US Macro Pulse

June 2022

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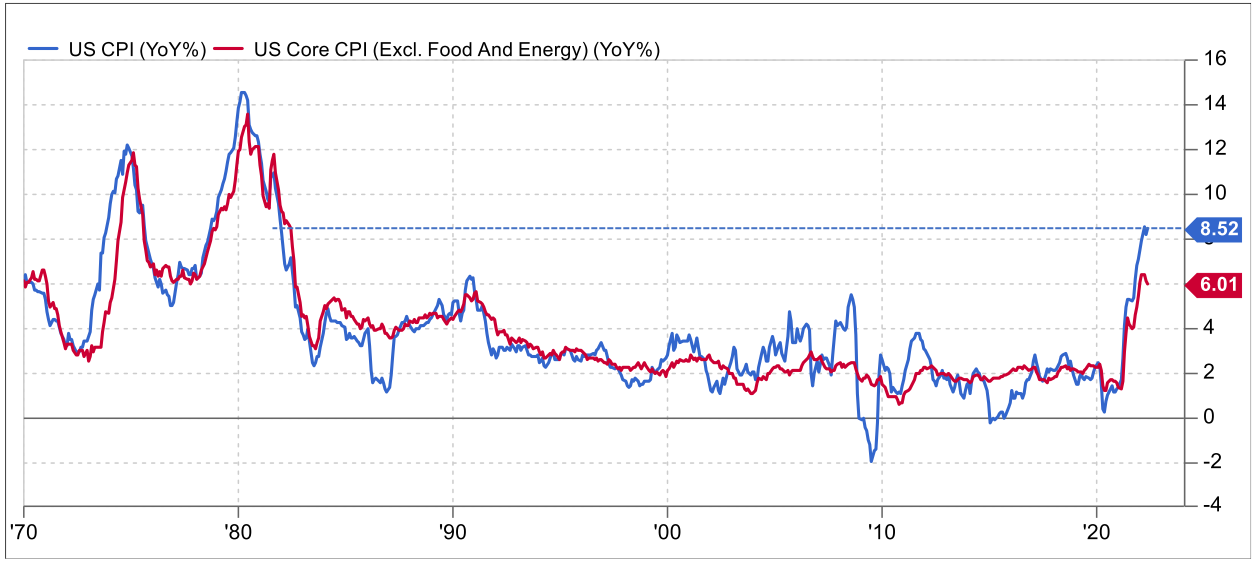
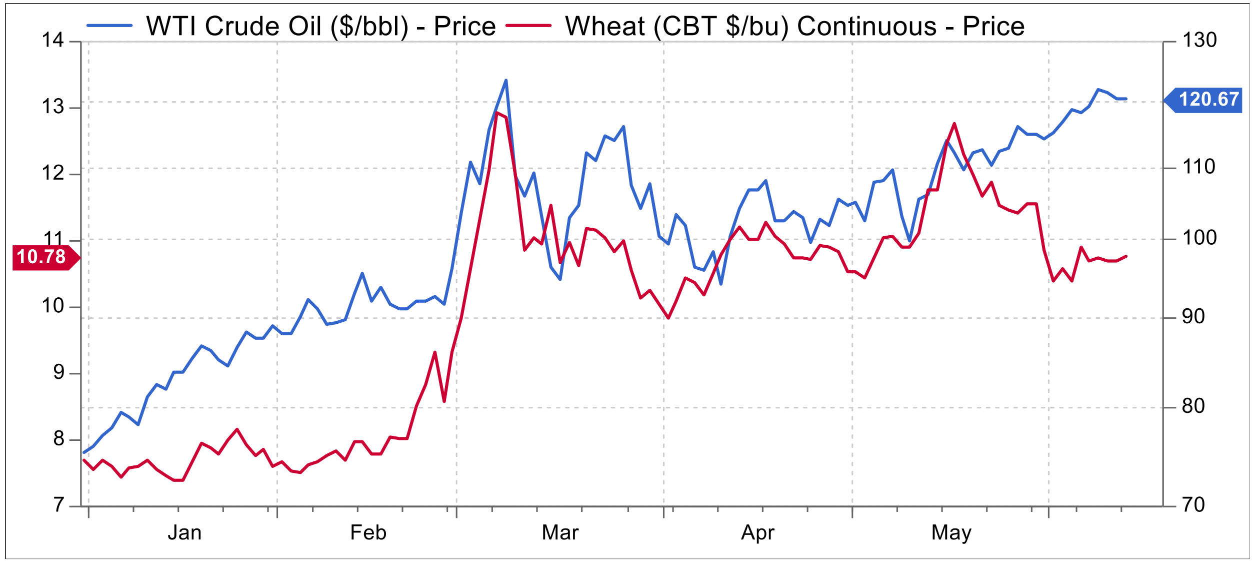
LOGIC INVESTMENTS

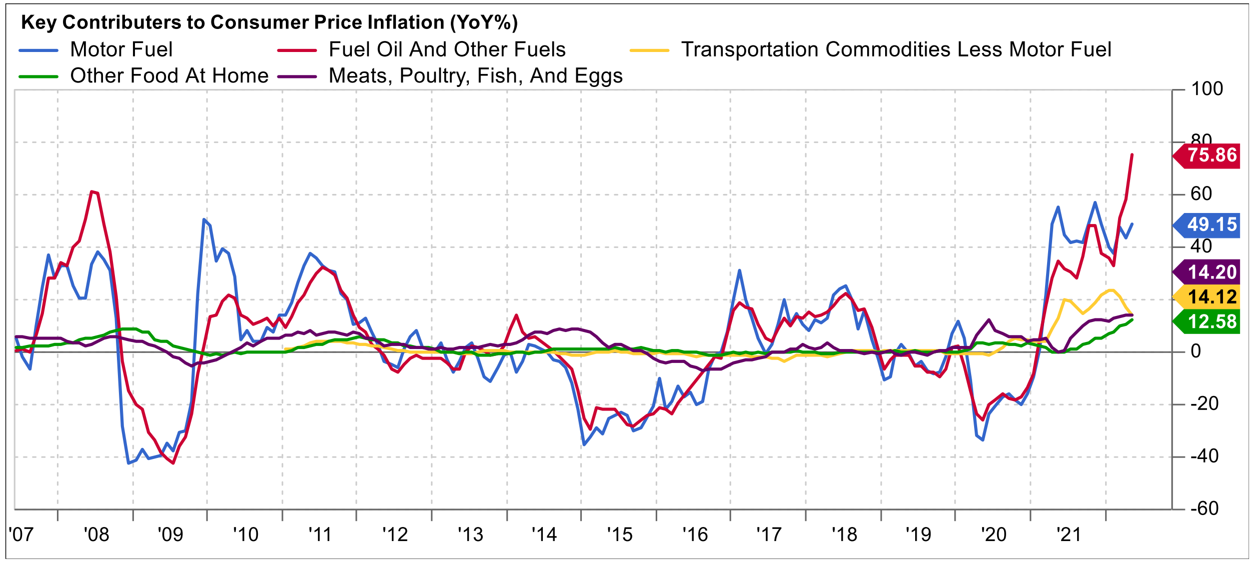
Inflation



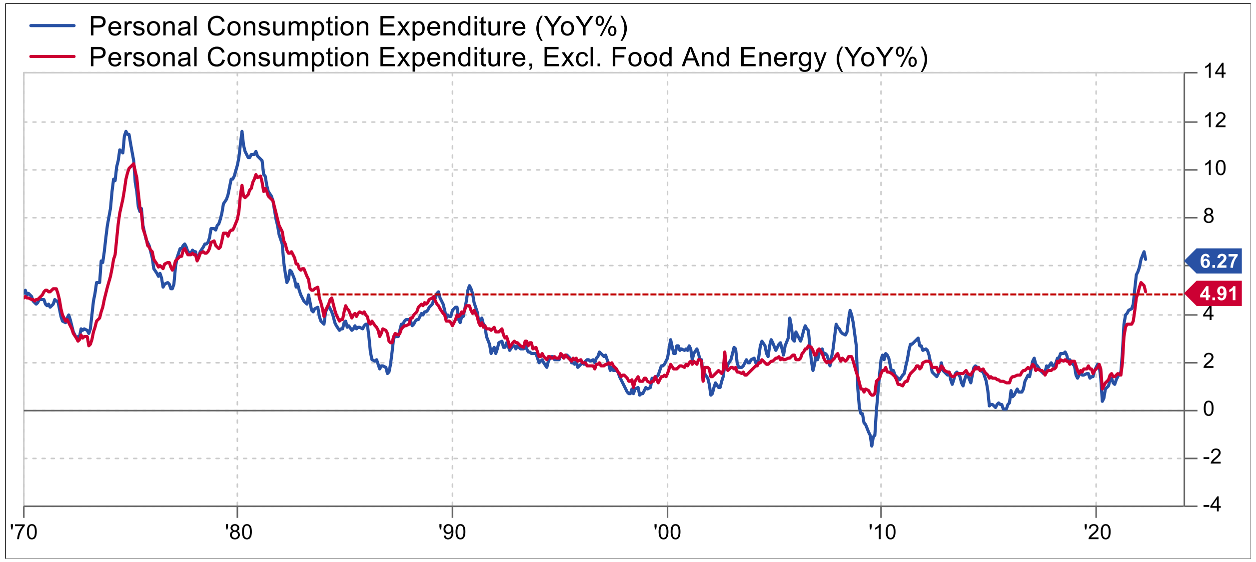
Inflation still shows no sign of abating, adding more pressure to consumer woes with June CPI reading the highest since 1982.



The war in Ukraine and Russian sanctions have impacted the supply of key commodities, forcing oil and wheat prices to spike much higher in recent months.



This has caused fuel and food prices to soar, squeezing household finances, as an increasing percentage of income is diverted towards mounting food and energy costs.



The Federal Reserve's key inflation indicator (Core PCE) continues to alarm, provoking the requirement for tighter monetary policy to tame inflationary pressures

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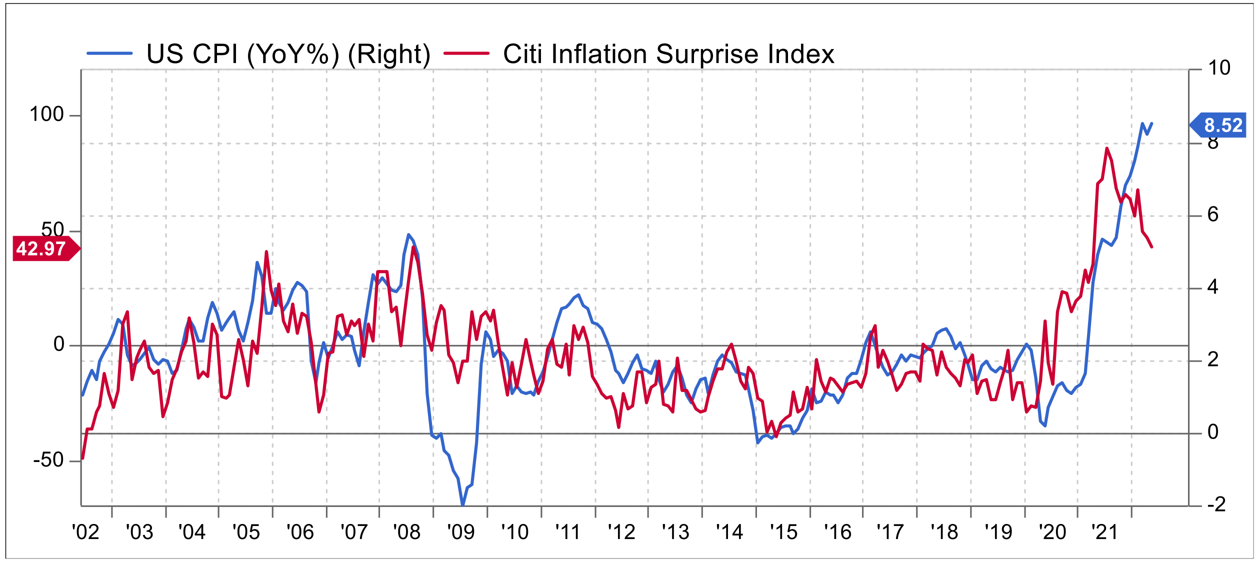
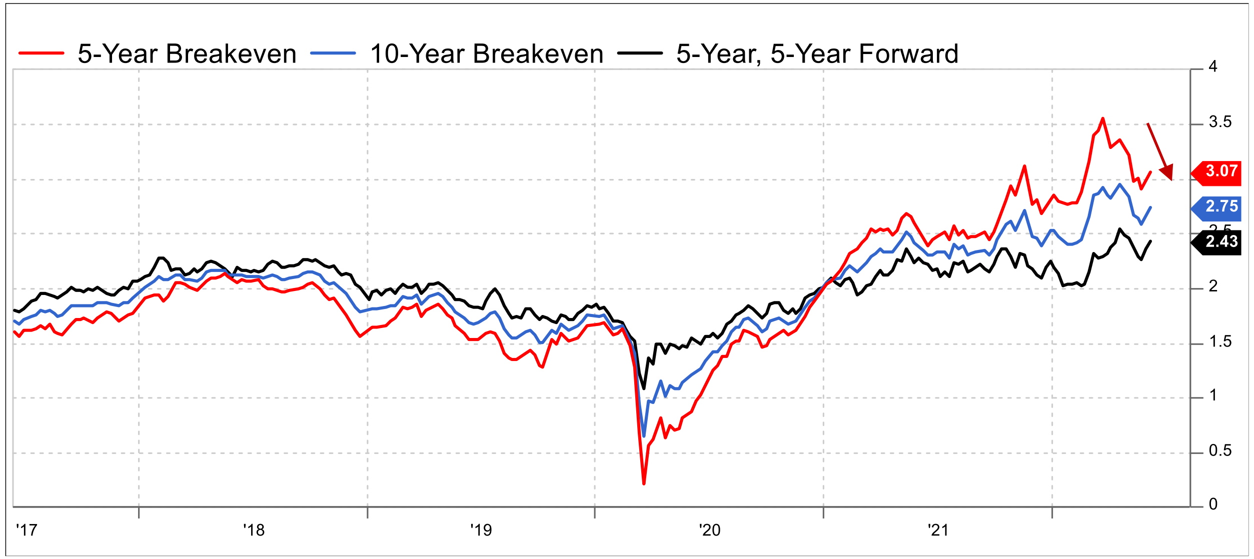
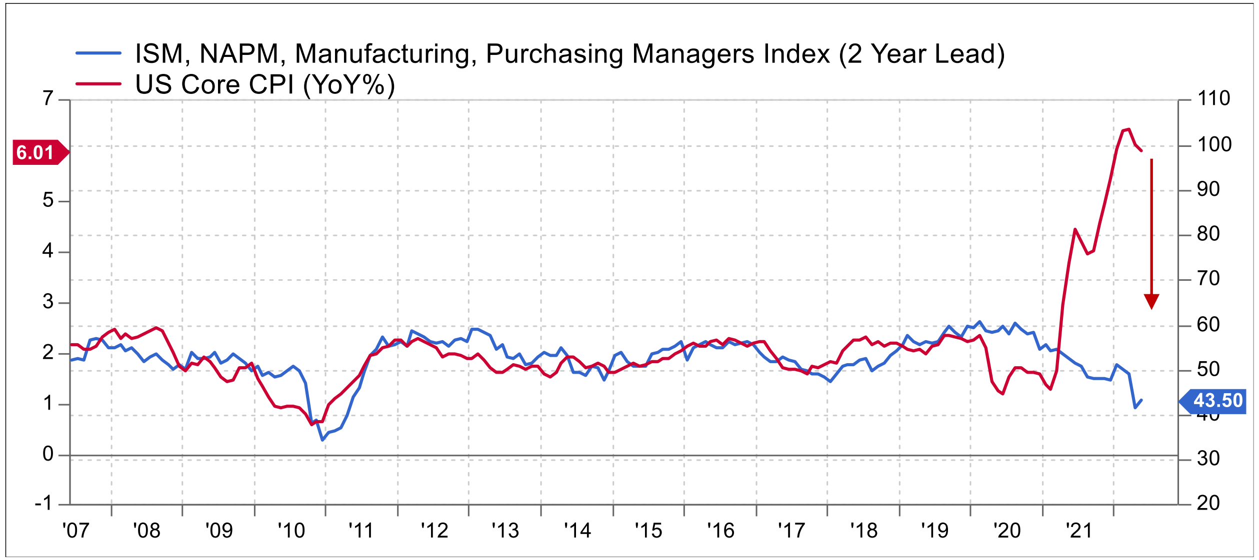
Inflation



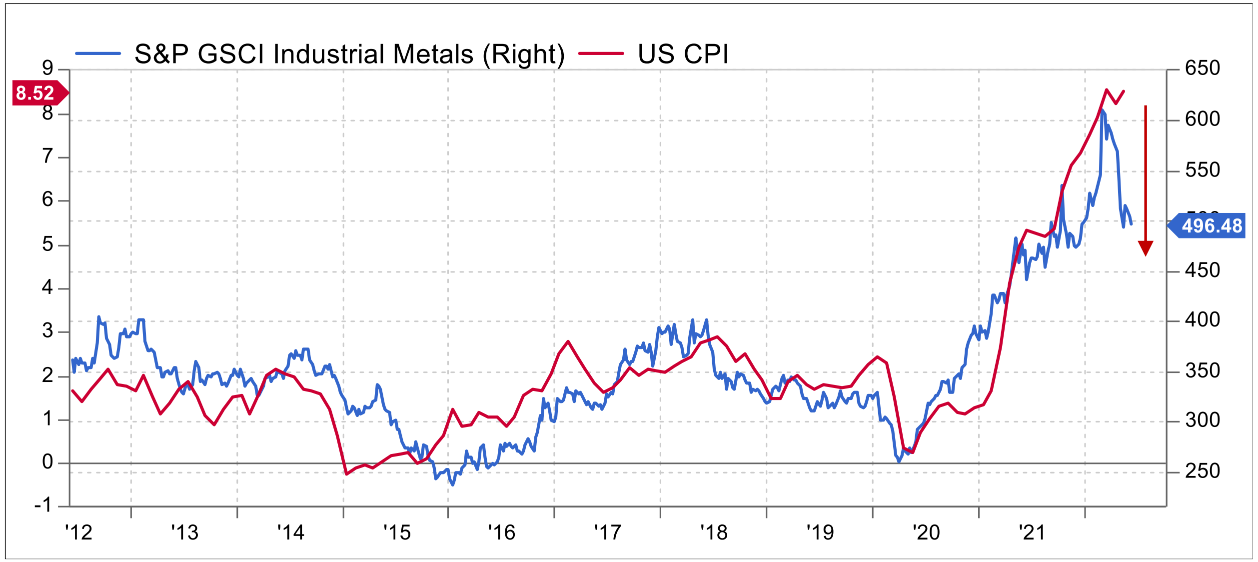
However, the Citi Inflation Surprise Index continues to roll over, suggesting core inflationary pressures may have already peaked.



Breakevens, a proxy for inflation expectations, are also beginning to show signs of weakness.



With manufacturing demand falling, its relationship with CPI, suggests inflation should begin to ease over the coming quarters.



Falling commodity prices should start to relieve pressure on expected price changes. But developing geopolitical uncertainty could keep commodity prices high.

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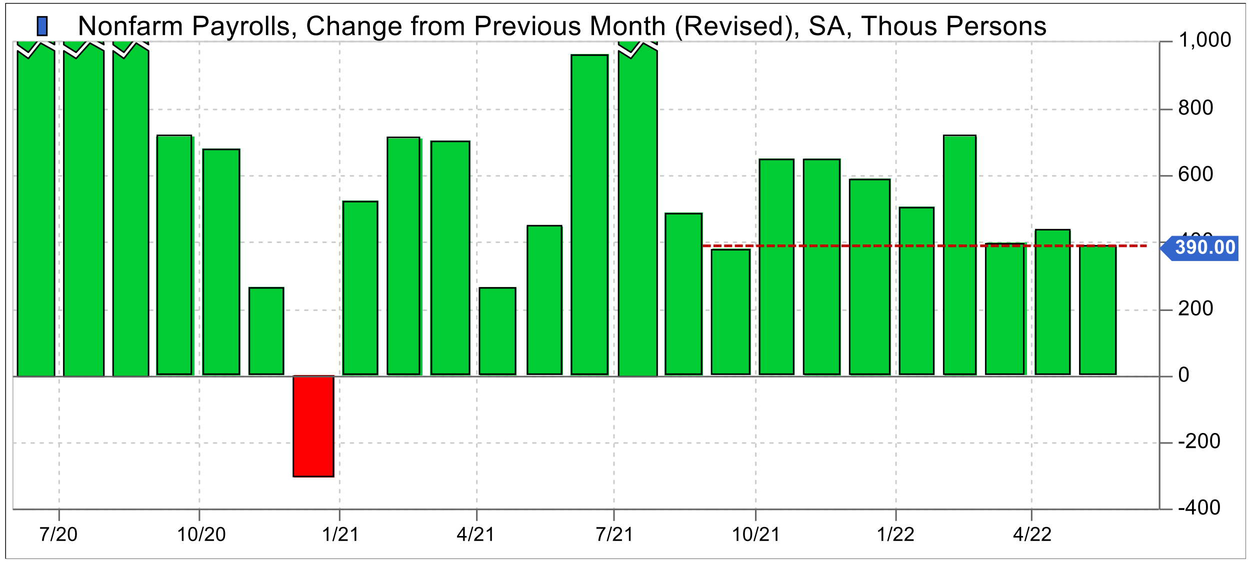
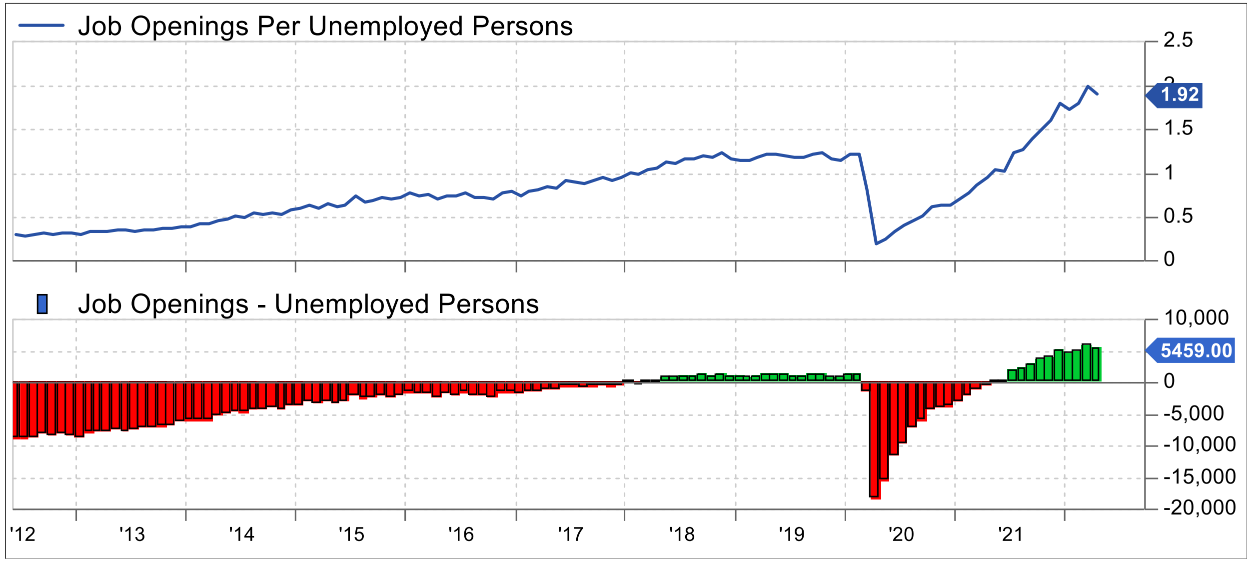
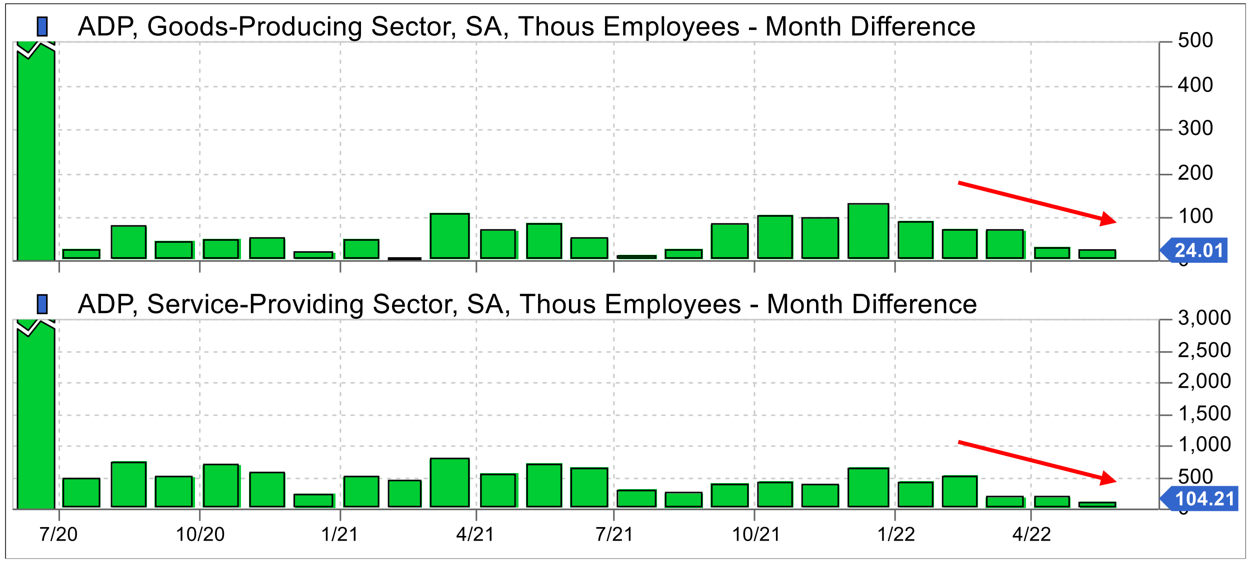
Employment

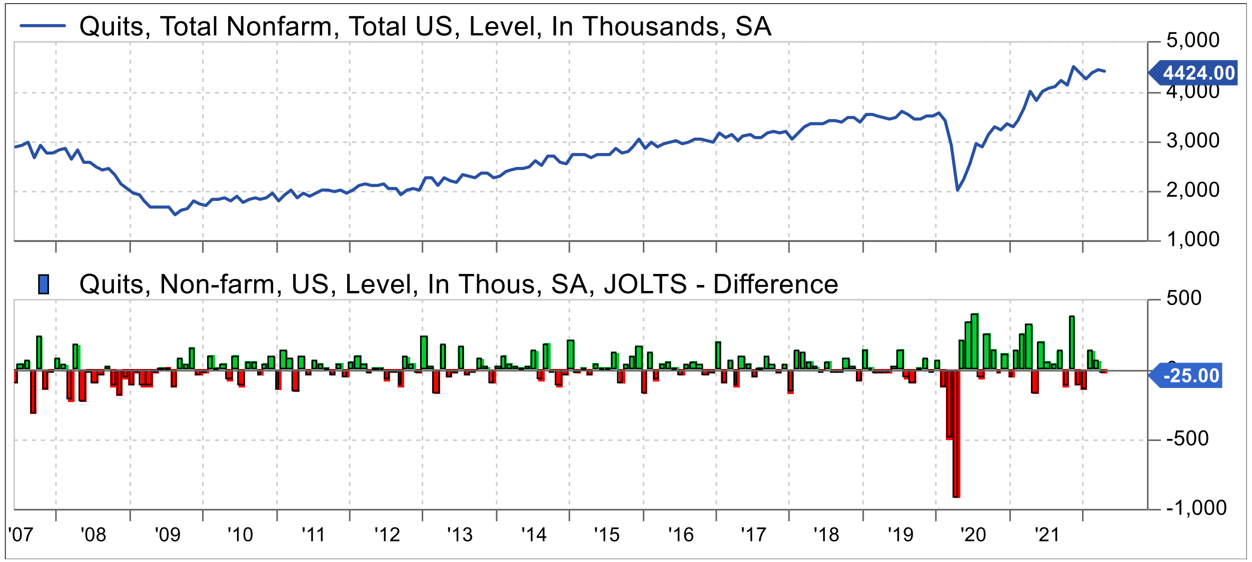




Robust employment figures and continued labour market strength, point towards more rate hikes from the Federal Reserve.

Record job openings per unemployed worker appears to have plateaued, but current figures suggest demand for workers is still extremely high.





But the pace of the labour market expansion has been decelerating for the past five months.

Rising job openings and voluntary resignations, may have also peaked, potentially signaling the end of a period of high demand for labour.

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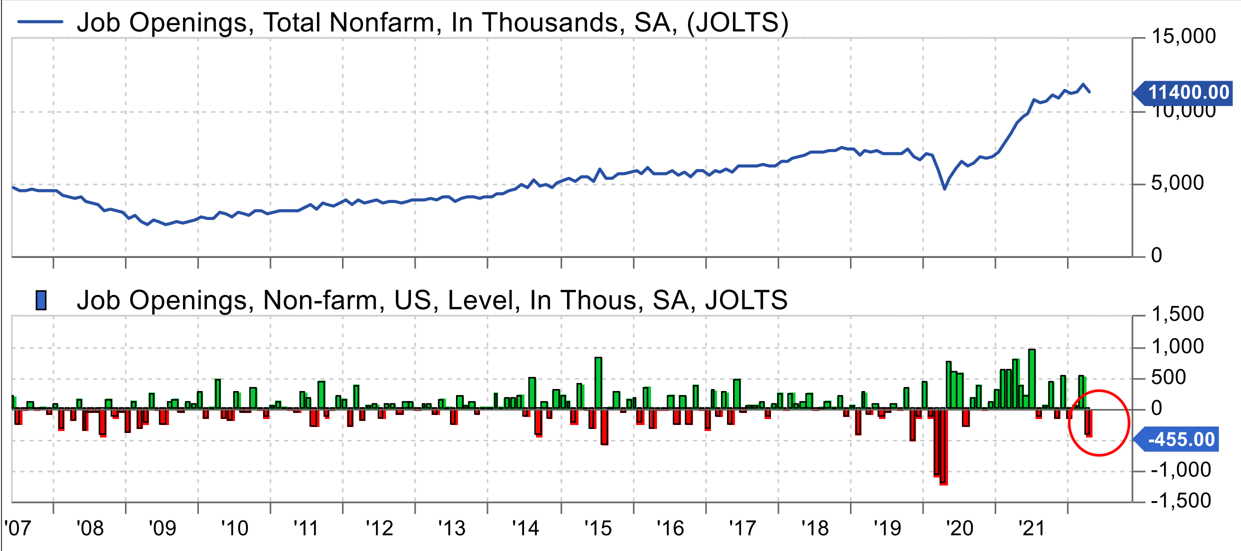
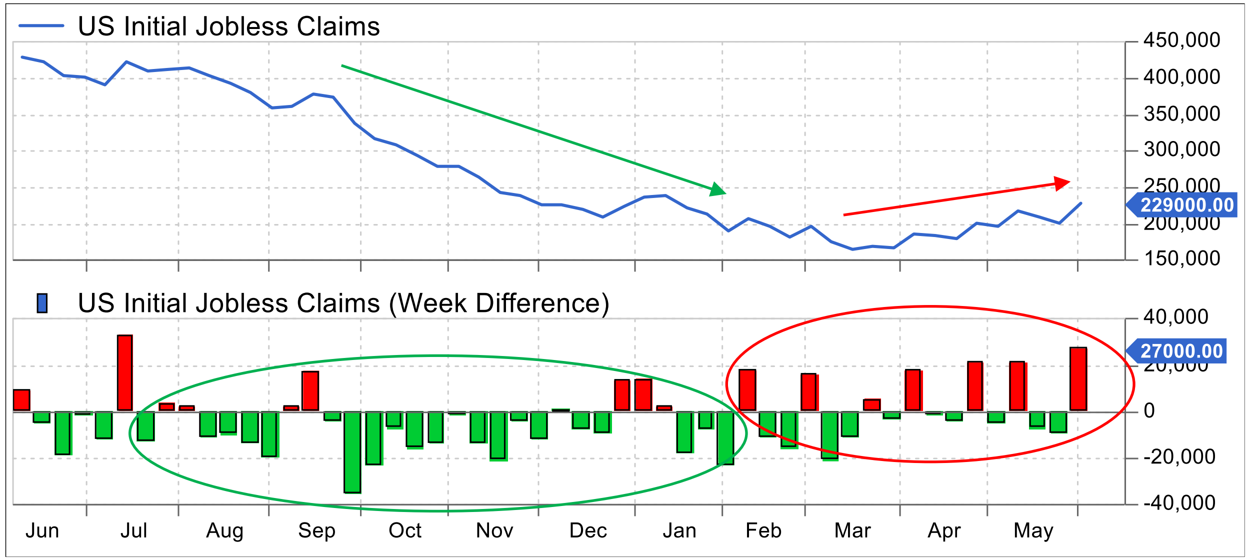
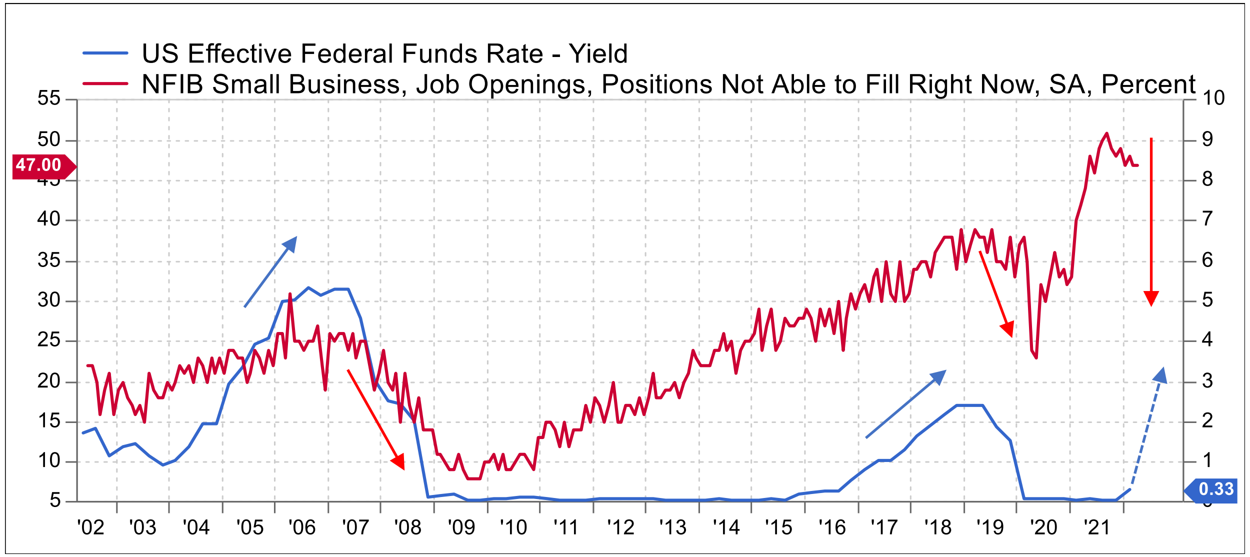
Employment



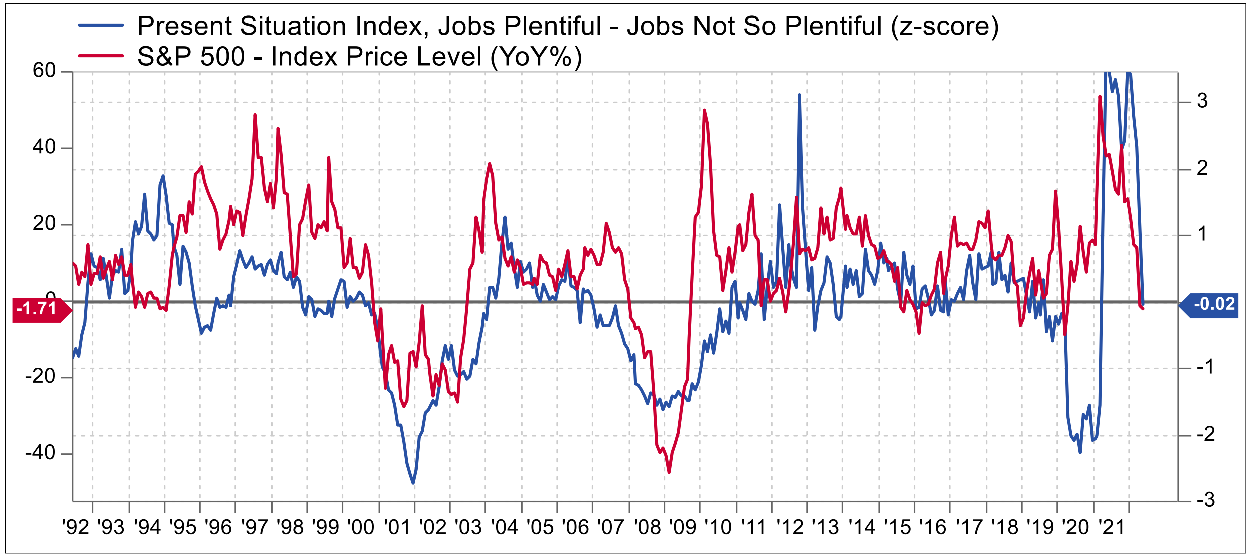
Furthermore, job openings declined in April, suggesting that the labour market is beginning to cool off.



Initial Jobless claims figures also add fuel to the argument that the jobs market is beginning to crack, reporting the highest number in five months.



As the Federal Reserve increases interest rates, employment will come under pressure as companies are compelled to reduce costs due to falling demand.



Tightening monetary policy is impacting equity markets. Consequently, companies are forced to shelve their hiring plans until the economy improves.

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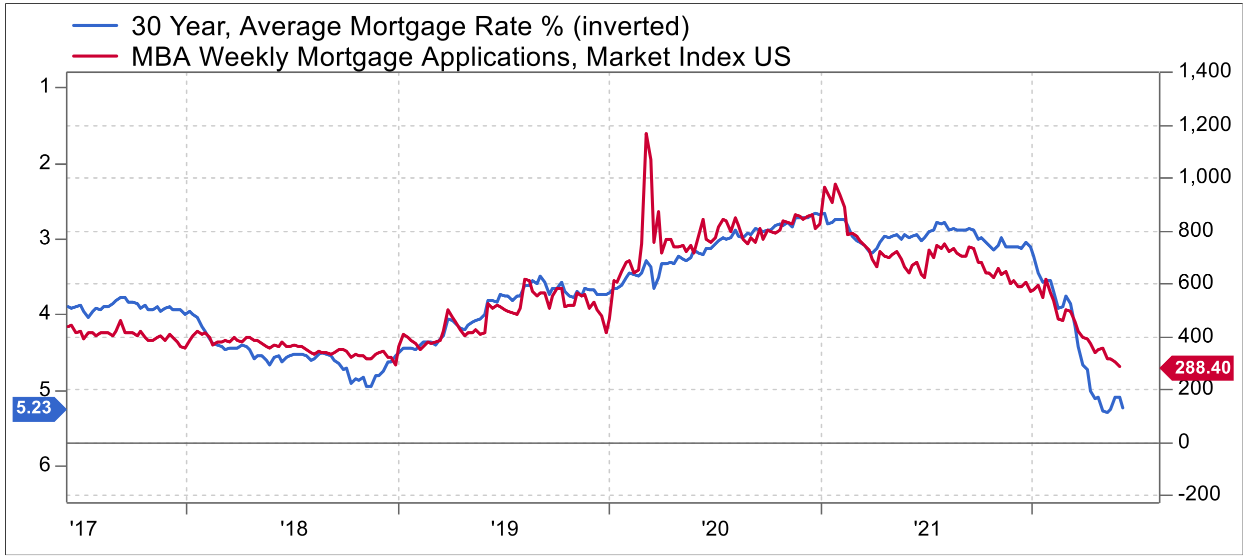
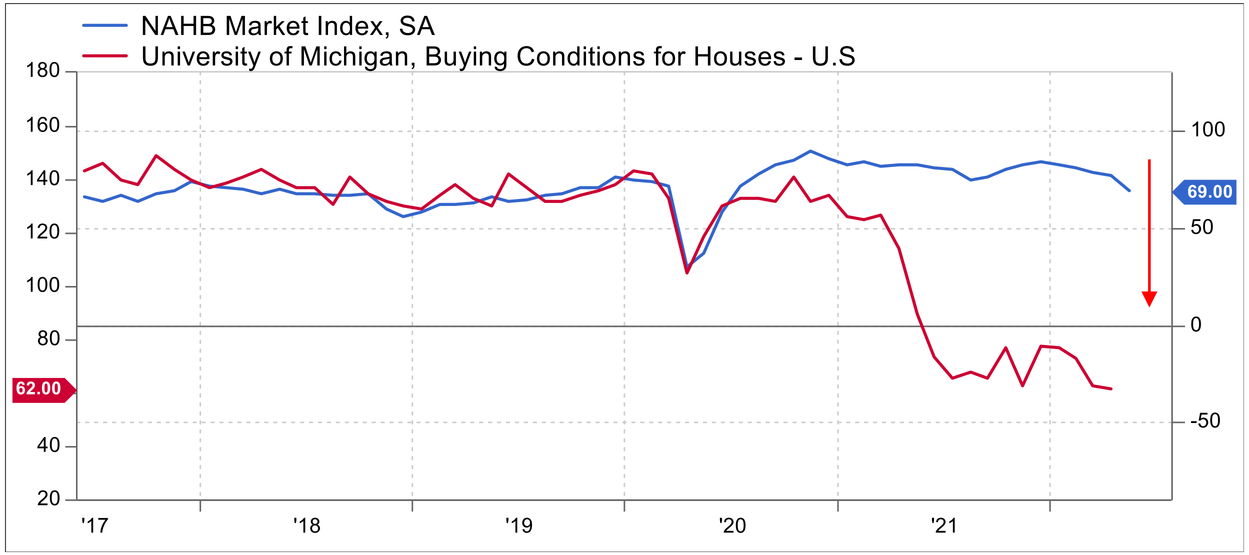
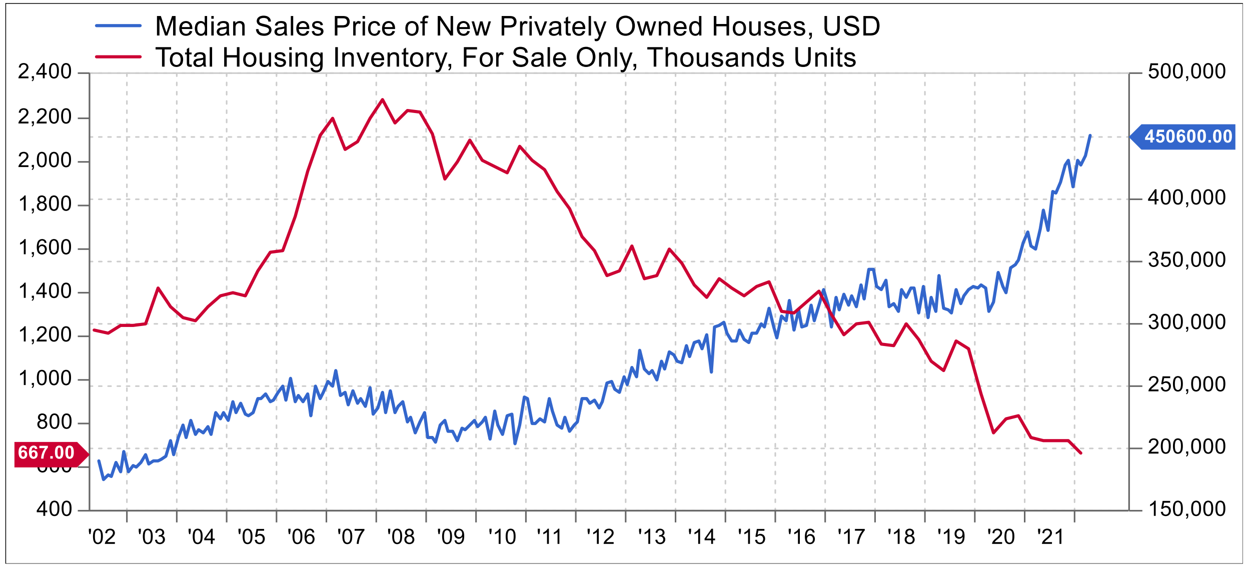
Housing Market

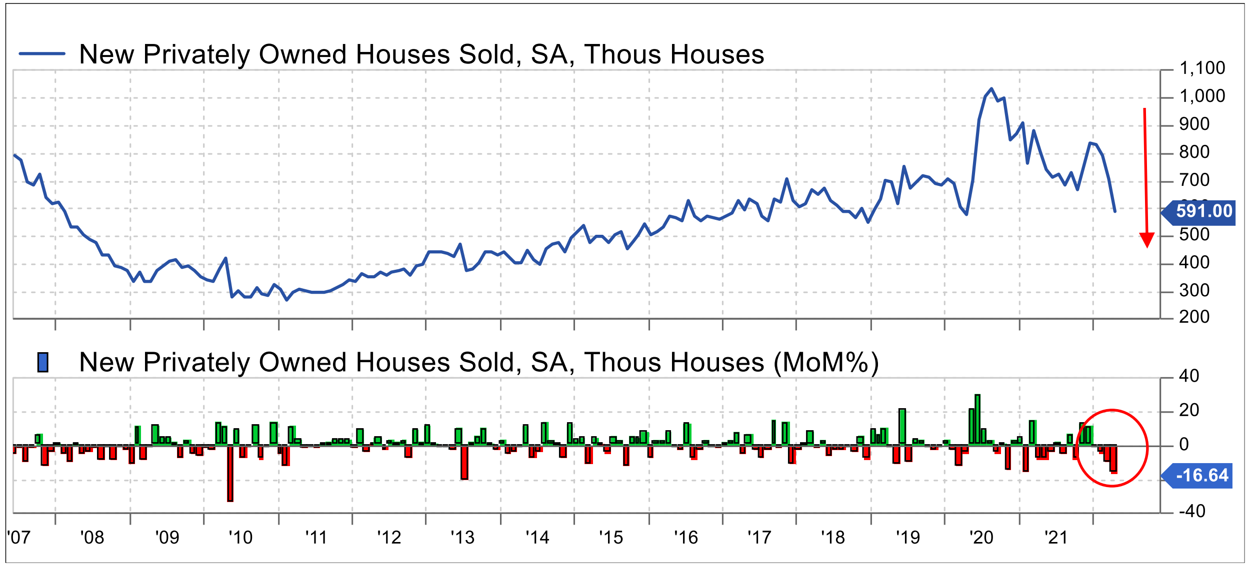




Mortgage rates have increased over 60% this past year, and this is forcing many potential home buyers to abandon their plans.

The high mortgage rates and increasing cost of living has caused a sharp drop in buying conditions. This will impact the housing market in due course.

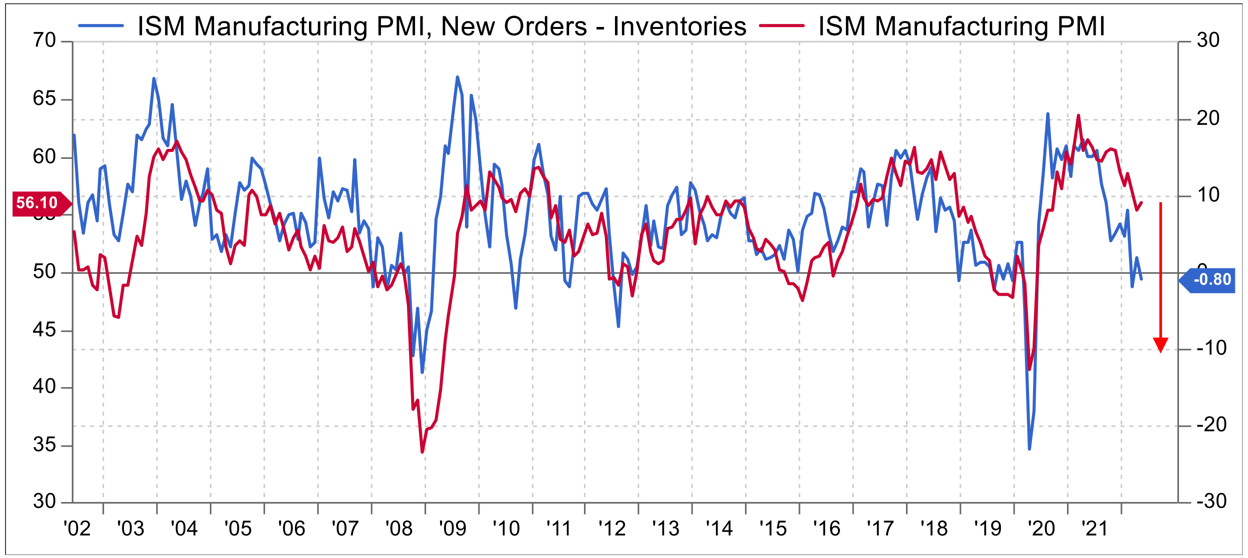




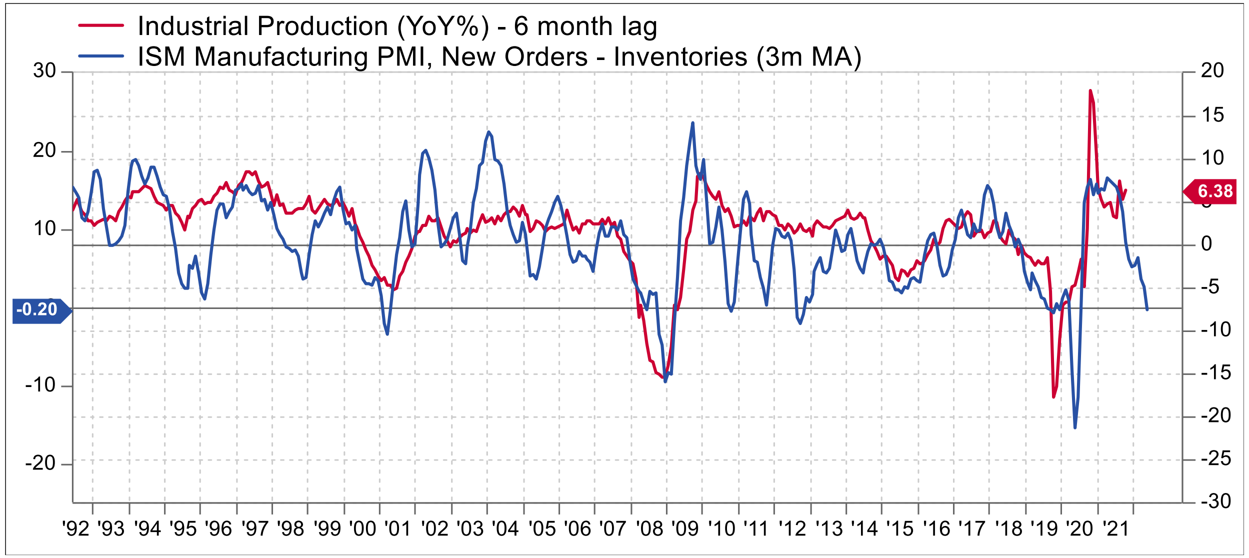
Increase in house prices and mortgage rates has had a limited impact on wealthy buyers and sellers but has had a severe impact on lower-income Americans.

The high median sales price of new houses and falling house sales indicates the extent to which working Americans are increasingly priced out of the market.

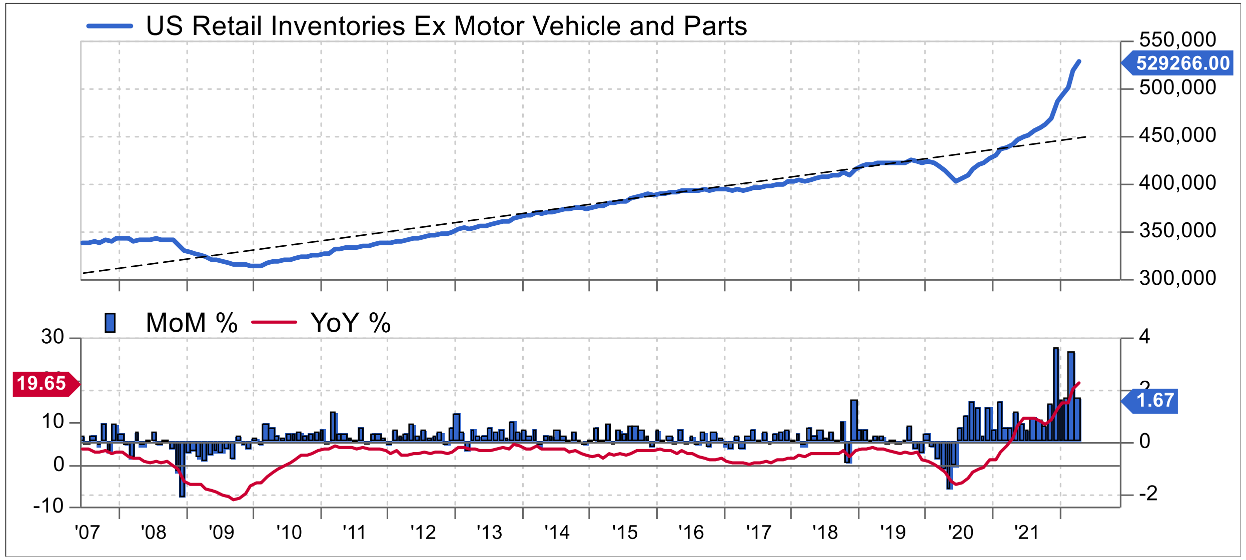
Economy



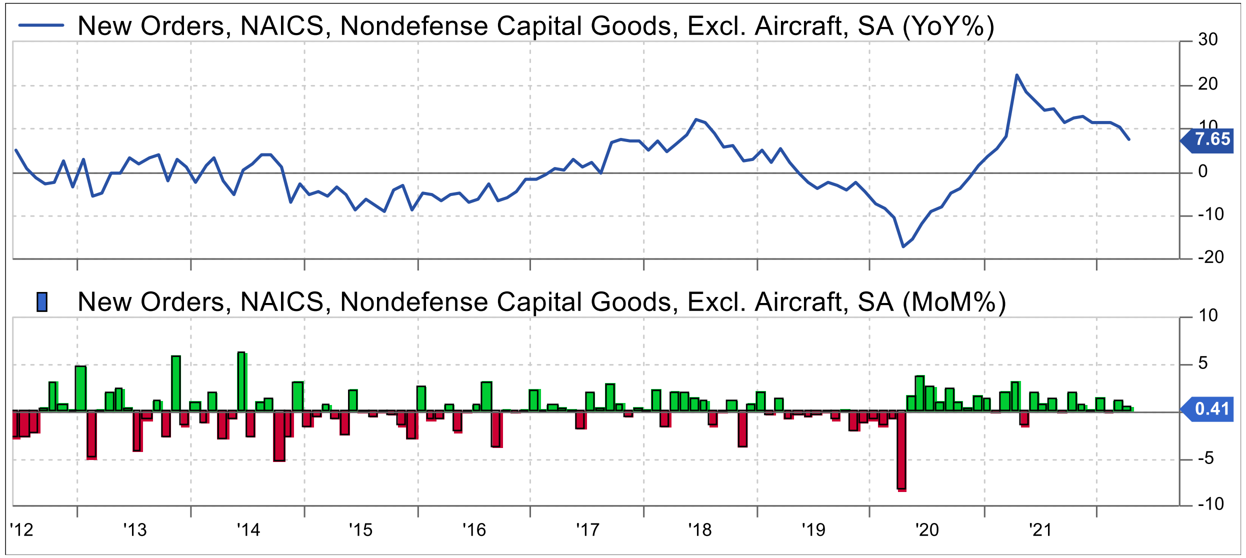
Factory activity has cooled over the past year due to falling new orders. High inventories suggest that factory activity will contract further over the coming months.



Given the slow down in new orders, we expect a material decline in industrial production over the next six months.

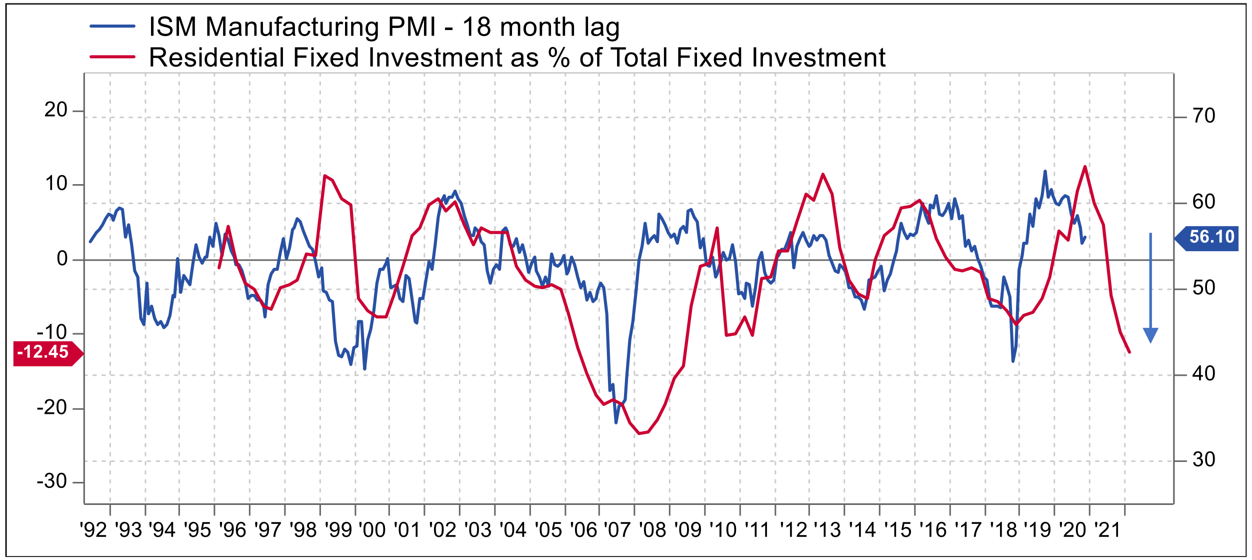


Retailers are now facing the prospect of steep price cuts in order to clear their high inventories. This will no doubt put retailers under pressure.

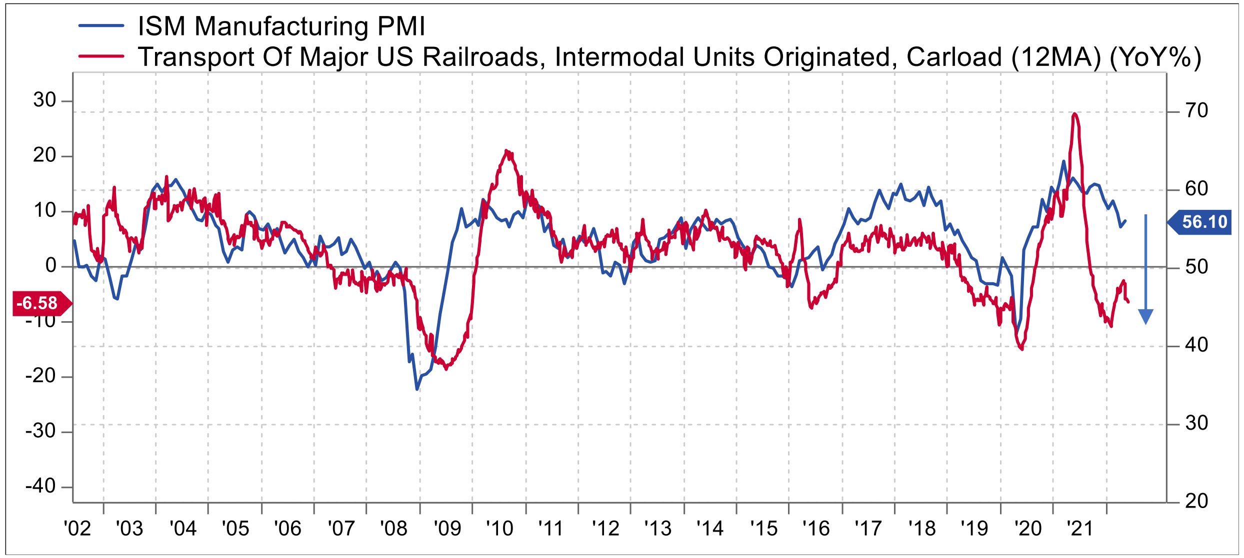


Companies are still adhering to capital expenditure plans, but they may reconsider the current pace of investment once economic activity begins to cool.

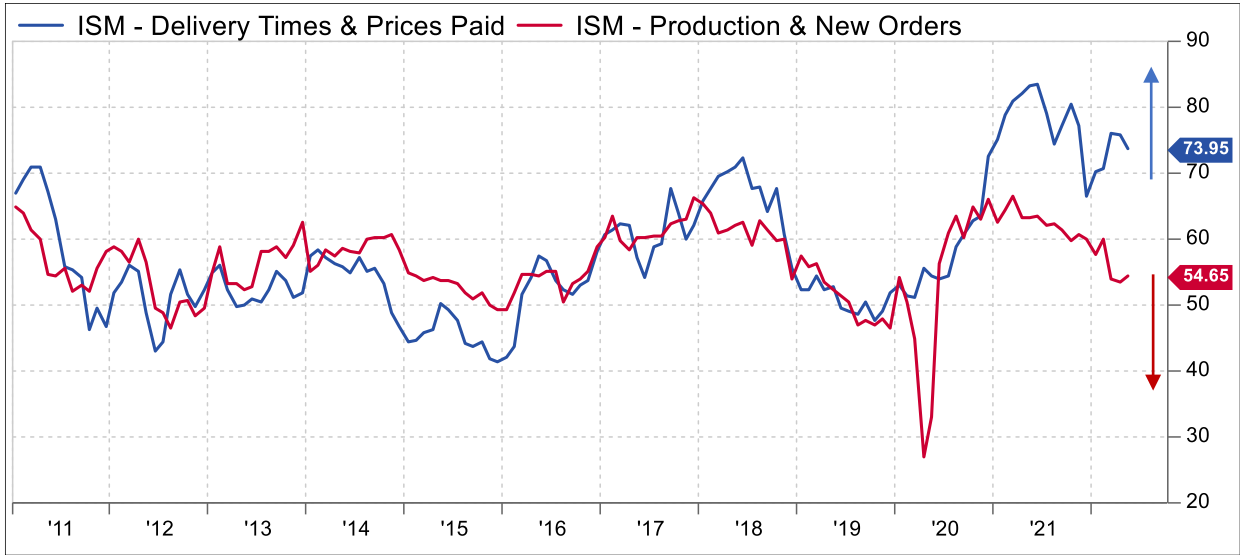
Economy



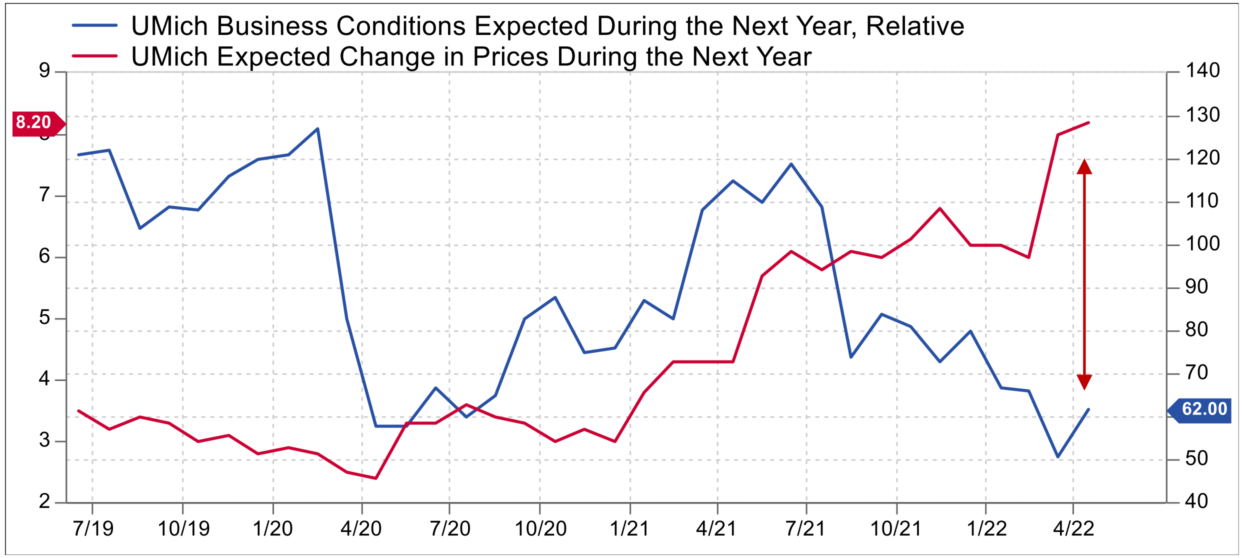
Housing market slow down reduces residential fixed investment and impacts demand for manufacturing. Expect further contraction over the next 18-months.



US carloads are highly sensitive to manufacturing demand. The large fall in demand for transportation is symptomatic of a slowing economy.

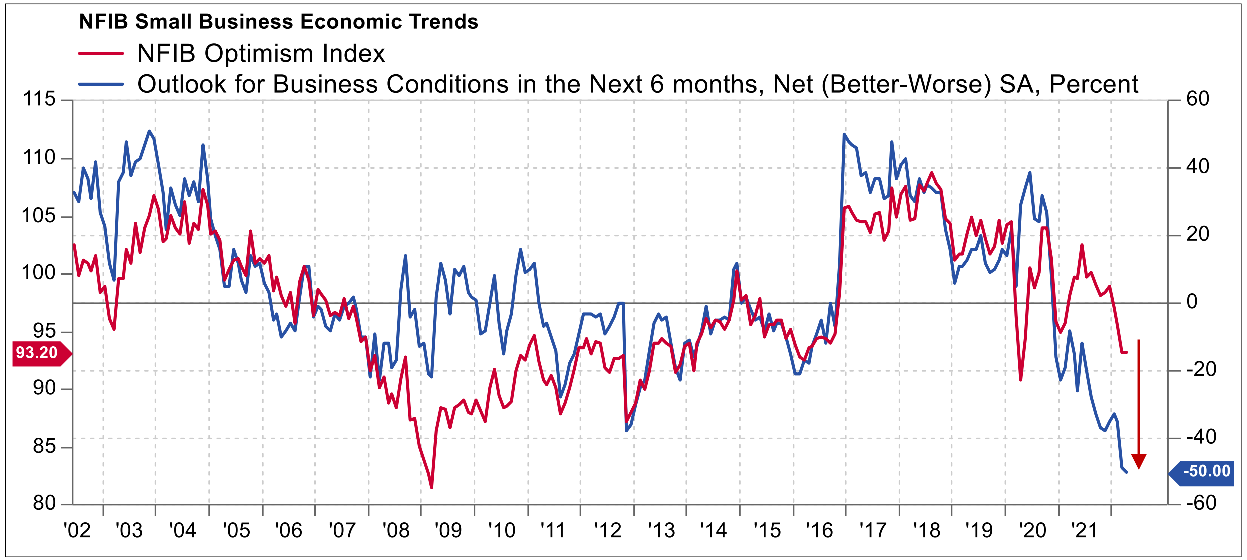


Increasing prices and falling growth (production and new orders) all point towards stagflation.

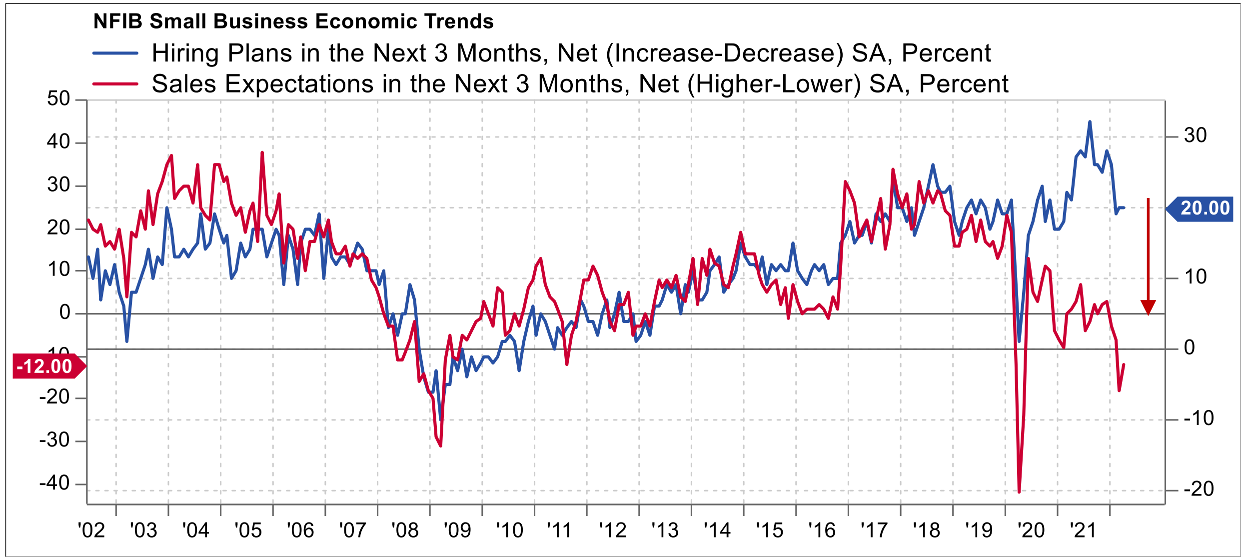


With business conditions set to weaken further due to high inflation and falling consumer demand, the threat of stagflation now seems unavoidable.

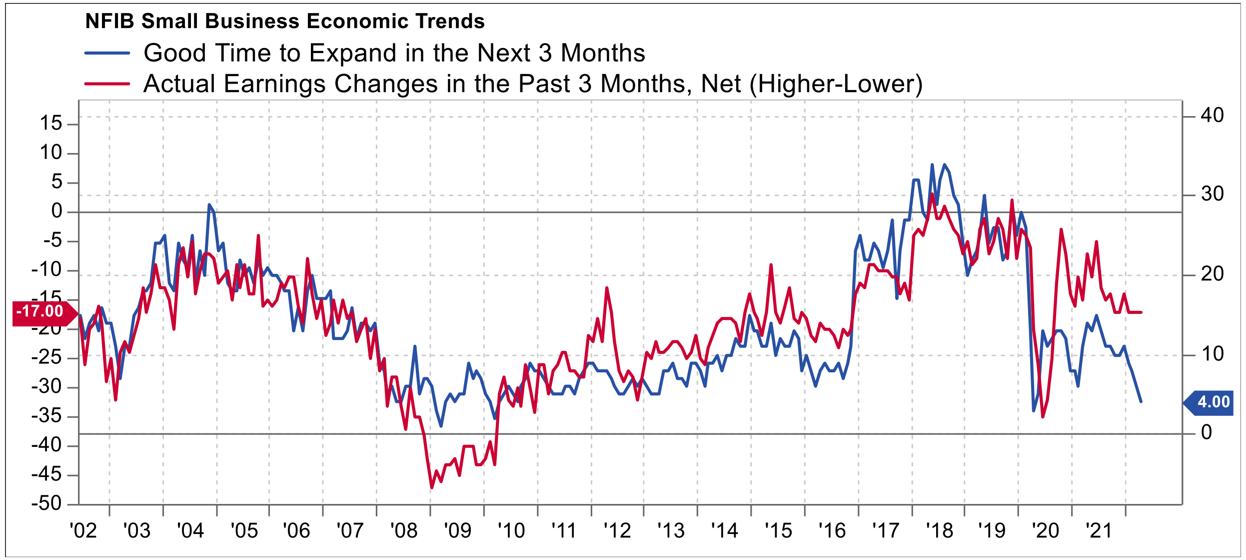
Economy



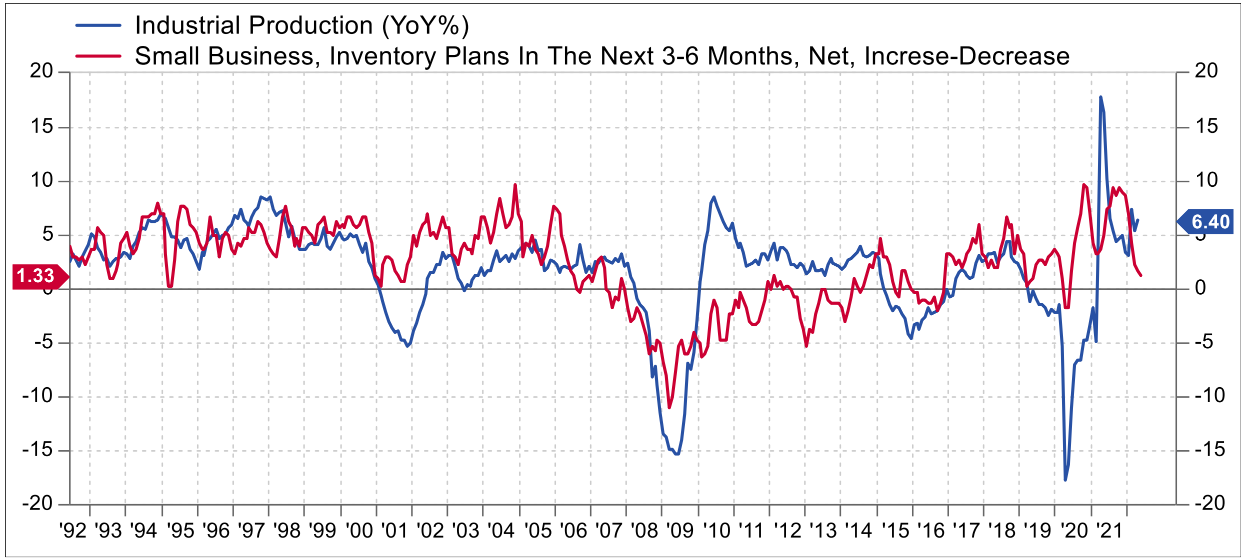
Small business optimism is in decline as inflation pressures begin to impact earnings. We expect this downward trend to accelerate over the coming months.



High cost of living and lower disposable income will impact sales. This will force companies to delay hiring or lay-off workers to mitigate reduced earnings.



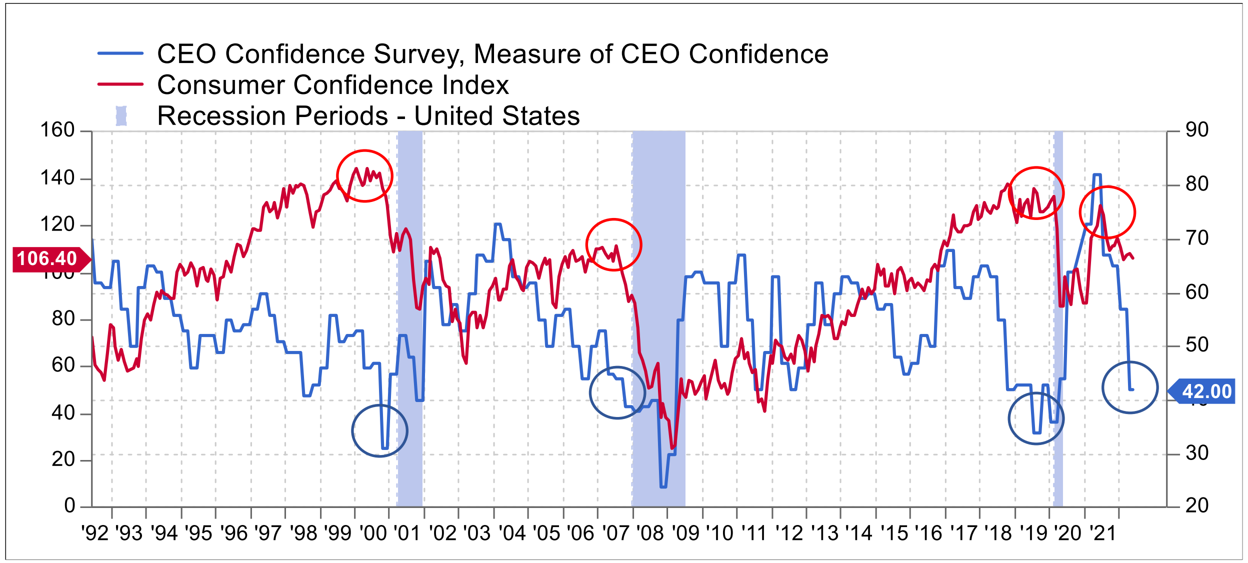
Less companies view expected business conditions as supportive for future expansion plans. This does not bode well for forthcoming earnings.



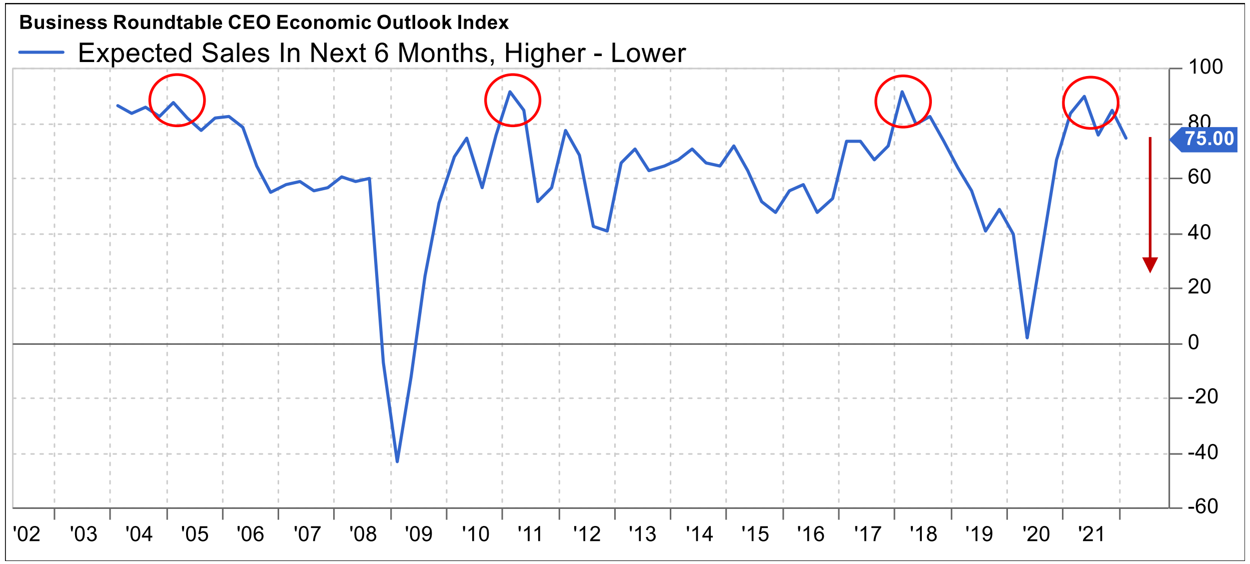
Declining inventory intentions across small businesses will impact both factory production and GDP.

LOGIC INVESTMENTS

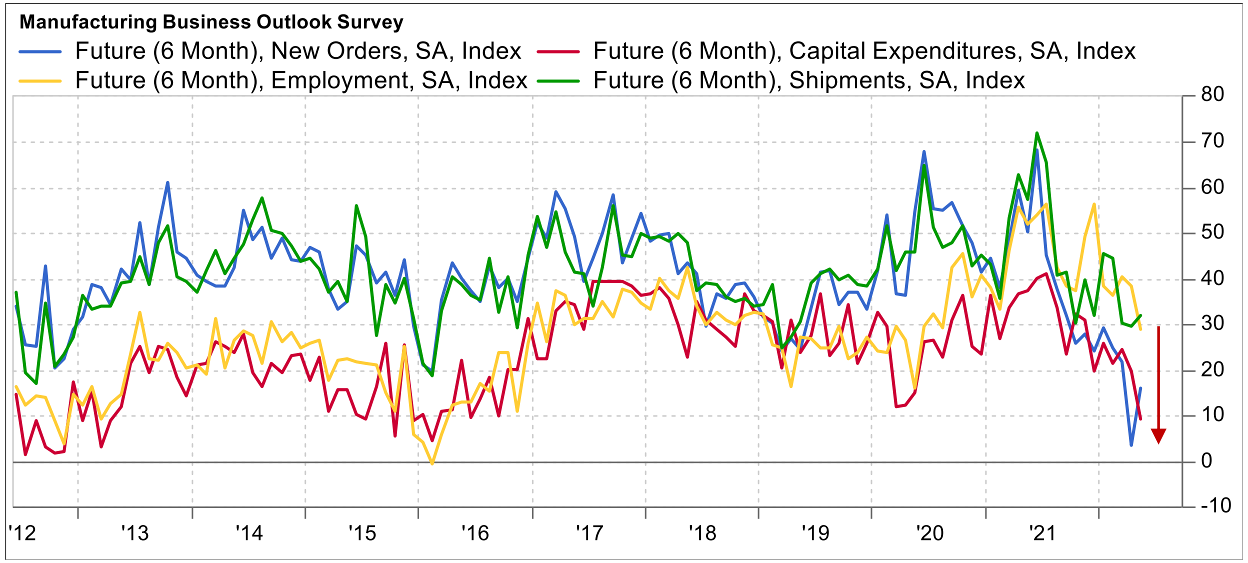
Business Sentiment



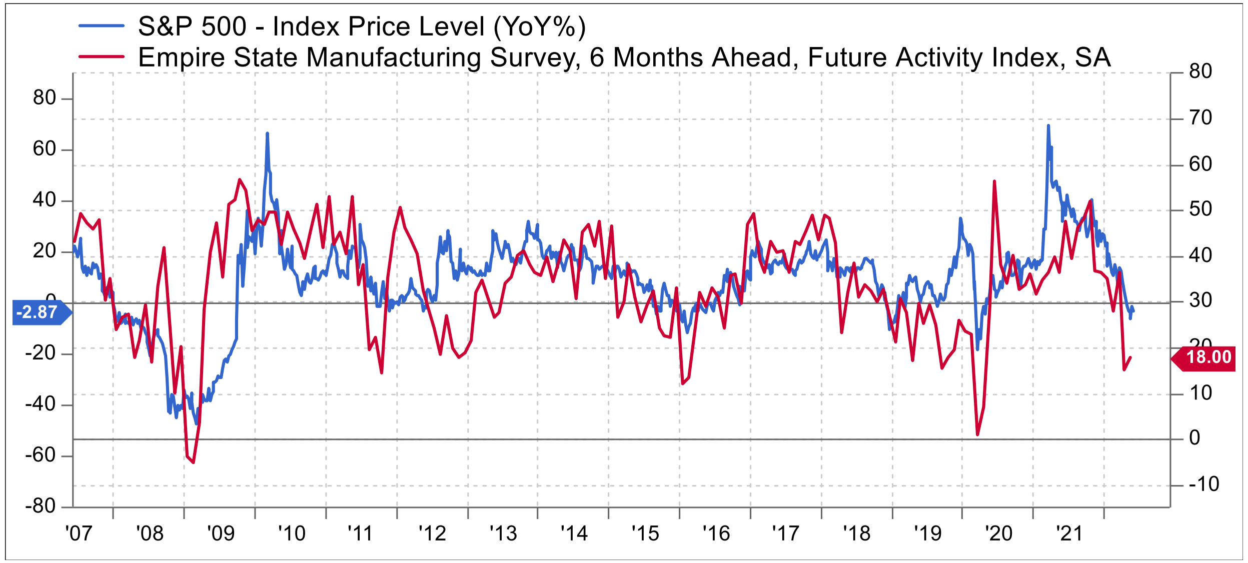
Extreme divergence between consumer and CEO confidence has historically preceded every recession. The current divergence suggests a recession is close.



Given the recent deterioration in CEO confidence, we expect more downward revisions to sales outlook over the coming months.



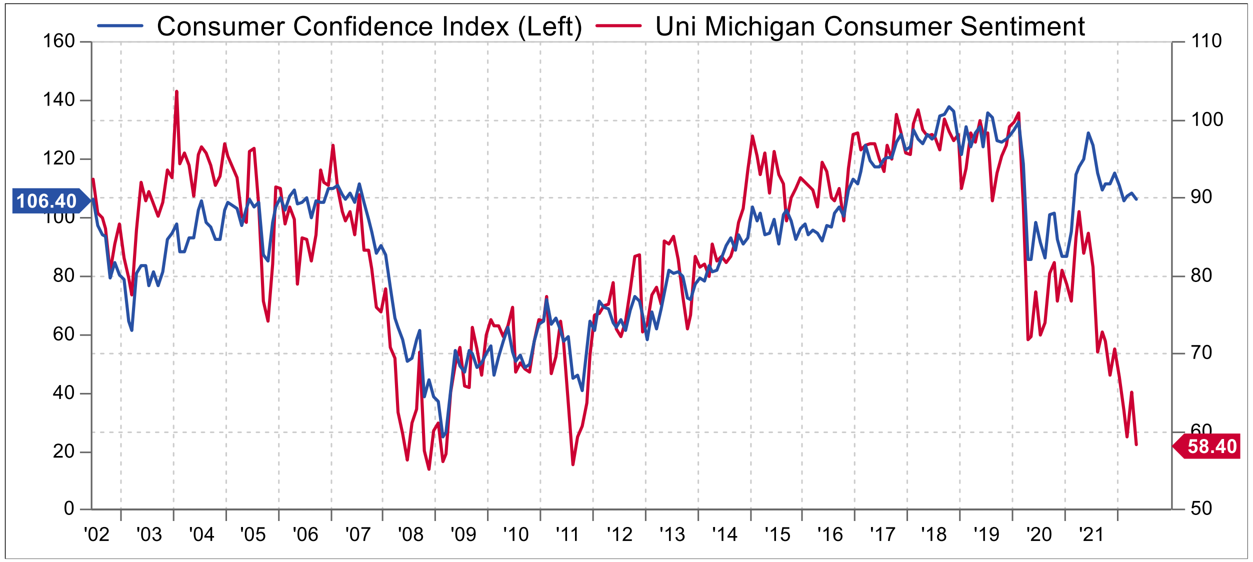
The projected fall in orders and capital goods has a delayed effect on employment and shipments. We expect the latter to fall as the economy continues to cool.



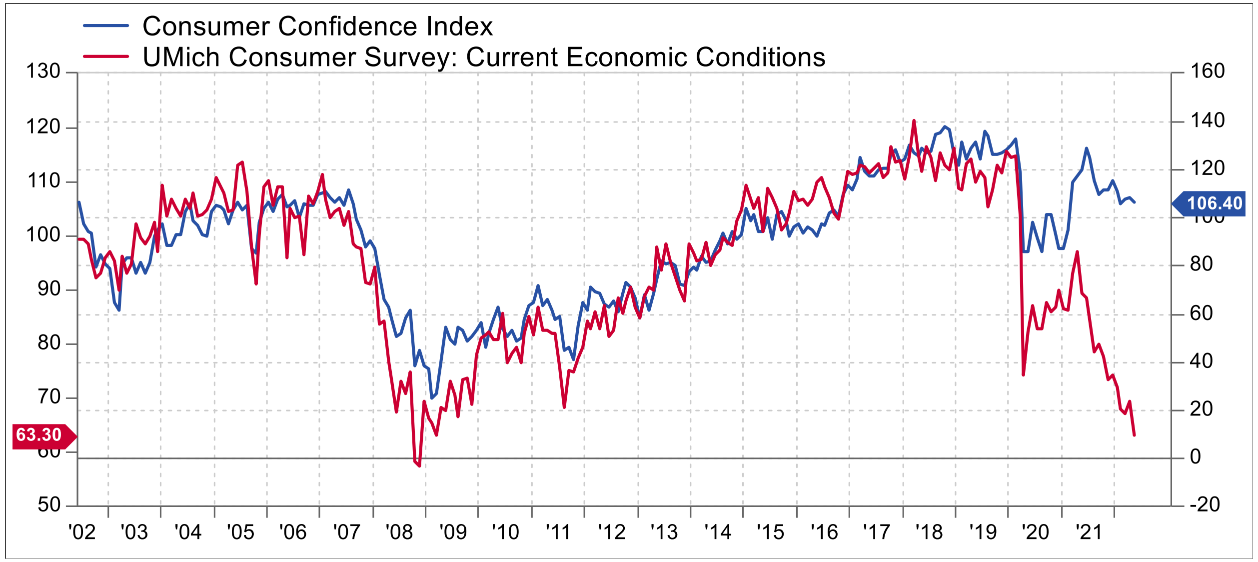
The relationship between manufacturing (proxy for the economy) and the equity markets suggest that the S&P 500 could decline by a further 20%.

LOGIC INVESTMENTS

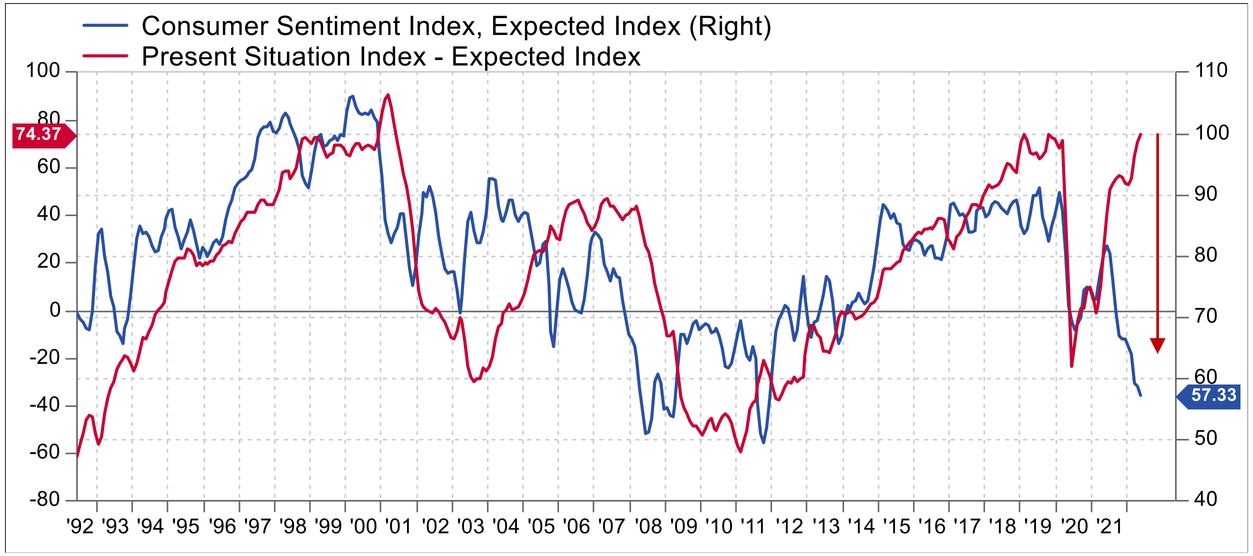
Consumer Health



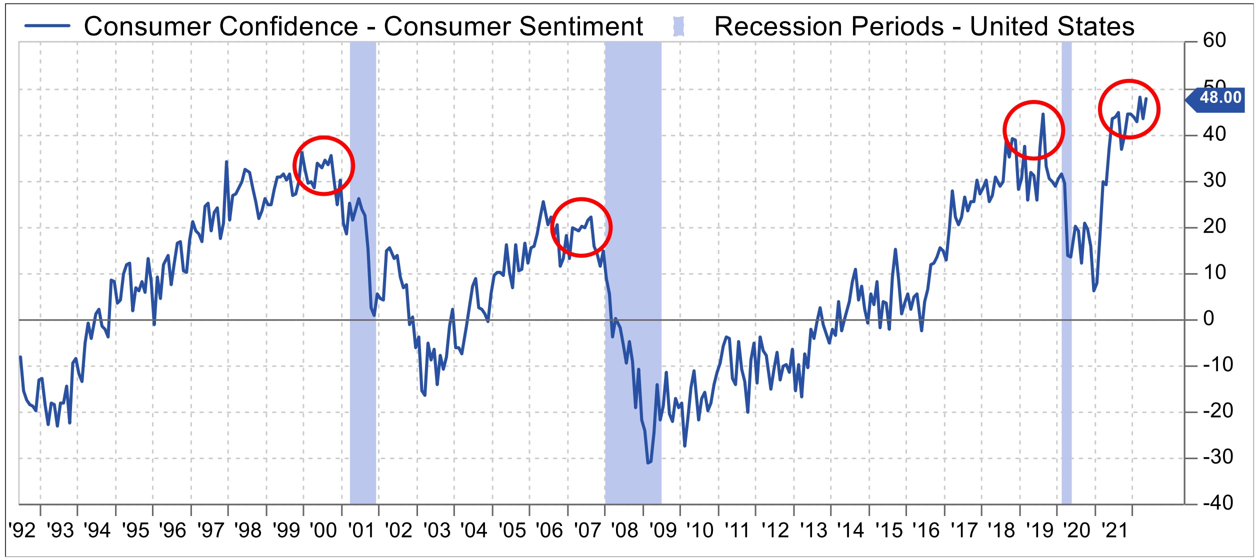
Growing divergence between the Consumer Confidence Index (labour market conditions) and Consumer Sentiment Index (household finances).



Tight labour market is keeping consumer confidence buoyant for now, but the high cost of living is putting increased pressure on household finances.

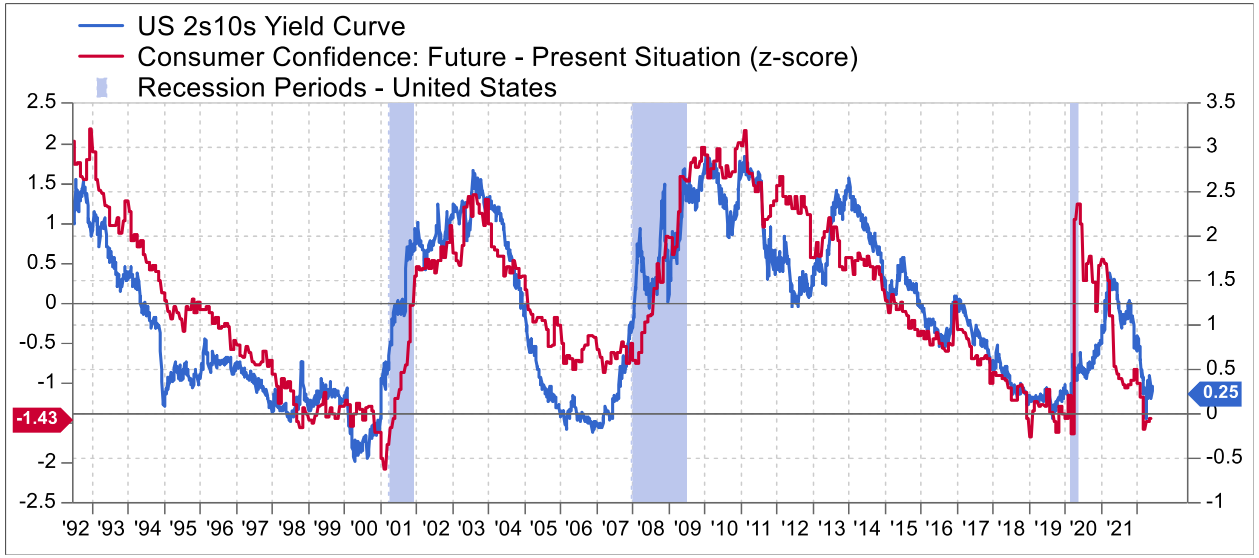


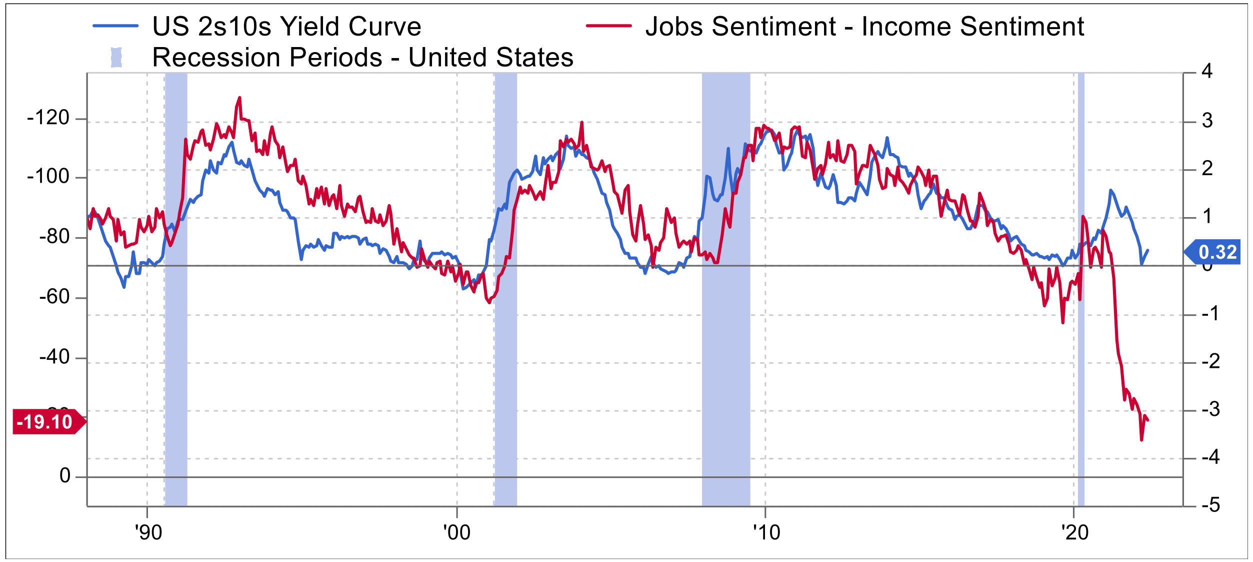
With persistent high inflation, consumers outlook for the future continues to deteriorate. We expect the Present Situation Index to turn imminently.



Wide divergence between consumer confidence and consumer sentiment has historically preceded recessions by 6 months.

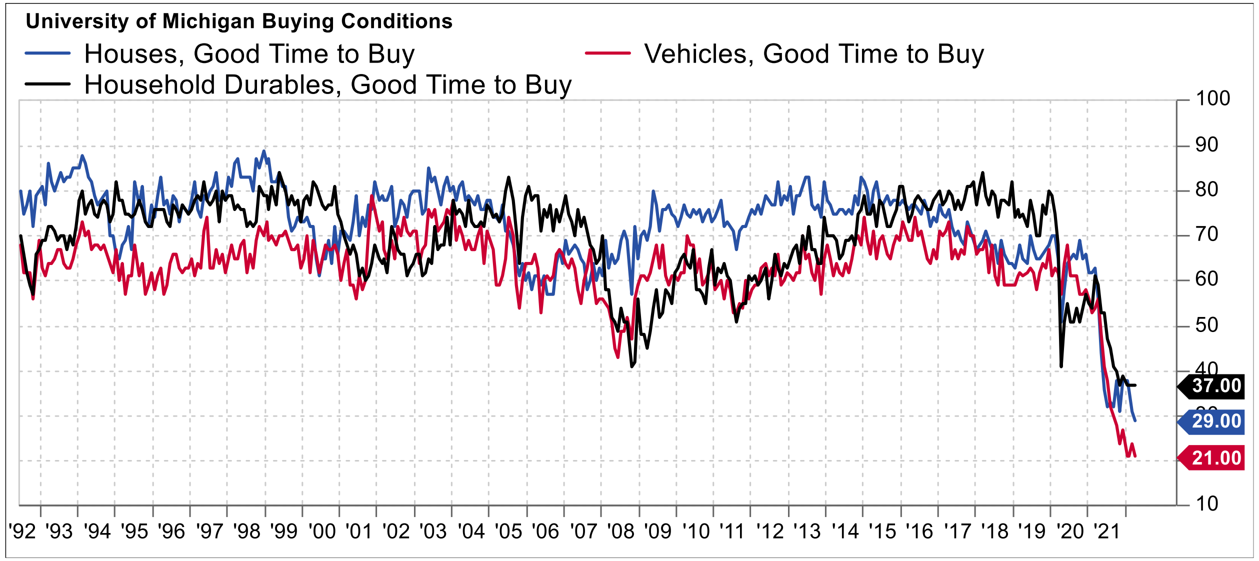
Consumer Health

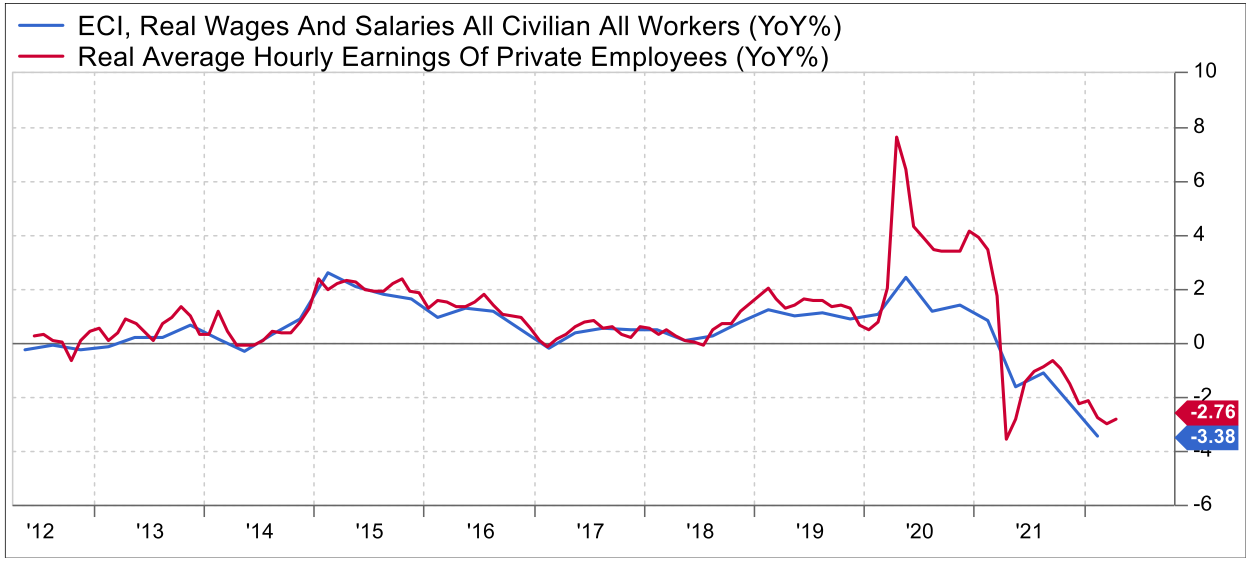




Falling consumer confidence for the future could tip the yield curve into an inversion – a key recession signal.

The collapse in income sentiment relative to jobs sentiment suggests that the yield curve should have already turned negative, judging from previous incidents.

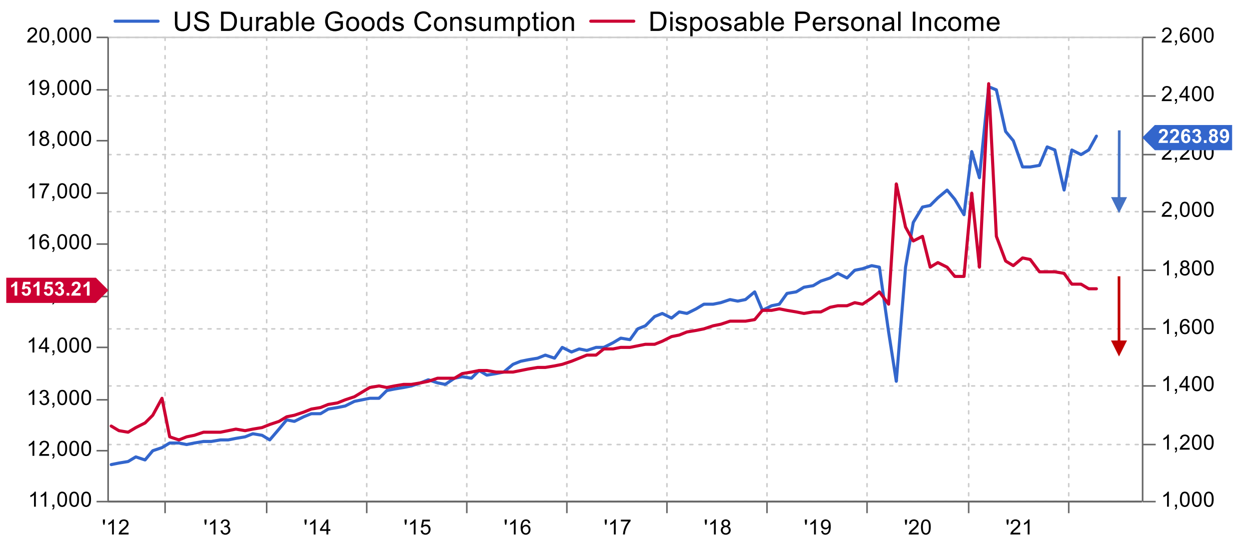




Collapsing income sentiment has had a drastic impact on buying conditions, as consumers abandon purchasing big-ticket items due to high energy and food costs.

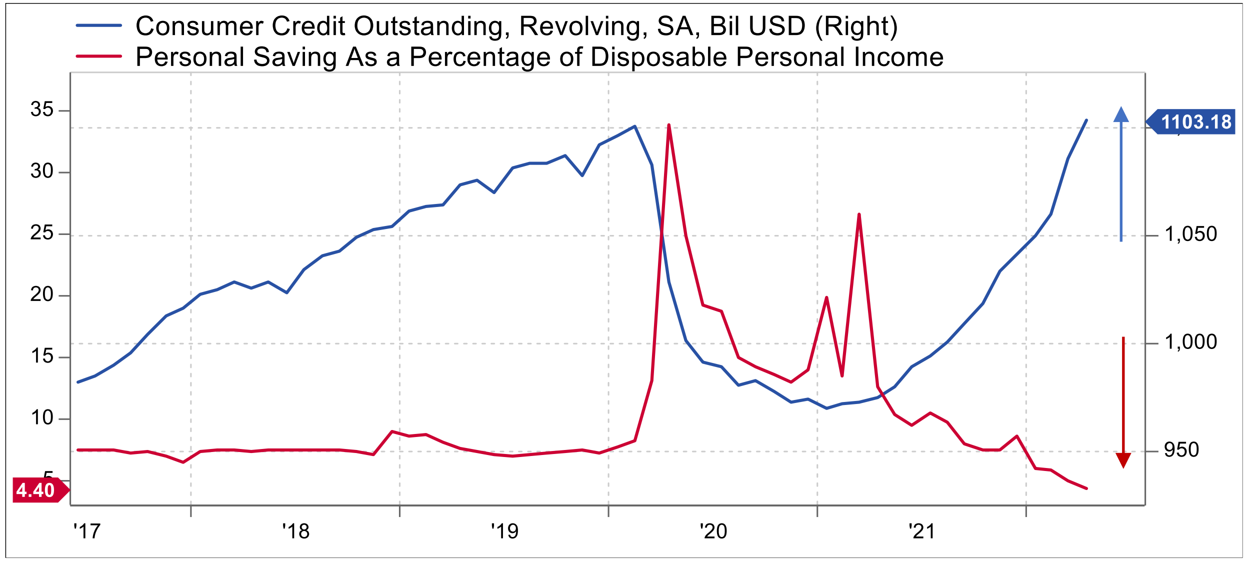
The drop in buying conditions coincides with the fall in real income. Inflation is eroding the purchasing power of income.

Consumer Health

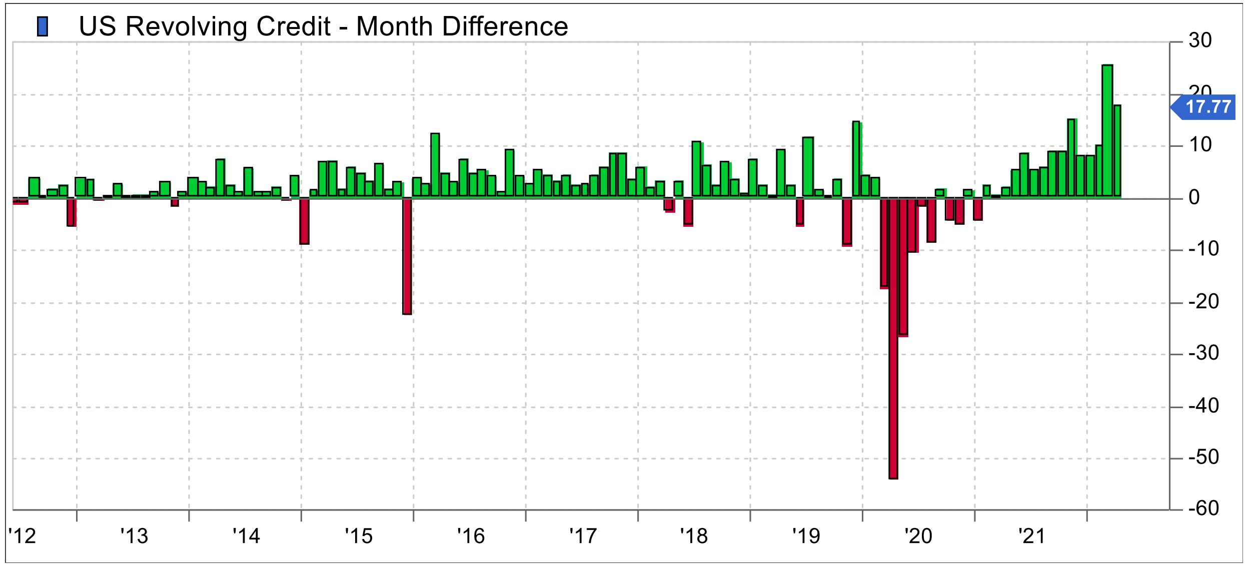


High energy and food prices will reduce the level of disposable income, and without the support of stimulus cheques, demand for durable goods is expected to fall.

High inflation has been the largest contributor to the rise in the Misery Index, but if unemployment begins to rise, the Index could exceed the highs of the GFC.



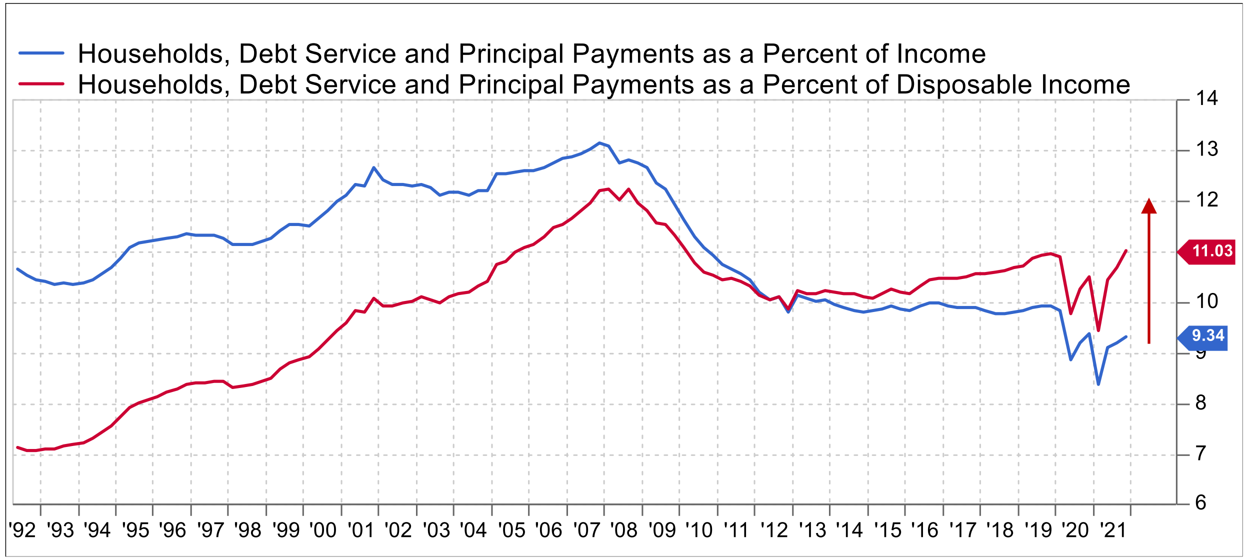
With personal savings almost wiped out, consumers are resorting to credit cards to subsidize the high cost of living.



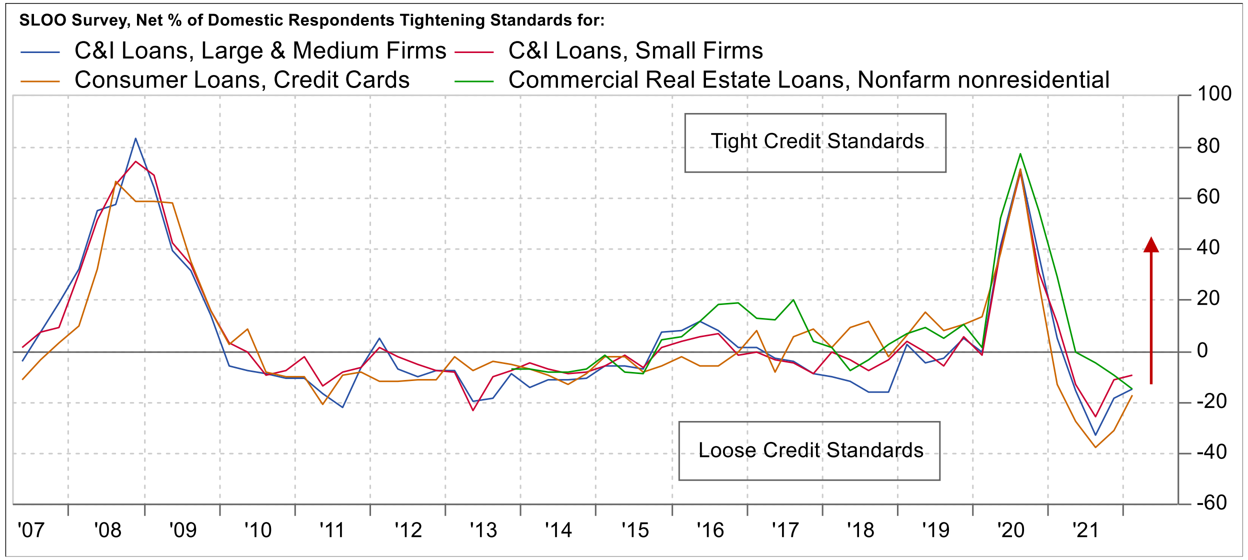
Revolving credit (credit cards) has spiked to new monthly highs, indicating the necessity of debt-fueled spending to sustain the current level of consumption.

LOGIC INVESTMENTS

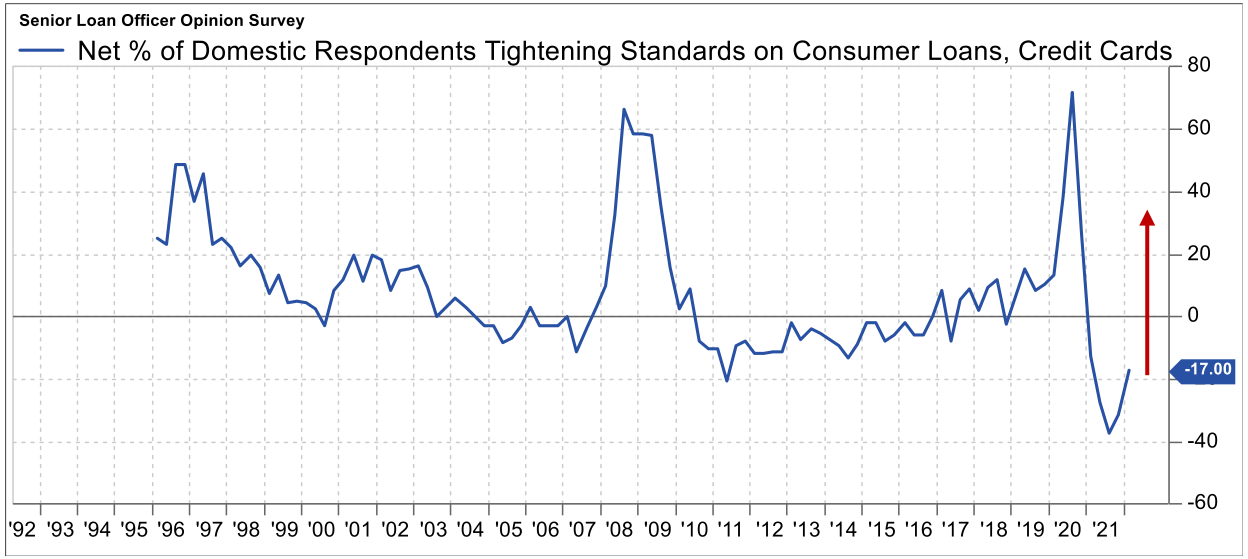
Consumer Health



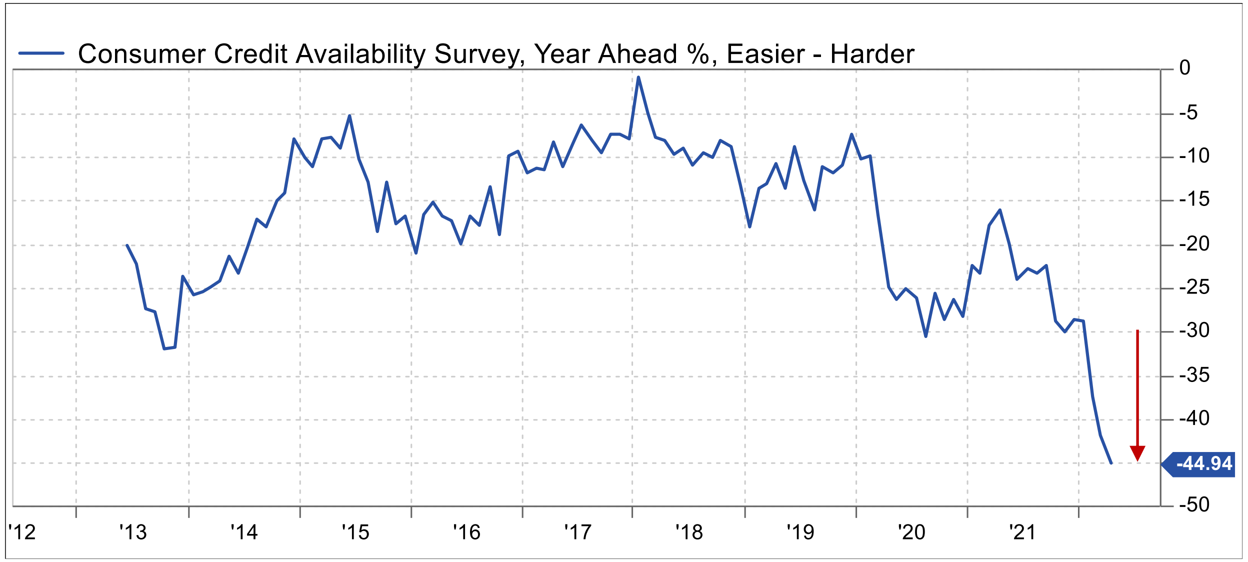
Debt service payments are still low, but the increasing reliance on credit card spending, compounded by rising rates could accelerate this trend higher.



Credit standards remain loose across the board, but the recent spike could suggest that credit standards are set to get tighter over the coming quarters.



From a consumer loans perspective, the period of cheap money is over, as credit issuers begin tightening credit standards ahead of the economic slowdown.



With more survey respondents expecting tougher conditions ahead, this will force consumers to curtail current spending habits, impacting consumption and GDP.

Risk Warning

The value of investments can fall as well as rise; you may not necessarily get back the amount you invested. Past performance is no guarantee of future performance. Changes in exchange rates may also cause your investment to go up or down in value. Tax laws may be subject to change. Please ensure that you fully understand the risks involved. If in any doubt, please seek independent financial advice.

To read our full Risk Warning please visit: www.logicinvestments.co.uk/risk-warnings