

July 20, 2022 | 11:00 A.M. ET

rkl

# WHAT'S NEXT >

## WEBINAR SERIES

Insights & education on the latest issues impacting  
people, profits and processes

# Housekeeping Items

- The webinar will be recorded and shared as soon as it is available via email
- Today's materials will be shared in the chat box
- All lines are muted
- NASBA CPE requirements – in order to receive CPE for this webinar:
  - Participants must be connected to the session (both audio and presentation) for its entirety
  - Participants must answer three questions/elements of engagement
  - One (1) hour of CPE in the field of economics will be granted if you meet these requirements

*DISCLAIMER: The presenter, Nicholas Boyer, and RKL LLP and its subsidiaries/affiliates are not held responsible for information that has changed or will change and makes no representation or warranty as to the ongoing accuracy of the information presented orally or in writing. Attendees should consult with legal, accounting and other advisors.*

# Welcome



**Nicholas Boyer,** | *Partner, Chief Investment Officer*

Helping individuals achieve their financial and personal goals means navigating the complexities of the global markets and adhering to a long-term investment strategy. This responsibility continues to motivate Nick Boyer after a decade-plus career in the investment management industry. Nick's clients rely on his deep understanding of macroeconomics and capital markets and his ability to contextualize global events within their individual financial situations.

As a Partner in RKL LLP and Chief Investment Officer/Executive Vice President of RKL Wealth Management LLC, Nick directs the firm's wealth management and financial planning service offerings and oversees investment philosophy and portfolio strategy for more than \$1 billion of assets under management.

Since working at a leading investment research and brokerage firm earlier in his career, Nick continues to research and focus on emerging technologies and business models, particularly venture capital opportunities, private equity investments and other alternative investment vehicles, and their impact on markets and the economy. He is a key member of RKL's blockchain study group focused on assessing and absorbing the impact of this significant technological development on the firm and its business clients.

Nick is a U.S. Marine and combat veteran, having served in a special operations unit in Afghanistan as part of Operation Enduring Freedom.

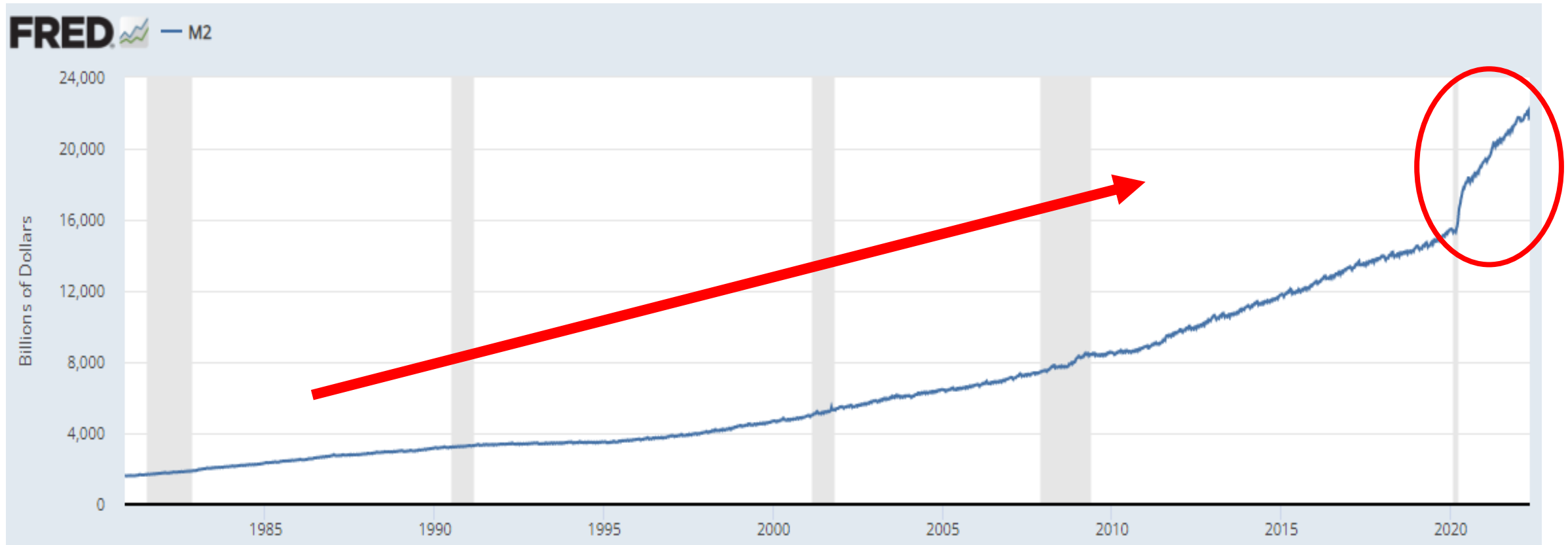
# | Agenda

- Inflation
- Monetary Policy & Interest Rates
- Financial Conditions
- U.S. Economy
- Key Takeaways & What To Watch

# Inflation: What It Is & What It Is Not

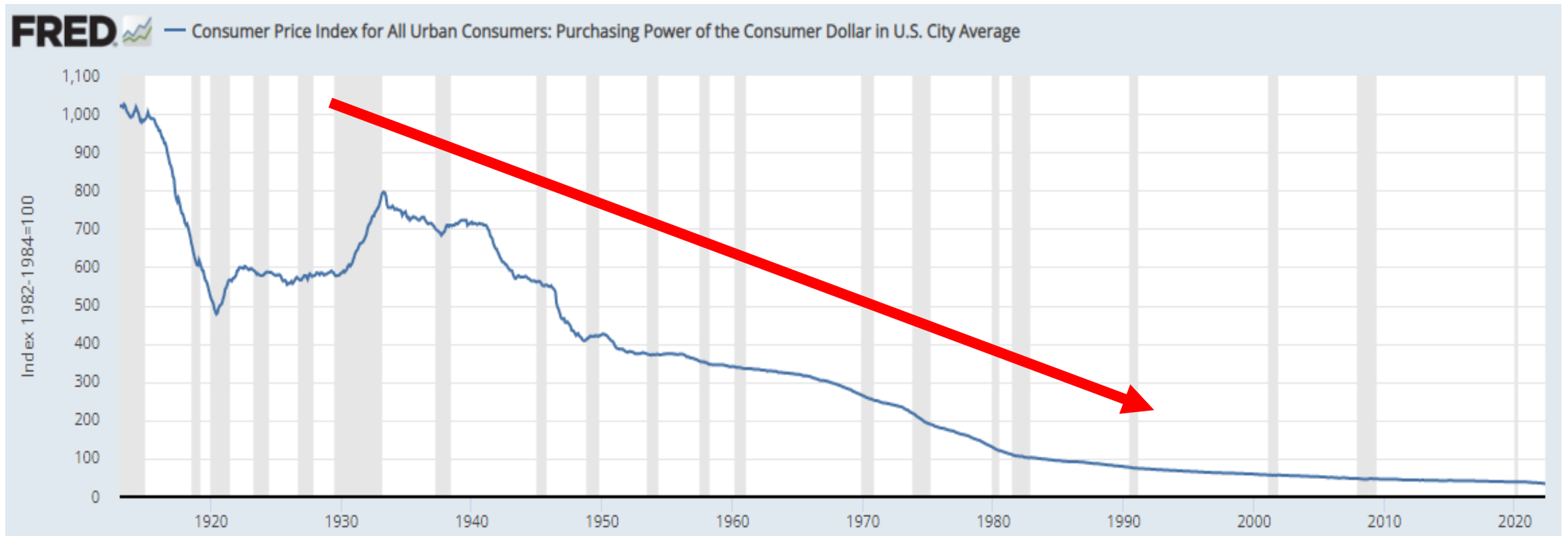
- **Inflation\*: [*Economics*] a general increase in prices and fall in the purchasing value of money**
- Inflation, accurately defined, is NOT simply a general rise in prices. It's a rise in prices caused by an increase in the supply of money.
- The prices of goods/services rise or fall due to changes in the determinates of supply and demand.
- ***Rising prices are not inflation but a consequence of inflation.***
- It can be understood as more dollars chasing fewer goods and services resulting in increased prices. This also spills over into asset prices as more dollars chase fewer productive assets.

# M2 Money Stock



(Source: Federal Reserve, M2 Money Stock, retrieved from FRED, Federal Reserve Bank of St. Louis, July 2022)

# Real Purchasing Power – U.S. Dollar



(Source: U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: Purchasing Power of the Consumer Dollar in US City Average, Federal Reserve Bank of St. Louis, July 2022)

# Wages & Purchasing Power

A primary concern is that prices are being driven by rising wages, yet after factoring in consumer prices, wages have stagnated (wages minus CPI).



(Source: Enduring Investments, Post-CPI Summary, July 2022)

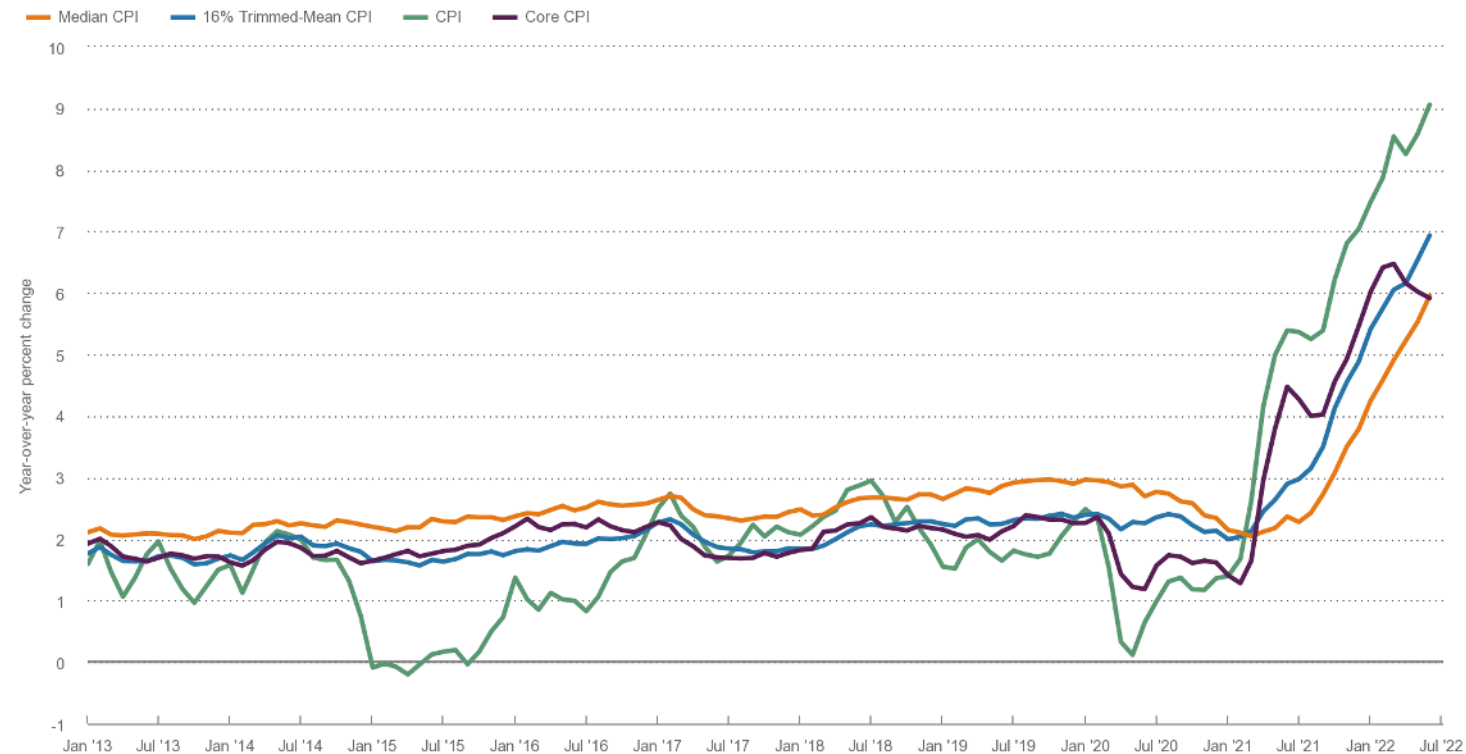


# POLLING QUESTION

*To be eligible for CPE, 3 polling questions must be answered.*

# Consumer Price Index (CPI)

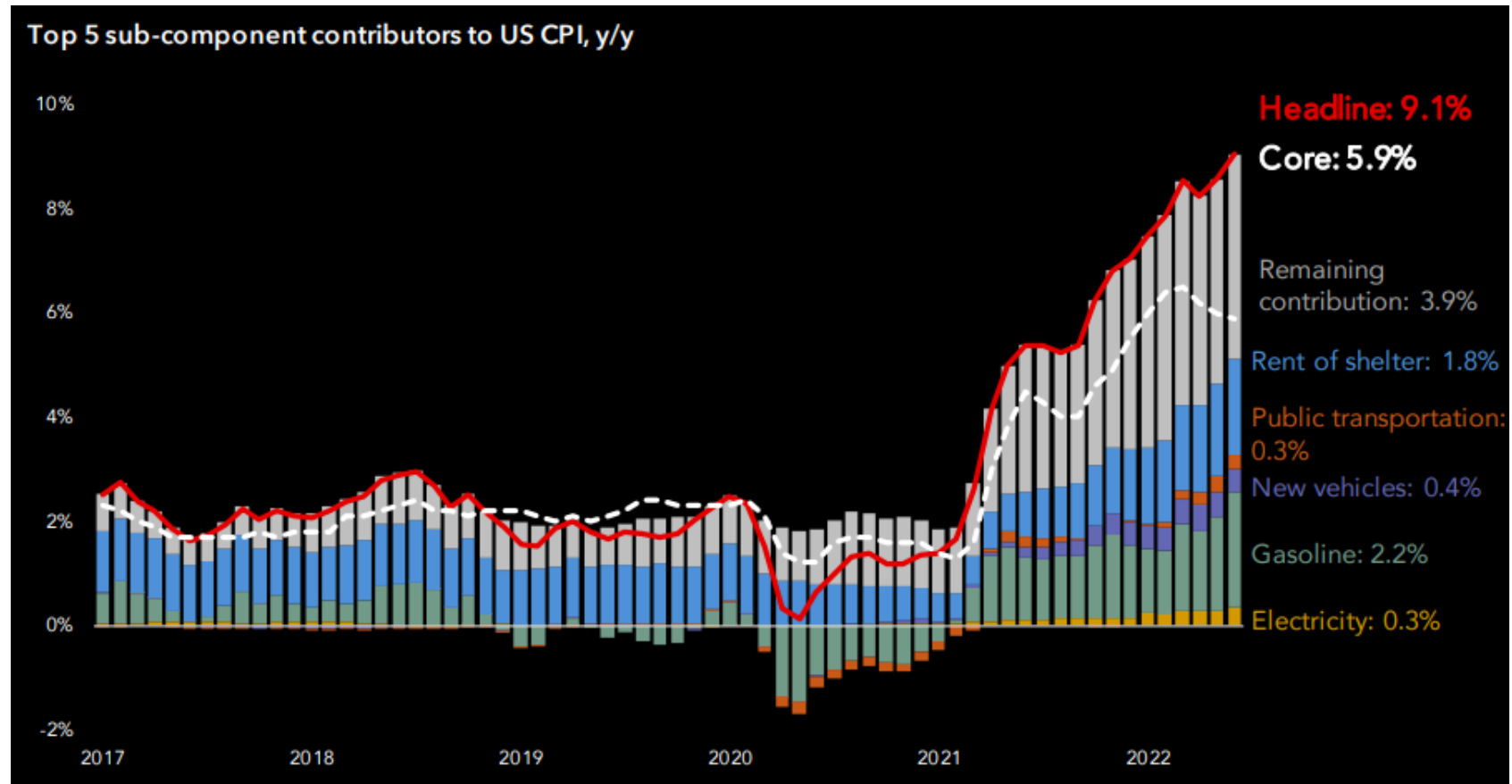
**Median Consumer Price Index**



Source: Bureau of Labor Statistics, Federal Reserve Bank of Cleveland, Haver Analytics

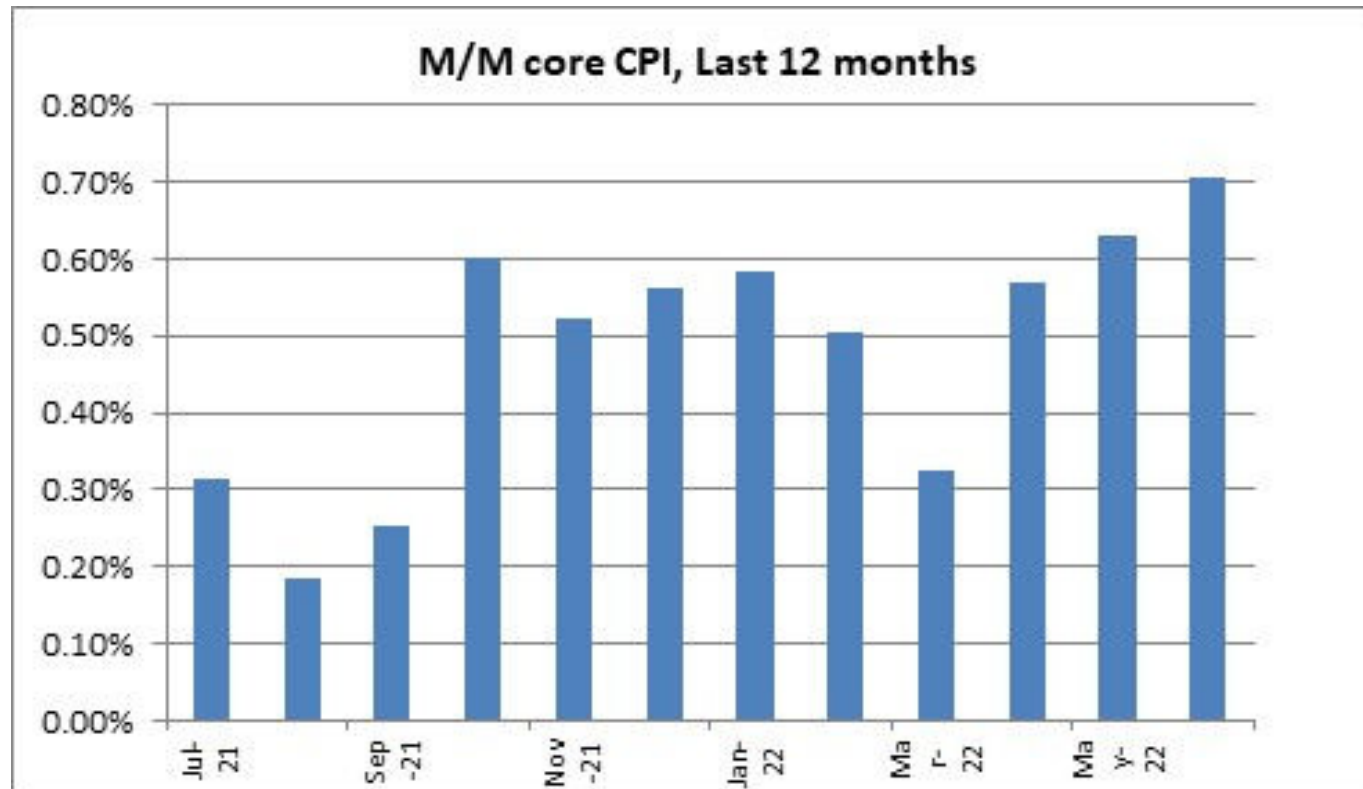
(Source: Federal Reserve Bank of Cleveland, Median CPI, % change year-over-year, July 14, 2022)

# Consumer Price Index (CPI)



(Source: MUFG Capital Markets Strategy, Mixed Signals: An Assessment of US Recession Risk in the Year Ahead, July 2022)

# Consumer Price Index (CPI) – Core

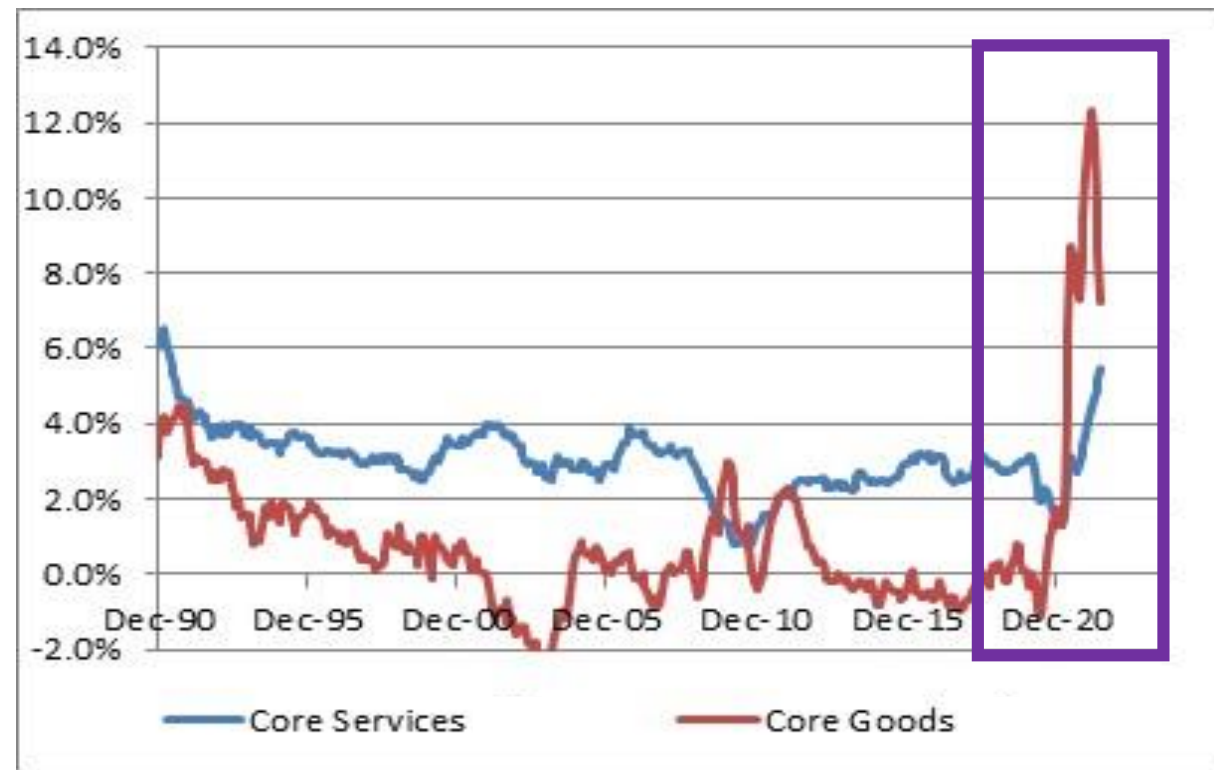


(Source: Enduring Investments, Post-CPI Summary, July 2022)

## CPI Core – Goods vs. Services

Much has been made about supply chain issues, but while core goods prices have begun to roll over, core services prices have surged.

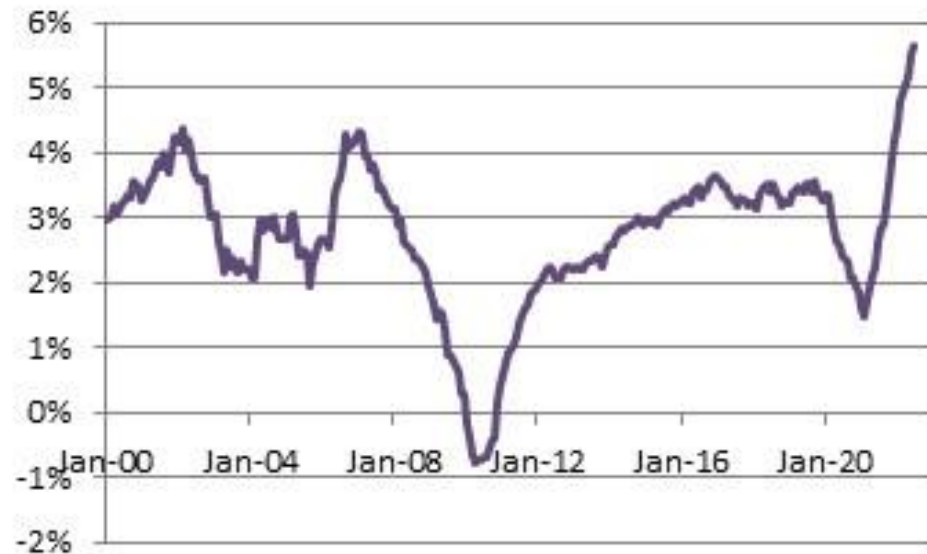
Services prices tend to be stickier than Goods prices.



# CPI – Services

Rising rents have been a big part of the inflation story (purple), however, Core Services less Rent (green) – which had been in a declining secular trend – have also surged.

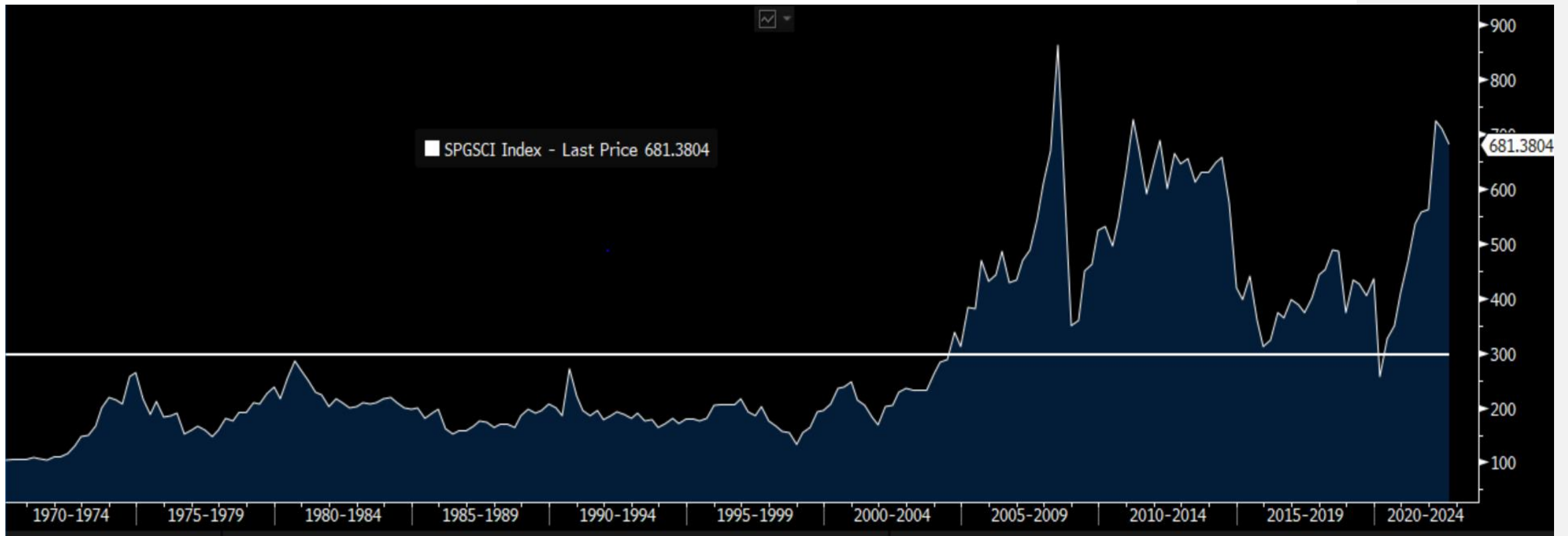
**Rent of Shelter**



**Core Services less Rent of Shelter**

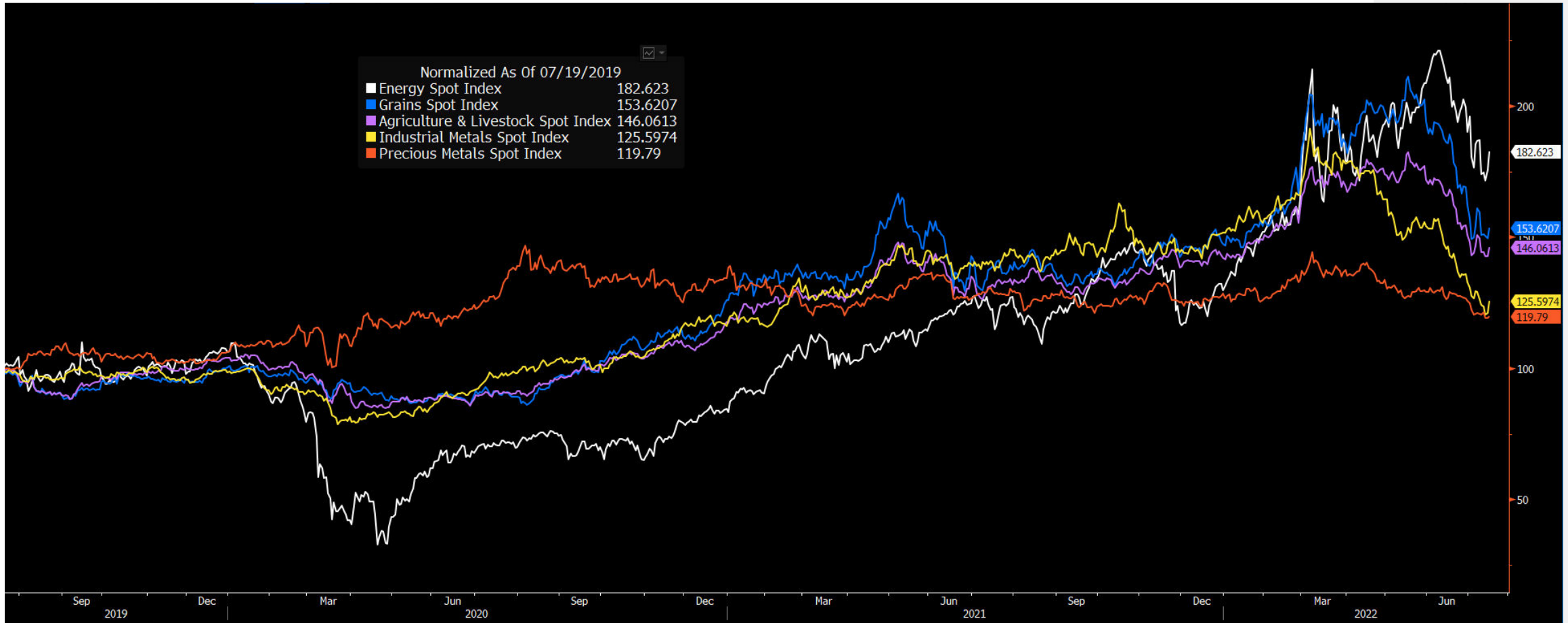


# Commodities Prices



(Source: Bloomberg, S&P GSCI Commodity Spot Index, as of July 18, 2022)

# Commodities Prices



(Source: Bloomberg, S&P GSCI Commodity Spot Price Indices, as of July 18, 2022)



# Commodities Prices

Index Name	% Change					
	5-Day	1 Month	3 Month	6 Month	1 Year	2 Year
<b><i>S&amp;P GSCI Commodities Spot Index</i></b>	+3.3%	-9.7%	-9.3%	+11.2%	+34.2%	+101.4%
<i>-S&amp;P GSCI Energy Spot Index</i>	+4.7%	-8.3%	-1.8%	+25.0%	+59.1%	+159.8%
<i>-S&amp;P GSCI Grains Spot Index</i>	+0.1%	-18.4%	-24.4%	-0.2%	+9.4%	+65.6%
<i>-S&amp;P GSCI Agriculture &amp; Livestock Spt Index</i>	+0.2%	-13.0%	-18.6%	-1.8%	+10.6%	+58.3%
<i>-S&amp;P GSCI Industrial Metals Spot Index</i>	+0.0%	-13.0%	-29.4%	-22.1%	-9.7%	+28.3%
<i>-S&amp;P GSCI Precious Metals Spot Index</i>	-1.4%	-6.8%	-13.2%	-8.0%	-6.9%	-5.6%

(Source: Bloomberg, S&P GSCI Spot Price Indices, as of 7/19/2022)

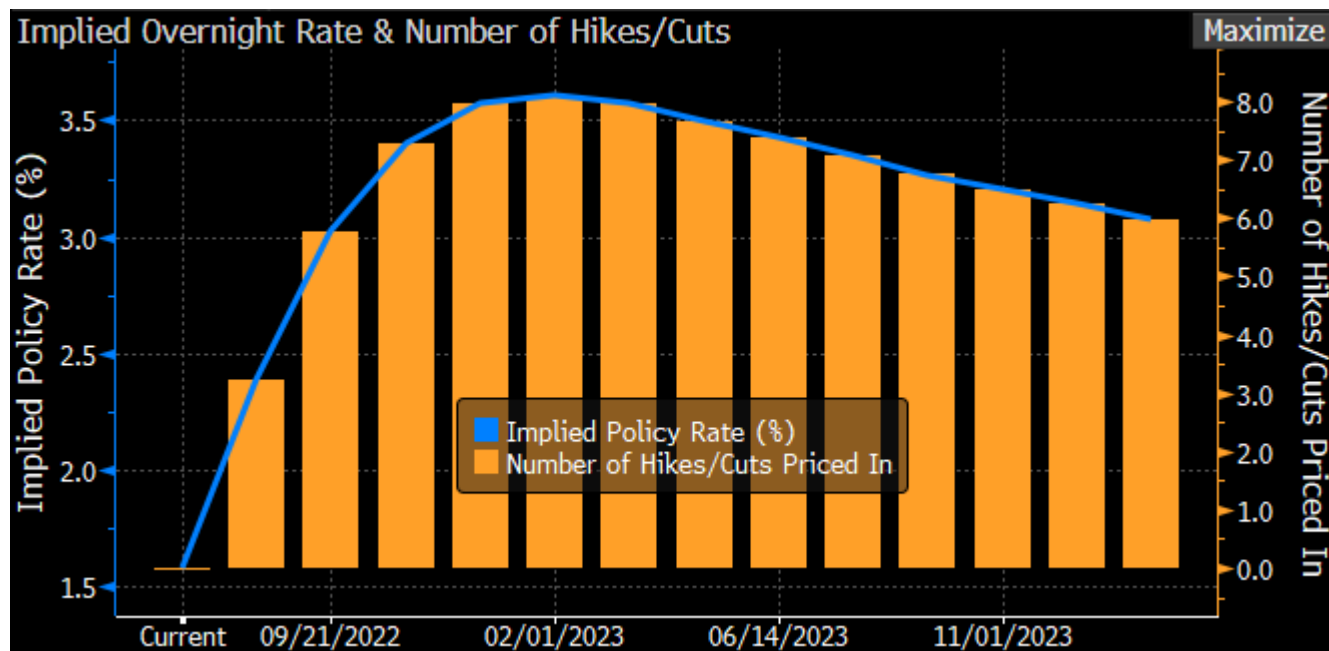
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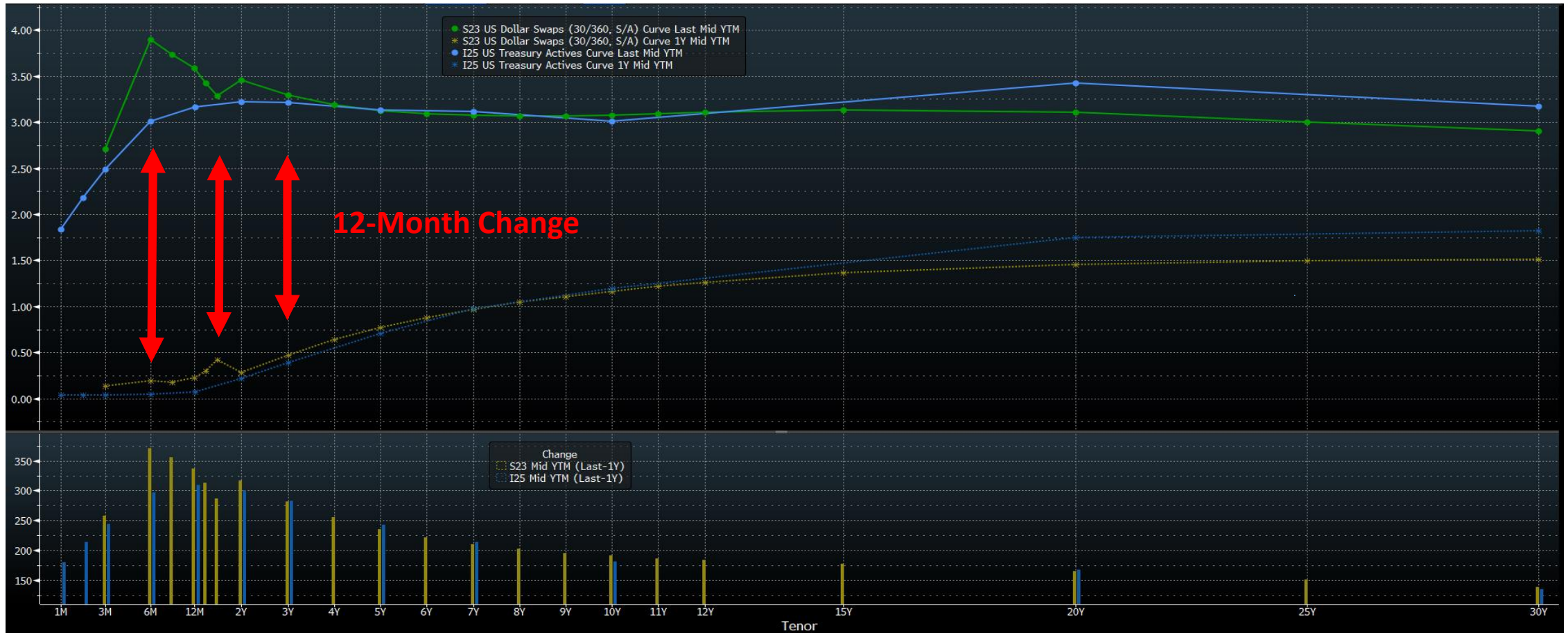
# Fed Rate Hikes

- Market now pricing in a 100% chance of another 75 bps hike and a 23% chance of 100 bps hike on 7/27.
- Implies a Fed Funds rate of 3.57% by the end of 2022.
- Market also pricing in the possibility of a rate CUT in 1H2023.

Region: United States »			Instrument: Fed Funds Futures »		
Target Rate	1.75		Pricing Date	07/19/2022	
Effective Rate	1.58		Cur. Imp. O/N Rate	1.579	
Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
07/27/2022	+3.232	+323.2%	+0.808	2.387	0.250
09/21/2022	+5.769	+253.7%	+1.442	3.022	0.250
11/02/2022	+7.279	+151.0%	+1.820	3.399	0.250
12/14/2022	+7.962	+68.3%	+1.991	3.570	0.250
02/01/2023	+8.108	+14.6%	+2.027	3.607	0.250
03/22/2023	+7.972	-13.6%	+1.993	3.573	0.250
05/03/2023	+7.673	-29.9%	+1.918	3.498	0.250

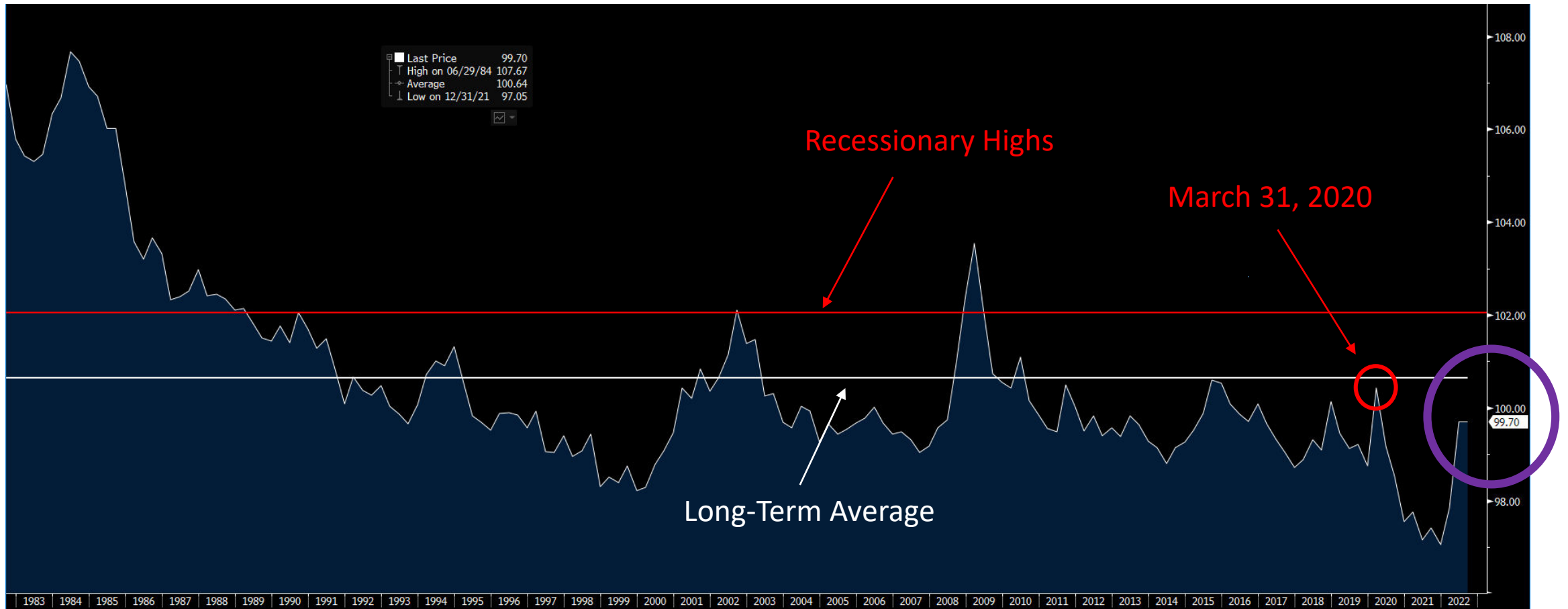


# Interest Rates: U.S. Treasury Yield Curve



(Source: Bloomberg, U.S. Treasury Actives & U.S. Dollar Swaps Curves, Last Mid YTM & 1Y Mid YTM, July 19, 2022)

# U.S. Financial Conditions Tightening



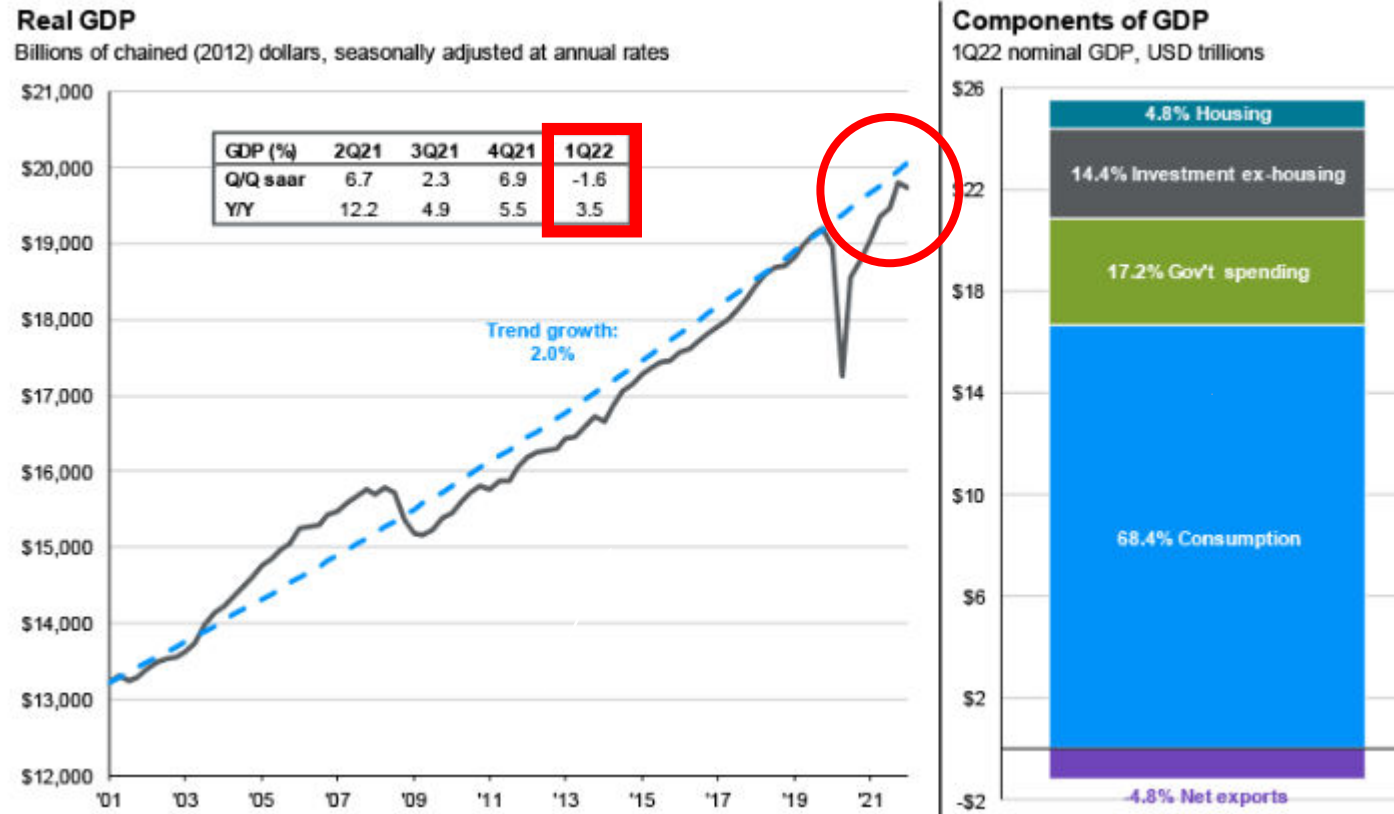
(Source: Bloomberg, GS U.S. Financial Conditions Index, as of 7/19/22)

# POLLING QUESTION

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# U.S. Economic Recovery

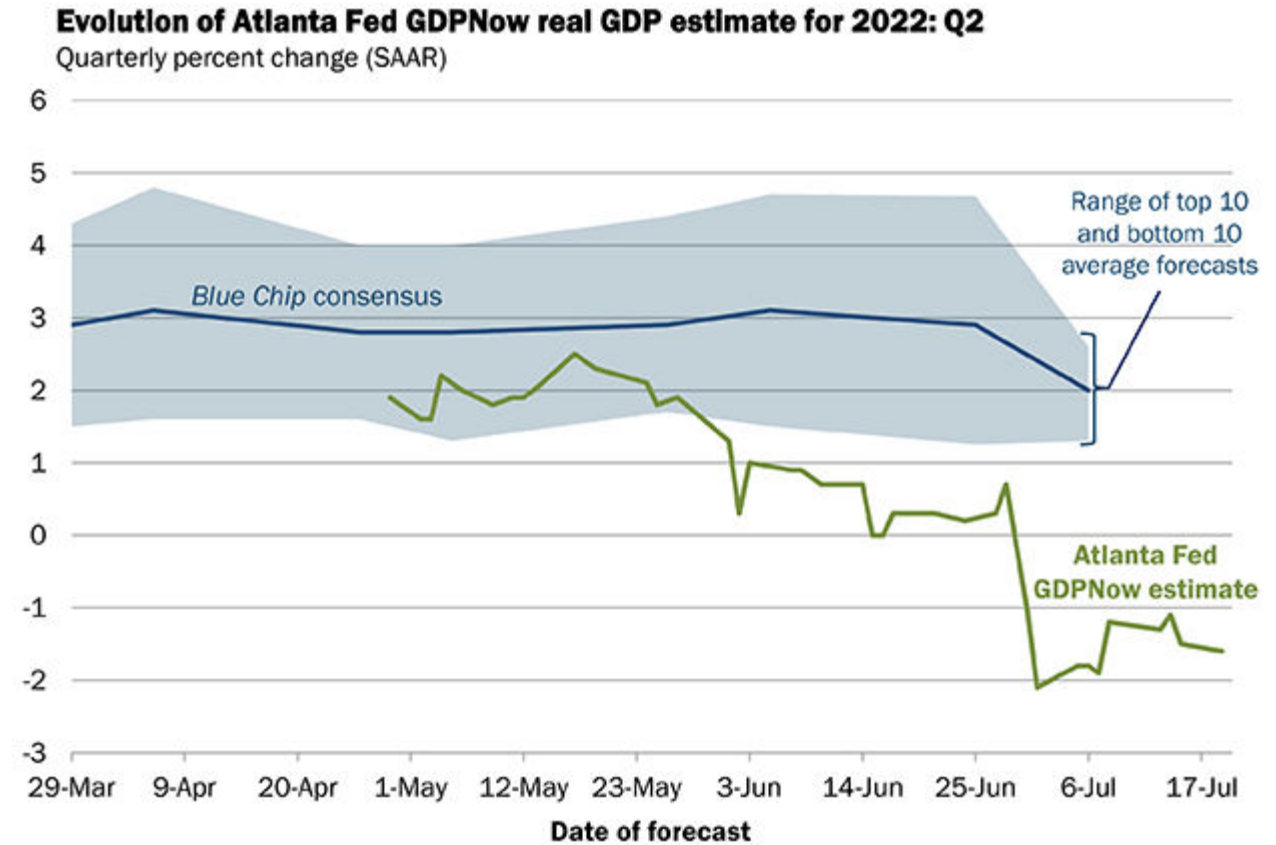
The economic recovery has begun to stall out, below trend growth. While the economy has capacity to grow, tightening financial conditions will be challenging to overcome.



(Source: J.P. Morgan, "Guide to the Markets," data as of June 30, 2022)

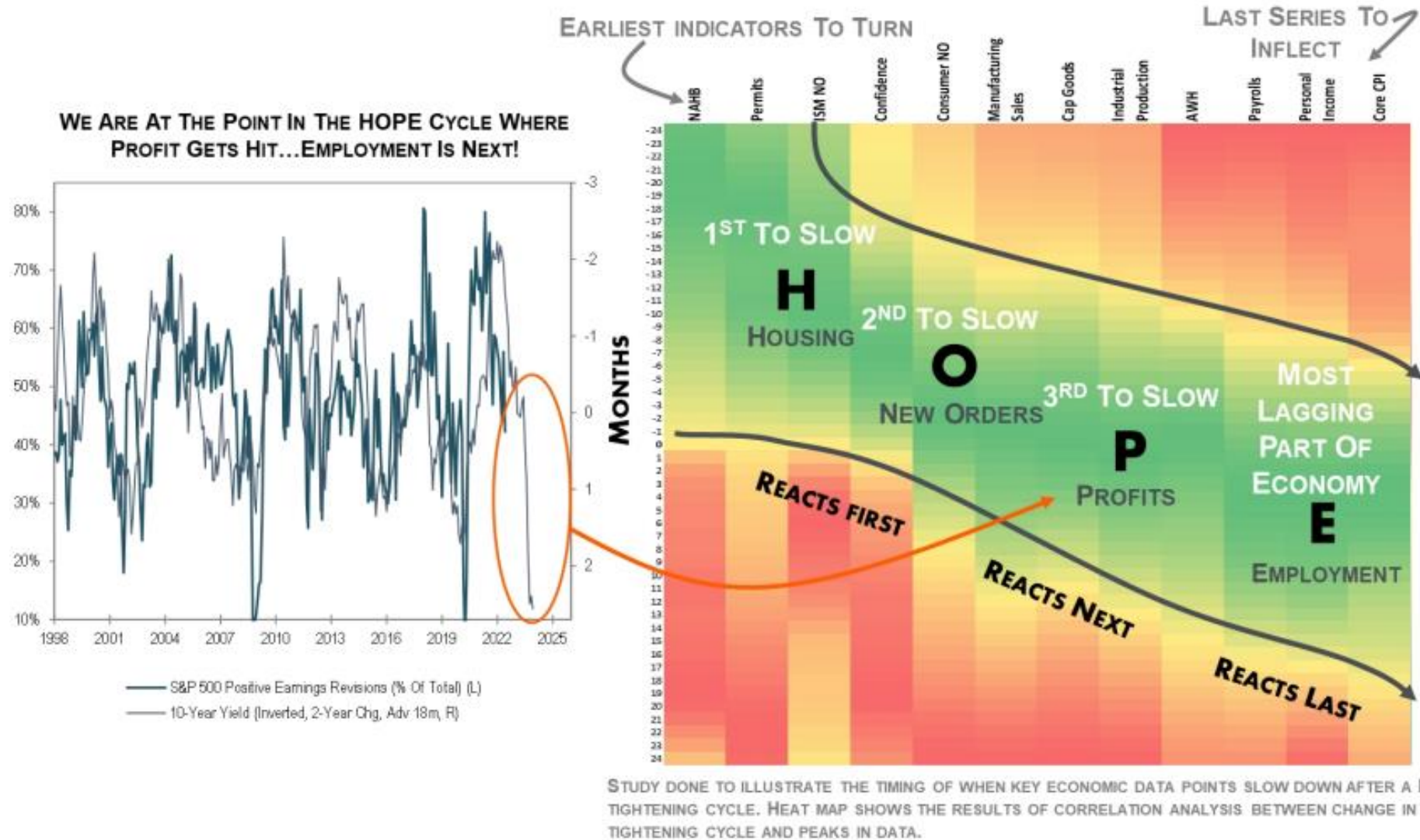
# U.S. Economy

- The GDPNow model estimate for real GDP growth (SAAR) in 2Q2022 is -1.6%, down from -1.5% on July 15.
- Reflects the housing starts report from the U.S. Census Bureau, which revised the forecast for 2Q real residential investment growth down to -10.1% from -8.8%



(Source: Federal Reserve Bank of Atlanta, GDPNow, as of July 19, 2022)





(Source: Piper Sandler, Macro Research – Strategy, July 18, 2022)

# Housing

- NAHB is a leading index not only for housing but typically employment (unemployment claims).

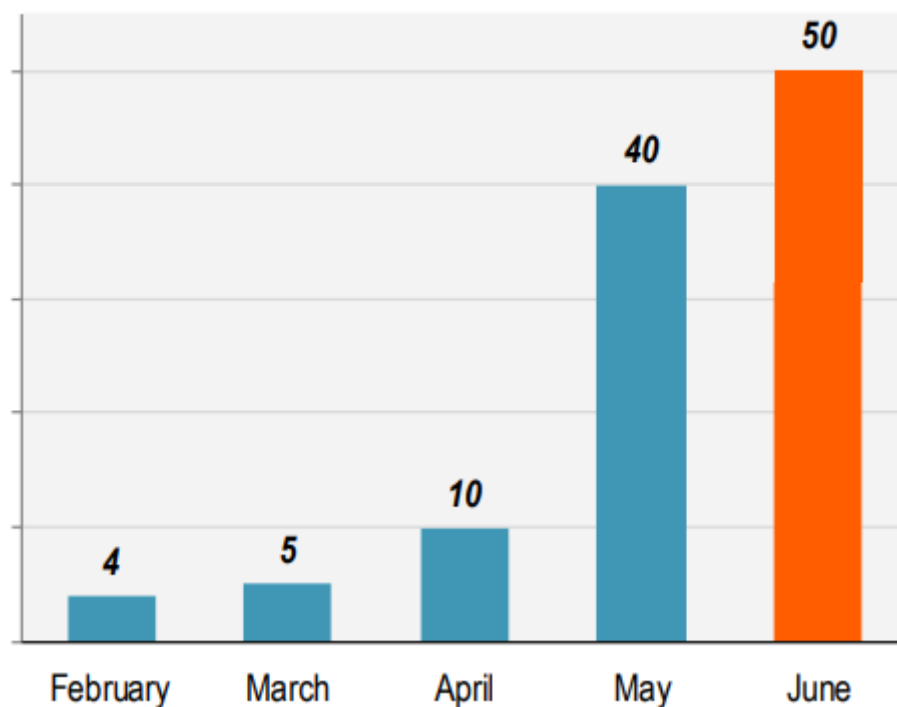
- Housing starts declined to lowest level since September.

- U of Mich survey shows home buying sentiment near record lows.



# Labor Markets Softening

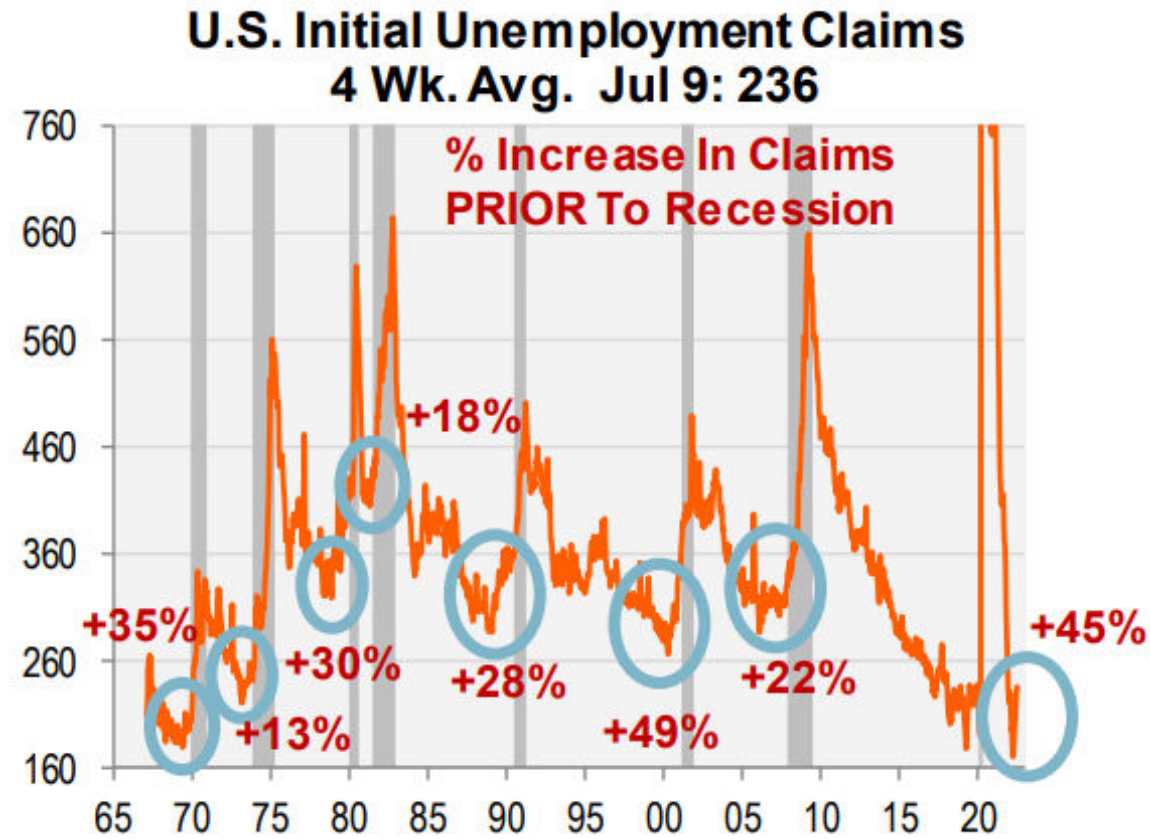
**Company Layoff Annoucements**



Company Layoff Annoucements			
Announcement Data	Company	Sector	Estimated Number
2/3/2022	Rhino	Real Estate	57
2/8/2022	Peloton	Tech	2,800
2/11/2022	Homie	Real Estate	90
2/21/2022	Virgin Hyperloop	Transportation	111
3/3/2022	Hyperscience	Data	100
3/8/2022	Better.com	Real Estate	3,000
3/15/2022	Knock	Real Estate	115
3/16/2022	Curology	Healthcare	150
3/19/2022	Grove Collaborative	Retail	17% Staff
4/5/2022	Workrise	Energy	450
4/8/2022	Food52	Food	20
...	...	...	...
7/6/2022	Scream	Data	30 (18%)
7/6/2022	Remote	Tech	100 (9%)
7/7/2022	Twitter	Tech	N/A
7/7/2022	Cedar	Healthcare	24% Workforce
7/7/2022	Emotive	Marketing	30 (18%)
7/7/2022	Adwerx	Marketing	40
7/7/2022	Next Insurance	Finance	150 (17%)
7/7/2022	Argo AI	Transportation	150 (5%)
7/8/2022	NextRoll	Marketing	3% Workforce
7/8/2022	Butler Hospitality	Food	1000 (100%)
7/8/2022	Nextbite	Food	N/A
7/11/2022	Ignite	Finance	50% Workforce
7/11/2022	SundaySky	Marketing	24 (13%)
7/12/2022	Hubilo	Marketing	45 (12%)
7/12/2022	Gopuff	Food	1500 (10%)
7/12/2022	Fabric	Logistics	120 (40%)
7/13/2022	ChowNow	Food	100
7/13/2022	Tonal	Fitness	262 (35%)
7/14/2022	OpenSean	Finance	20% Workforce

(Source: Piper Sandler, Macro Research – Economics, July 15, 2022)

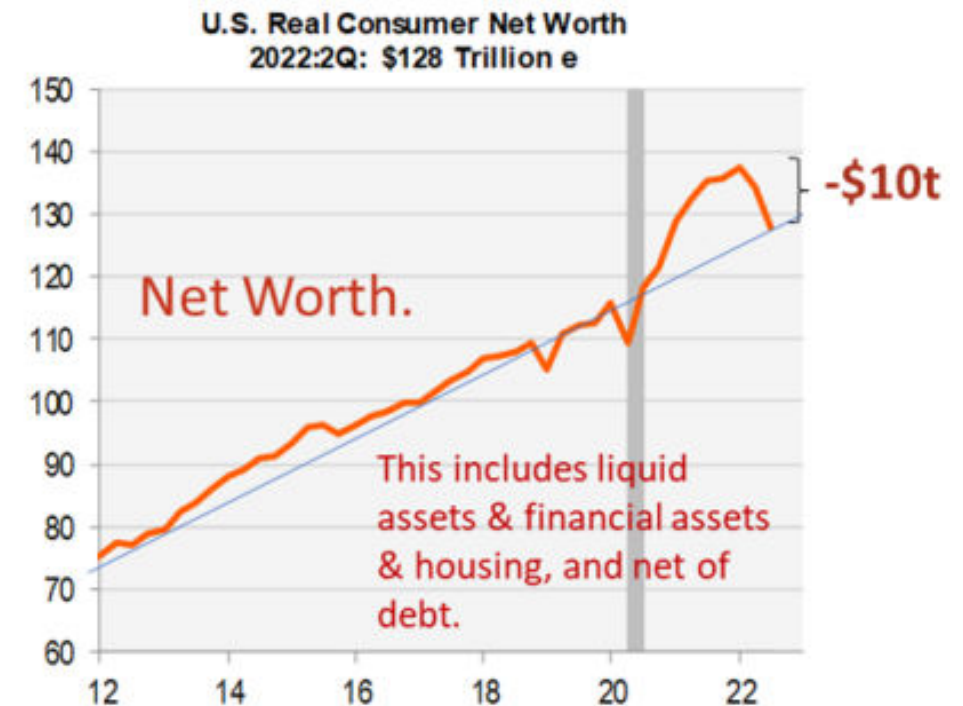
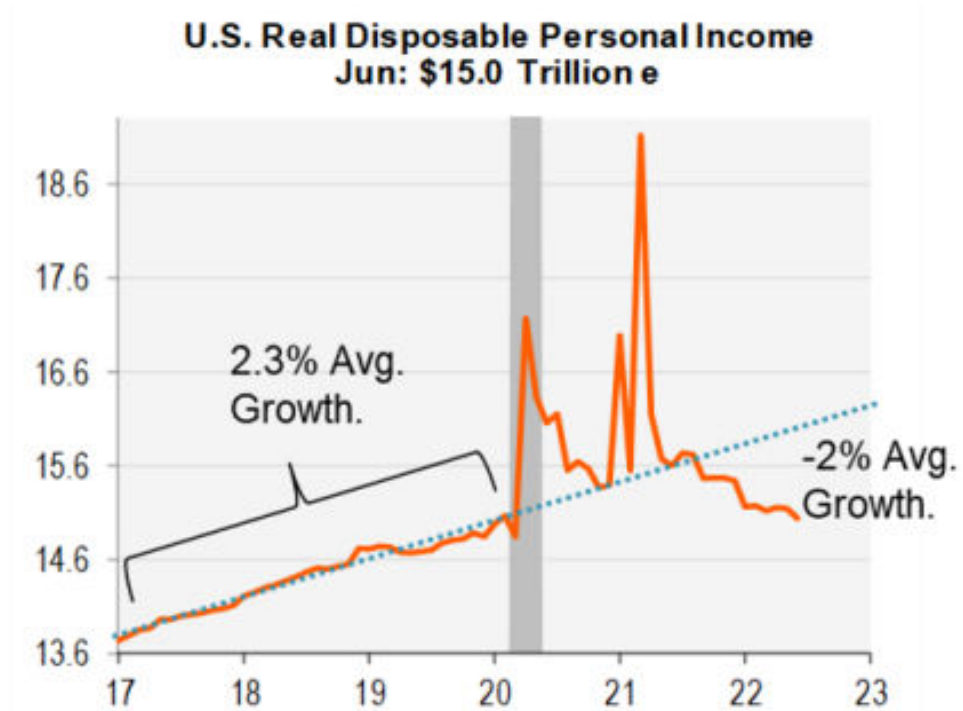
# Labor Markets Softening



(Source: Piper Sandler, Macro Research – Economics, July 15, 2022)



# Consumer Weakening?



(Source: Piper Sandler, Macro Research - Economics, July 17, 2022)

# Retail Sales “Head Fake”

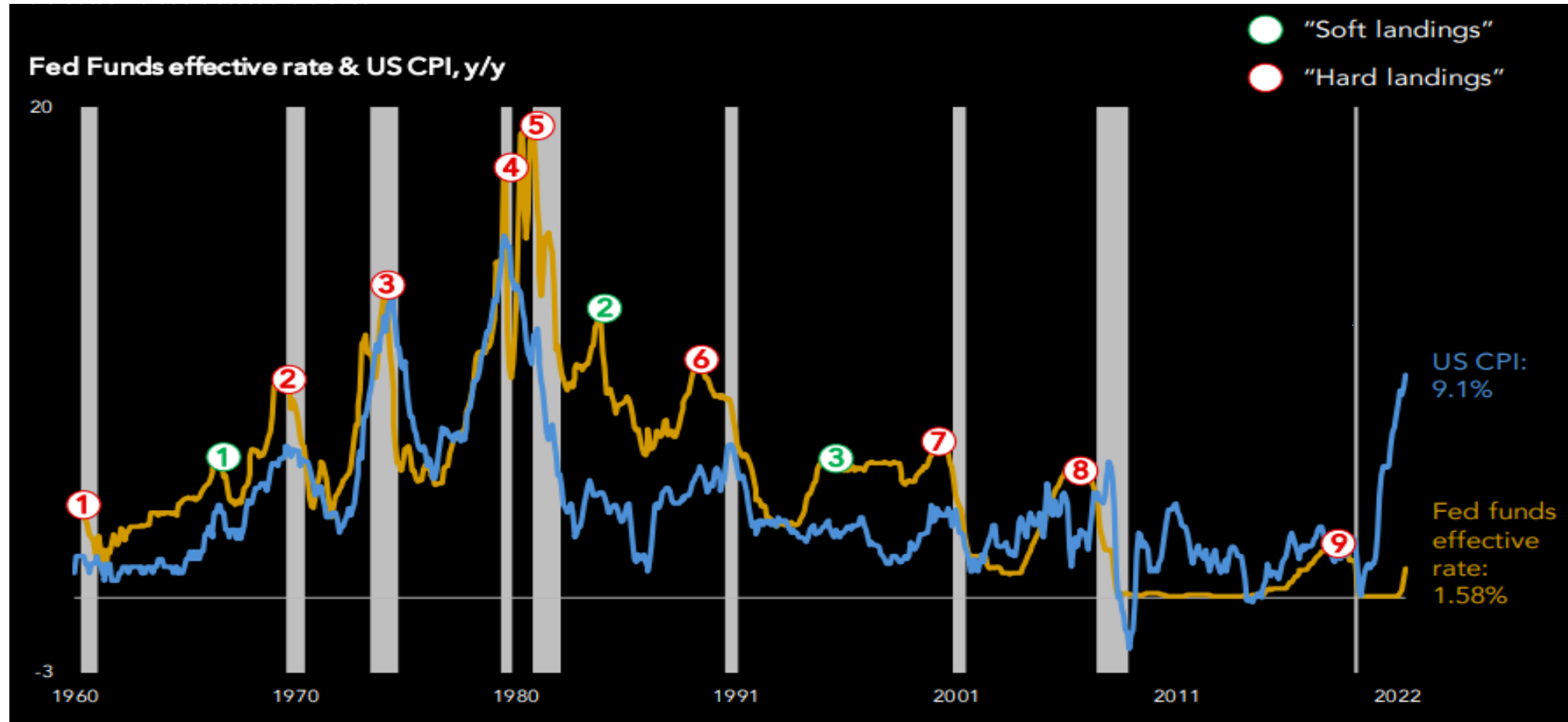


(Source: Piper Sandler, Macro Research - Economics, July 17, 2022)

# POLLING QUESTION

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# Hard vs. Soft Landing



(Source: MUFG Capital Markets Strategy, Mixed Signals: An Assessment of US Recession Risk in the Year Ahead, July 2022)



# Key Takeaways

- Inflation is a monetary phenomenon and is being driven by demand, not just supply chain issues. Consumer purchasing power is getting crushed.
- The Fed is focused on inflation and the market is pricing in significantly tighter monetary policy. This will result in meaningfully higher interest rates.
- Financial conditions for businesses and consumers will continue to tighten as the Fed hikes rates.
- U.S. economy is probably already in a recession and a “Hard Landing” scenario will be difficult to avoid. Importantly, the duration and depth of a recession will likely depend upon the length of the tightening cycle.
- Corporate and consumer balance sheets are strong and employment and consumer spending have held up well, but housing and labor market conditions will be key to the economic outlook going forward.

# Economic Data Releases To Watch

- 7/21 & Every Thursday (830am) – Initial & Continuing Jobless Claims, Department of Labor
- 7/22 (945am) – Manufacturing & Services PMI's, S&P Global
- 7/26 (10am) – Consumer Confidence, Conference Board
- 7/27 (2pm) – Rate Decision, Federal Open Market Committee (FOMC)
- 7/28 (830am) – 2Q GDP (initial estimate), Bureau of Economic Analysis (BEA)
- 7/29 (830am) – Personal Consumption Expenditures (PCE), Bureau of Economic Analysis (BEA)

# DISCLOSURE

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## Questions?

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- *Stay tuned:* What's Next Webinar Series coming back in the fall!

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