

WEBINAR

FORVIS

Economic Update: Latest Trends, Forecasts, & Market Outlook

September 7, 2022

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Introduction

WEBINAR



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FORVIS

The Great Slowdown...Or.....



Eric Kelley

Dir. of Investment Research
UMB Bank

Securities and Insurance products are:

Not FDIC Insured • No Bank Guarantee • Not a Deposit • Not Insured by any Government Agency • May Lose Value

The Great Mixed Bag

Eric Kelley

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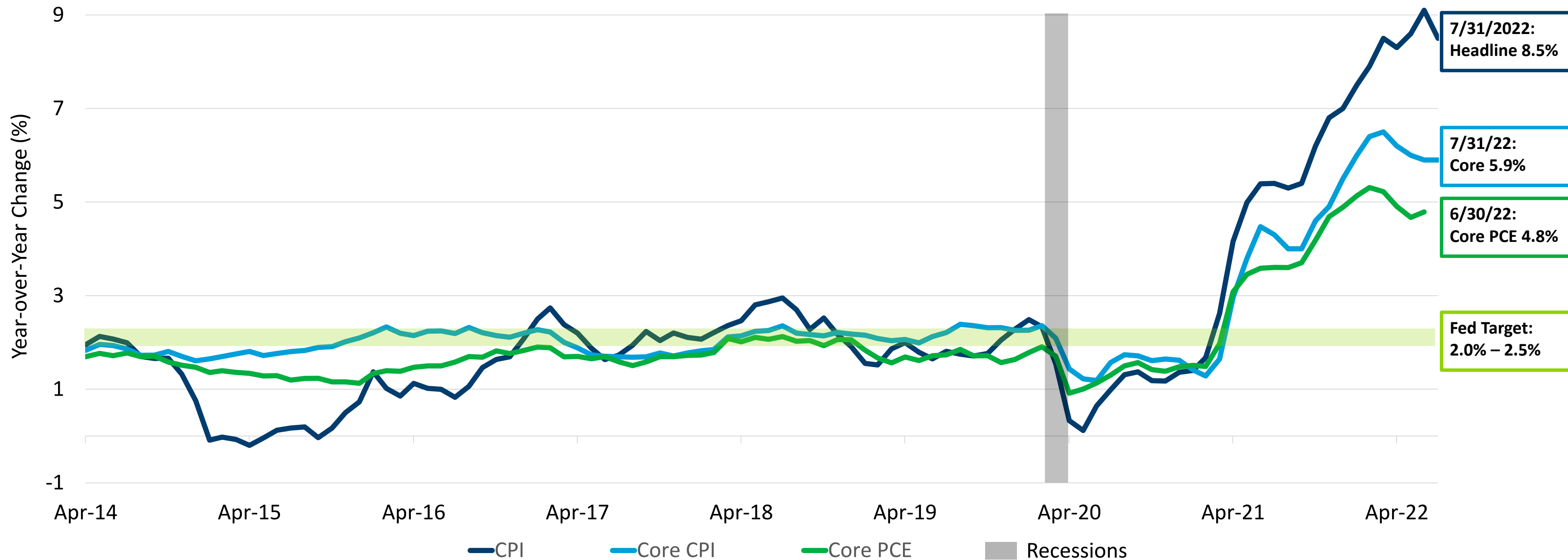


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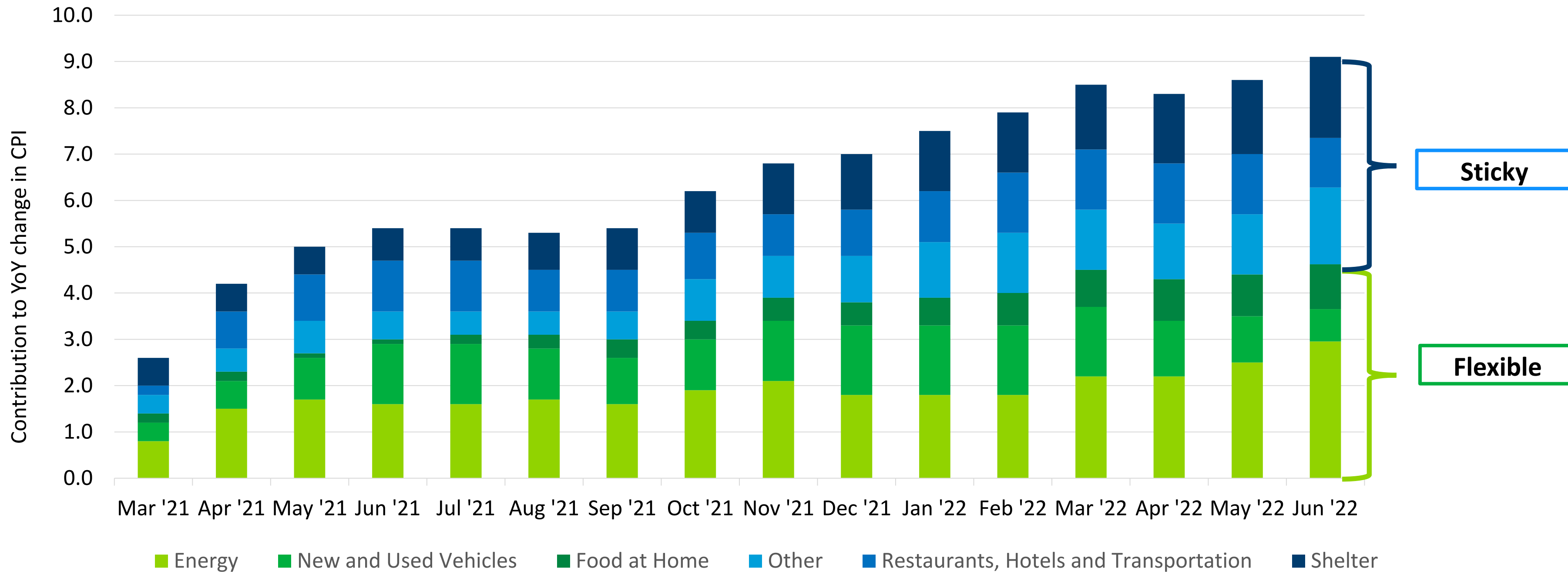
- The Great Slowdown (Mixed Bag)
 - Recession Indicators
 - Inflation
 - Federal Reserve/Interest Rates
- Financial Markets
- Forecasts
- Questions

Inflation Spike



Source: Bloomberg

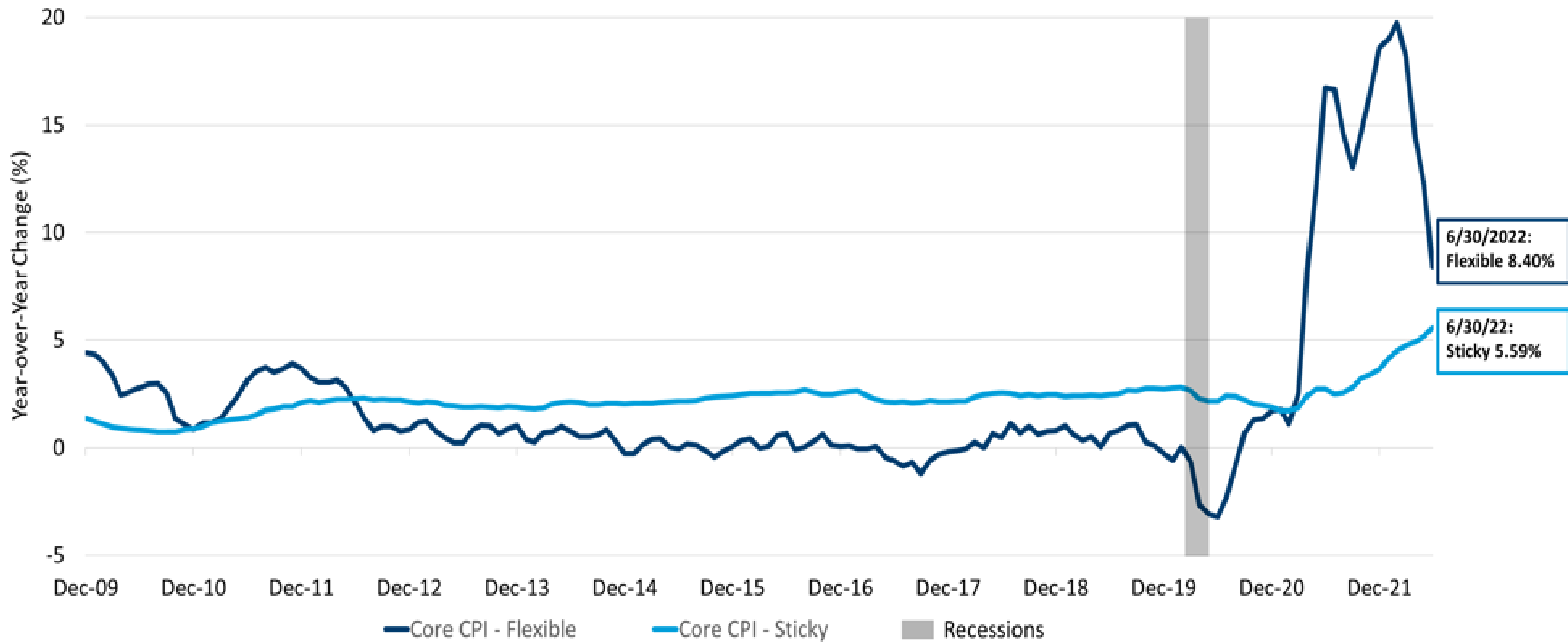
Inflation Drivers



Source: BLS

Turmoil: Inflation

Sticky vs Flexible Inflation

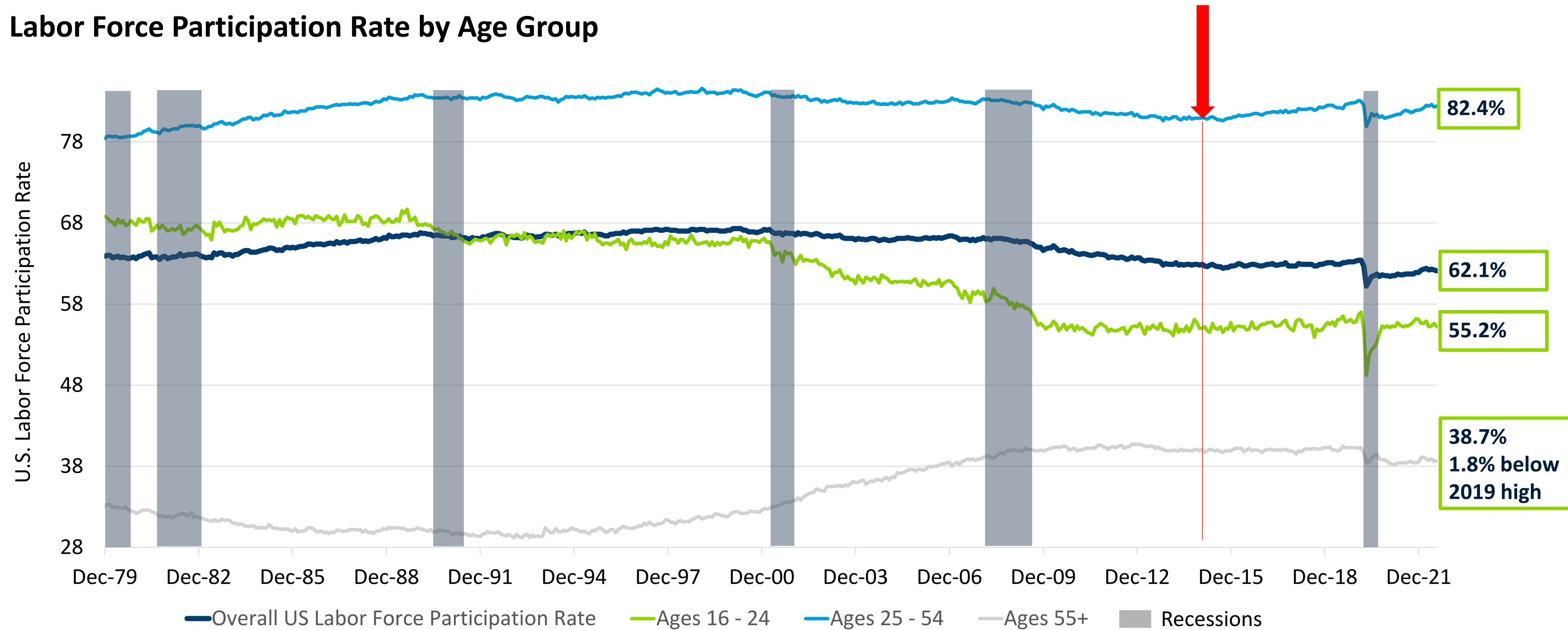


Source: Bloomberg

Recession: Labor Market

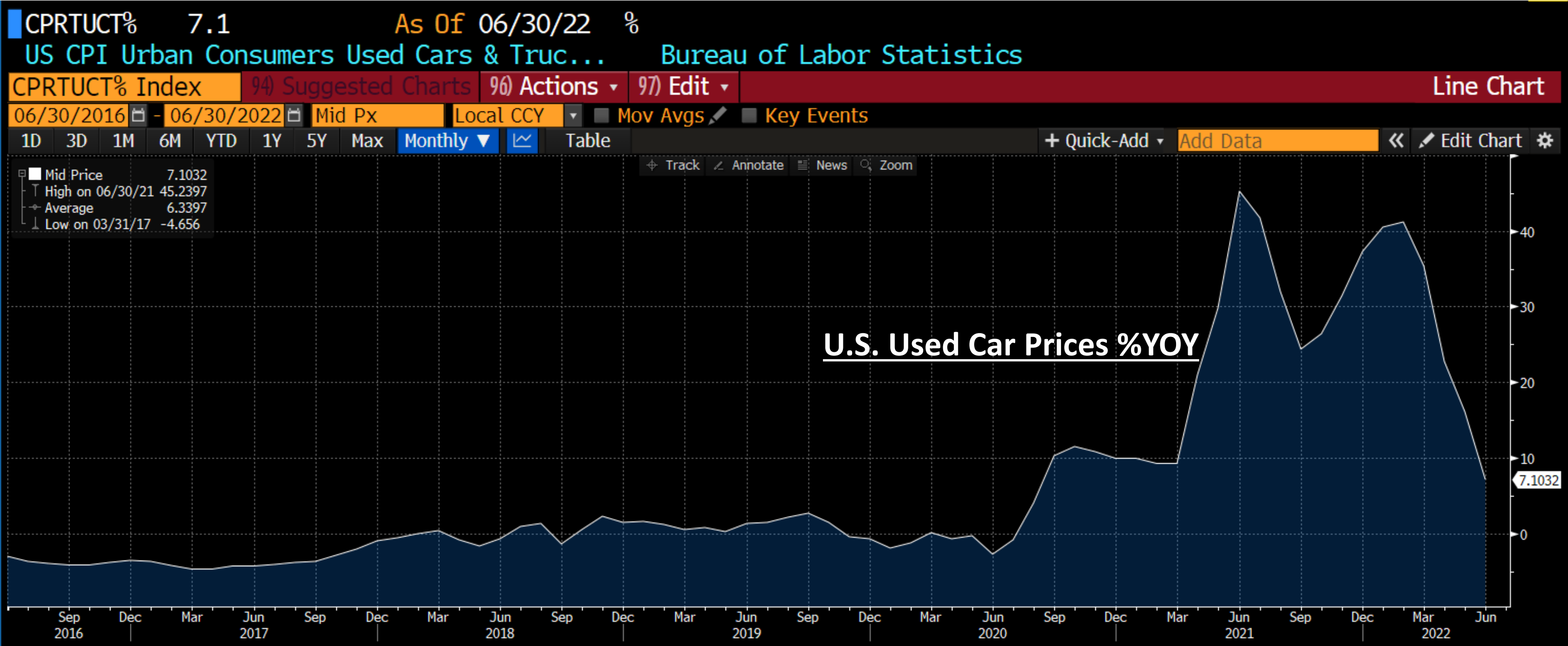


Labor Force Participation Rate by Age Group

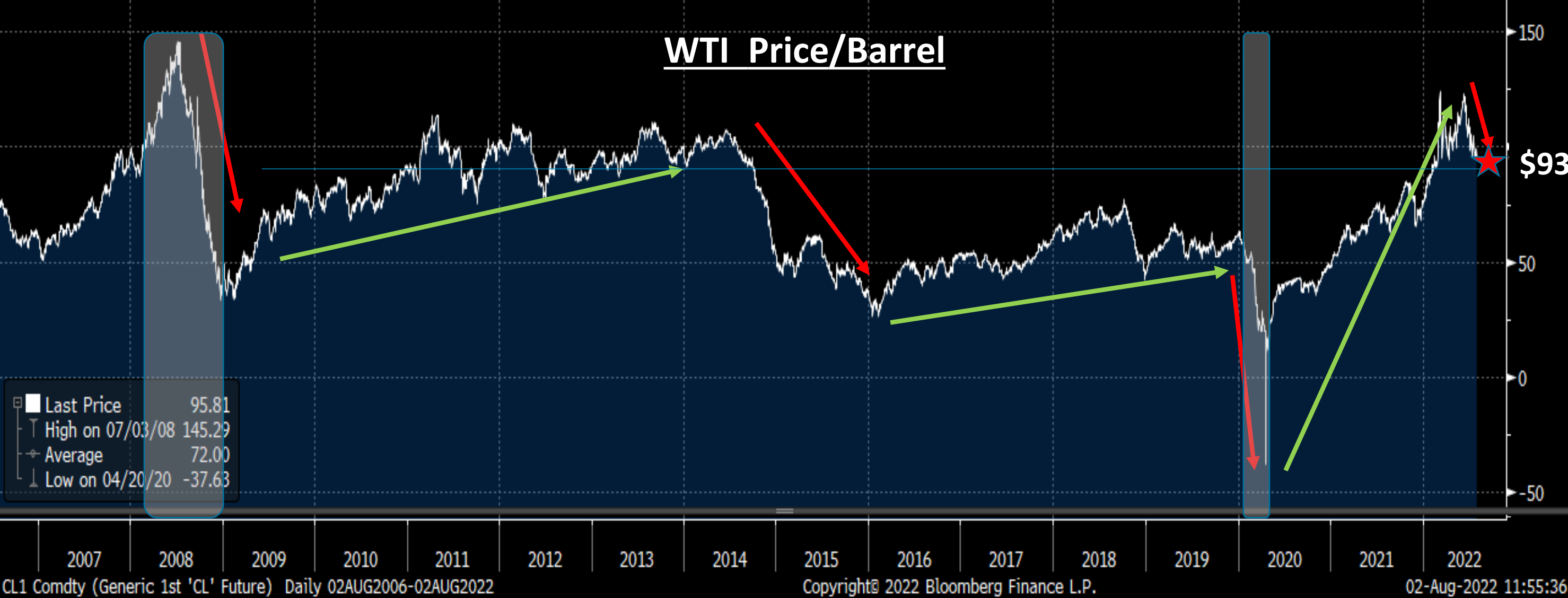


Source: Bloomberg

Inflation: Some Signs of Cooling – Used Cars

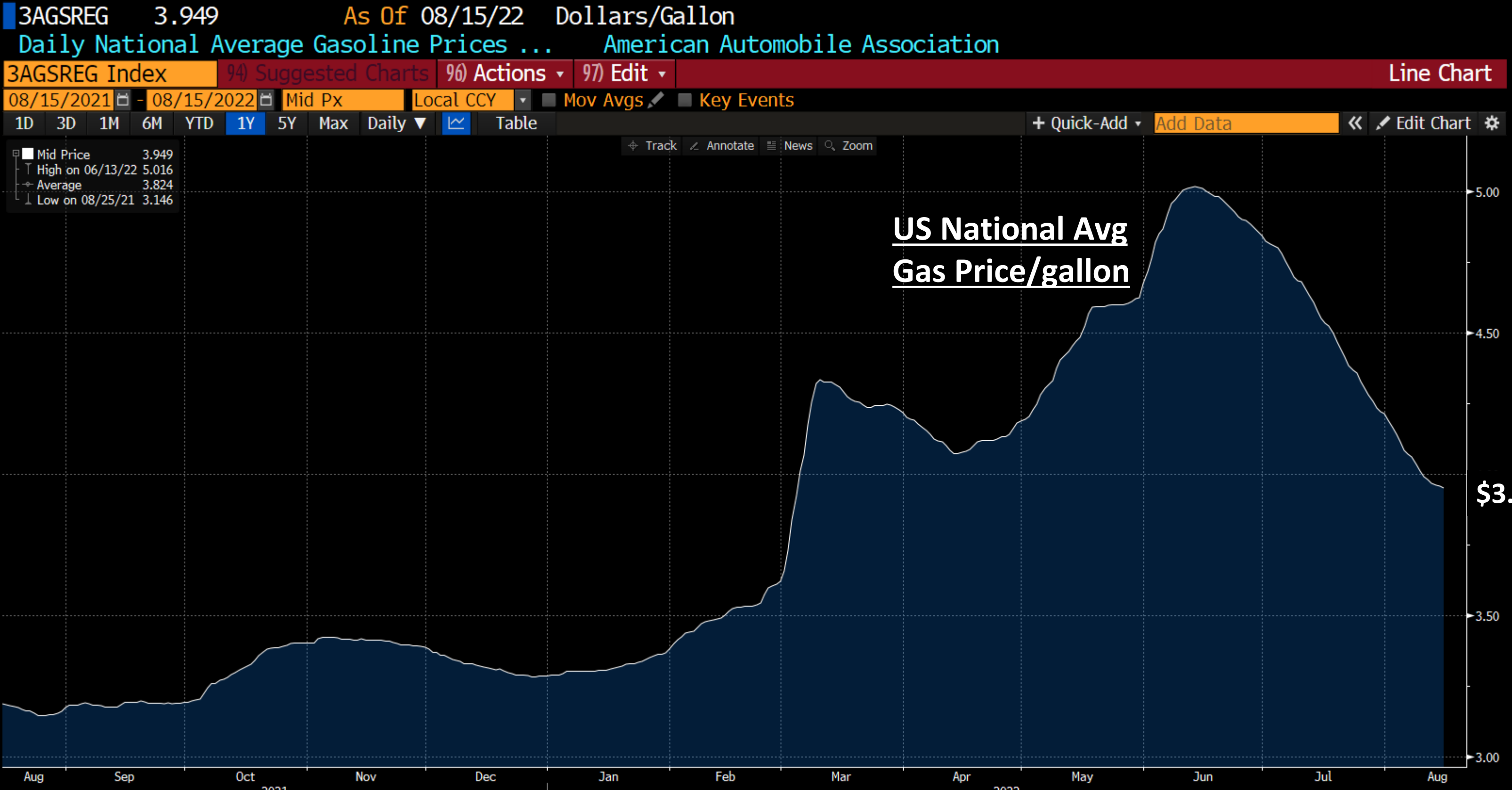


Energy Cycle – Historically Boom/Bust



Recessions

Inflation: Some Signs of Cooling



Inflation: Some Signs of Cooling



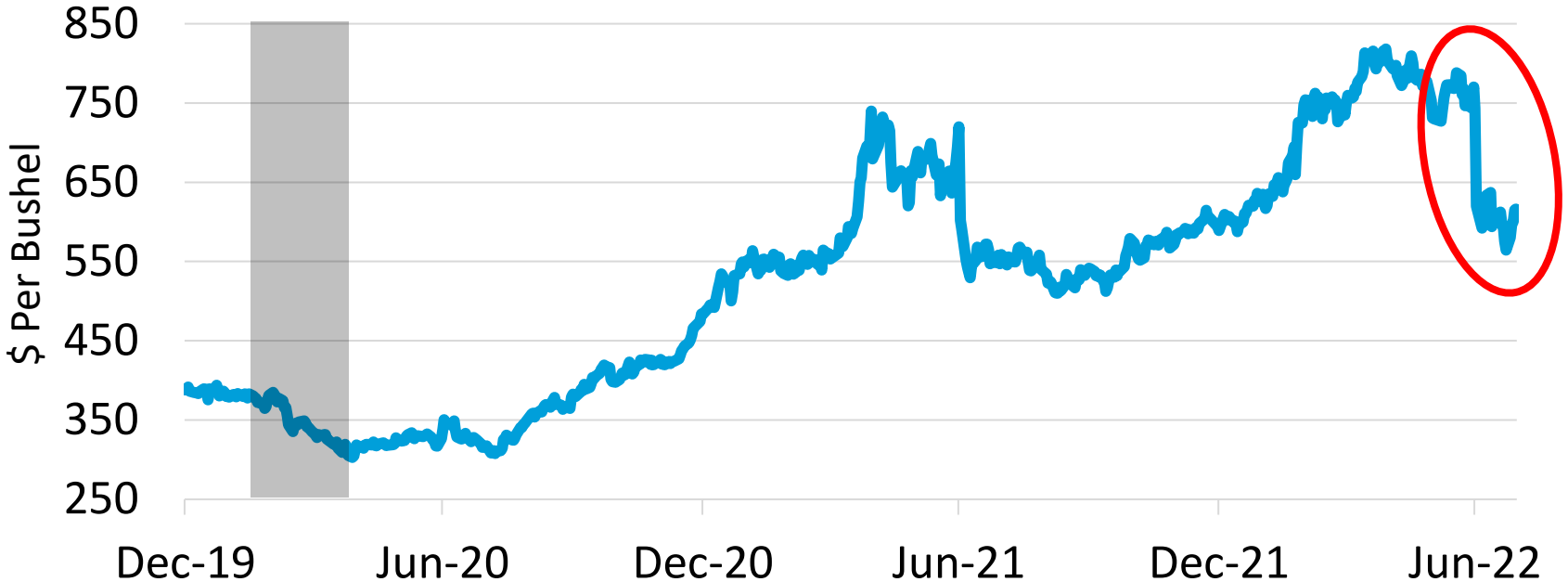
Commodities Hit a Peak



Copper



Corn



Natural Gas



Lumber

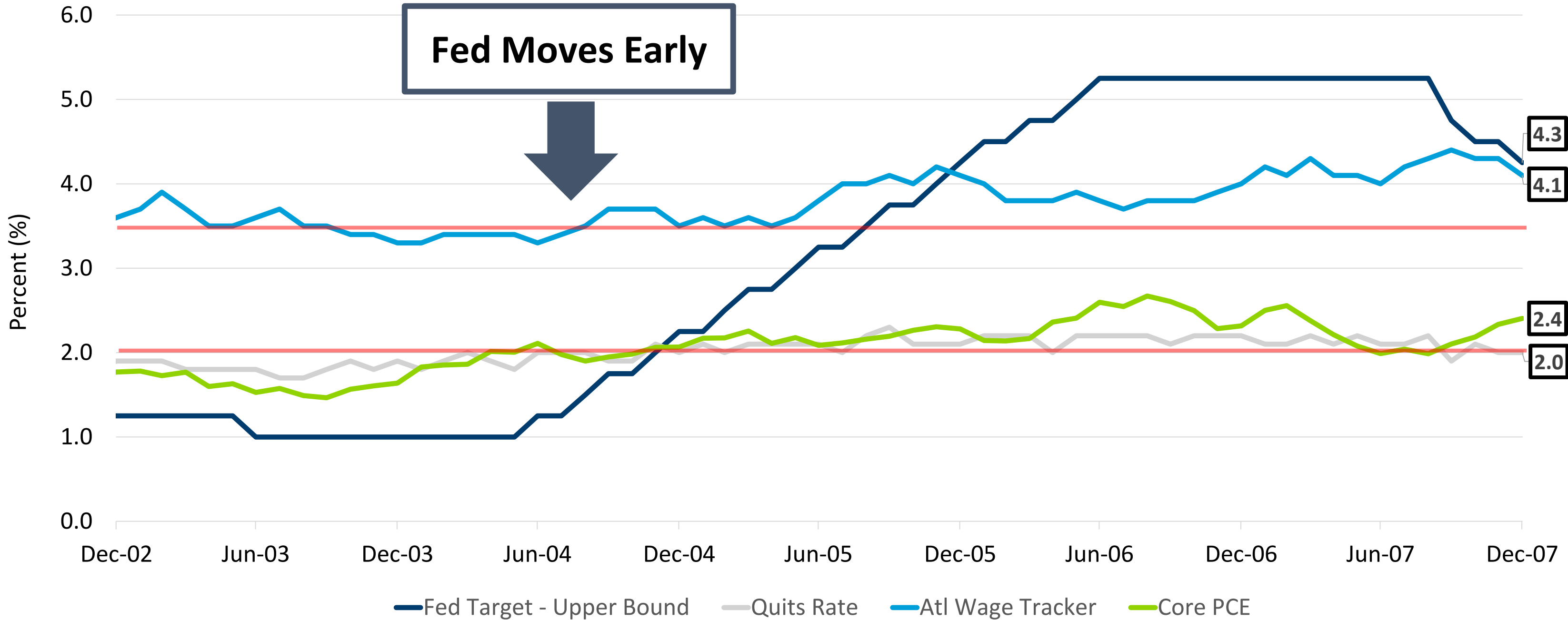


Source: Bloomberg

Fed Moves: Then vs Now



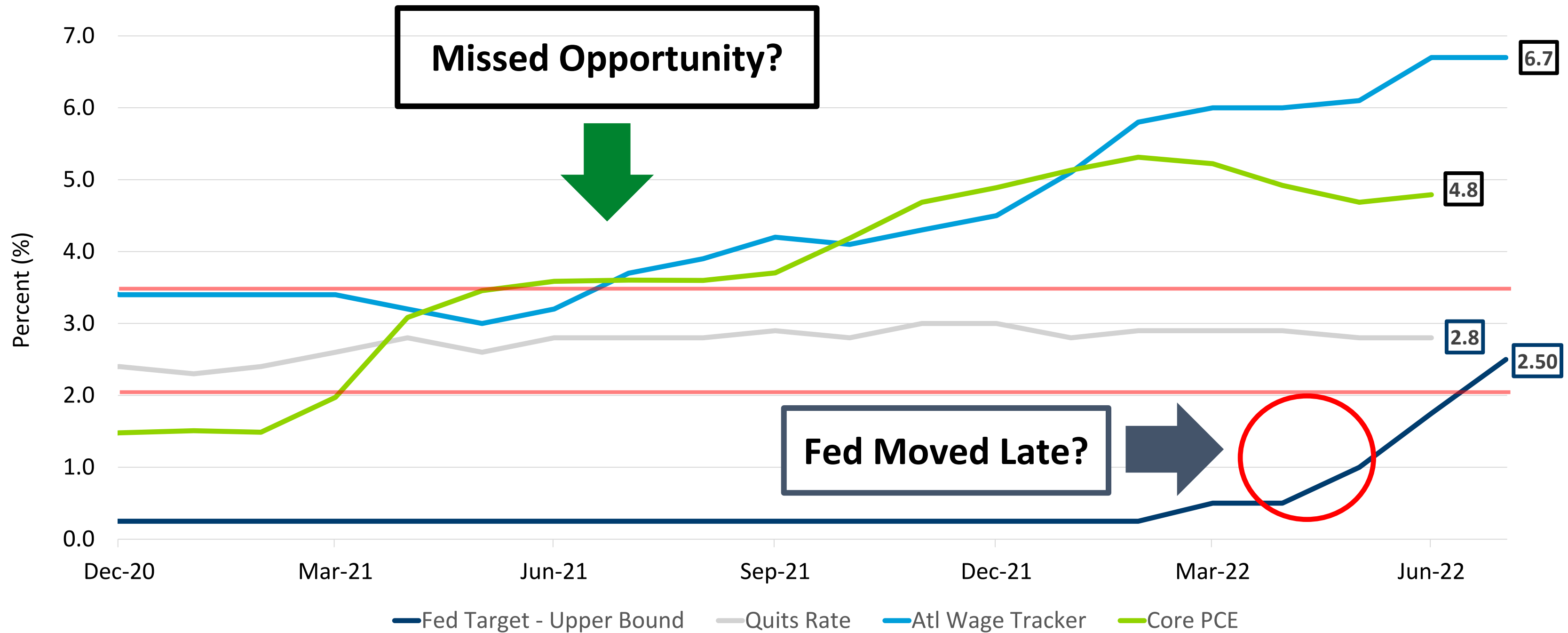
Fed Moves Higher to Slow PCE Increase



Source: Bloomberg

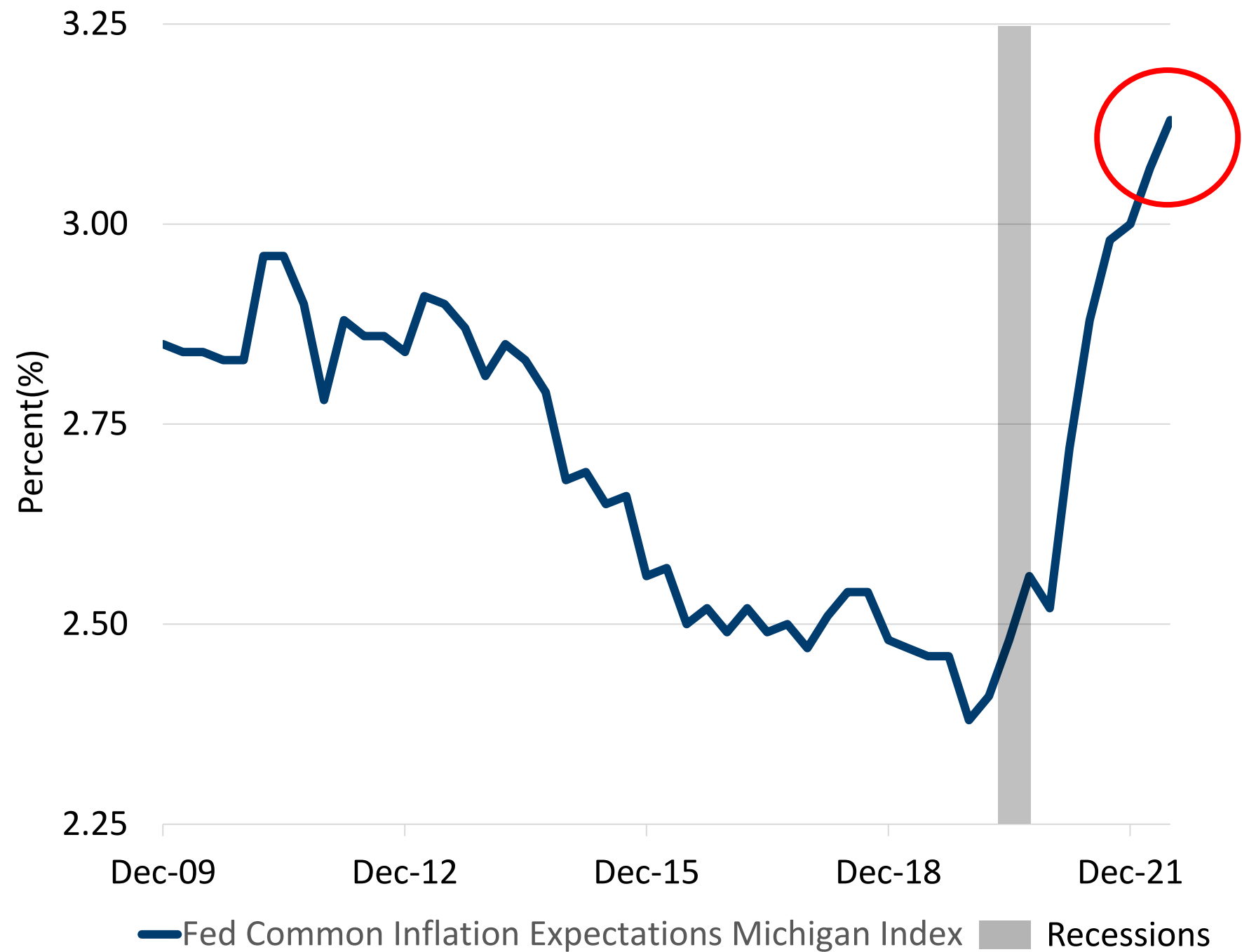
Fed Moves: Then vs Now

Fed Moved Late



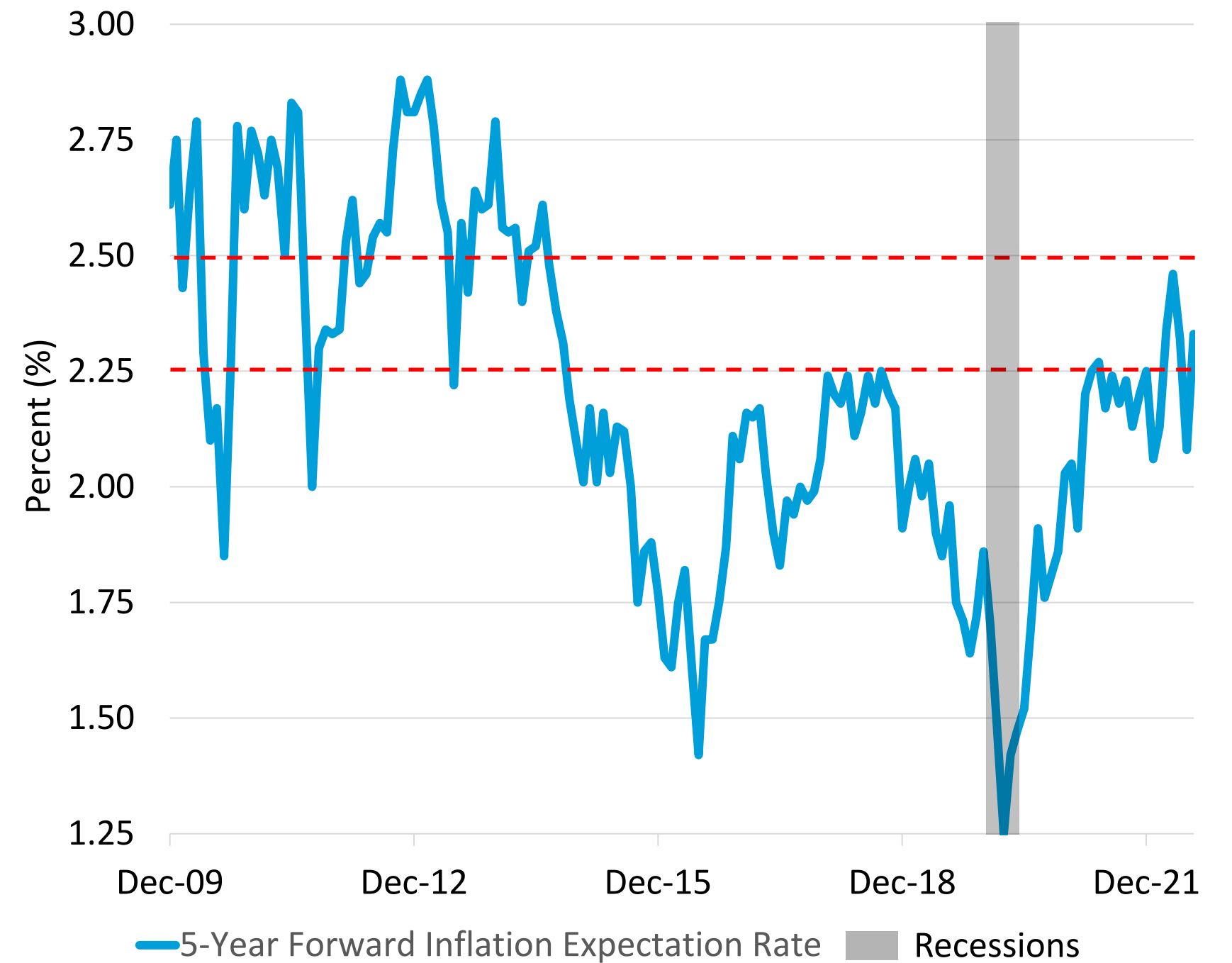
Inflation Expectations Not “Unanchored”

Consumers Getting Edgy



Source: Bloomberg

Still Anchored

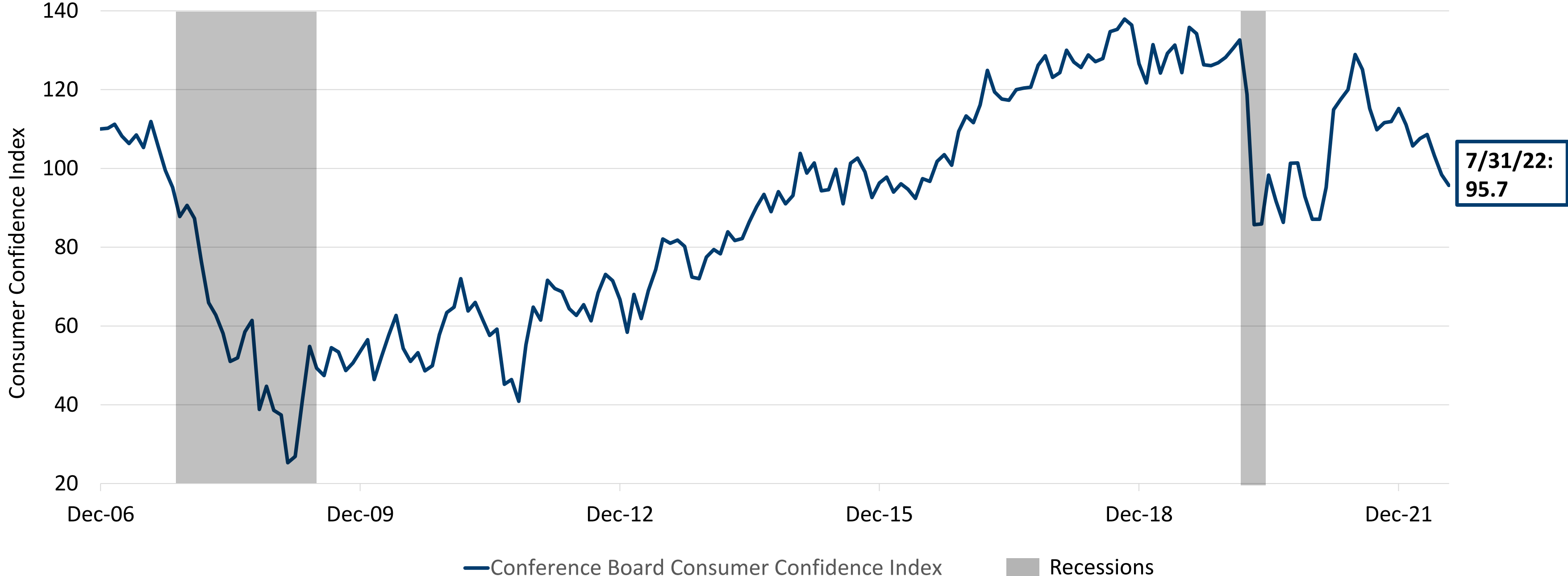


Source: Bloomberg

Consumer Confidence



Consumer Confidence

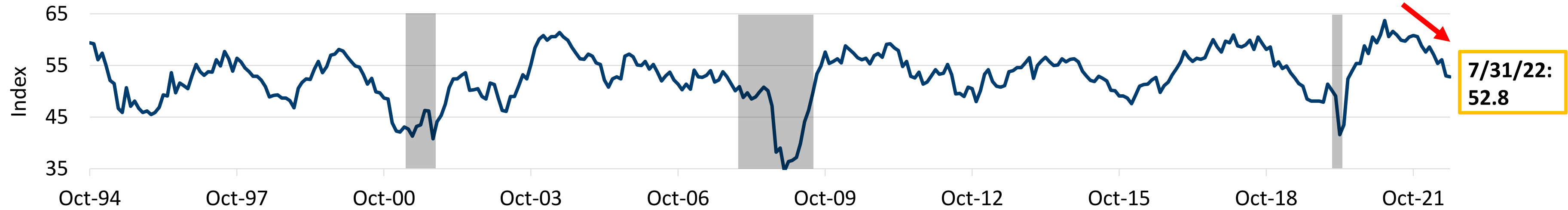


Source: Bloomberg

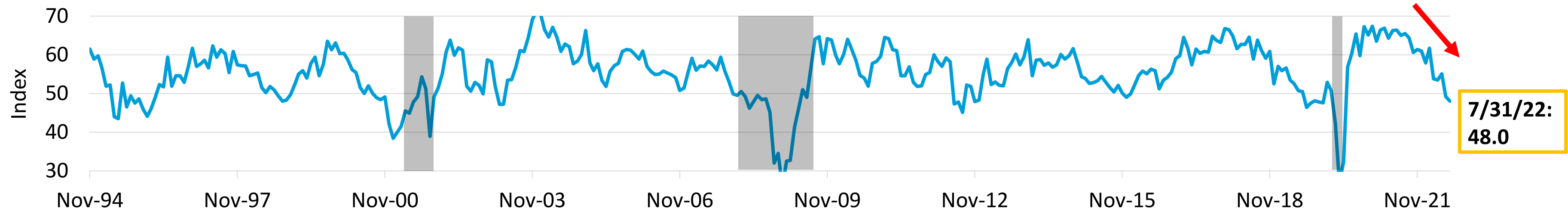
Manufacturing



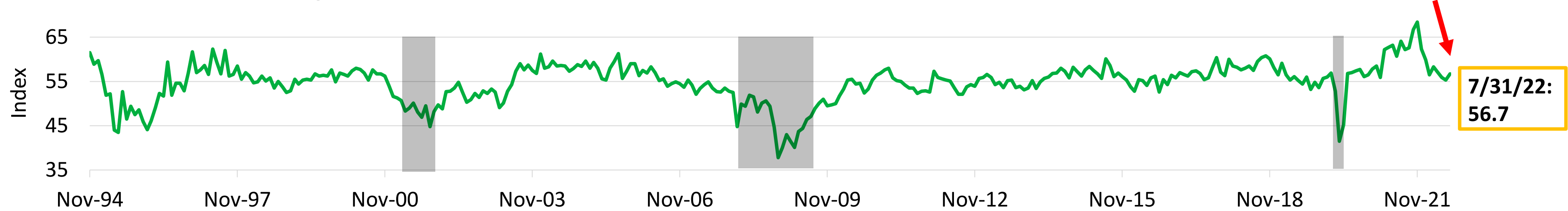
ISM Manufacturing Index



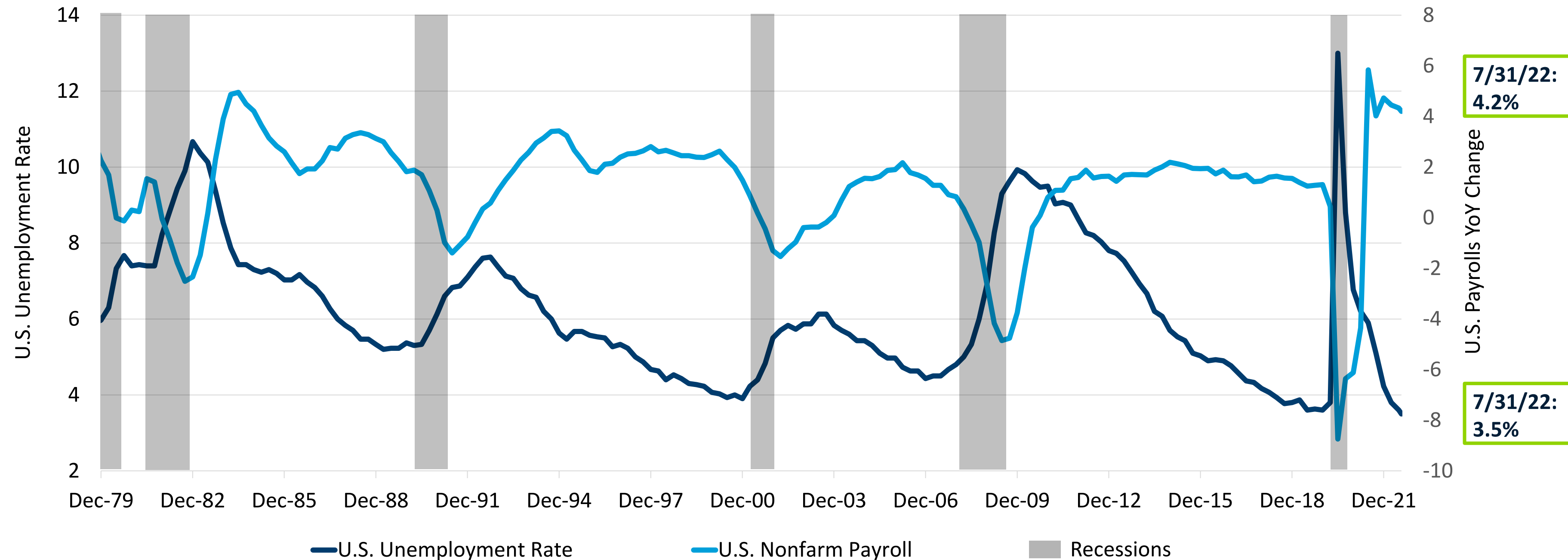
ISM New Orders Index



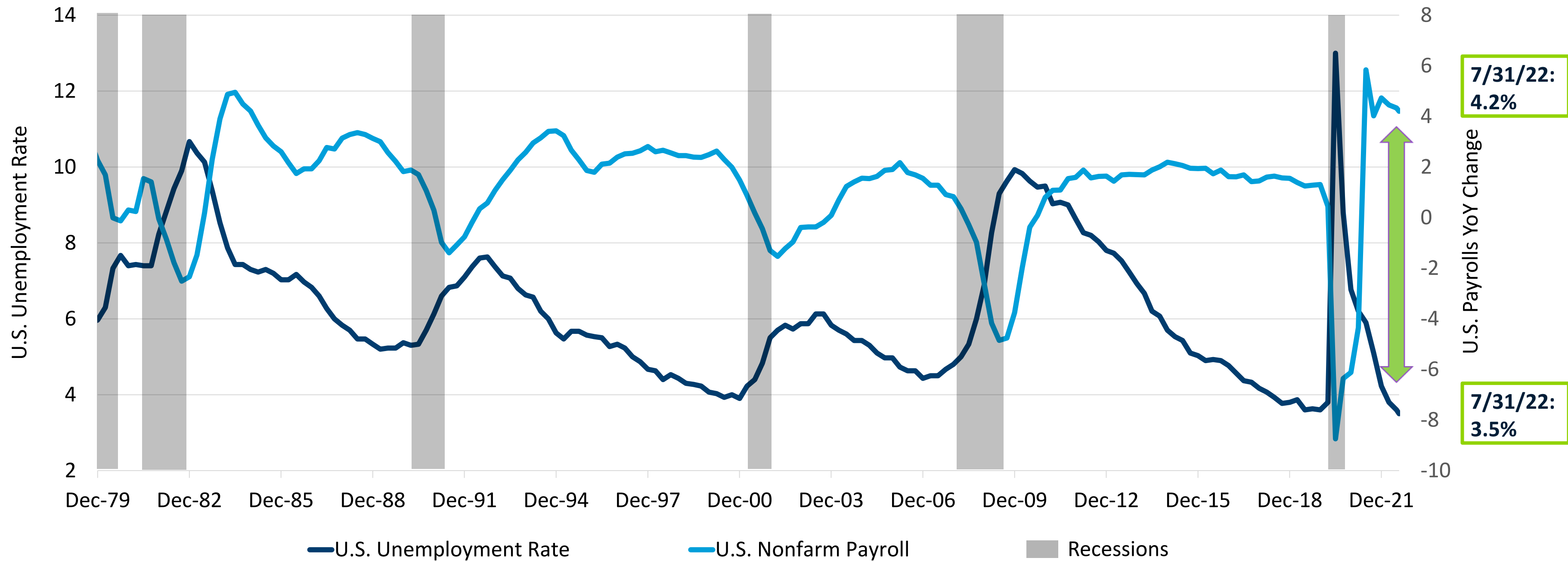
ISM Non-Manufacturing Index



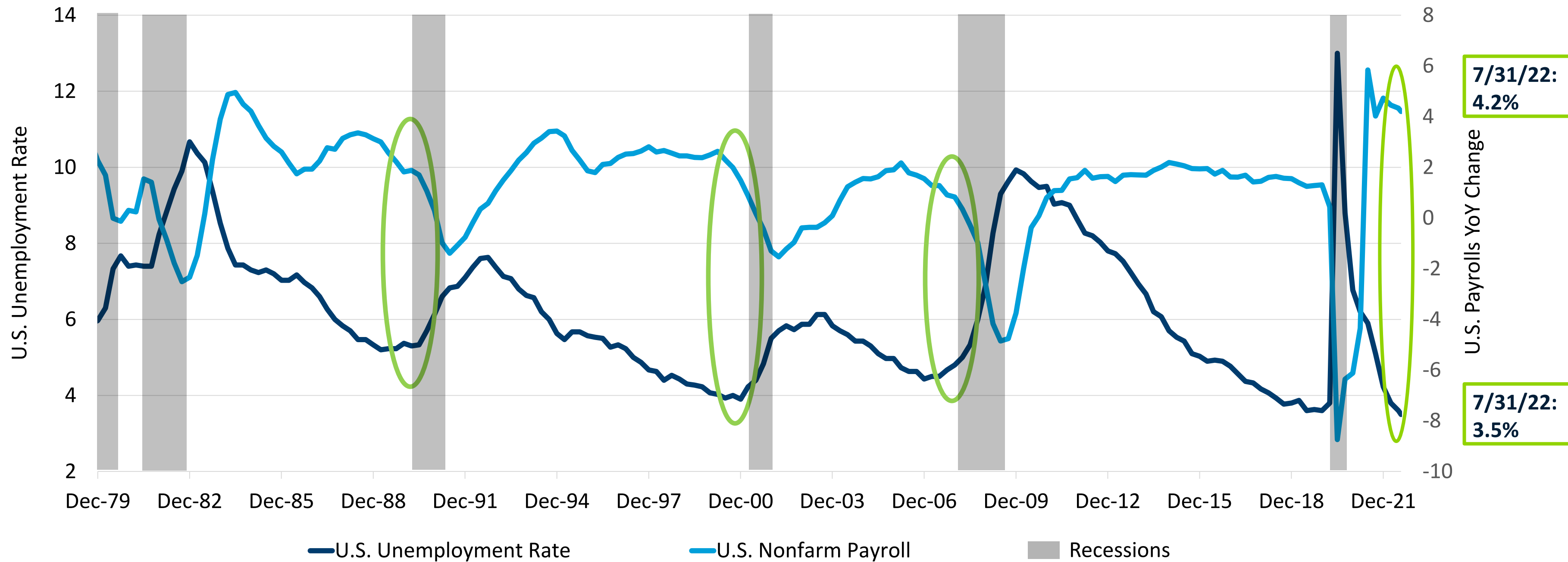
Both Unemployment and Payrolls Not Indicating Recession



Both Unemployment and Payrolls Not Indicating Recession

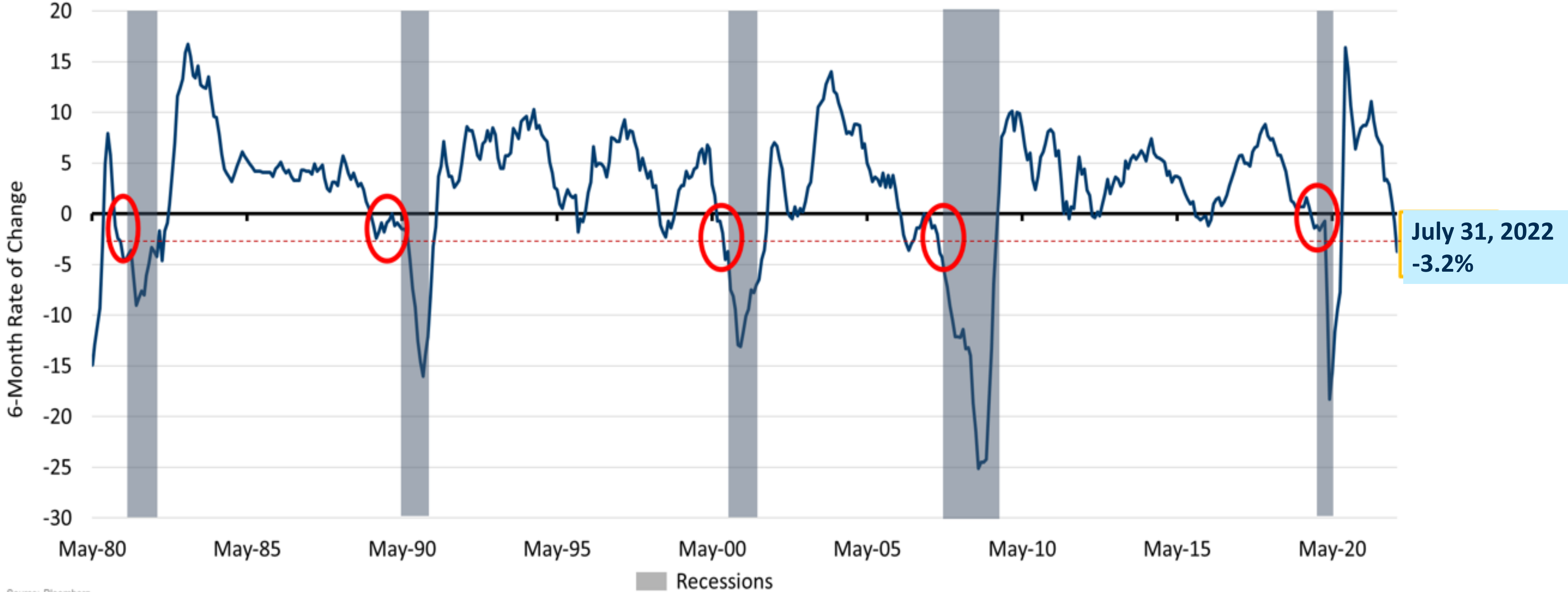


Both Unemployment and Payrolls Not Indicating Recession



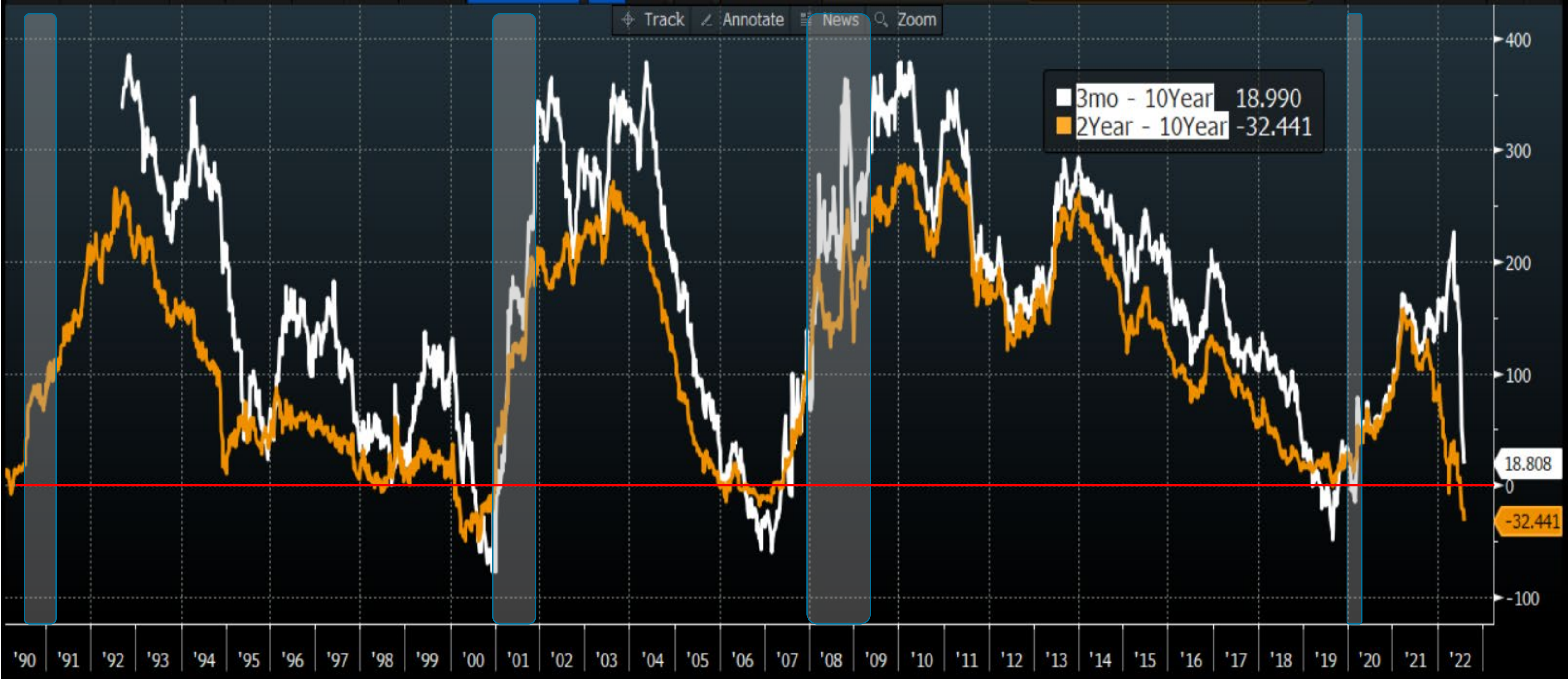
Recession: Leading Economic Index Flashing Warning **UMB**

LEI a Leading Indicator



Source: Bloomberg

Recession: Yield Curve Slope Flashing Warning

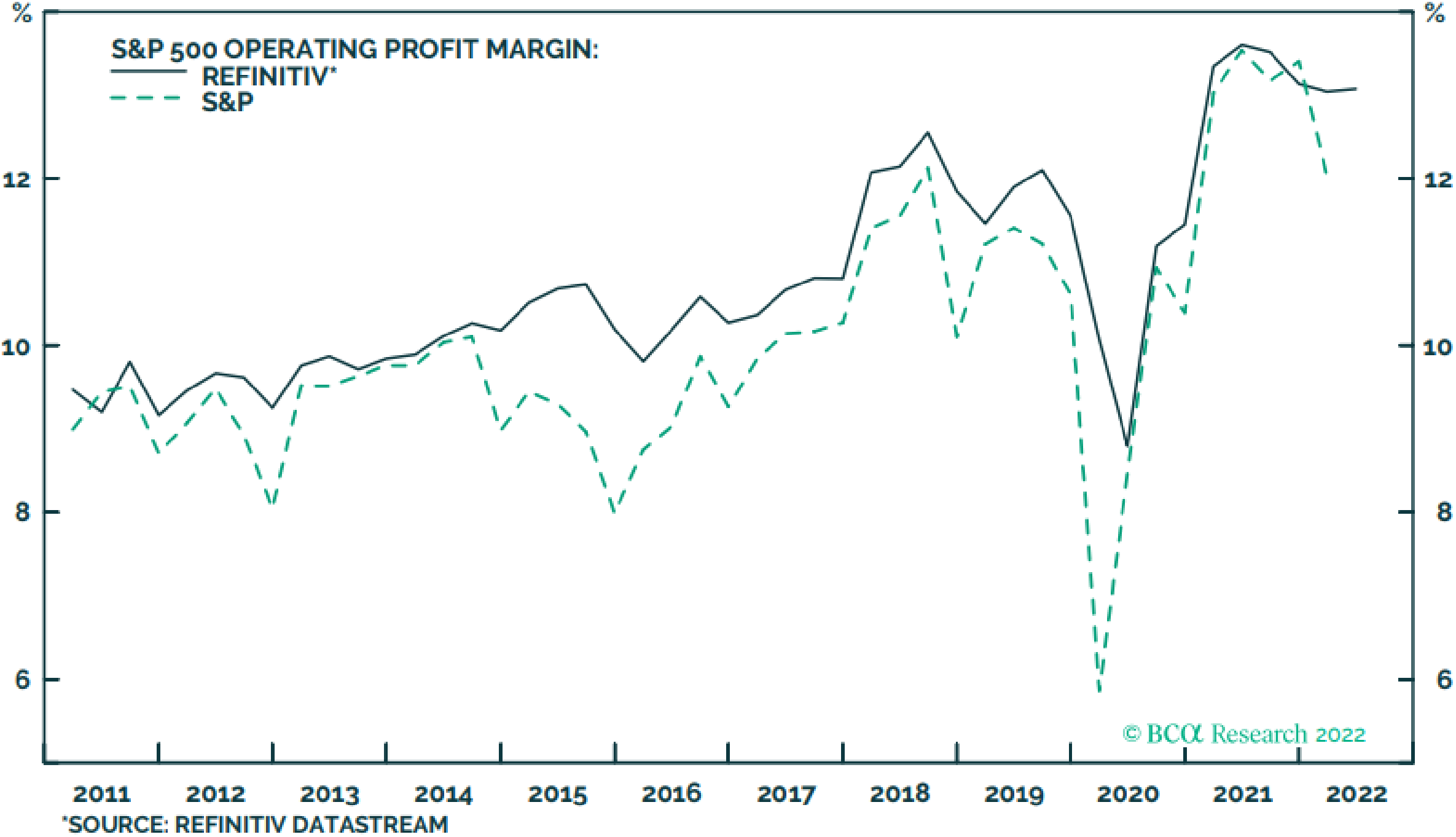


Recessions

Earnings Continuing to Surprise



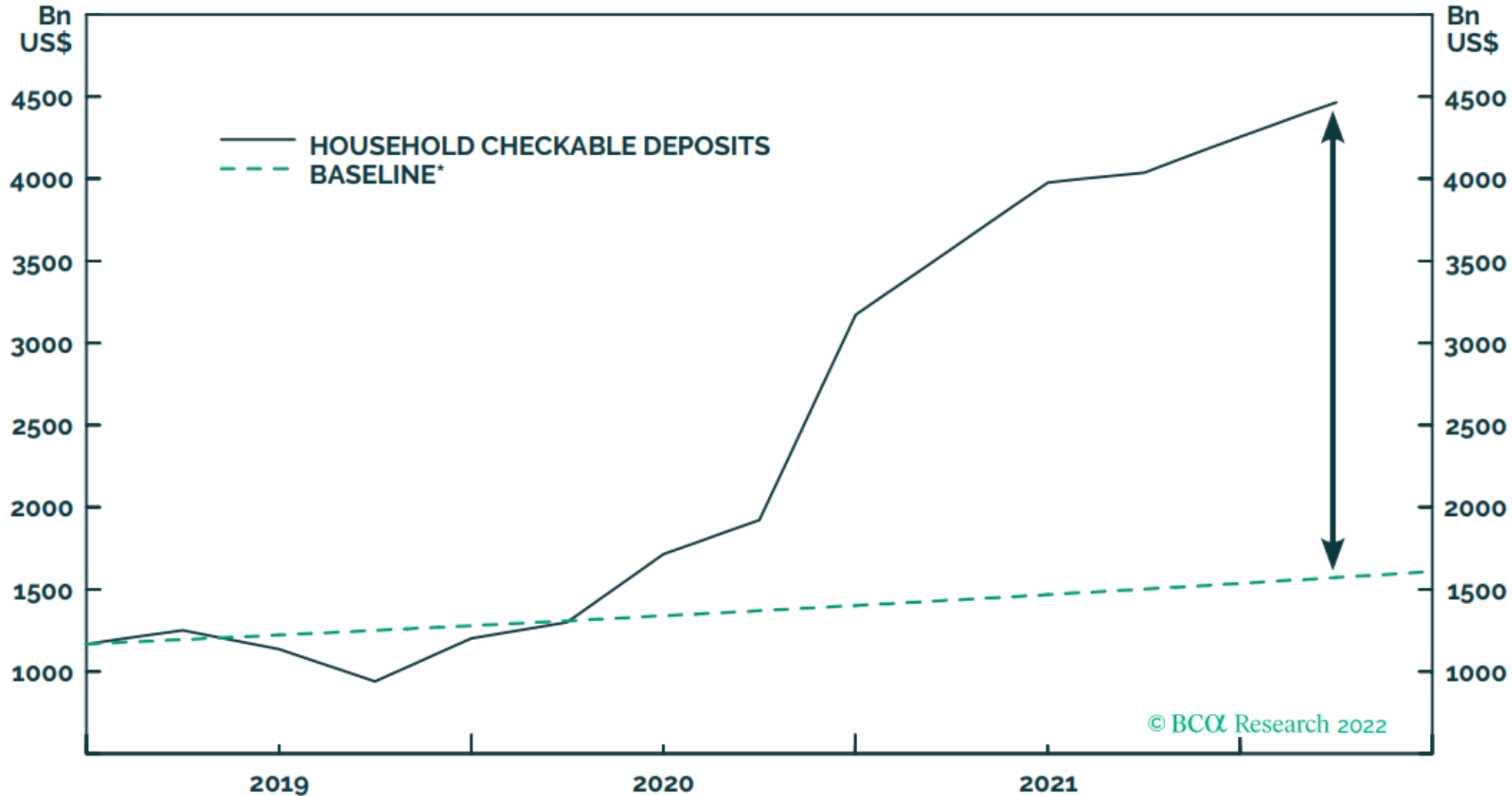
Earnings Haven't Stumbled Yet



Households are Healthy



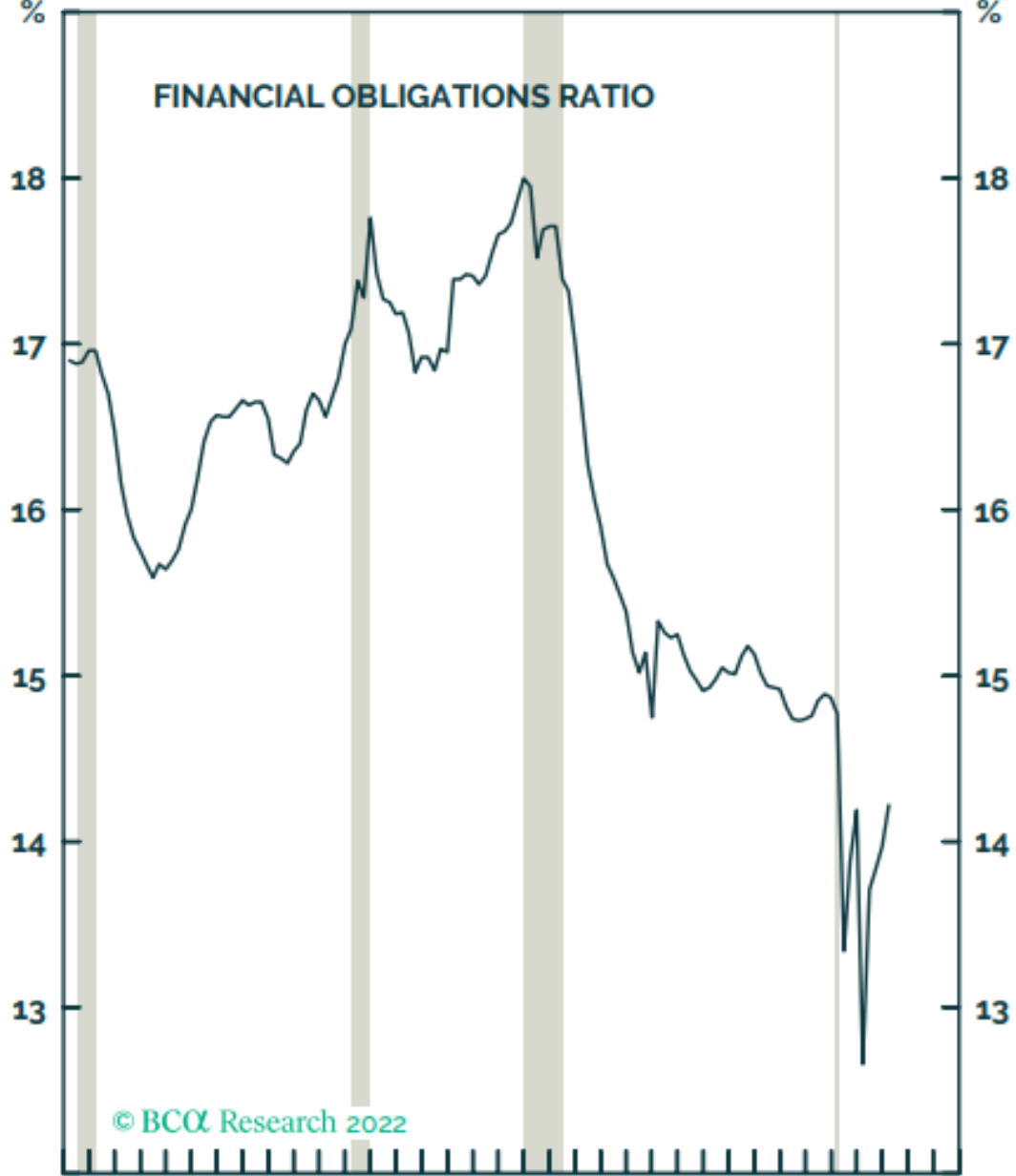
Households Still Have A Whole Lot Of Cash



*CALCULATED AS DECEMBER 2018 DEPOSITS GROWN AT THE AVERAGE 9.6% ANNUAL RATE THAT PREVAILED FROM 2011-2019.

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CHART 4
... And Falling Rates Have Made It Especially Easy To Service



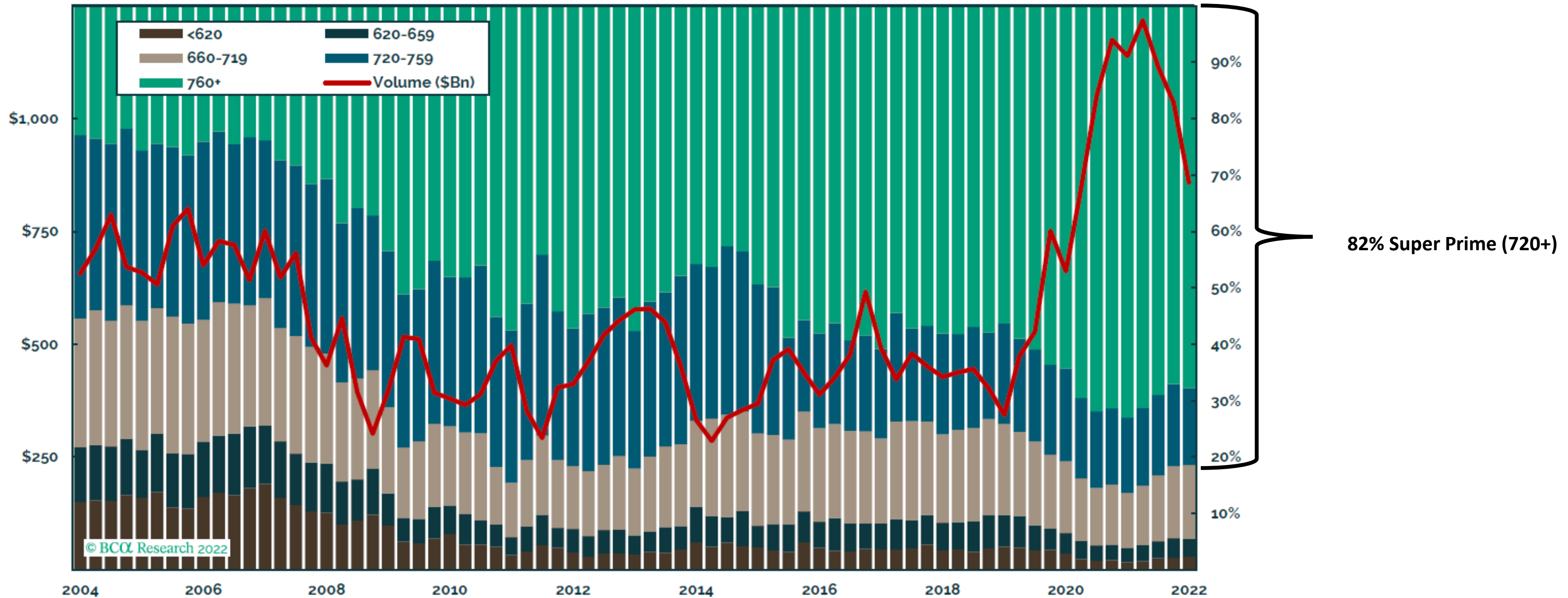
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NOTE: SHADING DENOTES NBER-DESIGNATED RECESSIONS

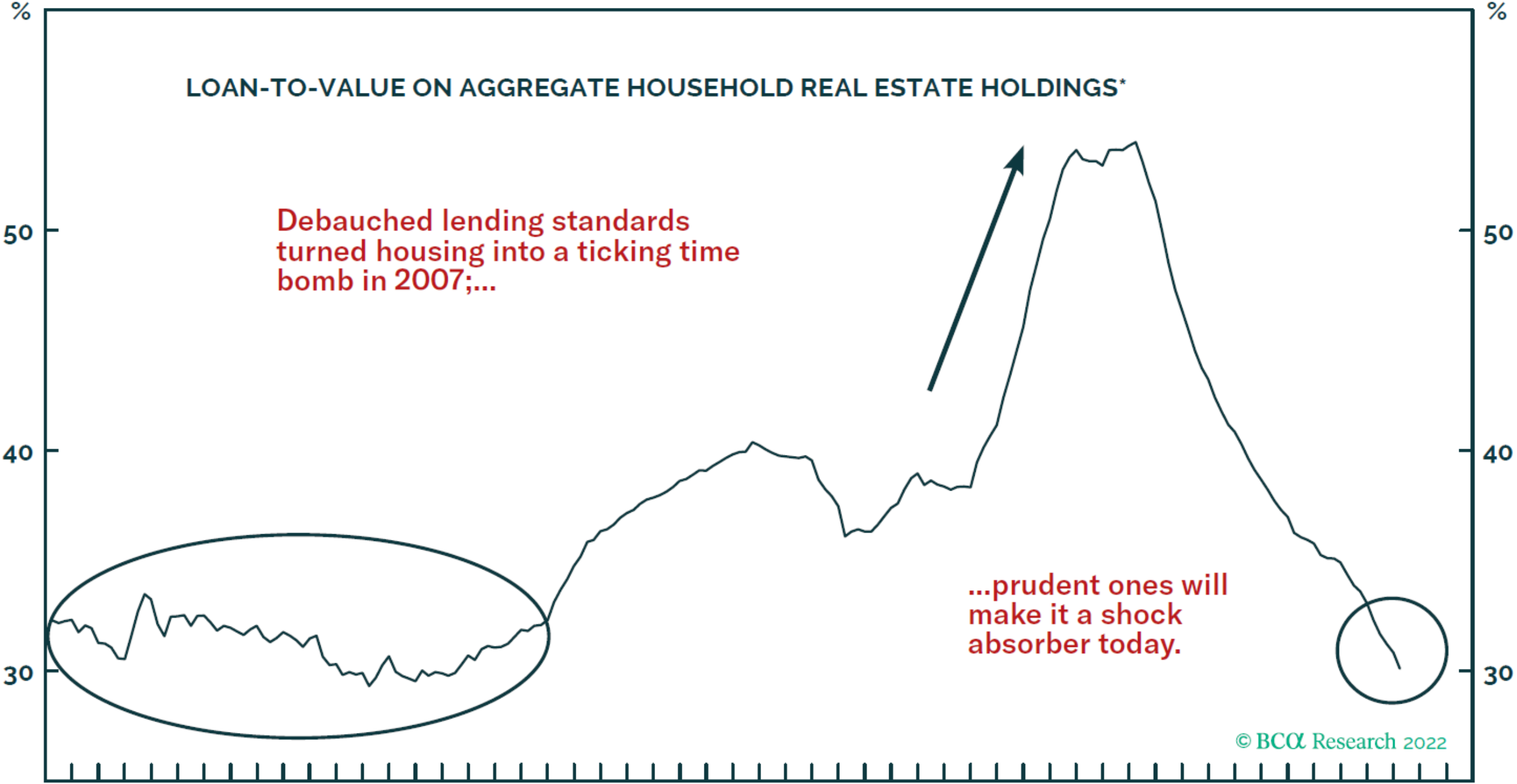
Mortgage Originations are Historically Sound



Mortgage Originations by FICO grouping



Mortgage Originations are Historically Sound



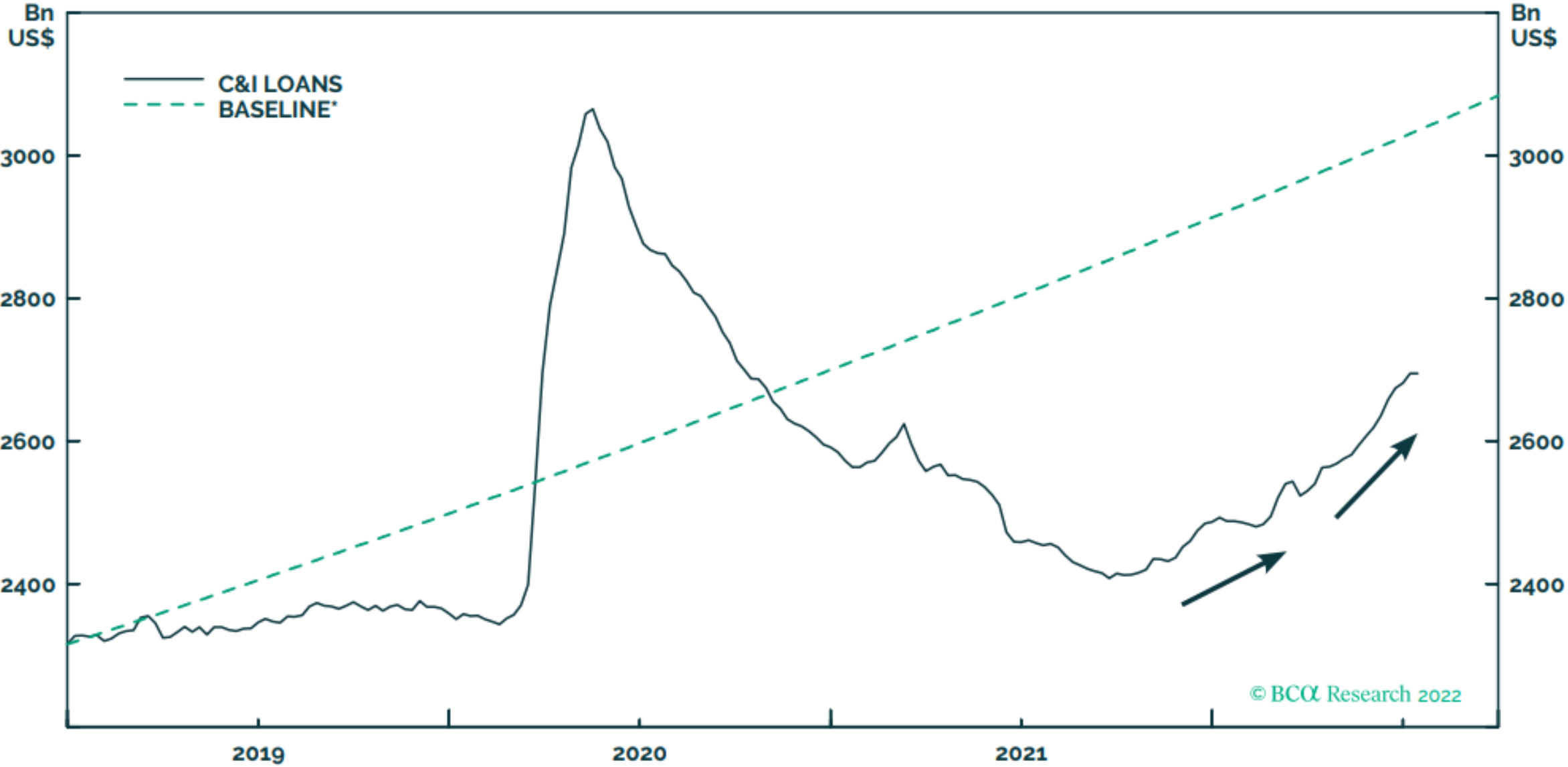
*AGGREGATE OUTSTANDING MORTGAGE BALANCE DIVIDED BY AGGREGATE VALUE OF REAL ESTATE HOLDINGS
SOURCE: FEDERAL RESERVE

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C&I Borrowers are Returning



CHART 4
Business Borrowers Are Returning ...



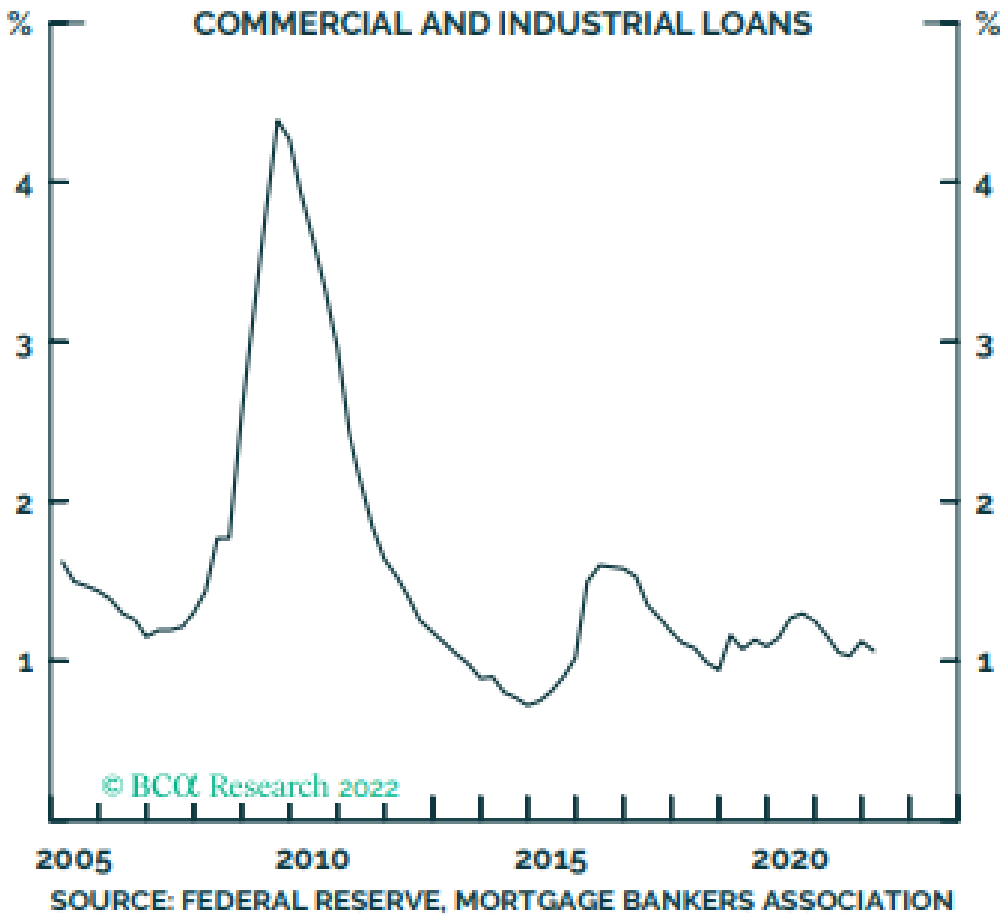
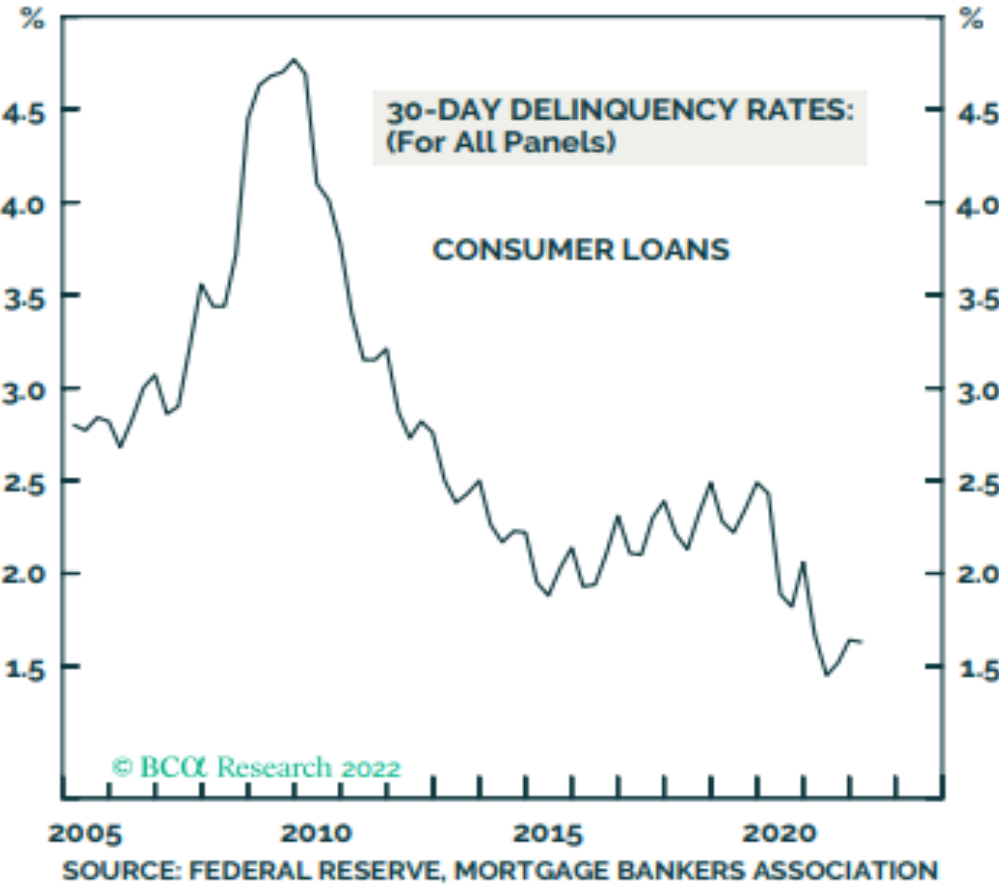
*CALCULATED AS DECEMBER 2018 C&I LOANS GROWN AT THE AVERAGE 7.9% ANNUAL RATE THAT PREVAILED FROM 2011-2019.

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Delinquencies are Historically Low



CHART 6
Early Stage Delinquencies Are Very Low



- 1) Inflation is moving lower, but “sticky” components will keep it from falling quickly back to normal (2.5%)

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- 1) Inflation is moving lower, but “sticky” components will keep it from falling quickly back to normal (2.5%)
- 2) Consumers and Businesses are Liquid and carrying manageable leverage
- 3) Companies are generating record earnings
- 4) Defaults/delinquencies are near record lows
- 5) **The overall system is quite healthy as they move into this tightening cycle**

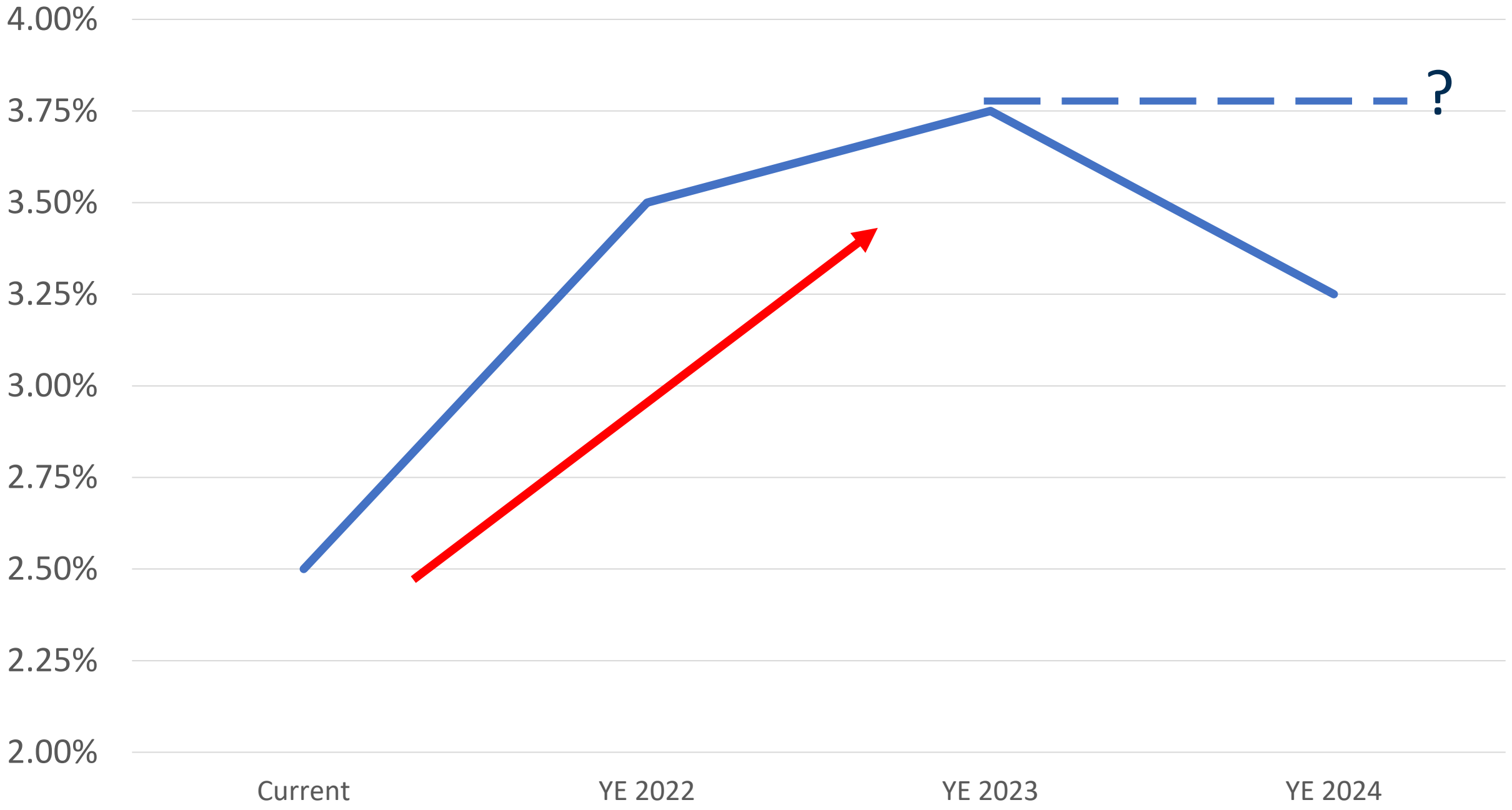
Jackson Hole Commentary:

“Purposefully moving rate policy to a level that is sufficiently restrictive”

“Rates will be kept restrictive for some time”

“History cautions strongly against prematurely loosening policy”

Fed Funds Guidance



Risk of Recession ???



Risk of Recession ???

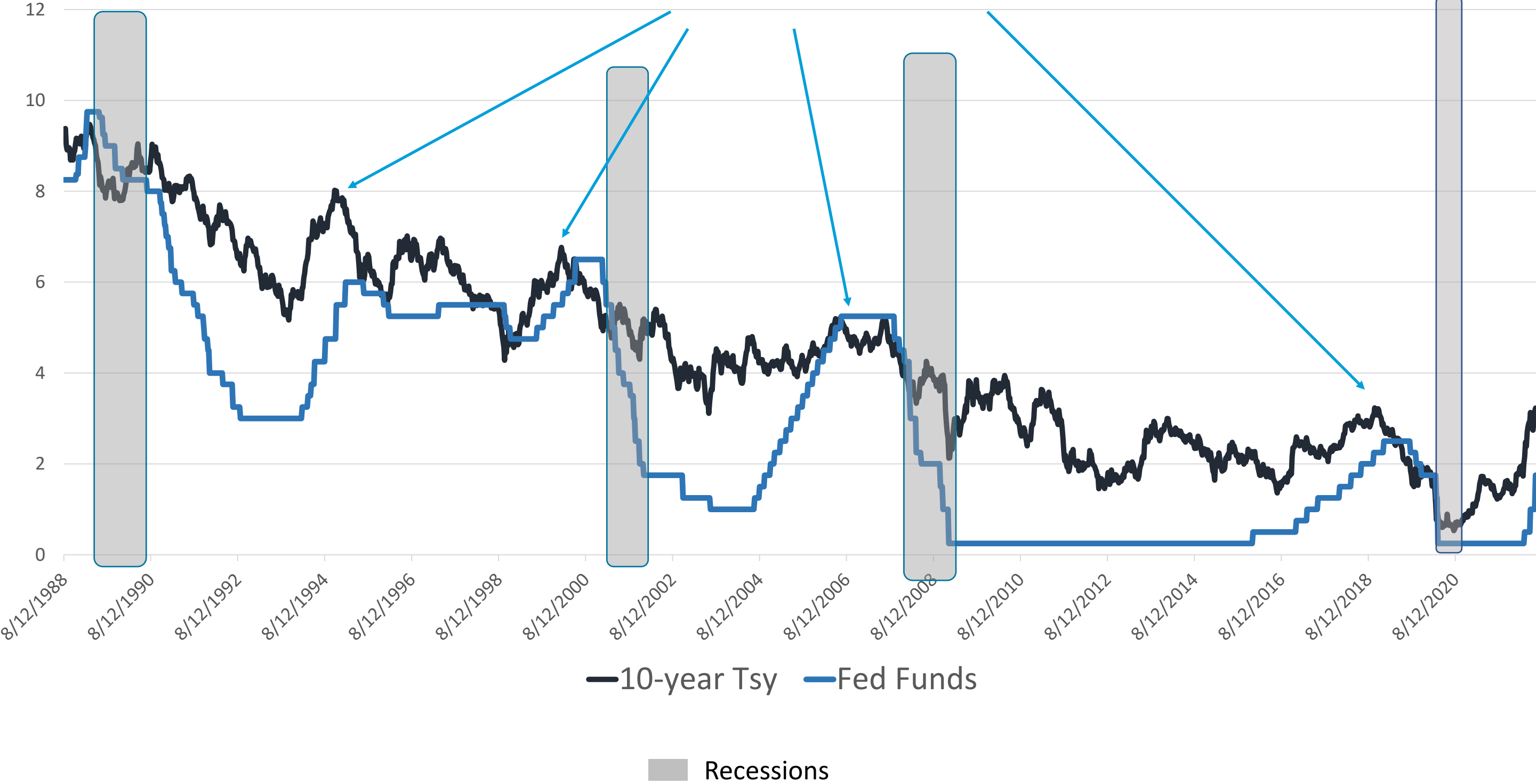
➔ Increased to 50%
(but.....short and mild)



Financial Markets: Fixed Income



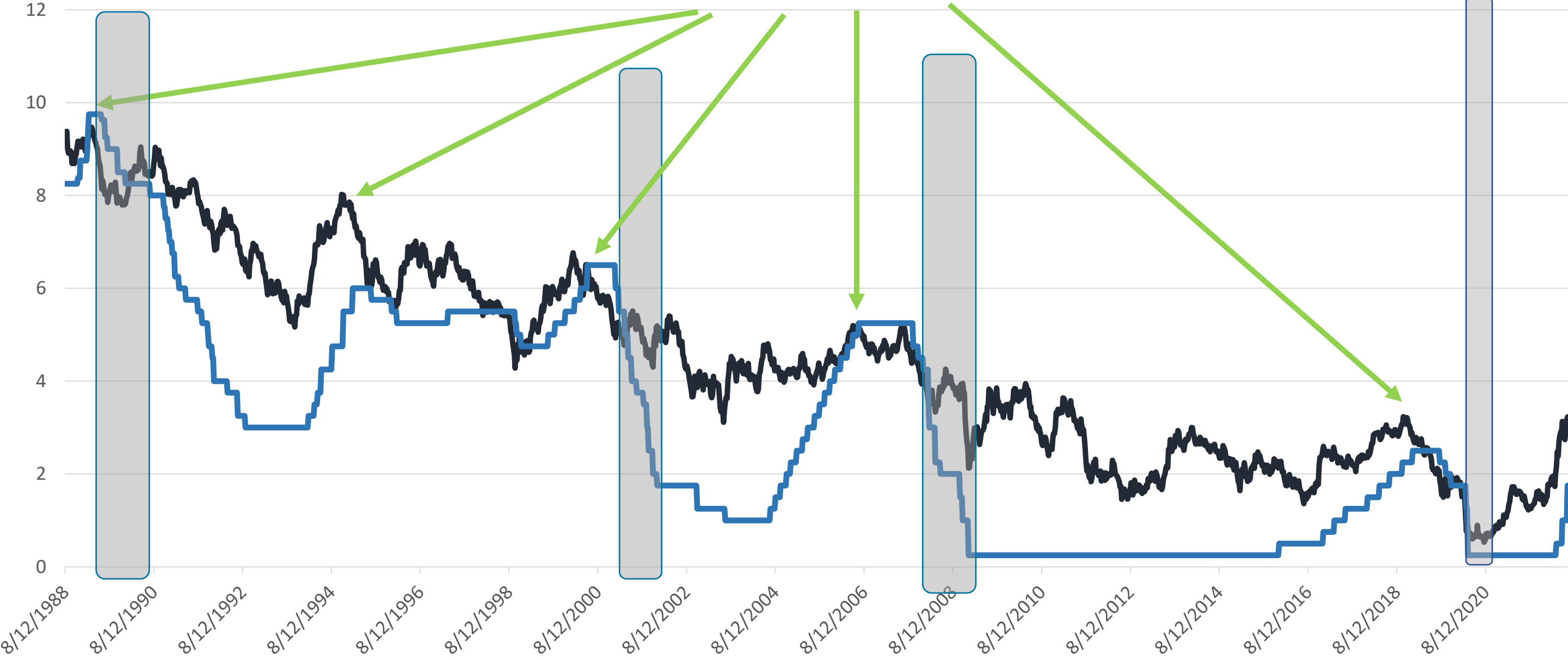
Long Rates Peak Near End of Fed Cycle,
At/Above Peak Fed Funds Rate



Financial Markets: Fixed Income



Long Rates Peak Near End of Fed Cycle,
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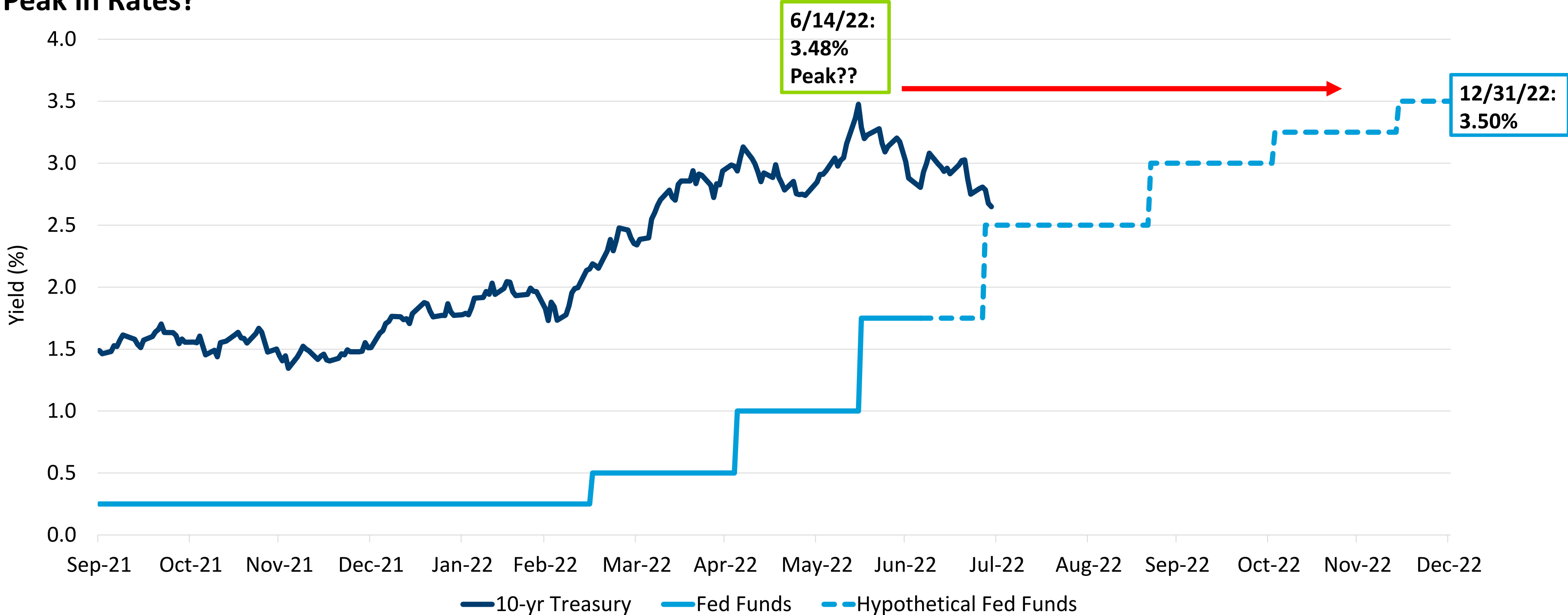
—10-year Tsy — Fed Funds

■ Recessions

Financial Markets: Fixed Income



Peak in Rates?



Source: Bloomberg

Stock Market 2022-23 vs 1981-82



S&P 500 Index: 2022-23 vs 1981-82

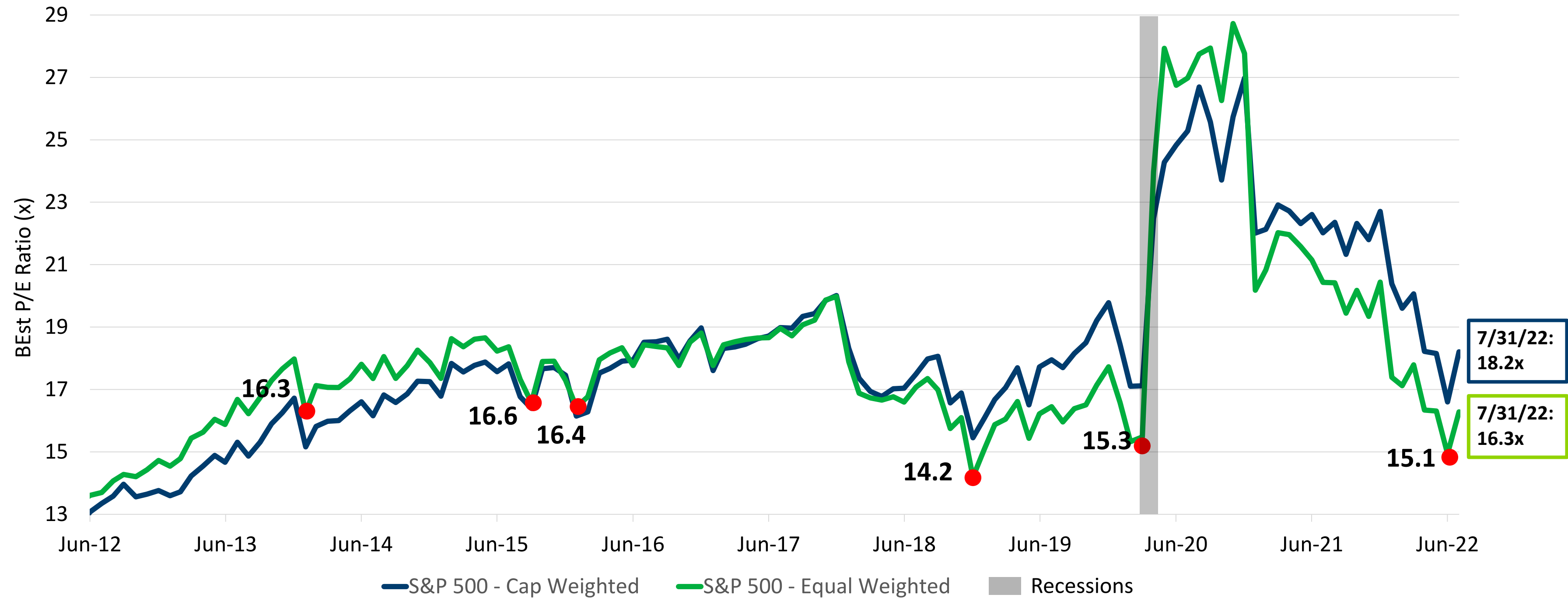


Source: Bloomberg

Equal Weighted P/E Already Under 15x



S&P 500 Index: P/E Ratio



Fundamentals of the U.S. Economy

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Real GDP	-3.5%	5.7%	1.6%	1.5%
Unemployment	6.7%	3.9%	3.6%	3.9%
Fed Funds	0.25%	0.25%	3.50%	3.50%
10-Year Treasury	1.00%	1.51%	3.00-3.25%	3.50%
S&P 500	18.4%	28.7%	-5.0 – 0.0%	7.0 – 10.0%



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QUESTIONS

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