



State of the Economy

OCTOBER 6, 2022

FACTORS IMPACTING ECONOMIC UNCERTAINTY

**MODERATE
RECESSION**



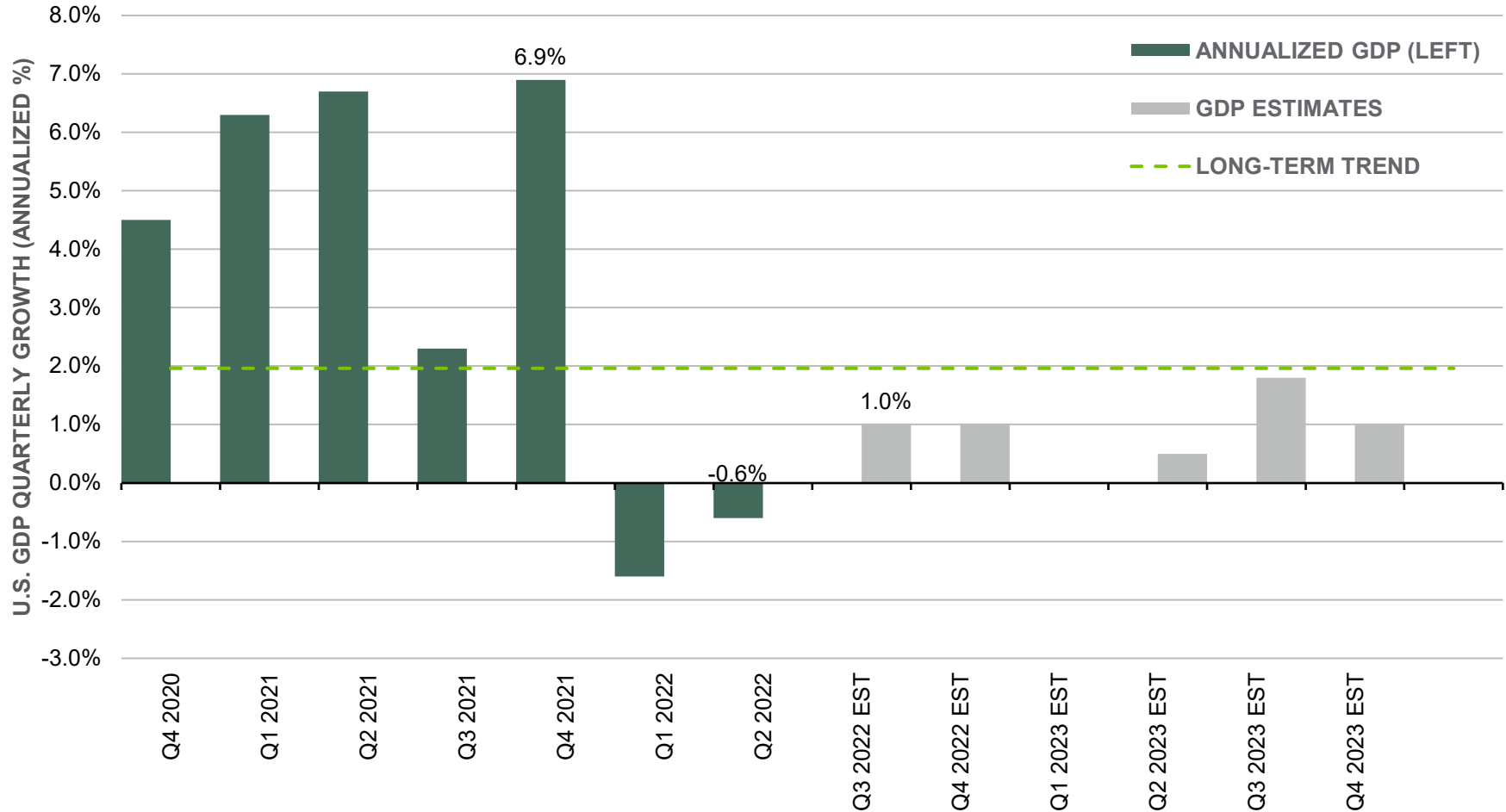
- Broad based, persistent inflation
- Aggressive monetary policy action
- Supply chain disruptions
- Labor shortages
- War in Ukraine



**MODERATE
GROWTH**

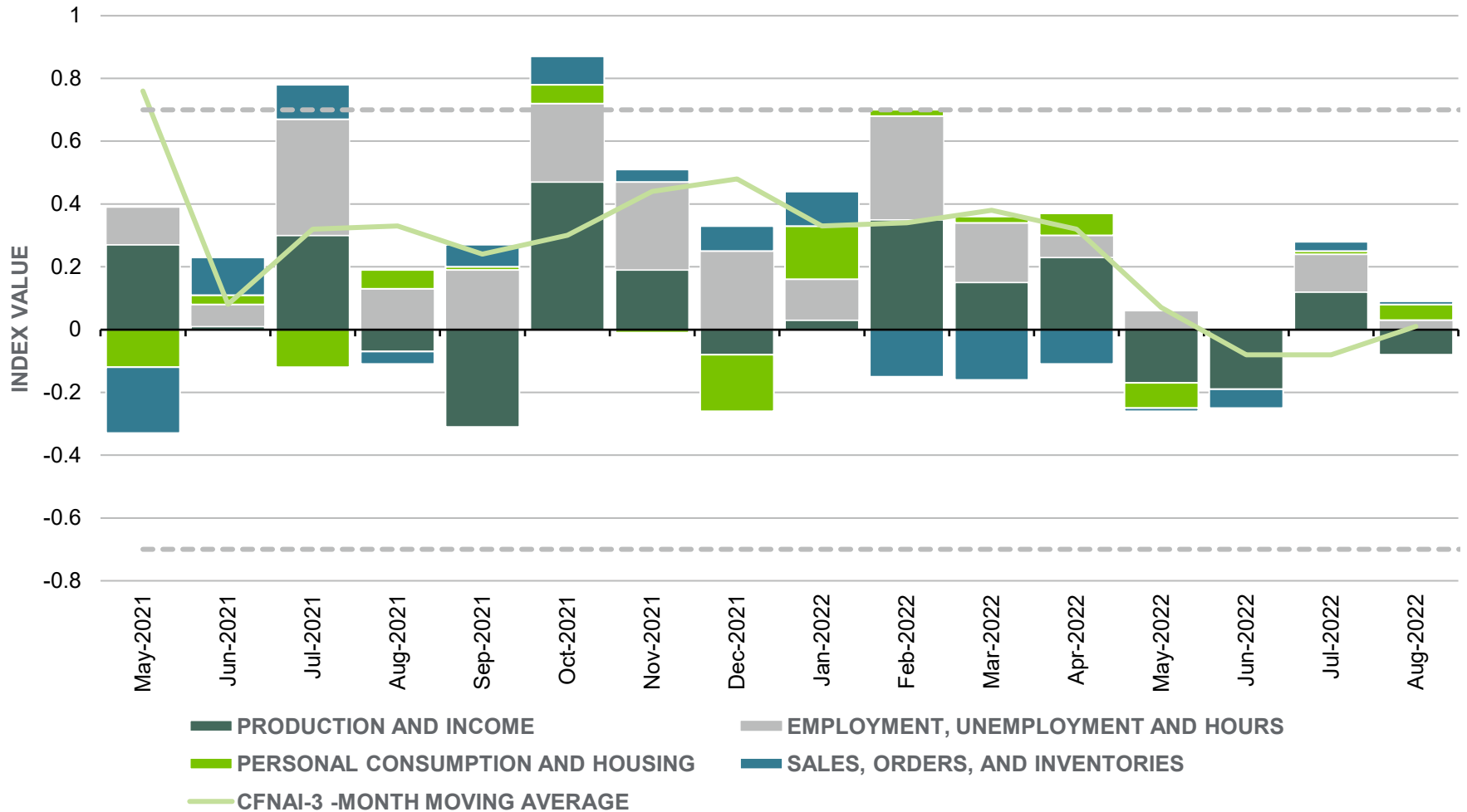
- Healthy labor market
- Manufacturing expansion (goods & services)
- Consumer shift from goods to services
- Excess savings of \$2.5 trillion

THE U.S. IS FACING BELOW-TREND GROWTH & GREATER RECESSION RISK



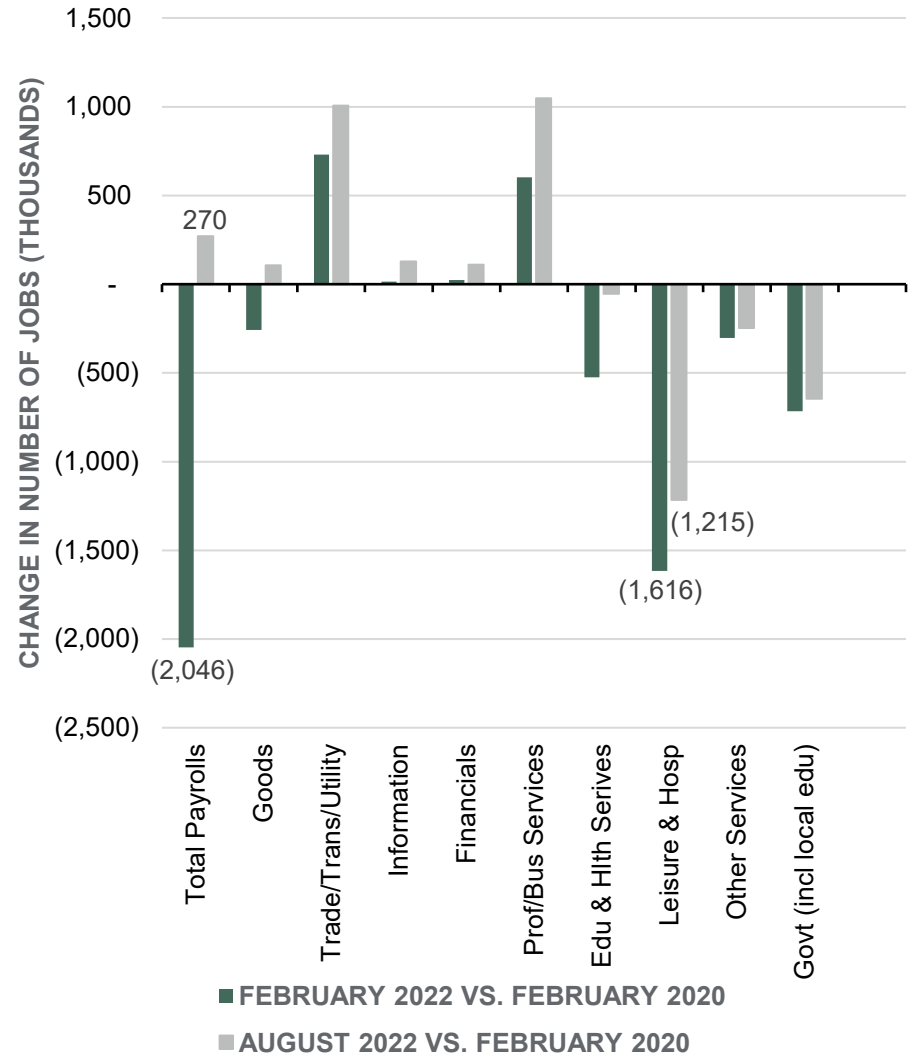
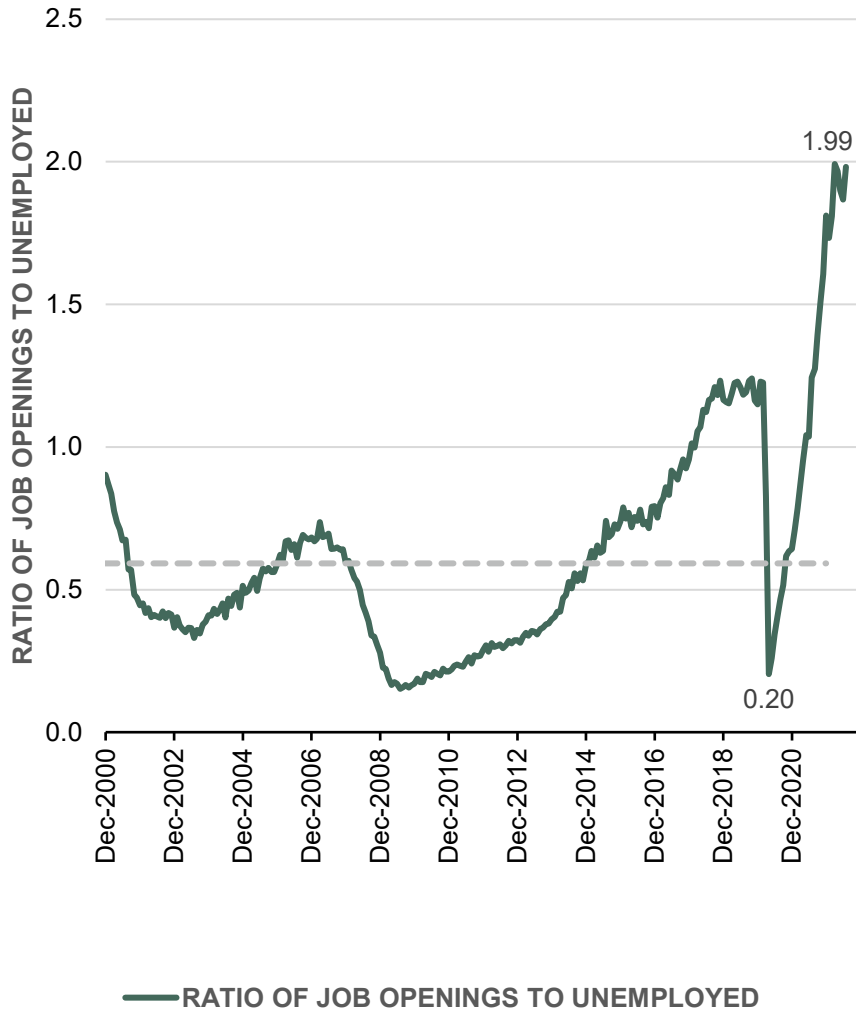
Source: Godsey & Gibb Research, Bloomberg, Strategas

THE CONTRIBUTORS TO ECONOMIC GROWTH ARE VOLATILE



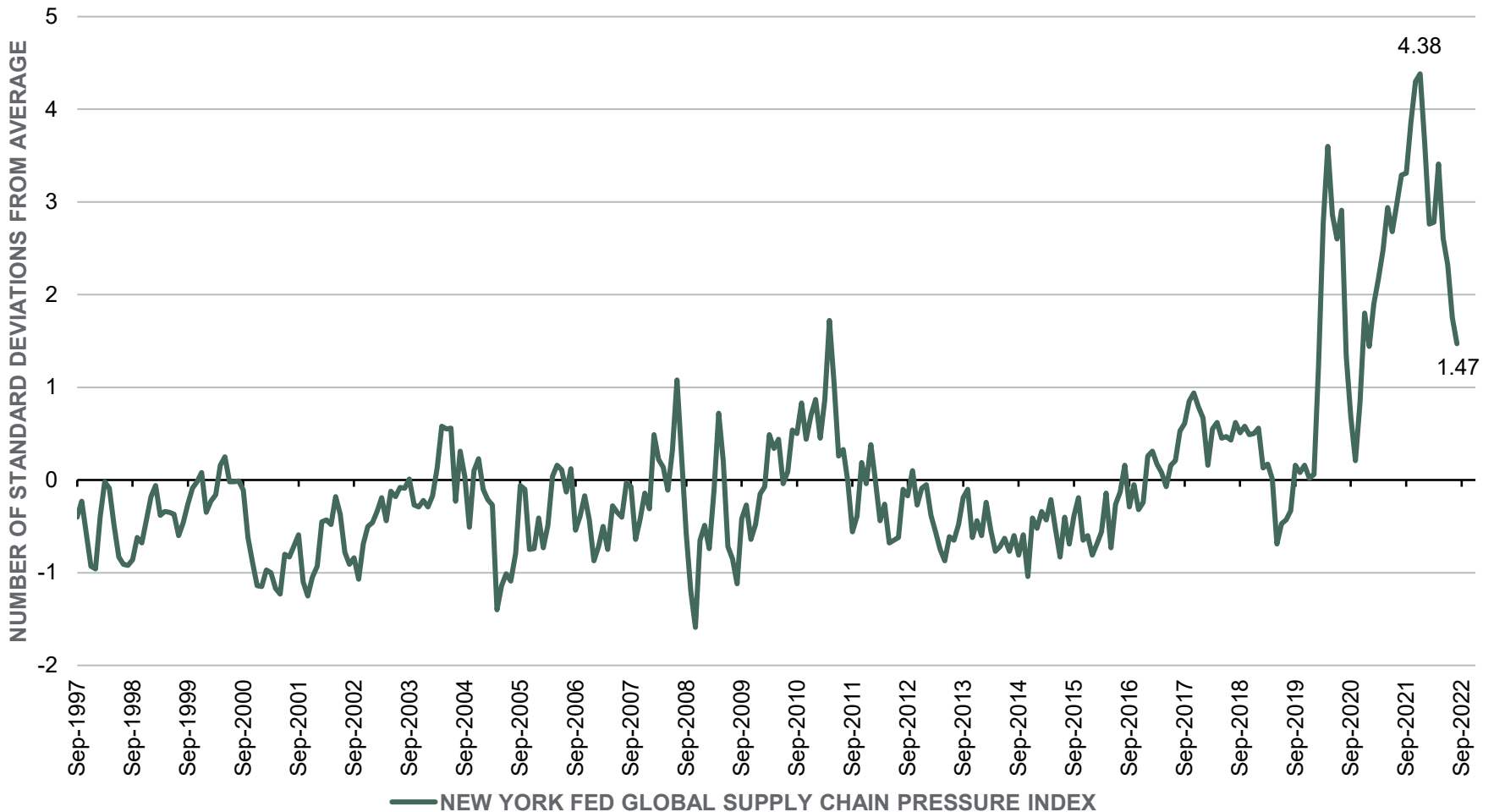
Source: Godsey & Gibb Research, Chicago Federal Reserve

JOB OPENINGS ARE ELEVATED, PARTICULARLY IN THE SERVICE SECTORS



Source: Godsey & Gibb Research, Bloomberg

SUPPLY CHAIN IMPROVEMENTS ARE HELPING CORE GOODS INFLATION

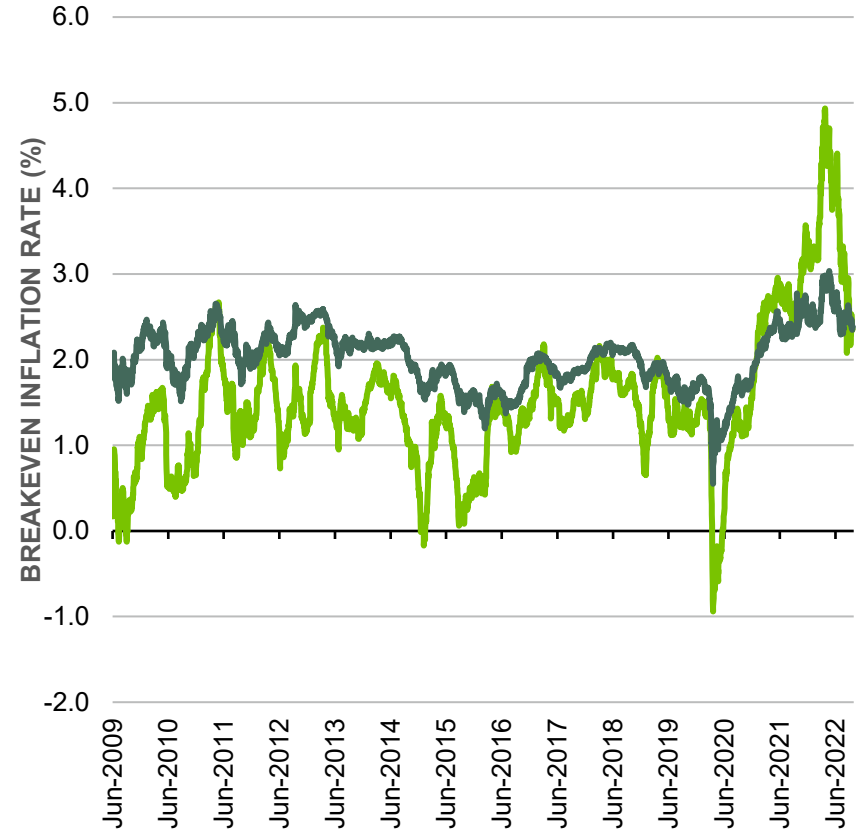
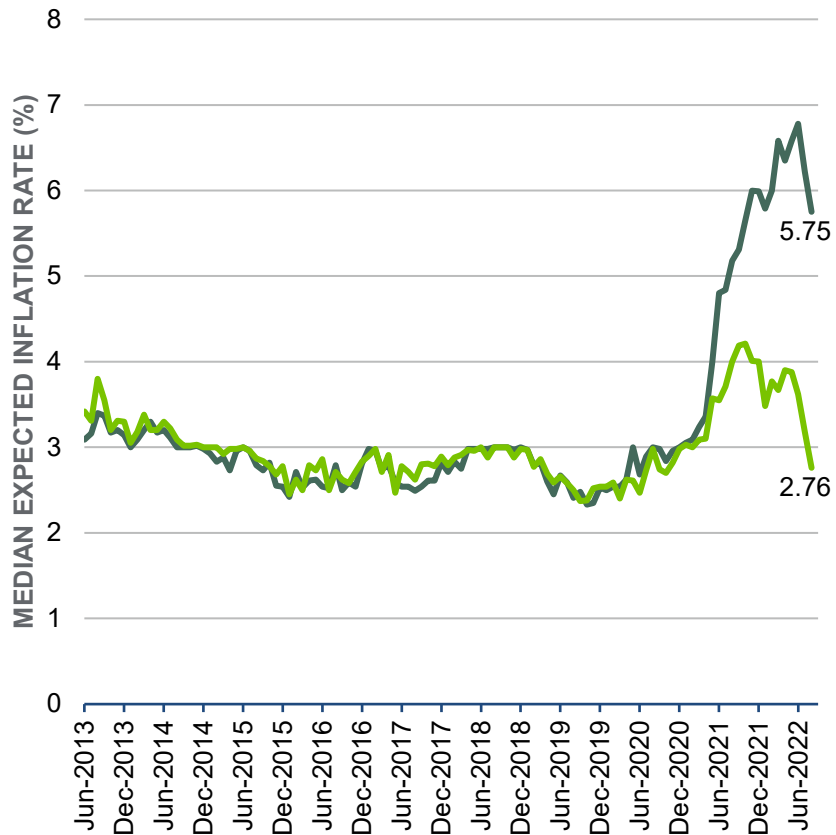


SOME SIGNS OF PEAK INFLATION

U.S. CONSUMER PRICE INDEX INFLATION MAJOR COMPONENTS (YEAR-OVER-YEAR % CHANGE)

		AUG 2022	CURRENT VS. 6-MONTH AVERAGE	CURRENT VS. 12-MONTH AVERAGE
U.S. CPI	CPI COMPONENTS	8.3%	-0.3%	0.6%
	FOOD INFLATION	11.4%	1.2%	3.2%
	Food at home	13.5%	1.6%	4.3%
	Food away from home	8.0%	0.6%	1.4%
NON-CORE CPI	ENERGY INFLATION	23.8%	-8.7%	-6.6%
	Energy commodities	27.1%	-18.9%	-19.9%
	Energy services	19.8%	2.9%	5.8%
	CORE GOODS (LESS FOOD AND ENERGY)	7.1%	-1.5%	-2.2%
	Household furnishings	10.6%	0.1%	1.7%
	Apparel	5.1%	-0.4%	-0.2%
	Transportation	9.1%	-4.3%	-7.6%
	- New vehicles	10.1%	-1.7%	-1.3%
	- Used vehicles	7.8%	-8.2%	-17.0%
CORE CPI	CORE SERVICES (LESS FOOD & ENERGY)	6.1%	0.8%	1.6%
	Shelter	6.2%	0.7%	1.5%
	Rent of shelter	6.3%	0.7%	1.5%
	Transportation services	11.3%	2.4%	4.4%

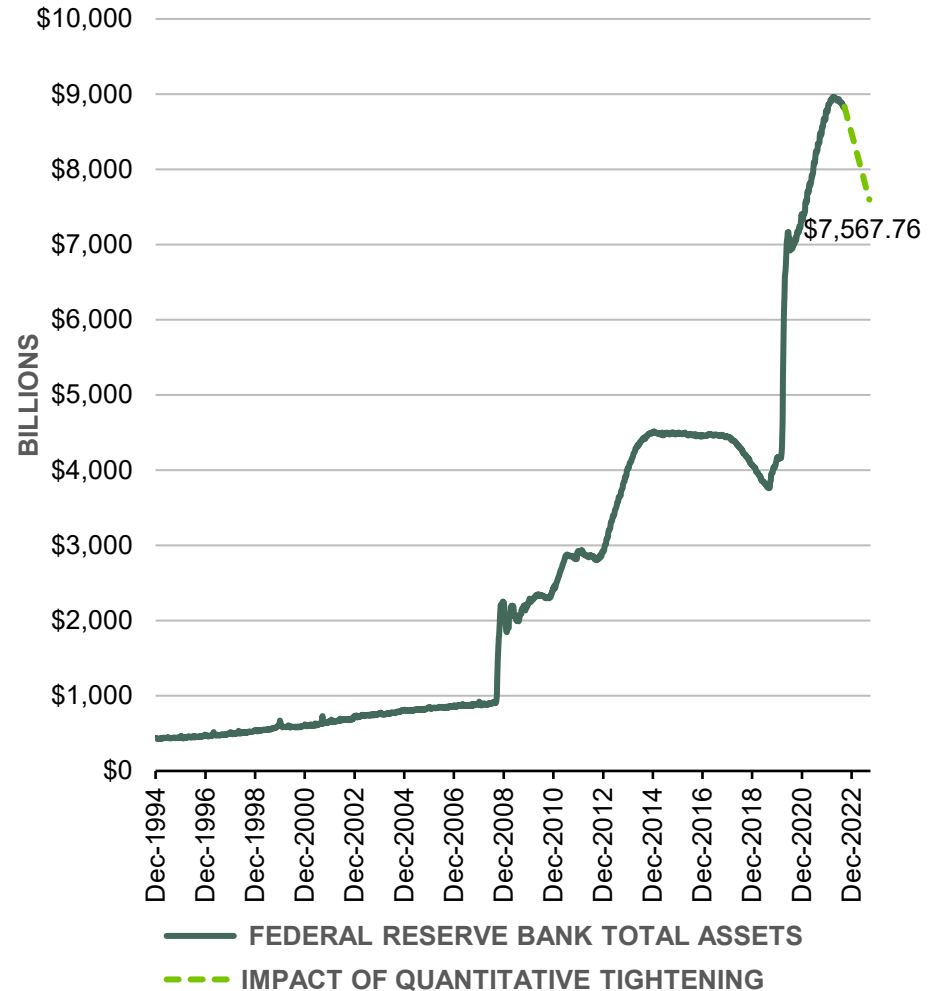
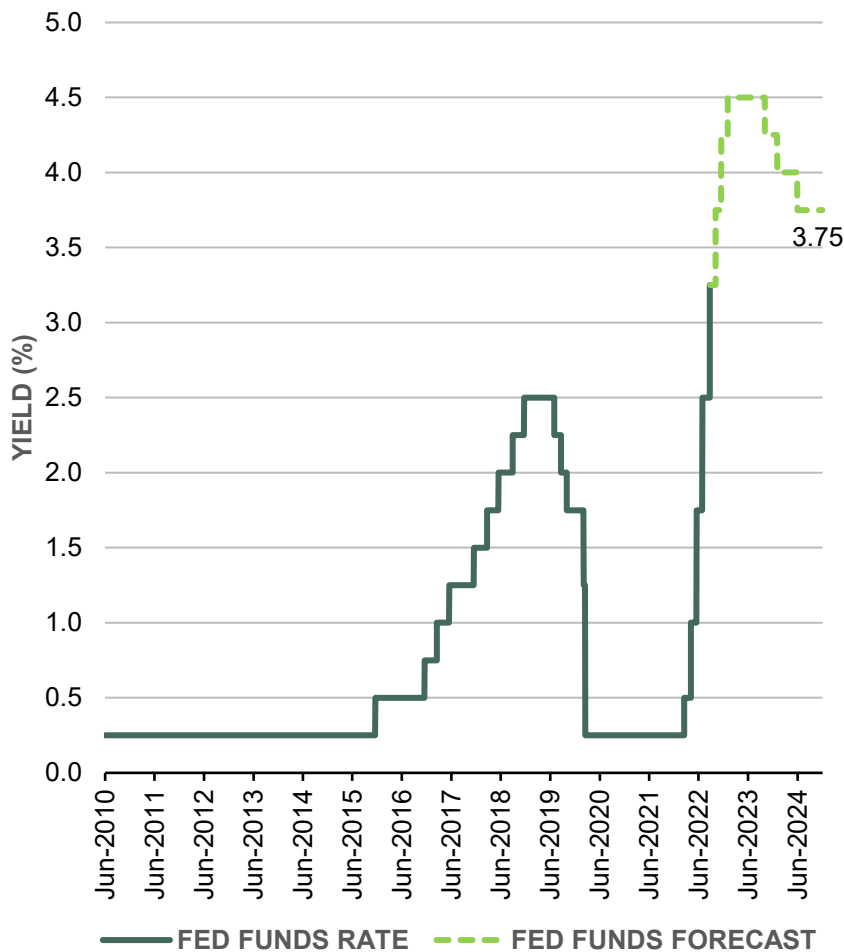
INFLATION EXPECTATIONS ARE BEGINNING TO MODERATE



— NEW YORK FED SURVEY INFLATION EXPECTATIONS 1-YEAR
— NEW YORK FED SURVEY INFLATION EXPECTATIONS 3-YEAR

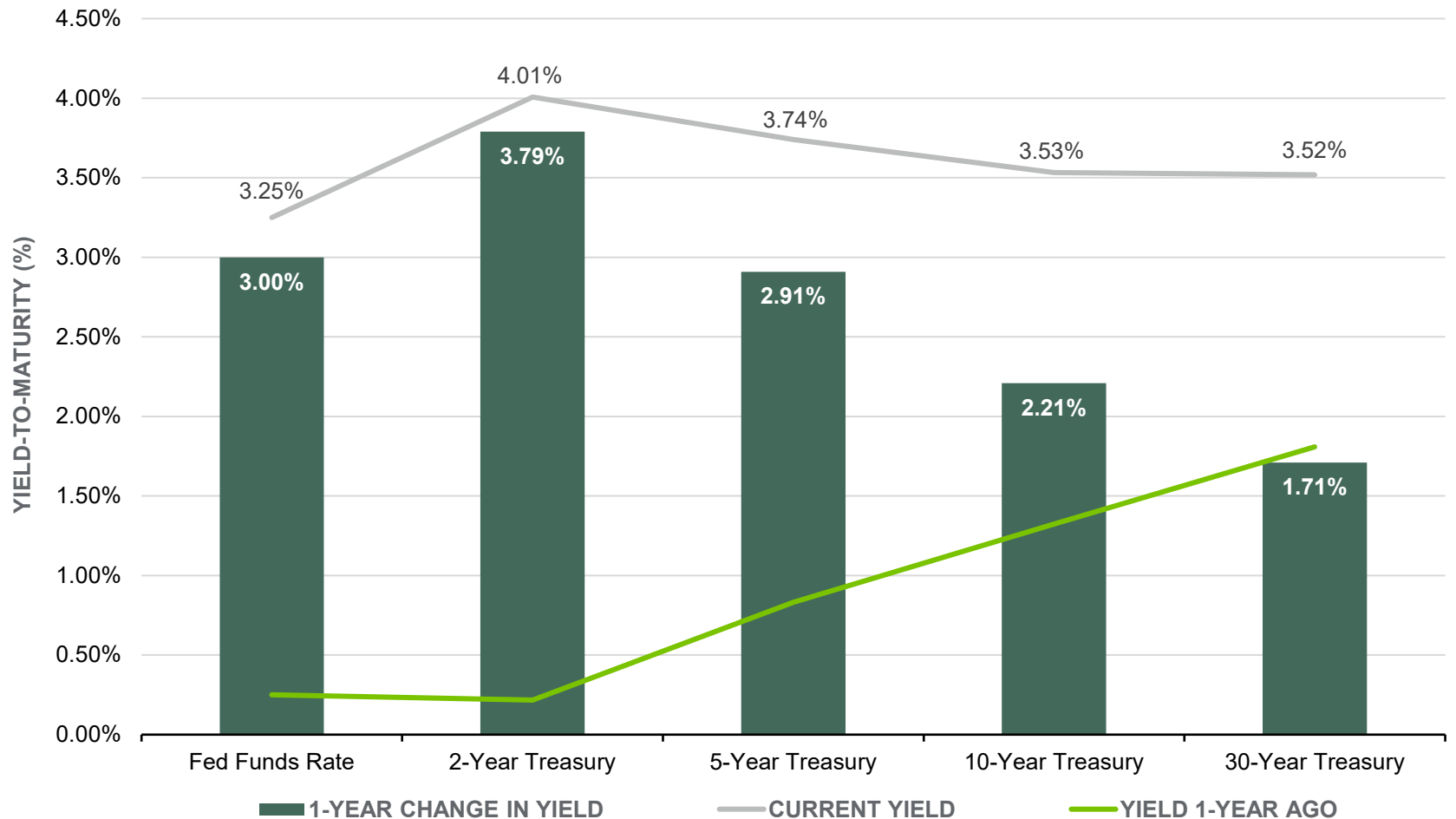
— 2-YEAR BREAKEVEN INFLATION RATE
— 10-YEAR BREAKEVEN INFLATION RATE

POLICY QUICKLY SHIFTED FROM ACCOMODATIVE TO RESTRICTIVE



Source: Godsey & Gibb Research, Bloomberg, Federal Reserve Bank

FED POLICY HAS IMPACTED RATES AND THE SHAPE OF THE YIELD CURVE



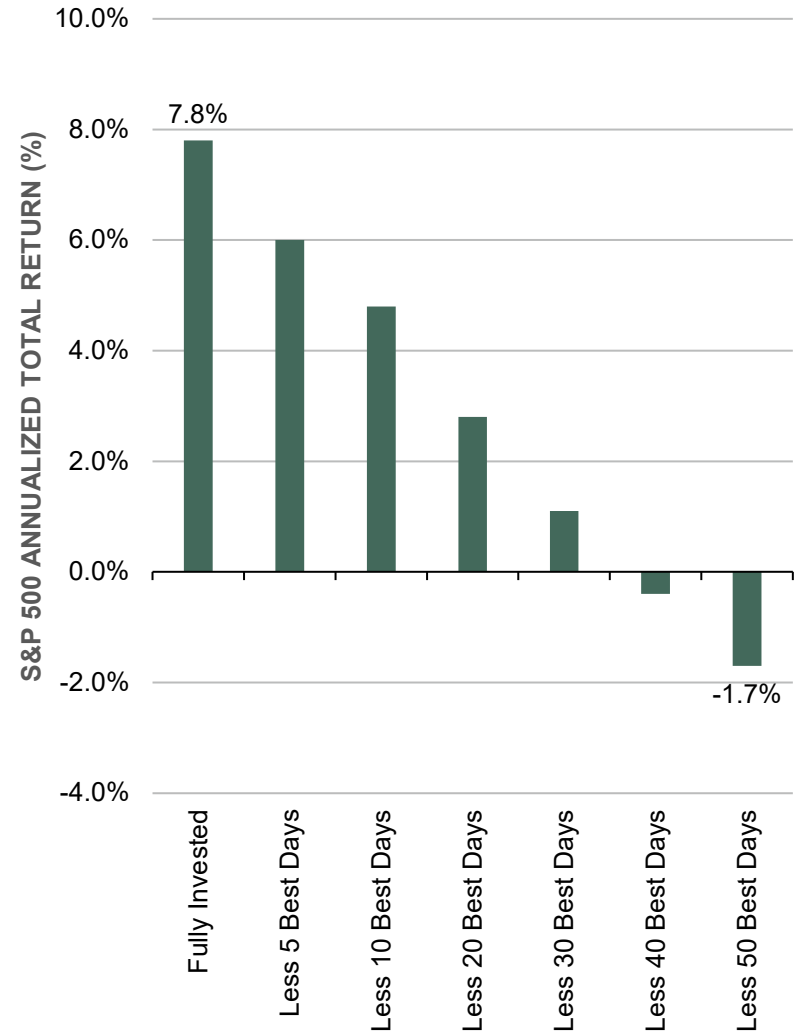
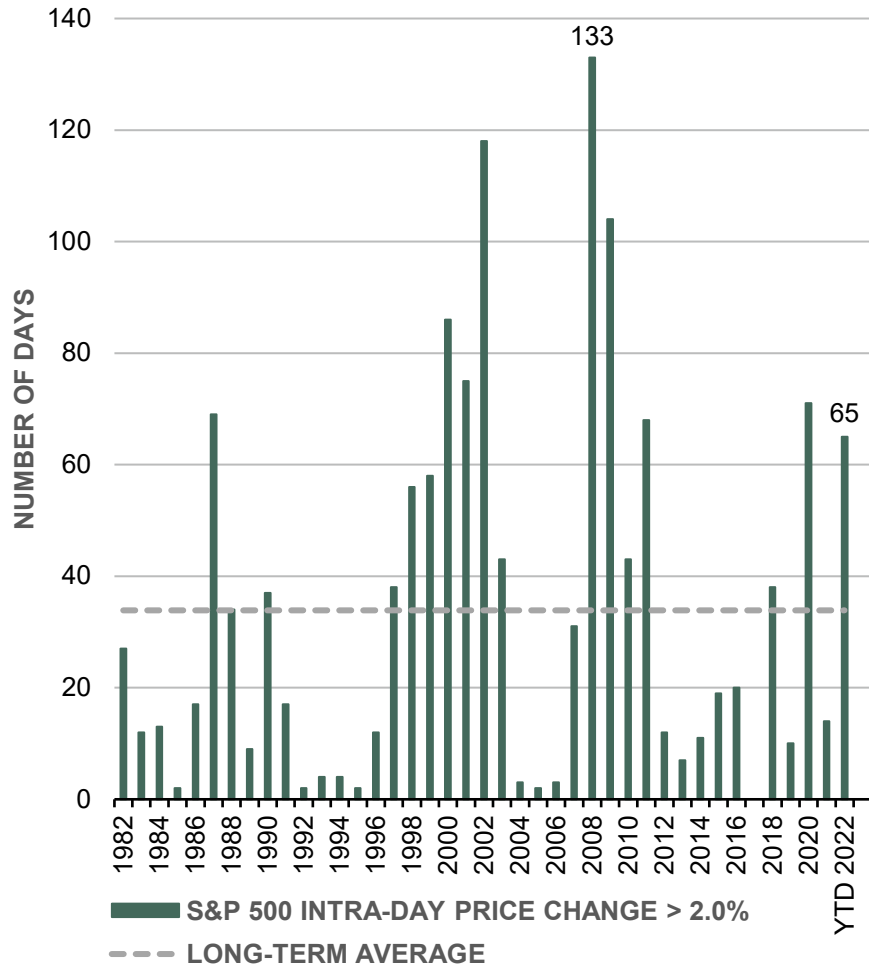
YIELD CURVE INVERSIONS, RECESSIONS, AND THE S&P 500

INVERSION DATE	START OF RECESSION	NUMBER OF MONTHS FROM INVERSION TO RECESSION	S&P 500 CUMULATIVE RETURN FROM INVERSION TO RECESSION
August 18, 1978	January 1980	17	15.8%
September 11, 1980	July 1981	10	11.6%
December 27, 1988	July 1990	19	35.7%
June 8, 1998	March 2001	34	15.2%
December 27, 2005	December 2007	24	21.1%
AVERAGES		20.8	19.9%

INVERSION DATE	START OF RECESSION	NUMBER OF MONTHS FROM INVERSION TO RECESSION	S&P 500 CUMULATIVE RETURN FROM INVERSION TO RECESSION
August 28, 2019 *	February 2020	6	3.3%

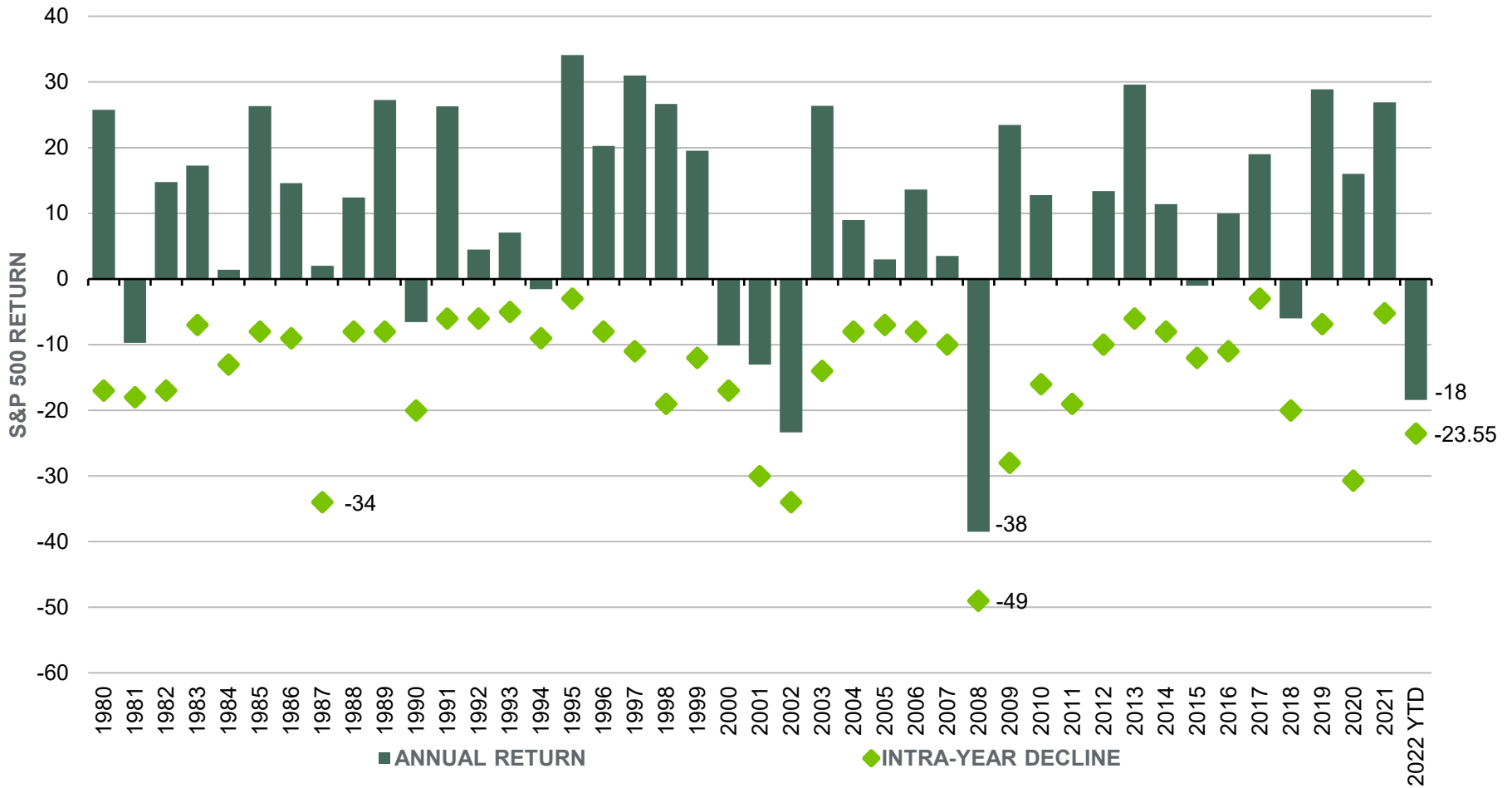
* The Yield Curve inverted briefly by 3 bps, which is generally not a strong signal, but we did experience a very short Covid induced recession beginning on February 28, 2020. The S&P 500 was up 18.3% from August 28, 2019 until its peak on February 19th. In this case, there is no way to know if that August inversion was signal or noise.

EVEN WITH VOLATILITY INVESTORS BENEFIT FROM BEING IN THE MARKET



Source: Godsey & Gibb Research, Bloomberg

INTRA-YEAR DECLINES ARE TYPICAL, NEGATIVE RETURNS ARE NOT



Source: Godsey & Gibb Research, Bloomberg



Questions?

**PLEASE CONTACT YOUR ADVISOR
OR EMAIL US AT:**

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