

Welcome to the Merion Cricket Club

Tower Bridge Advisors
Spring Investment Forum
May 1, 2019

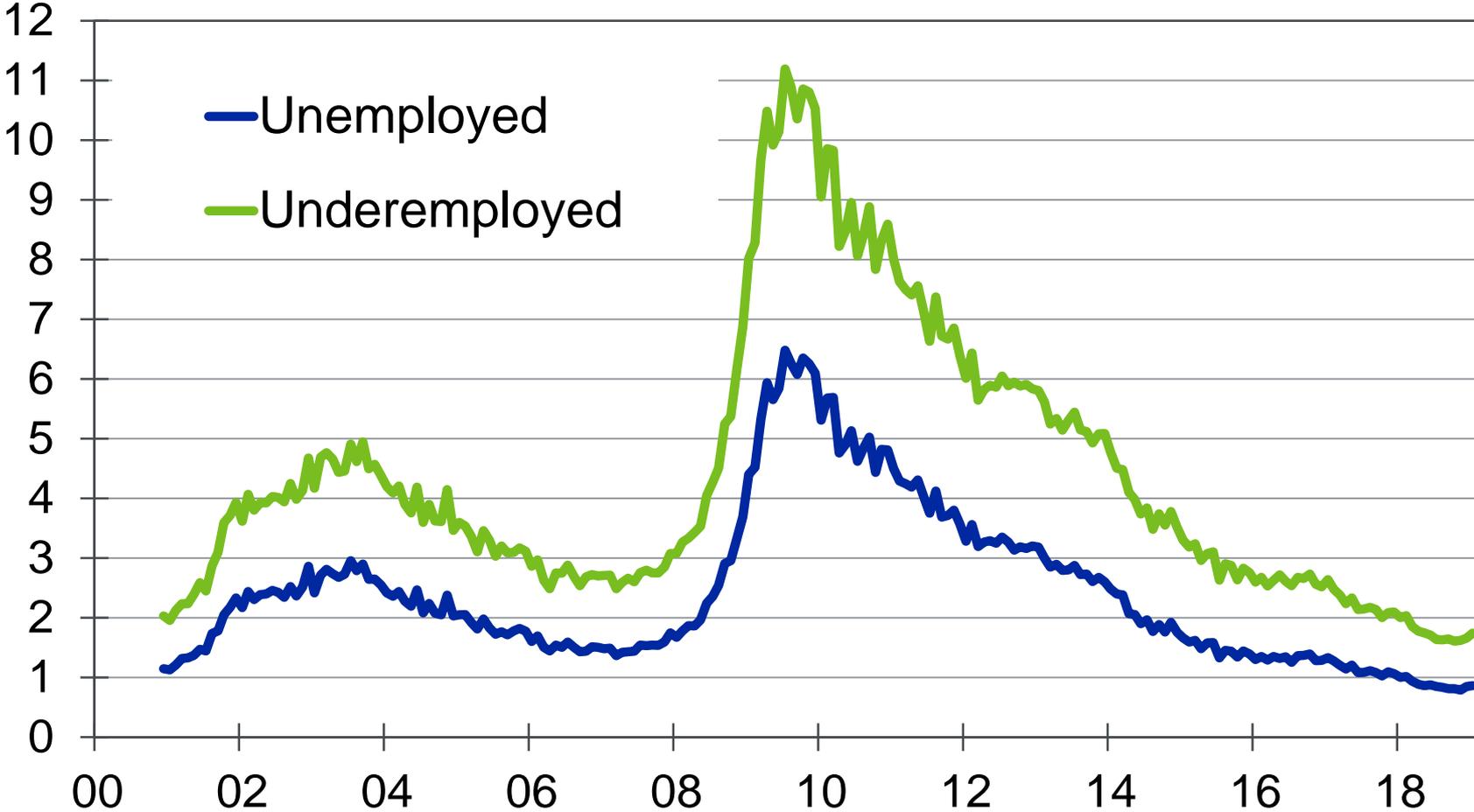
Past Its Prime

Mark Zandi, Chief Economist, Moody's Analytics

May 2019

In a Virtuous Economic Cycle

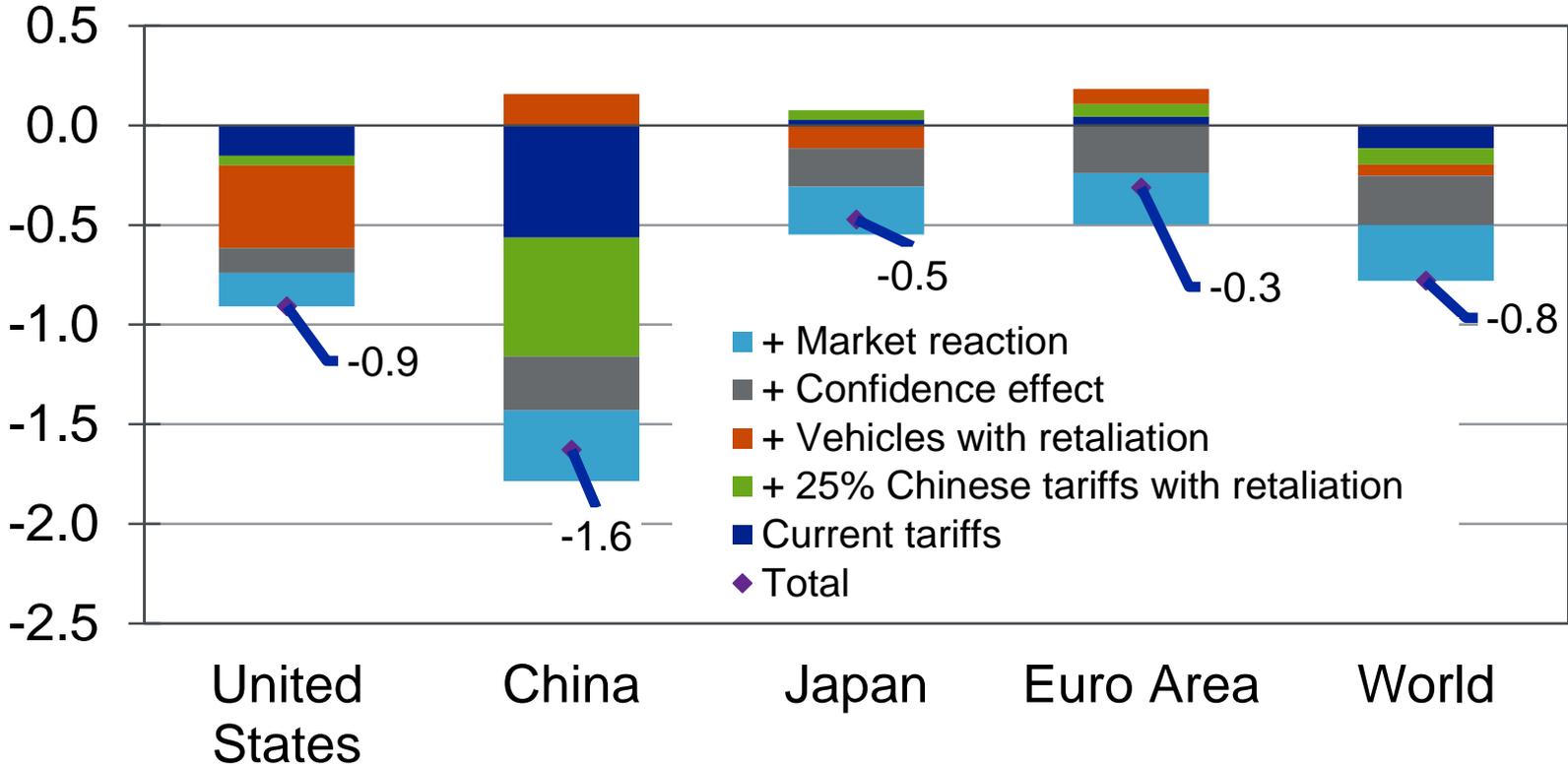
Number of unemployed and underemployed per job opening



Sources: BLS, Moody's Analytics

Trump's Trade War Remains a Serious Threat

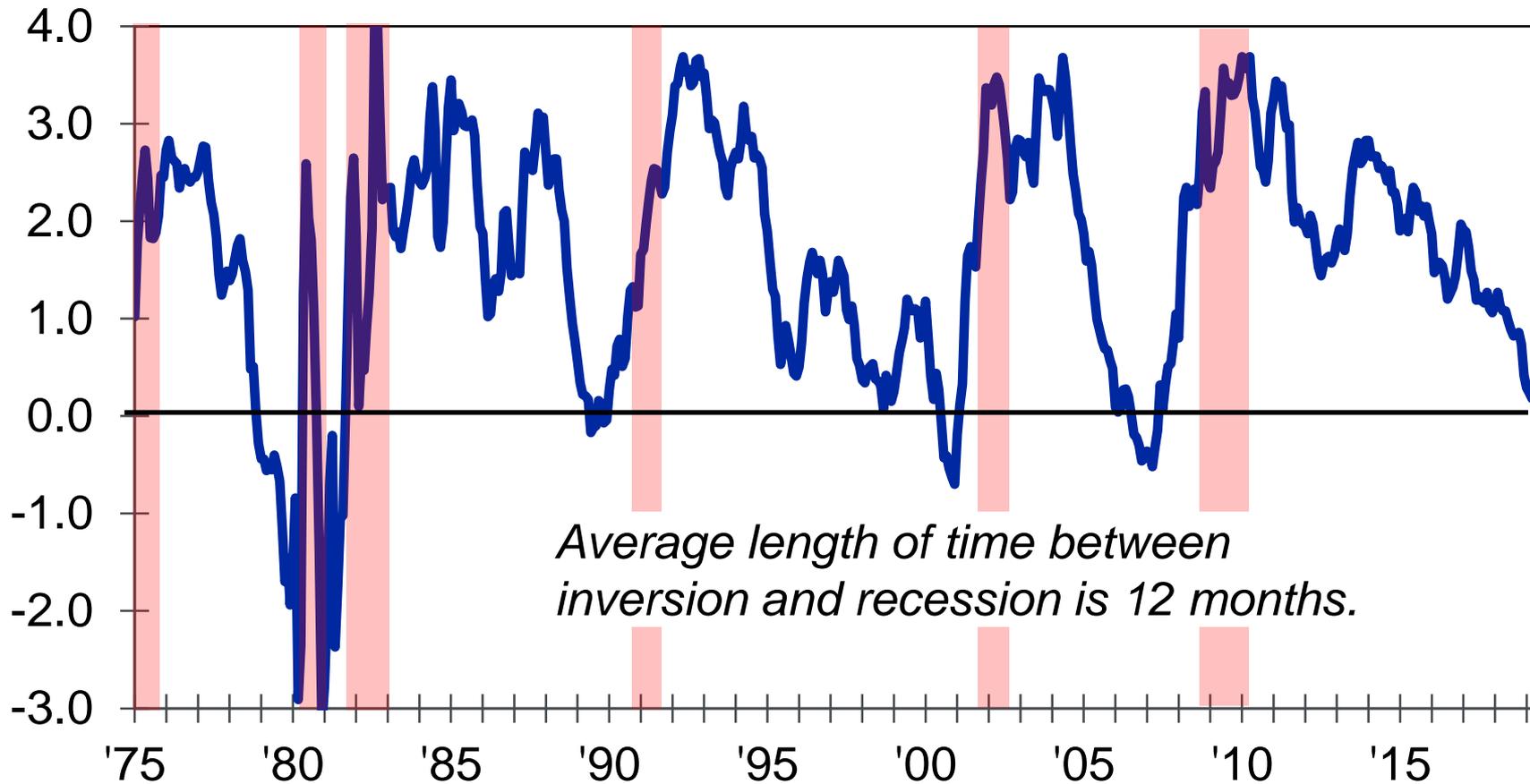
% difference in 2019 real GDP due to full-blown trade war



Sources: IMF, Moody's Analytics

Treasury Yield Curve Sends a Warning

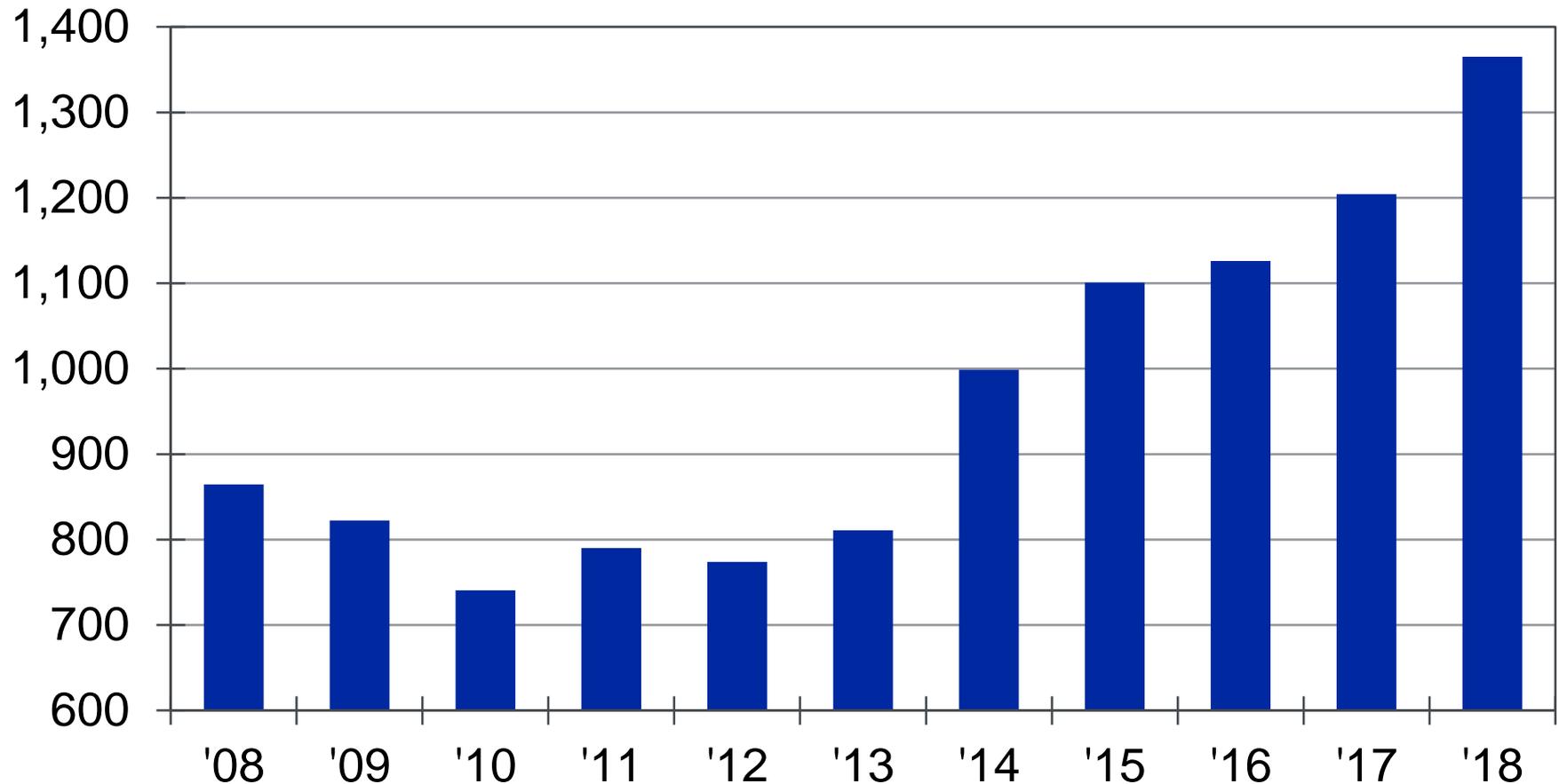
Difference between 10-yr Treasury yield and 3-mo EBY, %



Sources: Federal Reserve, Moody's Analytics

Leveraged Firms Leverage Up...

Leveraged Loans, Bil\$

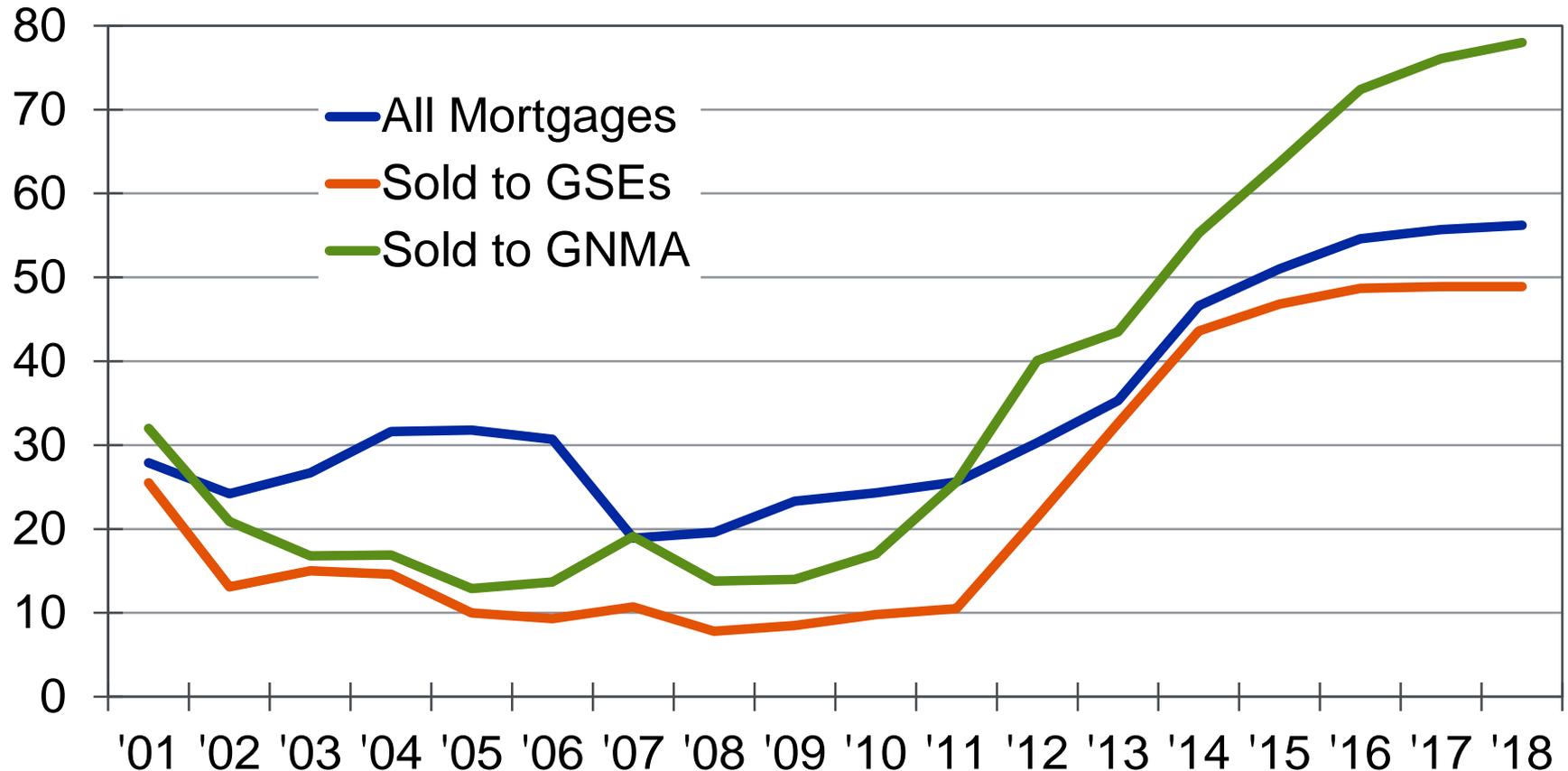


Sources: IMF, Moody's

Note: 2018 issuance is YTD annualized

...And the Shadow System Expands

% of mortgage originations originated by nonbanks



Sources: Federal Reserve, Brookings

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2019 Spring Investment Forum

Balance: the key to a long recovery

James M. Meyer, CFA
Tower Bridge Advisors
May 1, 2019

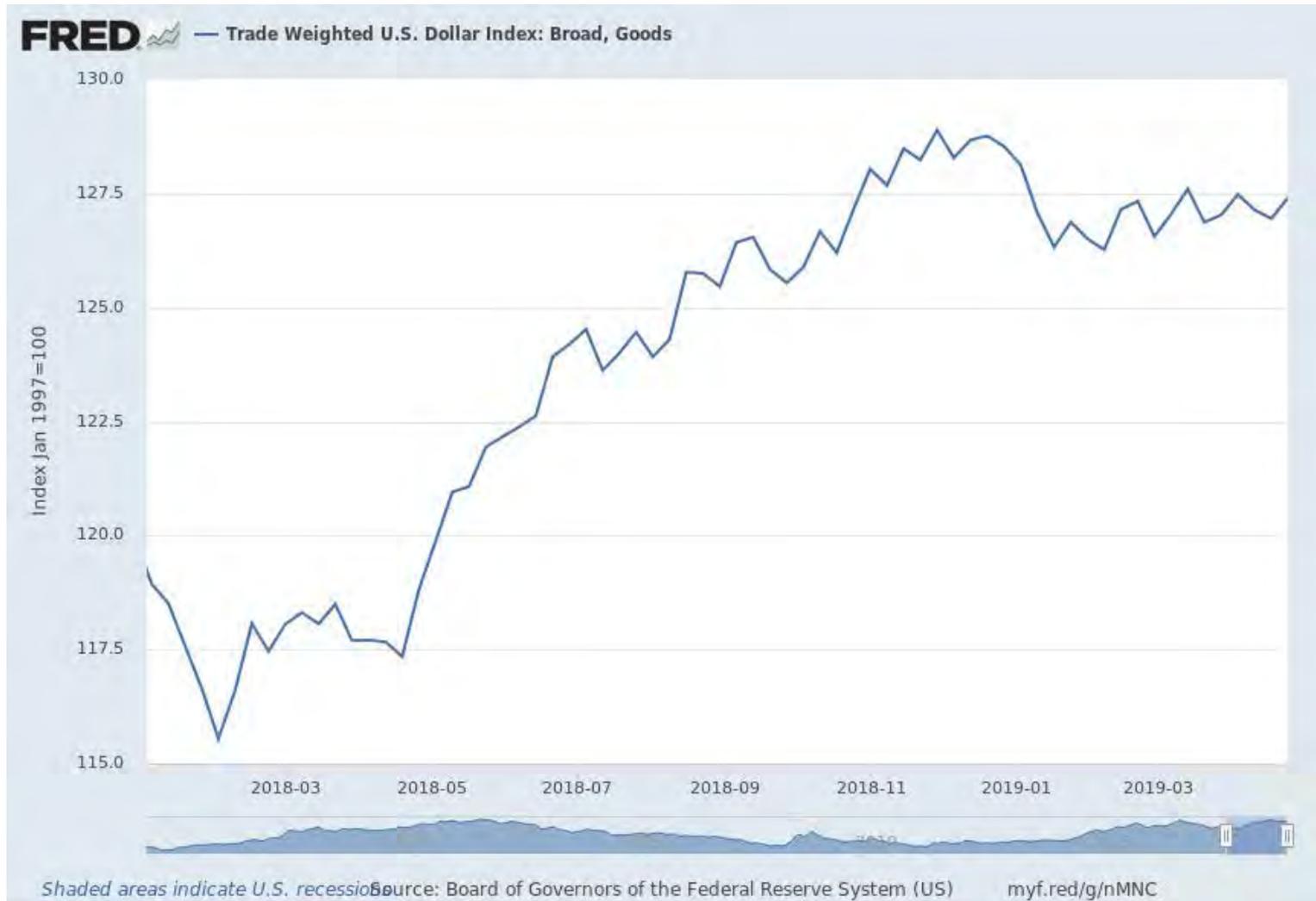
Balance

Recessions happen as governments or economic forces seek to correct imbalances

1. Excess demand ignites inflation forcing the Fed to tighten thus setting off a recession
2. Excess supply forces prices down creating a deflationary spiral
3. Too much debt eventually leads to the inability to cover interest costs without substantial restructuring
4. Economic imbalances across borders create massive currency fluctuations

NONE OF THESE ARE IN PLACE TODAY

The Dollar has Stabilized



Inflation Expectations are Stable



Capacity Utilization

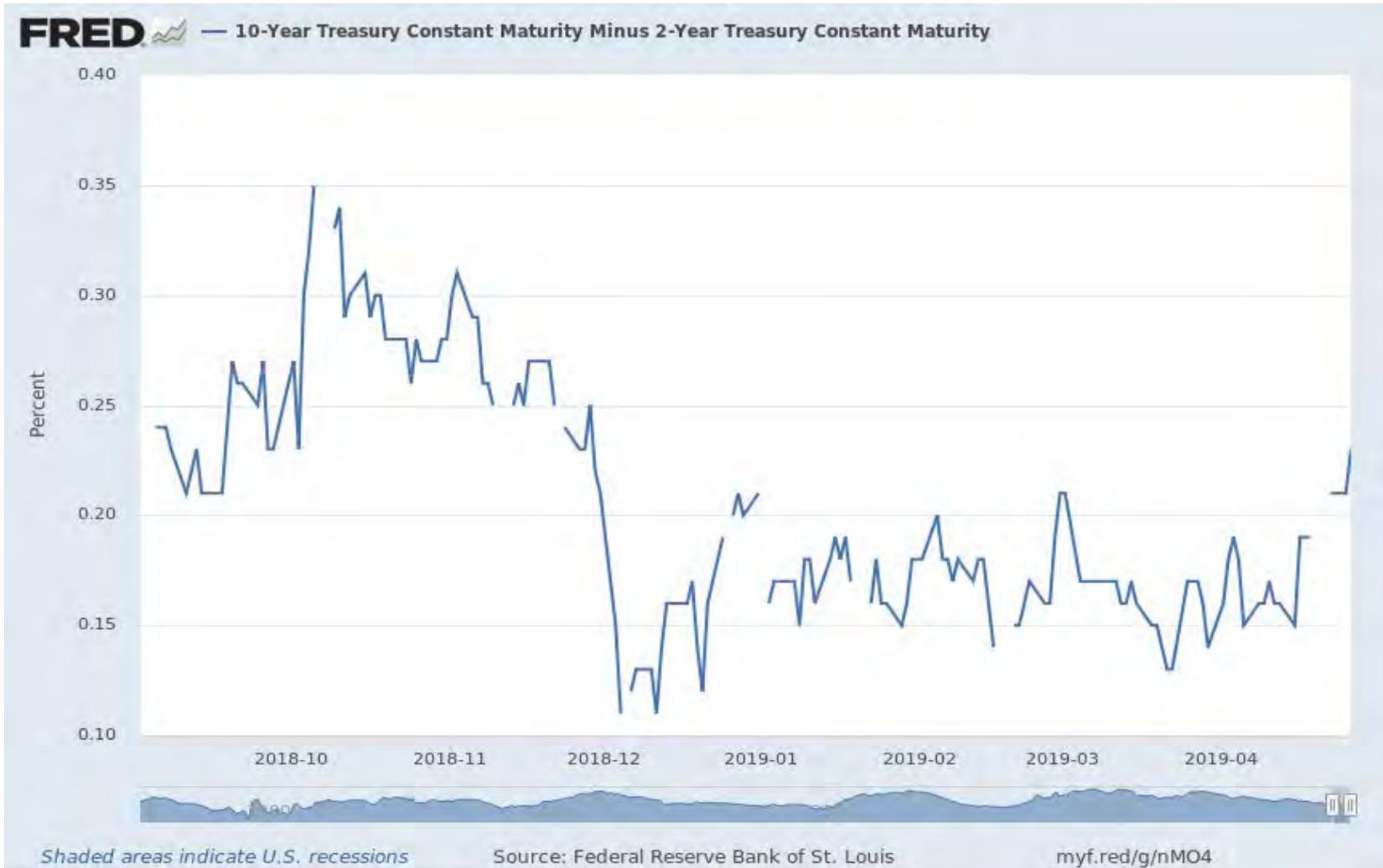
FRED — Capacity Utilization: Total Industry



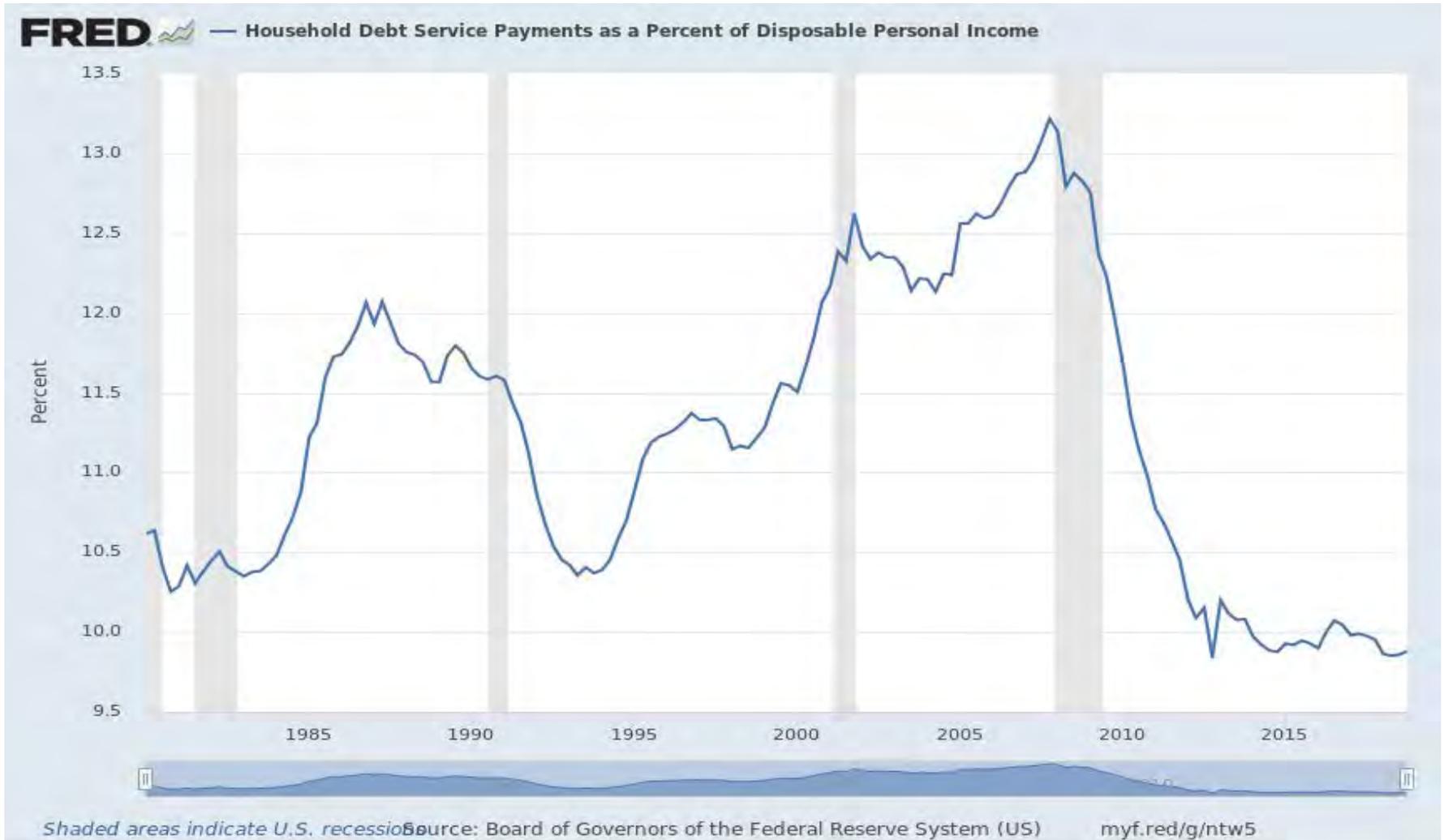
Shaded areas indicate U.S. recessions. Source: Board of Governors of the Federal Reserve System (US)

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2-10 Year Yield Spread

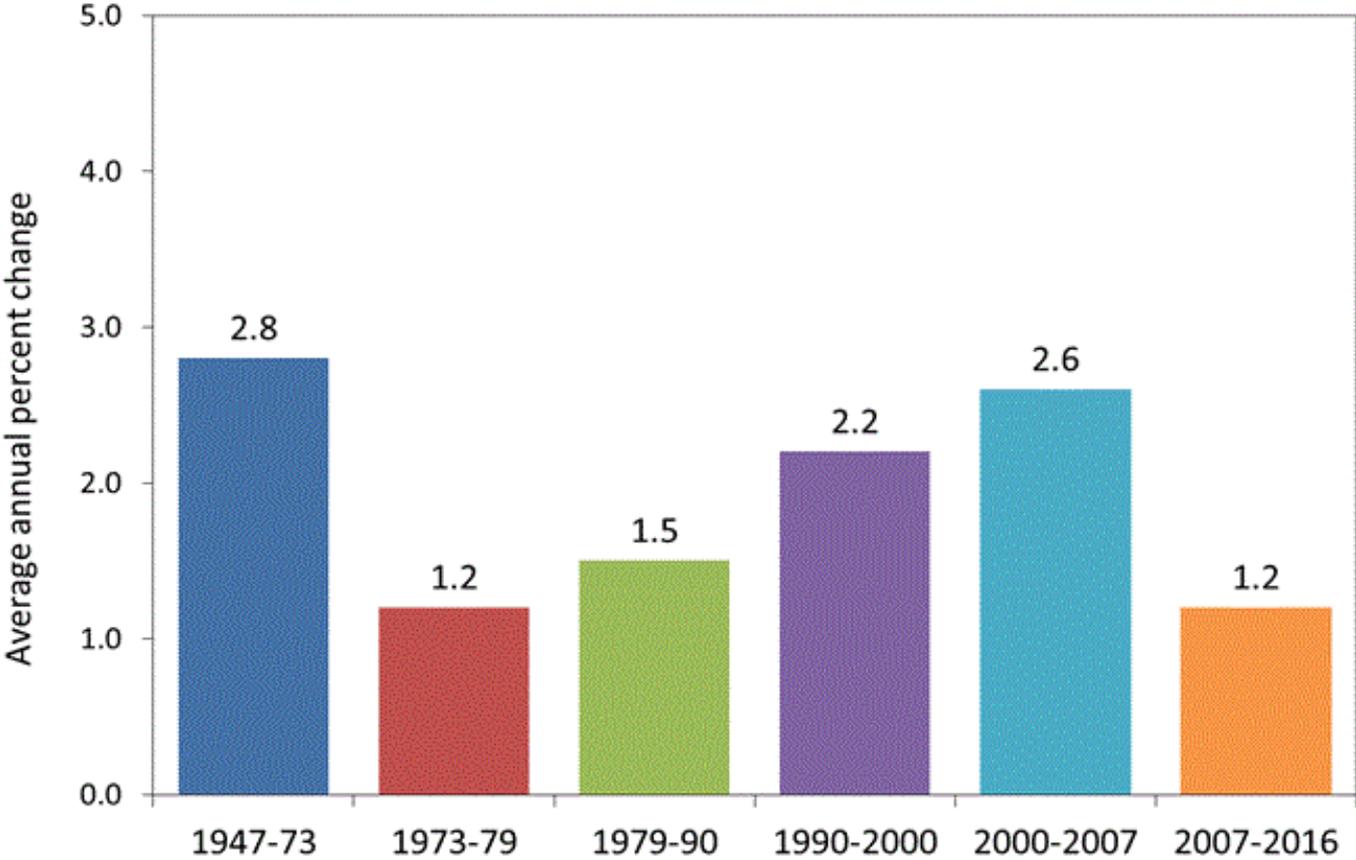


Household Debt Service



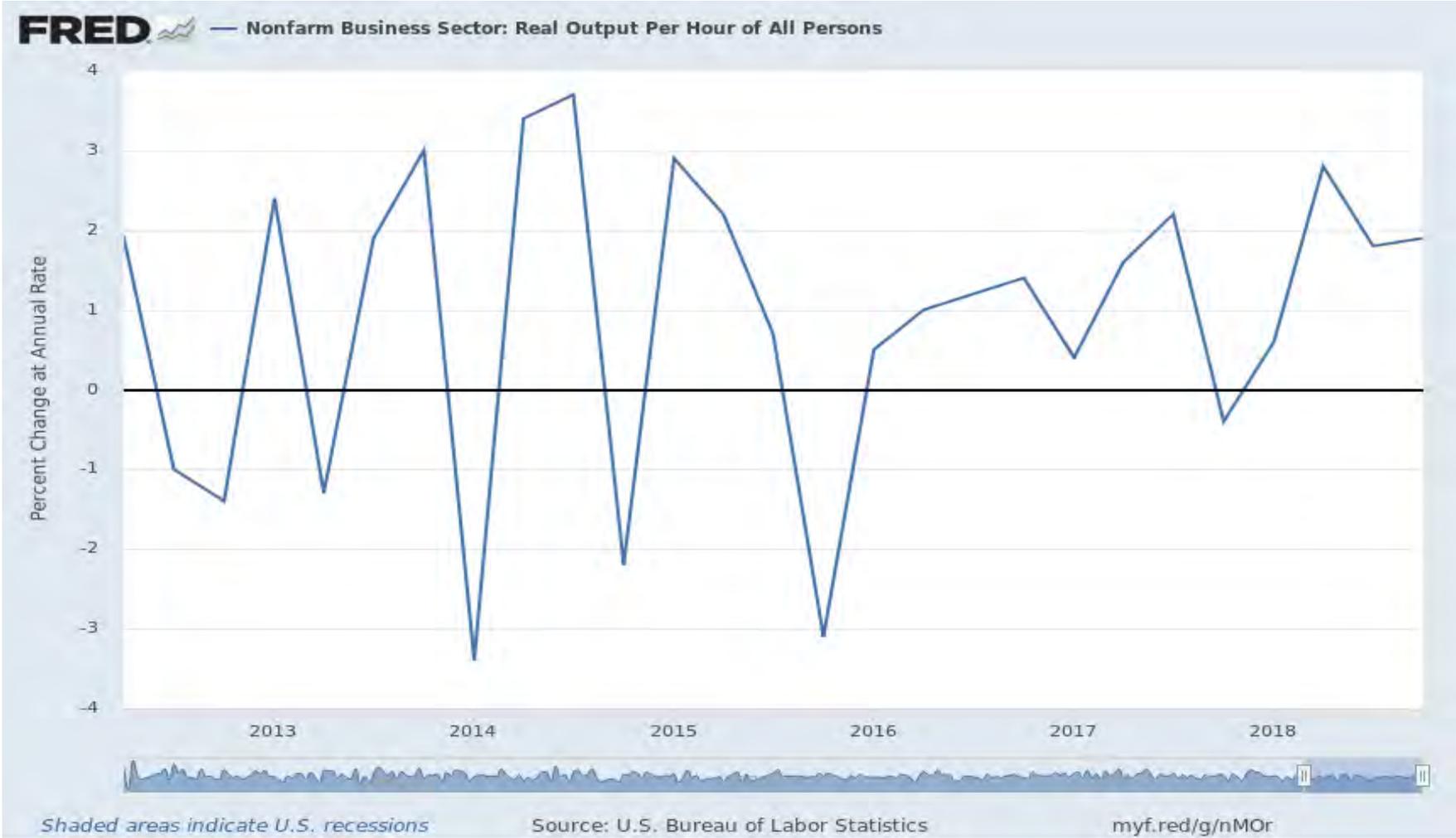
Productivity

Productivity change in the nonfarm business sector, 1947-2016



Source: U.S. Bureau of Labor Statistics

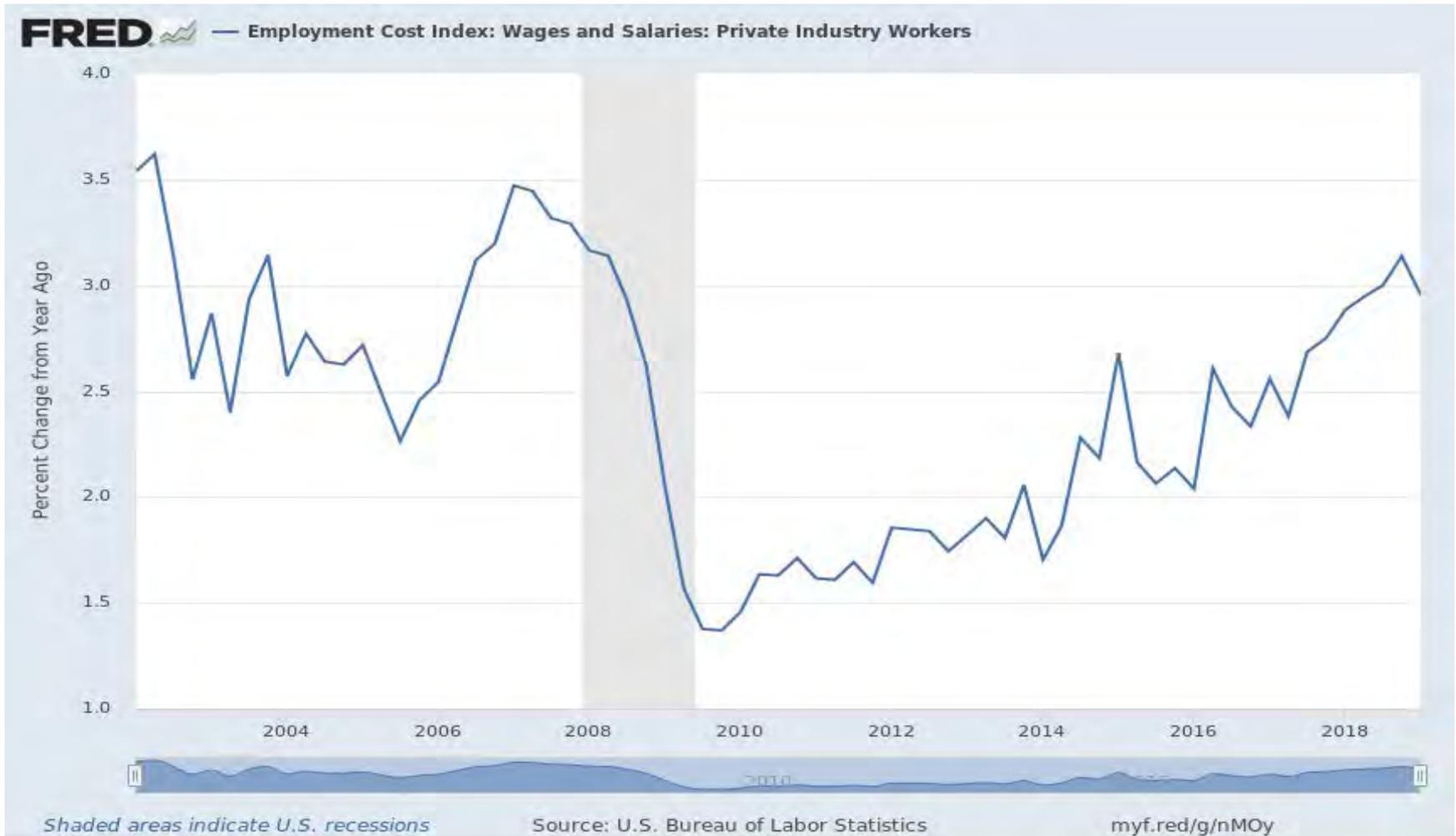
Productivity



Productivity is Key to GDP

- $GDP = (C)onsumption + (I)nvestment + (G)overnment\ spending$
- $GDP = (M)oney \times (V)elocity$
- $GDP = (W)orkers \times (O)utput/(W)orker$
- $Output/Worker = PRODUCTIVITY$

Wage Growth



Productivity will be a key driver to growth

- Labor force participation rate is in secular decline due entirely to demographics and very modest downward pressure from immigration
 - In-migration from US territories is offsetting decline in new refugees
- In a mature economy, productivity growth is driven by investment spending
 - Spending has begun to reaccelerate, particularly for productivity enhancing software
- **Productivity is improving as investment increases**

Conclusions

- Balance exists. Proponents suggesting a near term recession need to demonstrate when and why this will change.
- Improved productivity can sustain growth
- Recoveries don't die of old age
- Valuation is a bigger threat to the stock market than recession

THANK YOU!

Questions and Answers