

UCI Paul Merage
School of Business

Leadership for a Digitally Driven World™

2024 Economic and Financial Forecast

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All I Have to Say about Last Year's Forecast...

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Because the Forecast was as Accurate as Wild Thing

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So Maybe You Think I'd Be Gone But Like Bob...

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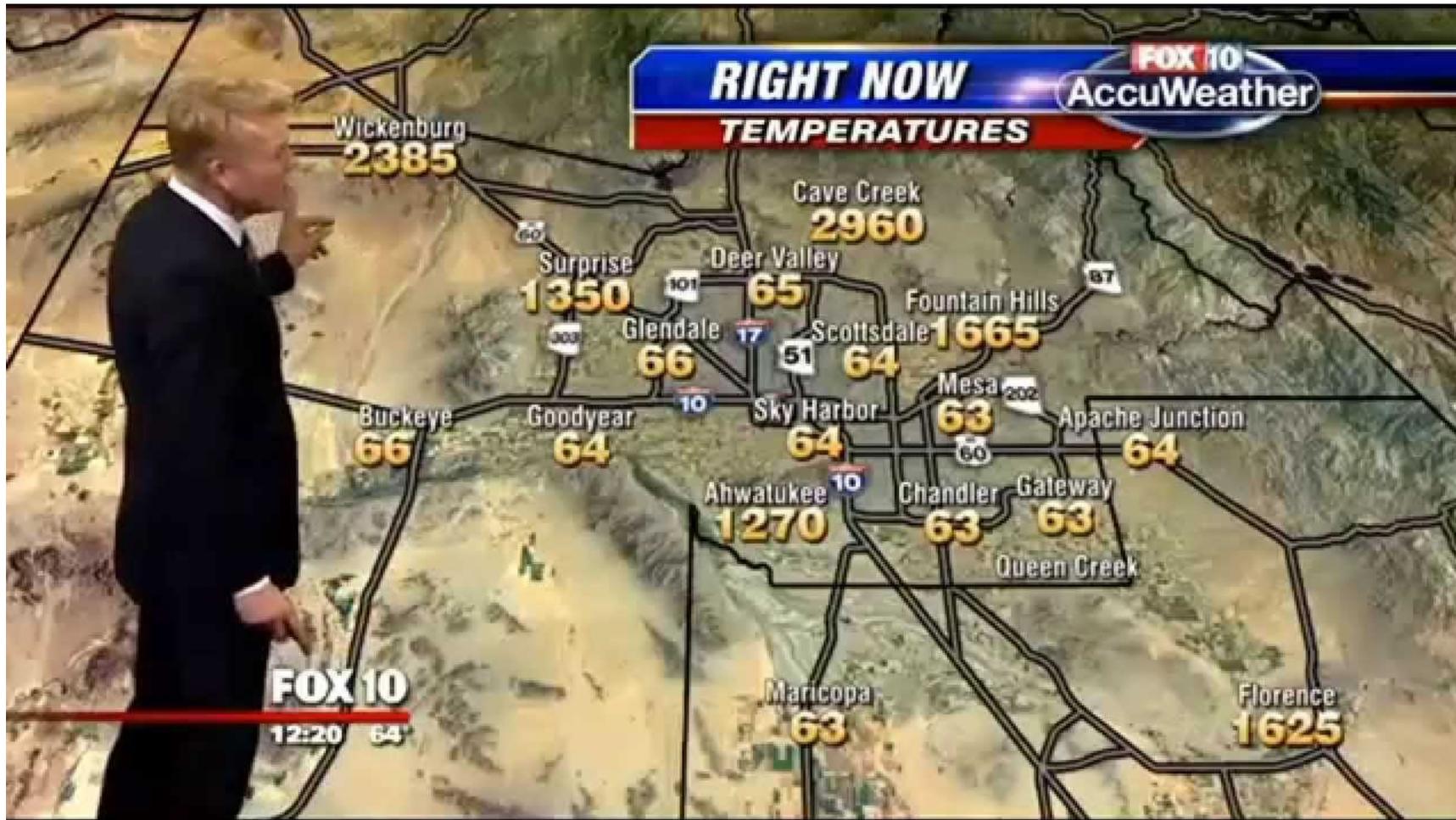
So Hopefully I'll Come Back Next Year And Say

So Hopefully I'll Come Back Next Year And Say



But Just In Case, Just Remember...

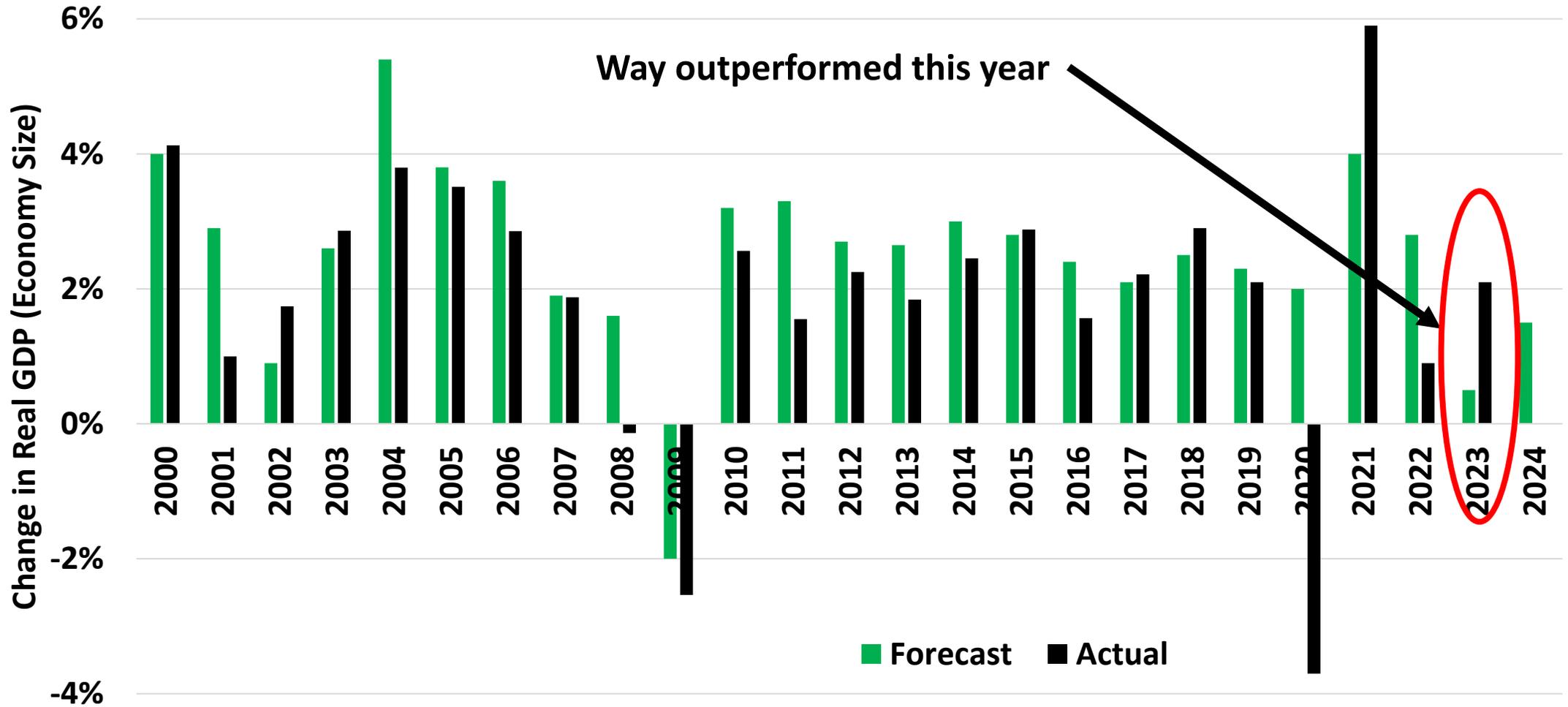
I'm Better than a Weather Forecaster



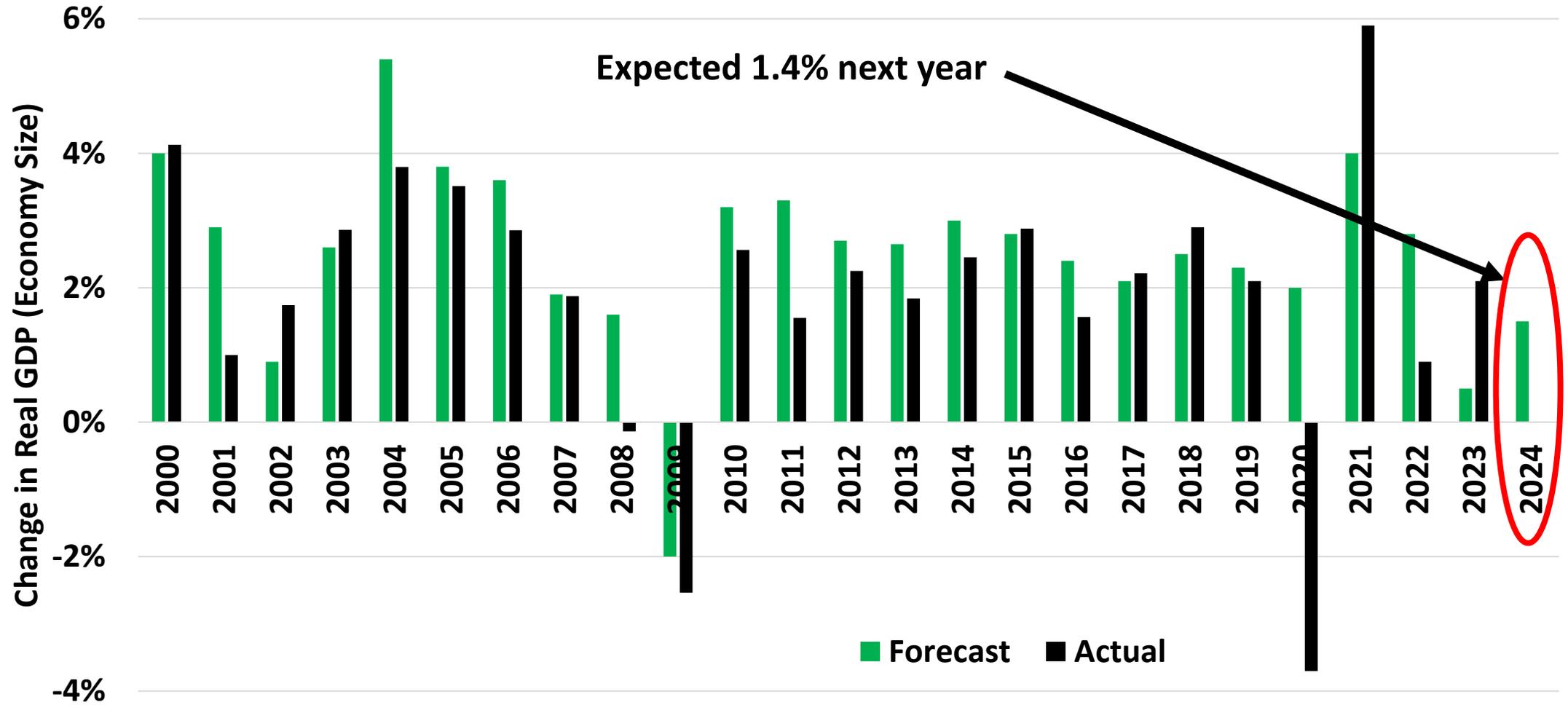
General Thoughts

- Economy is one shock away from a recession
 - What is that shock exactly? Hard to say
- Fed has maybe kind sorta stopped... but too late?
- While 5% Bonds were a great deal, now closer to fair value
- Tough to be very bullish on stocks this year
 - Well at least 3,993 of them

GDP Forecast 2024



GDP Forecast 2024



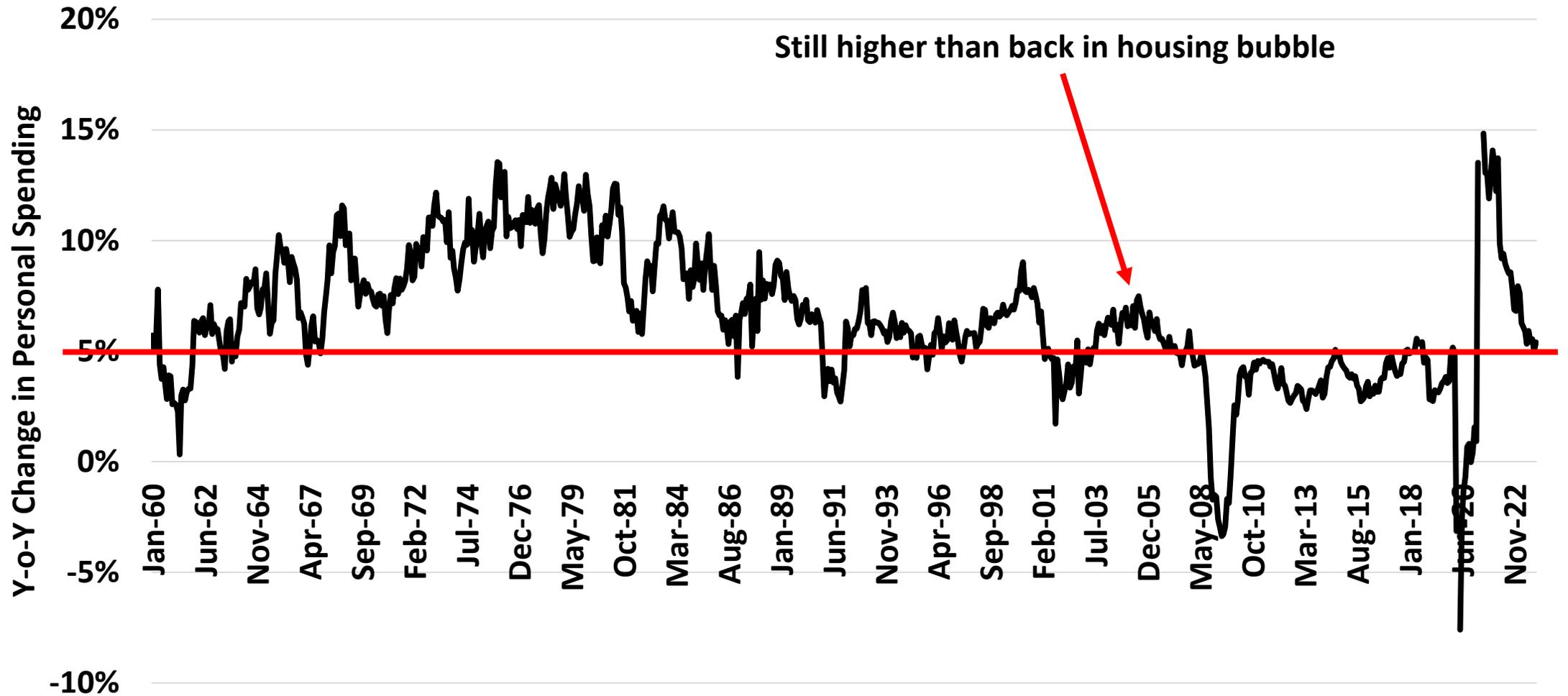
Why is the Economy Doing so Well?

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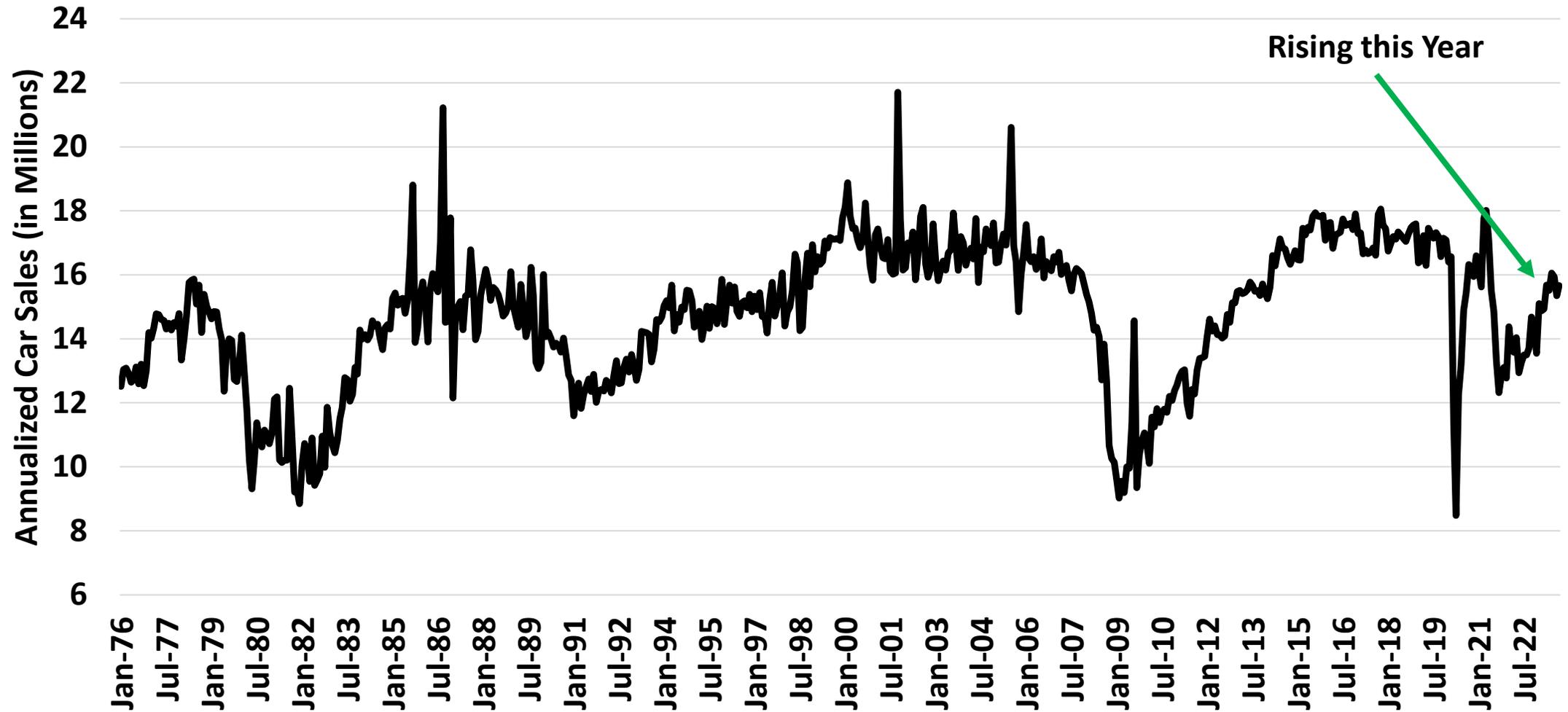


Let me ask you America: How much you have for clothes?

We Have Lots of Money for Clothes



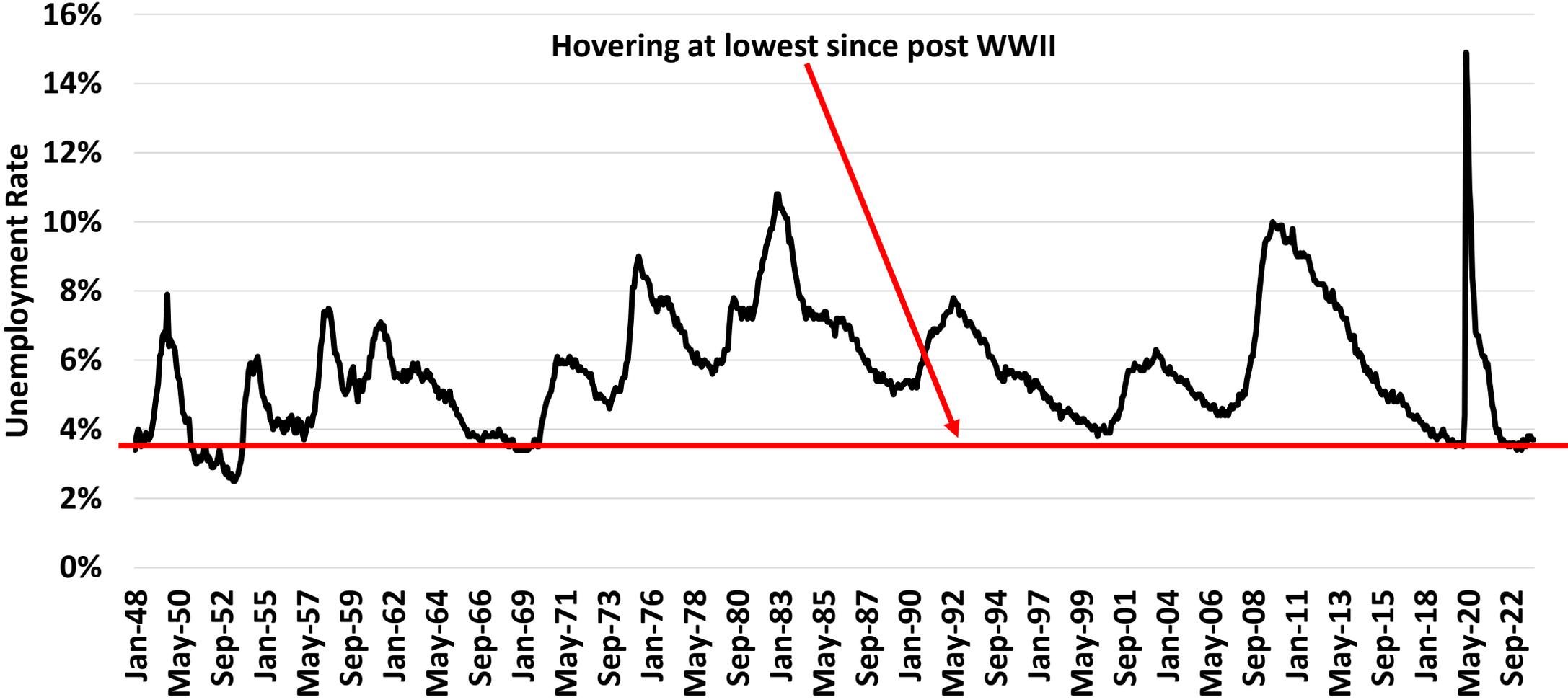
Not Just Clothes



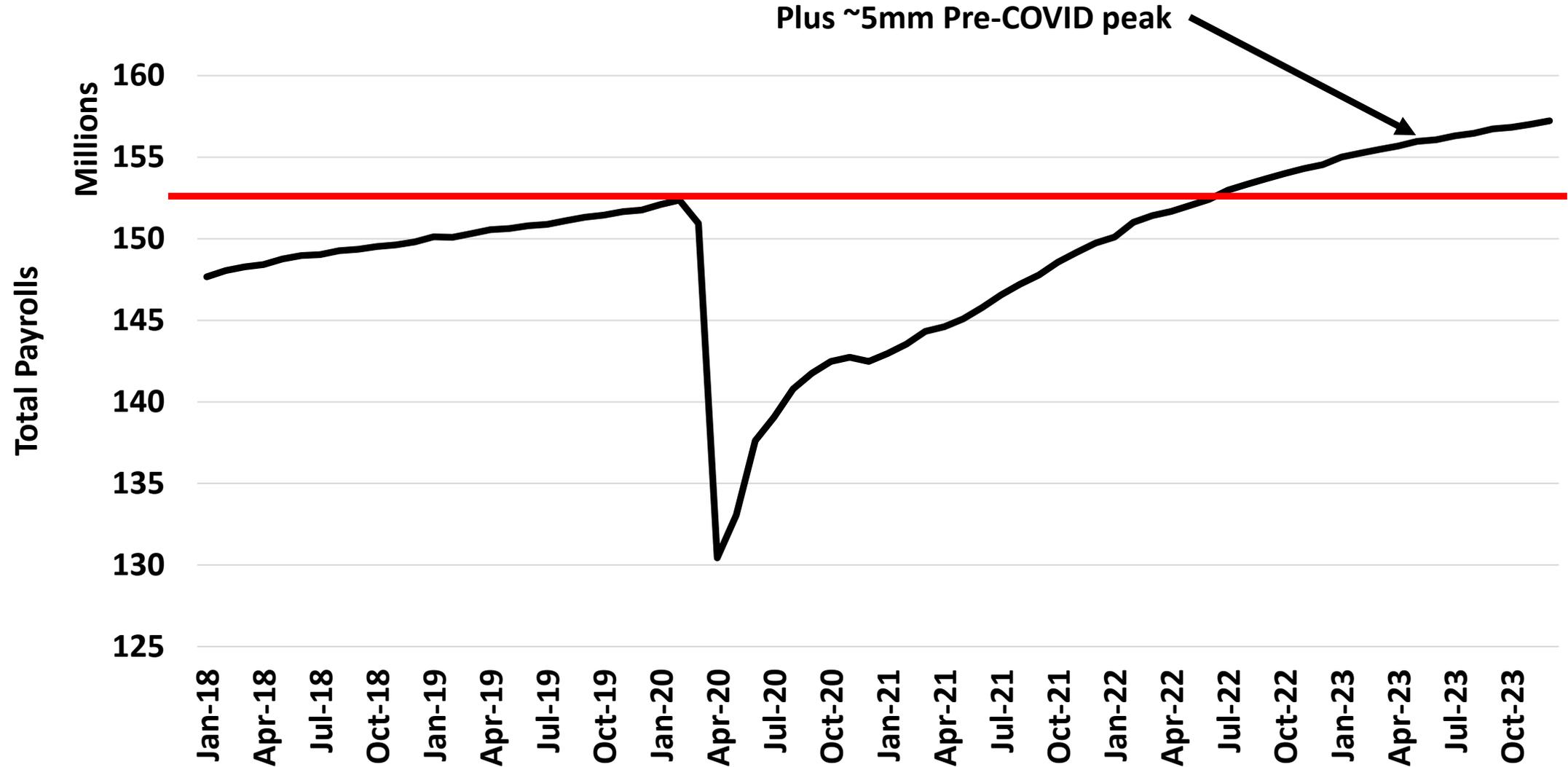
And Why Do We Have so Much Money?

The image displays three overlapping screenshots of a Facebook post creation interface. Each screenshot shows a user named "Example Person" with a profile picture and a dropdown menu set to "Anyone". The main text of the post is "I'm happy to share that I'm starting a new position as Software Engineer I at NASA - National Aeronautics and Space Administration!". Below the text is a large illustration of a yellow alien head with two eyes, set against a blue and white space background with planets and stars. The interface includes a "Choose who can comment on your post" dialog box, a "Post" button, and a bottom navigation bar with icons for photo, video, text, link, app, settings, and analytics. The screenshots are arranged to show the post being created in different stages, with the "Post" button becoming more prominent in the rightmost view.

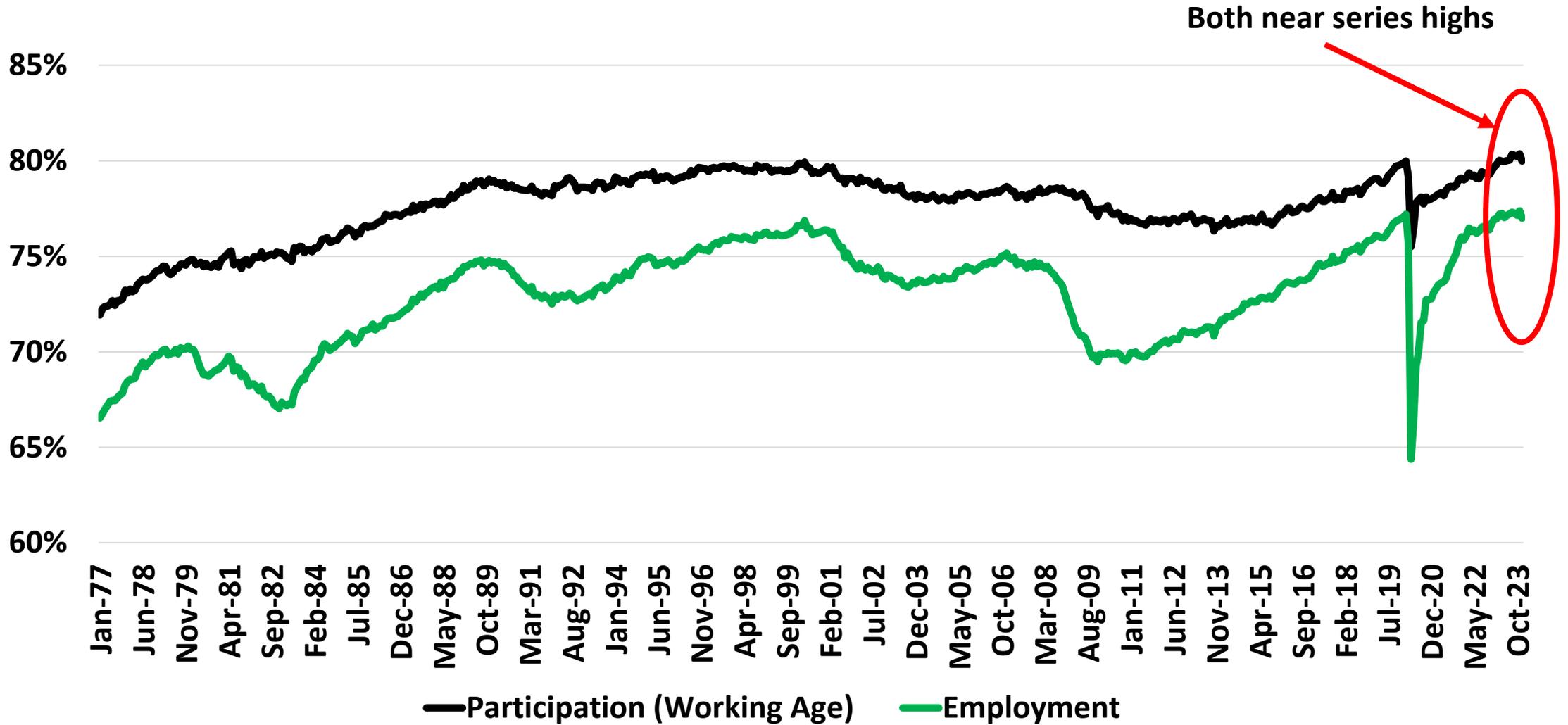
Employment is Super Strong



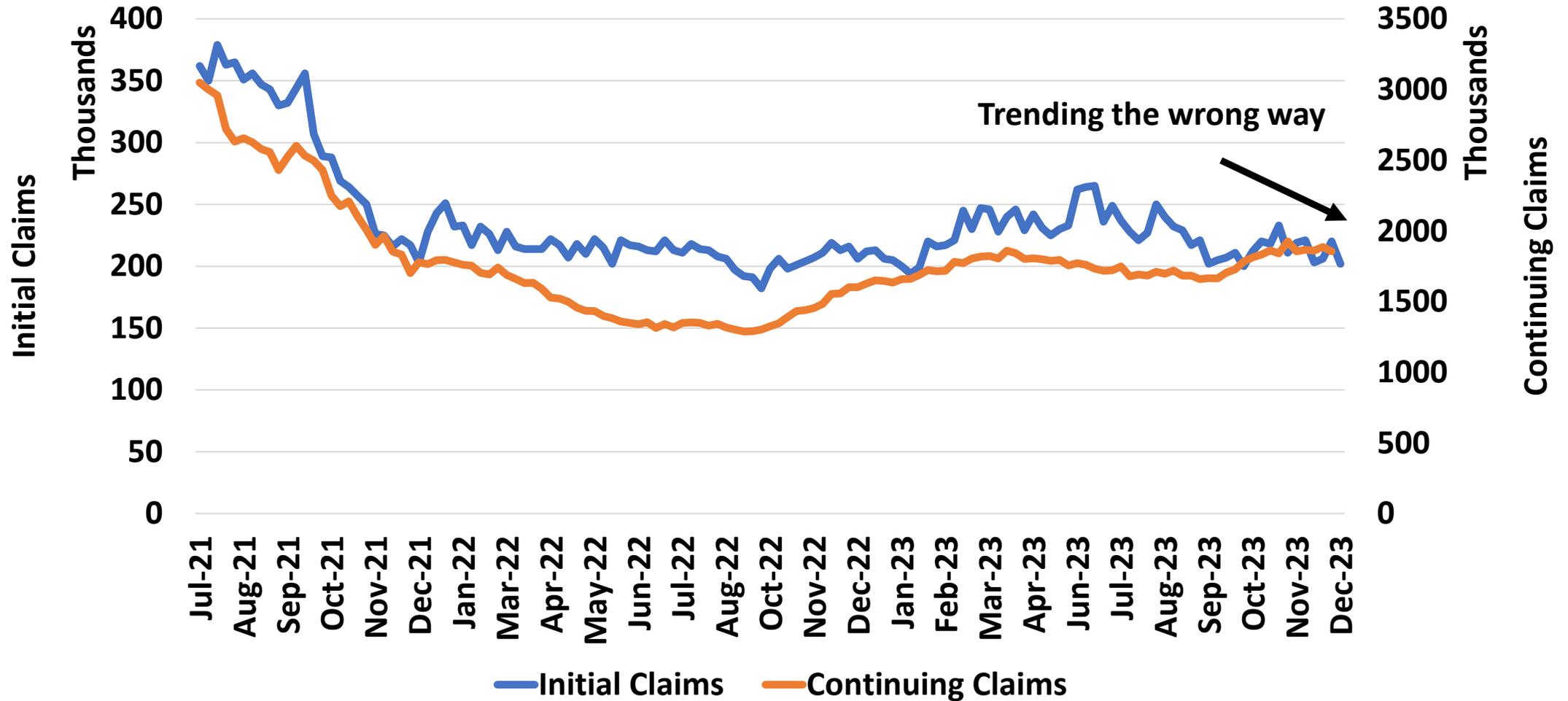
Lots-o-People Working



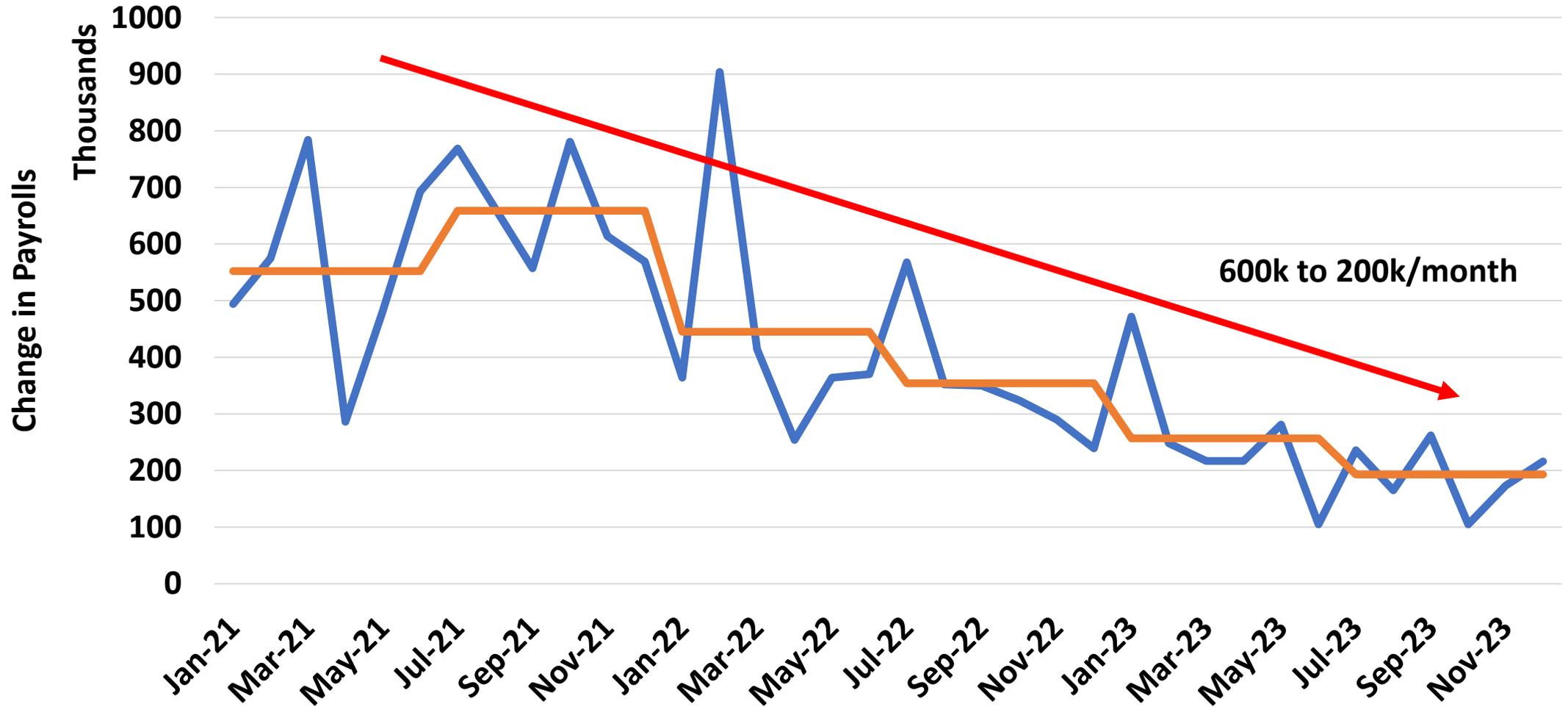
Lots-o-People Working (cont.)



And No Signs of Cooling Much...

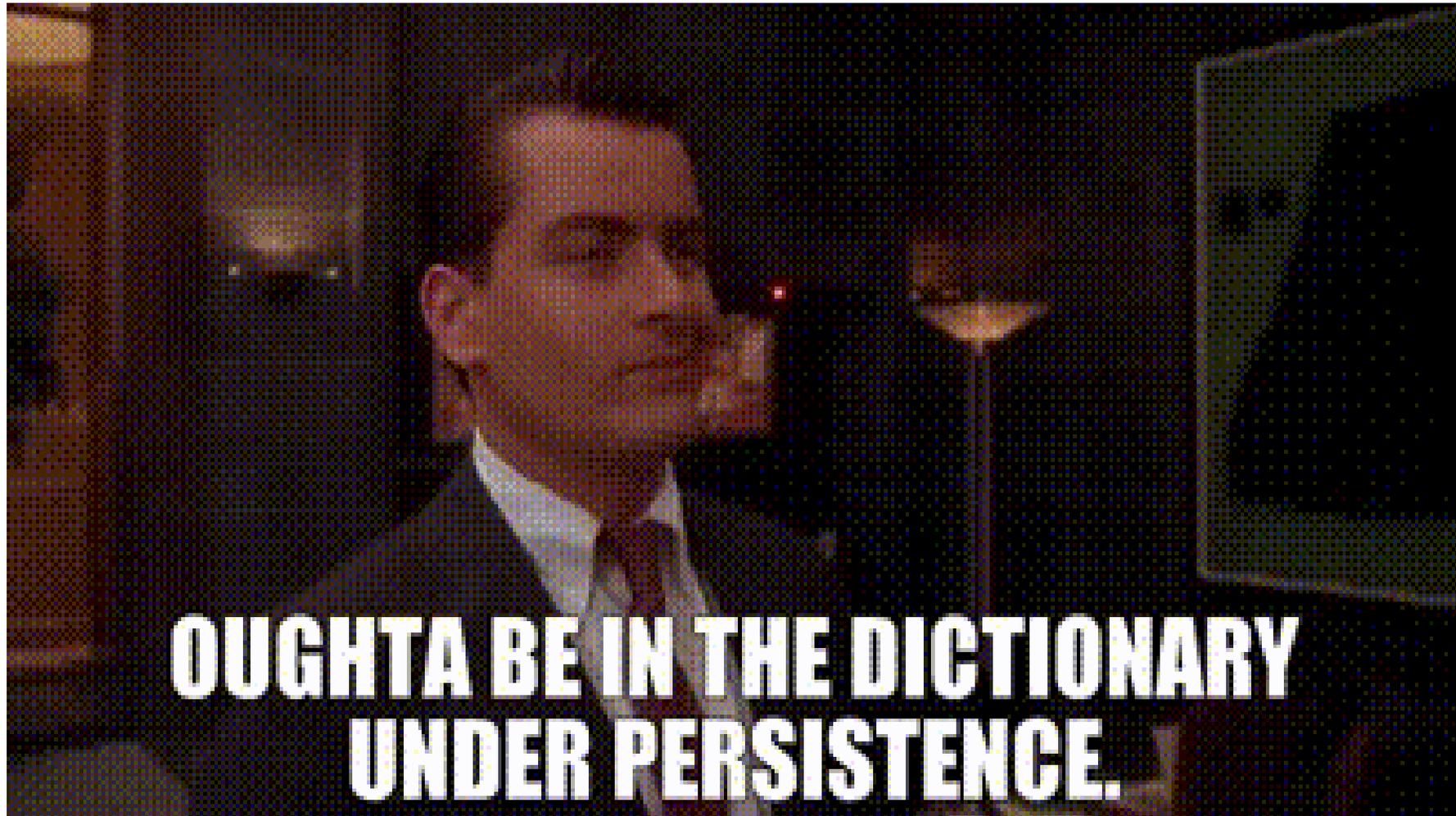


... Although Definitely Slowed Down



Why No Recession Yet?

Why No Recession Yet?



What Will Make the Economy Feel like Jackie?

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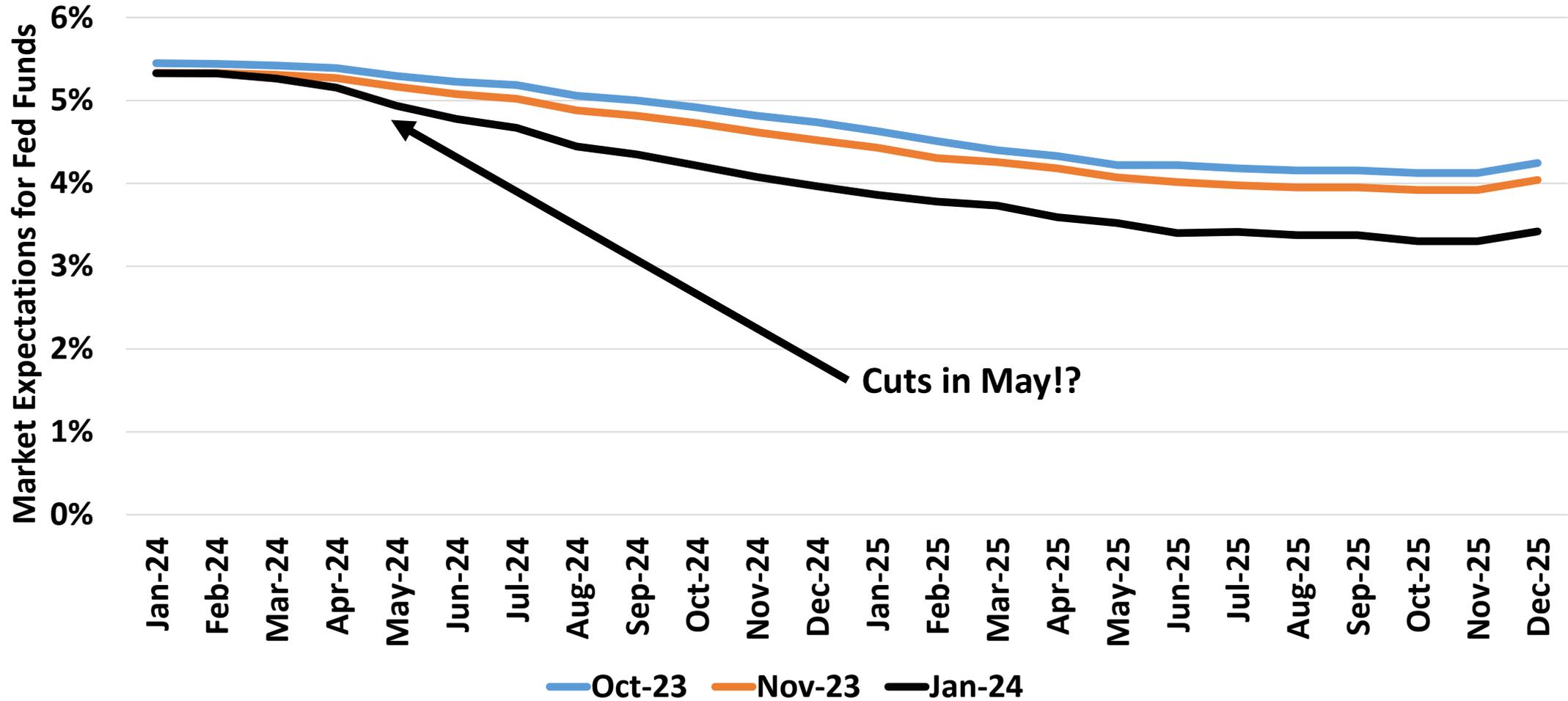


Most Obvious Answer...

Most Obvious Answer...



...and Forecast is Cut in a Few Months?!

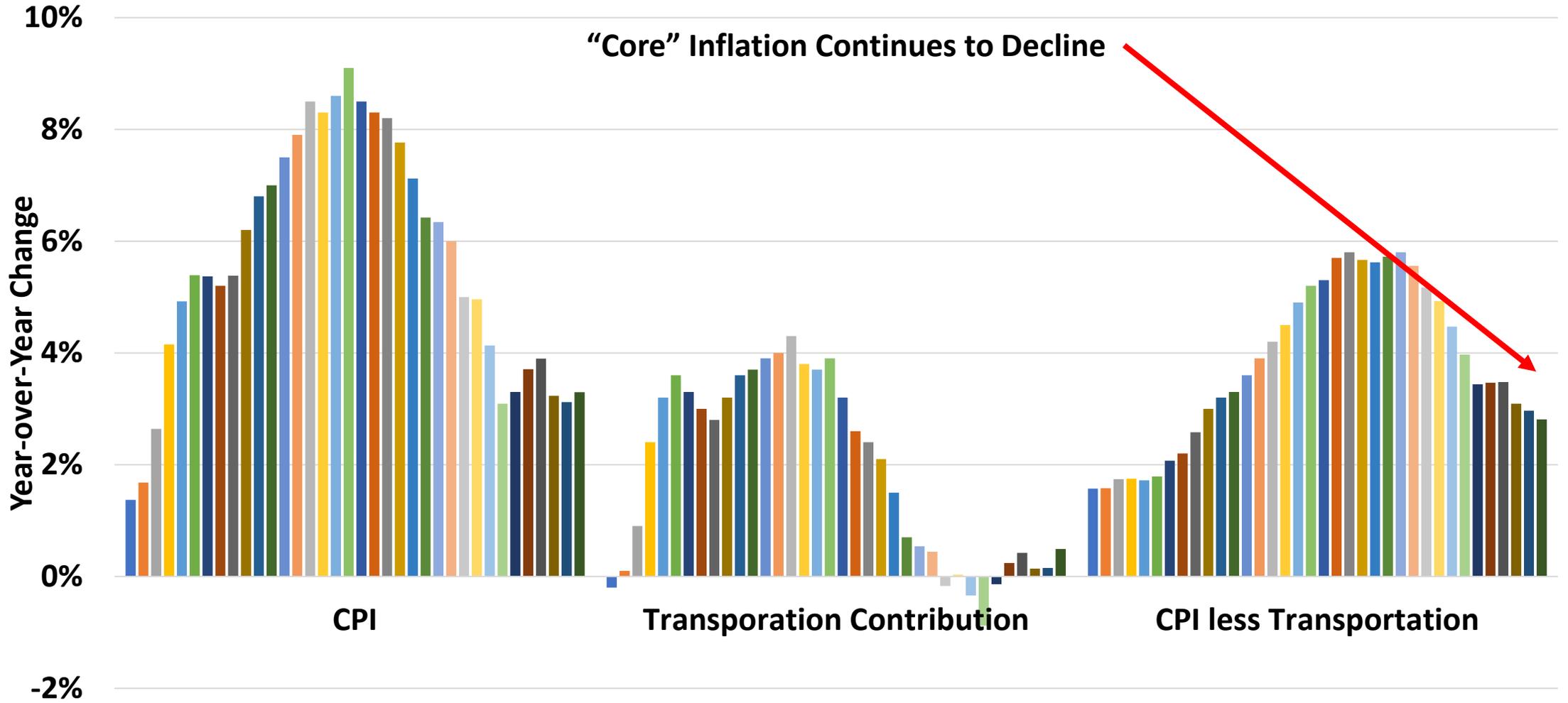


The Question is...

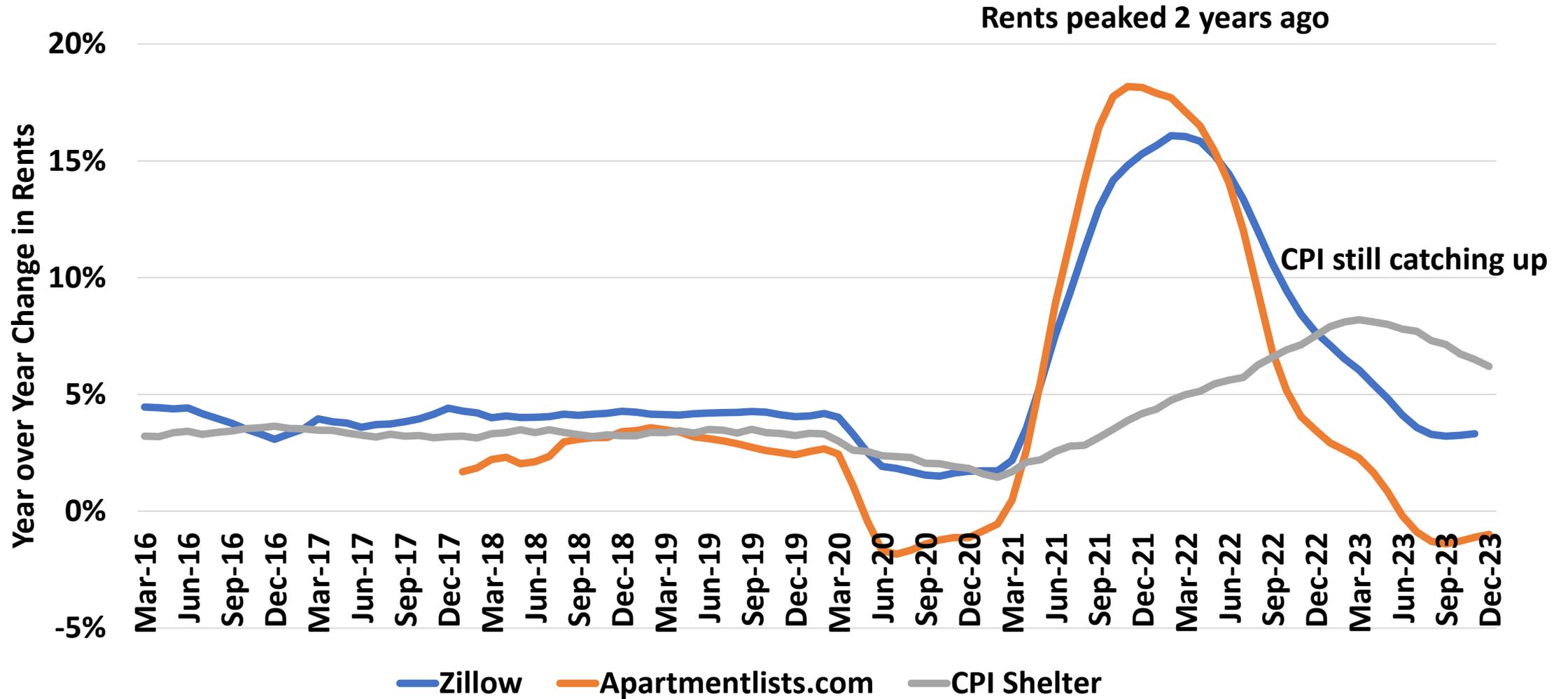
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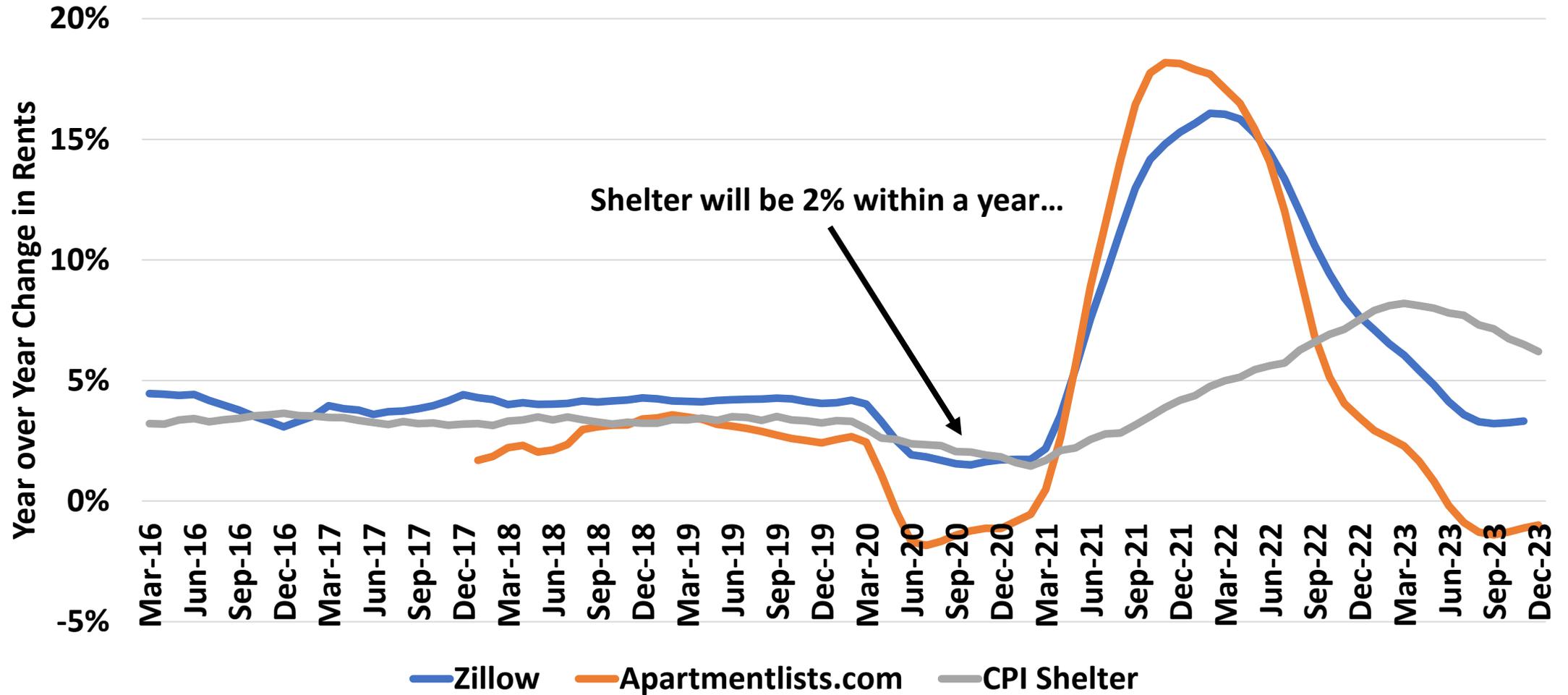
CPI Less Used Cars and Oil



Shelter is Lagging

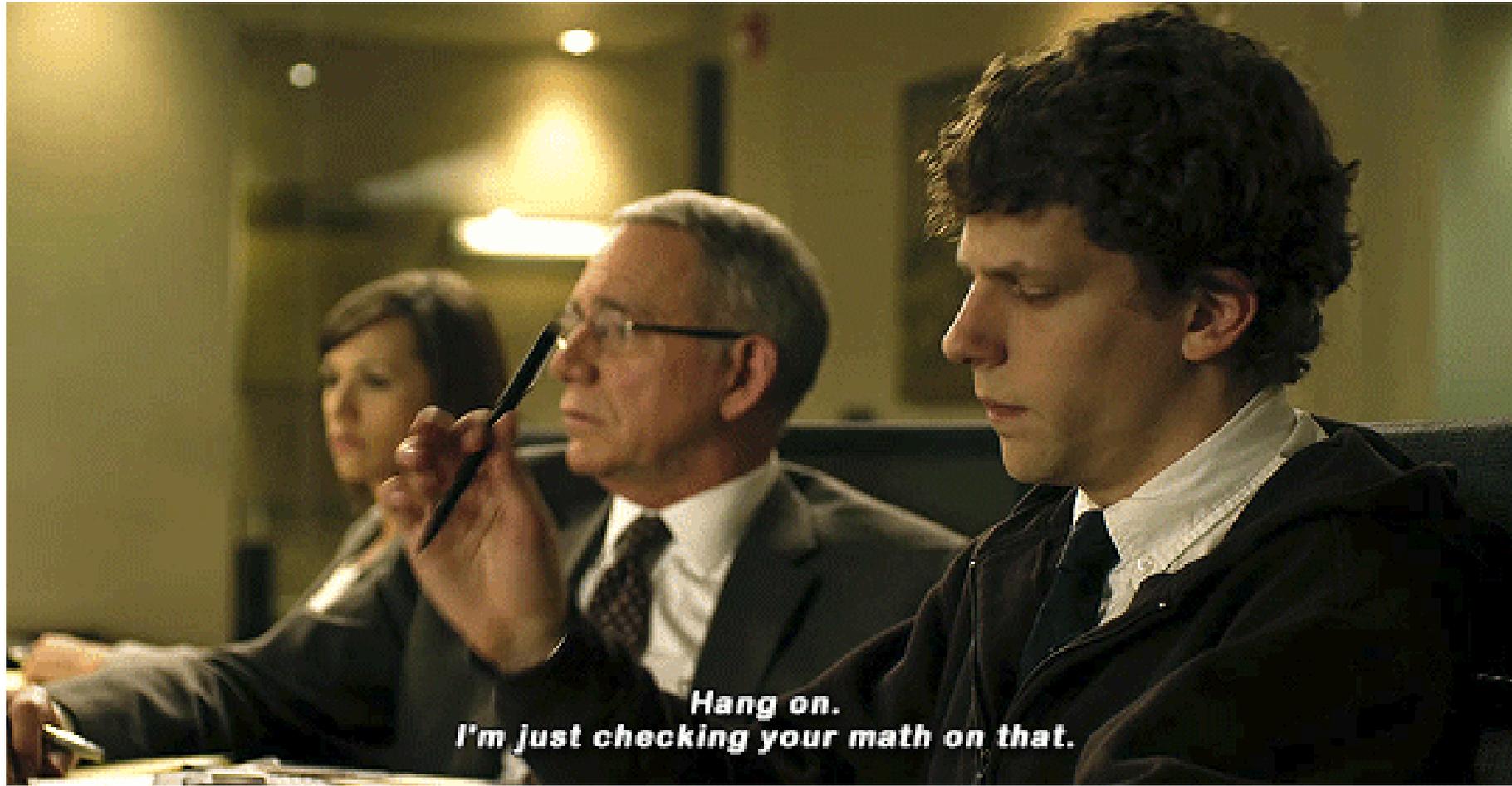


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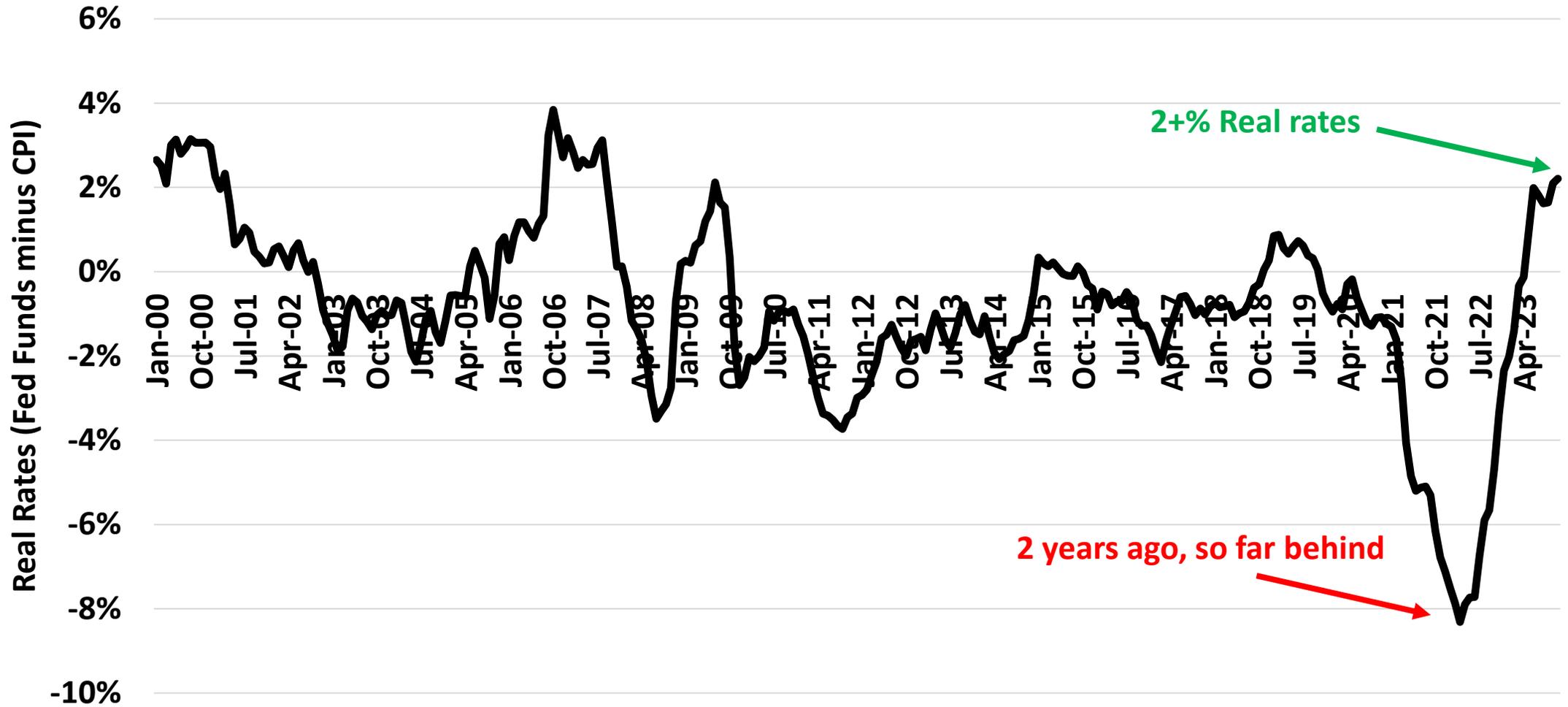


And Current CPI w/ 2% Shelter is.... 1.5%

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It's All about Real Rates



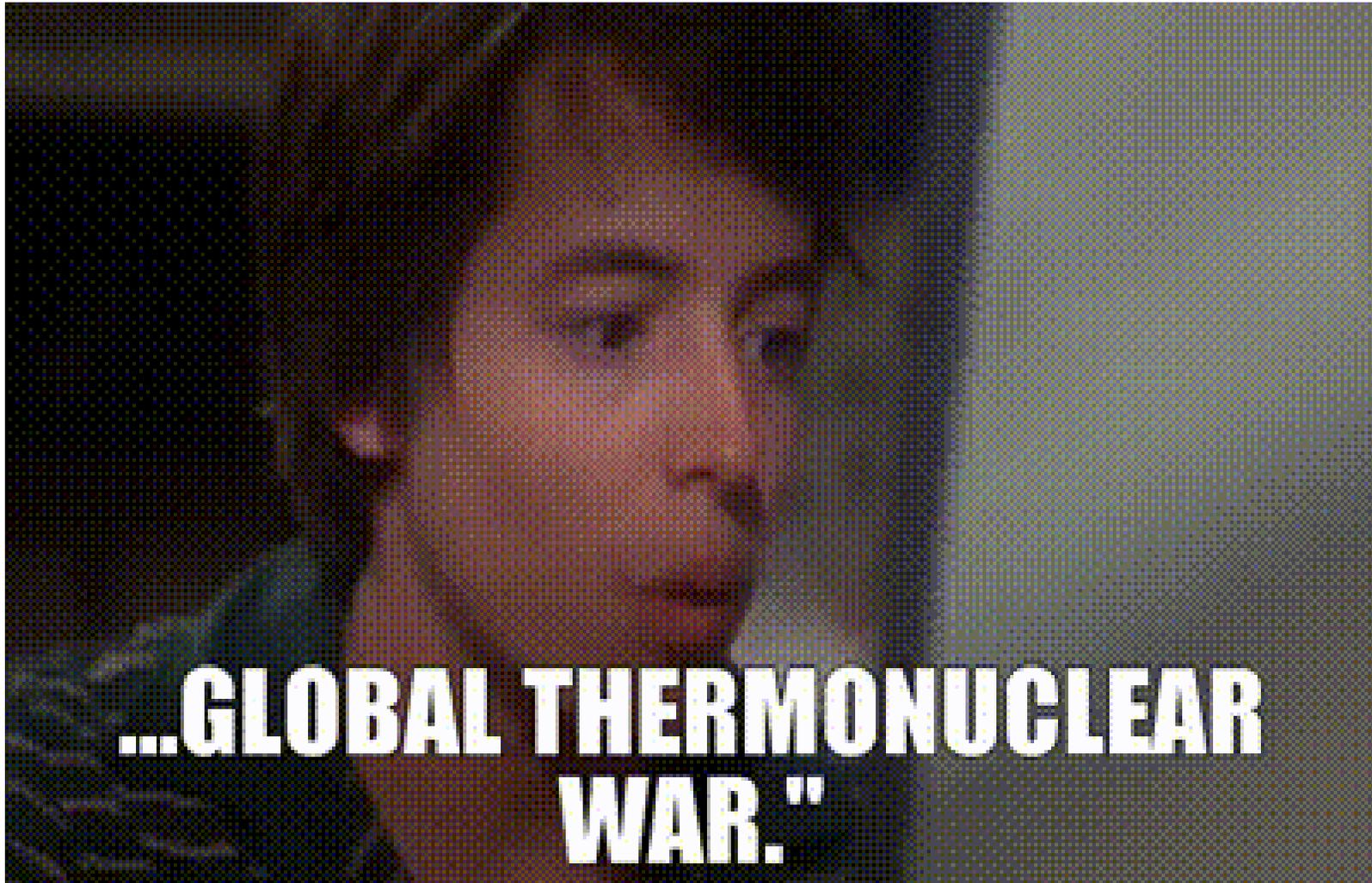
When Real Rates Are +, Motivated to be Like Hans

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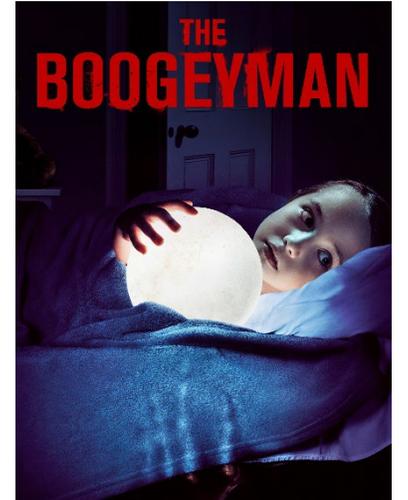
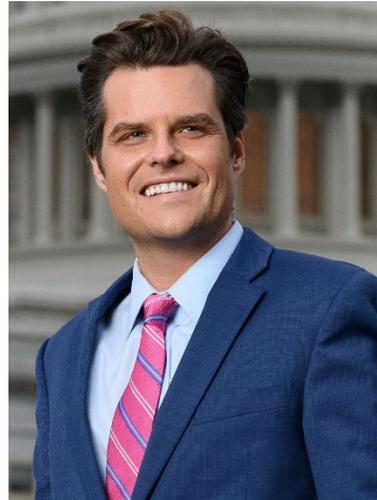
Other Potential Shocks

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Government Chaos

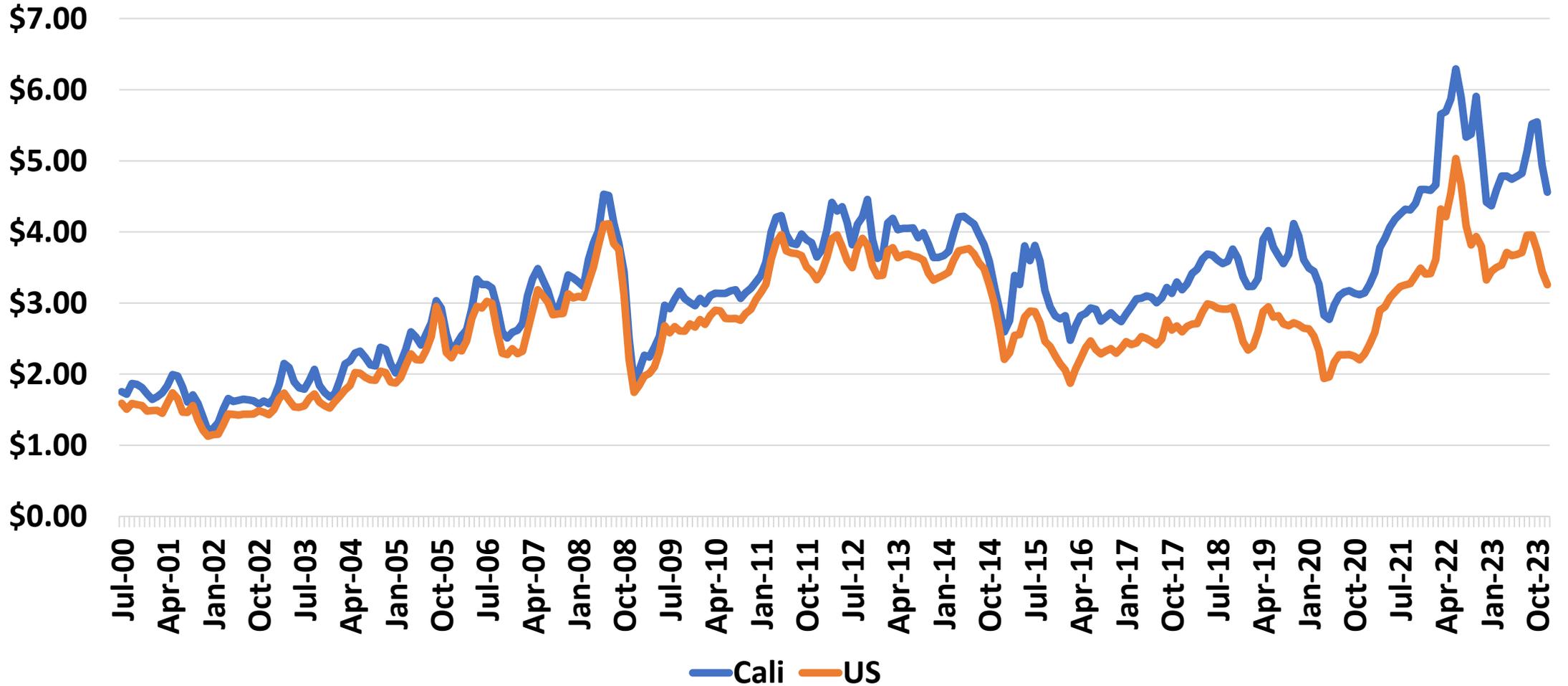
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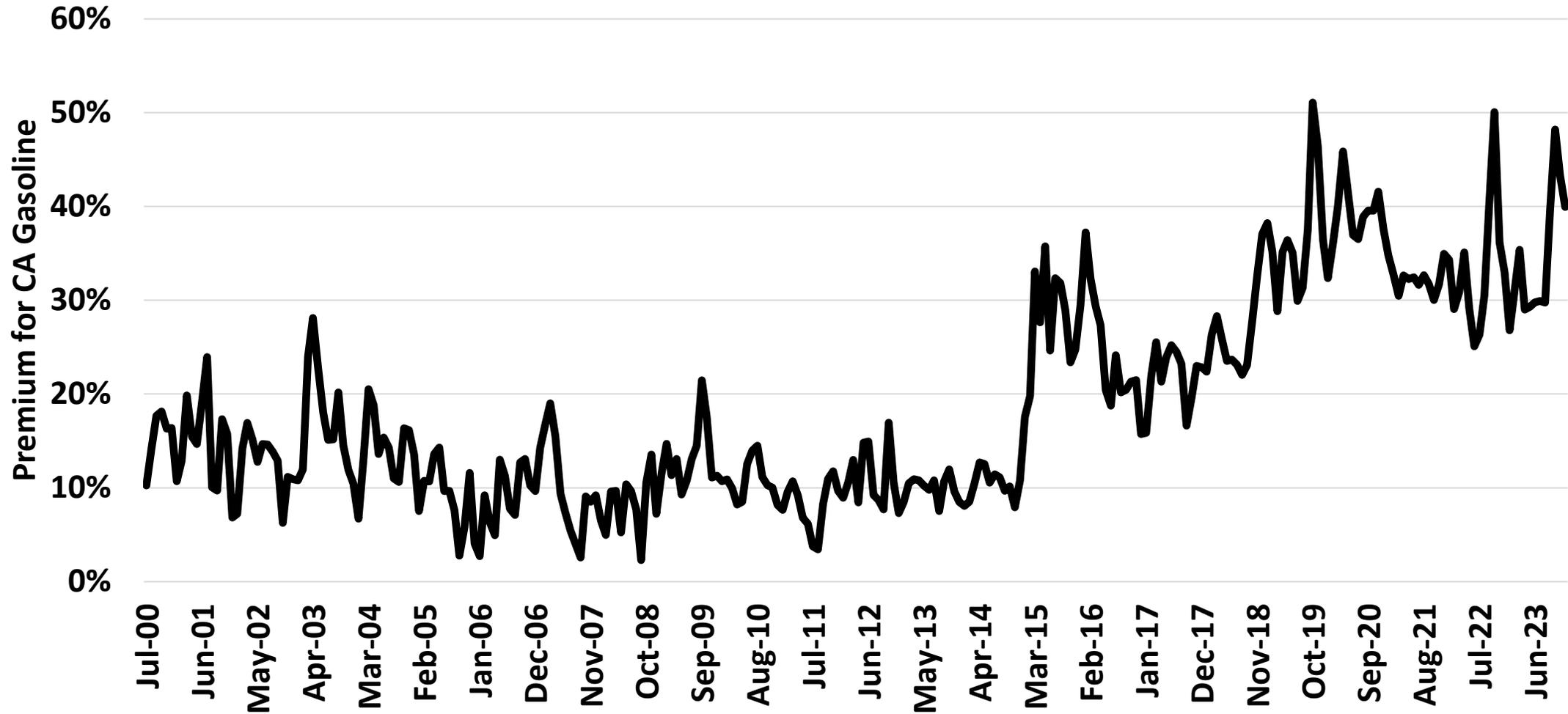
Student Loan Repayment

- Approximately \$1.8 trillion outstanding
 - 41mm borrowers, average payment \$390/month
 - Total \$16 billion per month
- Consumer Spending *Increase* per month 2023: \$110 billion
- Translation: Peanuts
 - Doesn't even count slow payment ramp
 - Future loan forgiveness
 - Etc.

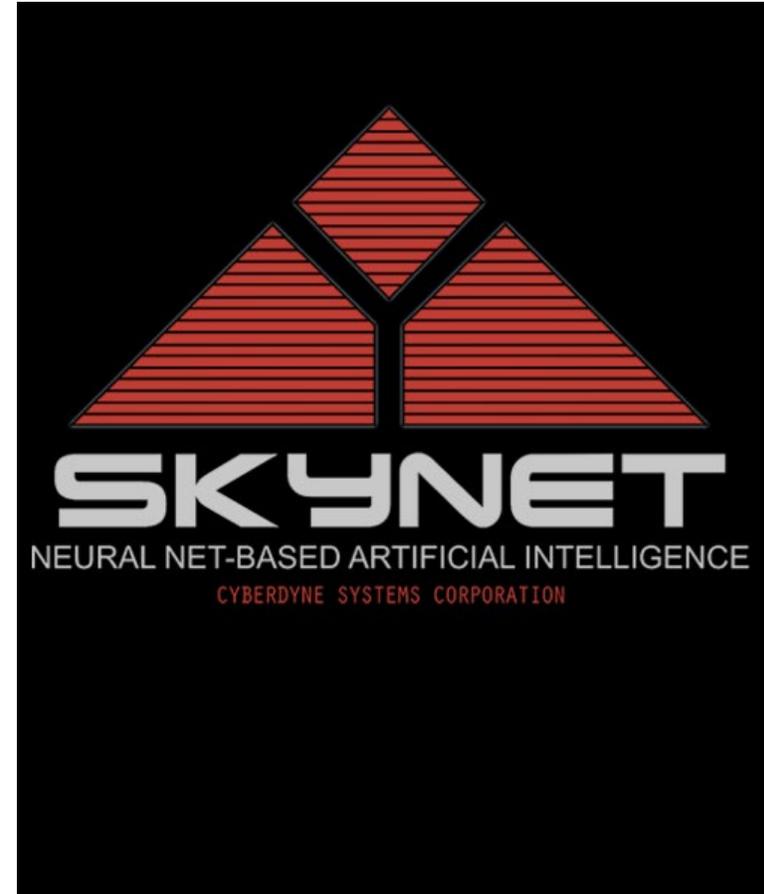
Maybe ...Gas Prices?



And No It's Not Your Imagination: CA Sucks



My One Last Possibility...



Economy Summary

- Cycle is closer to end than beginning
- Fed will need to lower rates to keep real rates reasonable to avoid recession
- Ultimate question: What is the shock that pushes down output?
- Long-term: Are we going back to 2000-2020 or Pre-2000?

Lloyd Has Better Chance than Stock Pickers

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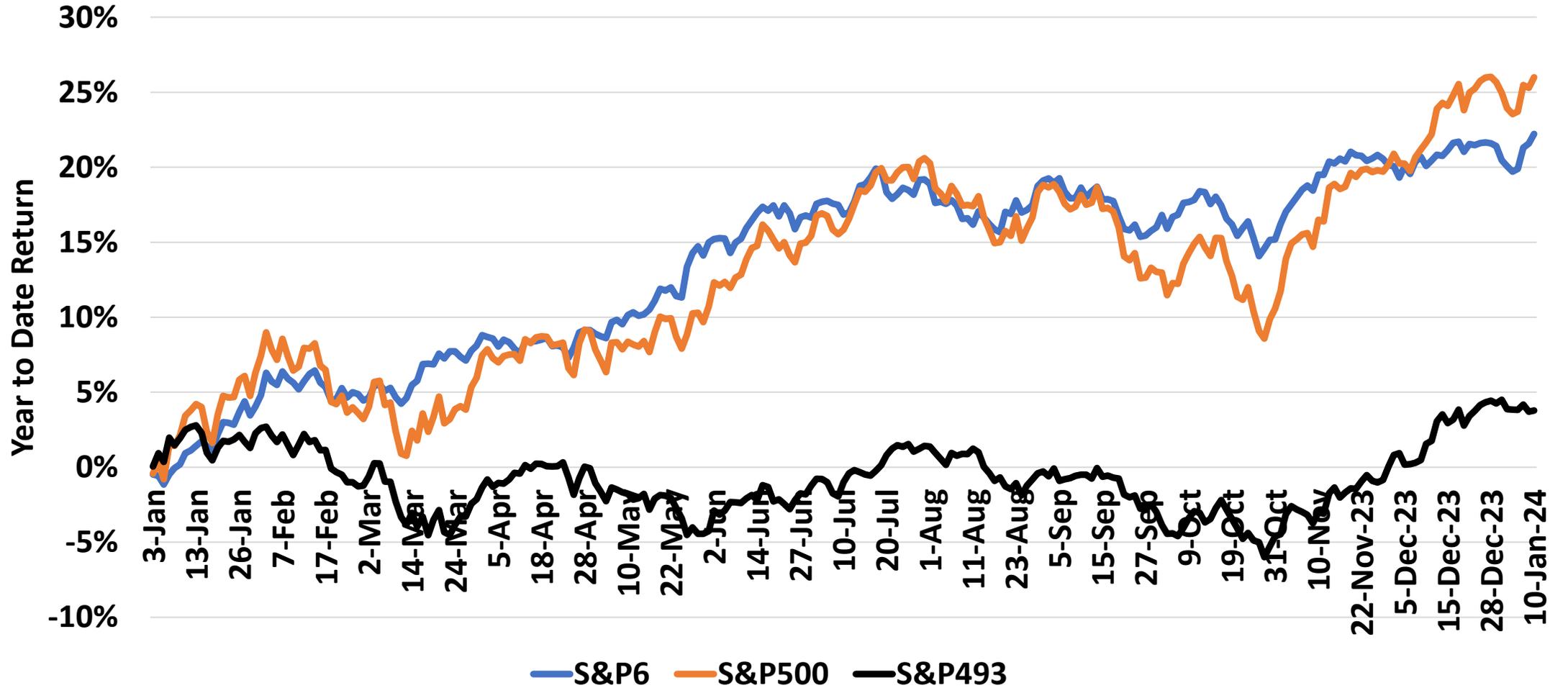


But You Know What Those Reddit People Are Saying

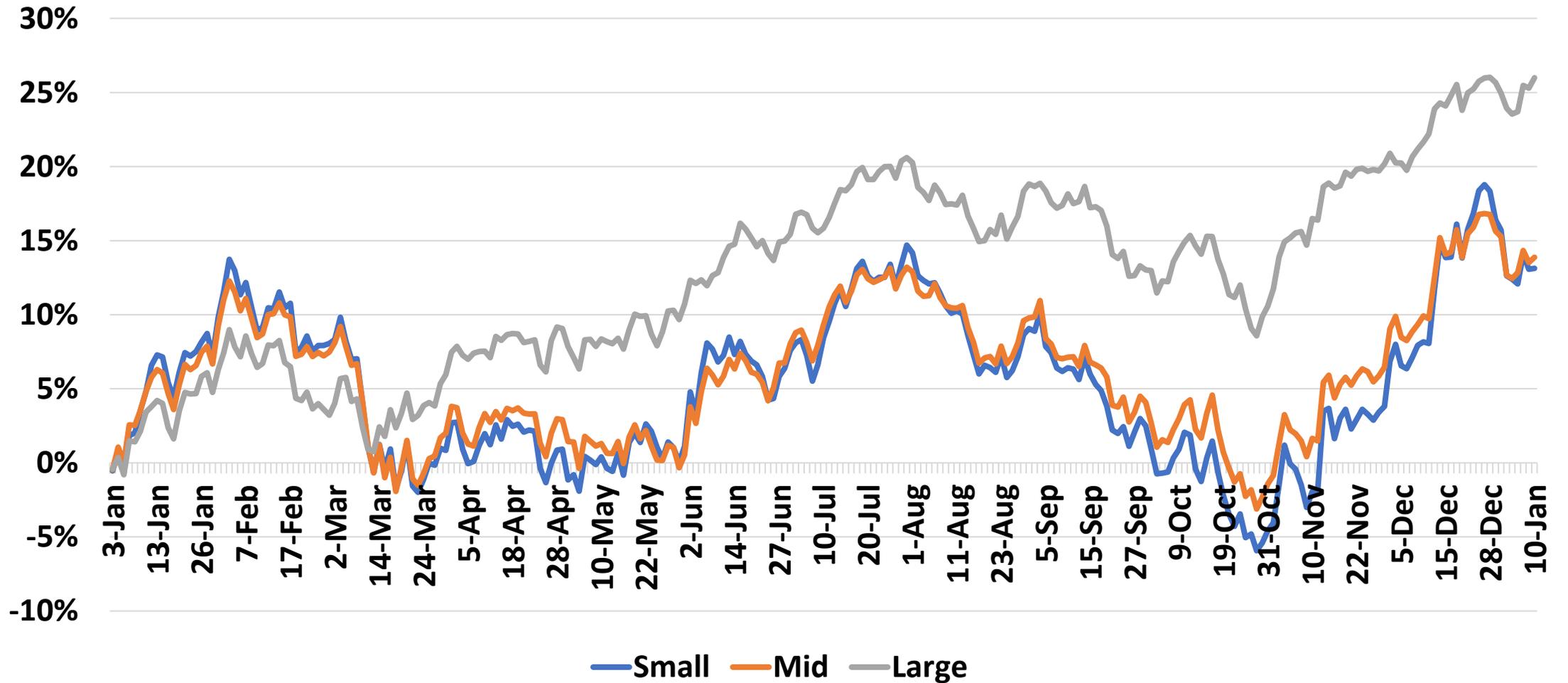
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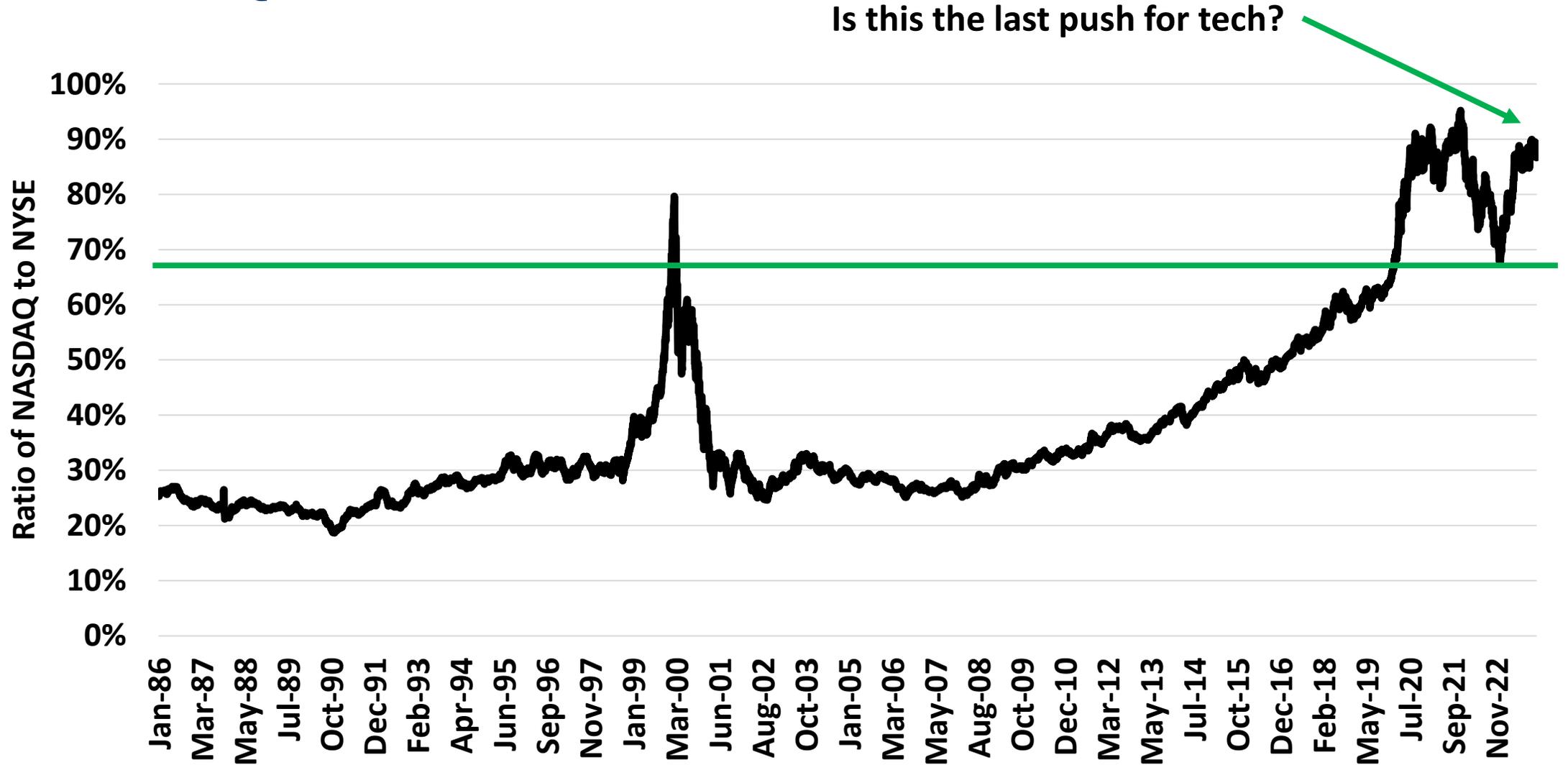
The Seductive Six



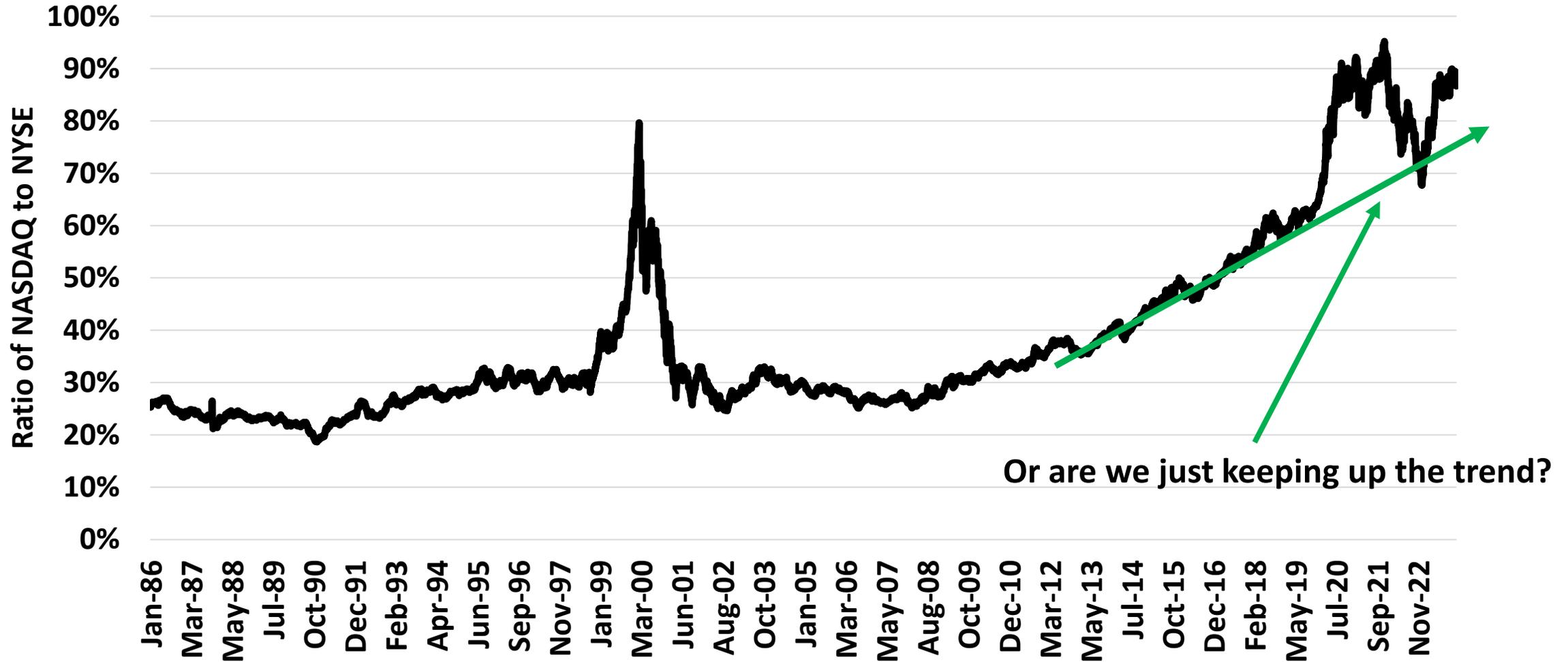
Large vs. Mid vs. Small



NASDAQ to NYSE



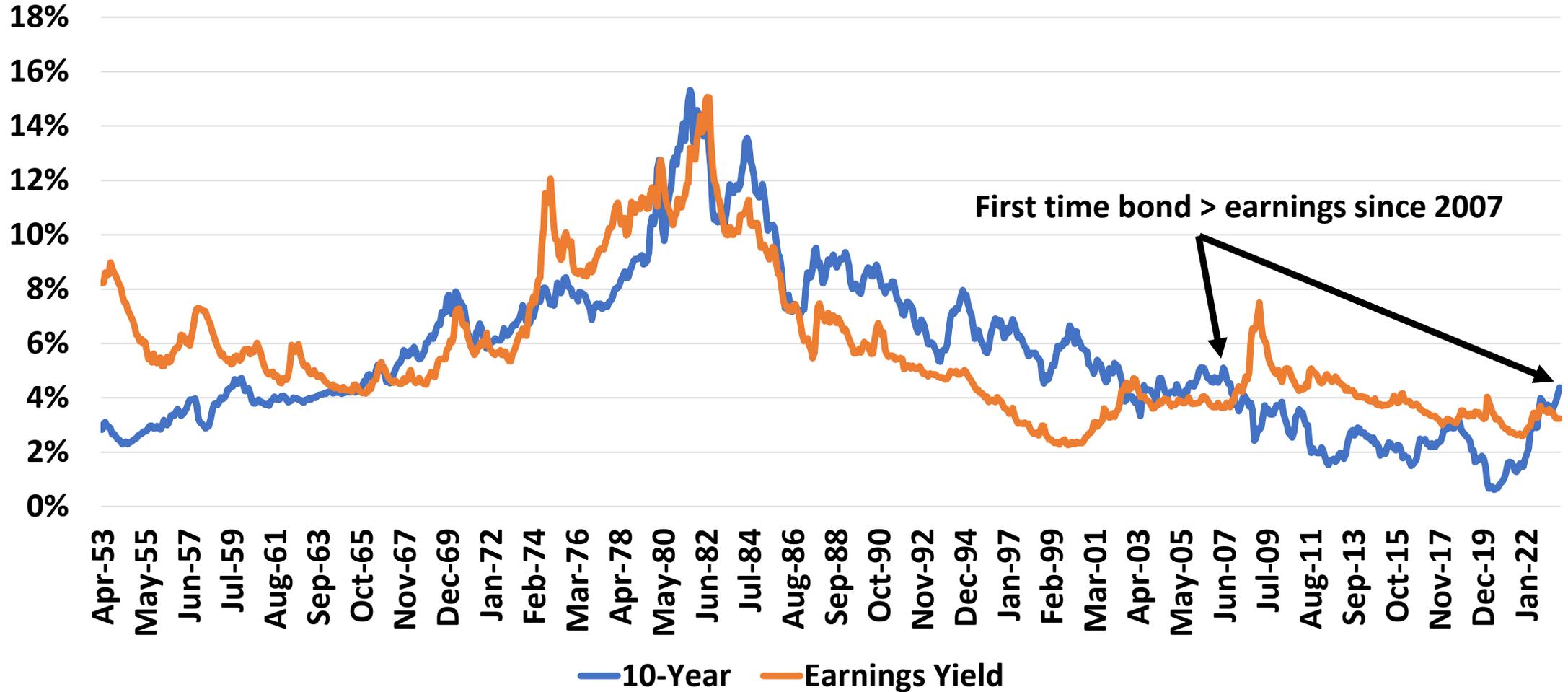
NASDAQ to NYSE



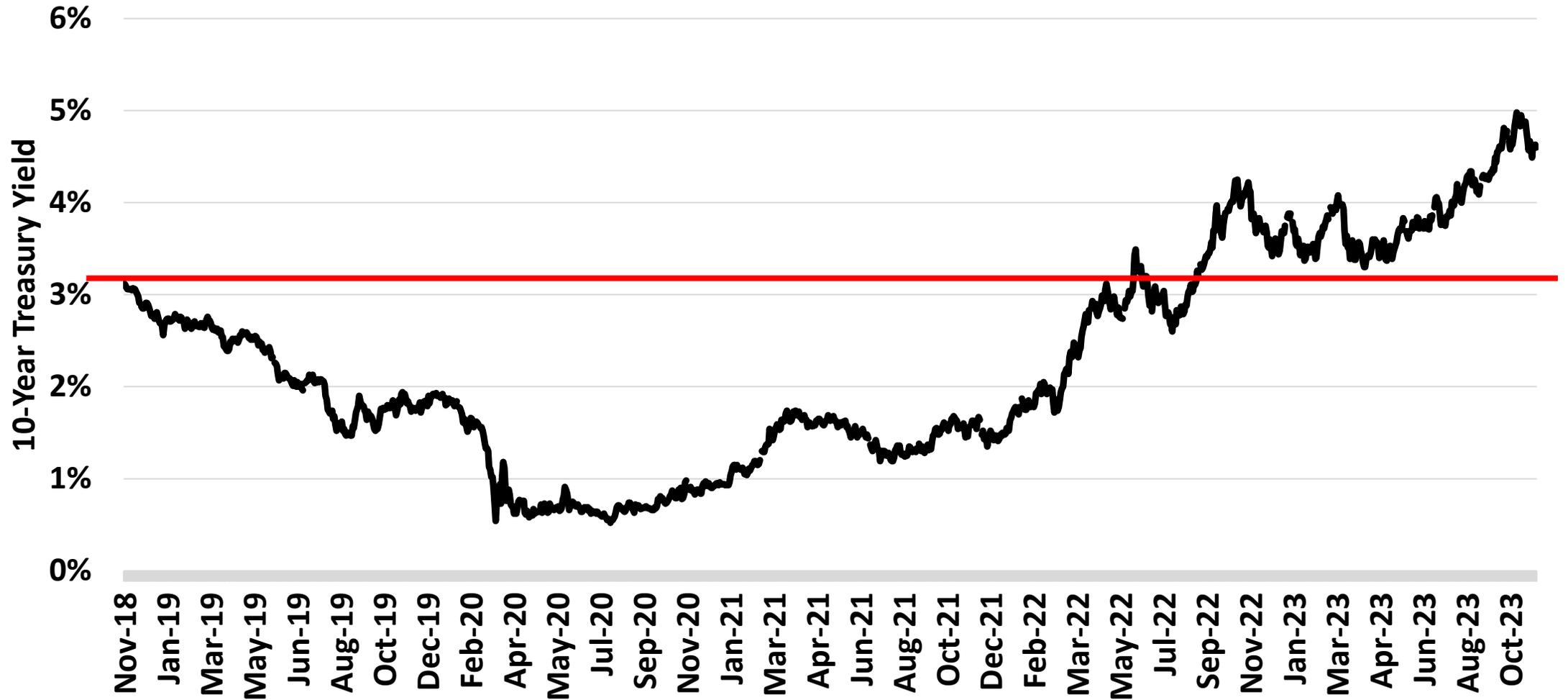
Absolute Stock Valuation High



Relative to Bonds... Depends



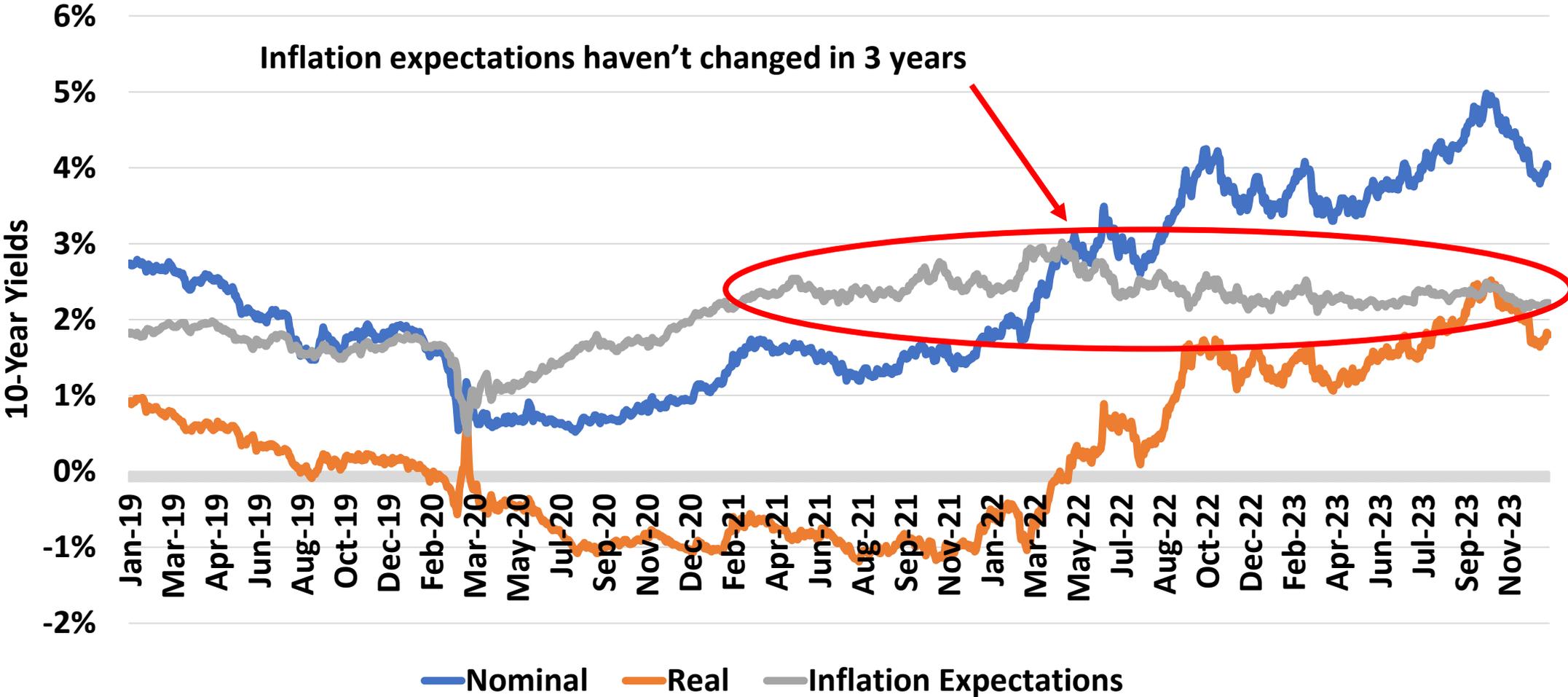
Rates Way Higher than Before C-O-V-I-D



But Still Historically Pretty Low

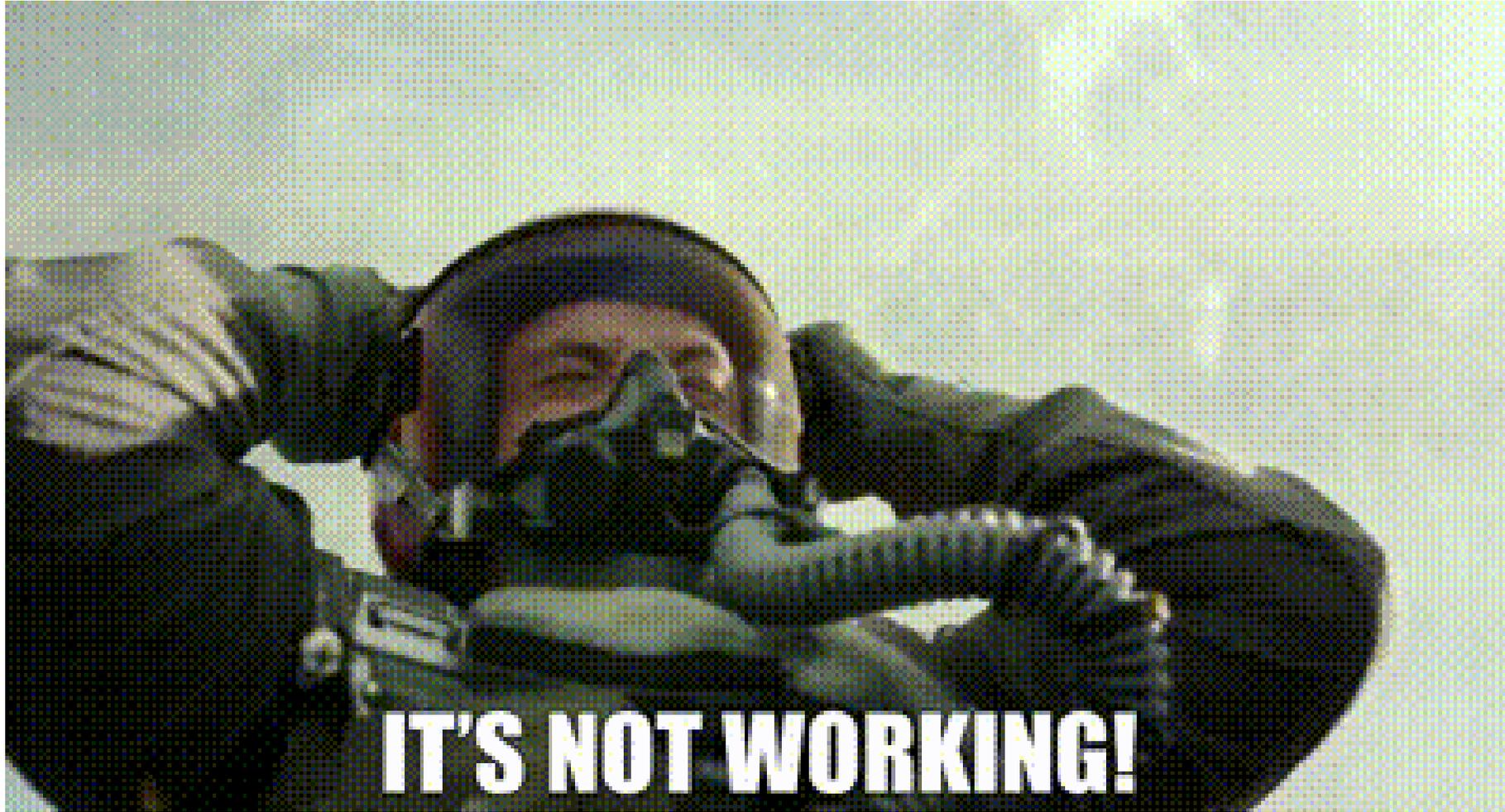


Note Recent Move is All Real Rate Increases

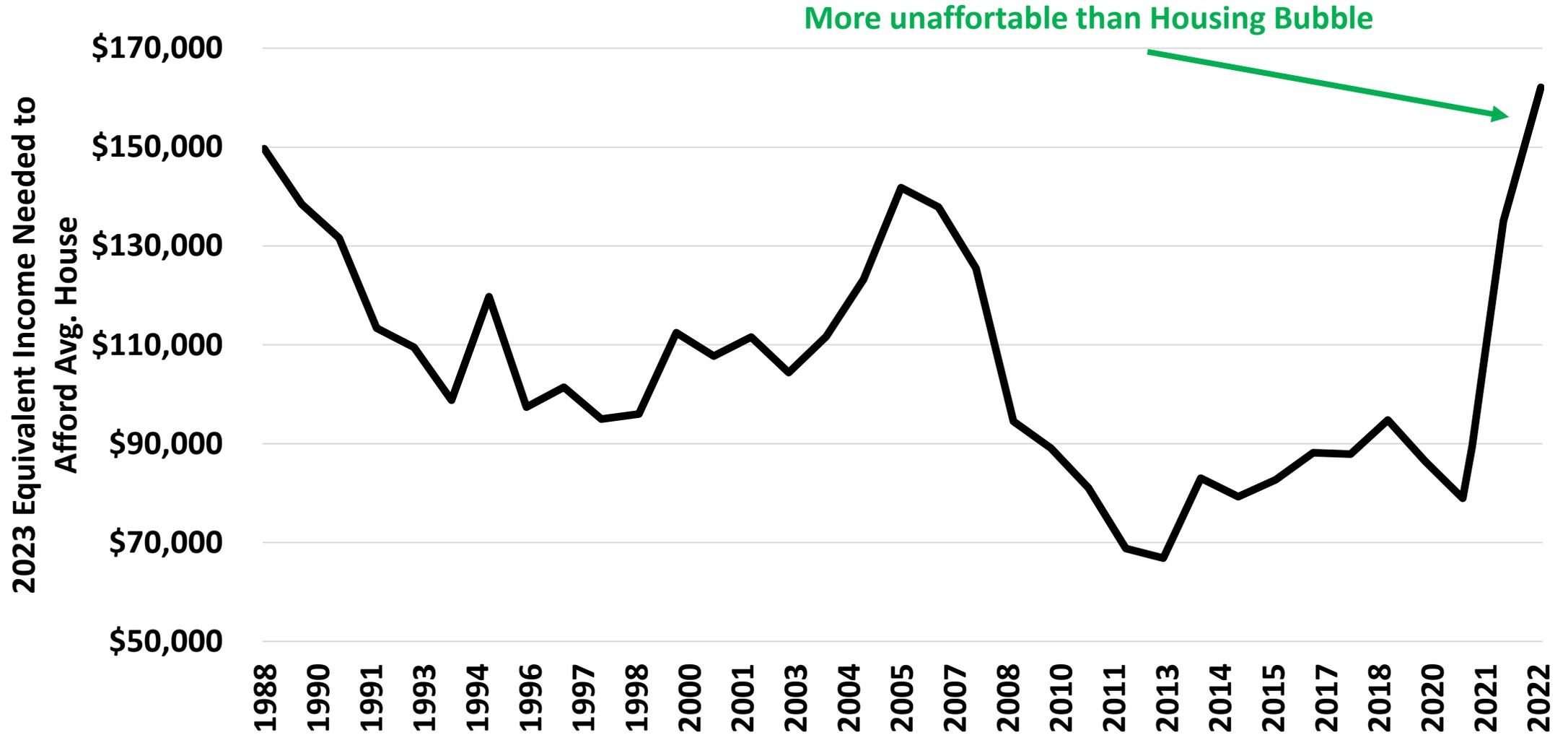


How the Housing Market is Doing?

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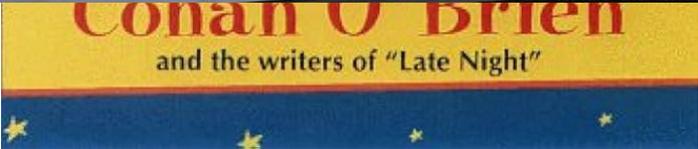
Housing Affordability



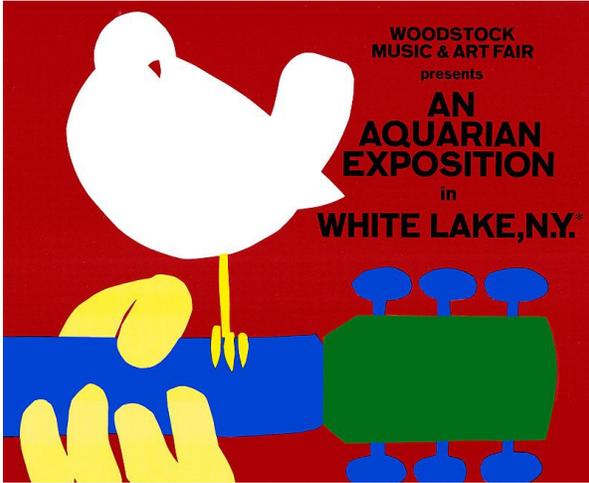
Putting It All Together



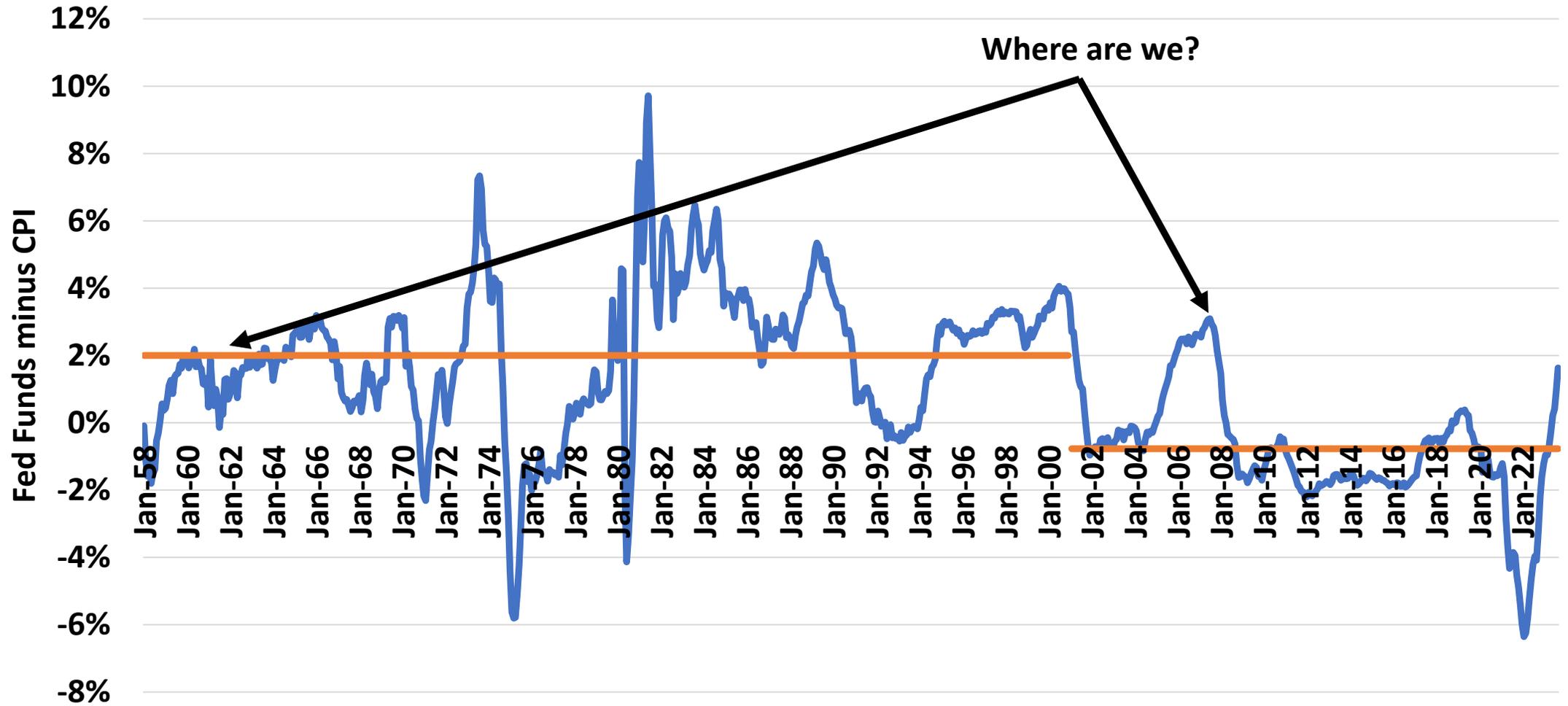
Your Choice



OR



You Have to Choose



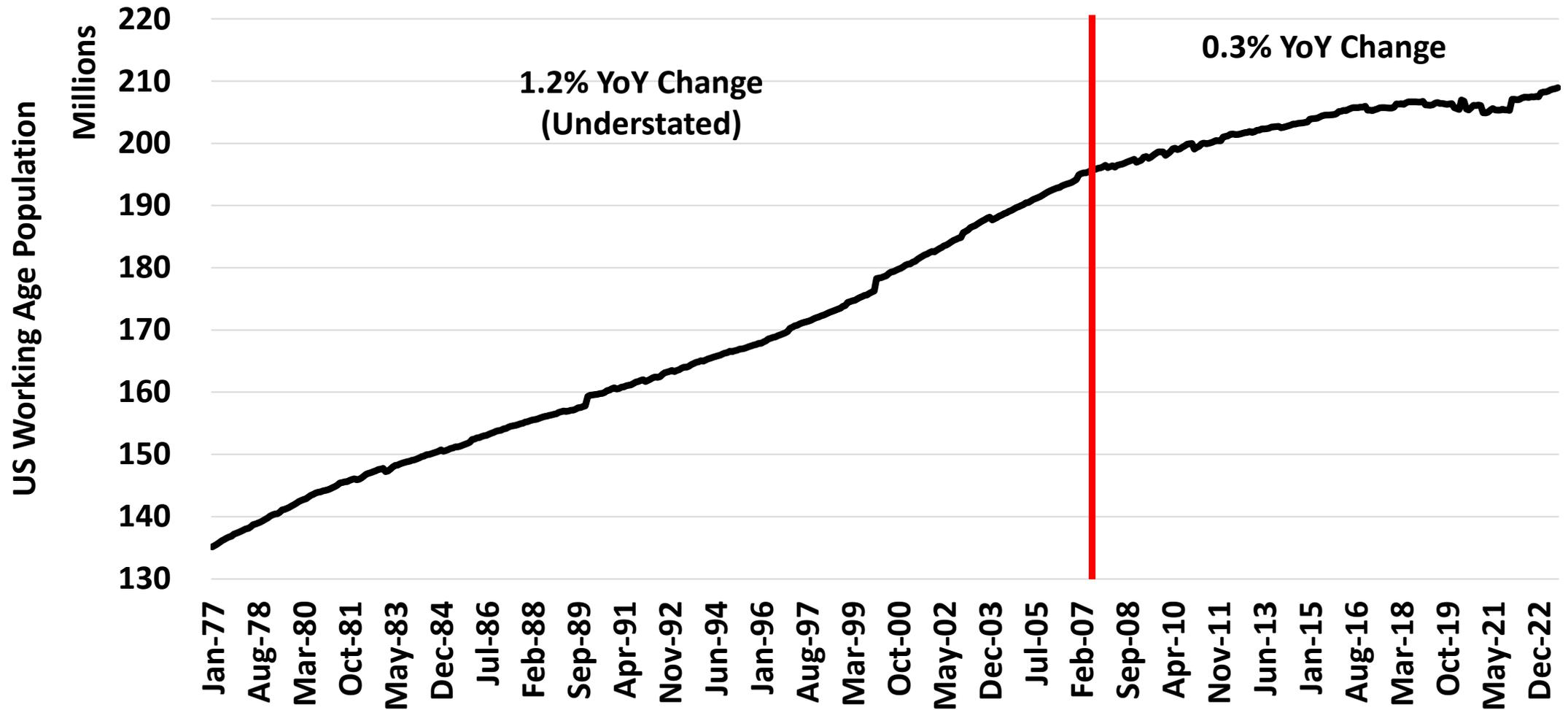
If You Think This is 1970 Then...

- Sell all your long-term bonds
- Buy tons of short duration bonds
- Sell all of your stocks
- Real Estate will struggle
- Buy Commodities

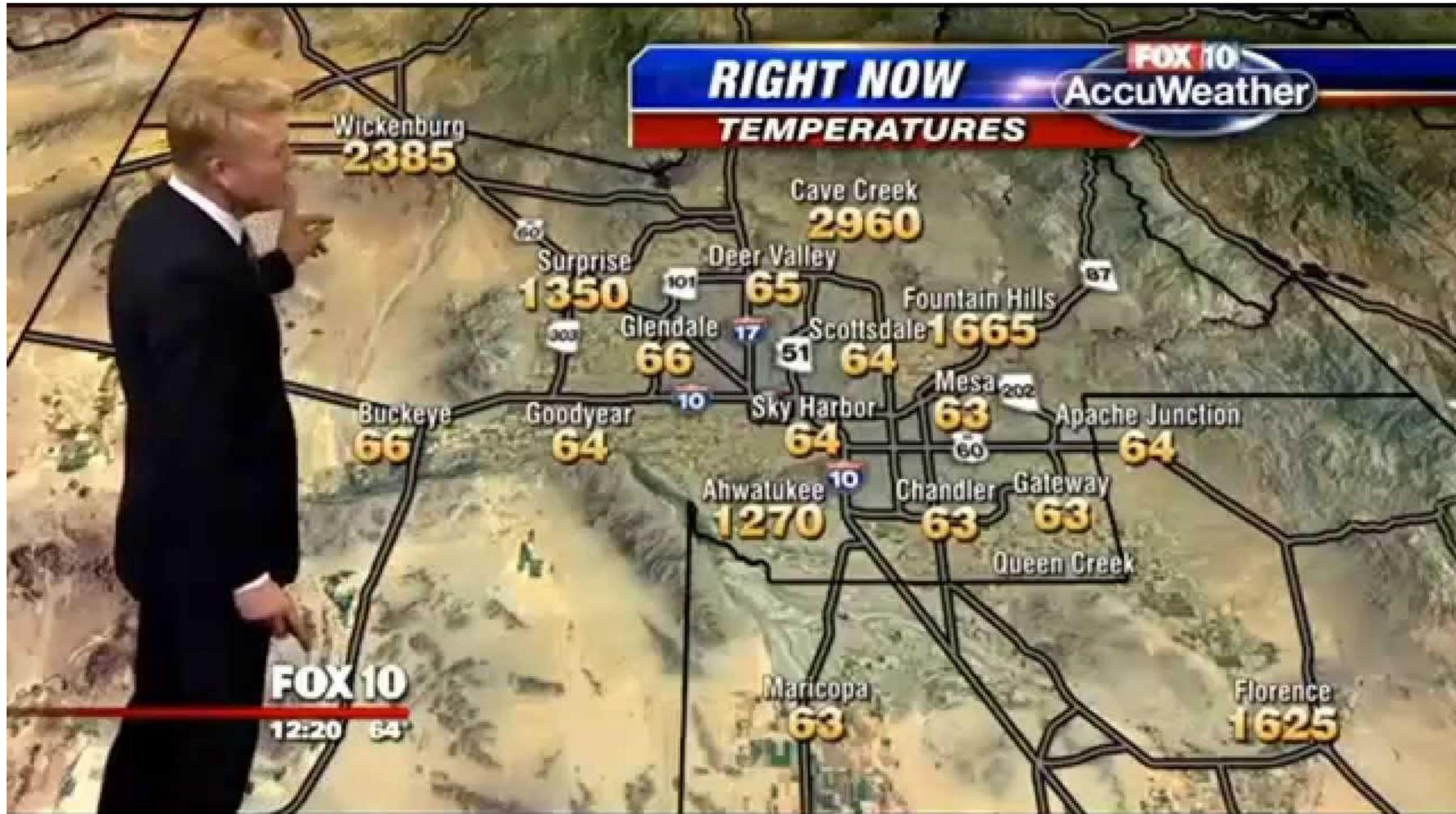
If You Think This is 2000/7 Then...

- Add lots of long-term bonds
- Lock in real rates
- Sell all of your stocks
- Real Estate (probably) struggle
- Sell Commodities

Demographics Tell Us Its 2000/7



But Just In Case I'm Wrong...



Conclusions

- Economy is still chugging along...
- ... eventually a shock will cause a recession
- Bonds look relatively more attractive here
- Open question: Did COVID move us back in time...
 - ... or is this just a temporary response to temporary policy changes?