



# Mid-Year Economic & Market Outlook

Putting the “Soft” in “Soft Landing”

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7/18/2024

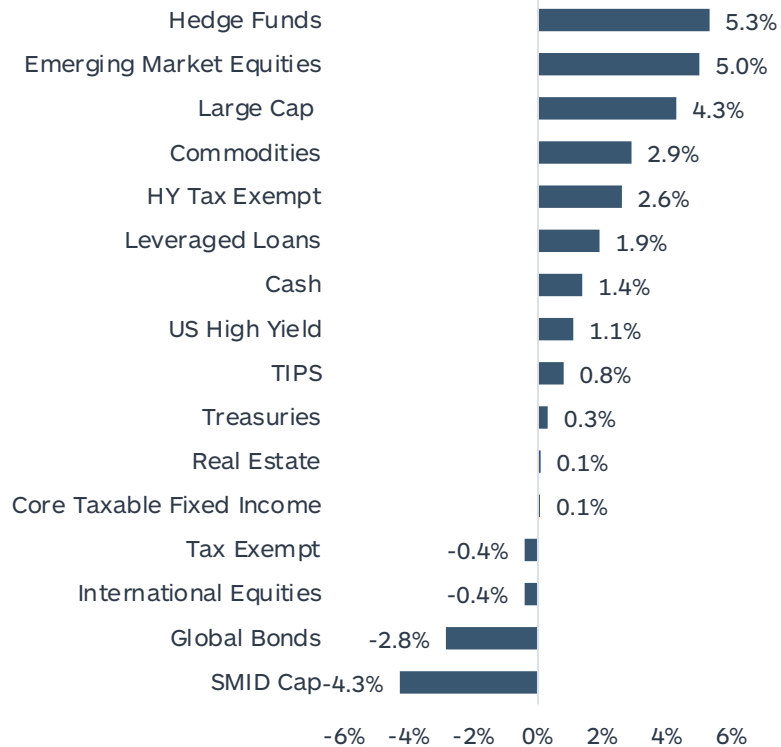
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# Q2 in Review

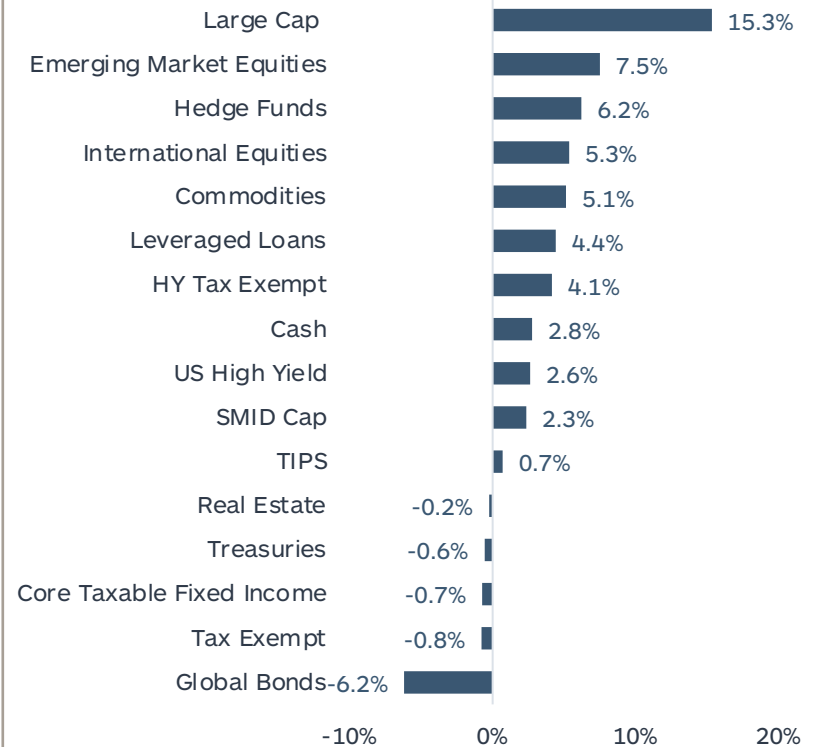
A solid quarter for most financial assets, despite softening economic data

## Total Return: Q2 2024



Source: Morningstar Direct, 6/30/2024

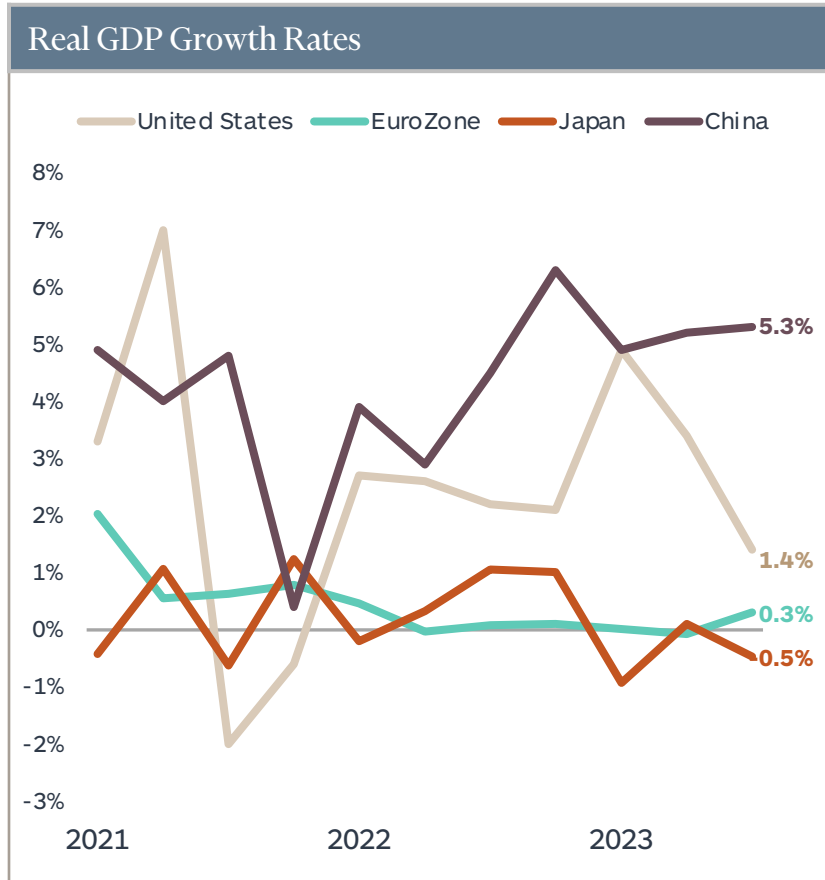
## Total Return: Year-to-Date



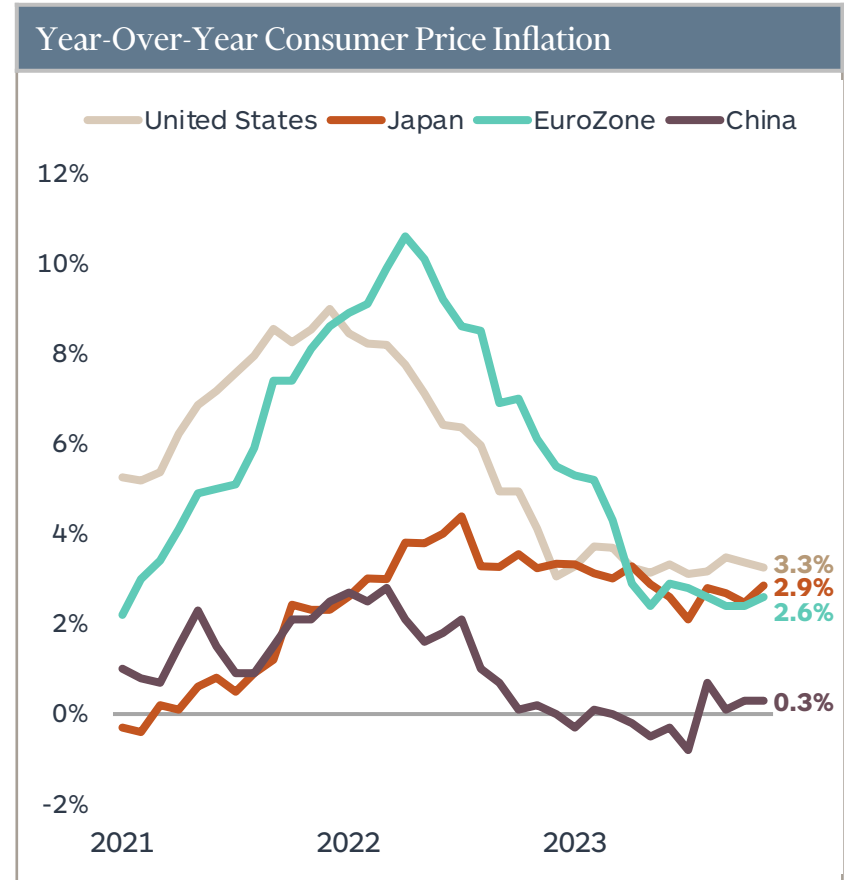
Source: Morningstar Direct, 6/30/2024

# Global Growth & Inflation

Different regions are at different places in their economic cycles



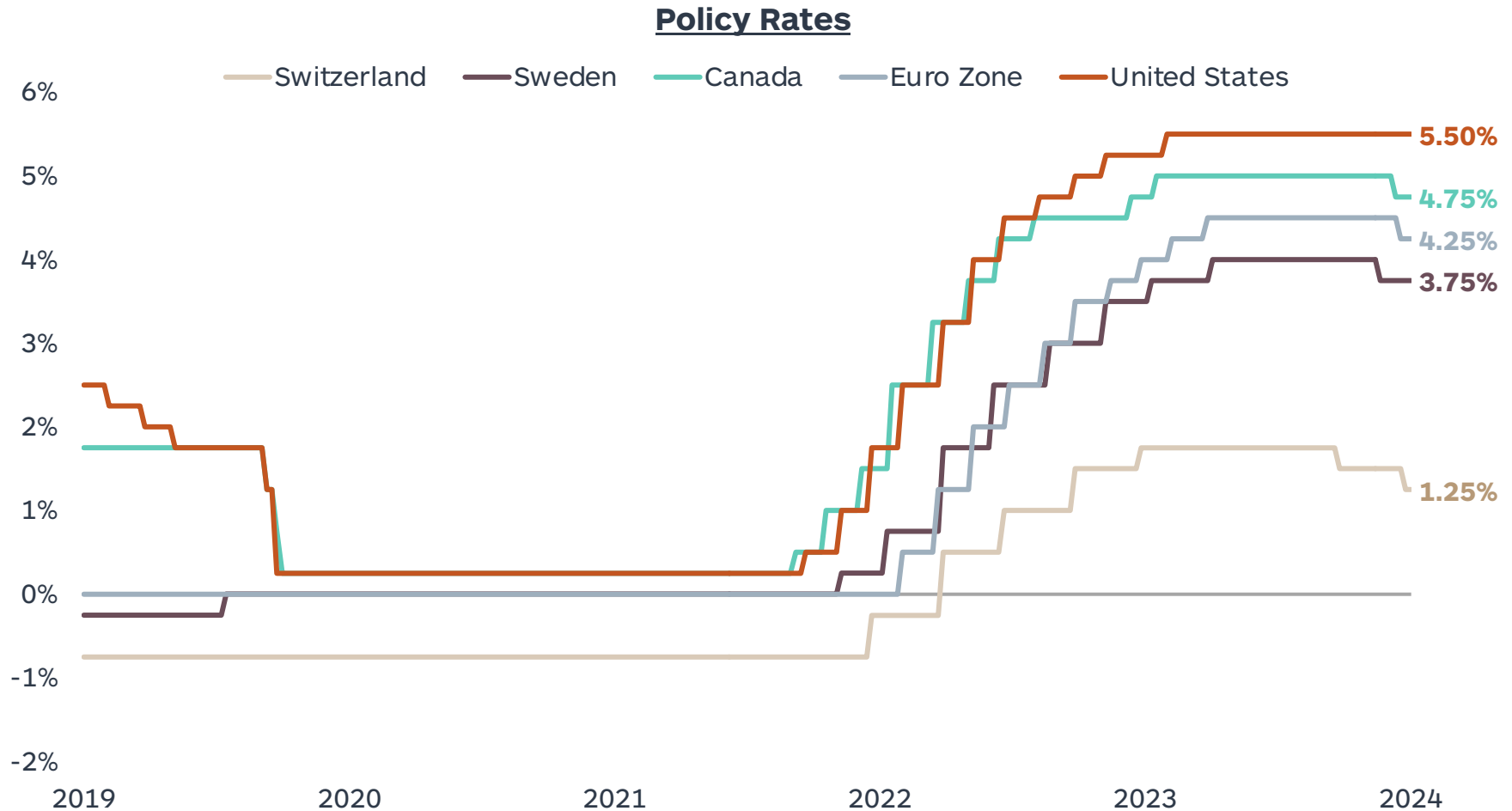
Source: FactSet, 6/30/2024



Source: FactSet, 6/30/2024

# Divergent Global Monetary Policy

Easing cycles are underway overseas, given lower growth and more progress on inflation

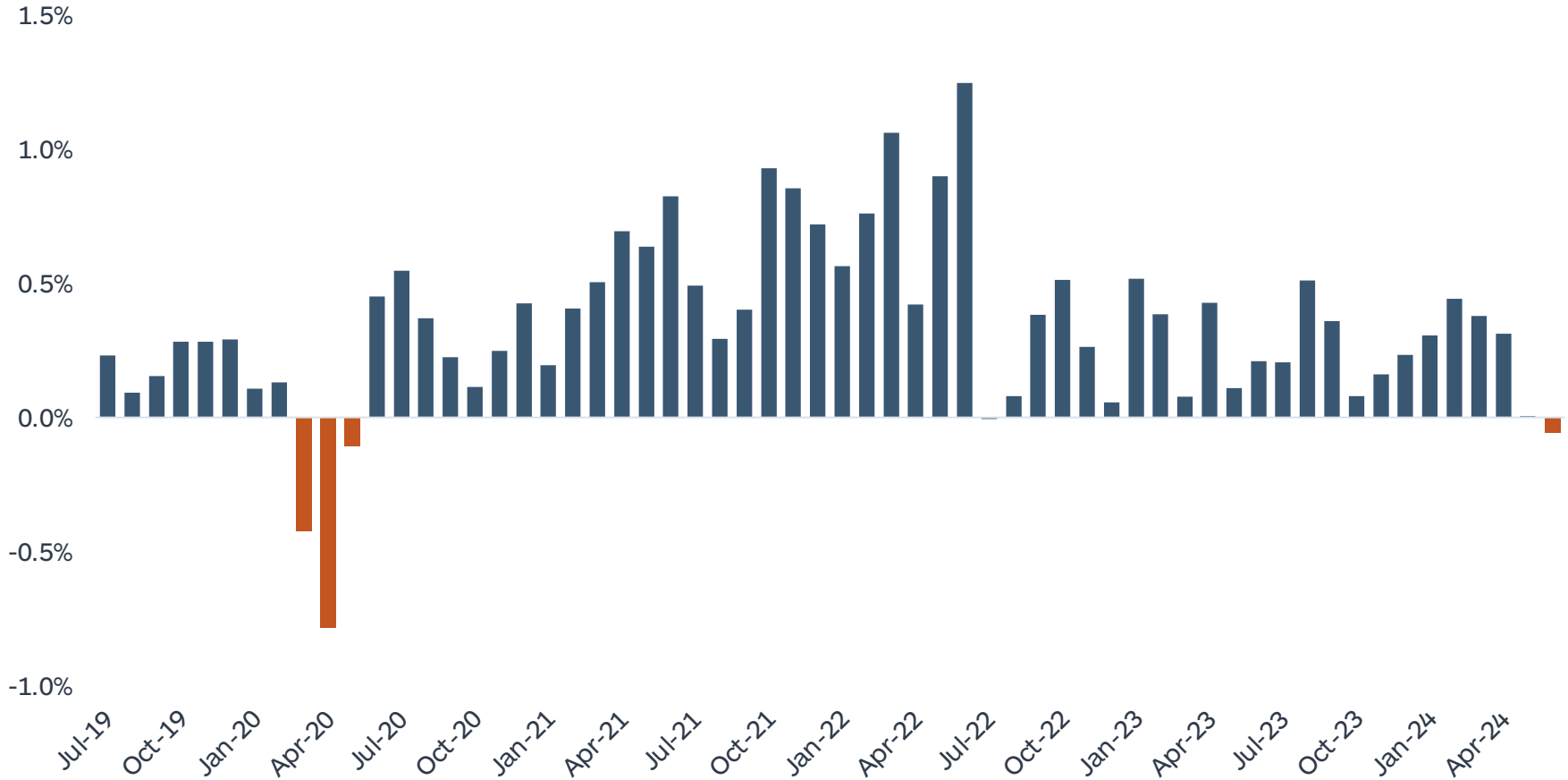


Source: FactSet, 6/30/2024

# Back on the Road to 2%

June's negative monthly CPI print was the first since the depths of the Covid crisis

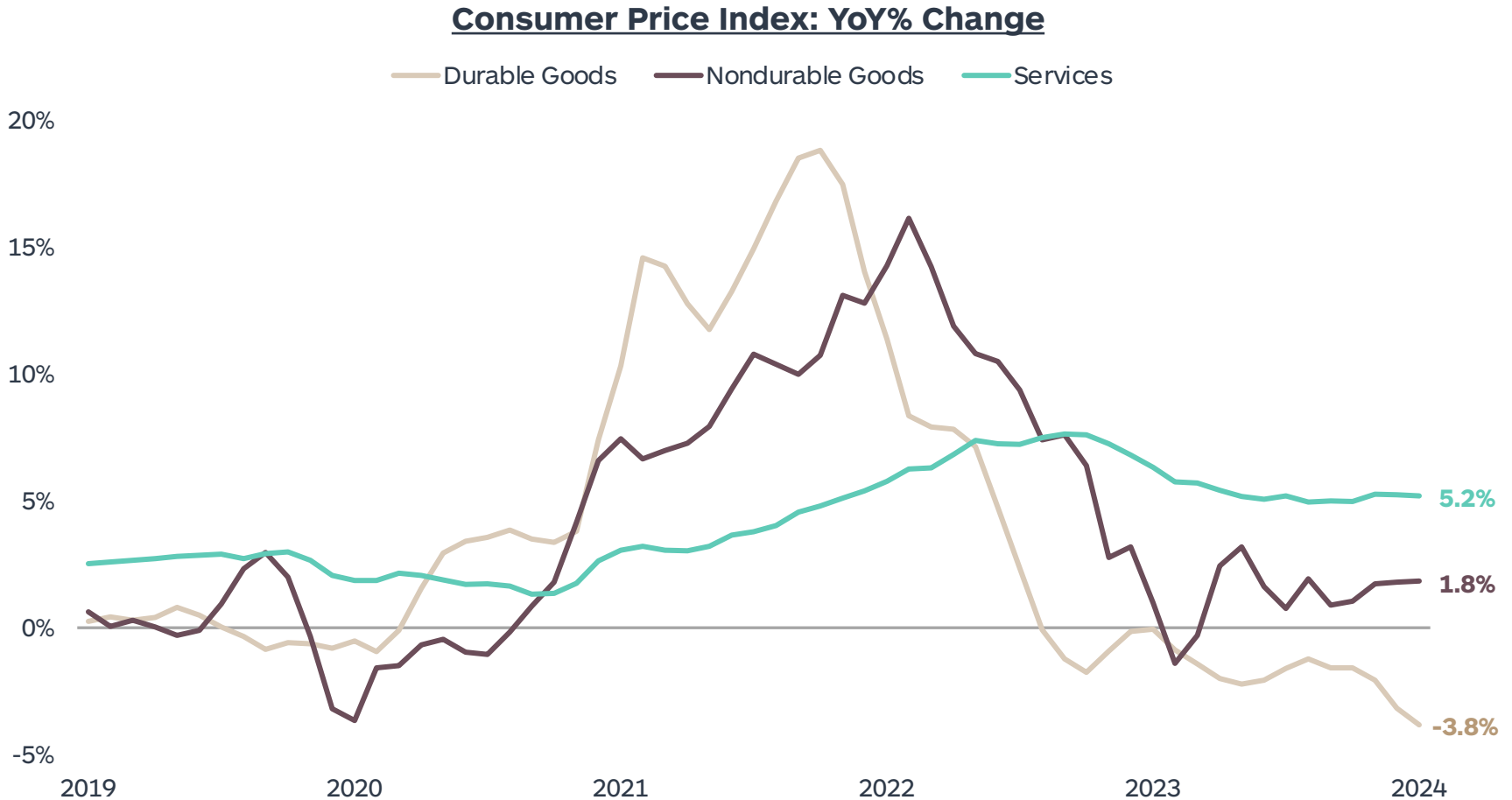
**Consumer Price Index, (Month-Over-Month %)**



Source: FactSet, 7/10/2024

# Breaking Down Inflation Components

Goods price inflation is back to pre-Covid trends, leaving behind stickier services inflation

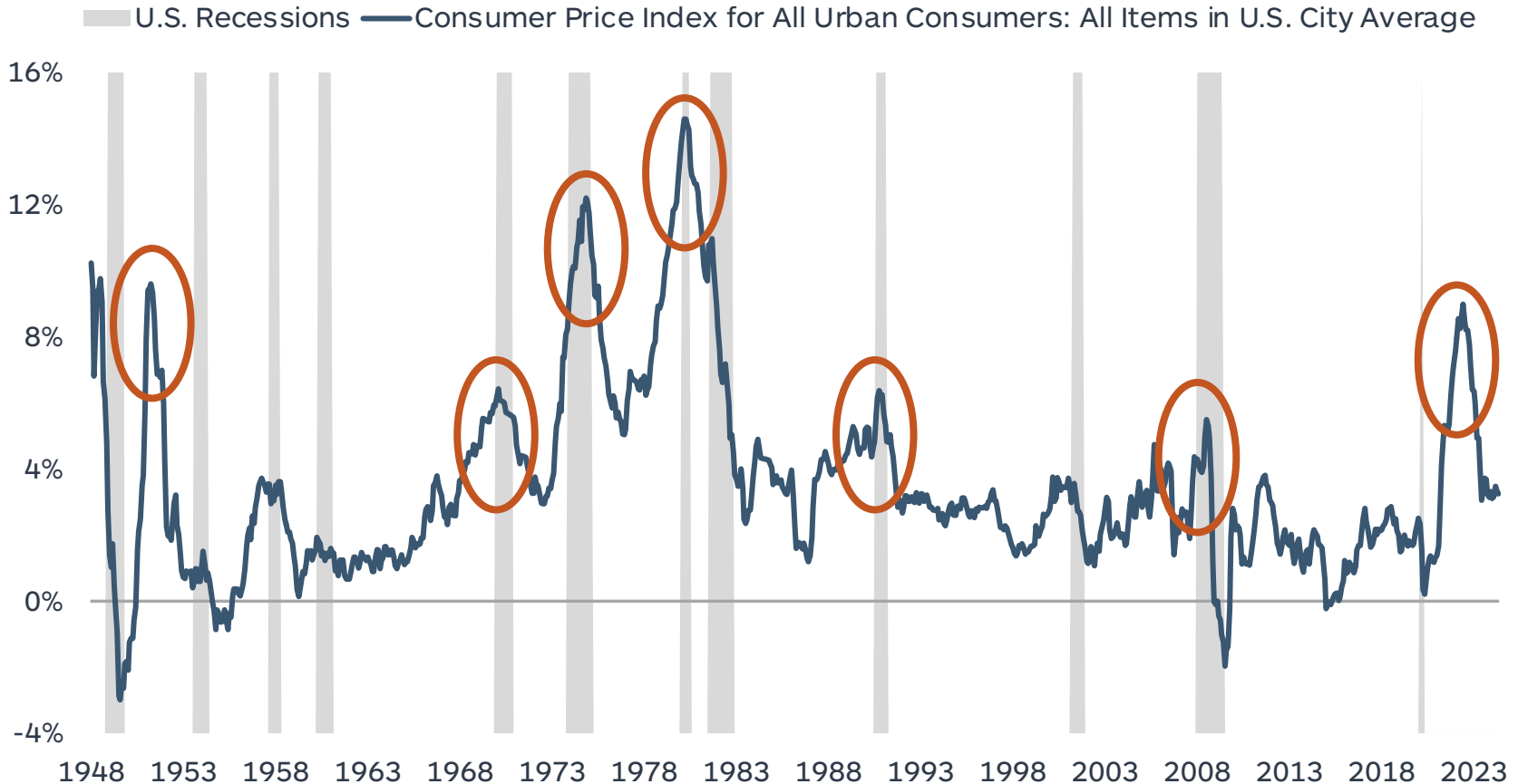


Source: FRED, 6/30/2024

# This Time is *Already* Different

The first time since 1951 that year-over-year inflation peaked above 5% without a recession

## Consumer Price Inflation

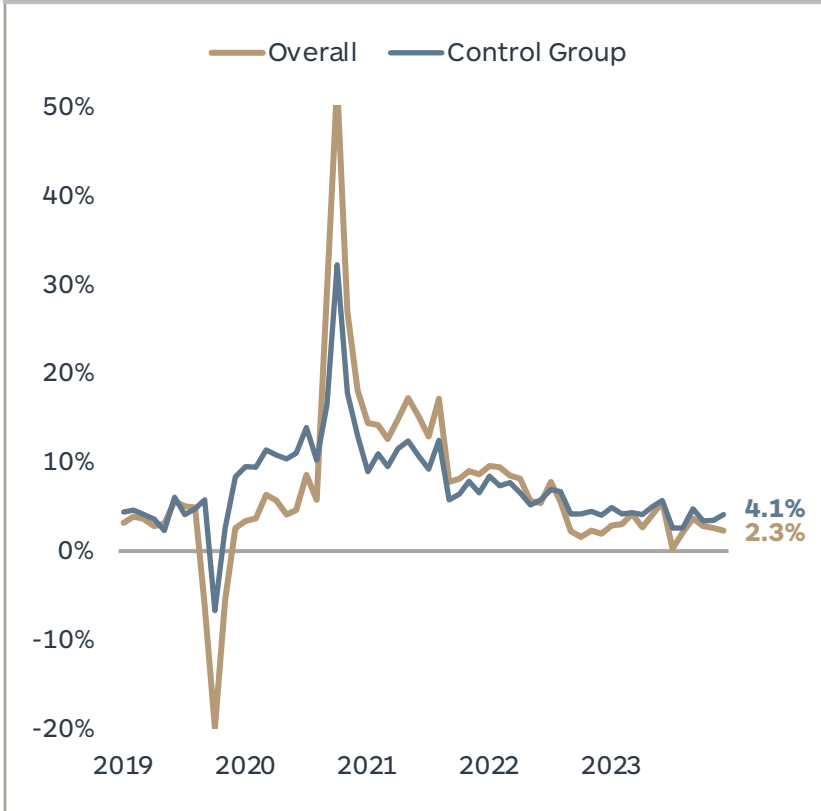


Source: FRED, 6/30/2024

# The Consumer Hangs On

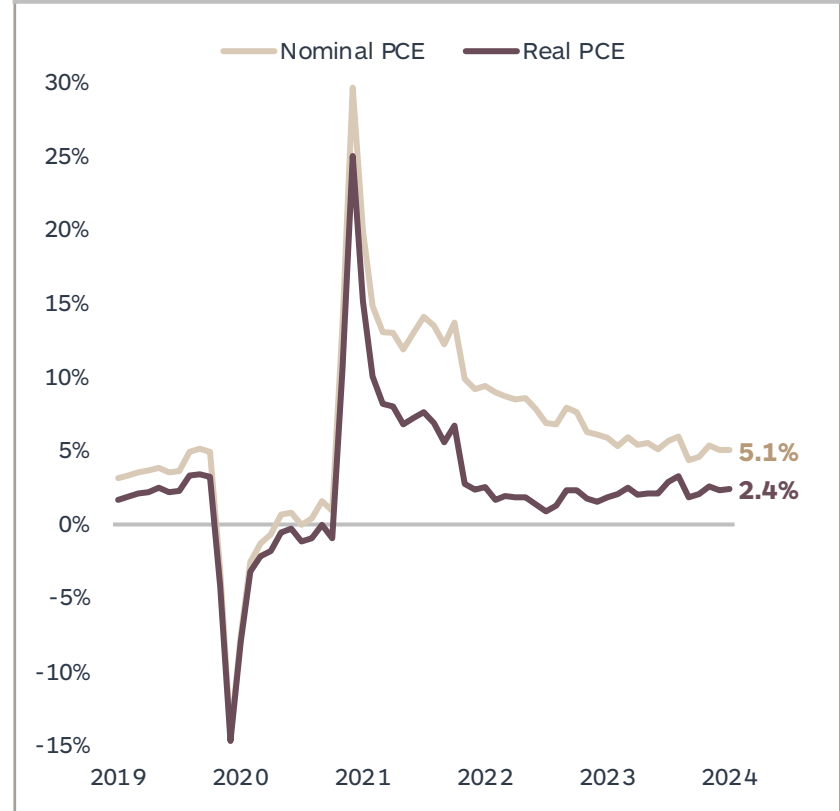
Consumers are generally absorbing higher price levels relatively well, even as lower-income cohorts struggle

### Retail and Food Services Sales (YoY%)



Source: FactSet, 7/17/2024

### Personal Consumption Expenditures (YoY%)

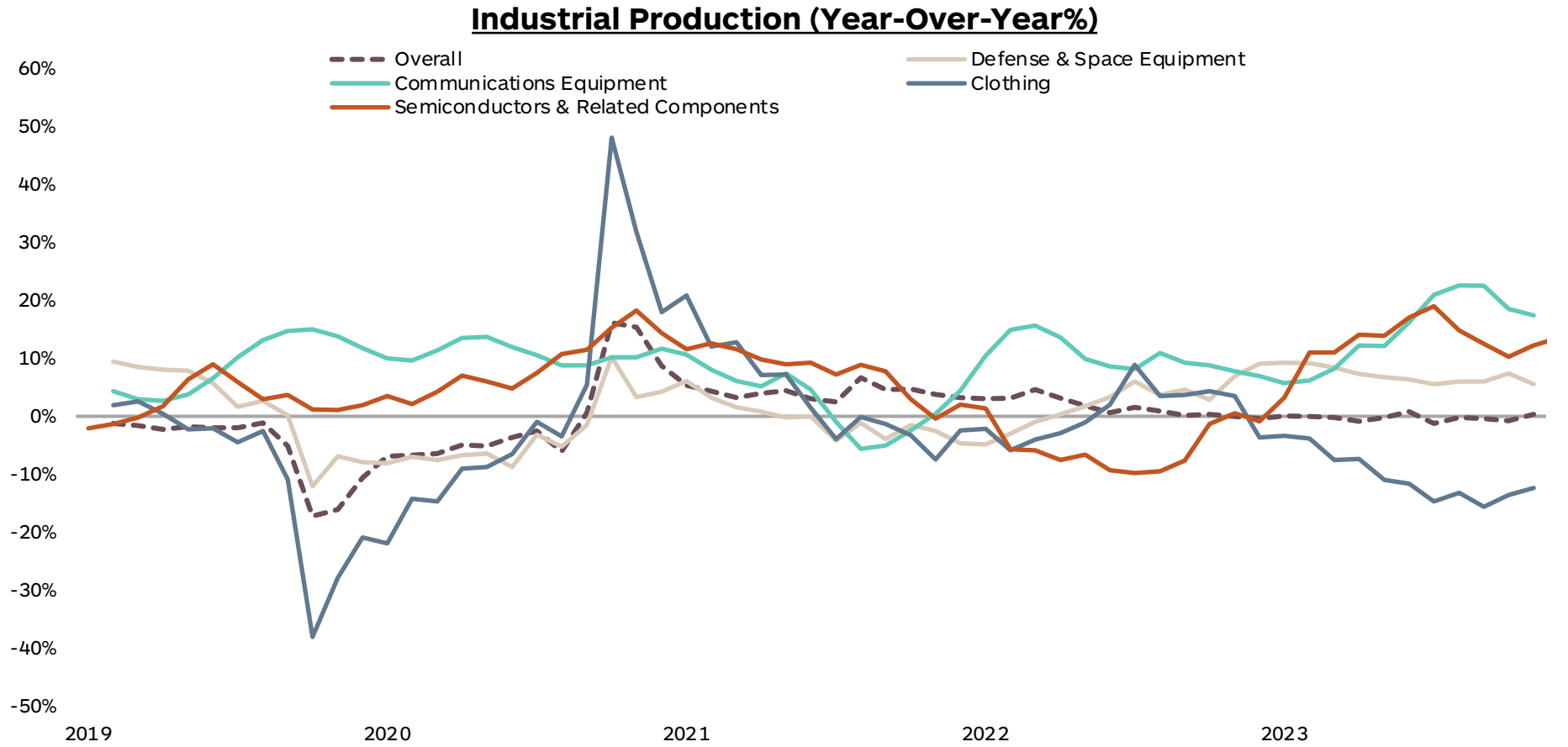


Source: FRED, 7/5/2024



# Industrial Production

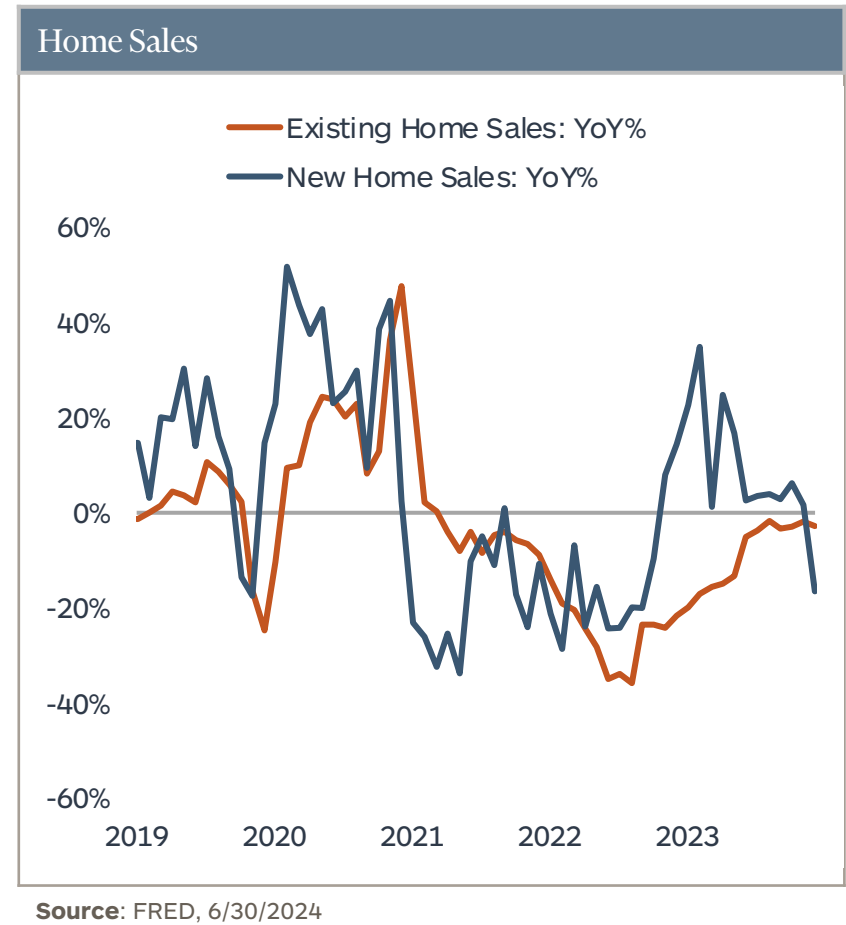
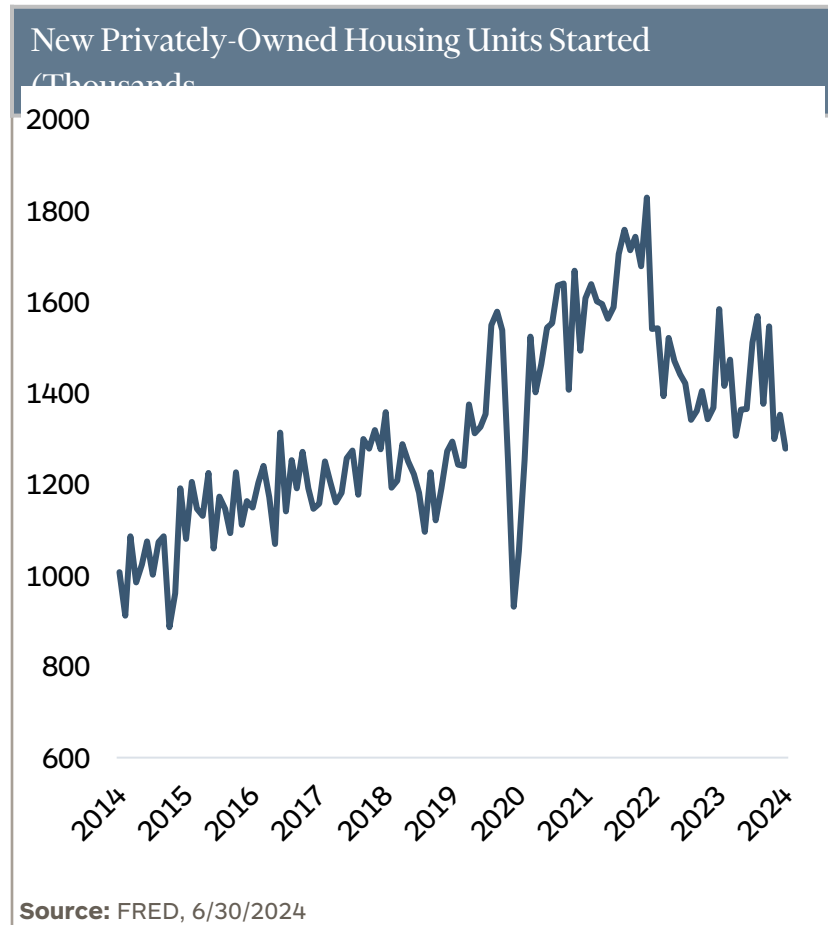
Under the surface, higher-tech industries are humming along



Source: FactSet, 6/30/2024

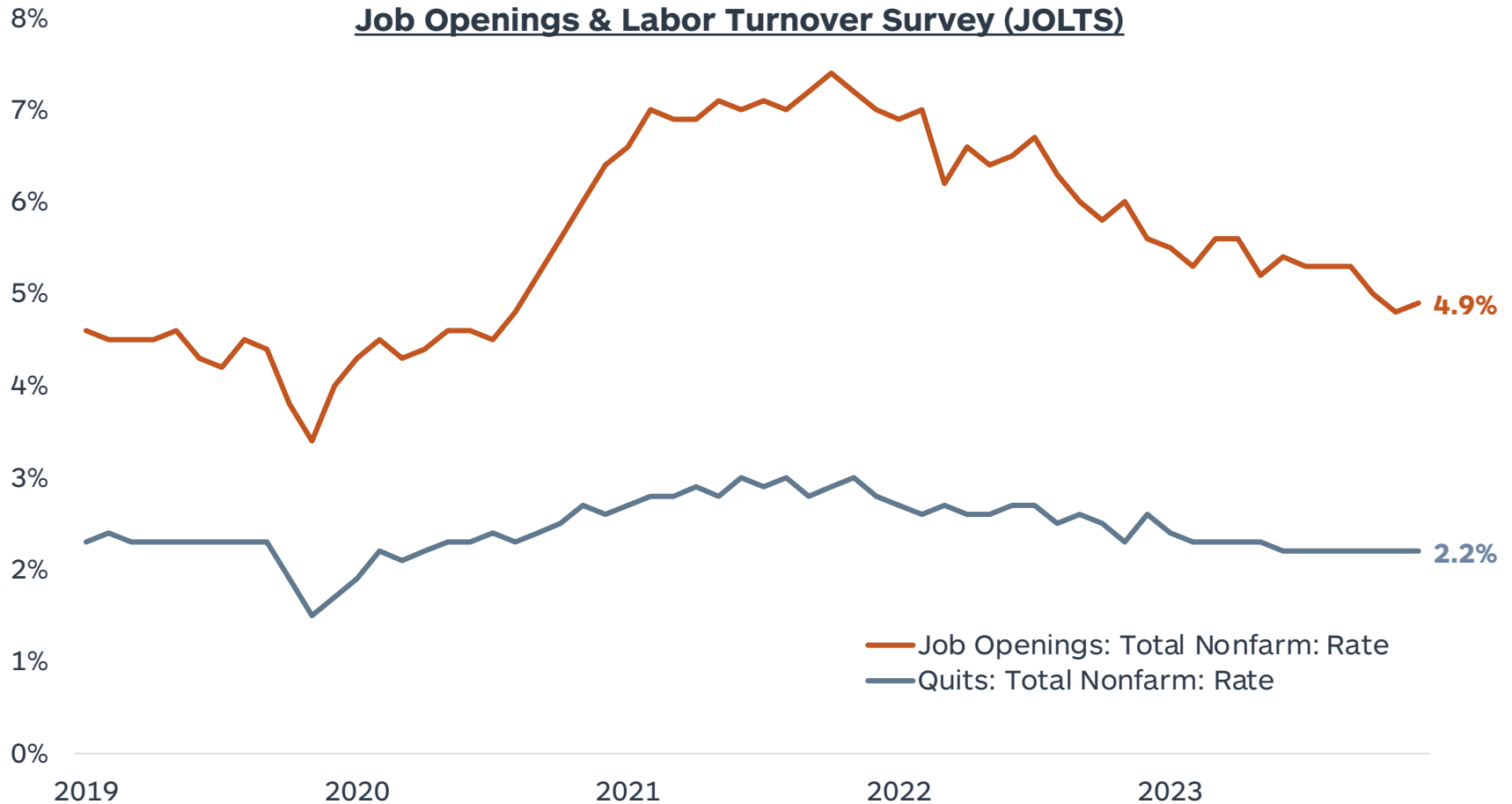
# Housing Markets Still Seeking Equilibrium

Activity has been volatile amid low affordability



# Supply and Demand in Labor Markets

Companies have been responding to tighter financial conditions by hiring less, rather than firing more

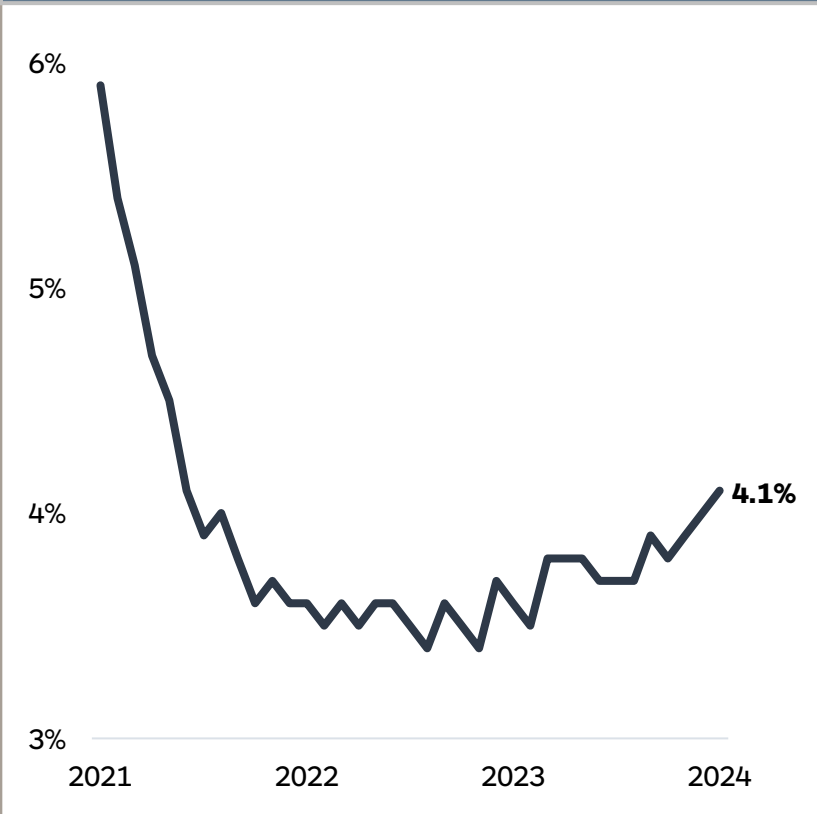


Source: FRED, 7/2/2024

# Mild Cracks in the Employment Picture

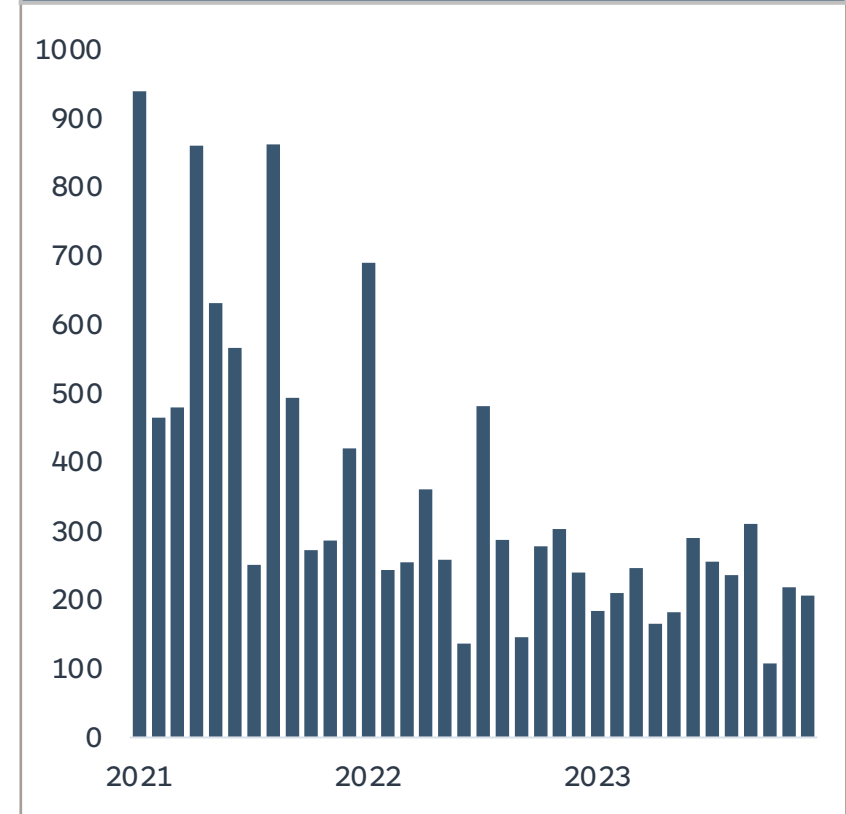
The unemployment rate is slowly creeping up, but job creation remains healthy

### Unemployment Rate



Source: FRED, 7/5/2024

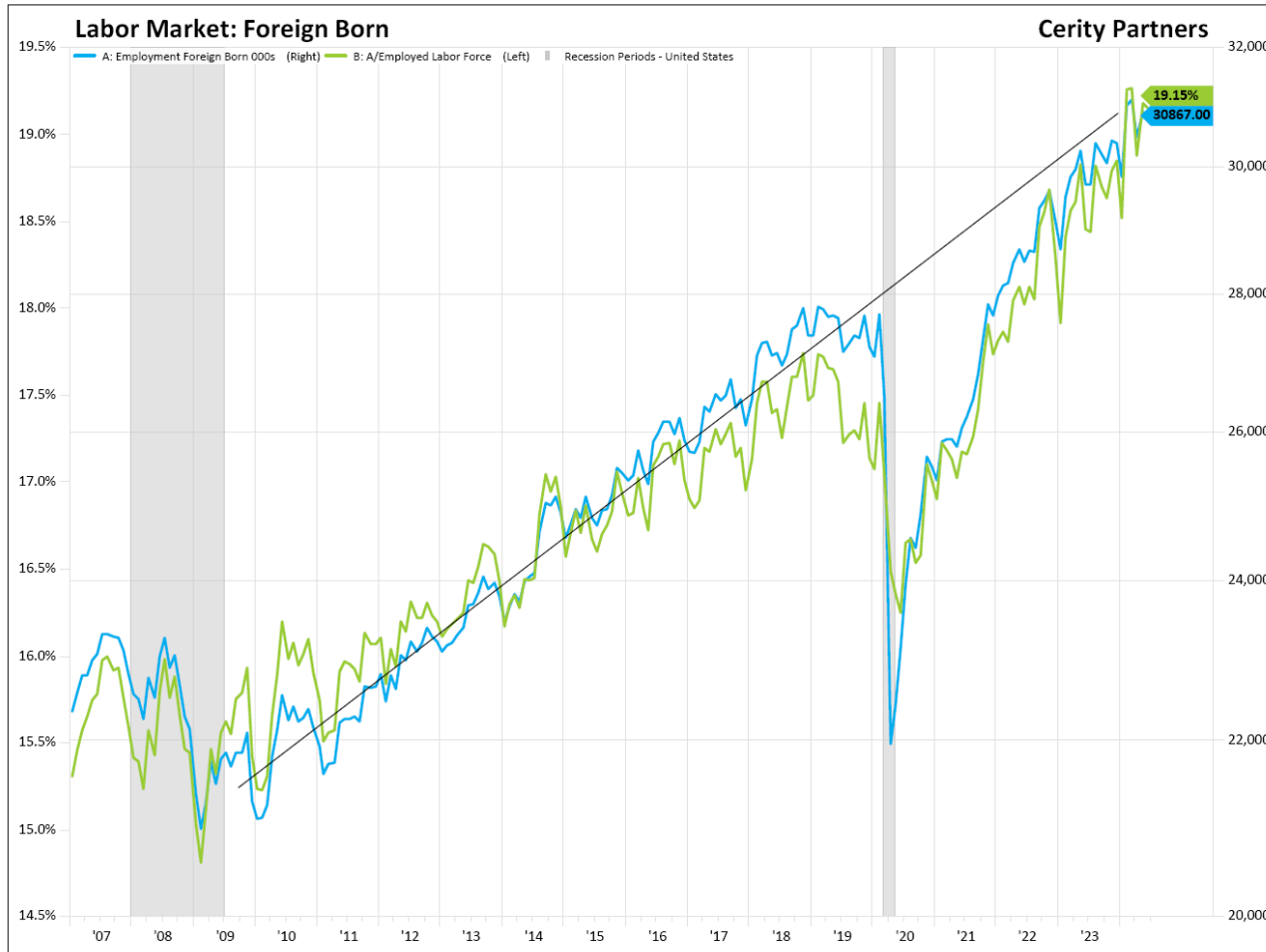
### Net New Employees: Total Nonfarm (Thousands)



Source: FRED, 7/5/2024

# The Immigration Effect

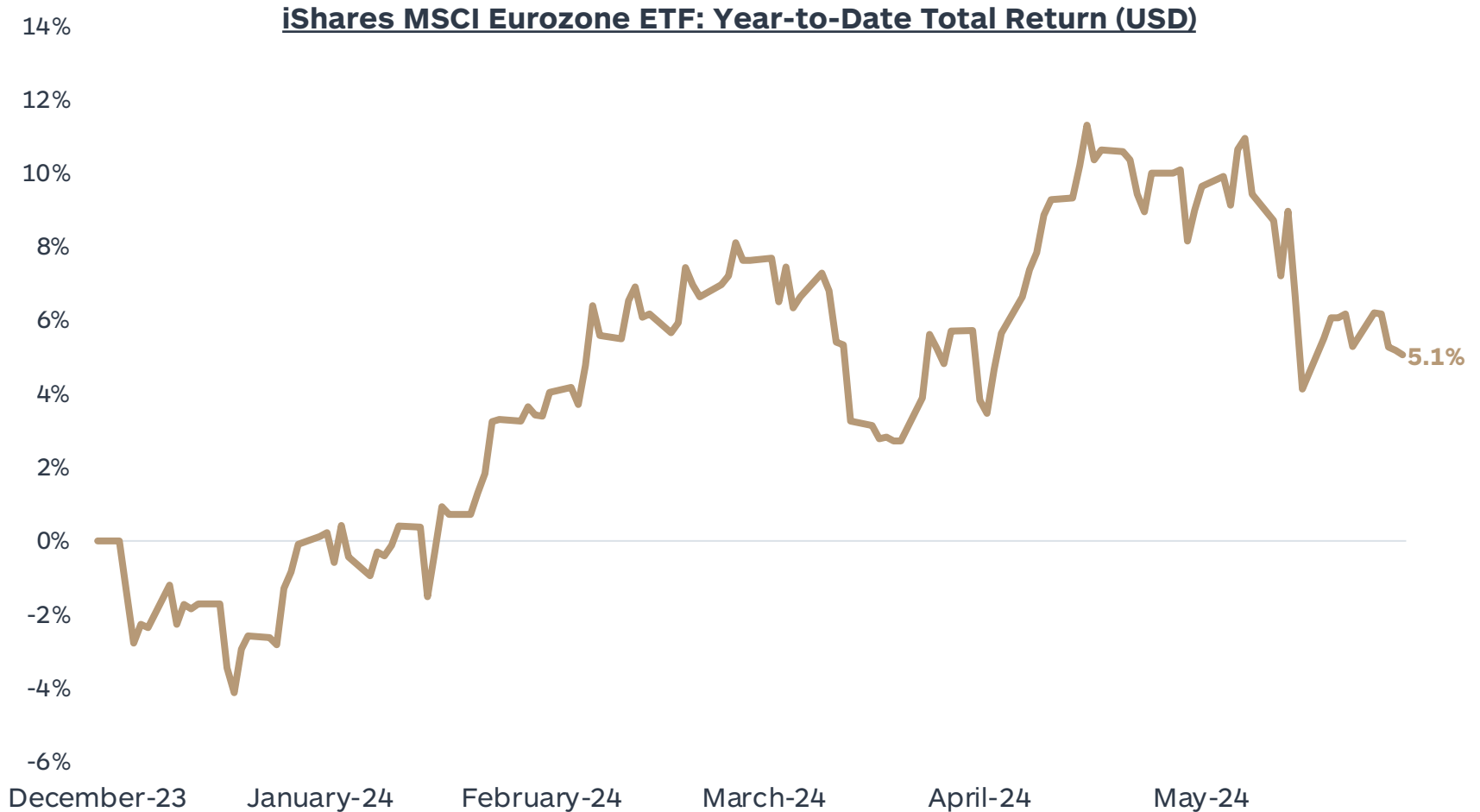
An increasing pool of job-seekers can help alleviate wage pressures



Source: FactSet, 7/10/2024

# Choppy Waters Overseas

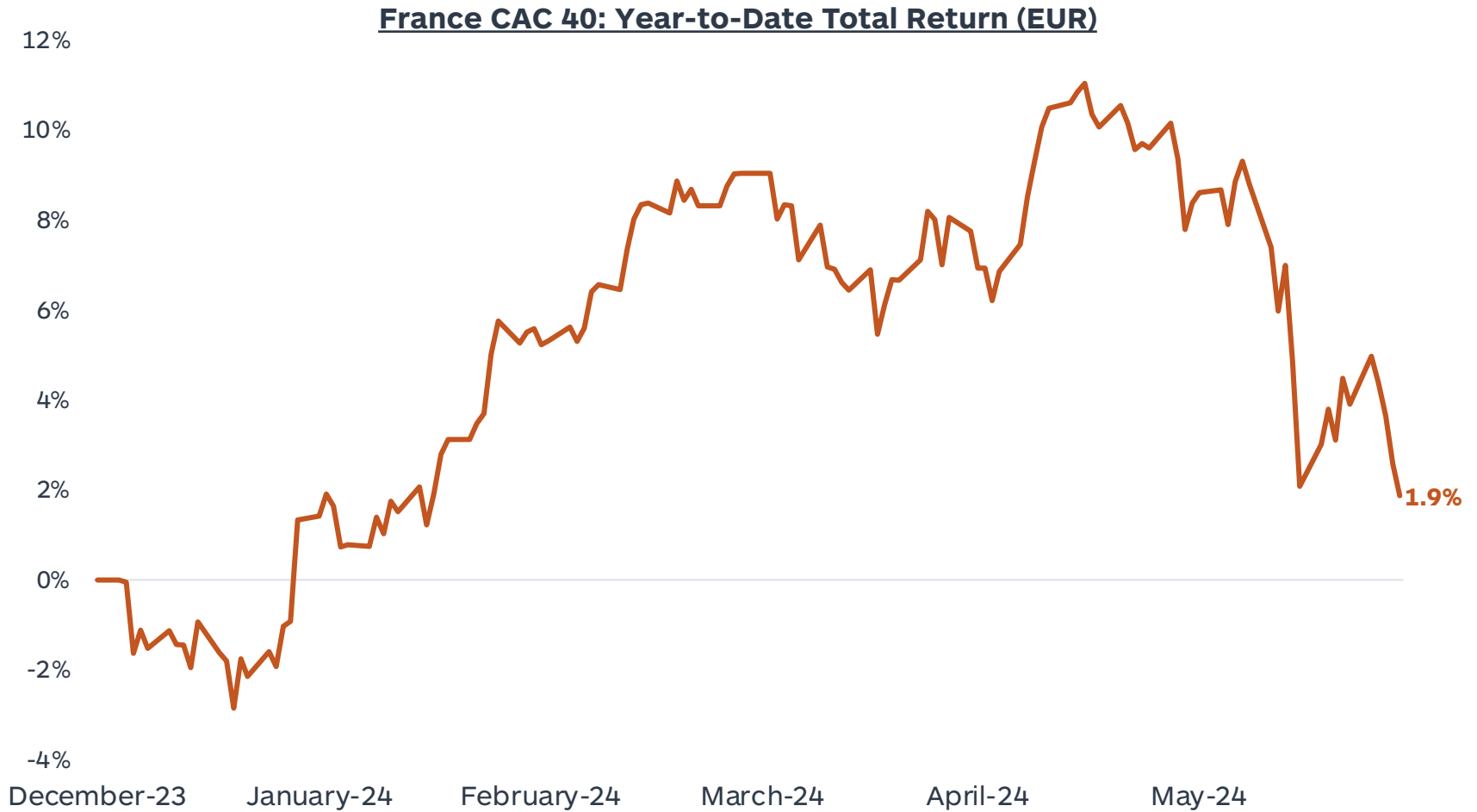
Weaker growth and geopolitical questions, but a head start on policy easing



Source: FactSet, 6/30/2024

# Election Drama for the Olympic Host

France is dealing with its own slate of political and fiscal issues.



Source: FactSet, 6/30/2024

# The Bank of England Moves Closer to Easing

Weaker inflation is feeding hopes that the BOE will join its neighbors in cutting rates

## FTSE UK: Year-to-Date Total Return (GBP)

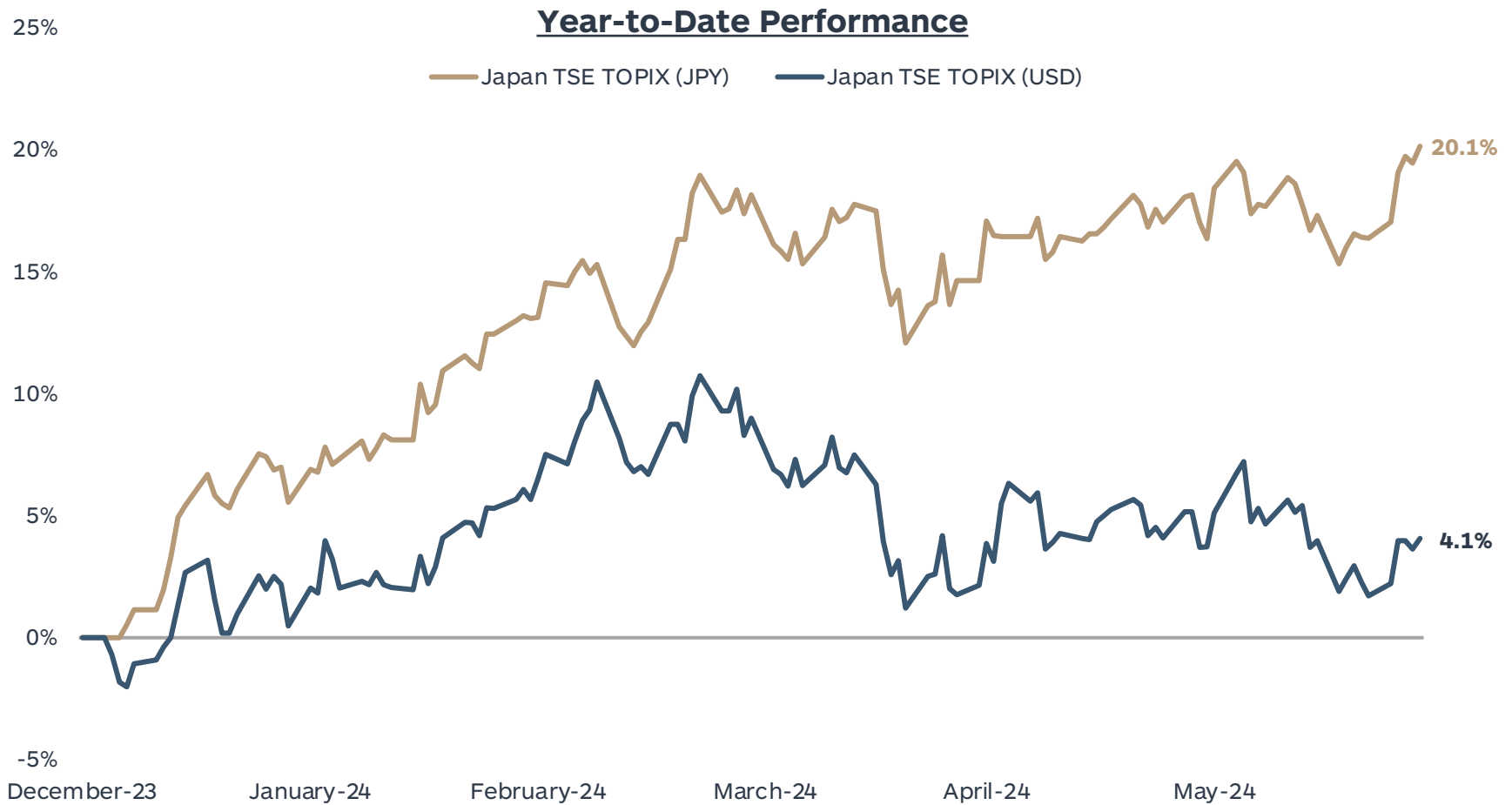


Source: FactSet, 6/30/2024



# Historic Weakness for the Yen

The BOJ's loose monetary policy has come at a cost to its currency

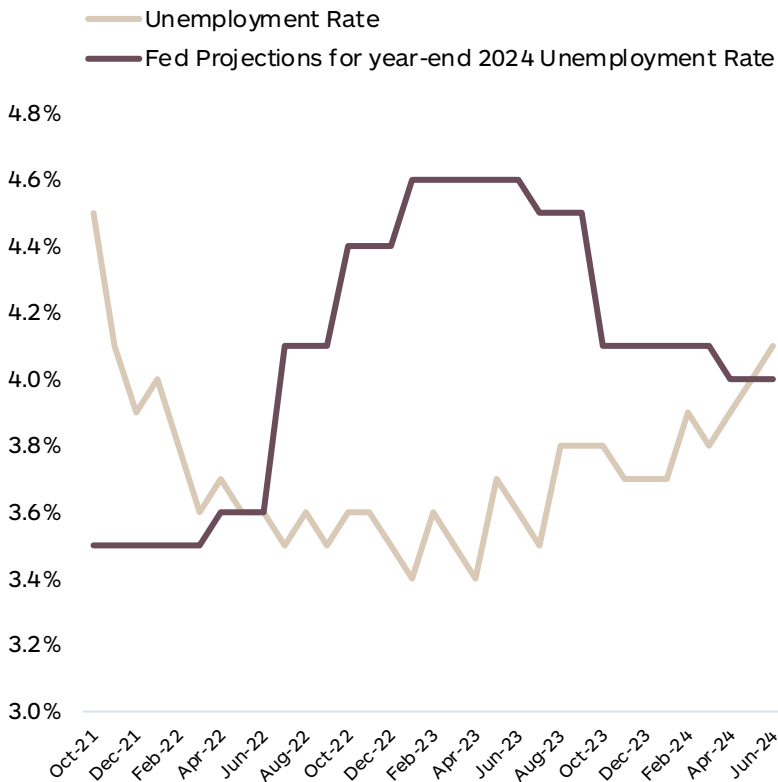


Source: FactSet, 6/30/2024

# The Dual Mandate

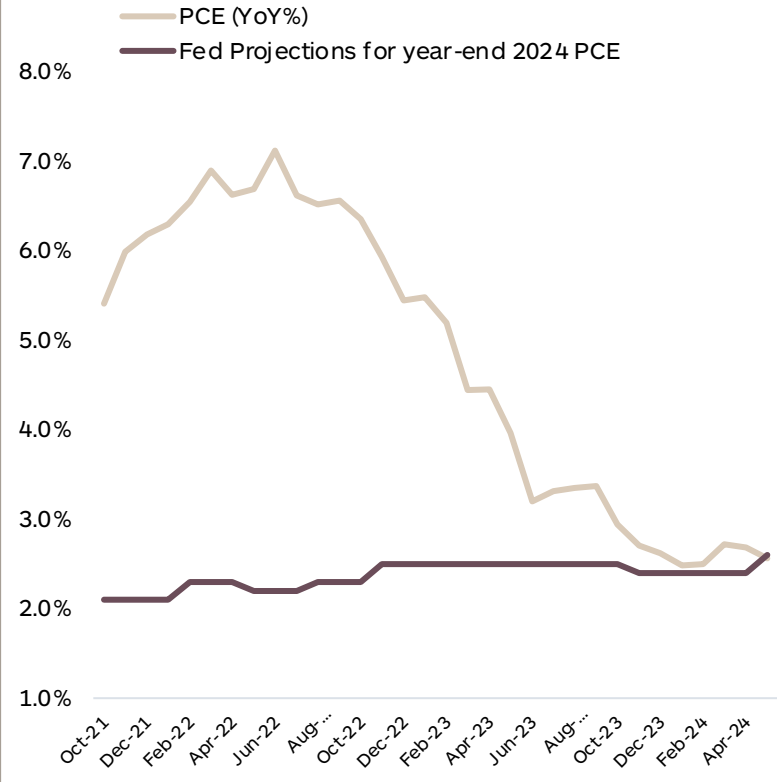
Balanced risks on both sides of the mandate raise the stakes

## Maximum Employment



Source: FOMC Summaries of Economic Projections, FRED, 6/30/2024

## Stable Prices

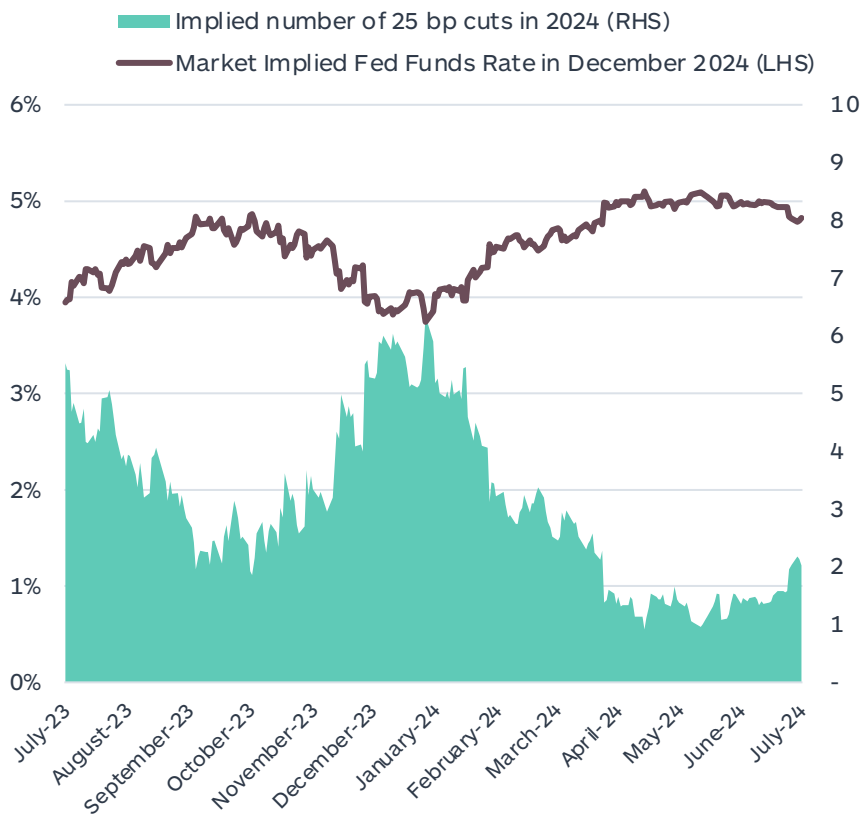


Source: FOMC Summaries of Economic Projections, FRED, 6/30/2024

# Awaiting the Cutting Cycle

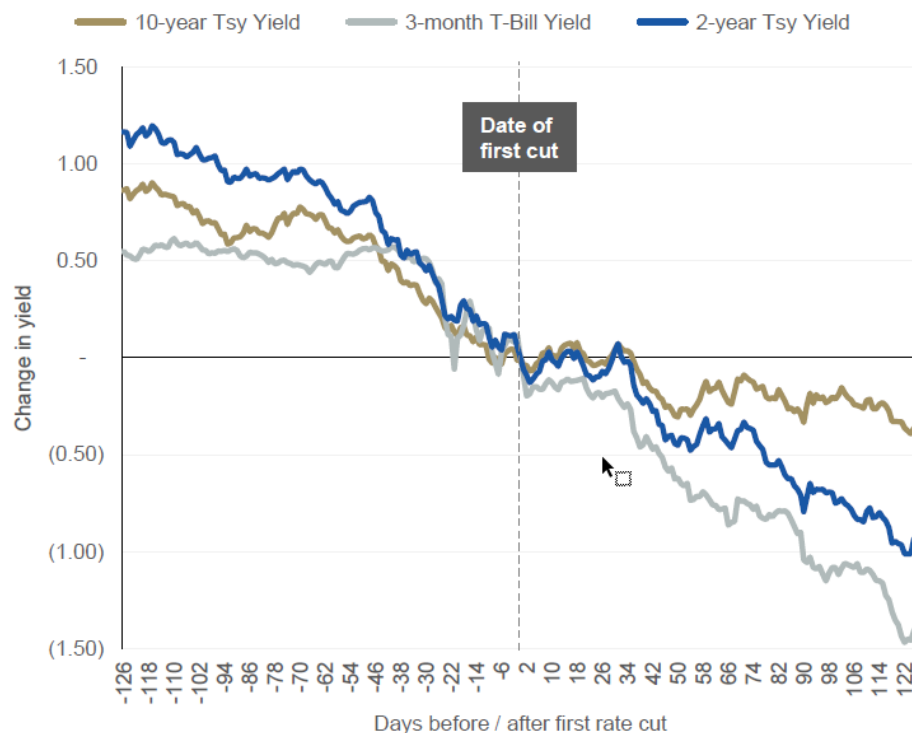
Softer economic and inflation data is driving consensus to September for the first rate cut

## Fed Funds Futures Pricing



Source: FactSet, 7/16/2024

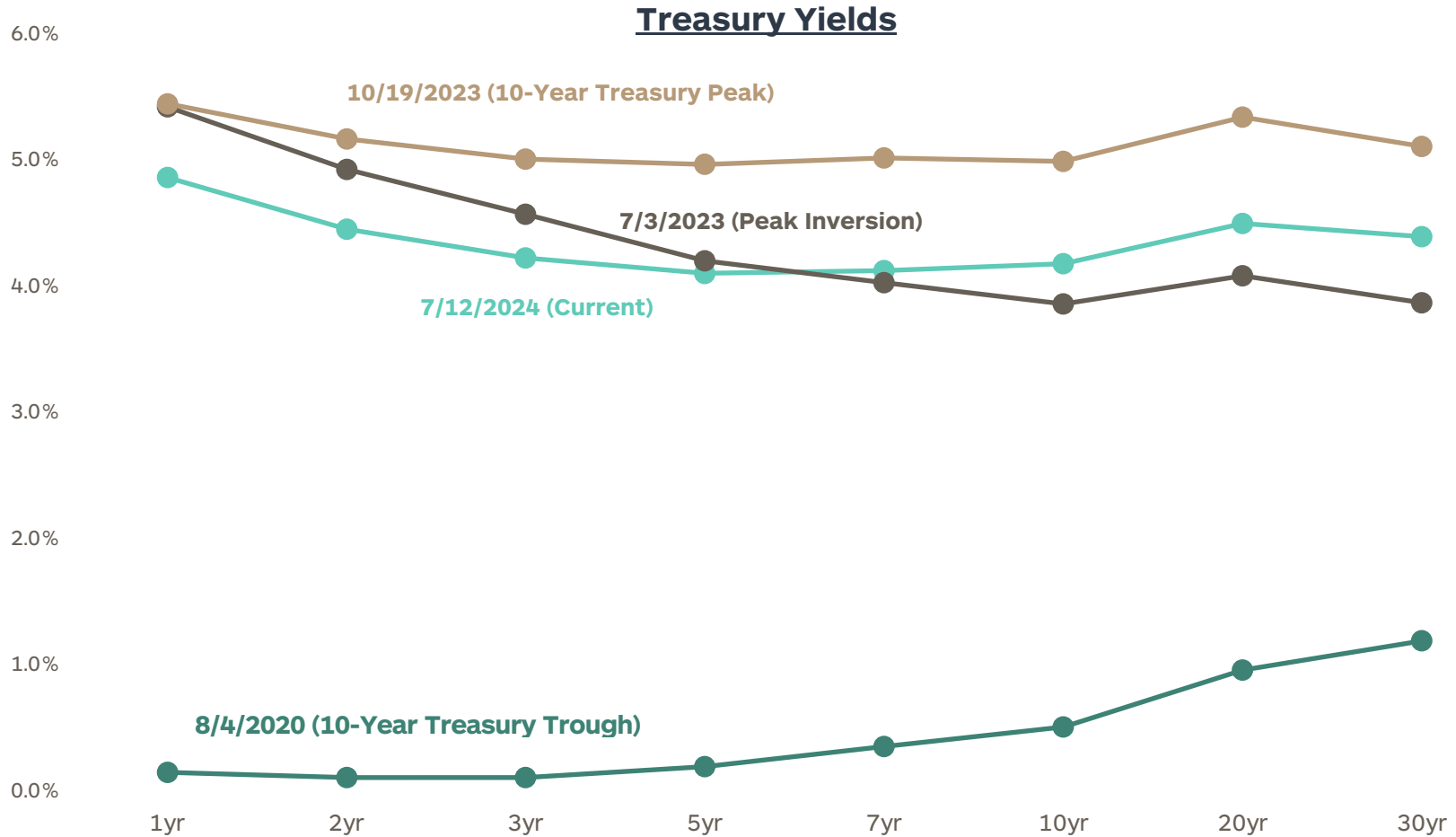
## Change in Treasury Yields 6 Months Before/After First Rate Cut



Source: Lord Abbett, Bloomberg, 7/8/2024

# The Inversion Lives On

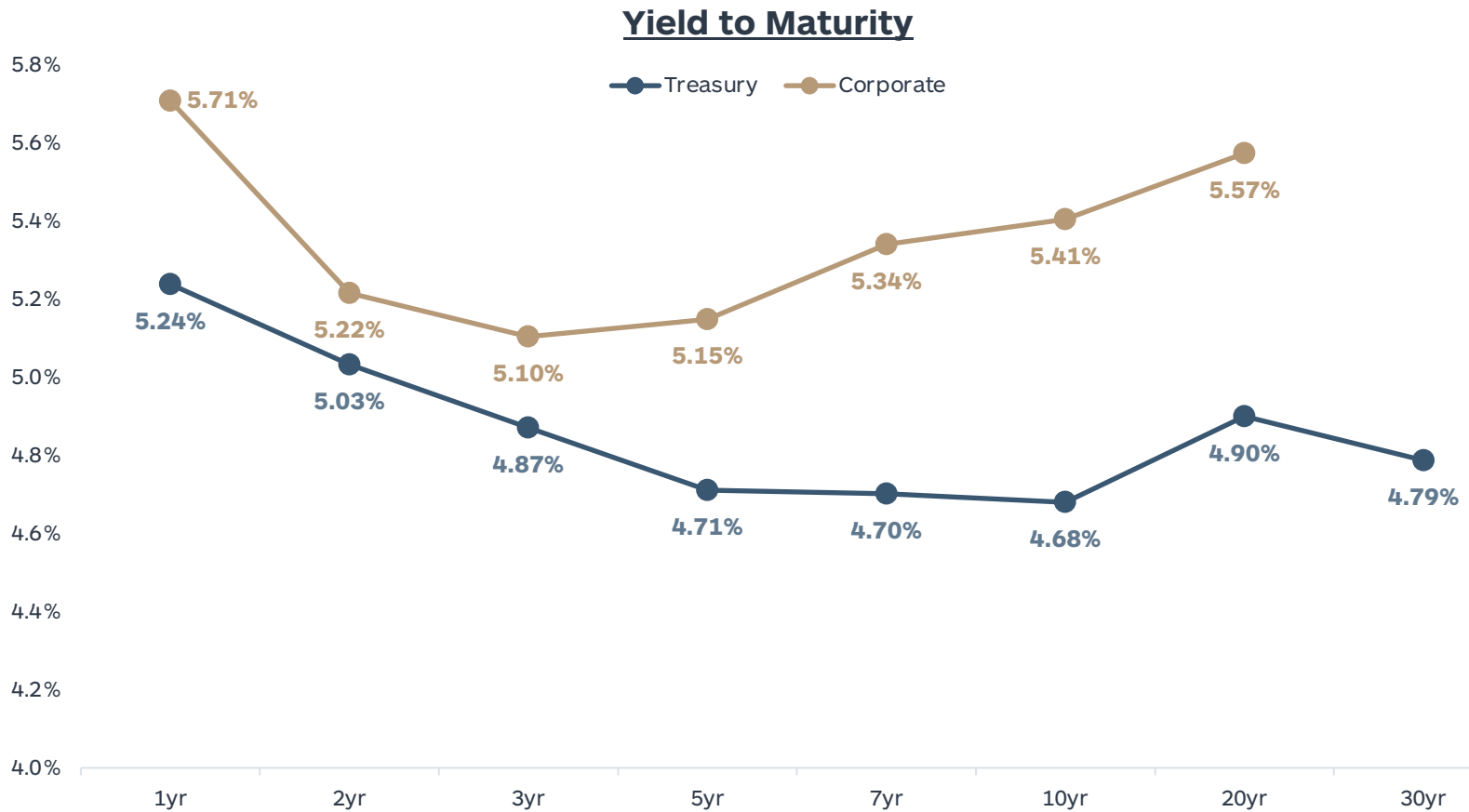
Longer-term rates are juggling supply and demand, while short rates reflect slow and steady policy easing



Source: FRED, 6/30/2024

# Attractive Yields for Corporate Credit

Corporate bonds offer value further out on the curve



Source: FactSet, 6/30/2024. Corporate yield curves incorporate the following ICE BofA US Corporate Bond indices: 0-1Y, 1-3Y, 3-5Y, 5-7Y, 7-10Y, 10-15Y, 15Y+

# No Alarm Bells in Corporate Credit

Despite slowing growth and refinancing concerns, credit spreads remain historically tight

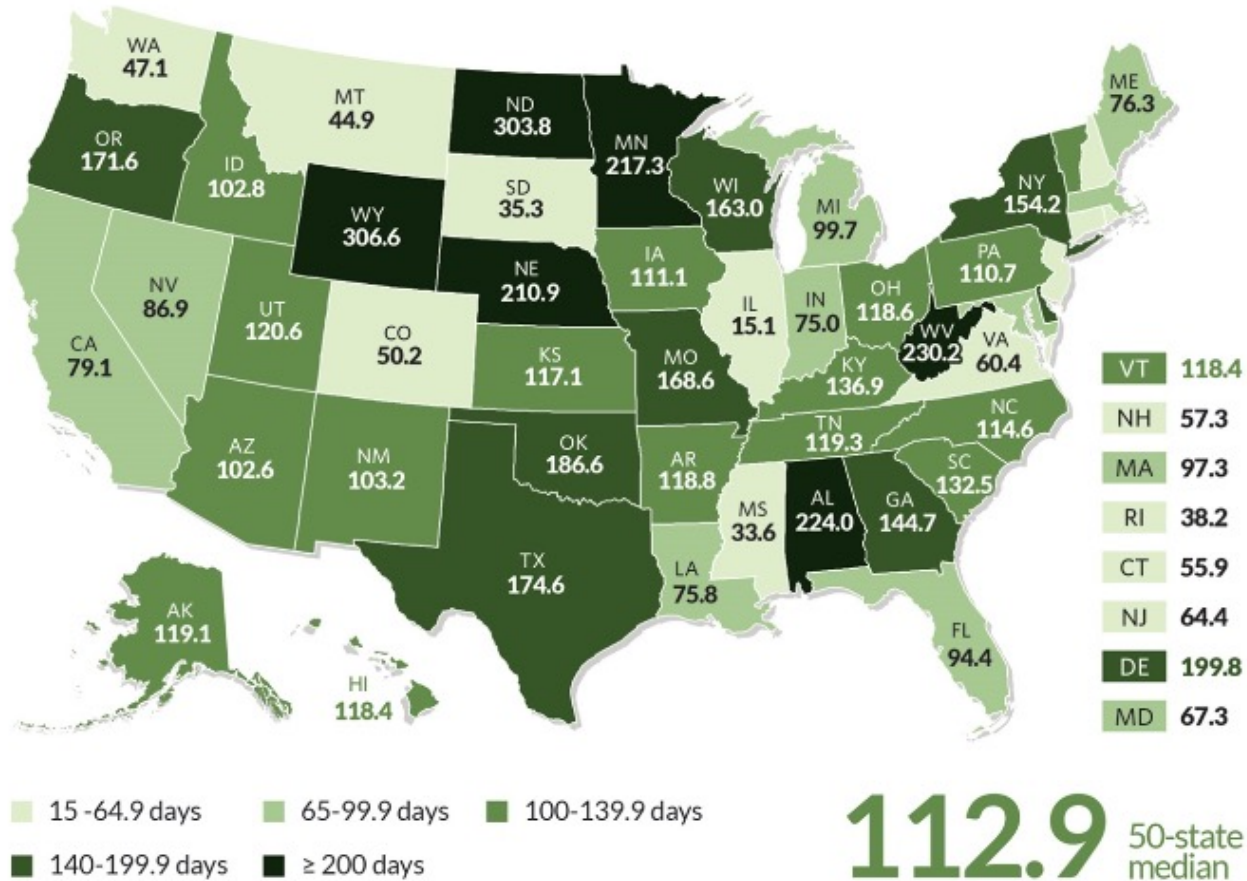


Source: ICE BofA US High Yield, ICE BofA US Corporate. Factset, 6/30/2024

# Municipal Markets Still in Good Shape

Most states still have sizable rainy day fund, though some states are tapping into them as deficits widen

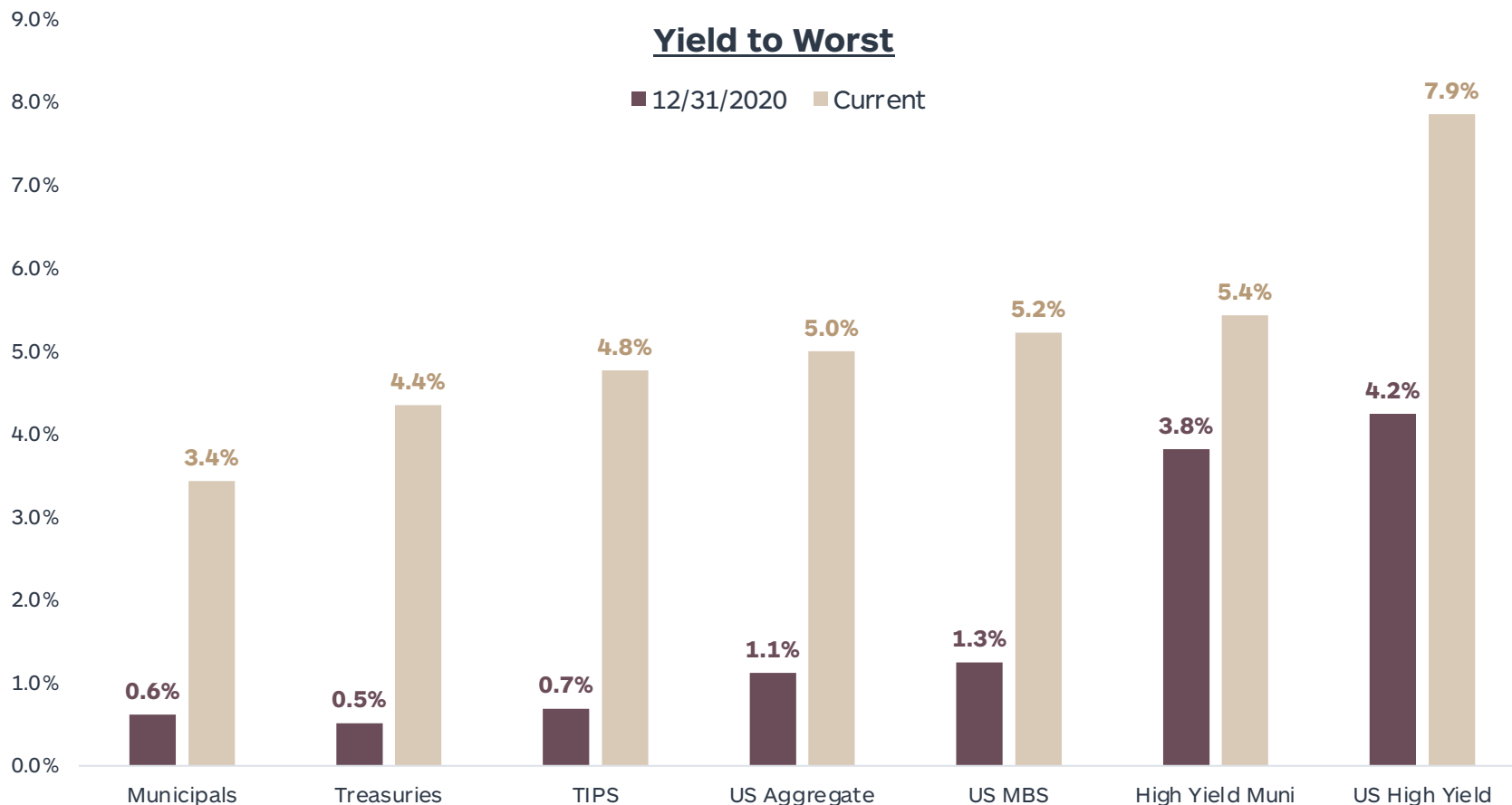
## Number of Days Each State Could Run on Total Balances, FY 2023 Estimated



Source: Pew analysis of data from the National Association of State Budget Officers, The Pew Charitable Trusts

# Opportunities in Fixed Income

All-in yields for most bond sectors remain attractive



**Source:** Bloomberg Municipal Bond Blend 1-10 Year (1-12), Bloomberg US Treasury (5-7Y), Bloomberg US Treasury Inflation Protected Notes, Bloomberg US Aggregate, Bloomberg US Aggregate Securitized – MBS, Bloomberg Municipal Bond High Yield, ICE BofA US High Yield. FactSet, 6/30/2024

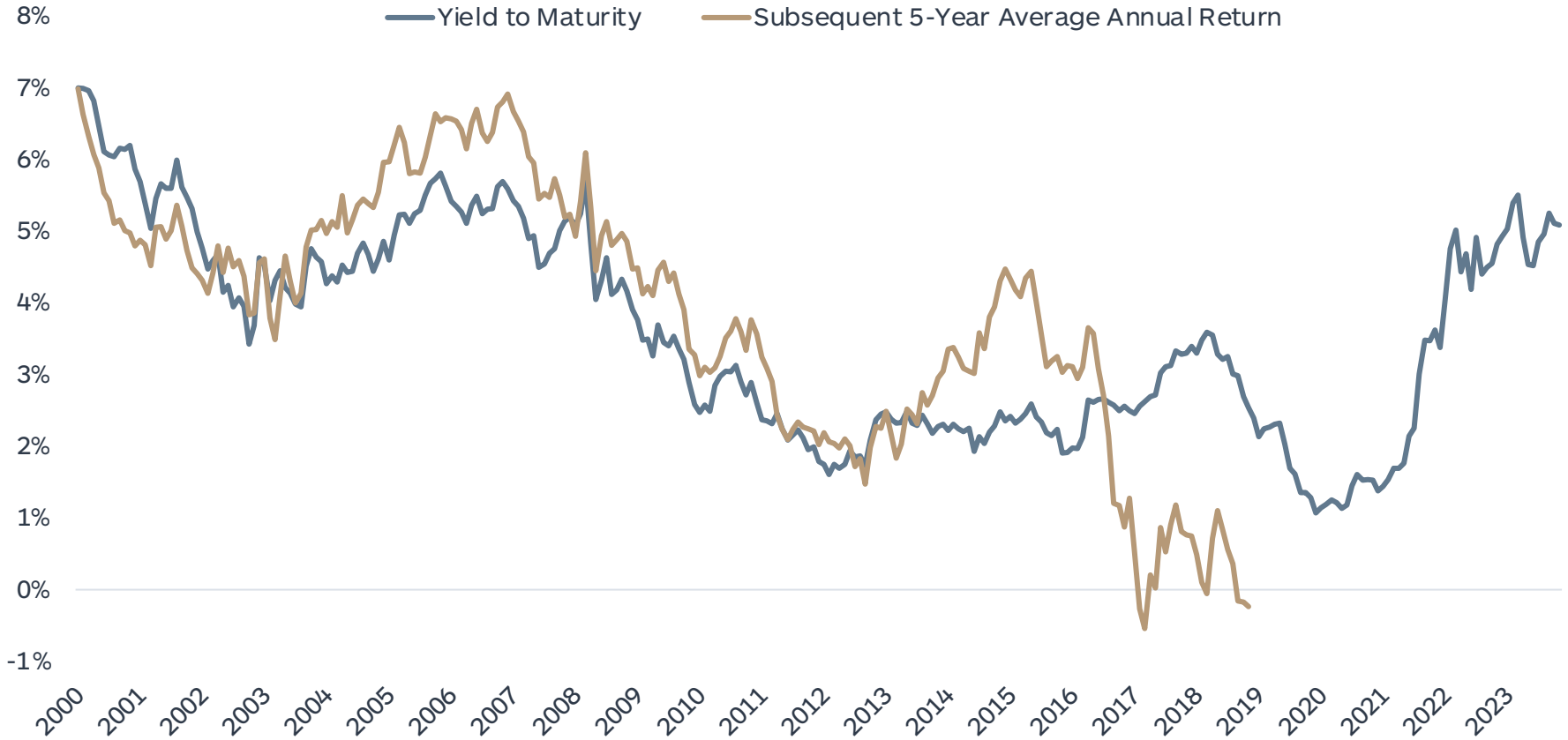


# Opportunities in Fixed Income

Starting yields are typically a good estimate for forward returns in bond markets

## Fixed Income Starting Yields vs. Total Return

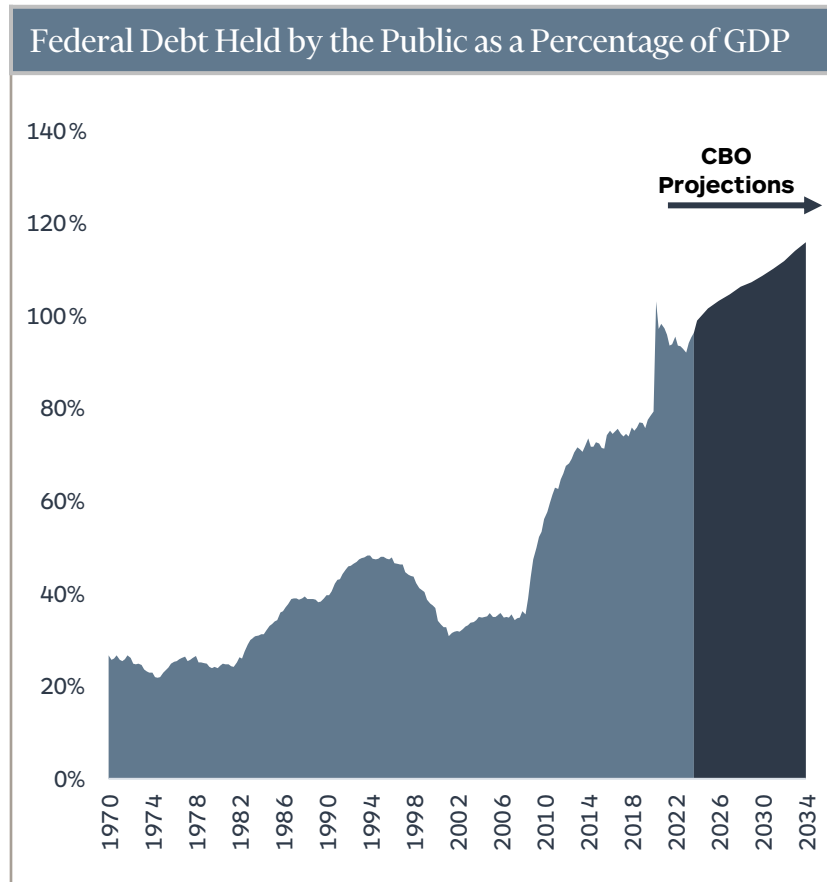
— Yield to Maturity      — Subsequent 5-Year Average Annual Return



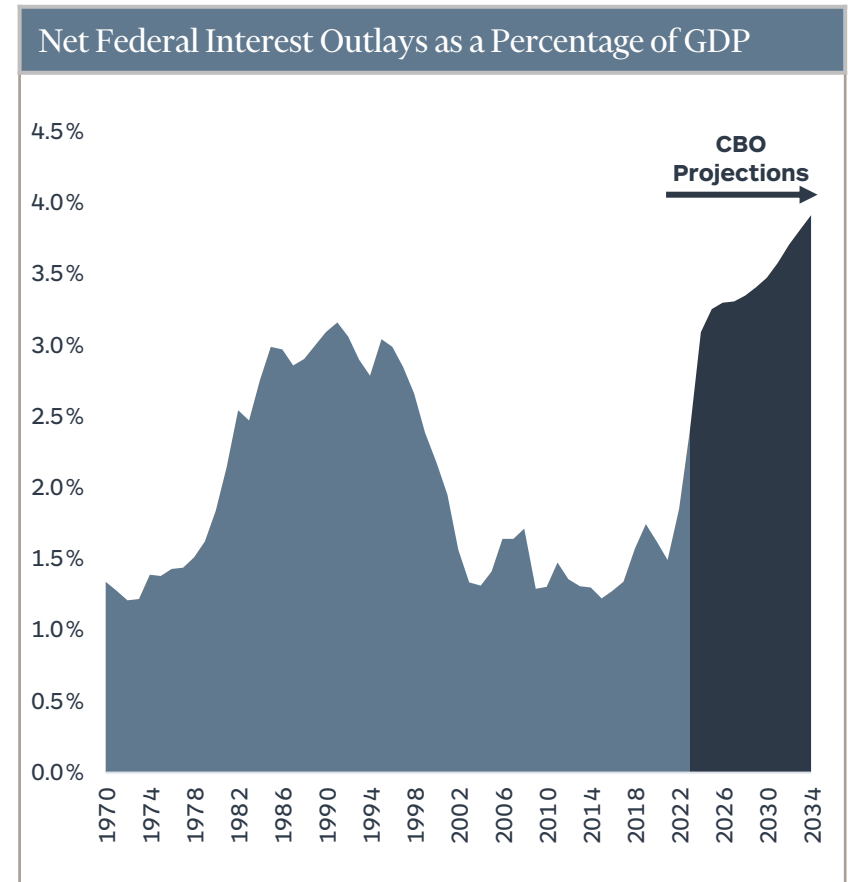
Source: Bloomberg US Aggregate Bond TR USD, Morningstar Direct, 6/30/2024

# The Fiscal Situation

Heavy public debt burdens are likely here to stay



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

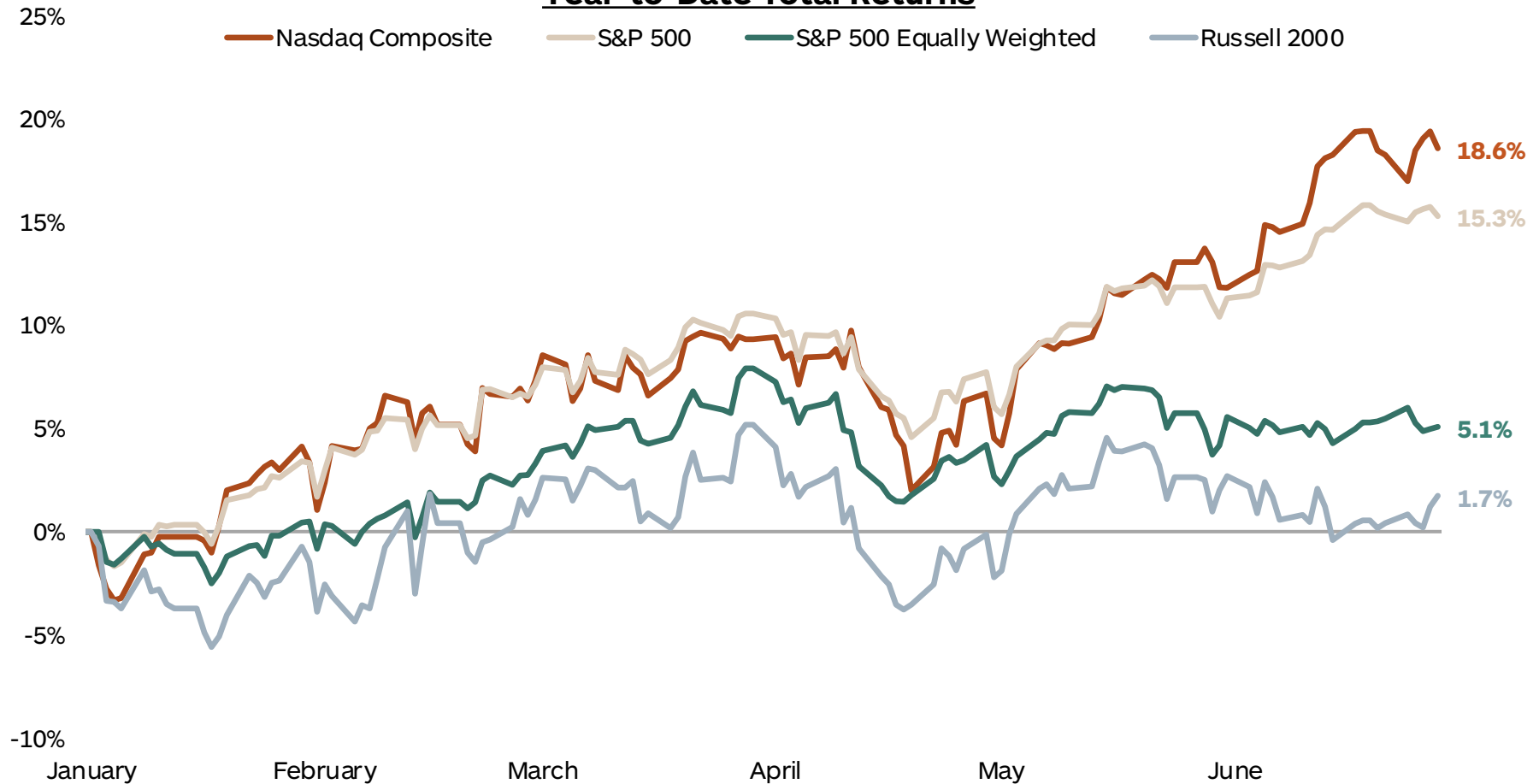


Source: FRED, Congressional Budget Office, 3/31/2024

# Stark Performance Dispersion in U.S. Equity Markets

Last year's issue of narrow equity markets has followed through into 2024

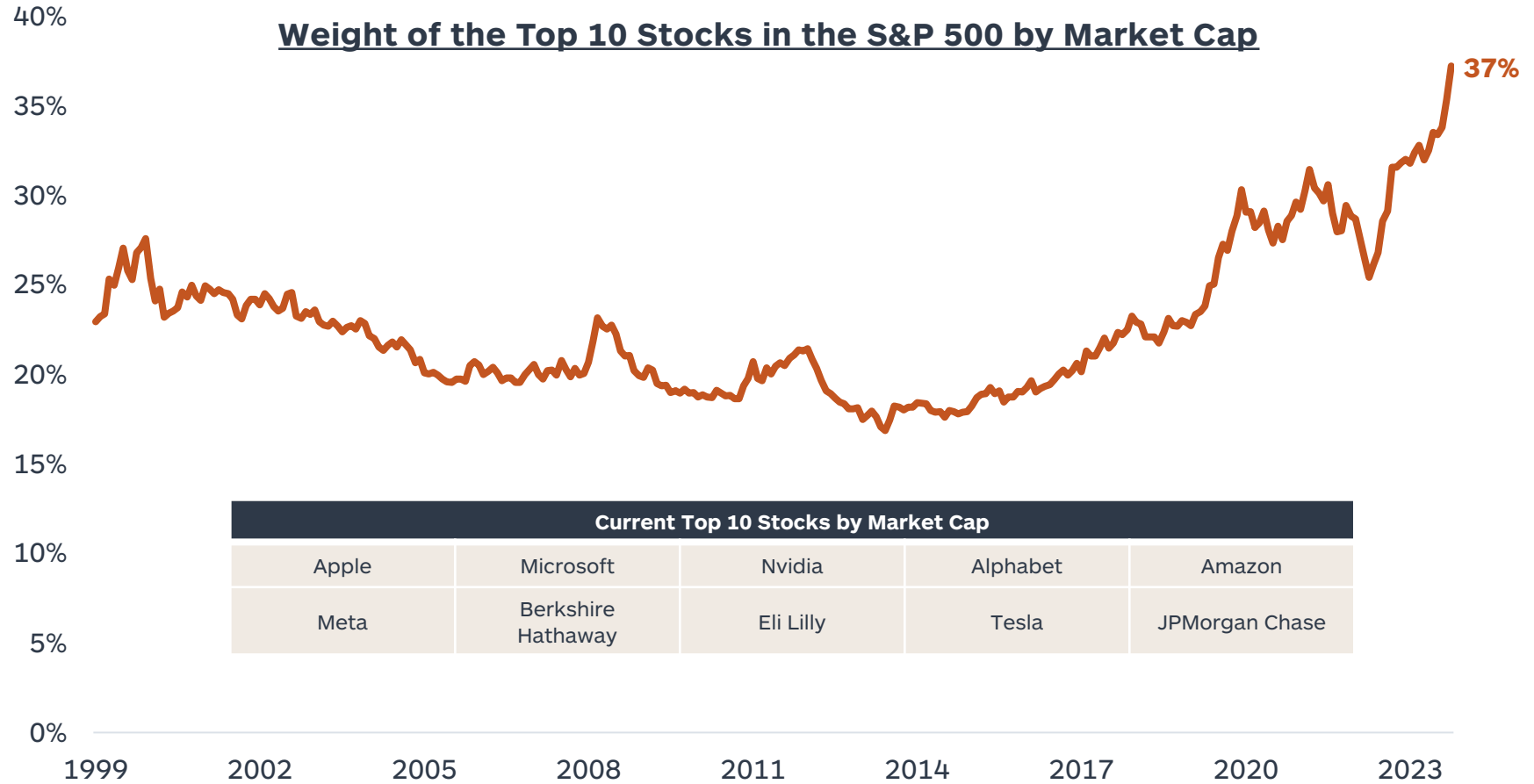
## Year-to-Date Total Returns



Source: Factset, 6/30/2024

# Equity Market Concentration

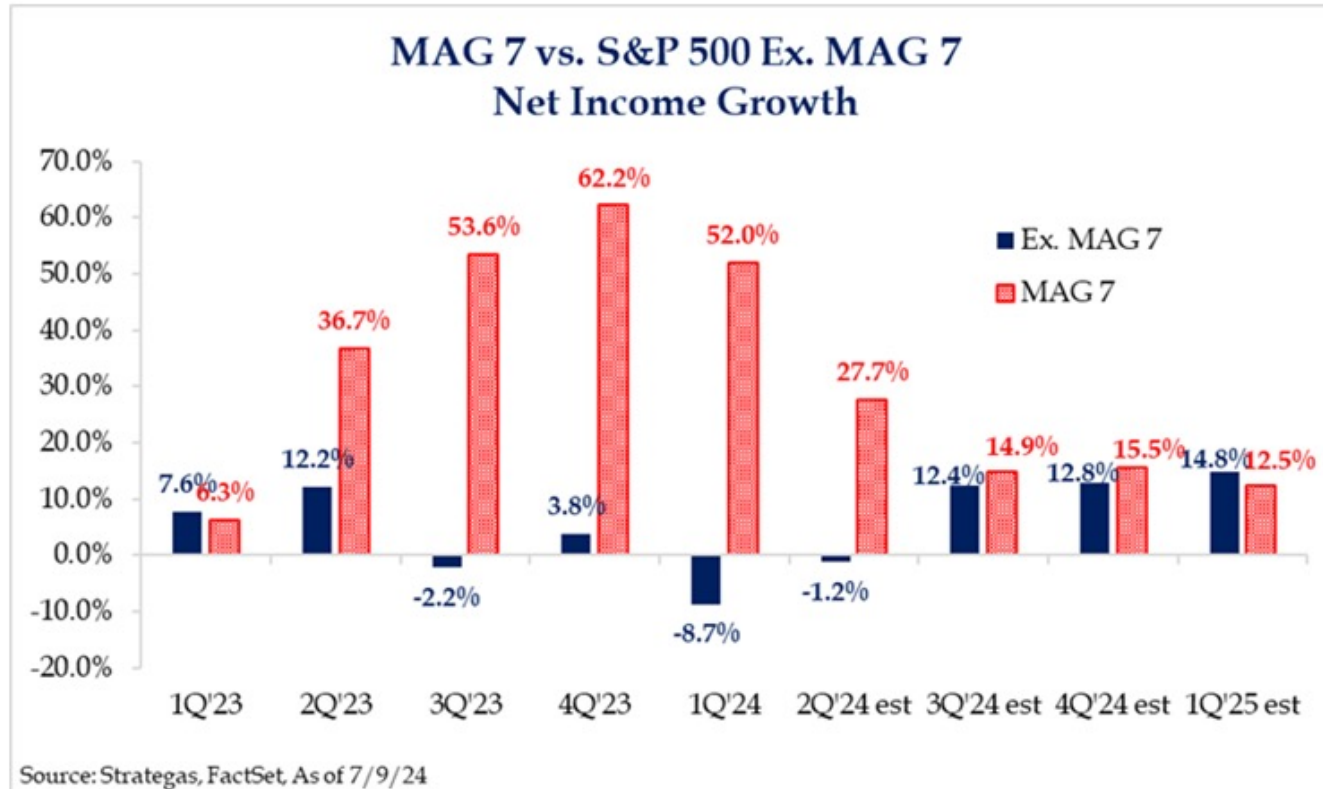
Headline indices are being increasingly driven by a handful of stocks



Source: SPY ETF. Factset, 6/30/2024

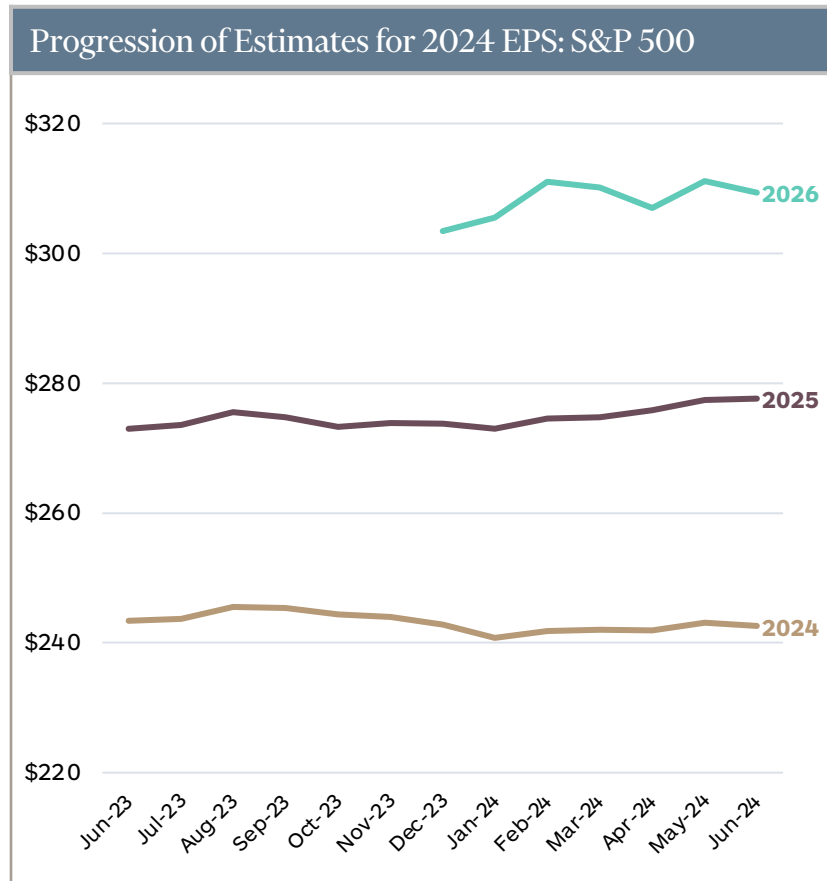
# Earnings Breadth is Expected to Improve...

...which should support broader equity performance

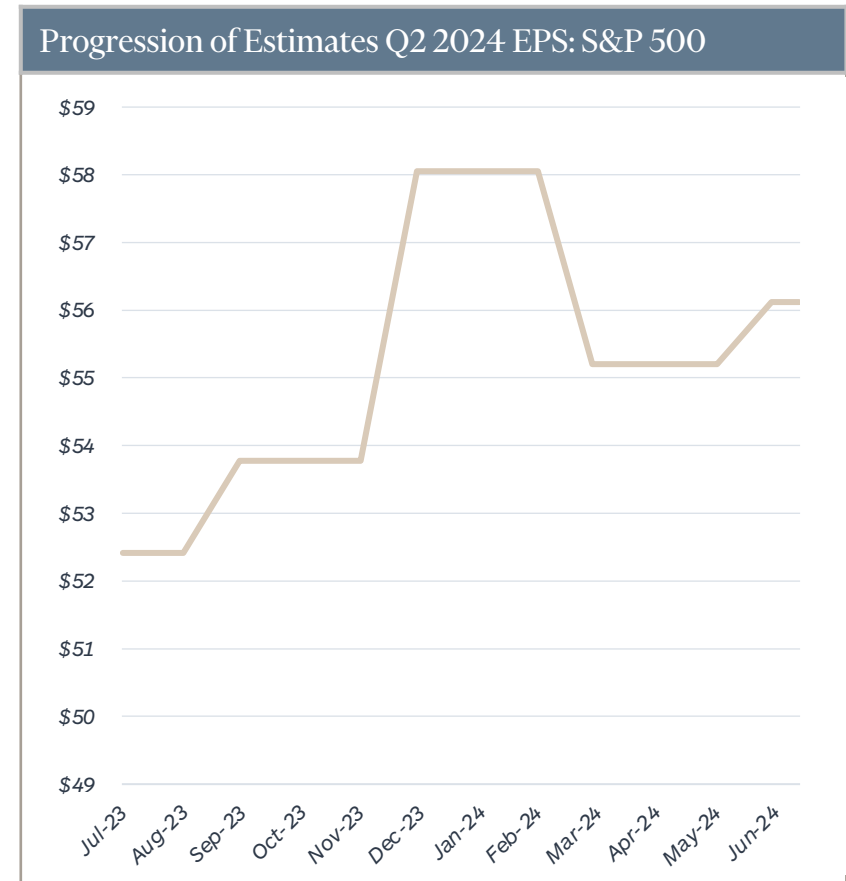


# The Earnings Picture

Expectations for large cap earnings are holding firm



Source: FactSet, 7/15/2024

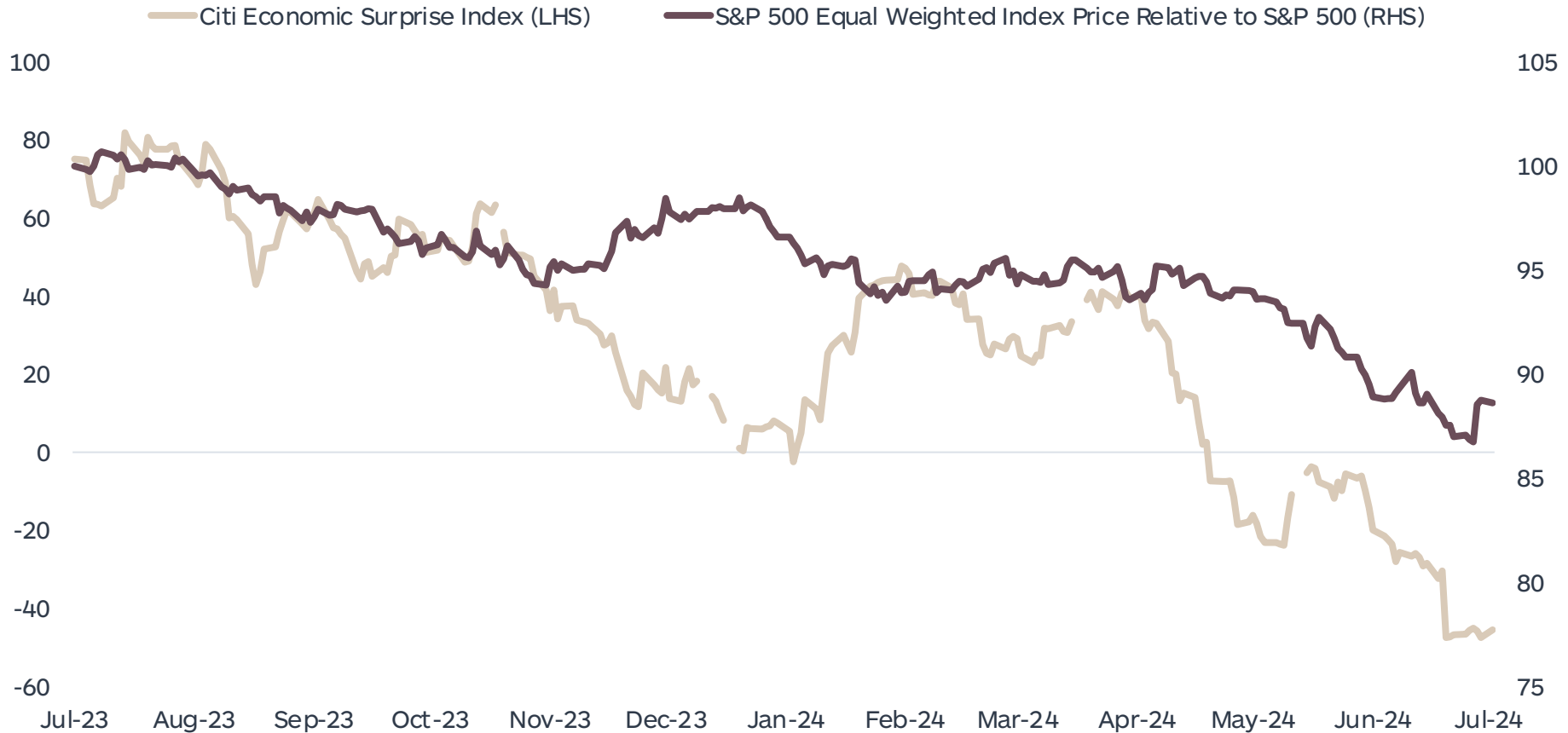


Source: FactSet, 7/15/2024

# Headwinds for the Average Stock

Economic softness is ushering investors into the safety the largest stocks in the index

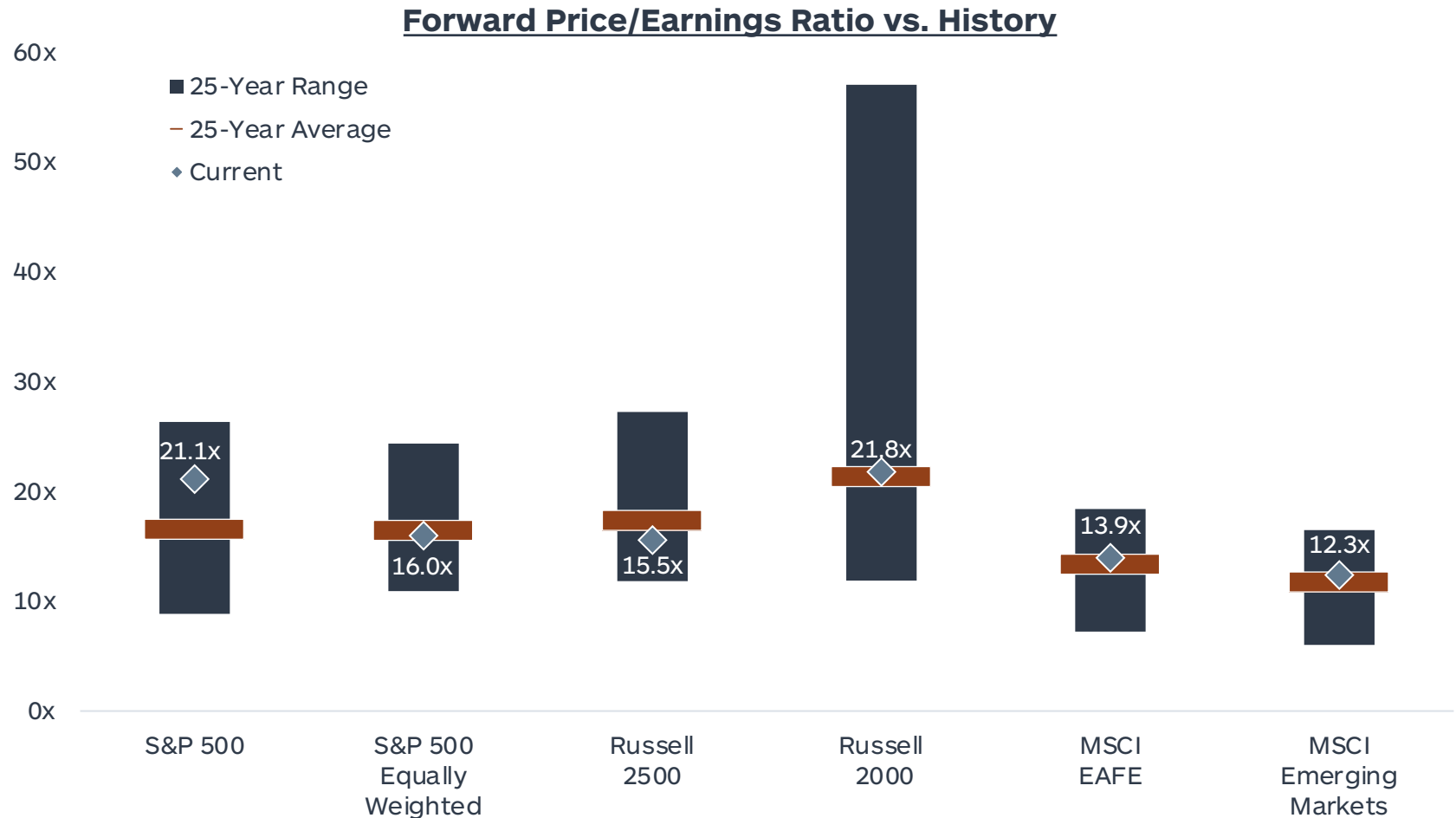
## Large Cap Equal Weight Performance vs. Citi Eco Surprise Index



Source: FactSet, 7/16/2024

# Hunting for Opportunities

Attractive valuations are hiding under the surface



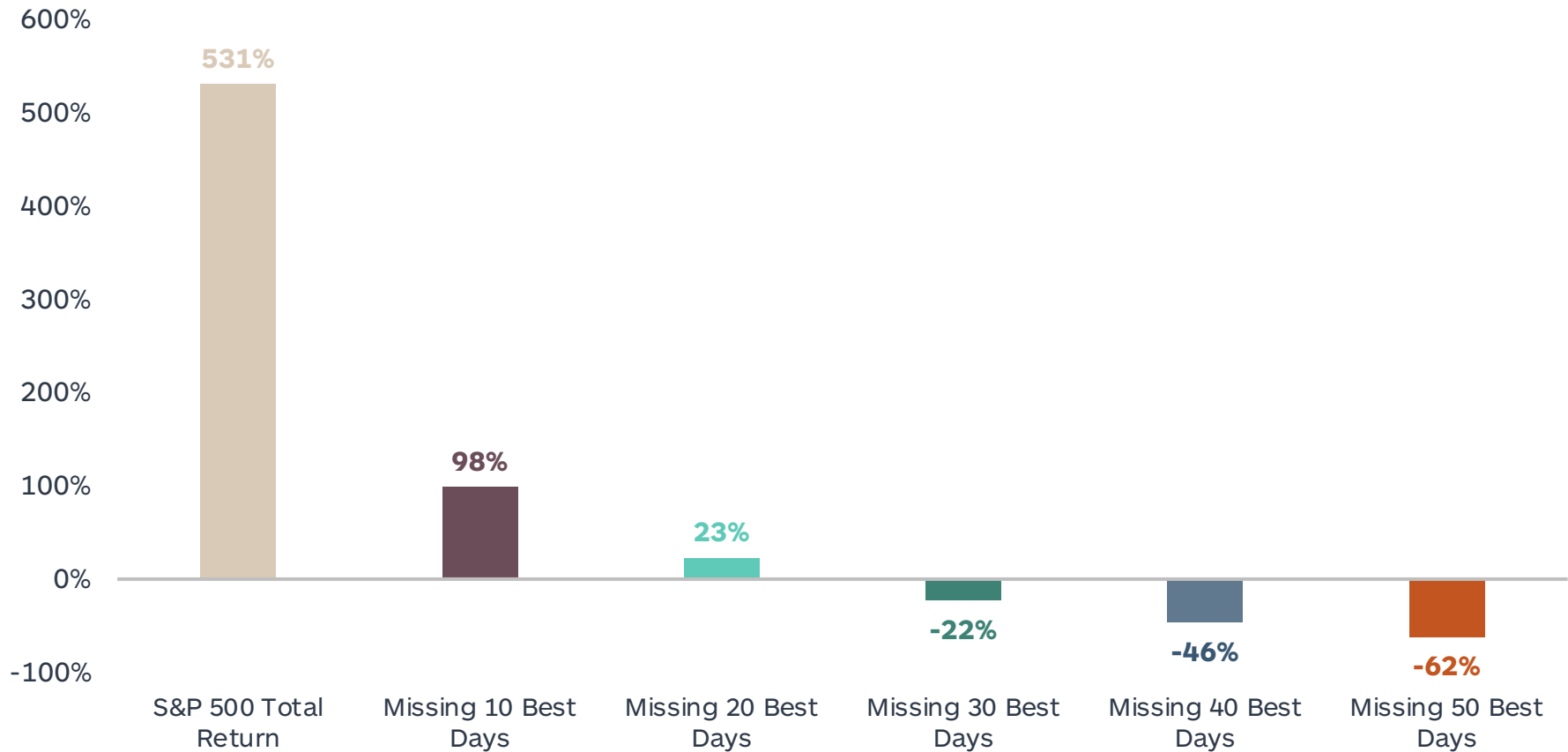
Source: S&P 500 Index, RSP, SMMD, IWM, EFA, EEM ETFs. FactSet, 6/30/2024



# The Importance of Staying Invested

Timing markets can be tempting, but the cost of missing out can be substantial

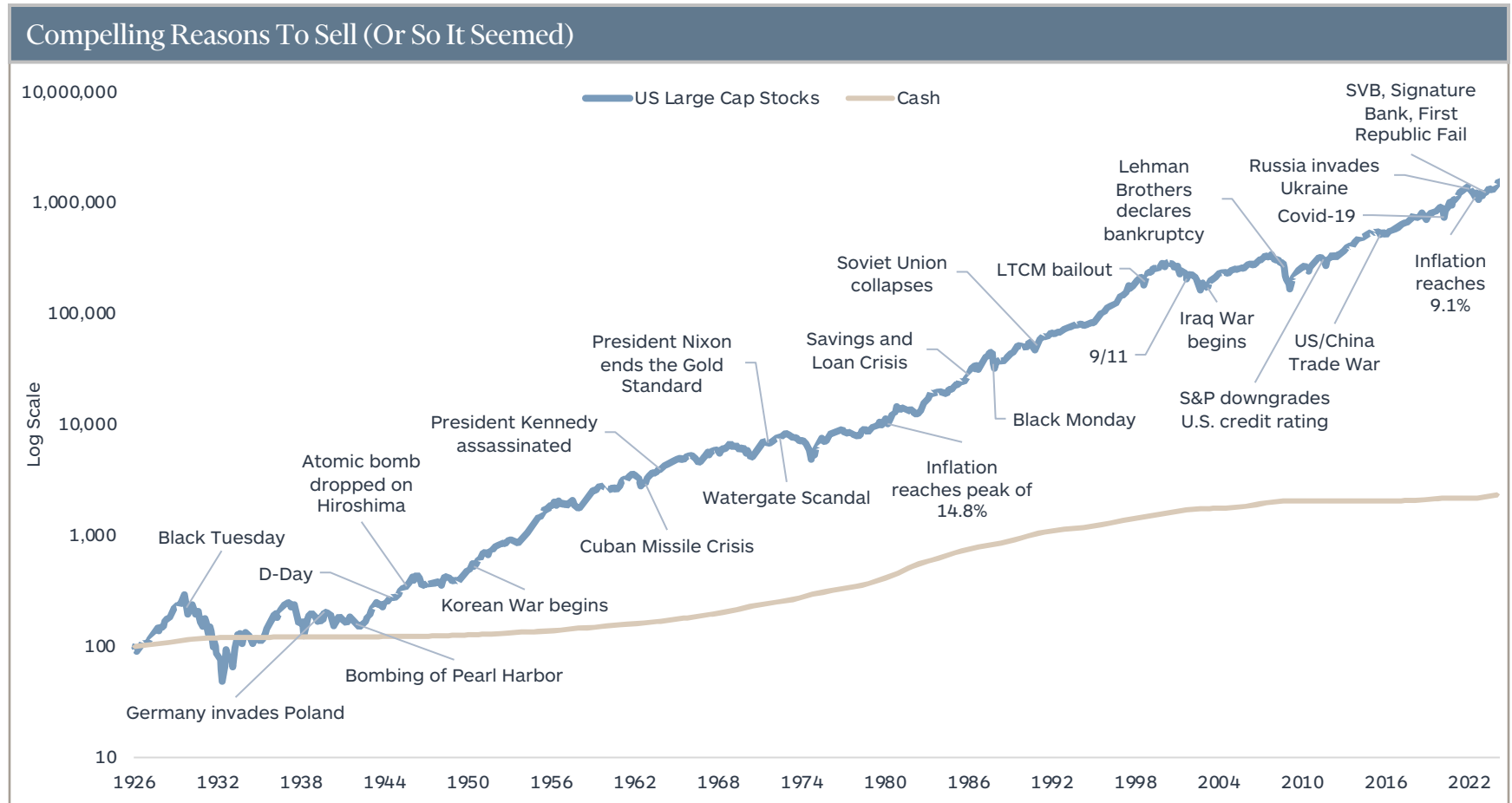
## S&P 500: 25-Year Cumulative Return



Source: YCharts. Date range is 7/1/1999 – 6/30/2024

# The Wall of Worry

Risk and concerns always have and always will exist



Source: FactSet, 3/31/2024

Notes: Ibbotson SBBI US Large Stock index and SBBI US 30 Day T-Bill index from 12/31/1925 to 3/31/2024. Past performance is not a guarantee of future performance.

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