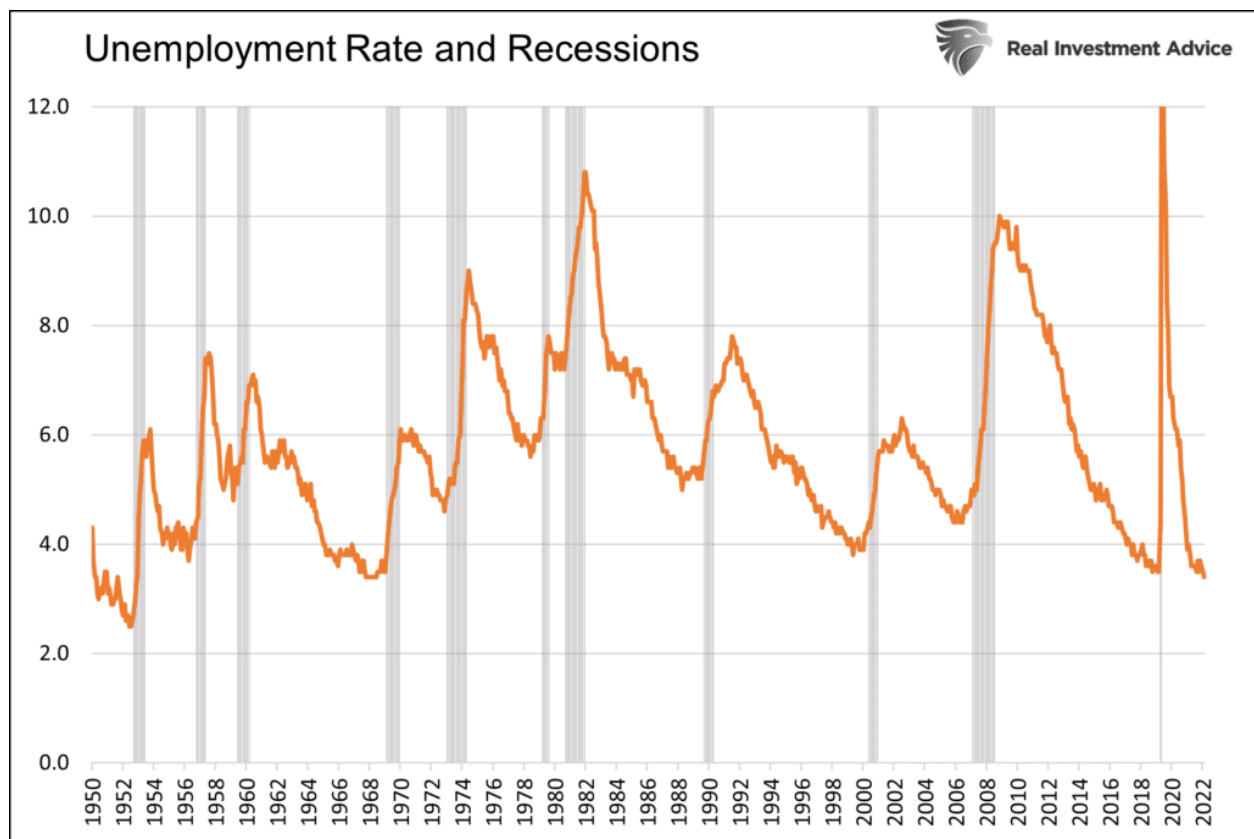


# Yellen Says No Recession On The Horizon

Yesterday, U.S. Treasury Secretary Janet Yellen stated: *"You don't have a recession when you have the lowest unemployment rate in 53 years."* While such a statement sounds logical, history argues a recession could be right around the corner despite record-low unemployment. Janet Yellen may want to study the graph below closely. The unemployment rate always hits a cycle low within a few months of the beginning of the recession.

The latest round of economic data remains robust, and to Yellen's point, a recession seems very unlikely. However, the Fed has hiked rates at the fastest pace in over forty years, and today's economy is much more sensitive to interest rates than at any time in the past. The lag effects of tighter monetary policy are real and have yet to be fully felt. Maybe Yellen will be correct, and we get a soft landing, but maybe record-low unemployment again precedes a recession.



## What To Watch Today

### Economy

- 7:00 a.m. ET: **MBA Mortgage Applications**, week ended Feb. 3 (-9.0% prior)
- 10:00 a.m. ET: **Wholesale Inventories**, MoM, November Final (0.1% expected, 0.1% prior)
- 10:00 a.m. ET: **Wholesale Trade Sales**, MoM, November (-0.2% expected, -0.6% prior)

## Earnings

	Company	Time	Estimate		<div><div></div></div> Growth	Surprise				
					Show only confirmed?					
✓	CVS	CVS Health	6:30 AM ET	\$1.92	\$74.97 B	-2.1%	+	=	-	+
✓	EQNR	Equinor ASA	BMO	\$1.62	\$69.47 B	113.0%	+	=	-	+
✓	DIS	Walt Disney Co	4:05 PM ET	\$0.80	\$23.33 B	6.9%	+	=	-	+
✓	BAM	Brookfield Asset Man...	6:45 AM ET	\$0.30	\$1.05 B	-95.2%	+	=	-	+
	AMKBY	A.P. Moeller-Maersk ...	BMO	\$1.40	-	-	+	=	-	+
✓	BG	Bunge Ltd.	6:00 AM ET	\$3.19	\$18.17 B	8.9%	+	=	-	+
✓	PAA	Plains All American Pi...	4:15 PM ET	\$0.38	\$14.12 B	9.0%	+	=	-	+
✓	PAGP	Plains GP Holdings L.P.	AMC	\$0.31	\$14.15 B	9.2%	+	=	-	+
✓	PFGC	Performance Food Gr...	7:00 AM ET	\$0.76	\$13.88 B	8.1%	+	=	-	+
✓	SLF	Sun Life Financial Se...	5:00 PM ET	\$1.16	\$819.12 M	-92.1%	+	=	-	+
✓	MOH	Molina Healthcare Inc.	4:15 PM ET	\$4.06	\$7.87 B	6.2%	+	=	-	+
✓	PAG	Penske Automotive G...	7:00 AM ET	\$4.03	\$6.45 B	2.4%	+	=	-	+
✓	UBER	Uber Technologies, Inc.	6:55 AM ET	(\$0.21)	\$8.46 B	46.4%	+	=	-	+
	FUJIY	FUJIFILM Holdings C...	DMH	-	\$5.54 B	-4.0%	+	=	-	+
	AHKSJ	Asahi Kaisai Corp.	DMH	-	-	-	+	=	-	+
✓	CDW	CDW Corp	7:00 AM ET	\$2.36	\$6.18 B	11.6%	+	=	-	+
✓	GT	Goodyear Tire & Rub...	4:30 PM ET	\$0.17	\$5.20 B	2.9%	+	=	-	+
✓	ETN	Eaton Corp.	6:30 AM ET	\$2.04	\$5.31 B	10.7%	+	=	-	+
✓	LNC	Lincoln National Corp.	4:15 PM ET	\$1.89	\$4.56 B	-1.0%	+	=	-	+
✓	EMR	Emerson Electric Co.	6:30 AM ET	\$0.88	\$3.47 B	-22.4%	+	=	-	+
✓	FOXA	Fox Corporation	8:00 AM ET	\$0.47	\$4.59 B	3.4%	+	=	-	+
	VLPNY	VOESTALPINE AG	BMO	-	\$17.72 B	302.1%	+	=	-	+
✓	TEVA	Teva Pharmaceutical ...	7:00 AM ET	\$0.64	\$3.90 B	-4.9%	+	=	-	+
✓	PPC	Pilgrim's Pride Corp.	4:30 PM ET	\$0.00	\$4.12 B	2.0%	+	=	-	+
✓	D	Dominion Energy, Inc.	7:30 AM ET	\$1.03	\$4.20 B	8.2%	+	=	-	+
	SKM	SK Telecom Co. Ltd.	BMO	-	-	-	+	=	-	+
	DCP	DCP Midstream, LP	4:15 PM ET	\$1.05	\$2.03 B	-41.6%	+	=	-	+
✓	XPO	XPO Logistics, Inc.	4:10 PM ET	\$0.82	\$1.86 B	-44.7%	+	=	-	+
✓	EQH	AXA Equitable Holdin...	4:15 PM ET	\$1.29	\$3.23 B	-2.7%	+	=	-	+
✓	ORLY	O'Reilly Automotive, I...	4:30 PM ET	\$7.71	\$3.50 B	6.3%	+	=	-	+
✓	RE	Everest Re Group Ltd.	4:15 PM ET	\$9.29	\$3.13 B	0.3%	+	=	-	+
✓	MGM	MGM Resorts Interna...	4:15 PM ET	(\$1.60)	\$3.31 B	8.3%	+	=	-	+
✓	IFF	International Flavors ...	4:15 PM ET	\$0.94	\$2.88 B	-5.0%	+	=	-	+
	AKZOY	Akzo Nobel N.V.	BMO	-	\$11.44 B	316.3%	+	=	-	+
	SSDOY	Shiseido Co. Ltd.	DMH	\$0.04	\$8.09 B	217.2%	+	=	-	+
✓	YUM	Yum! Brands, Inc.	7:00 AM ET	\$1.25	\$1.92 B	1.6%	+	=	-	+
✓	MAT	Mattel, Inc.	4:05 PM ET	\$0.27	\$1.73 B	-3.6%	+	=	-	+
✓	INGR	Ingredion Incorporated	6:05 AM ET	-	\$2.03 B	15.7%	+	=	-	+
	SPPJY	Sappi Limited	BMO	\$0.26	\$1.68 B	-1.0%	+	=	-	+
✓	CPRI	Capri Holdings Limited	6:45 AM ET	\$2.21	\$1.53 B	-4.9%	+	=	-	+
✓	COTY	Coty Inc.	6:30 AM ET	\$0.15	\$1.53 B	-3.1%	+	=	-	+
✓	UAA	Under Armour, Inc.	6:55 AM ET	\$0.09	\$1.55 B	1.4%	+	=	-	+
✓	SON	Sonoco	4:10 PM ET	\$1.25	\$1.80 B	25.1%	+	=	-	+
✓	UHAL	AMERCO	5:10 PM ET	\$1.45	\$1.61 B	14.6%	+	=	-	+
	DBOEY	DEUTSCHE BOERSE	AMC	-	\$1.23 B	-8.7%	+	=	-	+
✓	TSE	Trinseo S.A.	4:15 PM ET	(\$1.61)	\$946.76 M	-27.1%	+	=	-	+
✓	AB	AllianceBernstein Hol...	AMC	\$0.57	\$796.16 M	-37.0%	+	=	-	+

## Market Trading Update

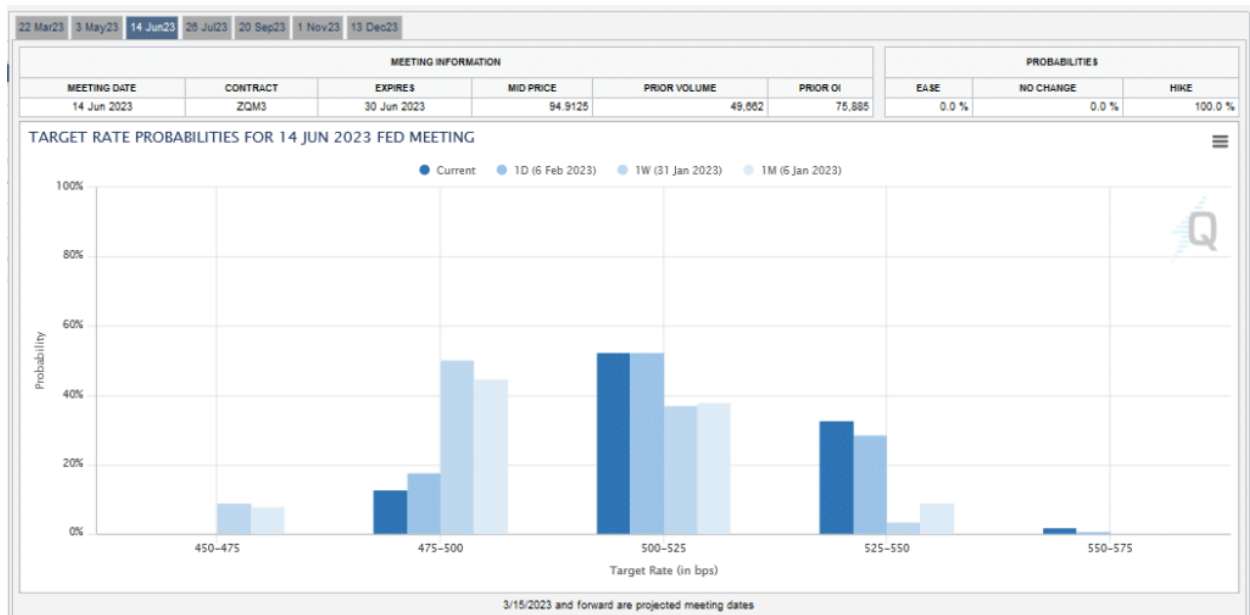
Yesterday, Powell failed to reverse his recent commentary that easier financial conditions are not something the Fed is concerned with. Such gave the markets an additional reason to rally more as the bullish bias remains intact. Importantly, our MACD buy signal in the top panel is now at the highest level since July 2022. It is also at the highest level since the January 2022 peak. **The signal will turn down in the next couple of weeks, and we will see a price correction in the market.**

Don't chase the market here and look for a rotation from offense to defense during that correction. However, a pullback to support that is not violated will provide a good opportunity to increase risk assets accordingly.



### 3 More Fed Hikes?

Only a few weeks ago, the Fed Funds futures markets correctly priced in the February 1st 25 bp rate hike and were split between whether or not the Fed would hike by 25bps one or two more times. Essentially the market was targeting 4.875% as the terminal Fed Funds rate. Today, the upcoming June meeting, which follows two other meetings, implies a 50/50 chance of a third 25bps rate hike. The graph below shows the progression of implied rate hikes over the last month. Dark blue is the most recent, and light blue is the oldest. The two highest light blue lines show the prior indecision between 4.75 and 5.00%. The dark blue lines show today's indecision between 5.00 and 5.25%.

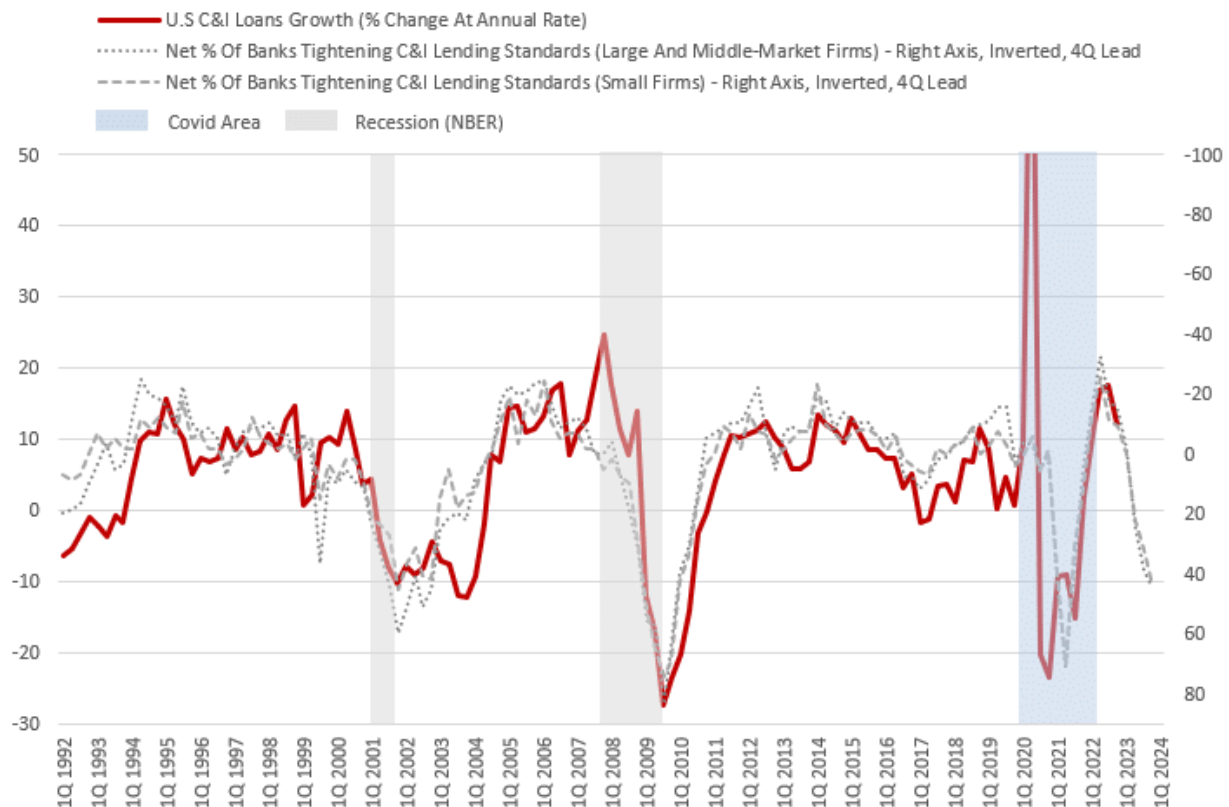


## Leading vs. Lagging Indicators

Janet Yellen doesn't think a recession is probable because unemployment, a lagging indicator, is so low. Therefore, to counter Yellen, we share a leading indicator, which argues that financial conditions are about to tighten considerably for corporations. Commercial and Industrial Loans (C&I Loans) tend to lag lending standards by four quarters. The Fed started hiking rates a year ago, and lending conditions tightened. The lag effect is just starting.

The data in the graph and the quote below are from the Fed's Senior Loan Officer Opinion Survey.

*The recent change in credit conditions suggests that credit growth should normalize downward and could even turn negative in 2H23.*



Sources: Saint Louis Fed, christophe-barraud.com



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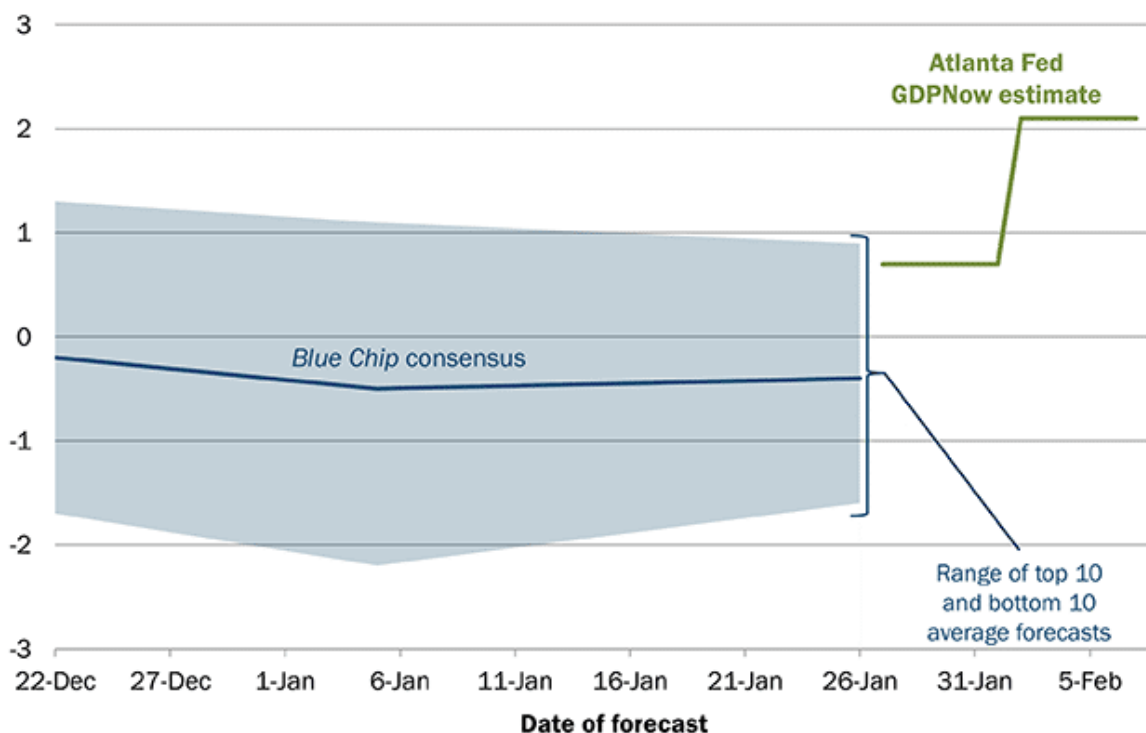
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## Q1 GDP

The Atlanta Fed's GDPNow forecast is up to 2.1% growth, a nice increase from .7% last week. However, it is still behind the robust second-half growth of 2022 (+3.2% and +2.9%, respectively). The Atlanta Fed only uses actual data and does not forecast. As such, they are basing their first-quarter projection on minimal data. Its forecast, especially early in the quarter, can change quickly. In that vein, a key GDP component, retail sales, will be released next Wednesday. The current estimate is for a decline of 0.6%. Note below the Wall Street consensus forecast is for negative GDP growth.

## Evolution of Atlanta Fed GDPNow real GDP estimate for 2023: Q1

Quarterly percent change (SAAR)



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

## Tweet of the Day



David Keller, CMT

@DKellerCMT

...

I put two children through Harvard by trading options. Unfortunately, they were my broker's children.  
Jason Zweig @jasonzweigwsj

8:16 AM · Feb 3, 2023 · 127.2K Views

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