



Q2 2024 Market & Economic Outlook

Learning to Live With a “New Normal”

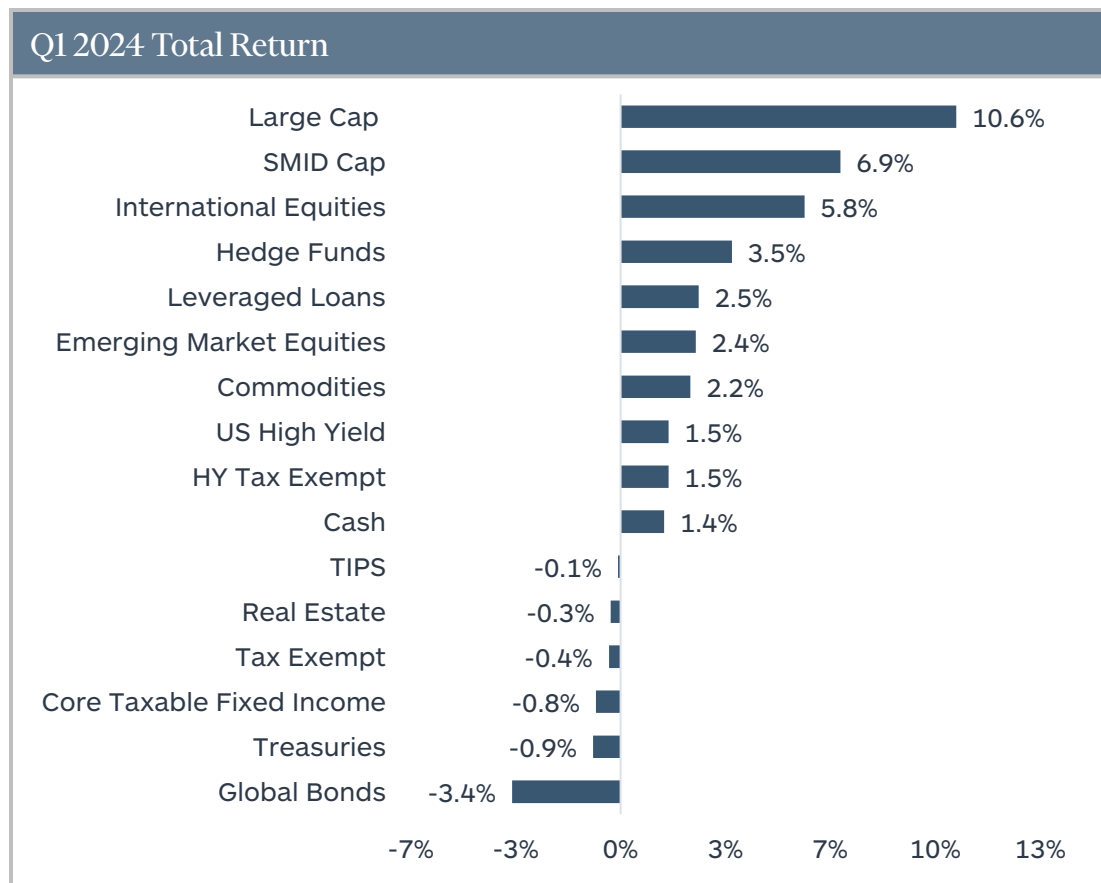
April 18, 2024

Confidential & Proprietary

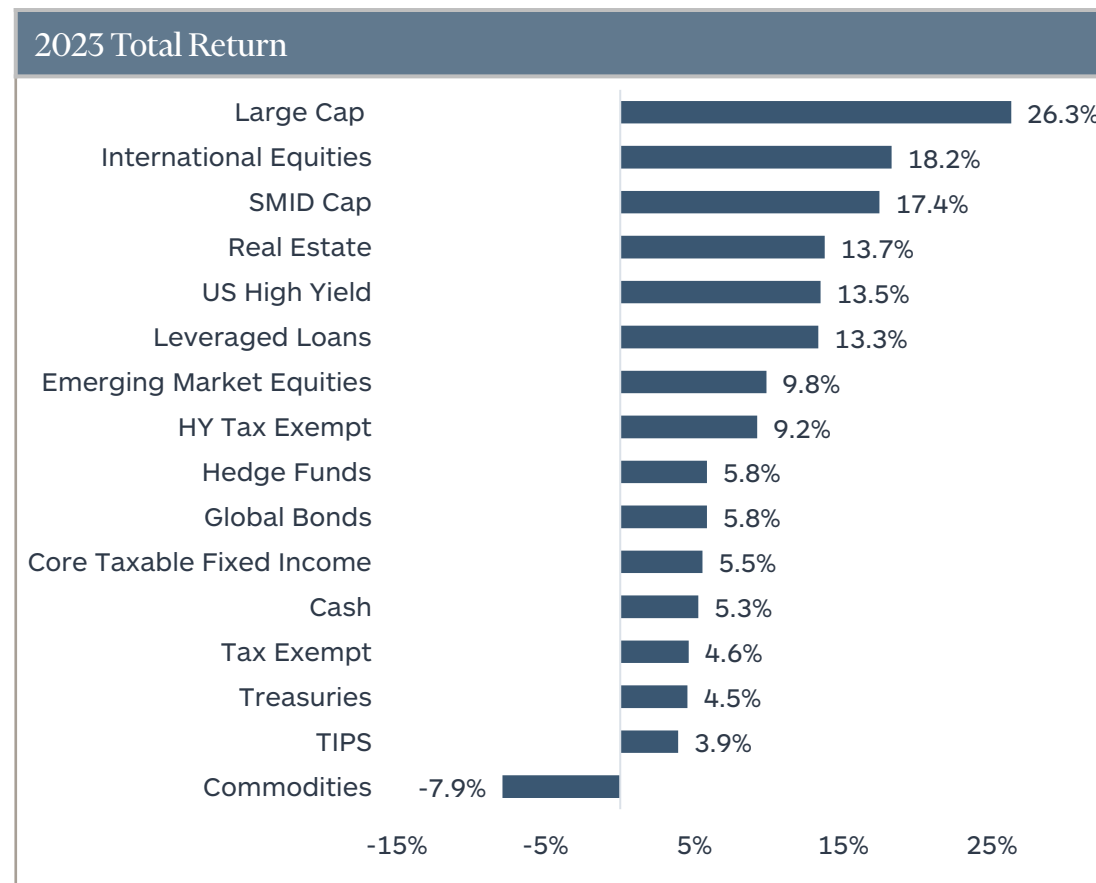
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Q1 in Review

Another hot start for equities, despite higher yields



Source: Morningstar Direct, 3/31/2024

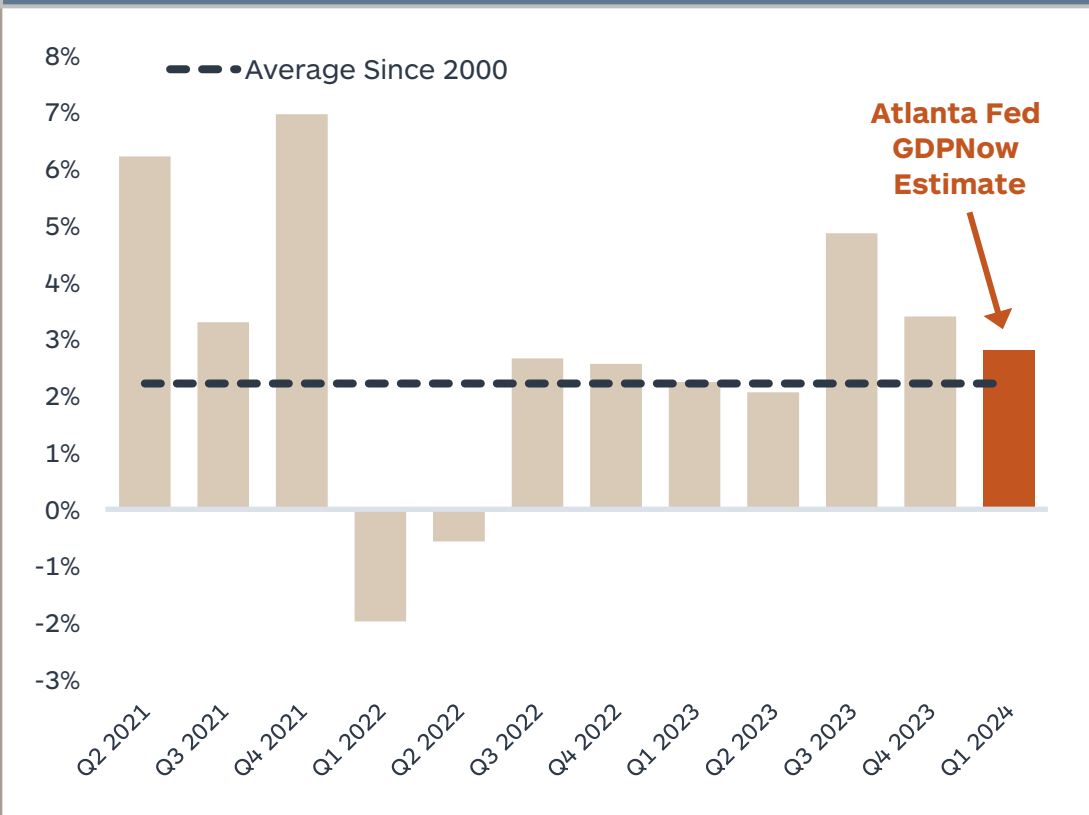


Source: Morningstar Direct, 12/31/2023

Economic Resilience

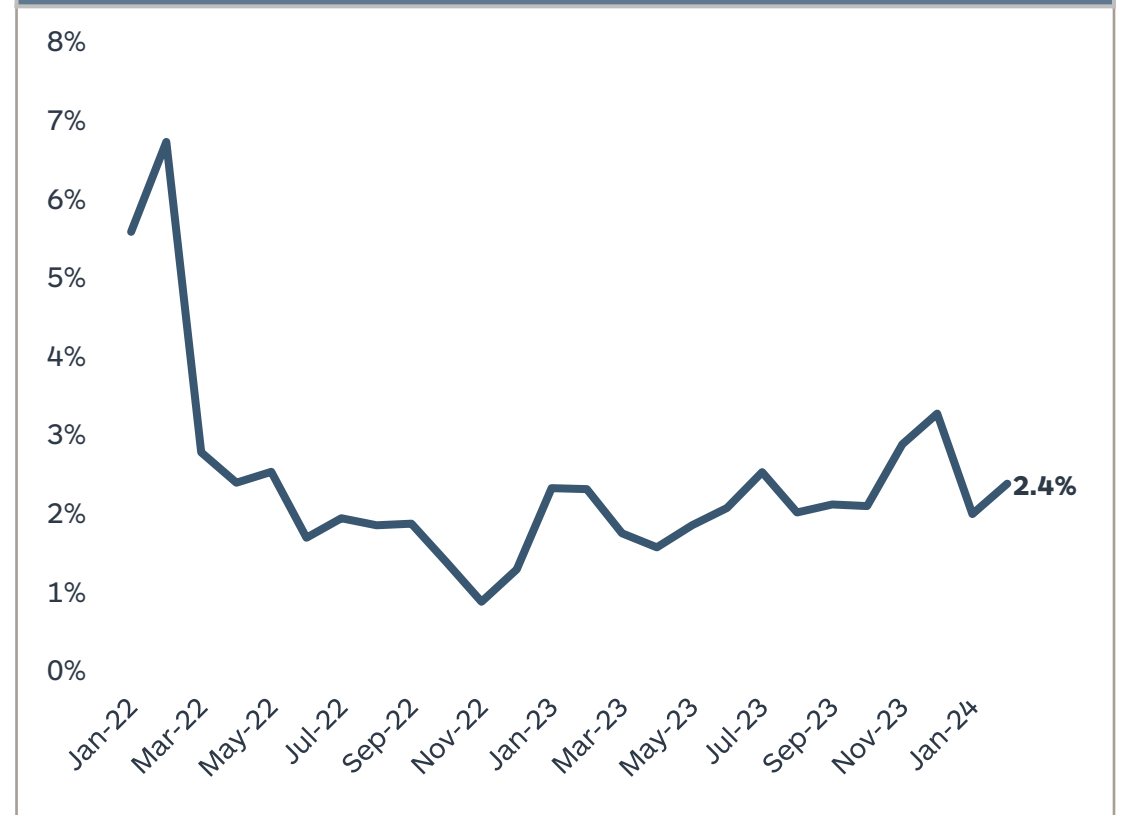
Our consumption-driven economy powers on

Quarterly Real GDP (SAAR)



Source: FRED, Atlanta Fed, 4/15/2024

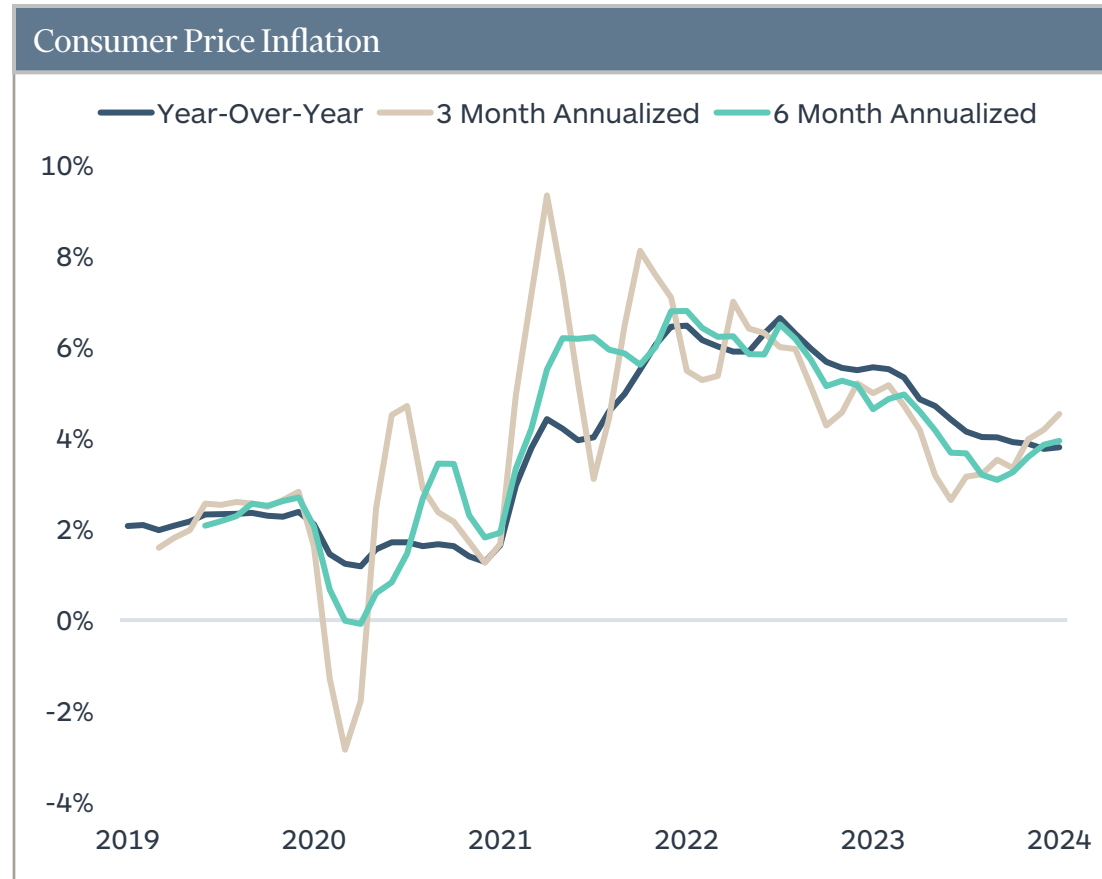
Real Personal Consumption Expenditures (YoY%)



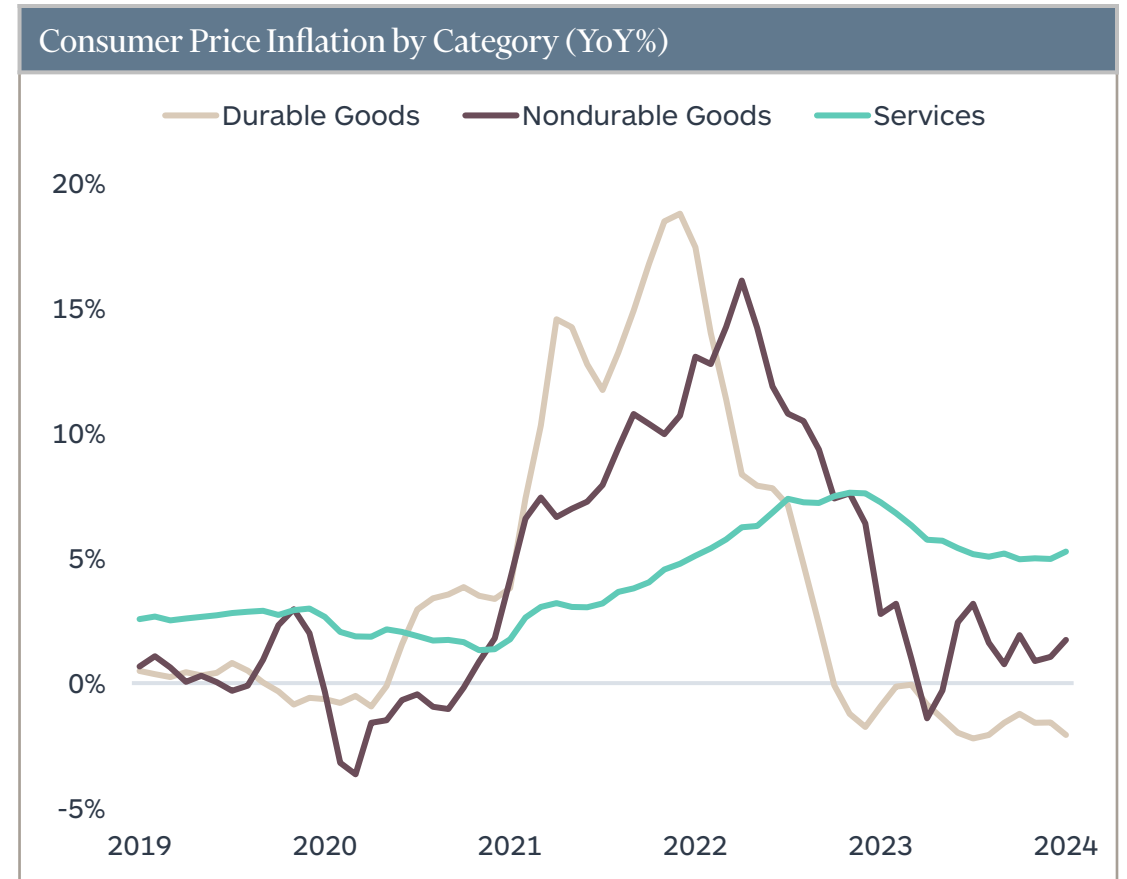
Source: FRED, 2/29/2024

The Last Mile

A bump in the road towards 2%, thanks to sticky services inflation



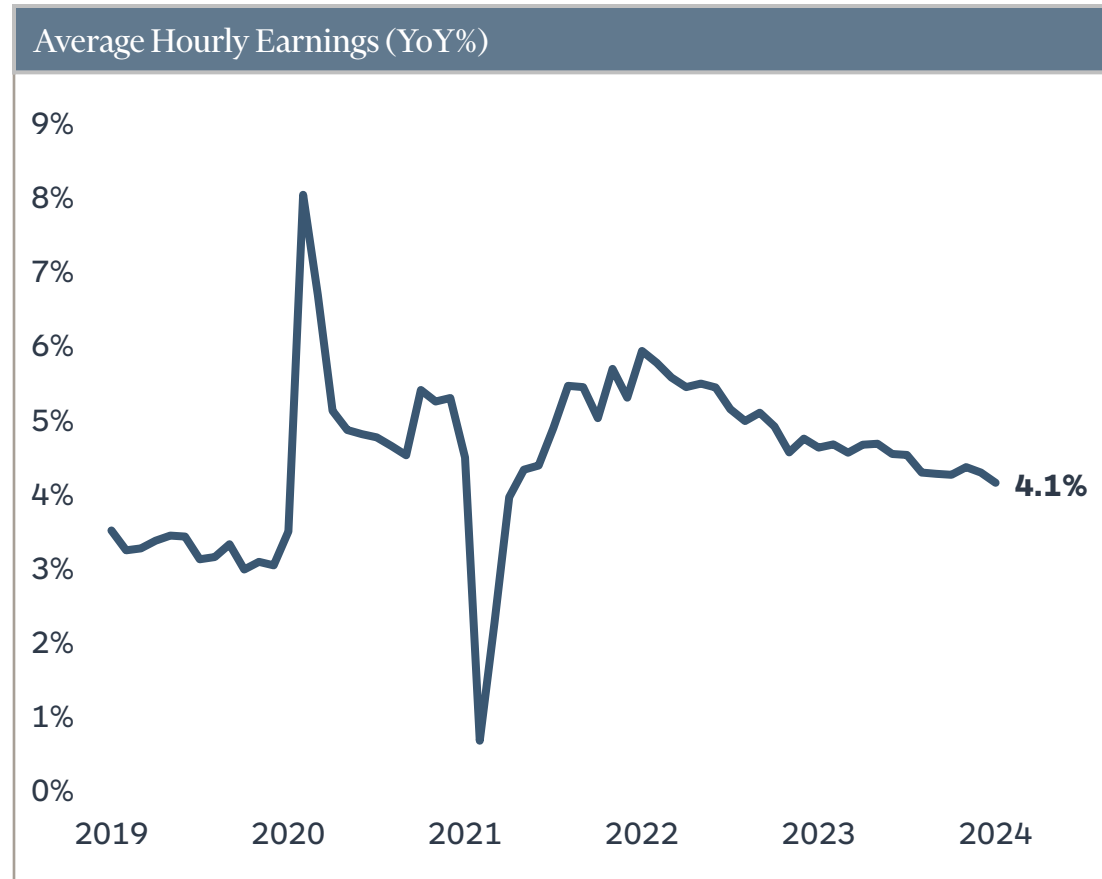
Source: FRED, BLS, 3/31/2024



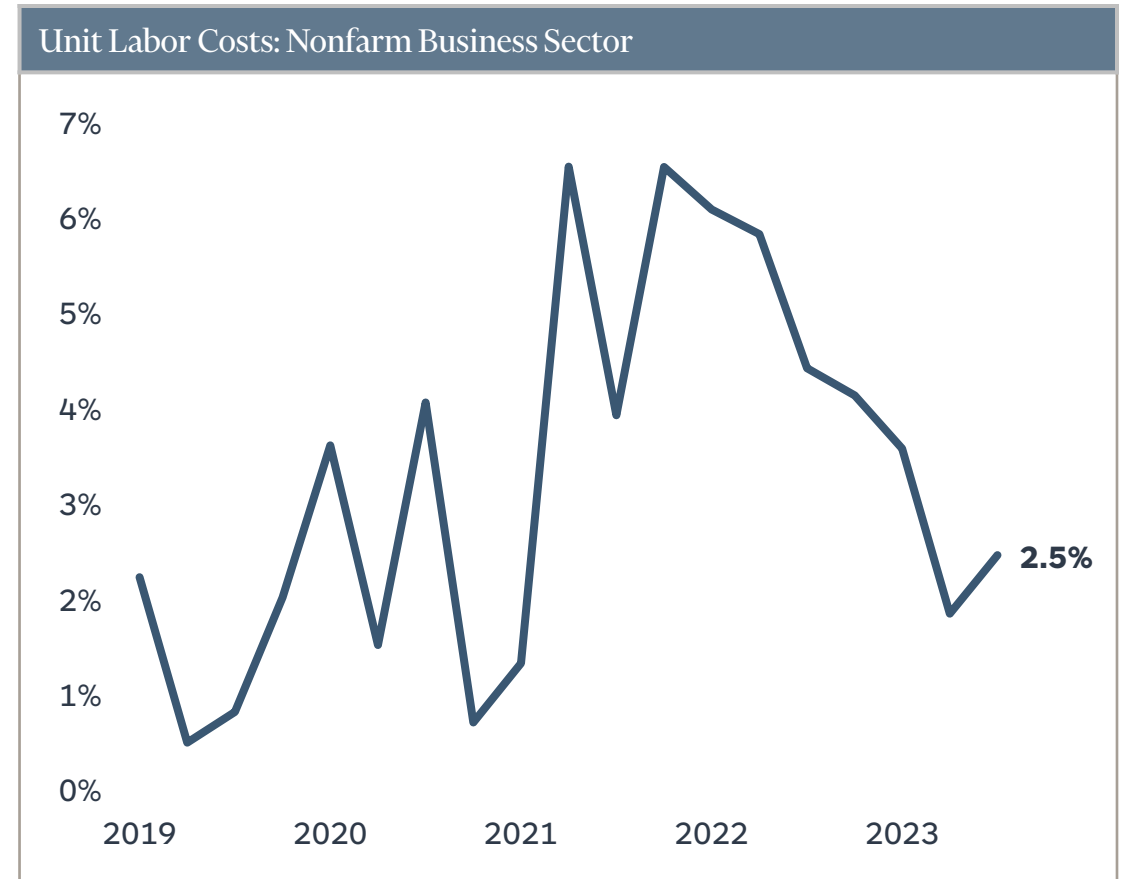
Source: FRED, BLS, 3/31/2024

Wages and Productivity

Productivity gains can allow higher wage growth and lower overall inflation to co-exist



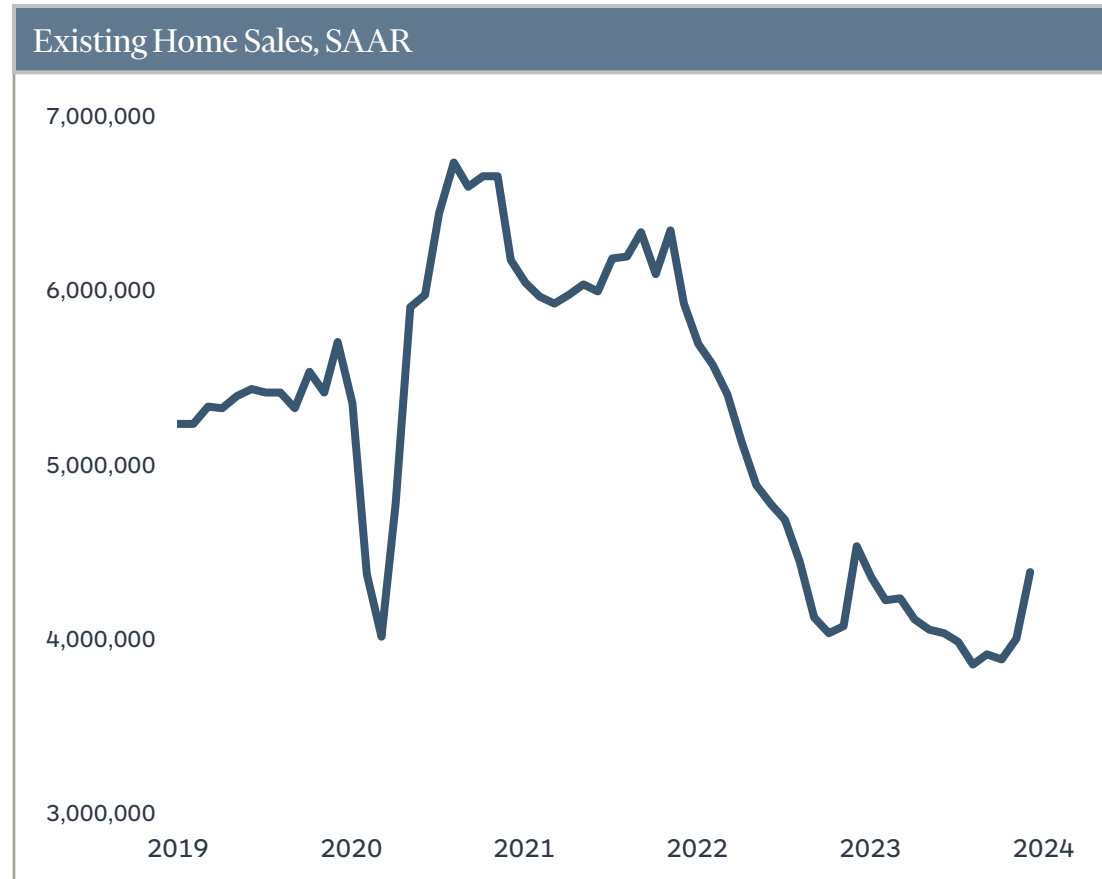
Source: FRED, 3/31/2024



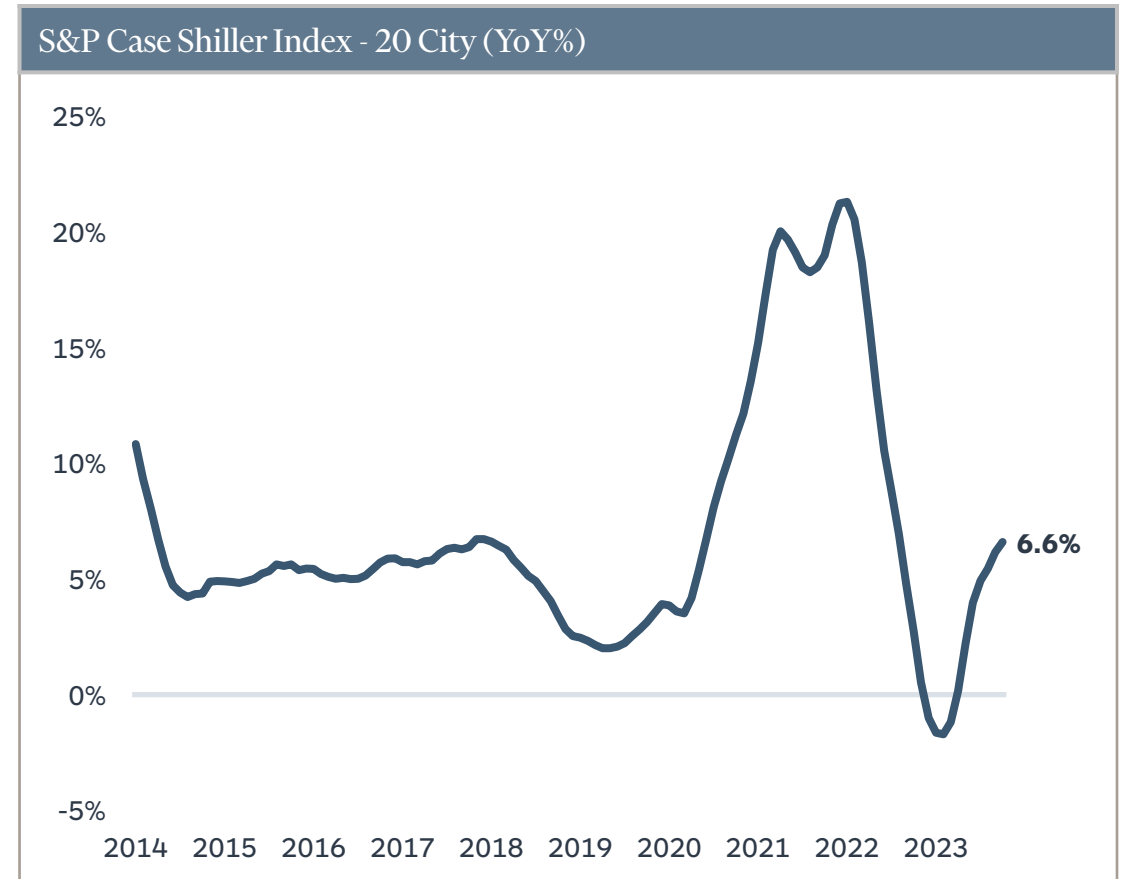
Source: FRED, 3/31/2024

Housing

No longer a headwind, maybe even becoming a tailwind



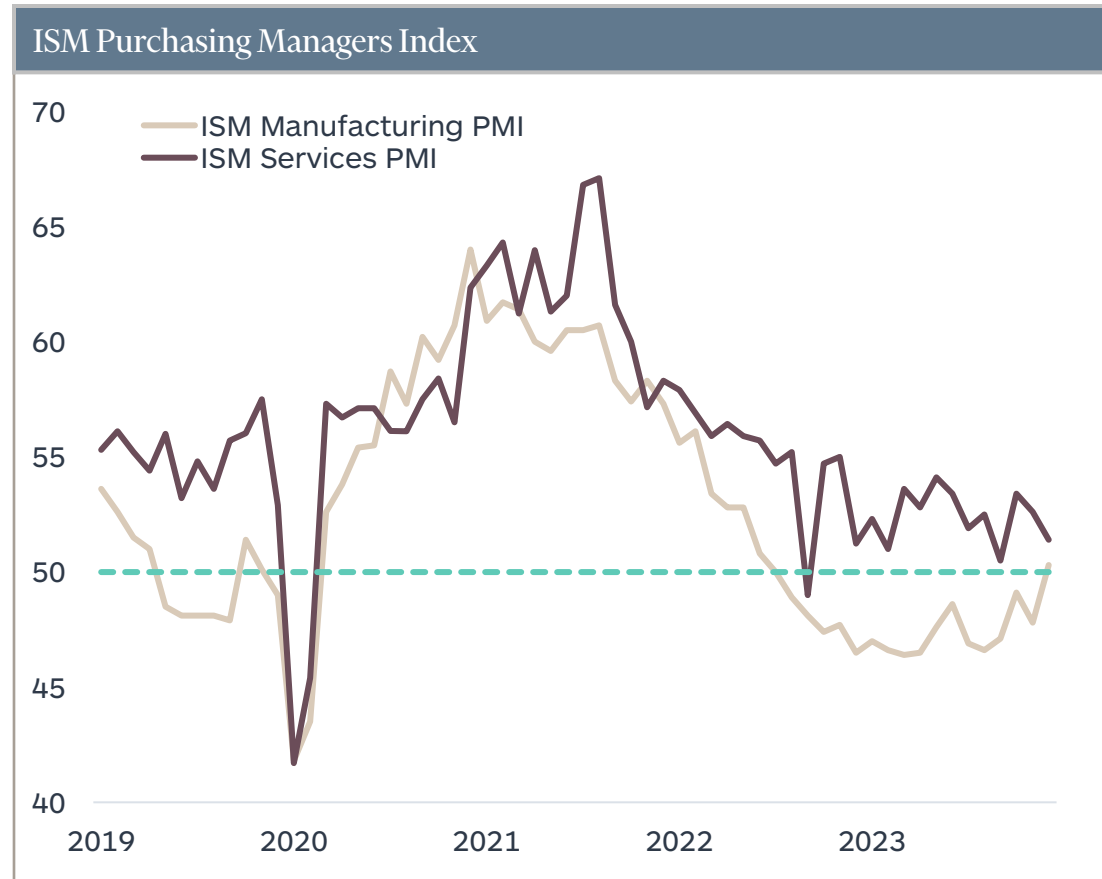
Source: FRED, 3/31/2024



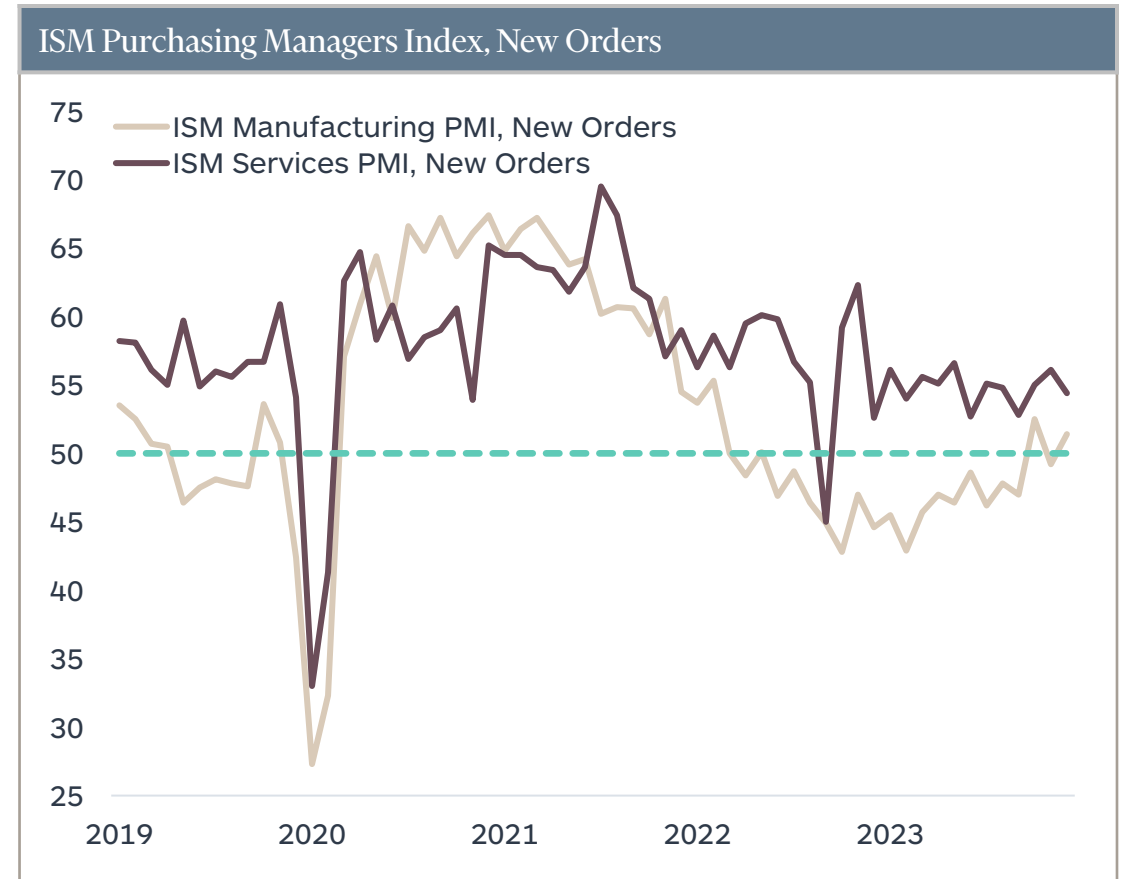
Source: FRED, 3/31/2024

Manufacturing vs. Services

The “rolling recession” in manufacturing might be turning into a “rolling recovery”



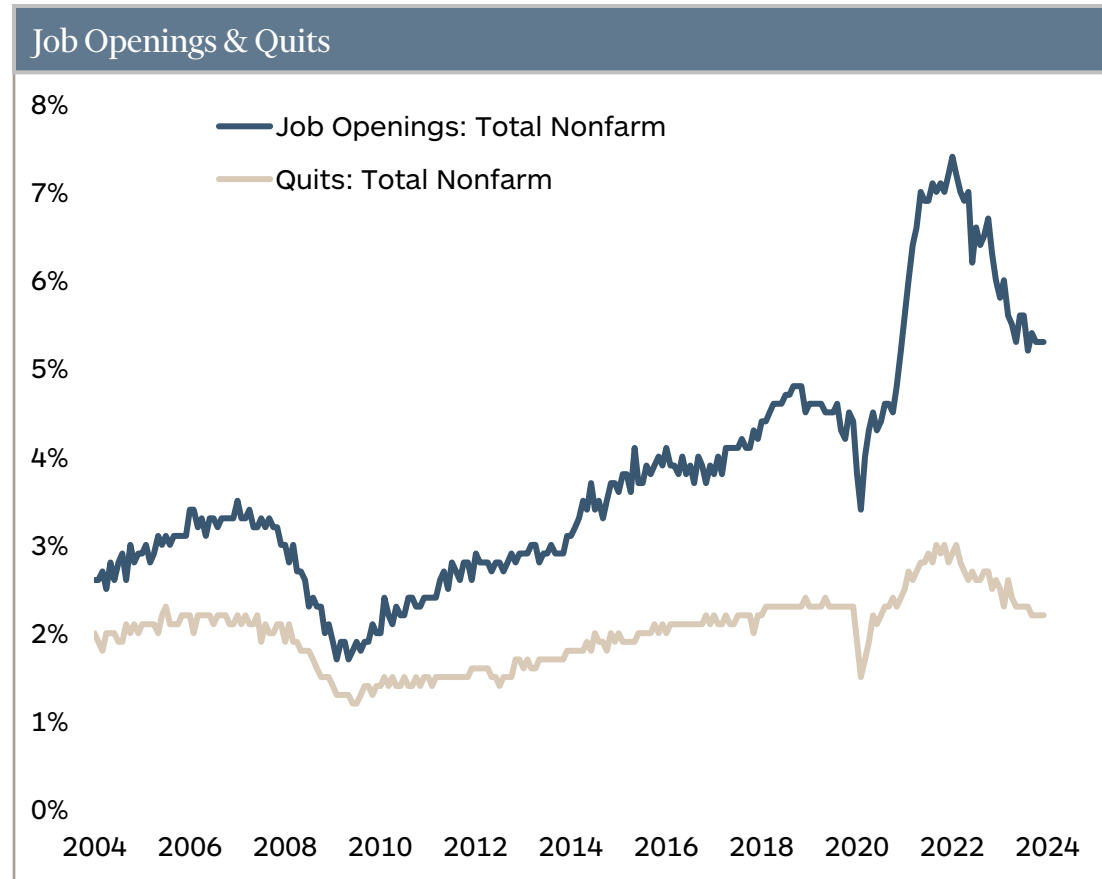
Source: Factset, ISM, 3/31/2024



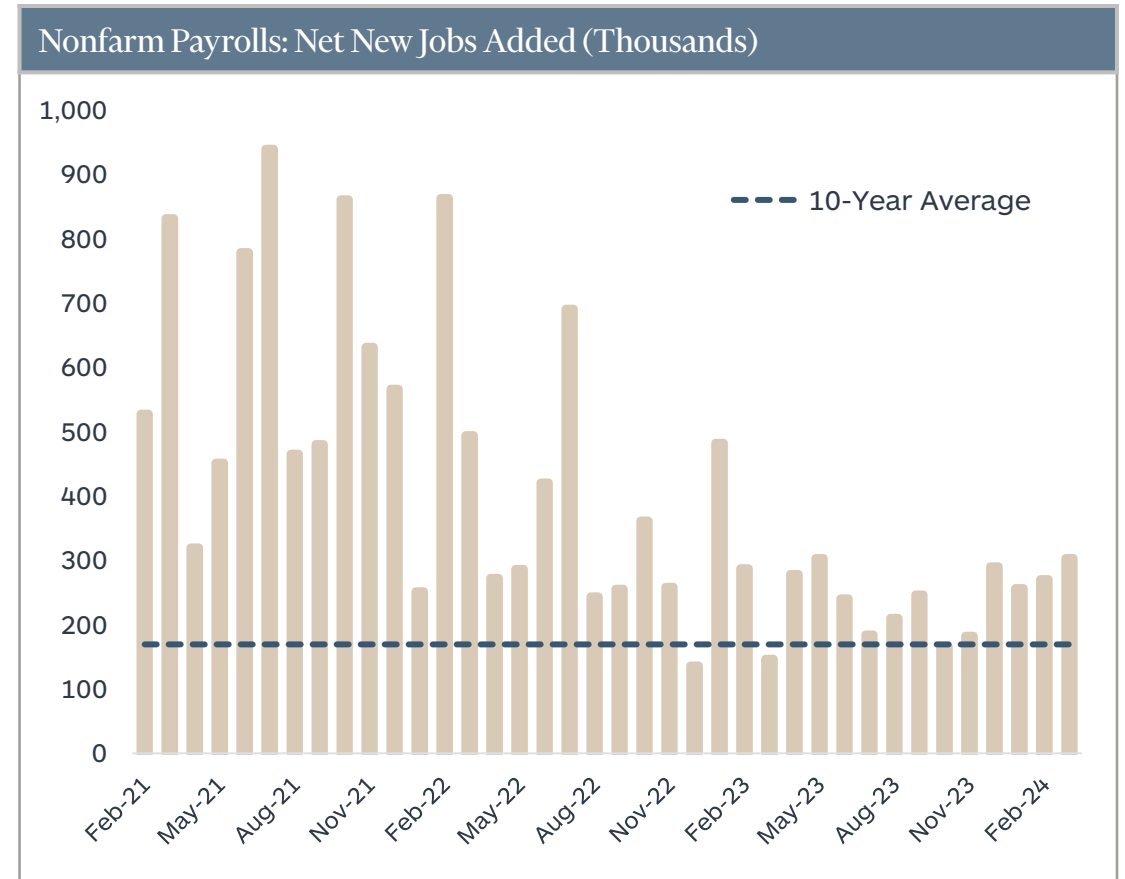
Source: Factset, ISM, 3/31/2024

The Labor Market

Loosening, but still a source of strength



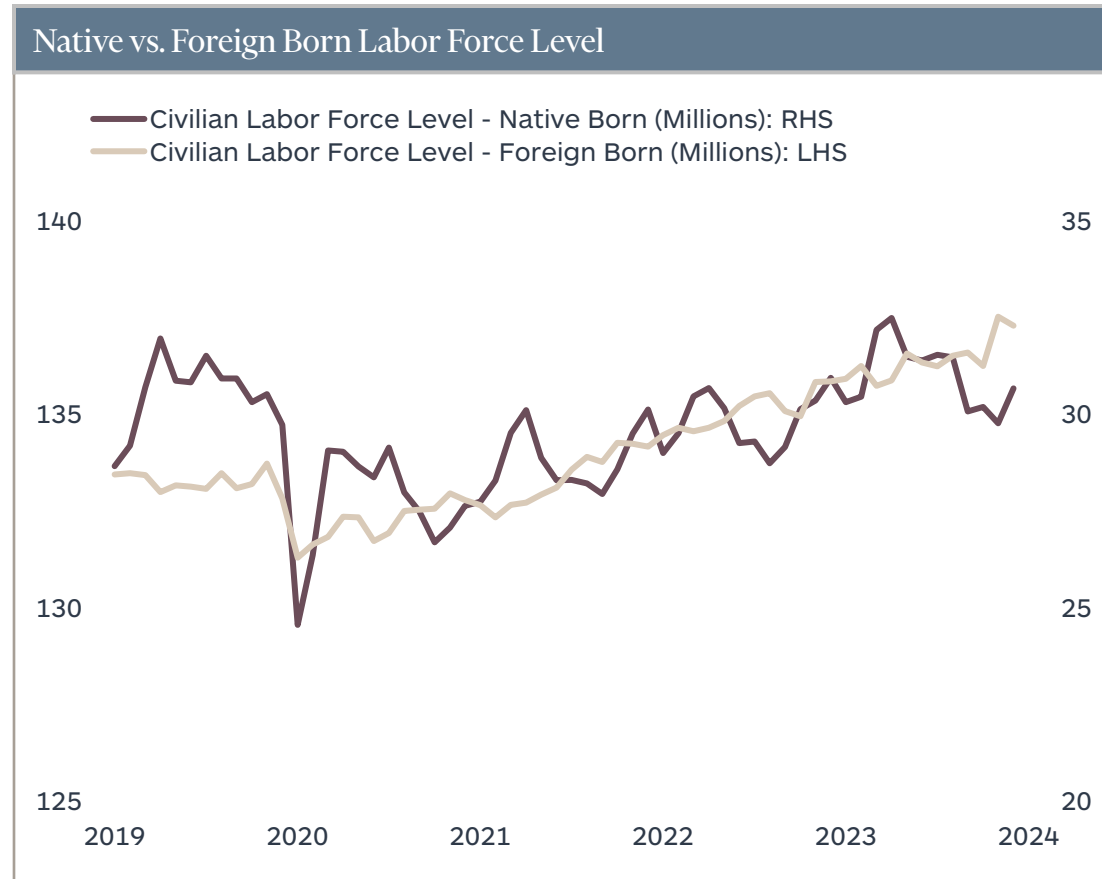
Source: FRED, 3/31/2024



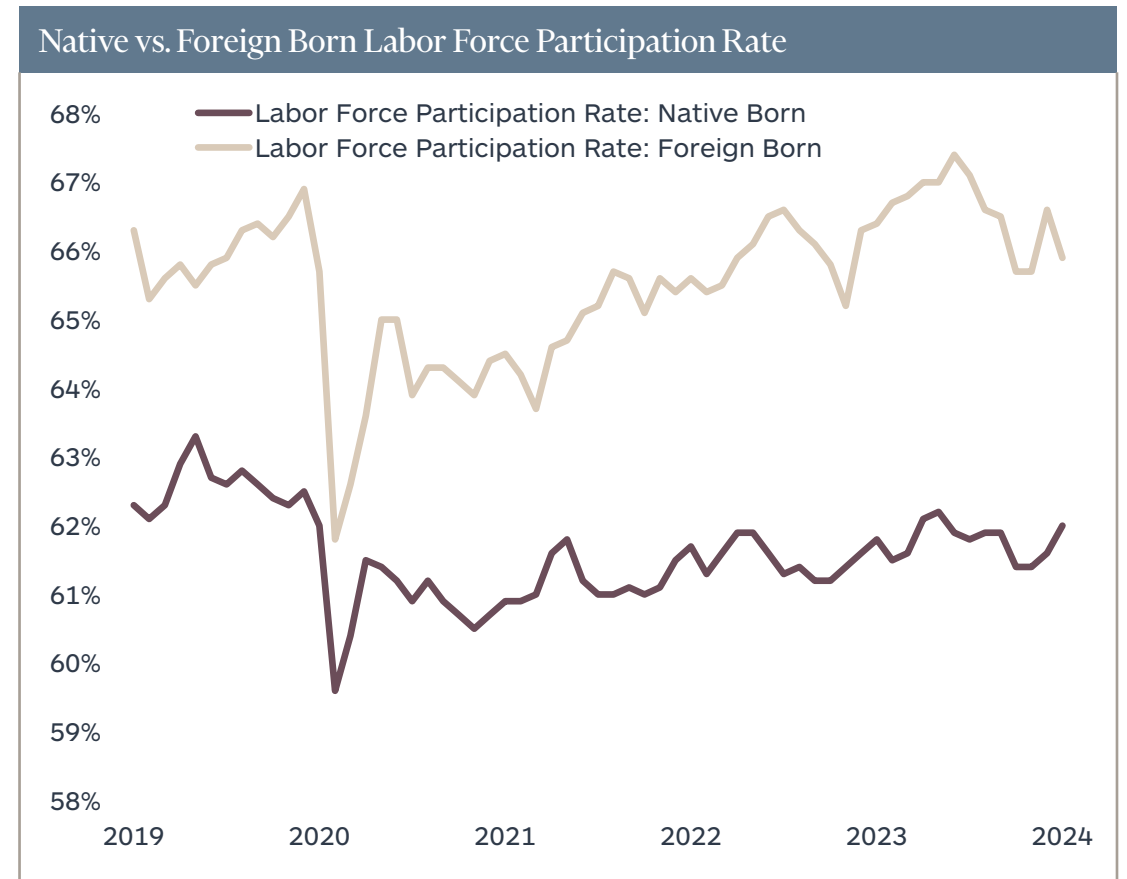
Source: FRED, 3/31/2024

Immigration

The Labor Market's Secret Weapon?



Source: FRED, 3/31/2024

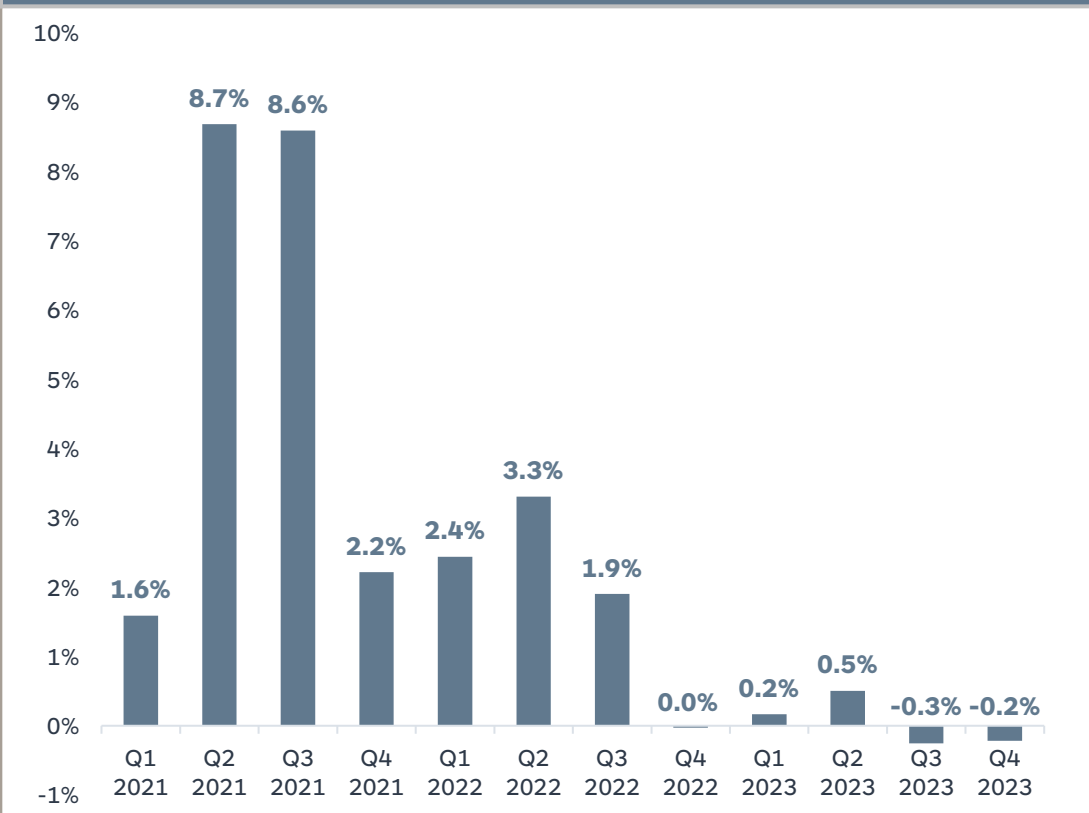


Source: FRED, 3/31/2024

Weakness in the Eurozone

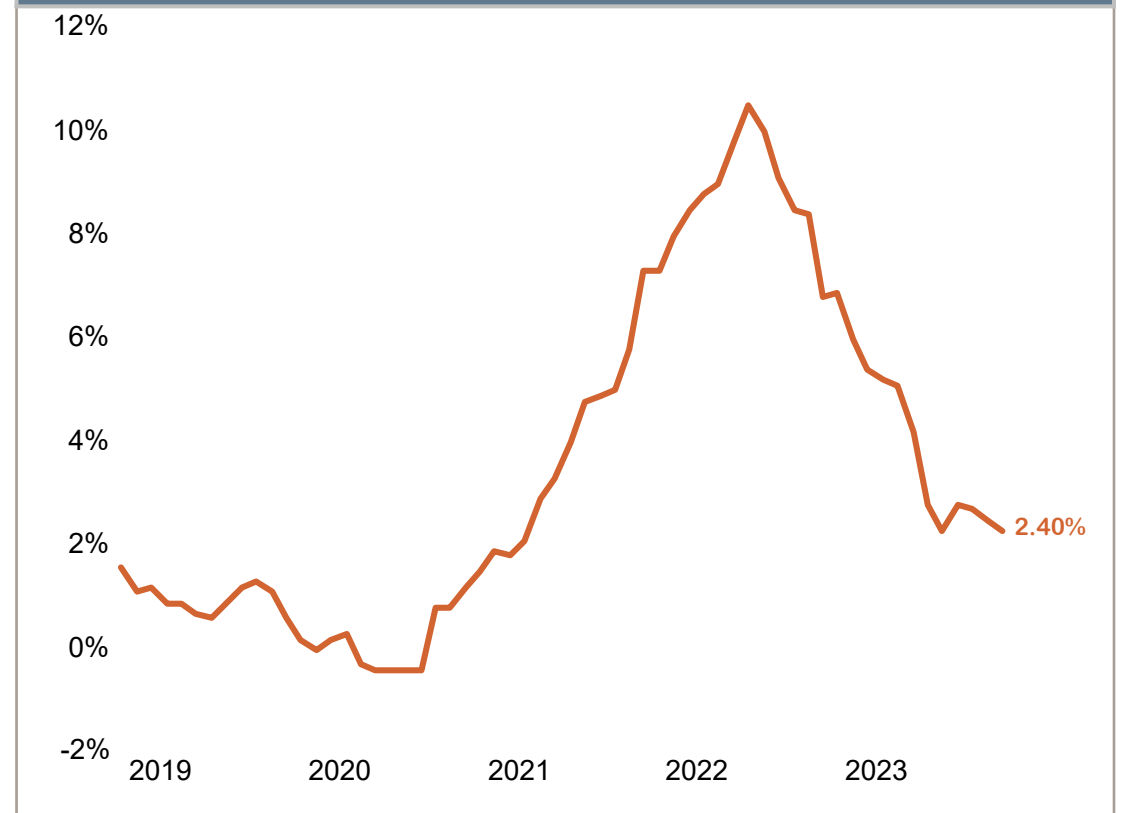
Weaker growth and more progress on inflation might mean that the ECB starts cutting before the Fed

Quarterly Euro Area Real GDP Growth (19 Countries - SAAR)



Source: FRED

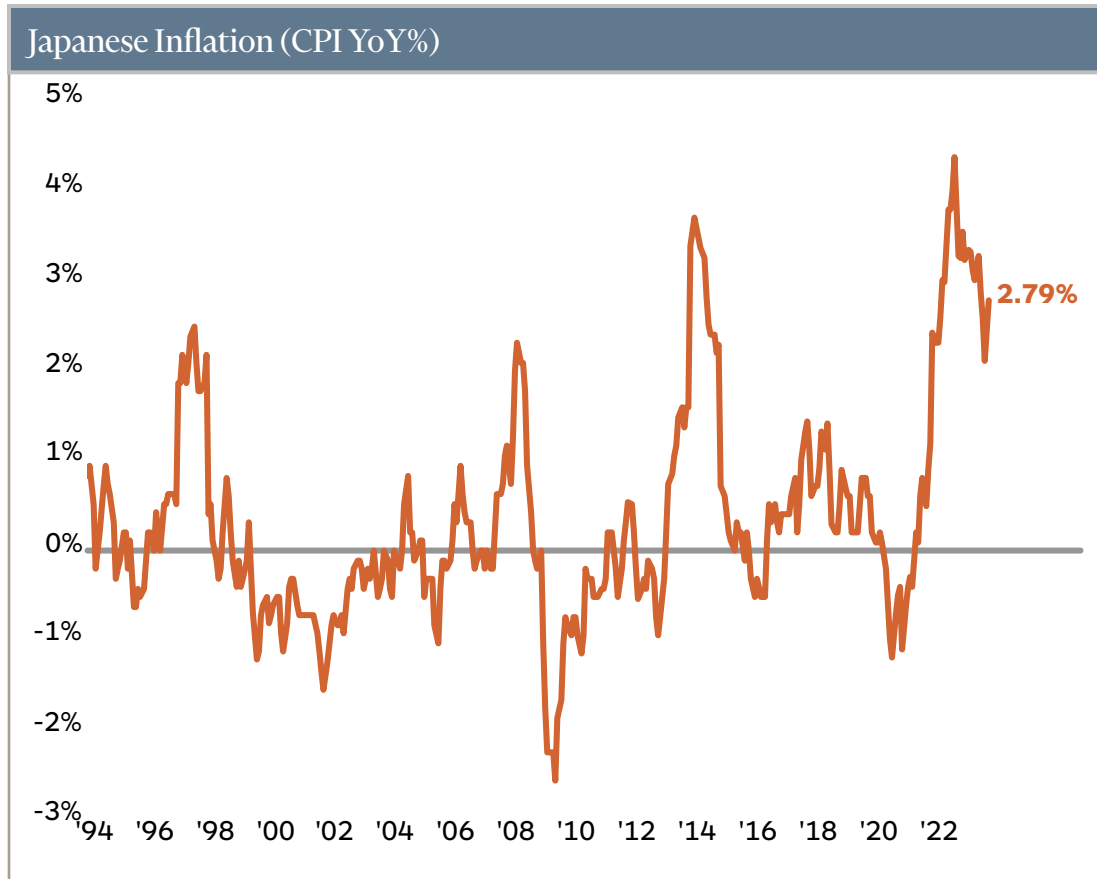
Eurozone Harmonized CPI Inflation (YoY%)



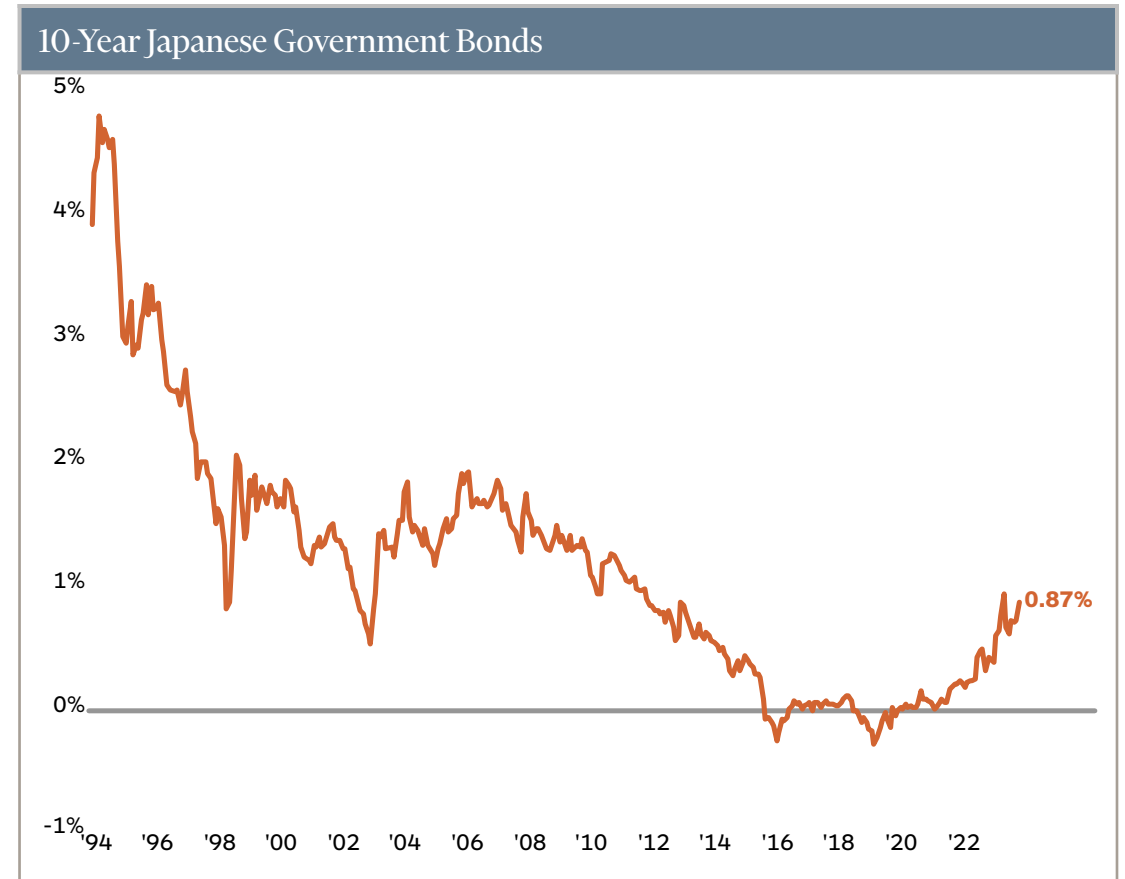
Source: Factset, 3/31/2024

Japan Ends its Grand Experiment

The Nikkei finally broke its 1989 high as the new regime abandons the world's last negative policy rate



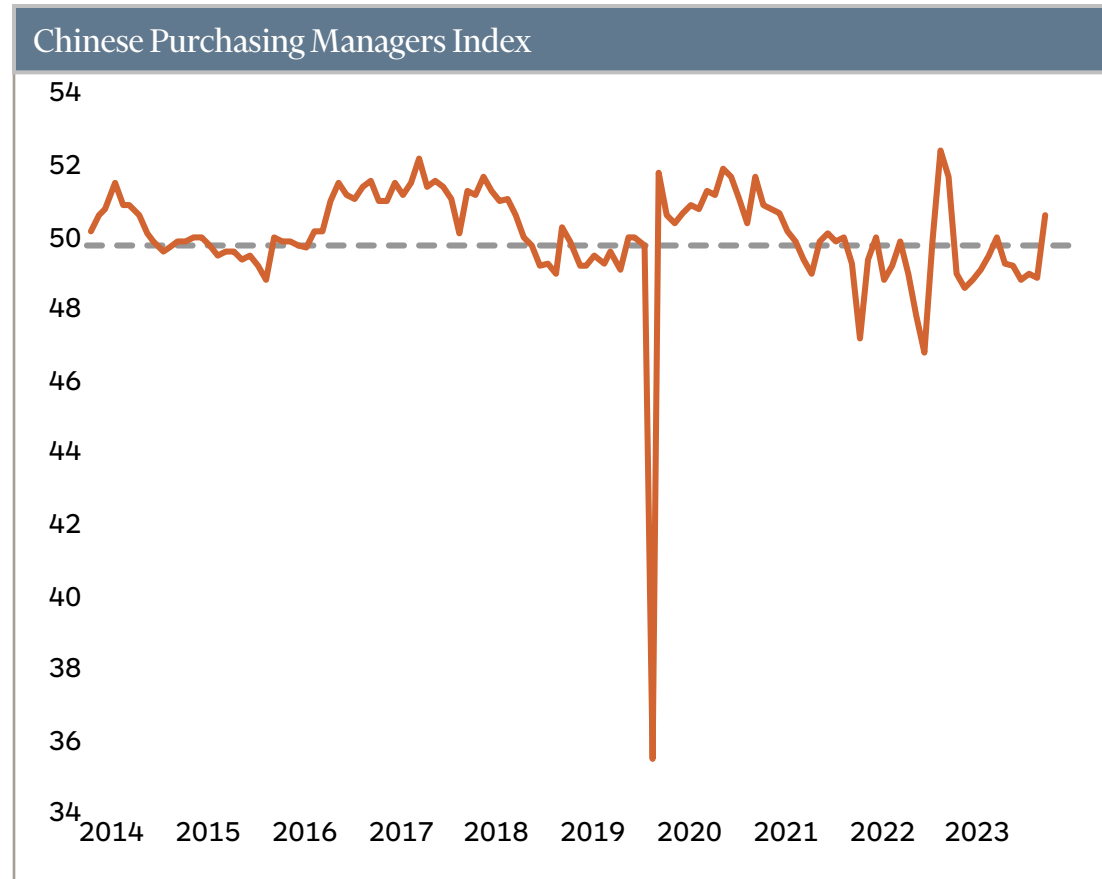
Source: Factset, 3/31/2024



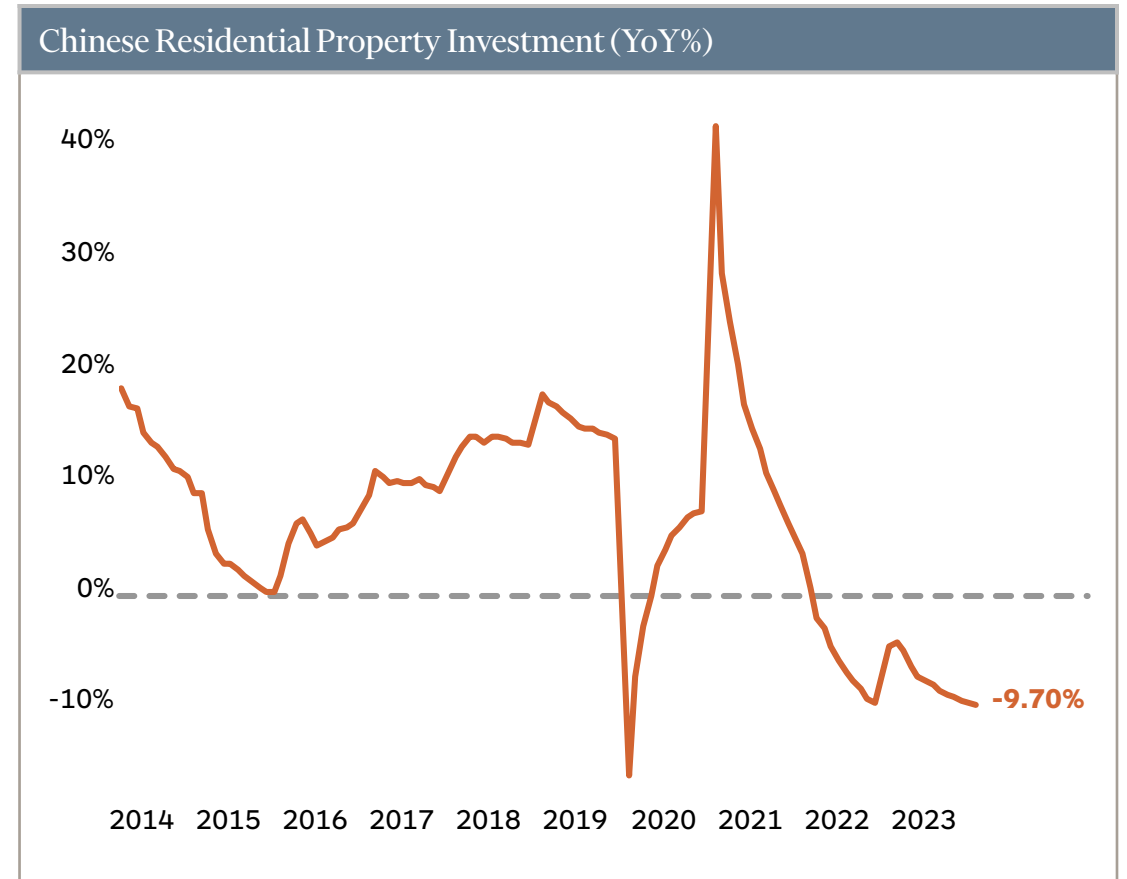
Source: Factset, 3/31/2024

Mixed Signals Out of China

Cyclical indicators may be turning up, but deep structural issues remain



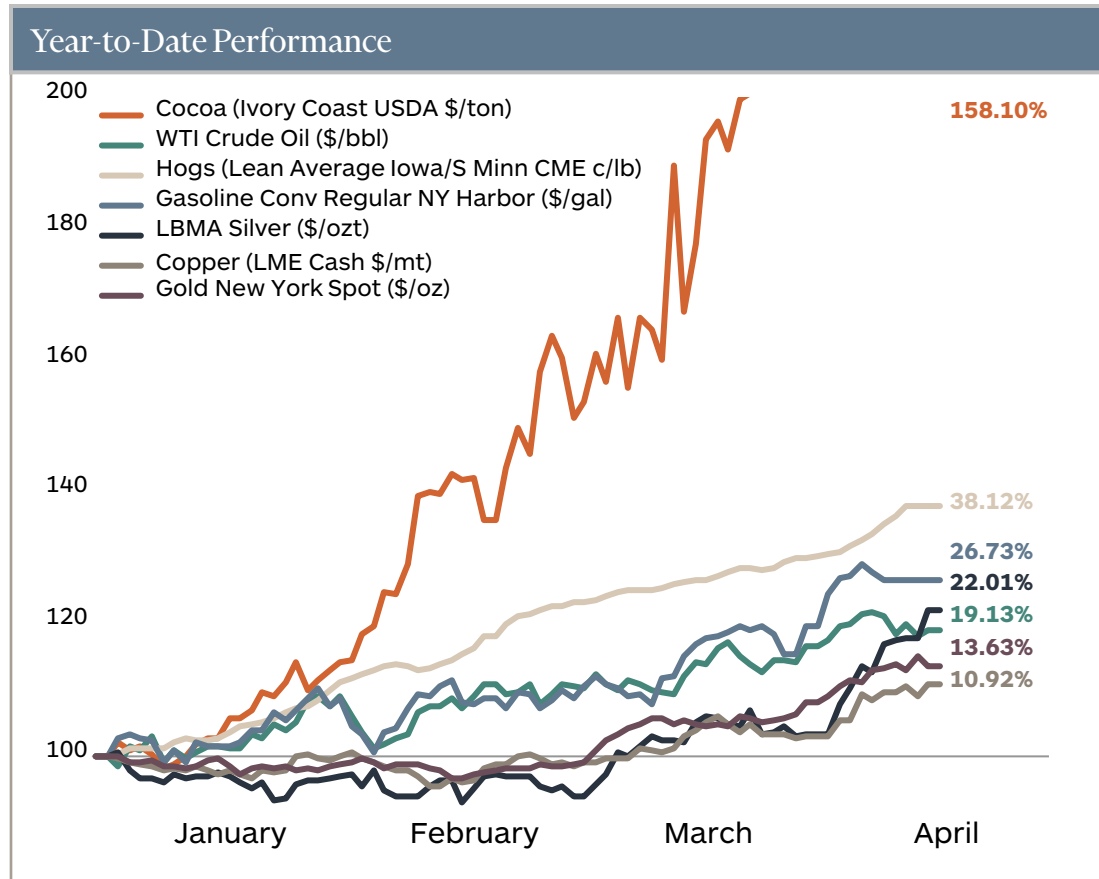
Source: Factset, National Bureau of Statistics China, 3/31/2024



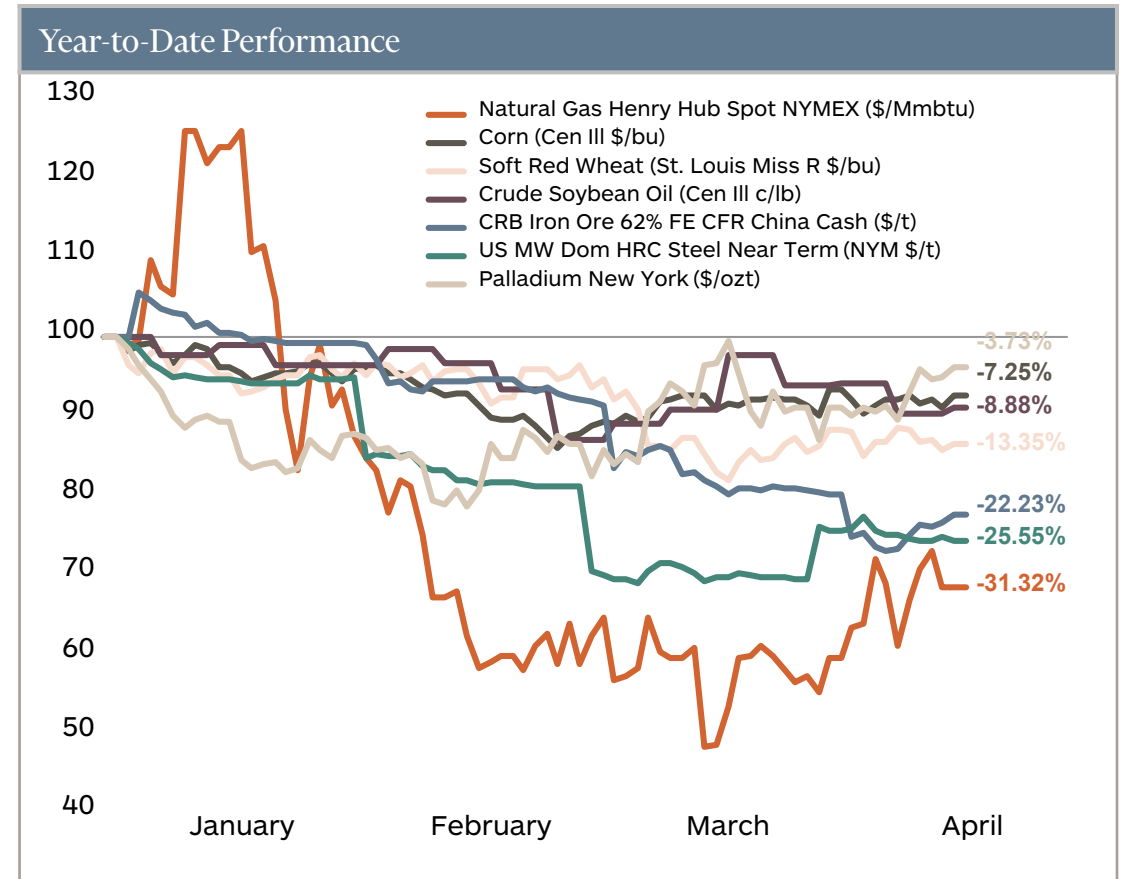
Source: Factset, National Bureau of Statistics China, 12/31/2023

Commodities Showing Signs of Life

Many (but not all) have woken up



Source: Factset, 3/31/2024

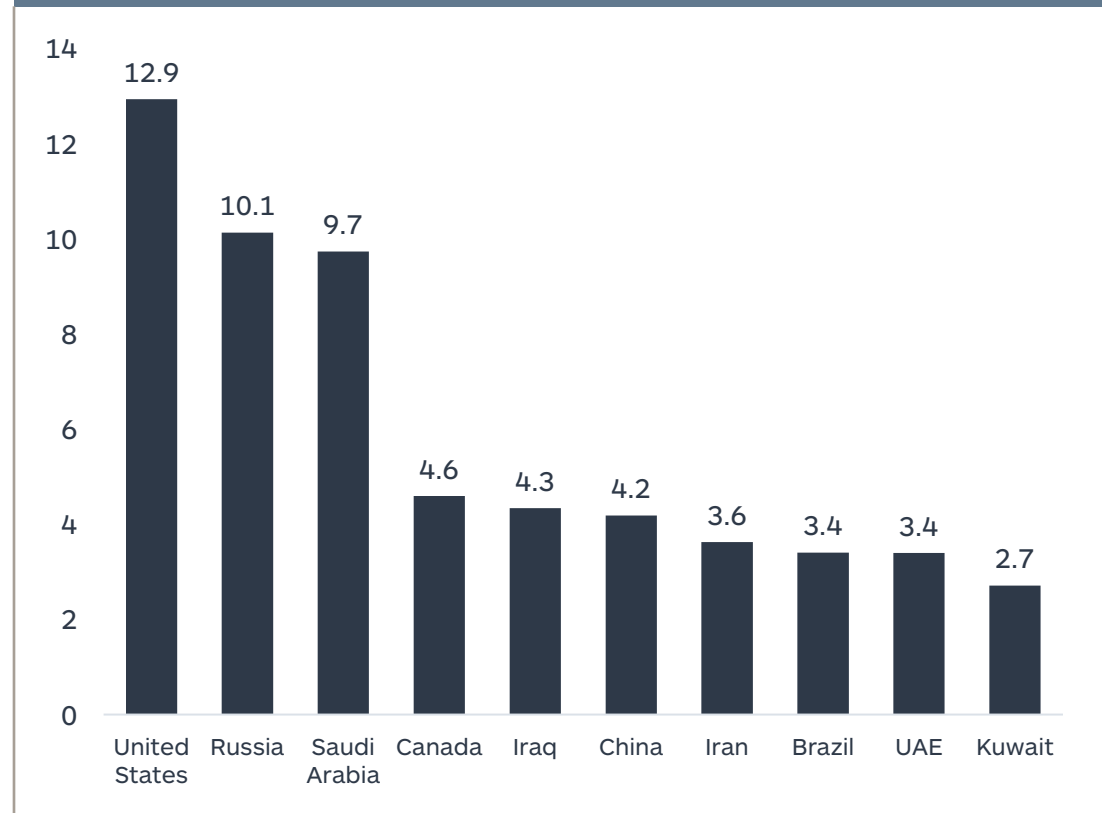


Source: Factset, 3/31/2024

Changing Power Dynamics in Energy Markets

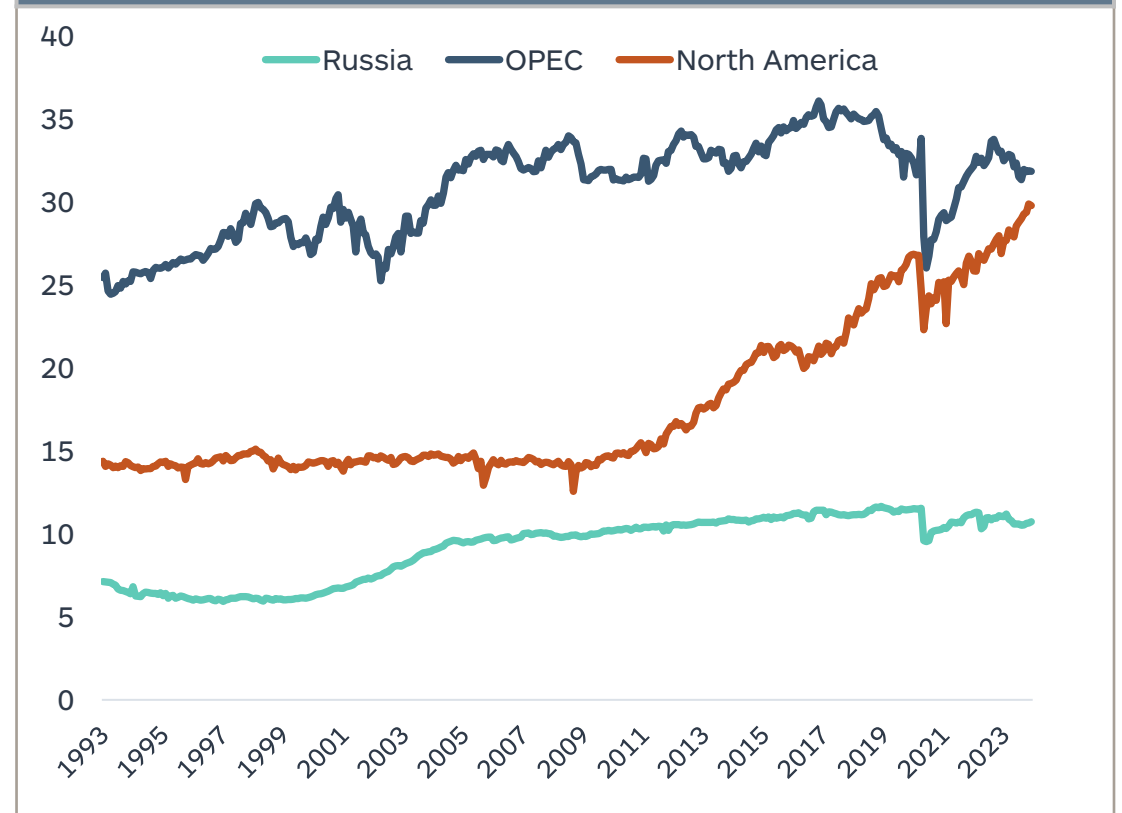
The United States and its allies control an increasing share of global energy production

2023 Crude Oil Production (Million Barrels per Day)



Source: Energy Information Administration

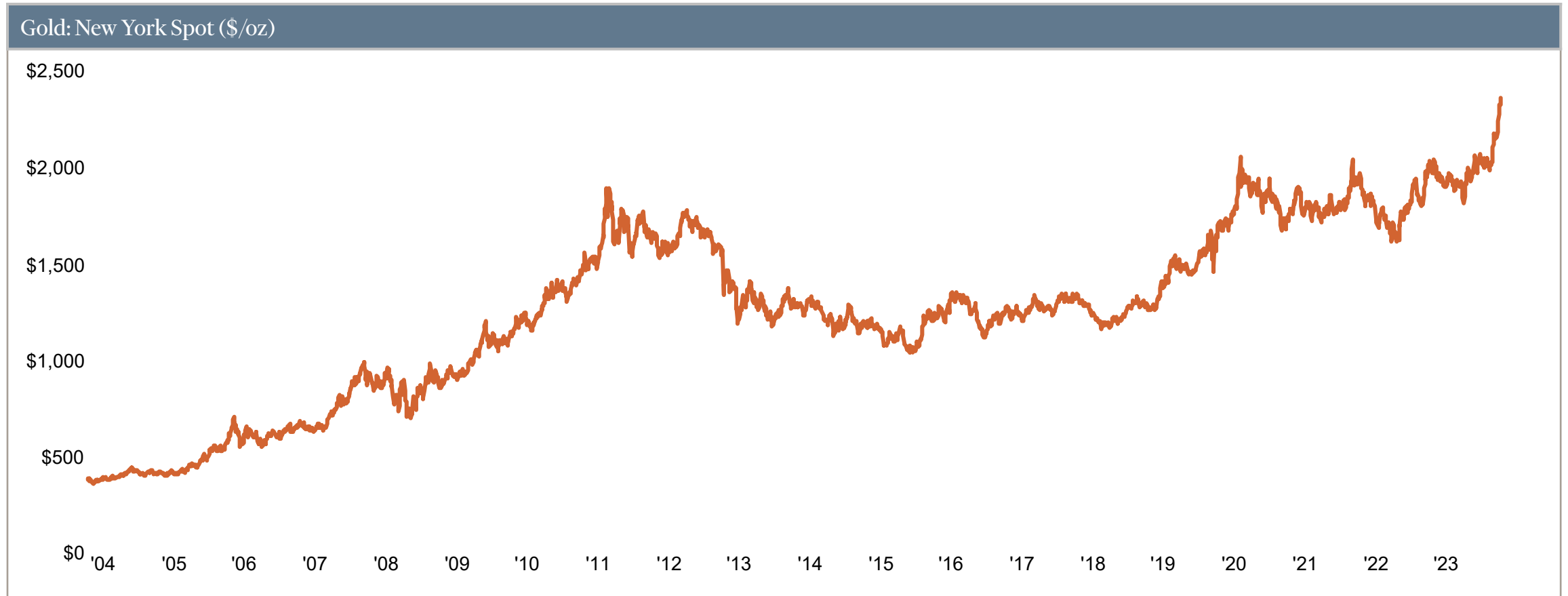
Crude Oil, NGPL, and Other Liquids Production (Million Barrels per Day)



Source: Energy Information Administration, December 2023

New Highs for Gold

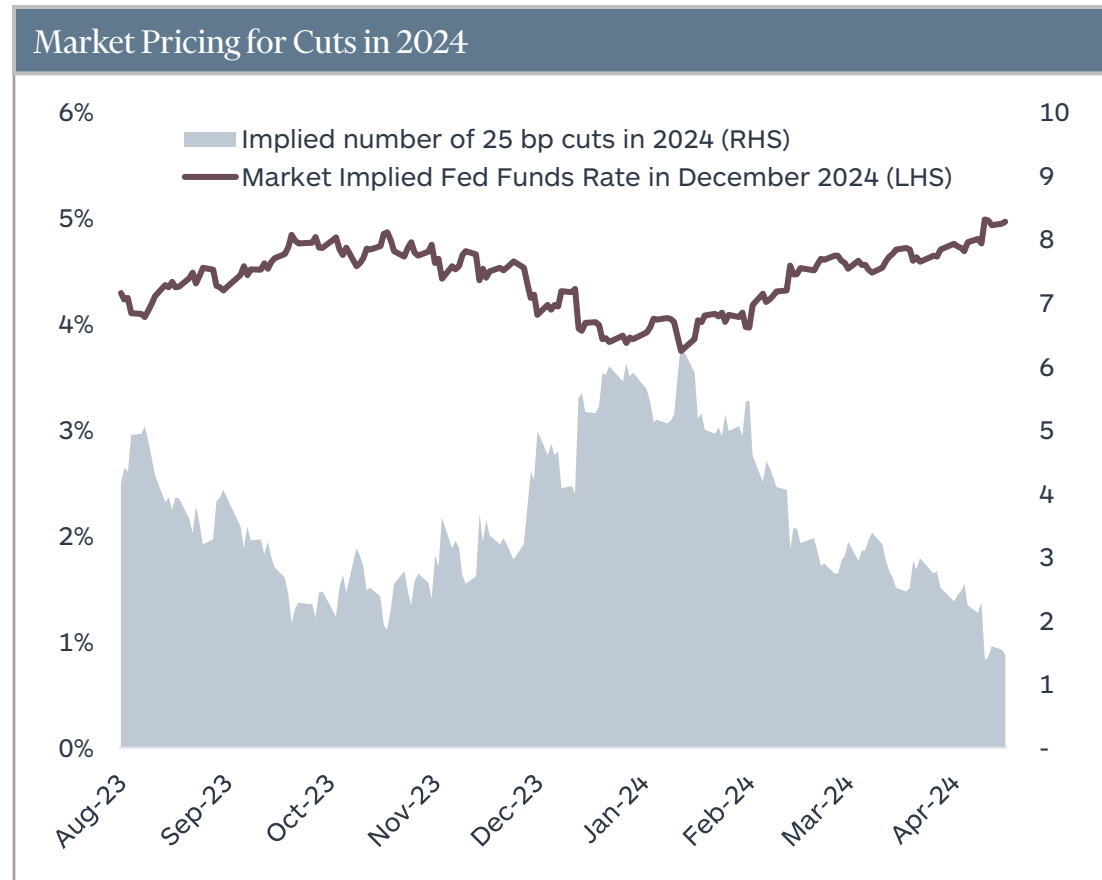
What does the rally mean?



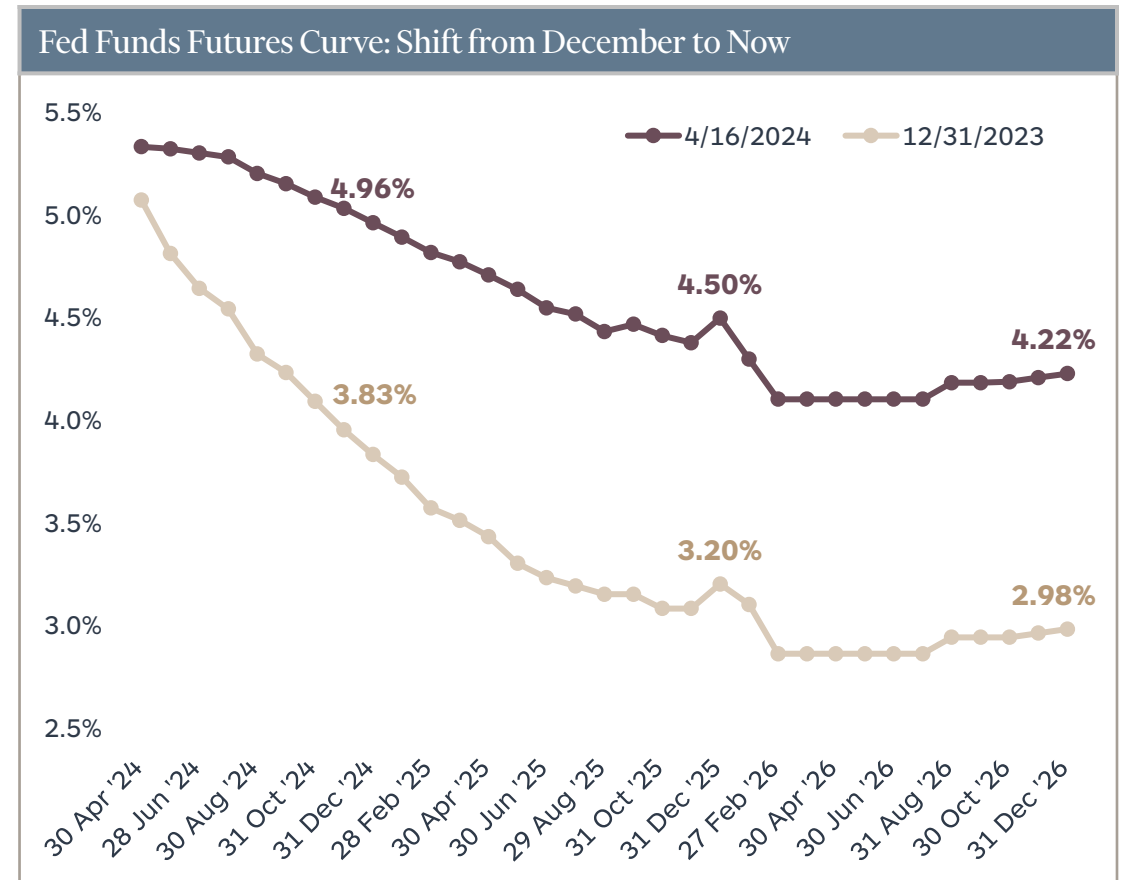
Source: Factset, 4/12/2024

The Market Gets a Dose of Rate Reality

Market expectations for cuts in 2024 have been falling in line with Fed projections



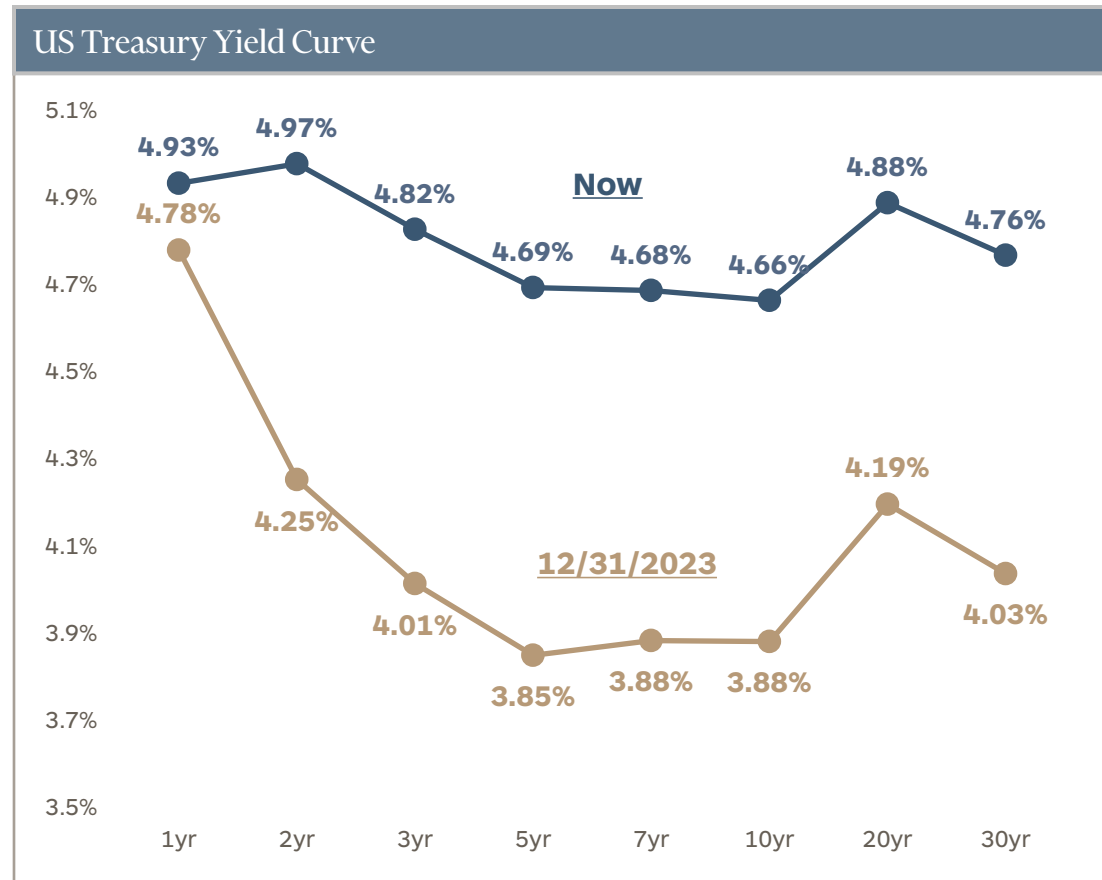
Source: Factset, 4/16/2024



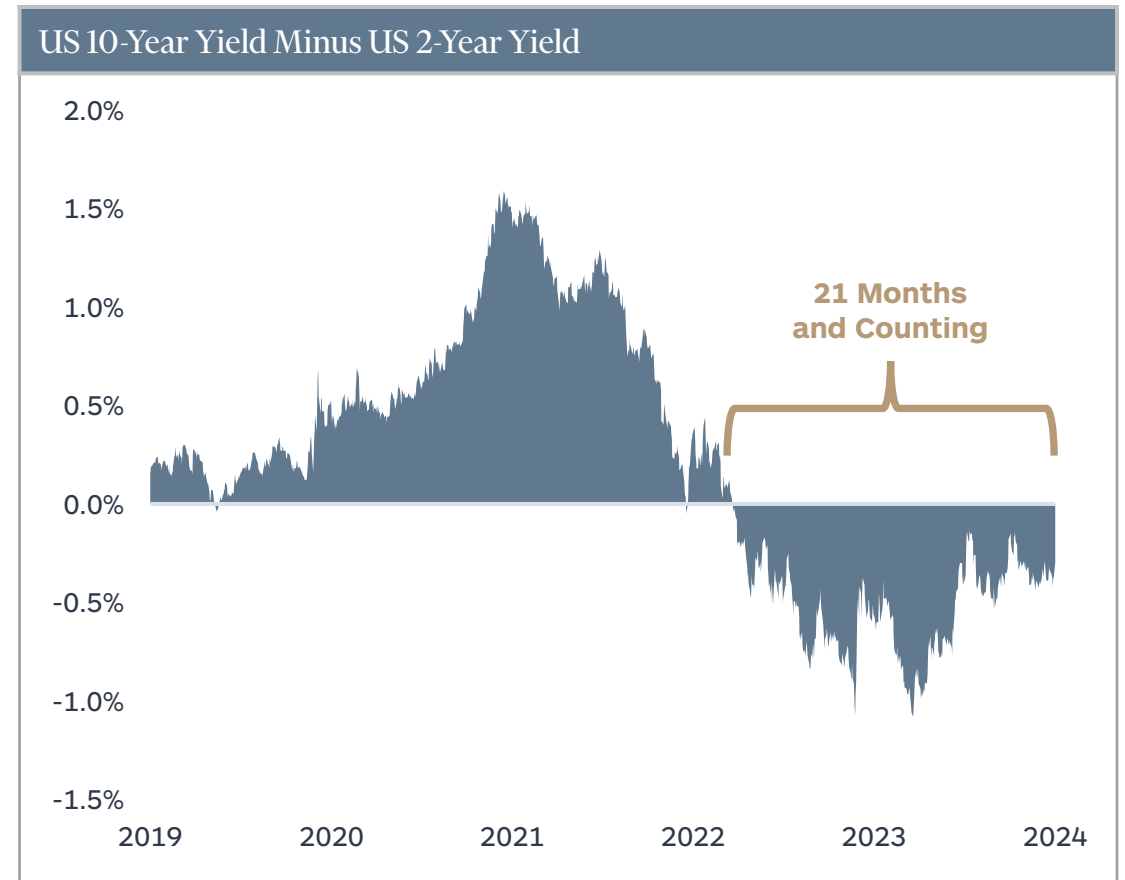
Source: Factset, 4/16/2024

The Yield Curve Remains Inverted

A “bear steepening” may imply that our economy can function with structurally higher rates



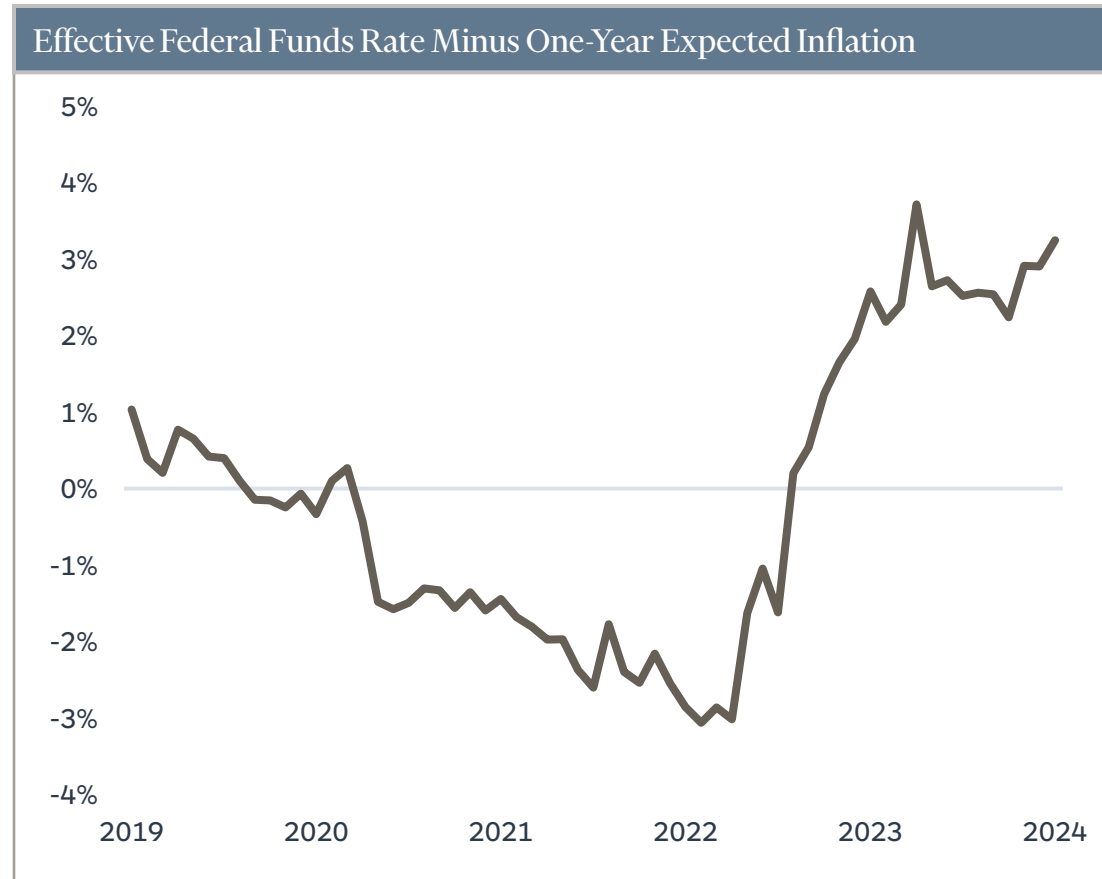
Source: Factset, 4/16/2024



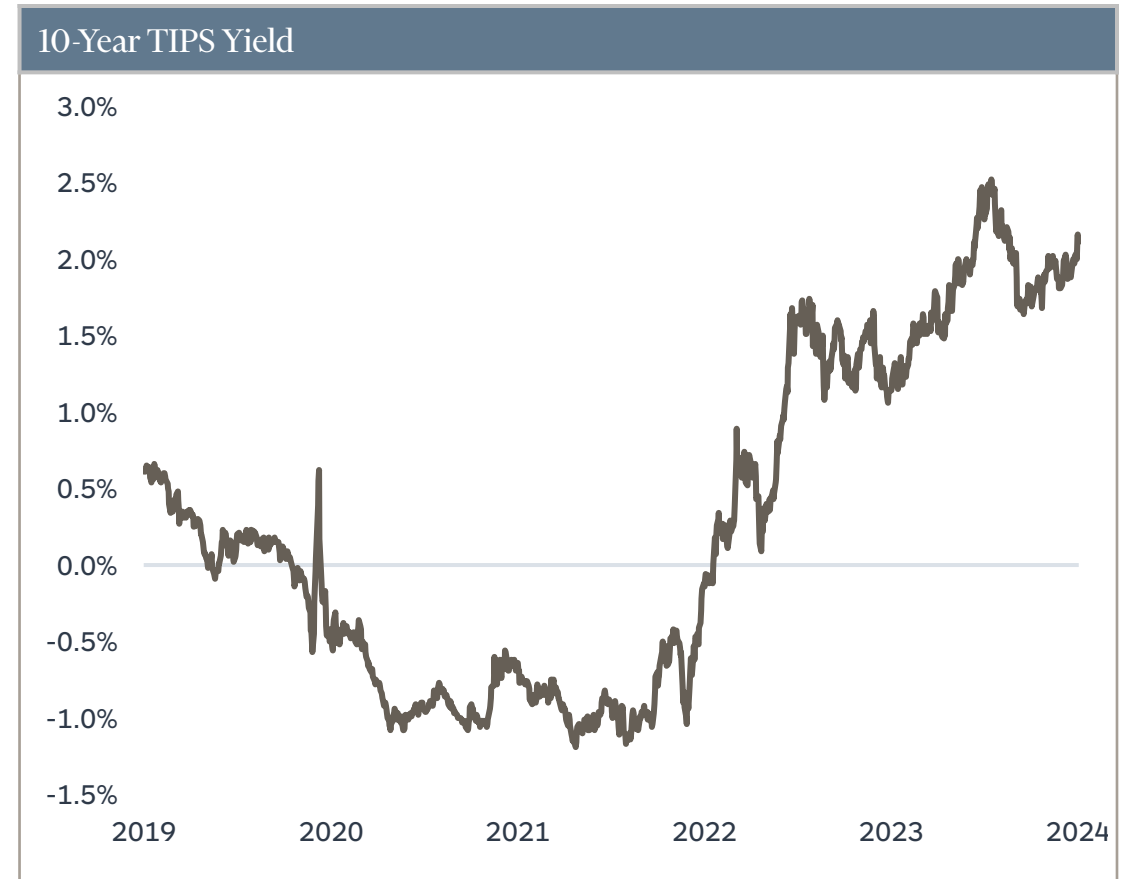
Source: FRED, 4/15/2024

Real Yields

By almost all measures, real yields remain highly restrictive



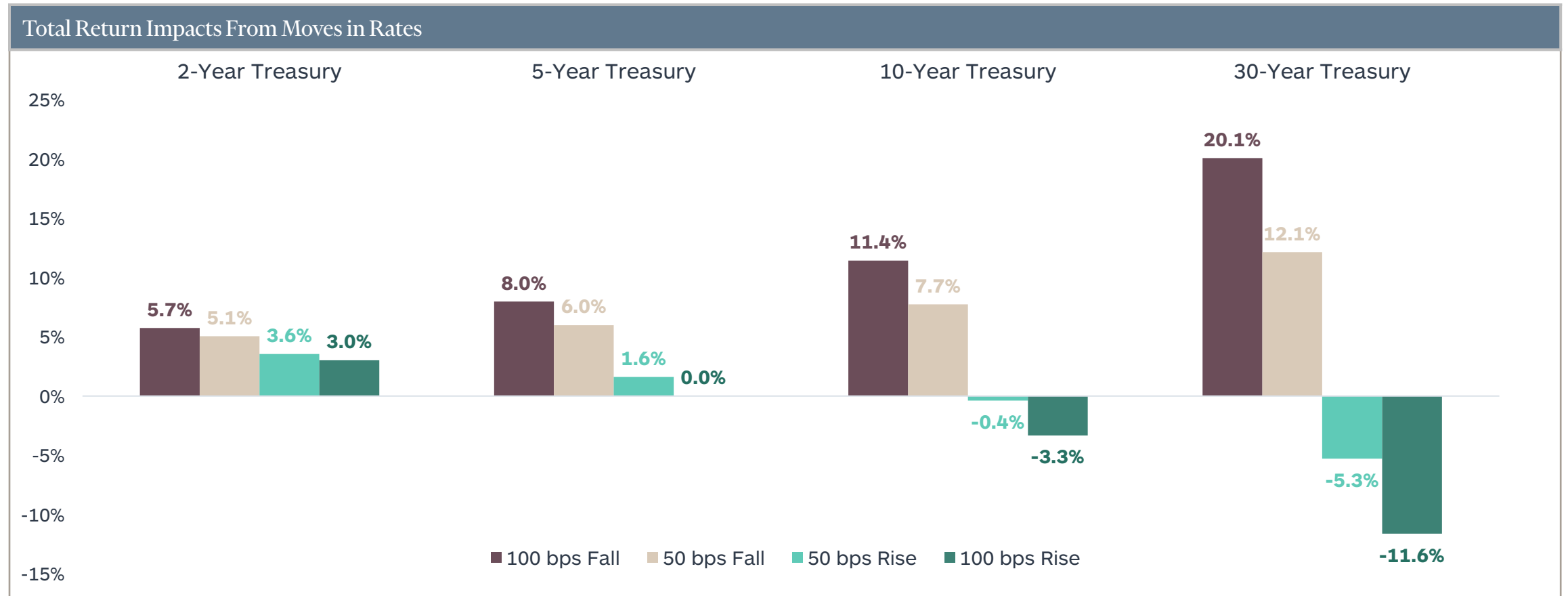
Source: FRED, 4/15/2024



Source: FRED, 4/15/2024

Risk and Reward for Bonds

Higher starting yields provide a cushion against further rises in rates



Source: Factset, 4/16/2024. Total return incorporates duration and convexity.

Municipal Bonds

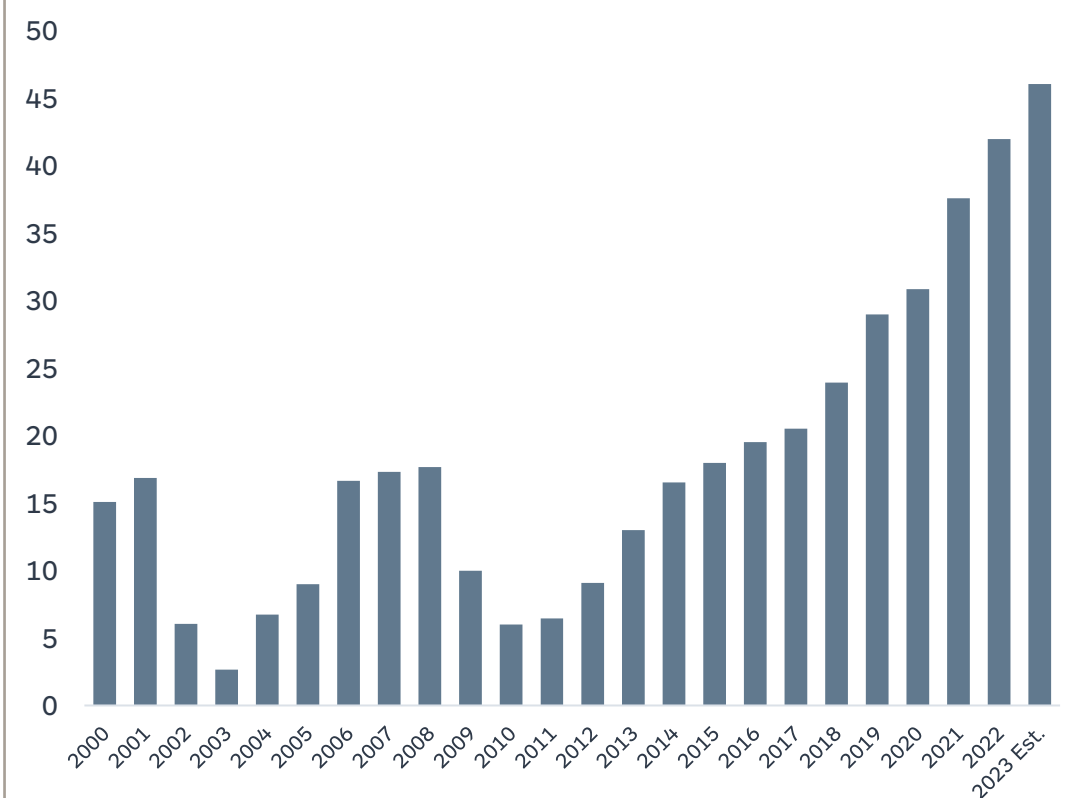
Attractive tax-equivalent yields and solid credit fundamentals

Bloomberg Municipal Bond Blend 1-10Y (1-12Y): Tax Equivalent Yield



Source: Factset. 4/15/2024. Tax-equivalent yield incorporates 37% federal tax bracket and 3.8% Medicare tax

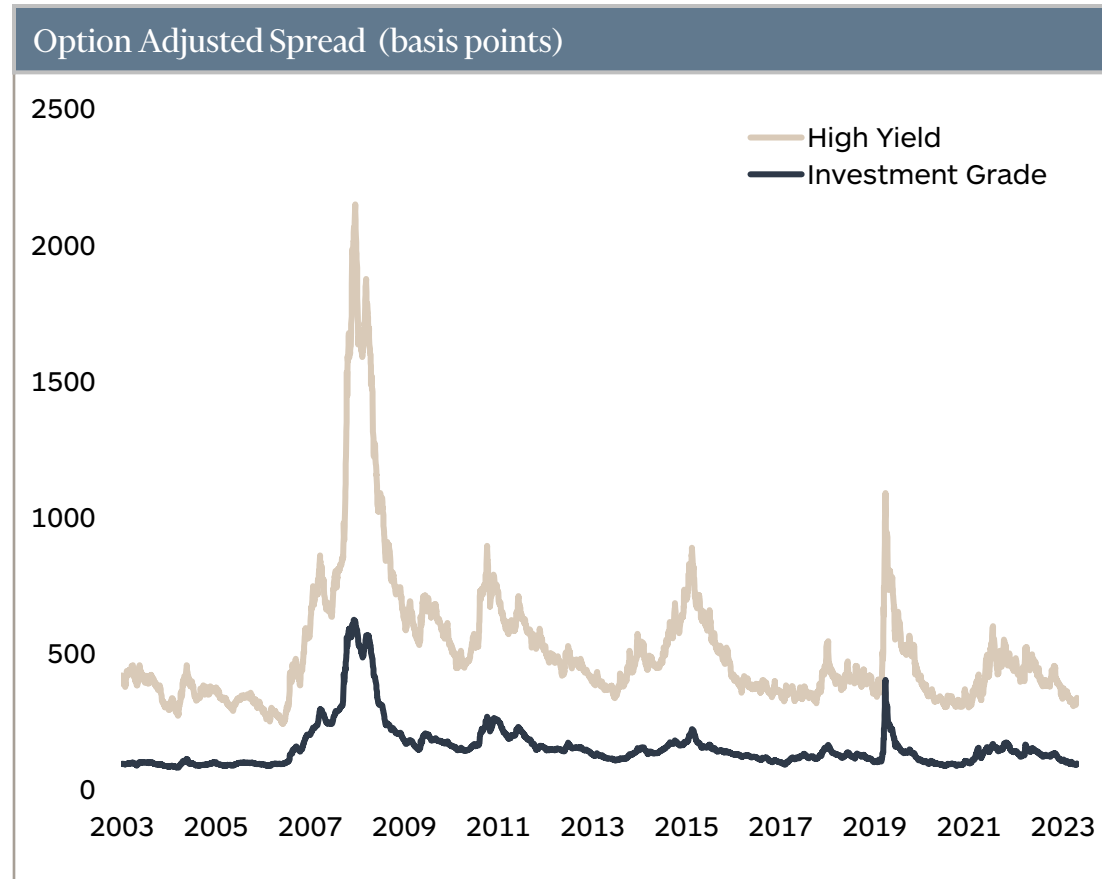
State Median Days of General Fund Expenditures Held in Rainy Day Funds



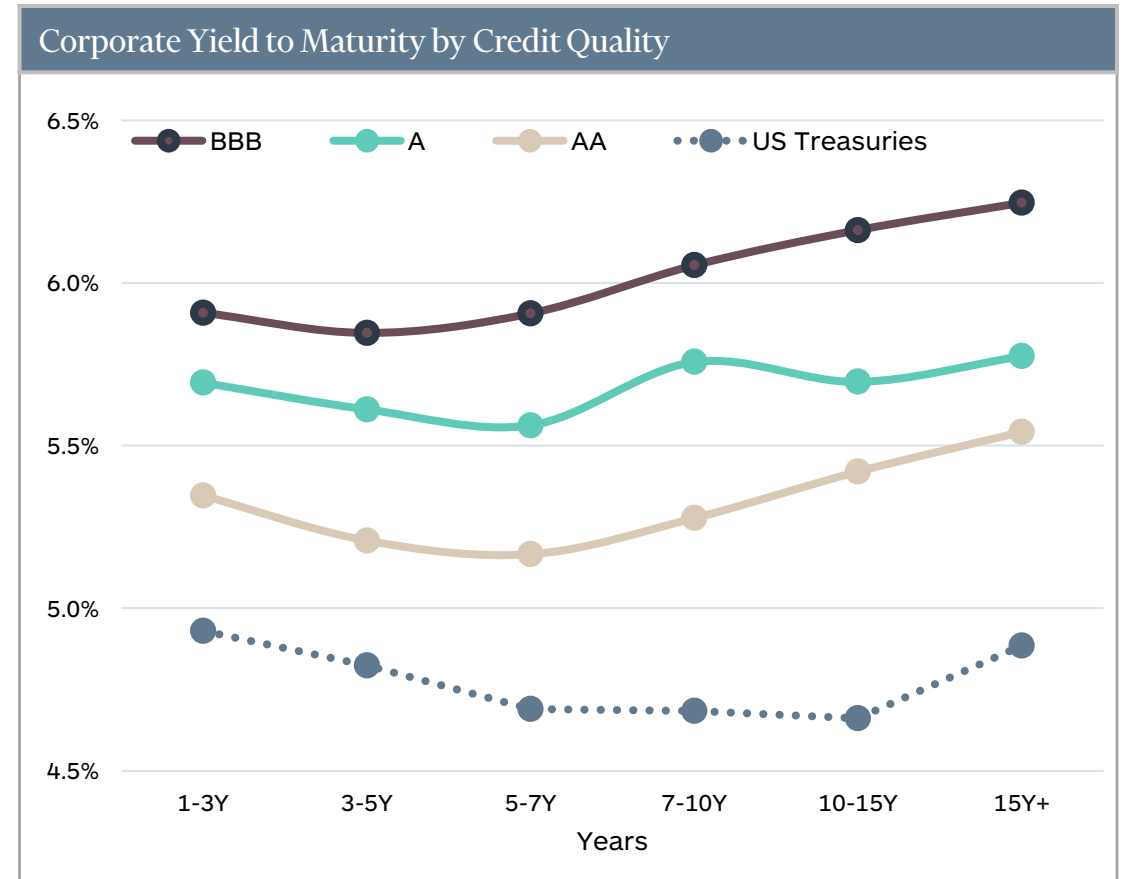
Source: Pew Charitable Trust, December 2023

Credit Markets Reflect Economic Resilience

Tight spreads, increased issuance, and a steeper yield curve for corporate bonds



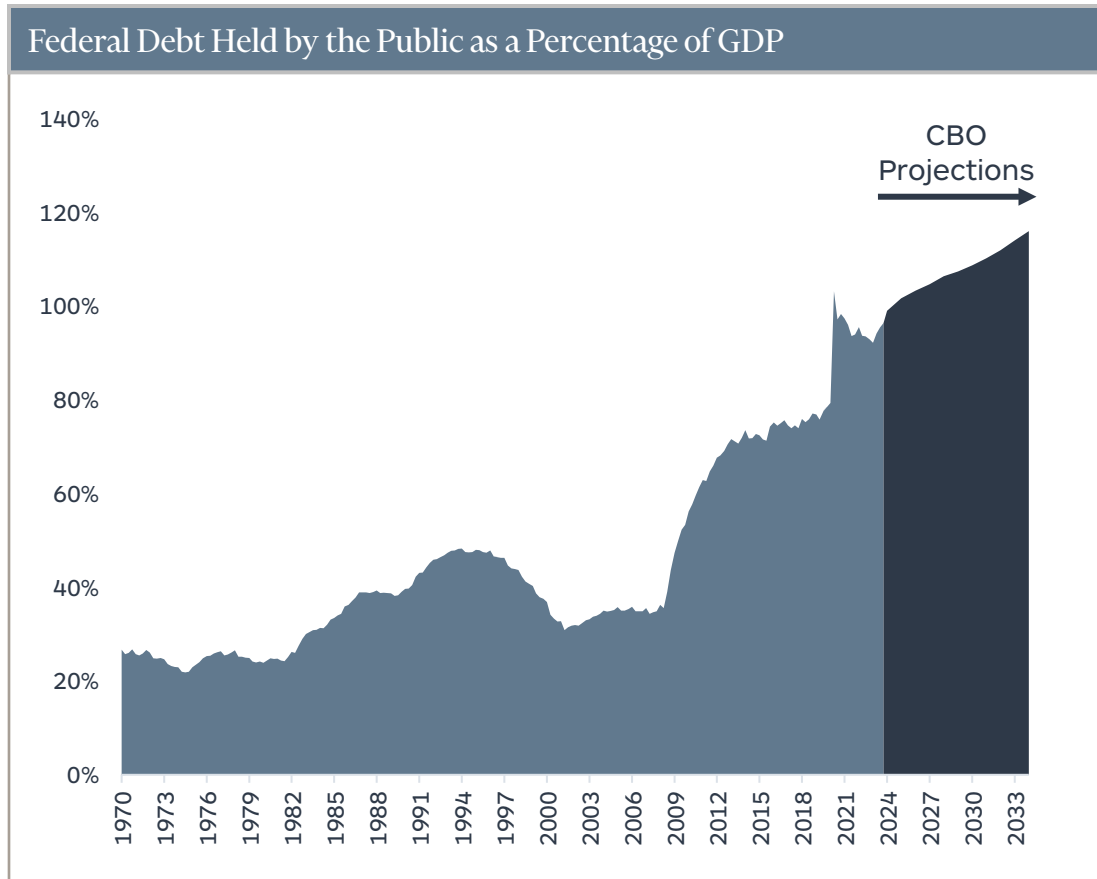
Source: Factset. 4/16/2024



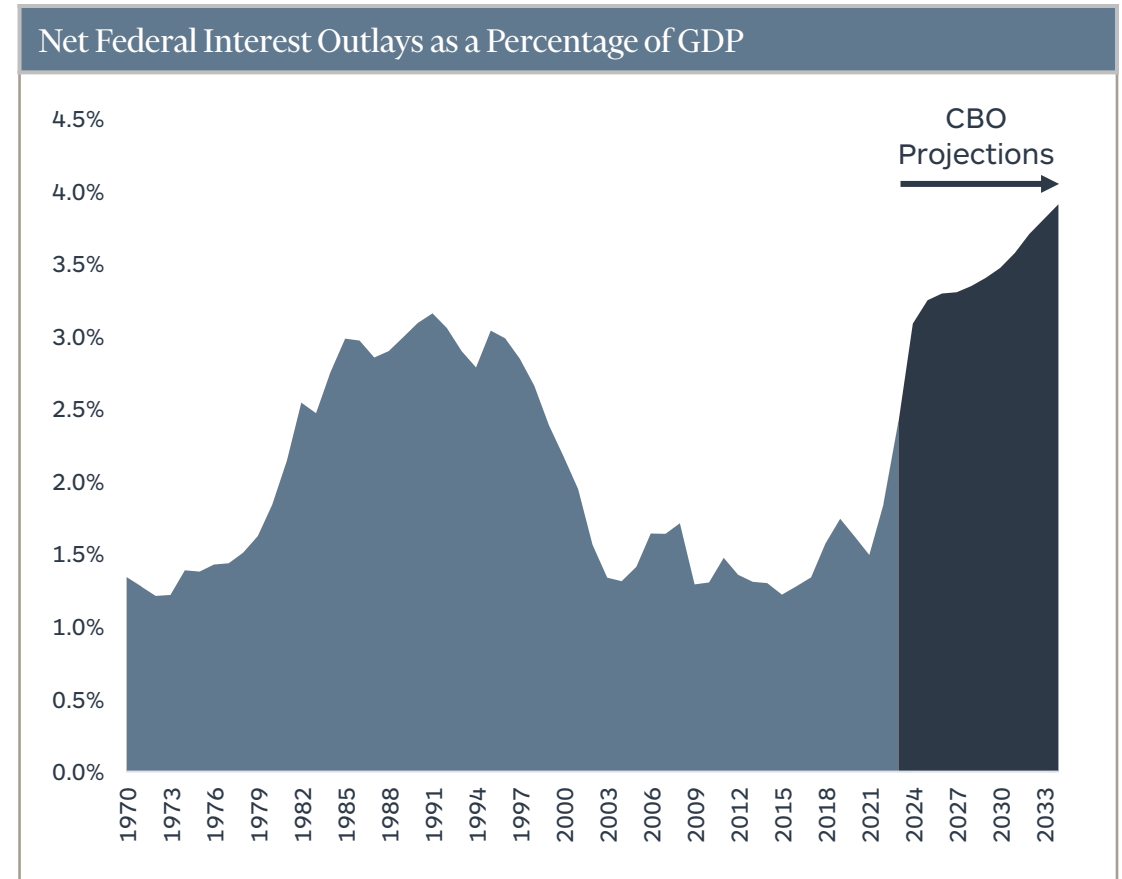
Source: Factset, 4/16/2024

The Fiscal Situation

Heavy public debt burdens are likely here to stay



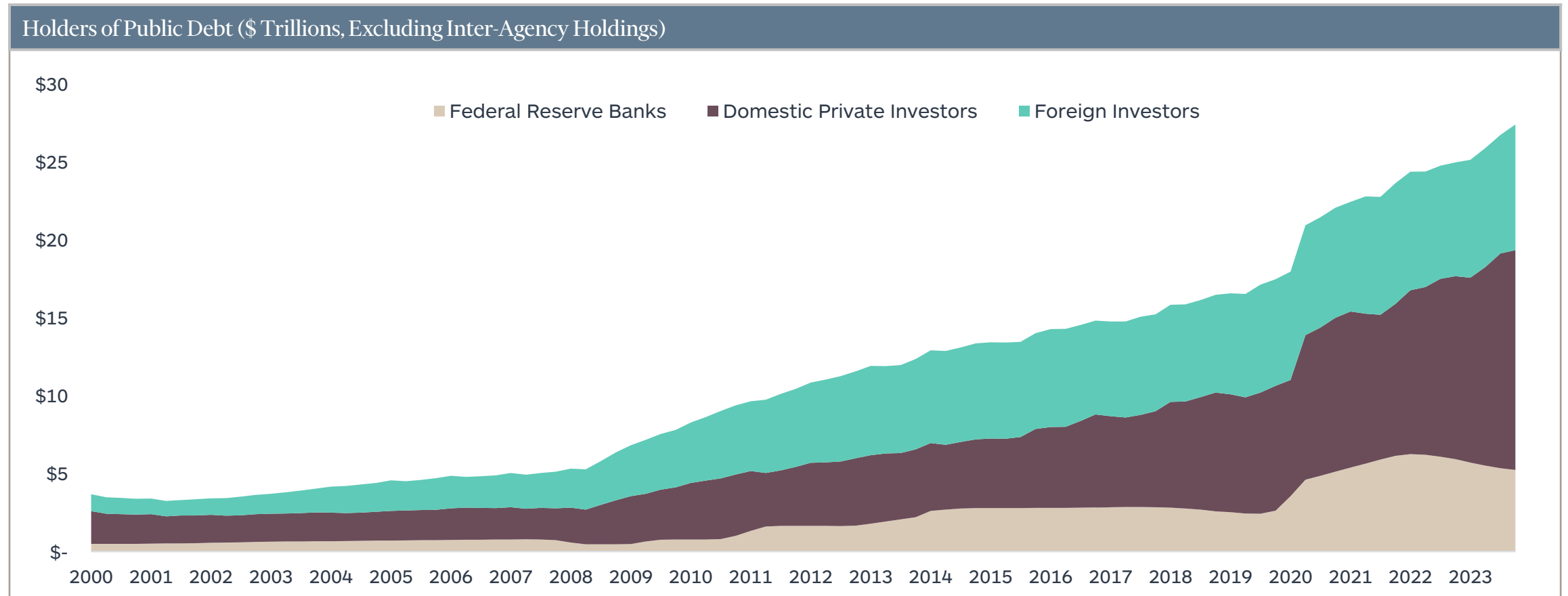
Source: FRED, Congressional Budget Office, 3/31/2024



Source: FRED, Congressional Budget Office, 3/31/2024

The Exorbitant Privilege

Multiple sources of demand will help absorb treasury issuance and keep rates from spiraling out of control

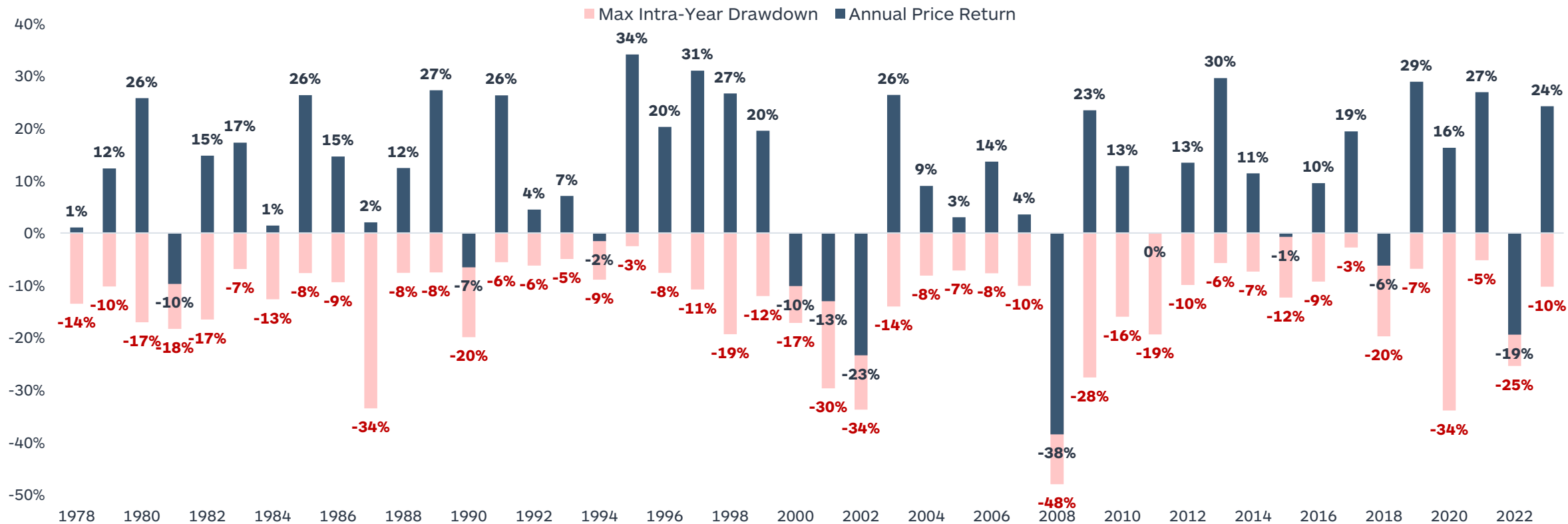


Source: FRED, 12/31/2023

Market Corrections Are a Feature, Not a Bug

On average, investors should expect a 14% drawdown every year

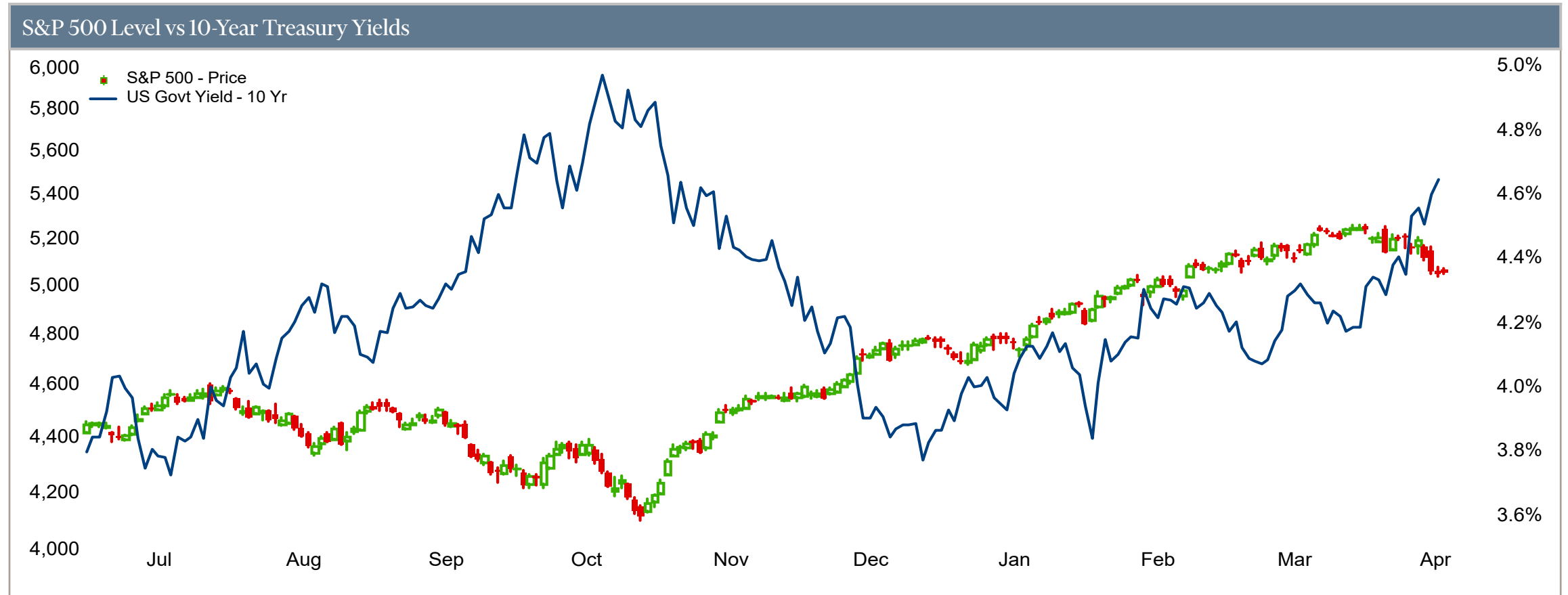
S&P 500: Calendar Year Price Return vs. Maximum Peak-to-Trough Drawdown



Source: Factset, Morningstar Direct, 12/31/2023

Stocks vs. Yields

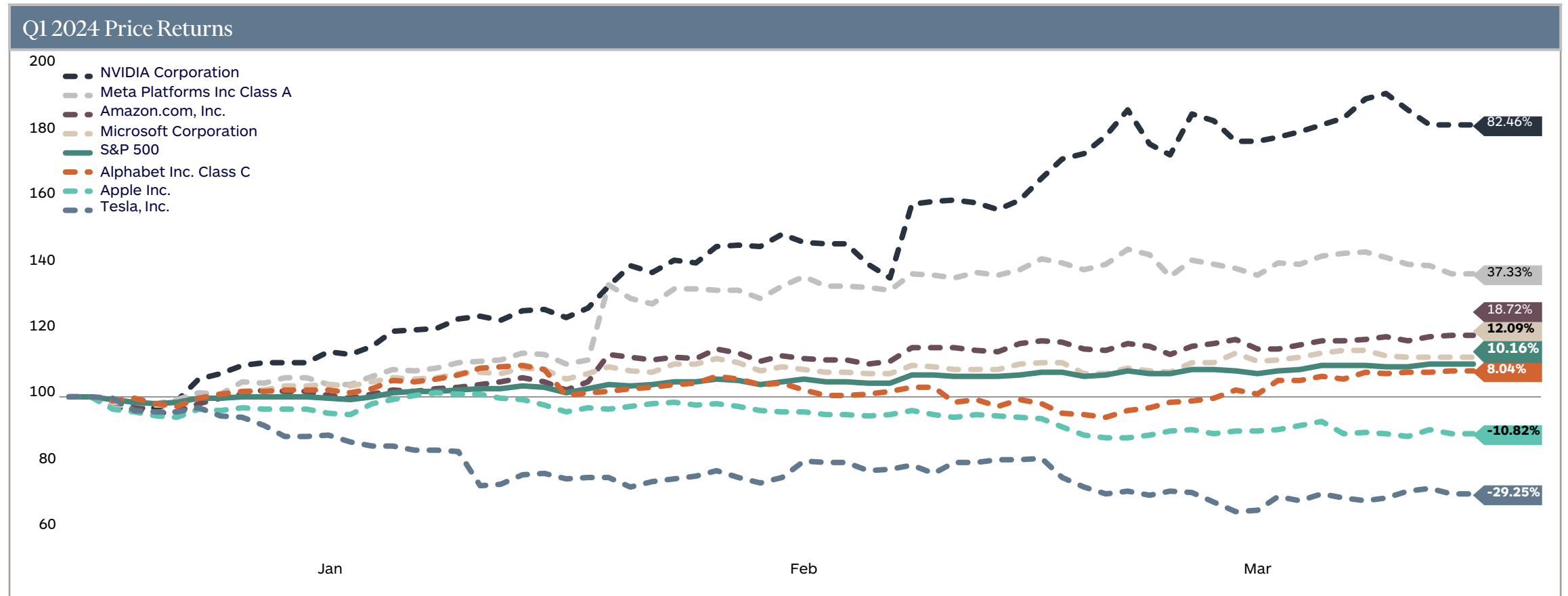
Equity markets shrugged off higher yields in Q1 but are growing antsy with the recent spike



Source: Factset, 4/16/2024

The Magnificent Seven

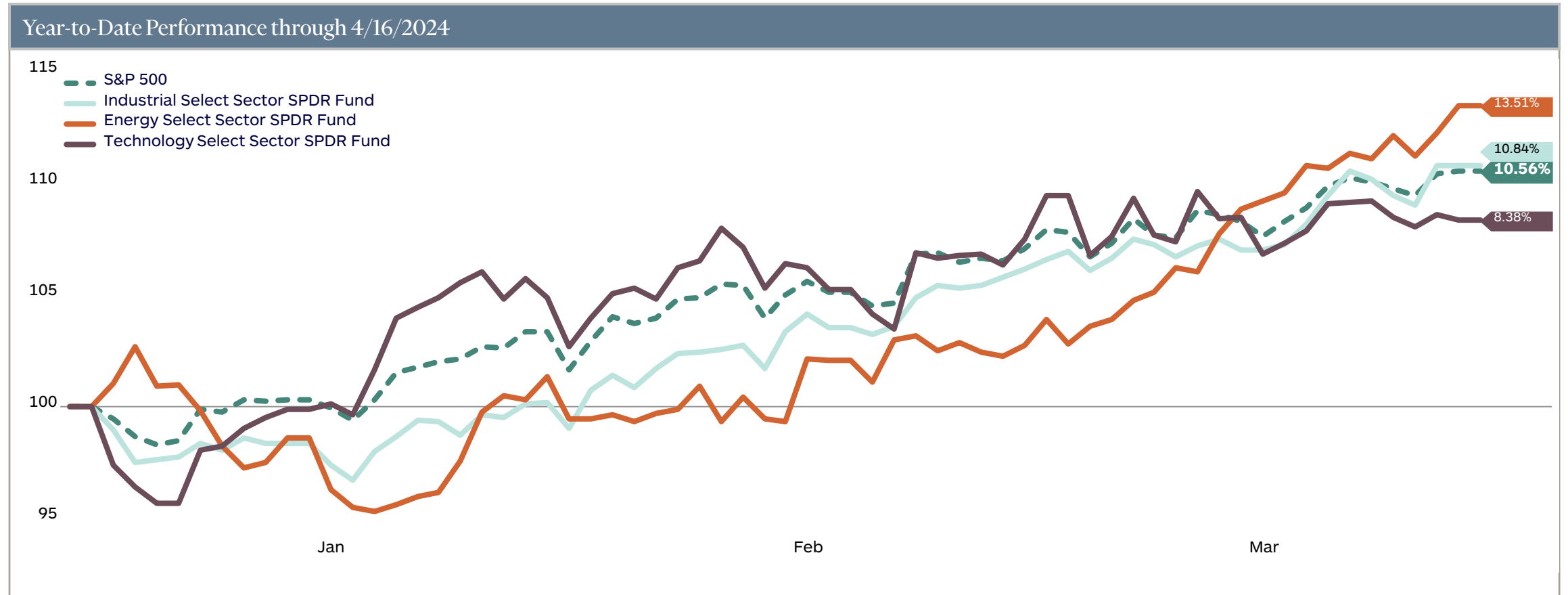
No longer a monolith of performance



Source: Factset, 3/31/2024

Shifting Sector Leadership

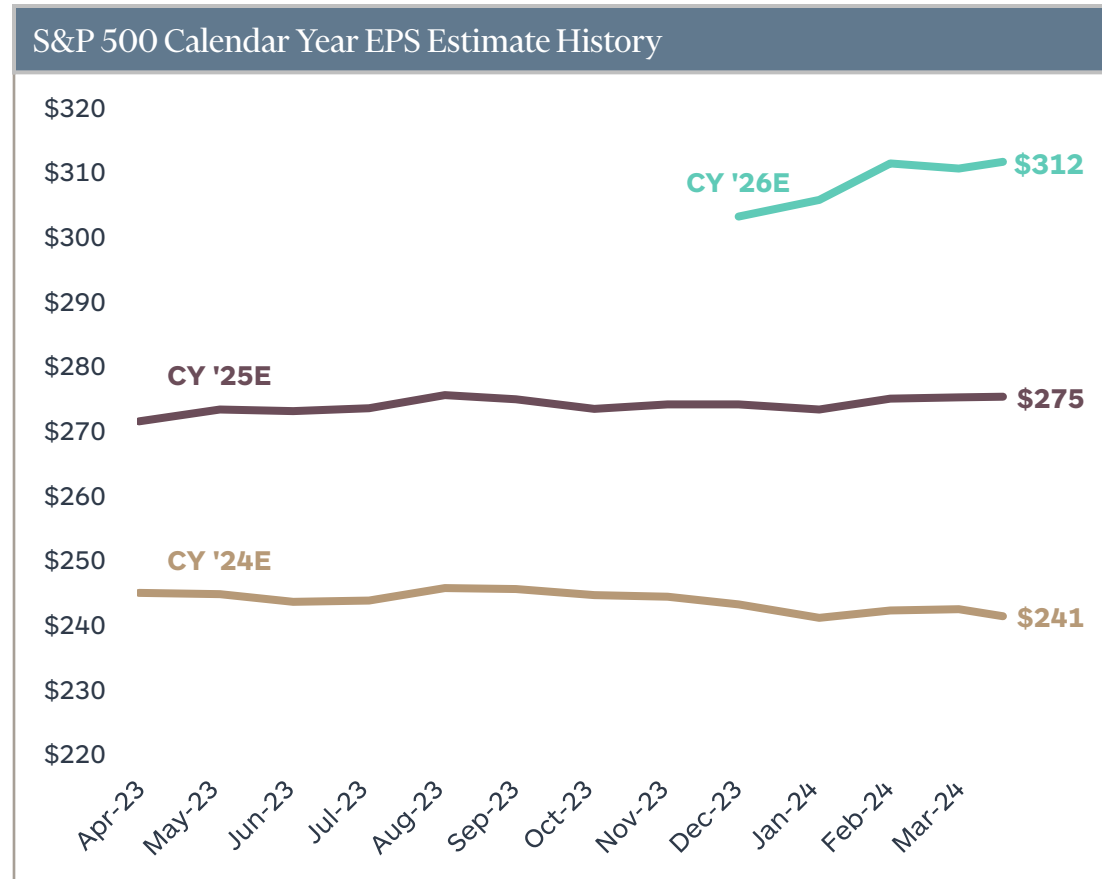
Tech is no longer the only game in town



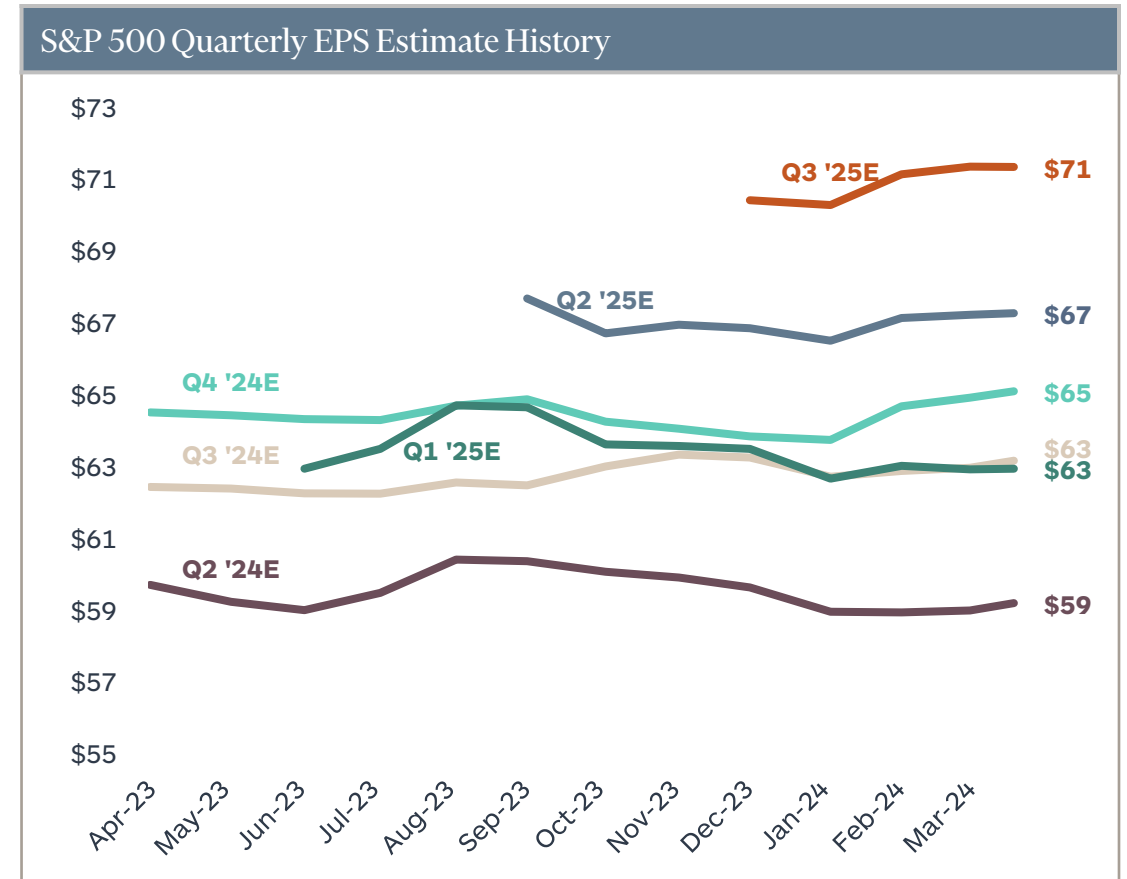
Source: Factset, 4/16/2024

The Earnings Outlook

Expectations have begun to stabilize



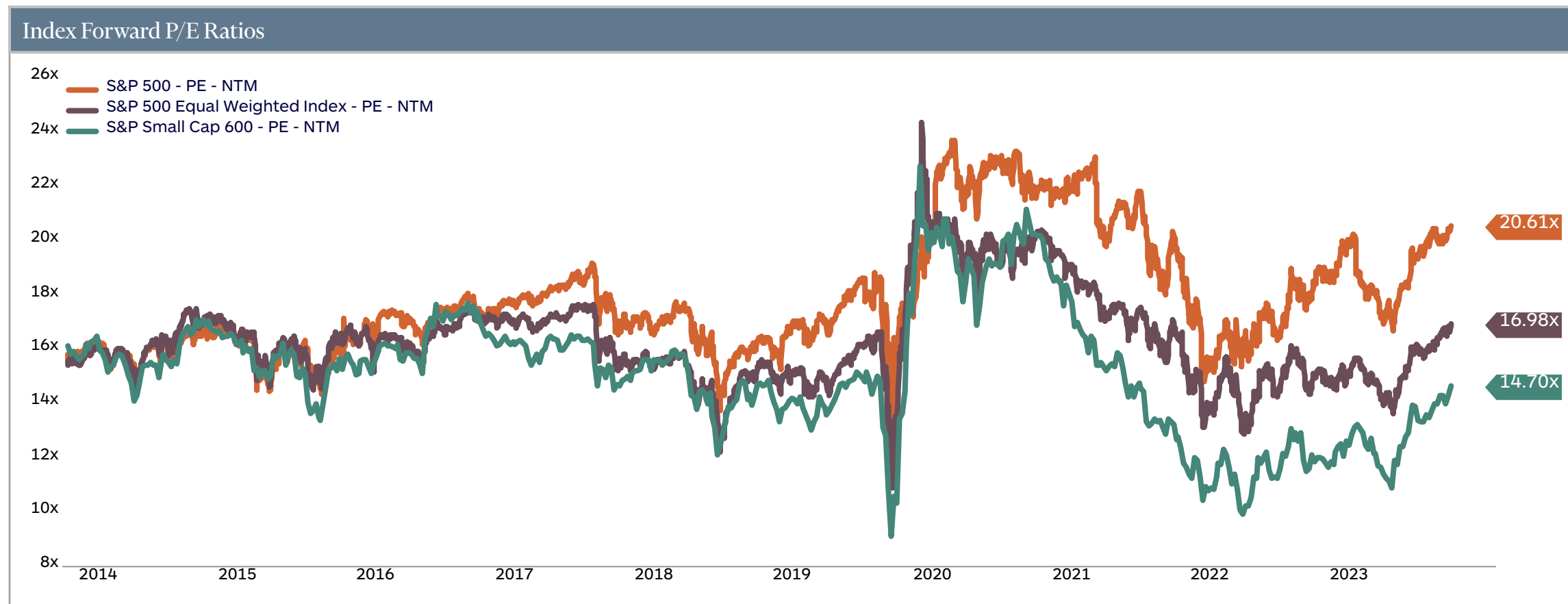
Source: Factset, 4/15/2024



Source: Factset, 4/15/2024

Valuations

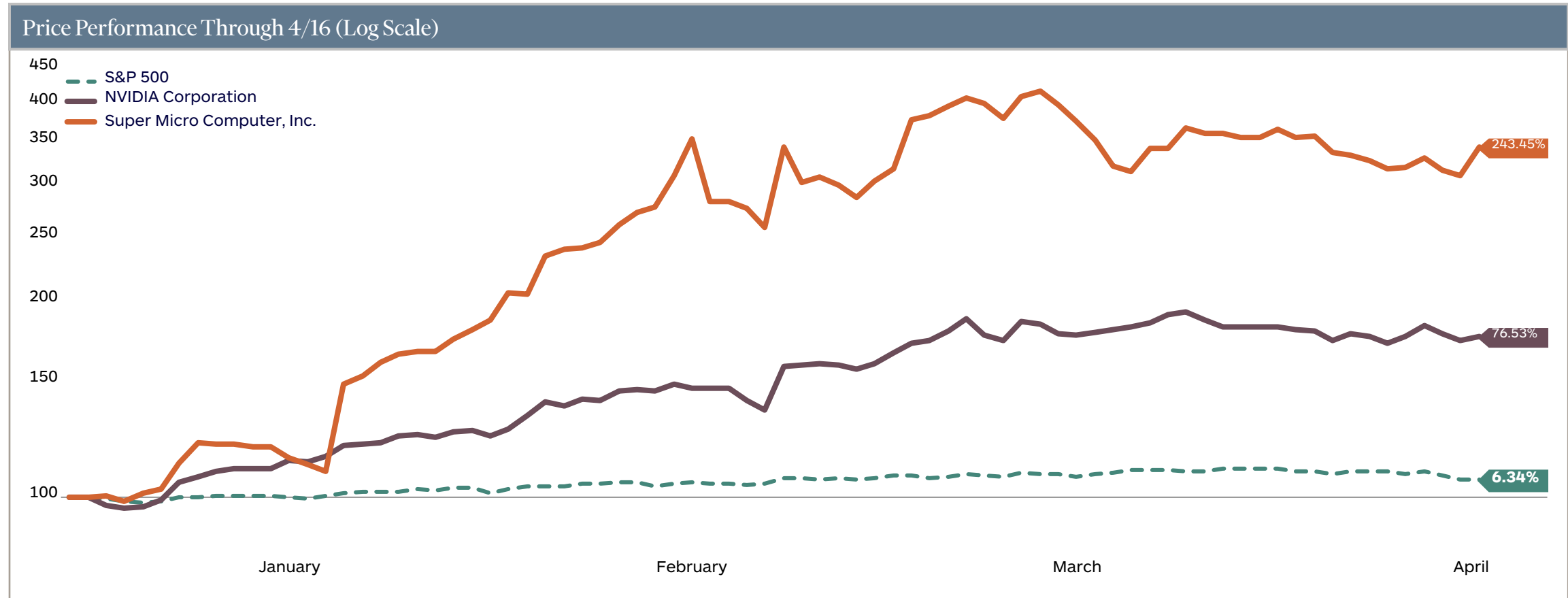
Expensive at the index level, but the stubborn lack of breadth means that many opportunities exist under the surface



Source: Factset, 3/31/2024

The A.I. Effect...Bubblicious?

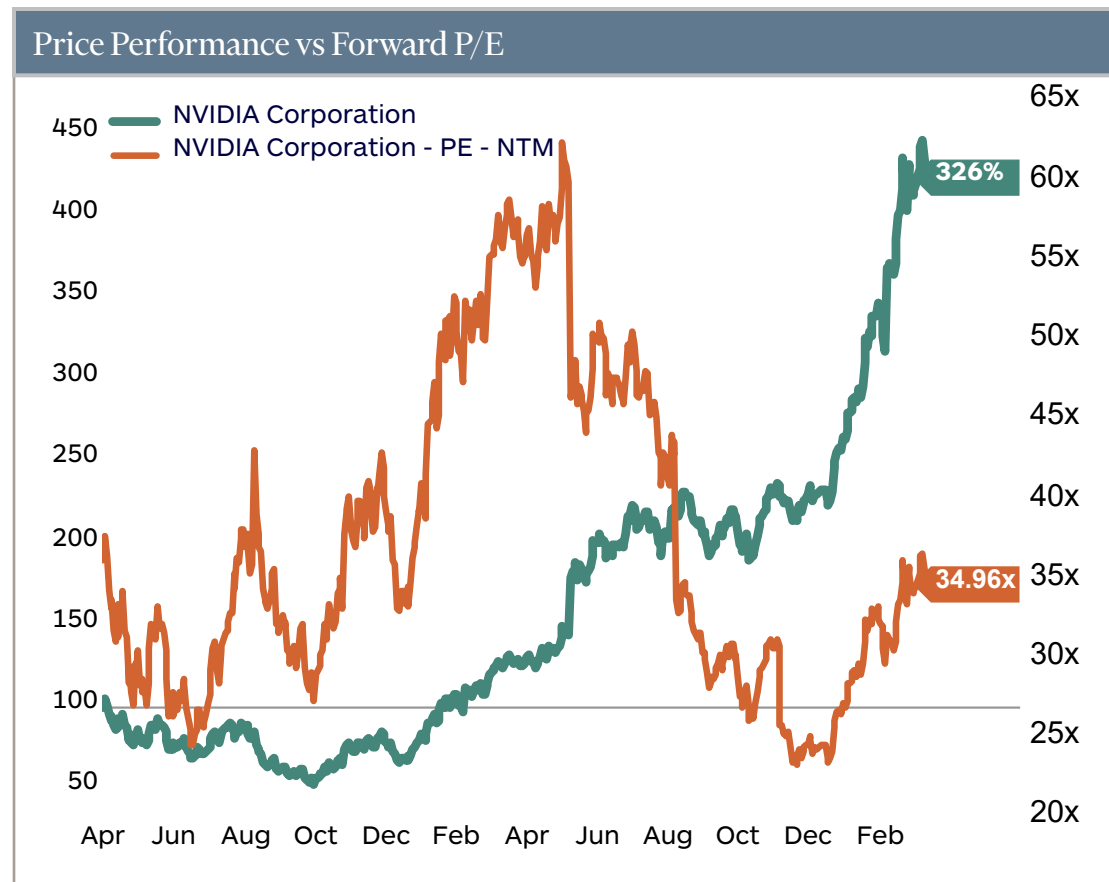
Most of the year's best performers fall into the A.I. bucket



Source: Factset, 4/16/2024

Nvidia: A Deeper Dive

So far, incredible stock performance has been backed up by earnings



Source: Factset, 4/16/2024



Source: Factset, 4/16/2024



THANK YOU

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