



# ECONOMIC OUTLOOK

## 2024 AND BEYOND



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# Capital Region Chamber

## November 29, 2023

# The Questions for 2024 and 2025

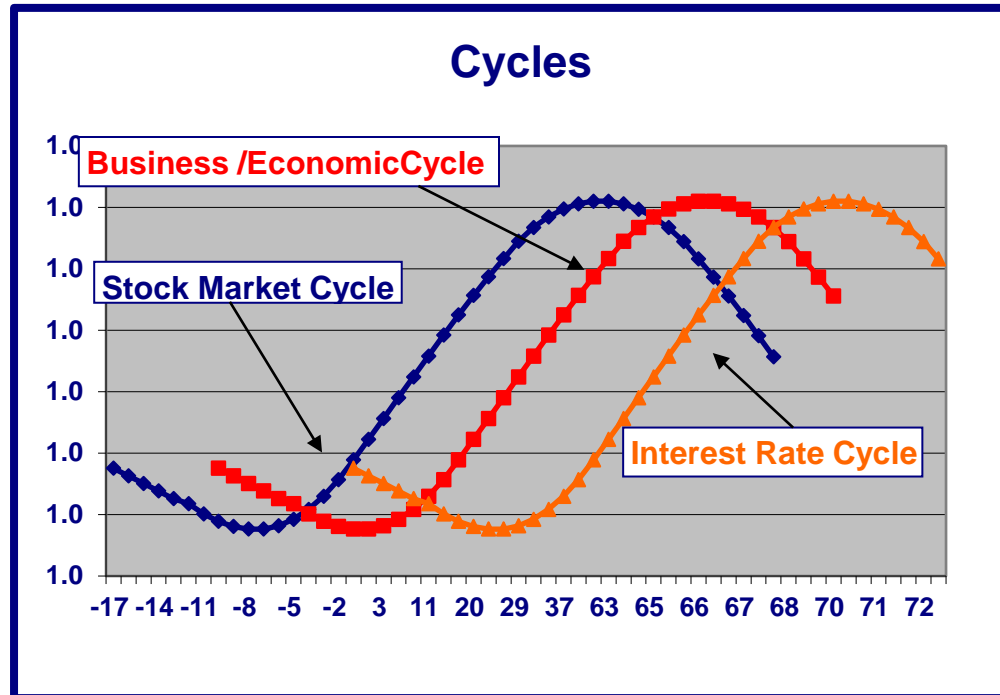
- **Hard landing or soft landing?**
- **Inflation?**
- **Short term interest rates? Will Fed increase or reduce?**
- **When?**
- **Longer-term interest rates. Up or down?**
- **Stock prices? Up or down?**
- **The economy of New York State and the Albany.**

# What will be the outcome? HJ Economics Methodology

- **Trends of the Financial Markets.**
- **Trends of Important Monetary and Economic Variables.**

**(To Determine if the Performance of the Financial Market Variables is Rational).**

# The Anatomy of a Cycle



Source: Hugh Johnson Advisors (HJA)

# From Rational to Irrational

- **Investment**
- **Speculation**
- **Financial Distress**
- **Revulsion**

# From Rational to Irrational

**“The circumstances that induce recurrent lapses into financial dementia have not changed in any truly operative fashion since the Tulip Mania of 1636-1637.”**

**Johns Kenneth Galbraith**

# The Defining Characteristics of “The Emotional Extreme” at the Top

**Overvaluation**

**Optimism. Exuberance. Euphoria.**

**Leverage**

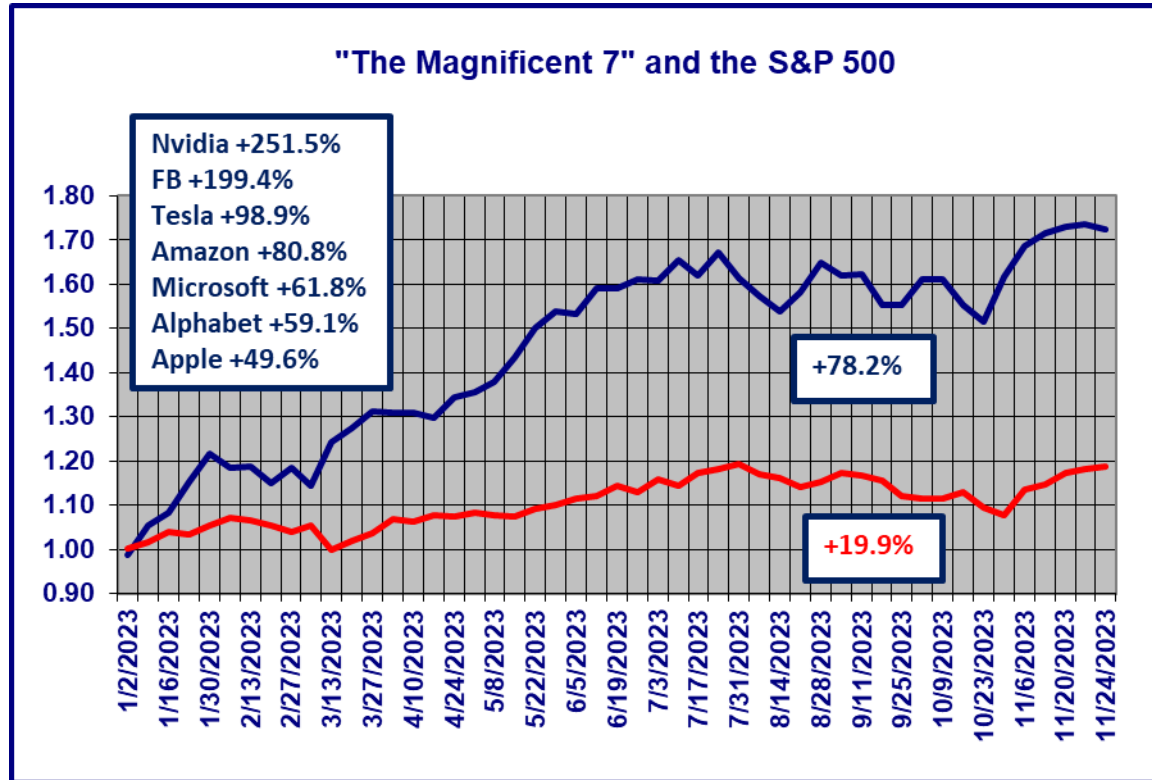
# From Rational to Irrational: Classic Financial Mania

The high-speed [implosion of ftx](#) (Sam Bankman Fried) has dealt a catastrophic blow to an industry with a history of failure and scandals. Never before has crypto looked so criminal, wasteful and useless.

The Economist  
November 18, 2022

“The urge to swindle and the urge to be swindled run parallel to the urge to speculate.”

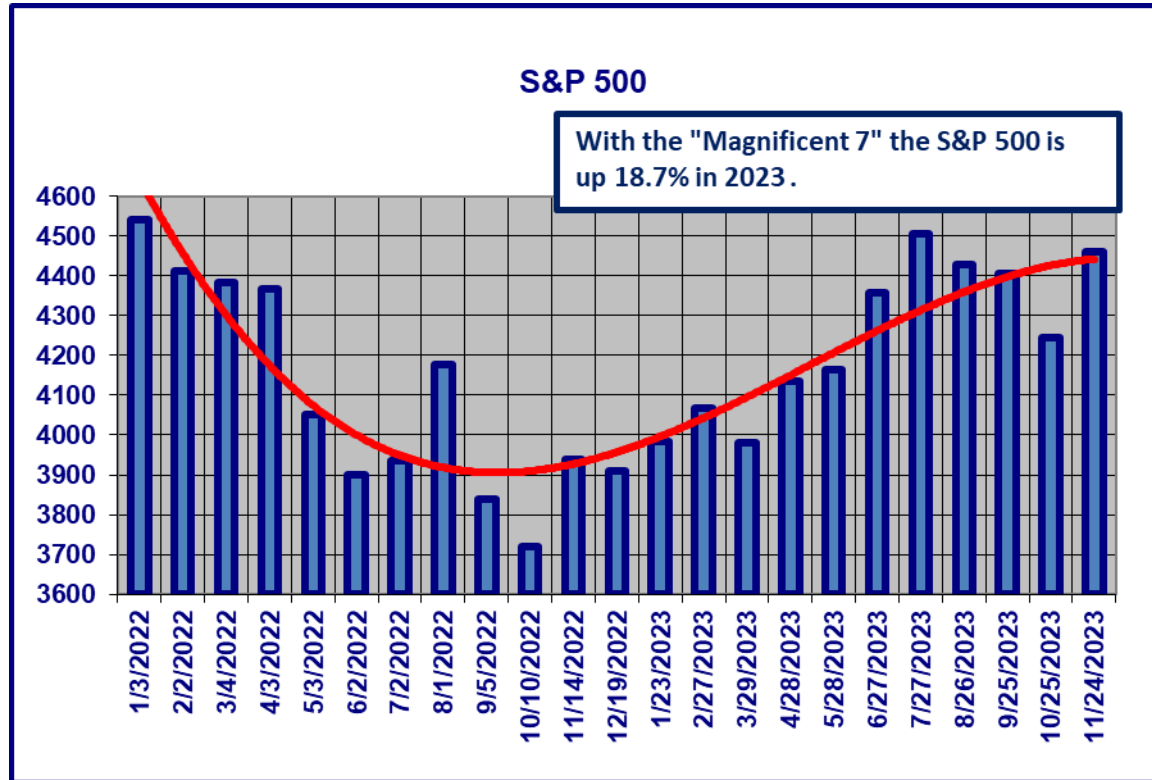
# Rational or Irrational?



Source: Bloomberg News; Hugh Johnson Economics

# Financial Market Trends

# 2023: S&P 500 +18.7%

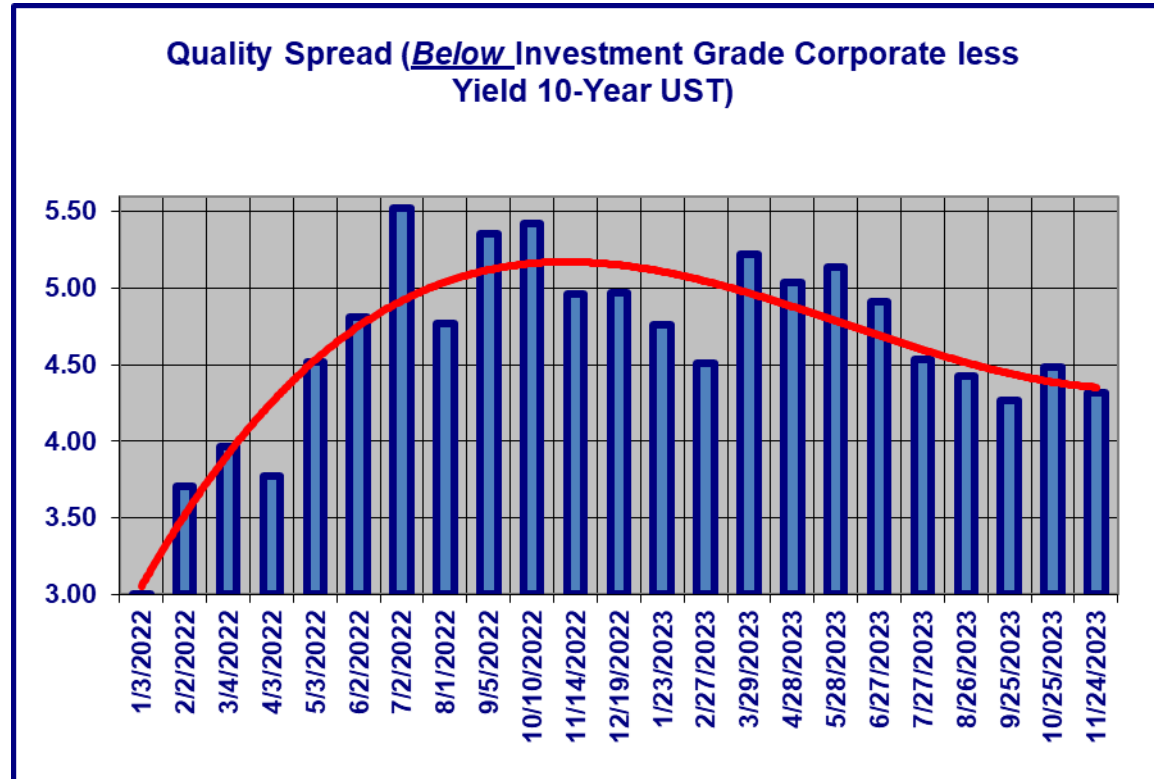


Source: Bloomberg News; Hugh Johnson Economics

# 2023: Bull Market Sectors Outperform Bear Market Sectors

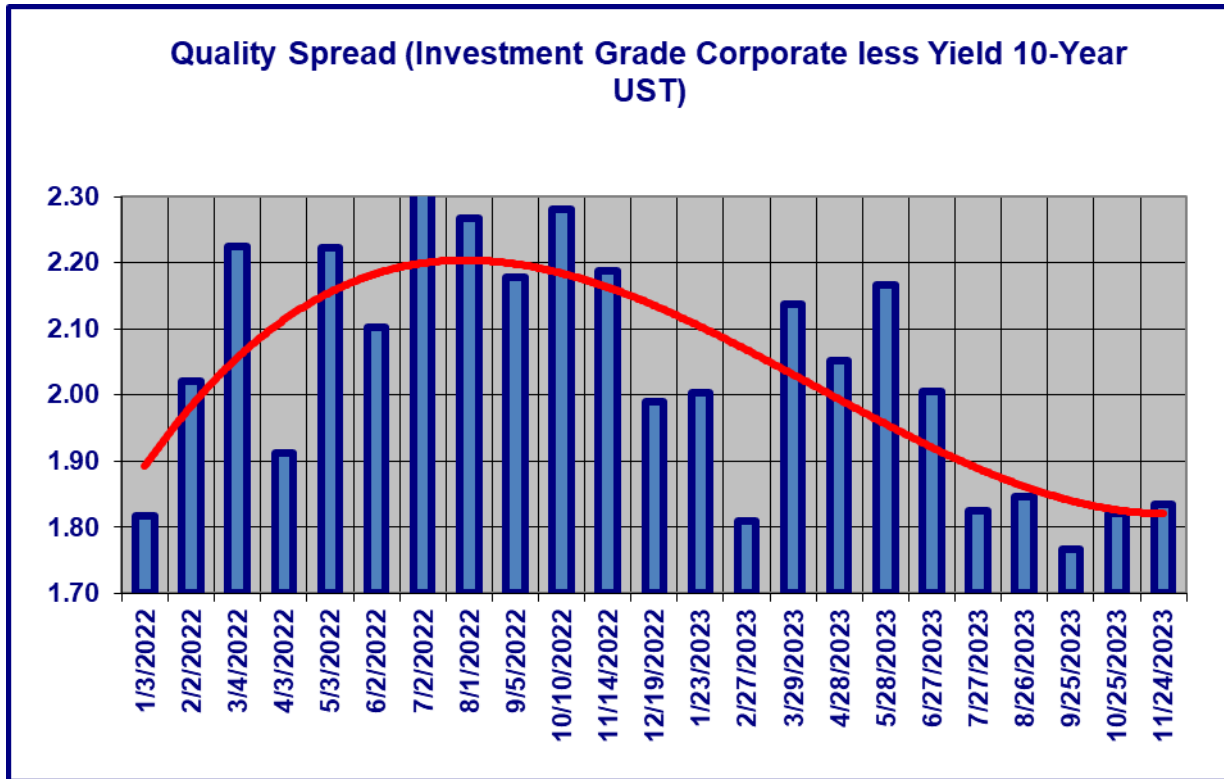
12/30-11/24	%
Technology	50.4%
Consumer Discretionary	32.7%
S&P 500	18.7%
Industrial	8.0%
Healthcare	-3.8%
Consumer Staples	-4.6%
Utilities	-11.7%
Source: Bloomberg News; Bear Sectors in Red	

# Below Investment Grade Quality (“Junk”) Spreads Narrowing



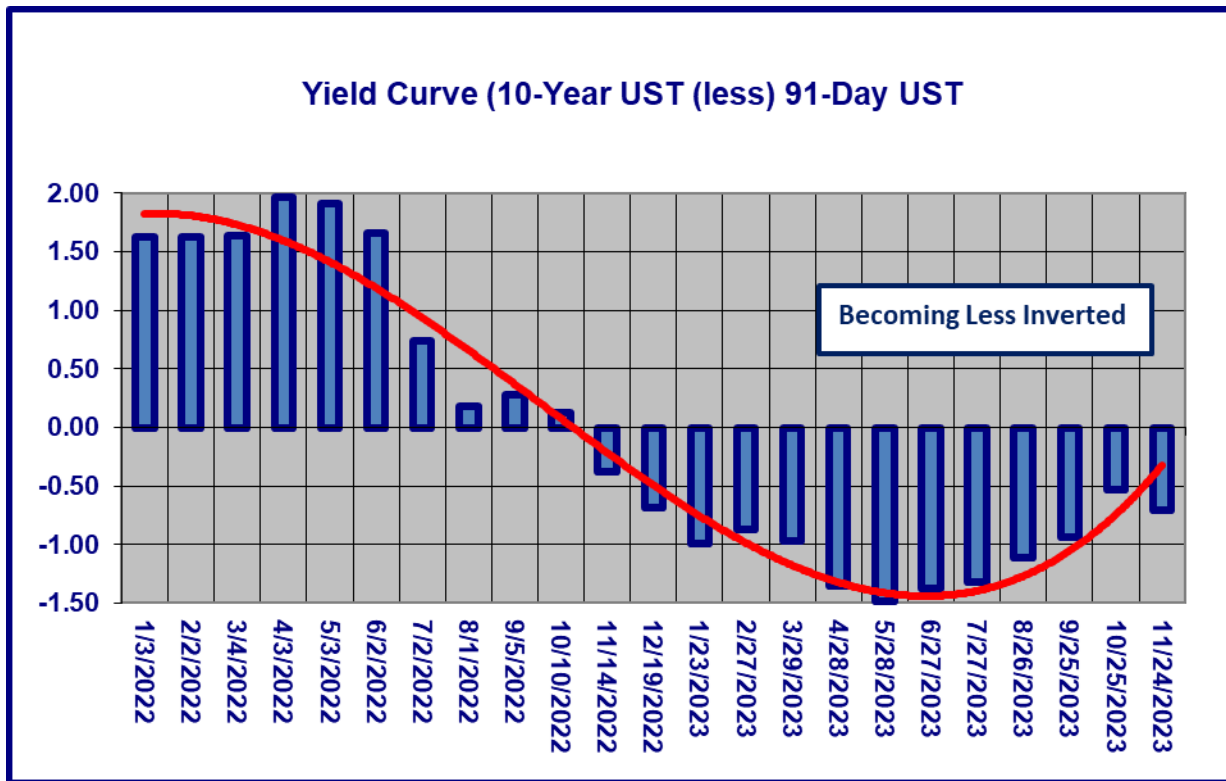
Source: Bloomberg News; Hugh Johnson Economics

# Investment Grade Quality Spreads Narrowing



Source: Bloomberg News; Hugh Johnson Economics

# The Yield Curve Remains Inverted



Since 1960 the yield curve has inverted 10 times. 9 have been accompanied by a hard landing or recession.

# The Probability of a Recession remains High, but has Declined

Month/Year	Probability of Recession
November-23	38.1%
December-23	47.3%
January-24	57.1%
February-24	54.5%
March-24	57.8%
April-24	68.2%
May-24	70.9%
June-24	67.3%
July-24	66.0%
August-24	60.8%
September-24	56.2%
October-24	46.1%

Source: Federal Reserve Bank of New York

**Since 1960 the yield curve has inverted 10 times. 8 have been accompanied by a hard landing or recession. The probability is declining.**

# But we have left something out! The October 27<sup>th</sup> shift to defense

July 27<sup>th</sup> to October 27<sup>th</sup>

<b>S&amp;P 500</b>	<b>-10.1%</b>
<b>S&amp;P 500 (Ex “Magnificent 7”)</b>	<b>-11.9%</b>
<b>Sector Performance</b>	<b>#1,#4, #5</b>
<b>Quality Spread (Below Investment Grade)</b>	<b>4.49% to 4.53%</b>
<b>Quality Spread (Investment Grade)</b>	<b>1.78% to 1.88%</b>

# Are the Financial Market Trends Rational?

# Excessive: But What Choice Did We Have?

## Monetary Policy

The Federal Reserve *increased* its holdings of financial assets by \$4.5 trillion. (2020-2021)

## Fiscal Policy

The Federal Government *increased* its spending by \$2.4 trillion. (2020-2021)

## Money Supply

M2 *increased* by \$6.2 trillion (2020-2021).

Consumer spending *increased* \$1.6 trillion (2020-2021).

Consumer Price Index increased 1.2% (2020), 4.7% (2021) and 8.0% (2022).

# Excessive: But What Choice Do We Have?

## Monetary Policy

The Federal Reserve *reduced* its holdings of financial assets by \$1.6 trillion. (2022-2023)

## Fiscal Policy

The Federal Government *reduced* spending by \$1.1 trillion. (2022-2023)

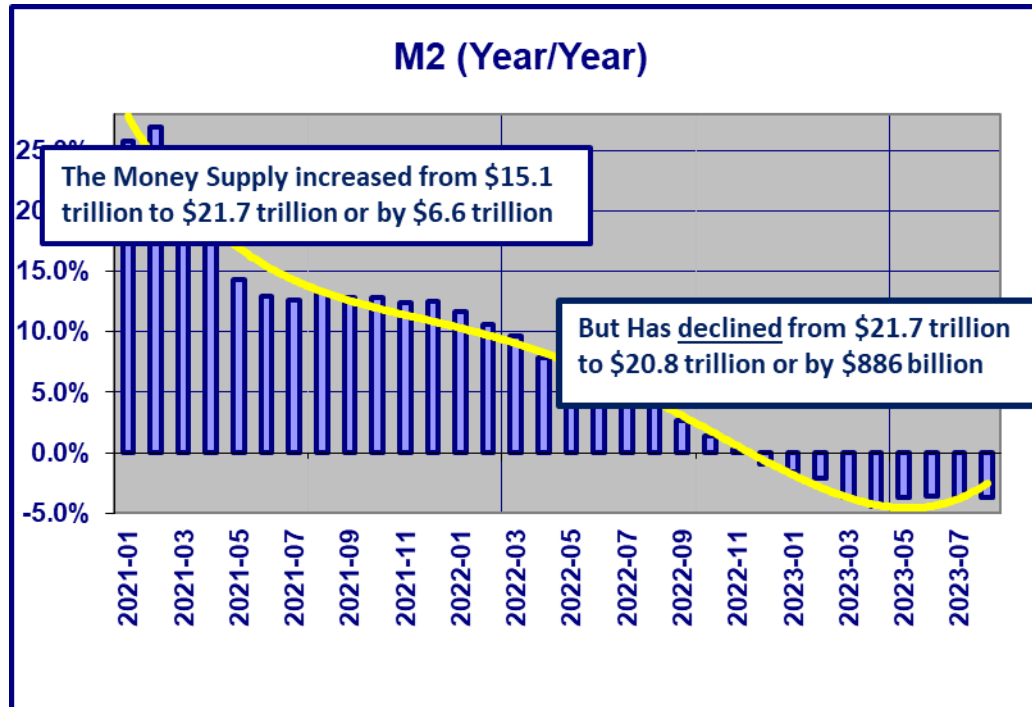
## Money Supply

M2 *declined* by \$947.4 billion. (2022-2023)

Consumer spending *increased* \$2.4 trillion (2022-2023).

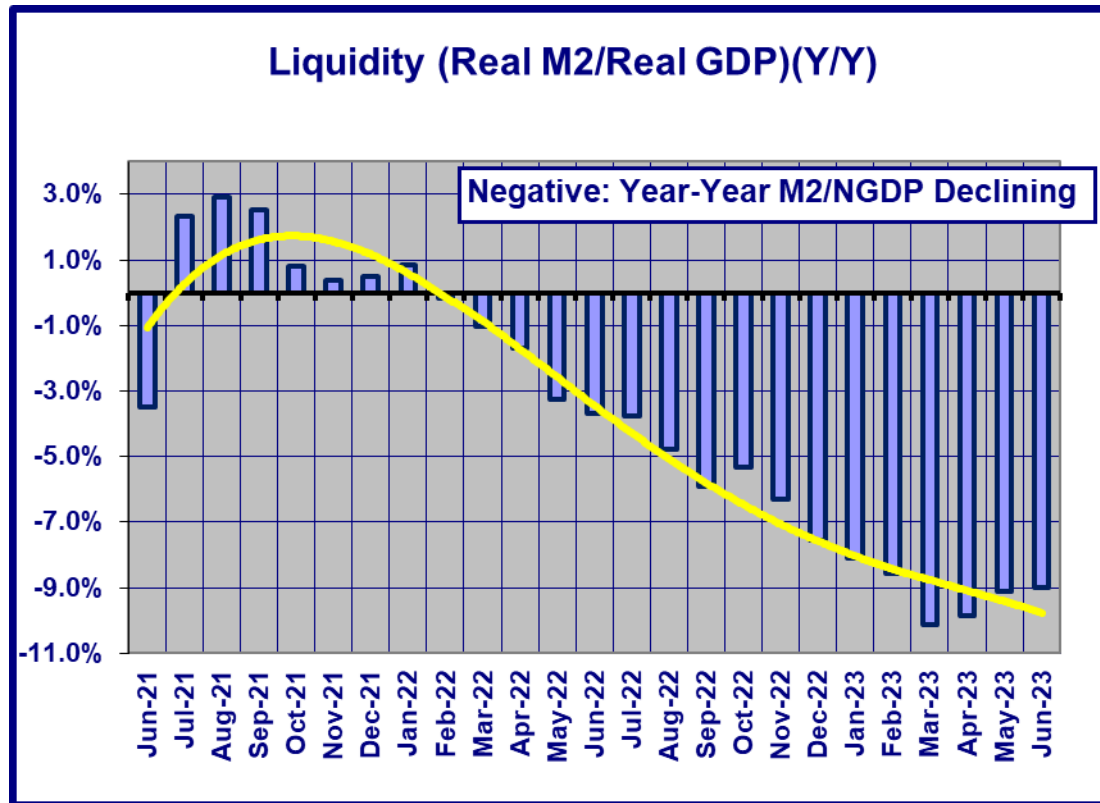
Consumer Price Index Increased +4.7% (2021), +8.0% (2022), and 4.3% (2023).

# Money Supply and Liquidity



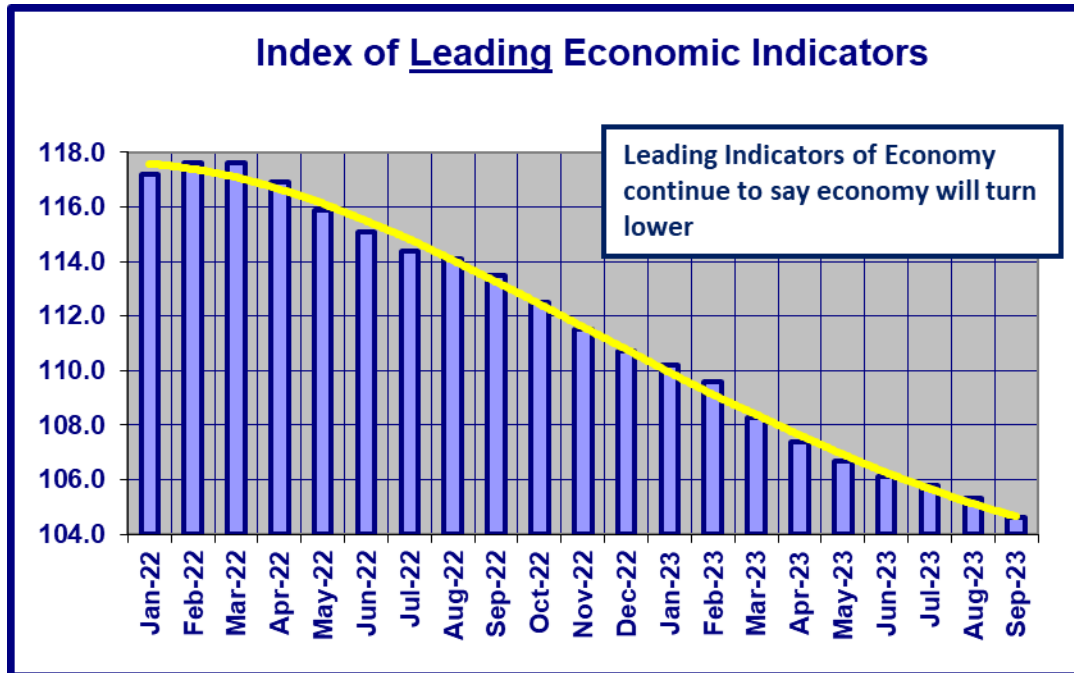
Source: Federal Reserve

# Money Supply and Liquidity



When liquidity conditions have been negative, the average annual return for the S&P 500 has been 1.5%. When positive, 16.6%.

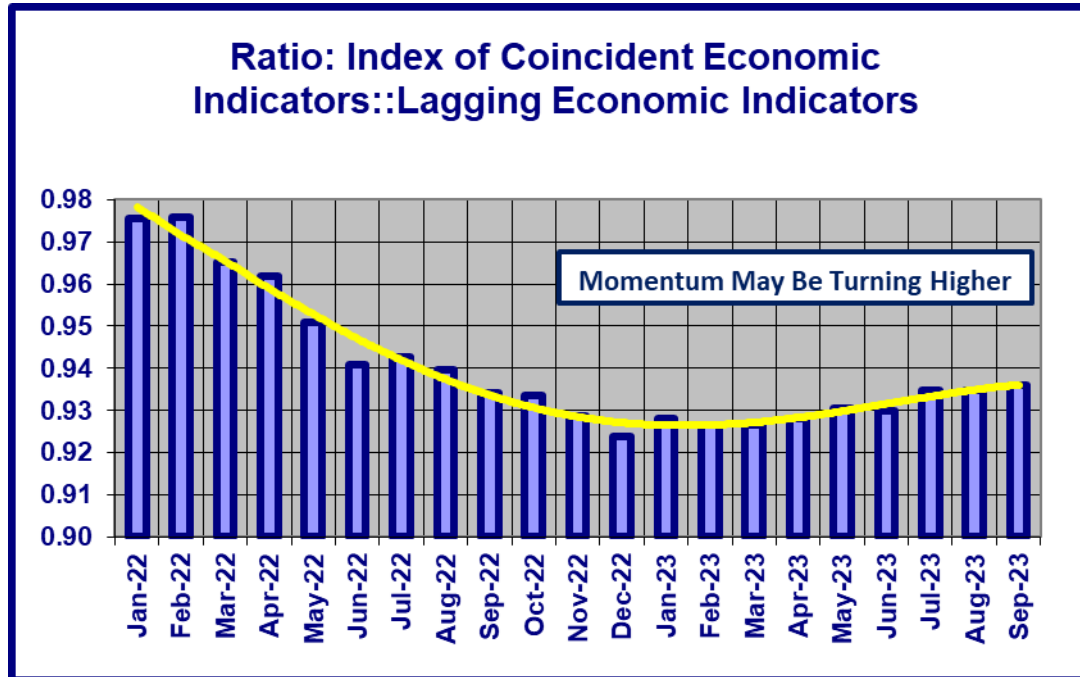
# Leading Economic Indicators: Declining



Source: Conference Board

**Leading Economic Indicators have declined for 18 successive months. The index has declined for 18 successive months two times since 1960. Both times have been accompanied by a recession.**

# Ratio of Coincident :: Lagging Economic Indicators *Turning*



Source: Conference Board

**Ratio has declined for 10 of last 12 months**

# Outlook for Economy and Inflation

# Real Gross Domestic Product

Quarter	Consensus-Real GDP	HJ Economics-Real GDP
2023-Q1	2.2%	2.2%
2023-Q2	2.1%	2.1%
2023-Q3	4.9%	4.9%
2023-Q4	0.9%	0.8%
2024-Q1	0.3%	0.4%
2024-Q2	0.3%	0.5%
2024-Q3	1.0%	1.2%
2024-Q4	1.5%	1.6%
2025-Q1	1.9%	1.9%
2025-Q2	NA	2.3%
2025-Q3	NA	2.3%
2025-Q4	NA	2.3%
2022	1.9%	1.9%
2023	2.4%	2.4%
2024	1.2%	1.3%
2025	NA	1.8%

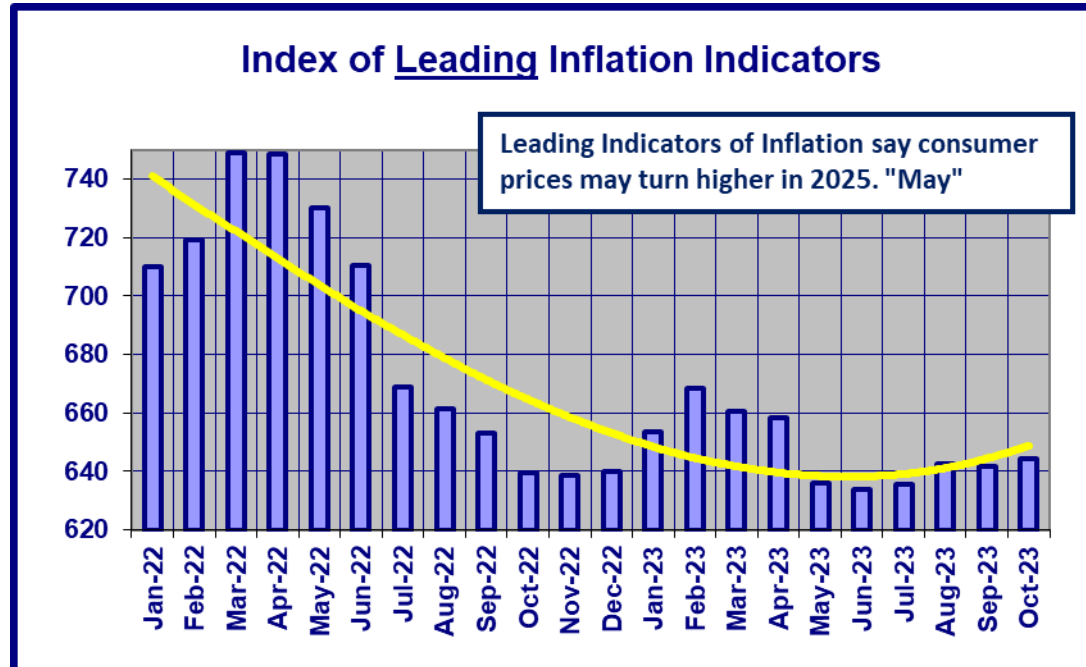
Source: Blue Chip Financial Forecasts; HJ Economics

# Population Puts Pressure On Productivity

Variable	1980-2019	2020-2023 (Q3)
Economy	2.7%	1.4%
Population	1.0%	0.3%
Participation Rate	65.3	62.0
Labor Force	1.1%	0.5%
Employment	1.3%	0.9%
Productivity	1.9%	1.4%
Source: Bureau of Labor Statistics		

Bureau of Economic Analysis, Census Bureau, Bureau of Labor Statistics

# Leading Inflation Indicators: Declining (May turn higher in 2025)



Source: HJA, Bureau of Labor Statistics; University of Michigan, Federal Reserve Bank of St. Louis, National Assoc of Purchasing Managers etc.

# Consumer Prices

Quarter	Consensus-CPI	HJ Economics CPI
2023-Q1	5.8%	5.8%
2023-Q2	4.0%	4.0%
2023-Q3	3.5%	3.5%
2023-Q4	3.4%	3.2%
2024-Q1	3.1%	2.6%
2024-Q2	2.9%	2.0%
2024-Q3	2.6%	1.5%
2024-Q4	2.4%	1.6%
2025-Q1	2.3%	1.9%
2025-Q2	NA	2.3%
2025-Q3	NA	2.9%
2025-Q4	NA	3.3%
2022	8.0%	8.0%
2023	4.2%	4.1%
2024	2.7%	1.9%
2025	2.2%	2.6%
Source: Bloomberg Economics; HJ Economics		

# Outlook for Financial Markets

# Federal Reserve Policy (federal funds rate: 5.375%)

Quarter	Consensus Fed Funds Rate	HJ Economics Fed Funds Rate
2023-Q1	4.875	4.875
2023-Q2	5.125	5.125
2023-Q3	5.375	5.375
2023-Q4	5.375	5.375
2024-Q1	5.375	5.375
2024-Q2	5.125	5.375
2024-Q3	4.875	5.125
2024-Q4	4.375	4.875
2025-Q1	4.000	4.625
2025-Q2	3.625	4.375
2025-Q3	3.375	4.125
2025-Q4	3.125	3.875
2022	2.594	2.594
2023	5.188	5.188
2024	4.938	5.188
2025	3.531	4.250
Source: Bloomberg Economics; HJ Economics		

# Longer-Term Interest Rates (10-Year UST: 4.43%)

Quarter	Consensus 10-Year	HJ Economics 10-Year
2023-Q1	3.47	3.47
2023-Q2	3.83	3.83
2023-Q3	3.80	4.58
2023-Q4	4.50	4.83
2024-Q1	4.33	4.83
2024-Q2	4.10	4.87
2024-Q3	3.90	4.63
2024-Q4	3.75	4.40
2025-Q1	3.63	4.09
2025-Q2	3.51	3.87
2025-Q3	3.50	3.68
2025-Q4	3.50	3.50
2022	3.31	3.31
2023	3.90	4.18
2024	4.02	4.68
2025	3.54	3.79

Source: Bloomberg Economics; HJ Economics

# Stock Prices (S&P 500: 4555.80)

HJ Economics Forecast for S&P 500					
Quarter	S&P 500 Operating Earnings	Y/Y%	10-Year UST	Price-Earnings	S&P 500
2023-Q1	\$219.87	2.2%	3.47	18.2	4003
2023-Q2	\$216.54	-1.6%	3.83	19.4	4204
2023-Q3	\$217.26	-2.3%	4.58	20.5	4458
2023-Q4	\$221.11	-0.2%	4.83	20.6	4561
2024-Q1	\$225.41	2.5%	4.83	20.4	4594
2024-Q2	\$231.79	7.0%	4.87	20.0	4643
2024-Q3	\$238.47	9.8%	4.63	19.7	4693
2024-Q4	\$246.69	11.6%	4.40	19.4	4776
2025-Q1	\$254.10	12.7%	4.09	19.1	4851
2025-Q2	\$261.51	12.8%	3.87	18.9	4932
2025-Q3	\$268.91	12.8%	3.68	18.7	5021
2025-Q4	\$276.32	12.0%	3.50	18.5	5115
Sources: HJ Economics; Refinitiv Proprietary Research					

# 2024-2025 Annualized Returns: Valuation

Fixed Income (4.43%)		
Year	10-Year UST	Return
Q4 2024	4.40%	5.27%
Q4 2025	3.50%	4.43%

S&P 500 (4555.80)		
Year	S&P 500	Return
Q4 2024	4750	+6.17%
Q4 2025	5090	+8.78%

# Outlook for States and Metropolitan Statistical Areas Employment

# New England States Employment Growth Rates

State Nonfarm Payroll Employment (2021-2023)				
State	2023	2024	2025	2024-2025
Connecticut	1.3%	-0.2%	0.8%	0.5%
Maine	1.1%	0.3%	1.4%	1.1%
Massachusetts	2.5%	1.5%	2.9%	2.5%
NewHampshire	1.9%	0.9%	2.3%	2.0%
NY	1.9%	0.9%	3.3%	2.7%
RhodeIsland	-0.1%	-0.7%	1.2%	0.8%
Vermont	1.1%	-0.8%	0.7%	0.3%
US	1.8%	1.0%	1.9%	1.6%
Source: Bureau of Labor Statistics (Annual Totals)(000)				

# New York State Upstate Metropolitan Statistical Areas Employment Growth Rates

Employment %				
MSA	2023	2024	2025	2024-2025
GlensFalls	2.0%	0.5%	2.7%	2.2%
New York State	1.9%	0.6%	2.6%	2.1%
Albany	2.1%	1.1%	2.0%	1.7%
Ithaca	1.0%	0.2%	2.0%	1.6%
Buffalo	1.6%	0.0%	2.1%	1.6%
Rochester	0.9%	0.2%	1.7%	1.3%
Syracuse	2.0%	0.2%	1.5%	1.2%
Kingston	1.2%	-0.5%	1.6%	1.2%
WatertownFortDrum	0.6%	-0.2%	1.5%	1.1%
UticaRome	0.7%	-0.7%	1.3%	0.9%
Elmira	-0.3%	-1.0%	1.1%	0.6%
Binghamton	0.5%	-1.4%	0.5%	0.0%

# New York State Downstate Metropolitan Statistical Areas Employment Growth Rates

Employment %				
MSA	2023	2024	2025	2024-2025
NewYorkCity	3.0%	1.1%	3.4%	2.9%
NewYorkJerseyCityWhitePlains	2.5%	1.0%	3.3%	2.7%
NassauSuffolk	1.2%	0.7%	2.9%	2.4%
New YorkNewarkJersey City	2.2%	0.6%	2.7%	2.2%
OrangeRocklandWestchester	1.2%	0.1%	2.3%	1.8%
DutchessPutnam	-0.8%	-0.4%	1.8%	1.1%

**Capital Region Chamber  
November 29, 2023**

And I towered over them 2 Years Ago



I Towered Over  
Them Last Year



And I Still Tower  
Over Them





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