

# NESGFOA

## Economic and Interest Rate Update

March 31, 2022

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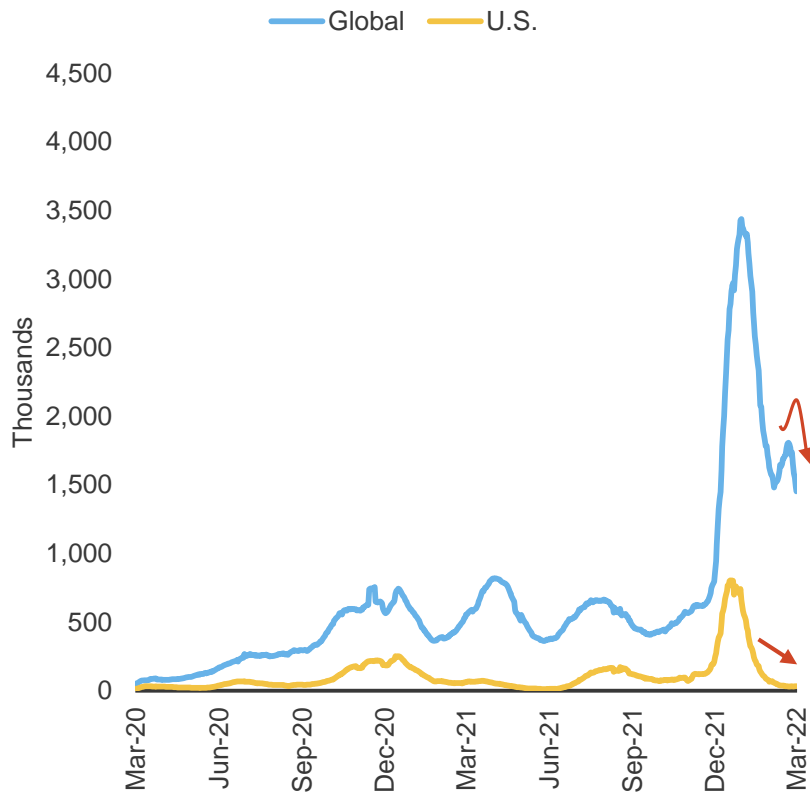
# Economic Backdrop

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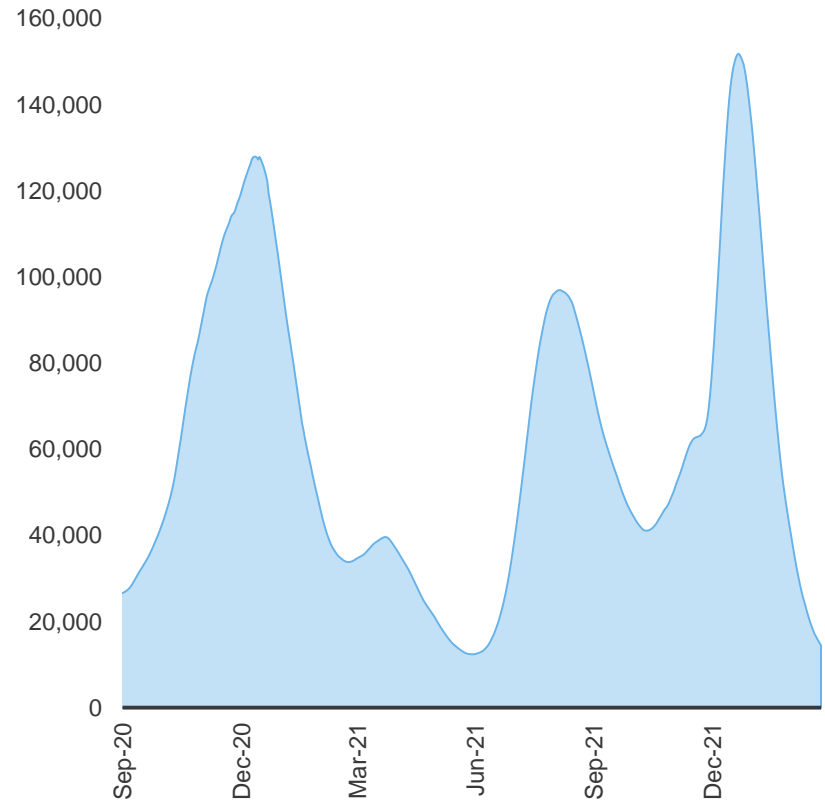


# Global COVID Cases Fall in Europe & East Asia as Domestic Cases and Hospitalizations Subside

## U.S. New Cases Reported Daily 7-Day Moving Average



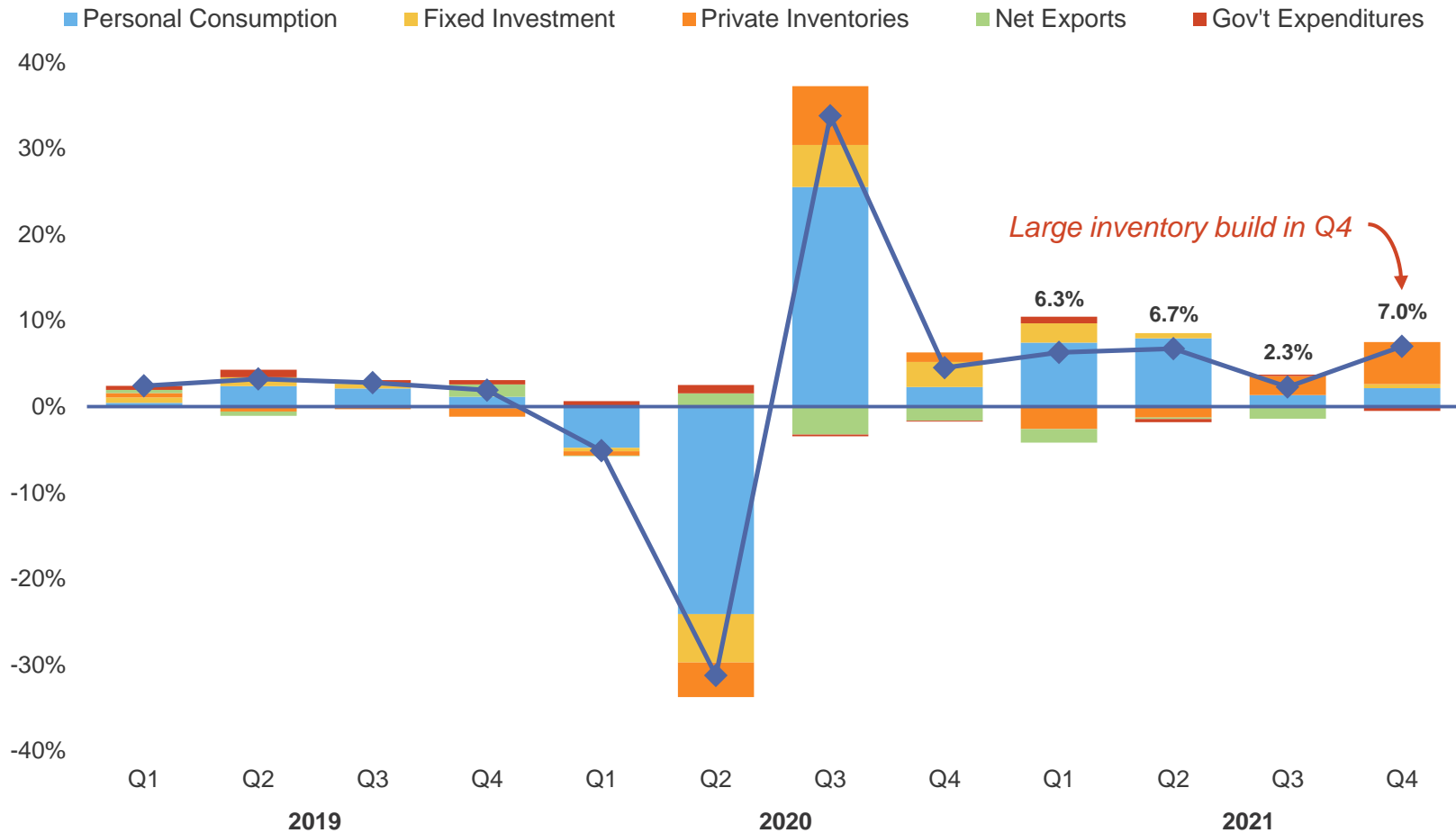
## U.S. Daily Hospital Occupancy 7-Day Moving Average



Source (left): Bloomberg, as of 3/27/2022. Source (right): John Hopkins University Coronavirus Resource Center, as of 3/25/2022.

# U.S. GDP Expanded at 7.0% in the Fourth Quarter of 2021 Fueled by the Rebuilding of Inventories

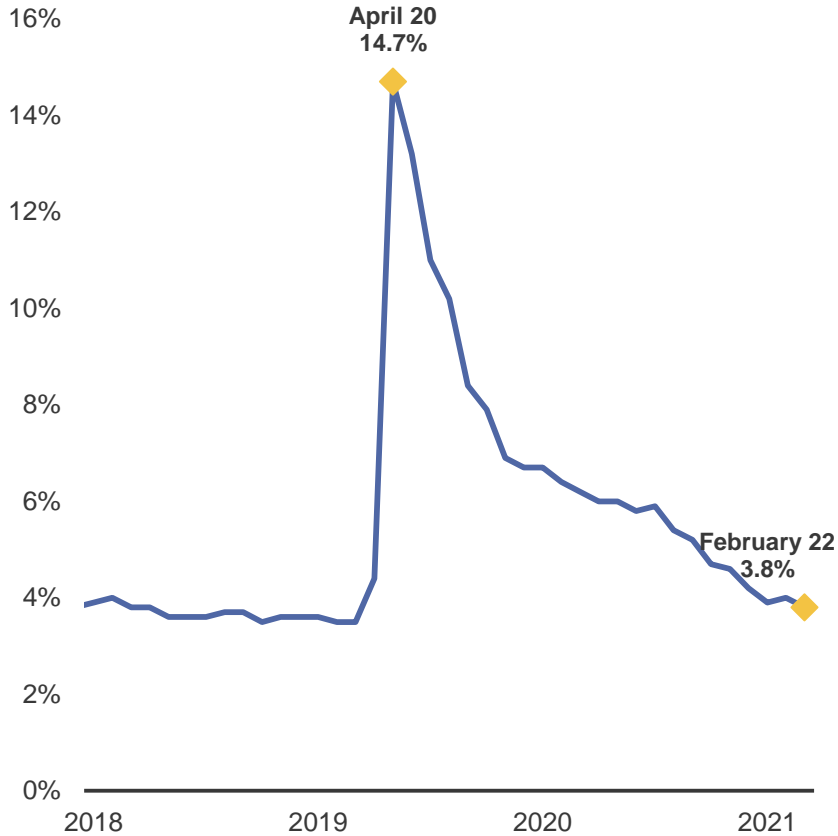
## U.S. Real GDP Contributors and Detractors



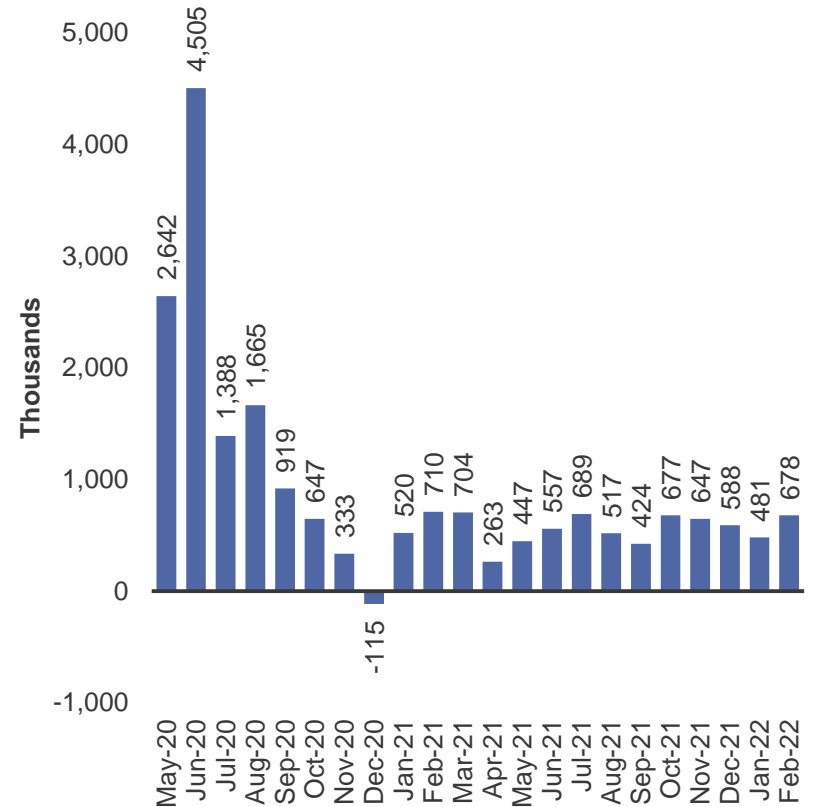
Source: Bloomberg, Bureau of Economic Analysis, as of February 2022.

# U.S. Economy Added 678,000 Jobs in February; Unemployment Rate Fell to 3.8%

## Unemployment Rate



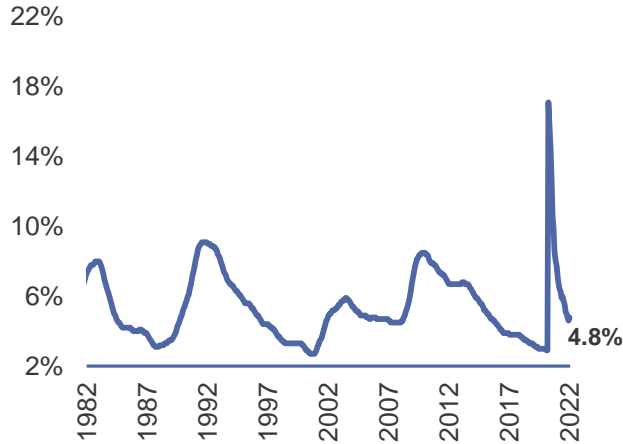
## Monthly Change In Nonfarm Payrolls



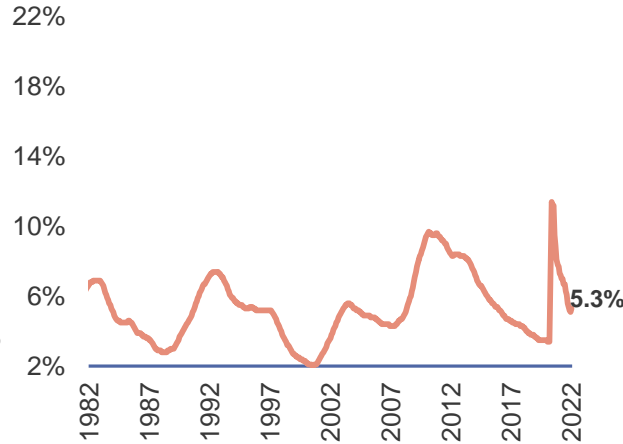
Source: Bloomberg, as of February 2022. Data is seasonally adjusted.

# A Look at Regional Unemployment

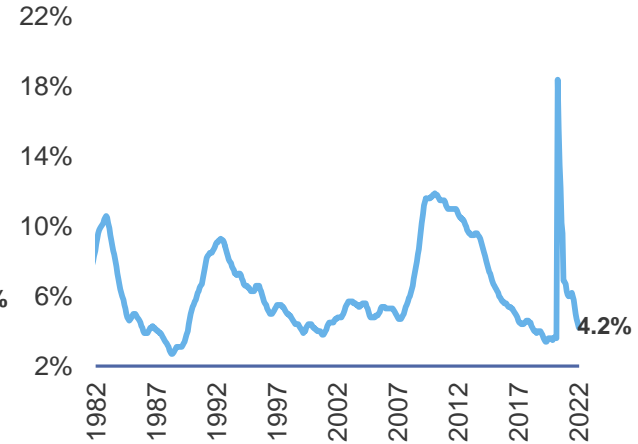
## Massachusetts



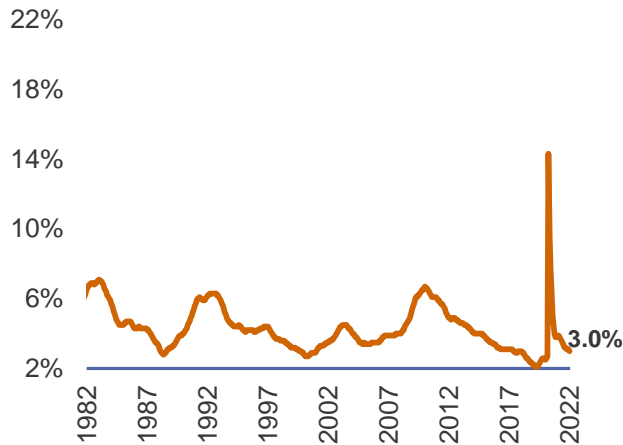
## Connecticut



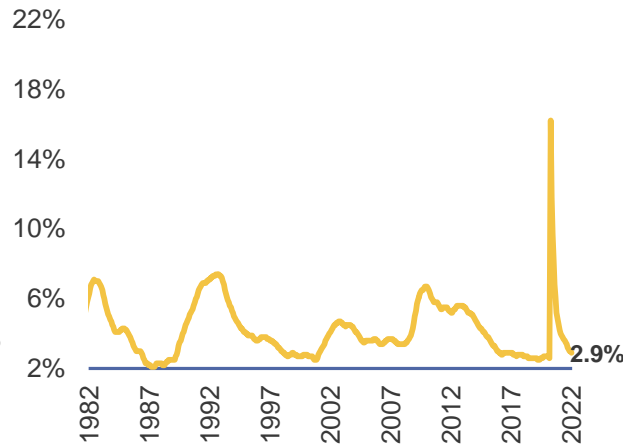
## Rhode Island



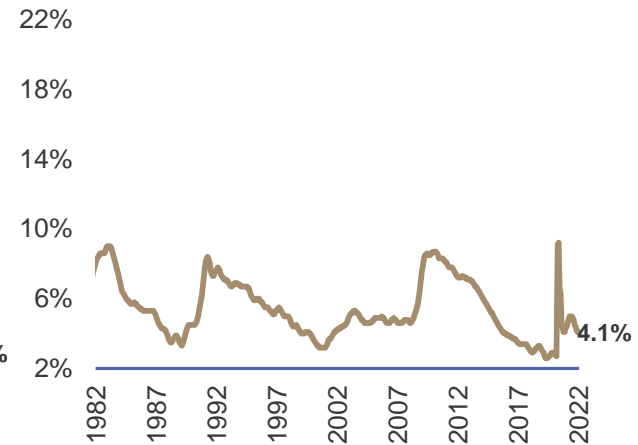
## Vermont



## New Hampshire



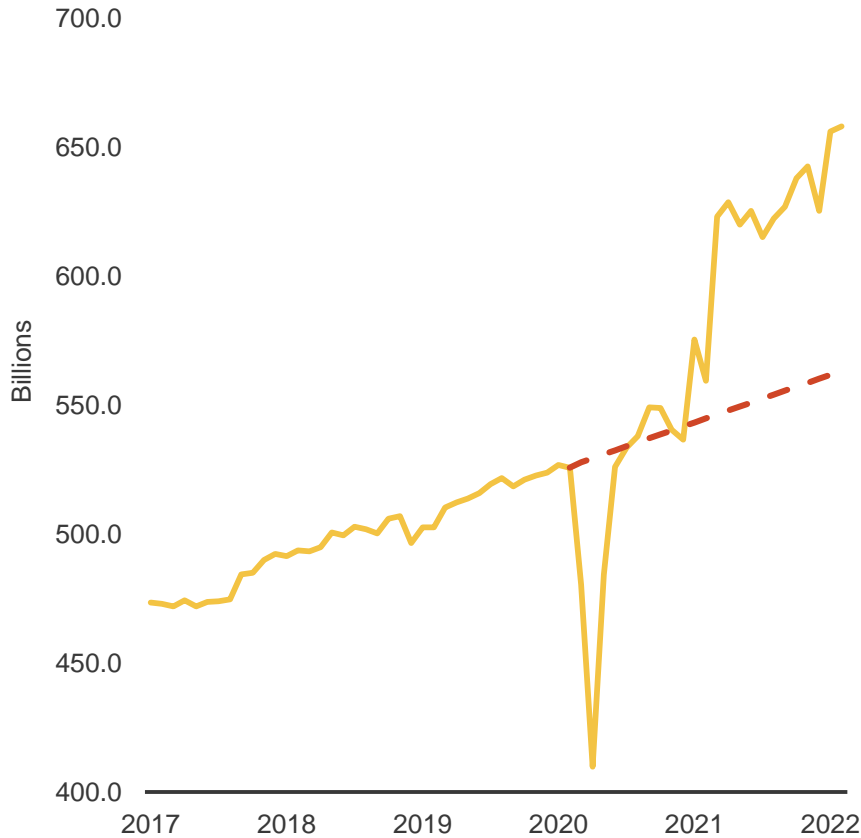
## Maine



Source: FRED, U.S. Bureau of Labor Statistics, as of February 2022.

# Retail Sales Moderate as High Gasoline Costs Take a Toll on Other Consumer Spending

## Retail Sales (Monthly)



## Retail Sales (Year over Year)

February 2022



Source: Bloomberg, as of February 2022.

# Inflation



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# Differences Between Inflation Indicators



## PPI

Selling prices received by domestic producers of goods and services

## CPI

Prices paid by urban consumers for a market basket of goods and services

## PCE

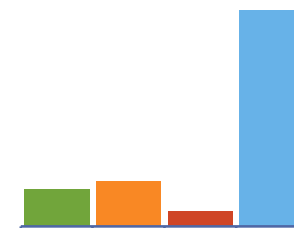
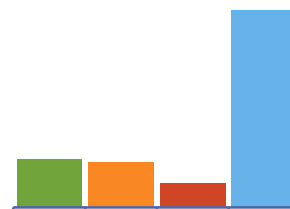
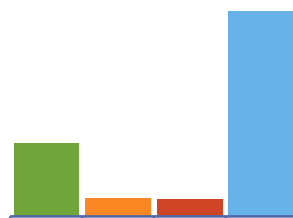
Prices paid for goods and services purchased by or on behalf of persons



Monthly  
Before the 15<sup>th</sup> of the month  
1-month lag

Monthly  
Before the 15<sup>th</sup> of the month  
1-month lag

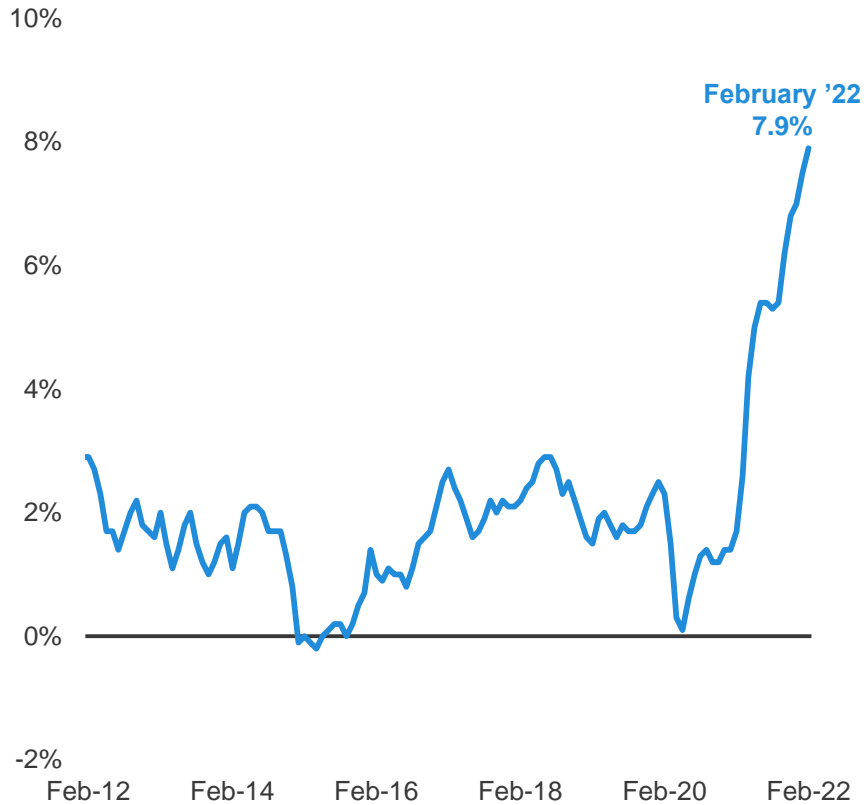
Monthly  
End of month  
1-month lag



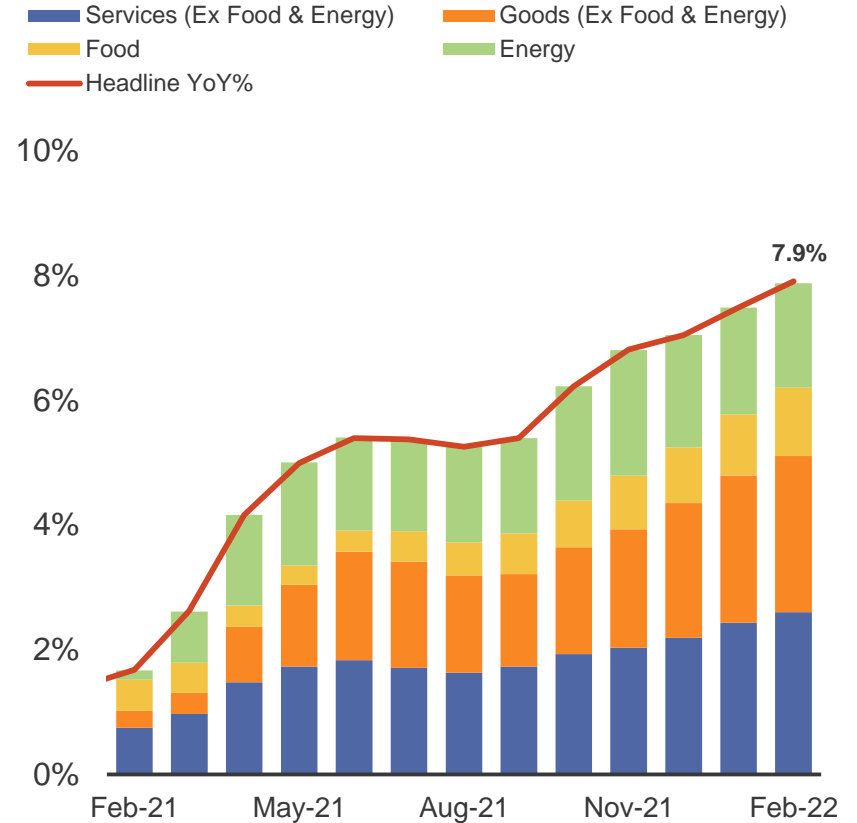
■ Goods ■ Food ■ Energy ■ Services

# Consumer Inflation Rose at Fastest Rate Since 1982

**Consumer Price Index**  
% Change YoY



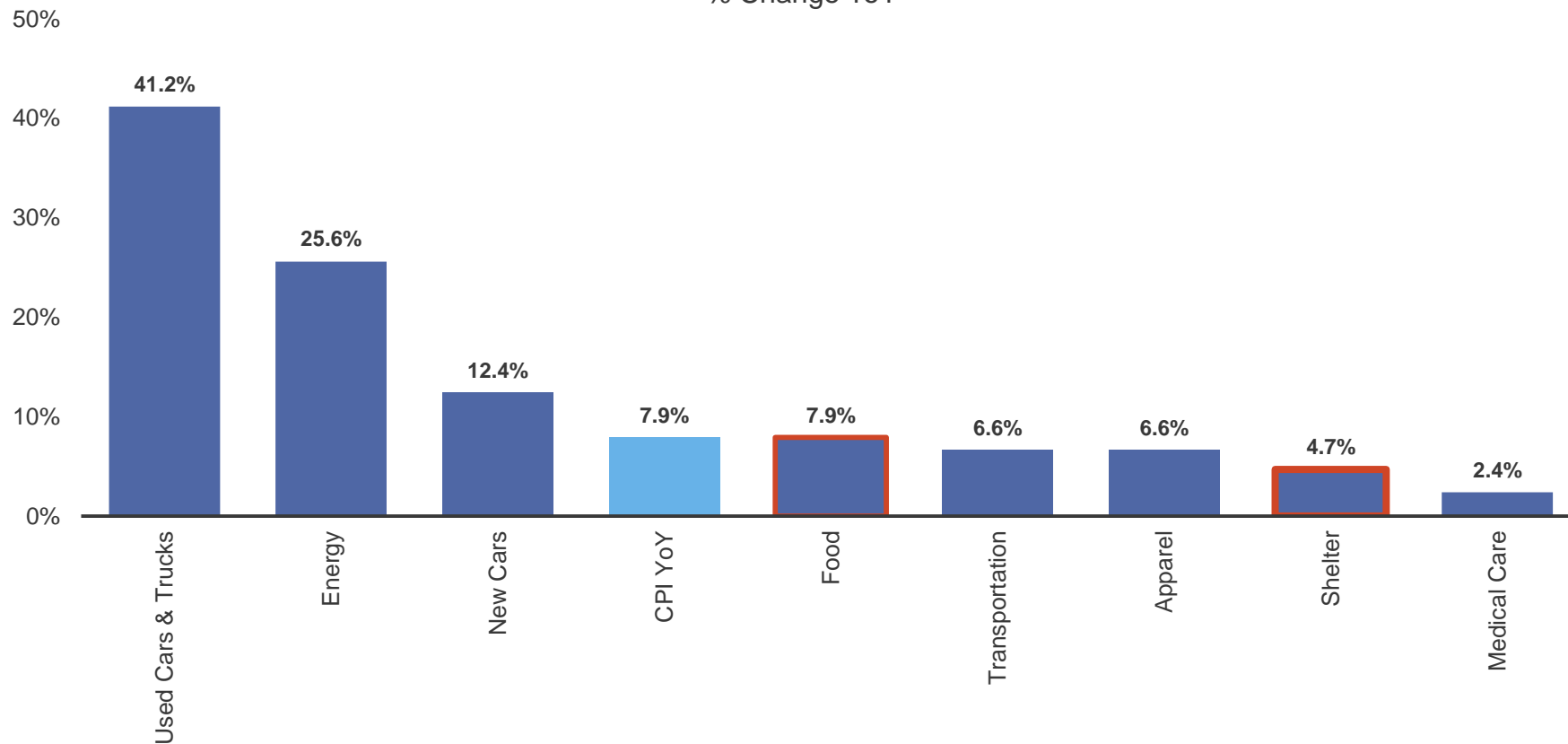
**Top-Line Contributions and CPI YoY**



Source: Bloomberg, as of February 2022.

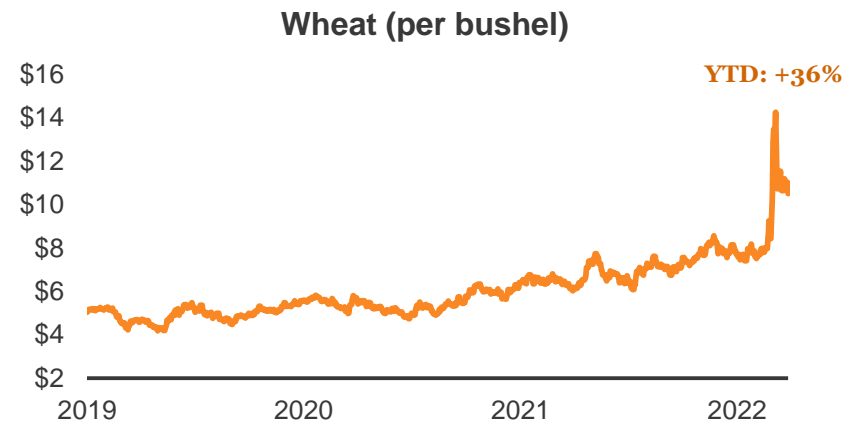
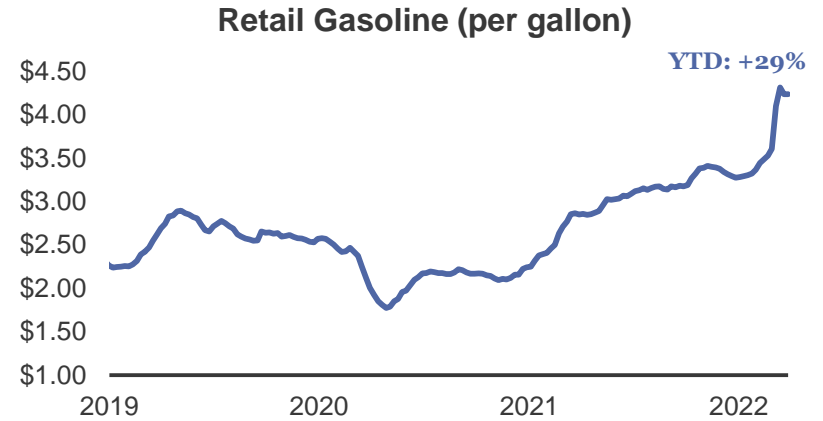
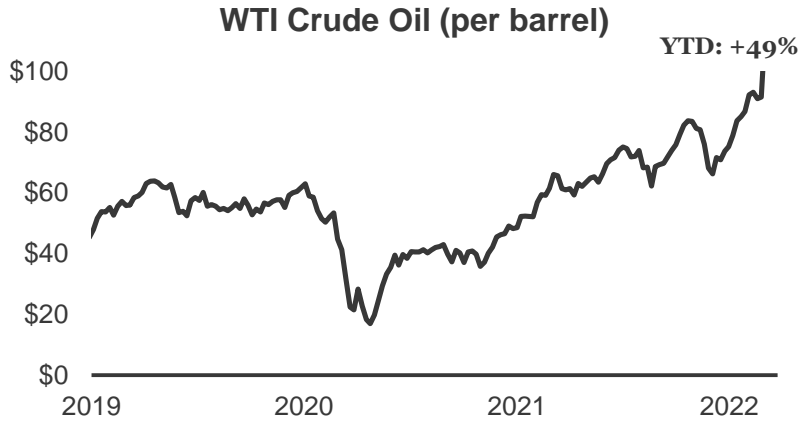
# Consumer Inflation by Component

Key Consumer Price Index Components  
% Change YoY



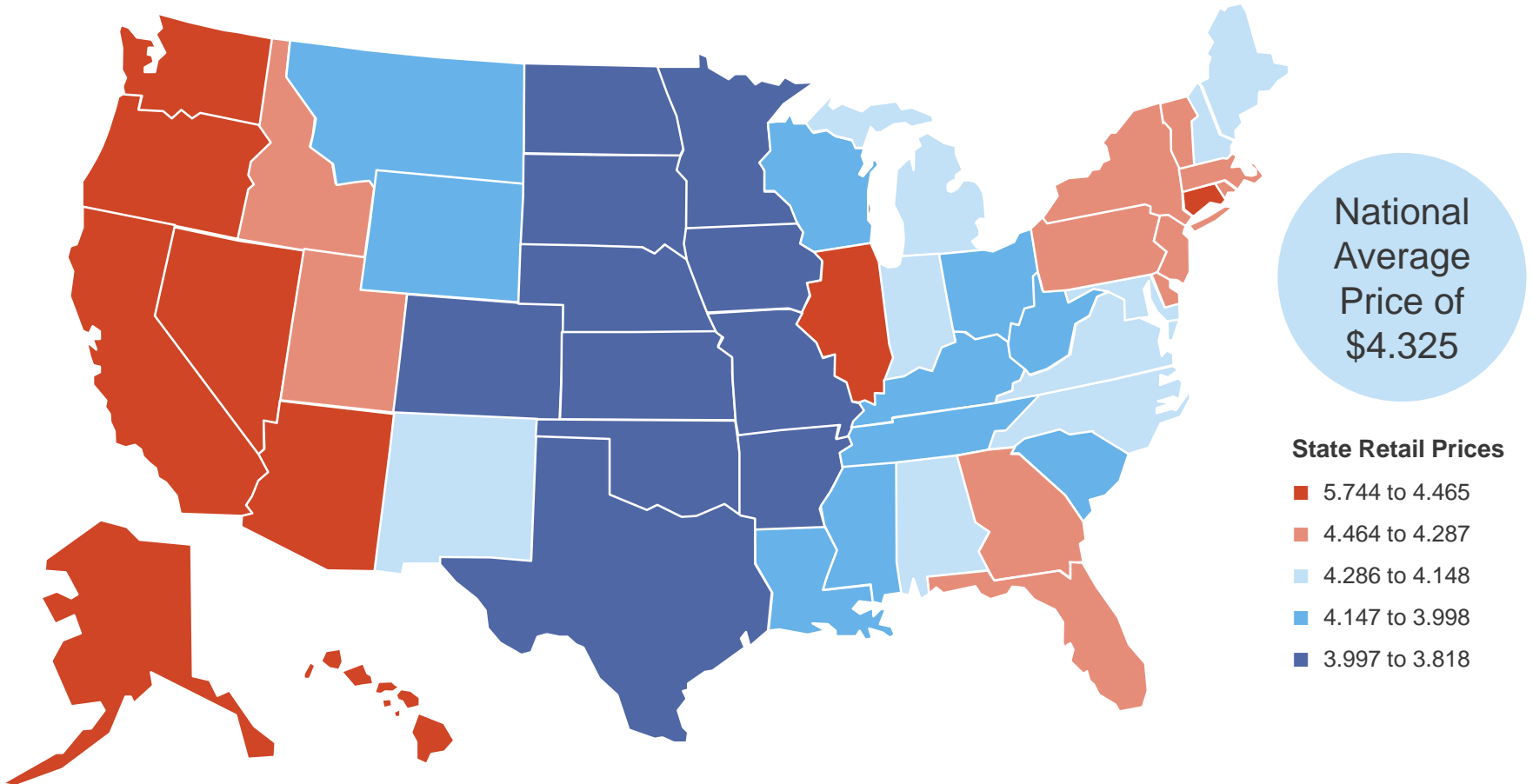
Source: Bloomberg, as of February 2022.

# Russia's Invasion of Ukraine and Economic Sanctions Has Driven Commodity Prices Higher



Source: Bloomberg, as of 3/28/2022.

# Gasoline Prices Surge Across the Country



Source: [gasprices.aaa.com](https://gasprices.aaa.com). Data as of 3/14/2022.

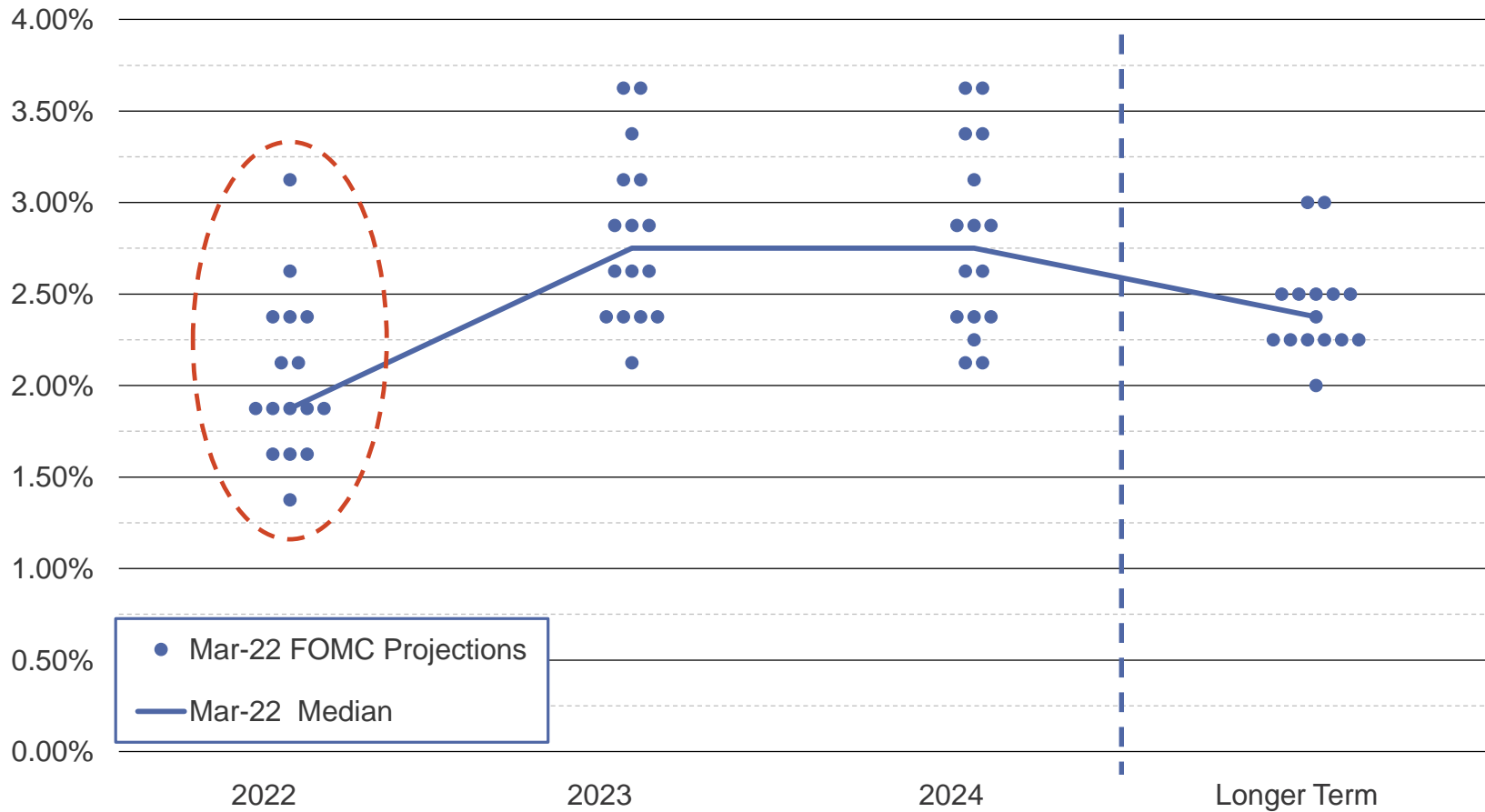
# What's New With the Fed?

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# Federal Reserve Officials Project At Least 7 Rate Hikes in 2022

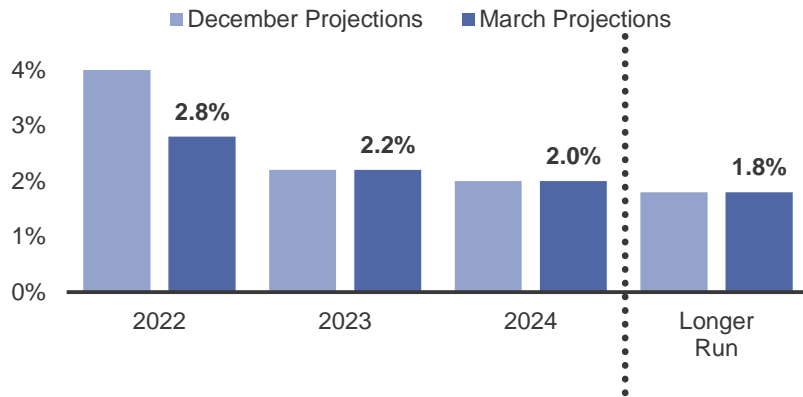
## Fed Participants' Assessments of 'Appropriate' Monetary Policy



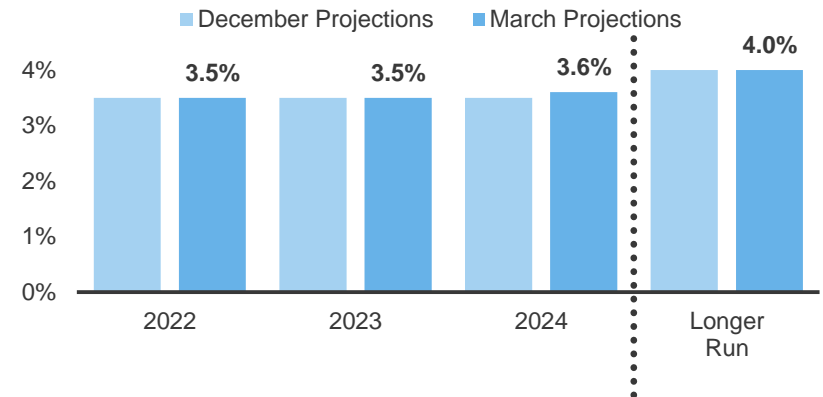
Source: Federal Reserve and Bloomberg. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end.

# Fed's Projections Show Recent Surge in Growth and Inflation to Wane

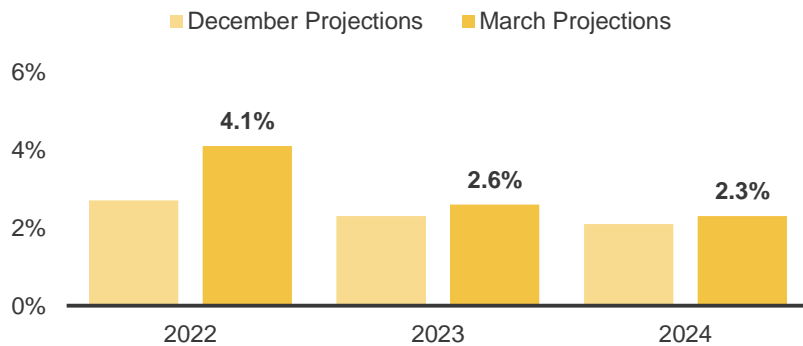
## Change in Real GDP



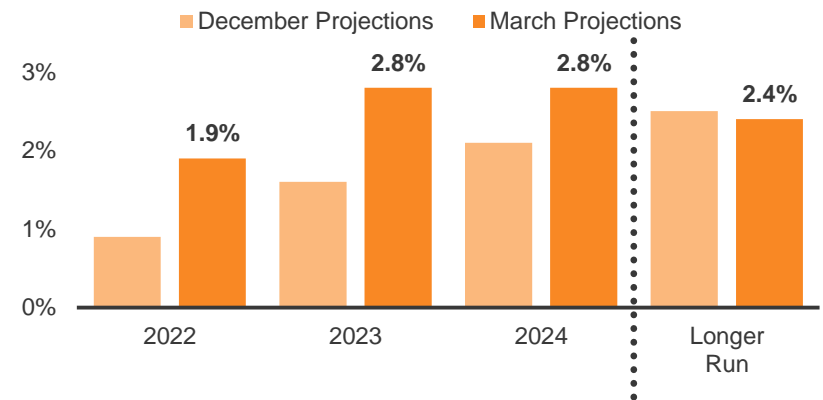
## Unemployment Rate



## Core PCE Inflation



## Federal Funds Rate



Source: Federal Reserve, latest economic projections as of March 2022.

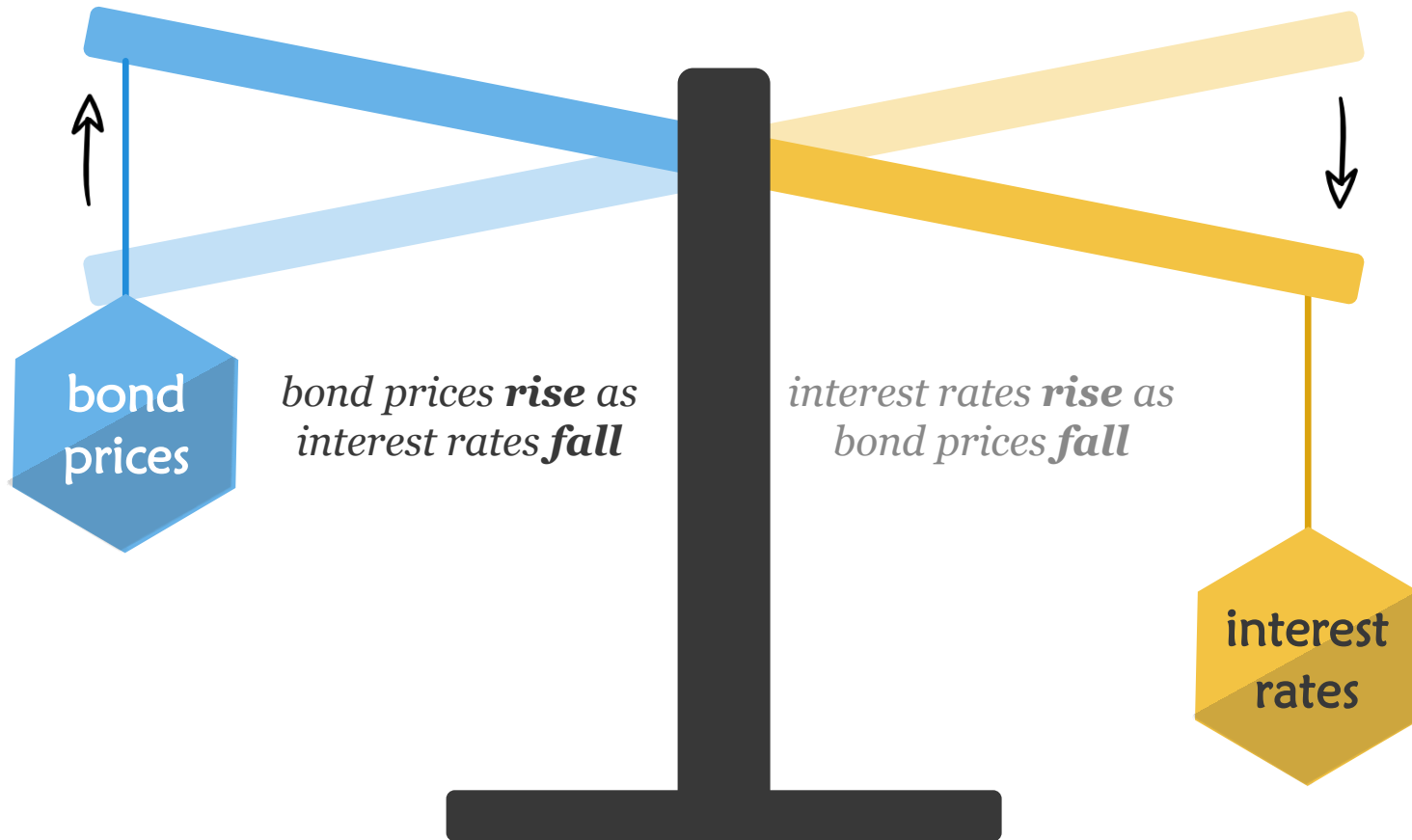


# Rate Environment

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# Bond Prices and Interest Rates Are Inversely Related



# Treasury Yields Continue to Climb

## 2-Year Treasury Yield

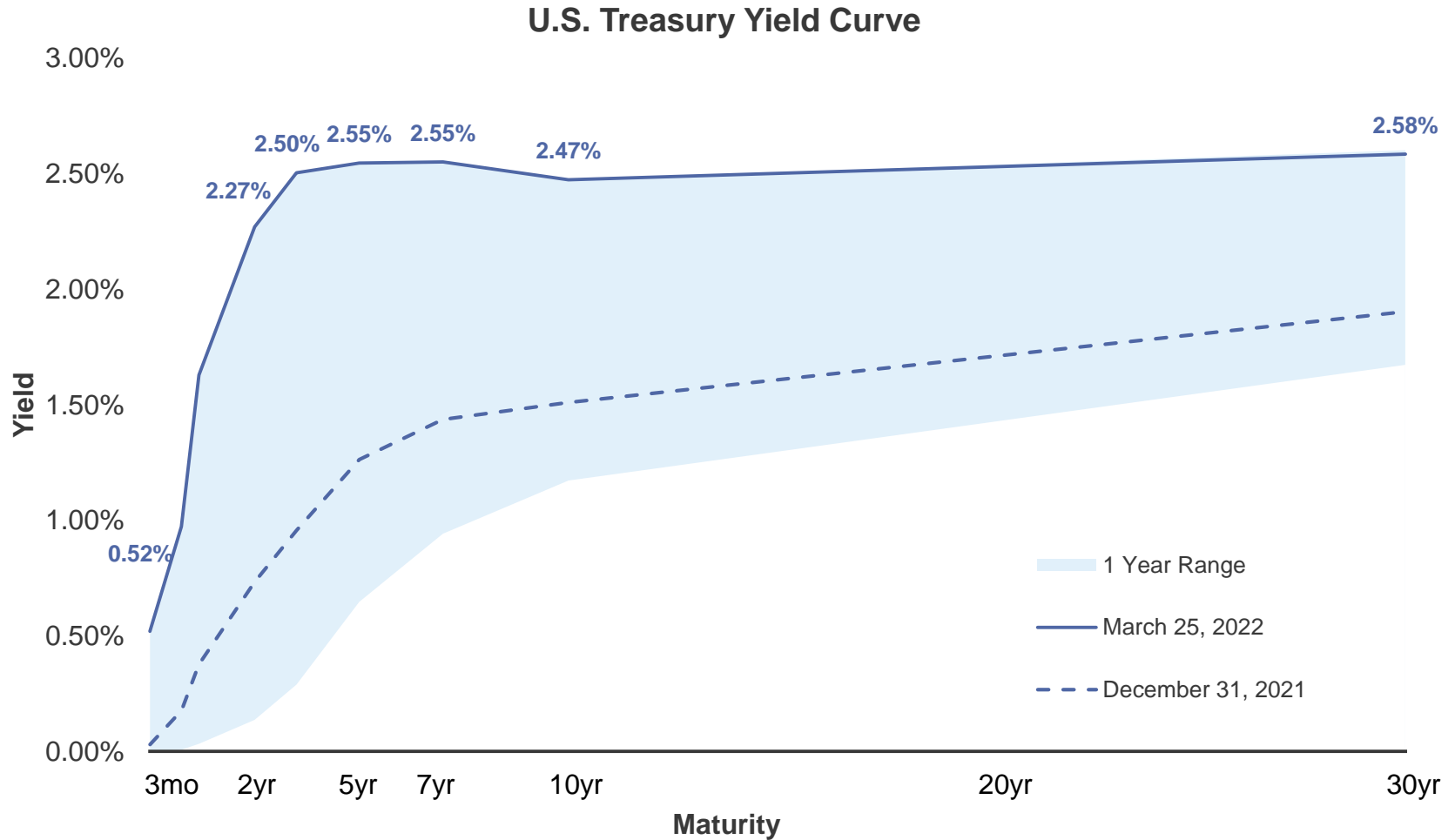


## 10-Year Treasury Yield



Source: Bloomberg, as of 3/28/2022.

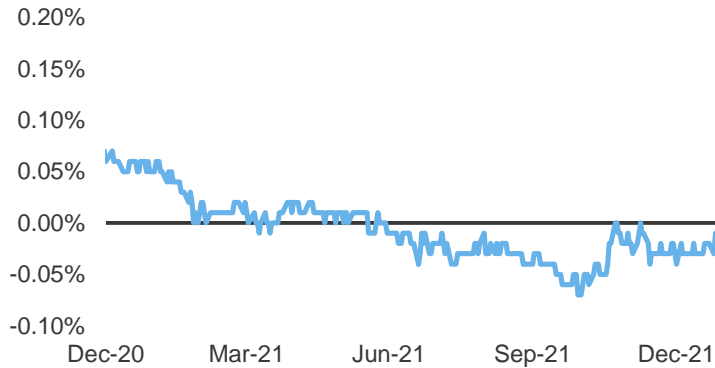
# Treasury Yield Curve Inverts



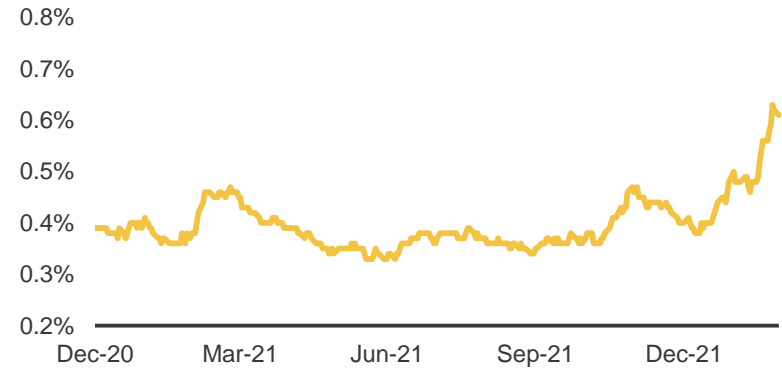
Source: Bloomberg, as of 3/25/2022.

# Sector Yield Spreads Have Widened

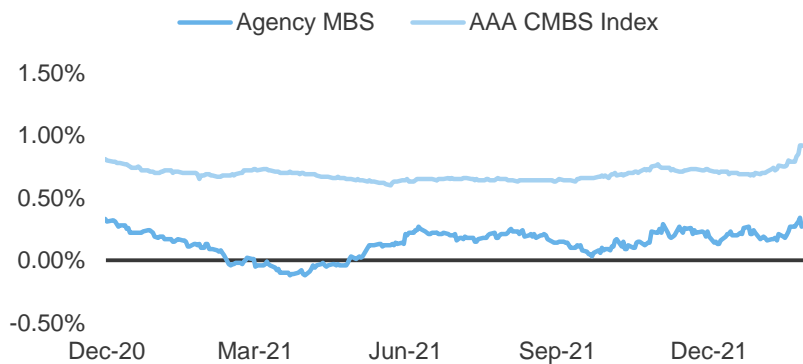
## Federal Agency Yield Spreads



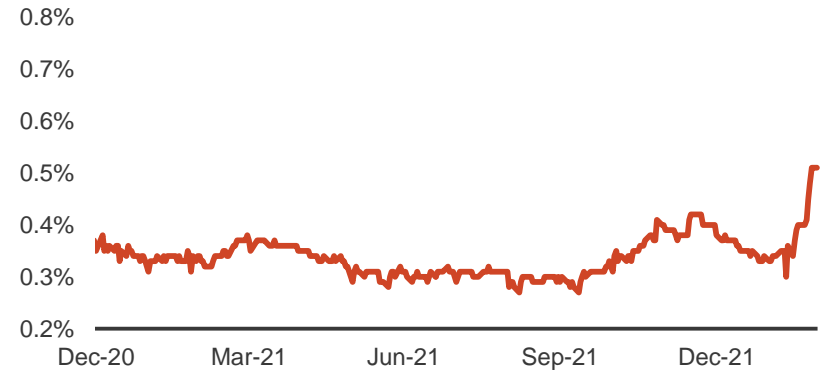
## Corporate Notes A-AAA Yield Spreads



## Mortgage-Backed Securities Yield Spreads

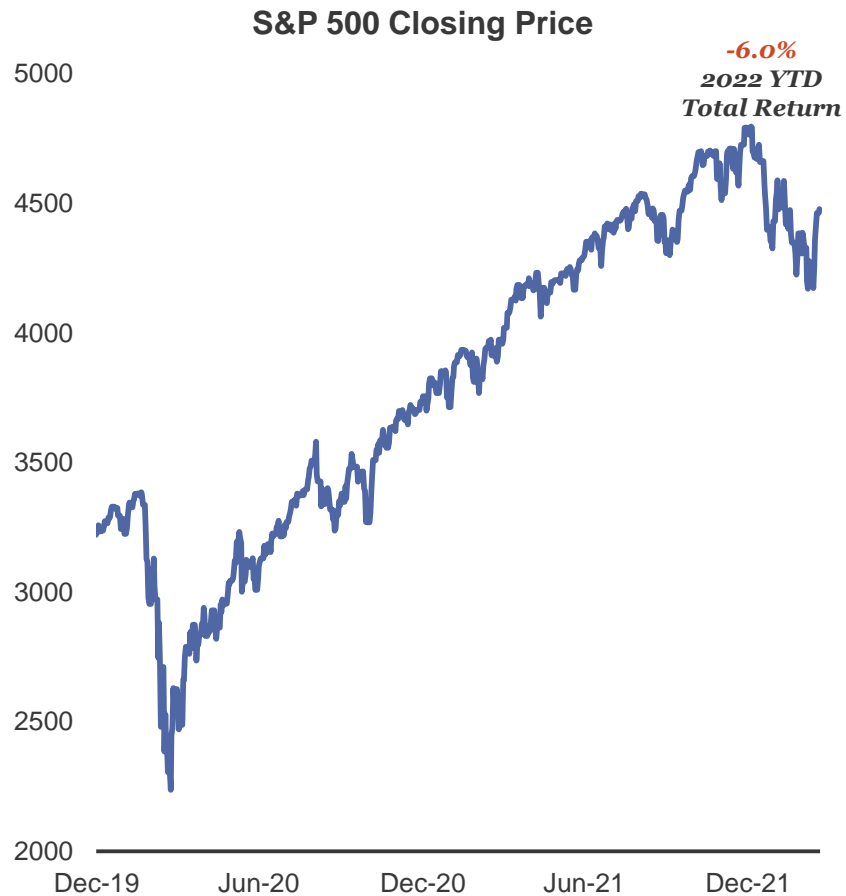


## Asset-Backed Securities AAA Yield Spreads



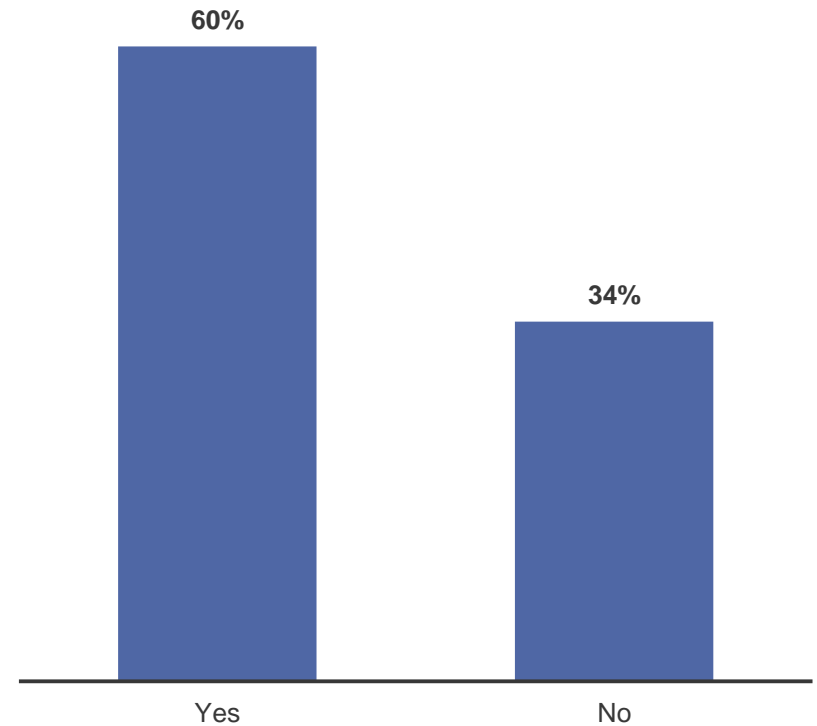
Source: ICE BofAML 1-5 year Indices via Bloomberg, MarketAxess and PFM as of 2/28/2022. Spreads on ABS and MBS are option-adjusted spreads of 0-5 year indices based on weighted average life; spreads on agencies are relative to comparable maturity Treasuries. CMBS is Commercial Mortgage-Backed Securities.

## Stock Market Has Recovered After Fed's Recent Meeting



## 60% Of Investors Expect an Equity Bear Market in 2022

Do you think global equity markets will experience a bear market in 2022?



Source: (Left) Bloomberg, as of 3/21/2022. (Right) BofA Global Fund Manager Survey, as of March 2022.

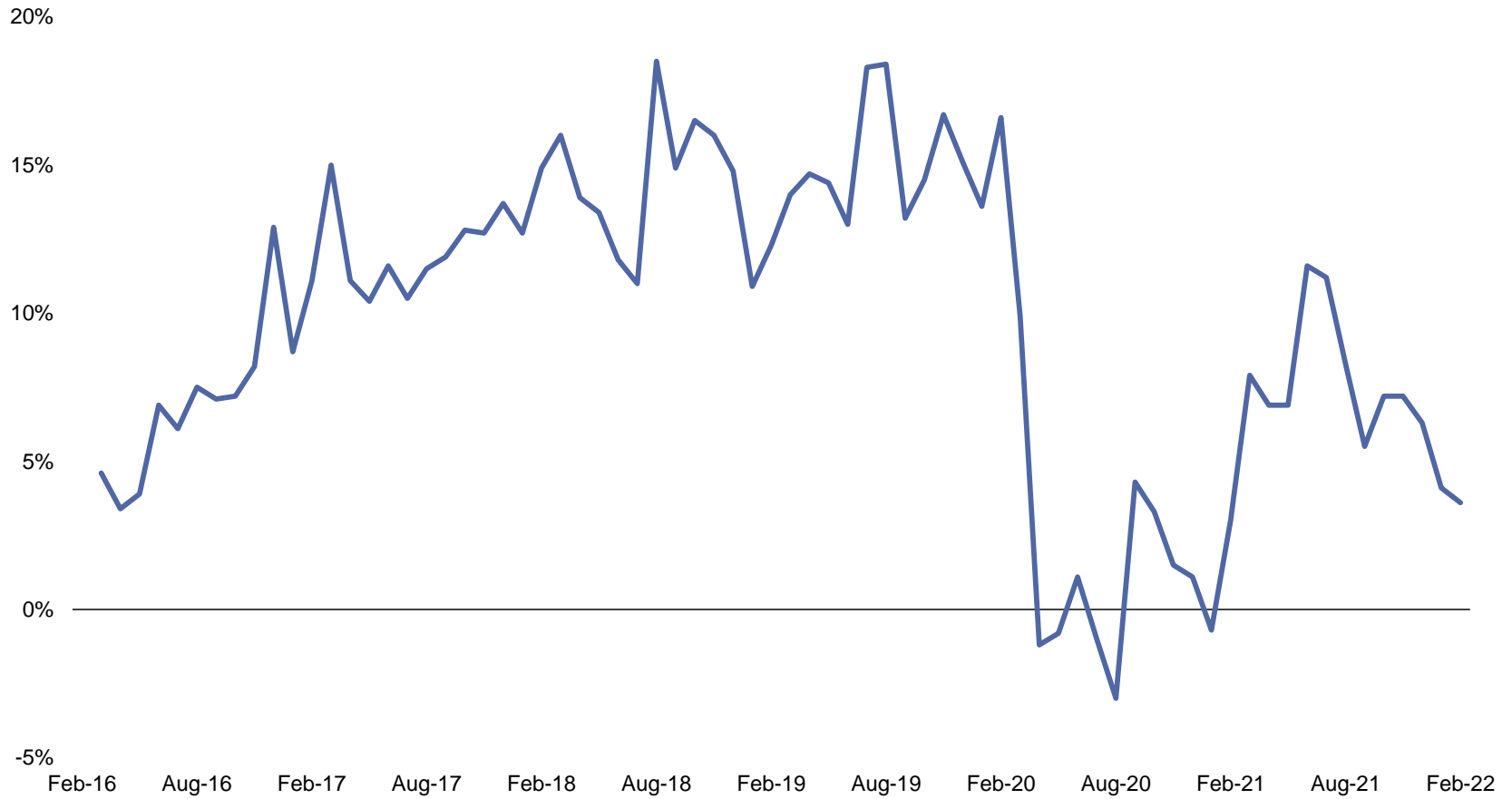
# Outlook



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# Consumer Assessments of Future Finances are Falling

## Conference Board Consumer Confidence Income Differential

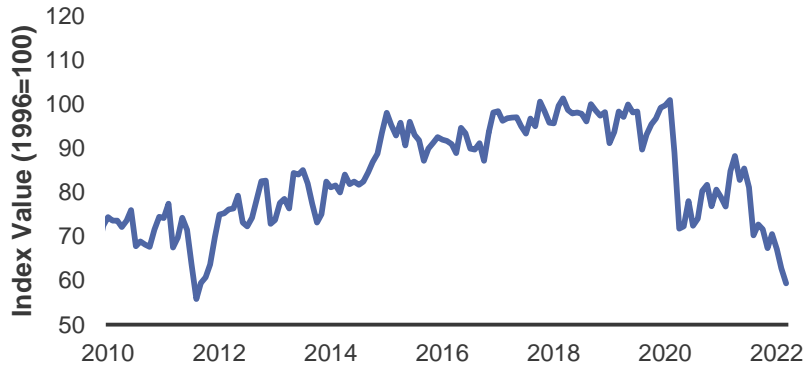


Source: Bloomberg, as of February 2022

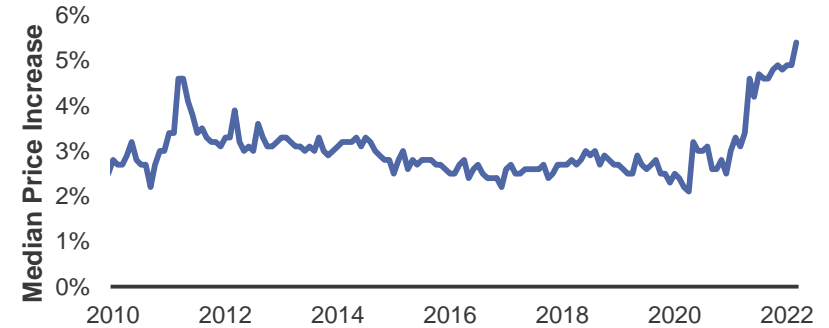


# Consumer Sentiment Worsens to Fresh Decade Low on Omicron, Ukraine, and Inflation Fears

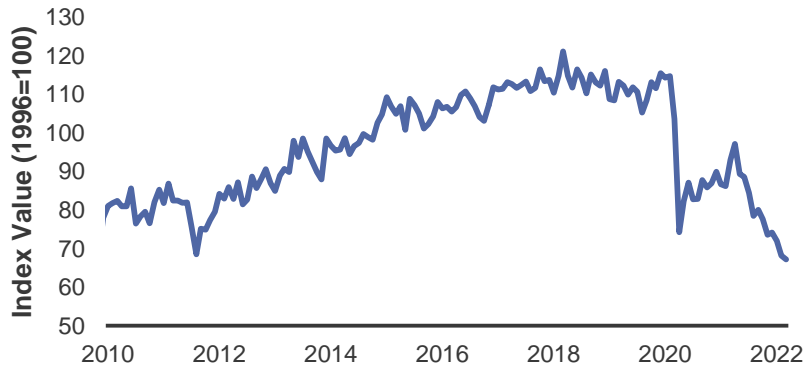
### Index of Consumer Sentiment



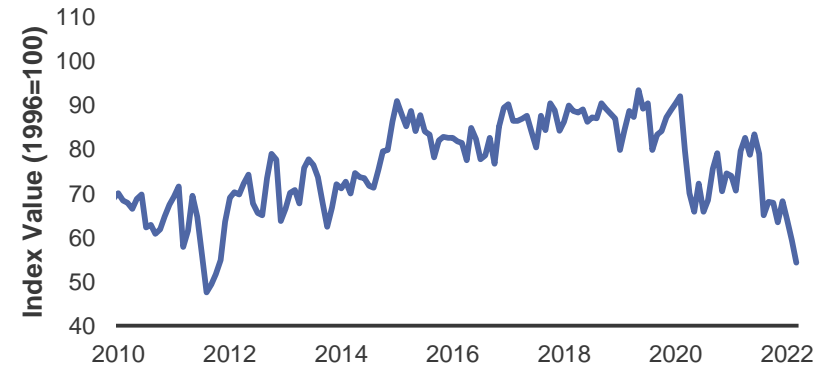
### Expected Change in Prices During Next Year



### Current Economic Conditions Index



### Index of Consumer Expectations

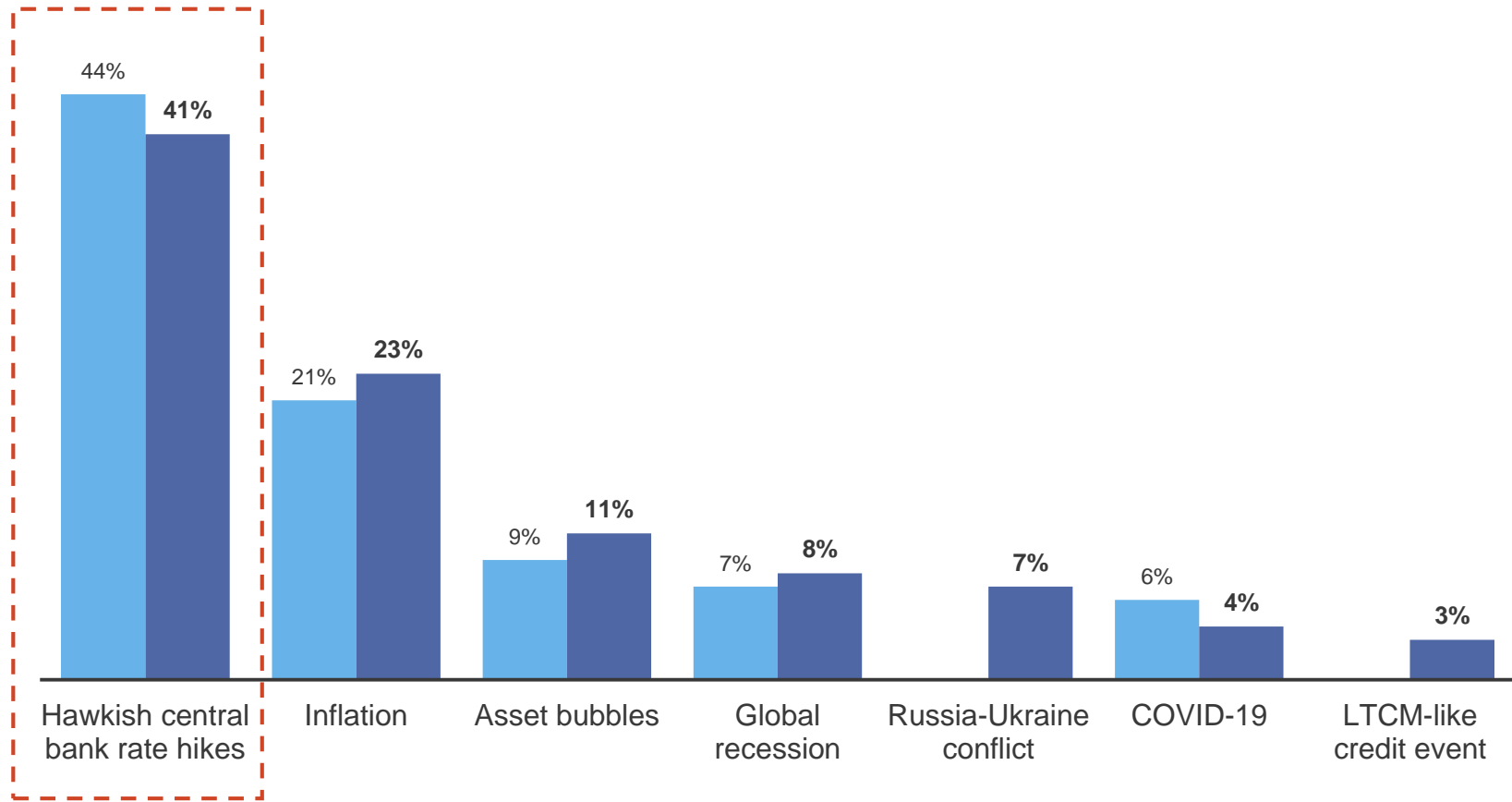


Source: Bloomberg, University of Michigan Consumer Sentiment and underlying index components, as of March 2022.

# Hawkish Central Banks Remains the Biggest 'Tail Risk' Among Fund Managers

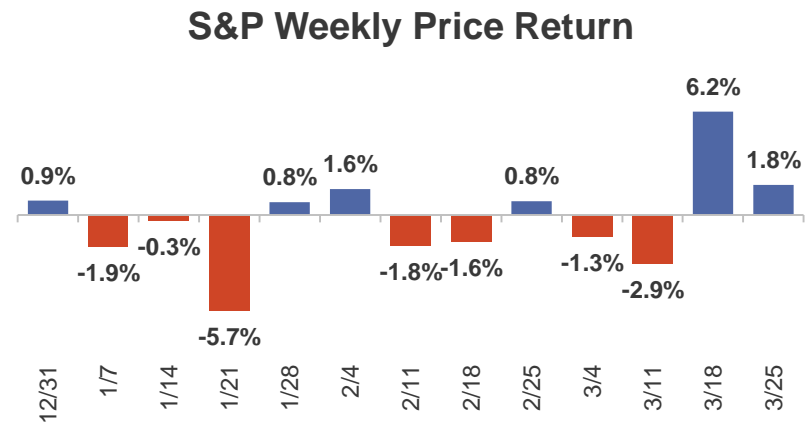
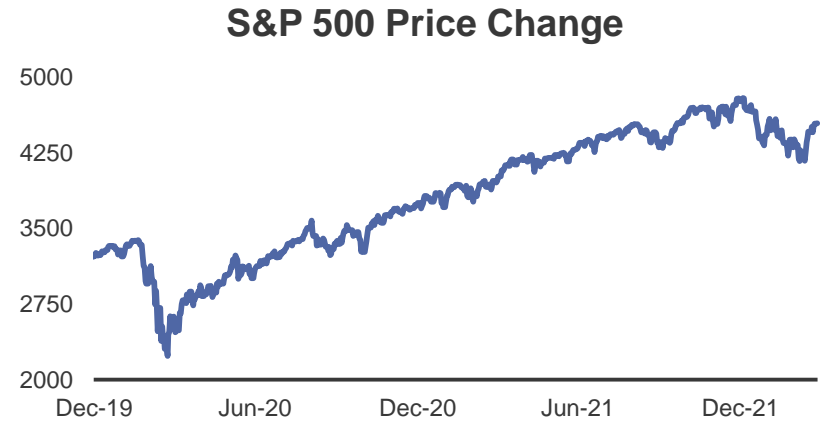
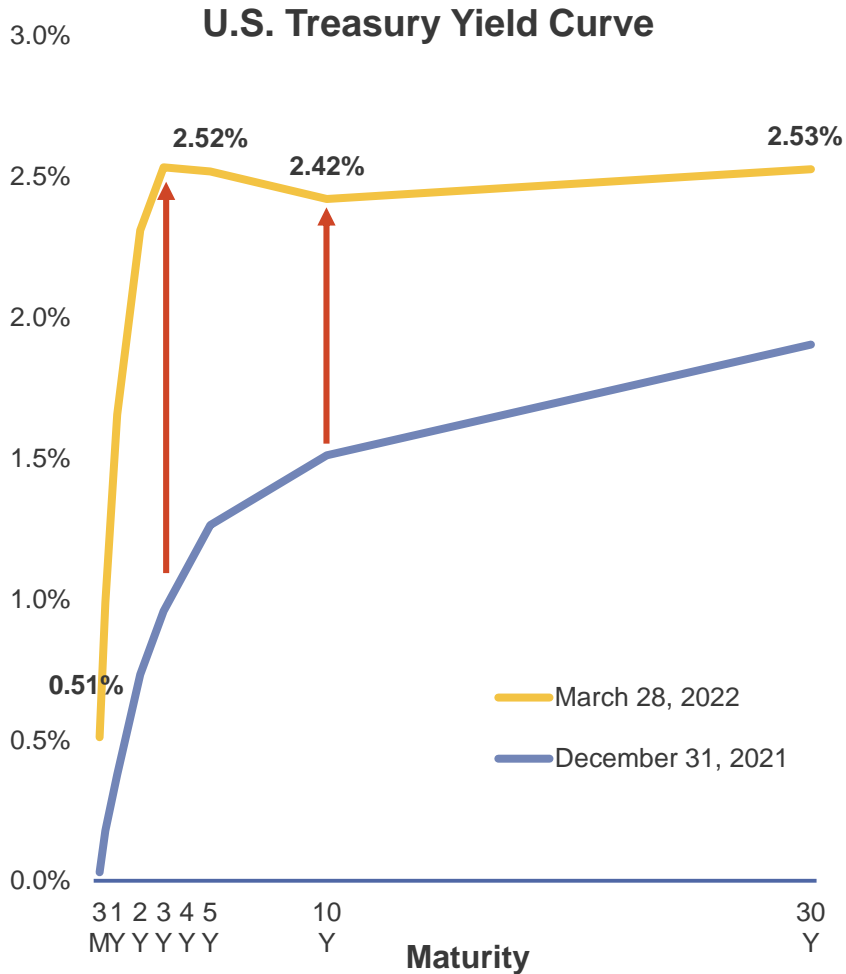
## What do you consider the biggest tail risk?

■ Jan-22 ■ Feb-22



Source: BofA Global Fund Manager Survey, as of February 2022.

# Capital Markets React to Economic, Inflation and Fed Expectations



Source: Bloomberg, as of 3/28/2022.

# Questions?



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