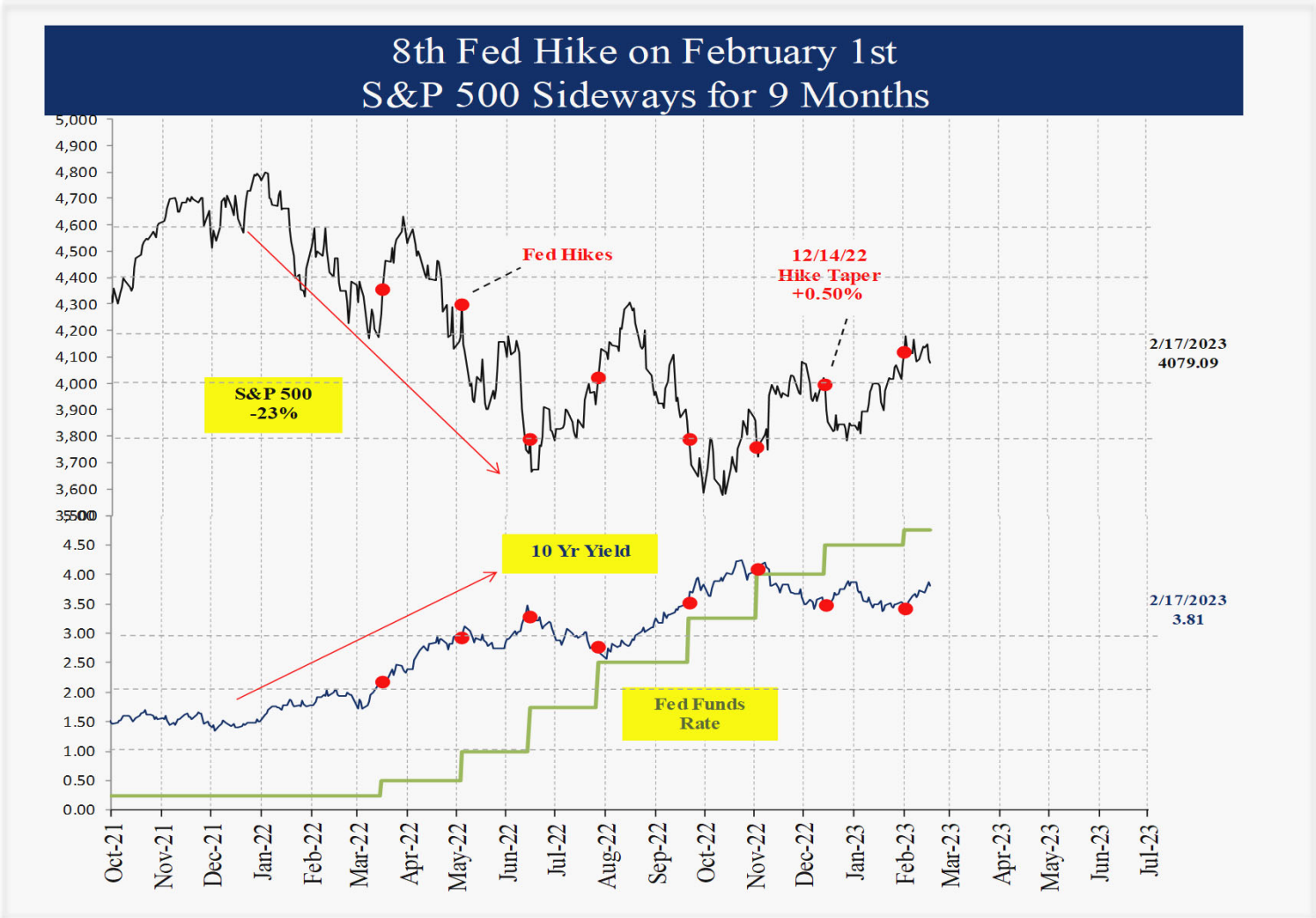


Investing Environment Review and Outlook – Volume 68

Economic Outlook Indicators Best Since 2021

Last month we discussed the potential economic turning point and likely higher long-term rates. Since then, the 10-year Treasury yield rose 50 bps to 3.90%, pushing long term bond prices down 6%. We also discussed the bullish start to the year. The S&P 500 finished January up 6.2%. Prior cases since 1950 were followed by mixed returns and consolidation in February, then 90% of cases generated positive returns 3 months later. 90% were also higher 6 months later by an average of 9.1%, almost 2x the norm. While the media reinforces the investor wall of worry with Ukraine, recession and Fed rate hike coverage, our economic outlook indicators improved this month, giving us more evidence the next move in the economy is to the upside instead. This month we discuss the obvious and some less intuitive implications of rising long-term rates and a strong economic outlook during a Fed hiking cycle. Overall, conditions continue last month’s trends, which are primarily bullish for equities and commodities, and negative for bonds.

Long-term bonds remain a cautious 2 rating. U.S., foreign-developed, and emerging markets equities remain bullish 5 ratings. Gold and commodities remain bullish 5 ratings as well.



This review and outlook report by Brenton Point Wealth Advisors LLC represents our views and beliefs regarding the current market outlook. Please also read the important disclosures at the end of this report.

Economic Outlook Indicators Uptick: Positive for Stocks, Commodities, 10-Yr Yield

Our economic outlook indicators reached 59.4 last week, a big reversal from the July 2022 low of 31. This is not to say there will be no recession this year, but instead shows the 1-3 month direction of the economy, as measured by the ISM index, is likely higher. The model is driven primarily by bond, commodity, and equity prices rather than economic releases which are backward looking and lagged in their release.

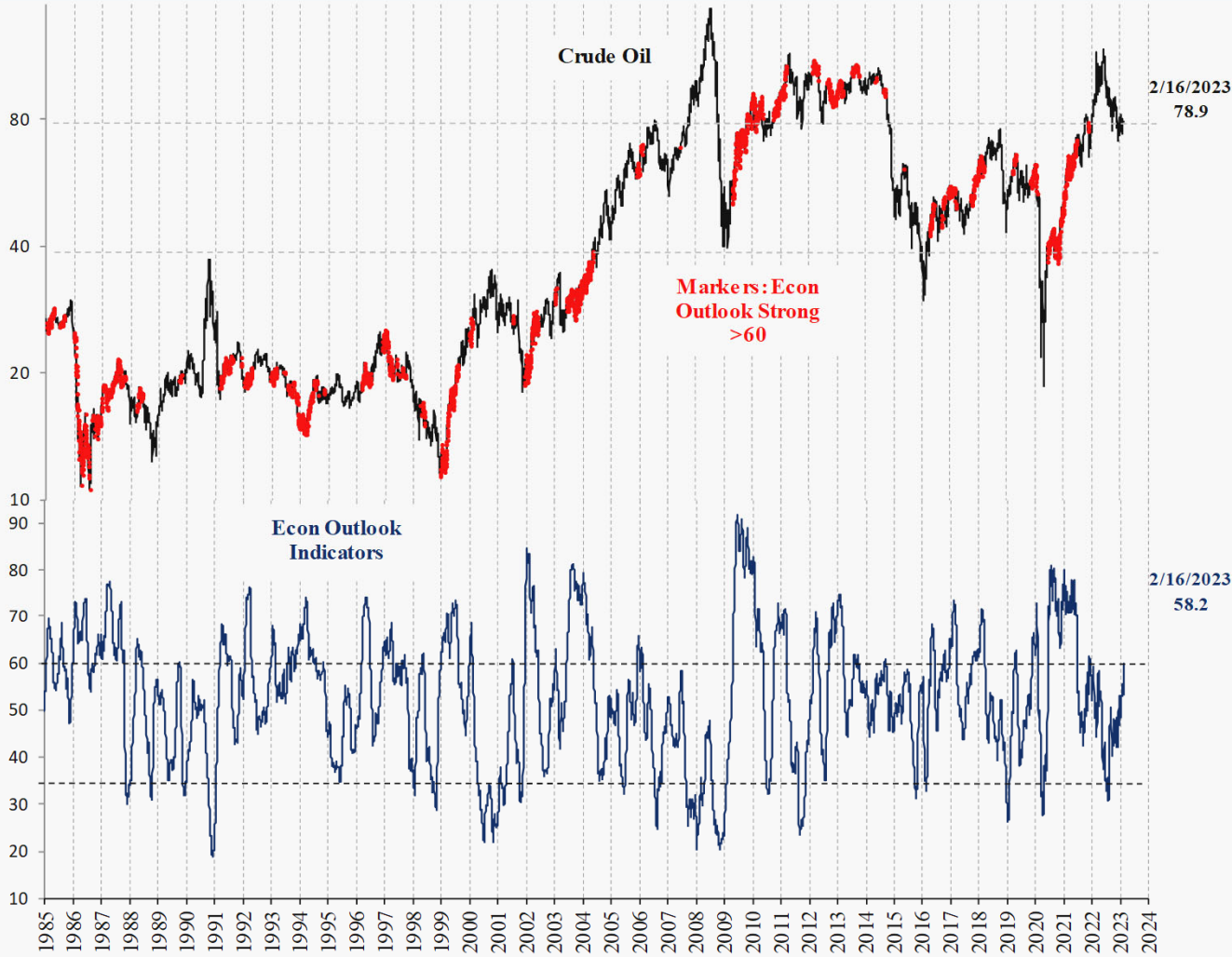
Historically a strong economic outlook was bullish for commodities and higher 10-year Treasury yields, both as you would expect following a strengthening economy. What is more interesting, and perhaps counter intuitive, is why a strong economic outlook is bullish for equities when the Fed is hiking rates. Consensus thinking knows without a doubt that at this point “good news is bad news” since it means more Fed hikes ahead, a continued bear market for equities and recession. End of story.

However, historically the S&P 500 returned 9.4% when the economic outlook was positive and the Fed was hiking rates, just about the norm. And further context boosts that return considerably. For instance, when the ISM is weak as it is now (+22.3% return), when CPI Y/Y is falling (+20.9%), and during Q1 (+22.8%). The strong (2x norm) return when the ISM is weak is particularly telling, since the latest weak reading (47.4 in the 13th percentile) means there is considerable slack in the economy for inflation to continue lower. The tight labor market is less of a concern since it is widely known as a lagging indicator and just one piece of the inflation picture.

**Fed Hiking + Strong Economic Outlook
Bullish for Equities**

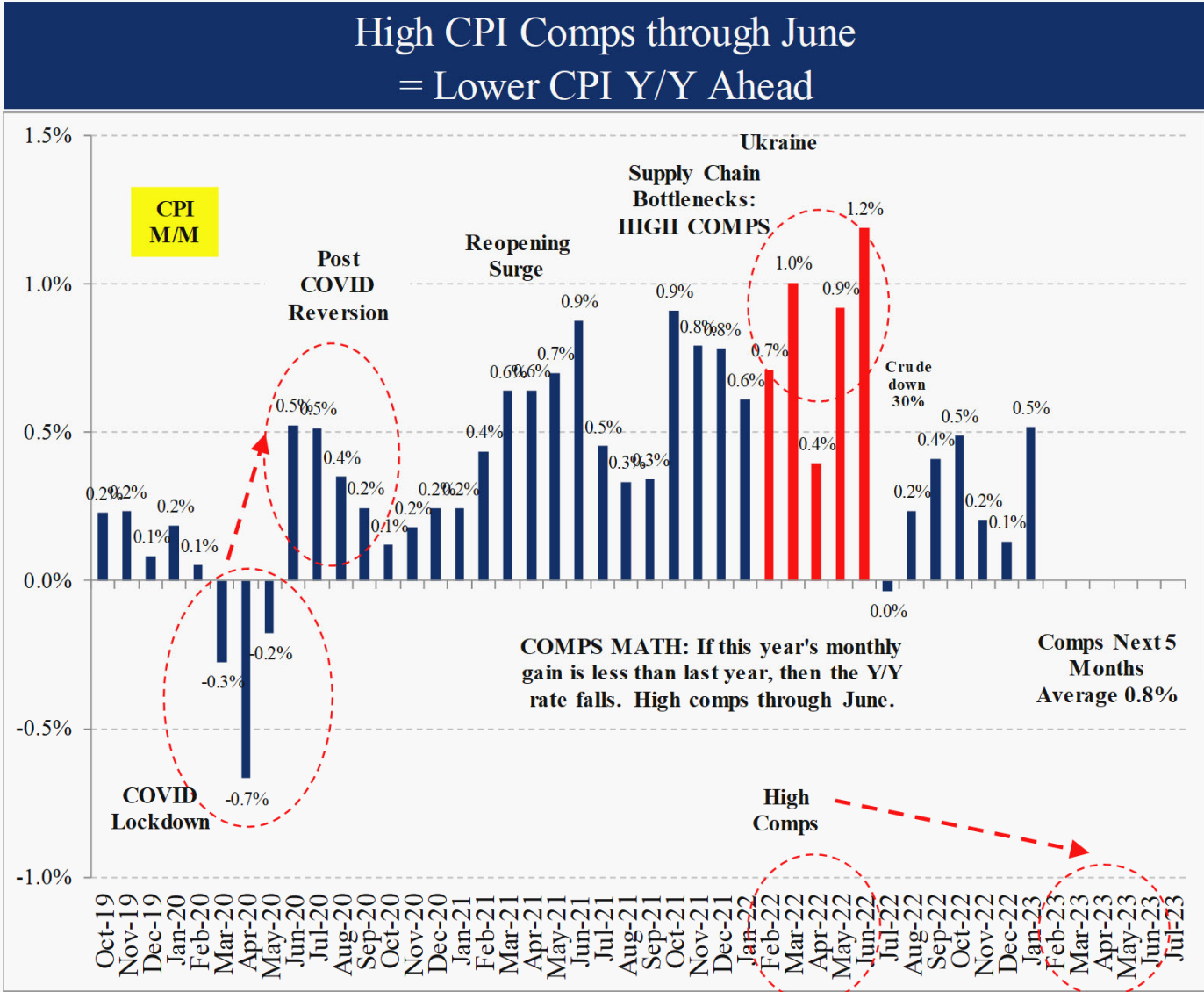


**Economic Outlook Strong
Bullish for Crude**

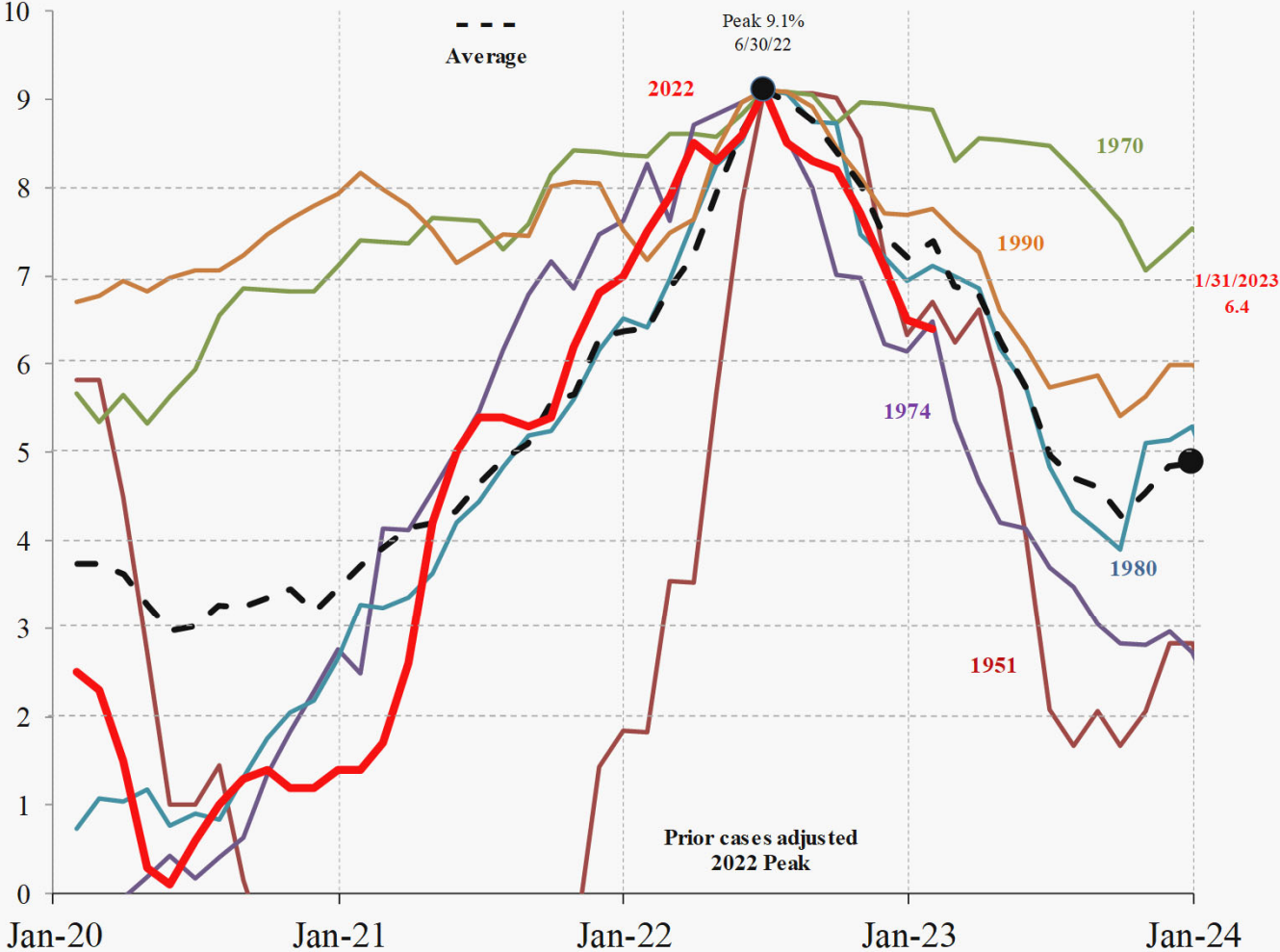


Inflation Decline: Further Drop Ahead

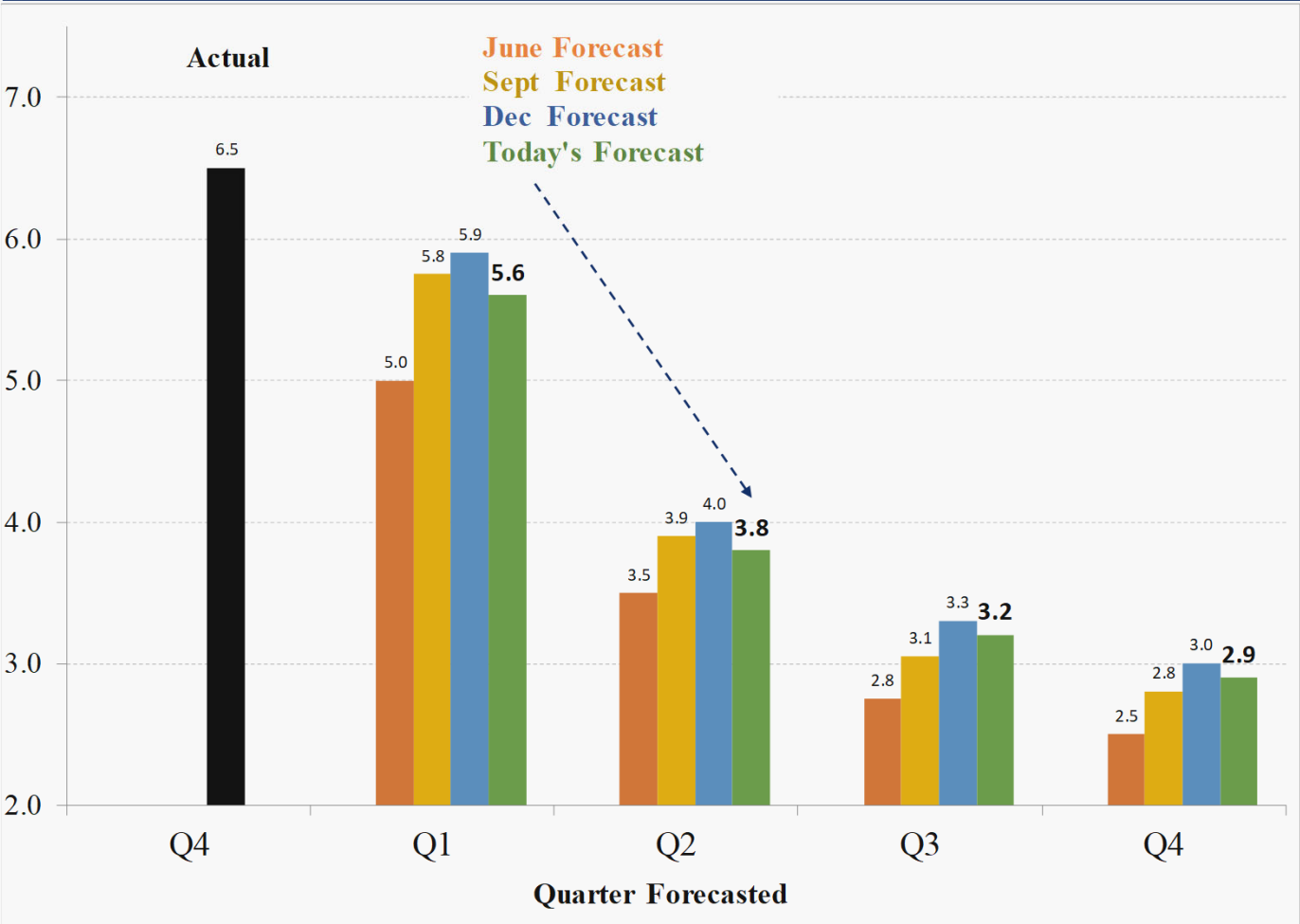
Falling inflation is a key bullish condition for equities this year, even if we cannot know if inflation will revert back to the 2% level as the Fed seeks. The combination of rising inflation, rising 10-year yield and Fed hiking was toxic for equities in the first half of 2022. It is no coincidence that equities have performed better since June when the CPI peaked. A strong economic outlook might be confused with higher inflation and further Fed hikes. However, indicators show a potential further inflation drop ahead. First, the year ago comps for inflation averaged 0.8% M/M over the next 5 months, which provides a runway for lower Y/Y readings ahead. A lower M/M number this year compared to last year means the Y/Y will decline. If the next 5 months average 0.3% M/M (as the last 3 months did), the CPI Y/Y will be 3.5% by June. Secondly, the 5 prior cases of inflation spikes (1951, 1970, 1974, 1980 and 1990) have so far provided a simple yet accurate roadmap and shows further declines ahead. Finally, the consensus of economists expects 3.8% Y/Y by June, even lower than the norm in prior inflation spike cases.



**2023 CPI Decline in Line with Prior Inflation Peaks
5 Prior Cases 1951/1970/1974/1980/1990**



Economists Forecast 3.8% CPI by June



Summary

This month we discussed the uptick in the economic outlook indicators and the implications for asset prices. The improvement is further evidence the economy is close to a turn to the upside despite the media focus on an imminent recession ahead. It certainly does not rule out a recession, but for now, indicators show the economy will improve and inflation will continue lower, a bullish combination for equities and commodities. Long-term bonds are at risk of yields moving higher. Whether the Fed hikes 2 or 3 more times this year is less important for asset prices than the next move in the economy and inflation trend. We will continue to monitor our indicators on a daily basis for changes to our outlook. Thank you for your support and please contact us with any questions.



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