

New York Bankers Assoc. “In Search of a Soft Landing” September 13, 2022

Kenneth J. Entenmann, CFA
Senior Vice President
Chief Investment Officer & Chief Economist



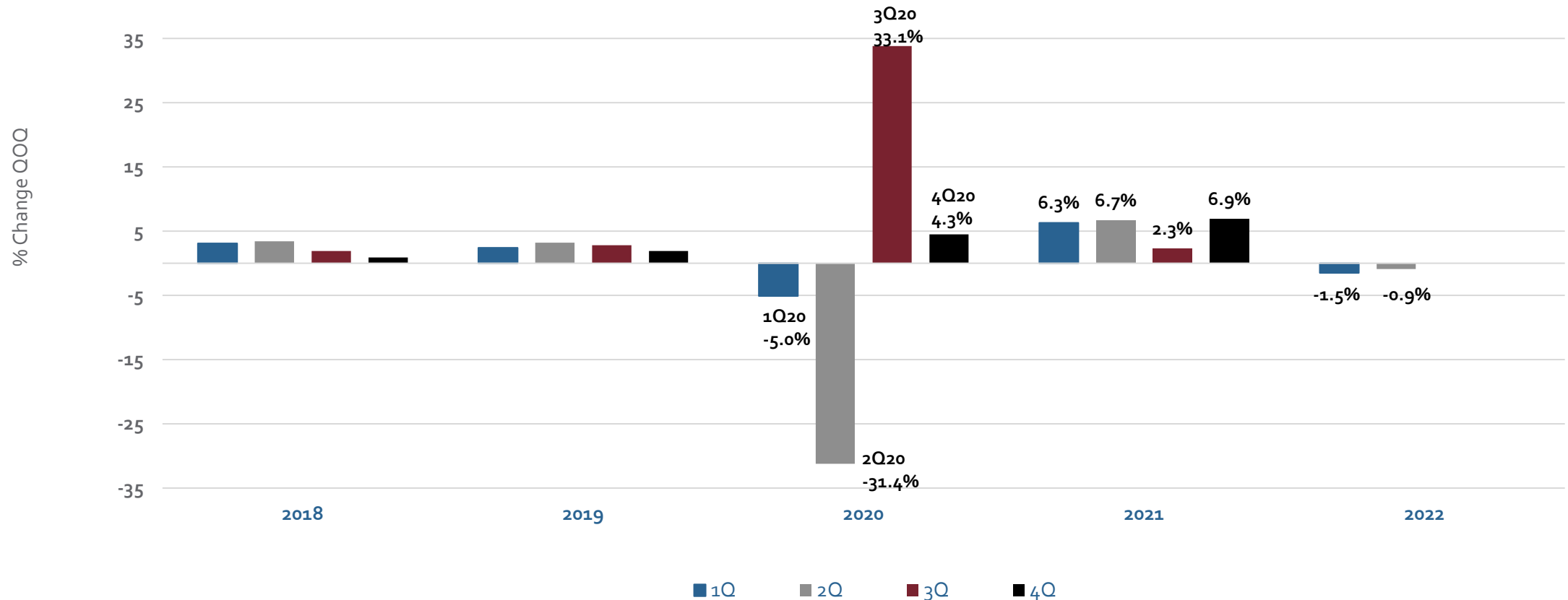
In Search of a Soft Landing



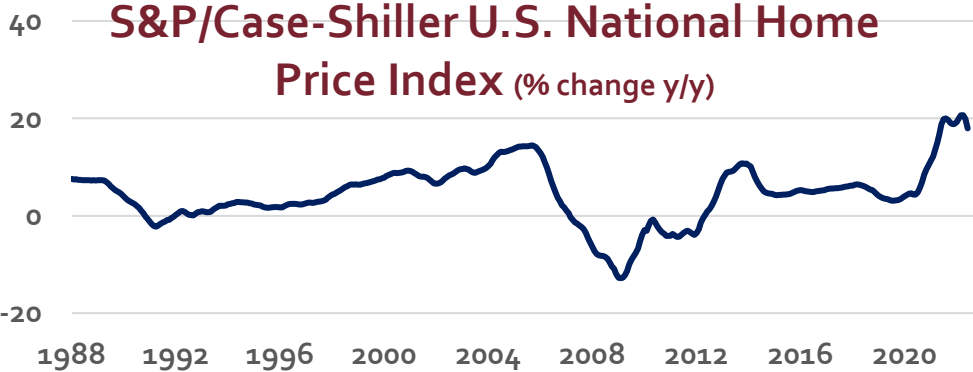
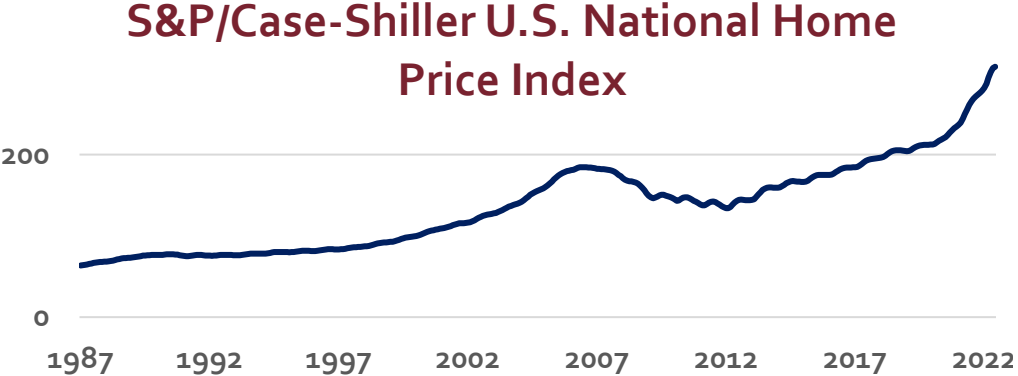
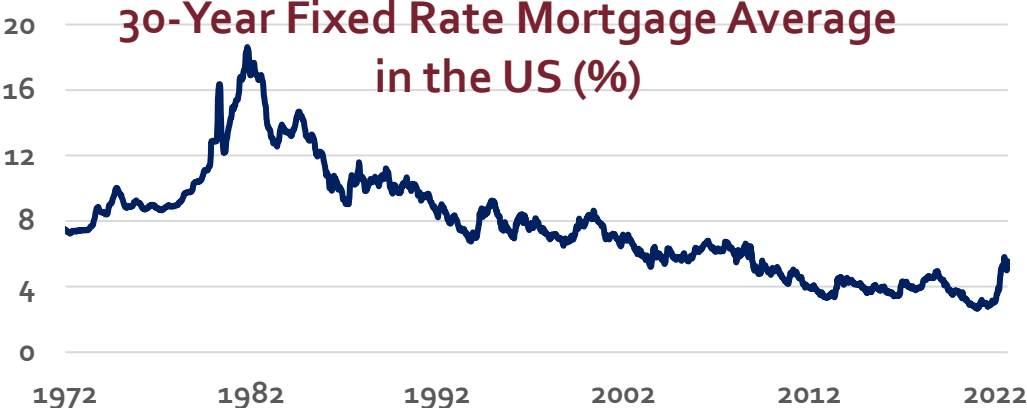
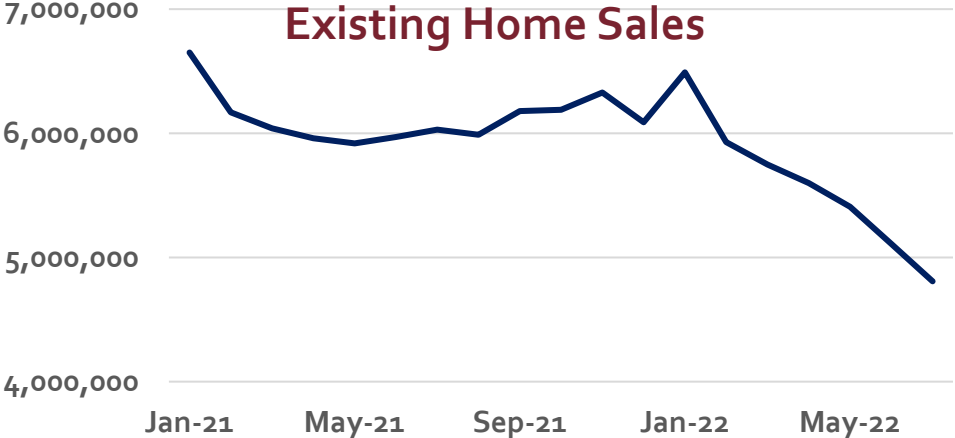
US GDP: In Search of a Soft Landing

Does 2 consecutive quarters of negative GDP growth = Recession?

U.S. REAL GDP



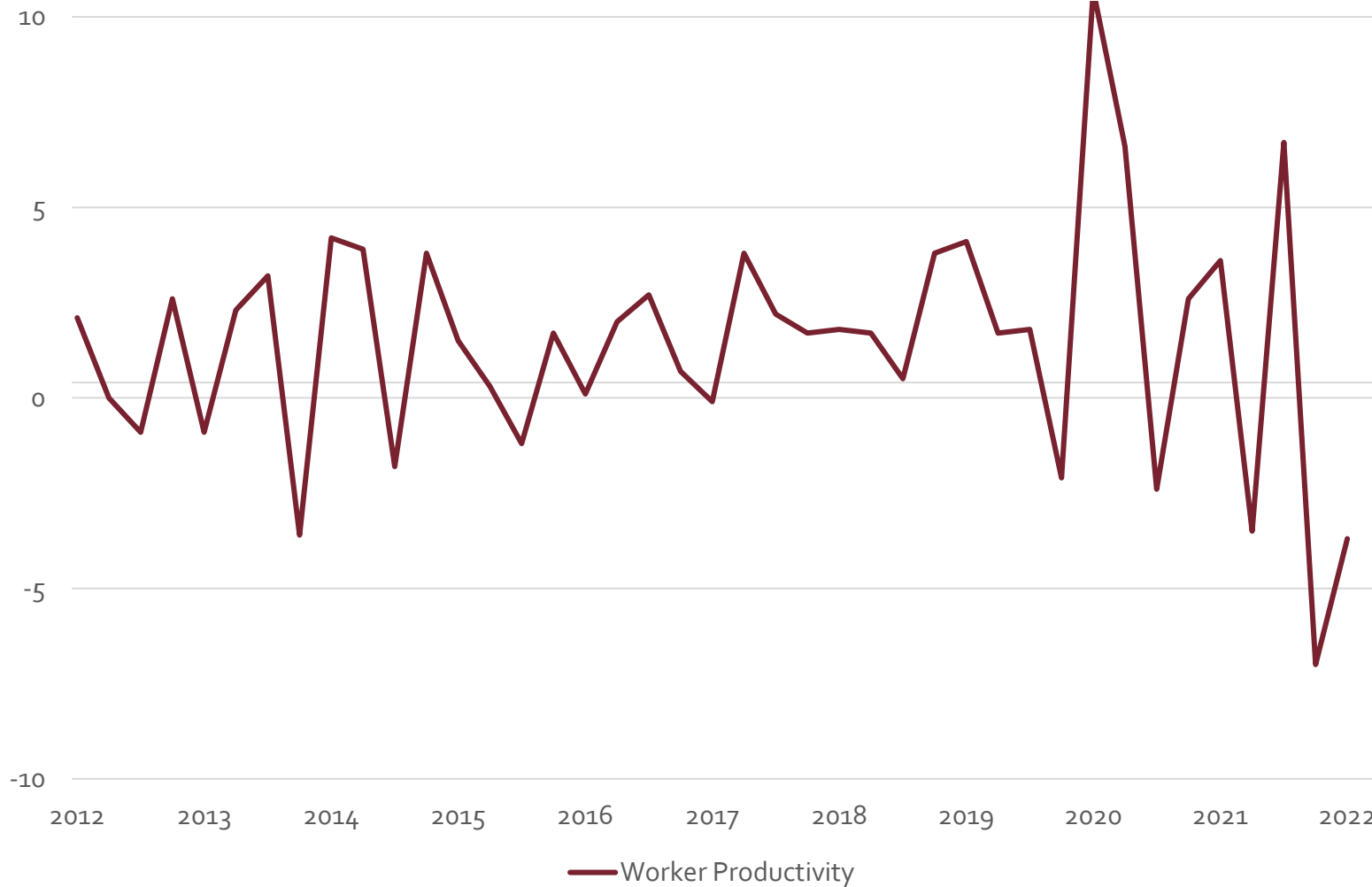
Housing



Institute of Supply Management

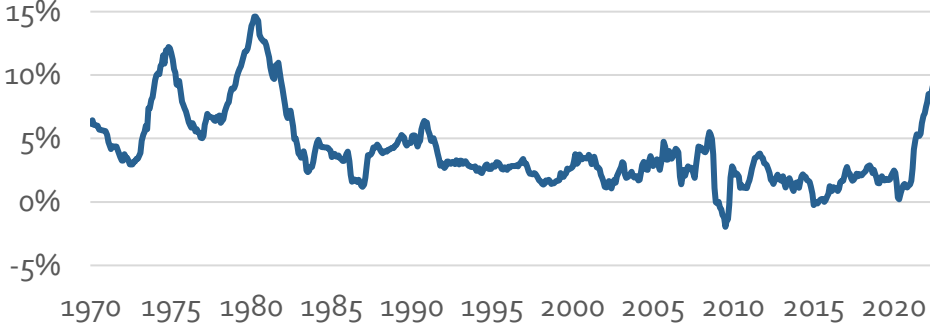


Nonfarm Productivity

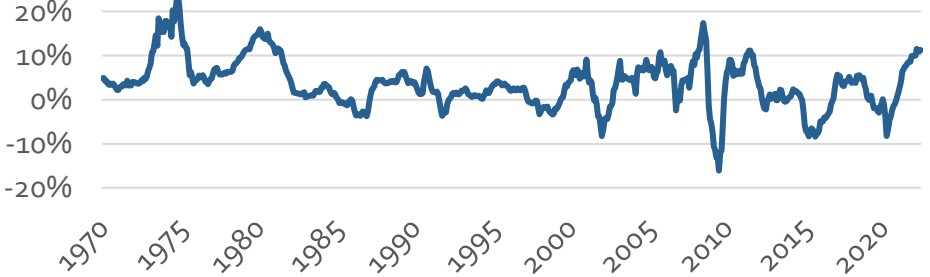


Inflationary Pressures: "Transitory" to Persistent and Pervasive

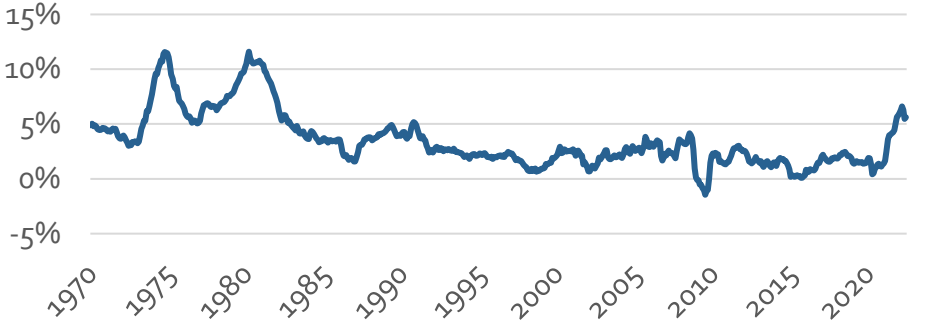
CPI



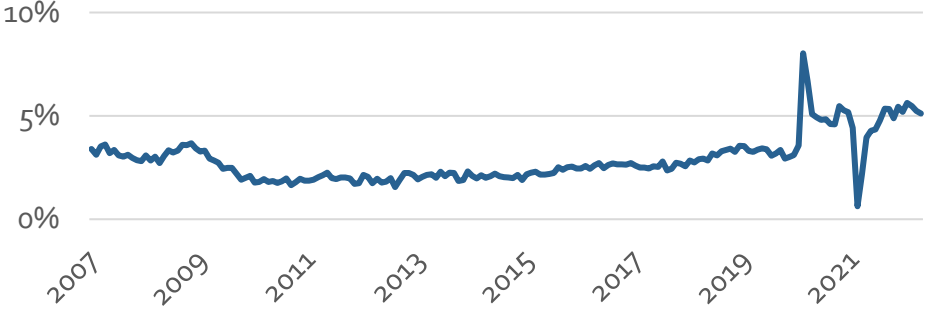
PPI



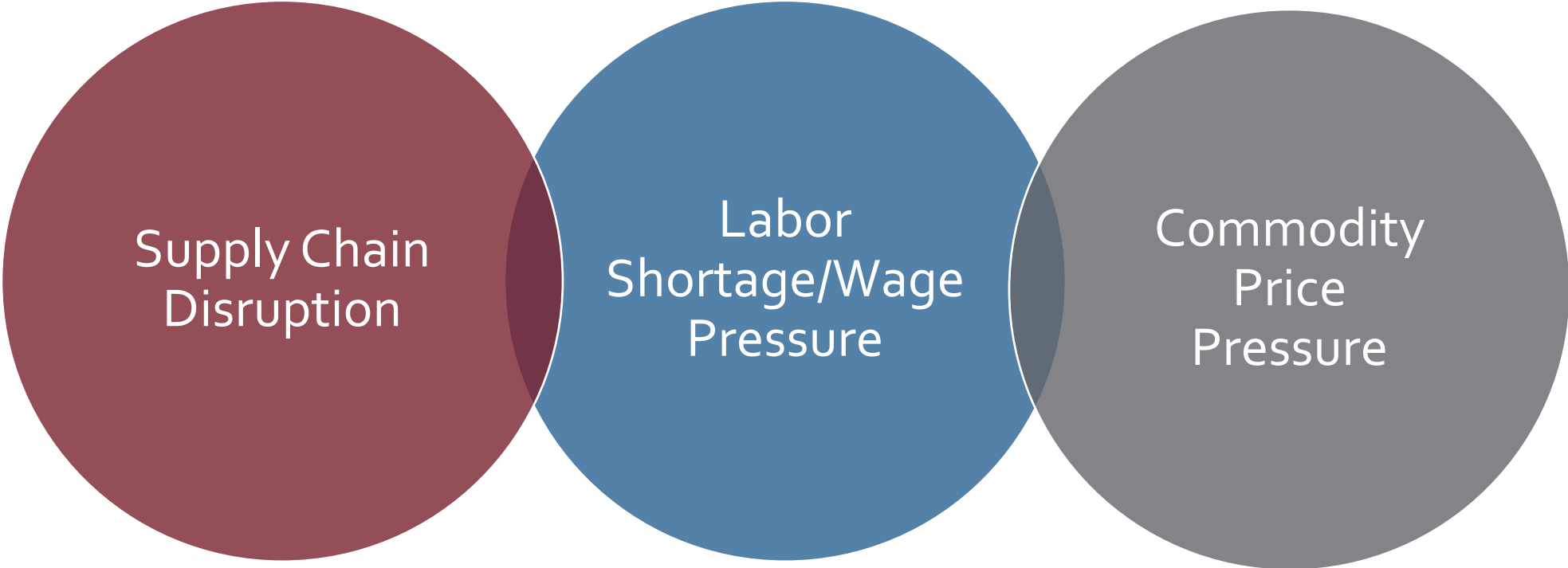
PCE Deflator



Average Hourly Earnings



Drivers of Inflation



Supply Chain Disruption

Improving but still problematic



Return to “Normal” Demand



China COVID Lockdown



Lower Commodity Prices



Supply of Key Resources

- ✓ Industrial Commodities
- ✓ Energy & Fossil Fuels
- ✓ Agriculture
- ✓ Semiconductors



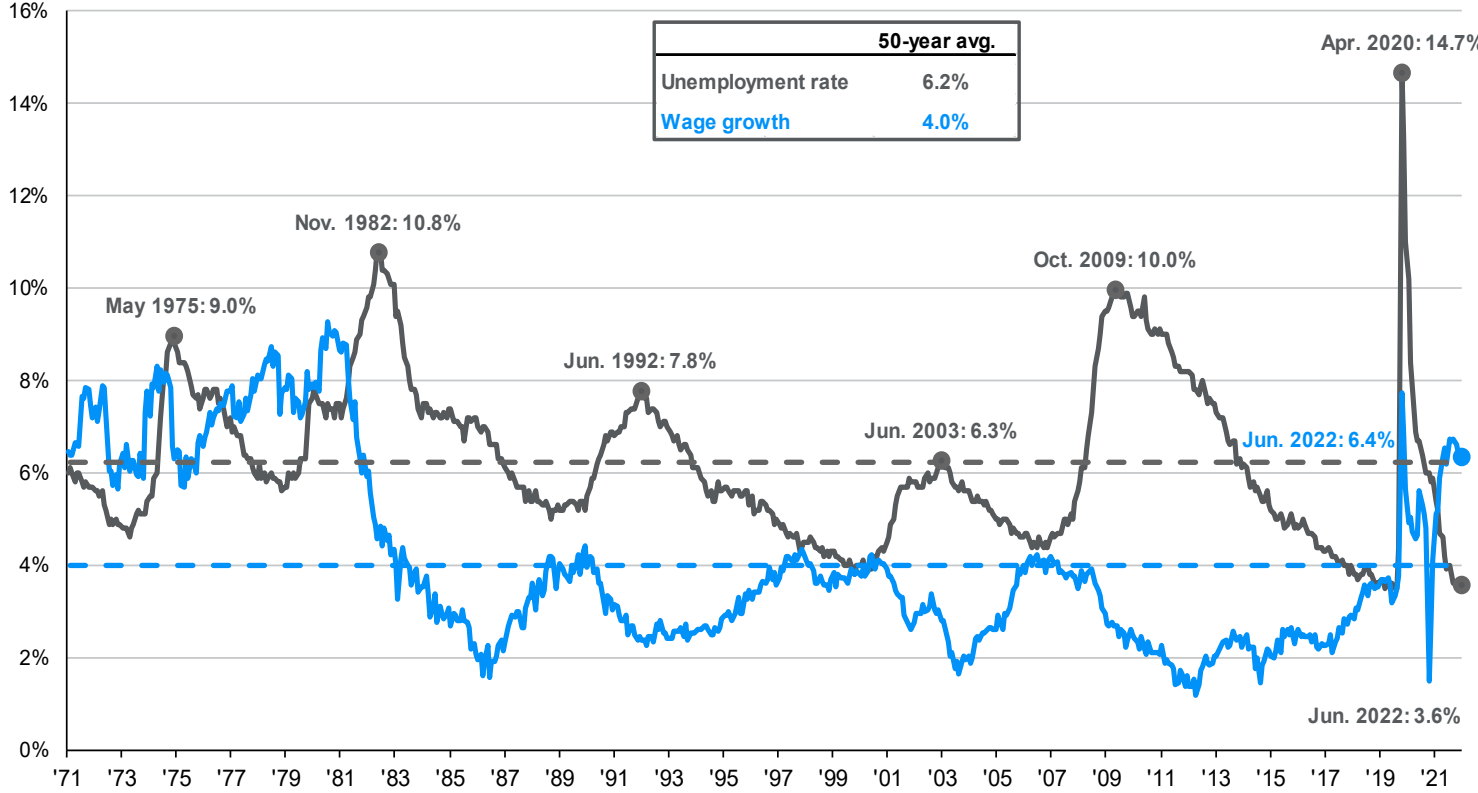


A Distorted Labor Market Employment

Civilian unemployment rate and annualized y/2y wage growth for private production and non-supervisory workers

Civilian unemployment rate and year-over-year wage growth

Private production and non-supervisory workers, seasonally adjusted, percent



Source: BLS, FactSet, J.P. Morgan Asset Management. Data are as of February 28, 2022.

A Distorted Labor Market

Impact of Labor Participation Rate

Private Island

Month 1

of people on island = 100

of unemployed = 10

Unemployment Rate = $10/100 = 10\%$

Month 2

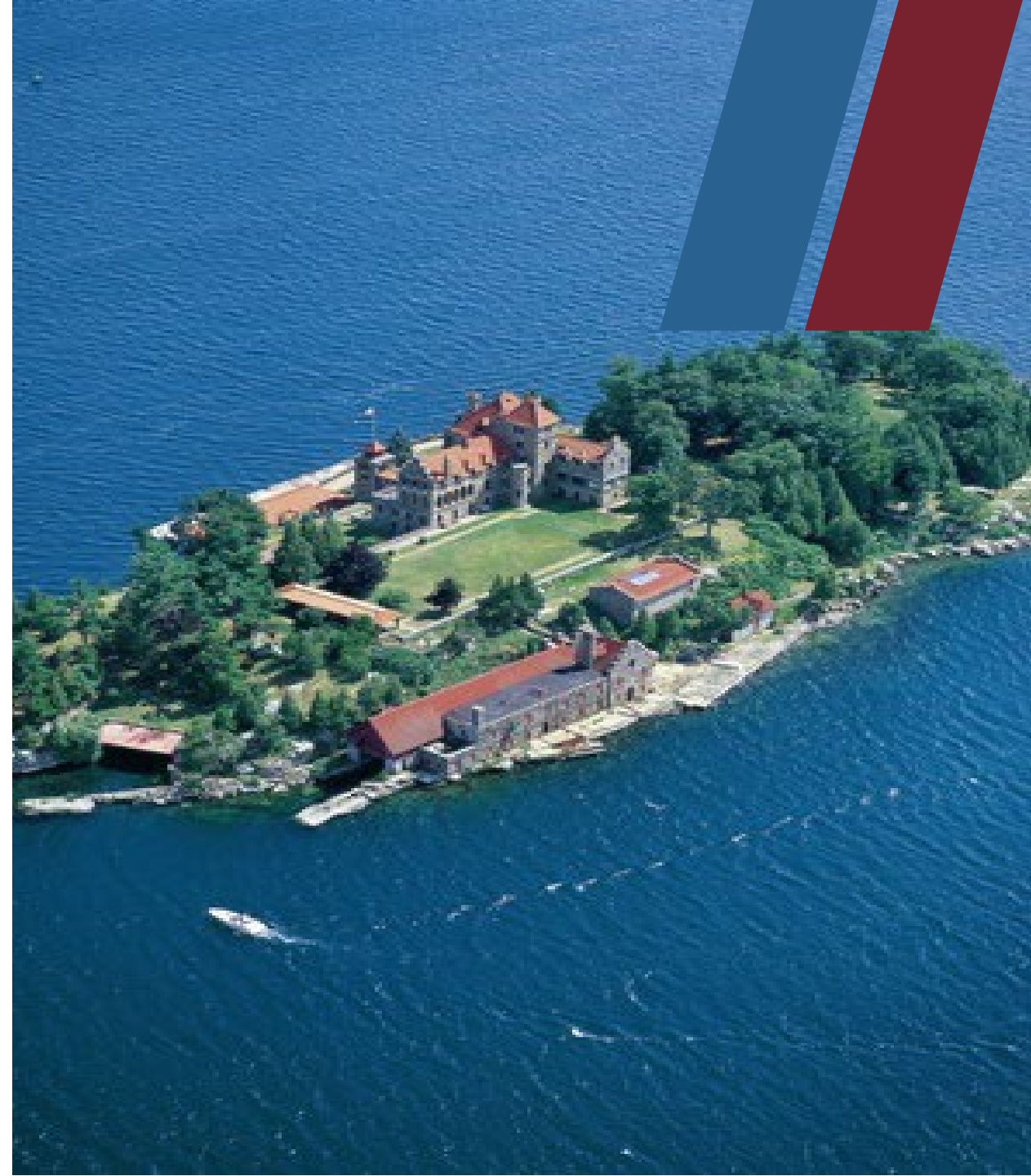
5 people “leave the workforce”

of people on island = 100

of people in the workforce = 95

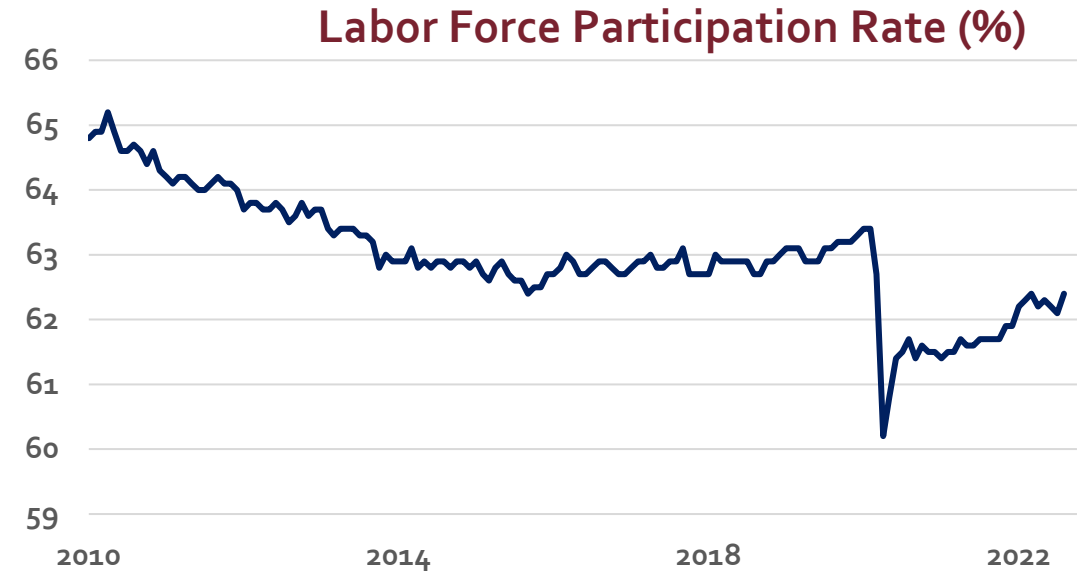
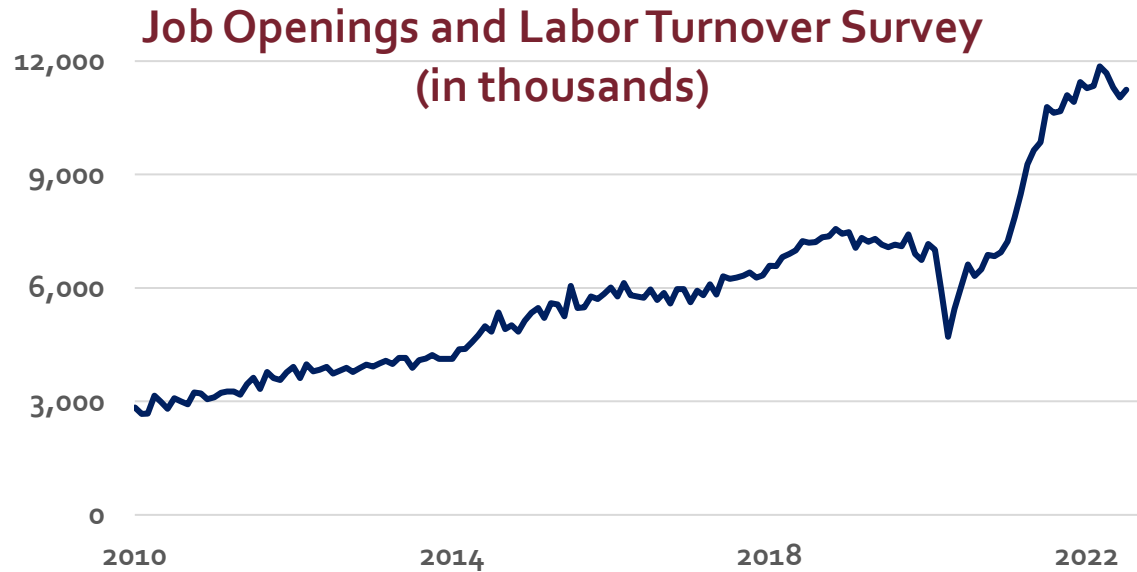
of unemployed = 5

Unemployment Rate = $5/95 = 5.26\%$



A Distorted Labor Market

Where did all the workers go?

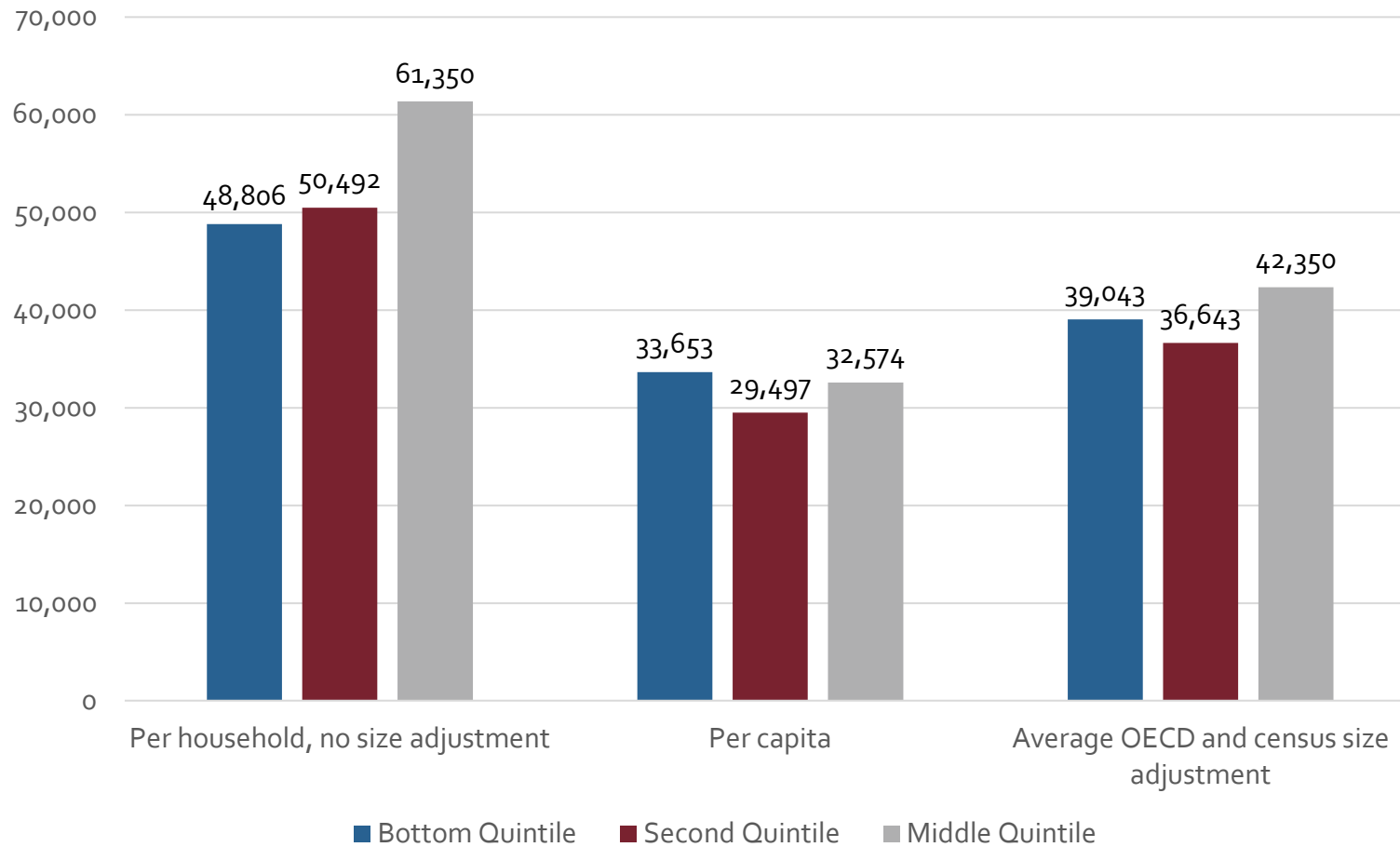


Enhanced benefits • Retirement above trend • Legal immigration
Self-Employment • Health & Childcare

Household Income After All Transfers and Taxes

For Work-Age Households

By Earned Income Quintiles With Alternatives Adjustments For Household Size, 2017



Anatomy of a Labor Shortage

“The labor market continues to be a significant challenge for small business owners. Owners are managing several economic headwinds and continue to make business adjustments to mitigate lost sales opportunities due to staffing shortages. Almost half of owners are raising compensation to attract workers for their open positions”

William Dunkelburg, Chief Economist
National Federation of Independent Business
NFIB August 2022 Employment Report



August NFIB Job Survey reports:

- Over 46% of small businesses reported raising compensation
- 63% of small businesses report hiring or trying to hire in August
- 91% report few or no qualified applicants for open positions!



Energy Crisis

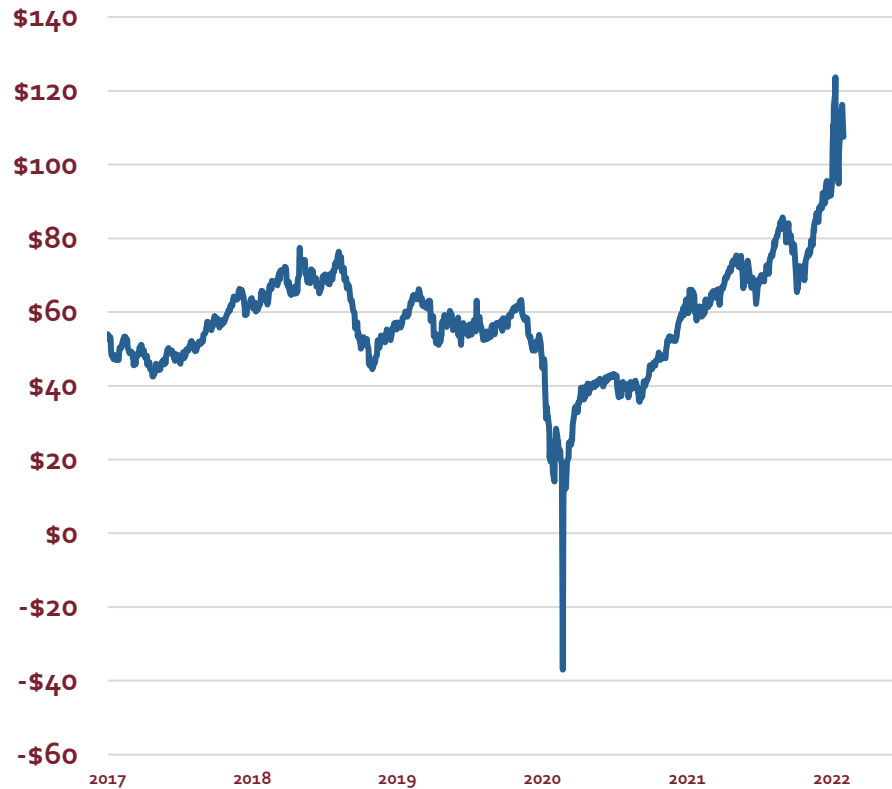
“If they (policy makers) reduce supply of fossil fuels faster than they reduce demand for them, they run the risk of higher energy prices, energy dependence that can border on servitude and inadequate energy supplies that can lead to power rationing on homes and businesses.”

Michael Cemblast, JP Morgan, Jan. 1, 2022

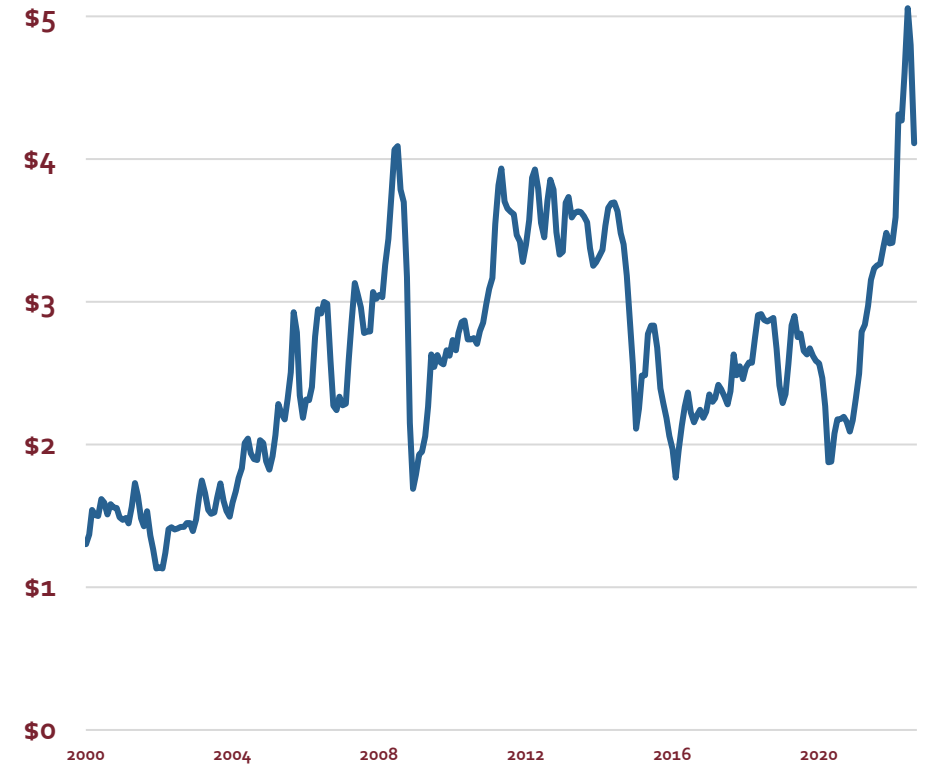


Energy – Oil and Gas Prices

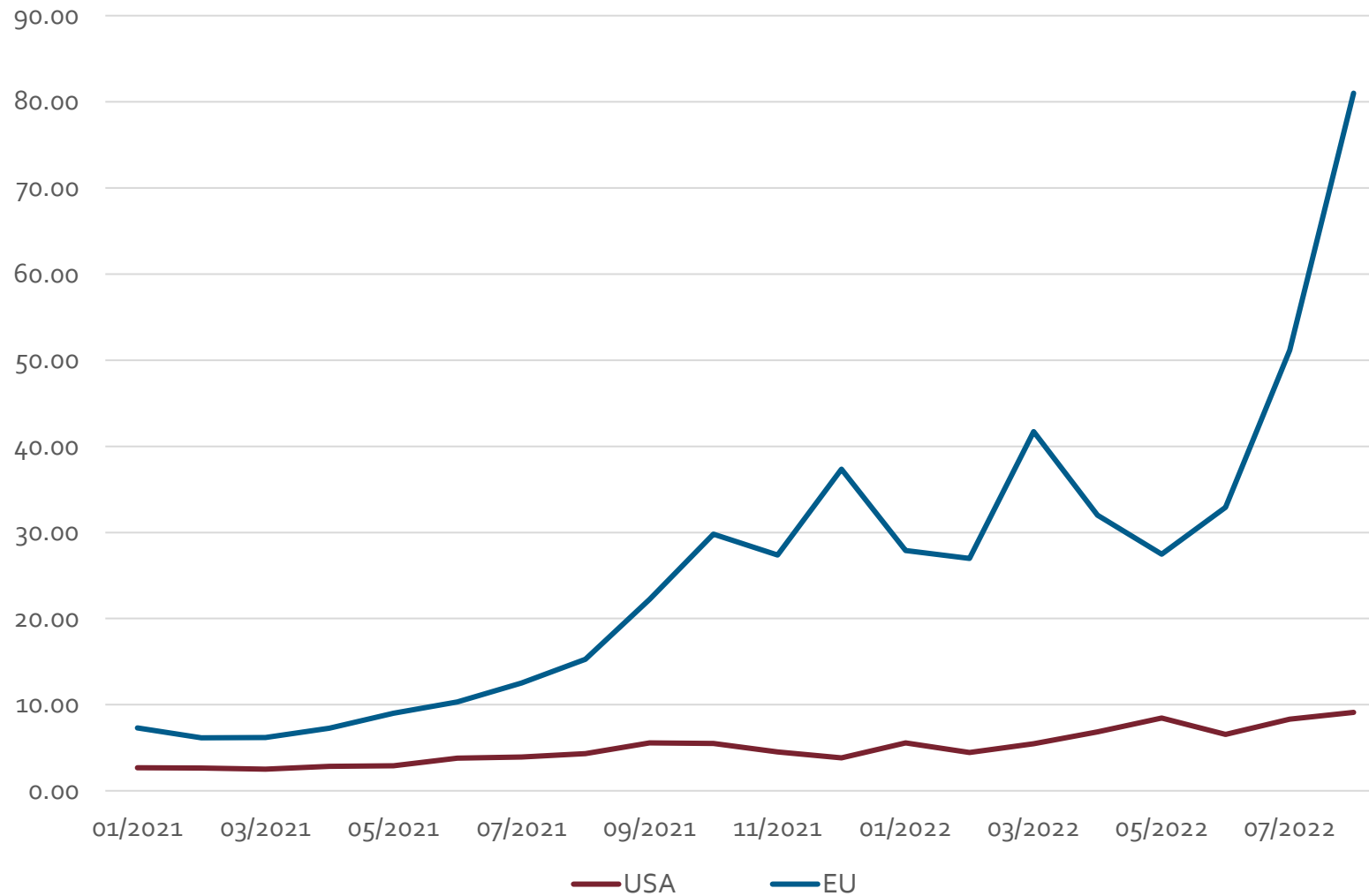
Crude Oil Prices: West Texas Intermediate (WTI) - Cushing, Oklahoma, Dollars per Barrel



Average Price: Gasoline, Unleaded Regular (Cost per Gallon/3.785 Liters) in U.S. City Average

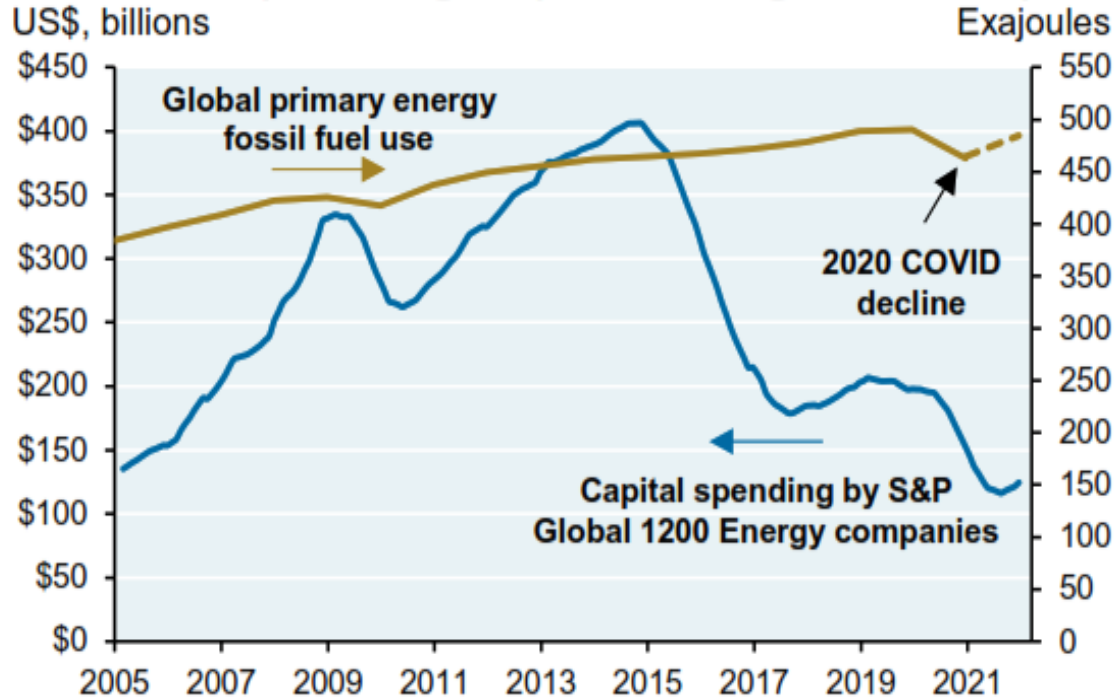


Natural Gas Prices, USA vs EU



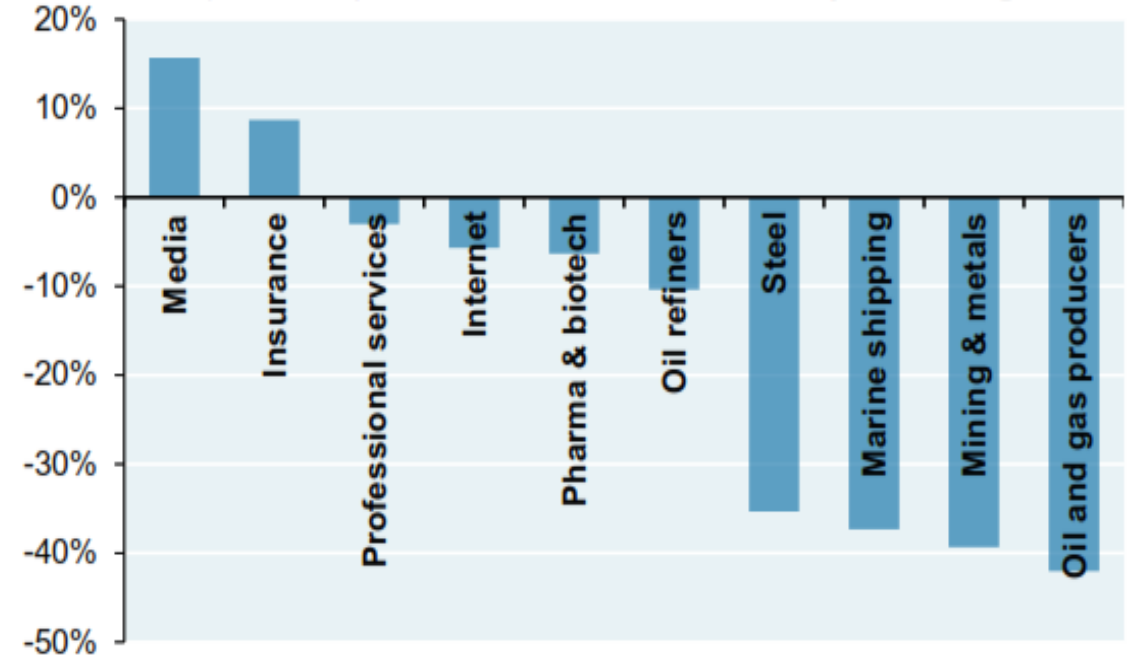
Energy – A Lack of Long-Term Investment

Fossil fuel capex falling despite no change in consumption



Source: BP, Bloomberg, IEA, JPMAM. Dec 2021. Dotted lines = estimates.

Collapse in global investment in energy-intensive industries, 2022 expected investment level vs 10 year average



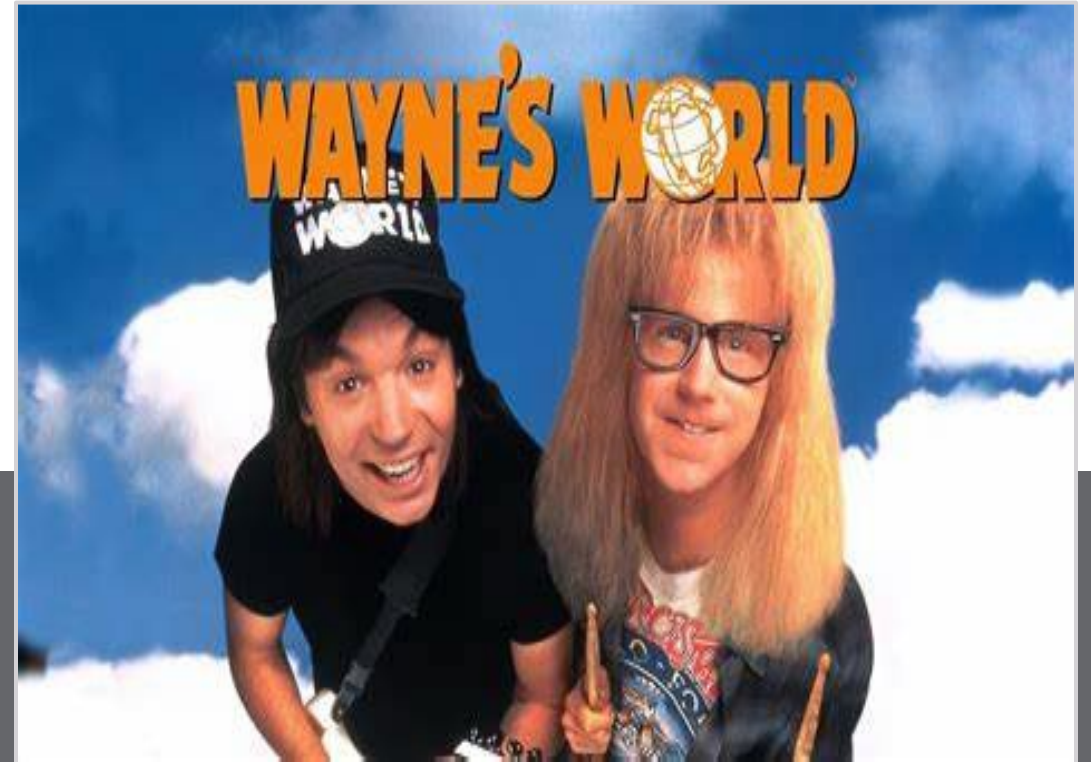
Source: GS, JPMAM. November 10, 2021.

Fed Policy...From “Transitory”

“Inflation has increased notably in recent months. This reflects...the pass-through of past increases in oil prices to consumer energy prices; the rebound in spending as the economy continues to reopen; and the exacerbating factor of supply bottlenecks, which have limited how quickly production in some sectors can respond in the near term. As these transitory supply effects abate, inflation is expected to drop back toward our longer-run goal.”

Federal Reserve Bank Chairman Jay Powell

June 22, 2021



Fed Policy...to Bringing the Pain!



“Clearly, today’s 75 basis point increase is an unusually large one, and I don’t expect moves of this size to be common.”

Federal Reserve Bank Chairman Jay Powell

June 15, 2022

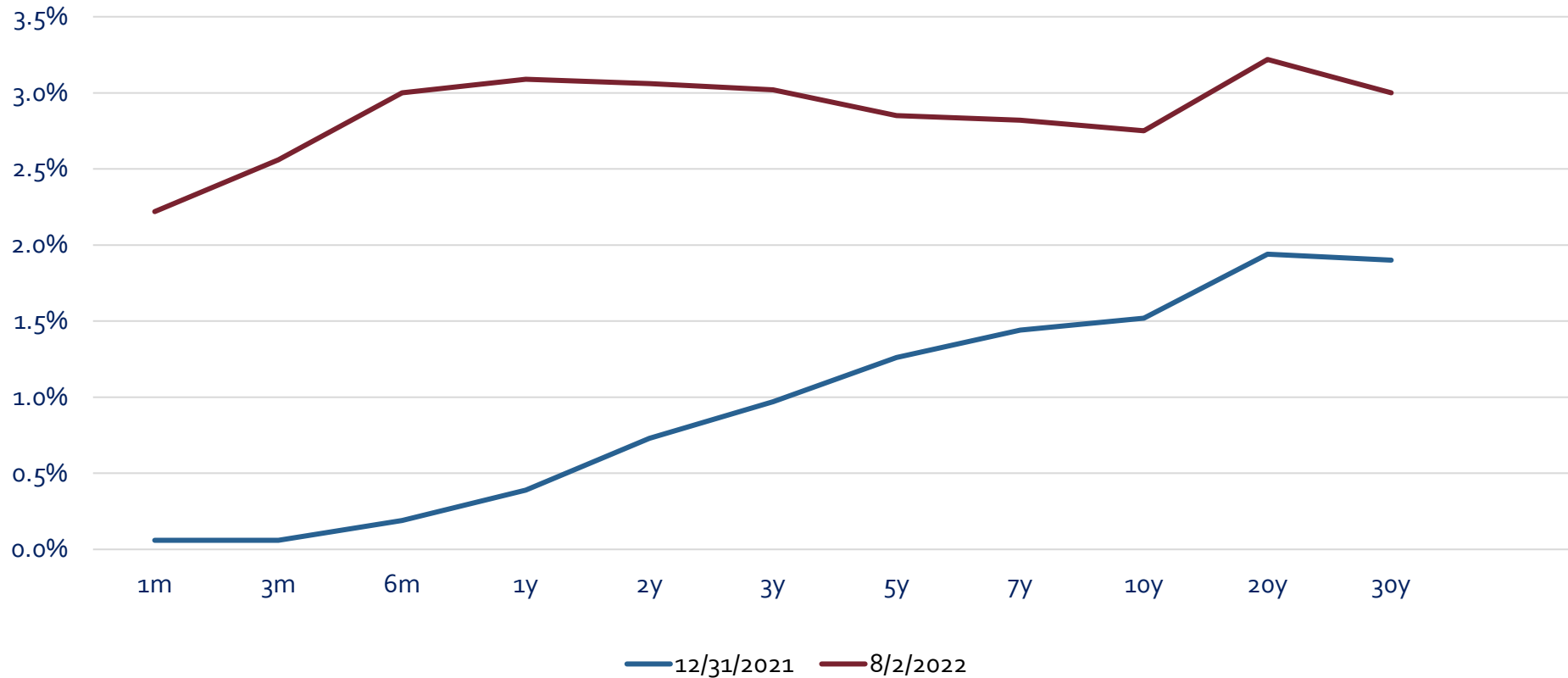
“Restoring price stability will take time and requires using our tools forcefully to bring demand and supply into better balance. Reducing inflation is likely to require a sustained period of below-trend growth. Moreover, there will very likely be some softening of labor market conditions. While higher interest rates, slower growth, and softer labor market conditions will bring down inflation, they will also bring some pain to households and businesses.”

Federal Reserve Bank Chairman Jay Powell

August 22, 2022

Fed Policy: In Search of a Soft Landing

10-2 Yr. Spread = -31 bps



Fiscal Policy...Party On?

Government Response to COVID

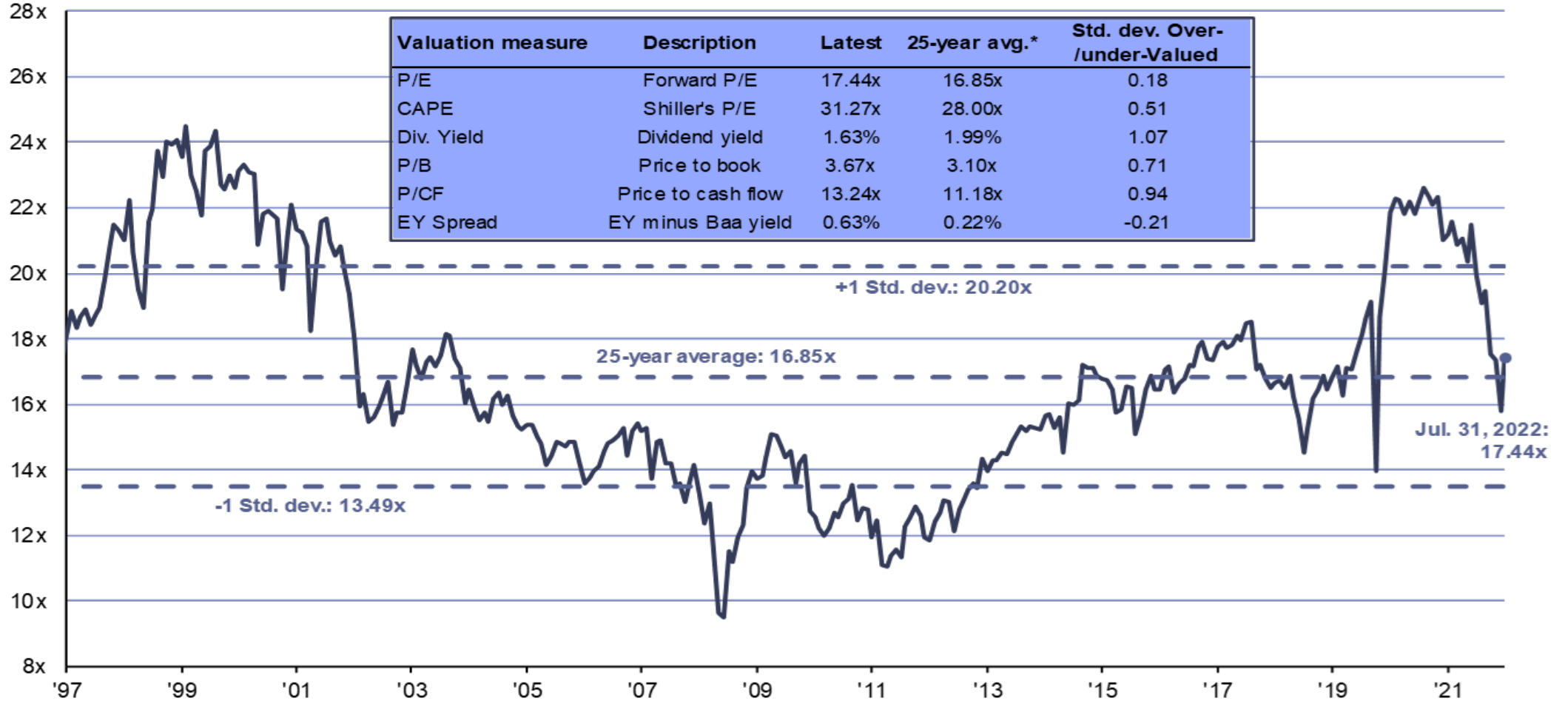
- Early Fiscal intervention, highlighted by the CARES Act, totaled \$3+ trillion – messy but effective
- \$900 billion “supplement” passed in December 2020
- \$1.9 trillion of additional “Stimulus” in February 2021

Spending Binge continues...Maybe!

- ✓ Infrastructure (\$1.2 trillion)
- ✗ ~~“Build Back Better” (\$1.5 trillion?)~~
- ✓ Inflation Reduction Act (\$433 billion?)



S&P 500 Index Valuation



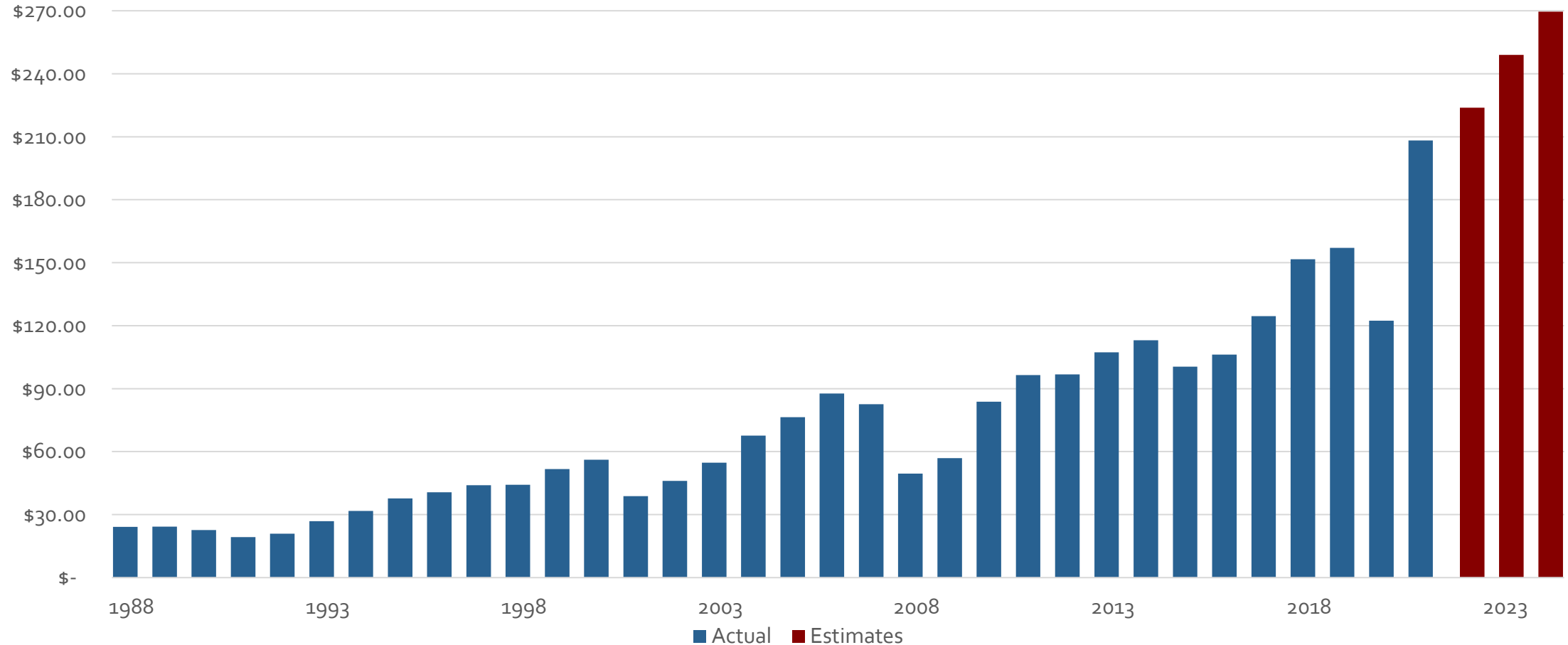
Source: FactSet, FRB, Refinitiv Datastream, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.

Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since June 1997 and by FactSet since January 2022. Current next 12-months consensus earnings estimates are \$235. Average P/E and standard deviations are calculated using 25 years of history. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-months consensus dividend divided by most recent price. Price-to-book ratio is the price divided by book value per share. Price-to-cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody's Baa seasoned corporate bond yield. Std. dev. over-/under-valued is calculated using the average and standard deviation over 25 years for each measure. *P/CF is a 20-year average due to cash flow availability.

Guide to the Markets – U.S. Data are as of June 15, 2022.

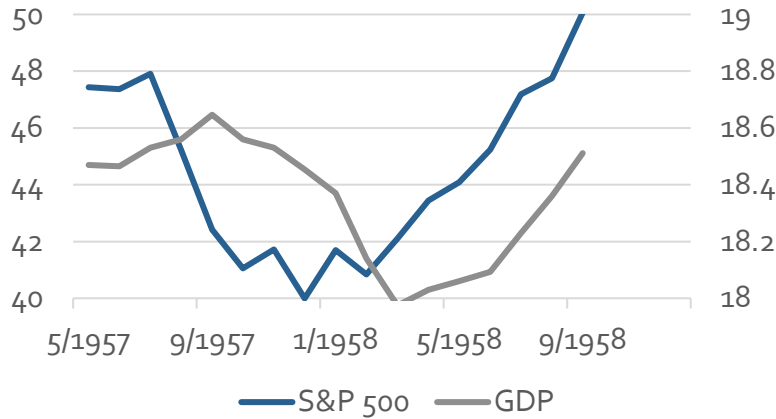
S&P 500 EPS: Corporate Earnings Have Remained Resilient!

Index Annual Operating Earnings

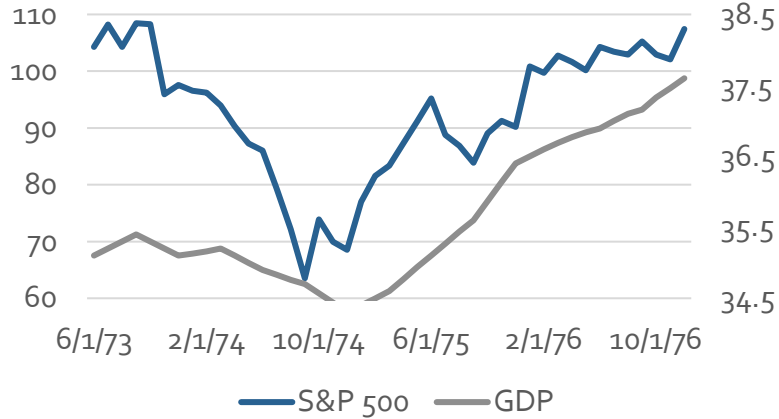


Equity Markets Bottoming Before the Economy

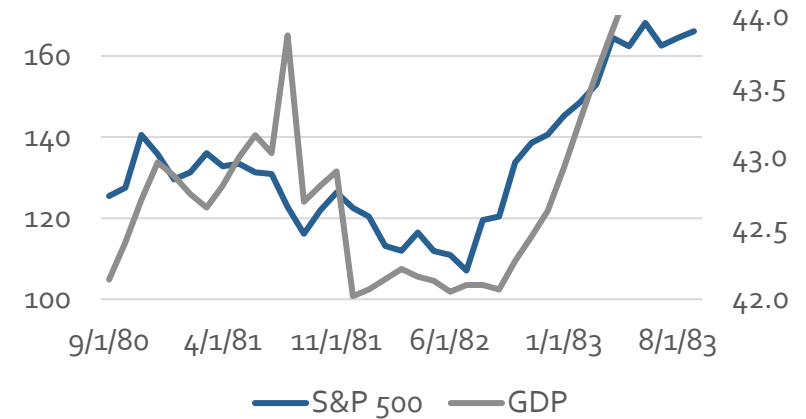
Eisenhower



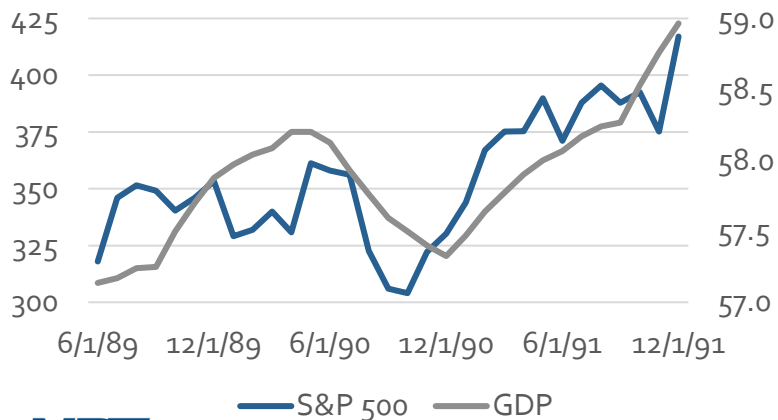
Stagflation



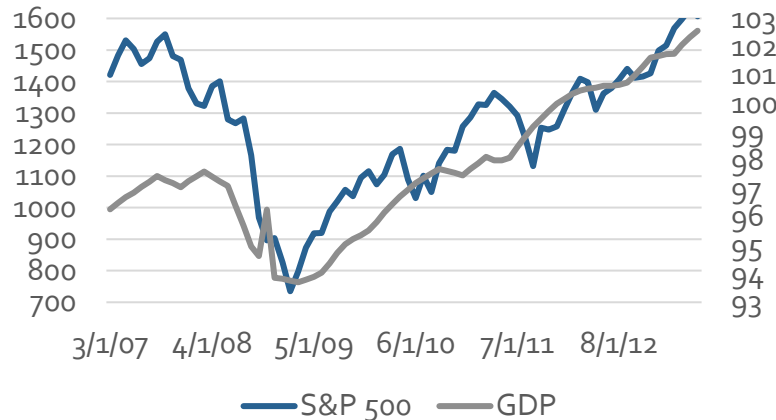
Double Dip



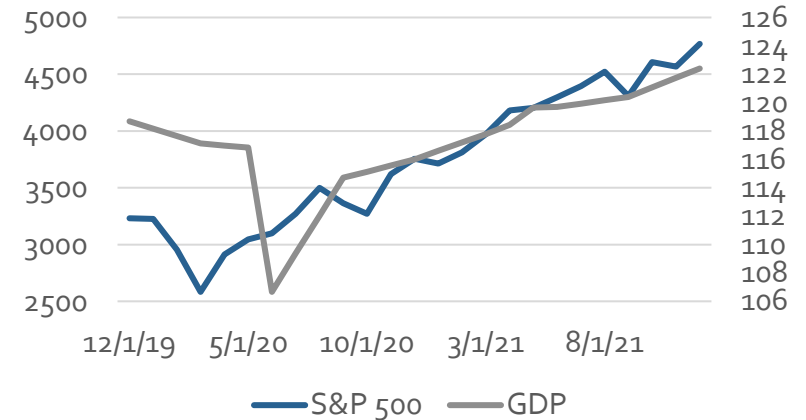
S&L Crisis



GFC



Covid-19



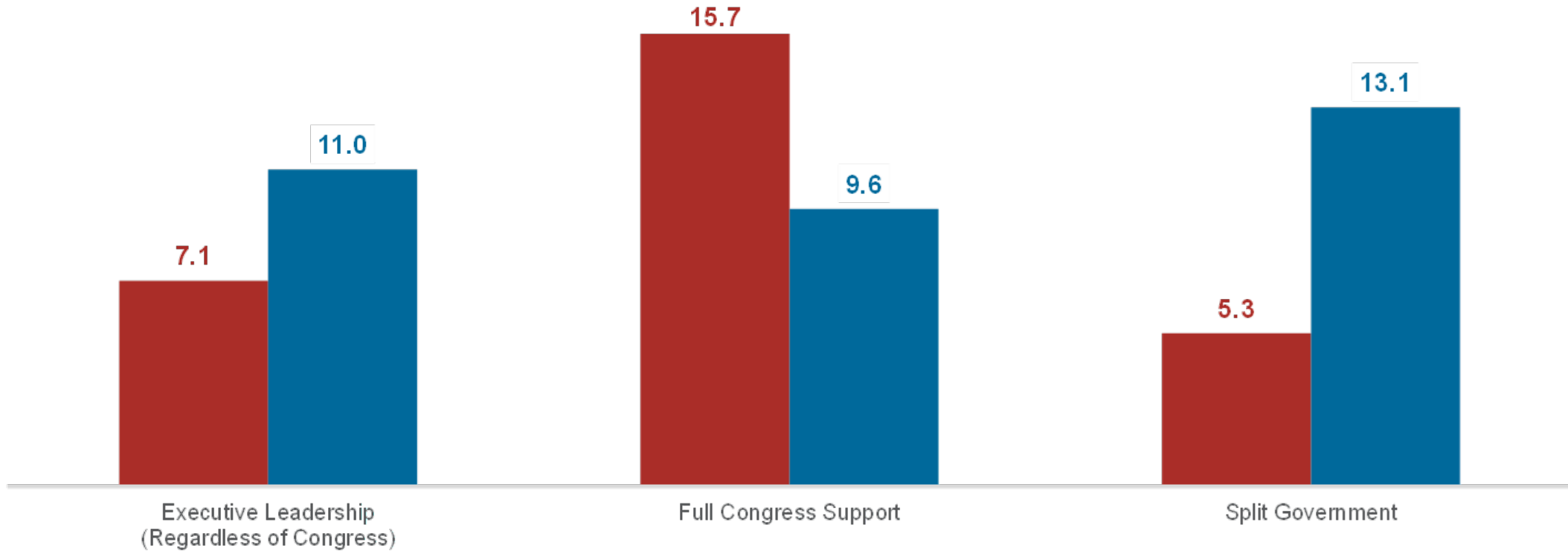
Equity Markets Bottoming Before the Economy (continued)

Equity Market Bottom	GDP Bottom	Days In Between	Equity Market Return By The Time That GDP Bottomed	Equity Market Return By The Time That GDP Started Rising Again
3/31/2020	6/30/2020	91	20%	30%
2/28/2009	6/30/2009	122	25%	44%
10/31/1990	3/31/1991	151	23%	22%
7/31/1982	9/30/1982	61	12%	31%
9/30/1974	3/31/1975	182	31%	50%
12/31/1957	3/31/1958	90	5%	13%

U.S. Equity Returns Party Control

AVERAGE ANNUAL RETURNS SORTED BY POLITICAL PARTY IN CONTROL (%)

■ Republican ■ Democratic

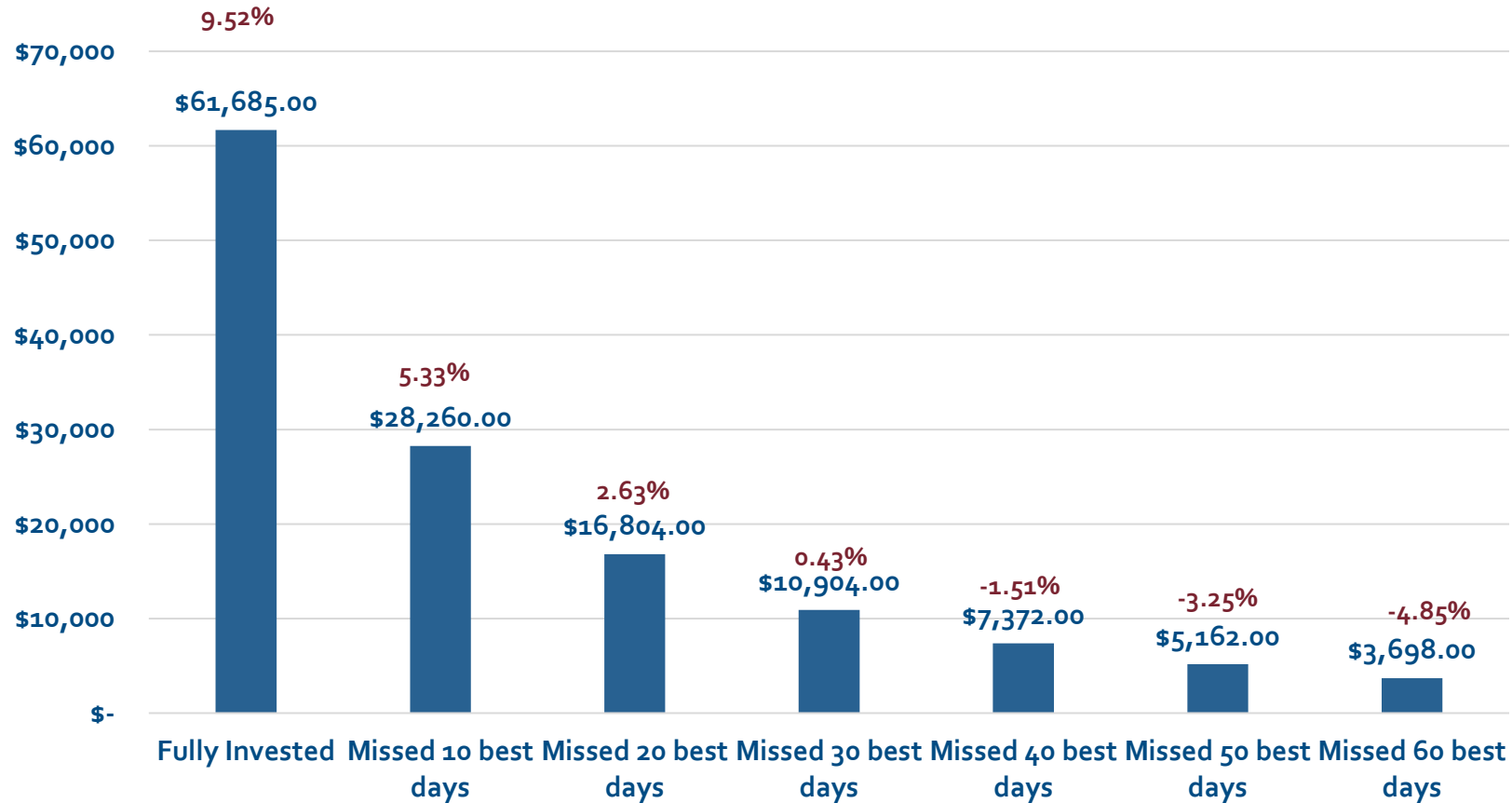


Source: Northern Trust Asset Management, Bloomberg. Historical data shows calendar year S&P 500 price returns for years 1946 through 2021. Number of instances: Republican president regardless of Congress 40, Democrat 36, Republican with full congressional support 7, Democrat 22, Republican president with split government 33, Democrat 14. Past performance does not guarantee future results.

Impact of Being Out of the Market

Returns of the S&P 500

Performance of a \$10,000 investment between January 1, 2002 and December 31, 2021



Executive Summary

- Searching for a “Soft Landing”
- Volatility will remain elevated
- Global Economic growth is slowing
- "Transitory" Inflation..."persistent and pervasive"
- Federal Reserve Bank talking tough
- Equity valuation metrics (S&P 500 P/E = 17xEPS) have already collapsed to historic average
- Corporate earnings remain resilient...for now
- Consumer and Corporate Balance Sheets are historically strong—a stockpile for further growth!
- Patience is a virtue in Investments! Stay in the Game!

Abundance of Risk

- ✓ Duration and scope of Russia-Ukraine conflict
- ✓ Potential for COVID resurgence
- ✓ Inflation remains persistent and pervasive
- ✓ Supply chain disruptions lingering
- ✓ Labor Shortages
- ✓ Energy Supplies
- ✓ Fed Policy
- ✓ Rising debt & deficits: How do we pay for all this?
- ✓ Potential for adverse tax policy (corporate, capital gain, dividend)
- ✓ Equity Market Concentration, Valuation and Volatility



Thank you

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