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THE ECONOMY AT A GLANCE

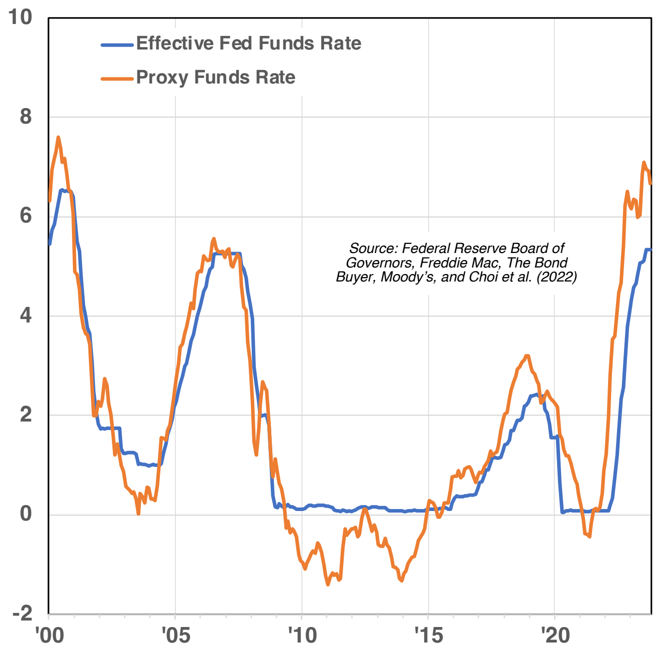
ECONOMIC HIGHLIGHTS

November 20, 2023
Vol. 90, No. 167

THE PROXY FED FUNDS RATE MAY HAVE PEAKED

Monetary policy is tighter than it appears, but it may have peaked in July and started to ease according to our analysis of the Proxy Funds Rate, an analytical tool tracked and updated monthly by the Federal Reserve Bank of San Francisco. At the end of October, the rate was 6.7% compared with the official fed funds target of 5.25%-5.5%. It peaked at 7.1% in July and has declined through October. The rate recognizes that central bankers in the twenty first century use many tools (not just short-term interest rates) to meet their "dual mandate" of stable prices and maximum sustainable employment. The Proxy Funds Rate uses the analysis of 12 financial variables, including Treasury rates, mortgage rates, and borrowing spreads, to translate the full range of policy actions into an analogous level of the funds rate. That can help assess whether policy is tighter or easier than the official funds rate suggests. In a November 2022 San Francisco Fed Economic Letter, the developers of the proxy rate noted the following: "As the FOMC increasingly used forward guidance and the balance sheet, the proxy rate has tended to lead the actual funds rate, reflecting the fact that financial markets are forward looking." It could be a good sign for conventional Fed watchers if the proxy rate peaked in July. The letter also noted that "combined policy tools have a more complex effect on the economy than the federal funds rate indicates." That suggests to us that Fed watchers should become even more diligent.

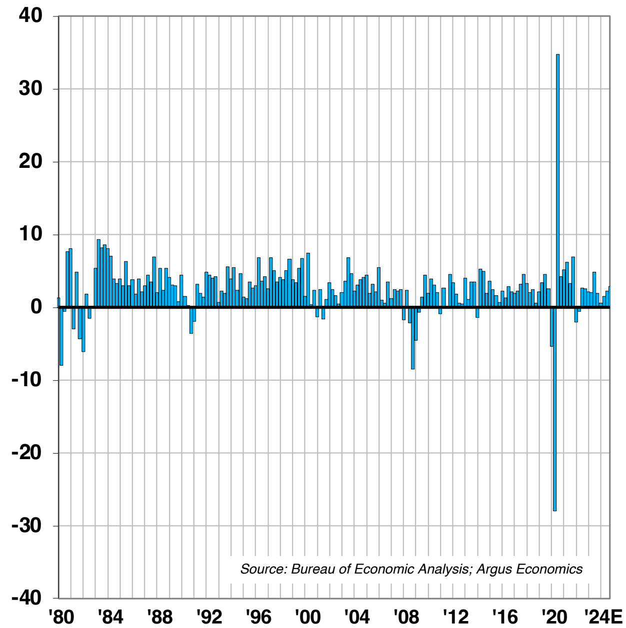
PROXY FUNDS RATE AND EFFECTIVE FED FUNDS RATE (%)



GDP GROWTH TO SLOW IN 4Q

While the Fed seems to be on track to engineer a soft landing for the economy, recession in 2023-2034 remains a possibility, though we think that the odds are diminishing. After reviewing the latest economic data, our forecast for GDP growth in 4Q23 is now 2.0%, a pronounced decline from the 3Q level. Our estimate for the full year 2023 is now 2.8%, up from our prior forecast of 2.3% due to the blowout 3Q report. Our preliminary forecast for GDP growth in 2024 is 1.8%, as the Federal Reserve, with its tool chest again full after hiking rates during 1H23, can contemplate lowering interest rates to recharge economic growth. Our estimates generally are in the range with other forecasters, though perhaps a bit higher than the consensus.

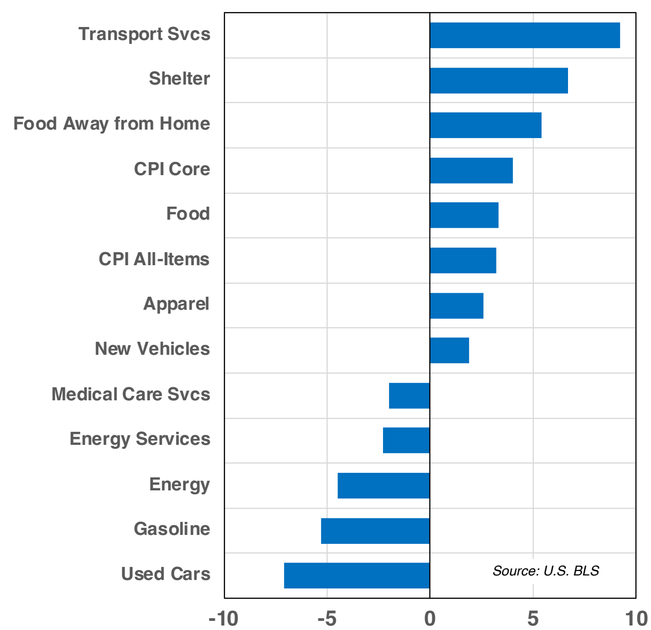
GDP TRENDS & OUTLOOK (% CHANGE)



GOOD NEWS ON INFLATION

Last month, the top-level inflation rate in the U.S. fell to the lowest level on a year-over-year since September 2021, as most price increases appear to be easing. The rate of core inflation also ticked lower. The CPI numbers were ahead of consensus expectations and Argus forecasts -- and financial markets responded with a rally. The Bureau of Labor Statistics reported a 3.2% increase in overall inflation year-over-year through October, compared to a 3.7% rate through September and a 9.1% rate in June 2022. The core rate, excluding the impact of food and energy prices, declined as well -- to 4.0% in October, versus 4.1% in the prior month. Month-over-month, the all-items CPI was flat, and the core CPI increased only 30 basis points. Segments of the economy with stable/easing prices year-over-year included Energy, Used Cars & Trucks, and Medical Care Services. New Vehicles and Apparel prices increased. Inflation rates continue to be propped up by Transportation Services and Shelter. We continue to think that the June 2022 CPI rate was the peak reading for the index this cycle, as the housing market cools, supplies of new vehicles are replenished, and the price of oil stays below $90 per barrel. The Federal Reserve has lifted the feds fund rate from 0.0% to above 5.25% over the past 18 months, and the rate hikes appear to be reducing inflationary pressures. The next question is whether the rapid rate of increases will tip the economy into a recession as inflation continues to head toward 2.0%. We look for the U.S. central bank to be lowering rates in 2H24, as their concern shifts more toward economic growth.

INFLATION FACTORS (% CHANGE Y/Y)

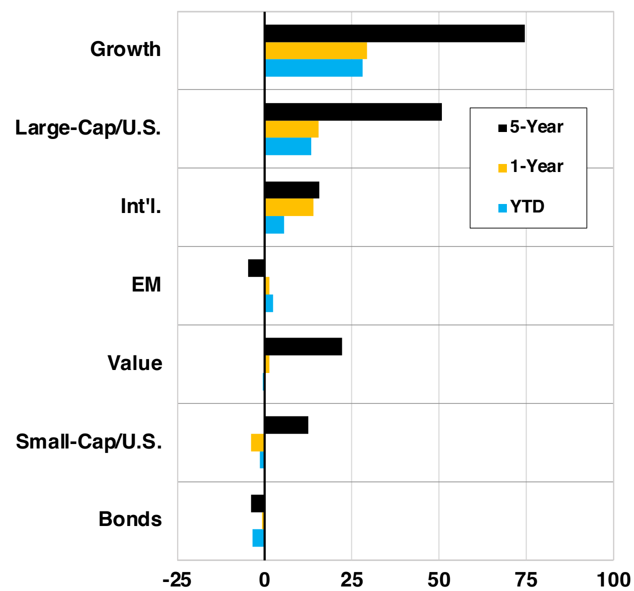


FINANCIAL MARKET HIGHLIGHTS

ARGUS'S FAVORED CLASSES, SEGMENTS

Our Stock-Bond Barometer Model modestly favors bonds over stocks for long-term portfolios. In other words, these asset classes should be near their target weights in diversified portfolios, with a slight tilt toward fixed income, given the rise in yields to levels near 20-year highs. We are over-weight on large-caps. We favor large-caps for growth exposure and financial strength, while small-caps offer value. Our recommended exposure to small- and mid-caps is 12%-13% of equity allocation, below the benchmark weighting. U.S. stocks have outperformed global stocks over the trailing five-year period. We expect this long-term trend favoring U.S. stocks to continue, given volatile and erratic global economic, political, geopolitical, and currency conditions. That said, international stocks offer favorable near-term valuations, and we target 5%-10% of equity exposure to the group. In terms of growth and value, growth has rebounded in 2023, outperforming value as interest rates have stabilized. Over the longer term, we anticipate that growth, led by Technology and Healthcare, will top returns from value, led by Energy and Materials, due to favorable secular, demographic and regulatory trends.

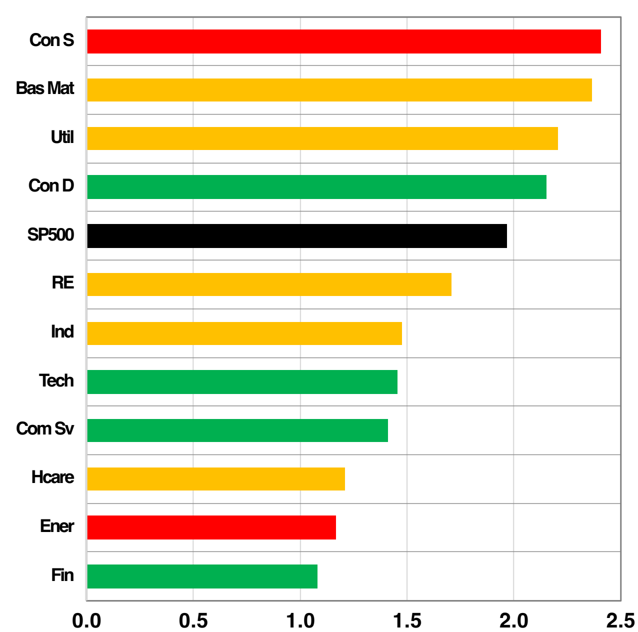
MARKET SEGMENT RETURNS
(% THROUGH 11/4/2023)



VALUES IN FINANCIALS AND INFORMATION TECHNOLOGY

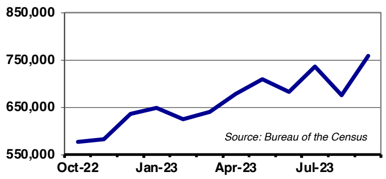
Investors hunting for stocks that reasonably balance long-term growth prospects and current value characteristics might want to look at companies in Financial Services, Technology, and Industrial. These are among the sectors that are selling for (price/earnings)/(growth+yield) ratios at or below the S&P 500's ratio of 2.0. To generate the PEGY ratios, we use the P/E ratio for each sector based on forward earnings for the numerator. For the denominator, we average the growth rates for the past five years along with two years of forward estimates, in order to achieve a smoother and less-volatile trend of earnings growth. We then add the current yield, to approximate total return. As an example, the current S&P 500 P/E ratio is 17, the current yield is 1.6%, and the forecast five-year growth rate is 7.1%. The formula is 17/(1.6+7.1)=2.0. Premium-valued sectors with low growth rates include the Consumer Staples and Utilities industries. Based on our analysis of growth rates and valuations, along with other factors, we have established our current over-weight sectors as Technology, Financial, Consumer Discretionary and Communication Services. Our under-weight sectors are Energy and Consumer Staples.

SECTOR PEGY RATIOS

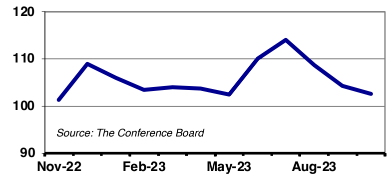


ECONOMIC TRADING CHARTS & CALENDAR

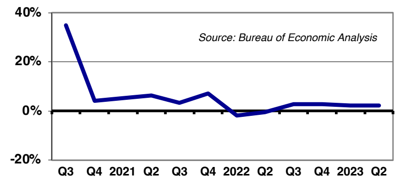
Release: **New Home Sales**
Date: 11/27/2023
Month: October
Previous Report: 759000
Argus Estimate: 700000
Street Estimate: 725000



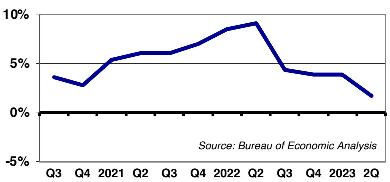
Release: **Consumer Confidence**
Date: 11/28/2023
Month: November
Previous Report: 102.6
Argus Estimate: 99.5
Street Estimate: NA



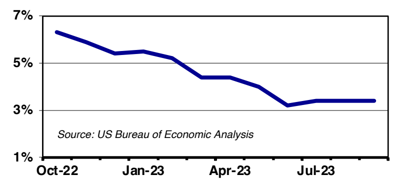
Release: **GDP Annualized QoQ**
Date: 11/29/2023
Month: 3Q
Previous Report: 4.9%
Argus Estimate: 4.9%
Street Estimate: 5.0%



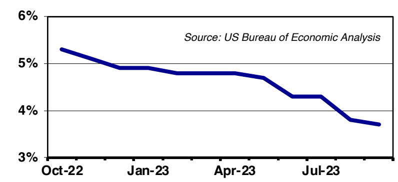
Release: **GDP Price Index**
Date: 11/29/2023
Month: 3Q
Previous Report: 3.5%
Argus Estimate: 3.5%
Street Estimate: NA



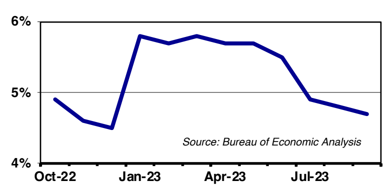
Release: **PCE Deflator**
Date: 11/30/2023
Month: October
Previous Report: 3.4%
Argus Estimate: 3.1%
Street Estimate: NA



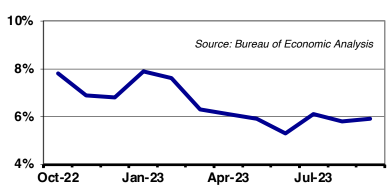
Release: **PCE Core Deflator**
Date: 11/30/2023
Month: October
Previous Report: 3.7%
Argus Estimate: 3.5%
Street Estimate: NA



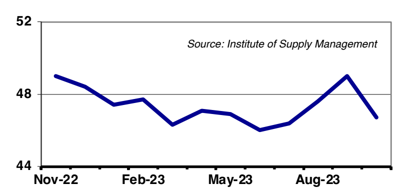
Release: **Personal Income**
Date: 11/30/2023
Month: October
Previous Report: 4.7%
Argus Estimate: 4.5%
Street Estimate: NA



Release: **Personal Spending**
Date: 11/30/2023
Month: October
Previous Report: 5.9%
Argus Estimate: 5.4%
Street Estimate: NA

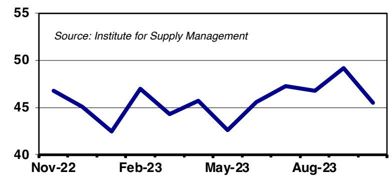


Release: **ISM Manufacturing**
Date: 12/1/2023
Month: November
Previous Report: 46.7
Argus Estimate: 46.5
Street Estimate: 47.5

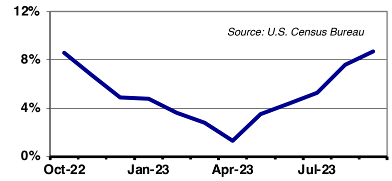


Previous Week's Releases and Next Week's Releases on next page.

Release:	**ISM New Orders**
Date:	12/1/2023
Month:	November
Previous Report:	45.5
Argus Estimate:	44.8
Street Estimate:	NA



Release:	**Construction Spending**
Date:	12/1/2023
Month:	October
Previous Report:	8.7%
Argus Estimate:	9.2%
Street Estimate:	NA



Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
20-Nov	Leading Index	October	-0.7%	-1.0%	-0.7%	NA
21-Nov	Existing Home Sales	October	3.96 Mln.	3.85 Mln.	3.91 Mln.	NA
22-Nov	Durable Goods Orders	October	5.9%	3.5%	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
4-Dec	Factory Orders	October	3.0%	NA	NA	NA
5-Dec	ISM Services Index	November	51.8	NA	NA	NA
6-Dec	Trade Balance	October	-$61.5. Bil.	NA	NA	NA
	Total Vehicle Sales	November	15.50 Mil.	NA	NA	NA
7-Dec	Wholesale Inventories	October	-1.2%	NA	NA	NA
8-Dec	Nonfarm Payrolls	November	150 K	NA	NA	NA
	Unemployment Rate	November	3.9%	NA	NA	NA
	Average Weekly Hours	November	34.3	NA	NA	NA
	Average Hourly Earnings	November	4.1%	NA	NA	NA
	U. of Michigan Sentiment	December	60.4	NA	NA	NA