



Philadelphia Council for Business Economics (PCBE) Lunch

2024 Macro Outlook

Phil Mackintosh
Nasdaq Chief Economist

January 24

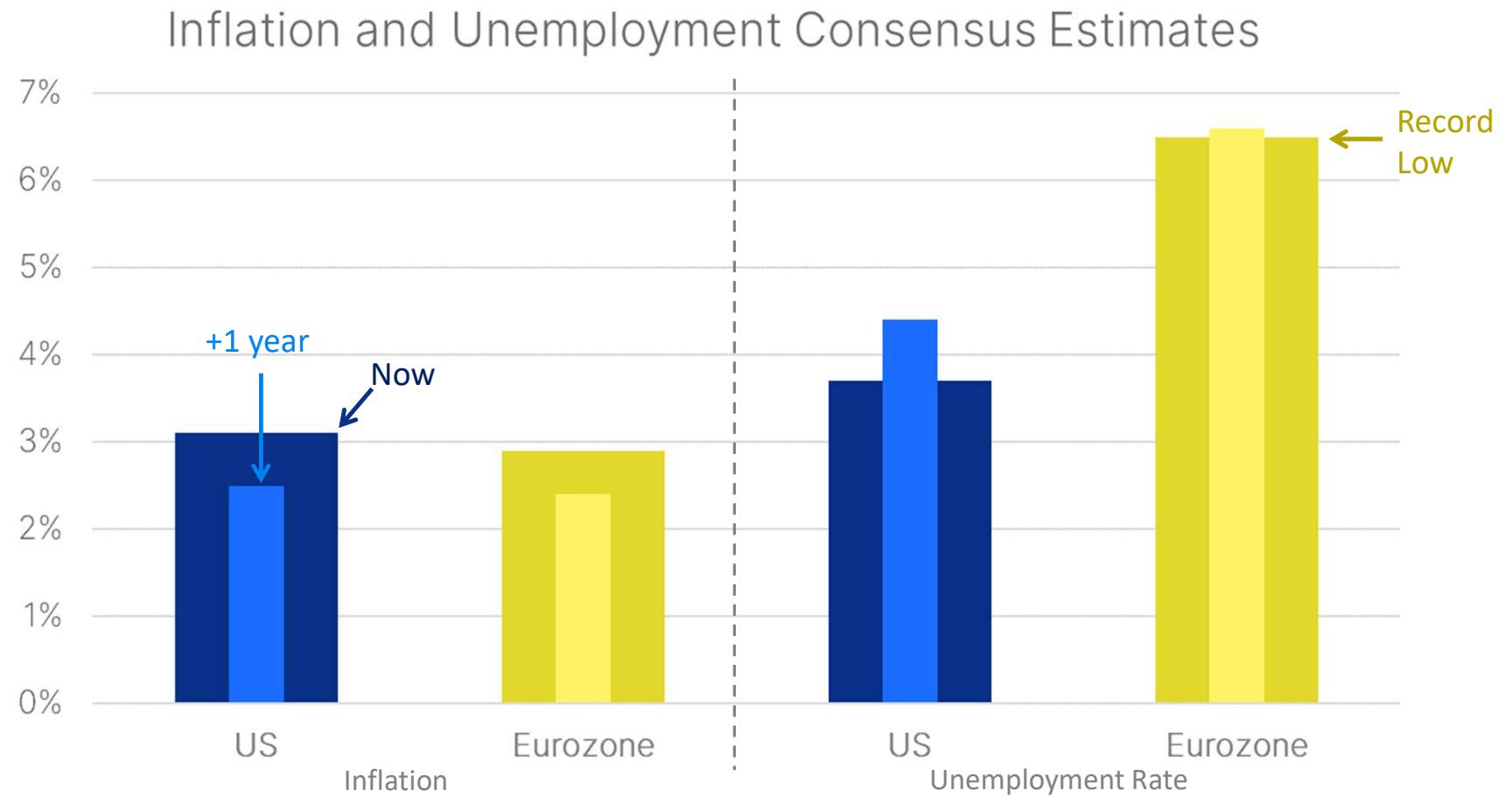
Fed Data is in a good place

Economy is fading (not failing)

Rates should fall

What does that mean for markets?

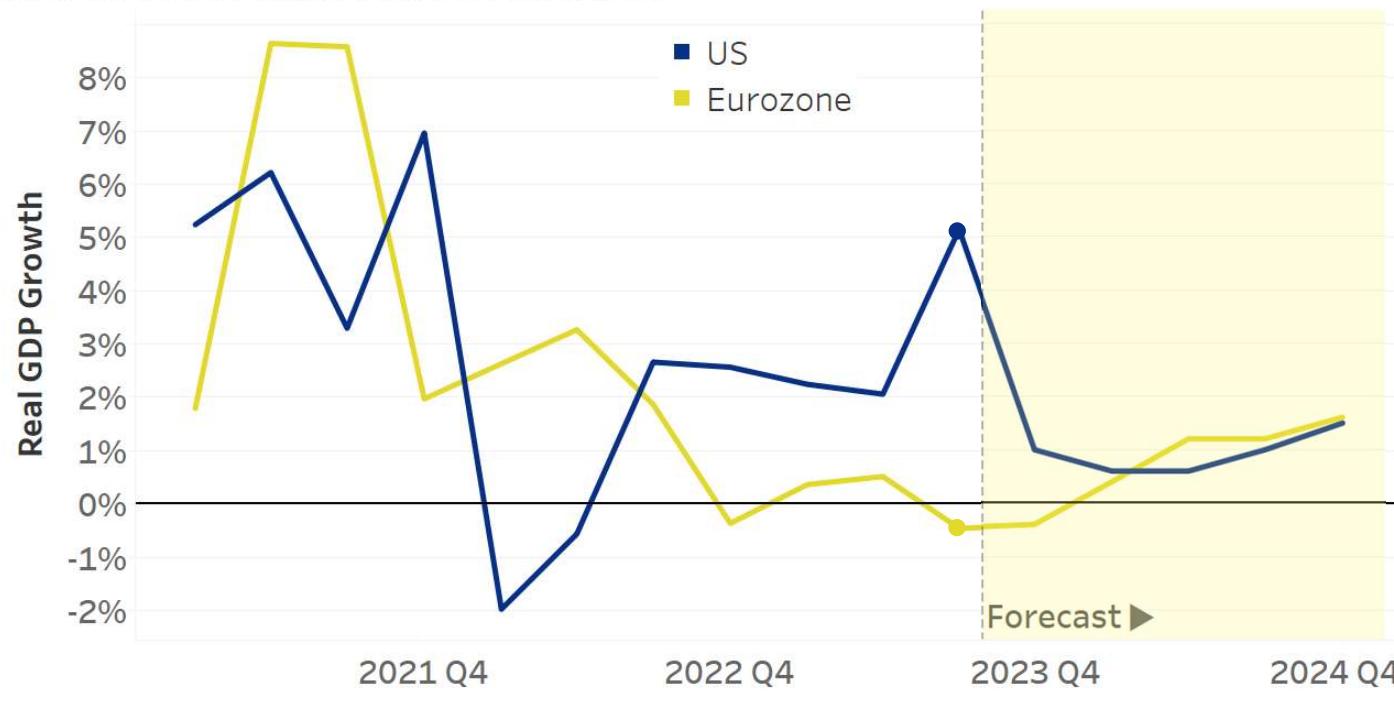
Inflation & employment are about as good as it gets!



GDP growth: Expected to be slow but positive

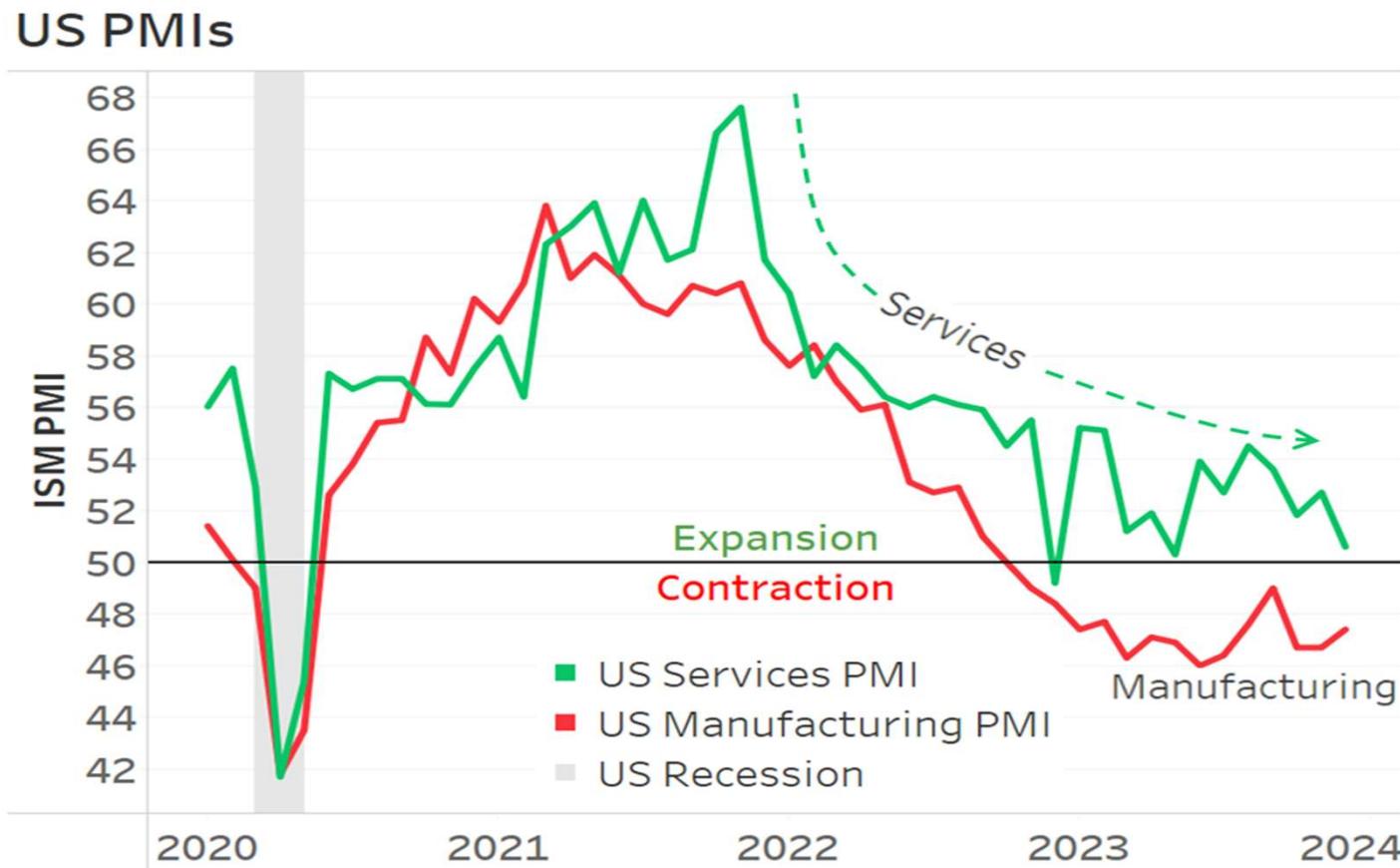
Real GDP Growth

Quarter-on-Quarter, Seasonally Adjusted Annual Rate
Forecasts are FactSet Economic Estimates as of January 4, 2024.



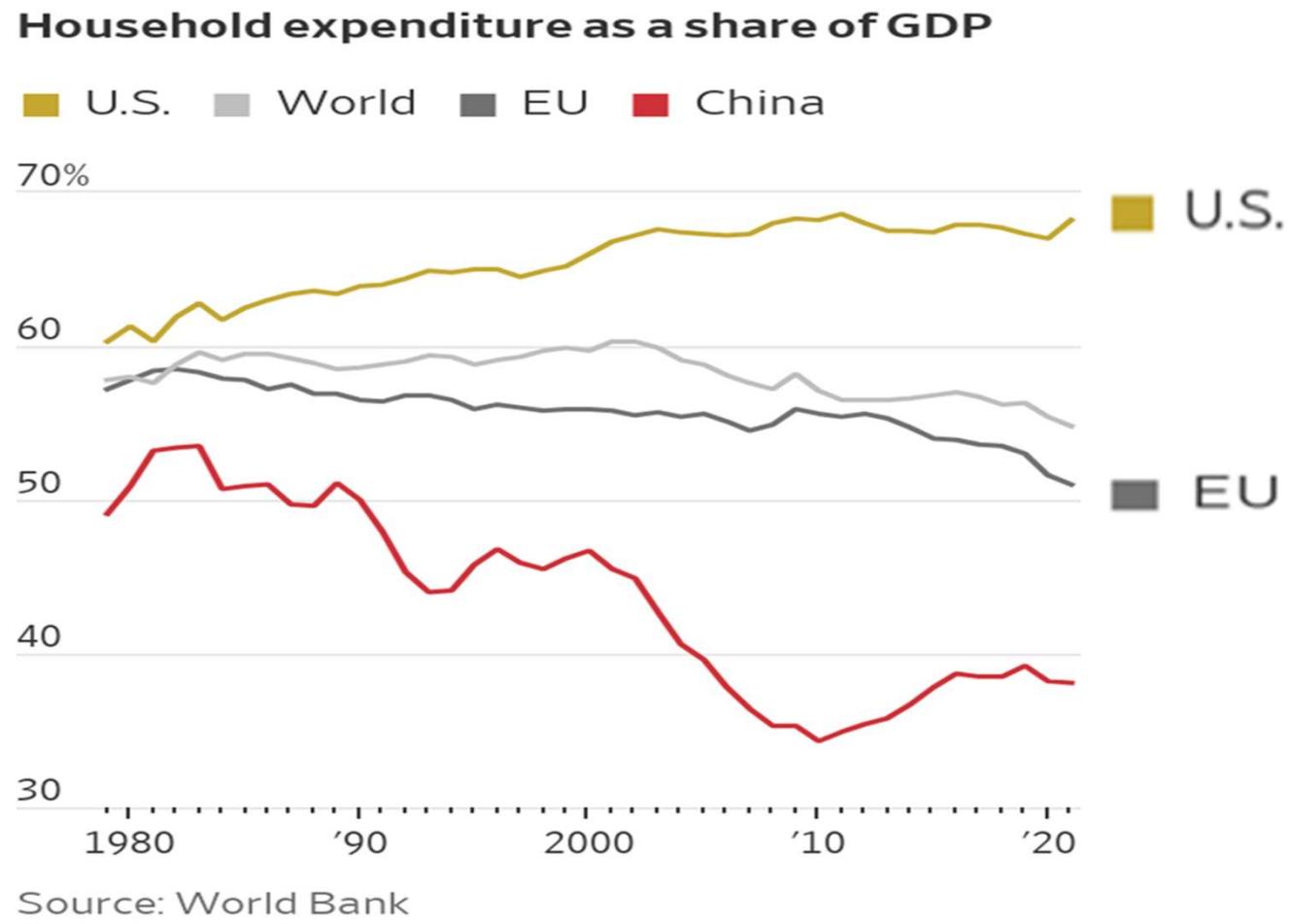
Source: FactSet, BEA, Eurostat, Nasdaq Economic Research

Everything is slowing



When will the US Consumer slow down?

US Consumer driving US economy



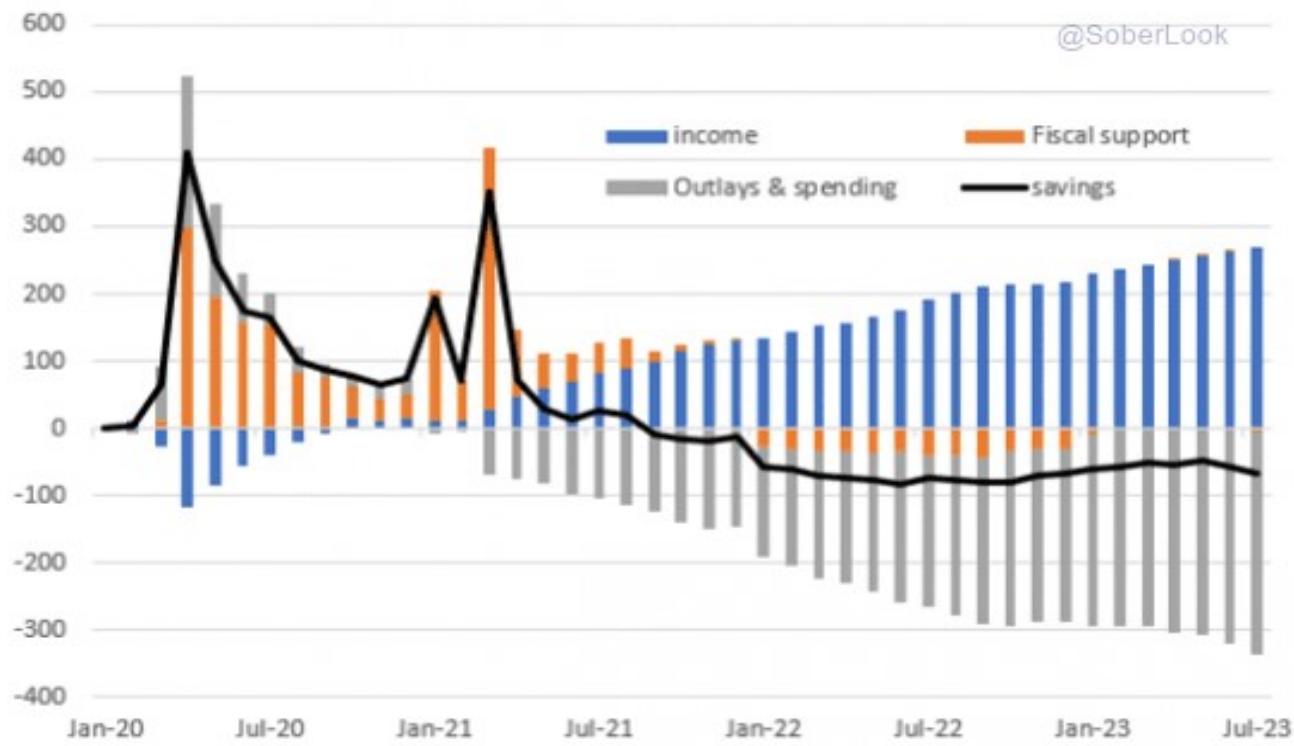
Consumers still seem to have savings

Contributions of monthly changes in income and spending to the flow of savings (\$bn)

The Daily Shot

01-Sep-2023

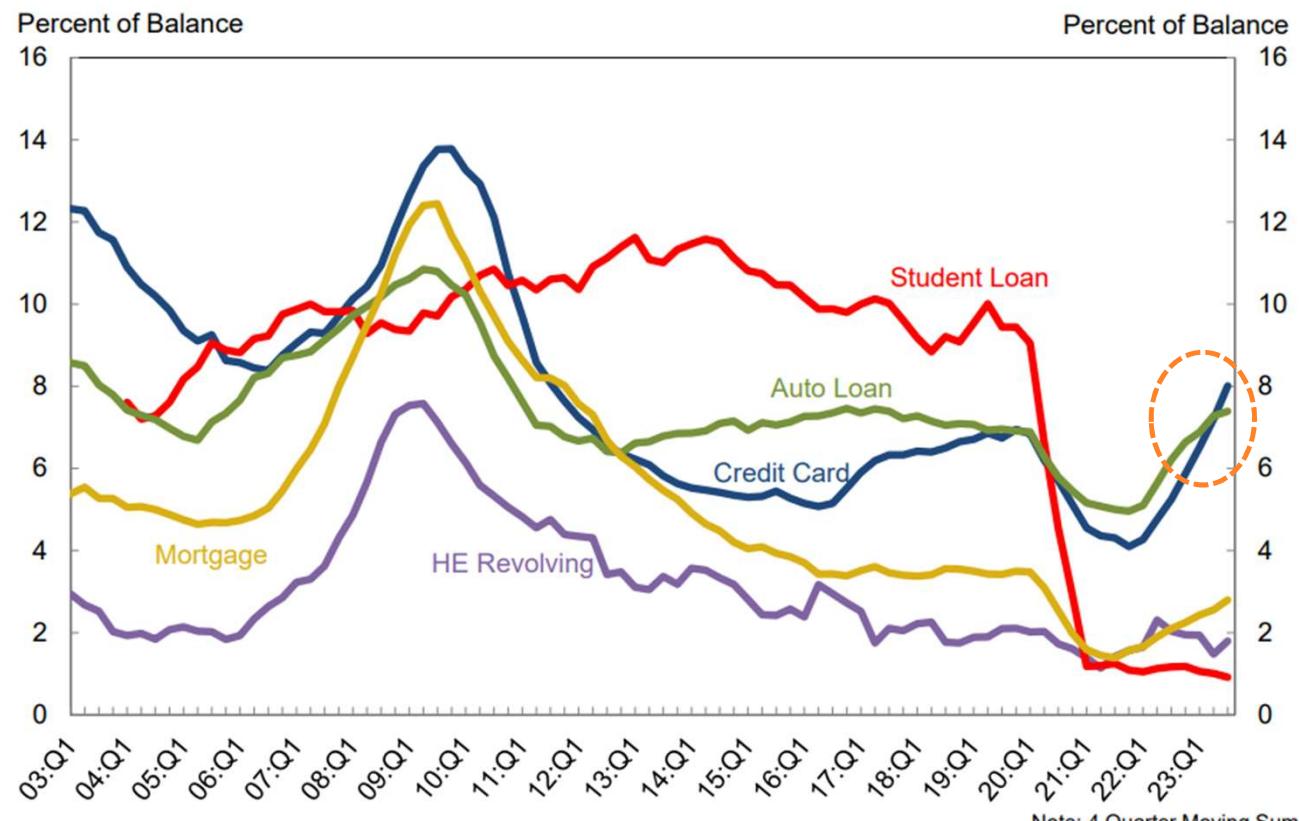
@SoberLook



Source: ING

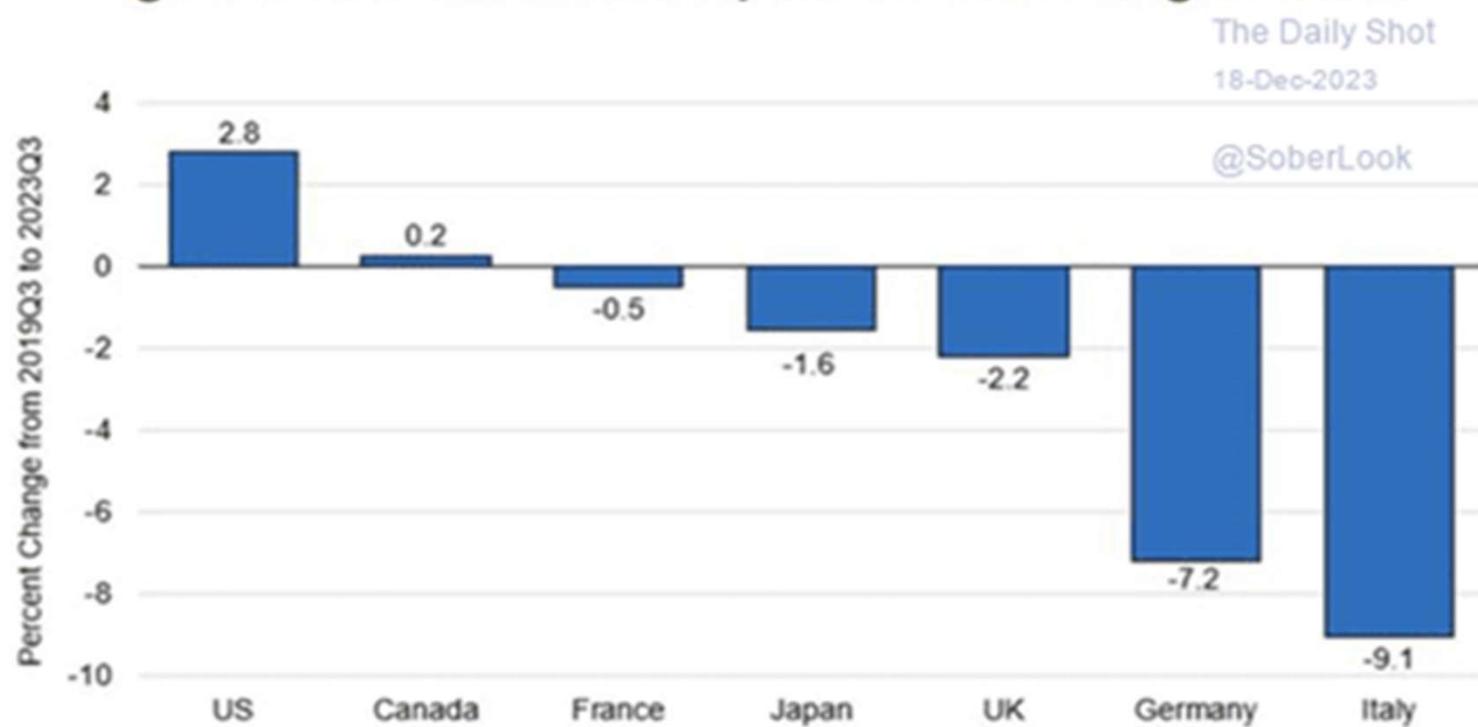
Consumer defaults ticking up (but not like 2007)

Transition into Delinquency (30+) by Loan Type



Real wages are helping US consumption

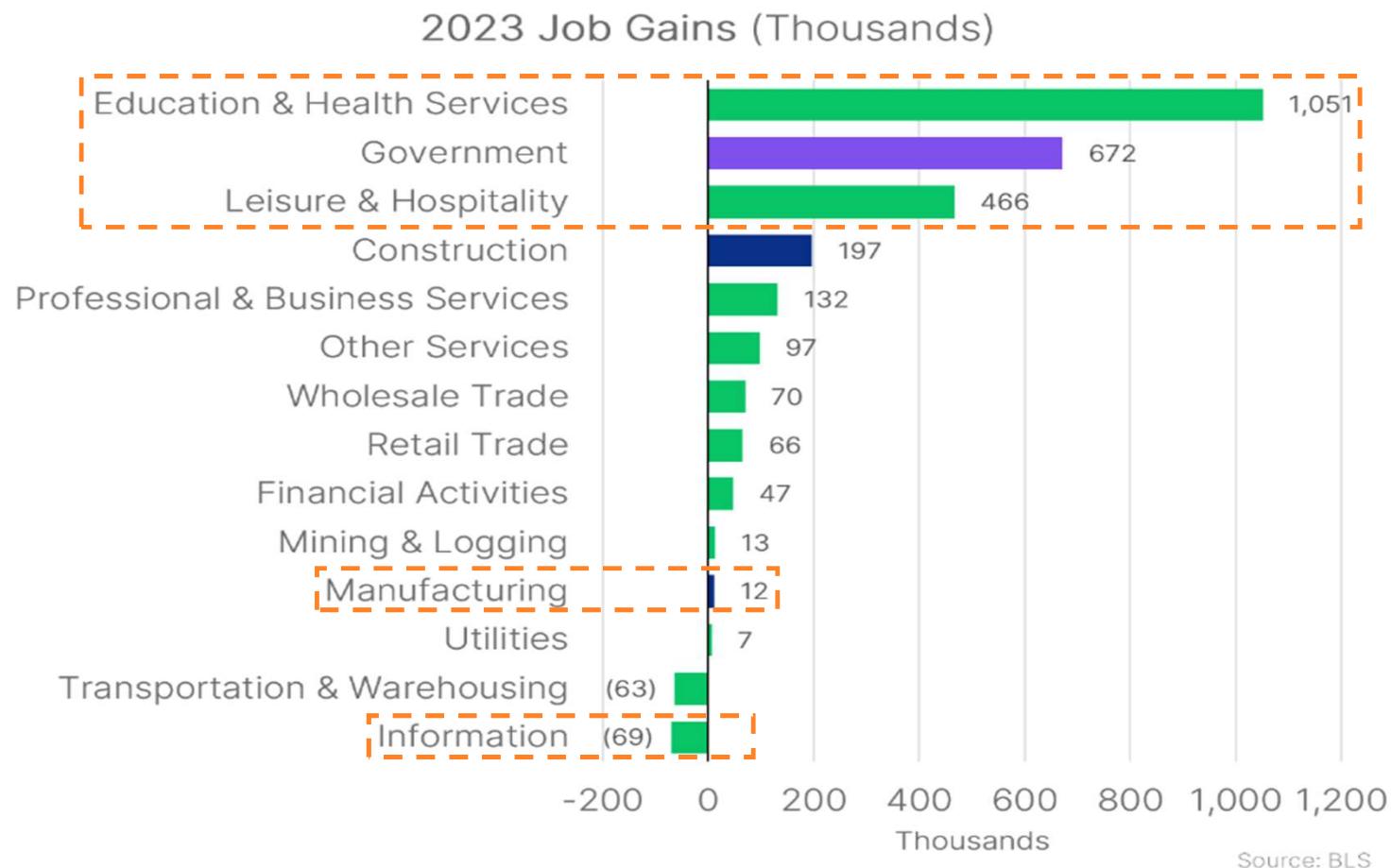
Figure 6: International Comparison of Real Wage Growth



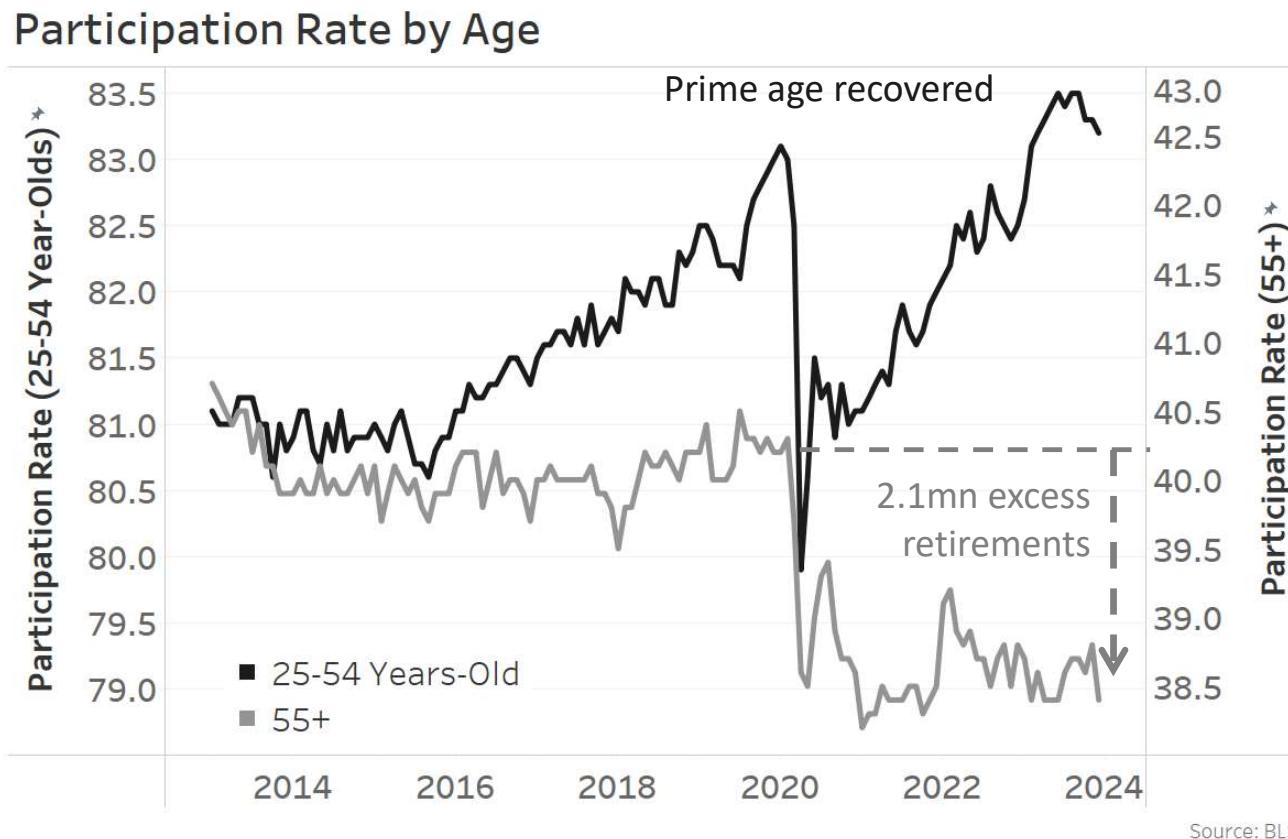
Notes: Earnings (hourly, weekly, or monthly as available) deflated by national CPI. Data not seasonally adjusted.

Sources: National sources and the Organization for Economic Cooperation & Development via Haver Analytics.

Few industries have seen layoffs



Supply of workers dipped (but has mostly recovered)

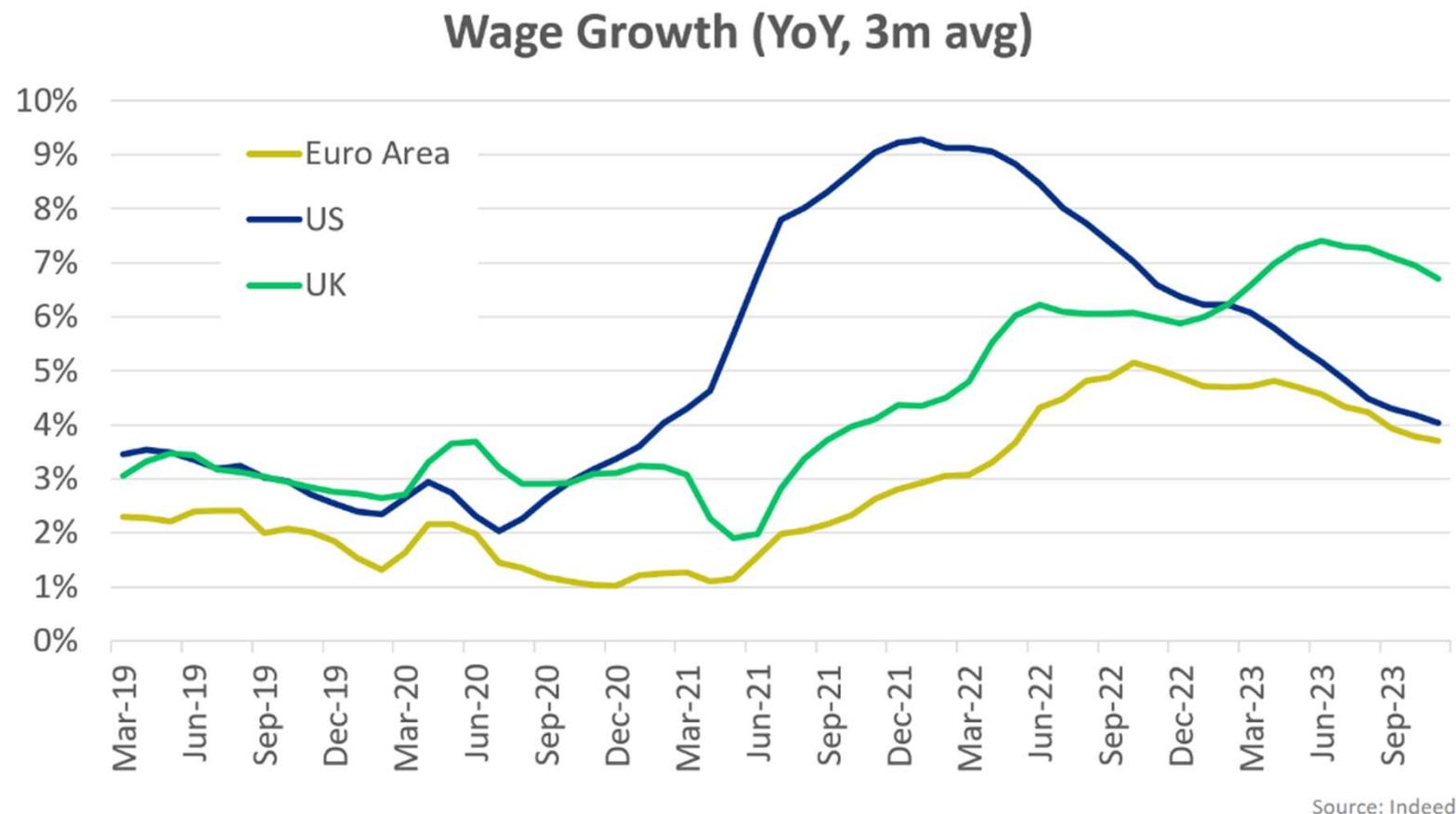


Demand for labor recovered (but has now dipped)

Still-Tight Labor Market Easing Faster



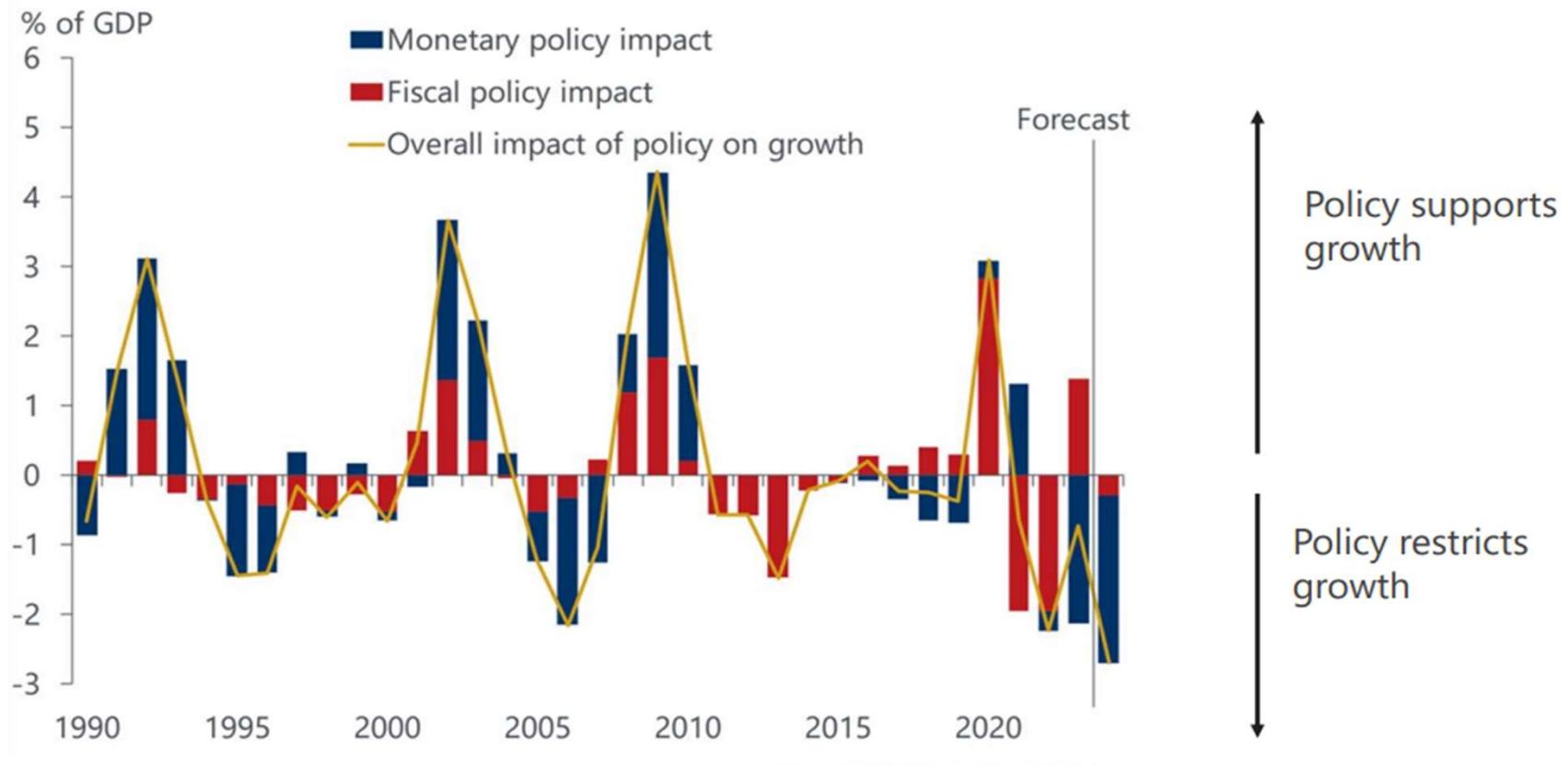
...wage growth is slowing (which is good for inflation)



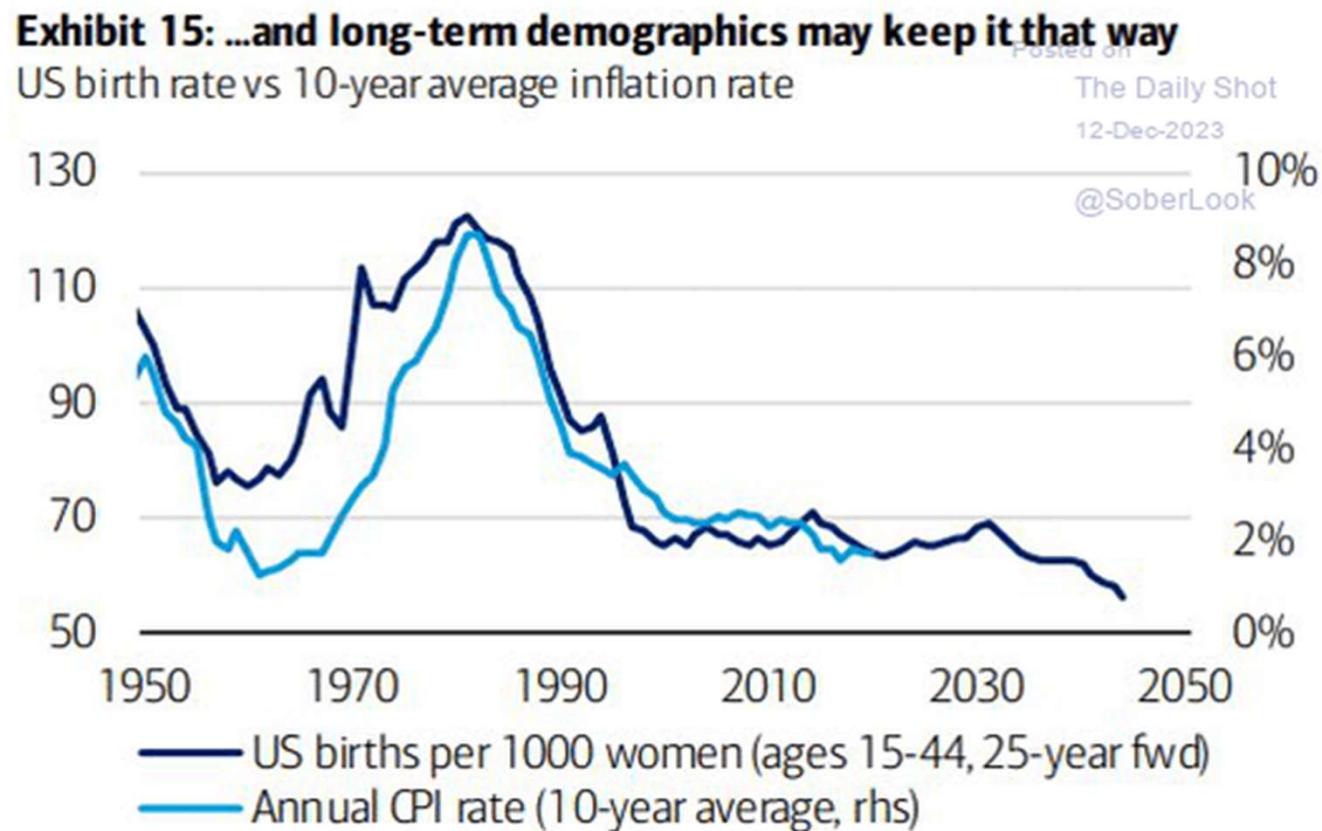
There are even more reasons rates should fall

Monetary & Fiscal policy will drag

US: Macro policy is set to be more restrictive in 2024

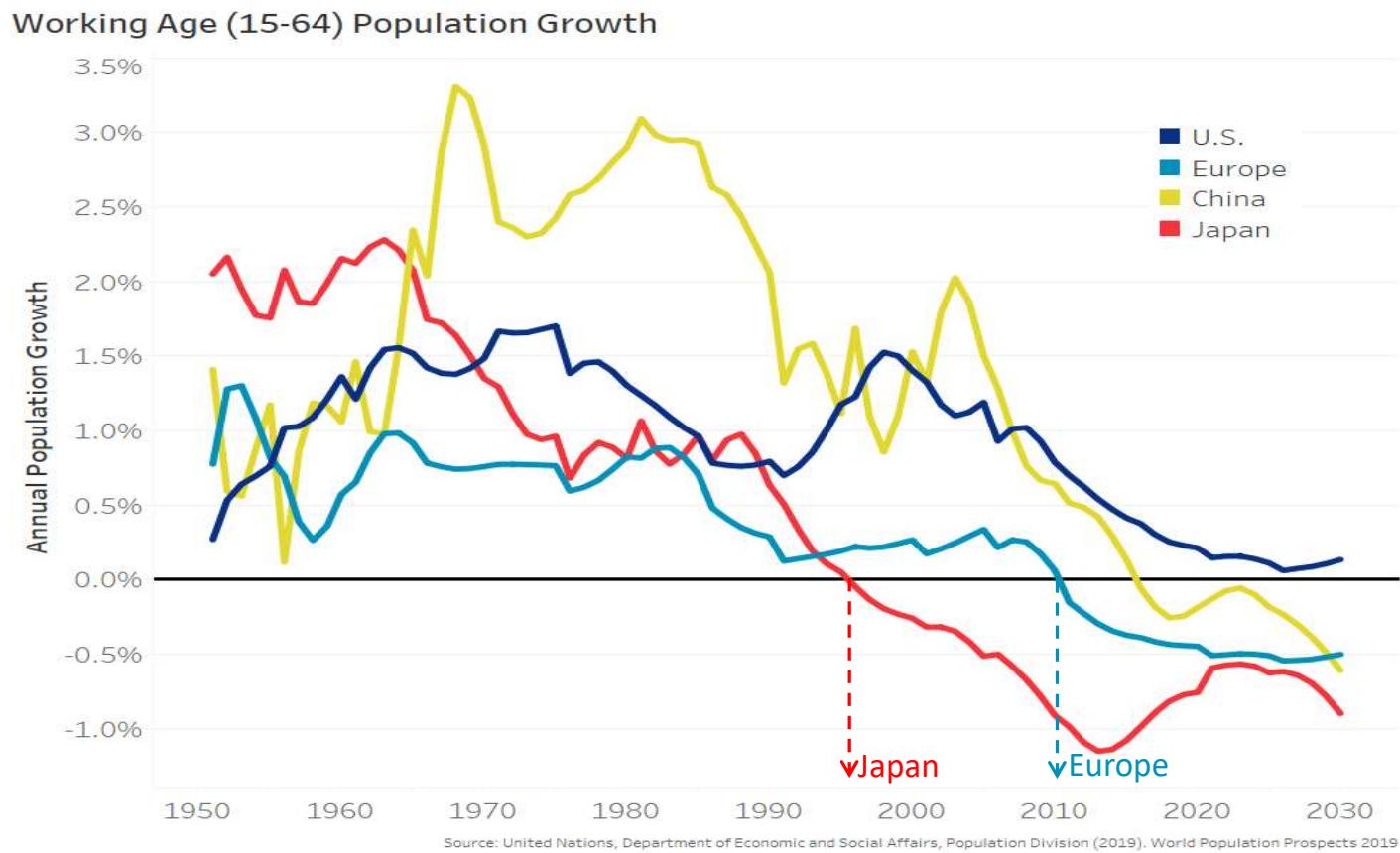


Demographics: a downward force on long-term rates

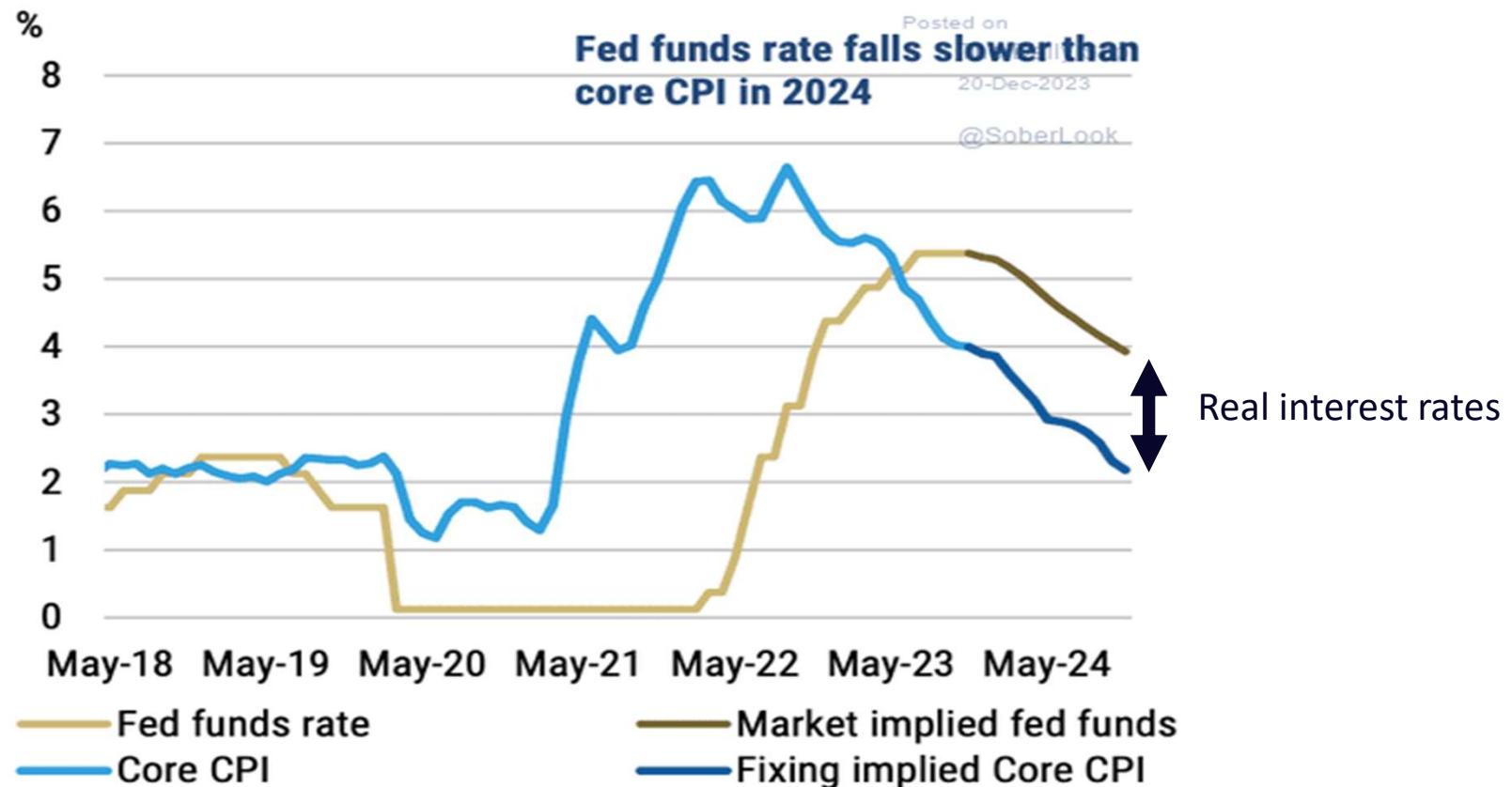


Source: BofA Research Investment Committee, Haver

Demographics: are a downward force on long-term rates



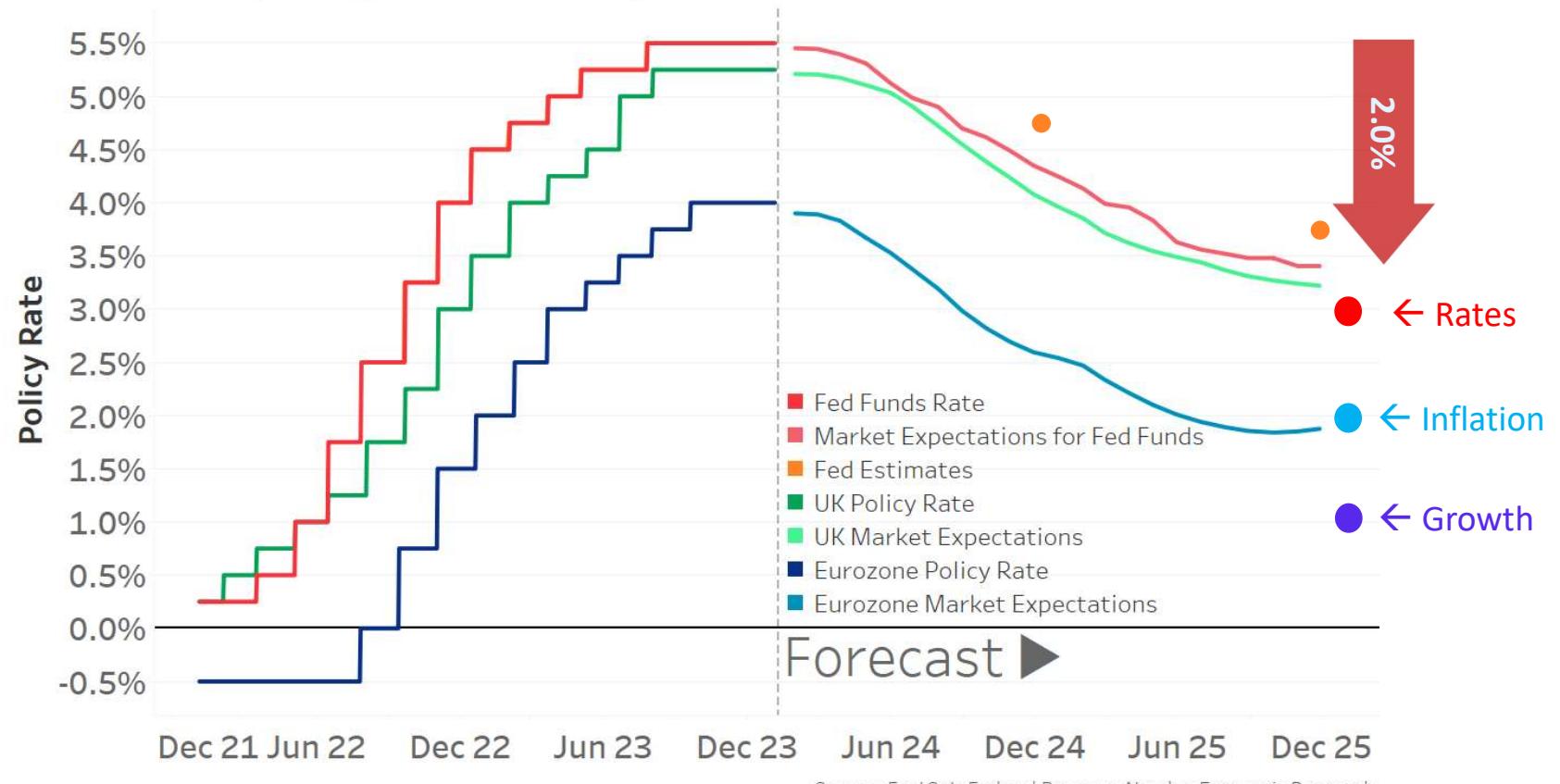
Without cuts, “real” rates are still rising



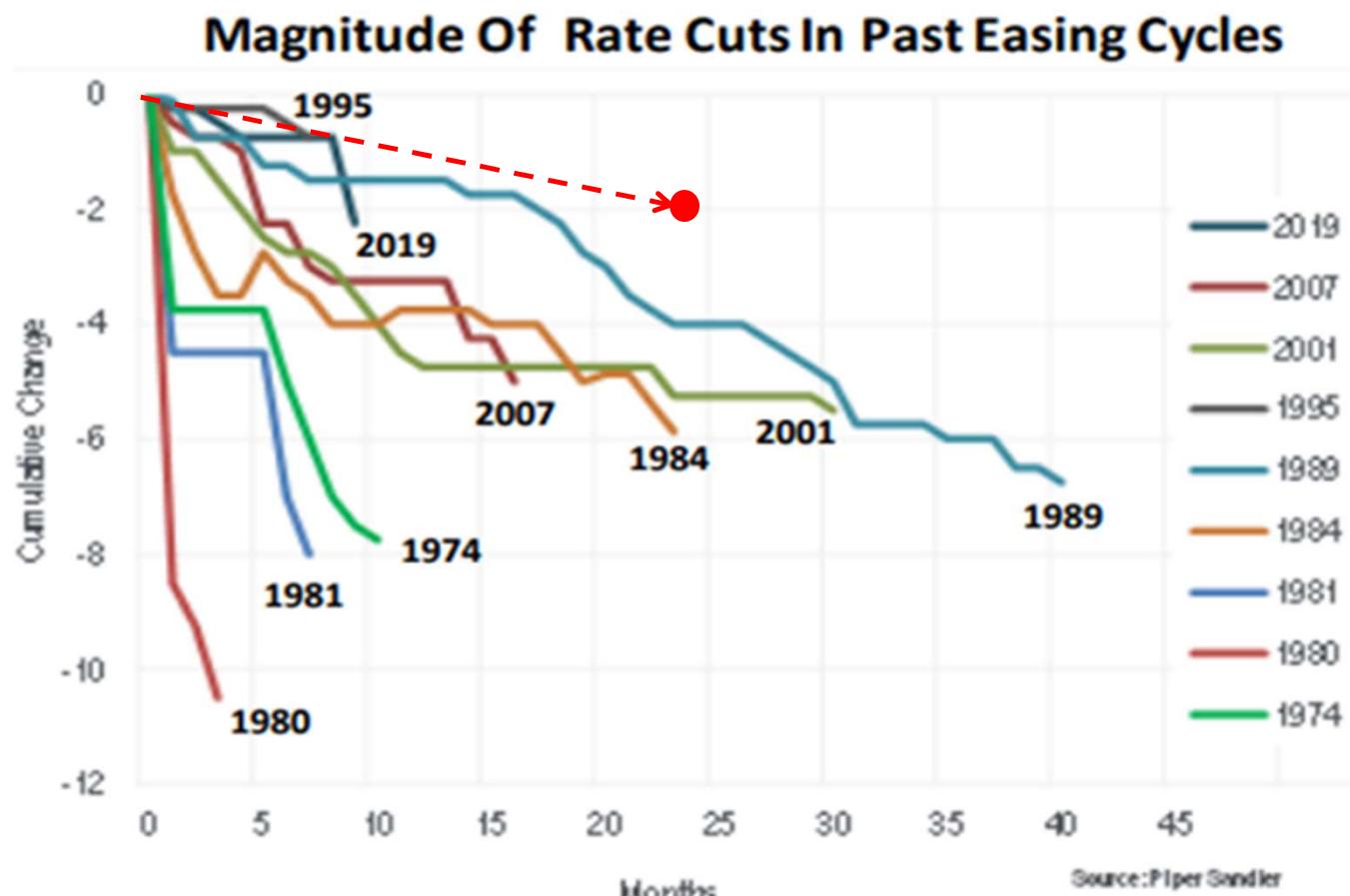
Source: Bloomberg, BGC, Morgan Stanley Research estimates

Lower rates...but no more “free money”

Note: Federal Reserve figures use upper limit of fed funds range.

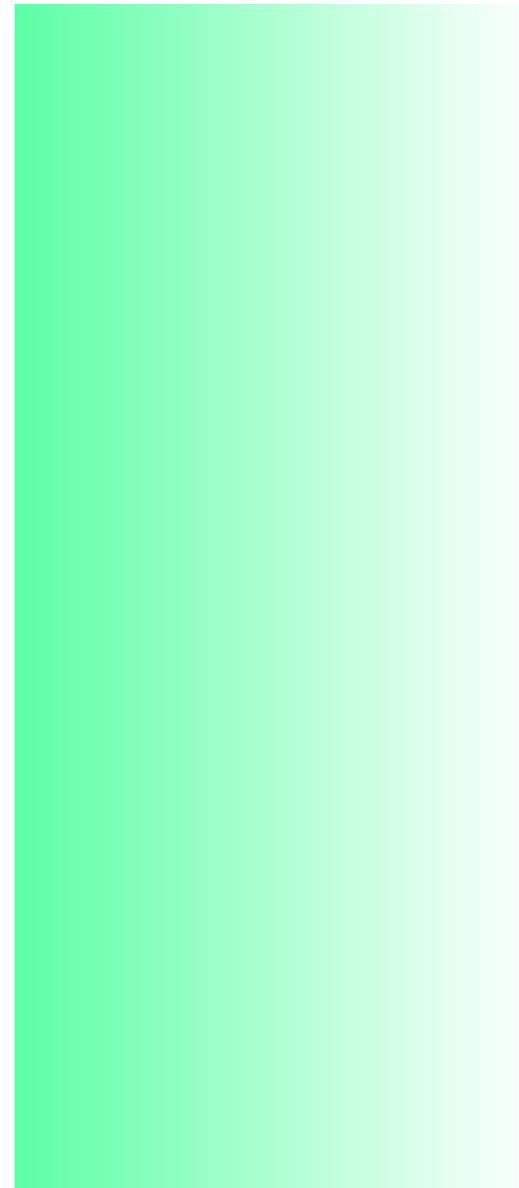


US rates normally fall faster than current expectations



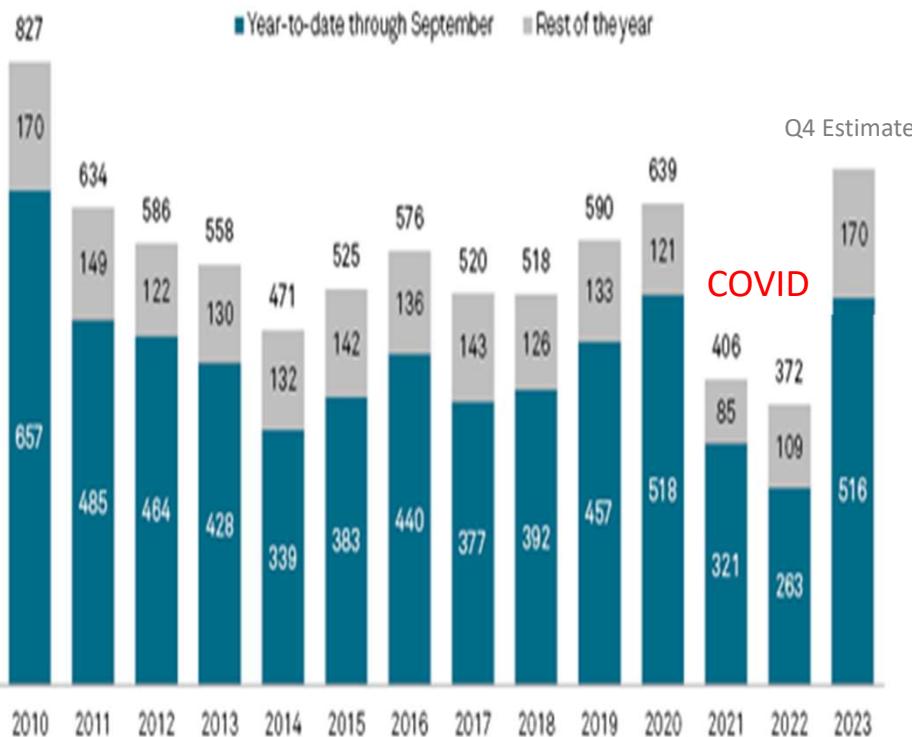
Lower rates:
What does this mean?

Companies will benefit



Companies: Bankruptcies in PPP catch up

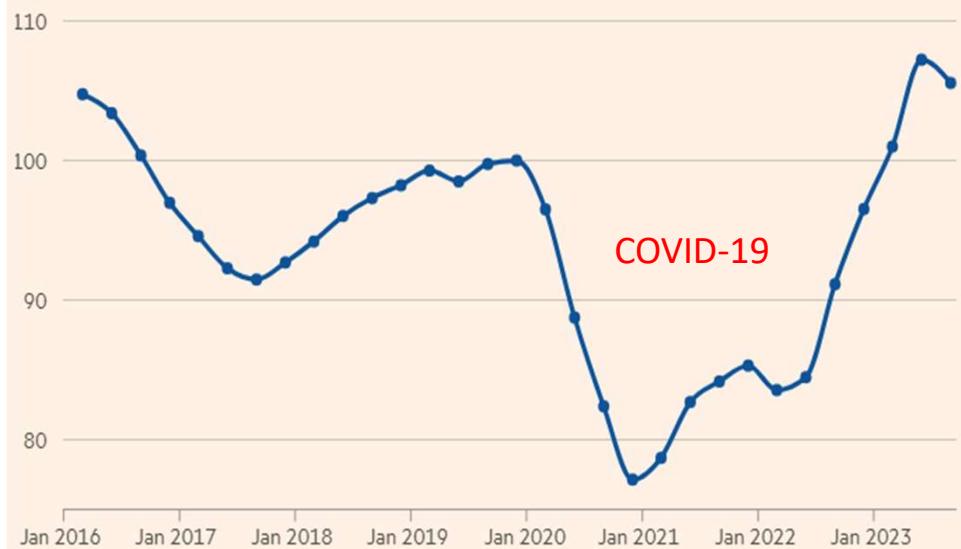
US bankruptcy filings by year



EU bankruptcies have risen in many sectors

Four-quarter average, index Q4 2019=100

■ Total ■ Industry ■ Construction ■ Trade ■ Transportation ■ Hospitality ■ IT
■ Professional services ■ Education & health



FINANCIAL TIMES

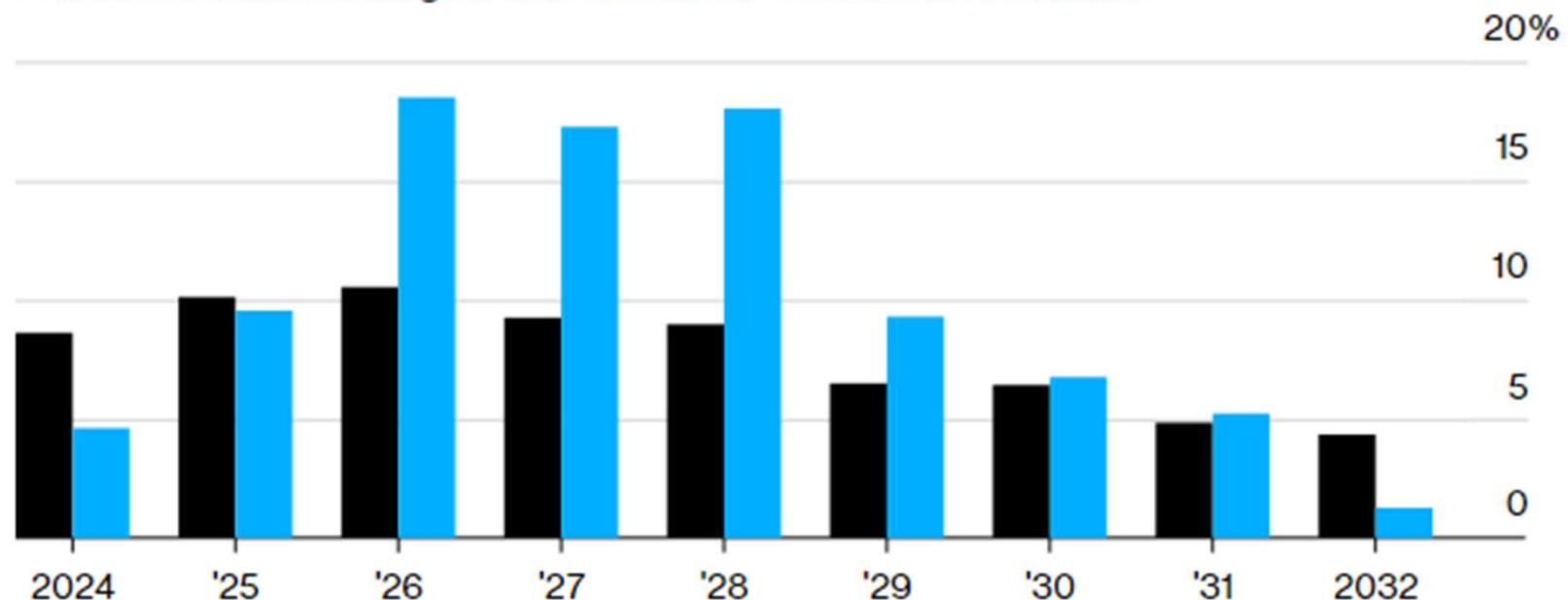
Source: Eurostat

Rates might matter to more companies soon...

About Two-Thirds of US Small-Cap Debt Due in Five Years

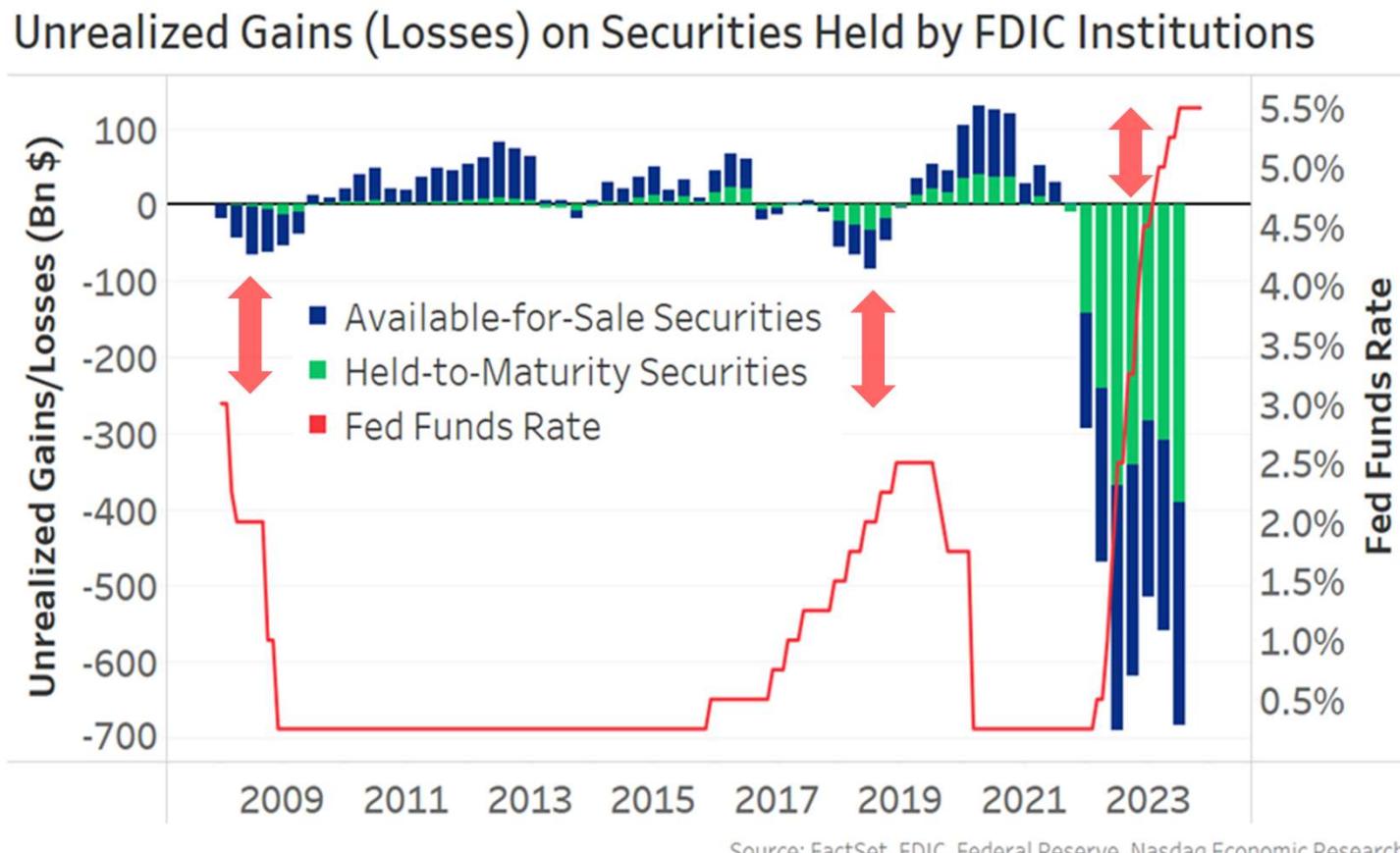
That compares with less than half for S&P 500 firms

■ Share of debt maturing for S&P 500 Index ■ Russell 2000 Index

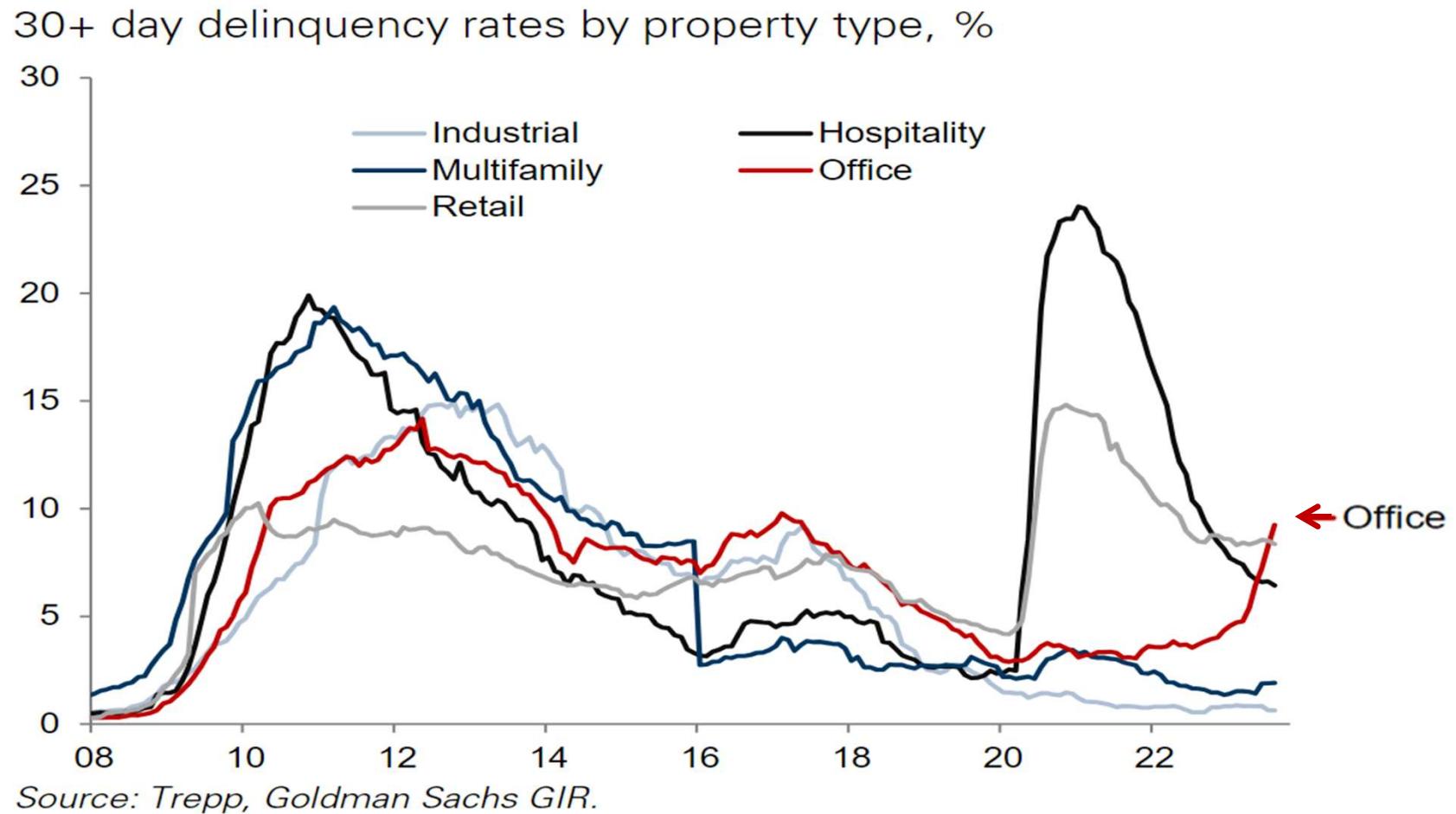


Source: Bloomberg

Lower rates relieve pressure on small banks...



Commercial: Only Office delinquency is rising



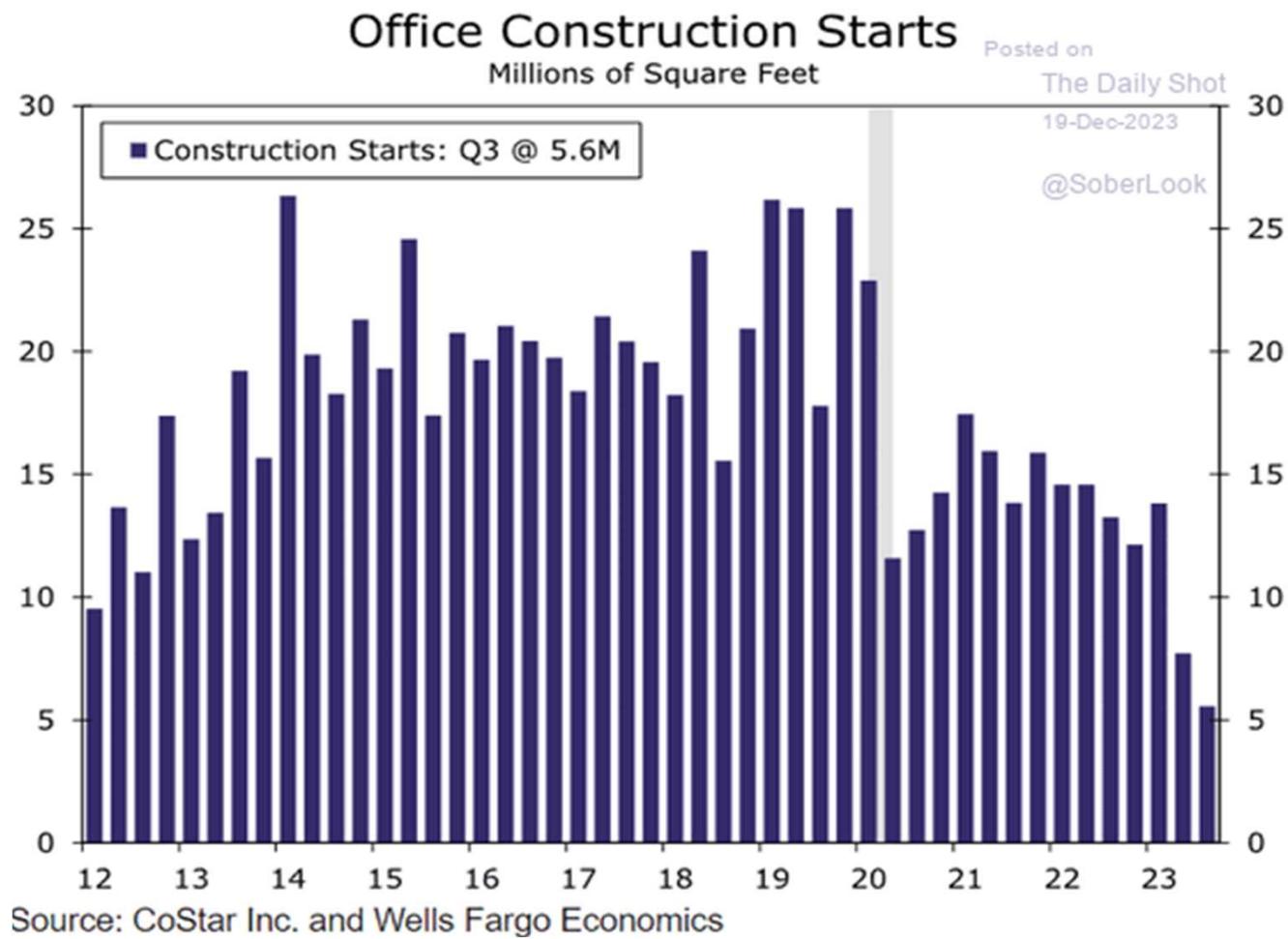
Office loans mature over time



Note: Other lenders include commercial mortgage backed securities, insurance companies and private and government lenders.

Source: MSCI Real Assets, Wall Street Journal

Office construction slowing

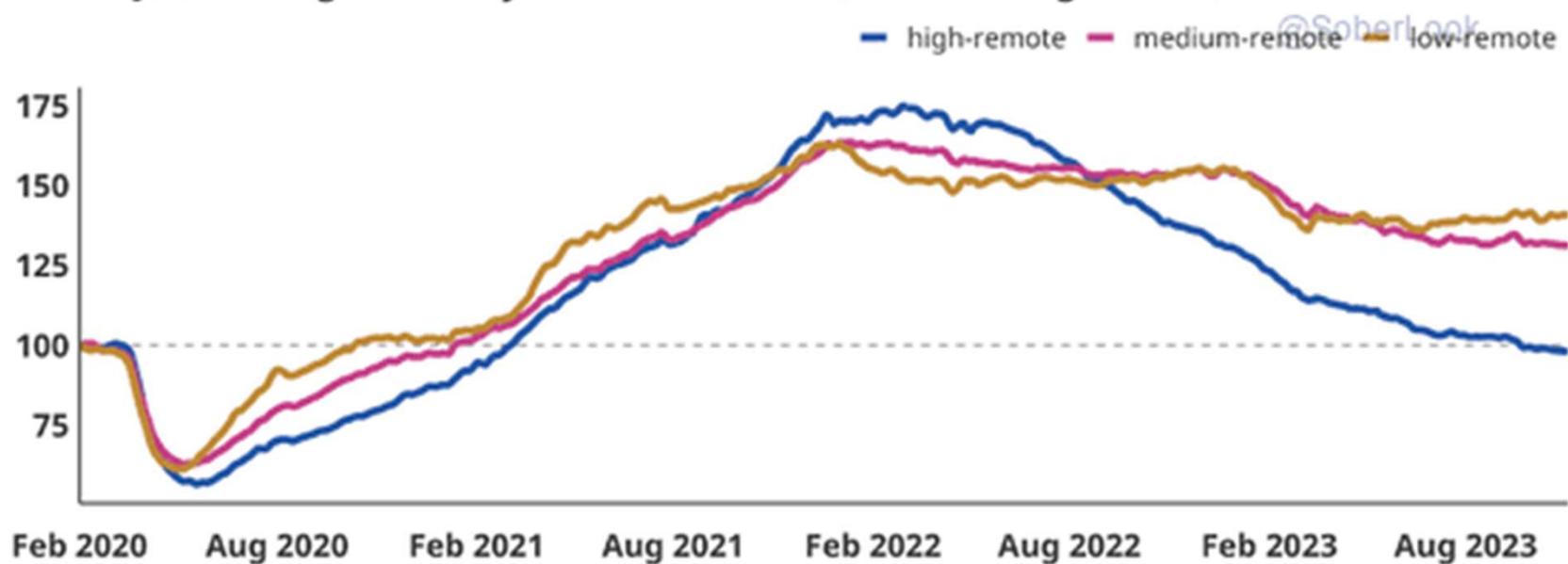


Although fully remote job adds are back to pre-covid trend

Postings are most resilient in sectors most likely to be in person

Posted on
The Daily Shot
27-Nov-2023

US Job Postings Index by remote-work tier, data through Nov 3, 2023



Source: Indeed Job Postings Index

indeed

Households will benefit

Homes: Higher rates & higher prices?

Median Existing Home Price and Mortgage Rates



Source: FactSet, National Association of Realtors, Freddie Mac, Nasdaq Economic Research

...have made housing unaffordable

Housing Affordability

Fixed-Rate Index



Source: National Association of Realtors, Nasdaq Economic Research

Households locked at low long-term rates



Rates have boosted new home construction

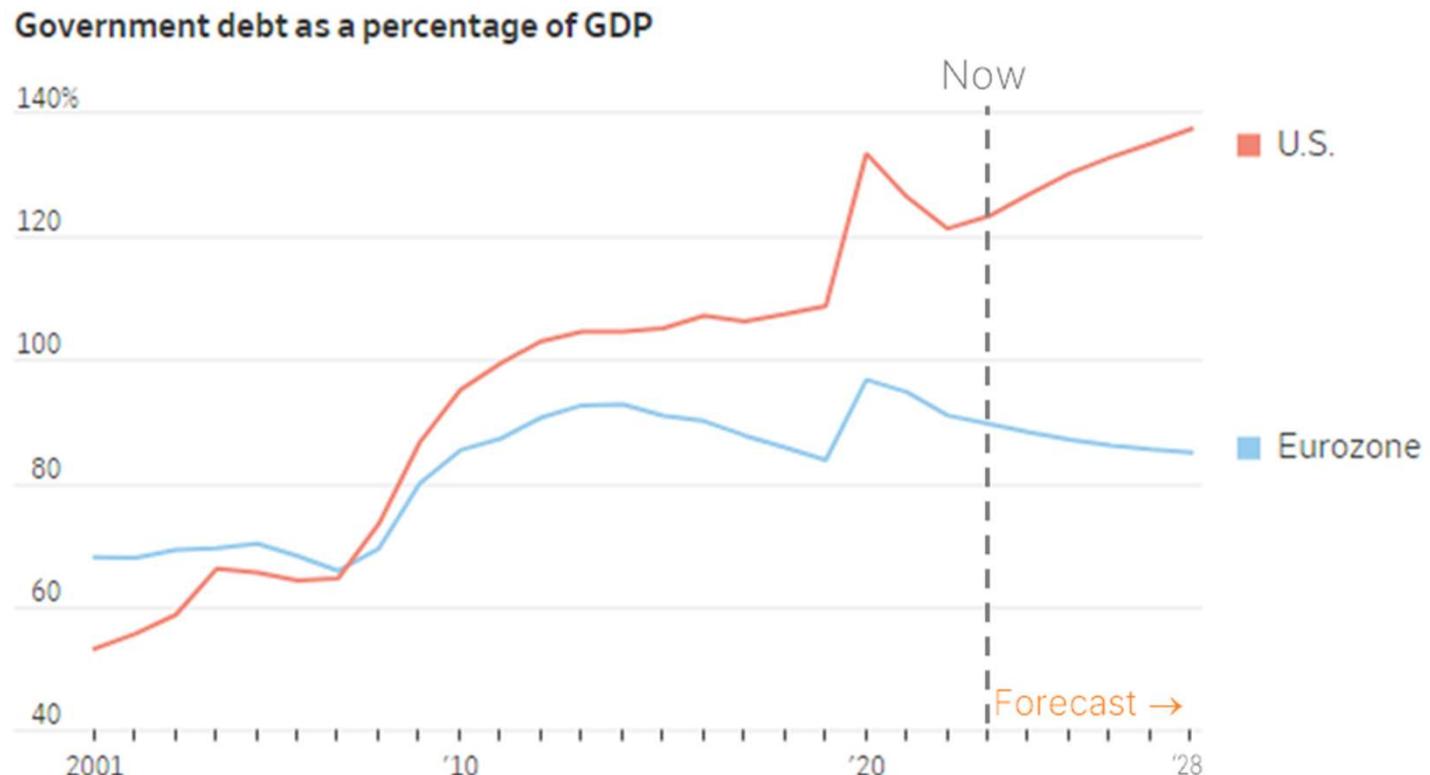
Months' Supply of Homes for Sale



Source: National Association of Realtors and US Census Bureau

Government finances might
also benefit

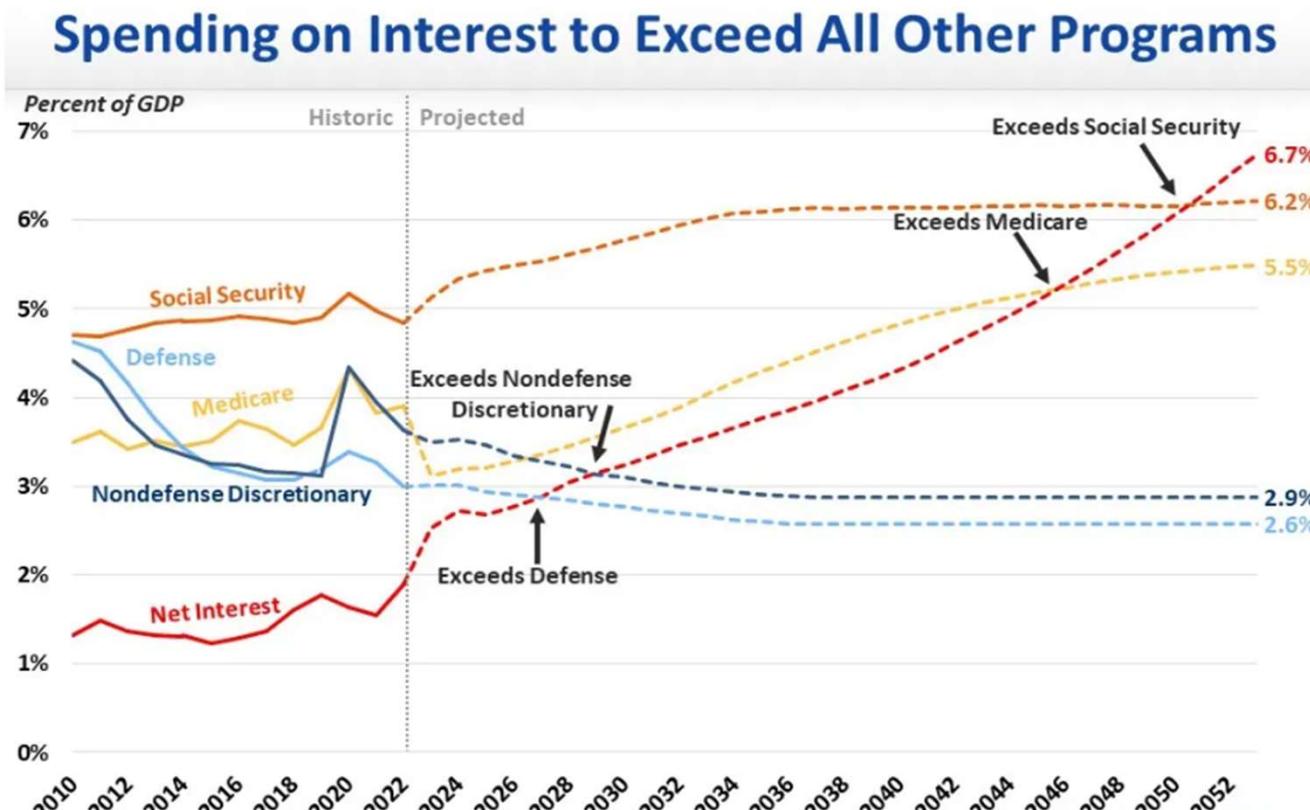
Rates matter to governments too...



Note: Figures after 2022 are projections.

Sources: International Monetary Fund; Barclays, Wall Street Journal.

Interest expense expected to increase



Source: Congressional Budget Office, Committee for a Responsible Federal Budget Estimates

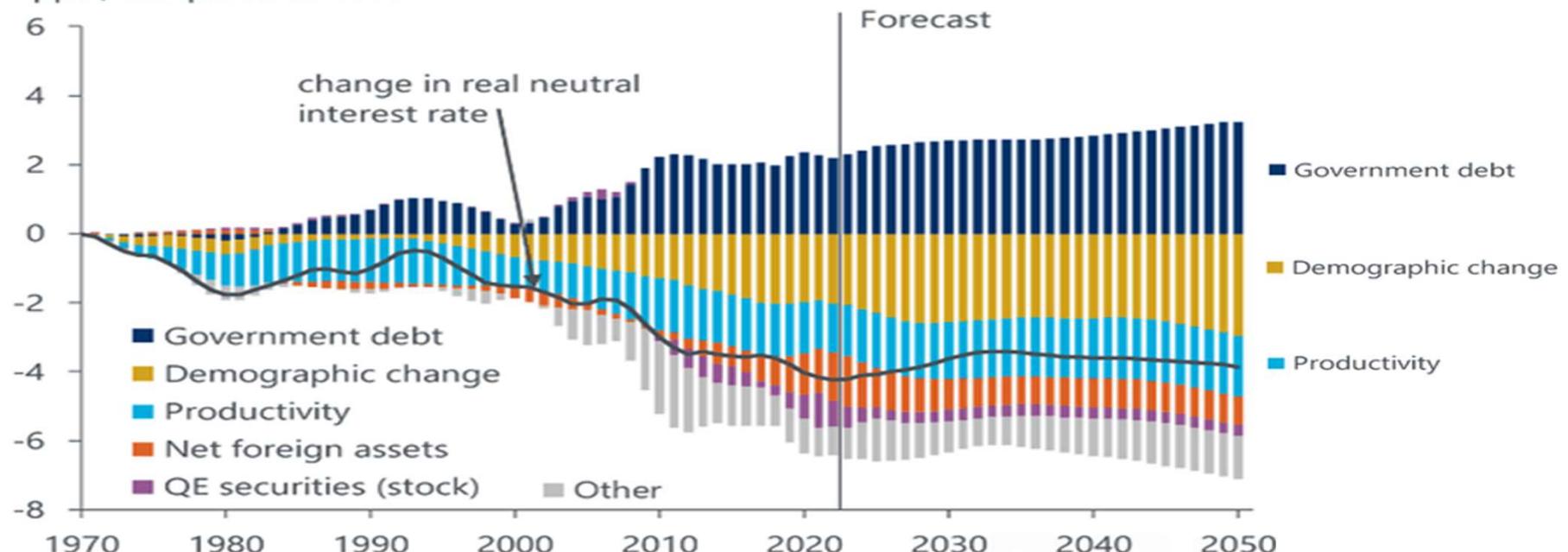


Rates might matter to bond markets too...

The upward pressure from rising government debt is offset by other secular forces

The Daily Shot
07-Nov-2023

US real neutral interest rate: Change and contributions
pps, compared to 1970

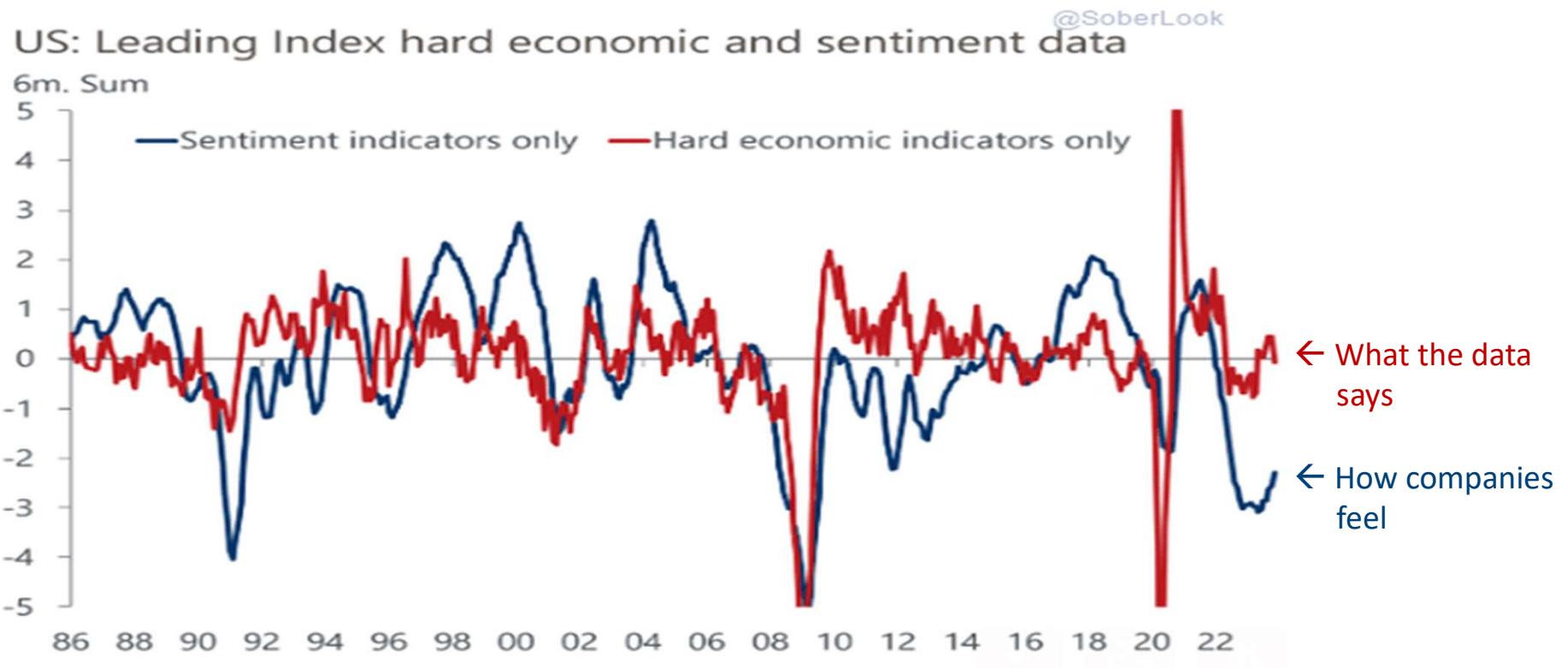


Source: Oxford Economics/Haver Analytics/United Nations/World Bank/ECB

What does this mean for stocks?

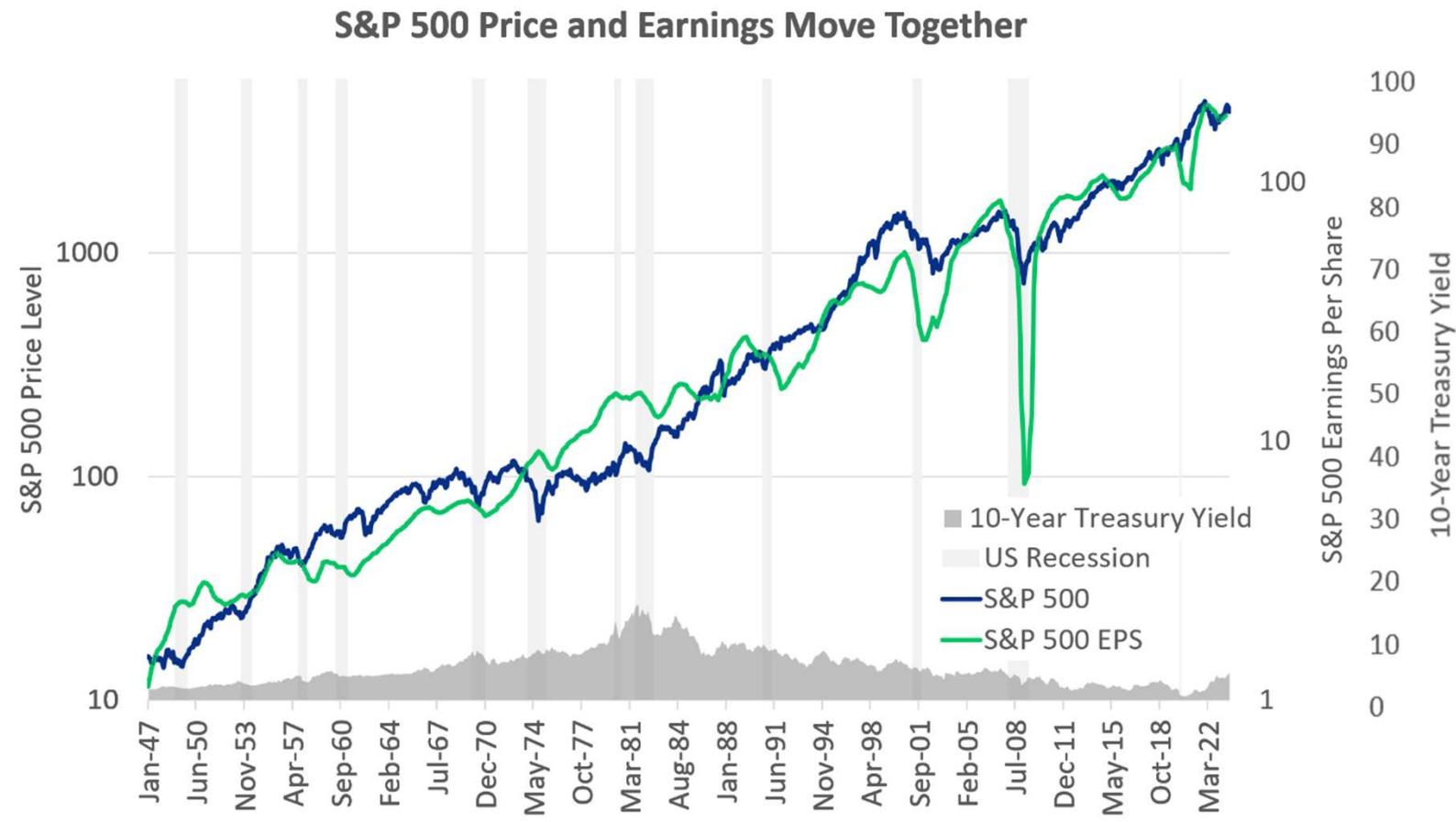
Businesses still don't trust the consumer

Chart 1: Sentiment indicators weigh on the LEI, but are improving



Source: Oxford Economics/Haver Analytics

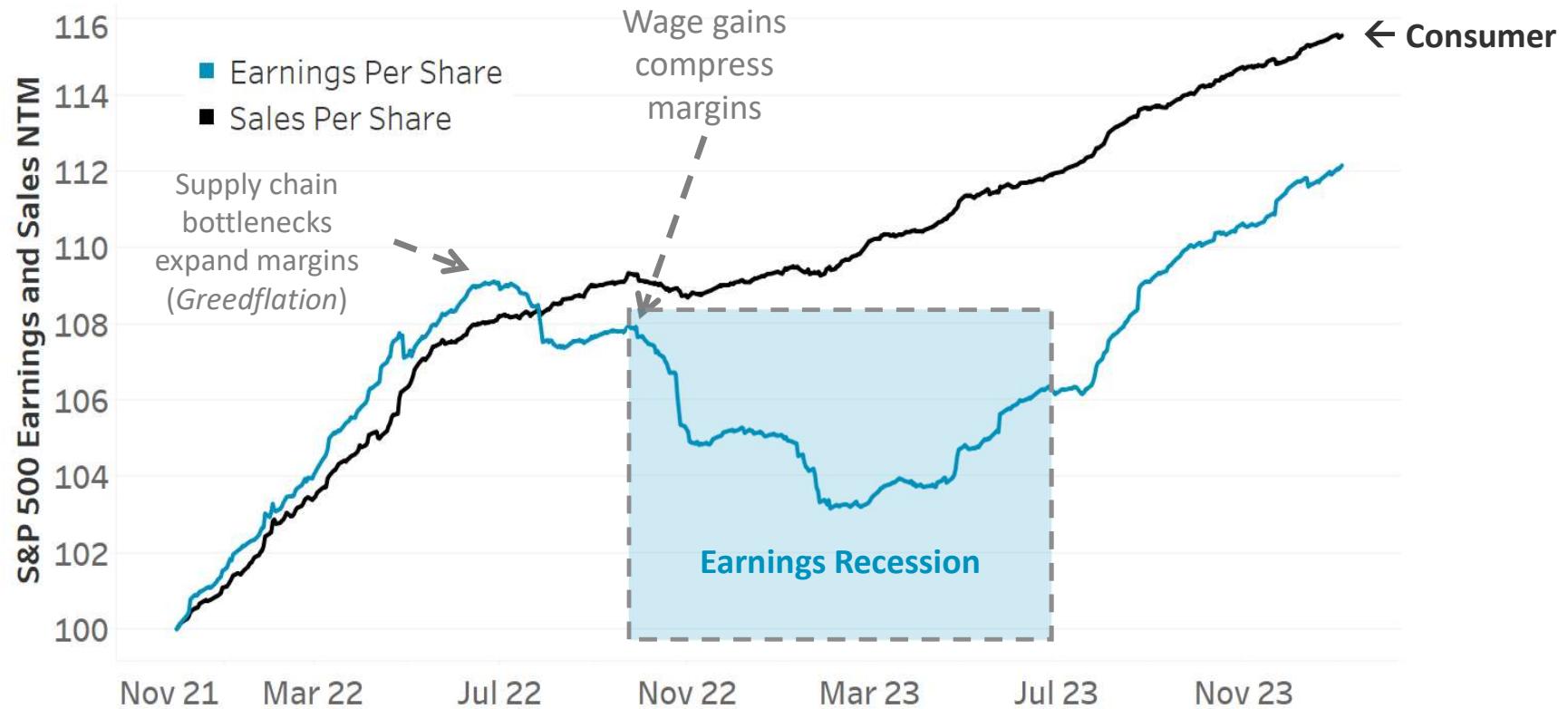
Earnings drive long-term returns



Wages dented margins, but not revenues

S&P 500 Earnings and Sales Per Share

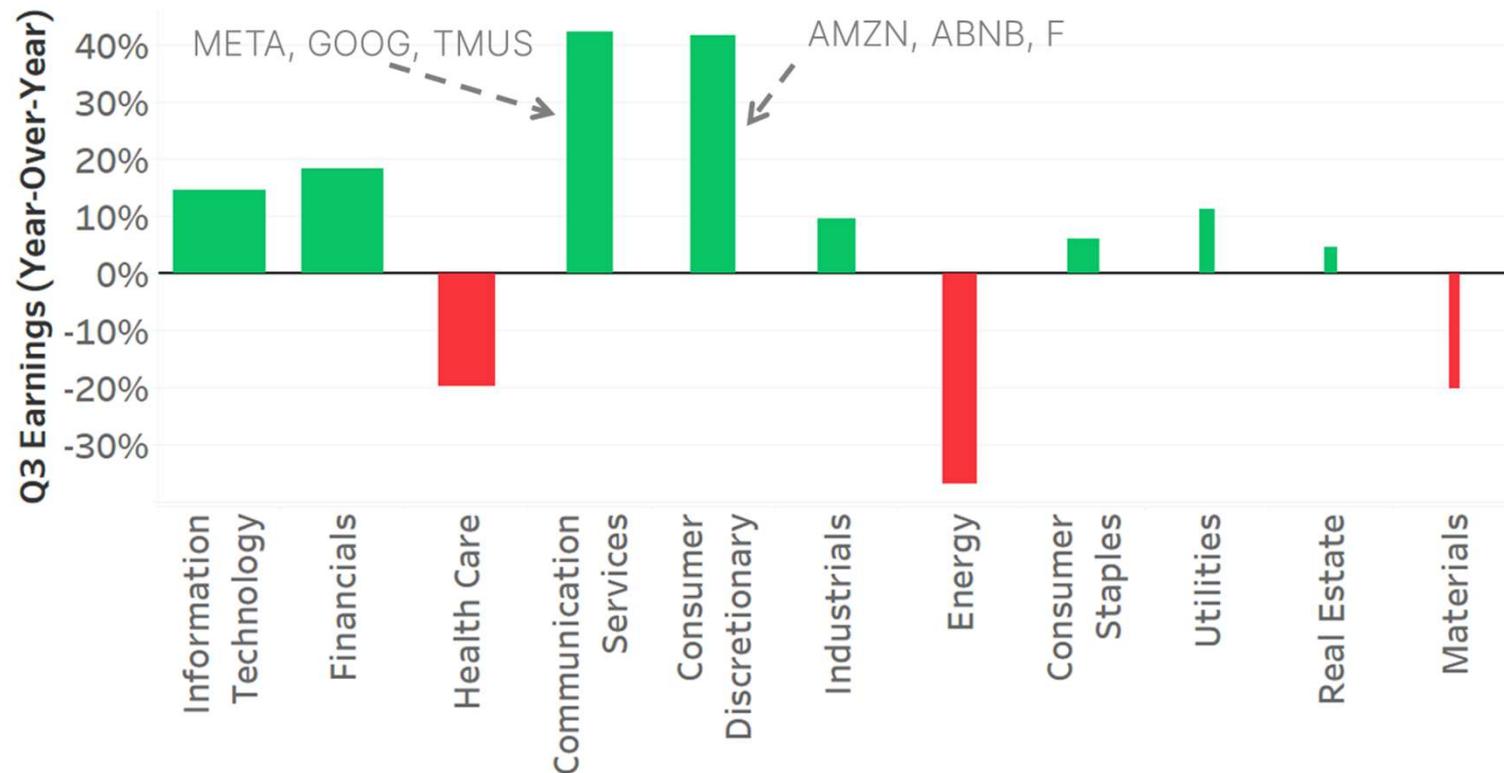
Earnings and sales per share on rolling next 12 month (NTM) basis, indexed to December 1, 2021 = 100. Data through January 4, 2024.



Consumer-driven sectors doing better

S&P 500 Q3 Earnings Growth

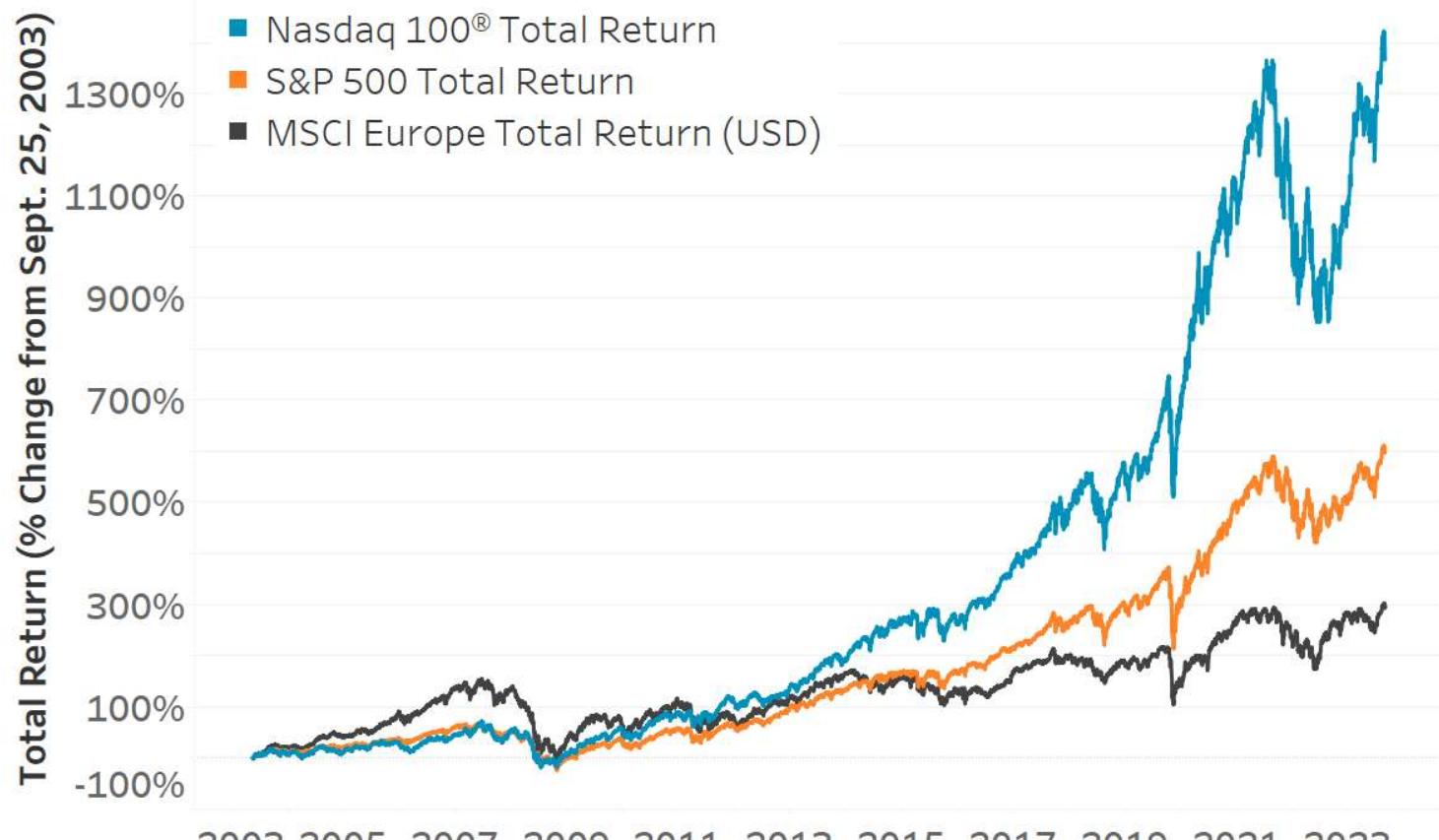
Bar width represents industry weight by share of net income. Data as of December 14, 2023.



Source: FactSet, Nasdaq Economic Research

US stock Market has defied high rates

Data as of January 4, 2024



Source: Nasdaq Economic Research, FactSet

Large cap earnings growth & margins strongest

Nasdaq-100 EPS has surged by 19% from its troughs in the early part of 2023...



Source: SG Cross Asset Research/Equity Strategy Refinitiv. Data as of 3 Nov. 2023.

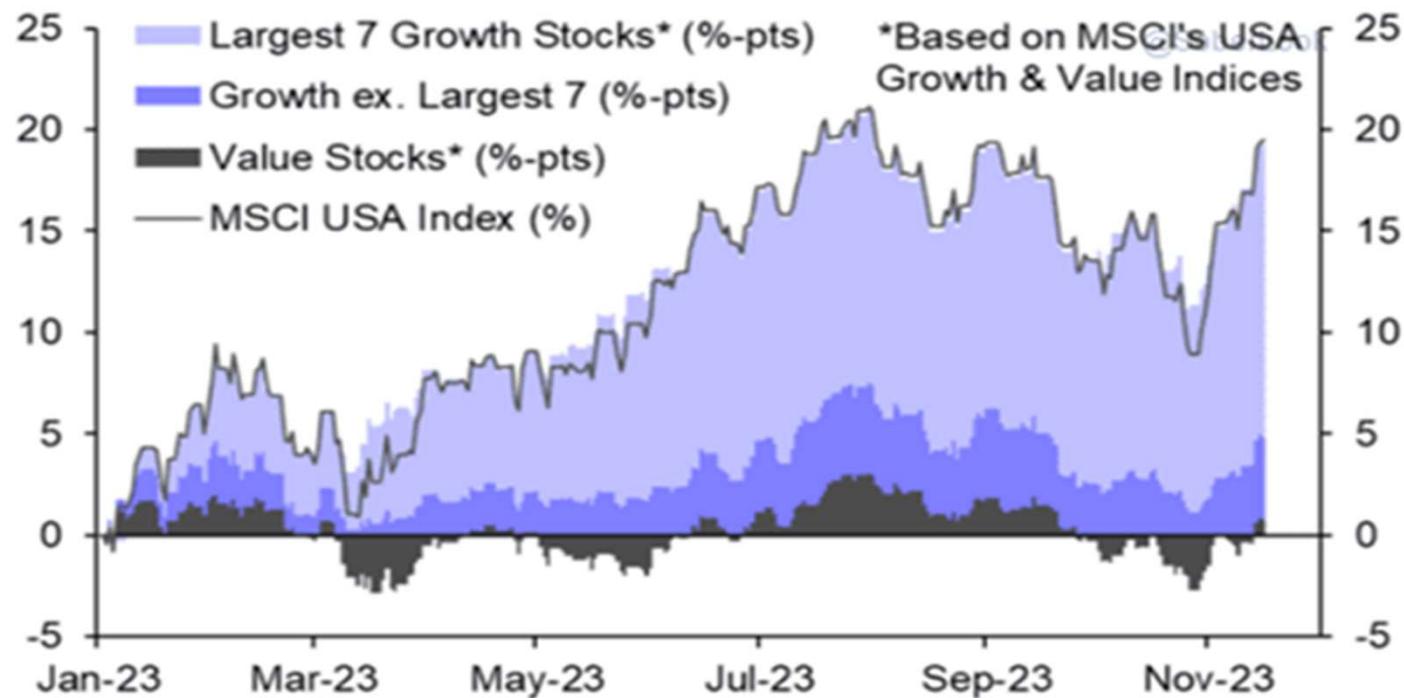
Market returns driven by Magnificent 7

Chart 2: Contributions To Year-To-Date Changes In MSCI USA Index

Posted on

The Daily Shot

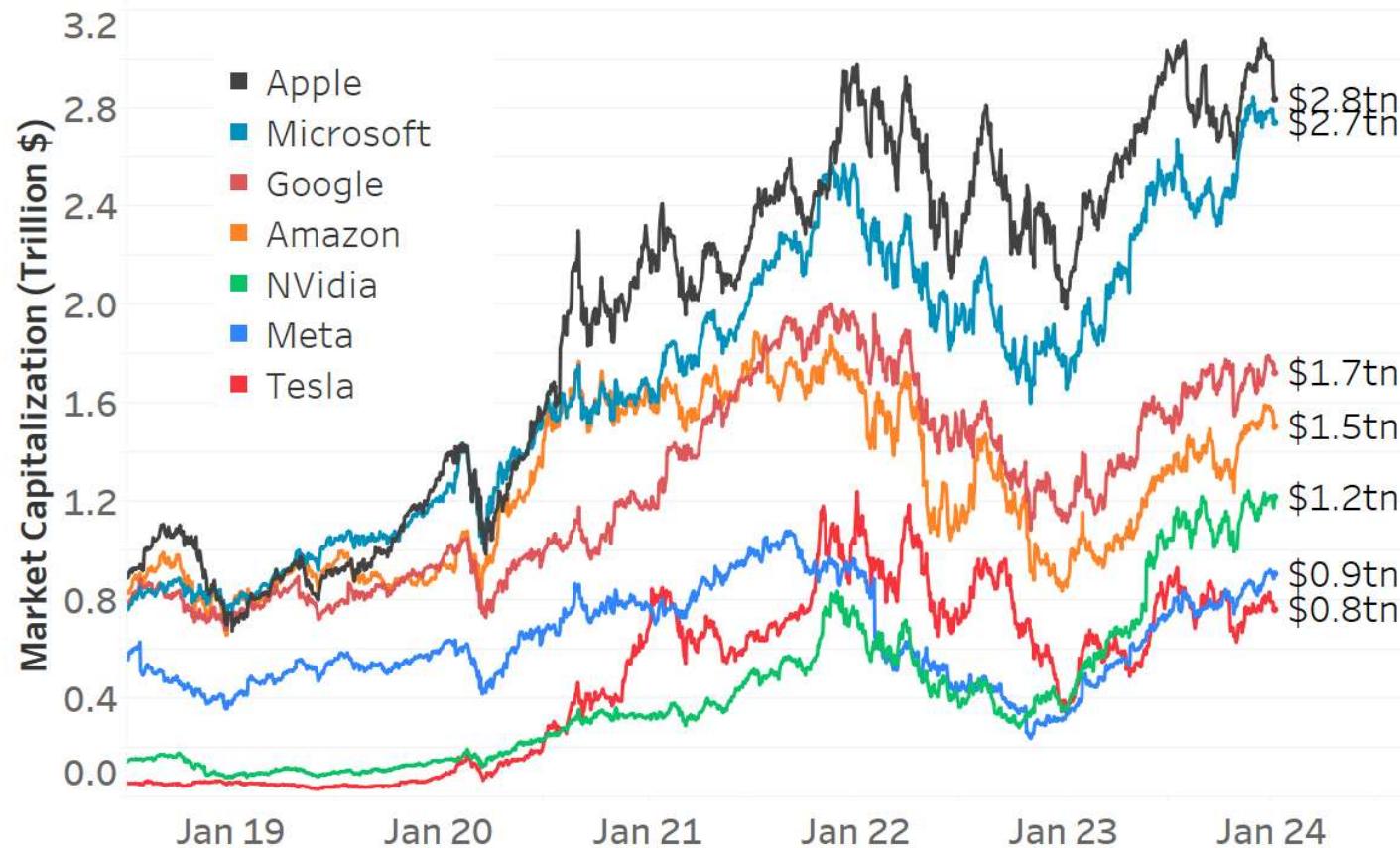
21-Nov-2023



Sources: Refinitiv, Capital Economics

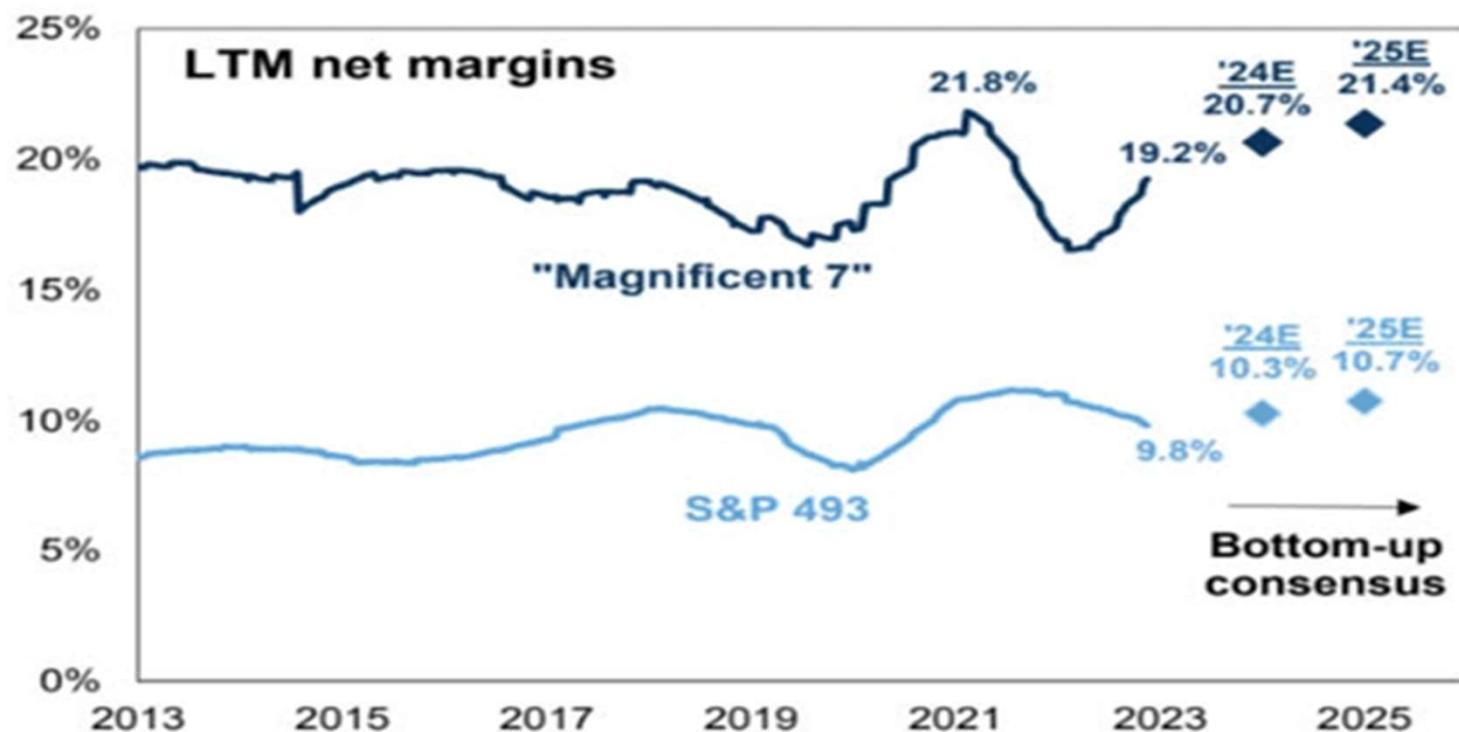
Magnificent 7: Trillion-dollar-company club

Data through January 4, 2024



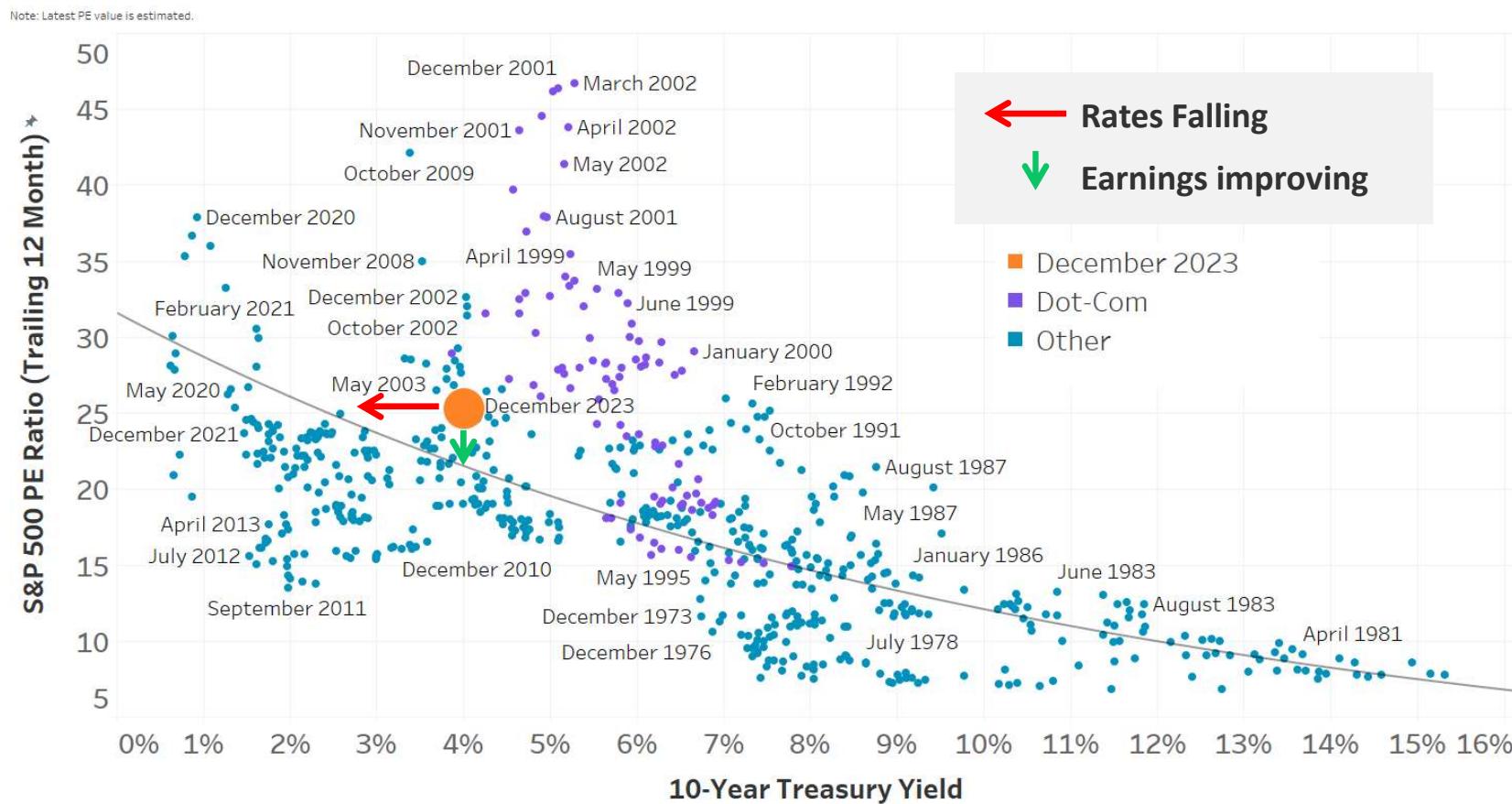
Magnificent 7 have superior margins & real revenues

Exhibit 29: **Margins of Magnificent 7 vs. rest of S&P 500**



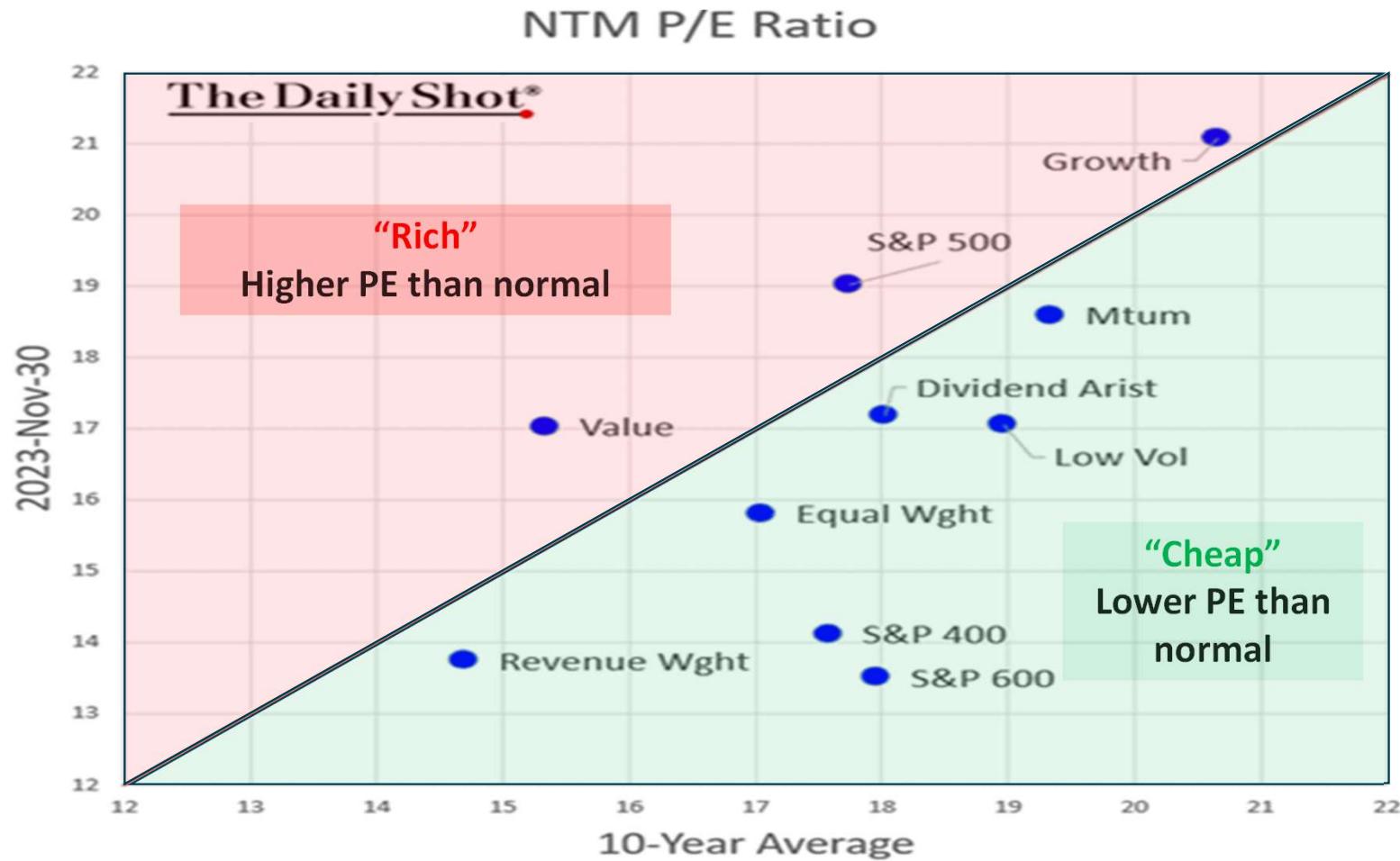
Source: FactSet, Goldman Sachs Global Investment Research

2024 Rates falling should be a tailwind for stocks



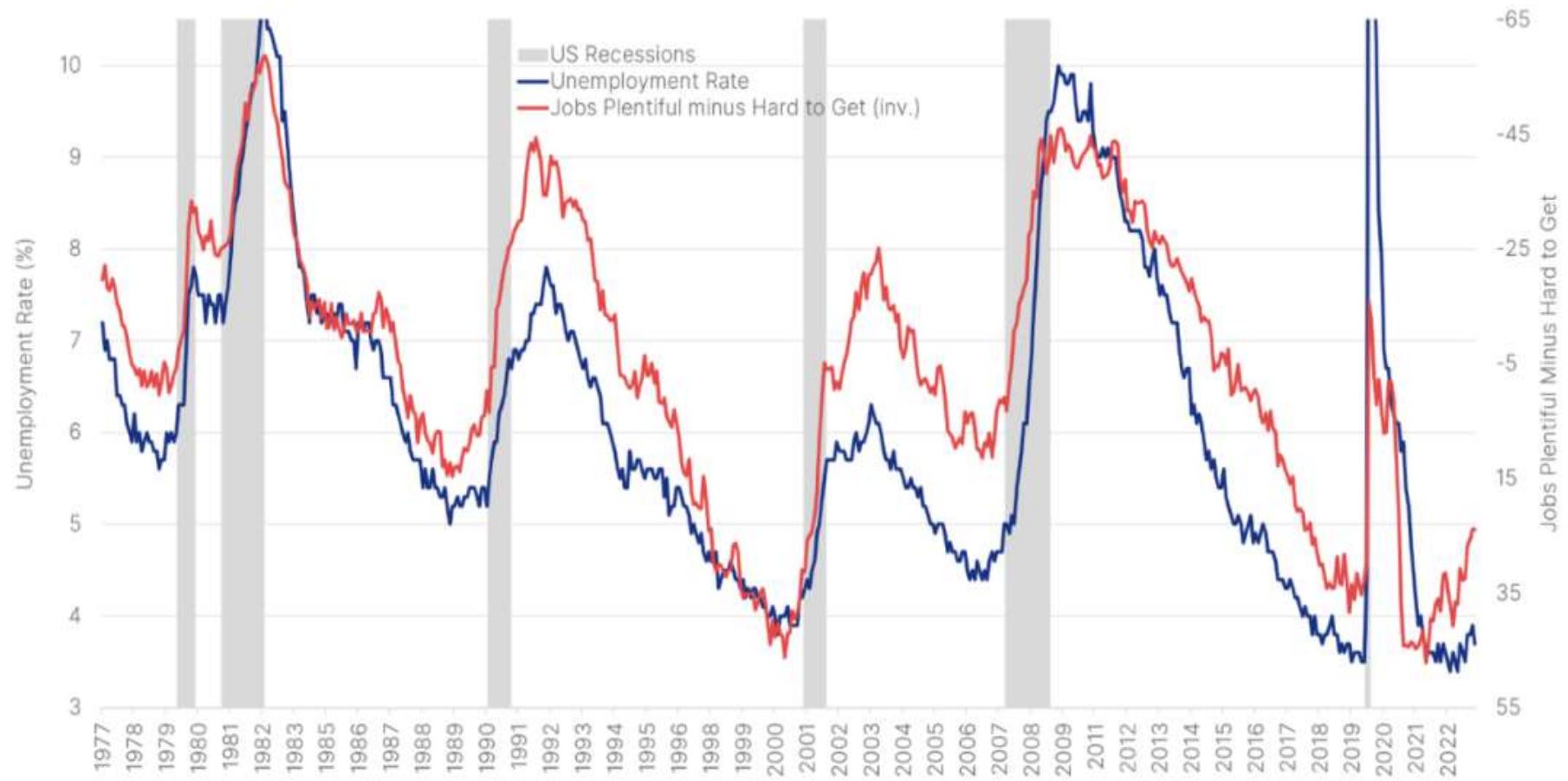
Source: Multpl.com, FactSet, Nasdaq Economic Research

A valuation rotation in 2024?

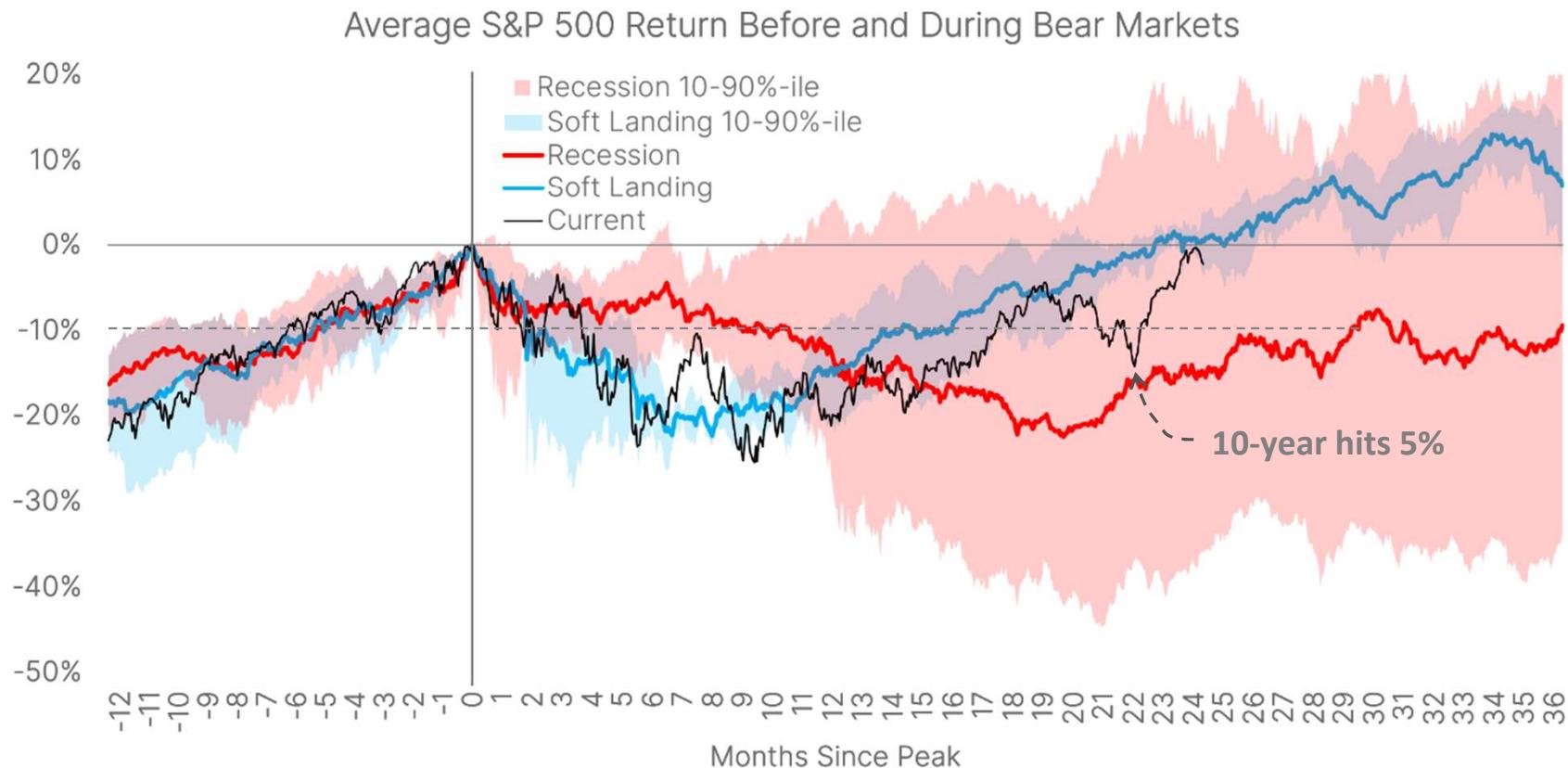


What if we are wrong (about the soft landing)?

What if we are wrong about the soft landing?



What if we are wrong about the soft landing?



Questions?

Sign up for our research at:
nasdaq.com/authors/phil-mackintosh