NEAM VANTAGE POINT

Trade Winds

MAY 2024

ECONOMIC & CAPITAL MARKET OVERVIEW

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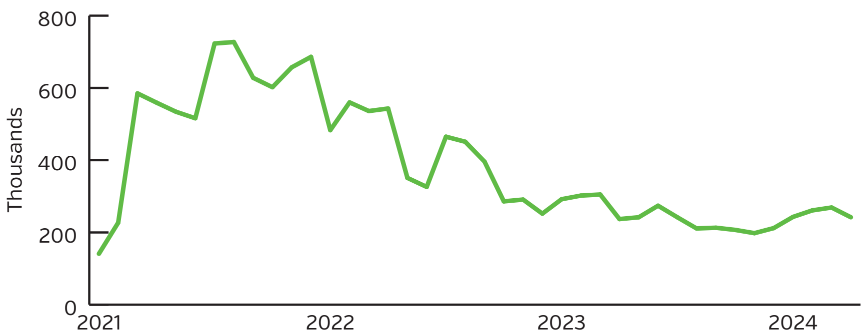
Monthly Economic Highlights

APRIL OVERVIEW

Fed minutes relating to the March meeting showed that although nearly all participants felt it might be appropriate to reduce the Fed Funds rate later this year, they still needed to be convinced that inflation was "sustainably" on its way towards 2% before acting. Noting that improving supply conditions were a positive, while appreciating that the path to lower inflation would be "uneven," participants acknowledged the continuation of strong economic data, and saw "disappointing readings" on inflation as a hurdle to clear before they had enough confidence to reduce their current policy stance. Indeed, by keeping its benchmark rate unchanged for the 6th time at the most recent meeting while citing the "lack of further progress" in bringing inflation to its target, the Fed further cemented its wait-and-see posture. In the post-meeting press conference, against the backdrop of stalled progress on inflation, Fed Chair Powell stated that they are willing to hold the current range "for as long as appropriate" as achieving "greater confidence will take longer than expected." Understandably and accordingly, market expectations for the initial rate cut moved further back in the year while Treasury yields rose.

Exhibit 1. Payrolls Trends: 3-Month Average Non-Farm Payrolls



Source: BLS, Haver, NEAM

In terms of the labor market, despite a few stronger months at the beginning of the year, the most recent payrolls report showed that the trend of job additions is again heading downwards from its post-pandemic peaks. To this point, April's numbers showed a +175K gain and with the labor force growth exceeding the household employment figures, the unemployment rate increased to 3.9%. On a three-month moving average, payrolls came in at +242K, down from +269K the previous month. While still running at healthy levels, other indicators such as the falling job opening and quits rates are showing the supply-demand forces surrounding the labor market continue to move into better balance too. With the solid labor market support, Q1 2024 GDP showed that consumption appears to be holding up. Retail sales increased +0.7% month over month at the headline level, despite drops in motor

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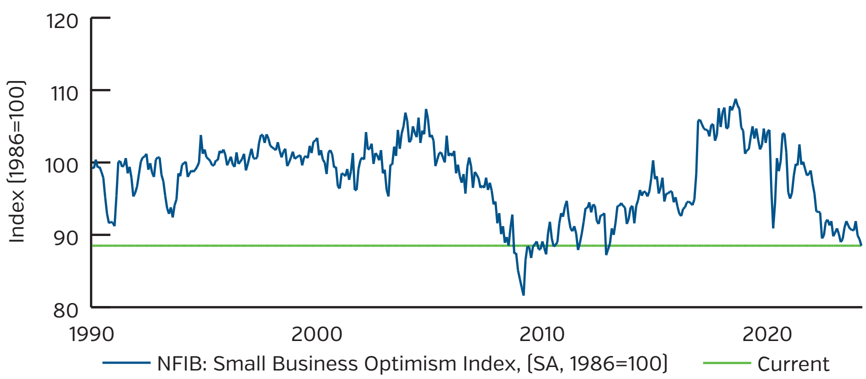
vehicle, furniture, clothing, and sporting goods, as gasoline sales propped up the figure, while a noticeable contribution from online sales helped the control group basis increase 1.1%. Despite the labor market health, confidence measures are mixed with the University of Michigan report showing that consumers remain balanced with respect to the economy and their personal finances while the Conference Boards' measure highlighted more concern on the consumer's part.

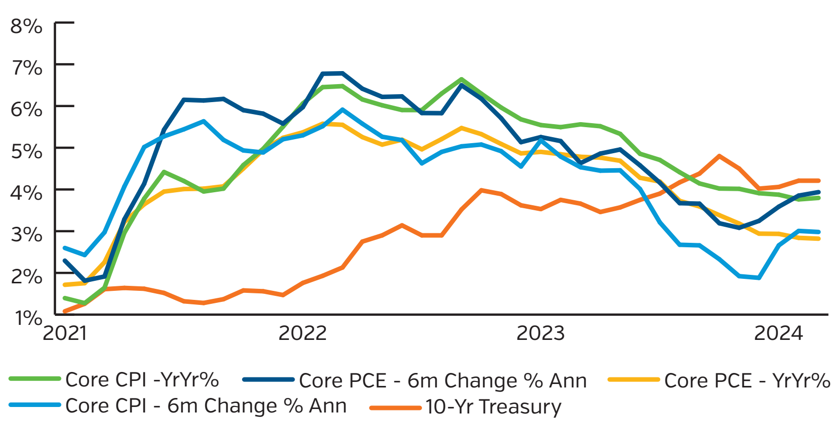
In the investment arena, information is positive but not particularly robust. Industrial production increased +0.4% for the month, propped up by a +0.5% increase in manufacturing and a +2.0% jump in utilities, despite a retracement of -1.4% in mining. While the more recent months have been positive, given a few weaker prints in December and January, the index currently sits flat to its level last year. Q1 GDP figures showed business investment remained rangebound while residential investment was positive for the third straight quarter. In contrast, however, national-level PMIs, and regional PMI surveys on planned capital expenditures, turned lower showing the manufacturing sector still faces its challenges. In addition, small business owners' optimism appears more stressed, with the NFIB small business optimism index falling recently to an 11-year low as inflation concerns weighed and more have, or intend to, raise prices while fewer are inclined to make capital investments in the near term.

Exhibit 2. Small Business Optimism: Business Confidence



Source: NFIB, Haver, NEAM

Exhibit 3. Inflation



Source: BLS, BEA, FRB, Haver, NEAM

The University of Michigan consumer sentiment survey highlighted that consumers may be unhappy that the progress on inflation to date has paused. Indeed, another month of higher-than-expected inflation prints propped up yields and correspondingly pushed out expectations for the timing of the first Fed rate cut back. The most recent CPI headline rate came in at 0.4%

for the month again which amounted to an increase of 3.5% relative to last year. Energy prices were up 1.1% month-on-month (higher gasoline) and on a yearly comparative basis turned positive for the first time in just over a year. Food prices meanwhile ticked up +0.1%. On the core side, the monthly increase came in at +0.4% for the third consecutive month, which amounted to a +3.8% gain for the year while annualized shorter-term measures increased yet again. Breaking down the core constituents, core service price increases kept pace at +0.5% for the month, again led by gains in shelter along with a jump in medical care services (mainly hospitals and health insurance) and the motor vehicle insurance sector of transportation services. On the core goods side, prices fell overall (-0.1%) after a brief stay in positive territory the month before. Despite some positive price movement in apparel and alcohol, declines in most other major sectors weighed down the overall category. Along with a PCE figure that also exceeded expectations, the overall result left markets more inclined to push back the Fed's timeline and correspondingly lift Treasury yields.

CAPITAL MARKET IMPLICATIONS

Strong economic data, combined with a stall in the disinflationary trends, resulted in the Fed signaling rates may be higher for longer. Treasury yields rose across the curve as expectations for the initial rate cut extended out and equities ended the month lower.

Exhibit 4. U.S. Historical Yield Curves

	Dec 2020	Dec 2021	Dec 2022	Dec 2023	Apr 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%	5.04%
5-Year	0.36%	1.26%	4.00%	3.85%	4.72%
10-Year	0.91%	1.51%	3.87%	3.88%	4.68%
30-Year	1.64%	1.90%	3.96%	4.03%	4.78%

Source: Bloomberg, NEAM

Capital Markets

FIXED INCOME RETURNS

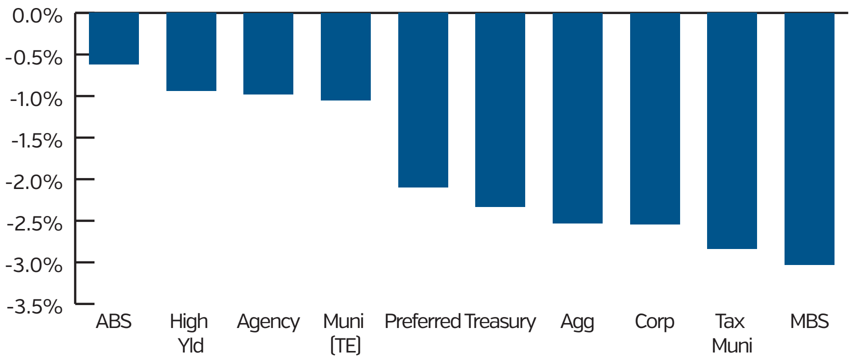
Strong economic data, mixed with higher-than-expected inflation that challenged the disinflationary trends sought by the Fed, inspired the Fed to share that rates may be higher for longer. Treasury yields increased as the market's expectations for the Fed's initial rate cut pushed further out. Credit spreads moved modestly tighter as supply slowed amid earnings season.

Exhibit 5. Fixed Income Returns

	April	3-Month	YTD
Bloomberg Barclays U.S. Aggregate	-2.53%	-3.02%	-3.28%
Blended ICE/ BofAML Preferred Stock	-2.10%	-0.30%	2.64%
ICE BofA US Taxable Muni - Broad	-2.84%	-3.02%	-2.75%
ICE BofA Municipals Master (TE)	-1.05%	-1.02%	-1.19%
Bloomberg Barclays U.S. MBS (fixed rate)	-3.03%	-3.59%	-4.04%
Bloomberg Barclays U.S. ABS	-0.62%	-0.41%	0.06%
Bloomberg Barclays U.S. Agency	-0.98%	-1.19%	-0.90%
Bloomberg Barclays U.S. Treasury	-2.33%	-2.99%	-3.26%
Bloomberg Barclays U.S. Corporates	-2.54%	-2.77%	-2.93%
Bloomberg Barclays High Yield	-0.94%	0.52%	0.52%

Source: Barclays, Bloomberg, NEAM

Exhibit 6. Domestic Fixed Income Sector: Month-to-Date Total Returns (4/30/24)



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

EQUITY TOTAL RETURNS

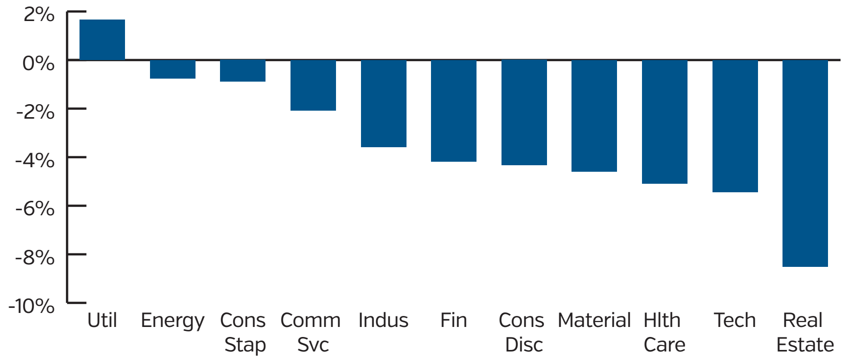
Higher-than-expected inflation prints, a resilient labor market, and Fed messaging further solidified the markets' belief that rates may remain higher for longer. As Treasury yields rose, domestic equity markets sold off, with the S&P, Nasdaq, and Dow all ending the month lower.

Exhibit 7. Equity Total Returns

	March	3-Month	YTD
S&P 500	-4.08%	4.29%	6.04%
NASDAQ	-4.38%	3.45%	4.53%

Source: Bloomberg, NEAM

Exhibit 8. Domestic Equity Returns: Month-to-Date Total Returns (4/30/24)



Source: Bloomberg, NEAM

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