

2023 ECONOMIC OUTLOOK AND FINANCIAL MARKET UPDATE

December 2022

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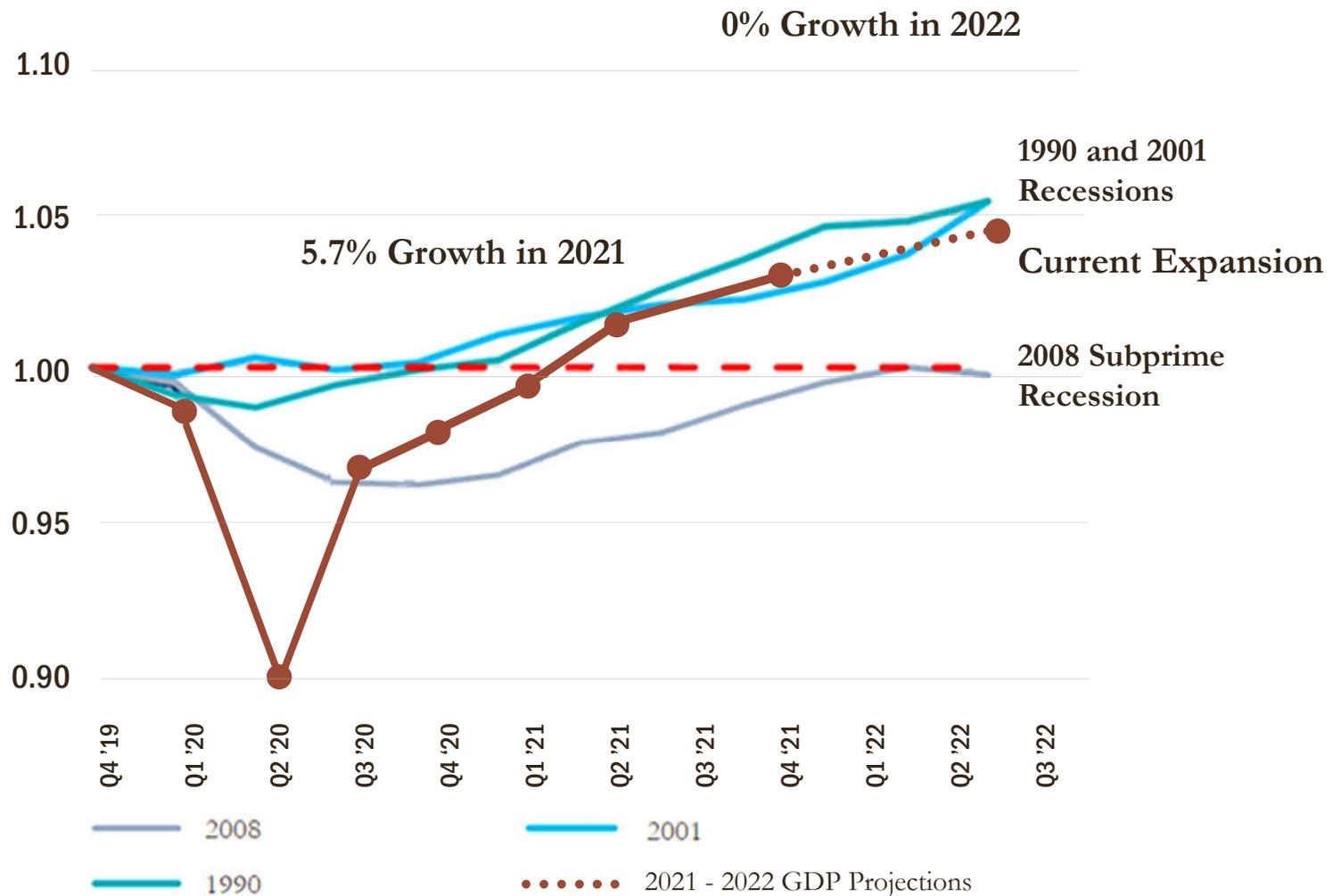
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Commerce Trust Company

Wealth | Investments | Planning

U.S. GDP PLUNGED, RECOVERED QUICKLY – BUT NOW SLOWS

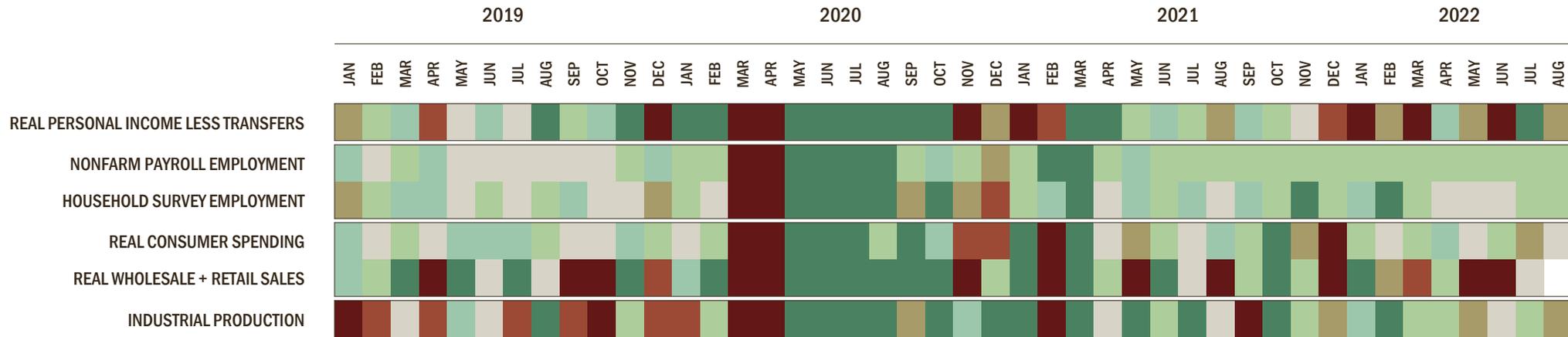


Source: Citi Research, Commerce Trust Company

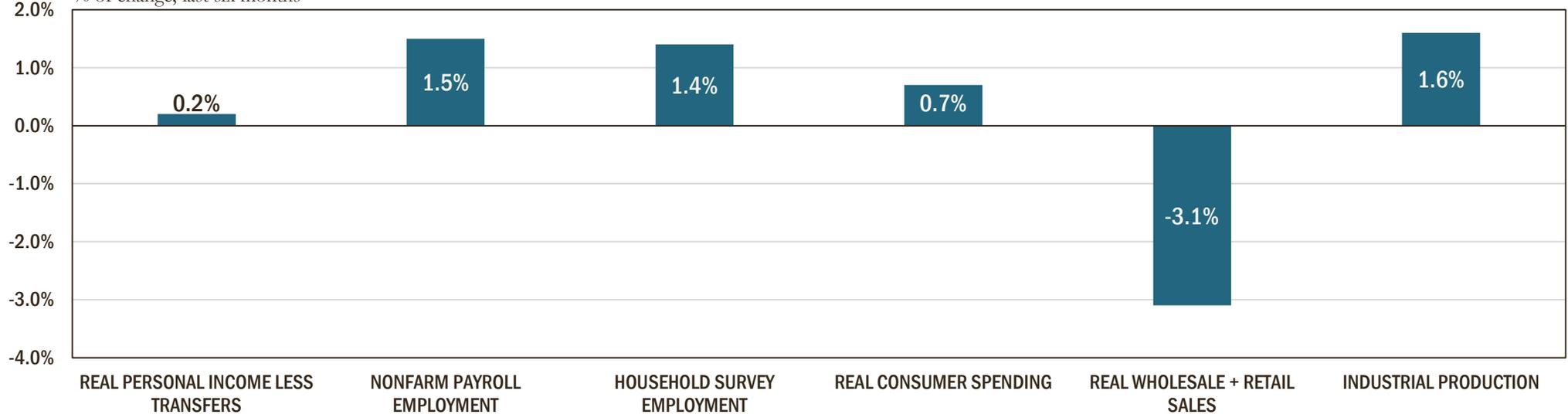
RECESSION DETERMINANTS

VARIABLES USED BY THE NBER IN MAKING RECESSION DETERMINATION*

% change month-over-month



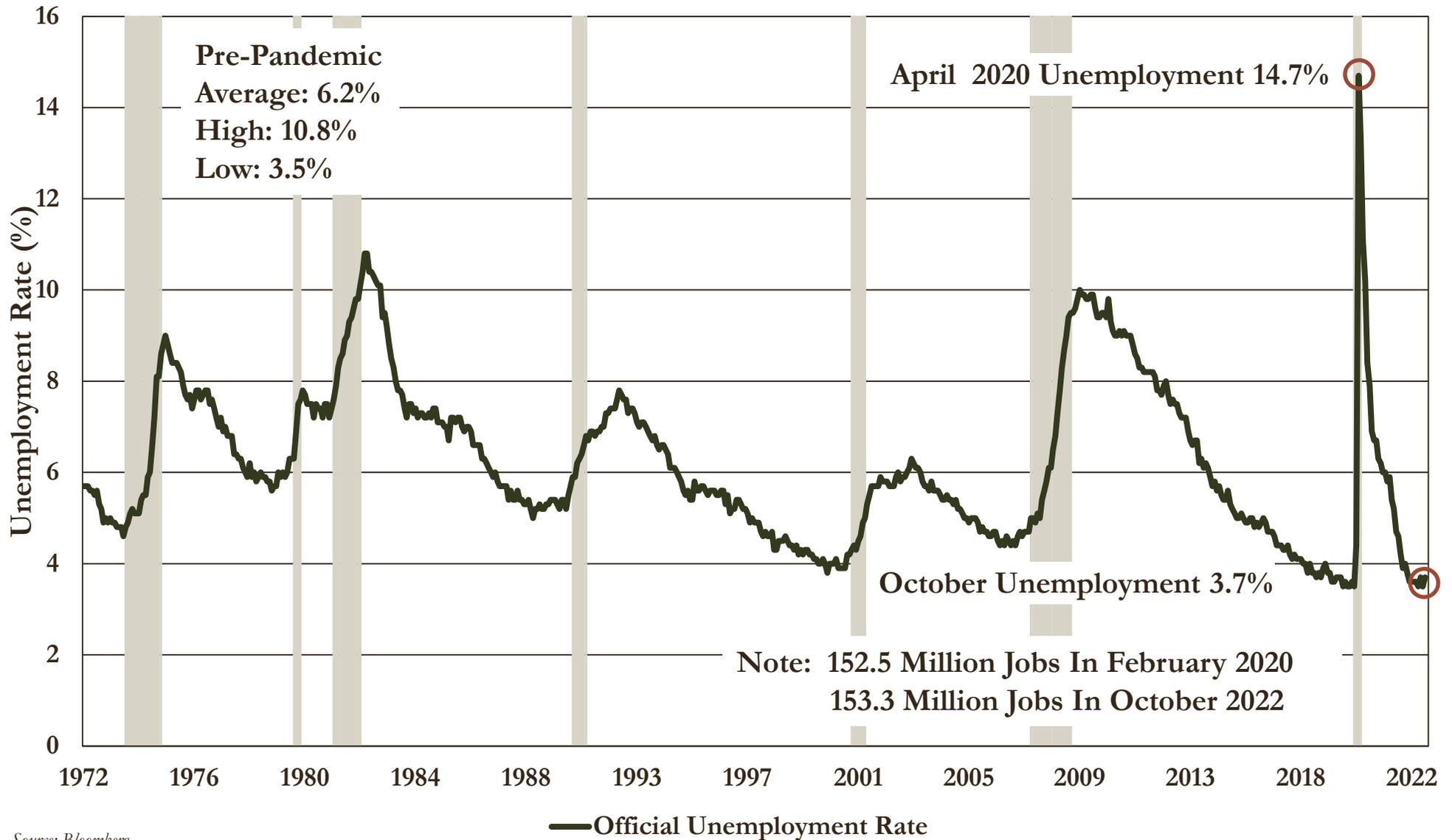
% of change, last six months



Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Census Bureau, Federal Reserve of St. Louis, NBER, J.P. Morgan Asset Management

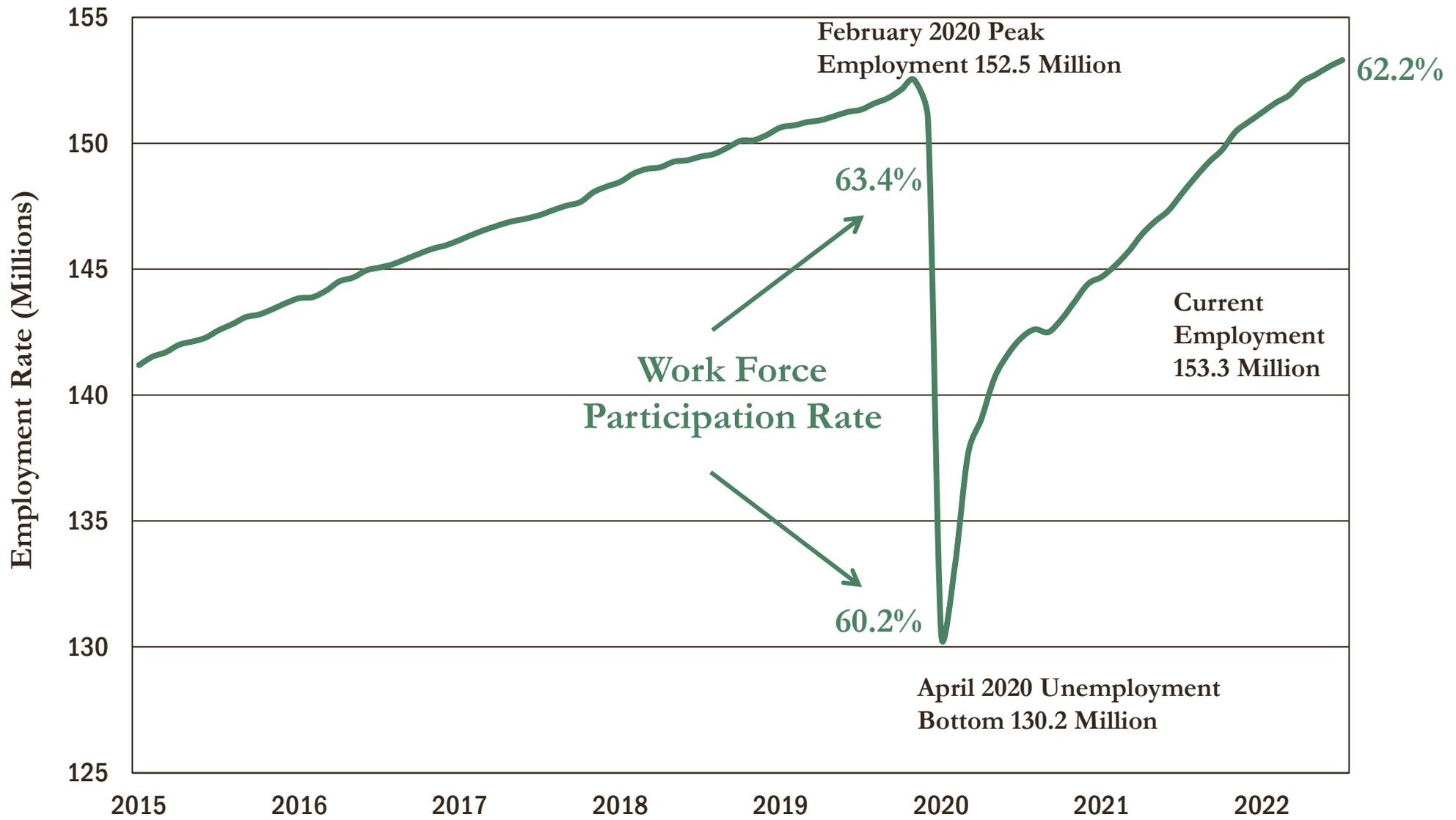
OFFICIAL UNEMPLOYMENT RATE

(LOWER THAN NORMAL DUE TO LESS WORKFORCE PARTICIPATION)



Source: Bloomberg

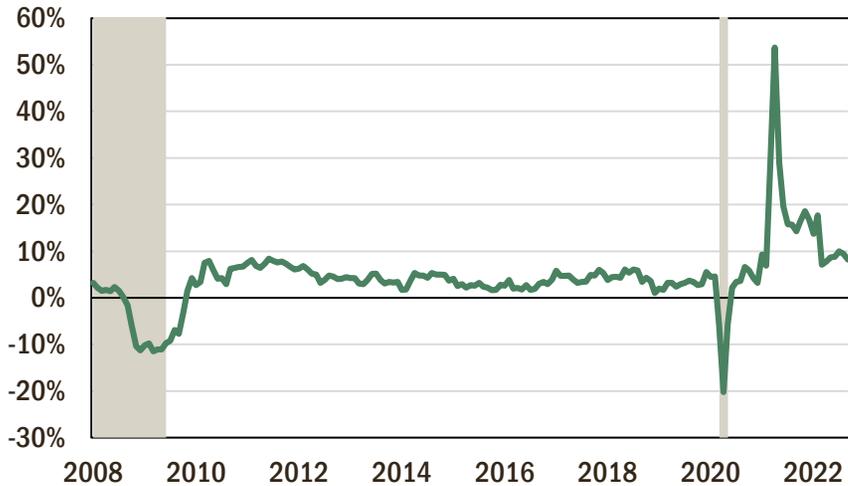
TOTAL NON-FARM EMPLOYMENT



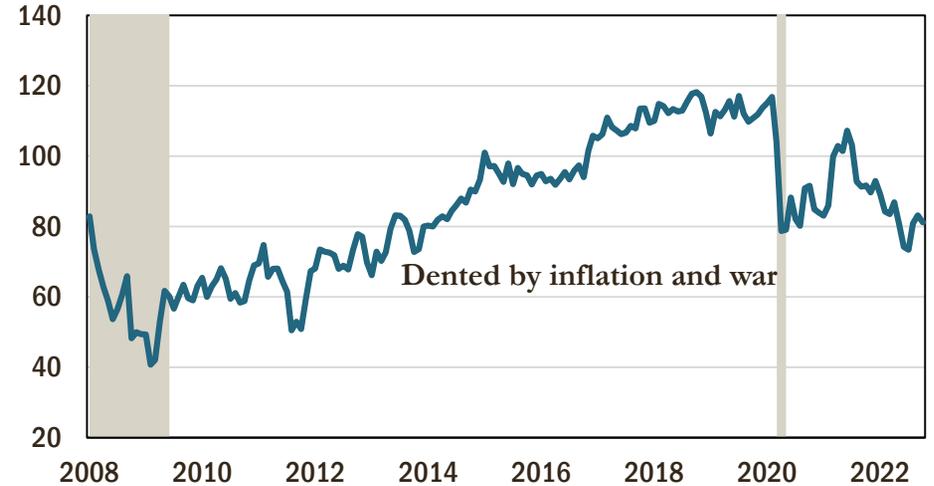
Source: Bloomberg

CONSUMER – RATTLED BY INFLATION

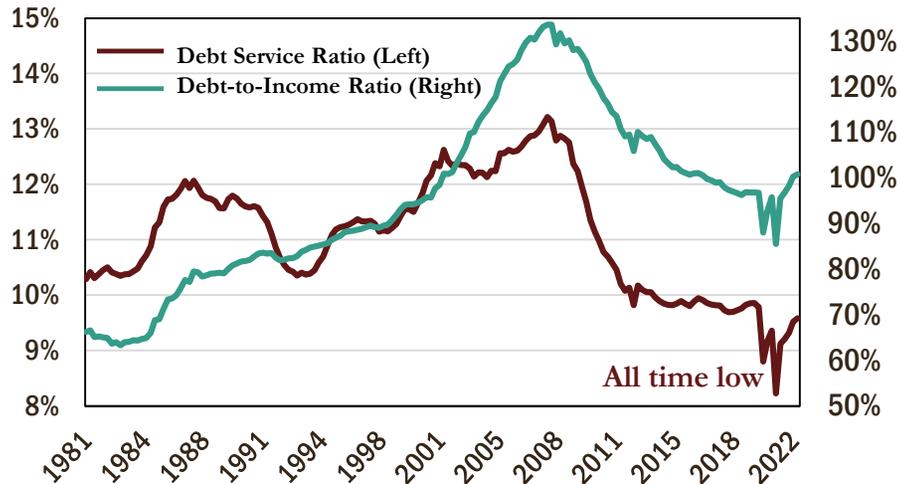
RETAIL SALES (YOY%)



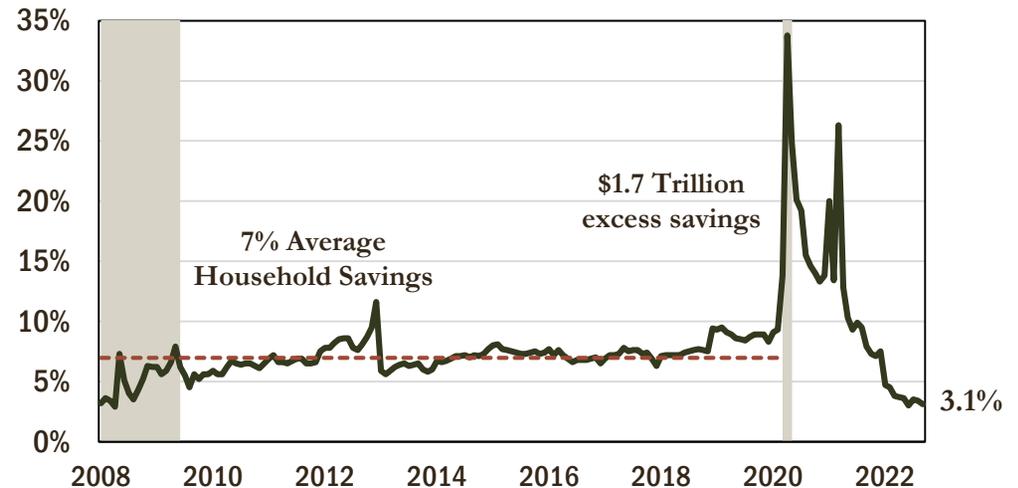
CONSUMER CONFIDENCE*



CONSUMER BALANCE SHEETS



HOUSEHOLD SAVINGS



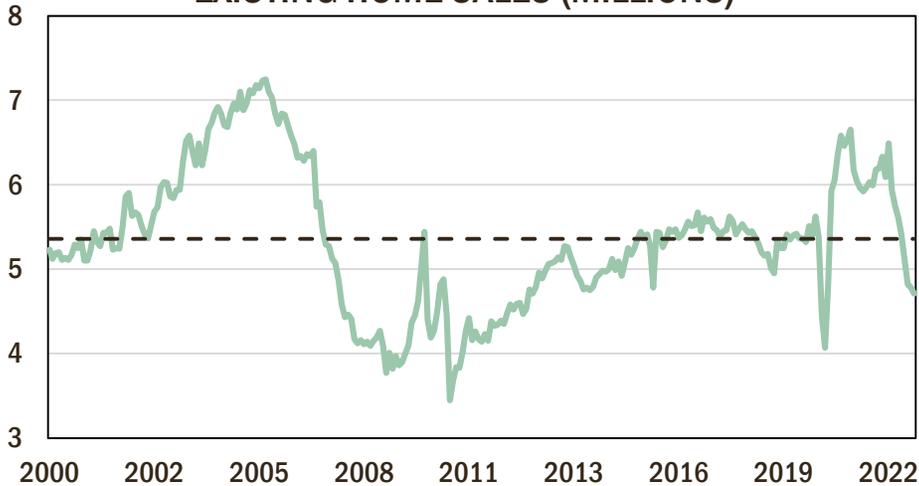
Source: Bloomberg, FRB, BEA, Goldman Sachs Global Investment Research, Baird

*Consumer Confidence is the avg. of the Conference Board Consumer Index and the University of Michigan Consumer Sentiment Index

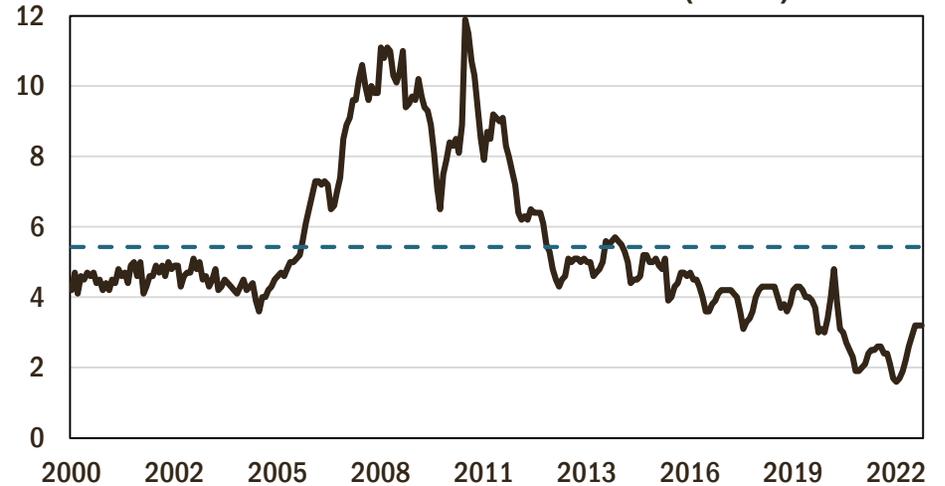
HOUSING MARKET IS CLEARLY FADING

(AFFORDABILITY TIED TO THE 10 YEAR TREASURY)

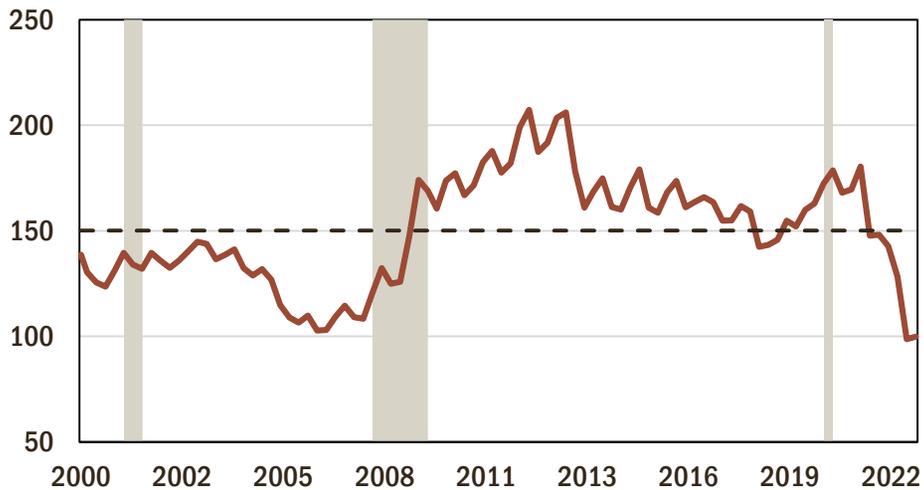
EXISTING HOME SALES (MILLIONS)



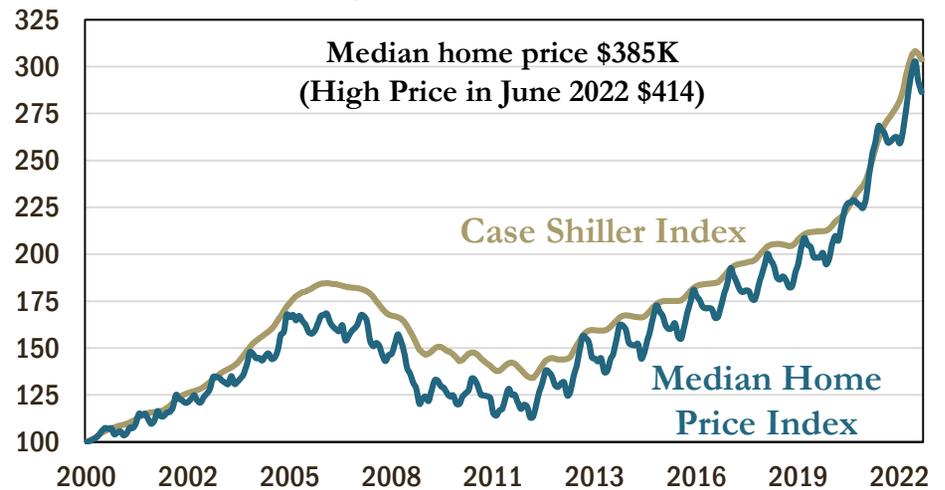
EXISTING MONTHS SUPPLY (TIGHT)



HOUSING AFFORDABILITY INDEX (DROPPING)

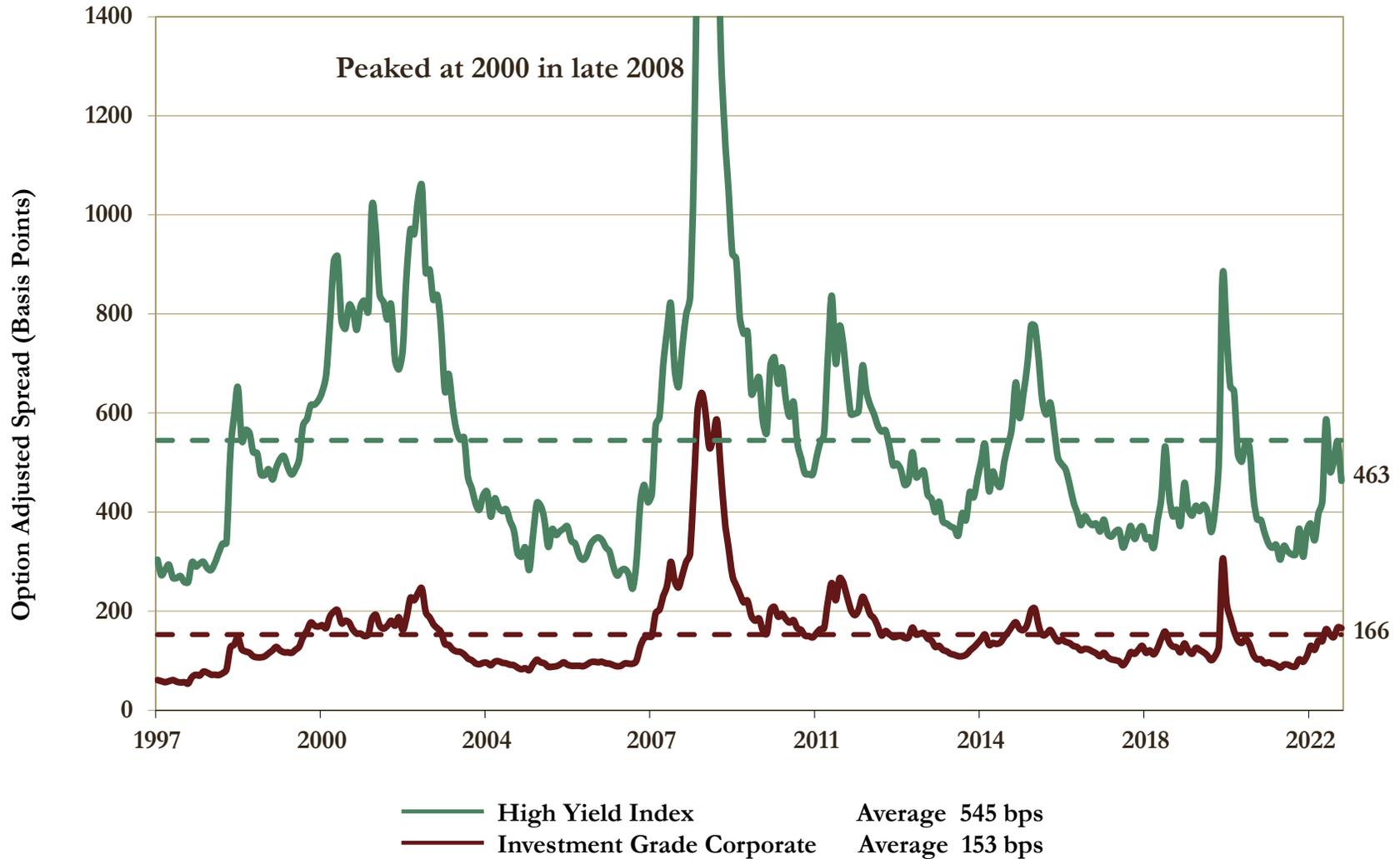


CASE SHILLER/MEDIAN HOME PRICE INDEX



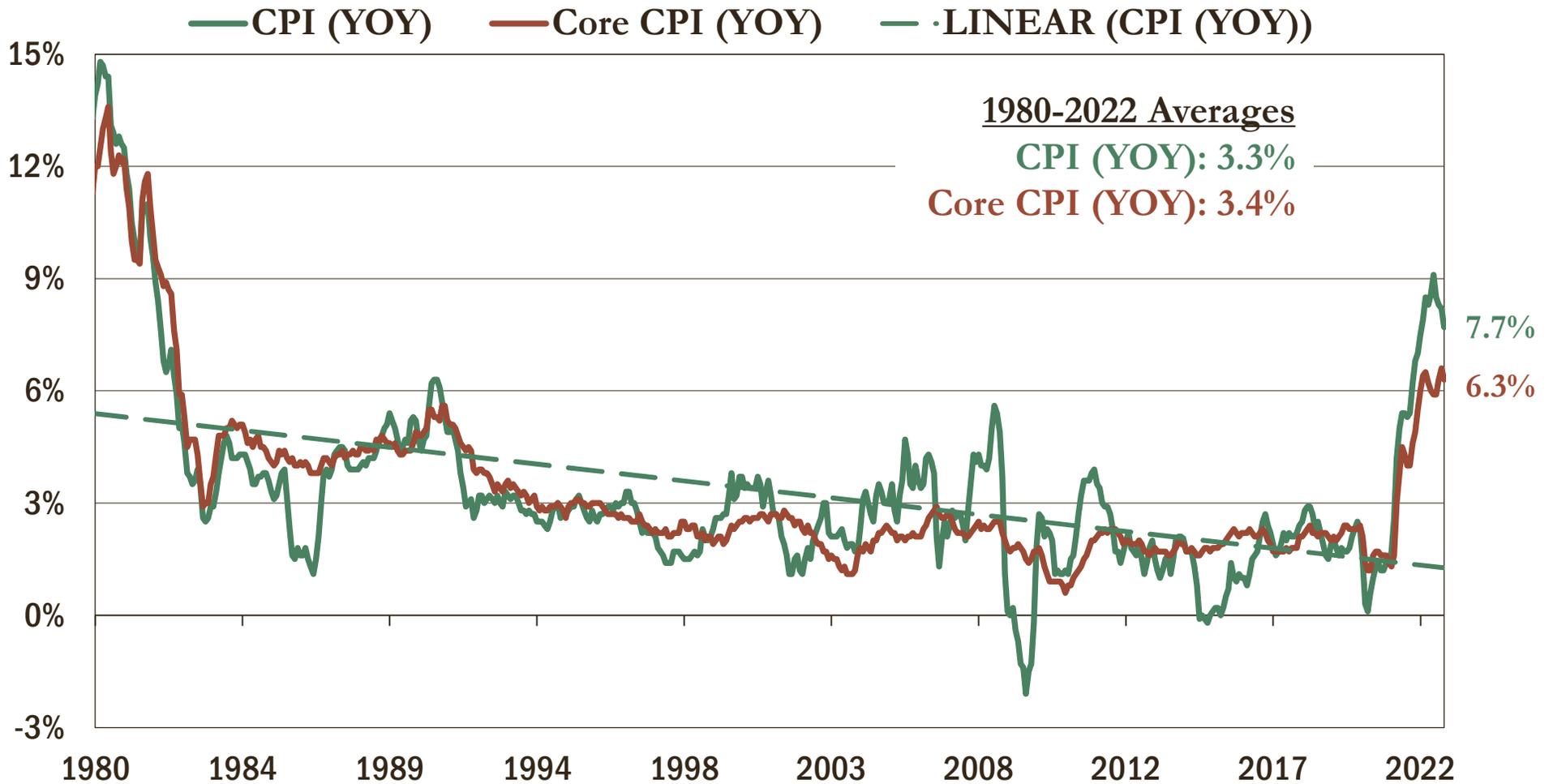
Source: Bloomberg, Baird

CORPORATE CREDIT SPREADS – 1/31/97 through 10/31/22



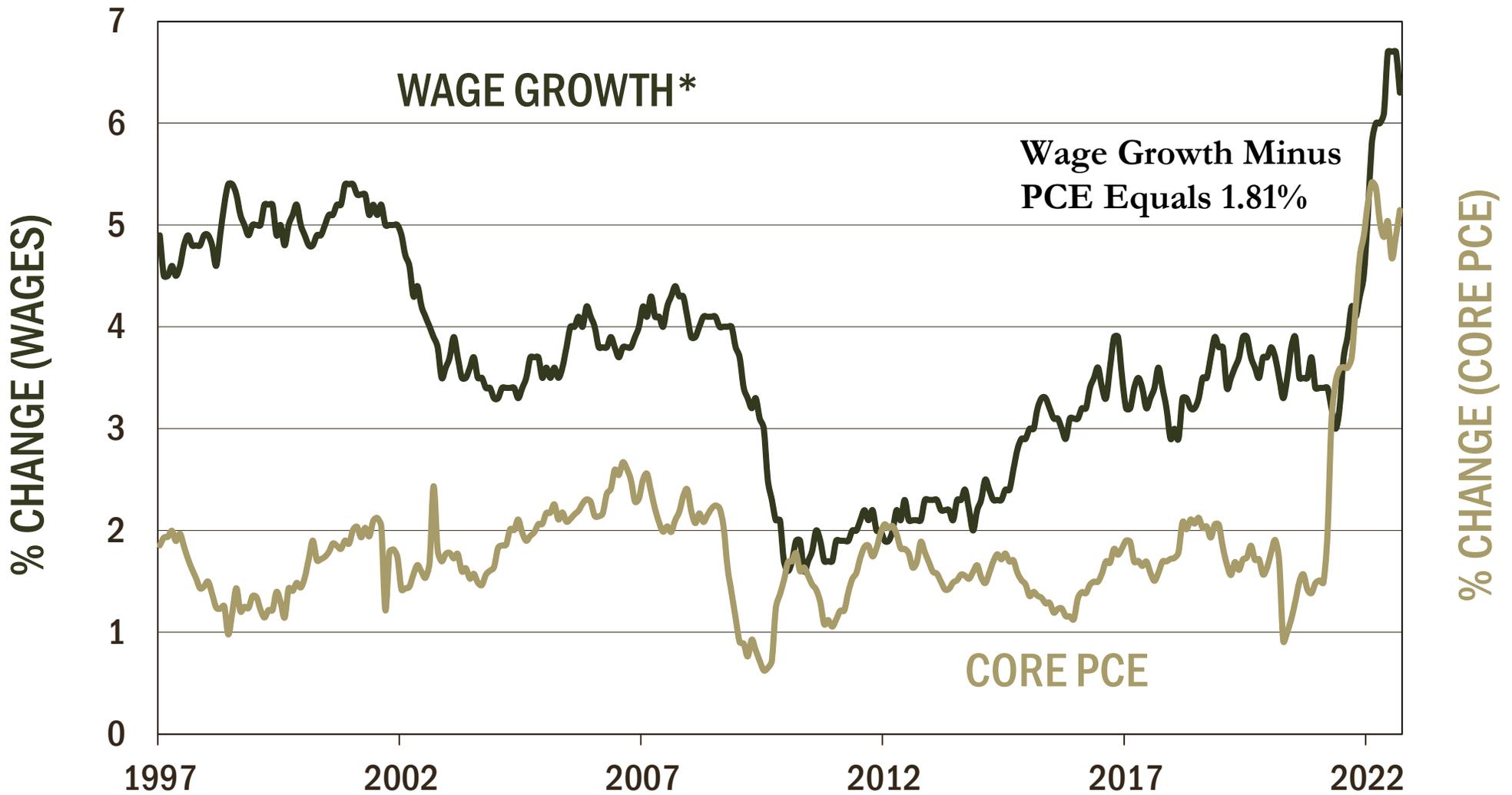
Source: Bloomberg, ICE BofA ML

INFLATION – LIKELY PEAKED



Source: Bloomberg

WAGE GROWTH AND CORE PCE (INFLATION TRACKS WAGES)



*Atlanta Fed Wage Growth Tracker
Source: Bloomberg

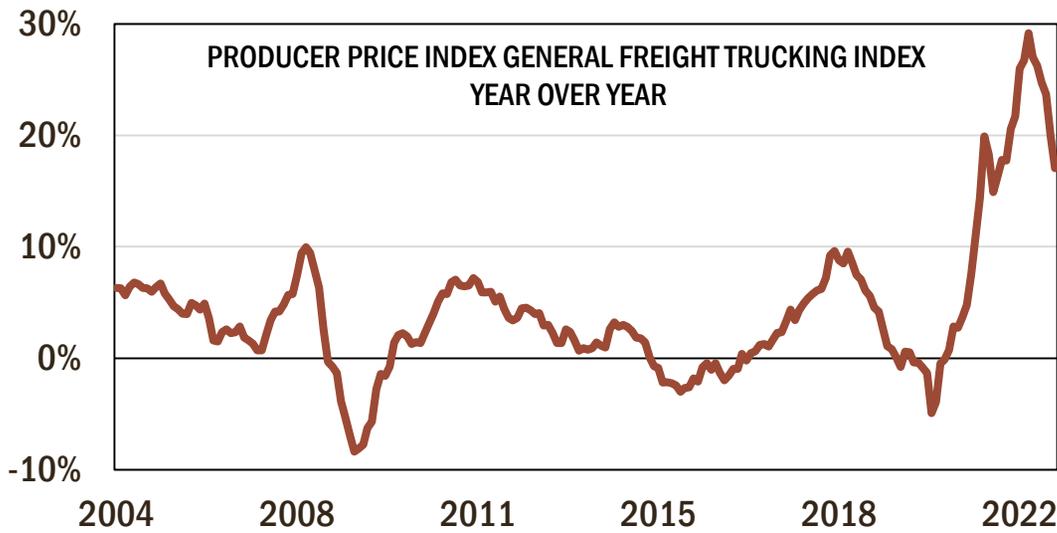
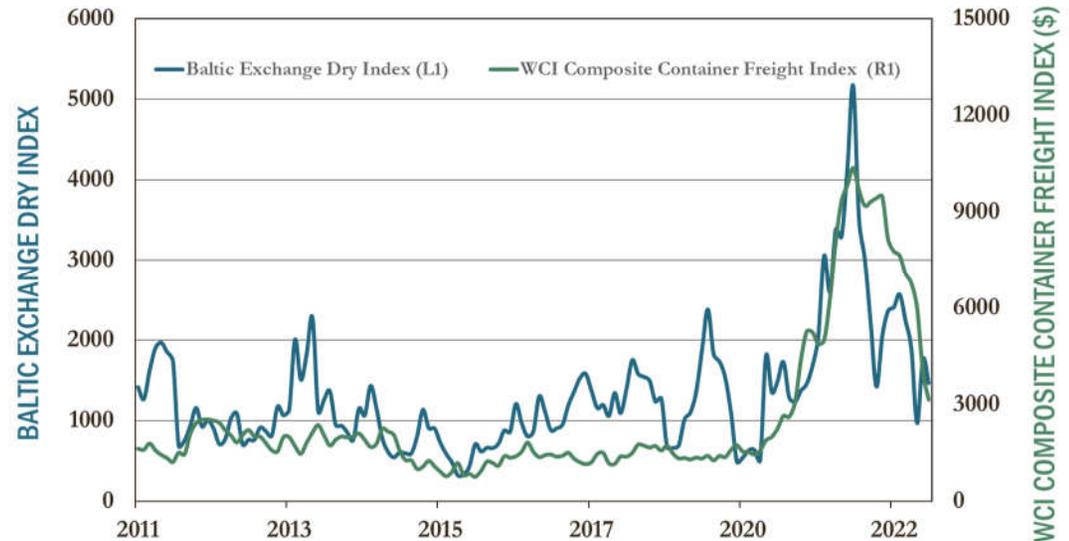
INVENTORIES TO SALES RATIO TURNING UP



Source: Bloomberg

TRANSPORTATION COSTS EASING

- The Baltic dry freight index, a measure of what it costs to ship bulk goods like iron ore and grains overseas, was up more than 7 times pre-pandemic levels, but has nearly reversed this year.
- The 25 million boxes shuttling around the globe on approximately 6000 ships cost two times more on average to rent today versus their pre-pandemic level driven up mostly by rising prices from Asian market deliveries to North America.



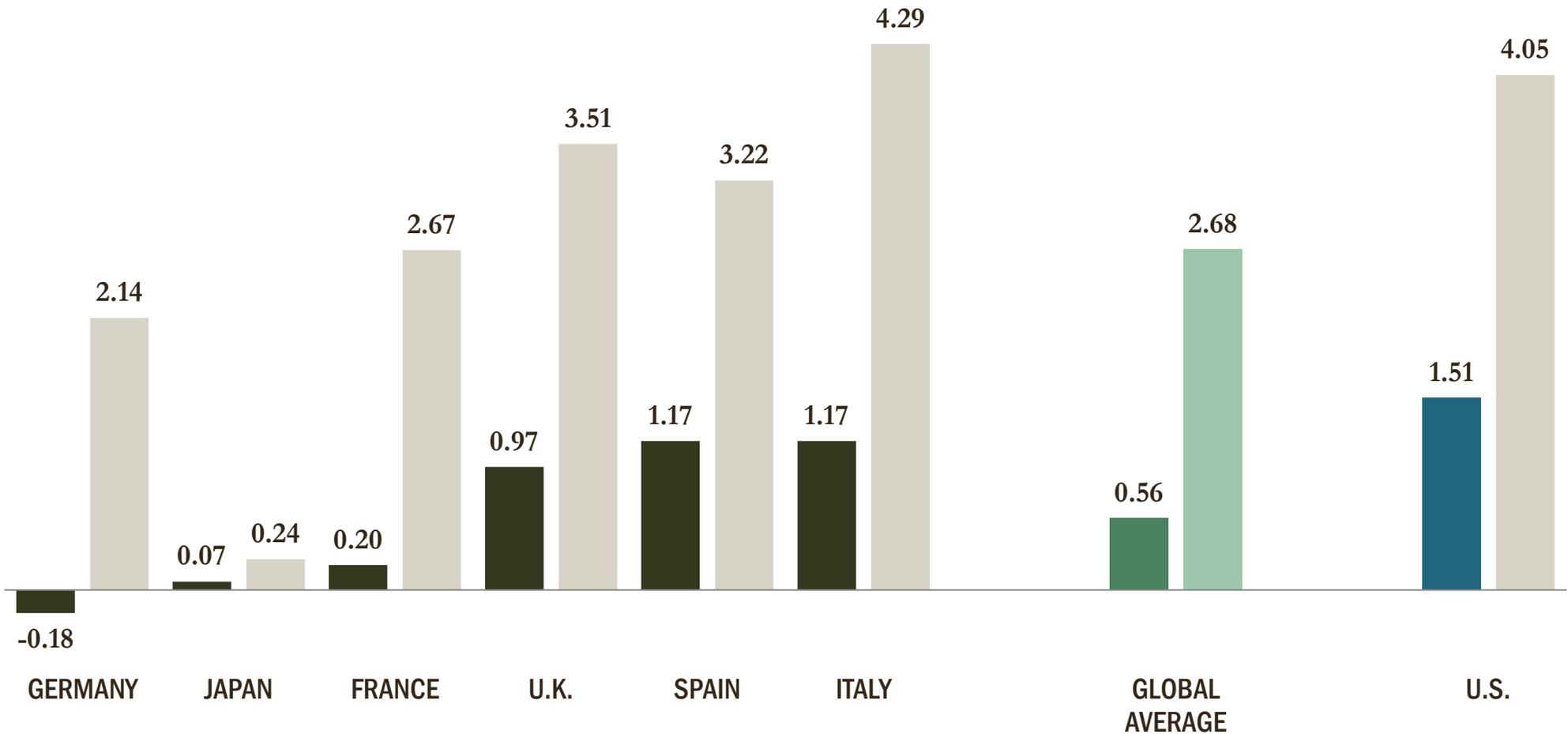
Source: Bloomberg

- Transportation bottlenecks are easing, and spot price shipping declines point toward less supply pressure.
- It takes over a year to have a class VII/VIII semi-truck delivered.

GLOBAL GOVERNMENT INTEREST RATES HAVE MORE THAN TRIPLED

10-YEAR GOVERNMENT BOND YIELDS (%)

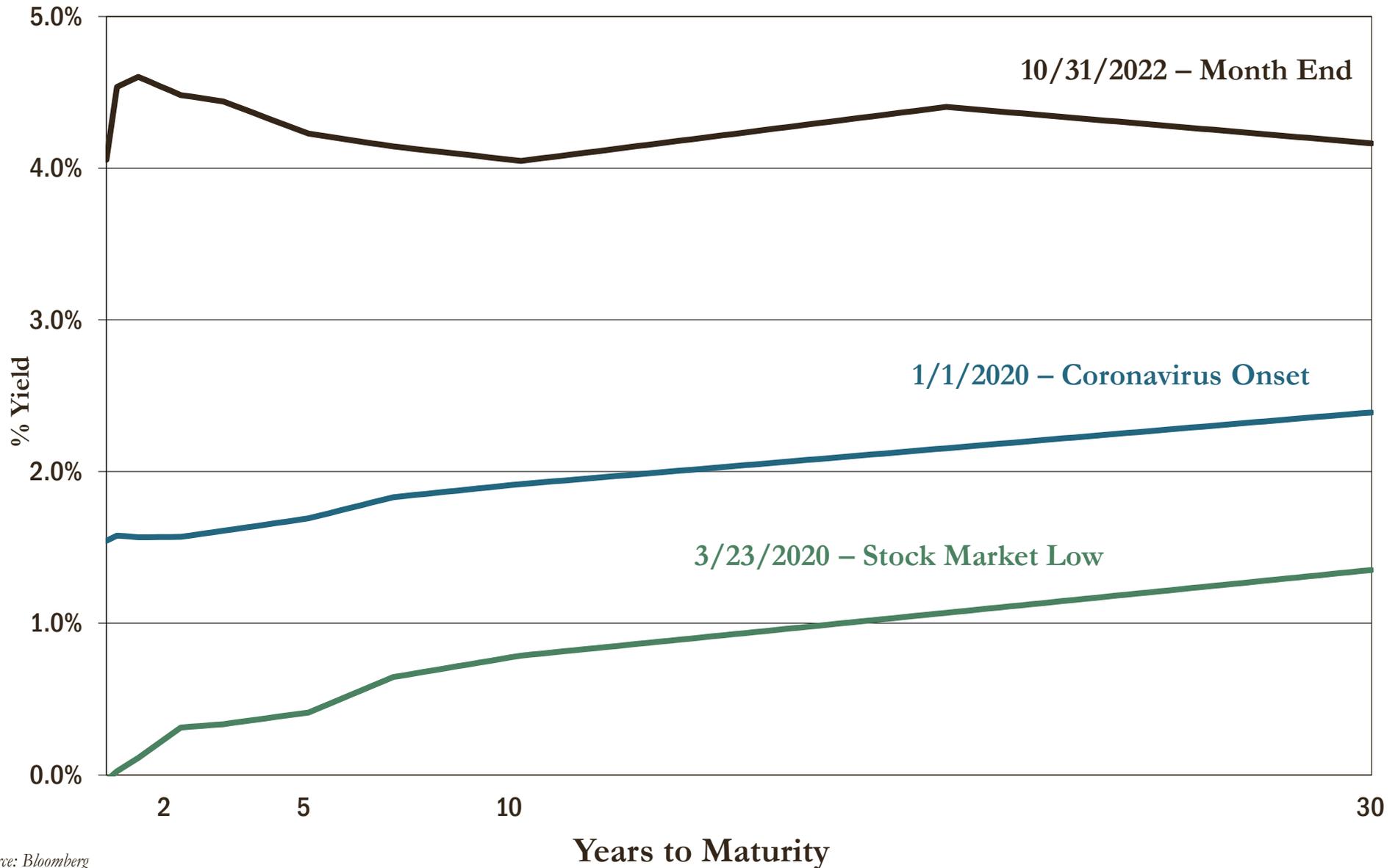
■ 12/31/2021 ■ 10/31/2022



Source: Bloomberg

TREASURY YIELD CURVE AS OF 10/31/2022

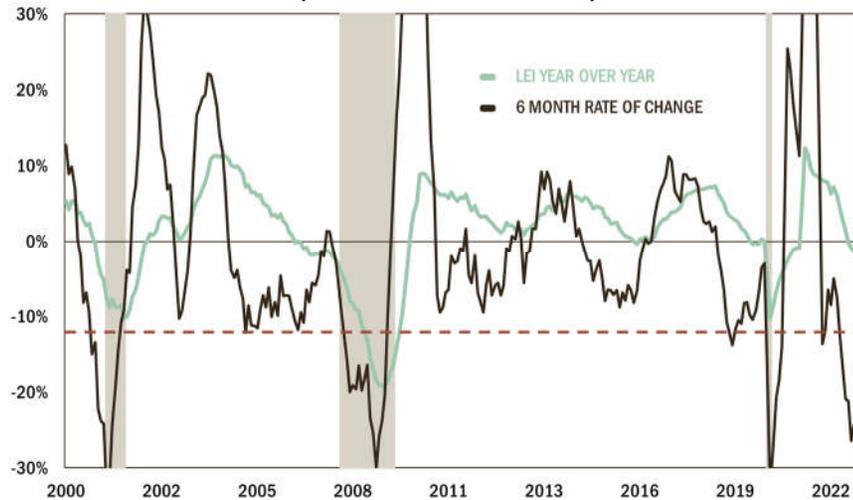
(AVERAGE INTEREST RATES MORE THAN 1% HIGHER THAN PRE-PANDEMIC LEVELS)



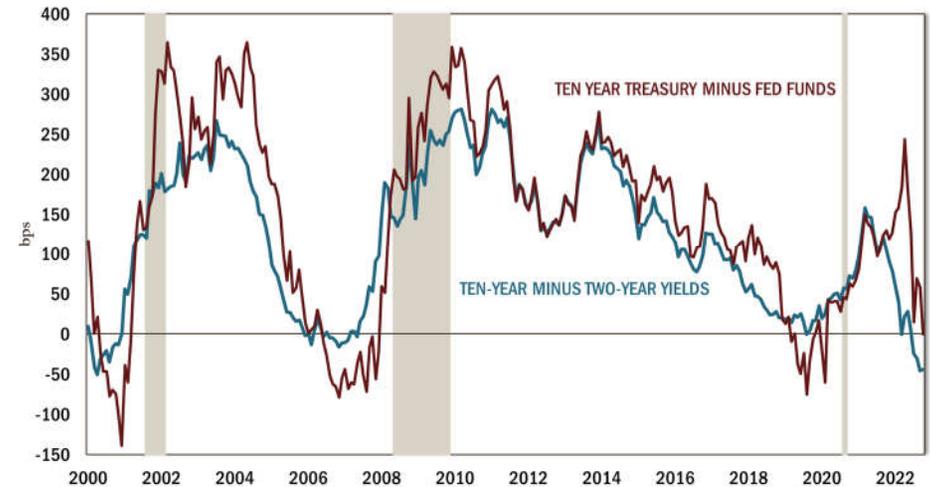
Source: Bloomberg

POTENTIAL RECESSION INDICATORS

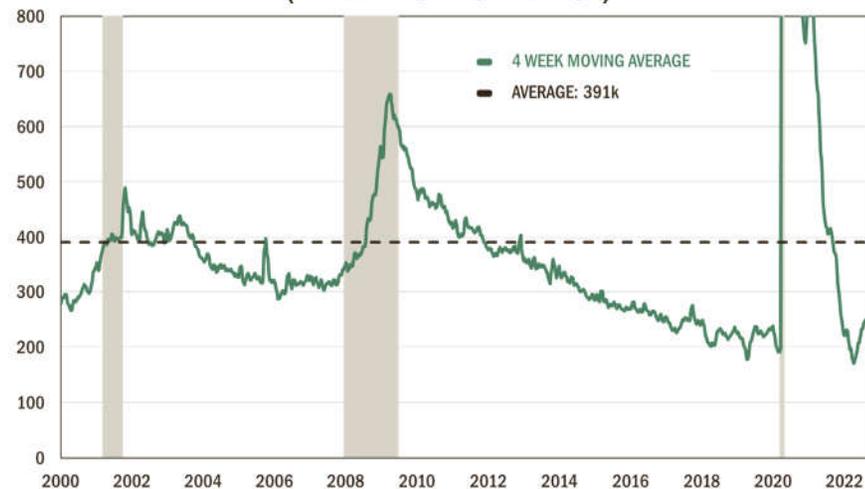
LEADING ECONOMIC INDICATORS
(% CHANGE ANNUALIZED)



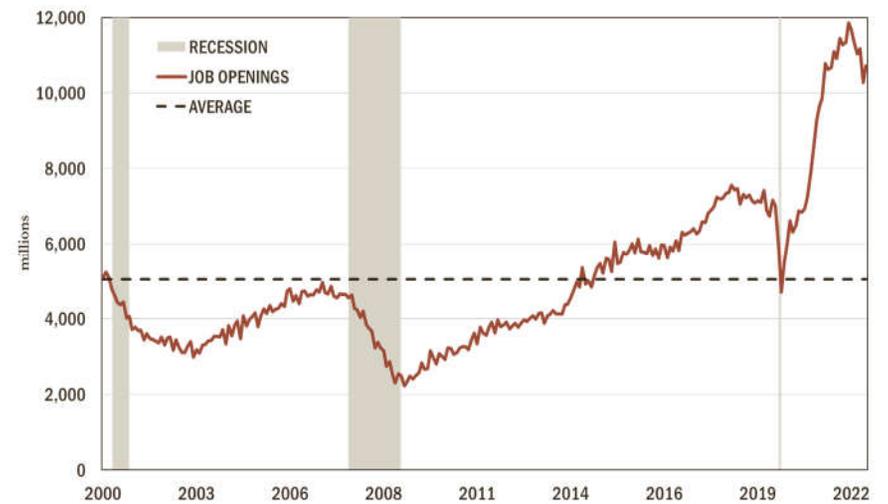
TREASURY CURVE INVERSION



INITIAL JOBLESS CLAIMS
(4 WEEK MOVING AVERAGE)



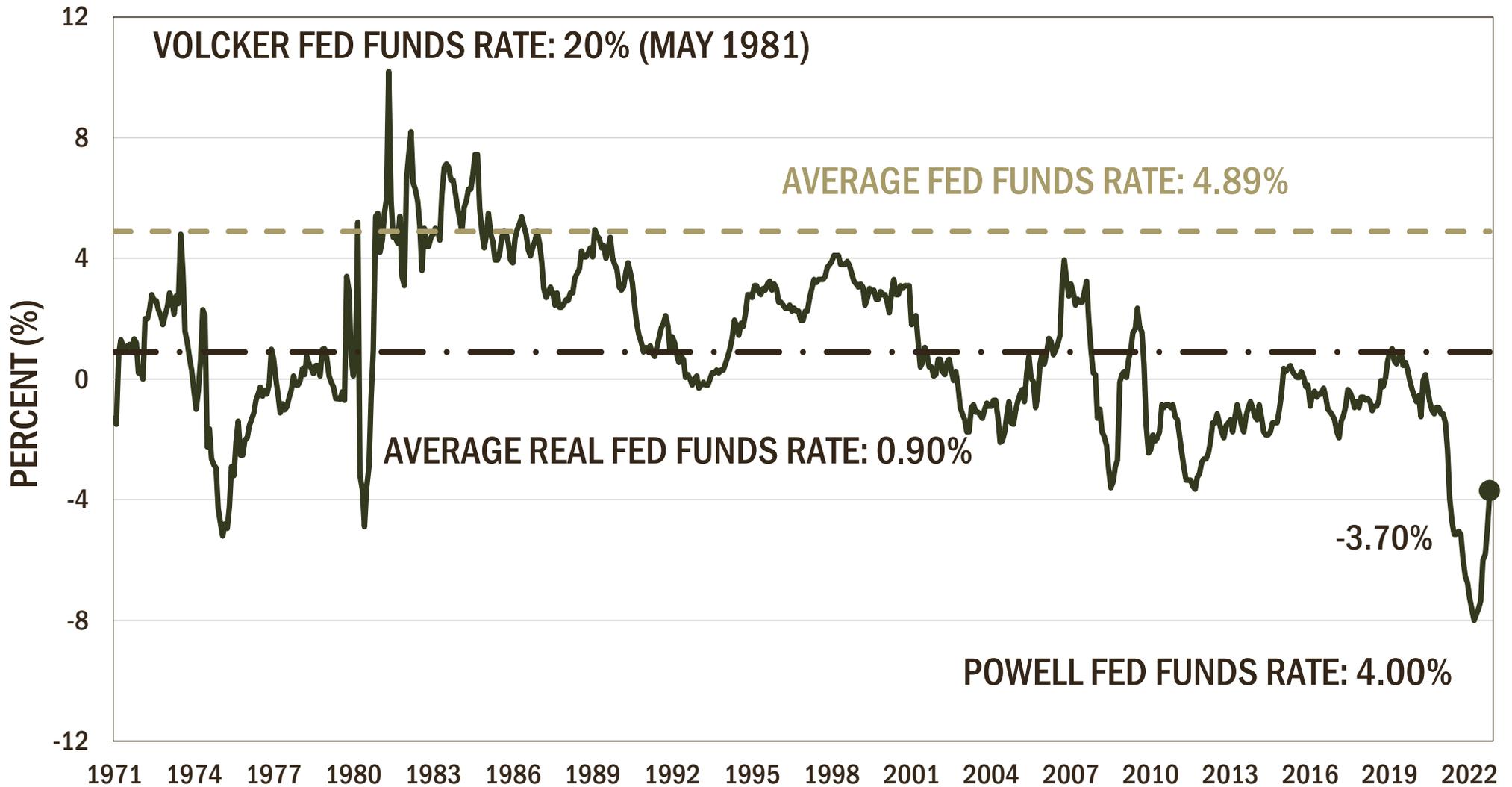
JOB OPENINGS



Source: Bloomberg

FED FUND RATE MINUS INFLATION (Y-O-Y CPI)

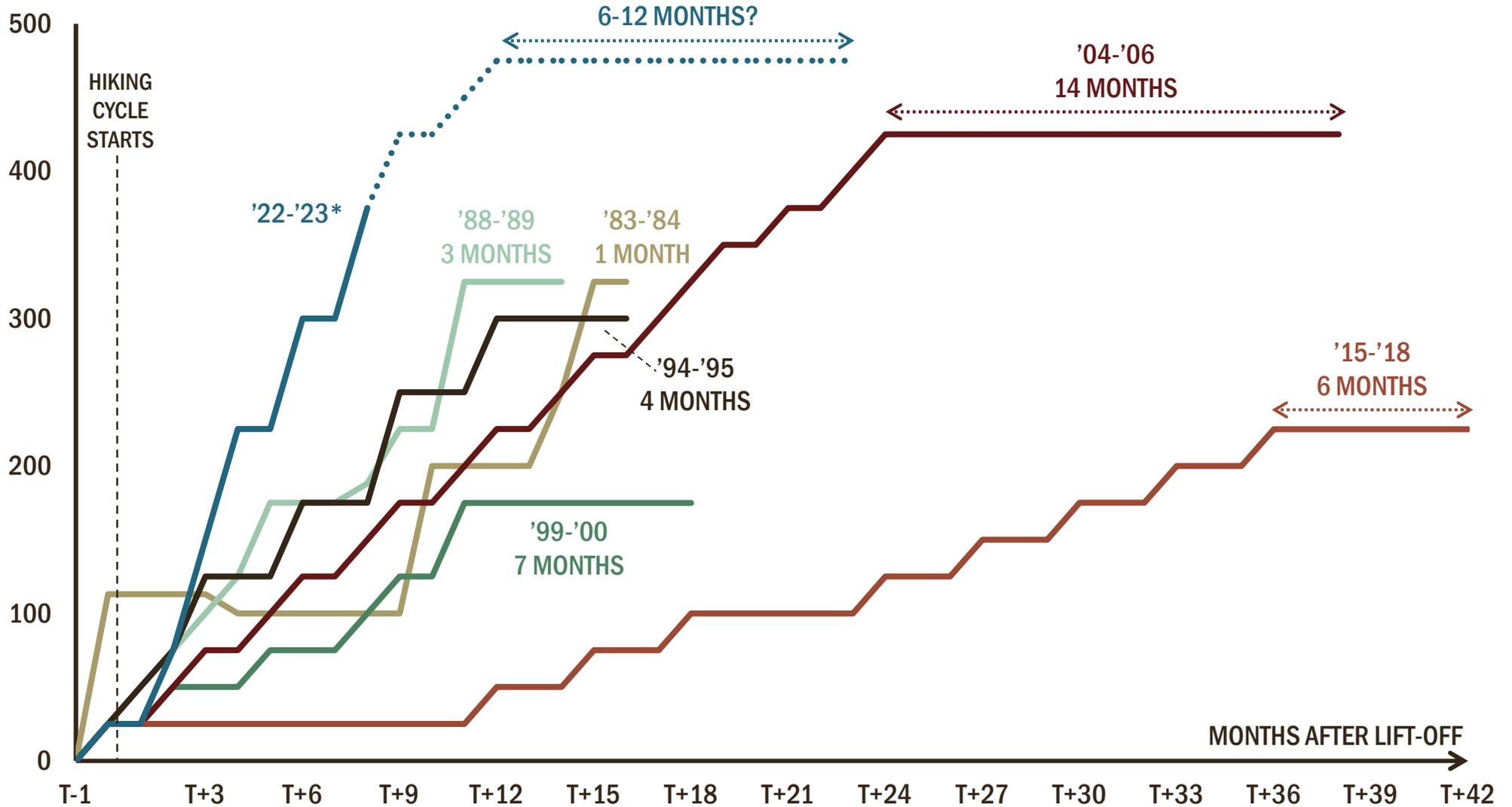
(FEDERAL RESERVE STILL ACCOMMODATIVE)



Source: Bloomberg

HISTORY OF FED HIKING CYCLES SINCE 1983

CHANGE SINCE START, BPS

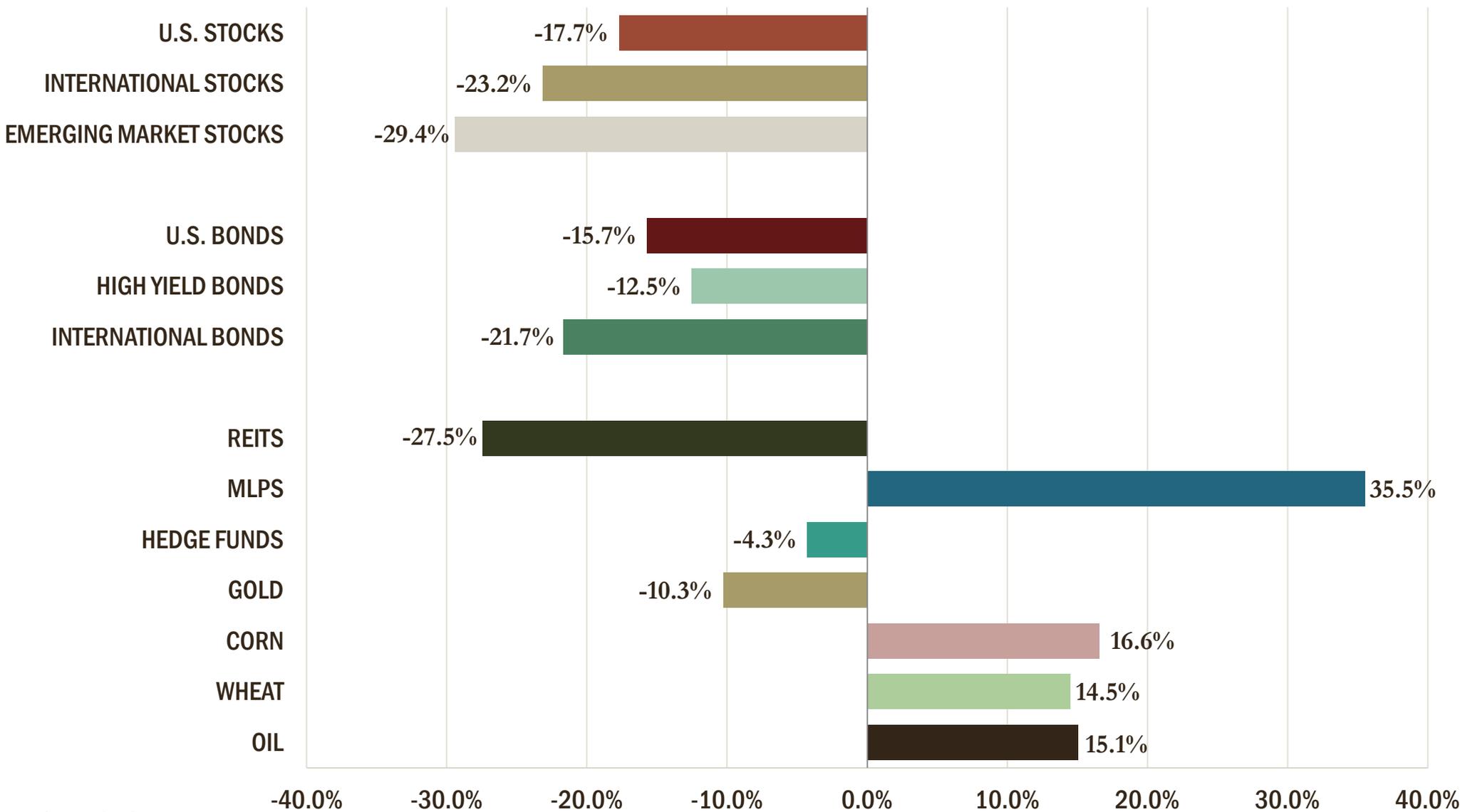


*Dotted line based on dots in Nov '22 FOMC projections

Source: Vanda Research; Bloomberg

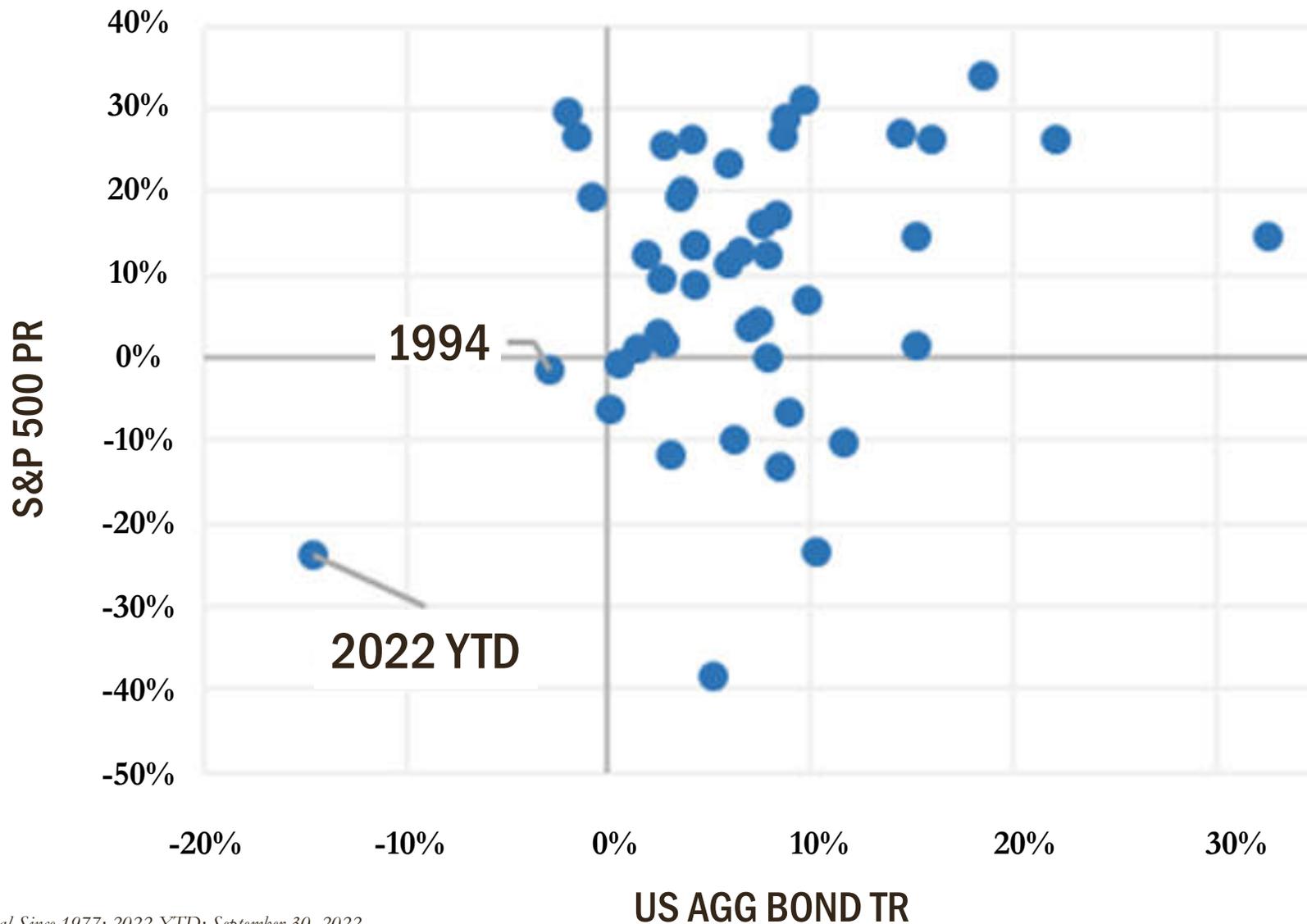
YTD INDEX RETURNS

as of 10/31/2022



Source: Bloomberg

IT IS RARE FOR BONDS AND STOCKS TO BE DOWN OVER THE PAST 45 YEARS



Annual Since 1977; 2022 YTD: September 30, 2022
Source: Bloomberg, Evercore ISI Research

S&P 500 TOTAL RETURNS FOLLOWING 25% DRAWDOWN (%)

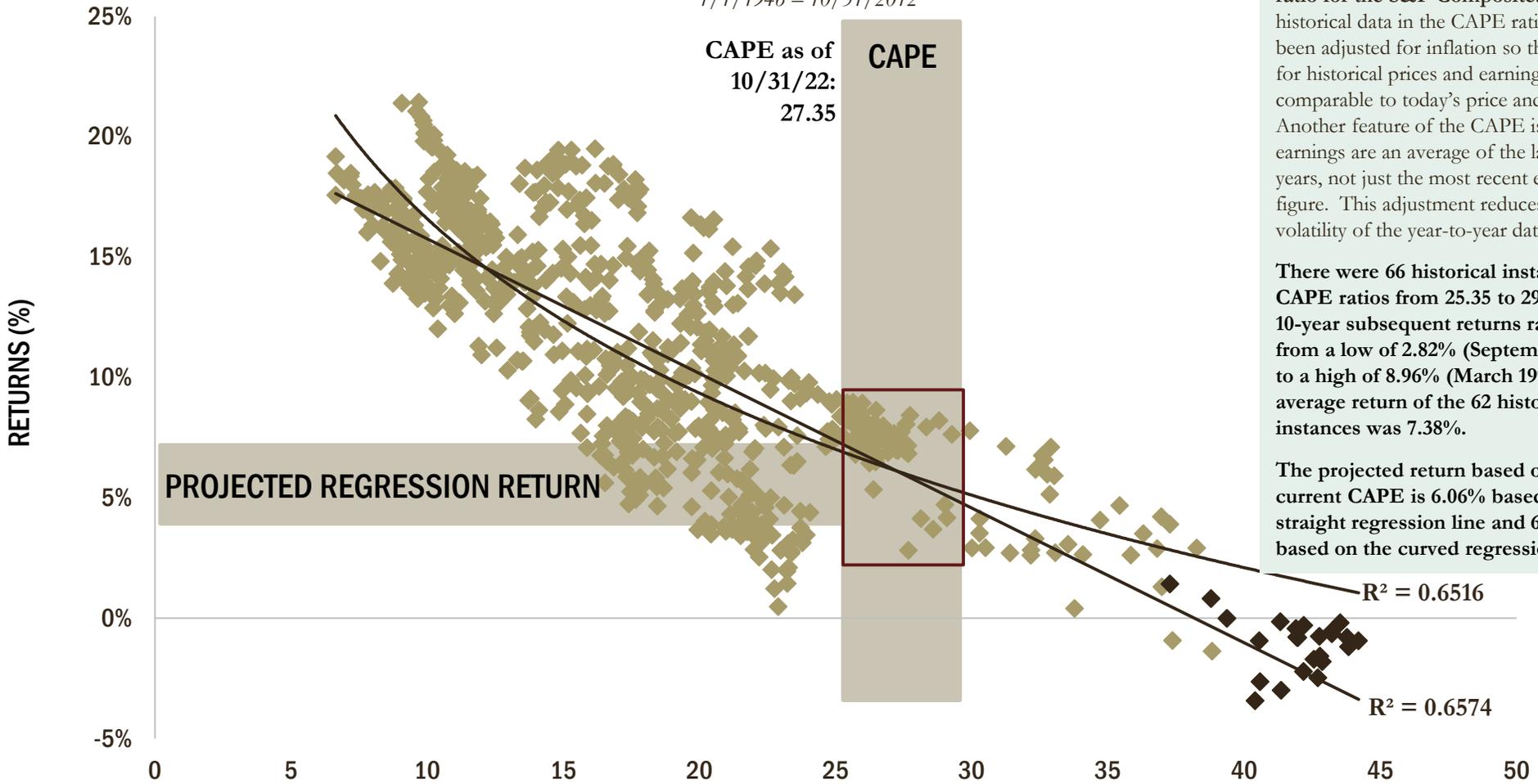
25% DRAWDOWN PERIOD	PEAK-TO-TROUGH DRAWDOWN	1-YEAR	3-YEAR	5-YEAR	10-YEAR
Dec 1961-Jun 1962	-28	34	70	100	178
Nov 1968-Apr 1970	-36	35	47	28	100
Jan 1973-Apr 1974	-48	1	23	44	189
Nov 1980-Aug 1982	-27	61	108	272	485
Aug 1987-Oct 1987	-34	28	55	119	471
Mar 2000-Mar 2001	-49	2	1	24	37
Oct 2007-Sep 2008	-57	-5	11	65	209
Feb 2020-Mar 2020	-34	62	-	-	-
Jan 2022-Sep 2022	-25	-	-	-	-
Average	-38	27	45	93	238

Source: Goldman Sachs

CAPE RATIO & S&P 500 INDEX 10-YEAR SUBSEQUENT ANNUALIZED RETURN (%)

HISTORICAL CAPE MULTIPLE VS. SUBSEQUENT DECADE'S RETURN

1/1/1946 – 10/31/2012



CAPE is the Cyclically Adjusted P/E ratio for the S&P Composite. The historical data in the CAPE ratios have been adjusted for inflation so that values for historical prices and earnings are comparable to today's price and earnings. Another feature of the CAPE is that earnings are an average of the last 10 years, not just the most recent earnings figure. This adjustment reduces the volatility of the year-to-year data.

There were 66 historical instances of CAPE ratios from 25.35 to 29.35, with 10-year subsequent returns ranging from a low of 2.82% (September 2001) to a high of 8.96% (March 1996). The average return of the 62 historical instances was 7.38%.

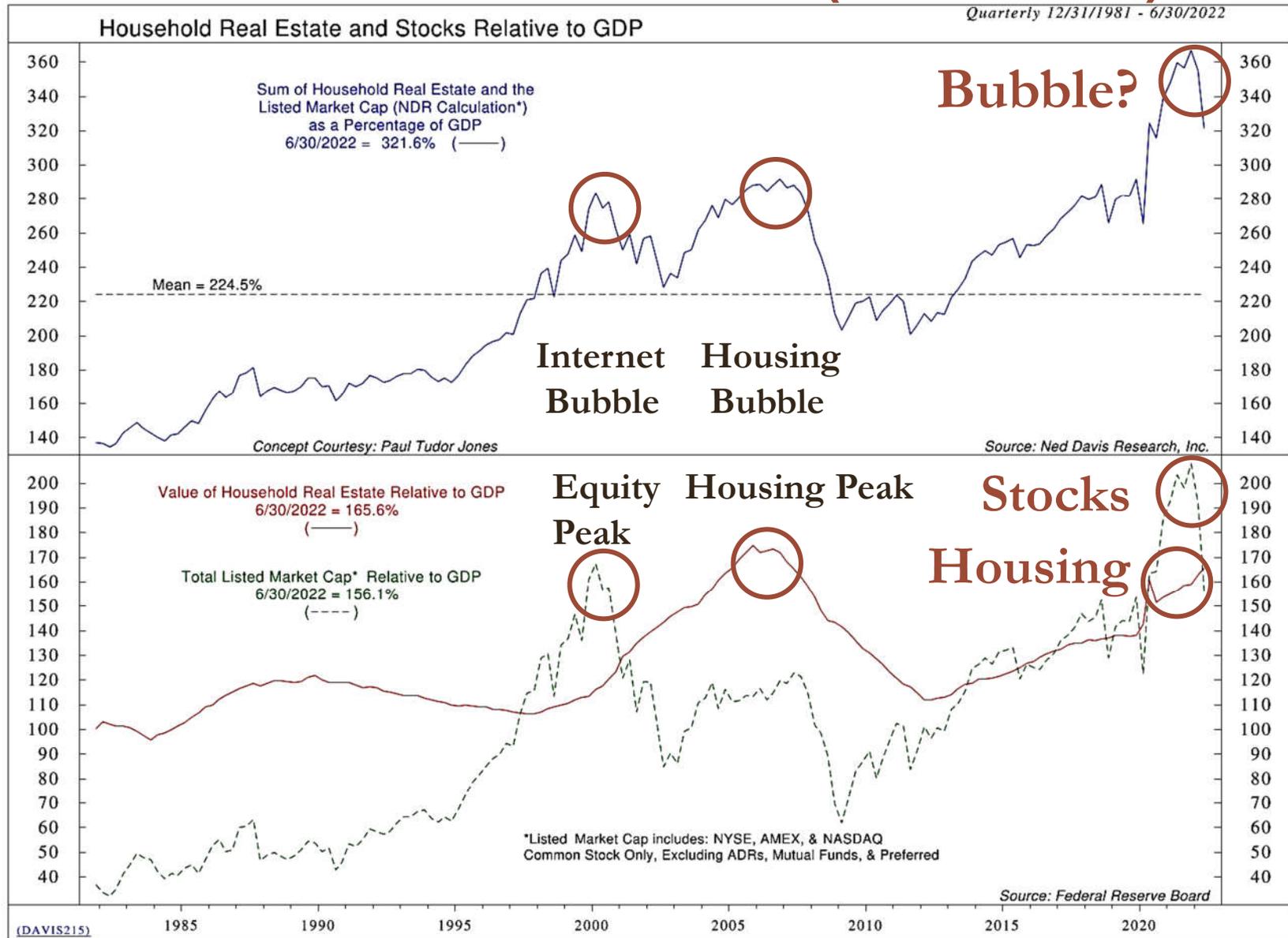
The projected return based on the current CAPE is 6.06% based on the straight regression line and 6.08% based on the curved regression line.

Calculations based on IA SBBI US Large Stock TR USD and Cyclically Adjusted Price/Earnings Ratio for S&P Composite

Source: Ibbotson, Robert Shiller

Dark brown diamonds represent the data points from January 1999 through December 2000.

HOUSING AND STOCKS VS. GDP (EXPENSIVE)



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