



**Happy New Year?**

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31 January 2023

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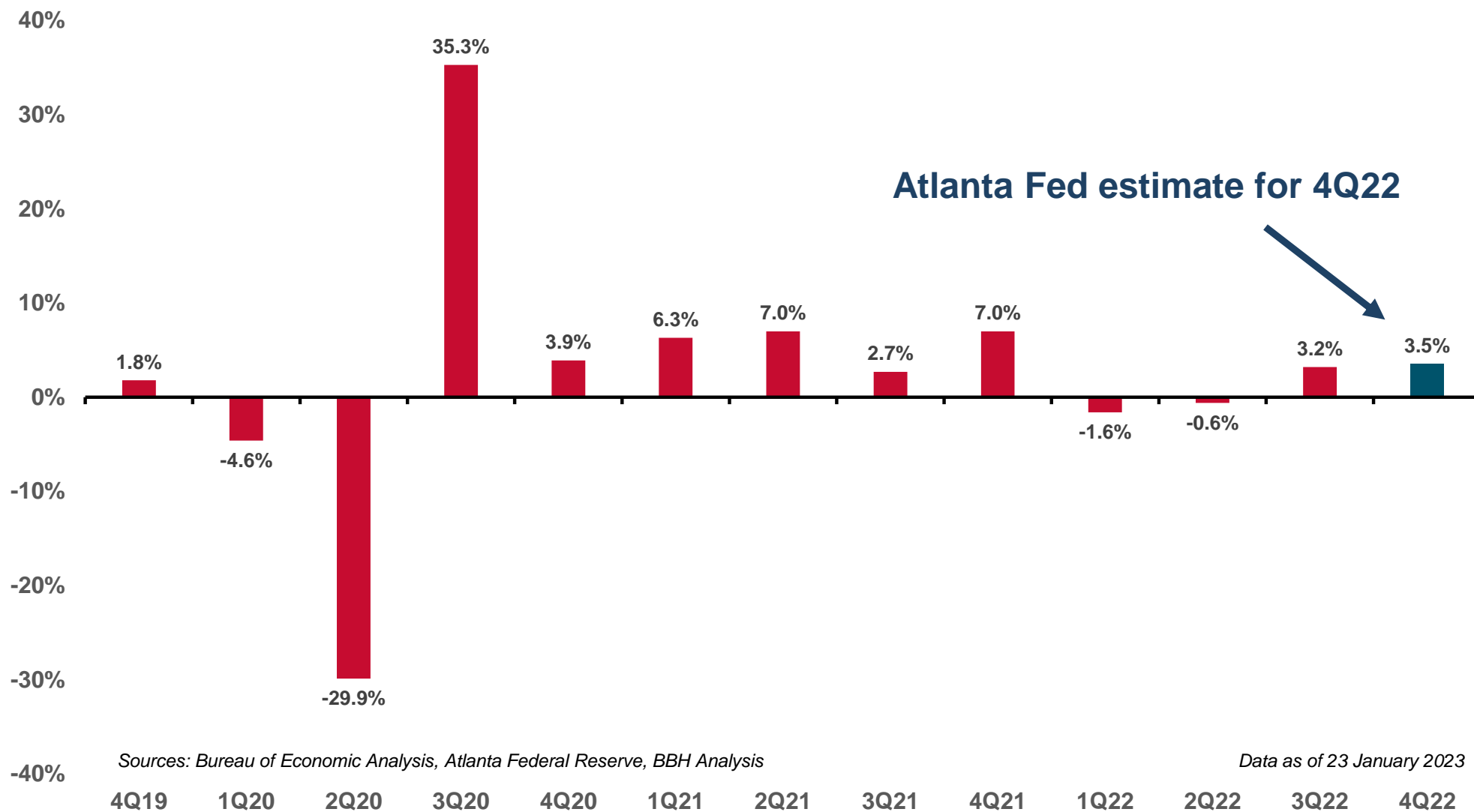
# Happy New Year?



- Will the hangover from the pandemic “boom” lead to a soft landing, or a squishy one?
- Will inflation subside enough (and quickly enough) to allow the Federal Reserve to respond appropriately to slowing economic activity?
- How will financial markets react?

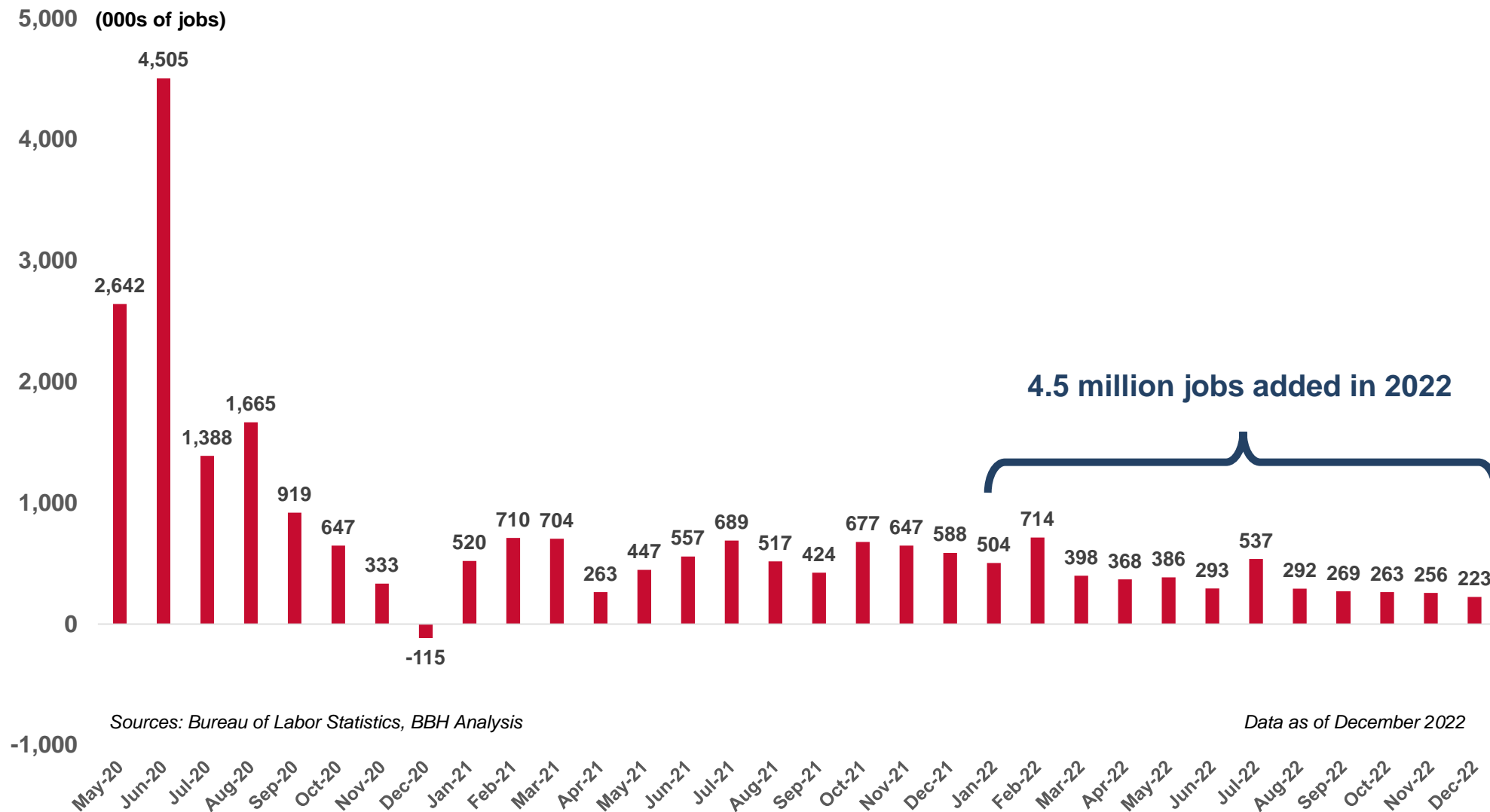
# Recession Watch

## GDP Growth



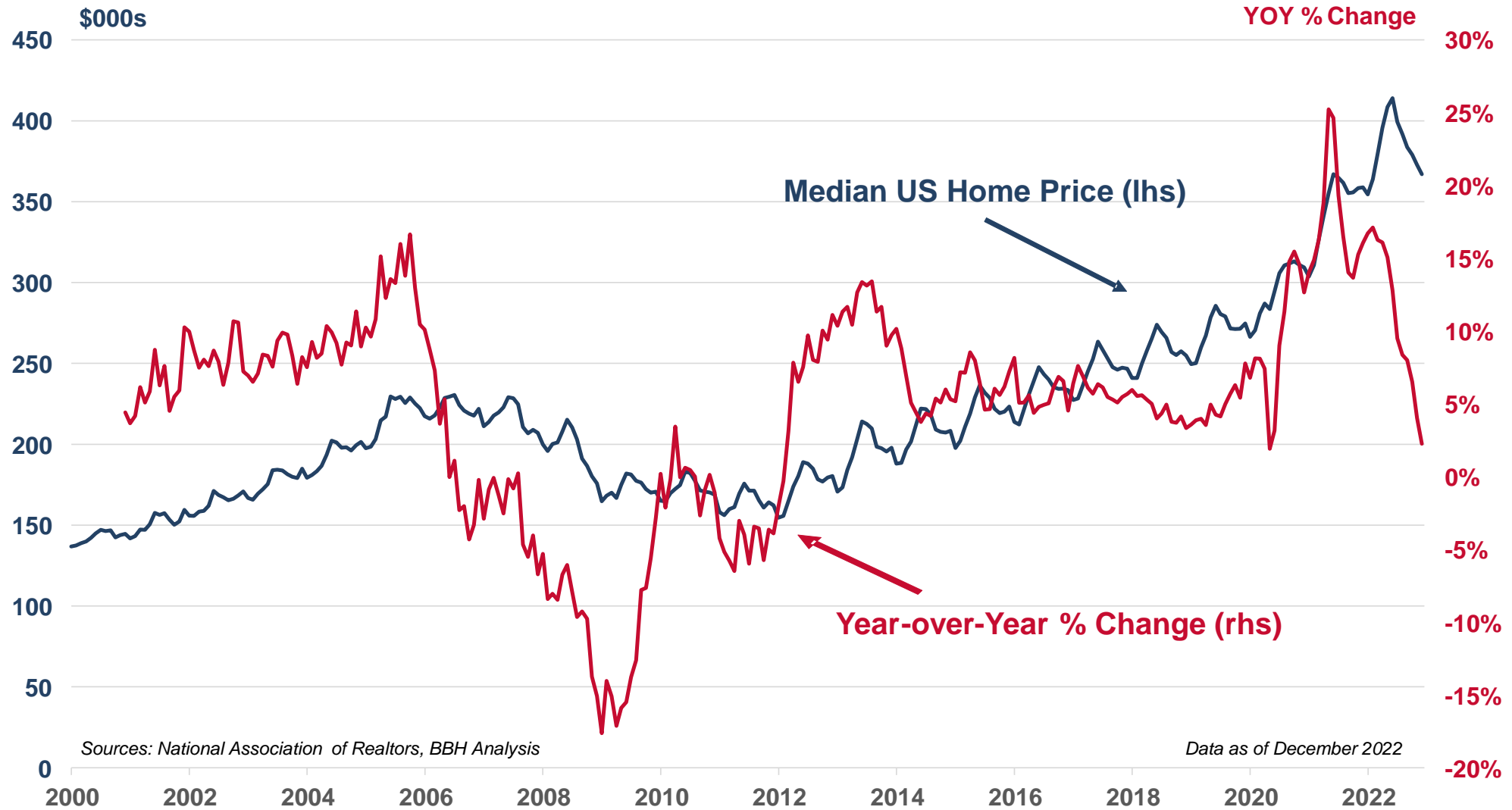
# Recession Watch

## Labor Market



# Recession Watch

## Housing Market



Sources: National Association of Realtors, BBH Analysis

Data as of December 2022

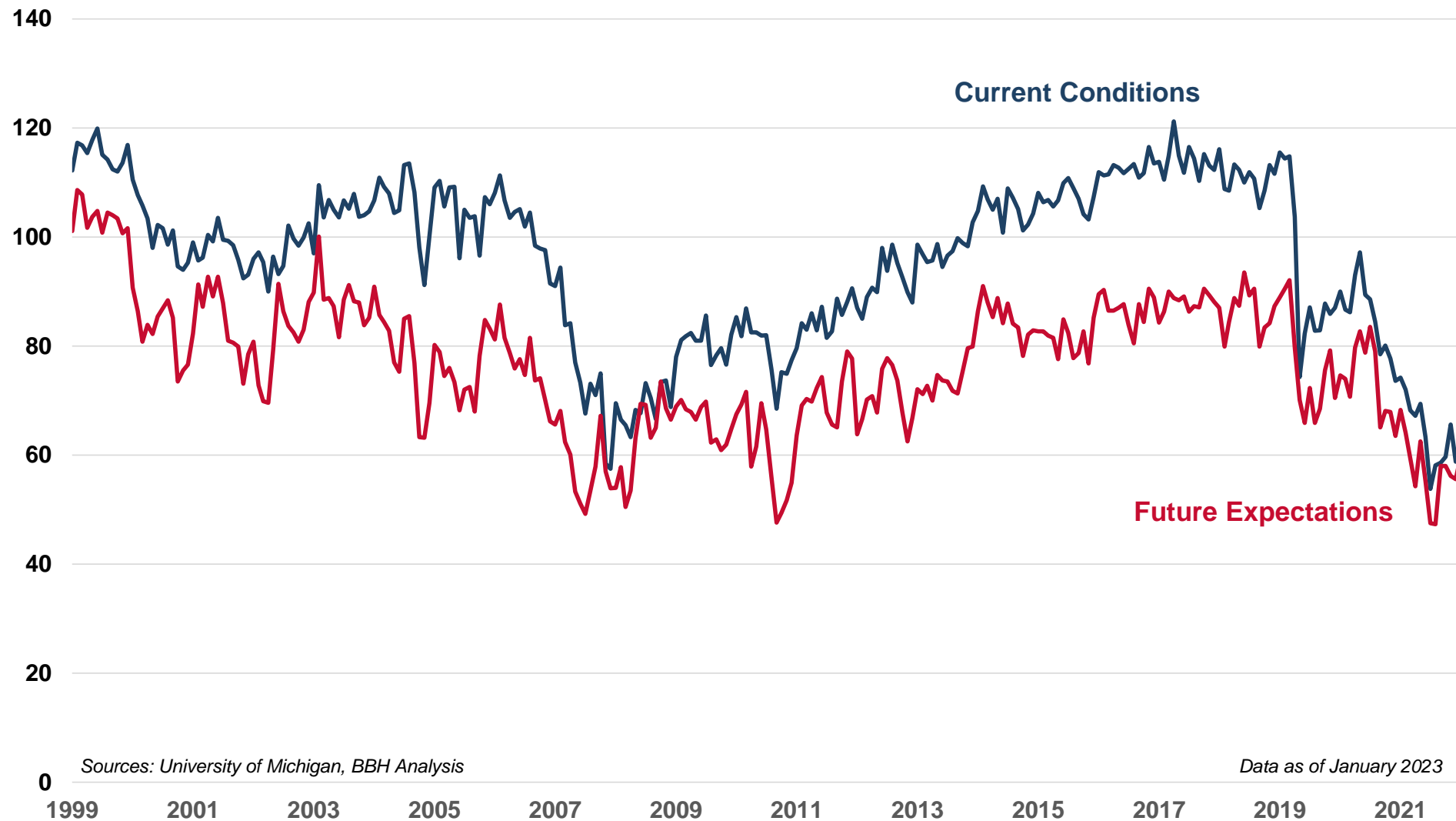
# Mortgage Rates

## *Nationwide Average 30-Year Conforming Mortgage Rate*



# Recession Watch

## Consumer Confidence

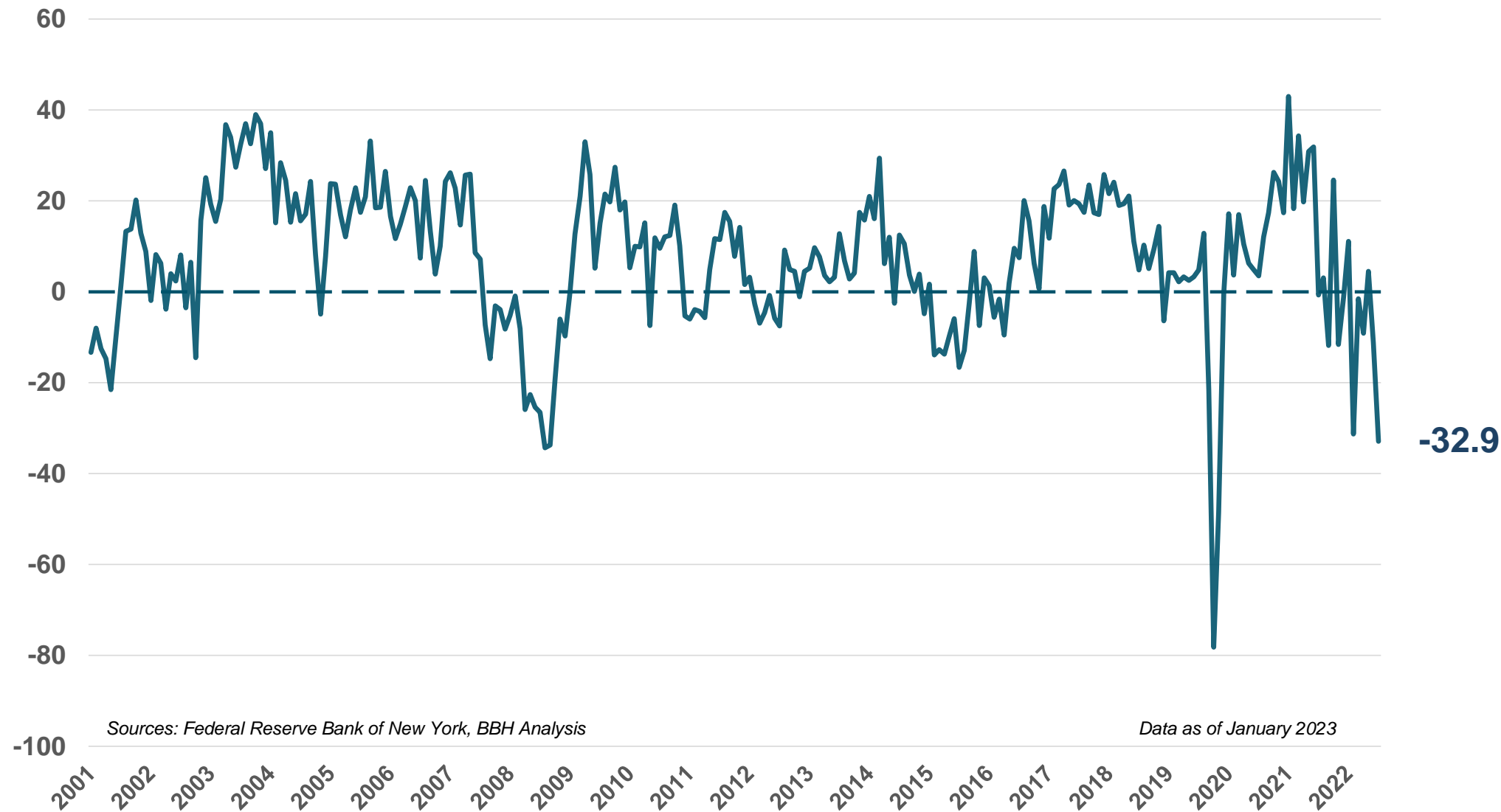


Sources: University of Michigan, BBH Analysis

Data as of January 2023

# Recession Watch

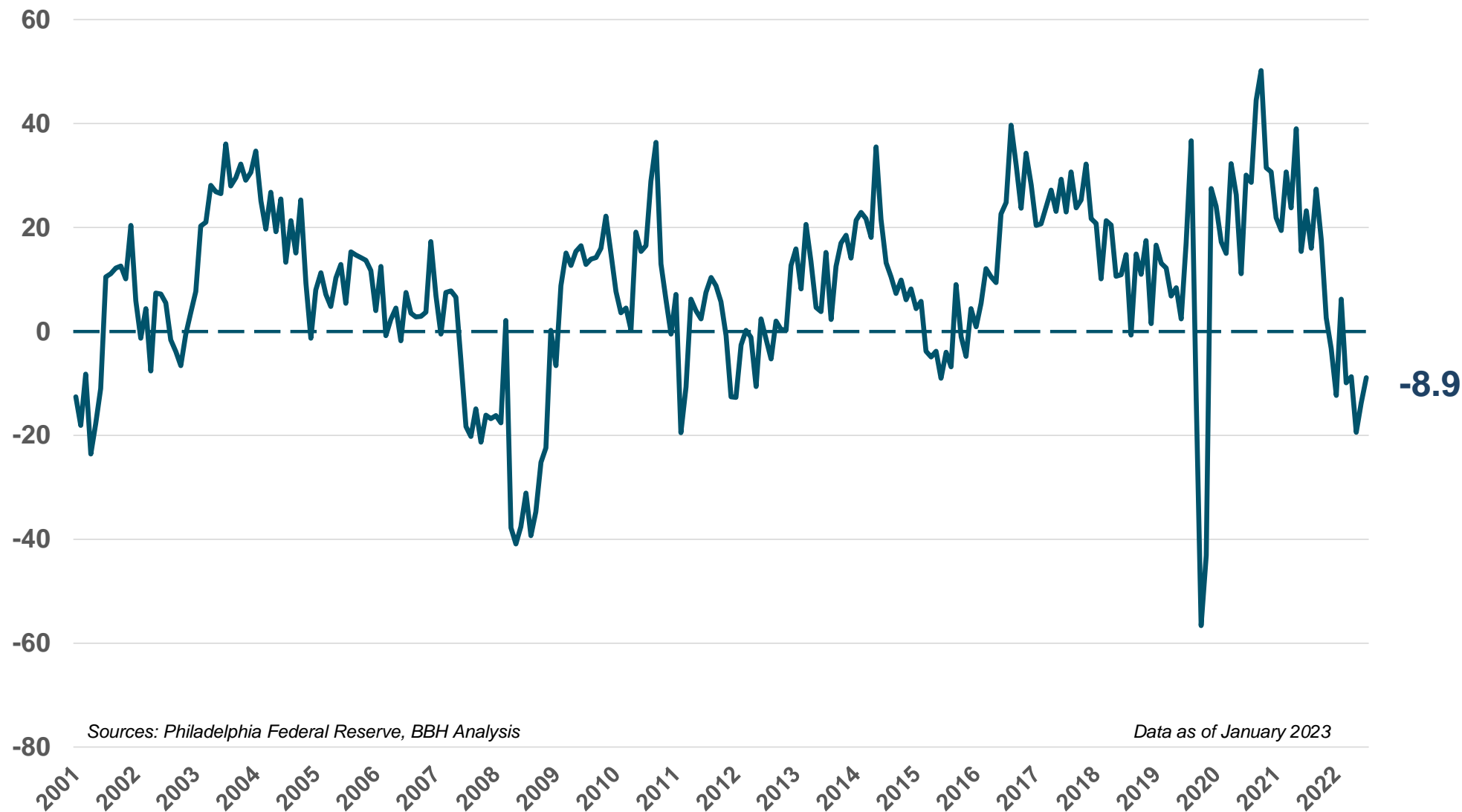
## *Manufacturing Confidence — New York*





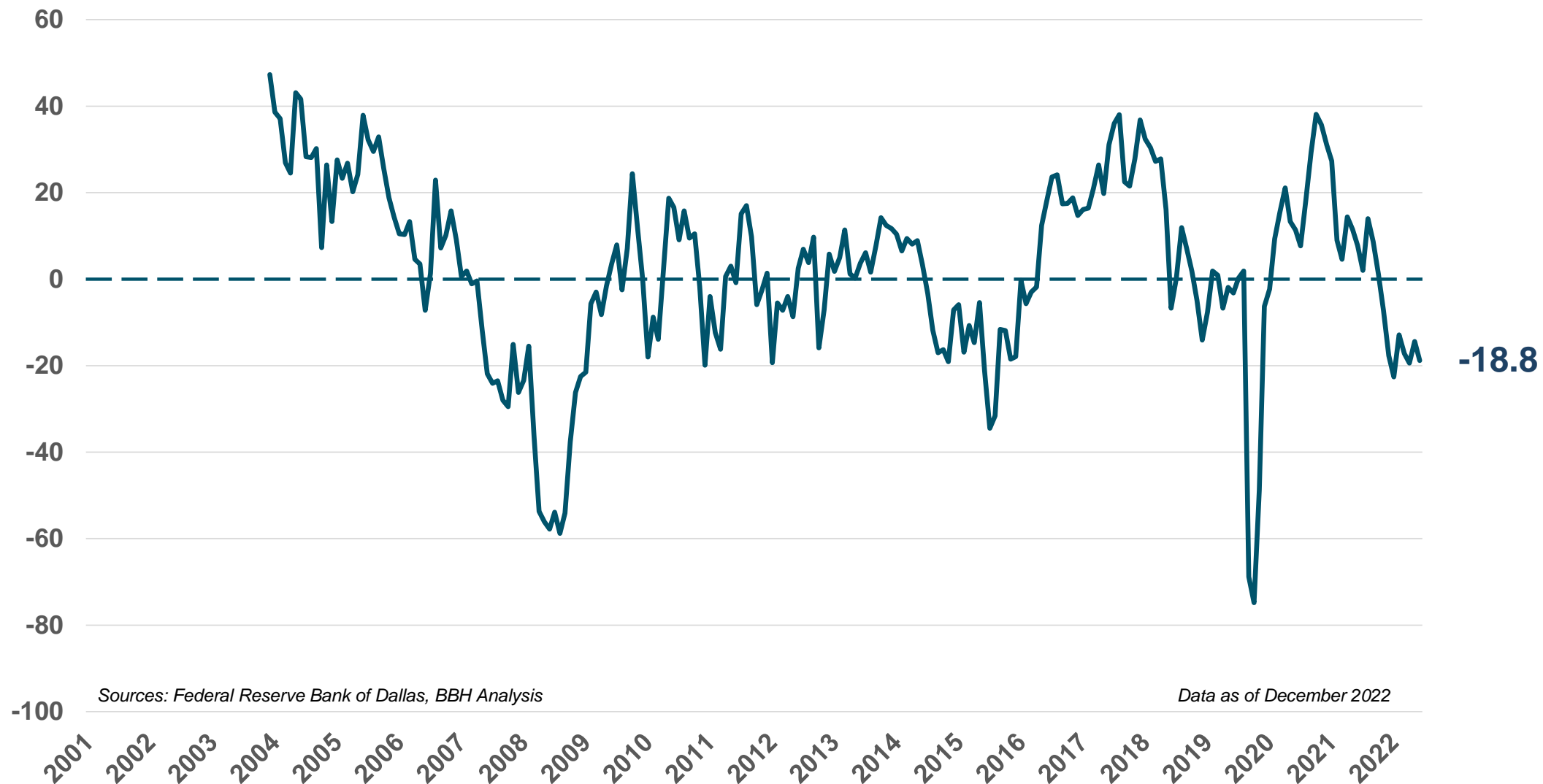
# Recession Watch

## Manufacturing Confidence — Philadelphia



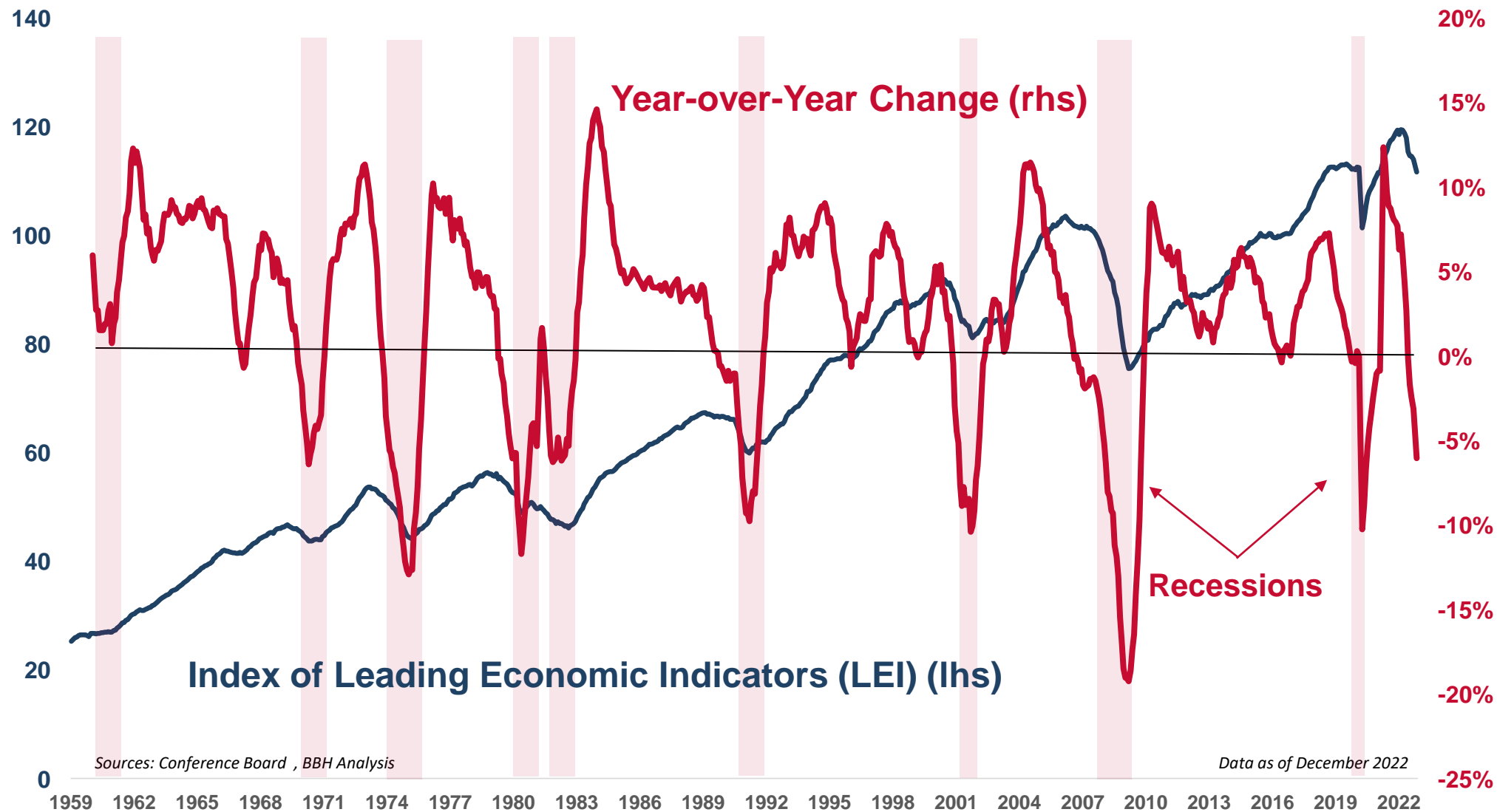
# Recession Watch

## Manufacturing Confidence — Dallas



# Recession Watch

## Index of Leading Economic Indicators



Sources: Conference Board , BBH Analysis

Data as of December 2022

# Recession Likelihood in 2023?

Labor Market

... weakening growth as trends return to normal.

Housing Market

... declining as mortgage rates rise.

Consumer Confidence

... remains at post-pandemic low levels.

Manufacturing Confidence

... weak, although not as bad as consumer confidence.

Leading Economic Indicators

... recessionary pattern.

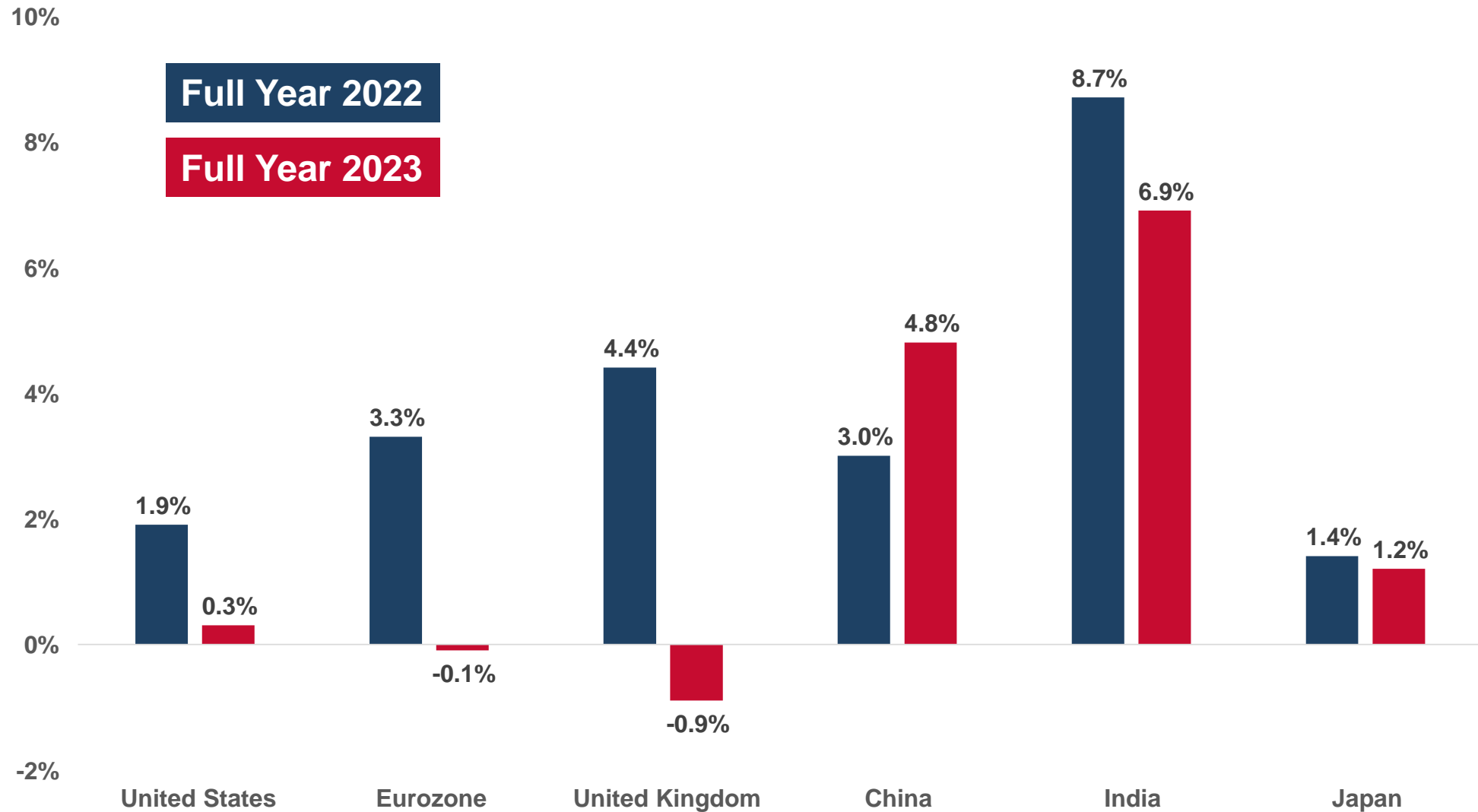
Yield Curve

... inverted for six months and counting.

**= rising likelihood of recession in 2023.**

# Global GDP

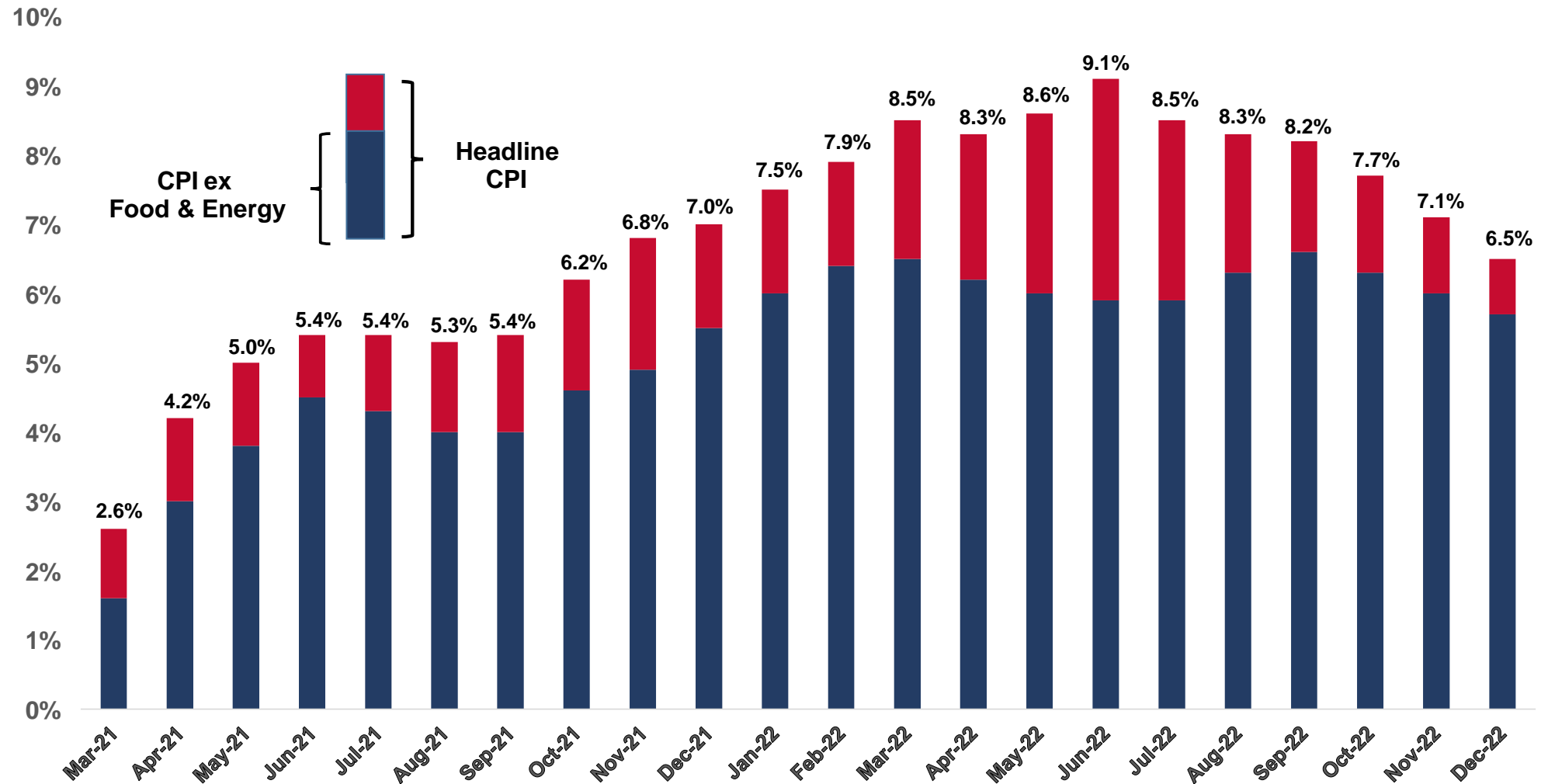
## Calendar Years 2022 and 2023



Sources: Bloomberg, BBH Analysis

Data as of 11 January 2023

# Consumer Inflation



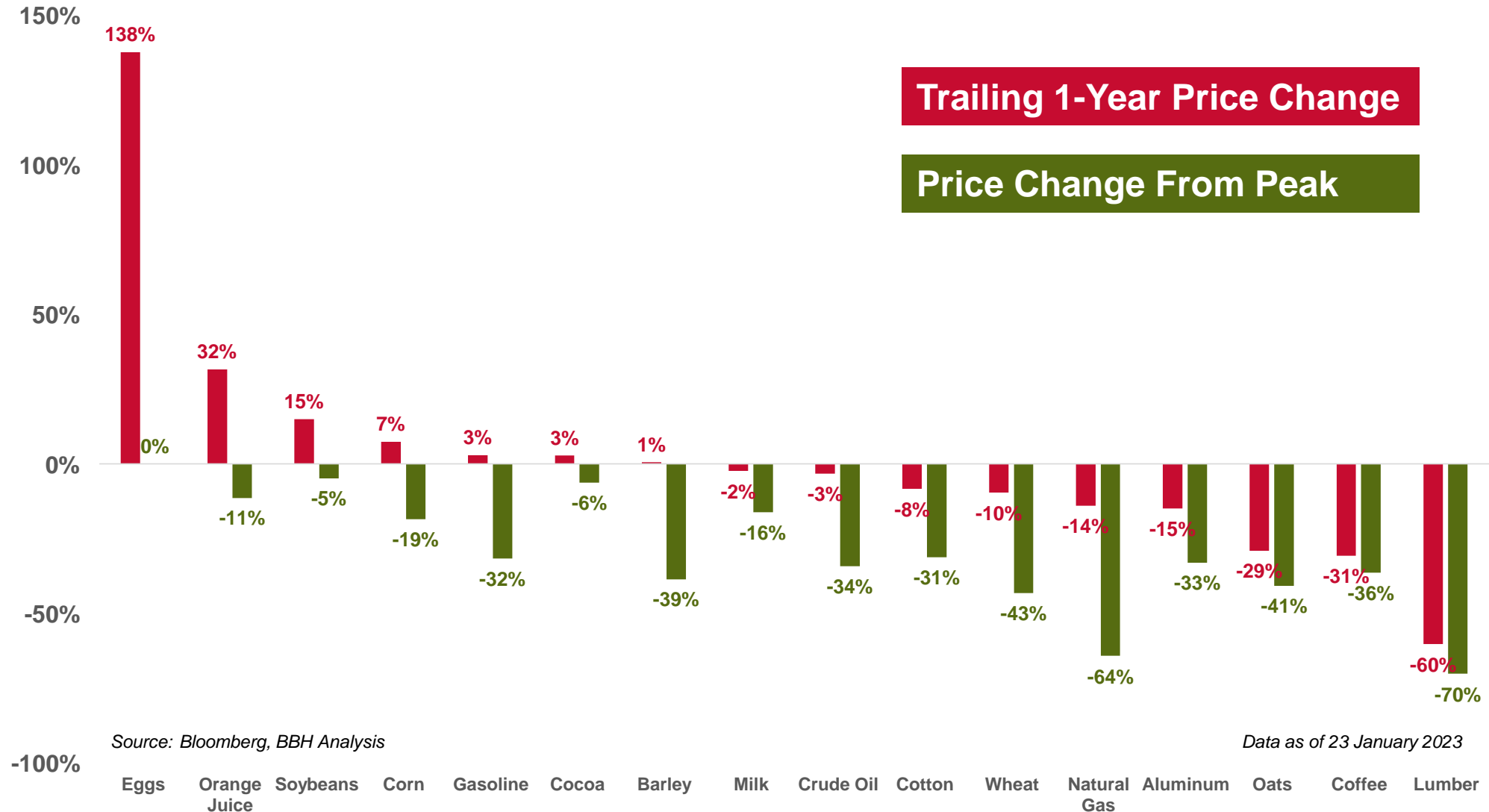
Sources: Bureau of Labor Statistics, BBH Analysis

Data as of December 2022



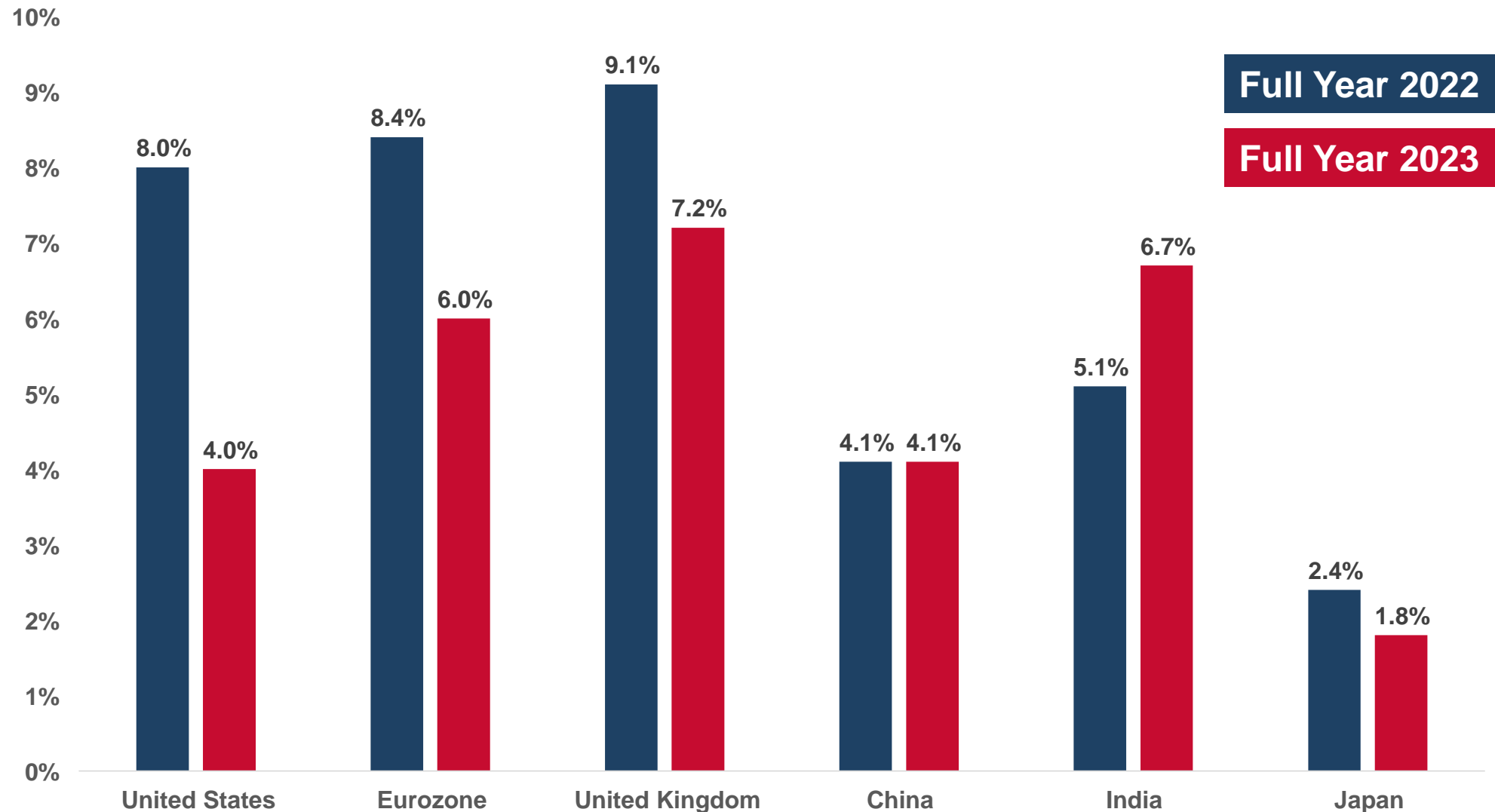
# Select Commodity Prices

## Changes As of 23 January 2023



# Global Inflation

## Calendar Years 2022 and 2023

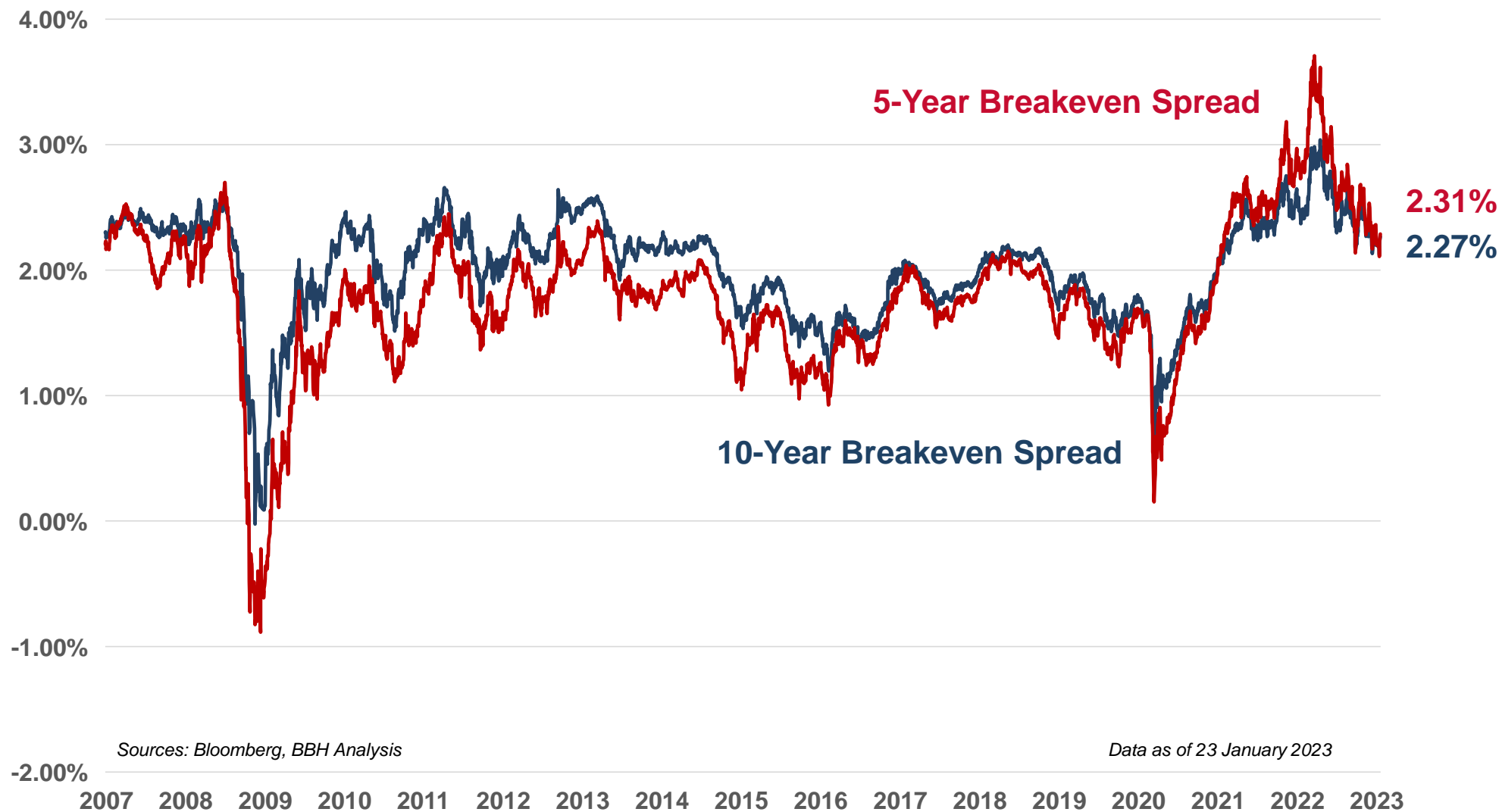


Sources: Bloomberg, BBH Analysis

Data as of 11 January 2023



# Breakeven Spreads

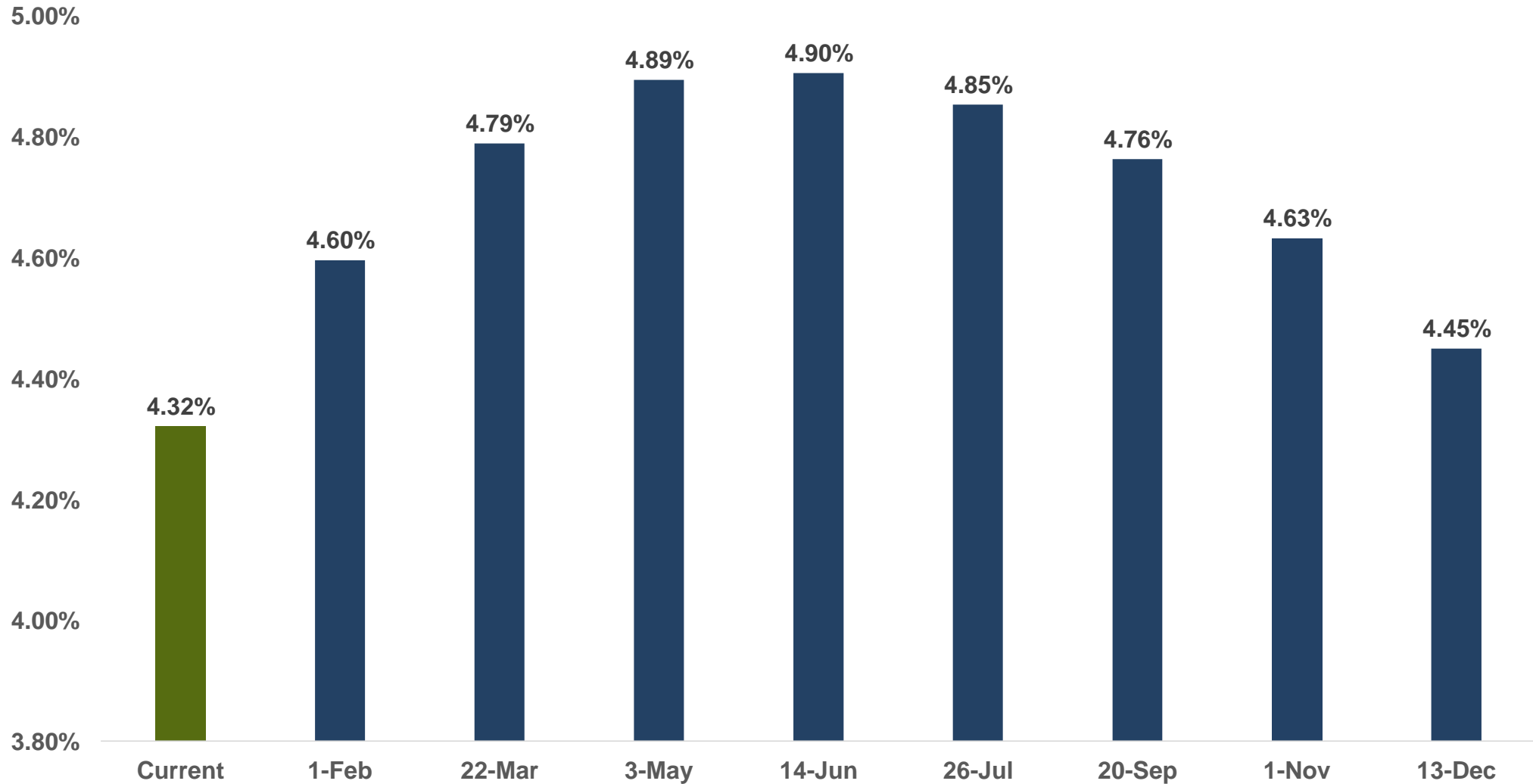


Sources: Bloomberg, BBH Analysis

Data as of 23 January 2023

# Federal Funds Rate

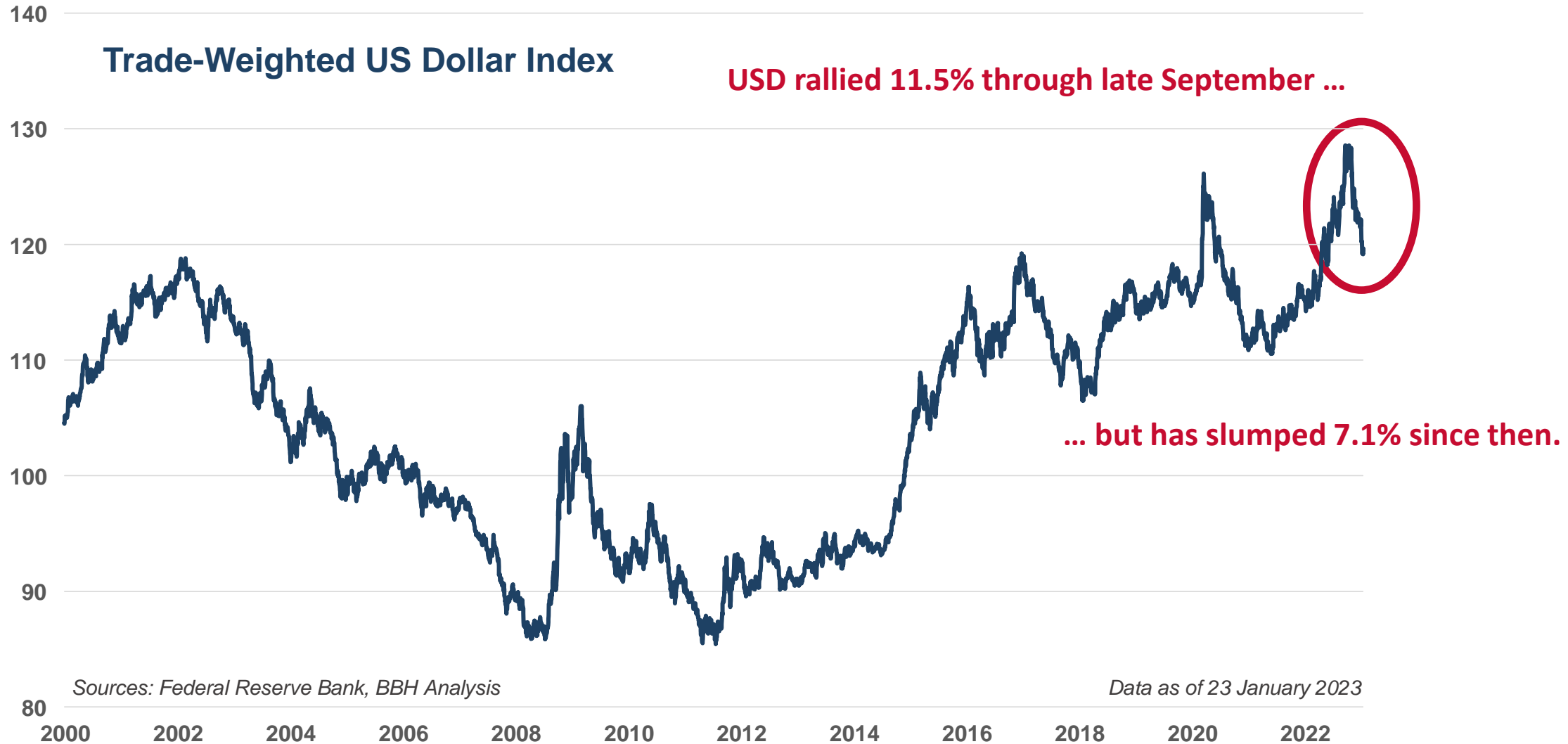
## *And Futures Market Implications*



Sources: Bloomberg, BBH Analysis

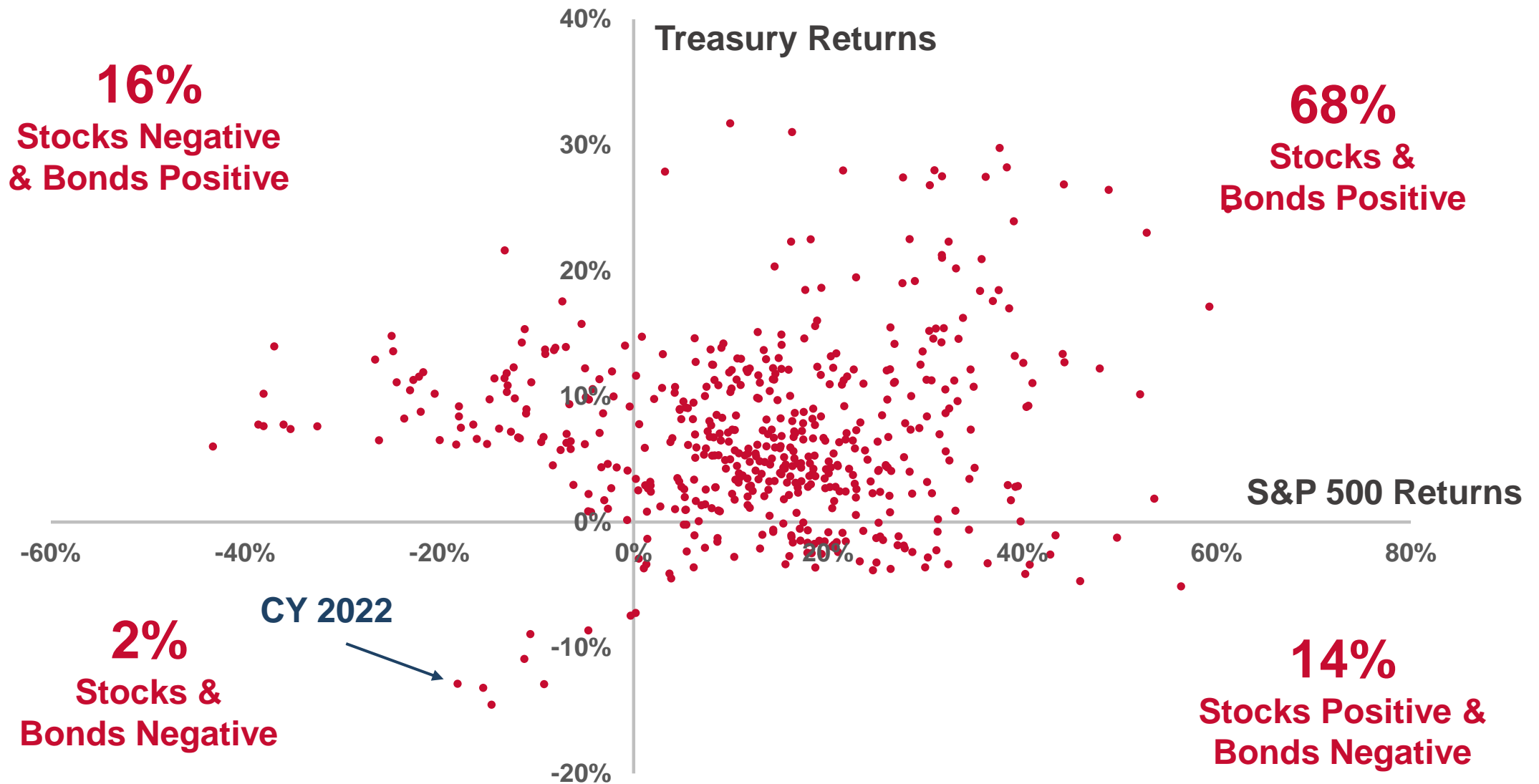
Data as of 23 January 2023

# Dollar Trends



# Equities versus Bonds

## Rolling 1-Year Returns 1979-2022



Past performance does not guarantee future results.

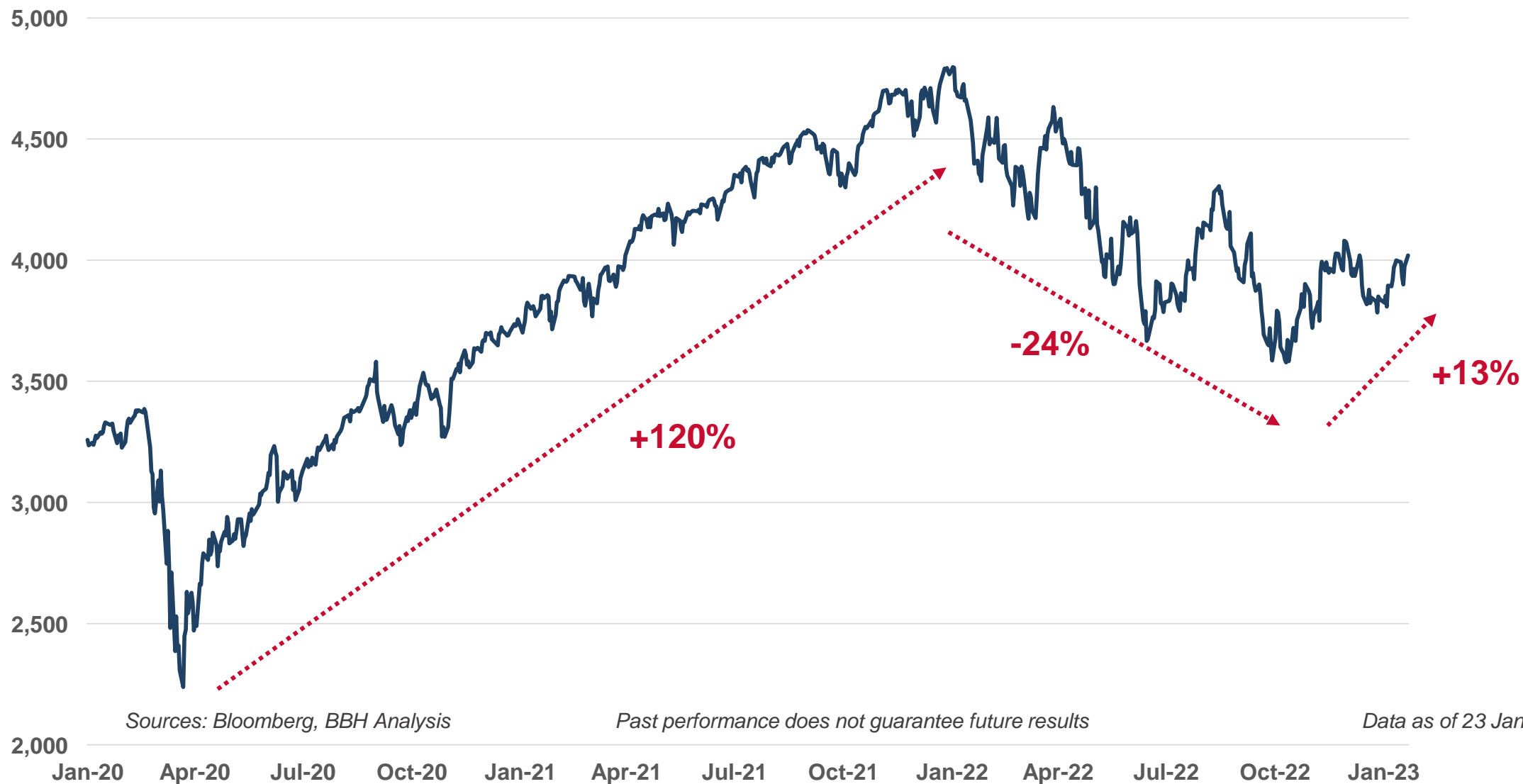
# Money Market Yields



Sources: Bloomberg, BBH Analysis

Data as of 23 January 2023

# S&P 500 Equity Index

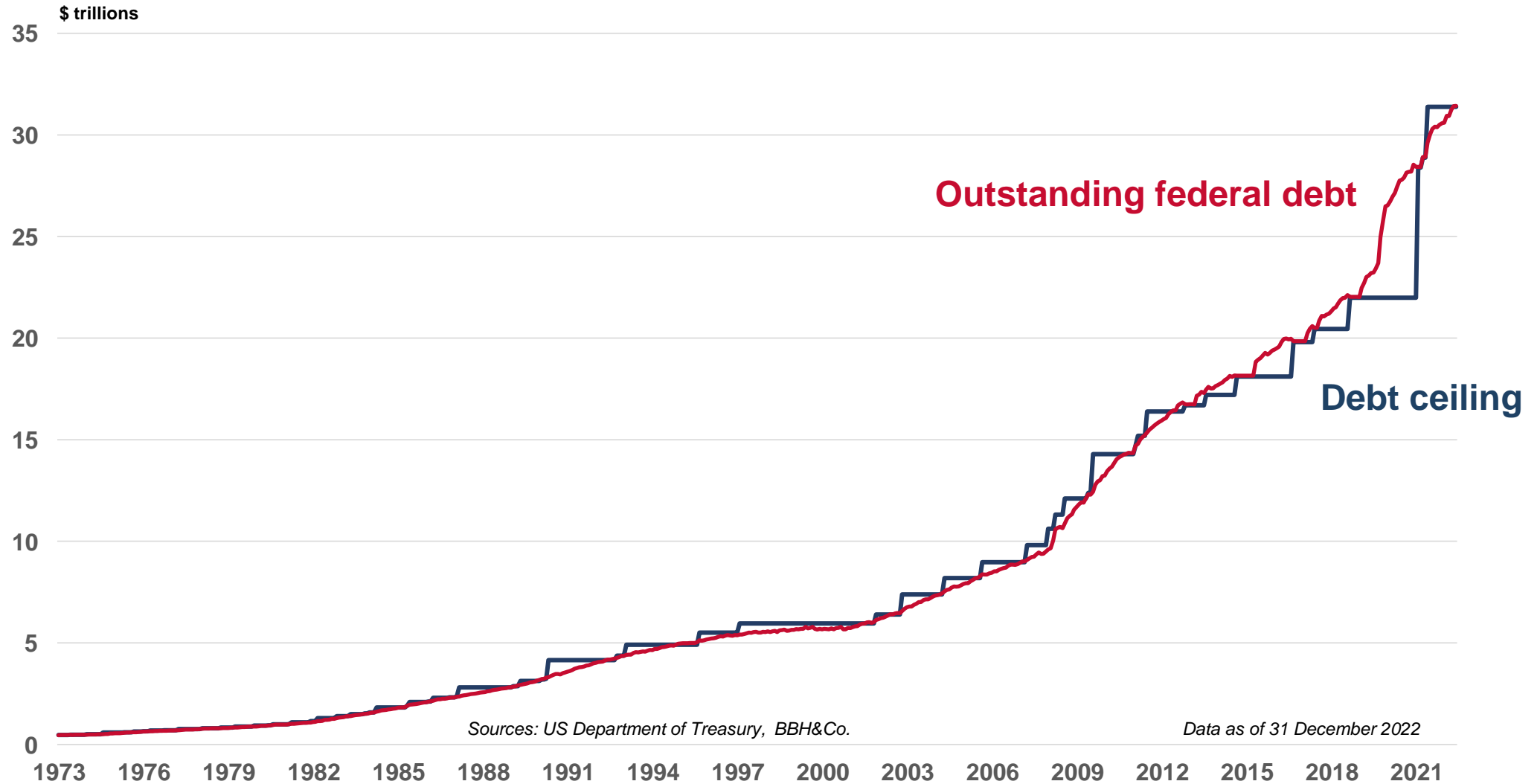


Sources: Bloomberg, BBH Analysis

Past performance does not guarantee future results

Data as of 23 January 2023

# The Debt Ceiling



# The Debt Ceiling *Solutions?*



## MINT THE COIN!

The U.S. Treasury mints a high-denomination platinum coin and deposits it at the Fed in exchange for cash.



# The Debt Ceiling

## *Solutions?*



## ISSUE PREMIUM BONDS

Since only the face value of bonds count towards the debt ceiling, premium bonds would raise more cash than face value debt.

# The Debt Ceiling Solutions?

**We the People** of the United States, in order to form a more perfect Union, insure domestic Tranquility, provide for the common defence and our Posterity, do ordain and establish this Constitution.

## Article I

Section 1. All legislative Powers herein granted shall be vested in a Congress of the United States, which shall consist of a Senate and House of Representatives.

Section 2. The House of Representatives shall be composed of Members chosen every second Year by the People of the several States, and the Electors in each State shall have the Qualifications requisite for Electors of the most numerous Branch of the State Legislature.

No Person shall be a Representative who shall not have attained to the Age of twenty five Years, and seven Years a Citizen of the United States, and who, when elected, shall be an Inhabitant of that State in which he shall be chosen.

Representatives and direct Taxes shall be apportioned among the several States which may be included within this Union, according to their respective Numbers, which shall be determined by adding to the whole Number of free Persons, including those bound to Service for a Term of Years, and including Indians not taxed, three fifths of all other Persons. The actual Enumeration shall be made within three Years after the first Meeting of the Congress of the United States, and within every subsequent Term of ten Years, in such Manner as they shall by Law direct. The Number of Representatives shall not exceed one for every thirty Thousand, but each State shall have at least one Representative, and until such Enumeration shall be made, the State of New Hampshire shall be entitled to choose three, Massachusetts eight, Rhode Island and Providence Plantations one, Connecticut five, New York seven, New Jersey four, Pennsylvania eight, Delaware one, Maryland six, North Carolina five, South Carolina five, and Georgia three.

When Vacancies happen in the Representation from any State, the Executive Authority thereof shall issue Writs of Election to fill such Vacancies. The House of Representatives shall choose their Speaker and other Officers, and shall have the sole Power of Impeachment.

Section 3. The Senate of the United States shall be composed of two Senators from each State, chosen by the Legislature thereof, for six Years; and each

## THE 14<sup>TH</sup> AMENDMENT

“The validity of the public debt of the United States, authorized by law ... shall not be questioned.”

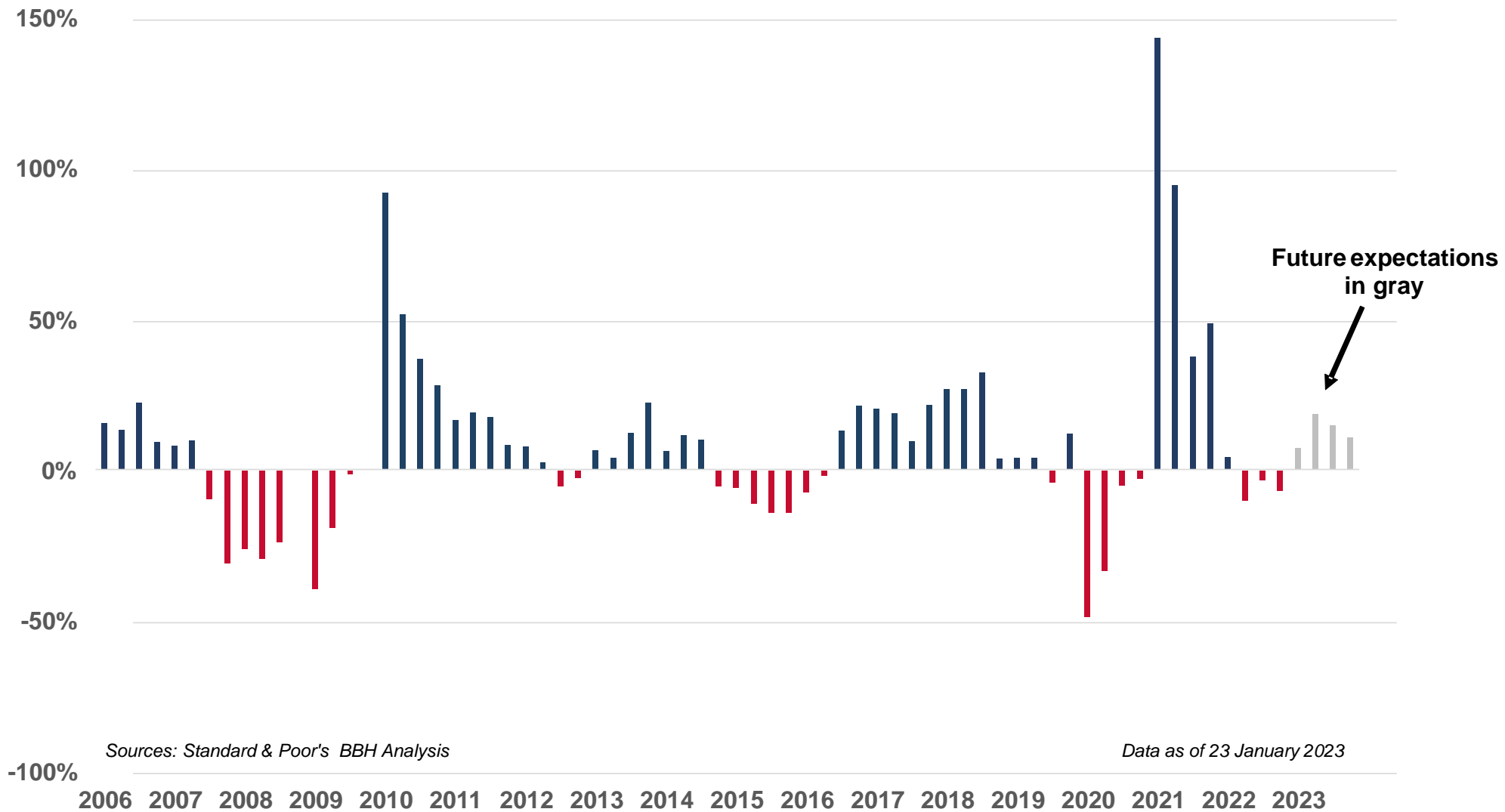
# The Debt Ceiling *Solutions?*



## BRINKSMANSHIP

11<sup>th</sup> hour agreement once maximum political benefit has been wrung out of the debate.

# Corporate Earnings



Sources: Standard & Poor's BBH Analysis

Data as of 23 January 2023

# Equity Valuations

## *S&P 500 Trailing Operating PE Ratio*



Sources: Standard & Poor's, Bloomberg, BBH Analysis

Data as of 11 January 2023

# Equity Market Returns During Recessions

	Beginning of Recession	Length of Recession in Months	S&P 500 Total Return			
			+1 months	+3 months	+6 months	+1 year
	November 1948	11	5.3%	1.3%	-0.6%	19.2%
	July 1953	10	-5.8%	0.5%	8.7%	31.9%
	August 1957	8	-5.2%	-6.8%	-7.7%	10.0%
	April 1960	10	2.7%	3.0%	-0.1%	24.2%
	December 1969	11	-7.4%	-1.8%	-19.5%	3.9%
	November 1973	16	2.0%	1.2%	-7.3%	-23.8%
	January 1980	6	-1.6%	-5.6%	9.6%	19.5%
	July 1981	16	-5.8%	-5.6%	-5.5%	-13.3%
	July 1990	8	-9.0%	-13.8%	-1.6%	12.7%
	March 2001	8	7.8%	5.9%	-9.7%	0.2%
	December 2007	18	-6.0%	-9.4%	-11.9%	-37.0%
	February 2020	2	-12.4%	3.6%	19.6%	31.3%

Past performance does not guarantee future results.

Sources: National Bureau of Economic Research, Bloomberg, BBH Analysis

Data as of 30 September 2022

# Disclosures



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