

April 2024

2024 US Inflation and Interest Rate Outlook

Economic Realities in 2024:

Inflation, Interest Rates, and the “Illusion” of a Soft Landing

Dimitri Delis, Ph.D.

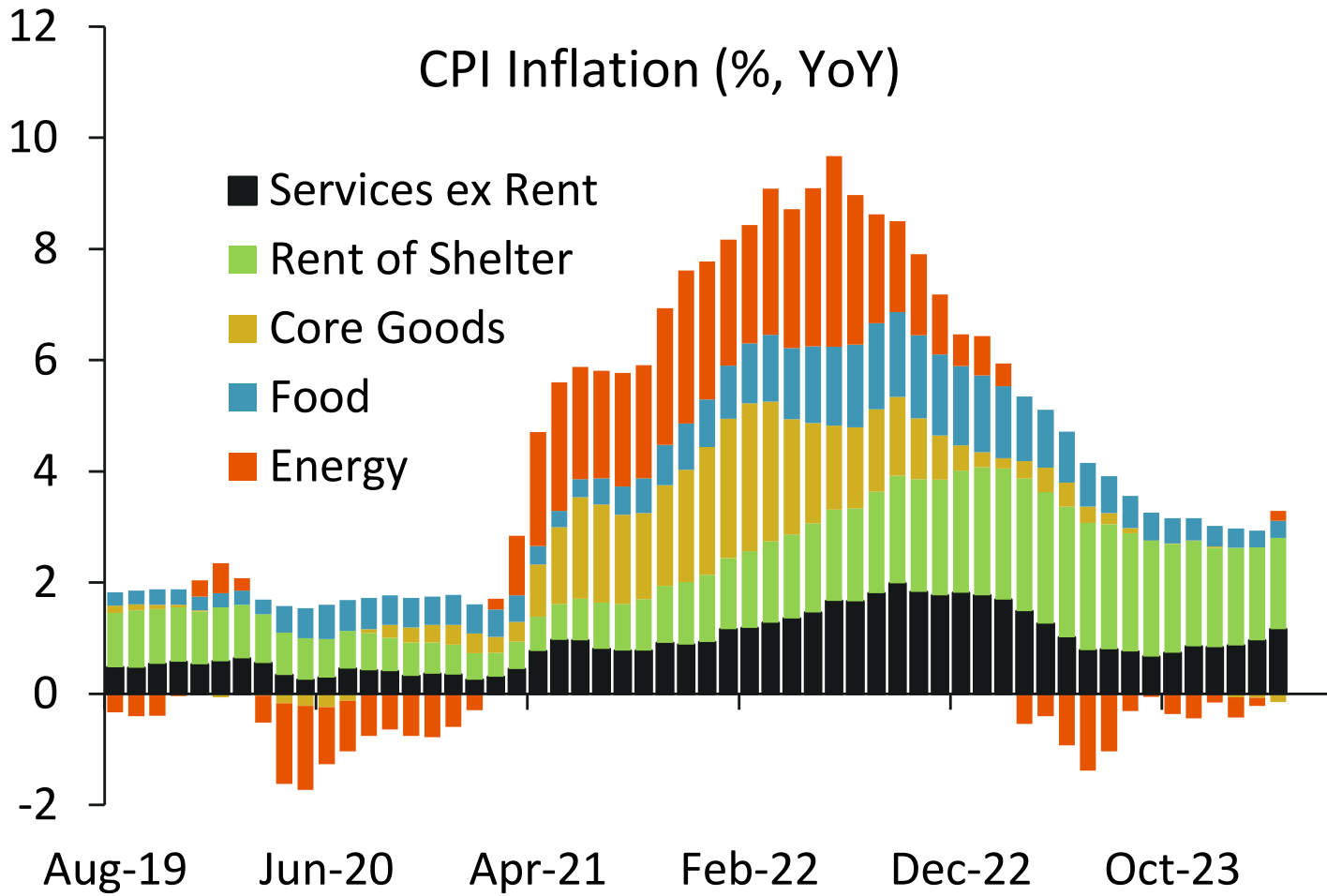
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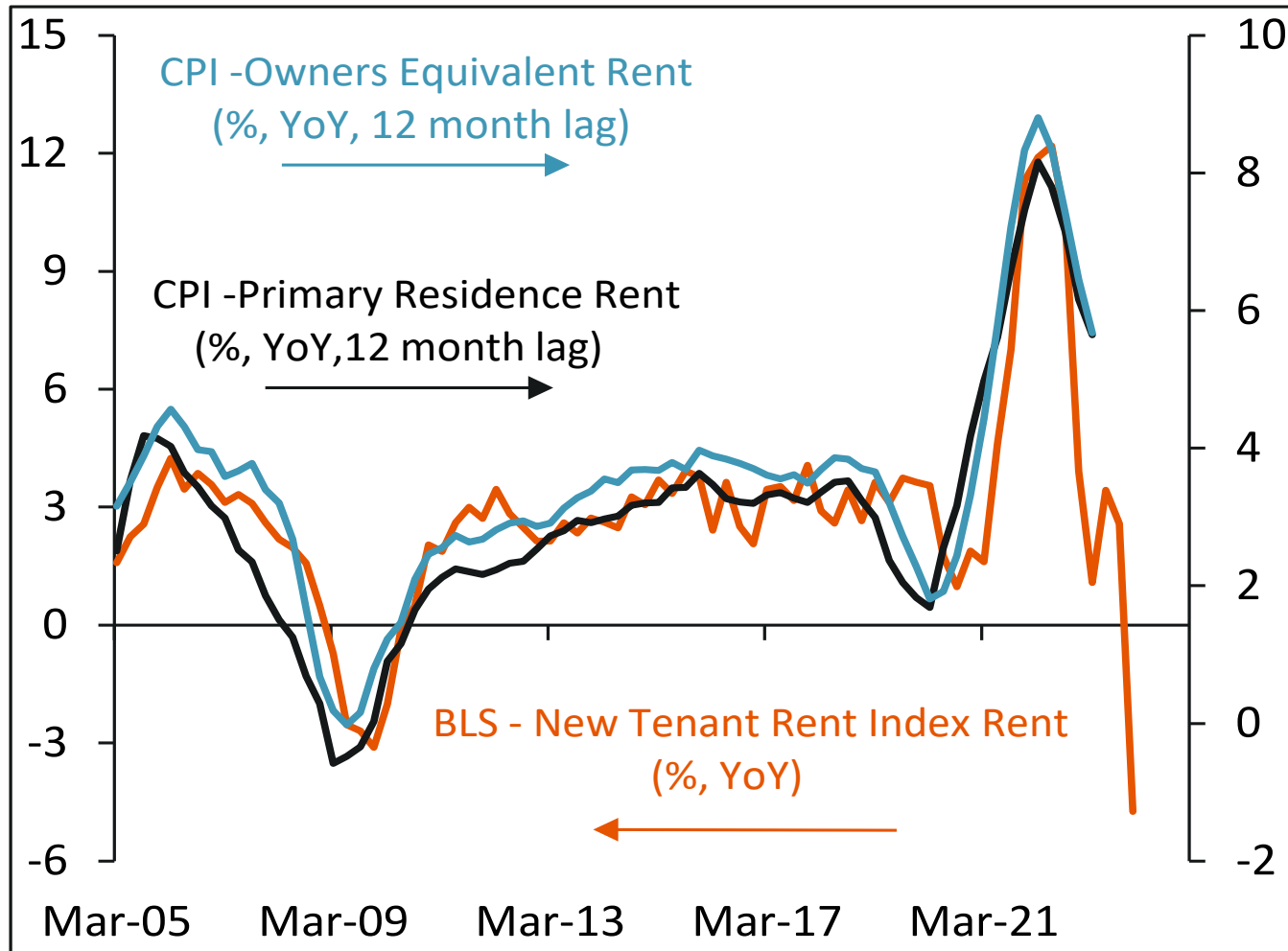
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- **Inflation on a downward trend**
 - Fed easing may be near
 - Debt, deficits and higher interest rates
 - Gauging the next recession
 - Consumer Overspending
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Inflation is headed lower



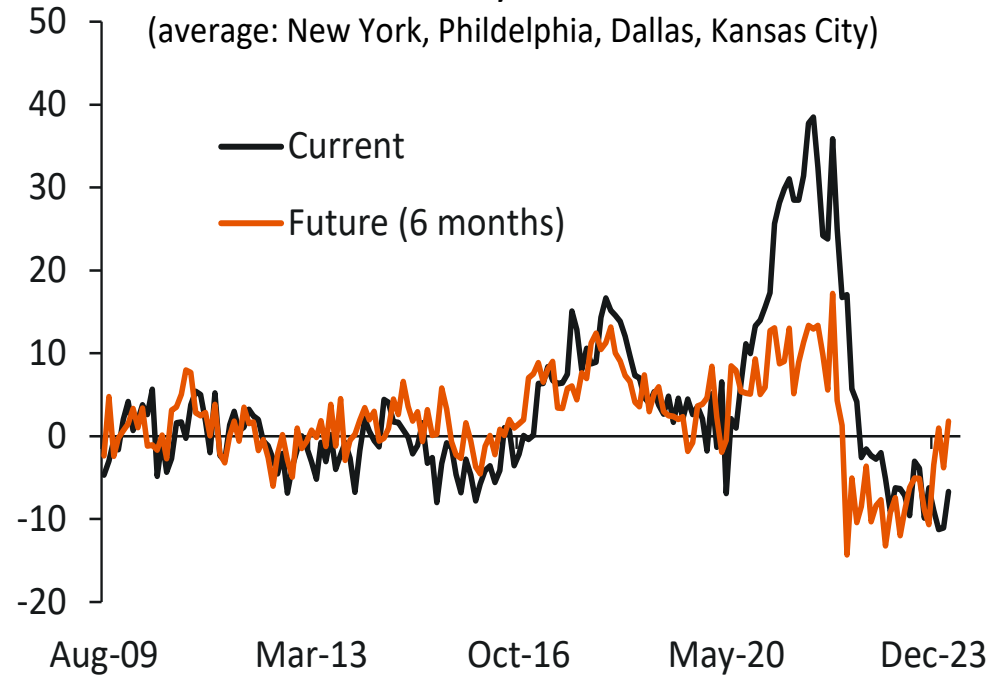
Growth for shelter related costs is on a downward trend



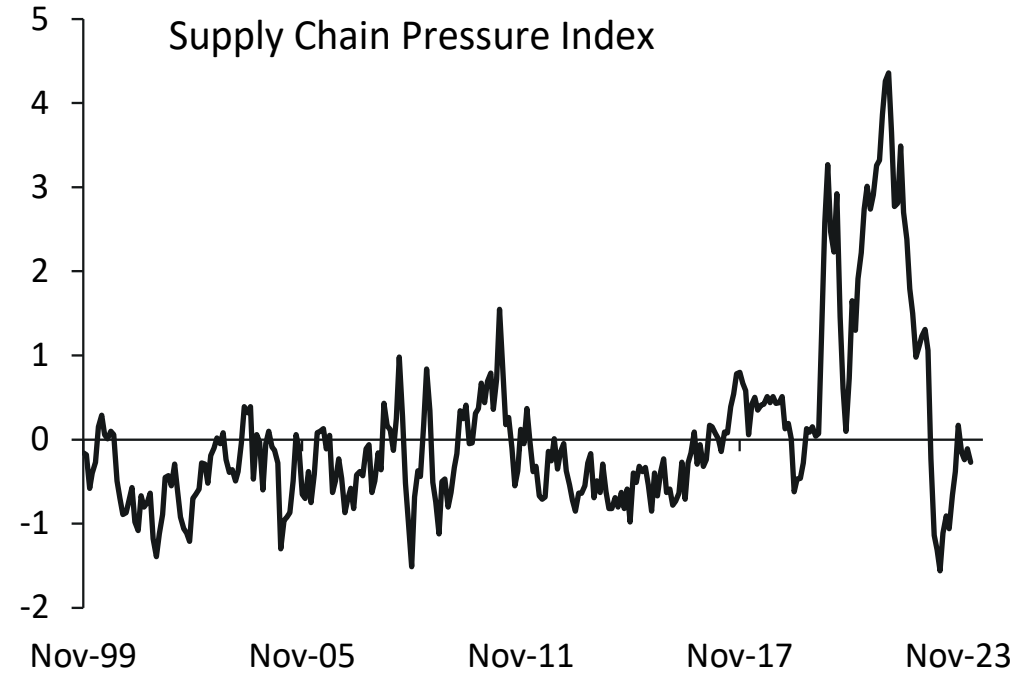
Supply chains are back to normal

Delivery Times

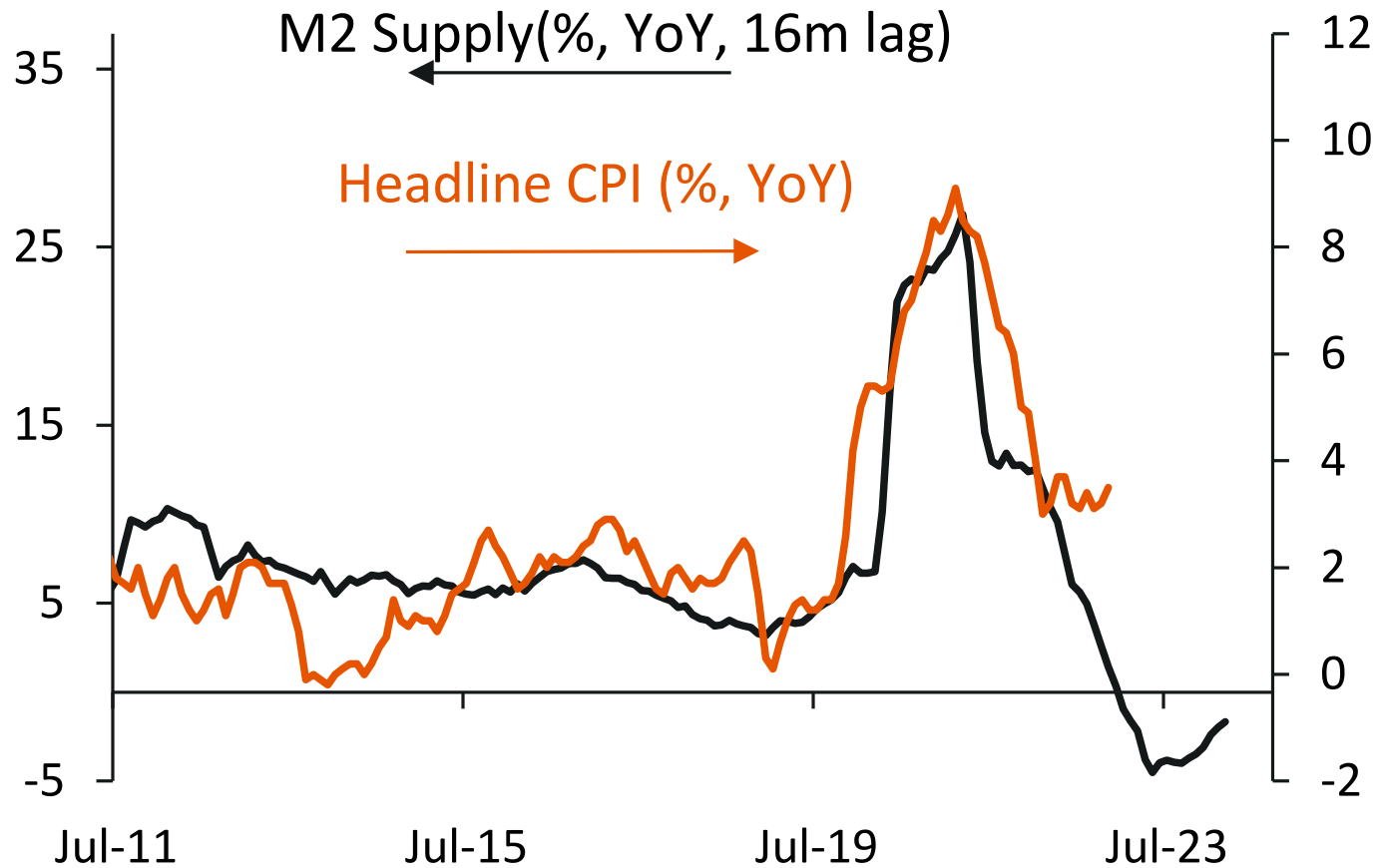
(average: New York, Philadelphia, Dallas, Kansas City)



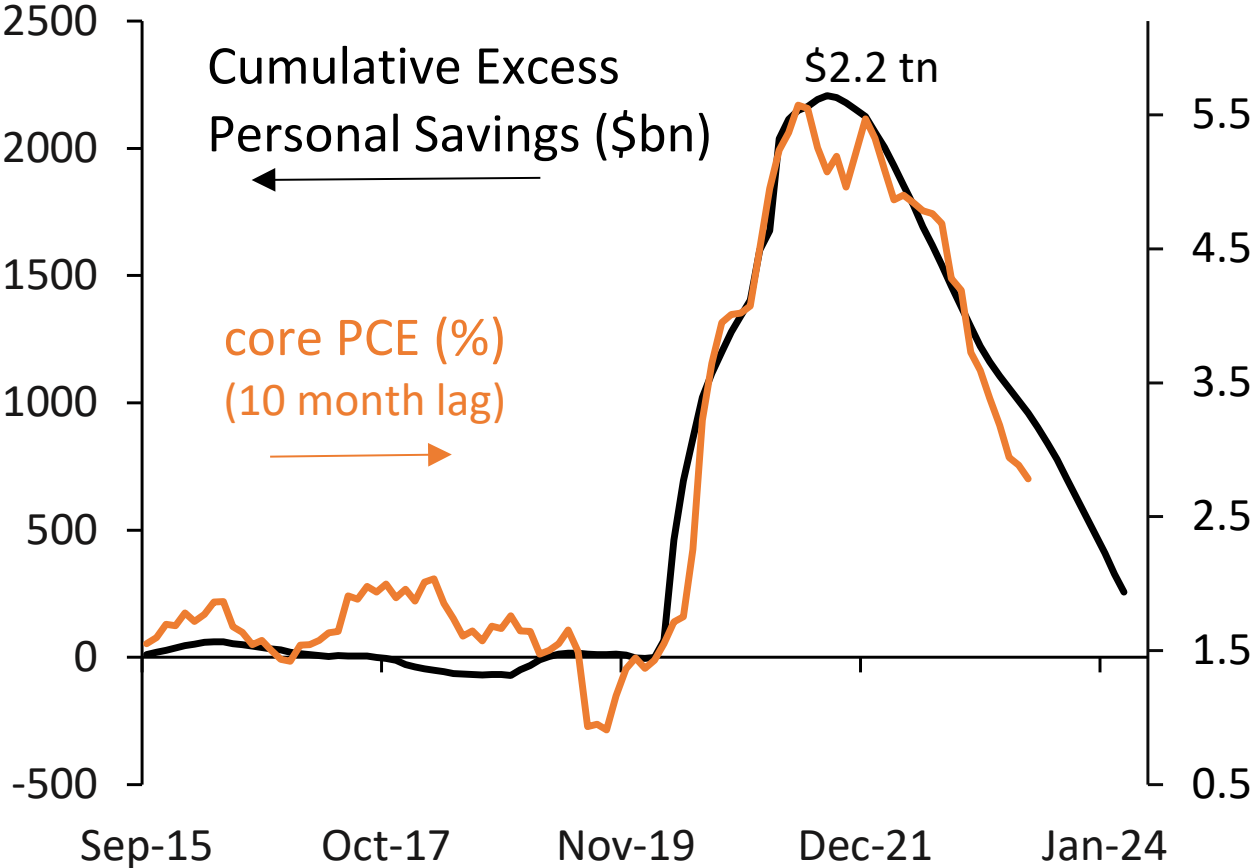
Supply Chain Pressure Index



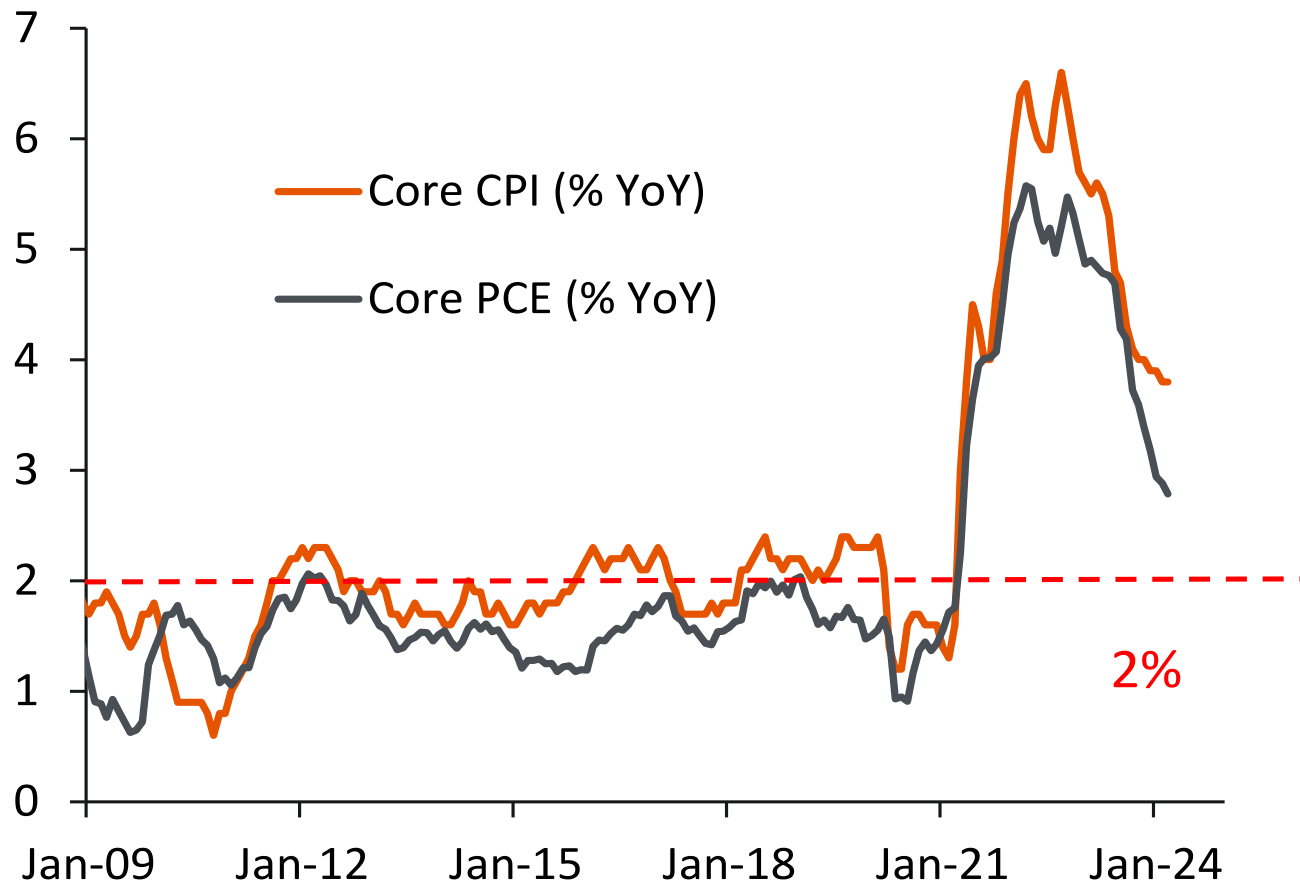
Declining M2 money supply to stifle inflation



Fiscal NOT Monetary policy was responsible for the inflation surge

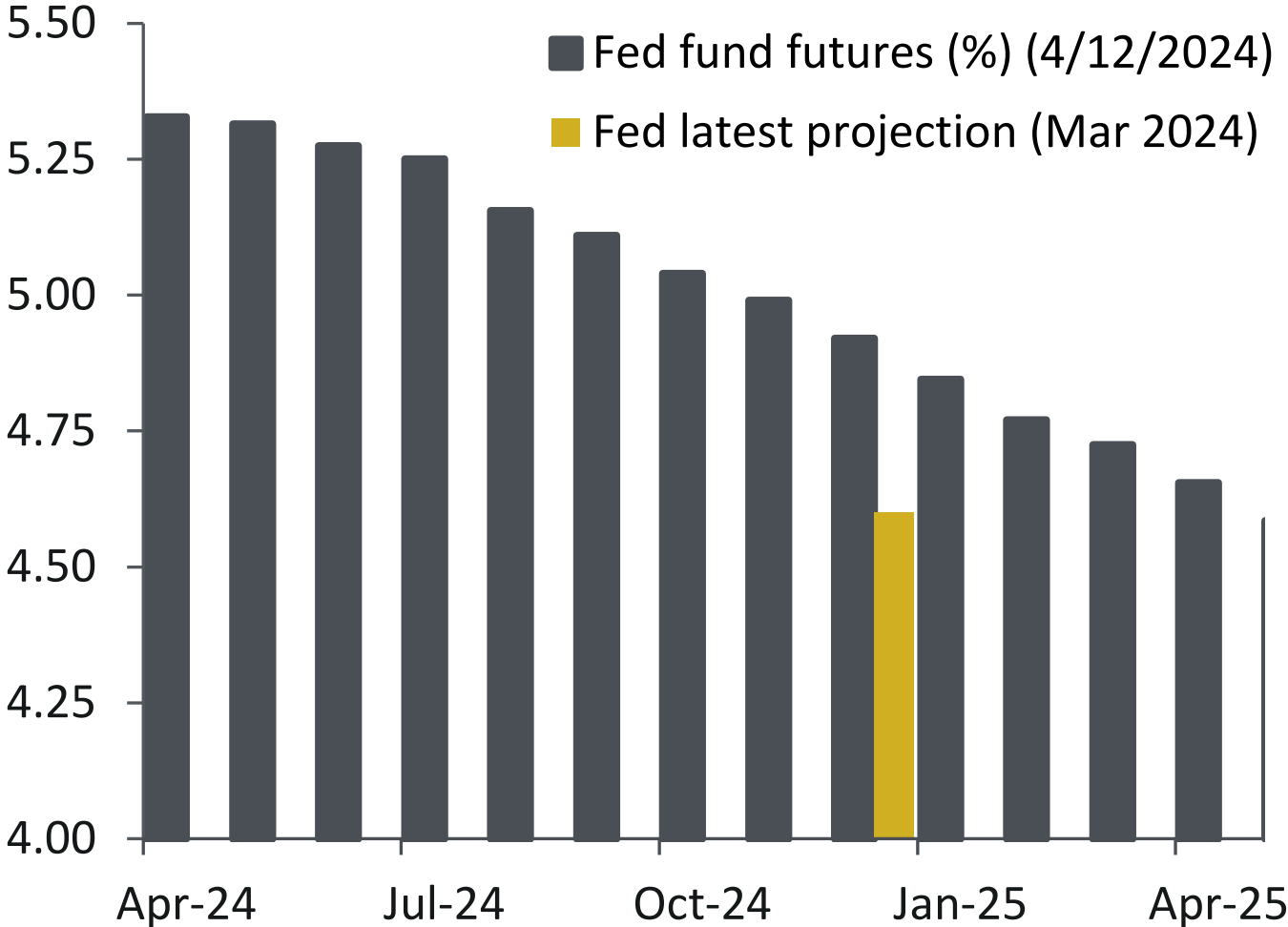


Inflation continuous to drift lower

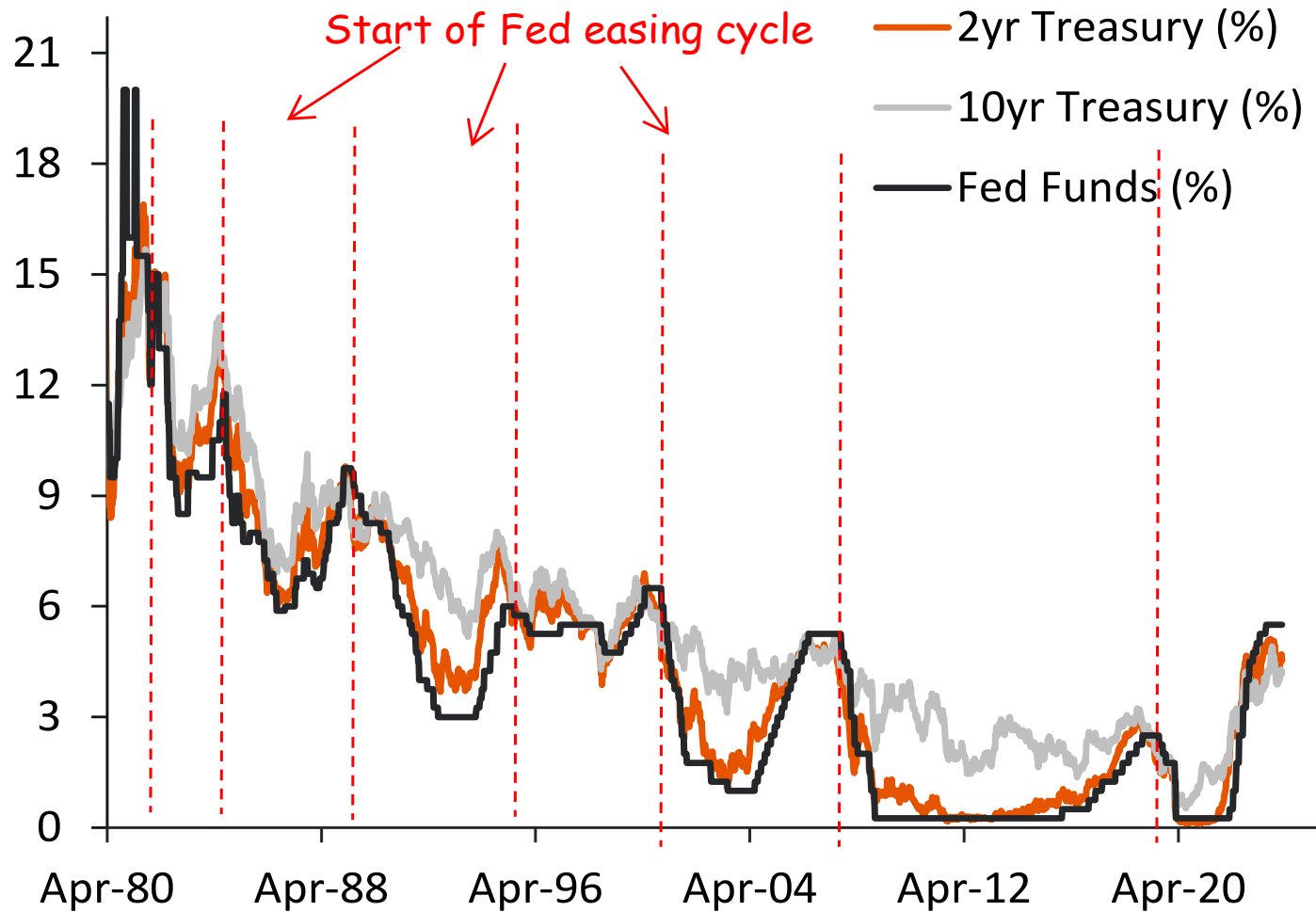


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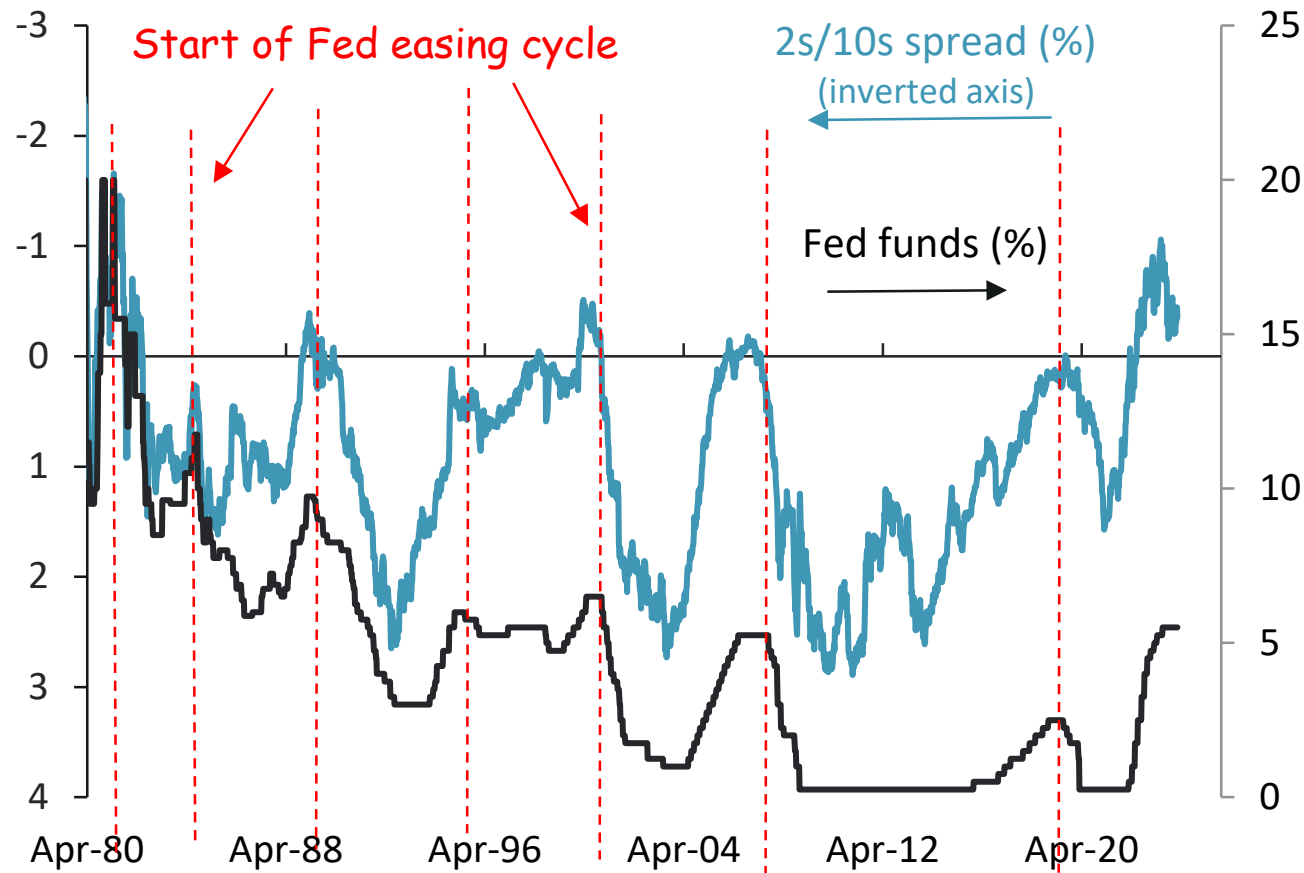
When will the Fed cut rates?



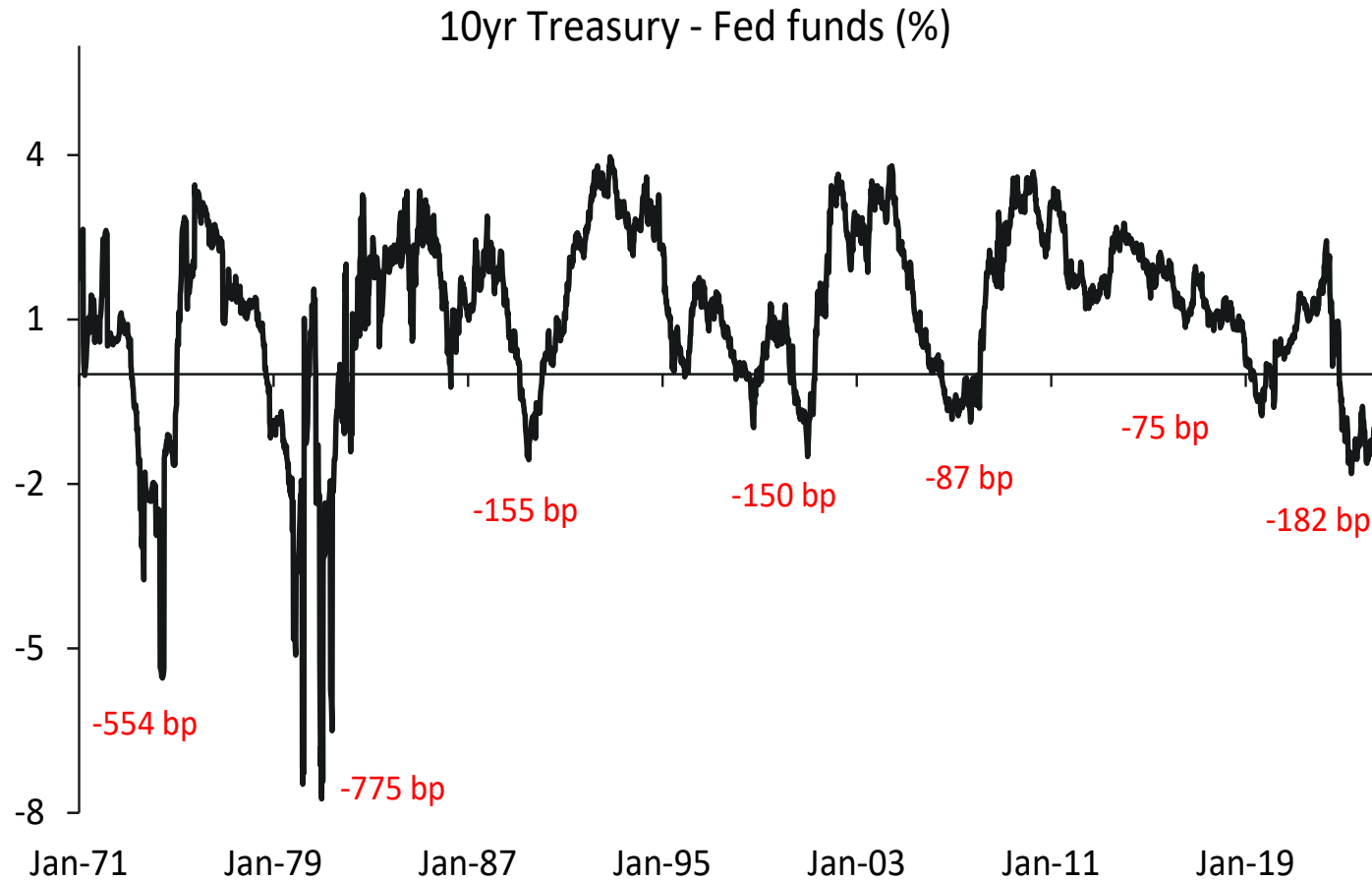
Since the early 1980s yields have always declined when the Fed started cutting rates



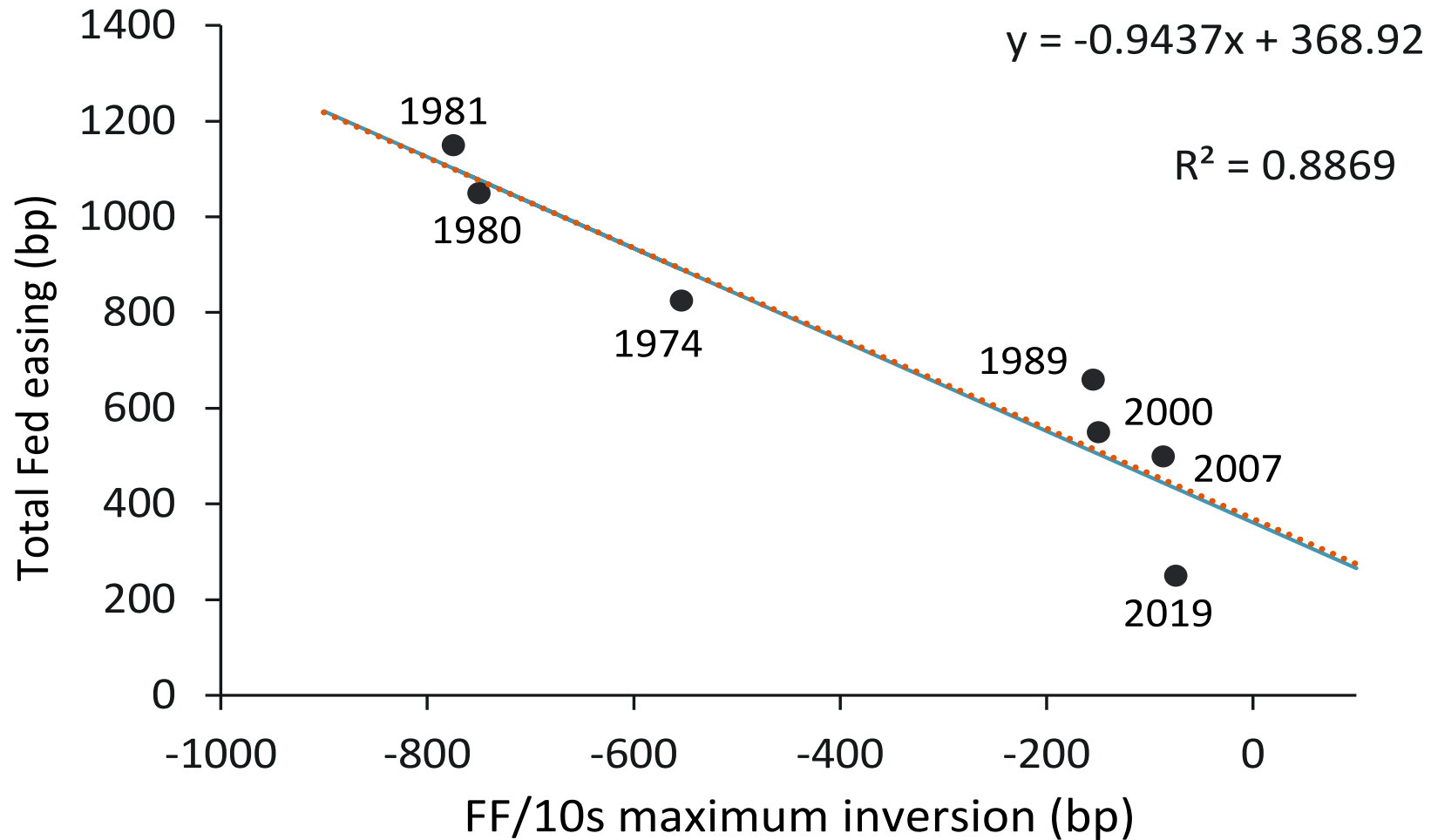
Since the early 1980s the yield curve has always steepened when the Fed started cutting rates



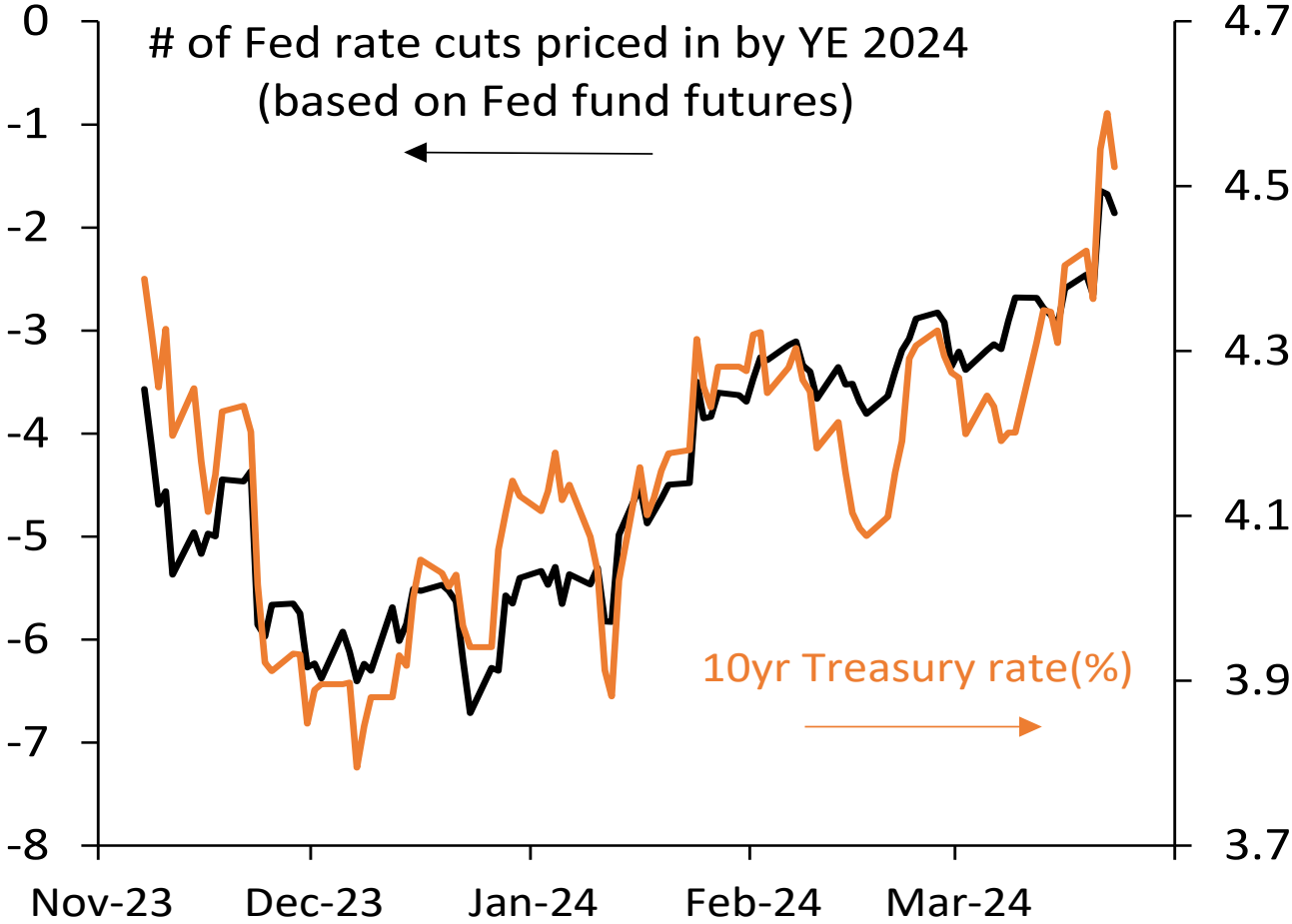
Deepest yield curve inversion since the early 1980s



Deeper curve inversions lead to deeper rate cuts

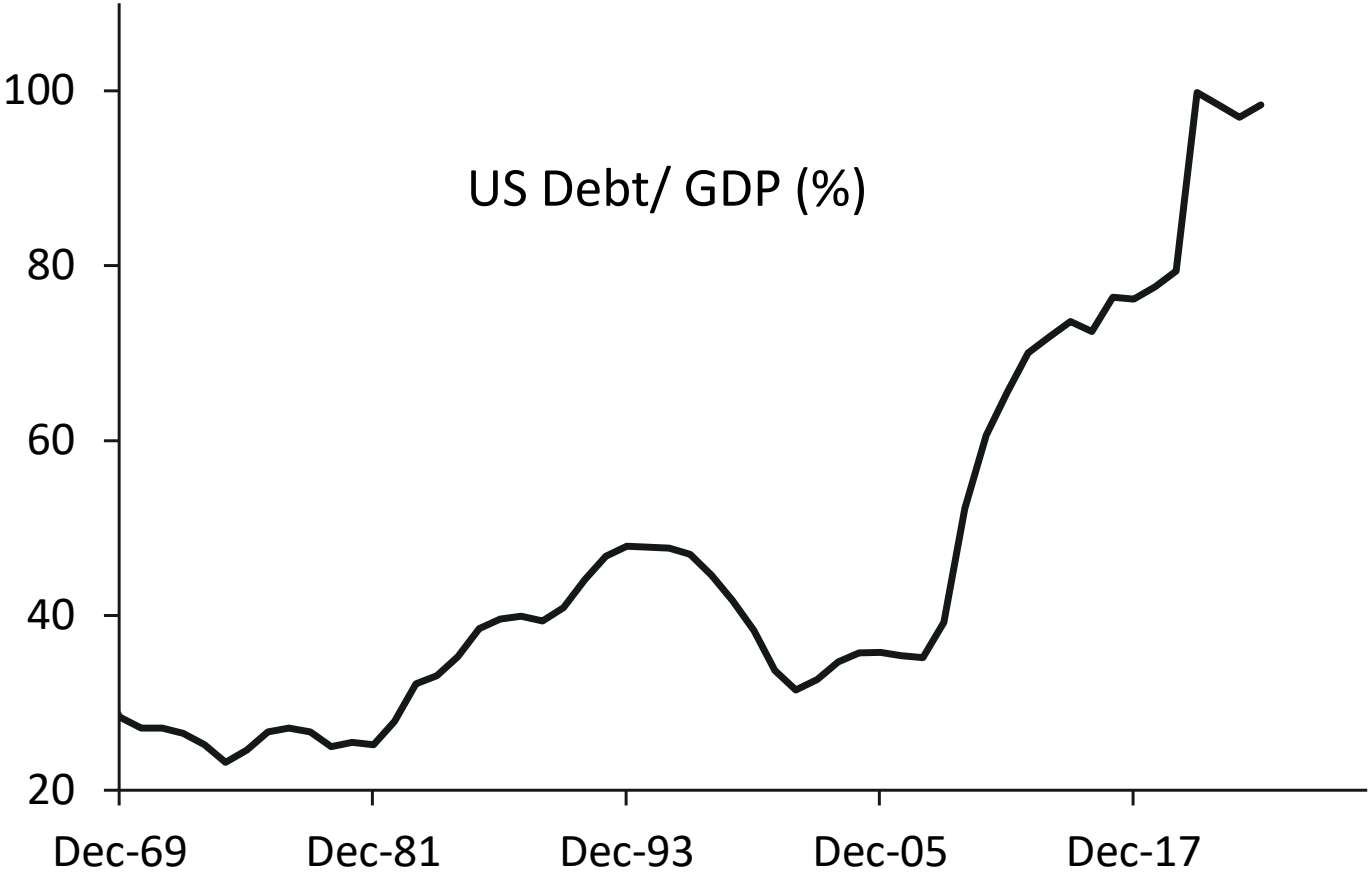


The decline in expected rate cuts has put upward pressure on long-term rates

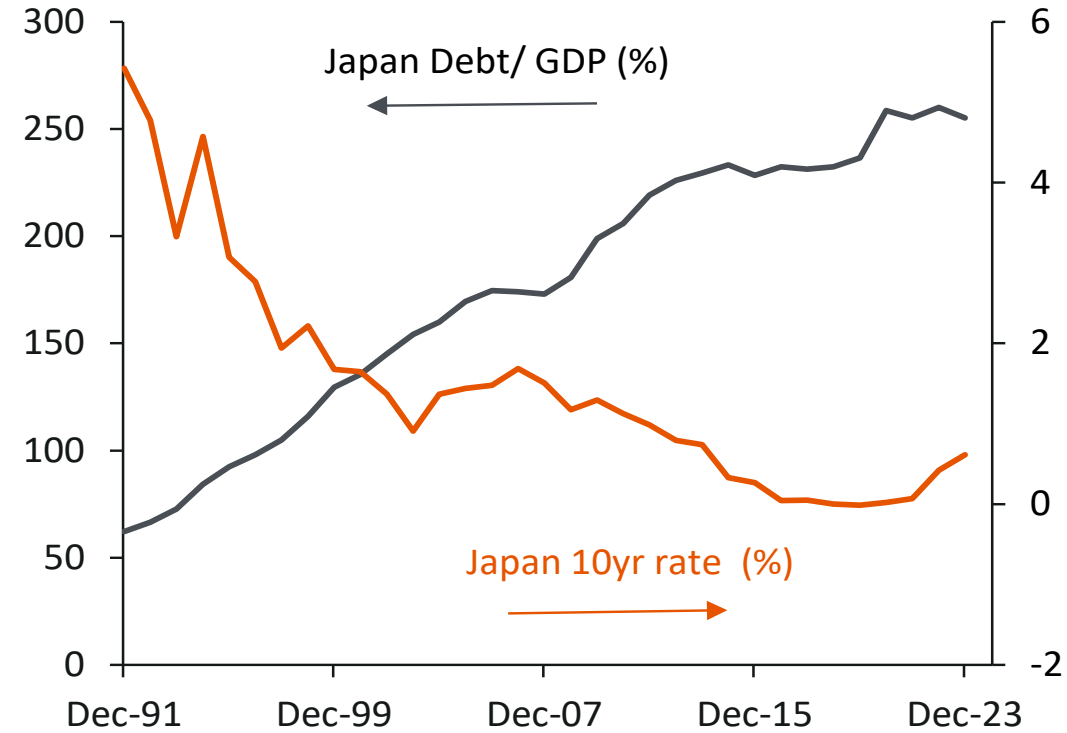
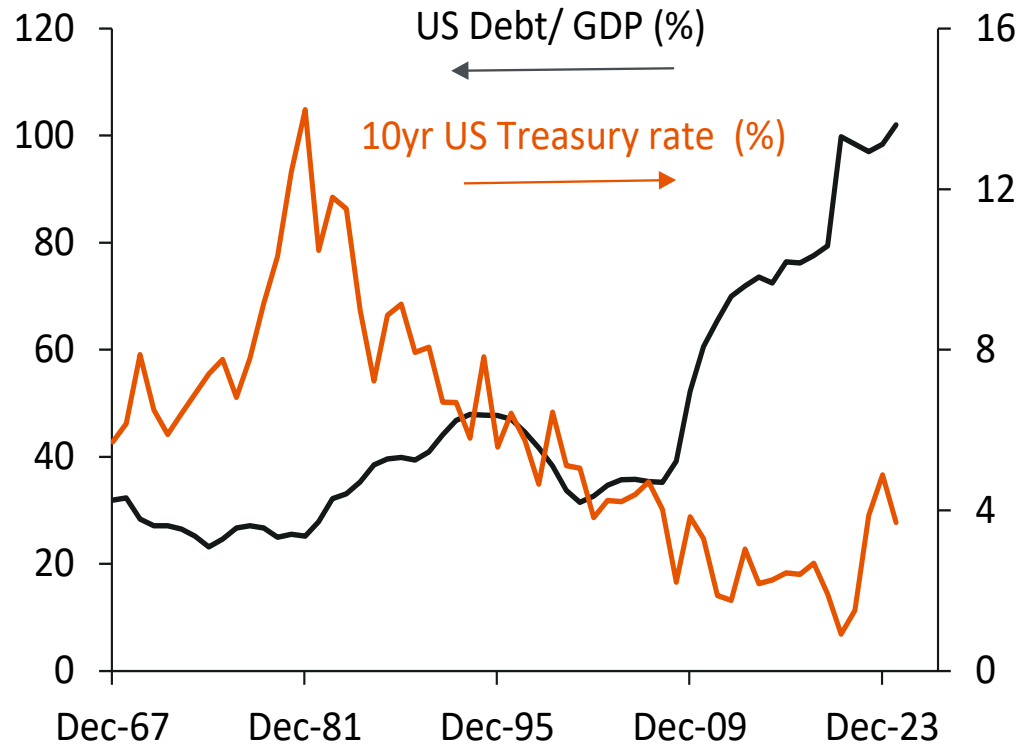


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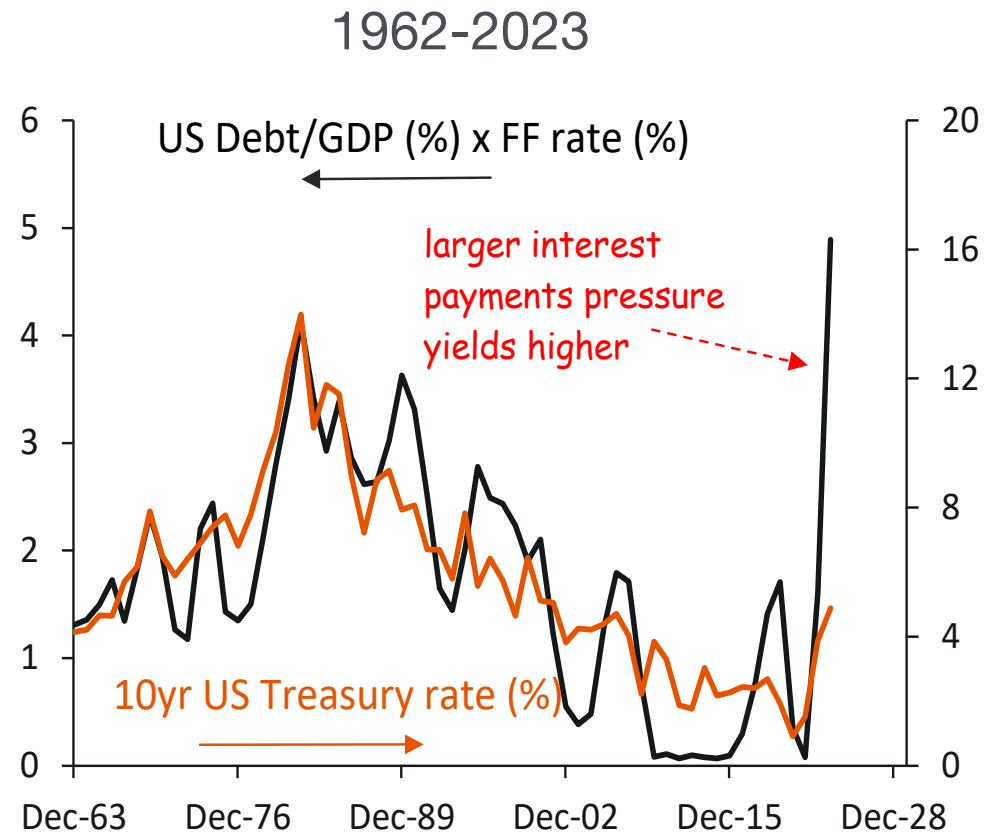
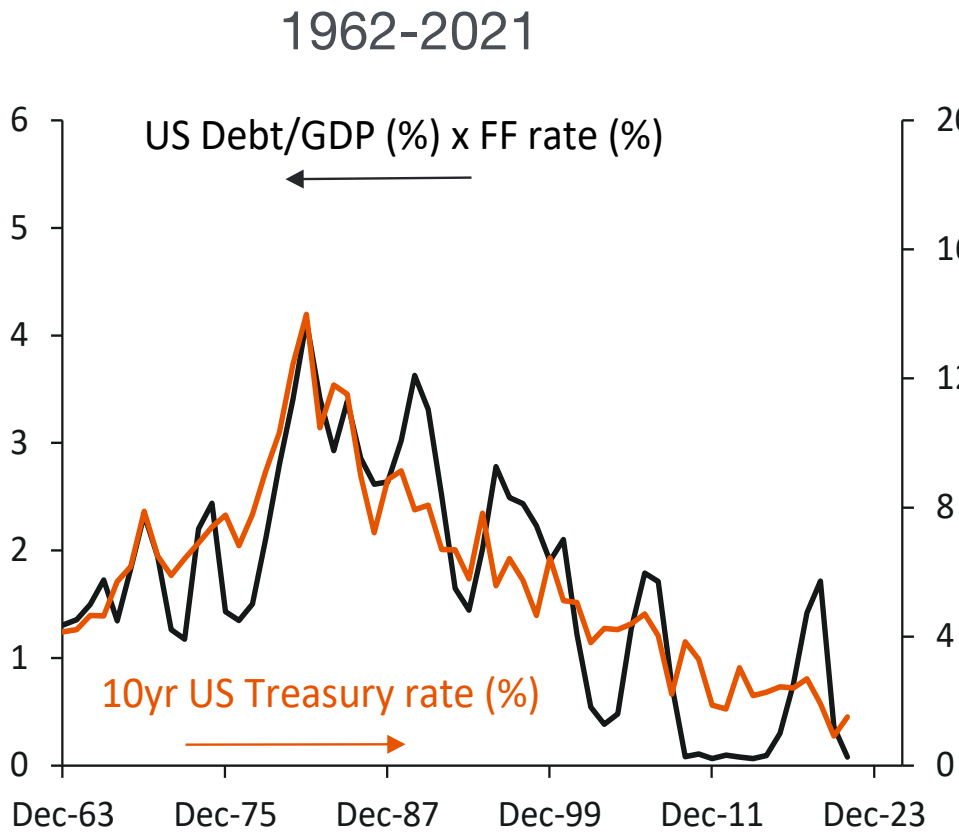
US debt has risen sharply since the Great Financial Crisis



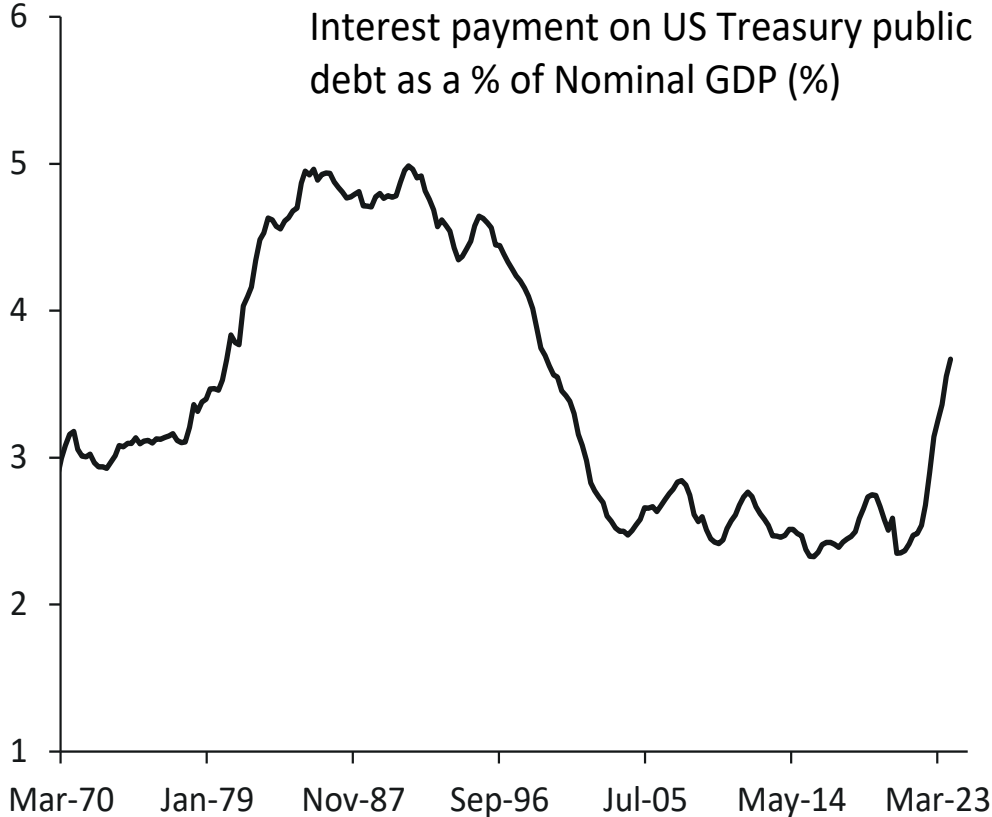
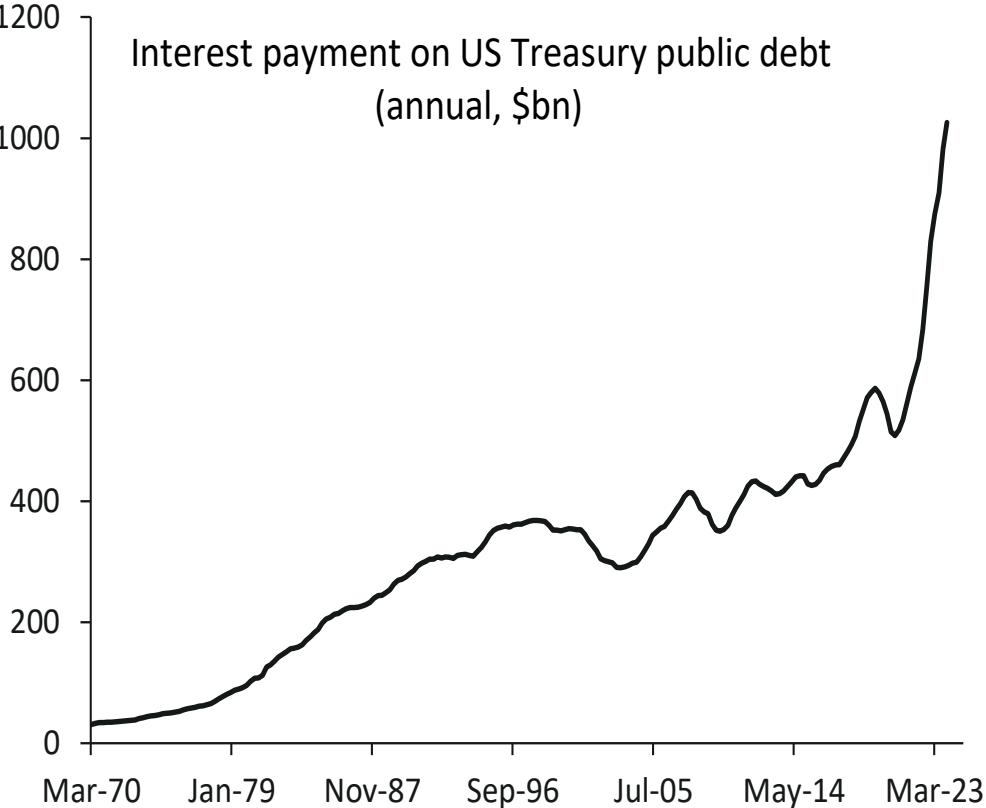
Rising debt, but falling interest rates



Interest rates depend on the cost of debt



The risk of a fiscal crisis is low, but pressure is building



How to reduce debt pressure

Default

Inflate

Economic growth

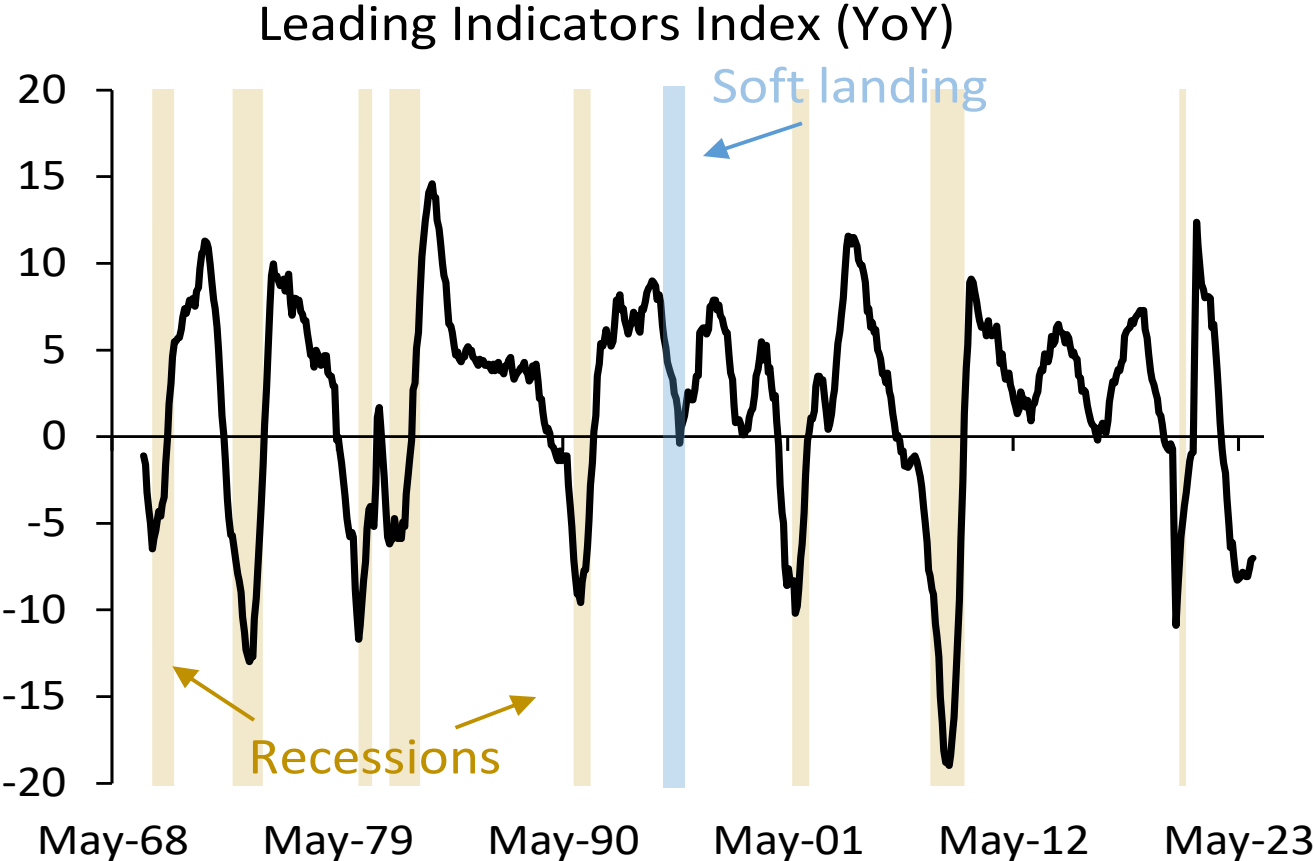
Raise Taxes/Cut spending

Lower rates to ZERO

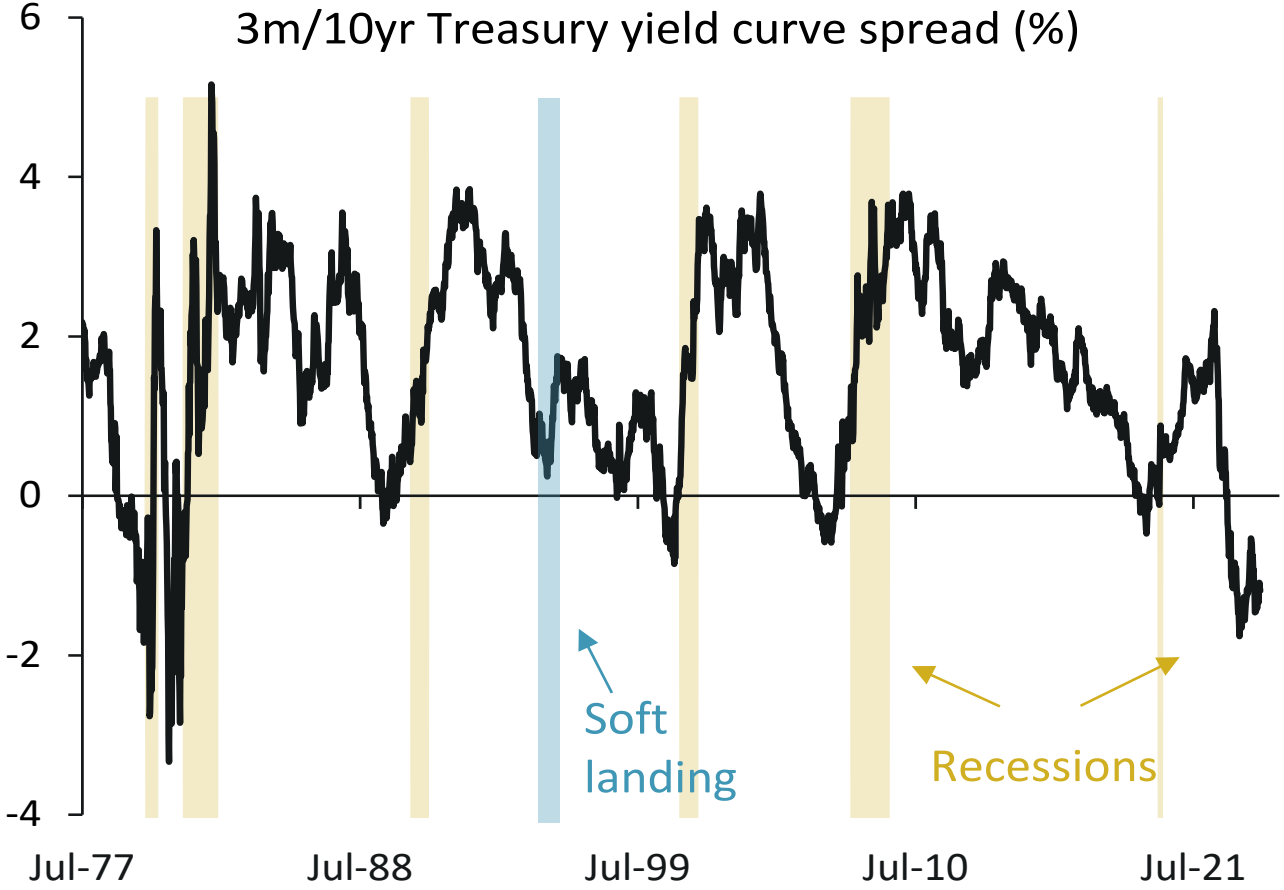
← most likely
solution

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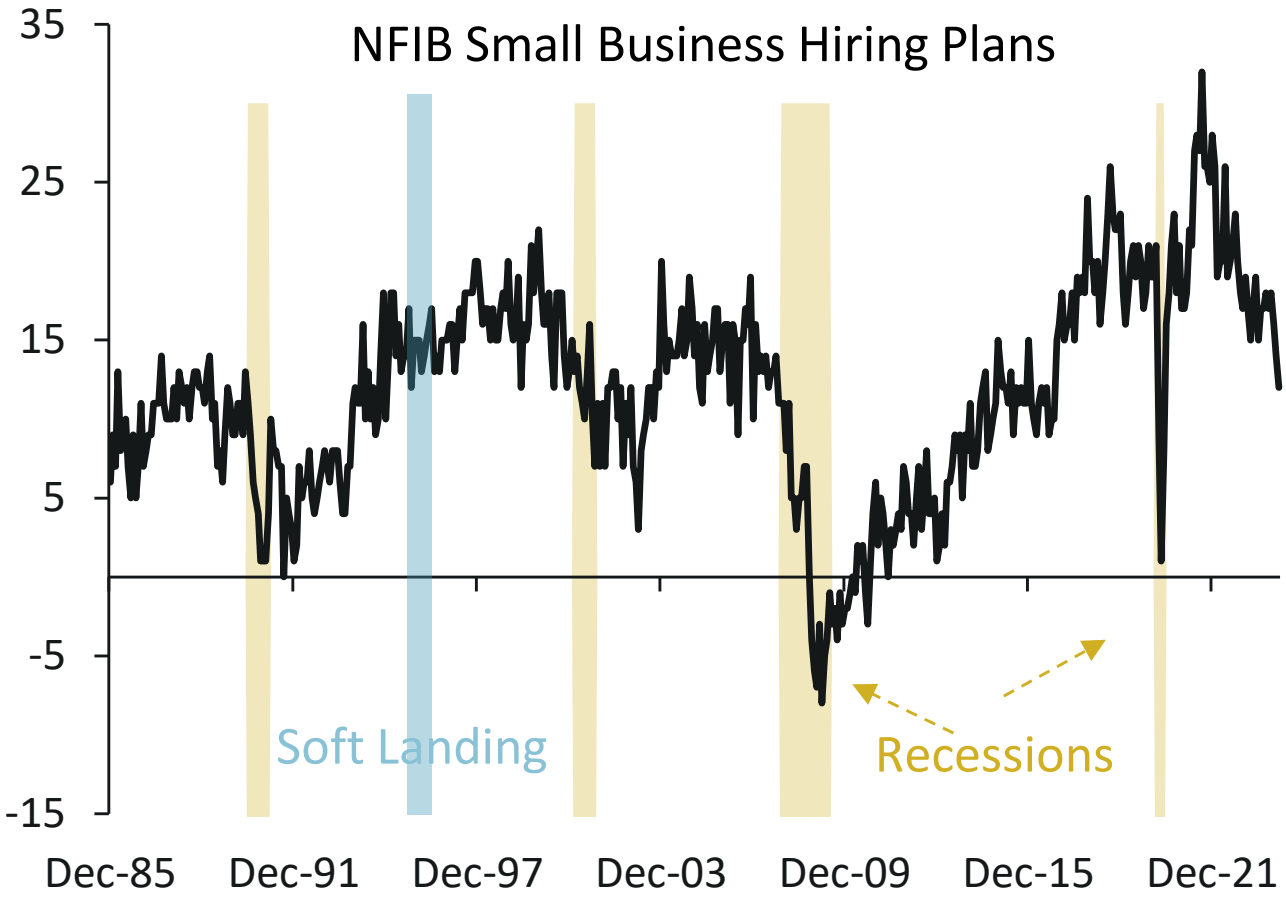
The leading index decline has never been this large without a recession



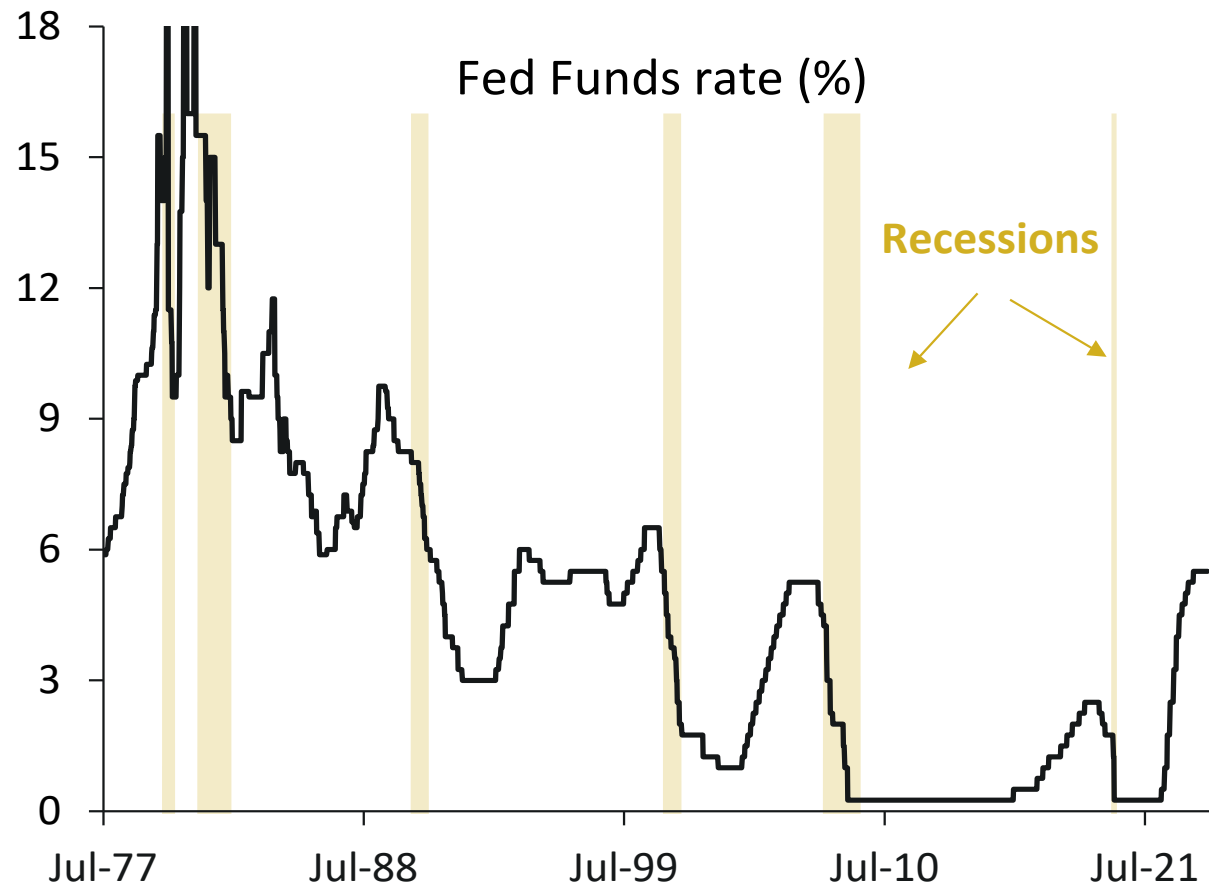
Yield curve inversions have been reliable predictors of recessions



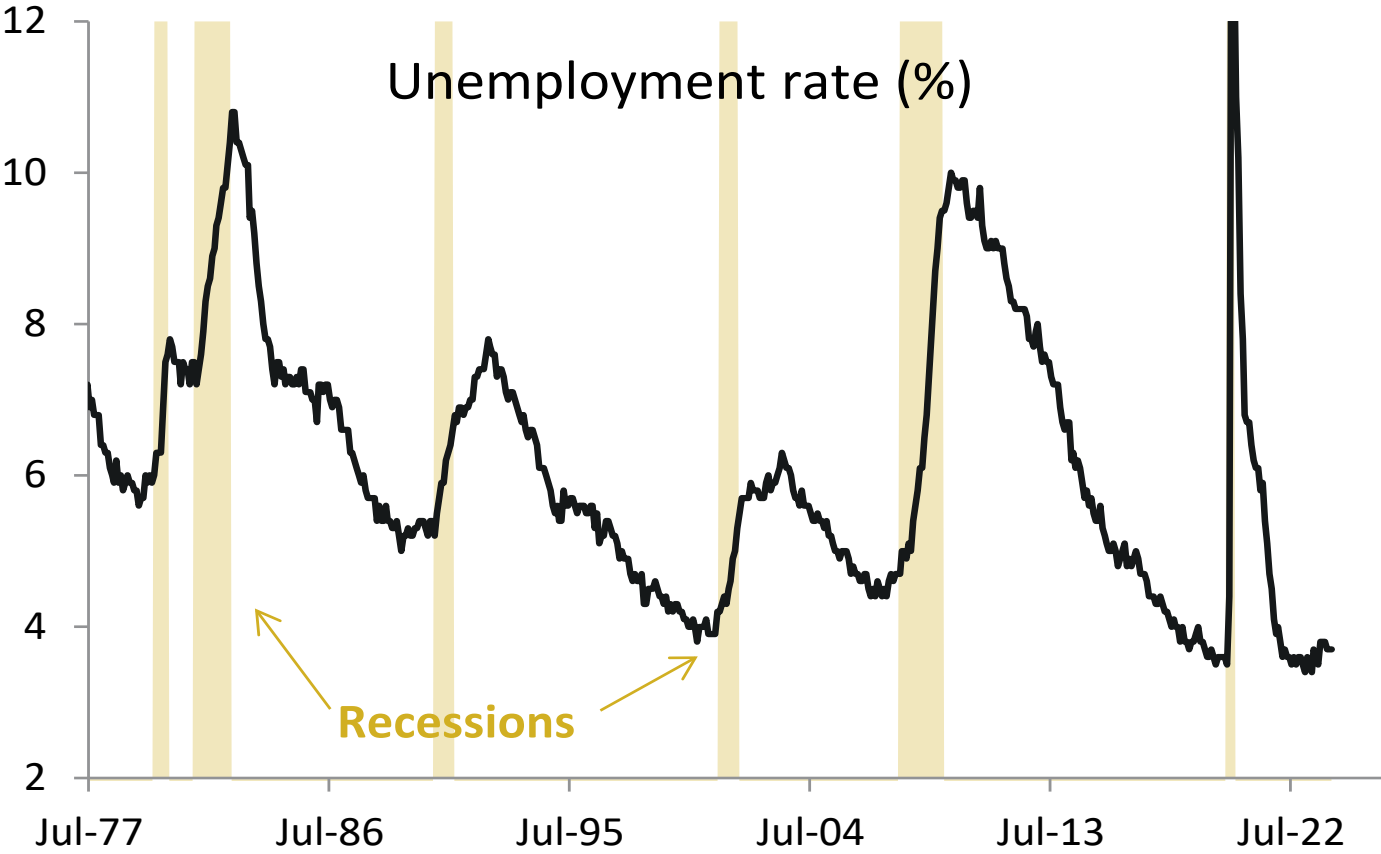
Latest indicator pointing towards recession



Recessions start after the Fed starts cutting rates

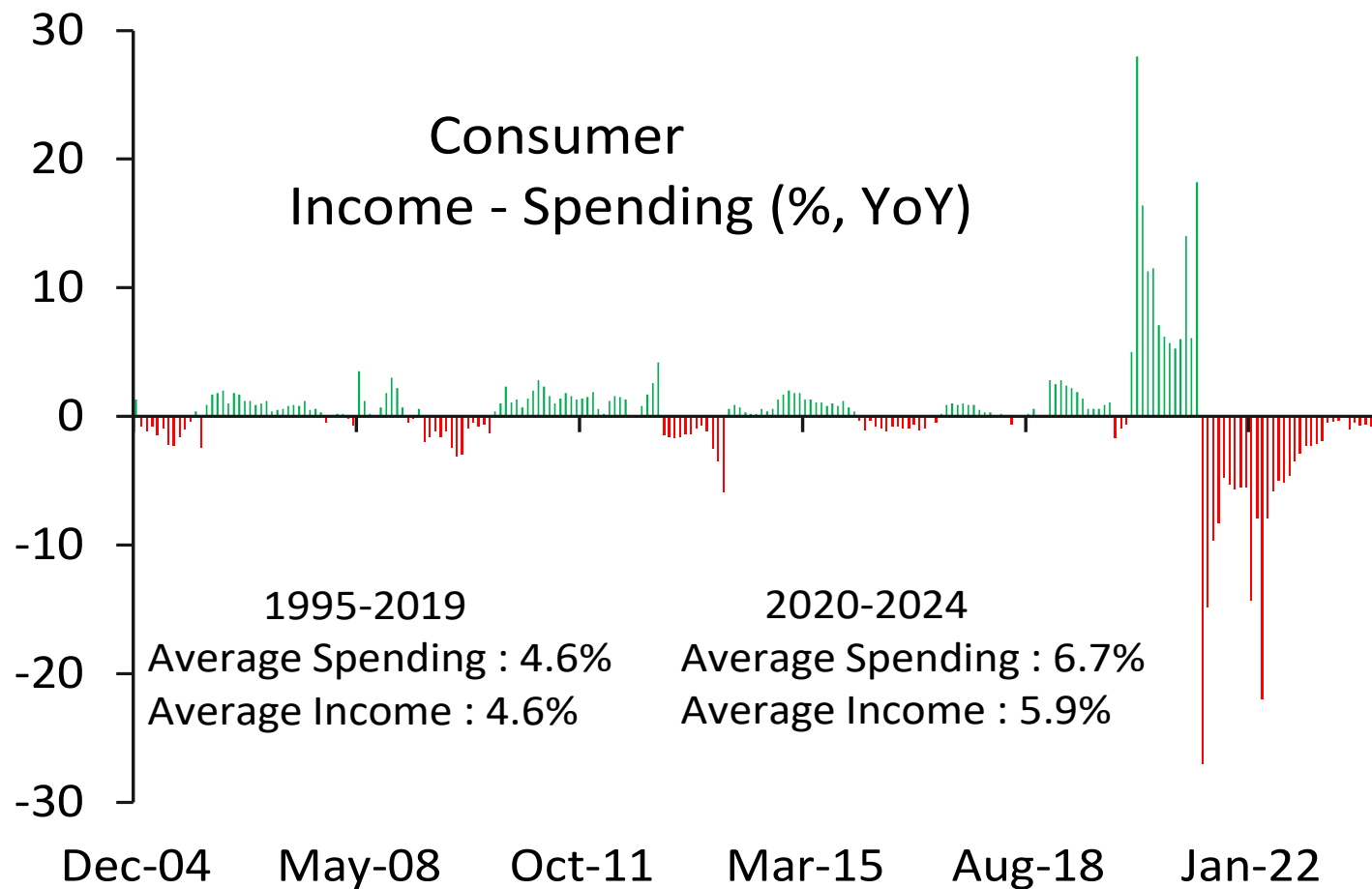


Unemployment hits cyclical lows just prior to the onset of the next recession

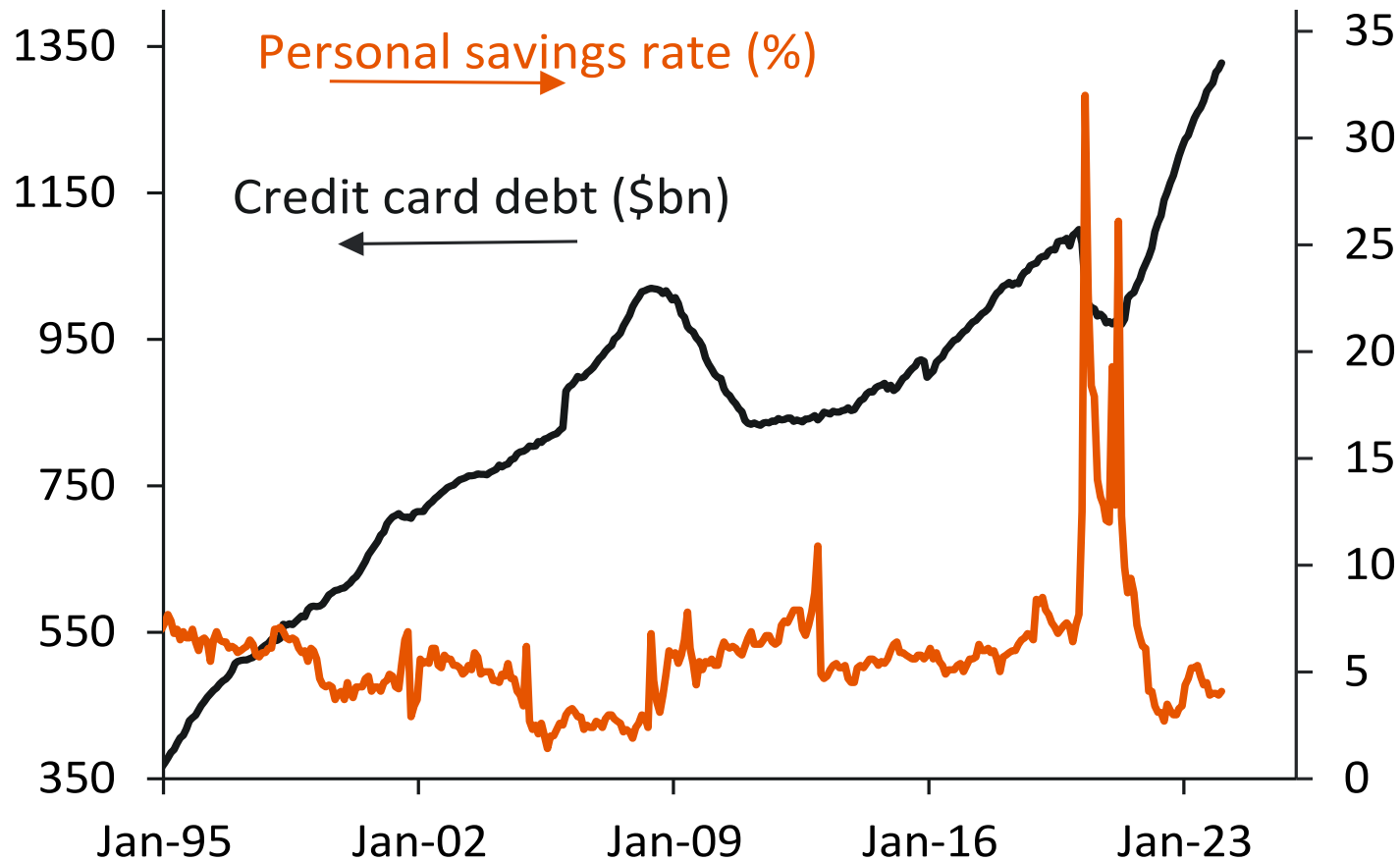


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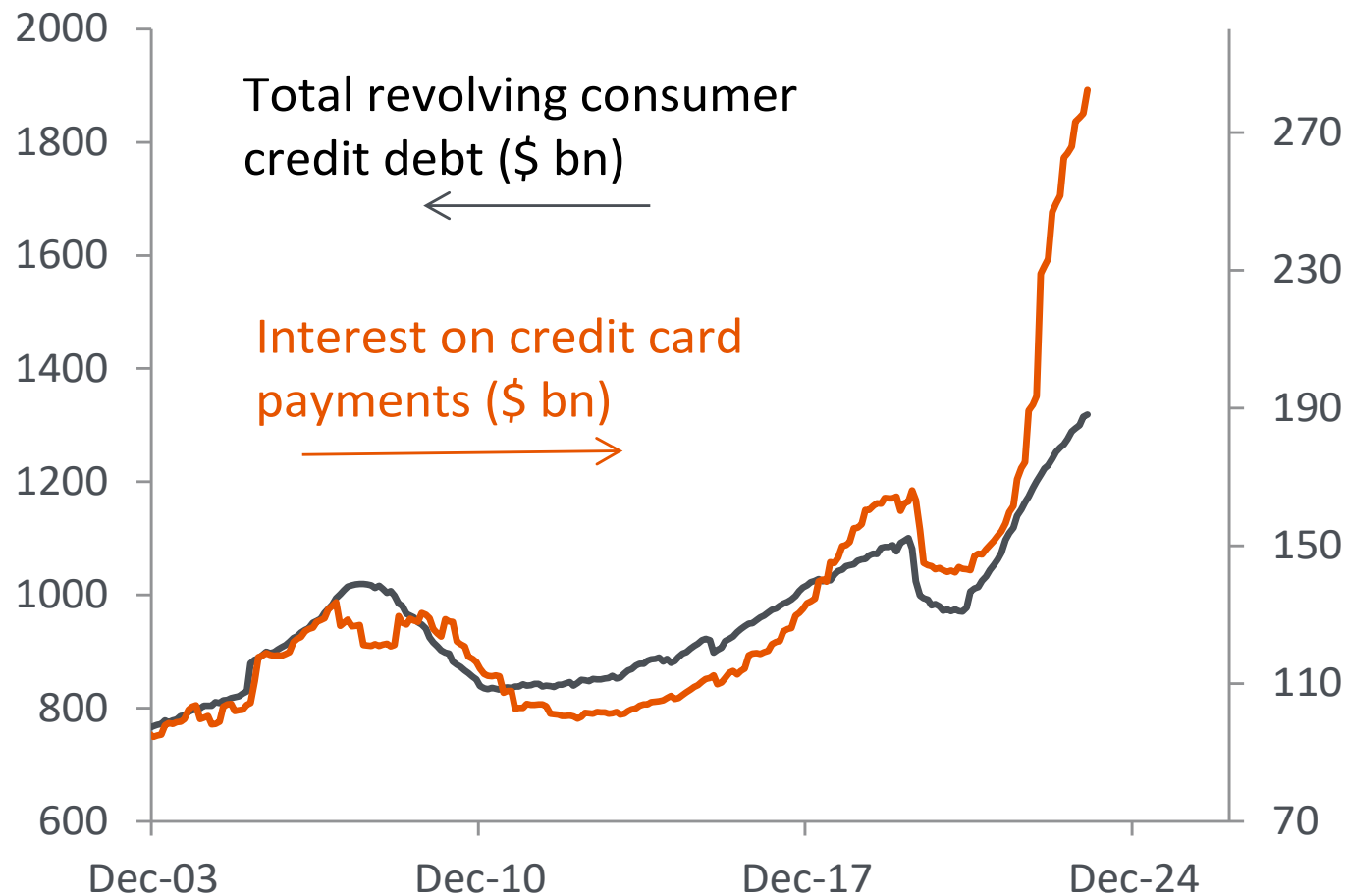
Americans have been spending more that they have been earning



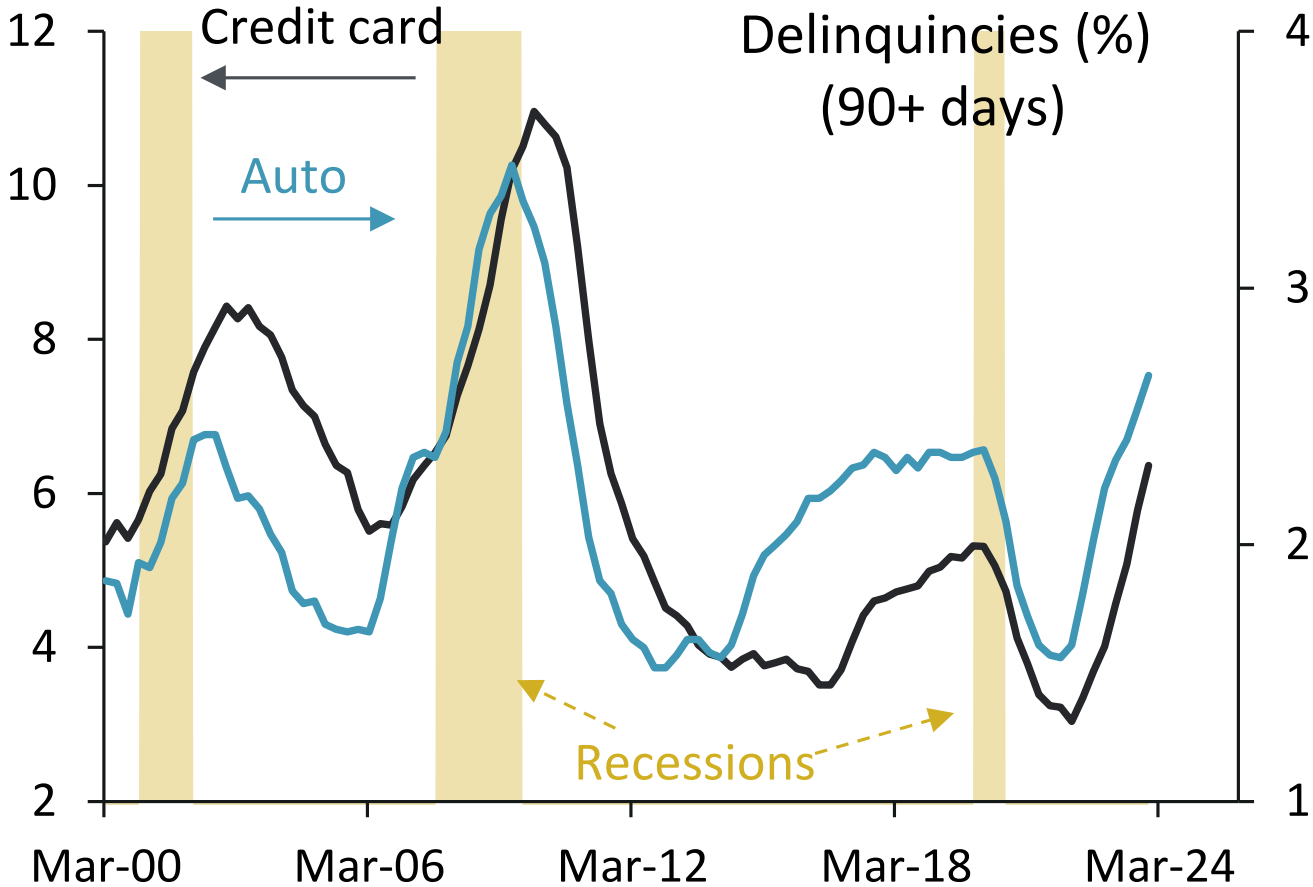
Credit card debt has risen to new historic highs, as savings have dropped to multidecade lows



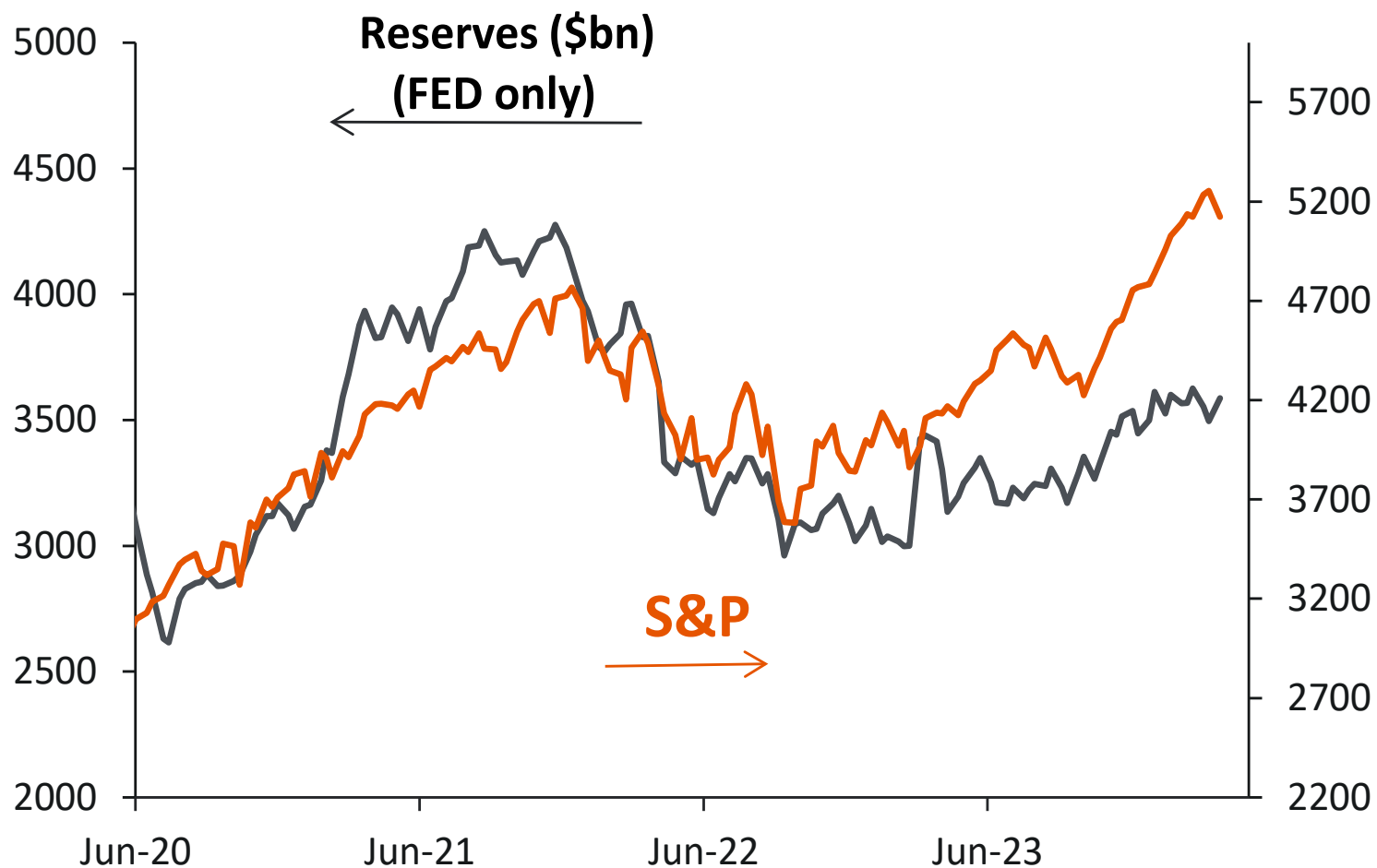
Over the past few years, interest payments on credit cards have nearly doubled



Signs of consumer stress are appearing

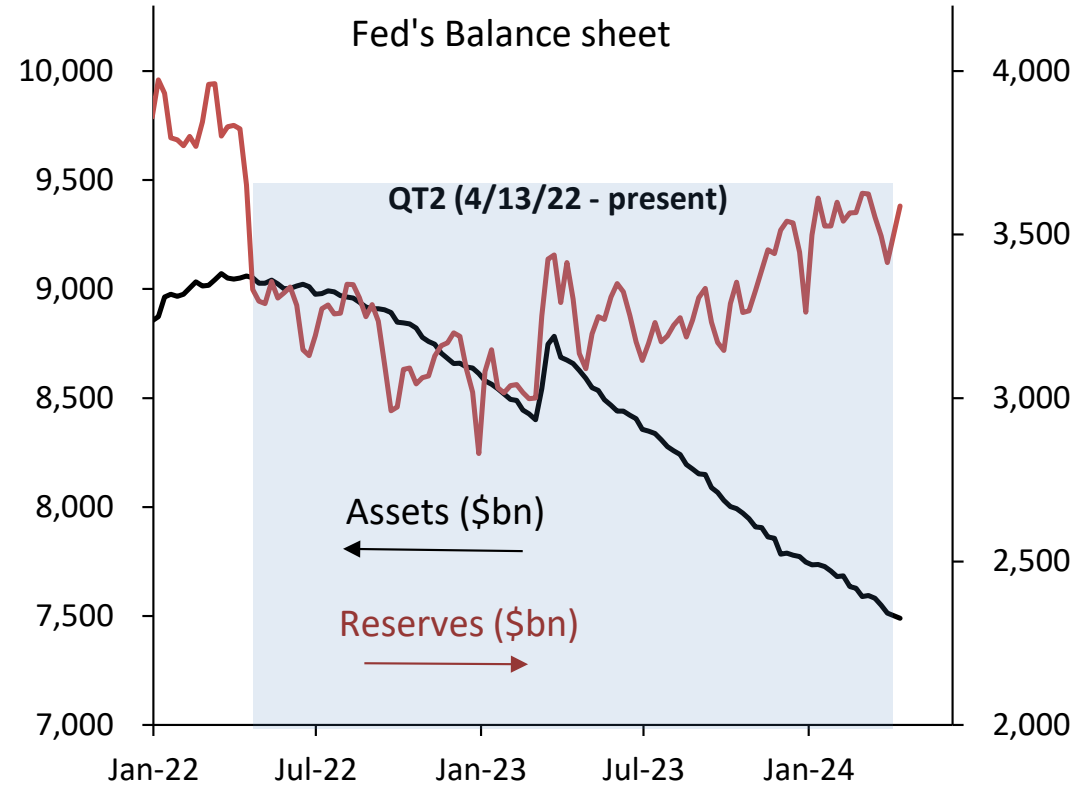
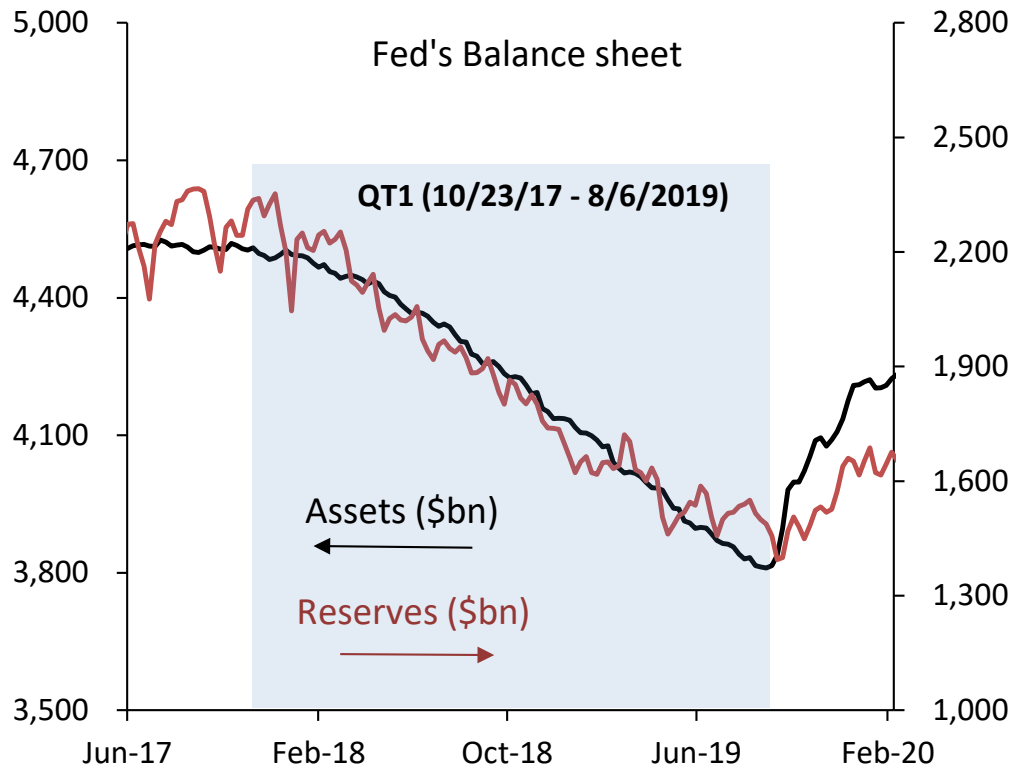


Rising bank reserves have been tailwind for equities

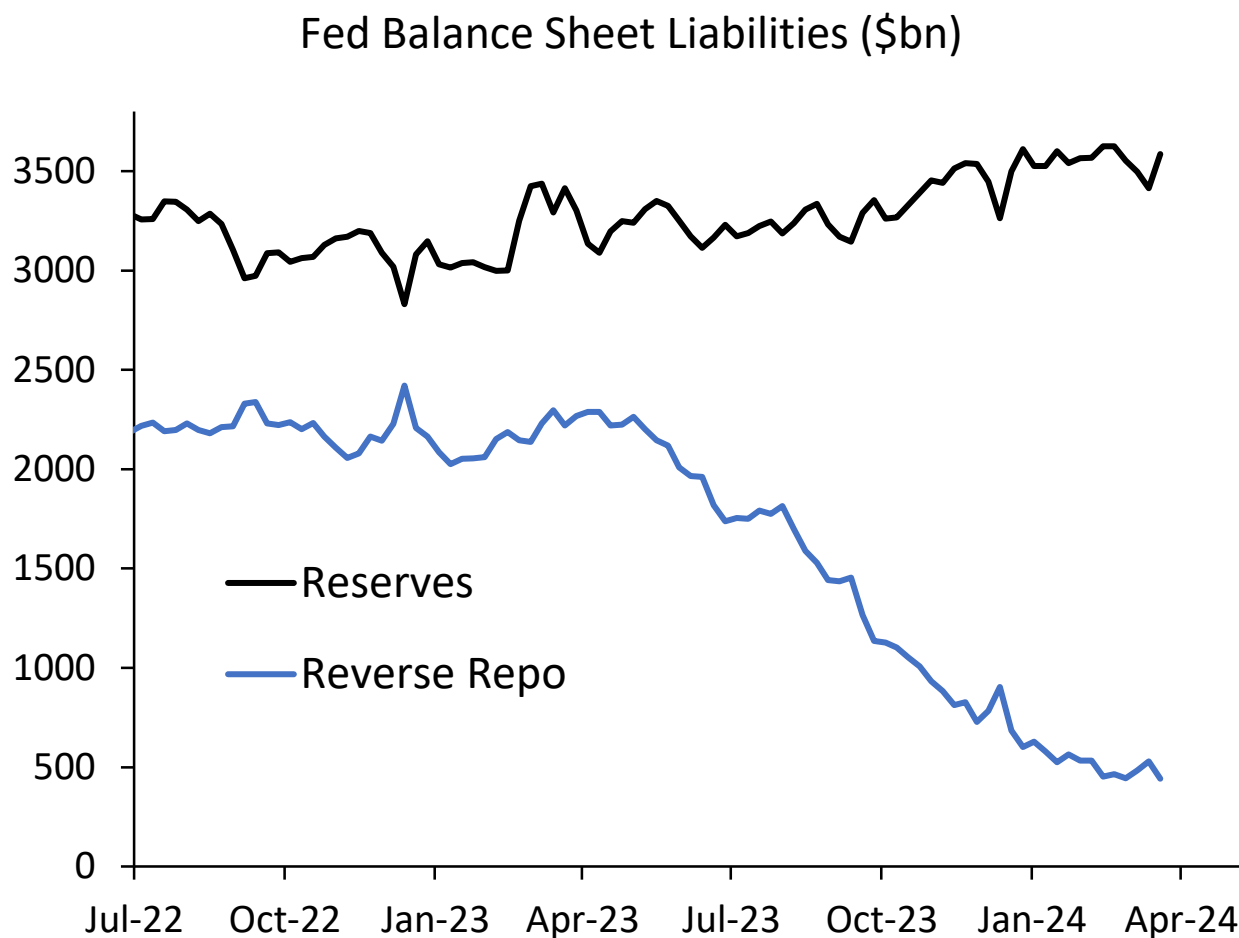


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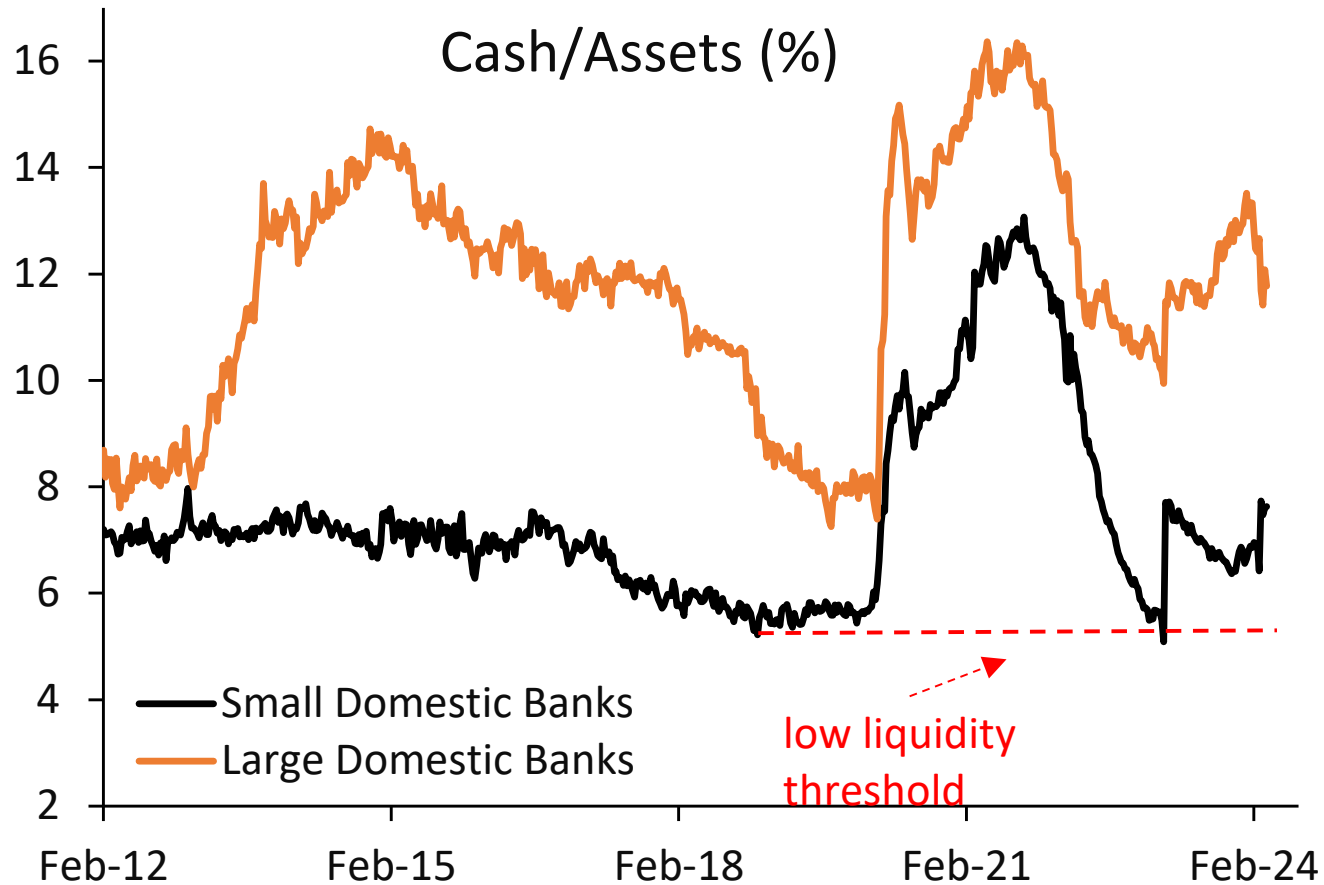
Reserves balances are moving higher under QT2 ?



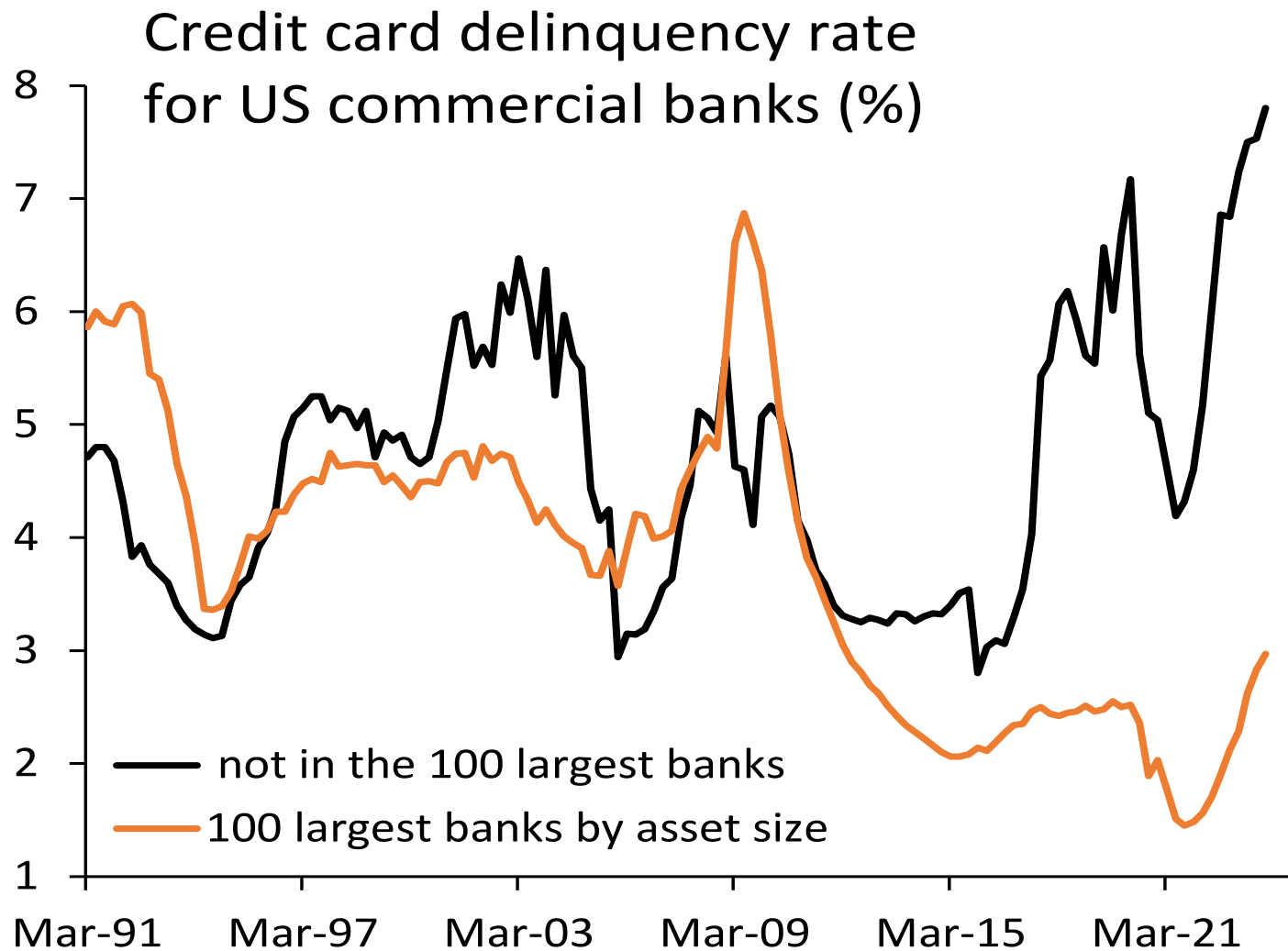
The Fed's reverse repo facility is the shock absorber



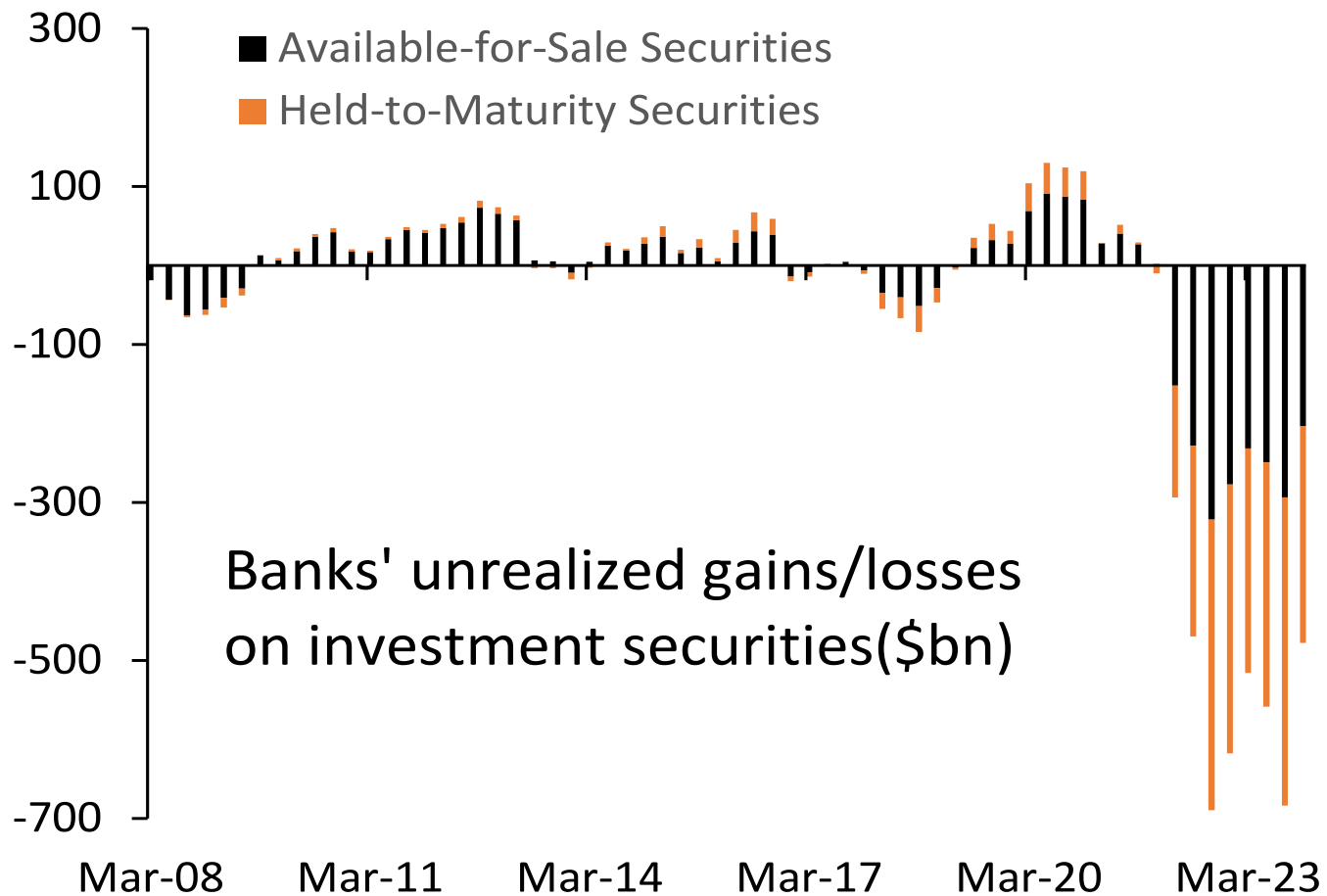
Comfortably above the liquidity threshold



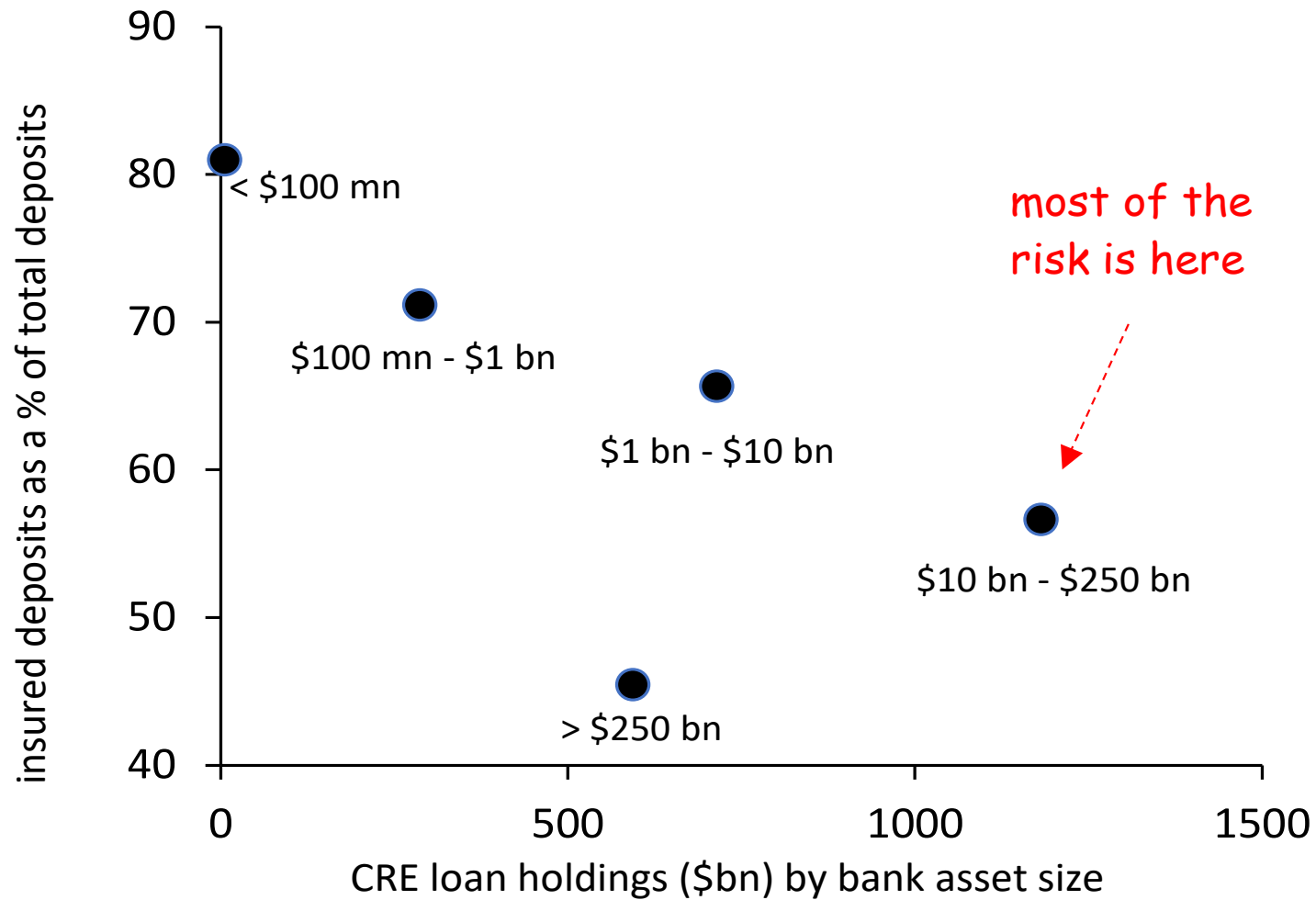
Credit card delinquencies are putting pressure on smaller banks



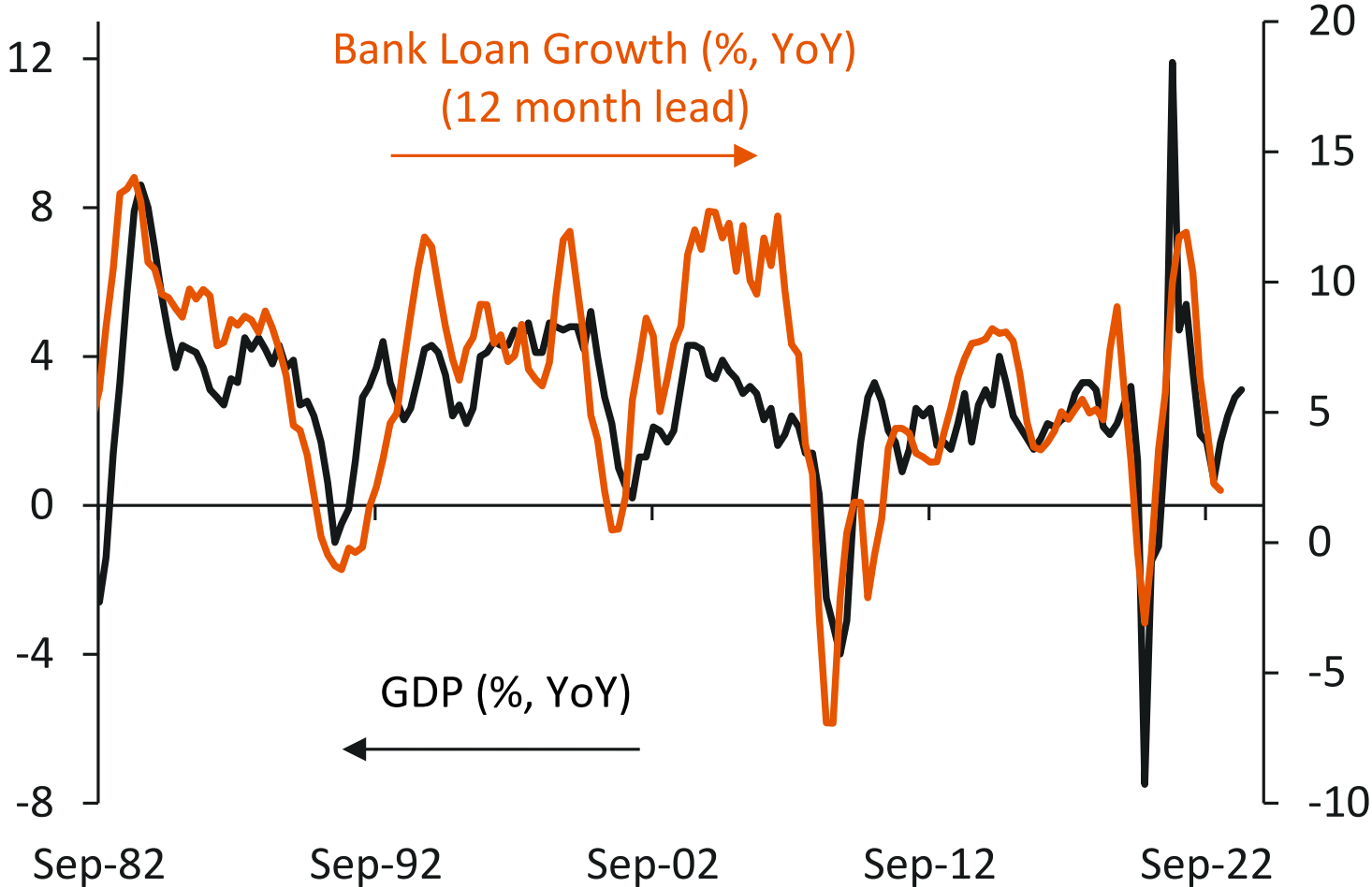
Banks have significant unrealized losses



Which financial institutions are at risk?



Slower loan growth leads to slower economic growth



Q & A

Dimitri N. Delis, Ph.D

Managing Director, Director of Fixed Income Research
Piper Sandler Financial Strategies
Fixed Income



Dimitri Delis is a Managing Director and Director of Fixed Income Research within Piper Sandler Financial Strategies. He is responsible for evaluating economic trends, analyzing current economic issues and generating relative value strategies by integrating fixed income cross-sector trends with macro/economic analysis. He identifies/analyzes market dislocations across all fixed income asset classes and makes economic presentations to clients. Dimitri has been quoted in Bloomberg, Marketwatch and Reuters and is a frequent speaker at both regional and national level business/financial events.

Prior to joining the group in 2005, Delis served as the cross-sector strategist for JP Morgan. Prior to the JP Morgan-Bank One merger, he was the derivatives strategist for Bank One. Dimitri's experience includes market risk management for ABN AMRO where he was responsible for identifying and monitoring all market risk-taking activities for the derivatives and FX trading desks and bond modeling for Salomon Brothers' proprietary portfolio tools.

Dimitri Delis holds a Ph.D. in nuclear physics from the University of California at Berkeley and a bachelor's degree in chemistry and mathematics from the University of Chicago. He completed his Master of Business Administration degree at Northwestern University's Kellogg School of Management in 2006. He is a registered representative with the Financial Industry Regulatory Authority (FINRA).

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