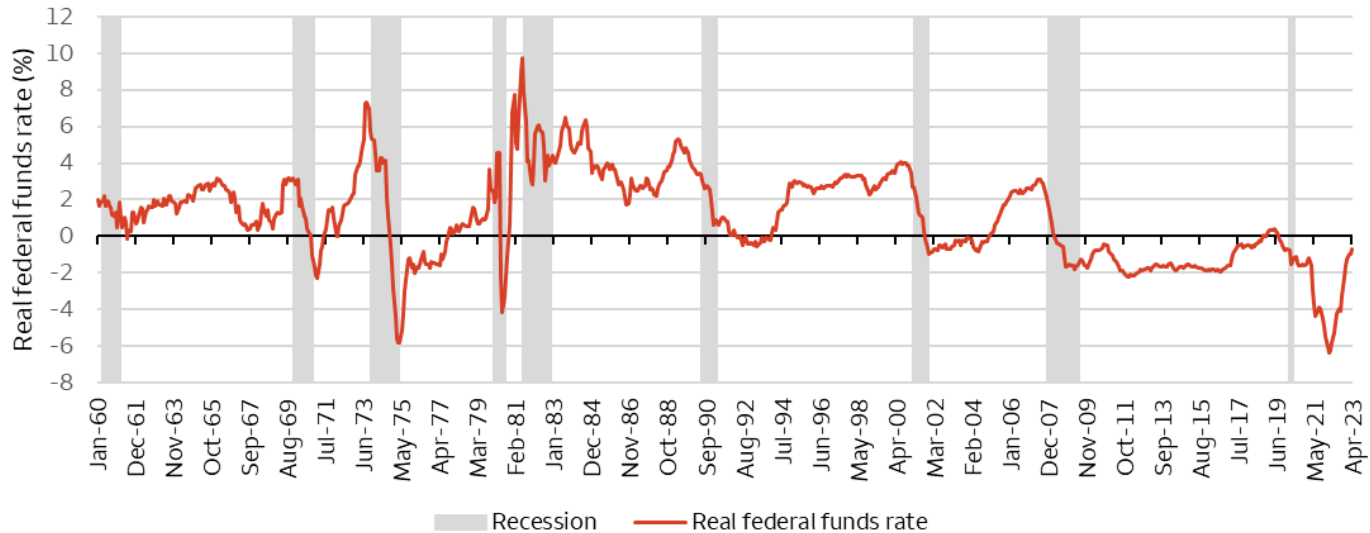


Chart of the Week

Weekly market analysis on key market indexes

June 13, 2023

Recession signal — Watch the real federal funds rate



Source: Federal Reserve Board, U.S. Labor Department, National Bureau of Economic Research as of April 30, 2023. The real federal funds rate is the effective federal funds rate less the year-over-year percent change in the core Consumer Price Index.

Real federal funds rate remains low compared to previous recession periods

The “real federal funds rate” is the policy interest rate set by the Federal Reserve minus inflation (as measured by the Consumer Price Index). It is a measure of the true bite of interest rates on the economy. As of the end of April, the real federal funds rate (solid red line) was still negative (-0.71%).

In past cycles, the real federal funds rate has become positive (and above 1% – 2%) before recession (shaded bars). We believe the Federal Reserve may have to continue raising rates to quell inflation, and that increases the risk of a recession. For context, in the past 11 rate-hike cycles, the economy has avoided recession just three times.

What it may mean for investors

We believe the economy’s true trajectory has been masked by post-pandemic support to job growth, services, and autos. Our view is that economic weakening will become more apparent as these tailwinds weaken and headwinds from tightening liquidity conditions build further. In the face of likely recession later in 2023, we favor remaining defensive in portfolios.

Mary Anderson, Investment Strategy Analyst

This chart was excerpted from the *Investment Strategy* report dated June 12, 2023.

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Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve. **Stock markets**, especially foreign markets, are volatile. Stock values may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors.

Definitions

Consumer Price Index (CPI) produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

An index is unmanaged and not available for direct investment.

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