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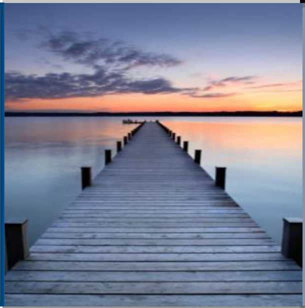
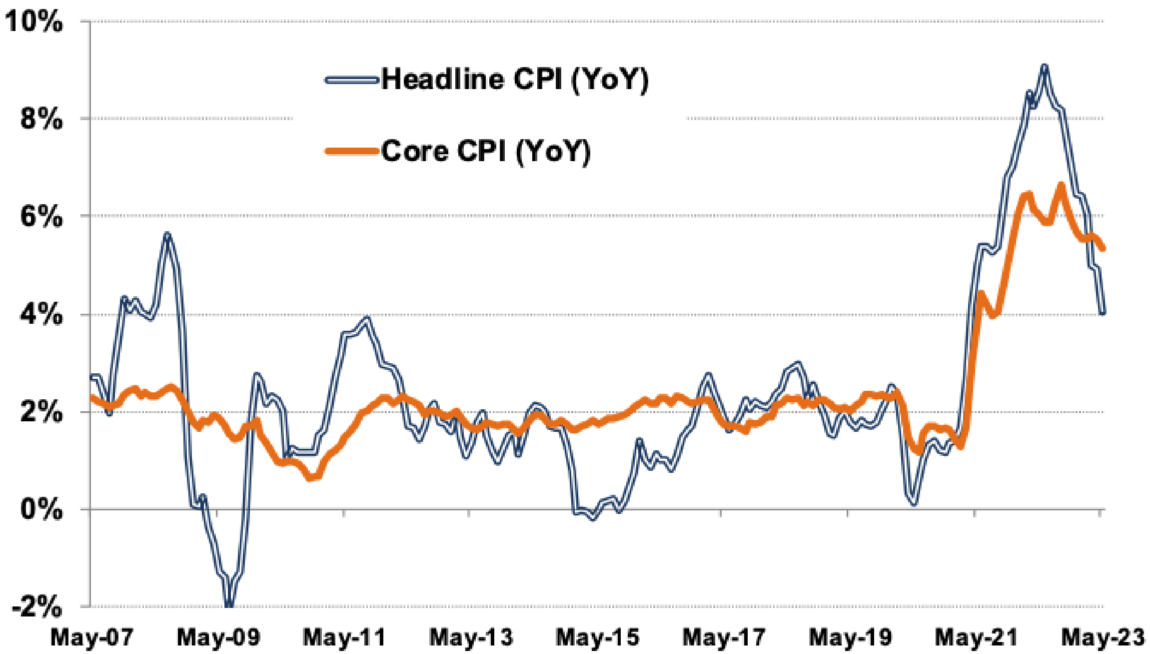


What is Fueling the Next Phase of Economic Recovery?

A conversation with John Stoltzfus, Chief Investment Officer, Oppenheimer & Co. Inc.

US Inflation: CPI Measures

US inflation finally seems to be cooling but remains well above the Fed's target levels



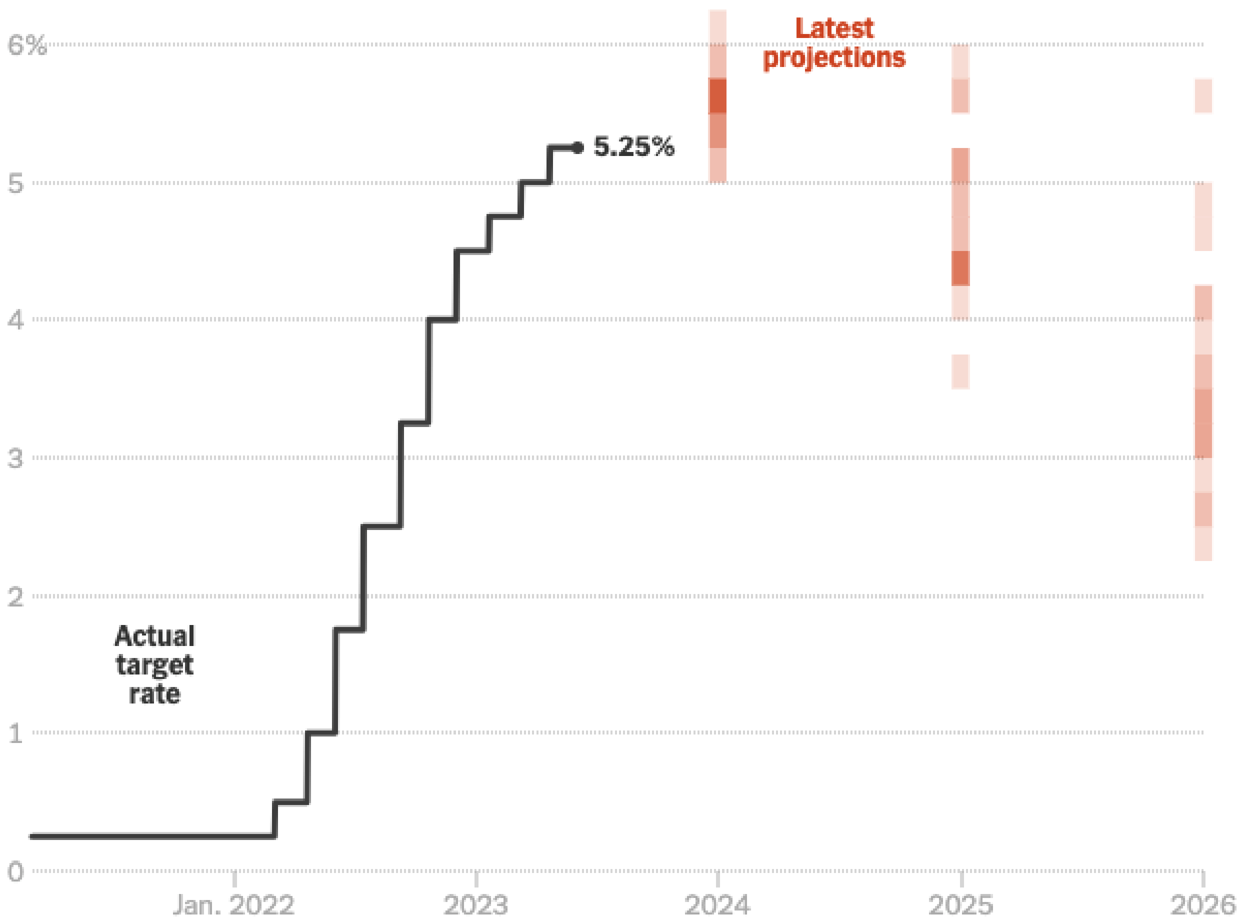
Inflation as measured by the consumer price index fell to 4% in May (from a year earlier), its lowest reading since March, 2021. The "core" index, which excludes food and energy prices, slid to 5.3% YoY in May from April's 5.5% reading.

Monthly rises are slowing: The headline index in May advanced 0.3% from April, in line with estimates, and down from the 0.5% rise in the prior month. The core index, which excludes food and energy prices, rose 0.4% in May from the prior month, in line with expectations and down from the 0.5% m/m gains back in January and February.

The moderation in the monthly changes in the indexes, while still running above the rates needed to return the inflation rate to its target, nonetheless suggests that the Fed's policies are cooling the economy and price pressures.

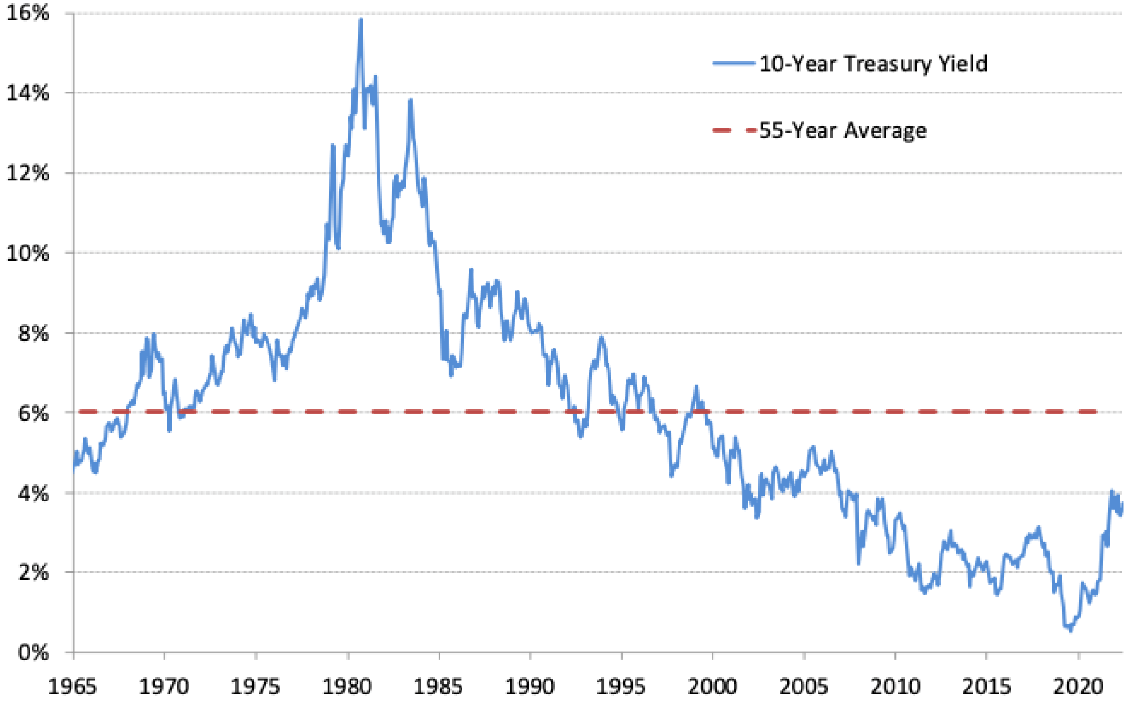
Source: U.S. Department of Labor, Bureau of Labor Statistics, OAM Research. The core inflation index excludes the more volatile food and energy components.

Fed Funds Rate



Source: Federal Reserve. Data as of June 15, 2023. Forecasts of 18 FOMC participations. The actual target rate shows the upper limit of the federal funds target range.

Ten-Year US Treasury Yield



The yield on the 10-year Treasury note closed at 0.508% on August 4, 2020, an all-time low. The yield over the next two years rose markedly, reaching 4.24% on Oct. 24, 2022, its highest yield dating from June 2008. Since then the yield has fallen, reaching 3.73% on June 15, 2023.

To put the long-term trend into perspective:

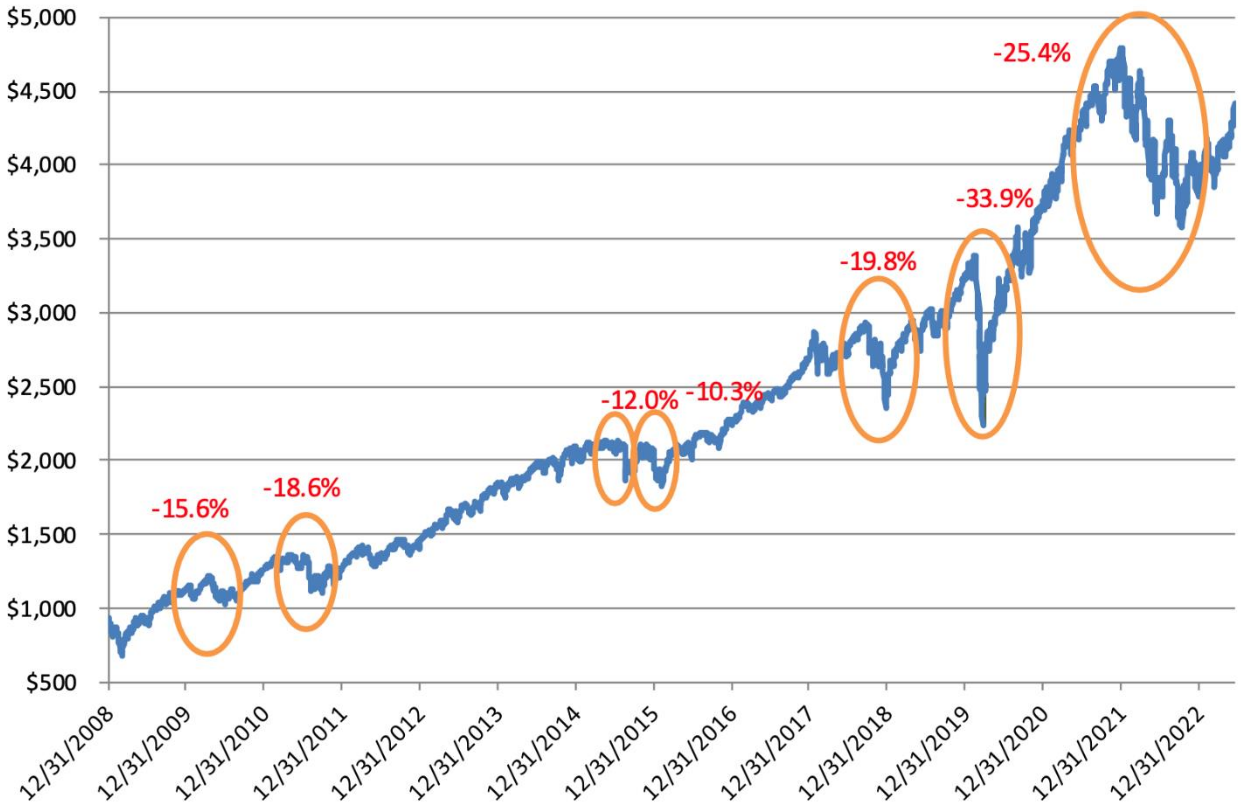
- Its average yield over the past five years is 2.13%.
- Its average yield over the past ten years is 2.22%.
- Its average yield over the past 20 years is 2.90%.
- Its average over the past 30 years is 3.86%.
- Its average yield over the past 57 years is 5.98%.

In our view, this suggests that the cause of low interest rates is not only the COVID-19 crisis and the management of the economic fallout by monetary policymakers, but also cyclical and secular trends that are counter-inflationary and deeply embedded in technology and globalization.

Source: Bloomberg, OAM Research. Except for the current month, data are month-end constant-maturities yield on the 10-Year Treasury through 15-June-2023.

The S&P 500 Index Since 2008

Climbing the Wall of Worry Doesn't Mean It's a Straight Path Upward



The S&P 500 has registered seven double-digit declines since its Great Recession nadir on March 9, 2009.

Concerns about inflation and Russia's invasion of Ukraine led to the index's recent decline into bear market territory. The benchmark fell 25.4% from Jan. 3 to Oct. 12, 2022.

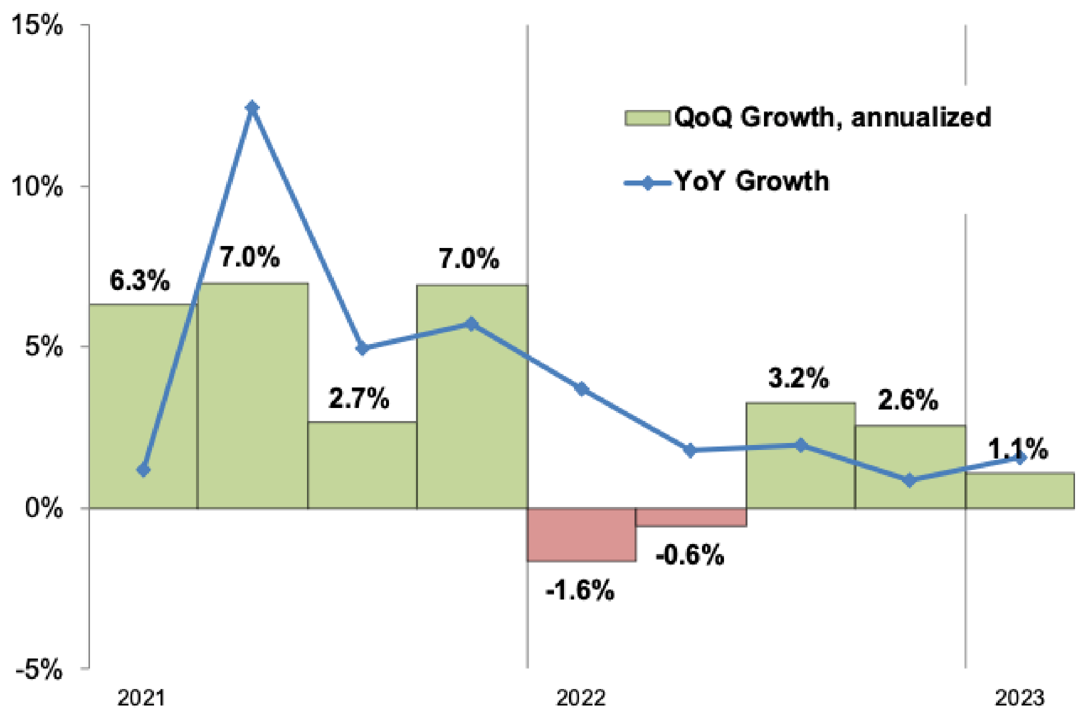
Since that time, the market has experienced several bear market rallies. These rallies suggest to us where the market wants to go as current challenges tied to inflation and monetary policy are worked out.

As of June 15, 2023, the S&P 500 stood 22.2% above its October 12 low while off 8.8% from its most recent all-time high of 4796.56 recorded on Jan. 3, 2022.

Source: Bloomberg, OAM Research. Data are shown through June 15, 2023.

US GDP Growth

Overall, the latest GDP report shows underlying drivers of the economy slowed markedly in Q4.



The first estimate of 2023:Q1 GDP showed a weak 1.1% annualized gain in Q1 vs. the prior quarter (the consensus estimate was for a 1.9% pace).

The modest expansion was driven by personal consumption, which grew at a much more robust 3.7% annualized rate (up from its 1% pace in Q4). A downdraft in inventories subtracted 2.3 points from GDP growth in the quarter.

The interest-rate-sensitive residential and business fixed investment segments also declined in the quarter, evidence that the Fed's rate hikes are slowing the economy.

Overall the GDP report showed the economy slowing even as consumption demand remained resilient in Q1.

Source: Commerce Department, Bloomberg, OAM Research.

OPPENHEIMER ASSET MANAGEMENT

Maximum Annual Drawdowns in the S&P 500

1990 through 2022

Year	Maximum Drawdown	Drawdown Start Date	Drawdown End Date	Drawdown Recovery Date	Annual Price Return	Average Fed Funds Rate	Avg. 10-Year Treas. Yield	Avg. CPI Inflation Rate
2022	(25.43%)	1/3/2022	10/12/2022		(19.44%)	1.66%	2.94%	8.0%
2021	(5.21%)	9/2/2021	10/4/2021	10/21/2021	26.89%	0.1%	1.4%	4.7%
2020	(33.92%)	2/19/2020	3/23/2020	8/18/2020	16.26%	0.4%	0.9%	1.2%
2019	(6.84%)	4/30/2019	6/3/2019	6/20/2019	28.88%	2.2%	2.1%	1.8%
2018	(19.78%)	9/20/2018	12/24/2018	4/23/2019	(6.24%)	1.8%	2.9%	2.4%
2017	(2.58%)	3/2/2017	4/13/2017	5/2/2017	19.42%	1.0%	2.3%	2.1%
2016	(10.27%)	1/1/2016	2/11/2016	3/17/2016	9.54%	0.4%	1.8%	1.3%
2015	(12.04%)	7/21/2015	8/25/2015	7/8/2016	(0.73%)	0.1%	2.1%	0.1%
2014	(7.28%)	9/19/2014	10/15/2014	10/31/2014	11.39%	0.1%	2.5%	1.6%
2013	(5.58%)	5/22/2013	6/24/2013	7/11/2013	29.60%	0.1%	2.3%	1.5%
2012	(9.58%)	4/3/2012	6/1/2012	8/16/2012	13.40%	0.1%	1.8%	2.1%
2011	(18.64%)	5/2/2011	10/3/2011	2/17/2012	(0.00%)	0.1%	2.8%	3.2%
2010	(15.63%)	4/26/2010	7/2/2010	11/4/2010	12.78%	0.2%	3.2%	1.6%
2009	(27.19%)	1/7/2009	3/9/2009	5/8/2009	23.45%	0.2%	3.2%	-0.3%
2008	(47.71%)	1/1/2008	11/20/2008	1/10/2013	(38.49%)	1.9%	3.6%	3.8%
2007	(9.87%)	10/10/2007	11/26/2007	3/14/2013	3.53%	4.9%	4.6%	2.9%
2006	(7.46%)	5/8/2006	6/13/2006	9/13/2006	13.62%	5.1%	4.8%	3.2%
2005	(7.01%)	3/8/2005	4/20/2005	7/11/2005	3.00%	3.6%	4.3%	3.4%
2004	(7.43%)	3/8/2004	8/12/2004	11/4/2004	8.99%	1.4%	4.3%	2.7%
2003	(13.78%)	1/15/2003	3/11/2003	5/2/2003	26.38%	1.1%	4.0%	2.3%
2002	(33.01%)	3/20/2002	10/9/2002	10/16/2006	(23.37%)	1.7%	4.6%	1.6%
2001	(29.09%)	1/31/2001	9/21/2001	10/16/2006	(13.04%)	3.9%	5.0%	2.8%
2000	(16.56%)	9/4/2000	12/20/2000	5/18/2007	(10.14%)	6.2%	6.0%	3.4%
1999	(11.80%)	7/19/1999	10/15/1999	11/16/1999	19.53%	5.0%	5.6%	2.2%
1998	(19.19%)	7/20/1998	8/31/1998	11/23/1998	26.67%	5.4%	5.3%	1.6%
1997	(10.80%)	10/7/1997	10/27/1997	12/5/1997	31.01%	5.5%	6.3%	2.3%
1996	(7.60%)	6/5/1996	7/23/1996	9/13/1996	20.26%	5.3%	6.4%	2.9%
1995	(2.53%)	12/13/1995	12/20/1995	1/29/1996	34.11%	5.8%	6.6%	2.8%
1994	(8.94%)	2/2/1994	4/4/1994	2/3/1995	(1.54%)	4.2%	7.1%	2.6%
1993	(4.99%)	3/10/1993	4/26/1993	8/20/1993	7.06%	3.0%	5.9%	3.0%
1992	(6.24%)	1/15/1992	4/8/1992	7/28/1992	4.46%	3.5%	7.0%	3.0%
1991	(5.60%)	4/17/1991	5/15/1991	5/31/1991	26.31%	5.7%	7.8%	4.3%
1990	(19.92%)	7/16/1990	10/11/1990	2/11/1991	(6.56%)	8.1%	8.5%	5.4%
Average (1990-2021):	(13.88%)				9.89%	**2.74%**	**4.29%**	**2.48%**
Average (1998-2021):	(15.73%)				8.39%	**1.95%**	**3.40%**	**2.22%**

With markets having experienced wild swings over the course of 20- and 30-some-year periods (including dramatic downward moves along with some powerfully strong rallies), we highlight here the maximum drawdowns in the S&P 500 index that have occurred since 1998. The table also provides each year's annual price return (excluding applicable costs).

Counterintuitively, even as drawdowns of 7% or more have occurred in 19 of the 23 years, the S&P 500 has experienced a negative annual return in only six of those years and in only eight of the years over the course of the 30-year period.

It should be noted that average historical returns over a longer-term period (since 1990) are somewhat better, likely due in part to a lower average maximum drawdown realized over the longer-term period.

Source: FactSet, OAM Research. Max drawdown is per calendar year.

Maximum Annual Drawdowns in the S&P 500

The 1971 to 1989 era

Year	Maximum Drawdown	Drawdown Start Date	Drawdown End Date	Drawdown Recovery Date	Annual Price Return	Average Fed Funds Rate	Avg. 10-Year Treas. Yield	Avg. CPI Inflation Rate
1989	(7.56%)	10/9/1989	11/6/1989	2/15/1991	27.25%	9.2%	8.5%	4.8%
1988	(7.64%)	4/13/1988	5/23/1988	1/2/1990	12.40%	7.6%	8.8%	4.1%
1987	(33.51%)	8/25/1987	2/4/1987	6/14/1988	2.03%	6.7%	8.4%	3.7%
1986	(9.42%)	9/6/1986	9/29/1986	7/26/1989	14.62%	6.8%	7.7%	1.9%
1985	(7.66%)	7/17/1985	9/25/1985	12/2/1986	26.33%	8.1%	10.6%	3.5%
1984	(12.68%)	1/6/1984	7/24/1984	11/11/1985	1.40%	10.2%	12.4%	4.3%
1983	(14.38%)	10/10/1983	7/24/1984	11/6/1984	17.27%	9.1%	11.1%	3.2%
1982	(16.56%)	1/4/1982	8/12/1982	1/21/1985	14.76%	12.2%	13.1%	6.2%
1981	(25.85%)	1/6/1981	8/12/1982	9/14/1982	(9.73%)	16.4%	13.9%	10.4%
1980	(17.07%)	2/13/1980	3/27/1980	10/20/1982	25.77%	13.4%	11.4%	13.6%
1979	(10.25%)	10/5/1979	11/7/1979	7/14/1980	12.31%	11.2%	9.4%	11.2%
1978	(13.55%)	9/12/1978	11/14/1978	1/21/1980	1.06%	7.9%	8.4%	7.6%
1977	(19.13%)	1/1/1977	3/6/1978	8/13/1979	(11.50%)	5.5%	7.4%	6.5%
1976	(19.41%)	9/21/1976	3/6/1978	8/15/1979	19.15%	5.1%	7.6%	5.8%
1975	(14.14%)	7/15/1975	9/16/1975	8/15/1979	31.55%	5.8%	8.0%	9.2%
1974	(37.60%)	1/3/1974	10/3/1974	1/12/1976	(29.72%)	10.5%	7.6%	11.0%
1973	(48.20%)	1/11/1973	10/3/1974	7/17/1980	(17.37%)	8.7%	6.9%	6.2%
1972	(5.14%)	8/14/1972	10/16/1972	11/2/1972	15.63%	4.4%	6.2%	3.3%
1971	(13.94%)	4/28/1971	11/23/1971	2/8/1972	10.79%	4.7%	6.2%	4.3%
Average (1971-1989):	(17.56%)				8.63%	8.61%	9.13%	6.36%

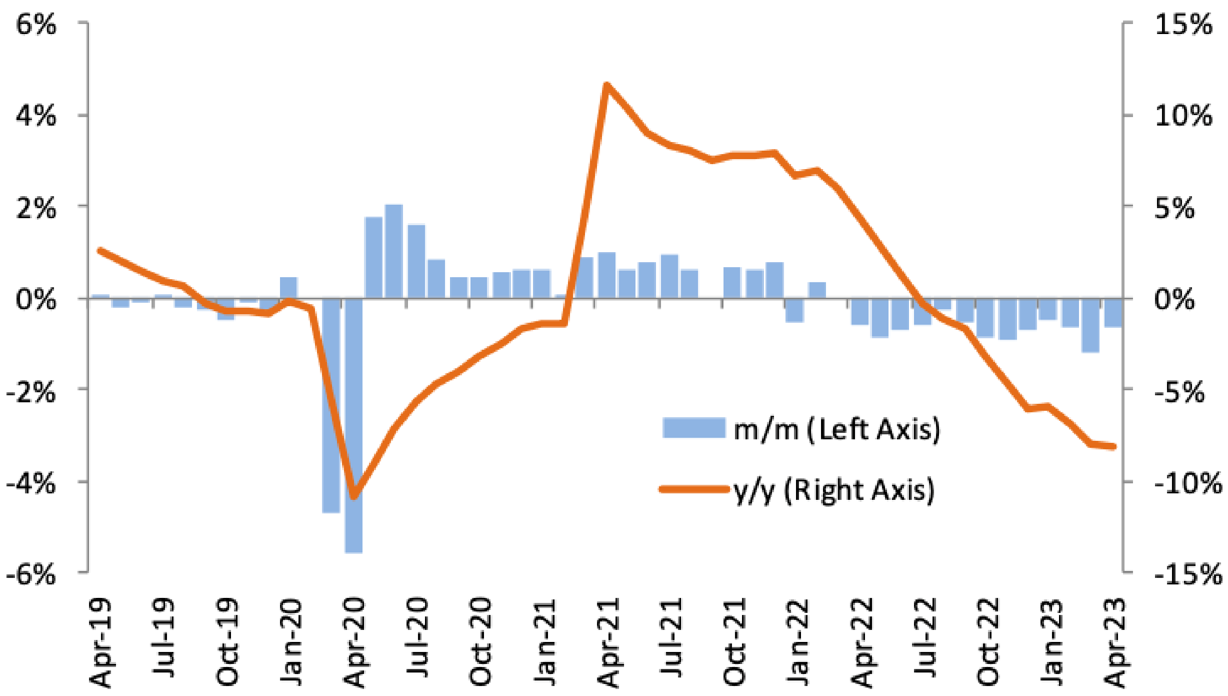
The period outlined in this addition to our maximum average drawdown and average return series for the S&P 500 suggests to us the effects of an earlier era on stocks in which the Federal Reserve was relatively new in containing inflation, not as transparent as today, and much less responsive and sensitive to the effects of changes in monetary policy than it is in what we term the current "Bernanke legacy era of monetary policy."

In addition, the period outlined reflects one in which interest rates were often higher, technology had not yet reached today's levels of sophistication and had not achieved the embedded nature it now holds in the lives of business and the consumer. The US and the process of globalization in comparison between this period with today was, in our view, much more anchored in an analog and less efficient world.

Source: FactSet, OAM Research. Max drawdown is per calendar year.

Leading Economic Indicators

The index has declined for 13 consecutive months



The Conference Board's Leading Index fell 0.6% in April, the 13th consecutive decline for the composite index of ten leading data points. The 0.6% m/m decline was in line with the median forecast in Bloomberg's survey.

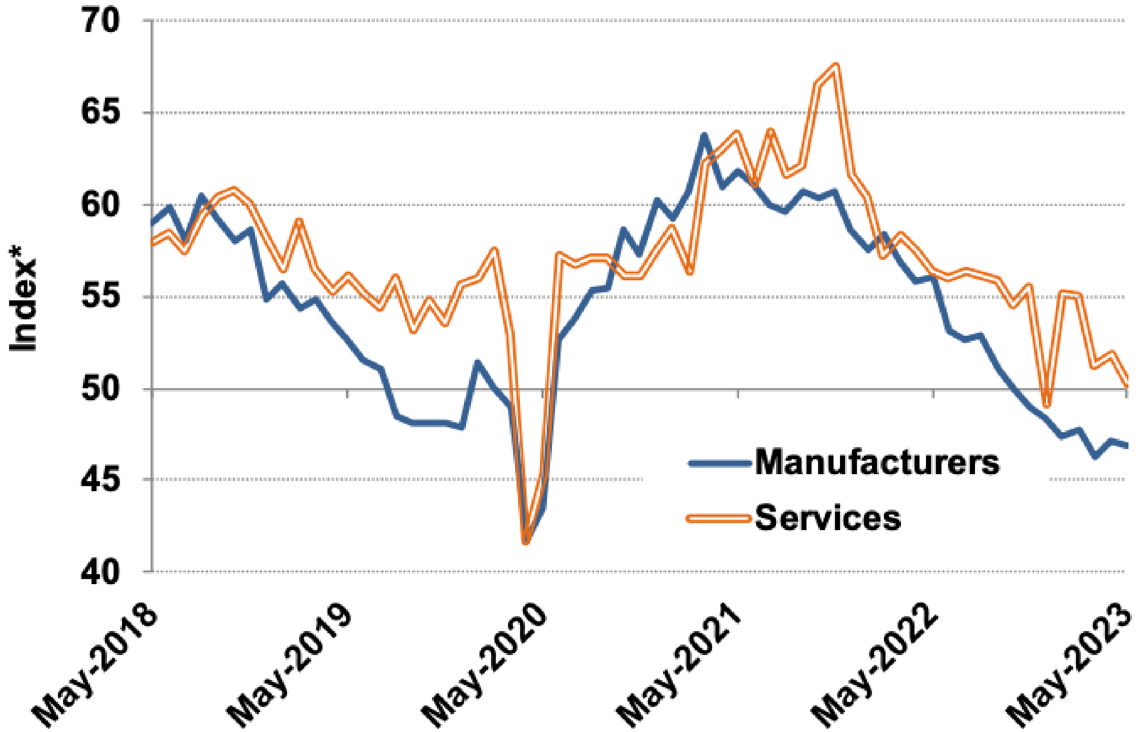
Among the ten data series that compose the index, six showed negative readings in April.

The declining sub-indexes included consumer expectations, ISM new orders, stock prices, interest rate spreads, and credit indicators.

Source: Conference Board, Bloomberg, OAM Research.

ISM Purchasing Managers Index

These measures of business confidence have declined from their post-pandemic peaks



The Institute for Supply Management's purchasing managers survey of manufacturers showed a slight decline in May to 46.9 from April's 47.1 reading. Recall that readings below the 50 threshold signal declining conditions in the sector. The prices paid and new orders components fell in May, though this was partly offset by a rise in the employment expectations component.

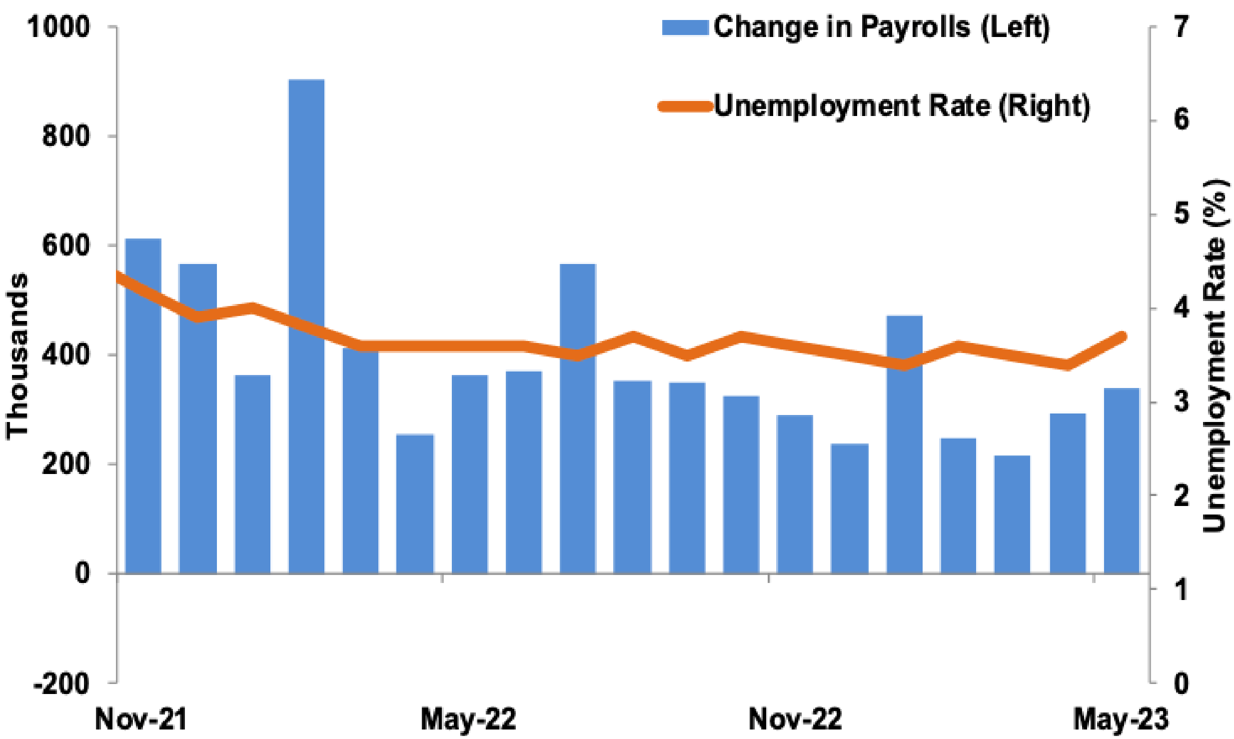
The survey of services firms showed about a 3% decline in May to 50.3. The May decline occurred across all three sub-indexes: prices paid, employment and new orders.

Overall the ISM reports show business conditions softening as the Fed continues to maintain a tight monetary policy in its attempt to cool the economy and price pressures.

Source: Institute for Supply Management, National Bureau of Economic Research, Bloomberg, OAM Research.

Nonfarm Payroll Change and Jobless Rate

Steady employment gains since 2021 have led to a tight labor market



The US labor market continues to run hot. In May, US employers added 339,000 workers, well above the 195,000 median forecast in Bloomberg's survey. In addition, gains for the prior two month were revised up by 93,000.

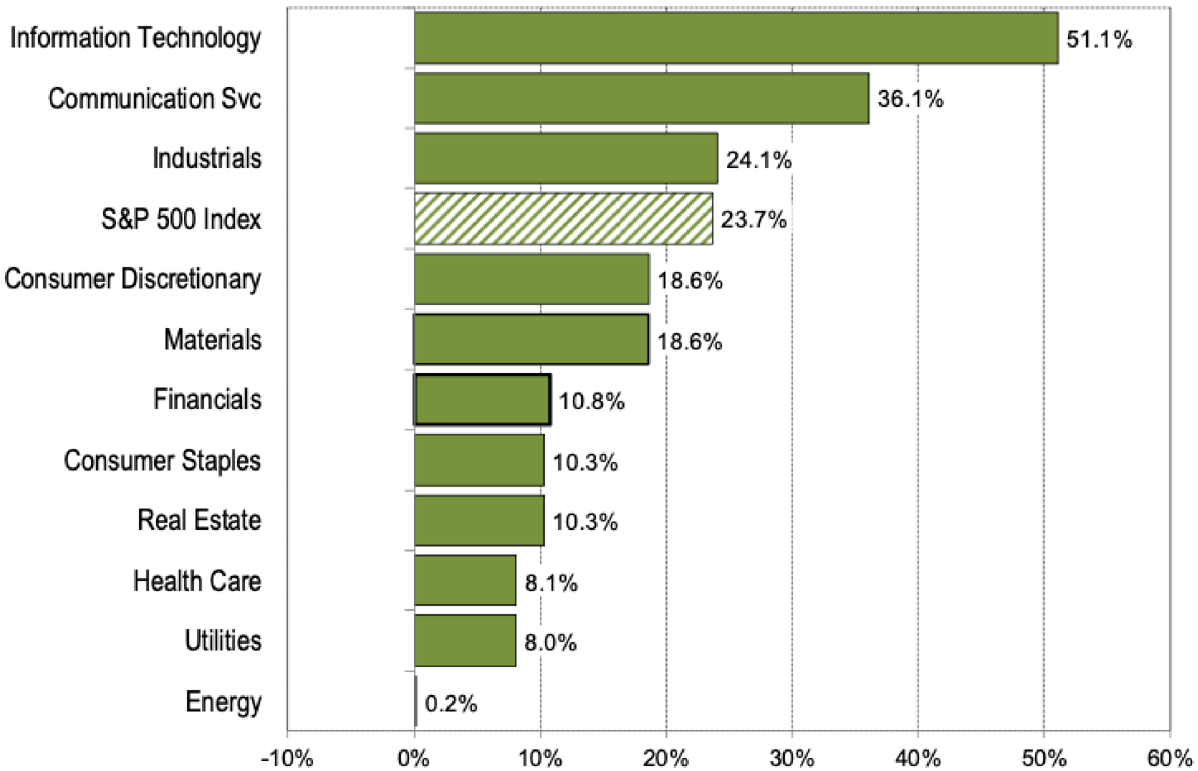
The unemployment rate rose by three-tenths to 3.7%, up from 3.4% in the prior month and the median forecast of 3.5%. Average hourly earnings growth eased a tenth to 4.3% from May 2022, down from 4.4% in April.

Overall, the May jobs report shows a still-tight labor market in the US with employers adding workers at a solid pace.

Source: Bureau of Labor Statistics, Bloomberg, OAM Research.

S&P 500 Sector Performance from the Oct. 12, 2022 Low

Cyclicals Lead the Rally from the Recent Bear Market Low

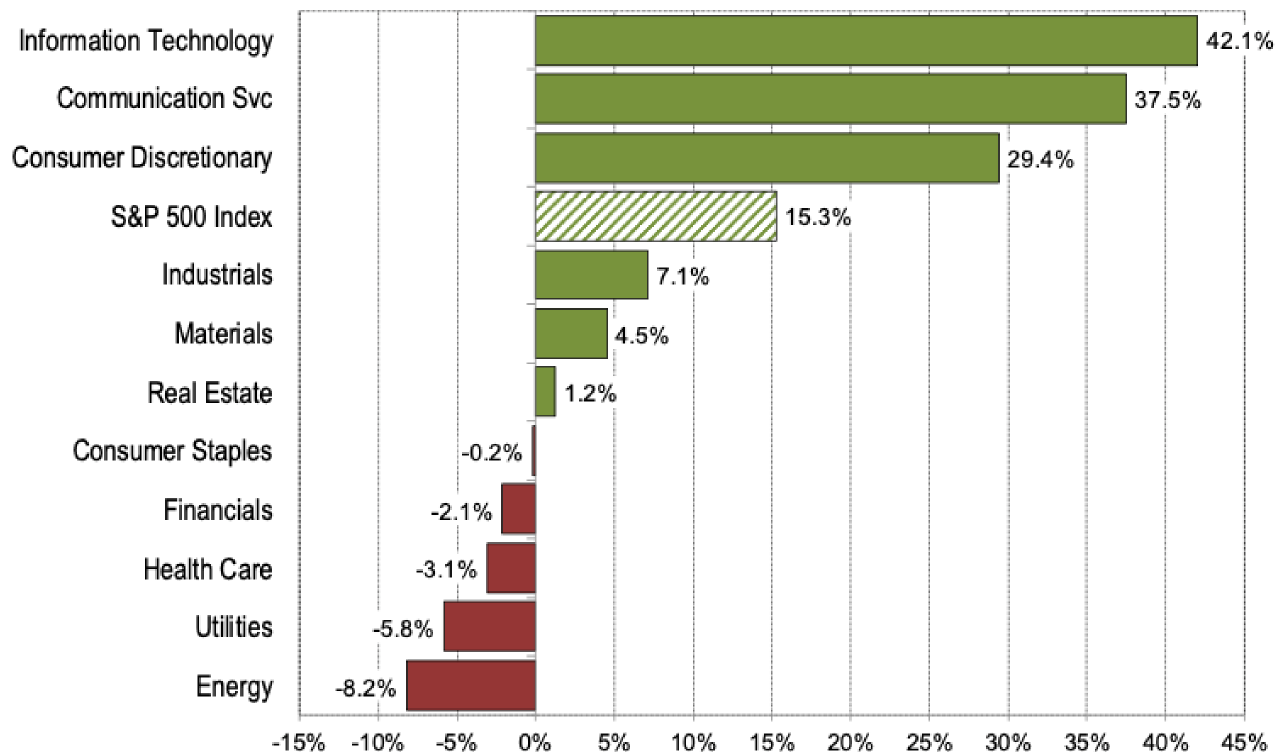


Since the broad market recorded its low for 2022 on October 12 at 3577, the S&P 500 index has advanced 23.7% through June 15, 2023.

Three sectors have outperformed the underlying benchmark–all are cyclical sectors with two of those sectors having significant weighting in growth style category companies.

Source: Bloomberg, OAM Research. Data show price change from Oct. 12, 2022 to June 15, 2023.

S&P 500 Sector Performance in 2023 YTD



The S&P 500 large cap stocks have advanced 15.3% in 2023 through June 15.

The three sectors that have outperformed the broader index are all cyclical sectors.

Source: Bloomberg, OAM Research. Data show price change from Dec. 30, 2022 to June 15, 2023.

Oil Price Easing from 14-Year Highs

West Texas Intermediate Light Crude Oil price coming off its highest levels since August 2008

The price of West Texas Intermediate light crude reached a 14-year high at $123.70/barrel in March 2022 after Russia's invasion of Ukraine. Since that time prices have eased as monetary policy authorities around the world tightened policy to address inflationary pressures.

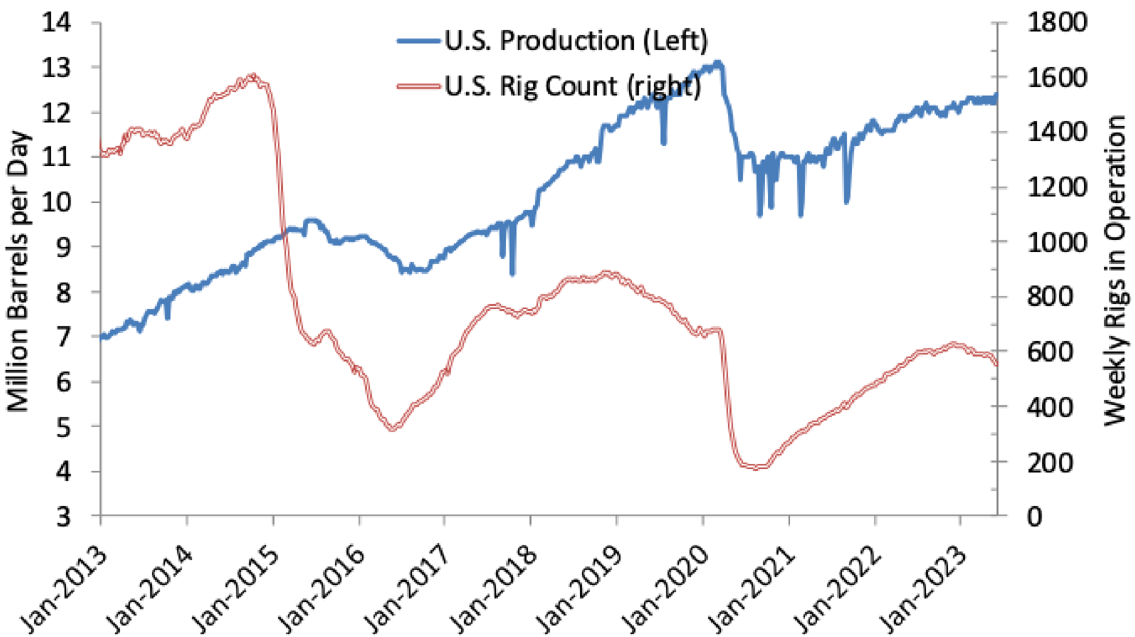
A weakening global economic outlook caused a slide in oil prices between February and March, taking WTI to $66.74 on March 17--a recent low. To stem the price slide, OPEC+ nations reduced output, causing prices to rebound somewhat. WTI closed at $70.62 on June 15, about 6% higher than the March 17 low.

Although the reopening of China and the announcement of production cuts by OPEC+ nations have boosted the price of oil in recent weeks, we'd note that the move has merely lifted the price of WTI to the top end of the range that it's been trading in since mid-November.

Source: Bloomberg LP and Oppenheimer Asset Management Research. Data shown are daily closing index levels through 15-June-2023.

Domestic Crude Oil Production Rising

US production is rising again, reducing import dependence



After crude oil prices touched 14-year highs in early March of 2022 on turmoil in Ukraine, US oil production has been edging higher.

US crude production reached 12.2 million barrels per day in early June, up from a recent low of 9.7 million daily barrels in late August 2020. US crude production averaged about 13 million barrels per day before the pandemic.

From a low of 172 rigs in operation in late August 2020, the Baker Hughes rig count has more than tripled to 556 rigs as of June 9, 2023. As these rigs ramp up production, they could help further reduce US reliance on imported oil.

Source: Baker Hughes, Inc., U.S. Department of Energy, Bloomberg LP and Oppenheimer Asset Management Research.
Data shown are daily closing index levels through 9-June-2023.

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This report was produced at June 16, 2023 19:10 EDT and disseminated at June 16, 2023 19:10 EDT.

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