

Bluegrass Community
Bankers Association

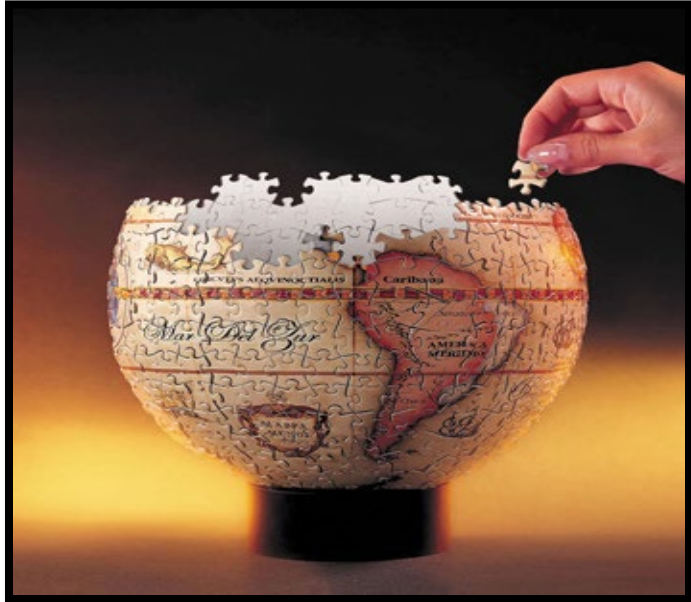
2024 ANNUAL CONVENTION ECONOMIC / PORTFOLIO DISCUSSION

AUGUST 19, 2024

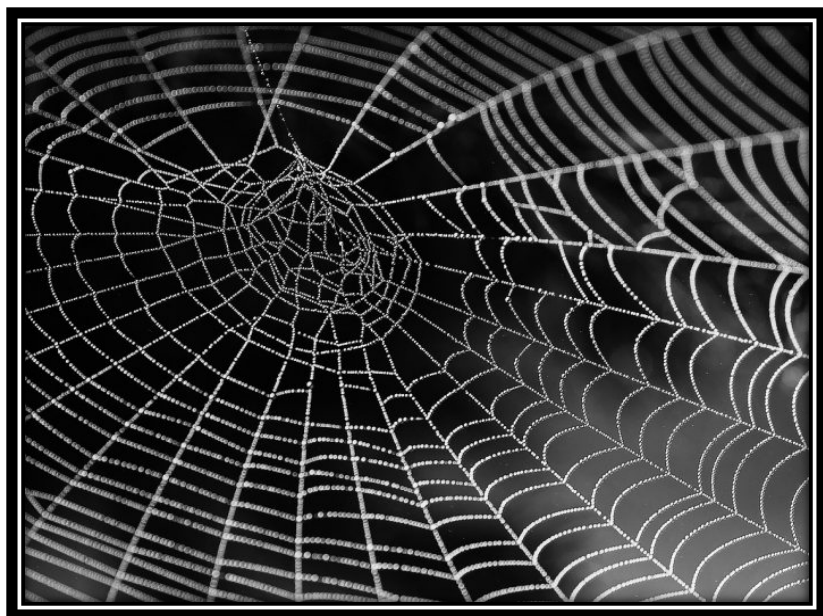


SERVICE BEYOND COMPARISON

What I Endeavor To Accomplish This Morning



What I Endeavor To Accomplish This Morning



“...the world (economy) is like an enormous spider web and if you touch it, however lightly, at any point the vibration ripples to the remotest perimeter...It does not matter whether or not you meant to brush the web of things”

- Robert Penn Warren
Born 1905 in Guthrie KY

What You Will Not Hear Today



Is This How You Feel These Days?



Let's Start With The Fed, Shall We?

What Is The Fed Acting On???

- The Fed's modern statutory mandate, as described in the 1977 amendment to the Federal Reserve Act, is to promote maximum employment AND stable prices.
- These goals are commonly referred to as the “*dual mandate*”.

- “*In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook.*”

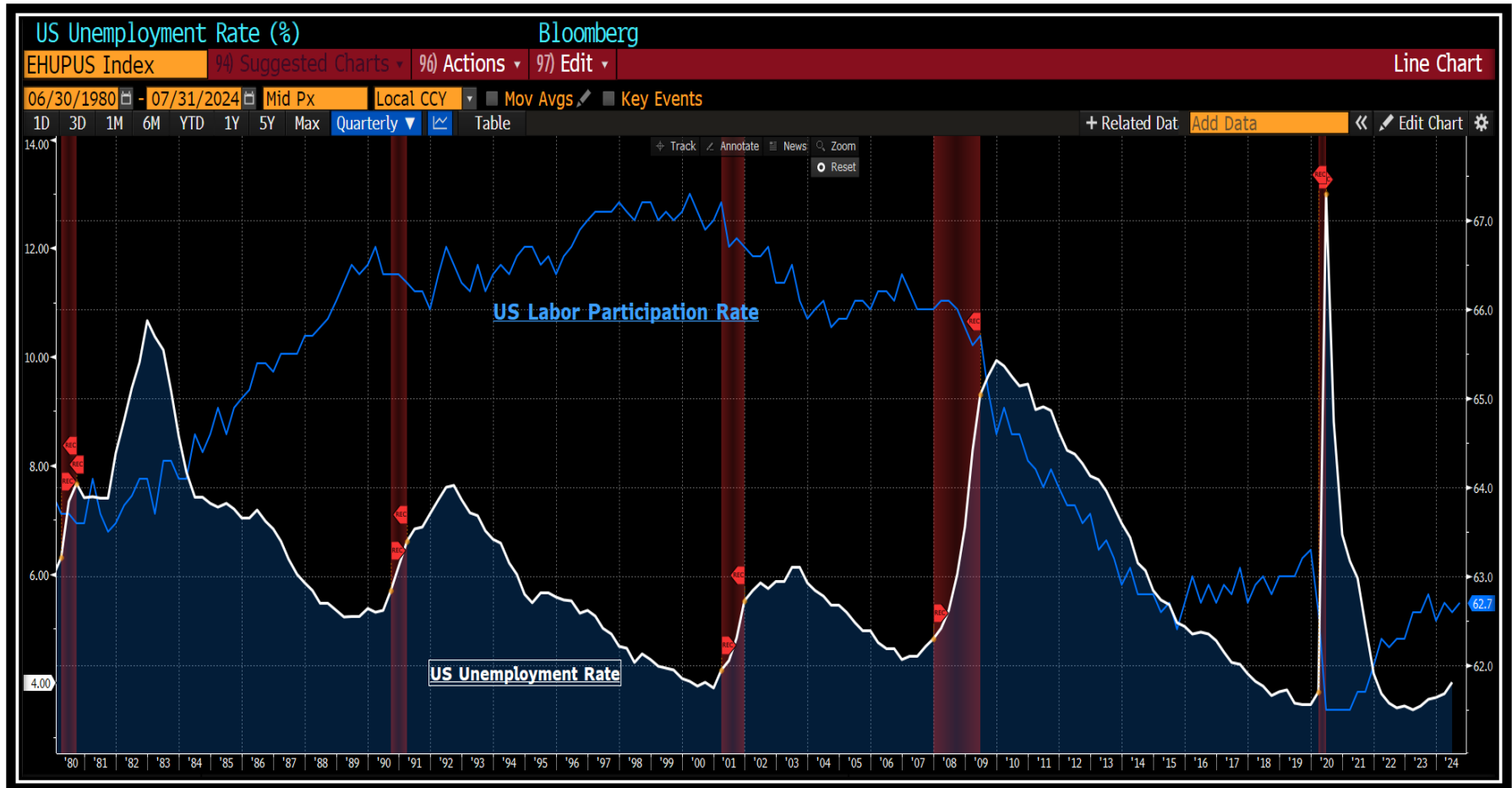
- Federal Reserve Statement July 31, 2024



Current “*Incoming Information*”:

Unemployment / Labor Participation

(Fed Mandate – Part 1)



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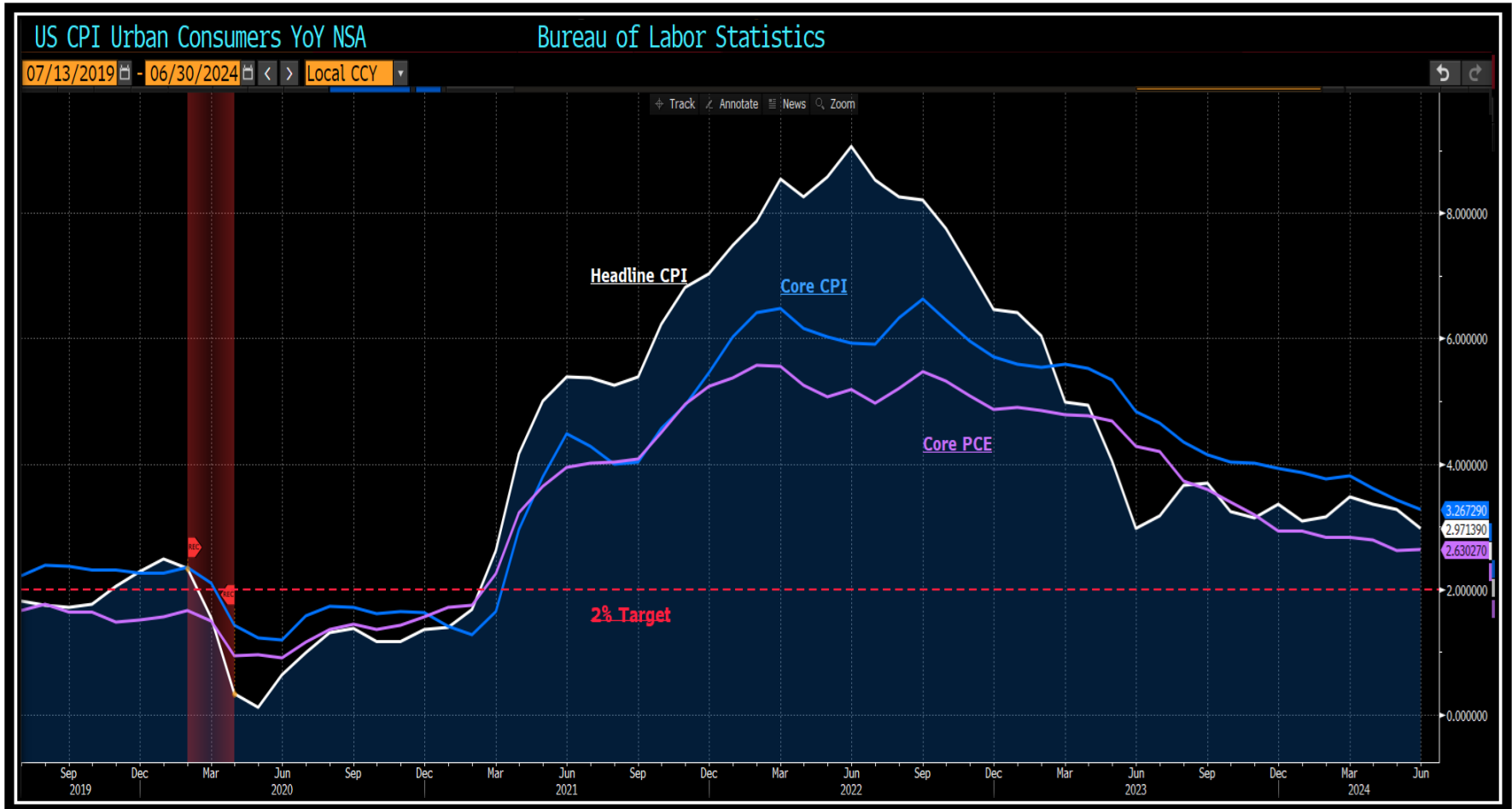
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Current “*Incoming Information*”:

The Three Inflations

(Fed Mandate – Part 2)



“Those who don’t know history are doomed to repeat it.”

- Edmond Burke

But.....

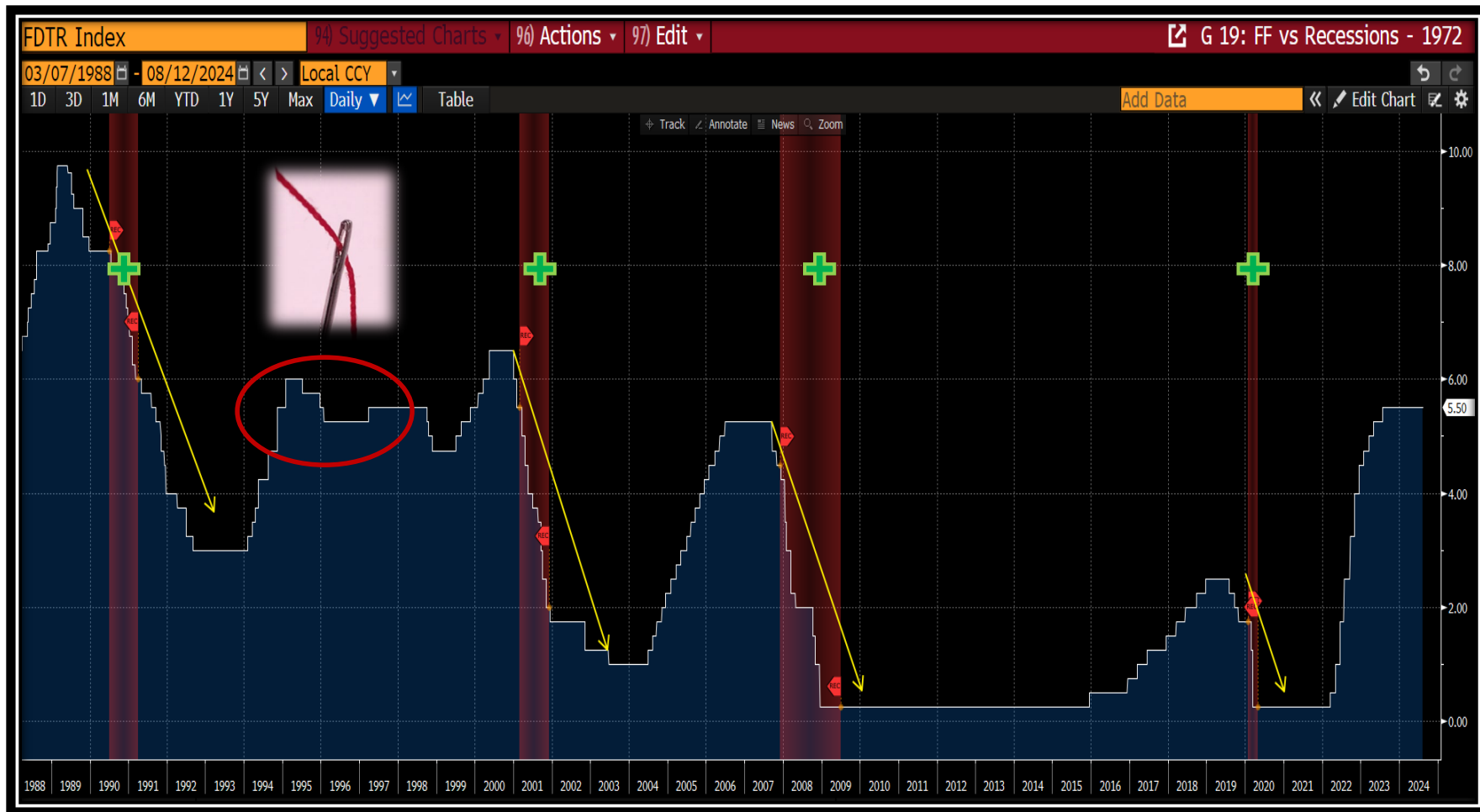
Maybe, This Is The Time It’s Different

Lets Look At Three Popular Correlations



Correlations: Tightening Cycles / Recessions

Fed Tightening Cycles (1988 – Present)



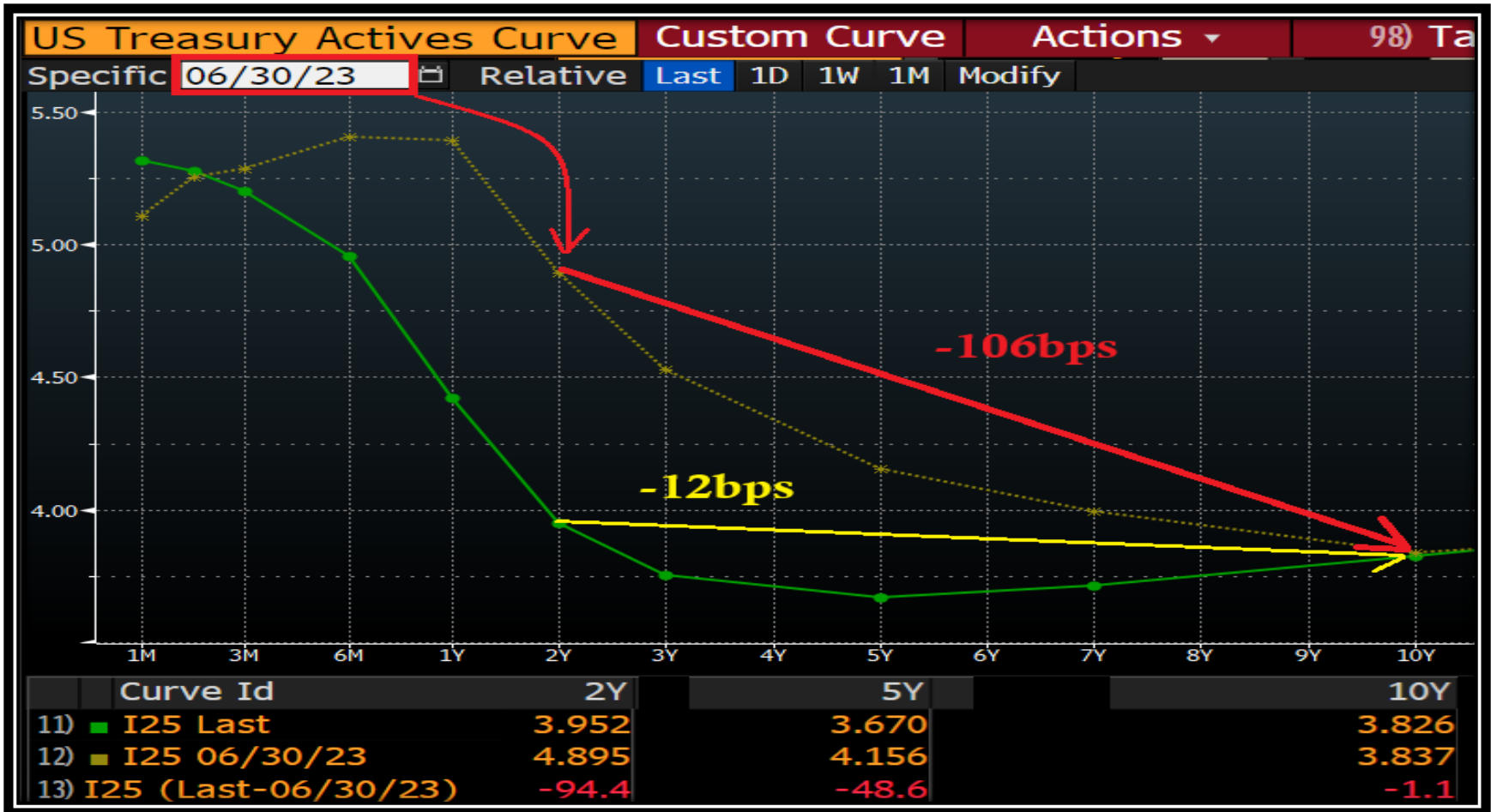
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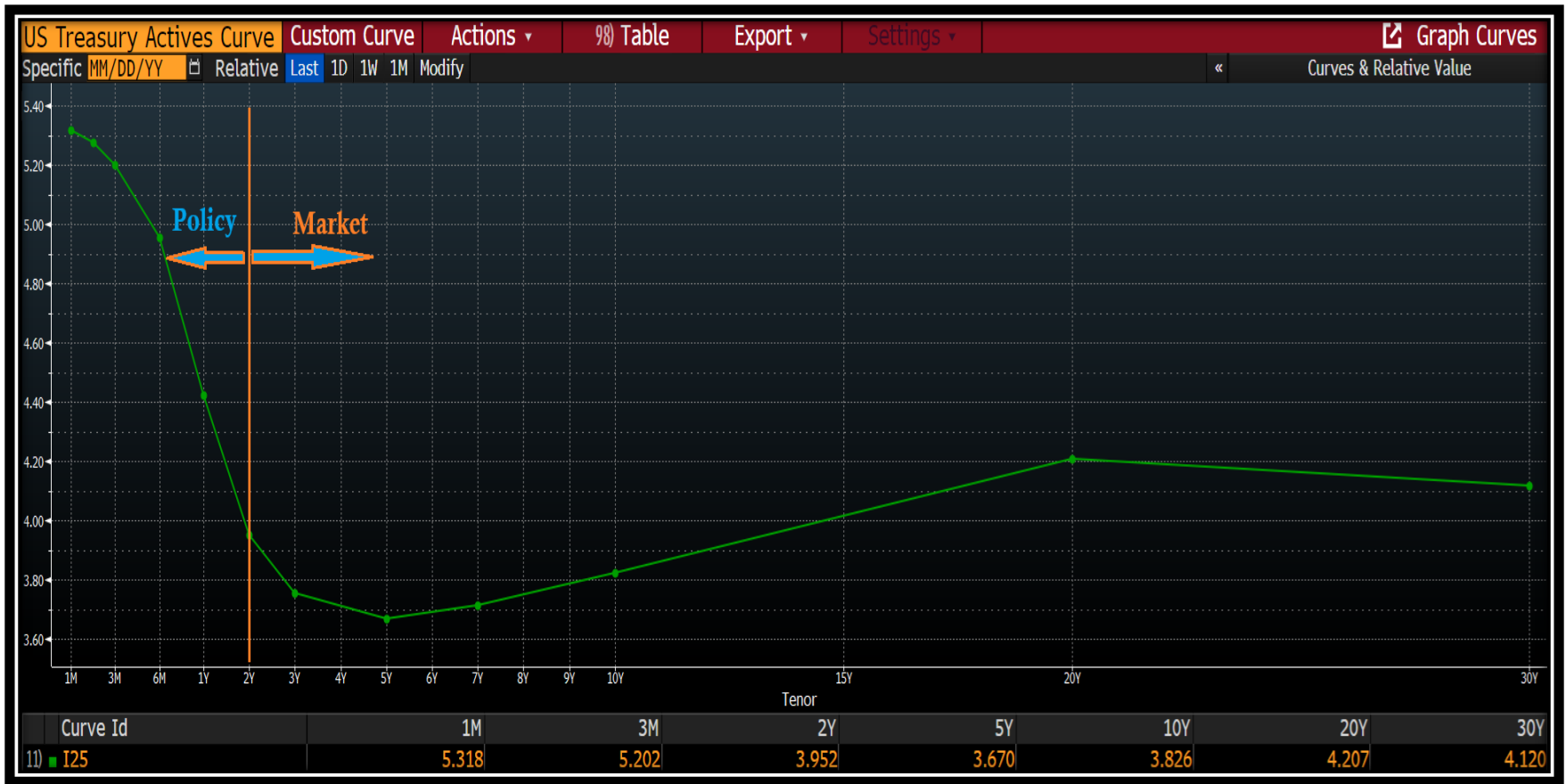
Correlations: Yield Curve Inversions

*2/10-Yield Comparison



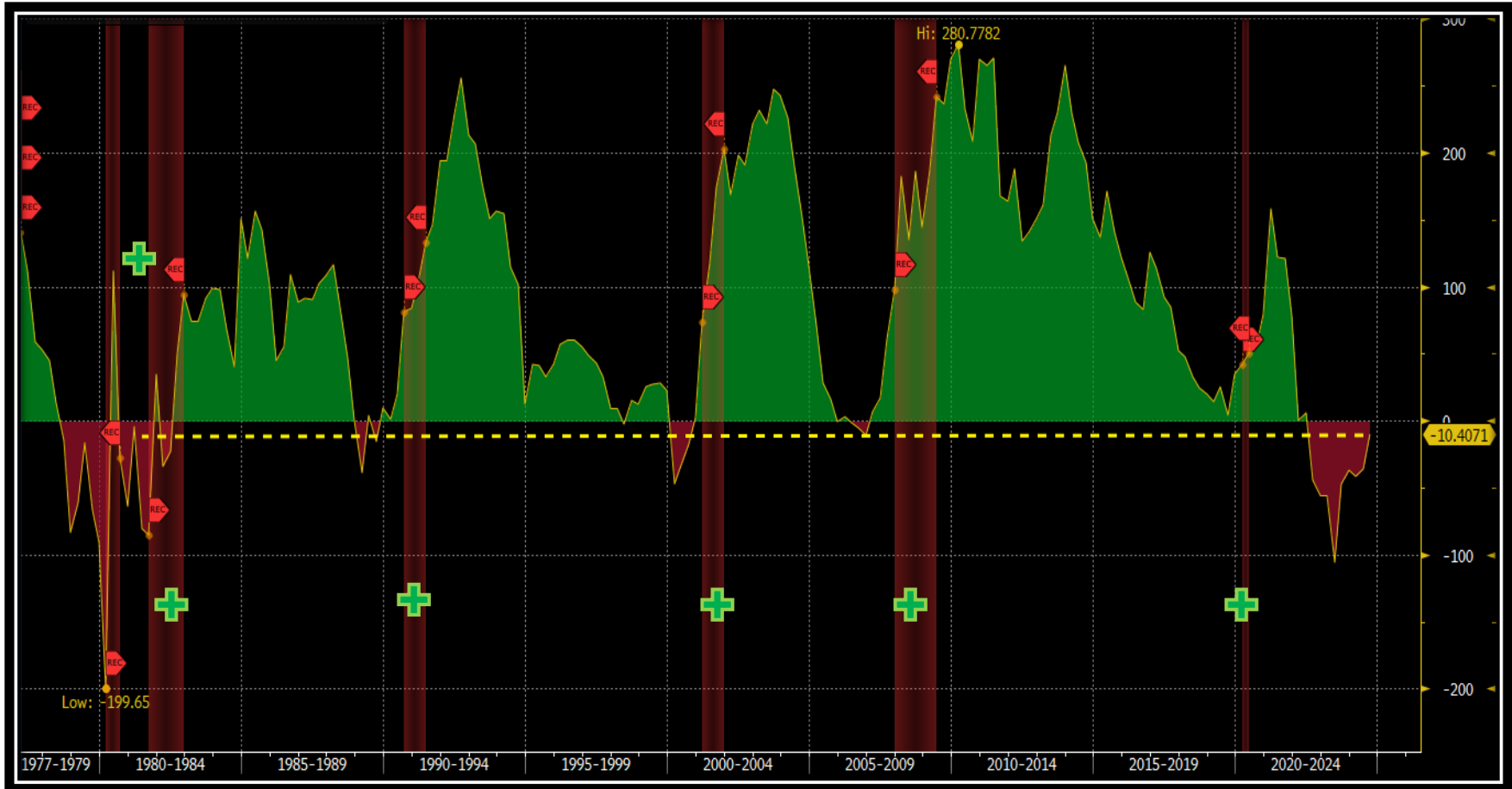
Correlations: Yield Curve Inversions

Why 2's and 10's?



Correlations: Yield Curve Inversions

*2/10-Yield Spreads (1977-Current)



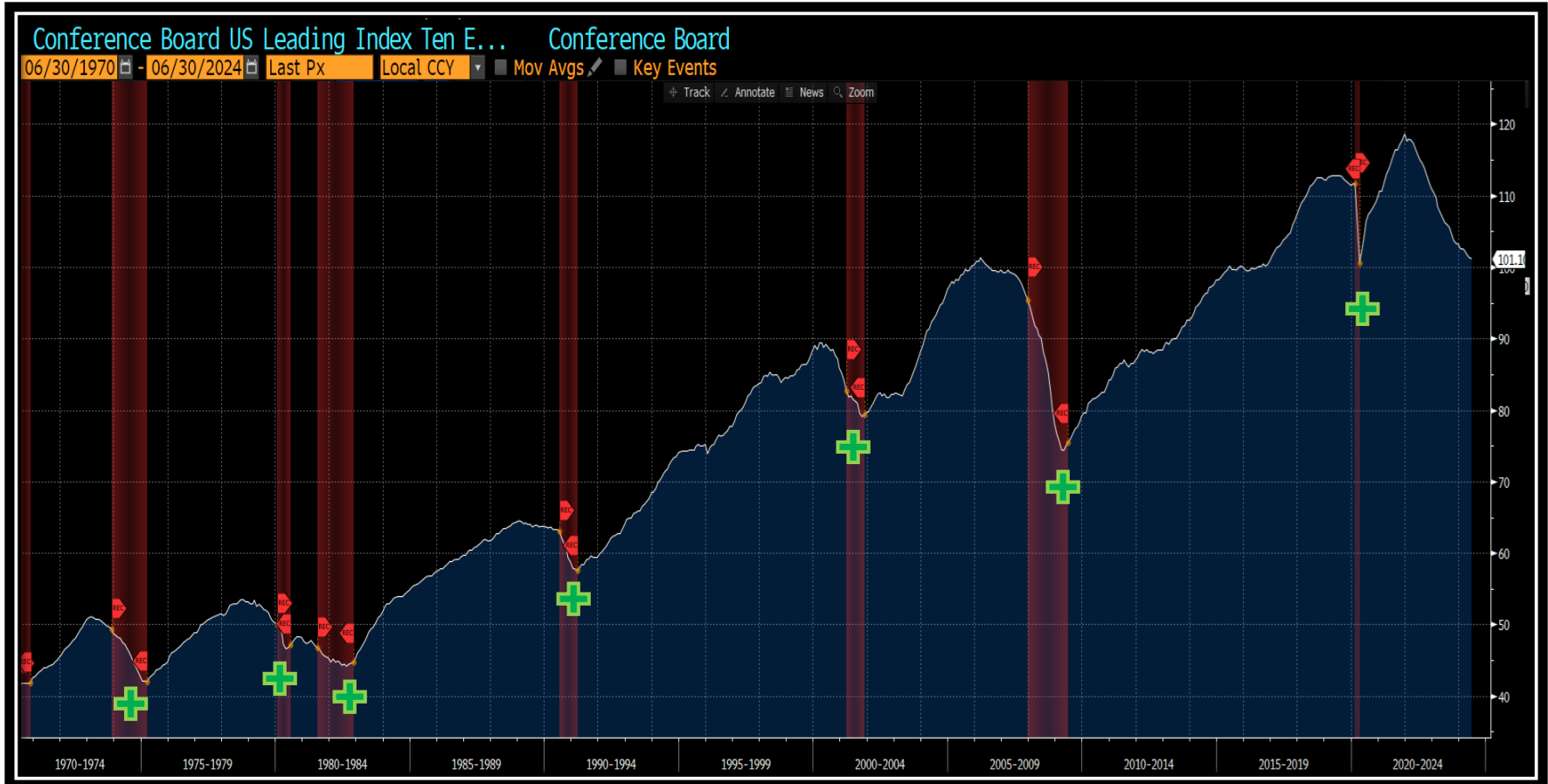
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Correlations: Leading Economic Indicators:

10 Economic Components



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Leading Economic Indicators:

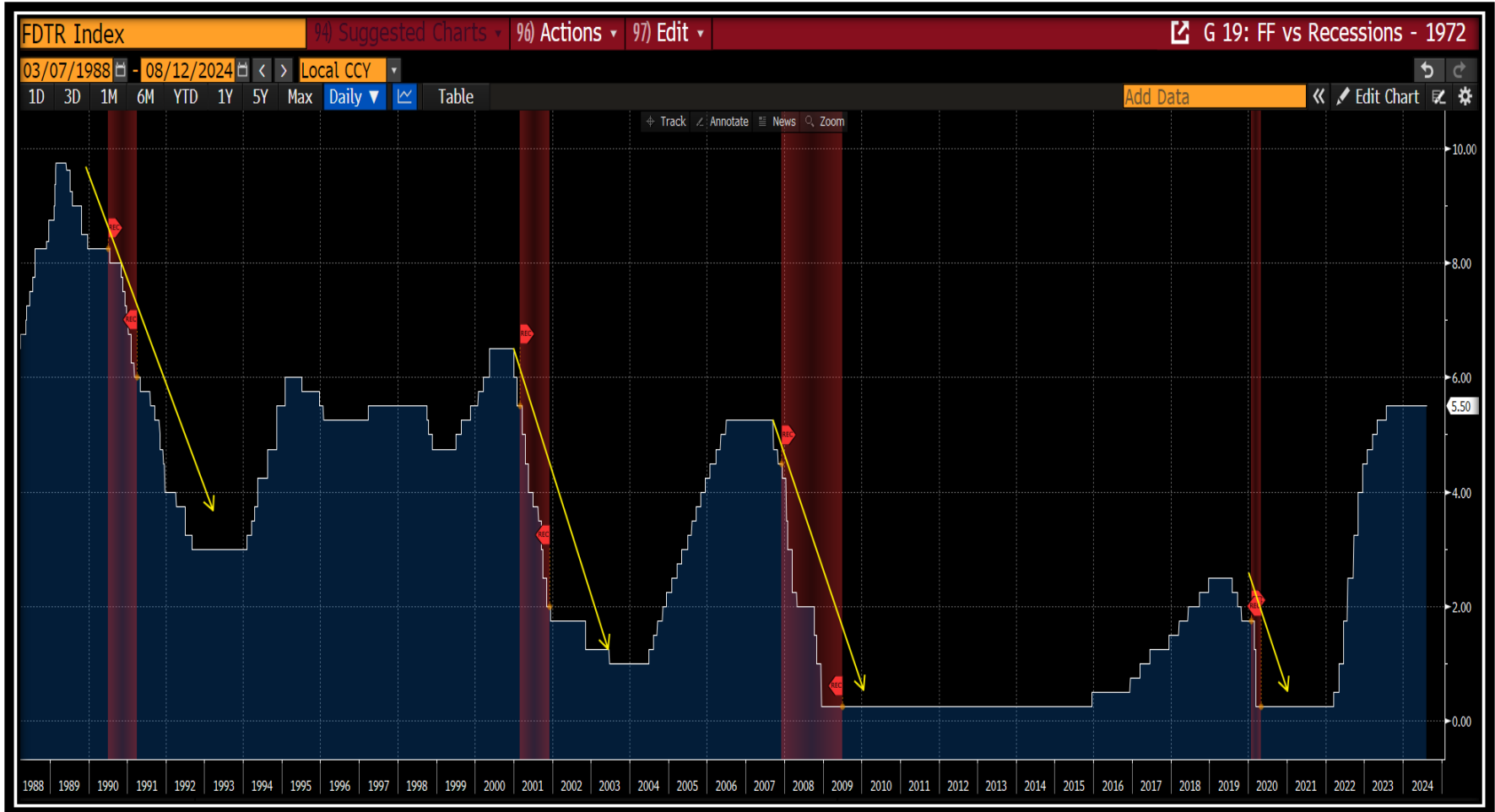
10 Economic Components...(If you're Interested)



1. Average Work Week
2. Jobless Claims
3. New Orders: (Manufacturers / Consumer Goods & Materials)
4. ISM Index of New Orders
5. New Orders: (Manufacturers / Nondefense Capital Goods X-Aircraft)
6. Building Permits: New Private Housing
7. S&P Stock Index
8. Leading Credit Index
9. 10-Year Spread Minus The Official Bank Rate
10. Average Consumer Expectations for Business Conditions

Q: How Does The Curve Typically Re-Normalize?:

*A: On The Front-End...**POLICY***



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How Does The Curve Typically Re-Normalize?

On The Front-End...POLICY

How Much does the Fed Cut in Cutting Cycles?		
First Fed Rate Cut (Month)	Total Cuts (Bps)	Occurring over... (Months)
March 1960	280	17
December 1966	197	8
September 1969	547	18
October 1973	556	20
January 1980	479	7
February 1981	438	2
July 1981	1059	20
September 1984	563	24
November 1987	81	4
June 1989	681	40
July 1995	75	7
September 1998	75	3
January 2001	550	30
September 2007	513	16
July 2019	75	3
Avg->	411	15

Sources: Federal Reserve, Haver, SMBC Nikko



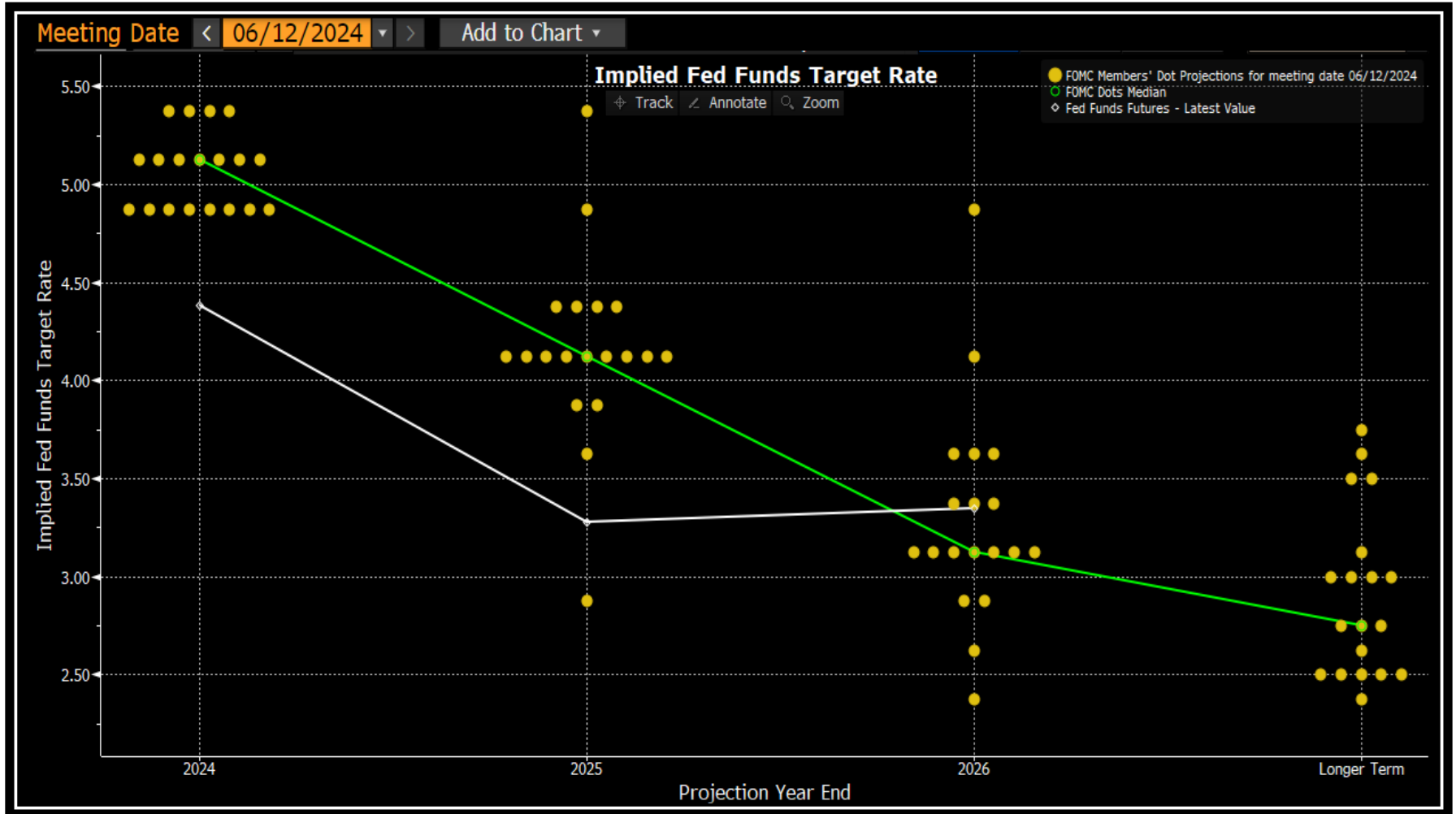
How Does The Curve Typically Re-Normalize?:

On The Front-End... “Bull-Steepening” (2007-2009)



So, What Are “They” Saying?

FOMC Dot Plot (Fed) / Fed Fund Futures (Market)



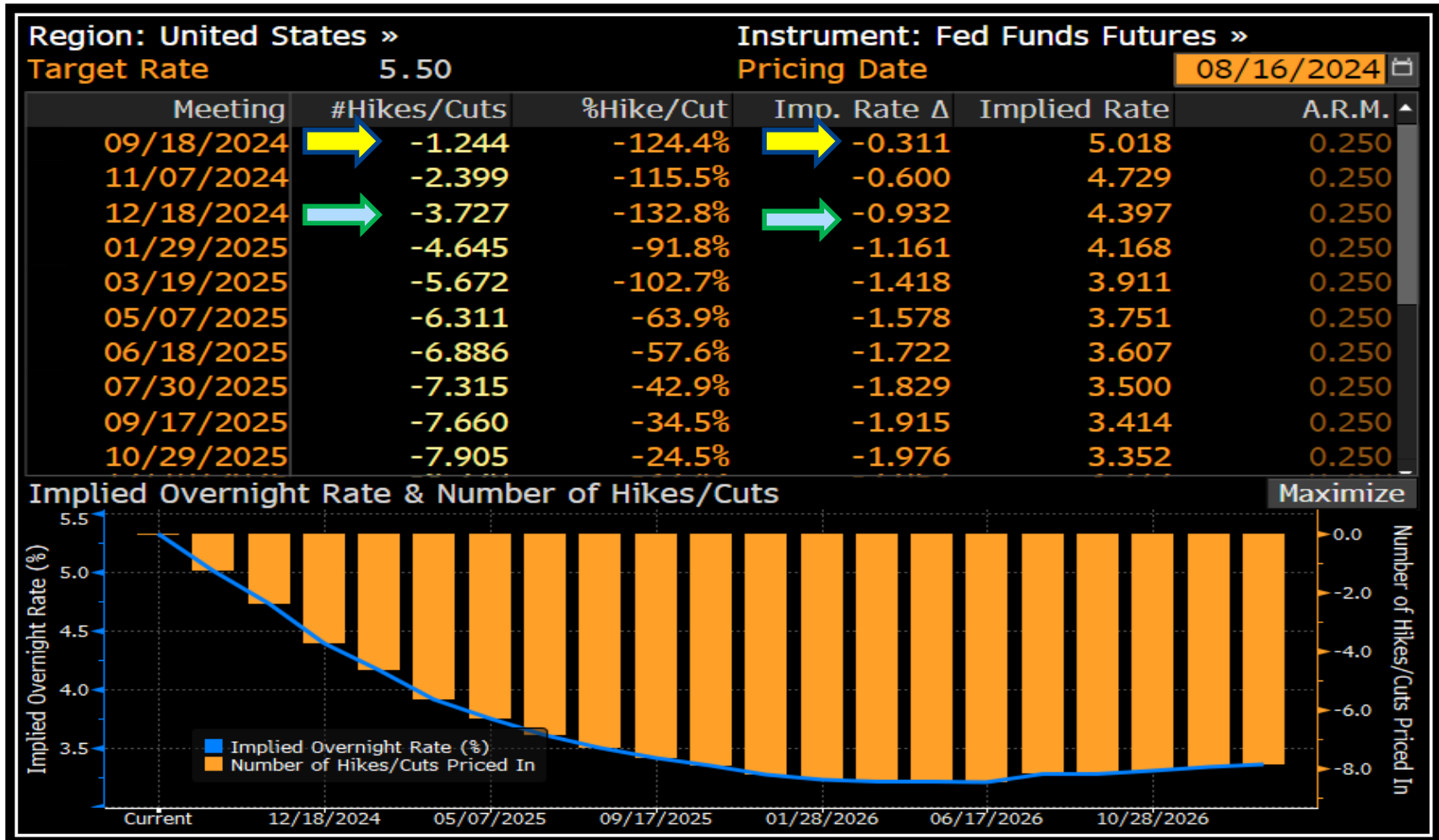
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So, What Are “They” Saying?

Fed Fund Futures (Market)



Repeat After Me.....

“Fed Funds is AN INTEREST RATE, It Is Not INTEREST RATES”



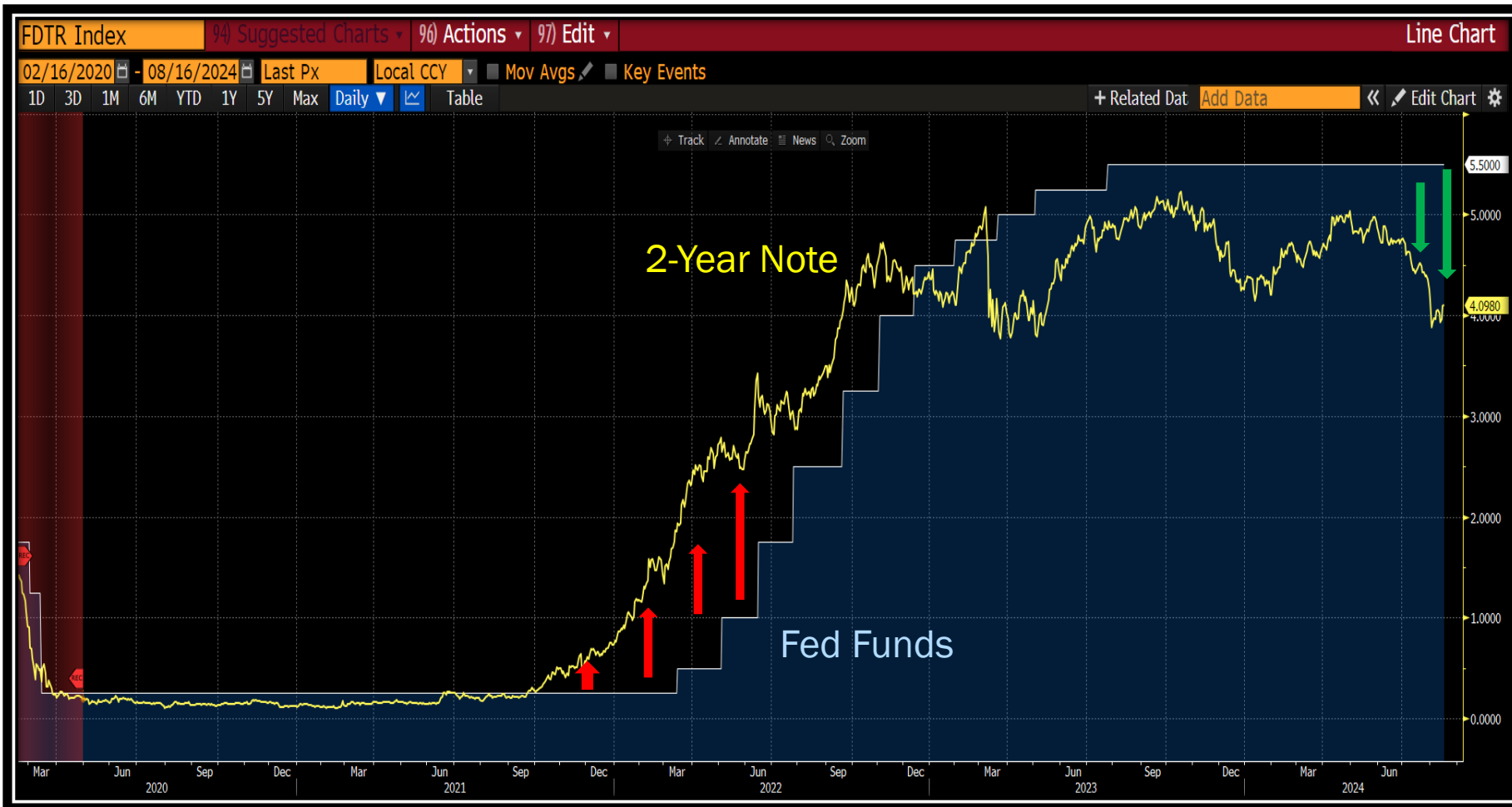
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A Chart From The Past

The Market Typically Leads The Fed ... In Both Directions



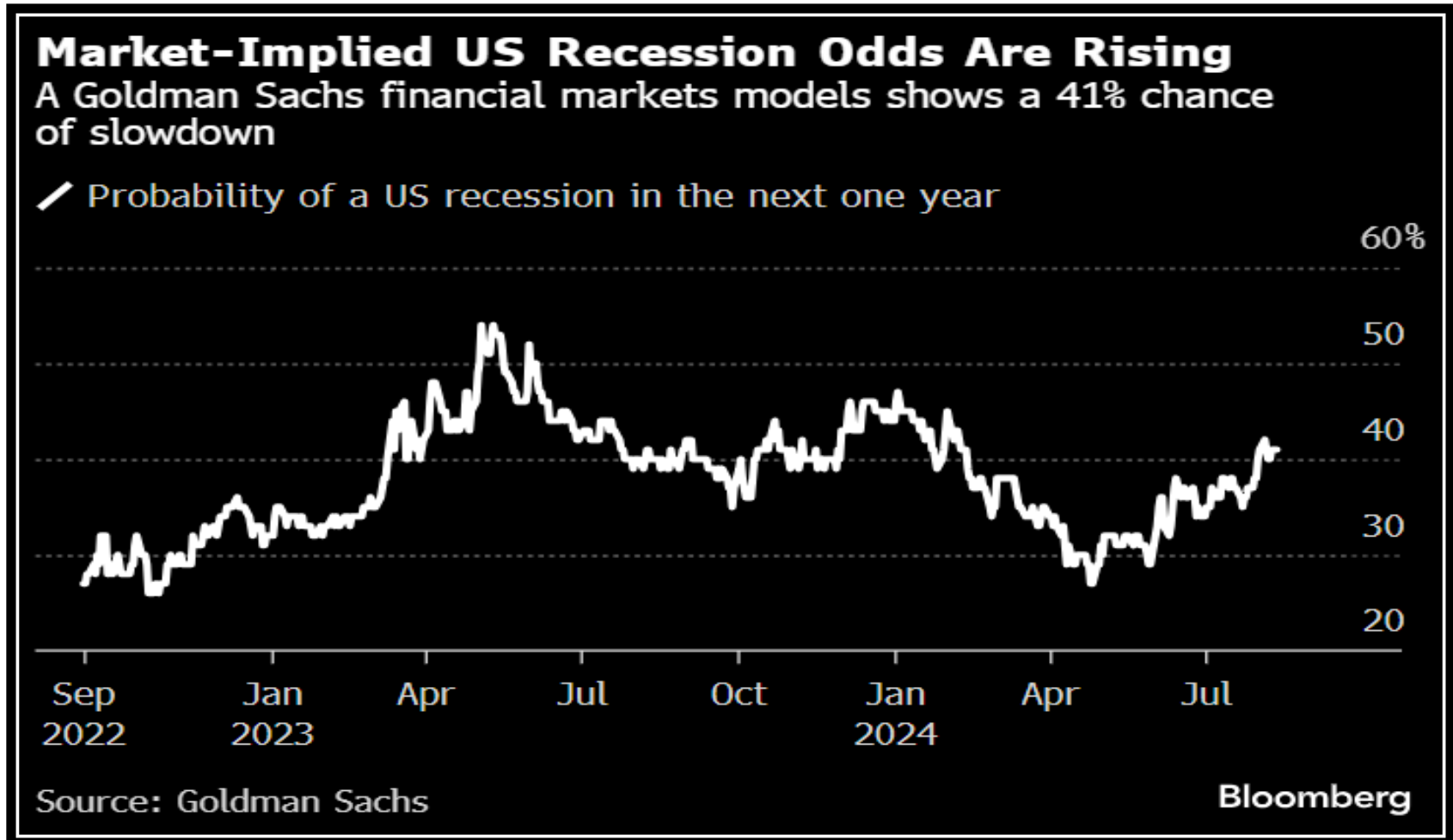
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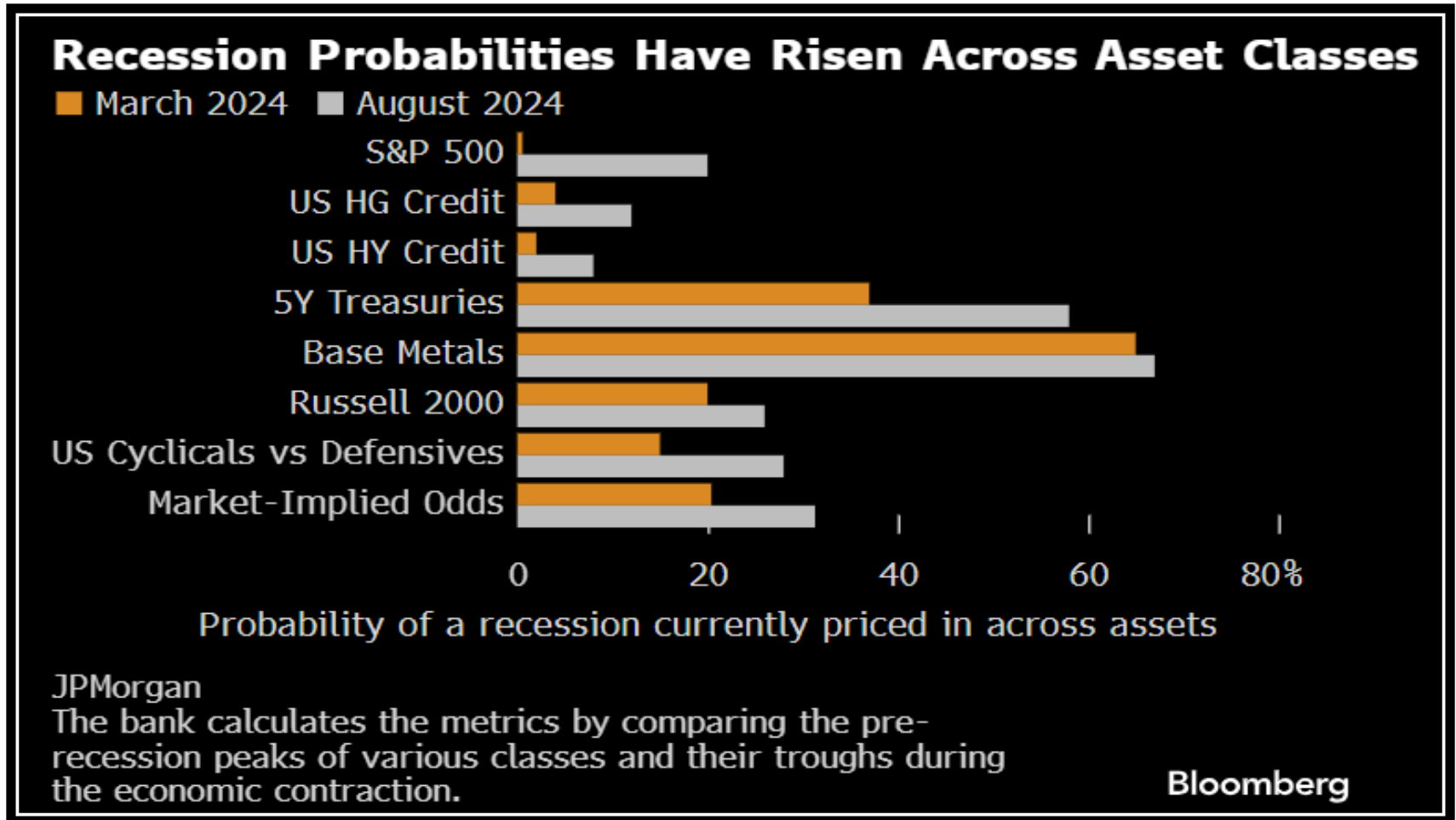
So, What Are “They” Saying?

Goldman Sachs Recession Probability Index (8-13-24)



So, What Are “They” Saying?

JP Morgan Asset Class Recession Probability Index (8-13-24)



Just A Really Cool Correlation Chart?

Equities (S&P) / Inversions (2/10) / Recessions



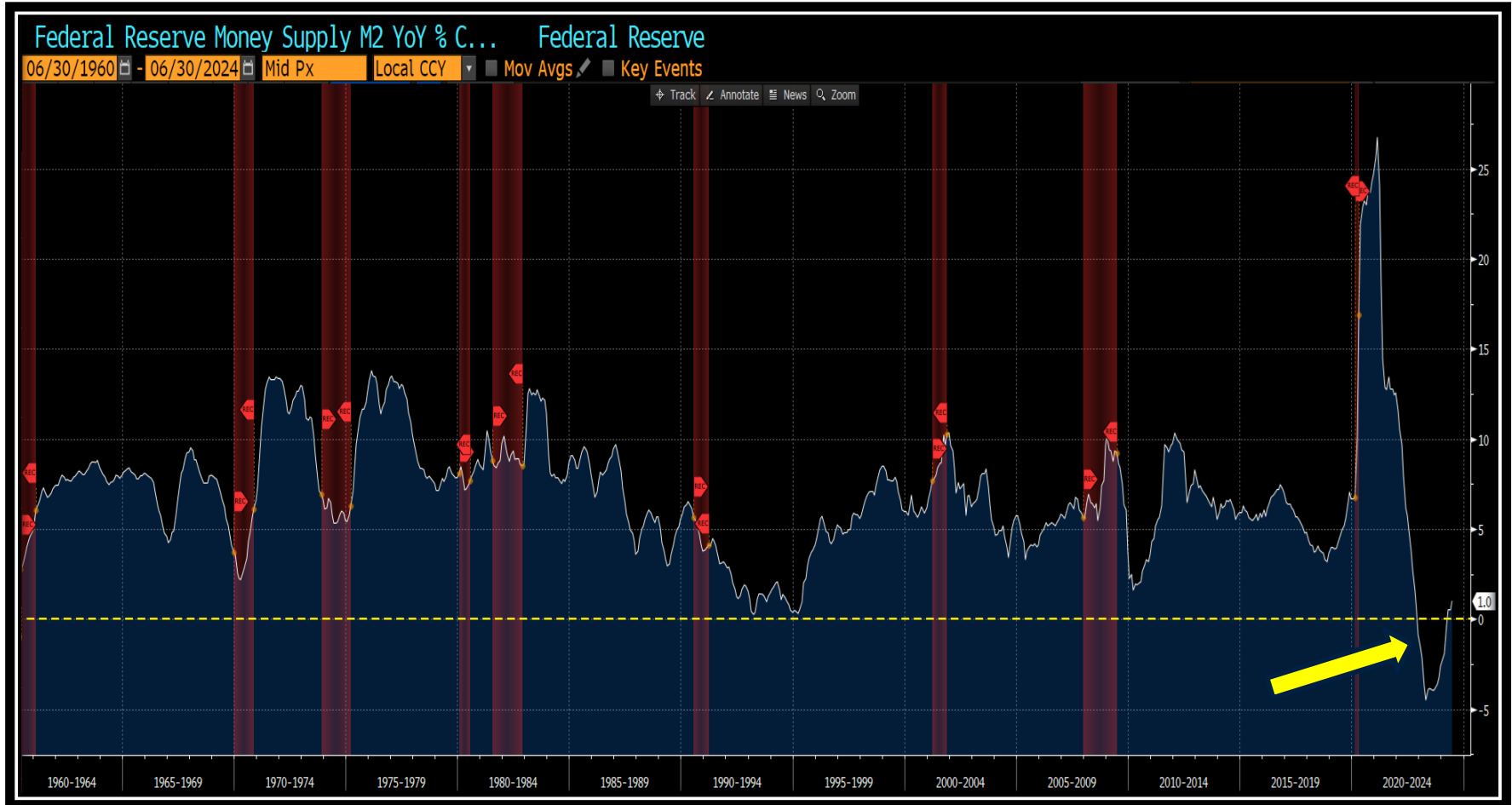
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Aren't We Going To Mention Liquidity?

* M2 Money Supply : Cash in Circulation + Dollars in Bank and Money Market Accounts



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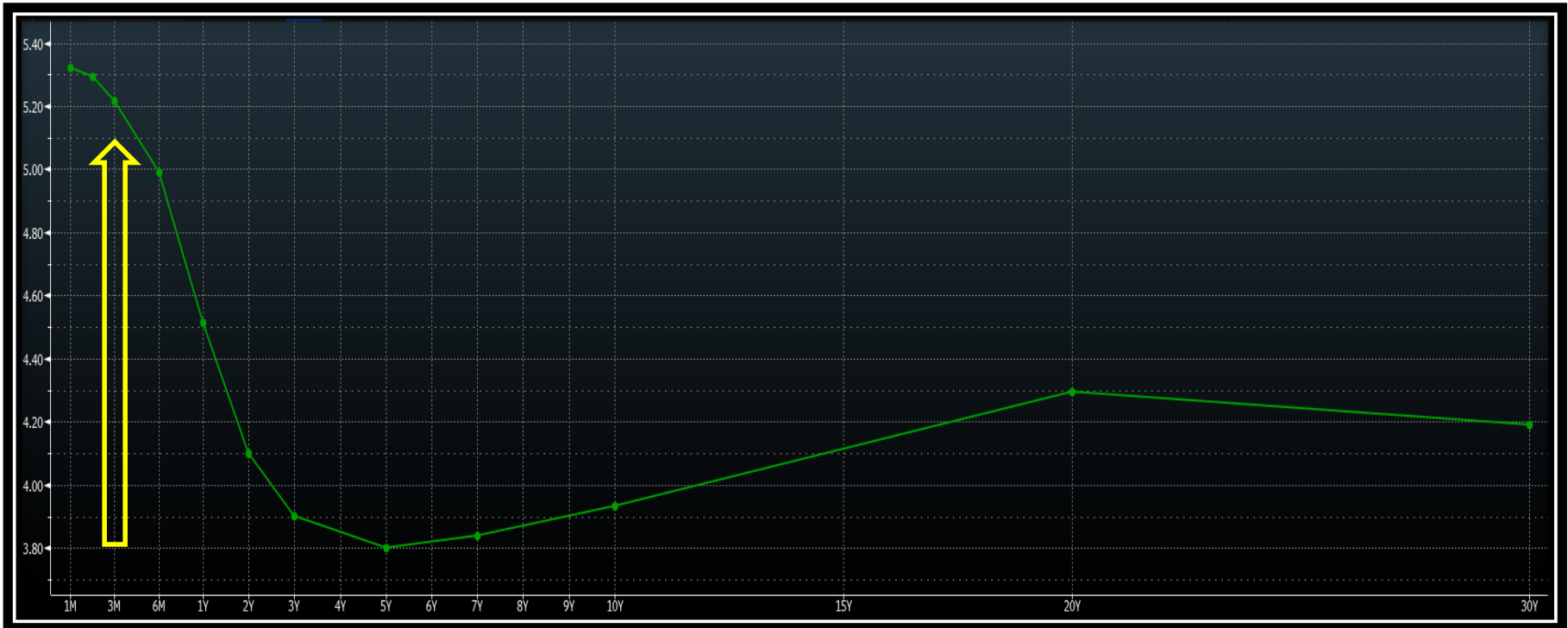
Ca\$h is Still Worth \$omething !!

Invest in Bonds at Schwab

Fixed Income Offerings

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	3 Mo	6 Mo	9 Mo	1 Yr	18 Mo	2 Yr	3 Yr	4 Yr	5 Yr	10 Yr	20 Yr	30 Yr+
Bonds												
U.S. Treasuries	5.21	4.99	4.73	4.52	4.32	4.13	3.91	3.85	3.82	3.93	4.33	4.20



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Aren't We Going To Mention Liquidity?

→ We are still competing with the US Treasury.

THE RACE FOR DEPOSITS

U.S. GOVERNMENT

COMMUNITY BANKS

- EDWARD JONES
- CHARLES SCHWAB
- INSURANCE FIRMS
- FIDELITY
- SOFI
- ETC.....



Closing Thoughts

Questions

Thank You

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