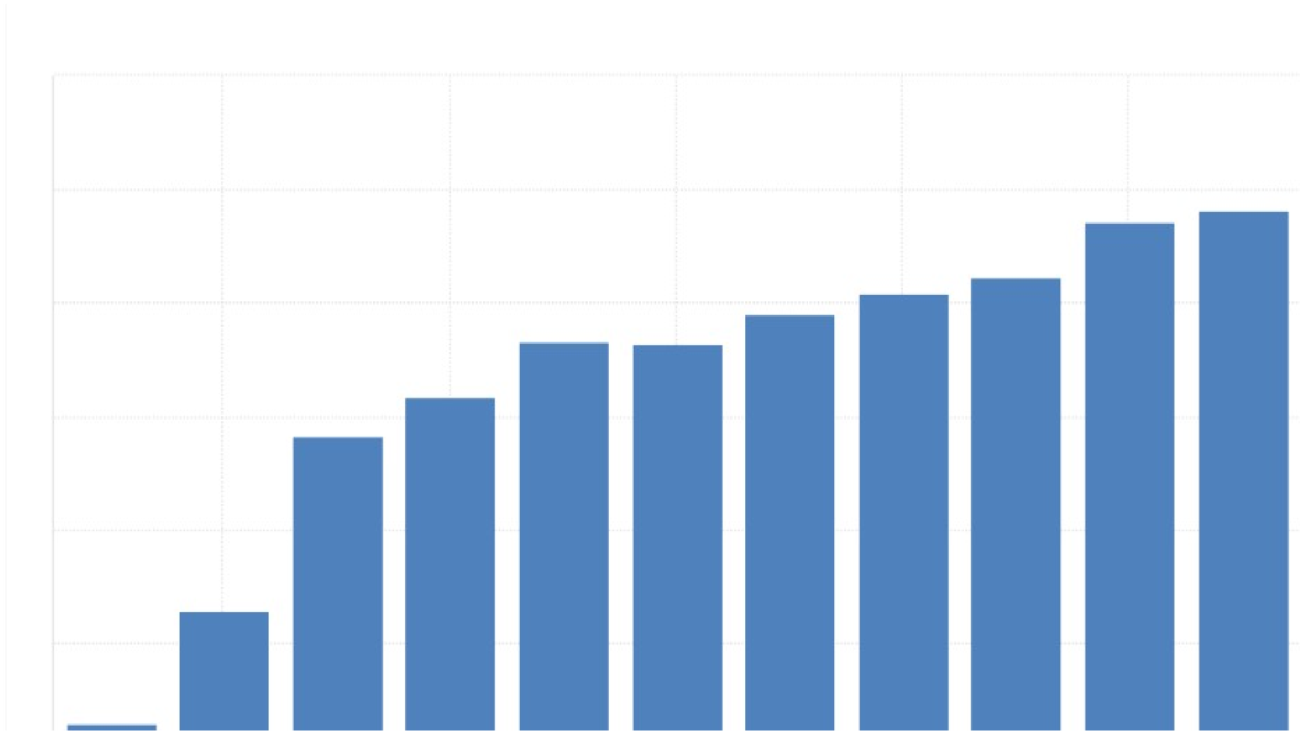
ECONOMIC AND INVESTMENT OUTLOOK
Spring 2024

The Economy no longer forecasts a recession in 2024. We do expect consumer spending growth to cool and for overall growth to slow to 1% over Q2 and Q3 of 2024. Thereafter, inflation and interest rates should normalize, and should converge toward the Fed's target of 2 percent in 2025. This year looks to be a much better one for the U.S. economy than business economists were forecasting just a few months ago. It is the latest signal of strength for an economy that blasted through predictions of a recession. High rates put the brakes on the economy, such as making mortgages and credit card bills more expensive, in hopes of starving inflation of its fuel. While the outlook for the U.S. economy remains bright, expectations for the international economy are less sanguine. The wars, uncertainty and instability were weighing down the global economy and urged those economies to embrace reforms. The Fed, which oversees setting short-term rates, has said it may cut them this year which has relaxed the pressure on the economy.

Sales and Spending Retail sales rebounded after a big January snowstorm kept many shoppers at home, but the rise in February only recovered about half of January's sales drop. If you exclude motor vehicles and gasoline sales the recovery was only one-third. This may indicate that consumers have finally begun to ease up on spending. All eyes will be on the spring sales season to either confirm or deny a new trend. The economy in general is due to cool down a bit in the next six months, with a gradually weakening jobs market. (See chart: Consumer Spending 3 Year)



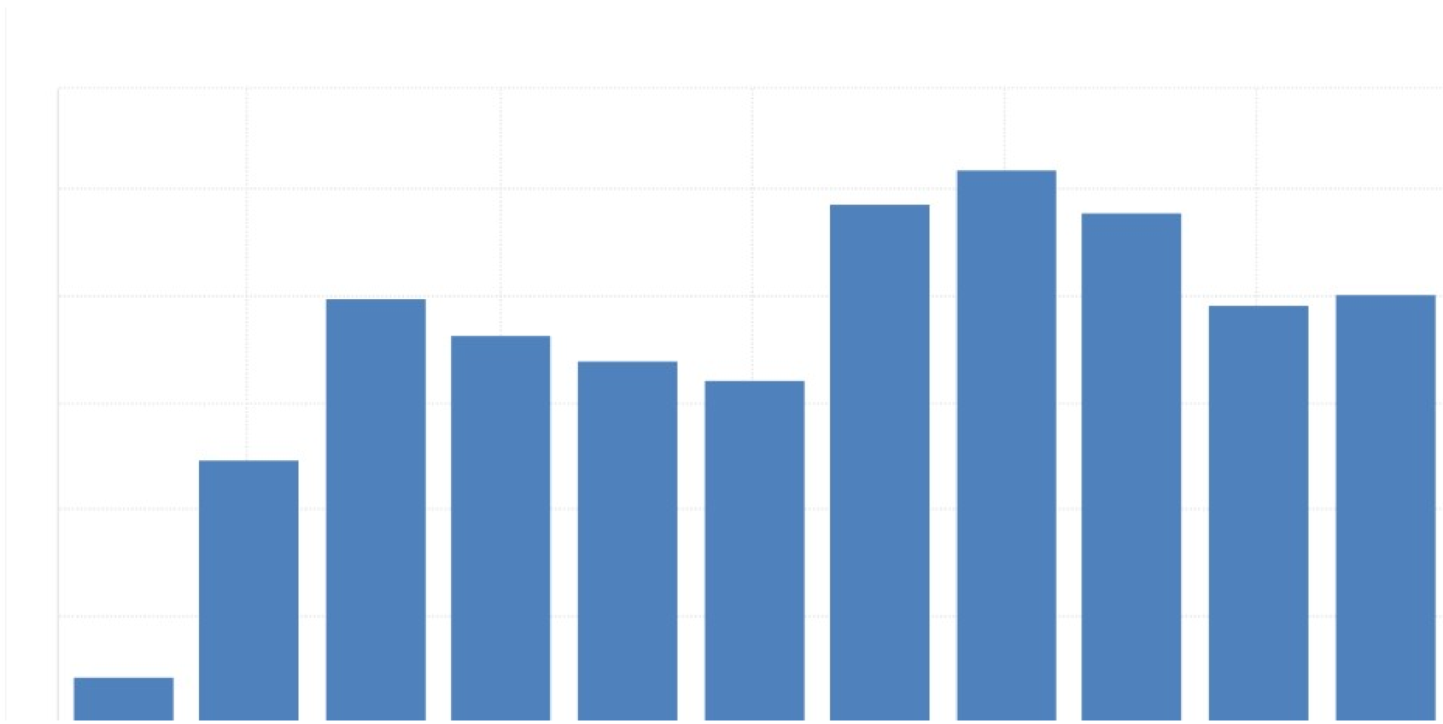
Inflation Annual inflation in the US unexpectedly edged up to 3.2% in February 2024, compared to 3.1% in January and above forecasts. Energy costs dropped much less than expected with gasoline, utility gas and fuel oil dropping but not at the pace originally forecasted. The cost was steady for apparel and continued to decline for used cars and trucks.

Monetary Policy The minutes to the March 20th FOMC meeting didn't add much to the discussion around the outlook for the funds rate but did offer a little more information about how Fed officials are thinking about the balance sheet reduction process. The Committee appears broadly inclined to cut in half the monthly cap on Treasury runoff (currently $60 billion), but to leave the $35 billion monthly cap on MBS unchanged. We expect some policy easing this year, even if the disinflation process was "somewhat uneven".

Fiscal Policy The government is running a cumulative deficit of $1.1 trillion so far in FY2024. Revenues were $2.2 trillion through February, an increase of 7%, while outlays were $3.3 trillion through March, an increase of 6%. Six months into the fiscal year, Congress passed the final government funding bill for fiscal year 2024, preventing a government shutdown. The Senate continues to debate the $78 billion bipartisan tax package that passed the House in January, though the path forward for its passage continues to narrow. This month, President Biden also unveiled a $300 million aid package for the war in Ukraine, though his administration continues to call on the House to pass a $95 billion aid bill for Ukraine and Israel already passed by the Senate.

The Dollar USD remains resilient amid a backdrop of improving global cyclicals by virtue of strength in US data.

Corporate Profits in the United States rose 3.7% from the previous period to USD 2.698 trillion in the third quarter of 2023, less than preliminary estimates of a 4.1% surge. Undistributed profits soared by 15.3% and net cash flow with inventory valuation adjustment rose 4.4%. Also, net dividends fell by 1%. Compared to the corresponding period of the previous year, corporate profits fell by 2.1% more than the preliminary estimated of a 1.7% decrease. (See chart: Corporate Profits 3 Year)



Uncertainties The United States inflation problem along with U.S. China trade tensions. The Ukraine / Russian war and the possible escalation in the Israeli war with Hamas.

Positives It appears the rate of increase in inflation is declining as well as some prices on consumer goods. Brisk consumer spending and the hope of the Federal Reserve reducing rates which will bring the home mortgage rate down and make homes more affordable.

Negatives Possibility of economic slowdown coming, and the risk that the Federal Reserve does not lower rates.

Interest Rates the Federal Reserve chair Jerome Powell left short-term rates unchanged at the March 20 Fed policy meeting, but financial markets reacted positively because board members are still expecting to cut rates three times this year. We believe this expectation to be very optimistic. The current expectation is that the first Fed cut will take place at the June 12 meeting.

Common Stocks Wall Street finished the 1st quarter of 2024 with over a 10% gain on the S&P 500. The U.S. stock market is off to a good start in 2024, as optimism over the economy and interest rate cuts has combined with exuberance about the business opportunity in artificial intelligence to stir up a potent cocktail for equities. The S&P 500 in late January hit its first record high in two years and hasn't looked back, setting more than a dozen highs without a significant pullback so far this year, on pace for its biggest first-quarter gain since 2019. Key to this year's gains has been confidence from investors that the economy is set for a soft landing in which inflation moderates, but the economy avoids a severe downturn. Stocks have been able to defy a rise in Treasury yields, after rising yields were a pressure point for equities in 2023. As always, we will remain patient and stick to the long-term plan as we navigate this global market environment.

April 10, 2024

The information set forth herein is published by the Private Clients Group of Princeton Capital management LLC. ("Princap"), primarily for the use of its clients. It presents news and/or information of a general nature that Princap's Private clients and other investors may find helpful. Such information may contain the views, opinions, and recommendations of individuals and organizations, including individuals and organizations affiliated with Princap, which the editors deem of interest. This publication does not itself endorse the views of any of these individuals or organizations, give investment service, act as investment advisor or advocate the purchase of sale of any security or investment. The contents are derived from data and sources believed reliable, but accuracy and completeness cannot be guaranteed. Excerpted material represents only part of the total information or viewpoint found in the original source and should not be relied on solely for making investment decisions.
Princap, its affiliate, and their respective shareholders, members, partners, directors, officers and/or employees may from time to time have long or short positions in securities referred to in this publication or in options, futures, and other derivatives relating to such securities. Further, action taken in client portfolios may differ from the opinions expressed in this publication based on individual account circumstances. If further information is required, please feel free to contact us at (201) 332-9800.