

Investing Environment Review and Outlook – Volume 83

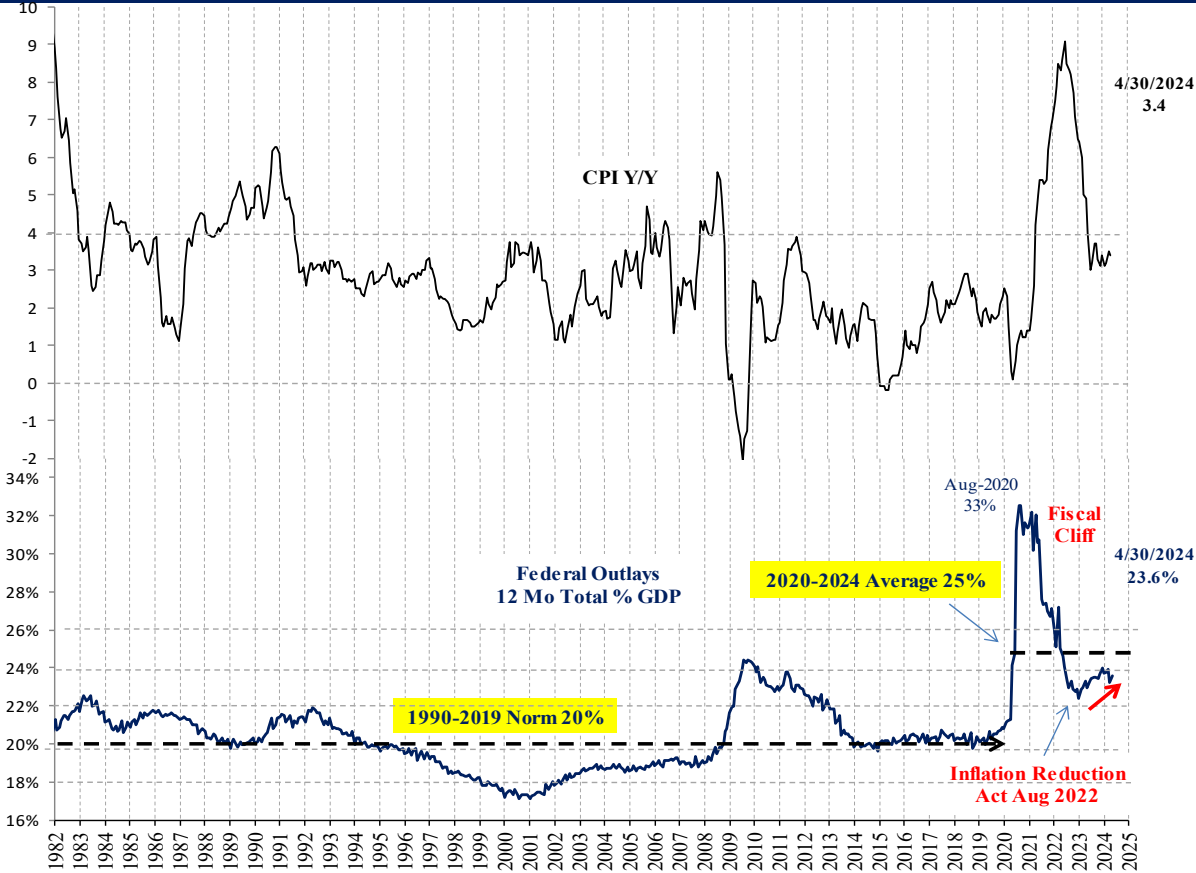
Last month we discussed the stronger economic outlook including the Philadelphia Fed Manufacturing Survey at the strongest level since 2021. Since then, equity investor positioning shifted from neutral to long and inflation outlook indicators remain neutral. The tape is strong, including a new high for the S&P 500, with smaller cap stocks like the Russell 2000 continuing to lag behind. High equity valuations, particularly for large cap stocks, remains an offset, as does the negative seasonality through September. Today conditions remain generally positive for equities and commodities and negative for bonds. This month we discuss some of the implications of rising Federal expenditures.



Federal Outlays Up: Economic Tailwind

Total federal expenditures averaged 20% of GDP annually between 1990 and 2019. The Covid spending spike took 12 month expenditures to a peak of 33% of GDP in August 2020, dwarfing even the 24% spending spike during the global financial crisis in 2008-09. Post COVID, there was much concern about the “fiscal cliff,” when spending was expected to reverse and cause a second recession. Instead, federal spending has been rising since the Inflation Reduction Act of August 2022 and is now at 24%, coincidentally matching the 2008-09 peak, even with no crisis today. Higher federal outlays are bullish for the economy, and also means an upside risk for inflation. The decline in federal outlays from 22% of GDP in 1992 to 17% in 2000 coincided with an inflation drop from 3% to 1%. Inflation outlook indicators are neutral. The long-term implications of chronic deficits and high federal debt to GDP is another discussion entirely.

Federal Outlays Up = Economic Tailwind
24% of GDP vs. Pre COVID Norm of 20%



Valuation remains a concern, but for now conditions for equities and commodities remain positive. We will continue to watch our indicators on a daily basis and shift exposures as needed. Thank you for your support and please contact us with any questions.



Michael Schaus
Director of Market Research