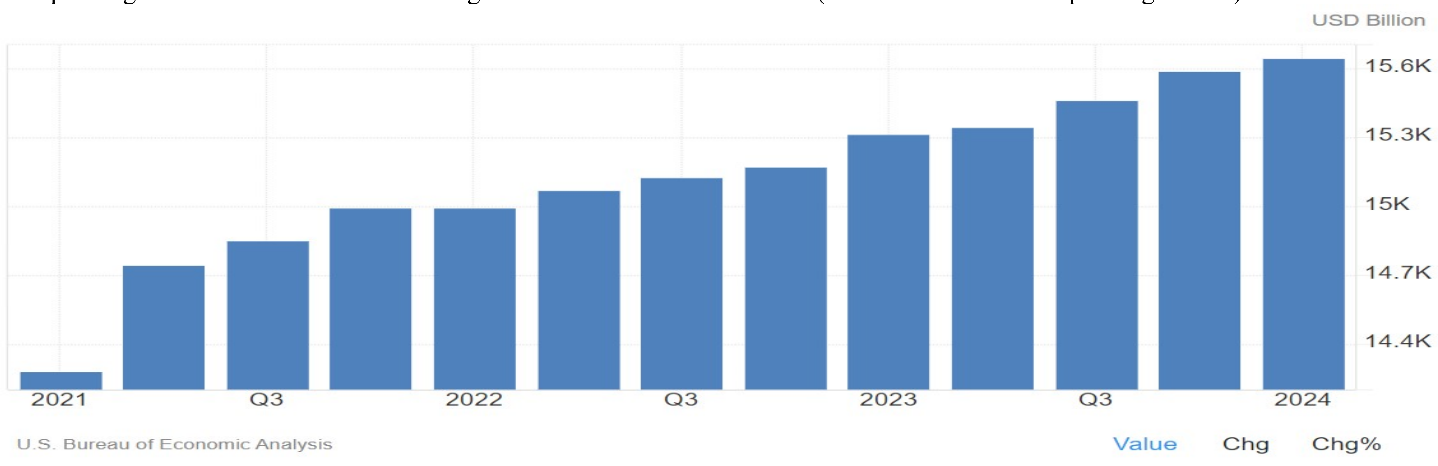
ECONOMIC AND INVESTMENT OUTLOOK
Summer 2024

The **Economy** Both the economy and financial markets generated solid progress in the second quarter, with growth staying consistent and market prices rising. Employed consumers, fueled by growing real incomes, continue to drive consumption and thereby the US economy. The US is in a relatively sweet spot with inflation normalizing some (but for a few speed bumps), economic growth continued to positively surprised forecasters, and a more balanced jobs market keeping a lid on wage pressure. Overall, rising productivity has created a framework for companies to enjoy rising profit margins and for employees to enjoy rising incomes. Investors went into the second quarter nervous about the inflation outlook. Markets had already pared back their expectations to three Fed rate cuts from five at the start of the year. A series of hotter-than-expected inflation readings in April sent stocks and bonds lower. In May, the weight on both markets began to lift as the outlook for inflation again started to look more favorable. Even as the Fed signaled in June that officials now only expect one rate cut this year, stock regained their footing. The key question now facing investors is whether the improved inflation news will continue, allowing the Fed to start cutting rates in September, as the market now expects.

Sales and Spending Retail sales rose a modest 0.1% in May, following a small decline in April. Core sales rose 0.3%. In-store sales have inched up a tiny amount in each of the last three months. Motor Vehicles sales jumped 0.8% in May, though they are up only 0.5% so far for the year. The strong run of restaurant sales growth appears to be over now, with sales still below where they were at last year's close. Furniture and home furnishing sales have dropped in each of the past three months. Consumer spending on services excluding restaurants rose by a moderate 0.4% in April and May. Consumers are becoming more cautious in general. Eating out is typically a good measure of consumers' willingness to splurge, and growth in this category has disappeared. Spending on other services continues to grow but did so at a slower rate. (See chart: Consumer Spending 3 Year)



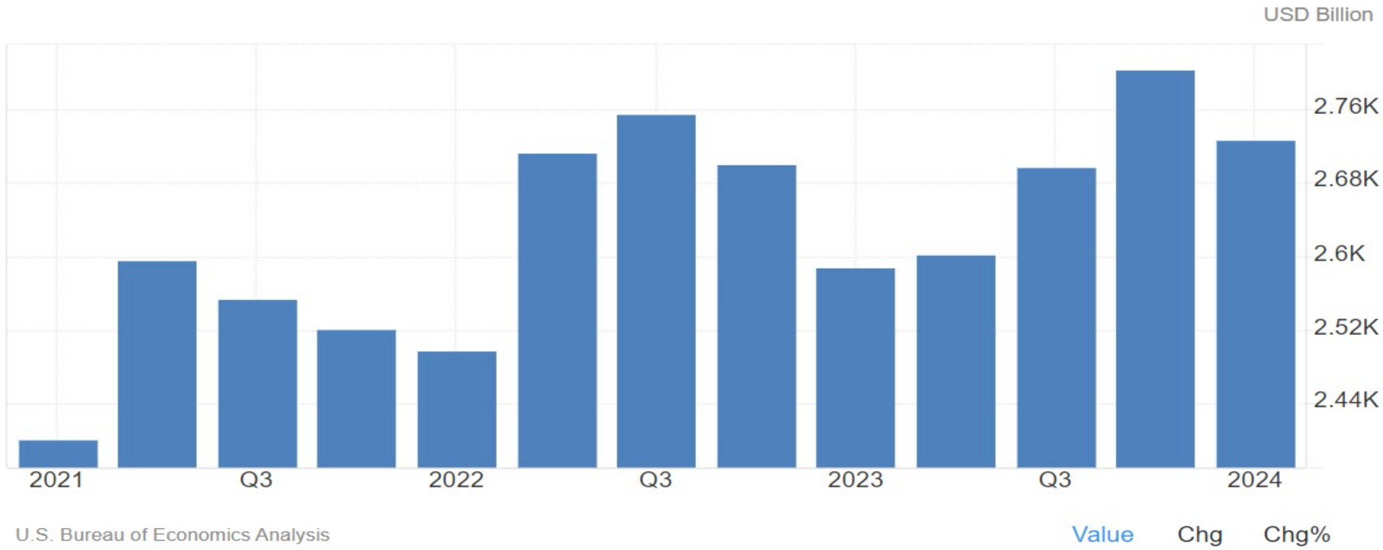
Inflation eased again in May. Overall inflation edged down to 3.3% as energy prices dipped and stepped down to 3.4% when you exclude food and energy prices. Inflation in services, a Federal Reserve focus, slowed to 0.2% in May (and 5.3% over the past 12 months), helped by a small decline in the cost of motor vehicle insurance. Airfares declined along with a drop in fuel costs. The one missing ingredient in the recipe for lower inflation is the hoped for slowing of shelter cost since it is the largest single component of the CPI. The United States Fed sees only 1 rate cut of 25 basis points in 2024, which is way below the 75 basis points that the December dot plot showed.

Monetary Policy The federal funds rate is the most powerful tool in the Federal Reserve's monetary policy toolkit, new research finds. Monetary policy is controlled by a nations central bank, in the U. S. it's the Fed. The fed's management of policy can have a significant impact on the shape of the nation's economy.

Fiscal Policy the concern over fiscal deficits has taken "center stage" in the political narrative. While the US has an extraordinary ability to borrow due to the safe-haven role of US markets and the USD, it also has an extraordinary need to borrow. The US may need to tighten "financial repression" to ensure a strong and stable source of demand for their debt.

The Dollar Varying degrees of US dollar weakness dominate current market dynamics. With the possibility of a Fed interest rate cut stronger, the dollar's weakness has manifested itself.

Corporate Profits in the United States fell by 1.7% from the previous period to USD 2.754.5 trillion in the first quarter of 2024, following a 3.9% increase in Q4 and missing forecasts of a 3.9% rise. Undistributed profits slipped by 8.6% (vs 9.5% in Q4) and net cash flow with inventory valuation adjustment dropped by 2.2% vs 3,5%. Also, net dividends rose 1.7% in Q1. Compared to the corresponding period of the previous year, corporate profits rose by 6.4%. (See chart: Corporate Profits 3 Years)



MARKETS

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 Looks like inflation is declining as well as prices on consumer goods. Brisk consumer spending and the hope of the Federal Reserve reducing rates.

Negatives Possibility of economic slowdown coming, and the risk of the Federal Reserve does not lower rates. Mortgage rates are staying around 7% on average.

Interest Rates the Federal Reserve chair Jerome Powell left short-term rates unchanged at the last Fed policy meeting in May, but financial markets reacted positively because board members are still expecting to cut rates this year but will probably wait until its policy meeting right after the November 5 election. Once the Fed does start cutting interest rates, it will likely continue doing so into 2026, but will not return short-term rates to zero. Powell emphasized that it is still the Fed's goal to reduce the number of Treasuries and mortgage-backed securities on its balance sheet.

Common Stocks Wall Street finished the first half of the year up over 14%. By any standard measure, the second quarter was good for stocks, especially big stocks, with a ton of record-setting performances. It seems currently it is about tech and big stocks. They've been winning in a big way. But many have become overbought and are starting to tread water. Two sectors are the S&P's biggest drivers: technology and communications services, led by Google and Facebook. Each up more than 25% this year. The Nasdaq climbed nearly 6% in June and is up over 18% for the year. The Dow is saddled with Intel, Boeing and Nike, all down more than 30% this year and this index looks tied and was up just 1.3% in June and is up just 4% in 2024. Also, we see the AI theme extended beyond tech. Utilities and green-energy stocks soared as Wall Street considered the AI revolution's gargantuan electricity needs. While it's unclear where large-cap technology stocks go from here, staying diversified allows us to benefit from a variety of sectors. As always, we will remain patient and stick to the long-term plan as we navigate this global market.

July 11, 2024