3/27/24

ROLLING, ROLLING, ROLLING

Rolling fields, rolling hills, rolling stone, rolling in the dough. And now, rolling recession? As we continue to assess macroeconomic uncertainty and whether a soft (or not so soft) landing is on the way, the term "rolling recession" has been introduced as a plausible explanation as to why the U.S. economy has continued to march forward in the face of supply chain disruption, restrictive Fed policy, and the signaling inverted yield curve. In short, we may have already seen the recession even though the NBER can't define one. I'm not sure about our readers, but I can't seem to ever recall discussing, analyzing, or assessing the implications of a rolling recession whether in academic life or financial markets experience. Perhaps I missed that session in class. And now that I think about it, I can't recall the lessons learned from "Forecasting Financial Conditions following a Global Pandemic" from back in the day either.

Rolling right along, last week the Fed announced no change to its policy rate and reiterated its objective to reduce inflation to the 2% target. According to Chair Powell, this will occur "over time". Our read is that over time really means someday. Continuing our theme we are introducing a new term – rolling inflation. This is a Bray Farm IA exclusive! Note this is not the 12-month rolling inflation measure rather a description of the general environment. Furthermore, we are wearing down on the overused "sticky inflation" characterization. We believe rolling inflation accurately captures the moment and suggests the Fed is leaving plenty of room (and uncertainty) to manage the bumpy road lower while signaling possible rate cuts starting this year. Markets cheered.

Noting the data in the tables below, Core Services (shelter and other) bounced around at higher levels while Core Goods bounced around at lower levels. According to Chair Powell comments, they expect that housing services and non-housing services will shift lower and goods prices will find equilibrium. Some combination of these three will produce lower inflation readings, but not on a straight line and with very uncertain timing i.e. rolling inflation. And now to top it off, cocoa inflation is out of control. The Bray Farm IA analyst team (Steven) has lowered earnings estimates and placed a "Sell" rating on Easter Bunny, Inc.

Percentage change to US CPI MoM% SA
All Items

Latest Release 03/12/24 08:30 Next Release 04/10/24 08:30
Calculated by Bloomberg using data from the Bureau of Labor Statistics (BLS)

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Series	Ticker	23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
All Items	CPI CHNG Index	17	0.384	0.078	0.427	0.110	0.210	0.206	0.512	0.360	0.079	0.160	0.233	0.305	0.442
Food	ECAN1CMF Index	53	0.336	0.103	0.027	0.220	0.163	0.193	0.243	0.186	0.295	0.172	0.207	0.388	0.020
Energy	ECANUFOG Index	78	-0.443	-2.703	0.737	-2.964	0.487	-0.021	4.357	1.151	-2.133	-1.557	-0.213	-0.908	2.259
Core Goods	ECAN4CFD Index	01	0.132	0.197	0.441	0.415	-0.087	-0.327	-0.207	-0.234	-0.028	-0.221	-0.064	-0.320	0.113
Core Services	ECAN48RK Index	62	0.615	0.380	0.475	0.334	0.309	0.426	0.377	0.522	0.336	0.459	0.384	0.661	0.457
Core CPI	CPUPXCHG Index	27	0.467	0.325	0.468	0.361	0.195	0.227	0.230	0.319	0.240	0.308	0.275	0.392	0.358

Percentage change to US CPI YoY% NSA
All Items

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Series	Ticker	23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
All Items	CPI YOY Index	10	6.036	4.985	4.930	4.048	2.969	3.178	3.665	3.700	3.241	3.137	3.352	3.091	3.153
Food	ECANSSWX Index	33	9.486	8.499	7.651	6.692	5.742	4.859	4.254	3.692	3.301	2.949	2.705	2.567	2.234
Energy	ECAN1MPR Index	00	5.192	-6.425	-5.065	-11.663	-16.738	-12.470	-3.617	-0.450	-4.530	-5.436	-2.023	-4.557	-1.897
Core Goods	ECANJWQ6 Index	41	1.025	1.528	2.014	2.034	1.313	0.760	0.234	0.022	0.095	0.046	0.174	-0.287	-0.297
Core Services	ECANWSOU Index	56	7.259	7.129	6.838	6.567	6.150	6.117	5.899	5.690	5.495	5.471	5.308	5.369	5.220
Core CPI	CPI XYOY Index	83	5.538	5.590	5.519	5.330	4.829	4.653	4.349	4.147	4.031	4.007	3.930	3.862	3.753

Source: Bloomberg

We at Bray Farm have a tough time seeing the Fed cut rates three times in 2024 given our views of ongoing rolling inflation. From a credit standpoint, fundamental conditions should remain stable as we navigate Fed uncertainty despite tight risk spreads in the corporate and high yield bond markets. Shorter duration (or barbell) positioning continues to make sense to us as we see some higher rate risk in the belly of the curve due to our rolling inflation view and positive signs in the economy. Note that recent Cap Goods and Durable Goods Orders readings surprised to the upside.

When navigating the skiff into the bay, keep an eye out for the rollers on the horizon as a signal for instability. While we see rollers on the horizon for inflation and rates, we are not convinced that seasickness will ensue in the near term for the economy.

"Keep rollin', rollin', rollin'
Though the streams are swollen
Keep them dogies rollin' rawhide."

Steve Wagner

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