NEAM VANTAGE POINT

Trade Winds

JUNE 2024

ECONOMIC & CAPITAL MARKET OVERVIEW

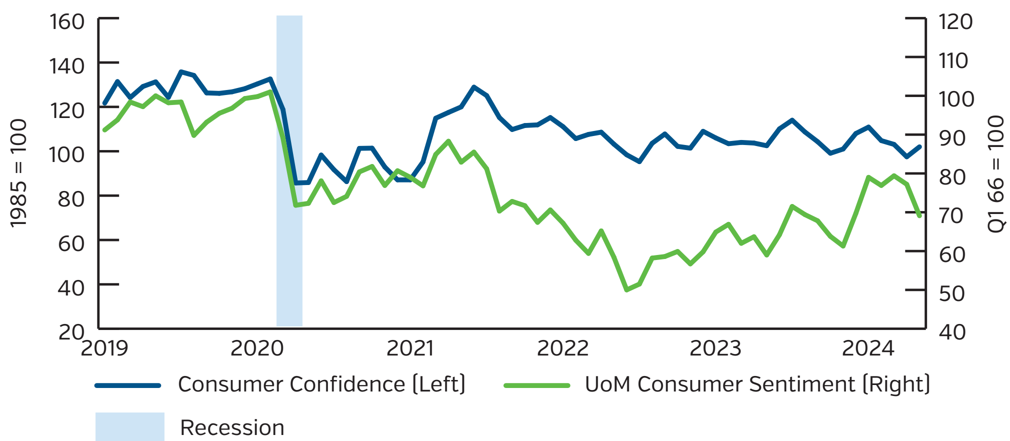
IN THIS ISSUE ▶

Monthly Economic Highlights

MAY OVERVIEW

Fed minutes referring to the most recent meeting showed that officials questioned whether policy was indeed restrictive enough. Participants wanted to see more “sustainable” progress on the road to their 2% inflation target and felt it would be necessary to keep a constrained policy stance for longer given concerns over the persistence of higher inflation readings which had been “disappointing” during the first quarter of 2024. Participants pointed to “significant” increases in both core goods and services prices in the first quarter, with a particular emphasis on core services ex-housing, and housing inflation which has not shifted lower to the extent implied by recent market rental data. Though, with slower wage growth and improvements in productivity, along with the view that longer-dated inflation expectations “remained well anchored,” the minutes shared that staff projections now anticipate a slower path of disinflation relative to the last meeting and will be “highly attentive to inflation risks.” In sum, they remain in a wait-and-see mode, with the hope that incoming data will validate their response to date.

Exhibit 1. Consumer Confidence: Consumer Sentiment Indicators



Source: Conference Board, University of Michigan, NBER, Haver, NEAM

In terms of the labor market, the situation appears healthy while simultaneously showing signs of better balance. Fewer small businesses are claiming they have positions that are hard to fill, and the percentage sharing that there is a lack of quality labor available is decreasing. The unemployment rate, although still at a historically low level, is up more than 50 bps in the past year. Quits and hires rates are falling, as is the job opening rate, while the wage gain premium once received for switching jobs is narrowing. With the labor market decelerating, and

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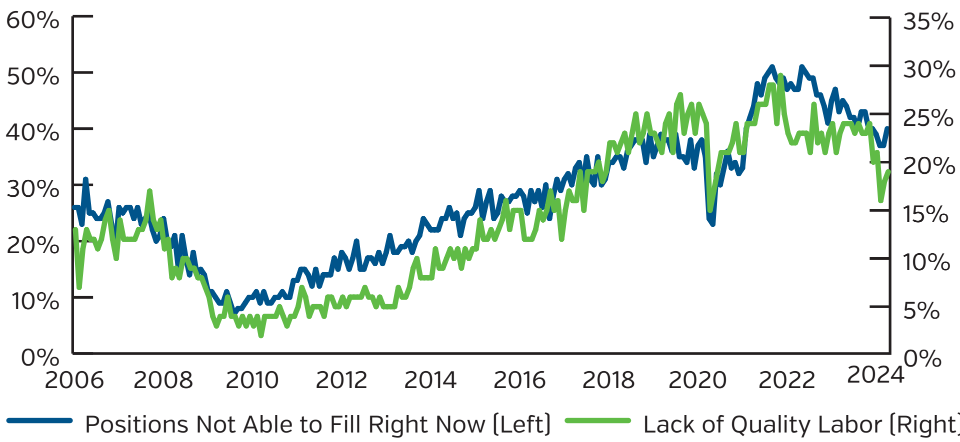
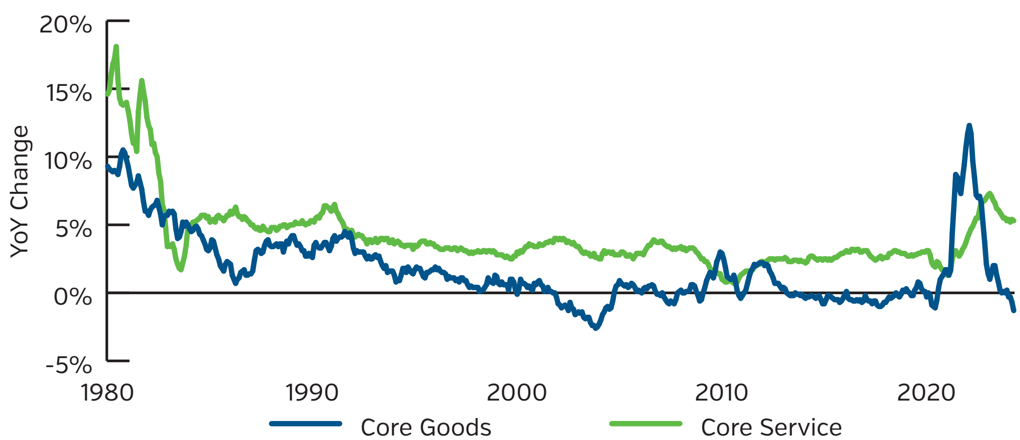
above-target inflation persistent, some consumption indicators are softening in sympathy. To this point, a key measure of consumer confidence showed some cracks last month as the University of Michigan's Consumer Sentiment Index dropped nearly 10 points, with both the current conditions and expectations falling by similar amounts. By contrast, the Conference Board's measure improved, but language from the two reports highlighted concerns around inflation, higher interest rates, rising unemployment, concern over family financial situations, and expectations of a recession rising.

Exhibit 2. NFIB Positions Not Able To Fill Right Now vs. Lack of Quality Labor



Source: NFIB, Haver, NEAM

Exhibit 3. Inflation: Core CPI Components



Source: BLS, Haver, NEAM

Investment-wise, industrial production came in flat for the month. Underneath the lack of change at the headline level, however, was a mixed tale with a decent increase in utilities offsetting a drop in mining and manufacturing. The Fed's Beige Book shared that manufacturing activity across its districts was mixed while some regional (and national) PMI readings weakened, highlighting that the sector is still trying to find a more stable footing. Lending standards in the commercial and industrial space, while still tight and impacted by higher rates, may be moderating, which could help improve investment demand. However, the improvement in capex spending intentions from some of the Fed's regional surveys remain mixed after initial improvement to start the year.

A lower headline and core CPI print for April reignited talk of the disinflation trend that had been more elusive recently. Headline CPI came in at 0.3% for the month which amounted to an increase of 3.4% relative to last year. Energy prices were again up 1.1% month-on-month on the back of higher gasoline prices and on a yearly comparative basis posted a 2.6% rise for the year. Food prices were flat as food at home costs receded while the price of food away from home increased. In terms of core inflation, the monthly increase slowed to a pace of +0.3%, which amounted to a +3.6% gain for the year (previously 3.8%). Deconstructing the core constituents, core service price increases pulled back to a pace of +0.4% for the month, again led by steady gains in shelter but a slowdown in medical care and transportation services (led by softer gains in motor vehicle insurance and falling airline fares) helped temper the increase relative to last month. On the core goods side, prices fell for the second month in a row (-0.1%) as continued positive price movement in apparel could not offset declines in new and used vehicles. While there is still work to do, the lower levels of price gains should be welcome news for the Fed, who have been waiting for their restrictive policy stance to continue to steer inflation lower.

CAPITAL MARKET IMPLICATIONS

With modestly softer inflation prints, the Fed continues to advocate for a higher-for-longer policy posture to achieve its ultimate price stability target. Treasury yields ended the month lower across the curve, credit spreads remained steady while equities rebounded relative to last month.

Exhibit 4. U.S. Historical Yield Curves

	Dec 2020	Dec 2021	Dec 2022	Dec 2023	May 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%	4.87%
5-Year	0.36%	1.26%	4.00%	3.85%	4.51%
10-Year	0.91%	1.51%	3.87%	3.88%	4.50%
30-Year	1.64%	1.90%	3.96%	4.03%	4.65%

Source: Bloomberg, NEAM

Capital Markets

FIXED INCOME RETURNS

After a few months of higher-than-expected inflation prints, April's softer post re-ignited the disinflation discussion. Despite this, the Fed maintained its mantra of higher for longer with inflation still above their target level. With economic data healthy but moderating, rates ended the month modestly lower across the curve, while credit spreads remained rangebound with limited volatility.

Exhibit 5. Fixed Income Returns

	May	3-Month	YTD
Bloomberg Barclays U.S. Aggregate	1.70%	0.04%	-1.64%
Blended ICE/ BofAML Preferred Stock	1.99%	0.67%	4.68%
ICE BofA US Taxable Muni - Broad	1.84%	-0.14%	-0.96%
ICE BofA Municipals Master (TE)	-0.14%	-1.24%	-1.33%
Bloomberg Barclays U.S. MBS (fixed rate)	2.00%	-0.04%	-2.12%
Bloomberg Barclays U.S. ABS	0.93%	0.80%	0.99%
Bloomberg Barclays U.S. Agency	0.98%	0.45%	0.07%
Bloomberg Barclays U.S. Treasury	1.46%	-0.27%	-1.85%
Bloomberg Barclays U.S. Corporates	1.87%	0.56%	-1.12%
Bloomberg Barclays High Yield	1.10%	1.33%	1.63%

Source: Barclays, Bloomberg, NEAM

Exhibit 6. Domestic Fixed Income Sector: Month-to-Date Total Returns (5/31/24)

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

EQUITY TOTAL RETURNS

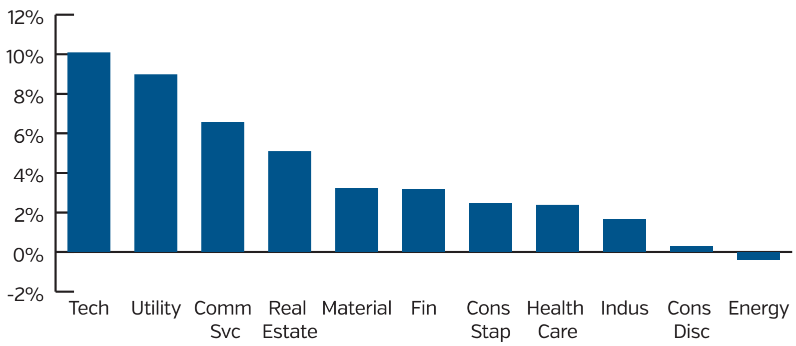
A more subdued inflation reading, offset by a Fed espousing a holding pattern and still healthy but tempering economic data, resulted in Treasury yields down slightly to end the month. Domestic equity markets recovered after modest declines in April, with investors seemingly less concerned about the prospect of rates remaining elevated.

Exhibit 7. Equity Total Returns

	May	3-Month	YTD
S&P 500	4.96%	3.91%	11.30%
NASDAQ	6.98%	4.19%	11.83%

Source: Bloomberg, NEAM

Exhibit 8. Domestic Equity Returns: Month-to-Date Total Returns (5/31/24)



Source: Bloomberg, NEAM

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