NEAM VANTAGE POINT

Trade Winds

SEPTEMBER 2024

ECONOMIC & CAPITAL MARKET OVERVIEW

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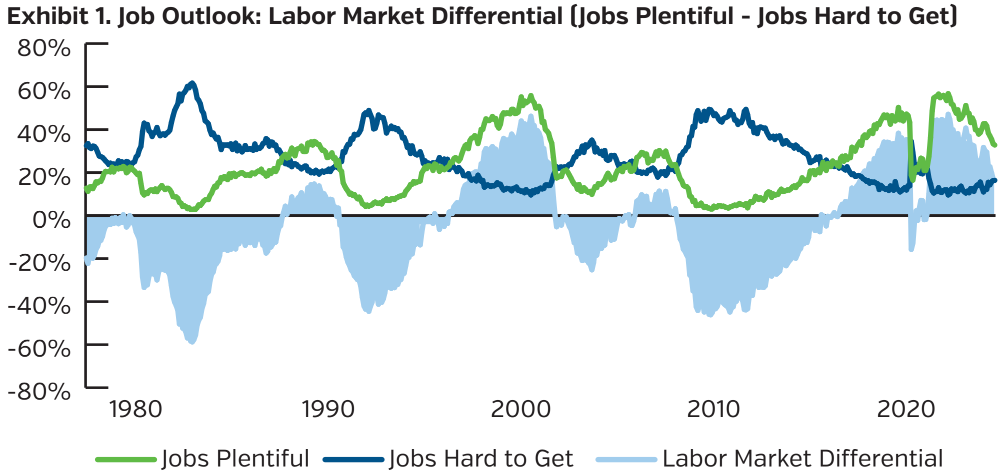
Monthly Economic Highlights

AUGUST OVERVIEW

The minutes of the most recent Fed meeting highlighted that the timing of a rate cut is nearing. Indeed, a number of participants at the meeting felt that the progress to date on the inflation front, combined with the weakening labor market, could have justified a 25-basis point cut at the last meeting. Furthermore, the "vast majority" believed it would be appropriate to reduce their benchmark rate at the next meeting if the data tracked in line with its current path while Chairman Powell further cemented the Fed's intentions to cut rates in his Jackson Hole remarks. Inflation has cooled, and the Fed is of the opinion that "the upside risks to inflation have diminished." At the same time, the strong labor market fundamentals that have characterized the jobs market for some time now are fading. In its effort to limit damage to the labor market going forward, which the Fed does not "welcome," the consensus view is to lower its benchmark rate. Powell's speech highlighted that "the direction of travel is clear." It appears to no longer be a question of if, but when and how much, with Powell noting "the time has come for policy to adjust." The degree to which the Fed moves will understandably be data-dependent, and most likely gradual, however, with subsequent inflation and labor market data since the last Fed meeting essentially staying on trend, the case for a cut at the September meeting is solidified.

Exhibit 1. Job Outlook: Labor Market Differential (Jobs Plentiful - Jobs Hard to Get)



Source: Conference Board, Haver, NEAM

In terms of labor market trends, the market continues to normalize, with payroll trends slowing and data over the month highlighting that the labor market may not have been as strong as previously indicated. During the month, the BLS revised its nonfarm jobs numbers down (-818k) in aggregate for the twelve months ending March 2024. In addition, the most recent payrolls came in below consensus at +142K, while the previous two months' figures were

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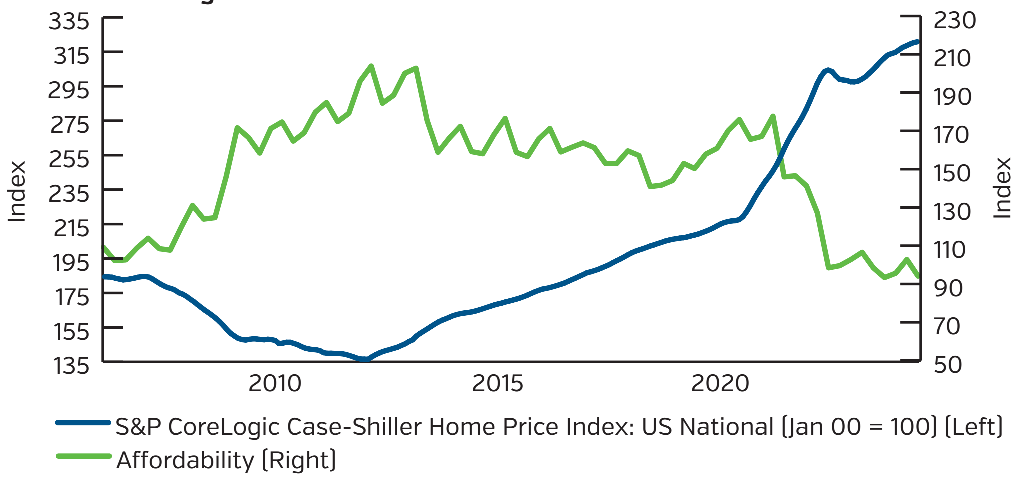
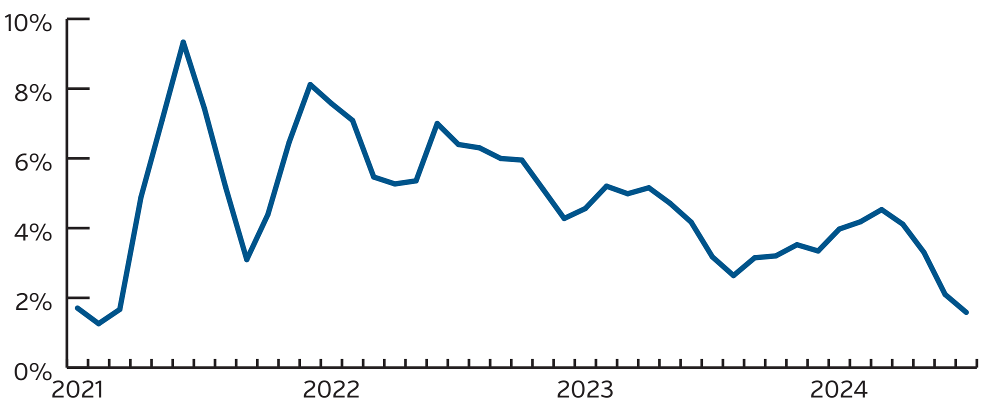
revised lower too. Although the unemployment rate dropped to 4.2%, representing an improvement relative to the previous month and still on the low end historically, it has increased 80 bps from its post-pandemic low. JOLTS figures also highlighted that job openings fell, with the ratio of job openings to unemployed (1.1X) dropping further below its pre-pandemic level. Despite this, the revised Q2 GDP, along with positive headline and core retail sales, and July's motor vehicle-led personal spending numbers, showed that consumption still appears to be holding up, albeit against a declining savings rate and contrary to the Fed's Beige Book which commented that spending trended lower in most districts. Consumer confidence also ticked up slightly but also highlighted more people believe it is tougher to get work than before, while also dealing with higher rates, high prices, and economic uncertainty.

Exhibit 2. Housing



Source: S&P, Bloomberg, Haver, NEAM

Exhibit 3. Inflation: 3-Month Annualized Core CPI



Source: BLS, Haver, NEAM

On the investment front, industrial production figures weakened at the headline level (-0.6%), driven by a combination of a drop in output in the utilities sector (-3.7%), as well as weaker manufacturing (-0.3%) levels. Manufacturing was heavily impacted by a decline in motor vehicle production, with weaker PMI, regional Fed surveys, and the Fed's Beige Book continuing to echo the challenges in that sector. Elsewhere, although business investment grew in Q2, core durable goods orders and shipments fell, while the longer-term averages trended lower in the most recent data, which may signal weaker growth going forward. In the housing arena, house prices continue to press higher despite the prevailing higher rate environment and corresponding strain on affordability, with the S&P CoreLogic 20 City index growing +0.5% for the month and 5.4% for the year.

Although price increases were higher than last month, the moderating path of inflation continues. At the headline level, prices rose +0.2% for the month, which equated to a 2.9% increase relative to the comparable period last year. Energy prices remained flat, while food edged up to the same extent as last month (+0.2%). At the core level, price increases notched up +0.2%, putting the yearly gain at 3.2%, which, along with the headline level, represents the continued easing of inflationary pressures. Shelter (+0.4%) again drove most of the increase at both the headline and core levels, which when combined with transportation services and motor vehicle insurance, were enough to offset declines on the service side in categories such as airline fares, motor vehicle repair and medical services, in addition to declines on the core goods side in new and used vehicle prices and apparel. Encouragingly, the three-month annualized core CPI figure fell below 2% for the first time since early 2021, while core services ex-housing also showed improvement, adding more data to support Fed action in the coming months.

CAPITAL MARKET IMPLICATIONS

Powell's Jackson Hole speech, along with minutes from the last FOMC meeting, showed that softening labor market fundamentals and lower inflation are inspiring the Fed's inclination to finally ease its policy. Treasury yields declined, while equities gained.

Exhibit 4. U.S. Historical Yield Curves

	Dec 2020	Dec 2021	Dec 2022	Dec 2023	Aug 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%	3.92%
5-Year	0.36%	1.26%	4.00%	3.85%	3.70%
10-Year	0.91%	1.51%	3.87%	3.88%	3.90%
30-Year	1.64%	1.90%	3.96%	4.03%	4.20%

Source: Bloomberg, NEAM

Capital Markets

FIXED INCOME RETURNS

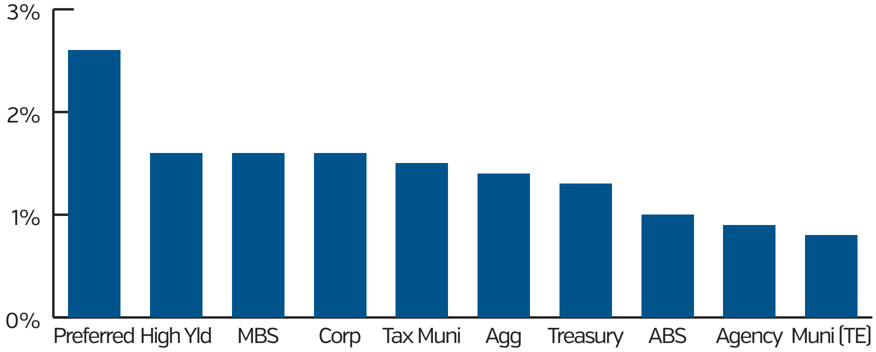
With inflation cooling and the labor market coming into better balance, the Fed has begun to signal its intention to ease up on its interest rate policy. Treasury yields fell across the curve again, while credit spreads ended the month essentially unchanged despite some weakness at the beginning of the month.

Exhibit 5. Fixed Income Returns

	August	3-Month	YTD
Bloomberg Barclays U.S. Aggregate	1.44%	4.79%	3.07%
Blended ICE/ BofAML Preferred Stock	2.61%	3.83%	8.69%
ICE BofA US Taxable Muni - Broad	1.46%	5.02%	4.01%
ICE BofA Municipals Master (TE)	0.84%	3.47%	2.08%
Bloomberg Barclays U.S. MBS (fixed rate)	1.61%	5.51%	3.27%
Bloomberg Barclays U.S. ABS	0.97%	3.03%	4.05%
Bloomberg Barclays U.S. Agency	0.93%	3.22%	3.29%
Bloomberg Barclays U.S. Treasury	1.28%	4.54%	2.60%
Bloomberg Barclays U.S. Corporates	1.57%	4.66%	3.49%
Bloomberg Barclays High Yield	1.63%	4.59%	6.28%

Source: Barclays, Bloomberg, NEAM

Exhibit 6. Domestic Fixed Income Sector: Month-to-Date Total Returns (8/31/24)



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

EQUITY TOTAL RETURNS

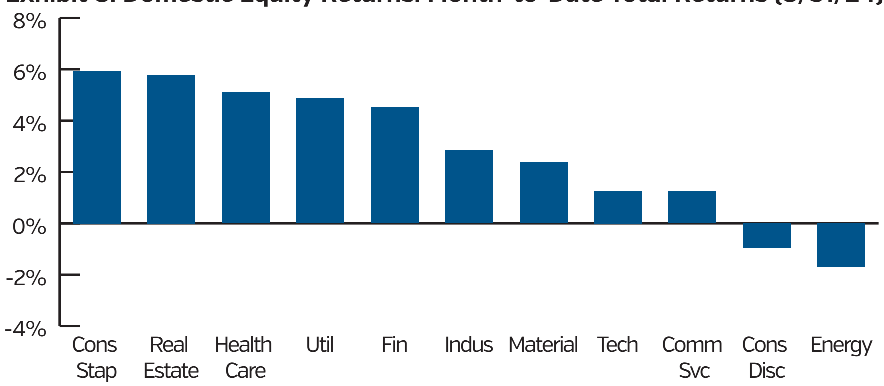
Softening in some labor market fundamentals, moderating inflation, and more dovish Fed messaging helped Treasury yields decline again. Despite weaker economic data leading to some early month retracement, domestic equity markets rose, with the Dow, S&P 500 and Nasdaq all ending the month higher.

Exhibit 7. Equity Total Returns

	August	3-Month	YTD
S&P 500	2.43%	7.39%	19.52%
NASDAQ	0.74%	6.04%	18.58%

Source: Bloomberg, NEAM

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



Source: Bloomberg, NEAM

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