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Bill Rotatori, Chairman & Chief Executive Officer, New England Asset Management (NEAM)

U.S. Economic and Capital Market Outlook

NEAM New England Asset Management

Genesis Client Forum

April 2023

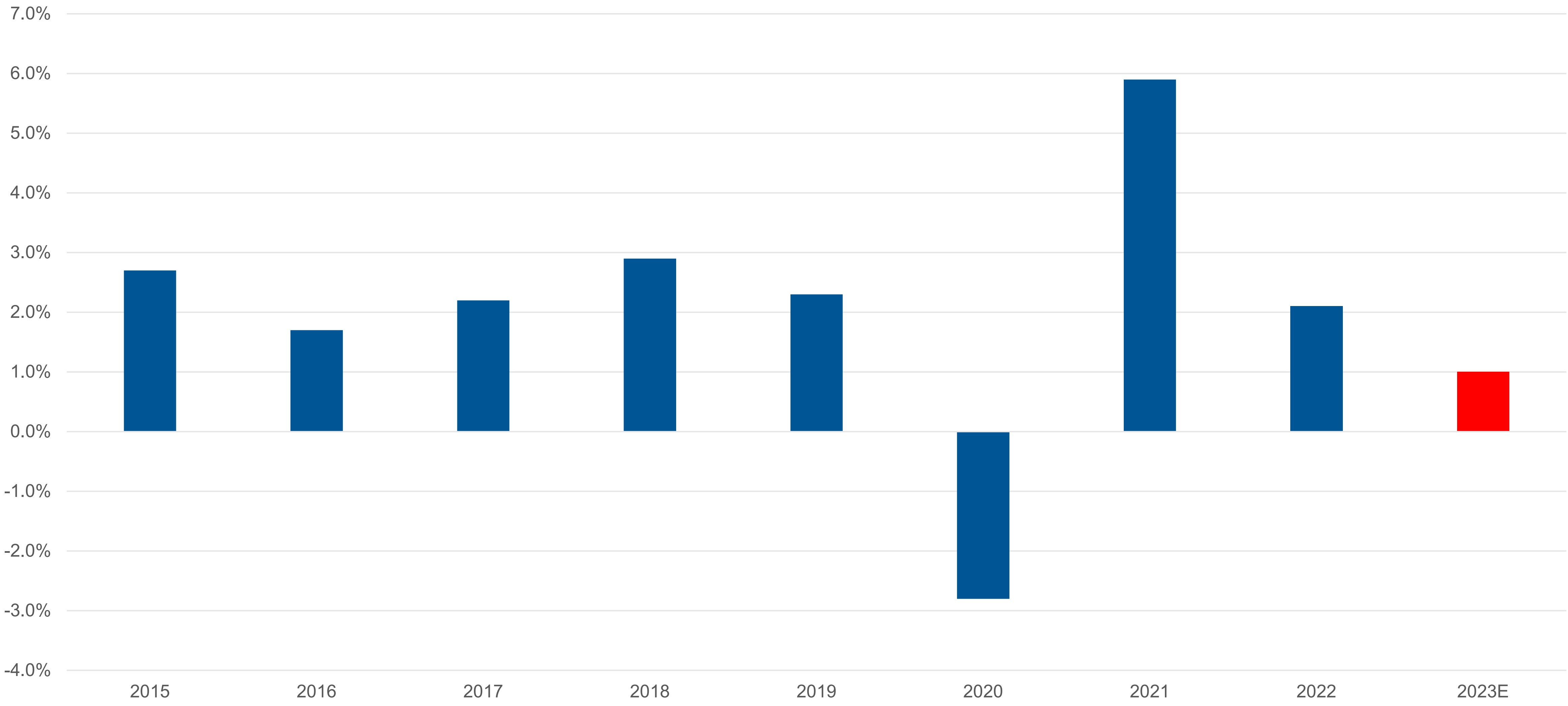
Theme Song 2023

Today's Topics

- Economic Outlook
- Labor Markets
- Inflation Outlook
- Banking "Situation"
- Federal Reserve Policy
- Capital Market Implications & Strategy Recommendations

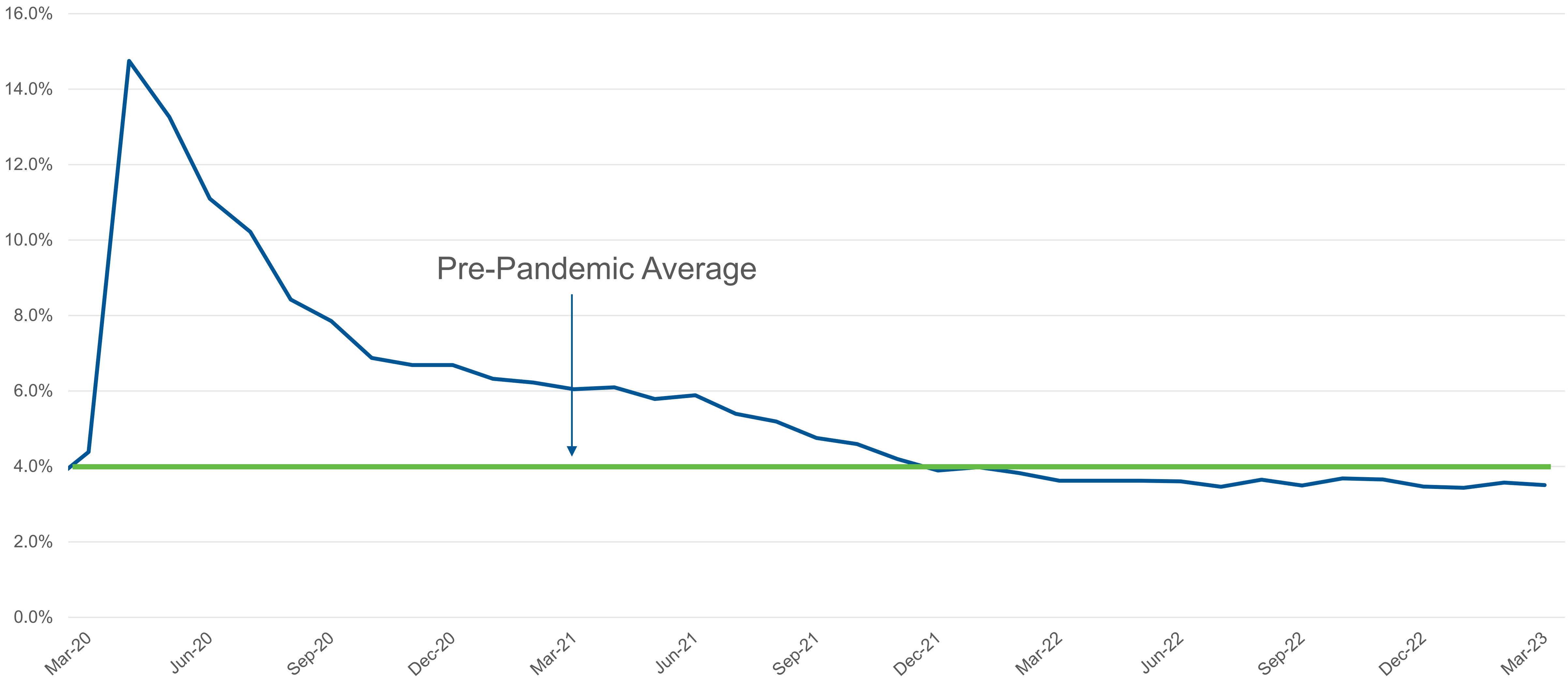
Economic Outlook

US Real GDP (Year over Year % Change)



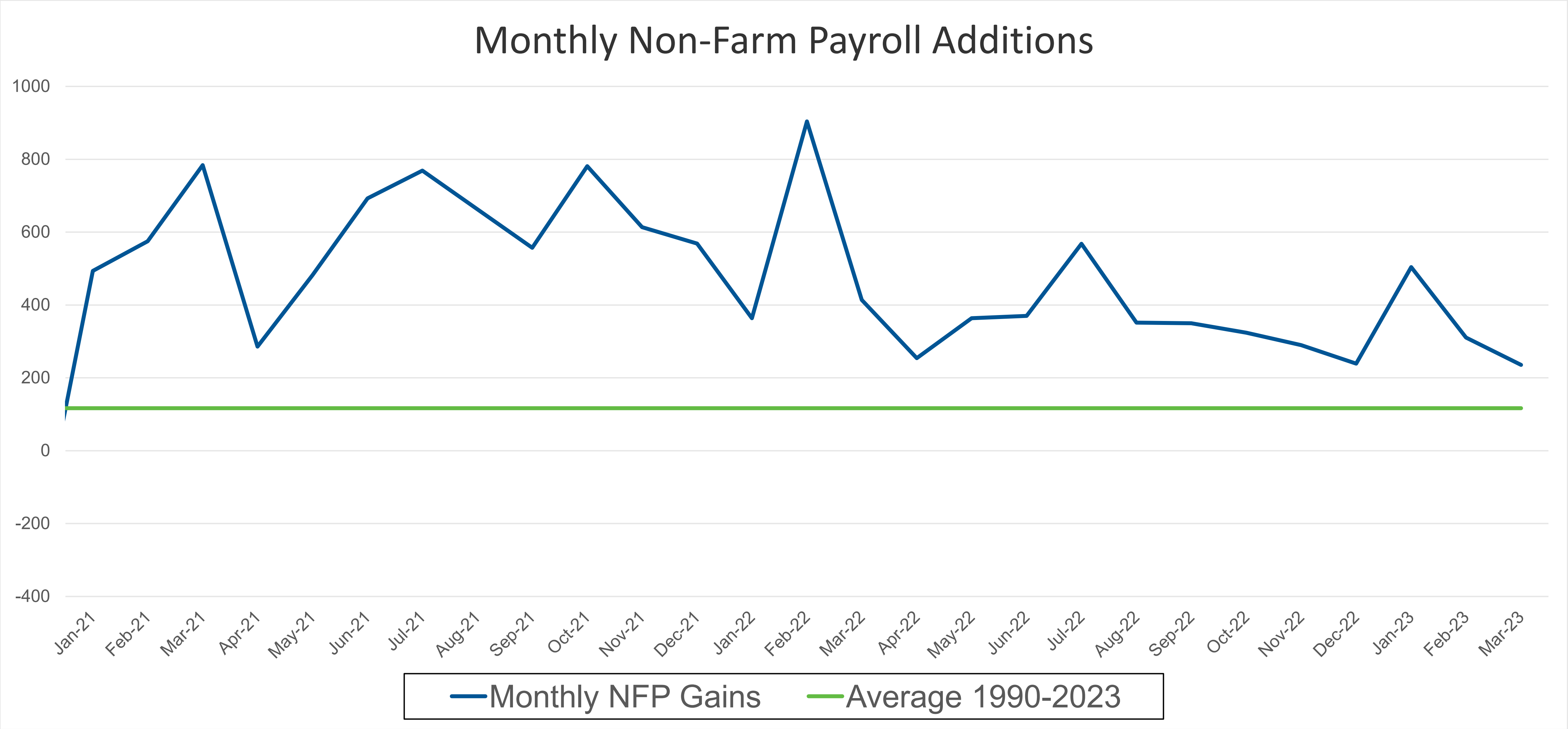
Source : Bureau of Economic Analysis, Bloomberg

Unemployment Rate Back at Pre-Pandemic Levels

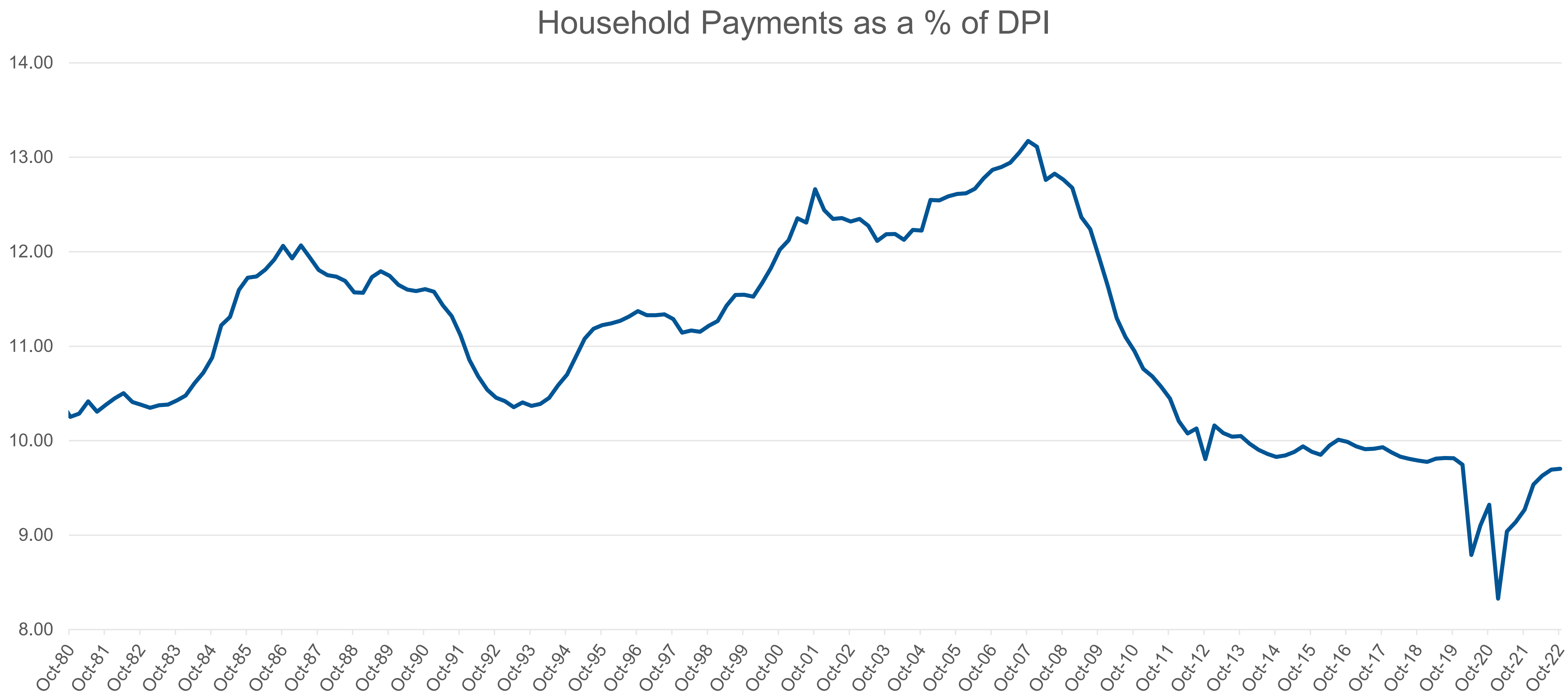


Source: BLS, Haver Analytics, NEAM Analytics

Employment

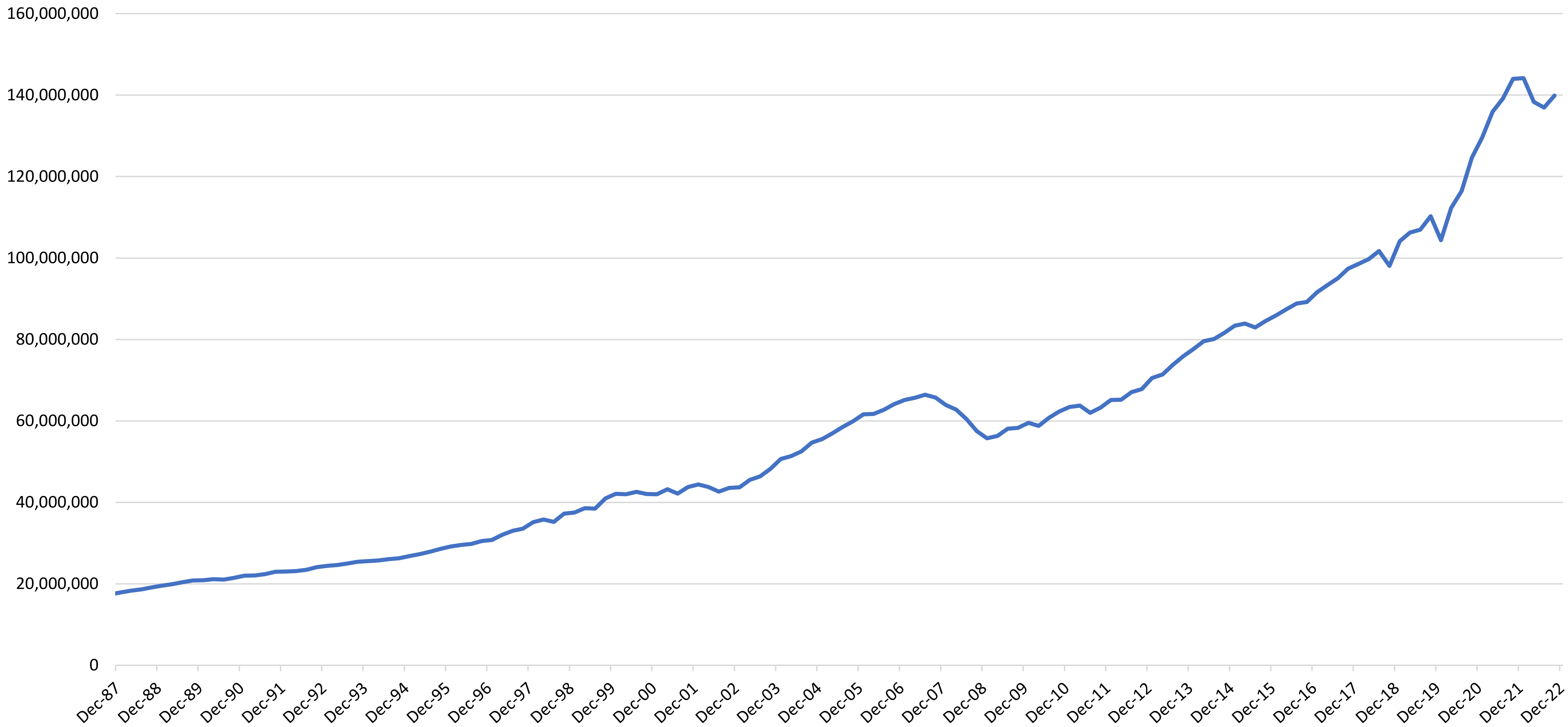

Monthly Non-Farm Payroll Additions
1000
800
600
400
200
0
-200
-400
Jan-21
Feb-21
Mar-21
Apr-21
May-21
Jun-21
Jul-21
Aug-21
Sep-21
Oct-21
Nov-21
Dec-21
Jan-22
Feb-22
Mar-22
Apr-22
May-22
Jun-22
Jul-22
Aug-22
Sep-22
Oct-22
Nov-22
Dec-22
Jan-23
Feb-23
Mar-23
Monthly NFP Gains
Average 1990-2023

Household Debt Service Ratio Near Historic Lows



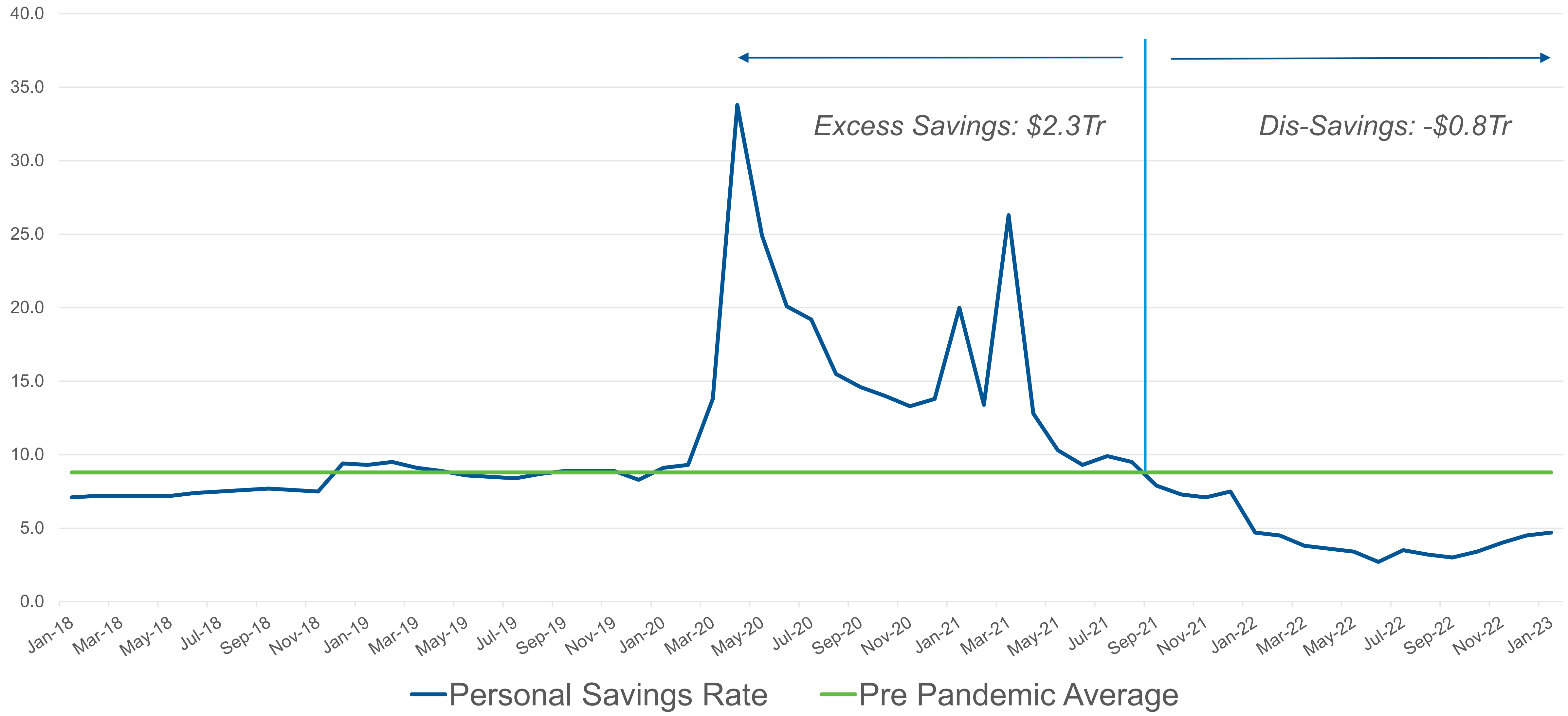
Source: Board of Governors of the Federal Reserve System, Haver Analytics, NEAM Analytics

Household Net Worth



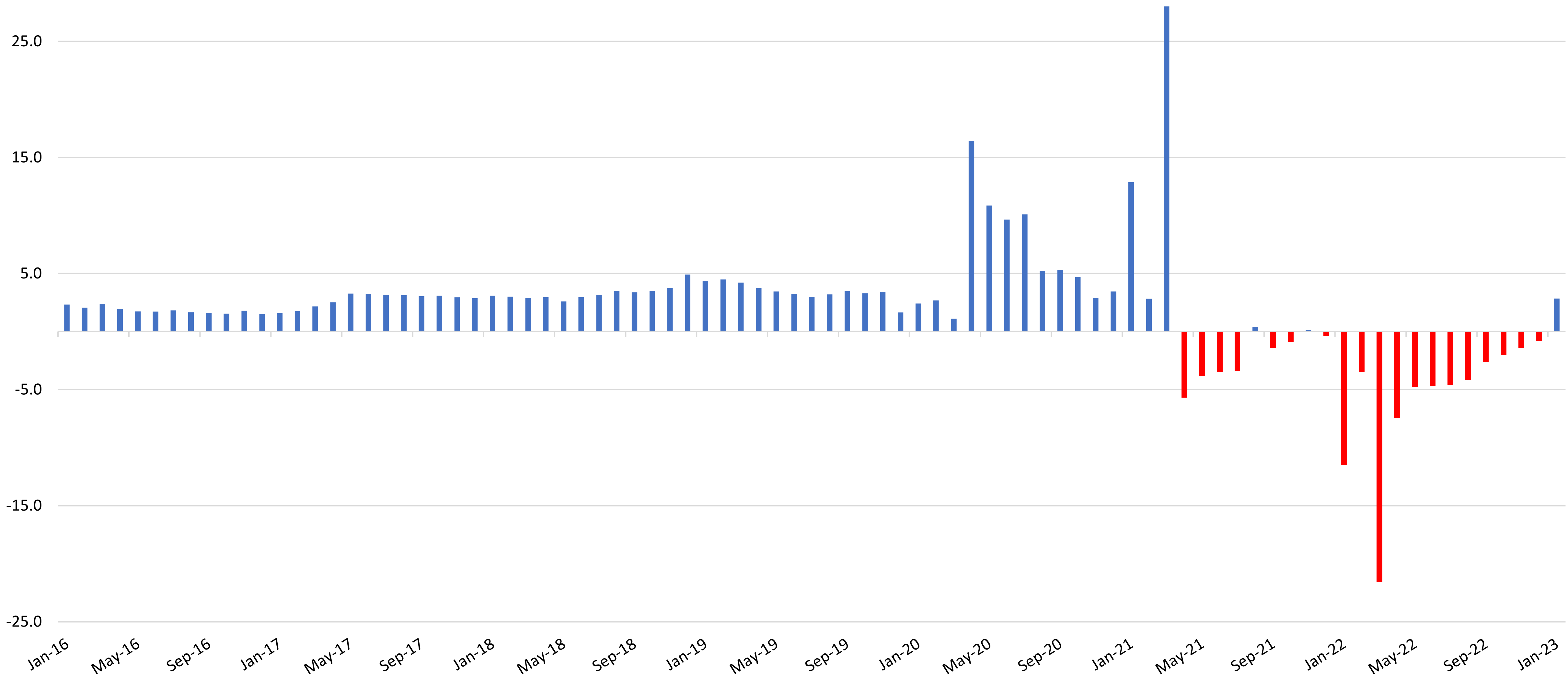
Source: Federal Reserve Bank of St. Louis, NEAM Analytics

Personal Savings Rate



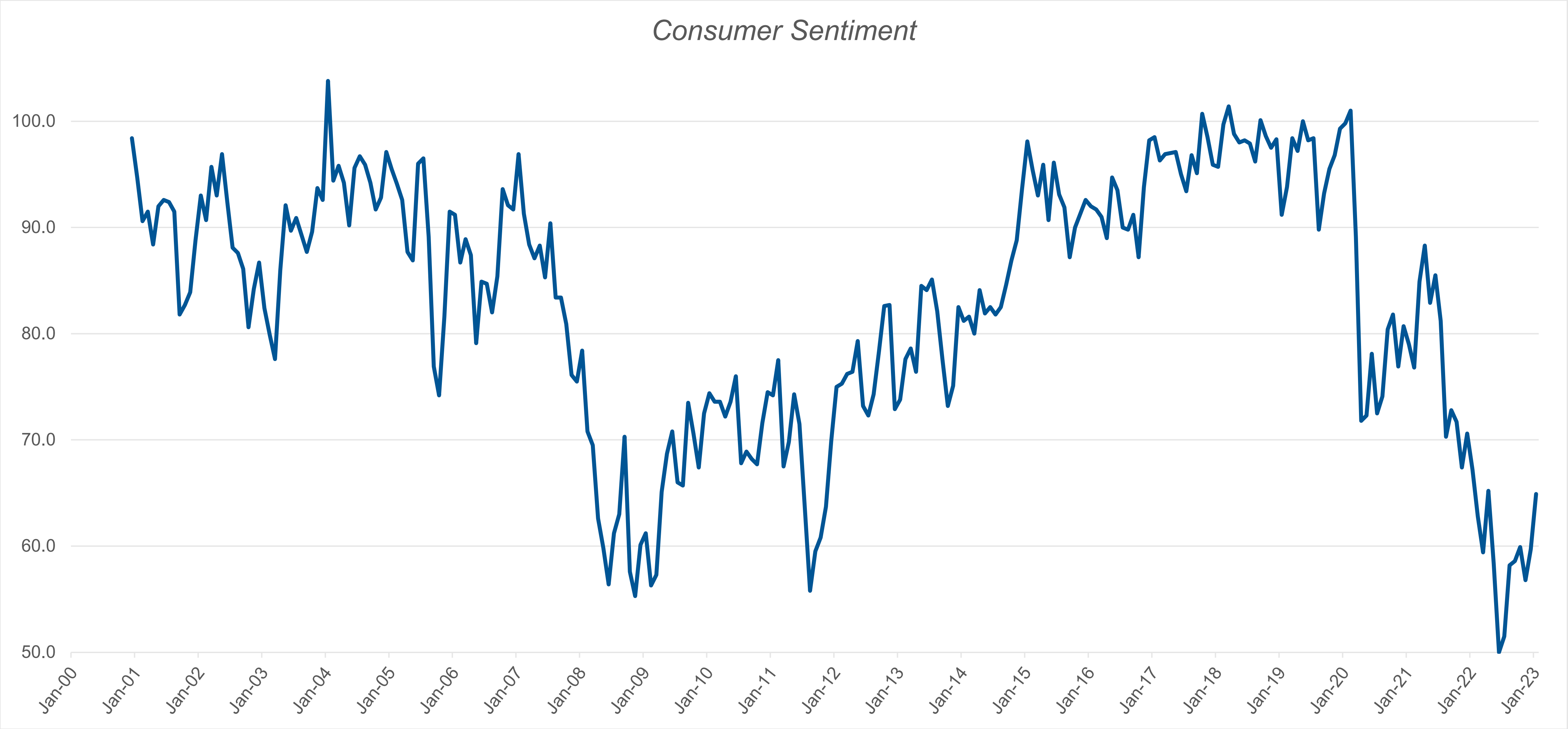
Source: Federal Reserve Bank of St. Louis, NEAM Analytics

Eroding Real Disposable Personal Income



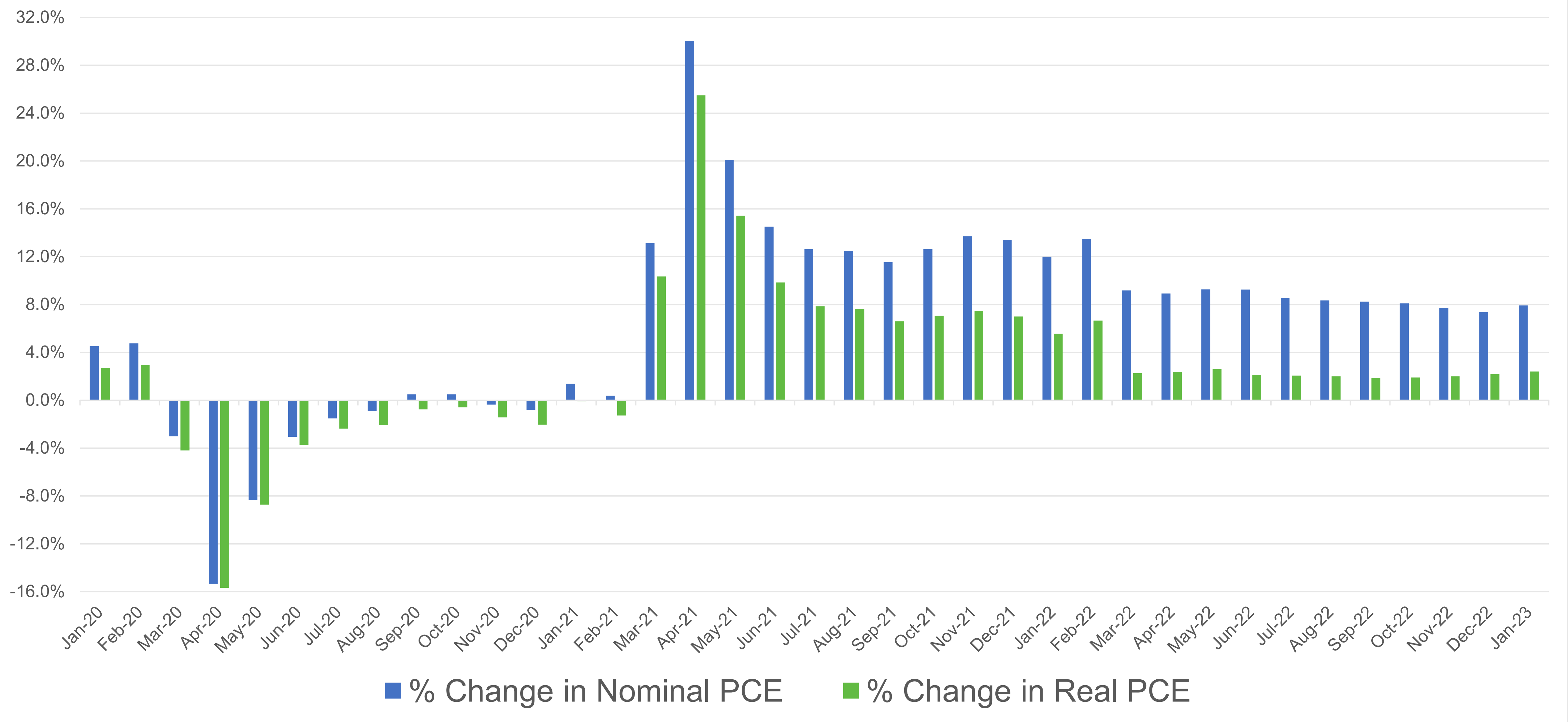
Source: Federal Reserve Bank of St. Louis, NEAM Analytics

Sagging Confidence



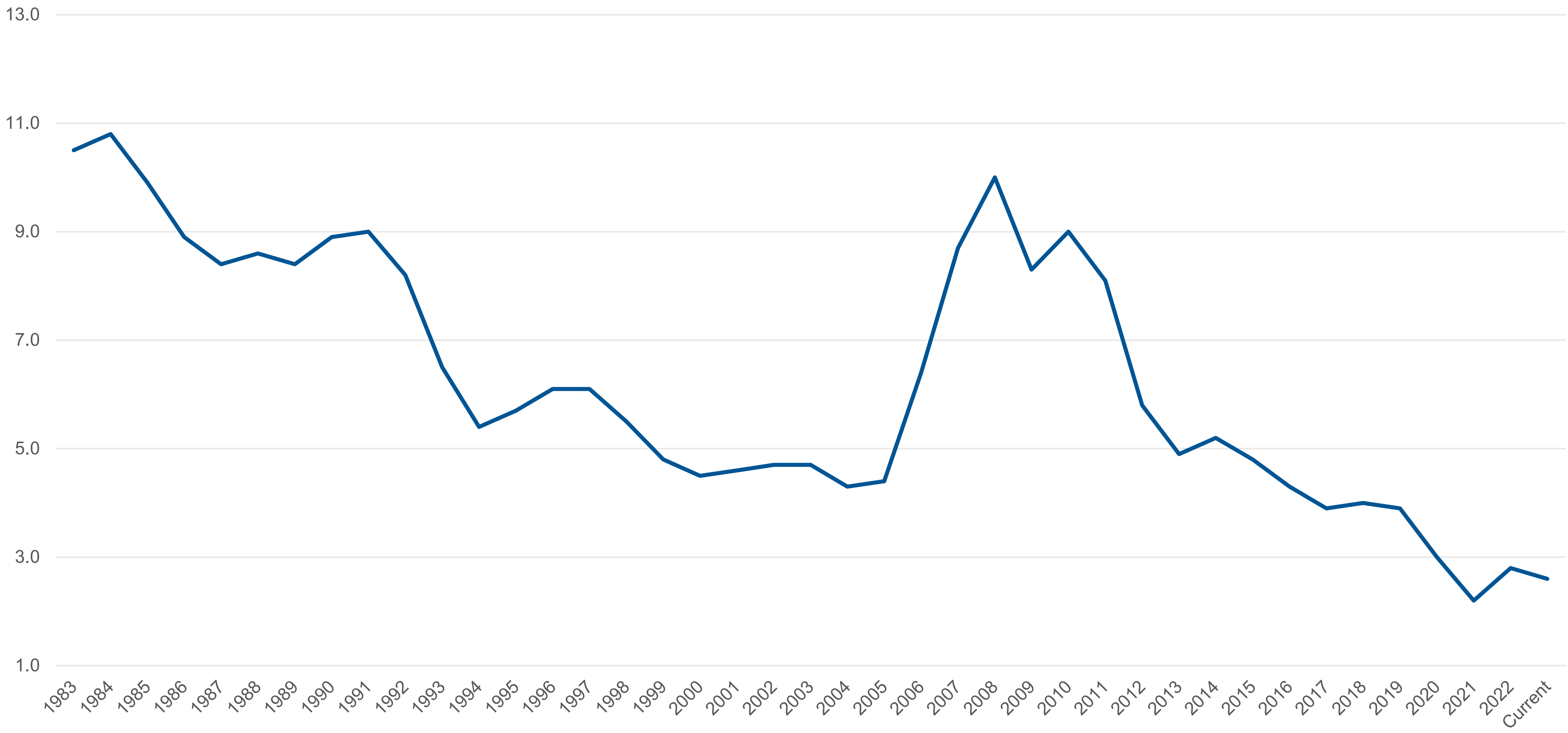
Source: Federal Reserve Bank of St. Louis, NEAM Analytics

Consumer Spending Nominal and Real



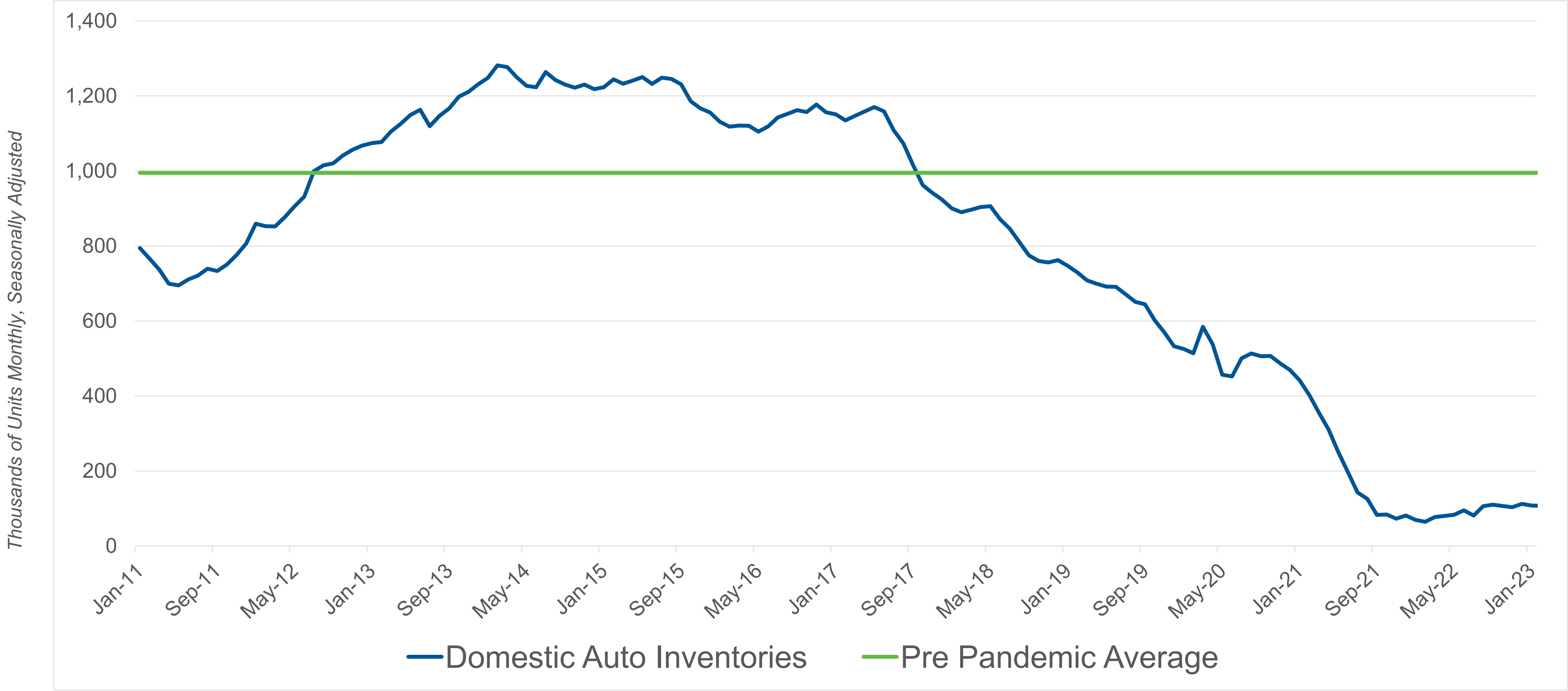
Source: Federal Reserve Bank of St. Louis, NEAM Analytics

Months Supply of Existing Single-Family Homes for Sale



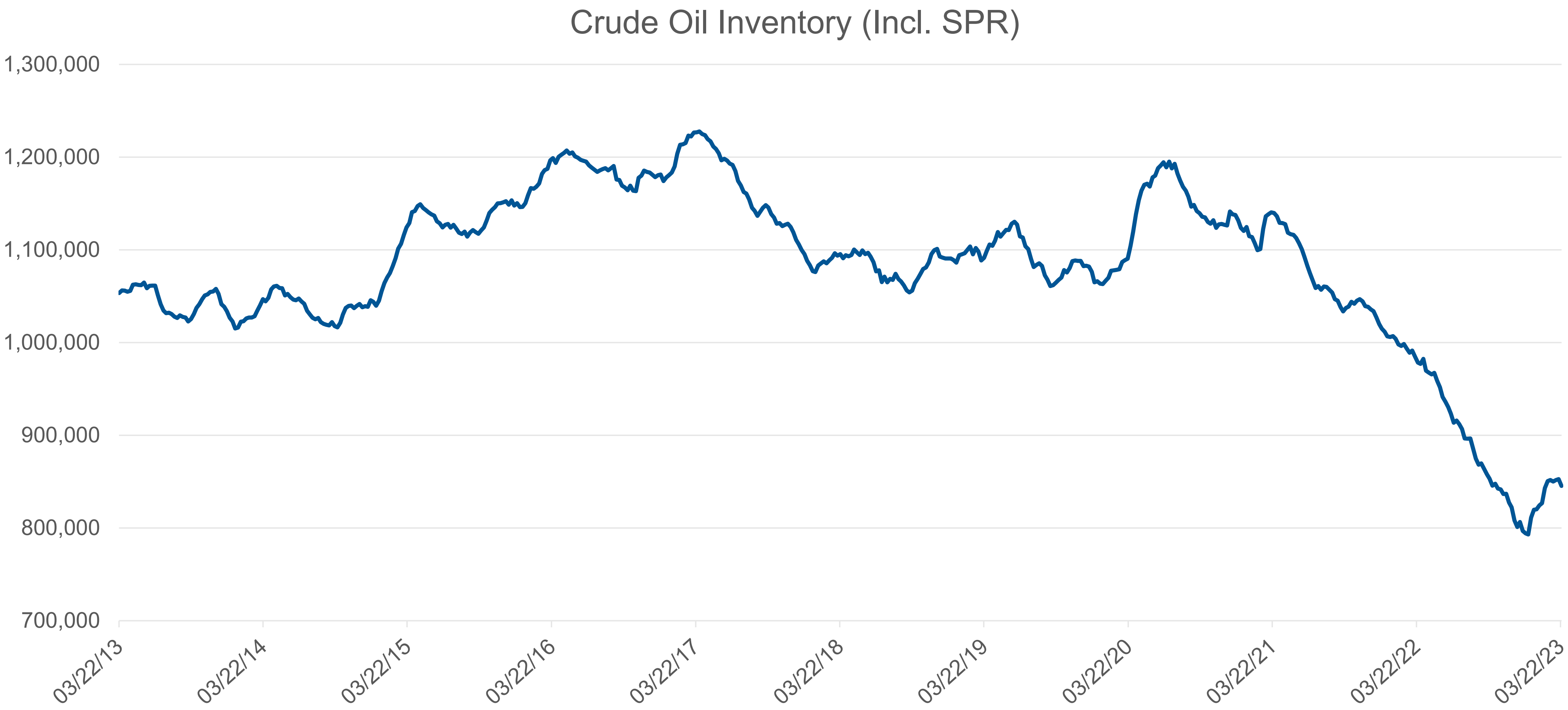
Source: NAR, Haver Analytics, NEAM Analytics

Domestic Auto Inventories



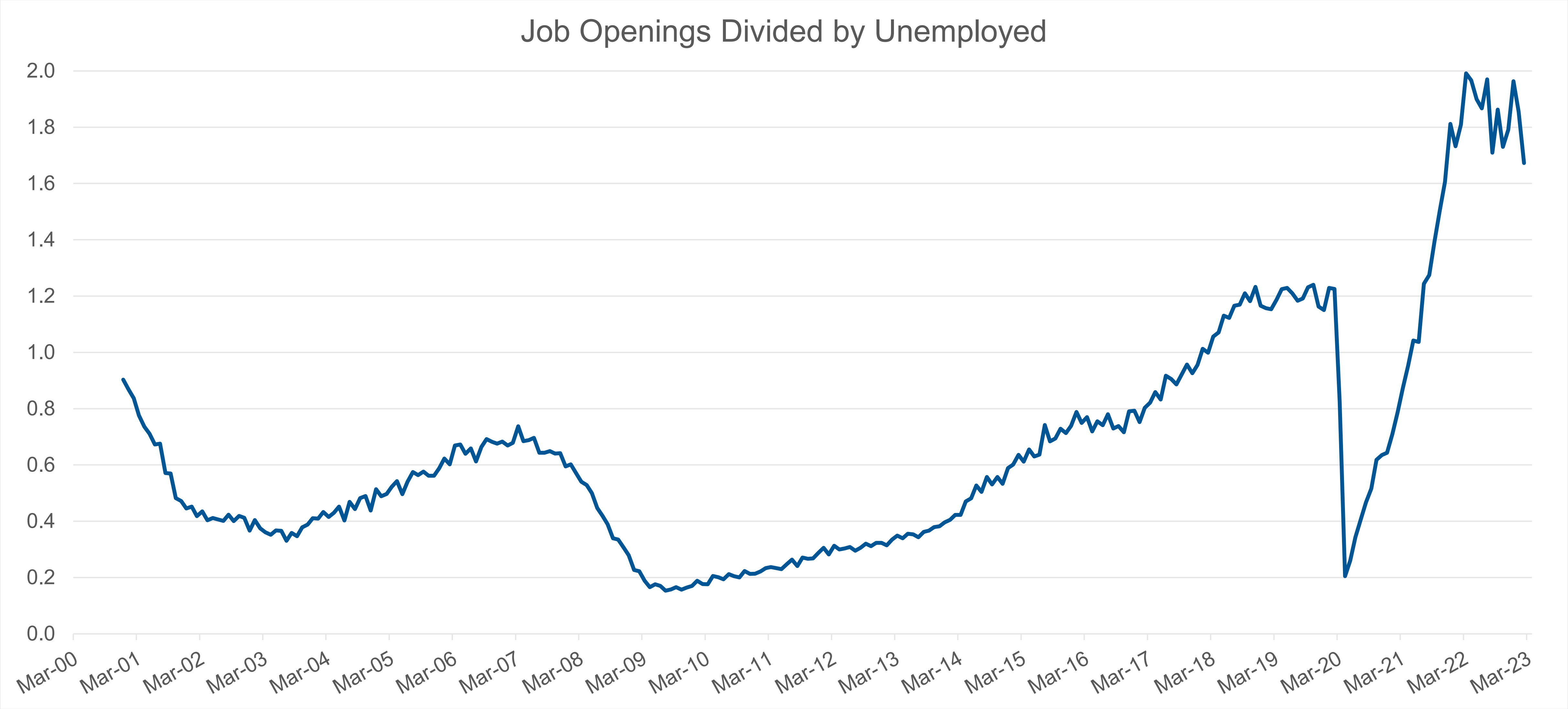
Source: Federal Reserve Bank of St. Louis, NEAM Analytics

Crude Oil Inventories

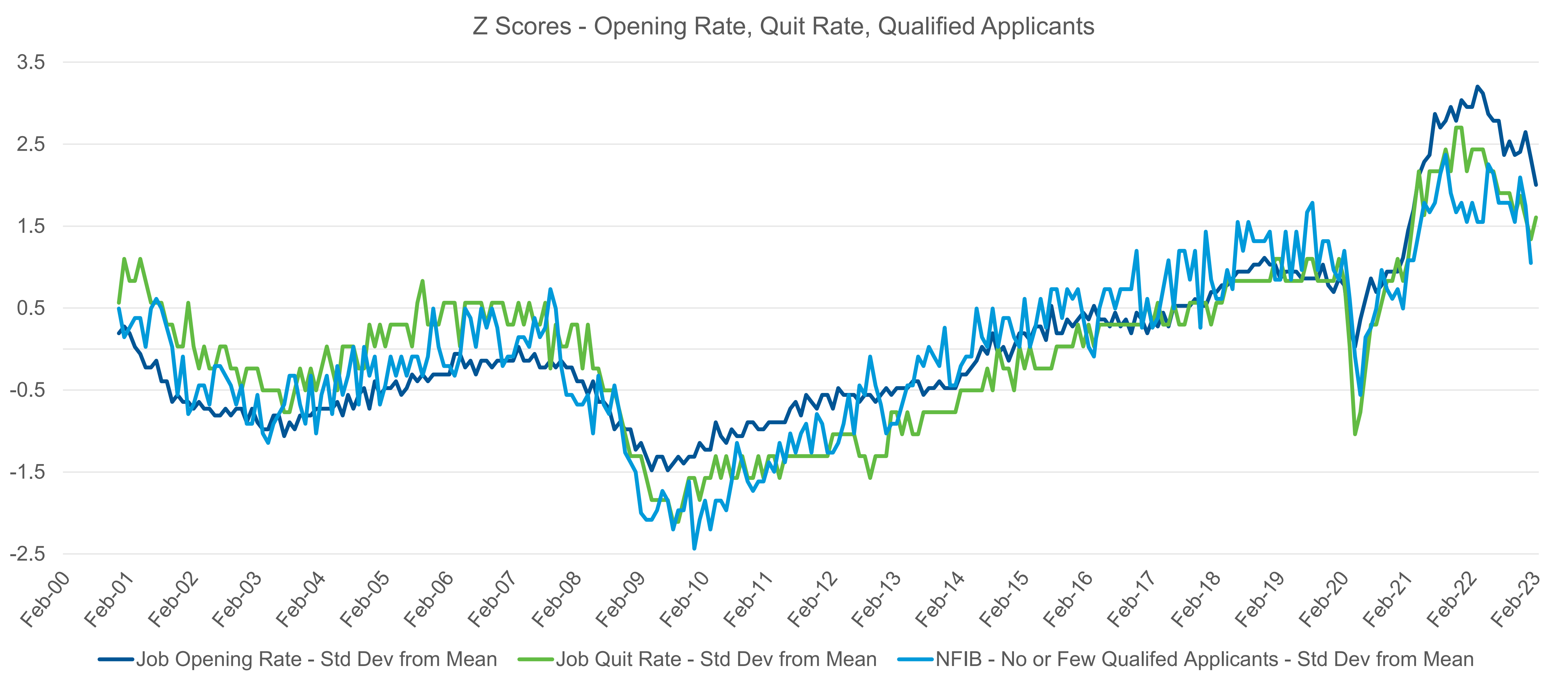


Labor Markets

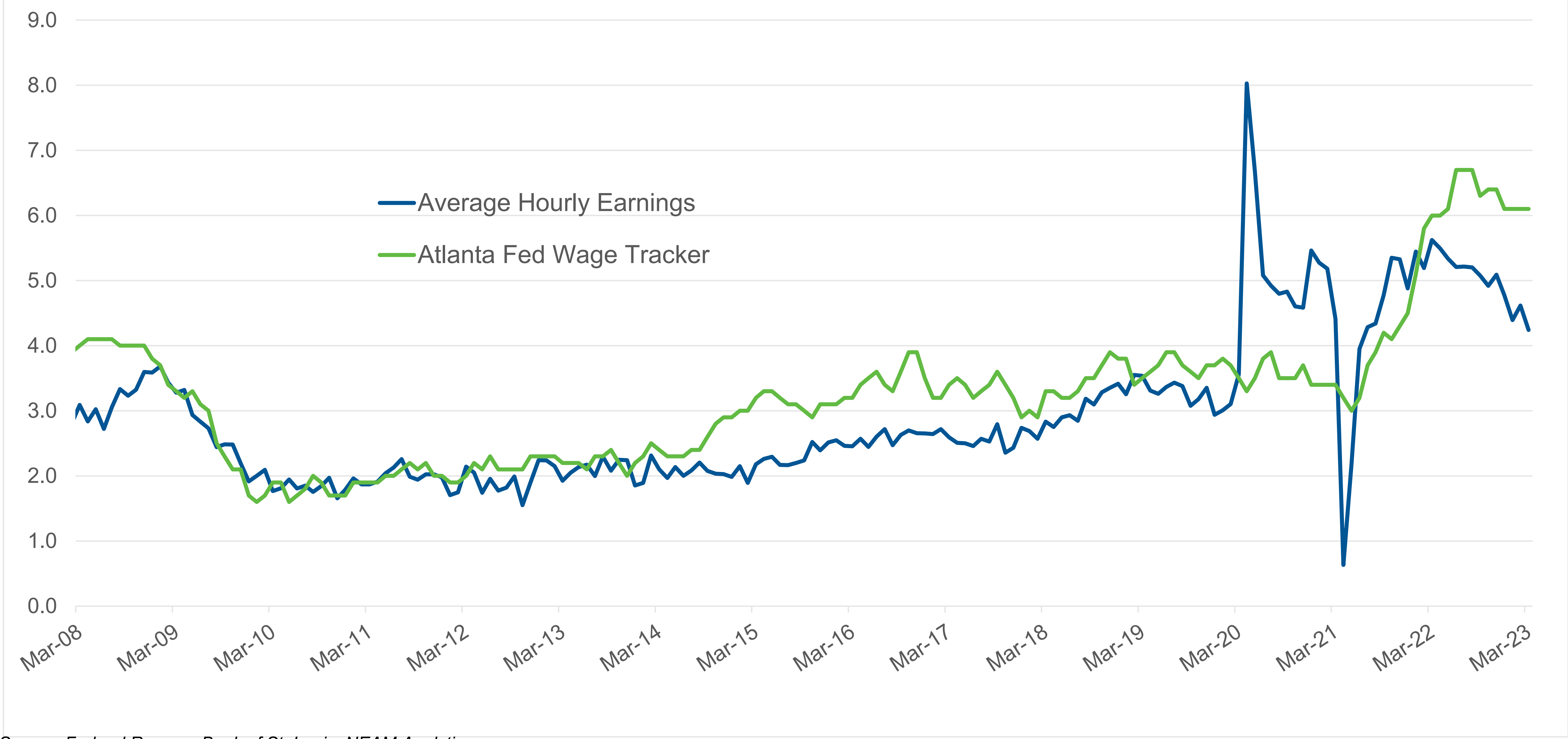
Tight Labor Markets



Historical Perspective on Labor Market Tightness



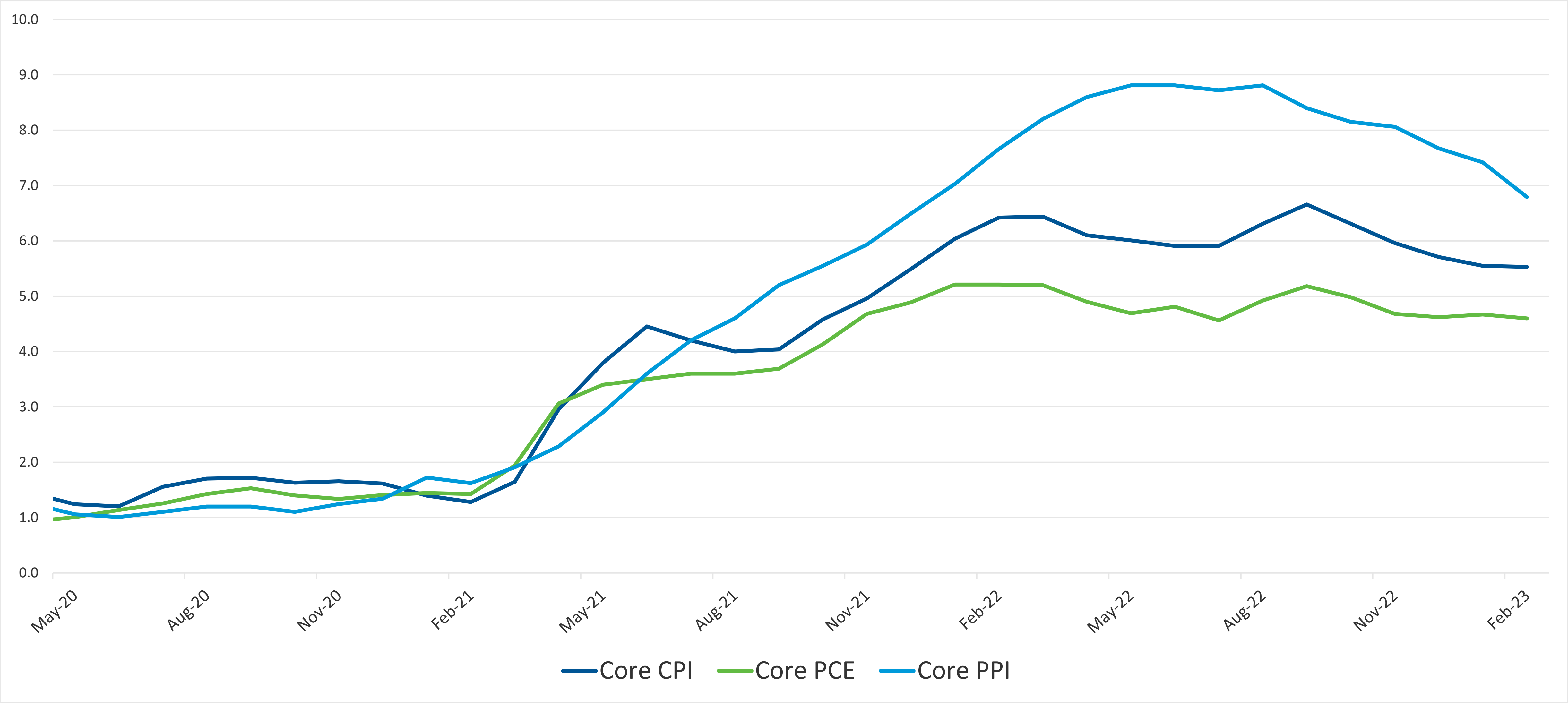
Wage Costs Remain Elevated



Source: Federal Reserve Bank of St. Louis, NEAM Analytics

Inflation Outlook

Core Inflation Readings



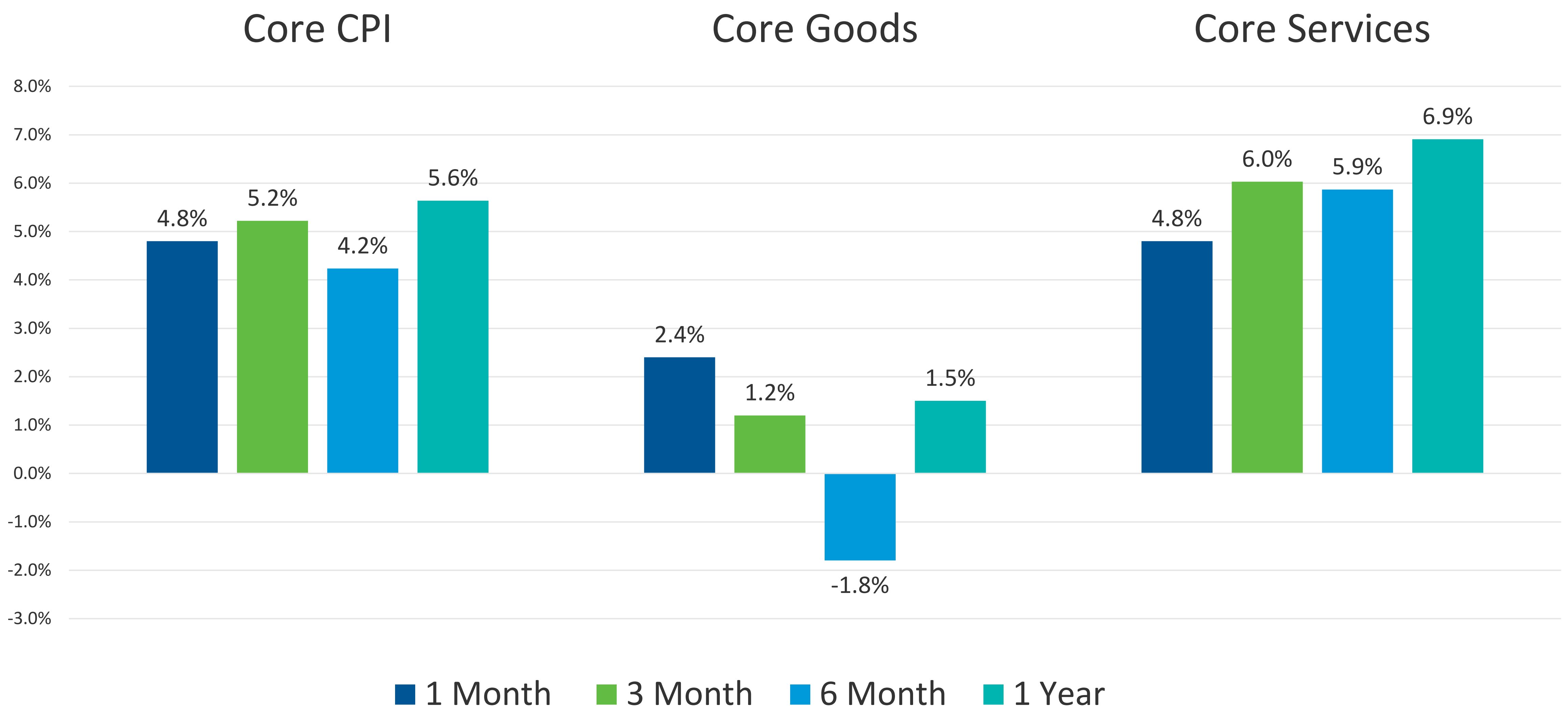
Source: BLS, Federal Reserve Bank of St. Louis, NEAM

Easing Supply Chain Pressures

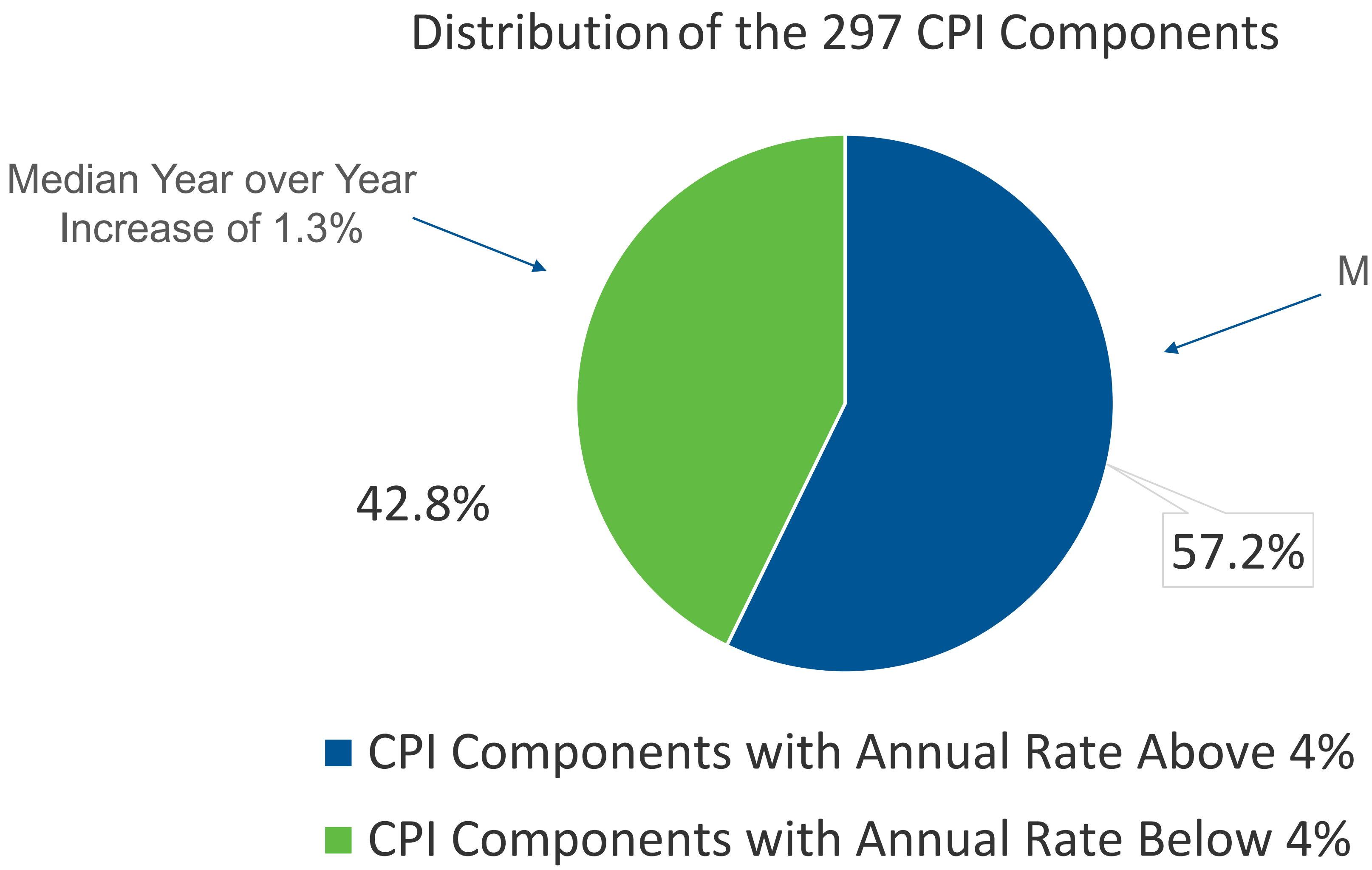
Indicator	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
Time														
ISM Mfg Sup. Deliv.	66.1	65.4	67.2	65.7	57.3	55.2	55.1	52.4	46.8	47.2	45.1	45.6	45.2	
ISM Svc Sup. Deliv.	66.2	63.4	65.1	61.3	61.9	57.8	54.5	53.9	56.2	53.8	48.5	50.0	47.6	
Global Tech Eqp PMI Sup. Deliv.	29.9	29.0	29.2	32.3	36.0	36.1	36.4	41.8	39.2	41.4	42.2	45.1	46.5	
USWC Port Dock Avg Dwell Days Trucks	5.8	6.3	6.1	5.3	5.5	5.6	5.1	4.2	3.5	2.8	2.6	3.2	2.9	
USWC Port Dock Avg Dwell Days Rail	5.2	7.7	9.6	11.3	13.3	16.4	16.5	15.5	14.2	9.1	4.1	4.3	5.8	
Volume														
Cass Freight Index	3.6	0.6	-0.5	-2.7	-2.3	1.9	3.6	4.8	2.9	-0.4	-3.9	4.3	-0.3	
ISM Orders - Production	3.3	-0.8	-0.6	0.2	-4.4	-4.7	-0.7	-3.7	-3.7	-4.1	-3.5	-5.5	-0.3	
S&PG Orders - Production	4.5	3.0	1.4	0.9	-1.5	-1.0	-0.4	0.4	-3.1	-2.2	-3.5	-2.8	-3.2	
Ships Anchored Off LA/LB*	62	39	34	27	26	20	11	6	1	6	8	16	2	9
Trucking Demand	198	147	124	120	95	65	56	51	36	24	45	42	42	45
Price														
PPI Trans. & Ware. Of Goods M/M	1.7	4.0	2.0	2.1	-0.3	0.3	-1.8	-0.1	-0.7	0.7	-1.1	-2.5	-0.7	
WCI Container Freight Rate (Aggregate)	9,477	8,152	7,768	7,635	7,066	6,762	5,986	4,014	3,145	2,404	2,120	2,047	1,899	1,717
WCI Container Freight Rate (Shangai/LA)	11,030	9,112	8,587	8,720	7,652	7,199	6,127	3,283	2,412	2,069	1,992	2,072	1,959	1,775
WCI Container Freight Rate (Rotterdam/NY)	6,518	6,680	6,940	7,186	6,783	6,921	6,922	7,038	7,284	7,224	6,989	6,322	5,640	4,978
U.S. Truck Eqp Avg/per Mile	3.04	3.17	3.16	3.25	3.13	2.83	2.60	2.54	2.54	2.50	2.62	2.45	2.46	2.48
Freightos Baltic Index: China To W. Coast	15,898	15,889	15,552	11,440	8,934	6,593	5,419	3,441	2,479	1,935	1,377	1,325	1,164	1,016
Inventory														
ISM Mfg Inventory Index	53.6	55.5	51.6	55.9	56.0	57.3	53.1	55.5	53.0	51.1	52.3	50.2	50.1	
ISM Mfg Customer Inventories	31.8	34.1	37.1	32.7	35.2	39.5	38.9	41.6	41.6	48.7	48.2	47.4	46.9	
NFIB Inventory Too Low	7	9	6	8	5	2	3	1	0	-2	1	-1	-4	

Source : Piper Sandler. Ships anchored includes those loitering and slow speed steaming beyond the 40 mile "safe zone"

CPI Inflation Trends by Category

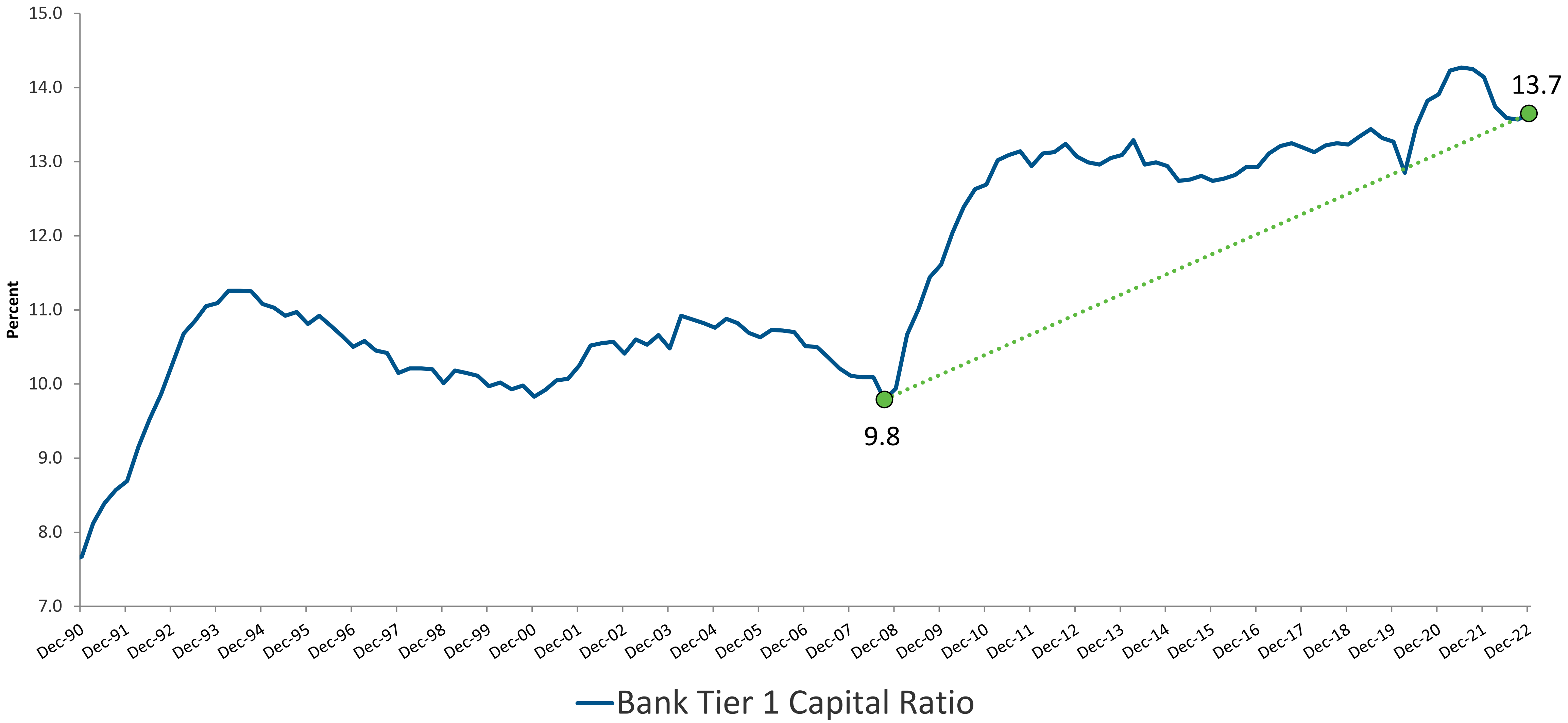


How Widespread are the Inflation Pressures?



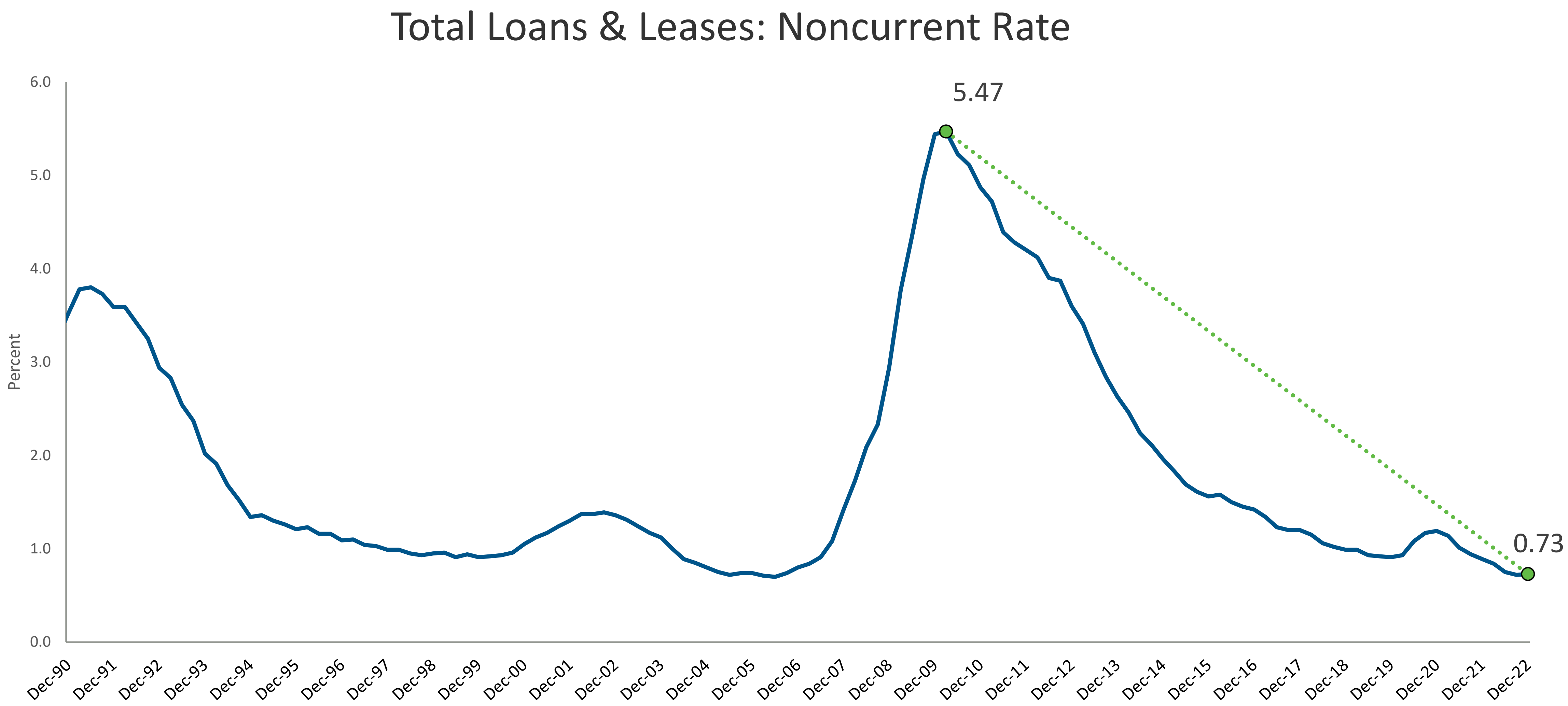
Banking Situation

Bank Capital

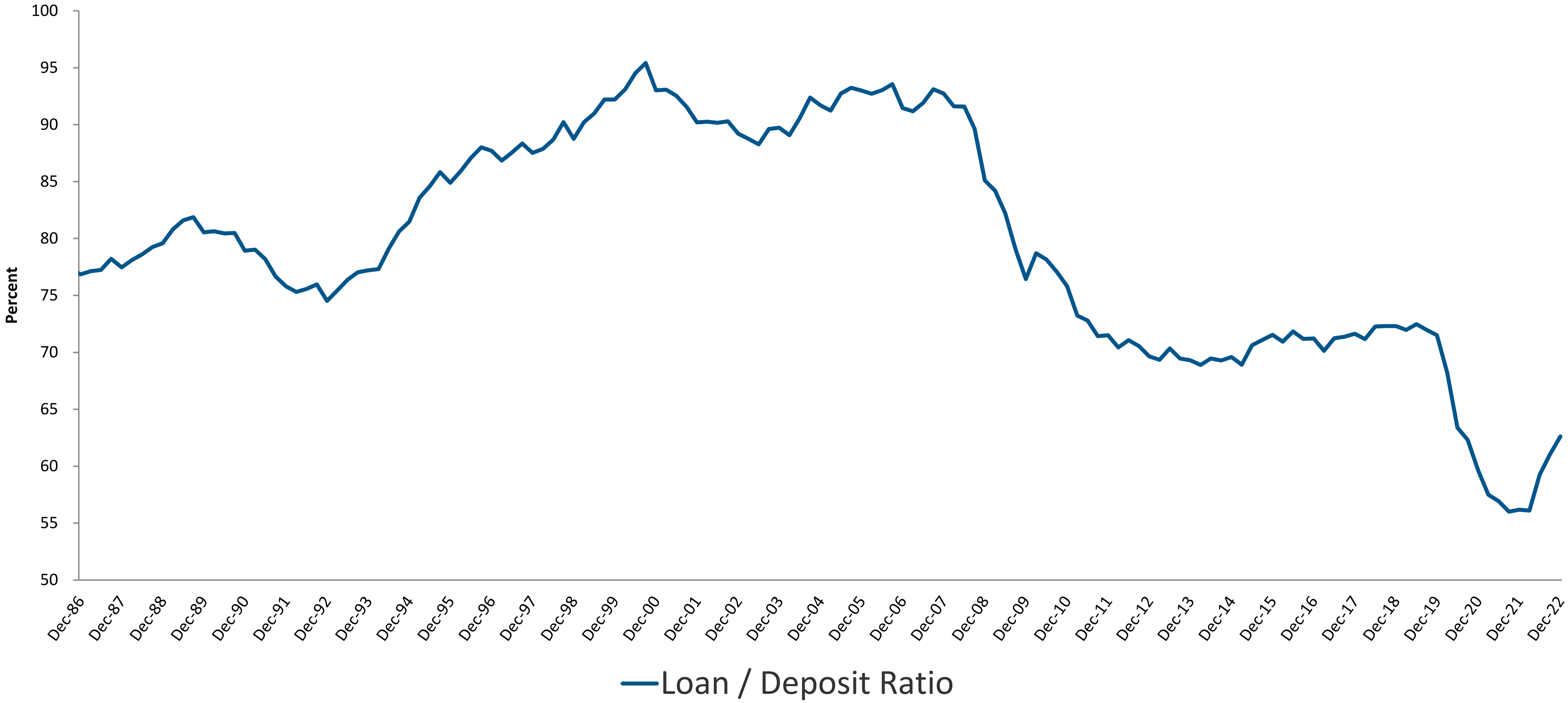


Source: FDIC, Haver, NEAM

Bank Problem Assets

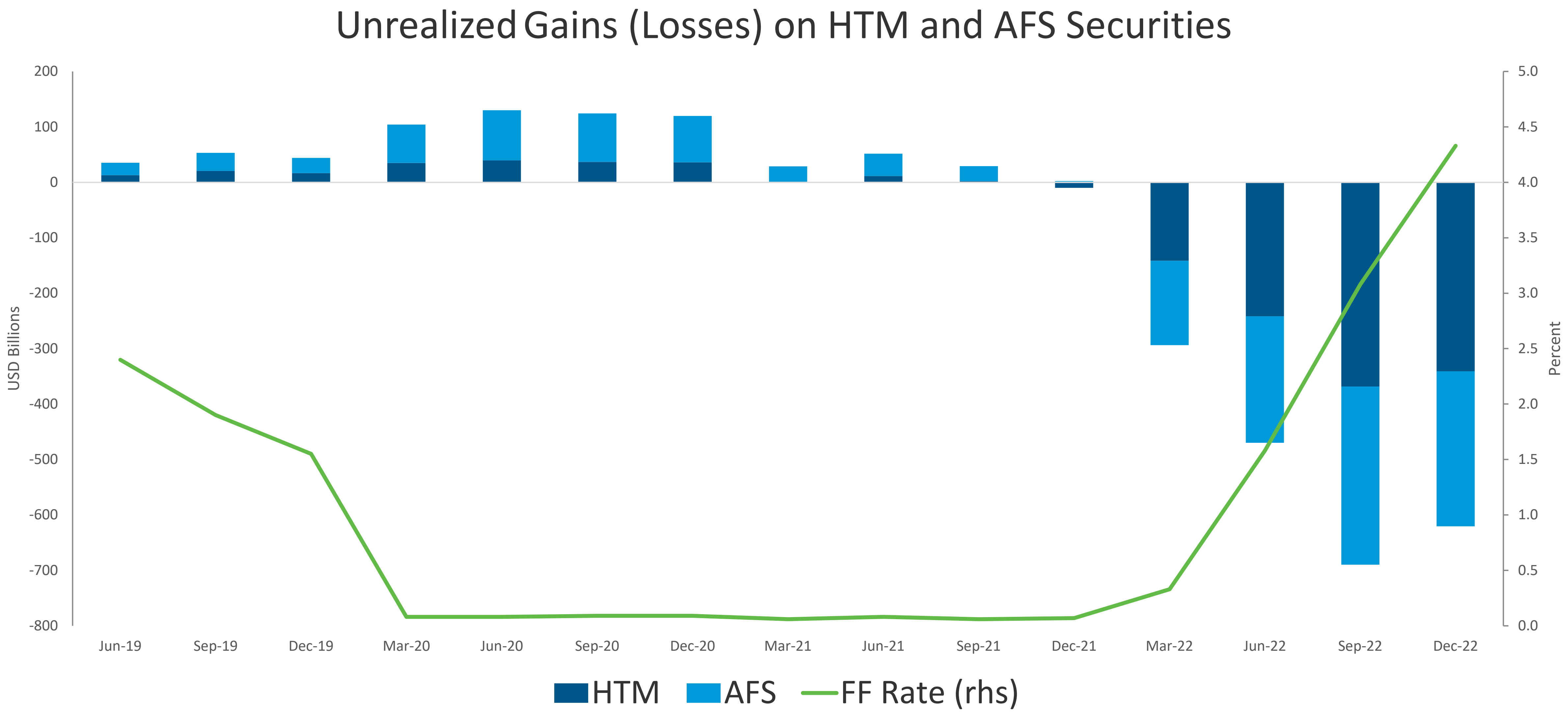


Bank Balance Sheet Liquidity



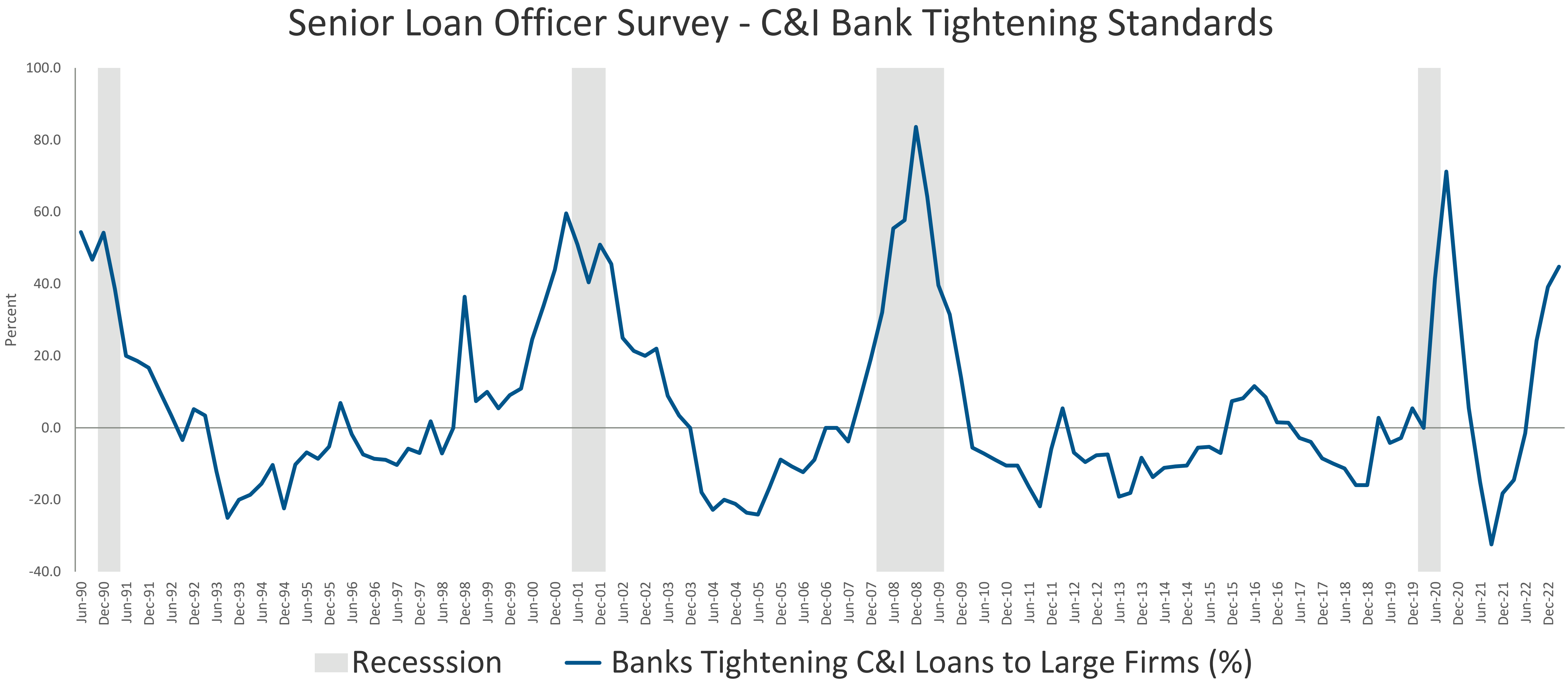
Source: FDIC, Haver, NEAM

Bank Investment Securities Unrealized Gains & Losses



Source: FDIC, Haver, NEAM

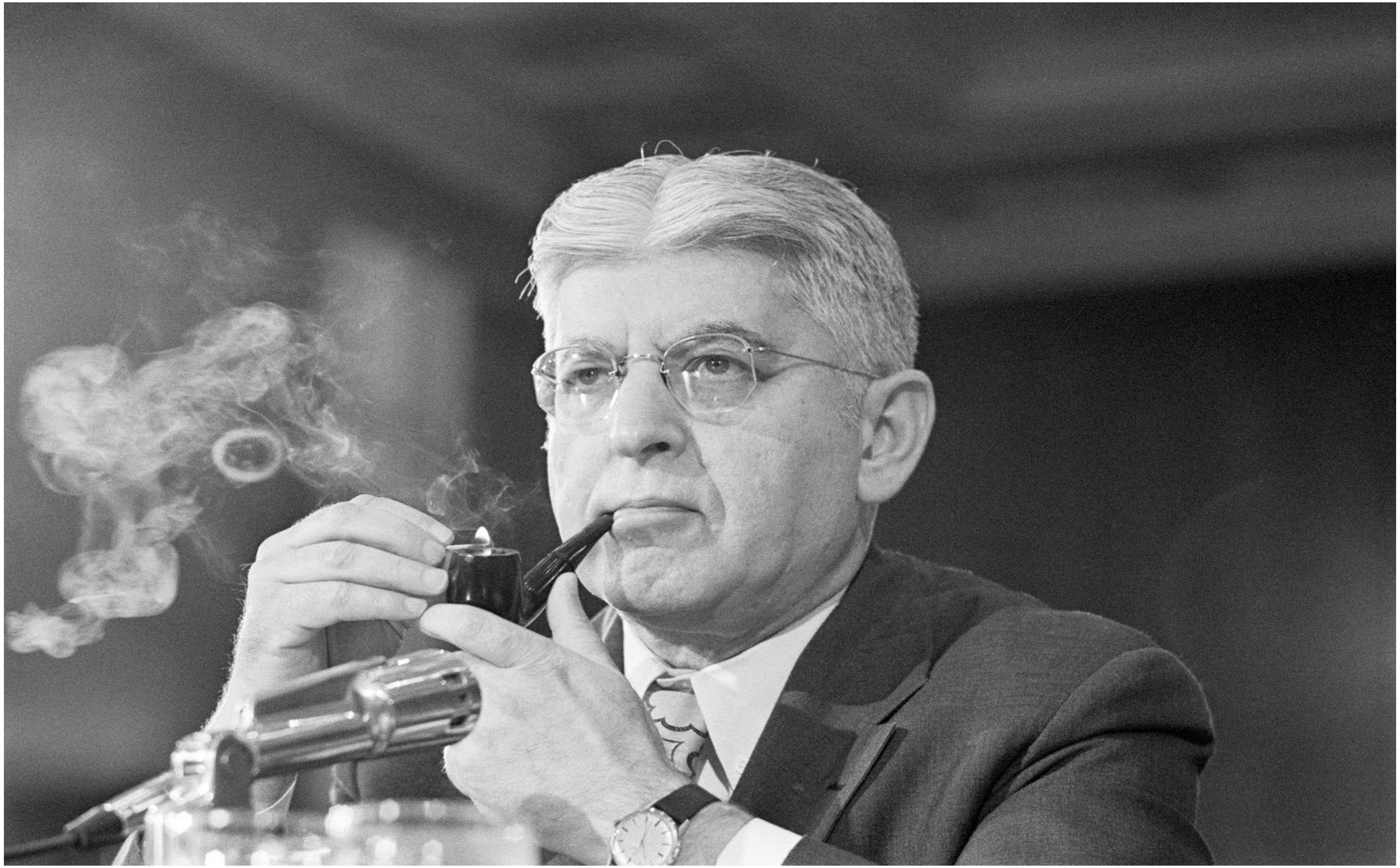
Bank Willingness to Lend



Source: FRB, Haver, NEAM

Federal Reserve Policy

Any Guesses?



The Fed’s Path Forward

Three Stages of the Fed’s Path Forward:

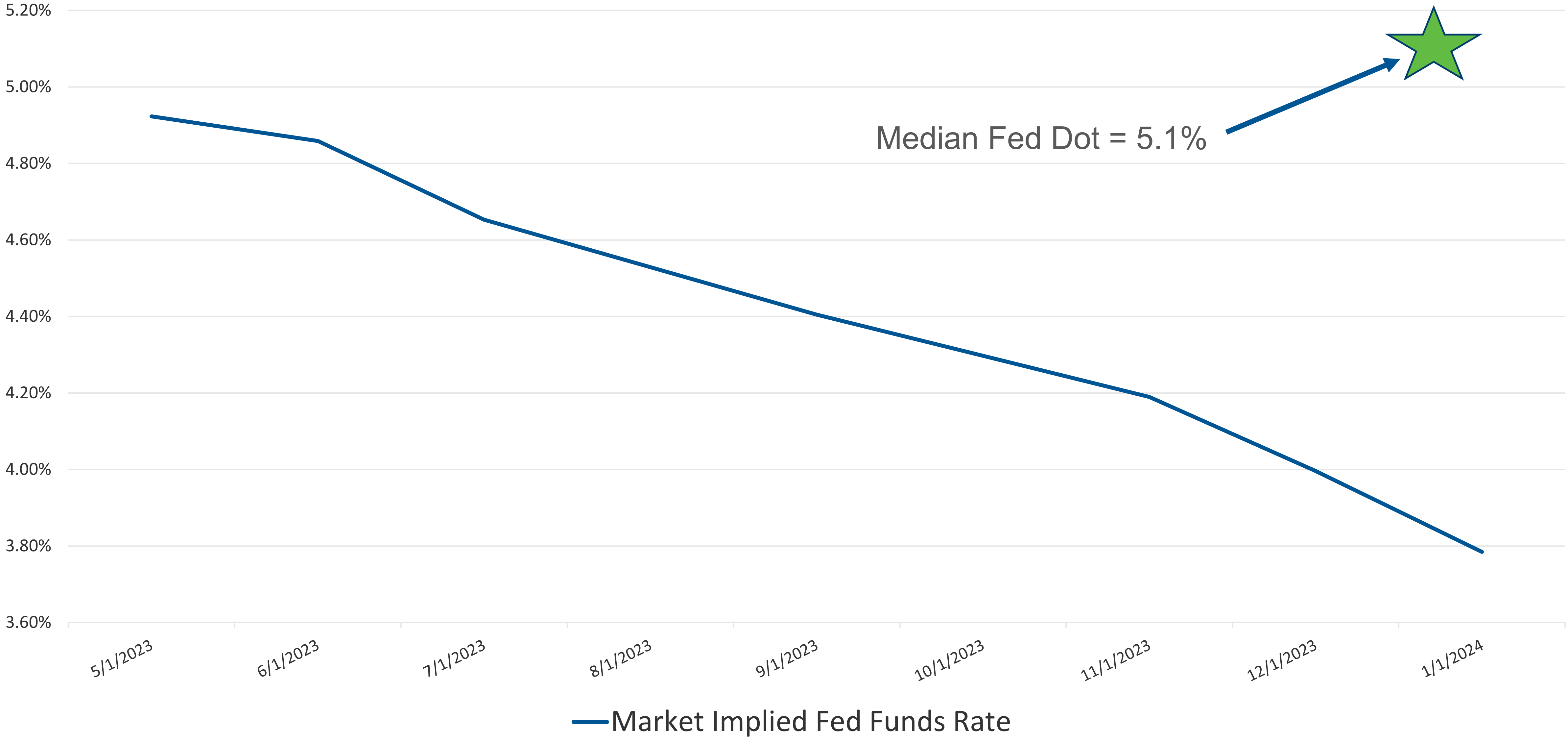
✓ Change in the size of rate hikes

- Pause in Rate Hikes
- Length of time Fed Funds is maintained at “Sufficiently Restrictive” level

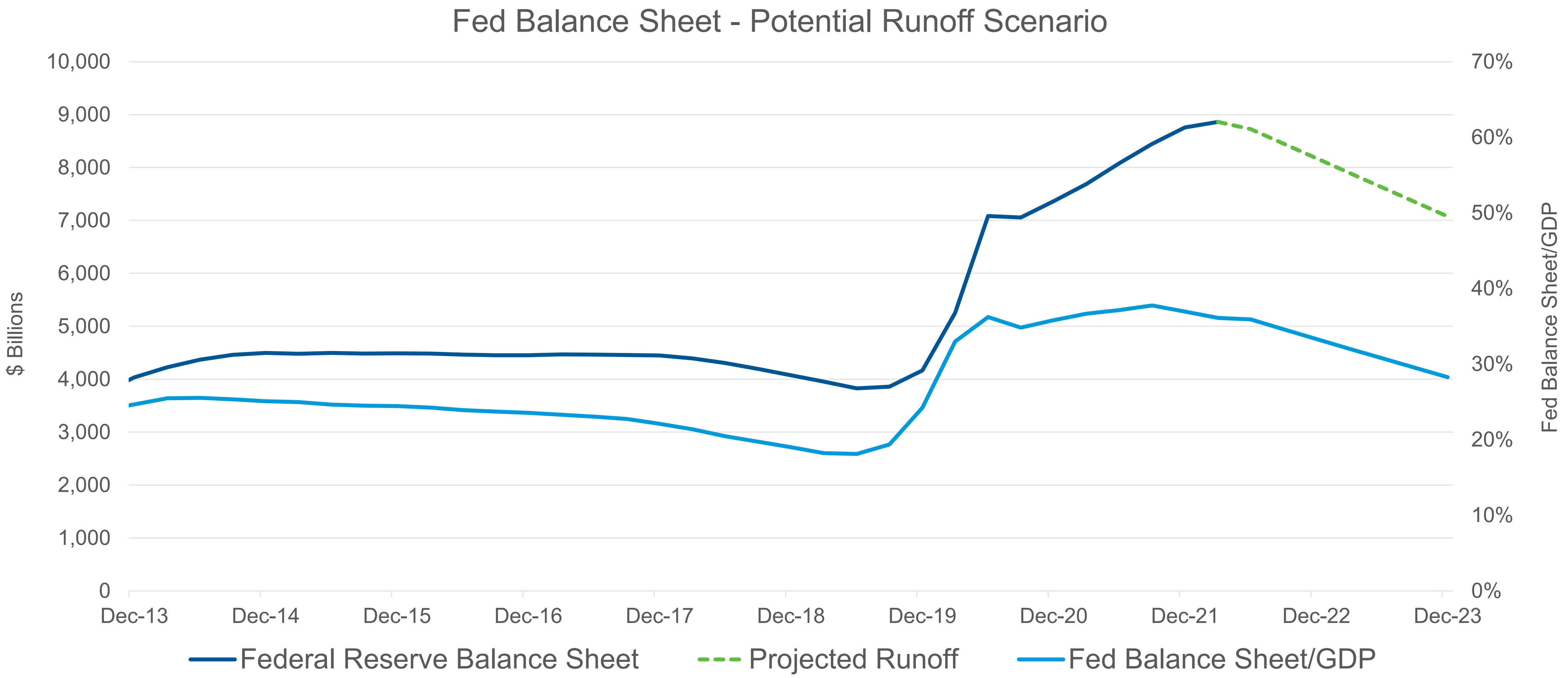
Considerations:

- Incoming data
- Long term inflation expectations
- Balance of risks – will err on the side of “too much” vs. Premature Easing

Market vs. The Fed



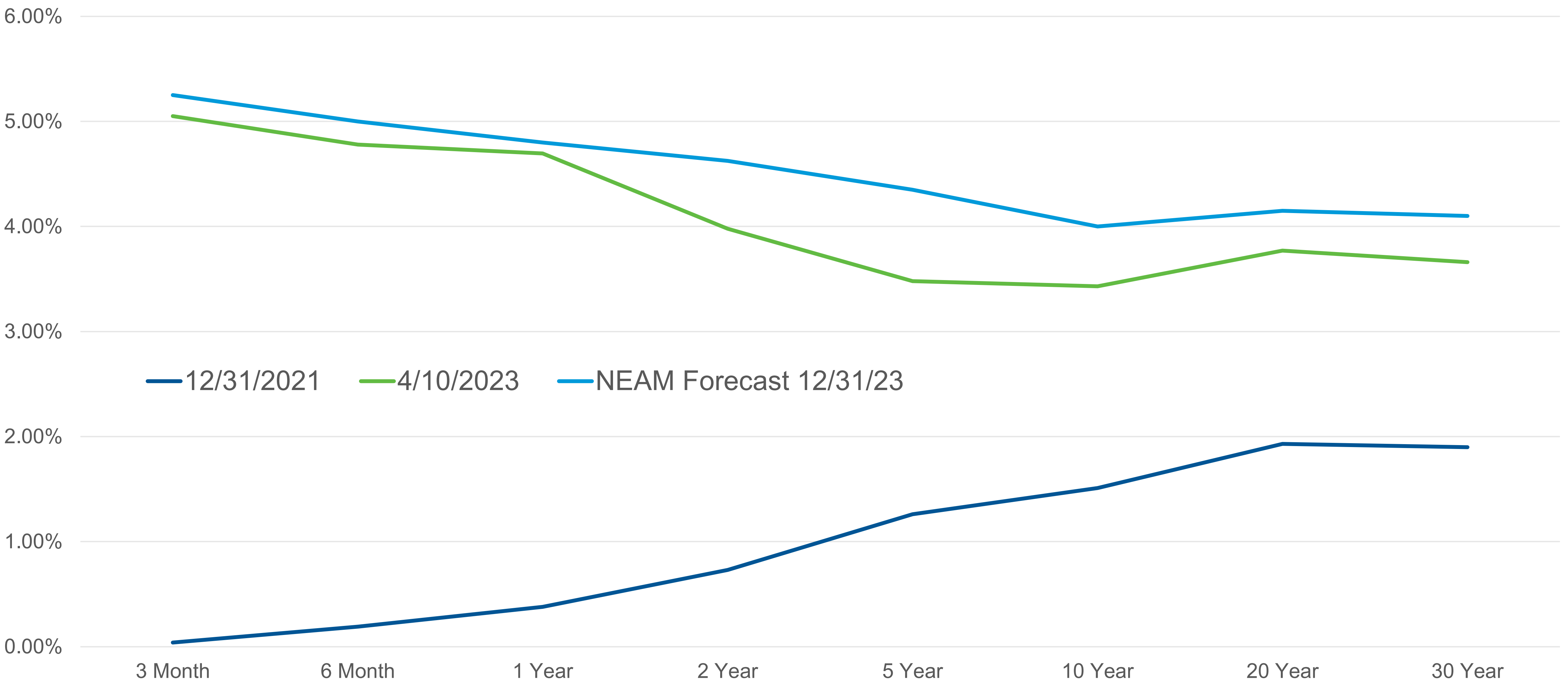
The Great Unwind



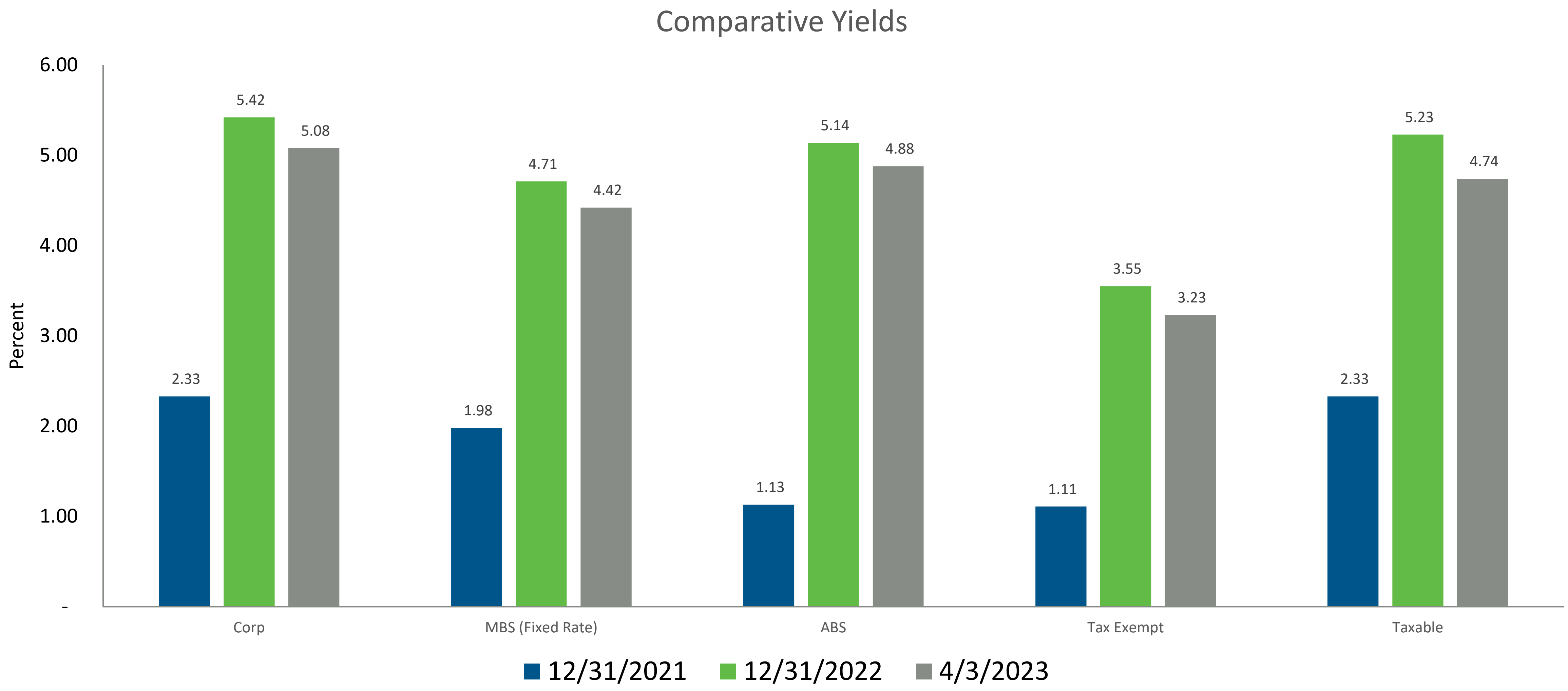
Source: Federal Reserve, Bloomberg, NEAM

Capital Market Implications & Strategy Recommendations

NEAM Interest Rate Forecast as of April 2023

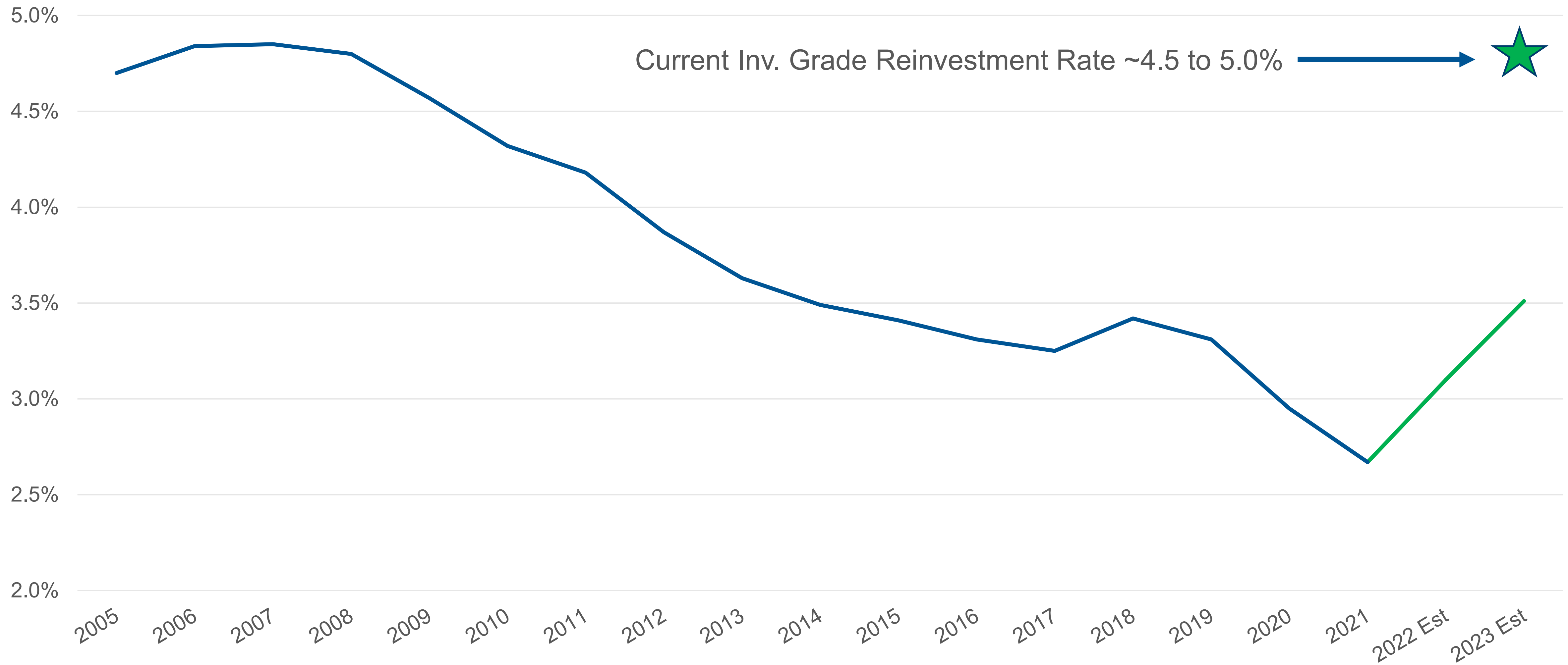


These are The Good Ole Days - IG Fixed Income



Source: Bloomberg Barclays

P&C Industry Book Yields

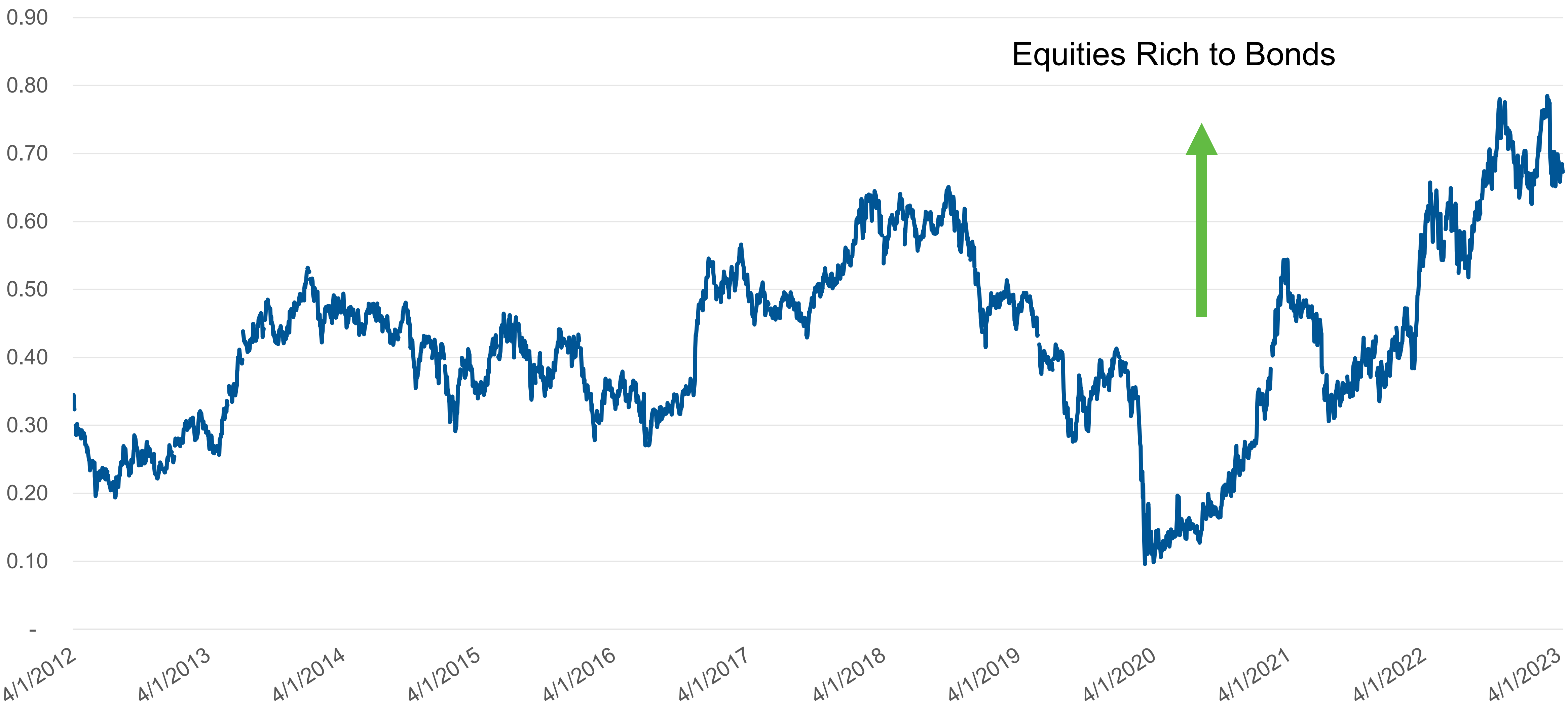


Source: NEAM Analytics, S&P Global

Projected S&P 500 Levels for 2023

	S&P 500 Earnings Multiple			
S&P 500 Earnings	15	17	19	21
$201	-26.7%	-16.9%	-7.1%	2.7%
$219	-20.0%	-9.3%	1.4%	12.0%
$245	-10.4%	1.6%	13.5%	25.5%

Relative Value: Equities and Bonds



Source: Bloomberg, NEAM Analytics. Series is S&P500 PE Ratio divided by 1/Yield of 10 Year UST

Conclusions & Recommendations

- Take advantage of the opportunities in investment grade fixed income. Remember – These are the Good Old Days!
- Revisit your asset allocation - You do not need to take as much risk to earn targeted returns.
- Emphasize the "durability" of the book yields being added to your fixed income portfolio – no time to be short duration targets.
- Be prepared for additional volatility – There are plenty of potential catalysts!

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