



Strategas Securities

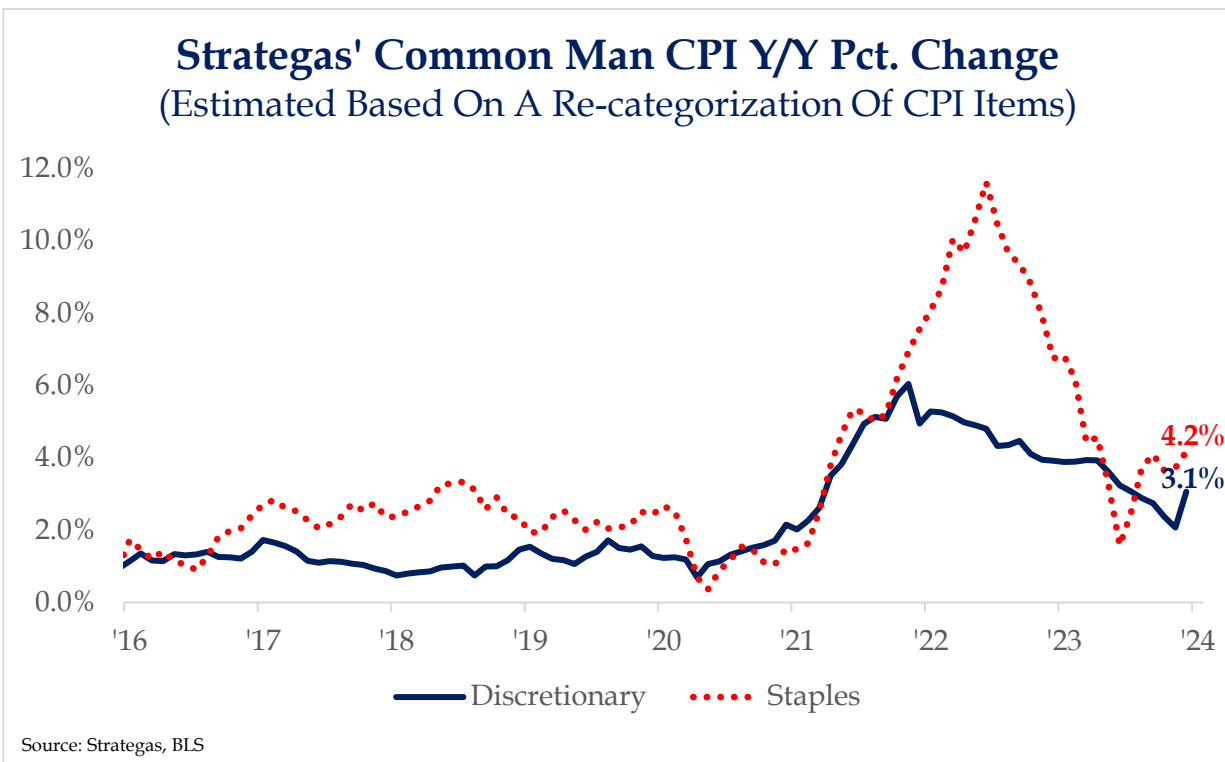
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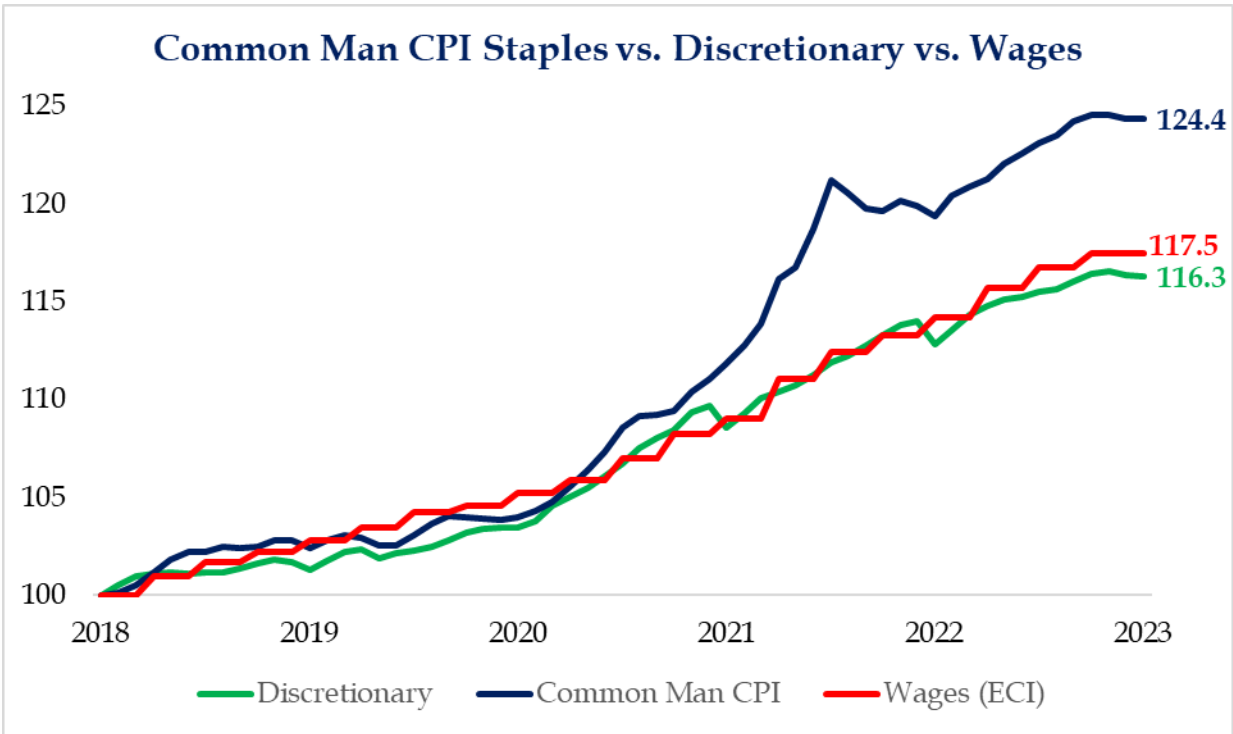


STRATEGAS' COMMON MAN INFLATION INDEX GROWING FASTER THAN WAGES

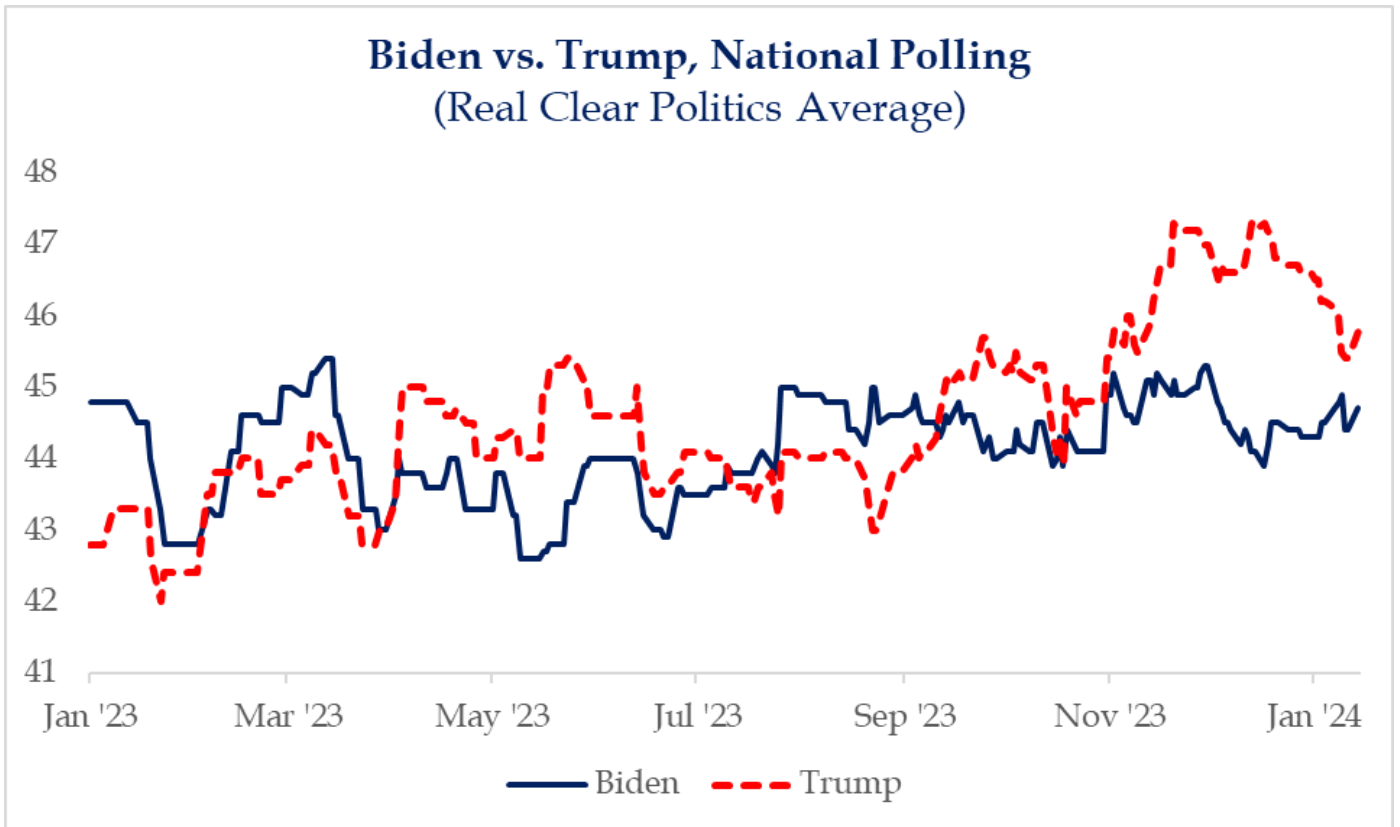
Last week, we read with great interest an article in *The Wall Street Journal* entitled “Buying Home and Auto Insurance is Becoming Impossible” – its subtitle, “Huge losses from national disasters prompt industry to jack up prices and pull back from some markets; ‘worst possible scenario’ for consumers.” It prompted us to try to look at inflation in a different way aside from “core” and “headline.” (Eating and staying warm seem pretty “core” to us, but that is the current taxonomy.) We decided to put all items we believed consumers *had* to buy in one category we deemed staples and all other items in another we called discretionary. With a hat tip to the famous American composer Aaron Copland, we deemed our new price measure of staples as Strategas’ Common Man CPI. The results are interesting in that they show a far greater spike in the rate of inflation in 2022 and a far greater decline in 2023. Strategas’ Common Man CPI bottomed in June 2023 at 1.6% but has since reaccelerated to 4.2% in the latest reading. The headline CPI currently rests at 3.4% y/y. Strategas’ measure of Discretionary Inflation bottomed in November at 2.1% and now stands at 3.1%. As the chart on the next page indicates, wage gains have trailed the level of our Common Man CPI of staples by almost 7% since the start of 2019. This could in part explain the Administration’s weak poll numbers despite full employment and near-record asset prices. Our subjective determination of what we considered a staple item and what we considered discretionary is on page three.



WAGES HAVE TRAILED STAPLES PRICES DRAMATICALLY SINCE 2019



TRUMP MAINTAINS A SMALL LEAD IN THE AVERAGE NATIONAL POLL



COMMON MAN CATEGORIES AS DETERMINED BY STRATEGAS

Our categorizations of the various products and services are sure to create some debate, but Ryan and I each independently determined whether each of the 67 items was a “staple” or was “discretionary.” In the few cases where there was some disagreement, we had Strategas’ Chief Economist Don Rissmiller break the tie.

Discretionary: U.S CPI Urban Consumers Index Categories	
Full Service Meals & Snacks	Other Recreational Goods
Ltd Service Meals & Snacks	Information Technology Commodities
Food From Vending Machines & Mobile Vendors	Alcoholic Beverages Away From Home
Other Food Away From Home	Tobacco & Smoking Products
Men's & Boys' Apparel	Professional Services
Women's & Girls' Apparel	Car & Truck Rental
Footwear	Video & Audio Services
Jewelry & Watches	Photographers & Film Processing
New Vehicle	Other Recreation Services
Video & Audio Products	Personal Care Services
Sporting Goods	Miscellaneous Personal Services
Photographic Equipment & Supplies	Other Household Equipment & Furnishings
Recreational Reading Material	

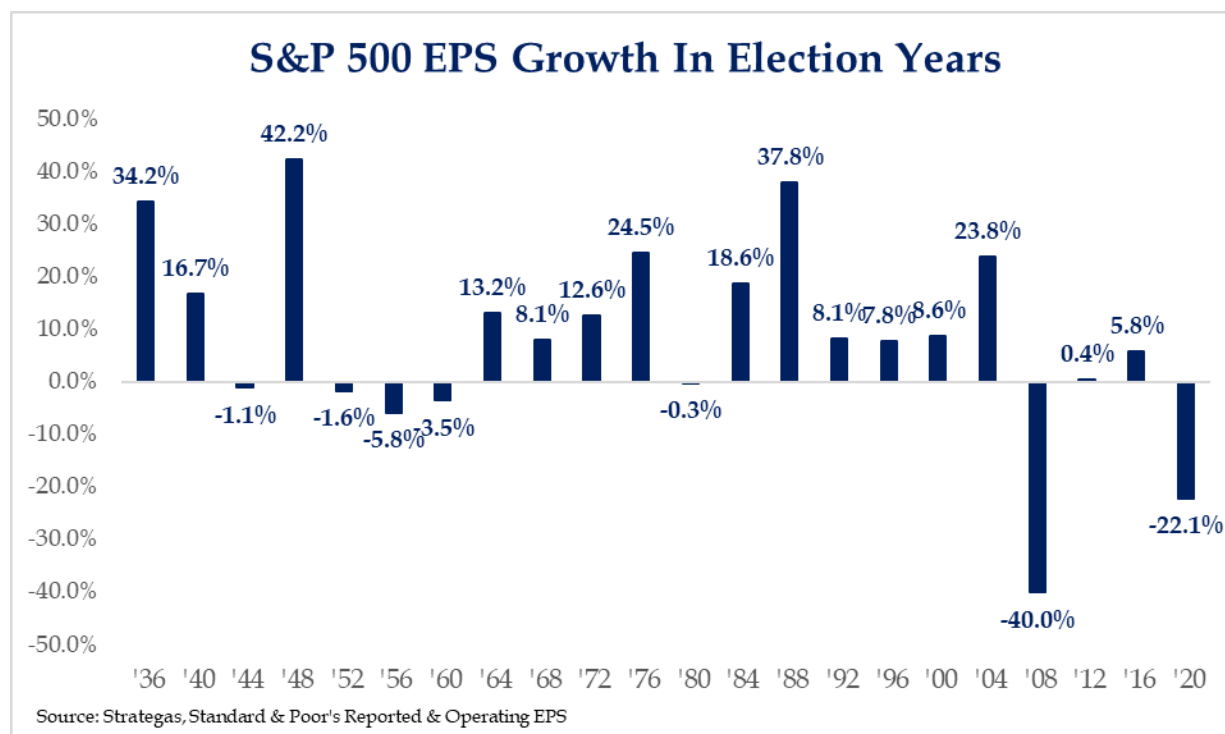
Staples: U.S CPI Urban Consumers Index Categories	
Window & Floor Coverings & Other Linens	Pets & Pet Products
Furniture & Bedding	Educational Books & Supplies
Appliances	Alcoholic Beverages At Home
Tools Hardware Outer Equipment & Supplies	Personal Care Products
Cereals & Bakery Products	Miscellaneous Personal Goods
Meats Poultry Fish & Eggs	Rent Of Shelter
Dairy & Related Products	Tenants & Household Insurance
Fruits & Vegetables	Water & Sewerage Maintenance
Nonalcoholic Beverages & Beverage Materials	Garbage & Trash Collections
Other Food At Home	Moving Storage Freight Expense
Food at Employee Sites & Schools	Hospital & Related Services
Fuel Oil & Other Fuels	Health Insurance
Motor Fuel	Motor Vehicle Maintenance & Repair
Electricity	Motor Vehicle Insurance
Utility (Piped) Gas Service	Motor Vehicle Fees
Housekeeping Supplies	Public Transportation
Infants' & Toddlers' Apparel	Pet Services Including Veterinary
Used Cars & Trucks	Tuition Other School Fees & Childcare
Motor Vehicle Parts & Equipment	Postage & Delivery Services
Medicinal Drugs	Telephone Services
Medical Equipment & Supplies	Internet Services & Electronic Info. Providers

HISTORICALLY, VALUE OUTPERFORMS IN ELECTION YEARS

Growth vs. Value Performance During Election Years				
Election Year	Large Growth Stocks	Large Value Stocks	Small Growth Stocks	Small Value Stocks
'32	-6.7%	-3.3%	-8.8%	8.7%
'36	26.5%	46.5%	32.5%	84.2%
'40	-10.1%	-4.6%	-3.0%	-10.2%
'44	15.7%	40.1%	41.1%	47.9%
'48	3.3%	4.8%	-8.1%	-2.5%
'52	13.0%	19.5%	8.0%	8.4%
'56	7.1%	3.3%	6.7%	6.5%
'60	-2.6%	-7.9%	-2.7%	-6.2%
'64	14.4%	19.0%	8.4%	23.8%
'68	3.8%	27.0%	32.4%	46.0%
'72	21.4%	18.0%	0.5%	6.9%
'76	17.3%	44.0%	38.4%	60.6%
'80	35.4%	16.4%	52.9%	21.8%
'84	-0.6%	16.5%	-14.0%	8.0%
'88	12.7%	26.2%	14.6%	30.8%
'92	6.2%	24.5%	4.5%	35.3%
'96	21.8%	22.8%	9.8%	25.3%
'00	-13.0%	29.9%	-24.4%	24.9%
'04	8.3%	20.2%	15.5%	18.5%
'08	-34.1%	-38.9%	-39.9%	-34.0%
'12	15.1%	28.5%	15.0%	21.5%
'16	9.0%	26.0%	7.9%	36.6%
'20	36.2%	-3.4%	58.4%	3.4%
Average	8.7%	16.3%	10.7%	20.3%
Median	9.0%	19.5%	8.0%	21.5%

Source: Strategas, Fama-French Growth & Value Series

EPS GROWTH ON AVERAGE IS 8.5% IN ELECTION YEARS, SLIGHTLY AHEAD OF OVERALL AVERAGE GROWTH OF 8.2%



MARKET STILL APPEARS TO BE PRICED FOR GOLDILOCKS

Implied S&P 500 Fair Value Worksheet: Average S&P TTM P/E by CPI Y/Y Tranche (1950-2022)

CPI Tranche	-2-0%	0-2%	2-4%	4-6%	6-8%	8-10%	10-12%
Avg Tranche P/E	16.8x	18.6x	17.4x	15.1x	12.0x	11.6x	8.5x

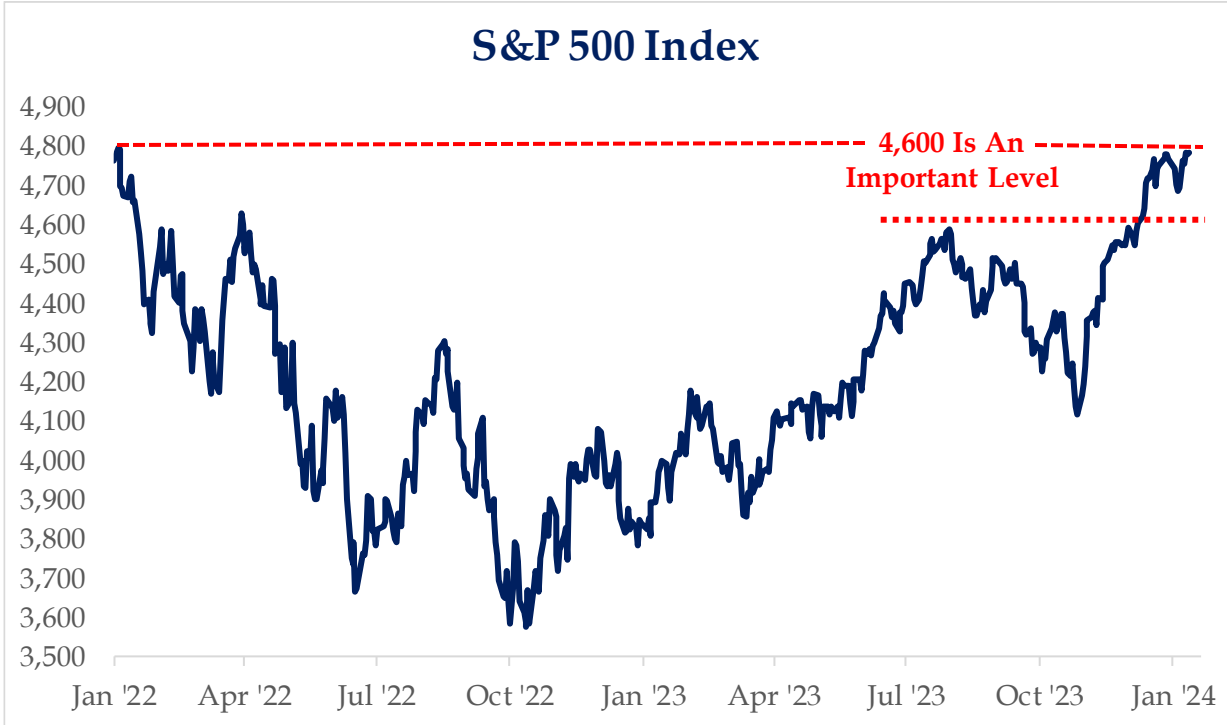
Estimates

Fair Value

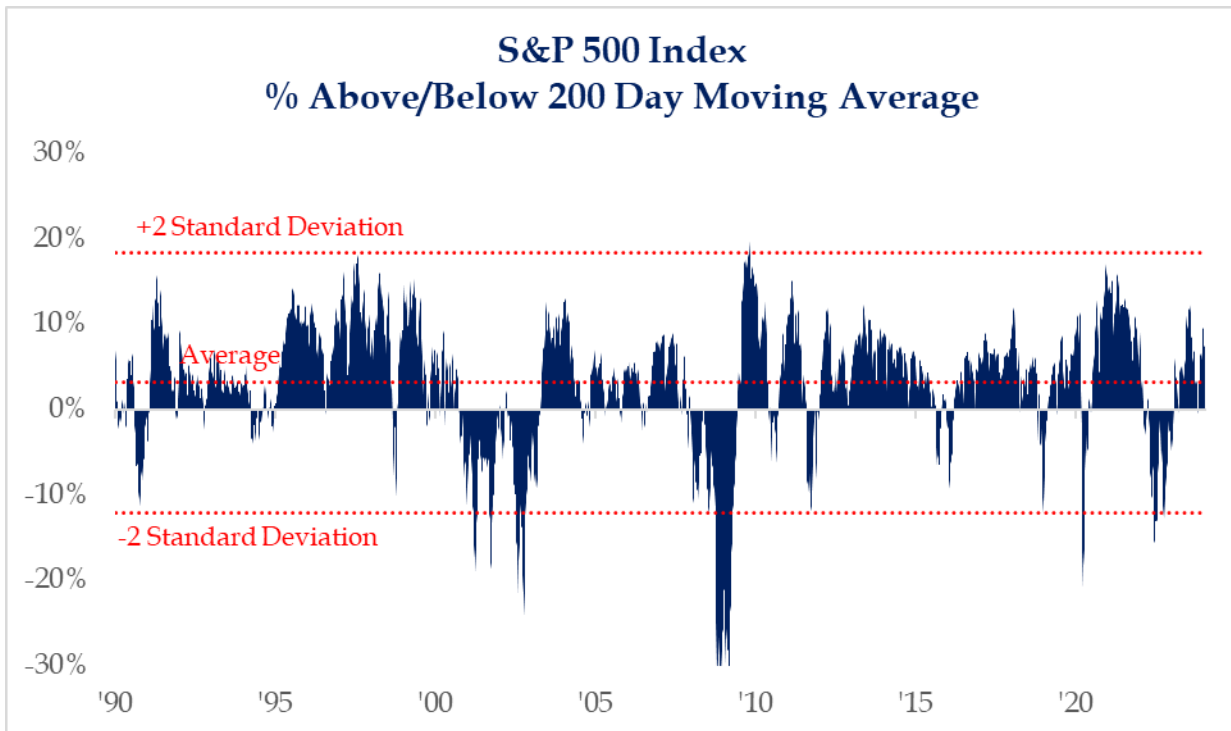
Average EPS Decline in Recession: -31.6%*	\$152.11	2,556	2,829	2,647	2,297	1,825	1,765	1,293
Median EPS Decline in Recession: -22.0%*	\$173.46	2,914	3,226	3,018	2,619	2,082	2,012	1,474
Strategas CY'24	\$235.25	3,952	4,376	4,093	3,552	2,823	2,729	2,000
Consensus CY'23	\$219.67	3,690	4,086	3,822	3,317	2,636	2,548	1,867
Cycle Peak (3Q'22)*	\$222.39	3,736	4,136	3,870	3,358	2,669	2,580	1,890
Consensus CY'24	\$243.98	4,099	4,538	4,245	3,684	2,928	2,830	2,074
Consensus CY'25	\$274.59	4,613	5,107	4,778	4,146	3,295	3,185	2,334

* Recession-related peak-to-trough earnings decline estimates assumes cycle earnings peak in 3Q'22 at \$222.39, i.e. the sum of 4Q'21-3Q'22 actual operating EPS

S&P ABOUT TO BREAK THROUGH ALL-TIME HIGH; 4,600 IS SUPPORT



S&P 500 WHILE SLIGHTLY STRETCHED IS NOT TRADING AT AN EXTREME



LAST WEEK'S MARKETS

	Level 1/12/24	Level 1/5/24	W/W Chg	Level 12/12/23	M/M Chg	Level 12/29/23	YTD Chg	Level 1/12/23	Y/Y Chg
Leading US Indexes			<i>Sorted</i>						
S&P/Citi Growth	3,055.5	2,944.6	3.8%	2,962.3	3.1%	3,030.3	0.8%	2,416.1	26.5%
Nasdaq	14,972.8	14,524.1	3.1%	14,533.4	3.0%	15,011.4	-0.3%	11,001.1	36.1%
S&P 500	4,783.8	4,697.2	1.8%	4,643.7	3.0%	4,769.8	0.3%	3,983.2	20.1%
S&P 400 Mid-Cap	2,728.6	2,712.5	0.6%	2,640.5	3.3%	2,781.5	-1.9%	2,568.4	6.2%
Dow Jones Industrials	37,593.0	37,466.1	0.3%	36,577.9	2.8%	37,689.5	-0.3%	34,190.0	10.0%
Russell 2000	1,951.0	1,951.1	0.0%	1,881.3	3.7%	2,027.1	-3.8%	1,876.1	4.0%
S&P 600 Small-Cap	1,269.9	1,270.7	-0.1%	1,224.4	3.7%	1,318.3	-3.7%	1,231.9	3.1%
Dow Jones Transports	15,470.5	15,508.7	-0.2%	15,418.6	0.3%	15,898.9	-2.7%	14,403.2	7.4%
S&P/Citi Value	1,712.7	1,717.7	-0.3%	1,664.7	2.9%	1,718.2	-0.3%	1,510.2	13.4%
Dow Jones Utilities	885.5	898.7	-1.5%	875.9	1.1%	881.7	0.4%	993.9	-10.9%
S&P 500 Sectors			<i>Sorted</i>						
Technology	3,417.9	3,259.5	4.9%	3,344.1	2.2%	3,397.2	0.6%	2,269.3	50.6%
Communication	251.5	243.2	3.4%	235.5	6.8%	246.0	2.2%	171.0	47.0%
Discretionary	1,390.1	1,369.2	1.5%	1,376.6	1.0%	1,418.1	-2.0%	1,076.9	29.1%
Staples	771.4	762.5	1.2%	747.2	3.2%	762.3	1.2%	777.6	-0.8%
Health Care	1,637.7	1,623.3	0.9%	1,552.3	5.5%	1,590.4	3.0%	1,572.1	4.2%
Real Estate	248.4	246.8	0.6%	237.6	4.5%	251.6	-1.3%	250.1	-0.7%
Industrials	949.4	944.0	0.6%	931.5	1.9%	964.7	-1.6%	868.1	9.4%
Financials	625.1	628.4	-0.5%	607.2	2.9%	626.3	-0.2%	596.4	4.8%
Materials	526.4	531.9	-1.0%	520.4	1.1%	539.6	-2.4%	524.6	0.3%
Utilities	321.7	327.8	-1.9%	320.4	0.4%	321.9	-0.1%	364.2	-11.7%
Energy	631.8	647.2	-2.4%	615.5	2.6%	640.0	-1.3%	689.3	-8.3%
Market Sectors			<i>Sorted</i>						
PHLX Semiconductor	4,052.4	3,933.5	3.0%	3,930.2	3.1%	4,175.5	-2.9%	2,789.7	45.3%
PHLX/HSG	654.0	641.2	2.0%	611.5	7.0%	658.5	-0.7%	434.1	50.7%
AMEX Pharma	958.9	946.8	1.3%	886.7	8.1%	910.1	5.4%	859.9	11.5%
PHLX Gold & Silver	120.6	120.3	0.3%	113.9	5.9%	125.7	-4.0%	135.1	-10.7%
AMEX Natural Gas	549.3	558.9	-1.7%	535.3	2.6%	551.9	-0.5%	555.3	-1.1%
AMEX Broker-Dealer	539.3	549.9	-1.9%	522.8	3.1%	557.3	-3.2%	477.6	12.9%
AMEX China	219.0	225.5	-2.9%	227.2	-3.6%	234.3	-6.5%	247.1	-11.4%
AMEX Airlines	62.3	65.2	-4.5%	64.3	-3.1%	67.7	-8.0%	63.6	-2.0%
Yields									
3-Month Bill	5.34%	5.36%	-2	5.40%	-7	5.35%	-1	4.60%	74
2-Year Note	4.17%	4.40%	-23	4.72%	-54	4.25%	-8	4.13%	4
5-Year Note	3.84%	4.02%	-18	4.22%	-38	3.85%	-1	3.54%	29
10-Year Bond	3.96%	4.04%	-8	4.20%	-24	3.88%	8	3.45%	51
30-Year Bond	4.20%	4.20%	0	4.31%	-11	4.03%	16	3.58%	62

WEEKLY ECONOMICS SUMMARY

While U.S. economic growth has been resilient, inflation staying anchored is the lynchpin for pulling off a soft landing (ie, allowing the central bank to cut before something big breaks). The U.S. CPI was a touch above expectations in Dec, but the PPI was well below expectations.

The U.S. CPI rose +0.3% m/m (3.4% y/y) and the core (ex food & energy) CPI was also +0.3% m/m (3.9% y/y) in Dec. The PPI in contrast fell -0.1% m/m (1.0% y/y). We've now had 3 consecutive negative U.S. PPI readings m/m.

Separately, the NY Fed's survey of 1-yr ahead consumer inflation expectations fell to 3.0% and the 3-yr ahead survey dipped to 2.6% in Dec (!). There's reason to believe this inflation anchor can hold. The domestic labor market appears to be overheating less (eg, fewer quits, better skills matching at businesses). The NFIB's survey of small business optimism increased m/m in Dec, with labor-related components showing signs of normalization.

Thus far, the U.S. labor market appears to be normalizing by cutting job openings rather than jobs. We continue to watch timely data including weekly jobless claims for any sign of an uptick in firings. But so far, so good: initial claims were remarkably low at just 202,000 last week.

Still-anchored inflation expectations (in the 2-3% range) and a better-balanced labor market should allow interest rates to move back toward neutral. The first step will likely be for nominal policy rates to fall as inflation slows.

Bottom line: the U.S. economy has remained resilient to numerous shocks (showing only "rolling" weakness in some sectors like housing or mfg). But, with the labor market normalizing, that has been enough to end this inflation wave. The next moves from (numerous) central banks are likely rate cuts, in our opinion. But ... not quite yet. We expect the central bank to remain restrictive (hold) in 1Q given the core CPI backdrop at ~4% and well-documented historical mistake of "stopping and going". We would also like to see how the geopolitical developments in the Red Sea progress (a new shock to shipping). Fed rate cuts are likely a 2Q of 2024 story, in our opinion. But this may be splitting hairs – the case for less restrictive monetary policy is building.

There are still lagged effects from policies already put in place. As we've mentioned previously, our U.S. recession checklist has two concerns remaining: 1) the inverted yield curve and 2) PMIs. But other data including weekly jobless claims & credit spreads likely deserve more weight among leading indicators currently, as they have been more correct. They continue to indicate expansion.

U.S. ECONOMIC WEEK AHEAD

Mon Jan 15	Tue Jan 16	Wed Jan 17	Thu Jan 18	Fri Jan 19
<ul style="list-style-type: none"> • MLK Day 	<ul style="list-style-type: none"> • NY Fed Mfg Dec -14.5 Jan -5.0 e 	<ul style="list-style-type: none"> • Retail Sales Nov 0.3% Dec 0.5% e • Indus Prod Nov 0.2% Dec -0.1% e • Oper Rate Nov 78.8% Dec 78.6% e • Mtg Apps • NY Fed Svcs • Ex/Im Prices • NAHB • Beige Book 	<ul style="list-style-type: none"> • House Starts Nov 1.6 Dec 1.5 e • Philly Mfg Dec -12.8 Jan -5.0 e • Claims • Bldg Permits 	<ul style="list-style-type: none"> • U of Mich Dec 69.7 Jan P 69.0 e • Ext Homes
<p>r = revised e = estimate</p>				

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