THE PRIVATE CLIENT GROUP
BALANCING LIFE & WEALTH

ECONOMIC & MARKET INSIGHTS

An Executive Summary for October 2023

The U.S. economy grew at 4.9% during Q3, in contrast to Europe which contracted –0.1%. Japan, according to recent estimates, experienced 0% growth. Japan's slower growth was driven, in part, by reduced exports to China as Chinese growth has been hampered by a decline in manufacturing, services, and housing. Going forward, China may need to increase stimulus measures, especially as it attempts to manage a protracted real estate crisis.

The U.S. Labor market remains steady with unemployment running near 3.9%, though monthly jobs gains have been decelerating over the past few months. Unions inked wage gains near 25% in the automotive industry and certain fast-food employees in California saw a minimum wage increase to $20.

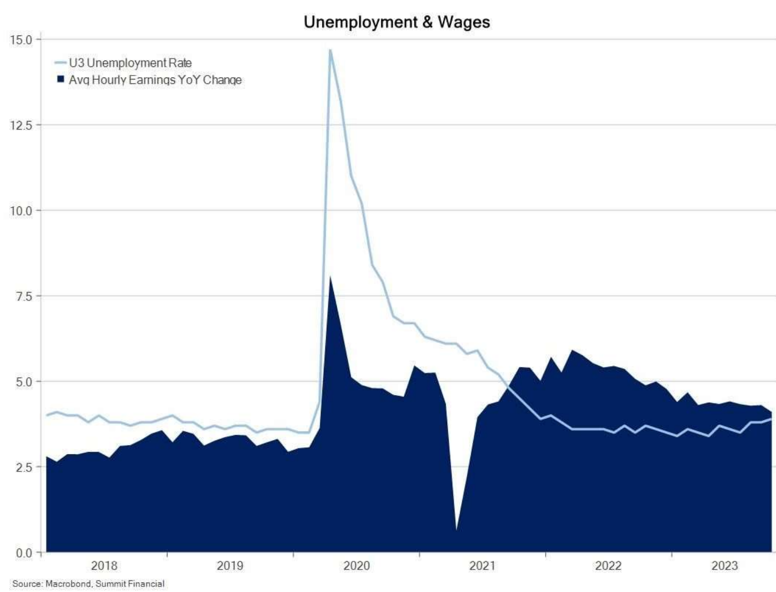
Looking forward, Powell noted that 'reducing inflation is likely to require a period of below-potential growth and some softening of labor market conditions'. Higher rates for corporate and mortgage financing, resumption of student loan payments after a three-year moratorium, reduced household savings, and contracting money supply likely point to slower economic growth.

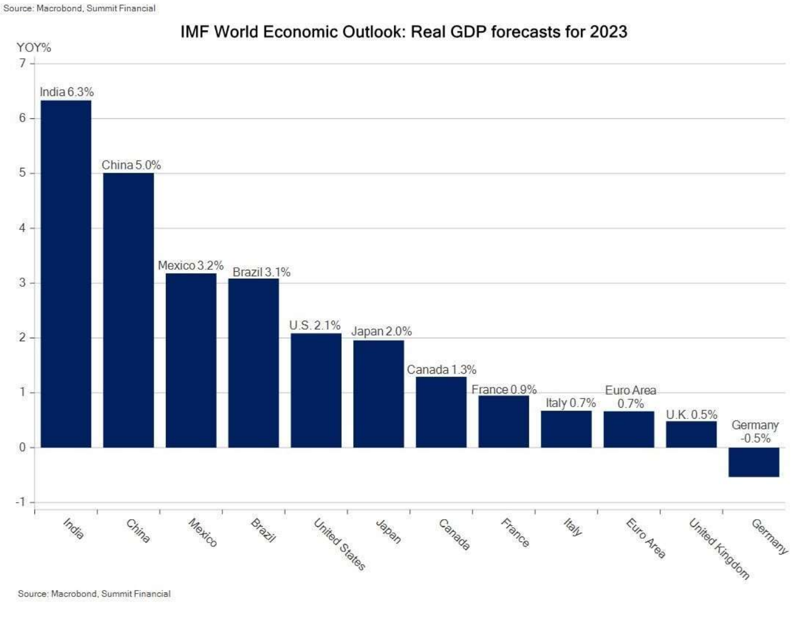
Key Indicators are Moderating but Stable

- U.S. industrial production remains in a modest downturn though services and retail consumption continue to expand.
- U.S. delinquency rates have started to rise, across credit cards and auto loans in particular, but the increases have so far been mild and are below prior recessionary levels.
- Global energy prices remain contained, for now, but an expanding Middle East conflict increases potential for supply disruptions.
- Gold, normally seen as a safe haven during times of geopolitical stress, has held steady in price. Going forward, rising real yields will likely provide strong competition.

IMF Cuts Baseline Global Forecasts

- The International Monetary Fund, in its World Economic Outlook released in October, forecasts global growth to slow from 3.5% in 2022 to 3.0% in 2023 and 2.9% in 2024.
- Growth in advanced economies is expected to slow to 1.5% in 2023 and 1.4% in 2024, versus developing economies which are forecasted to maintain a 4.0% growth rate for both 2023 and 2024.

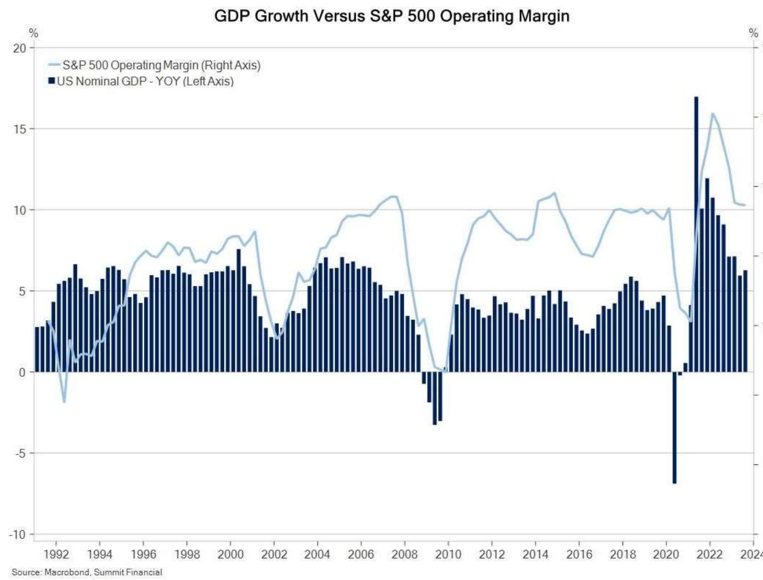




- The IMF noted that the global recovery 'has been remarkable' given the post pandemic dislocations, the Russian invasion of Ukraine, and strong increases in inflation. It also stated that monetary policy actions 'are the key at the current juncture to keep inflation expectations anchored'.
- Growth is strongest in India, China, developing Asia, Brazil, and Mexico while weaker in Japan and Europe. Only Germany has experienced negative GDP growth so far this year.

Equity - EPS Estimates for 2024 Too High?

- Earnings growth for Q3 is 3.7%, above expectations of –0.3% at the beginning of the quarter. This is the first quarter with positive growth since Q3 2022. For Q4, analysts have reduced expectations, but still see earnings growth near 5.0% with revenue growth near 4.0%.
- Analysts estimates for 2024 earnings growth is 12%. This appears optimistic versus U.S. GDP forecasts near 1% growth, recent IMF downward revisions to global growth, and the expectation that the Fed will hold rates higher for longer.
- Given higher equity multiples versus cash and bond yields, markets remain sensitive to any downward revisions in earnings growth.



Fixed Income—Higher for Longer?

- Federal Reserve held rates steady at its November meeting, indicating that its 'stance of policy is restrictive' and 'putting downward pressure on economic activity and inflation'.
- Powell stated that 'a few months of good data are only the beginning… to build confidence that inflation is moving down… toward our goal'. The Fed likely needs to see at least 6 months of 'good data' before it begins to consider rate cuts—that pushes the timetable out towards early Q2 2024.
- Investors may consider extending duration on selective credits. However, given prolonged levels of bond volatility, entry price levels remain critical.