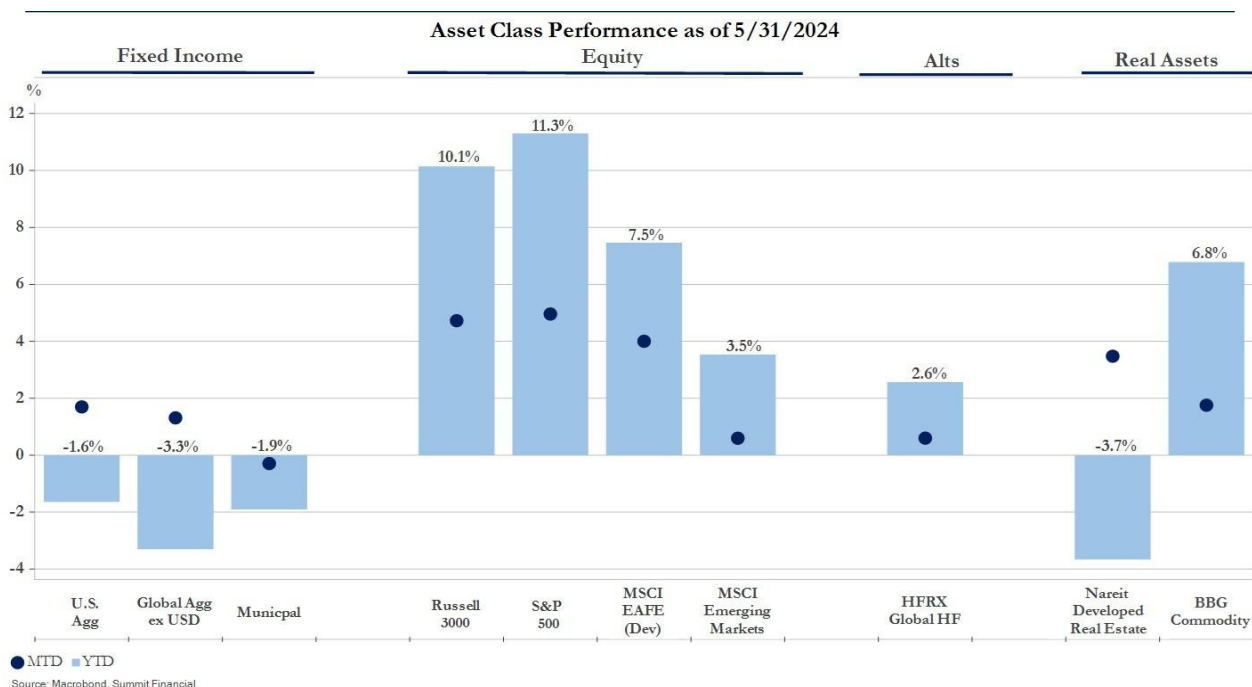


# Investment Newsletter

May 2024

## Key Takeaways

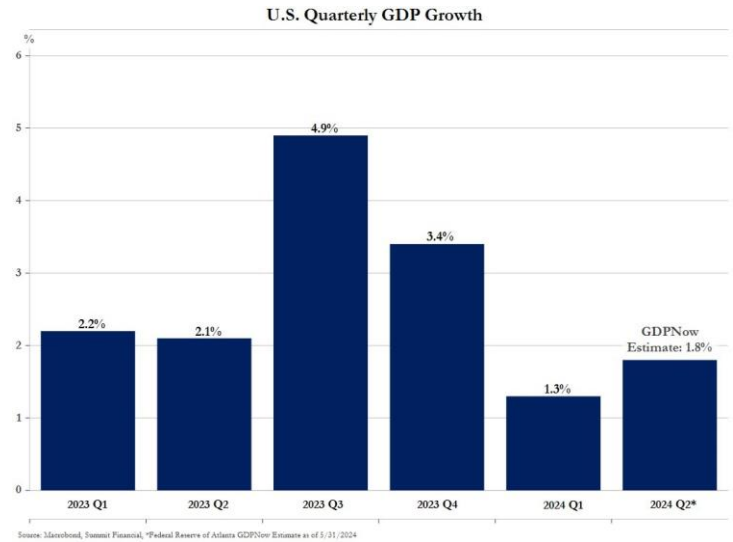
- U.S. economic resilience continued to surpass expectations, but early signs of a slowdown may be emerging. Slowing growth likely represents a normalization rather than a rapid deterioration barring any exogenous shock.
- The consumer is demonstrating some signs of weakness including reduced spending on basics such as food and clothing, as they are increasingly pinched by higher housing and borrowing costs. The lagged implications of restrictive monetary policy are becoming more apparent.
- While headline figures indicate the labor market is on solid footing, certain sectors (ex. retail, construction) are realizing reduced job openings. A slower pace of growth could contribute to more moderate payroll gains thus further suppressing inflation.
- Fed expectations of multiple cuts throughout the course of 2024 have been walked back to maybe one or two cuts in the back half of the year. Continued weakness in aforementioned areas could solidify small policy correction cuts but leave little potential for more drastic rate reductions.
- Risk assets recovered lost ground over the month with most major stock and bond indices finishing positive. Year-to-date performance of balanced accounts remains supportive due to equity market strength despite small losses from high quality fixed income assets.
- Last year's equity market leadership spilled over into 2024 with U.S. large-cap stocks pulling indices higher. By many measures, U.S. stocks look expensive with more value found across smaller market-caps and within international geographies.
- High quality bond indices have realized small losses so far in 2024 as yields have shifted upwards, especially in the belly of the curve. Credit exposure has been rewarded stemming from higher yields and modest spread tightening.
- Recent data reaffirms the case for a soft-landing scenario where growth slows but isn't derailed. Fully priced equity assets leave forward returns susceptible to unexpected, negative events. Relative to stocks, more attractive valuations within high quality fixed income offers portfolio protection while being paid to wait.



# Economy

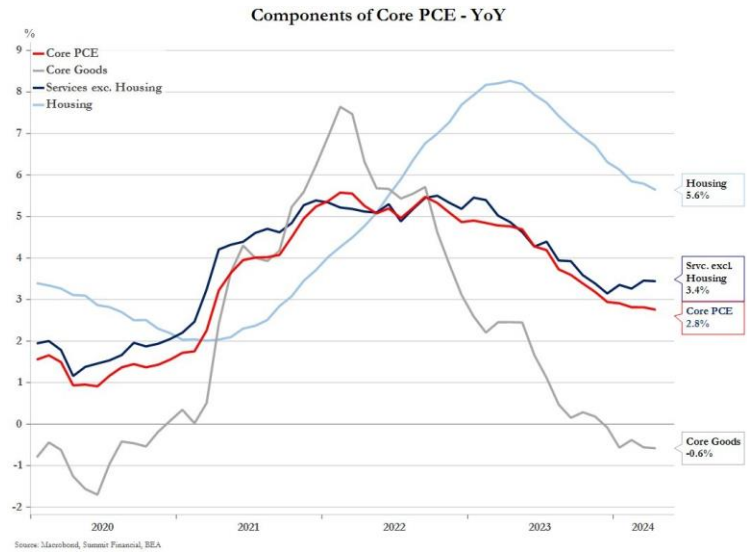
## Q1 U.S. Economic Growth Slower Than Initially Reported

- U.S. gross domestic product rose at a 1.3% annualized rate in the first quarter of 2024, revised down from the earlier estimate of 1.6%, reflecting softer consumer spending on goods.
- The economy’s main growth driver, retail spending, advanced 2.0% versus the 2.5% previously estimated.
- Currently, the GDPNow model estimate for real GDP growth in Q2 2024 is 1.8%, down significantly from the mid-May estimate of 3.6%.
- While a slowing economy is rarely a positive, investors and regulators alike view this as good news for U.S. central bank plans aimed at curbing inflation and Wall Street’s hopes for rate cuts in the back half of the year.



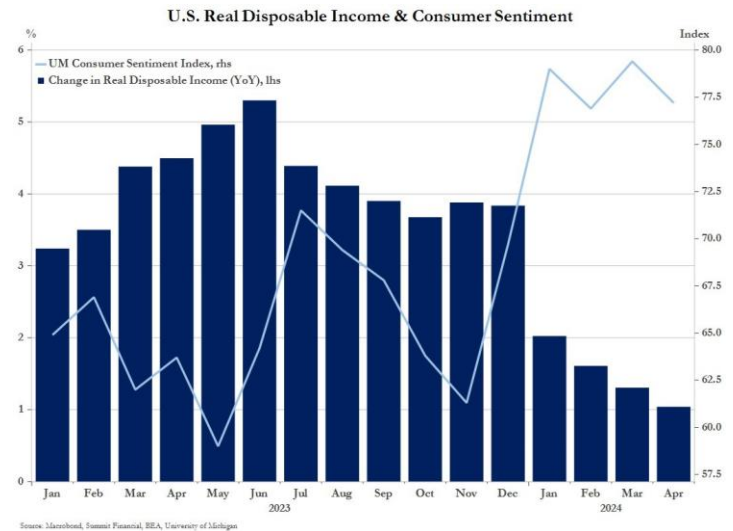
## Fed’s Preferred Inflation Gauge Stable in April

- Core PCE, the Fed’s preferred measure of underlying inflation, tracked sideways in April, coming in at 2.8% YoY which was inline with forecasts and the prior reading in March.
- Housing prices continue on a downward trend, while services ex. housing have reversed course in 2024 and are ticking back up.
- The Fed remains disciplined in the hunt for 2% inflation as Powell has stressed the need for “greater confidence” that inflation is falling.
- Although no rate cuts have been mentioned, the Fed voted to slow their pace of securities run off by half starting in June.



## Key Engines of U.S. Consumer Spending Starting to Lose Steam

- The resilient consumer that has been key to U.S. economic strength in the face of inflation and supply chain woes may now be flagging.
- Real disposable income, or what is left after taxes and inflation, continues to tick lower while the savings rate stands at a 16-month low as households are running out of extra cash amassed during the pandemic.
- Evidence also suggests households are near the brink in terms of credit, with credit card delinquency rates on the rise, albeit still below pandemic highs
- Consumer sentiment has been choppy year to date after rising sharply in Q4 2023, reflecting uncertainty on the forward path of inflation and the economy as a whole.



## Markets

### U.S. Equity Markets Rebound in May, Valuations Remain High

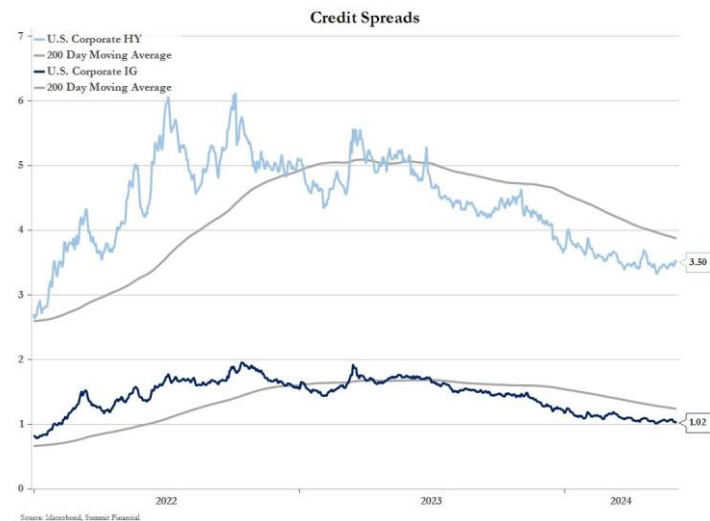
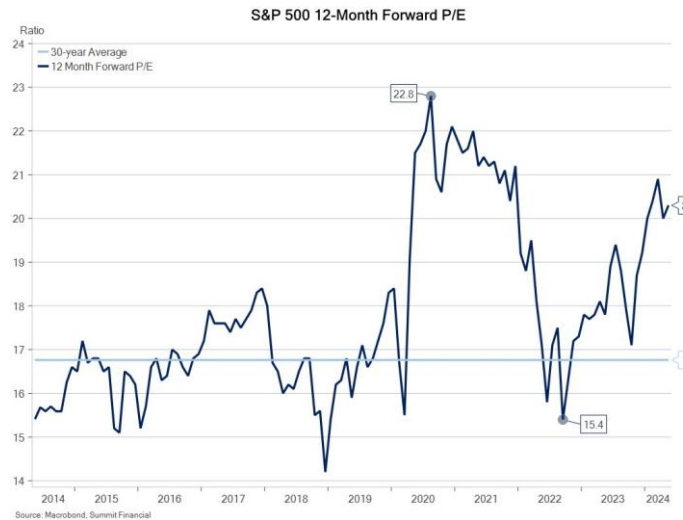
- May was a strong reversal from April for equity markets with the S&P 500 posting a ~5% return, its best May since 2003. Returns were supported by stronger than expected earnings for Q1.
- Relative to its 30-year average of 16.8, the S&P 500 looks expensive with a forward P/E ratio of 20.3 albeit still below its pandemic high of 22.8.
- High current multiples do not leave much wiggle room for appreciation as investors will continue to closely monitor earnings, margins, and potential Fed rate cuts for signs of future stress.
- In China, despite a welcomed rebound in its equity market, the outlook remains negative due to lingering issues in the real estate sector as well as an oversized reliance on export growth.

### Credit Spreads Remain Tight

- In a reversal from April, rates fell across the curve leading to a positive return for fixed income investors.
- Treasury curve inversion ticked slightly higher during the month, moving from 0.35% to 0.38%, but is still well below the 0.53% to start the year.
- Investment grade corporate bond spreads were unchanged throughout the month and remained historically tight, suggesting that corporate balance sheets remain healthy with strong access to liquidity, despite tight spreads typically being a negative for fixed income valuations.
- Municipal bond issuance has been strong but elevated yields with cheaper valuations seem to be strong tailwinds as we enter into the summer season.

### USD Remains Strong Despite Wall Street Expectations Leading into 2024

- A strengthening USD has been a theme within currency markets for most of the last decade, leading many analysts to believe it would start to weaken in 2024.
- To the contrary, the USD has held up strongly YTD as bumpy inflation data has led to dialed back expectations for rate cuts and recently imposed tariffs may continue to push the currency up.
- If analysts end up being correct and the dollar starts to slide, it could spur global growth and be a bullish signal for international stock markets, while acting as a headwind for U.S. equities.



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Label	Index	Index Description
U.S. Agg	Bloomberg U.S. Aggregate Bond Index	The Bloomberg U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS, and CMBS (agency and non-agency).
Global Agg ex USD	Bloomberg Global Aggregate Index	The Bloomberg Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes Treasury, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging markets issuers.
Municipal	Bloomberg Municipal Bond Index	The Bloomberg Municipal Bond Index covers the U.S. dollar-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.
Russell 3000	Russell 3000 Index	The Russell 3000 Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market. It is constructed to provide a comprehensive, unbiased, and stable barometer of the broad market and is completely reconstituted annually to ensure new and growing equities are included.
S&P 500	S&P 500 Index	The S&P 500 Index is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market. It measures the movement of the largest issues. Standard and Poor's chooses the member companies for the 500 based on market size, liquidity, and industry group representation. Included are the stocks of eleven different sectors.
MSCI EAFE (Dev)	MSCI EAFE Index	The MSCI EAFE Index (Europe, Australasia, Far East) captures large- and mid-cap representation across developed markets countries around the world, excluding the U.S. and Canada. The index covers approximately 85% of the free float-adjusted market capitalization in each country.
MSCI Emerging Markets	MSCI Emerging Markets Index	The MSCI Emerging Markets Index captures large- and mid-cap representation across emerging markets countries across the world. The index covers approximately 85% of the free float-adjusted market capitalization in each country.
HFRX Global HF	HFRX Global Hedge Fund Index	The HFRX Global Hedge Fund Index is comprised of funds representing the overall hedge fund universe. Constituent funds include but are not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event-driven, macro, merger arbitrage, and relative value arbitrage. The underlying strategies are asset-weighted based on the distribution of assets in the hedge fund industry.
Nareit Developed Real Estate	FTSE EPRA/NAREIT Developed Index	The FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real estate companies and REITs worldwide. Index constituents are free float-adjusted, subject to liquidity, size, and revenue screening for inclusion.
BBG Commodity	Bloomberg Commodity Index	The Bloomberg Commodity Index reflects commodity futures price movements and is calculated on an excess return basis. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production, and weight-caps are applied at the commodity, sector, and group level for diversification. The roll period typically occurs from the 6th-10th business day based on the roll schedule.