

**March 22, 2024**

# **A Tale of Two Cities**

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*Scott Lucks, CIMA®*

**Regional Director | Central Region**

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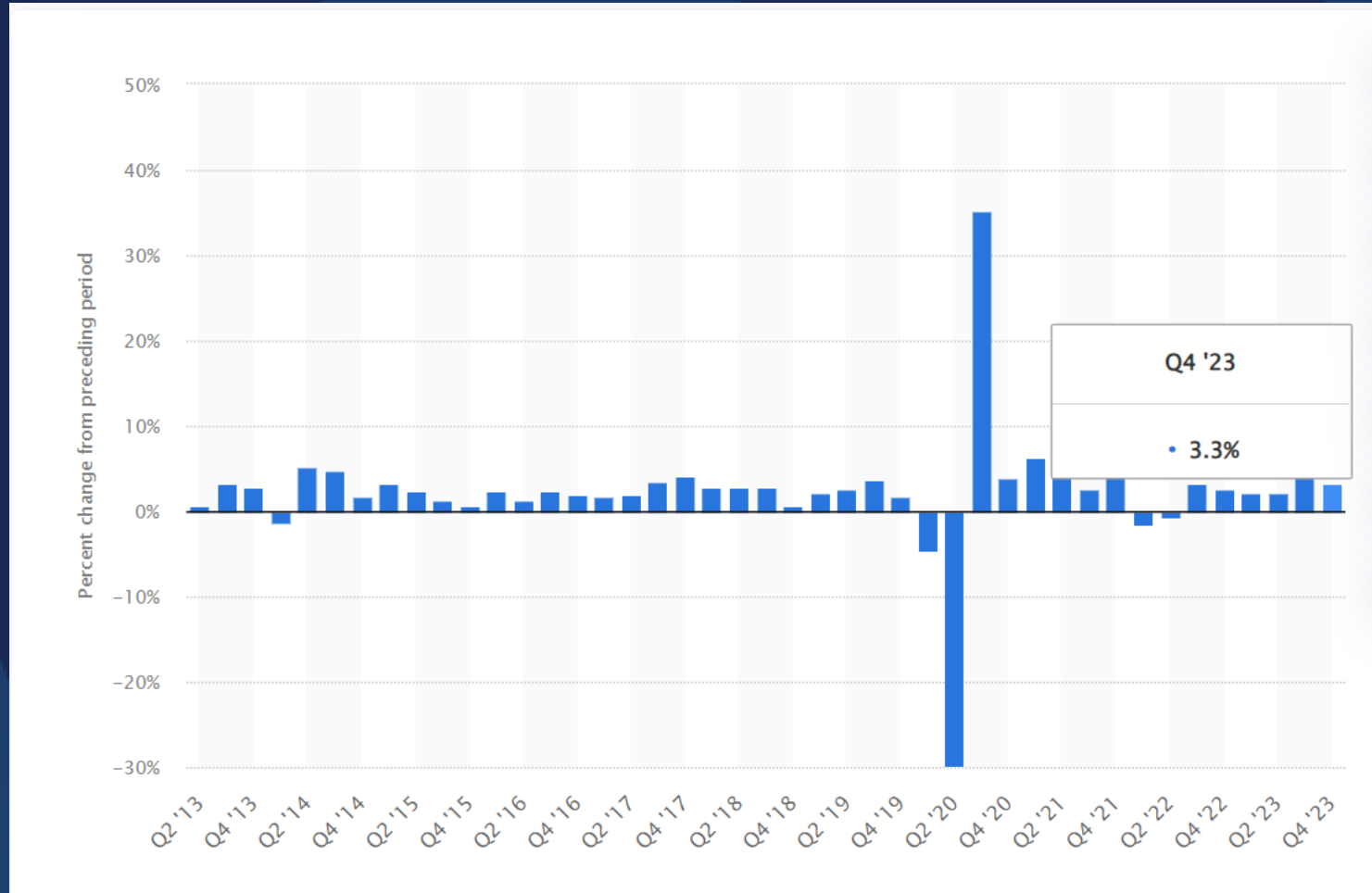
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# US Economy and Consumer

## Annualized growth of real GDP in US from Q1 2013 – Q4 2023



Source: <https://statistics/188185/percent-change-from-preceding-pewwww.statista.com/riod-in-real-gdp-in-the-us/>

# Labor Market... Still Strong

## ☆ Initial Claims (ICSA)

DOWNLOAD 

Observation:

Feb 2024: 212,000

(+ more)

Updated: Mar 14, 2024

Units:

Number,  
Seasonally Adjusted

Frequency:


Monthly,  
Average

1Y | 5Y | 10Y | Max

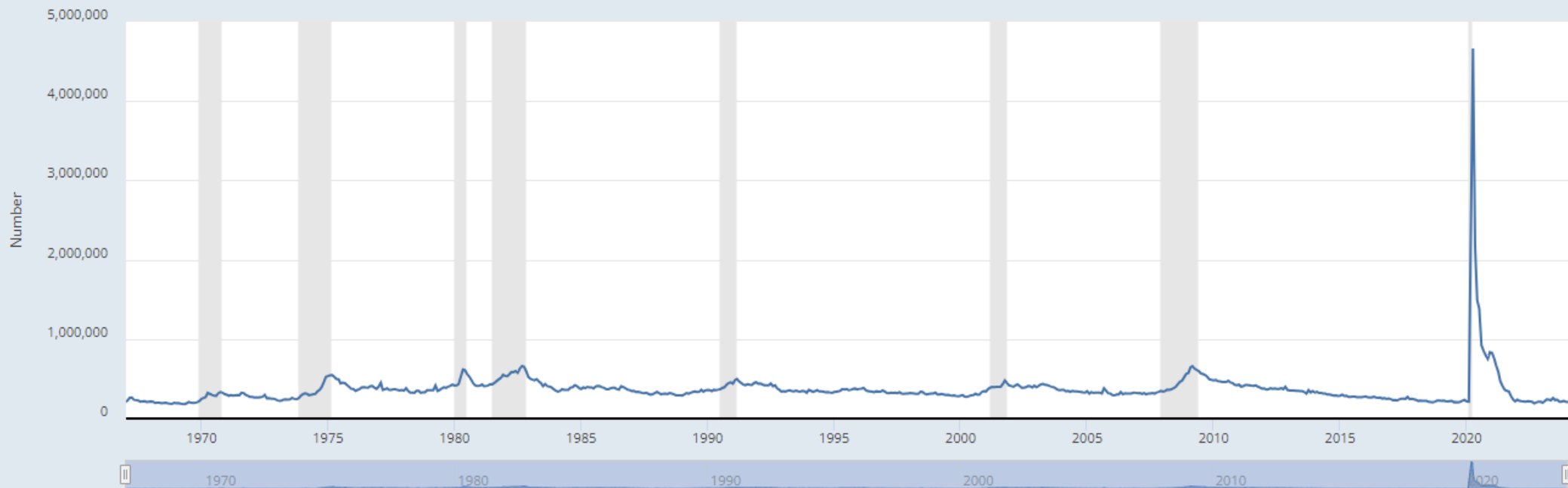
1967-01-07

to

2024-02-01

EDIT GRAPH 

### FRED — Initial Claims



Shaded areas indicate U.S. recessions.

Source: U.S. Employment and Training Administration

fred.stlouisfed.org

Source: FRED

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# Unemployment Rate

## ★ Unemployment Rate (UNRATE)

DOWNLOAD 

Observation:  
Feb 2024: 3.9  
(+ more)  
Updated: Mar 8, 2024

Units:  
Percent,  
Seasonally Adjusted

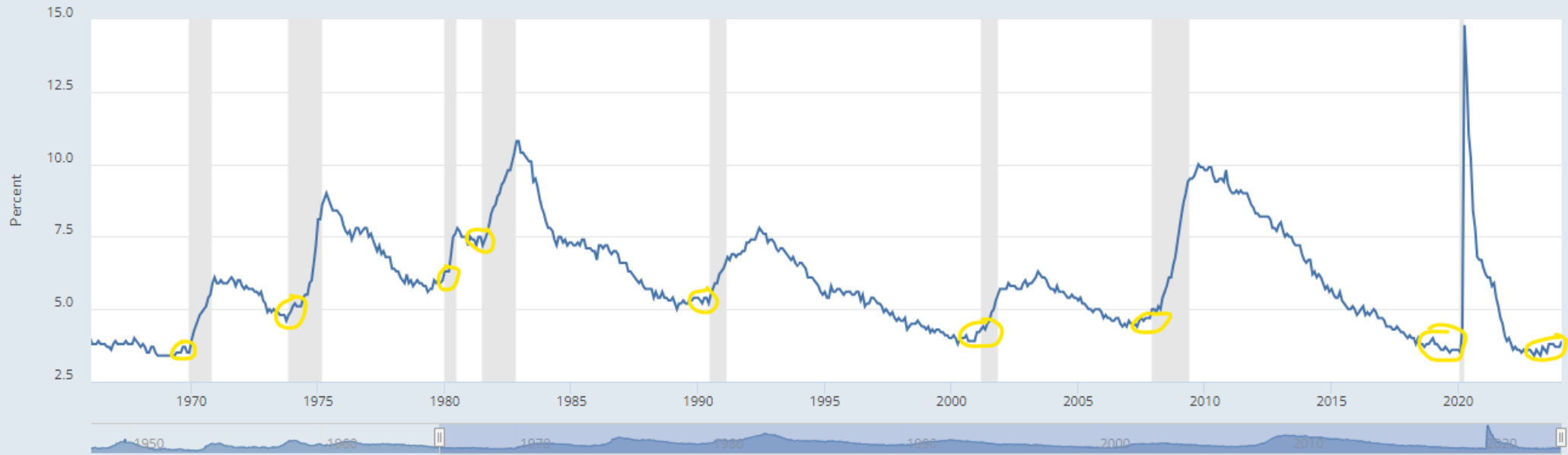
Frequency:  
Monthly

1Y | 5Y | 10Y | Max

1966-01-18 to 2024-02-01


EDIT GRAPH 

### FRED — Unemployment Rate



Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Labor Statistics

fred.stlouisfed.org 

Source: FRED

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# US Nonfarm Payroll... Still adding jobs...

## ☆ All Employees, Total Nonfarm (PAYEMS)

DOWNLOAD 

Observation:  
Feb 2024: **157,808**  
(+ more)  
Updated: Mar 8, 2024

Units:  
Thousands of Persons,  
Seasonally Adjusted

Frequency:  
Monthly

1Y | 5Y | 10Y | Max

1978-01-01 to 2024-02-01

EDIT GRAPH 

### FRED — All Employees, Total Nonfarm



Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Labor Statistics

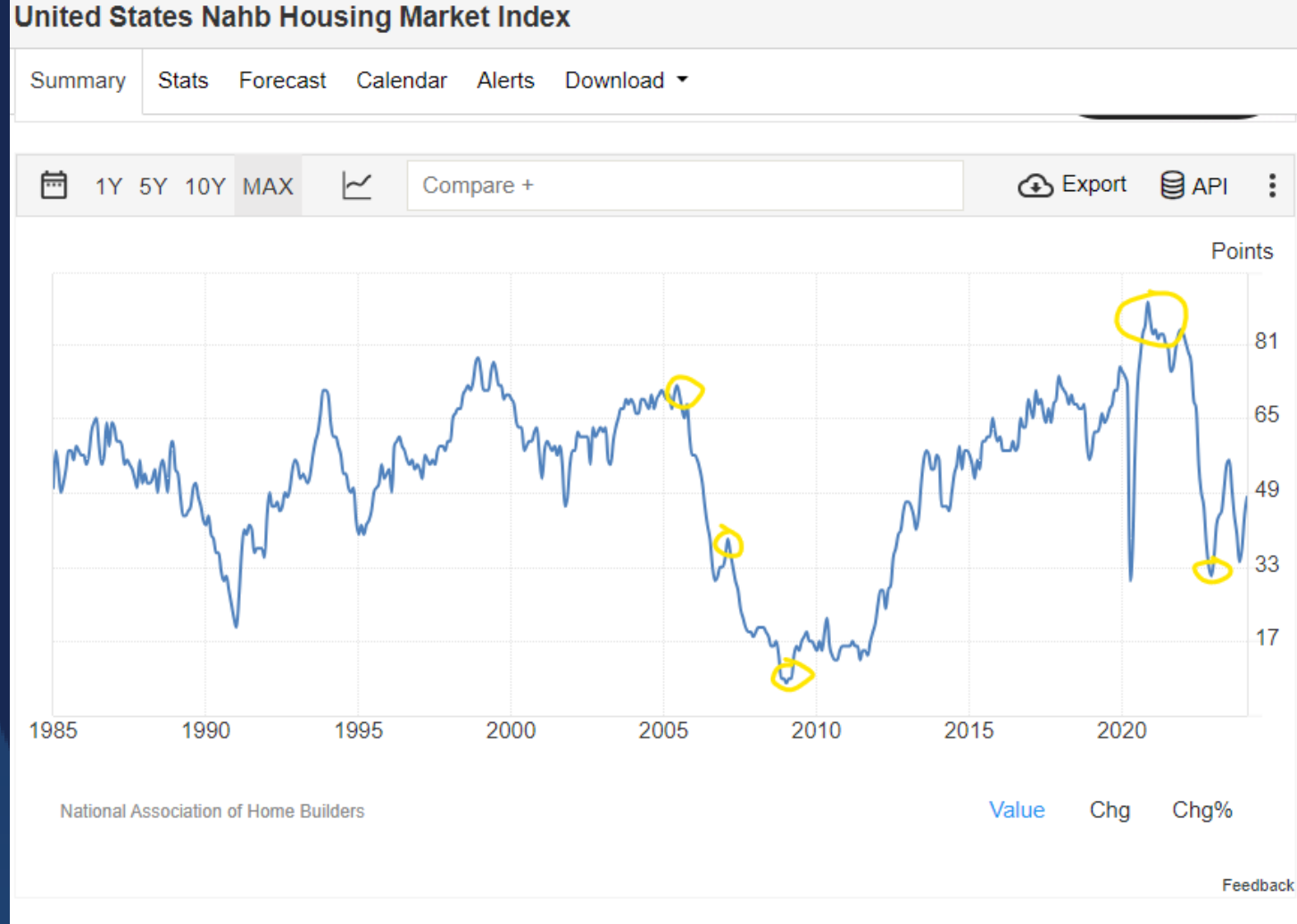
fred.stlouisfed.org

Source: FRED

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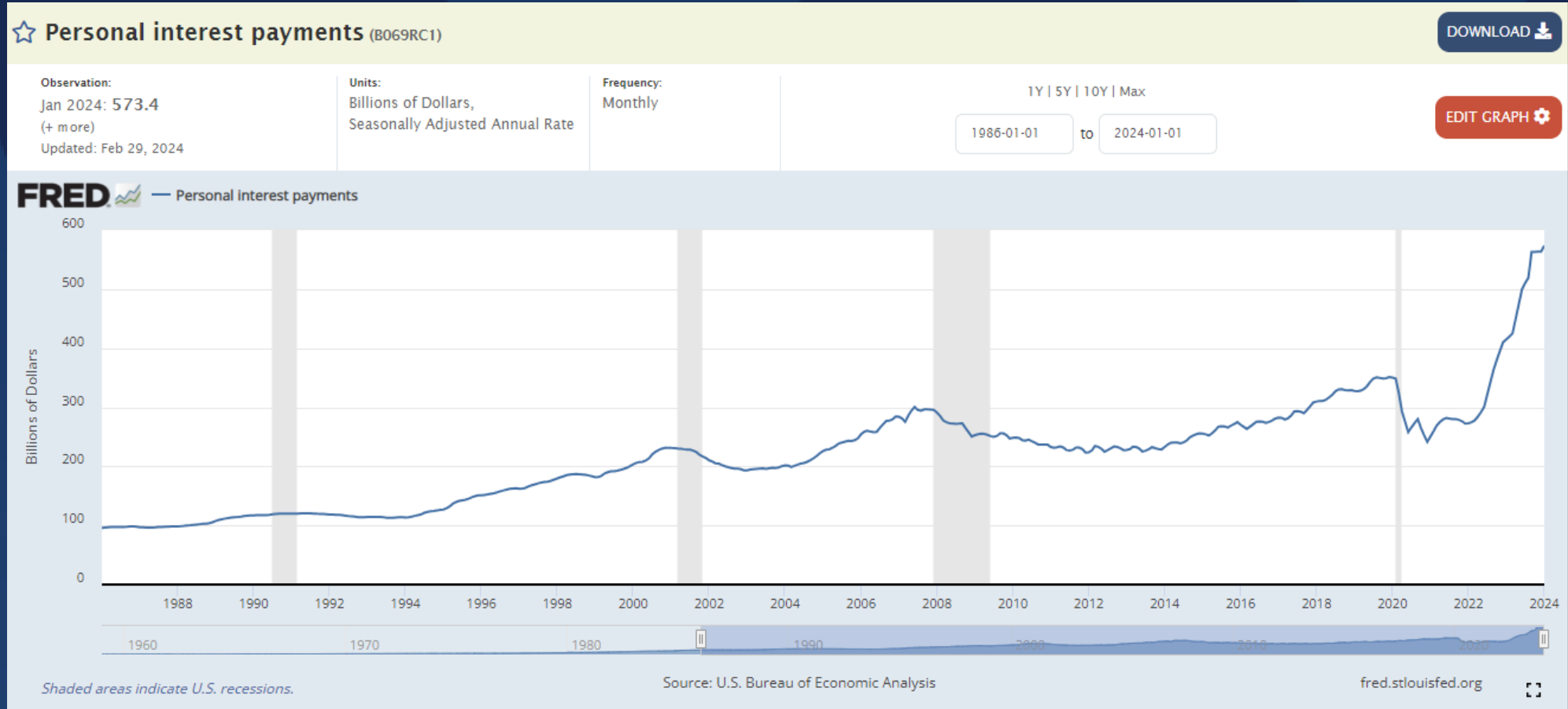
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# US National Association of Home Builders (NAHB) Housing Market Index



Source: Trading Economics

# Personal Interest Payments



Source: FRED

# Real Disposable Income


FRED Graph

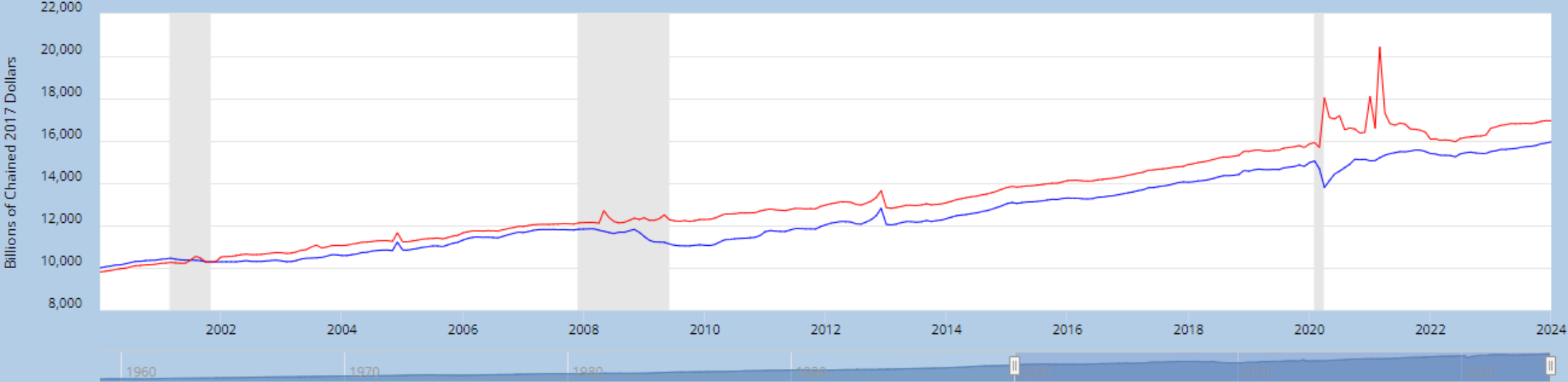
DOWNLOAD 

1Y | 5Y | 10Y | Max

2000-01-01 to 2024-01-01

EDIT GRAPH 

**FRED**  — Real personal income excluding current transfer receipts  
— Real Disposable Personal Income



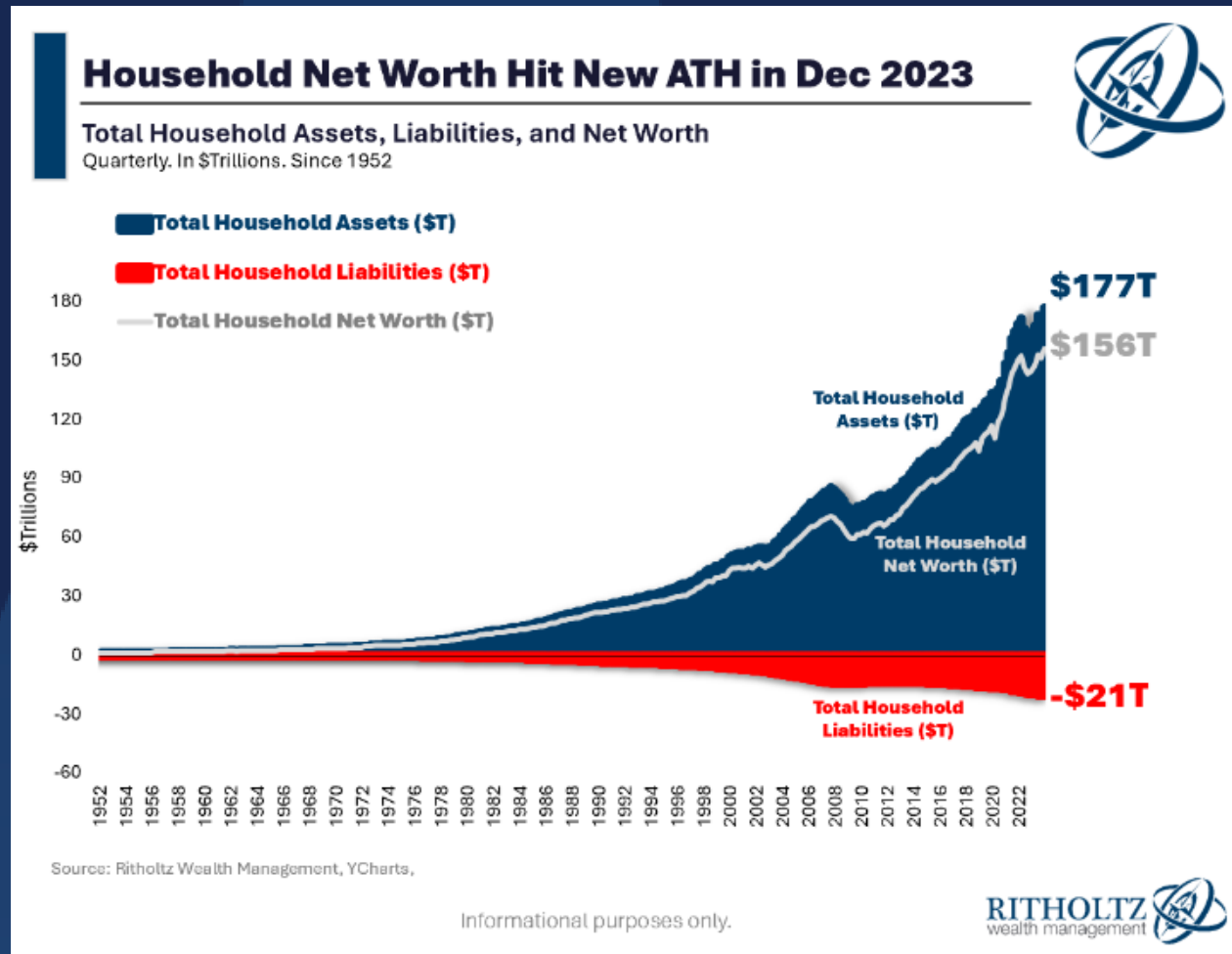
Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Economic Analysis

fred.stlouisfed.org

Source: FRED

So what's all the bad news about...?

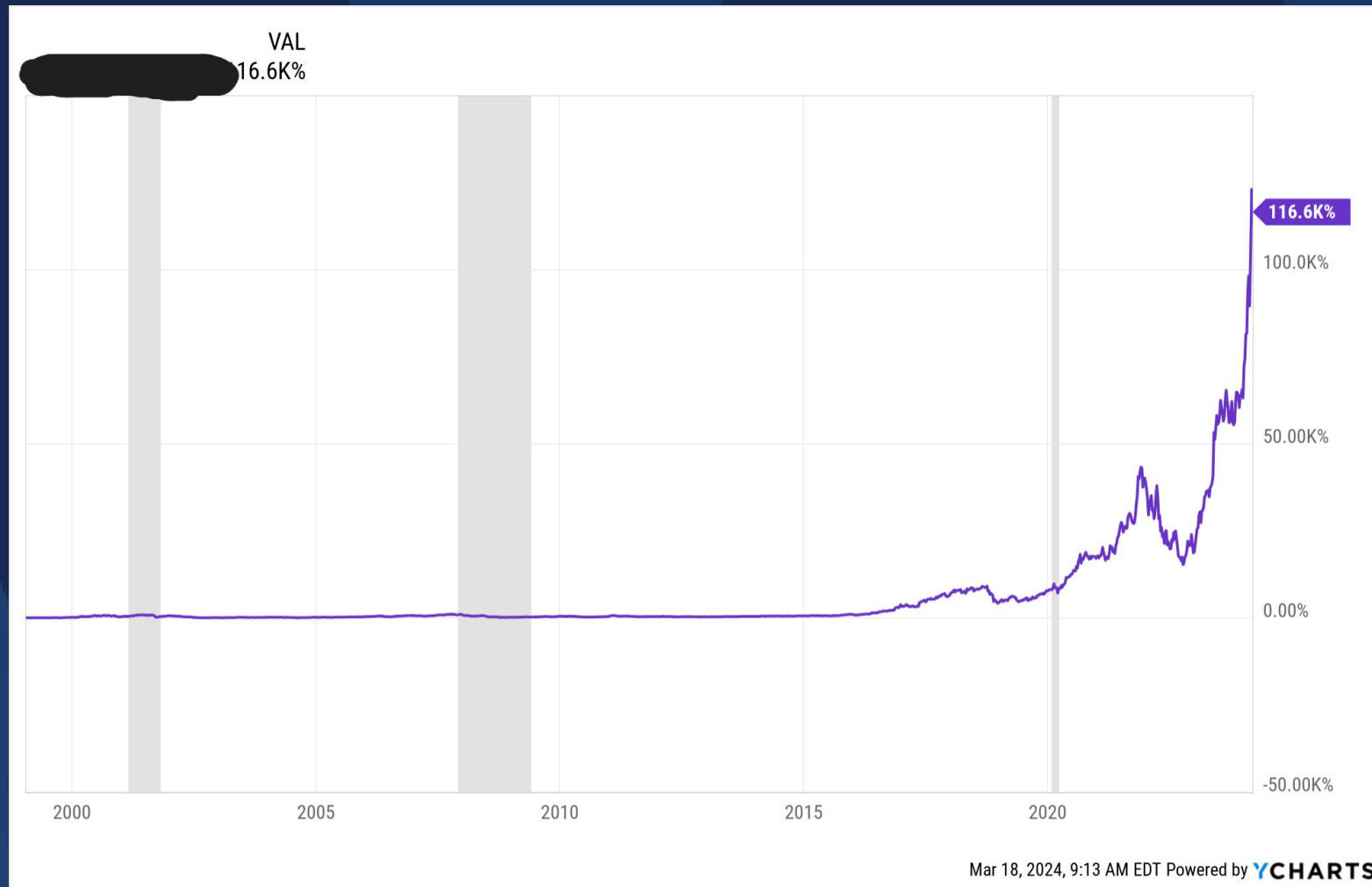


Source: Ben Carlson | Ritholtz Wealth Management

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# Mystery Chart... Who's got it?



Source: YCharts

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# Valuations

Are stocks cheap right now? Depends where you look...

### Shiller P/E Ratio



Source: <https://www.multip.com/shiller-pe>

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Are stocks cheap right now? Depends where you look...

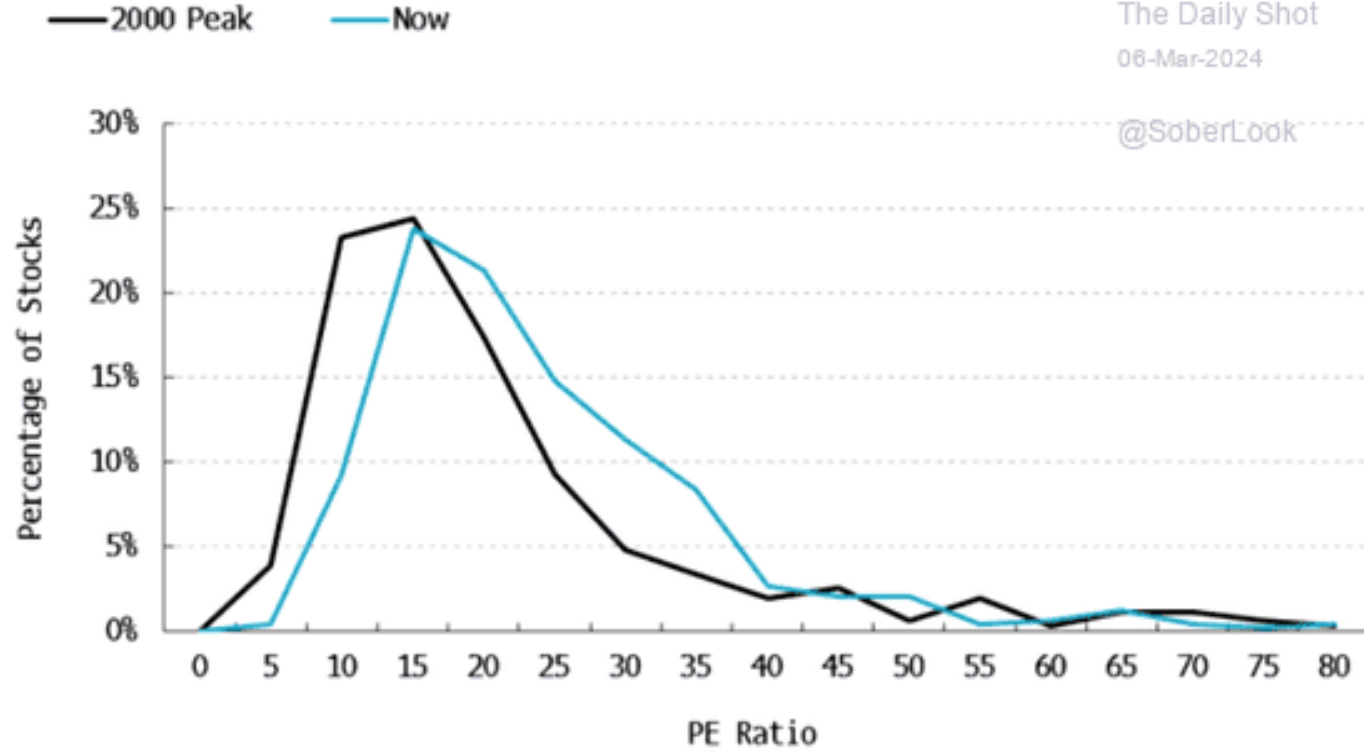
### More Stocks Have Higher Valuation Today Than at 2000 Peak

Posted on

The Daily Shot

06-Mar-2024

@SoberLook



Source: Bloomberg

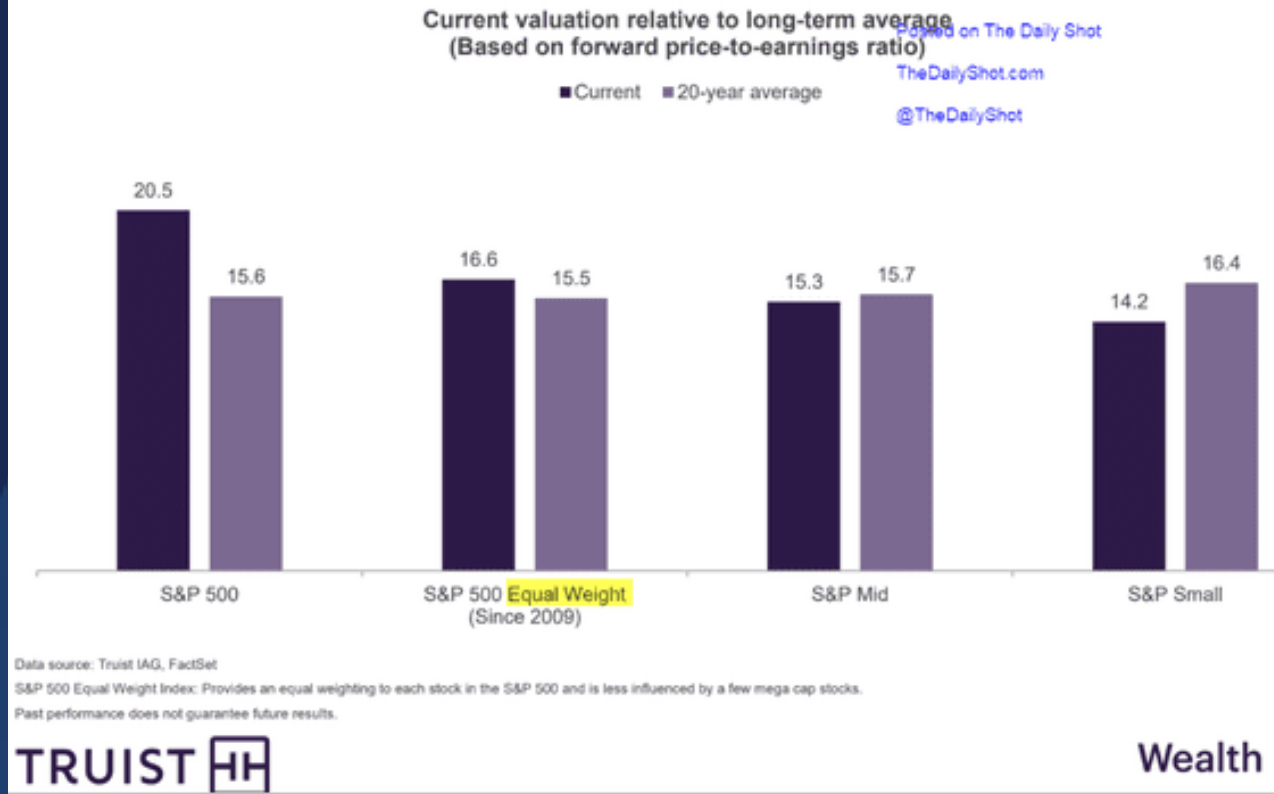
Are stocks cheap right now? Depends where you look...



Source: [Aazan Habib, Paradigm Capital](#)

# Are stocks cheap right now? Depends where you look...

## Equity valuations outside of large caps are below the historical average



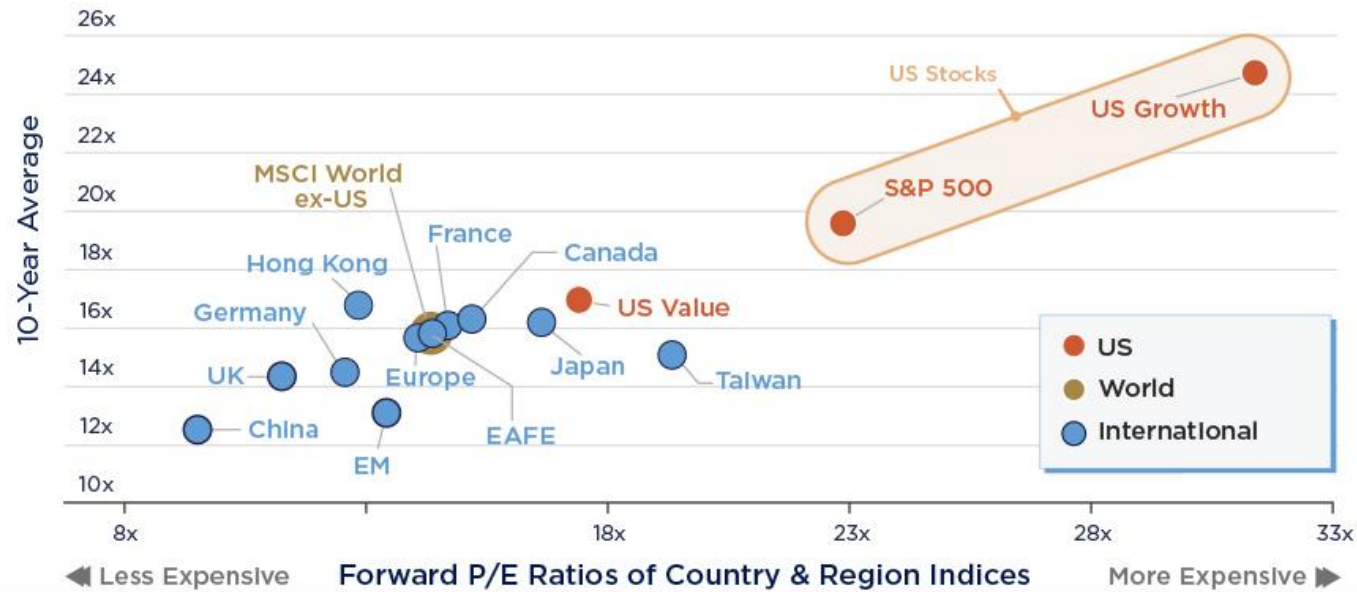
Source: Truist Advisory Services

Nothing new here... will international stocks finally perform?

## International Stocks at a Steep Discount to US Stocks

### US vs. International Equity Valuations

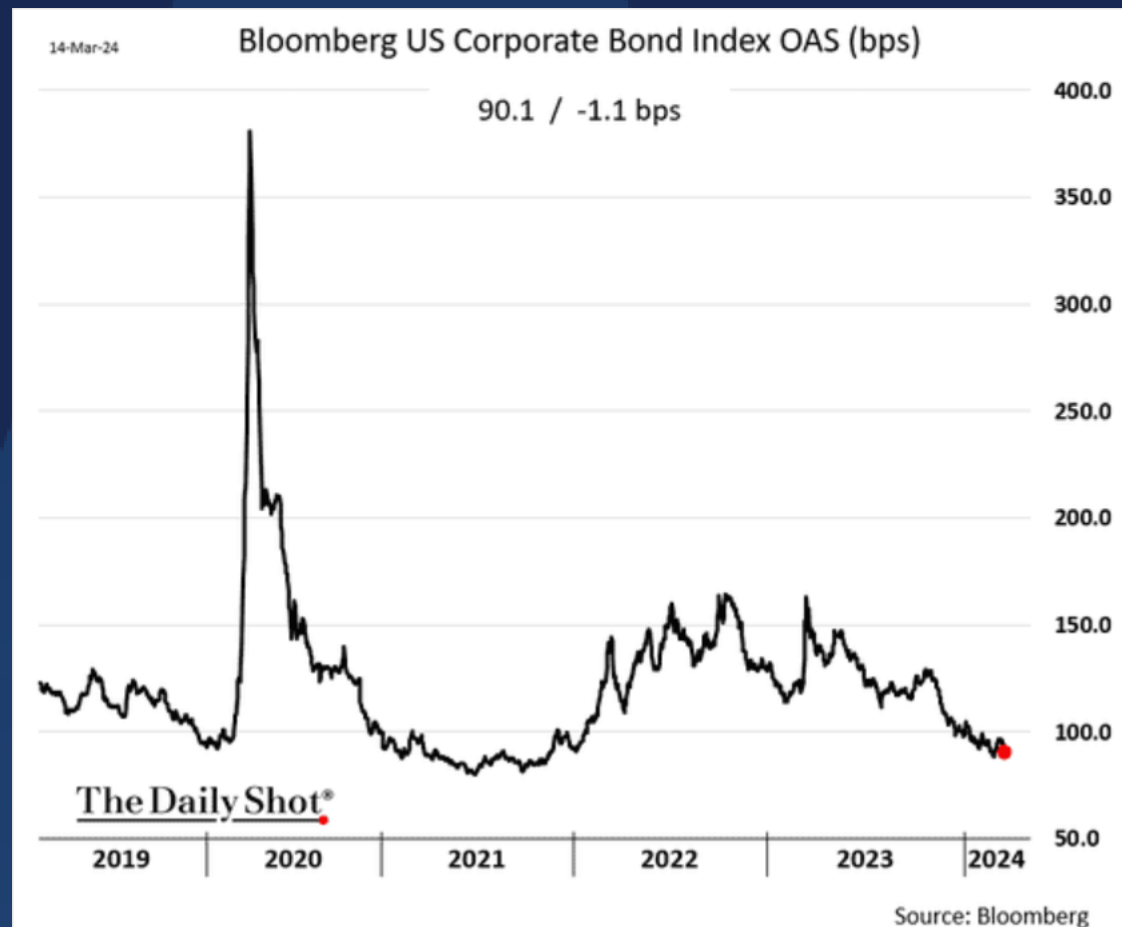
Comparison of forward price-to-earnings (P/E) ratios of countries and regions



Source: Amundi US and Bloomberg as of 1/31/24. The indices measure the broad equity markets of each country/region. S&P 500 represents US stocks. MSCI for all others. EAFE index represents Europe, Australasia and Far East. [Please see Terms and Indices below for more information.](#) Data based on past performance, which is no guarantee of future results.

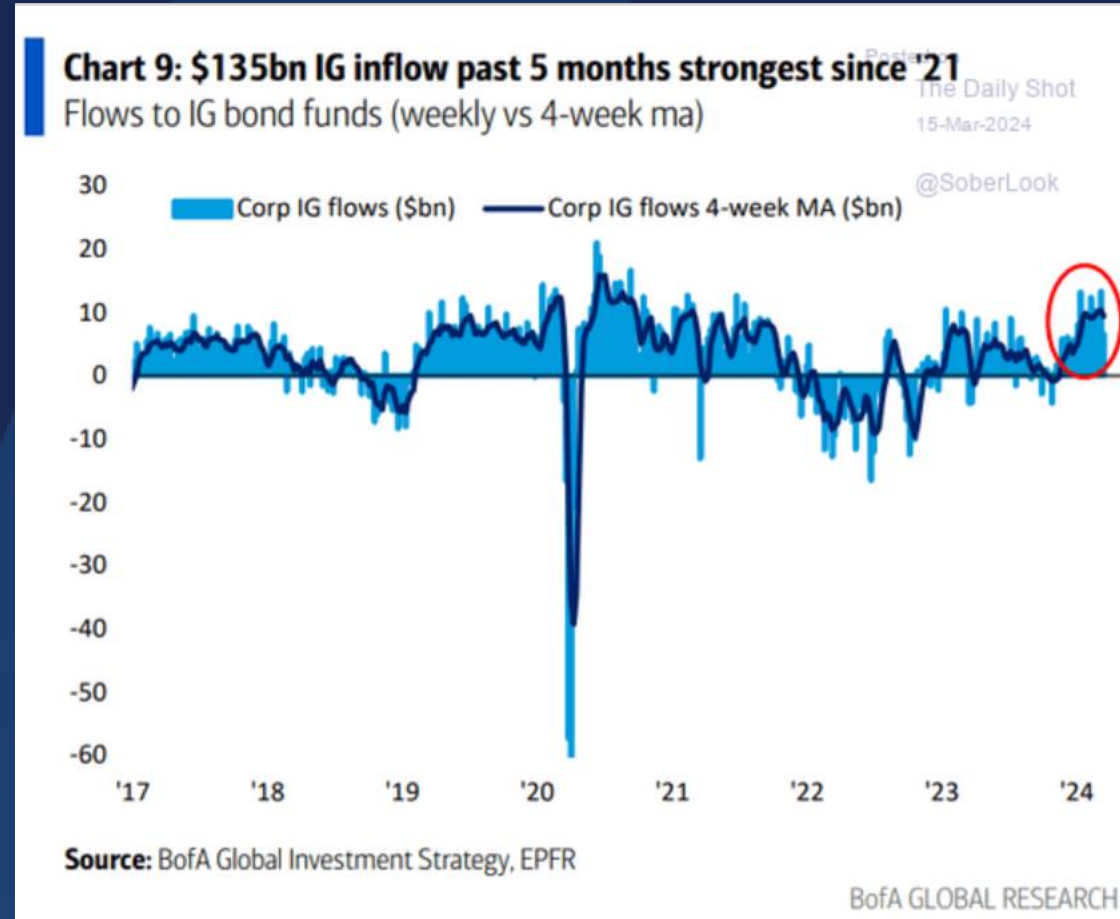
Source: Amundi Asset Management

# Investment Grade Corporate Bond Spreads



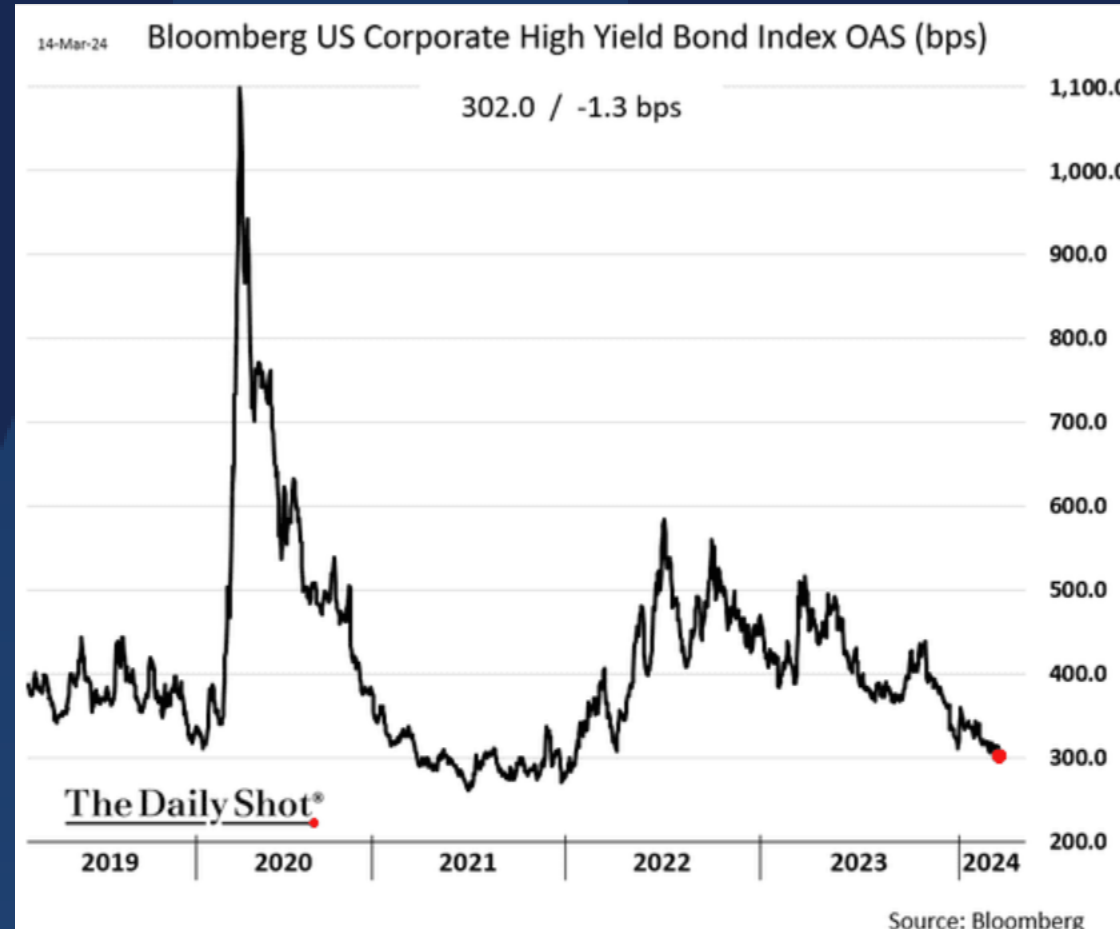
Source: The Daily Shot

## Demand remains strong... Investment Grade Bond Flows



Source: The Daily Shot

# High Yield Corporate Bond Spreads



Source: The Daily Shot

# High Yield B – BB Corporate Bond Spread

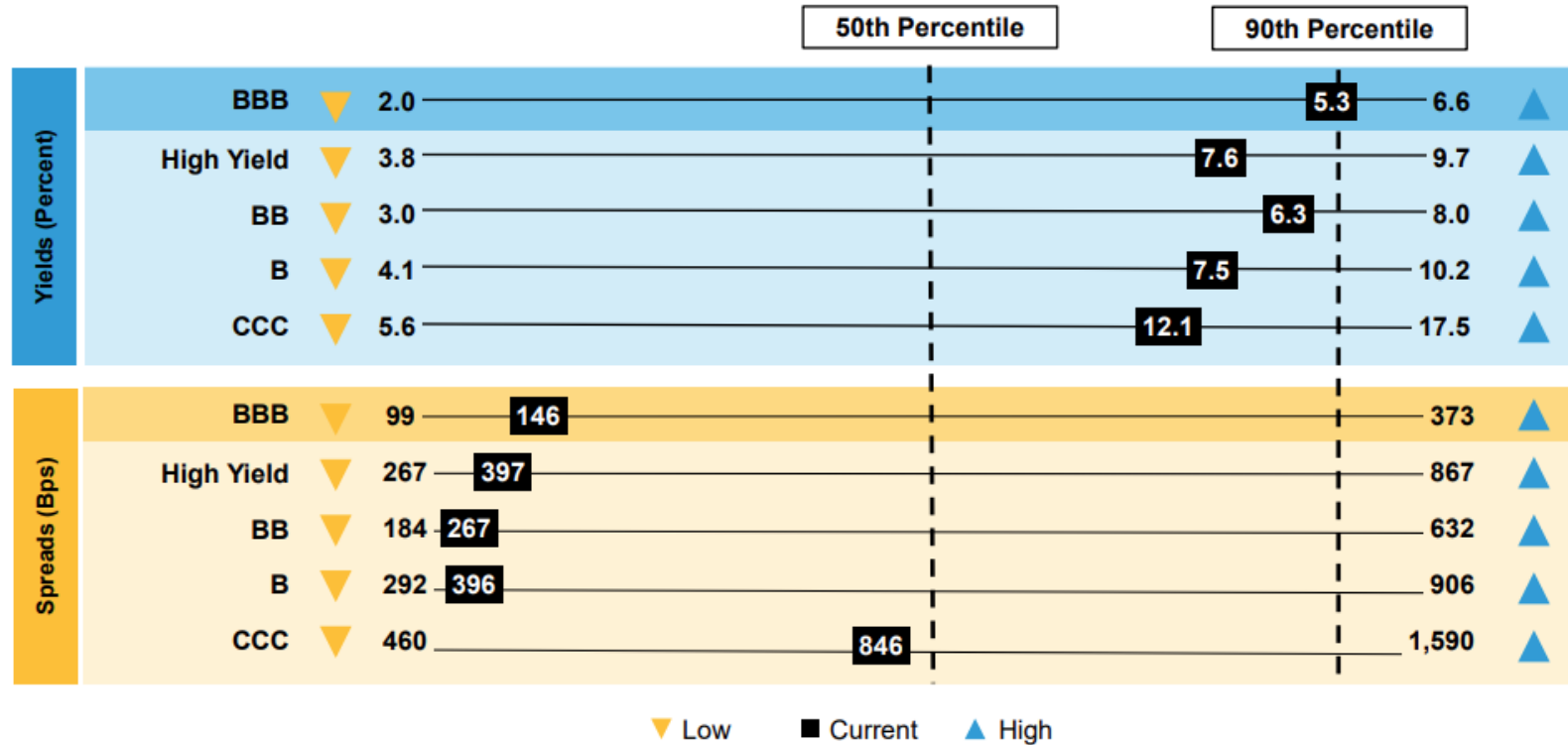


Source: The Daily Shot

But yields are still attractive...

## Yields Are Still Relatively High, but Spreads Are on the Lower End

Yield on the High Yield Index is in the 80th percentile over the last 10 years



Past performance does not guarantee future results.

Spread: option-adjusted spread. High yield is represented by the Bloomberg US Corporate High Yield; quality index spreads are measured by the credit quality sub-indices of Bloomberg US Corporate High Yield; BBB is represented by quality sub-index of Bloomberg US Corporate. Data from September 2013 to September 2023.

As of December 31, 2023. Source: Bloomberg, J.P. Morgan and AB

Careful....

### European default rate reaches its highest since April 2021 at 3.9%

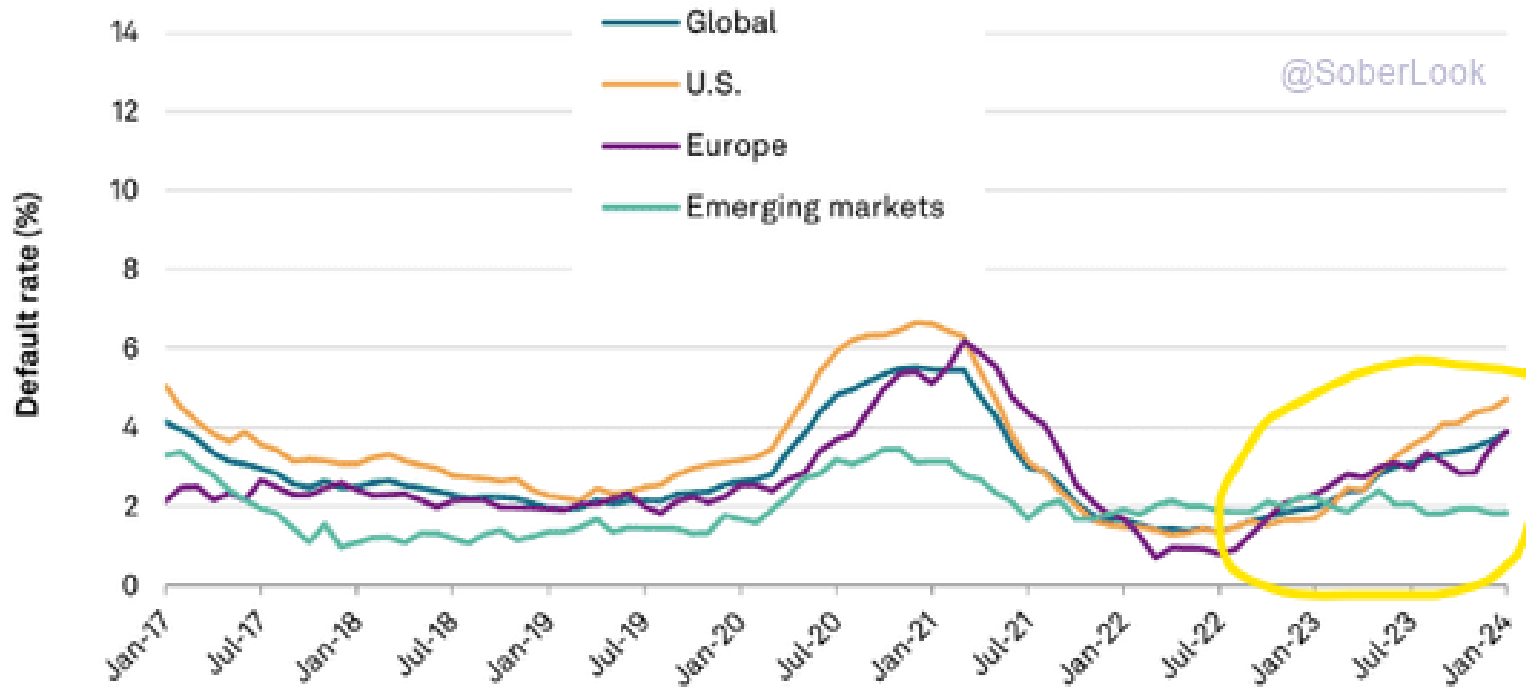
Trailing-12-month speculative-grade default rates

Posted on

The Daily Shot

18-Mar-2024

@SoberLook



Data as of Jan. 31, 2024. Source: S&P Global Ratings Credit Research & Insights.

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Source: The Daily Shot

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**Inflation...  
time to let  
the foot off  
the gas?**



OUCH!



# US Inflation Rate: Aggregated

Average American purchasing power has been eroded by **23.98%** Since Jan 2020.



US Inflation Rate: Aggregated

New!



## US Inflation Aggregated

30 / 01 / 2020 - 16 / 03 / 2024

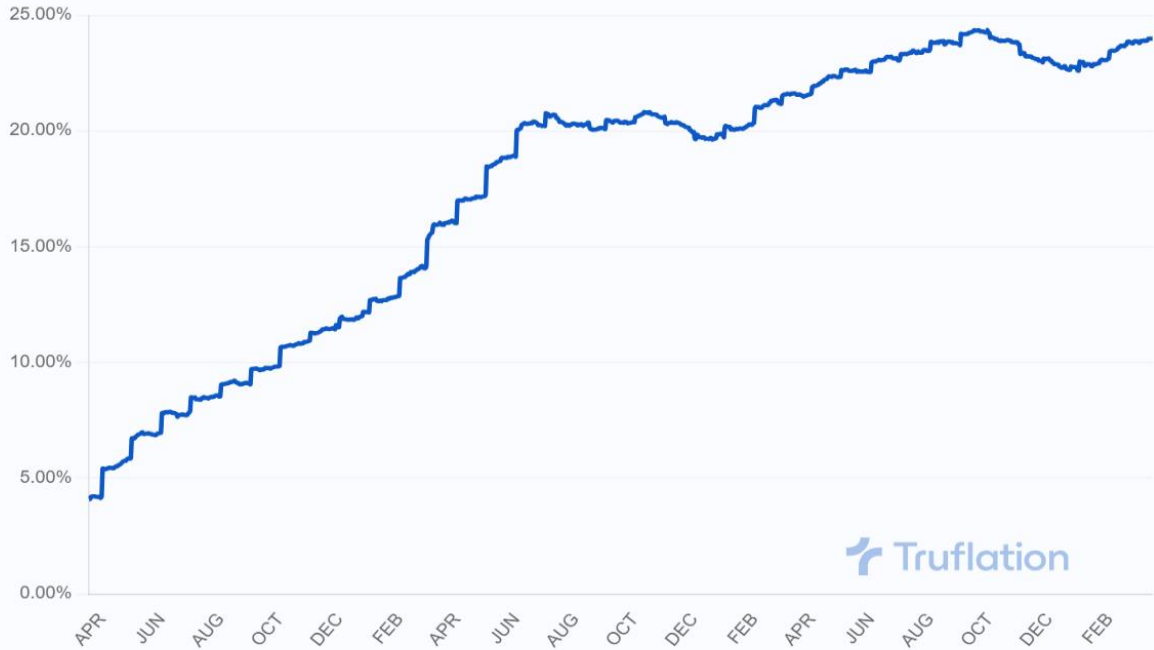
# 23.98%

^ 0.03%

Compounded inflation rate since Jan 2020

Truflation Timeframe ● Truflation Aggregated Rate

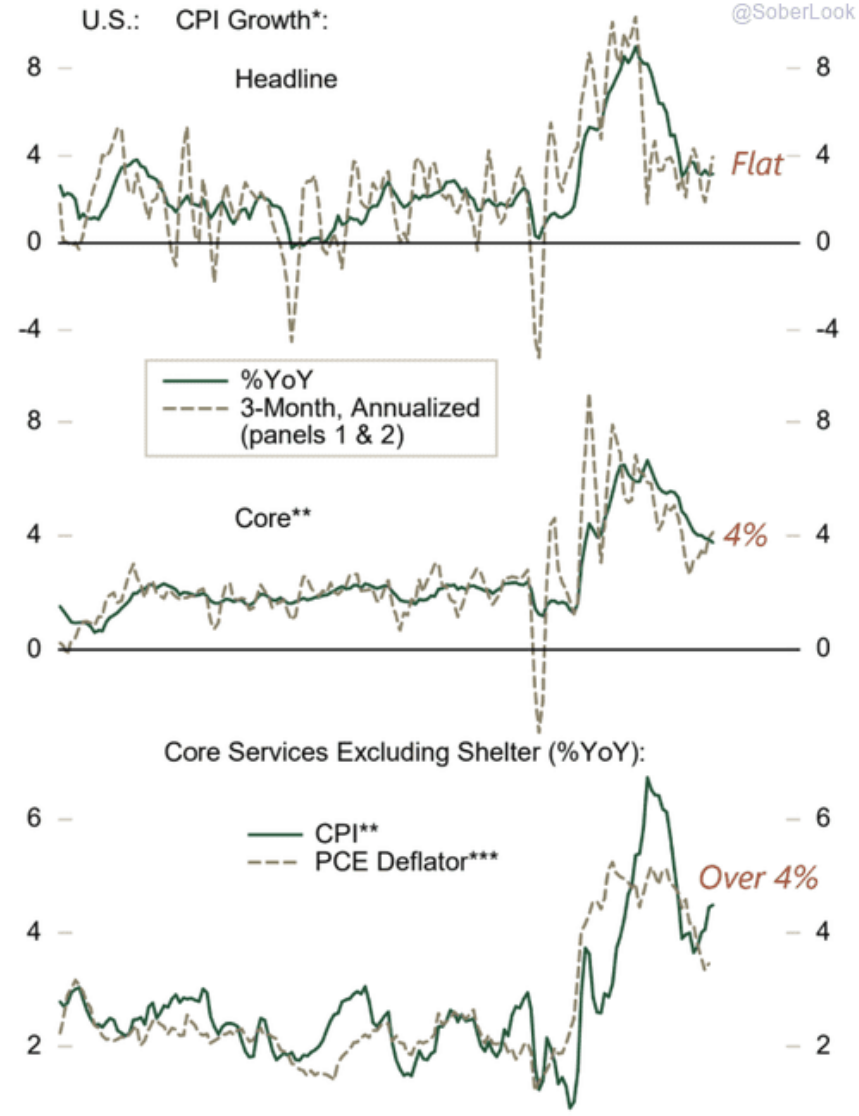
1W 1M 6M YTD 1Y 2Y 3Y



Source: Truflation

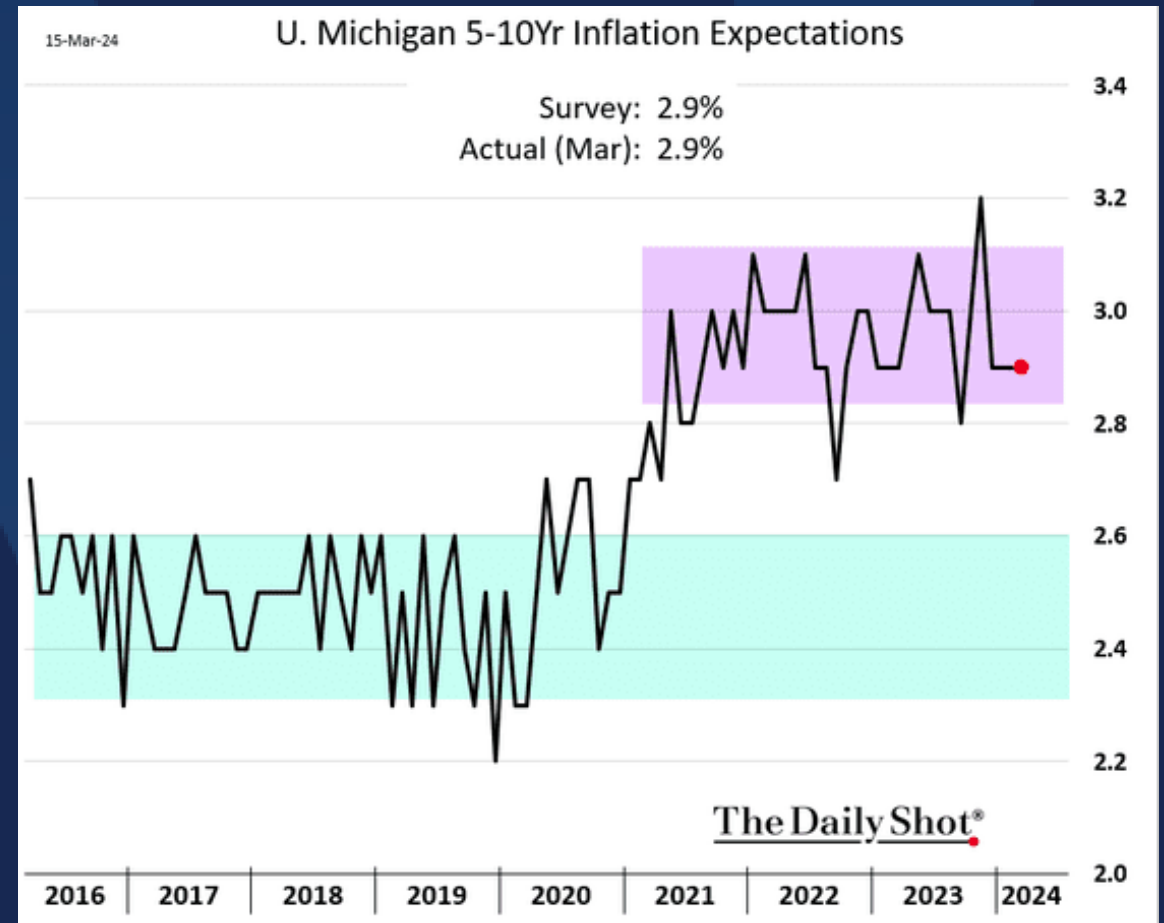
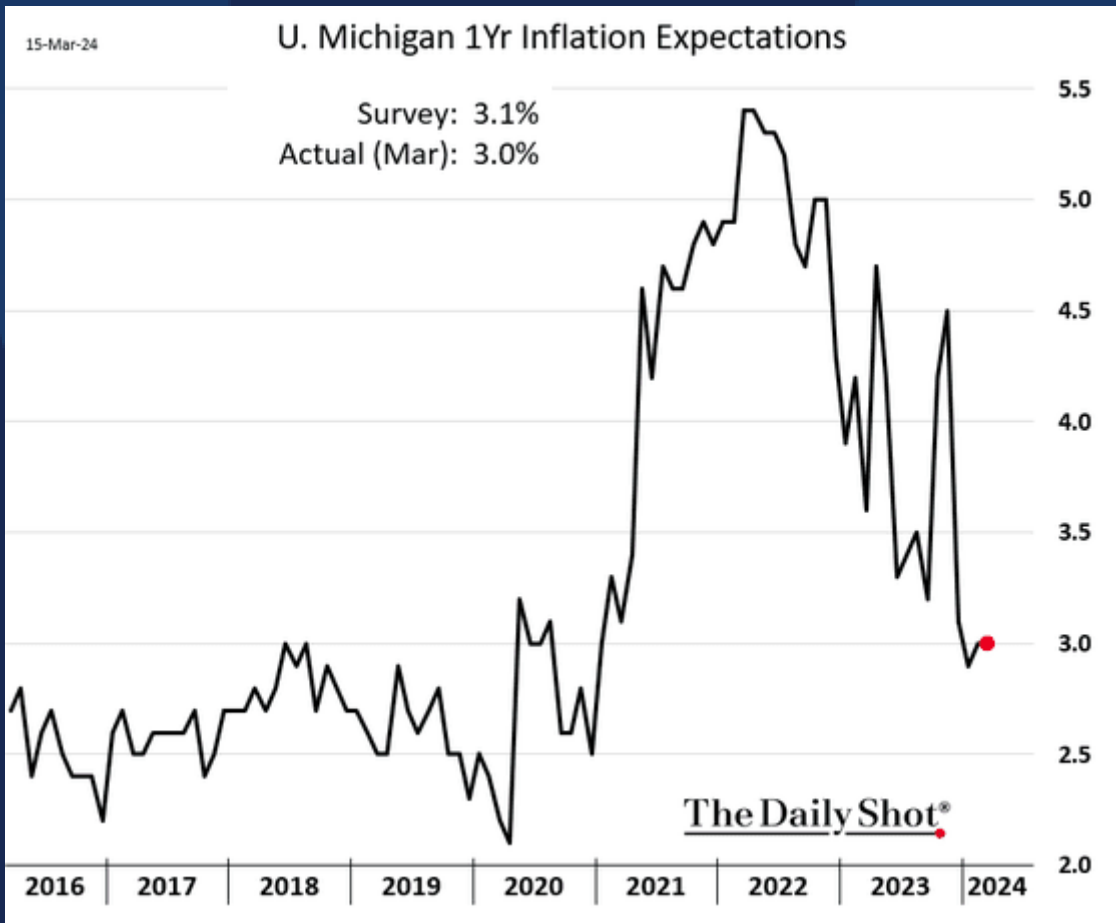
# Chart 2 U.S. Inflation: 4%, Not 2%

Posted on  
The Daily Shot  
18-Mar-2024  
@SoberLook



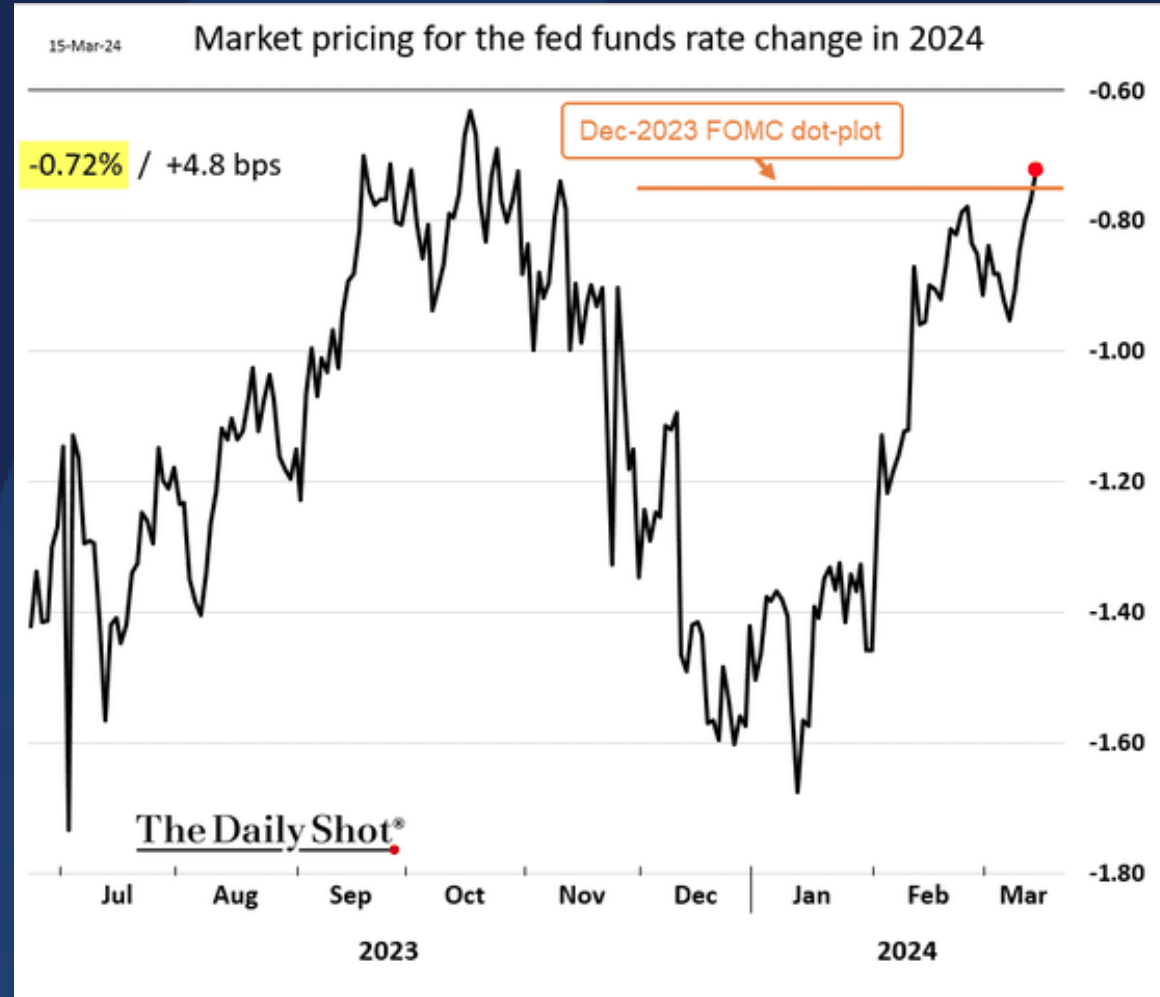
Source: The Daily Shot

# Inflation Expectations



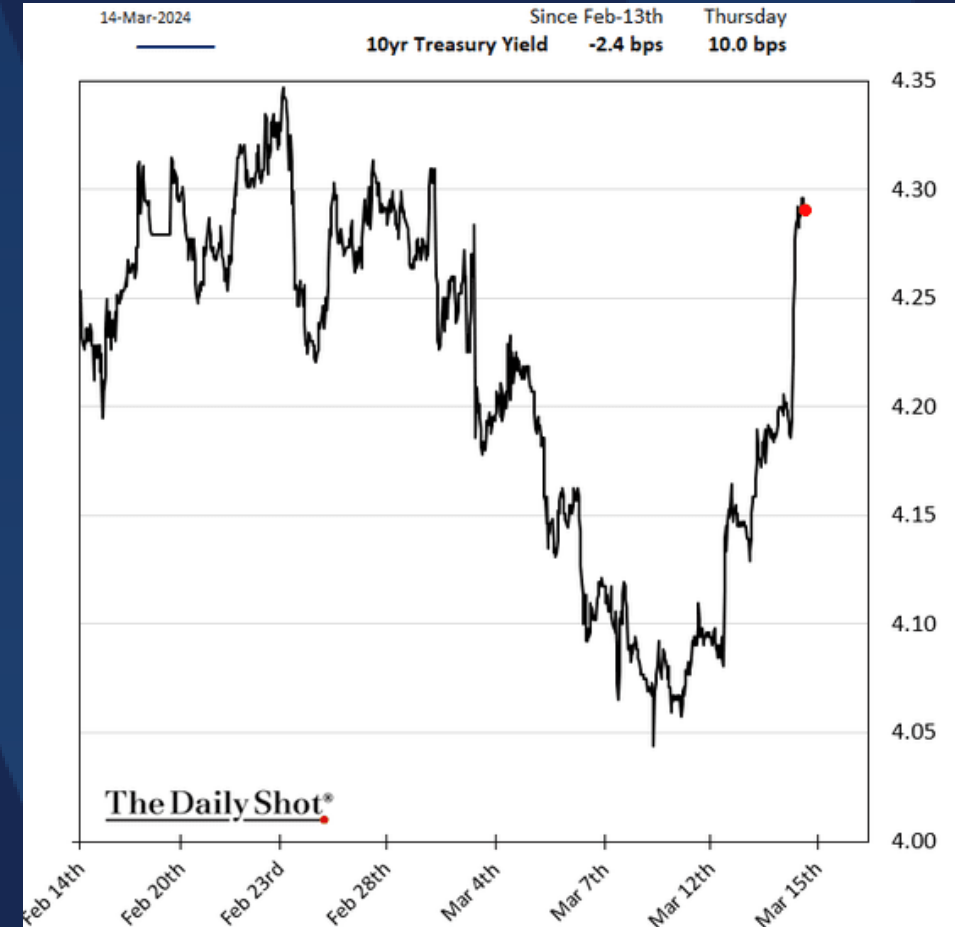
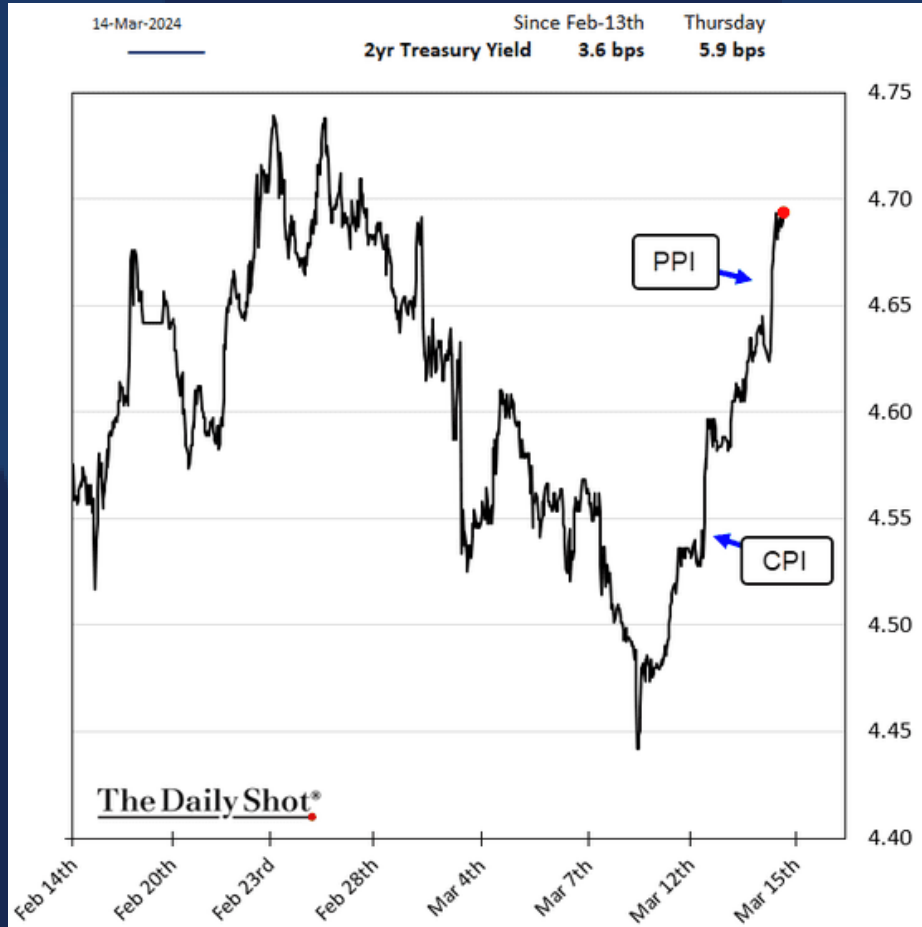
Source: The Daily Shot

# How many cuts are priced in today?



Source: The Daily Shot

## 2 Year UST and 10 Year UST reaction after CPI and PPI latest readings



Source: The Daily Shot

# What about the deficit?

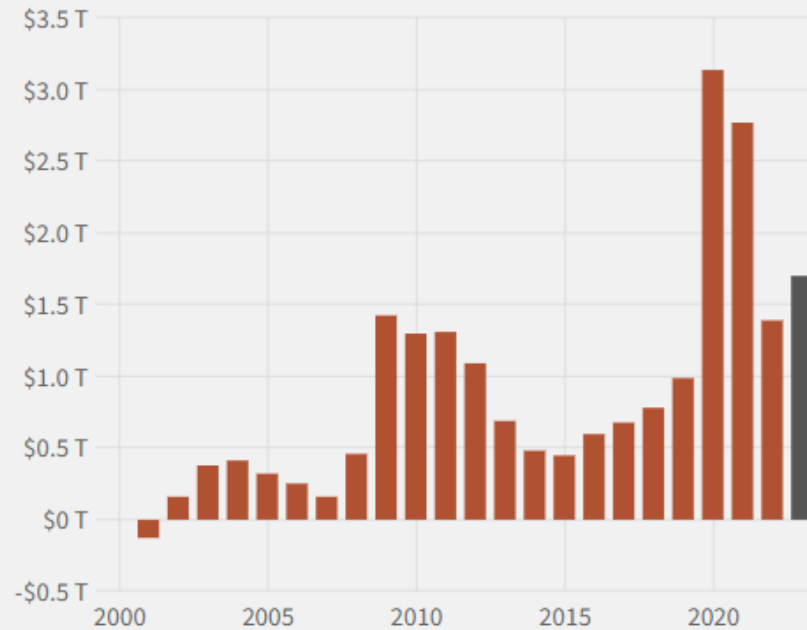
Federal Deficit Trends Over Time, FY 2001-2023

**2023**

Fiscal Year

**\$1.70 T**

Total Deficit



Visit the [Monthly Treasury Statement \(MTS\)](#) dataset to explore and download this data.

Please note: This data visual only includes completed fiscal years.

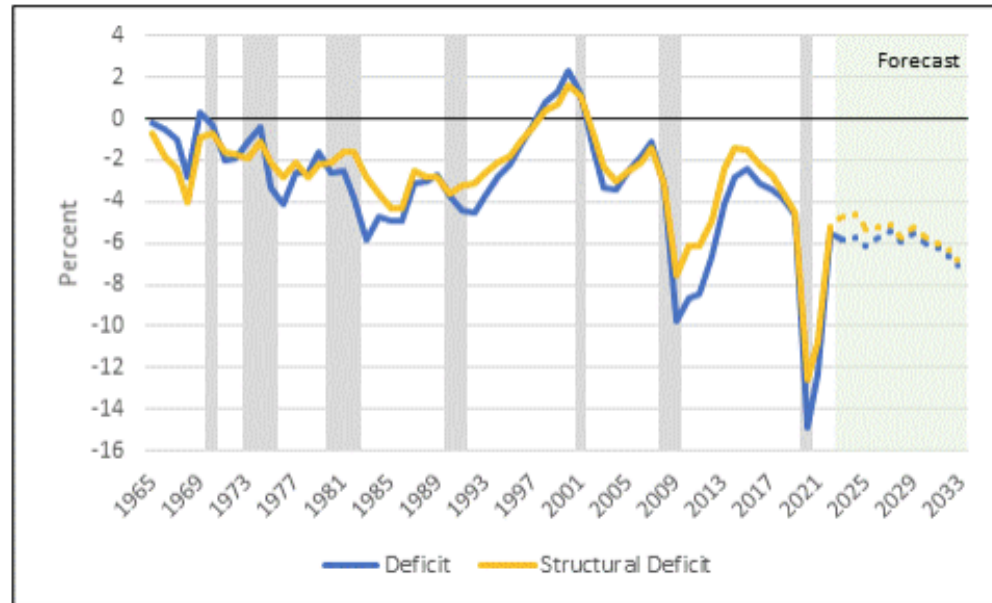
Last Updated: September 30, 2023

No plans on changing any time soon...

	Actual, 2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total	
													2022– 2026	2022– 2031
<b>In Billions of Dollars</b>														
<b>Revenues</b>														
Individual income taxes	1,609	1,952	2,328	2,334	2,353	2,383	2,586	2,792	2,871	2,979	3,091	3,209	11,984	26,926
Payroll taxes	1,310	1,346	1,391	1,504	1,550	1,588	1,644	1,703	1,768	1,834	1,900	1,968	7,677	16,849
Corporate income taxes	212	238	317	379	390	402	401	391	393	393	393	397	1,889	3,857
Other	291	306	355	381	378	359	354	367	364	366	371	382	1,827	3,676
<b>Total</b>	<b>3,421</b>	<b>3,842</b>	<b>4,390</b>	<b>4,597</b>	<b>4,671</b>	<b>4,734</b>	<b>4,984</b>	<b>5,253</b>	<b>5,396</b>	<b>5,572</b>	<b>5,754</b>	<b>5,957</b>	<b>23,376</b>	<b>51,308</b>
On-budget	2,456	2,863	3,401	3,513	3,542	3,566	3,773	3,995	4,091	4,218	4,352	4,506	17,796	38,957
Off-budget <sup>a</sup>	965	979	989	1,085	1,128	1,168	1,211	1,258	1,306	1,354	1,402	1,451	5,581	12,351
<b>Outlays</b>														
Mandatory	4,577	4,862	3,589	3,461	3,488	3,711	3,907	4,088	4,418	4,446	4,780	5,025	18,155	40,912
Discretionary	1,628	1,652	1,649	1,610	1,592	1,625	1,660	1,701	1,746	1,778	1,827	1,877	8,136	17,065
Net interest	345	331	306	315	344	396	467	541	628	712	808	910	1,826	5,425
<b>Total</b>	<b>6,550</b>	<b>6,845</b>	<b>5,544</b>	<b>5,386</b>	<b>5,423</b>	<b>5,731</b>	<b>6,033</b>	<b>6,330</b>	<b>6,792</b>	<b>6,935</b>	<b>7,415</b>	<b>7,812</b>	<b>28,118</b>	<b>63,402</b>
On-budget	5,598	5,846	4,469	4,231	4,191	4,418	4,642	4,854	5,222	5,268	5,647	5,939	21,950	48,880
Off-budget <sup>a</sup>	953	999	1,075	1,155	1,233	1,313	1,391	1,476	1,570	1,667	1,769	1,873	6,167	14,521
<b>Deficit (-) or Surplus</b>	<b>-3,129</b>	<b>-3,003</b>	<b>-1,153</b>	<b>-789</b>	<b>-753</b>	<b>-998</b>	<b>-1,049</b>	<b>-1,077</b>	<b>-1,395</b>	<b>-1,363</b>	<b>-1,661</b>	<b>-1,855</b>	<b>-4,741</b>	<b>-12,093</b>
On-budget	-3,142	-2,984	-1,067	-718	-648	-852	-869	-859	-1,131	-1,050	-1,294	-1,434	-4,155	-9,923
Off-budget <sup>a</sup>	13	-19	-86	-71	-104	-146	-180	-218	-264	-313	-367	-422	-587	-2,170
Debt Held by the Public	21,017	23,012	24,392	25,156	25,959	26,967	28,062	29,185	30,733	32,119	33,913	35,827	n.a.	n.a.
<b>Memorandum:</b>														
Gross Domestic Product	21,000	22,401	24,323	25,356	26,191	27,076	28,033	29,103	30,195	31,305	32,449	33,670	130,980	287,702

Yes it matters...

**Figure 1. Federal Deficit as a Percent of GDP**  
FY1965-FY2033



**Source:** Congressional Budget Office (CBO).

**Notes:** Gray bars denote recessions. A negative ratio indicates a budget deficit, and a positive ratio indicates a budget surplus for a given fiscal year.

On the longer-term horizon, CBO forecasts that growing deficits under current policy will contribute to a **growing publicly held debt-to-GDP ratio that is expected to reach 181% in 2053,** leading to concerns about the sustainability of the debt (discussed in further detail in the subsequent “Debt Sustainability” section).<sup>18</sup>

**A Deeper Look at AGG... should you  
pay for active management in fixed  
income?**

## How has the Agg changed over time?

### Agg sector weightings (Market Value %)

	2000	2023	▲   ▼ Change
U.S. Treasuries & Agencies	38%	43%	▲ 5%
Agency MBS	35%	27%	▼ 8%
Investment-Grade Corporates	21%	25%	▲ 4%

Source: Barclays Live. As of December 31, 2000 and September 30, 2023.

### How past iterations of the Agg would have performed in 2022<sup>4</sup>

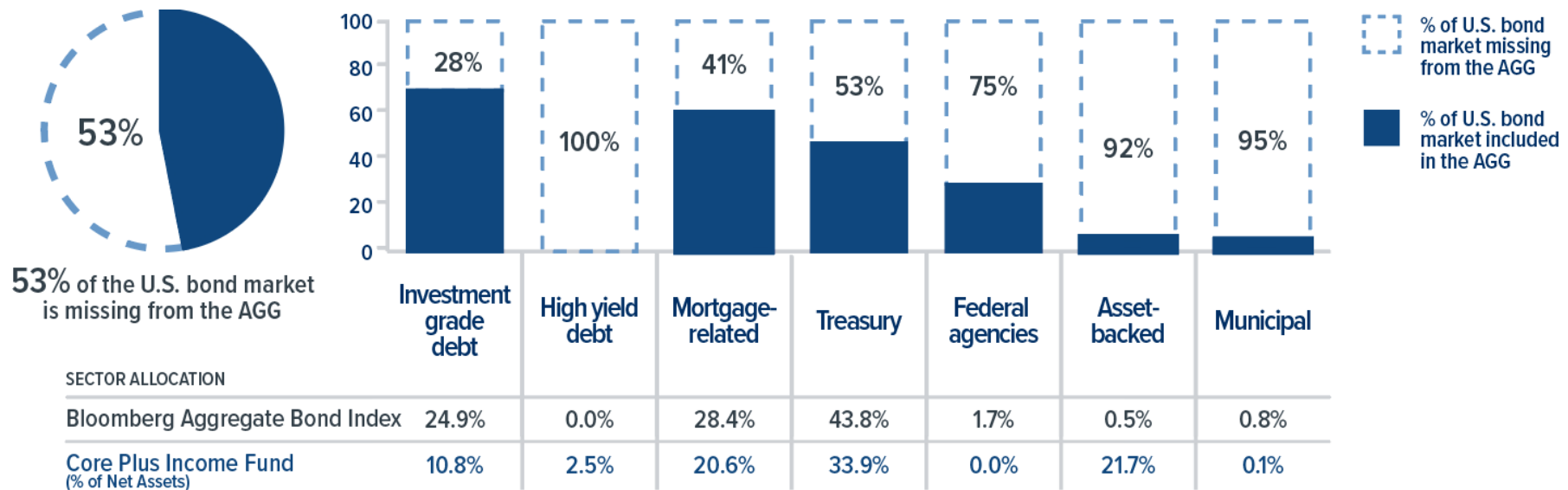
A year when: 10Y Treasury Yield +236bps | IG spreads +37bps | MBS OAS +20bps

	The 1990 Agg	The 2000 Agg	The 2010 Agg	The 2022 Agg
One-year implied performance, assuming 2022's market changes	-8.4%	-10.1%	-9.7%	-13.0%

Source: Barclays Live. As of December 30, 2022.

# Is the Bloomberg Aggregate Bond Index an Optimal Solution?

About half of the U.S. bond market is not represented by the Agg, and structured credit is notably underexplored.



Source: SIFMA, Bloomberg. Market value of U.S. bond market relative to the Bloomberg U.S. Aggregate Bond Index is as of 12/31/2023. Fund and Bloomberg U.S. Aggregate Bond Index sector allocation is as of 12/31/2023. \*High Yield Debt includes High Yield Corporates, Corporate Convertible Bonds and Non-Convertible Preferred Stocks. The Funds total high yield exposure as of 12/31/2023 is 3.0%.

## Can active management outperform its benchmark?

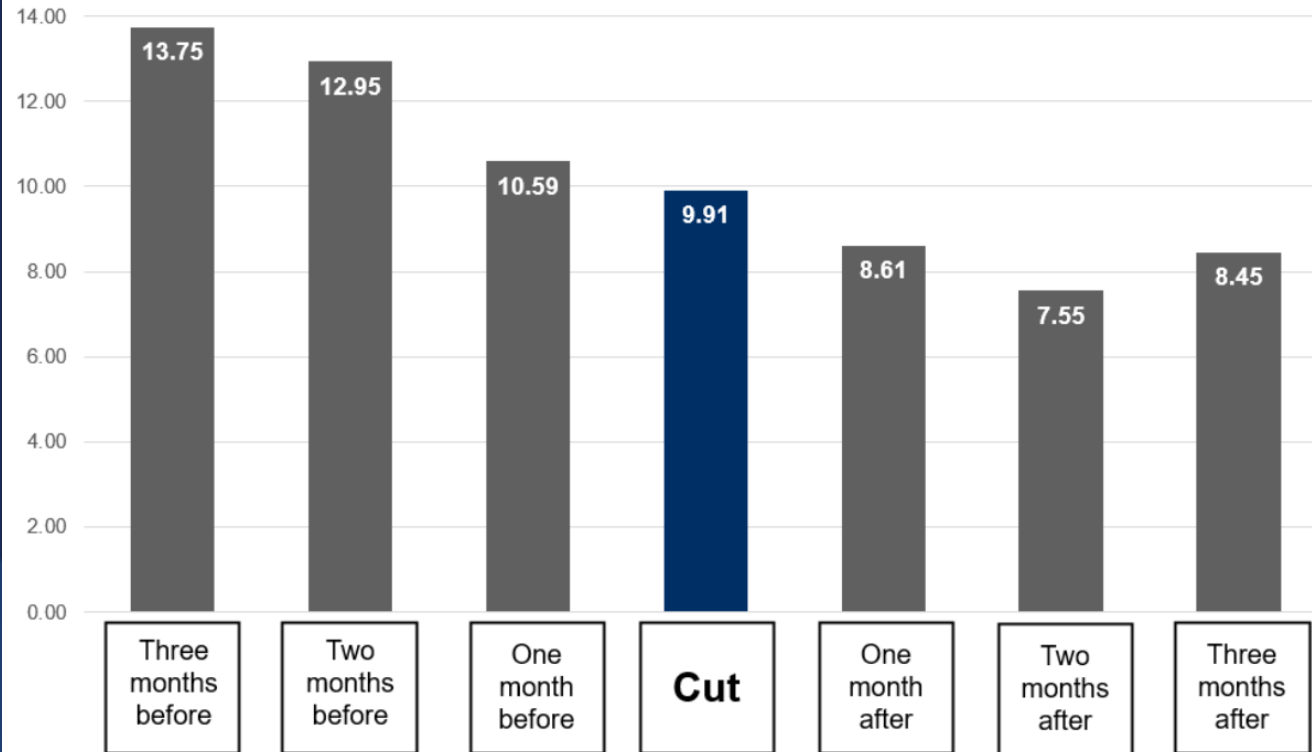
**Figure 1: % of Actively Managed Mutual Funds Beating the Benchmark**

Category	1 Year	5 Years	10 Years
<b>Fixed Income</b>			
Short Term Bond	79%	77%	79%
Intermediate Core Bond	68%	58%	60%
Multi-Sector Bond	97%	92%	93%
Corporate Bond	43%	68%	74%
<b>US Equity</b>			
Large Cap Growth	43%	20%	21%
Large Cap Value	30%	26%	11%
Large Cap Blend	22%	24%	14%

Source: Morningstar. Data as of 12/14/23. Includes institutional and no-load share classes of actively managed mutual funds in these respective Morningstar categories.

## Is it time to be excited about bonds again?

### Average 12-Month Forward Returns for the Bloomberg U.S. Aggregate Bond Market in Proximity to Fed Rate Cuts



Source: Morningstar. Data as of December 31, 2023. Average is based on the following dates of first Fed rate cuts: September 20, 1984; June 7, 1989; July 6, 1995; January 3, 2001; September 18, 2007; and August 1, 2019.

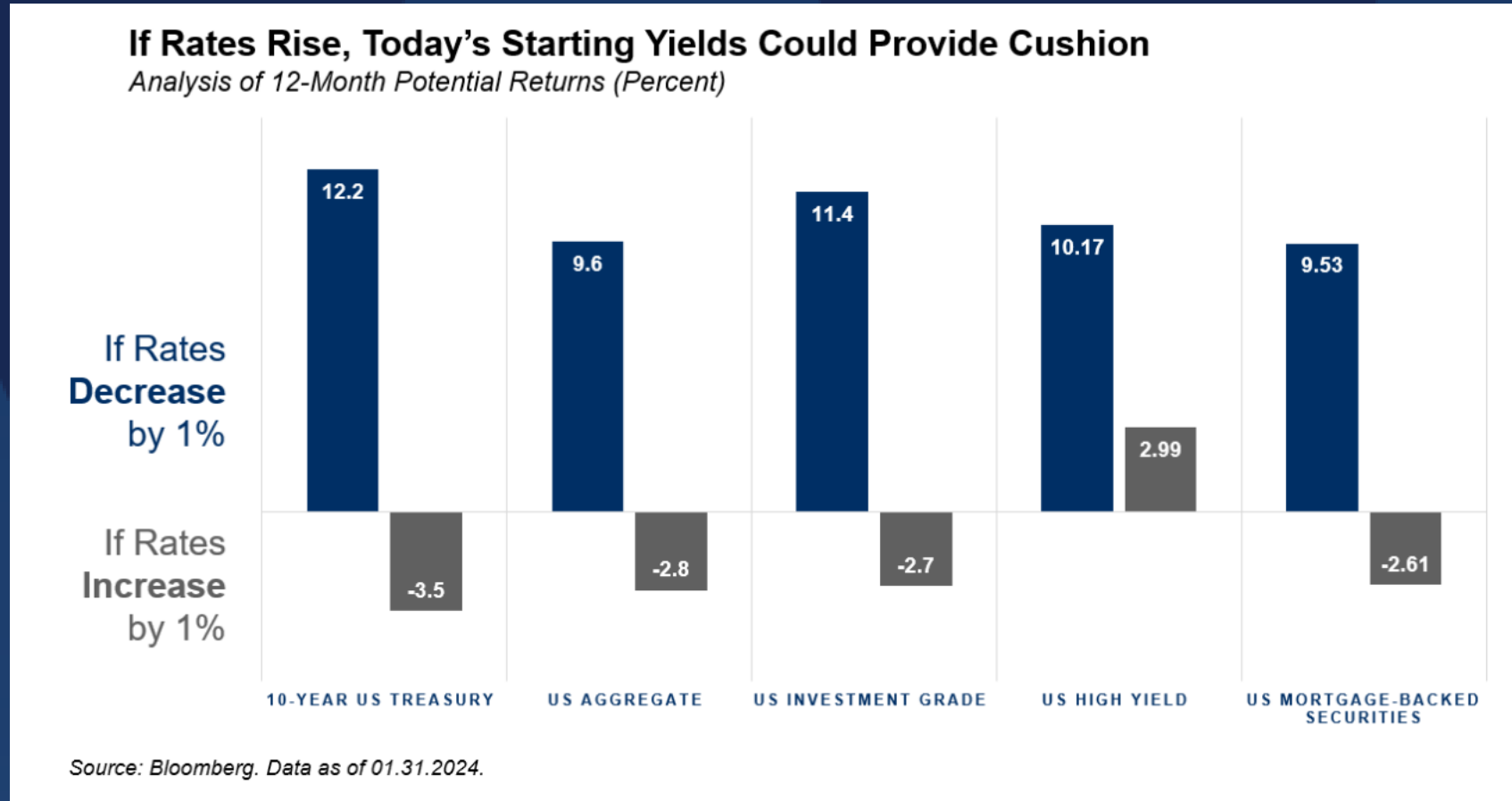
Source: Weitz Investments

<https://weitzinvestments.com/perspectives/market-perspectives/a-233/four-things-to-consider-when-moving-clients-out-of-cash.fs>

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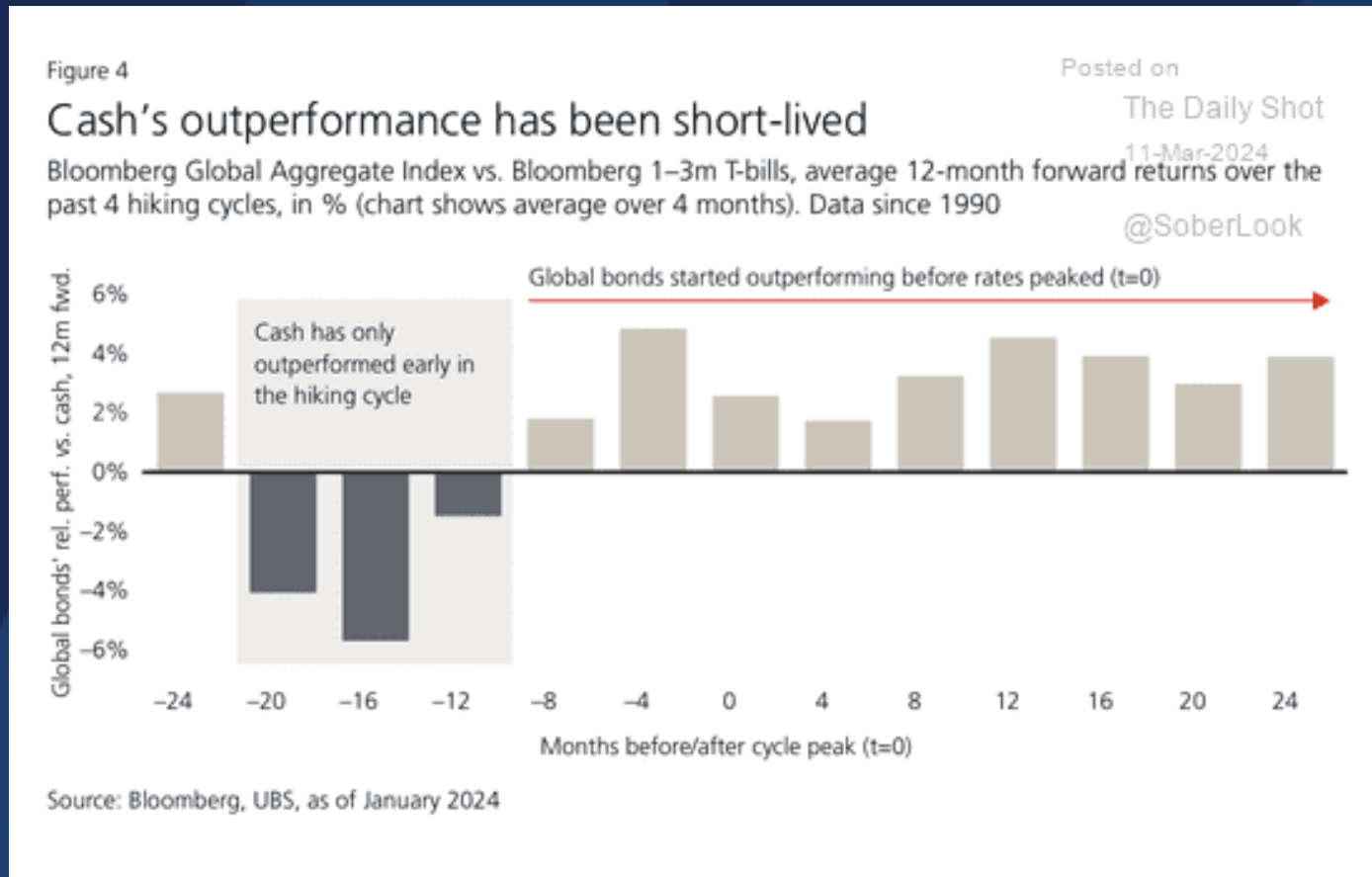
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What if rates stay normal for longer? What if they go up from here?



Source: Weitz Investments  
<https://weitzinvestments.com/perspectives/market-perspectives/a-233/four-things-to-consider-when-moving-clients-out-of-cash.fs>

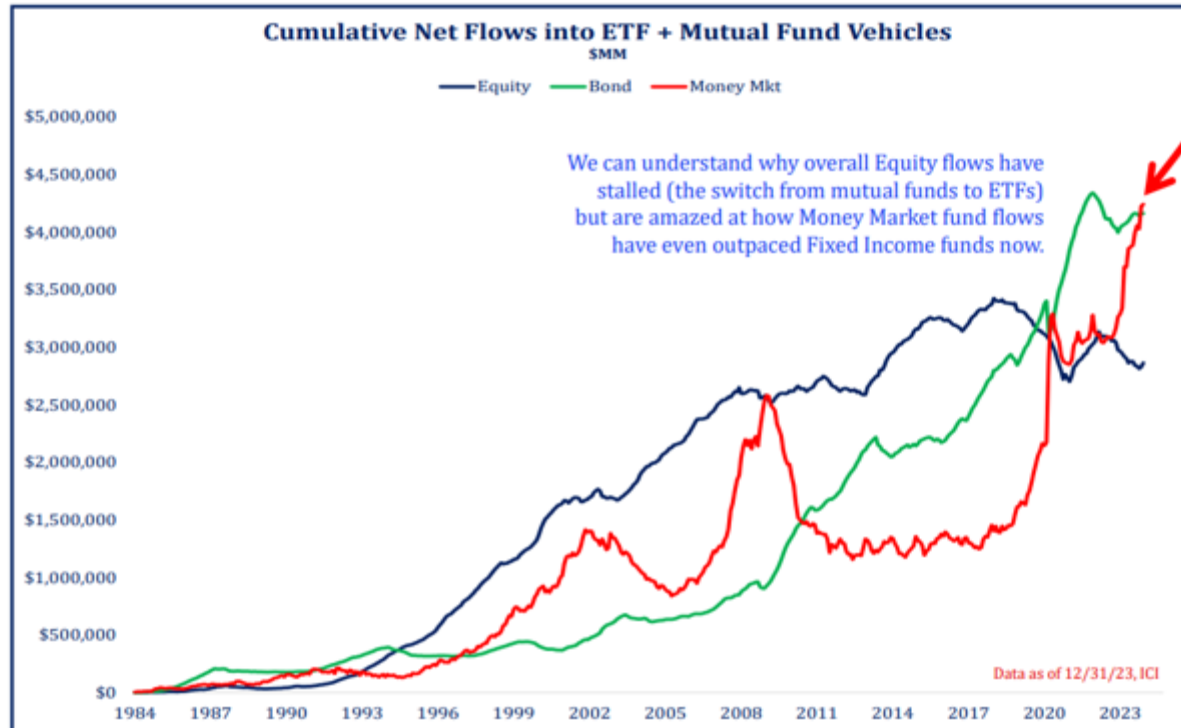
# Is cash king at this point in the cycle?



Source: The Daily Shot

# A potential tailwind?

## MONEY MARKET FUNDS ARE THE “BEST SELLING” VEHICLE OVER LAST 40-YEARS



Source: Ben Carlson | Ritholtz Wealth Management

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Mystery chart... Who's got it?!



A core bond option to consider...



**LSEG Lipper  
Fund Awards**

2024 Winner  
United States

**BEST CORE PLUS  
BOND FUND**

OVER 3 & 5 YEARS

**WCPBX**

*Weitz Core Plus Income Fund*

**BARRON'S**  
Meet Omaha's Unsung  
Fund Managers.  
Here's Their  
Winning Formula.

BY LEWIS BRAHAM



**Tom Carney and Weitz Core Plus  
Income Fund featured on CNBC**

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**Thank you for joining me!**

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**402-253-6130**

**[slucks@weitzinvestments.com](mailto:slucks@weitzinvestments.com)**