00:00 (whooshing sound)
00:03 - Good morning, everyone.
00:04 Thank you all for joining us this morning, bright and early.
00:09 So welcome.
00:10 So happy all of you could join us.
00:12 This is our first in-person Summa Business Breakfast since 2020.
00:17 I think we had it in January, 2020.
00:19 So thank you all for joining us this morning.
00:22 We truly appreciate you all being here.
00:25 I'm Kathy Tricca.
00:26 I'm the director of the Summa Society, which is our leadership giving program.
00:30 and many of you are members, so thank you.
00:32 We truly appreciate all that you do for Suffolk and we appreciate you being here this morning.
00:38 I'm a proud graduate, as well, of Suffolk University.
00:42 and I can tell you I have many members of my family.
00:45 So my spouse, my husband's a graduate, my son's a graduate.
00:49 I have a sister and a brother, a niece,
00:51 and I have a lot of relatives that attended Suffolk,
00:54 whether it be the university or the law school.
00:57 So very proud of being Suffolk University graduates.
01:01 I joined Suffolk, and so happy to be back, five years ago.
01:06 I can't believe it's five years, got through the pandemic,
01:08 but I spent over 30 years in financial services
01:12 and I'm really happy to be here
01:14 and being able to meet a lot of friends, a lot of alumni,
01:18 and a lot of people that I've reconnected with
01:21 and so happy to be here.
01:23 I have the great pleasure of introducing President Kelly.
01:26 We are so happy that she is the president
01:28 of Suffolk University
01:29 and she's done so many great things
01:31 over the past number of years
01:33 and we're really on a great trajectory with the university
01:38 as well as with the law school.
01:39 So welcome, President Kelly.
01:41 Thank you.
01:42 (audience applauding)
01:50 - Thank you, Kathy, and good morning, everyone.
01:52 It is wonderful to be here with you today.
01:56 I know I am looking forward to hearing all of trustee,
02:01 Ken Taubes, our keynote speaker this morning
02:04 to hear everything he has to say.
02:08 It's gonna be a great morning and a lot of great information
02:13 for all of us.
02:14 I mentioned Ken is a trustee.
02:16 We have some other trustees
02:17 who are here with us this morning,
02:19 so I think Nancy Stack is right here in front of me.
02:24 Trustee Susan Rugnetta, I saw you somewhere.
02:28 There you go.
02:30 I think that's all for current trustees.
02:32 We have some former trustees
02:34 who are here with us this morning.
02:36 Dan Connolly and Jack Harrington,
02:38 thank you so much for being here.
02:40 Did I miss any other former trustees?
02:43 Current trustees?
02:45 Excellent.
02:45 Well, again, thank you.
02:46 Thank you all for joining us.
02:48 And as you heard, this is the first time
02:52 we've had this event back in person
02:54 since before the pandemic.
02:56 And we've done it a couple times virtually since then,
02:59 but really nice to be all together in one space.
03:03 I remember that event in January,
03:07 I think you're right, Kathy,
03:08 I think it was January of 2020,
03:11 and I had the chance to be up here and to speak with all of,
03:14 or everybody who was there.
03:16 Some people who are here again today and others not.
03:20 I had the chance to talk to you about what was,
03:22 at that time, the brand new strategic plan, Suffolk 2025.
03:28 And I was talking with you
03:29 about the most critical elements of that plan.
03:34 And essentially, what I think I said was that Suffolk 2025
03:39 was fundamentally, at its core,
03:42 a lot of different initiatives, but at its core,
03:44 about the university harnessing the full power
03:49 of experiential learning to ensure that our graduates
03:53 were ready for professional success
03:55 and to have a positive impact on their communities,
04:00 both when they graduate and over the course of their lives.
04:03 And that we would do that in a way
04:06 that was consistent with and advanced our mission
04:10 as an access and opportunity institution.
04:13 And with our very strong commitment
04:16 to diversity and inclusion
04:18 and advancing inclusion across the institution.
04:23 And in 2020, what, you know, just about eight,
04:26 nine months into that plan,
04:30 we were off to a great start implementing across the board
04:35 and then the pandemic hit
04:37 just a few months after this event.
04:39 And as you all know, that upended everything for everyone
04:44 quite a bit.
04:47 So in late '20, late spring of 2020, we, you know,
04:53 we sorted through everything,
04:54 we figured out how we were gonna operate.
04:56 We, you know, removed, moved everything virtually.
04:59 And once we had done that
05:01 and we knew we could continue to deliver on our commitment
05:04 to our students and our alumni, then we said,
05:07 "Okay, we gotta take a look at this strategic plan,
"figure out what we should still be doing. Does it still make sense? The whole world has changed."

And we did that and, you know, we had to shift some things here and there, some initiatives were pushed back on the timeline and, but for the most part we said, "This still makes sense."

And thanks to the support of the board of trustees, we made the decision as an institution to continue to invest in the key priorities of that plan and to move forward because we felt it was in the best interest of our students, our alumni, and the institution over the long term.

And so now I am back here, I'm really happy to be able to say that we did that and because of those investments, while we are still coming out of COVID and still dealing with some of the hangover effects, if you will, just as the world is and certainly as higher ed as a sector is doing.

While we're still dealing with that, I'm very happy to say that there is just an incredible amount of positive momentum at Suffolk.

And much of that positive momentum ties back to the decisions that we made to continue to invest in those priorities that I was talking to all of you about back in January of 2020.

And so I wanna just highlight a few things that we're excited about, that we're proud of, and that I think speak to the forward momentum of Suffolk University.

First of all, just touching on enrollment for a minute, at the undergraduate level for the class of 2022, so students who came in this past fall, we had actually the first application growth in a decade. We brought in this past fall, the largest class, the largest first year undergraduate class since 2015.

And that class of about 1,242 students, I think, if I'm remembering correctly, was 41% first generation college students and 46% students of color.

We are very proud of that. We are moving forward as an institution continuing to focus on our access and opportunity, mission and success for all.

The law school.

Again, enrollment has been off the charts. This past fall we had a very large incoming class and, in fact, the year before as well.

But very importantly, the academic profile, the credentials of that incoming class for the last two years
have been the strongest they have been in a decade.
And as we look to next fall,
law school applications at Suffolk are up 4.99%.
This is as of yesterday morning.
They kind of change a little bit daily,
but 4.99% when applications in the United States
are down by 3% and down in New England by 7.8%.
All of those numbers speak to
not only the excellence of our programs,
the incredible hard work of our faculty and staff
to deliver every day to our students,
but also to the investments that we have made
as part of Suffolk 2025
in continuing to be sure that people know about
the good work that is happening here,
continuing to advance our reputation and branding
and marketing efforts in ways that help
to really drive our success.
So we're very, very happy with those results.
Now, if you were here back in January of 2020,
you may remember me talking about a central investment
of the strategic plan
primarily at the undergraduate level because we had
had a very successful career services operation,
at least at the law school level for many years.
But at the undergraduate level,
while there was good work happening
in what was then known as the Career Center,
it was a small unit and not fully integrated
with our academic programs,
particularly again at the undergraduate level.
So we invested, we hired a new fabulous executive director,
Dave Merry, who many of you may know
under the leadership of the Provost's Office, Julie Sandell.
And he and his team and all of us came together
to reimagine, rebrand the Career Center,
to integrate it fully in our academic programs
in appropriate ways
and to vastly expand the staffing and the outreach
that we could do to students.
And so now we have the new Center for Career Equity,
Development, and Success.
It is sitting in a very prominent place on campus
in the corner of Beacon and 73,
Beacon and Tremont Street in the first floor of 73.
Fabulous space where it's very visible to students,
to members of the community, to employers.
And they have just done incredible work.
And after their first year of operation,
we don't have the stats yet for year two,
but after their first year of operation,
not only were the career outcomes
for our students outstanding,
10:38 98% of graduates from the class of '21 employed
10:42 or in graduate school,
10:43 but the work going on in the center has really been amazing.
10:49 And the degree to which students
10:50 from the first moment they are on campus
10:53 as first year undergraduates,
10:55 has really, really been robust.
10:57 So that first year we had 3,481 unique student and alumni,
11:05 the office also serves our alumni,
11:08 unique student and alumni engagements.
11:11 Seventy-three percent of all of our Pell eligible students
11:15 are taking advantage of the center,
11:17 64% of our international students
11:19 are taking advantage of the center.
11:22 And when you look across the racial identity, white,
11:27 Black, Hispanic, Asian, American Indian, Alaskan Native,
11:31 the numbers are parallel and growing all the time.
11:35 We, of course, we'd like 100% of our students to use it.
11:38 But in the first year of operation to have 59% of students
11:43 who identify as Black using the center,
11:45 63% of our Hispanic students, 56% of our white students,
11:50 64% of our Asian students,
11:52 and 64% of our American Indian and Alaska Native students.
11:57 Those are fabulous numbers for a brand new initiative.
12:00 And, only possible because as an institution
12:04 we made the decision to continue to invest
12:07 in the core elements of that plan.
12:10 And we are really seeing the success of that operation.
12:14 And finally, I wanna just talk a bit about advancement.
12:17 I mean this is a Summa Business Breakfast
12:19 that we have members of our Summa Giving Society
12:23 here with us and so appreciative of all they do.
12:27 In terms of advancement, since 2018,
12:30 we have achieved the five best fundraising years
12:33 in the university's history.
12:36 And in fiscal '22 we raised more than $10 million dollars
12:39 for the second time in the university's history.
12:43 And all of our school-based alumni boards
12:48 have achieved a 100% giving record
12:52 for the fifth year in a row.
12:55 That is absolutely incredible.
12:58 I can tell you I talked to a lot of presidents
13:01 and I have not, college and university presidents,
13:04 who can say the same thing about the support they're getting
13:07 from their alumni organizations.
13:10 That is really incredible.
13:13 Yes, Suffolk is on the move
13:16 and it is on the move
13:18 because of the hard work of our faculty and staff,
13:20 but it is equally on the move because of all of you,
13:23 because of our alumni and friends
13:26 who are so critical to our success.
13:28 So would you all join me in giving yourselves
13:30 and all of our other donors a round of applause
13:32 for all you do for Suffolk every day?
13:35 (audience applauding)
13:35 We are so very appreciative.
13:42 And to underscore for all of you the impact
13:44 that you have on our students,
13:46 we are very fortunate to have with us today
13:49 a student speaker.
13:51 She is a, the recipient of the Ken and Wendy Taubes
13:55 Endowed Scholarship,
13:57 a graduating from the Sawyer Business School
14:00 in just a couple of months now.
14:02 Would you please join me in welcoming to the podium
14:06 Ana-Luiza Alvarenga.
14:08 (audience applauding)
14:16 - I'm a little shorter than you, President Kelly,
14:18 but thank you, President Kelly.
14:22 And I would like to say good morning.
14:24 My name is Ana-Luiza Alvarenga.
14:26 I am a second semester senior and I'm majoring in marketing.
14:30 I'm excited to graduate this May
14:32 and I'm excited to share my Suffolk story
14:34 with you this morning.
14:36 Growing up, my parents have always prioritized
14:39 anything and everything they could
14:41 to benefit my education as well as my siblings.
14:44 They worked tirelessly,
14:45 spending late nights cleaning offices,
14:47 and sometimes missing my dance competitions
14:50 so that they could work.
14:52 Now that I'm about to graduate from college in May,
14:55 I can see the immense opportunities
14:57 that Suffolk has given me.
14:58 And I can see that their hard work and support
15:01 was all worth it.
15:03 Suffolk has allowed me to see that this world is my oyster.
15:07 While at Suffolk, I have been able to identify my passions
15:10 and cultivate my integrity.
15:13 During my junior year,
15:14 I had the opportunity to study abroad in our Madrid campus.
15:17 If you had told me in high school
15:19 that I was going to be studying in a different country,
15:21 I would've thought you were crazy.
15:23 The people I got to meet, the culture I got to experience,
15:26 and to be the first ever member of the Alvarenga family
15:29 to be studying abroad was beyond belief.
15:33 None of these opportunities would have been possible
15:36 without my parents' sacrifices.
15:38 Though through all this time,
15:41 my self-confidence has increased.
15:43 After I graduate, I plan to build my career
15:46 with my passion for fashion and brand marketing,
15:48 a path I feel brave enough to explore
15:51 because of my growth and development here at Suffolk.
Being a first generation college student has not been easy, but through the lows and stressful moments of being a student, my experiences have molded me to become the driven and passionate student I am today. I am here as a graduating senior thanks to the financial aid I have received from this university that has made my Suffolk education possible. Financial aid is an essential for first generation students like me, and I am the proud recipient of the Ken and Wendy Taubes Scholarship. I would like to take this time to thank Mr. Taubes and his wife for establishing and funding the scholarship, which has helped my far off dreams reachable and attainable and will help many other students in the future. I'm truly grateful.

It is my honor now to introduce Mr. Ken Taubes, a distinguished MBA graduate of the Sawyer Business School. As executive vice president and chief investment officer at Amundi US, Mr. Taubes oversees the United States fixed income team, equity team, and multi-asset team, including portfolio management, fundamental research, and trading.

Today he will share his insights about the 2023 economic outlook. Please join me in welcoming Suffolk University Trustee, Ken Taubes. (audience applauding)

Well, now that I'm suitably embarrassed, let's see if I could pull myself together on this one.

That was very good.

And I'm reminded, by the way, when I went to school, it's been a long time now, in the '80s, and I remember it was around $4,000 a year all in. And I thought that was a lot at the time. But, and no, of course there's been inflation, but what people miss often is that the rate of inflation for education over the last 30, 40 years has been far in excess the general inflation rate. So it is truly the fact that the cost of education today is much more expensive than it was when most of us went to school in the '80s and '90s, frankly. So that's why I think it's awfully important for us to help support these students because it is much more expensive today to go to school, unfortunately.

So, great, thanks for those comments. I have about 20, 25 minutes of time, I believe, to go over a lot of information.
And we have far more charts I'll show you than I'm actually gonna go over, but they'll be available for you, we can send them to you. They've been all compliance approved. We are in a SEC regulated industry so we have them approved for general public use. So you'll be able to get them if you're interested in looking at them in more detail. But I want to go over today a few things. First off, a little bit about where we are, where the economy's heading, and most importantly of all, what are the implications for investing? Because at the end of the day, often the economy goes in a different direction than the markets. It's not the same thing always, but it is a very important factor of how you invest and how you think about where you may want to invest. And I must say this is a pretty tricky period. I don't think it's ever easy to invest. You probably know if you've done any research about investing, most active managers don't beat passive benchmarks. So if it was so easy, you wouldn't have those statistics. Although it's not quite as true in fixed income, but certainly in the equity markets it is. So it's an even more tricky period. And of course, why is that? A few reasons.

One, we've had a very, very severe inflation environment over the last few years and many people will debate how we got there and why it came about. Of course, I have my own views and we can talk a little bit about that. And the direction of inflation, of course, is really important to investment values. And we'll talk about where that's heading. And then I'll try to go over a little bit where we are economically.

Of course, we just had a little bit of a shock to the system over the last two weeks with a number of banks going under, frankly, including SVB, I think the 16th largest bank in the US. And by the way, a pretty strong Boston connection because they acquired Boston Private Bank a number of years ago and little known, I think, is they had a very large deposit base of not-for-profits in the Boston area. So I know there were quite a few not-for-profits and other companies quite concerned about making payroll a few weeks ago. Obviously, it's worked out okay for them. And we still have a central bank.
that's very active in the markets and by the way, globally, frankly, and also geopolitical risks arising as well. And then, of course, we have to examine the valuations in the market. So let's see if we can pull it all together. And I must say that I think that we're getting a lot of mixed signals. If you look at the economy today, the quarter that's gonna end in a few days, March 31st, looks really pretty strong actually. People have been talking about a recession for six months or longer, but GDP in the first quarter looks like nearly 3% based on the data we've seen so far. Probably too hot for the Fed, frankly. And that will likely be, in my view, the peak of the year in terms of quarterly GDP data. And I think the market has been very happy about all that as it sees the data come in because the market had been priced at the end of the year before October and into the fourth quarter for a recession and we're not having one right away. And I still think we're gonna get one, frankly, but I think it's following a very normal course of action. And what I want to go over first off is where we are. This year we started off with much better investment results so far. The equity market's up, the bond market's up after a very tough set of numbers last year. Amazingly, I looked at the equity market from the day before the news on SVB to today and the market's up. Probably not a result you would've expected. In fact, the NASDAQ's up 4% or 5% and even the DOW's up a little bit. So the market's taken the banking crisis to date so far, so well. And I think that if you look at these investment results, even this year, even offshore results are a little bit better than they have been in the last few years. So pretty good so far. In fact, the NASDAQ is up about 14% year to date. That's pretty, pretty bubbly actually, given how much the Fed's been tightening rates. So we have a situation which I'll talk about what the valuations look like. My own view is that as we move along here, let's see if I can get this thing to move. Oh, it does move just, okay. I think we have to talk about the Fed. I think that's the elephant in the room. And I think when I look at the Fed today, and this is true of other central banks
because in the last few weeks,
you may have noticed the ECB raised 50 basis points in the middle of the banking crisis.
The Norwegians raised rates,
the Swiss raised rates in the middle,
right after they took over Credit Suisse, they raised rates.
So we're seeing, you know, still seeing a lot of rate hikes in the global economy, frankly,
with the one exception in China, perhaps.
But I think people look at the rate hikes, they see the rate hikes, they're in the paper all the time,
they watch interest rates.
But one thing people don't really watch that much is the other aspect of the Fed's tightening.
Because you know the Fed affects two things, the price of money and the availability of money.
The price is the interest rates and that gets good headlines.
But they're also doing in the background every single day, quantitative tightening.
They are selling their balance sheet down.
They're selling treasuries, they're selling mortgages, shrinking their balance sheet.
So the raw material that the banks have to lend is going down.
In other words, excess reserves in the banking system are declining.
So the banks have to work harder to lend because they have fewer and fewer reserves.
Liquidity gets tight in this environment and you see it.
You've seen SVB, for example.
So the quantitative tightening works behind the scenes, day in and day out, up to $95 billion a month.
And not to get too wonky about it, but the monetary base, which is basically reserves at the bank, at the Fed by banks and also the currency in circulation is down 15%, 16% year to date.
That's a lot of shrinkage.
If you look at the broad money, the so-called Ms, year-over-year, they're now negative.
This is not a good situation.
That's why liquidity is tightening in the banking system.
And if you're a bank, forget about going outta business.
I'm not even gonna talk about banks going outta business.
I think SVB was an anomaly because we run the 50, 60 banks that are investible in the US in public security markets and they were the only bank on our list that showed after mark to markets on even their held to maturity of negative tangible equity.
Very unusual.
So once the liquidity started getting squeezed, they could not sell securities.
without killing their capital.
And that's what happened.
But most banks don't have that situation,
most of the big public banks.
But liquidity is getting squeezed.
So even if you're a well capitalized bank
with good liquidity,
at minimum what's happening is you own assets,
now your deposit costs are going up
because the Fed keeps raising rates.
So look at Bank of America.
Many of you probably look at,
I don't wanna pick on Bank of America,
they're just like all the other banks,
but your money market account's still five, 10 basis points.
Five, 10 basis points.
The T-Bill rate was 5% three weeks ago.
You could still buy T-Bills at nearly 4 1/2, 4 3/4.
You probably noticed your government money market's
4 1/2, 4.75, government money market.
So you have to be asleep at the wheel to not move your money
from your money market account,
from your bank account money market
to your a government money market account or buy a T-Bill.
So the banks are getting squeezed no matter what,
even if they're unhealthy.
So their net interest margins are going down
and they're raising rates.
And you probably looked into the Boston Globe.
A lot of advertising these days for CDs.
The big banks have tons of excess capital, excess liquidity,
but the little banks don't.
The excess reserves in the banking system
are not evenly held across the banking system.
The banks,
if you're worried about your net interest margin,
your profitability going down, people taking deposits out,
not because they're worried about your bank,
but because they can get a better yield over here,
you have much less money to lend.
So this is gonna continue to cause lending conditions
to tighten.
If you look at the quarterly commercial lending surveys,
they're tightening.
It comes out once a quarter.
The last one was much tighter than the last few.
Furthermore, what happened at SVB,
what's going on in the background?
I'm sure when we see year ends quarterly survey
in the next few weeks, it's gonna be tighter still.
When lending standards are tightening,
it's not easier to get a loan.
What do the banks do to make it through this?
They raise the price of their loans
or they make fewer loans.
So this is, I think, happening
and this is gonna continue to drive the economy
much slower in my view.
So we're gonna see this and the Fed is still raising rates.
They raise rates after SVB, you know,
it was a 50/50 toss up whether they should have done that.
But they're very focused on inflation.
And I have a lot of inflation data here,
I'll show you in a second.
But you could see already not just the availability,
but on the price.
Here I graphed real yields.
These are TIPS,
so Treasury Inflation Protection Securities.
And the real yield is the beige.
It's 133.
Before and during, right around the pandemic
and immediately after, I mean we had negative real yields.
If you bought a TIP in April of 2020, early '21,
you actually got a negative real yield,
which was a little bit of a problem.
But it's exceptionally easy monetary policy.
But now real yields are rising.
So we have the availability of liquidity going down
and the price of money going up.
That's not good for the economy.
It takes a long time to work its way through,
but it's gonna happen.
And people look at this,
it manifests itself in the yield curve.
If you look at the yield curve today,
you have short rates at 4 3/4, five, that's the Fed.
I think Fed funds 4.82 yesterday.
And you have 10-year notes at this morning, 3.56, 3.57.
I mean this is 120 or so basis points of negative slope,
invited yield curve.
That's not a great environment.
And that's a reflection of a tight monetary policy.
And if you look at the historical data,
12 to 14 months after the first inversion
of a sustained yield curve inversion, you have a recession,
the beginning of a recession.
I wasn't expecting a recession the end of last year,
the beginning of this year, that's too soon.
Twelve to 14 months from when the inversion took place
is probably the middle of this year, this summer,
the fall, maybe.
It could go as late as it would be
in the window of averages, the range of averages
even if it went into the first quarter of next year.
So what I would say is with a lag,
'cause people often say the Fed works with a, you know, the,
what they do has a long lag, 12 to 14 months on average,
but as short as eight or nine months,
and as long as almost two years.
So the window of when I would expect a slowdown,
a really severe slowdown, if not a recession,
is gonna be starting this summer into Christmas or early next year.
So I think that's where we're headed, frankly.
And I don't think the SVB thing makes it any easier.
Even with the Fed and what they were doing, I mean,
nobody wants to be the next SVB or Signature Bank or even the next First Republic, frankly.
And so they're going to maintain more liquidity than they might have otherwise.
They're gonna be very careful.
So I think all of this is, as a consequence, is gonna tighten credit conditions even further.
So I don't wanna be so negative
but as some of you who maybe heard me talk in the past, I like to call 'em the way I see 'em,
not not the way we hope.
And otherwise you don't have good investment performance.
So this is a little bit of a problem we have.
And what's the likelihood of really the Fed stopping?
I, 'cause I think that's the next question and without,
you can't really examine, figure that out
unless you look at what's happening on inflation.
So I have a few charts on inflation
and I must say on inflation, frankly,
what I see is it is heading in the right direction.
It's clear, it's peaked, inflation is peaked in this cycle.
And I, how do I know that?
Why do I say that?
Because the conditions that created all the inflation is behind us.
The conditions were principally a monetary policy that was way too easy for too long and turbocharged with fiscal policy.
No matter what they say in Washington, the fiscal policy turbocharged inflation.
Because you had a constrained economy on the reopening against fiscal stimulus.
That was cumulatively over 20% of GDP.
Where did all, where can all that buying power go?
It, there wasn't enough product globally.
So inflation was everywhere and the Fed was slow to recognize it and here we are.
But it, the conditions that created that are no longer.
There's a little bit of tailwind still from fiscal stimulus.
People were worried about it after the pandemic that they'd cut back, but they haven't cut back that much.
In fact, GDP last quarter or more than a quarter of it was government spending.
And we have some bills that are still working their way through.
They were passed, but the money's still working their way through. Furthermore, the states were flush. A lot of it was because, frankly, they were flush with money from Washington and with a year delay, they started spending it now and last year. They didn't spend it right away. In fact, most of the legislatures, including ours, argued about how to spend the money for a long time. And a lot of states were sending out checks just like Washington did. But for example, California did it not many months ago, late last year. Now our legislature didn't want to do that, but they were forced to. In Massachusetts, you, many of you, if you paid taxes last year you got a check and that's also stimulus, right? So there's still a little bit of that. But going forward, you know, we're gonna have a battle on the budget and we're not gonna have the fiscal stimulus that we had. And we already know the Fed is already tightening a lot, a real lot. So I think inflation is gonna, with a lag, 'cause inflation is not a leading indicator, it's lagging indicator, it's gonna come down. And what we're seeing in the inflation data so far is, frankly, goods inflation is deflating, first and foremost. And that's because, frankly, I think a lot of the demand is been satiated. A lot of, frankly, excess demand was in the housing sector and appliances and all that, particularly constrained because of the lockdowns. So against rising demand, limited supply, a lot of those prices went up. Now we have a slower housing market, which is the first to go when the Fed starts raising rates, by the way, and much better supply chains. So goods inflation is begun to come down. More sticky is services. And I have a chart here, maybe I can find it. The really sticky part of the market is services. Services are, by the way, definitionally rental prices, they're airfares, they're travel, other travel expenses, hotels, medical services, things like that. They're much stickier, they're much more related to labor if you think about it. And labor is in short supply. In fact, there's still almost 10+ million job openings against unemployed of four or five million. So we have almost, not quite, two to one job openings
34:37 in the US.
34:38 Now, I think it's shrinking, but still a labor imbalance,
34:40 particularly in, frankly, entry level positions.
34:42 If you're in the hospitality area, services,
34:46 one of the big job growth areas still, by the way,
34:50 is education.
34:51 I don't want to say university education or colleges,
34:55 but in public education
34:57 because there's such a still a shortage post the pandemic.
35:01 So there's a lot of demand.
35:02 I think there's a very systematic shortage
35:05 of health care workers
35:06 in a lot of the health services industries.
35:09 I mean, you probably know how hard it is
35:10 to get an appointment
35:11 over at one of these medical facilities.
35:14 They still don't have enough nurses, doctors, everybody.
35:17 So there's still a lot of job hiring there,
35:20 but you've begun to see, frankly,
35:22 job contraction in some industries.
35:25 Probably one of the areas
35:26 where this has been the most hiring over the last few years
35:29 has been in IT.
35:30 IT is getting tight.
35:31 We've, even last month in the payroll data,
35:34 big payroll number, negative job growth in IT,
35:38 information technology.
35:39 'Cause you see in the headlines, you know,
35:40 the big West Coast tech companies keep laying off people,
35:44 among others.
35:45 So we're beginning to see some early hints
35:50 that maybe services inflation will come down,
35:52 but it's still running 5%, almost 6%.
35:56 There's been almost no progress on services inflation.
35:59 That's why the Fed's annoyed still probably.
36:03 And the overall rate is coming down,
36:05 but with services being sticky.
36:07 Now the one thing they have said and we tend to agree with
36:10 is that one of the biggest components of services inflation
36:13 remains the way they calculate housing data.
36:16 They don't actually directly put house prices in the CPI.
36:19 They stopped doing that 30, 40 years ago
36:22 and they only use owner equivalent rents.
36:25 They call up homeowners and ask 'em, what,
36:27 how could you rent your house or what price?
36:29 And they, that's how they work and it works with a huge lag,
36:32 six, eight, nine months.
36:33 So that's why Chairman Powell goes out and says,
36:36 "You know, I'm pretty confident
36:37 "we're heading in the direct direction
36:39 "because the housing data is, you know,
36:41 "calculated with a long lag and I expect this to improve."
36:44 But the court, now they gotta cut so finely core services,
36:47 ex-housing is still very sticky.
But I think a lot of that has to do with employment and it's a very lagging indicator. And if they myopically focus on that, they will over-tighten because that component of CPI does not lead, it lags. And the Fed has to, you know, have the courage to ignore that at a high level and have the courage of their conviction when they look at what's happening in, frankly, lending circles and they're tightening. So I think there is a risk that they over-tightened again. They would probably have to stop right now, stop tightening, in order to have a soft landing. Otherwise, they're just not gonna have a soft landing in my view.

And I think the way the economy works, I just think this is an important chart. This is a framework, the way I think about it. You have the Feds raising rates, inverting the yield curve, what gets hurt first? I already said, the housing market. Housing prices year-over-year are flat to down. And if you look at mortgage applications, refinancings, way, way down, okay? So clearly the housing market's slow. Typically two years from the peak in the housing market to the continued tightening, you have a recession. So the housing market is well advanced in its slowdown. Now with a footnote, the housing market is not '06 and '07, it just isn't. There's no excess housing in general. And there, I have another chart, maybe we'll show it to you, but I'll tell you, there's a far greater persistence of demand than there was in '06 and '07 because of, not to be pejorative, but the so-called Millennial generation, which is now mid-20s to mid-40s. That is historically prime family formation years, prime childbearing years, that's when people buy their houses, and that's when they spend money. And frankly, people also don't always realize this, I'm sure demographers do, but the Millennial generation is the biggest cohort in the United States, bigger than the Baby Boom generation. And they're gonna have an impact on housing. They are having an impact on housing. So whenever you see housing prices come down a little bit, where rates come down, there's automatically a persistence of demand. This is not like '06 and '07 where there were just too many houses with too few people buying.
So I think housing is in a normal cyclical downturn related to rates, but with the lag. After housing, then you have the manufacturing sector. It's starting to weaken. If you look at some of the leading indicators, not the lagging indicators, like surveys from Institute of Supply Managers, it's so-called ISM data, new orders are have begun to collapse. That's a leading indicator, not a lag. Now in production and manufacturing, I think on the services side, because of the pandemic, it's still relatively robust. But the ISM new orders, components of these indices are near recession levels already. And with a lag of almost a year, you start to see a recession. And then what happens? Companies are starting to be squeezed, housing's weakening. It's a big multiplier effect in the economy. Manufacturing's weakening, also a big multiplier effect in the economy. So earnings begin to fall, margins begin to fall, and that's what's happening slowly. We've already knocked two points off corporate margins and eventually with a lag, not first and foremost, but with a lag, employment weakens. And I, unfortunately, think the job market's gonna get worse, not better. Because this is, we're on this path and sometime I suspect this summer or fall or we're gonna have even, you know, barely positive growth or even a recession. And we're already 2/10 of a point off the lows in the cycle, in the unemployment rate. And historically when it's been up a 1/2 percent over a year, you have a recession. So we'll be monitoring that closely. But employment is a lagging indicator and it's also problematic because the Fed has a Phillips curve model they still use and they tied together in the Phillips curve model employment and inflation. And I guess I have a little different view on that. If you have high real rates and high productivity, doesn't mean necessarily that strong wages and strong employment causes inflation. I think it depends on the circumstances and, unfortunately, we've had low productivity and, frankly, high inflation and low negative real yields. So I'm not convinced that the wages are not inflationary. And just as a political side, I have a chart in here in the package and I'm not gonna get to it all,
but showing you that on the one hearing you hear Washington say what a great economy we have. But when we look at the surveys, people are upset and they're, and very low feelings about the economy. And I think it's related to the fact that even though the unemployment rate is very low, inflation's even higher than their wage growth still. So even though wages are up 4% or 5%, inflation's up 7% or 8% over the last 12 months. So people are working like dogs, you know, they got their job, but they're not staying even, they're still falling behind. So people don't like the situation. This is why inflation's such a political mess in Washington. So I think we're on this path and we're gonna, unfortunately, see a weaker economy. I think it's already baked into the cake because the curve has been so inverted for so long and now it's gonna be exacerbated with this mini banking thing. So that's the story there. Right now, if you look across the bond market, yields are near their highs over the last decade, not quite there. We, I mean we've had a big rally over the last few weeks. But I must say, when I look at bond yields today, my inclination is to be still very high quality because we're still have in front of us a recession or at minimum a very weak economy. And this is not the moment in which to buy, I think, down in credit, high yield, or other risky credit assets. And furthermore, when I combine that fundamental outlook with how they're priced, which I'll show you in a second, they're not greatly valued. In fact, the spreads on credit today are not very high relative to what the economic outlook looks like. In fact, in other words, credit spreads nor the equity market discount a recession at the moment. They're fairly average credit spreads. We're not looking at average, we're probably looking at below average growth in the coming year. So that's one issue. But I do like to think that government bonds, short to intermediate government bonds, look like a pretty good value. Because I do think inflation's gonna come down and the curve is very inverted so I think you are getting paid to hold treasury yields or high quality corporates or even high quality government mortgages in the front end
of the so-called yield curve in that three- to five-year part of the curve.
There's a lot of people flocking to T-Bills and, of course, you can maximize your income by buying T-Bills or your government money market fund, but they're, those yields are not likely to be there in 12 to 18 months if we go into recession because the Fed is gonna be forced to cut rates.
In fact, the market is anticipating the Fed's gonna cut rates.
If you look at the forward Fed funds market, you know, there's a futures market and curve out there, the market's expecting the Fed to raise rates one more time in May, 50/50, not clear, but that's the peak.
And then beginning sometime this summer, the market's expecting the Feds to start cutting rates. So the bond market's already beginning to think, at least the government bond market is beginning to think the Fed's gonna be forced to cut rates sometime this summer, which is not disaligned with what I, the way I think about it.
So if you're piling into Treasury bills, it's a short-term solution.
And maybe that's fine 'cause maybe you wanna buy a house or maybe you want to take a trip or refurbish a house and you need the money no matter what. But if you're thinking about savings a little longer or time,
I mean may maybe a short-term intermediate bond ladder in that three- to five-year, three to 10 makes more sense because at least those yields,
when the treasury market rallies, I guess when the Fed starts disinverting the yield curve, you'll have those yields for a few years at least.
And that would be my observation there. And I do have this chart here, which is maybe hard to read, but basically looks at the four big components of the public bond markets, mortgages, investment grade corporates, high yield, and bank loans. And frankly, you could see everything looks pretty average, but if things go into a recession, it's not prepared.
That's the issue, okay?
That's why I'm not recommending that right now.
Then we look at the stock market where most people have more of their interest in the bond market like myself.
Now in the equity market you might say, "Geez, "we had a banking crisis, economy's going into a recession, "why is the stock market up?"
It's a little anomalistic, right?
Well, I can't fully explain it either.
No one really knows, but I suspect a few things.
One, because of what we've seen since the end of the year, rates have come down,
the market's starting to think the rates are coming down.
And when you look at what parts of the equity market have performed, it's the markets that's most sensitive to interest rates. Long duration equities with no earnings or no dividends, growth into the future.
So as interest rates come down, the 10-year notes come down 50, 60 basis points, at least.
Those kinds of stocks, when your present value that out-looking cash flow, it looks more valuable than it did last year.
And that's the part of the market that got hit last year a lot when interest rates rose a lot.
So I think that's one thing.
I also think the market's looking at the GDP, the 3% GDP we're gonna have this quarter and it's not seeing the recession yet. So there's always gonna be skeptics.
I mean, I read in the paper all the time, we have this debate internally, by the way, where's the recession?
Three percent GDP, fourth quarter wasn't too bad either.
And you know, the forecasts of lower profits and earnings per share are not in the windshield right now.
No one's seeing it, it's too far off.
That's another issue.
So I think that it's largely an interest rate story.
I also think there's a lot of rotation, you know, not abandoning ship, changing the decks because the big cap, you know, big growth, cash flow fortress balance sheets that you're seeing, those are the ones that are doing well.
Weak companies, you look at the Russell 2000, it's very weak this year, frankly, relative to the big caps.
So I think underneath you're seeing a flight to quality, a flight to big cap, a flight to, you know, because rates have come down and because no one's seen the recession yet.
But if you look at the valuations, this is where we have a problem.
And if that forecast comes true, the stock market's probably okay.
And the issue is inflation.
You have to have an, because there's two things here going on for stocks, right? It's the valuation and the earnings.
And when you look at the PEs today, the S and P is over 18 times earnings, eight point, 18.2, 18.3.
And if you just look at inflation, I said it's still 5%, 6%.
You know, if the, if it persists here and it doesn't come down, we got a problem with the PEs.
Because if you look at that chart and you channelize,
you know, the various bucket inflation,
the PE is too high for the current inflation rate.
So the market already thinks inflation's coming down a lot.
In fact, it has to be 2%, 3%,
otherwise, frankly, the PEs are not well justified
at these levels.
In fact, if we stick at this level,
the PEs ought to be 14, 15 times at best.
So that's an issue even if earnings don't come down.
So the market is already inferring a decline in inflation,
which I don't disagree with, but it's already priced for it.
So there's no upside to that in my view.
It has to come to fruition
for the prices to stay where they are.
That's one thing.
And the the second thing,
which this chart doesn't show you,
is that earnings for next year are $225 dollars
for the S and P.
And our forecast already said there's a chain of events
and we're already seeing margins getting squeezed.
We think profits are gonna be more like $200 dollars.
So when you look at the PEs,
you look at the earnings per share,
the market is really priced for perfection at the moment
and that's the issue.
Longer term, there's some great,
you're starting to see opening up on some values.
I mean, I don't think maybe in the short-term,
but over the next three to five, 10 years,
small caps are finally starting to be very well priced.
The large cap part of the market
that you get in passive large cap
is still very, very expensive and priced for,
you know, pretty much perfection on earnings
and, frankly, inflation.
So I wish I could deliver a great story on this,
but I think for now we still have to hide.
There's some good bond opportunities in high quality bonds.
We haven't seen those for decades, really.
And with declining inflation,
I think that that's an opportunity in near term.
We'll have to see what the equity market does.
If my recession story doesn't hold up
and we can avoid it and skirt it
and inflation comes down to 2% or 3%,
the equity market will be okay.
But I'm just saying, it's very asymmetric,
the risk right now.
So I'll give you a few minutes if there's any questions.
I know we're probably running a little bit behind.
Oh.
- [Moderator] Questions, but if you could stay.
50:54 - Oh, okay.
50:55 - [Moderator] For a couple of minutes after
50:57 (speaking softly).
50:59 And ask questions, we wanna time,
51:00 I know members will need to get back to work,
51:03 but if I can have Tamela come up.
51:05 But, thank you, Ken.
51:06 - Perfect.
51:07 (audience applauding)
51:18 - Good morning, everyone.
51:21 Thank you, Ken.
51:22 That was, it was a little grim,
51:27 but I appreciate your candor.
51:30 So my name is Tamela Bailey
51:36 I was just telling folks at my table
51:37 that I can't believe it's been so long.
51:40 Doesn't feel like it, but it has been.
51:43 I am the president of the Law Alumni Association Board.
51:47 I am also the chair of the Suffolk University
51:50 Black Alumni Network, which we call SUBAN,
51:52 if you've ever heard that term.
51:55 And I'm a proud member of the Suffolk Summa Society.
51:59 So again, I wanna thank Trustee Kevin Taubes
52:03 for sharing your insight on what is obviously
52:07 a very timely topic.
52:08 We need to be paying attention.
52:11 A big thank you to Kathy Tricca and Tara Balan,
52:16 I hope I'm saying your name correctly.
52:18 Of course, we always wanna thank the Office of Advancement
52:20 for doing such a great job putting on these events
52:24 and this wonderful breakfast.
52:26 Oh, hi Jenny, I didn't see you earlier.
52:31 So I'm gonna share with everyone why I am a Summa donor
52:38 and why it's important.
52:41 And I'm sure you will all agree with me.
52:44 So I give back at the Summa level for many reasons.
52:48 I'm gonna talk about the three most salient,
52:51 otherwise I would be up here all day, right?
52:54 So the number one reason that I give back
52:56 is because of college reputation.
52:58 And I say this when I'm encouraging
53:01 my SUBAN leadership committee and the folks on the board
53:06 to, you know, do fundraising.
53:08 And when you're talking to folks,
53:10 you want your degree to mean something
53:13 when you're out in the world.
53:17 When I say I went to Suffolk,
53:18 I want it to mean something to the person
53:22 with whom I'm speaking.
53:24 I want the eyebrows to go up like,
53:25 "Hey, oh, you went to Suffolk?
53:27 "Oh, that's a great school," which I do get
53:29 and that's why it's important for us
to continue to invest in our alma mater. You know, I do a lot of volunteer work, haven't applied for a job for quite some time, which is probably a good thing. But when you apply for a job, when you're going out for opportunities, you want your Suffolk degree and your, the school that you went to to mean something. And that's a reason to give back because you're investing in the university. I know that, I know my contributions go to improving the school. I know that they're building new facilities and they're adding to the technologies that students will access, you know, so that they can have a good education. And I think also for many, the percentage that of alumni that donate to a school tells them something about the university or college. I think that means something. So it's another reason for alumni to donate. Also, I see a lot of students in the room. You're moving on. You've, you know, you've been educated at this great institution and please give back. So the second reason is giving back shows gratitude, right, for everything that I just mentioned. I personally enjoyed my time at Suffolk. We had a student speak earlier about her experience here at Suffolk. And Suffolk has poured so much into us, and quite honestly, the places where you've been educated, you know, kind of provide the pathway for your life. And in my view, how can you not look back and give back and reach back and pull up? So I think it's important for me and that's why I do it as well. I've developed so many great lifelong friendships, great memories, many, many experiences and lessons learned. And of course, the professors have poured into us and have influenced us both professionally and personally. So that's the second reason. And then the third, of course, you know, I do a lot of volunteer work here at Suffolk. I was a student once, obviously, and I think students, it's, they're the focus and the future generations that are going to benefit from our contributions. As many of you know, it's not very easy for the students to find funding for college. And while we're out in the world, a lot of us very successful and doing great things, there are students here who are trying to make a way for themselves and, you know, give back what you can to the extent,
56:31 you can do $1000 or more, please do so.
56:36 So that's it.
56:38 Those are my three big points for why I give back.
56:42 I do wanna thank everyone for giving back to Suffolk
56:45 who do give back now for all your financial support.
56:48 If you give your time and energy, of course,
56:53 and your talent, we're grateful for that.
56:55 I do ask those who are not giving at the Summa level
56:58 to please join us and give a gift of $1000 dollars or more.
57:03 For all the reasons that I stated,
57:05 your money would be put, will be put to good use.
57:07 And you can join the hundreds of Suffolk alumni like myself
57:12 and other friends who are philanthropic leaders
57:16 at the university.
57:17 So this closes this morning's program.
57:22 There's still food over there
57:23 and I hope that everyone has a splendid day.
57:26 Thank you.
57:27 (audience applauding)