Connor Bugni | HGT #1 | United States

Articles:

1. *US private payrolls rise by 374,000 in August – badly missing estimates as virus cases surge higher* – Business Insider (Winck)
2. *Advertising Slowdown Spreads Beyond Tech Giants to Hit TV Networks, Publishers* – WSJ (Vranica, Bruell)
3. *United States ISM Purchasing Managers Index (PMI)* – Trading Economics (Institute for Supply Management)
4. *U.S. Real GDP (Q2-2022 Second Estimate)* – TD Economics (Feltmate)
5. *Rise in U.S. business equipment spending allays recession fears* – Reuters (Mutikani)

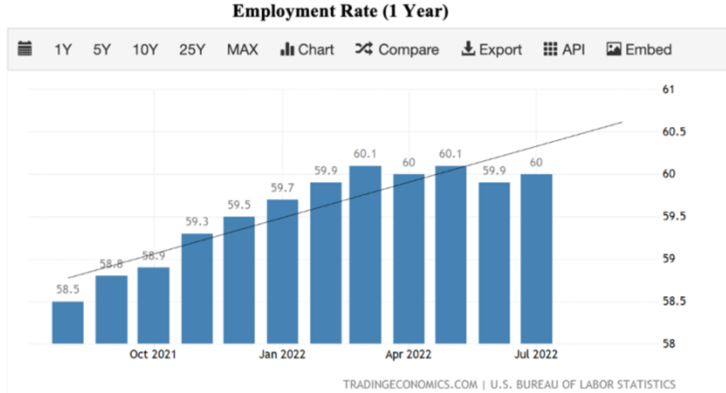
Introduction: We are in a unique period for the U.S. economy, and it is beyond difficult to determine where it is headed. Standard metrics upon which economic standing has historically been developed seem to conflict one another and serve to suggest neither an optimistic nor pessimistic outlook. Despite the creation of nearly 400,000 jobs in the past month, we see that the U.S. Treasury yield curve is inverted – traditionally an indicator of a coming recession. Orders for durable goods are normalizing, and yet, financial markets have rallied on hopes interest rate hikes will end by 2023. With many favored economic indicators failing to align, one must look at facts beyond their scope to develop an adequate forecast for the U.S. economy.

Facts:

- Labor demand is strong, and unemployment is anticipated to decrease from 5.4% to 5.2% (Winck)
- August is estimated to realize a 700,000- payroll gain (Winck)
- Advertising expenses are the first to be trimmed by businesses when economic outlook is not ideal (Vranica)
- Companies, such as Meta and Gannett, are reporting >8% declines in ad revenue for the most recent period (Vranica)
- Purchasing Managers Index (PMI) is continuing to decline, down from 53 in June to 52.8 in July (ISM)
- Q2 real GDP dropped by 0.6%, and business investment in infrastructure and equipment declined by 13.2% and 2.7% annually, respectively (Feltmate)
- Exports increased by 17.6% and imports grew by 2.8% (Feltmate)
- Core capital goods orders rose 0.4% in July, and core capital goods shipments increased by 0.7% (Mutikani)

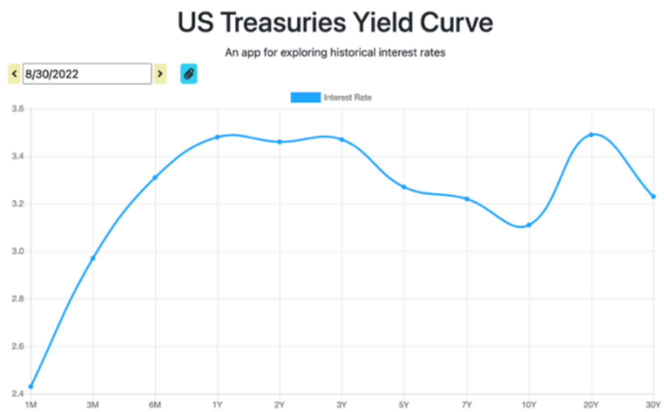
Analysis: Recent jobs data in the U.S. has been promising – we are seeing demand for labor remain strong and the unemployment rate is falling (Winck). In August, it is predicted over half a million jobs will have been created, suggesting an expanding economy and an optimistic outlook for Q3 and Q4. In conjunction with accelerating job growth, imports and exports posted considerable growth quarter-over-quarter, annualized (Feltmate). Despite abnormally high inflation, with the Consumer Price Index (CPI) up more than 8.5% over the year, orders for core

Employment Rate (1 Year)



capital goods have continued to rise, with orders up 0.4% in July (Mutikani). This data indicates that consumer demand has held, even as prices for goods have continued to rise. Growing orders for core capital goods further indicate that sentiment in the U.S. is relatively positive regarding the health of the economy.

Despite all the aforementioned promising economic indicators, there remain variables which suggest the economy is not as healthy as it seems. Particularly, media giants, such as Meta and Gannett, are reporting drops in ad revenue exceeding 8% (Vranica). During times of financial uncertainty, these expenses are often the first to be trimmed because businesses are conserving cash. Furthermore, real GDP has declined by 0.6% and the Purchasing Managers Index (PMI) is trending downward over the most recent quarter (Feltmate, ISM). Perhaps most significant is the inverted yield curve of U.S. Treasuries. Less money is flowing into short-term government bonds as sentiment deteriorates on the near term. Considering the role of each of these variables, the only position that can be conclusively decided is the current state of the U.S. economy is neither healthy, nor unhealthy. The cases for optimism and pessimism are equally uncompelling, thus people ought to prepare for a more volatile period ahead as the narrative continues to develop.



(Source: ustreasuryyieldcurve.com)

Lessons Learned: Based on the data and analysis mentioned above, it is clear the case of the U.S. economy is one of complexity. Indicators suggest both an increasingly healthy economy, as well as one in which its health is deteriorating. With such conflicts of data, the only reasonable positioning actions to be taken are ones assuming a choppy economy and volatile equity markets. Even as financial markets have rallied recently, given the data supporting the possibility of a downward economic shift, it would seem markets have jumped the gun by pricing in a healthy, expanding economy in the near future. Although the Fed has pledged to aggressively combat inflation and we have even seen larger-than-expected price reductions already, it is simply too soon to adequately develop an accurate economic forecast one way or another. Investors and businesses alike would be well served to position themselves for uncertainty over the coming months.

Implications: Given the reality of elevated volatility over the near-term, businesses will have to be even more strategic in their operations and financing than usual. To best navigate choppy waters, businesses will need to begin conserving cash and minimizing their capital expenditures. Liquidity will be imperative over the coming months, and on that point, deleveraging will play a critical role in keeping some businesses competitive (and afloat). Businesses will have to focus on customer retention and relationship management, instead of conversion, to ensure existing cash flows remain stable throughout the turbulence. Whether a business will be able to grow in this economy will depend on their size and current financial position, but for many smaller companies their focus will have to be on survival. It is unlikely any company will pursue accelerated growth plans while interest rates are at their current levels, ultimately leading one to conclude growth will not be a major focus for many companies in the current economic climate.