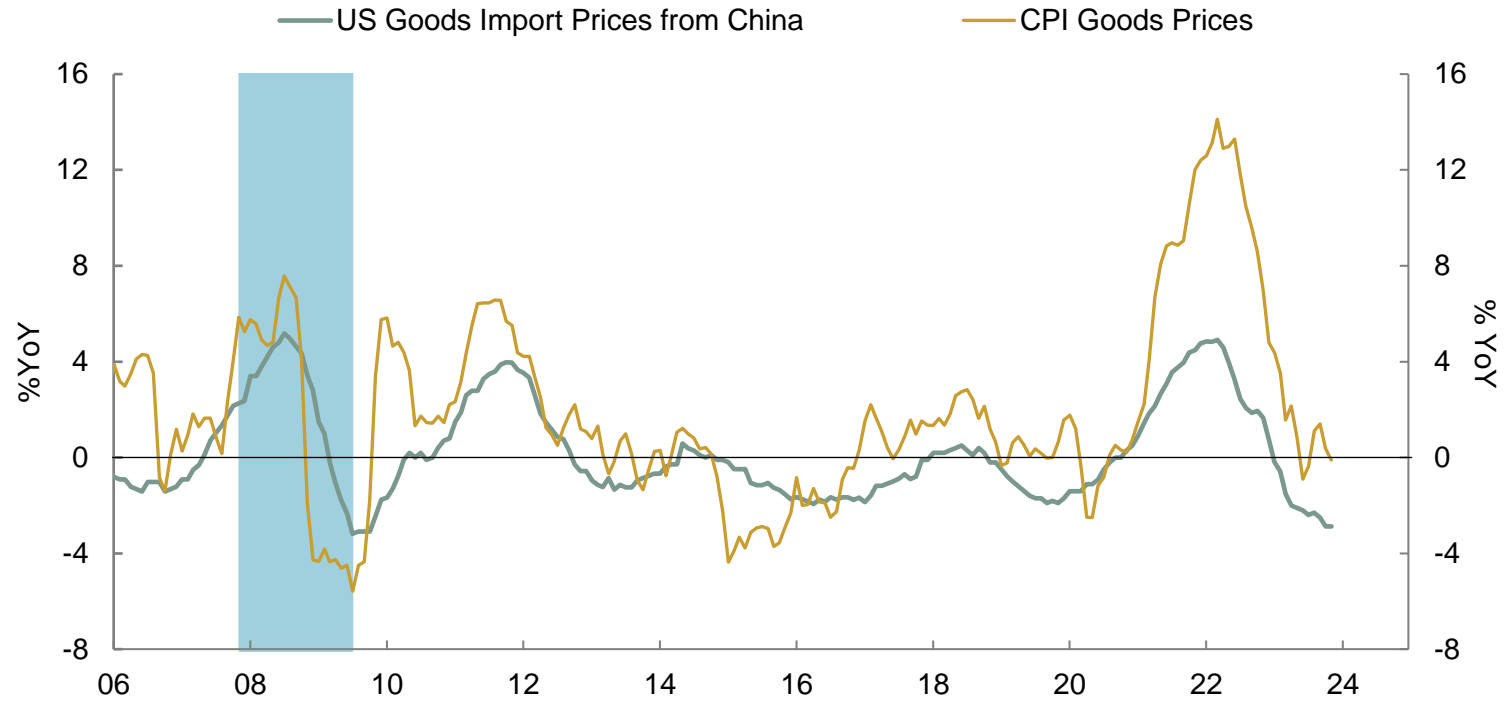
# Declining Quits Signals Lower Wage Costs

The quits rate is back to pre-pandemic levels.



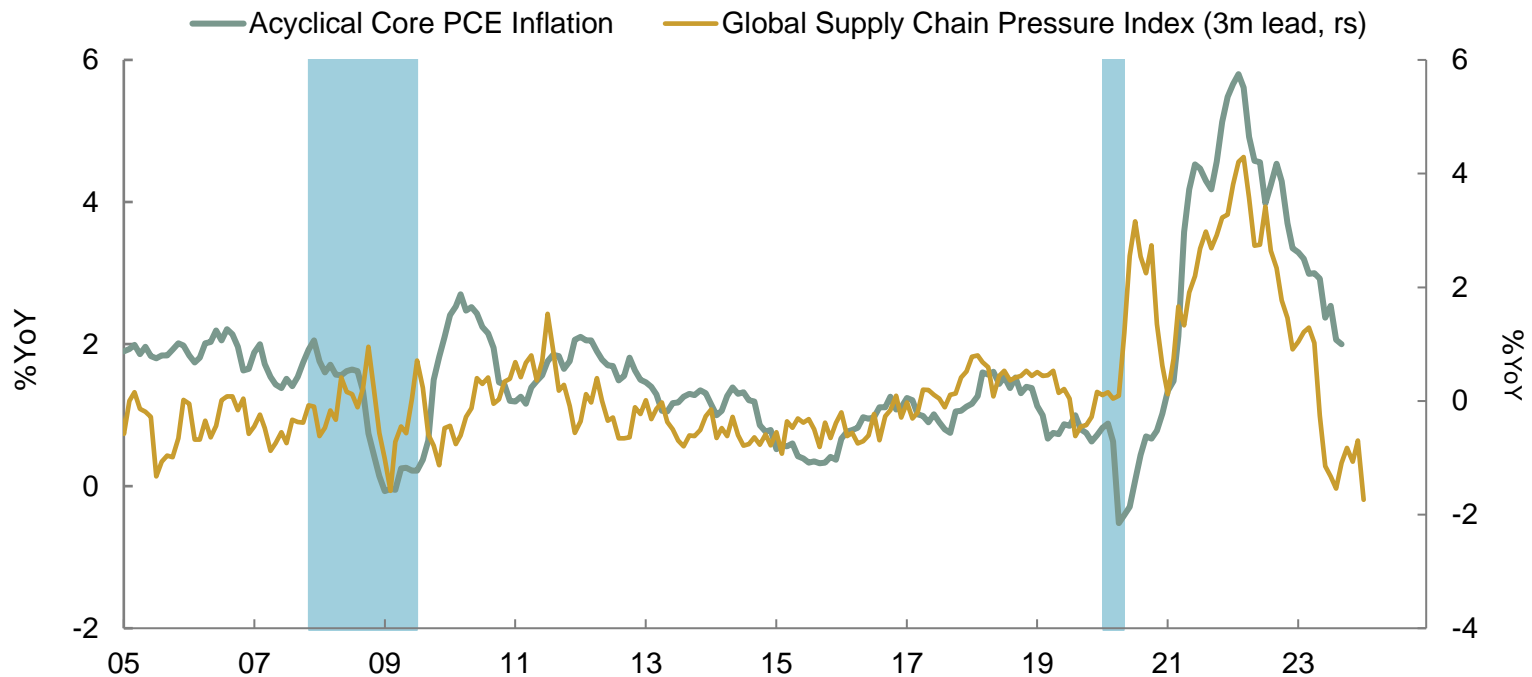
# Inflation – Goods Prices vs. Import Prices

China is exporting deflation.



# Receding Acyclical Inflation

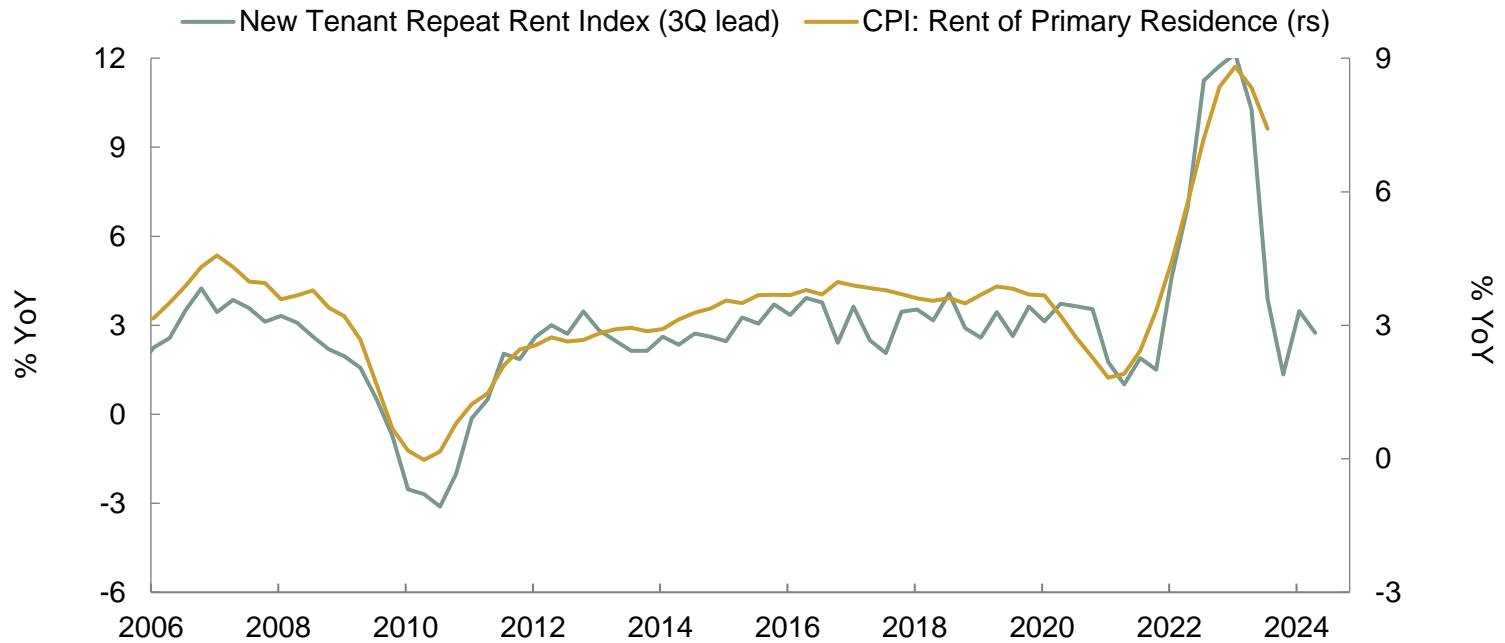
There are no bottlenecks in the global supply chain.





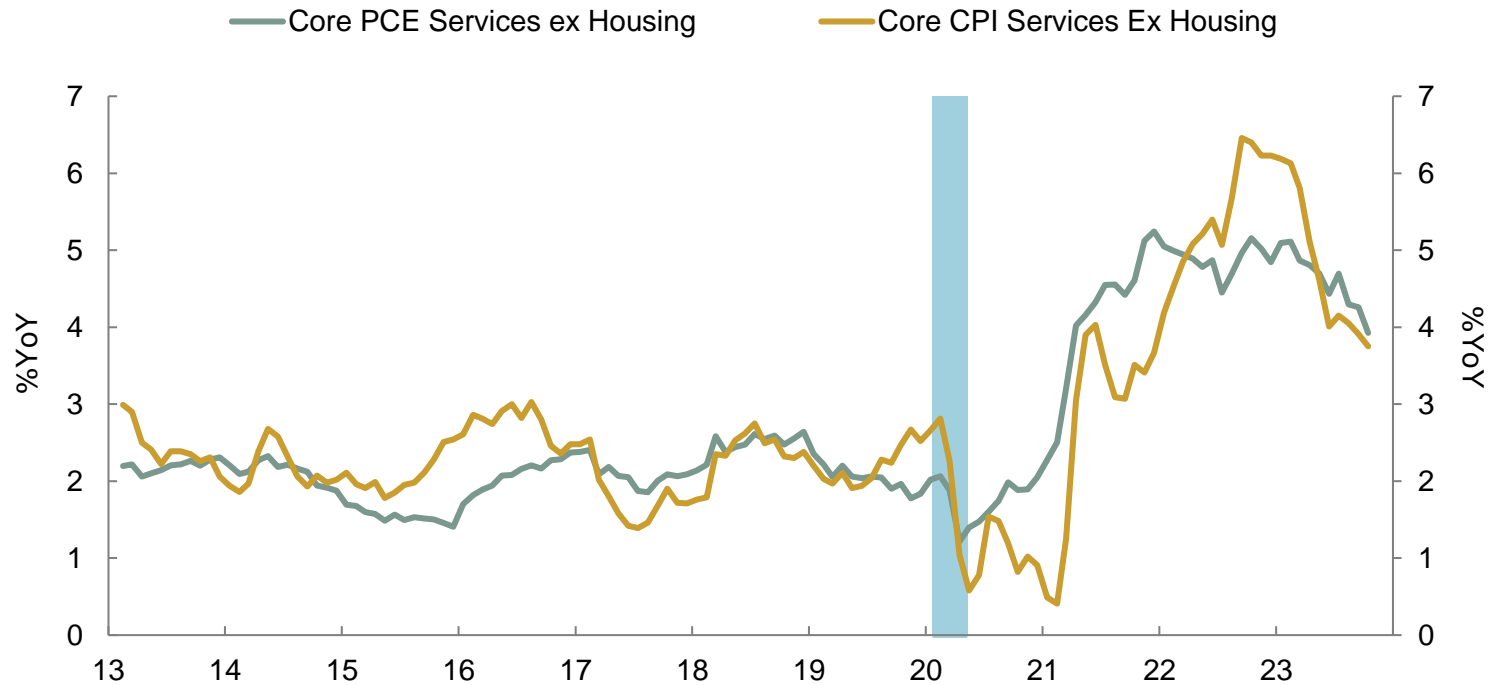
# Rent Relief Coming

Rental inflation is on the cusp of significant slowing.



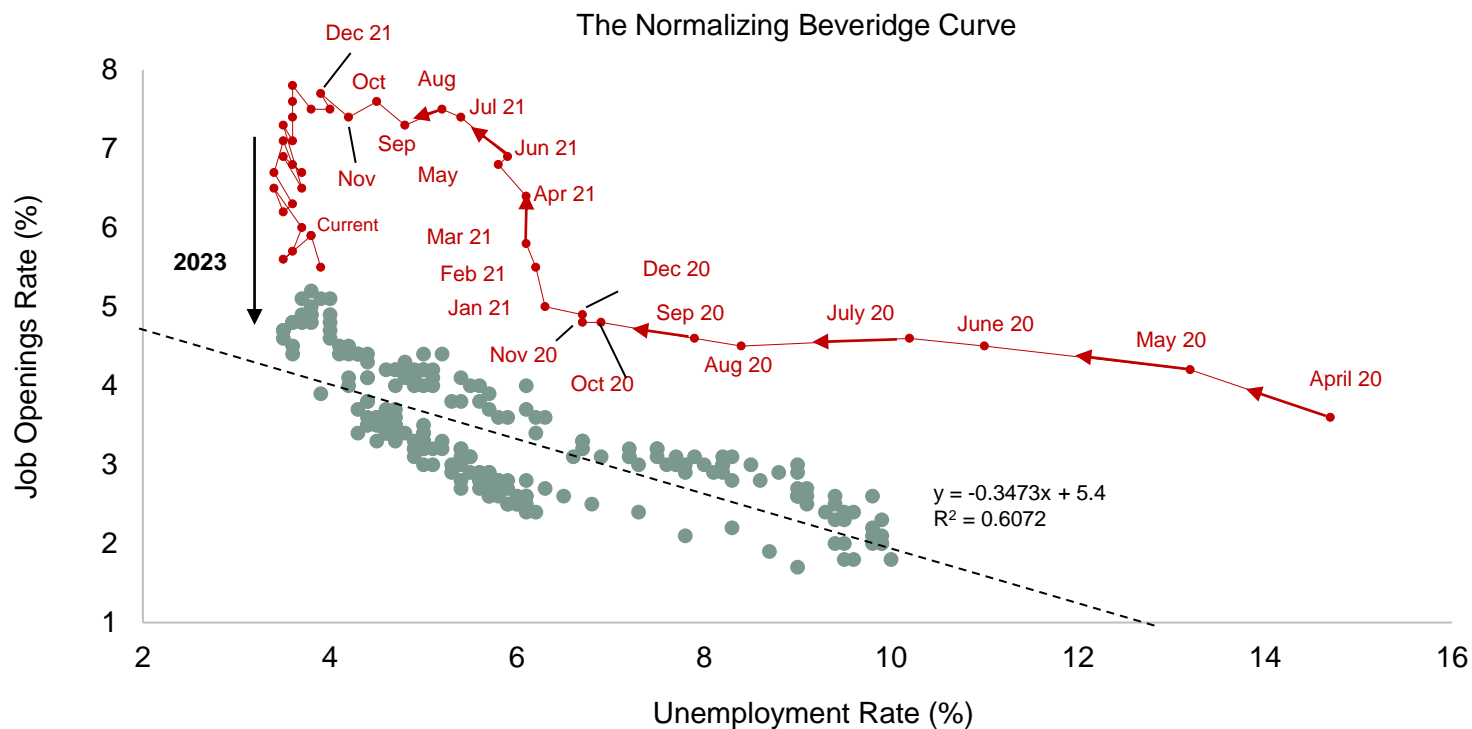
# Inflation – Core Services ex Housing

The “super core” is slowing.



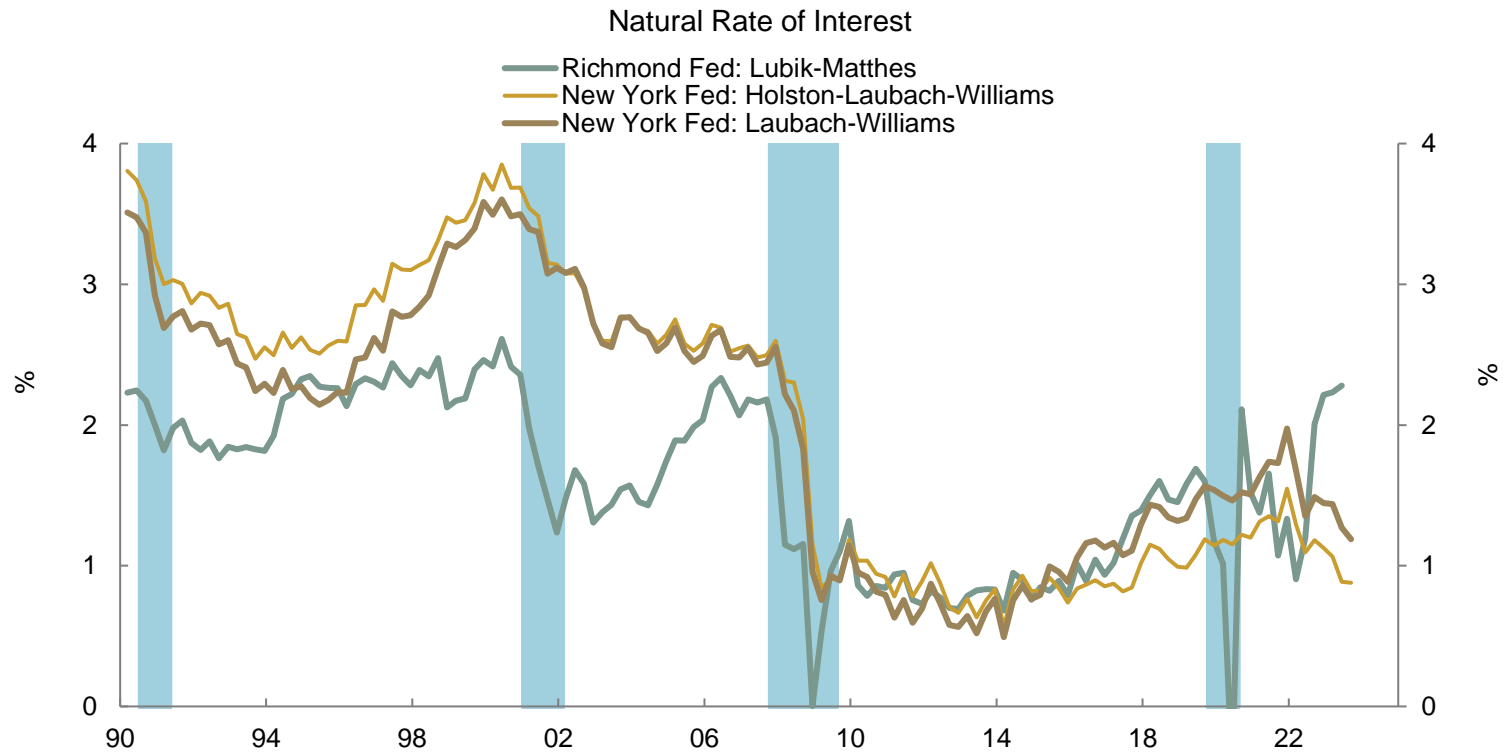
# Labor Market Normalizing

The labor market is retreating to its pre-pandemic trend.



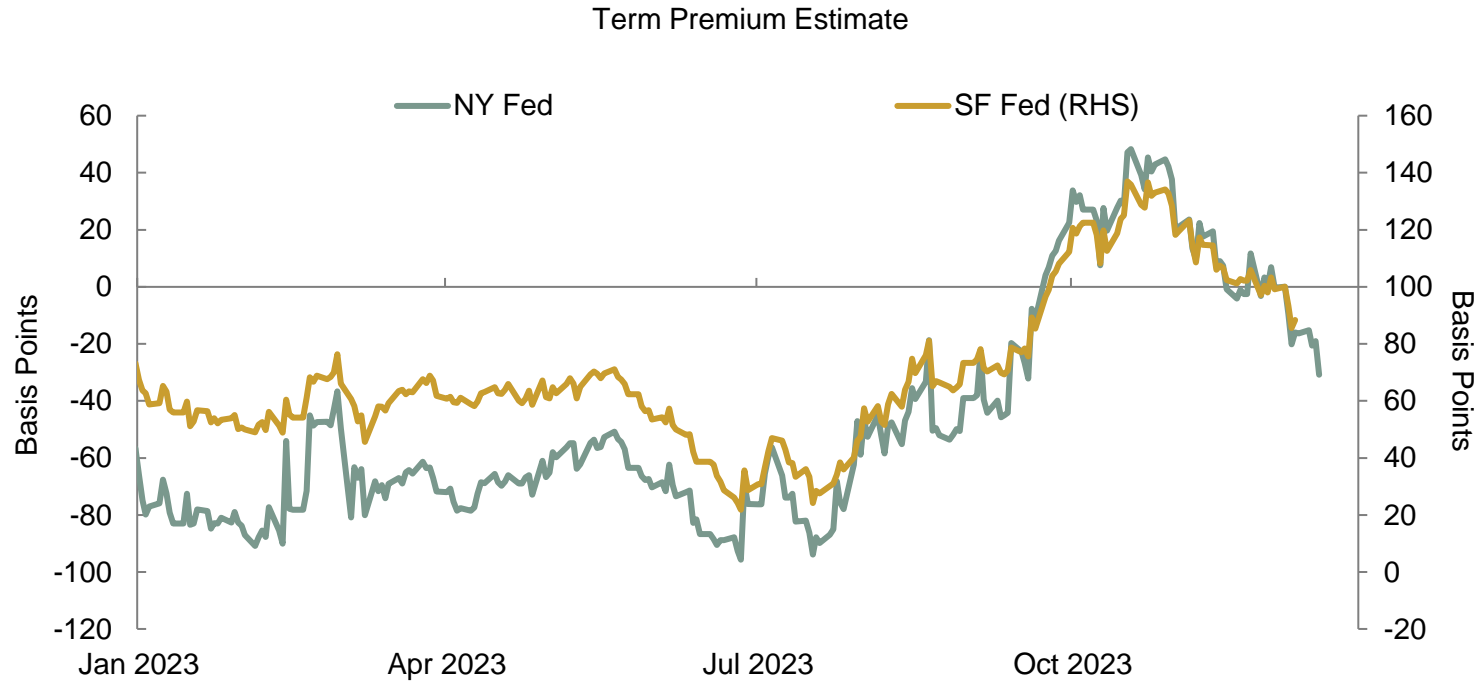
# Where is Neutral?

There are widely varying estimates of R-Star.



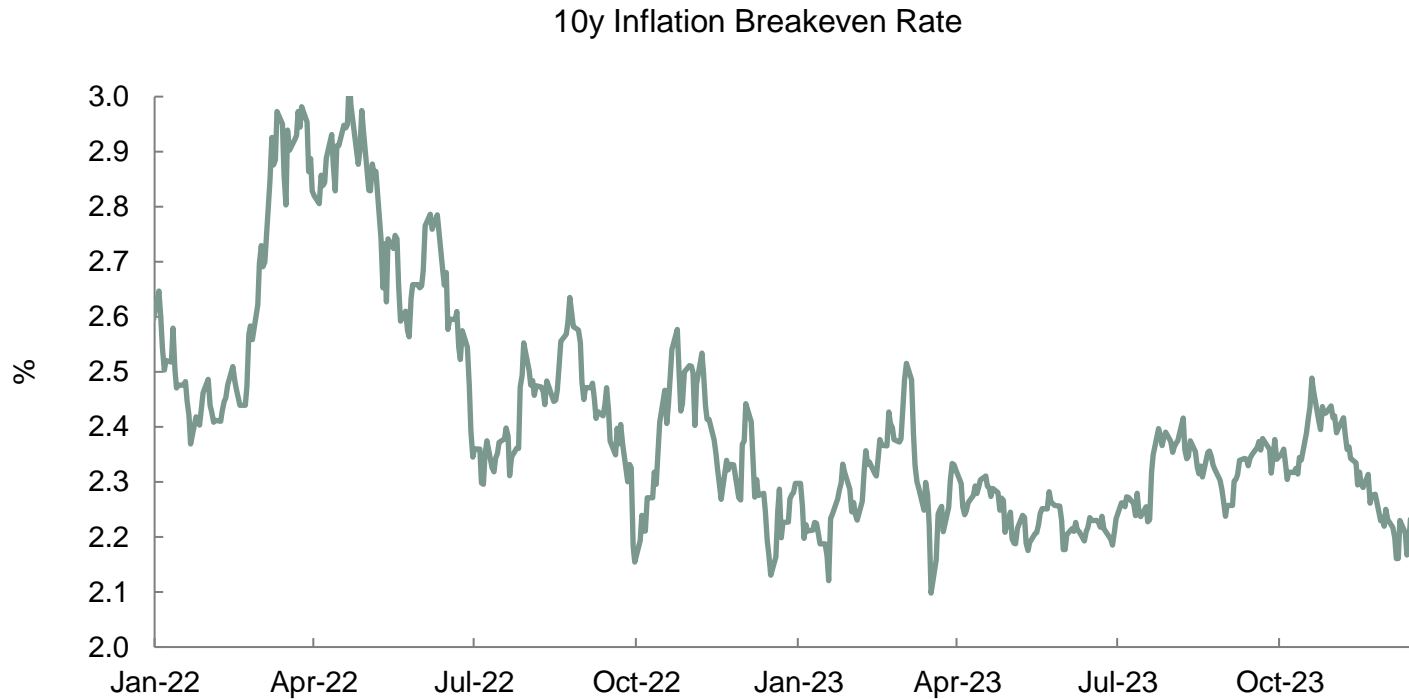
# Whither Term Premium?

The inverted yield curve has distorted estimates of the term premium.



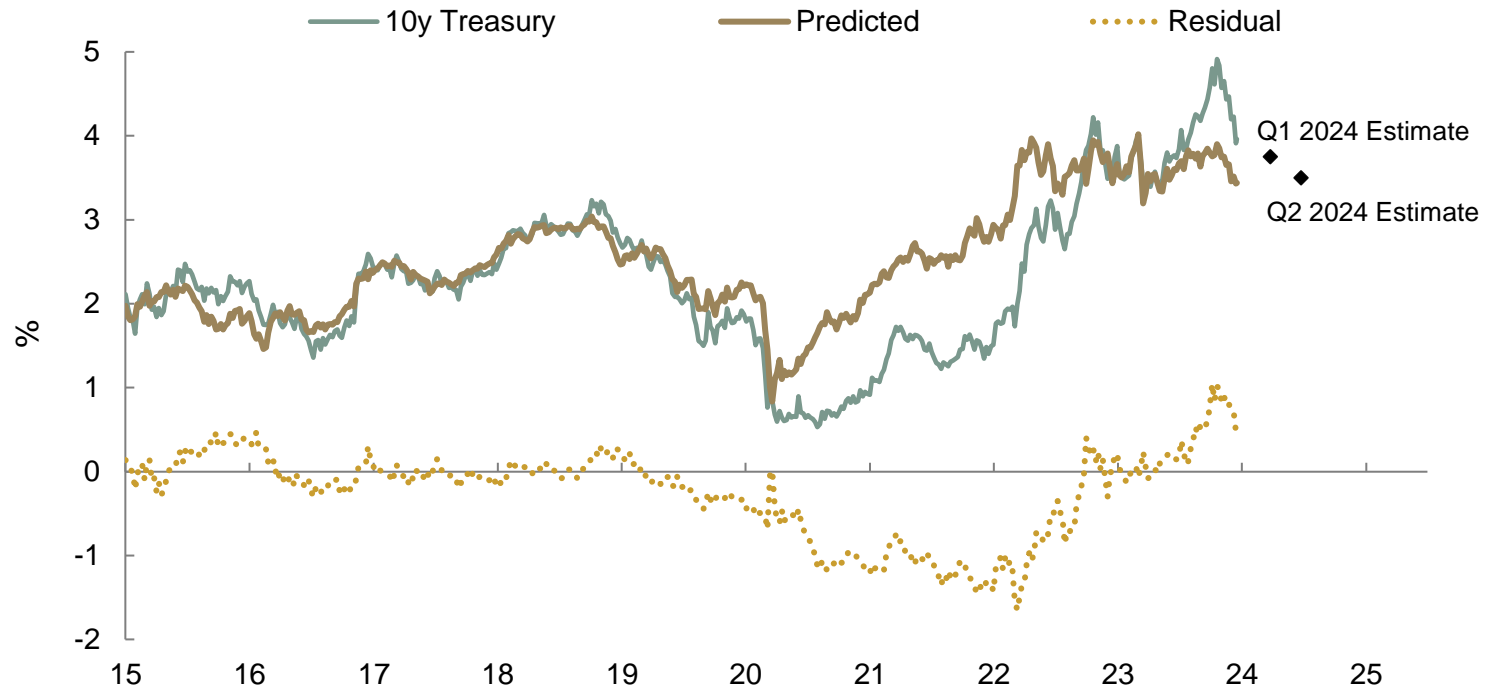
# Stable Inflation Expectations

The bond market remains sanguine on inflation.



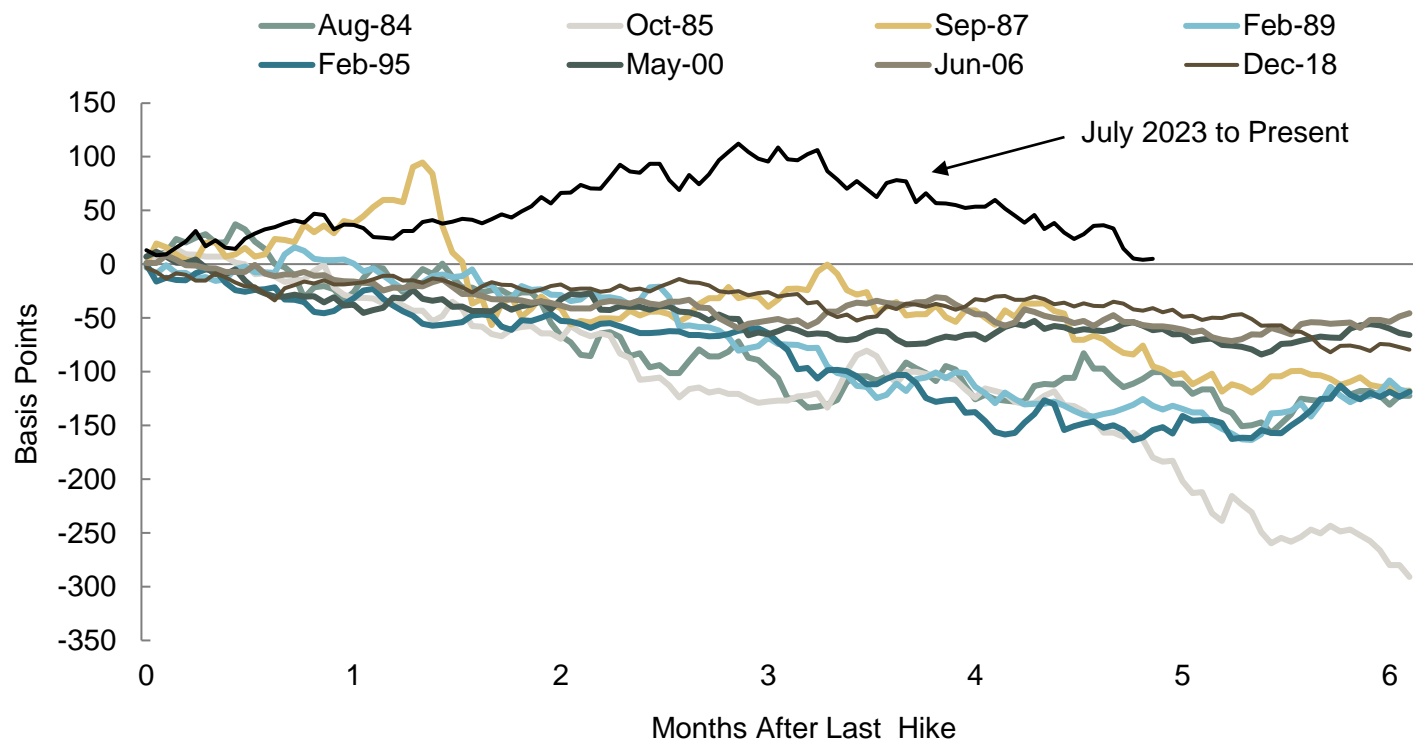
# Whither Fair Value?

The 10-year treasury note is oversold.



# Big Rally But Not Yet

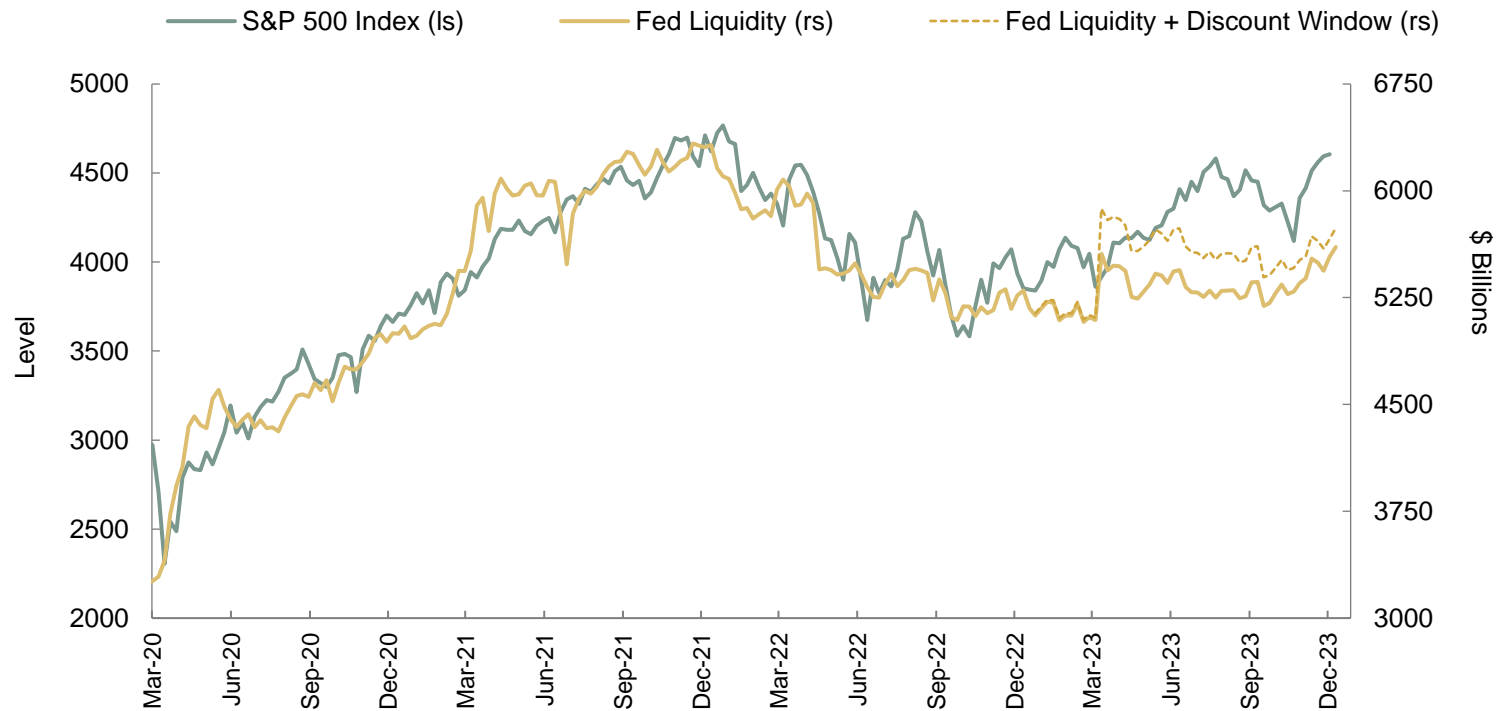
When the Fed is done tightening the yield on the 10-year note falls about 100 basis points within six months.





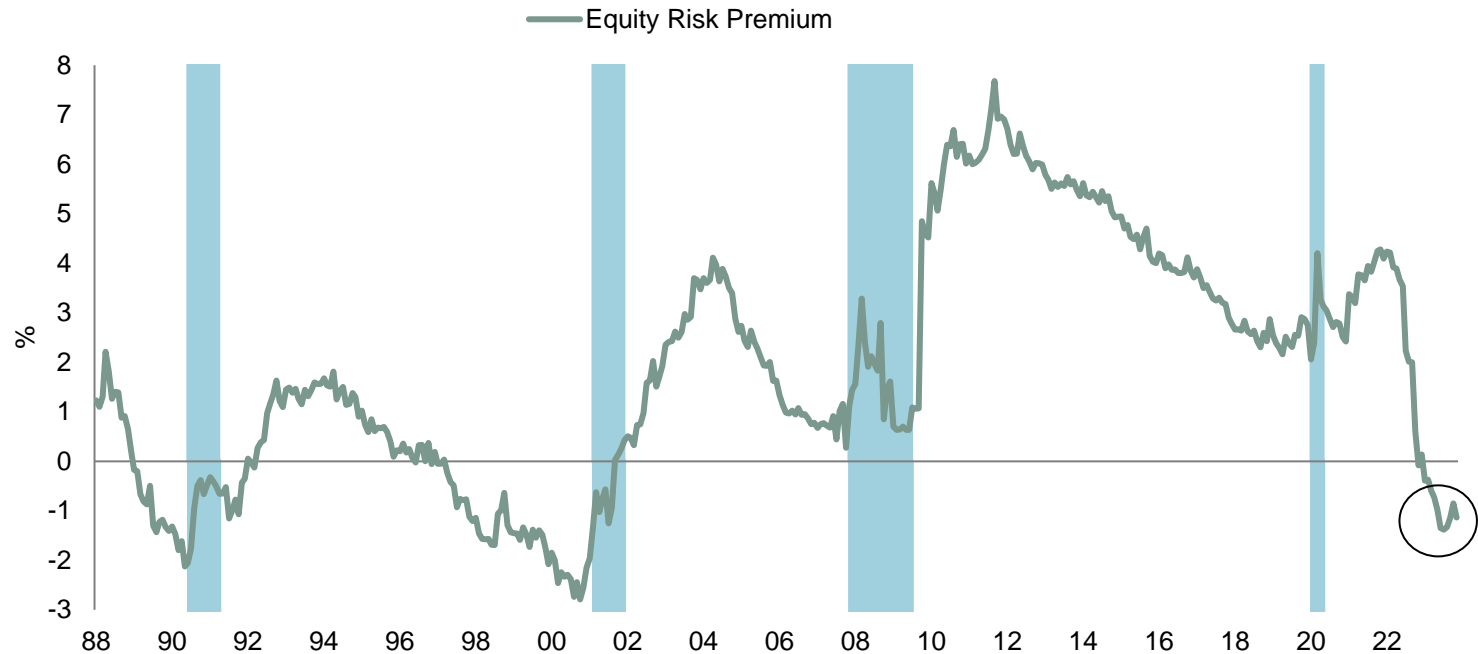
# Fellow Travelers

Stocks generally move with the trend in liquidity.



# Negative Equity Risk Premium

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



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