

Economic and Market Outlook

July 12, 2022



What Do We See

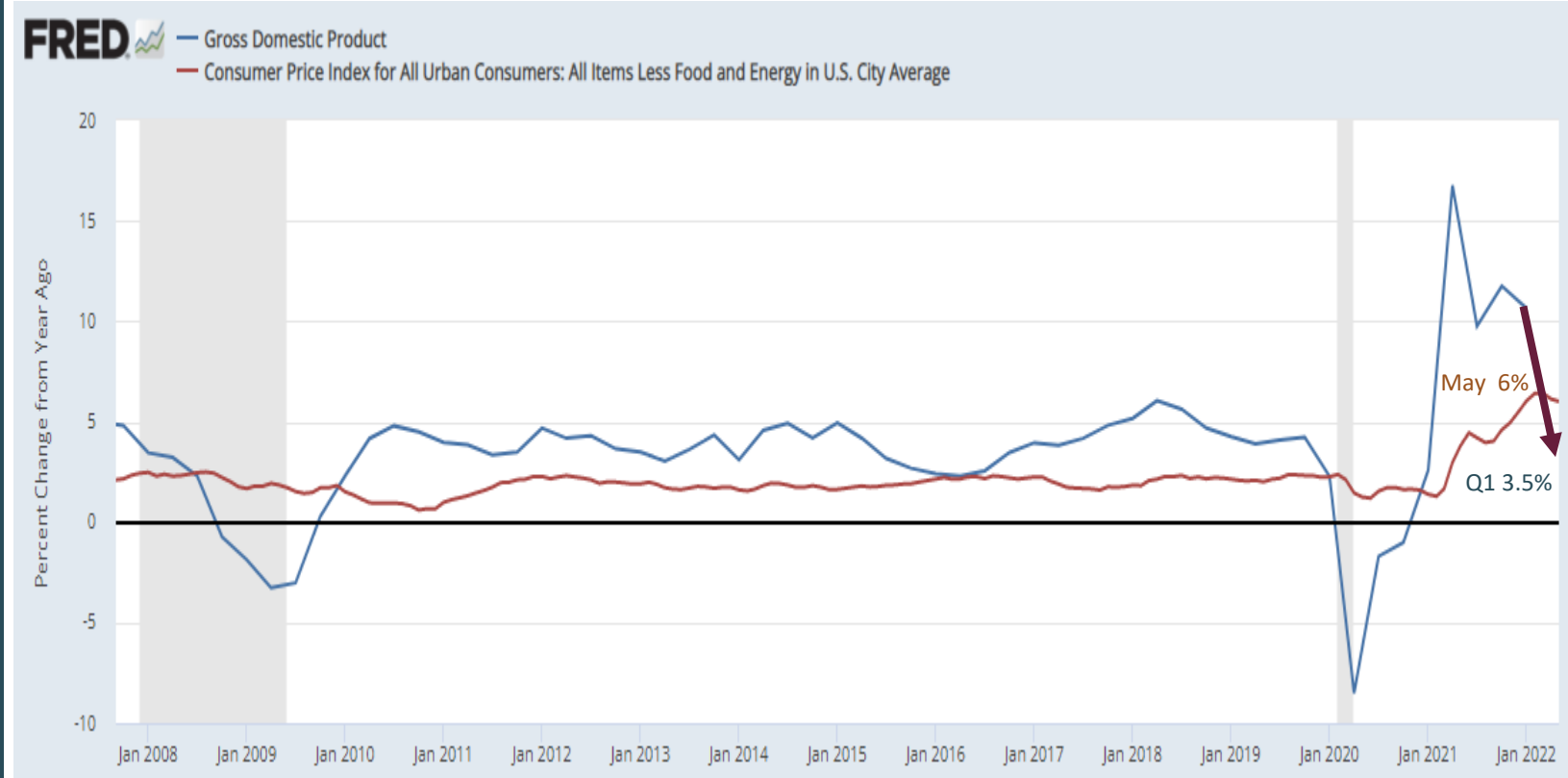
Outlook

- *Tightening global fiscal and monetary policy*
- *Inflation likely peaking*
- *Economy slowing*
- *Investor recession expectations now >50%*

Growth Slowing Inflation Peaking Soon

- 8.6% May inflation is 40 year high, core 6%
- Annual growth 3.5%, slowing to LT trend, Q1 change minus 1.5%
- Inventory build over, consumption slowing

GDP & Core CPI Percent Change vs. Year Ago

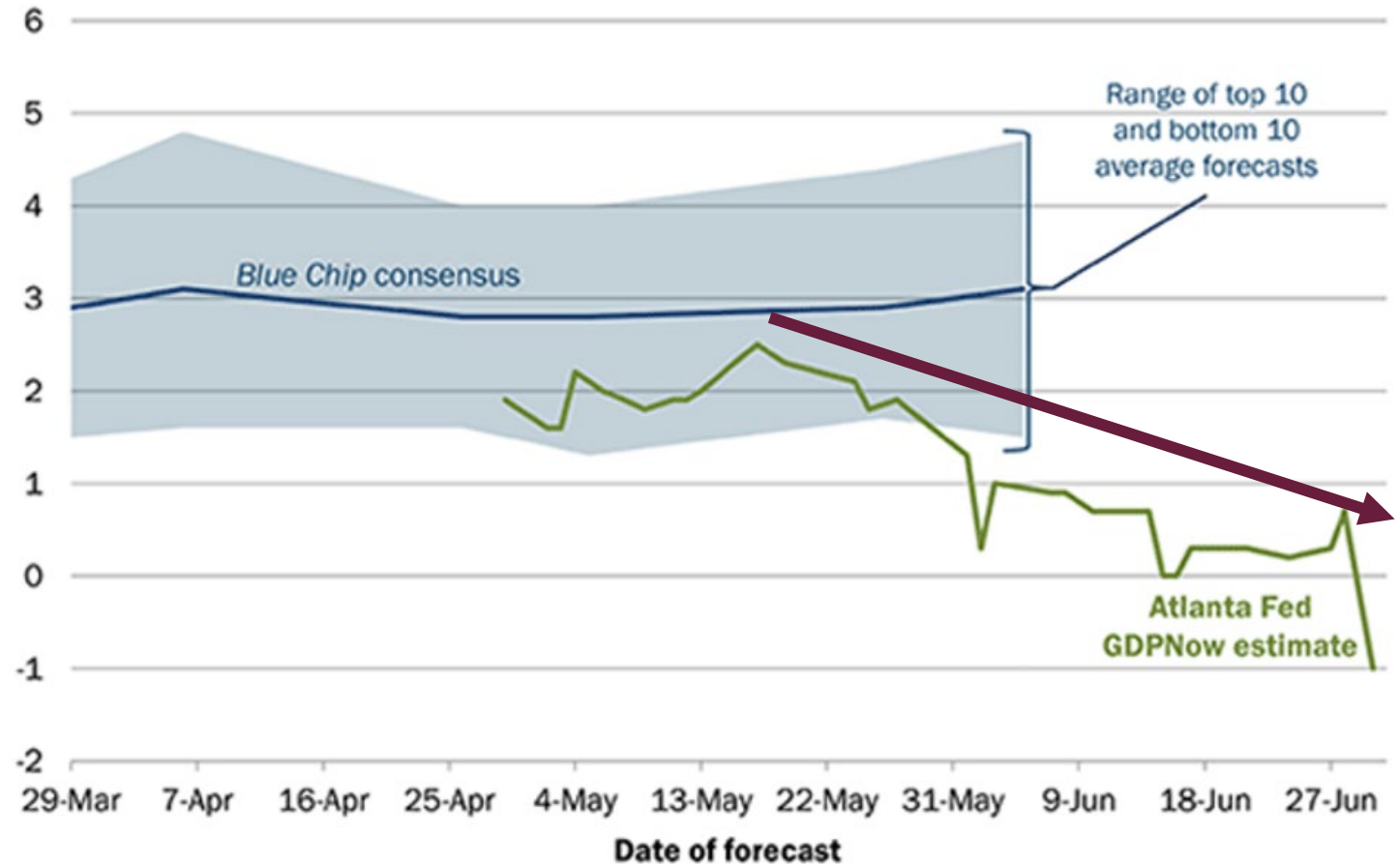


Source: Federal Reserve St. Louis (BEA, BLS) as of May, 2022; (vertical gray bars represent recessions)

Economic Growth Survey

- Growth is slowing in real time
- Consensus is too high
- Potential two quarters of negative real growth

Atlanta Fed GDPNow (real) vs Consensus



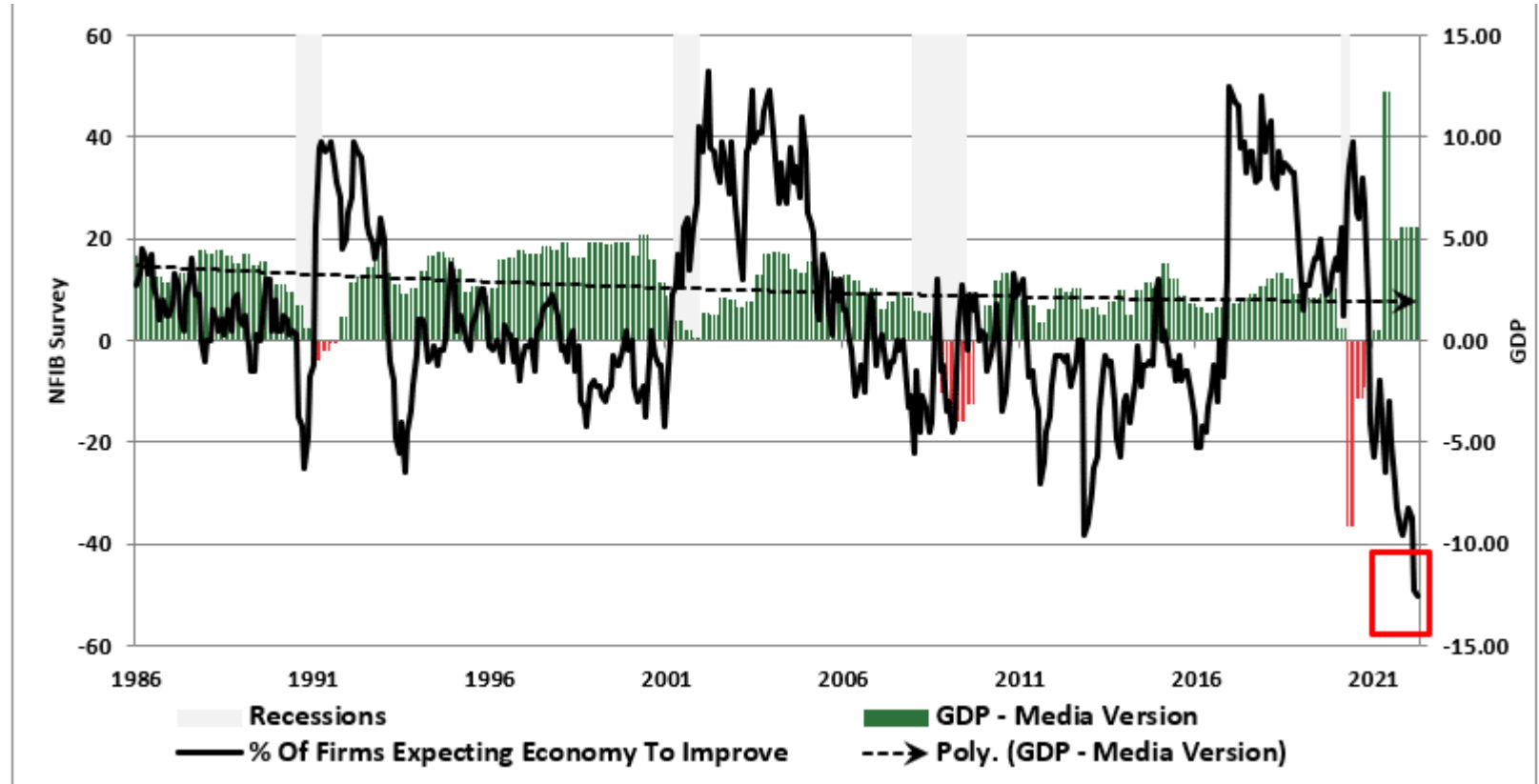
Source: Atlanta Federal Reserve and Blue Chip Economic Indicators, 6/2022



NFIB Survey

- Survey shows new low
- Portends a decline in hiring
- Pricing concerns leads the decline

% Of Firms Expecting Improvement

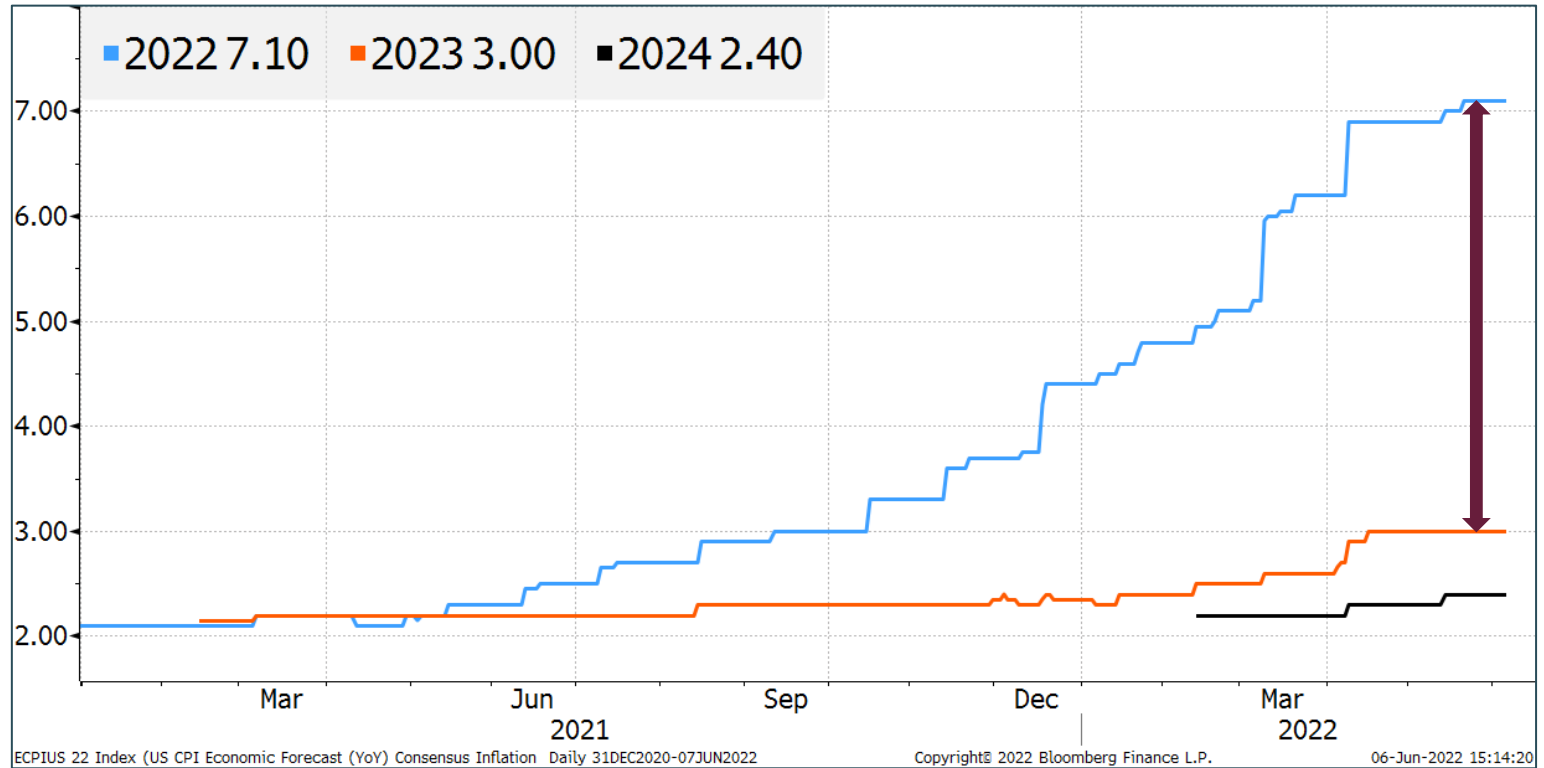


Source: NFIB , 6/2022

Inflation Expectations

- 2022 moderation is very late
- 2023 spread could narrow, not priced in markets or Fed expectations
- Watch consumption and personal income

CPI Forecast
Percent Change vs. Year Ago



Cost Of Lumber

- Prices moderating as production improves
- Demand weakened w/ spike
- -6.19% YTD price change

Lumber Spot Price And YTD Return



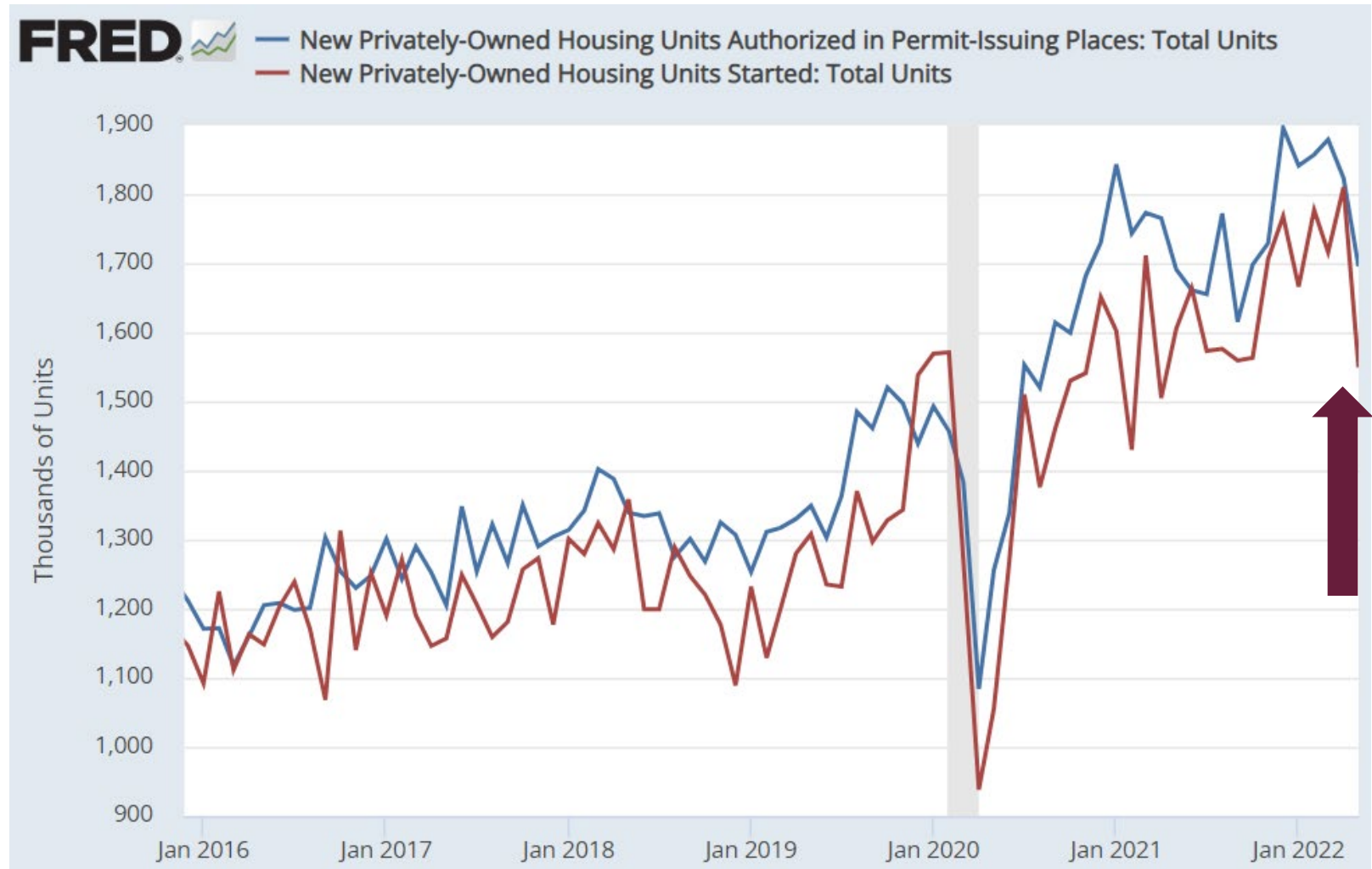
Source: Bloomberg as of 7.11.2022



Housing Market

- Permits have rolled over
- Starts lead permits down
- -250,000 units started vs permitted

Housing Starts And Permits

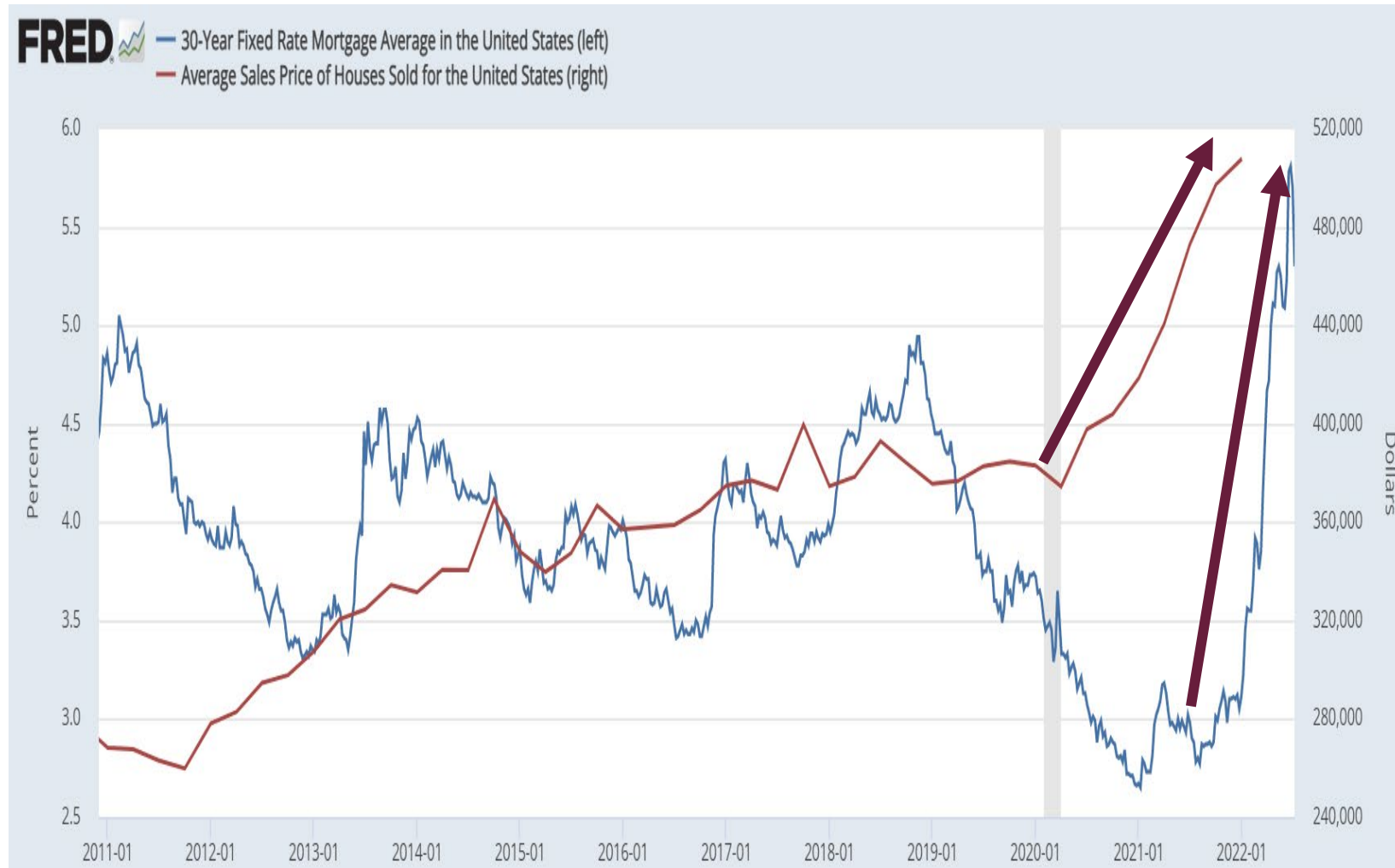


Source: Census Bureau and HUD

Housing Market

- Higher mortgage rates and prices crimp demand
- 30-year mortgage rate near 6%
- Home prices up 35% since 2020

Home Prices And Mortgage Rates

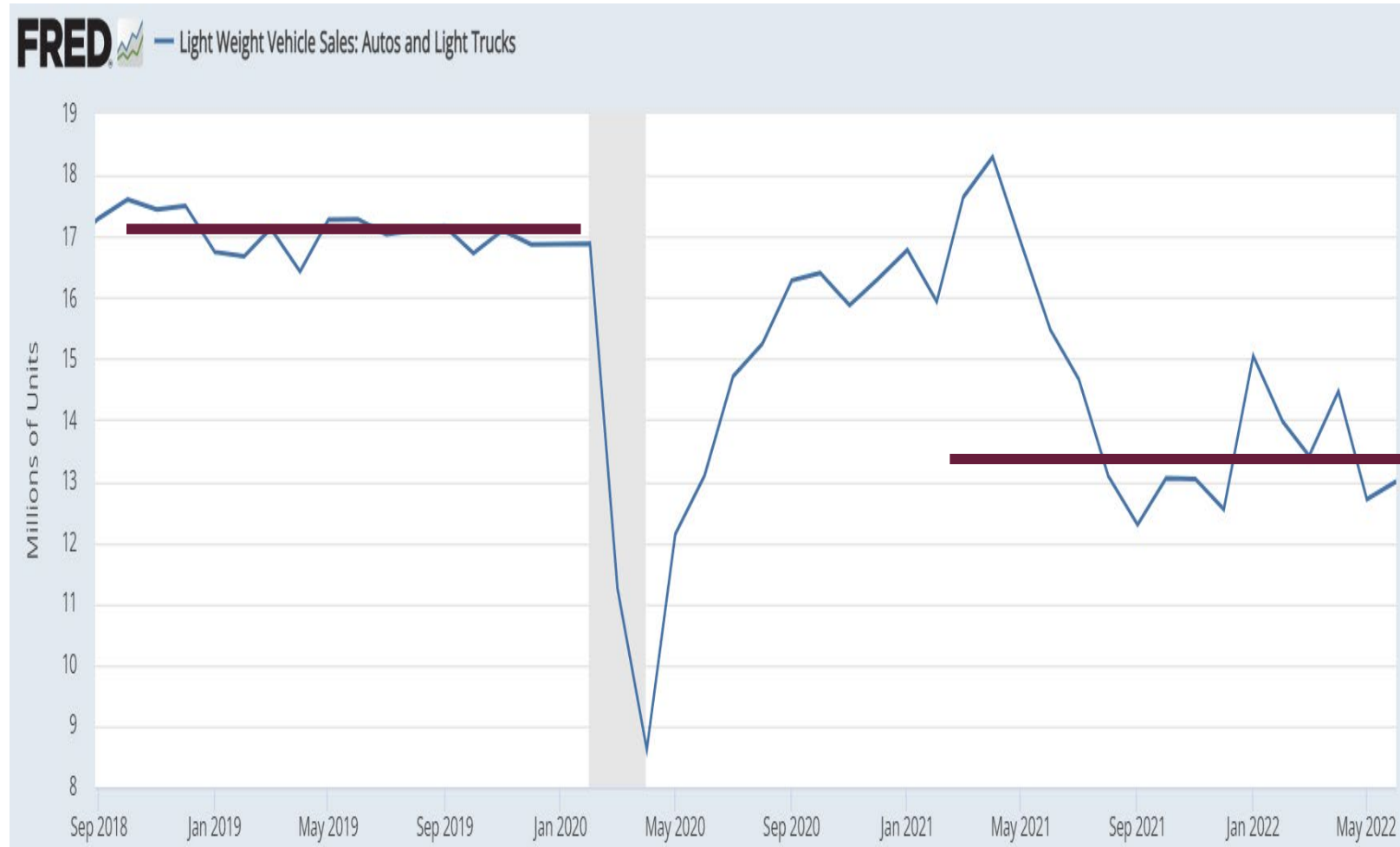


Source: FHLMC, Census Bureau and HUD

Car and Truck Distribution

- Supply chain issues resolving
- Used car market will soften as new cars become available
- Financing rates are up and so are car prices
- 13.5 mil. units vs 17 mil.

U.S. Light Weight Vehicle Sales

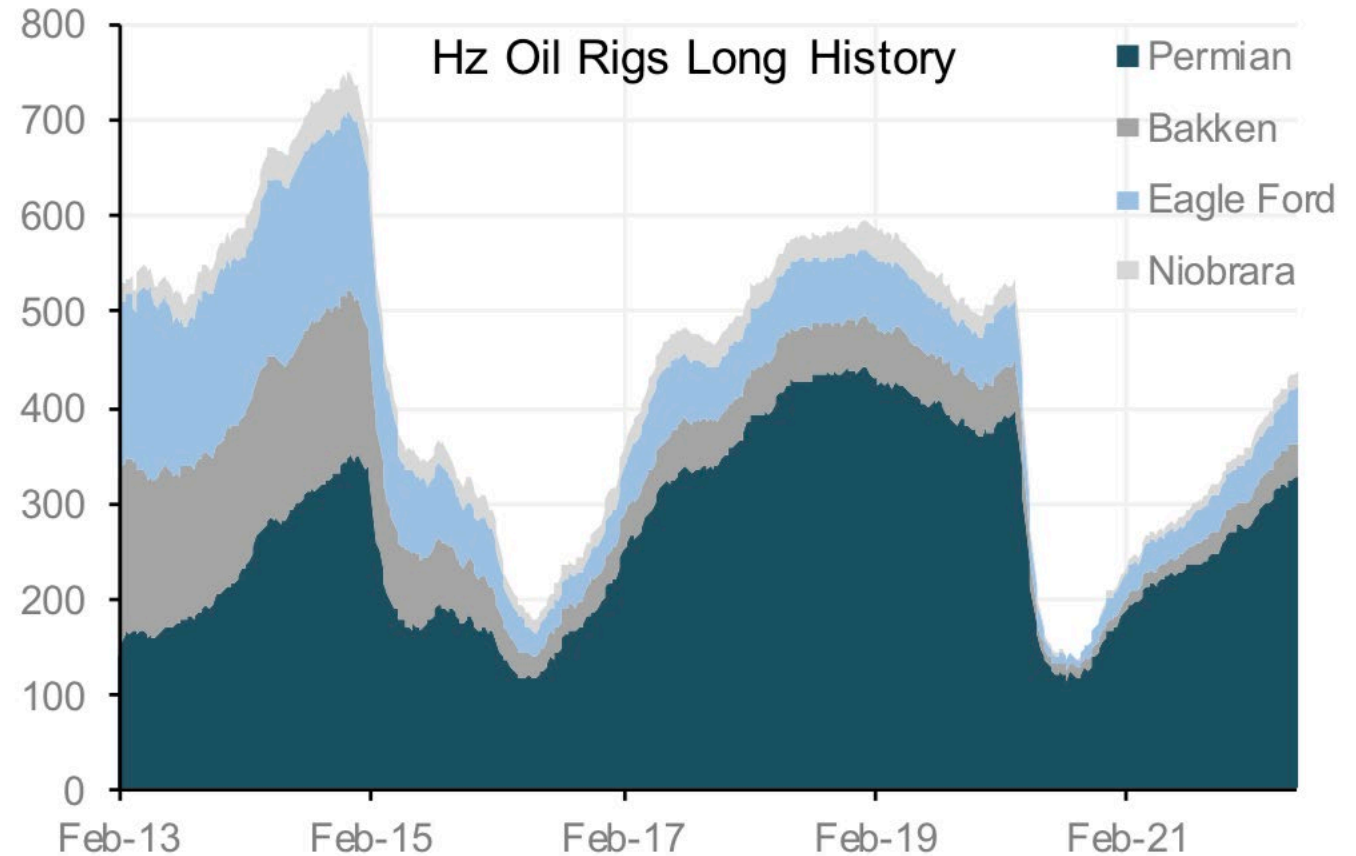


Source: U.S. Bureau of Economic Analysis

Oil Prices and Production

- Below 2015 peak by approximately 300 rigs
- Production should be near 14 million bbls
- Higher prices may temper demand
- Exports up to Europe
- China economy getting stronger

Rig Count
Number Of Oil Rigs In Shale Areas



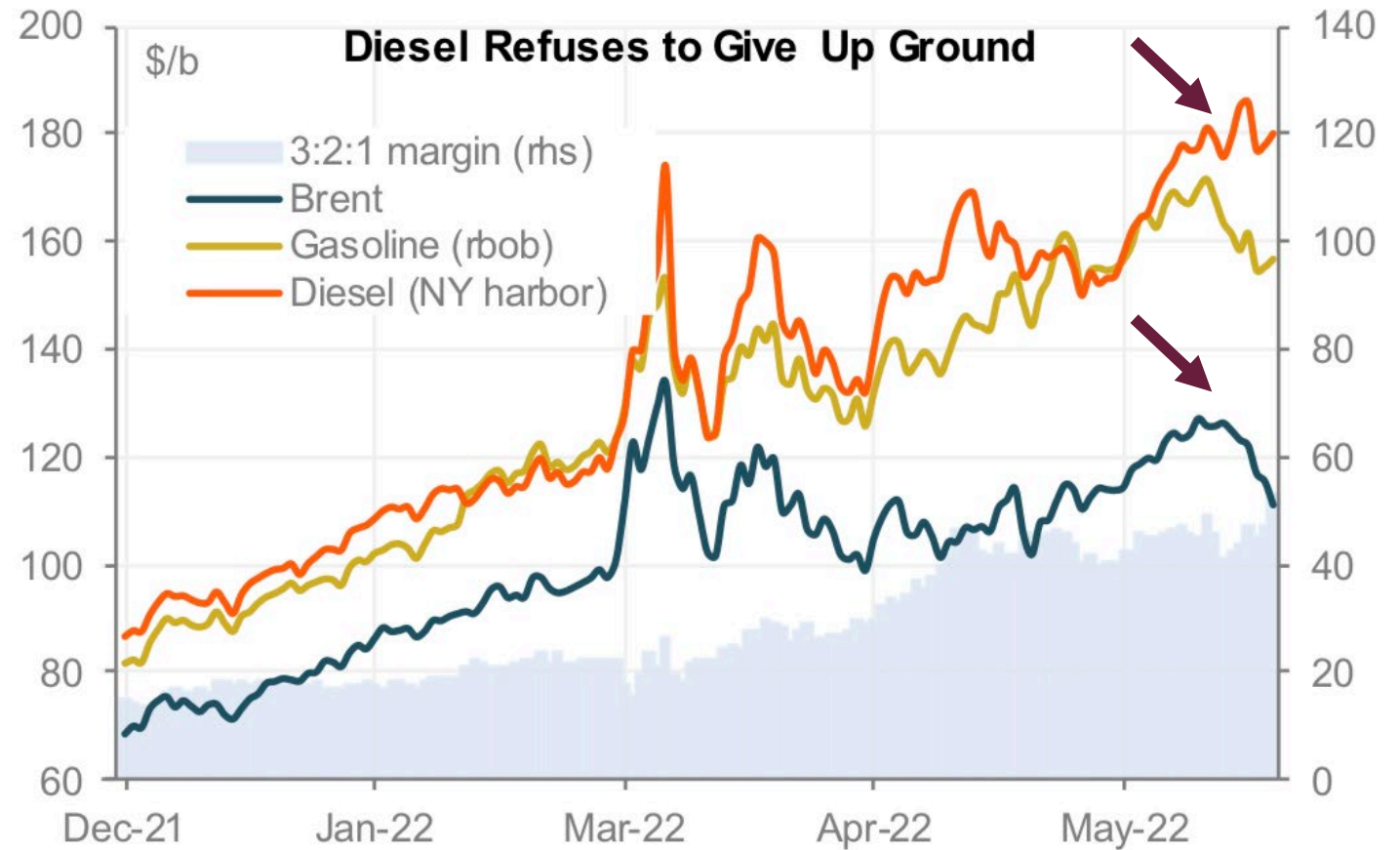
Source: IEA and Piper Sandler 6.25.22



Price of Distillates

- Gas and diesel prices are sticky
- Margins are double 6 months ago
- Oil prices are off peak

Prices and Margins



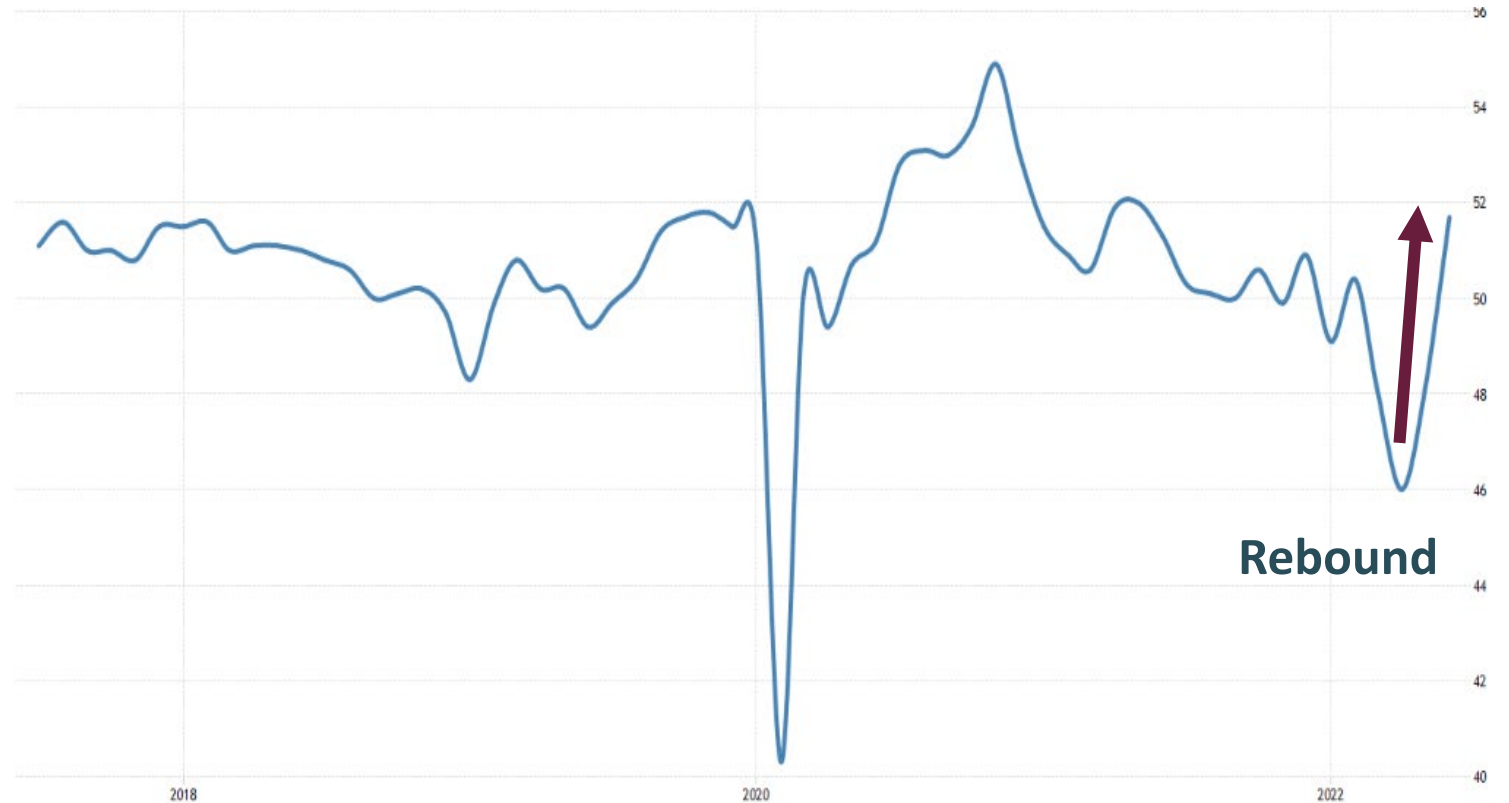
Source: IEA, Piper Sandler 6.25.22



China Economy

- Services and Manufacturing are recovering
- COVID shutdowns will slow
- 2nd largest global economy produces EM dividends

China's Manufacturing PMI



Source: Caixin Purchasing Managers Index 6.22

Treasury Yields

- New high for 2-year
- Reflects future FF expectations
- Money market, CD, bonds and loan yields price off this

2-Year Treasury Yield



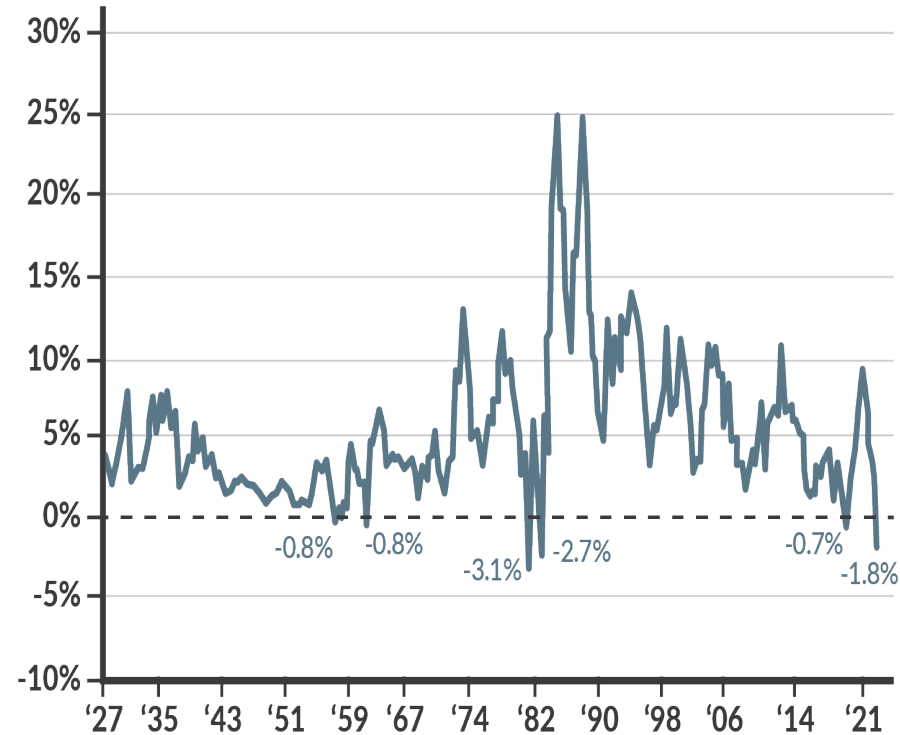
Source: U.S. Treasury and CNBC 7.11.22

Better Bond Returns Expected

- -1.8% bond return over past two years
- Only the sixth negative two-year bond return since 1926
- Above average performance followed the other five periods

Two-Year Rolling Returns For US Bonds

Average annual 2-year returns



Worst Two-Year Periods for US Bonds

	U.S. Bonds	Next 2 Years
March '80	-3.1%	11.4%
August '81	-2.7%	23.0%
March '22	-1.8%	?
August '56	-0.8%	3.1%
December '59	-0.8%	6.7%
July '18	-0.7%	9.1%

Source: BlackRock Student of the Market April 2022, Morningstar as of 3/31/2022

Note: US bonds represented by the Bloomberg US Agg Bond Index from 1/3/89-3/31/22 and the IASBBI US Gov Index from 1/1/26-1/3/89



U.S. Equity Returns

- SPX -20.7% - bear market territory
- Technologies sold most
- Small cap -30-40%
- International markets outperformed

U.S. Equity Markets
YTD Returns



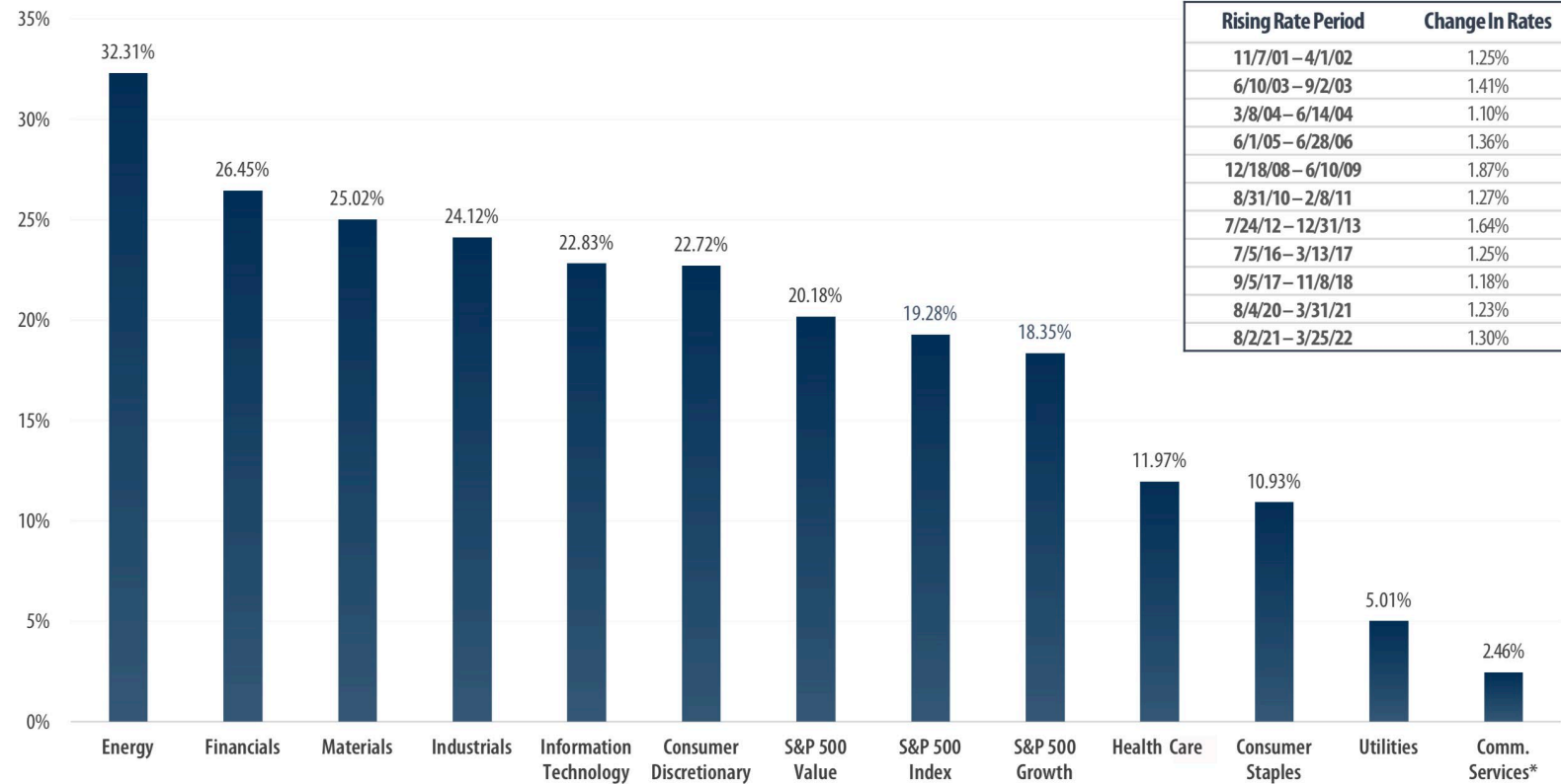
Source: Koyfin 6.21.22



Equity Returns When Rates Rise

- Stocks generally rise over entire period of rising rates
- Energy and Financials have outperformed
- Value over growth

Stock Market Sector Returns During Rising Interest Rates

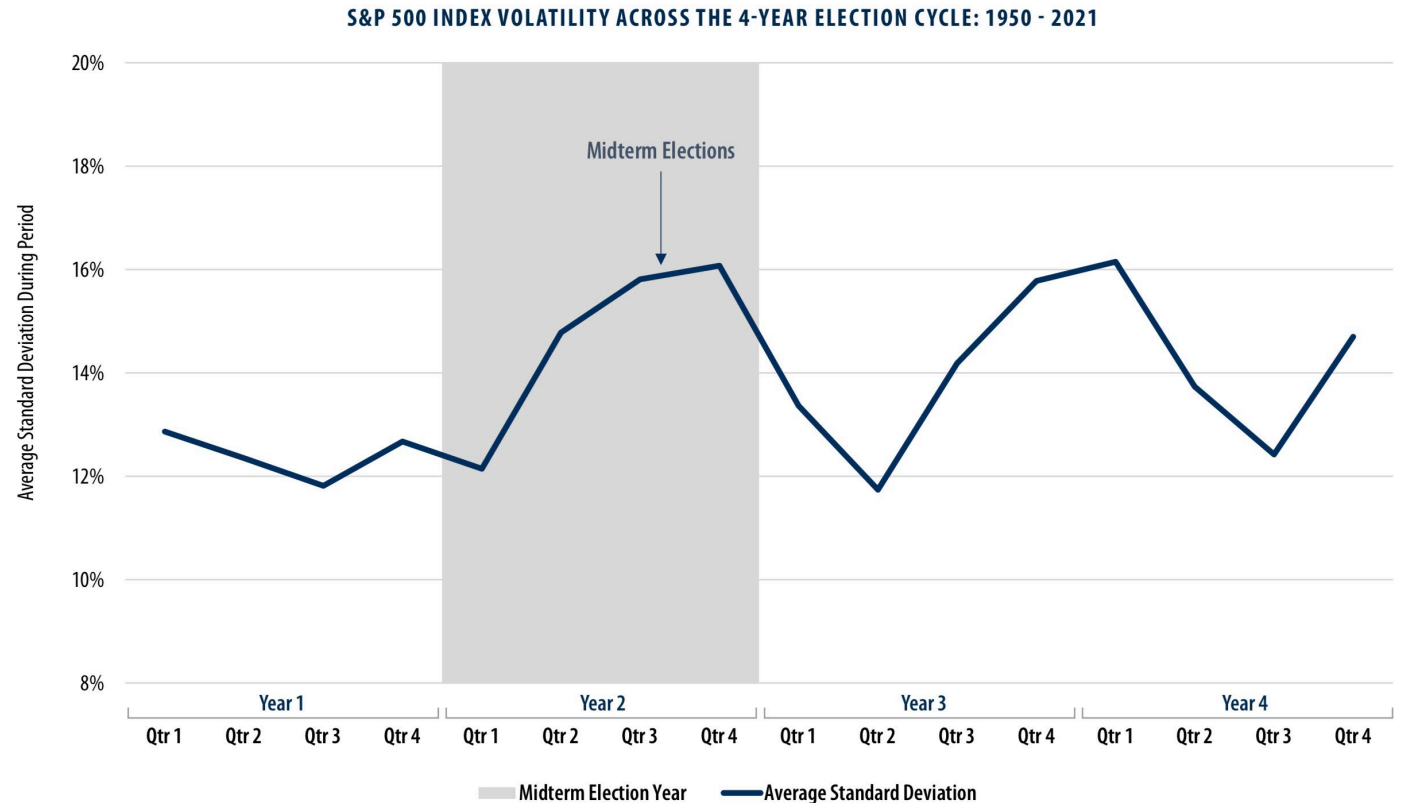


Source: First Trust, Bloomberg



Mid-Term Elections

- Markets are more volatile just before elections
- Move and VIX are already high
- Market is priced for R win in Congress
- Smaller margin due to RvW?



Source: First Trust, Bloomberg. Data from 1950-2021 The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. These returns are total returns and the result of certain market factors during the period indicated.



Outlook

- *Growth and inflation tug of war*
- *Inflation likely peaking – commodity prices rolling over*
- *Rates will continue rising*
- *China strength*
- *Recession likely*
- *Unemployment remains below 4% while personal incomes are rising*



Thank You

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