



# **Financial Executives International: Understanding the Expansion We Love to Hate**

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**Wisconsin Foundation and Alumni Association**

# Agenda

- Review of Recent Economic Performance
- U.S. Outlook for 2024 and Beyond
- Wisconsin Overlay

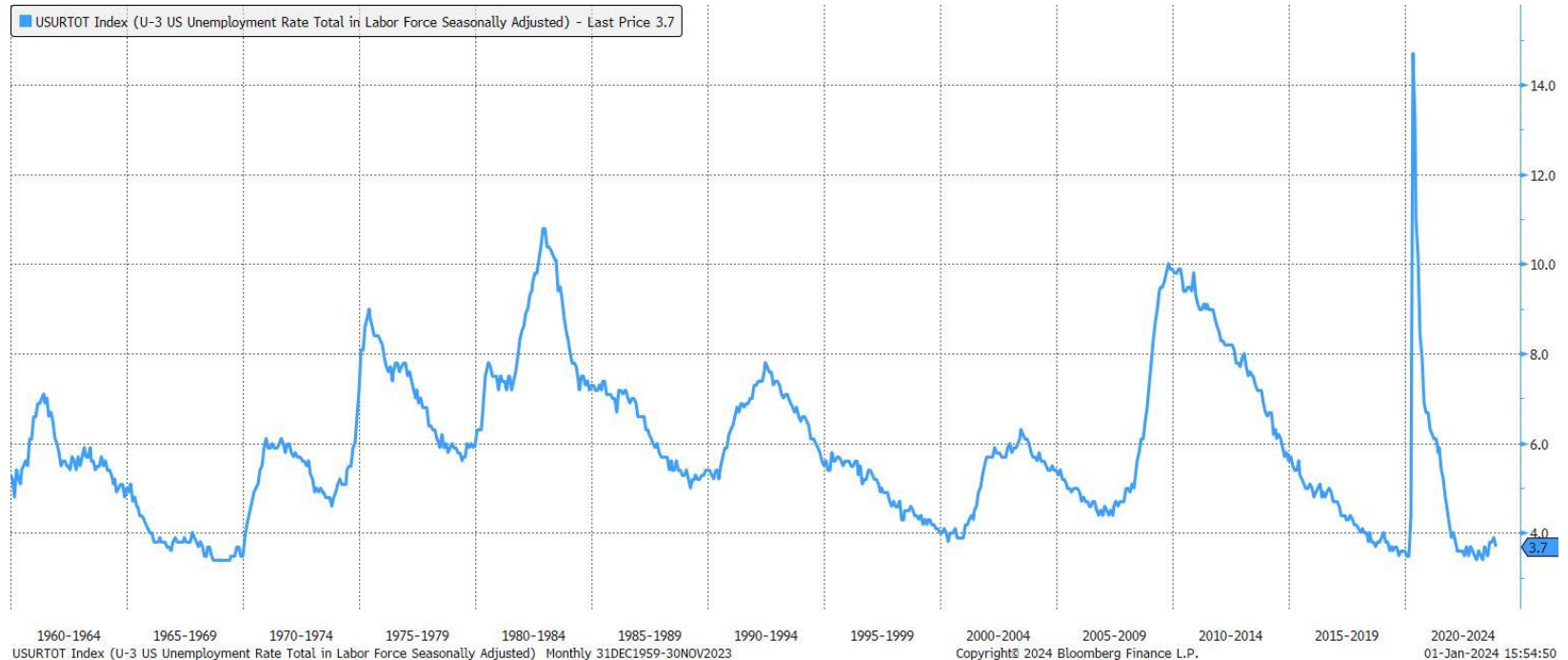
# Summary of 2023

- Coming off a year of interest rate hikes, big declines in equities and bonds, and persistent inflation, expectations of a recession were high.
- The silver bullet that helped save 2023 was a surge in labor force participation back to pre-pandemic levels.
- Labor supply growth helped boost GDP and reduce inflation faster than anticipated.
- The Fed may land the economic equivalent of the triple lutz, the so-called “soft landing.”

# Unemployment Ticked Up, but Remains Low...

USURTOT Index (U-3 US Unemployment Rate Total in Labor Force Seasonally Adjusted)

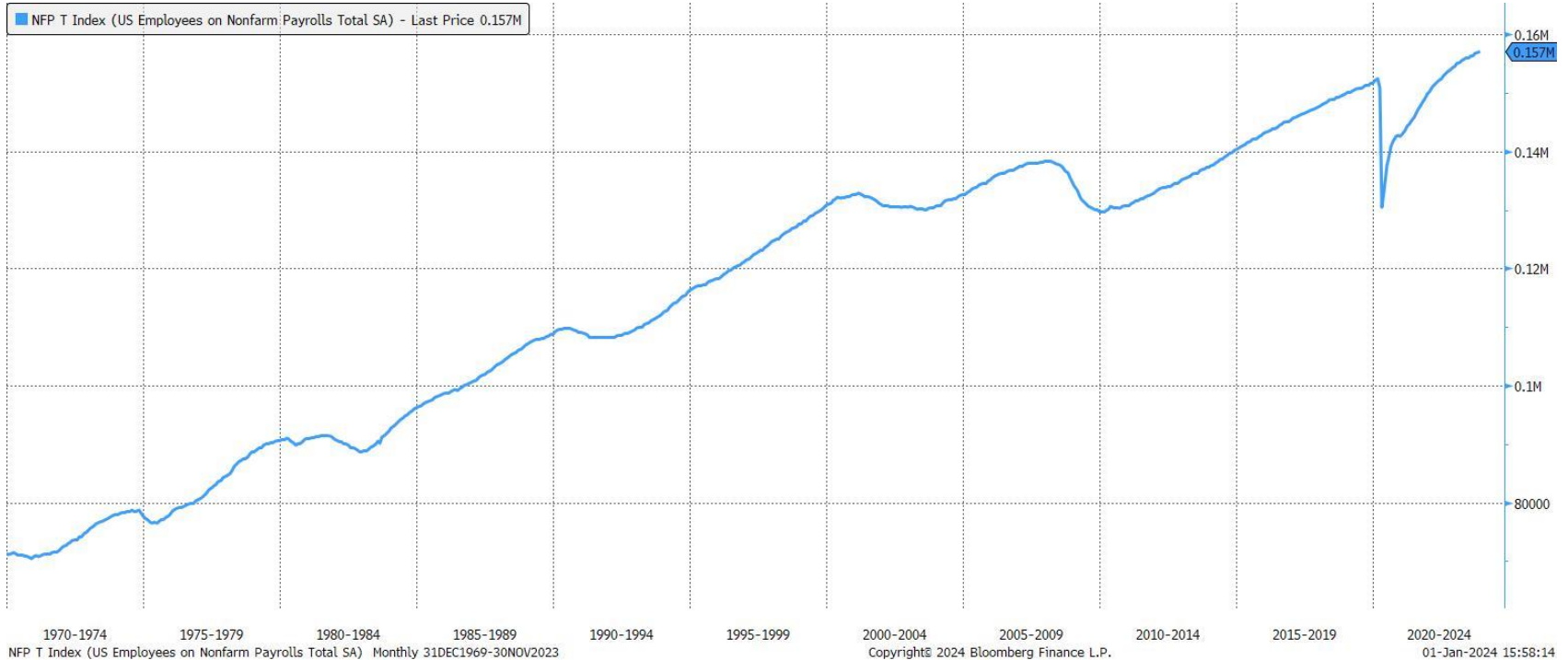
Bloomberg



# Payroll Employment Reaching New Heights

Bloomberg

NFP T Index (US Employees on Nonfarm Payrolls Total SA)

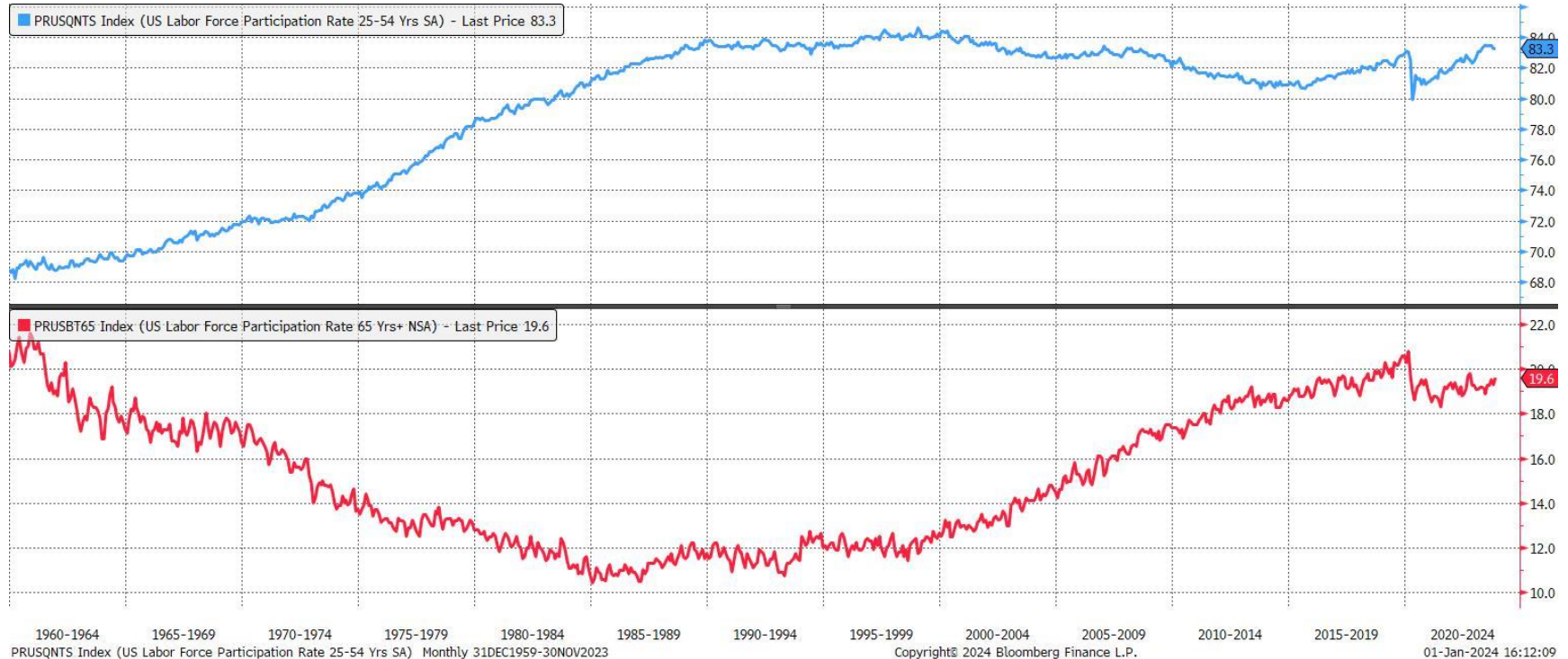


# Prime Age Workers Returned to Labor Force

PRUSQNTS Index (US Labor Force Participation Rate 25–54 Yrs SA)

PRUSBT65 Index (US Labor Force Participation Rate 65 Yrs+ NSA)

Bloomberg

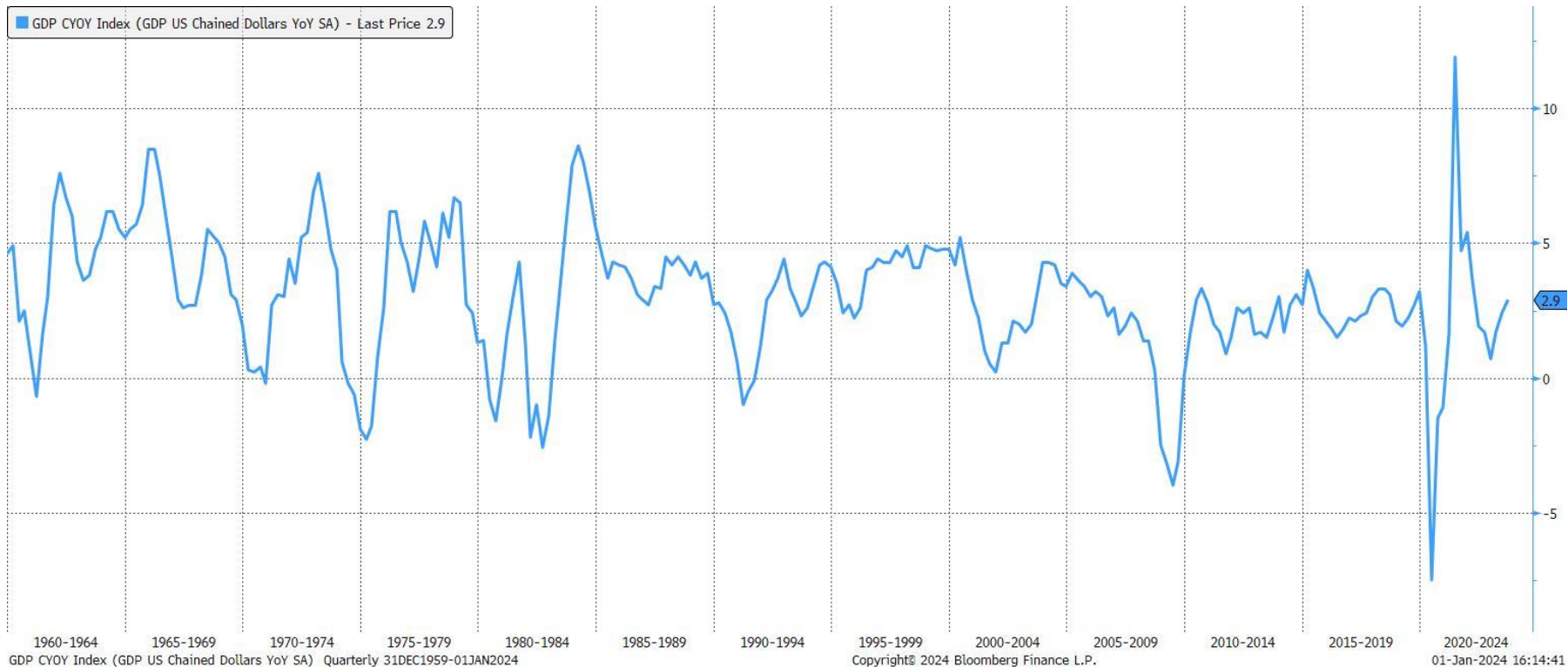




# Real GDP Growth: Far Stronger than Expected

GDP CYOY Index (GDP US Chained 2012 Dollars YoY SA)

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# U.S. Equities Continue to Outperform

SP Index (S&P 500 Index)

MXWO Index (MSCI World Index)

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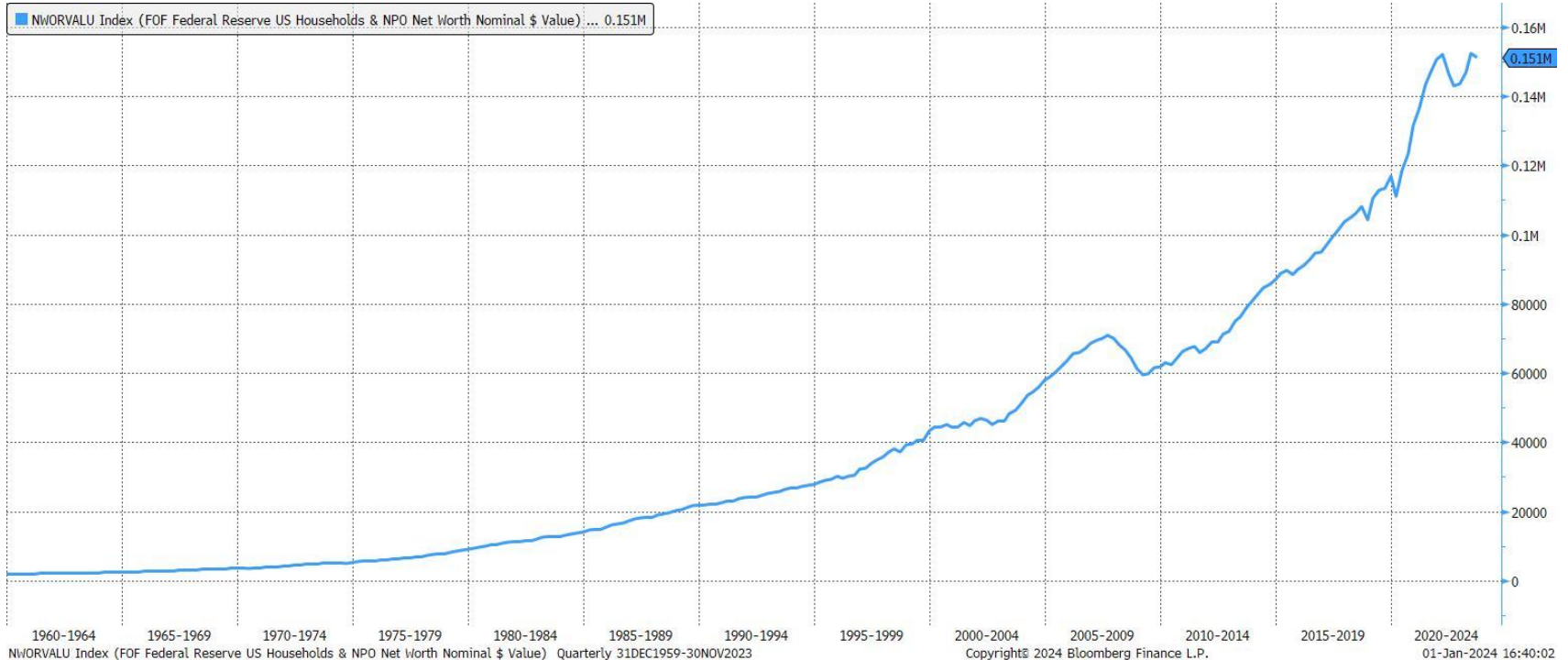




# Household Net Worth: All-Time High

NWORVALU Index (FOF Federal Reserve US Households & NPO Net Worth Nominal)

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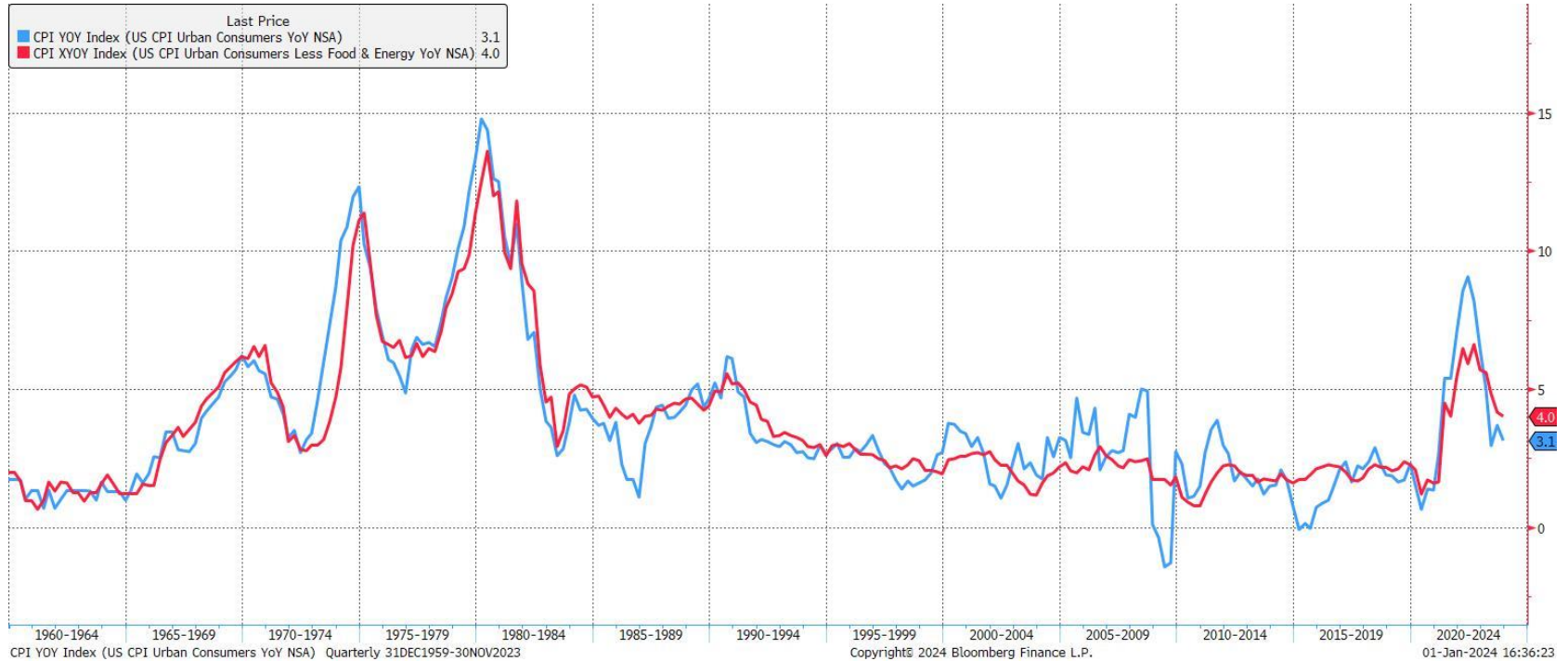


# CPI Inflation: Progress but Above Target

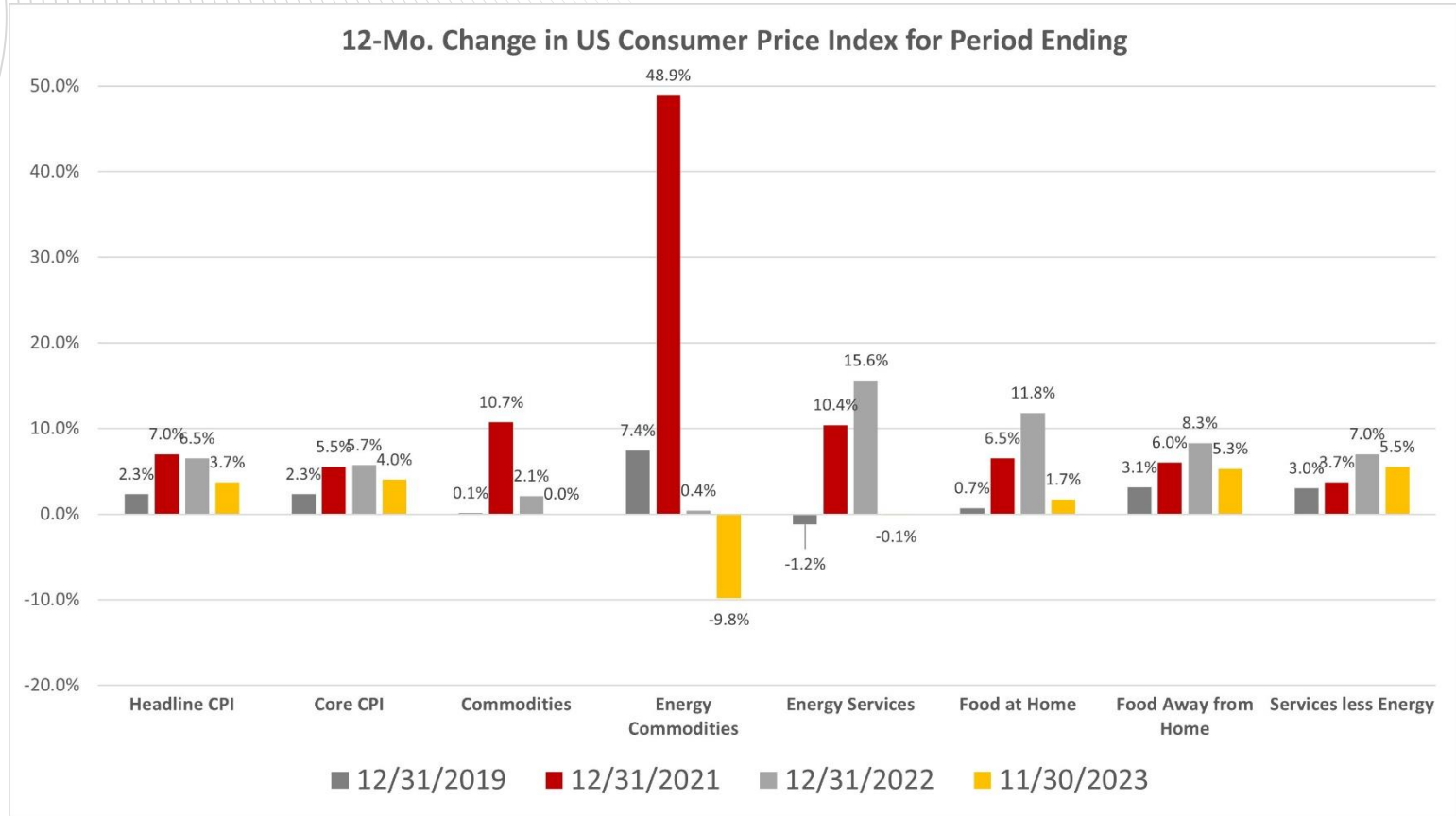
CPI YOY Index (US CPI Urban Consumers YoY NSA)

CPI XYOY Index (US CPI Urban Consumers Less Food & Energy YoY NSA)

Bloomberg



# CPI Now Highest in Services v. Energy



# How We Got Here: Pandonomics

- Spring 2020. Pandemic reduced aggregate demand due to lockdowns and reduced income and supply due to limits on and preferences toward work. Real GDP falls, prices flat.
- Summer 2020. Aggressive fiscal and monetary policy shift demand for hard goods back out, but many services unavailable and supply remained weak.
- Early 2021. Vaccines enabled reopening and pent-up demand, but labor supply very slow to recover, creating inflationary pressure.
- Early 2022. Russian invasion and China's supply problems added to the inflation created by expansionary policies.
- Late 2023. The shadow of pandemic: inflation fight and rate hikes.

# Sales of Previously-Owned Homes: Pandemic locked us in houses and now in homes!



# Contain Inflation and Maintain Growth?

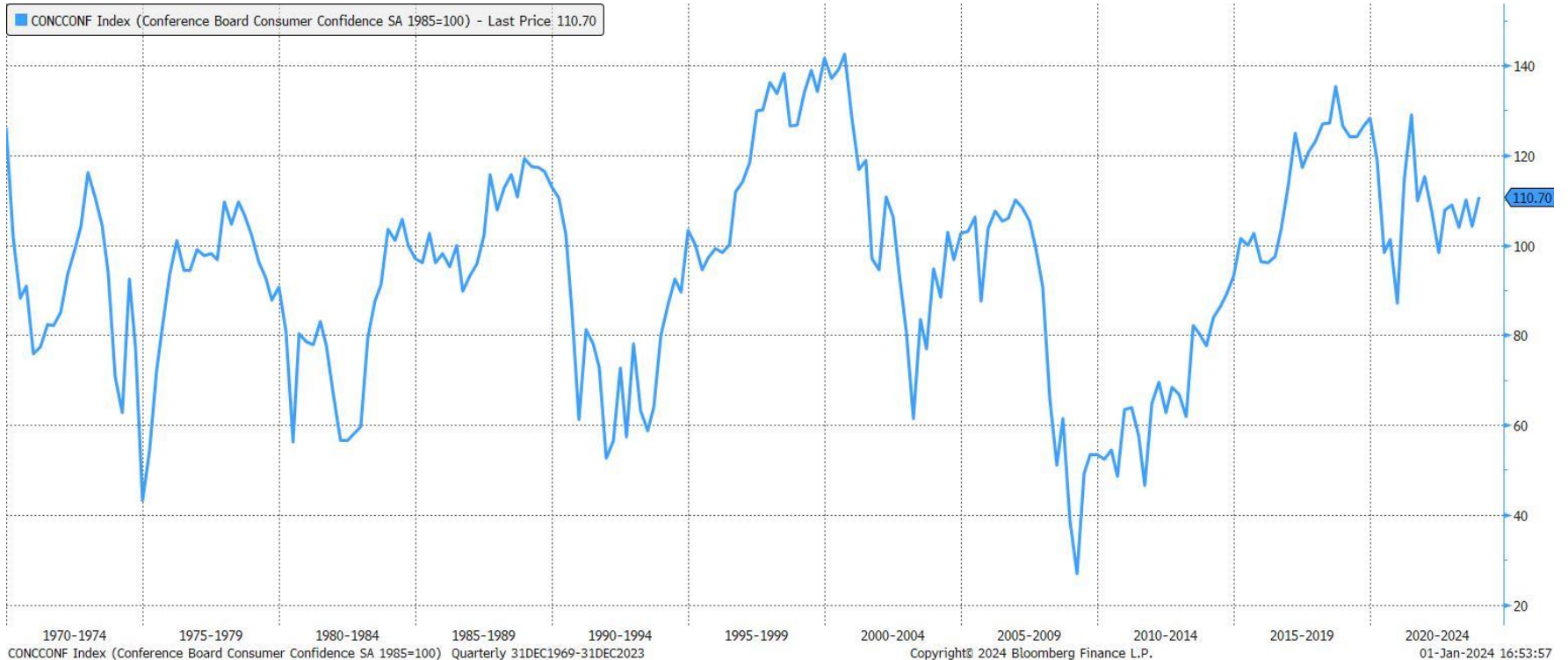
- The factors driving inflation are now mainly embedded in wage growth, as seen in service industry inflation.
- The recovery of labor supply has reduced pressure.
- The shift to WFH takes further pressure off wages.
- The likelihood of recession turns on:
  - Continued consumer confidence
  - Labor supply growth
  - Inflation momentum and expectations
  - Fed patience getting back to 2% target inflation



# Consumer Confidence: Remains above Average

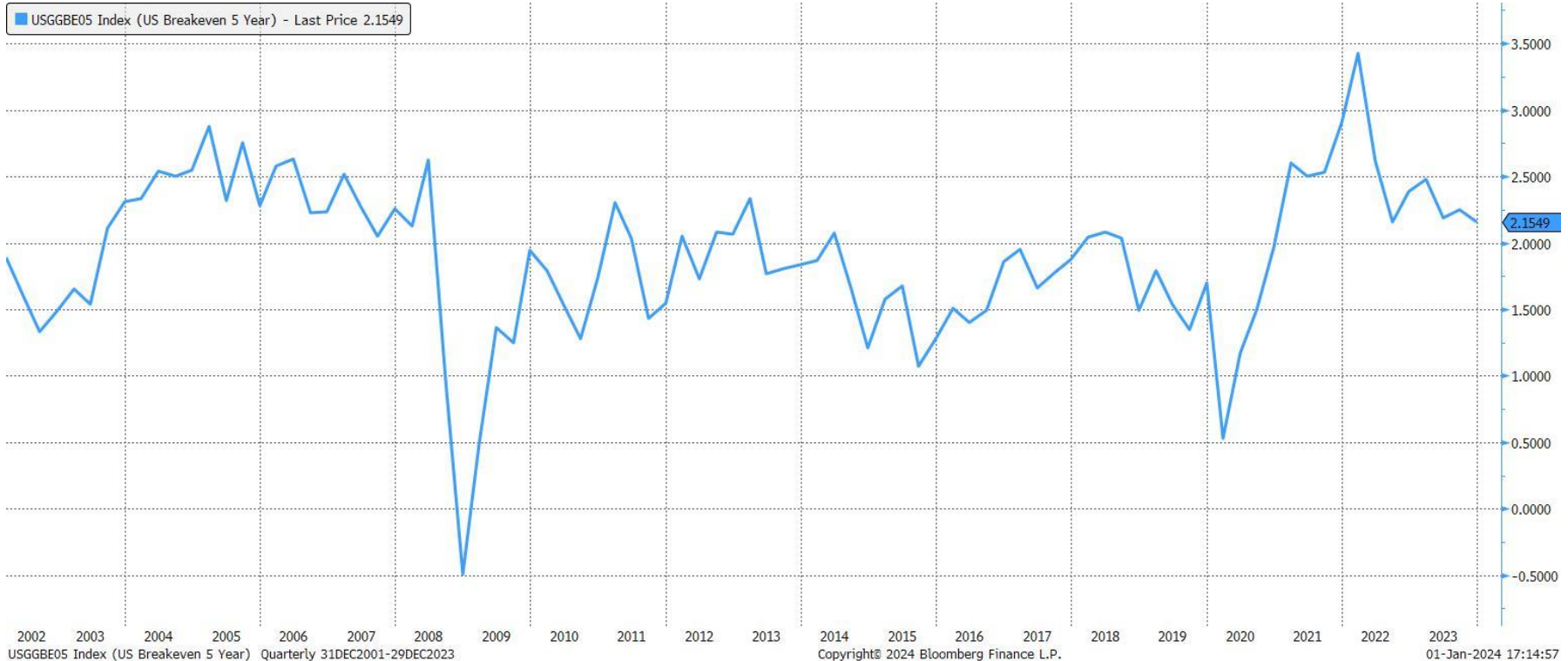
CONCCONF Index (Conference Board Consumer Confidence SA 1985 = 100)

Bloomberg



# TIPS 5-yr Breakeven Inflation Rate

USGGBE05 Index (UW Breakeven 5yr)



# My Outlook for 2024 and Beyond

- Employment looks very strong, Fed showing patience, so I believe we avert technical recession.
  - 2% real GDP growth, unemployment below 5% in 2024
  - Core inflation under 2.5% y/y by Dec 2024
  - S&P grinds upward to 5000 by year end 2024
- Our election and geopolitics hang over us like a fog.
- U.S. technological leadership will need to save the day again.

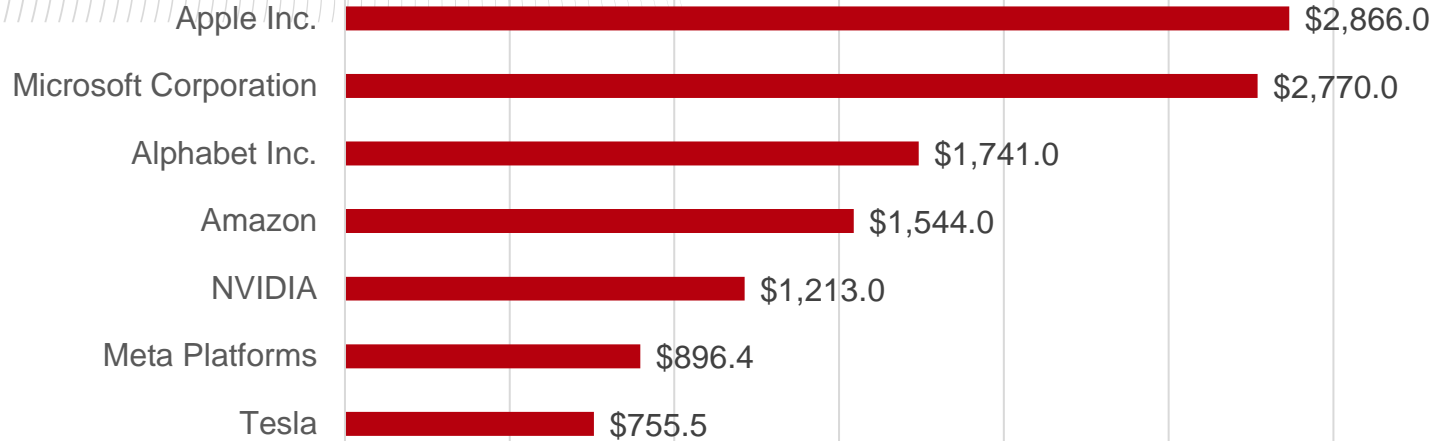
# Economic Dynamism

- Creative destruction of capitalism continues to push our economy forward.
- AI, robotics, and virtual reality may usher in a 4<sup>th</sup> industrial revolution.
- The U.S. can lead this revolution due to **broad and deep capital markets, rule of law, entrepreneurial culture, management talent, and dominance in higher education.**
- An example: ChatGPT.



# 10 Largest U.S. Companies by Market Cap

## Founded after 1975



## Founded before 1975



\$ Billions

0 500 1000 1500 2000 2500 3000 3500

# Generative AI: 2023

- ChatGPT becomes the fastest-growing consumer app ever.
- Led by Microsoft, investors inject \$27 billion into generative AI startups in 2023.
- 2023's dictionary.com word of the year reflects growing criticism of the technology.

WORD OF THE YEAR

## hallucinate

verb [ *huh-**loo**-suh-neyt* ]

(of artificial intelligence) to produce false information contrary to the intent of the user and present it as if true and factual.



Dictionary.com



# Generative AI: Why It Matters

- Consultancy PwC estimates AI-related impact could reach \$15.7 trillion globally by 2030.
- Winners and losers still TBD (see NVIDIA).
- Will regulators play a lead role in the future of AI? (see E.U. AI Act).
- What will AI-generated misinformation look like in the face of a major election?

# The Critical Battle for Tech Leadership

- U.S. tech leadership has been central to our global economic, political, and military leadership.
- The 1980's: American leadership left for dead.
- Entrepreneurial spirit, rule of law, broad and deep capital markets, and the best higher ed system are the foundation of that leadership.
- Internal political divisions, likely exacerbated by outside actors, are eroding our foundation.

# Tech, Closer to Home

- Wisconsin's economic future also hinges on growth in the tech sector to complement our historic strengths in agriculture, manufacturing, tourism.
- Local region has benefitted from the natural synergies between emerging tech sector and a great research university (Epic, Exact, Am Fam, etc.).
- Political dysfunction is now manifesting locally and nationally by culture wars aimed at universities.
- The CCP could not ask for a nicer holiday gift.

# Wisconsin Economic Development

- Wisconsin's balance across agriculture, tech, manufacturing, and tourism is a pro and con.
- Competing interests make policy difficult.
- One sure thing is that the AI revolution will transform all these sectors and being a first mover is a good thing.
- Wisconsin must strengthen its connection to innovative technology to advance in all sectors.

# Long-Term Concerns

- We may be on the cusp of World War III.
- Growing Federal debt and fragmentation of global economy will erode dollar dominance and reduce the size of our free lunch.
- Transition away from carbon energy and globalization will hurt productivity and living standards on average.
- Political polarization may be the root cause of the demise of American leadership. And we keep voting for it.

# Opportunities for a Brighter Future

- Work from home boosts quality of life, labor mobility, and possibly productivity.
- Greater cohesion between US, EU, Canada, UK, and Japan but we need more developing countries.
- Sane immigration policy.
- U.S. retains technological leadership but is being challenged from within and from outside.
- Can politicians bond over a common threat??