



# 2023 Economic Outlook — Second Quarter Update

## Economic, Market, Policy and Industry Insights

April 19, 2023

*We'll get you there.*



# Today's Presenters



Clayton Bland



Chris Dhanraj



Samantha Metcalf



Susan Roberts

# CLA Outlook 2023 – A Comprehensive Framework

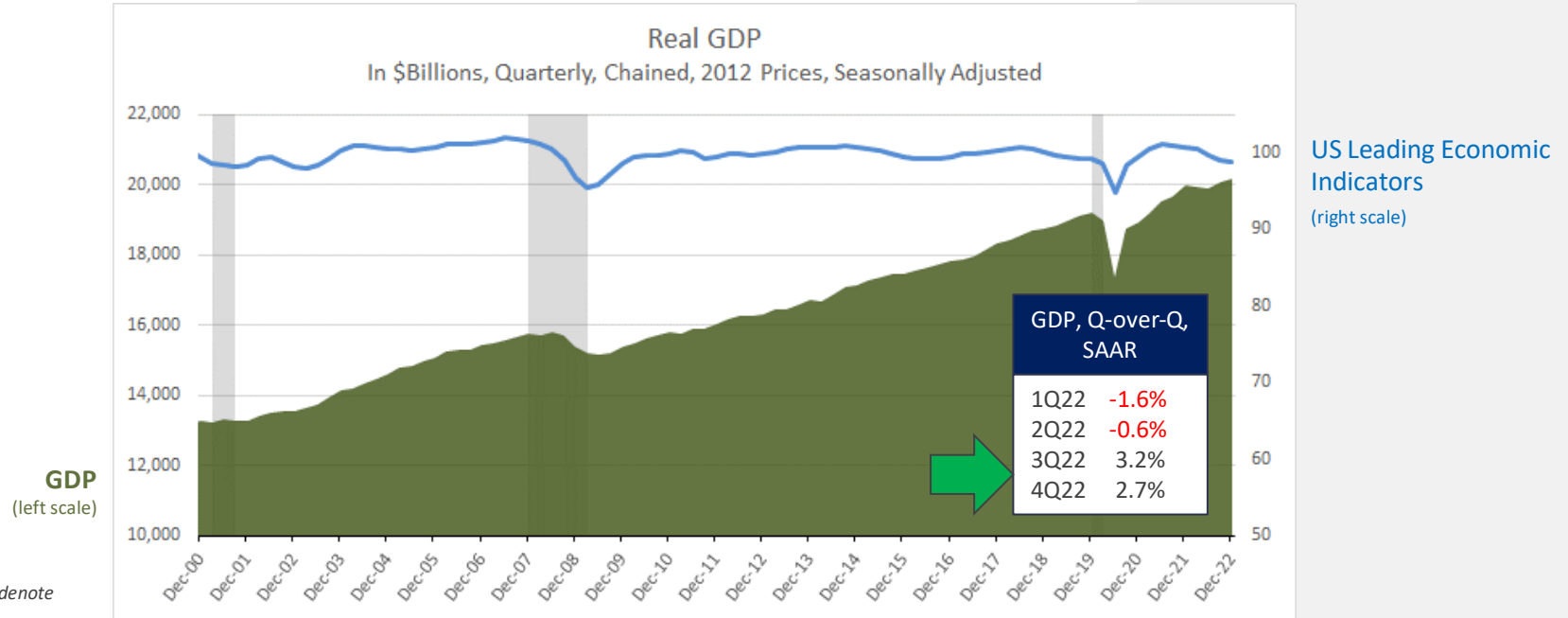


# CLA Outlook 2023 – Stay the Course



# Macroeconomy: GDP

US GDP growth has recovered from earlier softness



Source GDP: U.S. Bureau of Economic Analysis, Federal Reserve Bank of St. Louis, CLA Wealth Advisors

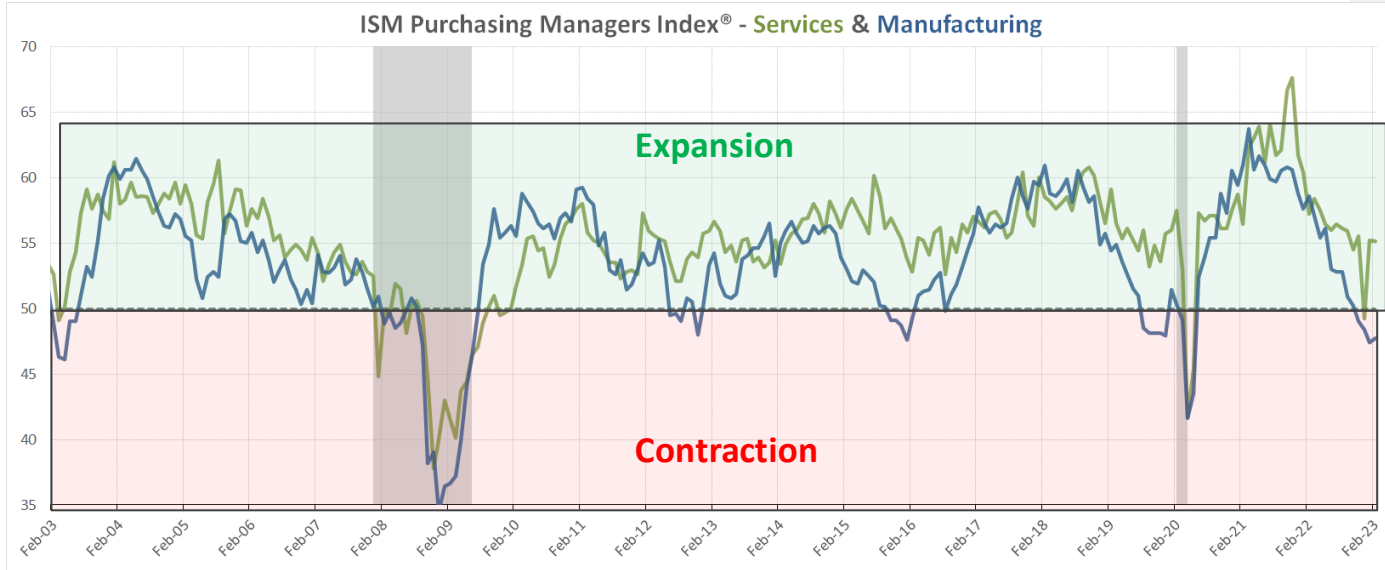
Source LEI: OECD, Main Economic Indicators (database) <http://dx.doi.org/10.1787/data-00052-en> (Accessed on March 5, 2023) Copyright, 2016, OECD. Reprinted with permission.



# Macroeconomy: Looking Deeper at GDP



Services remain strong while manufacturing declines are stabilizing



**Services** include Real Estate, Utilities; Construction; Education; Information; Transportation & Warehousing; Health Care & Social Assistance; Public Administration; Finance & Insurance; Management of Companies & Support Services; Professional, Scientific & Technical Services, Agriculture, Forestry, Fishing & Hunting; and Arts, Entertainment & Recreation; and Other Services.

**Manufacturing** includes Mineral Products; Petroleum & Coal; Transportation Equipment; Computer & Electronic Products; Printing & Related Activities; Plastics & Rubber Products; Primary Metals; Machinery; Food, Beverage & Tobacco Products; Wood Products; Apparel, Leather & Allied Products; Furniture & Related Products; Paper Products; Chemical Products; Fabricated Metal Products; and Electrical Equipment, Appliances & Components.

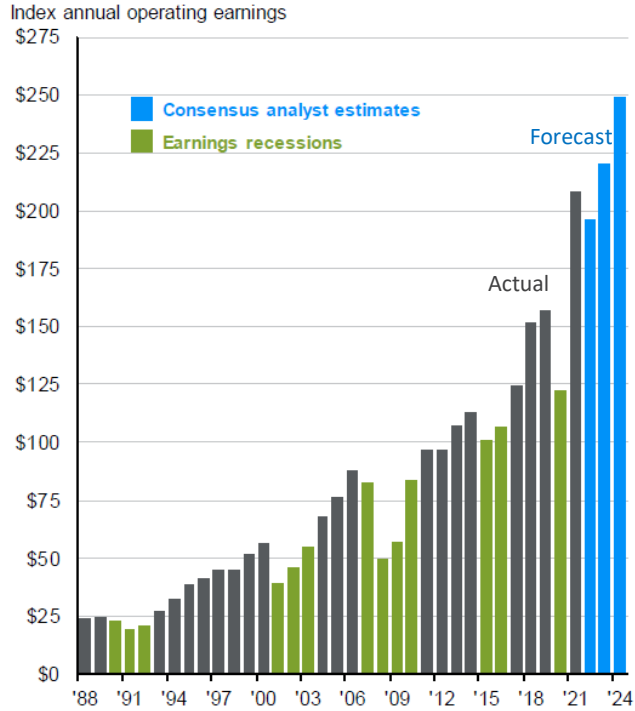


# Macroeconomy: Business Conditions



Companies still forecast strong profits even with an uptick in inventories

## S&P 500 earnings per share



Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management

## Rising inventories relative to sales among manufacturers

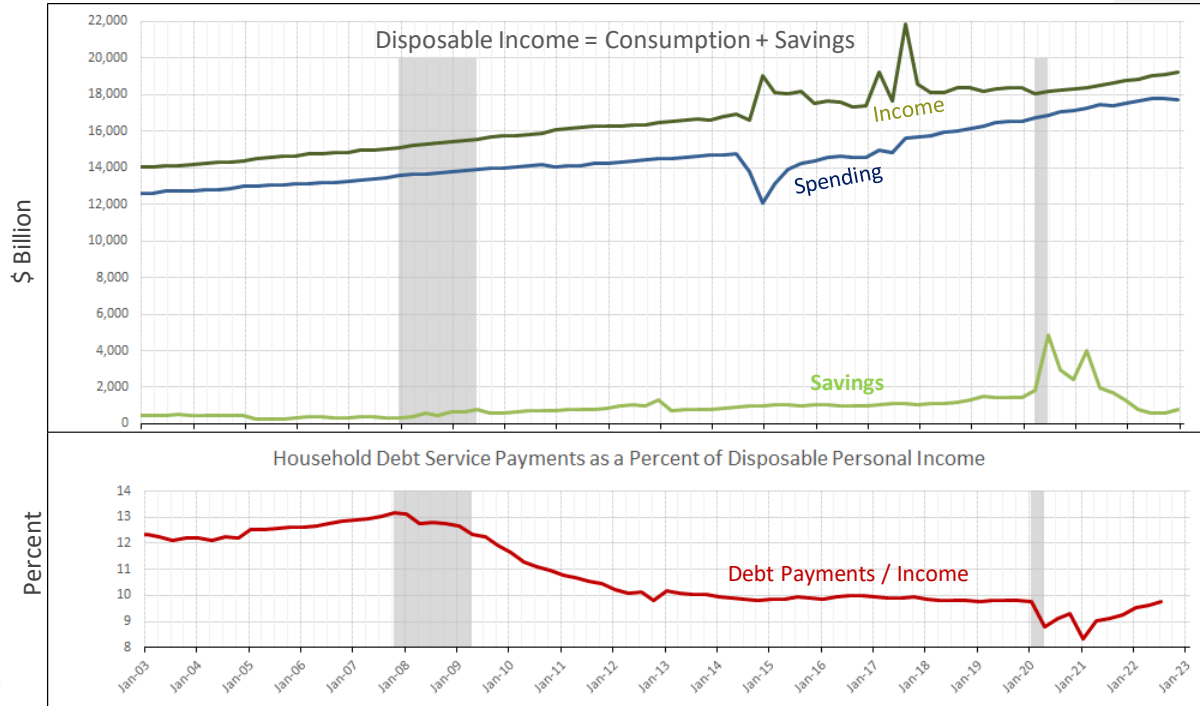


Source: Bureau of Economic Analysis, National Federation of Independent Business ("NFIB"), U.S. Census Bureau, Manufacturers: Inventories to Sales Ratio, Federal Reserve Bank of St. Louis, CLA Wealth Advisors



# Macroeconomy: Consumer Spending

Despite strong consumer spending, we are watching impact of rising debt



Grey areas denote recessions.

Source: U.S. Bureau of Economic Analysis, Federal Reserve Bank of St. Louis, Board of Governors of the Federal Reserve System, CLA Wealth Advisors



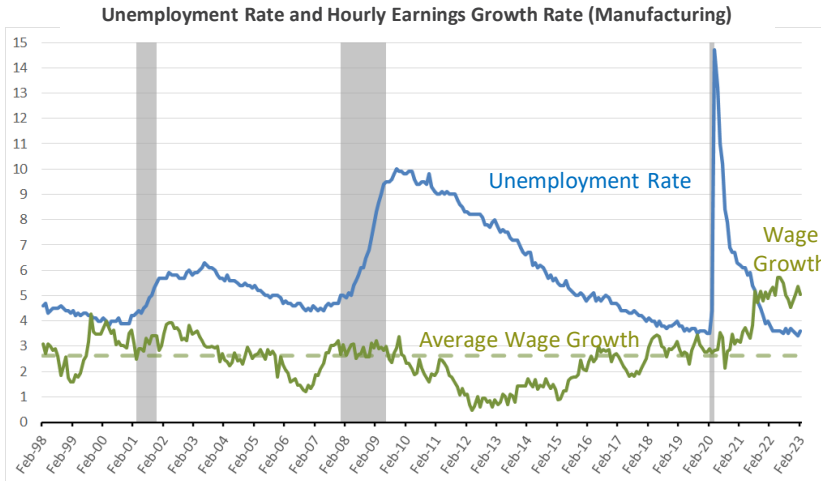


# Macroeconomy: Employment

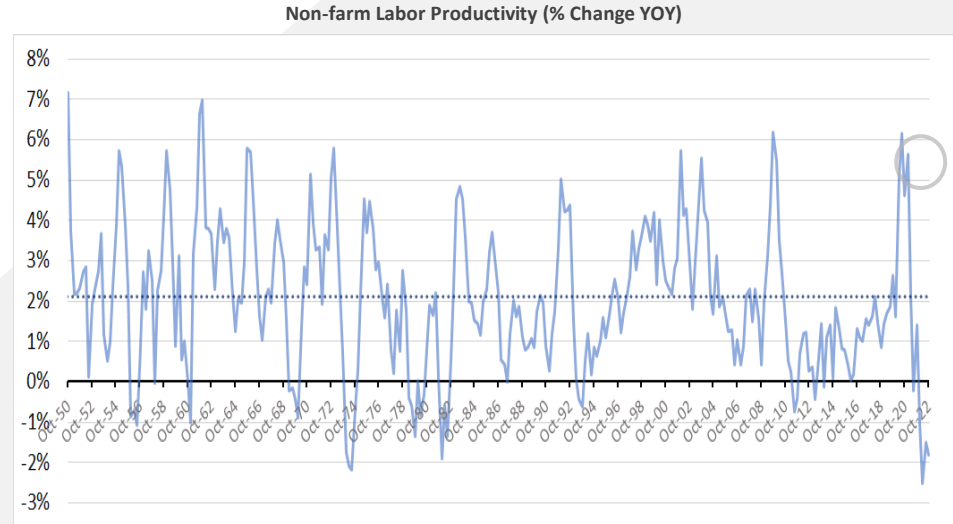


Increased participation may mitigate low unemployment, but low productivity is an opportunity to adopt employee wellness programs

At 3.4%, the unemployment rate is near all-time lows. Meanwhile, hourly wages grew by 5%, which is above its long-term average of 2.7%.



Grey areas denote recessions.



Source: U.S. Department of Labor, U.S. Bureau of Labor Statistics, Atlanta Federal Reserve, Bloomberg, CLA Wealth Advisors

Data is based upon availability as of 3/14/2023

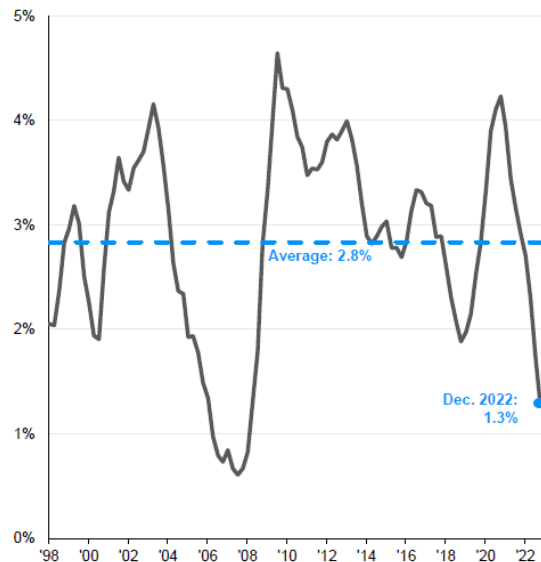


# Macroeconomy: Housing

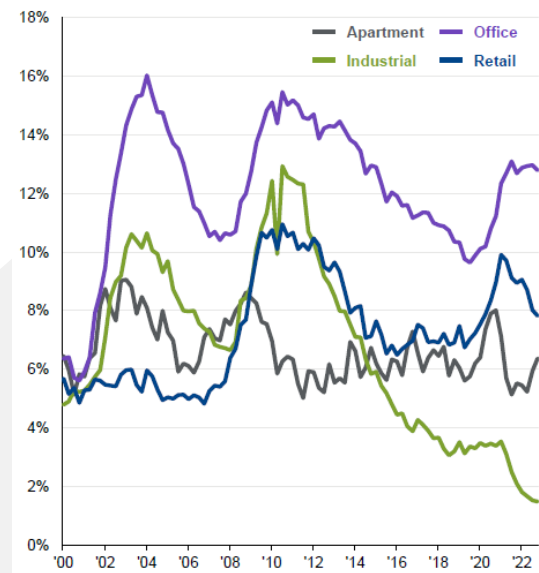


Real estate may see slowdown with higher interest rates and valuations. Vacancy rates remain elevated in office and retail, while low in apartment and industrial segments.

**U.S. real estate cap rate spreads**  
Transaction based, spread to 10y UST, 4-quarter rolling average



**U.S. vacancy rates by property type**  
Percent



$$\text{Cap Rate} = \text{Net Operating Income} / \text{Price}$$

Cap Rates are used to help judge the relative value of real estate.

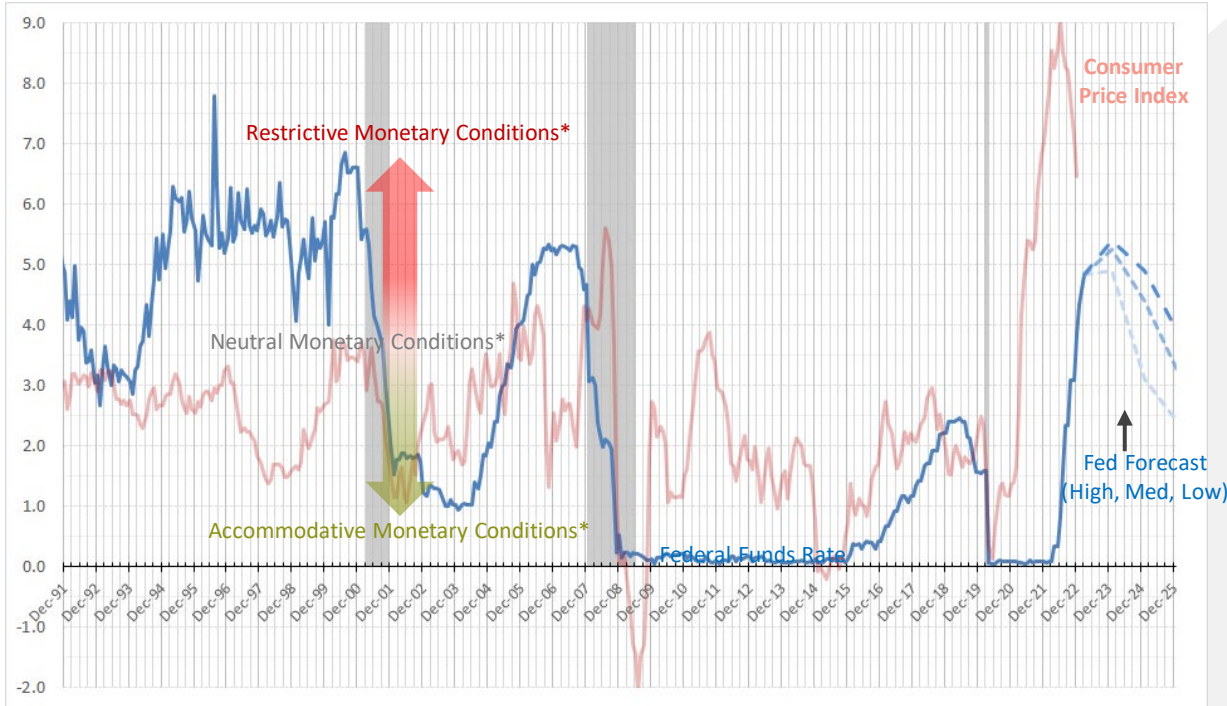


# Federal Reserve Policy: Slower Rate Hikes



The Fed is starting to moderate its message with lower inflation data

Federal Funds Rate, Consumer Price Index (YOY), Recessions



Grey areas denote recessions.

- Annual inflation rate in the US slowed to 6% in February of 2023, the lowest since September of 2021
- **Food prices** grew at a slower rate (9.5% vs 10.1% prior)
- **Cost of used cars and trucks** continued to decline (-13.6% vs -11.6% prior)

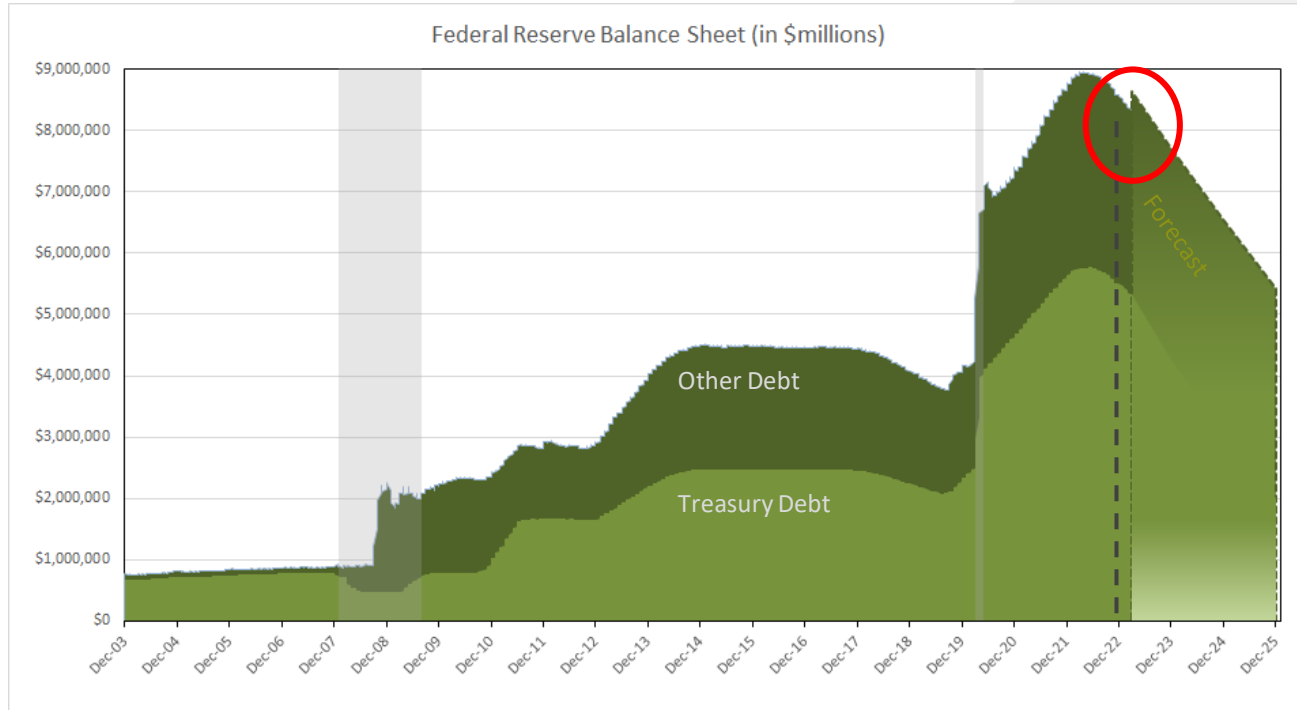
Source: Board of Governors of the Federal Reserve System, U.S. Federal Open Market Committee, Federal Reserve Bank of St. Louis, NBER, Organization for Economic Co-operation and Development, CLA Wealth Advisors

Data is based upon availability as of 3/23/2023



# Federal Reserve Policy: Banking Concerns

Temporary lending measures to select bank behind balance sheet uptick



Source: Board of Governors of the Federal Reserve System, Federal Reserve Bank of St. Louis, NBER, CLA Wealth Advisors  
Data is based upon availability as of 3/14/2023

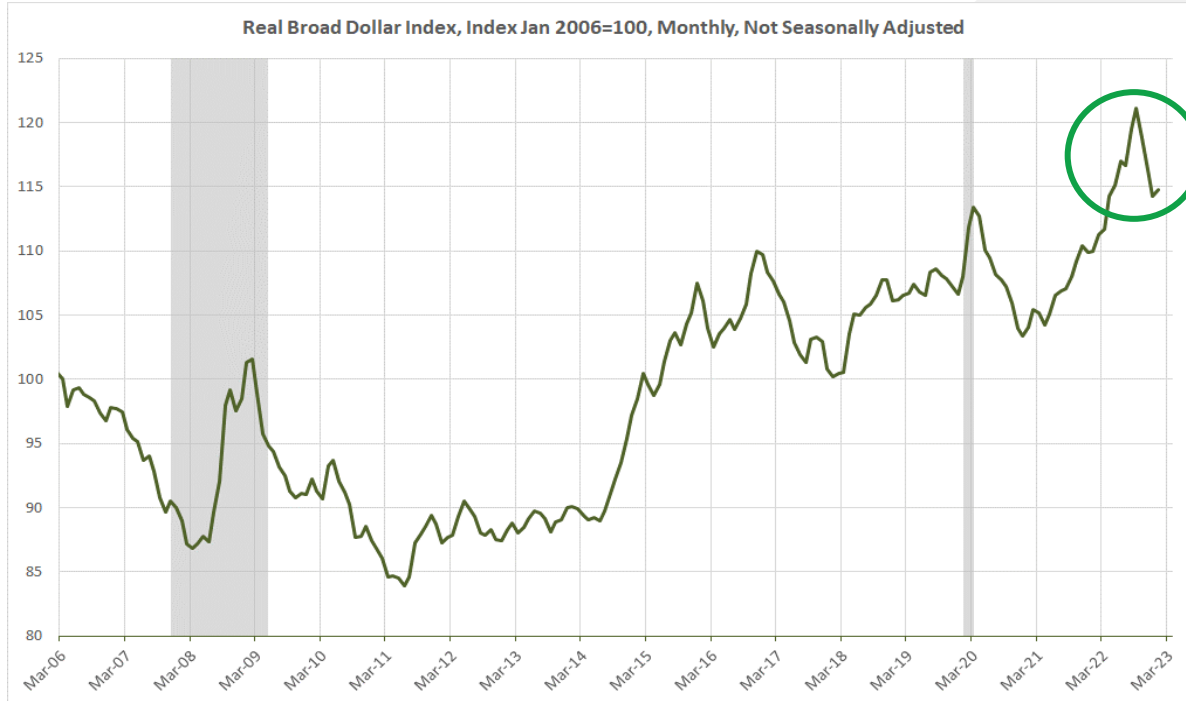


# Macroeconomy: A Global View



## Emerging optimism in global markets is behind US dollar decline

The U.S. Dollar Index (USDIX) indicates the general international value of the USD. The USDIX does this by averaging the exchange rates between the USD and major world currencies.



Grey areas denote recessions.



# Economic Views – Summary



## Half full

- GDP Growth continues
- Fed rate hikes slowing
- Strong company profits
- Consumer spending robust
- Improved global sentiment



## Half empty

- Rising inventories
- Tight labor markets
- Falling labor productivity
- Inflation still high
- Real Estate softening

# CLA Outlook 2023 – Stay the Course



# Industry Views – Summary



## Half full

- Select industries such as Tech now able to hire talent
- Strong balance sheets and focus on cash management
- Dedicated focus on margins & profitability is paying off
- Capital planning easier with a dovish Fed



## Half empty

- Labor markets still tight
- Banking turmoil may result in tighter lending standards for companies
- Manufactures closely managing inventory levels
- New construction & development slowing with higher rates



# Industry Insights



- **Macroeconomic focus areas:** Interest rates, business profitability, labor (finding talent and wage pressures)
- **Specific highlights:**
  - **Trends:** Fears about inflation, supply chain concerns and high commodity prices have receded with the focus now on interest rates and their impact on the rising cost of capital, leverage and business profitability.
  - **Regulated industries:** Government spending levels & labor markets are critical.
  - **Private industries:** Interest rates, business profitability, leverage and labor are areas to focus on.
  - **Opportunities:** Focus on technology (Digital) to drive efficiency and maintain margins. Utilize outsourcing to address labor needs.





# Challenges = Opportunities

- Workforce
- Productivity
- Succession
- Profitability
- Outsourced solutions
- Digital strategy
- Owner transition planning
- Business planning / industry consulting

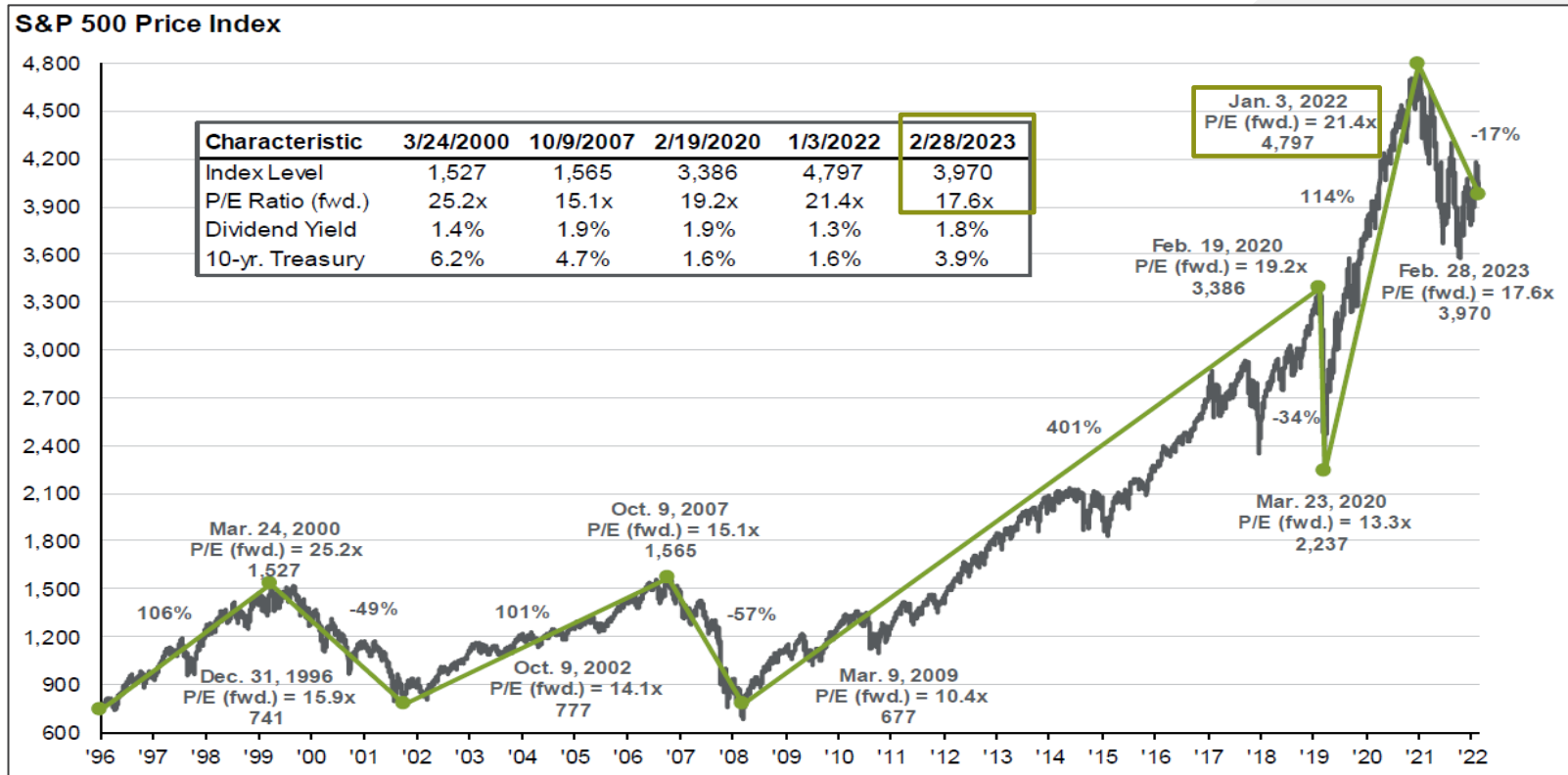


# CLA Outlook 2023 – Stay the Course

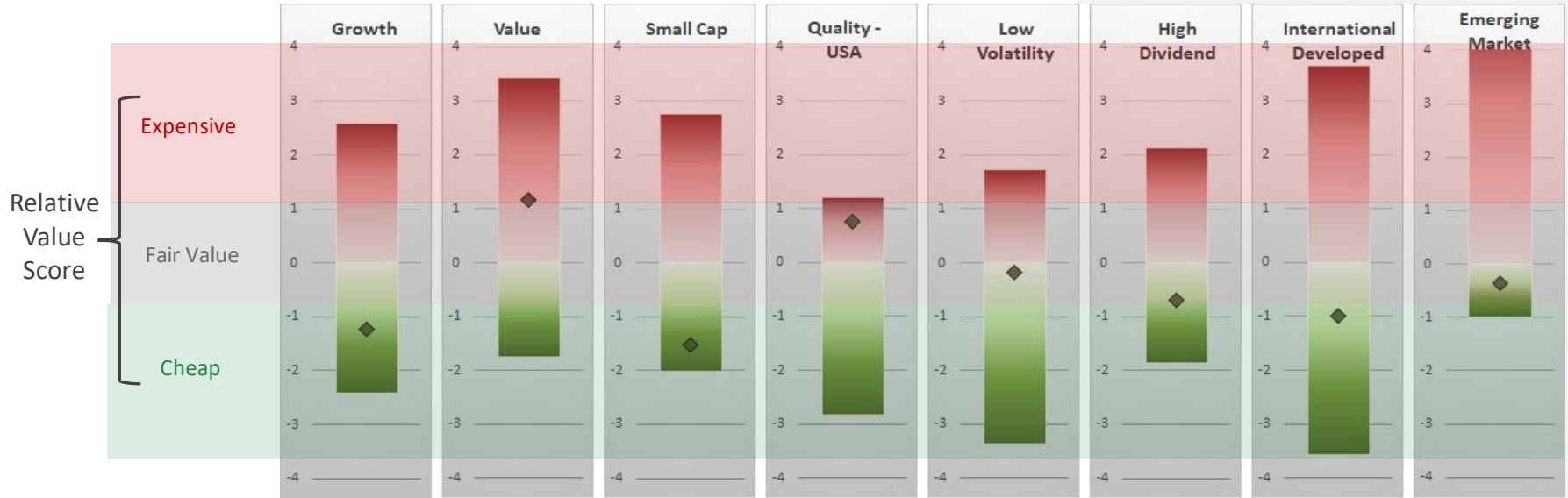


# Equity Markets Recovering

After a difficult 2022, we are seeing stabilization



# Equity Markets: Selectivity Matters

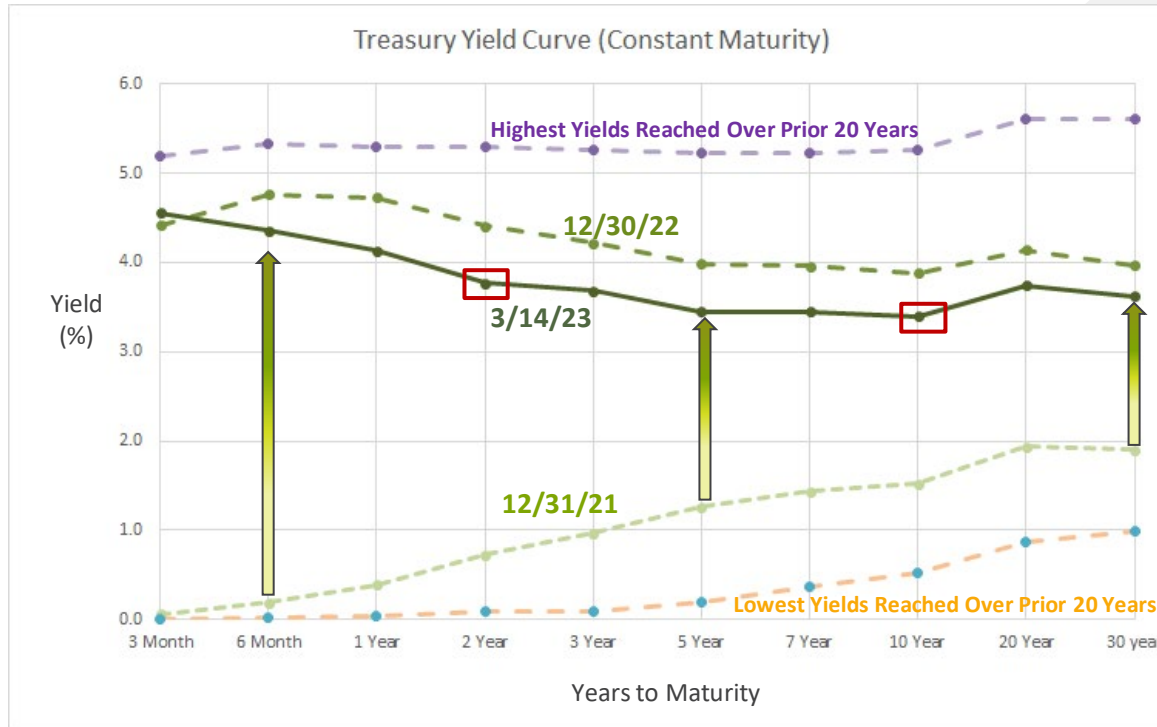


The above analysis uses historical trailing 12-month earnings and recent security prices to compare the P/E ratio of each Style Factor to the P/E Ratio of the S&P500 benchmark. The data is then converted into a Relative Value Score to allow easy comparison across Style Factors.



# Fixed Income: Higher Short-term Yields

A more dovish Fed is reducing 2yr - 10yr yield curve inversion



Source: Board of Governors of the Federal Reserve System, St Louis Federal Reserve, CLA Wealth Advisors

Data is based upon availability as of 3/14/2023



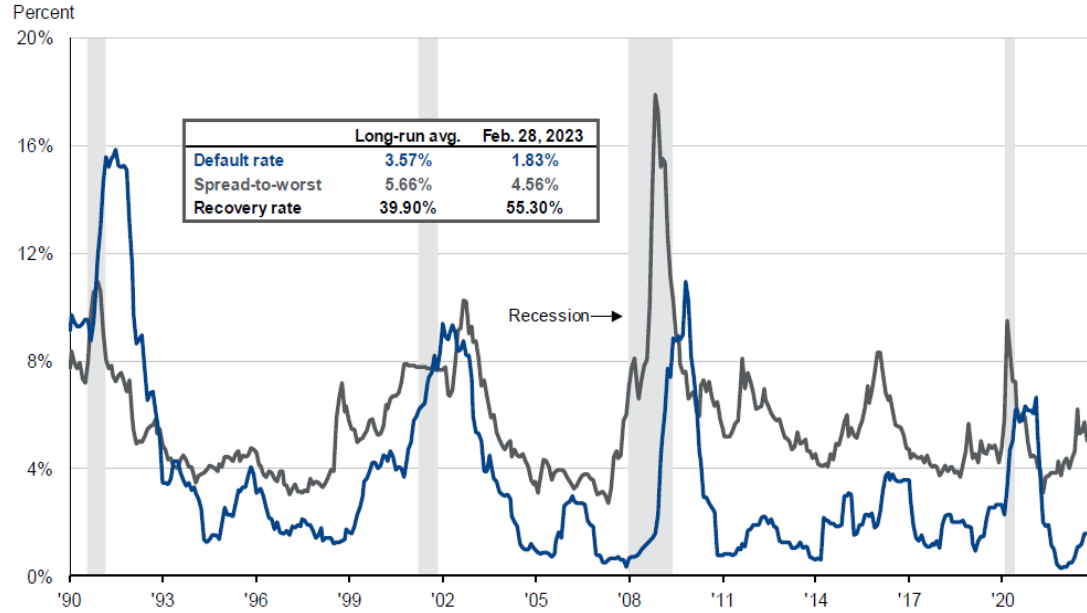
# Fixed Income: Credit

Low defaults show that company balance sheets are robust



Default rate and spread-to-worst

High Yield Credit



Source: J.P. Morgan Global Economic Research, J.P. Morgan Asset Management



# Private Real Estate

The affordable housing crisis creates opportunity in multifamily

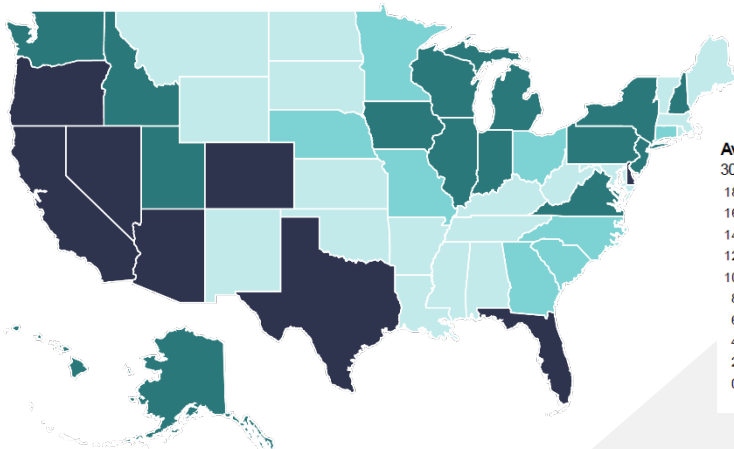


No state currently has an adequate supply of affordable housing.

No state has an adequate supply of affordable rental housing for the lowest income renters

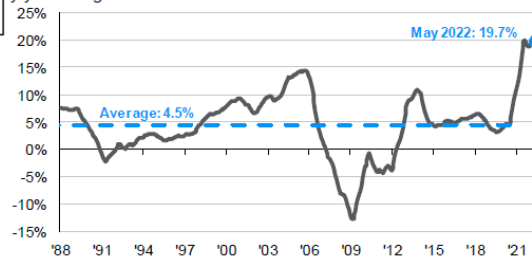
Affordable and available rental homes per 100 extremely low income renter households

● 30 or fewer   ● 31 to 40   ● 41 to 45   ● 46 or greater



## Home prices

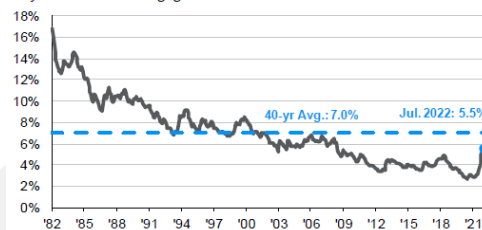
y/y % change in Case-Shiller Home Price Index



Record home prices and higher mortgage rates have caused mortgage originations and corresponding home sales to slow from their peak levels.

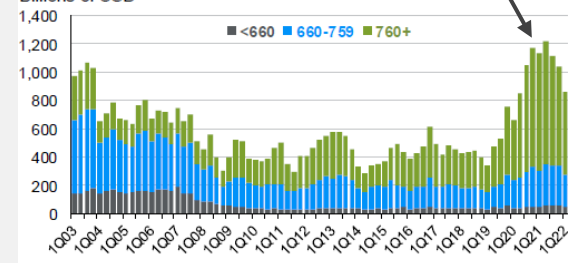
## Average interest rate on a U.S. mortgage

30-year fixed-rate mortgage



## Mortgage originations by credit score\*

Billions of USD



Source: NCREIF, Case-Shiller, J.P. Morgan Asset Management

Data is based upon availability as of 12/31/2022





# Market Views – Summary



## Half full

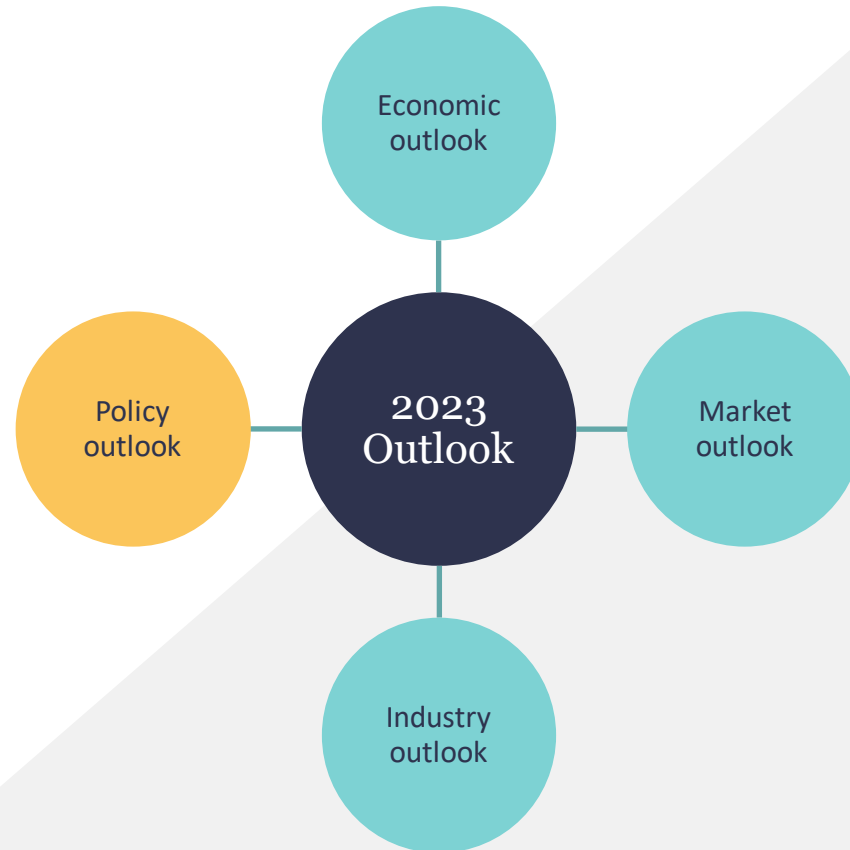
- Improved flows and sentiment into equity and fixed income markets
- Portfolio diversification working with equity & fixed income no longer moving in tandem
- Alternatives showing resiliency



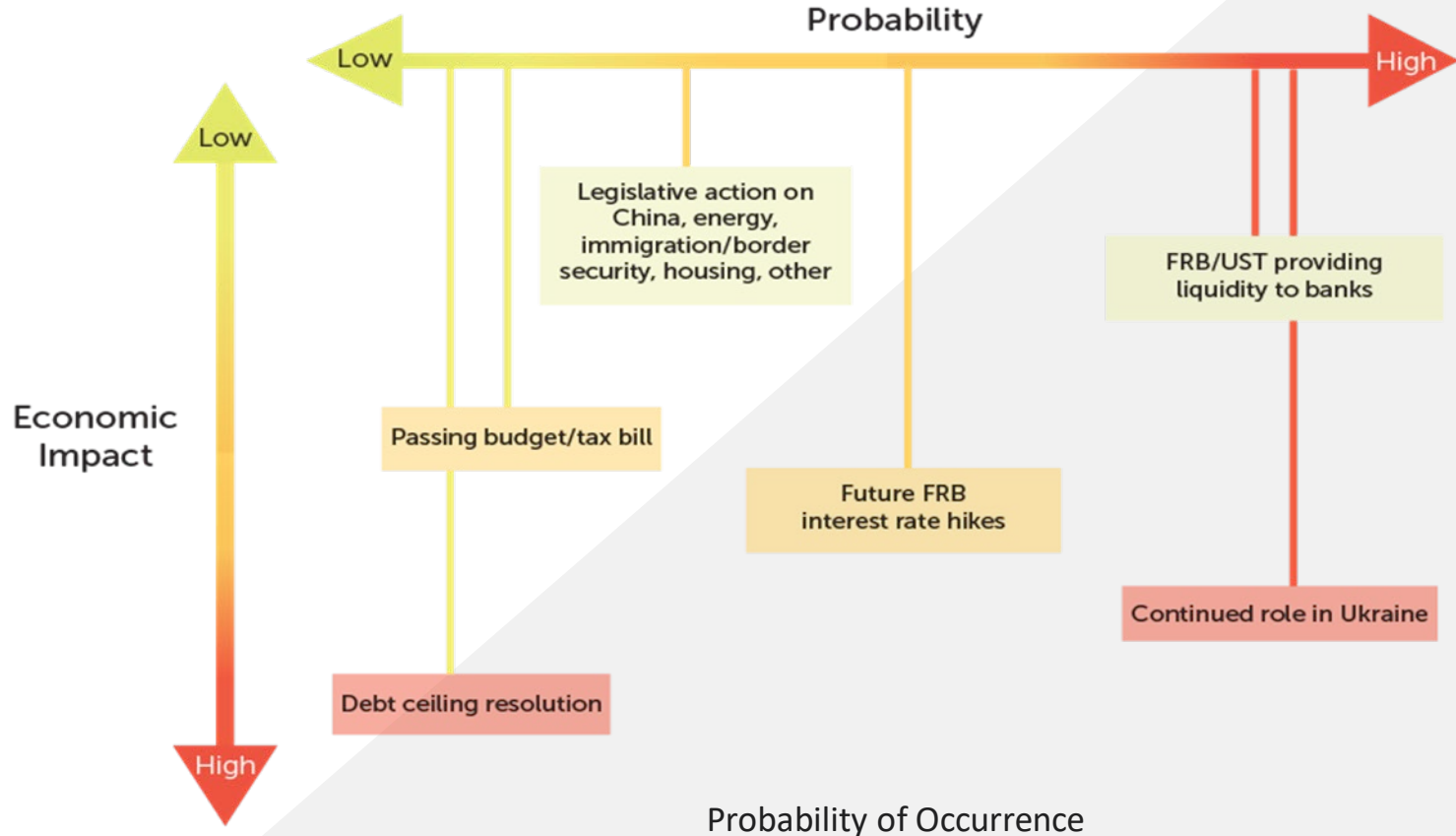
## Half empty

- Select sectors such as financials seeing distress
- Cash levels are elevated
- Investors not taking advantage of tax-loss harvesting
- Return of single-stock tech speculation

# CLA Outlook 2023 – Stay the Course



# Policy Outlook – What Has Our Attention?



# Policy Outlook – Legislative and Regulatory Takeaways



## Half full

### *Potential bipartisan common ground*

- ✓ Financial regulation of crypto
- ✓ Affordable housing and new markets tax credits
- ✓ JOBS Act
- ✓ China competitiveness
- ✓ Immigration policy
- ✓ Energy

### *Current opportunities*

- ✓ *Empowerment Zone Credits*
- ✓ *ERC*
- ✓ *Green energy credits*



## Half empty

### *Debt ceiling impasse*

Federal government will breach debt ceiling by July – Sept. 2023

President Biden and Speaker McCarthy have not met since Feb. 1

President Biden's budget proposal contains provisions that are nonstarters for GOP, such as-

- ✓ Raising general corporate tax rate from 21% to 28%
- ✓ Increasing corporate tax rate on offshore profits from 10.5% to 21%
- ✓ Restoring highest individual tax bracket on ordinary income to 39.6%
- ✓ Taxing individual capital gains at ordinary income tax rates for those making more than \$1 million



# 2023 Outlook – Executive Summary

## Half full

**Economy:** Robust consumer spending likely to continue.

**Industry:** Rebound in profitability is forecasted for 2023, while the use of data insights and outsourcing should help alleviate any labor shortages.

**Financial markets:** Valuations are back to “fair value” range in equity, fixed income and alternative markets.

**Policy:** Congress and the Biden administration will work together on bipartisan and “must pass” legislation.

**Portfolios:** Well-constructed portfolios can participate in market upside while mitigating volatility to help achieve your goals.



## Half empty

**Economy:** Slowing GDP growth expected in 2023.

**Industry:** Tight labor markets and rising cost of capital may challenge unprepared business owners.

**Financial markets:** Expect more restrictive credit conditions as the Federal Reserve continues to withdraw liquidity in a bid to fight inflation.

**Policy:** A divided government may result in gridlock.

**Portfolios:** Recoveries take time and reward patient long-term investors rather than market-timers.

# Disclosures



*CliftonLarsonAllen Wealth Advisors, LLC (“CLA Wealth Advisors”) is an SEC-registered investment advisor that offers a wide array of private wealth advisory services. For more information about CLA Wealth Advisors’ business practices, fees, and services, please refer to our Form CRS and the ADV Part 2A (the “Disclosure Brochure”). Your investment professional must provide you with a copy of Form CRS and the Disclosure Brochure before or at the time when you enter into a legal agreement with us.*

*Performance can not be guaranteed and any references to past specific performance should not be interpreted as a promise to achieve results. Investing involves various degrees of risk. You may lose money, including the principal of your investment. This presentation is intended for your consideration of the services discussed. The content is purely educational and any product mentioned herein are meant to be examples of how these funds may work and not as a solicitation which can only be done via prospectus and a recommendation after a review of individualized circumstances.*

*Before deciding whether to engage CLA Wealth Advisors to manage any investment assets, you should review CLA Wealth Advisors’ Form CRS (CRS) and Form ADV Part 2A (the “Disclosure Brochure”). Our CRS and Disclosure Brochure provide detailed descriptions of CLA Wealth Advisors, its services, fees, and other important information including explanation of conflicts of interest. CliftonLarsonAllen Wealth Advisors, LLC is a wholly owned company of CliftonLarsonAllen LLP.*



# Contact us to discuss how we can serve you and help you achieve your goals



**Clayton Bland**  
Chief Wealth Advisory Officer  
clayton.bland@CLAconnect.com  
425-250-6034



**Chris Dhanraj**  
Managing Principal - Investments  
chris.dhanraj@CLAconnect.com  
203-644-0709



**Steven Jones**  
Director — Investment Strategy  
steven.jones@CLAconnect.com  
314-925-4345



**John Langan**  
Chief Industry Officer  
john.langan@CLAconnect.com  
571-227-9565



**Sam Metcalf**  
Managing Principal,  
Private Industries  
samantha.metcalf@CLAconnect.com  
612-376-4821



**John Tauer**  
Managing Principal,  
Regulated Industries  
john.tauer@CLAconnect.com  
612-397-3068



CLAconnect.com



CPAs | CONSULTANTS | WEALTH ADVISORS



**Susan Roberts**  
Managing Principal,  
Manufacturing and Distribution  
susan.roberts@CLAconnect.com  
817-882-2232