Introducing Our Index & Our 2024 Outlook

December 21, 2023
Bloomberg – (November 29, 2023) China Investment Bank Bans Displays of Wealth
CICC asks analysts to avoid negative macro, market commentary
Bankers also discouraged from showing off their wealth: memo

Analysts at China International Capital Corp. are barred from sharing negative comments about the economy or markets in both public and private discussions, according to an internal memo sent to the research department this month and seen by Bloomberg News. Employees should also avoid wearing luxury brands or revealing their compensation to third parties, the memo said.

The directive underscores the increasing level of self-scrutiny at Chinese financial institutions after authorities lashed out this year at bankers’ “hedonistic” lifestyles, and ordered them to comply with President Xi Jinping’s “common prosperity” drive. It also highlights concern among international investors that China is increasingly restricting access to transparent data and research in the world’s second-largest economy.
Even the U.S. president’s return-to-office push is being ignored by workers: ‘They aren’t coming back’

Source: Kastle
https://www.kastle.com/getting-america-back-to-work/
Thinking beyond markdowns to tackle retail’s inventory glut

In the United States alone, retailers are sitting on $740 billion in unsold goods. Clearing inventory and building more resilient and agile supply chains require action across five dimensions.

Over the past 18 months, retail supply chains have experienced unprecedented demand and supply shifts. Pandemic-related disruptions from the end of 2021 to the start of 2022 led to goods arriving late—or, in some cases, after the season. As retailers sought to overbuy inventory to mitigate potential shortages, softening demand and a sudden shift in consumer spending in the middle of last year left them with an inventory glut needing to be marked down or warehoused.
66% of FMS investors expect a "soft landing" for the global economy in the next 12 months.

Expectations for "hard landing" 23%.

When asked about the timing of recession for the US economy, 36% said they expect no recession at all in the next 12 months while 32% expect the US to fall into recession in Q2'24.

Most Economists Don't Expect Recession Within 12 Months

Fewer than one third of economists forecast a recession.
CNN – *(November 29, 2023)* Jamie Dimon says to be prepared for recession

JPMorgan Chase CEO Jamie Dimon issued a stark warning to Wall Street on Wednesday: Inflation could rise further and recession is not off the table.

“A lot of things out there are dangerous and inflationary. Be prepared,” he said at the 2023 New York Times DealBook Summit in New York. “Interest rates may go up and that might lead to recession.”

*I don’t think that expansions just die of old age. Two things usually end them. One is financial imbalances and the other is the Fed, and usually, when the Fed ends an expansion, it’s because inflation has gotten out of control and the Fed needs to tighten to bring it down.*

– Janet Yellen, January 4, 2019

*But as Janet says, expansions don’t die of old age. I’d like to say they get murdered, instead.*

– Ben Bernanke, January 4, 2019
Financial Times – (October 2017) Fed has no reliable theory of inflation, says Tarullo

He was particularly doubtful about the weight inflation expectations play in rate-setting policy, given the “range and depth of unanswered questions” about how they are formed and measured. “The substantive point is that we do not, at present, have a theory of inflation dynamics that works sufficiently well to be of use for the business of real-time monetary policymaking,” said Mr Tarullo in a speech at the Brookings think-tank in Washington.
The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the fourth quarter of 2023 is 2.7 percent on December 19, up from 2.6 percent on December 14. After recent releases from the US Census Bureau and the Federal Reserve Board of Governors, the nowcast of fourth-quarter real gross private domestic investment growth increased from 0.5 percent to 0.6 percent.

The next GDPNow update is Friday, December 22. Please see the “Release Dates” tab below for a list of upcoming releases.
US Quarterly GDP

Maybe this was the recession everyone keeps forecasting?

Otherwise it was only second time in American history (1947) that consecutive negative quarters was not a recession.

Data Source: Bloomberg

The Latest GDP Estimate (Atlanta Fed GDPnow)
Reuters - US Thanksgiving weekend sales hit record on big discounts, online boost

Deep discounts on everything from beauty products and toys to electronics during the Thanksgiving weekend enticed U.S. shoppers to splurge about $38 billion online, signaling a strong holiday shopping season even as economic uncertainty swirled.
The Financial Times – (October 19, 2023) Blackstone warns of looming hit to consumers from surge in bond yields

‘When 30-year mortgages and car loans cost you 8% it will impact consumer behaviour,’ says president Jonathan Gray, president of Blackstone, said in an interview with the Financial Times that the jump in 10-year Treasury yields would force consumers to tighten their belts. “When 30-year mortgages and car loans cost you 8 percent it will impact consumer behaviour,”
Money Supply and Inflation
A Historically Weak Relationship That Has Grown Weaker Over The Years

Federal Reserve Money Supply M2 YoY % Change
US CPI Urban Consumers YoY NSA

Data Source: New York Federal Reserve, Bloomberg

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### How Long Until the Recession?

When the 3-month to 10-year yield curve uninverts for 10 consecutive days

<table>
<thead>
<tr>
<th>Date of Inversion</th>
<th>Date of Uninversion</th>
<th>Days Inverted</th>
<th>Date of Next Recession</th>
<th>Calendar Days to Recession From Inversion Date</th>
<th>Universion Date</th>
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<tbody>
<tr>
<td>1/10/1969</td>
<td>2/21/1969</td>
<td>42</td>
<td>Dec-69</td>
<td>325</td>
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<tr>
<td><strong>11/22/2022</strong></td>
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<td><strong>394</strong></td>
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<tr>
<td><strong>Average</strong></td>
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<td><strong>257</strong></td>
<td></td>
<td><strong>316</strong></td>
<td><strong>66</strong></td>
</tr>
</tbody>
</table>

1/10/1969 = Inverted for 24 calendar days, went positive for 33 days, then inverted again for 53 days

6/6/1989 = Inverted for 30 calendar days, went positive for 9 days, inverted again for 26 days

6/6/2019 = Inverted 41 consecutive trading days, went positive for 1 day, then inverted again for 67 days
What Is the Average Interest Rate the U.S. Treasury Pays on Its Debt?

Source: U.S. Treasury

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62% of Americans are living paycheck to paycheck, as holiday spending, credit card debt rise

Half of consumers plan to take on more debt to cover those holiday expenses, according to another report by Ally Bank. Only 23% have a plan to pay it off within one to two months. “Not only is sticking to a budget harder today,” said Sarah Foster, a Bankrate analyst, “but it’s all the more imperative, too.” “Credit card financing rates have hovered at the highest levels ever recorded since last fall, meaning carrying a balance could cost a heavy price,” she said.
**Bloomberg** – *(November 29, 2023)* **Bill Ackman Bets Fed Will Cut Interest Rates as Soon as First Quarter**

What’s happening is the real rate of interest, which is what impacts the economy, keeps increasing as inflation declines,” Ackman said in an upcoming episode of The David Rubenstein Show: Peer-to-Peer Conversations. Ackman said that if the Fed keeps rates in the roughly 5.5% range when inflation trends below 3%, “that’s a very high real rate of interest.”


San Francisco Fed President Mary Daly said her outlook for interest rates and inflation was “very close” to the median of projections from 19 Fed officials last week. Most of them penciled in at least three rate cuts next year amid a faster decline in inflation than they anticipated...Daly said that if inflation continues its steady decline of recent months, the Fed’s benchmark interest rate “will still be quite restrictive even if we [cut rates] three times next year.”
When Will the Fed Cut Rates?
Odds the Fed Cuts the Target Rate to 5.00% to 5.25%
As Calculated by the Chicago Mercantile Exchange’s Fed Watch Tool

The Probability the Fed Cuts 25 Basis Points to 5.00% - 5.25%
- January 31, 2024 FOMC Meeting
- March 20, 2024 FOMC Meeting
- May 1, 2024 FOMC Meeting

Source: Chicago Mercantile Exchange

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Looking at US Aggregate Credit Index OAS and the S&P 500 Index

Source: Bloomberg.

The New York Fed's Reverse Repo Facility

Daily Amount Taken

Data Source: New York Federal Reserve

RRP's current trendline (dashed line) suggests it sinks to $400 billion by mid/late-February and $0 by early April.

It could bottom between $500B and $600B as money market funds still need some overnight liquidity for redemptions. But even the current trend continues to zero, the facility has about three or four months left.
Bank Reserves Are Rising Despite Quantitative Tightening

U.S. Reserve Balances With Federal Reserve Banks

*The Federal Reserve Creates New Lending Programs to Expand Reserves in Response to March Bank Failures (highlighted by Silicon Valley Bank)*

Data Source: Federal Reserve H.4.1 Report

https://www.federalreserve.gov/releases/h41.html

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A brief spike in US overnight lending rates this month is a likely harbinger of strains in money markets next year as the US government sells more Treasuries to cover its deficits, analysts have warned. Concerns were sparked by a sudden jump early this month in the rate for borrowing cash overnight in the market for short-term funds, a move that was not mirrored in the rate charged by the Federal Reserve to take in excess cash. A divergence between the two rates, which historically track each other closely, has raised fears over the potential for broader strains in the market lending rates for banks and customers, as cash becomes scarcer after years of excess liquidity...In the move earlier this month, the secured overnight borrowing rate, or Sofr, rose as much as 0.09 percentage points above the 5.3 per cent paid by the Fed to users of its overnight reverse repurchase facility. Analysts put the temporary spike down to a glut of new Treasuries, which briefly outstripped the cash available in the market for lending.