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James Bianco

**Can We Fight The Fed?**  
South Florida Bond Traders Association  
February 3, 2023



# Goldman Sachs Financial Conditions Index



Data Source: Bloomberg, LP

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**Q: Thank you, Chair Powell. Greg Robb from MarketWatch.**

***In the minutes of the December meeting, there was a couple sentences that struck people as important when the committee said -- participants talked about this unwarranted easing of financial conditions was a risk and it would make your life harder to bring inflation down.*** Haven't seen -- heard you talk much about that today, or in the statement. So I was wondering, has that concern eased among members? Or is that still something you're concerned about? Thank you.

**MR. POWELL:** ***I would put it this way, it's something that we monitor carefully. Financial conditions didn't really change much from the December meeting to now. They mostly went sideways or up and down, but came out in roughly the same place.*** It's important that the markets do reflect the tightening that we're putting in place. As we've -- as we've discussed a couple times here, there is a difference in perspective by some market measures on how fast inflation will come down. We're just going to have to see. I mean, I'm not going to try to persuade people to have a different forecast, but our forecast is that it will take some time and some patience, and that we'll need to keep rates higher for longer. But we'll see.

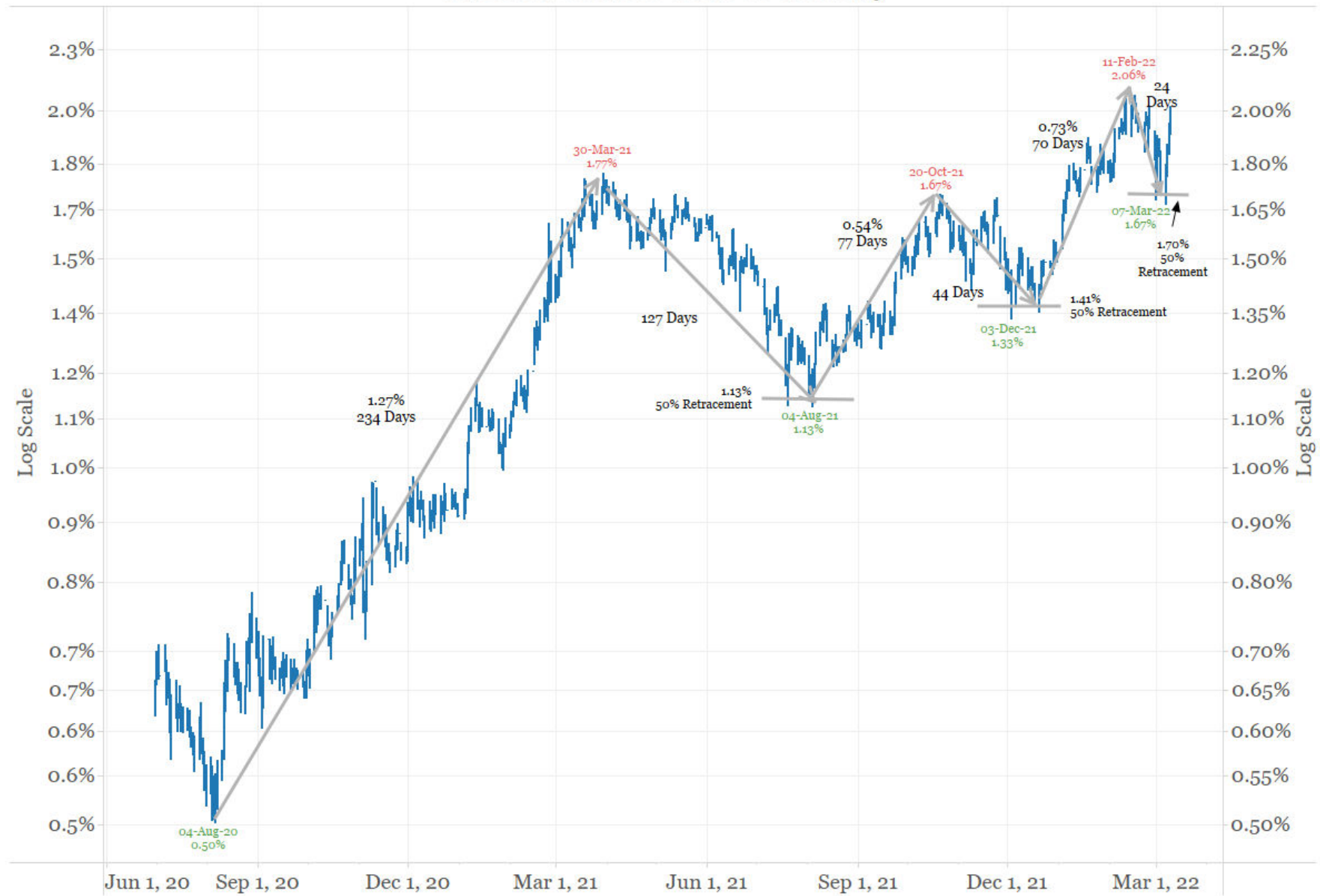
## The Yield of the 10-Year US Treasury



Data Source: Bloomberg

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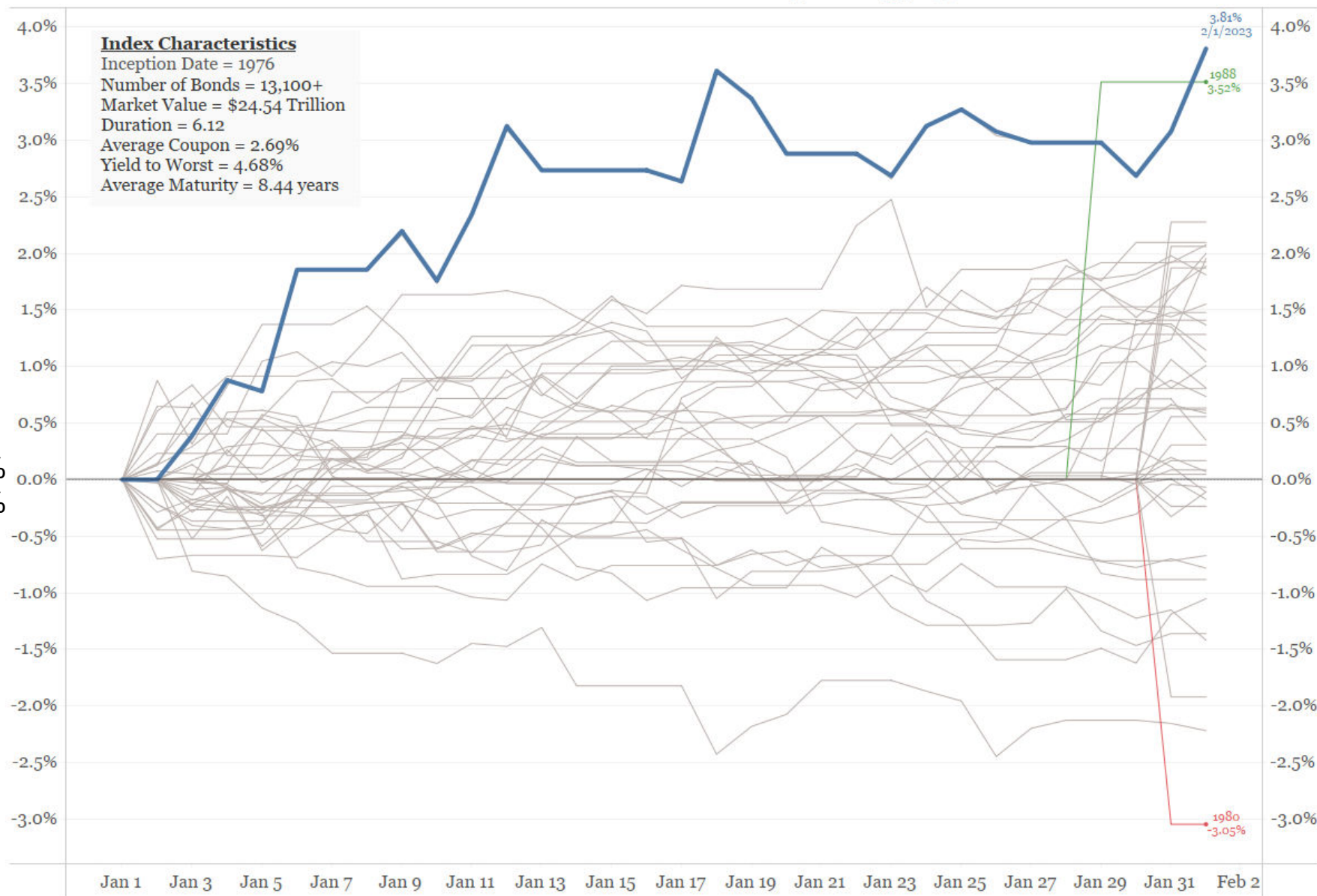
# The Yield of the 10-Year US Treasury



Data Source: Bloomberg

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



2023, 3.81%, finished the year ???  
 1988, 3.52%, finished the year 7.88%  
 1985, 2.28%, finished the year 22.10%  
 1984, 2.06%, finished the year 15.14%

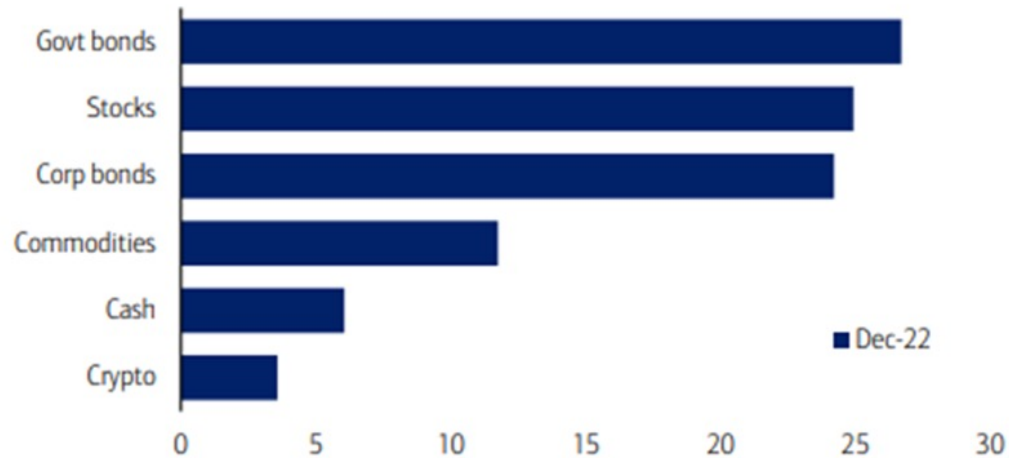
Source: Bloomberg

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**Chart 14: Investors expect government bonds to be the best performing asset in 2023**

What do you think will be the best performing asset in 2023?



Source: BofA Global Fund Manager Survey

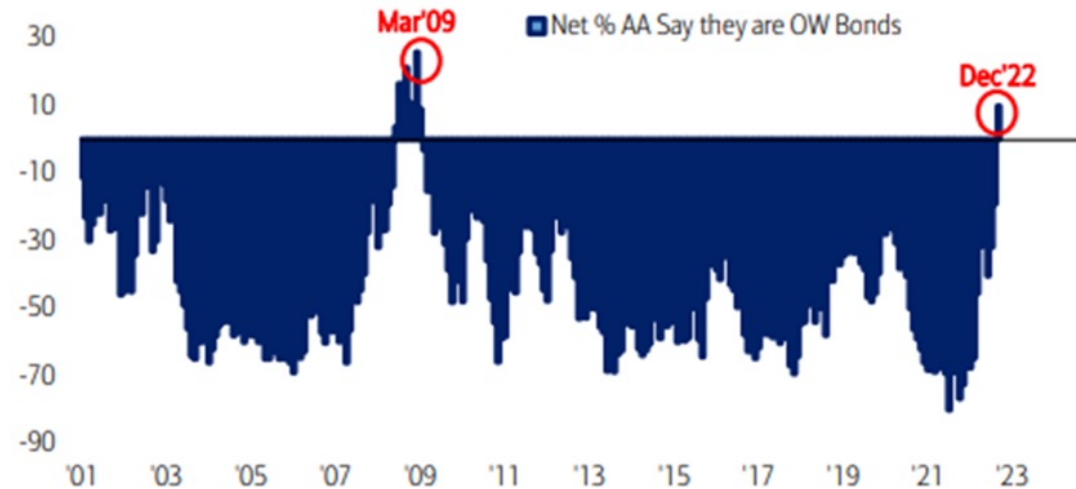
BofA GLOBAL RESEARCH

27% of FMS investors expect government bonds to be the best performing asset of 2023 (followed by stocks at 25%, corp bonds 24%, commodities 12%, cash 6%, crypto 4%).

Note we are long US government bonds in H1'23...hard landing & credit event risks underpriced (see [Year Ahead 2023: long Bonds H1, long Stocks H2](#)).

**Chart 15: FMS investors are net OW bonds for the 1<sup>st</sup> time since Apr'09**

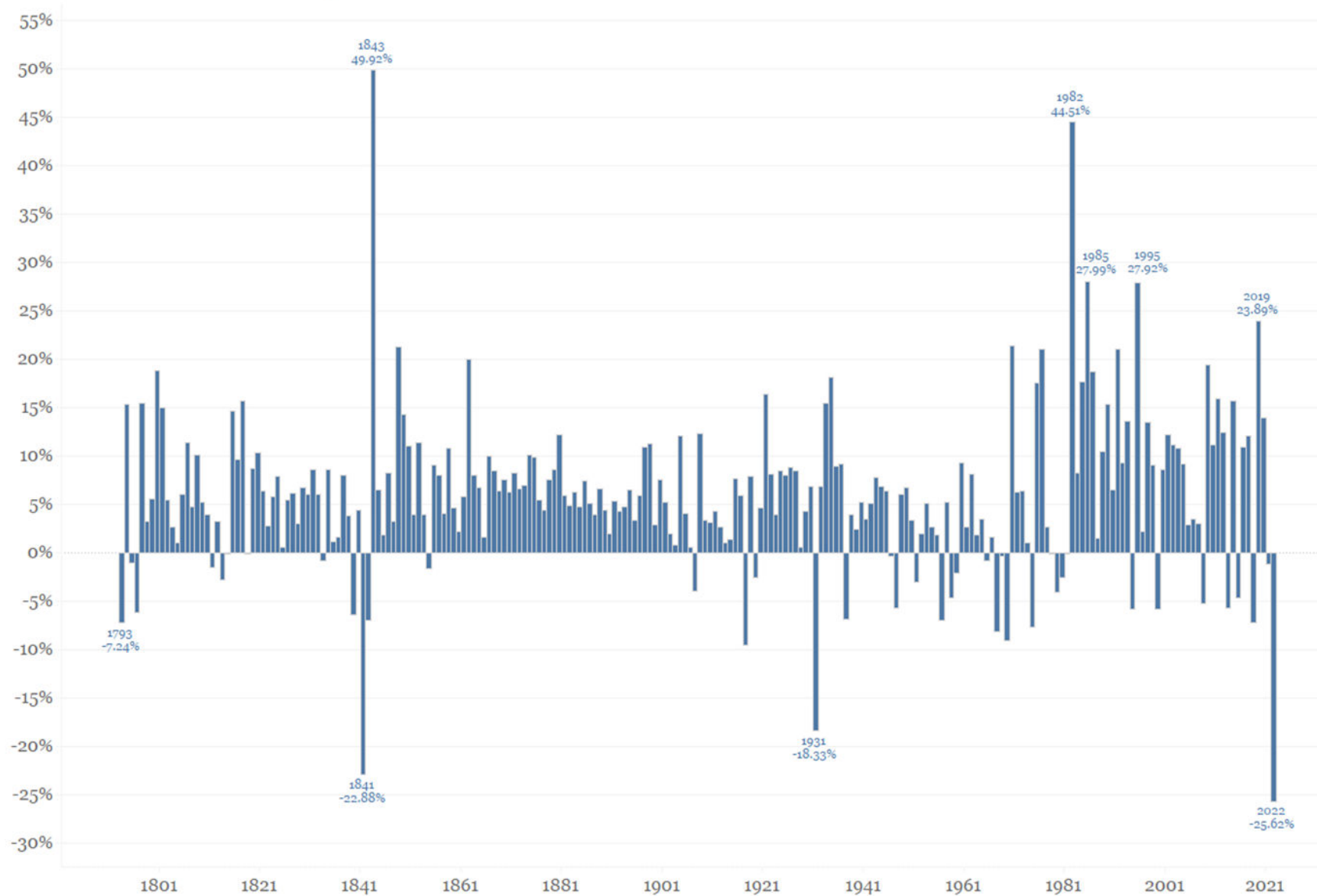
Net % say they are OW bonds



Source: BofA Global Fund Manager Survey

Allocation to bonds surged in December with FMS investors net 10% OW bonds (up 29ppt MoM), the first time investors have been net OW bonds since Apr'09.

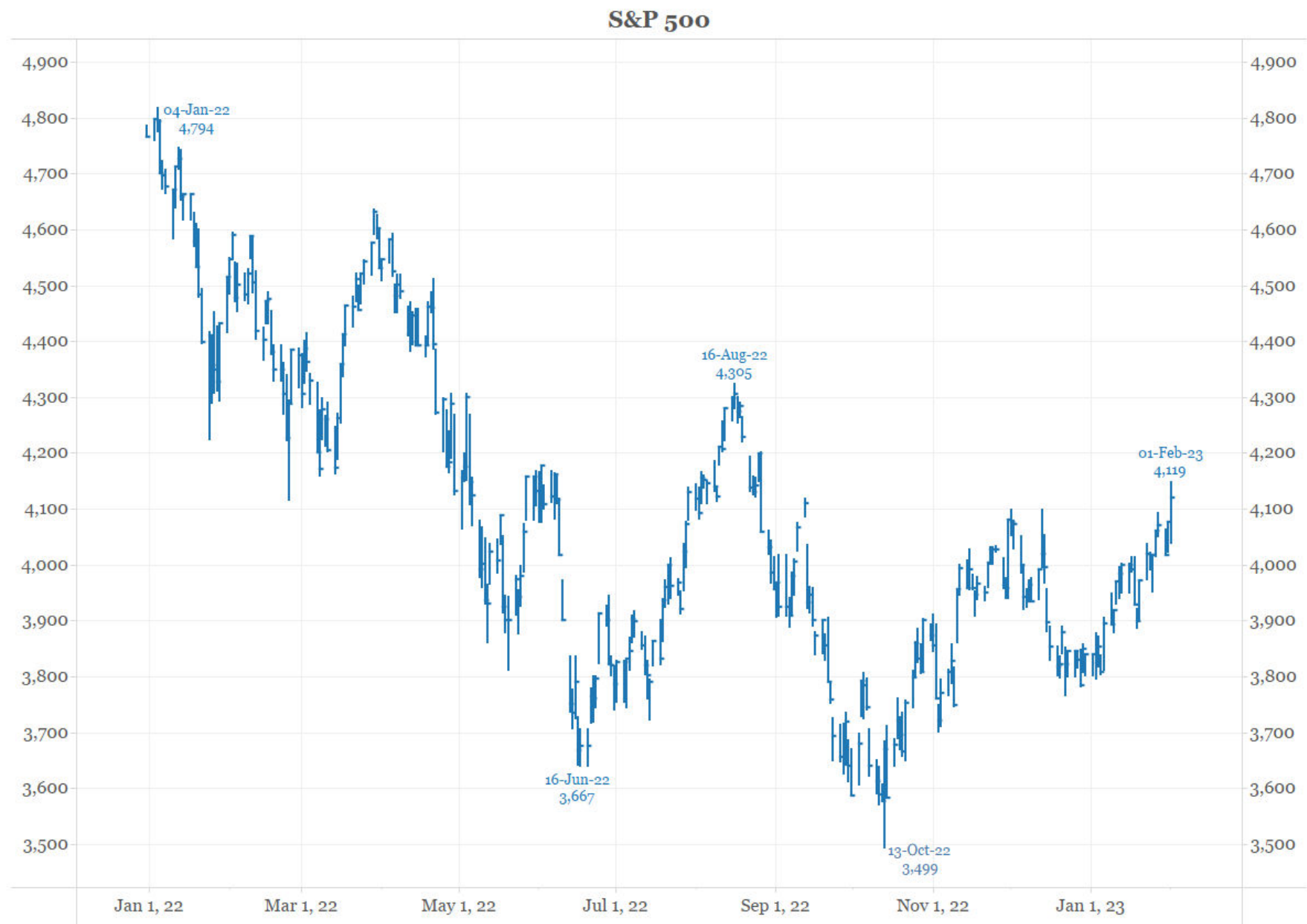
## U.S. Long-Term Nominal (Before Inflation) Bond Total Returns Since 1793



Source: Edward F. McQuarrie  
<http://www.edwardfmcquarrie.com/wp-content/uploads/2021/07/Real-returns-on-stocks-and-bonds-1793-to-2019-version-2-0.xlsx>

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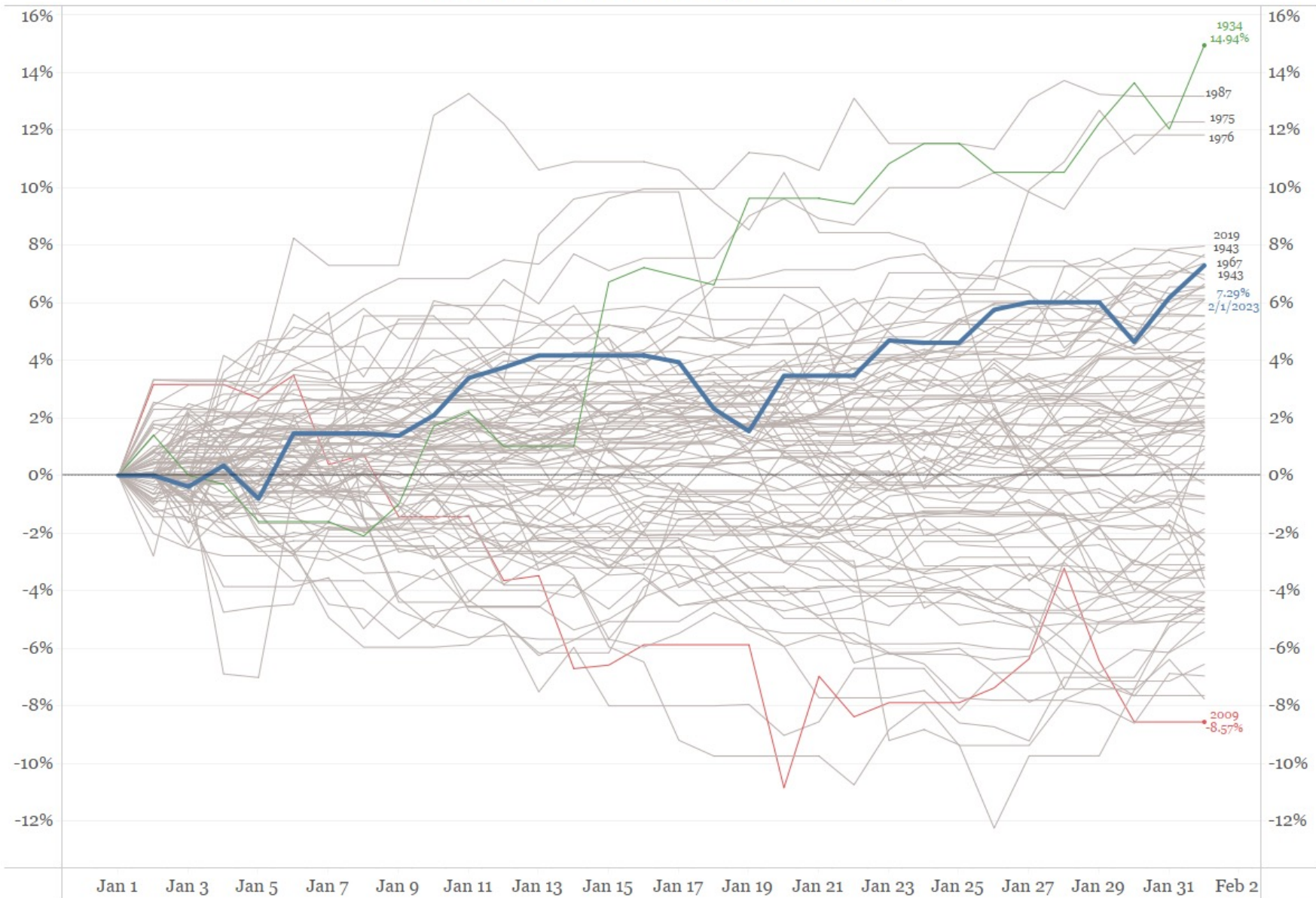


Data Source: Bloomberg

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

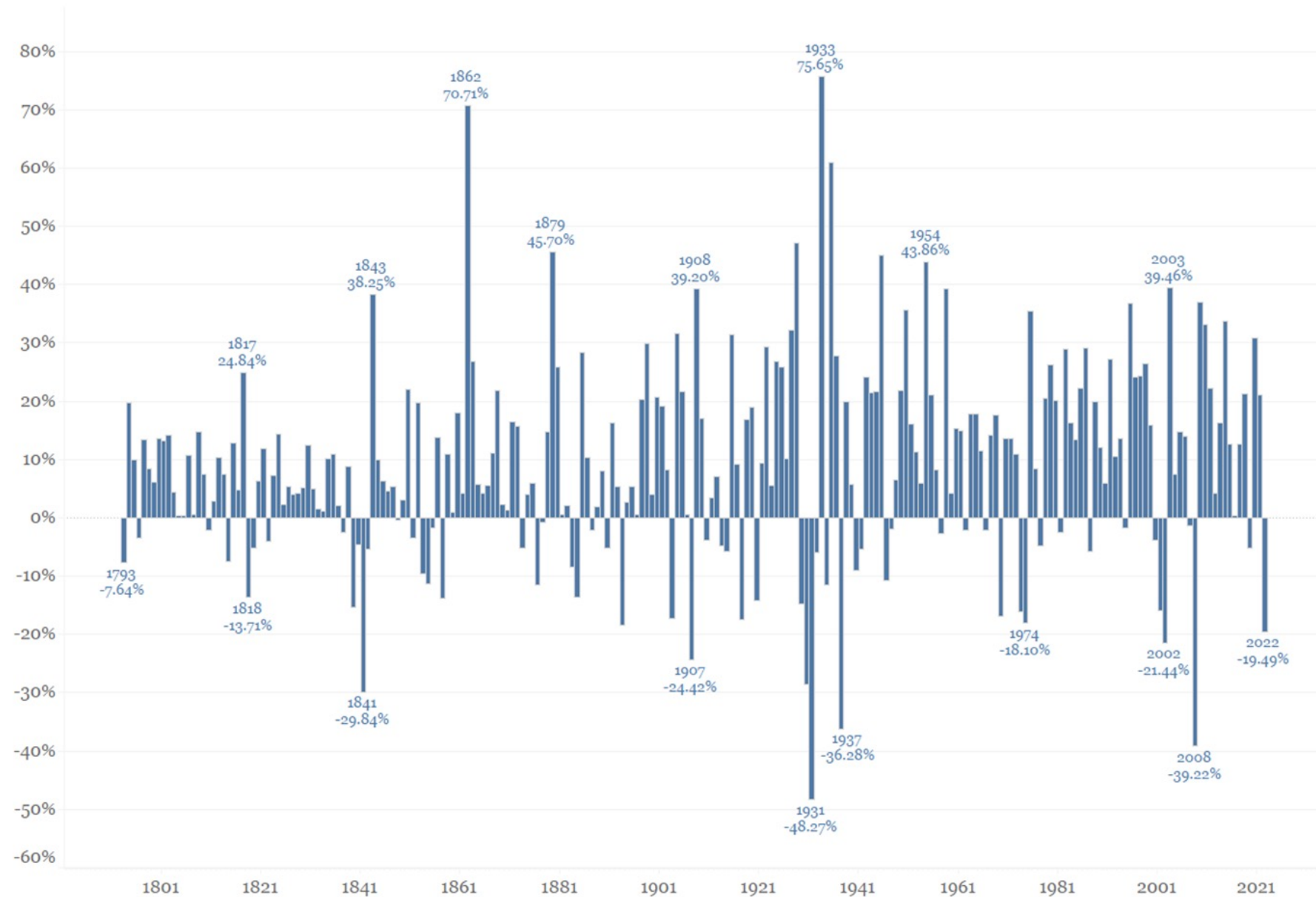
1934, +14.94%, finished the year -4.71%  
1987, +13.18%, finished the year +098%  
1975, +12.28%, finished the year +31.55%  
1976, +11.83%, finished the year +13.62%  
2019, +7.97%, finished the year +28.88%  
1943, +7.68%, finished the year +19.44%  
1967, +7.59%, finished the year +20.09%  
1946, +7.37%, finished the year -11.87%  
2023, +7.29%, finished the year ???



Source: Bloomberg

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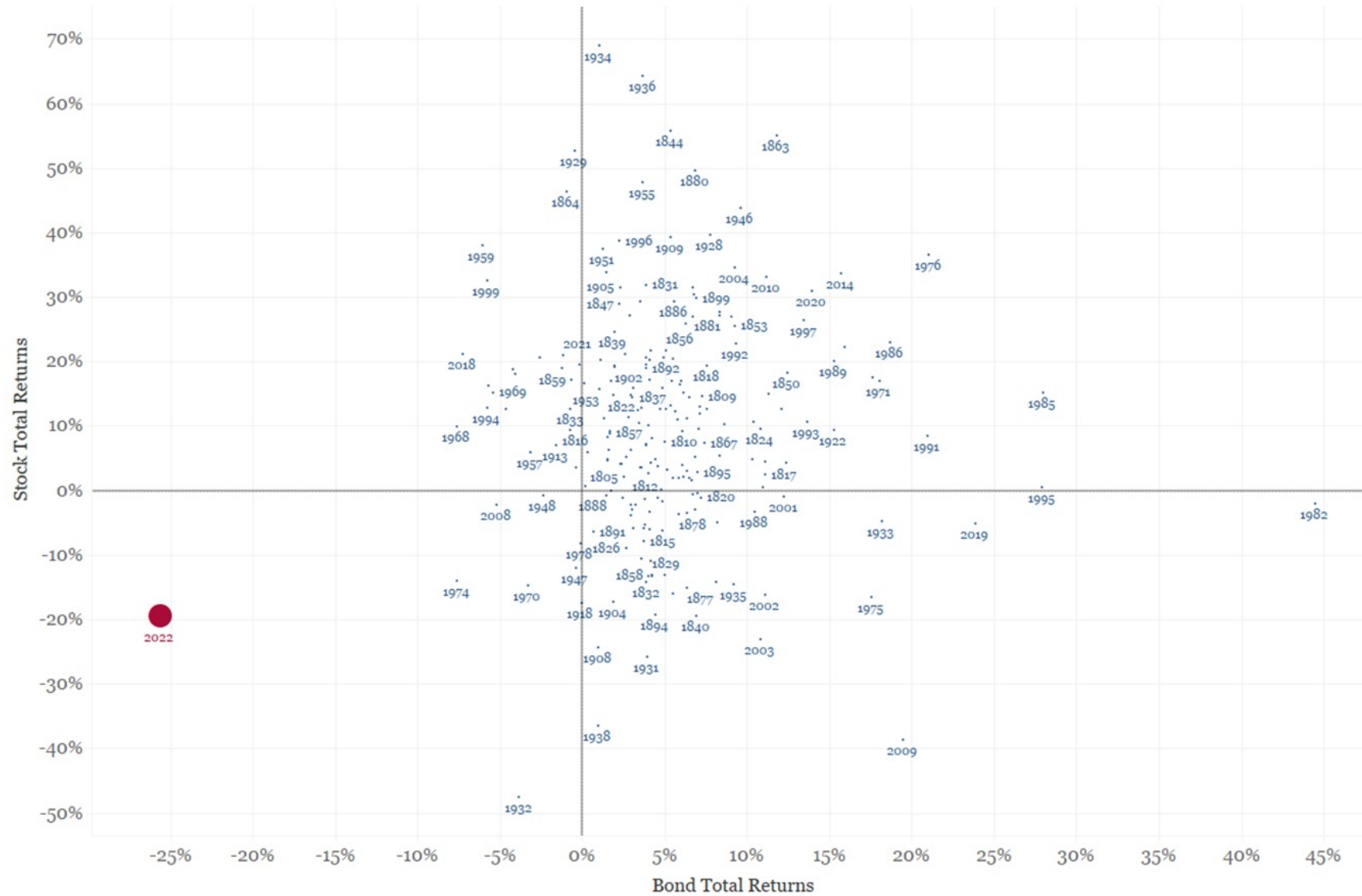
# Nominal (Before Inflation) U.S. Stock Total Returns Since 1793



Source: Edward F. McQuarrie  
<http://www.edwardfmcquarrie.com/wp-content/uploads/2021/07/Real-returns-on-stocks-and-bonds-1793-to-2019-version-2-0.xlsx>

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# Stocks versus Bonds Nominal (Before Inflation) Returns 1802 to Date

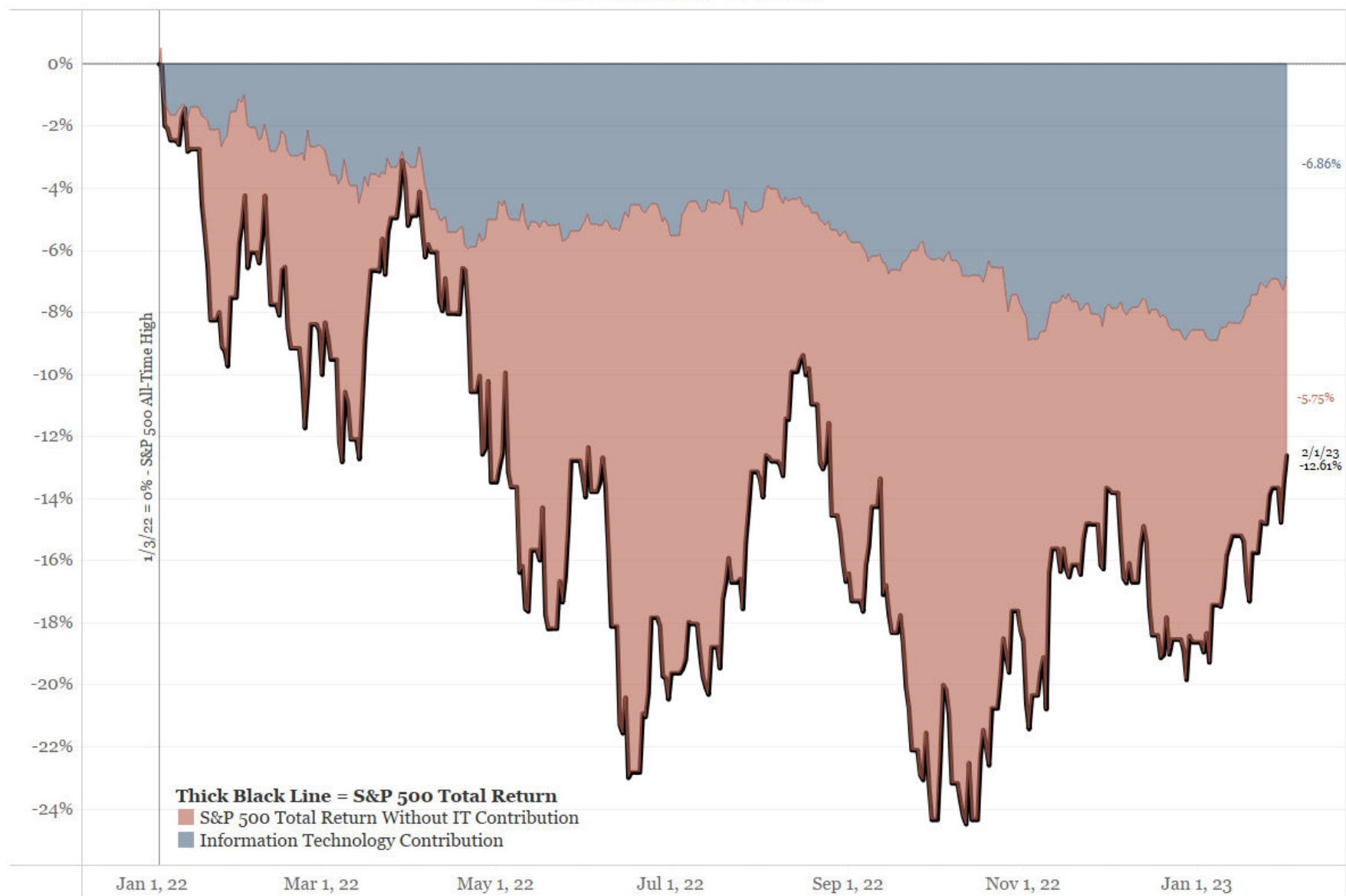


Source: Edward F. McQuarrie  
<http://www.edwardfmcquarrie.com/wp-content/uploads/2021/07/Real-returns-on-stocks-and-bonds-1793-to-2019-version-2-0.xlsx>

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# Information Technology's Impact on S&P 500

Sector Contribution To Total Return



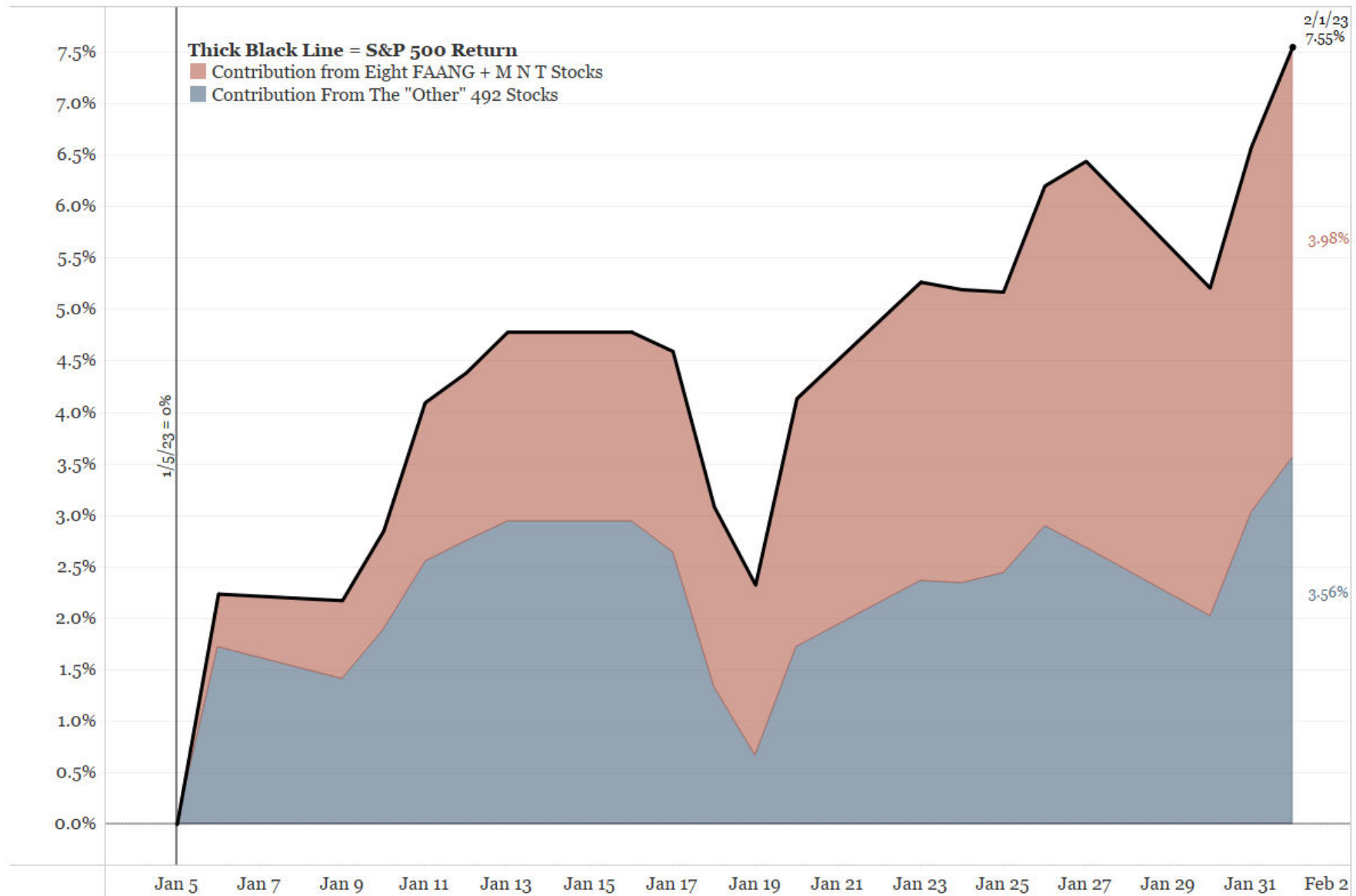
Source: Bloomberg

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# FAANG + MNT Stocks Impact on S&P 500

Top 8 Stocks Contribution to Total Return

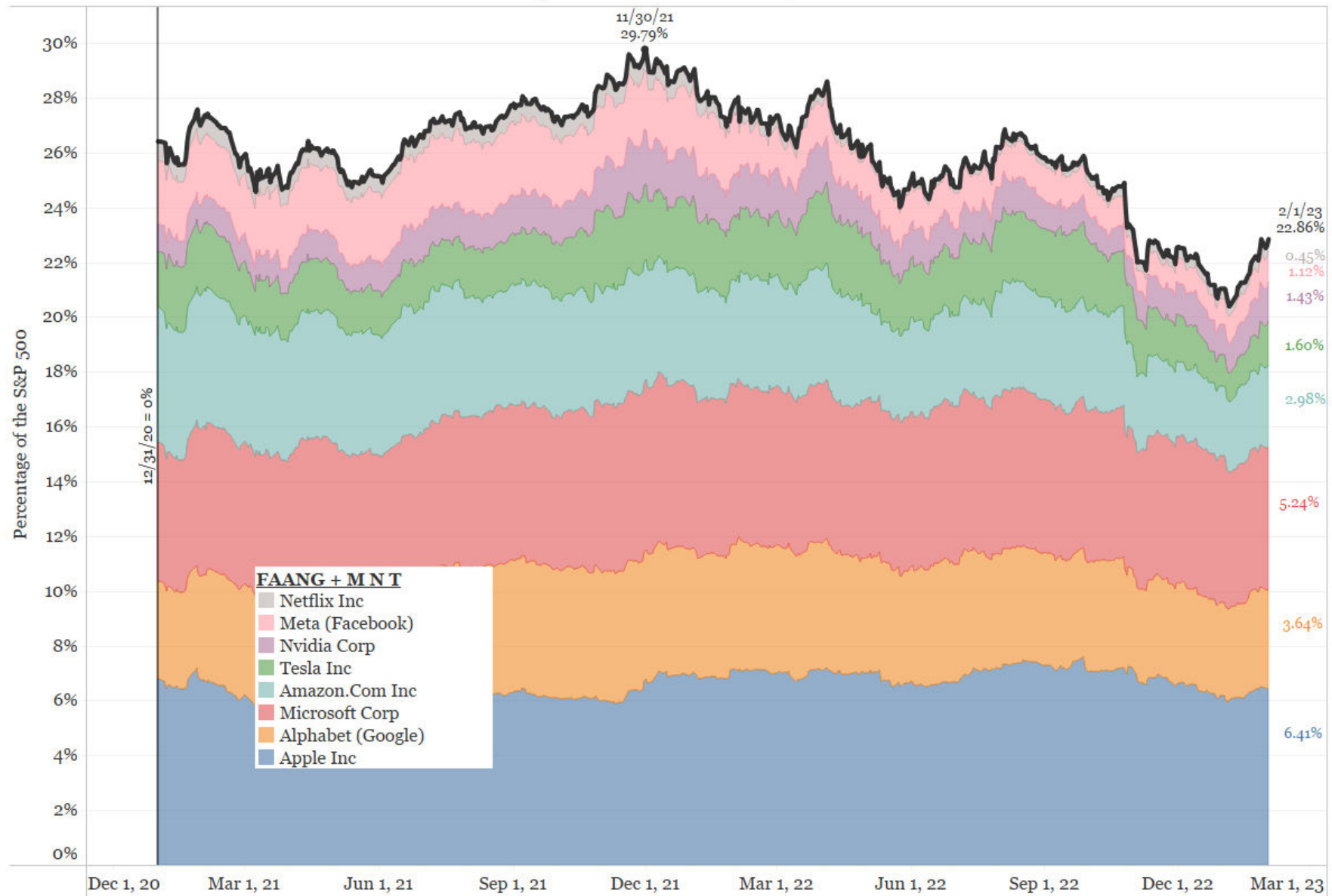


Source: Bloomberg

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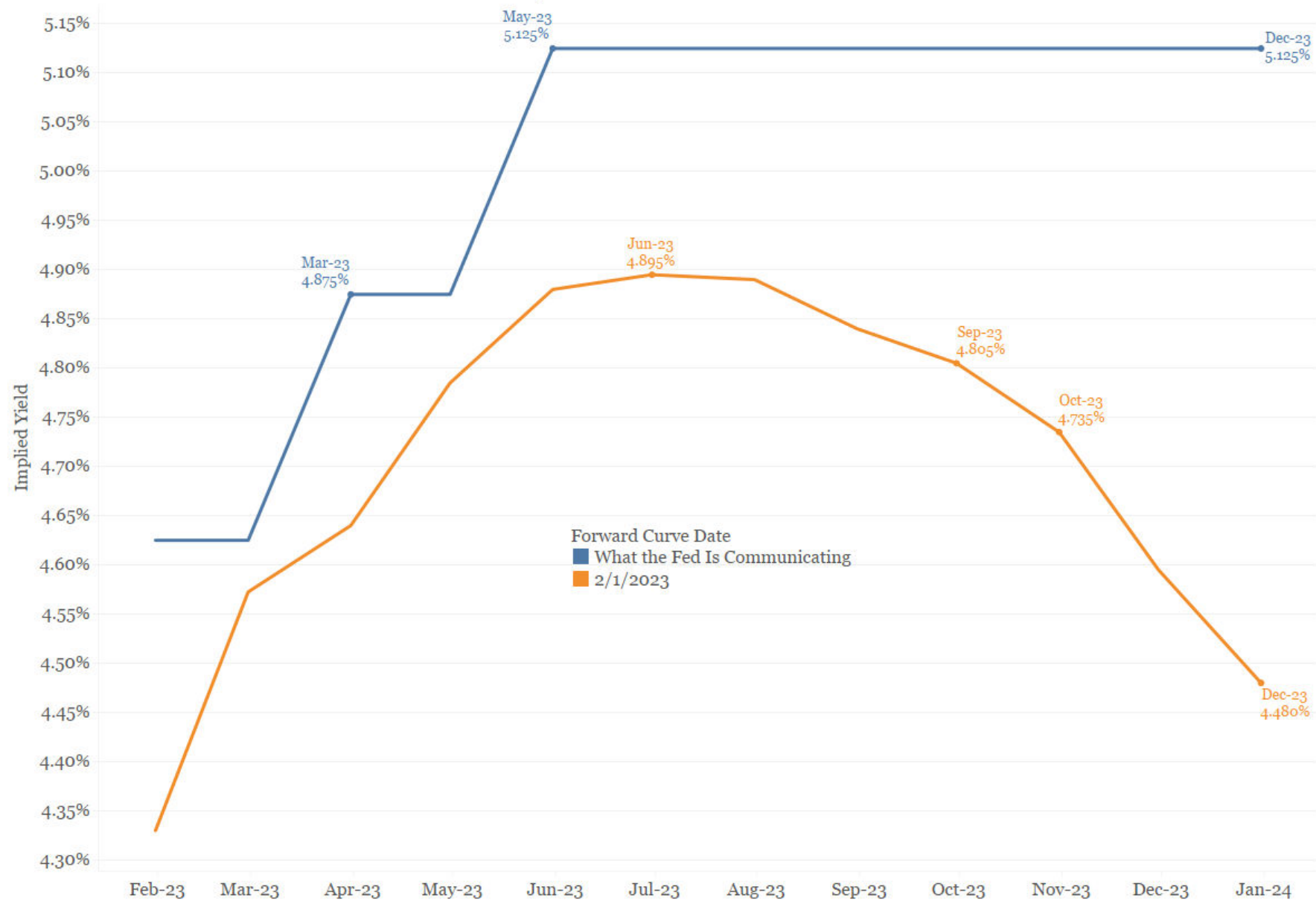
## Top Stocks In The S&P 500



Source: Bloomberg

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## What the Fed Says vs. What the Market Has Priced In

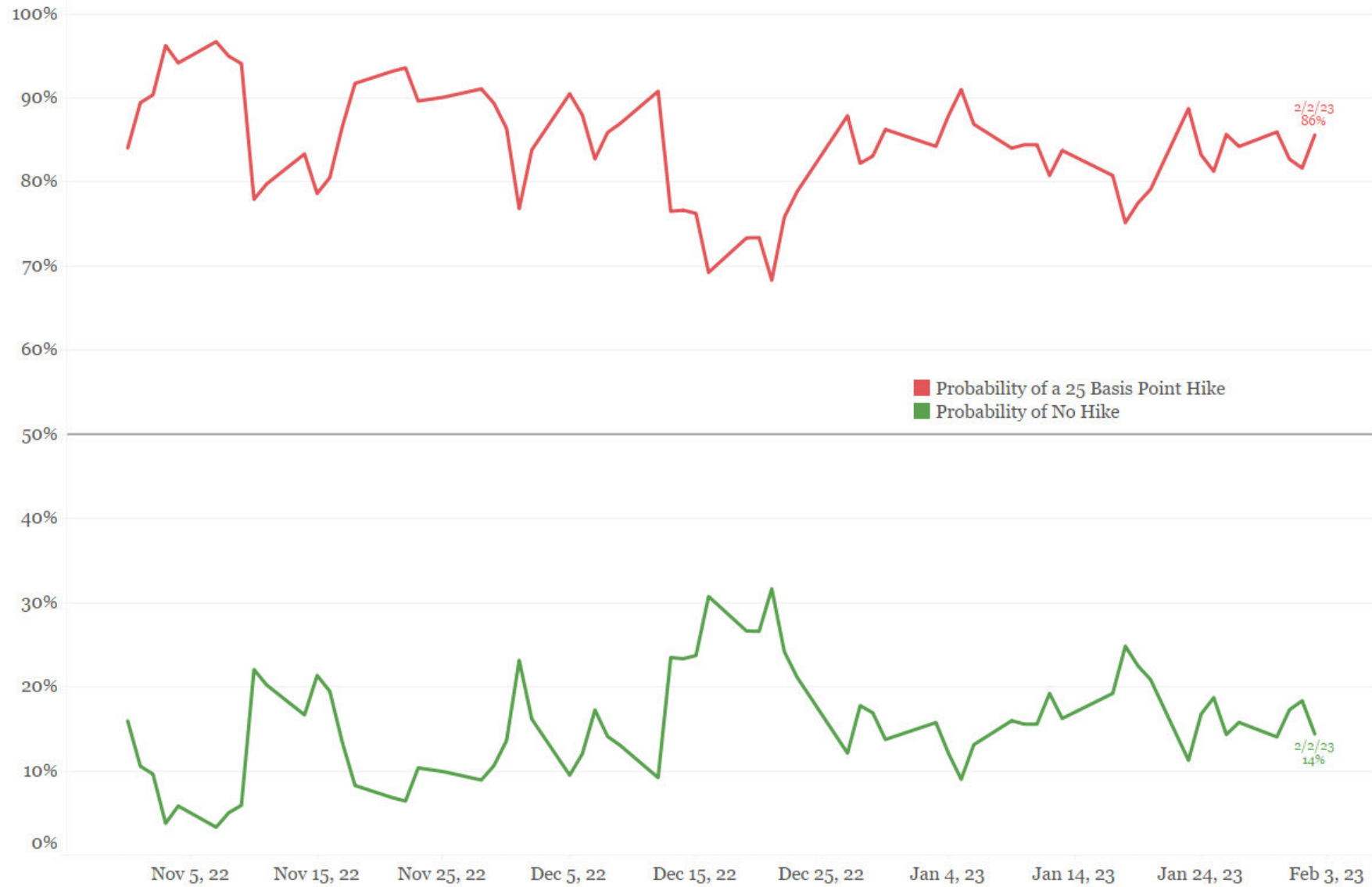


Source: Chicago Mercantile Exchange, Bloomberg

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# What Will the Fed Do on March 22, 2023?

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

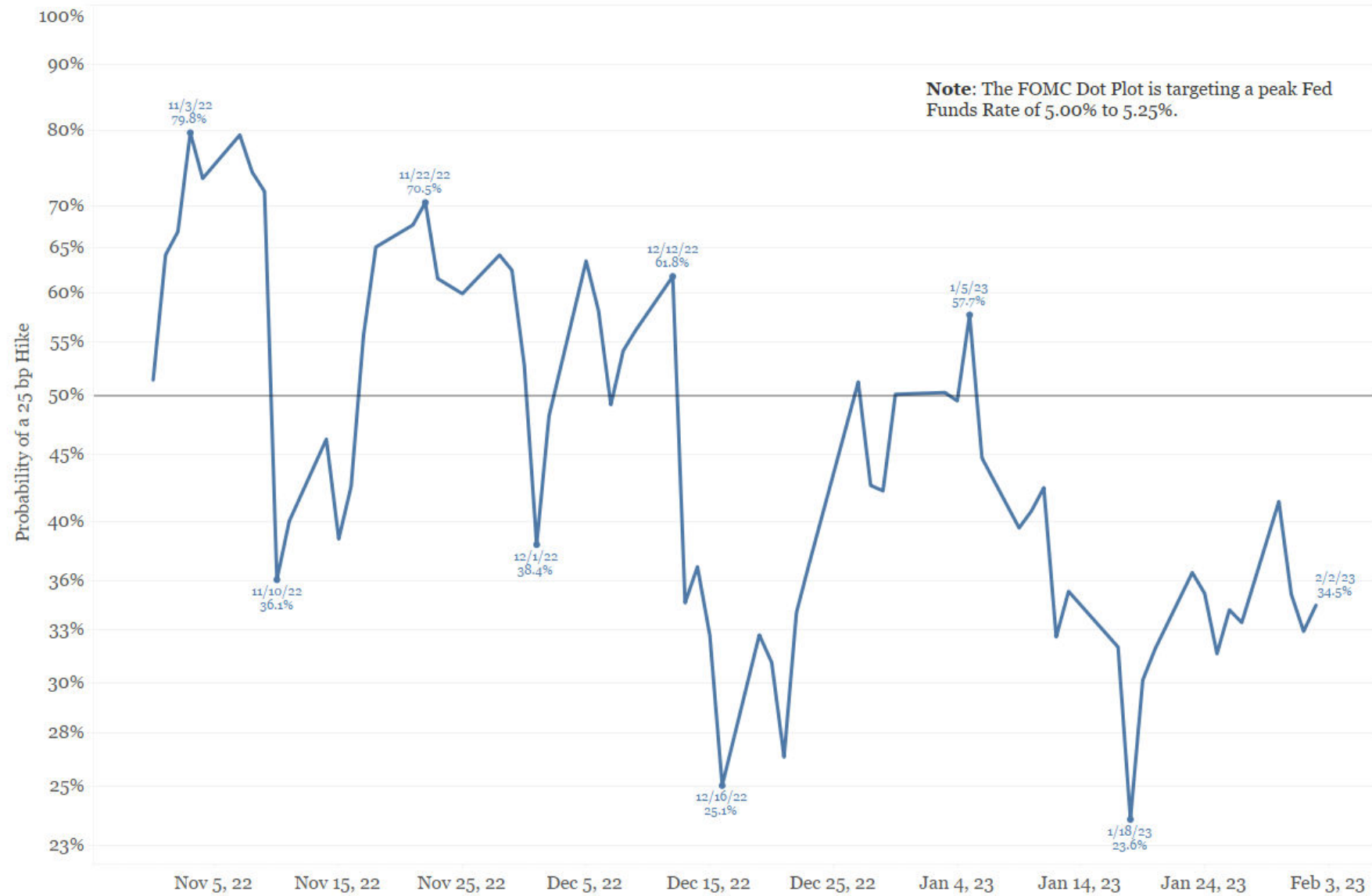


Source: Chicago Mercantile Exchange  
<https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html>

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# Probability of 25 Basis Point Hike at the May 3, 2023, FOMC Meeting, to 5.00% - 5.25%

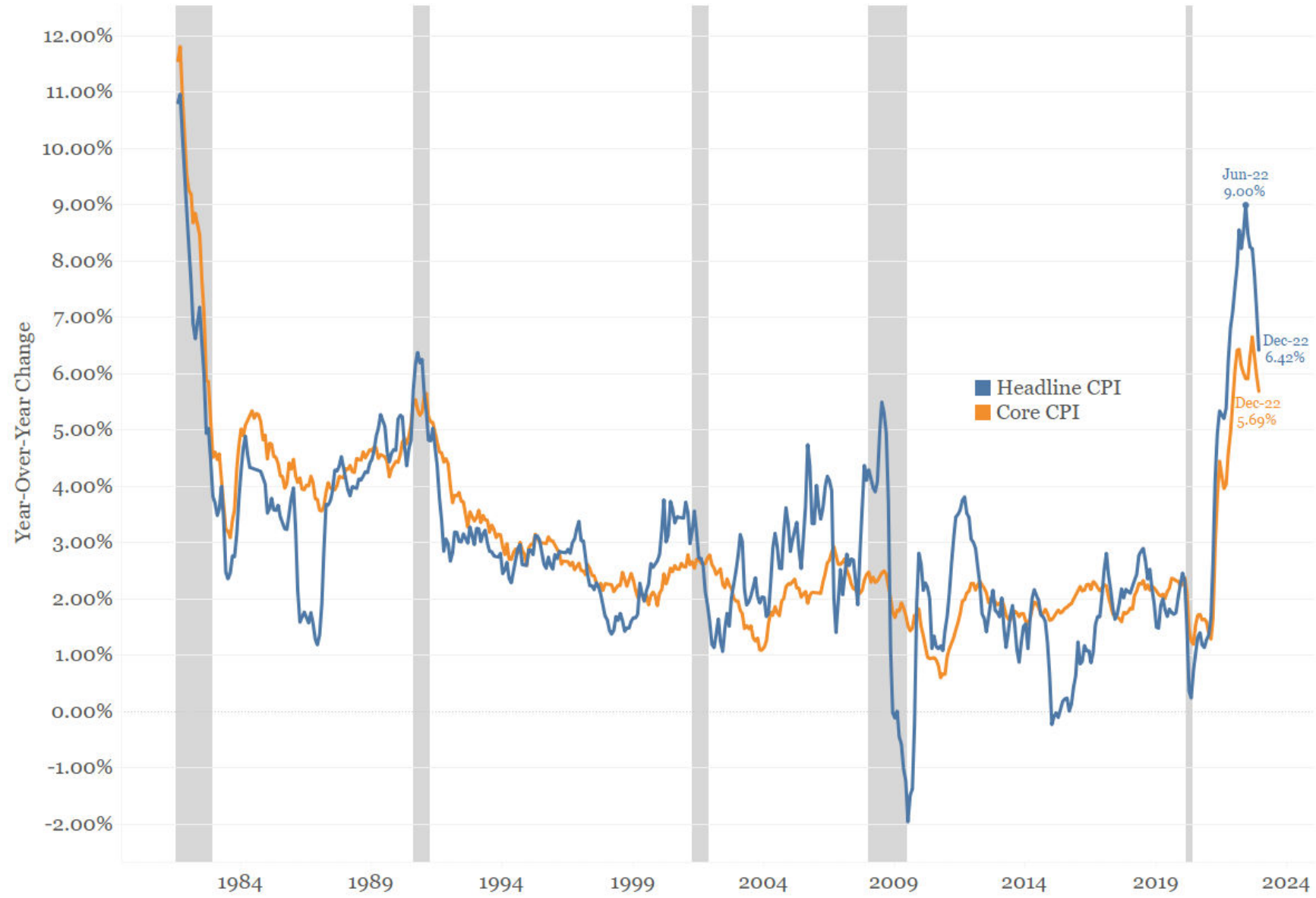
Assuming a 25 Basis Point Hike At The March FOMC Meeting



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

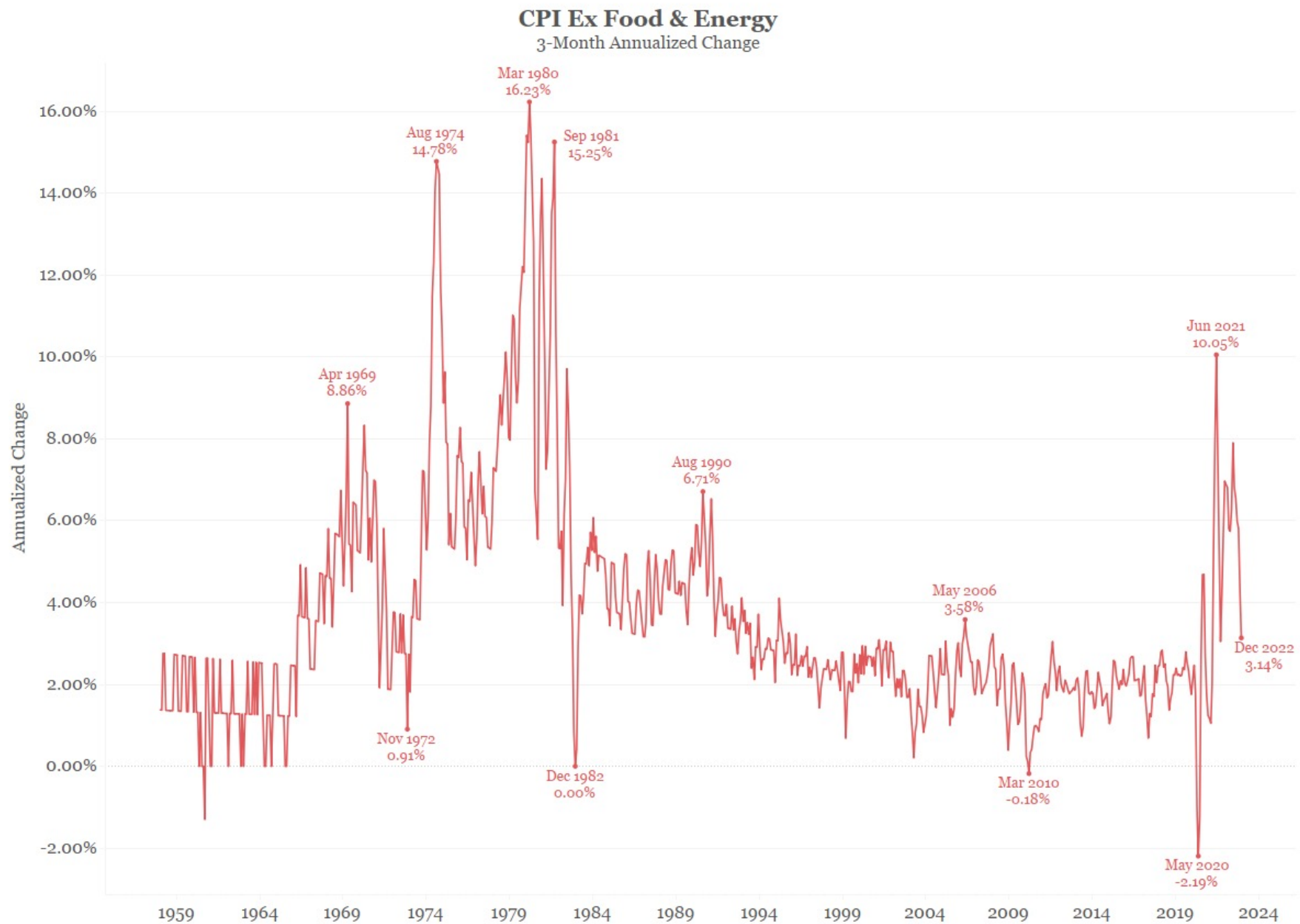
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## Headline and Core CPI



Source: The Bureau of Labor Statistics, Bloomberg

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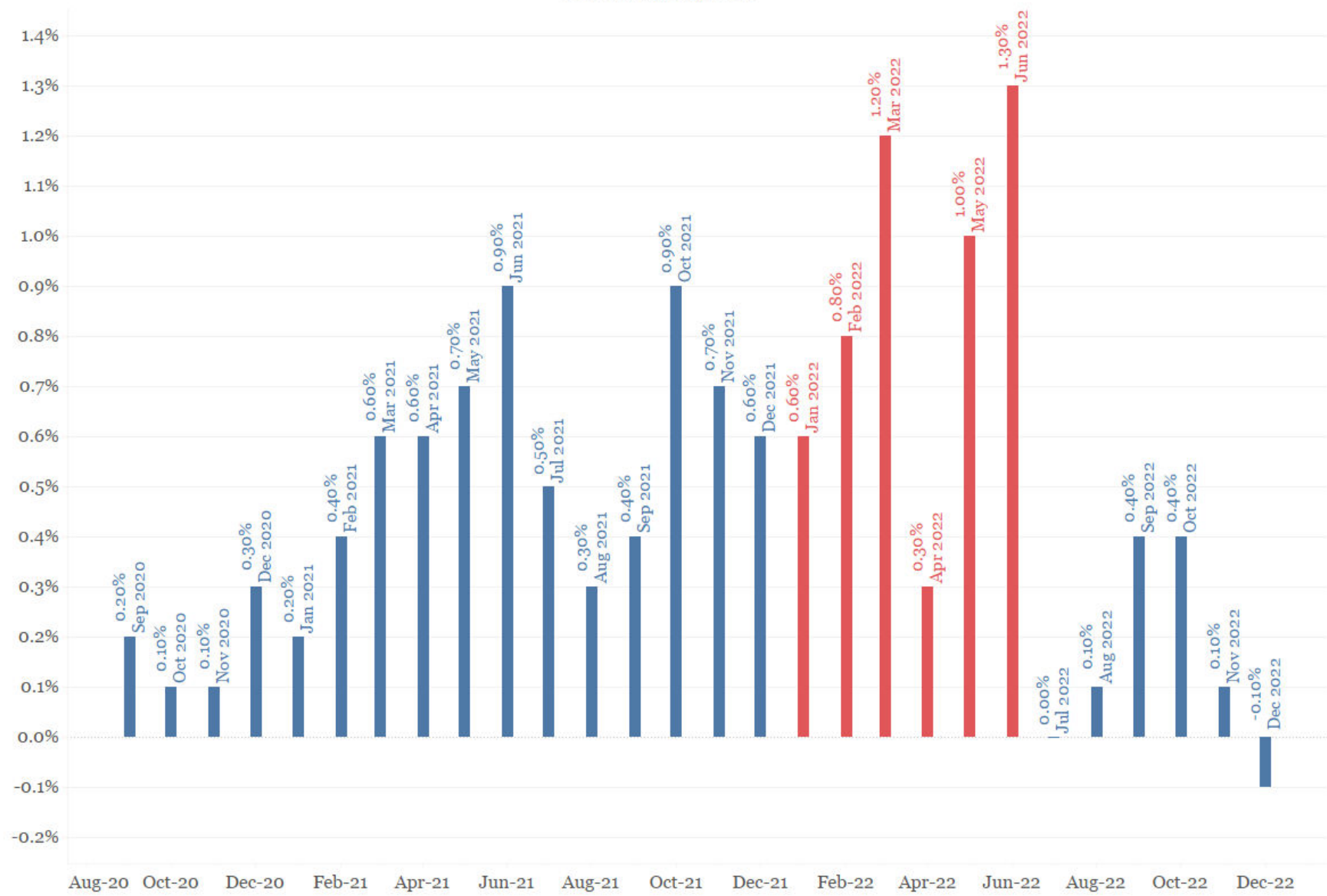


Source: The Bureau of Labor Statistics

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# Month-Over-Month CPI Seasonally Adjusted

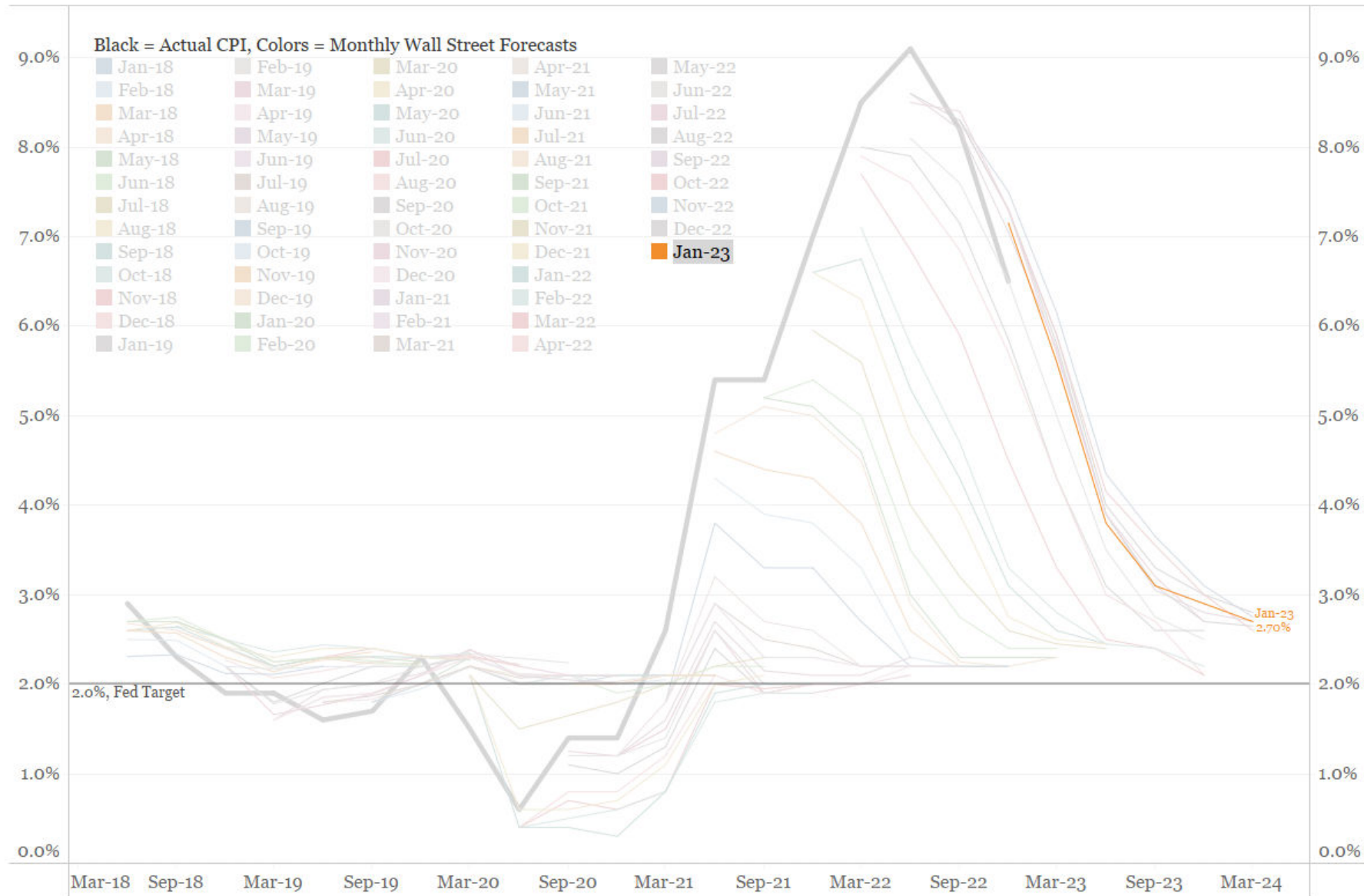


Data Source: Bloomberg, Bureau of Labor Statistics

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# Wall Street US Inflation Forecasts Always Return to ~2%

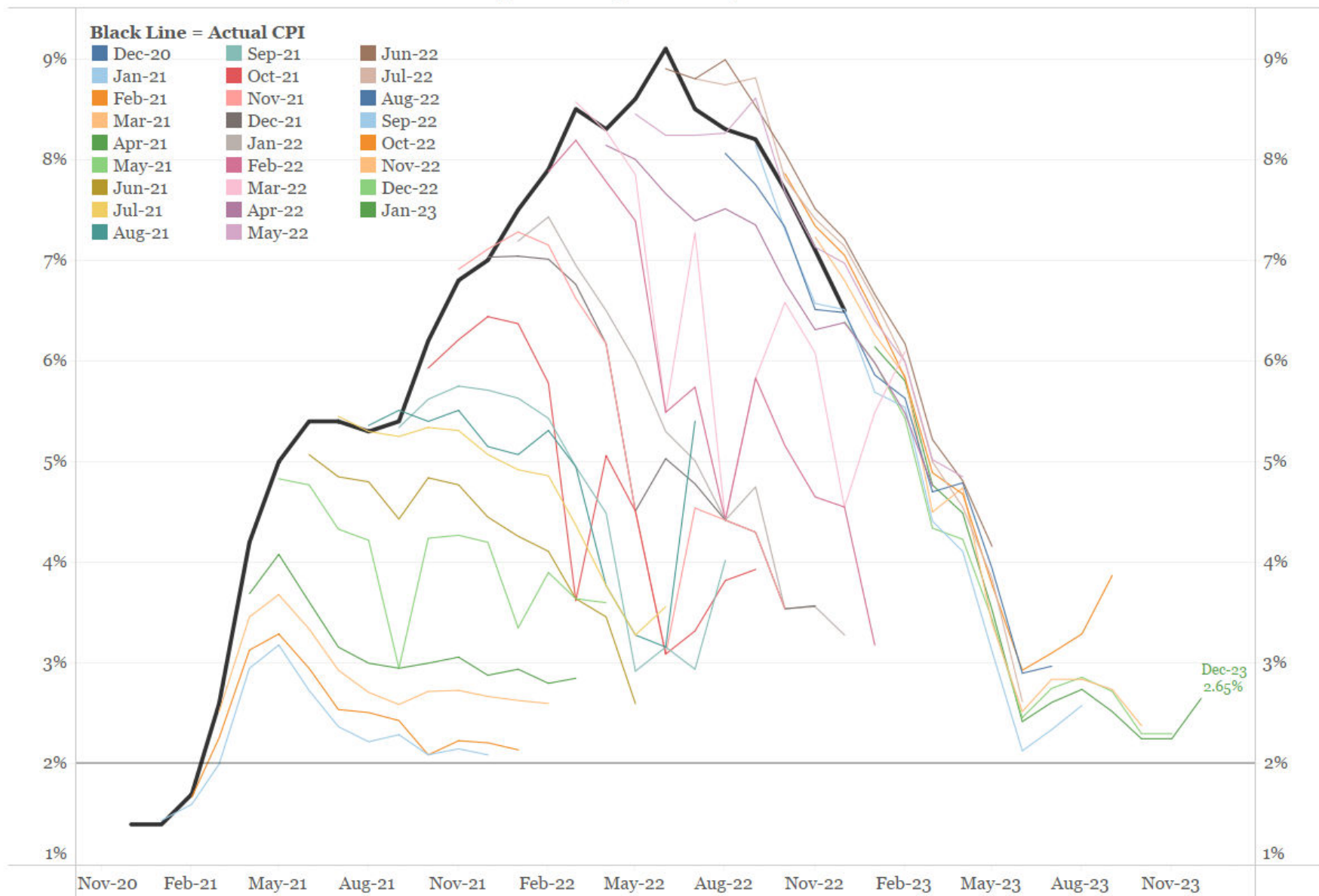
Monthly from January 2018 to Date



Data Source: Bloomberg, Bureau of Labor Statistics

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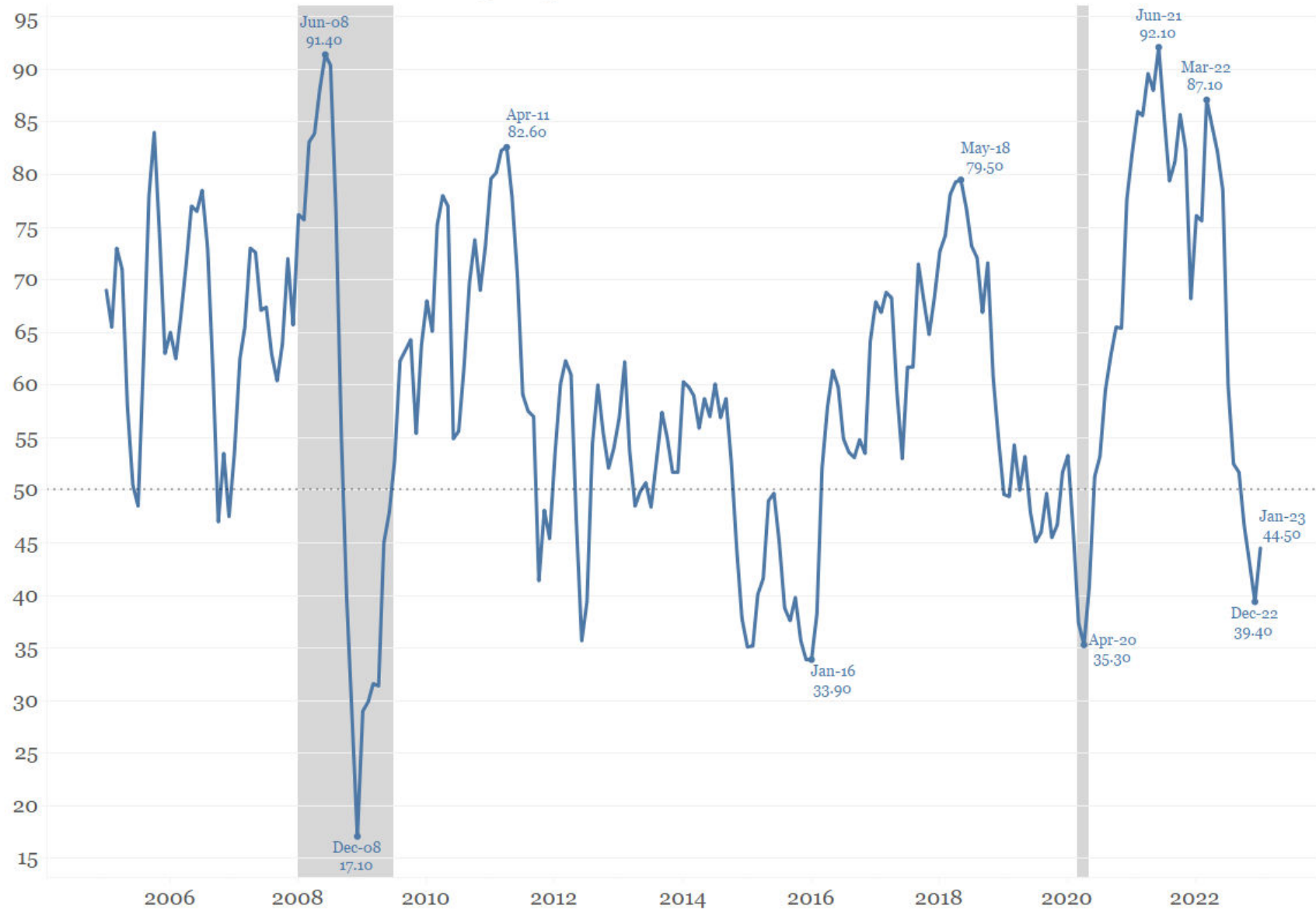
## Using CPI Swaps To Project Inflation



Source: Bloomberg

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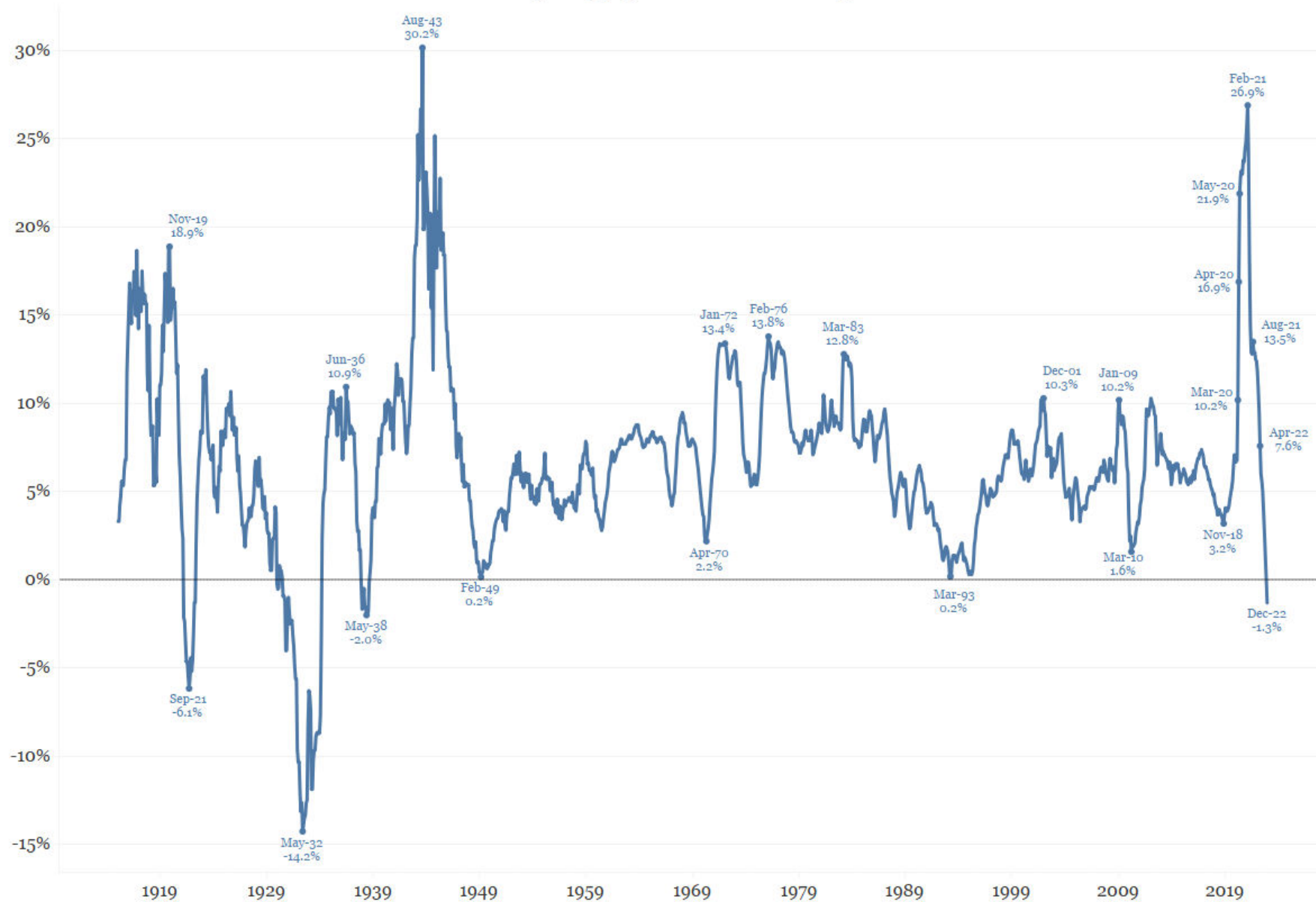
## ISM Manufacturing Report on Business Prices Index NSA



Source: Institute of Supply Management, Bloomberg

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## Money Supply M2 YoY % Change



Source: New York Federal Reserve, Bloomberg

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# Global Money Supply Excluding the U.S. Combined M2 of the Eurozone, China, Japan, South Korea, Australia, Canada, Brazil, Switzerland, Mexico, Russia, and Taiwan

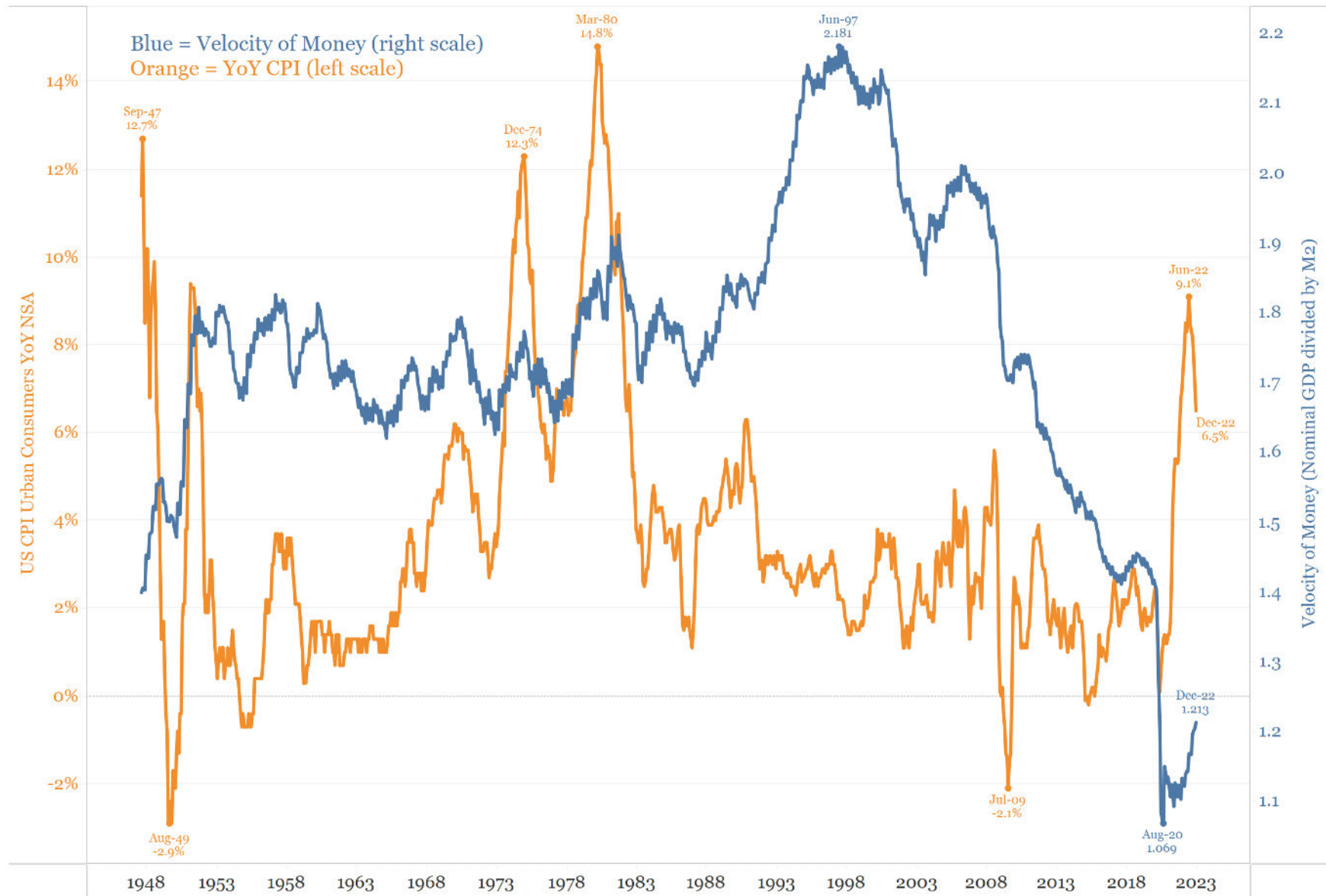


Source: Bloomberg

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## Velocity of Money and Inflation - Little Relationship



Data Source: New York Federal Reserve, Bloomberg

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**Fortune** - 57% of Americans can't afford a \$1,000 emergency expense, says new report. A look at why Americans are saving less and how you can boost your emergency fund

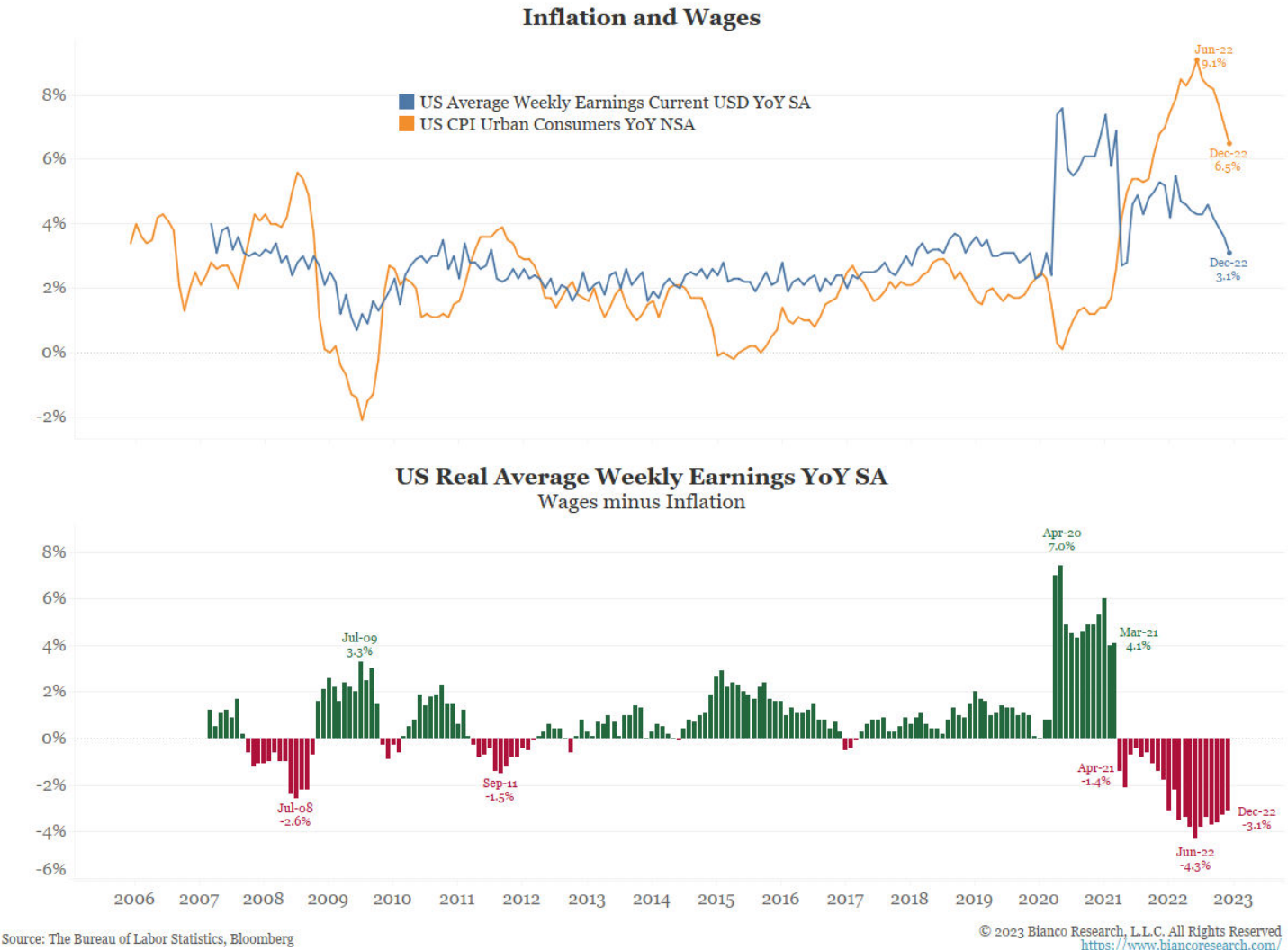
Good afternoon, and welcome. My colleagues and I understand the hardship that high inflation is causing, and we are strongly committed to bringing inflation back down to our 2 percent goal.

Over the past year, we have taken forceful actions to tighten the stance of monetary policy. We have covered a lot of ground, and the full effects of our rapid tightening so far are yet to be felt. Even so, we have more work to do.

Price stability is the responsibility of the Federal Reserve and serves as the bedrock of our economy.

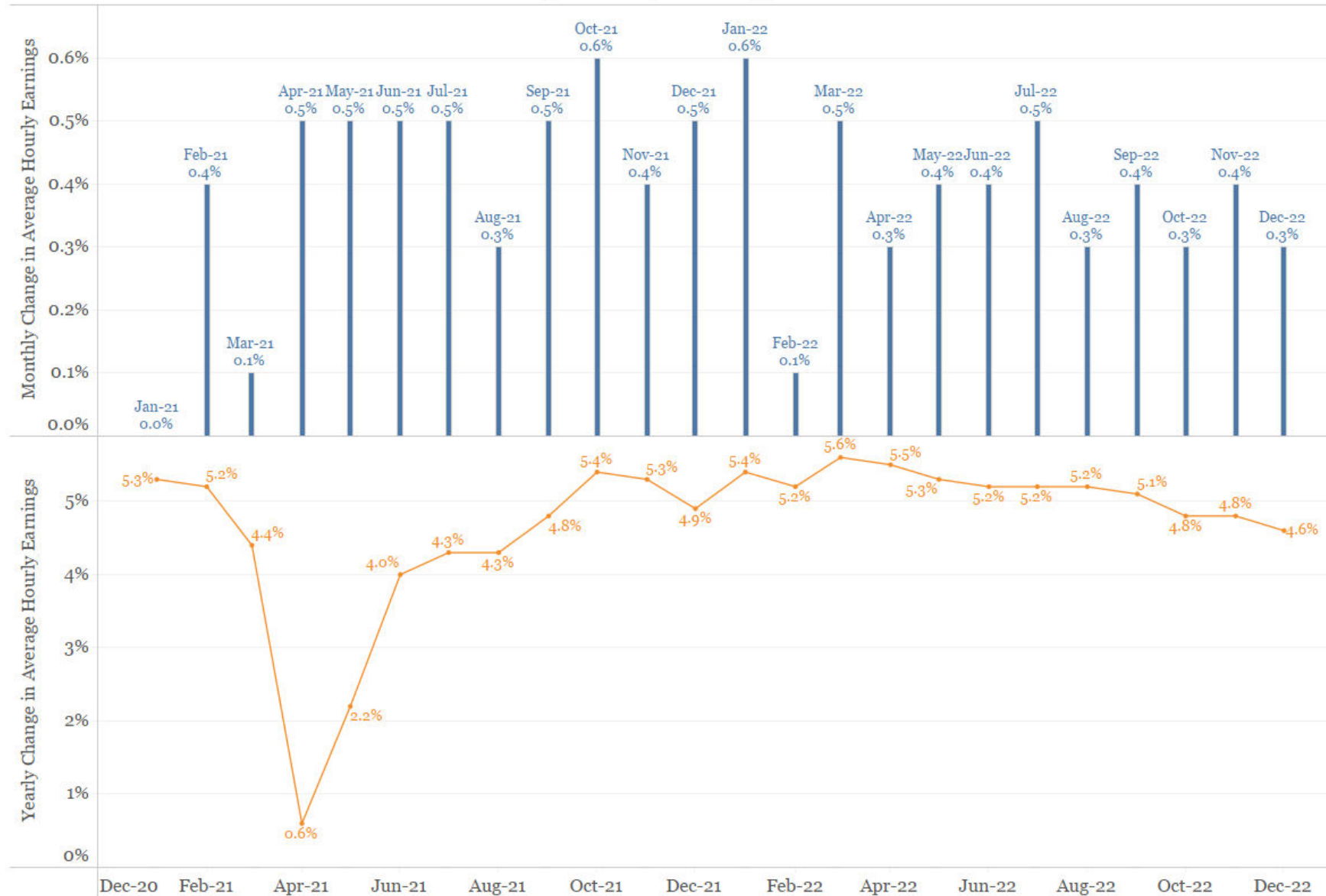
***Without price stability, the economy does not work for anyone. In particular, without price stability, we will not achieve a sustained period of labor market conditions that benefit all.***

February 3, 2023



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## Average Hourly Earnings Growth



Source: Bureau of Labor Statistics

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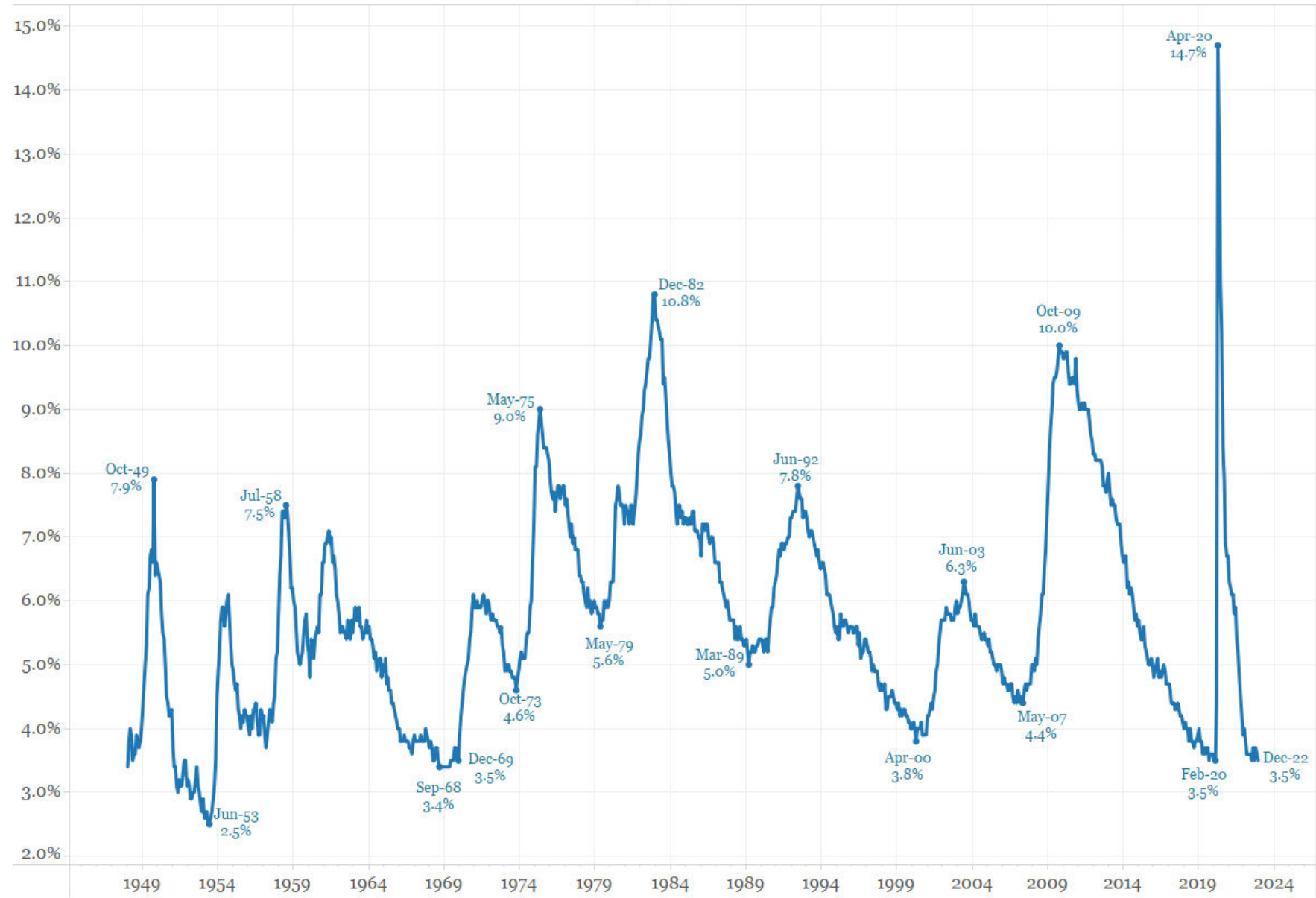
## Weekly Initial Claims



Data Source: Bureau of Labor Statistics

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## US Unemployment Rate

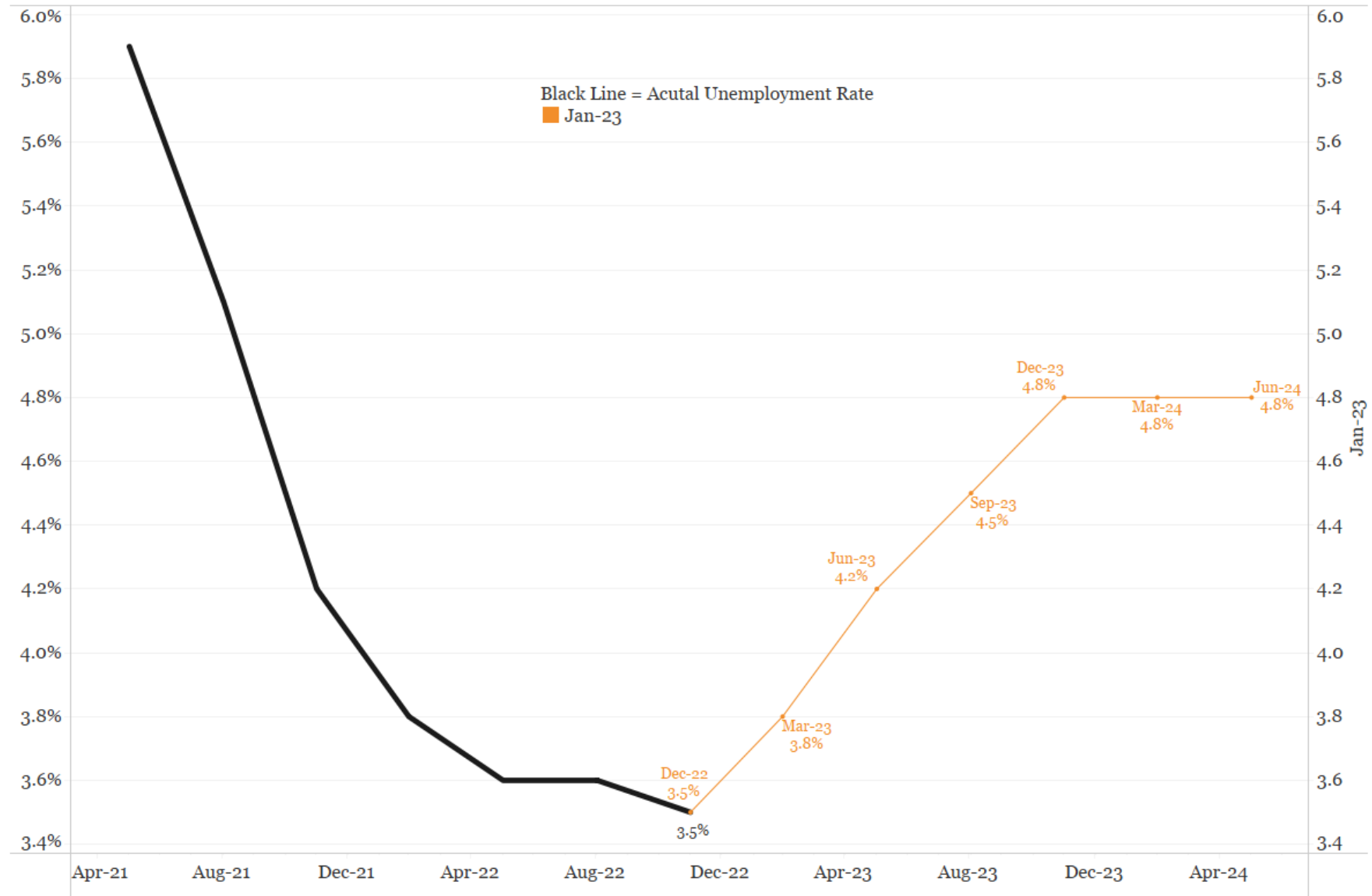


Source: Bureau of Labor Statistics, Bloomberg

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# Latest - Economists U.S. Unemployment Forecasts

From a Monthly Survey of about 70 Economists Conducted by Bloomberg

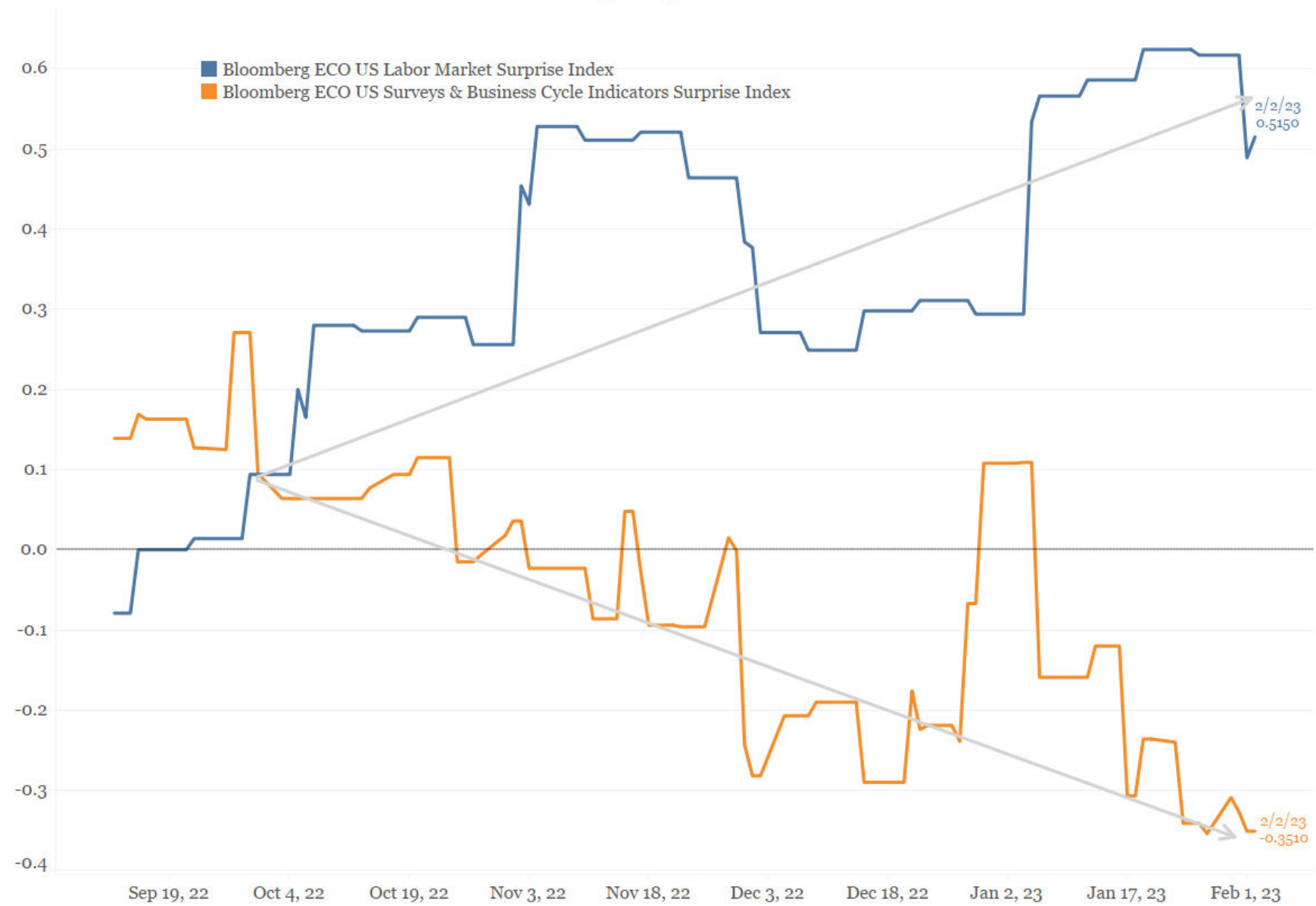


Data Source: Bloomberg, Bureau of Labor Statistics

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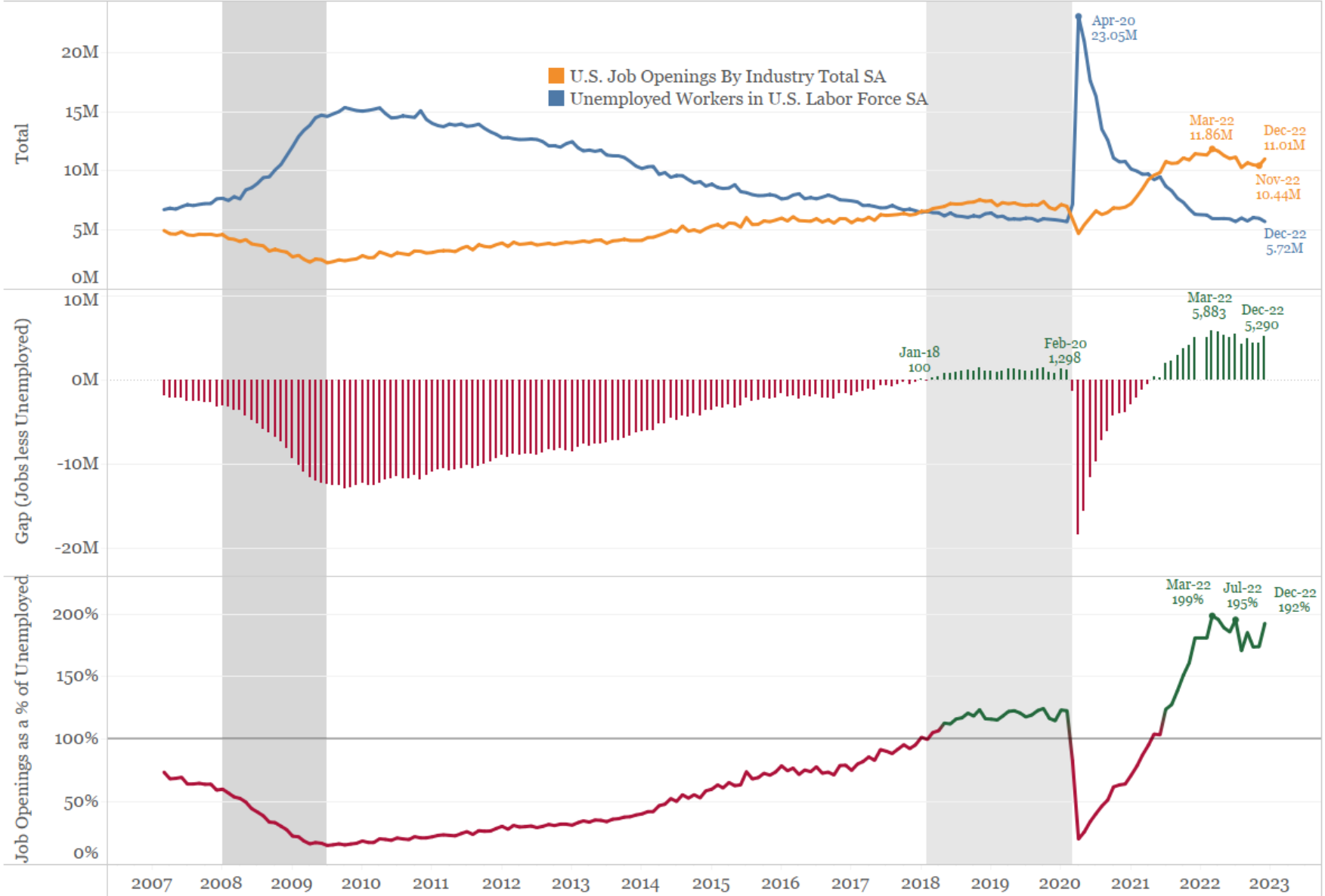
## Bloomberg Surprise Indices



Data Source: Bloomberg

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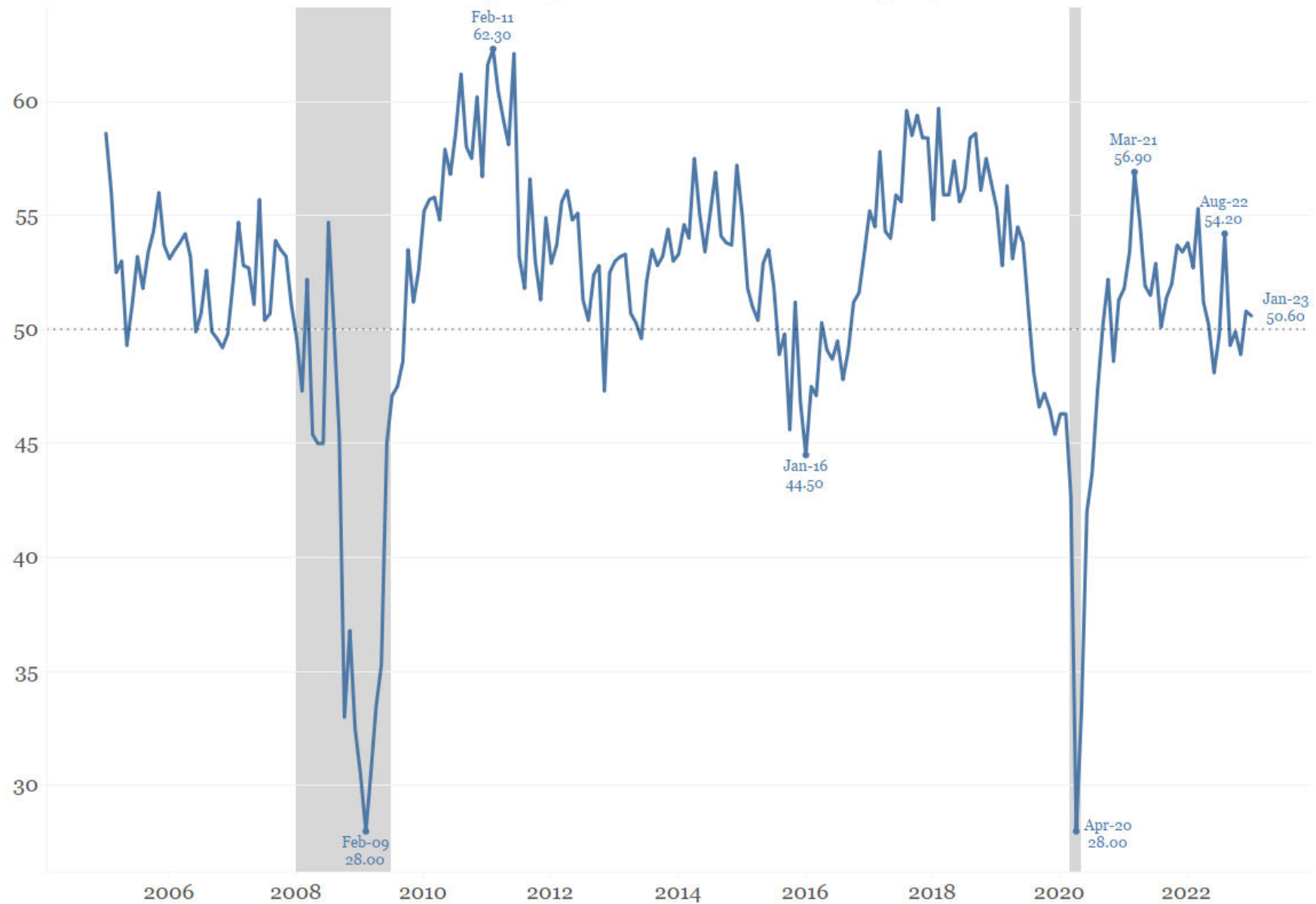
A Shortage of Workers?



Source: Conference Board, Bureau of Labor Statistics, Bloomberg

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## ISM Manufacturing Report on Business Employment SA

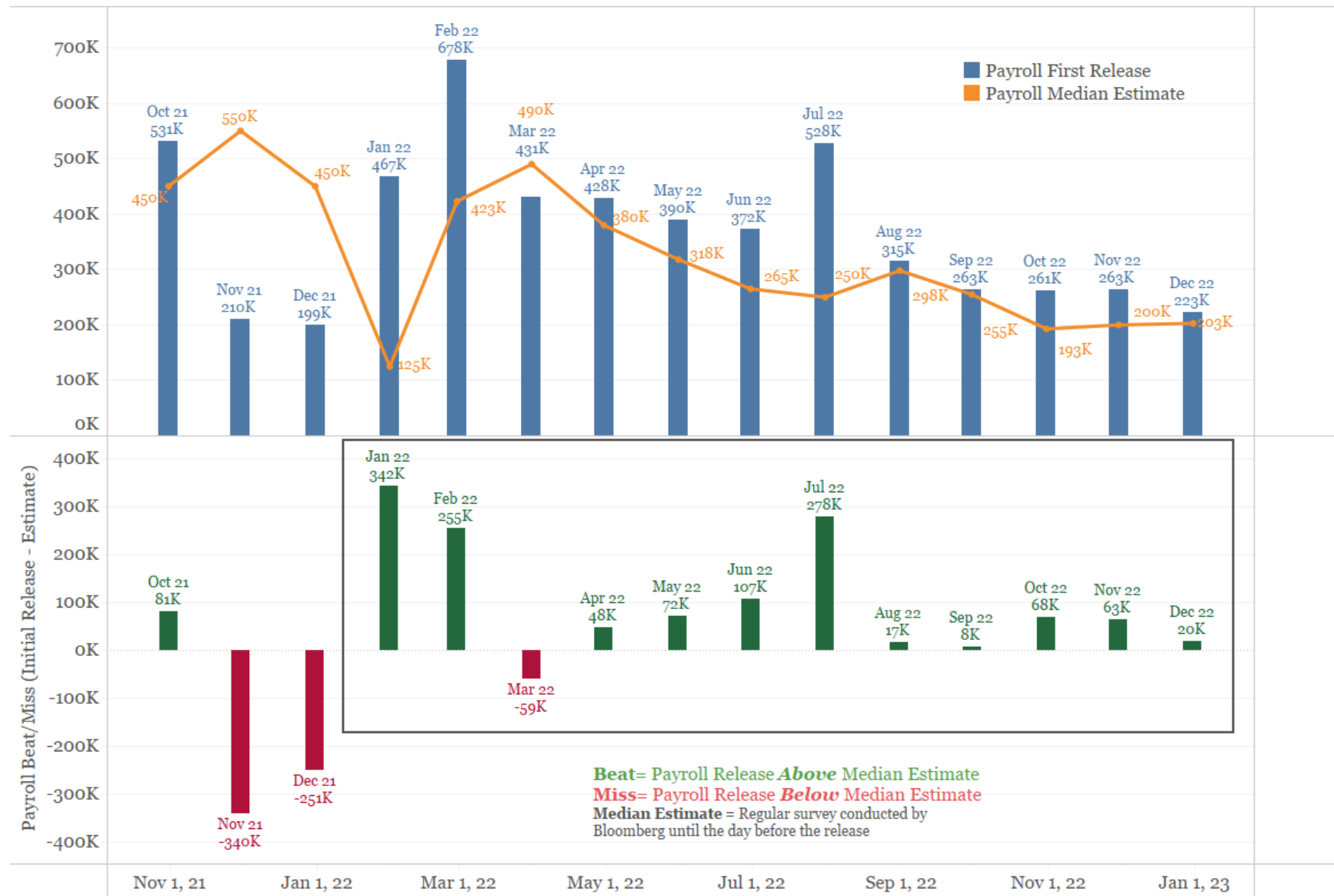


Source: Institute of Supply Management, Bloomberg

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## Payroll Beats/Misses

Initial Release Minus Bloomberg's Median Estimate

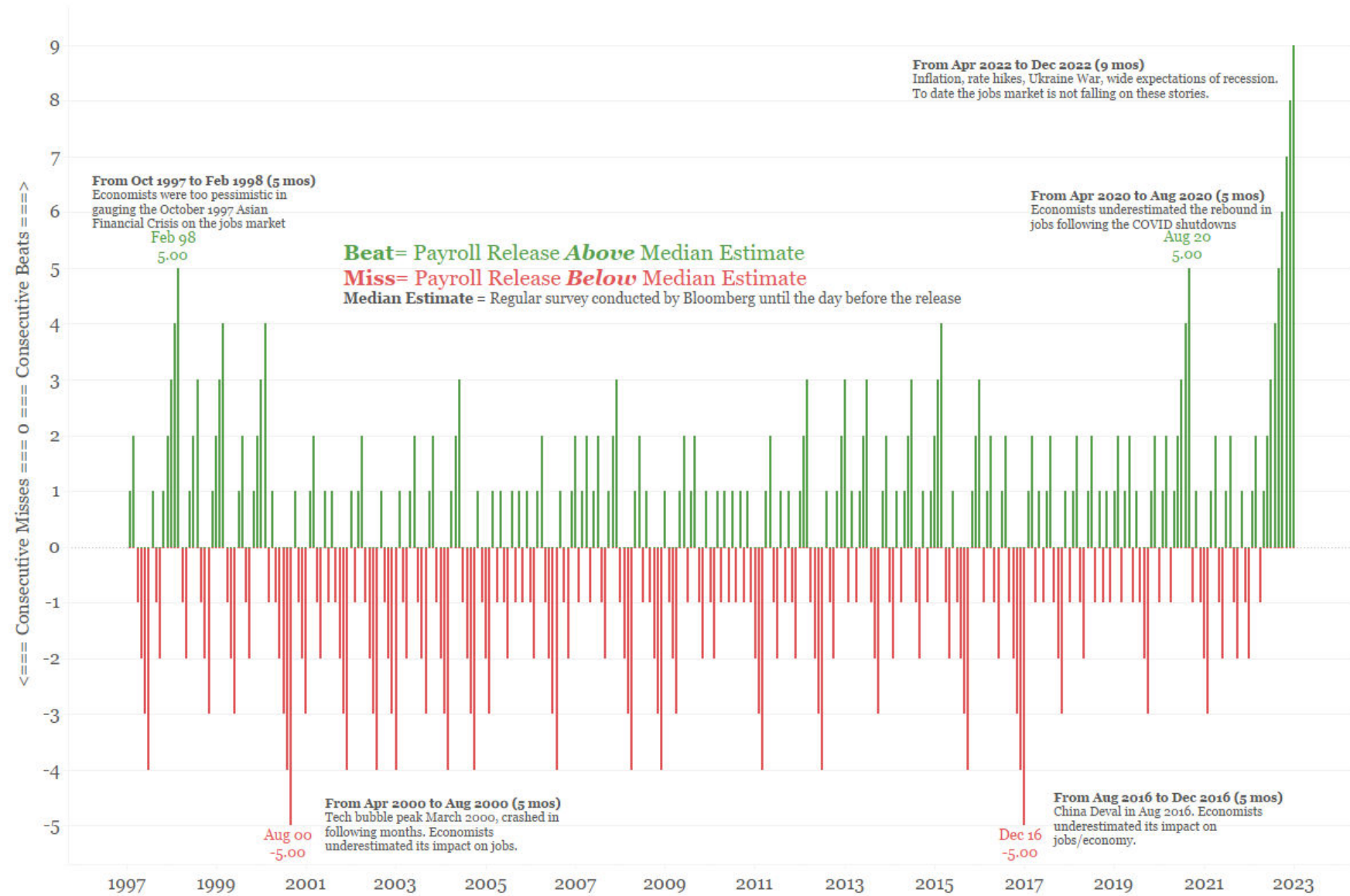


Source: Bloomberg

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# Payroll Beats/Misses Streaks

Initial Release Minus Bloomberg's Estimate



Source: Bloomberg

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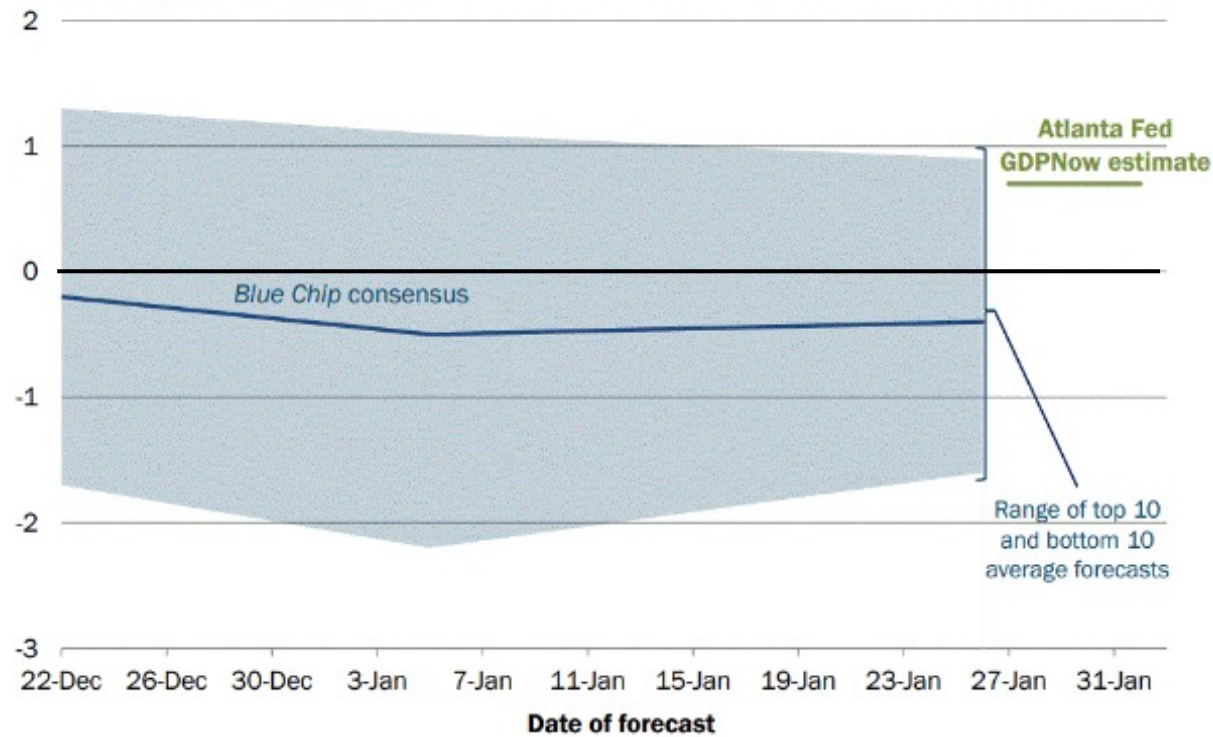
### Latest estimate: 0.7 percent — February 1, 2023

The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the first quarter of 2023 is **0.7 percent**, unchanged from January 27 after rounding. After this morning's construction spending release from the US Census Bureau and the Manufacturing ISM Report On Business from the Institute for Supply Management, the nowcast of the contribution of inventory investment to first-quarter real GDP growth increased from -1.43 percentage points to -1.40 percentage points.

The next GDPNow update is **Tuesday, February 7**. Please see the "Release Dates" tab below for a list of upcoming releases.

#### Evolution of Atlanta Fed GDPNow real GDP estimate for 2023: Q1

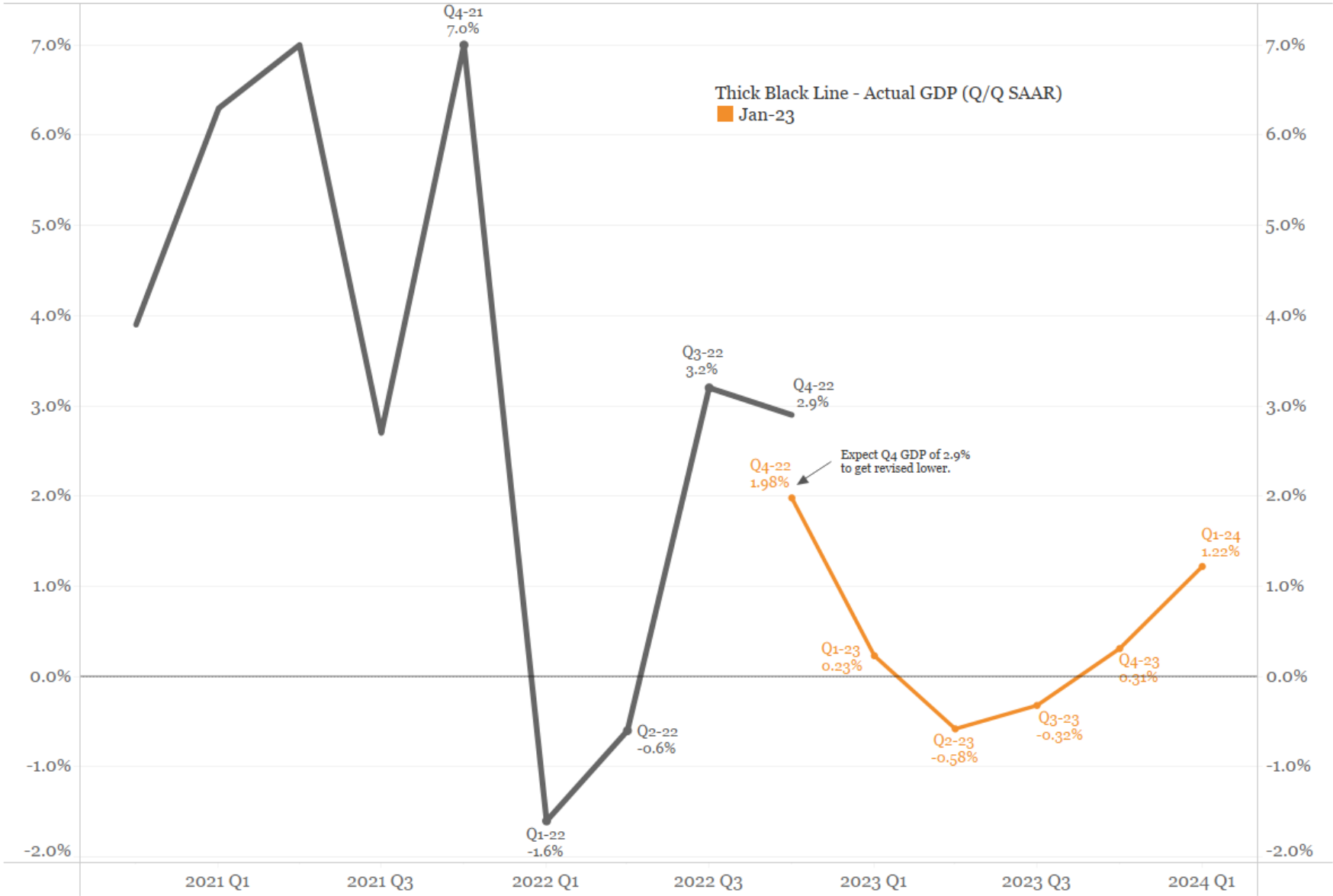
Quarterly percent change (SAAR)



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.

Latest US GDP Forecasts - United States

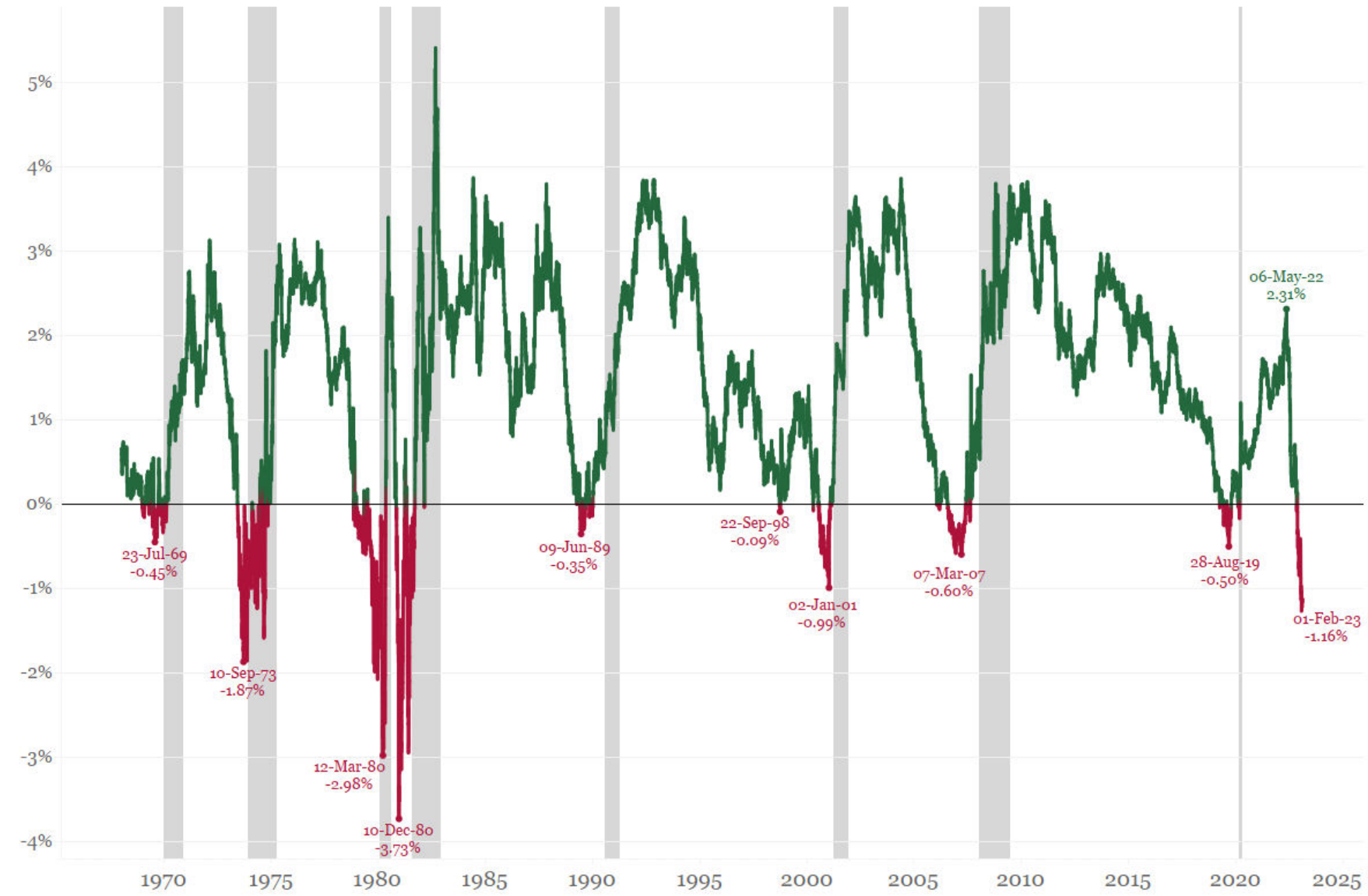


Data Source: Bloomberg

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# Yield Curve Inversions Lead Recessions

10-Year less 3-Month Yield Curve



Data Source: Federal Reserve and Bloomberg

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## How Long Until the Recession?

When the 3-month to 10-year yield curve inverts for **10 consecutive trading days**

| Date of Inversion | Consecutive Trading Days Inverted | Date of Next Recession | Calendar Days to Next Recession |
|-------------------|-----------------------------------|------------------------|---------------------------------|
| 1/10/1969         | 24                                | Dec-69                 | 325                             |
| 6/14/1973         | 177                               | Nov-73                 | 140                             |
| 12/8/1978         | 91                                | Jan-80                 | 389                             |
| 11/7/1980         | 102                               | Jul-81                 | 236                             |
| 6/6/1989          | 30                                | Jul-90                 | 390                             |
| 7/31/2000         | 135                               | Mar-01                 | 213                             |
| 8/1/2006          | 217                               | Dec-07                 | 487                             |
| 6/6/2019          | 41                                | Feb-20                 | 268                             |
| <b>11/22/2022</b> | <b>????</b>                       | <b>????</b>            | <b>????</b>                     |
| <b>Average</b>    | <b>111</b>                        |                        | <b>311</b>                      |

**1/10/1969** = inverted for 24 calendar days, went positive for 33 days, then inverted again for 53 days

**6/6/1989** = inverted for 30 calendar days, went positive for 9 days, inverted again for 26 days

**6/6/2019** = As of July 31 the inversion has been 41 consecutive trading days.

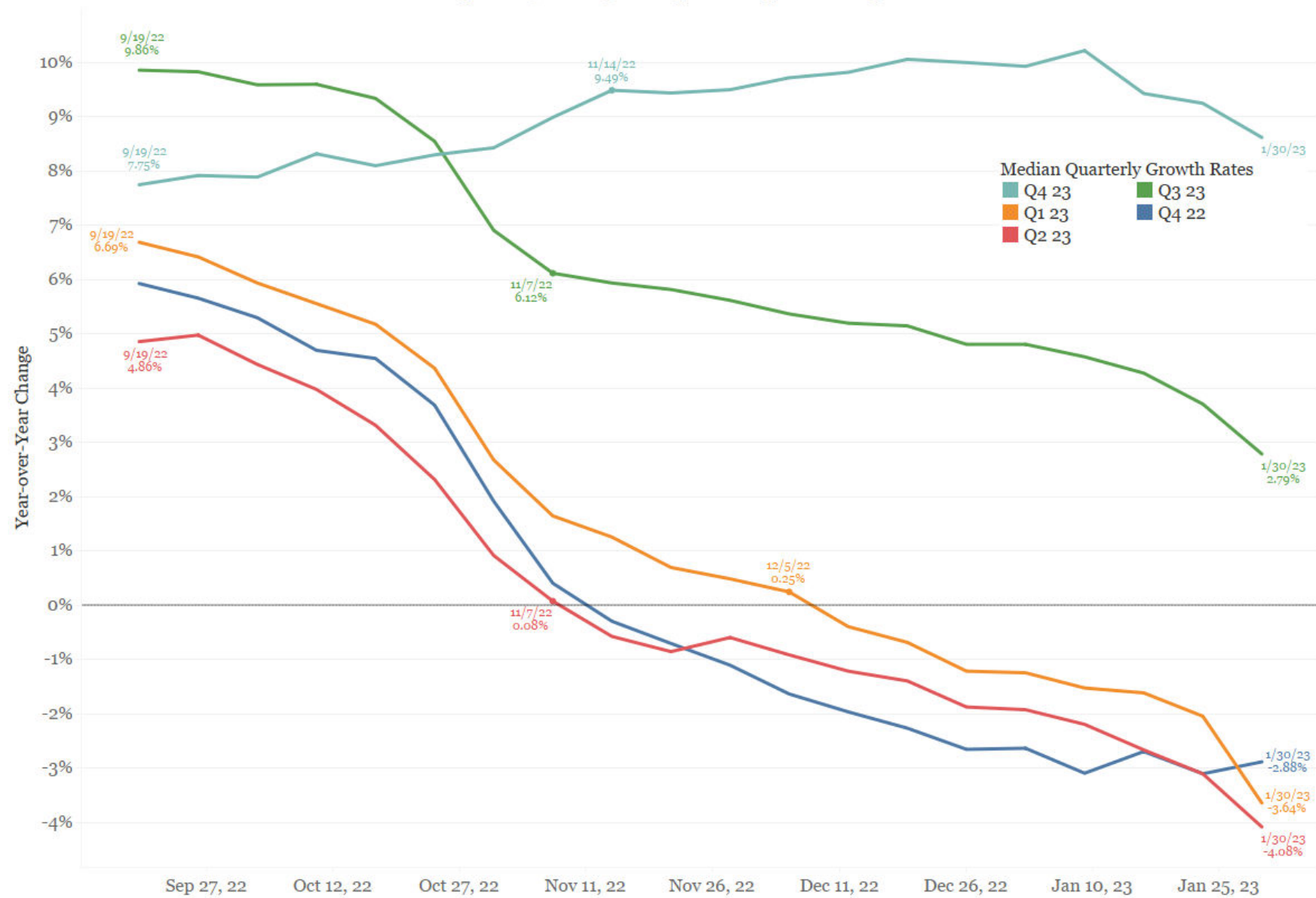
Positive for 1 day, then inverted again for 67 days (through October 10)

311 days after the curve inverted (November 22, 2022) is **September 29, 2023**.

487 days later (the record amount of time to date) is **March 23, 2024**.

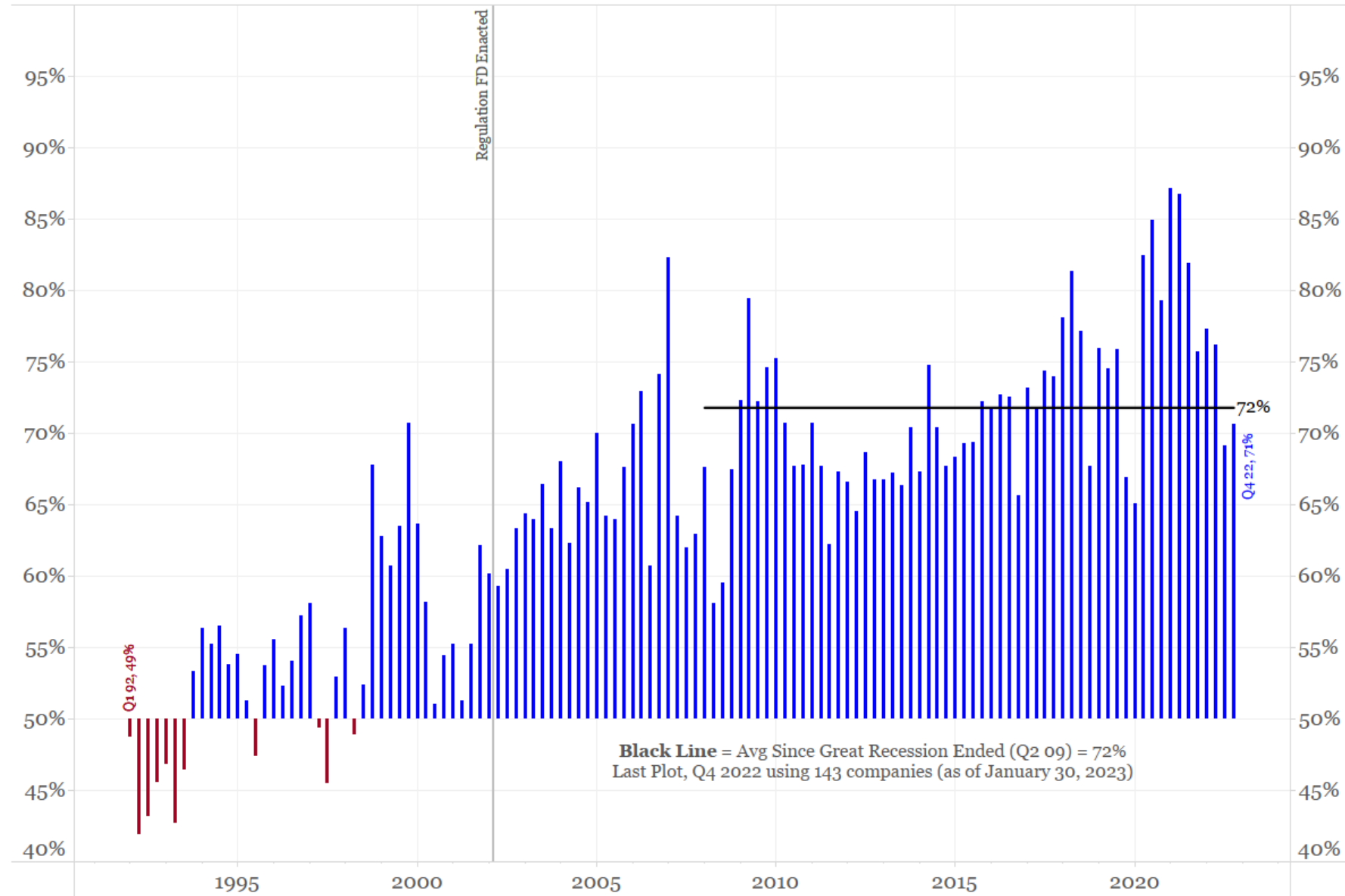
Question: does this market have the patience to wait until **March 2024** before solid signs emerge that the Fed can pivot?

## Forecasting 2023 S&P 500 Operating Earnings Growth



# Percent Of The S&P 500 That Beat Quarterly Earnings Expectations

(Compared To The Last Median Estimate According To Bloomberg)

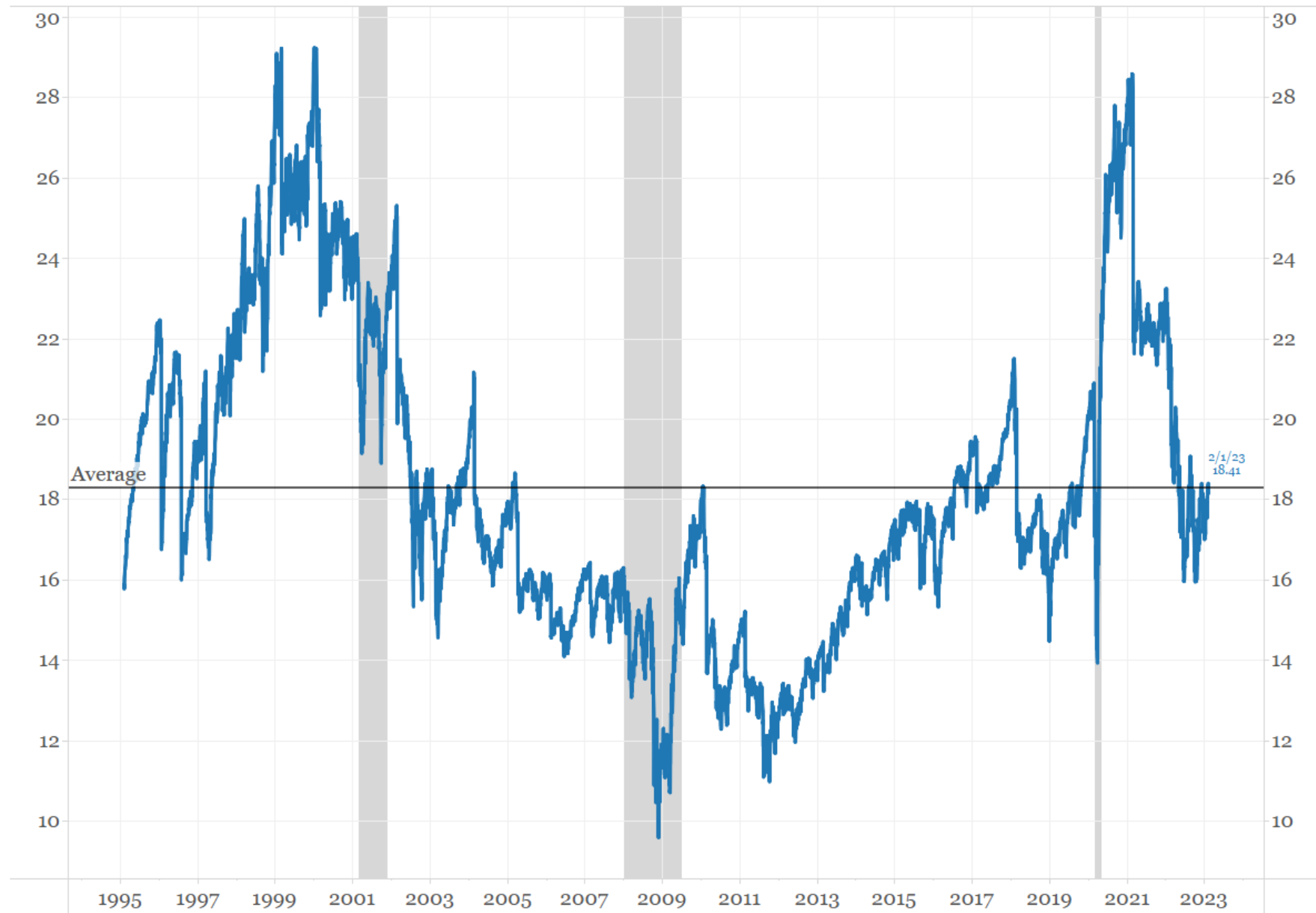


Data Source: Bloomberg

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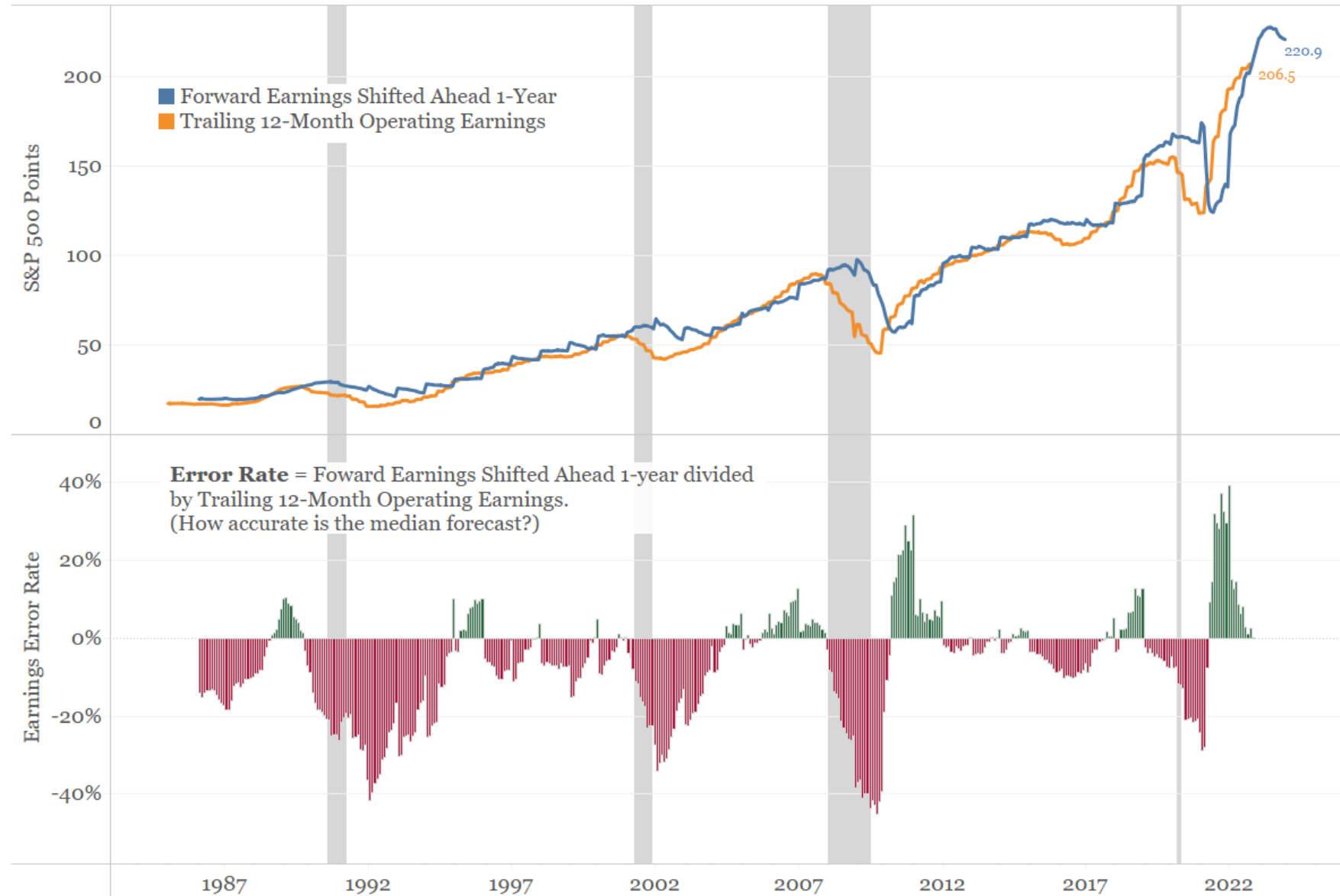
## S&P 500 Forward PE Ratio



Data Source: Bloomberg

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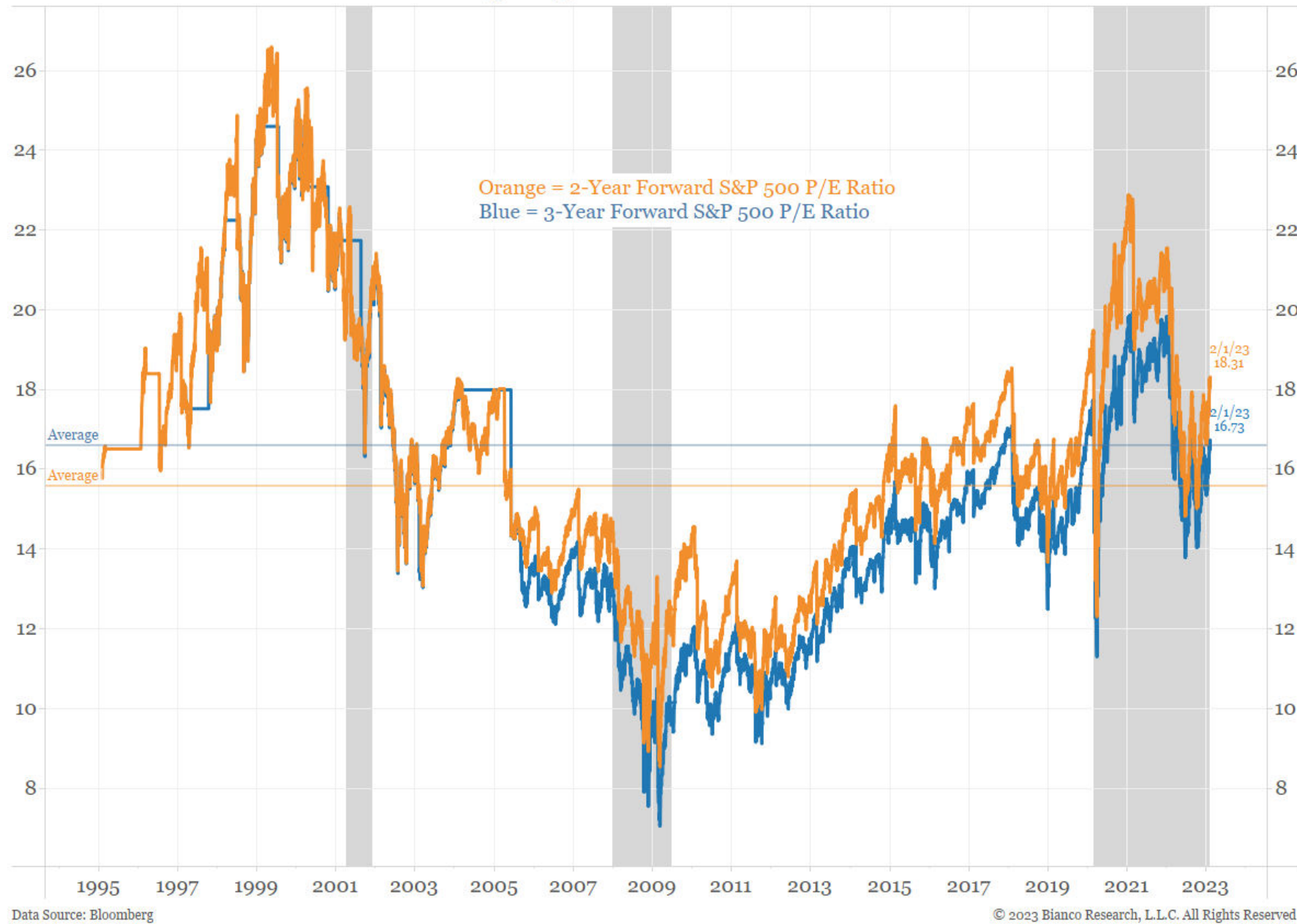
# 1-Year Earnings Error Rate



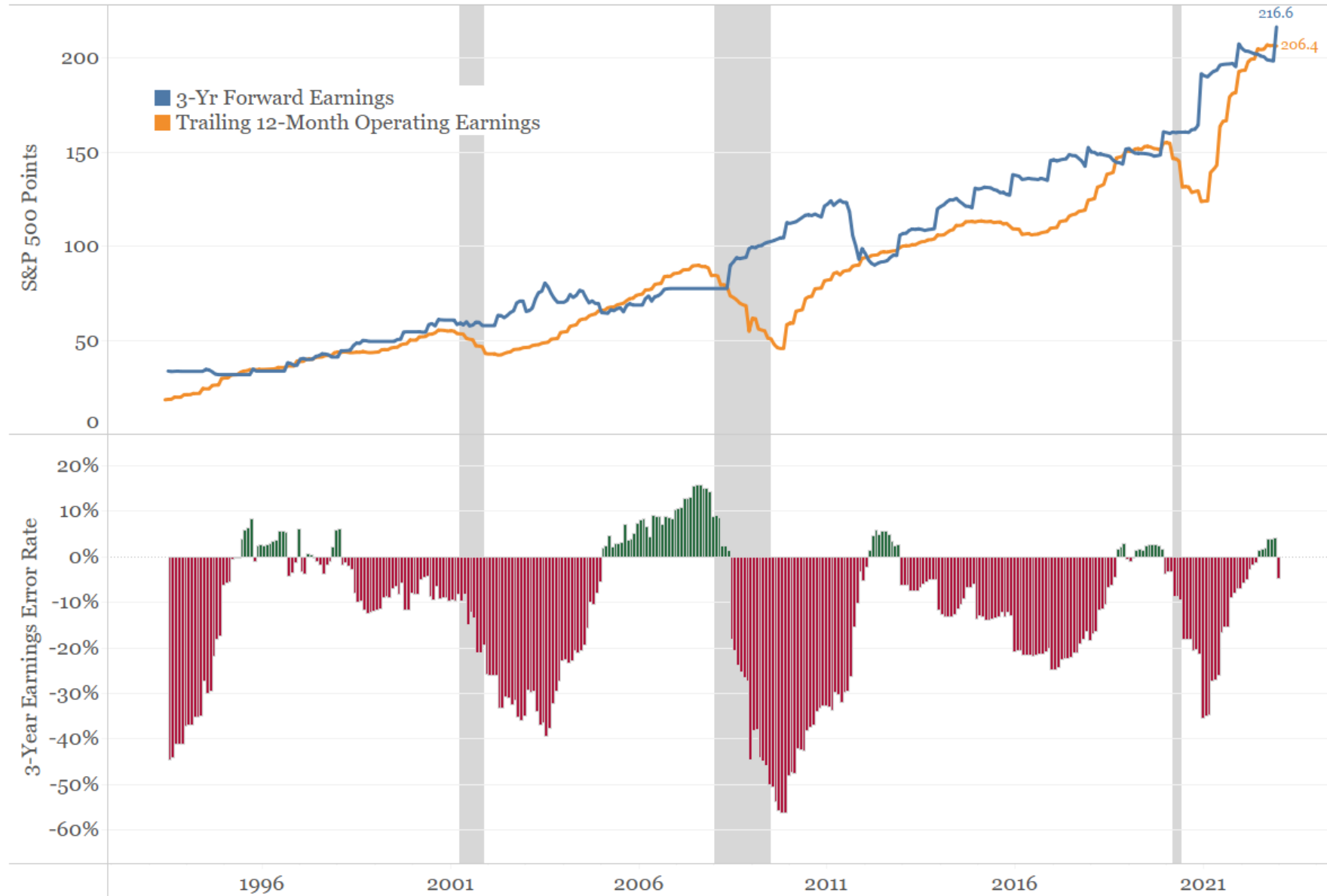
Source: Bloomberg

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## S&P 500 3 Yr Forward PE Ratio



### 3-Year Forward Earnings Error Rate



Source: Bloomberg

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**Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, December 2022**

Percent

| Variable                                | Median <sup>1</sup> |      |      |      |            | Central Tendency <sup>2</sup> |         |         |         |            | Range <sup>3</sup> |          |         |         |            |
|---|---------------------|------|------|------|------------|-------------------------------|---------|---------|---------|------------|--------------------|----------|---------|---------|------------|
|   | 2022                | 2023 | 2024 | 2025 | Longer run | 2022                          | 2023    | 2024    | 2025    | Longer run | 2022               | 2023     | 2024    | 2025    | Longer run |
| Change in real GDP                      | 0.5                 | 0.5  | 1.6  | 1.8  | 1.8        | 0.4–0.5                       | 0.4–1.0 | 1.3–2.0 | 1.6–2.0 | 1.7–2.0    | 0.2–0.5            | –0.5–1.0 | 0.5–2.4 | 1.4–2.3 | 1.6–2.5    |
| September projection                    | 0.2                 | 1.2  | 1.7  | 1.8  | 1.8        | 0.1–0.3                       | 0.5–1.5 | 1.4–2.0 | 1.6–2.0 | 1.7–2.0    | 0.0–0.5            | –0.3–1.9 | 1.0–2.6 | 1.4–2.4 | 1.6–2.2    |
| Unemployment rate                       | 3.7                 | 4.6  | 4.6  | 4.5  | 4.0        | 3.7                           | 4.4–4.7 | 4.3–4.8 | 4.0–4.7 | 3.8–4.3    | 3.7–3.9            | 4.0–5.3  | 4.0–5.0 | 3.8–4.8 | 3.5–4.8    |
| September projection                    | 3.8                 | 4.4  | 4.4  | 4.3  | 4.0        | 3.8–3.9                       | 4.1–4.5 | 4.0–4.6 | 4.0–4.5 | 3.8–4.3    | 3.7–4.0            | 3.7–5.0  | 3.7–4.7 | 3.7–4.6 | 3.5–4.5    |
| PCE inflation                           | 5.6                 | 3.1  | 2.5  | 2.1  | 2.0        | 5.6–5.8                       | 2.9–3.5 | 2.3–2.7 | 2.0–2.2 | 2.0        | 5.5–5.9            | 2.6–4.1  | 2.2–3.5 | 2.0–3.0 | 2.0        |
| September projection                    | 5.4                 | 2.8  | 2.3  | 2.0  | 2.0        | 5.3–5.7                       | 2.6–3.5 | 2.1–2.6 | 2.0–2.2 | 2.0        | 5.0–6.2            | 2.4–4.1  | 2.0–3.0 | 2.0–2.5 | 2.0        |
| Core PCE inflation <sup>4</sup>         | 4.8                 | 3.5  | 2.5  | 2.1  |            | 4.7–4.8                       | 3.2–3.7 | 2.3–2.7 | 2.0–2.2 |            | 4.6–5.0            | 3.0–3.8  | 2.2–3.0 | 2.0–3.0 |            |
| September projection                    | 4.5                 | 3.1  | 2.3  | 2.1  |            | 4.4–4.6                       | 3.0–3.4 | 2.2–2.5 | 2.0–2.2 |            | 4.3–4.8            | 2.8–3.5  | 2.0–2.8 | 2.0–2.5 |            |
| Memo: Projected appropriate policy path |                     |      |      |      |            |                               |         |         |         |            |                    |          |         |         |            |
| Federal funds rate                      | 4.4                 | 5.1  | 4.1  | 3.1  | 2.5        | 4.4                           | 5.1–5.4 | 3.9–4.9 | 2.6–3.9 | 2.3–2.5    | 4.4                | 4.9–5.6  | 3.1–5.6 | 2.4–5.6 | 2.3–3.3    |
| September projection                    | 4.4                 | 4.6  | 3.9  | 2.9  | 2.5        | 4.1–4.4                       | 4.4–4.9 | 3.4–4.4 | 2.4–3.4 | 2.3–2.5    | 3.9–4.6            | 3.9–4.9  | 2.6–4.6 | 2.4–4.6 | 2.3–3.0    |

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