2024: COMING BACK TO REALITY

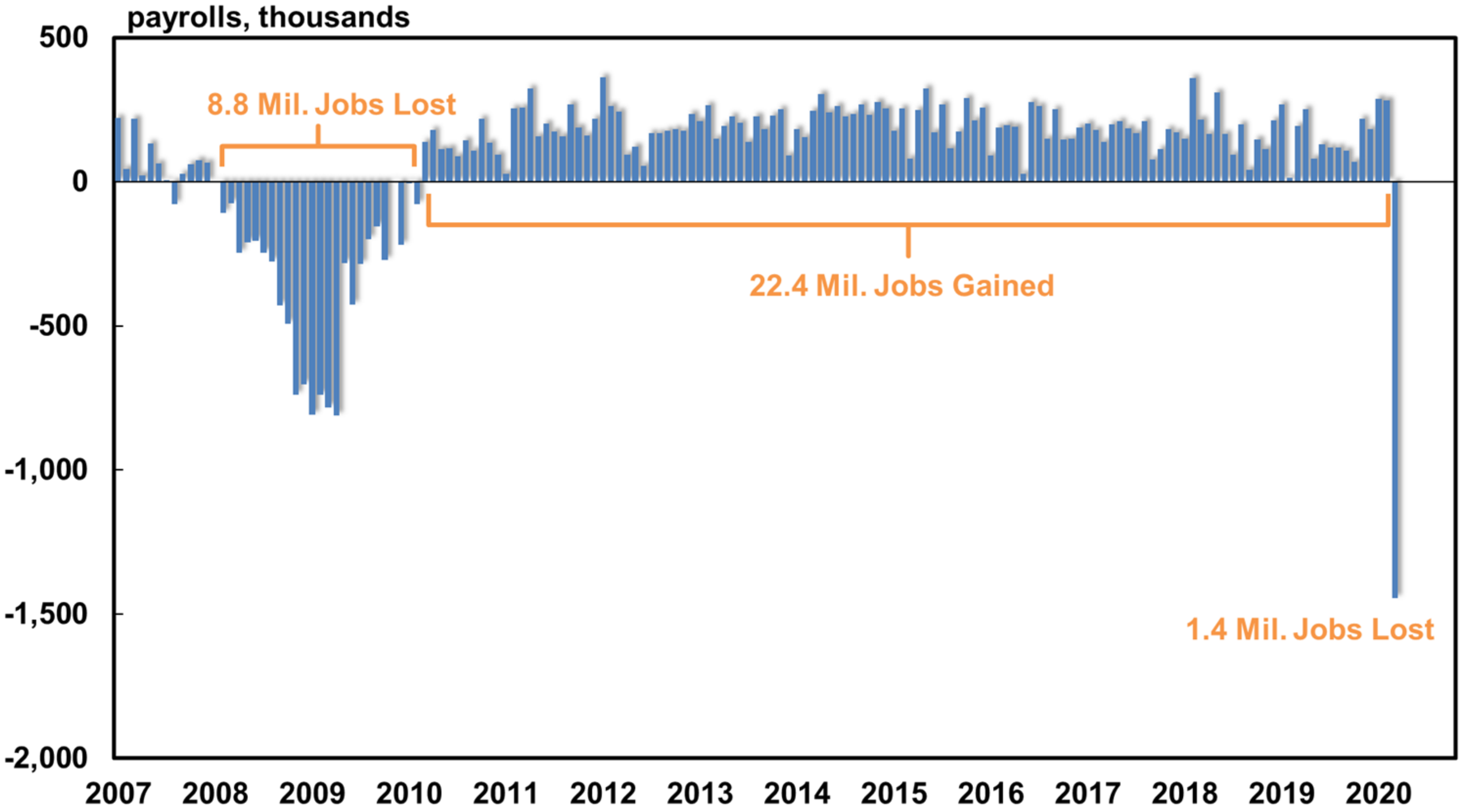
STRIDER ELASS
SENIOR ECONOMIST
TWITTER: @STRIDERELASS

First Trust


Just Married
EAH 580

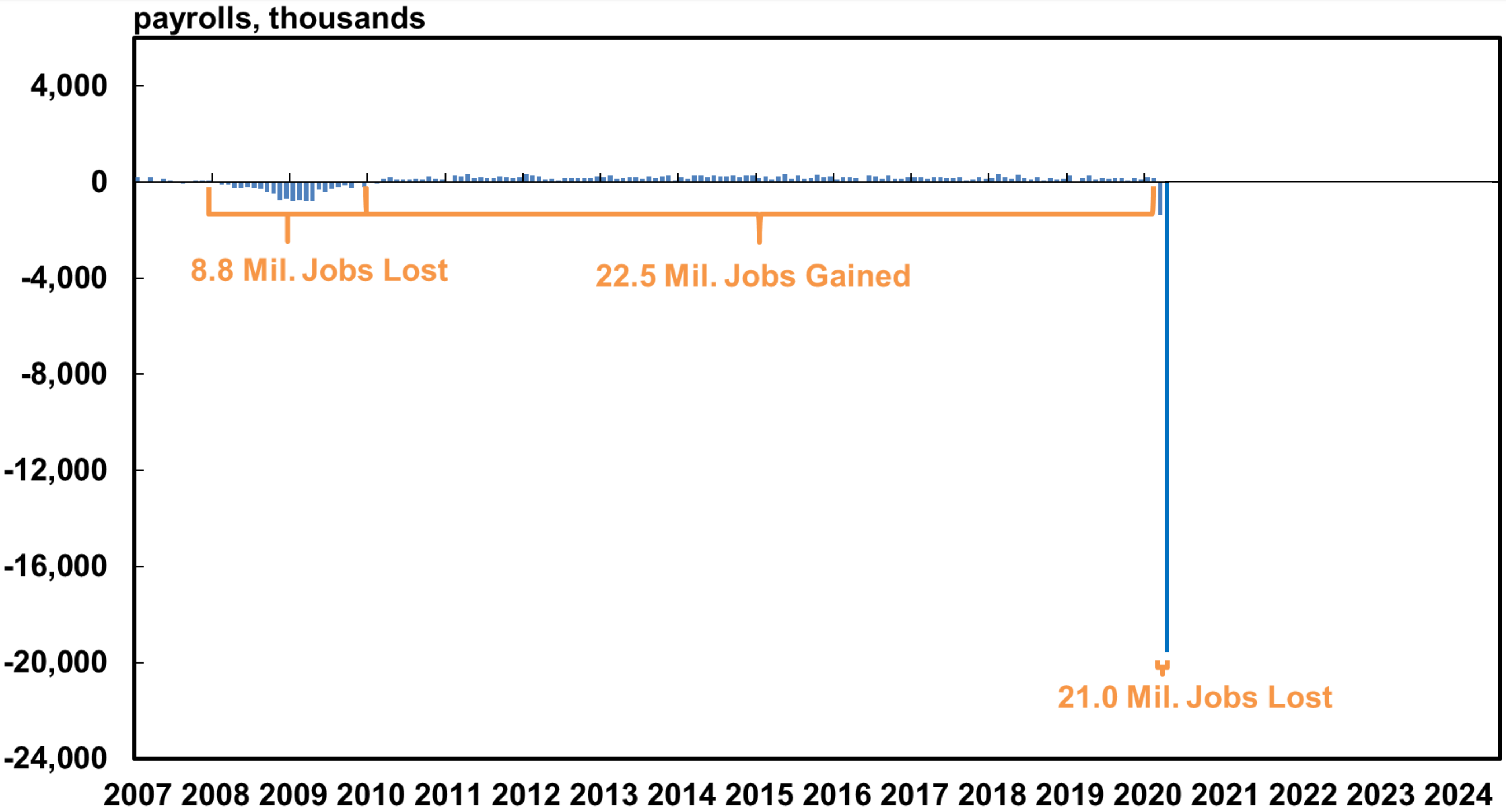
Things Aren’t Always The Way They Appear!

PRIVATE PAYROLLS, MONTHLY CHANGE



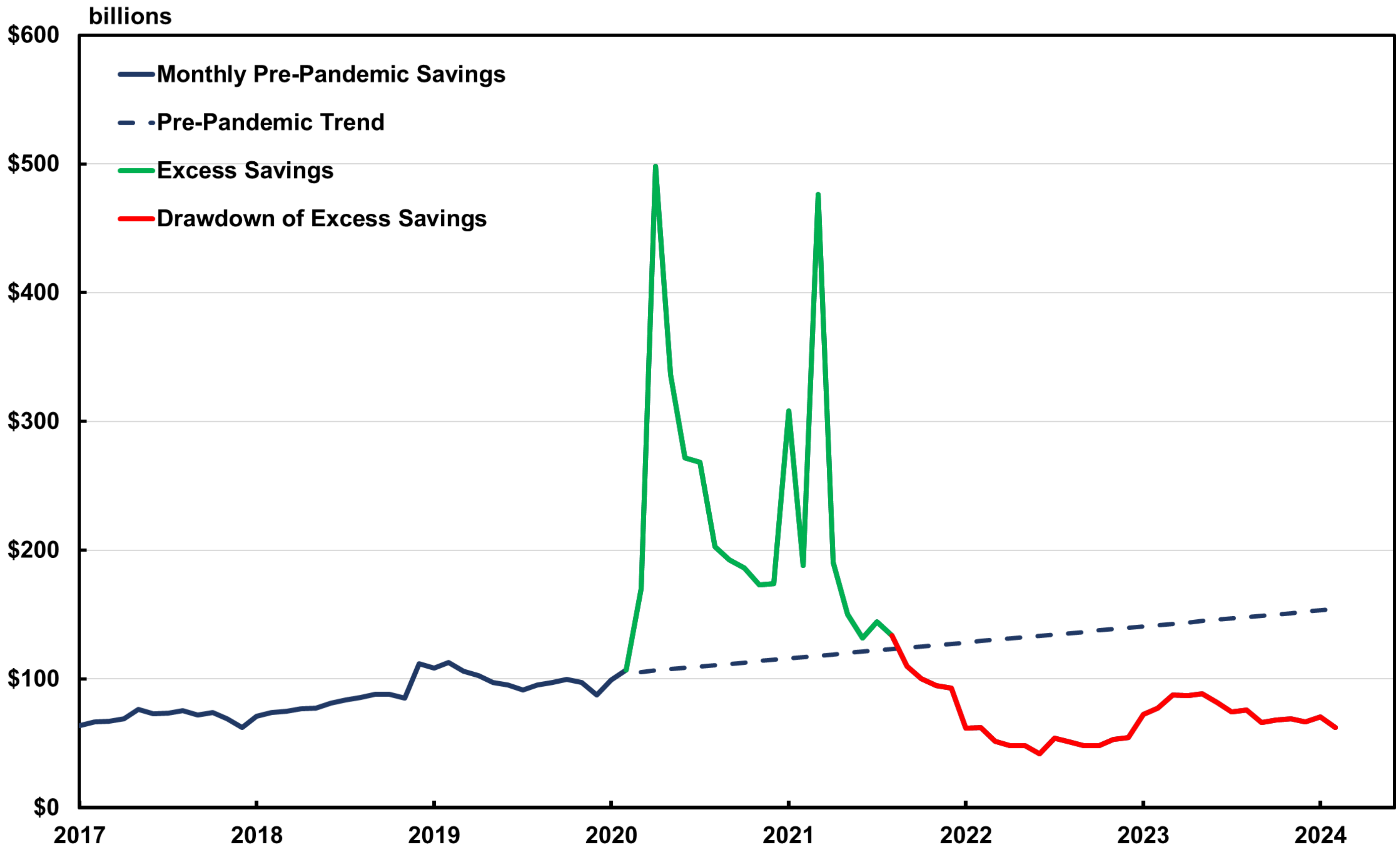
Source: Bureau of Labor Statistics. Data from January 2007 – March 2020

PRIVATE PAYROLLS, MONTHLY CHANGE



Source: Bureau of Labor Statistics. Data from January 2007 – March 2024

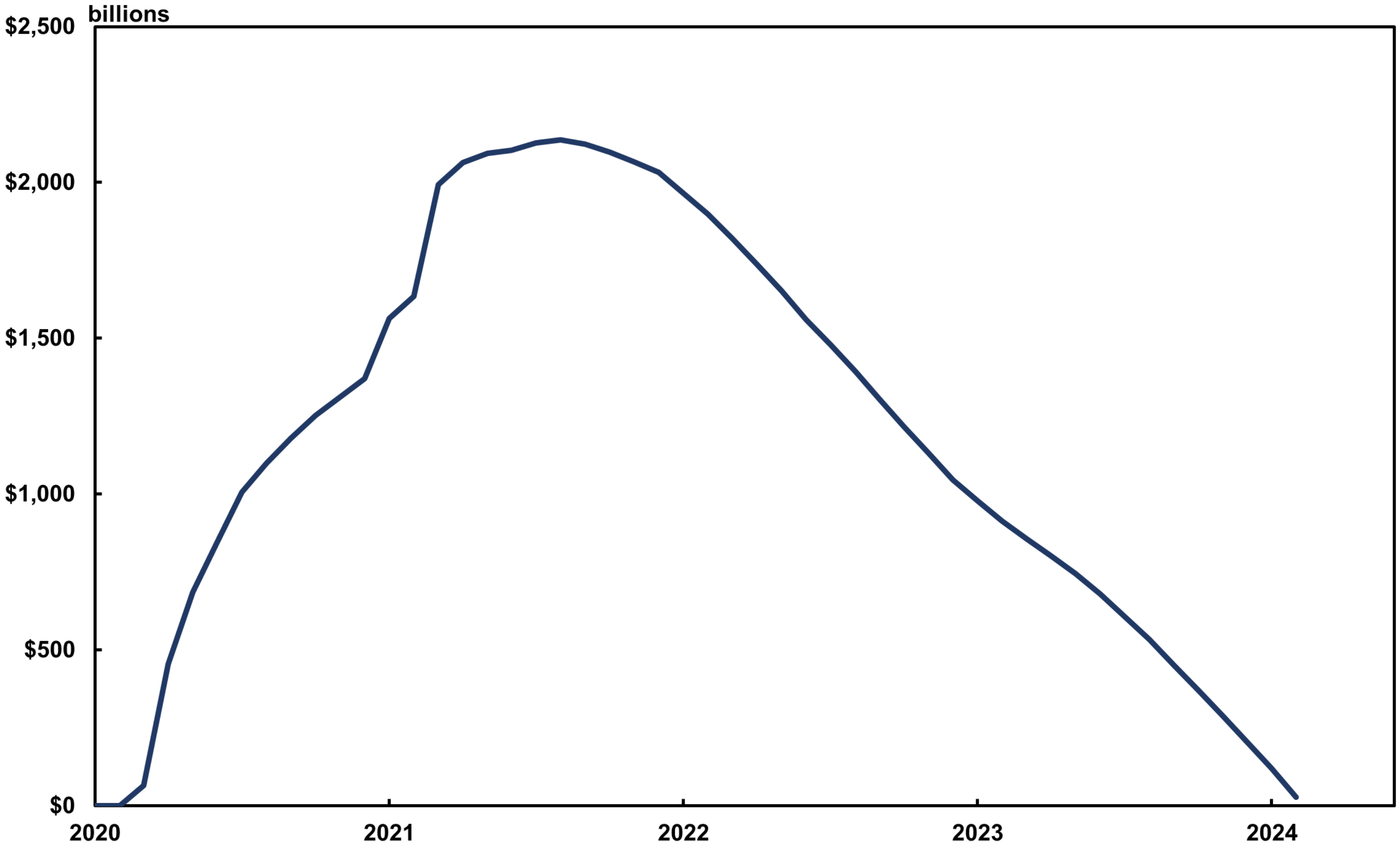
EXCESS SAVINGS



Source: Bureau of Economic Analysis, Federal Reserve Bank of San Francisco, First Trust Advisors, Data from January 2017 – February 2024

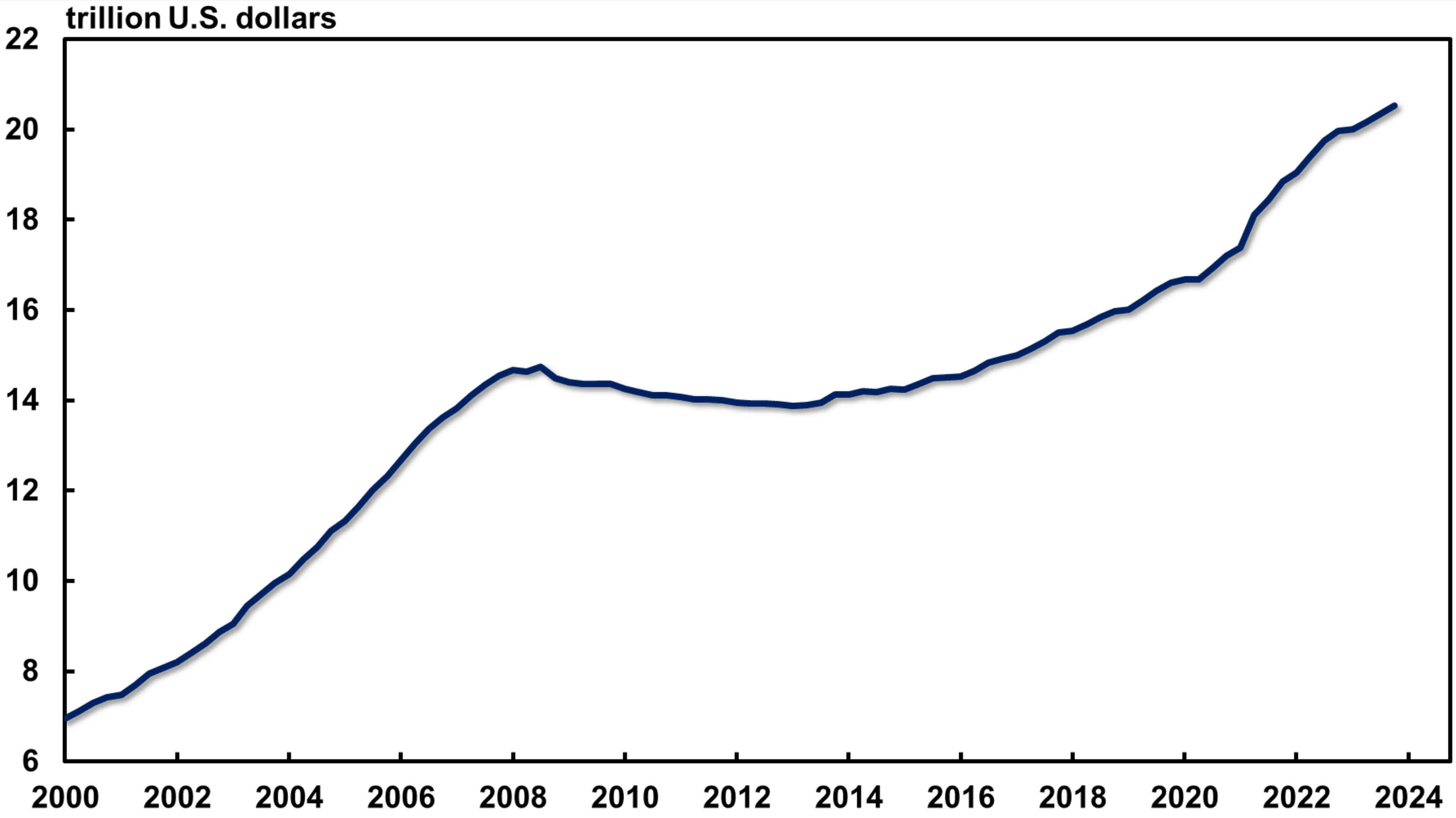
First Trust

CUMULATIVE EXCESS SAVINGS



Source: Bureau of Economic Analysis, Federal Reserve Bank of San Francisco, First Trust Advisors, Data from January 2020 – February 2024

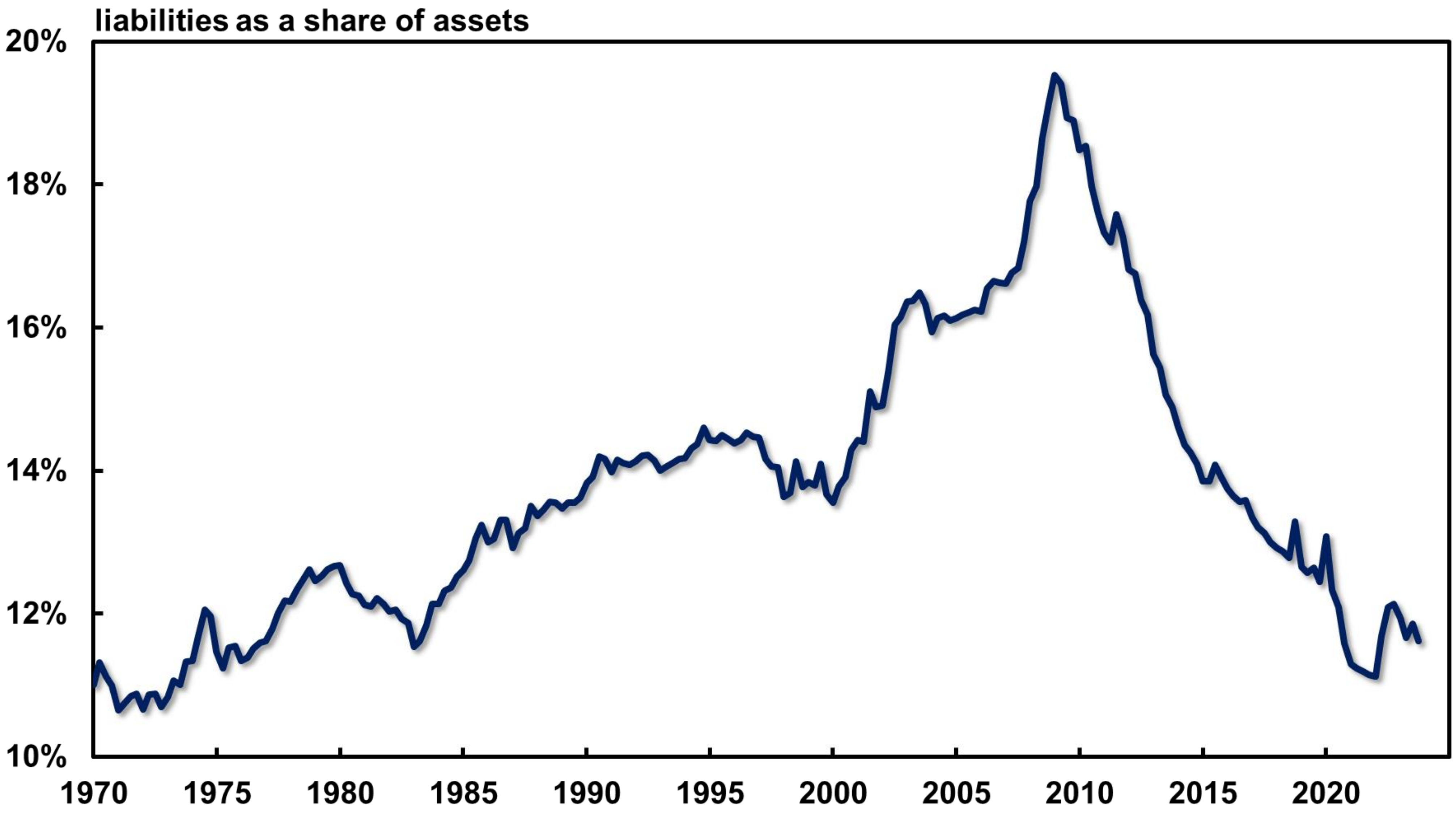
HOUSEHOLD DEBT AT RECORD HIGHS



Source: Federal Reserve Board. Liabilities of Households & Non-Profits, quarterly data shown for Q1 2000 – Q4 2023 (latest data available).

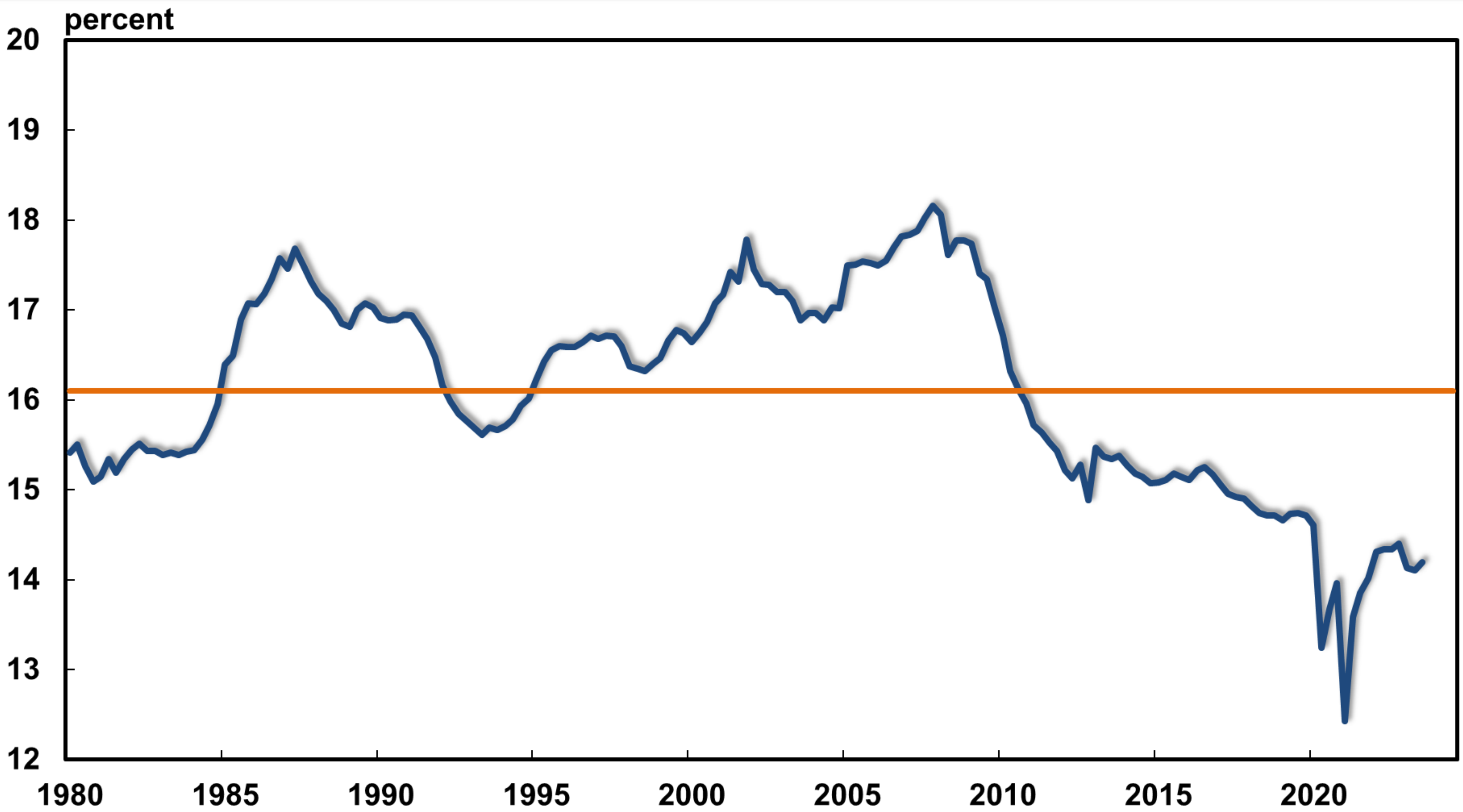
First Trust

BUT HOUSEHOLD DEBT LOW VERSUS ASSETS



Source: Federal Reserve Board. Liabilities and Assets of Households & Non-Profits, quarterly data shown for Q1 1970 – Q4 2023 (latest data available).

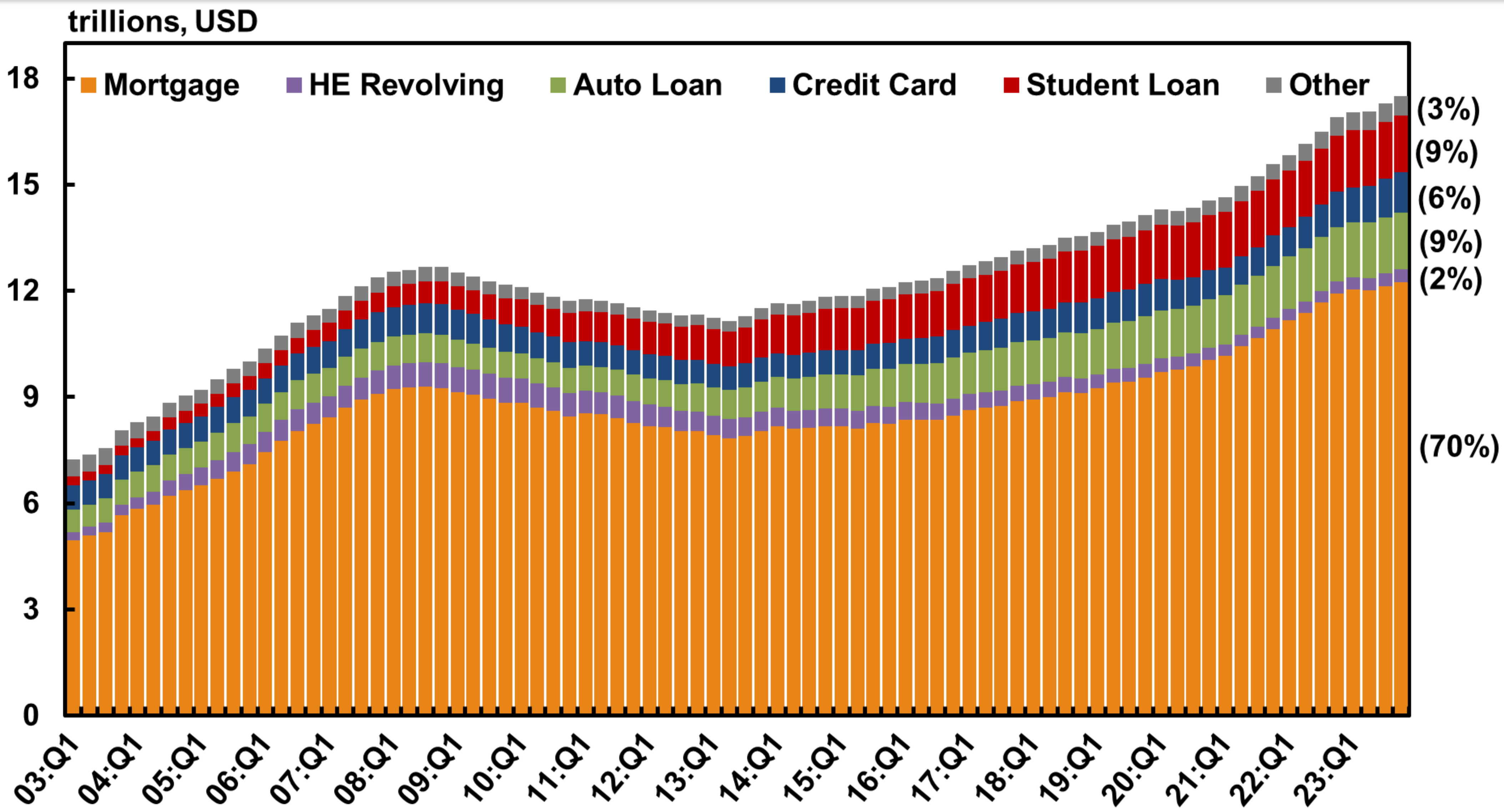
HOUSEHOLD FINANCIAL OBLIGATIONS RATIO



Source: Federal Reserve Board, quarterly data shown for Q1 1980 – Q3 2023 (latest data available).

First Trust

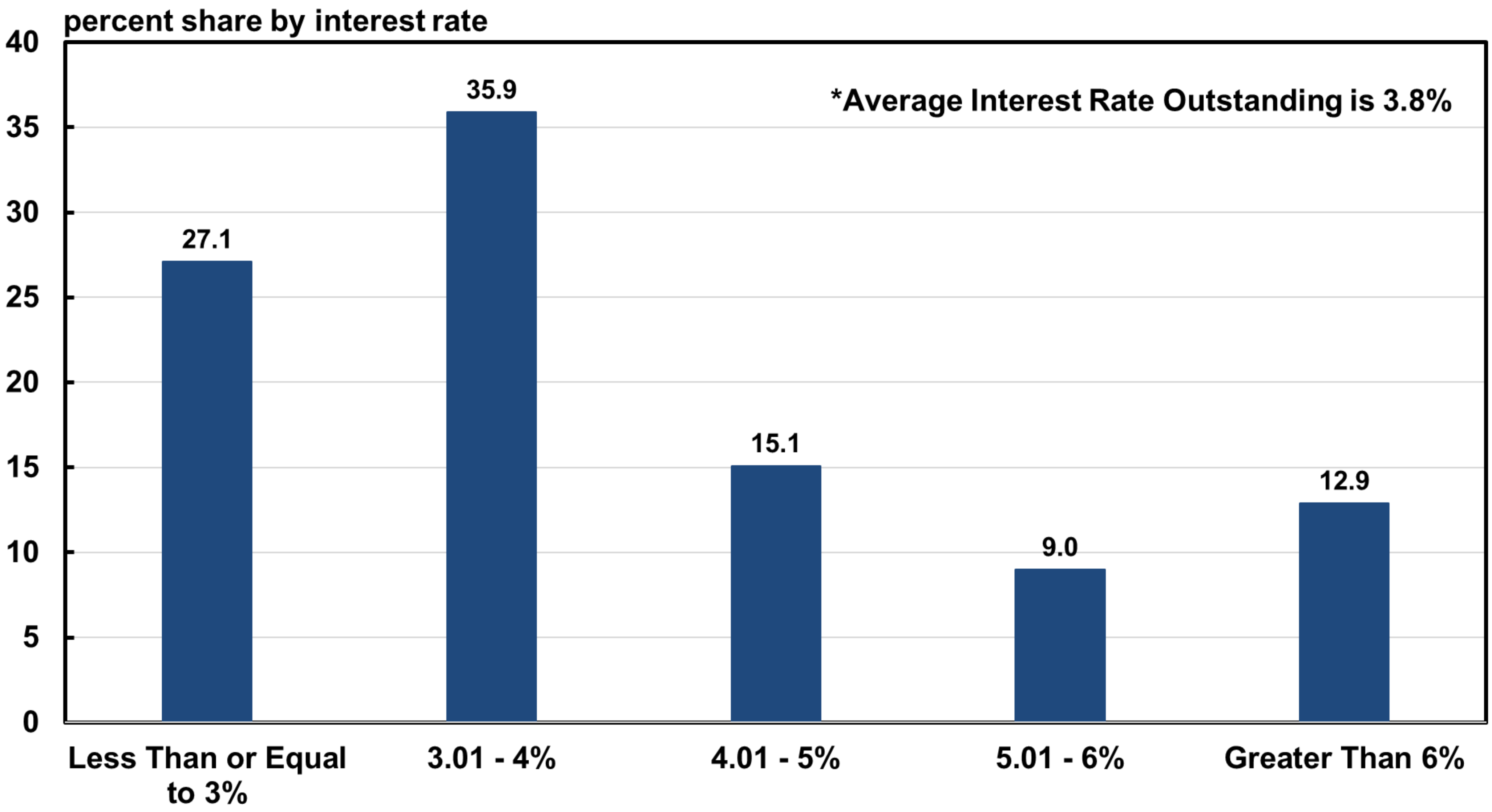
TOTAL DEBT BALANCE AND ITS COMPOSITION



Source: : New York Fed Consumer Credit Panel/Equifax, First Trust Advisors, Data as of Q4 2023

First Trust

CONTRACT INTEREST RATE AT ORIGINATION FOR MORTGAGES OUTSTANDING



Source: FHFA.gov, First Trust Advisors, Data as of Q4 2023

INVENTORIES ARE REALLY…LEAN

$1,550,000 **6** bd | **4** ba | **2,743** sqft

Price increase: $125K (10/21)

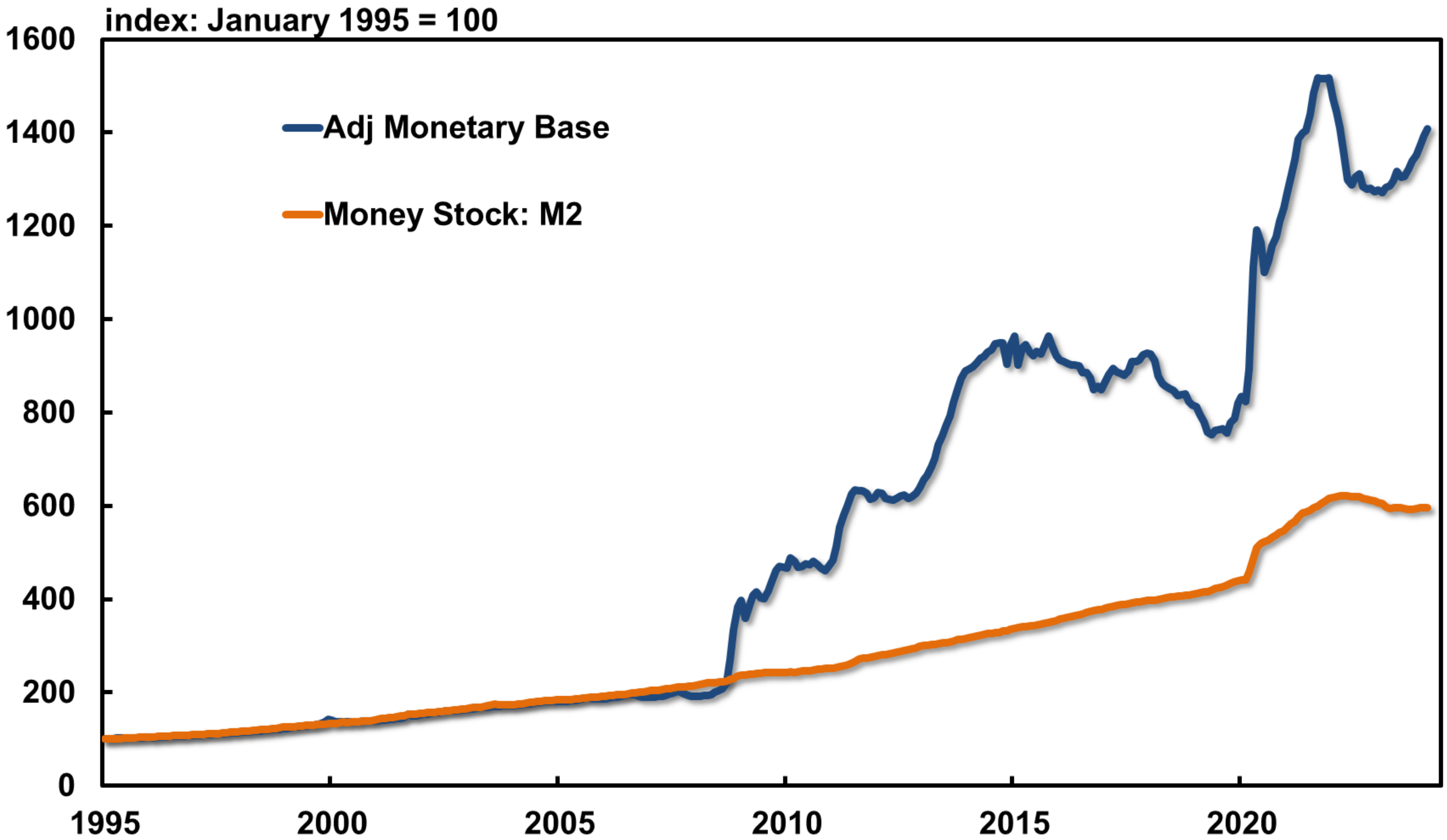
loan option, documentation in disclosure package. Home has inactive Meth lab and meth contamination, see County docs. noting Garage location, remediation process and subsequent costs associated. Home has not been cleared of contamination and will be transferred to the new buyer in it's current state. No access prior to property being cleared by Santa Clara County's Health Dept. Guidelines. Access Denied by County.

10 days on Zillow | **15,727** views | **826** saves

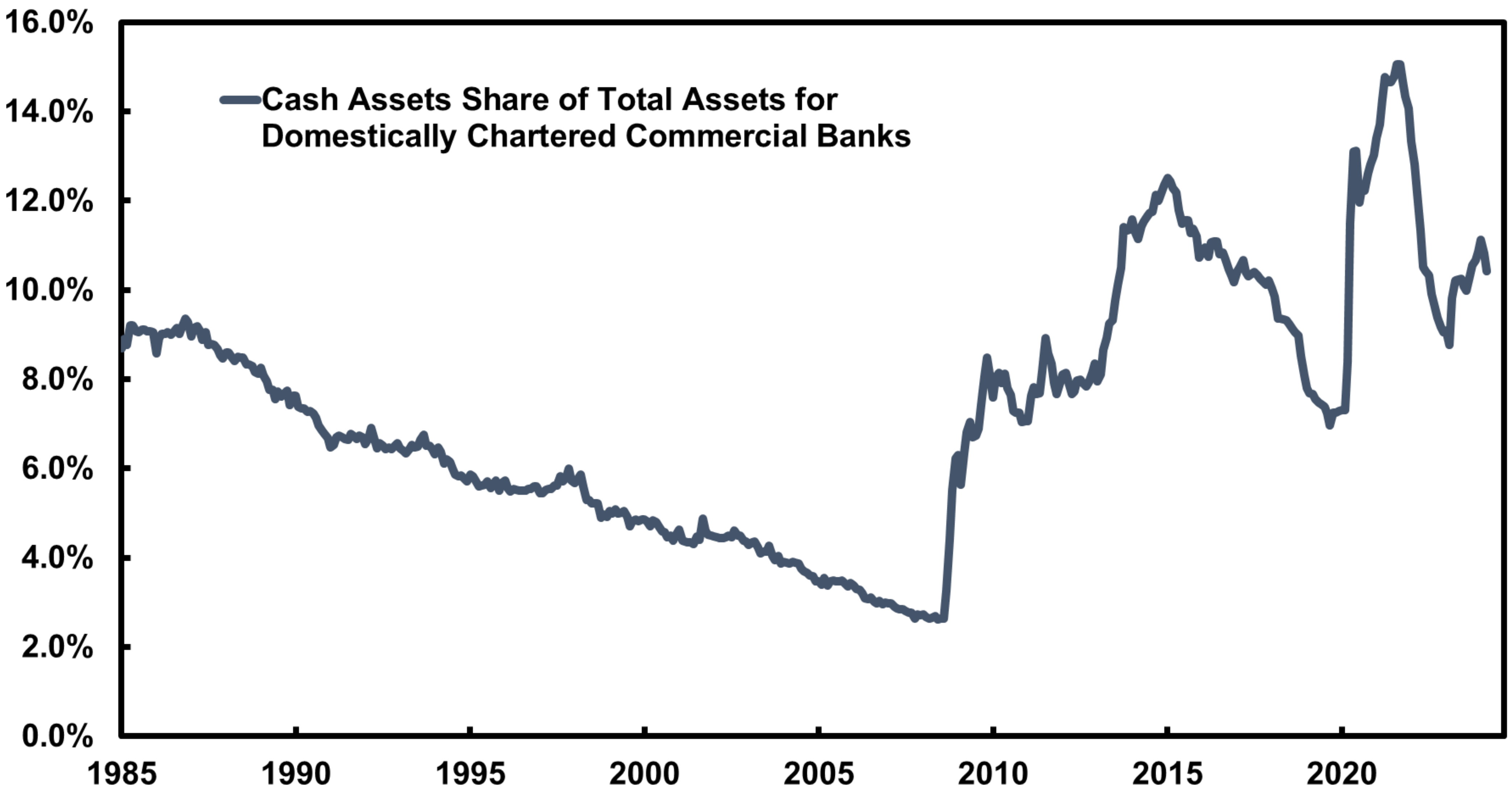
Source: : Zillow.com

First Trust

M2 MONEY SUPPLY VS. ADJUSTED MONETARY BASE



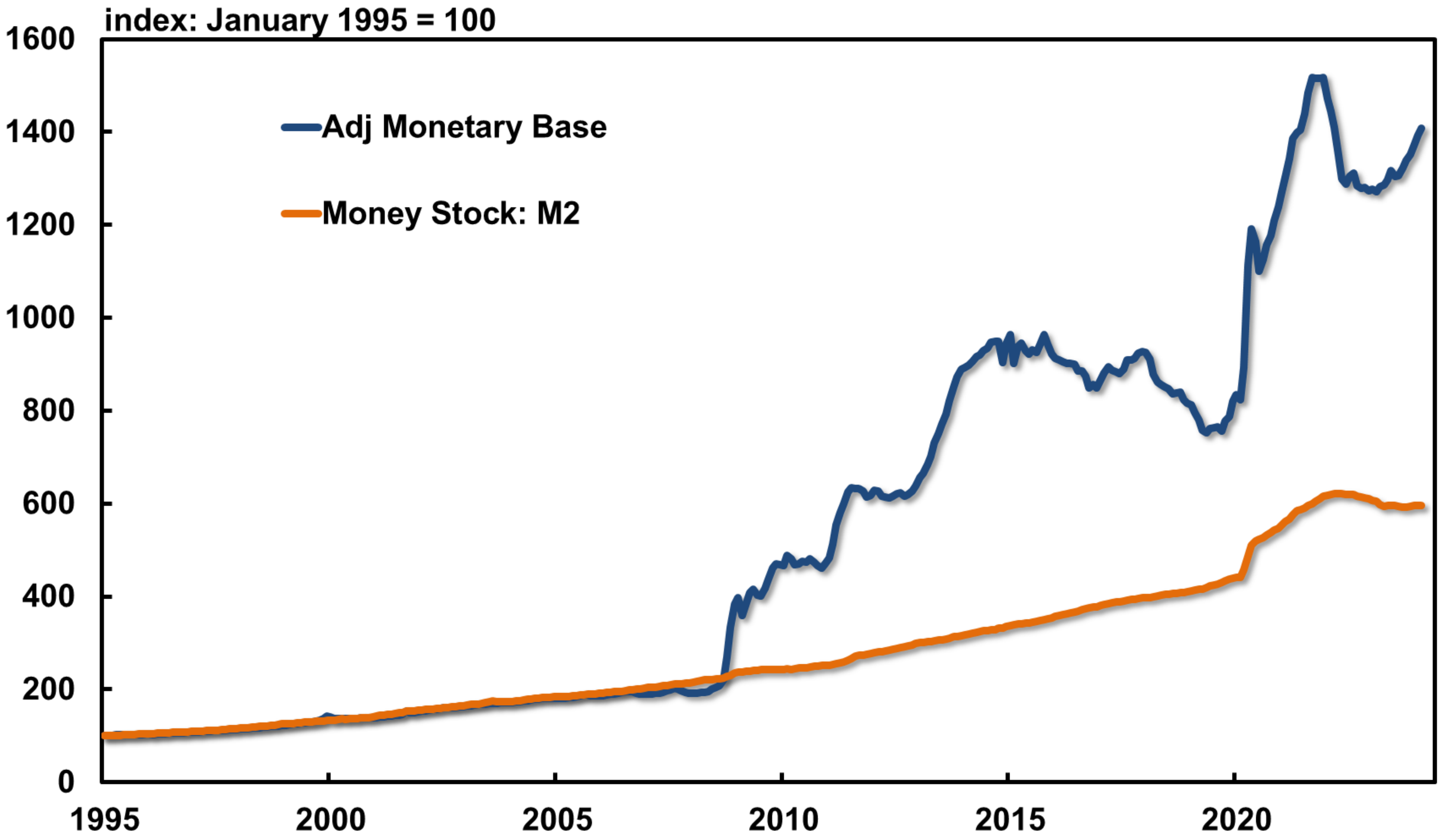
COMMERCIAL BANKS CASH ASSETS AS A SHARE OF TOTAL ASSETS



Source: Federal Reserve Board. Data from January 1985 through March 2024 (latest data available).

First Trust

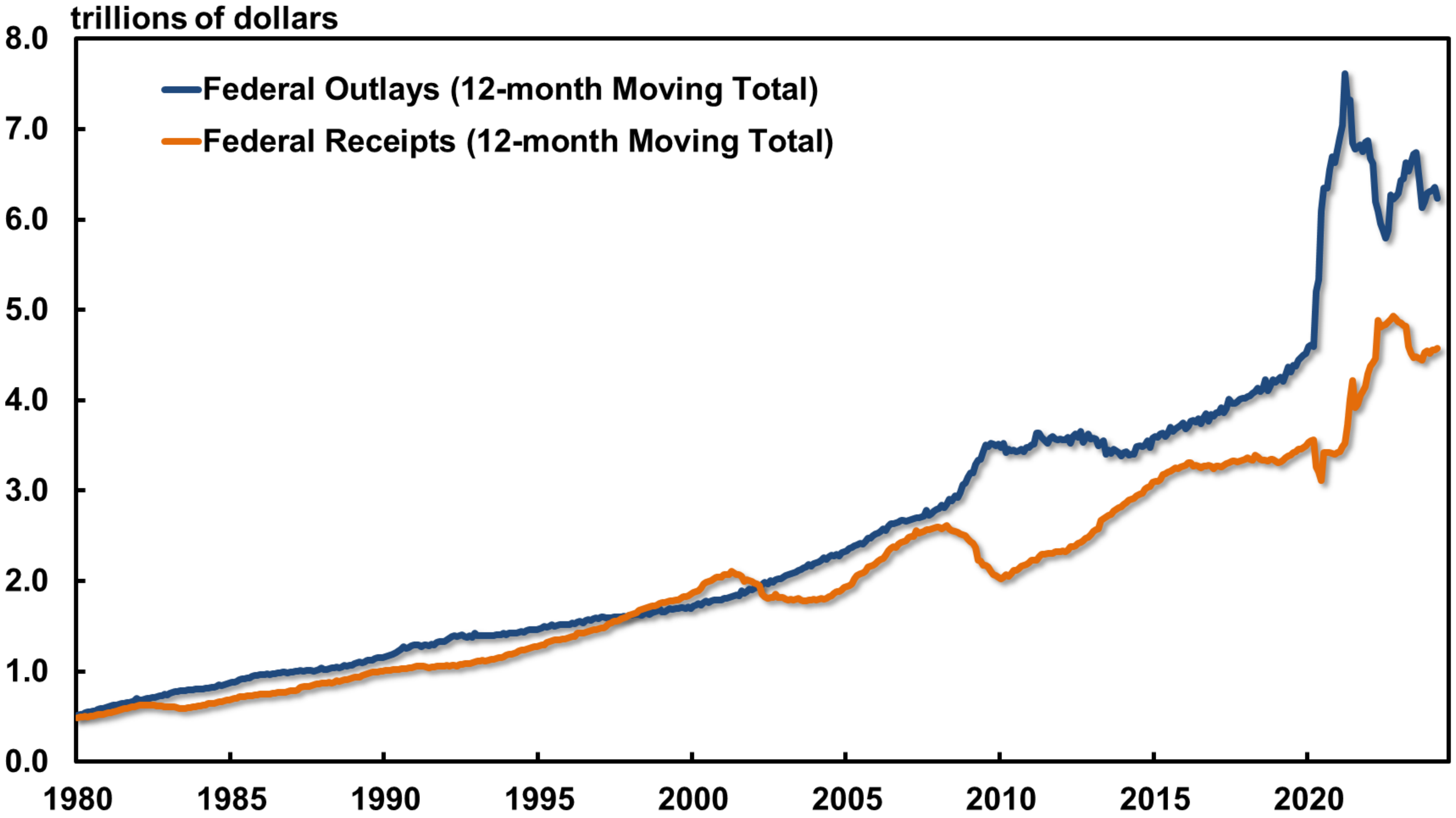
M2 MONEY SUPPLY VS. ADJUSTED MONETARY BASE



Source: Federal Reserve Board. Data from January 1995 through February 2024 (latest data available).

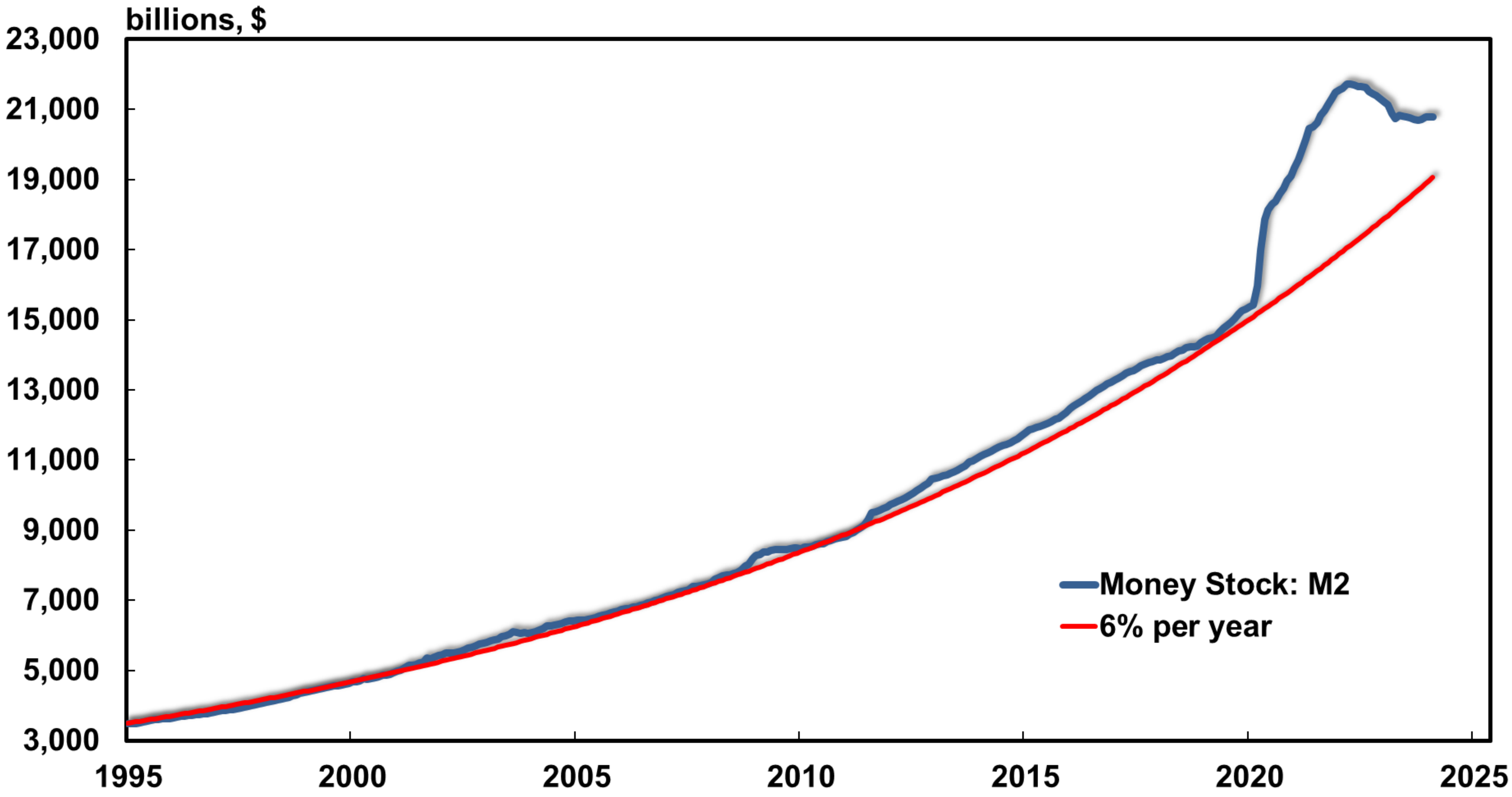
First Trust

GOVERNMENT SPENDING VS. GOVERNMENT REVENUES



Source: U.S. Treasury. Data from January 1980 through February 2024

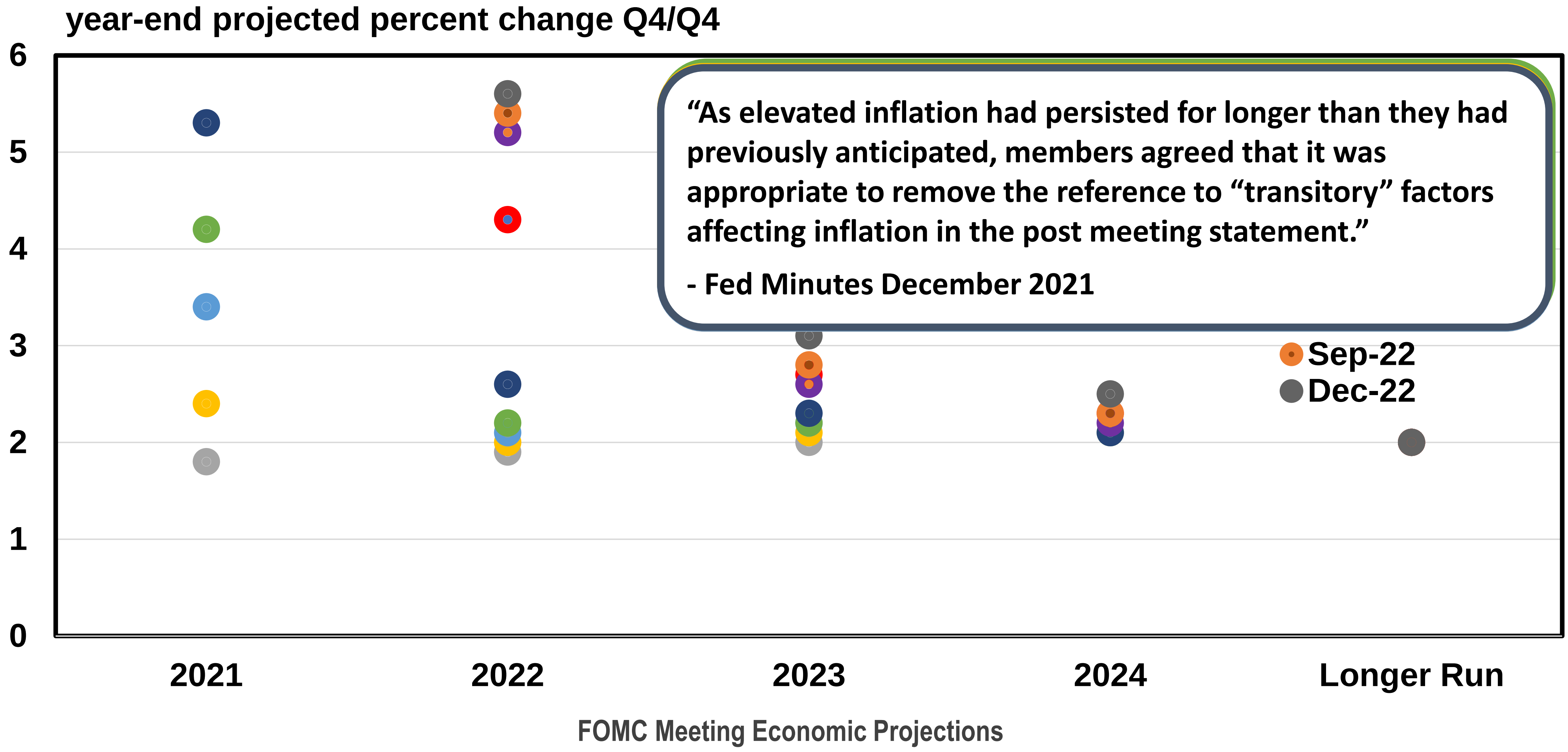
M2 MONEY SUPPLY



Source: Federal Reserve Board. Data from January 1995 through February 2024

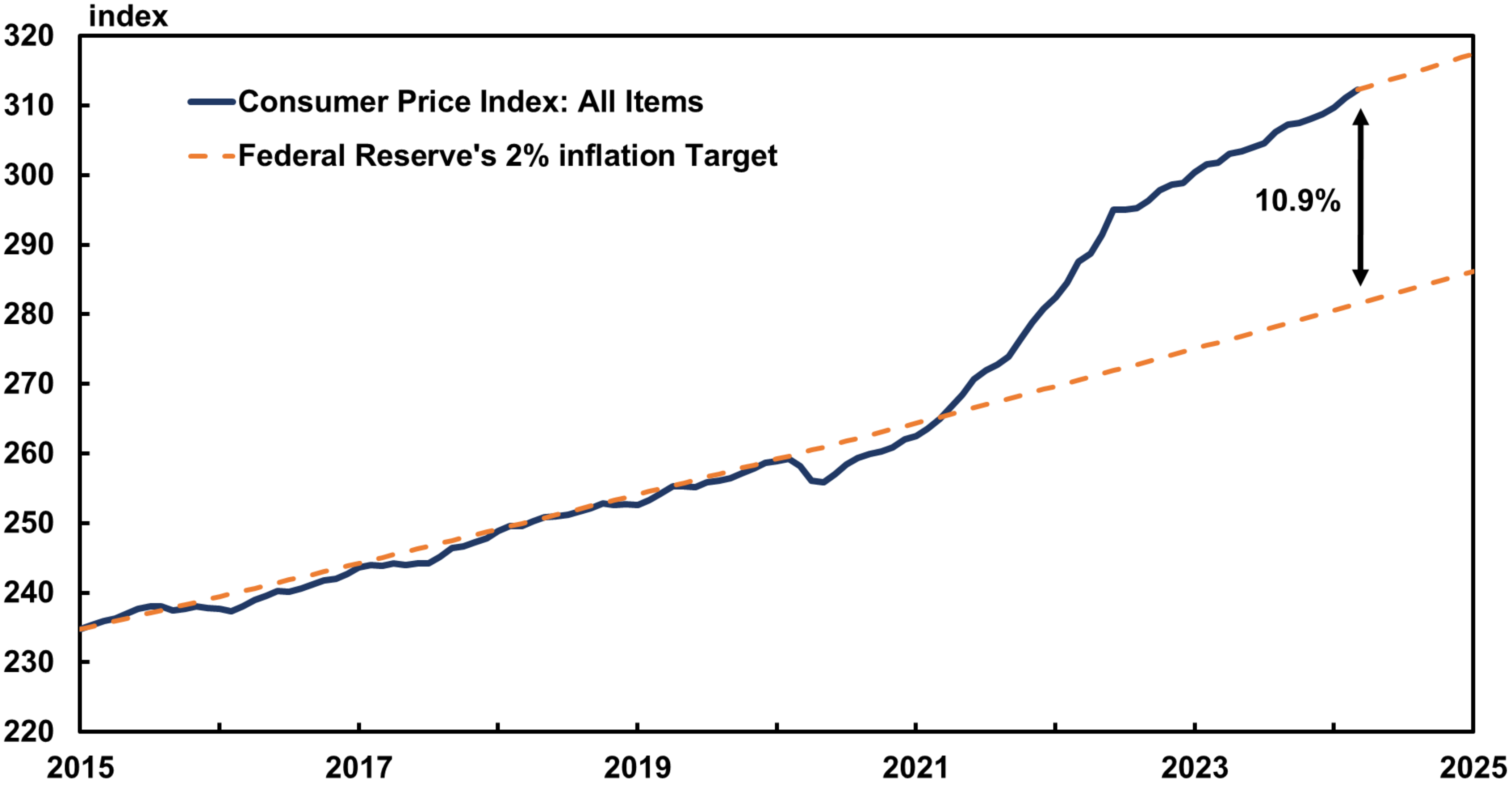
THE FED VS. REALITY

PCE INFLATION PROJECTIONS FROM THE FOMC



Source: Federalreserve.gov, First Trust Advisors

PERMANENT PRICE INCREASES



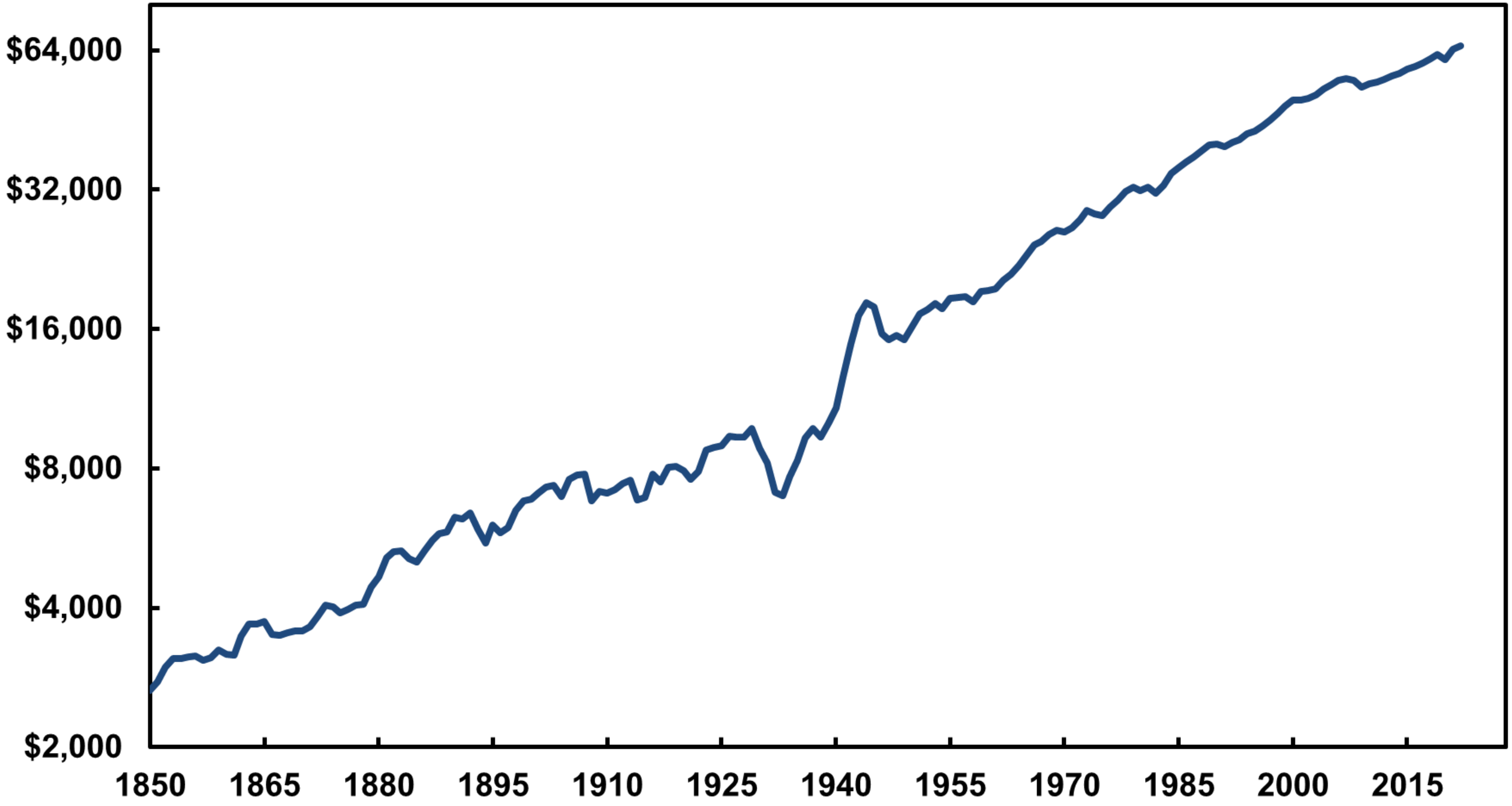
MARKET IMPLIED PROBABILITIES FOR FEDERAL FUNDS

FOMC Meeting Dates	Federal Funds Range (bps)								Implied Meeting Outcome
	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550	
6/12/2024			0.0%	0.0%	0.0%	0.0%	8.4%	91.6%	Stay
7/31/2024	0.0%	0.0%	0.0%	0.0%	0.0%	2.4%	32.5%	65.1%	Stay
9/18/2024	0.0%	0.0%	0.0%	0.0%	1.4%	19.8%	51.4%	27.4%	Cut
11/7/2024	0.0%	0.0%	0.0%	0.6%	8.7%	32.3%	41.9%	16.6%	Stay
12/18/2024	0.0%	0.0%	0.3%	5.5%	23.1%	38.2%	26.4%	6.4%	Cut

Source: CME Group, First Trust Advisors. Probabilities implied by 30-Day Fed Funds futures pricing data. Estimates as of 5/16/2024 Orange highlighted cell represents projected Federal Funds Rate at that meeting date.

There is no guarantee that past trends will continue, or projections will be realized.

U.S. REAL GDP PER CAPITA 1850-2022



Source: Louis Johnston and Samuel H. Williamson, "What Was the U.S. GDP Then?" MeasuringWorth, 2022

First Trust

THREE ON THURSDAY

THREE ON THURSDAY

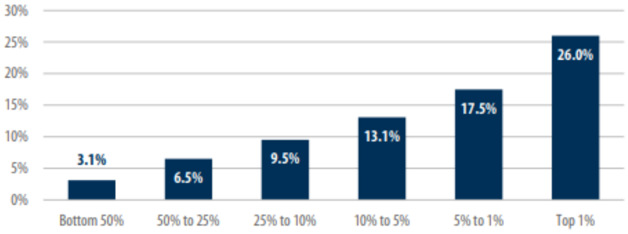
First Trust

FIRST TRUST ECONOMICS

November 2, 2023

In this week's edition of "Three on Thursday," we investigate the most recent IRS tax data from 2020 to gain a comprehensive understanding of the federal income tax landscape in America. Amid the ongoing public discourse, you often encounter discussions about the wealthy not contributing their "fair share" or instances like Warren Buffet paying a lower tax rate than his 20 office colleagues, which some view as evidence of a tax system that's not progressive enough. But what do the actual data reveal? It may hold some surprising revelations. To offer deeper insights, we've included three informative charts below.

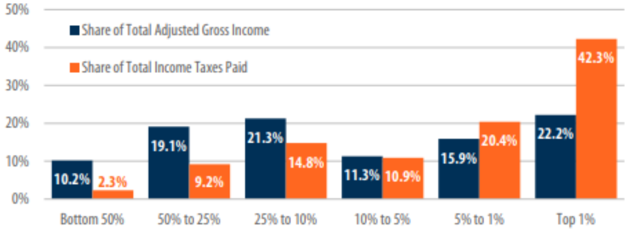
Average Income Tax Rates



Source: IRS, First Trust Advisors. Data for 2020 (latest).

The most recent IRS data from 2020 underscores the highly progressive nature of the federal income tax system. Individuals in the top 1% (those with an adjusted gross income of $548,336 or higher) paid an average of 26% of their income to the Federal government. Meanwhile, those in the bottom 50%, (earning $42,184 or less) had an average income tax rate of 3.1%. This significant difference shows that the top 1% pay an average federal income tax rate that's 8.4 times higher than the bottom half of all taxpayers.

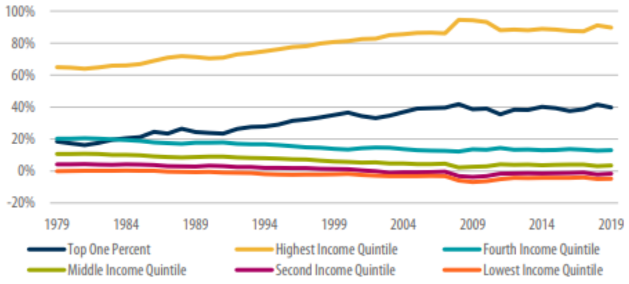
Share of Total Adjusted Gross Income vs. Share of Total Income Taxes Paid



Source: IRS, First Trust Advisors. Data for 2020 (latest).

The top 1% is comprised of roughly 1.6 million income tax returns, and make 22.2% of total adjusted gross income, but they shoulder a significant 42.3% of the overall federal income tax burden. Conversely, the bottom half, consisting of nearly 79 million income tax returns, make 10.2% of total adjusted gross income, yet their federal income tax burden is comparatively light at 2.3%. It's worth noting that the bottom 96% of taxpayers, accounting for approximately 151.2 million tax returns and 64.8% of the adjusted gross income, collectively bear 40.5% of the total federal income tax load. This still falls short of the share carried by the top 1%.

Share of Federal Income Tax Liabilities



Source: Congressional Budget Office, First Trust Advisors. Data from 1979-2019.

Over the past four decades, those within the highest income quintile have consistently witnessed their portion of the federal income tax burden increase, rising from 65.0% in 1979 to 89.7% in 2019, the most recent year recorded by the Congressional Budget Office. In stark contrast, those in the lower four income quintiles have experienced a different trajectory. The lowest and second quintiles have reduced their tax liability share to -4.8% and -1.6% in 2019, respectively, down from -0.1% and 4.2% in 1979, meaning that now the bottom 40% not only pay no federal income tax, but also receive additional income. The middle income quintile has also experienced a decline, falling to 3.5% in 2019 from 10.7% in 1979. Similarly, the fourth income quintile has decreased to 13.1% from 20.2% over the same period.

MONDAY MORNING OUTLOOK

First Trust
Monday Morning OUTLOOK

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist
Andrew Opdyke, CFA – Senior Economist
Bryce Gill – Economist
Nate Gerze – Economic Analyst

630-517-7756 • www.ftportfolios.com December 26, 2023

A Mild Recession and S&P 4,500

Very early this year our economics team got a pleasant surprise: Consensus Economics, which collects forecasts from roughly 200 economists around the world, rated us the most accurate forecasters of the United States for 2022, based on our forecasts for GDP and CPI. Unfortunately, we don't expect a repeat award for 2023.

For 2022, we saw inflation and continued moderate growth. We were right. This past year, in 2023, we anticipated economic weakness late in the year, and put our S&P 500 target at 3,900. Instead, the economy remained resilient and stocks rallied much more than we thought. As we said a year ago: "if it turns out that Chairman Powell and the Federal Reserve have engineered a soft landing – no recession in 2023 and with the market ending 2023 confident of not having a recession in 2024 – then stocks should rally substantially in 2023 and easily beat our S&P 500 target of 3,900." Today, that's what most stock market investors are thinking: a soft landing has been achieved and they should therefore be optimistic about the future.

But we don't think the economy is out of the woods yet. The consensus among economists is now that the economy will continue to grow in 2024, with a soft landing and no recession. We think that's too bullish and see a mild recession with a -0.5% real GDP print on the way for 2024.

The yield curve has been inverted for more than a year and is likely to remain so well into 2024 and the M2 measure of the money supply is down 3.3% from a year ago, while commercial & industrial loans have also declined. Commercial construction has been temporarily and artificially supported by government subsidies in the past couple of years and should soon start faltering. Payrolls have grown very fast in the past year even with an unusually low unemployment rate, suggesting that businesses have over-hired.

Meanwhile, consumer spending looks set to slow. Government payouts, rent and student loan moratoriums, and temporary tax cuts during COVID led to bloated overall savings for many consumers. In turn, they could relax in 2022-23 and save a smaller part of their ongoing earnings than they normally would. But the artificial boost from these government actions is likely to finally run out in 2024, which suggests to us consumer spending will moderate significantly in 2024.

It's also important to realize how much the federal budget deficit expanded last year. The official deficit was about $1.7 trillion in FY 2023 but would have been $2.0 trillion if it hadn't been for the Supreme Court striking down much of President Biden's plan to forgive student loans. But that Court decision didn't change the government's cash flow; the Education Department just wrote up the value of its loan portfolio. In other words, the underlying cash flow situation for the federal government was no different than if we had run a deficit of $2.0 trillion, or about 7.4% of GDP. For last year, in FY 2022, excluding the student loan scoring, the deficit was about 4.0% of GDP. That's a huge one-year spike in the deficit, which temporarily lifted spending.

But this won't continue. The budget deficit won't grow again in 2024, given the rally in stocks in 2023, big tax payments are likely due, which takes away this temporary stimulus.

What will happen to inflation? We think it keeps heading down in 2024 and may even finish the year at, or perhaps even temporarily below, the Federal Reserve's 2.0% target. However, if we do hit 2.0% don't expect to stay there for long. The Fed is likely to cut rates about as aggressively as the futures market now projects, about 150 basis points in 2024. And, unless the money supply keeps falling, inflation is likely to move back up in 2025 (and beyond); above the Fed's 2.0% target.

What does this mean for stocks? The good news for stocks is that if the economy is weaker than expected and inflation keeps heading down, long-term interest rates will tend to decline, as well. That's important because our Capitalized Profits Model takes nationwide profits from the GDP report and discounts them by the 10-year US Treasury yield, to calculate fair value.

If we use a 10-year Treasury yield of 3.50% the model says the S&P 500 is fairly valued, with current profits, at about 4,450. In other words, for the first time in many years, the US stock market is very close to fair value. And, the path of both profits and 10-year Treasury yields, in the next year, is uncertain.

We expect profits to be weaker than the consensus expects in 2024, and with Fed rate cuts of 150 basis points, the 10-year to end the year around 3.5%. Putting this all together, including the fact that the S&P 500 closed on Friday at 4,754, we think it finishes 2024 at 4,500, or lower.

Remember, this is not a trading model, and it doesn't mean investors should run out and sell all their stocks, it just means investors need to be selective. The past few years have been the most difficult time to forecast in our careers. The US economy has never gone through COVID lockdowns before, plus a reopening, along with such massive peacetime fiscal and monetary stimulus. We understand many think we can do all this with little, or no, significant impact on the economy. We don't believe this conventional wisdom. 2024 will be a tough year.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
12-28 / 7:30 am	Initial Claims – Dec 23	210K	**209K**		205K
12-29 / 8:45 am	Chicago PMI – Dec	50.5	**52.3**		55.8

Any Questions?

Feel free to reach out to me:

Email: selass@ftadvisors.com

Twitter: @striderelass

Linkedin: Strider Elass