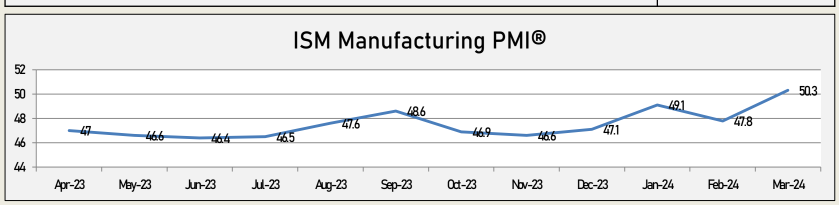
Good News From the Companies That Make Goods

We at Northeast think that manufacturing might be in for a positive surprise rebound in 2024, and that investors should act accordingly. In 2023, manufacturers generally suffered from weak comparisons to the 2021-2022 boom years. Recall that in 2021-2022, there were shortages of goods during Covid as consumers redirected their spending from services to goods, a problem exacerbated by supply chain bottlenecks such as port congestion. A further contributor to excess demand was the precautionary ordering done by retailers and other buyers to build inventories to guard against running out of materials for resale or for use in manufacturing.

However, recently the broad survey PMI manufacturing index has moved into positive territory (over 50 indicates expansion) for the first time in 16 months. More anecdotally, domestic freight loads are up 9% this year-to-date versus 2023. To make the point that this turn in demand for goods is sustainable, we have heard about certain chemical companies having inventories now down to one week versus a normal level of four weeks.

Index	March	Month % Change
ISM Manufacturing PMI ®	50.3	+2.5
New Orders	51.4	+2.2
Production	54.6	+6.2
Employment	47.4	+1.5
Supplier Deliveries	49.9	-0.2
Inventories	48.2	+2.3



The ISM Manufacturing Index is a diffusion index. A Manufacturing PMI® reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is declining.

Source: The Institute For Supply Management

What are the implications of this thinking? Firstly, it means that some of the anemic earnings results out of the manufacturing sector in 2023 might reverse in 2024 off of that low base. Secondly, it could mean that GDP generally might be stronger than expected. And, finally, it might mean that investors and policy makers alike might be complacent if they have taken their focus off of goods inflation.

We at Northeast think this means that short-term high yield credits, with their excess yield spread over Treasuries and their relatively muted levels of interest rate risk, could continue to be one of the most attractive segments of the fixed income markets as 2024 plays out.

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