

# The Leuthold Group

## Economic & Financial Market Outlook

Jim Paulsen, PhD  
Chief Investment Strategist  
December 2021



**LeutholdGroup.com**

**[info@LeutholdGroup.com](mailto:info@LeutholdGroup.com)**

**612.332.1567**

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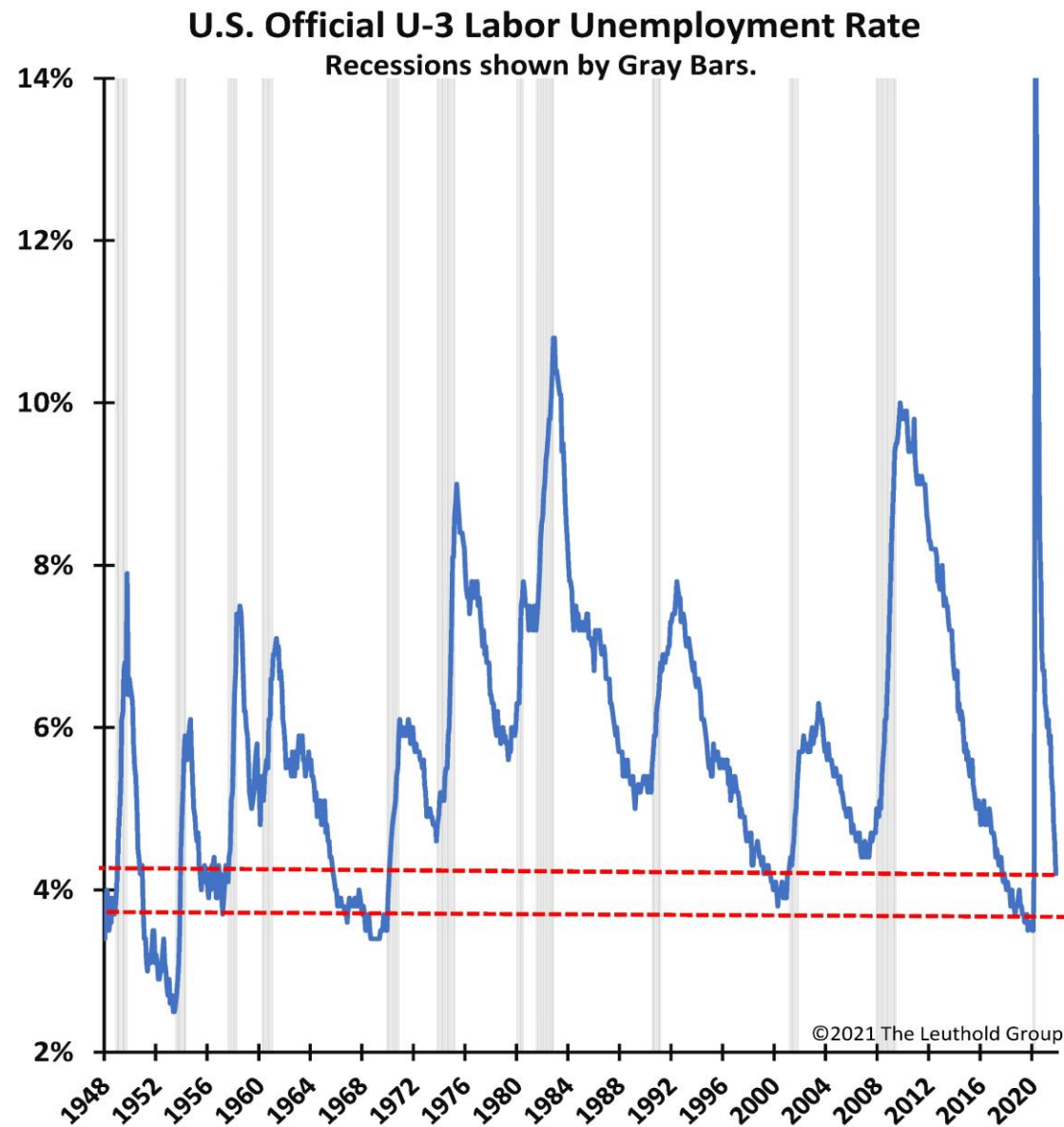
# Omicron?

- Tough to Gauge Seriousness
- Much Has Already Been Vetted
- We Have Vaccines, Treatment, and Knowledge
- Everyone Has Adapted – Biz & Households
- Covid Fatigue

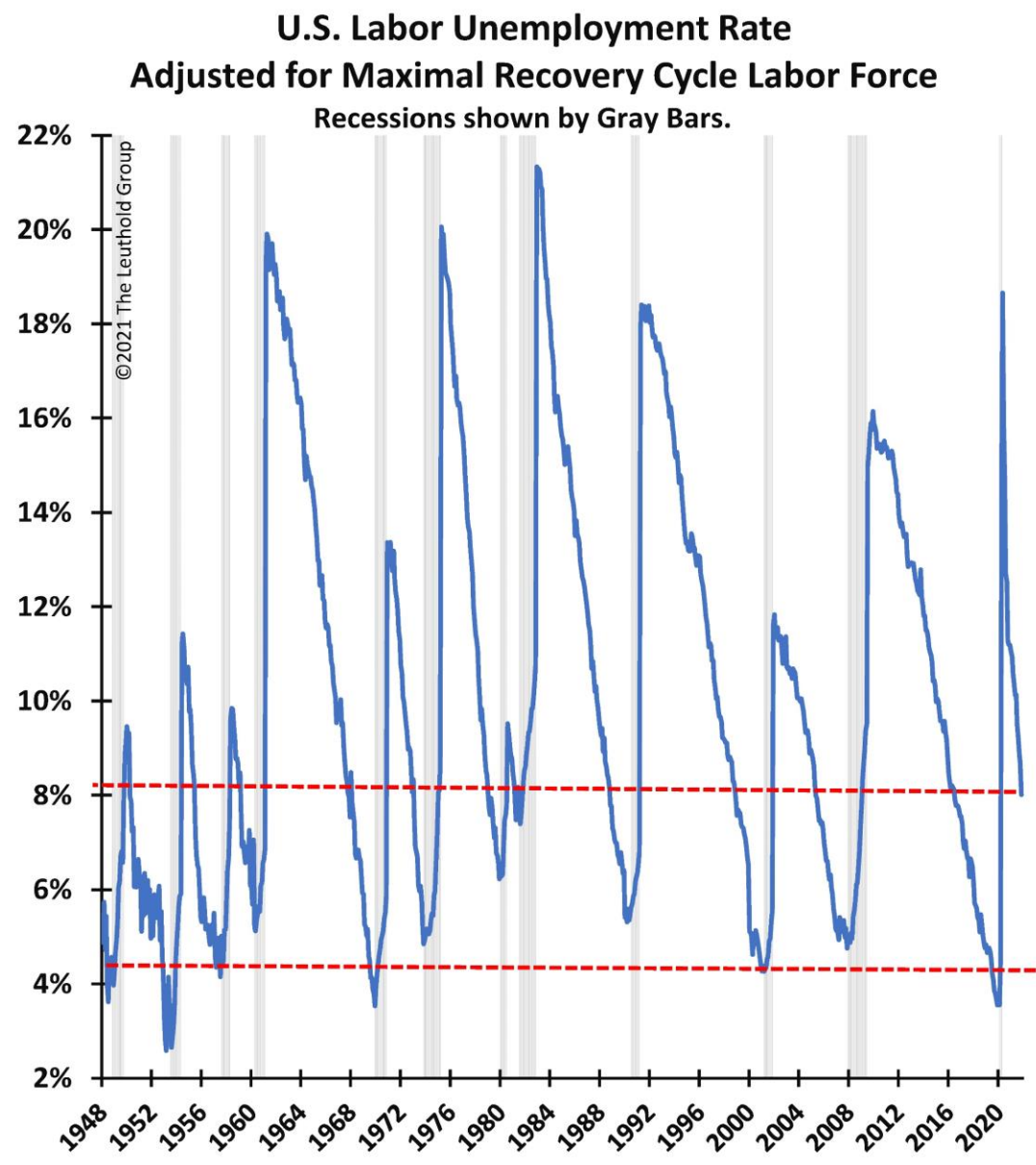
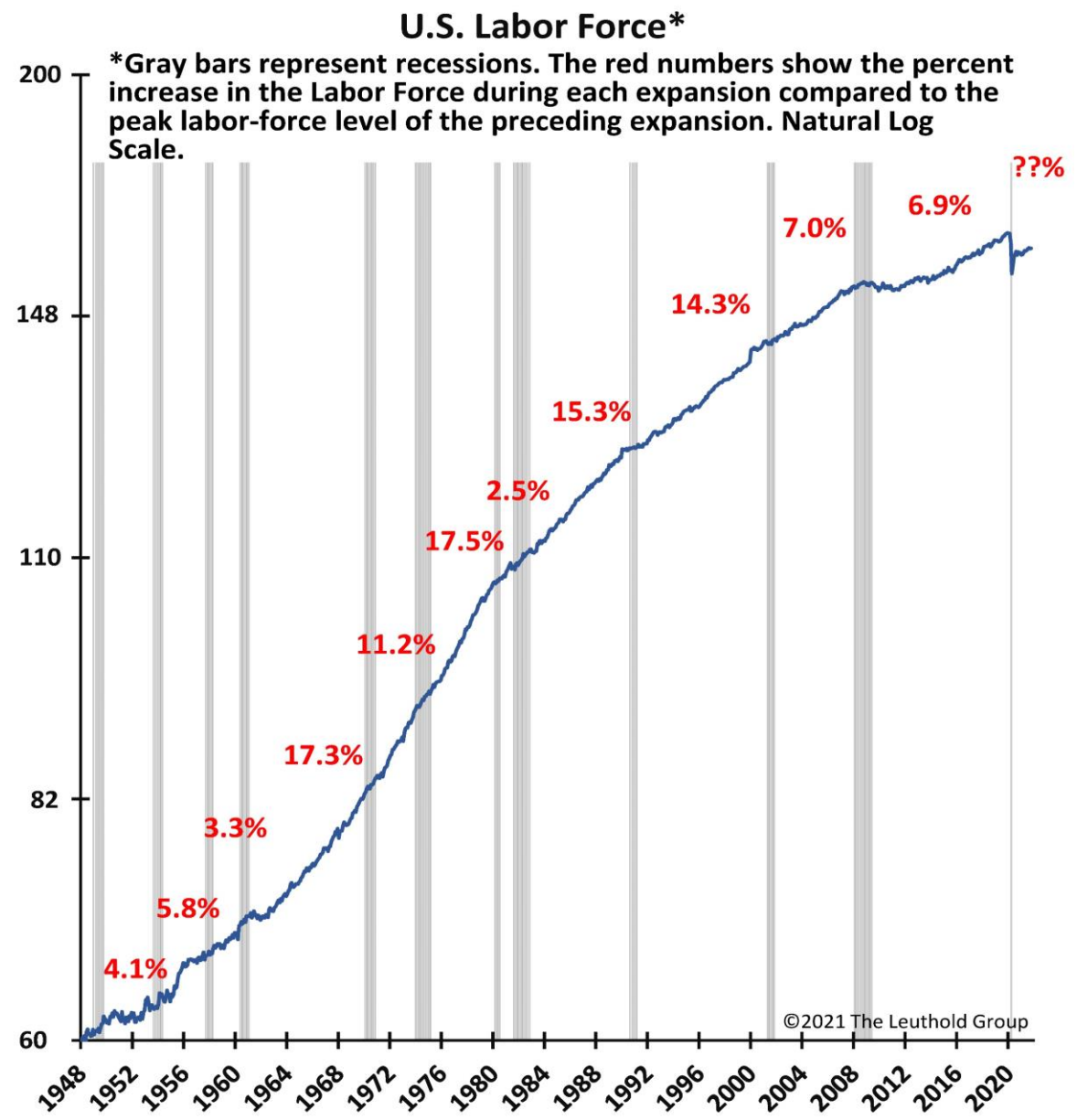
# Stronger Real Growth Even After Policy Stimulus!?!

- Pent-Up Demands
- New Job Holders
- Rise in Confidence
- HH Formations
- BIZ Formations
- Inventory Rebuild
- Massive Unspent Savings
- Untapped Healthy HH Balance Sheets
- Banks Get Lending Again
- Much Higher Net WORTHS
- Better Productivity
- Global Synchronized Revival

# How Long Will Recovery LAST... Labor Unemployment Rate?

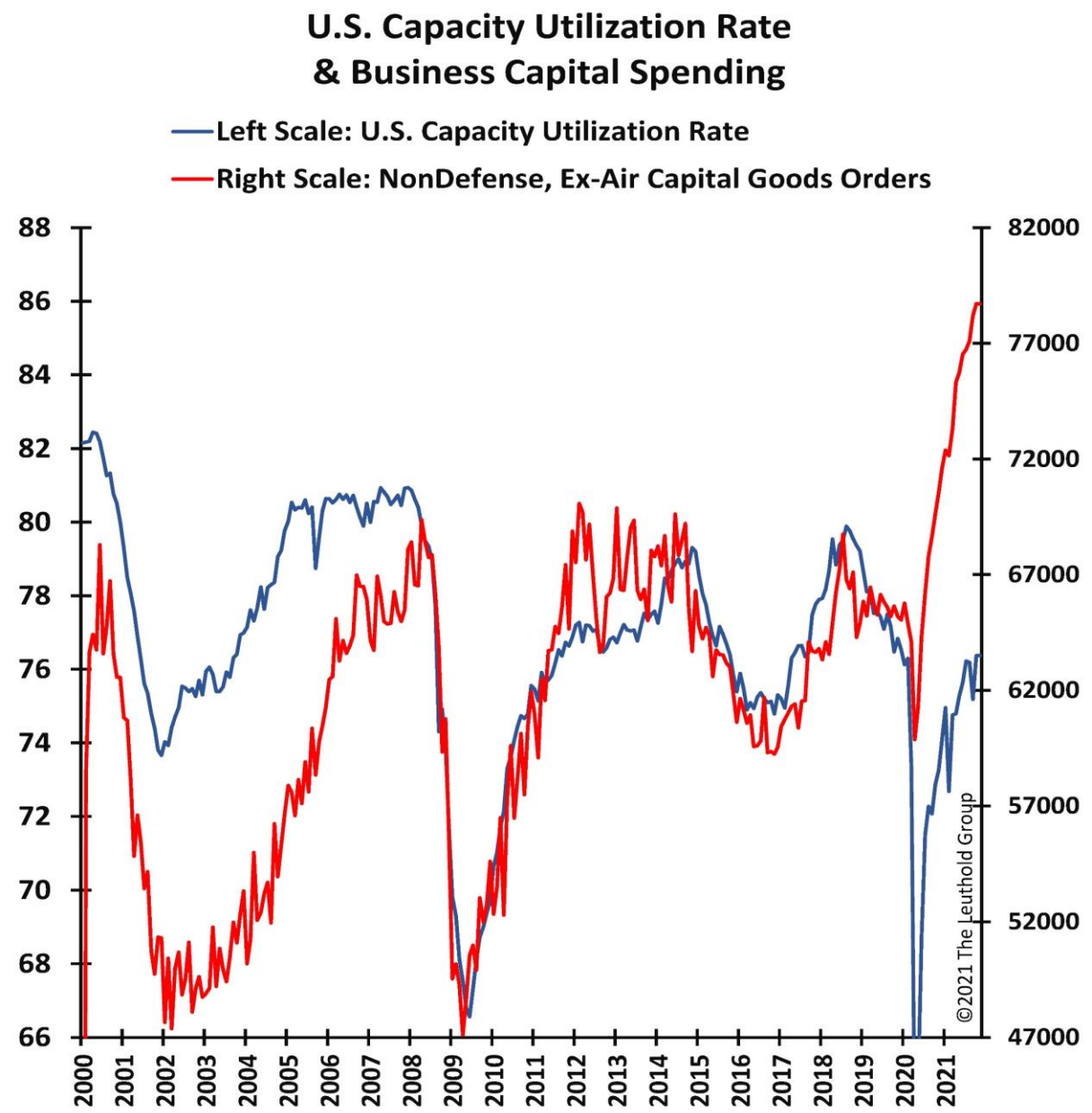


# How Long Will Recovery LAST... ADJUSTED Labor Unemployment Rate?

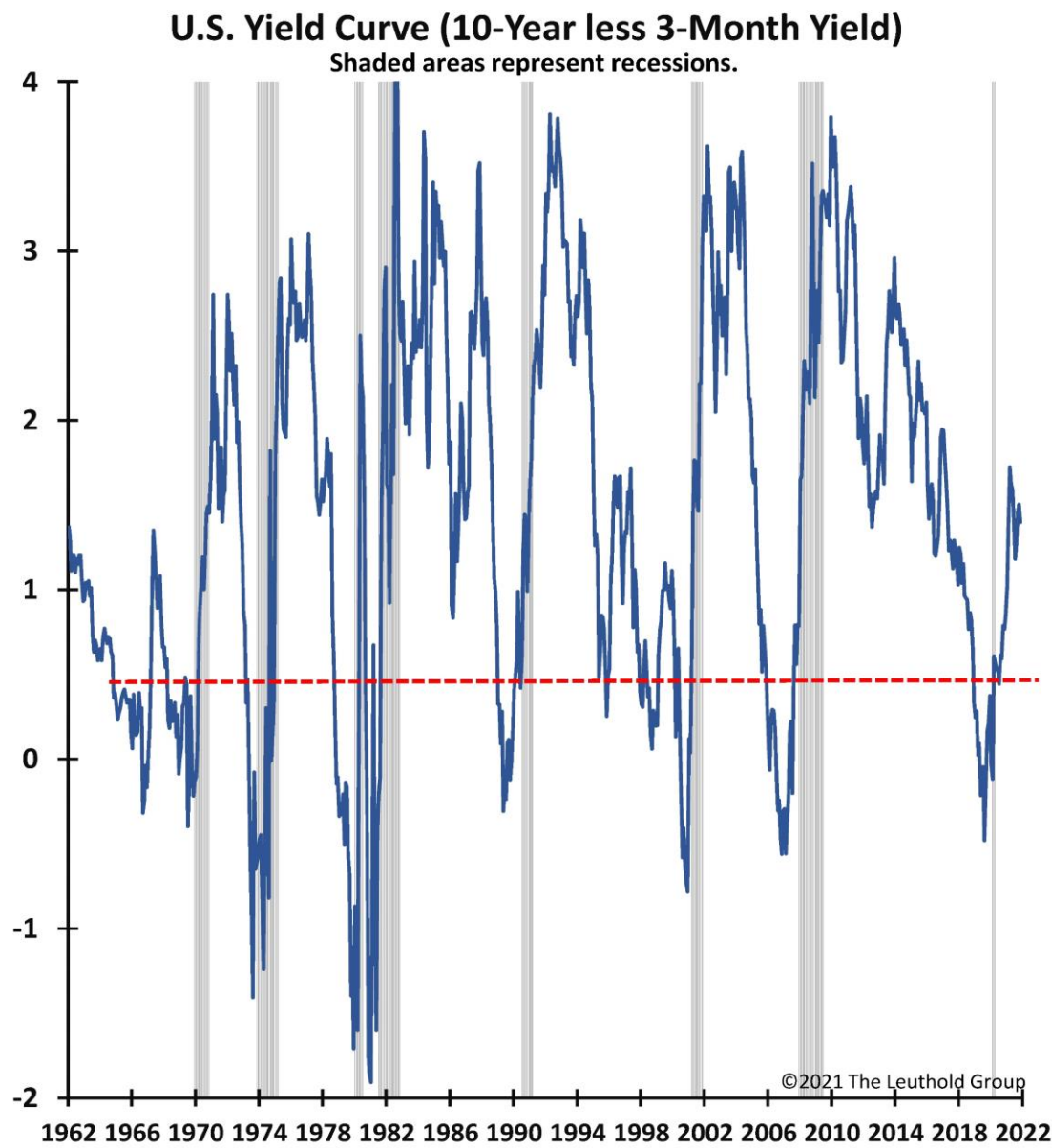




# Capacity Utilization Rate?

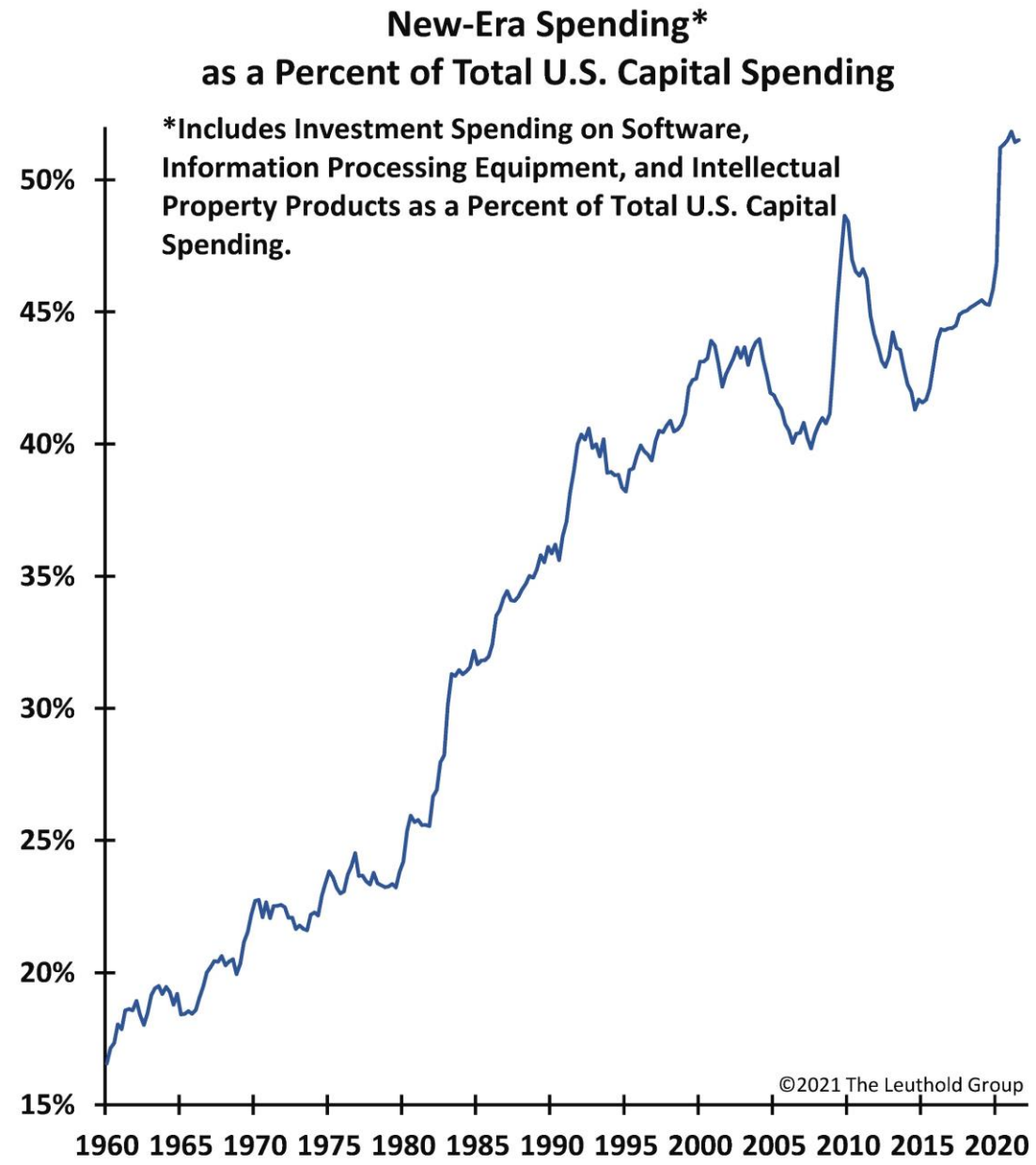
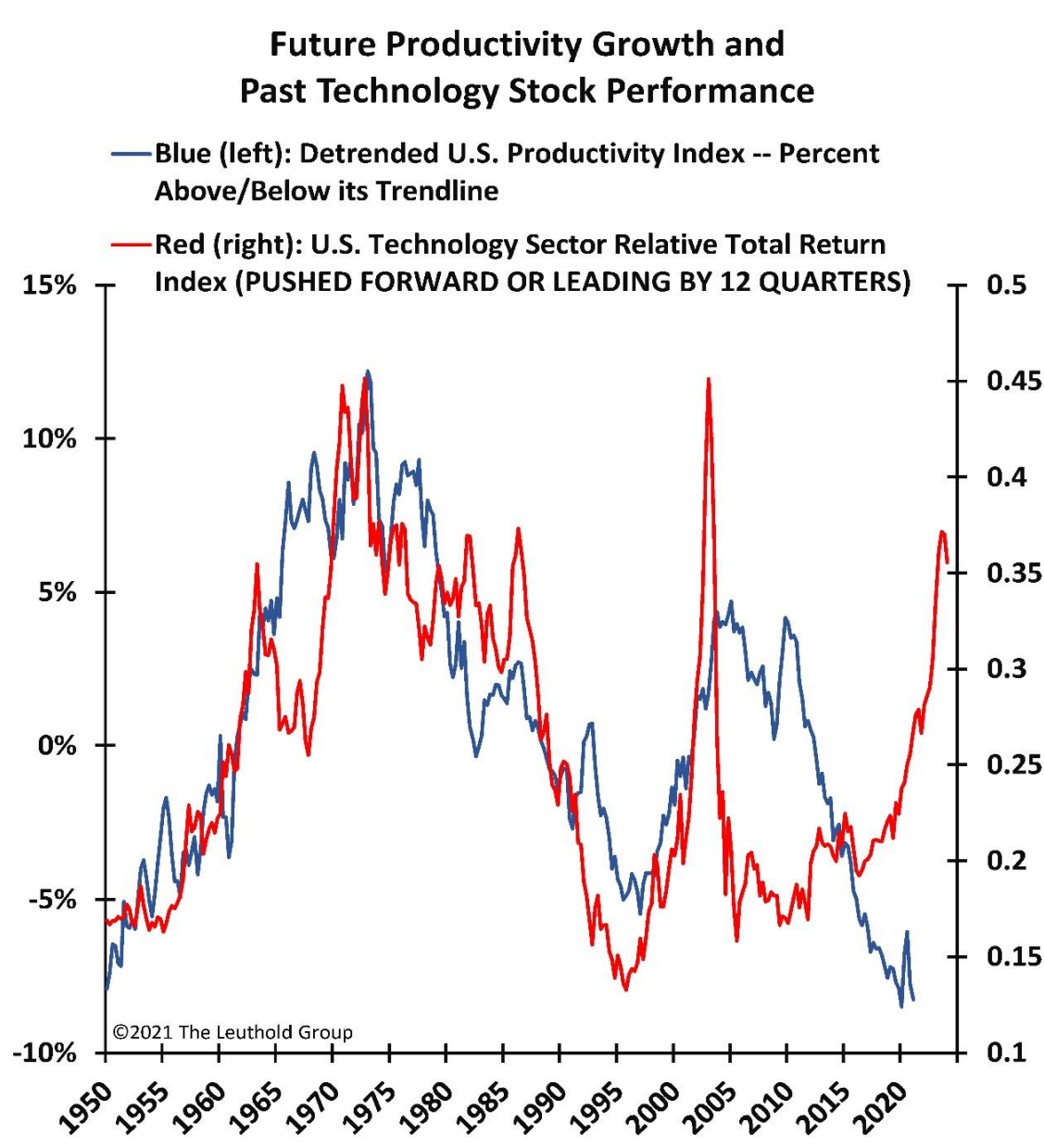


# How Long Will Recovery LAST... Policies Need to Tighten?

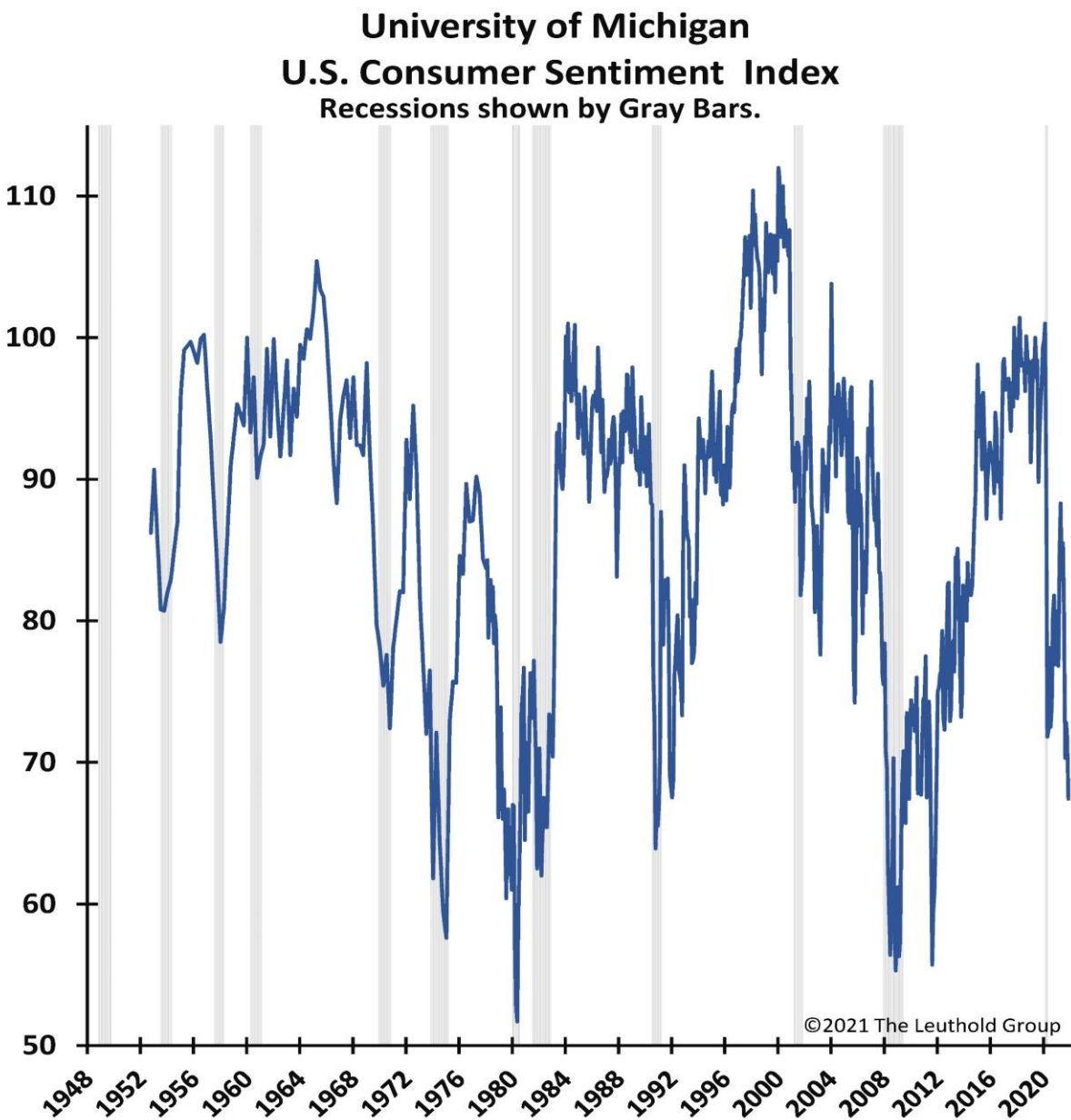




# How Long Will Recovery LAST... PRODUCTIVITY?



# How Long Will Recovery LAST... Consumer Confidence?



# How Long Will Recovery LAST... BALANCE SHEETS?

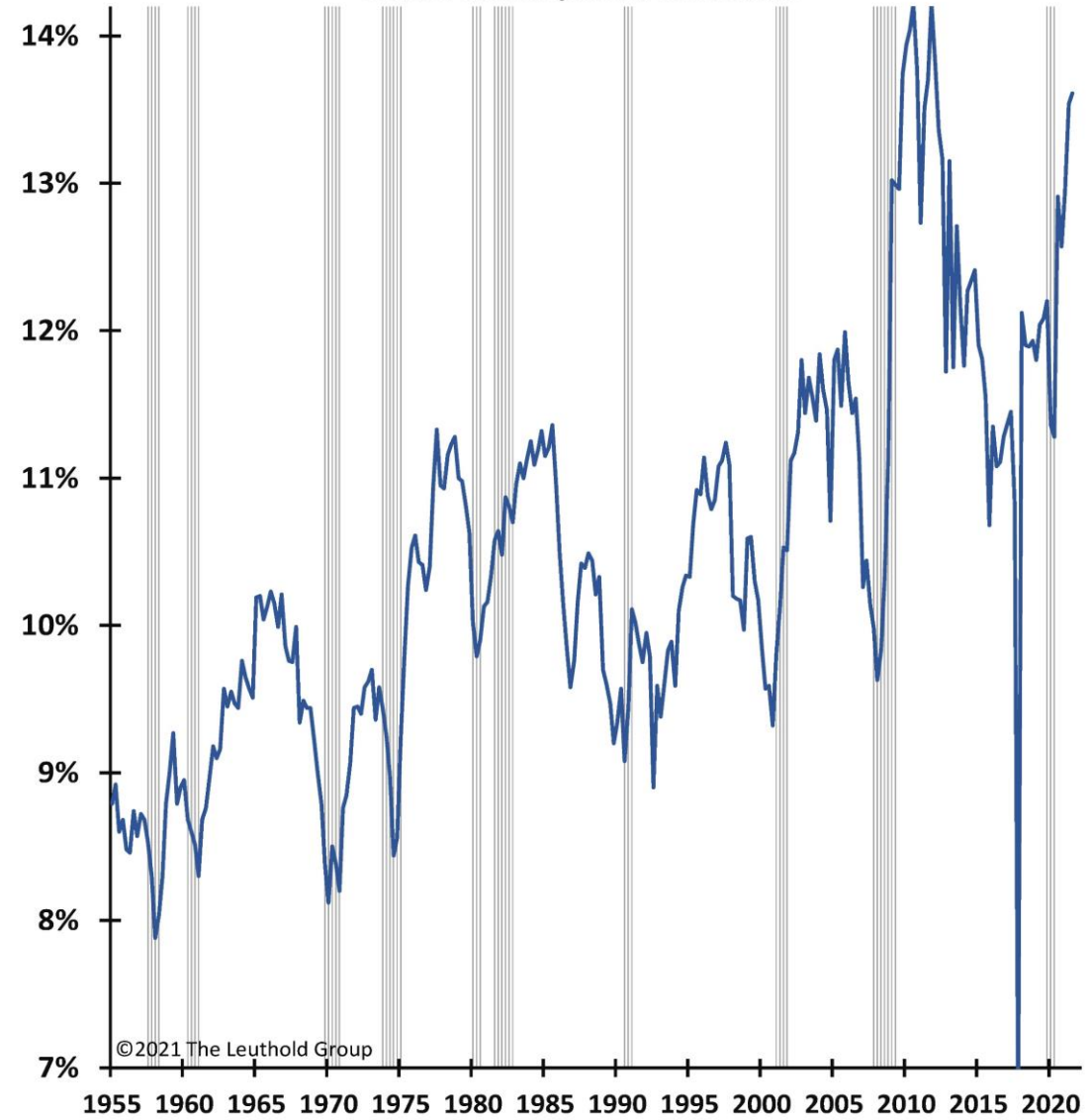
**U.S. Household Debt Service to Disposable Income Ratio**

Shaded areas represent Recessions.



**U.S. Net Corporate Cash Flow to GDP Ratio**

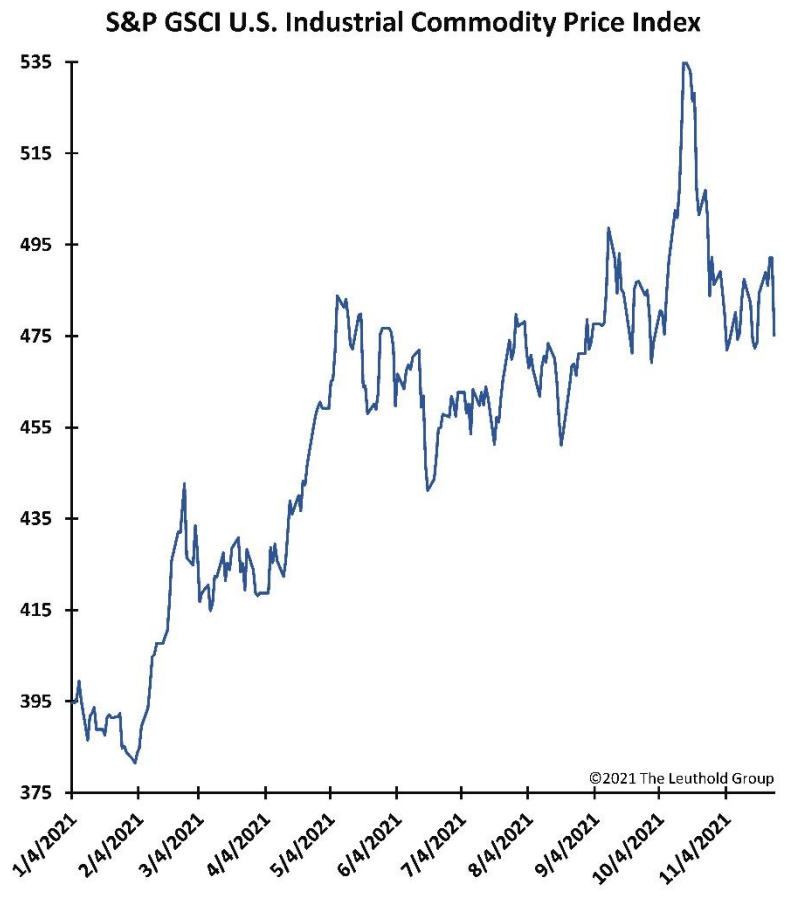
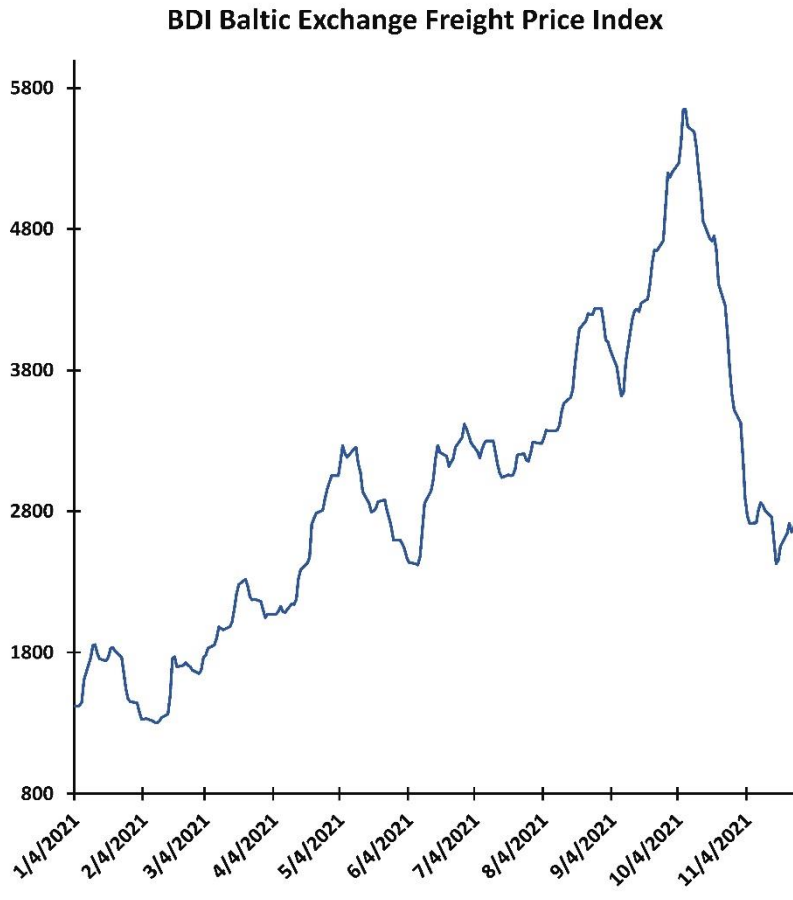
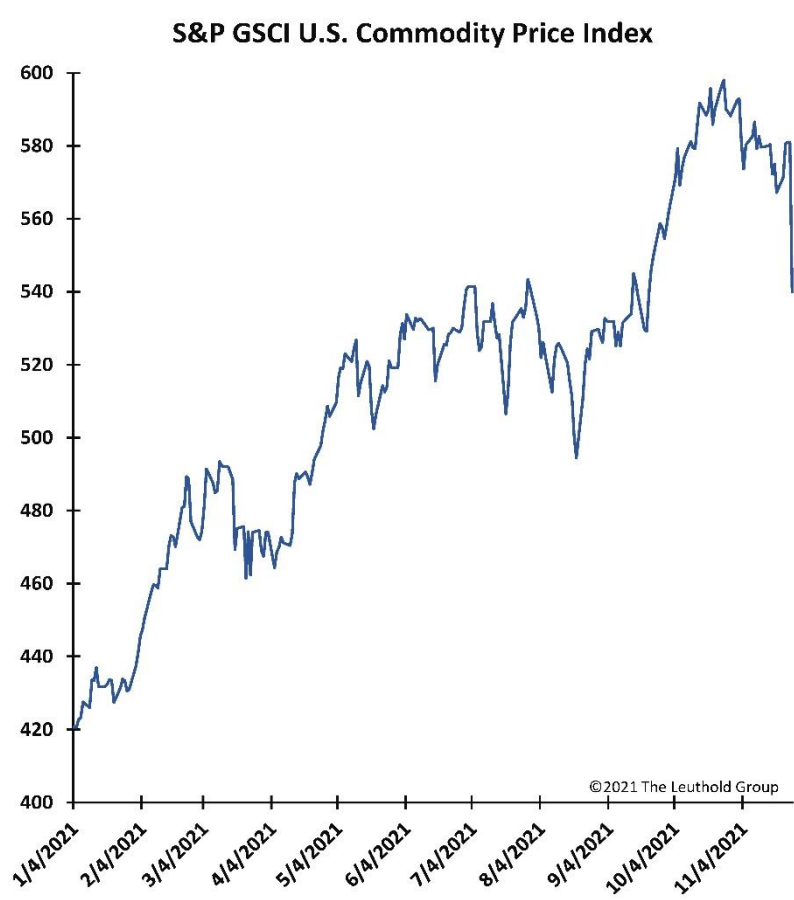
Shaded areas represent Recessions.



# MEET The Inflation SLAYERS!!?

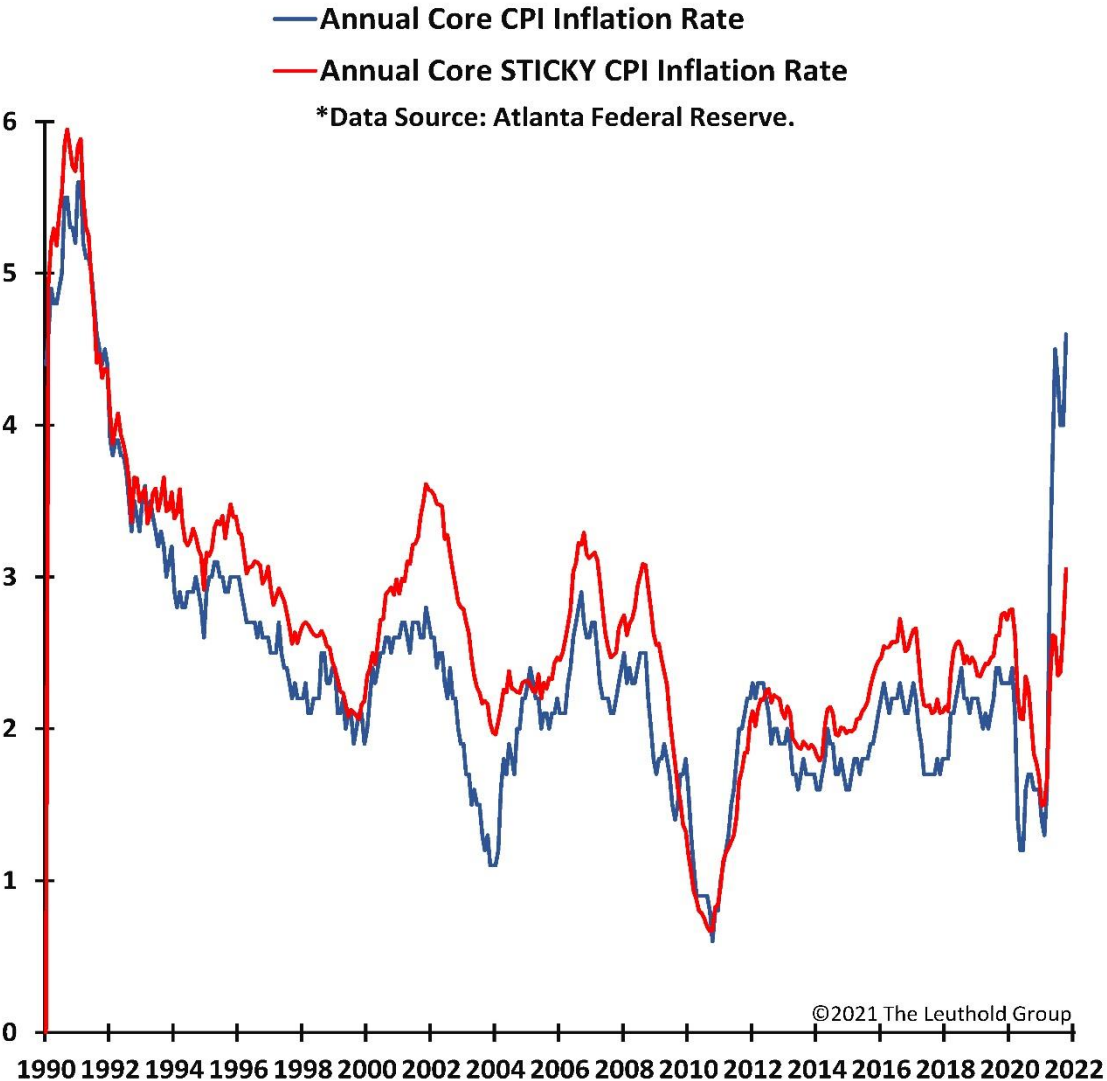
- Lousy Demographics
- PRODUCTIVITY
- U.S. Global Competition
- A Deflationary Leader
- Disinflationary Cultural Mindsets
- Collapsing Monetary Velocity
- Resource SLACK

# Commodity Prices Peaking?

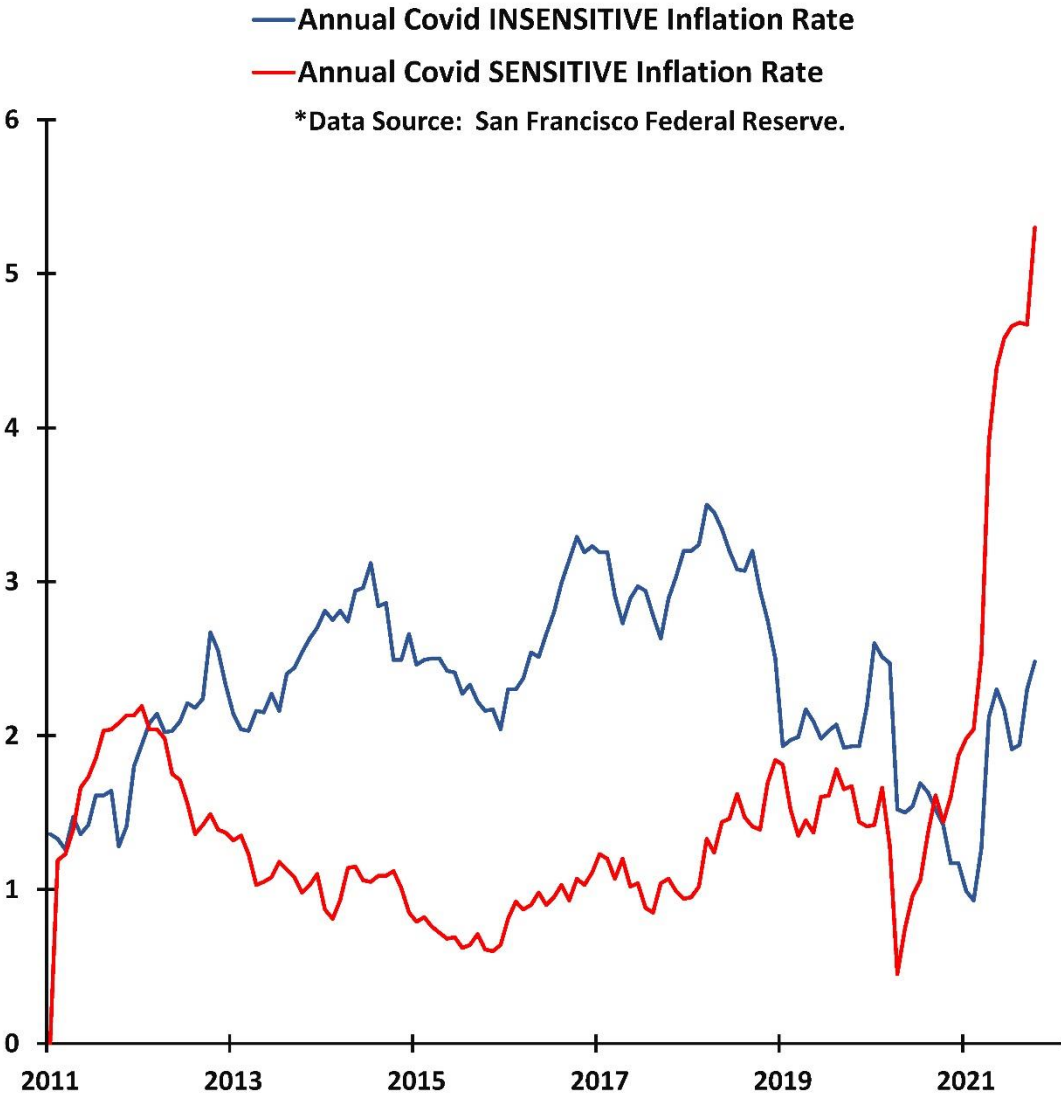


# TRANSITORY INFLATION?

## CORE Consumer Inflation Overall vs. Sticky Core\*

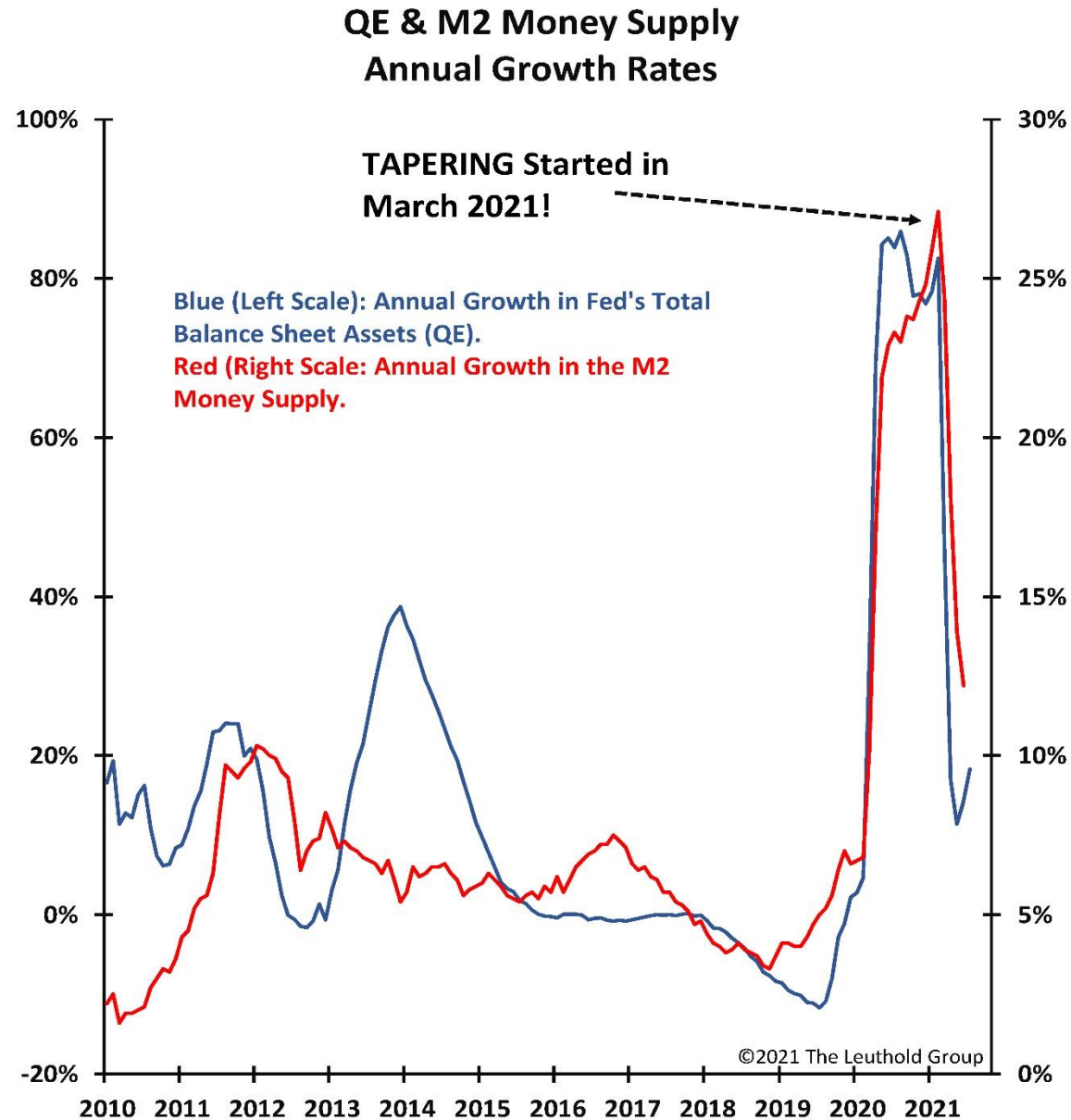


## Consumer Inflation COVID Sensitive vs. Insensitive\*

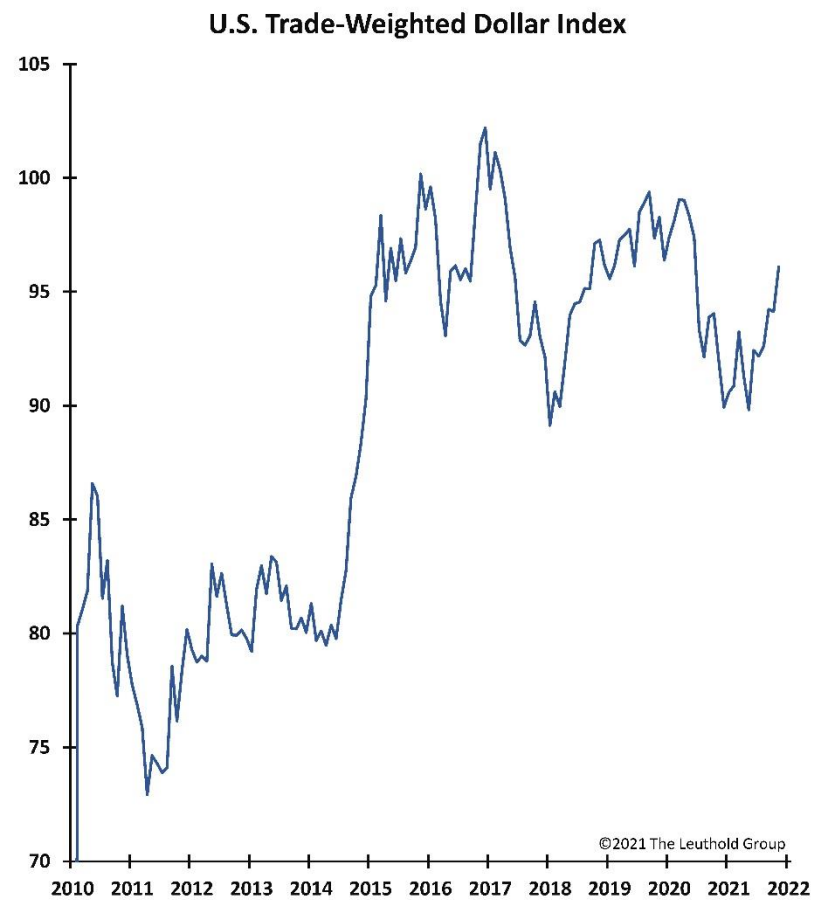
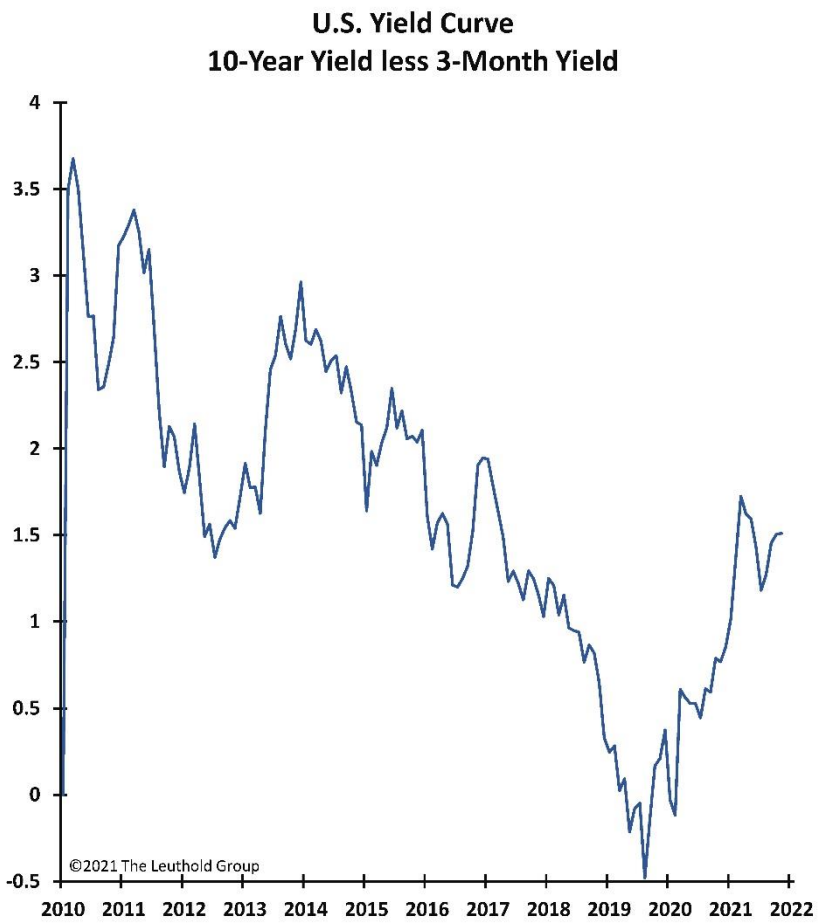
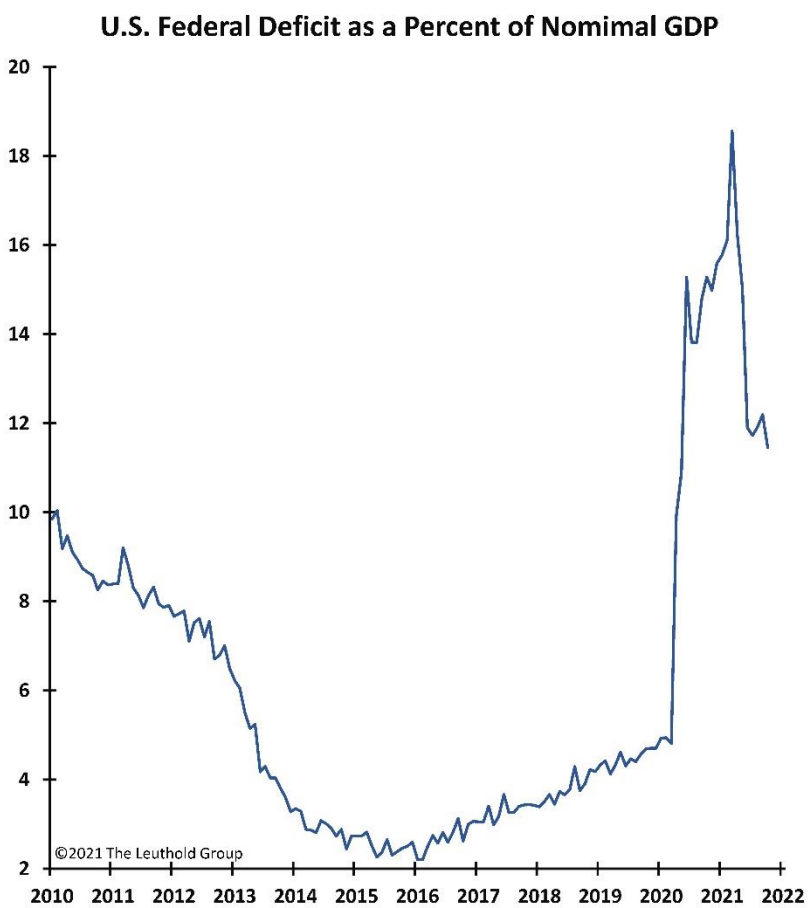




# Policy Support for Transitory Inflation?



# More Policy Support for Transitory Inflation?



# Should Hotter Inflation be FEARED or EMBRACED?



# U.S. has had numerous historic inflation spikes!

## U.S. Inflation Rate & Treasury Bond Yield\*

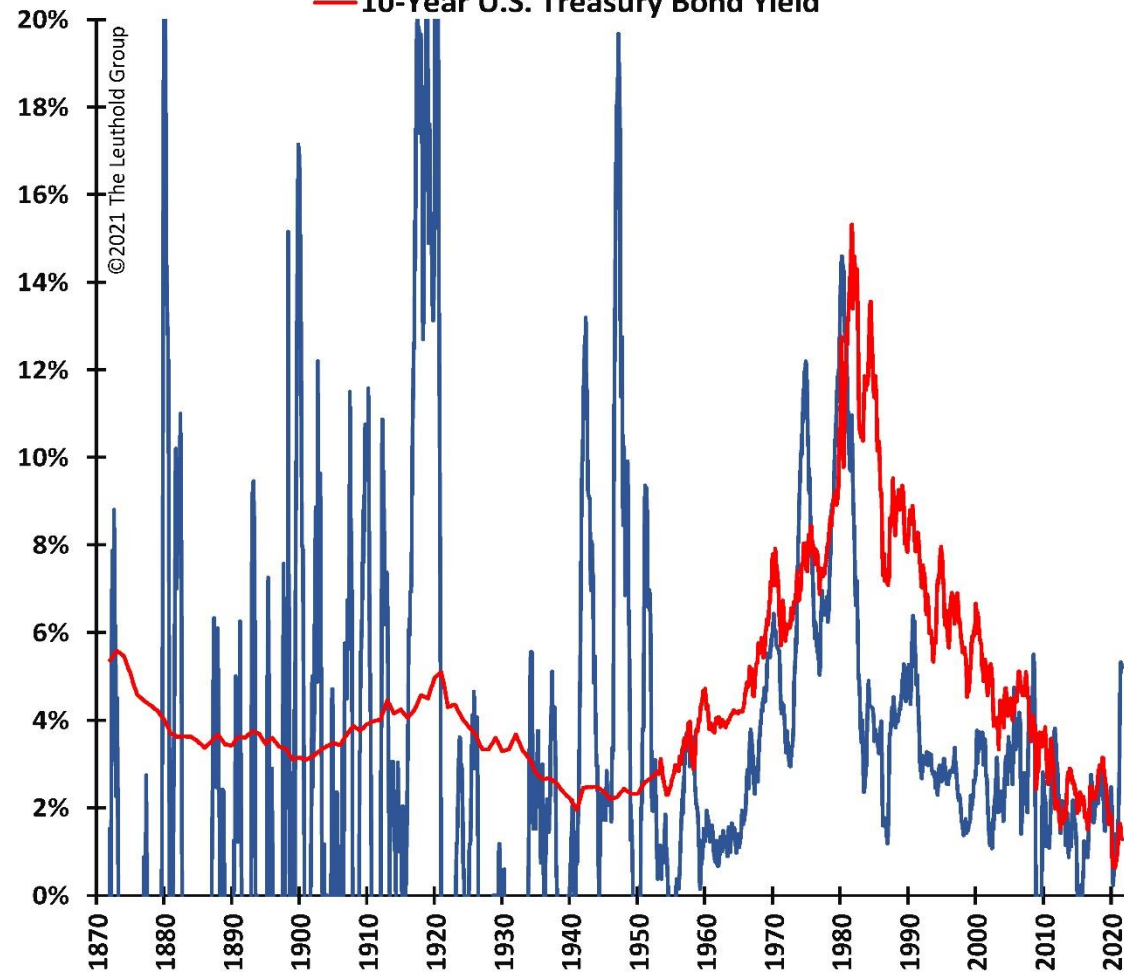
1870 to 2021

\* Annual Inflation Rate is truncated at zero.

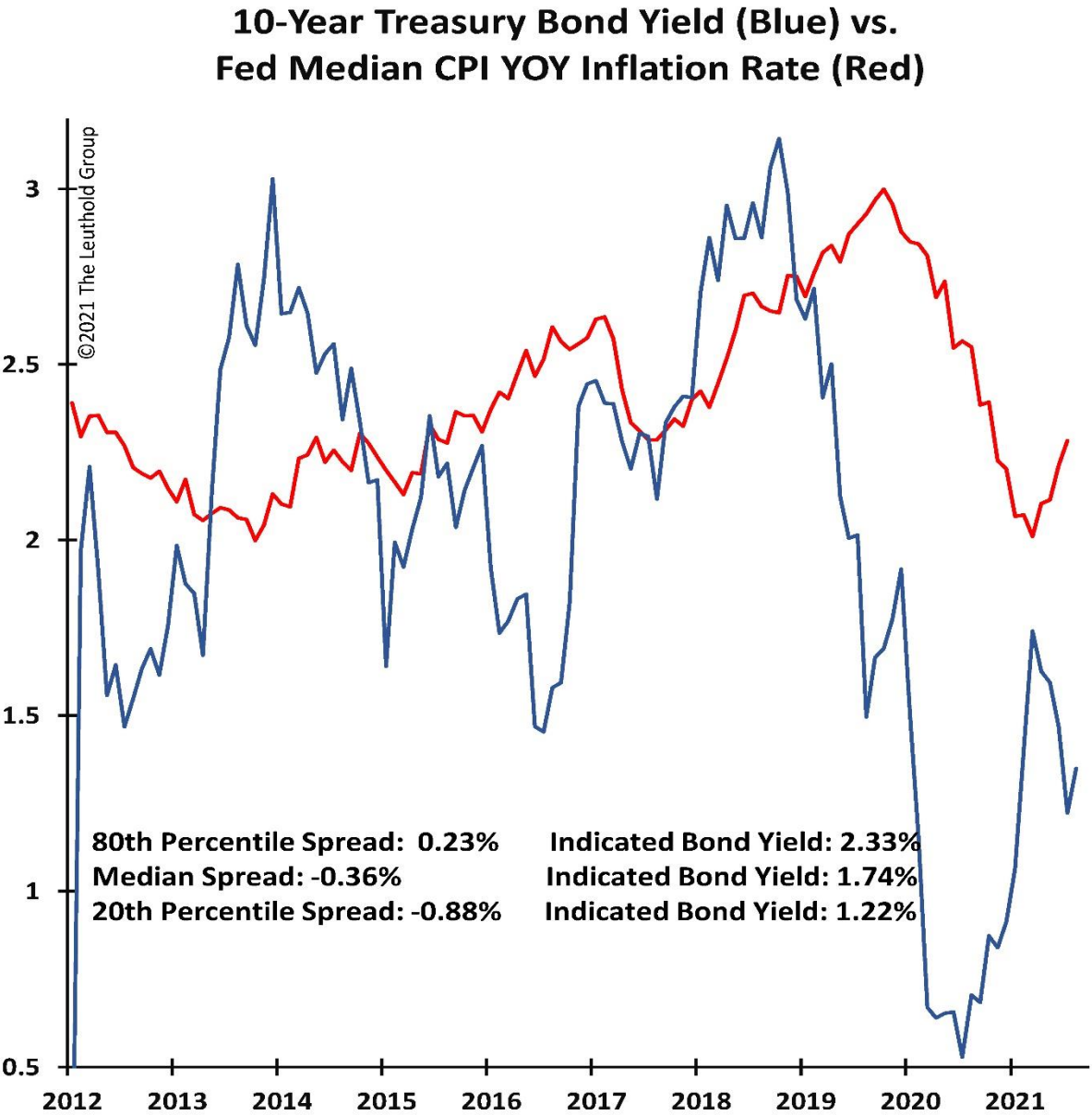
That is, annual deflations are not shown.

— Annual Consumer Price Inflation Rate

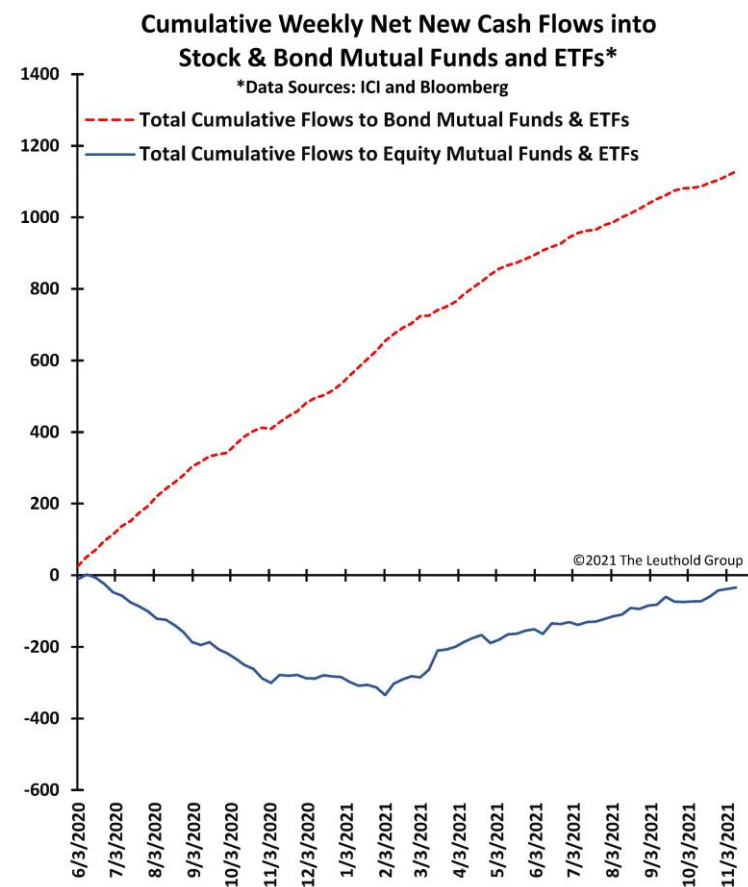
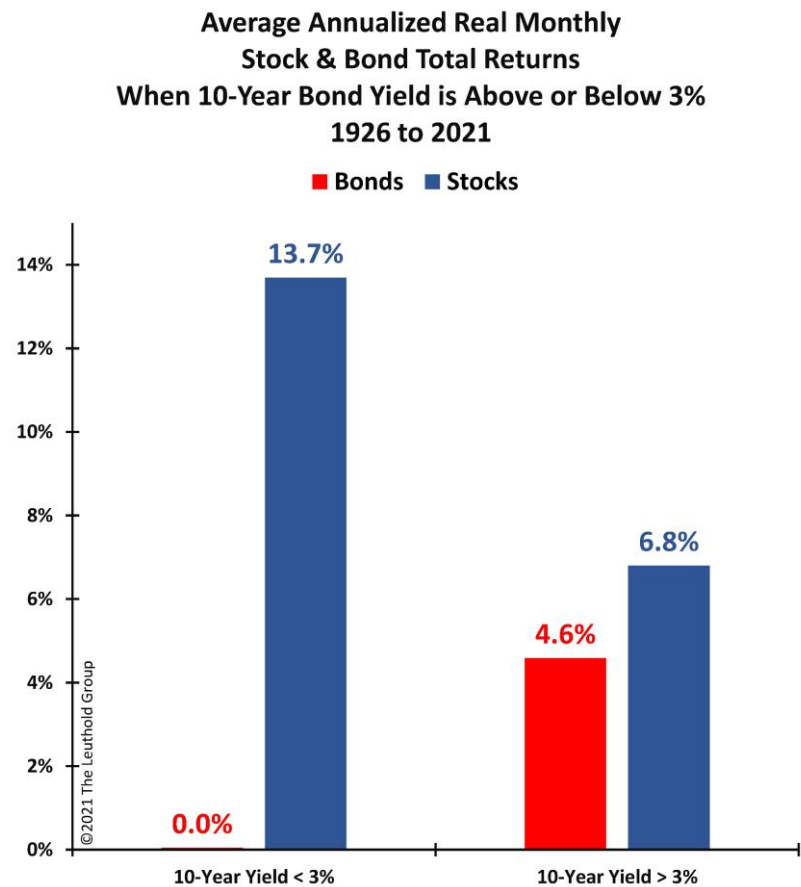
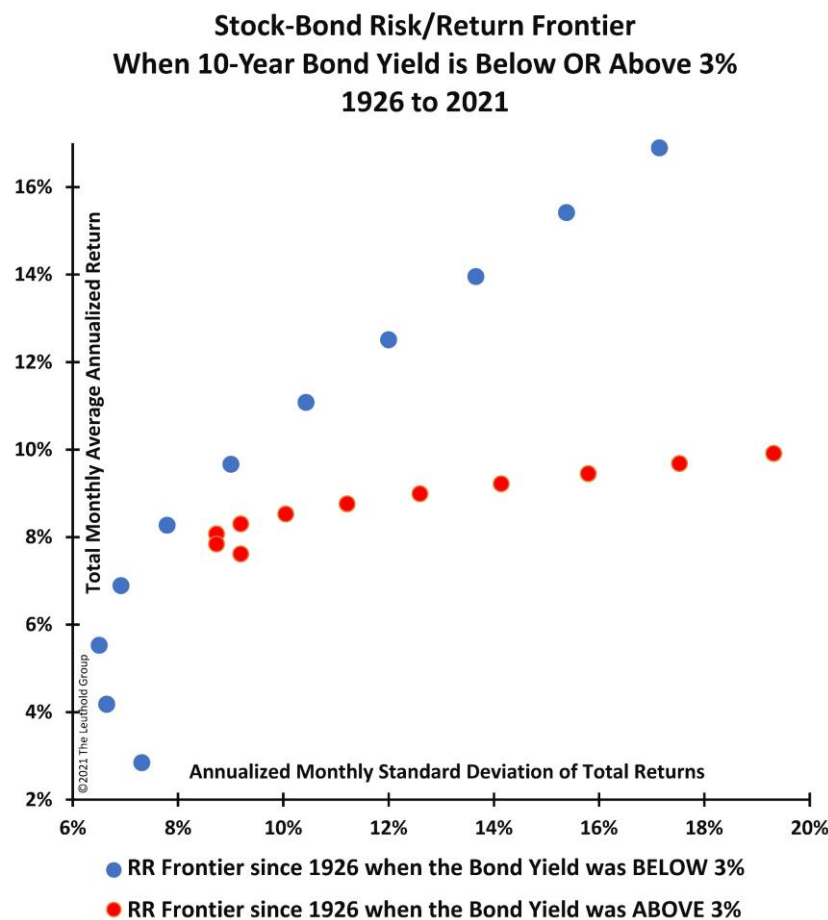
— 10-Year U.S. Treasury Bond Yield



# Yields “Out of Whack” ??



# BONDS ARE BAD!



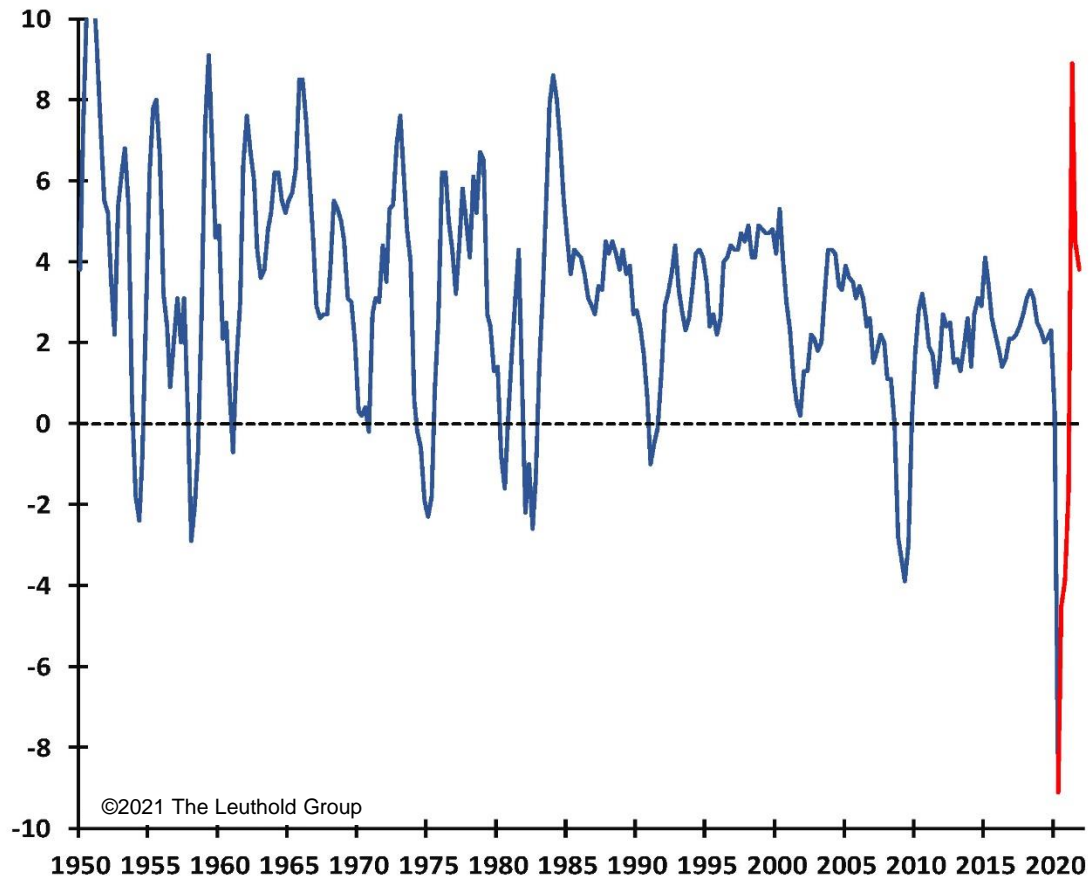


# Correction Forces?

- Higher Yields
- Overheat Which Scares
- Policy Tightening
- Optimism/Confidence
- We Are Overdue

# BIGGEST Bust-Boom Cycle of Post-War era!!?

**Annual U.S. Real GDP Growth  
& Current Consensus Forecast  
1950 to 2021**

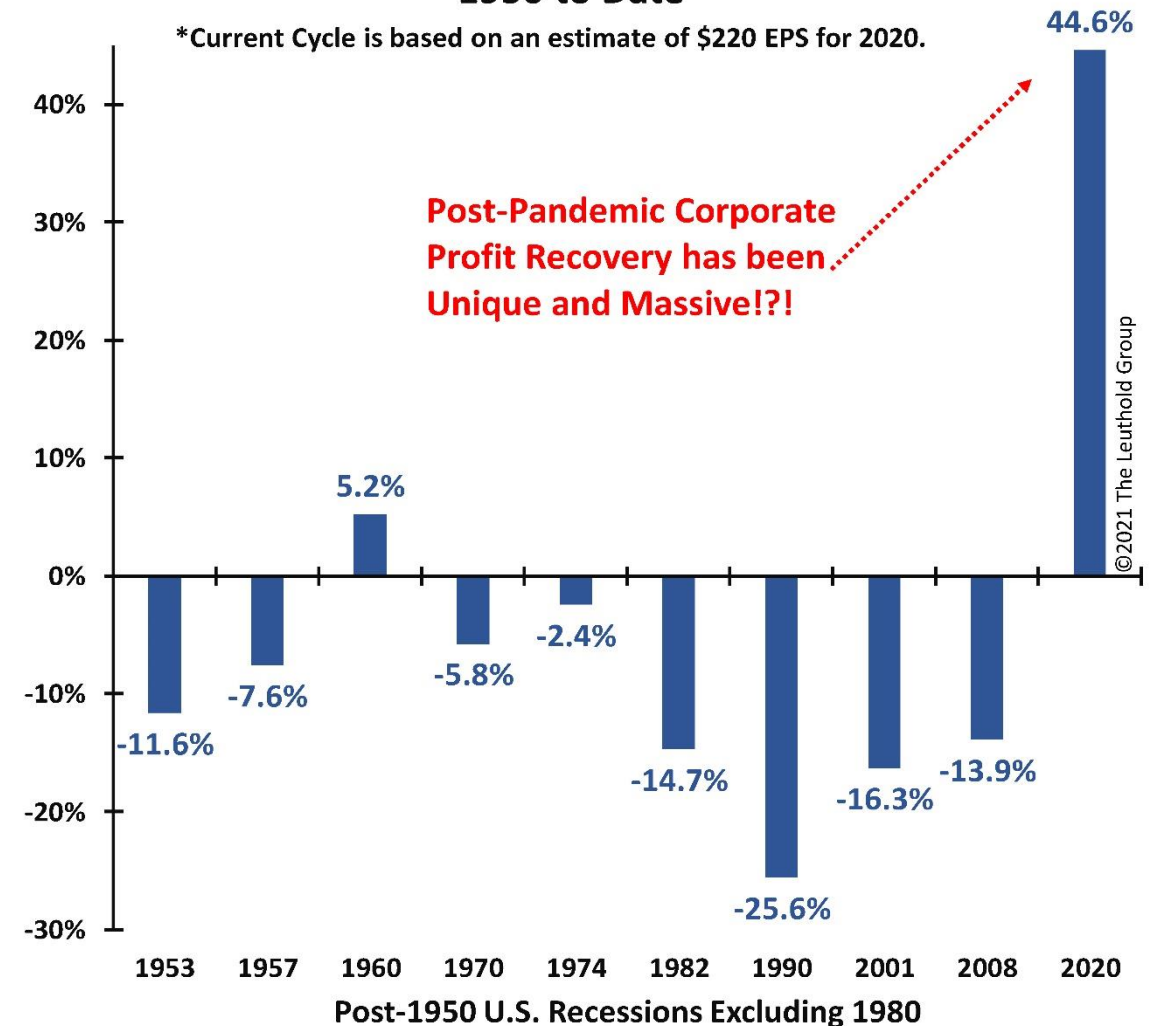


Blue: U.S. Annual Real GDP Growth

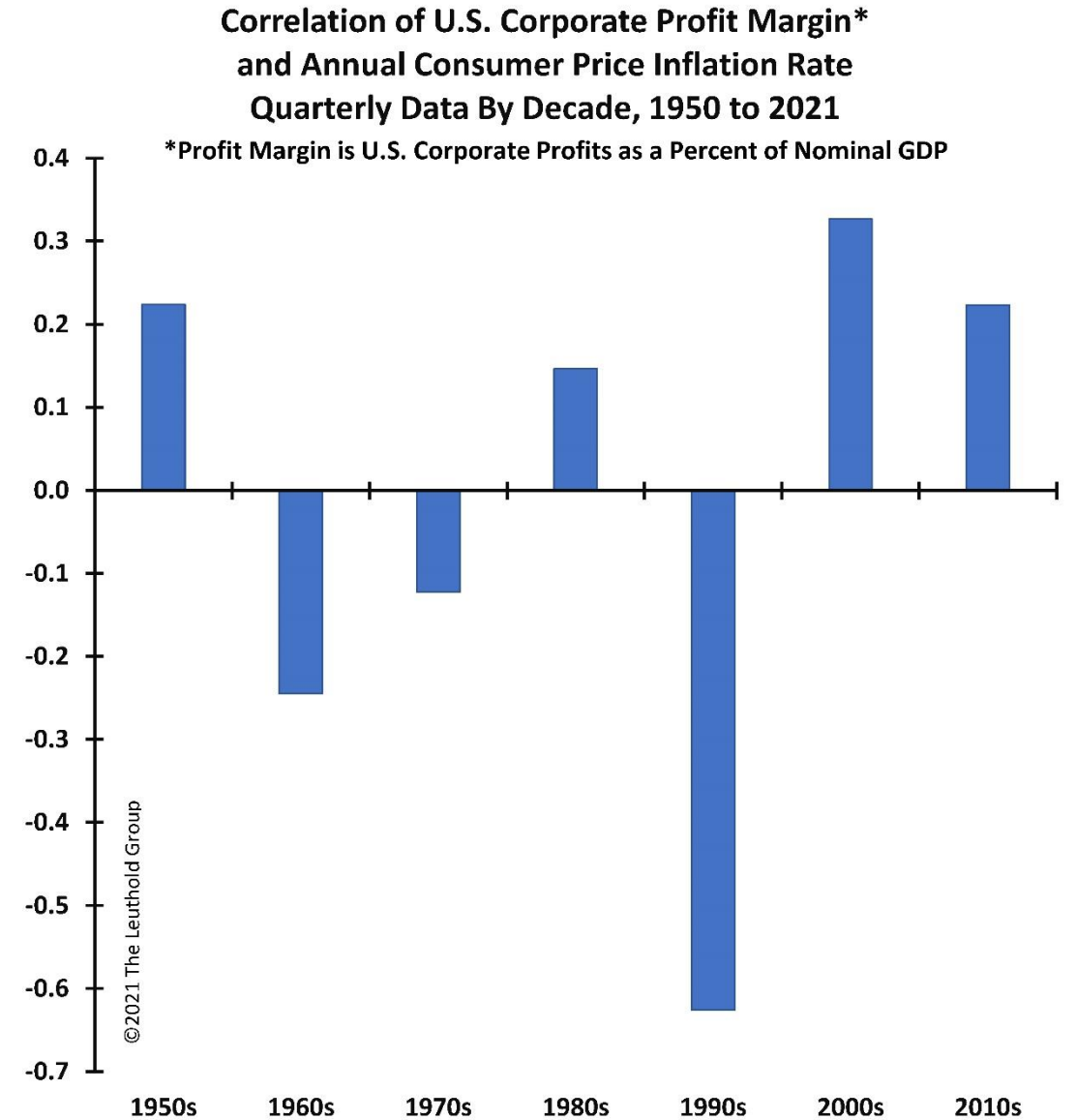
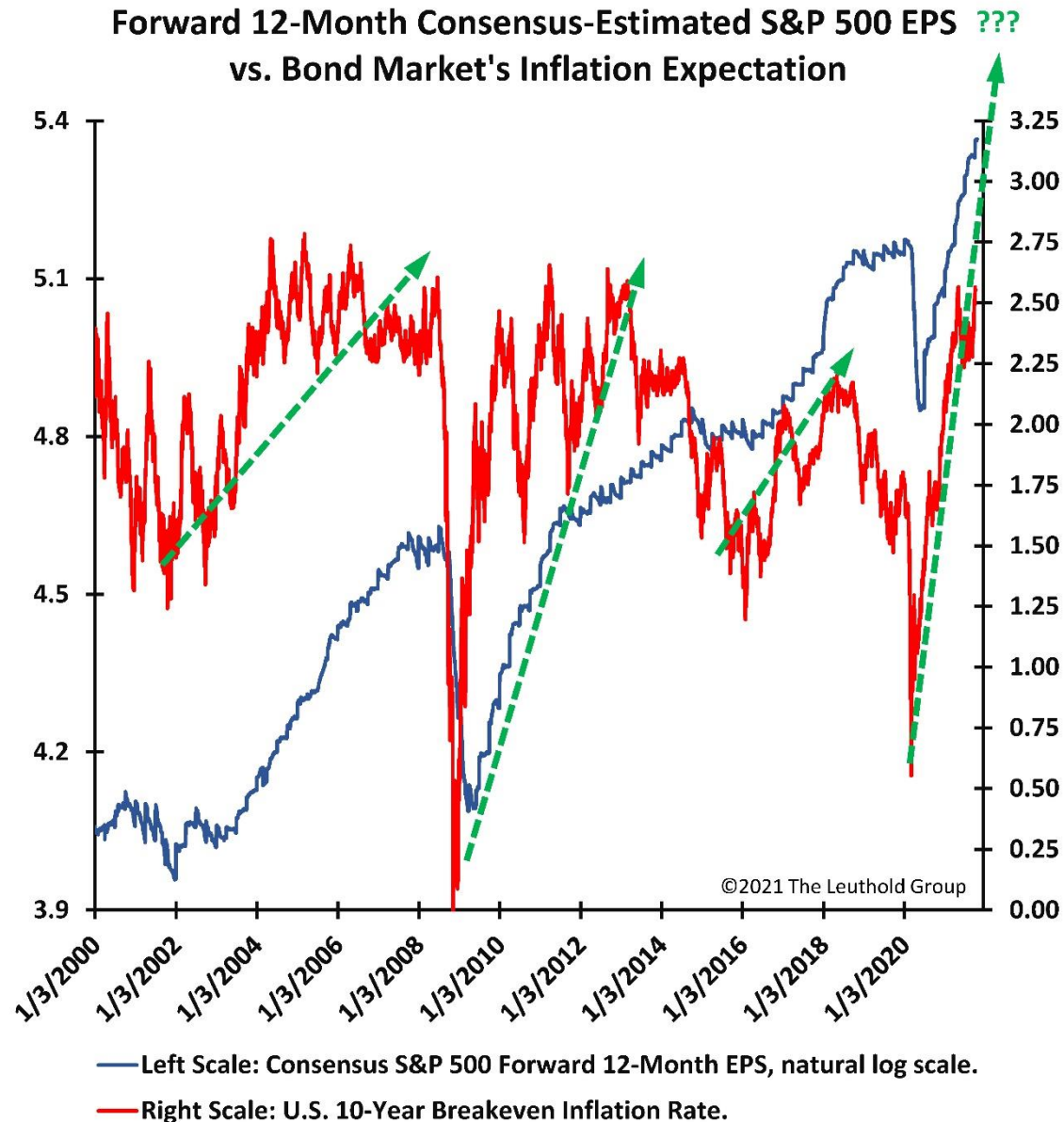
Red: Current Consensus Forecast of Private Sector Economists (Source Bloomberg)

**S&P 500 Trailing 12-Month EPS  
Percent Change from 1-Year After Recession Low  
Compared to Previous Recovery Cycle Peak EPS  
1950 to Date\***

\*Current Cycle is based on an estimate of \$220 EPS for 2020.



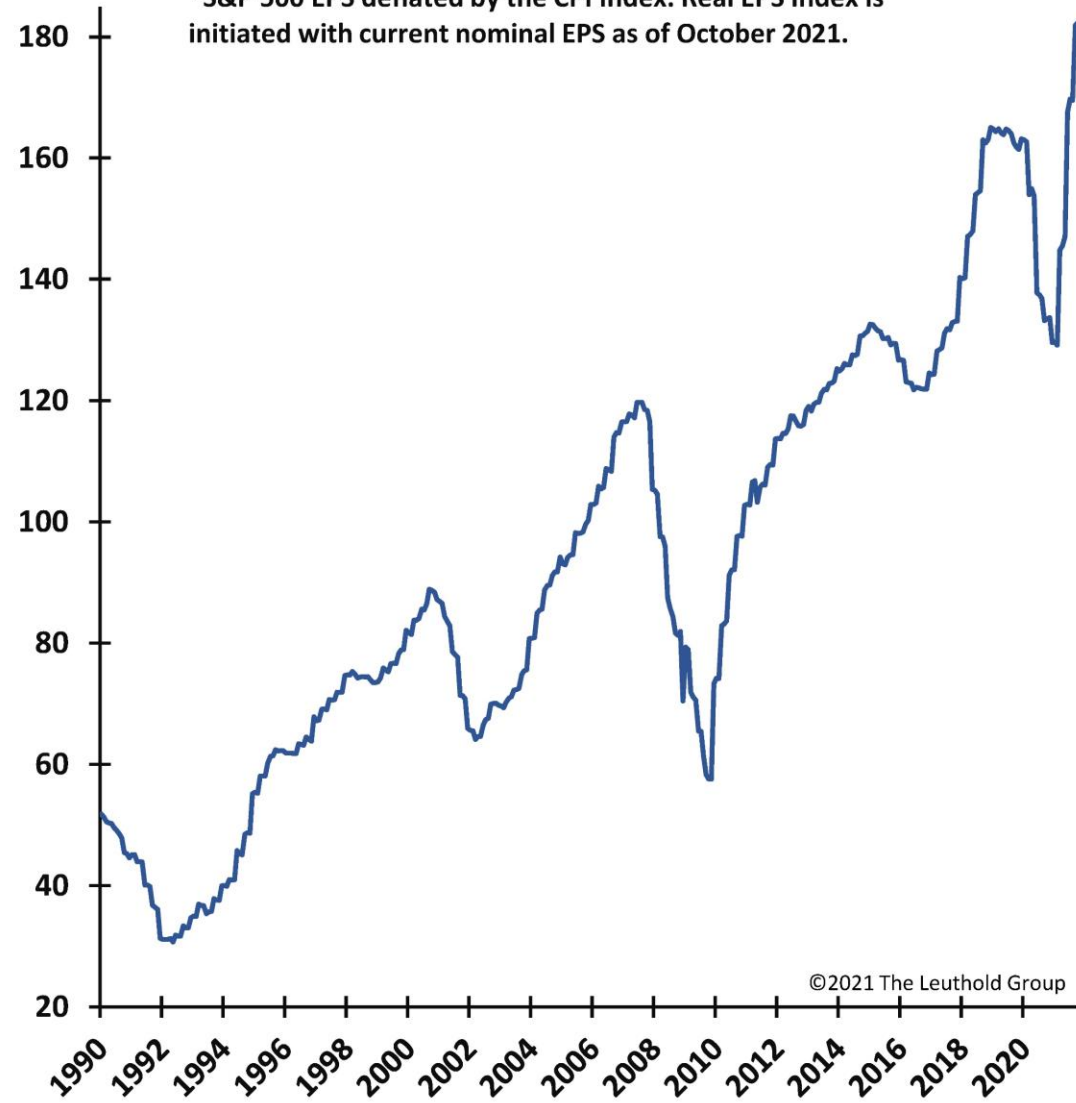
# BIGGEST Bust-Boom Cycle of Post-War era!!?



# Will Real EPS RISE This Year?

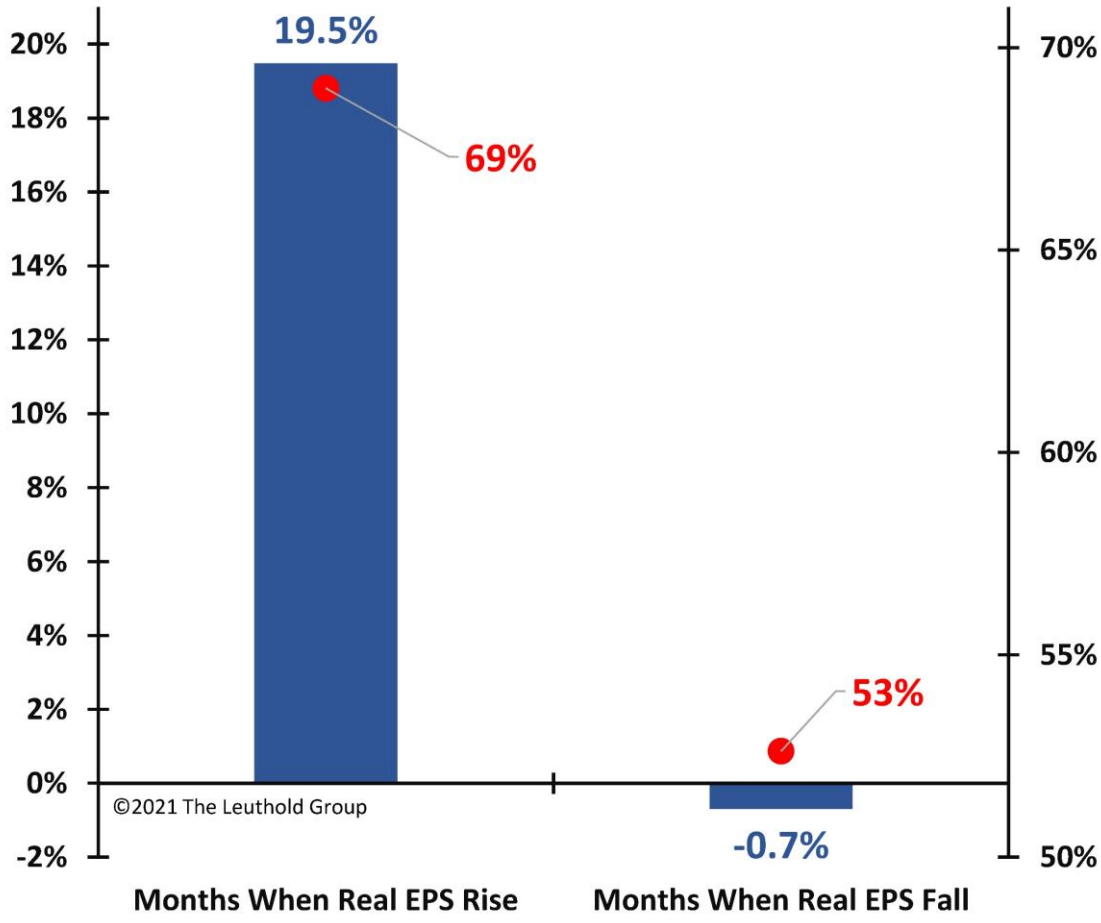
## S&P 500 Index Trailing 12-Month REAL Earnings Per Share\*

\*S&P 500 EPS deflated by the CPI Index. Real EPS Index is initiated with current nominal EPS as of October 2021.

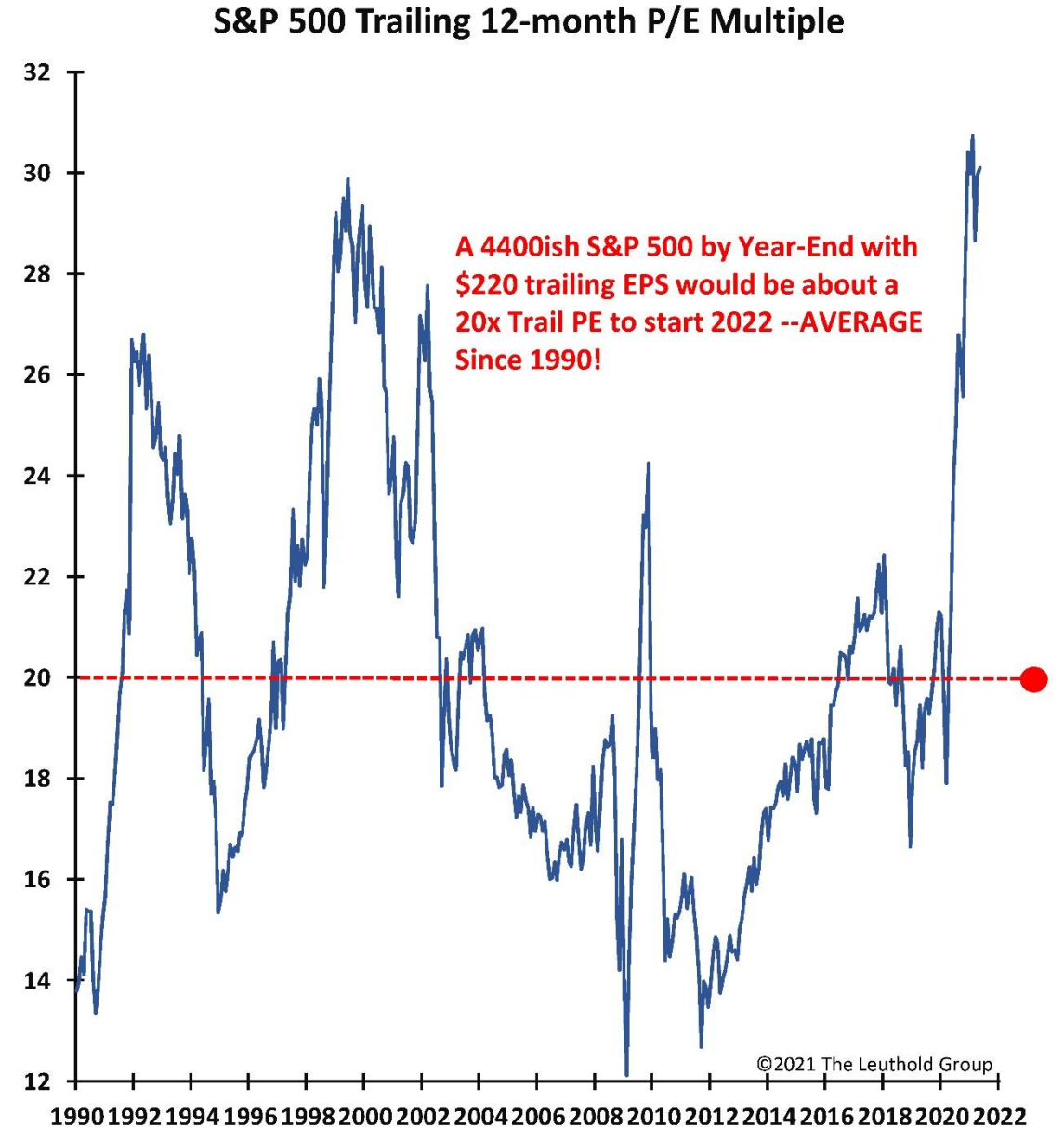
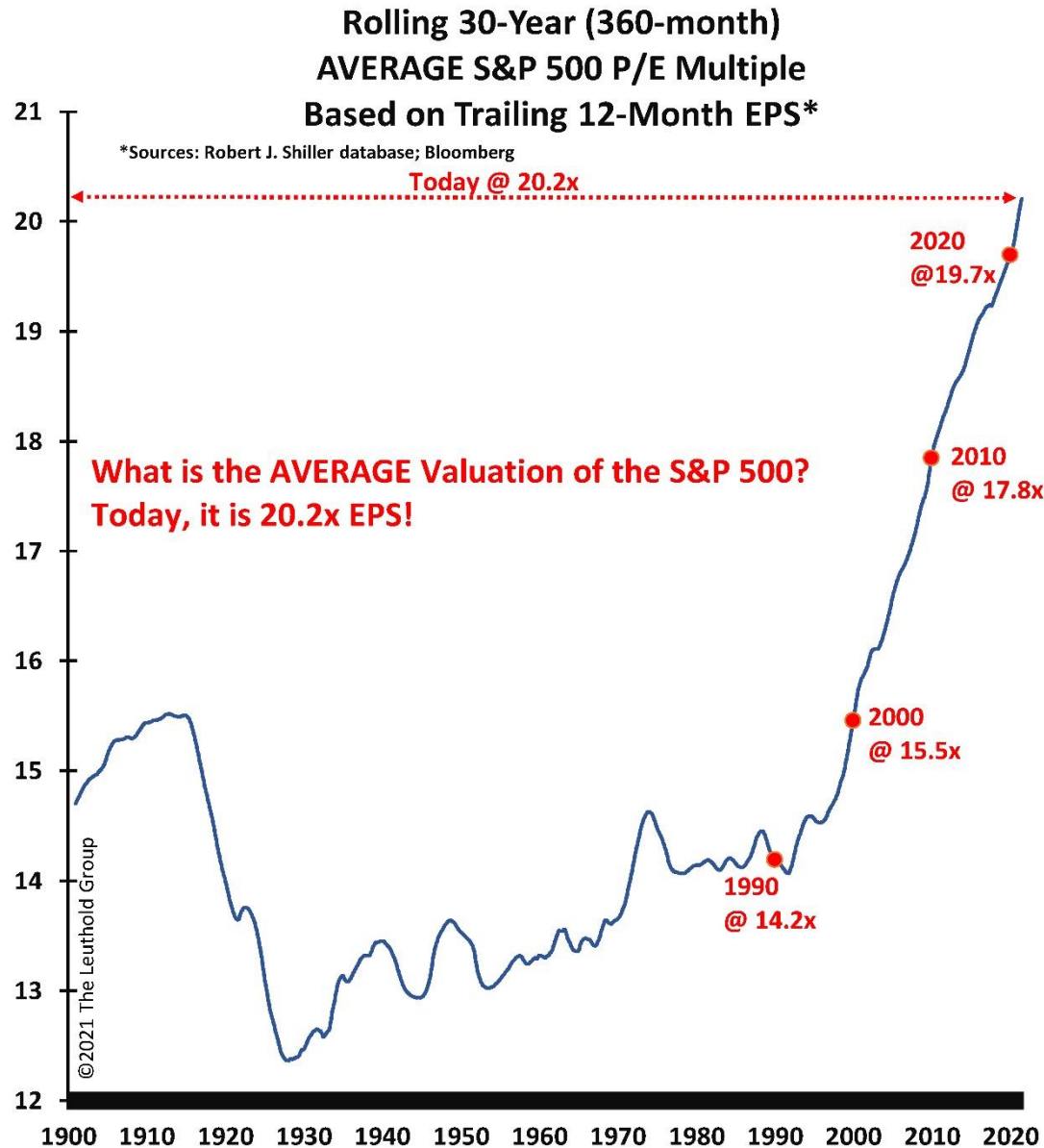


## Average Annualized Monthly Percentage S&P 500 Price Change for all months when Real EPS Rose or Fell, 1950 to 2021

- Blue Bars (left): Average annualized % Rise or Fall in S&P 500
- Red Dots (right): Frequency of monthly S&P 500 Gains

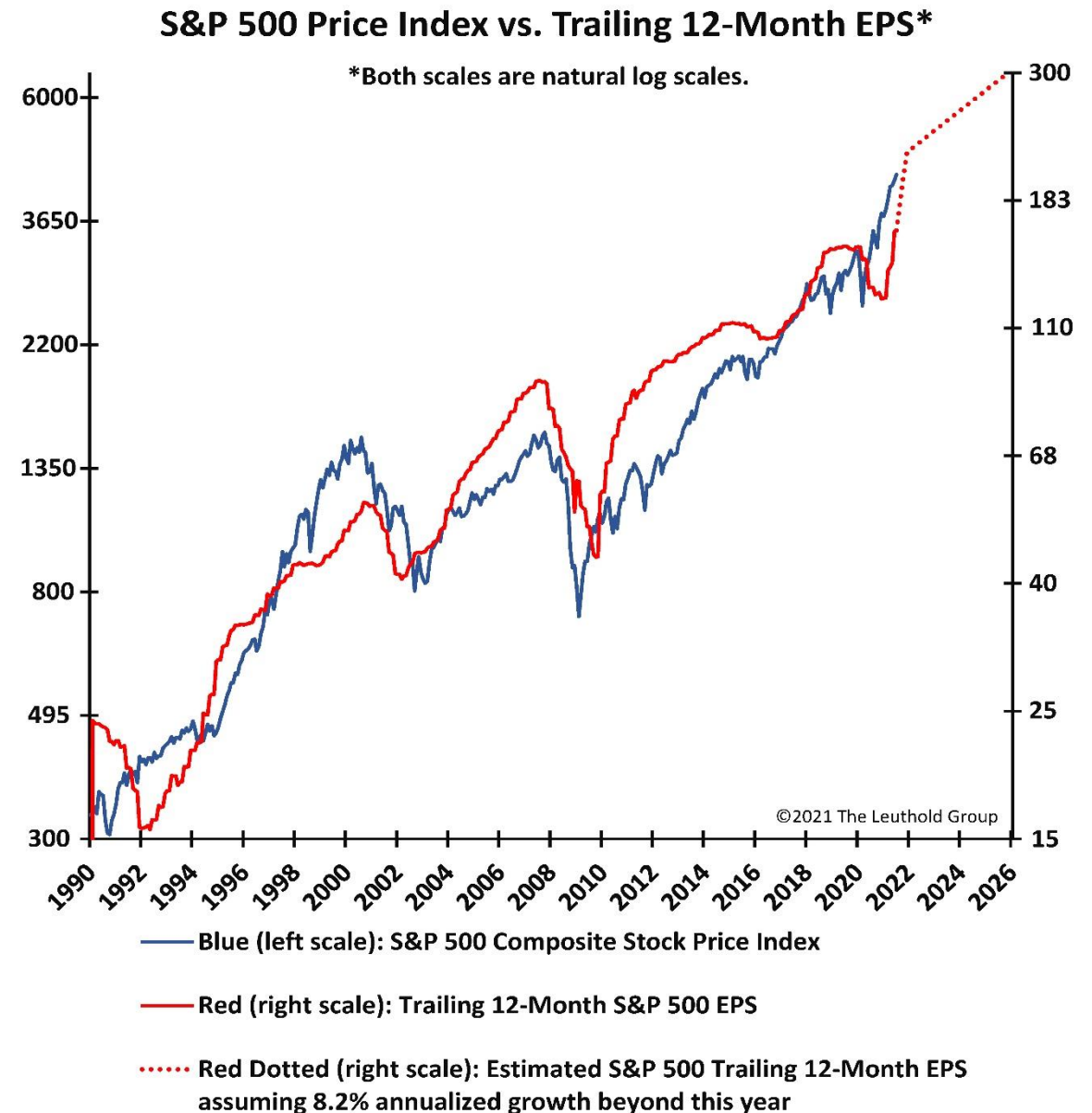
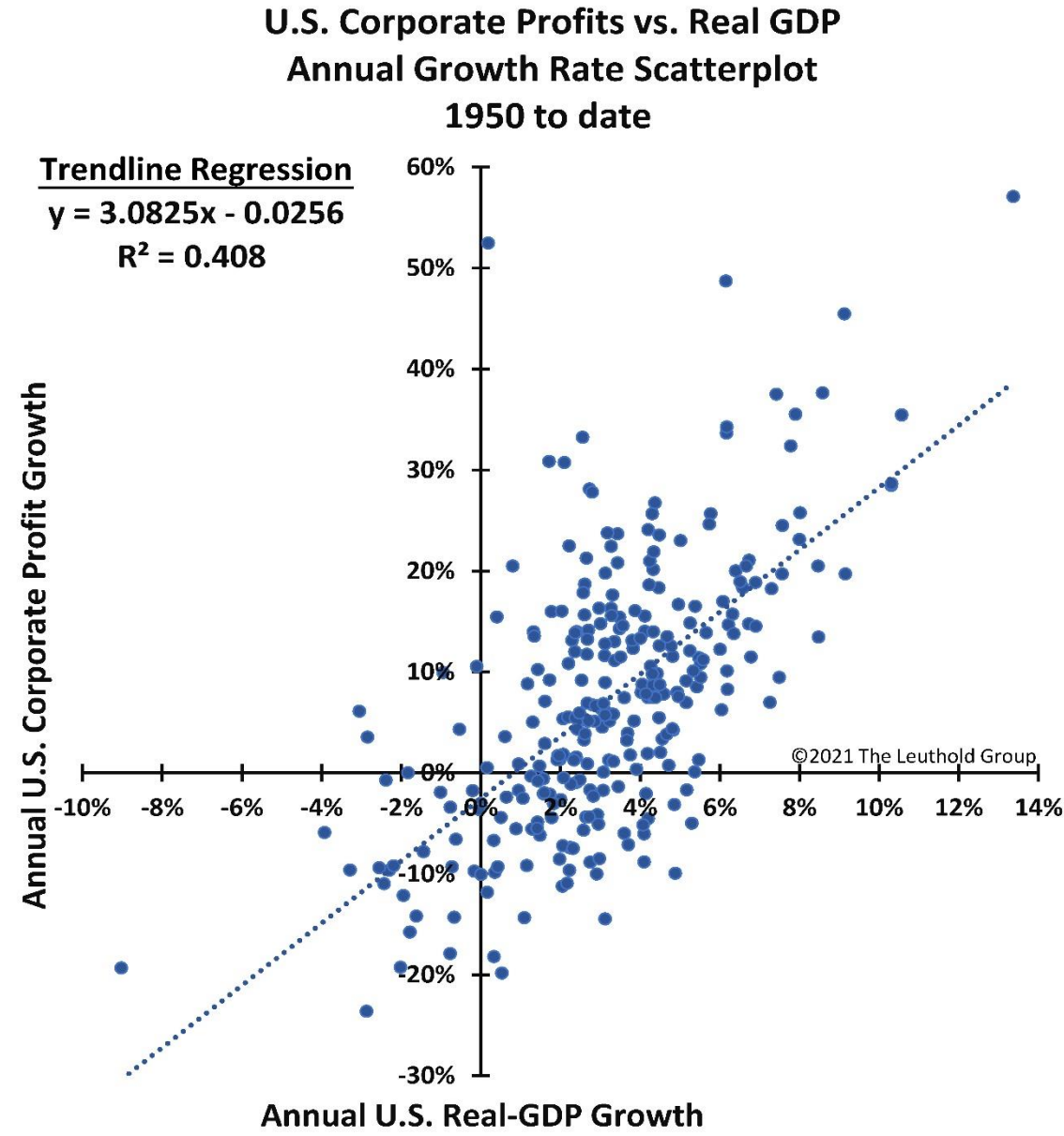


# What About Valuations?





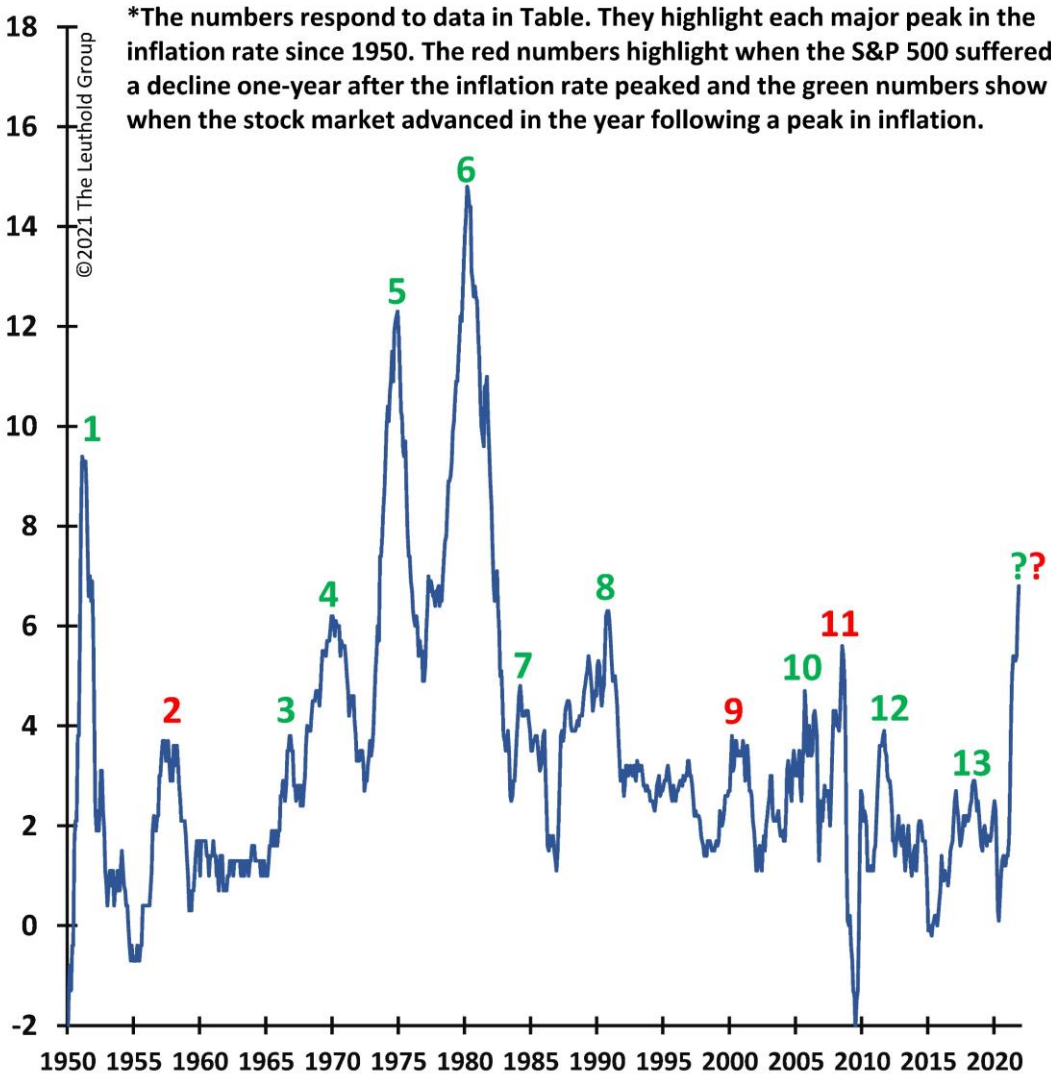
# Where Could EPS Drive the S&P 500?





# Inflation Peaks & Stock MARKET?

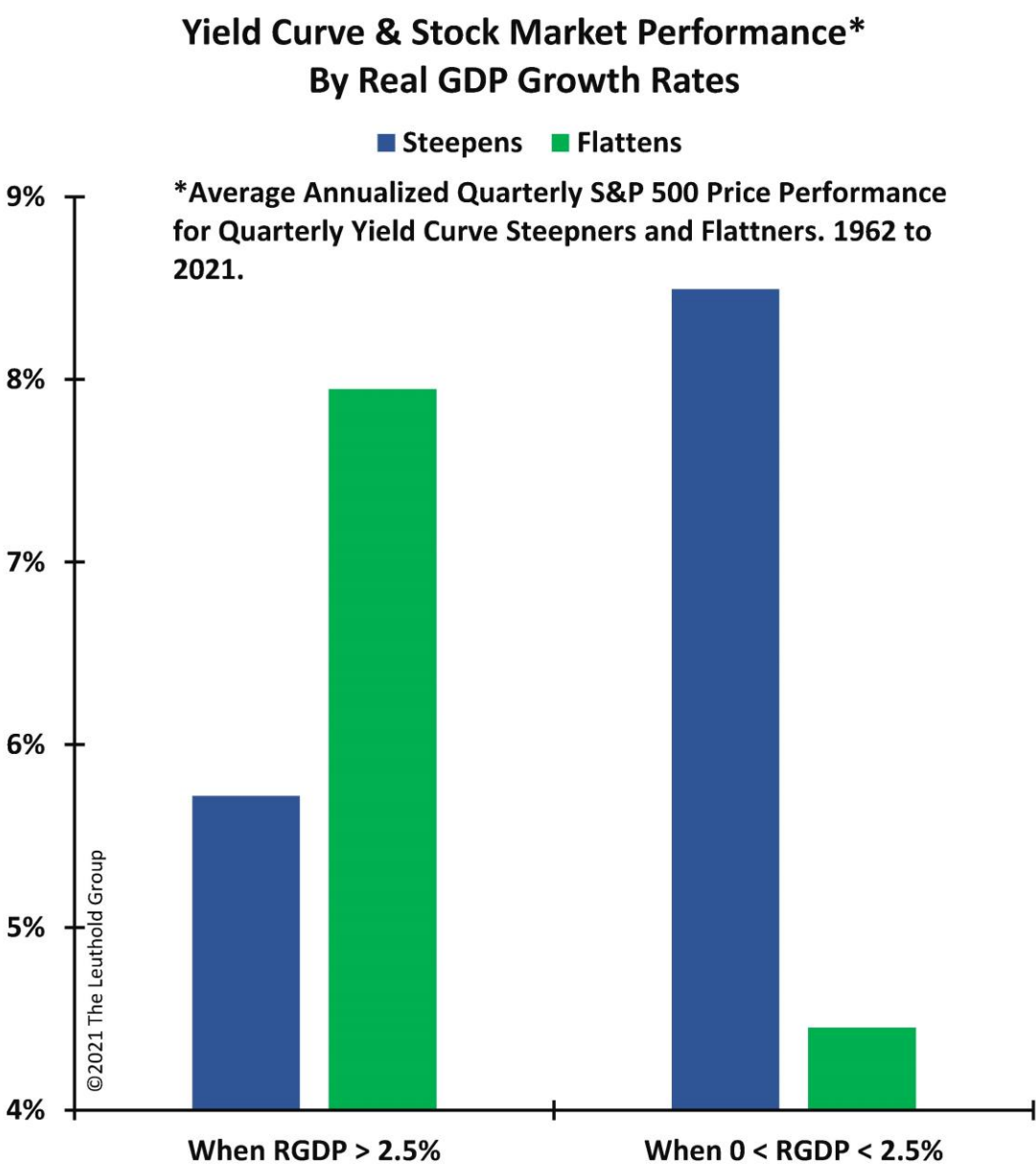
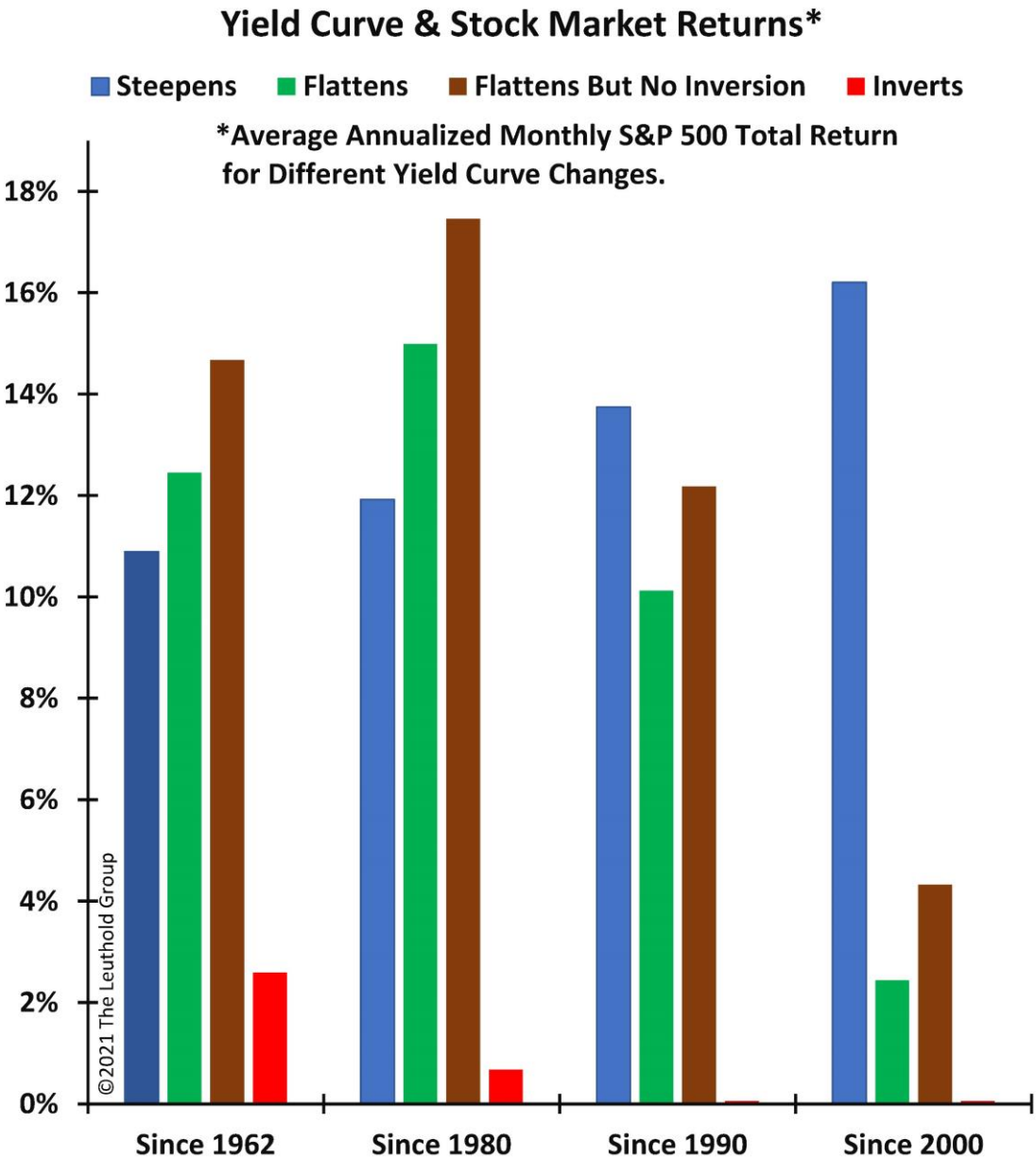
Annual Consumer Price Inflation Rate  
1950 to 2021



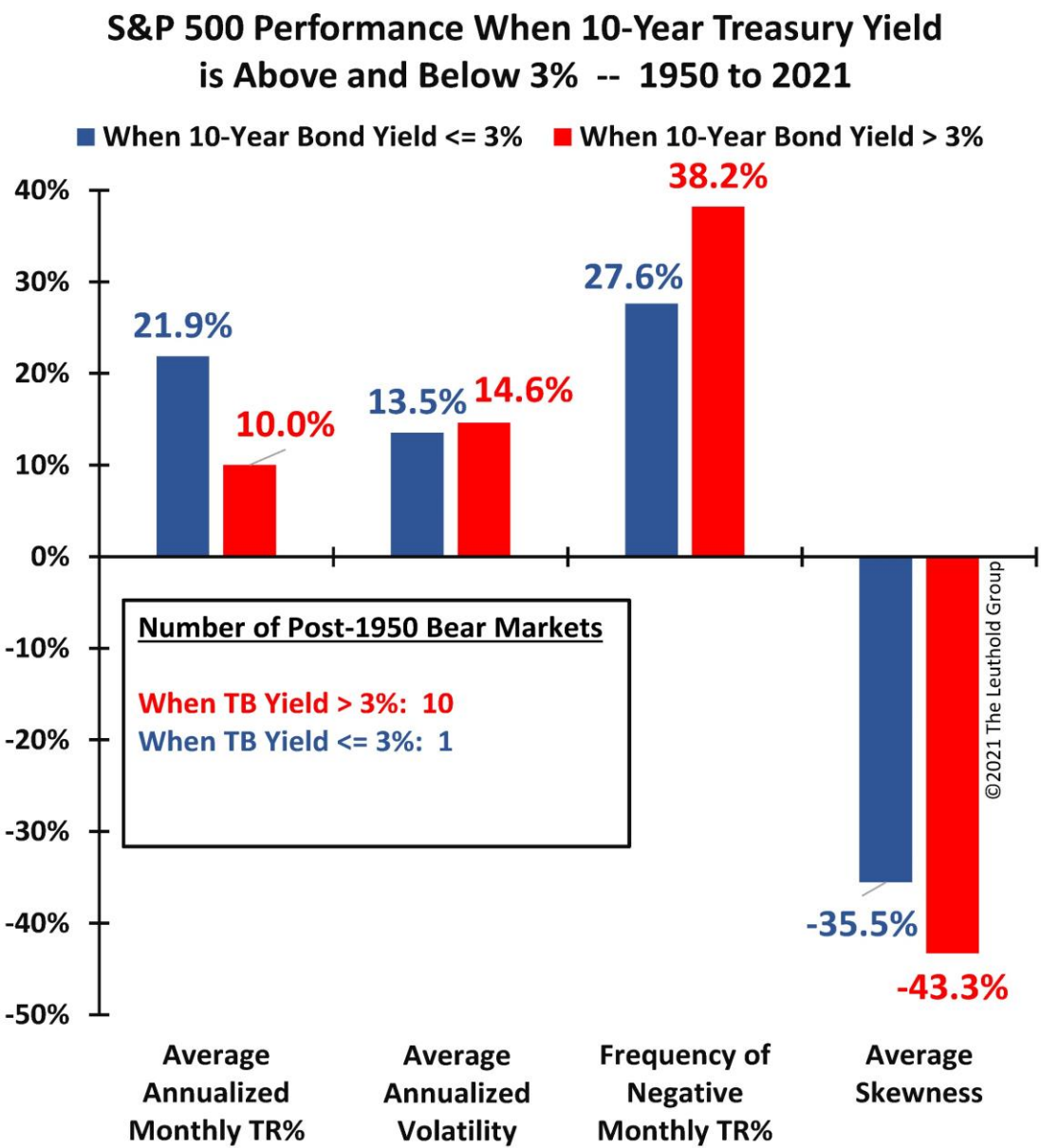
Significant Inflation Peaks  
and the Stock Market  
1950 to 2021

	CPI Inflation Peaks	One-Year-Forward S&P 500 TR Percent
1	February 1951	+13.58
2	May 1957	-3.23
3	November 1966	+20.66
4	January 1970	+17.07
5	December 1974	+37.20
6	March 1980	+39.86
7	March 1984	+18.90
8	November 1990	+20.37
9	March 2000	-21.68
10	September 2005	+10.79
11	July 2008	-19.96
12	September 2011	+30.20
13	July 2018	+7.99
14	November 20, 2021	???
	AVERAGE	+13.21%

# Yield Curve & Stock MARKET?

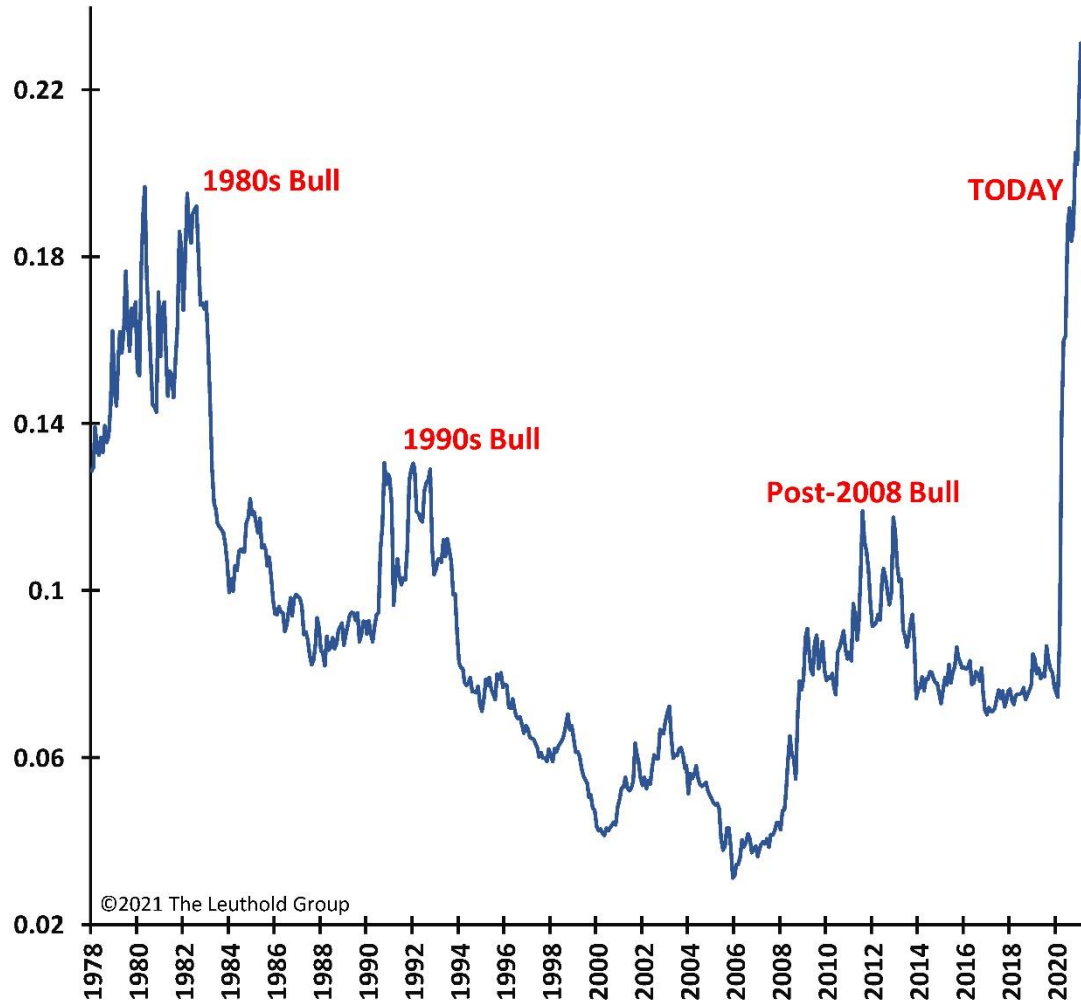


# YIELDS... A GIFT For Investors!!

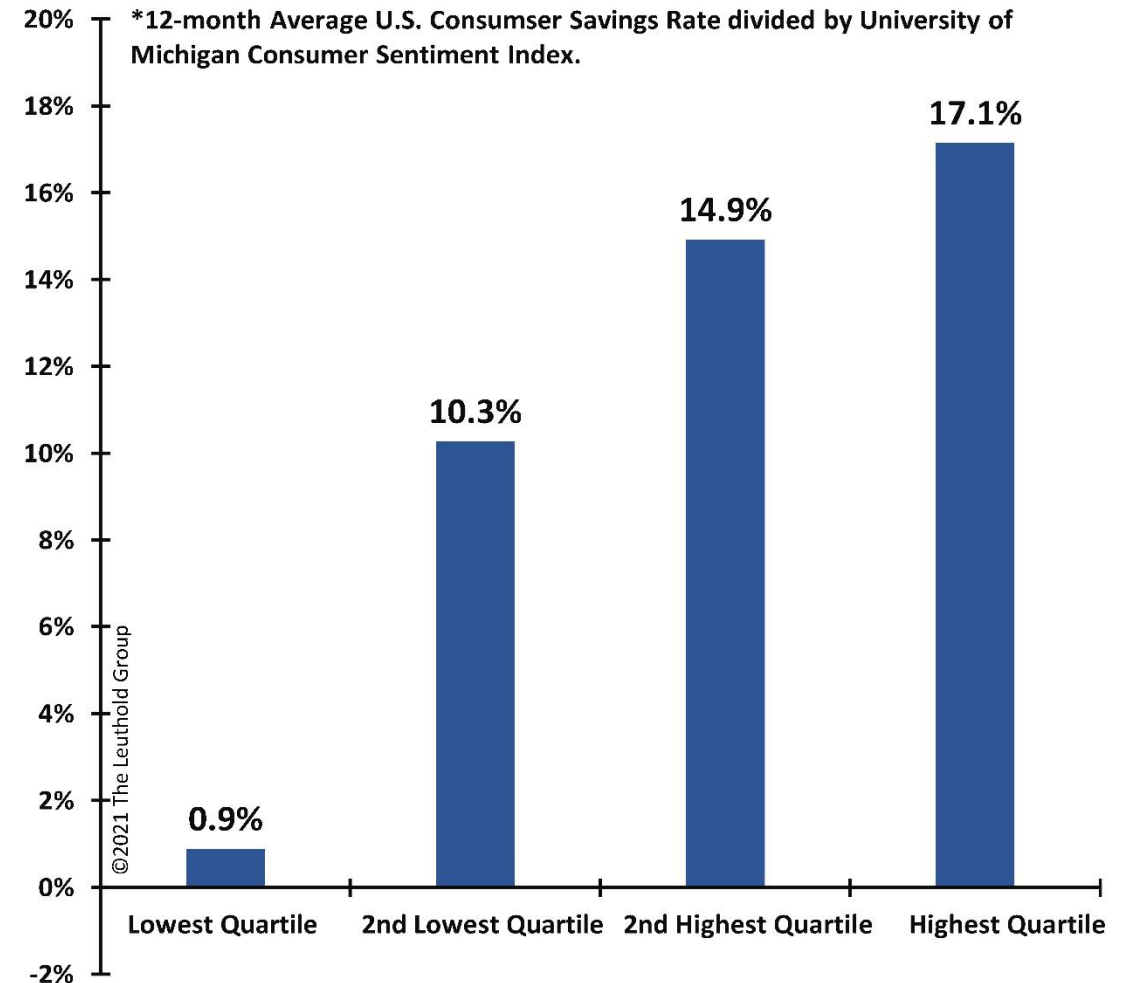


# SCARED And LOADED... FOMO or FOBI?

Average U.S. Consumer Personal Savings Rate in the last 12 months divided by the University of Michigan Consumer Sentiment Index

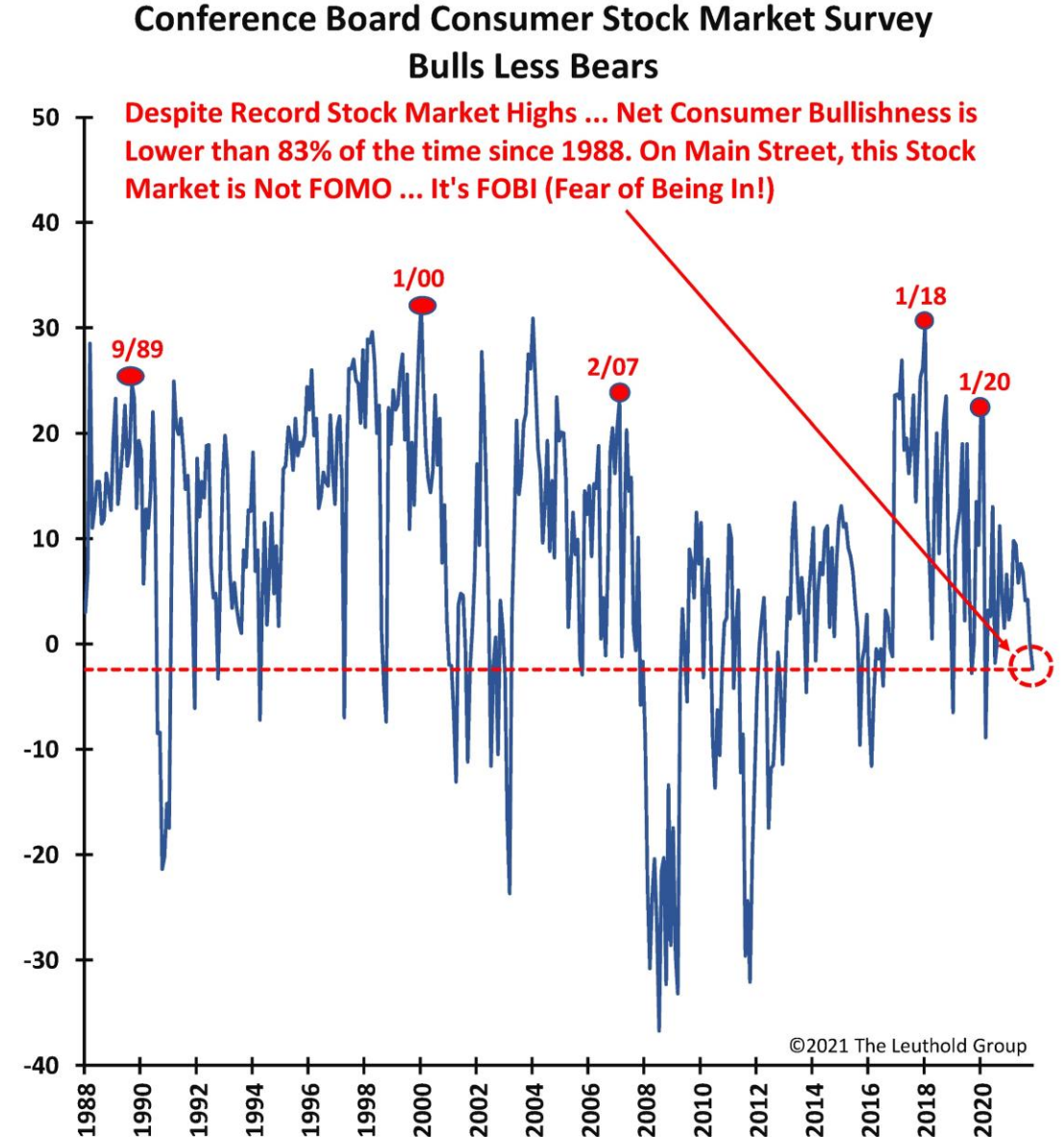


Average Annualized Forward 3-Month S&P 500 Price Performance By Savings Rate/Confidence Ratio Quartiles 1978 to 2021\*



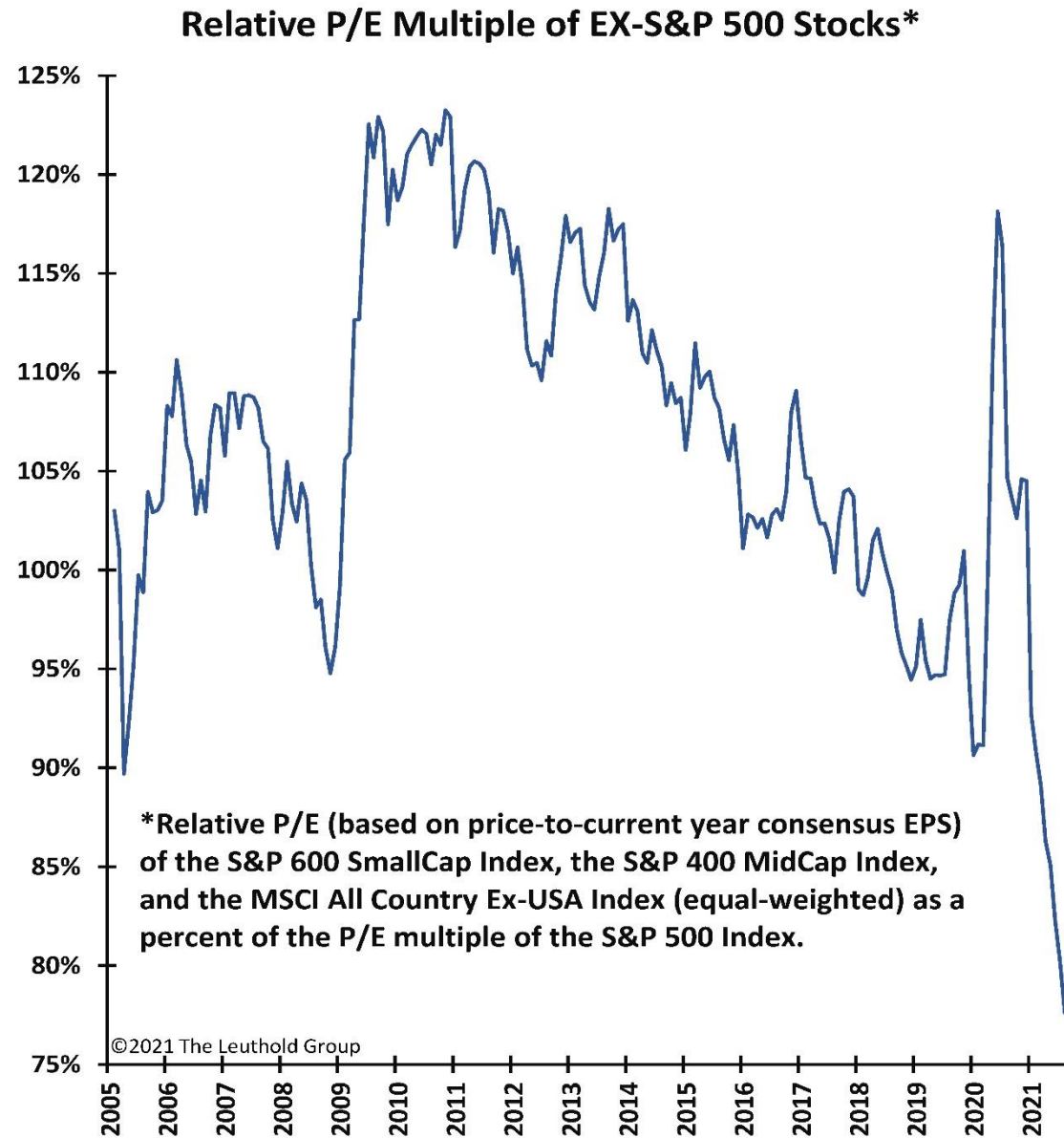
# A FOBI Financial Market?

- High Cash Holdings
- Flow to Bonds
- Bond Yields Stay Low
- Consumer Confidence is Low
- VIX Remains Elevated
- Gold/CRB Ratio Still Very High
- Safe-Haven Dollar Strong
- High Beta/Low Vol Investing Still Very Low
- Cyclical /Smalls/INTERNATIONAL Stocks Struggle
- LARGE CAP WINS
- NEW-ERA WINS





# Diversify Away from S&P 500?

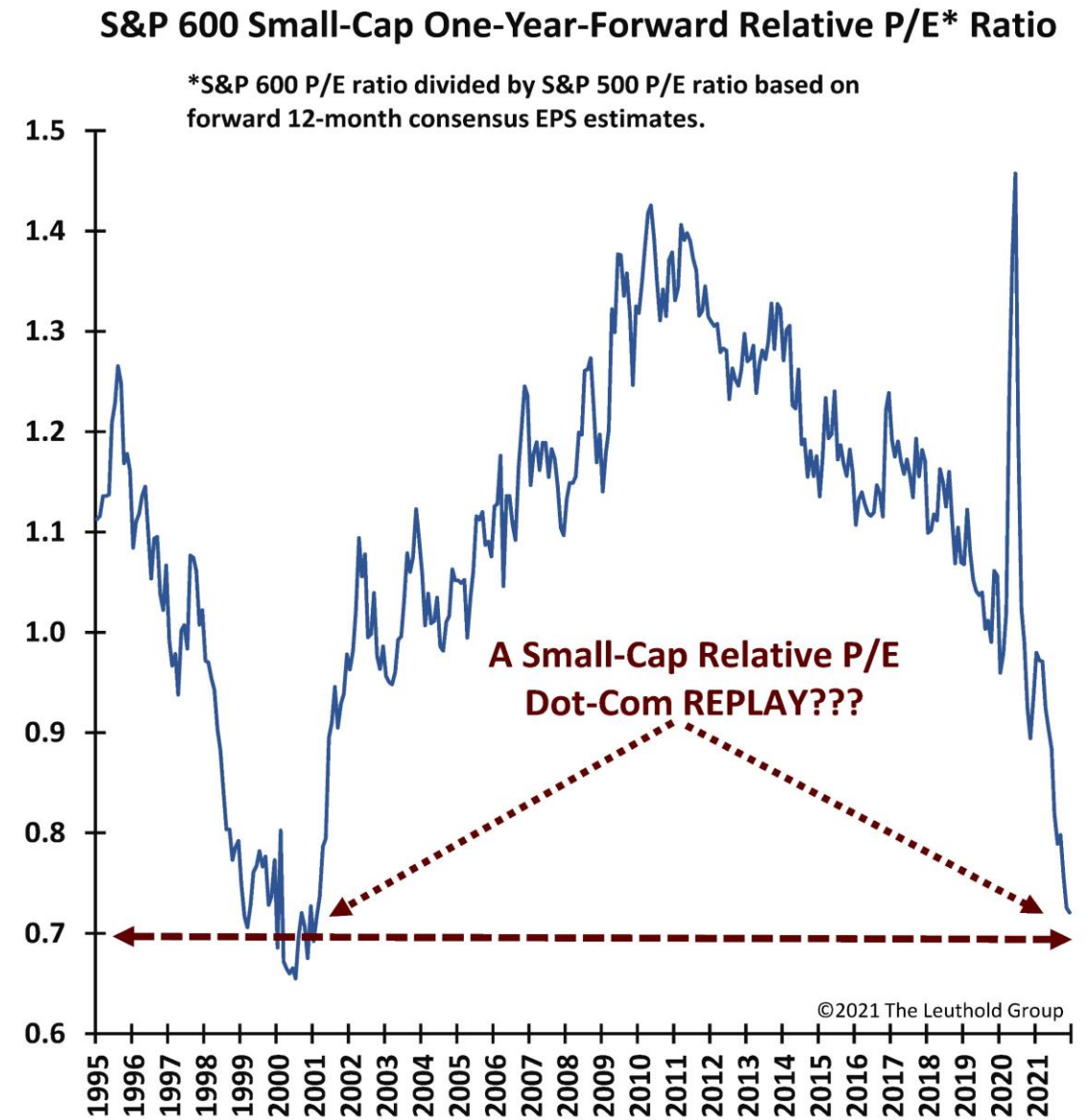
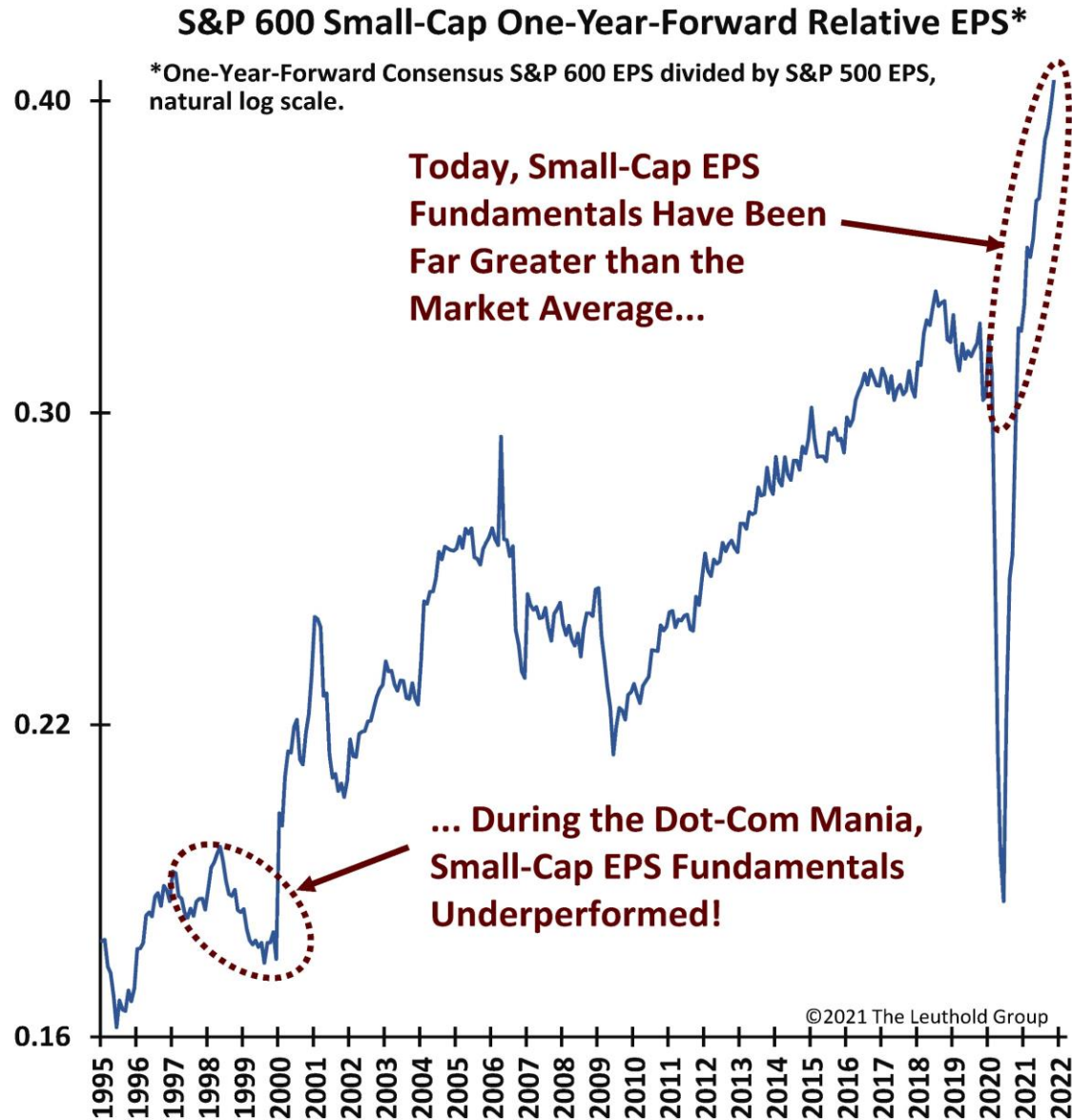




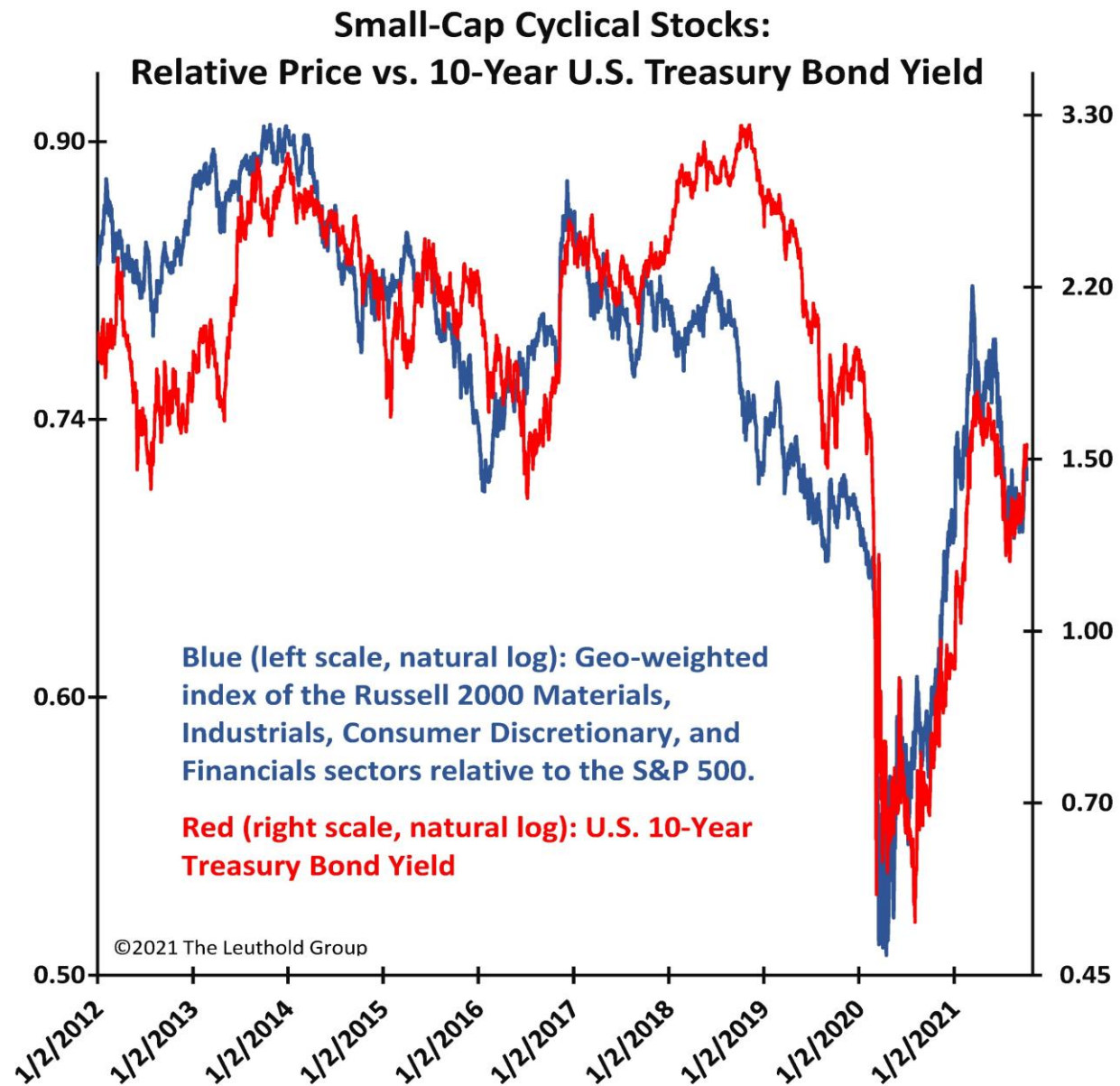
## 2022: Declare a DUAL VICTORY – Covid & Inflation?

- VC
- VI
- Moderating Real GDP Growth
- Moderating Inflation
- Fed Can Be Patient

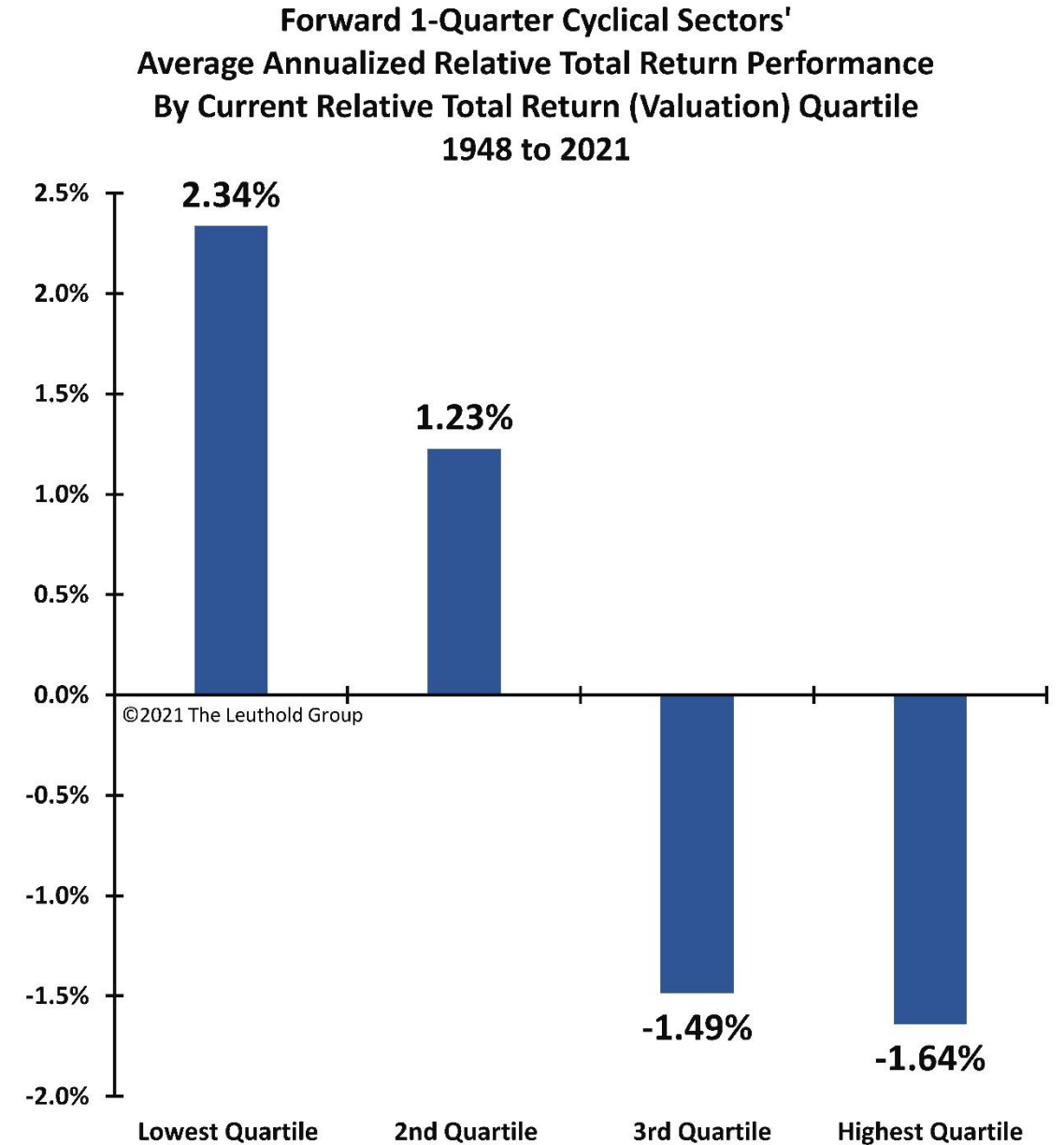
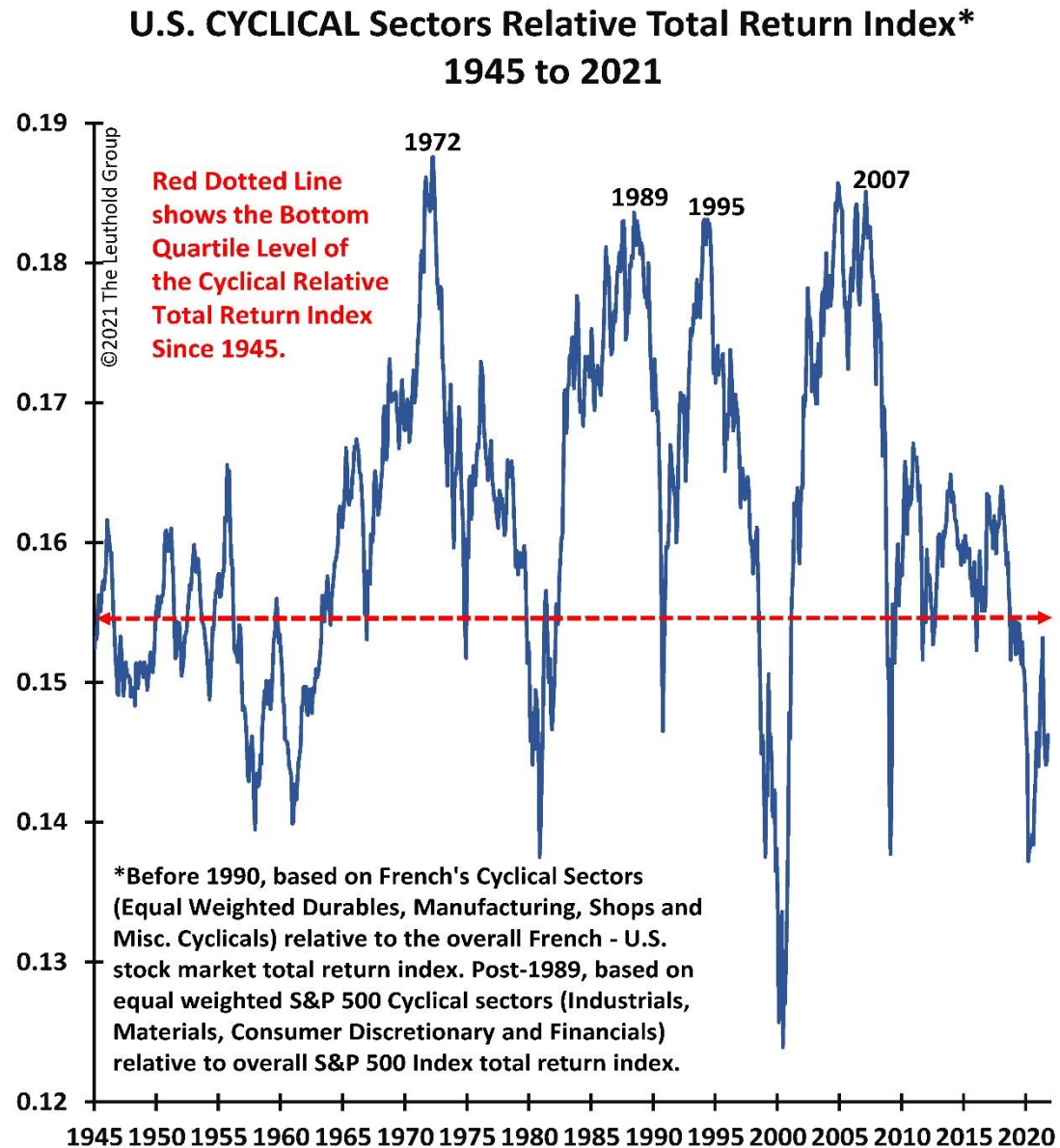
# SMALLS are CHEAP with STRONG FUNDAMENTALS?



# SMALL CAP Cyclical Stocks for RISING YIELDS?!?



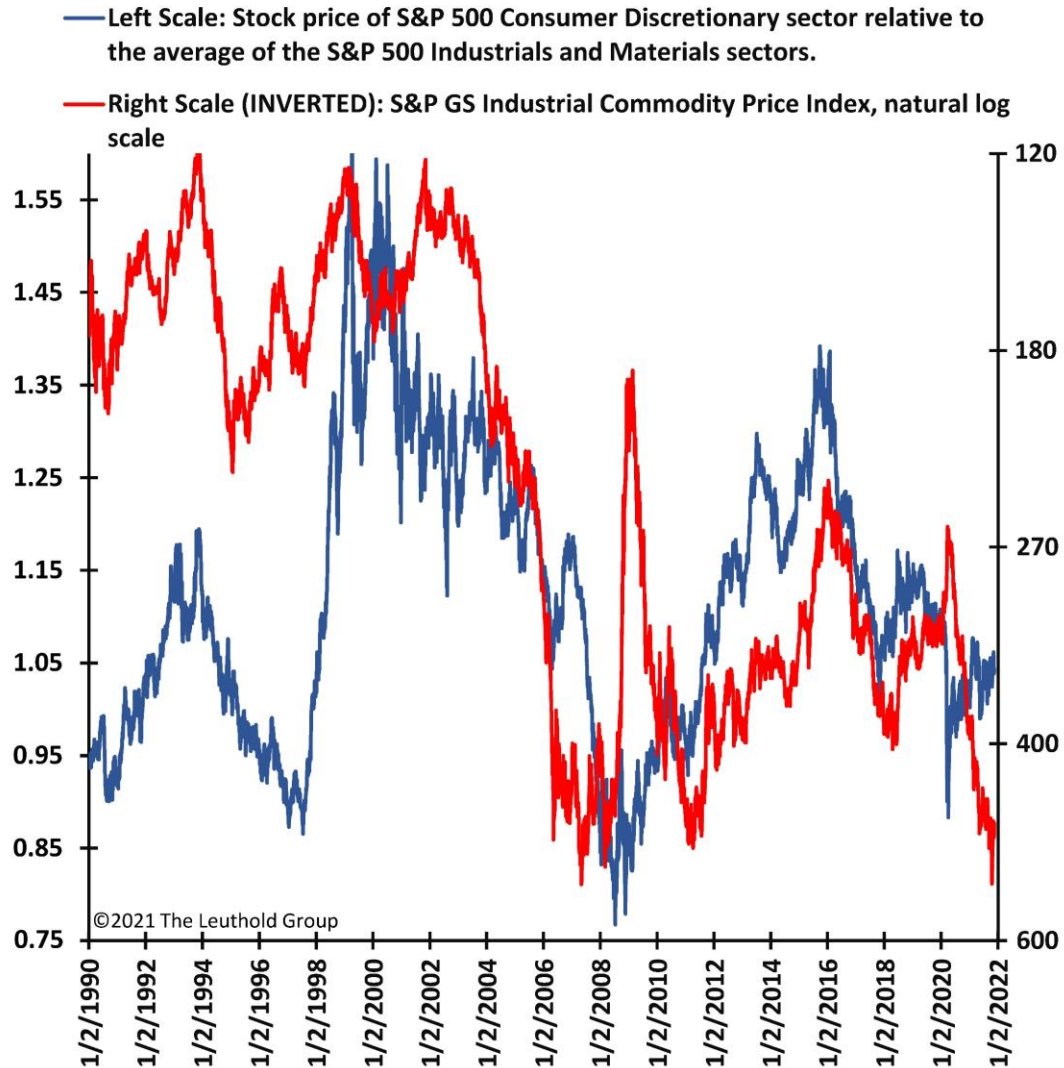
# Will Cyclical Sectors Cruise or Bruise?



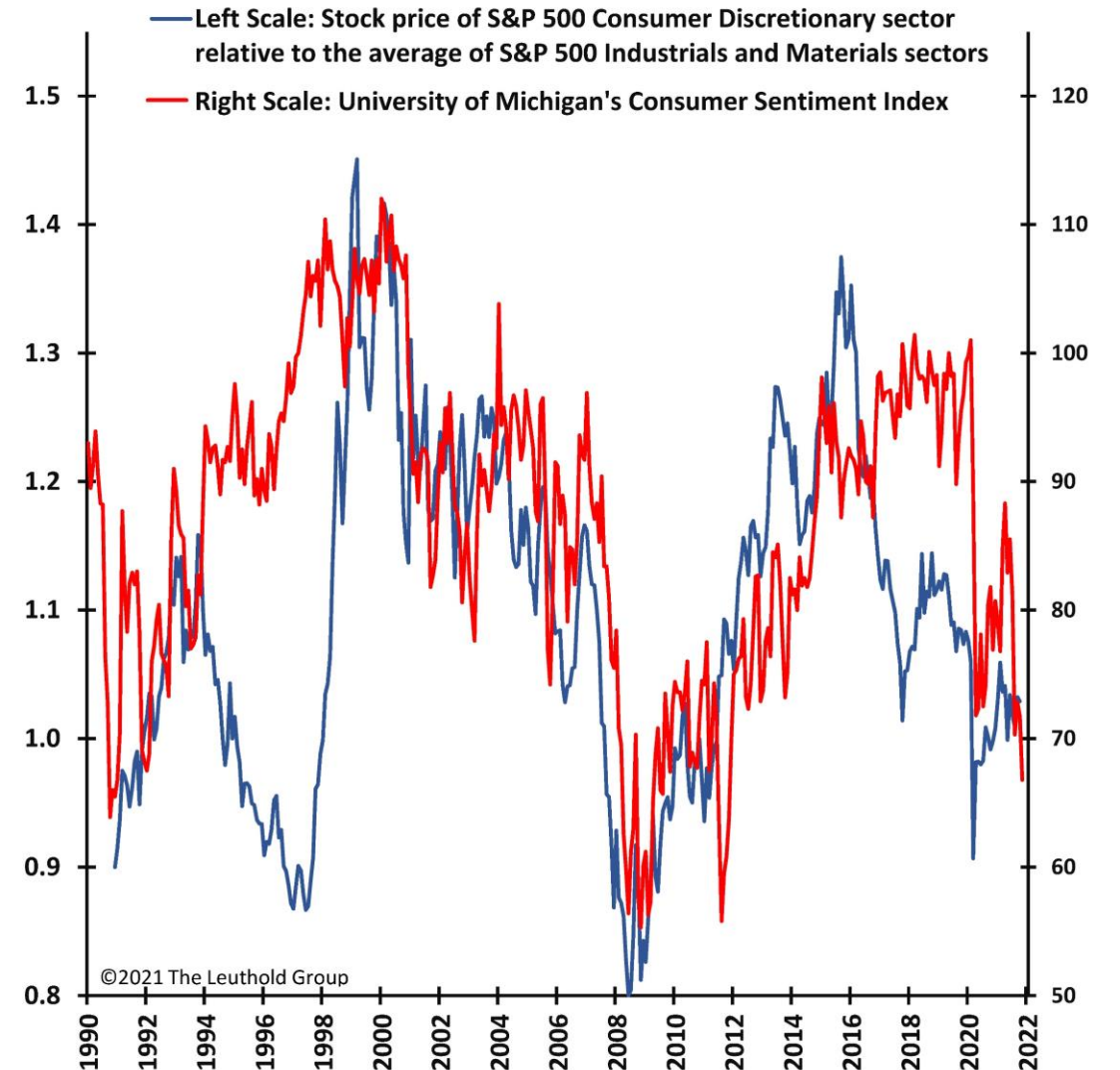


# A Cyclical TILT??

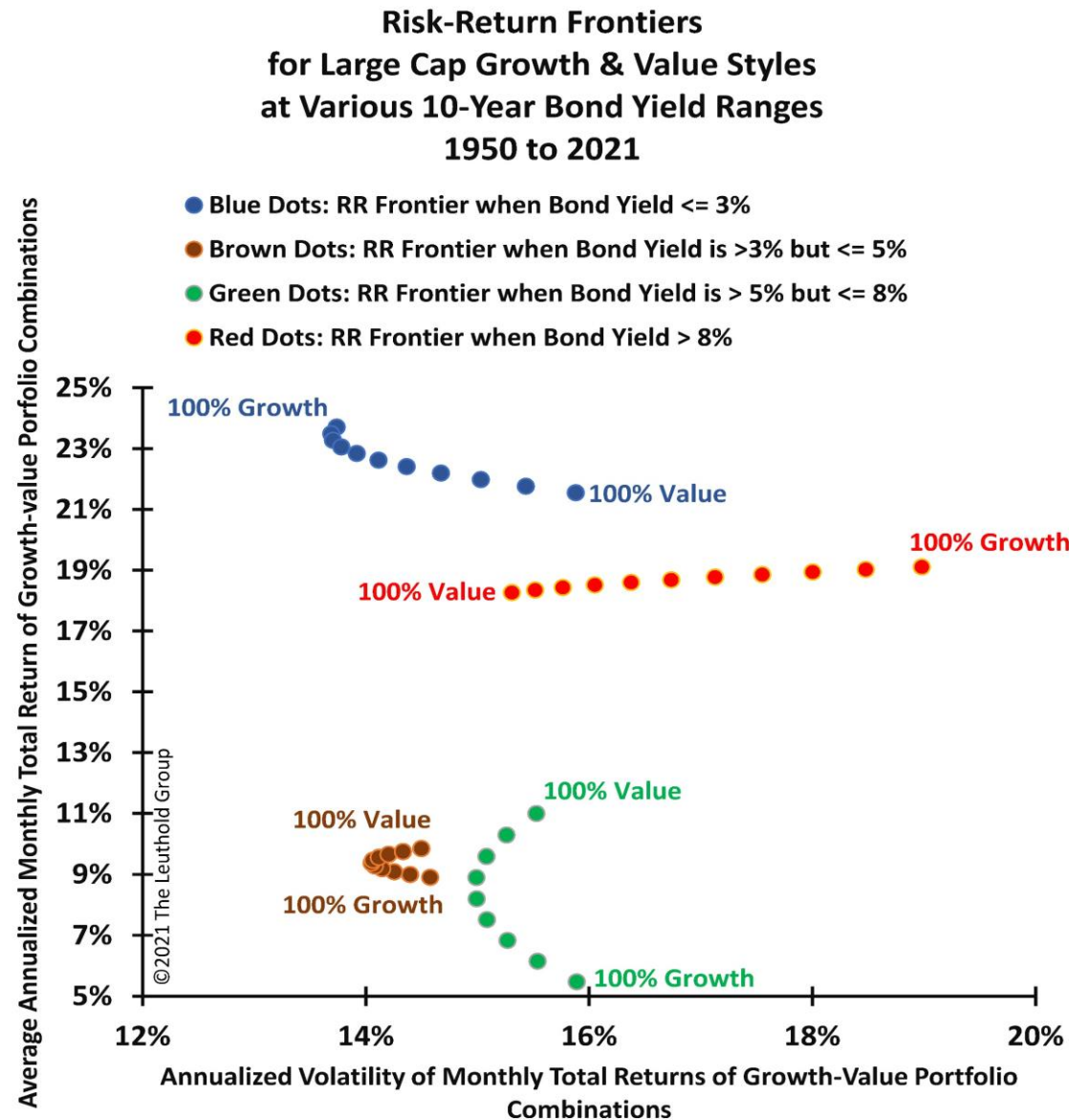
**Consumer Cyclical vs. Industrial Cyclical Stocks  
Relative Stock Price & Inflation**



**Consumer Cyclical vs. Industrial Cyclical Stocks  
Relative Stock Price & Consumer Confidence**



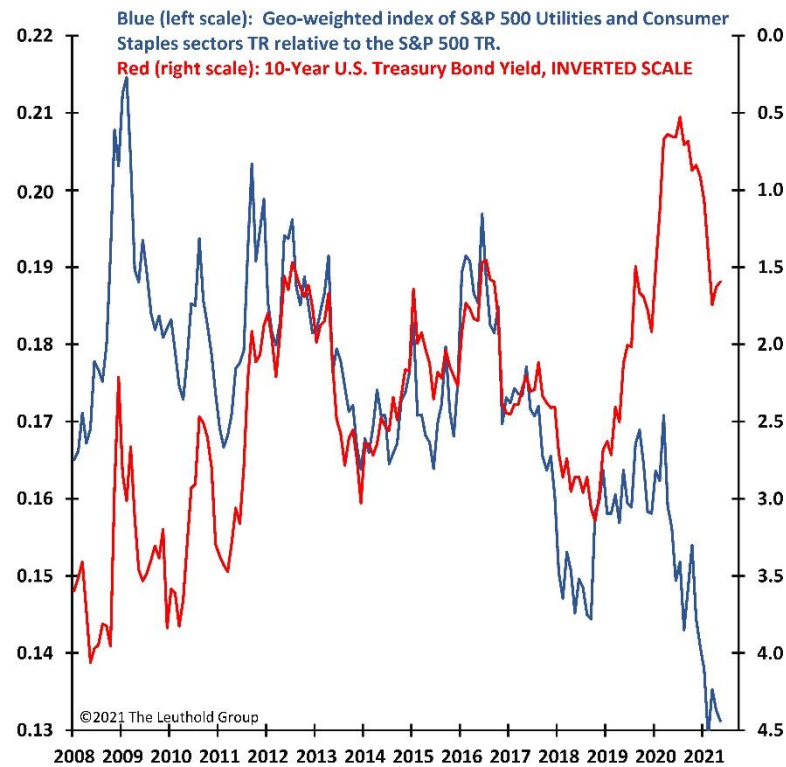
# What is your Growth-Value Allocation?



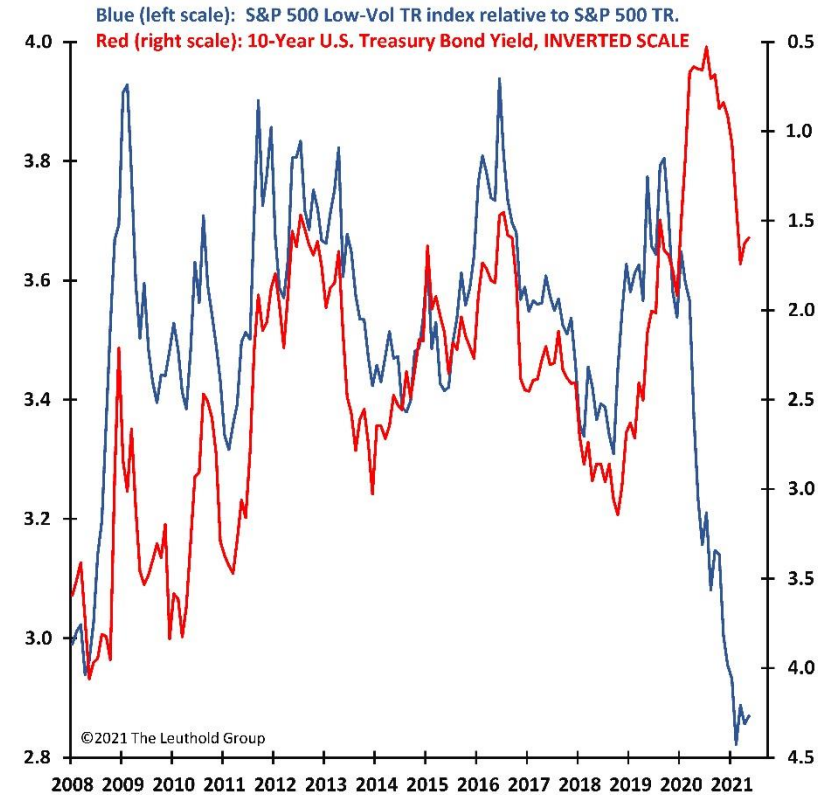


# Bonds Decide Which Stocks Lose!?!

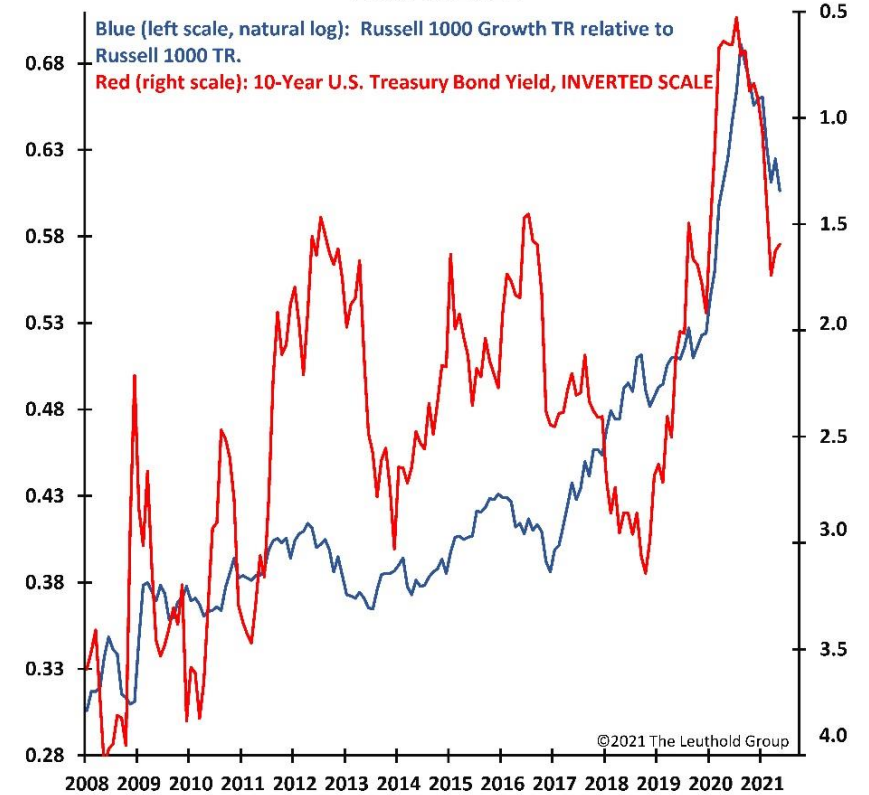
**S&P 500 Defensive Sectors Relative Total Return  
vs. 10-Year Treasury Bond Yield  
2008 to 2021**



**S&P 500 Low Volatility Index Relative Total Return  
vs. 10-Year Treasury Bond Yield  
2008 to 2021**

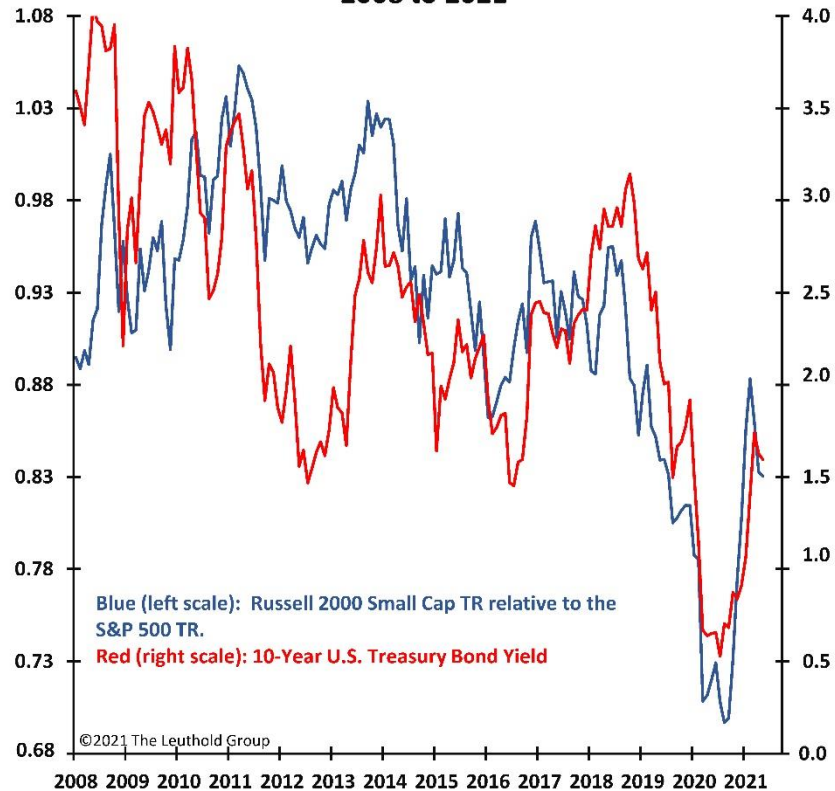


**Russell 1000 Growth Index Relative Total Return  
vs. 10-Year Treasury Bond Yield  
2008 to 2021**

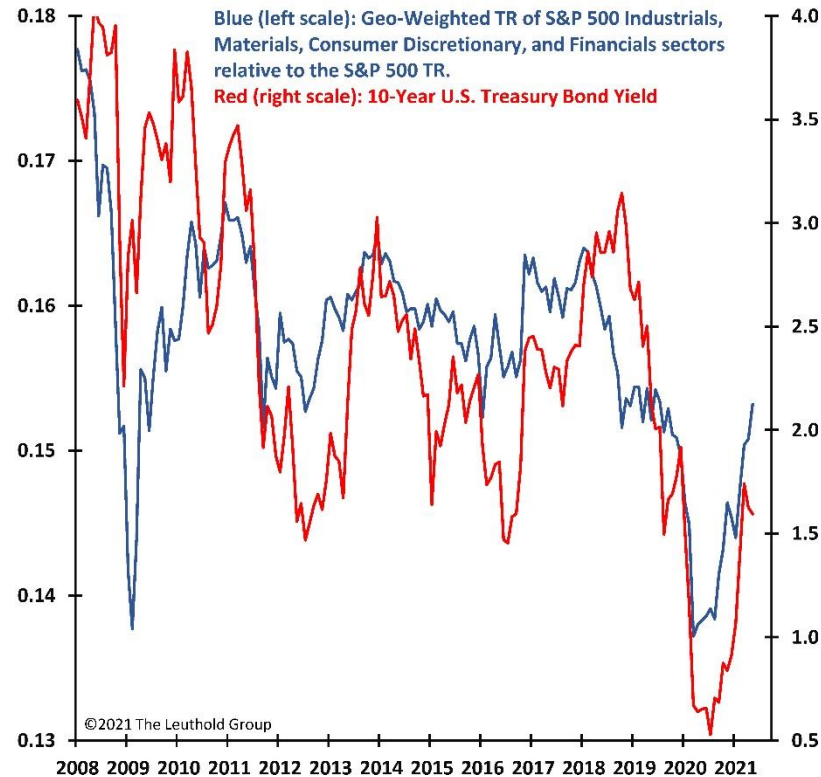


# Bonds Decide Which Stocks Win!?!

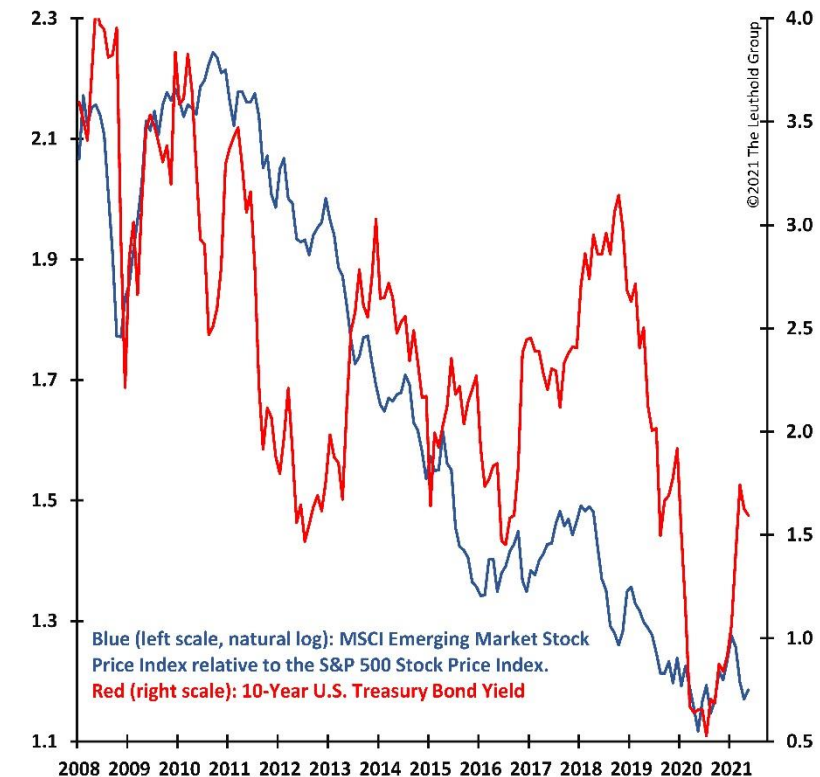
**Small Cap Relative Total Return  
vs. 10-Year Treasury Bond Yield  
2008 to 2021**



**S&P Cyclical Sectors Relative Total Return  
vs. 10-Year Treasury Bond Yield  
2008 to 2021**



**MSCI EM Relative Stock Price  
vs. 10-Year Treasury Bond Yield  
2008 to 2021**



## Investment Ideas...

- Own Some Tech
- Cyclicals & Smalls
- EM Ex-China
- Frontier Markets
- Bitcoin... to Exploit its Volatility
- Aussie & EUROZONE
- Bonds Not Currently Viable
- Use Equal-Weighted Sector ETFs

# Biggest Risk? Where Are We At???

