

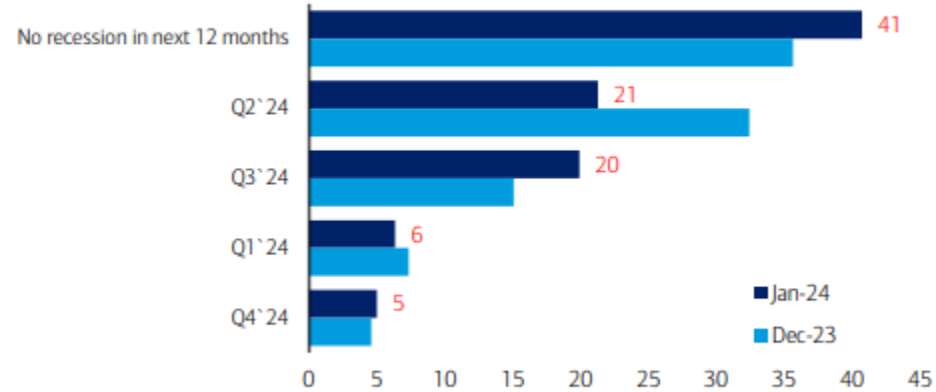
James Bianco

**Will Inflation and Liquidity Prove Sticky?**  
January 18, 2024



**Chart 4: Timing of recession?...no recession is #1 FMS answer**

When do you expect the US economy to fall into recession?



Source: BofA Global Fund Manager Survey, Bloomberg

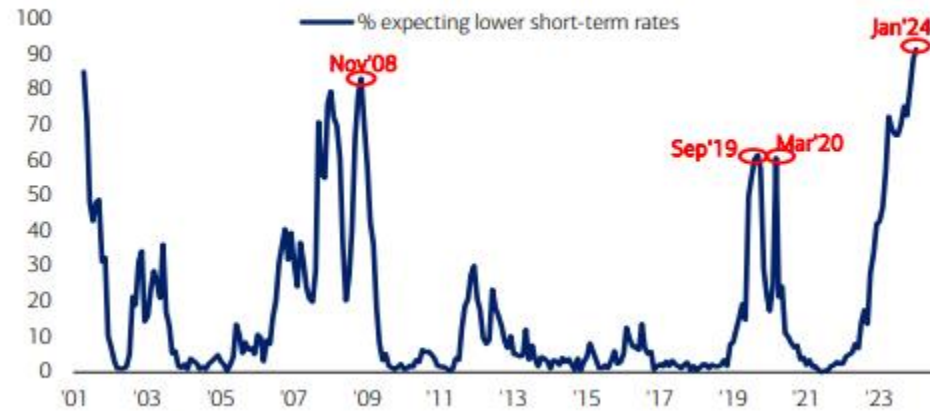
BofA GLOBAL RESEARCH

41% of FMS investors see no recession at all in 2024, a higher percentage than any other answer.

Amongst FMS investors expecting a recession in 2024...21% say Q2, 20% Q3, 6% Q1, and 5% Q4.

**Chart 8: Expectations for lower short-term rates at a record high**

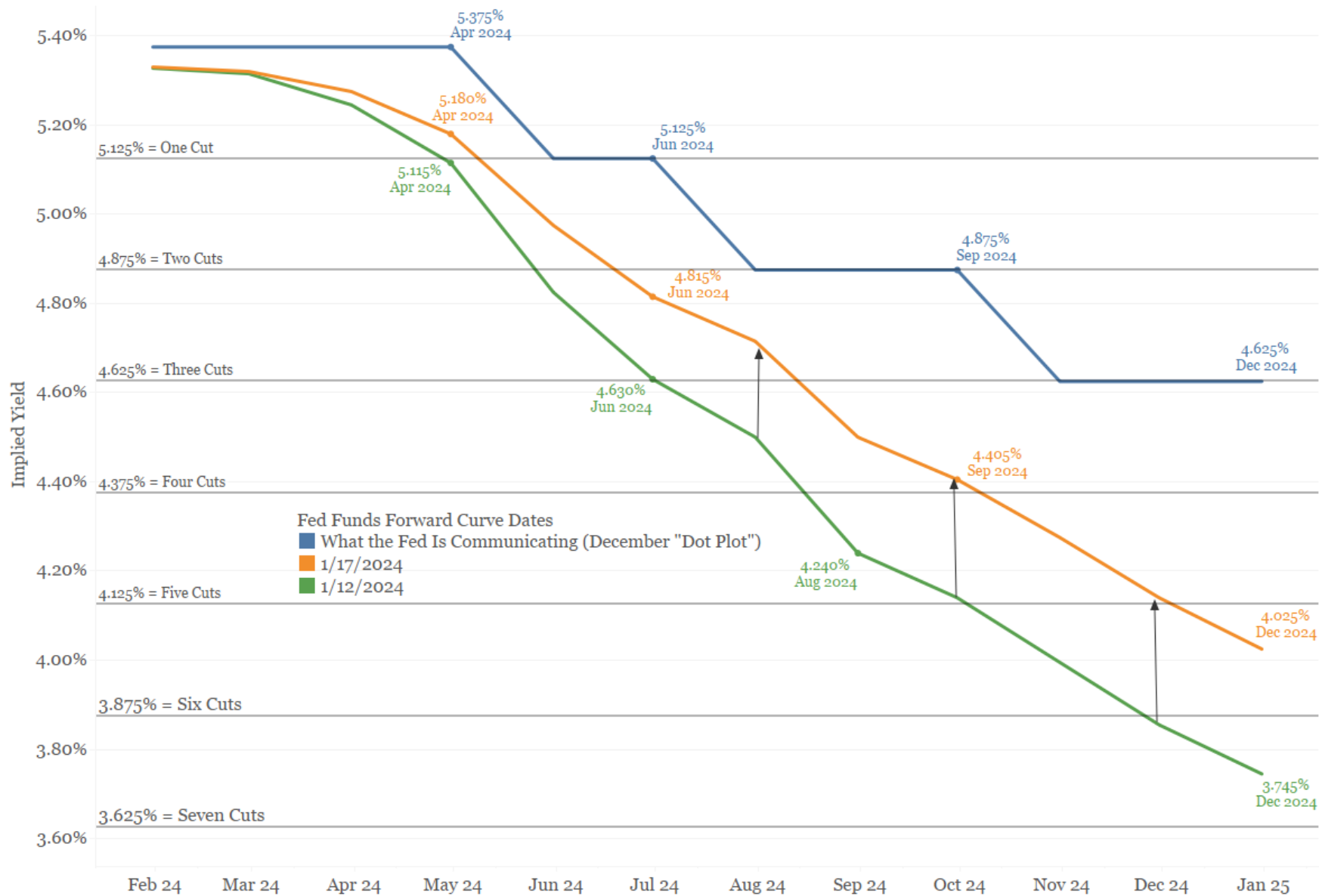
% FMS investors expecting lower short-term rates in next 12 months



Source: BofA Global Fund Manager Survey

FMS investors have never been as bullish on short-term rates as in Jan'24 (data going back to Apr'01) ...a record of 91% expect short-term rates to be lower in the next 12 months, up from 87% in Dec'23.

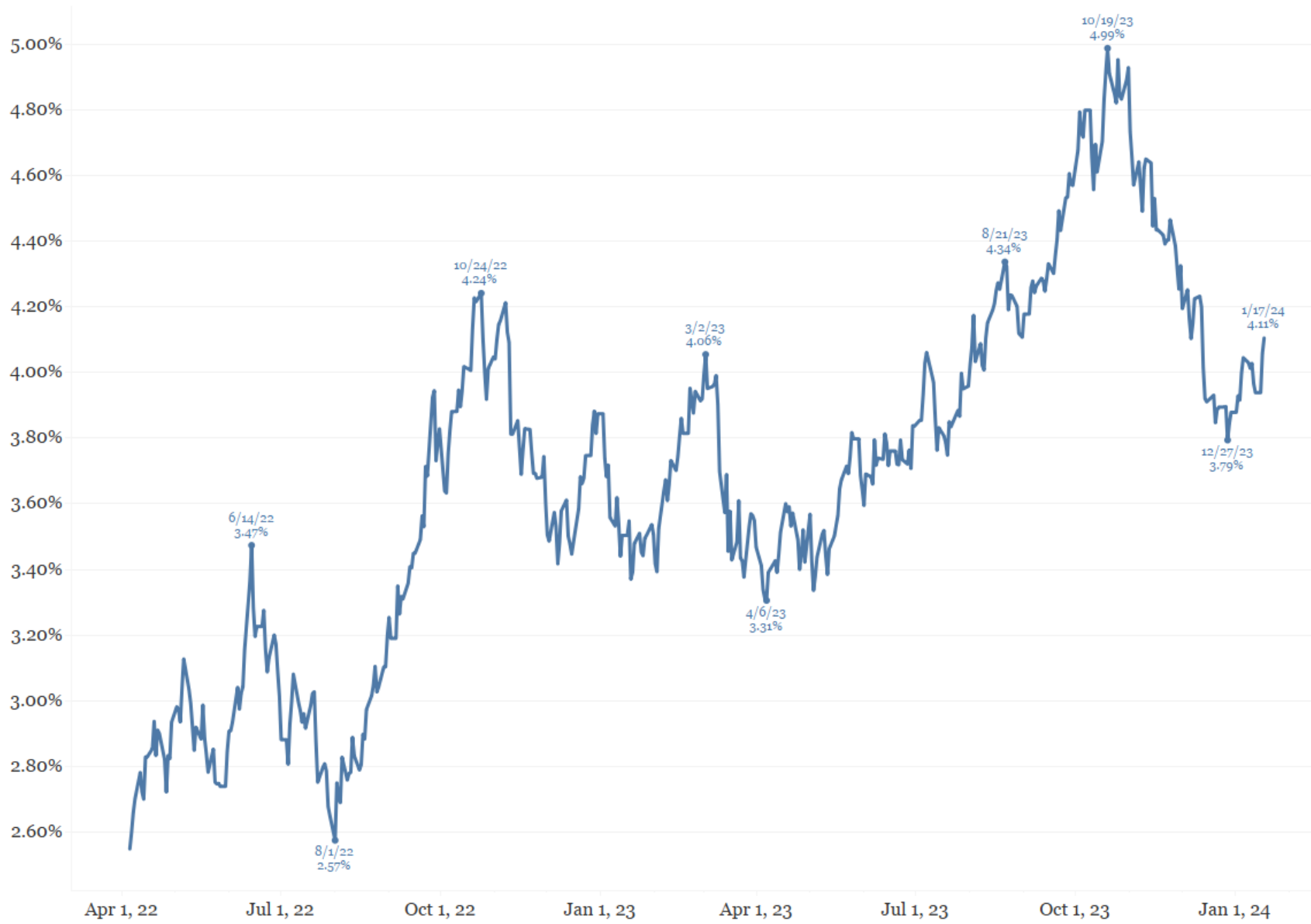
## What Is the Fed Funds Market Pricing In?



Source: Chicago Mercantile Exchange, Bloomberg

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# US 10-Year Yield



Source: Bloomberg

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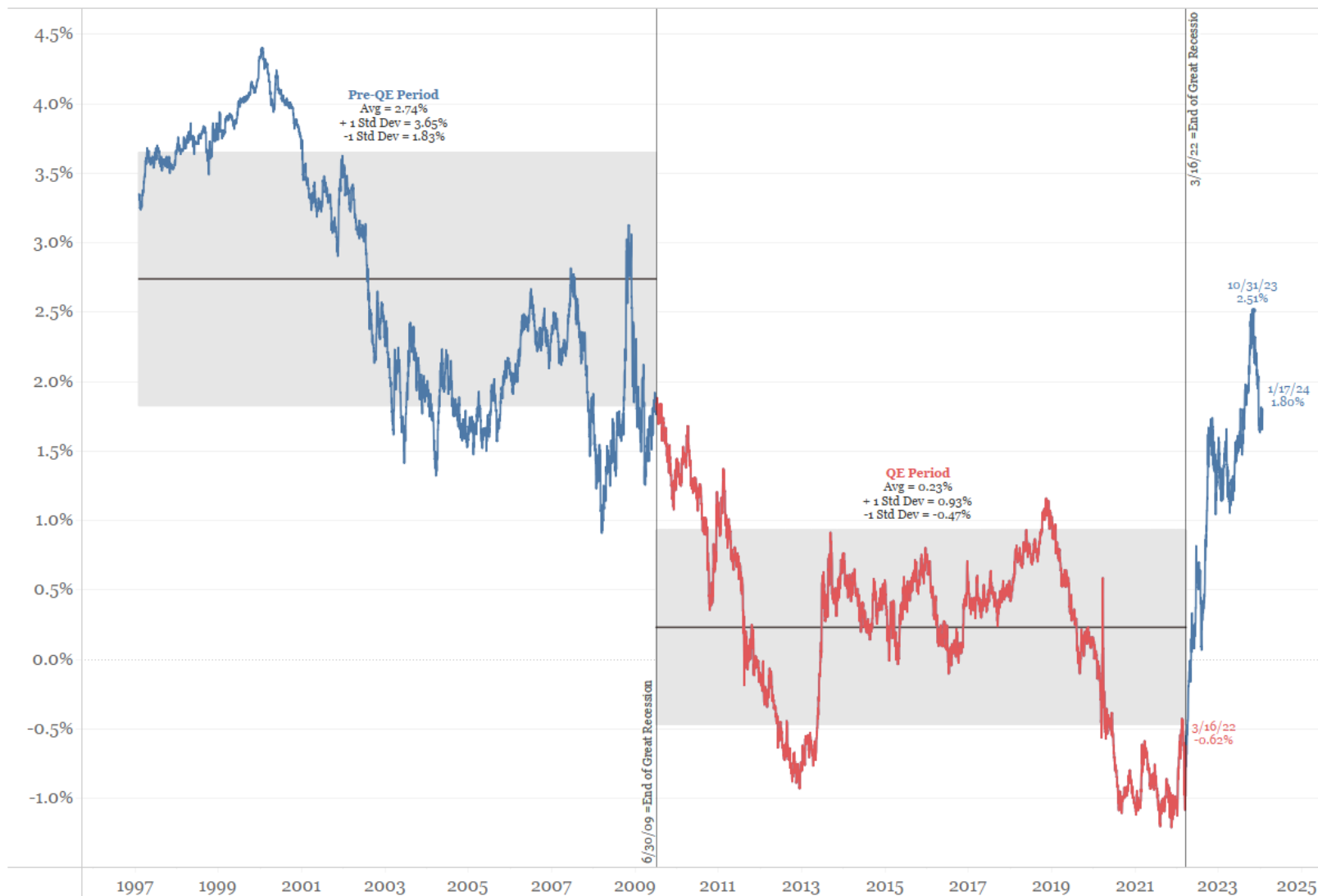
**Bloomberg – (November 29, 2023) [Bill Ackman Bets Fed Will Cut Interest Rates as Soon as First Quarter](#)**

What’s happening is the real rate of interest, which is what impacts the economy, keeps increasing as inflation declines,” Ackman said in an upcoming episode of The David Rubenstein Show: Peer-to-Peer Conversations. Ackman said that if the Fed keeps rates in the roughly 5.5% range when inflation trends below 3%, “that’s a very high real rate of interest.”

**The Wall Street Journal – (December 19, 2023) [Nick Timiraos: Fed Official Says Rate Cuts Could Be Needed Next Year to Prevent Overtightening](#)**

San Francisco Fed President Mary Daly said her outlook for interest rates and inflation was “very close” to the median of projections from 19 Fed officials last week. Most of them penciled in at least three rate cuts next year amid a faster decline in inflation than they anticipated...Daly said that if inflation continues its steady decline of recent months, the Fed’s benchmark interest rate “will still be quite restrictive even if we [cut rates] three times next year.”

US 10-Year TIPS Yield

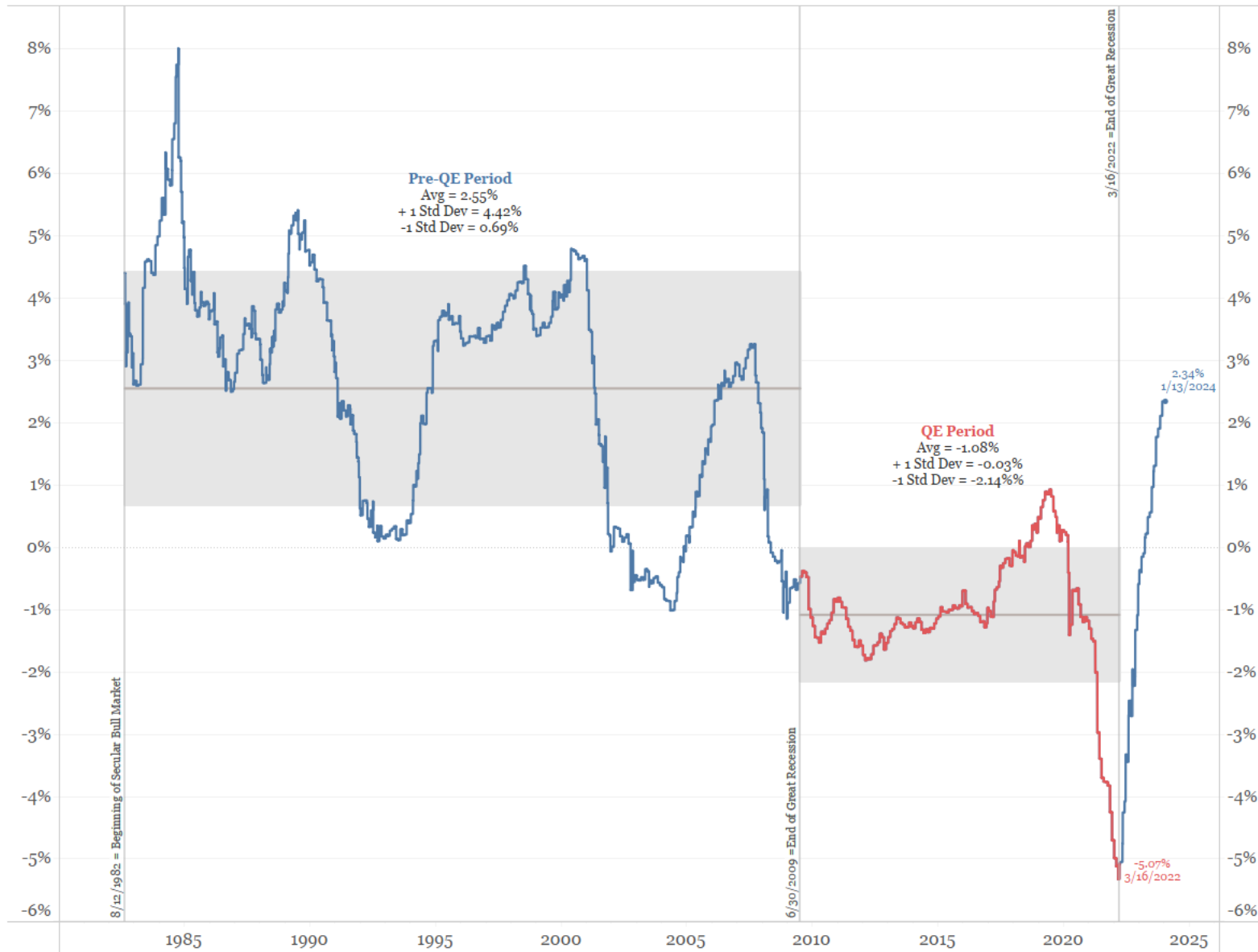


Source: Bloomberg

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# The Real Fed Funds Rate

Upper End of Fed's Target Range Minus Core PCE



Source: Bloomberg

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*The Financial Times* – (October 19, 2023) [Blackstone warns of looming hit to consumers from surge in bond yields](#)

**‘When 30-year mortgages and car loans cost you 8% it will impact consumer behaviour,’ says president**

Jonathan Gray, president of Blackstone, said in an interview with the Financial Times that the jump in 10-year Treasury yields would force consumers to tighten their belts. “When 30-year mortgages and car loans cost you 8 percent it will impact consumer behaviour,”

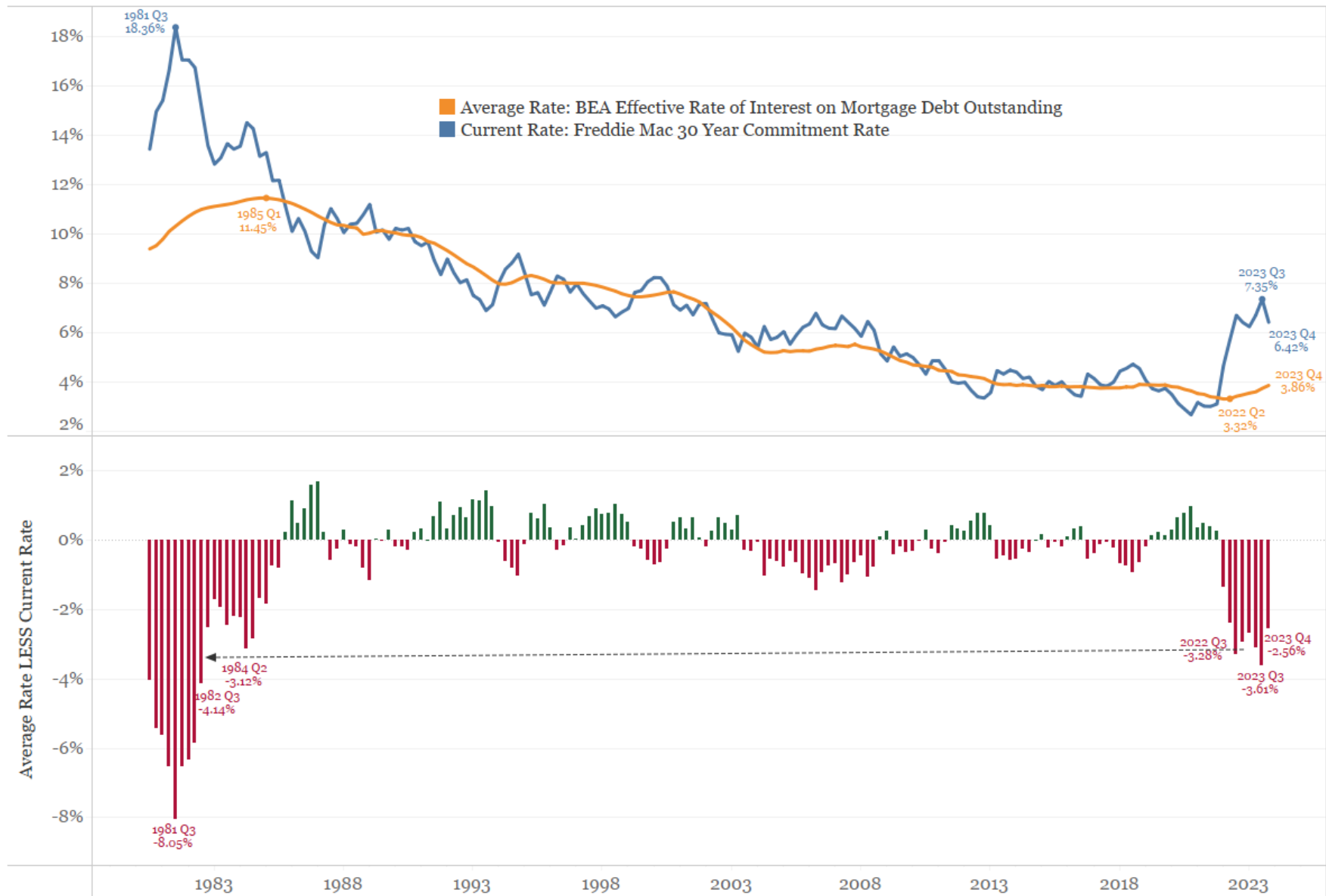
### Bankrate.com US Home Mortgage 30 Year Fixed National Avg



Data Source: Bloomberg, BankRate.com

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## The Average and Current Mortgage Rate

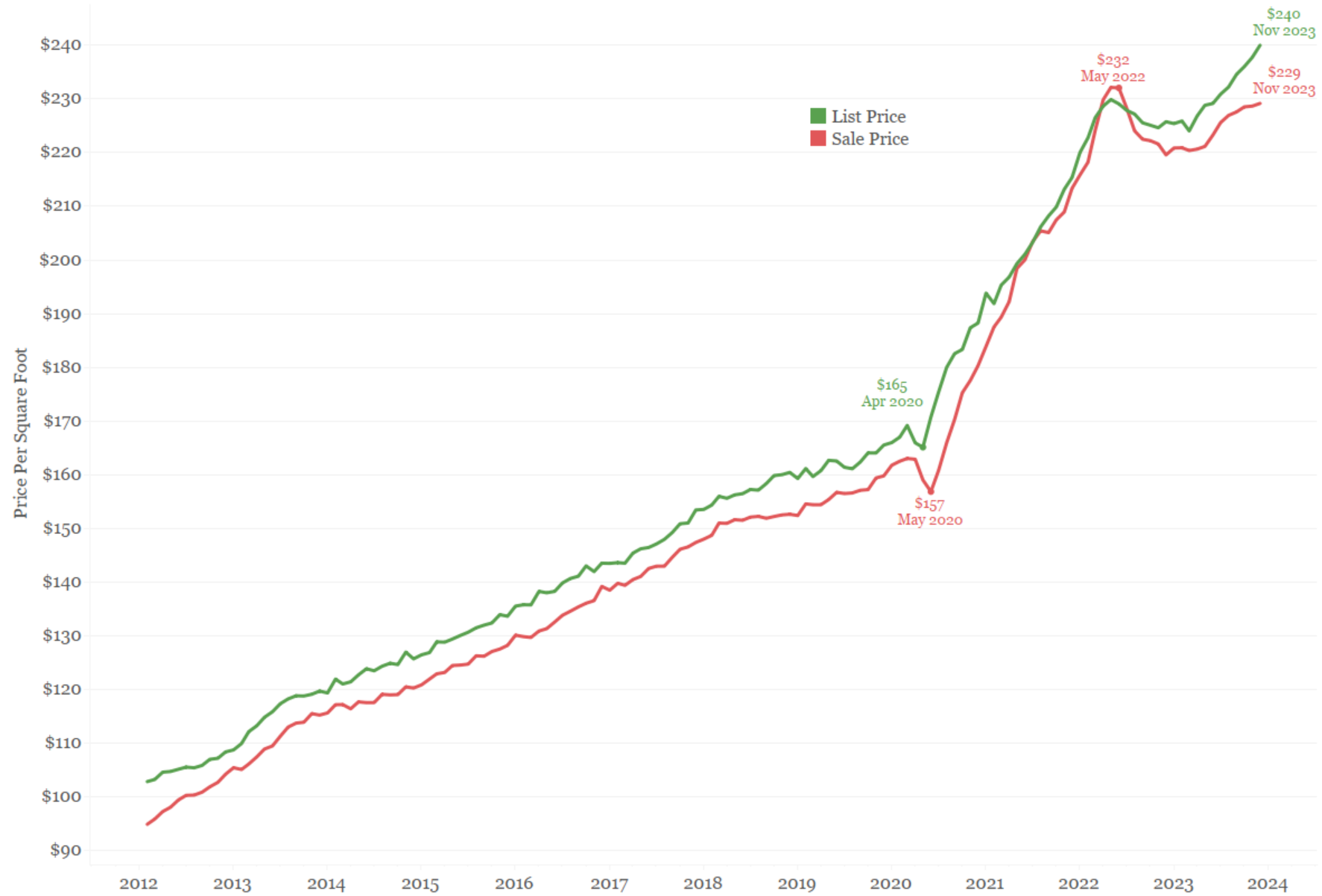


Data Source: Bloomberg, Freddie Mac, Bureau of Economic Analysis (BEA)

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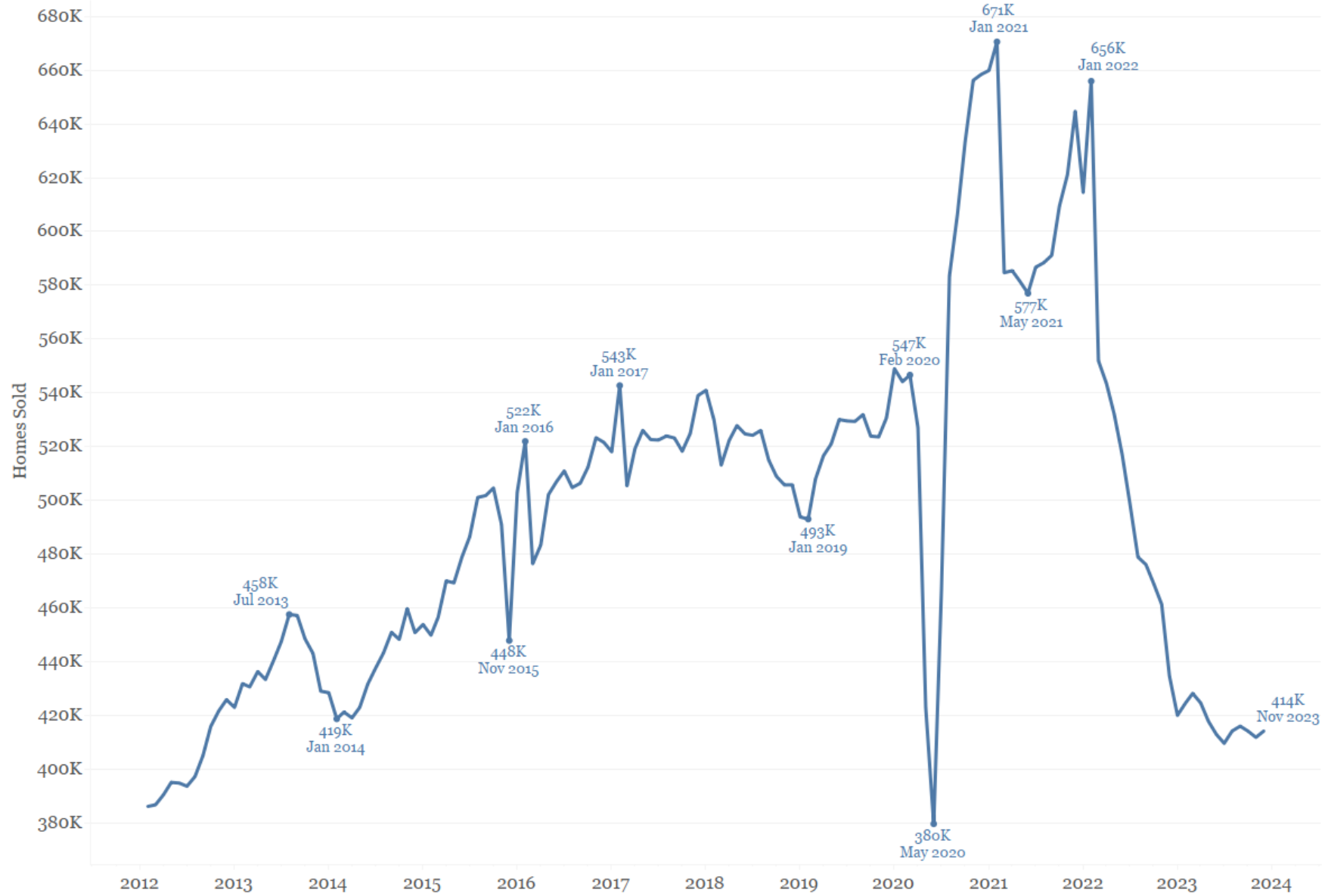
# Median Price Per Square Foot



Source: Redfin

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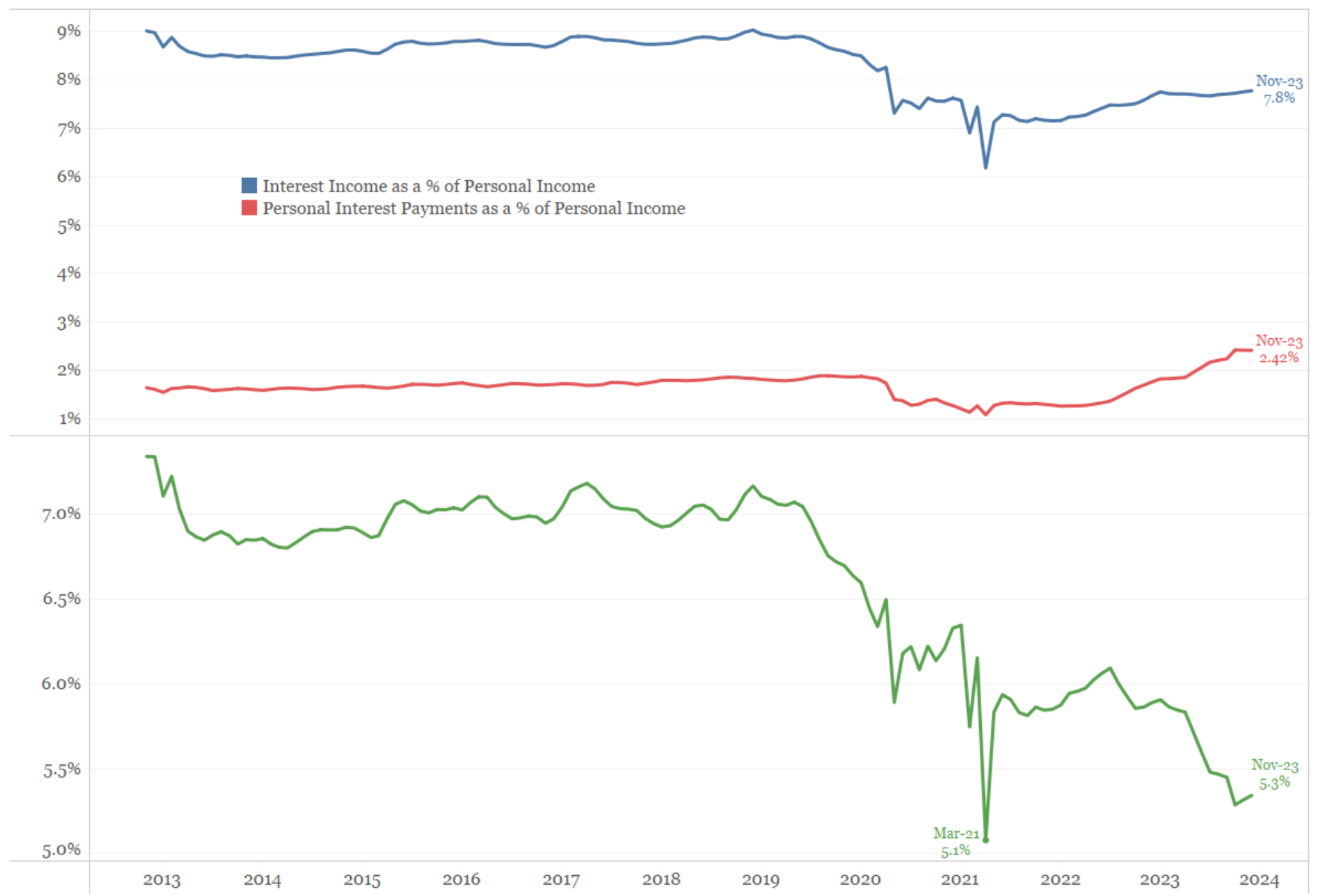
# Homes Sold Each Month



Source: Redfin

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### Personal Interest Expense and Income



Data: BEA

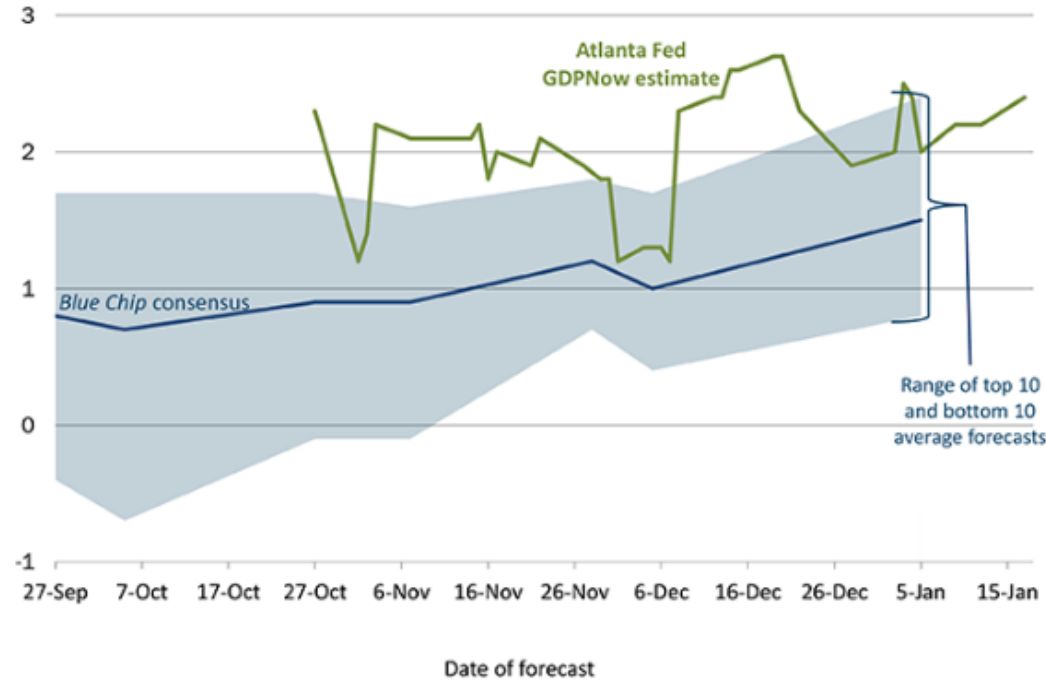
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Latest estimate: 2.4 percent -- January 17, 2024

The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the fourth quarter of 2023 is 2.4 percent on January 17, up from 2.2 on January 10. After recent releases from the US Department of the Treasury's Bureau of the Fiscal Service, the US Bureau of Labor Statistics, the US Census Bureau, and the Federal Reserve Board of Governors, the nowcasts of fourth-quarter real personal consumption expenditures growth and fourth-quarter real gross private domestic investment growth increased from 2.6 percent and -0.7 percent, respectively, to 2.8 percent and -0.5 percent.

The next GDPNow update is **Thursday, January 18**. Please see the "Release Dates" tab below for a list of upcoming releases.

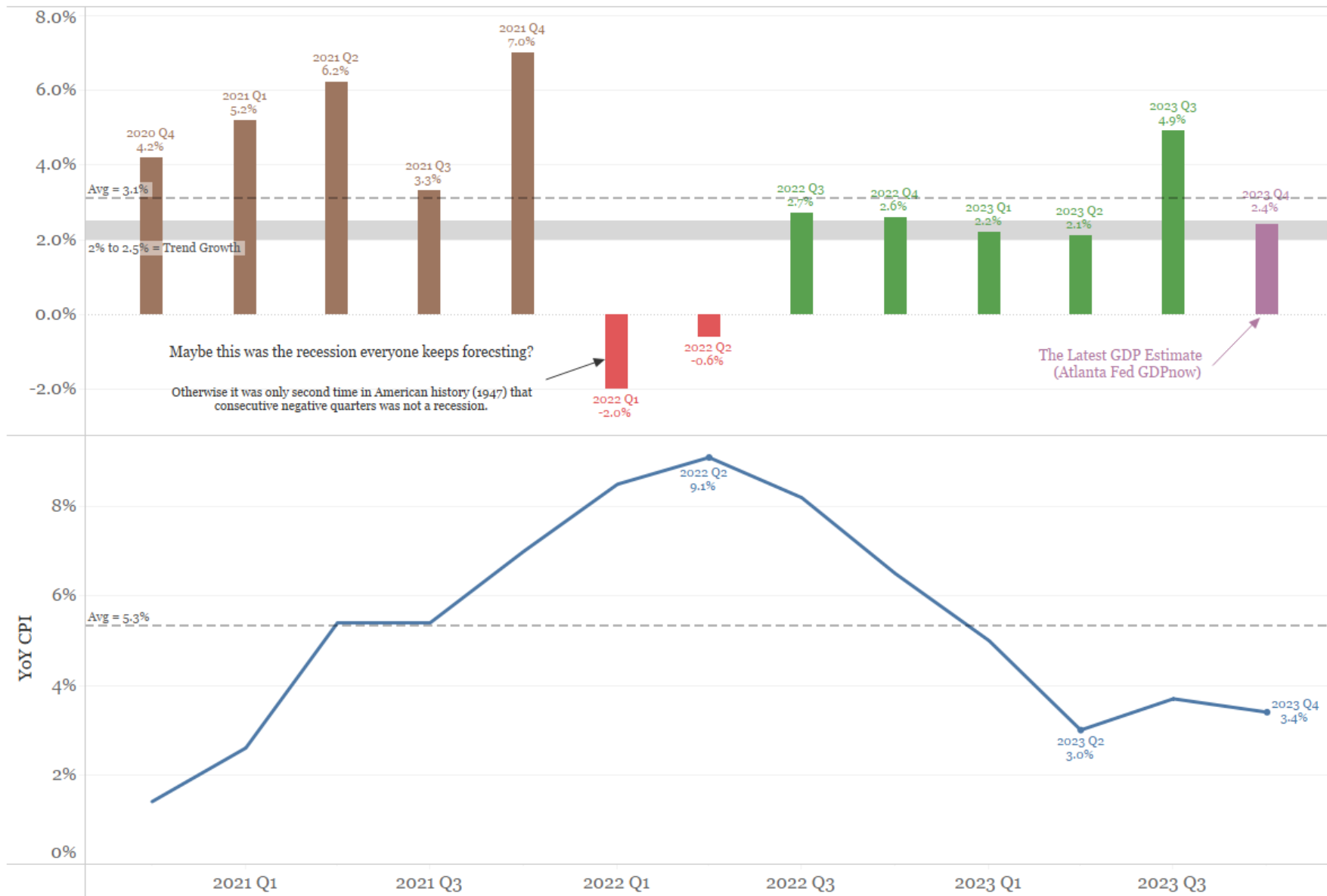
**Evolution of Atlanta Fed GDPNow real GDP estimate for 2023: Q4**  
Quarterly percent change (SAAR)



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.

## GDP and Inflation Since The Lockdowns Ended



Data Source: Bloomberg

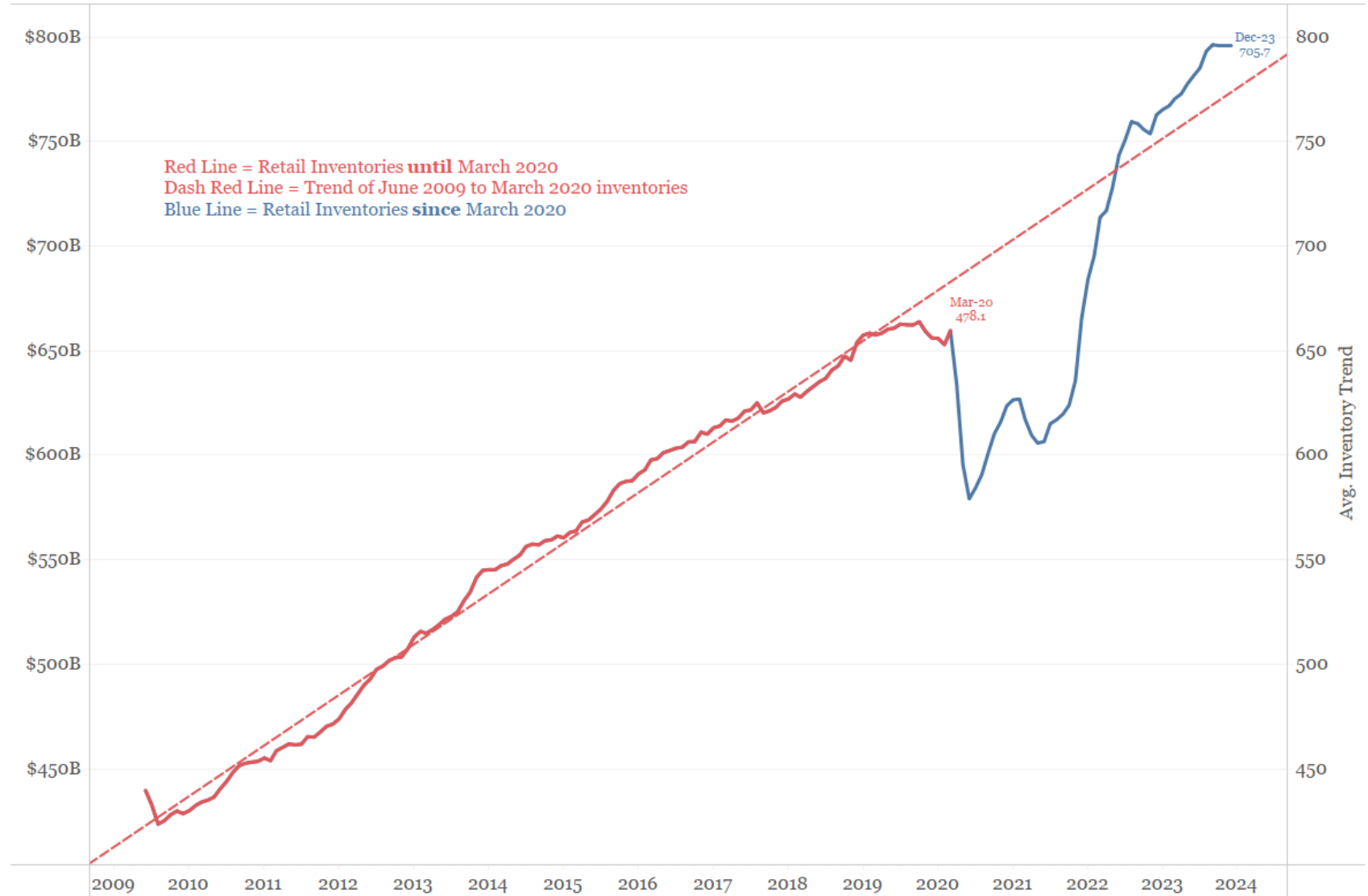
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## What Does The Consumer Want? The Retail Industry Struggles With Inventory Management

**McKinsey & Company – (May 8, 2023)**  
**Thinking beyond markdowns to tackle retail's inventory glut**

In the United States alone, retailers are sitting on \$740 billion in unsold goods. Clearing inventory and building more resilient and agile supply chains require action across five dimensions.

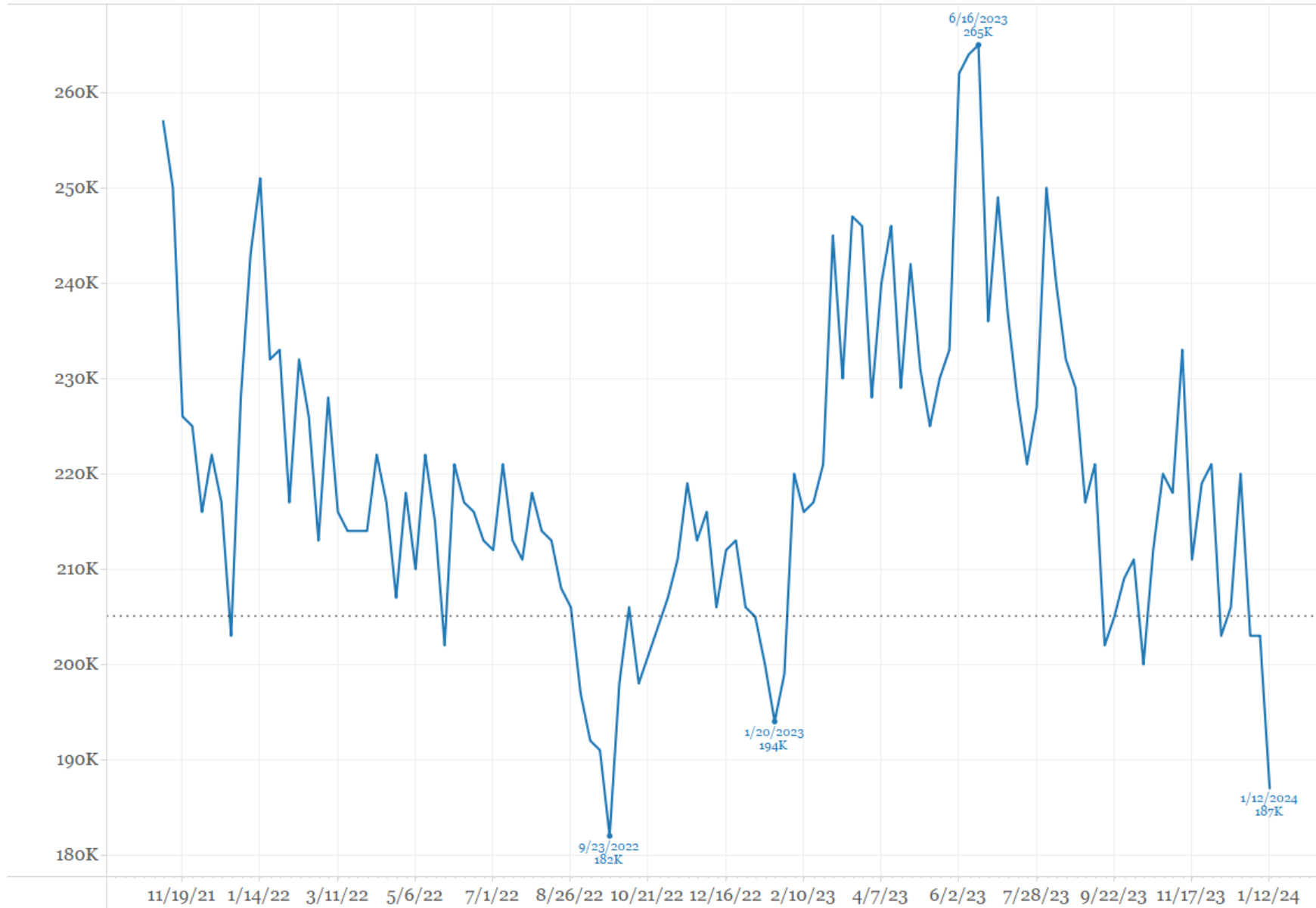
Over the past 18 months, retail supply chains have experienced unprecedented demand and supply shifts. Pandemic-related disruptions from the end of 2021 to the start of 2022 led to goods arriving late—or, in some cases, after the season. As retailers sought to overbuy inventory to mitigate potential shortages, softening demand and a sudden shift in consumer spending in the middle of last year left them with an inventory glut needing to be marked down or warehoused.



Source: Census Bureau

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# Weekly Initial Claims

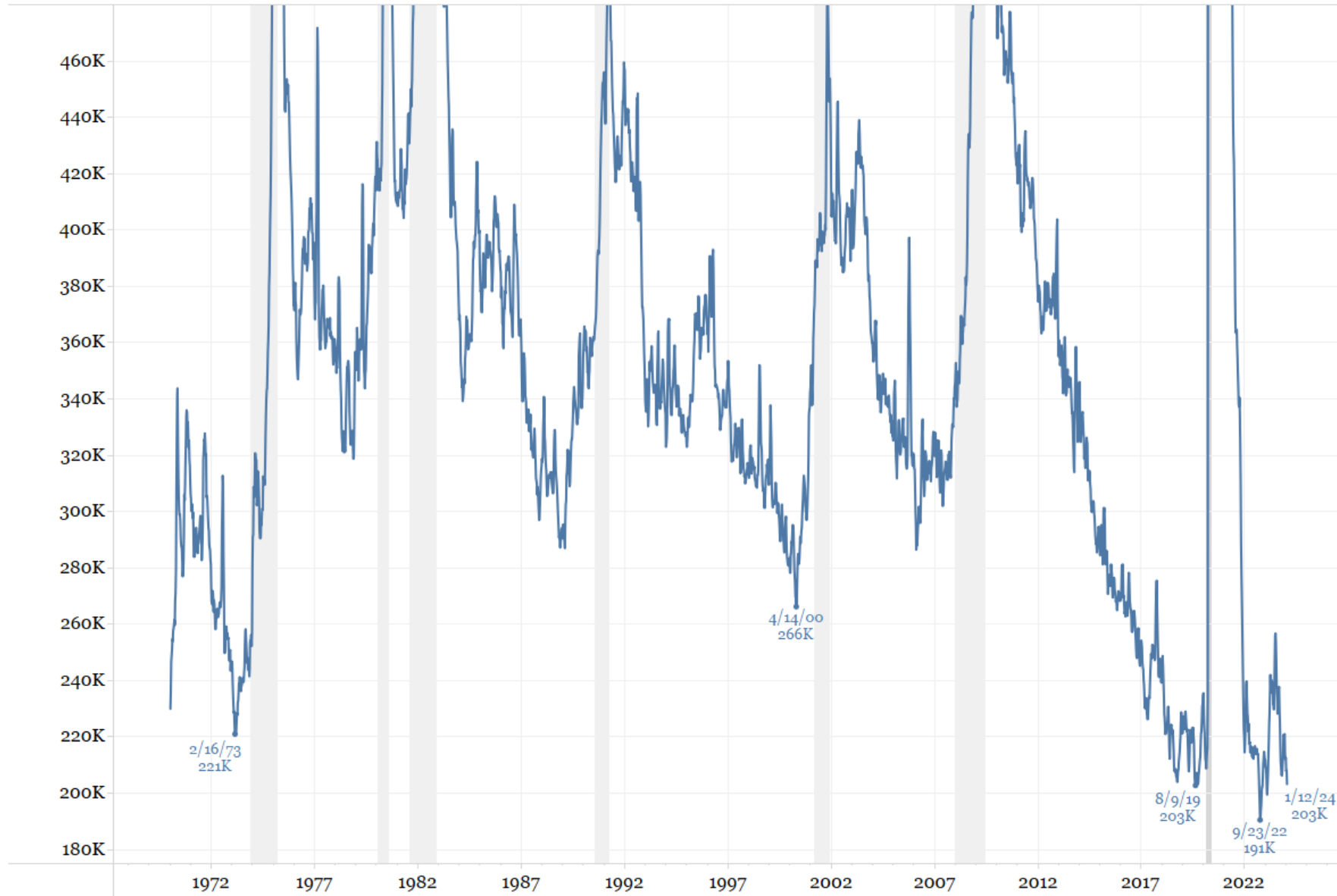


Data Source: Bureau of Labor Statistics

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# Weekly Initial Claims - Focus on Cycle Lows

Rolling 4-Week Average



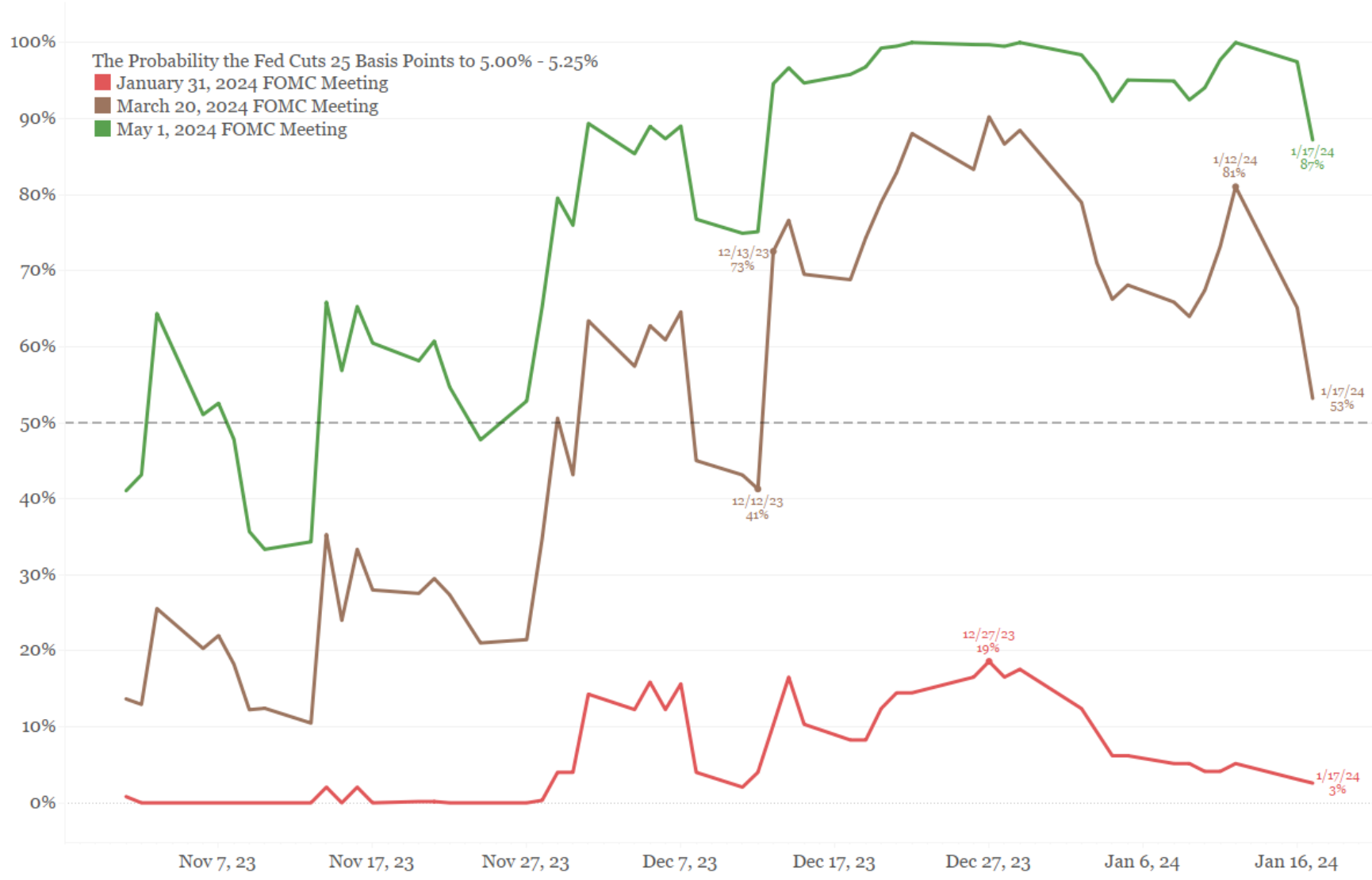
Data Source: Bureau of Labor Statistics

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## When Will the Fed Cut Rates?

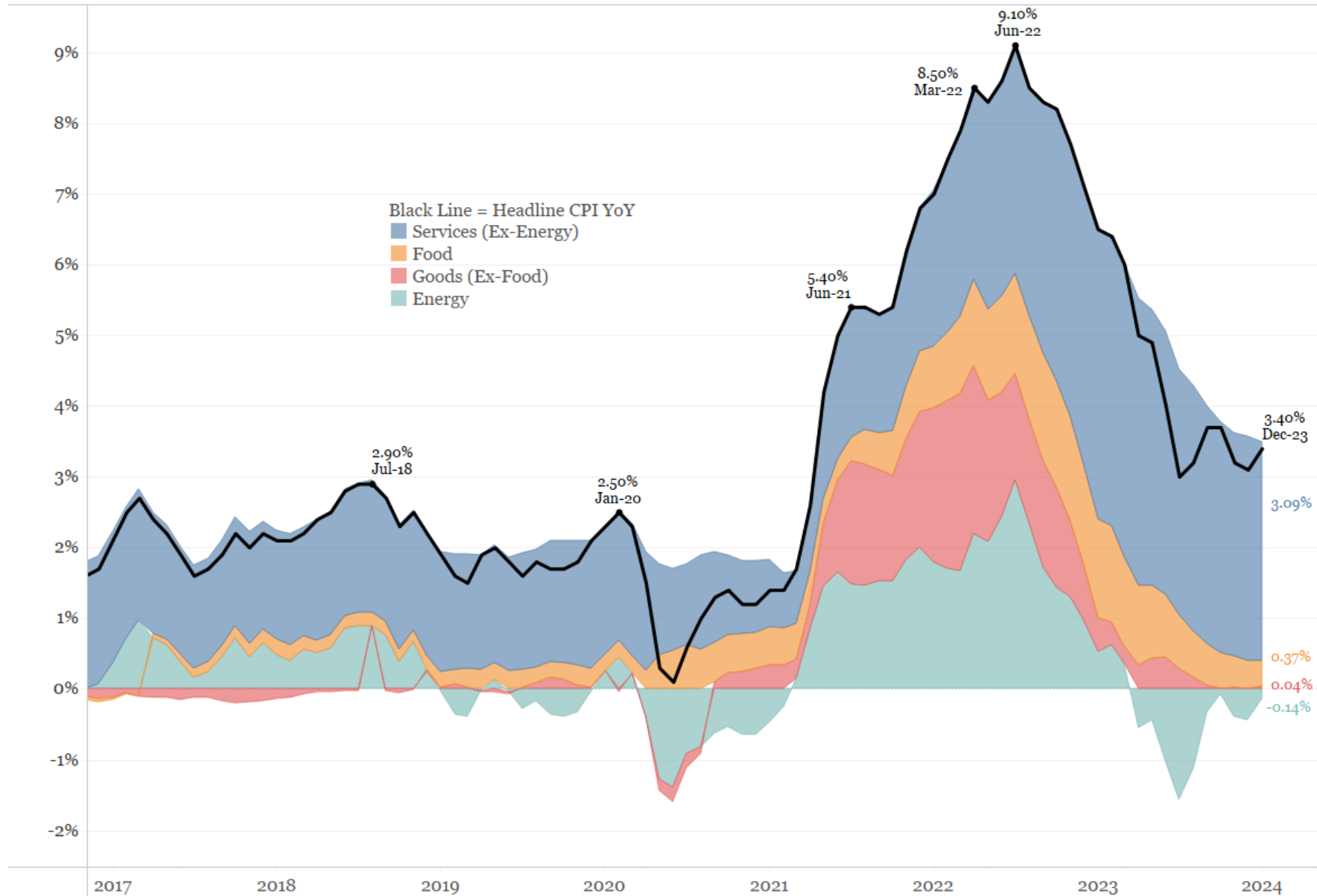
Odds the Fed Cuts the Target Rate to 5.00% to 5.25%  
As Calculated by the Chicago Mercantile Exchange's Fed Watch Tool



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

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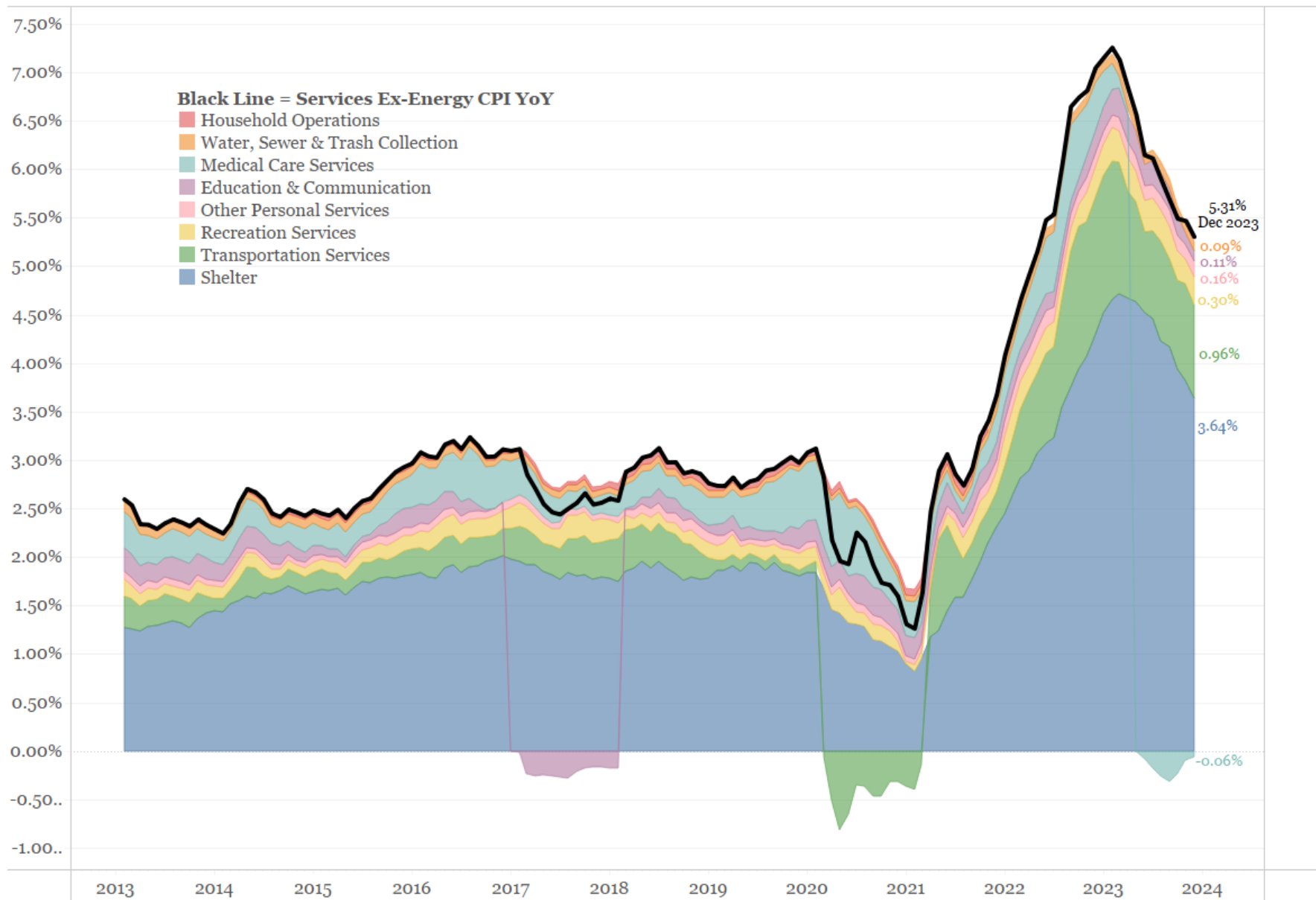
## Breaking Down CPI's Major Contributors



Source: Bloomberg

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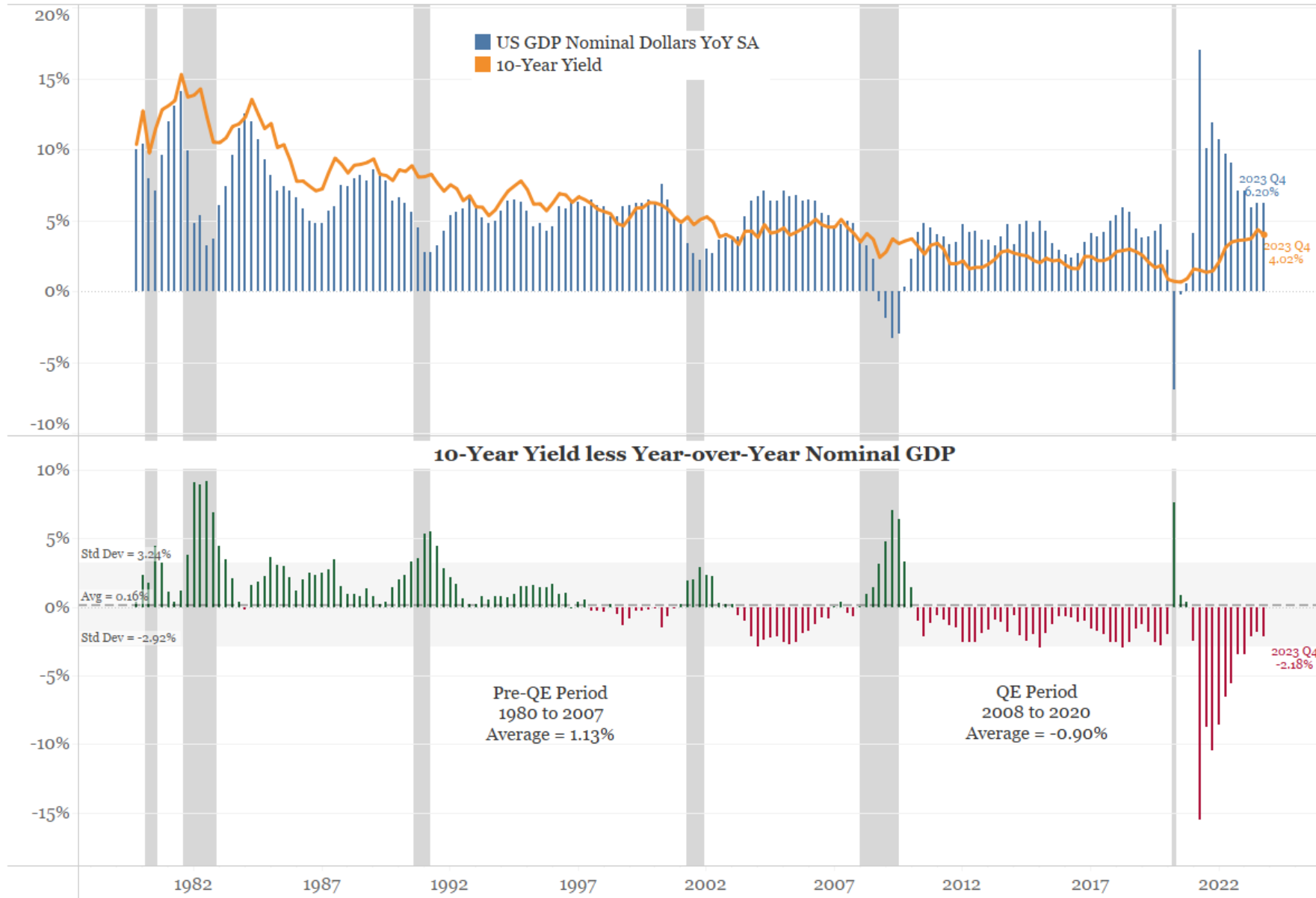
### Breaking Down Services Ex-Energy's Major Contributors



Source: Bloomberg

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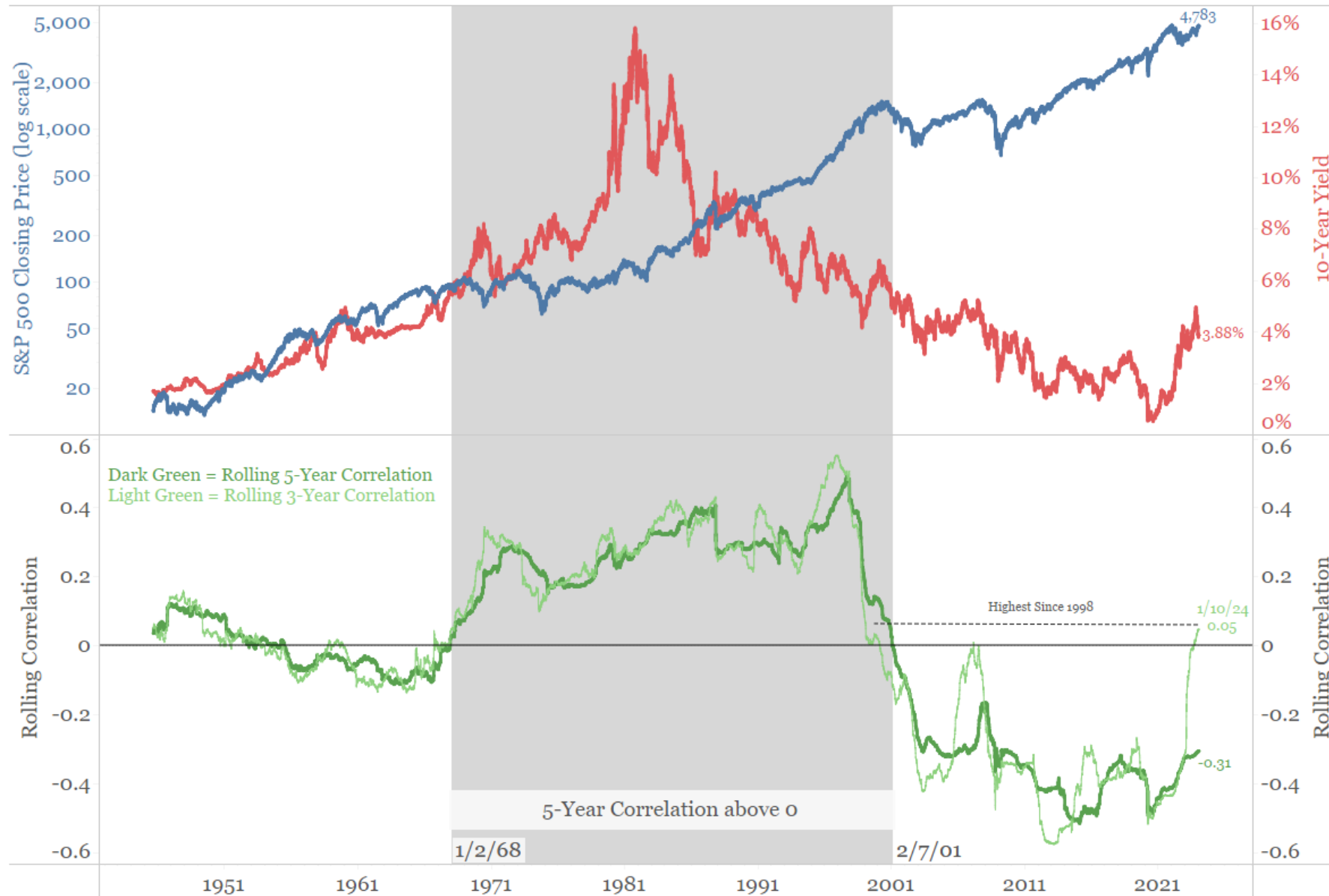
## Year-Over-Year Nominal GDP and 10-Year Yield



Data Source: Bloomberg

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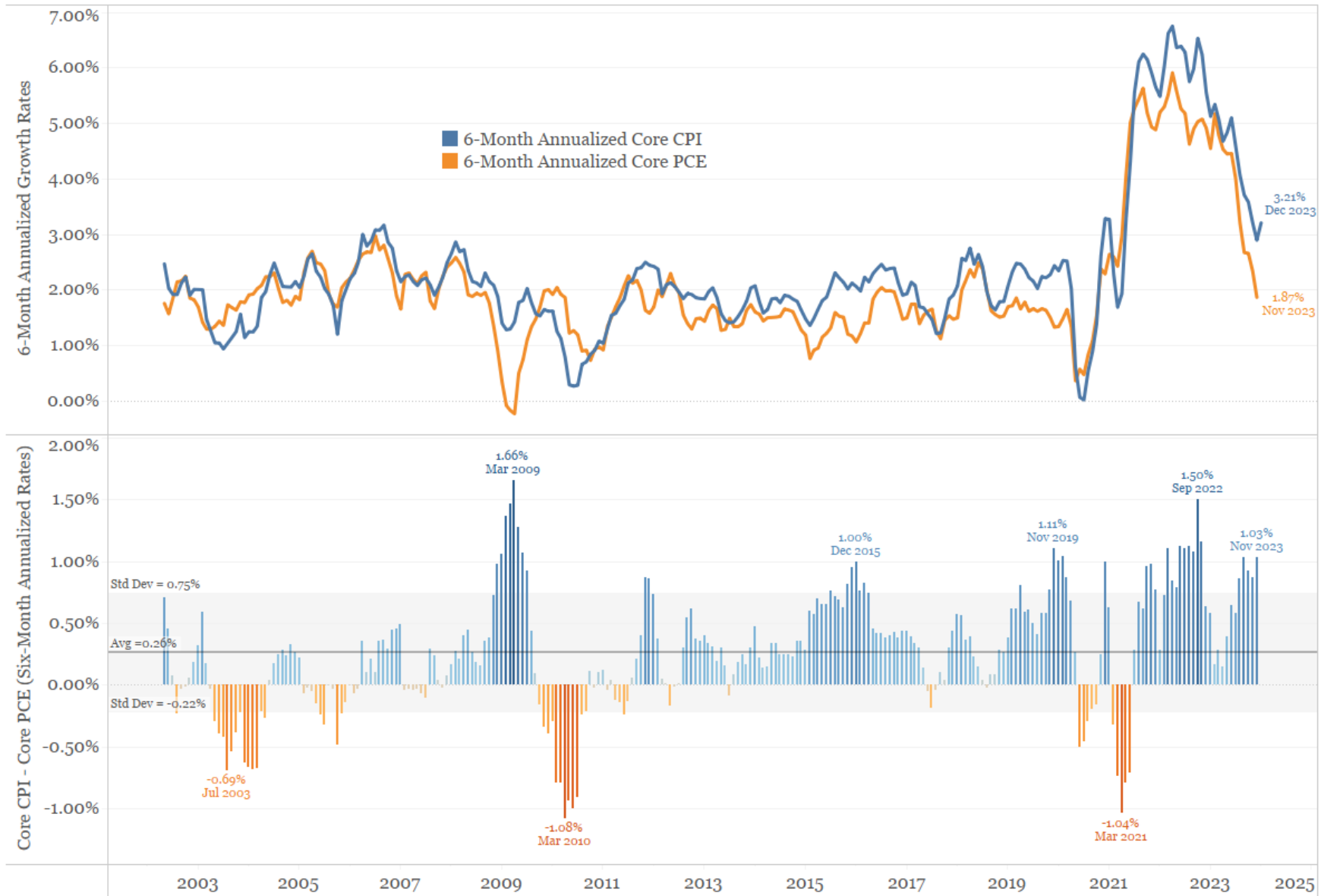
# Stock/Bond Correlation



Source: U.S. Treasury & The Federal Reserve

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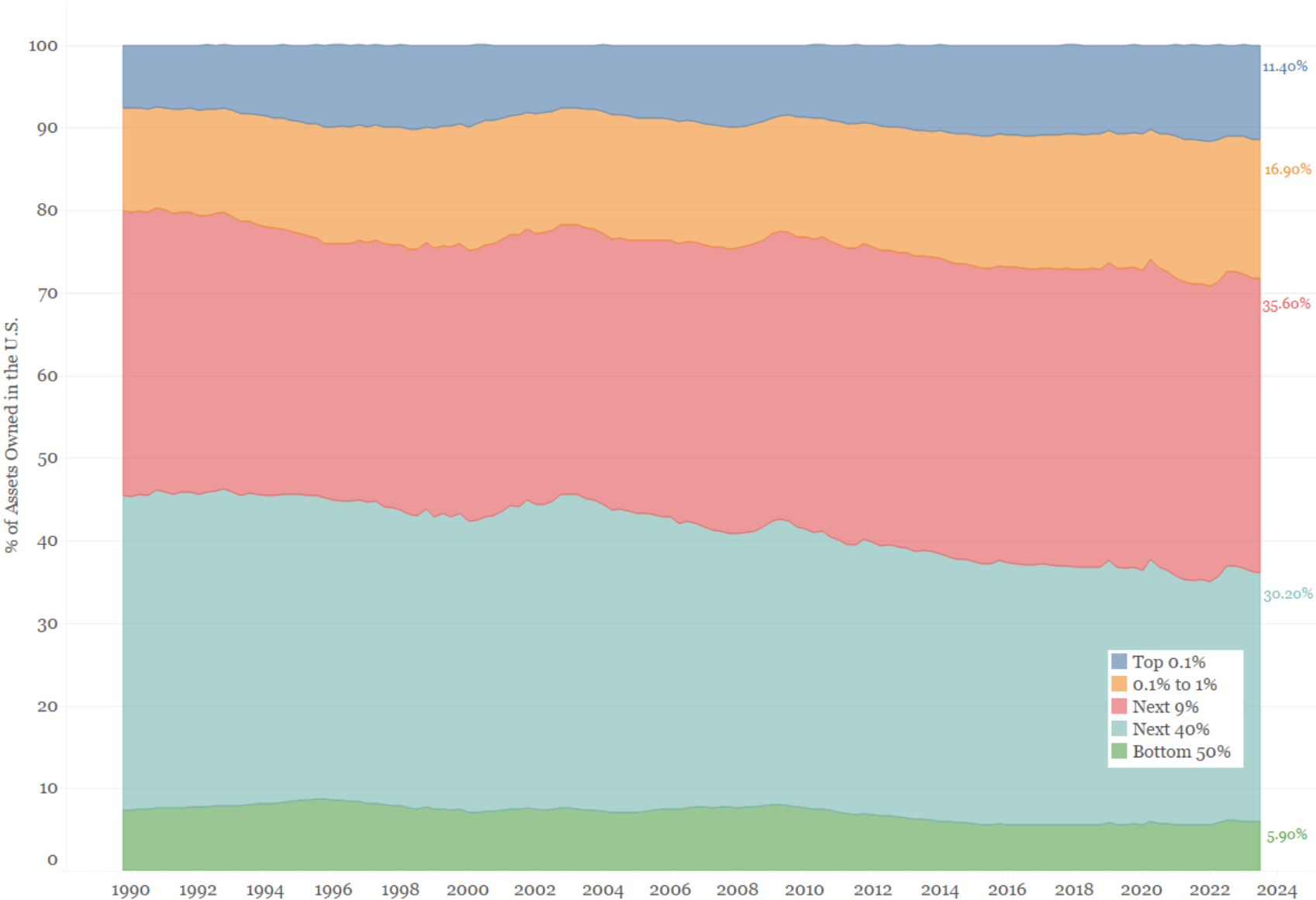
## Core CPI Has Been Rising Faster Than Core PCE Over the Past Six Months



Source: The Bureau of Labor Statistics

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# Distribution of Assets in the U.S.



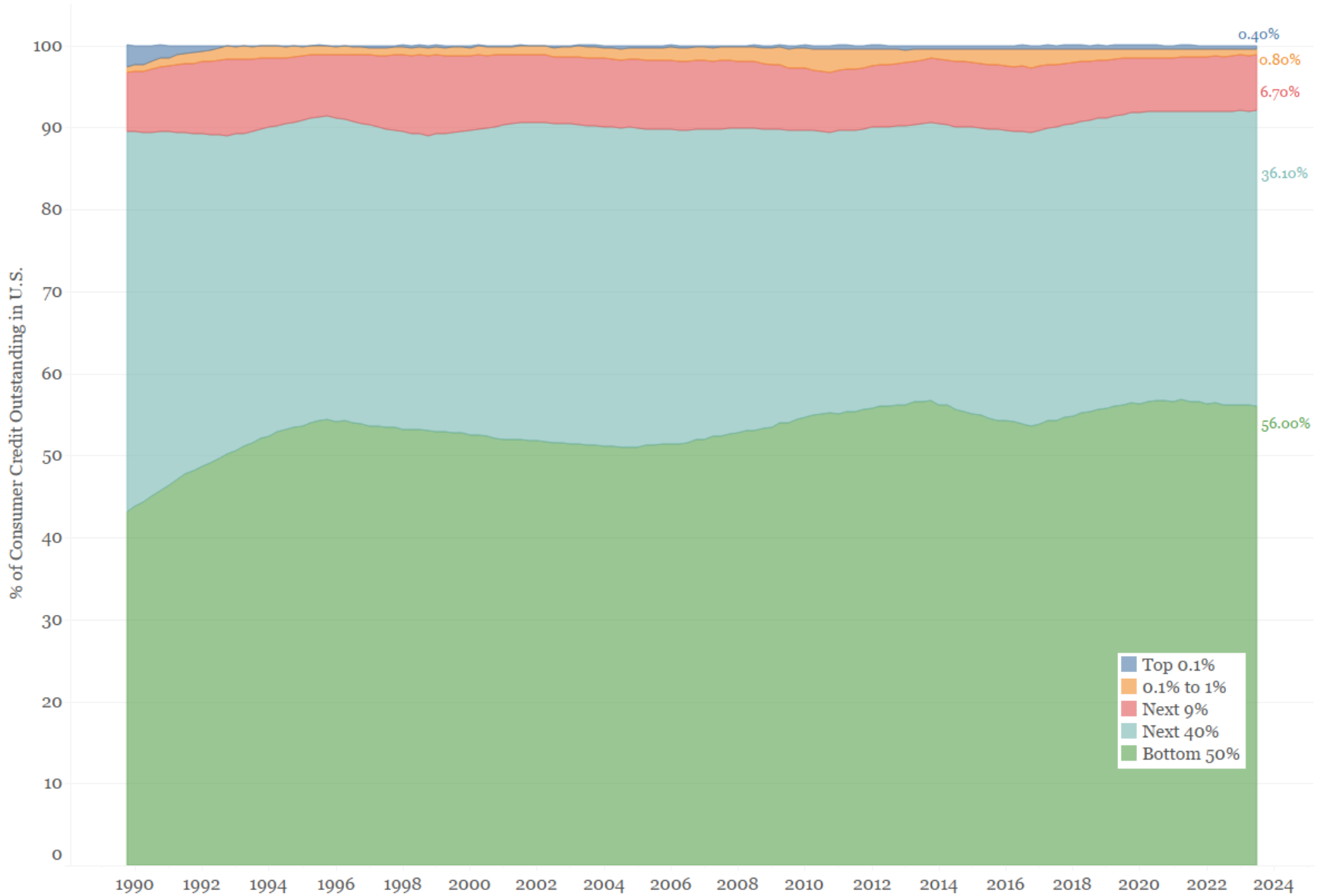
Source: The Federal Reserve

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•CNBC - (December 20, 2023) [62% of Americans are living paycheck to paycheck, as holiday spending, credit card debt rise](#)

Half of consumers plan to take on more debt to cover those holiday expenses, according to another report by Ally Bank. Only 23% have a plan to pay it off within one to two months. “Not only is sticking to a budget harder today,” said Sarah Foster, a Bankrate analyst, “but it’s all the more imperative, too.” “Credit card financing rates have hovered at the highest levels ever recorded since last fall, meaning carrying a balance could cost a heavy price,” she said.

Distribution of Consumer Debt in the U.S.

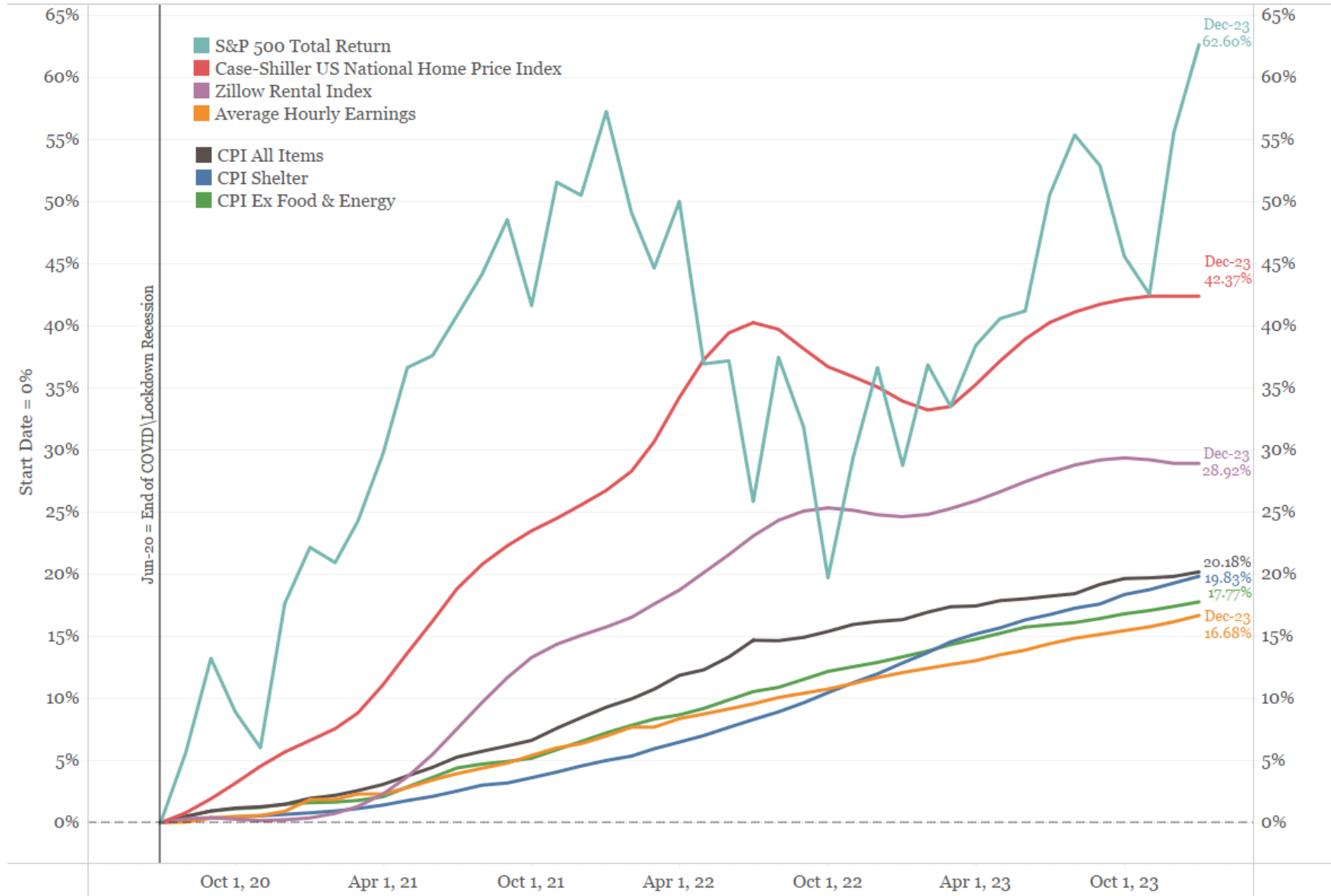


Source: The Federal Reserve

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## Who is Helped, and Who is Hurting?

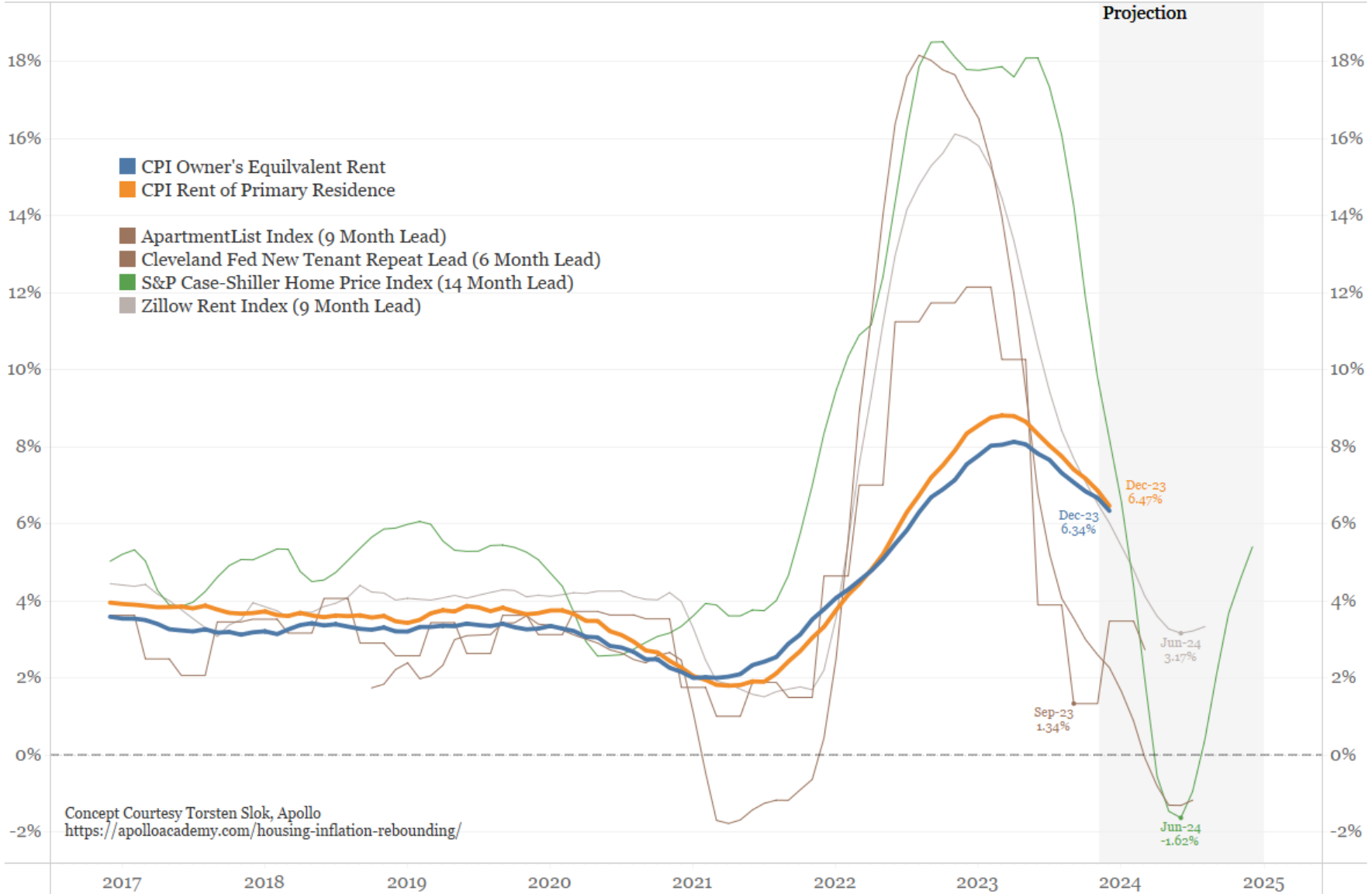


Source: The Bureau of Labor Statistics

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# Leading Shelter Inflation

Year-over-Year Percentage Change

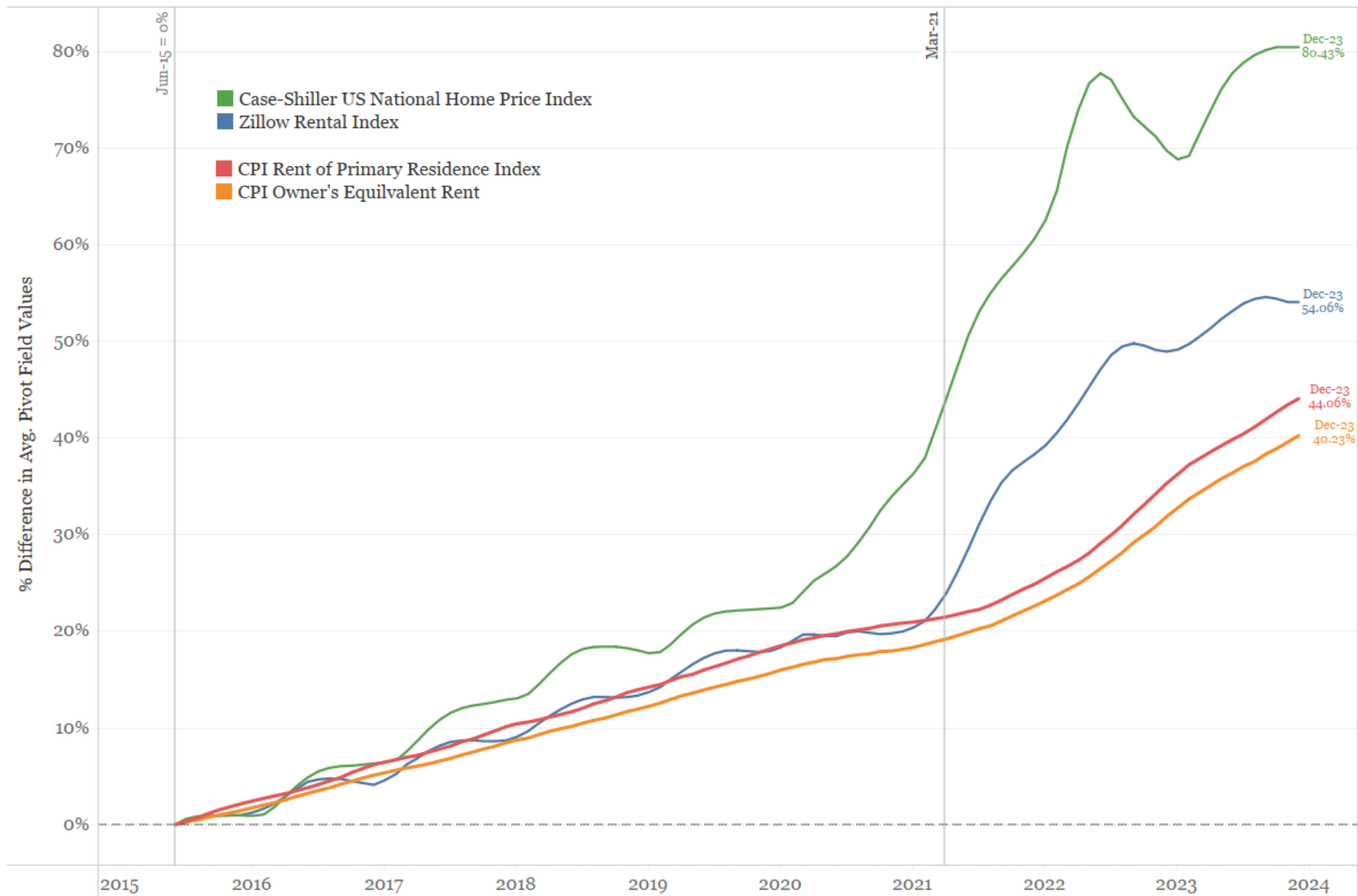


Concept Courtesy Torsten Slok, Apollo  
<https://apolloacademy.com/housing-inflation-rebounding/>

Source: The Bureau of Labor Statistics, Bloomberg

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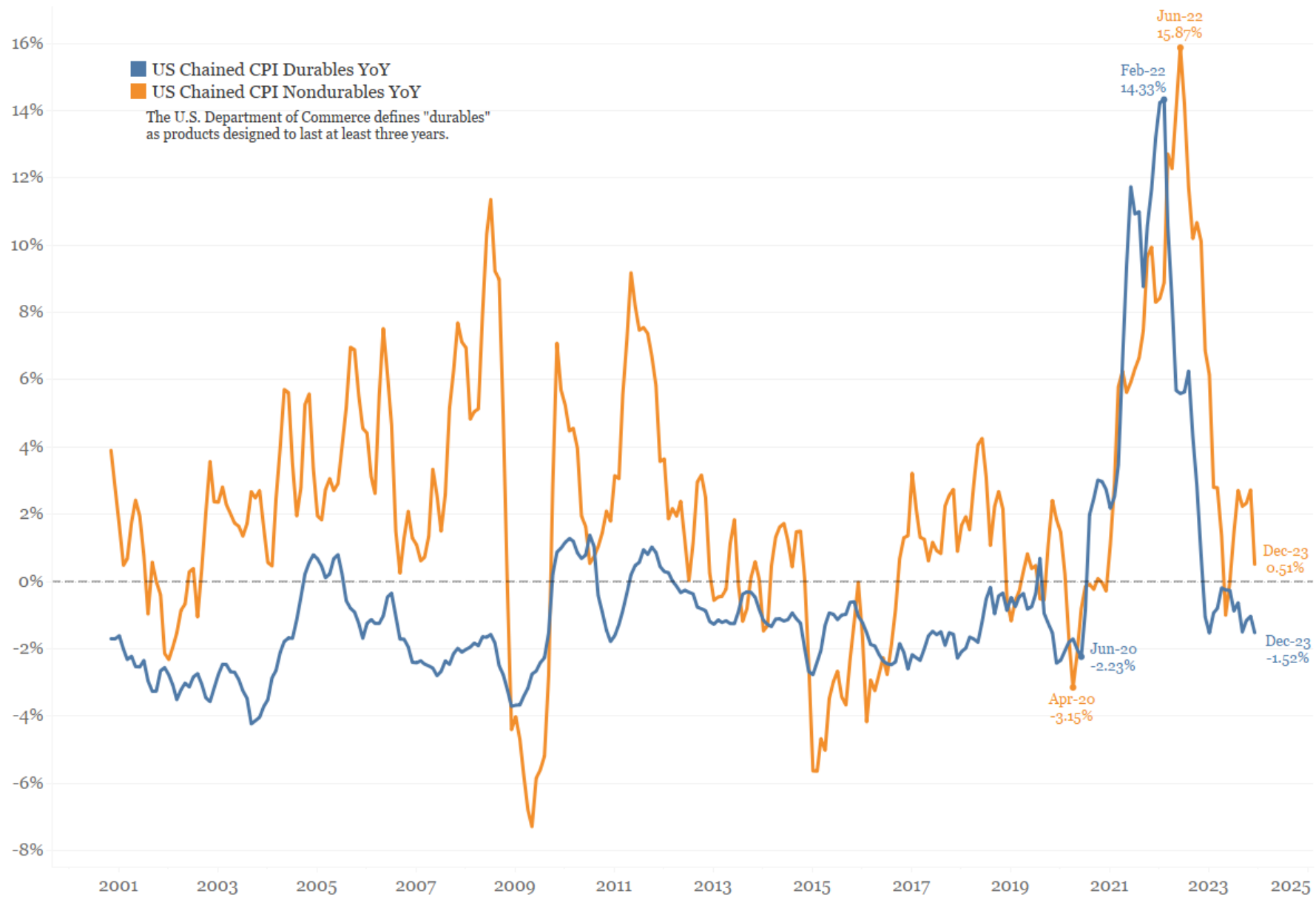
## CPI Measures of Inflation Are Behind Cumulative Change



Source: The Bureau of Labor Statistics, Bloomberg

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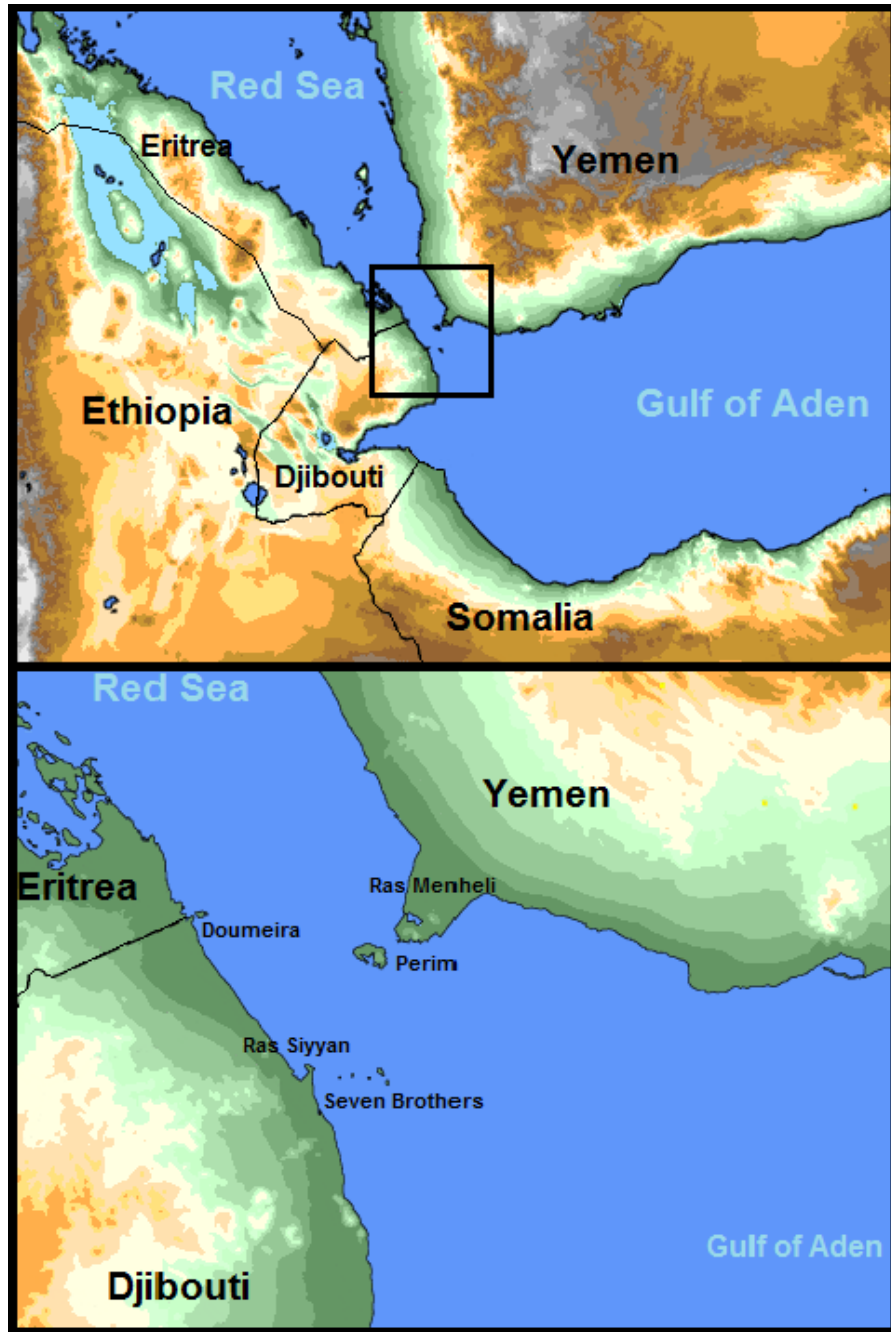
# US Chained CPI Durables YoY & US Chained CPI Nondurables YoY



■ US Chained CPI Durables YoY  
■ US Chained CPI Nondurables YoY  
The U.S. Department of Commerce defines "durables" as products designed to last at least three years.

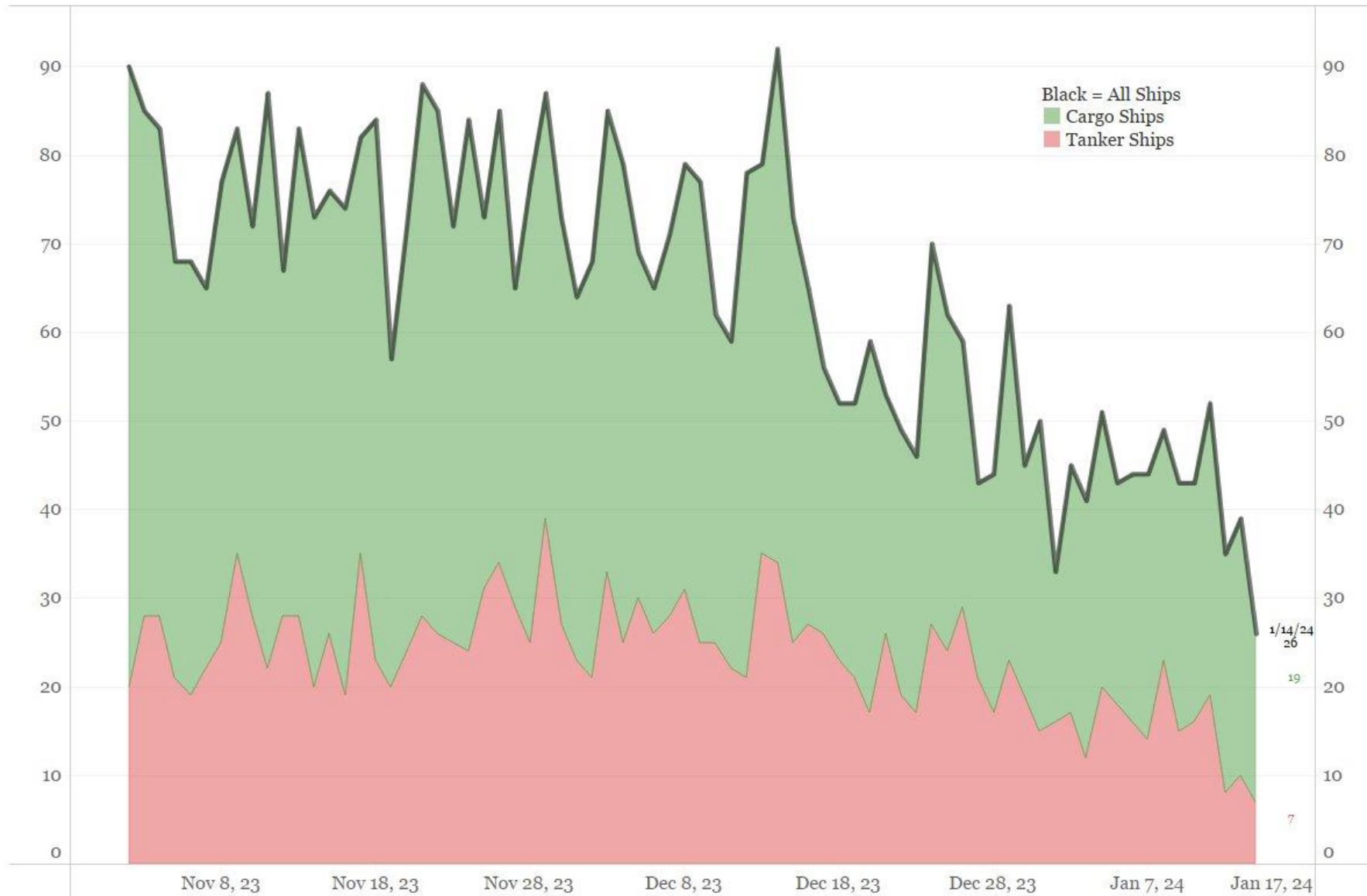
Source: The Bureau of Labor Statistics, Bloomberg

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# All Ships Transiting The Bab el-Mandeb

## Daily Number

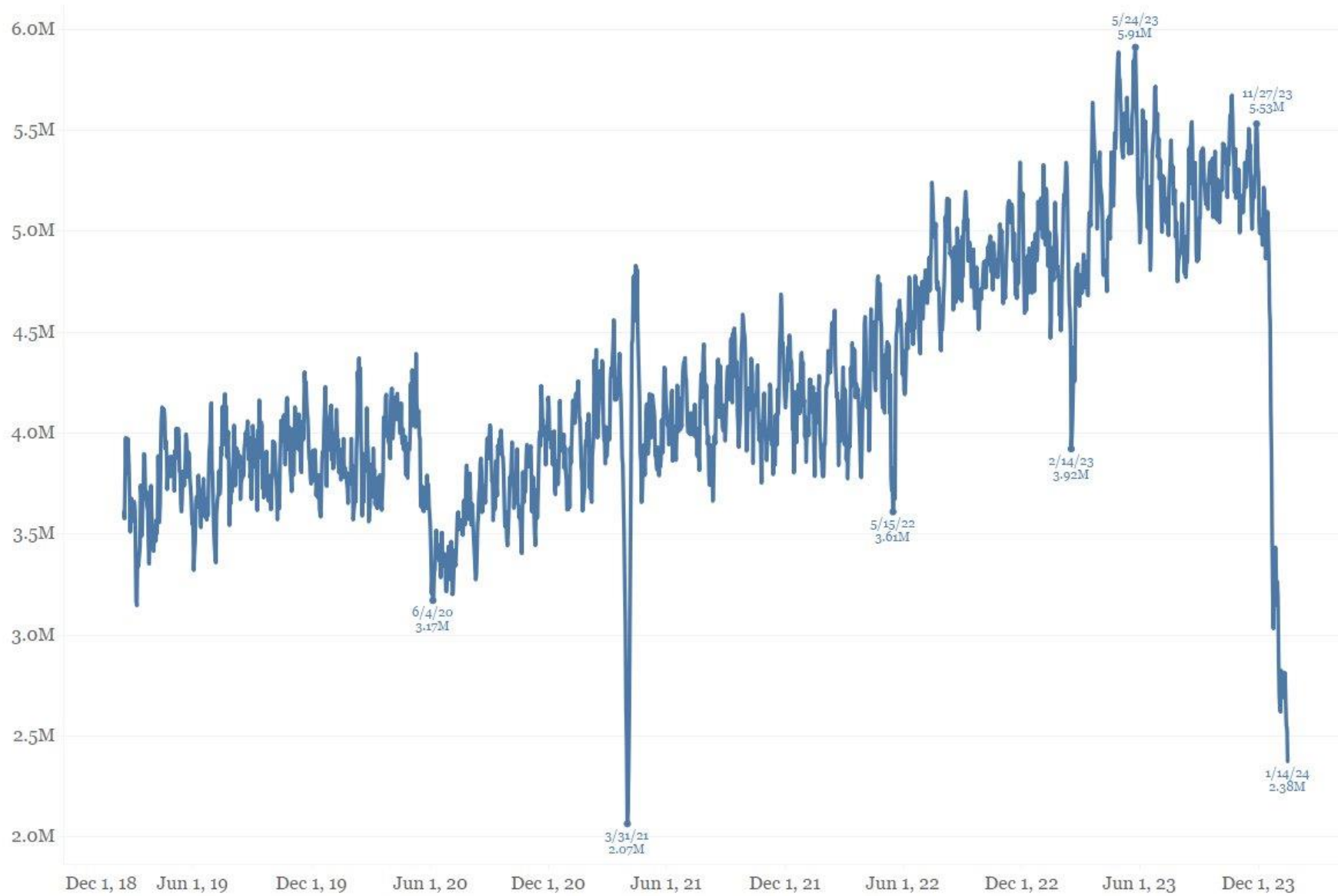


Data Source: IMF Port Watch  
<https://portwatch.imf.org/pages/port-monitor>

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# Metric Tons of Trade Volume Transiting The Bab el-Mandeb

7-Day Average

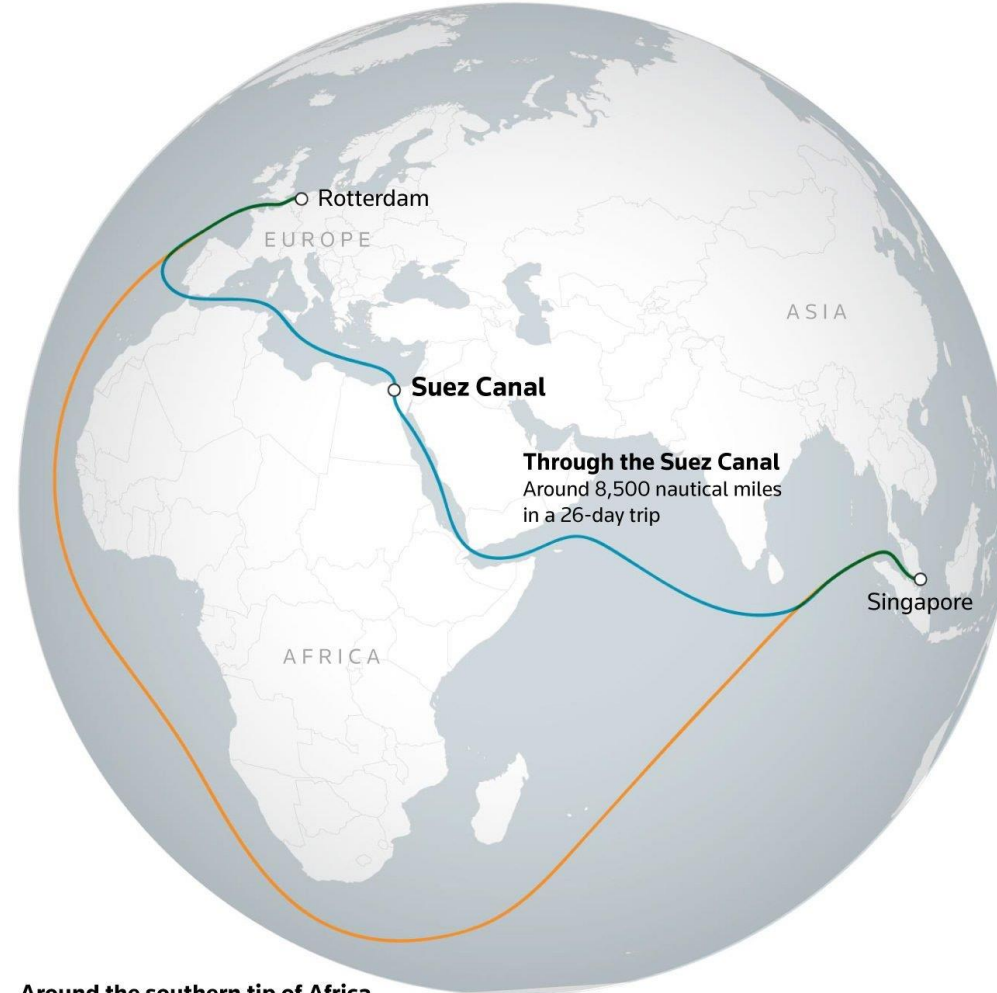


Data Source: IMF Port Watch  
<https://portwatch.imf.org/pages/port-monitor>

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## Vessels re-routing

Attacks by Yemen's Houthi militants on ships in the Red Sea are disrupting maritime trade through the Suez Canal, with some vessels re-routing to a much longer East-West route via the southern tip of Africa.



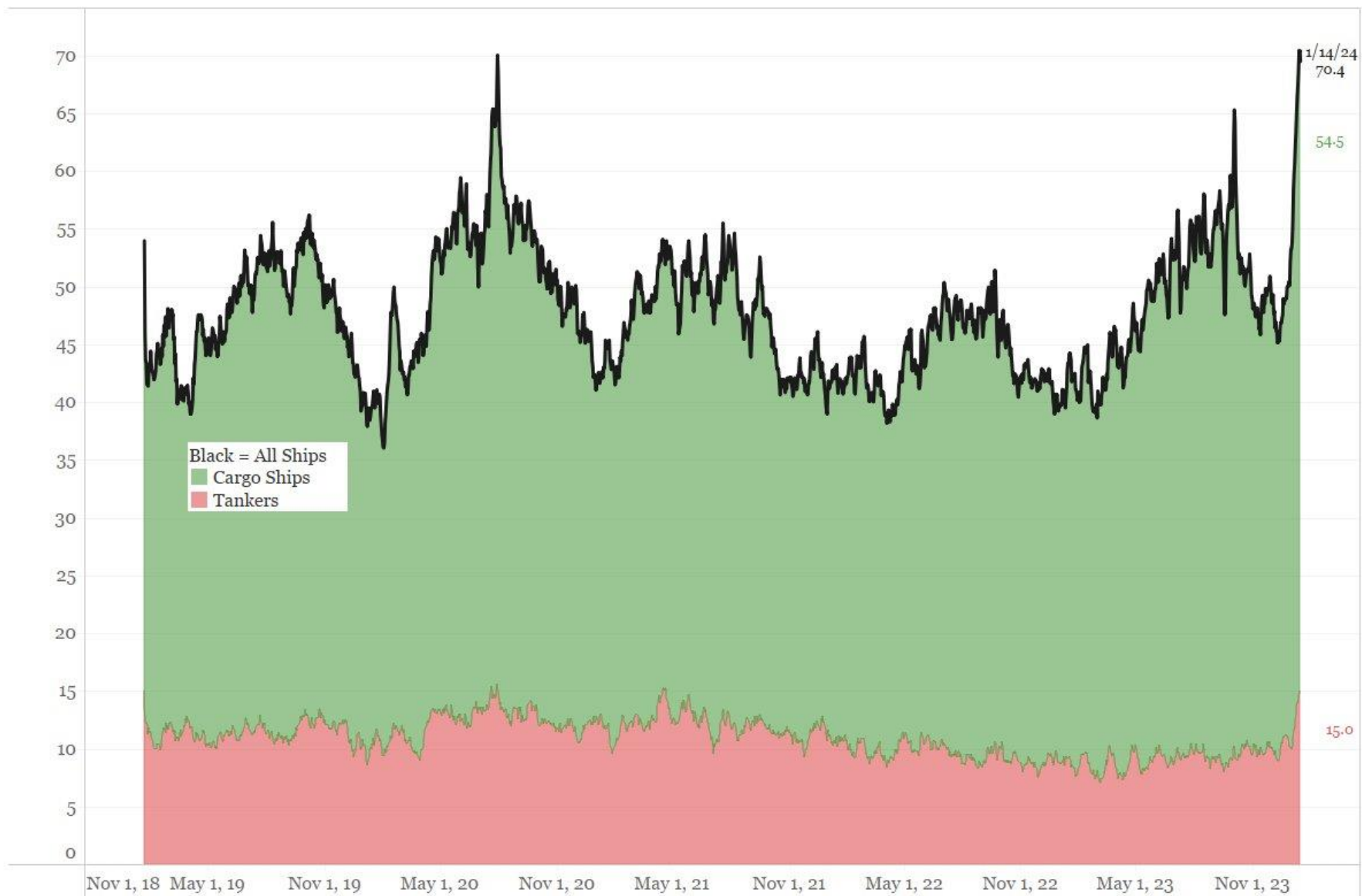
**Around the southern tip of Africa**  
Around 11,800 Nautical miles  
in a 36-day trip

Sources: LSEG; Planet Labs; Maps4News; Shohei Kisen Kaisha  
Reuters Staff • Dec. 19, 2023 | REUTERS



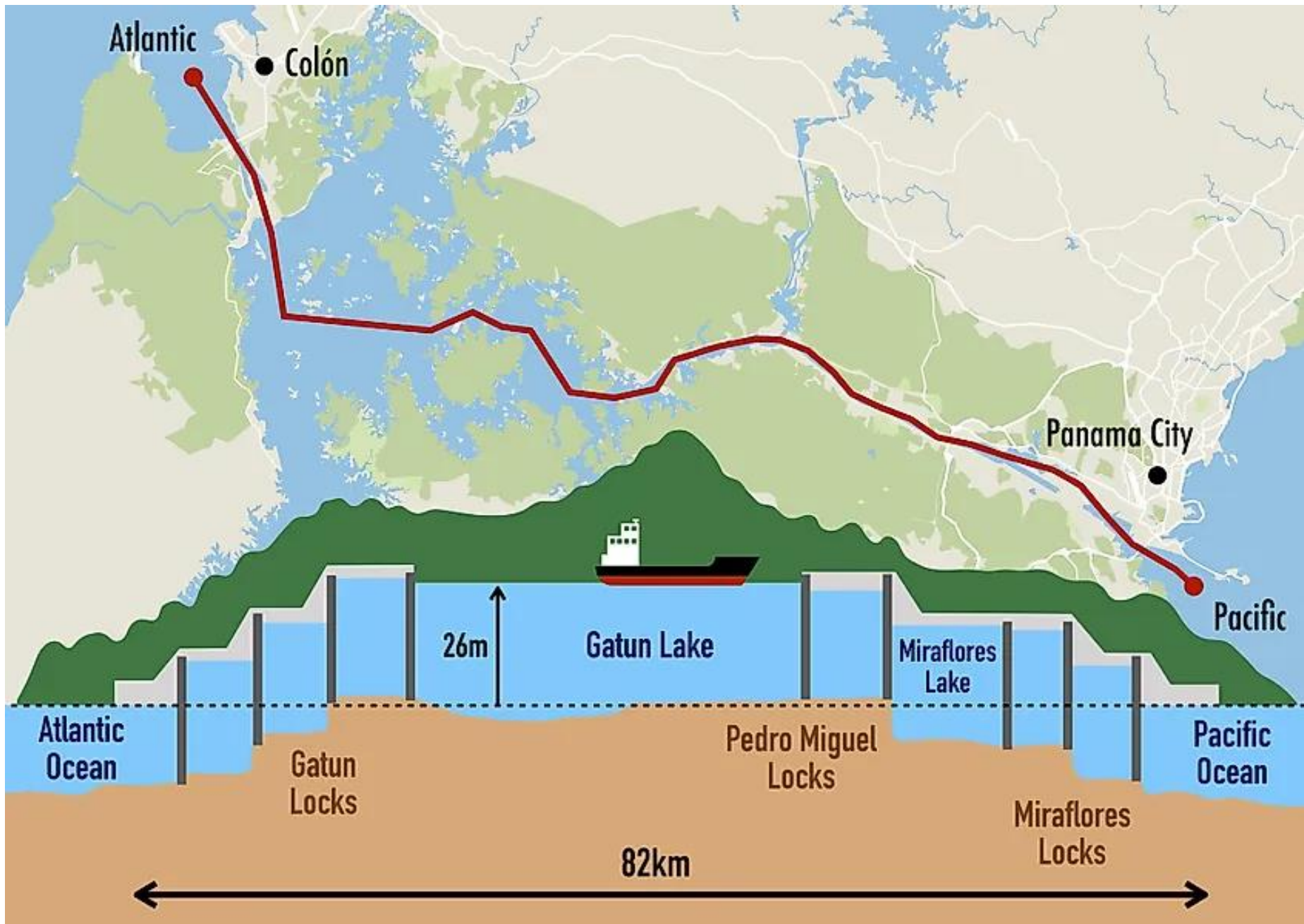
# All Ships Transiting The Cape of Good Hope

7-Day Average

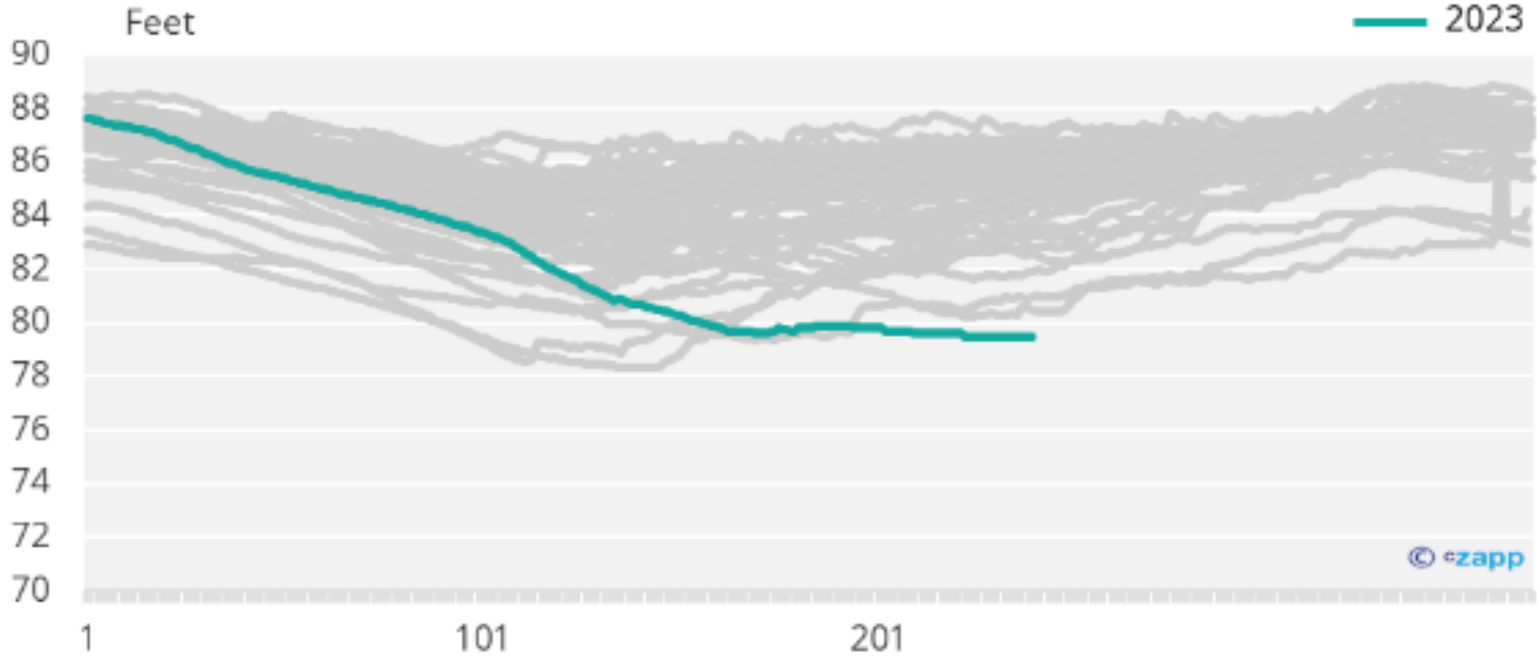


Data Source: IMF Port Watch  
<https://portwatch.imf.org/pages/port-monitor>

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# Water Levels in 2023 Predicted to Be Lowest Yet in Q3



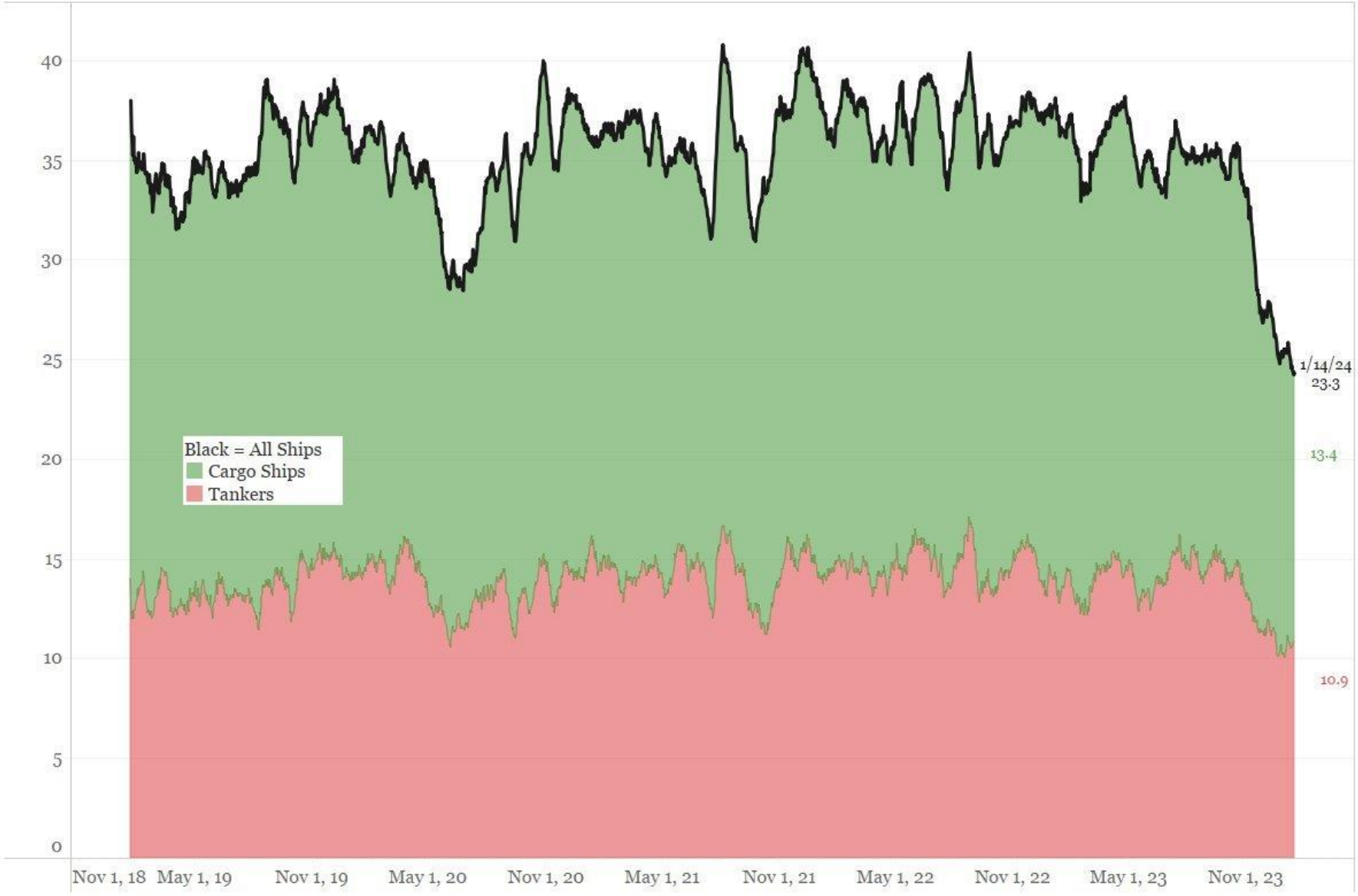
## Gatun Lake Level

December 2023



# All Ships Transiting The Panama Canal

14-Day Average

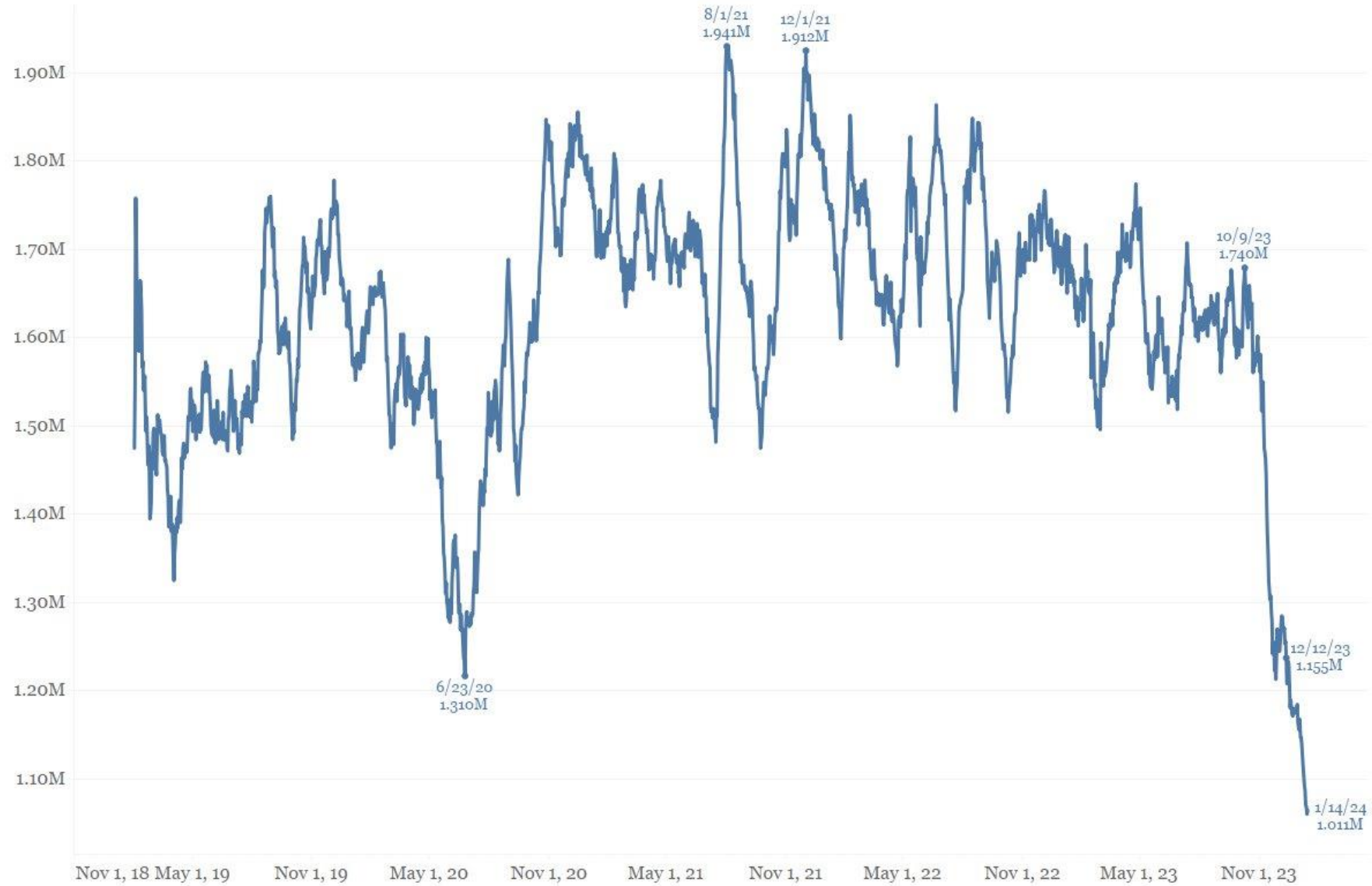


Data Source: IMF Port Watch  
<https://portwatch.imf.org/pages/port-monitor>

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# Metric Tons of Trade Volume Transiting the Panama Canal Choke Point

## 14-Day Average



Data Source: IMF Port Watch  
<https://portwatch.imf.org/pages/port-monitor>

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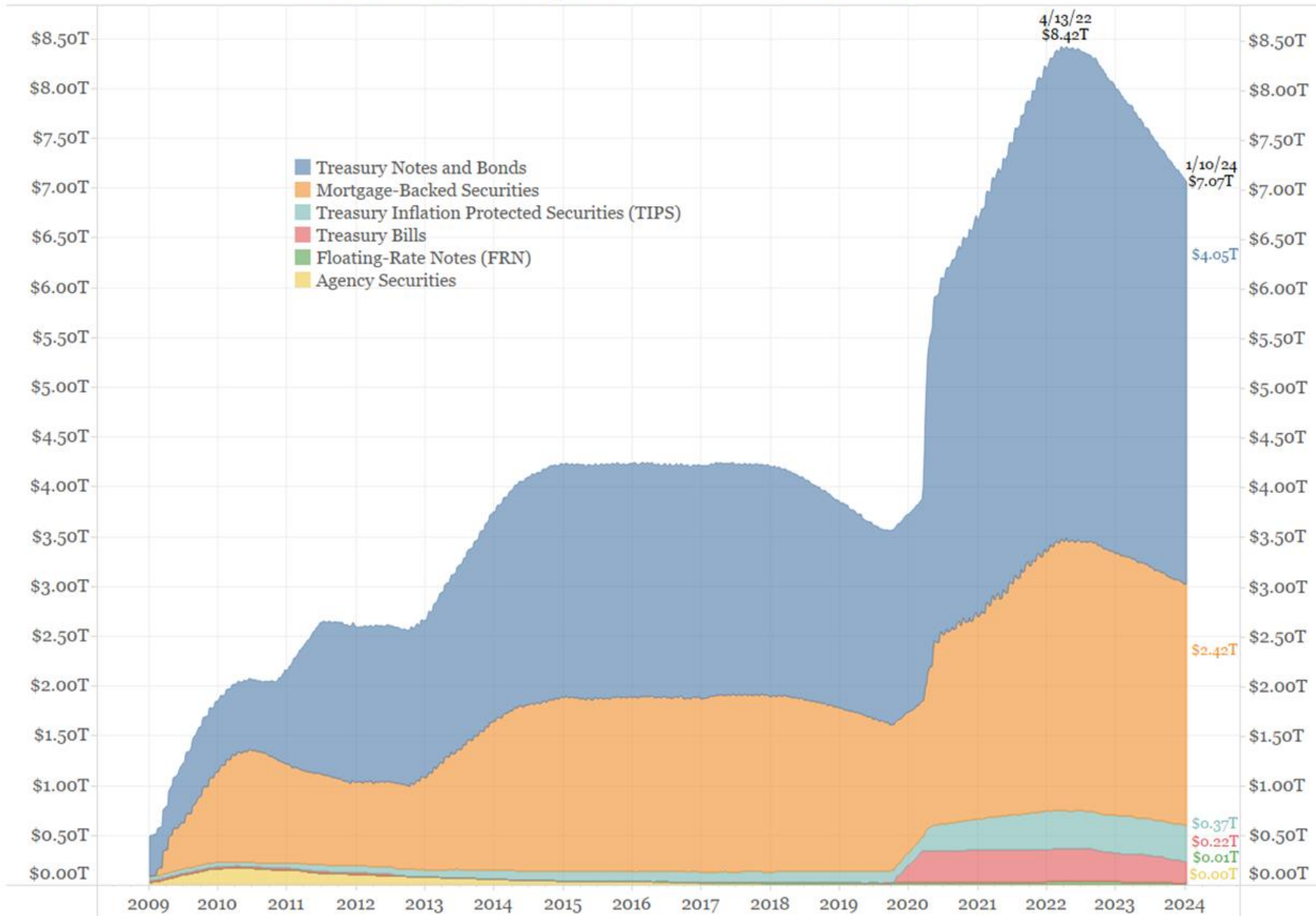
# PRIMARY GLOBAL MARITIME CHOKES POINTS

1. Panama Canal
2. Strait of Gibraltar
3. Cape of Good Hope
4. Bosphorus Strait
5. Suez Canal
6. Bab-el-Mandeb Strait (Red Sea)
7. Strait of Hormuz
8. Straits of Malacca (South China Sea)

**SHIPPING ROUTES**  
— Core Route  
- - - Secondary

**CHOKES POINTS**  
● Primary  
● Secondary

## The Fed's System Open Market Account (SOMA) Portfolio



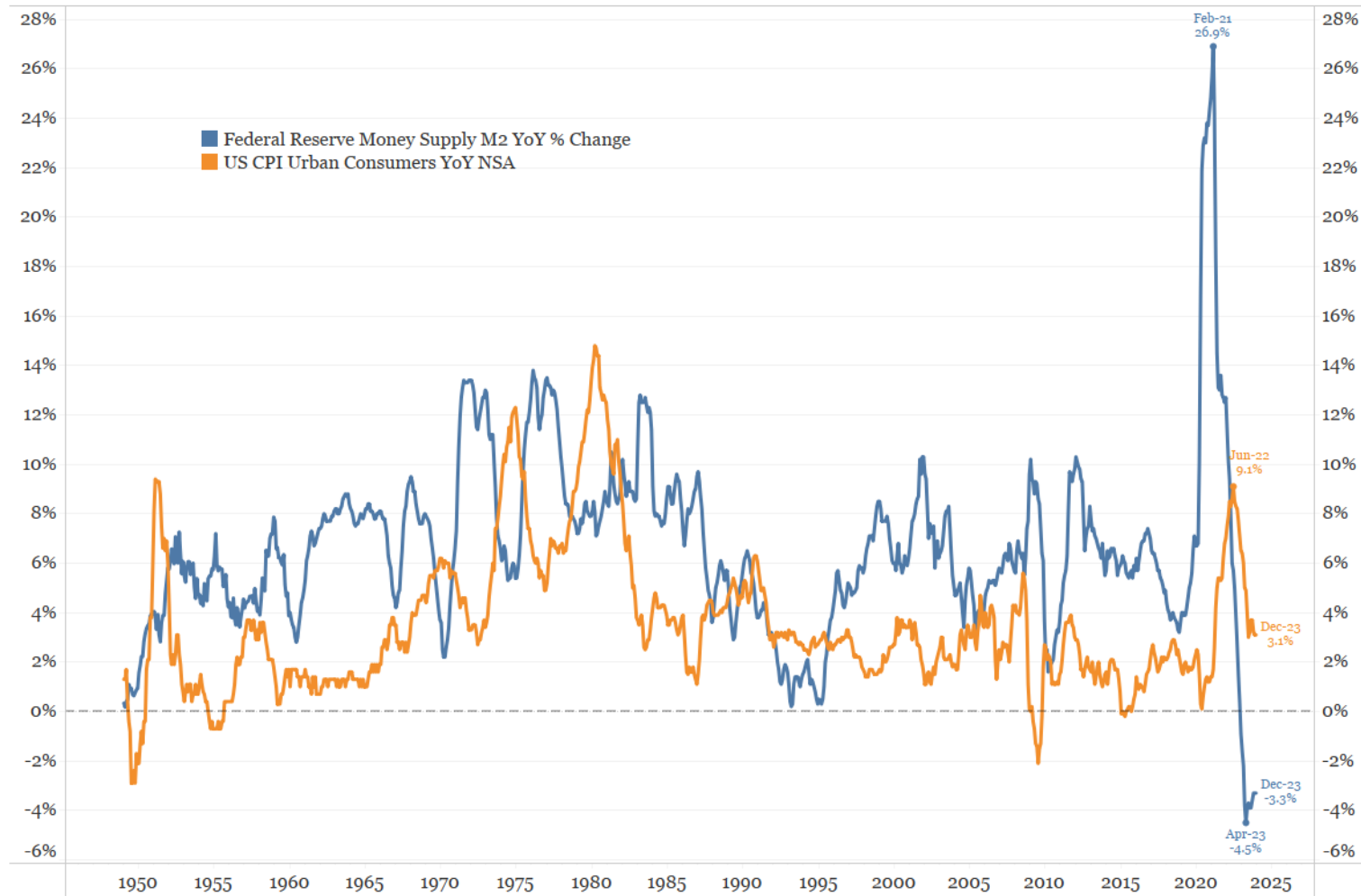
Data Source: Bloomberg

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• **Financial Times – (October 2017) Fed has no reliable theory of inflation, says Tarullo**

He was particularly doubtful about the weight inflation expectations play in rate-setting policy, given the “range and depth of unanswered questions” about how they are formed and measured. “The substantive point is that we do not, at present, have a theory of inflation dynamics that works sufficiently well to be of use for the business of real-time monetary policymaking,” said Mr Tarullo in a speech at the Brookings think-tank in Washington.

**Money Supply and Inflation**  
A Historically Weak Relationship That Has Grown Weaker Over The Years

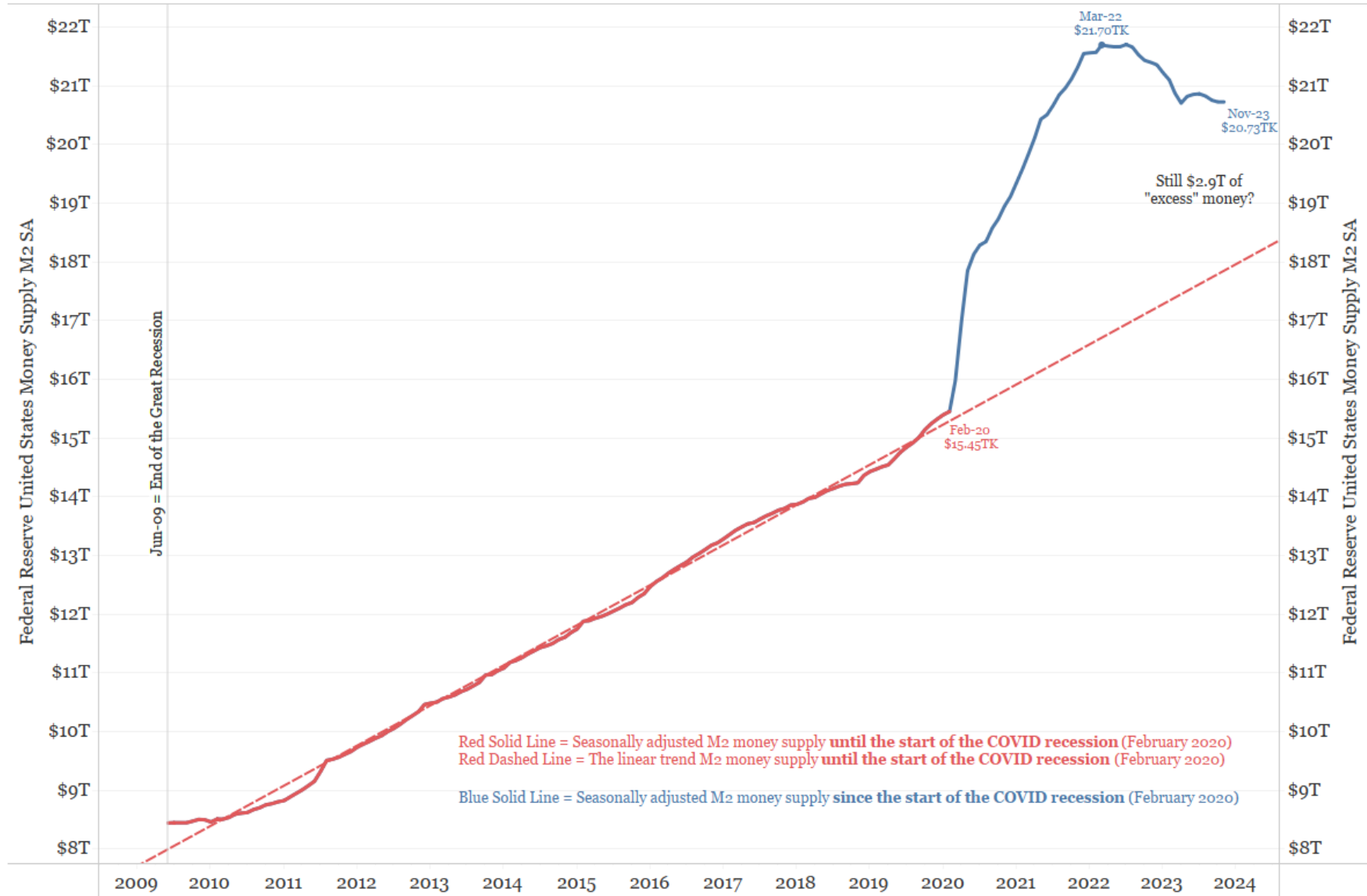


Data Source: New York Federal Reserve, Bloomberg

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## Still Too Much Money Chasing Too Few Goods? M2 Money Supply and its Pre-COVID Trend

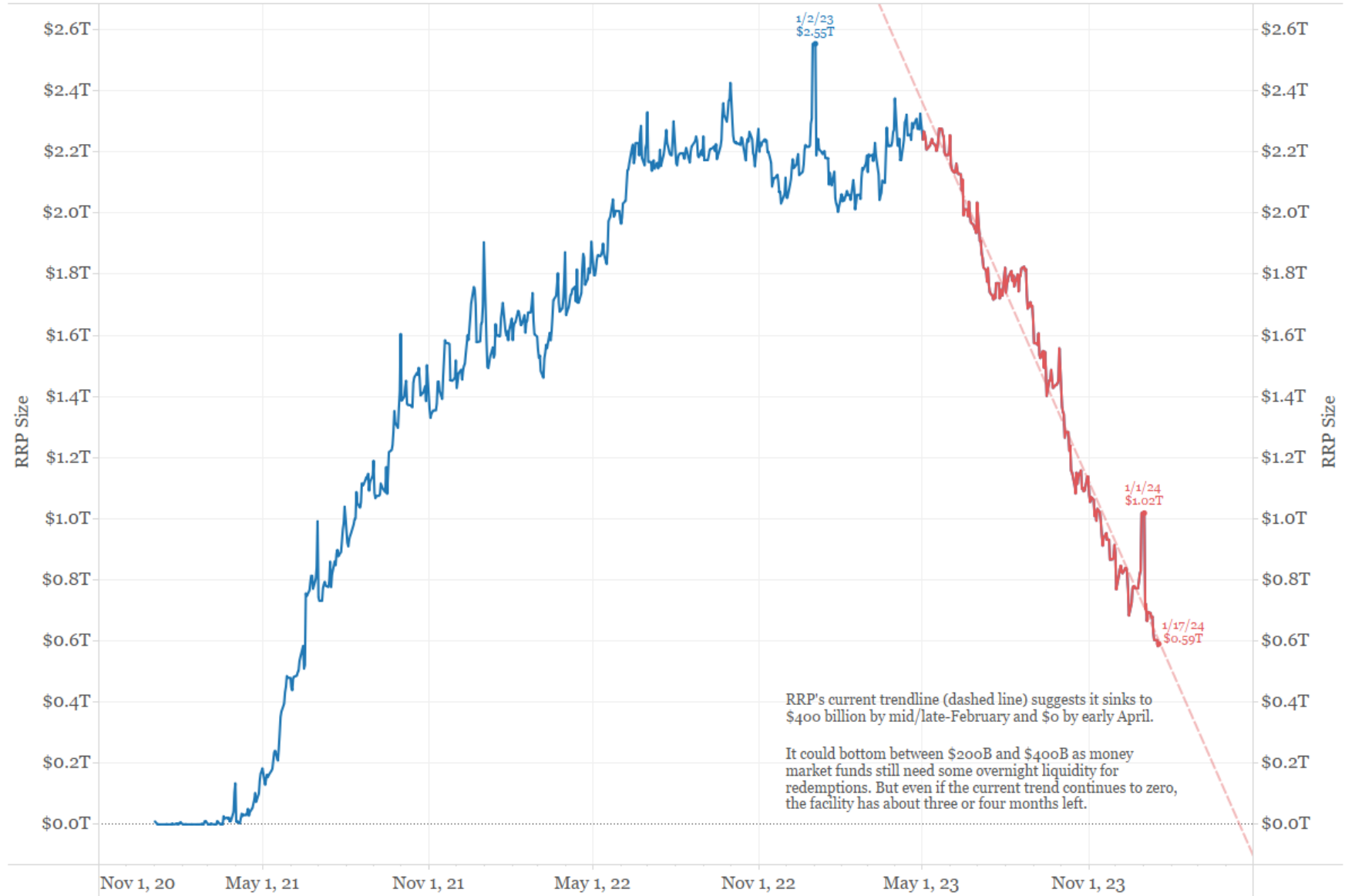


Data Source: New York Federal Reserve, Bloomberg

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# The New York Fed's Reverse Repo Facility

Daily Amount Taken



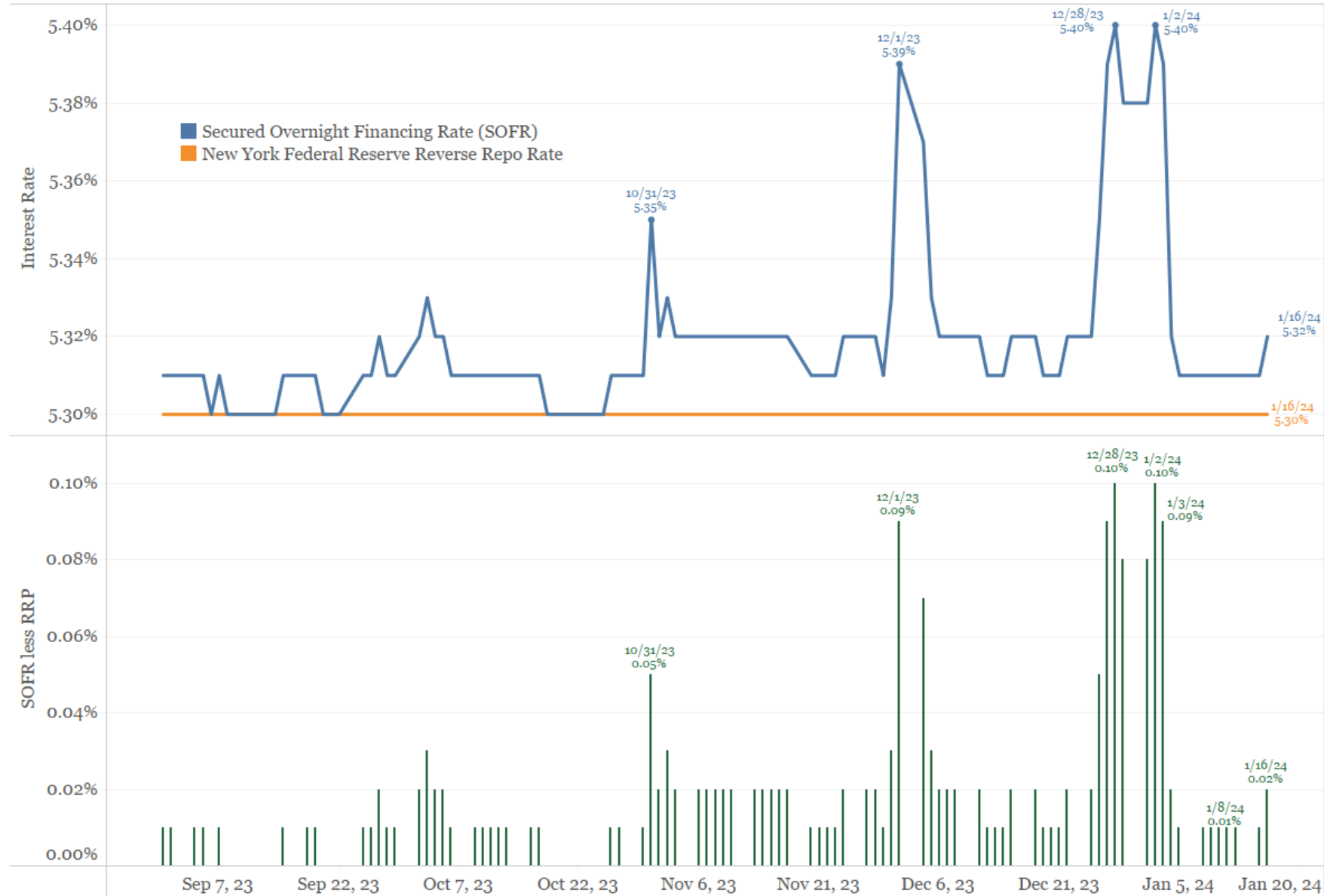
RRP's current trendline (dashed line) suggests it sinks to \$400 billion by mid/late-February and \$0 by early April.

It could bottom between \$200B and \$400B as money market funds still need some overnight liquidity for redemptions. But even if the current trend continues to zero, the facility has about three or four months left.

Data Source: New York Federal Reserve

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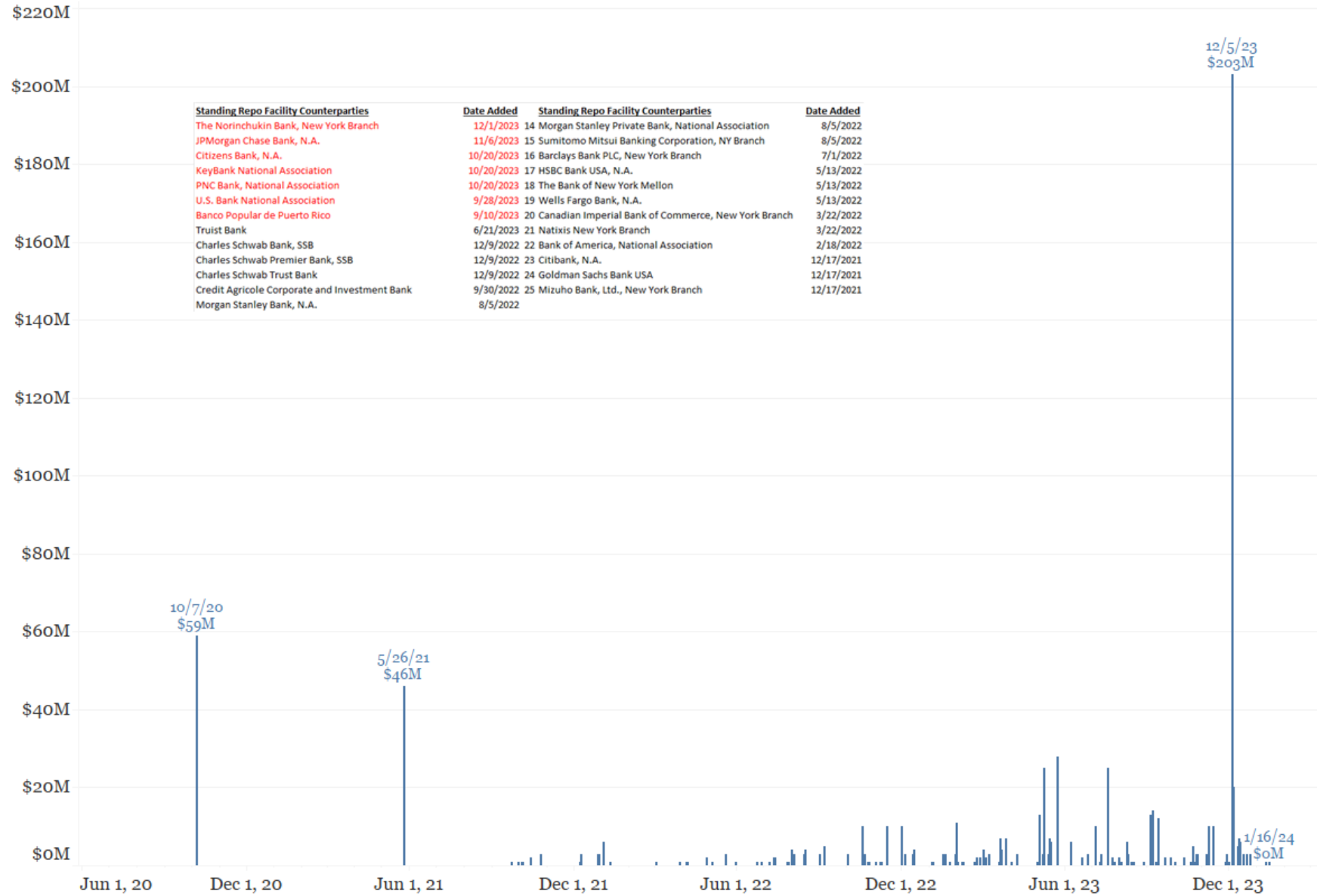
## Comparing Overnight SOFR Rates to the Fed's Reverse Repo Facility Rate



Source: Bloomberg

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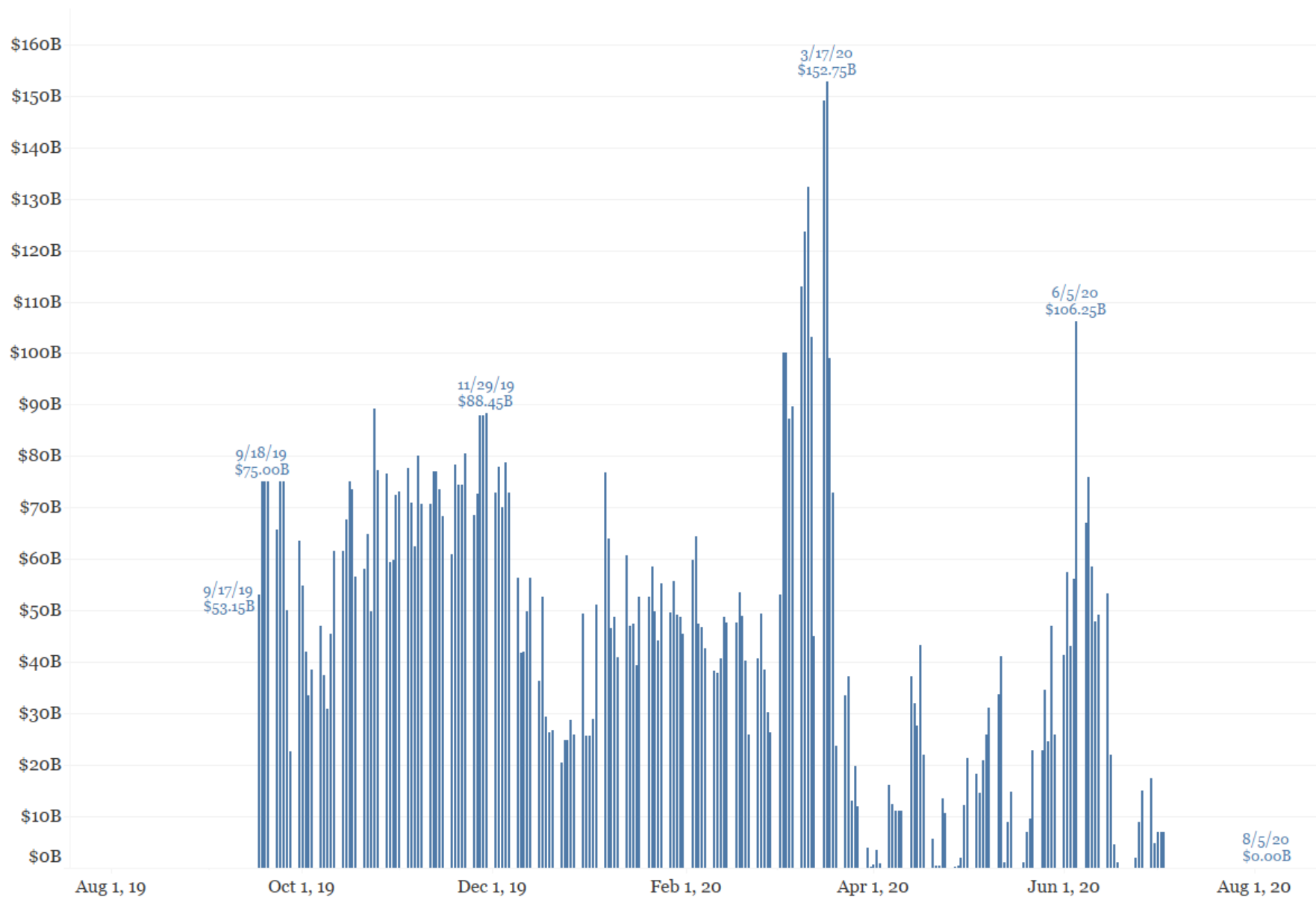
## Federal Reserve Standing Repo Facility Overnight Value Accepted Total



Data Source: New York Federal Reserve, Bloomberg  
<https://www.newyorkfed.org/markets/desk-operations/repo>

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# Federal Reserve Standing Repo Facility Overnight Value Accepted Total

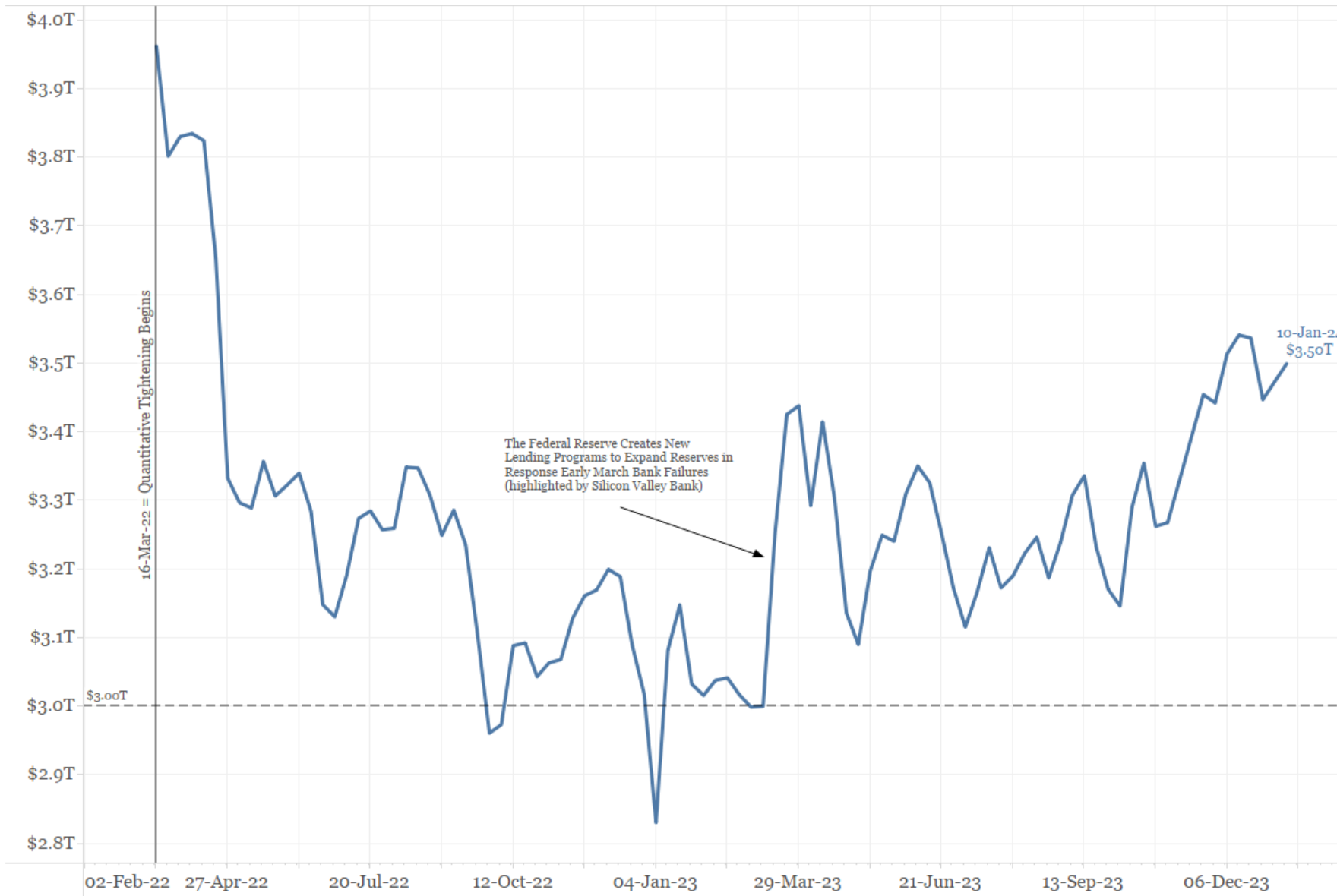


Data Source: New York Federal Reserve, Bloomberg  
<https://www.newyorkfed.org/markets/desk-operations/repo>

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# Bank Reserves Are Rising Despite Quantitative Tightening

U.S. Reserve Balances With Federal Reserve Banks



Data Source: Federal Reserve H41 Report  
<https://www.federalreserve.gov/feeds/H41.html>

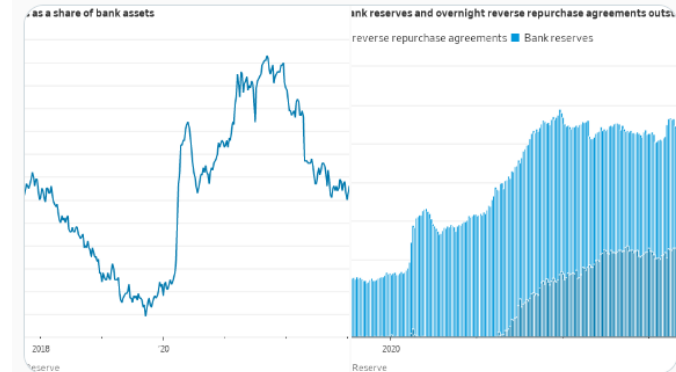
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**Nick Timiraos** @NickTimiraos · 8h

Research co-authored by NY Fed President John Williams looks at reserves as a share of bank assets and suggests <13% is the level at which reserves might be considered ample.

Currently that corresponds to around \$3 trillion in reserves.

[newyorkfed.org/medialibrary/m...](https://www.newyorkfed.org/medialibrary/m...)



**Nick Timiraos** @NickTimiraos · Jan 15

The speed with which balances in the Fed's ONRRP facility have fallen over the last few months and the faster rate of Treasury runoff in balance sheet runoff are prompting Fed officials to start thinking about dialing back (but not ending) QT for Treasuries  
[wsj.com/economy/centra...](https://www.wsj.com/economy/centra...)

# Bianco Research L.L.C.

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