ECONOTASTES

Weekly Digest | June 17 - 23, 2024

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NATIVE CAPITAL MANAGEMENT

PREVIOUS WEEK MAJOR CHANGES

	SP500	DJ	NASDAQ 100	WTI	US 10Y YIELD	DXY	GOLD
%	1.58	-0.54	3.47	3.93	-4.8	0.66	1
LAST	5,431	38,589	19,659	78.5	4.22	105.54	2,348

KEY EVENTS OF THE WEEK

Inflation Data in the United States: The general Consumer Price Index (CPI) remained unchanged in May. Current Y/Y reading 3.3% vs 3.4% expected, -0.1% change.

Federal Reserve's Interest Rates: The Federal Reserve kept interest rates steady in the 5.25% - 5.50% range for seventh meetings in a row, aligning with expectations.

KEY EVENTS FOR THE UPCOMING WEEK

Tuesday, June 18:
- U.S. Retail Sales.
- U.S. Industrial Production.

Thursday, June 20:
- U.S. Building Permits.
- U.S. Housing Starts.

THE RECESSION DICHOTOMY

MACROECONOMIC EXPECTATIONS VS. MARKET SENTIMENT

CURRENT CONTEXT

Over the past two years, there have been continuous announcements of an imminent recession in the United States, yet it has not materialized. To better understand this situation, it is essential to distinguish between two types of recessions: the technical and structural ones. A technical recession is defined as two consecutive quarters of negative economic growth, while structural, reported by the National Bureau of Economic Research (NBER), refers to a widespread decline in economic activity.

In the past two years, the United States has not experienced either a technical or structural recession. However, a recession cannot be ruled out from a macroeconomic standpoint, even though the stock market might suggest otherwise.

MACROECONOMIC PERSPECTIVE

For over 600 days short-term interest rates have remained above long-term rates, reflecting this way of a restrictive monetary policy by the Federal Reserve. The primary goal of this policy has been to control accelerating inflation. Historically, maintaining high rates for long periods of time tends to induce recessions as seen in 1929, 1973, and 2007.

The reason is as follows: the Federal Reserve lends to banks, which in turn lend to businesses and consumers. Under normal conditions, banks profit from the short-term and long-term rates spread. Nevertheless, when short-term rates exceed long-term rates for a long period of time, bank's profits are affected. This reduces the incentive for banks to offer loans readily, limiting access to economic resources for businesses and consumers, thereby cooling the economy and increasing the likelihood of a recession. For each day the Fed maintains

WHAT IS THE BIGGEST RISK FOR THE GLOBAL ECONOMY AND MARKETS IN 2024

Source : Goldman Sachs Investment Research

these high rates without cuts, the odds of a recession increases.

STOCK MARKET PERSPECTIVE

Post-pandemic, the Federal Reserve's rate hikes initially raised concerns about a recession among market players. However, these concerns have significantly diminished. At the beginning of 2024, recession worries were minimal for the market and it remains as a secondary concern to present day.

Companies have also downplayed the importance of a recession in their quarterly financial reports, in contrast to the situation two years ago. Moreover, a more detailed sector analysis reveals that certain ones still consider recession a relevant risk, especially the financial sector. This makes a lot of sense given the straight impact that interest rates have on their operations, as mentioned above.

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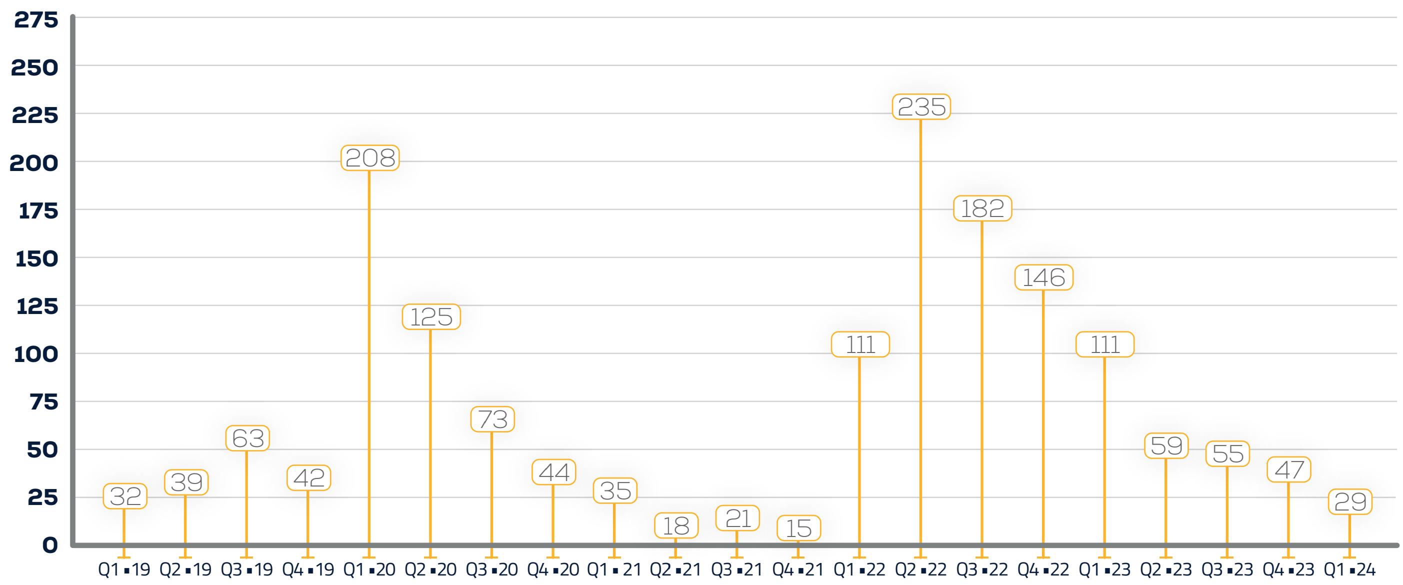
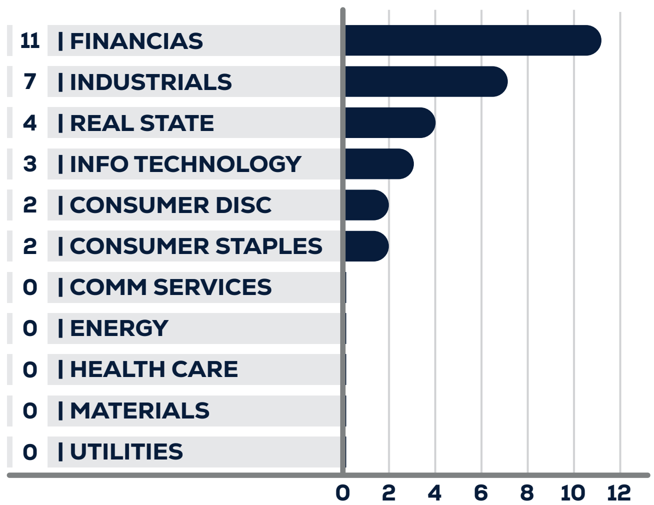
THE FREQUENCY OF OCCURRENCES OF THE TERM 'RECESSION' ON EARNINGS CALLS



Source : FactSet

THE FREQUENCY OF OCCURRENCES OF THE TERM 'RECESSION' ON EARNINGS CALLS BY SECTORS



Source : FactSet

CONCLUSION

We are faced with two distinct perspectives regarding a recession. From a macroeconomic standpoint the need to prepare for a recession is being signaled. However, from the market's perspective it seems like "this time is different."

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