

UCI Paul Merage
School of Business

Leadership for a Digitally Driven World™

2022-23 Economic and Financial Forecast

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Pretty Much What Everyone is Telling Policy Makers

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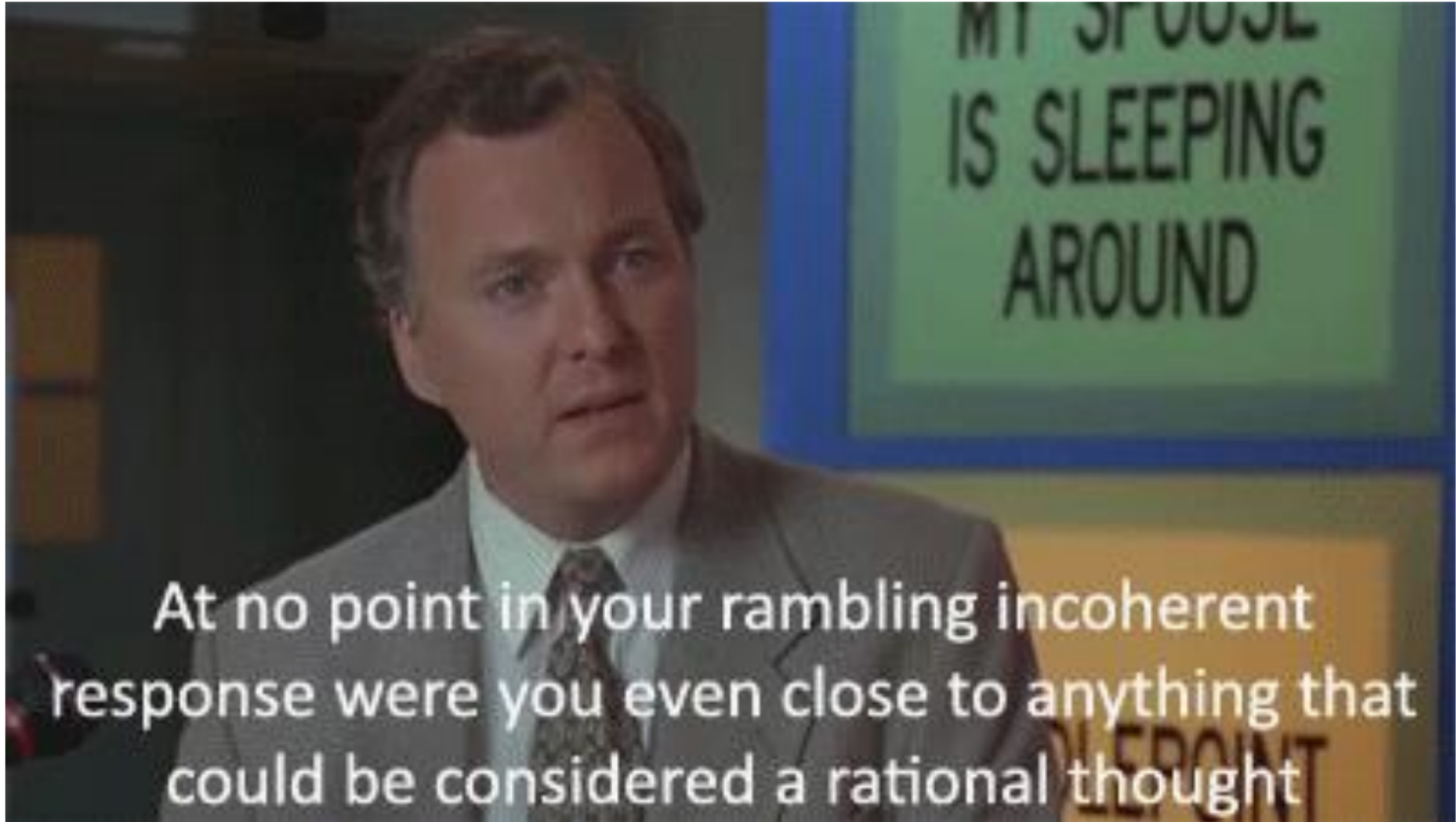
Cause Lloyd and Harry Made Better Decisions

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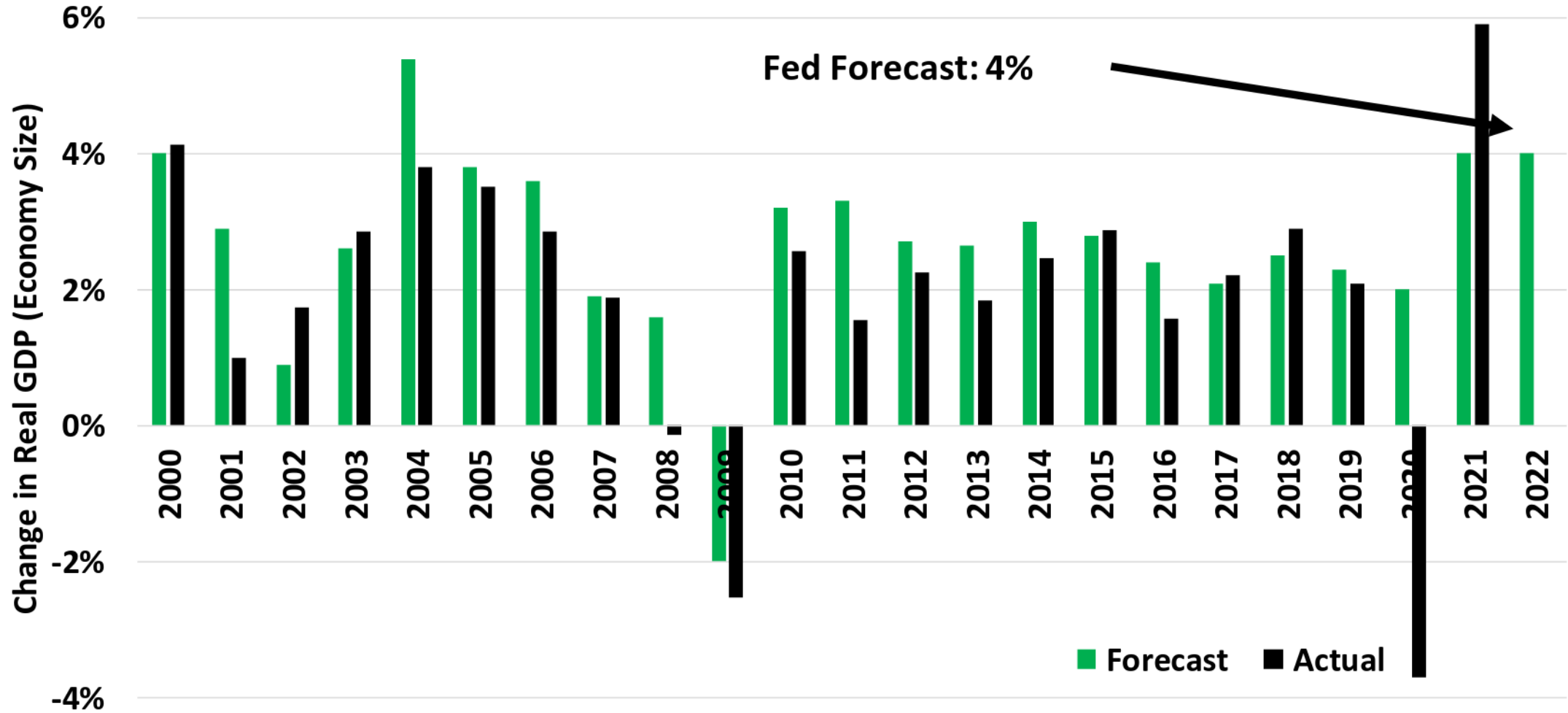


And Now People Are Lost for Answers

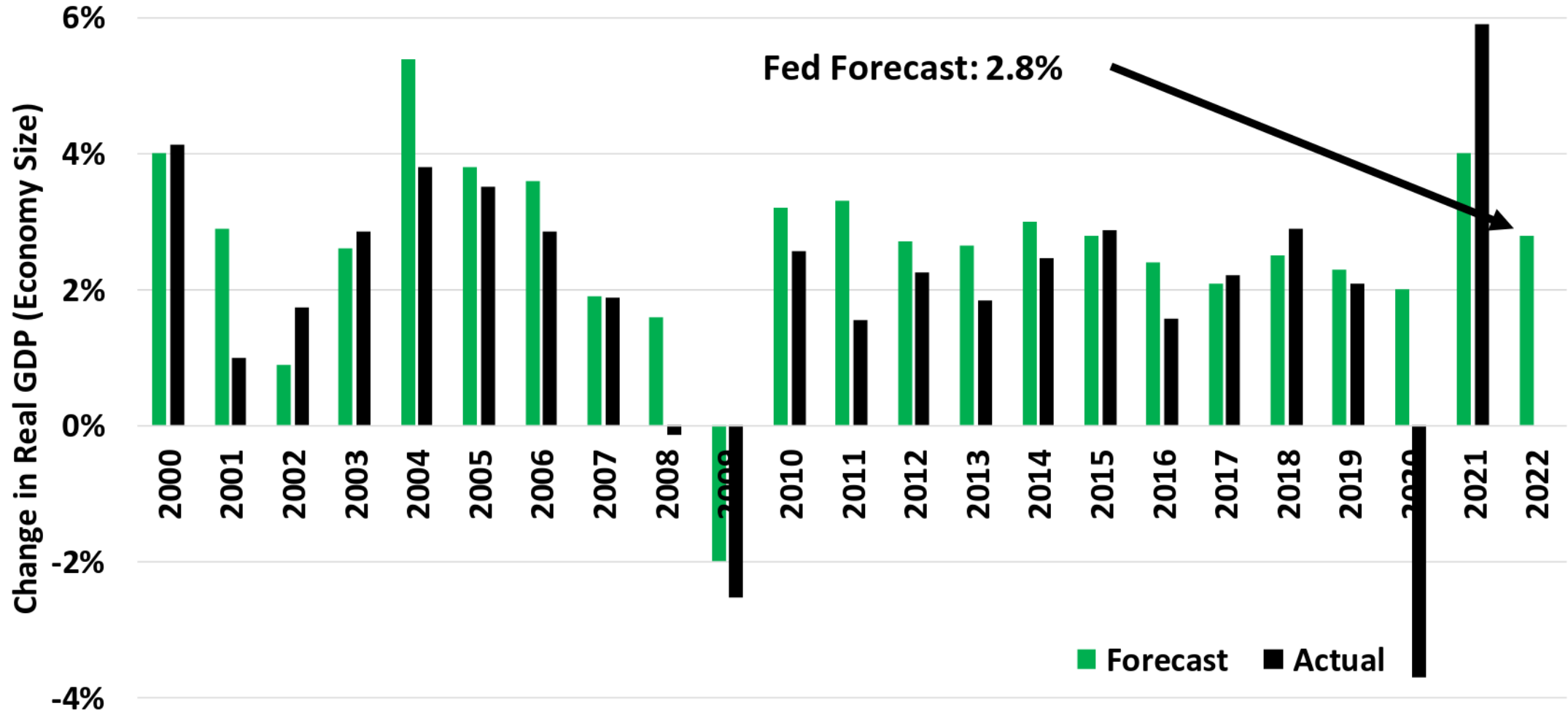
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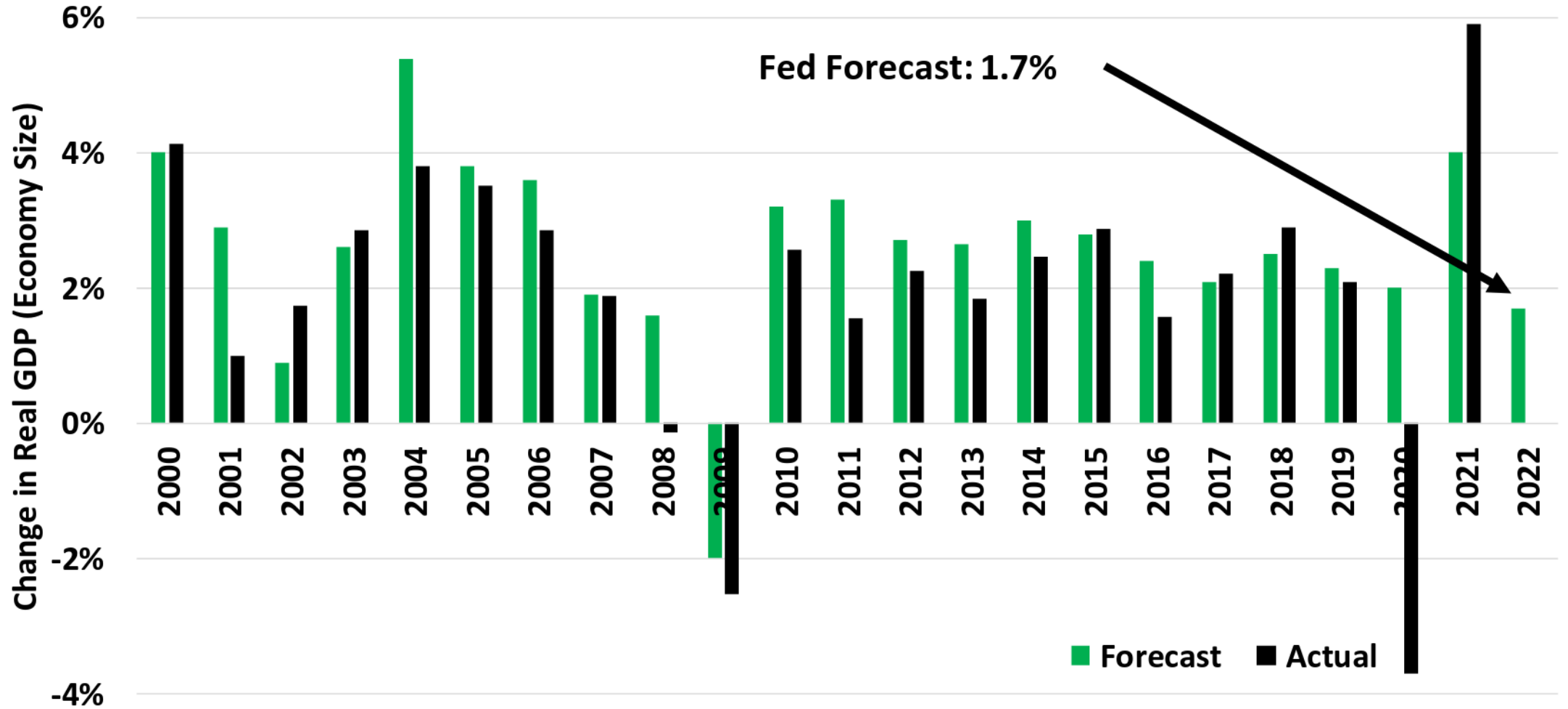
GDP Forecast Back in January



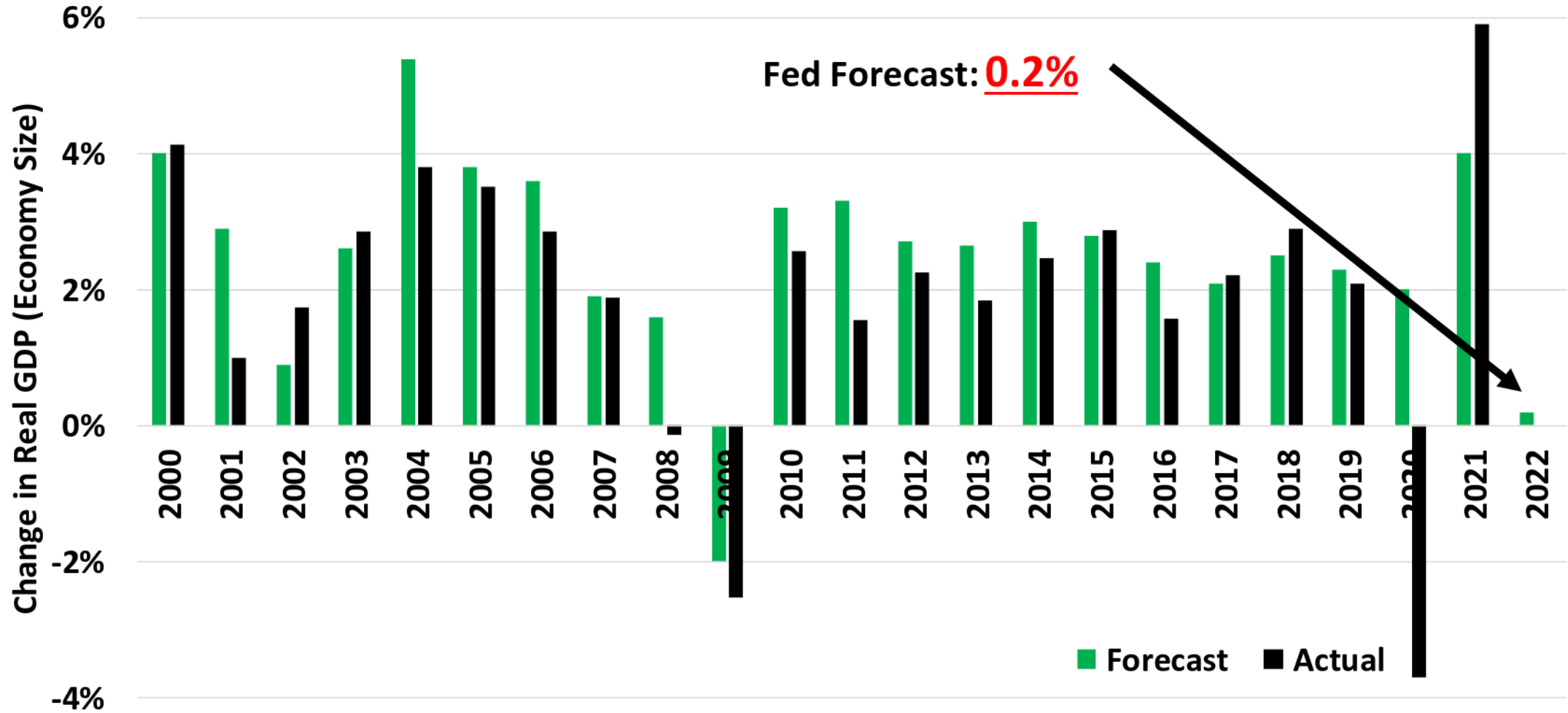
GDP Forecast Back in April



GDP Forecast July

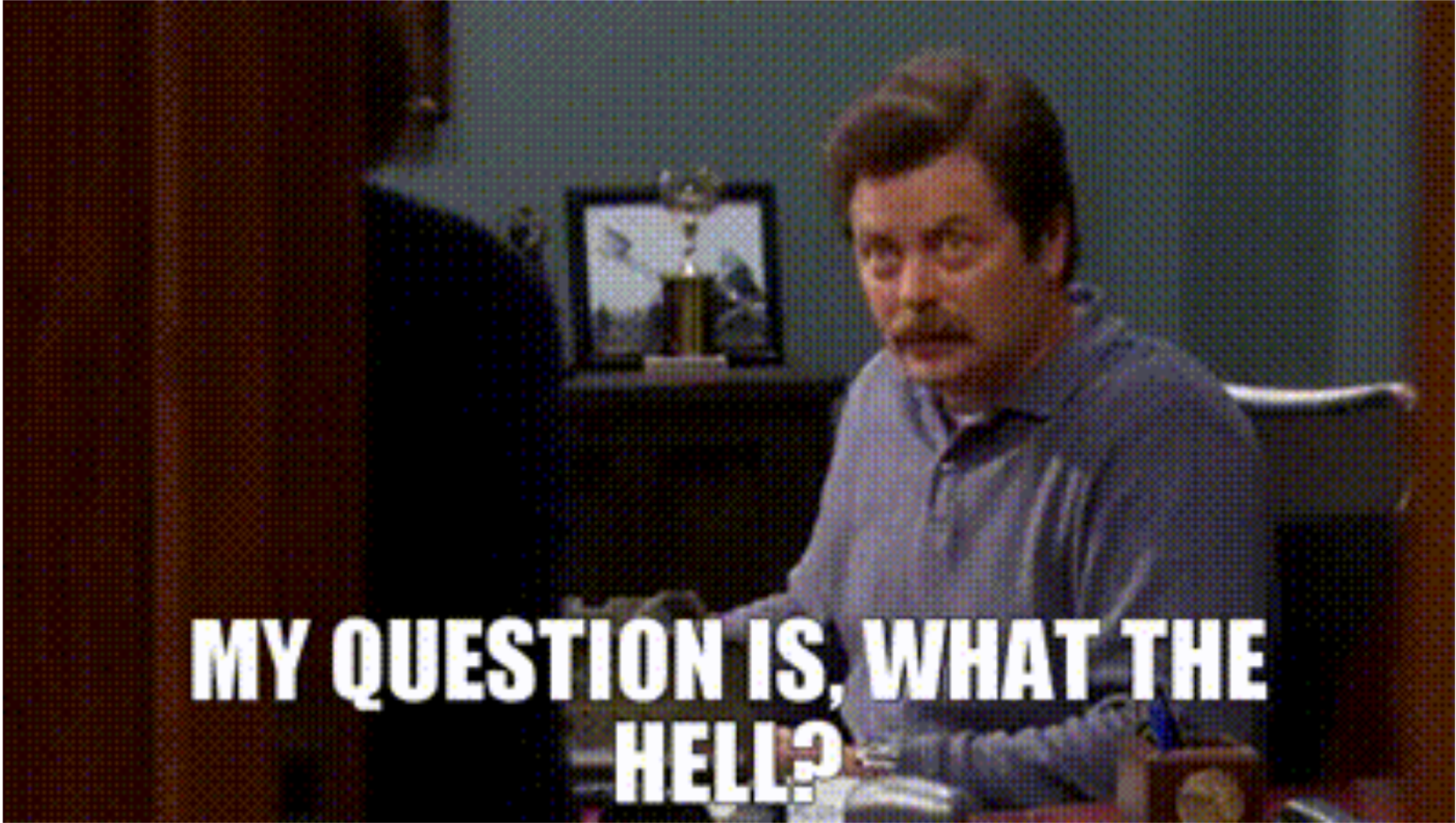


GDP Forecast Now



And Now People Are Saying...

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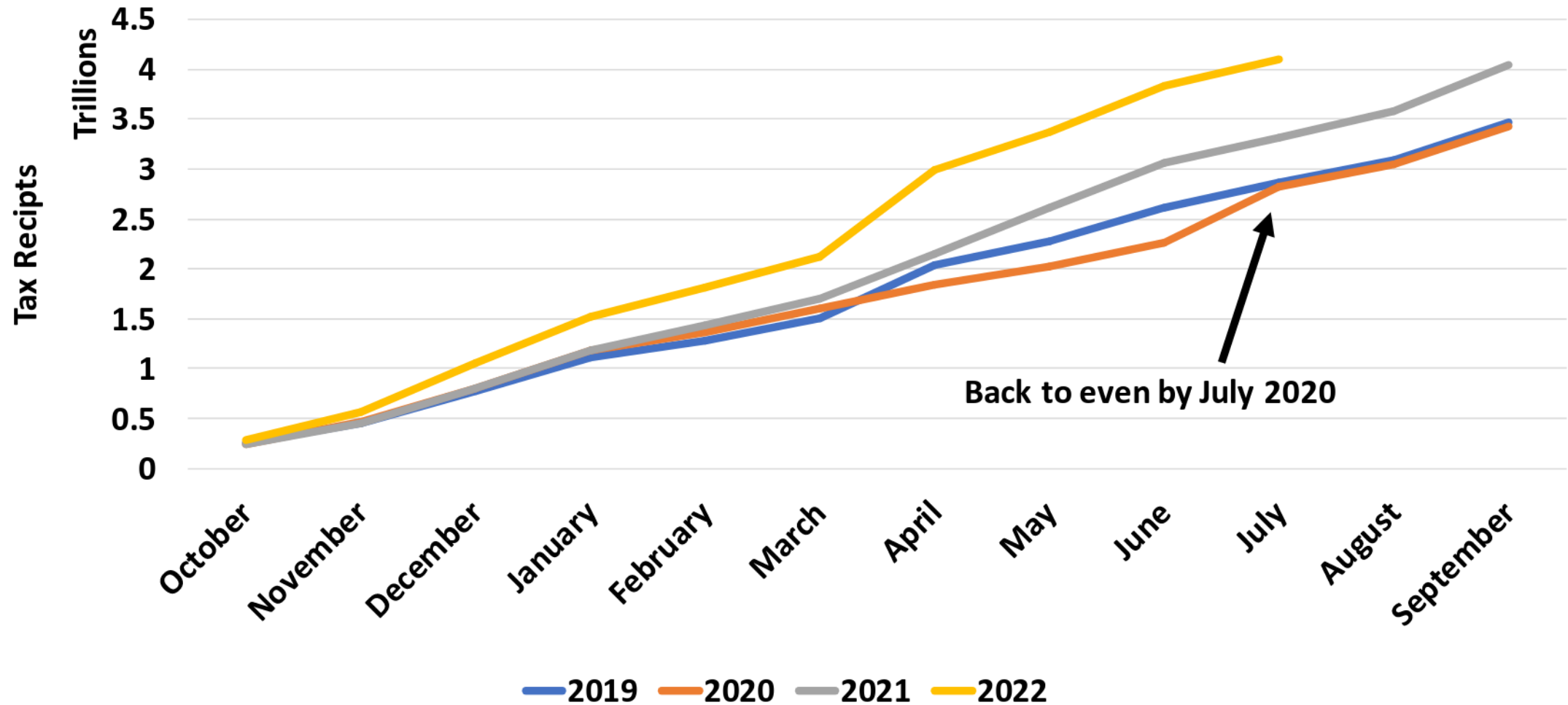
Overarching Theme

- Gave away money like we were MC Hammer for 2 years
 - because people were “impacted” by the pandemic
- Reduced expenses for most people
- Made it super easy to trade (aka tech bubble)
- Economy is completely lopsided
 - 2020: Oil -\$32. Airline ticket: \$10 Webcam \$1,000,000
 - 2022: Oil \$100, Airline ticket: \$1000 Webcam: \$1
- Effect: We have some problems... and can't fix them fast.

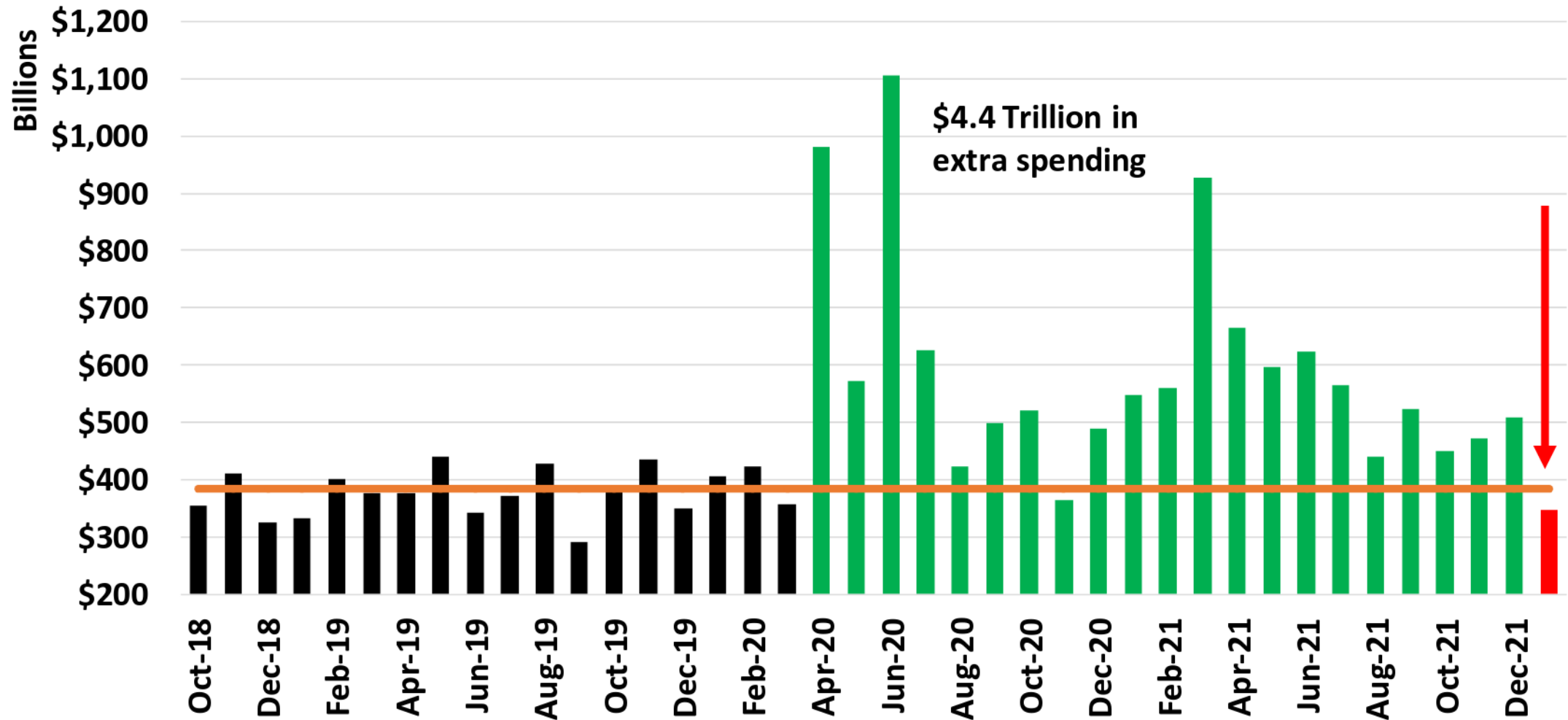
Bottom Line: These Three Things Can't All Be True

- The Fed aggressively hikes interest rates
- Economic Growth accelerates from here in the second half
- Inflation declines to the Fed's 2% target

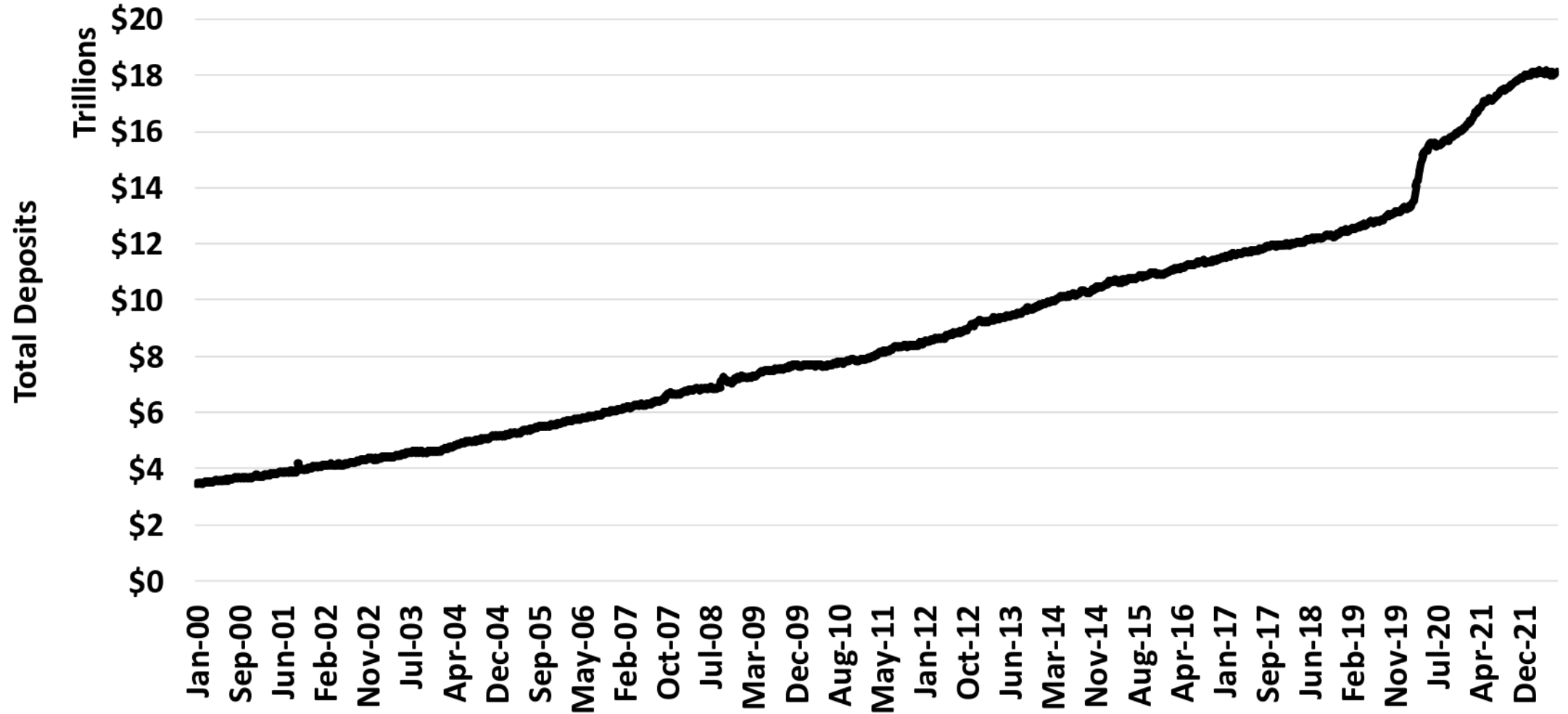
Tax Receipts... In Aggregate We Rich



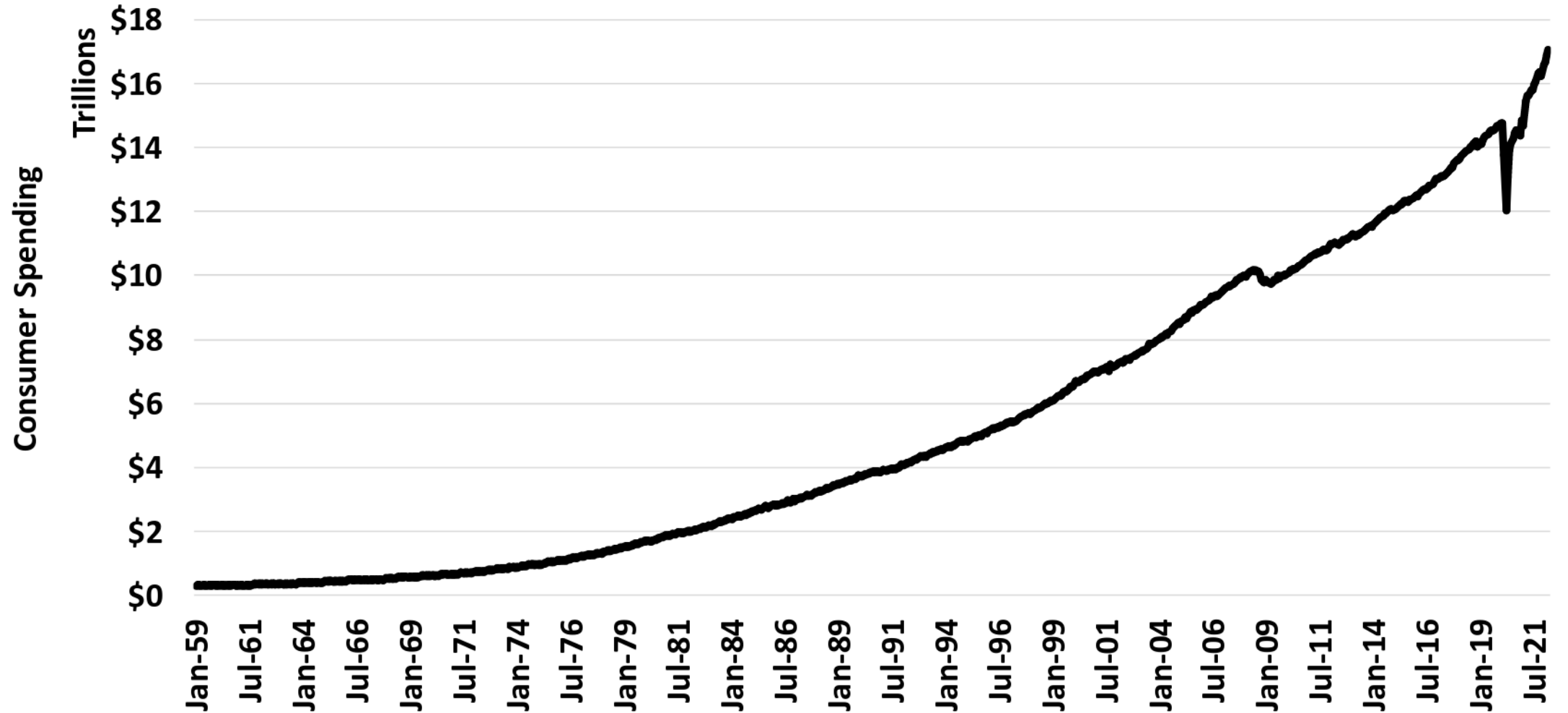
And Then We Handed out Checks



Everyone Still Rolling like Elon



Everyone Still Rolling like Elon (cont.)



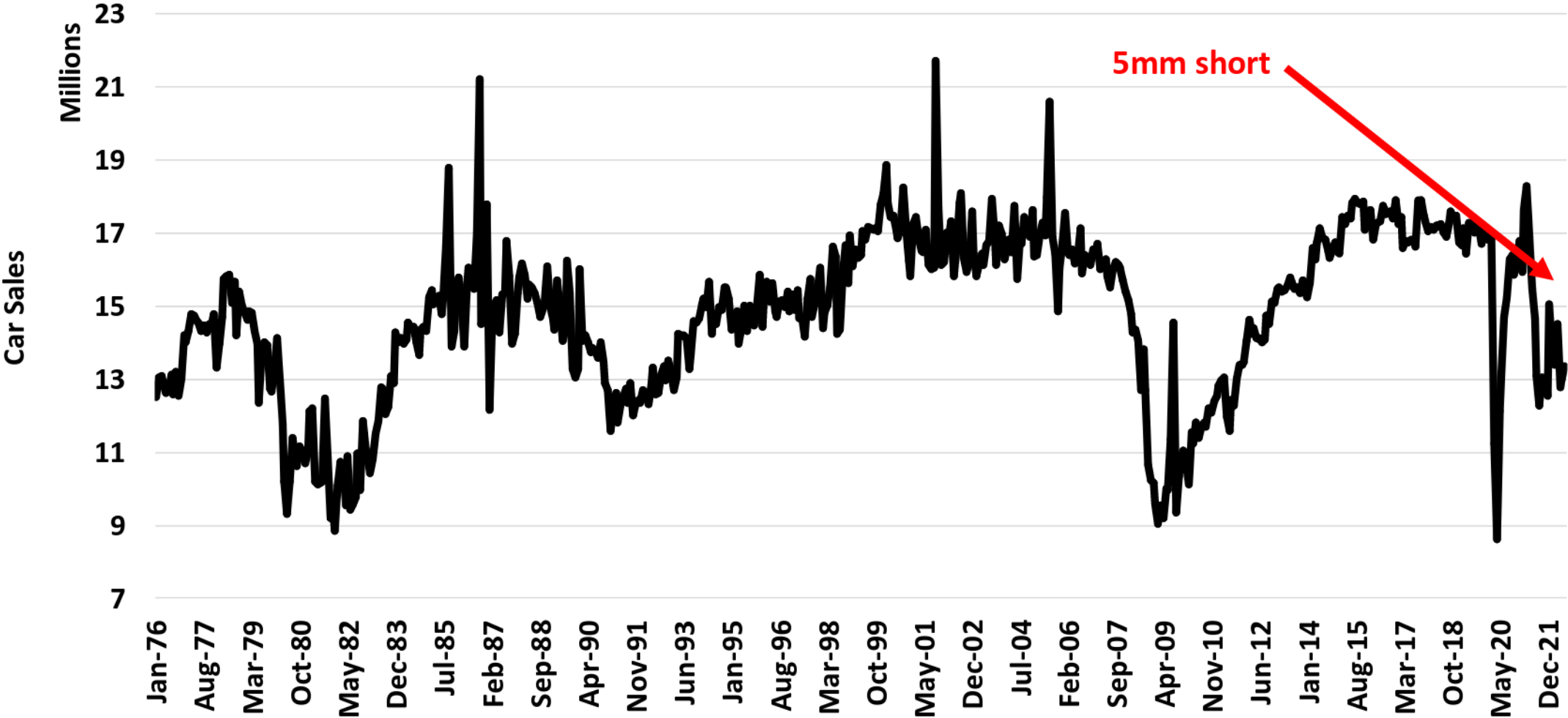
Everyone Still Rolling Like Elon (cont.)

Consumers Are Still Spending on Fun

Americans shell out for pricey hotel rooms, splurge at theme parks and run the slots in Vegas



Still Supply Chain Issues



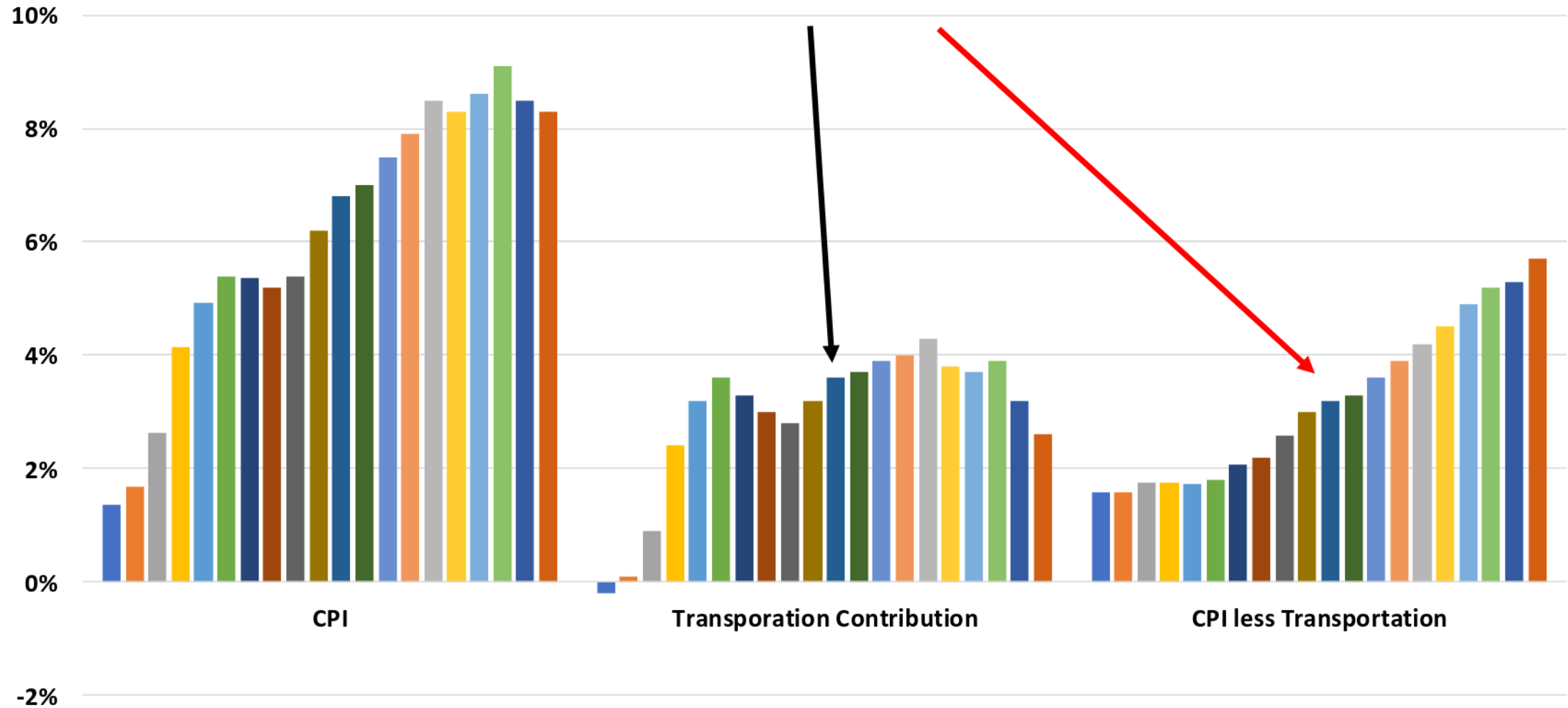
Add It All Together and What do You Get?

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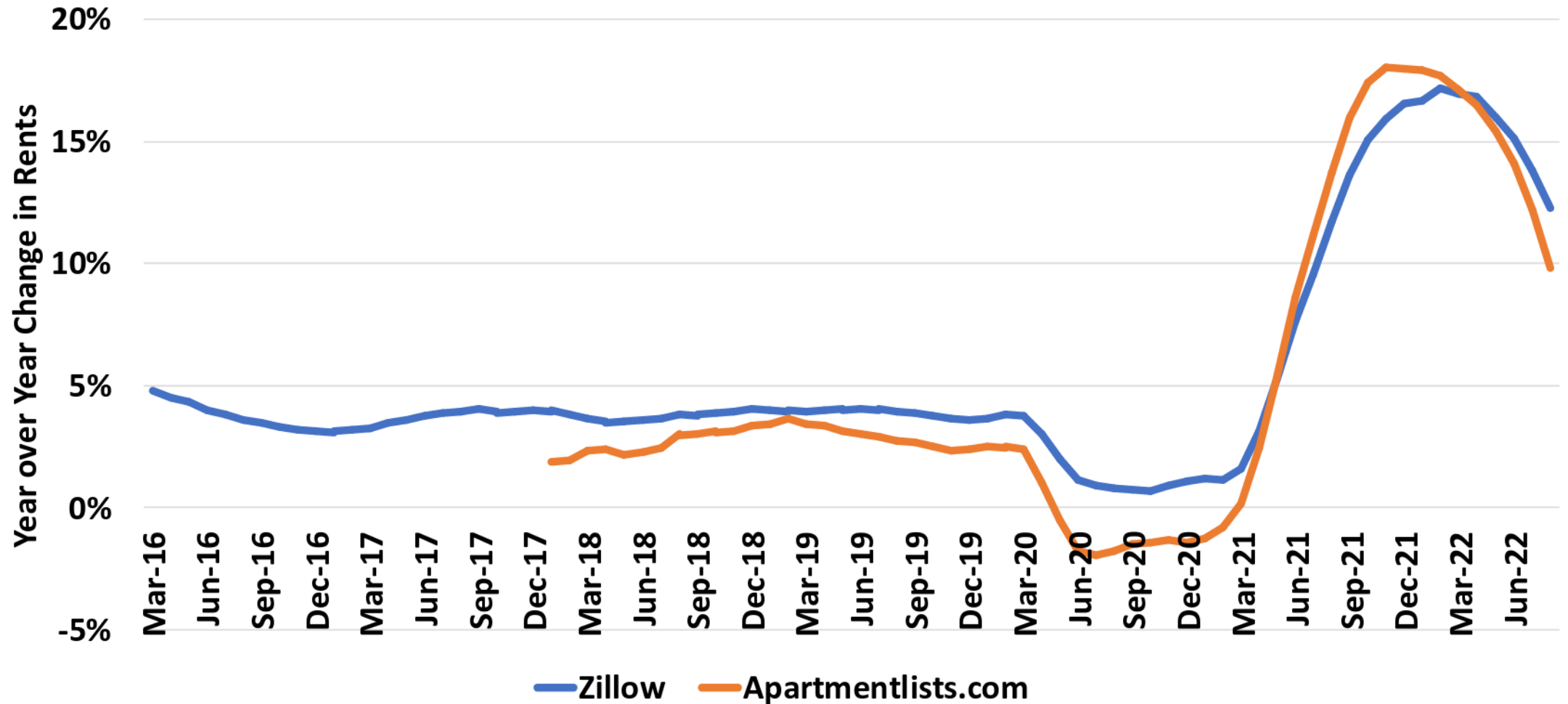


CPI Less Used Cars and Oil

Still Core Components Rising



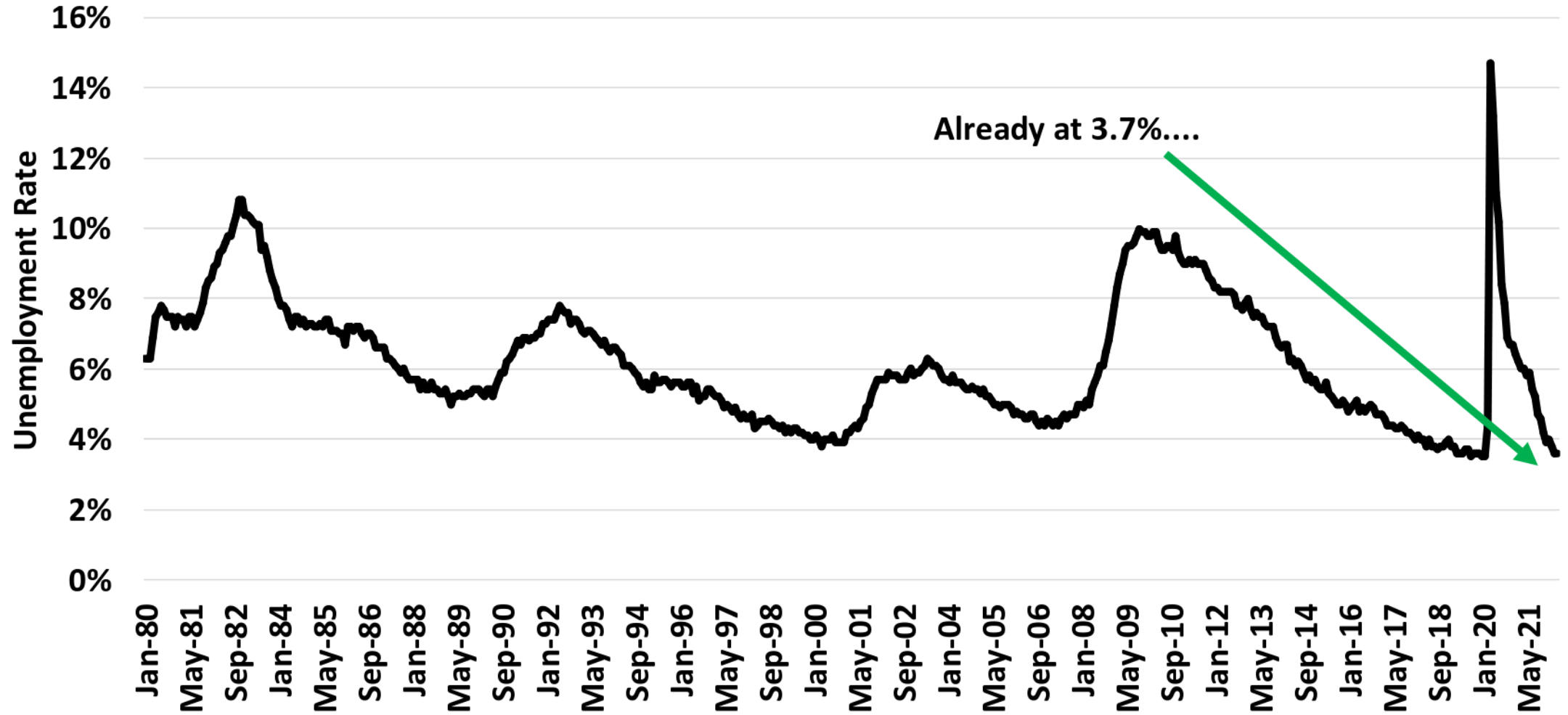
No Shelter from Shelter .. For at least 9 Months



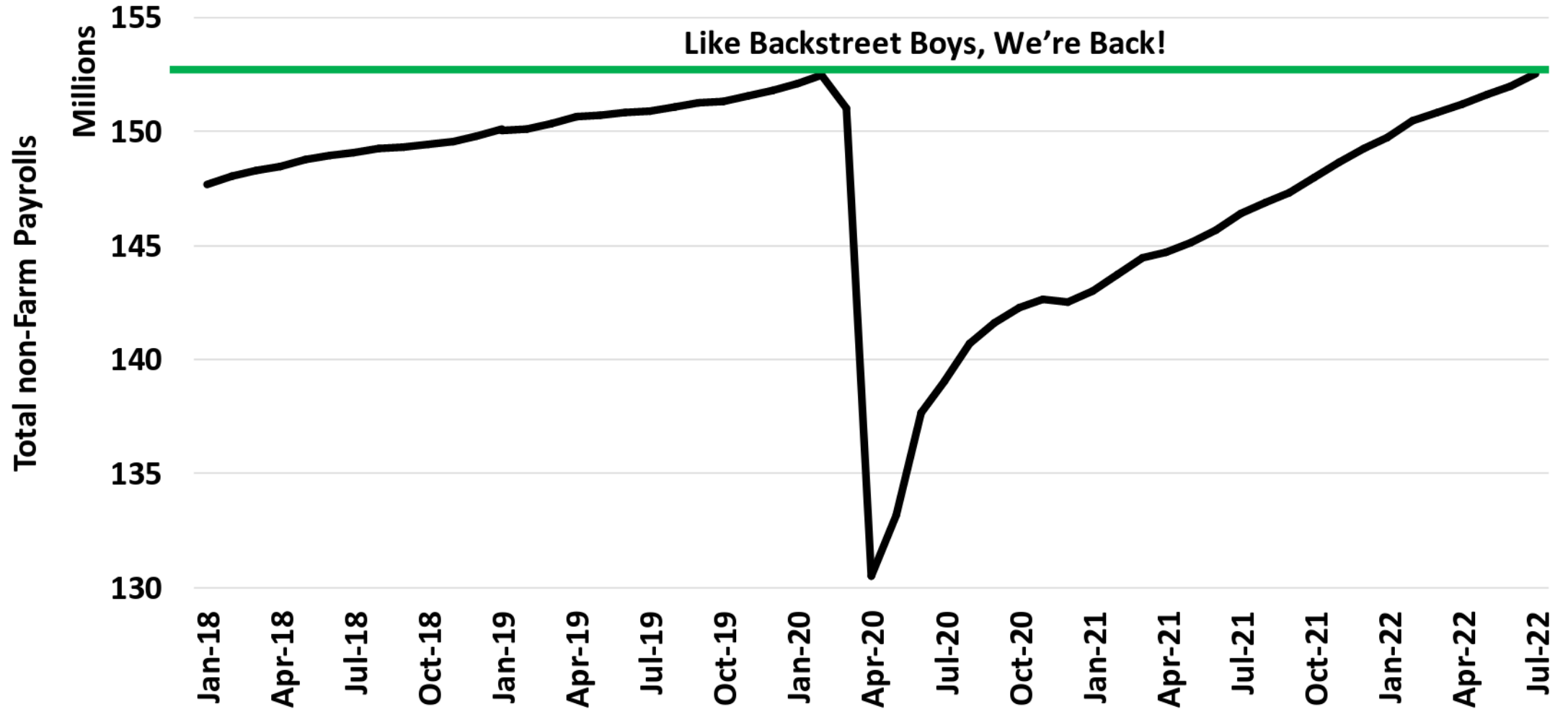
The Real Supply Chain Issue



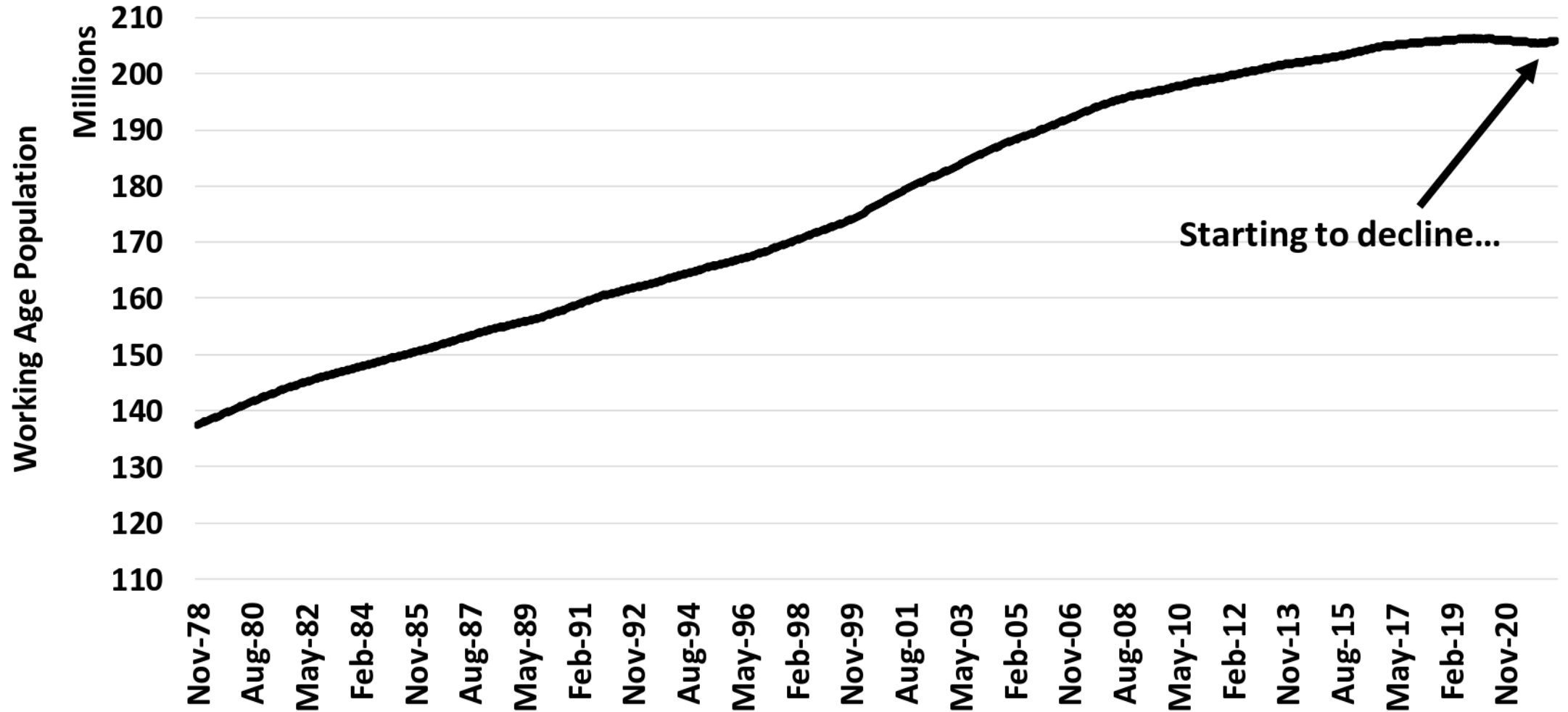
No More Workers



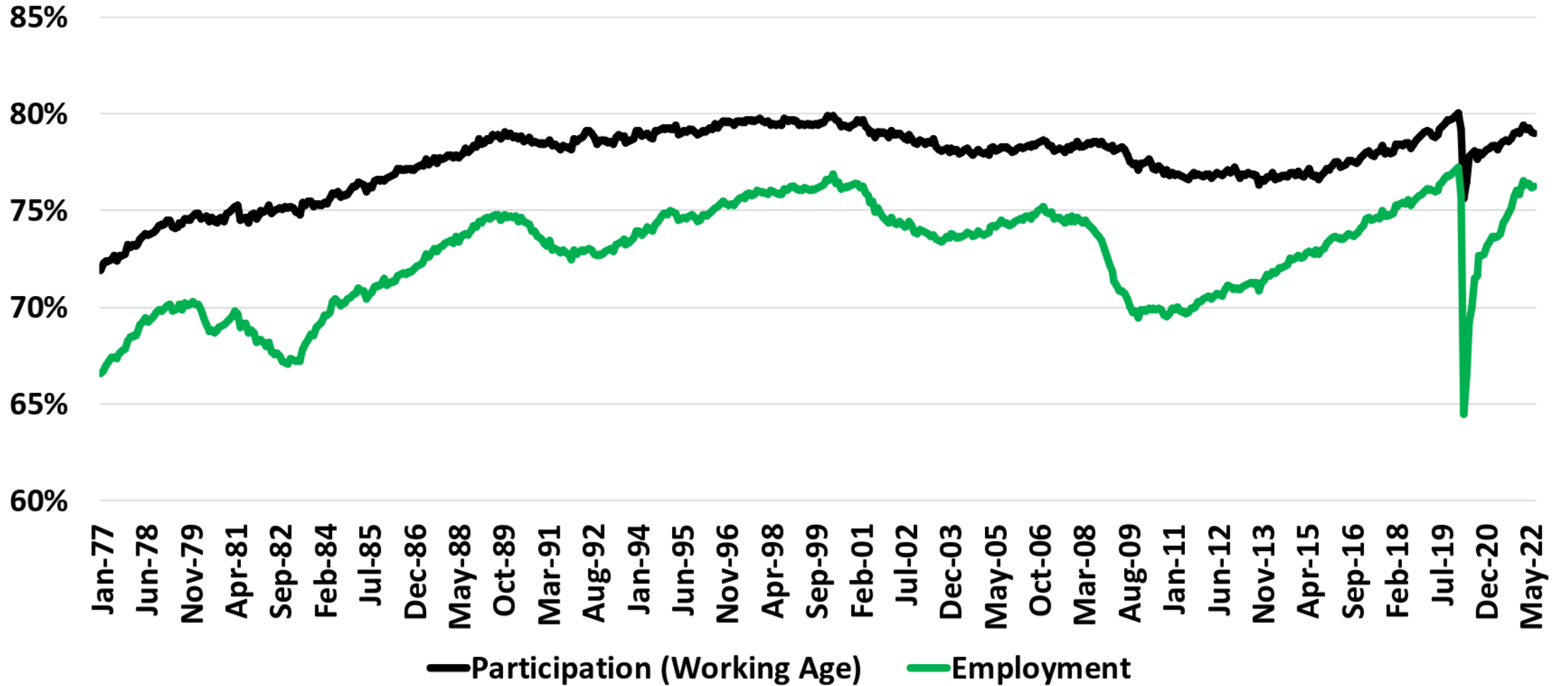
And We Are All Back to Work



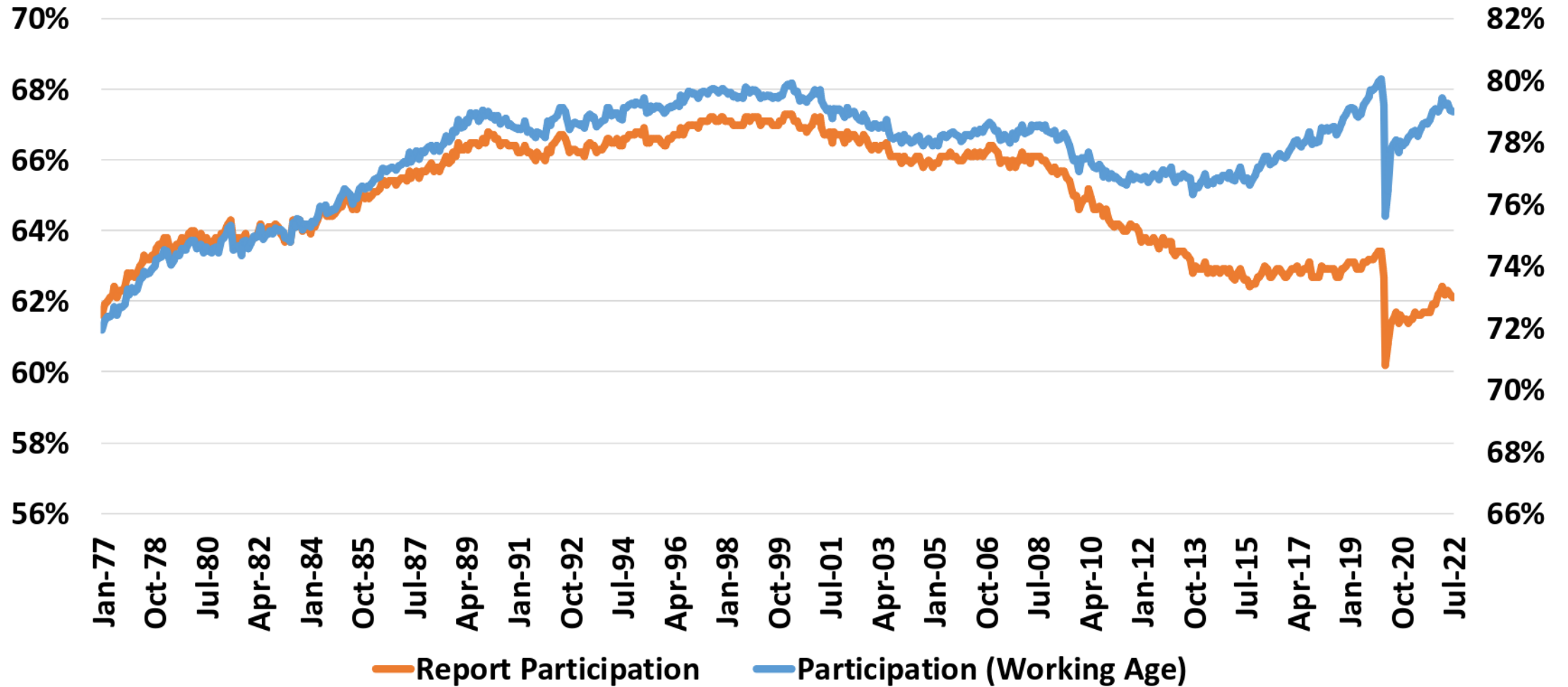
Not Getting Any New People Anytime Soon



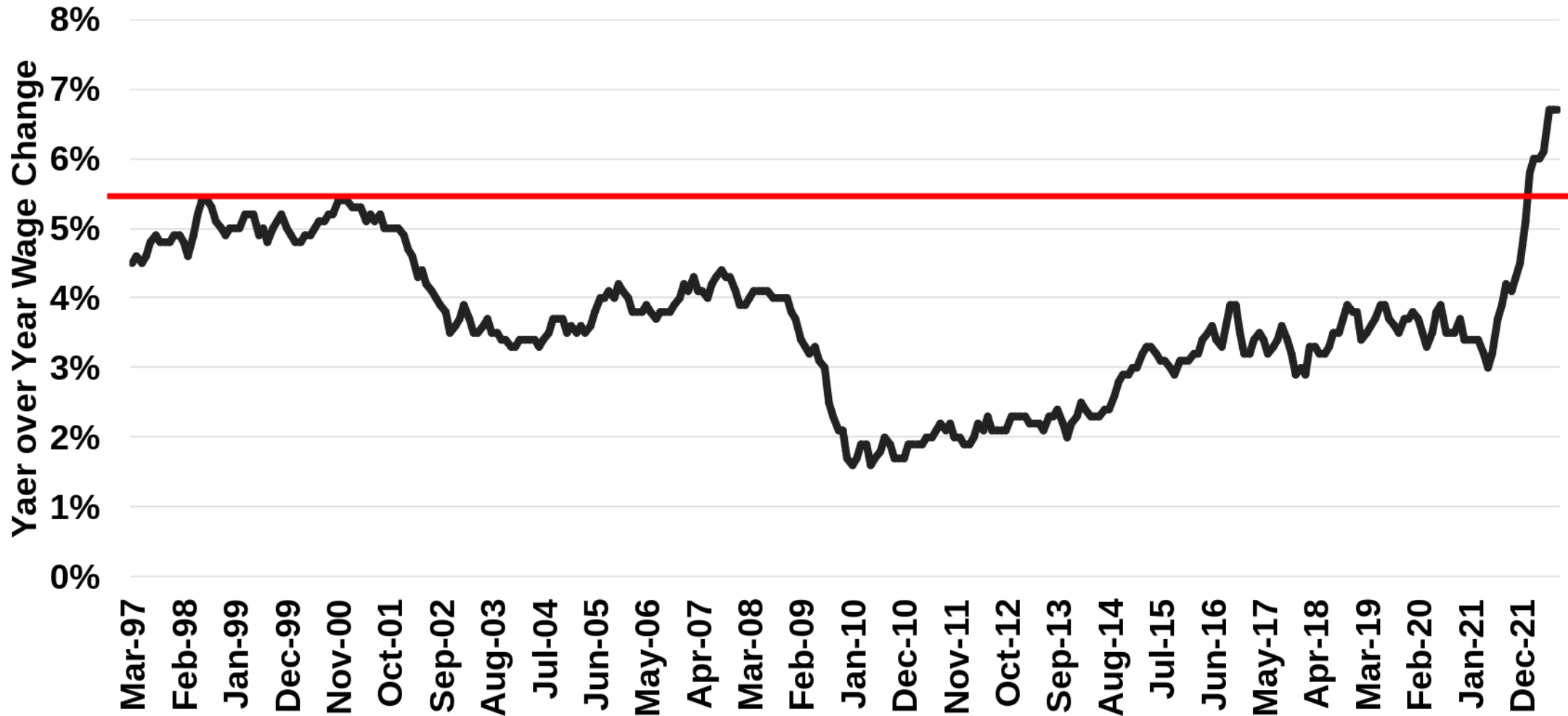
Participation Rate and % Employed



Actual vs. Reported Participation Rate



So What Happens When You Hit Full Employment?



So What's the Fix? Well This Doesn't Help

ECONOMIC POLICY

CBO: White House plan to cancel student loan debt costs \$400 billion

The substantial price tag added fresh fuel to raging debate over a policy expected to benefit more than 40 million borrowers.

By [Jeff Stein](#) and [Danielle Douglas-Gabriel](#)

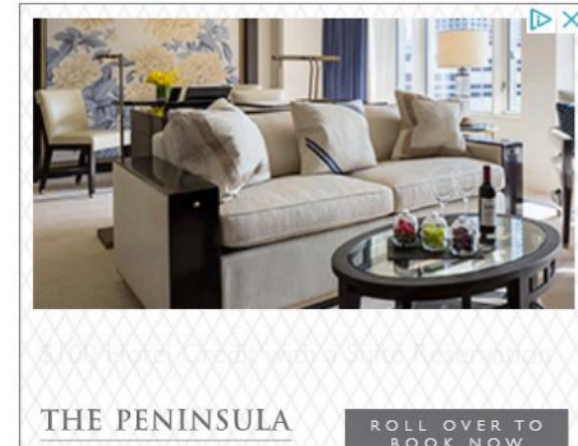
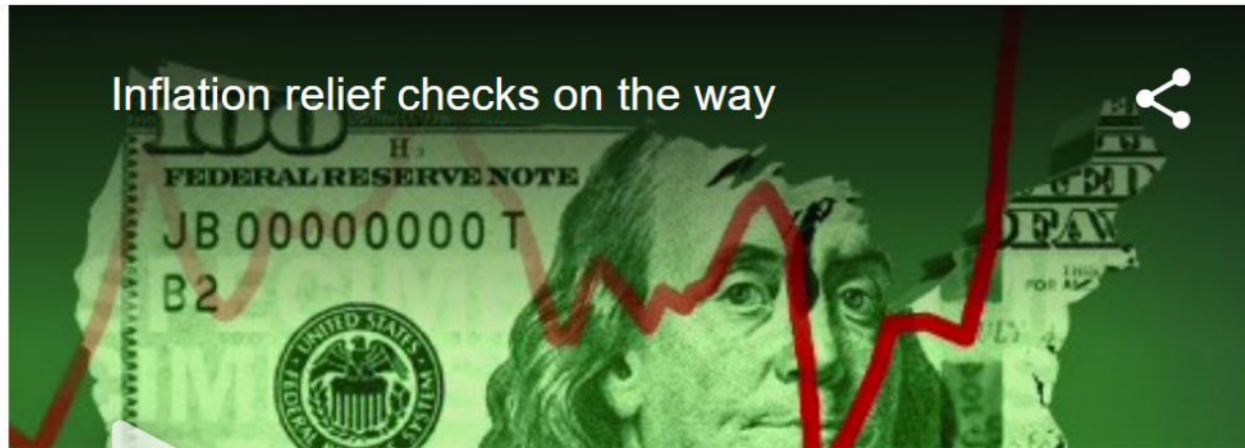
September 26, 2022 at 2:09 p.m. EDT



So What's the Fix? Well This Doesn't Help

California inflation relief payments: Here's when the first batch of checks will go out

By Alexa Mae Asperin | Published September 27, 2022 3:41PM | Updated September 28, 2022 7:36AM | California | FOX 11



So What's the Fix?

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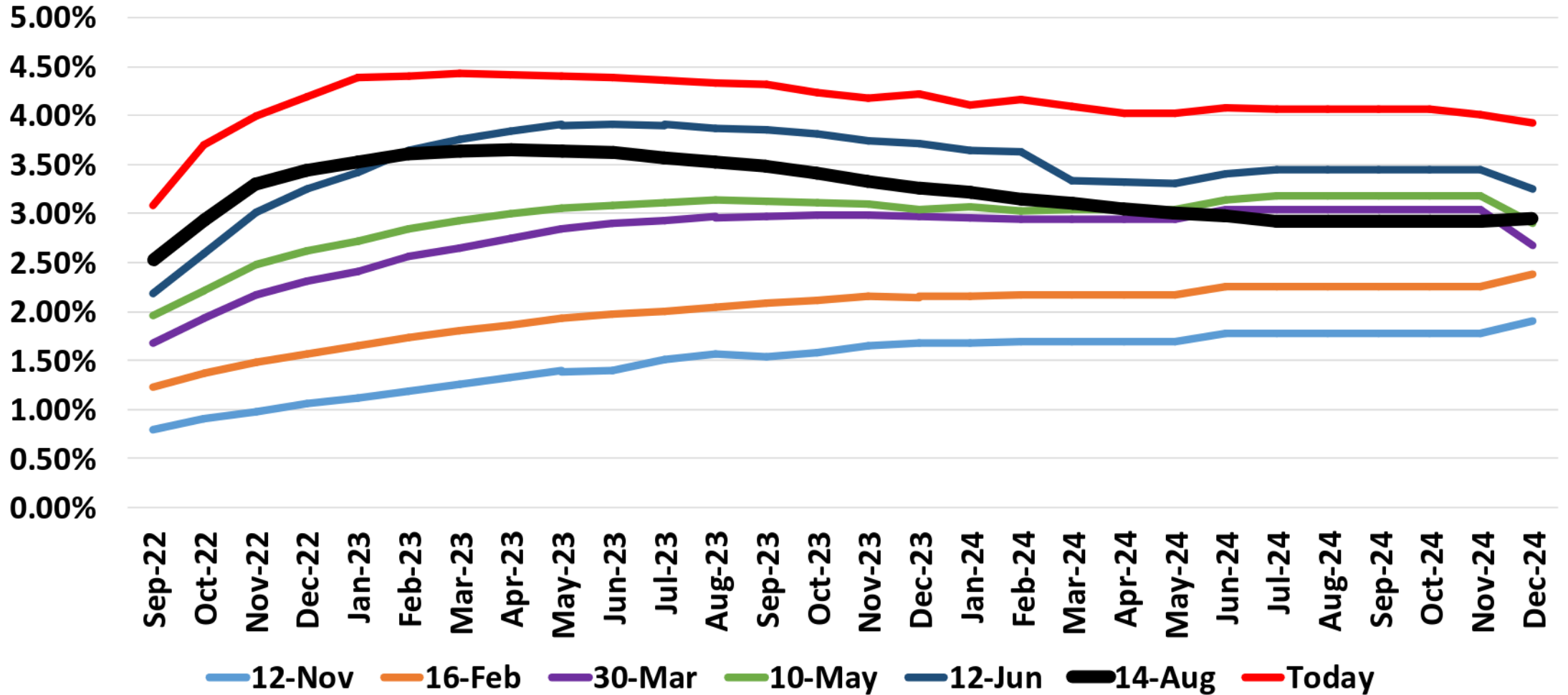


How Does the Fed Do this? Fed to Labor Market

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Fed Funds Expectations Now

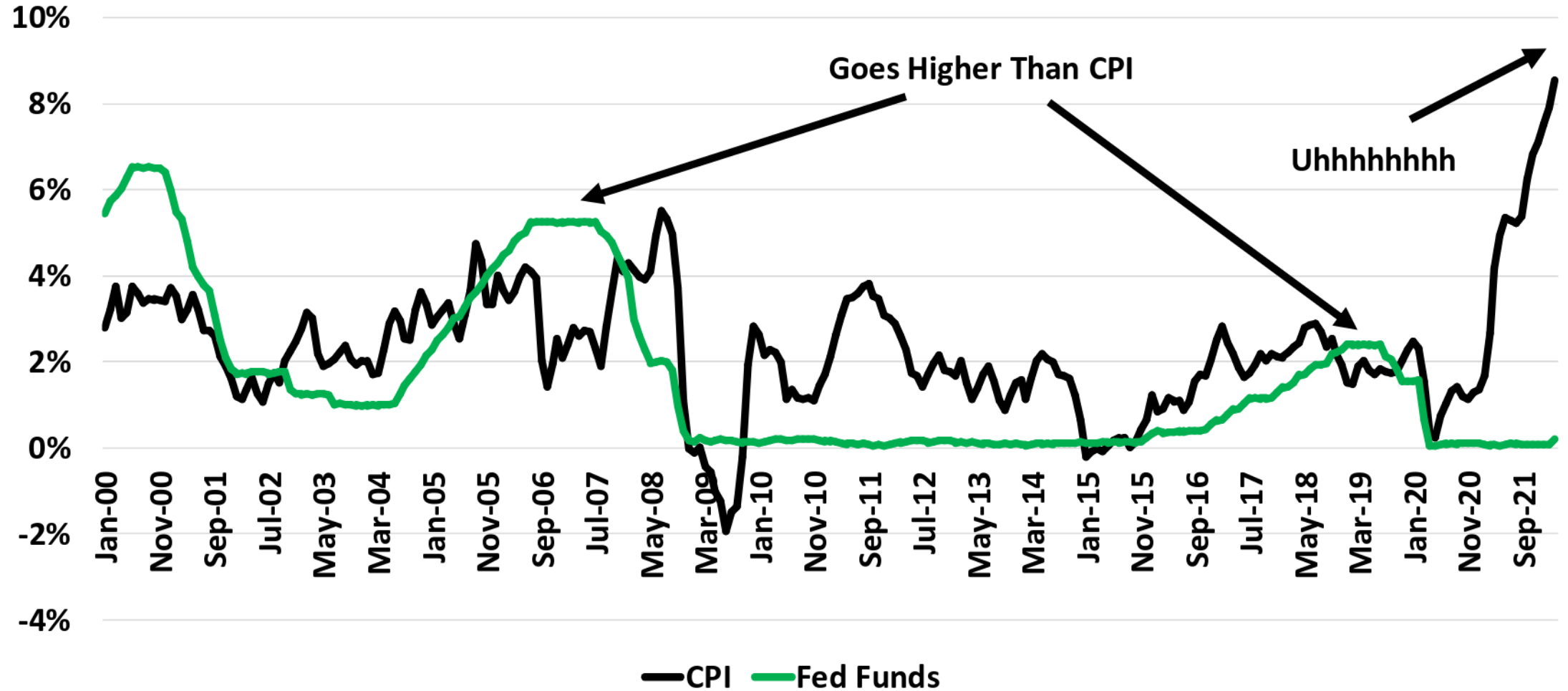


So How High is the Fed Going to Go?

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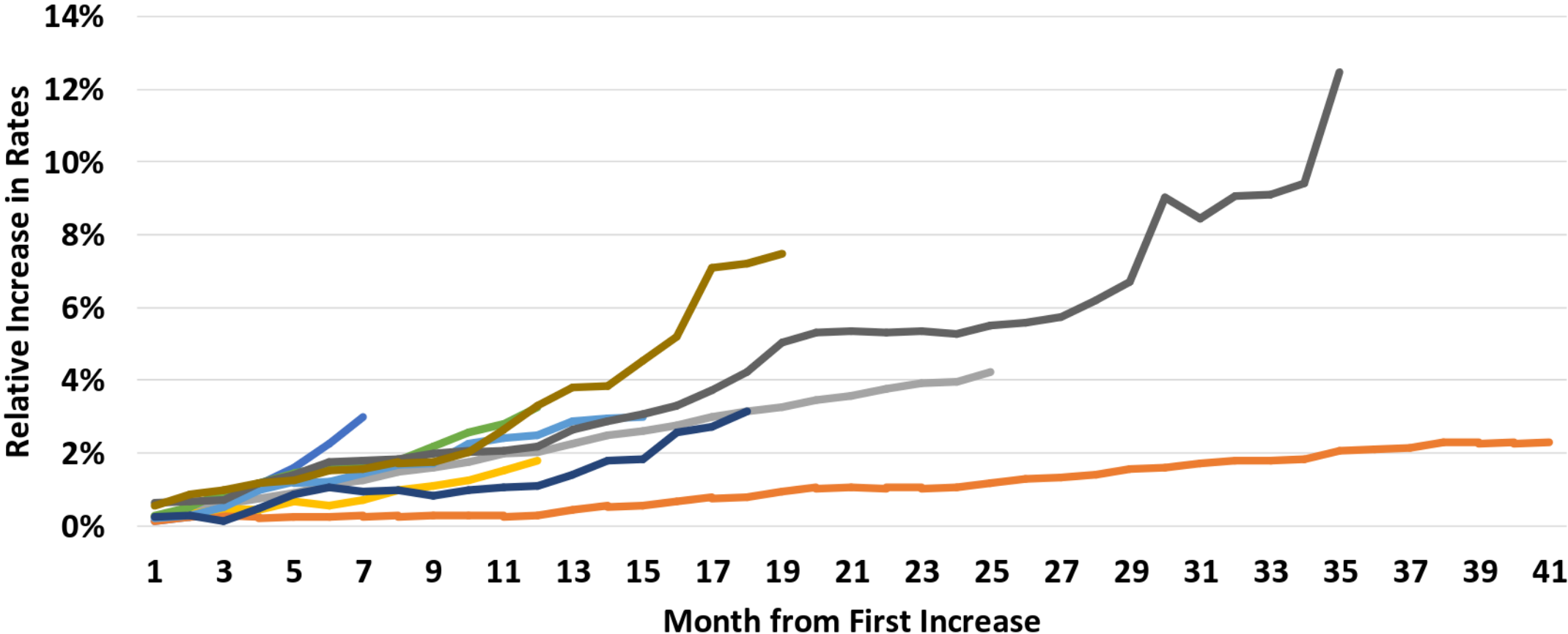
So How High is the Fed Going to Go?



Real Risk is Fed Goes to Far

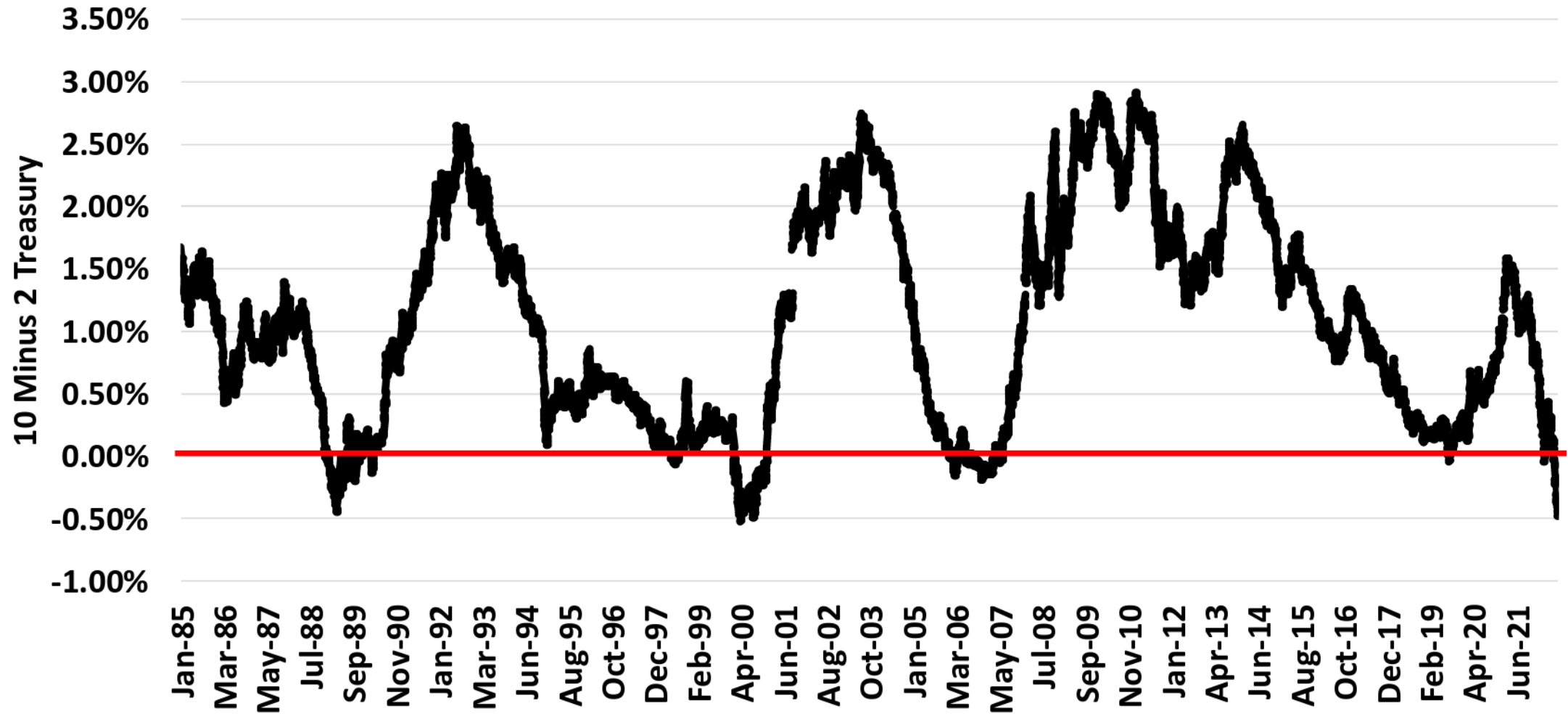
- Policy takes a loooooong time to hit the system
- Rate hikes today will take months to fully take hold
- At the same time, tons of supply coming online in places demanding is declining
 - 20+ new chip factories for example
- With that said, real issue is the labor market
 - No new people coming

How Fast Are Rates Going Up



— 2022 — 2015 — 2004 — 1999 — 1994 — 1988 — 1983 — 1977 — 1972

Recession Watch 2023



Economy Summary

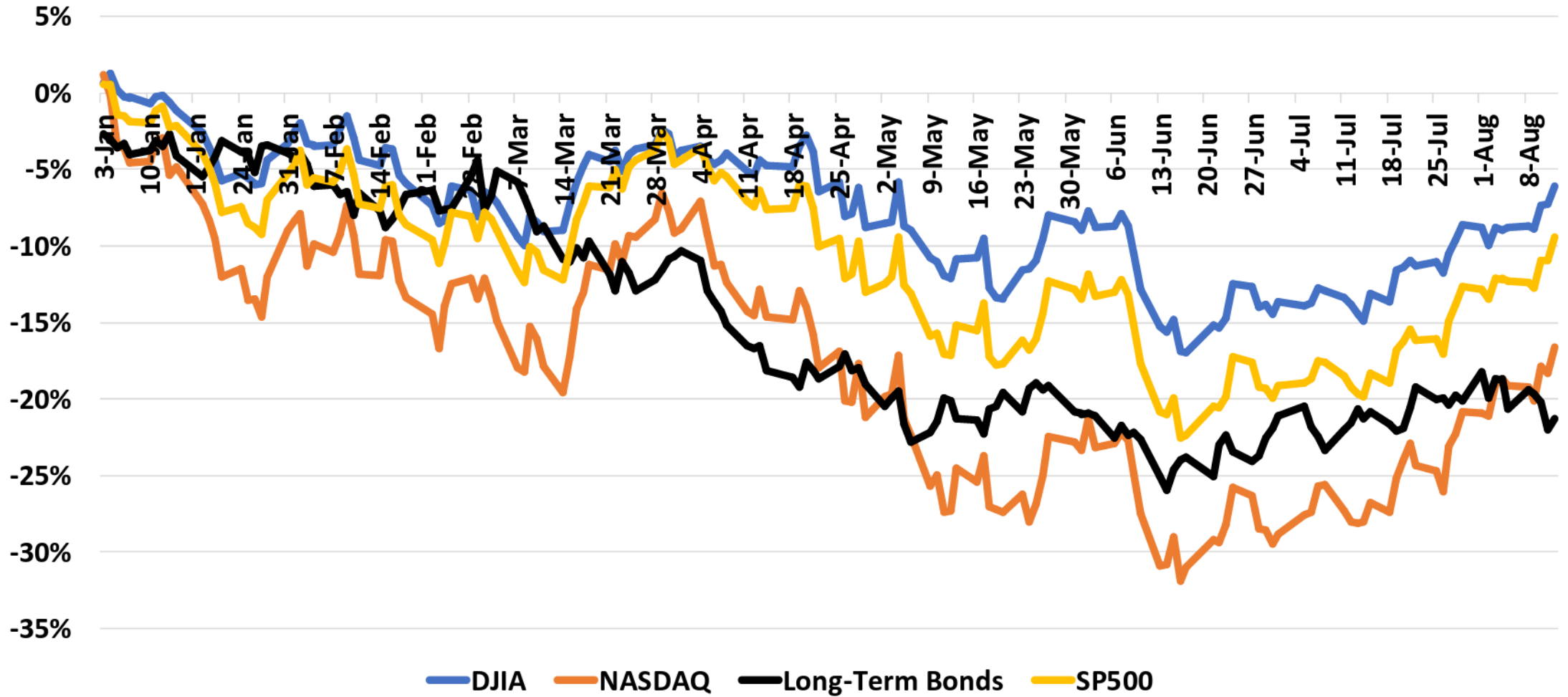
- Downside risk to economic growth
- Fed must bring down demand to supply levels to tame inflation
- Fed is likely to be uber aggressive as CPI will be well above 2% for at least 6 – 9 months
- Worried about 2023

So How About 2022 Financial Markets?

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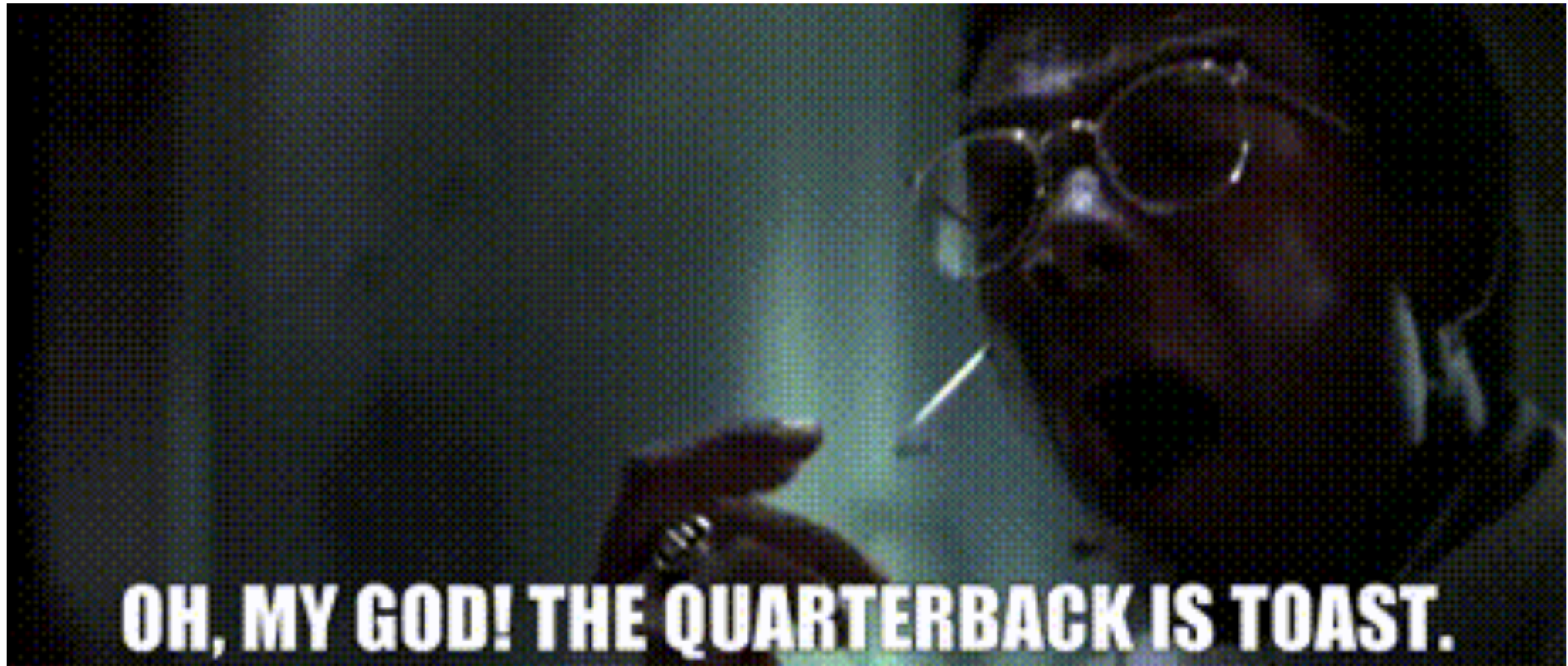


Financial Markets YTD

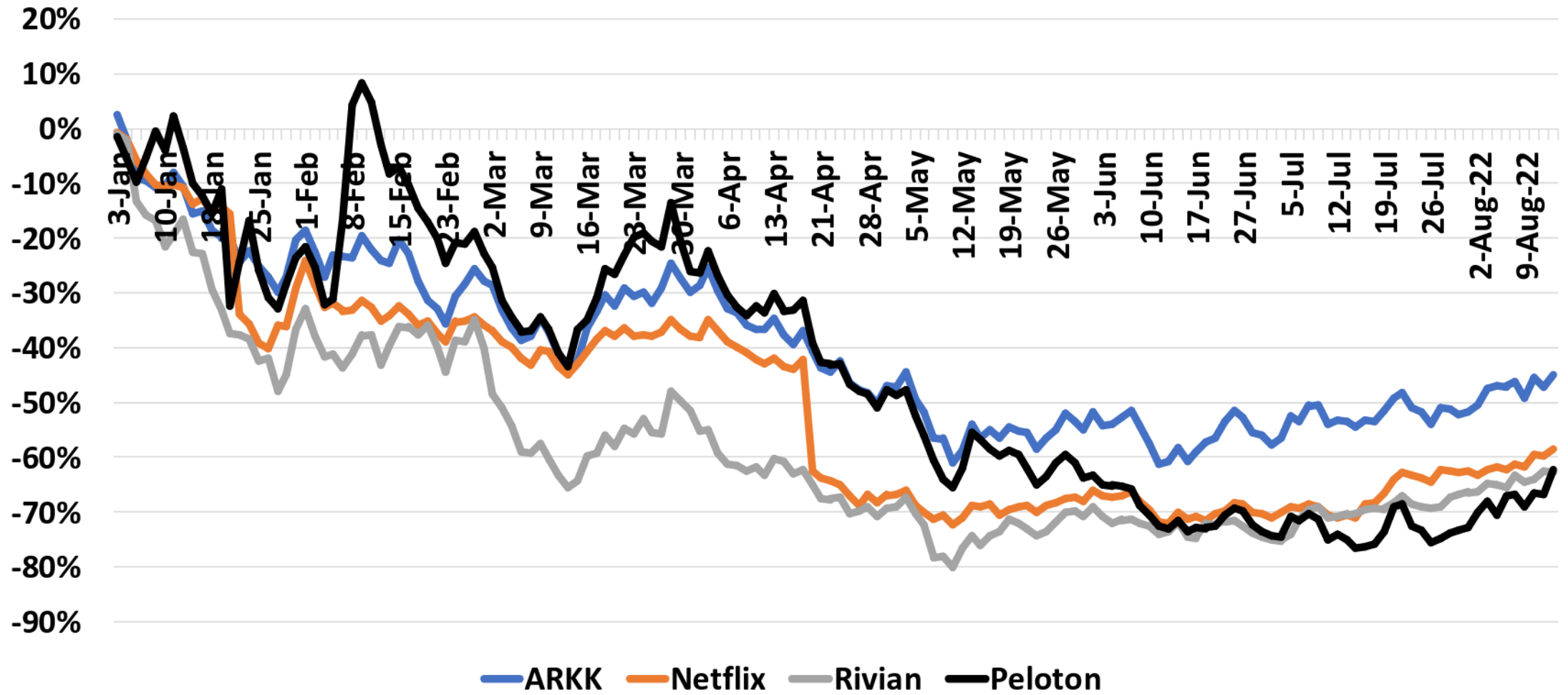


Forget Fires...

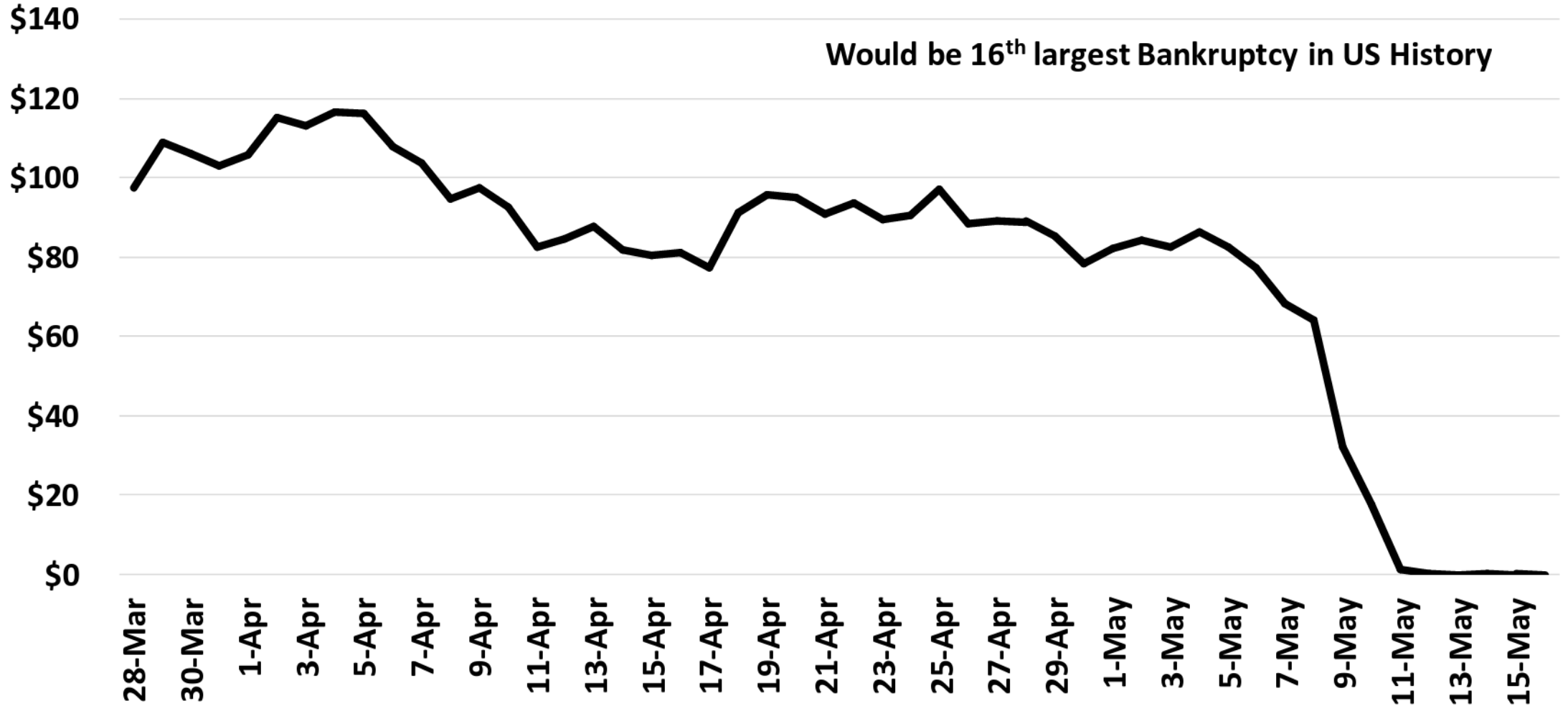
Forget Fires...



Toast



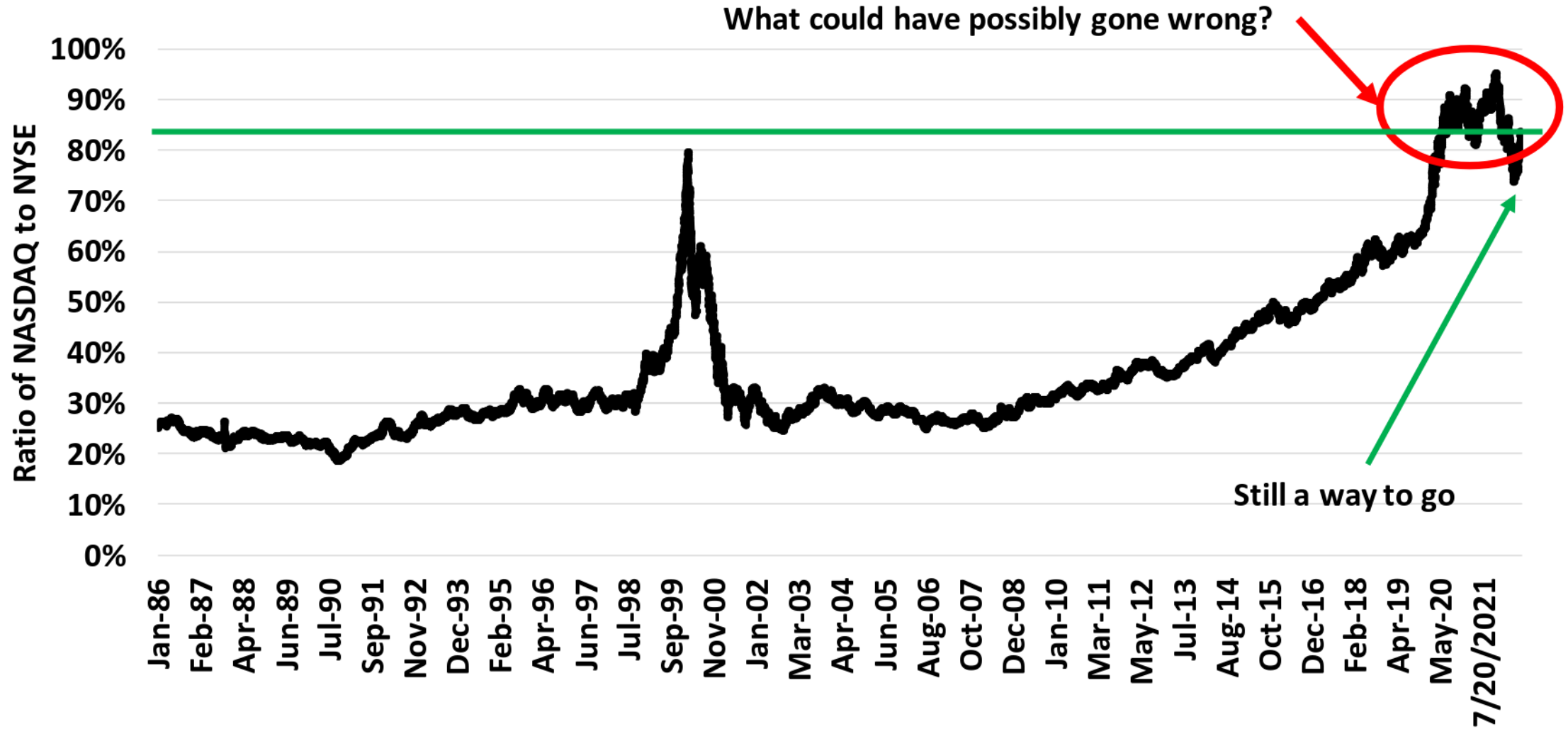
Burnt Toast: Luna-cy



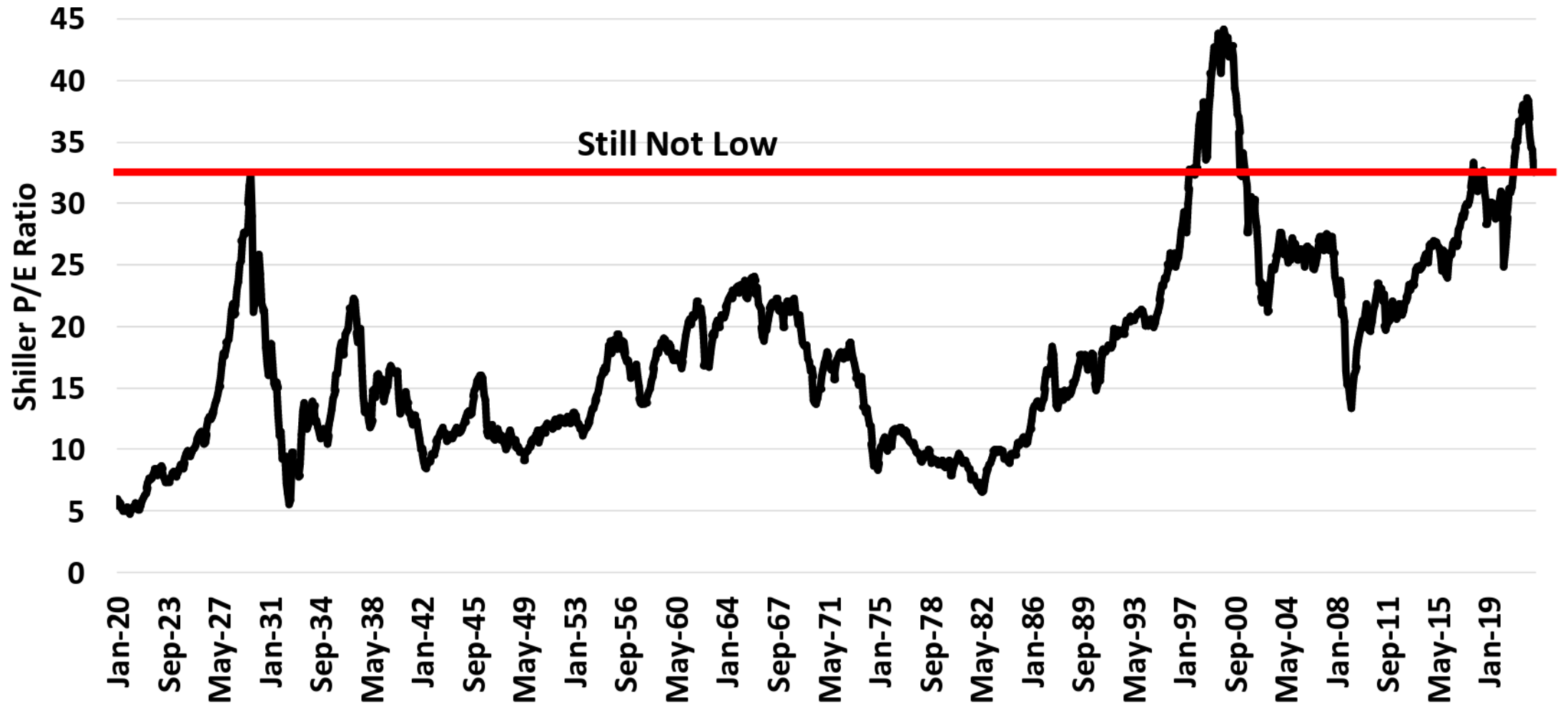
Not a Lot of Positive Catalysts

- Earnings Growth is not going to accelerate
 - Estimates will probably come down
- Fed is going to be aggressive
- Fiscal stimulus is done
- Stocks are still not cheap...
 - ... but cheaper than before

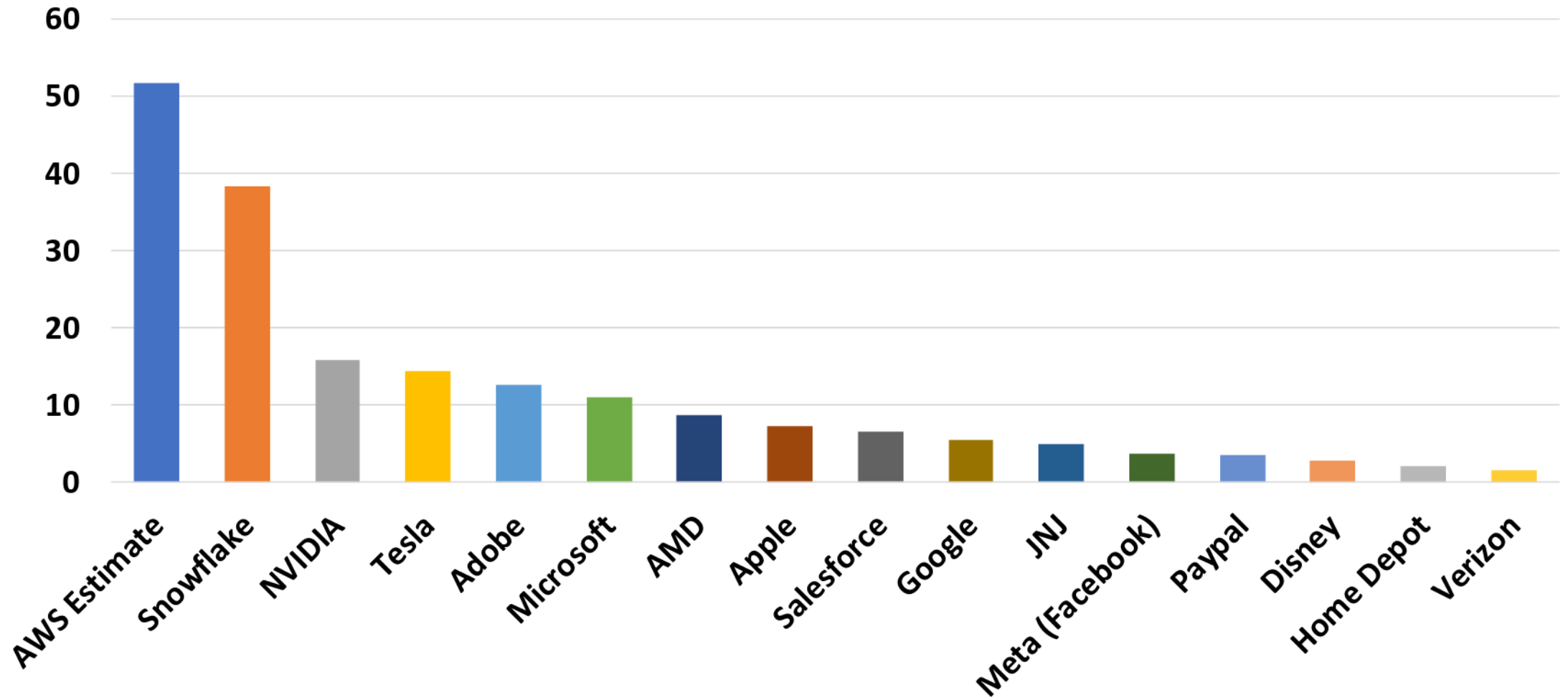
NASDAQ to NYSE



Down a Lot \approx Cheap



Down a Lot ~ = Cheap (cont).



AMD Radeon RX 6900 XT Graphics Cards Dip Below \$700

By Mark Tyson published 2 days ago

The new pricing floor for multiple models is 30% below MSRP.

[f](#) [t](#) [r](#) [p](#) [e](#) [m](#) [c](#) Comments (4)



(Image credit: ASRock)

Multiple AMD Radeon RX 6900 XT models are available in the US for 30% below MSRP this weekend. Visiting [Newegg](#), we noted that RX 6900 XT, one of the [best graphics cards](#) from Gigabyte and ASRock could be yours for \$699. However, several much more expensive SKUs are still available, especially those with high-end and liquid cooling. Most of these cards (including the cheapest) qualify for the [AMD Radeon Raise the Game Bundle](#).

When these powerful GPUs launched with a \$999 price tag, it was at a time we knew there was little hope for many gamers and enthusiasts to grab a GPU at MSRP – during a crypto-boom cycle. However, this weekend, the majority of

Nvidia Reportedly Resuming RTX 3080 12GB Production, Thanks To GA102 Over Supply

By Aaron Klotz published about 3 hours ago

We will probably see 3080 12GB at super cheap prices

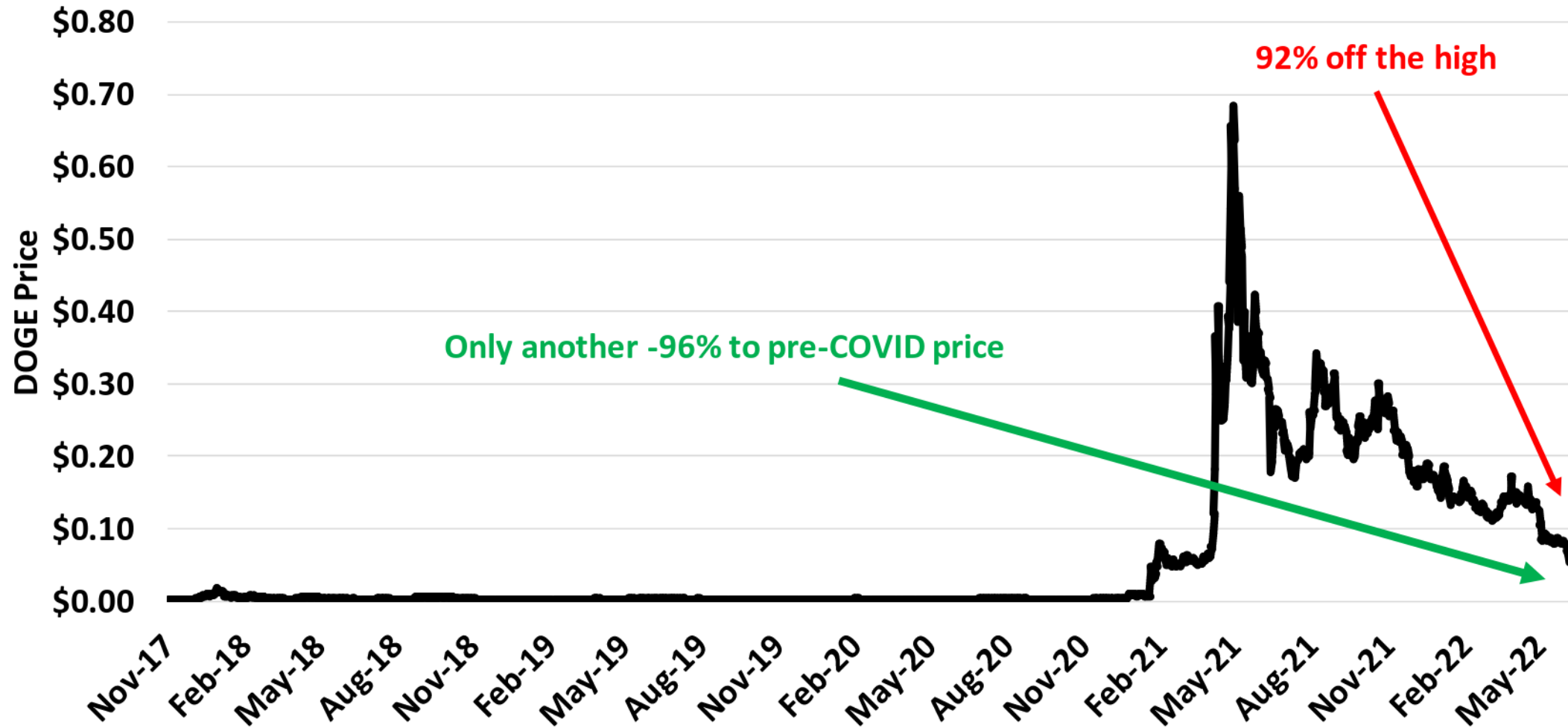
[f](#) [t](#) [r](#) [p](#) [e](#) [m](#) [c](#) Comments (0)



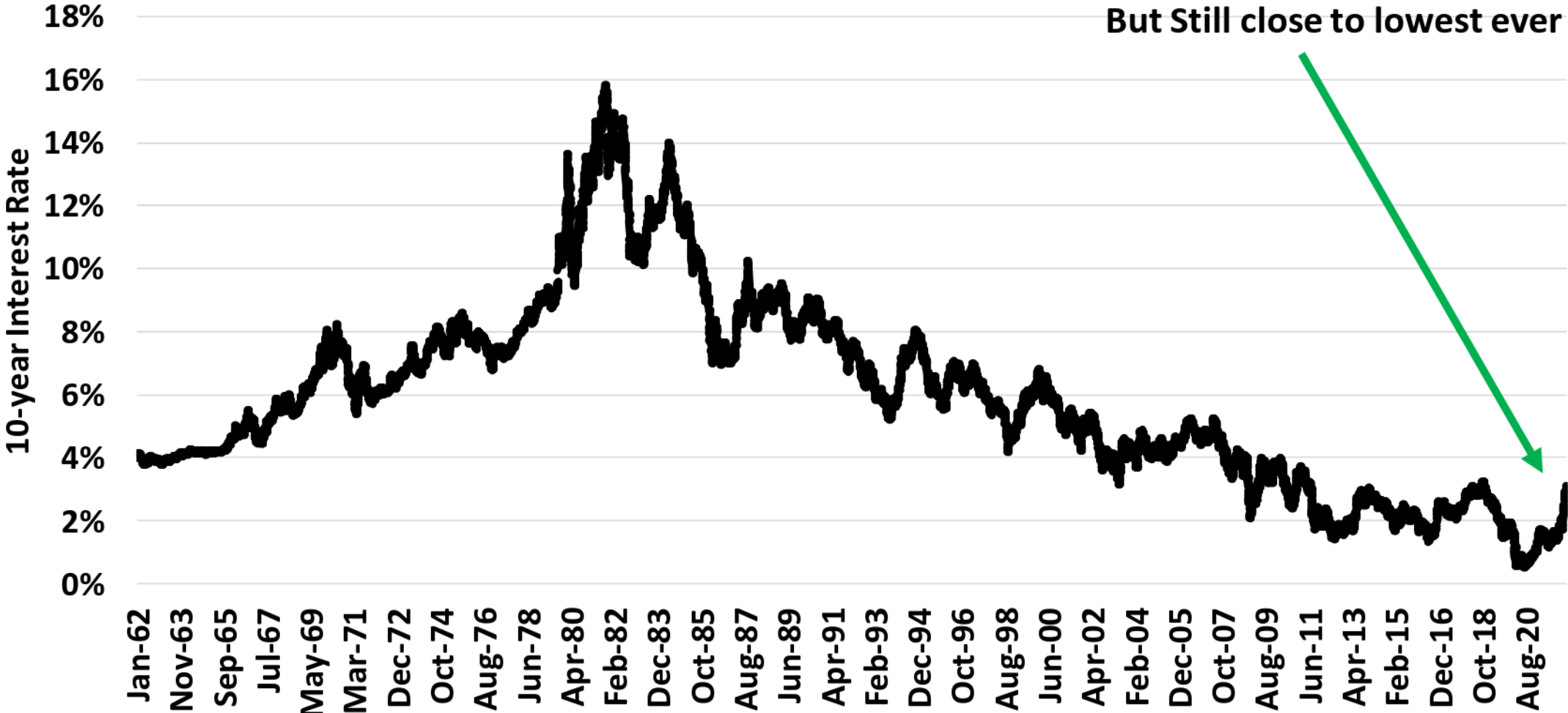
(Image credit: Nvidia)

According to a Tweet by [@Zed_Wang](#), Nvidia has resurrected the [RTX 3080 12GB SKU](#), in an effort to clear out more GA102 dies from its overstocked

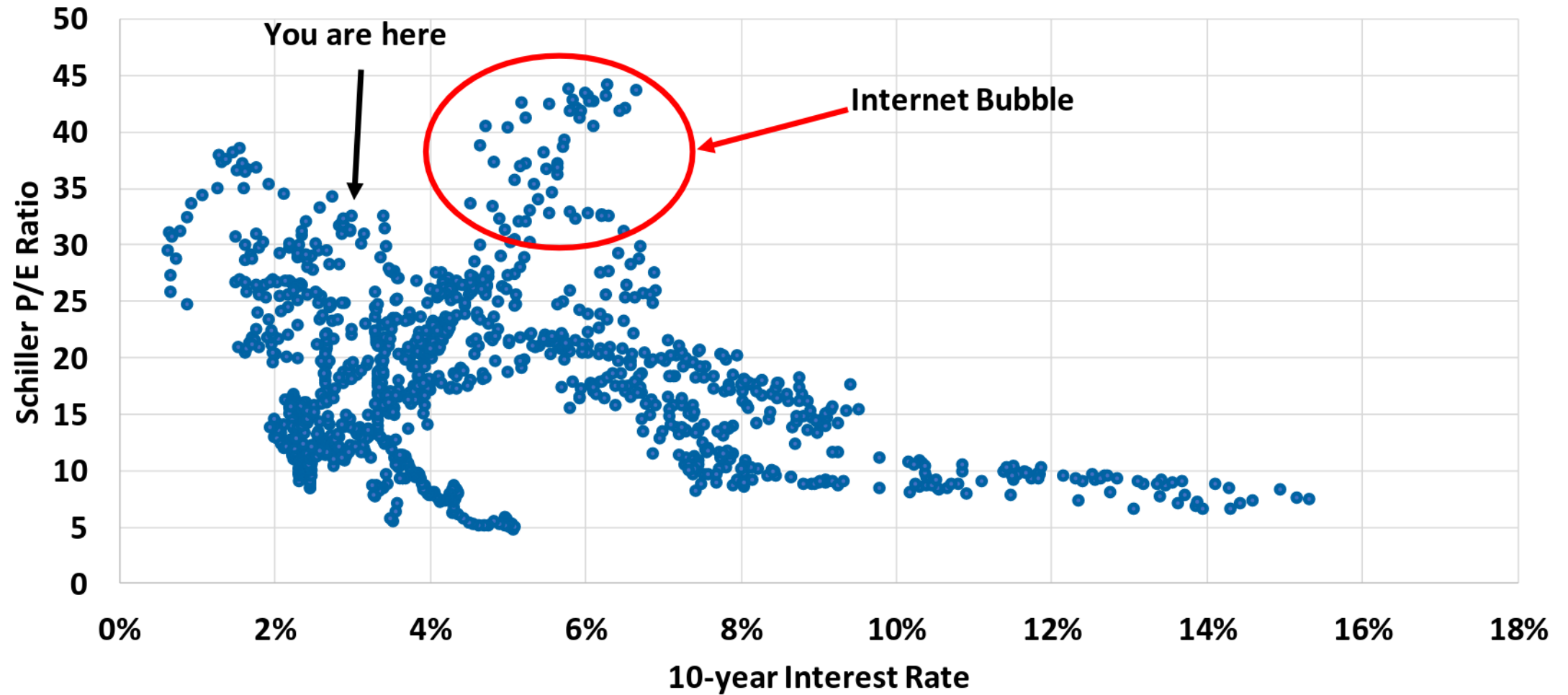
Down a Lot ~ = Cheap (cont)



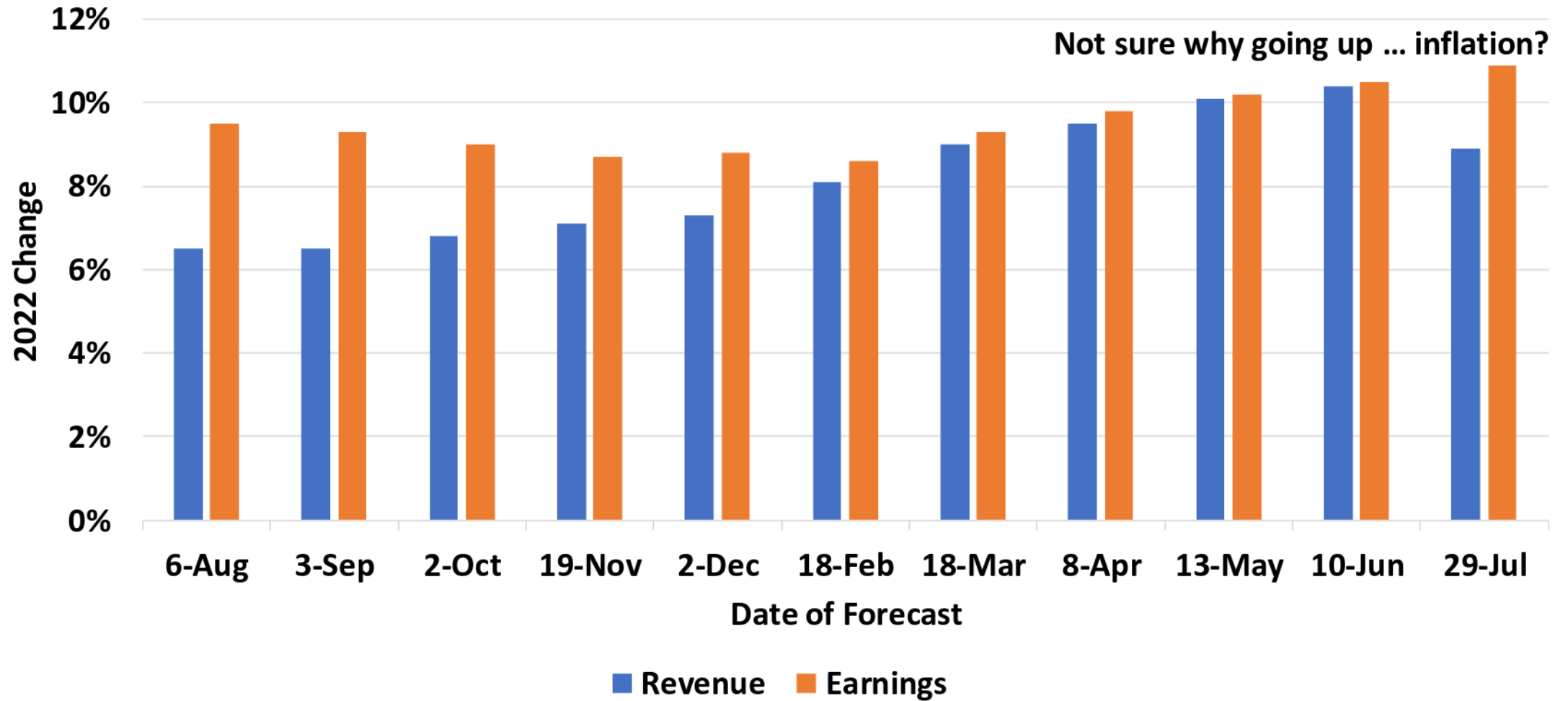
Interest Rates Ticking Up Rapidly



Relation Between Rates and P/E



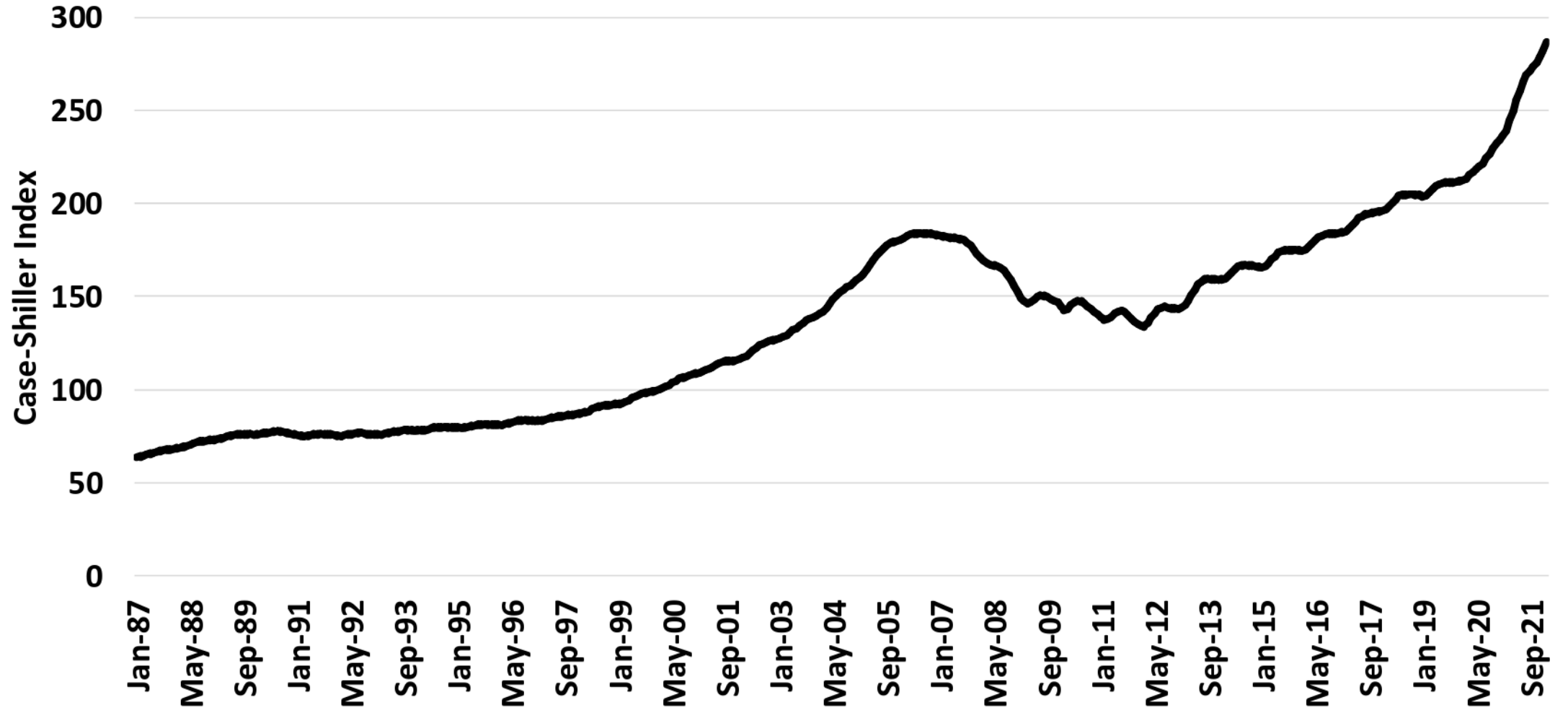
Earnings Are Holding Up ... So Far



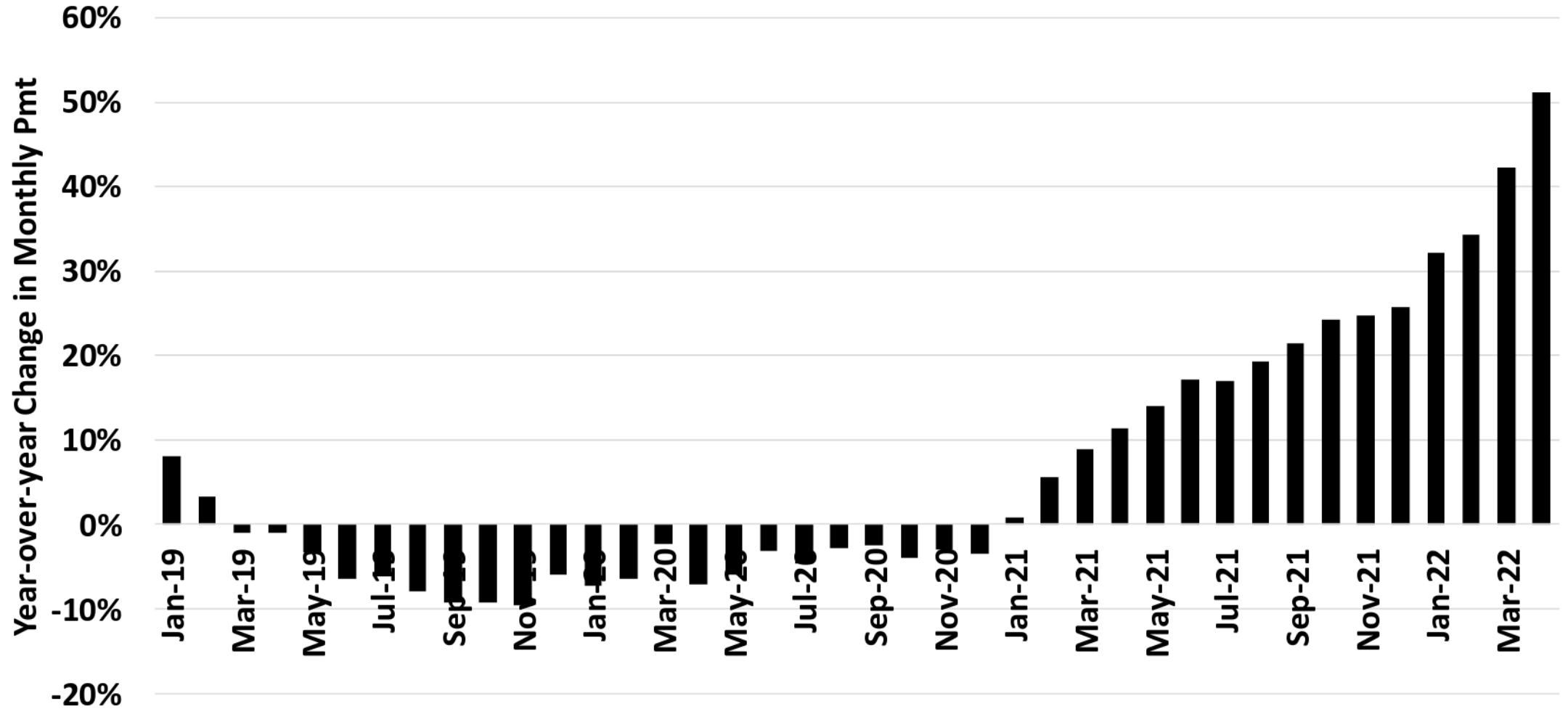
So Where Am I Invested?

- Markets aren't going anywhere fast – must not get FOMO, Fear
- Until that ratio normalizes more, Dow > NASDAQ
- Avoid pockets of crazy that still exist
 - Huge P/S stocks (aka delusional dreams), crypto
- Believe long-term trend in bonds is down. Starting to nimble
 - At some point when recession fears start, bond yields will decline

Housing Prices

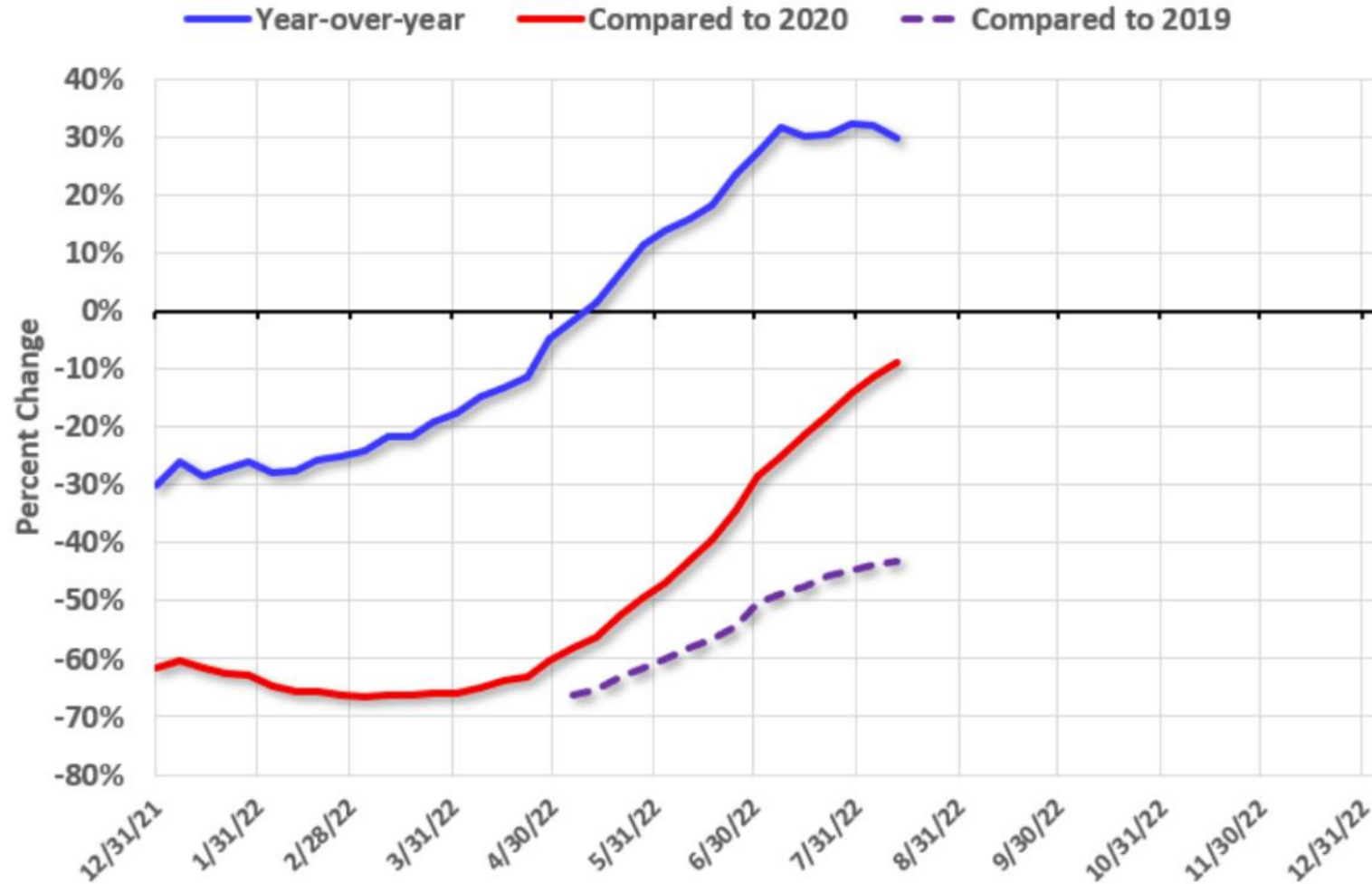


Housing Isn't Cheap Even on Payment Basis

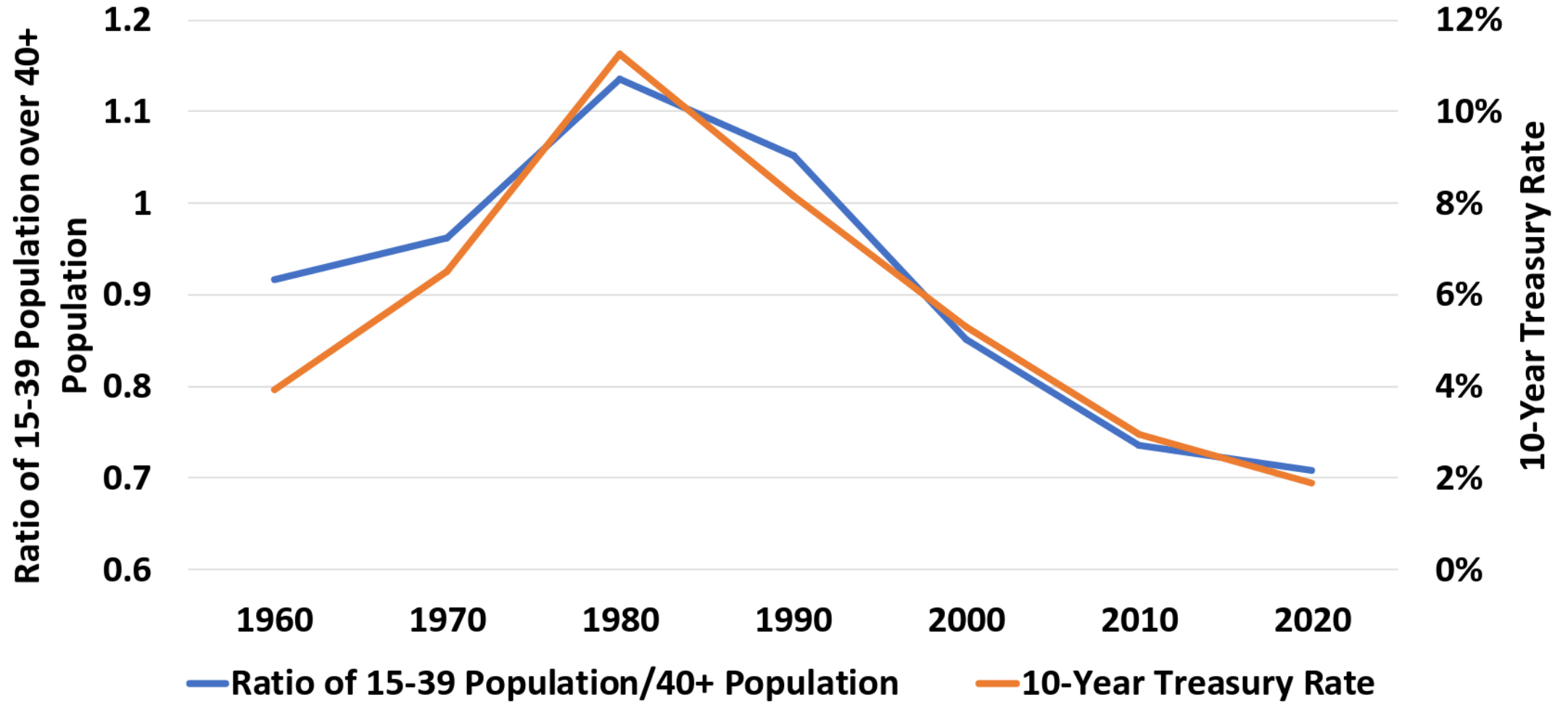


No Better Illustration of Fed than on Housing (cont.)

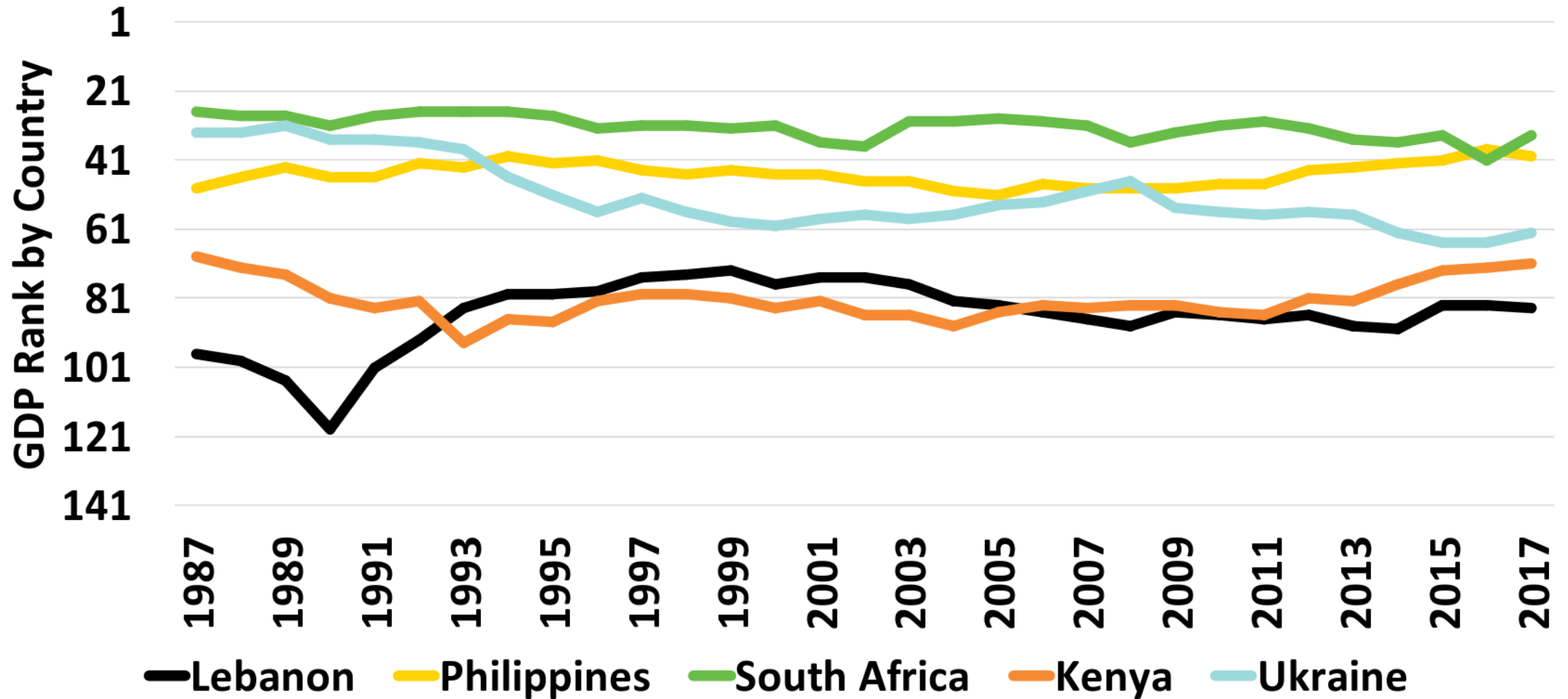
Inventory Change vs Same Week in 2021, 2020 and 2019 (Source: Altos)



Other Thoughts: Interest Rates Going Lower LT



Other Thoughts: Emerging Markets Never Emerge



Conclusions

- Fed is likely to be aggressive for the next several months
- Only an inflation miracle will stop massive rate hikes
- Hikes will stall the economy and put a cap on financial markets
 - Especially those sectors look a little scary still and no big catalyst
- Recession a strong possibility in 2023