

Sticking the landing

A step-by-step guide to late cycle investing

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A guide to recession dynamics

Where are we in the economic cycle?

What would recession look like?

When will the Fed cut rates?

Long term view: Where is the U.S. 10-year Treasury yield going?

Long-term view: How are geopolitics and megatrends shaping today's investment landscape? Plus: our take on the AI frenzy

How to invest? Incorporating cyclical and structural shifts

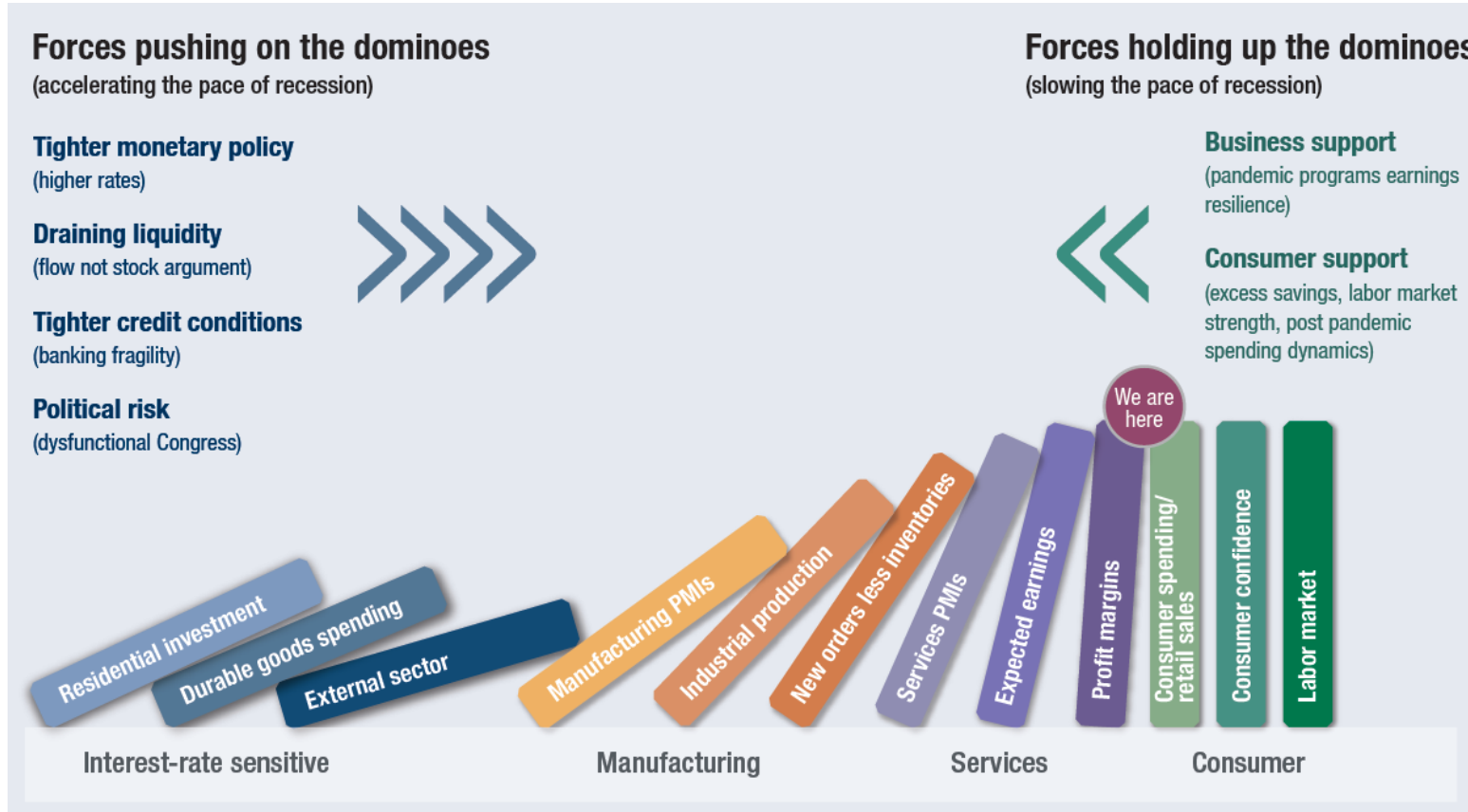


Where are we in the economic cycle?

Navigating the late cycle limbo

The “domino effect” of a standard economic slowdown is intact, but atypical forces are affecting the speed of this cycle.

The economic dominoes suggest we are in the last leg of this cycle

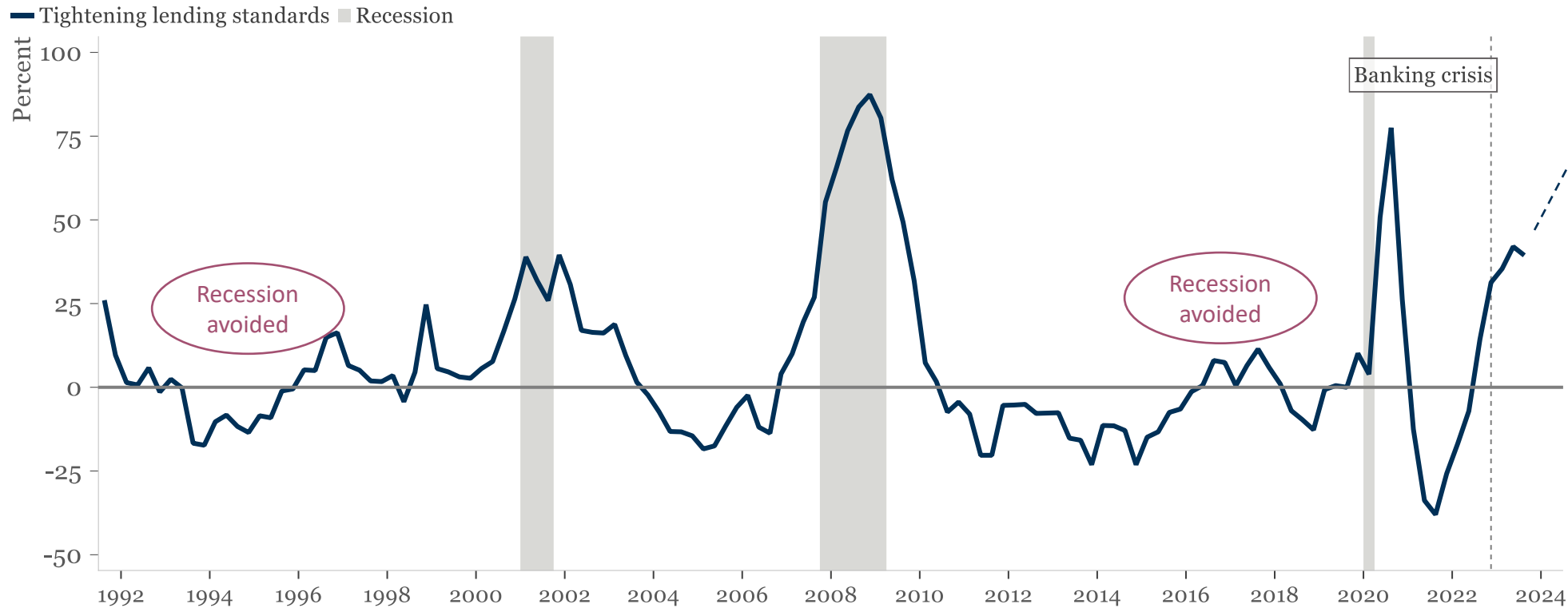


Sources: New York Life Investments Multi-Asset Solutions, November 2023. For illustrative purposes only.

Accelerating the recession timeline: tighter credit conditions

We expect a new leg of tighter credit conditions following the banking crisis, hastening the path to recession.

Senior Loan Officer Opinion Survey: tightening lending standards

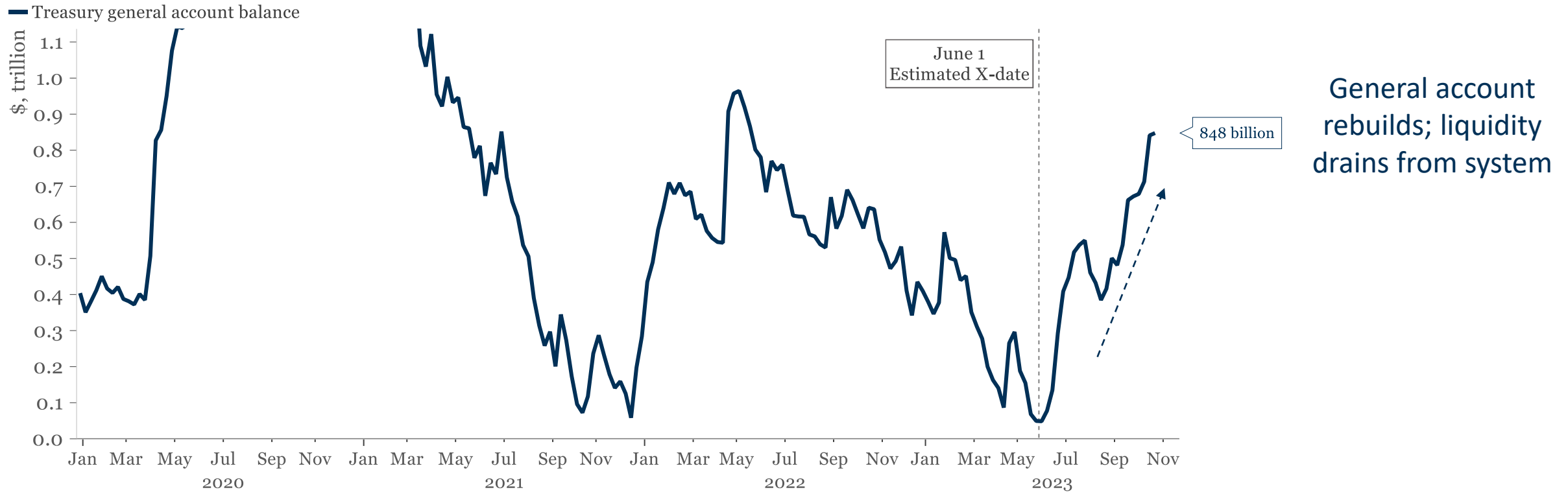


Sources: New York Life Investments Multi-Asset Solutions, Federal Reserve, NBER, Macrobond, November 2023. Tightening standards represent the percent of banks who reported they are tightening lending standards in the Federal Reserve's quarterly Senior Loan Officer Opinion Survey.

Accelerating the recession timeline: draining liquidity and political tumult

As the Treasury rebuilds its general account post-debt ceiling resolution, liquidity is likely to drain even beyond Quantitative Tightening.

Treasury account balance, including default “X-date” from May debt ceiling debate

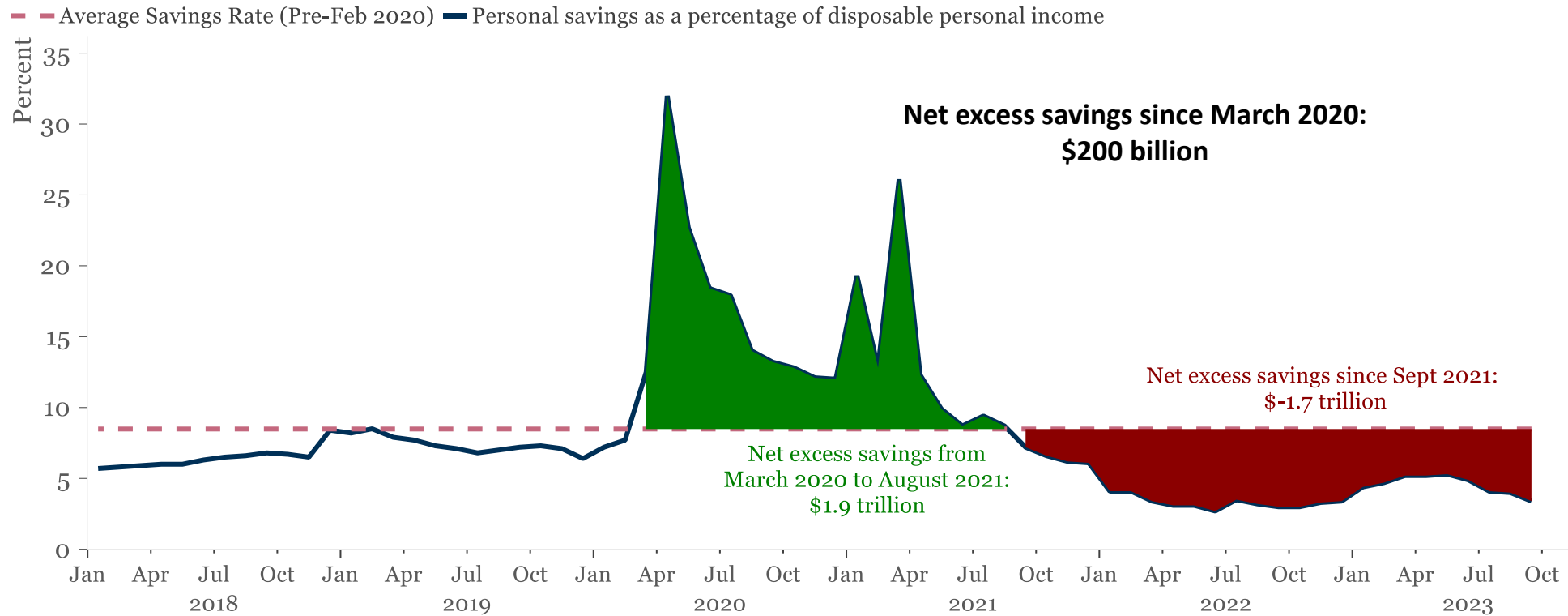


Sources: New York Life Investments Multi-Asset Solutions, Federal Reserve Board, Macrobond, November 2023. The Treasury General Account (TGA) is the U.S. government's operating account that is maintained by primarily Federal Reserve banks to handle daily public money transactions. Y-axis truncated at \$1.1 trillion.

Factors delaying the recession timeline: consumer support

Households are still sitting on nearly \$800B in excess pandemic-era savings.

U.S. personal savings as a % of disposable income vs average savings rate

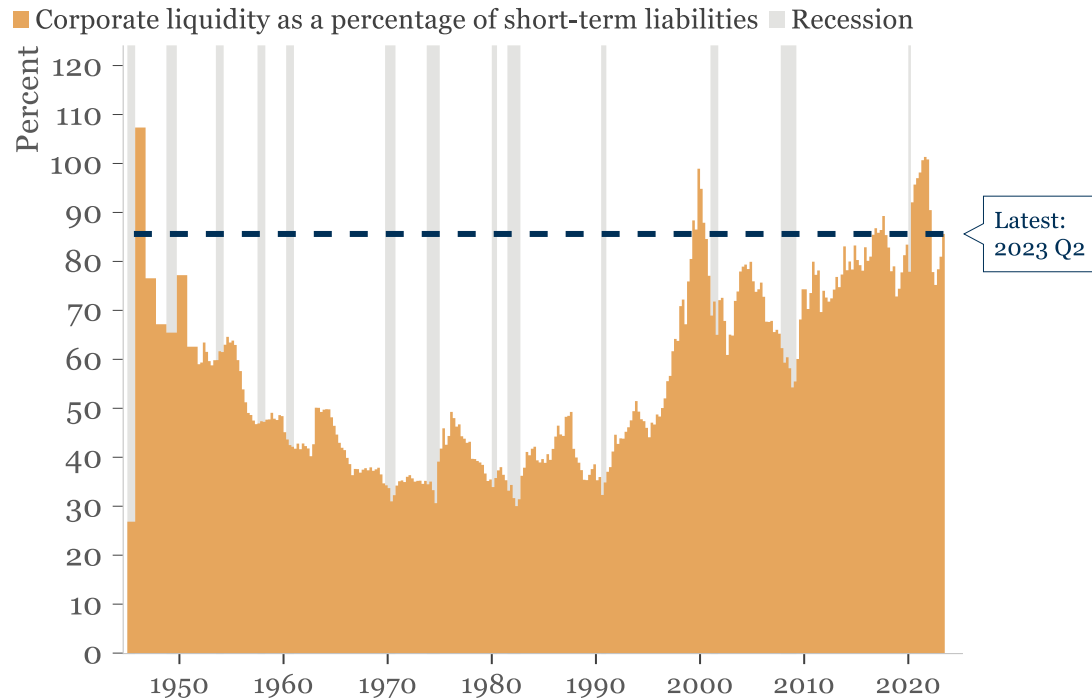


Sources: New York Life Investments Multi-Asset Solutions, U.S. Bureau of Economic Analysis, Macrobond, November 2023. Slight discrepancies in numbers may occur due to rounding.

Factors delaying the recession timeline: corporate buffers

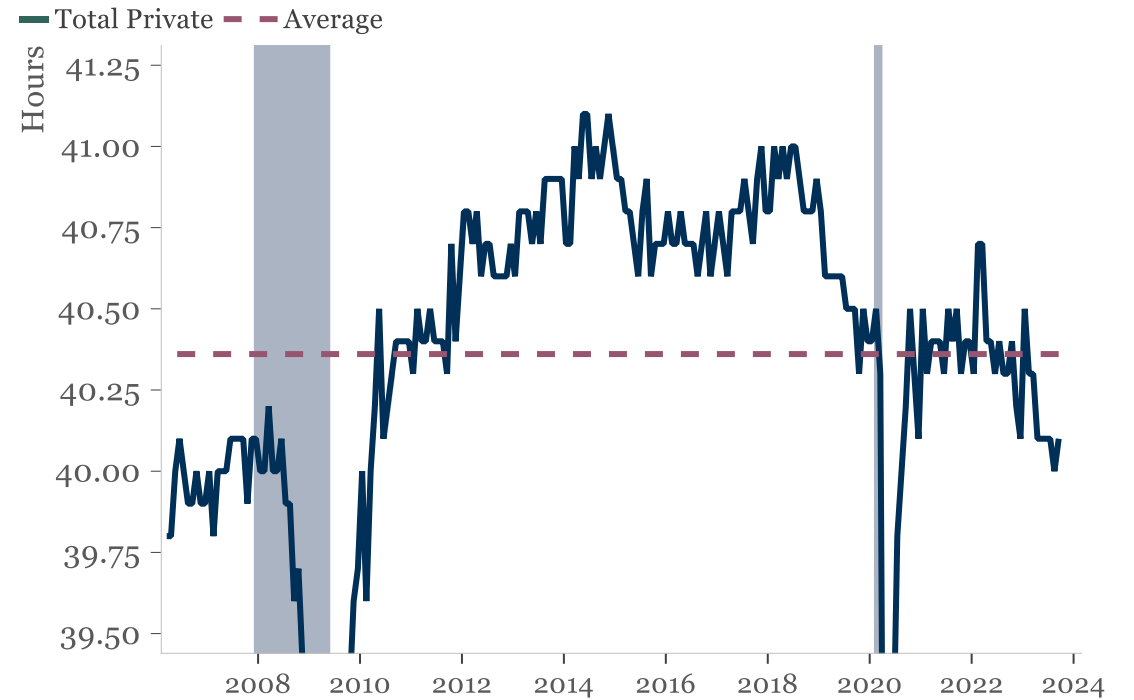
U.S. corporations are hoarding two things: cash and labor.

Corporate liquidity as a % of liabilities



Sources: New York Life Investments Multi-Asset Solutions, Federal Reserve Board, National Bureau of Economic Research, Macrobond, November 2023.

Average work week hours for manufacturing employees



Sources: New York Life Investments Multi-Asset Solutions, U.S. Bureau of Labor Statistics, National Bureau of Economic Research, November 2023. Grey bars denote recession periods.



What would recession look like?

Based on historical recessions, further market pain may lie ahead

Even a moderate recession would likely result in higher unemployment, lower earnings, and a market correction.

Historical experience of U.S. recessions

Recession onset	Real EPS drawdown	Rise in unemployment rate	Real GDP drawdown
July-53	-23%	3.4%	-2.5%
August-57	-21%	4.9%	-3.6%
May-60	-13%	3.2%	-1.3%
December-69	-20%	2.5%	-1.1%
November-73	-21%	4.0%	-3.1%
January-80	-17%	2.2%	-2.2%
July-81	-23%	5.2%	-2.6%
July-90	-23%	1.8%	-1.4%
March-01	-19%	1.7%	-0.4%
December-07	-37%	5.1%	-4.0%
February-20	-19%	11.2%	-10.1%
Median	-21%	3.4%	-2.5%
Mildest	-13%	1.7%	-0.4%

Optimistic for labor?

The mildest recession since WWII saw a 1.7% increase in unemployment.
Today's consensus: 1.3%.

Recession not yet priced by the markets?

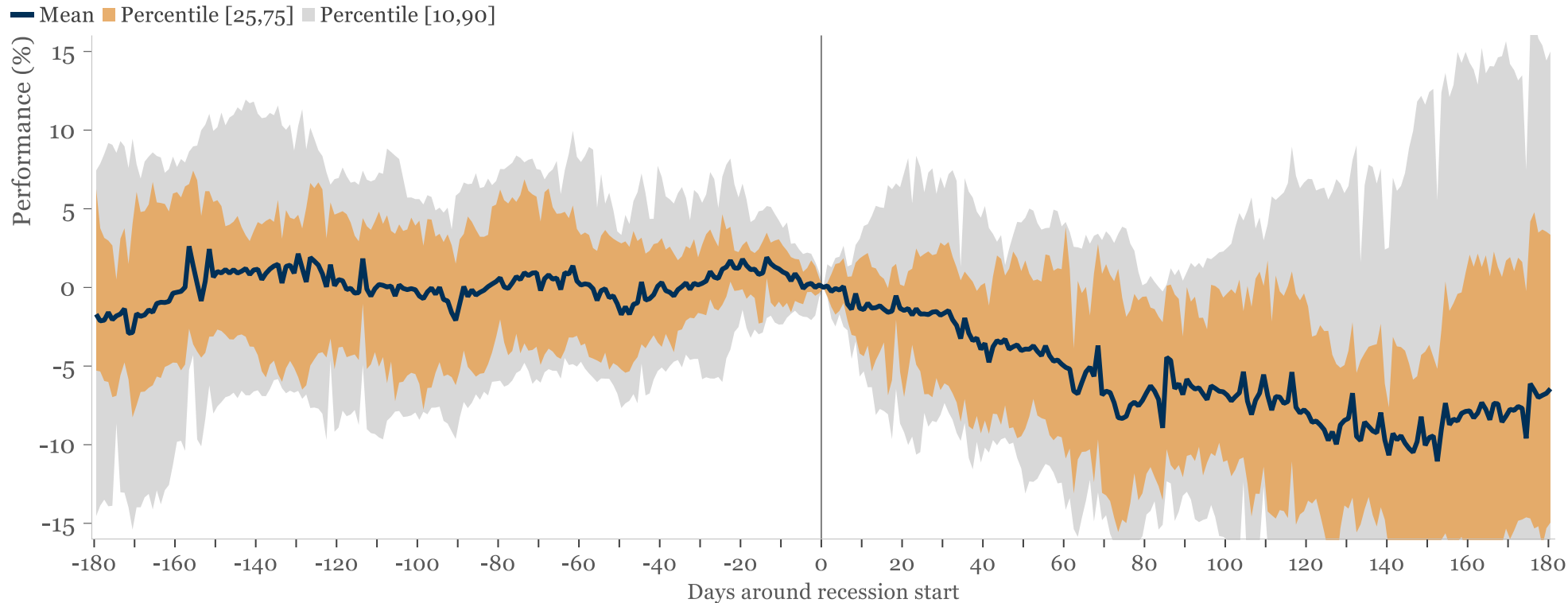
A 21% drop in EPS would result in the S&P 500 down 15-20%

Sources: New York Life Investments Multi-Asset Solutions, U.S. Bureau of Economic Analysis, National Bureau of Economic Research, November 2023. For illustrative and educational purposes only. Definitions are provided at the end of this document.

Equity markets tend to lead the economy out of recessions, but have *not* anticipated them

Equity markets tend not to reach their lowest point until 1-2 quarters into a recession, then recover faster than the economy.

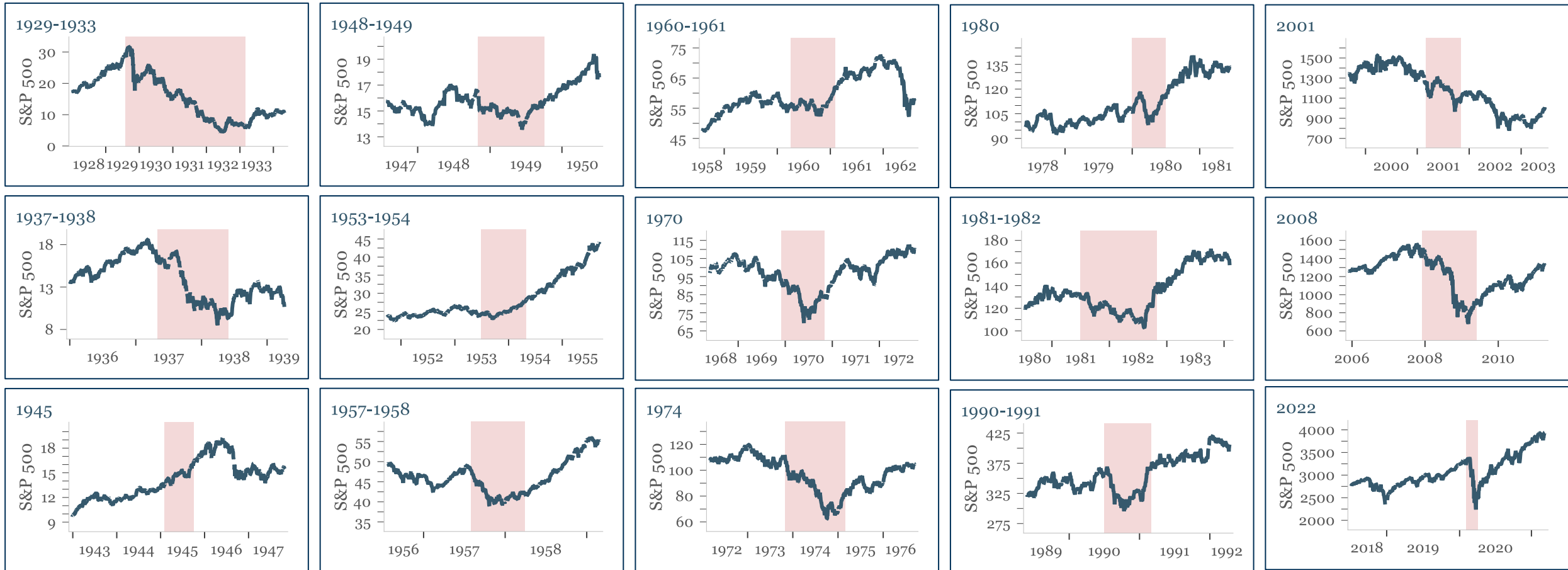
Performance of the S&P 500 Index before and after recession start based on last 16 recessions, including 75th and 90th percentile performance



Sources: New York Life Investments Multi-Asset Solutions, National Bureau of Economic Research, Macrobond, November 2023. Performance based on last 16 recessions (not including 2020). Index performance is not a guarantee of future results. It is not possible to invest in an index. Definitions can be found at the end of this piece.

Individual historic recessions show markets do not anticipate recessions

Performance of the S&P 500 index before, through, and after the last 15 U.S. economic recessions



Sources: New York Life Investments Multi-Asset Solutions, NBER, Macrobond, November 2023. It is not possible to invest in an index. Past performance is not a guarantee of future results. Index definitions are provided at the end of this piece.



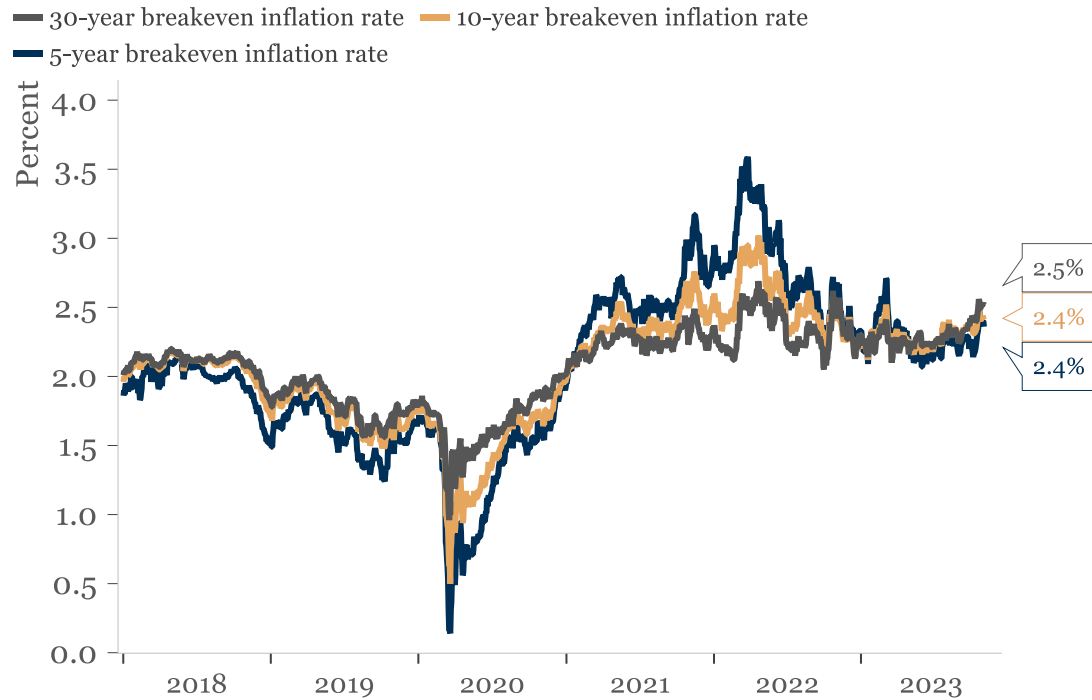
When will the Fed cut rates?

Conditions for a Fed pivot: price stability

“Without price stability, the economy doesn’t work for anyone.” – Jerome Powell

Inflation expectations have stabilized

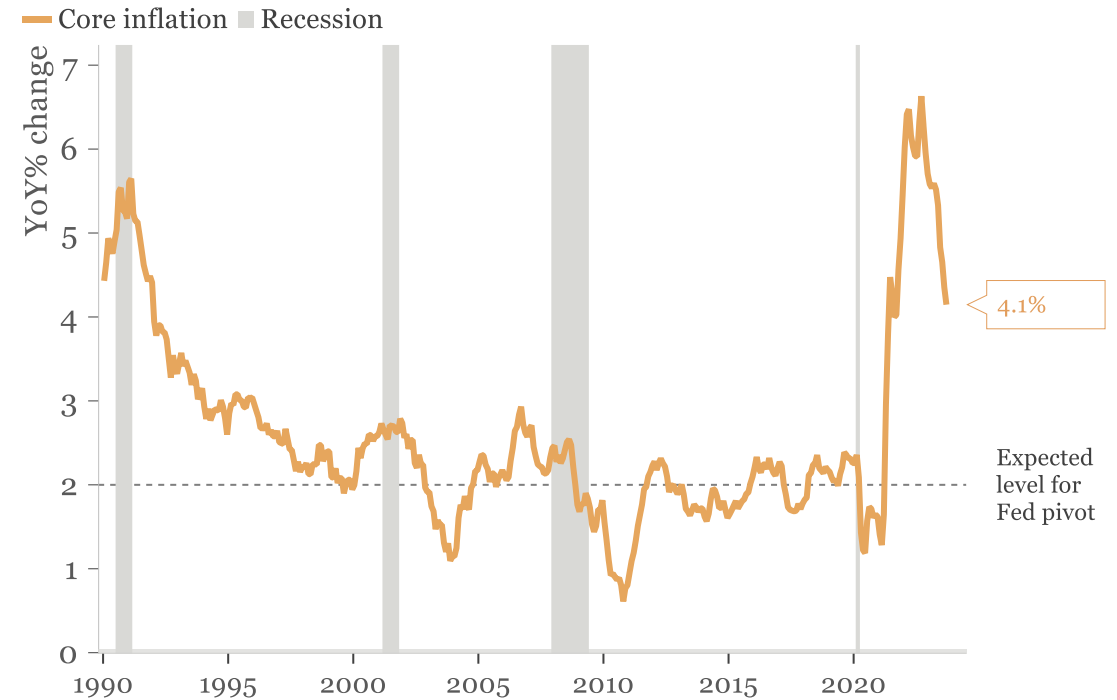
U.S. breakeven inflation rates



Sources: New York Life Investments Multi-Asset Solutions, Macrobond, November 2023. The breakeven inflation rate is derived from the difference in yields between nominal bonds and inflation-linked bonds of the same maturity. It serves as a market-based indicator of inflation expectations over a specific time horizon.

Core inflation is still well above target

Core inflation (vs 2% target)



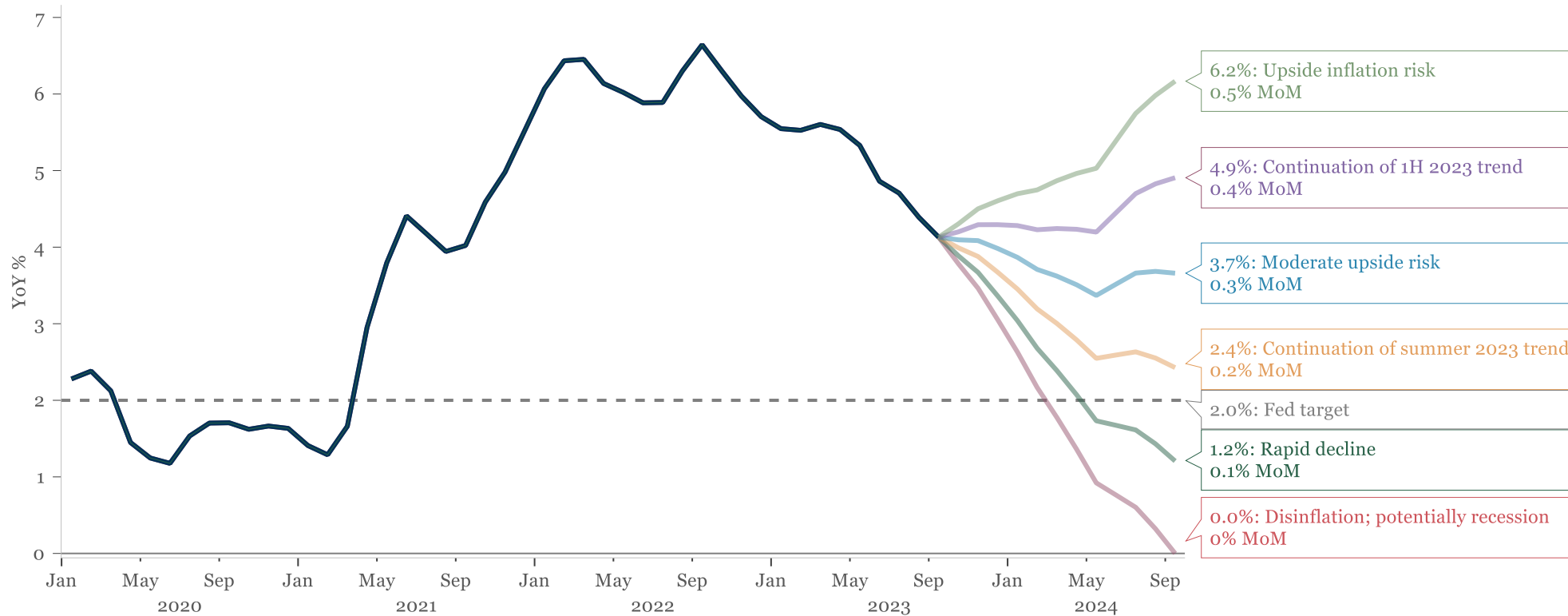
Sources: New York Life Investments Multi-Asset Solutions, Macrobond, National Bureau of Economic Research, U.S. Federal Reserve Board, November 2023.

Conditions for a Fed pivot: price stability

“Without price stability, the economy doesn’t work for anyone.” – Jerome Powell

Scenarios for U.S. Inflation

Core Consumer Price Index (Core CPI) for the United States



Source: New York Life Investments Multi-Asset Solutions, U.S. Bureau of Labor Statistics (BLS), Macrobond, November 2023. The core Consumer Price Index (core CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services excluding food and energy prices.

Conditions for a Fed pivot: full employment

The Fed has overshot its employment goal, sparking a wage-price spiral.

High wages are still supporting inflationary pressures

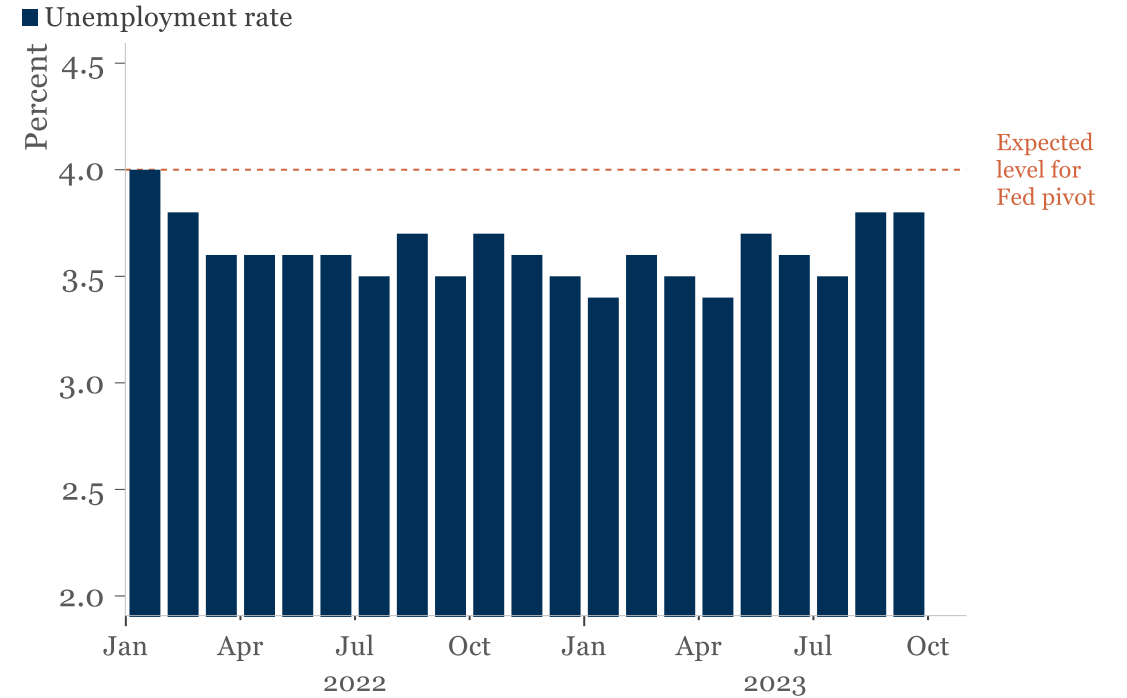
U.S. average hourly earnings



Sources: New York Life Investments Multi-Asset Solutions, Macrobond, U.S. Bureau of Labor Statistics, November 2023.

Labor market slack is nowhere to be seen

U.S. unemployment rate



Sources: New York Life Investments Multi-Asset Solutions, Macrobond, U.S. Bureau of Labor Statistics, National Bureau of Economic Research, November 2023.

Will the Fed pivot?

The bar for sustained Fed cuts is high. A severe recession scenario, perhaps ironically, would help achieve the Fed's mandates.

Conditions for a Fed pivot

Conditions for a Fed pivot	Signposts	Condition achieved?	Would a shallow recession achieve this condition?	Would a more severe recession achieve this condition?
Price stability Bring inflation closer to target	Well-anchored inflation expectations	✓ Yes	✓ Yes	✓ Yes
	Core inflation near target (2%)	✗ No	✗ No	✓ Yes
Full employment Keep the labor market from overheating	Wage gains consistent with price stability	✗ No	? Maybe	✓ Yes
	Unemployment rate above 4%	✗ No	✓ Yes	✓ Yes

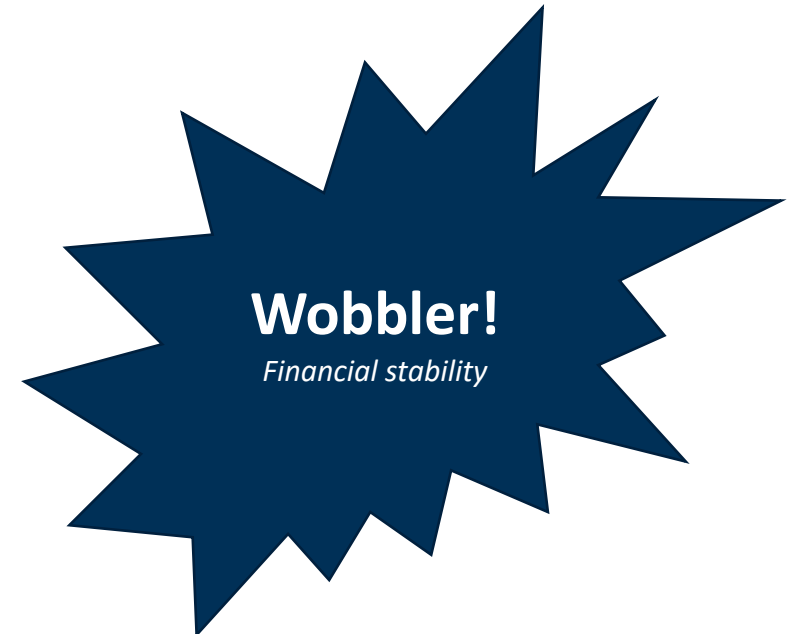
Opinions of the New York Life Investments Multi-Asset Solutions team, November 2023.

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What does “tighter financial conditions” mean?

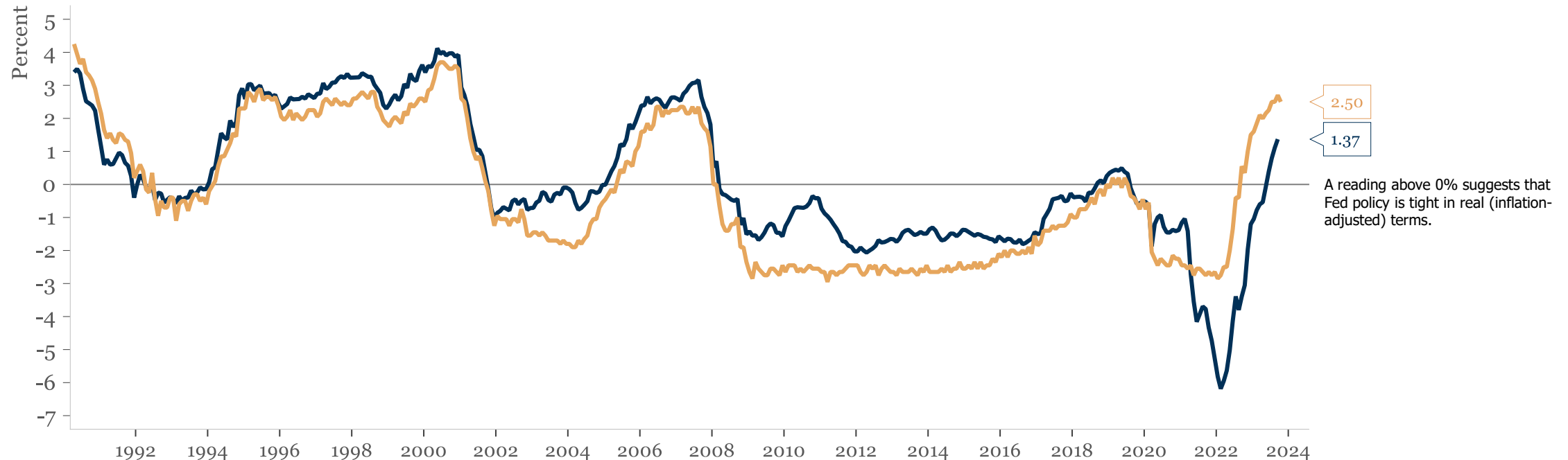
Monetary conditions

Lending conditions

Market conditions

Federal Reserve policy is now tight.

— U.S. Fed Funds rate, less University of Michigan 5-year inflation expectations — U.S. Fed Funds rate less core CPI (%YOY)



Sources: New York Life Investments Multi-Asset Solutions, Federal Reserve, University of Michigan, U.S. Bureau of Labor Statistics, November 2023. Definitions can be found at the back of this document.

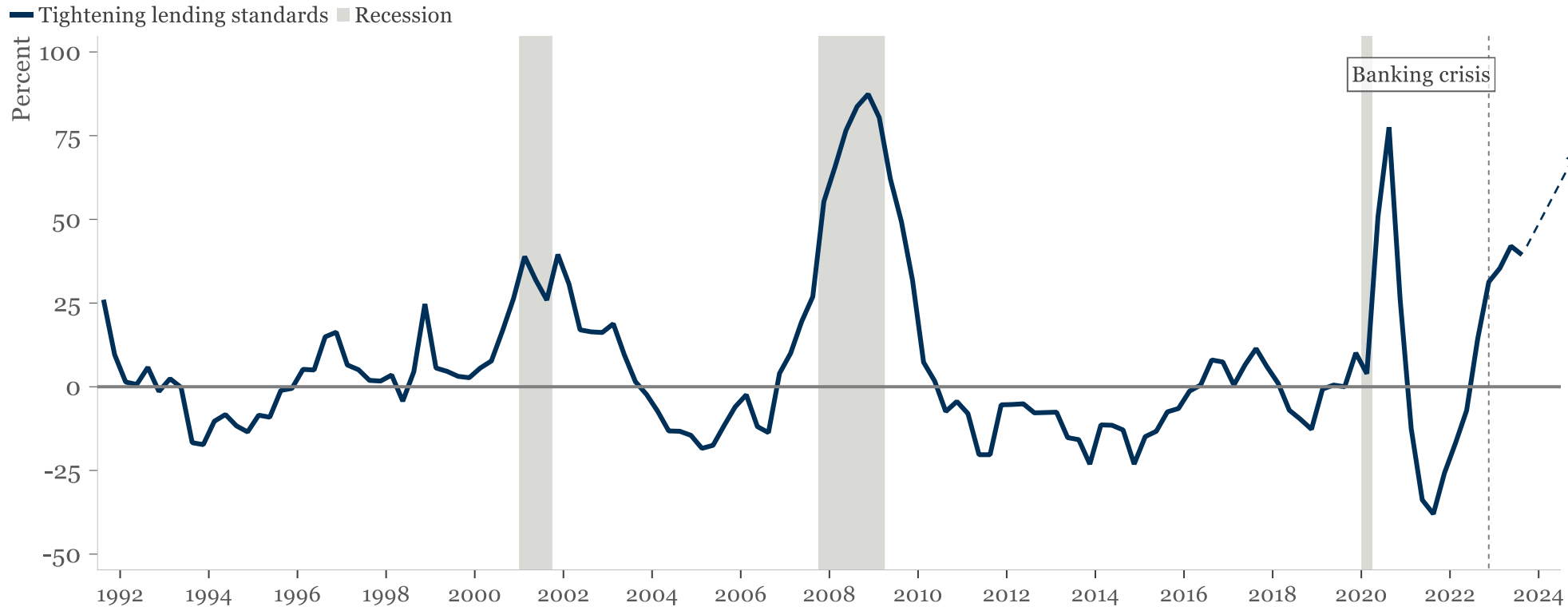
What does “tighter financial conditions” mean?

Monetary conditions

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Senior Loan Officer Opinion Survey: tightening lending standards



Sources: New York Life Investments Multi-Asset Solutions, Federal Reserve, NBER, Macrobond, November 2023. Tightening standards represent the percent of banks who reported they are tightening lending standards in the Federal Reserve's quarterly Senior Loan Officer Opinion Survey.

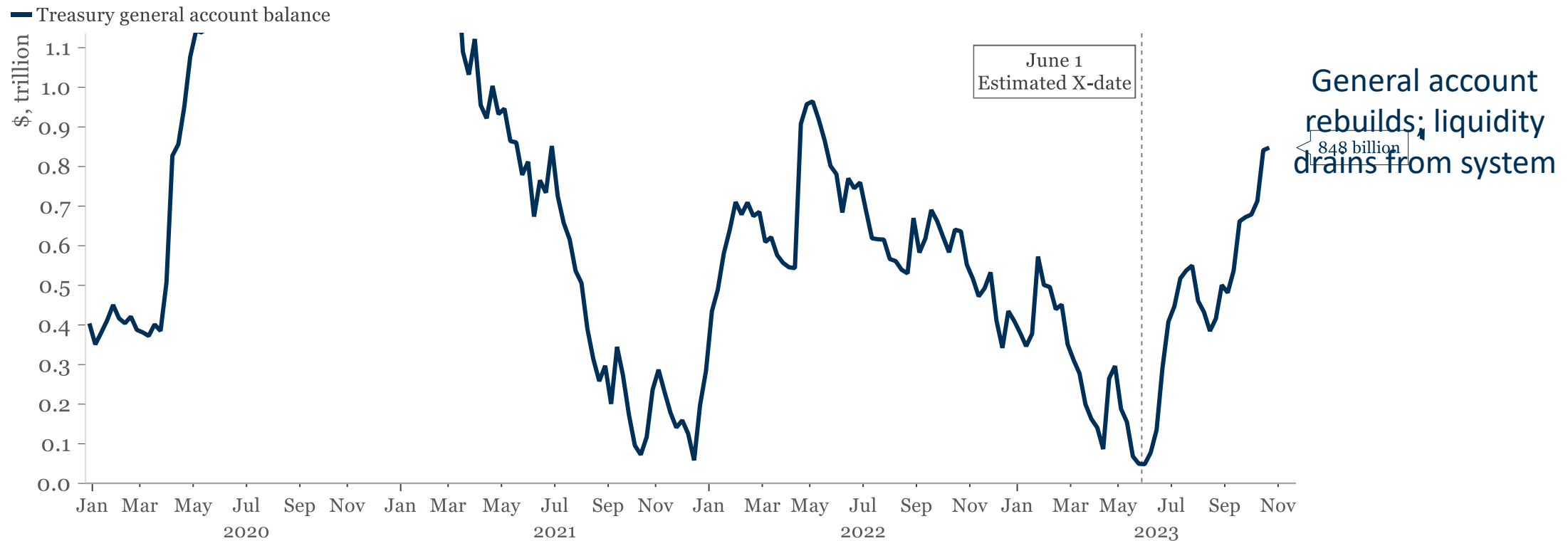
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Treasury account balance, including default “X-date” from May debt ceiling debate



Sources: New York Life Investments Multi-Asset Solutions, Federal Reserve Board, Macrobond, November 2023. The Treasury General Account (TGA) is the U.S. government's operating account that is maintained by primarily Federal Reserve banks to handle daily public money transactions. Y-axis truncated at \$1.1 trillion.

What does “tighter financial conditions” mean?

Monetary conditions

Lending conditions

Market conditions

Market financial conditions have only recently begun to re-tighten.

— S&P 500 Index, rhs — GS US Financial Conditions Index, lhs



Sources: New York Life Investments Multi-Asset Solutions, Bloomberg Finance LP, Macrobond, November 2023. Definitions can be found at the back of this document.

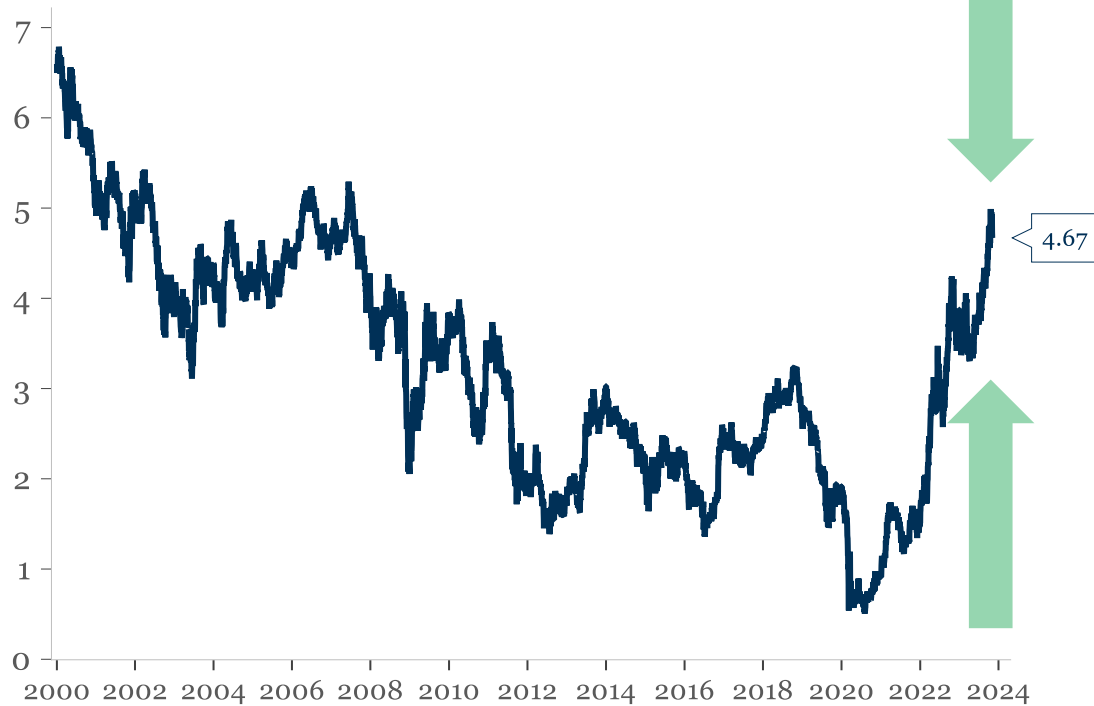


Long term view: Where is the U.S. 10-year Treasury yield going?

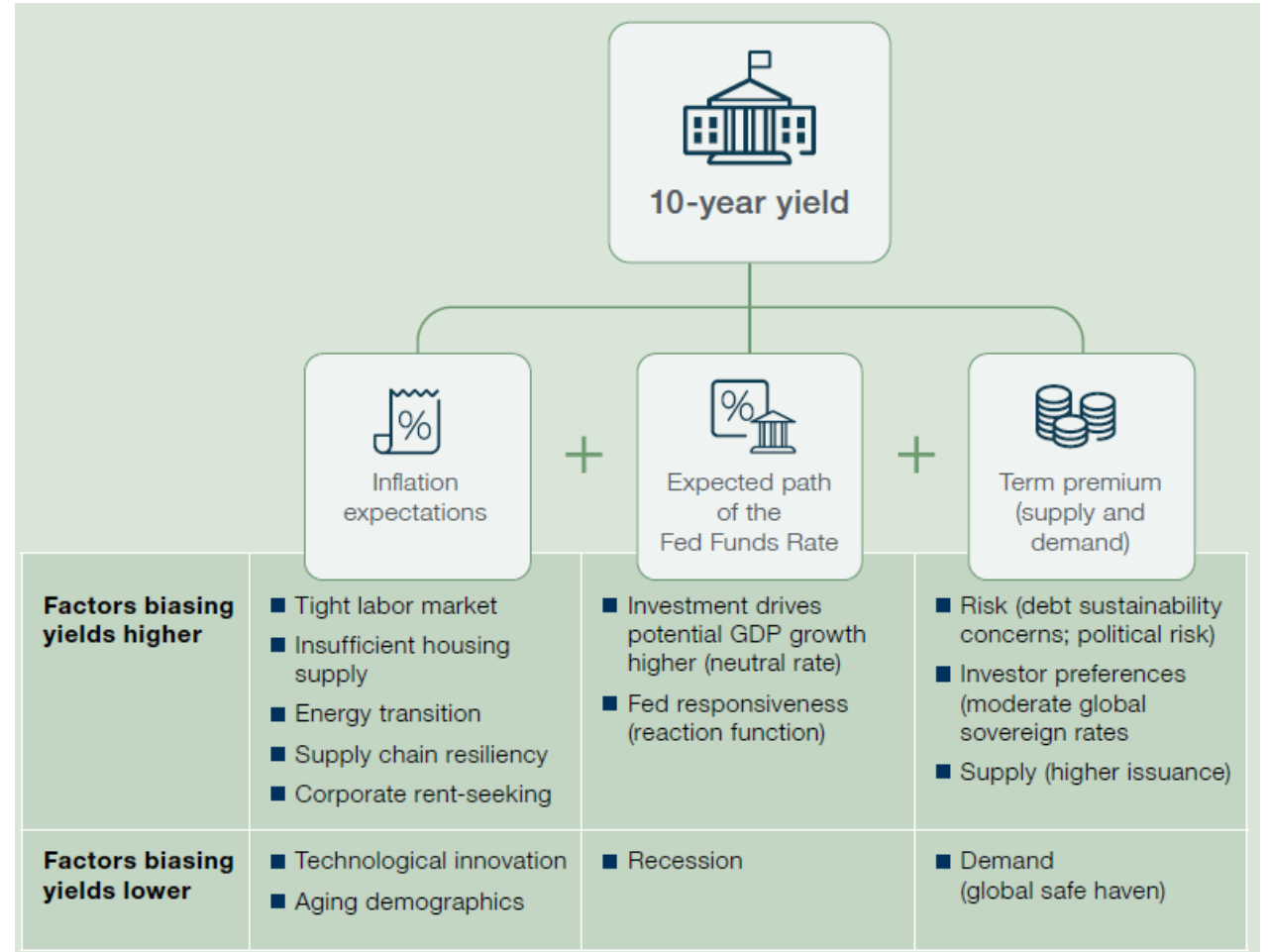
Long-term interest rates: inputs are shifting

Structural shifts in interest rate inputs leave the path of interest rates uncertain.

U.S. nominal 10-year yield



Sources: New York Life Investments Multi-Asset Solutions, Bloomberg Finance LP. November 2023. For illustrative and educational purposes only.





Long term view: megatrends, geopolitics, and AI

Why do geopolitics matter for investors?

Countries are prioritizing self-sufficiency and security over the cost savings of the globalization era.

As national security interests expand...



Energy

Tech

Health

Food

...concentrated risks in the globalized supply chain surface...



OPEC controls 90% of known oil reserves

Taiwan produces 60% of logic semiconductors

India produces 60% of global vaccines.
Malaysia produces 75% of disposable gloves

Ukraine and Russia together account for 1/3 of global wheat and barley production

...and result in one, inflationary solution



Redundancy

Redundancy

Redundancy

Redundancy

Sources: New York Life Investments Multi-Asset Solutions, Chillibreeze, January 2023. For illustrative and information purposes only.

Global financing: it will take more than geopolitics to unseat the dollar

“Change? Change? Aren’t things bad enough already?” – Lord Salisbury

REQUIREMENTS FOR A GLOBAL RESERVE CURRENCY				
REQUIREMENT	U.S. DOLLAR	EUROPEAN EURO	JAPANESE YEN	CHINESE RENMINBI
Trust in the central bank <i>Share of global FX reserves</i>	59%	20%	6%	2%
Liquidity <i>Foreign holding of government debt</i>	35%	38%	30%	9%
Broad acceptance <i>Share of foreign currency debt issuance</i>	64%	24%	3%	1%
Convertibility <i>FX transaction volume</i>	45%	16%	9%	4%
Open capital account <i>Capital controls</i>	None (Open)	None (Open)	Some (Restrictions)	Tight (Closed)
Floating exchange rate regime <i>Exchange rate regime</i>	Floating	Floating	Managed (Yield curve control)	Managed (against a basket of currencies... including the U.S. dollar!)

Sources: New York Life Investments Multi-Asset Solutions, Federal Reserve, Bank for International Settlements, Bloomberg Finance LP. FX refers to foreign exchange. The Chinese currency can be referred to interchangeably as the renminbi or the yuan.

Global financing: it will take more than geopolitics to unseat the dollar

Historical examples of currency transition

DOMINANT CURRENCY	MAINSTREAM VIEW FOR DOMINANCE	INNOVATION CATALYST
Venetian ducat (12th century - 16th century)	The Fourth Crusade and other medieval military conflicts	Gold standard, minting and navigation technology
Spanish dollar (16th century – 1800)	Spanish Armada's defeat of the English navy in 1588	Mining and transportation technology
British pound (1815–1920)	The Seven Years' War and the Napoleonic Wars	Steamship industry expansion
U.S. dollar (1920 - ?)	WWI, WWII	Early adoption of telegraph, federal reserve system, development of aviation industry

Sources: New York Life Investments Multi-Asset Solutions, 2023.

Understanding dollar movements: the “dollar smile”

The “dollar smile” framework posits USD strength as a function two dynamics: 1) global growth and 2) liquidity.



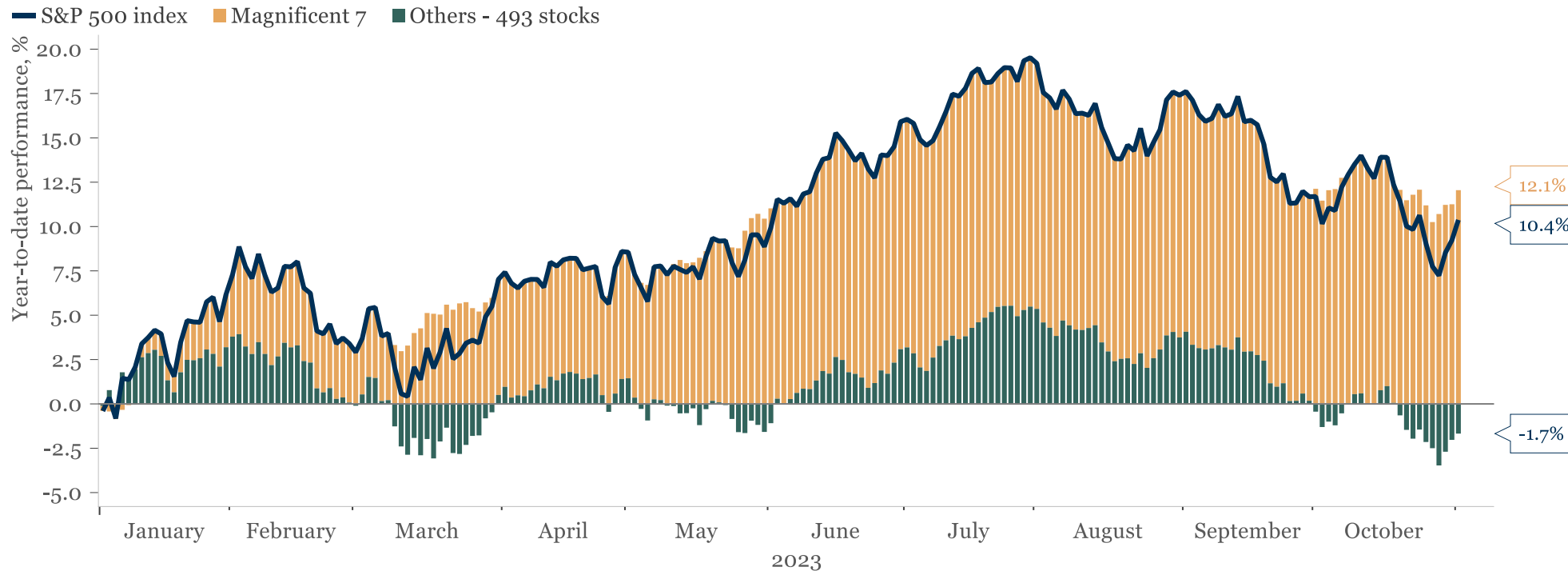
Source: New York Life Investments Multi-Asset Solutions, June 2023. For information illustrative purposes only.

Is this time different?

The “Magnificent 7” are creating narrow market leadership as the rest of the index lags behind

Price appreciation of Magnificent 7 vs S&P 500 (normalized)

Magnificent 7 vs S&P 500 YTD

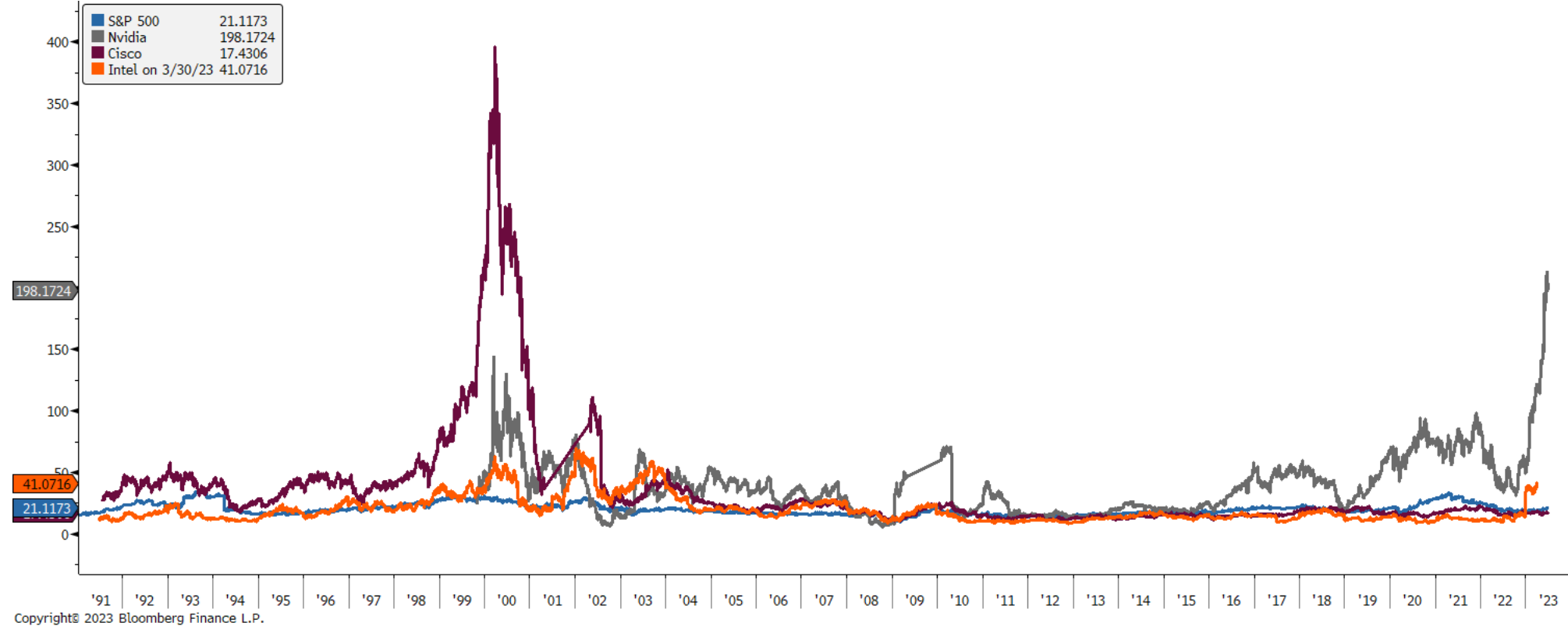


Sources: New York Life Investments Multi-Asset Solutions, Bloomberg Finance LP, Macrobond, S&P Global, November 2023. “Magnificent 7” is a market term refers to 7 publicly listed companies leading or perceived to benefit from the Artificial Intelligence boom: Alphabet (Google), Amazon, Apple, Meta, Microsoft, Nvidia, Tesla. It is not possible to invest directly in an index. Definitions can be found at the back of this document.

Is this time different?

Valuations are growing increasingly reminiscent of the dotcom boom.

Price to Earnings (P/E) ratios of key tech companies vs S&P 500



Sources: New York Life Investments Multi-Asset Solutions, Bloomberg Finance LP, November 2023.

Is this time different?

The AI frenzy may not be in a bubble...yet.

Historical global asset bubbles



Sources: New York Life Investments Multi-Asset Solutions, Stanley Druckenmiller, LBMA (London Bullion Market Association), Nikkei Inc., Thai Stock Exchange, Nasdaq, S&P Global, Shanghai Stock Exchange, Macrobond, November 2023. AI: Artificial Intelligence. "FAANG" is an acronym that refers to the stocks of five prominent American technology companies: Meta (META) (formerly known as Facebook), Amazon (AMZN), Apple (AAPL), Netflix (NFLX); and Alphabet (GOOG) (formerly known as Google). ARKK is an innovation/tech ETF that is commonly acknowledged as having experienced a bubble post-pandemic.



How to invest?

Investment ideas across the cycle

The very factors complicating this cycle give investors a broader range of investment options than in the past decade.

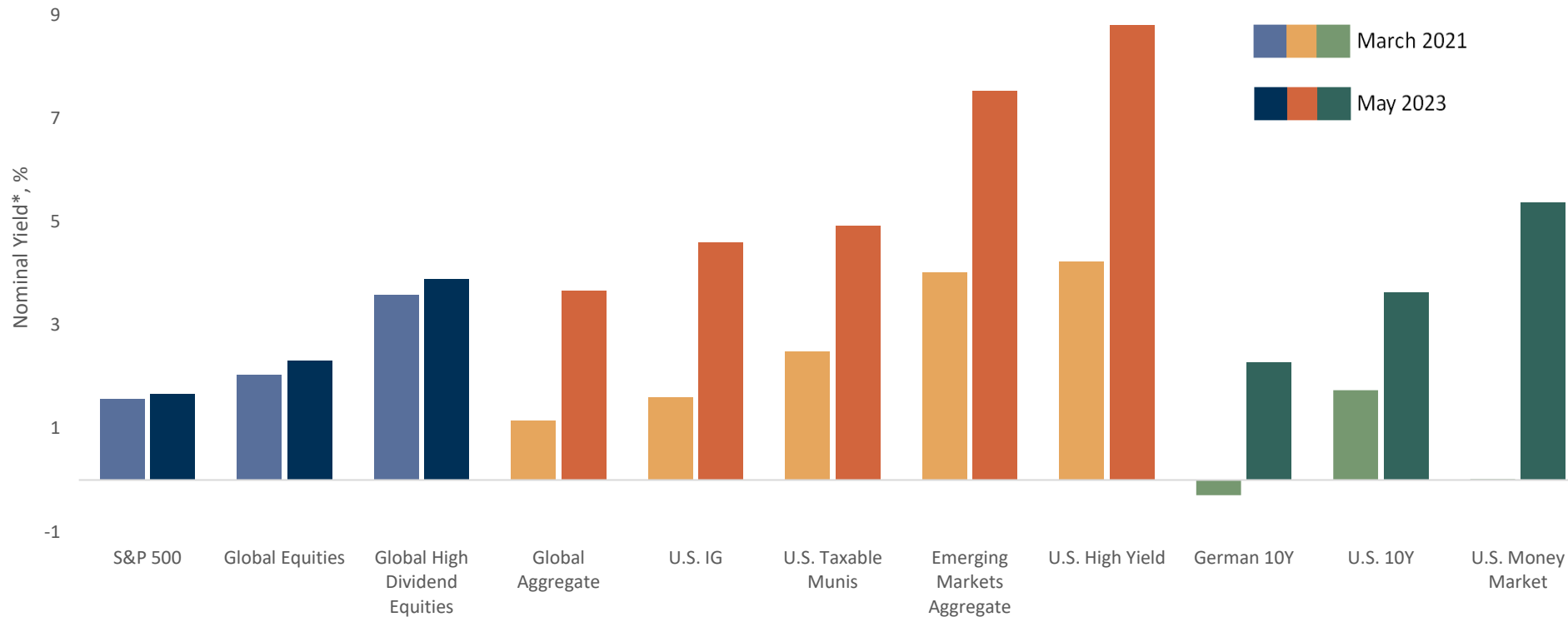
Rather than...	Investors can...
Be paralyzed in cash	Take advantage of higher yield potential
Move fully risk off	Consider HY and add duration where it pays
Try to time the market	Build resilience with a quality bias
Home country bias	Diversify with international exposure
Ignore long-term trends	Harness with infrastructure

Opinions of the New York Life Investments Multi-Asset Solutions Team, November 2023. For illustrative and educational purposes only. Diversification cannot assure a profit or protect against loss in a declining market.

Investor yields have improved in bonds; equities have not kept up

Global yields have risen meaningfully in the past 2 years. Finally – income generation for portfolios is back!

Global nominal yields: equities, bonds, government issues



Sources: New York Life Investments Multi-Asset Solutions, Bloomberg Finance LP, Standard and Poor's, Barclays, MSCI, November 2023. *Yield: Dividend yield for equities; yield to worst for bond indices; nominal yield for government yields. Indexes used: S&P 500 Index, MSCI ACWI Index, MSCI World High Dividend Index, Bloomberg Barclays High Yield Corporate Index, JPM EMBI Global Diversified Bond Index, Bloomberg Barclays U.S. Investment Grade (IG) Index, Bloomberg Barclays U.S. Aggregate Bond Index, Bloomberg Taxable Muni Index. Munis represent municipal bonds. Past performance is no guarantee of future results, which may vary. An investment cannot be made directly in an index.

Cash is not a risk-free asset

While the money market is in some ways a place of shelter, on a historical basis it does not preserve wealth.

Estimated real money market yield

— 3-month Treasury yield (lagged 3 months) - U.S. CPI, YoY

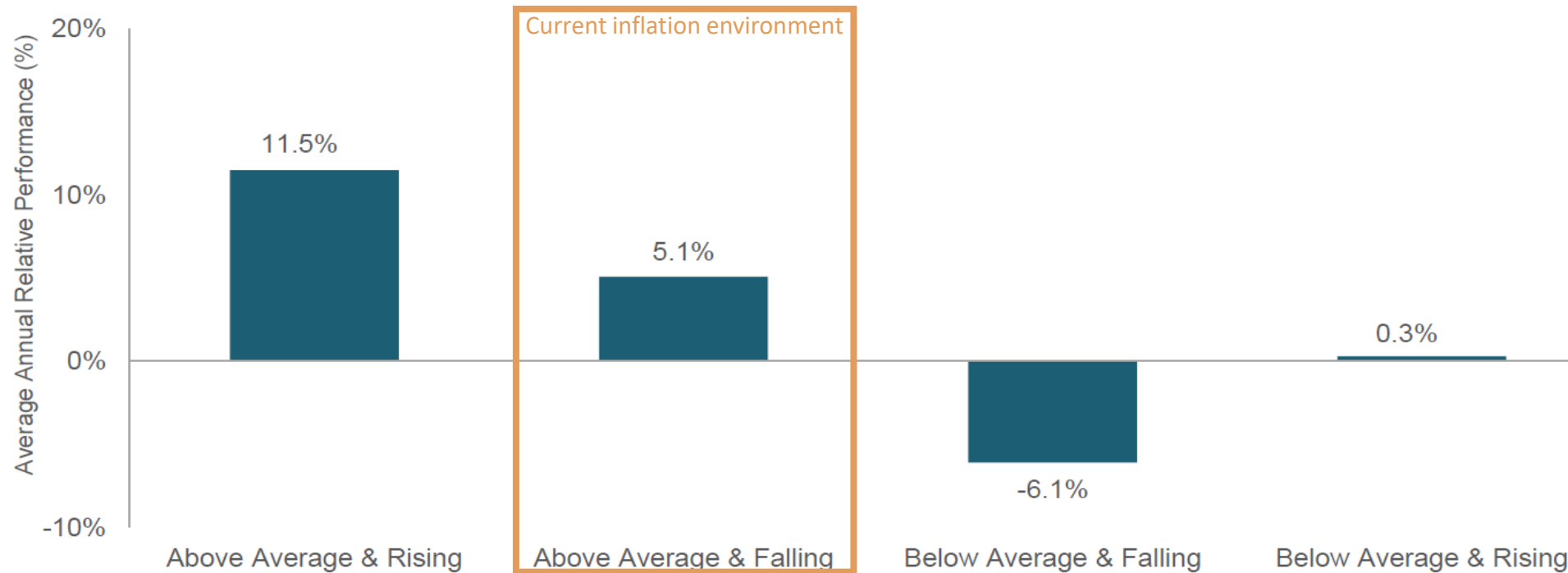


Sources: New York Life Investments Multi-Asset Solutions, Macrobond, Bloomberg Finance LP, June 2023.

To capture cyclical and structural trends at home and abroad, look to infrastructure

Infrastructure often reflects all-weather investment themes including durable, quality earnings and reinvested profits.

Infrastructure equity performance in secular inflation periods



Sources: CBRE Investment Management, U.S. CPI, UBS Global Infrastructure & Utilities linked to FTSE Global Core Infrastructure 50/50 Index, MSCI World Index as of 9/30/22. Trailing 20-years based on average monthly total returns during inflation regimes, annualized. Inflation Regimes calculated using the year-on-year change in the U.S. CPI, normalizing its history using a z-score, and tracking the 3-month moving average of that z-score. The Inflation Regime is determined by both the level and the change in the indicator, requiring two months in the same cycle in order to confirm a new regime. Information is the opinion of CBRE Investment Management, which is subject to change and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. Forecasts and any factors discussed are not a guarantee of future results.

Questions?



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Lauren Goodwin

Definitions and Disclosures

Breakeven inflation rates are derived from the difference in yields between nominal bonds and inflation-linked bonds of the same maturity. It serves as a market-based indicator of inflation expectations over a specific time horizon.

Capex, or capital expenditure, refers to investment used by a company to acquire, upgrade, and/or maintain assets.

Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

Core Consumer Price Index (Core CPI) is the Consumer Price Index excluding the more volatile prices of food and energy.

Earnings per share is the monetary value of earnings per outstanding share of common stock for a company.

The FTSE High Dividend Yield Index focuses on companies listed on the FTSE that pay higher than average dividends.

The MSCI U.S. Quality Index captures large and mid-sized U.S. stocks exhibiting positive fundamentals (high return on equity, stable year-over-year earnings growth, and low financial leverage).

The National Bureau of Economic Research (NBER) traditionally defines recession as a significant decline in economic activity that is spread across the economy and that lasts more than a few months.

The nominal 10-year Treasury yield represents the interest received from a U.S. 10-year government bond without adjusting for inflation. It is the yield expressed in current dollars.

The real 10-year Treasury yield represents the yield adjusted for changes in the purchasing power of money.

Real gross domestic product (GDP) is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy.

The S&P 400 Growth Equity Index focuses on the growth segment of the S&P 400 with higher price-to-book ratios and higher expected growth.

The S&P 400 Value Equity Index focuses on the value segment of companies in the S&P 400 with lower price-to-book ratios and lower expected growth.

The S&P 500 Index is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance.

The S&P 500 Growth Equity Index tracks the performance of the growth segment of the S&P 500, comprising of companies with higher price-to-book ratios and higher expected growth.

The S&P 500 Value Equity Index tracks the performance of the value segment of the S&P 500, comprising of companies with lower price-to-book ratios and lower expected growth.

The S&P 1000 Growth Equity Index measures the performance of the growth segment of the S&P 1000 with higher price-to-book ratios and higher expected growth.

Definitions and Disclosures

The S&P 1000 Value Equity Index measures the performance of the value segment of companies in the S&P 1000 with lower price-to-book ratios and lower expected growth.

The S&P High Beta Index consists of the 100 stocks from the S&P 500 with the highest sensitivity to market movements, or beta.

The S&P 500 Low Volatility Index is comprised of the 100 least-volatile stocks within the S&P 500.

The Senior Loan Officer Opinion Survey on Bank Lending Practices is a quarterly survey conducted by the Federal Reserve on the standards and terms of the banks' lending and the state of business and household demand for loans.

All investments are subject to market risk, including possible loss of principal. Diversification cannot assure a profit or protect against loss in a declining market.

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