NEAM VANTAGE POINT

Trade Winds

AUGUST 2024

ECONOMIC & CAPITAL MARKET OVERVIEW

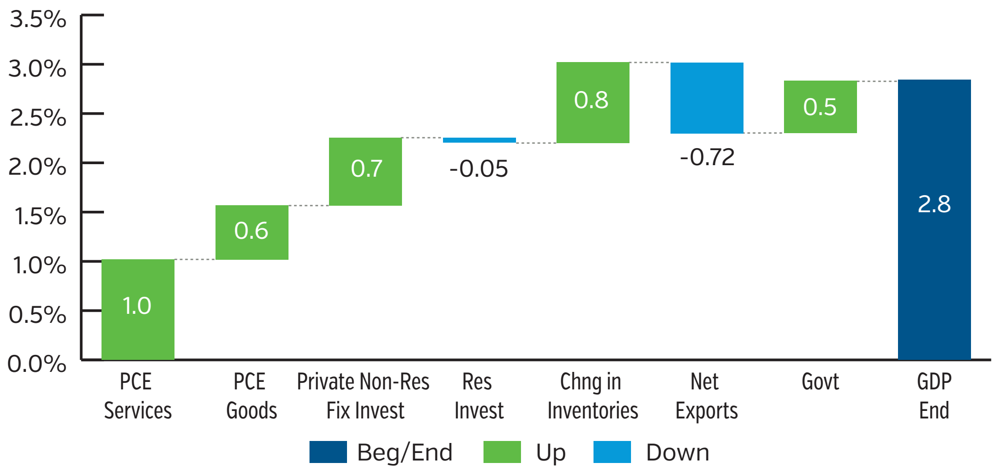
IN THIS ISSUE ▸

Monthly Economic Highlights

JULY OVERVIEW

July ended with the Fed still on hold as expected, leaving the target range of its benchmark rate at 5.25-5.50%. In the Fed's accompanying statement, it highlighted that the economy continues to hold up, even as the labor market slows, and higher levels of inflation subside. The committee remains aware of the risks of remaining too restrictive for too long, sharing that members are "attentive to the risks to both sides of its dual mandate" as the labor market begins to soften but higher than targeted levels of inflation remain. Appreciating that most participants see policy as restrictive and growth cooling, the statement, and the minutes from the last meeting released over the month, continue to share the same message, namely that when the data confirms that inflation is sustainably moving back to the Fed's target, they'll act. They remain encouraged by the progress made to date, however, and appear to be edging ever closer to action, as suggested by Powell in the post-meeting conference, but just need more time to be "more confident."

Exhibit 1. Q2 GDP Growth Breakdown



Source: BEA, Haver, NEAM

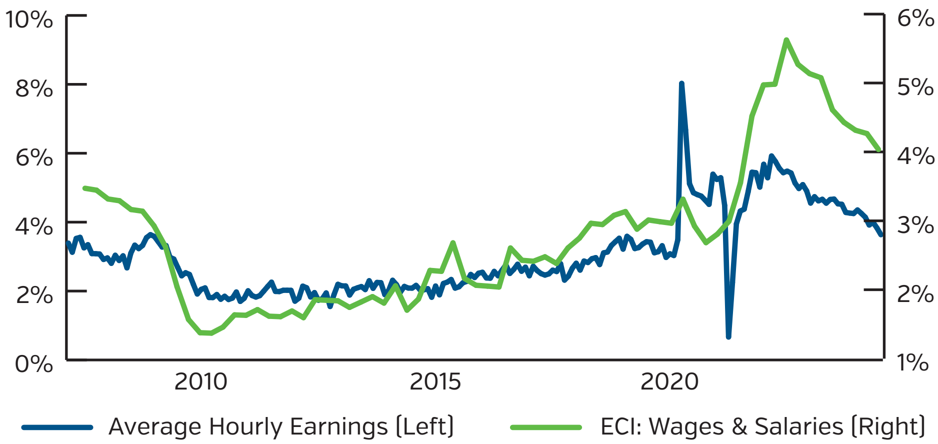
Payroll additions for the month of July came in lower than expected at +114K for the month which, when combined with downwardly revised previous months' tallies, left the three-month average at +170K. At the same time, greater increases in the labor force relative to those employed drove the unemployment rate up to 4.3%. Due to the weaker-than-expected data, market expectations for rate cuts for the remainder of 2024 spiked higher, from 65 basis points earlier in the week to 120 basis points after the payroll report. Meanwhile, average hourly earnings resumed their descent, increasing +0.2% for the month, or +3.6% on an annual basis,

For more information on this topic, please contact the author:

Coley Lynch
Senior Research Analyst
coley.lynch@neamgroup.com

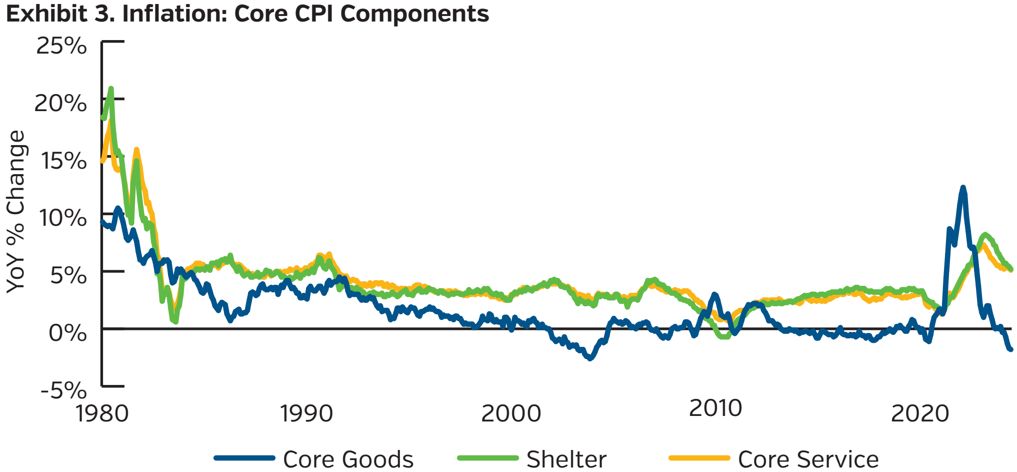
while the employment cost index also slowed. In contrast, Q2 GDP consumption figures held up, while retail sales headlined at roughly the same level as last month but showed stronger at the core level. The data is at odds with consumer sentiment indicators which, although mixed, showed levels of confidence roughly the same or weaker as consumers deal with higher rates and lower but persistent inflation.

Exhibit 2. Wage Growth: Yr/Yr% Wage Growth



Source: BLS, Haver, NEAM

Exhibit 3. Inflation: Core CPI Components



Source: BLS, Haver, NEAM

Industrial production figures and stronger Q2 business investment numbers diverged from manufacturing surveys, which continue to lag while the Fed's Beige book detailed that manufacturing activity across its districts, while mixed, was slightly weaker on average. Overall, industrial production grew +0.6% over the month, propelled higher by gains in utilities (+2.8%), mining (+0.3%), and manufacturing (+0.4%), while Q2 business investment jumped +11.6% on the back of transportation sector, despite regional Fed manufacturing surveys trending down on average along with capex intentions.

The most recent CPI print fell again, coming in lower at both the headline and core level and extending the trend of disinflation further. At the headline level, prices fell (-0.1%) as a (-2.0%) drop in energy driven by lower gasoline prices (-3.8%), more than offset the +0.2% increase in food. Excluding these items, the pace of core inflation itself once again ratcheted down, this time to a +0.1% monthly gain. On an annual basis, this equated to a 3.0% gain overall and a drop to 3.3% at the core. Core goods prices fell (-0.1%), driven by declines in new and used vehicles, household furnishings and education despite positive posts in apparel, recreation, alcohol, and other goods. Core service price increases meanwhile slowed to a +0.1% stride, where more muted gains in shelter (+0.2%) and medical care services were further tempered by retreats in transportation (airlines fares down -5.0%) and recreation services. For the second consecutive month, core services excluding housing encouragingly fell too, angling price increases in this more scrutinized sector further down. With more recent data showing a resumption of the downward trend which had stalled in Q1, the Fed will again welcome the news, particularly with two stickier areas, namely shelter and services excluding shelter, falling.

CAPITAL MARKET IMPLICATIONS

In keeping with recent behavior, the Fed continues to bide its time and wait for more data before it acts. Despite stronger-than-expected Q2 GDP data, labor market fundamentals and price levels continue to moderate. Treasury yields fell across the curve, while credit spreads remained in a narrow range and major US equity markets were mixed.

Exhibit 4. U.S. Historical Yield Curves

	Dec 2020	Dec 2021	Dec 2022	Dec 2023	July 2024
Fed Funds Range	0.00-0.25%	0.00-0.25%	4.25-4.50%	5.25-5.50%	5.25-5.50%
2-Year	0.12%	0.73%	4.43%	4.25%	4.26%
5-Year	0.36%	1.26%	4.00%	3.85%	3.91%
10-Year	0.91%	1.51%	3.87%	3.88%	4.03%
30-Year	1.64%	1.90%	3.96%	4.03%	4.30%

Source: Bloomberg, NEAM

Capital Markets

FIXED INCOME RETURNS

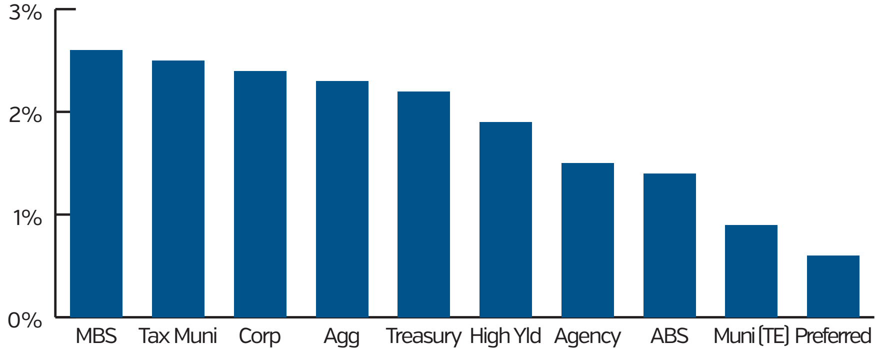
Despite lower inflation prints and a moderating labor market, the Fed maintained its position as it looks for further data before taking any action. Treasury yields ended the month lower across the curve again, while credit spreads remained in a narrow range.

Exhibit 5. Fixed Income Returns

	July	3-Month	YTD
Bloomberg Barclays U.S. Aggregate	2.34%	5.06%	1.61%
Blended ICE/ BofAML Preferred Stock	0.57%	3.20%	5.92%
ICE BofA US Taxable Muni - Broad	2.46%	5.41%	2.51%
ICE BofA Municipals Master (TE)	0.92%	2.45%	1.23%
Bloomberg Barclays U.S. MBS (fixed rate)	2.64%	5.91%	1.63%
Bloomberg Barclays U.S. ABS	1.37%	2.99%	3.05%
Bloomberg Barclays U.S. Agency	1.48%	3.26%	2.33%
Bloomberg Barclays U.S. Treasury	2.19%	4.72%	1.31%
Bloomberg Barclays U.S. Corporates	2.38%	4.96%	1.89%
Bloomberg Barclays High Yield	1.94%	4.04%	4.58%

Source: Barclays, Bloomberg, NEAM

Exhibit 6. Domestic Fixed Income Sector: Month-to-Date Total Returns (7/31/24)



*Source: Bloomberg, Barclays, ICE BofAML, NEAM - *Taxable Equivalent*

EQUITY TOTAL RETURNS

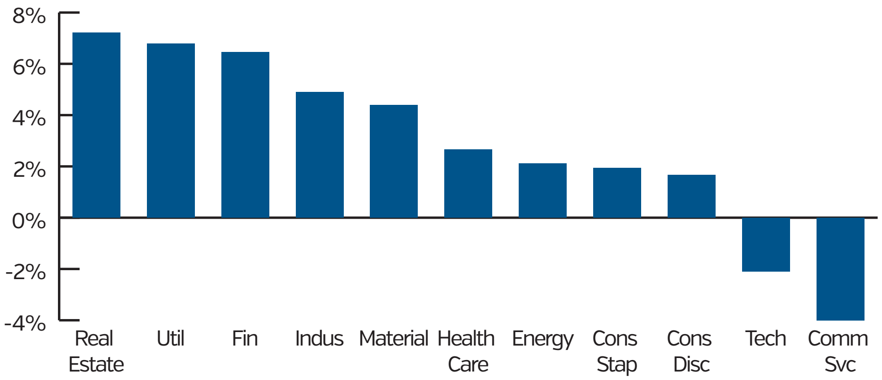
Treasury yields declined further as inflation eased and the labor market fundamentals relaxed further. Domestic equity markets performance was mixed, with the Dow and S&P 500 rising while the tech-heavy Nasdaq declined.

Exhibit 7. Equity Total Returns

	July	3-Month	YTD
S&P 500	1.22%	10.05%	16.69%
NASDAQ	-0.73%	12.61%	17.71%

Source: Bloomberg, NEAM

Exhibit 8. Domestic Equity Returns: Month-to-Date Total Returns (7/31/24)



Source: Bloomberg, NEAM

NEAM New England Asset Management

neamgroup.com

Connecticut | California | Dublin | London