GUGGENHEIM

Macroeconomic Update

Strong First Half Doesn't Negate Recession Concerns

U.S. economic activity has been better than expected, but leading recession indicators still argue for caution.

Inflation has cooled off but continues to run well above target. And while near-term disinflation should continue, inflationary risk will remain with the labor market tight. As a result, the Fed continues to try to slow the economy, a strategy it believes is required to get inflation durably back to the 2 percent target. We expect Fed policymakers will deliver a final rate hike in September or November as they try to limit an economic reacceleration that could risk a resurgence in inflation. Quantitative tightening will likely continue at least into early 2024.

Despite the abrupt tightening of Fed policy seen over recent quarters, growth of real gross domestic product has been resilient, aided by a significant fiscal expansion and easing inflation pressures that have boosted real personal consumption. Indeed, headline personal consumption expenditures (PCE) inflation slowed to 2.5 percent on an annualized basis in the three months ending in June from 7.4 percent in the corresponding period a year earlier, helping to lift real income growth and support consumer spending.

Notwithstanding recent stronger-than-expected economic activity, we continue to believe the Fed's actions will initiate a rise in the unemployment rate, ultimately leading to a recession starting by early next year. A range of leading indicators—including a low unemployment rate, an inverted yield curve, a declining leading economic index, and tightening bank lending standards—suggest a downturn is in the pipeline.

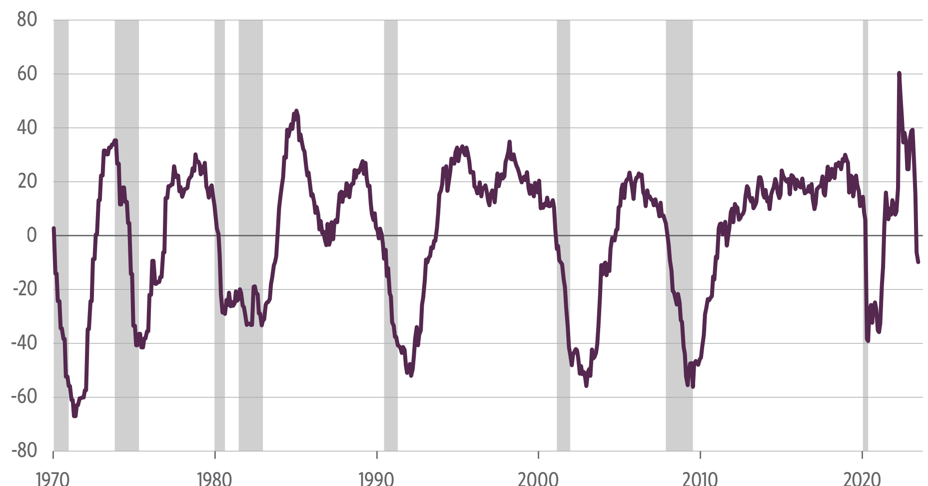
While recession would undoubtedly lead to rising defaults and market selloffs, we continue to believe this recession should be relatively mild in its severity. Moreover, we expect inflation will be brought under control as spending and demand for labor cool, in turn allowing the Fed to start to ease up on its restrictive monetary policy stance as we move through 2024.

By Matt Bush and Maria Giraldo

Despite stronger-than-expected economic activity, we believe the Fed will be successful in its quest for a higher unemployment rate, as leading indicators, such as the Consumer Confidence Survey, suggest a downturn is in the pipeline.

Deterioration in Labor Market Conditions Points to Recession Risk

Consumer Confidence: Jobs Plentiful vs. Jobs Hard to Get (Rolling 24-month Change)



Source: Guggenheim Investments, Conference Board, Bloomberg. Data as of 6.30.2023. Shaded areas represent recession.

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