

James Bianco

**Has A Recession Already Begun?**  
June 23, 2022



Last week Powell said:

But I will say, the worst mistake we could make would be to fail, which it's not an option.

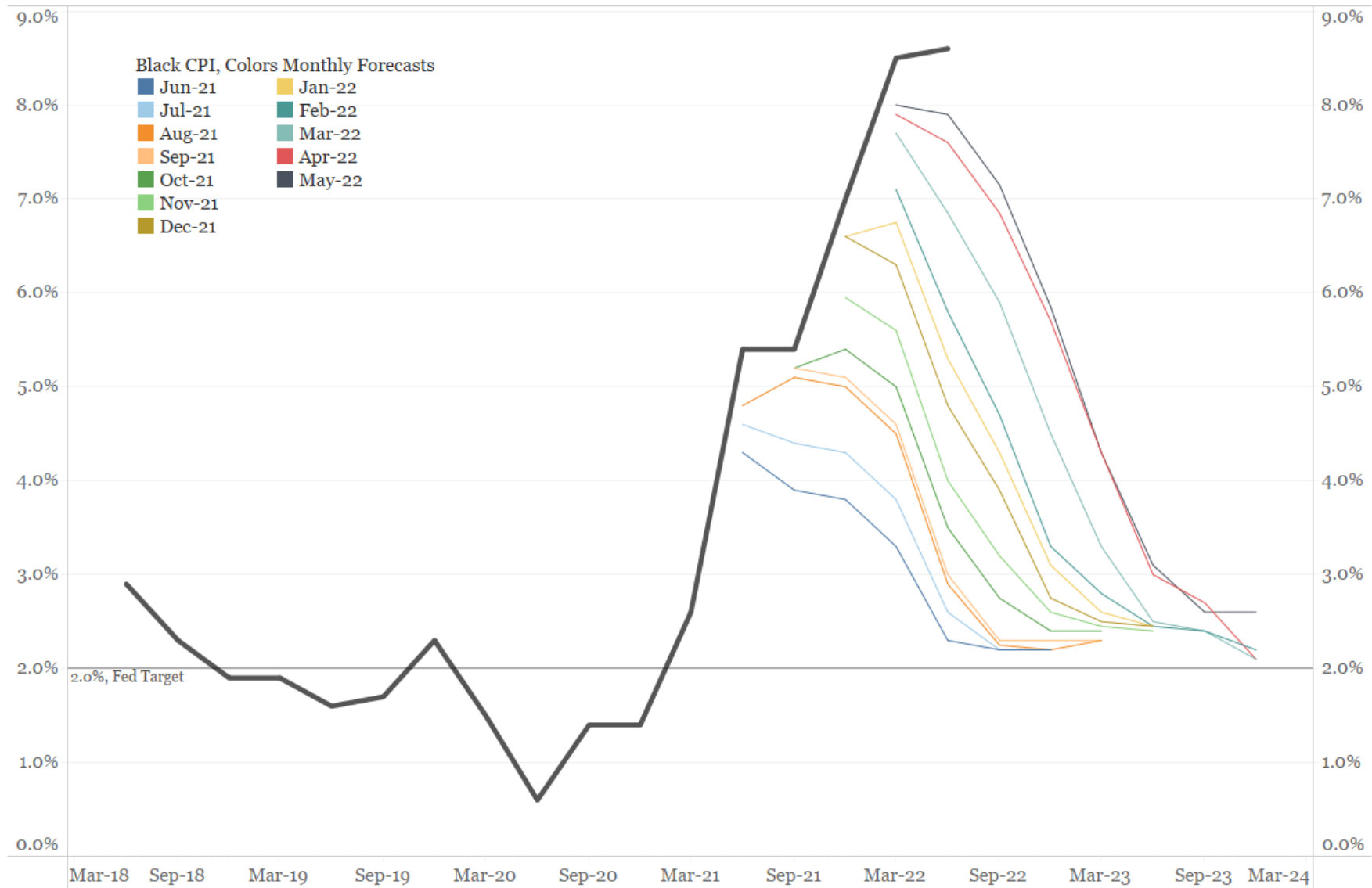
You know, we have to restore price stability. We really do, because everything—it's the bedrock of the economy.

If you don't have price stability, the economy is really not going to work the way it's supposed to.

It won't work for people. Their wages will be being eaten up.”

# Wall Street Inflation is Peaking Forecasts

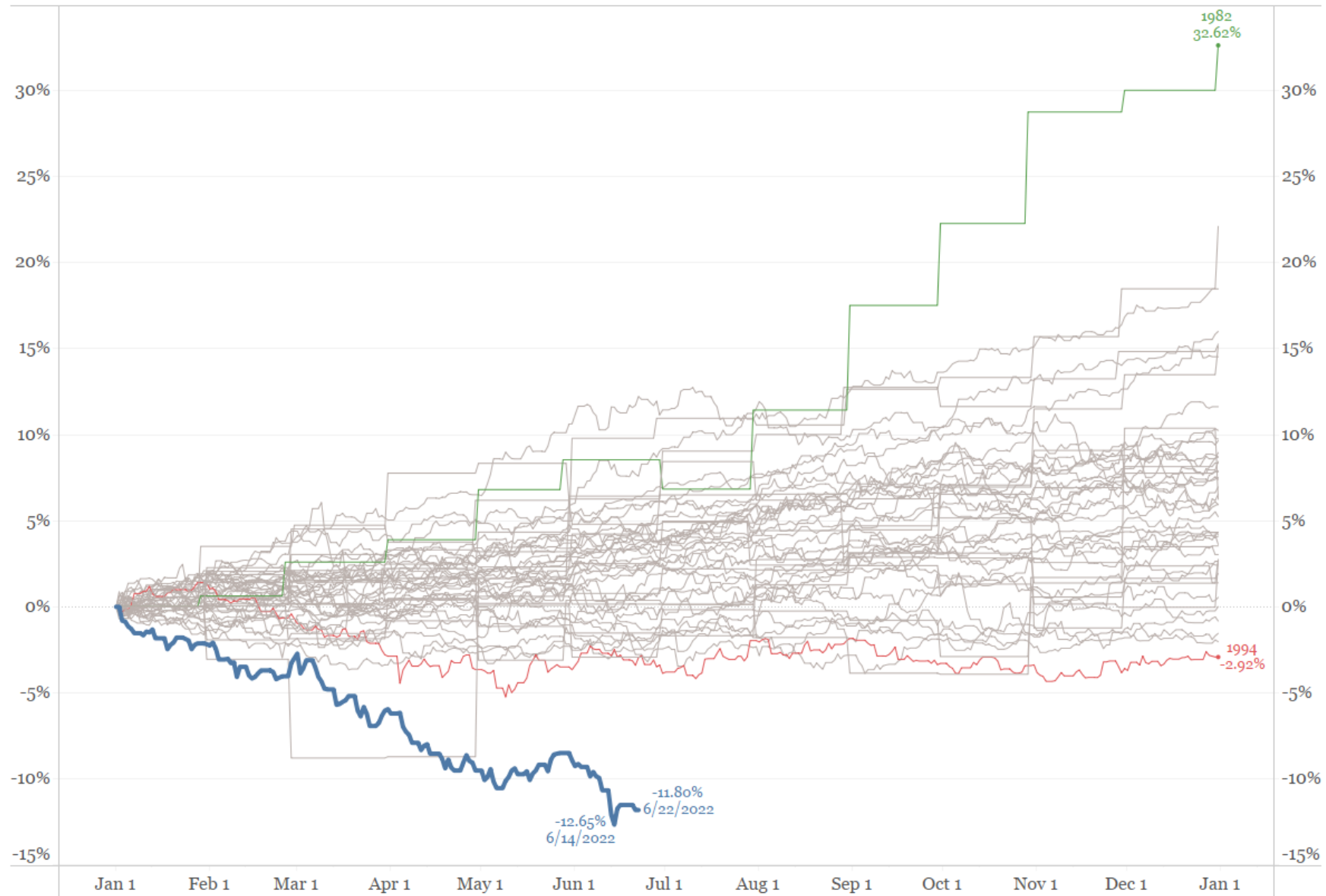
June 2021 to Date



Data Source: Bloomberg, Bureau of Labor Statistics

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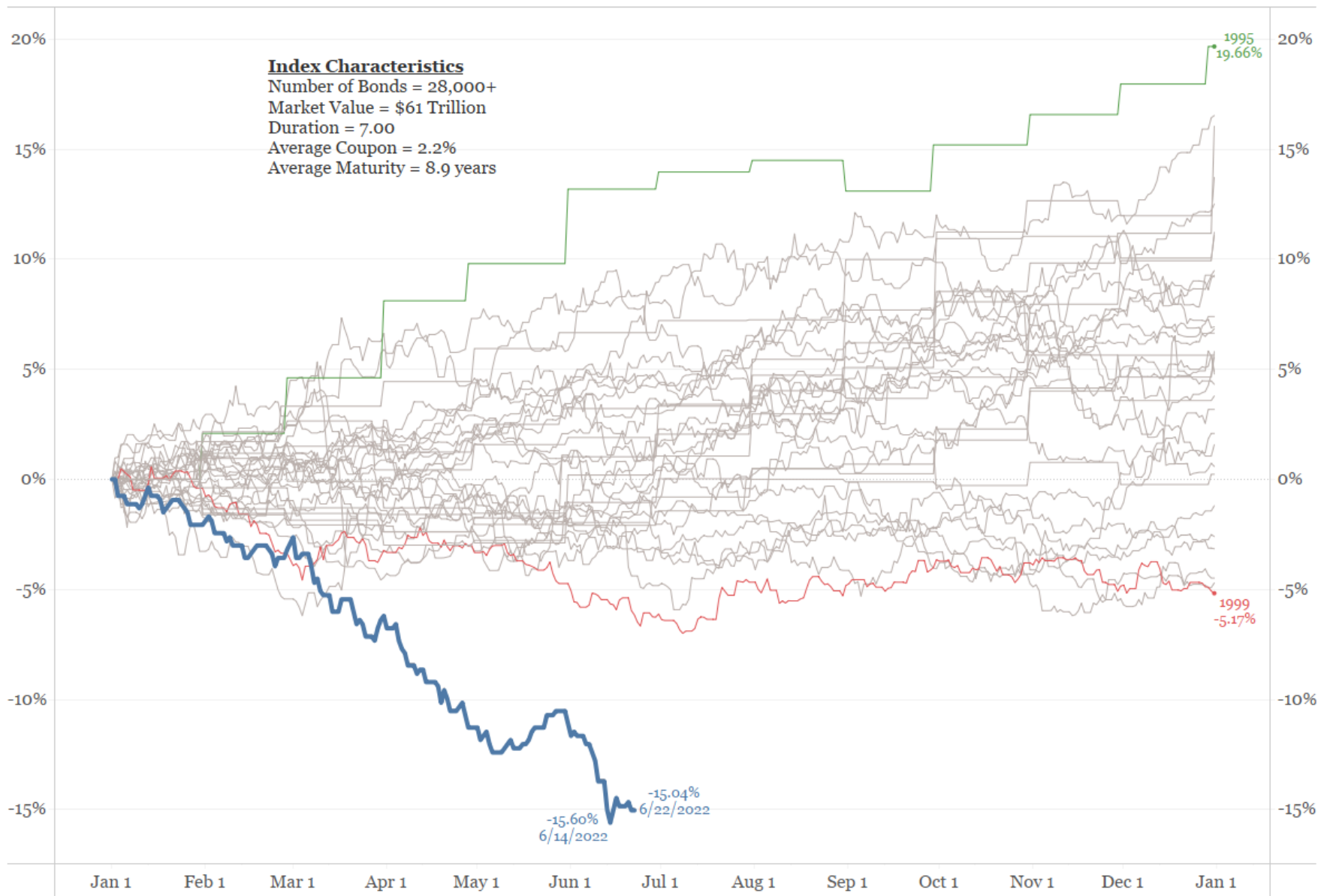
# Year-to-Date Total Return for the Bloomberg U.S. Aggregate Index



Source: Bloomberg

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# Year-to-Date Total Return for the Bloomberg Global Aggregate Index



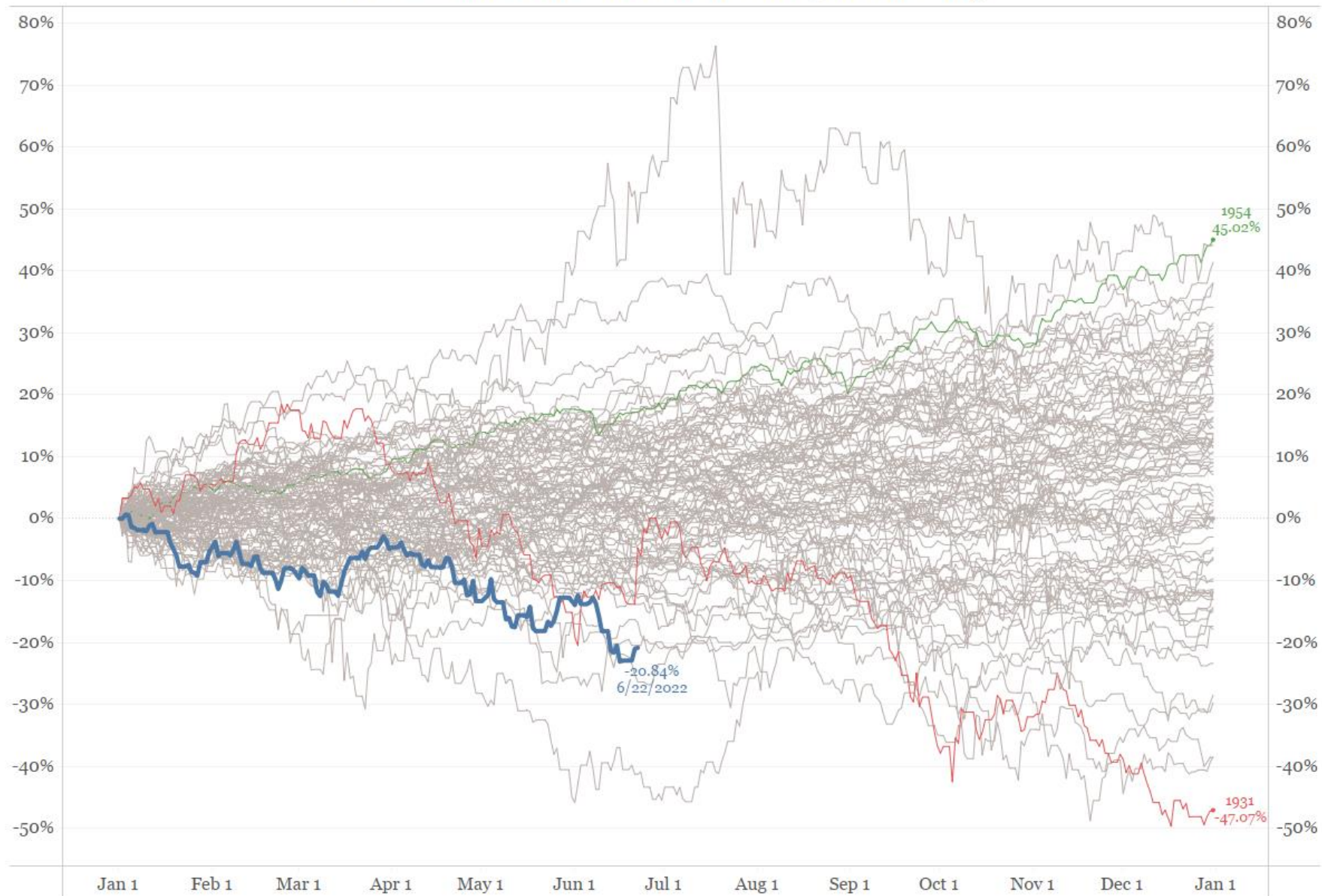
Source: Bloomberg

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## Recessions Tend To Lead Bear Markets

Bear Market Start Date	Recession Start Date	Days Between Bear Market & Recession	Total Drawdown
10/28/1929	8/1/1929	88	-86%
	7/1/1953	<b>No Bear Market</b>	
10/21/1957	8/1/1957	81	-22%
	4/1/1960	<b>No Bear Market</b>	
5/28/1962	<b>No Recession</b>		-28%
8/29/1966			-22%
1/28/1970	12/1/1969	58	-36%
11/27/1973	11/1/1973	26	-48%
	1/1/1980	<b>No Bear Market</b>	
2/22/1982	7/1/1981	236	-27%
10/19/1987	<b>No Recession</b>		-34%
	7/1/1990	<b>No Bear Market</b>	
3/12/2001	3/1/2001	11	-49%
7/9/2008	12/1/2007	221	-57%
3/12/2020	2/1/2020	40	-34%
6/16/2022	?	?	?
<b>Average</b>		<b>95 Days</b>	<b>-40%</b>

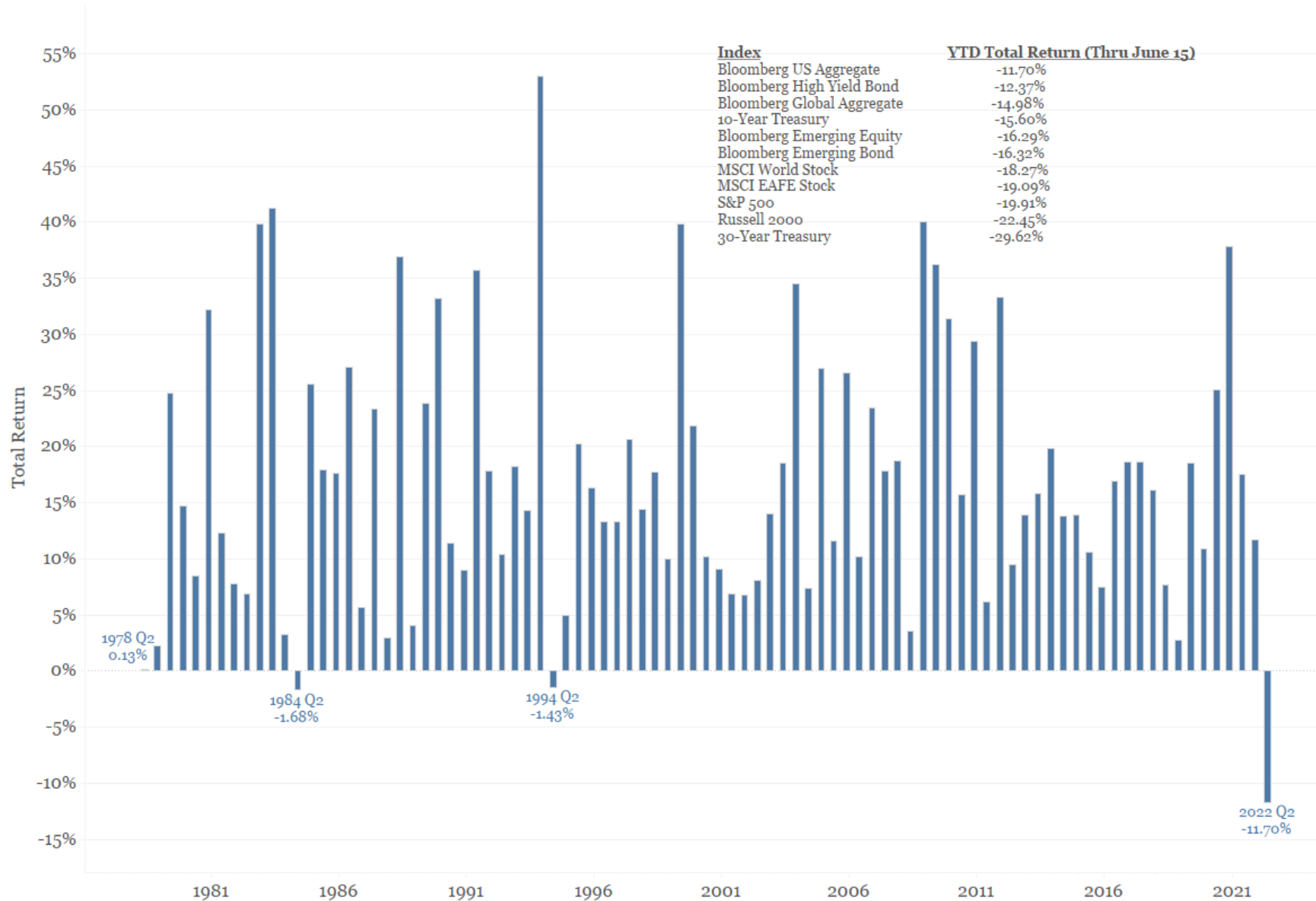
# Year-to-Date Total Return for the S&P 500 Price Only



Source: Bloomberg

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## Best 6-Month Total Return Among Basket of Assets

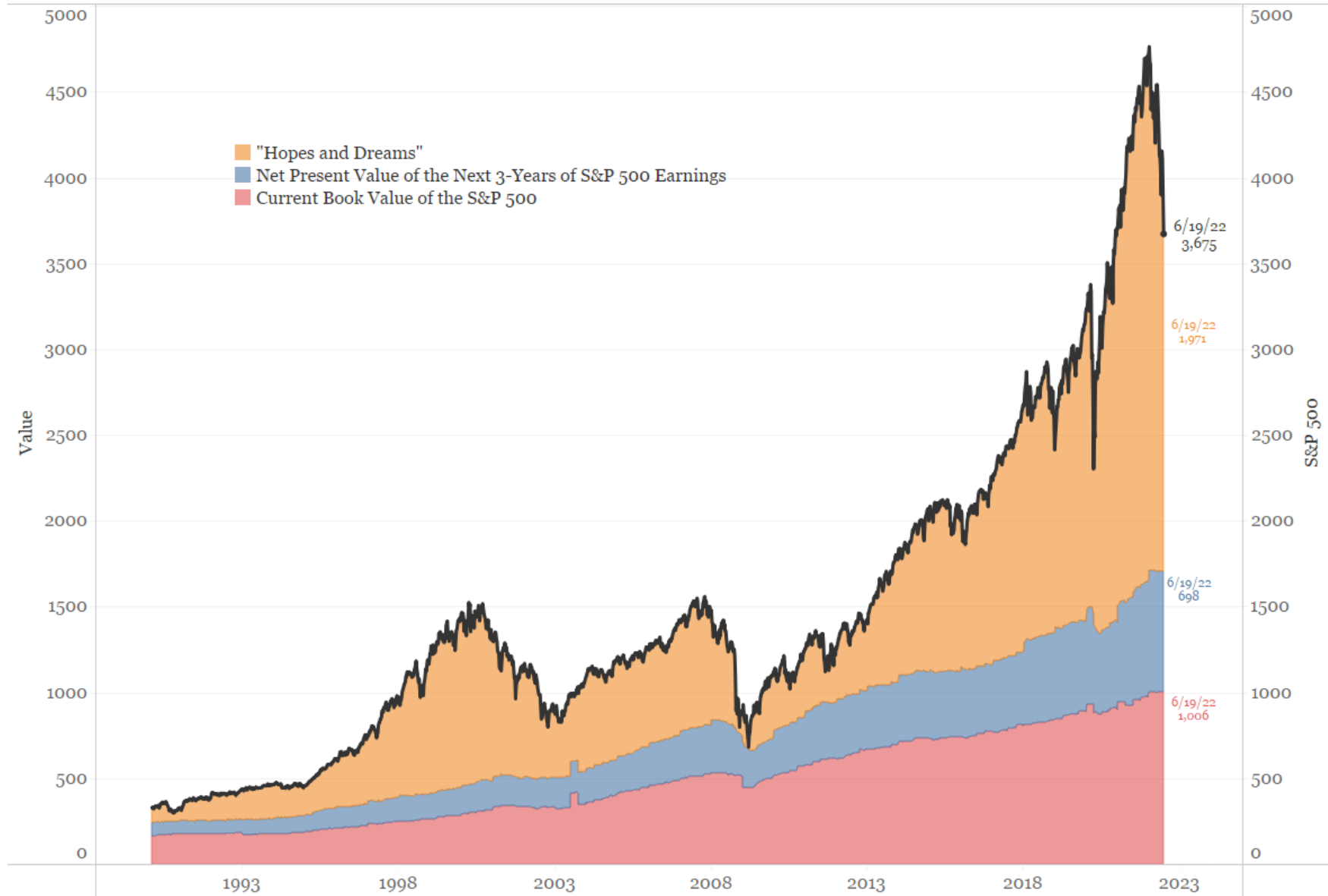


Data: Bloomberg

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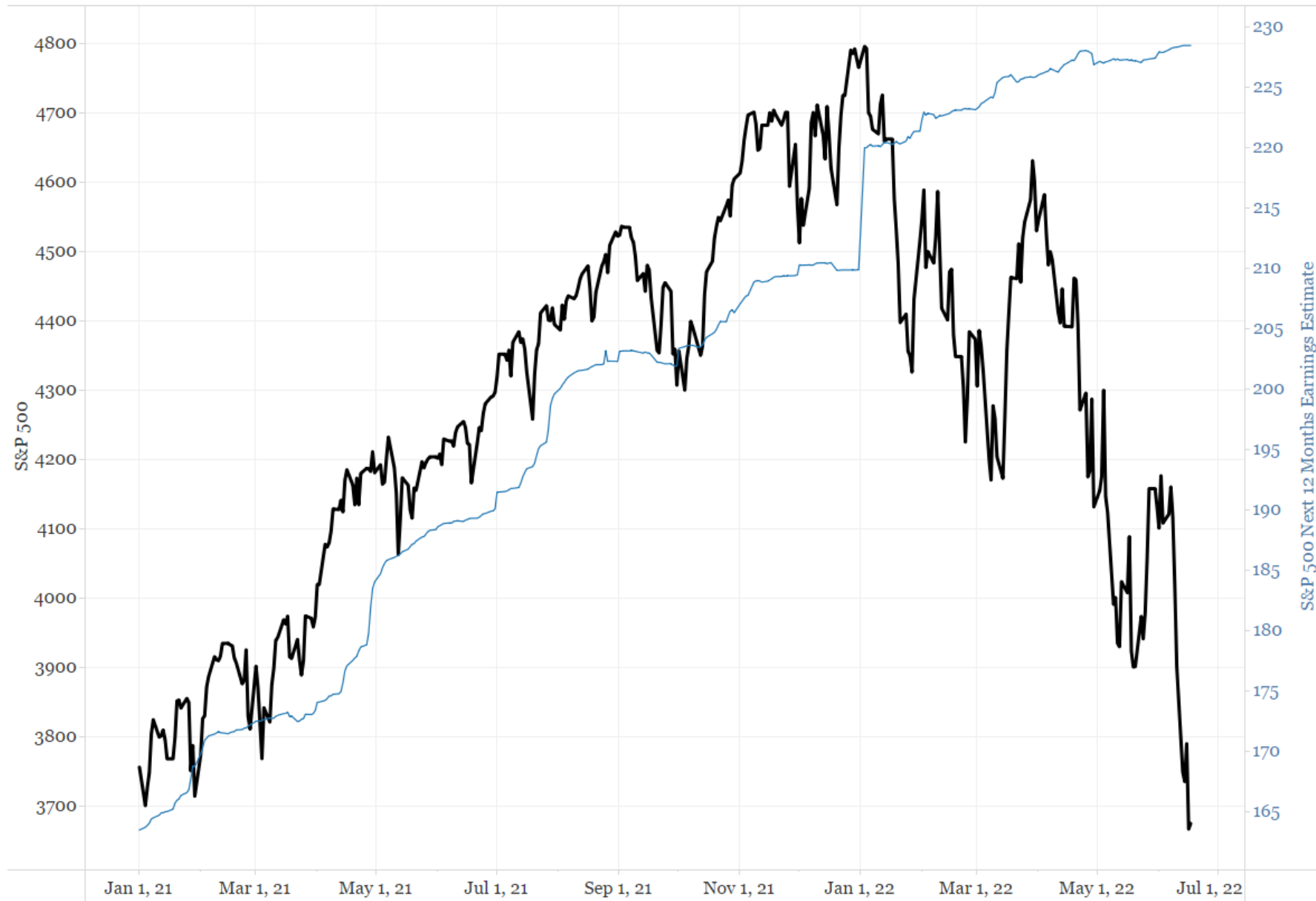
## Breaking Down The S&P 500's Valuation



Source: Bloomberg  
 Concept Courtesy Cameron Crise, Bloomberg

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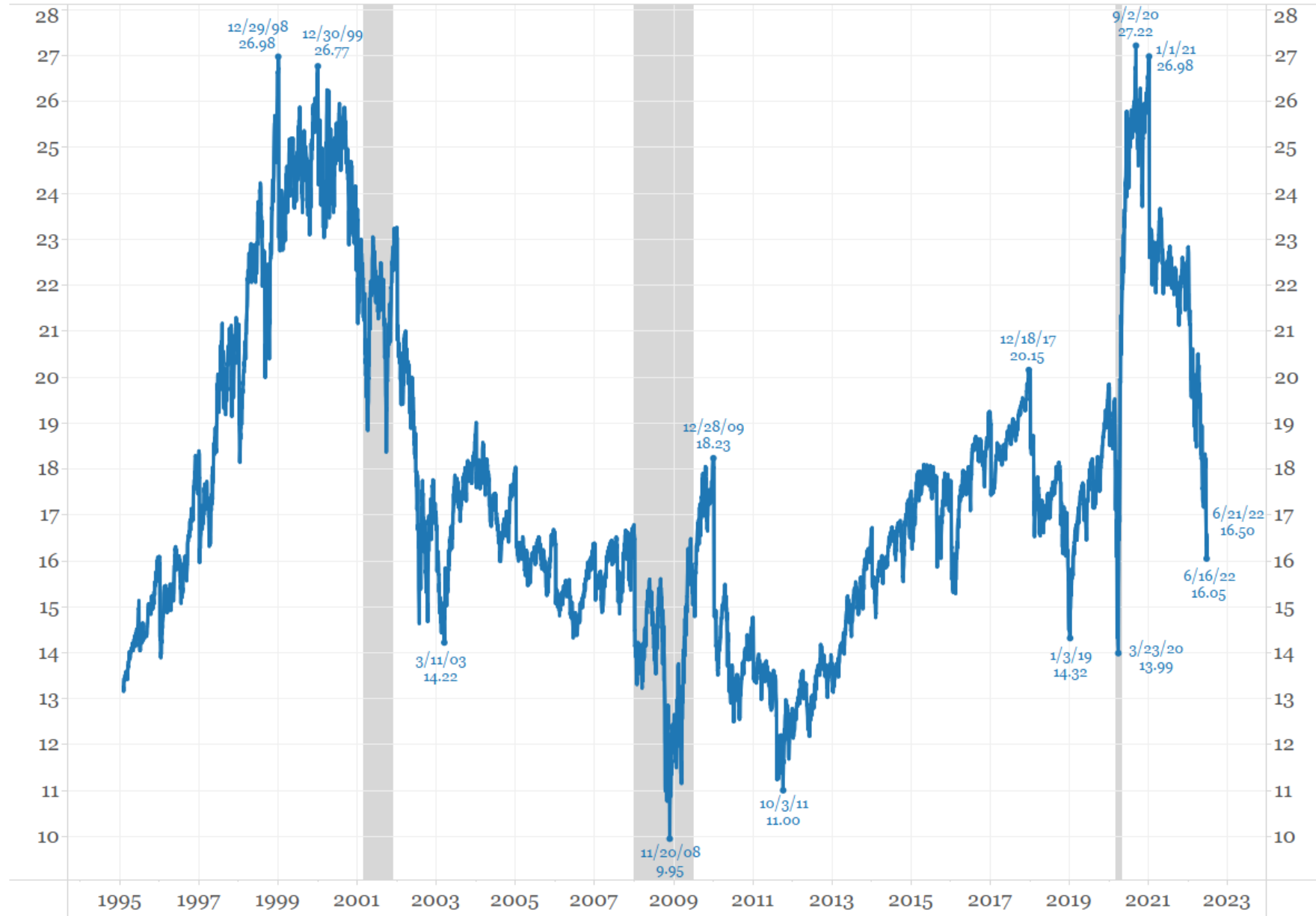
## S&P 500 Earnings Estimates Moving Higher While Index Crashes



Data source: Bloomberg

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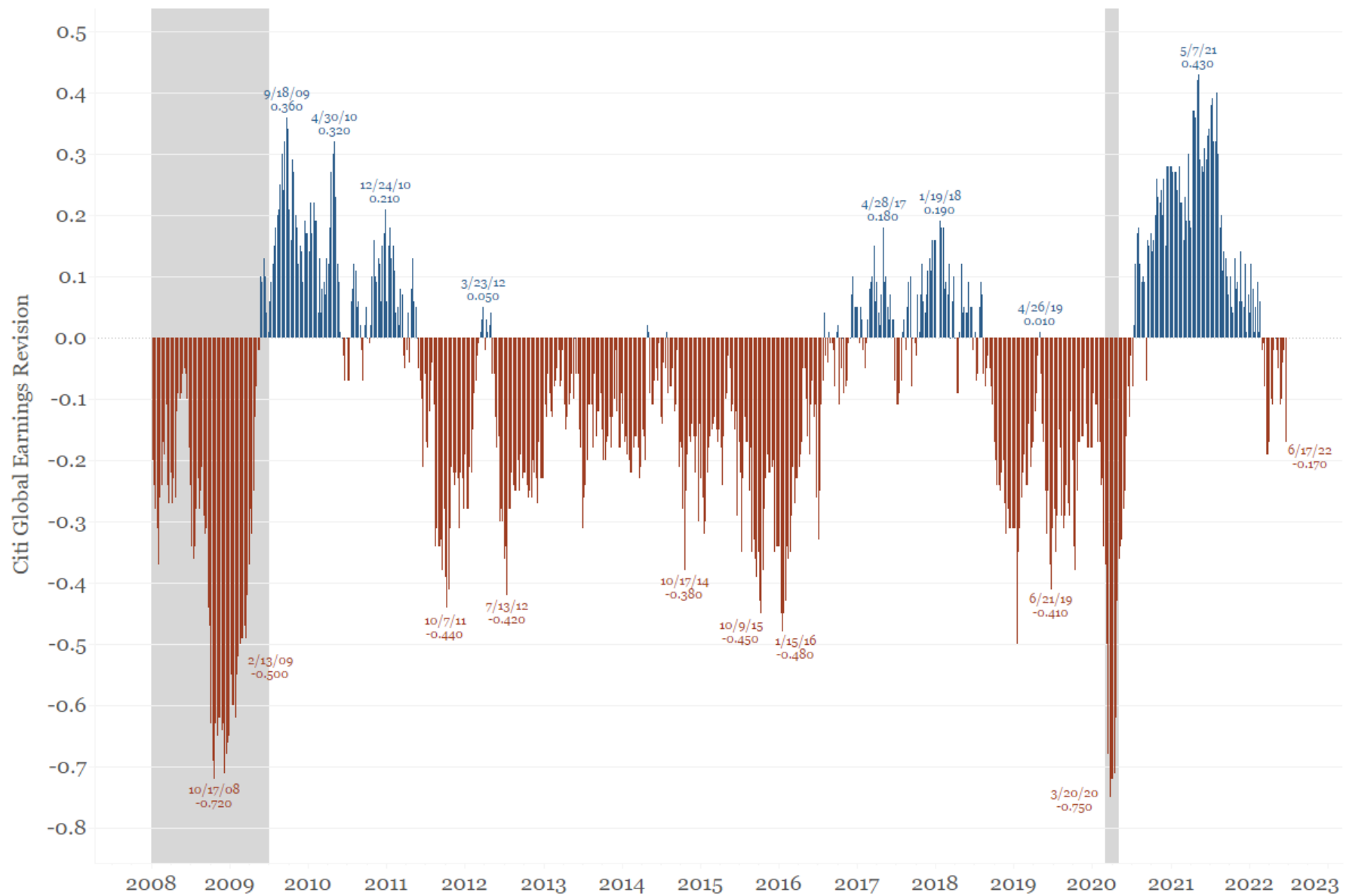
# S&P 500 Forward PE Ratio



Data Source: Bloomberg

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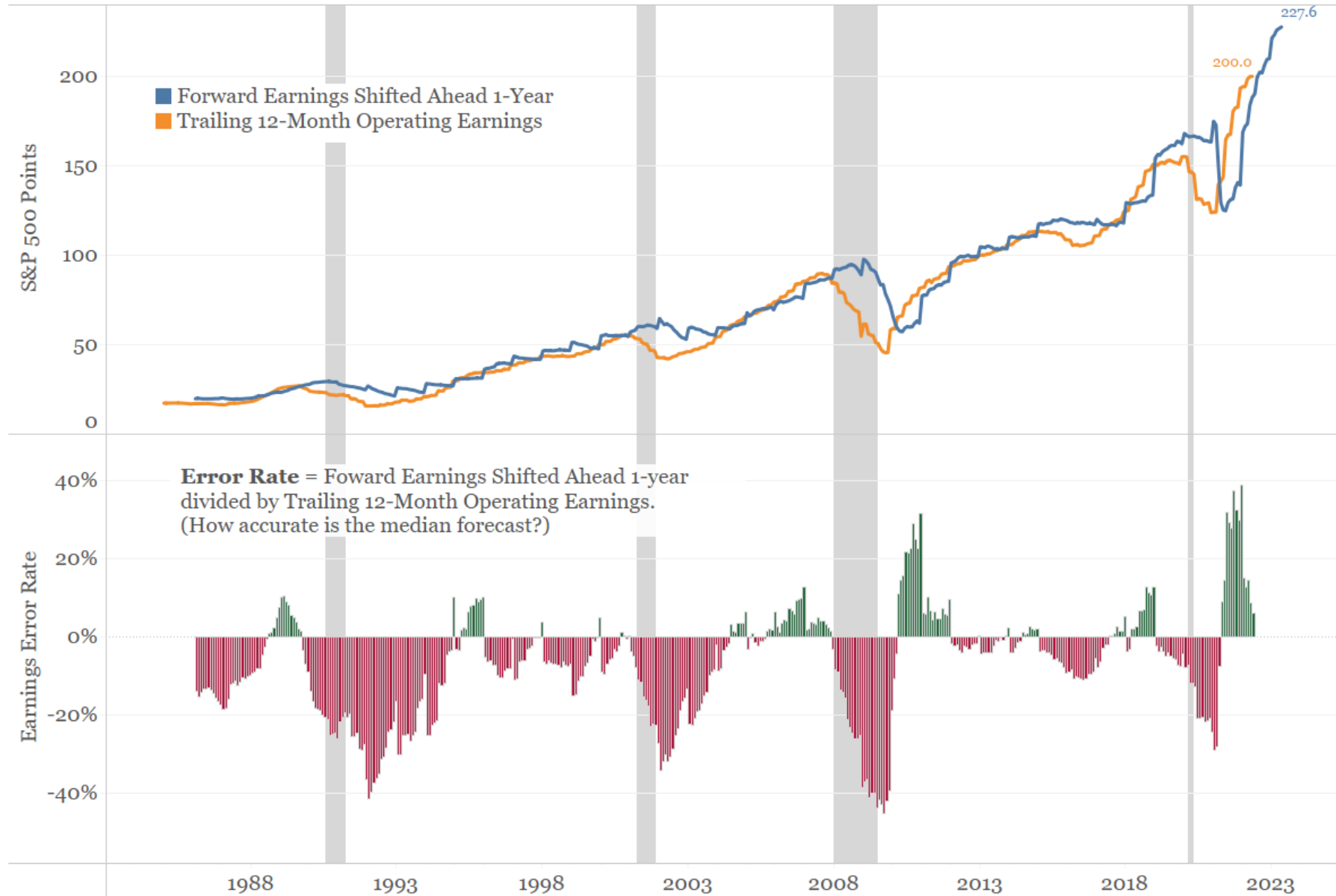
# Citi Global Earnings Revision Index



Source: Citigroup, Bloomberg

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# 1-Year Earnings Error Rate



Source: Bloomberg

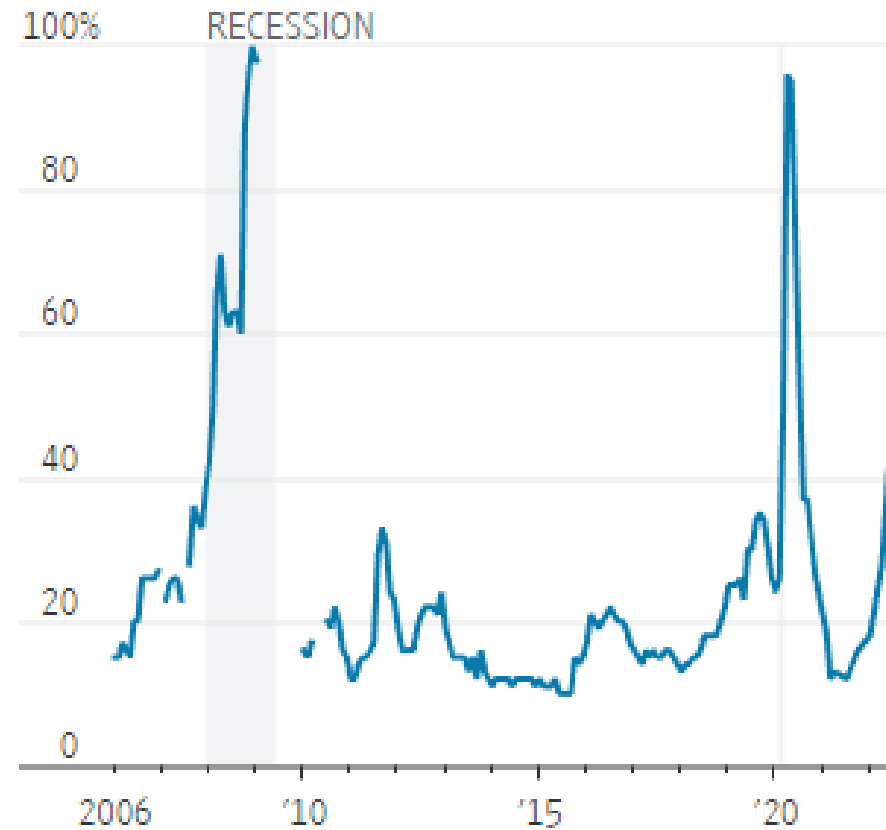
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Economists surveyed by *The Wall Street Journal* have dramatically raised the probability of recession, now putting it at 44% in the next 12 months, a level usually seen only on the brink of or during actual recessions.

The likelihood of a recession has increased rapidly this year as inflationary pressures remained strong and the Federal Reserve took increasingly aggressive action to tame them. Economists on average put the probability of the economy being in recession sometime in the next 12 months at 28% in the Journal's last survey in April and at 18% in January.

**Since the Journal began asking the question in mid-2005, a 44% recession probability is seldom seen outside of an actual recession. In December 2007, the month that the 2007-to-2009 recession began, economists assigned a 38% probability. In February 2020, when the last recession began, they assigned a 26% probability.**

### Probability the U.S. is in a recession in next 12 months including today



Note: Gaps indicate question not asked or data unavailable.

Source: Wall Street Journal surveys of economists

•***Bloomberg – Bill Dudley: The US Economy Is Headed for a Hard Landing*** If you're still holding out hope that the Federal Reserve will be able to engineer a soft landing in the US economy, abandon it. A recession is inevitable within the next 12 to 18 months. In their latest set of projections, Fed officials laid out a benign scenario, in which the economy keeps growing at a moderate pace and unemployment increases only slightly, even as the central bank raises interest rates significantly to get inflation under control. While the Fed's forecasts have become more plausible over time, I see several reasons to expect a much harder landing. First, persistent price increases have forced the Fed to shift its focus from supporting economic activity to pushing inflation back down to its 2% objective...Second, the new focus on price stability will be relentless...Third, the current economic expansion is uniquely vulnerable to a sudden stop.

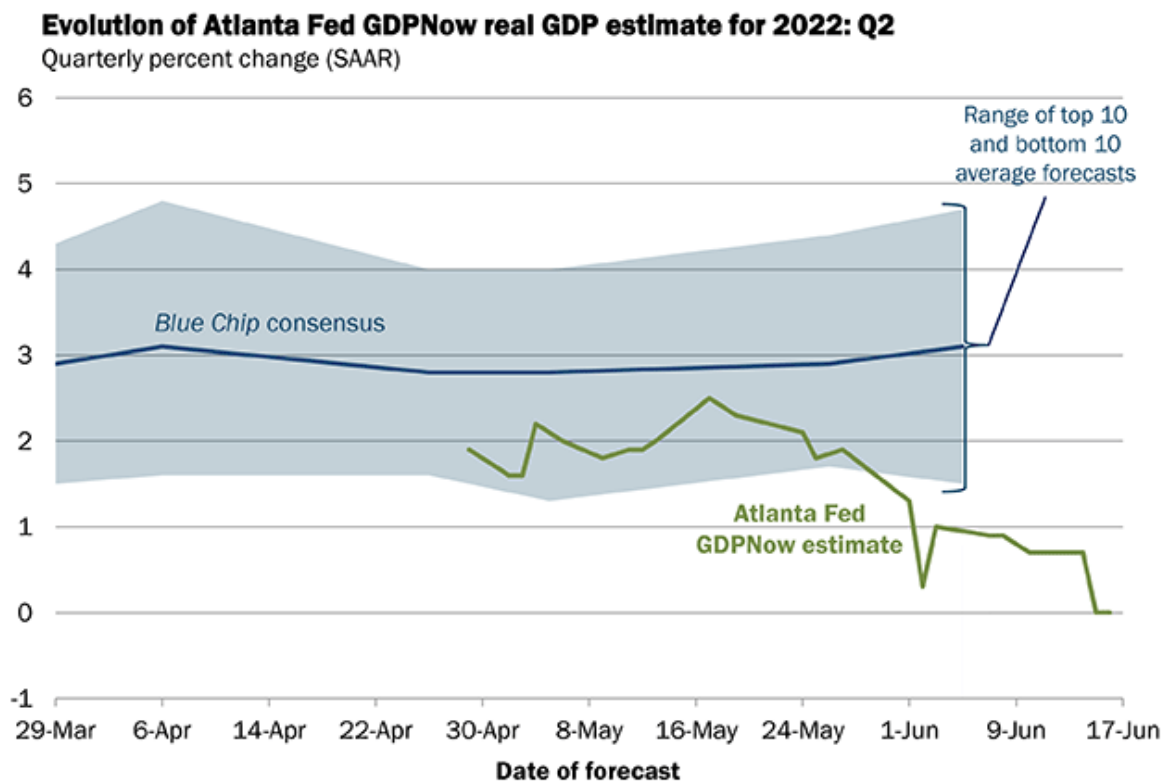
•***Conference Board – C-Suite View of Volatility, War, Risks, and Growth for Global Business***

More than 60 percent of CEOs globally say they expect a recession in their primary region of operations before the end of 2023 or earlier, a sentiment shared by other C-suite executives. Fifteen percent of CEOs say their region is already in recession.

### Latest estimate: 0.0 percent — June 16, 2022

The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the second quarter of 2022 is 0.0 percent on June 16, unchanged from June 15 after rounding. After this morning's housing starts report from the US Census Bureau, the nowcast of second-quarter real residential investment growth increased from -8.5 percent to -7.7 percent.

The next GDPNow update is **Monday, June 27**. Please see the "Release Dates" tab below for a list of upcoming releases.



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.



## Monthly Inflation Nowcasting

	Inflation, month-over-month percent change				
Month	CPI	Core CPI	PCE	Core PCE	Updated
June 2022	0.98	0.49	0.67	0.39	06/22
May 2022			0.71	0.46	06/22

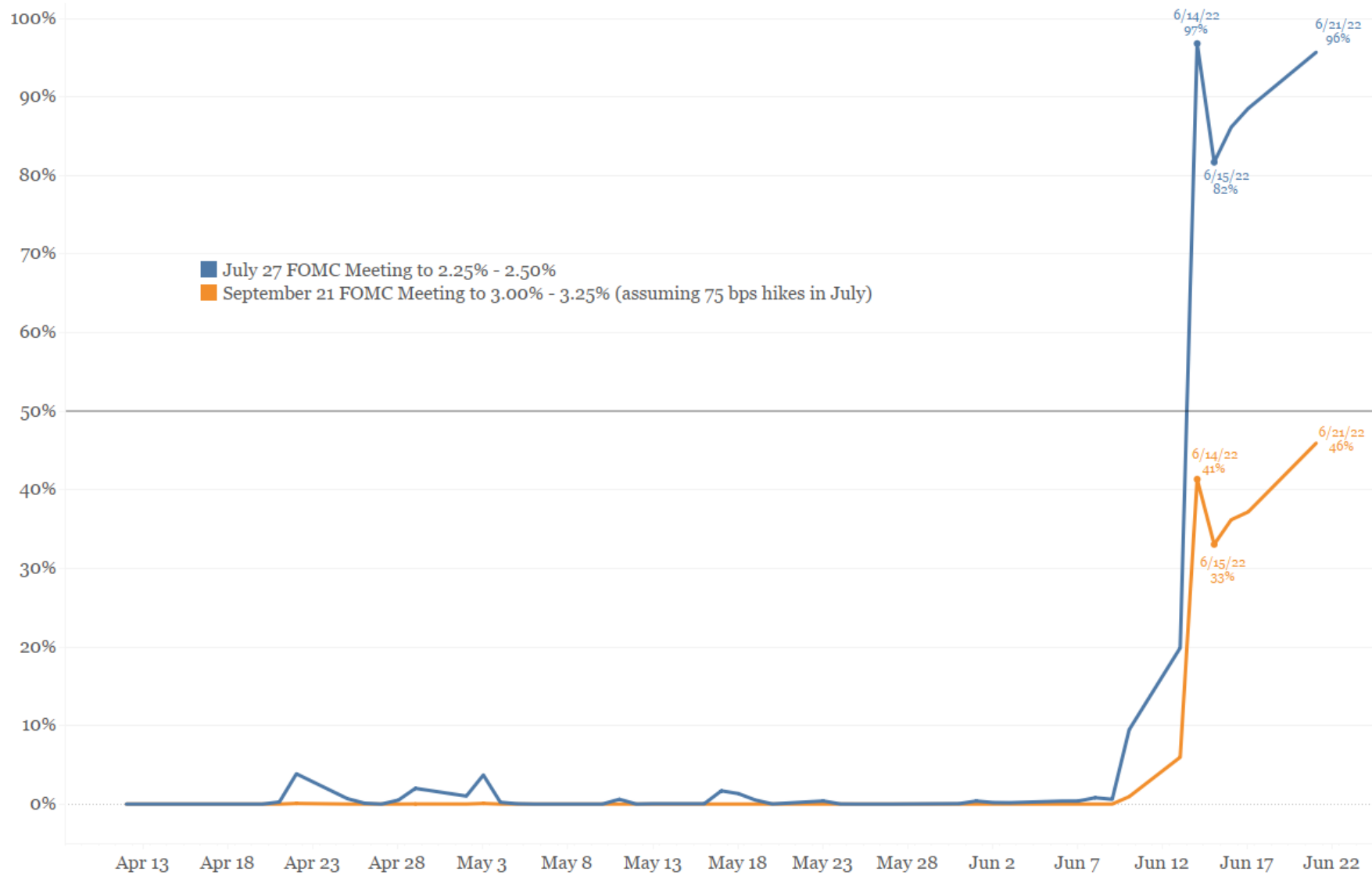
	Inflation, year-over-year percent change				
Month	CPI	Core CPI	PCE	Core PCE	Updated
June 2022	8.67	5.66	6.60	4.70	06/22
May 2022			6.46	4.79	06/22

Note: If the cell is blank, it implies that the actual data corresponding to the month for that inflation measure have already been released.

# Probability of Consecutive 75 Basis Point Hikes at the Next Two FOMC Meetings

Current Target = 1.50% to 1.75%

As Calculated by the Chicago Mercantile Exchange's Fed Watch Tool



Source: Chicago Mercantile Exchange  
<https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html>

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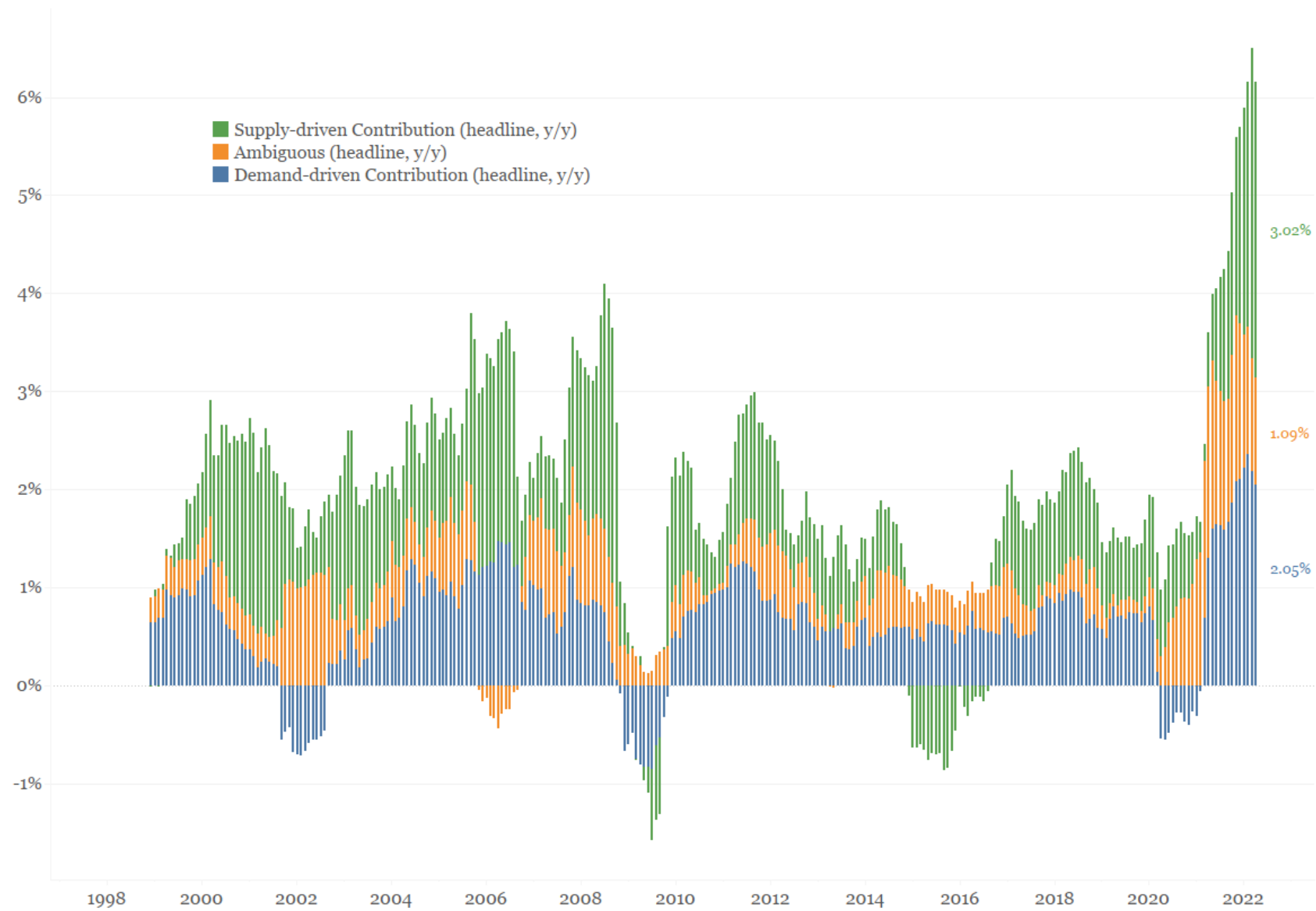
**Probability of 50 Basis Point Hikes at the September 21, 2022 FOMC Meeting, to 2.75% to 3.00%**  
**Assuming the target rate going into the meeting is 2.25% to 2.50%**  
 As Calculated by the Chicago Mercantile Exchange's Fed Watch Tool



Source: Chicago Mercantile Exchange  
<https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html>

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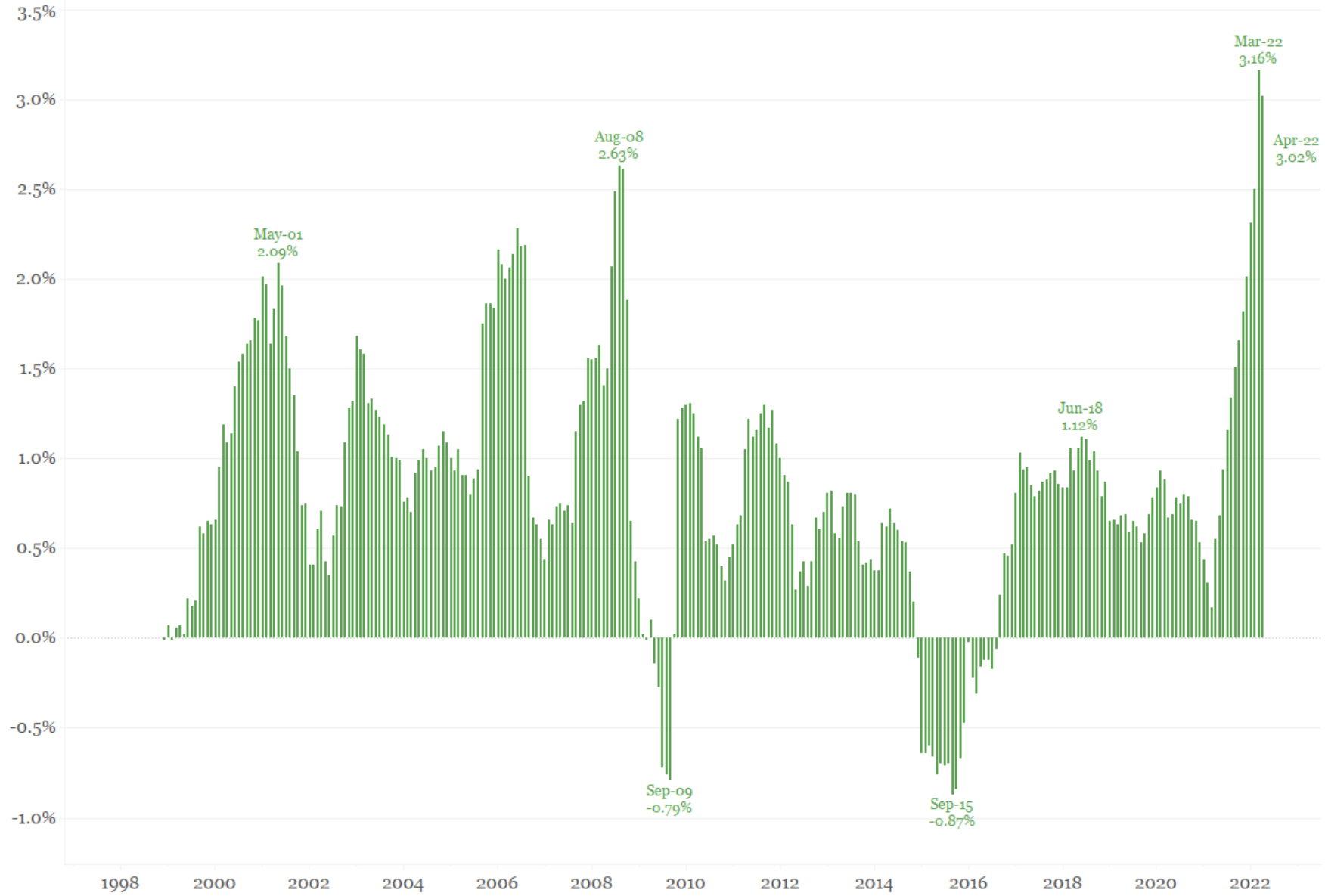
# Supply- and Demand-Driven Contributions to Year-over-Year Headline PCE Inflation



Source: Federal Reserve Bank of San Francisco  
<https://www.frbsf.org/economic-research/indicators-data/supply-and-demand-driven-pce-inflation/>

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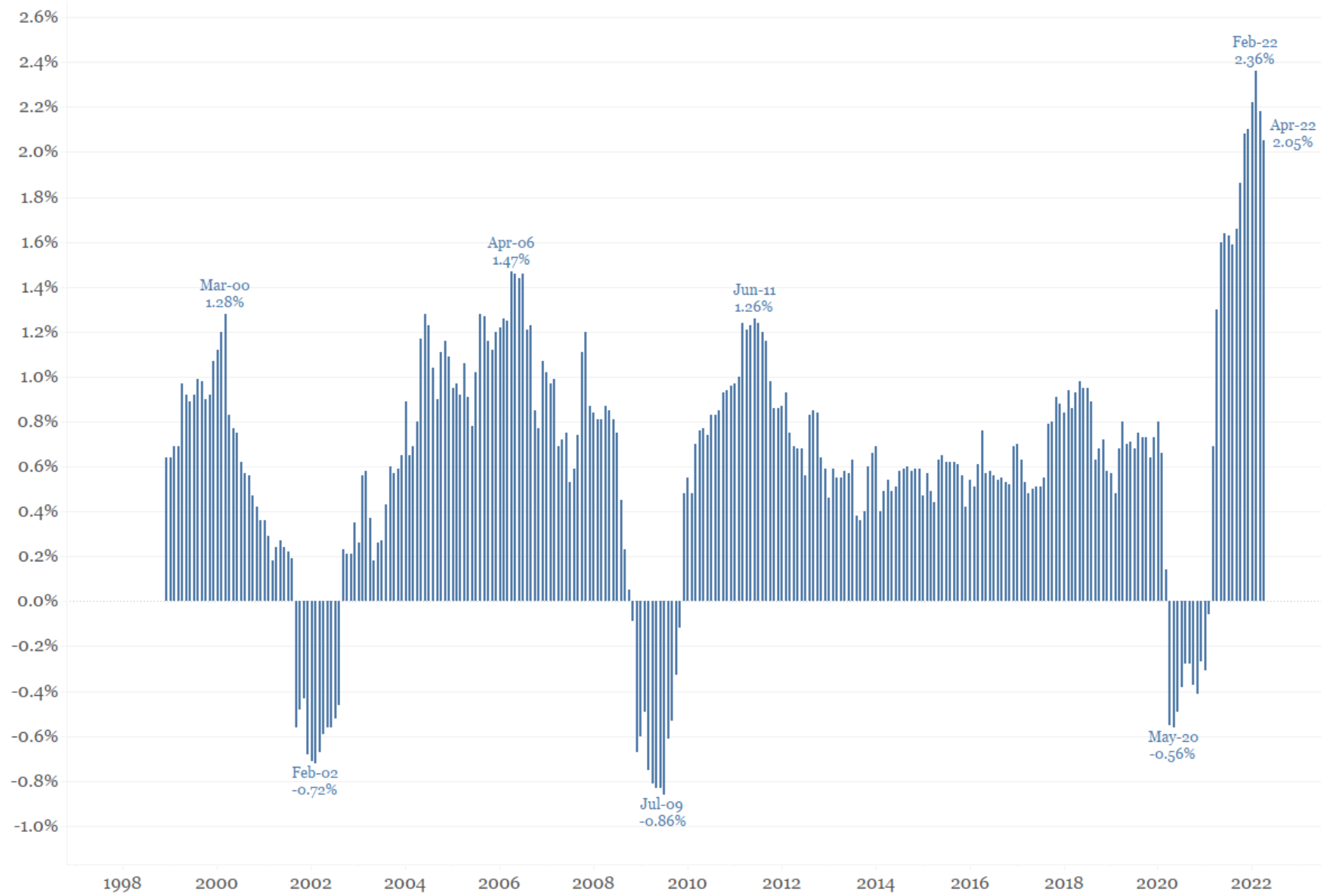
## Supply-driven Contribution (headline, y/y)



Source: Federal Reserve Bank of San Francisco  
<https://www.frbsf.org/economic-research/indicators-data/supply-and-demand-driven-pce-inflation/>

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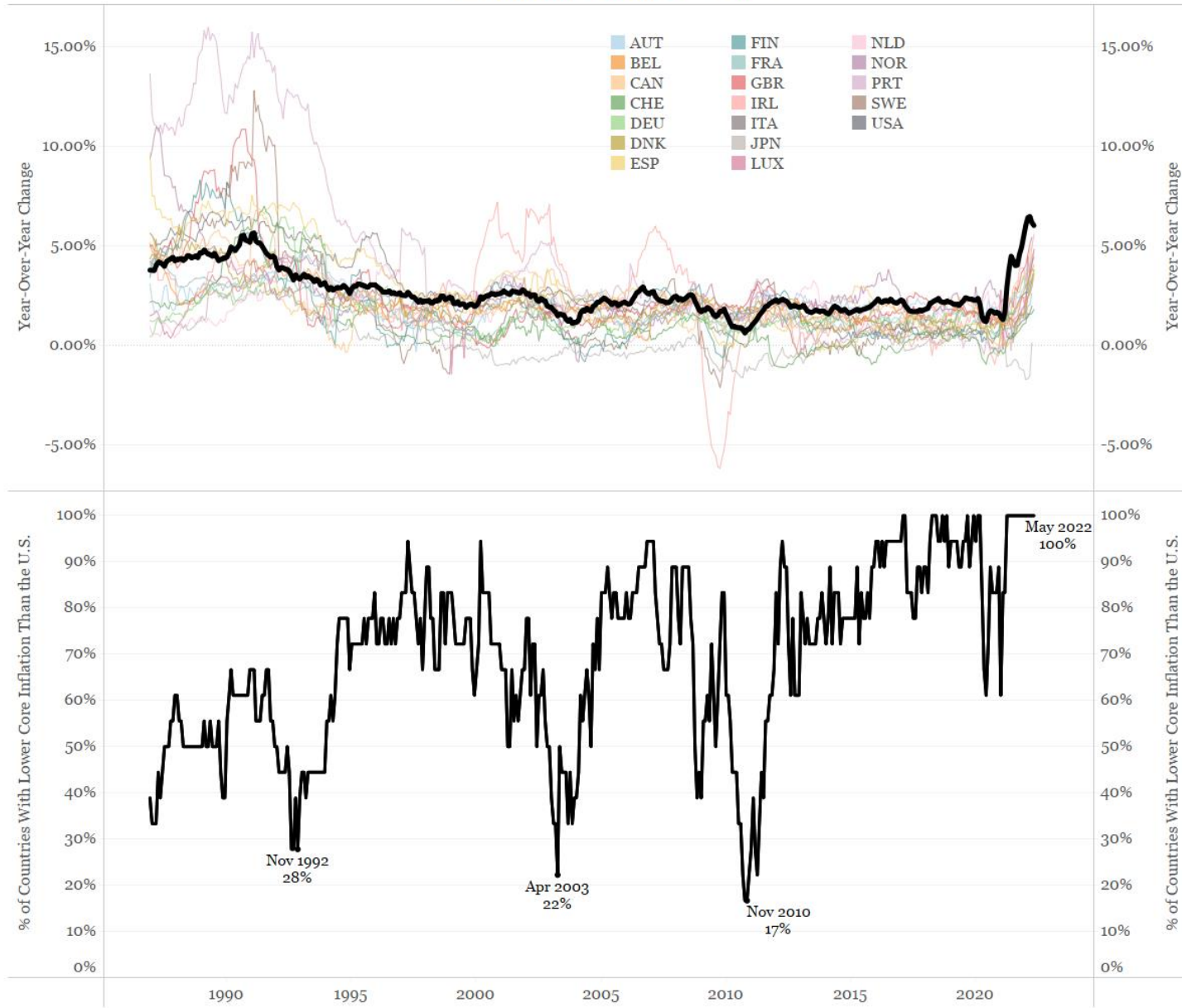
## Demand-driven Contribution (headline, y/y)



Source: Federal Reserve Bank of San Francisco  
<https://www.frbsf.org/economic-research/indicators-data/supply-and-demand-driven-pce-inflation/>

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### Core Inflation Around the World

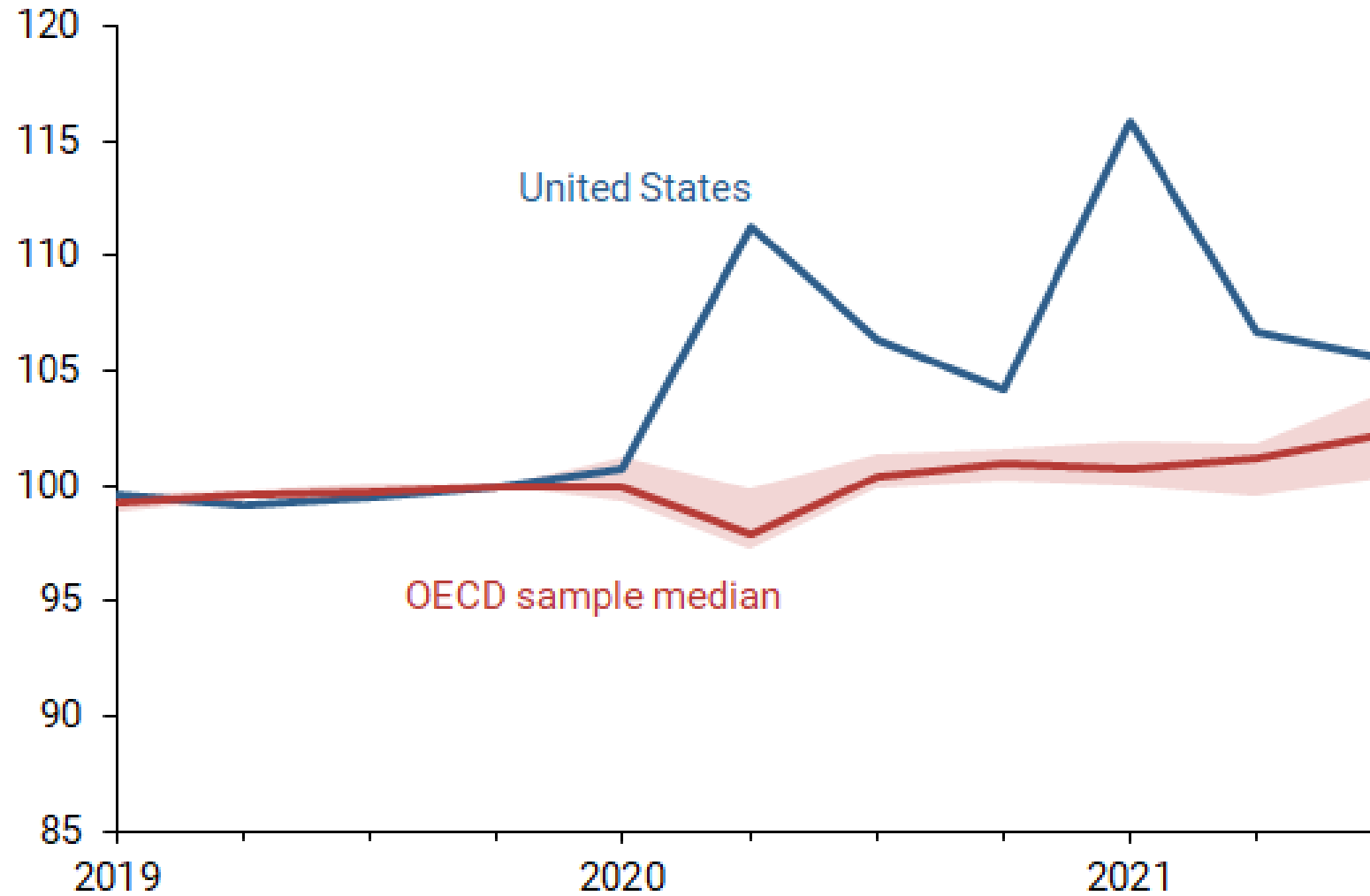


Source: OECD

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# Real personal disposable income: U.S. versus OECD

Index: 2019:Q4=100



Note: Shaded area reflects interquartile range for OECD sample.  
Source: OECD Household Dashboard: cross country comparisons.



**Wall Street Journal – (March 18, 2022) Homes Earned More for Owners Than Their Jobs Last Year**

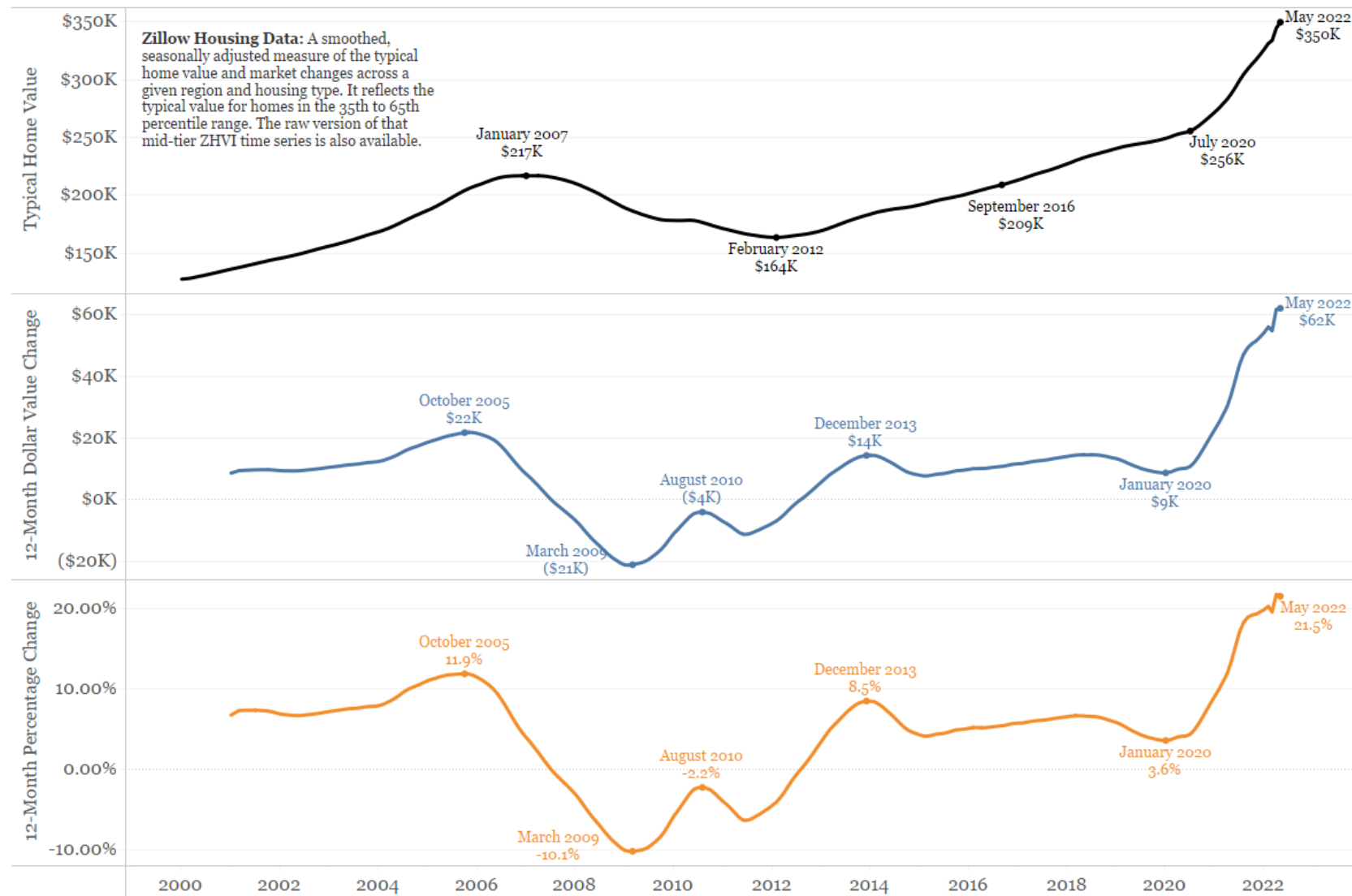
“The people who are winning the housing bids, typically, are folks who have higher incomes or have the equity from their previous home that they’re able to put forward,” said Nicole Bachaud, an economist at Zillow. “That’s definitely a big challenge, I think, when we consider first-time buyers, renters, people who don’t already own a home and aren’t really benefiting from that equity. Collectively, U.S. homeowners with mortgages gained more than \$3.2 trillion in equity in 2021 compared with a year earlier, according to housing-data provider CoreLogic.

**Comment**

The top panel of the chart above displays the typical home value according to Zillow. The middle panel shows how much the typical home’s value has appreciated each year in dollars. The bottom panel shows year-over-year appreciation on a percentage basis. As the story notes, the Census Bureau calculated the median yearly wage in the U.S. to be \$50,295. With home values appreciating \$56,000 in the twelve months ending February, **this is the first time in the history of this data series, which includes the housing bubble, that the yearly increase in home value has eclipsed median yearly salary.**

**Typical Home Values In The United States**

Zillow Home Value Index

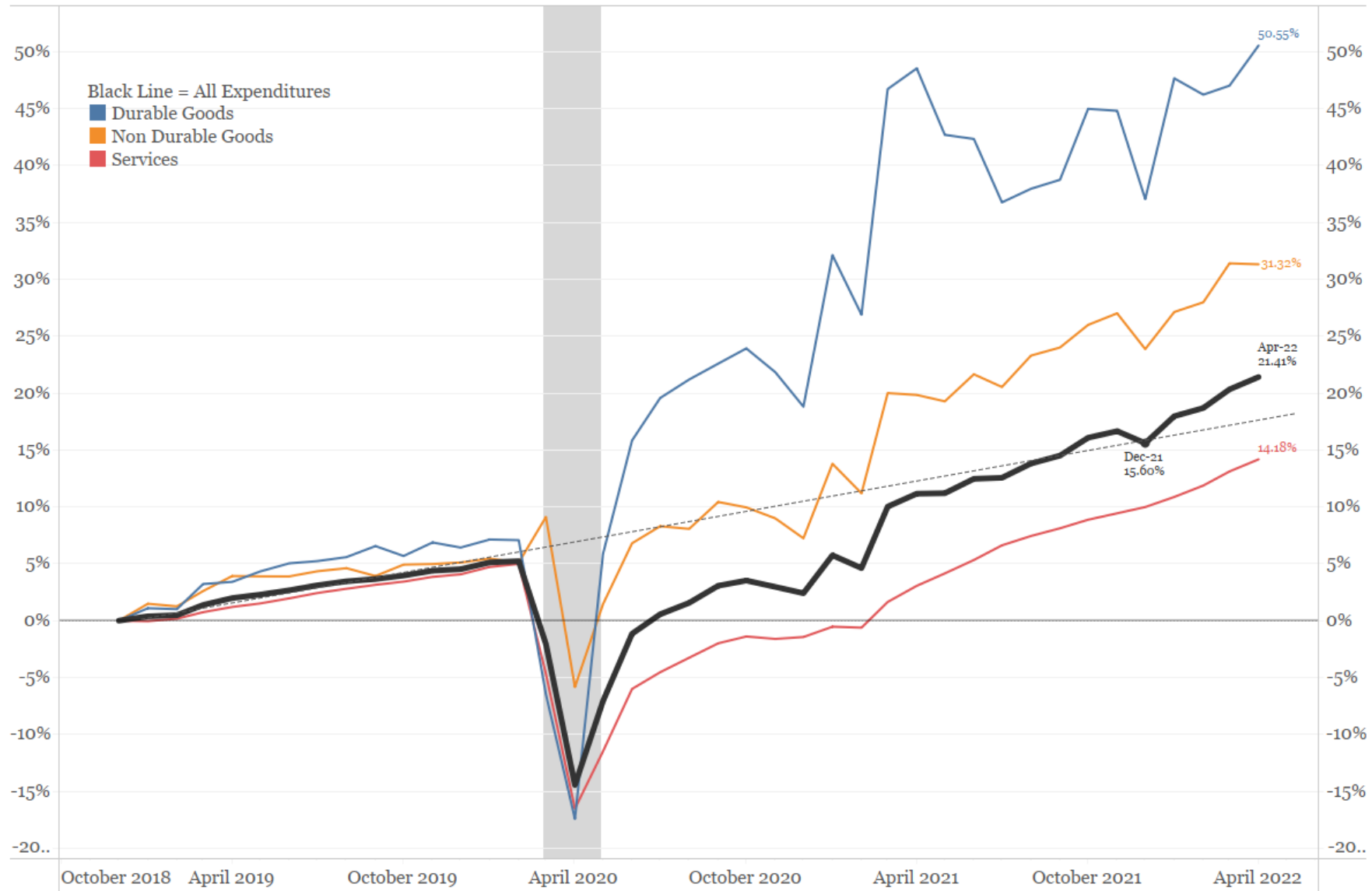


Source: Zillow Research

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# US Personal Consumption Expenditures - Nominal Dollars SAAR

December 18, 2018 = 0%



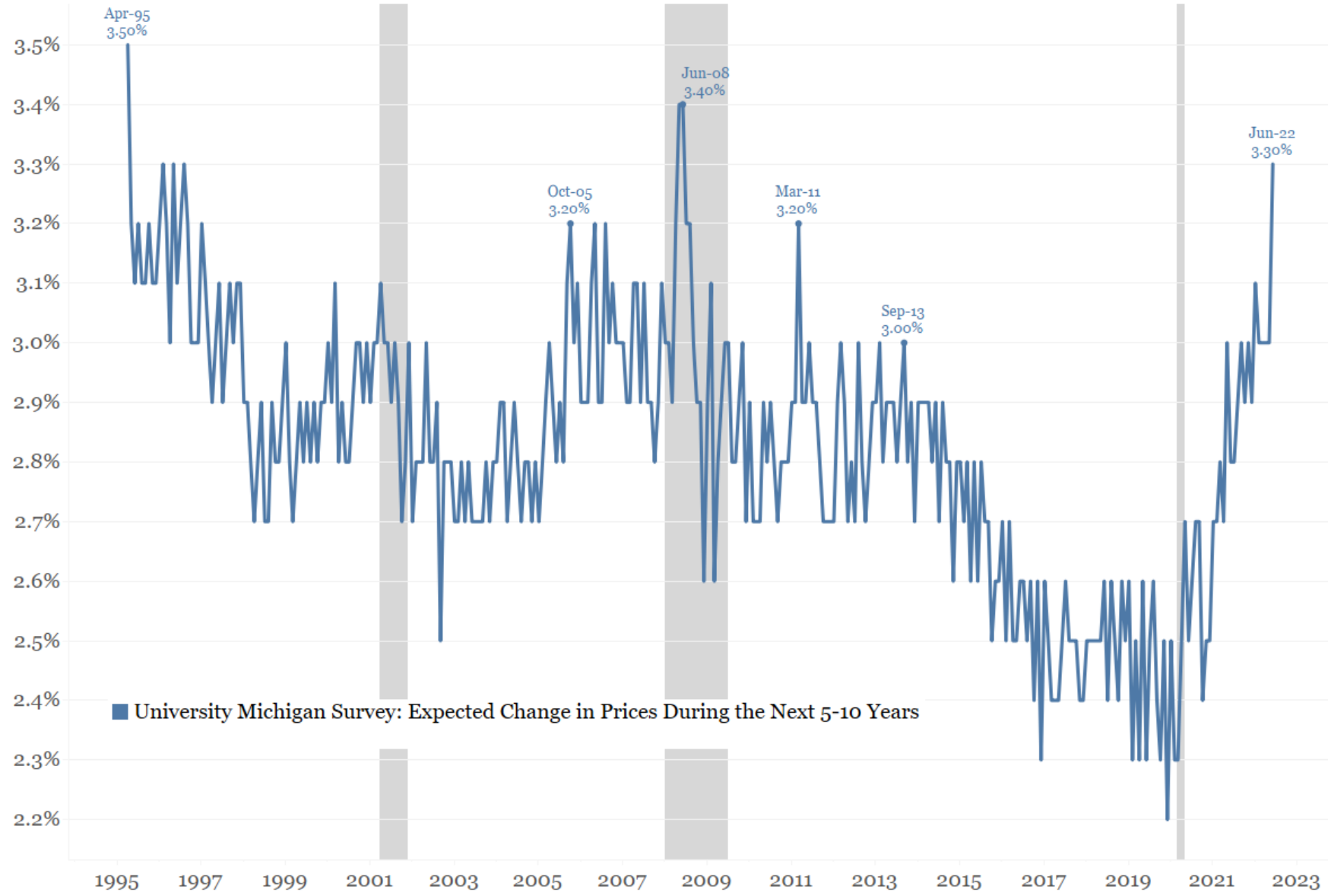
Source: Bureau of Economic Analysis, Bloomberg

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POWELL: I did say that it was subject to the economy performing about in line with expectations. I also said that if the economy performed — ***if data came in worse than expected, then we would consider moving even more aggressively. So, we got the — we got the CPI data, and also some data on inflation expectations late last week, and we thought for a while, and we thought, well, this is the appropriate thing to do.*** So, then the question is, what do you do? And do you wait six weeks to do it at the next meeting? And I think the answer is that's not where we are with this. So, we decided we needed to go ahead. And so, we did. And that's really — that's really how we made the decision.

***I said the next meeting, could — could well be about a decision between 50 and 75, that would put us at the end of the July meeting,*** you know, in that range of — in that more normal range. And that's a desirable place to be because you begin to have more optionality there about the speed with which you would proceed going forward.

# Inflation Expectations The Next 5 to 10 Years



Source: University of Michigan, Bloomberg, The Federal Reserve

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