UNIVERSITY OF COLORADO *LEEDS SCHOOL OF BUSINESS*

COLORADO BUSINESS REVIEW

A publication of the Business Research Division
Volume 90, Number 1, 2024

SUMMARY OF FORECAST

Colorado will Add Jobs in 2024 as Rolling Recessions Impact Some Industries

Employment in Colorado is estimated to have increased 2.2%, or 64,500 jobs, in 2023 once data revisions take effect in March 2024, pushing the economy to new peaks. Colorado will sustain job growth in 2024 despite a slowing economy, increasing another 41,900 (1.4%). Of the 11 industry groups in the state, seven are projected to add jobs in 2024; the exceptions are Construction, Manufacturing, Information, and Financial Activities, which are navigating the accentuated ill effects of rising interest rates and other economic headwinds. In 2024, Professional and Business Services is projected to add the most jobs, while the fastest pace of jobs growth (percentage terms) is projected in Natural Resources and Mining.

Agriculture

High production costs and lower crop prices will remain a headwind for the Agriculture sector in 2024. While Colorado's 2023 net farm income is expected to decrease 21%, which is lower than the expected national decline, the state's strong beef cattle industry will help offset higher input costs and lower income from government programs. Although

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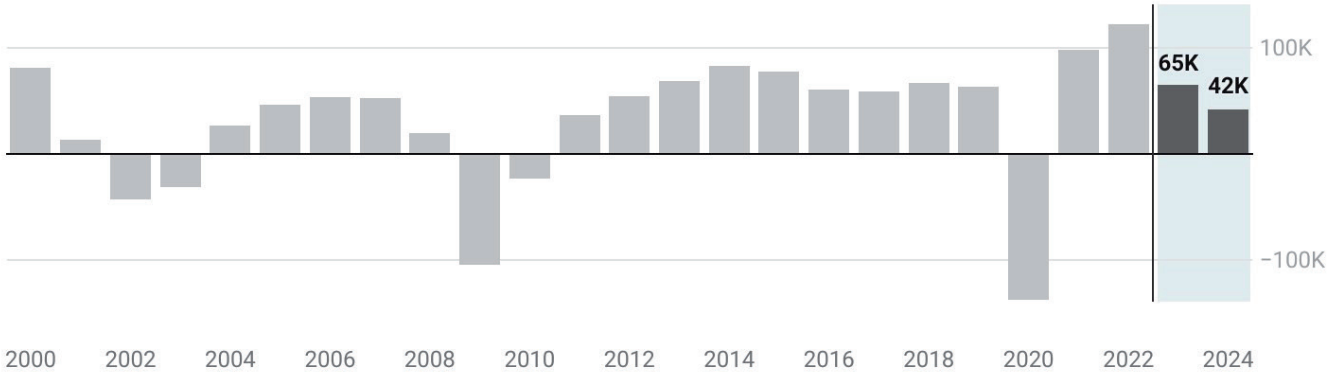
Colorado projected to add 41,900 jobs in 2024

Jobs added, Colorado



Source: Colorado Department of Labor and Employment; Colorado Business Economic Outlook Committee | Created with Datawrapper

heavy precipitation values helped mitigate drought conditions, farmers and ranchers are still very mindful of long-term water issues in the state and surrounding regions.

Natural Resources and Mining

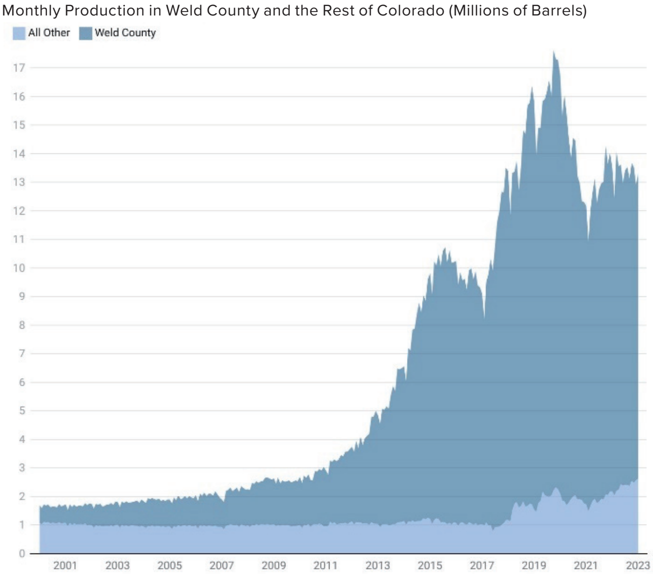
While regional oil prices remain elevated over the running five-year average, natural gas prices in 2023 are likely to be nearly 60% lower from 2022. This will likely contribute to a $18.4 billion sector value for 2023, down 35% from 2022, but still representing a historically robust value. Colorado's total value of oil and gas production is estimated to be nearly $16 billion in 2023, down 37.5% from the all-time high in 2022, driven by significantly lower average natural gas prices in 2023. In 2021, Colorado ranked 10th nationally for coal production, and 7th in petroleum liquid reserves. Colorado is also a leading producer of renewable energy, including wind, solar, biomass, and hydroelectric energy sources.

Construction

In 2023, two trends have continued within the Construction sector. The residential market has faced constrained demand as a result of high interest rates, while infrastructure (nonbuilding) is expected to continue experiencing increasing demand. Overall, total construction activity is estimated at $20.9 billion in 2023, representing a decline of 12%. While high interest rates slowed the single-family housing market, the future remains bright, as millennials are in the typical home-buying phase of life, the state has experienced increased migration, and Colorado remains an attractive destination for primary and secondary home options.

Colorado Oil Production

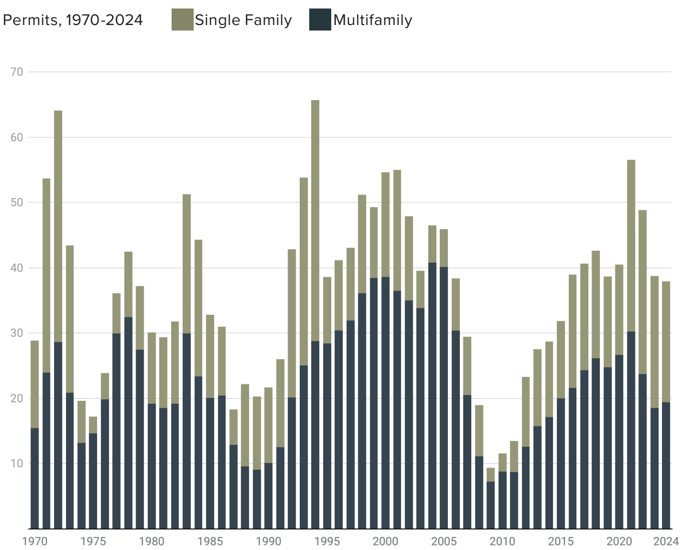
Monthly Production in Weld County and the Rest of Colorado (Millions of Barrels)



Source: U.S. Census Bureau; Colorado Economic Outlook Committee | Created with Datawrapper

Single Family and Multifamily Residential Building Permits

Permits, 1970-2024



Source: U.S. Census Bureau; Colorado Economic Outlook Committee | Created with Datawrapper

Multifamily construction will likely decline in 2024, largely because apartment demand will be partially met by the abundance of units already under construction reaching completion. Both nonresidential building and nonbuilding construction are expected to remain steady in 2024.

Manufacturing

Although the Manufacturing sector in Colorado posted its fastest pace of growth since 2018, interest rates, shifts in consumer behavior, and other issues, such as drought and water availability, have impacted employment in 2023. Products sensitive to interest rates and building activity have struggled with slowing demand in 2023 but have been offset by strength in food products and transportation equipment subsectors. In addition, federal investment and incentives are expected to boost employment in industries that support aerospace and defense. Further, the Inflation Reduction Act and the CHIPS Act are expected to boost the state's renewable energy and computer and electronic products manufacturers. As a result of these conditions, employment in this sector is expected to continue growing, albeit at a more modest pace in 2024.

Trade, Transportation, and Utilities

The uniqueness of this large sector covering a wide array of companies continues to bolster the industry. Changes in consumer behavior shifting purchasing habits to e-commerce and persistent consumer spending have continued to expand warehousing and delivery needs. Despite slowing job growth in the retail trade sector, and a deacceleration in retail sales from pandemic highs, the sector is expected to remain an anchor of Colorado employment and experience continuous—albeit modest—employment growth in 2024.

Information

In 2022, the Information industry experienced its second year of growth following the COVID-19 pandemic. However, job growth softened in 2023 as software publisher employment weakened, long-run declines in traditional publishing employment and telecommunication industry employment continued, and film, television, and media employment remain subdued and below prepandemic levels. Societal shifts toward digitization, automation, and data continue to hurt some companies within the industry and help others in the state. Demand for connectivity and infrastructure has increased with the remote workforce, and data processing and hosting continue to be a large growth area for Colorado. Expanding broadband access across the state continues to be an ongoing mission that is important for increasing remote work, online education, and health care. Employment in the sector is expected to decline in 2023 and again in 2024 as long-term declines in traditional publishing and telecommunications industries persist.

Industrial Production

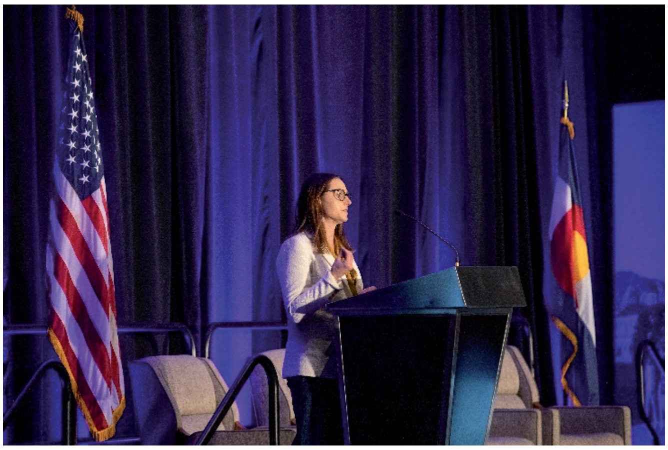
Index, 2017 = 100

Source: Board of Governors of the Federal Reserve System | Created with Datawrapper

Capacity Utilization

Percent of Capacity

Source: Board of Governors of the Federal Reserve System | Created with Datawrapper



Christina N. Lacerenza, Assistant Professor, Leeds School of Business, University of Colorado Boulder

Financial Activities

Financial Activities underperformed other industries in 2022 and is expected to decline in 2023 and 2024, driven by several factors, namely, higher interest rates. Heightened inflation has moderated, but demand for commercial real estate and the residential real estate market has dampened. The health of this sector will continue to be directly linked to monetary and fiscal policy actions until market volatility and interest rates subside.

Professional and Business Services

The sector continues to be a strength within the Colorado economy—at the end of 2022, it was the 2nd-largest private sector industry with about 17% of total—and it recovered quickly from the pandemic-induced downturn. The highly skilled and highly educated workforce continues to increasingly be sourced and managed remotely, offering more flexibility to employees and reducing overhead cost for offices. Employment in the sector rapidly grew in 2022, but is expected to moderate in 2023 and 2024, but Colorado's position as one of the most innovative, educated, and entrepreneurial states bodes well for the sector.

Education and Health Services

While employment in Education and Health Services is still impacted by the vestiges of the pandemic, there are some notes of optimism in 2023. All subsectors in health care and social assistance grew between Q3 2022 and Q1 2023, driven by large employment gains in nursing and residential care facilities. Growth in private education services in the year ahead will continue to be influenced by the ability of schools to adjust to the changing demands of online learning and declining enrollment. In 2023, employment growth in this supersector outpaced respective growth in 2022, and is expected to maintain similar growth in 2024.

Leisure and Hospitality

The Leisure and Hospitality industry continued to see significant growth in 2023, as it fully rebounds from the COVID-19 pandemic. Although the employment gains are notable, industry wages continue to lag behind other industries in the state. Colorado generated a record high in travel spending and visitors in 2022, and statewide hotel performance continues to show strength and recovery from 2019. In addition, the Colorado skiing industry experienced a banner 2022-23 season, setting a second consecutive record for skier visits, and the long-term prospects for the industry remain positive. Industry employment is expected to post gains in 2024, albeit at a more moderate pace, as the industry faces inflation and supply chain issues.

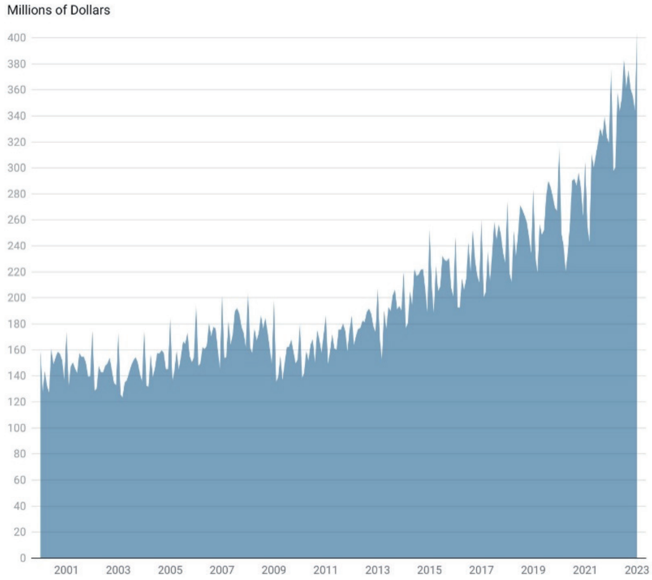
Other Services

This industry fully rebounded from the pandemic recession in 2021 and experienced generally steady growth in 2022. Employment in this sector fluctuated in 2023 but is expected to steadily increase by year-end. Businesses in this sector (e.g., hair and nail care, religious organizations) will continue to be intrinsically linked with the economy, demographics of the Colorado population, disposable income, and consumer confidence.

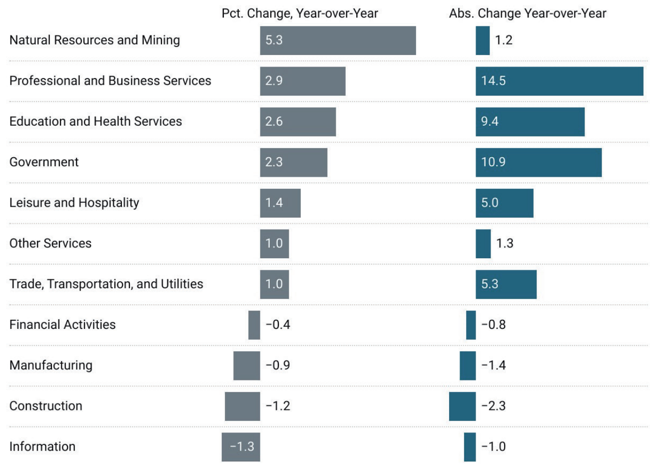
Government

In 2023, government entities at all levels were impacted by many of the same challenges faced a year ago, including labor force shortages, supply chain issues, and increased costs. While federal government employment decreased in 2022—largely driven by a completion of 2020 Census work—it is expected to modestly increase in 2023 due to continued administration and management hiring. After two years of declining state government employment, employment expanded in 2022, driven by a rebound in public higher education employment. State employment is expected to steadily increase in 2024, driven by new state programs in the Department of Labor and Employment and Department of Public Health in Environment.

Colorado Sales Tax Collections



Colorado Projected 2024 Employment Change



Source: Colorado Department of Labor and Employment | Created with Datawrapper

National and Colorado

National real GDP grew an estimated 2.4% in 2023. U.S. real GDP is projected to grow 1.4% in 2024 as consumption slows—but remain resilient in the face of several headwinds.

Personal consumption grew an estimated 2.2% in 2023. Personal consumption will moderate further to 1.4% in 2024 as headwinds dent the purchasing power of consumers.

Rising interest rate policies were deployed to manage high inflation. The higher interest rates had a cooling effect on investment. The higher cost of borrowing is expected to slow residential and nonresidential fixed investment, while infrastructure investment is projected to grow.

After the deficit increased to record levels in 2022, real net exports are projected to moderate in 2023 and 2024.

Continued headwinds in 2023 include inflation, elevated interest rates, a shortage of workers, and slowing consumption.

Employment growth in Colorado is projected in seven of the 11 major industries in 2024, with most growth coming from the services sectors.

In 2024, Colorado is projected to add 61,600 people, according to the State Demography Office. Growth will come from net migration (40,000) and from the natural increase (21,500).

For more information on each industry sector, visit colorado.edu/business/brd.

30-Year Fixed Rate Mortgage Average in the United States

Source: Freddie Mac | Created with Datawrapper

INFLATION: HOW DID WE GET HERE, AND WHERE ARE WE GOING?

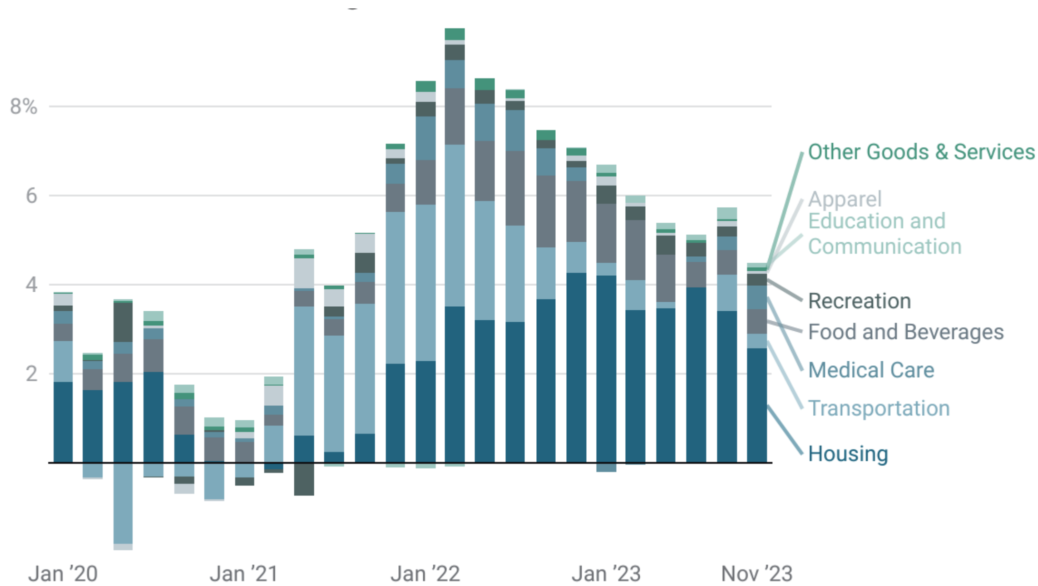
By Marcus Popoff

Since the middle of 2022, inflation has moderated considerably, yet this moderation has not altered inflation's firm positioning in the forefront of consumers' minds. Because of the multitude of implications that can be associated with inflation, it is important to understand its current status, and how it is expected to change moving forward. This was the subject of discussion at a panel held by the Denver Association of Business Economists at the 2024 Colorado Business Economic Outlook Forum. Moderator Kate Watkins (President and Chief Economist of Bight Fox Analytics) was joined by panelists Emily Dohrman, Ron Throupe, and Ryan Gedney to share insights on current and forecasted inflationary trends, the notable effect of housing in the consumer price index (CPI), and the interactions between inflation and labor markets.

Emily Dohrman, an economist on the Colorado Legislative Council, provided information on where inflation is now, how it's measured, and what can be expected within the next few years.

The CPI is the most widely used measure of inflation. When analyzing national inflation, price growth is cooling — inflation reached 9.1% in June 2022 and slowed to 3.2% as of October 2023. CPI growth in the Denver-Aurora-Lakewood metropolitan statistical area increased 5.4% in September (newest available data) compared to 3.7% for all urban areas in the U.S., an imbalance that can be attributed to heightened housing and transportation prices across the region.

Denver-Aurora-Lakewood CPI, Contributions to Year-over-Year Percent Change



Source: Bureau of Labor Statistics, CPI-U and Legislative Council Staff calculations

Dohrman noted that the measures of underlying inflation, notably core CPI, are currently above headline CPI. This is relevant because core CPI removes the volatile price components of food and energy.

Concerning what to expect from inflation in the future, Dohrman explained that it should continue to follow its trend of cooling but stay above 2% well into 2025. While this reduction is anticipated for both Colorado and the U.S., Colorado's inflation is projected to fall at a slower rate due to the impacts that can be tied to current and forecasted housing conditions.

Ron Throupe, an associate professor at the University of Denver's Franklin L. Burns School of Real Estate and Construction Management, focused on the impact of shelter prices upon the housing market. Shelter currently makes up 34% of the U.S. CPI index, and a vast majority of the CPI's housing component. Its sizeable composition can be connected to its inclusion of rent of primary residences and owner equivalent rent.

One of Throupe's main talking points was on the lag between real-time rent and home price changes and when these changes influence changes in the shelter component of the CPI. This lag is significant because, although there has been a slowing trend in price increases among new leases, the CPI index methodology extends beyond just new lease signings to include owners' equivalent rent. To generate this, homeowners are asked how much they could charge if renting their home. It takes time (6-12 months) to reflect the additional price slowing within the shelter component given that leases are generally signed for at least a year at a time and information on rents in local housing markets typically do not change significantly over the short-run. Considering this, Throupe forecasts that the slowing of rental price increases will result in a further slowing of the CPI once the index can account for the lag. This reduction in inflationary pressure may give the Fed reason to cut interest rates, enabling a greater number of construction starts, which could allow for an increase in the supply of housing units.

Ryan Gedney, the Principal Economist for the Colorado Department of Labor and Employment, initiated his discussion by underlining recent trends of moderately heightened unemployment, leveling job growth, and a falling ratio of job openings to unemployed persons. These measures serve to indicate that 2023 has marked a period of labor market cooling, an intended effect of the Fed's interest rate hikes, and a potential sign for a shift in monetary policy in the near future.

Shifting focus towards wages and earnings, between 2022 and 2023, nominal wages have coincided with the rise and fall in inflation, though inflation-adjusted wages stayed relatively flat. Since 2016, the labor market has been characterized by upward wage pressure, and one of the potential reasons could be found in the minimum wage. Since 2009, the federal minimum wage has stayed at $7.25 per hour, but states have the autonomy to deviate from this value. For example, beginning in 2024, Colorado's minimum wage will rise to $14.42, marking an 80% increase since 2014. Colorado is among 19 states that index their minimum wage to the CPI, which explains how inflation can be a key factor in explaining the growth trends in wages.

Gedney's analysis emphasized the idea that with recent and forecasted trends for inflation, there is reason to believe that wage pressure will be persistent, and limited job availability serves to indicate that labor market tightness is here to stay.

After the panelists shared their insights on inflation in their respective areas of expertise, the session opened for questions, one of which was about the extent to which we should expect deflationary pressures moving forward. The consensus was to pump the brakes and set sights on the 2% inflation target before getting caught up in the hypotheticals for a deflationary environment. Dohrman noted that the gradual slowing of the "sticky" components of inflation will lead to rates above 2% through 2024, and likely into 2025. From there, Throupe again underlined the idea that the lag between in housing market price data and the shelter component for the CPI will indeed pull inflationary pressures downward, but in consideration of other factors, not to a point that deflation sets in. Gedney restated that wage pressures and labor market tightness will be ongoing, further solidifying the notion of continuous moderate inflation as we look ahead.

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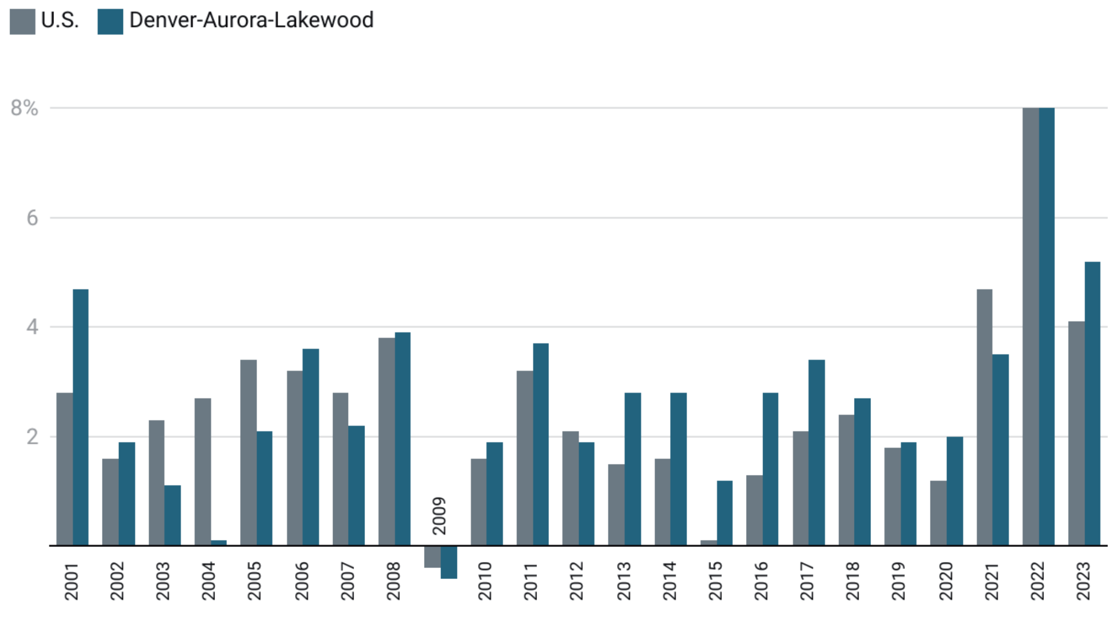
U.S. and Denver-Aurora-Lakewood CPI Inflation



Source: Bureau of Labor Statistics, CPI-U and Legislative Council Staff calculations

NAVIGATING TURBULENT WATERS: INSIGHTS FROM THE 2023 REAL ESTATE PANEL

By: Lucas Ericson

Post-pandemic, behavioral changes have impacted how people utilize commercial real estate—particularly office space. The vacancy rates in some property types have led to concerns about long-term occupancy, net operating income, and the capital required to keep some properties solvent. During the 59th annual Colorado Business Economic Outlook Forum held in December 2023, a panel of distinguished real estate leaders addressed the intricate challenges currently gripping the industry. Moderated by Marcel Arsenault, CEO and founder of Real Capital Solutions, the discussion summarized key issues such as the oversupply of apartments, demand destruction in office spaces, the ramifications of recent bank failures, and the cyclical nature of the real estate market. Joining Arsenault was Christopher Gillies, City President at Quarterra Group; Carl Koelbel, COO at Koelbel and Company; and James Payne, Senior Vice President at U.S. Bank.

While still working through ripple effects from the pandemic as well as ongoing rises in inflation, the real estate industry is also taking on other significant issues. Stability of the market is in question, with many moving parts headed in a downward direction. Marcel Arsenault highlighted a concerning oversupply of apartments, with over 40,000 units still under construction in the Denver/Boulder area. This flood of deliveries is expected to peak in Q4 2024, causing vacancy rates to spike to 15.2% by Q1 2025. Cash flows for new projects are anticipated to face significant stress into 2025, posing a considerable challenge for developers and investors alike.

The shift towards remote work has led to demand destruction in office spaces, eroding the fundamentals of the real estate sector. While sublease availability is showing signs of peaking, the persistent rise in vacant sublease spaces is pushing vacancy rates to an alarming 20% by Q4 2024. The panel noted that the gradual return to normalcy in remote work might not be enough to save many office owners, raising concerns about the survival of businesses in this sector. Arsenault then emphasized the critical role of lending liquidity in driving commercial real estate (CRE) values. The statistical relationship between CRE mortgage capital supply and real estate appreciation shows that more mortgage capital leads to the value appreciation, and withdrawing mortgages results in value depreciation. This causes the highly cyclical nature of the real estate market, with various phases impacting values and investments.

Christopher Gillies, City President, Quarterra Group; Carl Koelbel, COO, Koelbel and Company; James Payne, Senior Vice President, U.S. Bank.

Nine months after a series of bank failures, ripple effects are still being felt in the real estate market. James Payne was able to provide insight into banks and their reactions and thought process following the bank failures, and noted the bank bond portfolio is majorly affected by interest rate fluctuations. New legislation, expected by July 2024, aims to establish even more rules for banks. The biggest rule expected to be included will require them to raise 20% more capital. Despite the challenges, Payne expressed optimism, citing the industry's interconnected nature and the continued buildup of reserves in banks. Obtaining loans for new projects has become more challenging, with local banks now requesting deposit movement—a trend unprecedented in the industry. Christopher Gillies emphasized how construction faces a significant hurdle, with rising hard and soft costs causing a slowdown. Developers are anticipating a decrease in the pipeline until vacancy rates stabilize, beginning a new process in the cycle.

Despite the current challenges, Carl Koelbel remains optimistic about the return of office work. Koelbel believes that a recession might incentivize more people to return to the office, and he sees potential value in large office buildings that may need renovation or reconstruction. He admits that he might be a bit ahead of the ball but anticipates a massive rebound in the future. However, concerns still loom about office foreclosures and the increasing use of unsecured loans. Payne presented a

“The shift towards remote work has led to demand destruction in office spaces, eroding the fundamentals of the real estate sector.”

contrasting viewpoint to Koelbel that highlighted these issues. Payne suggested that the industry might be in the 5th inning of office life, implying that significant challenges lie ahead. The decrease of valuations and appraisers, coupled with the difficulty in repaying loans, paints a bleak picture of the financial struggles within the office space sector. Banks that are currently locked in to unsecured loans are facing an element of risk that adds complexity to the situation, since they have no collateral to fall back on. This is expected to spark a shift that begins to highlight the use of more secured loans for businesses.

On the apartment front, Gillies highlighted the resiliency of rental rates over the last year and a half. Denver’s rapidly increasing population and economic growth position the city to weather the storm, with expectations of stable vacancy rates in the coming years. One fact remains true: as long as there are enough people, they’ll simply have to pay high prices for a place to live. However, operating costs are rising due to inflation, impacting property values as cap rates increase.

As the real estate industry grapples with oversupply, remote work challenges, and the aftermath of bank failures, the Colorado Business Economic Outlook Forum shed light on the complexities ahead. Navigating these challenges will require a strategic approach, adaptability, and a keen understanding of the cyclical nature of real estate. The road to recovery may be long, but with thoughtful analysis and anticipation of trends and collaboration within the industry, stakeholders can certainly position themselves for future success.

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NURTURING INNOVATION: INSIGHTS FROM COLORADO'S ENTREPRENEURIAL ECOSYSTEM

By: Michelle Kim

In Colorado, the entrepreneurial spirit is fueled by a unique blend of forward-thinking pioneers. From the bustling streets of Denver to the tech-hub of Boulder, Colorado's economy is a mosaic of modern ingenuity and traditional hard work. For the 2024 Colorado Business Economic Outlook Forum, three beacons of entrepreneurial growth gave insight into their industries in a panel. In this discussion, topics included the entrepreneurial ecosystem surrounding each of their businesses, how the state can foster innovation, and personal stories and advice. Erick Mueller, Executive Director of the Deming Center for Entrepreneurship at the University of Colorado Boulder, started the conversation by asking about the entrepreneurial ecosystem of each business.

Max Knight, Founder and CEO of Urban Farms, continued the conversation with a discussion of the challenges and innovations in urban farming. Knight emphasized the importance of how the integration of future automation will play a key role in the urban farming process and farming in the future. In his discussion about the entrepreneurial landscape around the Front Range, he emphasized the pivotal role this environment has played in his entrepreneurial journey. His growth and success as an entrepreneur were significantly fostered by the collaborative support from peers, the advantageous Colorado Grant Programs, and the rich agricultural expertise provided by the community at Colorado State University.

Tammie Delaney, owner of Wild Goose Coffee, gave more insight about the importance of the entrepreneurial ecosystem, emphasizing the pivotal role of community engagement. With the effects of the pandemic and the sudden increase in technological advancements, people have begun to work away from the office and on their own in public settings. This shift has turned her coffee shops into a versatile space for people of all backgrounds to host social interactions, work, and lay the foundation for their own business ventures.

Tanya Flemister, creator and CEO of SWAY bands continued the conversation with how entrepreneurs and small businesses uplift the entrepreneurial ecosystem in the Northeast section of Colorado. She highlights that Yuma and the area around face a water scarcity issue and needs industrial development to sustain the area. With the rise of many small businesses around and a primarily male-dominated field, Flemister took on the prospect of creating a space for women to hold positions. Her business offers flexible roles and empowers women to rise as prominent figures in the business community.

The journey to becoming a successful entrepreneur is challenging. “The hardest part of a small business is: How do you get the money?” Delaney noted. When starting in their career paths, Knight, Delaney, and Flemister faced harsh challenges of trying to find resources and financial support while trying to manage their businesses. Entrepreneurs need to be cautious of balancing all aspects of their business in order to foster the foundation necessary for success. When reflecting on their challenges the three panelists were asked for possible solutions for future entrepreneurs throughout the state. Flemister commented on aggregating the vast number of resources available and making it more readily available for the community. Delaney considered the state providing possible tax relief for small businesses, recognizing their vital role in enriching and sustaining the local community. Knight emphasized that funding was the key to showing validation and stability towards investors through grants. Entrepreneurs often find themselves preoccupied with growing and maintaining their businesses that they scarcely have extra time to research resources and grants. Enhancing the awareness and validation of small businesses’ goals significantly contributes to their future success, a fact underscored by a notable statistic shared by moderator Erick Mueller: for every dollar the U.S. government invests in entrepreneurial ventures, it yields an impressive return of $2.90.

The three panelists gave insights for their moments of growth and opportunity in the entrepreneurial industry. Knight reflected on the difficult moment of splitting ways with a former business partner. Despite the raw vulnerability of the situation, the support of the community has paved a way for his future growth. “It is a difficult but rewarding journey,” Knight said. Delaney added her story of almost losing her home and not qualifying for loans. The impacts were devasting for her, but the support of the community to transition into a coffee shop was tremendous and led to her current entrepreneurial success story and now owning Airbnb properties to rent. Flemister was marked by a pivotal moment that helped her move past previous setbacks. Receiving congratulations from a former colleague on starting her own business instilled a sense of pride and heartfelt encouragement, reinforcing her decision to embark on this new entrepreneurial journey.

There is a lot of potential growth and current opportunities for startups to thrive. Near the end of the conversation the three panelists shared their visions for the future through their 5-year goals. They also left with an encouraging call to action for the audience to engage with and support their local entrepreneurial ecosystems. The panelists’ stories of overcoming challenges and embracing community support highlight the resilience and potential growth in entrepreneurship. Their experiences serve as an inspiration and a call to action for supporting and engaging with local entrepreneurial ecosystems.

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NAVIGATING CAPITAL MARKETS: HIGHER YIELDS, HIGHER LEVERAGE, HIGHER UNCERTAINTY

By: Lucas Ericson

Amidst numerous challenges facing global economies and indicators pointing towards a potential recession, nearly every industry is feeling the impact, including capital markets. This issue was recently discussed at the Colorado Business Economic Outlook Forum, featuring key insights from industry experts responsible for allocating capital. Ron New, Director of Operations at WhippleWood Advisors and the moderator for the discussion, emphasized the importance of understanding cognitive biases during periods of change. Recency bias, anchoring bias, and confirmation bias were highlighted as common pitfalls in decision-making. The three panelists joining New included Lynn Paschen, Senior Portfolio Manager at Schwab Asset Management; Wyck Brown, Managing Director at Castle Placement; and Kevin Smith, Founder and CIO at Crescat Capital. Each panelist provided a unique perspective based on their day-to-day operations, contributing to a comprehensive overview of the economic landscape.

Lynn Paschen started the conversation by discussing the unprecedented hikes in interest rates by the Federal Reserve during the pandemic, and how rates have recently caused many corporations to utilize money markets. In recent history, the Fed has had a poor track record engineering a soft landing, and many industry

Lynn Paschen, Senior Portfolio Manager, Schwab Asset Management; Wyck Brown, Managing Director, Castle Placement; and Kevin Smith, Chief Investment Officer, Crescat Capital.

experts are raising questions once again with the influx of assets into the money market space. Paschen herself expressed significant skepticism based on these historical precedents. New underscored the significance of the money market space as the “plumbing of the economy,” noting its pivotal role in recent bank failures and the 2008 financial crisis. Money markets are an essential function in maintaining liquidity within the broader economic system. The substantial surge in money market assets, both Paschen and New pointed out, indicate a notable shift in investor sentiment and strategy. Companies, disillusioned by banks that offered little to no interest on deposits, sought sanctuary in the perceived “safe haven” of the money markets. This shift marks a significant trend, potentially reshaping the dynamics of where corporations park their capital during economic uncertainty.

Wyck Brown addressed concerns surrounding higher leverage and yields, correlating them with inflation and supply chain demands. Escalating U.S. Federal debt, reaching unprecedented levels, has raised alarms for the industry’s outlook. Approximately 31% of the U.S. debt is set to rollover in the next 12 months, adding an element of urgency for the government to navigate the refinancing process effectively. Brown also highlighted challenges with commercial real estate, pointing to the poor net operating income (NOI) for office properties and their reliance on higher-cost debt. However, this higher-yield paradigm also presents some fixed income opportunities, especially in corporate bonds. The panelists collectively acknowledged that growing our way out of the over-leverage problem was the only viable solution, with New emphasizing the resilience of the free-market infrastructure.

Kevin Smith introduced a similar perspective, anticipating a hard landing due to the current economic issues. He alluded to the fact that the only potential way of growing out of the problem is through nominal GDP growth, which is a combination of real growth and inflation. Smith foresees another wave of inflation accompanied by a recession, identifying the “impossible trilemma” of debt, inflation, and asset holdings. The fixed income markets experienced a significant correction, deviating from the Federal Reserve’s initial projections. Major corrections in fixed income markets, coupled with the highest probability of recession in years, fueled concerns about the economic future.

At the end of the discussion, the panelists also weighed in on the likelihood of a recession or a rolling recession, which essentially means a recession that hits different segments at different times, with segments most sensitive to interest rate changes being impacted first. Both Paschen and Brown believed a full-blown recession was imminent by 2025, while Smith predicted a hard landing as well, but specifically led by the tech sector. New alluded to Europe being a baseline for what might happen in the US, as at least 40% of their companies are anticipated to refinance between now and 2025, amplifying the likelihood and severity of a recession for that part of the world as well.

The insights from the Capital markets panel at the Colorado Business Economic Outlook Form underscored the complexities of the current financial landscape. With higher yields, higher leverage, and higher uncertainty, the path forward remains intricate, requiring strategic planning and a keen awareness of economic indicators. The panelists’ diverse perspectives provided a comprehensive view, leaving attendees with valuable considerations for navigating these turbulent financial waters.

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The CBR is a quarterly publication of the Business Research Division at CU Boulder. Opinions and conclusions expressed in the CBR are those of the authors and are not endorsed by the BRD, the Leeds School of Business faculty, or the officials of CU.

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Richard L. Wobbekind, editor; Brian Lewandowski, assistant editor and technical advisor; Adam Illig, associate editor; and Lauren Davis, design.

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