SECURITY NATIONAL BANK
PRIVATE CLIENT SERVICES

Current Forecast

	2021	**2022**	**2023 Est**	**2024 Est**
GDP Growth (1)	5.7%	0.9%	0.2%	0.4%
Change in Consumer Prices (2)	7.1%	6.4%	3.3%	2.0%
Fed Funds Target Rate (3)	0.25%	4.50%	5.75%	3.75%
5-Year Treasury Yield (3)	1.26%	4.00%	4.25%	4.00%
10-Year Treasury Yield (3)	1.51%	3.87%	4.25%	4.25%
S&P 500 EPS	$206	$217	$203	$235

Security National Bank's Wealth Management team in the bank's Private Client Services division forecasts that U.S. economic growth will be modest in 2023 as the U.S. enters a mild recession toward the end of the year. We expect inflation to fall to 2.2% by 4Q2023 as aggregate demand and labor markets soften. We expect the FOMC will raise rates by 0.50% at its March meeting and 0.25% in each of its subsequent two meetings and stay at 5.75% for the rest of the year. The risk of hiking too little outweighs the risk of hiking too much. The yield curve is likely to remain inverted for an extended period. We expect earnings for the S&P 500 to fall by 6% this year.

Last Month's Rates and Total Returns

February 28, 2023	Value	One Month	Year to Date	1 Year
Fed Funds Target (Upper)	4.75%	+25 bp	+ 25 bp	+450 bp
2-Year Treasury Yield	4.80%	+59 bp	+38 bp	+337 bp
5-Year Treasury Yield	4.17%	+53 bp	+17 bp	+246 bp
10-Year Treasury Yield	3.92%	+39 bp	+4 bp	+208 bp
Freddie 30-Year Mortgage	6.65%	+52 bp	+23 bp	+293 bp
S&P SuperComposite 1500	912	-2.37%	4.01%	-7.19%
S&P 500 Index	3,970	-2.44%	3.69%	-7.69%
S&P Midcap 400	2,601	-1.83%	7.25%	-0.62%
S&P SmallCap 600	1,249	-1.23%	8.15%	-3.50%
S&P 500 Growth	2,440	-1.94%	3.57%	-16.45%
S&P 500 Value	1,484	-2.98%	3.81%	1.47%
World ex-US, net *	262	-3.51%	4.32%	-7.19%
Wilshire Liquid Alts	176	-0.89%	1.16%	-2.69%
BB U.S. Aggregate	89	-2.59%	0.41%	-9.72%
Crude Oil – WTI Near Term	$77	-2.31%	-4.00%	-19.50%
Commodity Index	106	-4.70%	-5.17%	-4.72%
FT Wilshire Bitcoin	23,553	1.88%	42.30%	-40.35%
Gold – Near Term	$1,829	-5.21%	0.53%	-3.71%
U.S. Dollar Index	105	2.72%	1.30%	8.44%

**= MSCI ACWI ex the US*

Prepared by Damian Howard March 10, 2023

Security National Bank (SNB)'s Wealth Management team authors a monthly economic forecast that provides our Investment Committee and the Bank's Funds Management Committee with background assumptions for use in investment decisions. We are pleased to share our economic outlook with you. Please be advised that our crystal ball is just as clouded as other prognosticators and that all forecasters have poor track records. Our projections are based on what we think monetary and fiscal policymakers *will* do, not what they *should* do. Abbreviations and terms used are listed at the end of the report.

Welcome to Lauren Mozur

February saw the addition of Lauren Mozur to our wealth management team. Ms. Mozur has more than 12 years of experience in trust administration, investment analysis and portfolio management, most recently with a regional bank in Dallas. We look forward to benefiting from Lauren's insight and perspective on asset allocation and securities selection.

Stock Market

Over the last several months, the economic narrative has shifted from a pending recession to a soft landing, then to an overheating economy. Recent economic data has been stronger than anticipated. This has raised expectations for additional FFR hikes and for short-term interest rates to remain elevated longer. This also raises the risk of a monetary policy-induced recession and financial missteps like that experienced by SVB Financial Group (SIVB).

Higher interest rates generally put downward pressure on stock prices, and February was no exception. Global stock and bond markets retreated slightly in February, giving back a third of January's strong gains. The broad-based S&P1500 has returned 4.0% YTD and 12.1% since its October 12, 2022, bottom.

The stock market has posted stellar long-term returns despite the recent bear market.

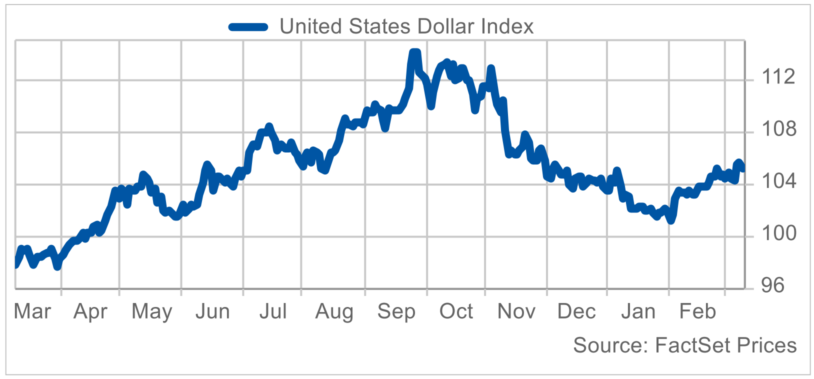
S&P 1500 Annualized Total Return						
One Year	Three Years	Five Years	Seven Years	Ten Years	Fifteen Years	Twenty Years
-7.2%	12.3%	6.9%	12.8%	12.1%	9.8%	10.4%

The top-performing sector was Information Technology (up 0.5%), while the worst showing came from Energy (down 7.1%). Year to date, the top-performing sector was Consumer Discretionary (up 12.6%), while the worst-performing sector was Utilities (down 7.8%)

International Stock Returns

In response to higher interest rates. The U.S. dollar strengthened during the month. Local currency outperformance was eliminated when translated into U.S. dollars. Foreign returns were worth less when translated back into U.S. dollars.

Europe will likely avoid an energy crisis and a recession. Herculean conservation efforts and a warm winter have significantly reduced natural gas demand and postponed an energy crisis. China abruptly abandoned its Zero-Covid policy in December, allowing the economy to reopen. Like the U.S., Chinese consumers have amassed significant savings after two years of lockdown and are in a spending mood, which should stimulate Asia Pacific economies boosting global commodities demand.



Interest Rates
Yields rose across the Treasury curve in February, rising the most in the two-year segment. Better-than-expected January economic statistics fueled the rate increase. The 10-year yield closed the month at 3.92%, up 0.39% from January but near where it started the year.

Our Outlook in a Nutshell
Now more than ever, the FRB is data dependent, which only works if the data is reliable and timely. In January, the data told us that headline inflation was 1.8%, and core inflation was 3.1% during the fourth quarter of 2022. These numbers were revised. Current estimates have headline inflation of 3.3% and core inflation of 4.3%. Inflation is now 1.5% higher than originally thought. Revisions to the number of employed persons added 813,000 persons, increasing the number of people working by 0.5% Other economic data has subsequently been revised higher. The data revisions and a series of economic reports coving January activity changed the narrative in February. The narrative changed from recession watch to the economy may be overheating.

We caution that recent data may be revised lower. The U.S. enjoyed an unseasonably warm January, the fourth warmest January in the last thirty years. The warm weather may have impacted the seasonal adjustments in various January statistics. Seasonal adjustments are typically large in the first quarter and can overstate economic activity when the weather is unseasonable. We will look for further confirmation in February and March economic data before we discard our recession call. Until the data is further refined, we will assume it is accurate.

We continue to forecast a mild recession starting at the end of the year. Multiple indicators point to a pending recession.

- Inverted yield curve
- Higher short-term rates
- Weak manufacturing PMI surveys
- Weak housing market
- Leading indicators
- Money supply contraction
- Depressed consumer expectations
- Lower corporate profits

Offsetting recession indicators are the following factors.

- Strong labor markets
- Resurgent Services PMI
- Strong consumer finances

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We continue to believe the yield curve is correct in signaling a recession. Head fakes and false signals usually precede economic turns. We will not know if the recent economic strength is due to seasonable adjustments or true economic momentum for a few months. We also acknowledge an increasing probability that the U.S. will avoid a recession. The risks to our Outlook are to the upside, stronger economic growth.

Meeting Date	Fed Funds Futures	SNB Forecast
Current	4.75%	
March 22	5.00%	5.25%
May 3	5.25%	5.50%
June 14	5.50%	5.75%
July 26	5.50%	5.75%
September 20	5.50%	5.75%
November 1	5.25%	5.75%
December 13	5.25%	5.75%
January 31	5.00%	5.75%
March 20	4.75%	5.25%
May 1	4.50%	4.75%
June 19	4.25%	4.25%
July 31	4.00%	3.75%
Data as of 03/08/23		
The upper end of the range		

Interest Rate Policy
By March, the FRB will have raised rates by 5.0% over one year. It takes twelve to eighteen months for monetary policy to impact the broad economy and inflation statistics. Outside of a few sectors, such as housing, crypto, and investment portfolios, the impact of higher rates has only started to show. Much of the effects of rising rates are yet to come. The FRB would rather err on raising rates too high than let inflation become entrenched. Both employment and inflation are lagging indicators.

In his prepared remarks to the Senate Banking Committee on March 7, FRB Chair Powel stated that the terminal FFR "is likely to be higher than previously anticipated" considering the recent growth and inflation data. We currently forecast the FOMC will raise rates by 0.50% on March 22. We now forecast the terminal FFR at 5.75%, primarily from higher, revised inflation and employment data.

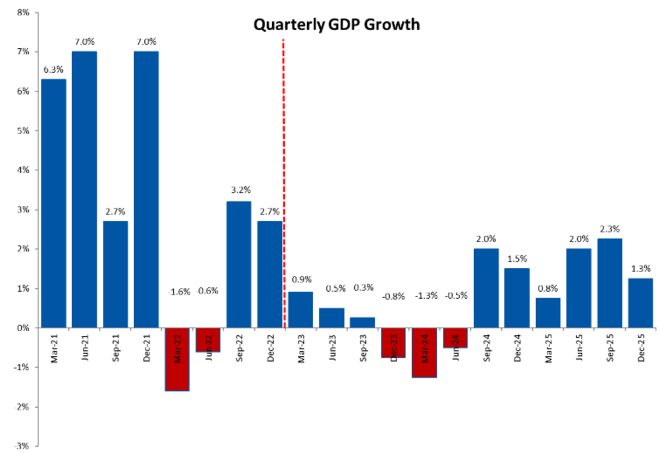
Over the last month, the Fed Funds Futures market has increased the terminal FFR from 5.25% to 5.75% then back to 5.50%. Last month, the December 2024 FFR was forecasted to be 4.50%. Prior to the jobs report, the futures market implies a 5.75% FFR. The current implied rate is 5.25%. There are substantial swings in rate expectations. We expect expectations to remain volatile.

The final major economic report before the March 22FOMC meeting will be the CPI report on March 14. Rate expectations will remain volatile.

Economic Forecast
On February 23, the U.S. Bureau of Economic Analysis released the second estimate of 4Q22 economic growth. Headline growth slowed from 3.2% in 3Q2022 to 2.7%. Core growth slowed from 0.9% to 0.1%. Core GDP strips out the highly volatile sectors of inventories, net exports, and direct government purchases. The collapse in residential construction subtracted 1.2% from core growth.

Contribution to GDP Growth Trends								
	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q2022
PCE - durable goods	3.2	0.9	(2.2)	0.4	0.6	(0.2)	(0.1)	(0.2)
PCE - nondurable goods	2.1	1.7	0.3	0.1	(0.7)	(0.4)	(0.0)	-
PCE - services	1.7	5.2	3.9	1.6	0.9	2.0	1.6	1.1
Business Investment - Structures	0.0	(0.1)	(0.2)	(0.4)	(0.1)	(0.3)	(0.1)	0.2
Business Investment - Equipment	0.4	0.7	(0.1)	0.1	0.6	(0.1)	0.5	(0.2)
Business Investment - IP	0.8	0.6	0.4	0.4	0.5	0.5	0.4	0.4
Homes	0.5	(0.2)	(0.3)	(0.1)	(0.2)	(0.9)	(1.4)	(1.2)
Core GDP	**8.7**	**8.9**	**1.8**	**2.3**	**1.7**	**0.5**	**0.9**	**0.1**

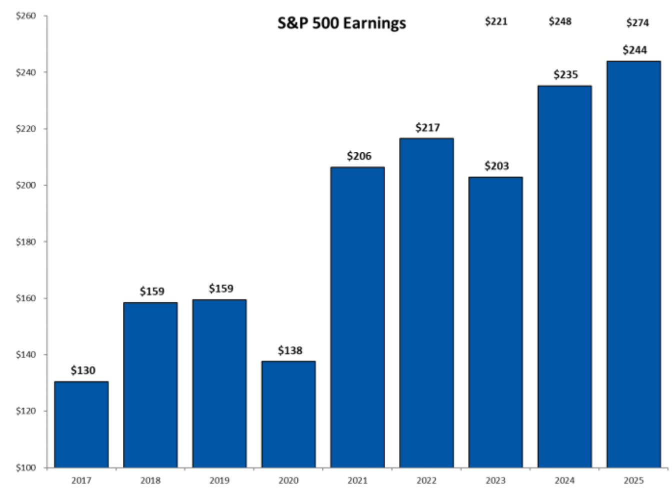
We expect the drag from residential construction to lessen in the first quarter of 2023 and economic growth to be 0.90%. Most economist peg non-inflationary growth at around 1.8%. Sustained economic growth below this rate is viewed as non-inflationary. We expect growth to remain below 1.8% for six consecutive quarters, in line with the FRB's goal.



We shifted the start of the recession to 4Q2023 from 3Q2023. We adjusted our forecast based on the continued strong labor market, improved prospects in Europe and China, and the recent services PMI report. The recession will also be shallower than previously thought.

Corporate Earnings

Estimates for 2023 S&P 500 earnings have decreased slightly over the last month from $225 to $221, a decrease of 2%. While analysts have reduced expected earnings, the reduction is not that different than what is typically seen. We currently forecast $203 for 2023 S&P 500 EPS, 8% below consensus. We had expected earnings estimates to have fallen further as CFOs update their guidance during earnings calls. So far, the outlook is better than we expected. The chart shows our current forecast and the higher consensus expectations. As usual, we are more cautious than consensus. At 4,000, the S&P 500 Index trades at 16 times the 2024 consensus earnings forecast and 17 times our earnings forecast. The multiples are in-line with of long-term averages but above typical recessionary multiples of 14 to 16 times. This increases the risk of another market downturn.



Please contact our Security National Bank Private Client Services team with any questions or comments about our Outlook.

Damian Howard, CFA
SVP, Director of Wealth Management

Lauren Mozur
Wealth Advisor

Please see the obligatory disclosures at the bottom of each page and the end of this report.

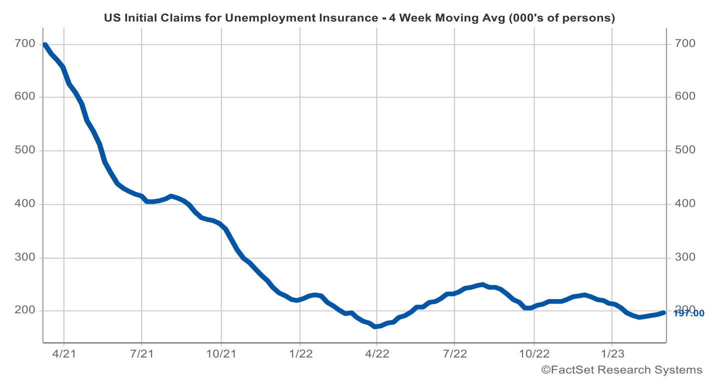
Since 1977, the Federal Reserve has operated under a mandate from Congress to "promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates" – commonly referred to as the Fed's "dual mandate." For this reason, we always start our economic review with employment followed by inflation. We then review other factors that drive our financial outlook.

Employment

Employment is a lagging indicator, which means it usually softens after a recession begins. It takes a lot of money and effort to attract and retain employees, especially in this environment. Employers wait to let staff go until falling revenue forces them to cut costs. Declining revenues are usually only evident once the recession has run for a few months.

The labor market remains too strong for the FRB's comfort. The FRB would like to see wages grow below a 3.5% pace. Currently, wages are increasing at a 3.6% pace, down from a 4.9% pace two months ago. Sustained slower wage growth may require a recession and higher unemployment. We expect unemployment will rise to at least 5.5%. This implies an additional 3.2 million or more unemployed persons.

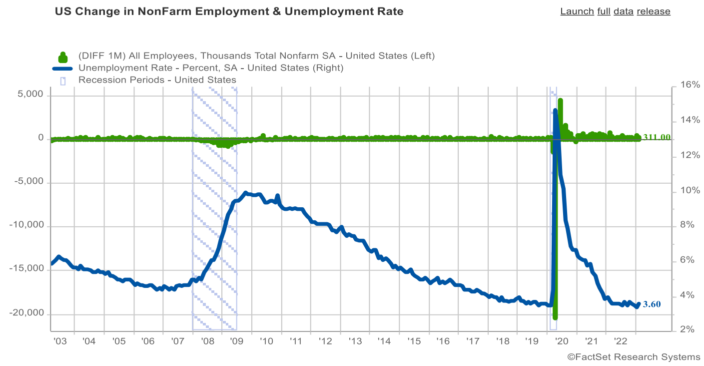
We begin our employment review by looking at the Jobs Openings and Labor Turnover Report. (JOLTs) published by the BLS. This gives us an idea of how big a cushion the economy has before employment is impacted. Companies will first cut open positions before actual employees. The January JOLTs report indicated that open positions fell by 410,000 to 10.8 million. Open positions were 244,000 above consensus expectations. 6.9% of private sector jobs remain unfilled versus 7.1% the previous month. The available positions decreased the most in construction (down 240,000) and leisure and hospitality (194,000). The private sector quit rate fell to 2.8% from 2.9% the previous month. The private sector layoffs and discharges rate rose to 1.2% from 1.0% the previous month. We look for the quit rate to fall and the layoff rate to rise before the unemployment rate rises. The JOLTs report points to a slight weakening but continued strong labor market. Labor markets showed some movement toward the FRB's goals.



We also watch the initial weekly claims figure for early warning of a weakening jobs market and a potential recession. Unemployment insurance claims remain remarkably low. For the week ending March 3, initial jobless claims were 211,000, above the consensus forecast of 196,000, bringing the four-week average to 197,000. Weekly jobless claims signal that the labor market remains strong. Workers who lose their job have been able to find work quickly. Continuing claims rose to 1.71 million persons from 1.68 million persons four weeks ago. This report marked the highest weekly initial claims since December 31, 2022. The claims data points to a softening but still robust labor market and additional movement toward the FRB's goals.

The BLS reported that the economy added between 177,000 and 311,000 jobs in January. The Establishment survey puts the job gains at 311,000 versus the consensus estimate of 215,000 jobs added. The Household survey puts the job gains at 177,000. The previous two months' Establishment survey payrolls were revised lower by 34,000. The unemployment rate rose to 3.6% as the number of unemployed persons increased by 242,000, and the labor force rose by 419,000 persons. The participation rate rose by 0.1% to 62.5%. Hourly earnings rose 0.24%, below the consensus estimate of 0.40%. The three reports showed some progress in cooling the hot labor market. Some of the pressure on the FRB to overtighten has diminished.

The private sector added 265,000 jobs versus the consensus estimate of 227.5,000 private-sector jobs and the six-month average of 292,000, with notable gains in leisure and hospitality (105,000 jobs added), retail trade (50,000 jobs added), professional services (45,000 added), and healthcare (44,000 jobs added).



The information industry lost 25,000 of jobs. Employment in information has decreased by 54,000 since November 2022. Transportation and warehousing lost 22,000 of jobs in February. Employment in transportation and warehousing is down by 4,000 since October 2022.

The unemployment rate rose to 3.6% from 3.4% last month. Last month's number was the lowest since May 1969. The number of officially unemployed persons increased by 243,000 to 5.9 million. The broader U-6 unemployment rate rose 6.8% from 6.6% the previous month. There are 1.8 job openings for every unemployed person, down from 2.0 the previous month.

The participation rate rose by 0.1% to 62.5%. The participation rate was 63.3% in February 2020. The employment-to-population ratio held steady at 60.2%. This number was 61.1% in February 2020.

Last month's average hourly earnings (wages) rose by $0.08 per hour to $33.09, up 0.24%, below the consensus estimate of 0.40%. Average hourly earnings are up $1.46 per hour, or 4.62% Y/Y. Over the last three months, average hourly earnings grew at a 3.6% pace versus 4.4% last month and 4.9% the month before. The FRB would like to see wage growth in the 3.5% range. The pace of wage growth appears to be slowing. Mix shift has influenced the slowdown in wages. The leisure and hospitality sector is growing faster than total private sector employment but pays relatively low wages, 63% of total private sector wages. This lowers overall wage levels.

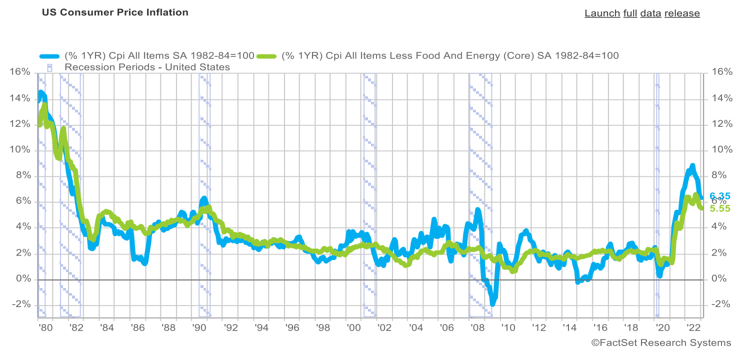
The average workweek fell by 0.1 to 34.5 hours, and last month's workweek was revised lower by 0.1 hours. Slowing hours worked is a classic sign of a slowing labor market. Companies typically reduce hours worked before laying off staff. The average work week is down 0.6% Y/Y.

Average weekly earnings fell by $0.54 or 0.05% from the previous month, as a shorter workweek offset any wage gains. Average weekly earnings are up $44.05 (4.01%) Y/Y. Average weekly earnings were $1,142 ($59,364 annualized).

The labor market remains strong but is slowing. This week's labor market report moved in the right direction. Wage growth slowed enough to reduce some of the pressure on the FRB to make an oversized increase in the FFR at its March meeting. Immediately after the report's release, the odds of a 0.50% FFR increase fell from 68% to 41%. We continue to expect the FOMC to increase the FFR by 0.50% in March 2023. We also expect a recession later this year.

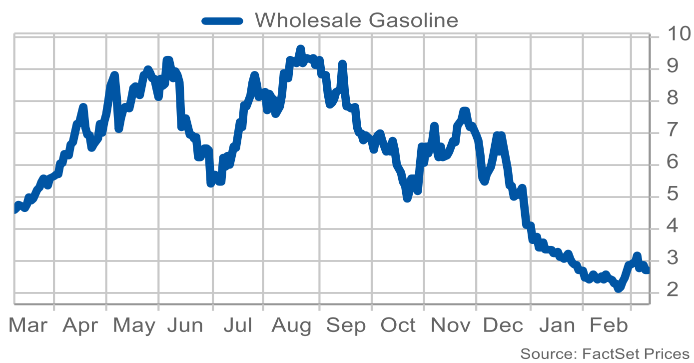
Inflation

The most recent data is from January. The U.S. Bureau of Labor Statistics will release the February Consumer Price Report on March 14. Progress on the inflation front slowed a bit in January.



During the last three months of 2022, we reported headline inflation of 1.8% and core inflation of 3.1%. These numbers were revised, showing headline inflation of 3.3% and core inflation of 4.3%. Last year's progress was less impressive than previously thought. Revised data now indicate inflation is stickier than previously thought.

The Consumer Price Index (CPI) rose 0.5% in January and 3.5% on a TMA. Core prices rose 0.4% in January and were up 4.6% TMA. Consensus expectations were for a 0.5% m/m increase in headline inflation and a 0.4% increase in core inflation. The significant revisions to previous reports disappointed investors.

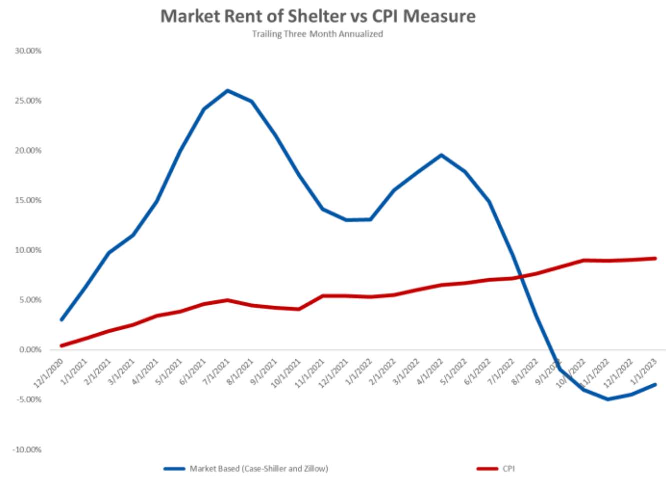


Energy prices rose 2.0% as utility bills increased 6.7%. The mid-year spike in natural gas prices boosted utility bills. Natural gas prices since have fallen. This should ease utility prices this summer. We forecast that energy prices will decrease by 0.4% in the February CPI report and an additional 0.4% in the March report.

Food prices rose 0.5% and are up 6.2% TMA. We forecast that food prices will increase another 0.5% in the February CPI report and an additional 0.4% in the March report. Energy costs are a significant influencer of food prices. Producing, processing, transporting, and selling food takes substantial energy. Energy prices have been moderating since the summer; this should help alleviate cost pressures in food production.

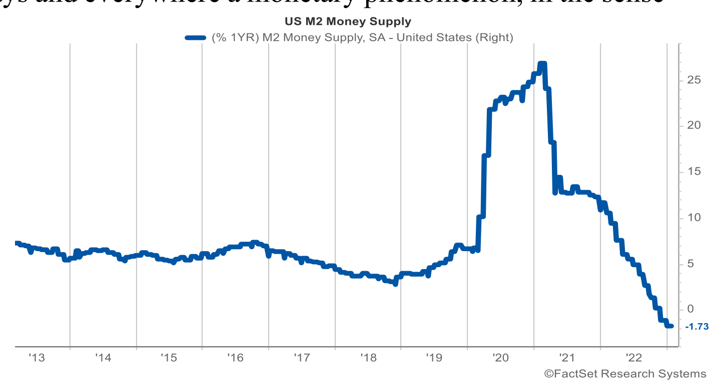
The core CPI rose 0.4% and runs at a 4.6% TMA. We forecast core prices will increase another 0.3% in the February CPI report and another 0.3% in the March report.

Goods prices rose 0.1% but are down 1.2% TMA. New and used car prices are a significant swing factor in goods inflation. The most recent (February) Manheim Used Vehicle-Price Index was up 7% YTD but down 7% Y/Y. While used car prices are down from their pandemic highs, pricing started the year higher on higher demand and less supply. The factory shutdowns in 2020 and 2021 are impacting used car availability. New car prices are 20% of the goods category, and used car prices are 13%. We forecast that goods prices will hold steady in February and subsequent months.

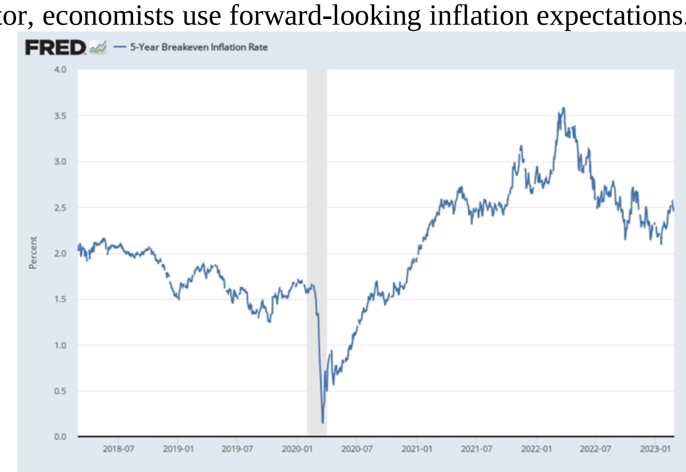


CPI rent of shelter increased by 0.8% and is up 8.0% Y/Y. According to Zillow Research, new lease apartment rents fell 0.1% m/m but rose 6.9 Y/Y in December. Rental inflation peaked in February at 17% Y/Y and is rapidly decelerating. Rapidly decelerating shelter inflation is also evident in the existing home prices. The S&P/Case-Shiller Home Price Index fell 0.5% in December (the sixth straight decline). Due to the nature of data collection, shelter CPI lags current conditions. Using an average of Zillow and Case-Shiller data as a current market-based measure, rent of shelter inflation is flat m/m versus the reported 0.8% increase. The CPI rent vastly understated shelter inflation in 2021 and the first half of 2022. It is now overstating shelter inflation. Shelter rent is 32% of the overall CPI basket, so the lag does have a material impact on reported CPI. We forecast services prices will rise by 0.5%% in the February CPI report and an additional 0.5% in the March report.

Milton Friedman famously said: “Inflation is always and everywhere a monetary phenomenon, in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output.” Much of today’s inflation was caused by the rapid growth of the monetary supply in 2020 and early 2021, when growth peaked at over 25%. The FRB slammed on the brakes in 2022, with the money supply shrinking by 1.3% Y/Y. During 2020 and 2021, the money supply increased faster than output, leading to inflation. The shrinking money supply should lead to disinflation. The stagnant money supply heightens the risk of a global liquidity crisis and increases the odds of a financial misstep such as SVB.



Because inflation statistics are a lagging indicator, economists use forward-looking inflation expectations. The Breakeven Inflation Rate implies what market participants expect inflation to be in the next five years, on average. The 5-Year Breakeven Inflation Rate peaked at 3.60% in March 2022. Since then, interest rates have risen significantly, leading to lower stock prices, tighter financial conditions, and slower economic growth. The slower growth has led to lower inflation expectations. Inflation expectations have fallen dramatically to the current 2.5%.

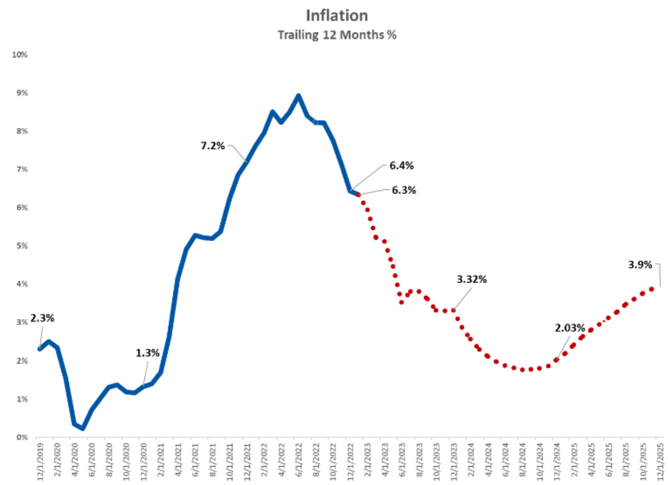


The 5-Year, 5-Year-Forward Inflation Expectations rate has remained in a narrow

2.2% to 2.4% band and is currently at 2.2%. This rate implies that market participants believe inflation will average 2.2% from 2028 thru 2032.

The graph on the right shows our most recent inflation forecast. We forecast a relatively rapid decline in inflation. We project that inflation will average 4.8% during the first quarter and 2.2% during the fourth quarter. The FOMC will likely begin an easing cycle in early 2024.

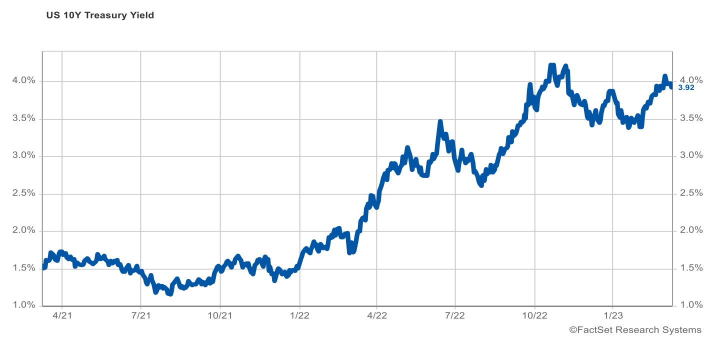
Commodity scarcity, deglobalization, and the shift to zero-carbon will cause inflation to be more volatile. Inflation pressures will likely return in late 2024 and 2025 as the economy recovers from the recession leading to another tightening cycle.



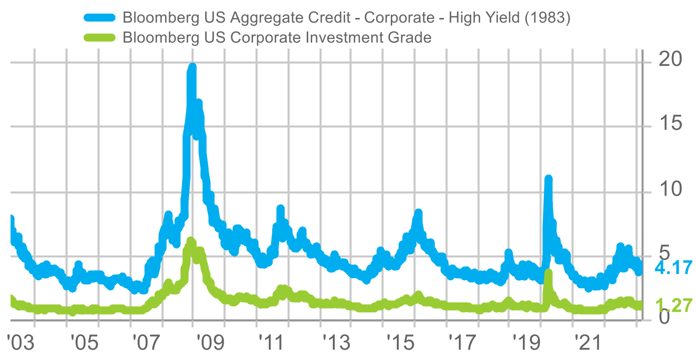
The era of low and stable interest rates is over. Inflation and interest rates will be more volatile for the remainder of the decade. Interest rate and inflation cycles will be shorter in duration. Investors will need to be more agile. Long-duration portfolios will see significant swings in value. However, fixed-income investors will be compensated with interest rates that exceed inflation.

Interest Rates and Credit Markets

Yields rose across the Treasury curve in February, rising the most in the 2-year segment. The 10-year yield closed the month at 3.92%, up 0.39% from January, but little changed since the start of the year. Better-than-expected January economic statistics fueled the rate increase. The futures market increased the terminal FFR by 0.25% and erased the expected easing before the year's end.



Credit spreads remain relatively tight. The investment grade spread is currently 1.27%, down from 1.65% in mid-October. During periods of economic stress, investment grade spreads often widen to above 2.00%. The high-yield spread is currently 4.17%, down from 5.61% at the end of September. During periods of economic stress, high yield spreads often widen to above 8.00%. The credit markets remain remarkably calm. Credit spreads are pricing in a very shallow recession at worst.

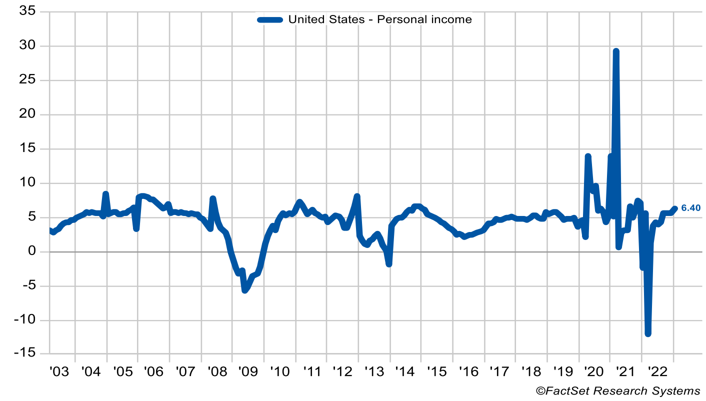


The 10-Year/2-Year yield curve remains inverted by 1.0%. A deeply inverted yield curve has been a reliable indicator of a pending recession. On the other hand, credit spreads and one-year forwards rates do not signal a recession. We are still forecasting a recession this year but must acknowledge that recent movements in interest rates and tight credit spreads put this call into question. As always, we will adjust our forecast as additional data becomes available.

The Consumer Sector

Consumers continue to dip into their savings and increase credit card borrowings to fund purchases. This has the effect of boosting current economic growth at the expense of future consumption.

Personal income rose by 0.6% in January. Social Security payments increased an outsized 9% m/m, and multiple states increased their minimum wage. Consensus expectations were for a 0.9% increase. Personal consumption rose 1.8%, above the consensus expectations of a 1.1% increase. The PCE Price Index (PCE Inflation) rose 0.6%, above the consensus expectation of a 0.5% increase.



Personal income rose 0.6% m/m and was up 6.4% Y/Y. Disposable personal income rose 2.0% m/m and was up 8.4% Y/Y. The large difference between disposable personal income and total personal income is due to a 7.9% m/m and 5.1% Y/Y decline in personal taxes. The statisticians at the BEA forecast lower capital gains taxes will be paid after last year's horrible equity and fixed-income returns. Personal income, excluding government transfer payments, rose 0.7% m/m and 7.0% Y/Y. Private sector wages and salaries were up 1.0% m/m and 8.4% Y/Y. Business owners' income was up 0.4% m/m and 6.6% Y/Y. Investment income was up 0.5% m/m and 5.3% Y/Y.

PCE Inflation rose 0.6% m/m and is up 5.4% Y/Y. Real income was flat during the month and was up 1.0 Y/Y. Real disposable personal income per capita was up 1.4% m/m and 2.3% Y/Y. Real disposable personal income per capita has been rising for seven consecutive months. Consumers are benefiting from the strong labor market and moderating inflation. Rising real disposable income is fueling consumption and economic growth.

Personal Consumption Expenditures			
	Nominal	Inflation	Real
Durable Goods	5.5%	0.3%	5.2%
- Motor Vehicles and Parts	11.4%	-0.4%	11.9%
Non-Durables	1.2%	0.8%	0.5%
- Gas and Energy	-0.2%	2.0%	-2.2%
Services	1.3%	0.6%	0.6%
- Household Utilities	-2.8%	1.7%	-4.4%
Total	**1.8%**	**0.6%**	**1.1%**
Data for January 2022 m/m			

Personal consumption expenditures (PCE) were up 1.8% for the month versus down 0.1% the previous month. On a real basis, after subtracting out the impact of inflation, consumer expenditures were up 1.1% m/m compared to flat the previous month.

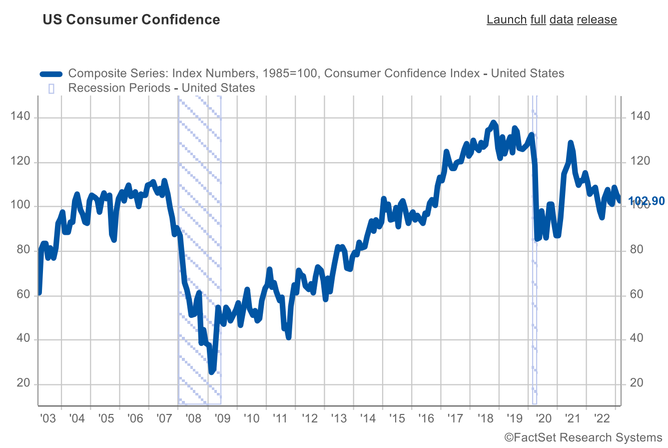
Purchases of durable goods rose by 5.5% m/m, led by an 11.4% increase in motor vehicles and parts. On a real basis, spending rose by 5.2%, led by an 11.9% increase in motor vehicles and parts. Light vehicle sales rose to a 15.7 million pace in January versus a 13.4 million pace reported the previous month.

Purchases of non-durable goods rose by 1.2% m/m, despite a 0.2% decline in gas and energy purchases. On a real basis, spending rose by 0.5%, despite a 2.2% decline in gas and energy.

Consumers took much of the pandemic stimulus and purchased things. The chart on the right shows the extent of this excess consumption. We continue to consume at a pace slightly higher than the trend. Recently rising real personal income has fueled a resurgence in real goods purchases, especially light vehicles. The easing of supply chain constraints has allowed supply to catch up to demand. We expect goods demand, outside of automotive, to remain soft.

Consumers saved 4.7% of disposable income during the month, despite consumption growing faster than income. This is a result of the reduced taxes outlined above. While up from the 2.7% reported in June 2022, the savings rate remains significantly less than the 7.4% savings rate that prevailed before the pandemic.

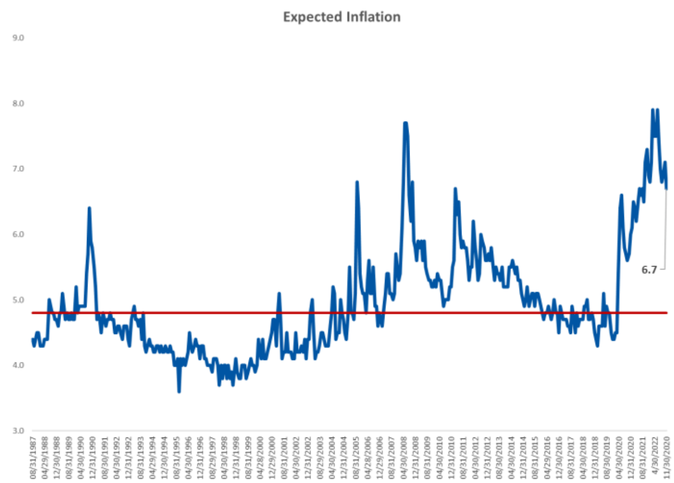
The Consumer Confidence Index, compiled by the Conference Board, fell 3.1 points to 102.9. Consumers' perception of their present situation improved slightly. The present situation component rose 1.7 points to 152.8. The forward-looking expectation component fell by 6.3 points to 69.7. In general, consumers are feeling complacent about their current situation. They are, however, very apprehensive about where the economy is heading.



Consumers' perception of the labor market remains strong. The current conditions net employment sub-index (plentiful - hard to get) rose to 41.5 from 37 the previous month. Consumers' outlook for future employment conditions worsened as the net sub-index (more jobs – fewer jobs) fell to -5.8 from -3.7 the previous month. Continued strength in labor markets has mitigated the negative impact of recession worries and expectations of increased unemployment.

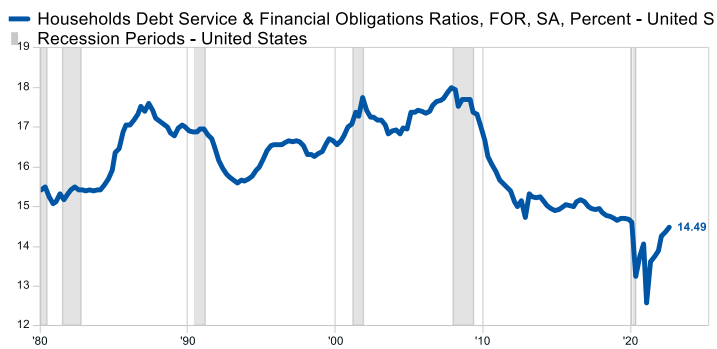
Respondent's perception of current business conditions remained steady as the net sub-index (good-bad) fell to 0.1 from 0.9 the previous month. Consumers' outlook for future business conditions worsened as the net sub-index (better – worse) fell to -7.7 from -4.2 last month. Like the labor market, consumers believe business conditions are good but likely to worsen.

The Conference Board started asking consumers about inflation expectations in 1987. Consumers' expectation for inflation for the next twelve months continues to moderate. Consumers forecast inflation will be 6.3% in twelve months versus the 7.9% reported in June 2023 and the 4.8% long-term median. The FOMC is making progress in moderating inflation expectations. While lower than the recent peak, expectations are above the long-run average. Returning expectations to the long-run average may take a recession.



Only 60% of homeowners have a mortgage; of that, 85% of homeowners with mortgages have a rate below 5%. Less than 10% of homeowners pay above 5% on their mortgage. It will take a while for higher rates to impact household budgets. Please see the household debt service and financial obligations ratio (DSR) chart. DSR is the ratio of total required household debt payments, rent, auto lease payments, homeowners' insurance, and property tax payments to total disposable personal income. DSR has returned to pre-pandemic levels but remains near generational lows.

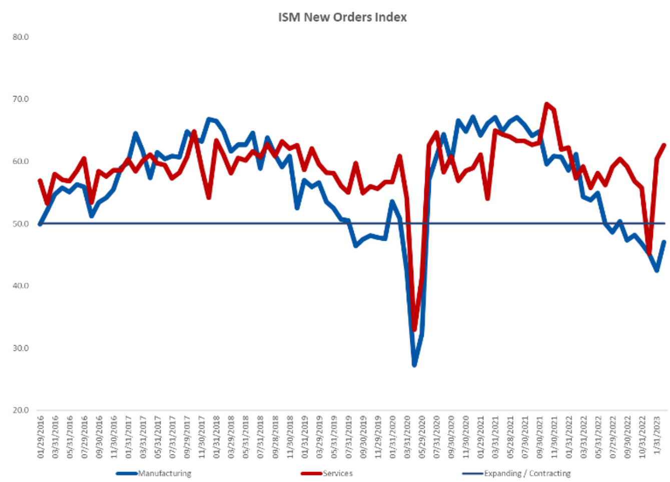
Labor markets remain strong. Household balance sheets, while weaker, remain strong. Consumers should be able to weather the coming recession without significant permanent damage, unlike the Great Financial Crisis, where significant permanent damage was done to household balance sheets. This should make the impending recession shallower and shorter than the one experienced during the Great Financial Crisis.



The Business Sector

The Institute for Supply Management (ISM) reports monthly on activity in the manufacturing and non-manufacturing (service) sectors. The reports are sentiment-driven and can be influenced by current events. Nonetheless, they do provide real-time clues to what is happening.

The manufacturing sector continues to signal a manufacturing recession with falling demand, prices, and supply chain normalization. Contrary to manufacturing, the service sector continues to expand. Input pricing pressures continue in the service sector and have returned to the manufacturing sector. This points to continued cost pressures and profit margin degregation.



The New Orders Index is a leading indicator for the ISM Activities Index and the economy. This chart supports a manufacturing recession but muddies the water regarding the service sector. In December, both manufacturing and non-manufacturing new orders indices contracted. In January and February, new orders rebounded for the service sector but continued to soften for the manufacturing sector. This indicates continued weakness in manufacturing but continued strength in the service sector.

December's non-manufacturing index fell 0.1 points to 55.1, higher than the consensus expected 54.5. Growth widened as thirteen industries reported growth versus ten last month.

Non-Manufacturing Sector	Direction	Rate of Change
Business Activity / Production	Growing	Slower
New Orders	Growing	Faster
Backlog of Orders	Growing	Slower
Employment	Unchanged	From Contracting
Supplier Deliveries	Growing	From Unchanged
Customer Inventories		
Non-Manufacturing Sector	**Growing**	**Slower**
Industries Expanding	13	+3
Industries Contracting	4	-4

The business activities/production component decreased by 4.1 points to 56.3 after surging by 6.9 points last month. Fourteen industries reported an increase in business activity for the month. Two industries reported a decrease in activity. Current activity in the services sector is strong and strengthening, and broad-based.

The new orders component rose 2.2 points to 62.6. Fourteen industries reported an increase in orders. Three industries reported a decrease in orders. Order books remain stable, and the backlog of orders component eased by 0.1 points to 52.9. Five industries reported an increase in backlogs. Seven industries reported a decrease in order backlogs. Strong growth in new orders with steady order backlogs points to continued strength.

The employment index rose by 4.0 points to 54.0, indicating that the pace of hiring quickened in January. Comments from respondents indicate a growing uncertainty about expanding payrolls.

The supplier deliveries component is an inverse indicator. A higher number indicates increasing lead times and difficulty obtaining supplies. A reading above 50 percent indicates slower deliveries, while a reading below 50 percent indicates faster deliveries. The supplier deliveries component fell by 2.4 points to 47.60. Only three industries reported slower deliveries. Ten industries reported faster deliveries. The percentage of respondents reporting slower deliveries fell to 6.2%, while the percentage reporting faster deliveries fell to 11.1%. Supply chains continue to normalize. This has enabled companies to meet increased orders without lengthening backlogs.

Prices paid for materials and services worsened at a slower pace. The price component fell by 2.2 points to 65.6. Sixteen industries reported higher costs. One industry reported lower costs. 5.1% of respondents reported lower prices, down 2.8% from the previous month. 34.9% reported higher costs, down from 39.4% in the previous month. The non-manufacturing sector has only made slight progress in lowering input costs. Labor is a more significant component of input cost versus materials, and wages continue to rise versus declining material costs. This makes the FRB's task of taming inflation much harder.

Manufacturing Sector	Direction	Rate of Change
Production	Contracting	From Growing
New Orders	Contracting	Faster
Backlog of Orders	Contracting	Slower
Employment	Growing	From Contracting
Prices Paid	Decreasing	Faster
Supplier Deliveries	Faster	Faster
Customer Inventories	Too Low	Faster
Manufacturing Sector	**Contracting**	**Faster**
Industries Expanding	4	+2
Industries Contracting	14	+2

As a frame of reference, a reading above 50 indicates expansion; a reading below 50 indicates contraction. Readings approximating 50 indicate the same level of activity.

The manufacturing index rose 0.3 points to 47.7, slightly worse than the consensus estimate of 48.1. February's report marks four consecutive months in contraction territory after twenty-nine straight months of expansion. The two forward-looking measures (new orders and production) indicate a decelerating industrial sector. Supplier deliveries improved, and input inflation rose. The manufacturing index corresponds to a 0.3% contraction in the GDP. Softness in the manufacturing sector is widespread as only four industries reported faster economic activity, while fourteen reported slower economic activity.

The production component decreased by 0.7 points to 43.7. Comments indicate that producers are pacing current production to retain employees in anticipation of a better second half. Employers are loath to cut staffing levels after having struggled to recruit for the last two years.

The new orders component increased by 4.5 points to 47.0, indicating that new orders are contracting at a slower pace. This marks the sixth month of declining new orders. Three industries reported growth in new orders. Twelve industries reported lower orders. The order backlog subindex increased by 1.7 points to 45.1. Only two industries reported an increase in order backlogs. Twelve industries reported lower backlogs. Both measures point to slowing order books, but the decline may be stabilizing.

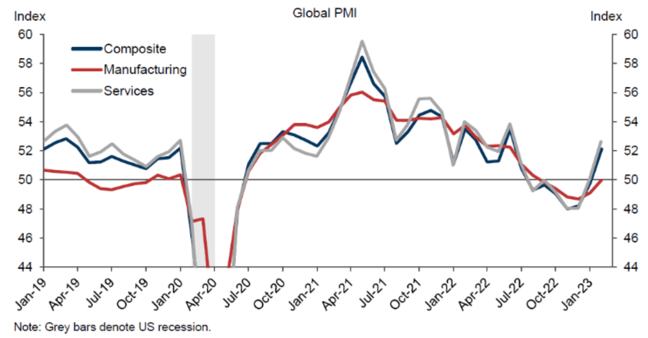
Employment in the manufacturing sector remains steady, fluctuating between contraction and expansion monthly. The employment component fell by 1.5 points to 49.1, indicating steady manufacturing hiring. Six industries reported employment growth. Four industries reported a decrease in employment. Comments suggest that companies retain workers in anticipation of a better second half.

Manufacturing supply chains are caught up to slowing demand. Supplier deliveries to manufacturers improved for the fifth month as the sub-index fell 0.4 points to 45.2. Four of eighteen manufacturing industries reported slower deliveries. Ten industries reported faster supplier deliveries.

The Prices Paid sub-index rose 6.8 points to 51.3, indicating raw material prices are again increasing. The report shows renewed input inflation pressures. 22.1% of respondents reported lower prices versus 29.3% last month. 24.7% of respondents reported higher prices versus 18.2% last month. Eight industries reported increased costs for raw materials. Six industries reported lower prices for raw materials.

Goldman Sachs Global PMI Monitor rose by 2.5 points to 52.1 in February, indicating global expansion. Both the manufacturing and the services component increased. The services component rose to 52.6, indicating stronger activity. The manufacturing component rose by 0.9 points to 50.0, indicating stable activity. The global new orders index increased by 1.4 points to 51.3, indicating increased future activity. Supplier deliveries improved. The input price index improved (fell) but remains in expansion territory. Input inflation remains a concern, just a bit less of a concern.

Exhibit 2: The Global Composite PMI Rose by 2.4pt in February to 52.1; Both the Manufacturing Component (+0.9pt to 50.0) and the Services Component (+2.6pt to 52.6) Increased



Source: S&P Global, Haver, Goldman Sachs Global Investment Research

The odds that the global economy will enter a recession this year have diminished. The most recent batch of economic data indicates that the recession may be shallower than previously anticipated if it were to occur. We will continue to monitor U.S. and global PMI and adjust our forecast as necessary.

Abbreviations and other Terms Used

This report will use FRB for the Federal Reserve Bank, FOMC for the Federal Open Market Committee, and BLS for the Bureau of Labor Statistics. The FOMC is part of the FRB that meets eight times yearly to set monetary policy. The primary tool for monetary policy is the Federal Funds Rate (FFR). FFR is the rate set by the FOMC and is the rate banks borrow and lend their excess reserves to each other overnight. It forms a floor for short-term interest rates.

We will use the following abbreviations for various governmental agencies
BEA = U.S. Bureau of Economic Analysis

We will use the terms nominal and real. Nominal values are measured in terms of money or things counted in the real world. Retail sales, personal income, expenditures, and corporate earnings are usually reported in nominal dollars. Real values are adjusted for inflation (nominal less inflation). Real values enable comparisons that are not distorted by inflation. GDP numbers are usually reported as real growth.

Other abbreviations commonly used
QTD = Quarter to date
YTD = Year to Date
Y/Y = Year over Year
M/M = Month Over Month
TMA = Trailing Three-Month Annualized

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