# Top Charts to Watch in 2023

Q1 CHARTBOOK – January 2023

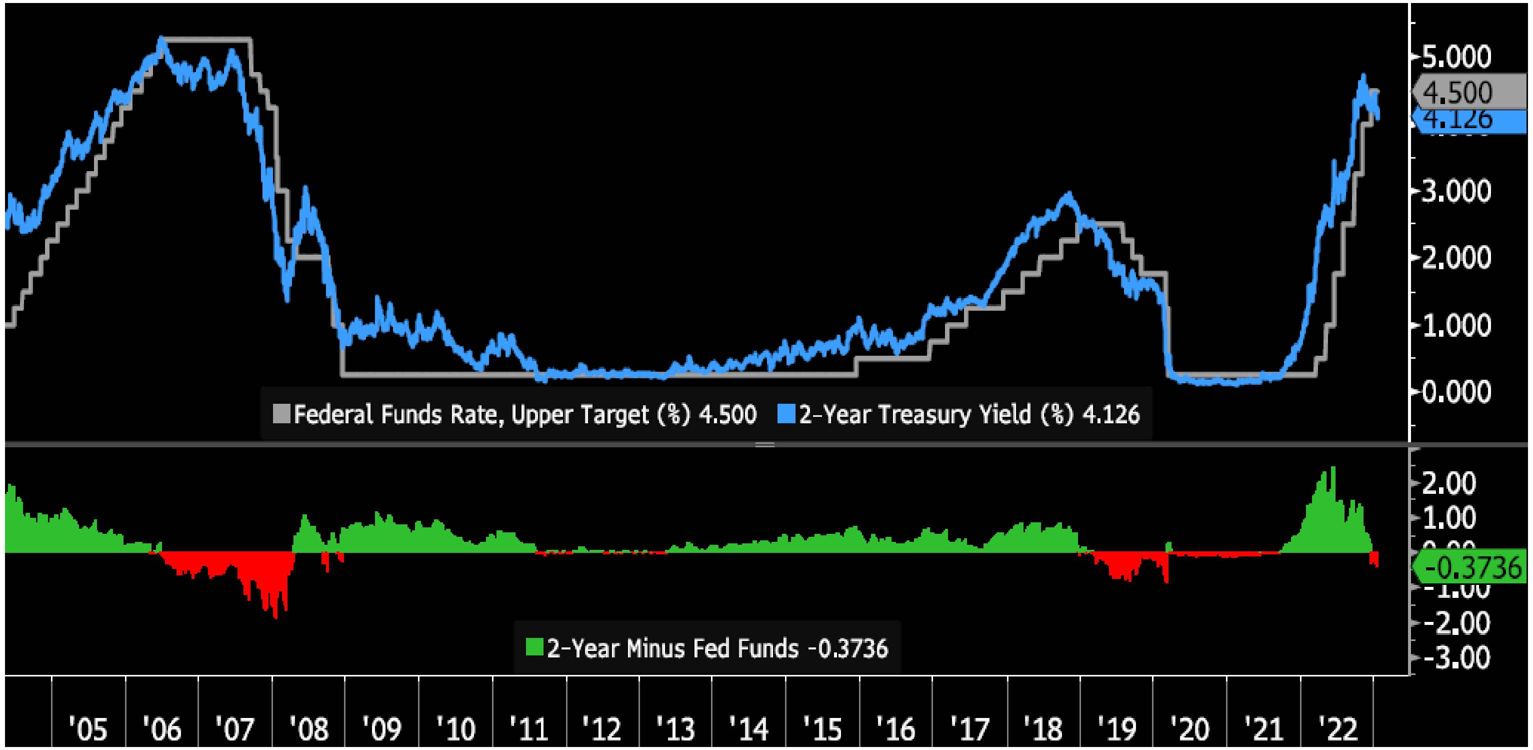
**JEFF DICKS, CFA**
Partner, Co-CIO

**GHERMAN HOWELL**
Senior Analyst

# Chartbook Preview

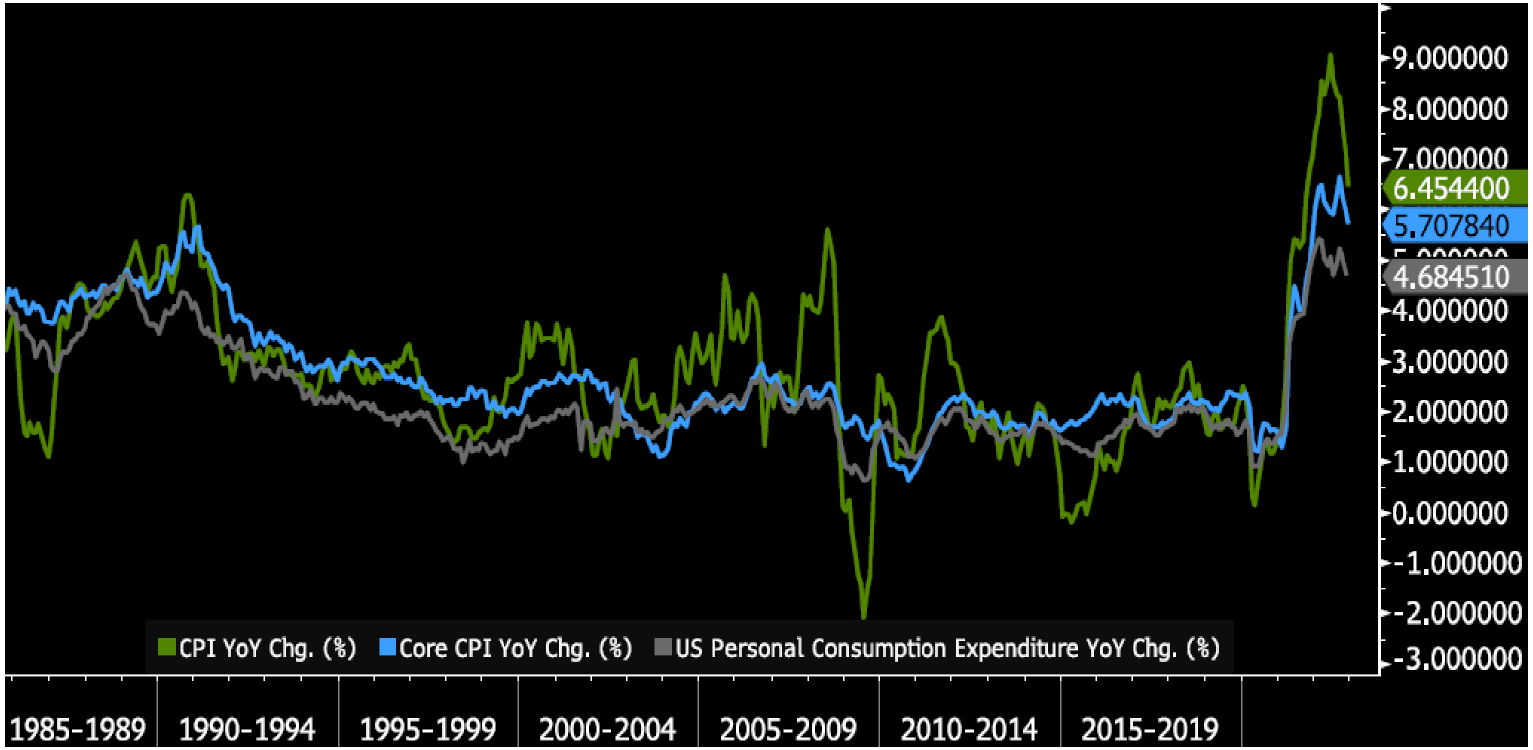
In this edition of the Evergreen Chartbook, we will review the top charts that investors should track in 2023. We'll also look at the potential path of interest rates, inflation, and our outlook for the Federal Reserve's monetary policy. Lastly, we will go over some key visuals that impact stocks, bonds and commodities.

# The Federal Funds Rate and Two-Year Treasury Yield Point to a Fed Reversal




- The direction of interest rates will be pivotal this year, and the chart above could help predict the Fed's actions
- As shown above, when the two-year treasury moves below the Fed Funds (FF) rate, the Fed pauses and eventually cuts rates
- The two-year recently broke below the FF target rate, which indicates a change in interest policy could be on the horizon

# Inflation Rates Have Reversed Course and Continue to Head Lower

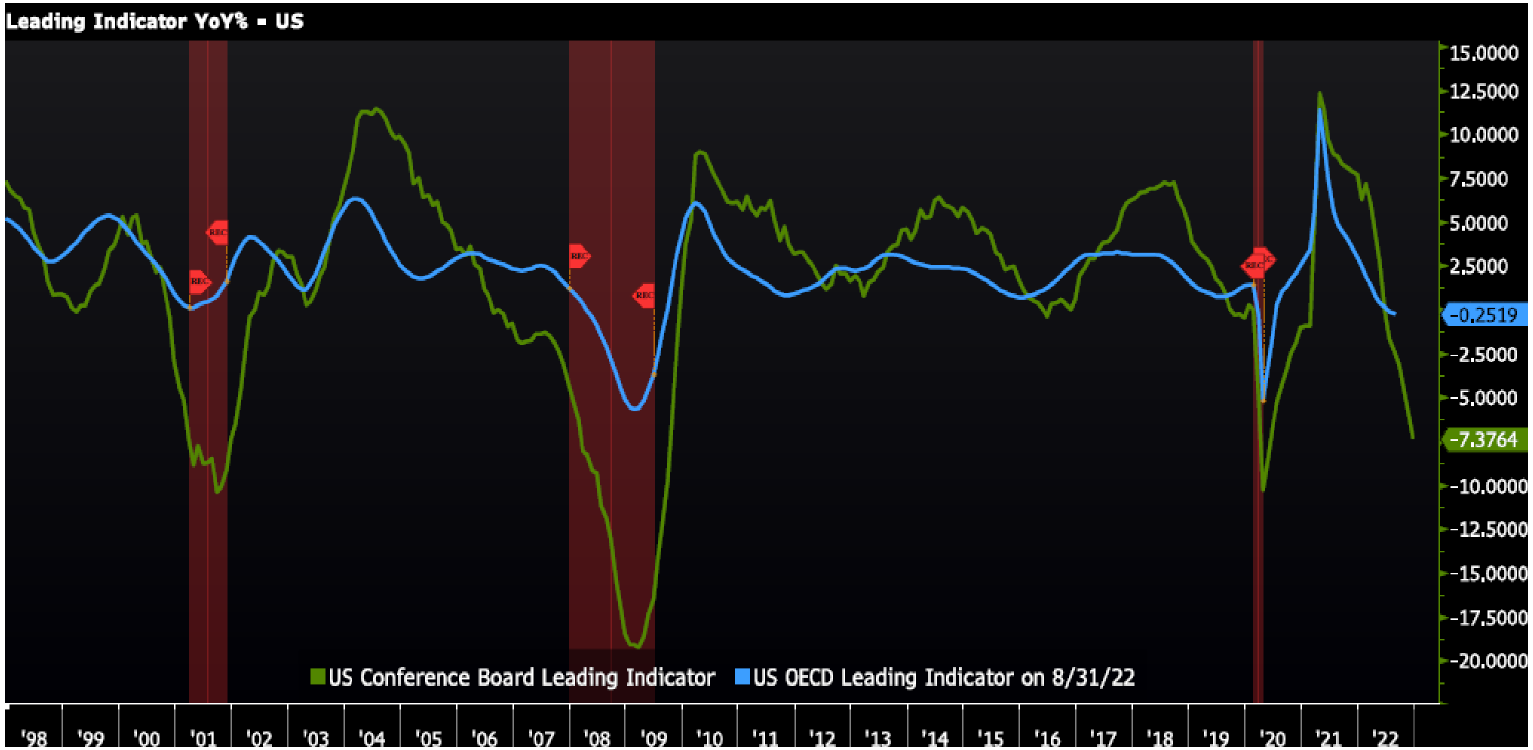



- US inflation rates will also be important to monitor, and consumer prices have fallen year-over-year for six straight months
- Consumer prices are poised to continue decelerating throughout 2023, which will (per the previous chart) provide cover for the Fed to stop raising rates
- Lower inflation should also help consumer confidence and the recent drop in energy prices will likely aid discretionary spending in other categories

# Inflation Expectations Have Improved, Leading to Lower Long-Term Interest Rates

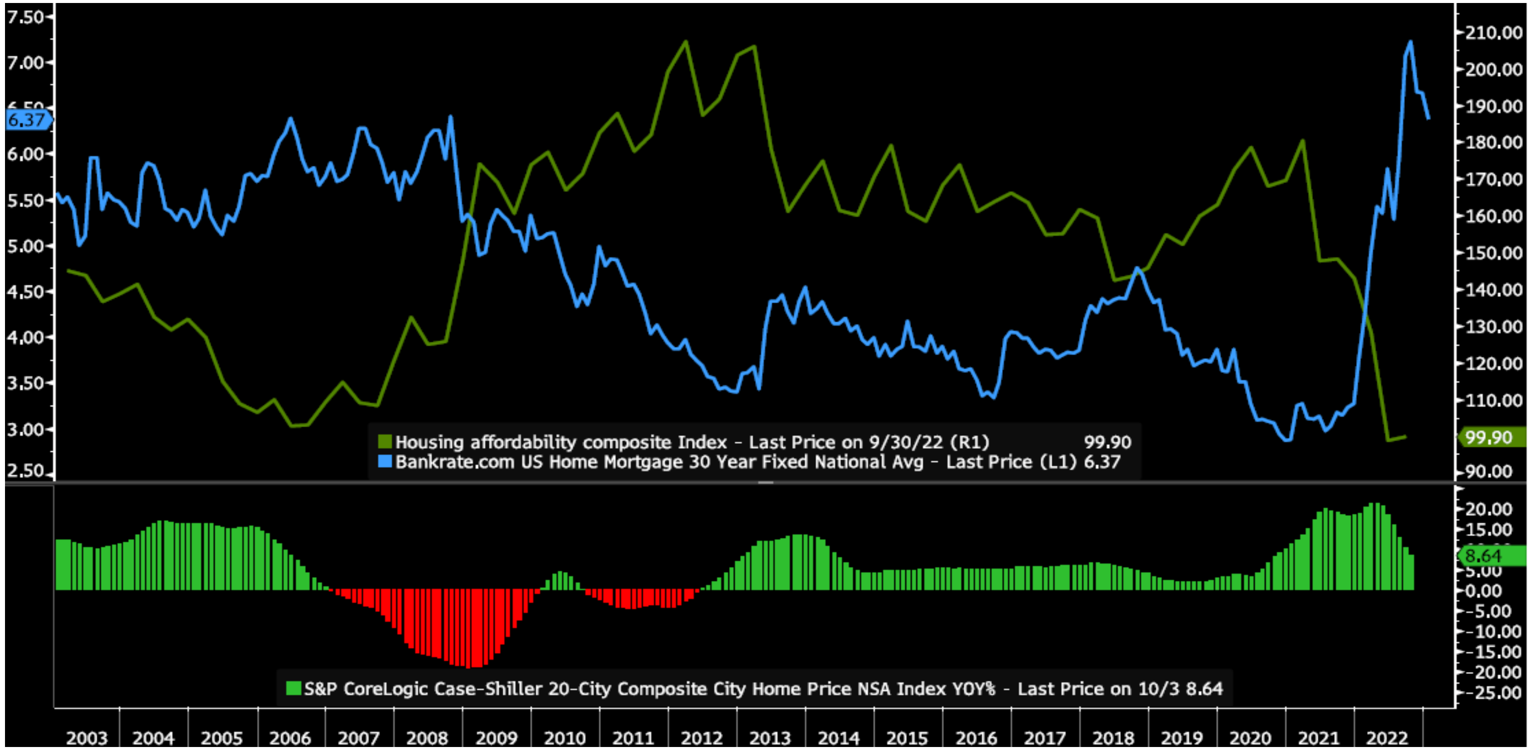

- As inflation rates have come down, we have also seen inflation expectations fall sharply with the five-year inflation expectation at 2.27%
- Long-term rates have also stabilized with the 10-year treasury yield sitting at 3.45%, down from a peak of 4.25% in late 2022

# US Leading Indicators Moving Back into Recession Territory



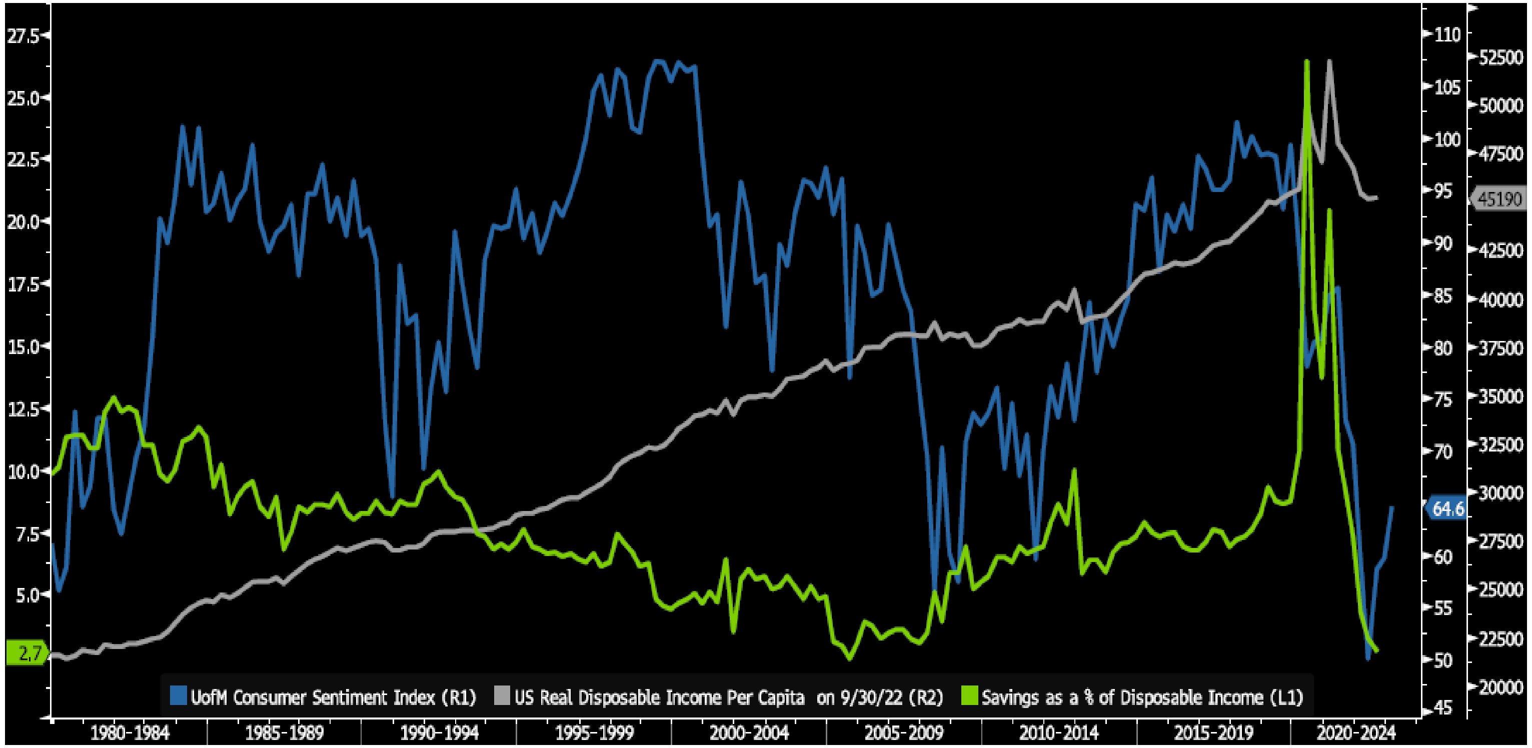

- The downward move in interest rates has been not only a function of inflation sliding lower, but also of economic data worsening
- US and global leading indicators have moved sharply negative in recent months
- As you can see from the green line, we are moving into a territory that typically coincides with US recessions (shaded red on the chart above)

# Housing Market Feeling the Effect of Higher Interest Rates



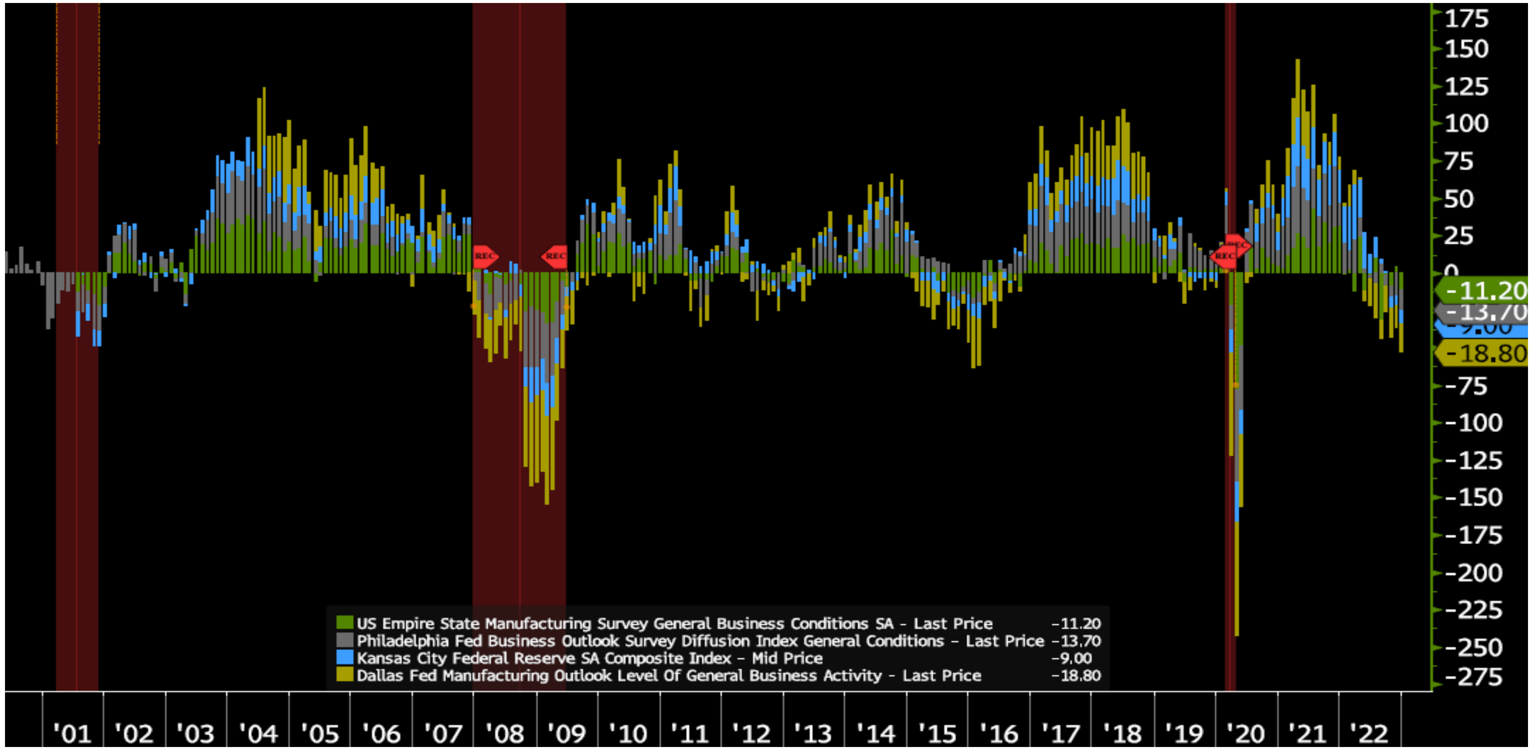

- One of the hardest-hit areas of the economy has been the housing market, given the unprecedented leap in mortgage rates (blue line)
- The combination of high prices and the highest mortgage rates in 20 years has brought the housing affordability index to its worst level in decades
- Prices for single family homes have fallen each month since July, and our expectation is this trend continues for at least the first half of 2023
- We would note the recent drop in mortgage rates has provided a small amount of relief with mortgage applications improving slightly to start the new year

# Consumer Sentiment Remains Depressed Alongside Soft Real Incomes and Savings




- Fears of inflation, rising interest rates, and a potential recession have dragged on sentiment for US consumers (blue line)
- Additionally, the savings rate (green line) has plummeted, as many American consumers have significantly drawn down savings accumulated during Covid
- Consumption and retail sales have remained resilient, but there are increasing headwinds facing the consumer in 2023

# US Manufacturing Data Contracting

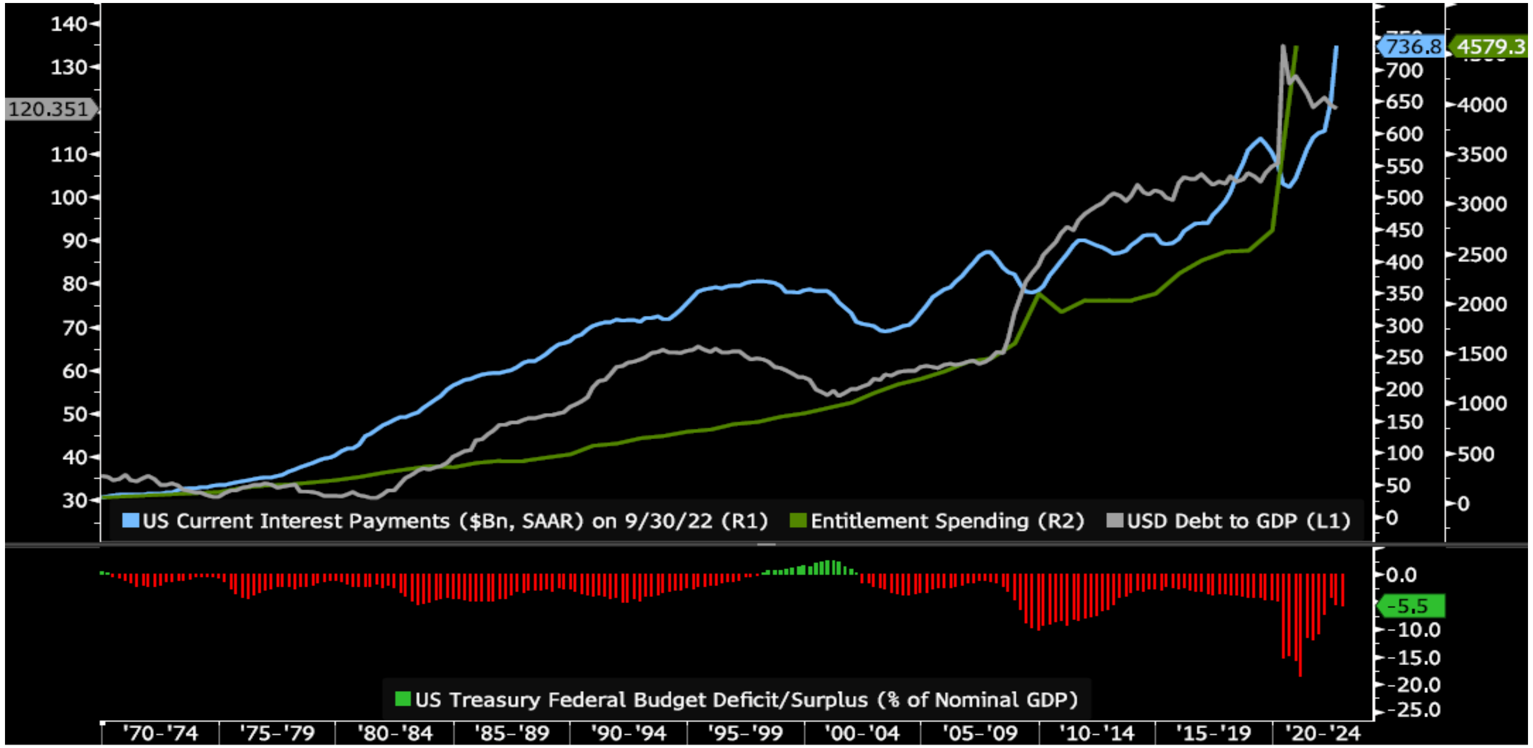



- US manufacturing data - as measured by the regional indices - has been contracting over the last several months
- Three out of the last four times we were at these levels, the US experienced a recession (2014/2015 was the exception)
- Businesses have seen inventories balloon from softening demand, which has led to weak new orders and falling demand for freight and shipping

# Labor Market Remains Strong but Weakness Could be Around the Corner

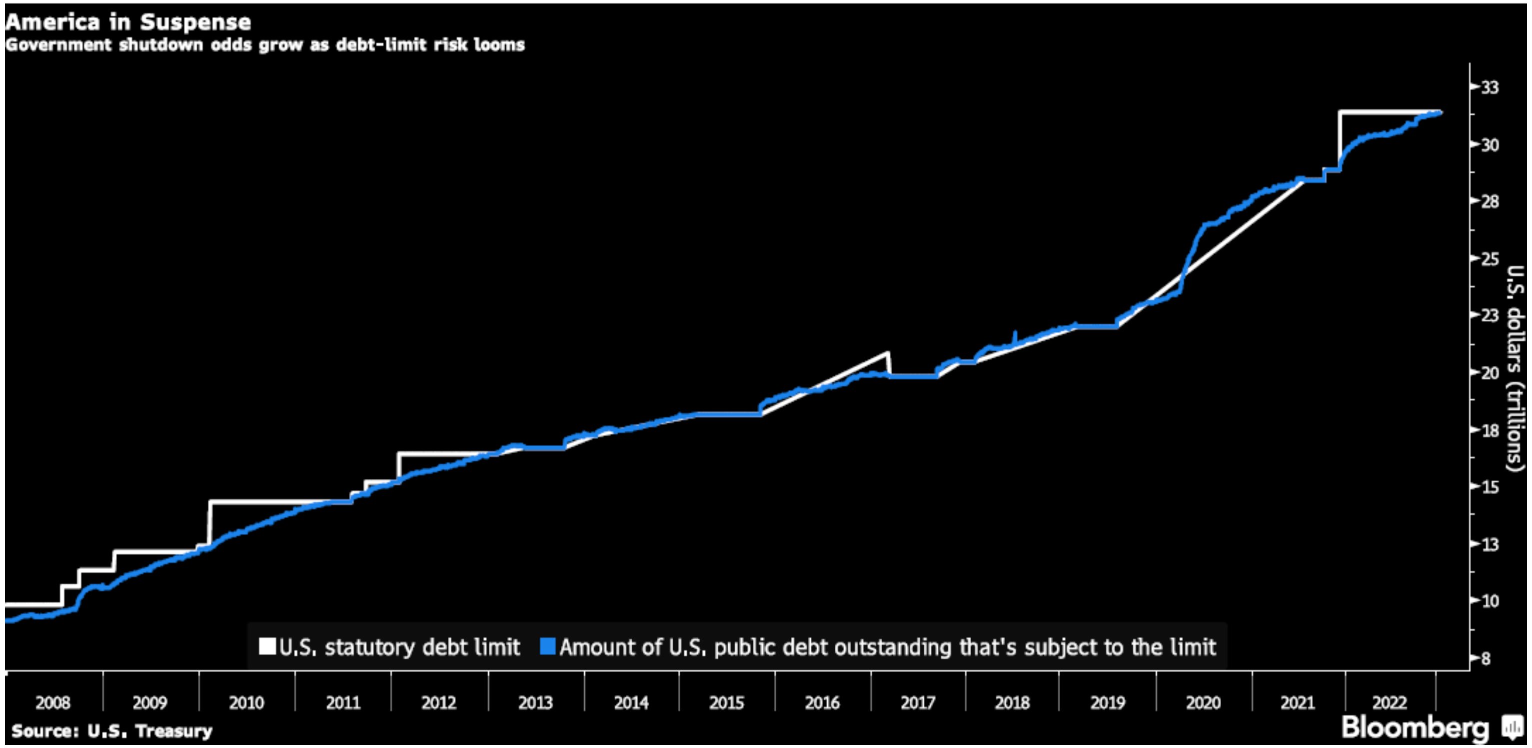

- While the labor market has continued to be a pillar of strength for the US economy, it's important to remember that employment is a lagging indicator
- We have seen a decline in job openings and layoff announcements have begun to surface
- It's our expectation that the labor market begins to soften in 2023 due to eroding economic data, the lag effect of higher rates and companies downsizing to protect margins

# Surge in US Debt: A Longer-Term Threat to Economic Vitality




- One of the economic threats facing our country is the surge in entitlement spending, debt-to-GDP, and persistently high deficits
- These are slower-moving risks, but on a near-term basis the surge in interest payments will strain the current budget due to the surge in government borrowing costs
- Over the next decade, interest costs are expected to triple, and as a percentage of GDP will double the previous high

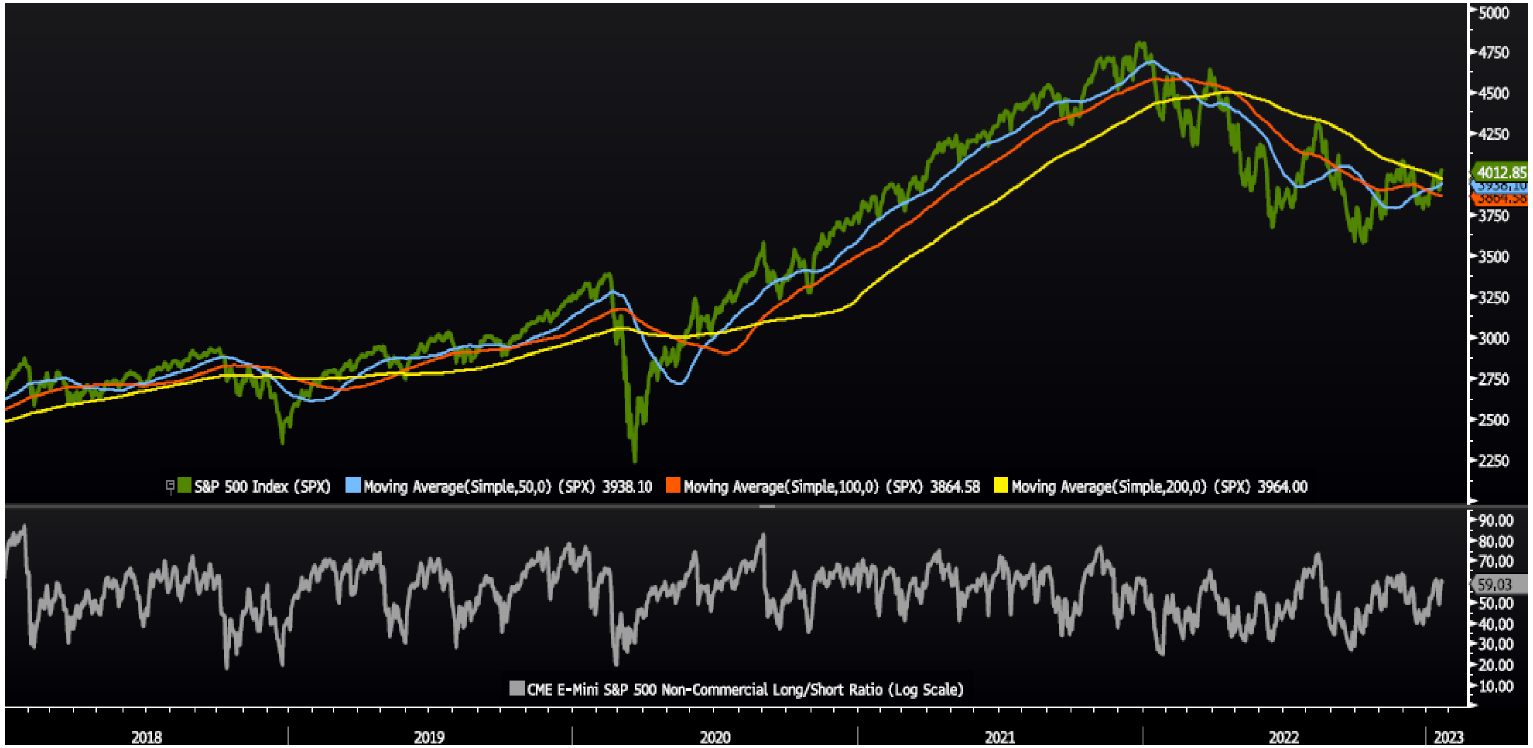
# Remember the Debt Ceiling? Here it Comes Again. (Maybe We've Already Hit It)




- Another tail risk is the looming debt ceiling, which now stands at a staggering $31.4 trillion
- The debt limit in 2011 caused the S&P downgrade of US government debt from AAA to AA+, as well as the US government shutdown for 17 days back in 2013
- It's our anticipation that the government averts crisis and raises the debt ceiling. While we're optimistic that a catastrophe will be avoided, near-term negative fiscal headlines will be prevalent
- Ultimately, the longer this continues without a resolution, the more likely the situation will impact markets negatively

EVERGREEN gavekal

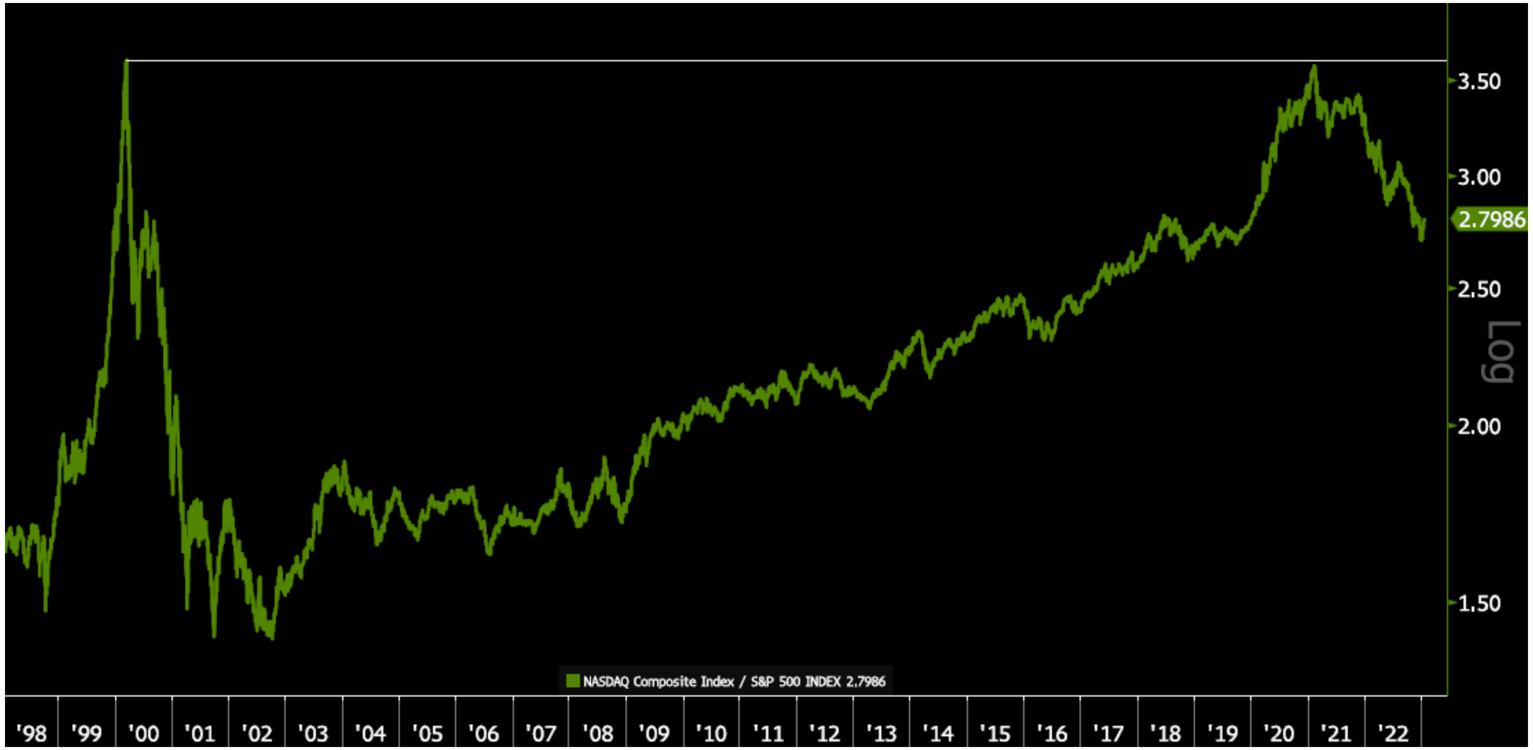
# Stocks Still in Bear Market Mode but off to a Good Start in 2023




- The S&P officially moved into a bear market in June of 2022, with the index down over 20% from the January 2022 high
- Since last year, the market has been experiencing lower lows and lower highs, which is classic bear market behavior
- If the 50-day moving average (blue line) moves above the 200-day moving average (yellow line), that could mark an important technical shift that investors should track (note: this is known as a Golden Cross)
- For now, we continue to sell into strength and buy into weakness, which has worked well both in 2022 and previous bear markets

EVERGREEN gavekal

# The NASDAQ Bounced off Long-Term Support vs. S&P 500



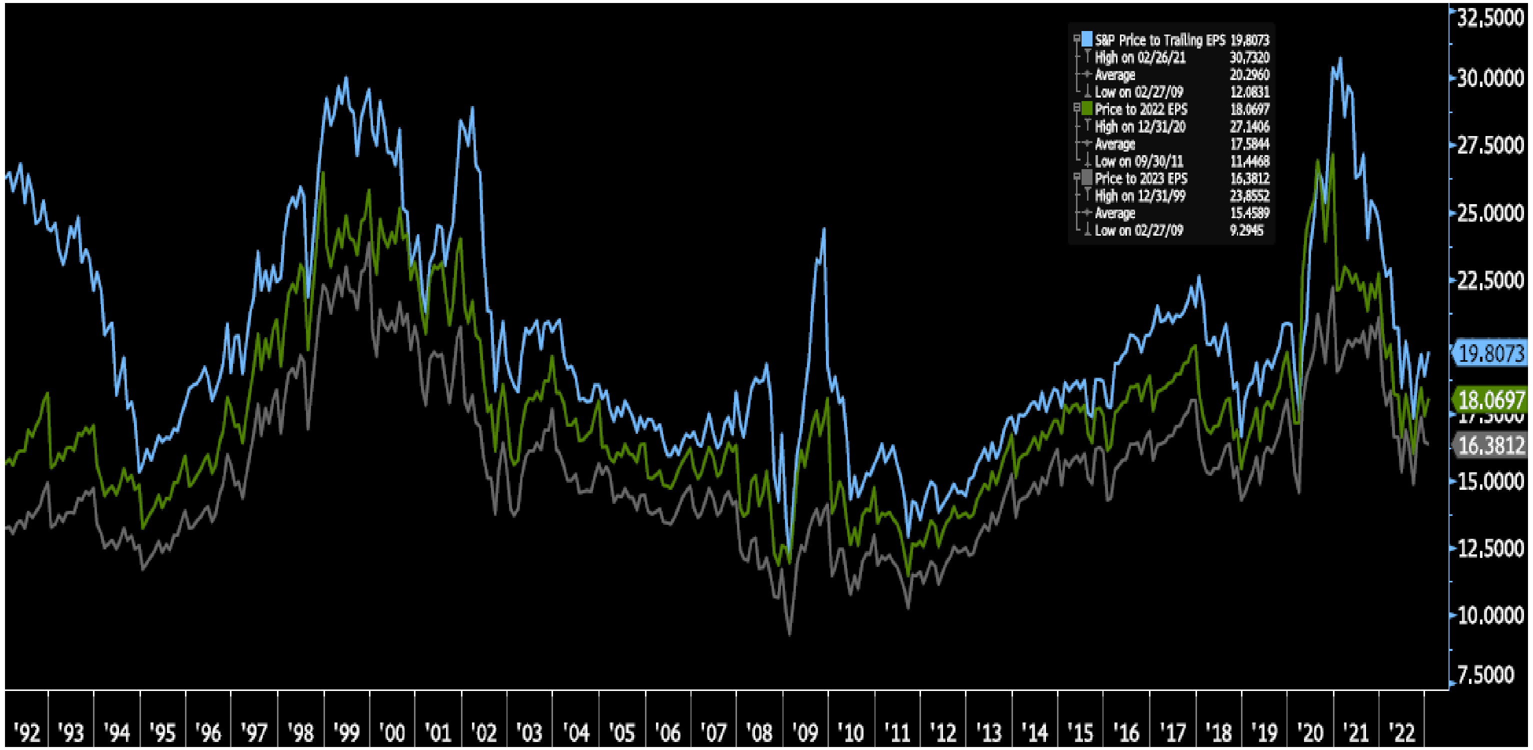

- An important shift occurred in 2021, with NASDAQ relative performance topping out exactly where it did in the late-90's (as you can see above)
- Value has outperformed growth since then, mimicking the same trend that continued for several years after the tech bust in the late 90's
- While we hold a value tilt throughout most Evergreen portfolios, we also acknowledge that there are attractive opportunities in growth

# International Equities Outperforming After a Decade of Underperformance


- The other notable inflection for equity markets is that international equities are outperforming US stocks
- This role reversal comes on the heels of a decade where the S&P 500 outperformed the MSCI World Ex. US index by a staggering 160%
- We think this trend has legs and have been methodically adding international exposure throughout our portfolios

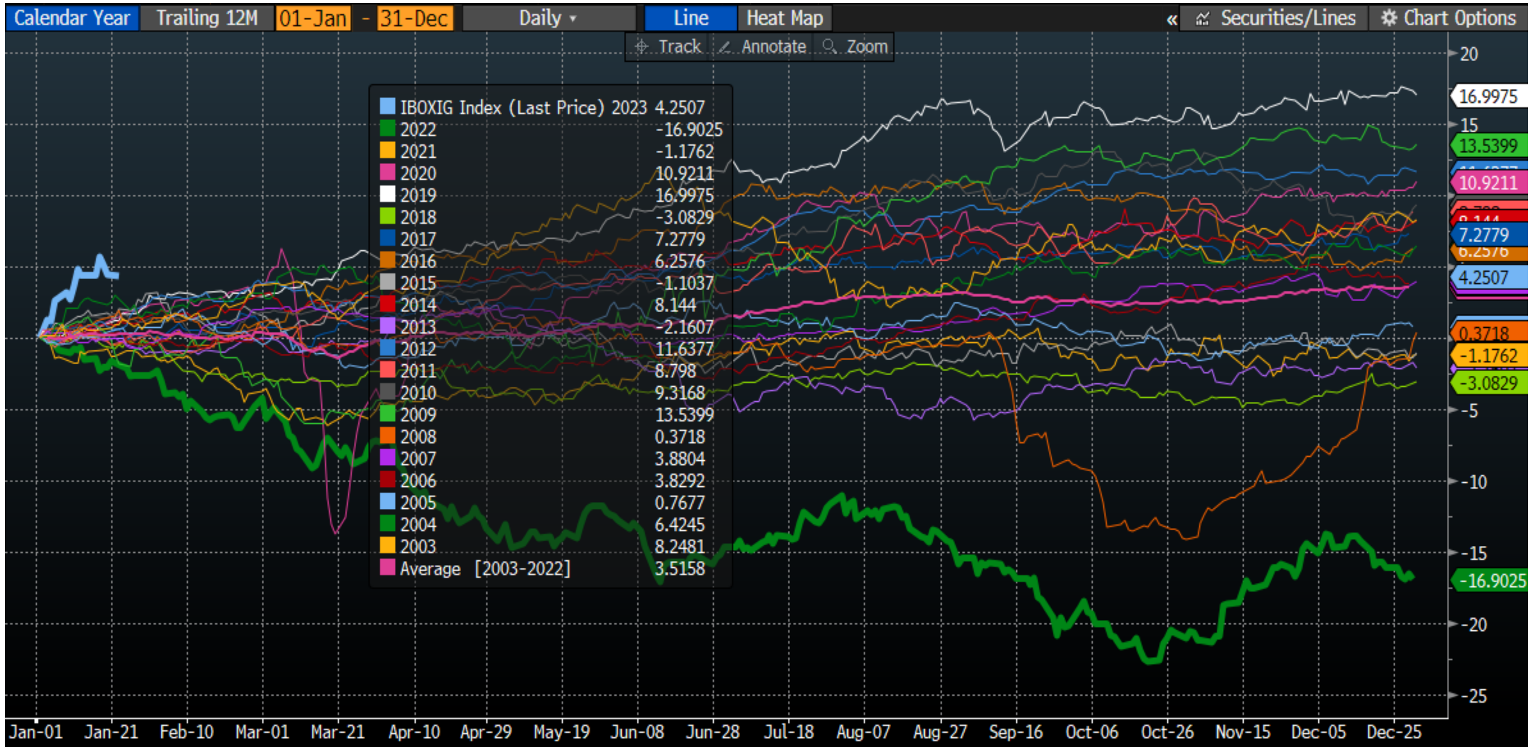
EVERGREEN gavekal

# Equity Valuations Look Reasonable




- If you look back to 2022, the S&P fell 18% while earnings rose around 6%; or in other words, a major reset for valuation
- The good news is that valuations are now reasonably attractive for stocks, and forward-looking, long-term returns have improved
- With that said, we're still riding the waves of a bear market and would not recommend making a massive bet on equities at this time

# Bond Market Seeing Historic Rebound in 2023

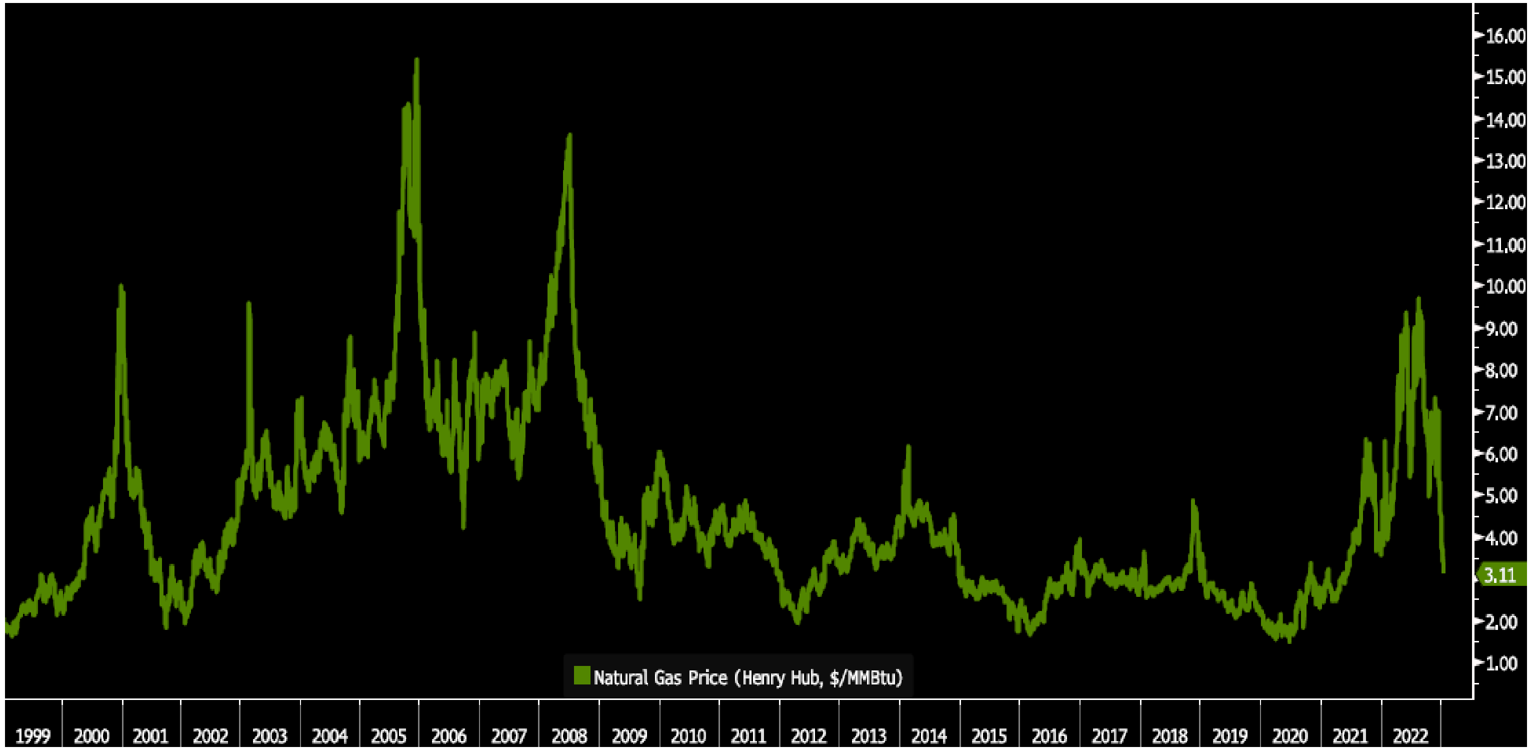



- After the worst year on record, bonds have had the best start to any year over the past two decades, posting a 4% gain through 1/24/22
- Given the rapid jump in yields in 2022, we have certainly been more attracted to the bond market of late
- We do think interest rate volatility will stay elevated but believe yields at the current levels are quite appealing for income-oriented investors

# Buyer Beware: Yields Have Declined Sharply, Exercise Caution with High-Yield


- High-yield credit spreads currently reside at plus 429 basis points, or in plain English yield 4.29% more than a US treasury bond
- Since this spread is relatively tight, we'd warn that the metric could widen out to plus 800 basis points or so in a recession (like past spread-widening events)
- We suggest being selective with high-yield, and focusing almost entirely on BB issues, or those with the highest junk rating

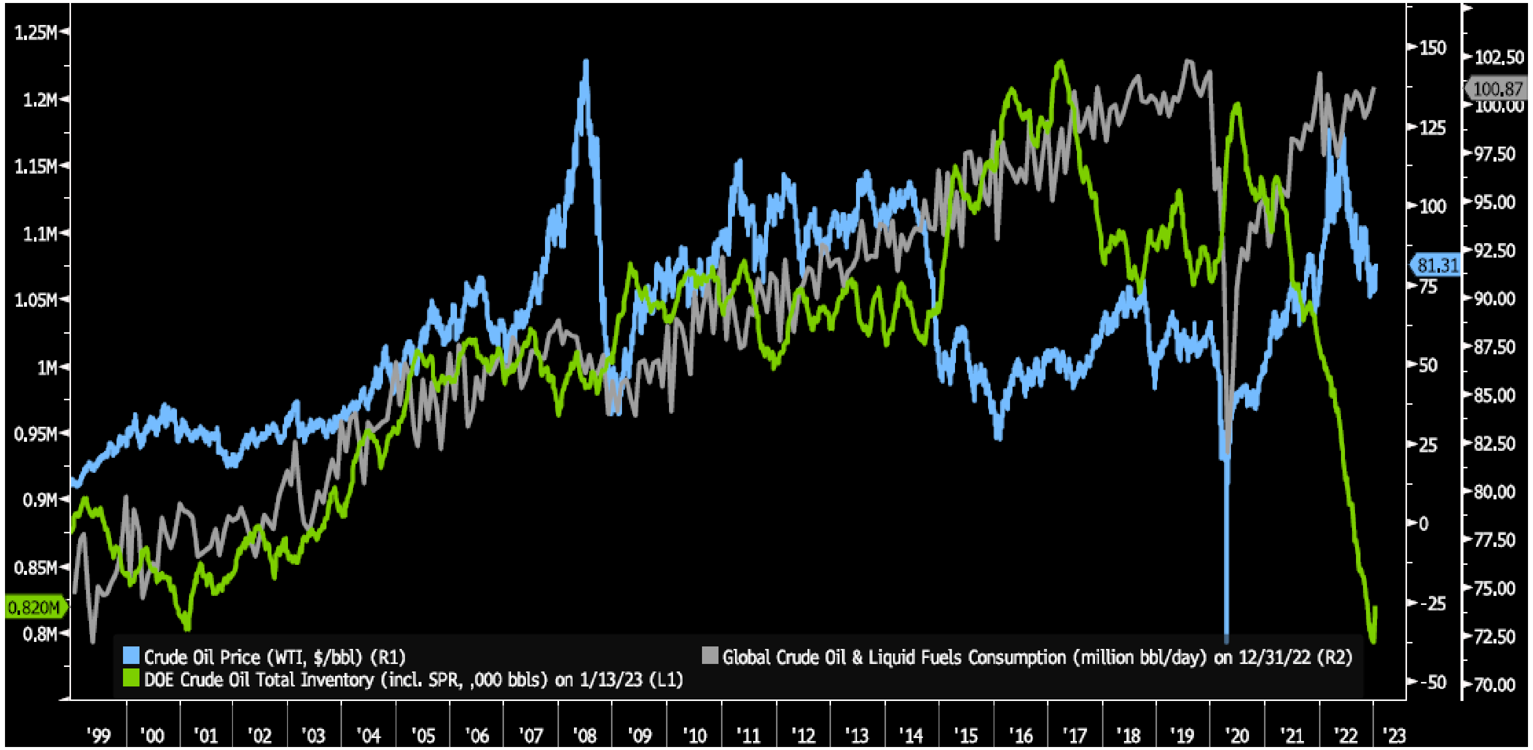
# Natural Gas Prices Have Quietly Collapsed




- A warmer winter globally has sent natural gas prices plummeting, with a nearly 70% peak-to-trough decline
- This is good news for consumers globally that will, at least temporarily, translate to lower utility bills and more cash available for discretionary spending
- We do think the price of natural gas is oversold at these levels and should stabilize (maybe even bounce) with colder weather expected in the coming weeks.
- Another positive catalyst is the re-opening of the Freeport LNG facility, which accounts for 20% of LNG exports out of the US

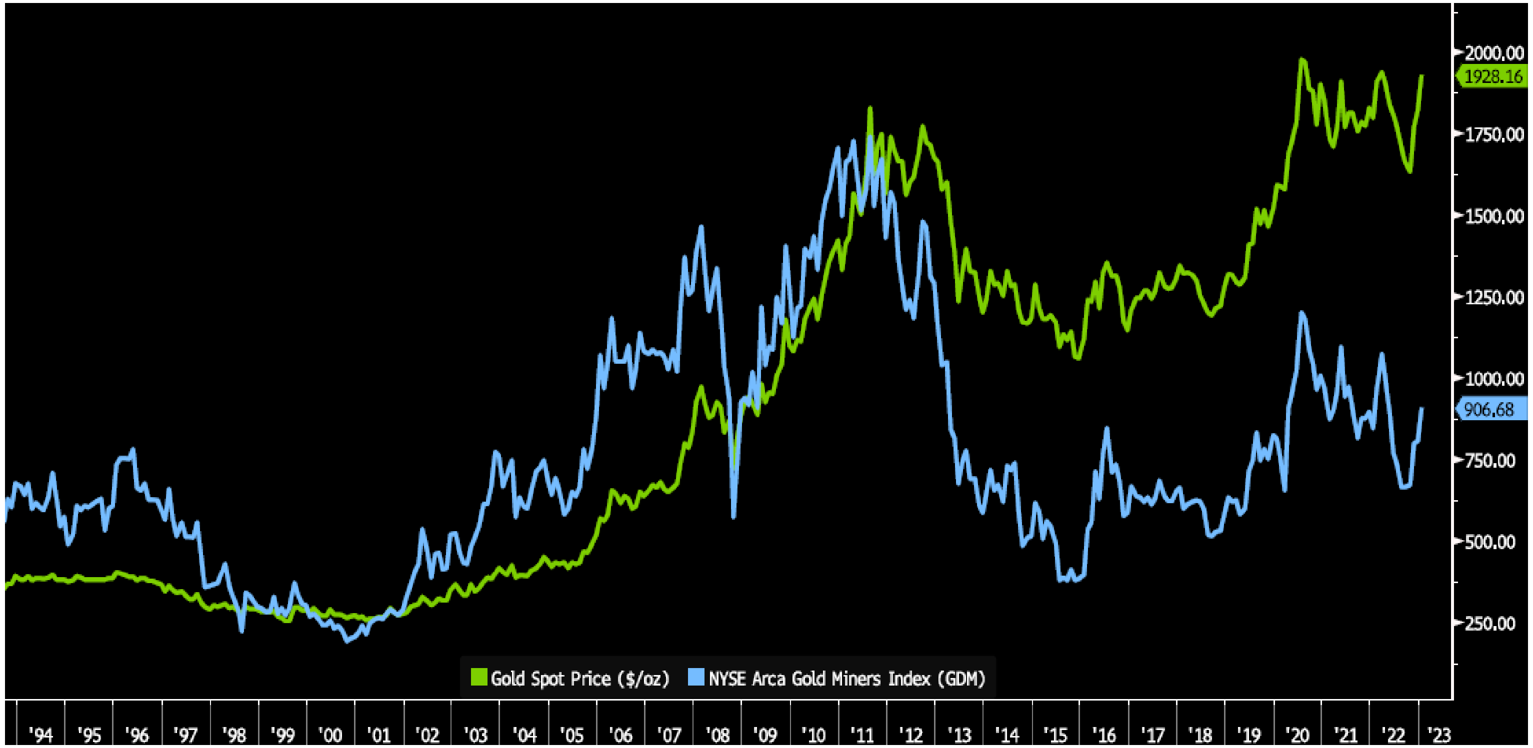
EVERGREEN gavekal

# Oil Prices Look Especially Attractive Due to Extremely Low Inventories




- As you can see above, the price of oil has plunged from $125 to just over $80 per barrel
- Interestingly, this coincides with inventories (green line) at a 20-year low and consumption at an all-time high (grey line)
- With the inevitability of a re-opened Chinese economy, it's not difficult to see the path to a bull case for the price of oil

# Gold Finally Has Been Moving Higher



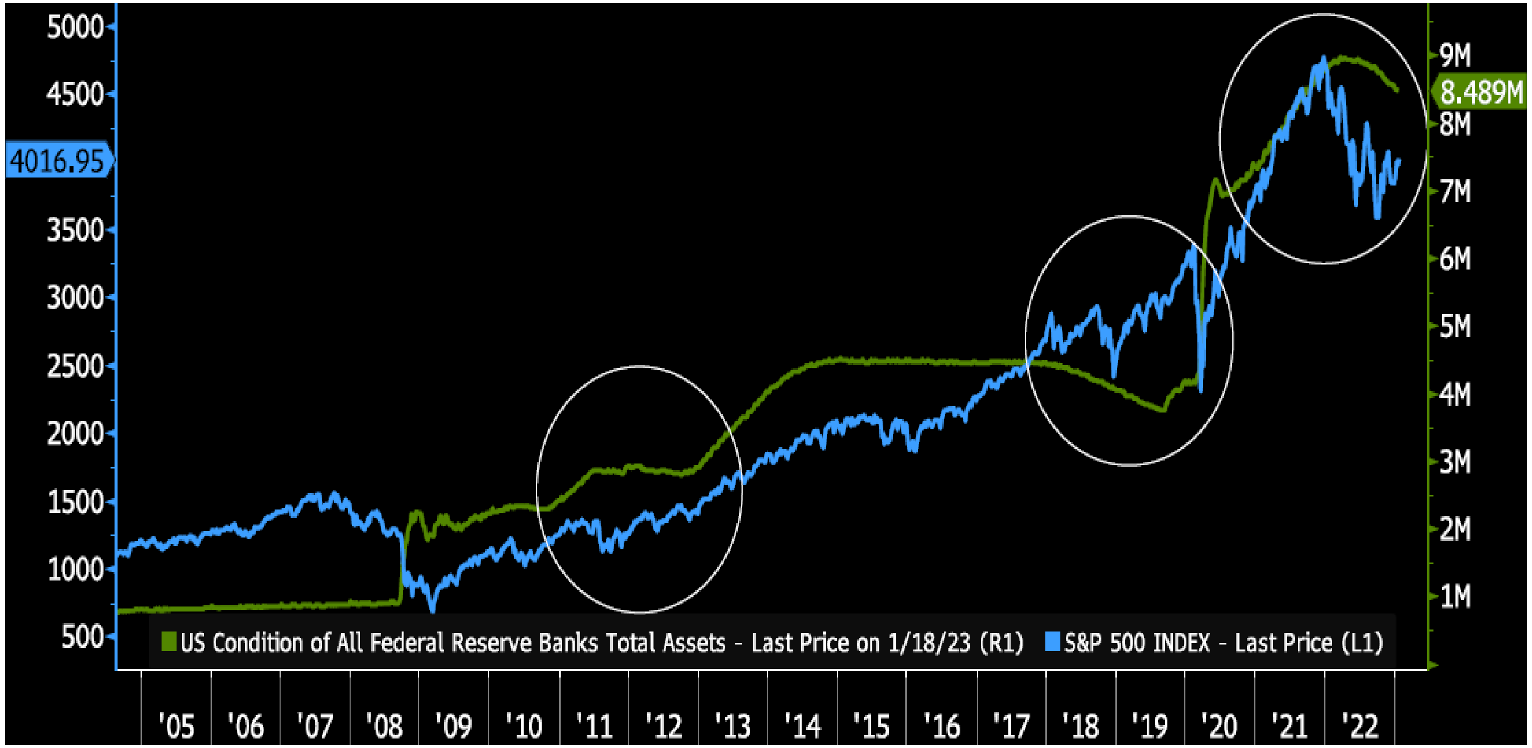

- The price of gold is approaching a 10-year high and recently has rallied almost 20% from the November low
- Interestingly, gold mining stocks over the last decade have lagged the price of gold and are an attractive, amplified way to play the space
- We would caution that it's advisable to take profits after sharp moves like we have seen recently
- To that point, while we still hold an allocation to precious metals and miners, we have been trimming back our exposure over the last several weeks

# The US Dollar Has Rolled Over Sharply


- After a year of witnessing the US Dollar move in one direction (i.e. up), we've finally seen a sharp reversal with the greenback down around 12% from the peak
- These currently trends generally move in lengthy cycles, and with Fed downshifting its tightening, we think the dollar continues to have downside risk
- In general, this outcome should benefit international equities & fixed income, and provide relief for emerging economies
- Largely, a weaker dollar should provide support for global markets, and this is no doubt part of the reason they have stabilized the last few months

EVERGREEN gavekal

# Fed Balance Sheet Still Closely Linked to Equities




- Our final chart shows the FED balance sheet and the S&P 500, which illustrates the extremely tight correlation over time
- With the Fed in full-blown quantitative tightening (QT) mode, it's hard for us to get overly bullish on risk assets
- There will be a time to push chips into the pot on stocks, but we advise waiting until QT starts to show signs of slack in the reins

# Index Definitions

- CPI represents changes in prices of all goods and services purchased for consumption by urban households. User fees (such as water and sewer service) and sales and excise taxes paid by the consumer are also included.
- US Personal Consumption Expenditure Core Price Index tracks overall price changes for goods and services purchased by consumers. Deflators are calculated by dividing the appropriate nominal series by the corresponding real series and multiplying by 100.
- Generic 1st 'CL' Future is a contract that provides for delivery of several grades of domestic and internationally traded foreign crude oils. Natural gas, wheat, corn, etc. and serves the diverse needs of the physical market.
- Federal Funds Target Rate Lower Bound is the short-term interest rate targeted by the Federal Reserve's Federal Open Market Committee (FOMC) as part of its monetary policy.
- US Condition of All Federal Reserve Banks Total Assets tracks the aggregate assets and liabilities of banks within an economy (including private or commercial banks, central banks or both).
- Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is not adjusted for inflation.
- Bankrate.com US Home Mortgage 30 Year Fixed National Avg. includes only 30-Year Fixed Mortgage products, with and without points. This index is the Overnight National Average. You will see daily rate averages on Bankrate.com in boxes labeled overnight averages (these calculations are run after the close of the business day). Included there are rates we have collected on the previous day for a specific banking product.
- US Empire State Manufacturing Survey General Business Conditions SA is a survey conducted on a monthly basis by the Federal Reserve Bank of New York and tracks sentiment among manufacturers in the state of New York.
- Philadelphia Fed Business Outlook Survey Diffusion Index General Conditions is a survey, conducted on a monthly basis by the Federal Reserve Bank of Philadelphia, and tracks sentiment among manufacturers in the Philadelphia Fed's district which includes Eastern Pennsylvania, Southern New Jersey and Delaware.
- Kansas City Federal Reserve SA Composite Index is a survey, conducted on a monthly basis by the Federal Reserve Bank of Kansas City, that tracks sentiment among manufacturers in the Kansas City Fed's district which includes Kansas, Colorado, Nebraska, Oklahoma, Wyoming, the northern half of New Mexico and the western third of Missouri.
- Dallas Fed Manufacturing Outlook Level of General Business Activity is a survey, conducted on a monthly basis by the Federal Reserve Bank of Dallas, that tracks sentiment among manufacturers in Texas.
- US Initial Jobless Claims SA track the number of people who have filed jobless claims for the first time during the specified period with the appropriate government labor office. This number represents an inflow of people receiving unemployment benefits.
- US Unemployment Rate tracks the number of unemployed persons as a percentage of the labor force (the total number of employed plus unemployed). These figures generally come from a household labor force survey.
- US Job Openings By Industry Total SA tracks the number of specific job openings in an economy. Job vacancies generally include either newly created or unoccupied positions (or those that are about to become vacant) where an employer is taking specific actions to fill these positions.
- LBUSTRUU Index is the Bloomberg US Aggregate Bond Index, a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency). (Future Ticker: I00001US)
- Inflation expectations both are obtained from surveying 1,200 consumers on a wide range of economic factors that directly flow into inflation in one way or another
- University of Michigan surveys consumers about their attitudes and expectations to summarize and determine the changes in a consumer's willingness to buy and predict their subsequent discretionary expenditures
- Institute for Supply Management (ISM) tracks the general state of the economy through several surveys depicting the state and expectations of the economy including both manufacturing and services sectors
- US exiting and new home sales is collected by the National Association of Realtors that track sales of homes throughout the United States, collected monthly
- S&P CoreLogic Case-Shiller 20-City Composite City Home Price NSA Index tracks the value of single-family housing within the United States. The index is a composite of single-family home price indices for the nine U.S. Census divisions.
- The US Dollar (USD) Index (DXY) indicated the general international value of the US Dollar by averaging the exchange rates between the USD and major world currencies
- The NYSE Araca Gold Miners Index is a modified market-capitalization weighted index made up of publicly traded companies involved primarily in the mining for gold and silver
- Department of Energy (DOE) total inventory data, updated for the previous week ending Friday, and are estimates made weekly by the DOE
- World crude oil & liquid fuels are taken from the US Department of Energy's EIA monthly short-term energy outlook report which combines actual and forecast data in one report
- High-yield bond index measures the USD-denominated, high yield, fixed-rate corporate bond market, classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB_ or below
- iBoxx USD Liquid Investment Grade index measures the USD denominated, investment grade, corporate bond market. The index includes bonds with a minimum of 3-years to maturity, minimum amount outstanding of USD 750m, including fixed rate, step-up, sinking funds, medium term notes, callable, and putable notes
- MSCI All-Country World Index Excl-US Index is a free-float weighted index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the United States) and 24 Emerging Markets (EM) countries
- NASDAQ Composite index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market, and Capital Market
- The statutory debt limit is the total amount of money that the United States government is authorized to borrow to meet its existing legal obligations, including Social Security and Medicare benefits, military salaries, interest on the national debt, tax refunds, and other payments
- Entitlement spending is mandatory spending is government spending on certain programs that are required by law. Congress established mandatory programs under authorization laws. Congress legislates spending for mandatory programs outside of the annual appropriations bill process
- When the Housing Affordability Index measures 100, a family earning the median income has exactly the amount needed to purchase a median-priced resale home using conventional financing, an increase in the index means that a family is more likely to be able to afford the median priced house
- Conference Board US Leading Economic Indicator (LEI) Index includes variables that tend to move before changes in the overall economy, giving the a sense of the future state of an economy
- Breakeven inflation rate index compares the TIPS yield to the fitted nominal yield for the same maturity, deriving a measure of inflation compensation or breakeven inflation, defined as the rate of inflation at which TIPS and nominal have the same total return

# Disclosure

This material has been prepared or is distributed solely for informational purposes only and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Any opinions, recommendations, and assumptions included in this presentation are based upon current market conditions, reflect our judgment as of the date of this presentation, and are subject to change. Past performance is no guarantee of future results. All investments involve risk including the loss of principal. All material presented is compiled from sources believed to be reliable, but accuracy cannot be guaranteed, and Evergreen makes no representation as to its accuracy or completeness. Securities highlighted or discussed in this communication are mentioned for illustrative purposes only and are not necessarily a recommendation for these securities. Evergreen actively manages client portfolios and securities discussed in this communication may or may not be held in such portfolios at any given time.

There is no guarantee that these yields stated in this presentation will be achieved. Yields mentioned are gross of fees. The yields shown are for the stated indices. Such indices are not actively managed and therefore do not have transaction costs, management, or other operational expenses. These yields do not reflect the deduction of advisory fees, brokerage or other commissions, and any other expenses that a client may pay. Please note that the yield numbers are not intended to serve as projections of the performance that your account could expect to earn based on this investment allocation. Your actual return will also be impacted by factors including, but not limited to, price appreciation or depreciation for equity investments as well as the deduction of advisory fees, brokerage or other commissions, and any other expense that a client may pay.