CORBETT ROAD
WEALTH MANAGEMENT

MACRO MUSINGS

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Charting the Course 2023

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SUMMARY

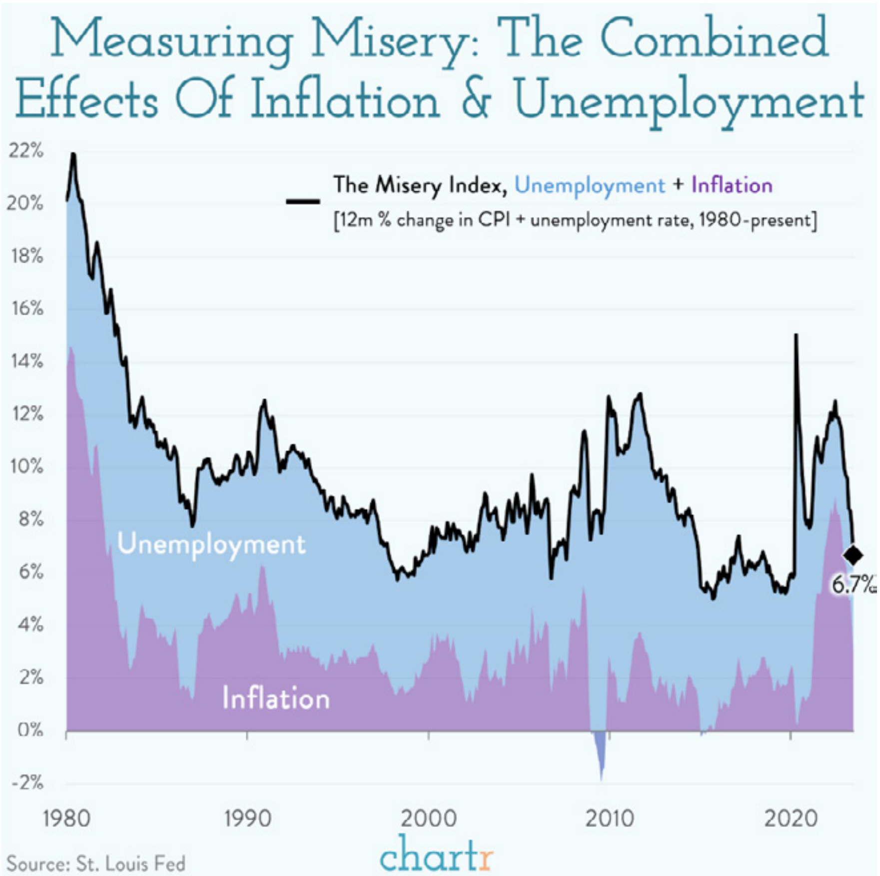
- Our current **micro**cast™ signal is suggesting an aggressive allocation, an upgrade from last month's neutral reading. The **macro**cast™ score suggests the probability of a recessionary bear market remains elevated, while the position of **micro**cast™ reflects an improving market environment. The combination of both risk models reflects the continued dichotomy between negative, macroeconomic indicators and more constructive price action from major equity indices.
- Every August, we "Chart the Course" by reviewing a series of charts illustrating key trends in the economy and markets. We hope you enjoy these, and we will resume publication of our regular commentary in September.

CHARTING THE COURSE: **macro**cast™

macrocast™ remains negative. The score has improved in recent months but has not been positive since Spring 2022. The model suggests recessionary risks remain elevated, although there is hope that with falling inflation the Fed can cut rates next year and the economy can achieve a "soft landing." If that is the case, then we would expect **macro**cast™ to turn positive in the months ahead as inflation headwinds wane and liquidity conditions improve.

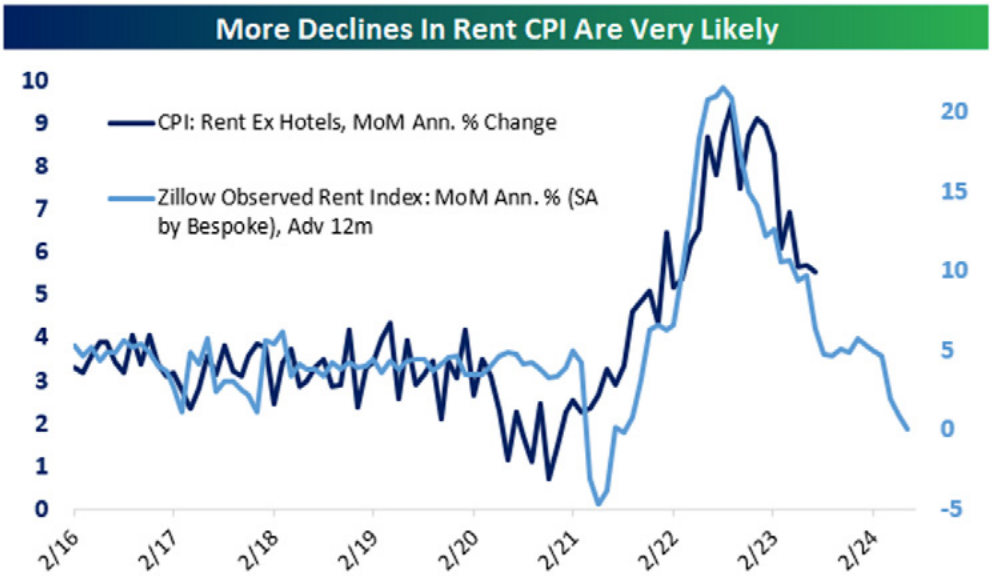
CHARTING THE COURSE: **THE ECONOMY**

The "Misery Index" is falling. The "Misery Index" is an economic indicator created by adding the unemployment rate to the inflation rate. It's used to gauge the health of an economy, with a higher level suggesting more economic distress for citizens due to joblessness and rising prices. The index surged during the pandemic—driven by job losses—and rose last year due to heightened inflation. Currently, the Misery Index sits at 6.7%, approaching the bottom end of its observed range over the past 20 years as inflation declines while unemployment remains low (Chart from Chartr):

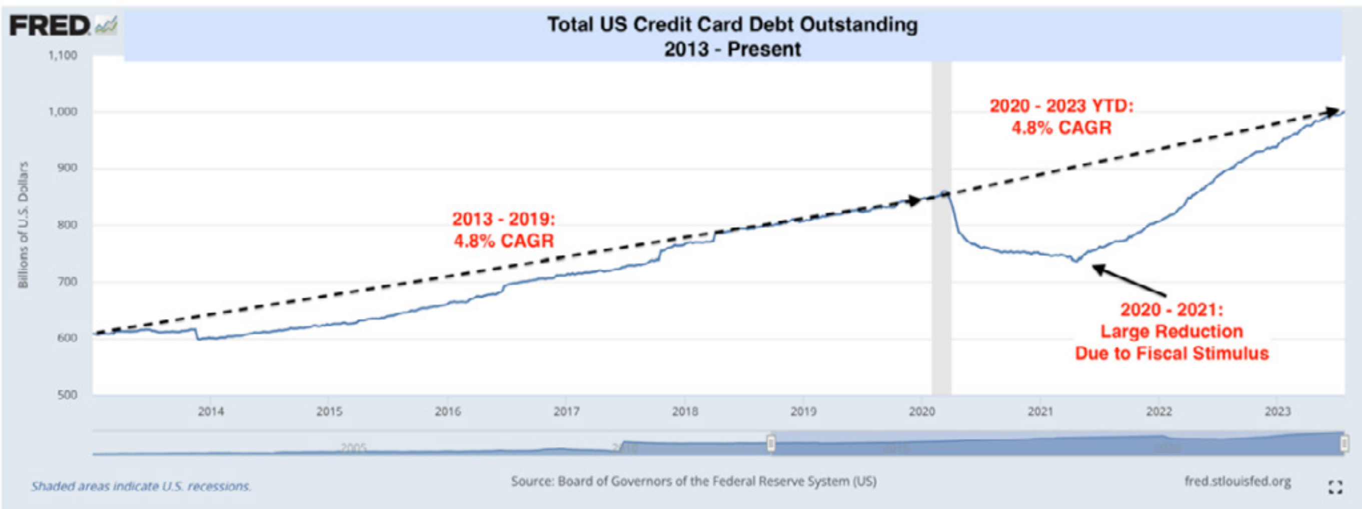


Please see important disclosures at the end of this article

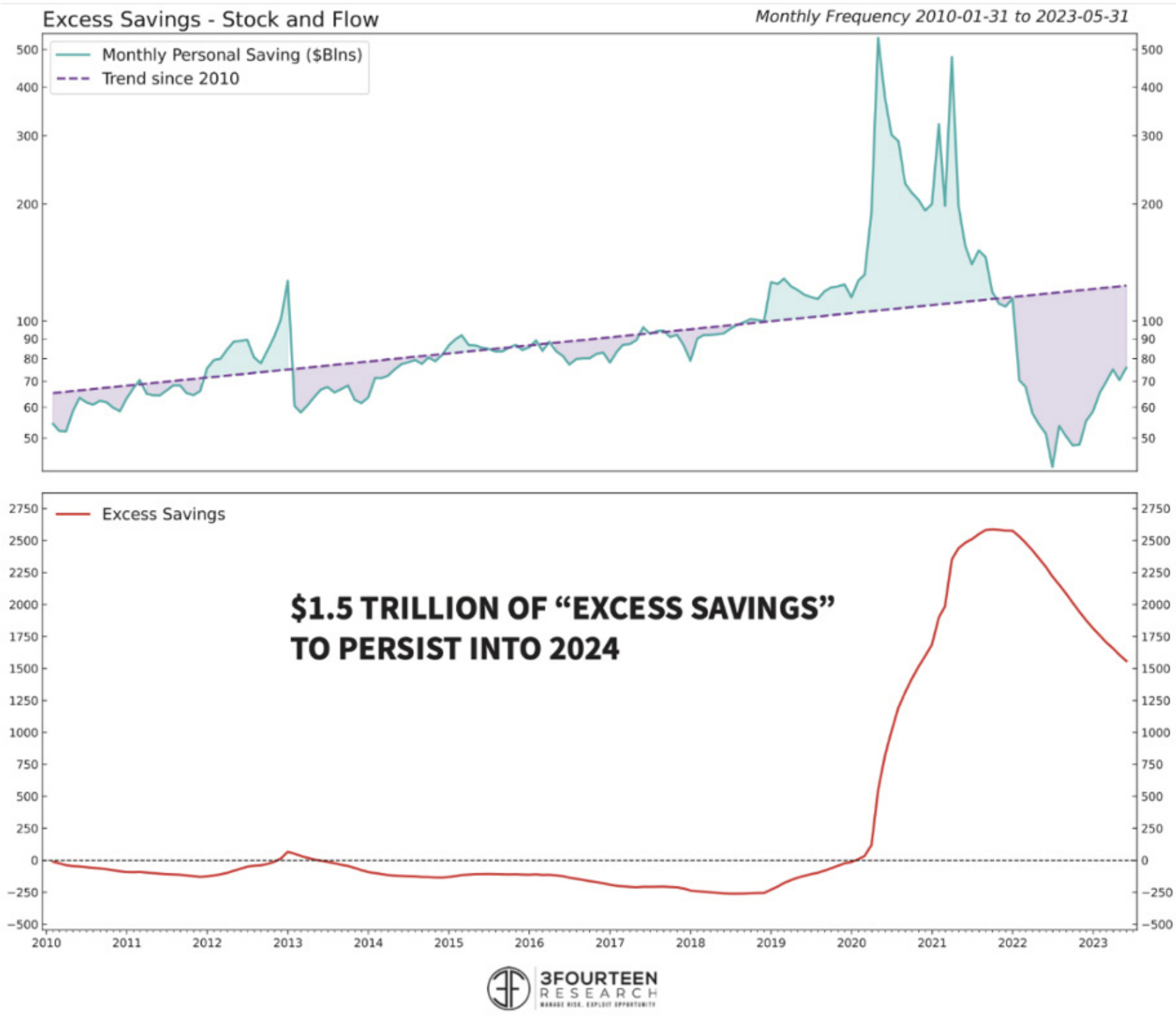
Inflation driven by rental prices is expected to decline further. Shelter is the largest component of inflation and accounted for 90% of the increase in the Consumer Price Index (CPI) during the month of July; however, the changes in rental inflation typically flow through CPI with a delay. More timely indicators suggest further declines in this inflation category in the months ahead (Chart from Bespoke):



Credit card debt has risen, but it is just now returning to its previous trend. Although credit card debt has surged past the $1 trillion mark, it's merely reverting to its pre-pandemic trajectory (Chart from DataTrek):

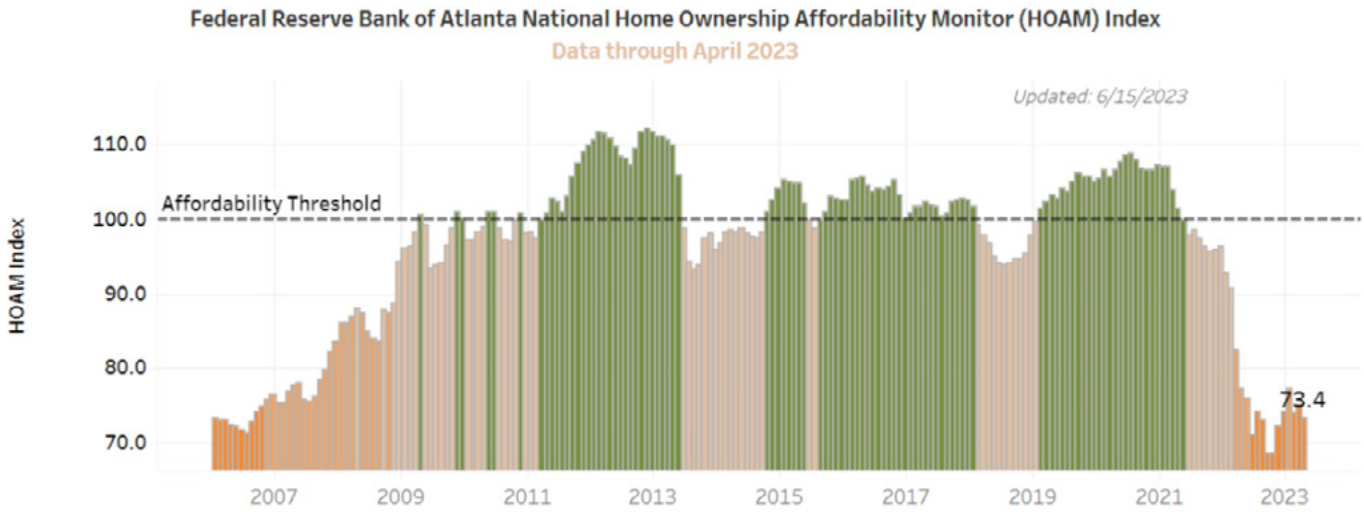


Excess savings continue to surpass historical levels. Fueled by government stimulus programs and constrained consumer spending during the pandemic, excess savings reached their peak in mid-2021. Although they have been declining since early 2022, the current amount of excess savings is still substantial at over $1.5 trillion (Chart from 3Fourteen Research):

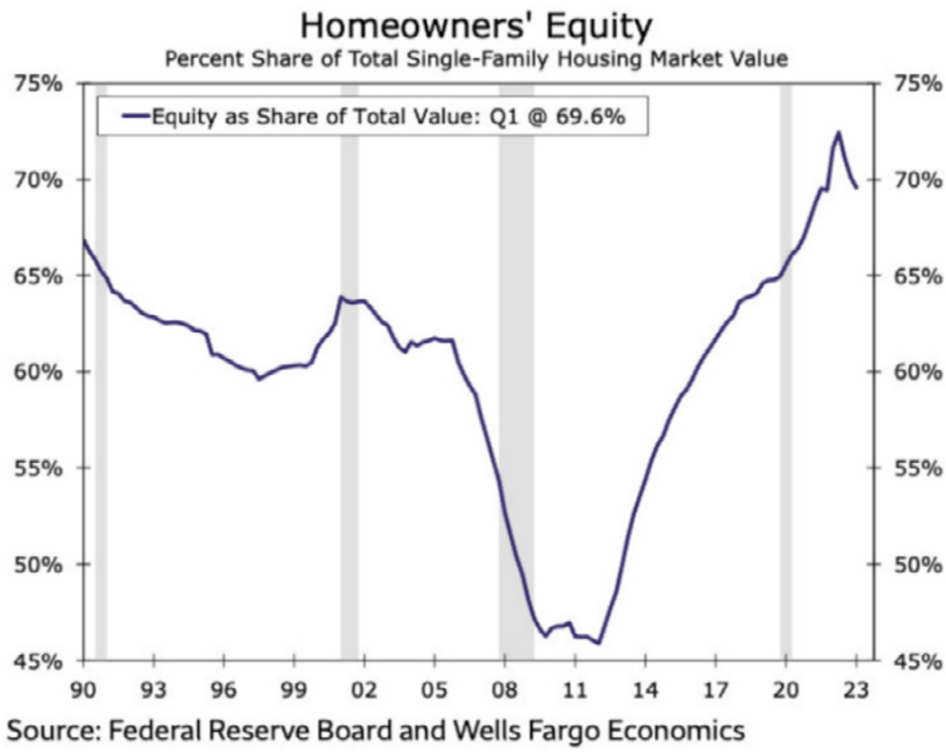


CHARTING THE COURSE: **HOUSING**

Home affordability is near record lows. Due to rising interest rates and a swift surge in home prices, housing affordability has plummeted to levels not seen since the Global Financial Crisis (GFC). However, consumer spending remains robust despite these challenges. This resilience can largely be attributed to many homeowners securing lower mortgage rates during the pandemic—over 90% of US homeowners have mortgages with an interest rate below 6% (Chart from Atlanta Fed):

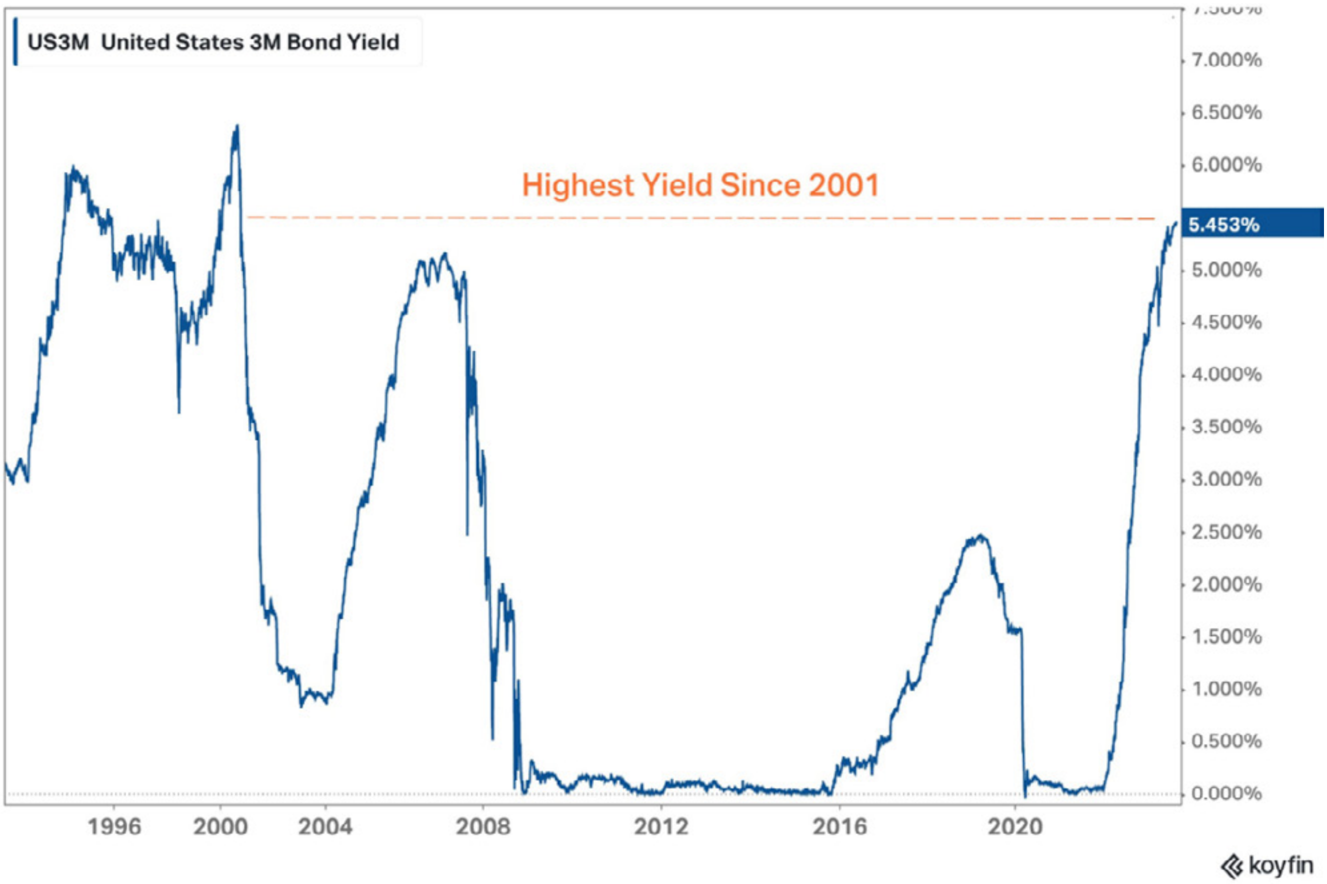


But home equity values are near record levels. A silver lining of rising home prices is that it has bolstered homeowner equity. This presents a potential, yet often overlooked, tailwind for consumers (Chart from Wells Fargo):



CHARTING THE COURSE: **INTEREST RATES**

The benefit of higher rates: highest yield on cash since 2001. While higher rates negatively impact the affordability of homes and automobiles, they also offer savers and investors a more attractive return on cash reserves and fixed-income investments (Chart from Koyfin):



CHARTING THE COURSE: **THE STOCK MARKET**

The market has risen for five straight months. While performance over the next quarter has been in line with average, returns one year later have been higher than average, with positive returns in ~93% of previous instances (Table from Carson Group):

Five Month Wins Streaks Can Mean More Strength

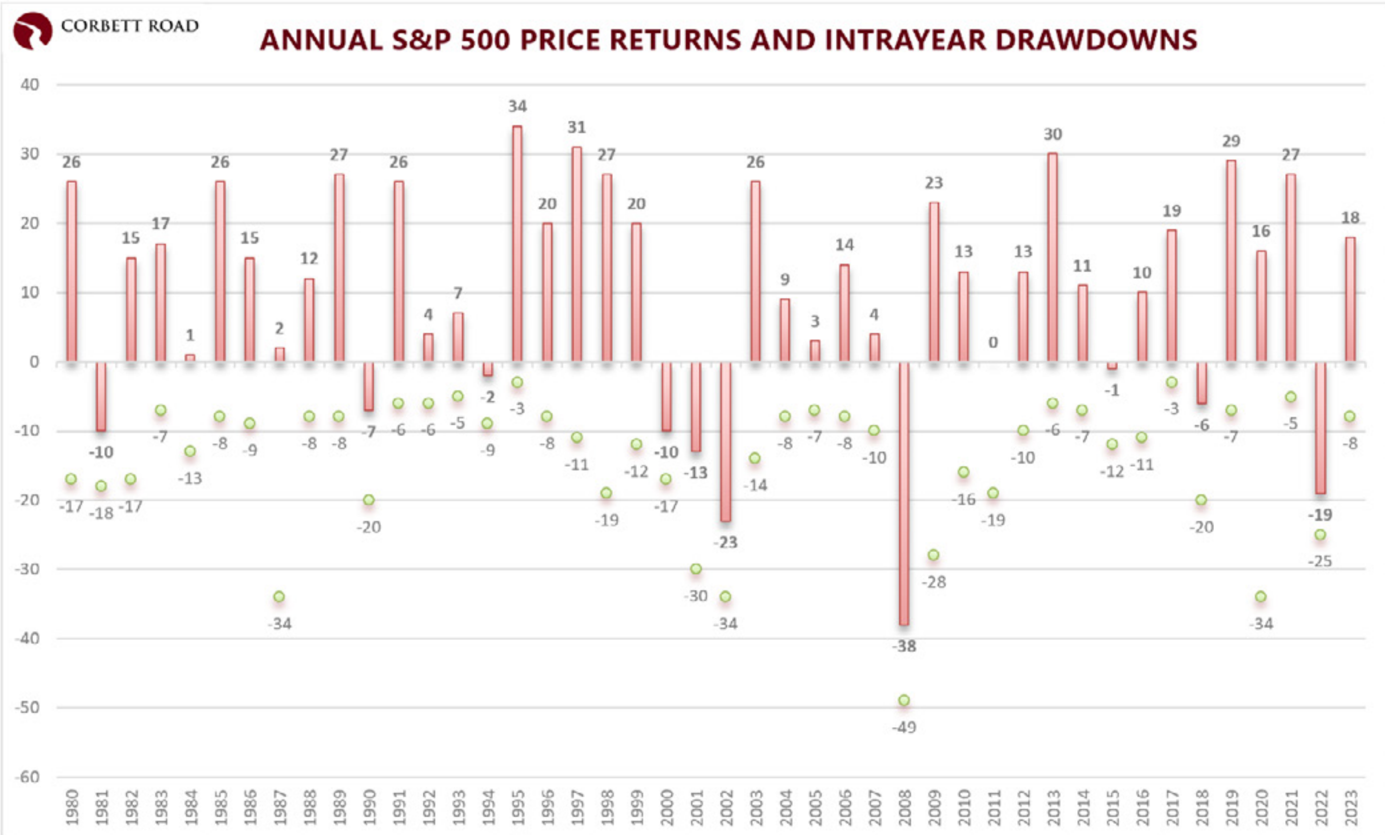
S&P 500 After Five Month Win Streaks

Signal Date	Ultimate Monthly Win Streak	S&P 500 Index Returns: 1 Month	3 Month	6 Months	12 Months
1/29/1954	11	0.3%	8.4%	18.4%	40.5%
7/31/1958	11	1.2%	8.8%	17.4%	28.2%
3/30/1961	11	0.4%	-0.6%	2.6%	6.9%
4/30/1964	7	1.1%	4.7%	6.8%	12.1%
3/31/1971	8	3.5%	-0.6%	-2.0%	6.9%
4/28/1972	6	1.6%	-0.3%	3.6%	-0.7%
5/30/1975	6	4.4%	-4.7%	0.1%	9.9%
8/29/1980	6	2.5%	14.8%	7.3%	0.3%
12/31/1982	8	3.3%	8.8%	19.5%	17.3%
2/28/1986	9	5.3%	9.0%	11.5%	25.2%
3/28/1991	6	0.0%	-1.1%	3.4%	7.6%
1/29/1993	7	1.0%	0.3%	2.1%	9.8%
4/28/1995	7	3.6%	9.2%	13.0%	27.1%
3/29/1996	8	1.3%	3.9%	6.5%	17.3%
3/31/1998	8	0.9%	2.9%	-7.7%	16.8%
1/29/1999	6	-3.2%	4.3%	3.8%	9.0%
7/31/2003	5	1.8%	6.1%	14.2%	11.3%
2/27/2004	6	-1.6%	-2.1%	-3.6%	5.1%
12/31/2004	5	-2.5%	-2.6%	-1.7%	3.0%
10/31/2006	5	1.6%	4.4%	7.6%	12.4%
7/31/2009	8	3.4%	4.9%	8.7%	11.6%
3/28/2013	7	1.8%	2.4%	7.2%	19.3%
6/30/2014	7	-1.5%	0.6%	5.0%	5.2%
7/29/2016	5	-0.1%	-2.2%	4.8%	13.6%
8/31/2017	5	1.9%	7.1%	9.8%	17.4%
8/31/2018	6	0.4%	-4.9%	-4.0%	0.9%
8/31/2020	5	-3.9%	3.5%	8.9%	29.2%
6/30/2021	7	2.3%	0.2%	10.9%	-11.9%
7/31/2023	5*	?	?	?	?
	Average	1.1%	3.0%	6.2%	12.5%
	Median	1.3%	3.2%	6.6%	11.4%
	% Higher	78.6%	67.9%	82.1%	92.9%
All Years (1950 - 2022)					
	Average	0.7%	2.2%	4.4%	8.9%
	Median	0.9%	2.5%	4.8%	10.1%
	% Higher	59.8%	64.9%	68.7%	72.6%

Source: Carson Investment Research, FactSet 07/19/2023
* July isn't over yet
@ryandetrick

CARSON

Market corrections are a regular occurrence. While 2022 witnessed a significant market downturn and ended the year on a negative note, equities have staged a rebound in 2023. Still, even this year saw an 8% correction from February to March. This serves as a reminder that equity investing inherently carries volatility, even if it has proven beneficial in the long run (Chart data from S&P, through 8/14/2023):



This time of year typically serves as a reminder for many parents and grandparents that they are one year closer to their children or grandchildren shipping off to college. If you have any questions, thoughts, or would like to discuss establishing a plan to help your child or grandchild fund their education, please contact your Corbett Road Wealth Manager today!

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