



CLA Outlook 2023 Economic, Market, Policy and Industry Insights

CBIA Economic Summit 2023

We'll get you there.



CLA Outlook 2023 – Staying the Course



Macroeconomic “top-down” analysis

- Despite higher interest rates and slowing economic growth that will impact areas such as housing, consumer spending and labor markets are resilient.
- **Manage your business: (tax, audit, global)**

Economic outlook

Equity, fixed income and alternatives views

- Stay invested as equities, fixed income markets and alternatives are now attractively valued along with attractive cash management yields
- **Maintain high-quality stance with an integrated approach to financial planning (private client services)**

Market outlook

Legislative and regulatory update

- With no single party in control, Congress and the Biden administration will likely focus on bipartisan priorities.
- **Carefully monitor regulatory guidance and actions that may affect your business**

Policy outlook

Industry outlook

2023 Outlook

Industry insights “bottom-up”

- Continued profitability seen due to top-line price increases, though expenses should be carefully managed to drive bottom-line growth.
- **Focus on efficiency (outsourcing, talent solutions, digital)**



CLA's Approach to Economic and Market Analysis

Our outlook uses the mosaic theory to formulate opinions and insights about general economic activity and the relative value of various investment options.

The **big macroeconomic drivers** of our mosaic are defined as:

- **Consumer finances** - Analysis of spending, borrowing and saving decisions made by households over time.
- **Business conditions** — Analysis of profitability, business optimism, inventory management, etc.
- **Labor market** - Analysis of unemployment, wage gains, nonfarm payrolls and job openings, etc.
- **Federal Reserve policy** — Analysis of the Federal funds rate and the Federal Reserve balance sheet.
- **Fiscal policy** — Analysis of government taxes, spending and regulation.

When analyzing the **financial markets**, our mosaic will compare and contrast **historic relative value**, tempered by current and expected macroeconomic conditions, specific to:

- **Equity markets** — Publicly-traded equities, large-, mid- and small cap, as well as developed and emerging international markets.
- **Fixed income markets** — Publicly-traded government, corporate and mortgage debt.
- **Private markets** — Credit, real estate and equity funds, generally formed as partnerships or LLCs.

Mosaic theory

- *A financial analyst gathers and interprets large quantities of information from many sources.*
- *Analysts seek and use such information to compare and contrast investment alternatives.*
- *Analysts are in the business of formulating opinions and insights that are not obvious to the general investing public about the attractiveness of particular securities.*

Source: Excerpts from CFA Institute, Standards of Practice Guidance

2023 Outlook — Executive Summary



Half Full

Economy: Robust consumer spending to continue.

Industry: Strong business profitability trends forecasted while the use of data insights and outsourcing should increase given labor shortages.

Financial markets: Attractive valuations in both equity, fixed income and alternative markets.

Policy: Congress and the Biden administration will work together on bipartisan and “must pass” legislation.

Portfolios: Well-constructed portfolios can participate in market upside while mitigating volatility to help achieve your goals.



Half Empty

Economy: Slowing GDP growth expected in 2023.

Industry: Tight labor markets and rising cost of capital may challenge unprepared business owners.

Financial markets: Expect more restrictive credit conditions as the Federal Reserve continues to withdraw liquidity in a bid to fight inflation.

Policy: A divided government may result in gridlock.

Portfolios: Recoveries take time and reward patient long-term investors rather than market-timers.



Economic Outlook

We'll get you there.

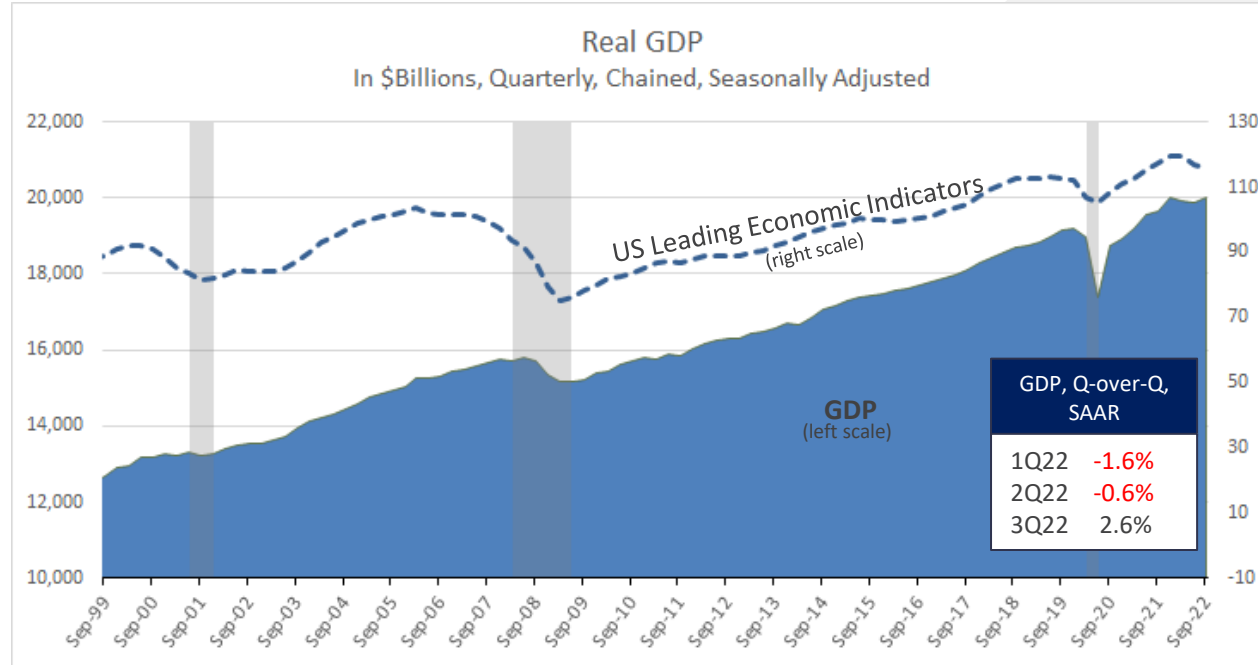
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Macroeconomy: GDP



GDP growth is slowing — but still resilient



Grey areas denote recessions.

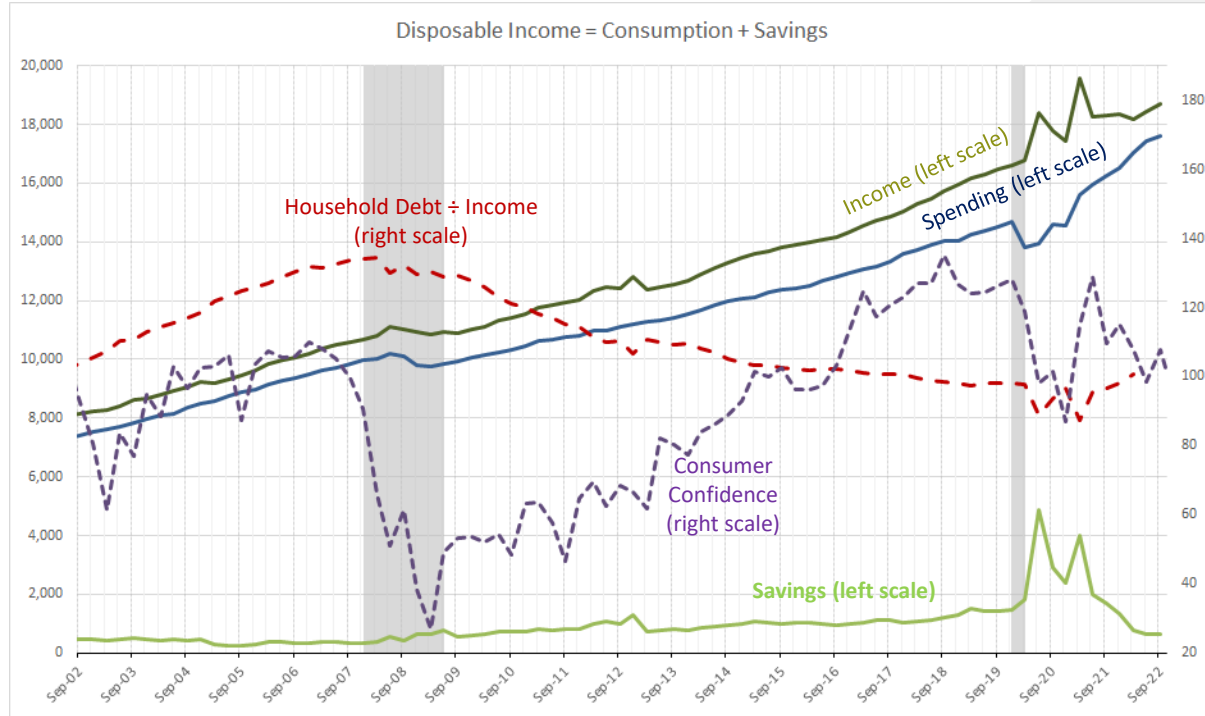
Source: US Bureau of Economic Analysis, Conference Board, National Bureau of Economic Research, Bloomberg, CLA Wealth Advisors



Macroeconomy: Consumer



Healthy consumer spending and income levels despite lower savings



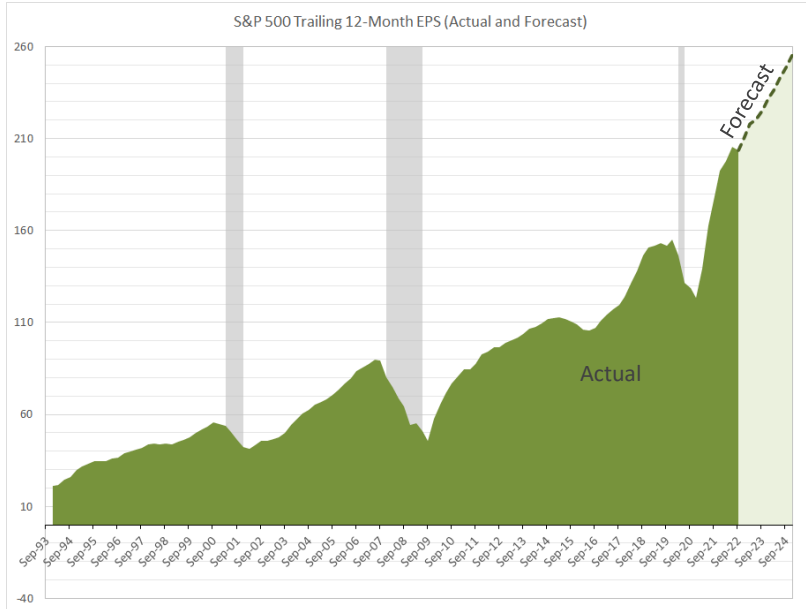
Grey areas denote recessions.



Macroeconomy: Business Conditions



Strong profits to continue though watch excess inventory building

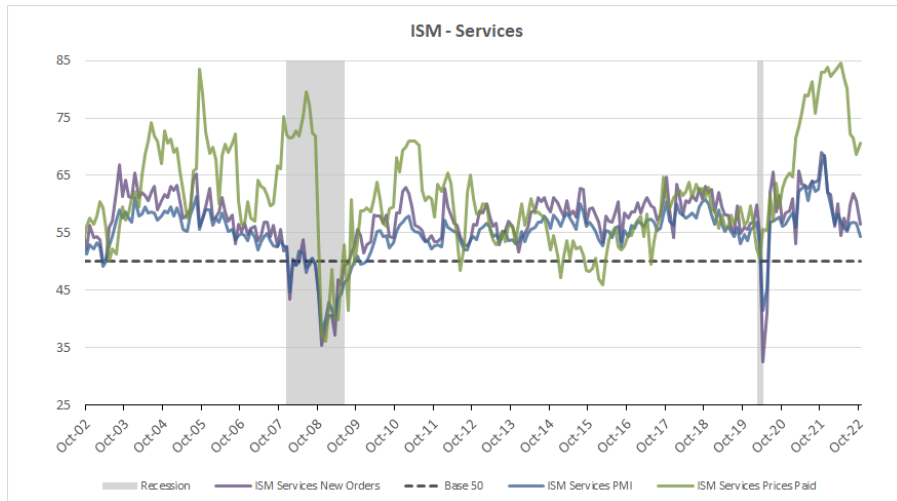


Macroeconomy

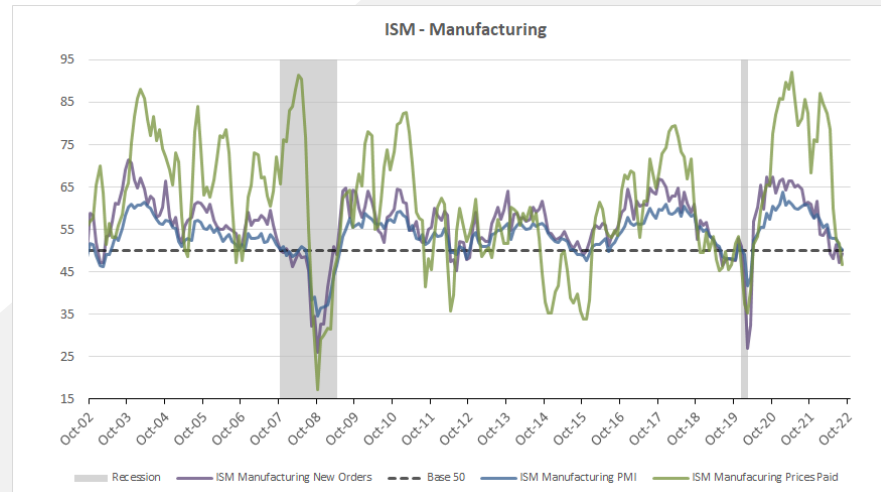


Business conditions — ISM services and manufacturing

With a diffusion Index, any reading above 50 (dotted line) indicates growth.



Services include Real Estate, Utilities; Construction; Education; Information; Transportation & Warehousing; Health Care & Social Assistance; Public Administration; Finance & Insurance; Management of Companies & Support Services; Professional, Scientific & Technical Services, Agriculture, Forestry, Fishing & Hunting; and Arts, Entertainment & Recreation; and Other Services.



Manufacturing includes Mineral Products; Petroleum & Coal; Transportation Equipment; Computer & Electronic Products; Printing & Related Activities; Plastics & Rubber Products; Primary Metals; Machinery; Food, Beverage & Tobacco Products; Wood Products; Apparel, Leather & Allied Products; Furniture & Related Products; Paper Products; Chemical Products; Fabricated Metal Products; and Electrical Equipment, Appliances & Components.

Grey areas denote recessions.

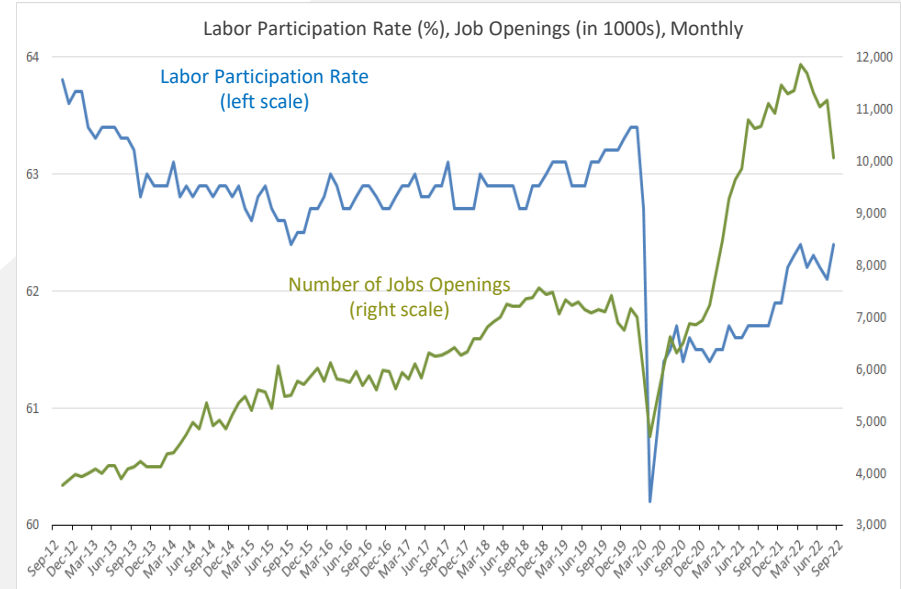
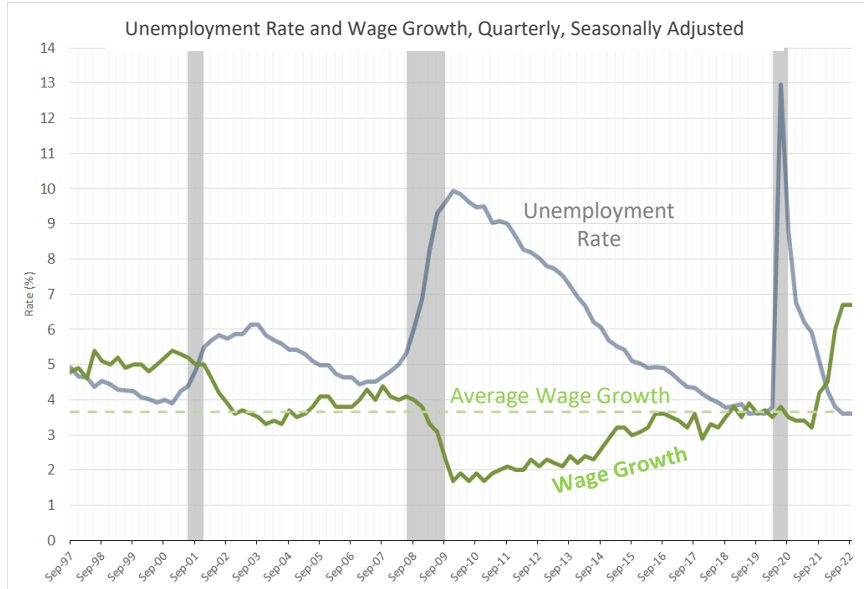
Source: Institute of Supply Management, CLA Wealth Advisors



Macroeconomy



Low unemployment remains, making it tough to find labor



Grey areas denote recessions.

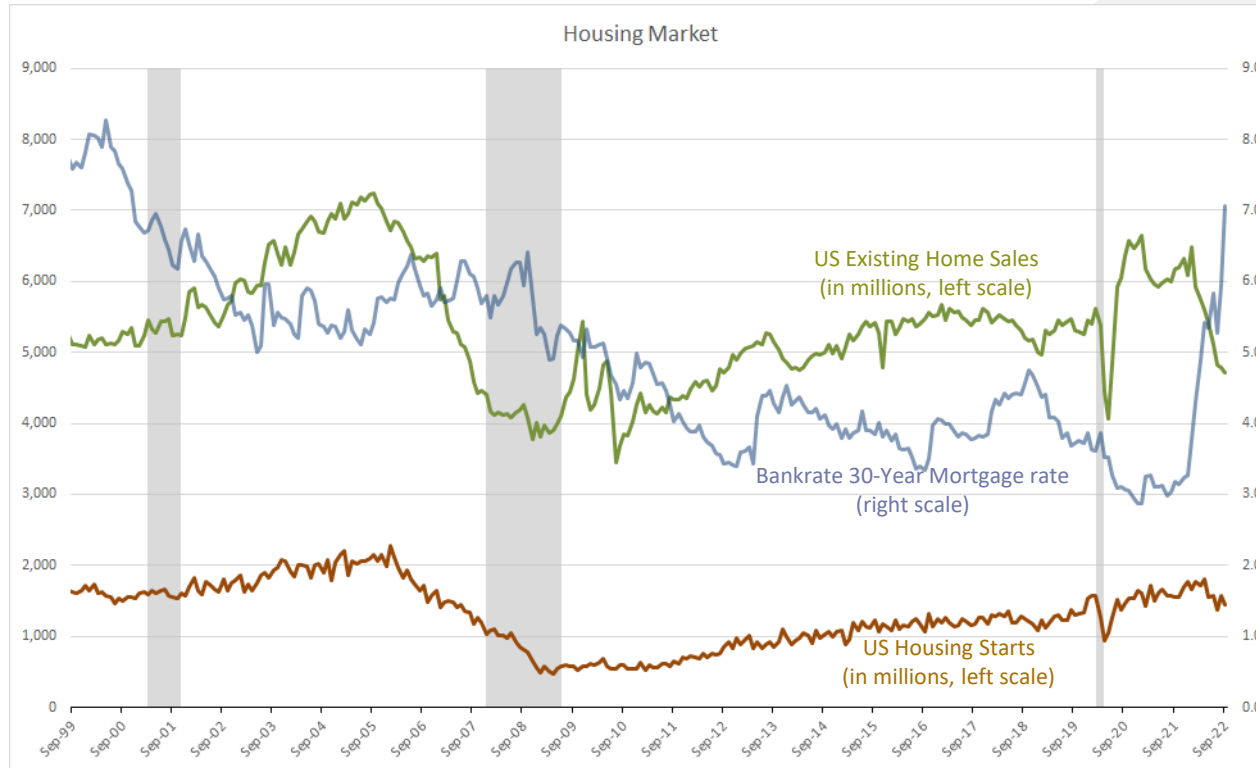
Source: U.S. Department of Labor, Atlanta Federal Reserve, Bloomberg, CLA Wealth Advisors



Macroeconomy: Housing



Home sales are starting to fall due to higher mortgage rates



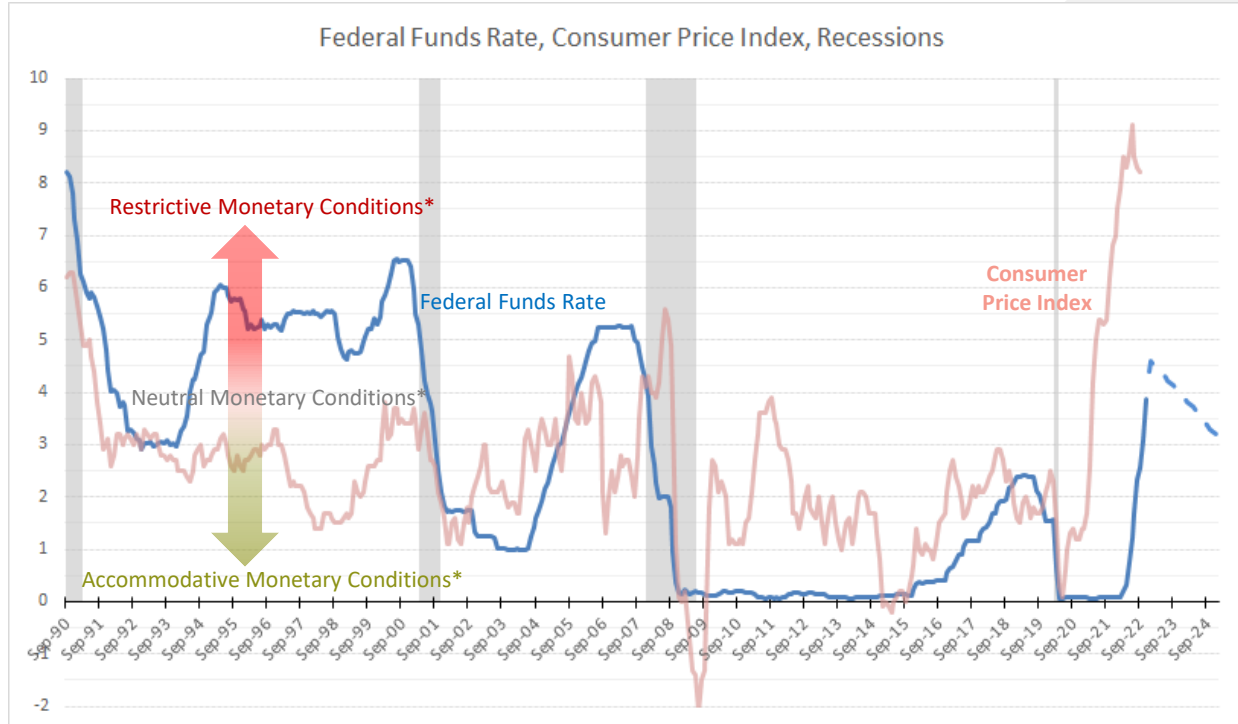
Grey areas denote recessions.



Federal Reserve Policy



The Fed may raise rates from 0% in 2022 to ~ 5% in 2023



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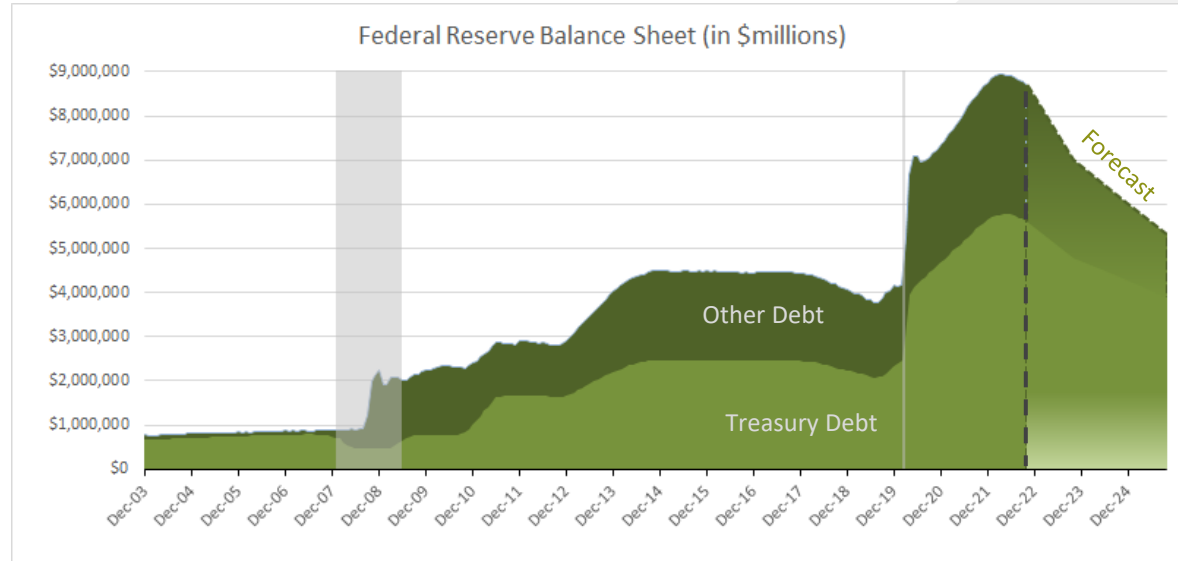
Source: Federal Reserve Board, Bloomberg, NBER, CLA Wealth Advisors



Federal Reserve Policy



Further tightening seen with \$95bln / month of balance sheet runoff



Grey areas denote recessions.

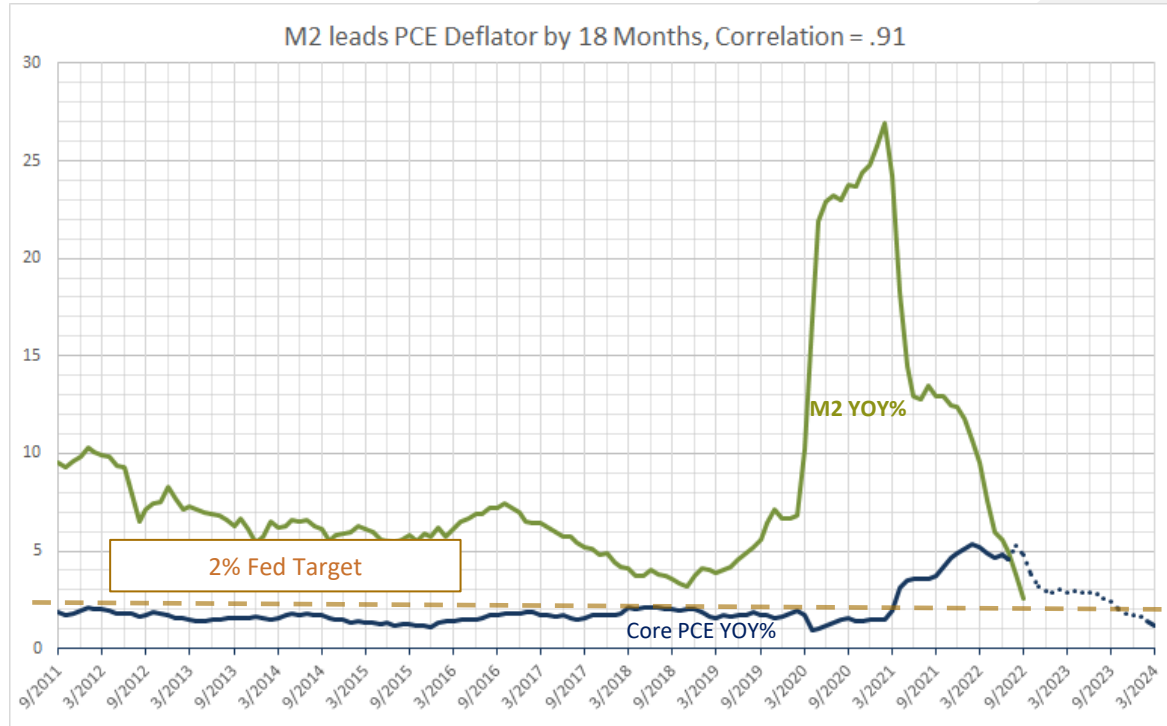
Source: Bloomberg, Federal Reserve, NBER, CLA Wealth Advisors



Federal Reserve Policy



Inflation has likely peaked and should normalize by early 2024



Source: Bloomberg, CLA Wealth Advisors



Economic Views — Summary



Half Full

Projected corporate profits remain robust.

The unemployment rate is low.

Inflation appears to have peaked.



Half Empty

Tight labor markets indicate possible headwinds to future growth and additional wage pressures.

The Fed has stated its intention to continue its “tightening” cycle (reducing its balance sheet and raising the Fed funds rate) to fight inflation.

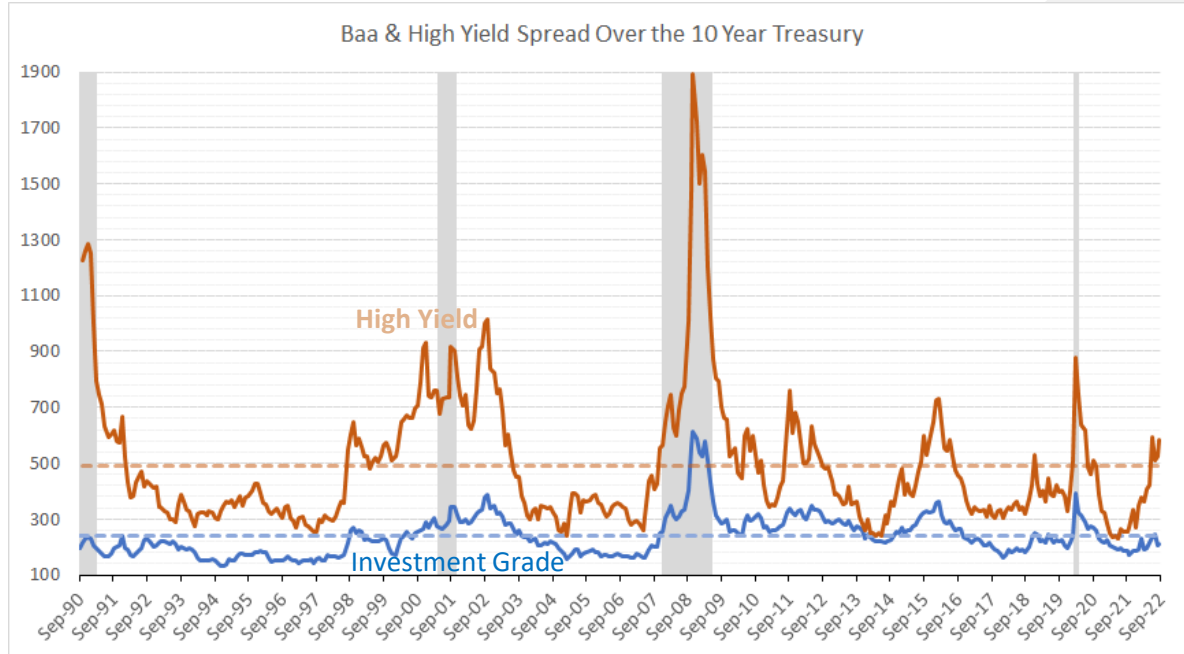
Inflation is forcing consumers to reduce savings and tap lines of credit in order to keep up.

Federal deficits are projected to remain high, which could “crowd out” the private sector by driving up borrowing costs.

Financial Markets



Interest rates — credit markets do not show significant stress



Grey areas denote recessions.

Source: Bloomberg, CLA Wealth Advisors





Industry Outlook

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Industry Insights



- **Macroeconomic focus areas:** Interest rates, business profitability, labor (finding talent and wage pressures)
- **Specific highlights:**
 - Fears about inflation, supply chain concerns and high commodity prices are receding with the focus now on interest rates and its impact on rising cost of capital, leverage and business profitability.
 - Regulated industries: Government spending levels and labor markets are critical.
 - Private industries: Interest rates, business profitability and labor are focus areas.
 - Opportunities: Focus on technology (digital) to drive efficiency to maintain margins and utilize outsourcing to address any labor needs.



2023 Outlook – Industry Takeaways



Half Full

Organizations are focusing on not only revenue & profitability but building fortress balance sheets – creating strength and flexibility

Business owners and leaders are focusing on what they know now, what they can manage and what they control

Tight labor markets are driving innovation and creating a focus on “ideal” work

Pricing and customer contracts are front of mind driving more regular review of terms

Business owners and leaders are focusing on planning for succession



Half Empty

Tight labor markets and rising cost of capital may challenge unprepared business owners.

Concerns around the “right” time to sell is front of mind for business owners looking to transition their business

Inflation is driving increase in cost structure and putting pressure on margins

Supply chain challenges continue to disrupt – driving the need to have excess working capital to meet customer demands

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