

Soft Landing, Hard Landing or Something Else?

Joseph A. LaVorgna
Chief US Economist
SMBC Nikko

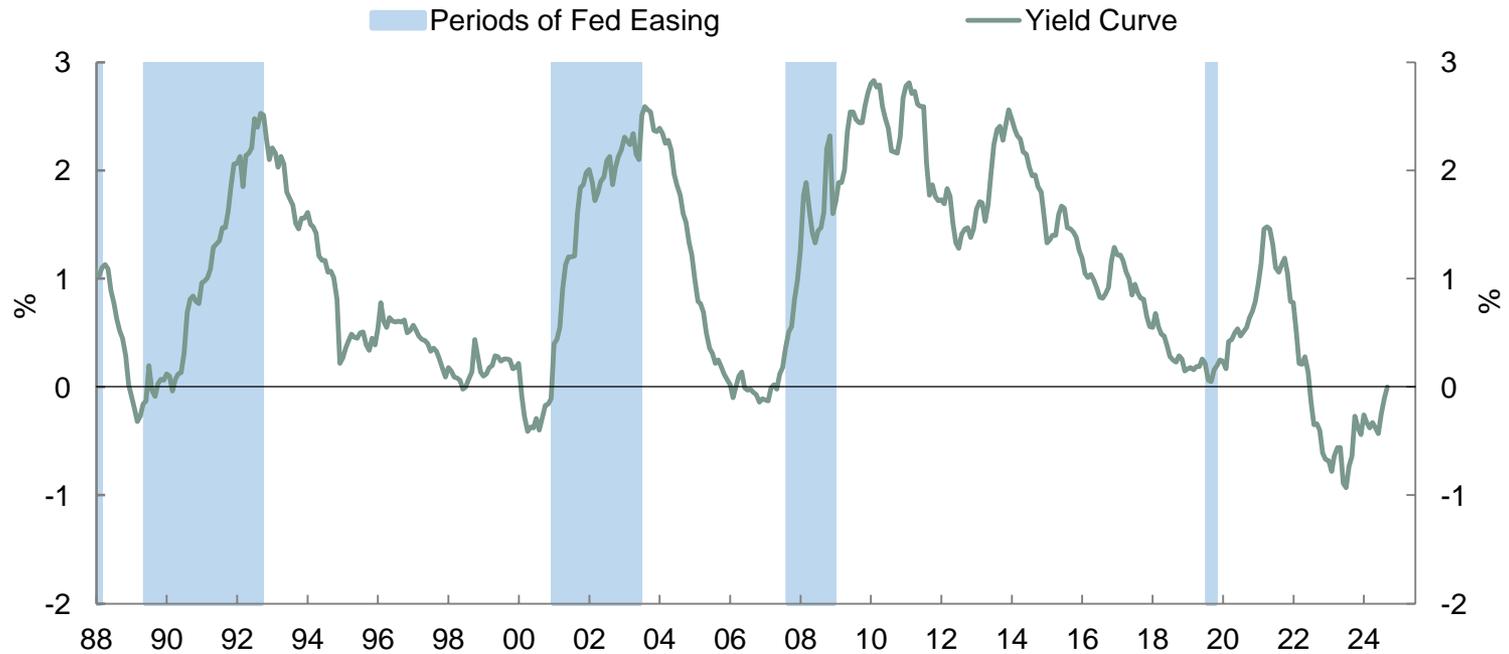
(212)-893-1528
Joseph.Lavorgna@smbcnikko-si.com
September 2024

Executive Summary

- Treasury yield curve is flashing recession risk
- The yield curve is going to steepen significantly
- Unemployment continues to rise as employment slows
- Construction job losses could push unemployment rate sharply higher
- Initial jobless claims have lost their predictiveness for now
- Measuring the stance of monetary policy has become extremely difficult
- Rates are high but financial conditions are easy because of rising stocks
- The Fed is ultimately going to have to take rates below R^* to avoid a recession

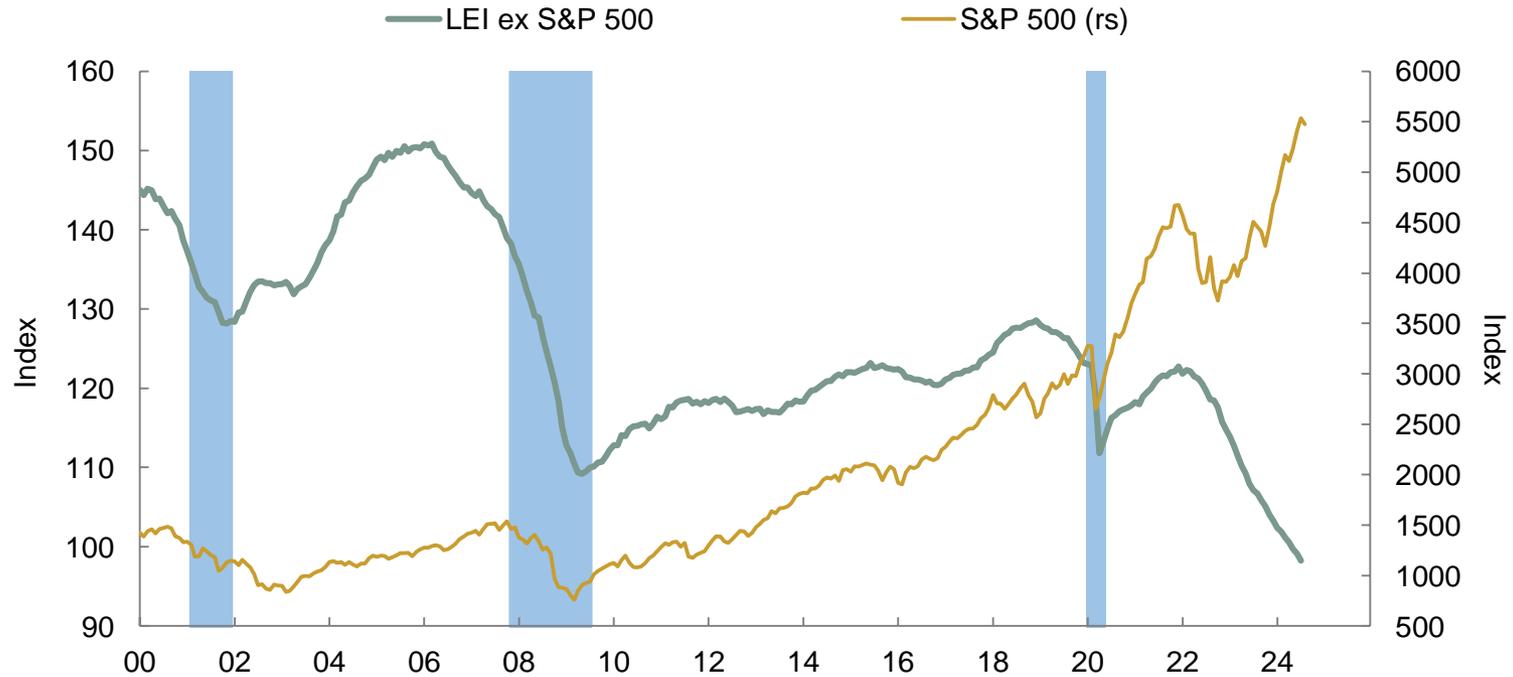
Trouble Ahead

An un-inverting curve foretells of imminent recession



Wither Leading Indicators?

Except for stocks, leading economic indicators are almost universally flashing warning signs



Timing The Peak

Sometimes stocks do not provide much lead time

S&P 500	Peak in... Economy	Lead Time (Months)
January 1953	January 1953	0
July 1957 *	August 1957	1
July 1959	April 1960	9
December 1968	December 1969	12
January 1973	November 1973	10
February 1980	January 1980	-1
November 1980	July 1981	8
July 1990	July 1990	0
August 2000	March 2001	7
October 2007	December 2007	2
February 2020	March 2020	1
	Average -->	4

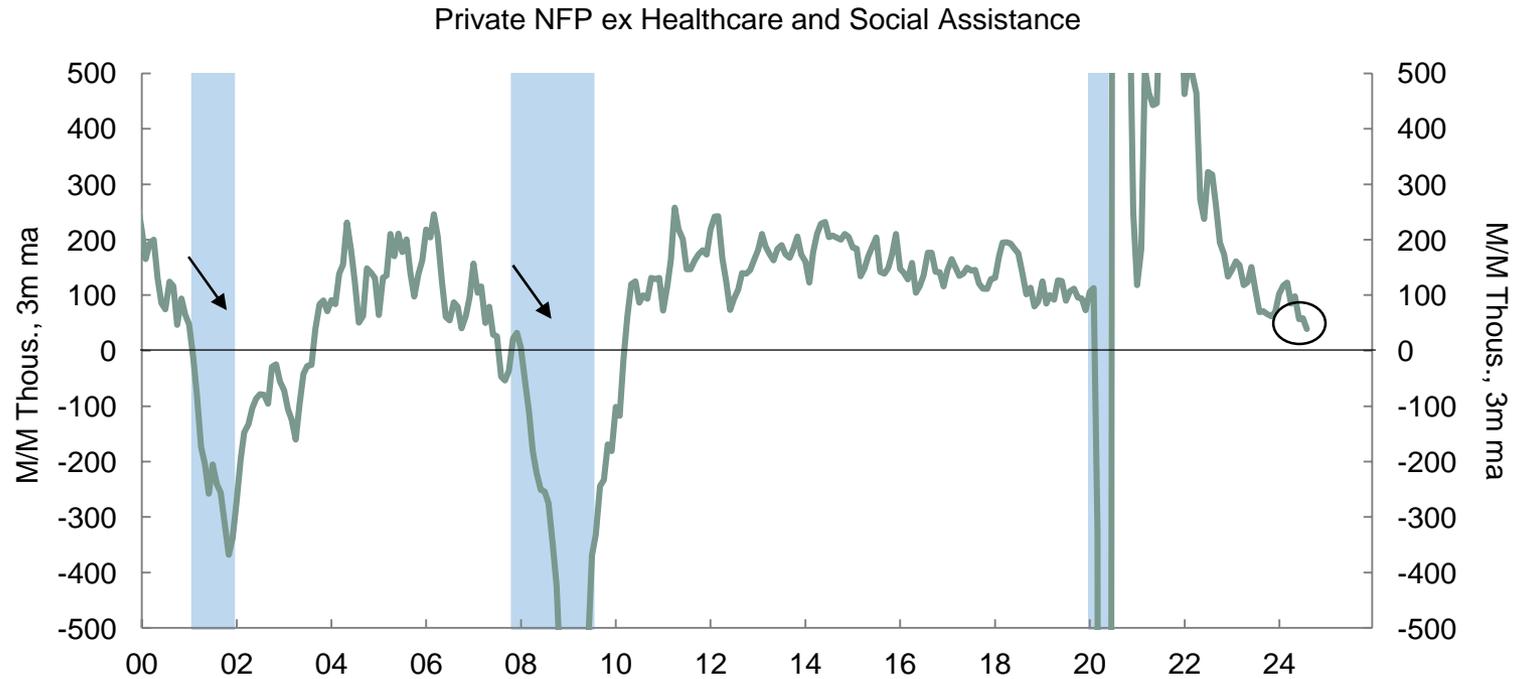
Looking For Work

Measured unemployment always rises before job losses



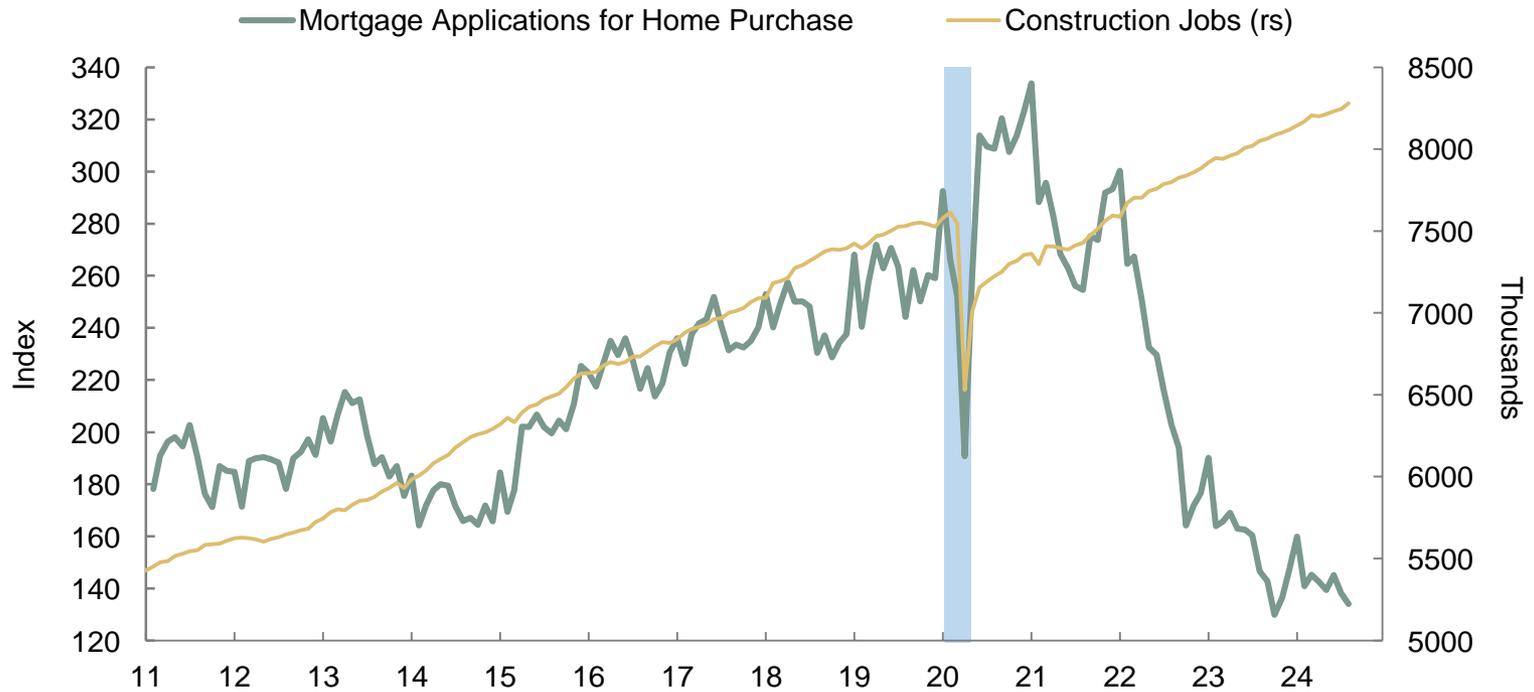
Rapidly Losing Momentum

A key gauge of private sector job growth continues to trend lower.



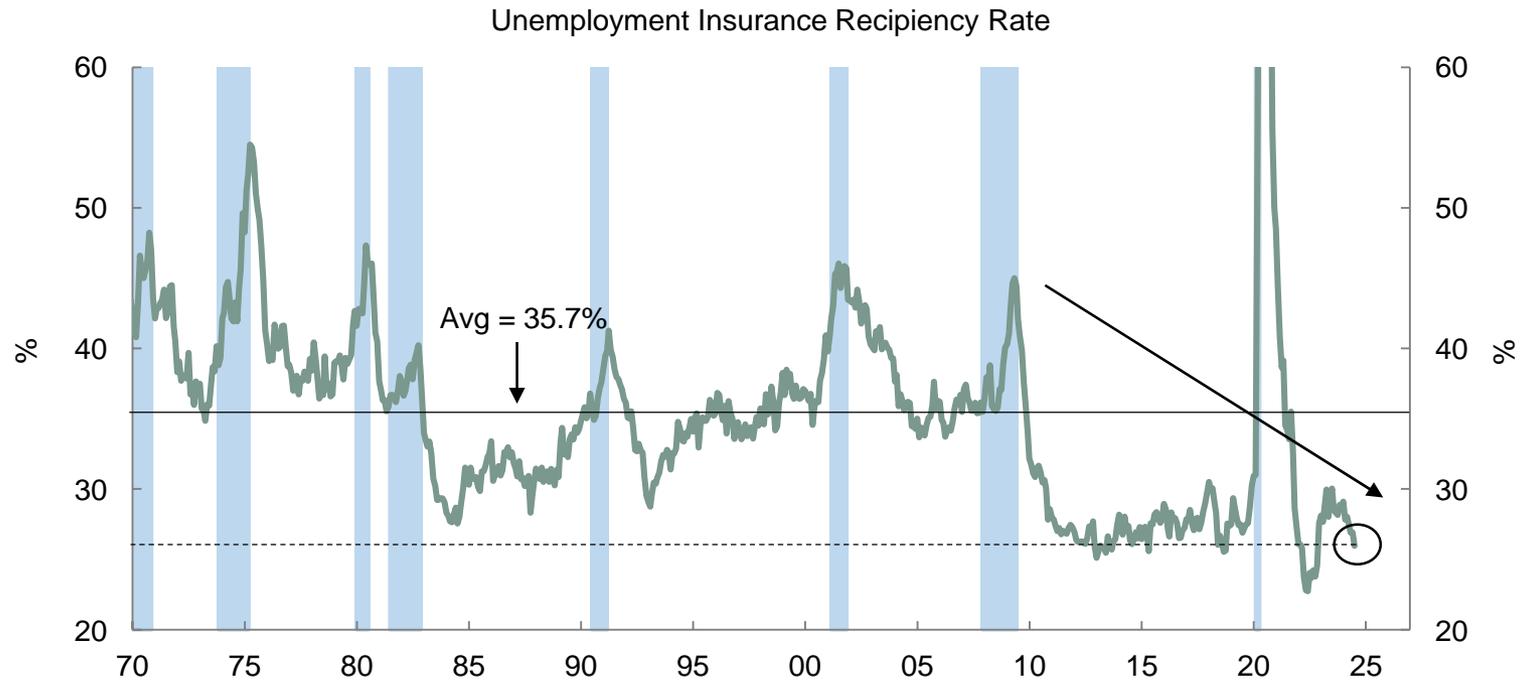
Boom To Bust?

Residential construction could be overstaffed by 1 million workers



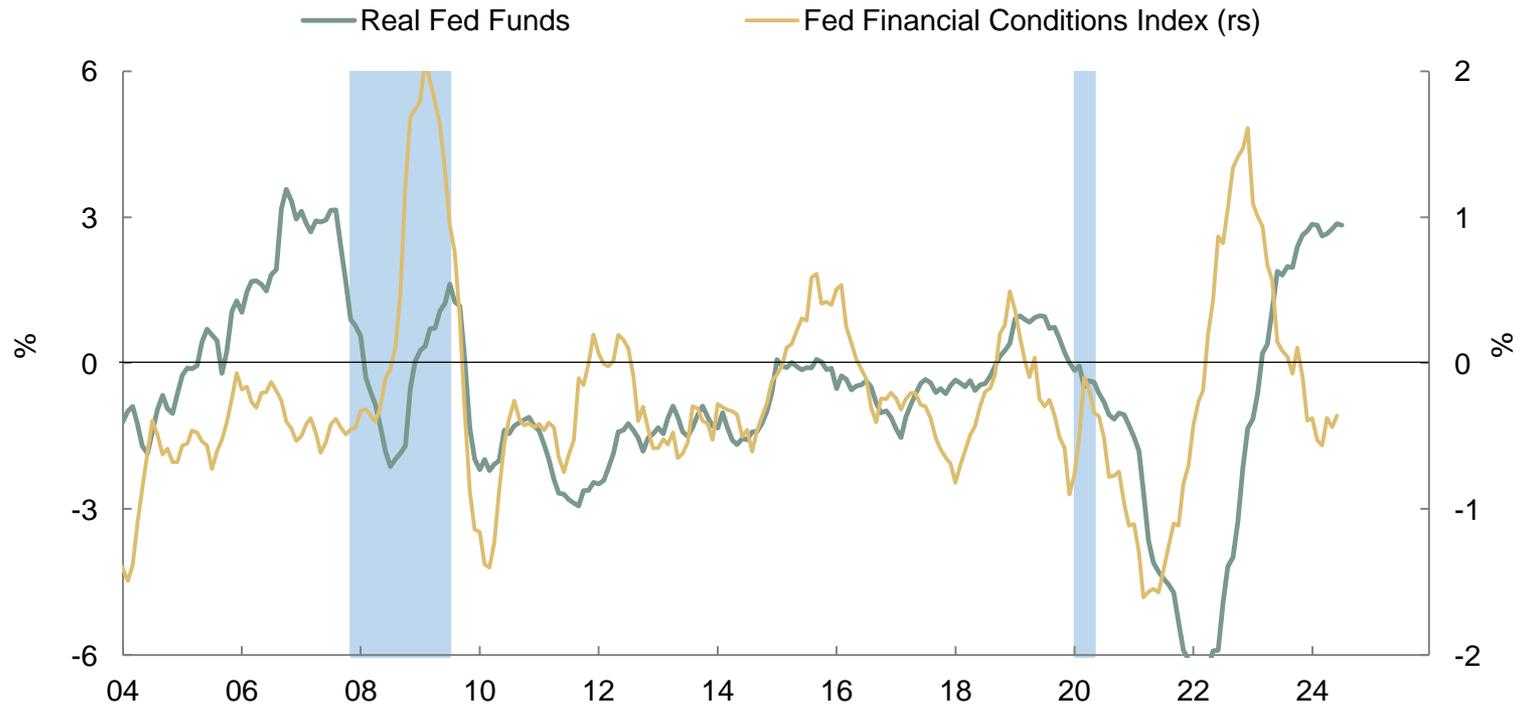
Low Unemployment Insurance Uptake

Claims are artificially low because fewer people are applying



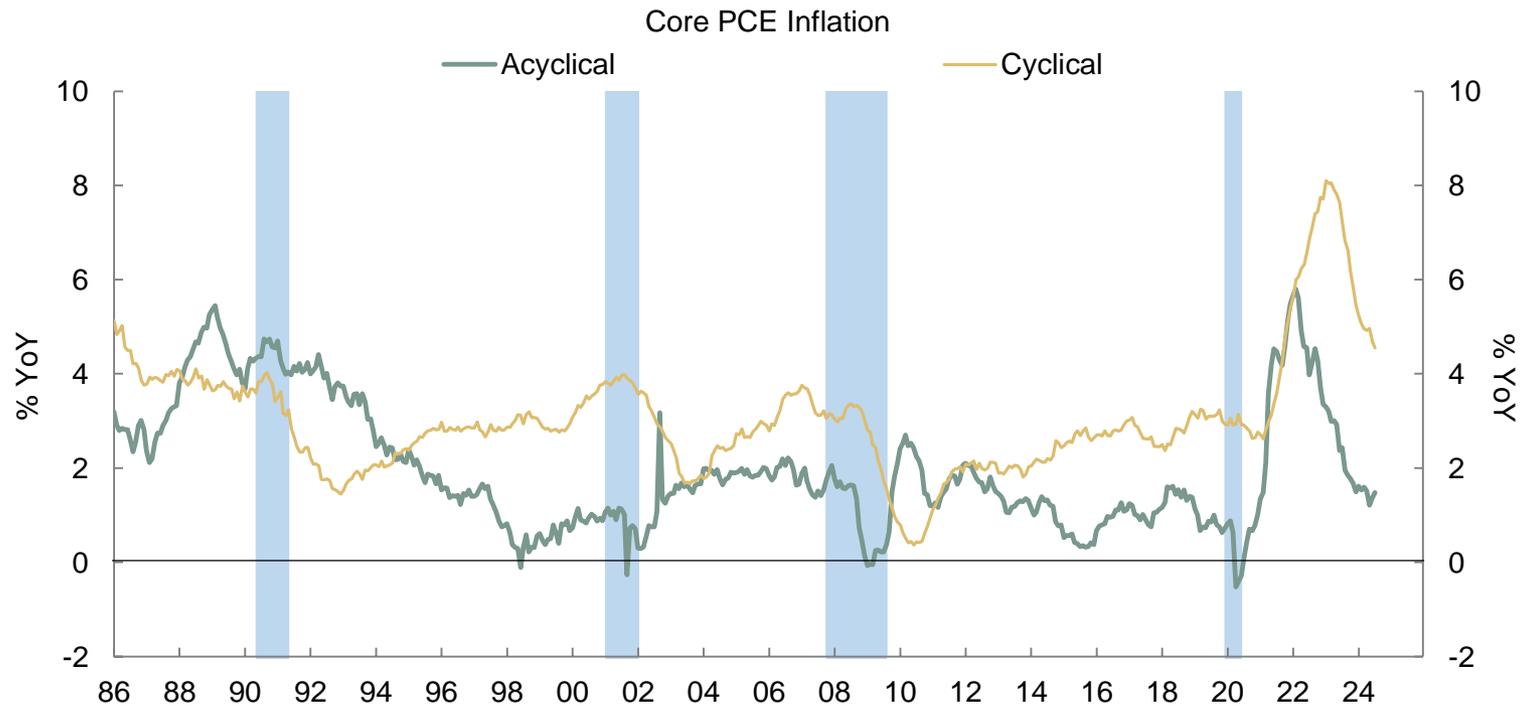
Is Policy Tight?

Real Rates are well above neutral, but the FCI remains loose



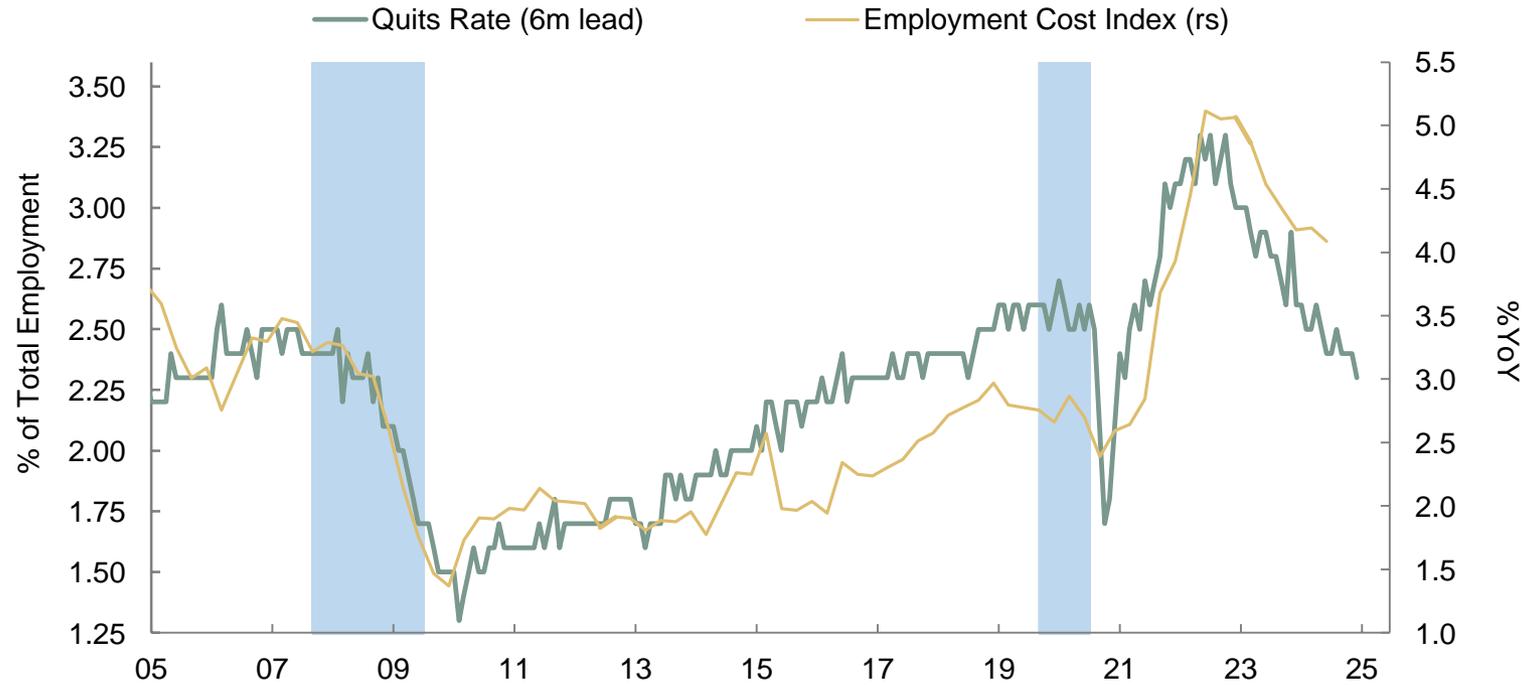
Cooling Inflation

Growth in cyclical prices is likely to slow if demand continues to weaken



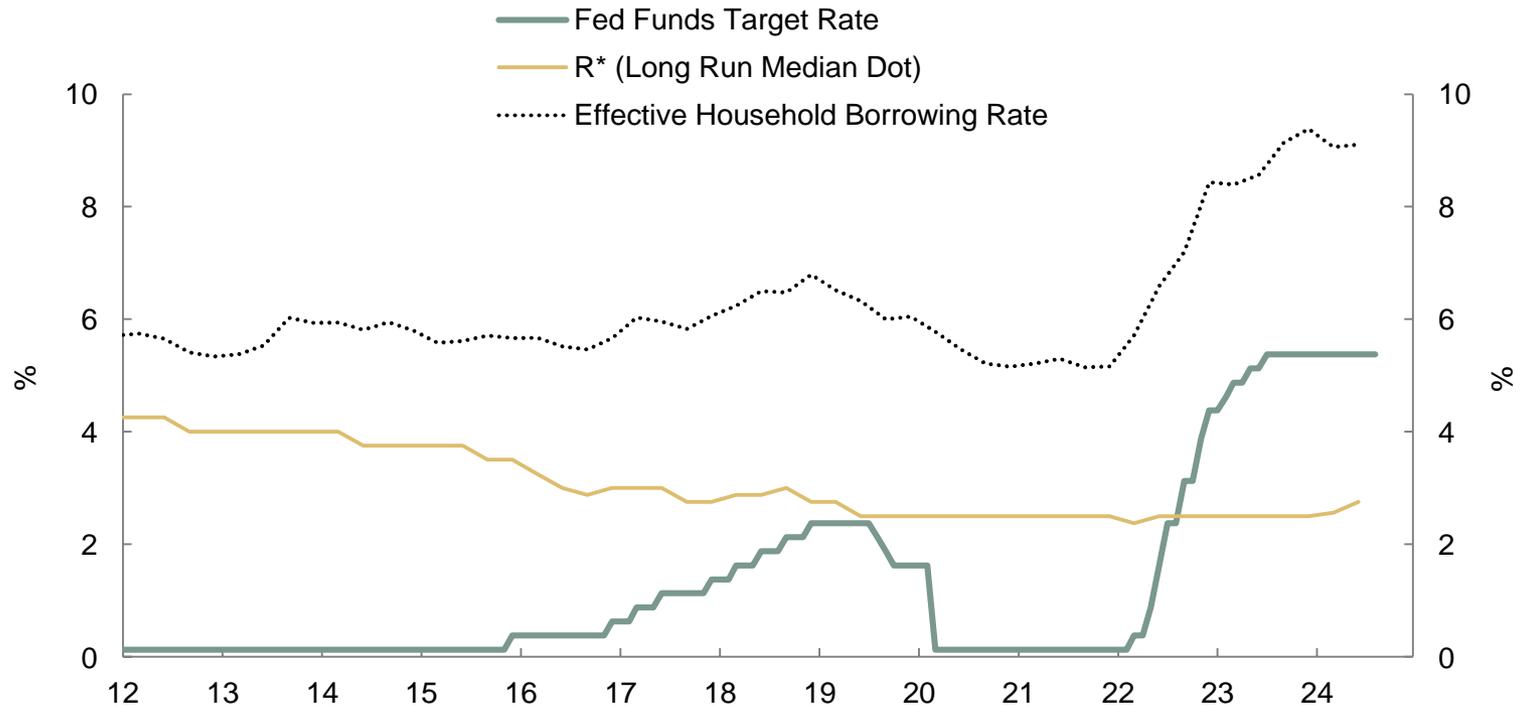
Workers Staying Put

Plunging quits point to much weaker wage costs



Far From Home

The Fed has room to cut significantly



A Wide Range Of Possibilities

Fed is going to cut a lot more than in previous soft landings

How Much does the Fed Cut in Easing Cycles?		
First Fed Rate Cut (Month)	Total Cuts (Bps)	Occurring over... (Months)
March 1960	280	17
December 1966	197	8
September 1969	547	18
October 1973	556	20
January 1980	479	7
February 1981	438	2
July 1981	1059	20
September 1984	563	24
November 1987*	81	4
June 1989	681	40
July 1995*	75	7
September 1998*	75	3
January 2001	550	30
September 2007	513	16
July 2019*	75	3
Average of soft landings >	77	4
Average ex. soft landings >	533	18

* Represents soft landings

Biography: Joseph A. LaVorgna



Joseph A. LaVorgna

Managing Director

Chief Economist

SMBC Nikko Securities America, Inc.

*277 Park Avenue
New York, NY 10017*

Office: +1-212-893-1528

joseph.lavorgna@smbcnikko-si.com

Joseph (Joe) LaVorgna is a Managing Director and Chief Economist for SMBC Nikko Securities America, Inc. Joe joined the firm in September 2022 and is based in New York. Joe has spent more than 25 years in the financial services industry.

He was previously the Chief Economist for the Americas at Natixis. While there, Joe took a one-year leave of absence to serve at the White House, where he was Special Assistant to the President, and Chief Economist of the National Economic Council.

Prior to Natixis, Joe spent 20 years with Deutsche Bank Securities in the Global Markets Division, where he was considered one of the leading Wall Street economists. His team was perennially ranked in the prestigious *Institutional Investor All-Star Fixed Income Survey*.

Joe is also a Senior Fellow at the America First Policy Institute, a Washington, D.C.-based think tank. He holds a Bachelor of Arts degree in economics from Vassar College and did graduate work at New York University.

Disclaimers

This document is provided by SMBC Group (including, collectively or individually, Sumitomo Mitsui Banking Corporation, SMBC Nikko Securities America, Inc., and their affiliates, as applicable) for informational purposes only, solely for use by the client(s) or potential client(s) to whom such document is directly addressed and delivered. This document was prepared by SMBC Group's economist(s). The views, statements, assumptions, and forecasts expressed herein are those of the author(s) and do not reflect the judgment of any other person or of SMBC Group. It does not constitute an offer, or solicitation of the sale or purchase, of securities or other investments. The information contained herein is obtained or derived from sources believed to be reliable, but SMBC Group and the author(s) make no representations as to its accuracy or completeness. In some cases, such information may be incomplete or summarized. This document has been prepared based on assumptions and parameters determined by the economist(s) in good faith. The assumptions and parameters used are not the only ones that could have been selected, and therefore no guarantee is given as to the accuracy, completeness, or reasonableness of any such quotations, disclosures, or analyses. Past performance is not a reliable indicator of any future results.

This document has been prepared for and is directed at institutional investors and other market professionals, and is not intended for use by retail customers. It does not take into account any specific investment objective, financial situation, or particular need of any recipient. The information contained herein should, for whatever purpose, be used solely at the discretion and responsibility of the recipient. SMBC Group does not accept any liability or responsibility for any results in connection with the use of such information. Recipients are responsible for making final investment decisions and should do so at their own discretion following their own independent analysis and assessment of the merits of any transaction prior to execution, after conducting a careful examination of all documentation delivered, explanatory documents pertaining to listed securities, prospectuses, and other relevant documents. The financial instruments discussed may be speculative and may involve risks to principal and interest.

Conflicts of Interest Disclosures

The views, statements, assumptions and forecasts expressed herein may differ from those expressed in globally branded research produced by SMBC Group. The trading desks of SMBC Group trade or may trade as principal in the financial instruments that are the subject of this material, and the author(s) of this document may have consulted with the trading desks while preparing this document. The proprietary interests of SMBC Group may conflict with those of the recipient. SMBC Group may seek to do business with the companies mentioned in this material and the trading desks may accumulate, be in the process of accumulating or have accumulated, long or short positions in the financial instruments mentioned and may have acquired them at prices no longer available. The trading desks may also have or take positions inconsistent with the views expressed in this document or may have already traded on those views.

This material is not a research report, and neither this material nor its author(s) is subject to policies and procedures that apply to the globally branded research reports and research analysts of SMBC Group or to legal requirements designed to promote the independence of investment research. It is not subject to any prohibition on dealing ahead of the dissemination of investment research. This means that on the date of this document, SMBC Group, and its directors, representatives, or employees, may have a long or short position in any of the instruments mentioned in this document and may make a market or trade in instruments economically related to the securities, derivatives or other underlying assets mentioned herein, in each case either as principal or as agent.

No part of the author(s) compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed herein. The personal views of authors may differ from one another.

This document is the property of SMBC Group, subject to copyright. Any reproduction of this document, in whole or in part, is prohibited, and you may not release this document to any person (except your advisors and professionals to assist you in evaluating the document, provided that they are obligated, by law or agreement, to keep the document confidential). Distribution, possession, or delivery of this document in, to, or from certain jurisdictions may be restricted or prohibited by law. Recipients of this document are required to inform themselves of and comply with all such restrictions or prohibitions.

© 2024 SMBC Group. All rights reserved.