WJ Charts of the Month

September 2024

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WJ Charts of the Month Intro

"WJ Charts of the Month" is a comprehensive monthly slide deck designed to showcase recent significant financial events and data. The presentation is organized into four sections, beginning with a "Highlights" slide that sets the stage for the subsequent content.

1. What Happened Last Month: This section features a curated collection of charts and images from various publications, offering a visual summary of the previous month's key events.

2. WJ State of the Economy: Our team at WJ has created an array of charts to emphasize crucial economic factors and trends.

3. WJ State of the Markets: Similarly, this section comprises a series of charts crafted by WJ to provide an overview of the core markets we monitor.

We strive to maintain consistency across the charts to facilitate easy comparison month-over-month. However, we may adjust or emphasize specific charts if their relevance shifts over time.

Our objective with this publication is to establish a "One-Stop Shop" for the most vital financial information, presented in a concise and easily digestible format. **We value your feedback to help us achieve this goal.** If you have suggestions regarding the format, or if there's particular information you'd like to see in future editions, please don't hesitate to let us know.

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Highlights

The Fed Cut Rates

Rate Cuts ≠ Recession

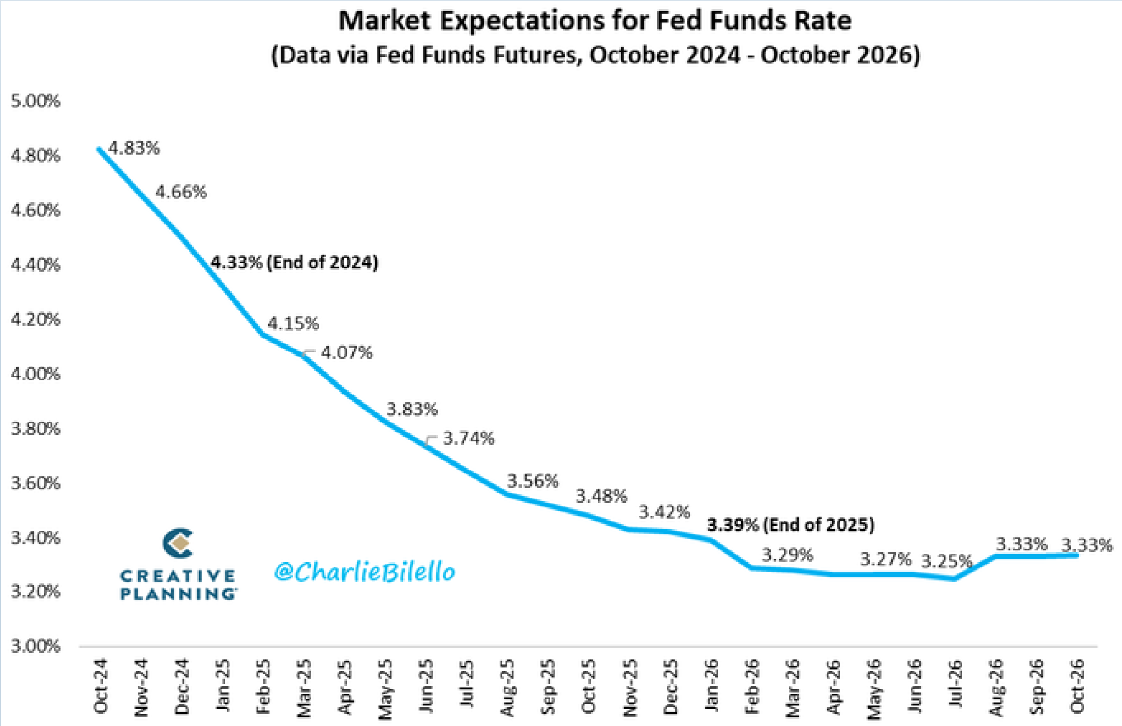
Big China Stimulus

Inflation Nearly Back to Target

Periodic Table, Everything's Up

What Happened

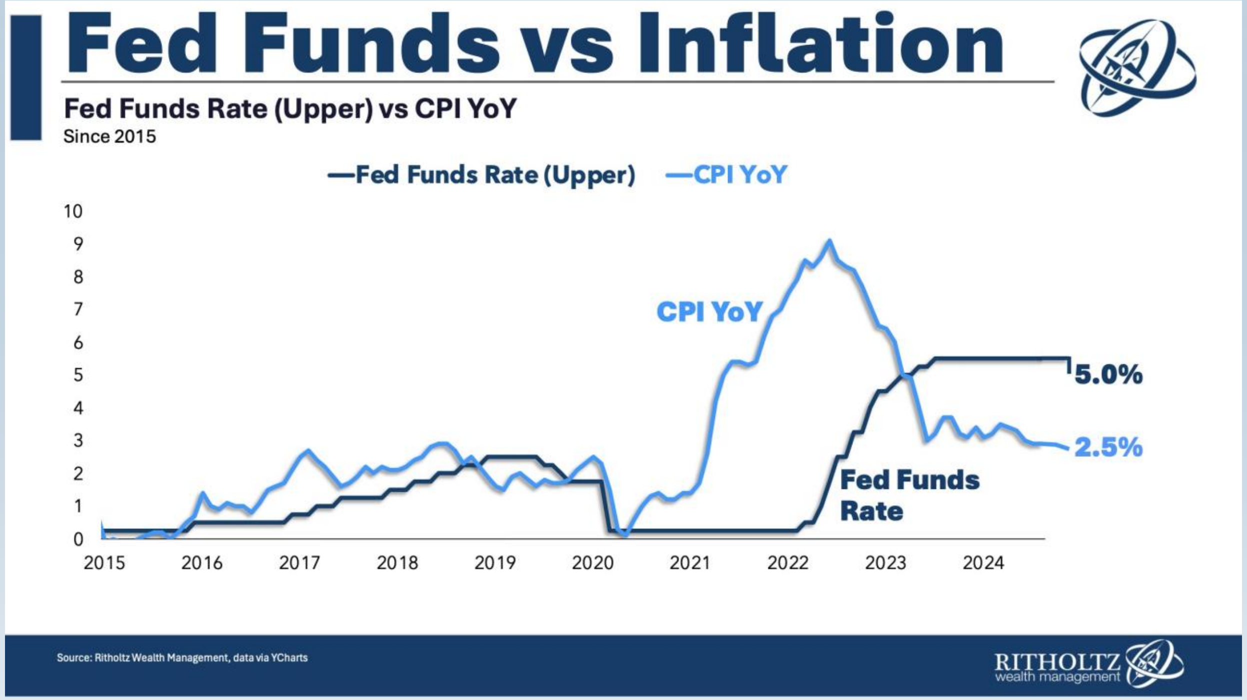
The Fed Cut Rates



They finally did it. Starting in 2022, they raised rates from about 0% to 5% in 2023. Then the waiting game started, as they were left unchanged for over a year.

Finally, during the highly anticipated September Fed meeting, they decided to take the more aggressive route and cut .5% rather than .25%. (2 cuts instead of 1). This was due to their confidence that inflation was down for good, along with some concerning employment data they wanted to get ahead of.

The chart on the left shows the markets expectation for what interest rates will be in the future.



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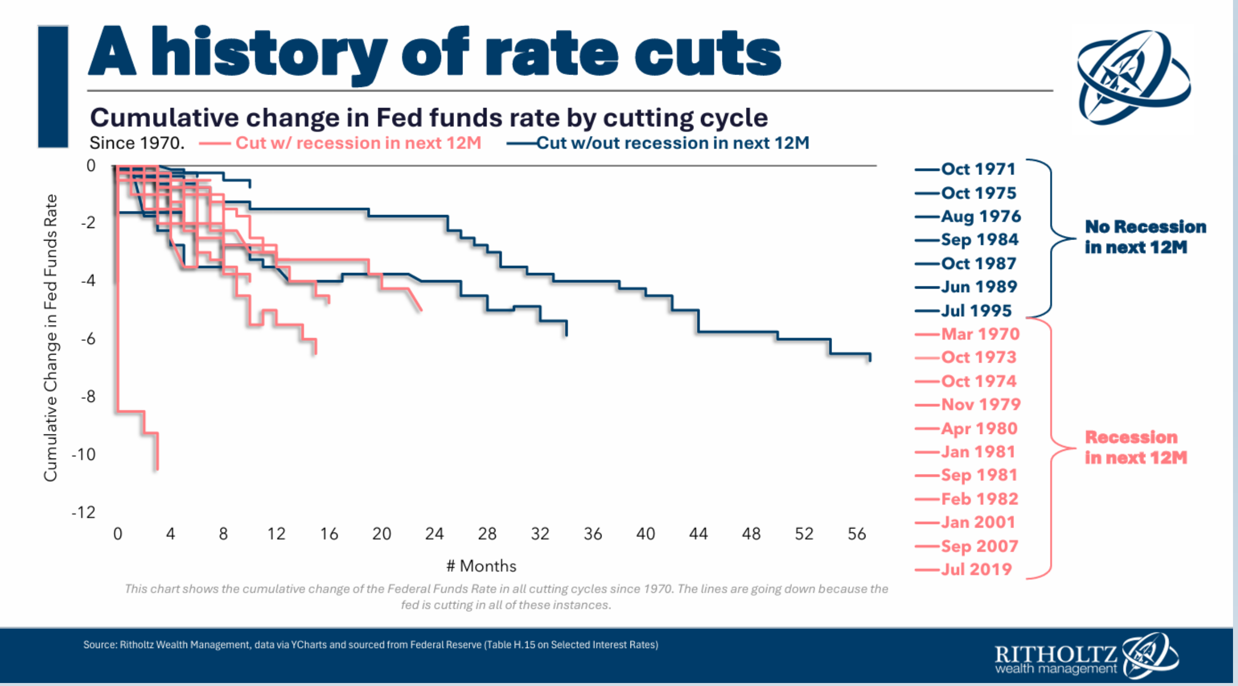
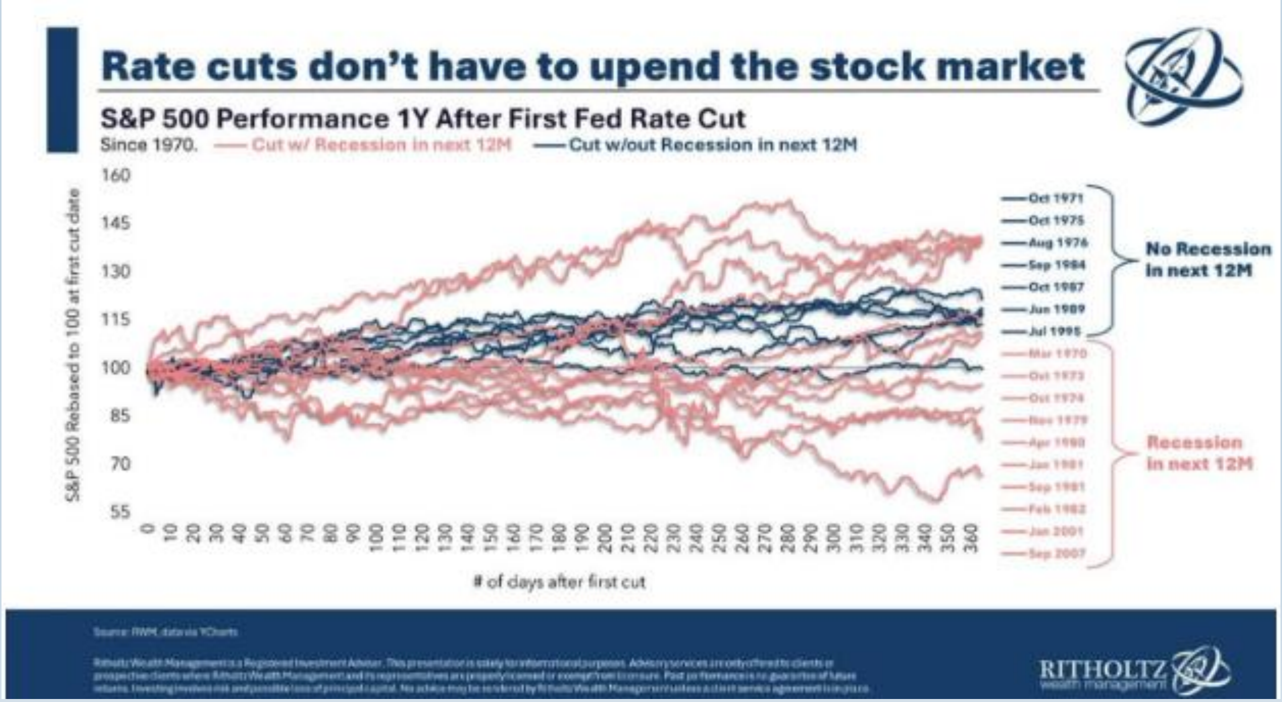
Rate Cuts ≠ Recession

It’s true that during recessions, the Fed cuts rates to stimulate the economy. That doesn’t mean that every time they cut rates, we have a recession. The chart on the right shows how quickly the Fed has cut rates in previous cycles. The blue lines are instances where there was no recession, and the pink are when there is a recession.

The other chart is similar but shows US Stock performance after the Fed starts cutting rates. If there is no recession, stocks have always ended up higher a year later, and its roughly 50/50 if there was a recession.





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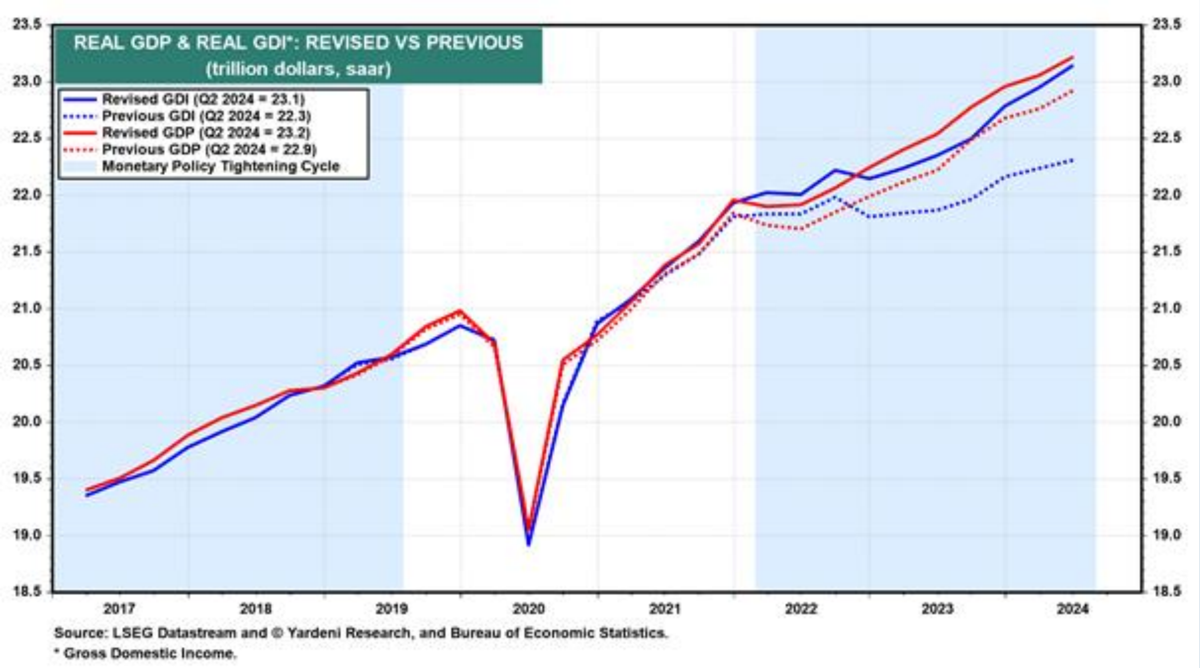
Rates Went Up?

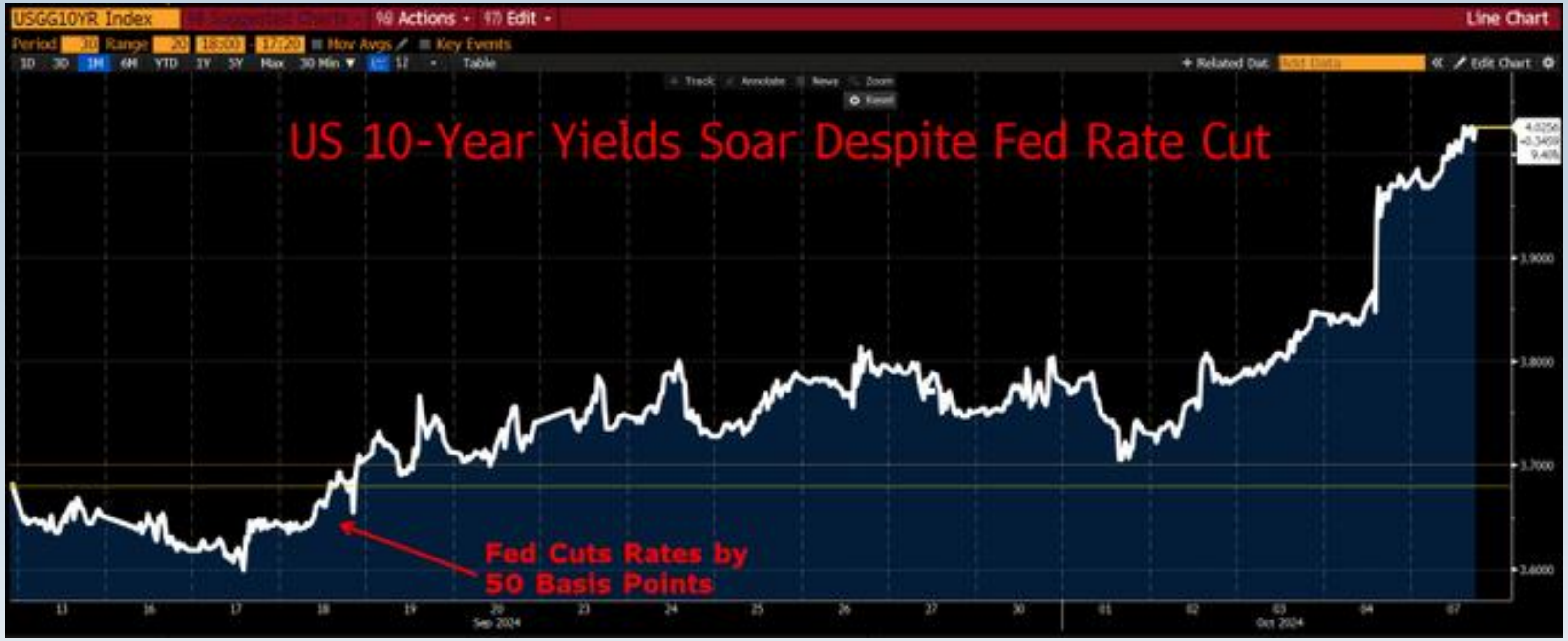
Counterintuitively, since the Fed cut the Fed Funds Rate (short term rate), longer term interest rates have INCREASED.

There are two main explanations for this. First, it likely means markets were pricing in the rate cuts already, so when it finally happened investors “sold the news”.

Second, economic data since the Fed cut has come in stronger than expected, which means the Fed may be hesitant to cut more in the future. The top chart is a key example. Past GDP gets revised regularly as more data comes in. The dotted lines show GDP/GDI (similar metrics for economic growth) before the latest revision, and the solid lines show after the latest revisions.

The revisions show that economic growth has been higher than we’ve been accounting for the last several years. Maybe the Fed doesn’t need to be as aggressive on cutting rates…





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Short-term Data Agrees

Government Data can be a bit abstract, and you question if it appropriately measures the real economy. I like private, rapidly updating data to get a better look at the how things are day to day.

APOLLO

What are daily and weekly indicators telling us about the US economy?

Daily data:

Restaurant bookings: Strong

TSA air travel data: Strong

Daily debit card data: Strong

Weekly data:

Atlanta Fed GDPNow: 2.5%

Fed's weekly GDP index: 2.3%

Retail sales: Strong

Jobless claims: Sideways

Hotel occupancy rate, daily rate, and RevPAR: Strong

Bank lending to firms and consumers: Growing

Bankruptcy filings: Trending lower

Credit and debit card data: Solid

Global jet fuel demand: Slightly weak

Broadway show attendance: Strong

Box office weekly grosses: Strong

S&P 500 forward profit margins: Near record highs

Business formation: Rebounding

ASA temp worker staffing index: Sideways

Note: Data as of Saturday September 14, 2024. Source: Apollo Chief Economist

China's Economy is in Trouble

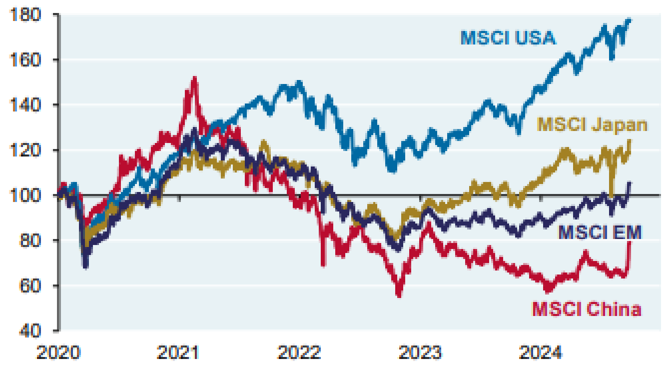
China commerical and residential property prices

Percent, y/y

Source: Bloomberg, JPMAM, July 31, 2024

China underperformance

Index (100 = January 2020)



Source: Bloomberg, JPMAM, September 2024

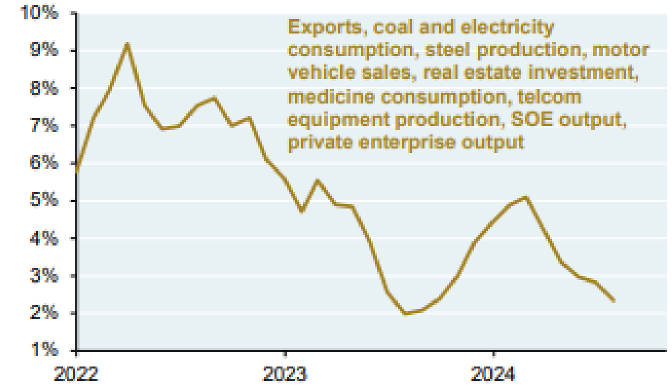
China consumer confidence

Index (100 = 1997)

Source: Bloomberg, JPMAM, July 2024

China economic activity monitor (Bloomberg)

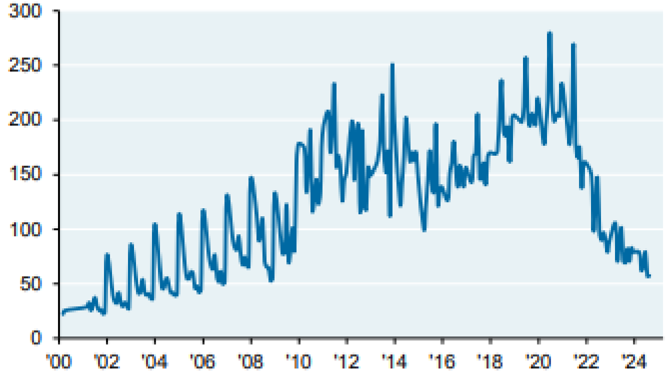
Percent, y/y change



Source: Bloomberg, August 2024

China residential floor space starts

Square meters, millions



Source: Bloomberg, JPMAM, August 2024

These 5 charts are different ways of saying China's economy is contracting sharply. There is a real estate crisis, heavy debt levels, the consumer is weak, and there has been little effort by government or the central bank to pull them out.

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But Help May be Coming

Perhaps this is changing, as the PBoC (central bank) announced a series of dramatic stimulus programs to try and revive the economy. This includes a dramatic drop in rates, easier lending standards, and even creates facilities to purchase Chinese stocks.

The Chinese stock market has soared since the announcement.

[2] What's in the package

Primary Target	Lever	Details
Economy	Monetary	50bp cut to the reserve ratio requirement
		20bp cut to the short-term policy rate (PBoC 7d repo)
		30bp cut to the mid-term policy rate (MLF)
	Fiscal	One-off cash transfer to people living in poverty
	Macro	~50bp cut to the interest rate on exisitng mortgages
		Expand loan guarantees for a program that subsidizes state-owned enterprises to buy vacant homes for conversion to social housing
		Lower down payment requirement on 2nd home purchases to 15% (previously 25%)
		Expand the avalibility of loan extensions to more business
Markets	Monetary	Set up securities, funds and insurance company swap facility to allow more funding for equity purchases
		Set up relending program for stock repurchases and holding increases
	Market Regulation	Advocate and refine the regulation for more mid- to long-term capital to invest in the stock market
		Encourage mergers, acquisitions and restructuring
		Request listed companies to perform market value management (e.g. encourage buybacks)

Source: Bridgewater, JPMAM, 2024

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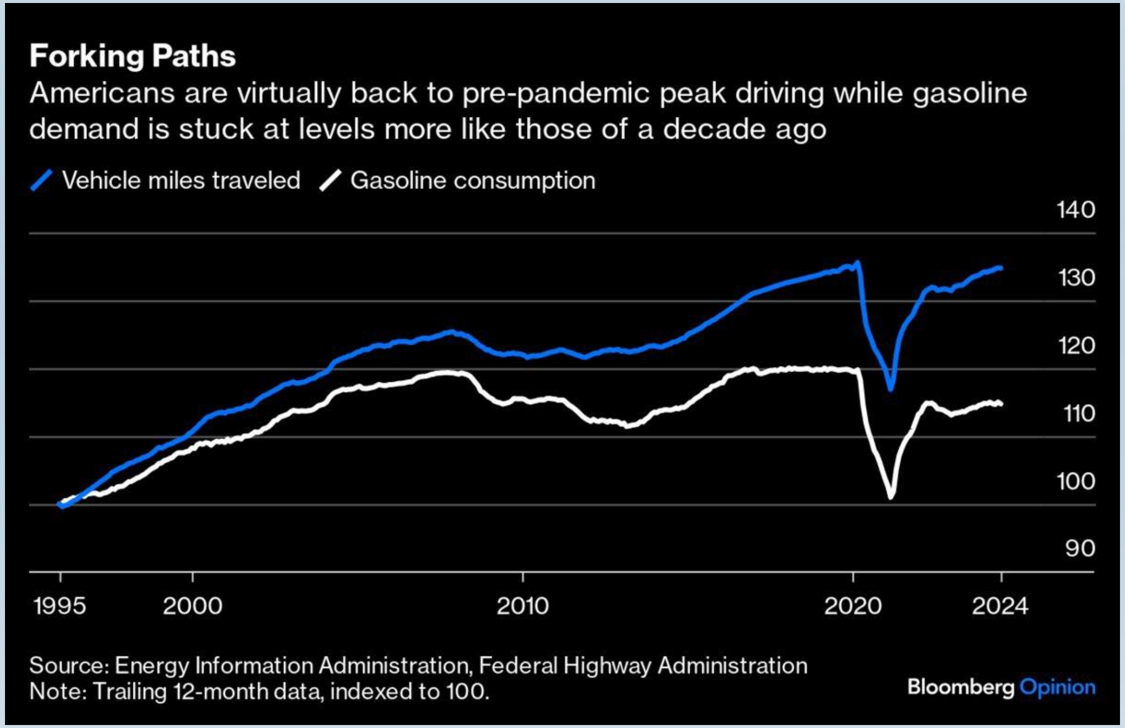
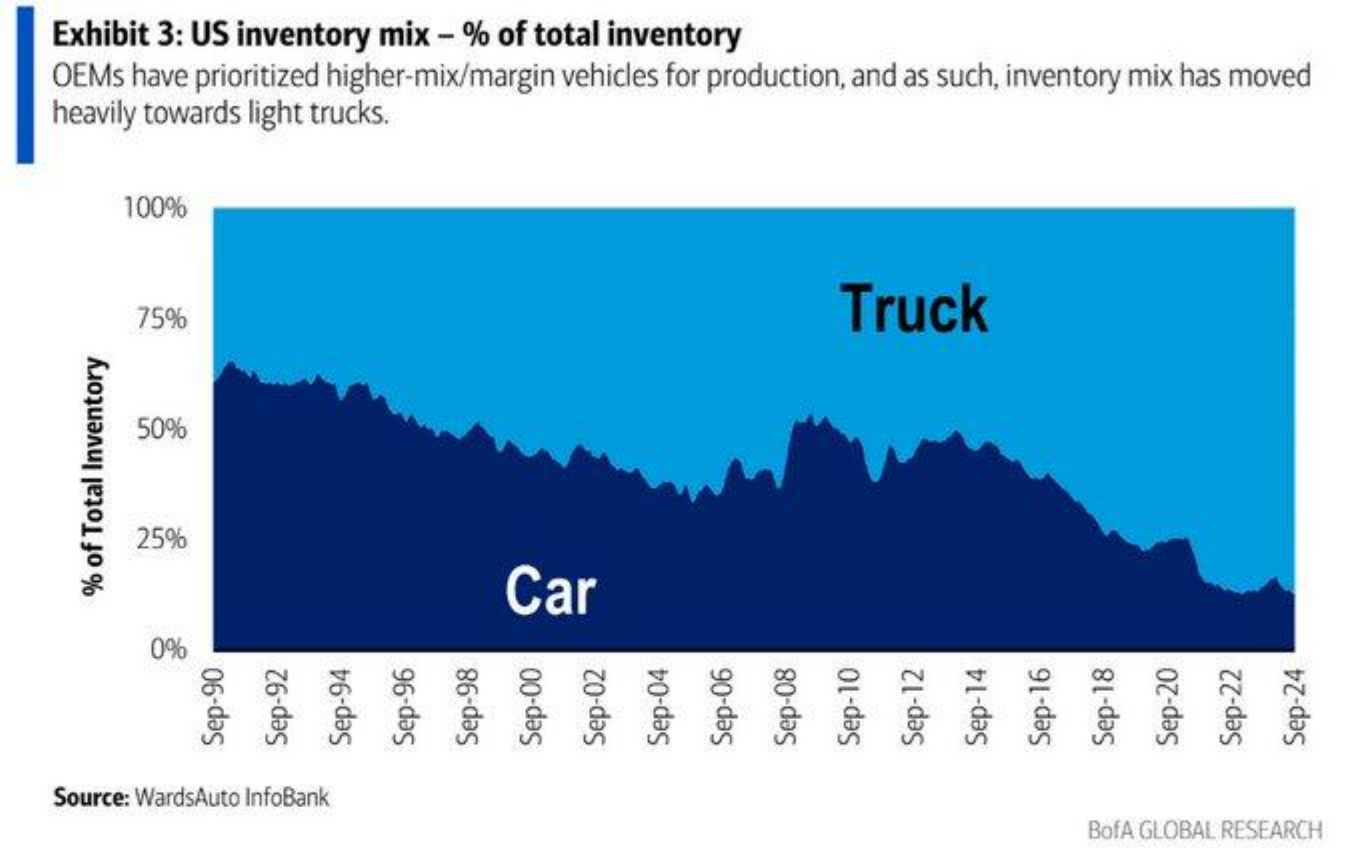
America's Changing Driving Habits

The black chart shows that while the number of miles we drive has returned to pre COVID levels, the amount of gas we consume is declining. My guess is that comes from a combination of more efficient cars and electric vehicles.

The interesting thing is in that same time, America is opting to drive trucks or SUVs, rather than a car. Around 80% of auto production is now trucks and SUVs rather than cars.





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WJ State of the Economy

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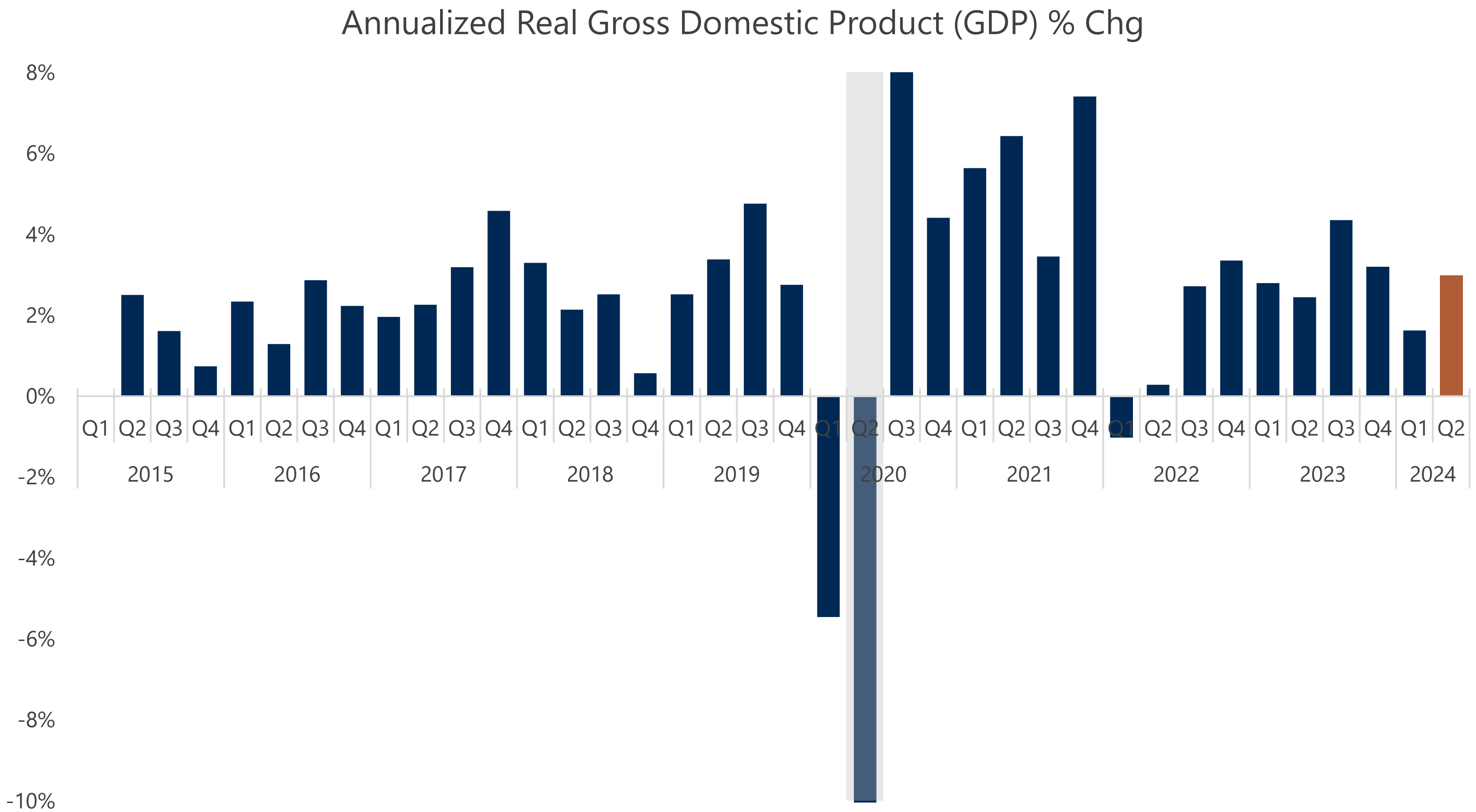
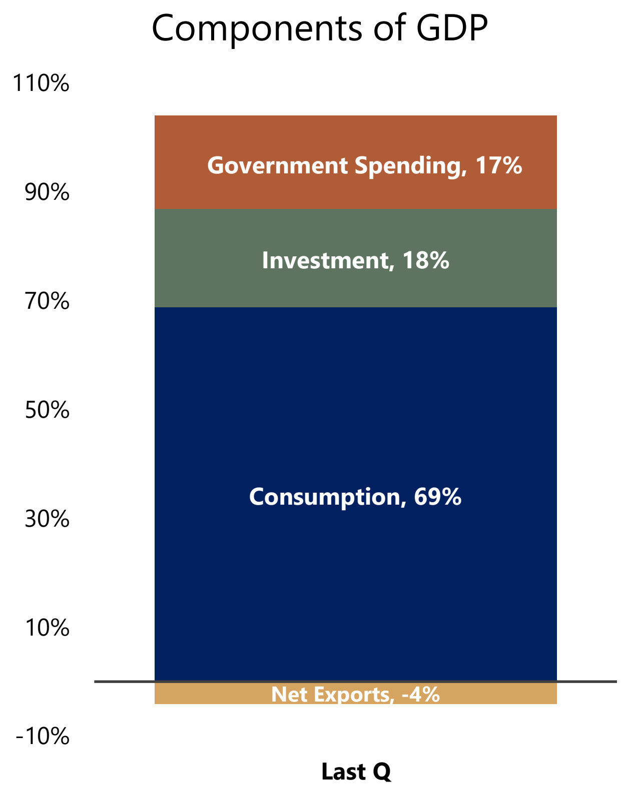
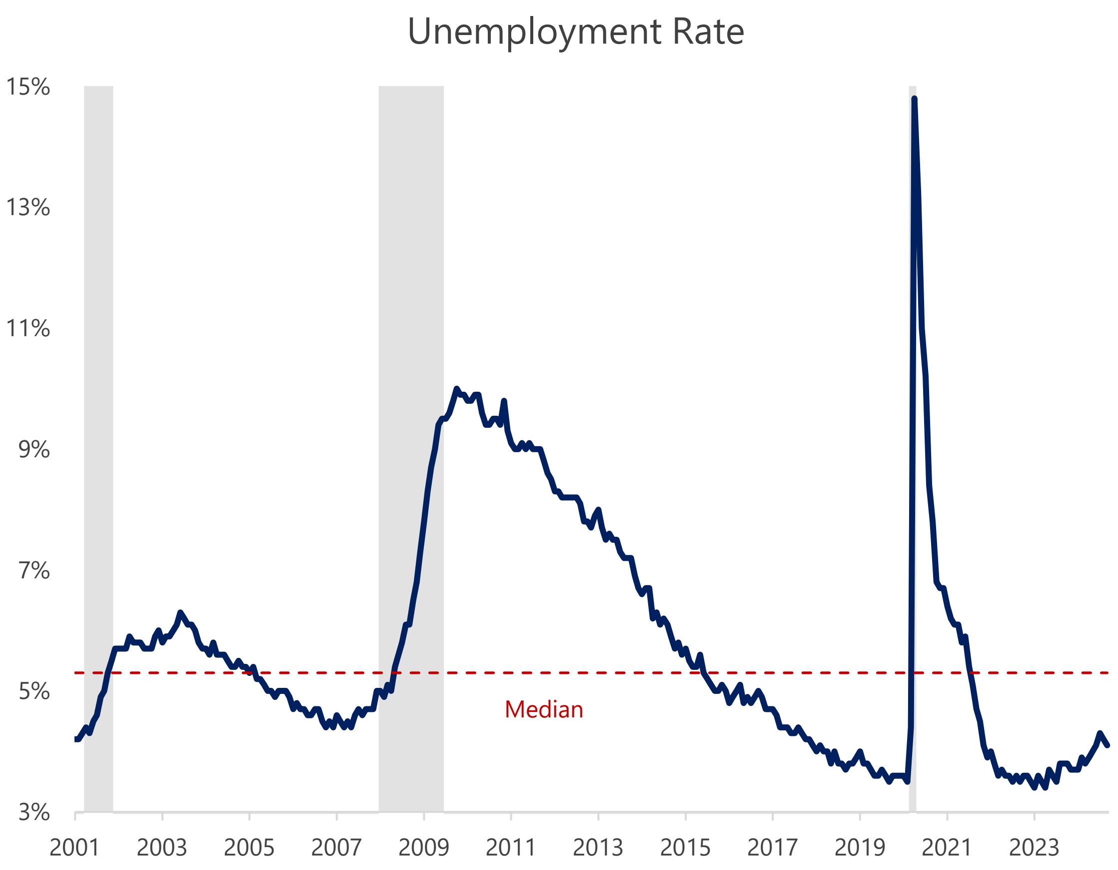
Q2 GDP Revised Up to 3%





Source: Federal Reserve Economic Database (FRED). Real Gross Domestic Product (left). Components from U.S. Bureau of Economic Analysis, "Table 1.1.6. Real Gross Domestic Product, Chained Dollars" (right). Recessions from NBER based Recession Indicators for the United States from the Period following the Peak through the Trough

Job Openings Up, Unemployment Down



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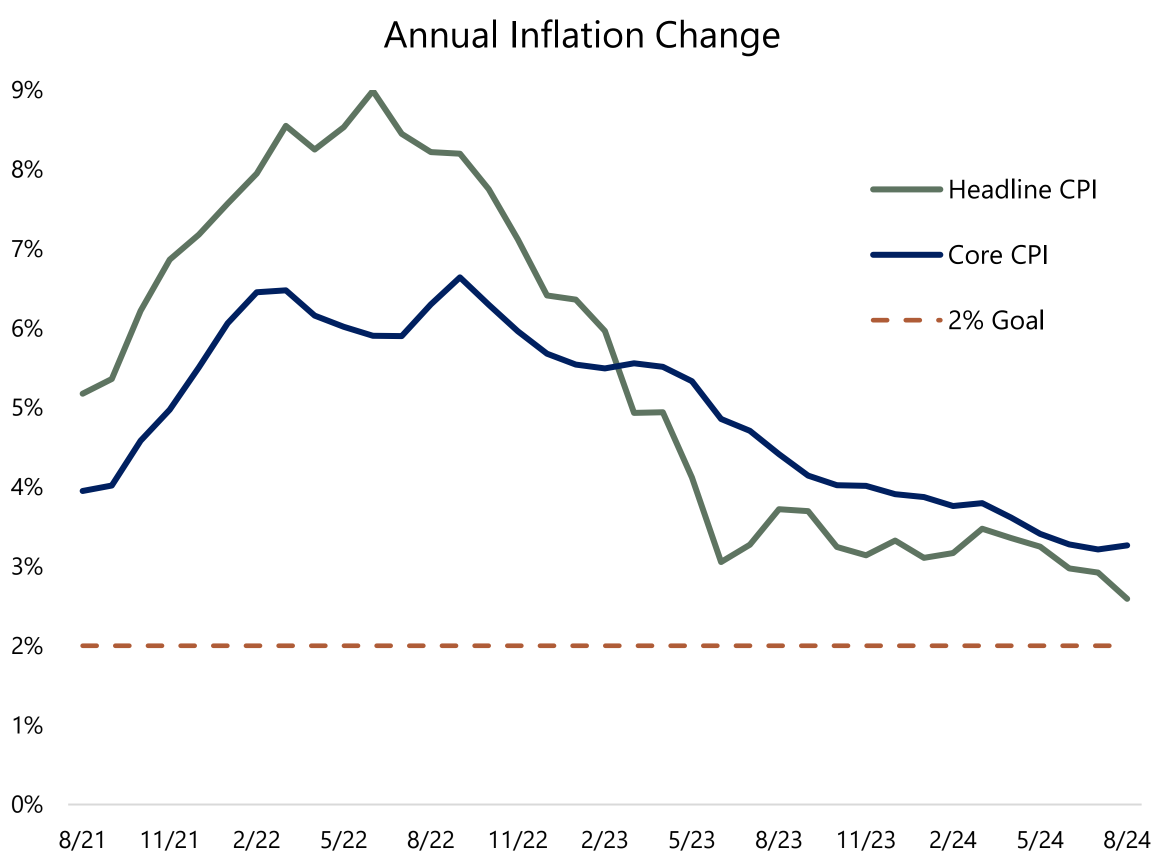
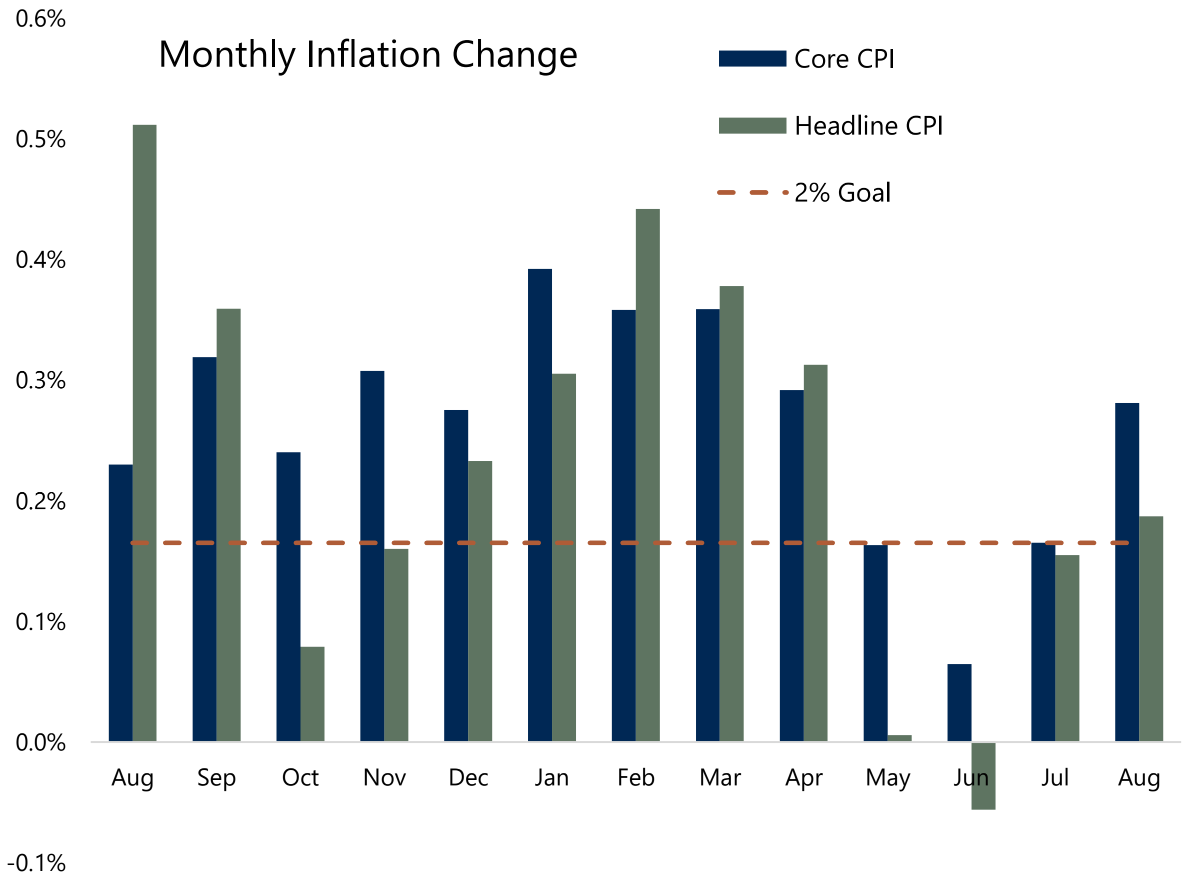
Source: Federal Reserve Economic Database (FRED). Unemployment Rate (left) and Job Openings: Total Nonfarm divided by Unemployment Level as well as Quits: Total Nonfarm (right). Recessions from NBER based Recession Indicators for the United States from the Period following the Peak through the Trough

Inflation Nearly at Target





Source: Federal Reserve Economic Database (FRED). Consumer Price Index. Annual CPI Forecasts are made by WJ using past month over month CPI data and extrapolating forward with different growth rates.

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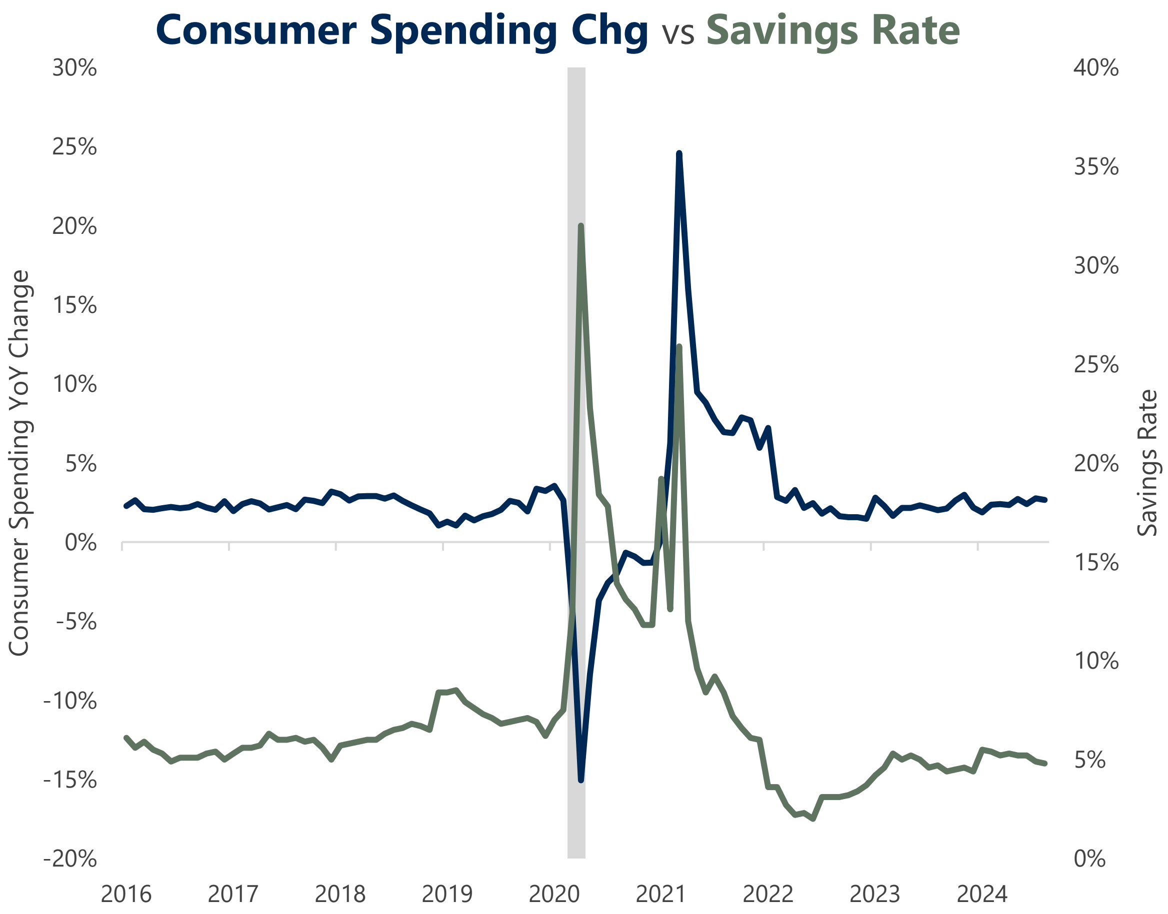
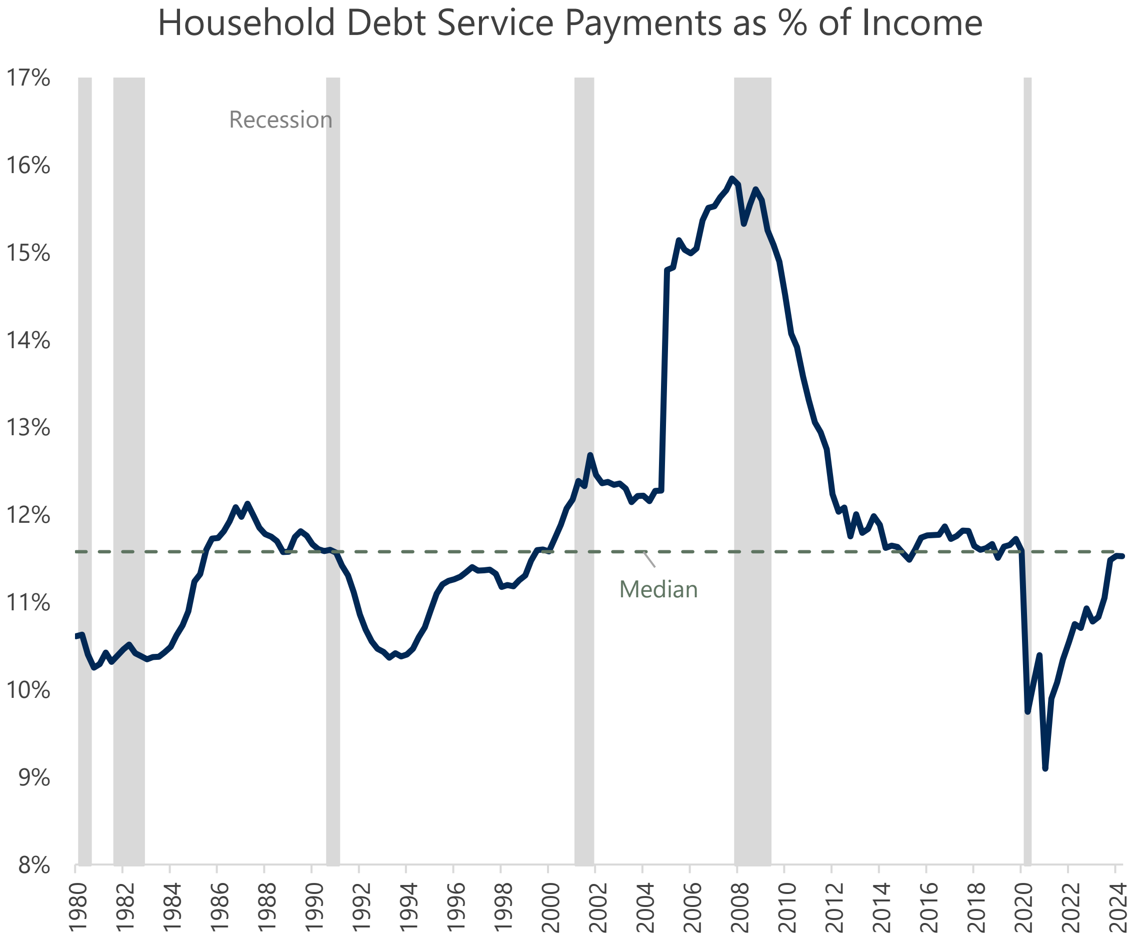
Consumer is Still Strong





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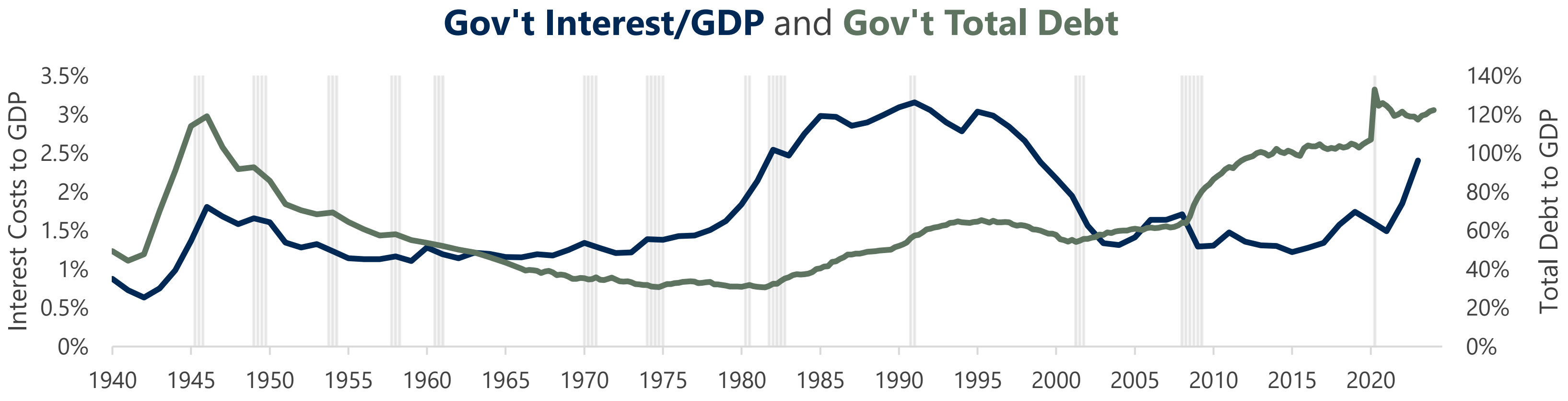
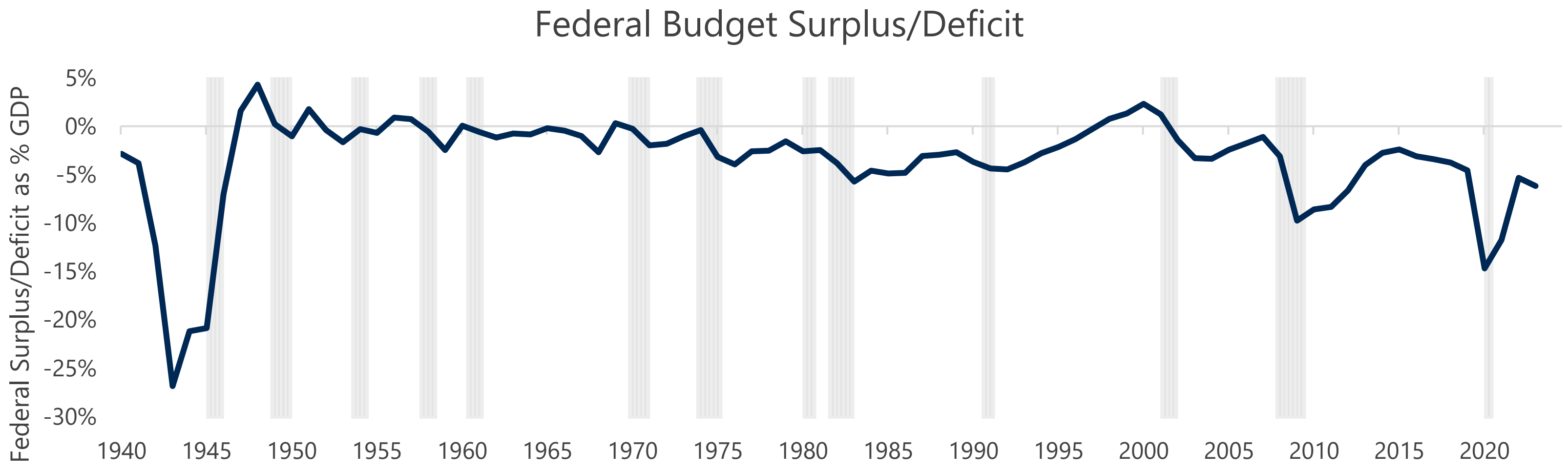
Source: Federal Reserve Economic Database (FRED). Personal Saving Rate plus Real Personal Consumption Expenditures (left) and Household Debt Service Payments as a Percent of Disposable Personal Income (right). Recessions from NBER based Recession Indicators for the United States from the Period following the Peak through the Trough

Government Budget Deficit Increased





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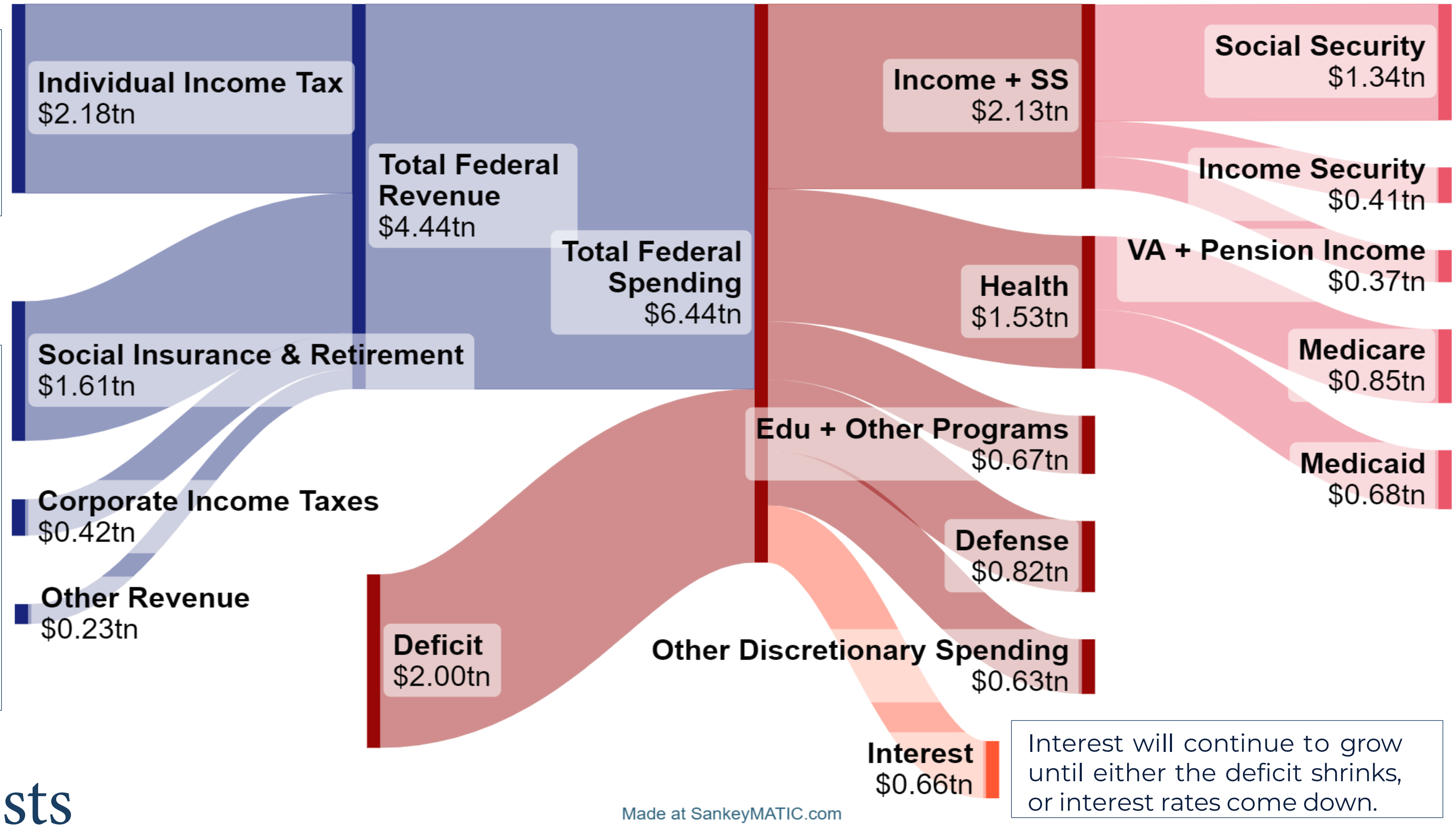
Source: Federal Reserve Economic Database (FRED) Federal Surplus or Deficit [-] as Percent of Gross Domestic Product (top) and Federal Debt: Total Public Debt as Percent of Gross Domestic Product plus Federal Outlays: Interest as Percent of Gross Domestic Product (bottom). Recessions from NBER based Recession Indicators for the United States from the Period following the Peak through the Trough

Government Expenditures 2023

This is an in depth look at how the US makes and spends money. On the spending side, the top 3 categories are known as “mandatory spending” and are unable to change without major reform. That leaves “Defense” and “Other Discretionary Spending” as the two categories congress can change on any year.

Income taxes receipts were lower than budgeted, partly due to a bad 2022 that produced low capital gains taxes.

A major part of “other revenue” the last decade has been Federal Reserve Remittances, Where the Fed pays the Treasury any interest it makes over what it pays. With the Fed Funds Rate high, this income has gone away, but could return if rates went down.



Social Security and Medicare are forecasted to grow rapidly as baby boomers enter retirement. Other programs will fall as a percent of spending.

Interest will continue to grow until either the deficit shrinks, or interest rates come down.

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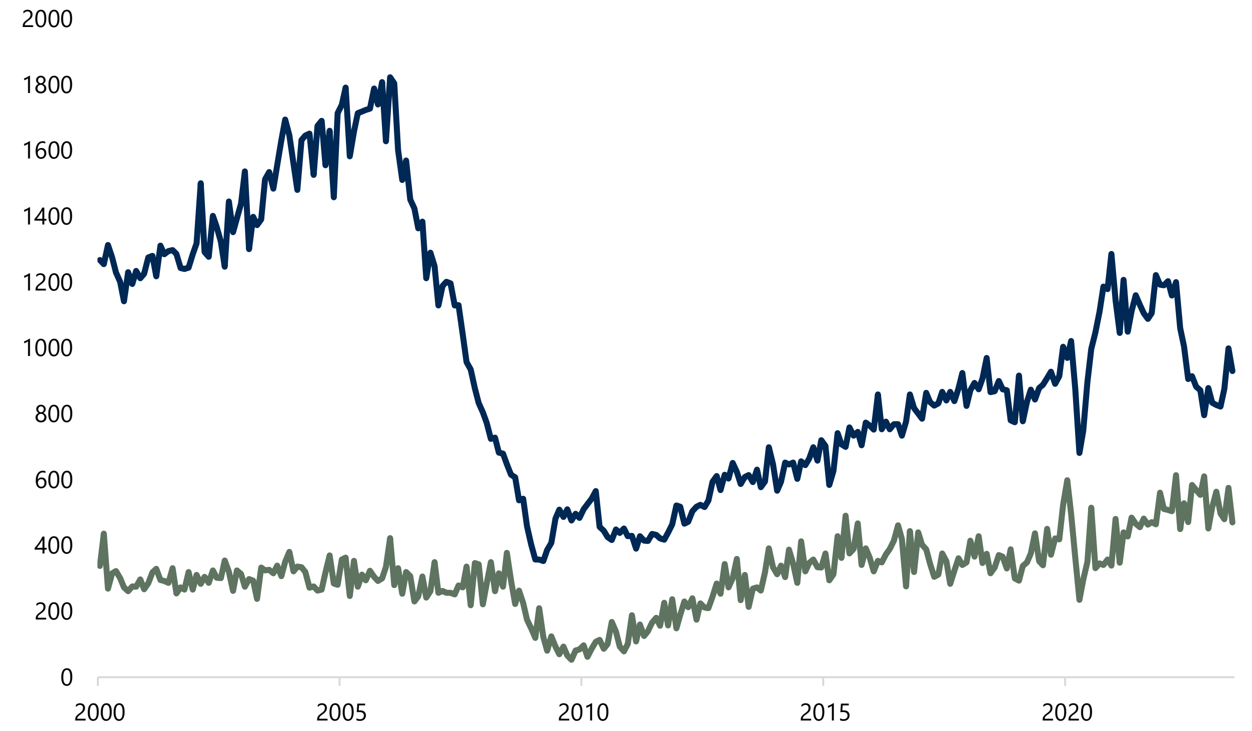
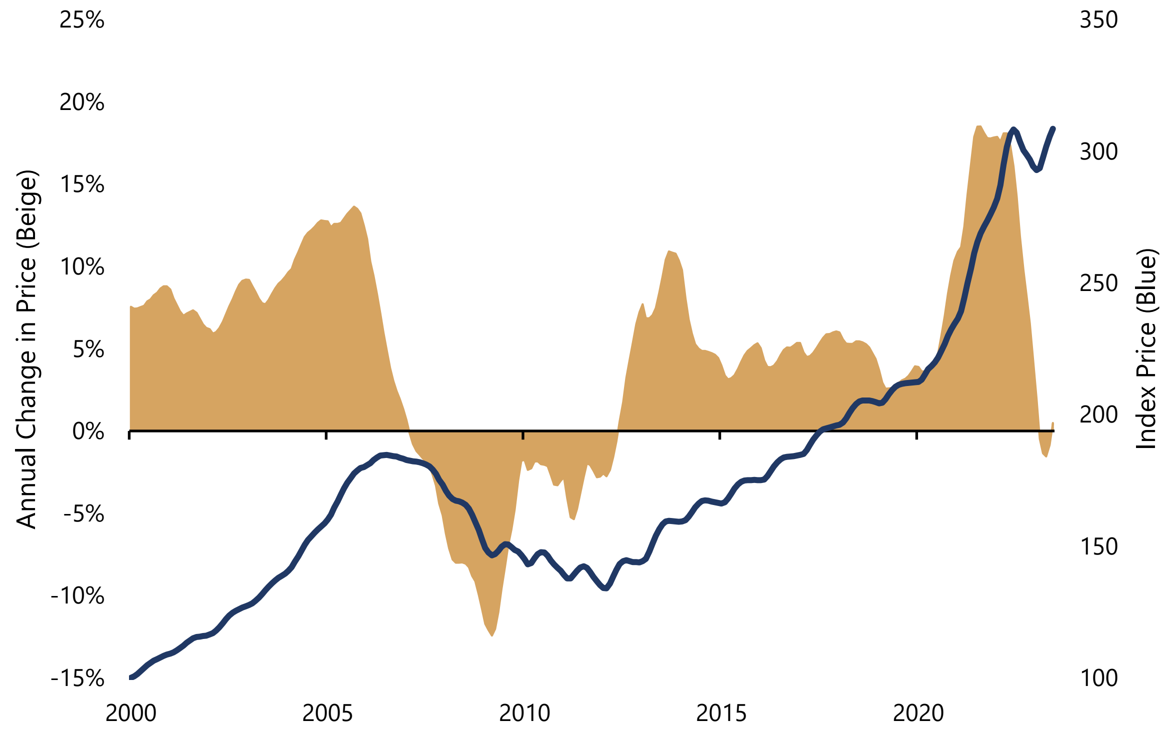
Source: https://www.cbo.gov/publication/59544/html

Housing Prices High While Starts Low

Single-Family and **Multi-family** Housing Starts



U.S. National Home Price Index



A housing start is the beginning of construction on a new residential housing unit and indicates how much new housing supply is on the horizon. On the right we show home prices over time, as well as the annual rate of change. Prices surged in 2021-2022 but have stopped growing altogether. What they do next will depend on how much pent-up demand there is, and how much housing we build going forward. Note of how significantly starts dropped after the 2008 crisis, and led to the undersupply we have today.

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Source: Federal Reserve Economic Database (FRED) (LEFT)New Privately-Owned Housting Units Starts: Single-Family Units and New Privately-Owned Housting Units Started: Units in Buildings with 5 units or More. (RIGHT) S&P CoreLogic Case-Shiller U.S. National Home Price Index

WJ State of the Markets

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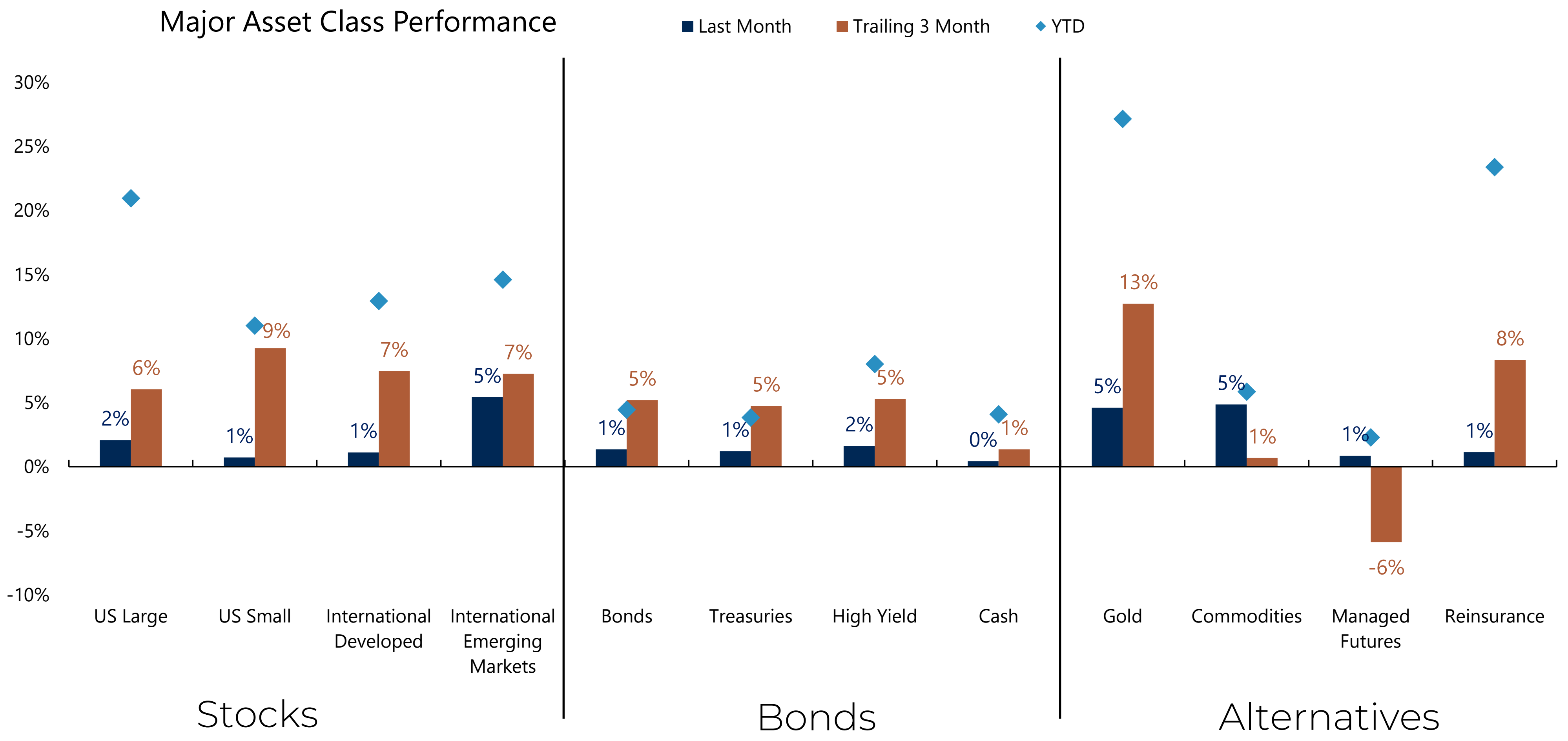
Everything is Up for the Year



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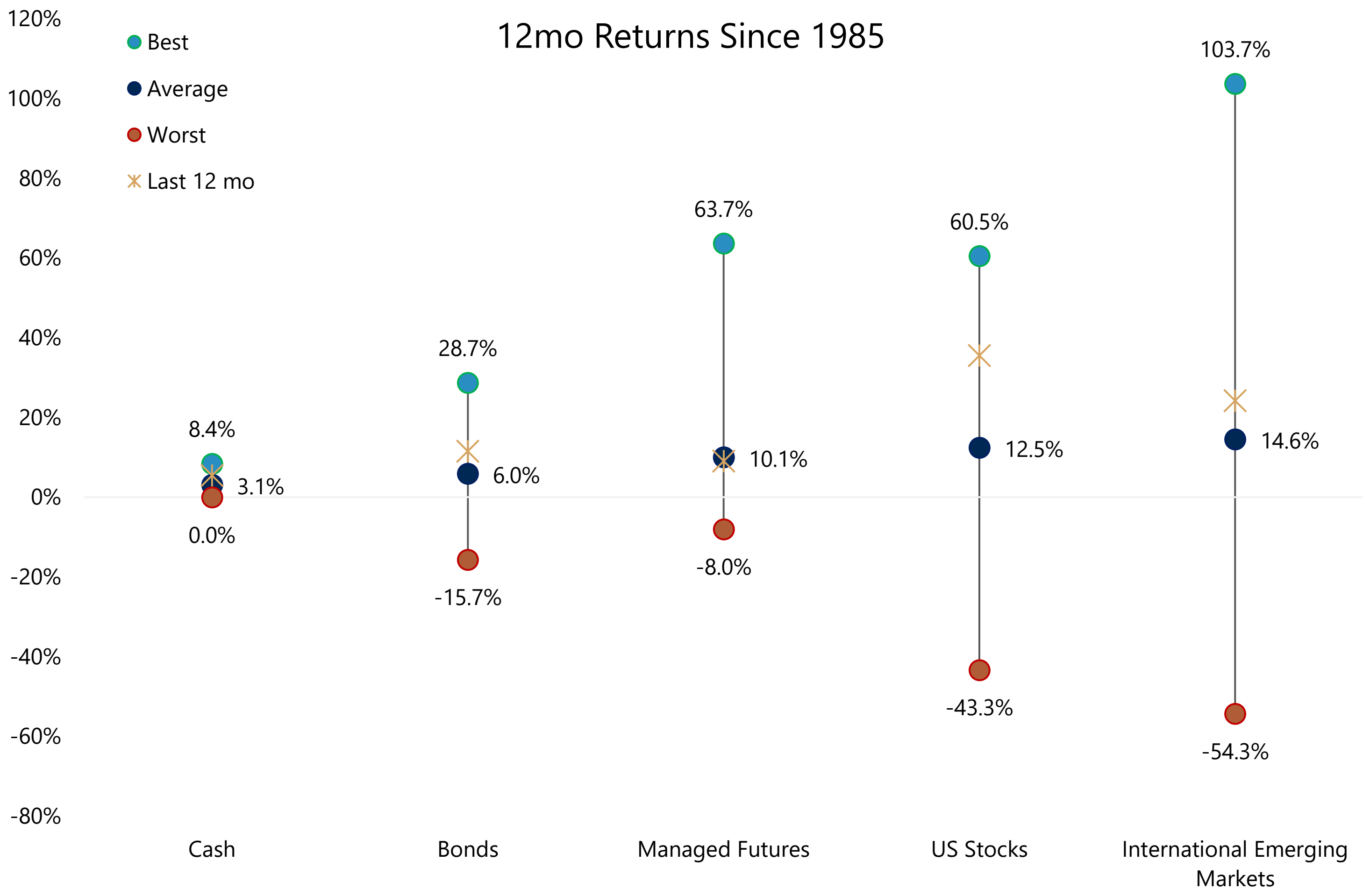
Source: Morningstar Direct. Categories in table are represented by (left to right) iShares Russell 1000 (IWB), iShares Russell 2000 (IWM), iShares Core MSCI EAFE (IEFA), iShares Core MSCI EM (IEMG), Bloomberg US Agg Bond TR, Bloomberg US Treasury TR USD, Bloomberg US Corporate High Yield TR USD, IA SBBI US 30 Day TBill TR USD, SPDR Gold Shares, Bloomberg Commodity TR USD, CISDM CTA EW USD, Stone Ridge Reinsurance Fund

Historical Asset Class Return Range



This chart shows the range of 12 month returns historically, by asset class. As you'd expect, the riskier investment leads to a greater potential gain, as well as loss.

The X on the line represents the last 12 months.

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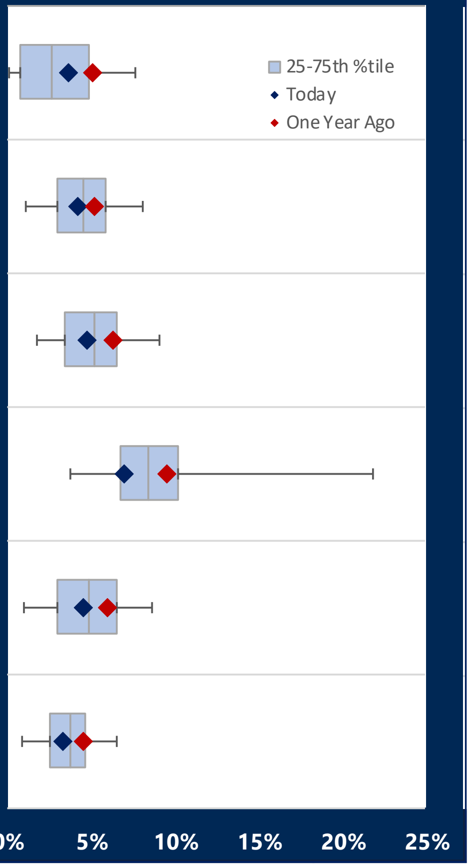
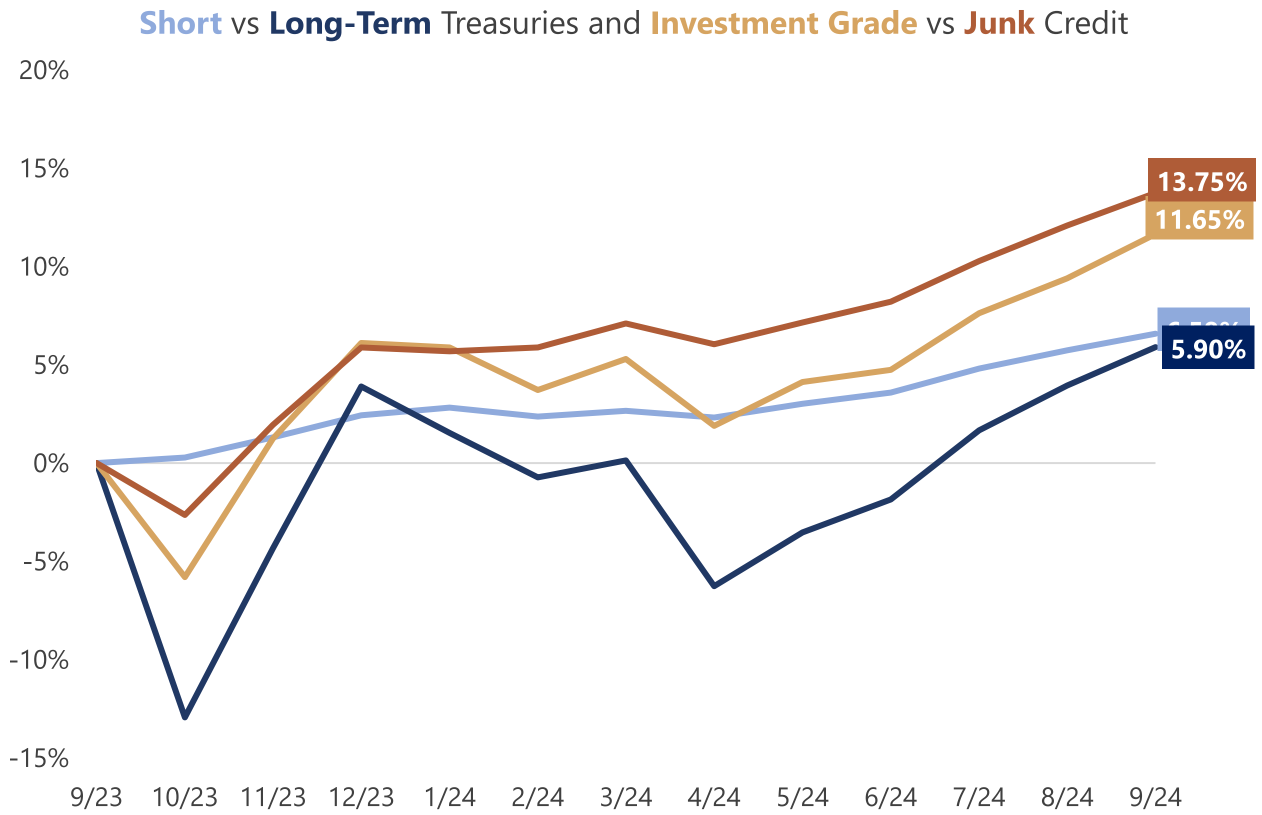
Source: Morningstar Direct. Categories in table are represented by (left to right) IA SBBI US 30 Day TBill TR US, Bloomberg US Agg Bond TR USD, CISDM CTA EW USD, iShares Russell 1000 (IWB), iShares Core MSCI EM (IEMG). Historical data starts at common inception in 1985.

Yields Down, Returns Up in Last Year

Bond Type	Yield (%) Last Month	Last Year	Change
ST Treasury	3.7	5.13	-1.43
LT Treasury	4.21	5.19	-0.98
Investment Grade	4.72	6.35	-1.63
High-Yield	6.99	9.49	-2.5
Mortgage-Backed	4.53	5.93	-1.4
Municipal Bonds	3.32	4.49	-1.17

Yield History





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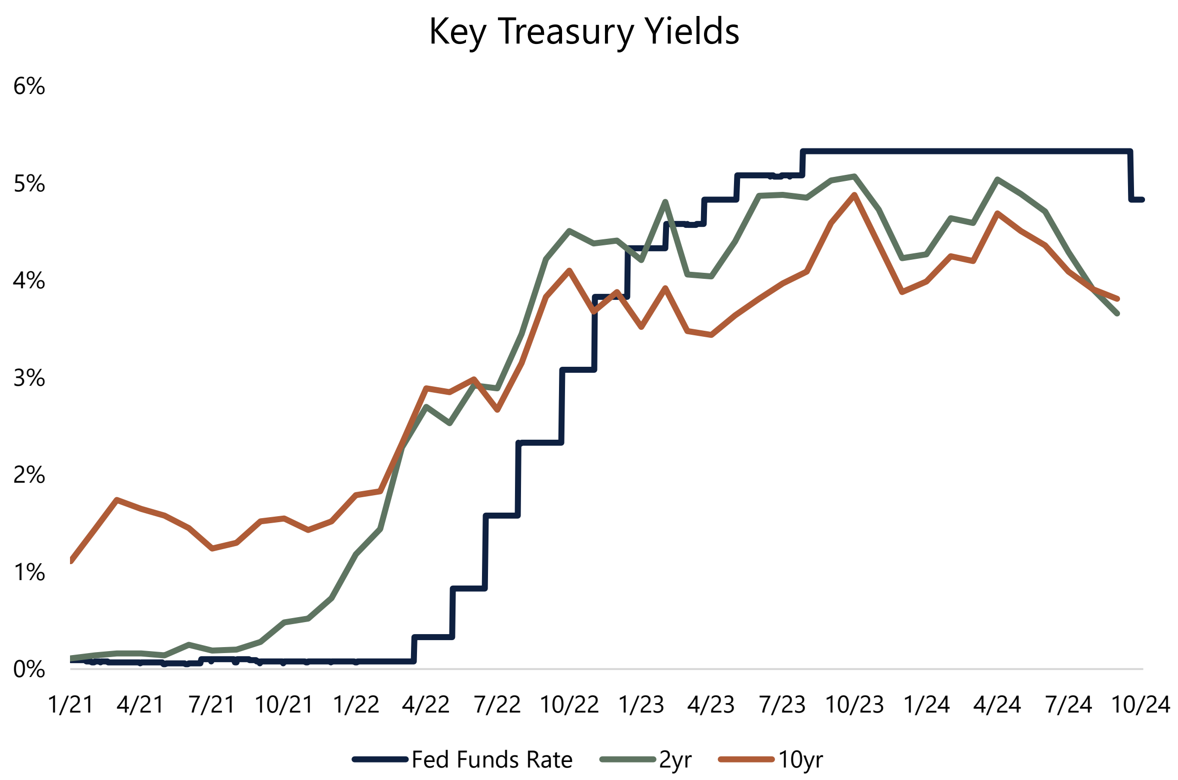
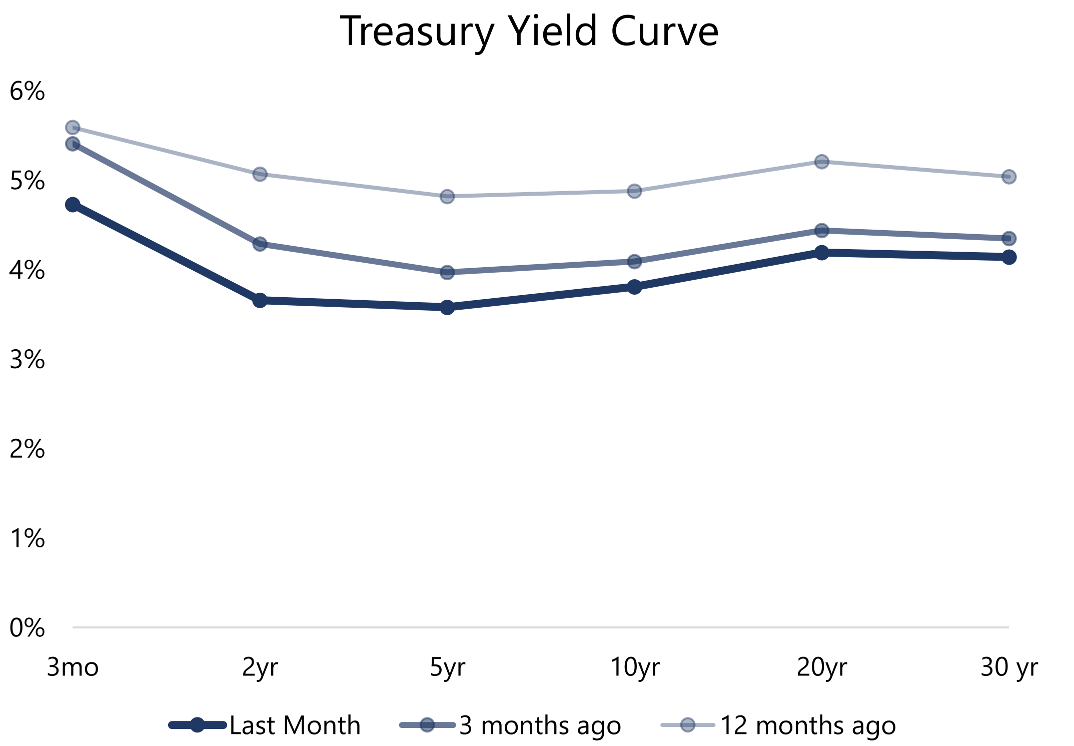
Source: Morningstar Direct. Categories in table are represented by (top to bottom) Bloomberg US Treasury 1-3 Yr Yld USD, Bloomberg US 20+Yr Yld USD, Bloomberg US Corp Bond Yld USD, Bloomberg US Corp High Yield Yld USD, Bloomberg US MBS Yld USD, Bloomberg Municipal Yld USD

The Fed Cut 50 Bps, The curve is Un-inverting





	3mo	2yr	5yr	10yr	20yr	30 yr
Last Month	5.2%	3.9%	3.7%	3.9%	4.3%	4.2%
3 months ago	5.5%	4.7%	4.3%	4.4%	4.6%	4.5%
12 months ago	5.6%	5.0%	4.6%	4.6%	4.9%	4.7%

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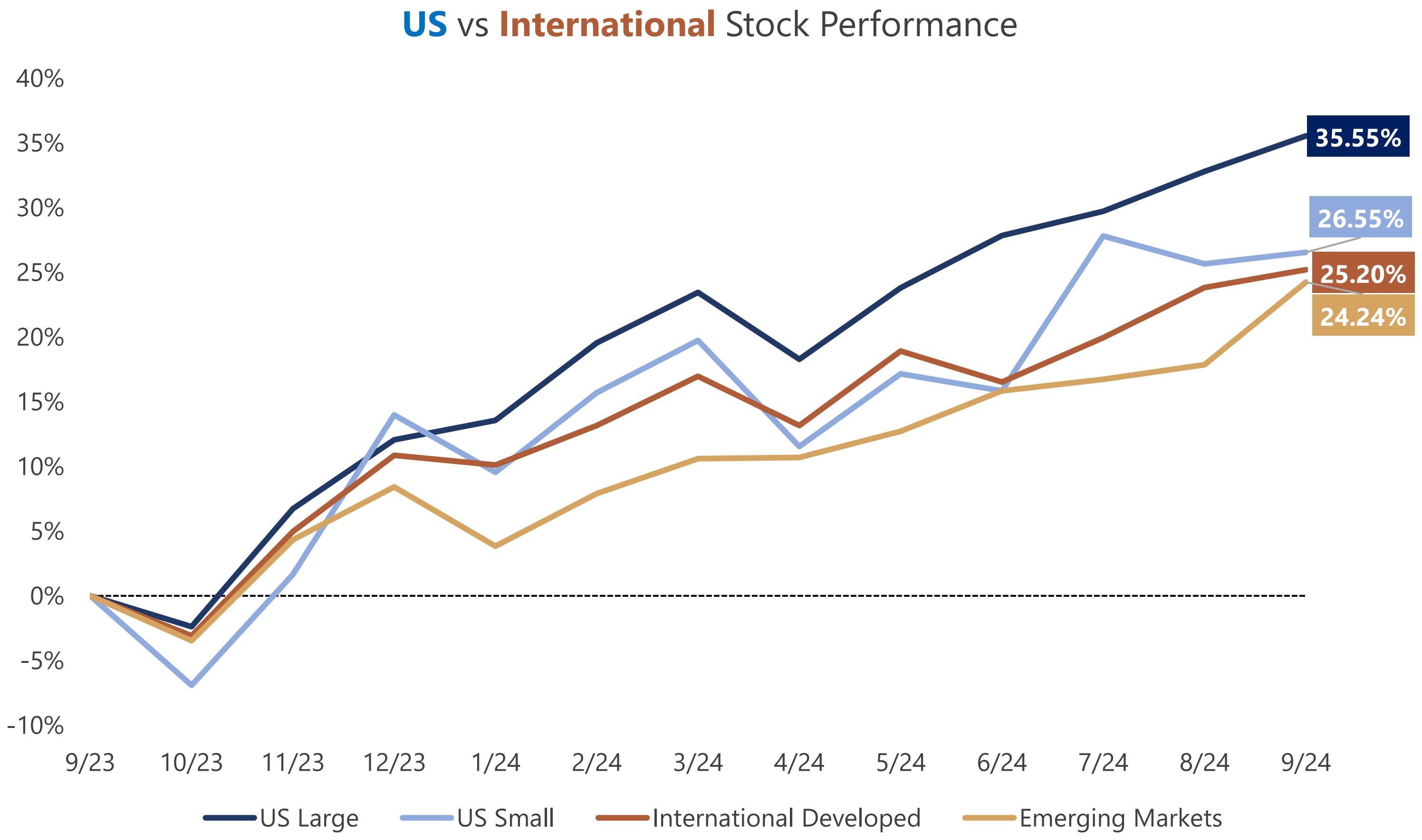
Source: Morningstar Direct. USTREAS T-Bill Cnst Mat Rate 3mo, USTREAS T-Bill Cnst Mat Rate 2 yr, USTREAS T-Bill Cnst Mat Rate 5yr, USTREAS T-Bill Cnst Mat Rate 10 Yr, USTREAS T-Bill Cnst Mat Rate 20 Yr, USTREAS T-Bill Cnst Mat Rate 30 Yr. Effective Fed Funds Rate from FRED Database.

Big Rebound for Small, EM stocks

	Stock Type	Last Month	Last 3 Months	Last 12 Months
Core	US Large	2.1%	6.0%	35.5%
	US Small	0.7%	9.2%	26.6%
	International Developed	1.1%	7.4%	25.2%
	International Emerging	5.4%	7.2%	24.2%
Other	US Value	1.4%	9.4%	27.5%
	US Growth	2.8%	3.1%	42.0%
	Nasdaq	2.5%	2.1%	37.2%



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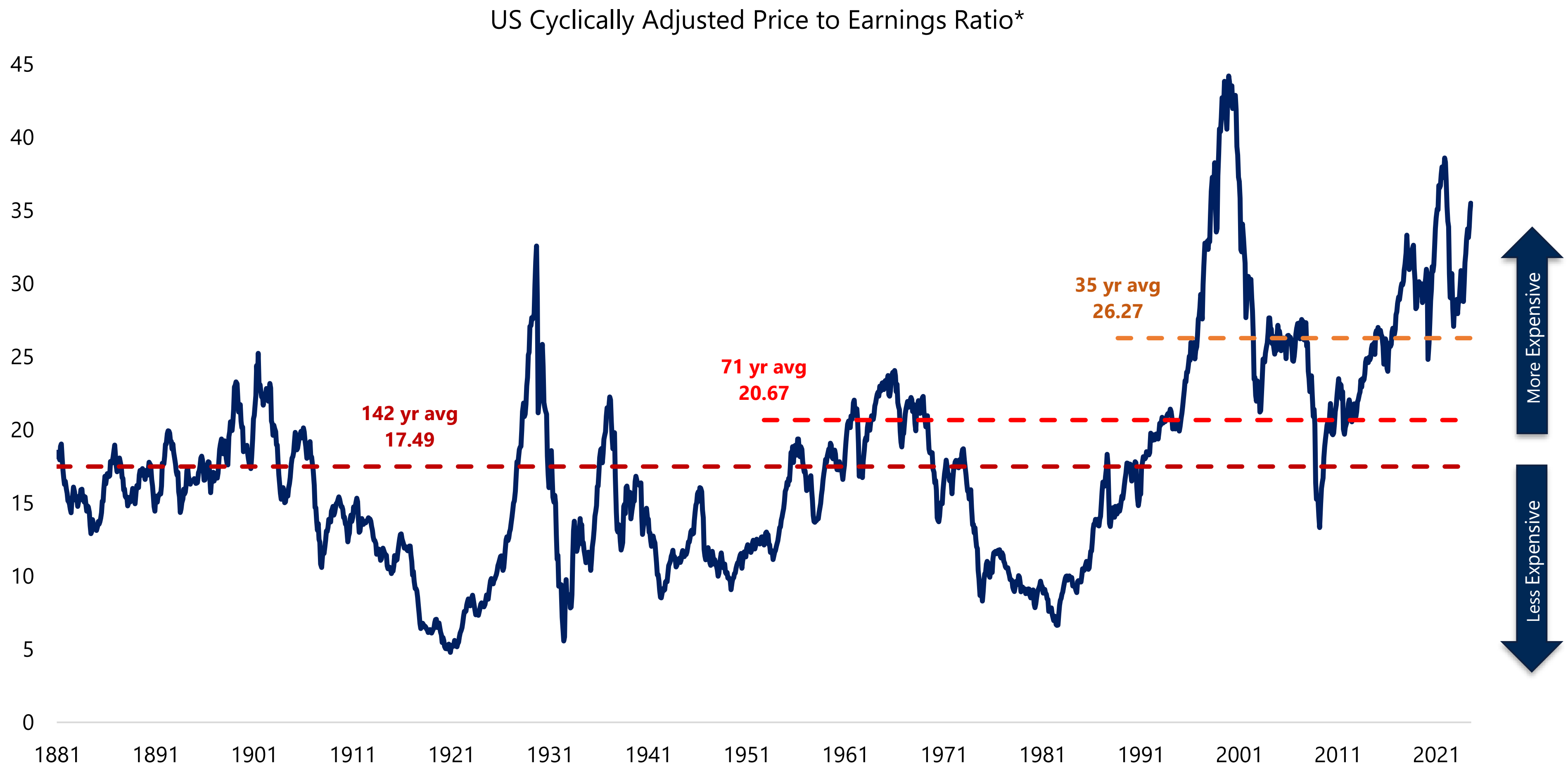
Source: Morningstar Direct. Categories in table are represented by (top to bottom) iShares Russell 1000 (IWB), iShares Russell 2000 (IWM), iShares Core MSCI EAFE (IEFA), iShares Core MSCI Emerging Markets (IEMG), iShares Russell 1000 Value ETF (IWD), Russell 1000 Growth ETF (IWF), Nasdaq 100 ETF (QQQ).

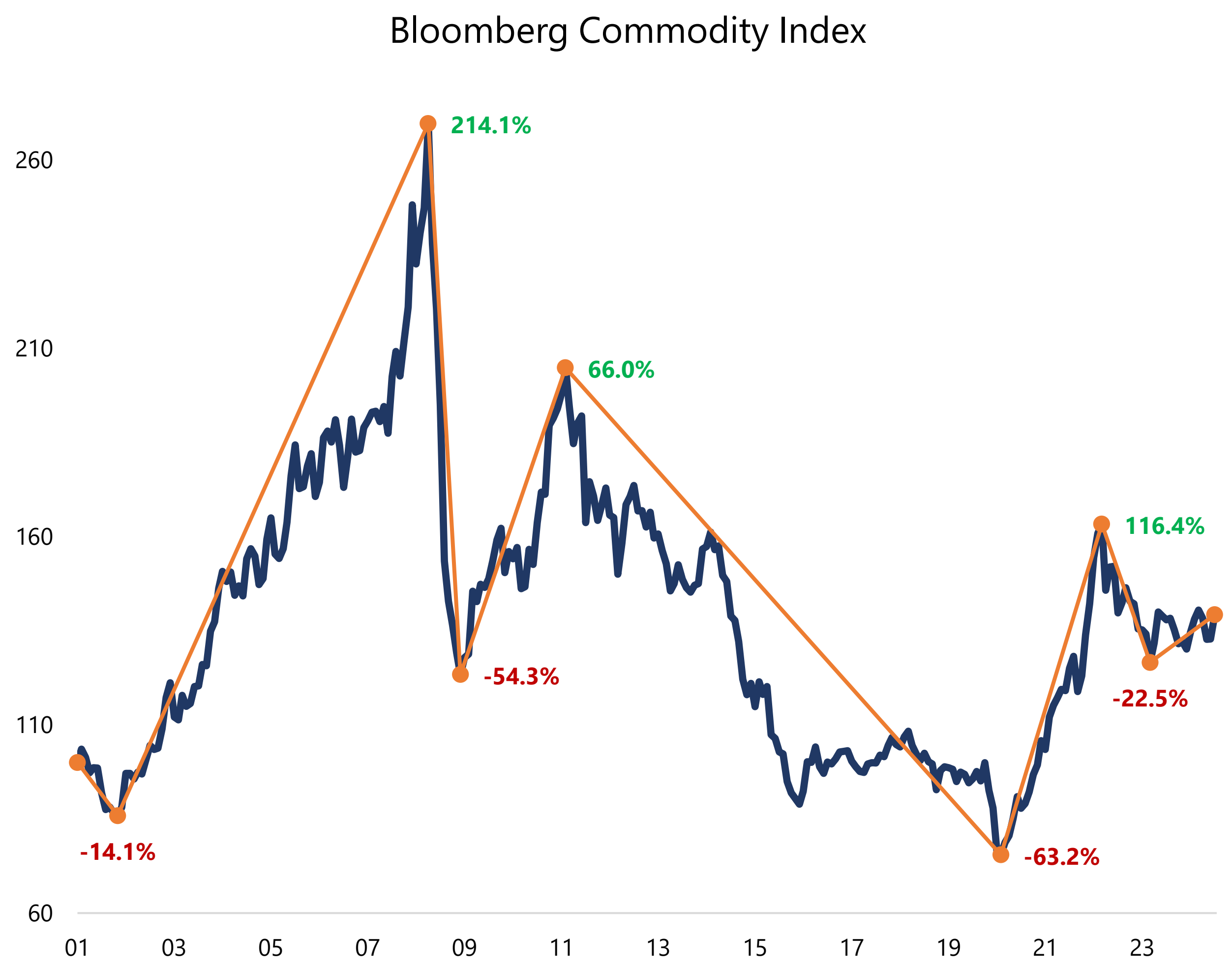
US Stocks Valuation High Historically

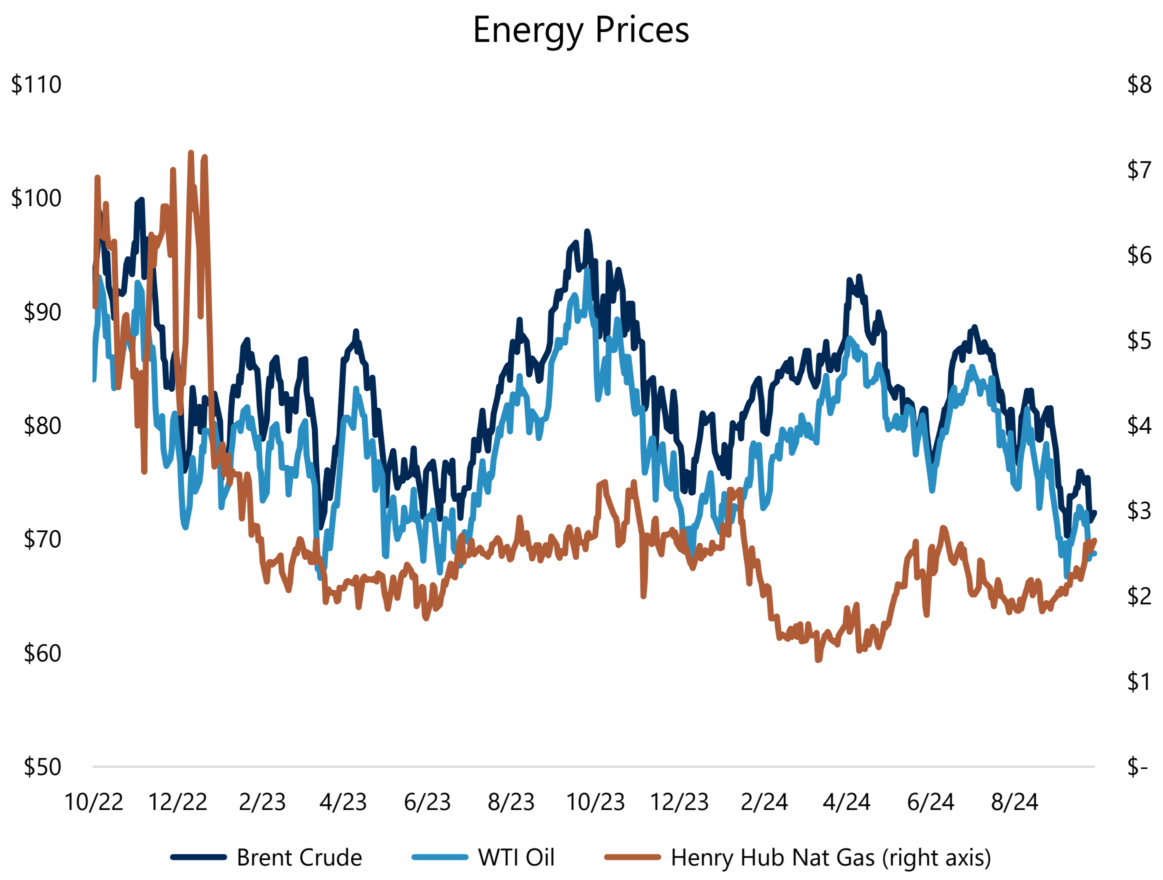


CAPE or Cyclically Adjusted Price to Earnings Ratio takes the current price and divides it by the last 10 years average earnings for the S&P 500 and adjusts it for inflation. It is thought to be more predictive of future returns than trailing 12 month or Forward PE.

Source: Data and CAPE Ratio were developed by Robert Shiller using various public sources.

Energy Remains Stable





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Source: Bloomberg Commodity TR USD (left) and Crude Oil Prices: West Texas Intermediate (WTI) - Cushing, Oklahoma, Crude Oil Prices: Brent – Europe, Henry Hub Natural Gas Spot Price from U.S.

Energy Information Administration (right)

Periodic Table of Asset Class Returns

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Through Last Month End
9/30/2024

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 YTD	5 Yr	10 Yr
Trend Following 20%	Reinsurance 8%	US Small Stock 22%	Intl Emerging Stk 37%	Cash 2%	US Large Stock 31%	US Large Stock 21%	US Large Stock 26%	Trend Following 22%	Reinsurance 44%	Reinsurance 23%	US Large Stock 15%	US Large Stock 13%
US Large Stock 13%	Bonds 2%	US Large Stock 12%	Intl Developed Stk 27%	Bonds 0%	US Small Stock 25%	US Small Stock 20%	US Small Stock 15%	Reinsurance 3%	US Large Stock 26%	US Large Stock 21%	Reinsurance 12%	US Small Stock 9%
Reinsurance 11%	US Large Stock 1%	Intl Emerging Stk 10%	US Large Stock 22%	US Large Stock -5%	Intl Developed Stk 23%	Intl Emerging Stk 18%	Intl Developed Stk 12%	Cash 2%	Intl Developed Stk 18%	Intl Emerging Stk 15%	US Small Stock 9%	Moderate Blended Port 7%
Bonds 8%	Cash 0%	Moderate Blended Port 6%	TAA 19%	Moderate Blended Port -8%	TAA 20%	Moderate Blended Port 13%	Moderate Blended Port 11%	Bonds -12%	Moderate Blended Port 17%	Moderate Blended Port 14%	Moderate Blended Port 8%	Intl Developed Stk 6%
Moderate Blended Port 8%	Intl Developed Stk 0%	Reinsurance 6%	Moderate Blended Port 17%	Reinsurance -6%	Moderate Blended Port 20%	Intl Developed Stk 8%	TAA 10%	TAA -12%	US Small Stock 17%	TAA 13%	Intl Developed Stk 8%	Reinsurance 6%
US Small Stock 5%	Trend Following 0%	TAA 5%	US Small Stock 15%	TAA -8%	Intl Emerging Stk 18%	Reinsurance 7%	Trend Following 5%	Moderate Blended Port -15%	Intl Emerging Stk 12%	Intl Developed Stk 13%	Intl Emerging Stk 6%	TAA 5%
TAA 5%	Moderate Blended Port 0%	Intl Developed Stk 2%	Bonds 5%	US Small Stock -11%	Bonds 8%	Bonds 7%	Cash 0%	Intl Developed Stk -15%	TAA 12%	US Small Stock 11%	TAA 6%	Intl Emerging Stk 4%
Cash 0%	TAA -4%	Bonds 1%	Trend Following 2%	Trend Following -13%	Trend Following 4%	Trend Following 3%	Bonds -1%	US Large Stock -19%	Bonds 6%	Bonds 5%	Trend Following 5%	Trend Following 3%
Intl Emerging Stk -3%	US Small Stock -4%	Cash 0%	Cash 1%	Intl Developed Stk -14%	Cash 2%	Cash 0%	Intl Emerging Stk -1%	Intl Emerging Stk -20%	Cash 5%	Trend Following 4%	Cash 2%	Bonds 2%
Intl Developed Stk -5%	Intl Emerging Stk -14%	Trend Following -6%	Reinsurance -11%	Intl Emerging Stk -15%	Reinsurance -4%	TAA -2%	Reinsurance -5%	US Small Stock -20%	Trend Following -3%	Cash 4%	Bonds 1%	Cash 2%

Disclaimer

PAST PERFORMANCE IS NOT A GUARANTEE OF CURRENT OR FUTURE RESULTS. Examples of historical information included in this presentation do not, nor are they intended to, constitute a promise of similar future results. Specific client portfolio allocations, risks and returns can and may deviate from these examples depending on accounts and types of investments available through each account. Future market views by WJ Interests, LLC may vary significantly from the historical examples presented herein and no one receiving this summary should assume that WJ Interests, LLC will be able to replicate successful views in the future.

Moderate Blended Portfolio is for illustrative purposes only. It is calculated by taking a weighted average of the following asset classes and represents a moderate risk portfolio incorporating leverage and the asset classes in the table:

28%	US Large Stock	iShares Russell 1000 (IWB)
6%	US Small Stock	iShares Russell 2000 (IWM)
21%	Intl Developed Stock	iShares Core MSCI EAFE (IEFA)
6%	Intl Emerging Stock	iShares Core MSCI Emerging Markets (IEMG)
41%	Bonds	Vanguard Total Bond Market (BND)
-18%	Cash	Morningstar USD 1M Cash TR USD
4%	Reinsurance	Stone Ridge Reinsurance Fund (SRRIX)
6%	Managed Futures	SG Trend Index, PIMCO Trends (PQTIX), Virtus Alphasimplex (ASFYX), Standpoint (BLNDX)
6%	TAA	GMO Benchmark Free (GBMIX) and Strategy Shares Nwfnd/Rslv Rbt ETF (ROMO)

Assumes annual rebalancing. All data represents total return for stated period.

WJ Interests
WEALTH ADVISORS