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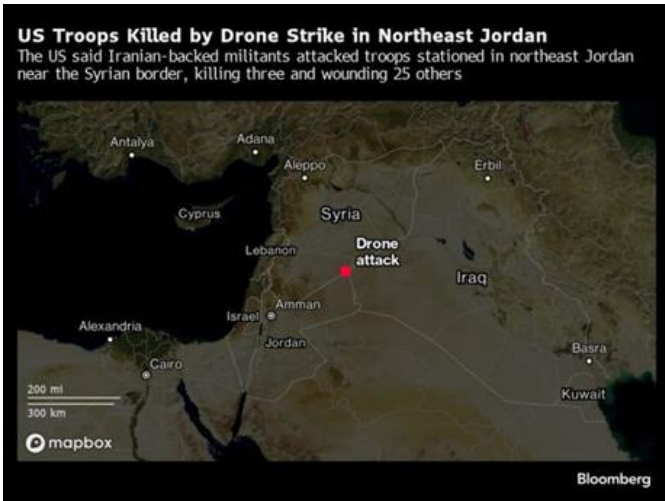
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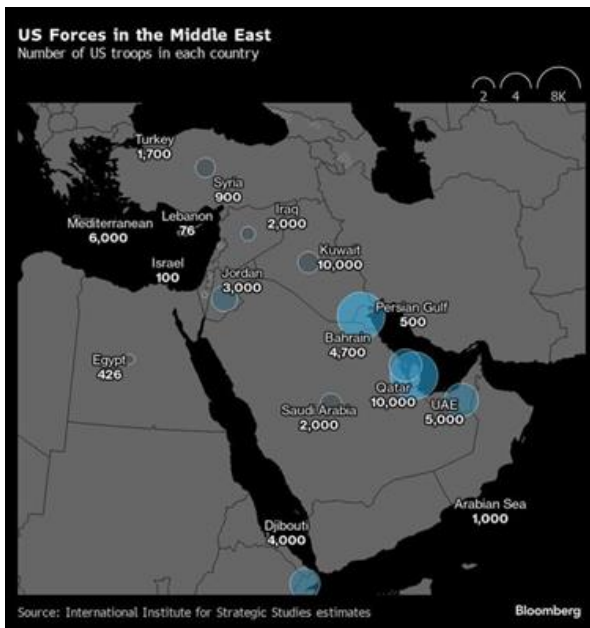
Monday, February 5, 2024

IMPORTANT LEGAL DISCLAIMER AT THE END OF THIS PRESENTATION.

Steve Pavlick: Washington Policy



- Middle East conflict is spreading.
- Netanyahu not aligned with Biden.
 - New leaders for 2-state solution.
- Houthis continuing attack on ships.
 - U.S. warships escalates.
 - Insurance and expanded routes.
 - Impact to just-in-time.
- Telegraphing targets.
 - Iran uses proxies b/c it doesn't want a direct confrontation.
- Biden must reassemble 2020 coalition.
 - Arab population in MI.
 - Younger progressives sympathetic towards Palestinians.
 - LNG pause in PA/OH.



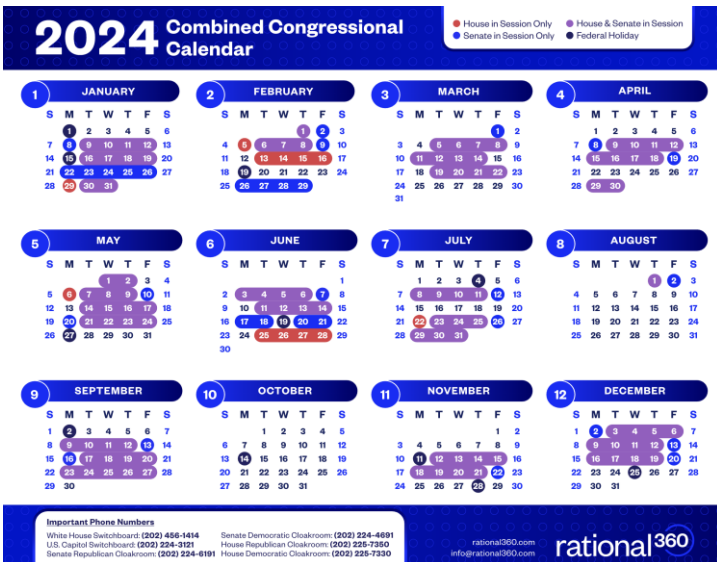
Bipartisan Tax Package Costs Would Be Offset by ERTC Changes

Tax Provision	Revenue Effect
Child tax credit	-\$33.5B
Business tax incentives	-32.8
Low-income housing credits	-6.3
Disaster relief	-4.9
1099-NEC and 1099-MISC reporting	-1.5
ERTC changes and enforcement	+78.6

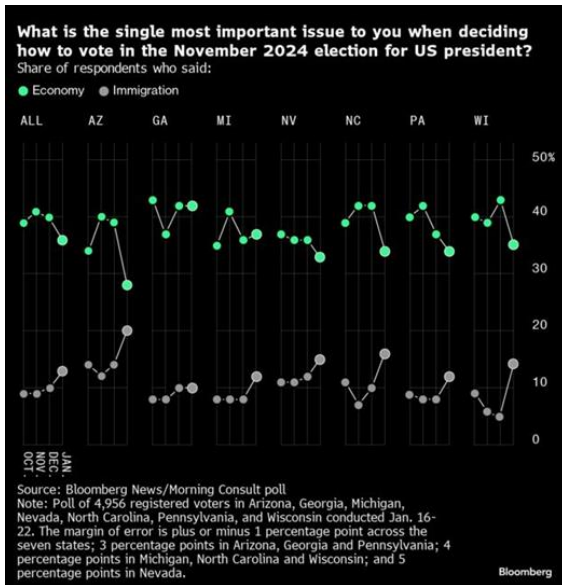
Note: Revenue estimates reflect net effects from fiscal 2024 through 2033.
Source: Joint Committee on Taxation

Bloomberg Government

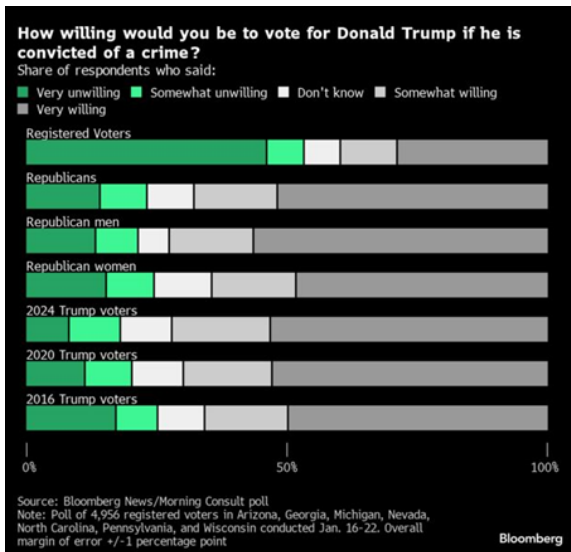
- Groundhog Day on supplemental.
 - Border provisions were included originally to improve prospects.
 - House Rs influence Senate Rs.
 - Senate could pass and wait for an “event” to change House.
- House passed \$78B tax bill.
 - 169Rs not enough to pressure.
 - Trump has been silent so far.
 - Senate Rs want “changes.”
- Senate out for two weeks.
 - Standalone means amendments.
- Hard to attach to March 1st or March 8th spending bills.



Steve Pavlick: Washington Policy



- Pollster assumptions on electorate.
 - Understated Trump in '16 and '20.
- Battleground polls are better indicators than national polls b/c of EC.
 - Trump consistent lead within margin of error.
- Ds rallying around Biden on economy.
 - Immigration is rising as an issue.
- Trump conviction could alter the trajectory of race.
 - Harvard Harris poll showed 10-point swing.
 - Others don't matter as much.
- RFK Jr. flirting with Libertarians.
 - Would improve ballot access.



1. Drivers of growth

- a) Manufacturing activity to pick-up
 - Inventories need to be replenished
 - Global growth perking up
- b) Housing activity is improving
 - Housing sensitive jobs accelerate
- c) Corporate profits are picking up
 - Firms are restructuring
 - Stronger productivity helping
 - Profits equal prices less unit labor and unit non-labor costs

2. Jobs report recap

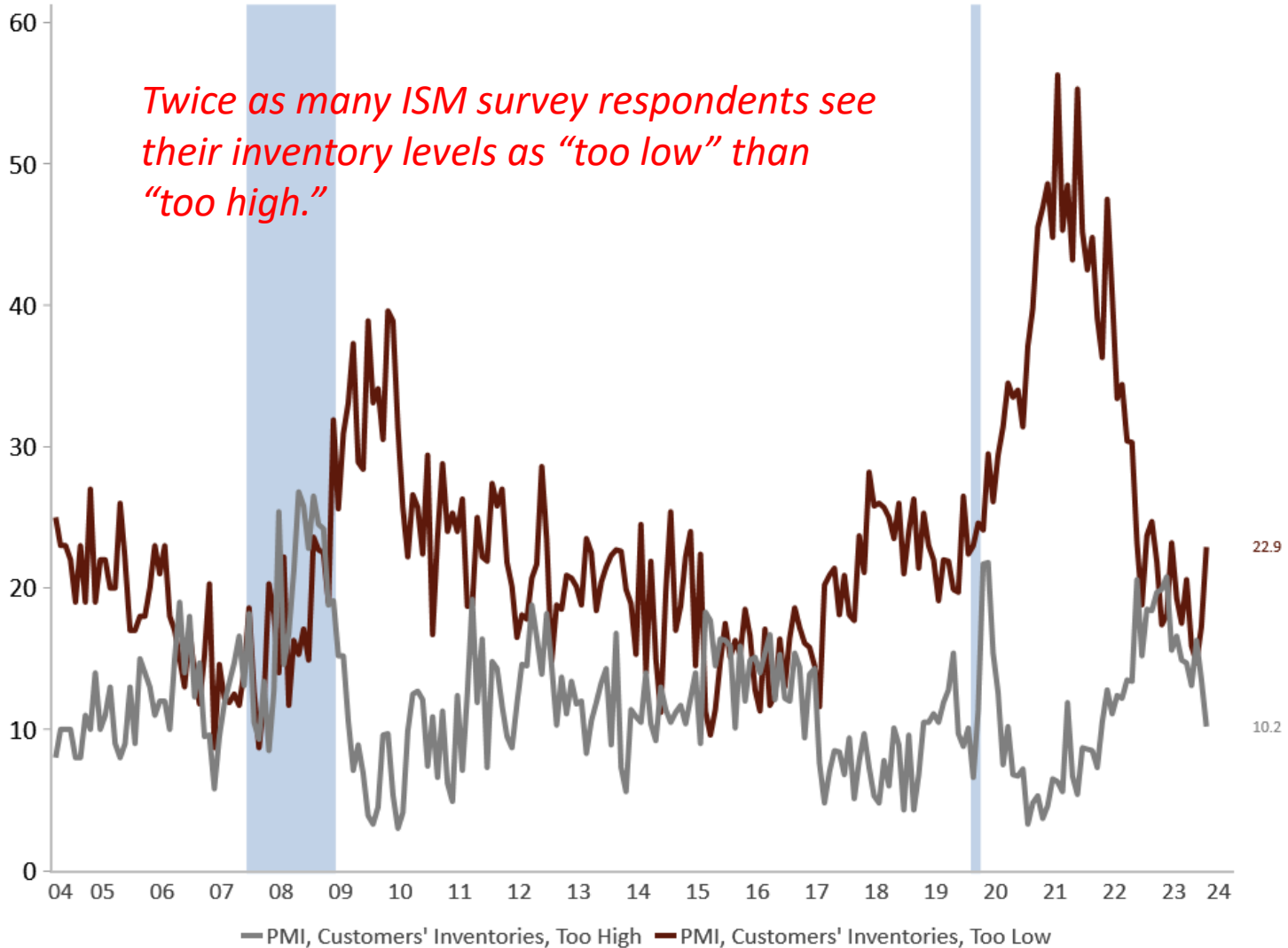
- a) Weather likely messed with the data
 - Jobs up but workweek down
 - Wage growth overstated as a result
- b) Focus on the big picture
 - Aggregate hours will likely come up somewhat
 - Aggregate incomes growing faster than prices
 - Breadth of employment advancing
 - No Sahm Rule trigger

3. Watch CPI revisions on Friday

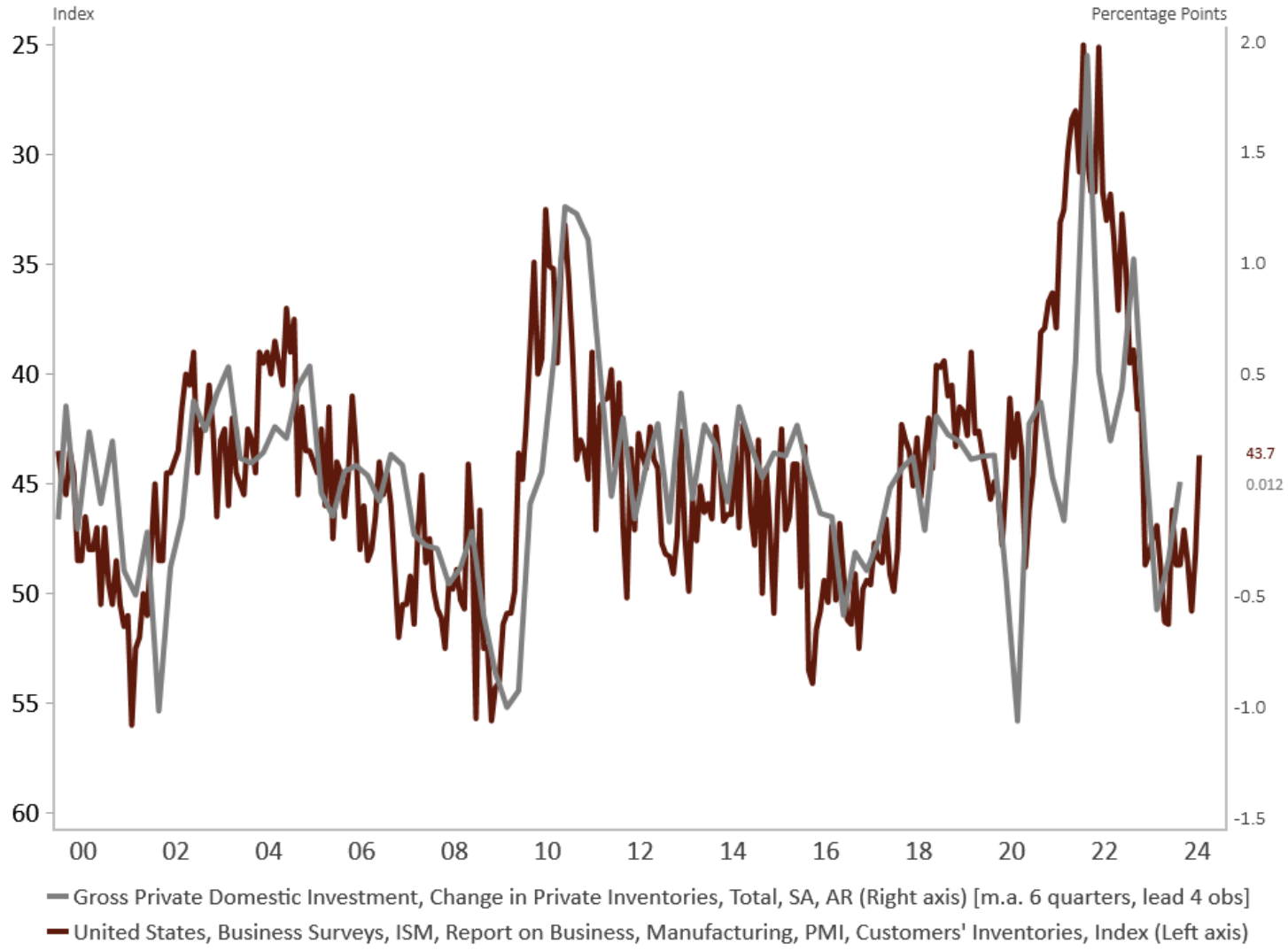
Inventories are too low

This looks *early* cycle

Twice as many ISM survey respondents see their inventory levels as "too low" than "too high."

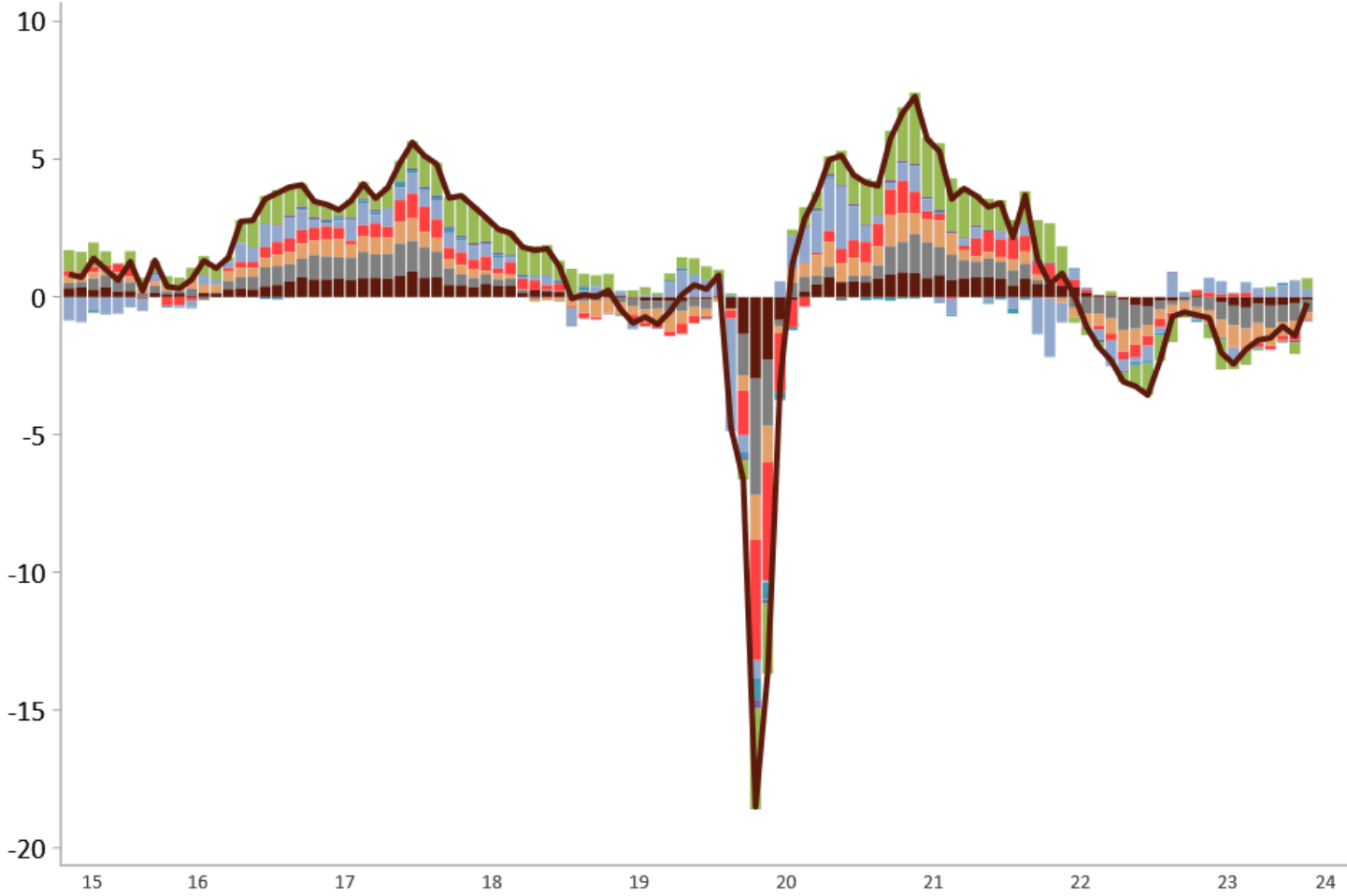


Expect inventories to add to GDP



New orders picking up globally

PMI New Orders Index re-centered around 0 as neutral; Contributions weighted by manufacturing value added (USD)

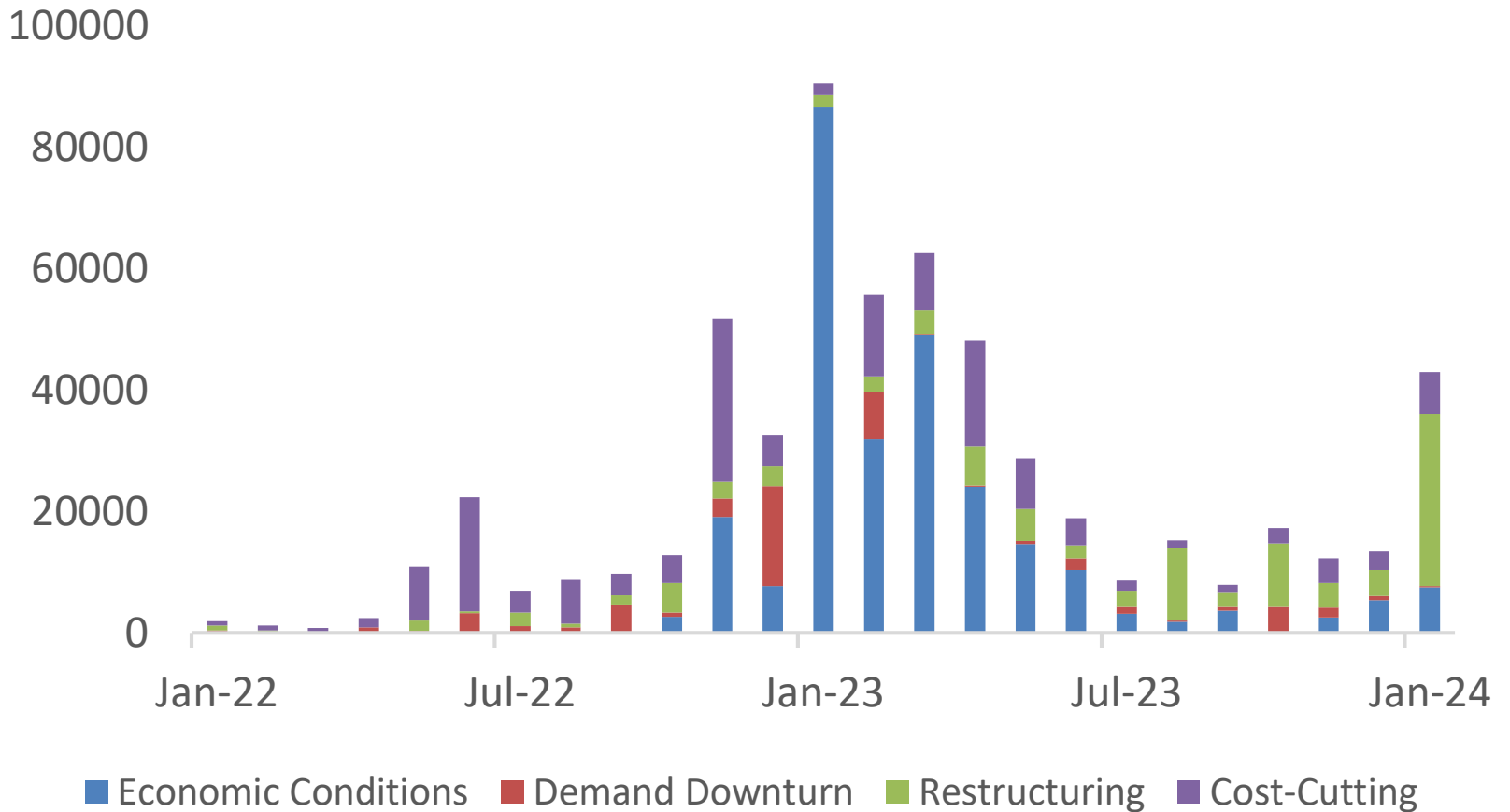


■ World: -0.21
 ■ US: 0.40
 ■ Other North America: -0.04
 ■ Latin America: 0.03
 ■ China: 0.26
 ■ Other APAC: -0.03
 ■ Germany: -0.26
 ■ Other EMEA: -0.45
 ■ Other (+ Residual): -0.10

Housing is ticking up



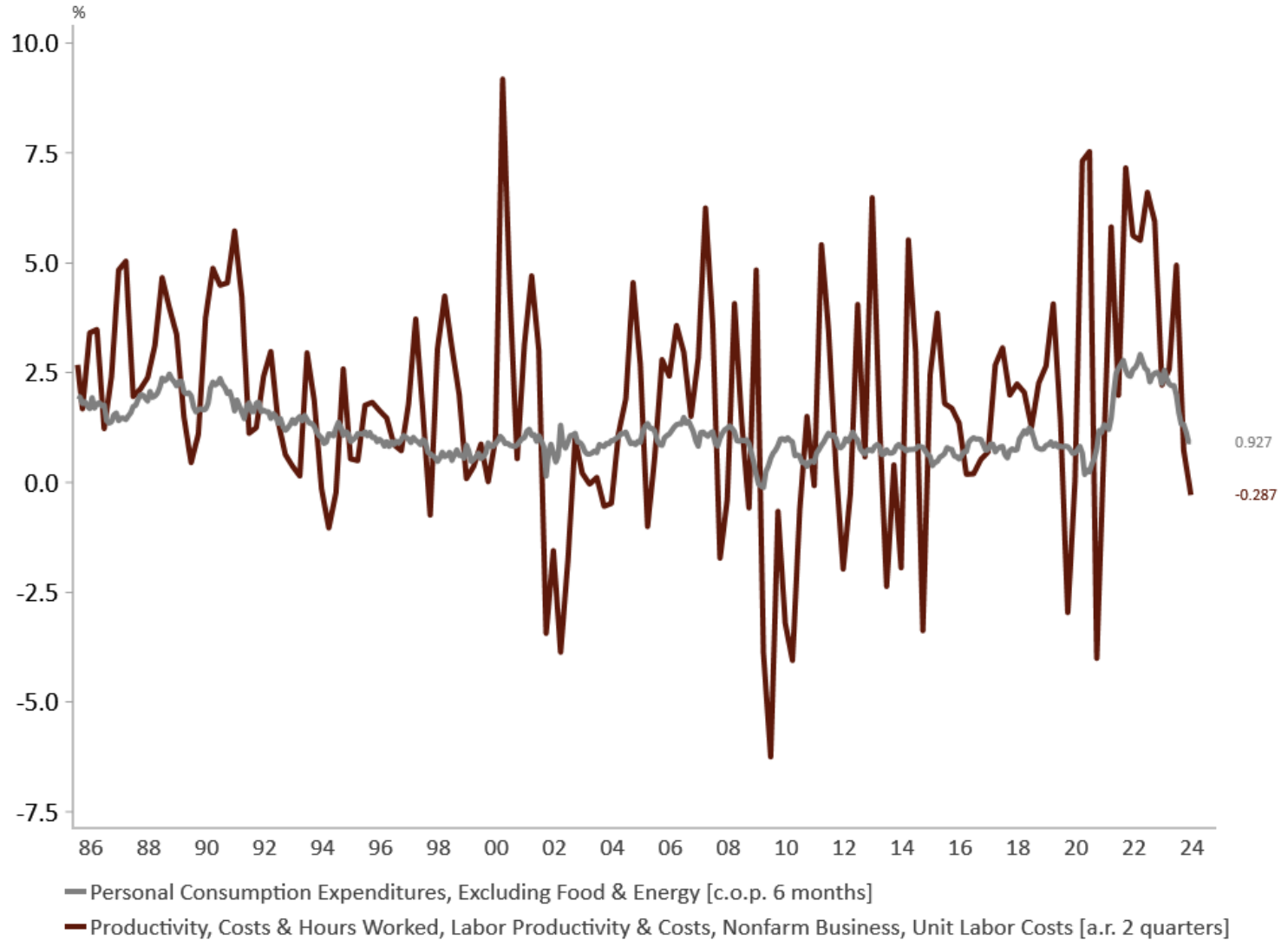
This rise in layoff announcements is not about an economic slump
 Layoff Announcements



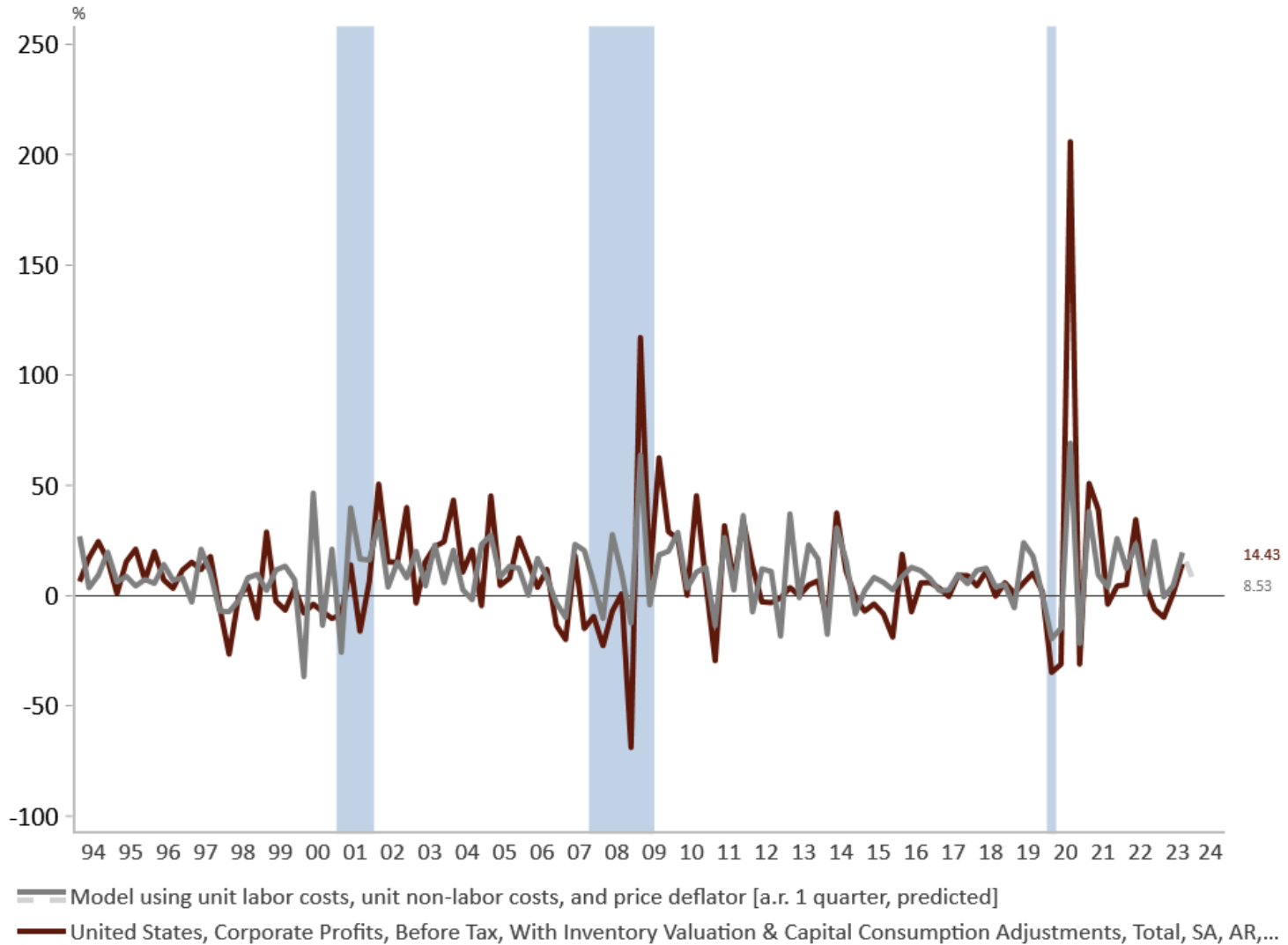
Source: Renaissance Macro Research, Haver Analytics

Unit labor costs fall

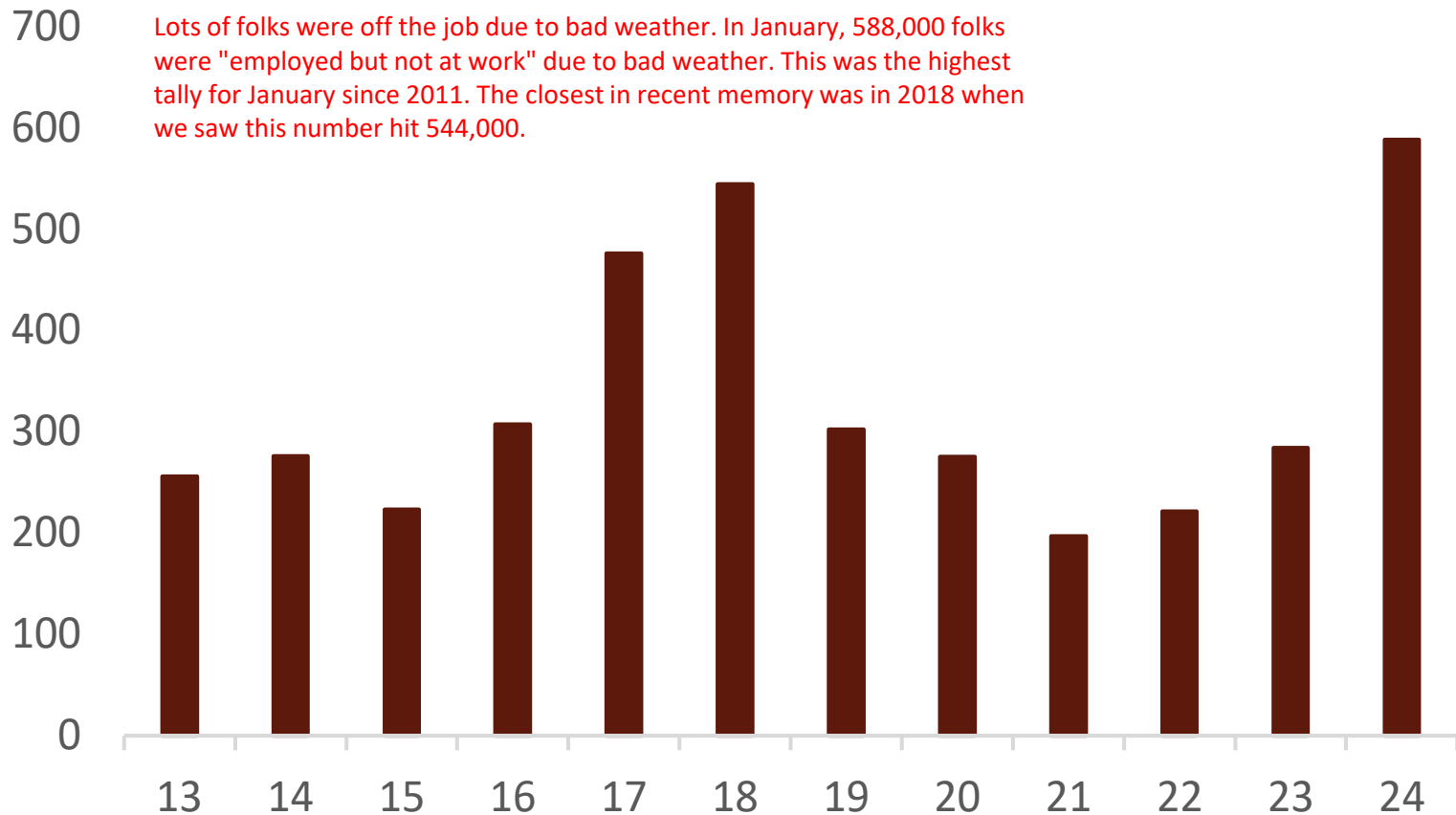
Core inflation softening alongside unit labor costs



Corporate profits climbing

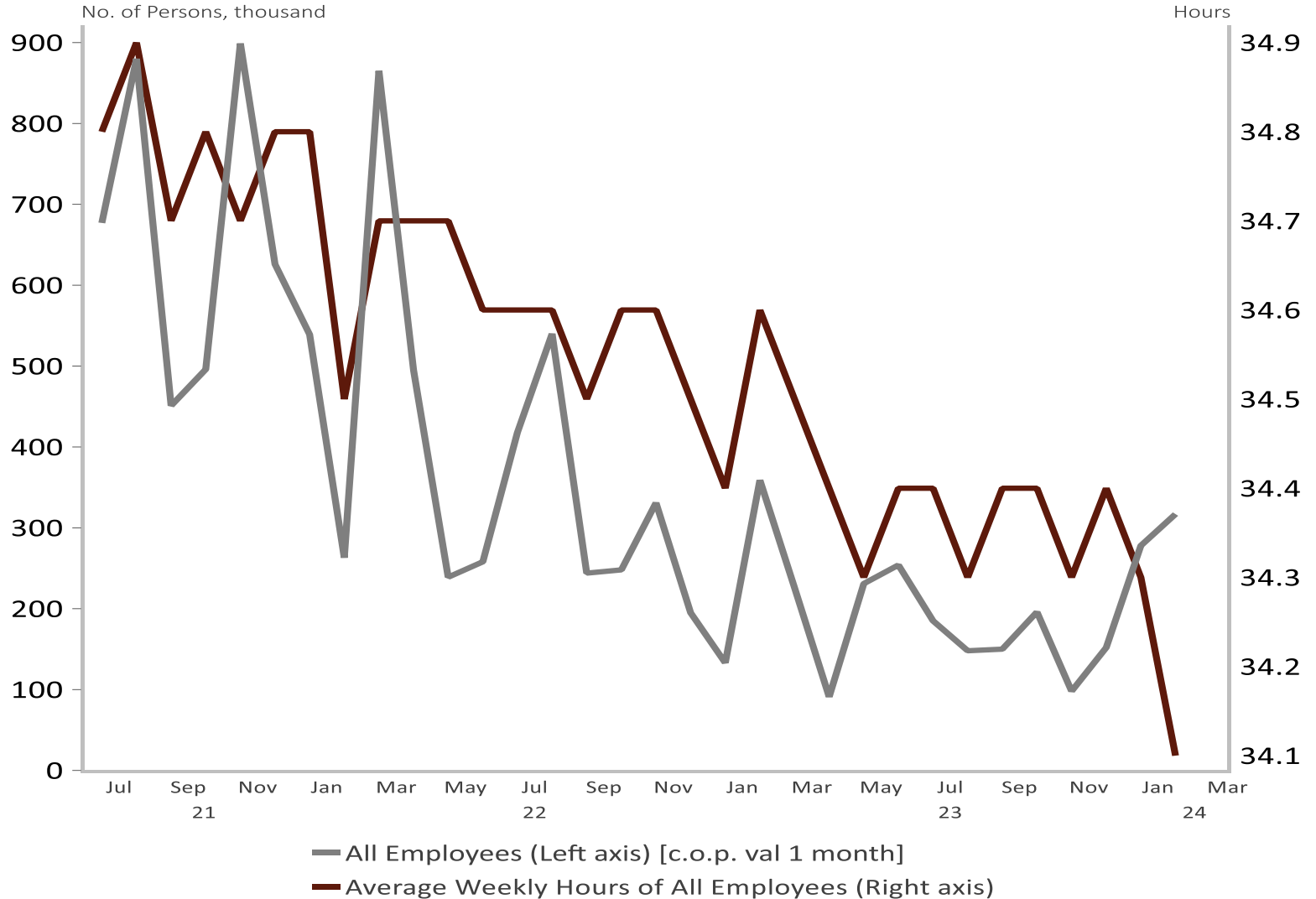


Lots of folks were off the job in January relative to normal Not at Work Due to Bad Weather (January only)



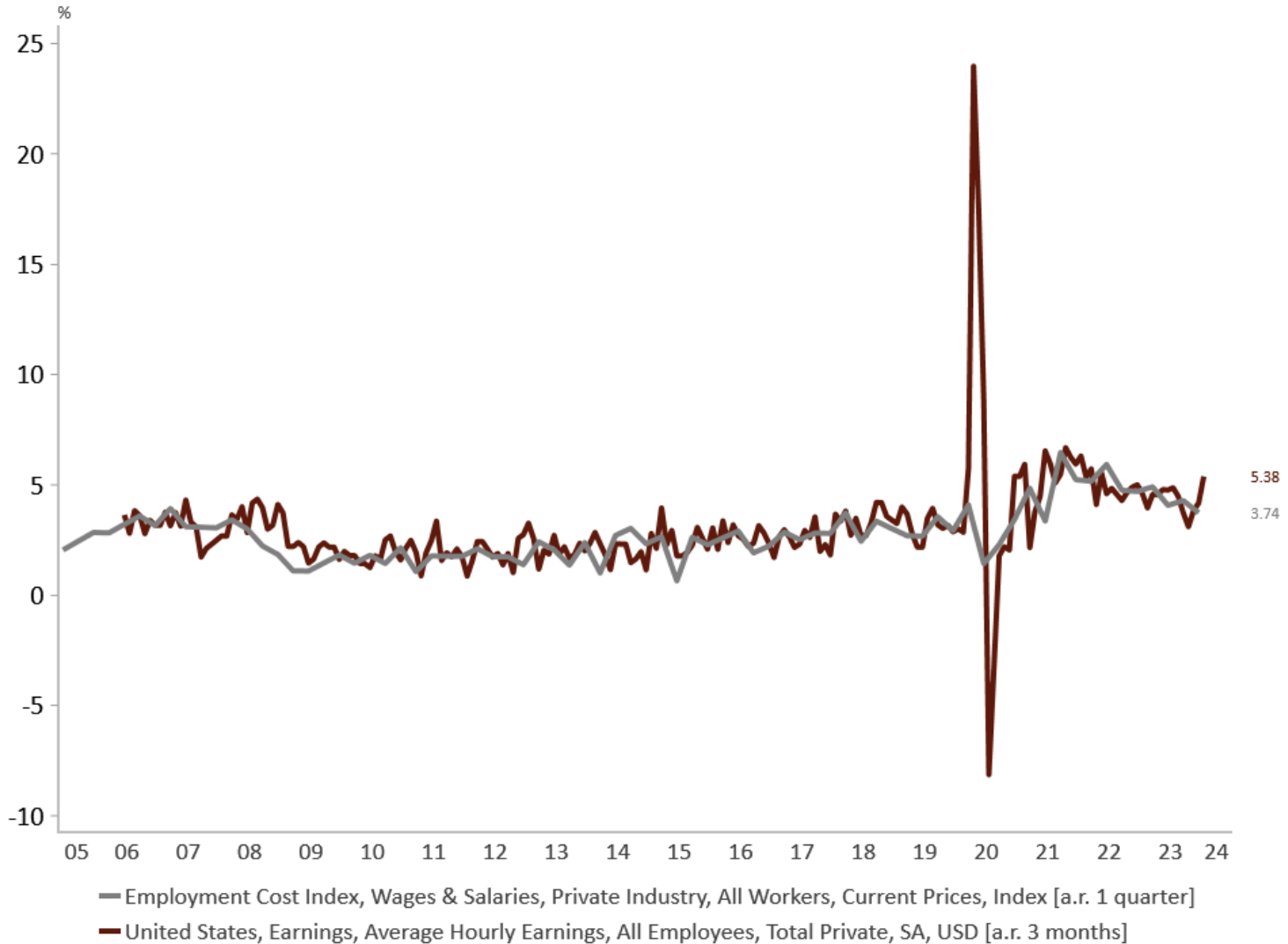
Source: Renaissance Macro Research, Haver Analytics

Jobs and hours at odds

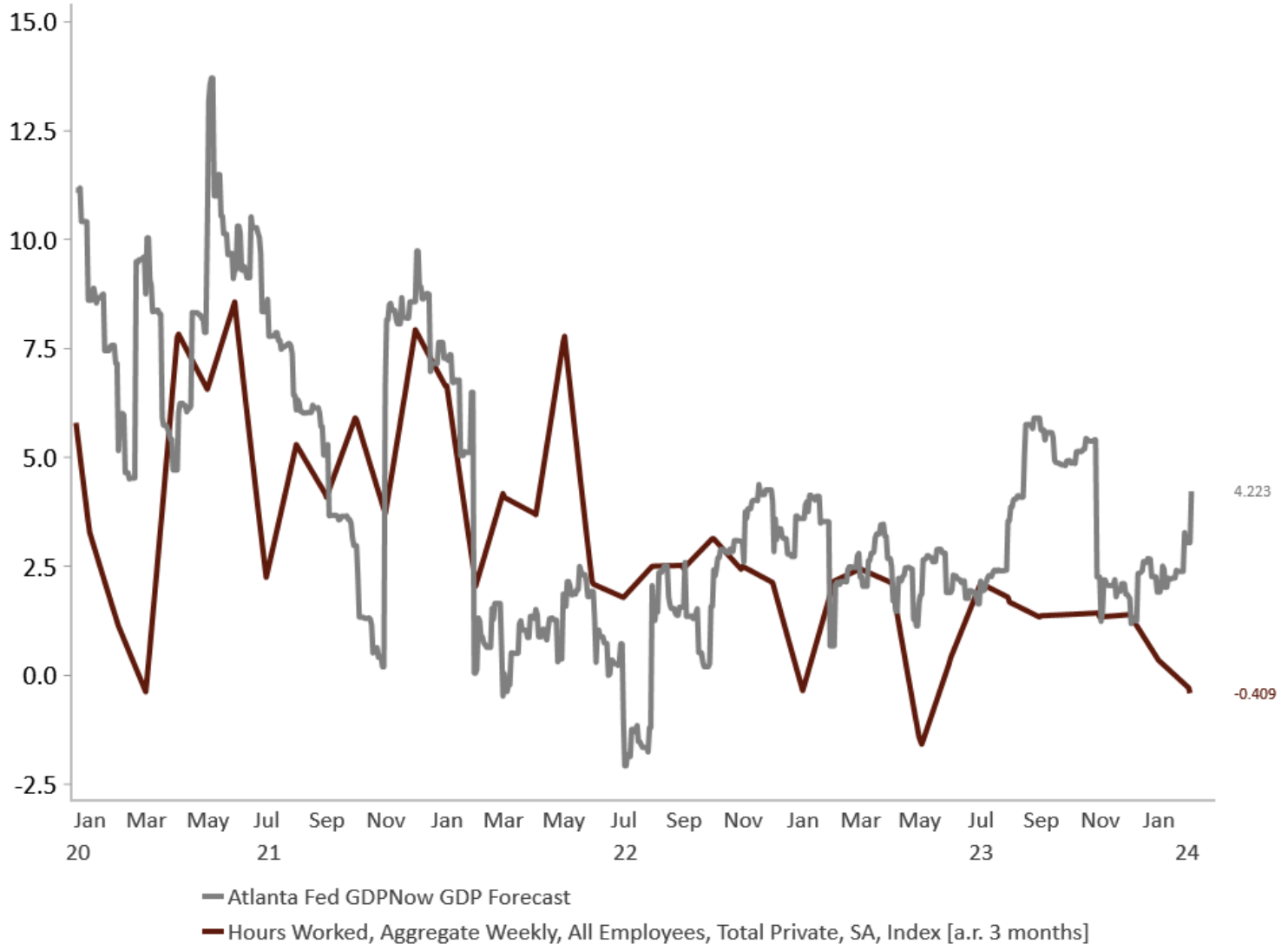


Wage growth is probably not accelerating sharply

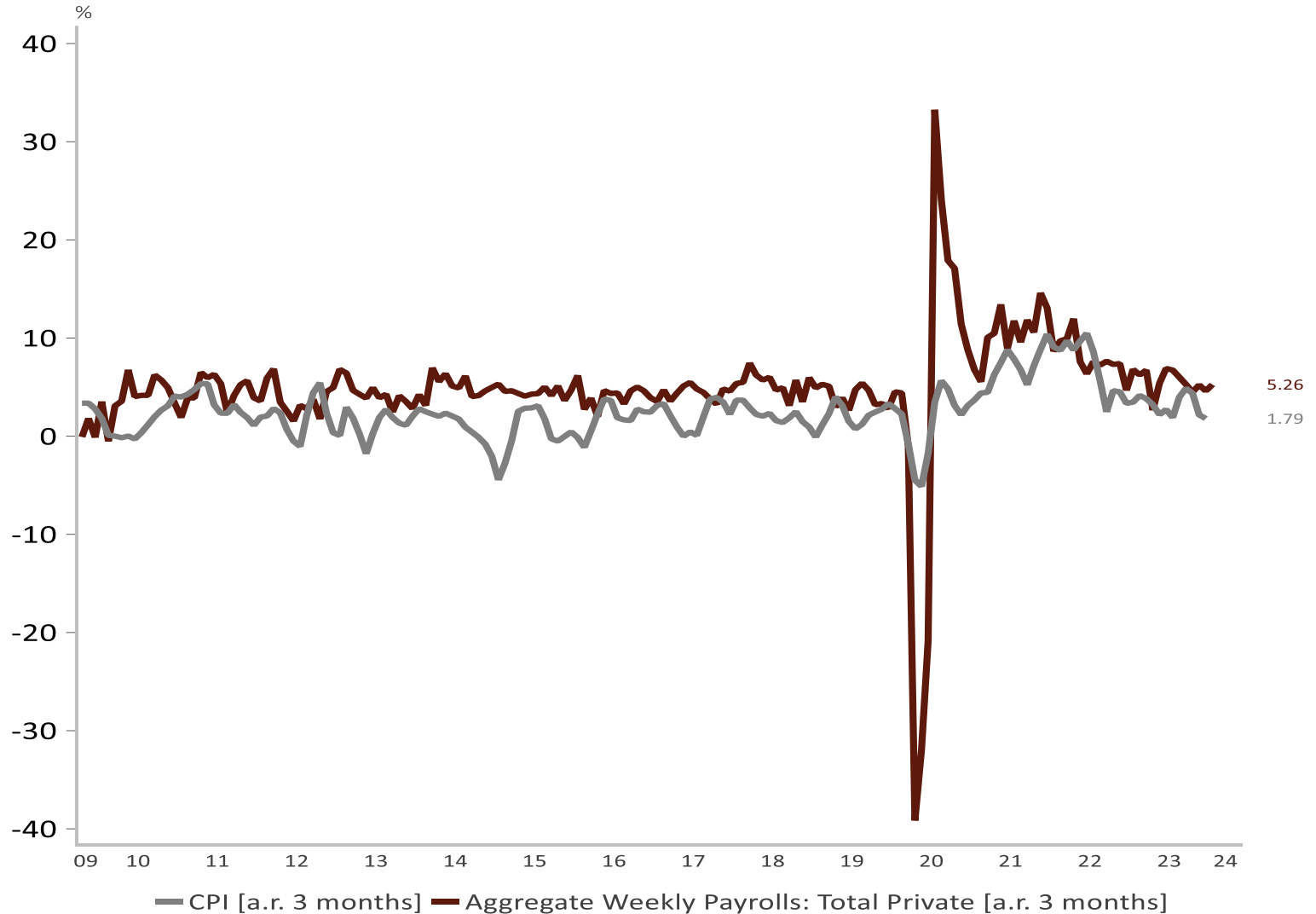
ECI > AHE



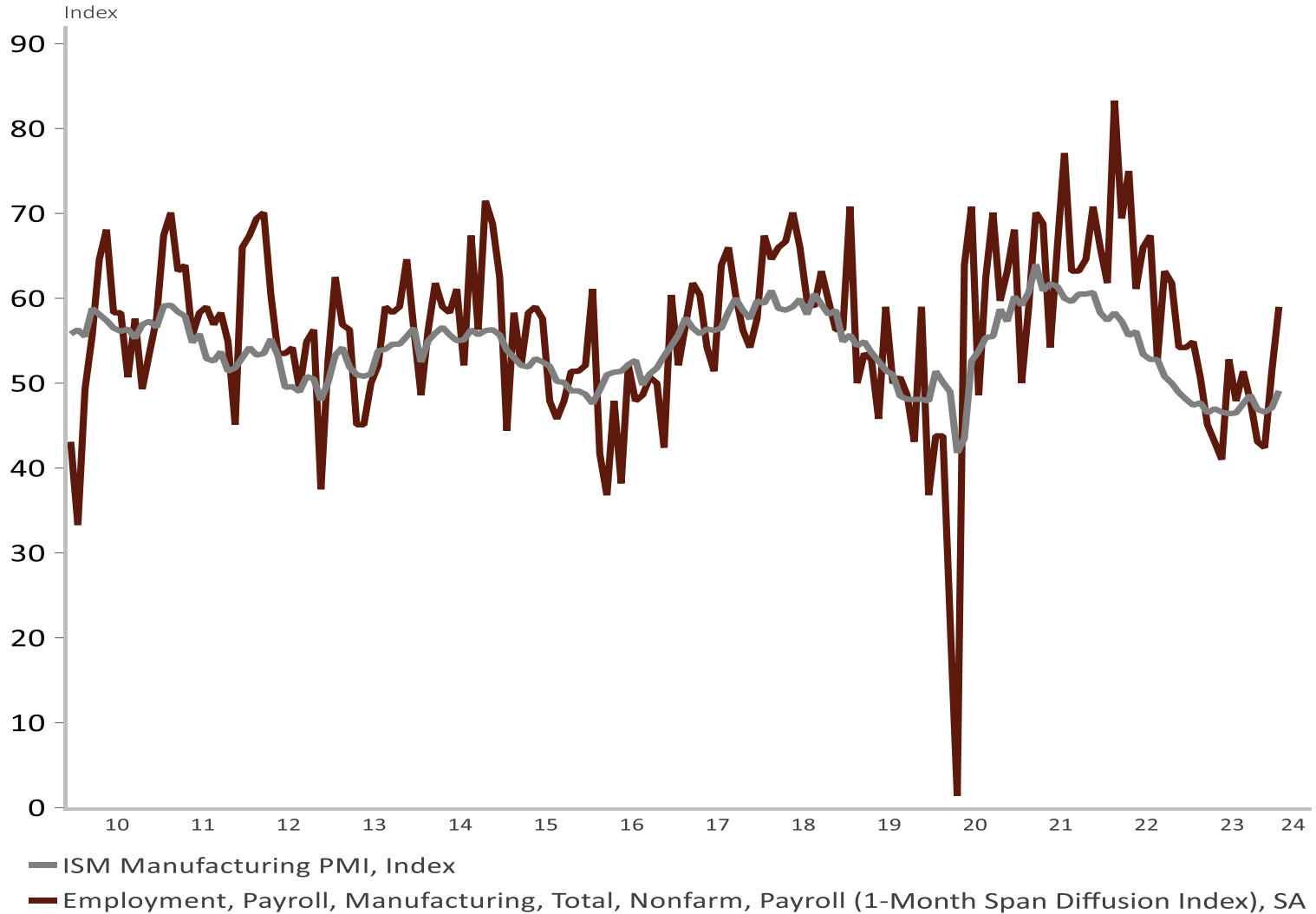
This cannot last forever



Real incomes are rising due to modest CPI growth



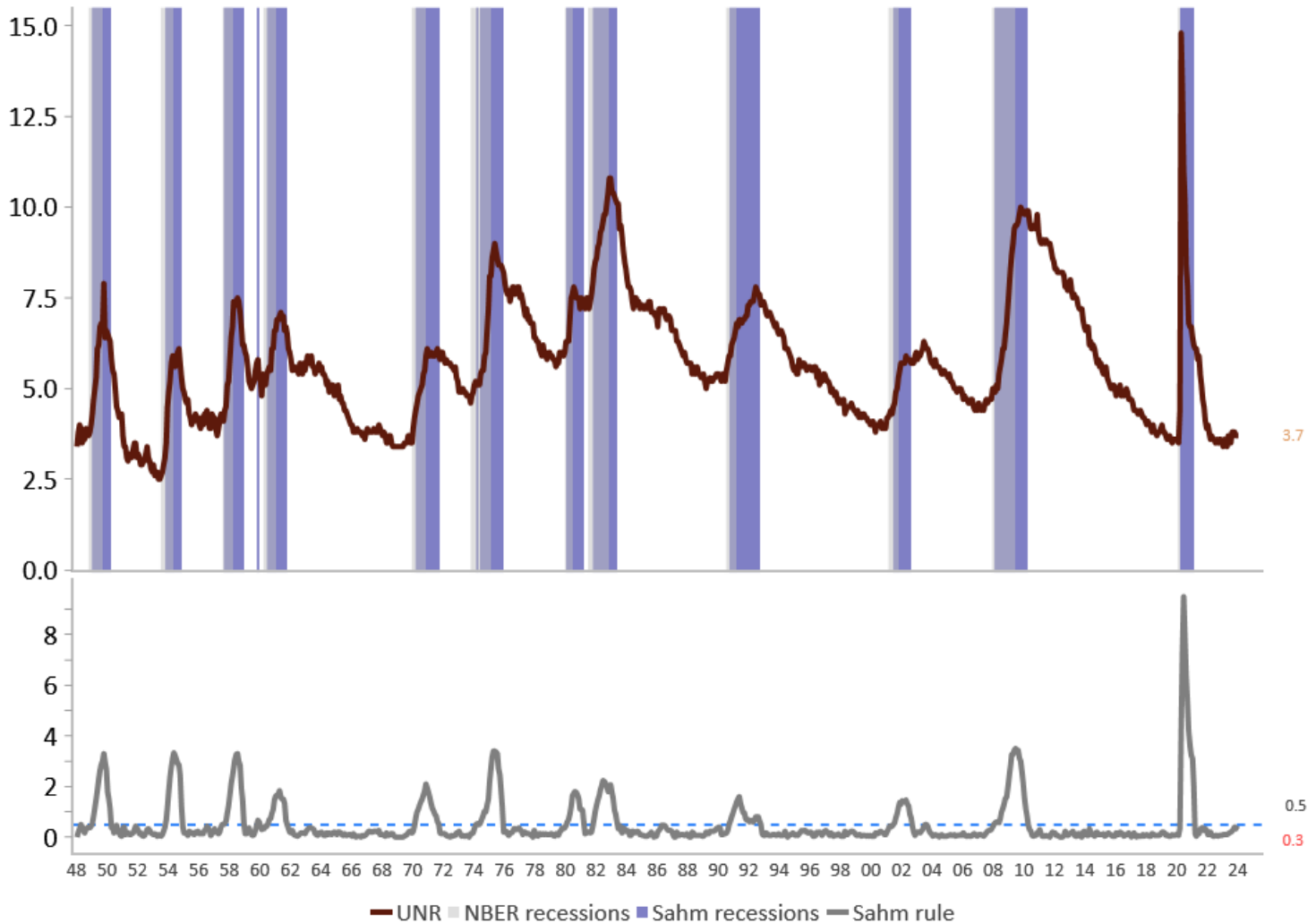
Employment breadth, a worry in previous months, was strong



Source: Renaissance Macro Research, Macrobond

A "real-time" measure of recession: The Sahm rule

Recession: if the 3-month moving average of UNR is 0.5 p.p. above the 12-month low of UNR



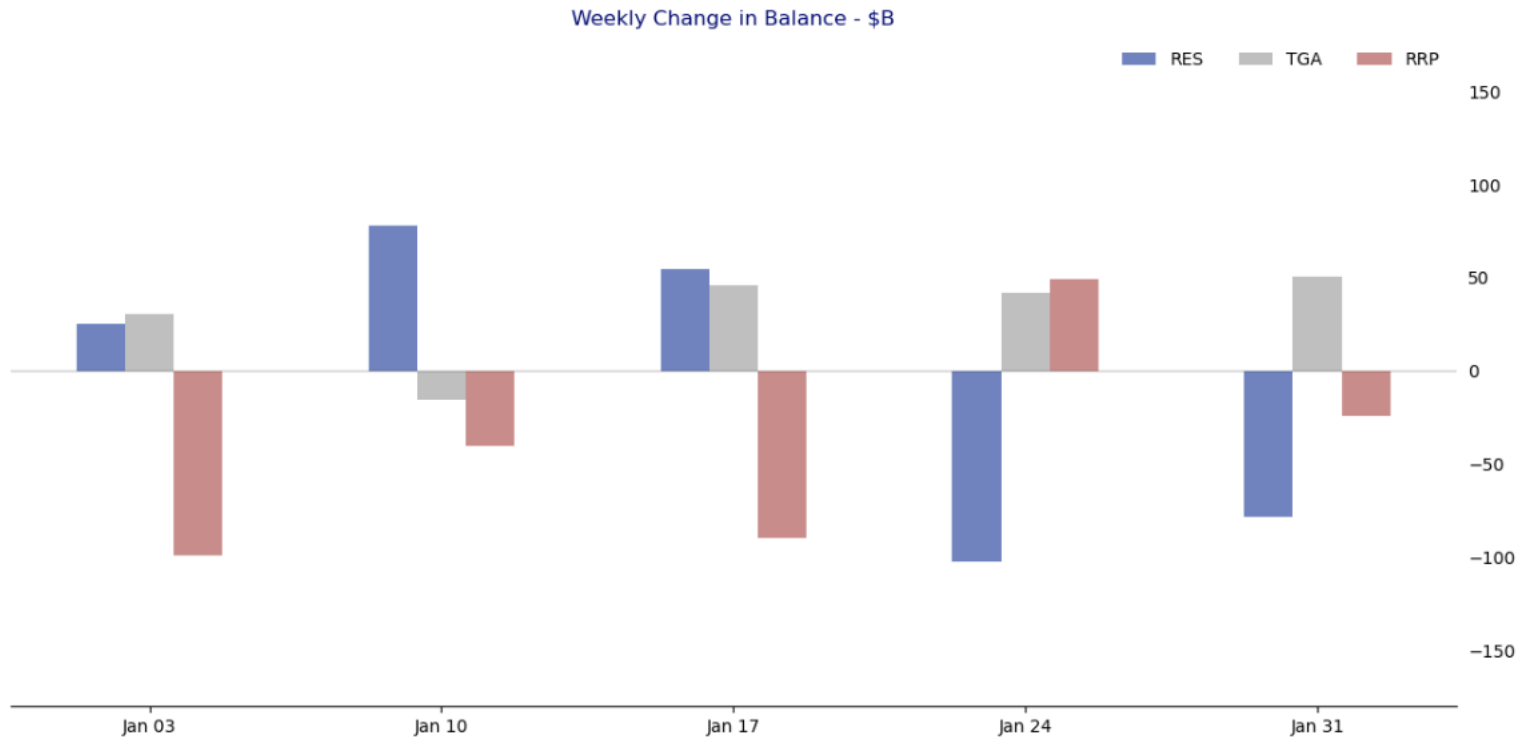
(dollars in millions)

	<u>December 31, 2023</u>	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Loans 30 to 89 Days Past Due:			
Multi-family	\$ 121	\$ 60	\$ 34
Commercial real estate	28	26	2
One-to-four family first mortgage	40	19	21
Acquisition, development, and construction	2	1	—
Commercial and industrial	37	43	2
Other loans	22	20	11
Total loans 30 to 89 days past due	<u>\$ 250</u>	<u>\$ 169</u>	<u>\$ 70</u>

Liquidity: RRP Run-Off Resumes After Year-End

\$t	soma	tga	res	rrp
Jan 03	7.19	0.74	3.46	0.72
Jan 10	7.19	0.73	3.54	0.68
Jan 17	7.16	0.77	3.59	0.59
Jan 24	7.15	0.82	3.49	0.64
Jan 31	7.11	0.87	3.41	0.62

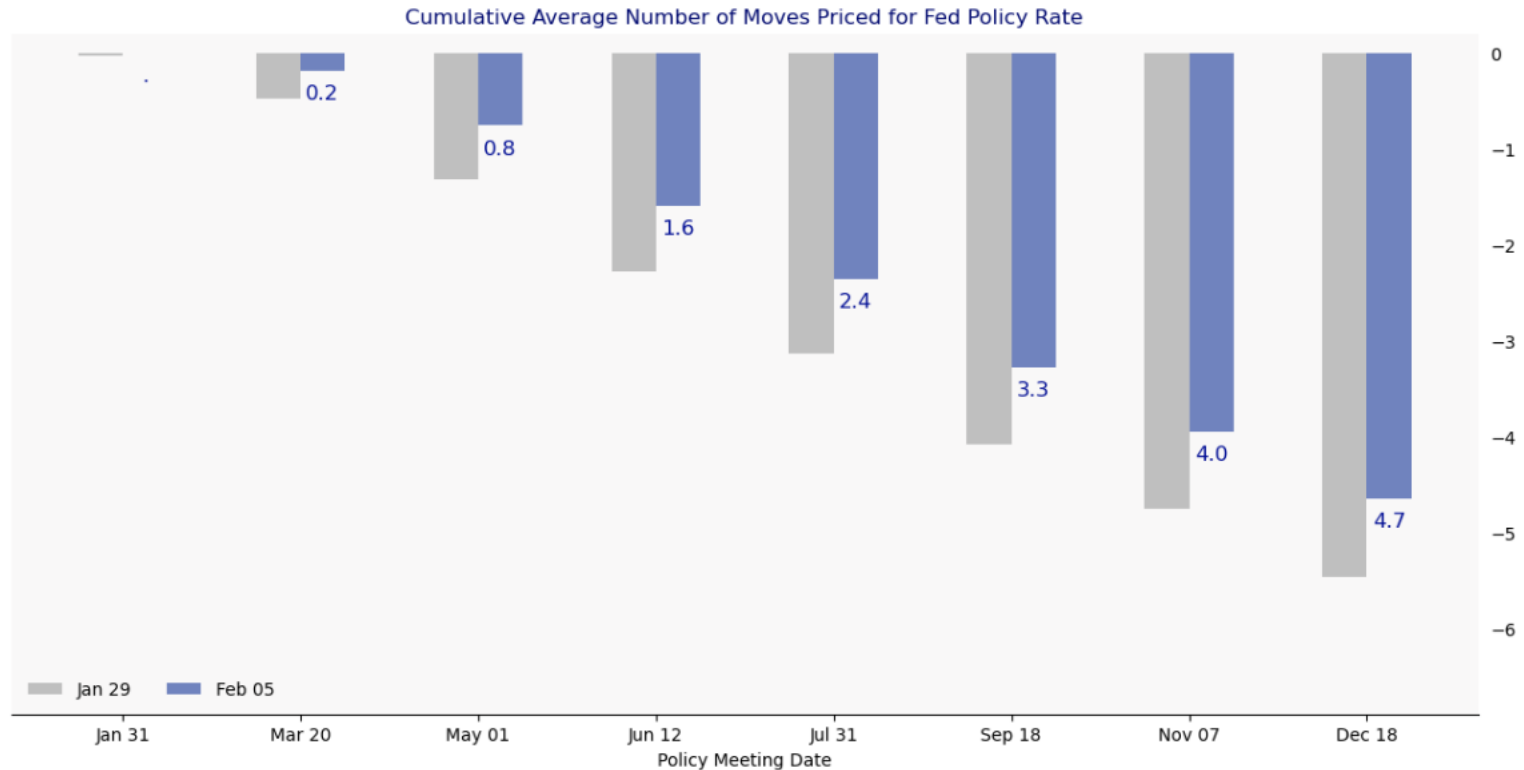
'The manager expected that private-market repo rates would likely remain above the rate offered at the ON RRP facility, which should continue to induce a reduction in usage of the facility.' FOMC Minutes, Dec 12-13



... But Significant Easing Beginning May

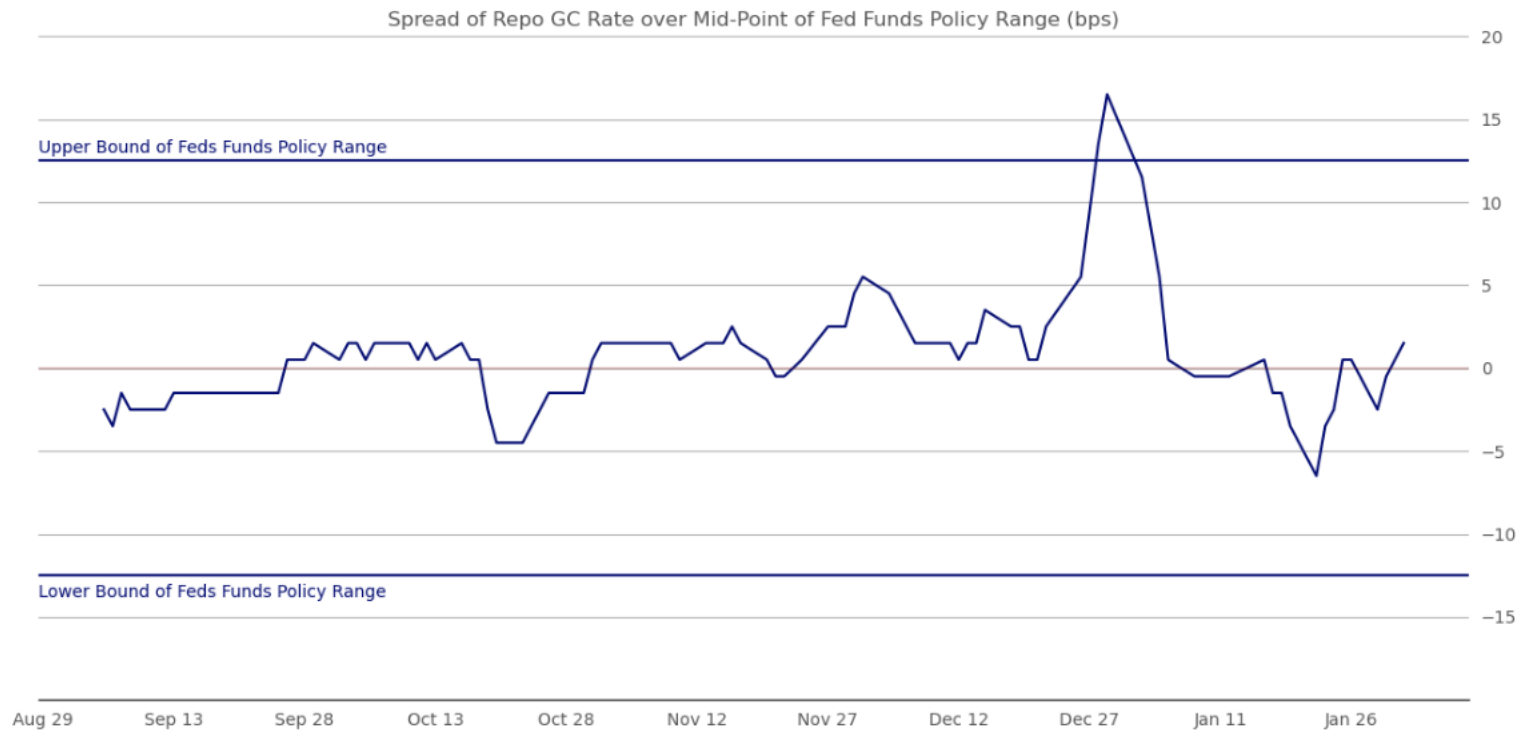
'We're aware of the risk that we would hang on [to restrictive policy] too long ... we're very focused on not making that mistake.' Chair Powell, Dec 13

'Several [FOMC Participants] also observed that circumstances might warrant keeping the target range at its current value for longer than they currently anticipated.' FOMC Minutes, Dec 12-13

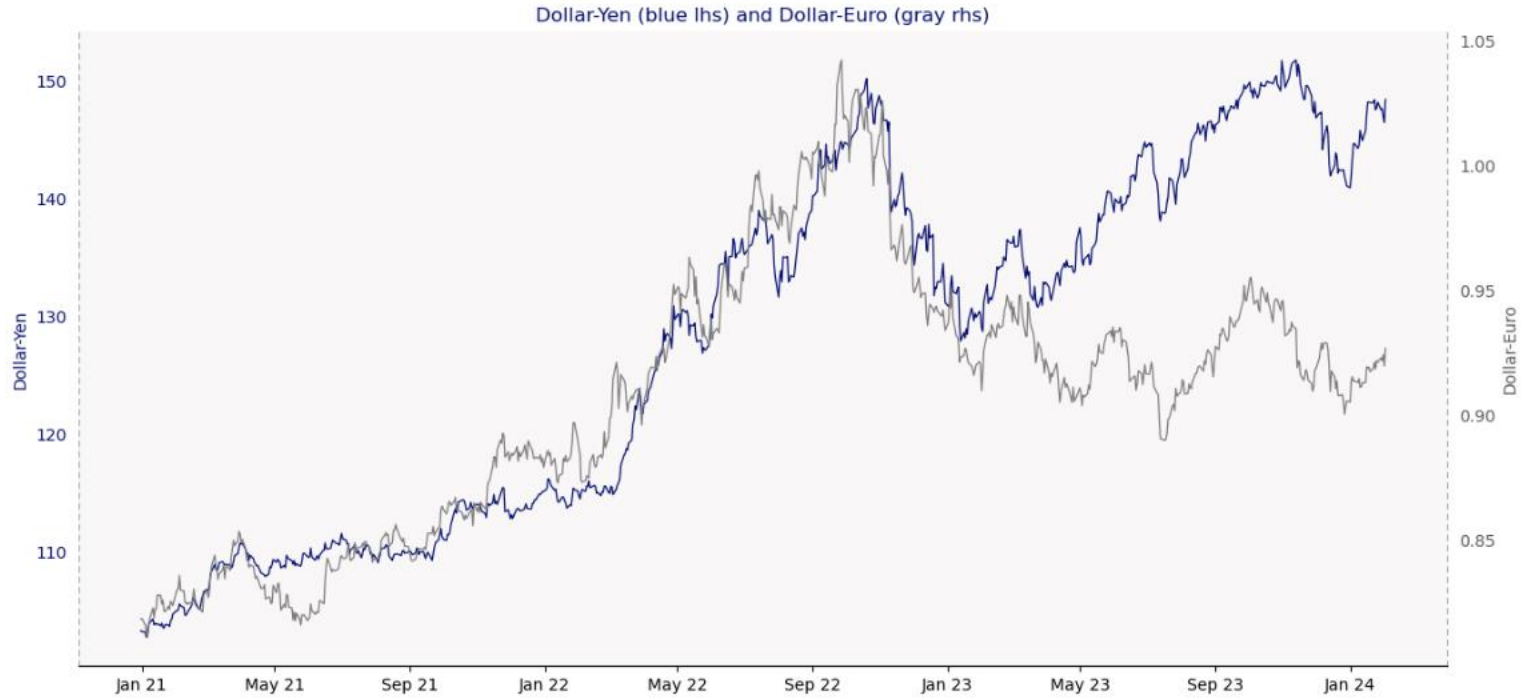


'Several participants remarked that the Committee's balance sheet plans indicated that it would slow and then stop the decline in the size of the balance sheet when reserve balances are somewhat above the level judged consistent with ample reserves' FOMC Minutes, Dec 12-13

'We should slow the pace of runoff as ON RRP balances approach a low level. Normalizing the balance sheet more slowly can help get to a more efficient balance sheet in the long run by smoothing redistribution and reducing the likelihood that we'd have to stop prematurely.' Dallas Fed President Lorie Logan, Jan 6



Expect Dollar-Yen to Weaken



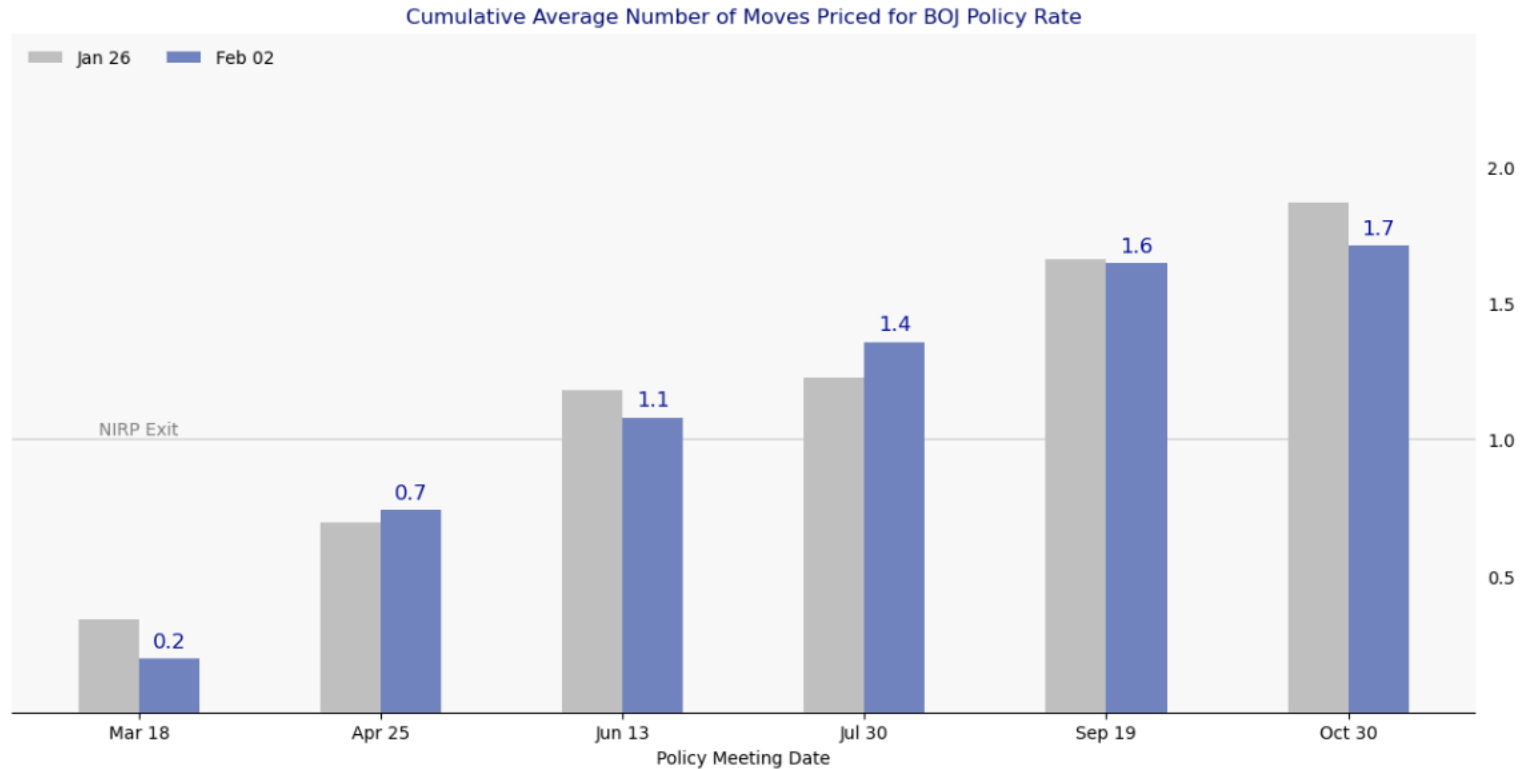
Dollar-Yen Has Been Driven by Dollar Rates ...



BOJ: Governor Ueda Tends Hawkish

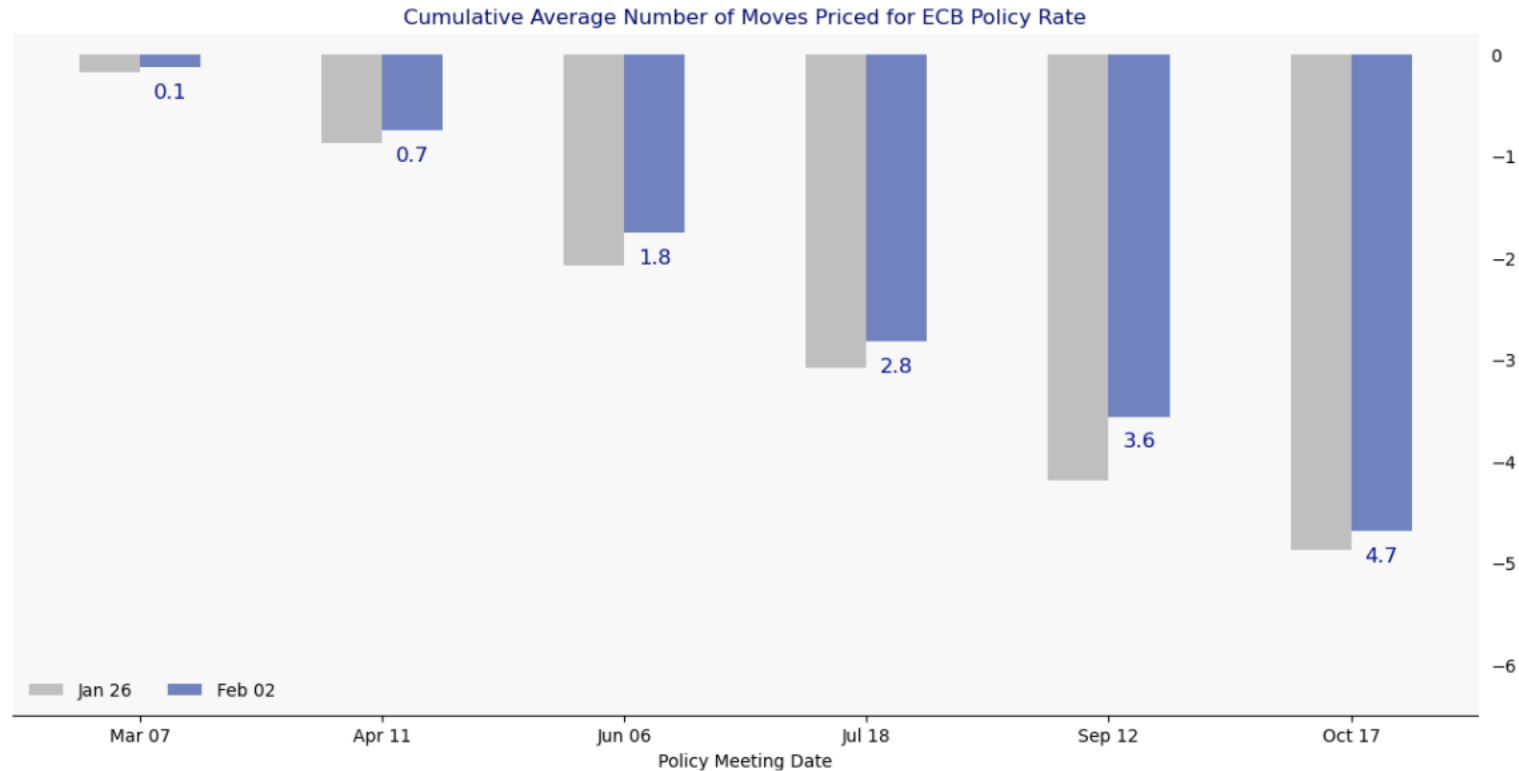
"If the virtuous cycle between wages and prices intensifies and the likelihood of achieving our price target in a sustainable and stable manner rises sufficiently, we will likely consider changing policy." Governor Ueda, Dec 24

"It's hard to see the BOJ change policy as quickly as markets expect, such as in January or April, when taking into account the (dovish) comments of each board member and the government's assessment of the economy," Takako Masai, Former BoJ Board Member, Dec 25

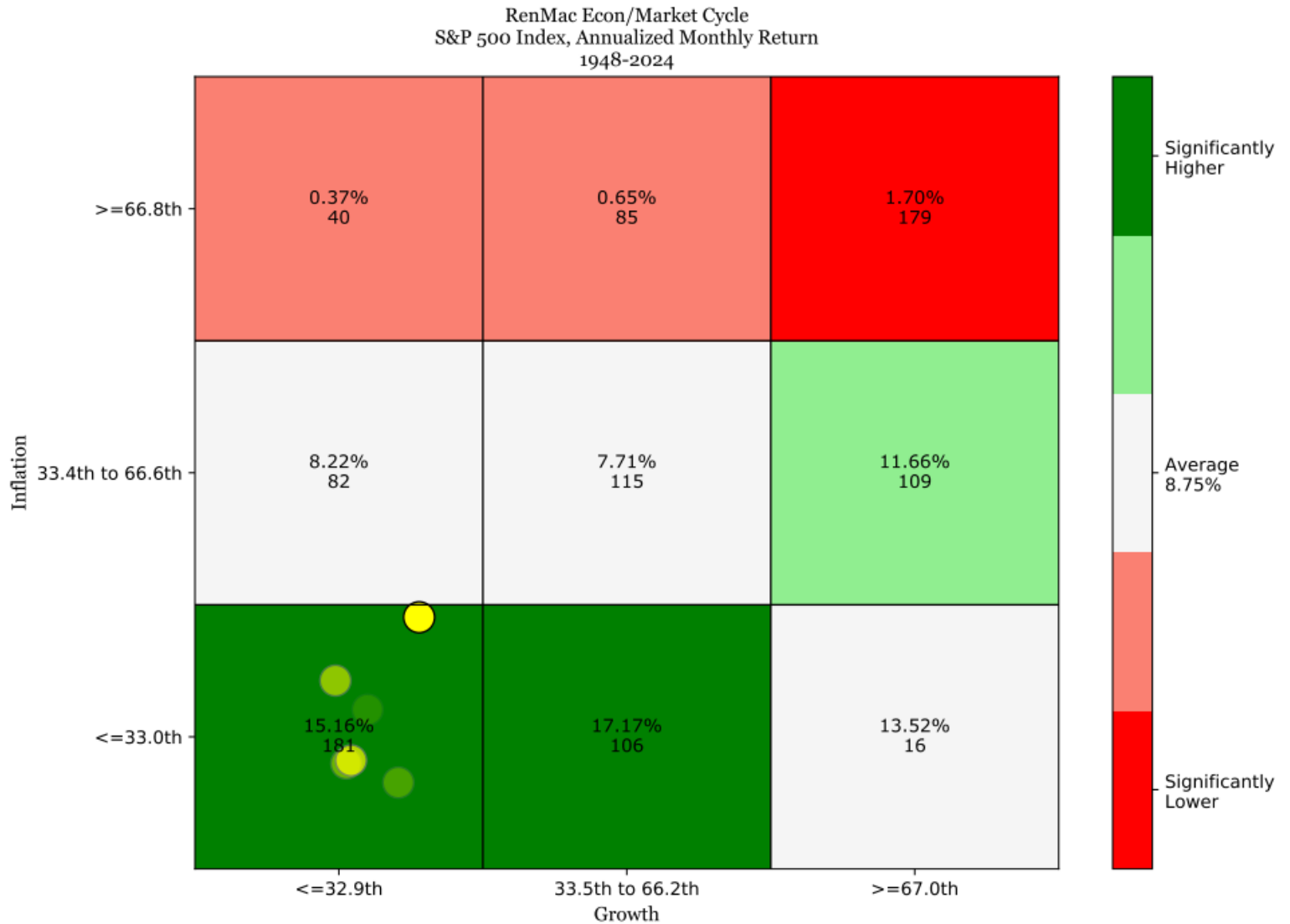


'Some people argue that we are overshooting ... I think the risk would be if we went too fast [with easing] and had to come back to more tightening.' President Lagarde, Jan 17

'We need to have patience before we get into an easing cycle to make sure that wage costs aren't translating into sustained price pressure [but rather being absorbed through profit margins]' GC Member, Vujcic, Feb 4

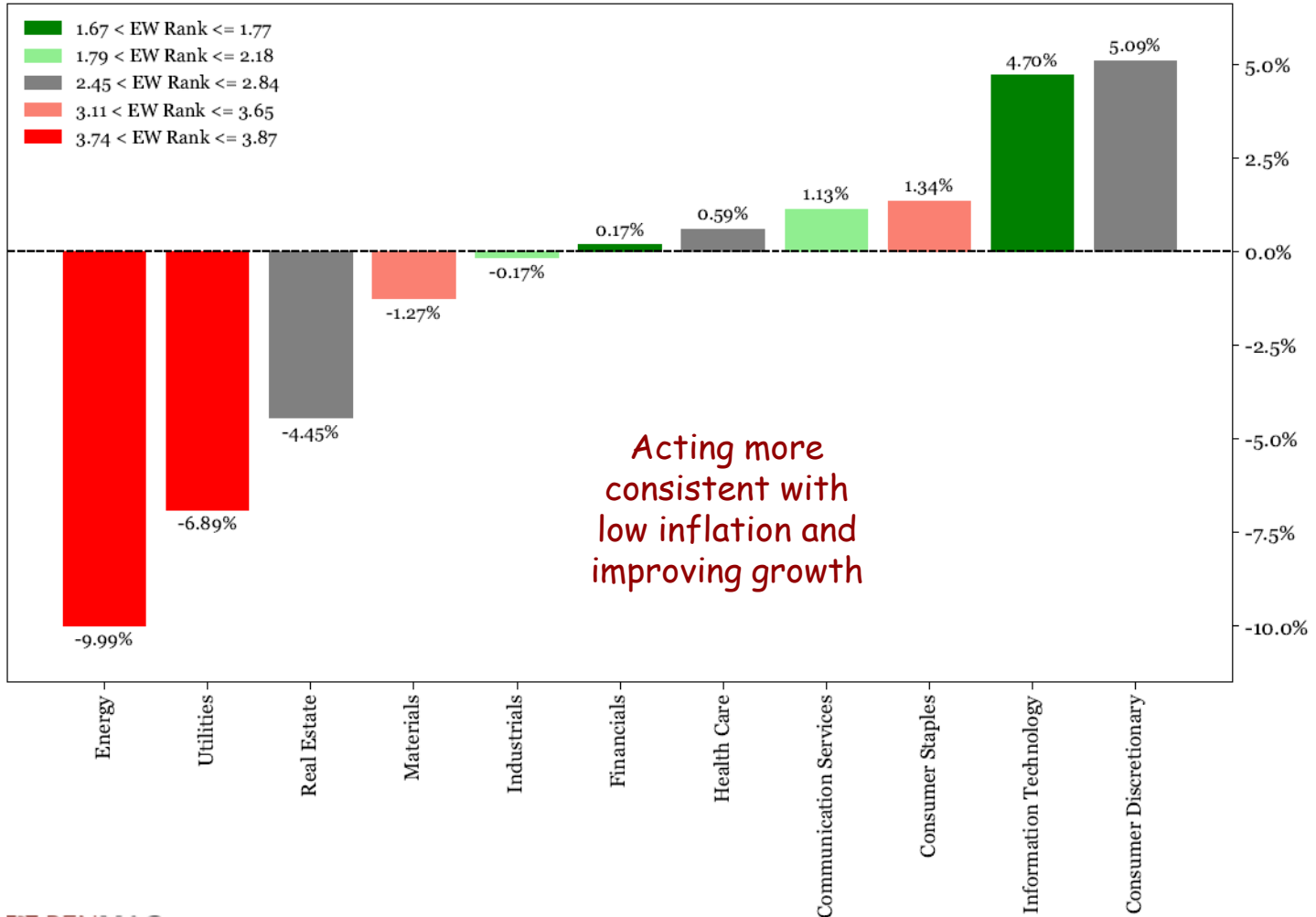


Market Cycle Clock Crept Higher



Sector Performance Mixed

RenMac Econ/Market Cycle
S&P 500 Sectors Annualized Monthly EW Excess Returns
Growth: <=32.9th, Inflation: <=33.0th
1964-2024



Yields Jumped on Payrolls

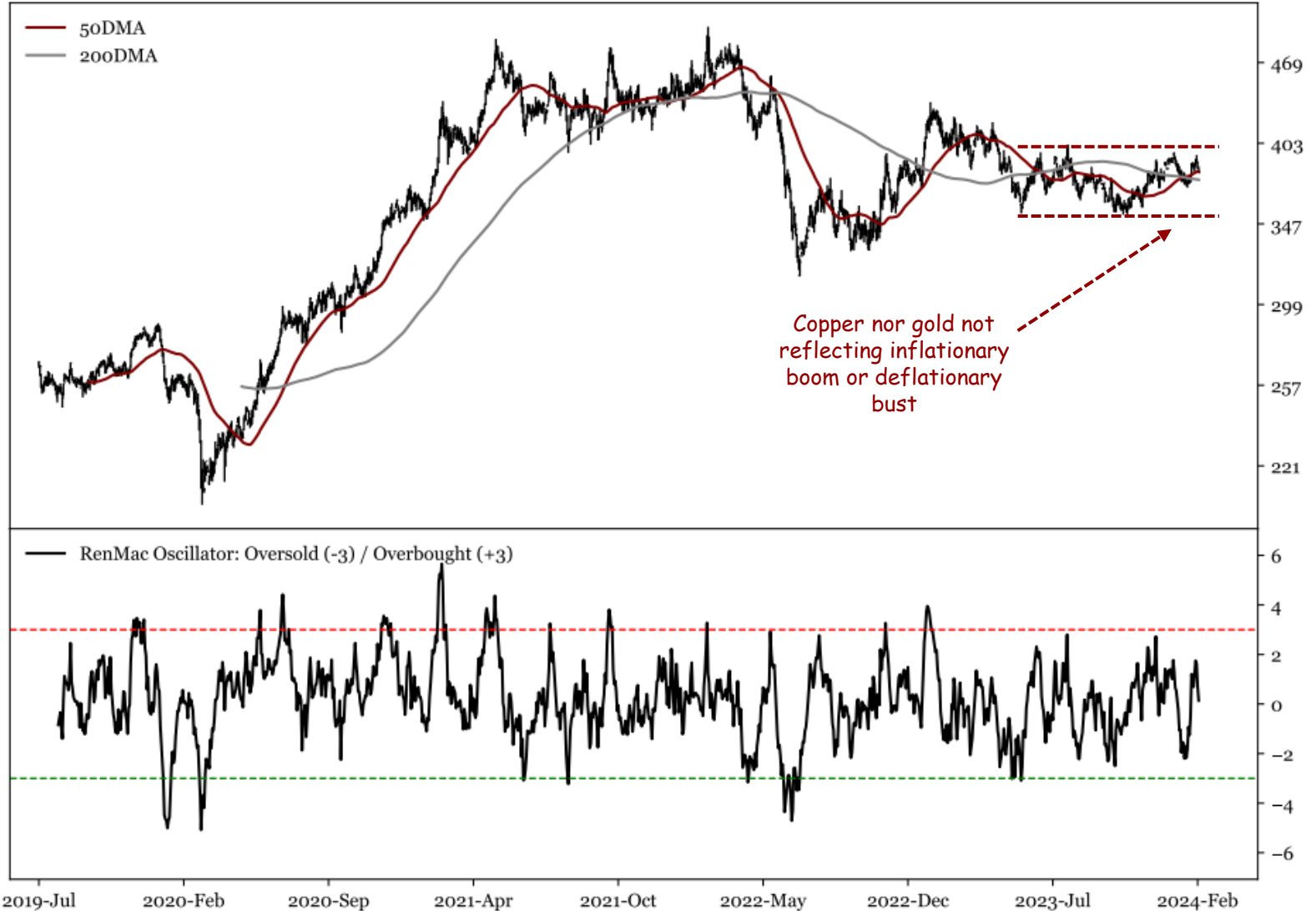
US Generic Govt 10 Yr



Metals Showed Little Concern

Generic 1st 'HG' Future

Close: 382.05



New High in Russell 3000



S. Korea Close to Breakout



Bull/Bear Starting to Show Excess

S&P 500 Index, 13 Week Fwd, based on
II Bull-Bear Spread
2004 - 2024

Corr: 3.8%
HAC T-St: 0.28



Strategists Starting to Capitulate

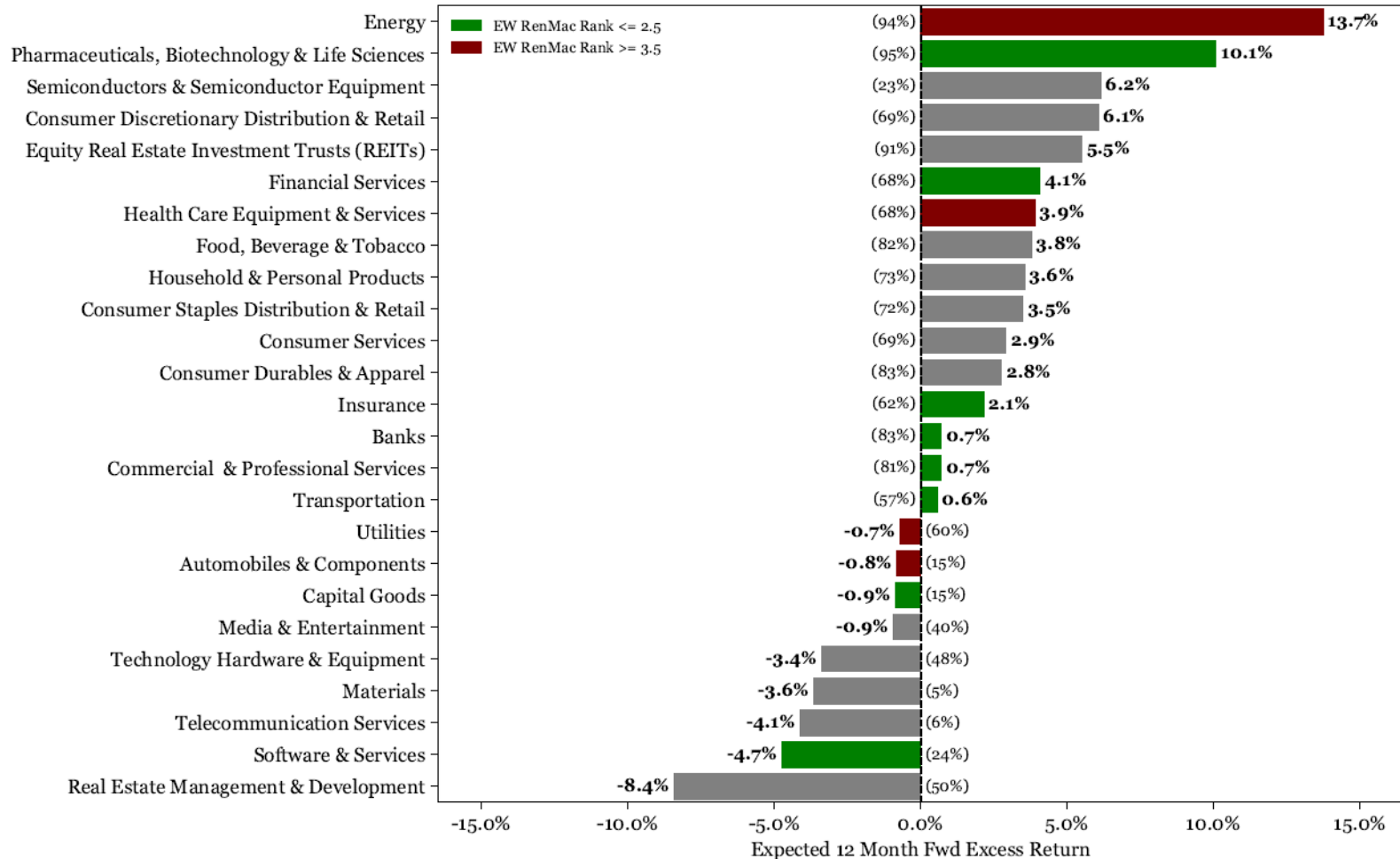
S&P 500, 126 Trading Days Fwd, based on
12-Month Change in in Strategists' S&P 500 Forecasts
2000 - 2024

Corr: -6.6%
HAC T-St: -0.48



Energy Trends Negative

Russell 3000 Industry Groups
RenMac Composite Value Forecast, Mixed Adjustments Factors
02/03/2024



E&P Turned Negative

RenMac Momentum Rank: 5

Cond 1 Cond 2 Cond 3



Industrial Industry Weakening

RenMac Momentum Rank: 2

Cond 1 Cond 2 Cond 3



Technology Distributors Weakening

RenMac Momentum Rank: 4

Cond 1 Cond 2 Cond 3



Vulnerable w/ SERM Extreme

Russell 1000 Technology Distributors, 52 Week Fwd, based on Rolling 3Yr Standardized Excess Return Model(SERM) 2006 - 2024

Corr: -4.7%
HAC T-St: -0.39



Office REITs Improving

RenMac Momentum Rank: 3

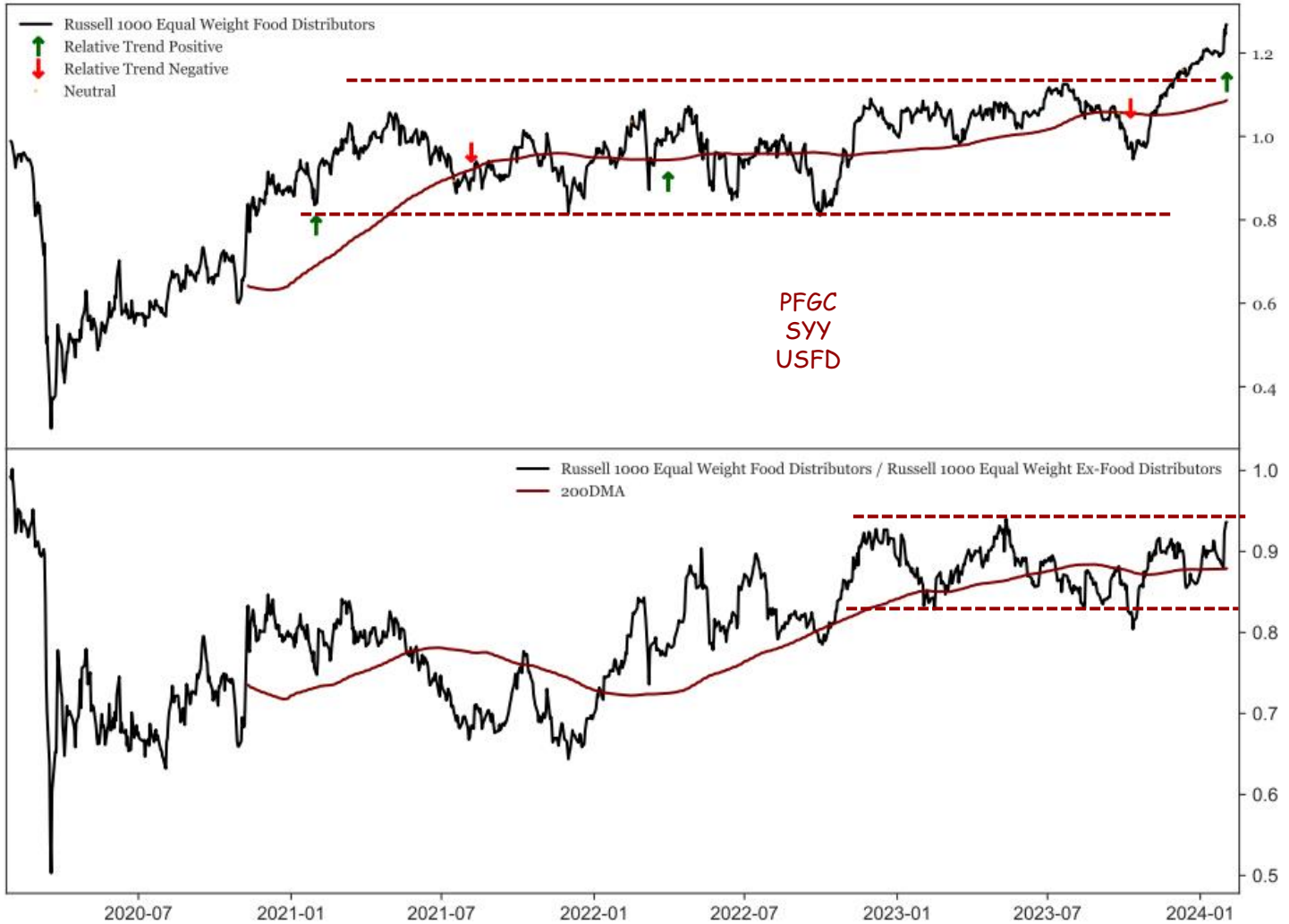
Cond 1 Cond 2 Cond 3



Food Distributors Breakingout

RenMac Momentum Rank: 1

Cond 1 Cond 2 Cond 3



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