GUGGENHEIM

Macroeconomic Update

Goldilocks Economy Now, But Recession Looms in 2023

We expect that a recession in 2023 will not be overly severe, particularly with improved global prospects.

Falling inflation has given a boost to consumers, whose rising real incomes have driven consumer sentiment off the lows seen last summer. As a result, fourth quarter economic activity held up better than many expected, with consumption growing at a 2.1 percent annualized pace over the quarter. Cooling inflation and resilient real gross domestic product (GDP) growth have driven a resurgence in market hopes for a "soft landing," which in this case means a return to 2 percent inflation without a recession.

While a recession may be delayed, we are skeptical it can be averted. The boost to consumer sentiment from lower inflation should wane, as we are unlikely to see energy prices continue to fall at the same rate as they have over the last six months. Many of the tailwinds that helped bolster the economy in 2022 are now slowing, if not reversing, including service sector reopening, the spend-down of excess savings, and the wealth effect from gains in asset and home prices.

Even if the economy manages to power through these headwinds, the Fed has made it clear that it will push back against any growth acceleration in its quest for a weaker labor market. Recent inflation data, along with revisions to 2022 data, will reinforce Fed resolve to keep policy restrictive, as the inflation slowdown looks less convincing than it did just a few weeks ago. Trends for goods prices and shelter inflation continue to point to lower inflation, but the main concern now for the Fed is core services excluding shelter, a concern likely to be amplified by the strength of the latest jobs and wage numbers. A 2023 recession remains our base case, but we expect it will not be overly severe, particularly with improved global prospects from Europe's abating energy crisis and China's economic reopening.

By Brian Smedley, Maria Giraldo, and Matt Bush

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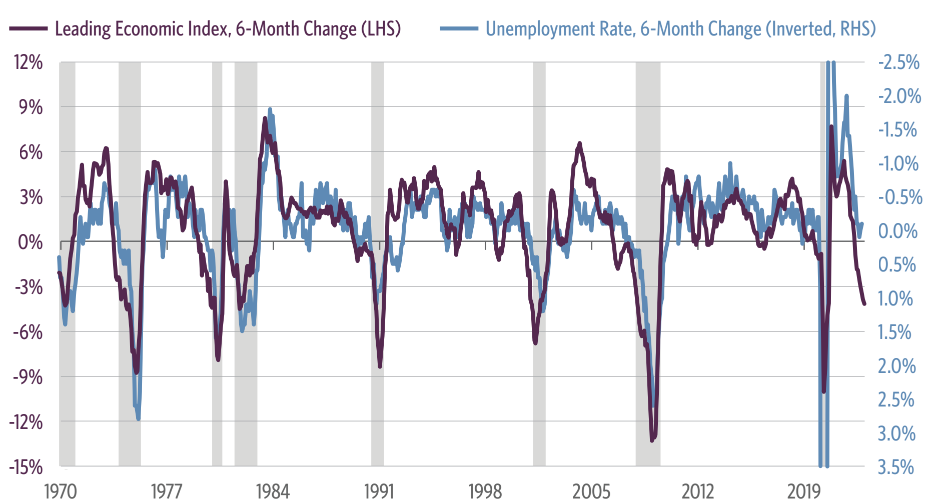
Unemployment to Rise as Recession Unfolds Later This Year



Source: Guggenheim Investments, Bloomberg. Data as of 12.31.2022. Shaded areas represent recession periods.