Monthly CIO View

Strategy Snapshot

June 2024

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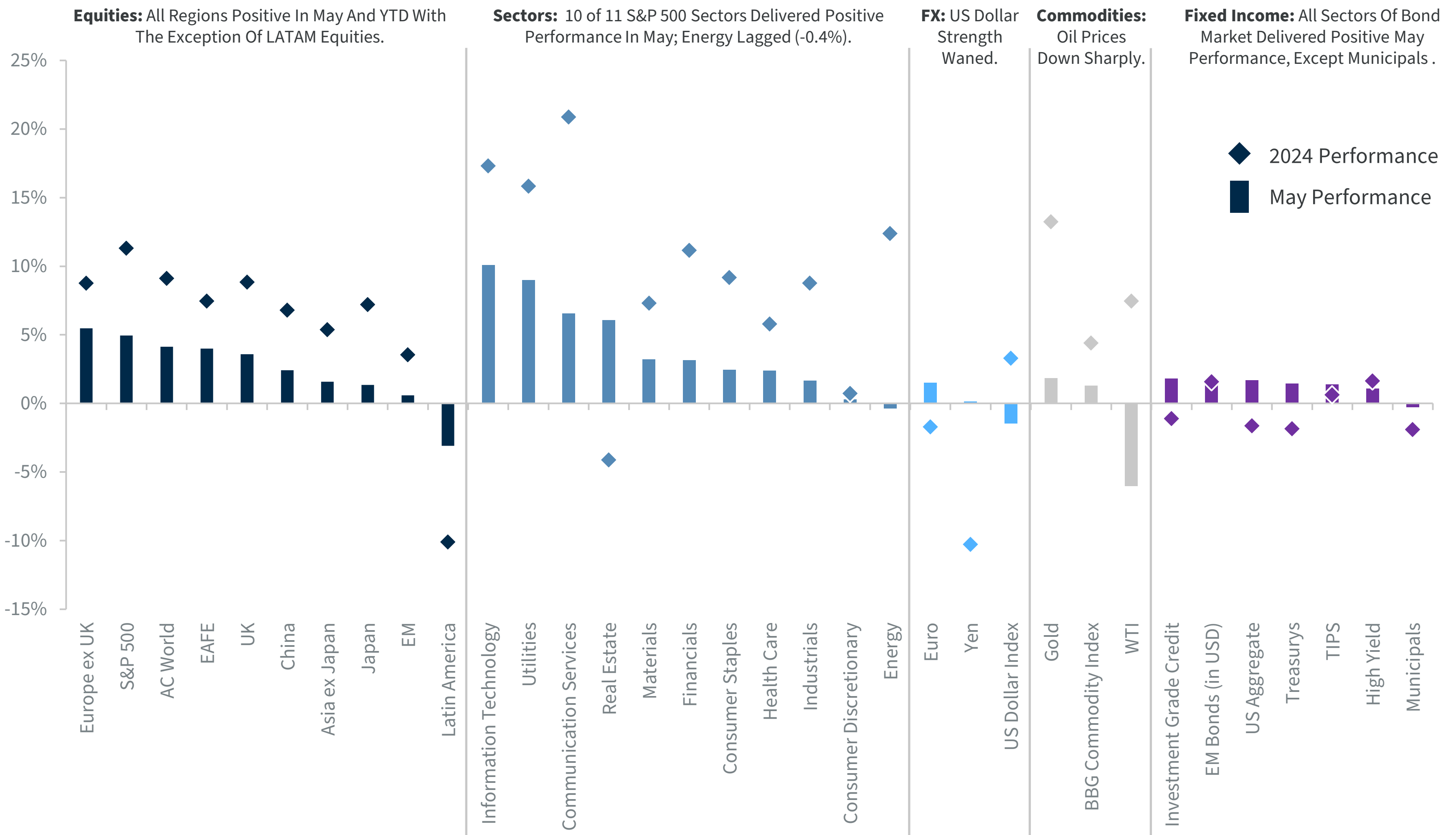
Chief Investment Officer

Returns By Asset Class | May and 2024

Returns by Asset Class



Data as of 5/31/2024. All international equity indices are MSCI indices and in USD. Diamonds represent the year-to-date total returns and bars represent monthly returns.

Global Economy | US Economy Shows Some Signs Of Downshifting

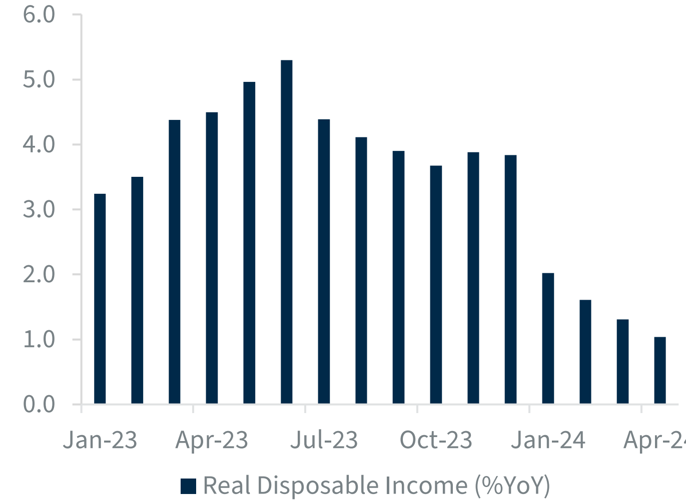
Global Economy | Recent Trends

- Recent data suggests that **the main engine of US economic growth (the consumer) is starting to lose momentum.** This was confirmed in the latest downward revision to the Q1 GDP report (from 1.6% to 1.3% QoQ annualized), which revealed moderating consumer spending and a steady decline in real (or inflation adjusted) disposable income.
- **The April PCE price index (the Fed's preferred measure) showed a modestly improving inflation picture.** While the annual pace of core PCE (ex-food and energy) remained at 2.8% YoY, the durable goods, health care and housing sub-components are steadily declining. Powell's favored super-core measure (core services ex-housing) was also down sharply MoM.
- **The pace of job growth is easing, with April payrolls reporting the slowest gains (+175k) in six months.** High frequency data, such as the Indeed job postings, are normalizing—down ~12% YTD and are just ~11% above Feb 2020 levels. The employment sub-component in the ISM indices also remains in contractionary territory (below 50).
- **The euro-zone economy is emerging from its growth slowdown,** although it is still slow compared to the robust US economy. However, the ECB is still expected to cut rates in June.
- **Chinese authorities continue to roll out further stimulus measures** to support the economy and boost the beleaguered property sector.

Global Economy | 12-Month Outlook

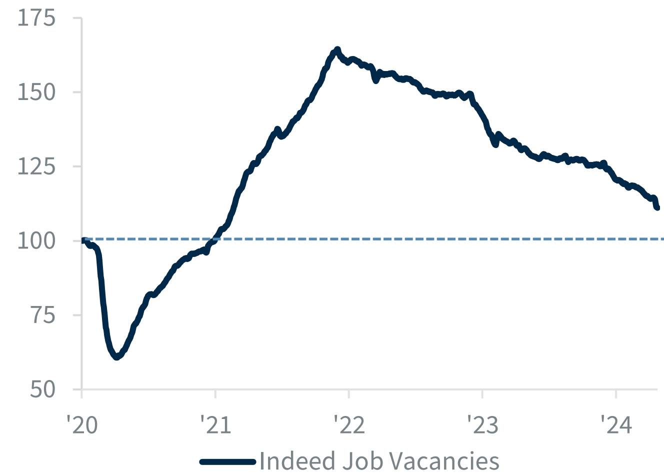
- **US economic growth is gradually moderating as slowing labor market momentum and a cost-conscious consumer are starting to weigh on economic activity.** However, the ongoing impact of the government's fiscal spending (i.e. IRA and CHIPS Act) should continue to support growth. Overall, **we expect growth to modestly fall to 2.1% in 2024.**
- Despite the still elevated level of inflation, **the disinflationary trend that kicked off in 2022 remains intact.** While Fed officials have signaled that they would prefer to wait for more data that inflation is sustainably cooling before they begin to cut rates, we think it will continue to trend lower. This will allow the Fed to cut rates 2 or 3 times in 2024.
- **Consumer spending should slow in the coming months** as the cumulative impacts of higher prices, a dwindling savings cushion and slowing job growth weigh on consumption. While the lower-end consumer is more vulnerable, particularly given rising delinquencies and exhausted borrowing capacity, household spending is showing signs of fatigue.
- **There have been green shoots of a recovery in Europe and China.** ECB rate cuts should provide some support, but growth is likely to remain subdued.
- **Chinese authorities will need to roll out further stimulus measures or reduce rates** to prop up weak consumer demand and the ailing property market in the months ahead.

Real Disposable Income Has Markedly Slowed



Source: FactSet

Job Vacancies Have Almost Normalized



Source: FactSet

Equities | Markets Rebound After Last Month's Consolidation

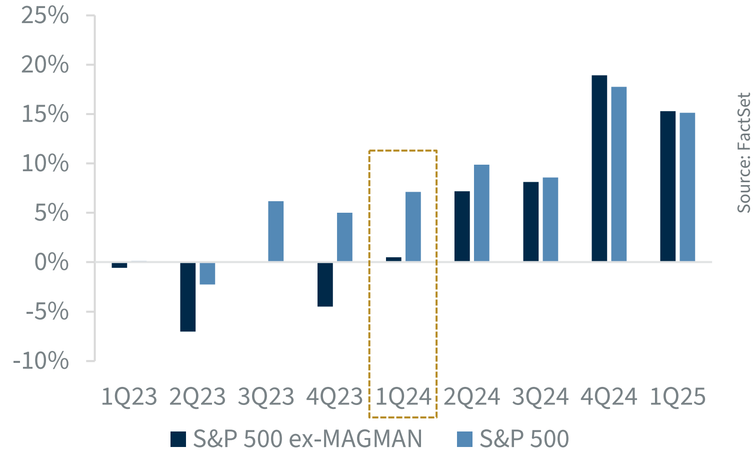
Global Equities | Recent Trends

- **Global equities rallied for the sixth time in seven months** on improving global economic data (e.g., Europe and China) and another solid US earnings season. Nearly all major US benchmarks ended the month higher, with the S&P 500, NASDAQ and DJIA up 5.0%, 7.0% and 2.3% MTD, respectively. Mega-cap tech stocks once again powered the market higher.
- **S&P 500 earnings rose for the third consecutive quarter, rising 7.1% YoY**—above the expected 4.1% on March 31. MAGMAN (our composite of mega-cap tech stocks) drove the bulk of the S&P 500 earnings, rising over 50% YoY in 1Q24. However, the rest of the index is starting to participate, delivering positive earnings growth for the first time since 4Q22.
- **Full-year earnings revisions for S&P 500 companies have bucked the typical downward trend** and are positive YoY. The percentage of companies beating earnings estimates (~79%) remained above its 5-year average (~77%), with the highest positive earnings surprises coming from the Communication Services, Consumer Discretionary and Health Care sectors.
- **European stocks climbed to near record highs supported by an improving macro backdrop, positive earnings revisions and the prospect of an ECB rate cut.**
- After rallying over 30% (in local terms) from the January lows, the **MSCI China index** gave back some of its recent gains amid rising trade tensions with the West and growth concerns.

Global Equities | 12-Month Outlook

- While valuations remain at cyclical highs, earnings growth is taking over as the main driver of returns. We expect S&P 500 earnings growth to remain solid (double-digit gains by year end), supported by a healthy macro backdrop and continued capex spending. We remain confident in our **5,200 year-end S&P 500 target ($240 EPS and 21.5x multiple).**
- With the S&P 500 already at our year-end target, bouts of volatility should be expected when positioning and sentiment reach extremes. However, **we remain optimistic longer term, as earnings trends for the rest of the Index should steadily improve** and secular trends, like AI and its knock-on effects, continue to underpin the market.
- **Fundamentals continue to favor US stocks despite relatively attractive European equity valuations** versus their US counterparts. Stronger expected economic growth, more dynamic consumers, a commitment to deliver shareholder value, and higher weights to our favored sectors (Tech, Health Care and Industrials) suggest US equities will outperform.
- We remain **constructive on emerging market equities, but selectivity is key.** While China continues to face onshore headwinds, EM Asia (e.g., India) and LatAm (e.g., Mexico) should benefit from supportive policies, strong earnings growth and friendshoring trends.

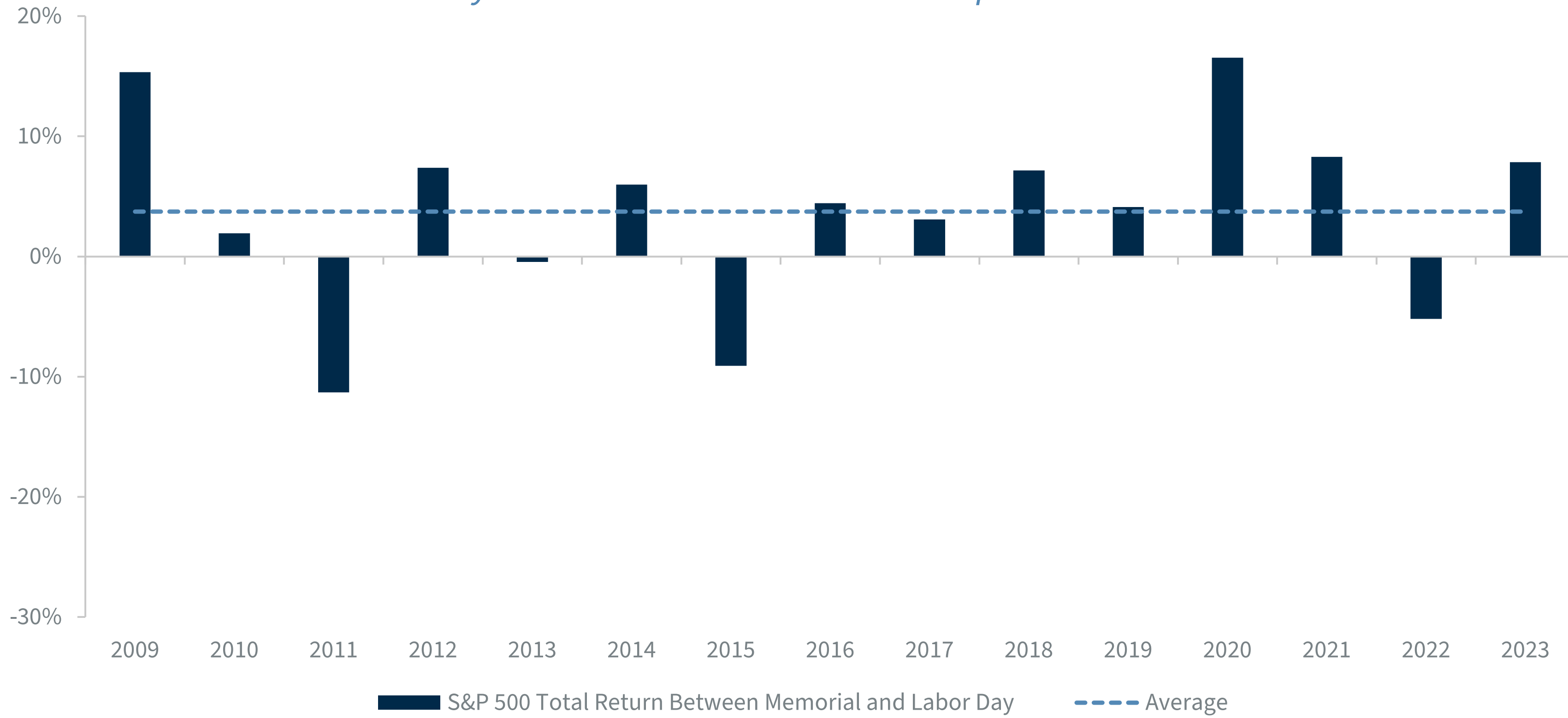
Earnings Set To Broaden Through 2024



Upward Revisions To European Earnings

SELL IN MAY AND GO AWAY—NOT SO FAST!

Over the last 15 years, the average performance between Memorial Day and Labor Day is 3.7%—that's an annualized performance of 14.4%!



Source: FactSet, Data as of 5/31/2024. Returns are price return.

Fixed Income | Yields Retreat Despite Hawkish Fed Rhetoric

Global Bonds | Recent Trends

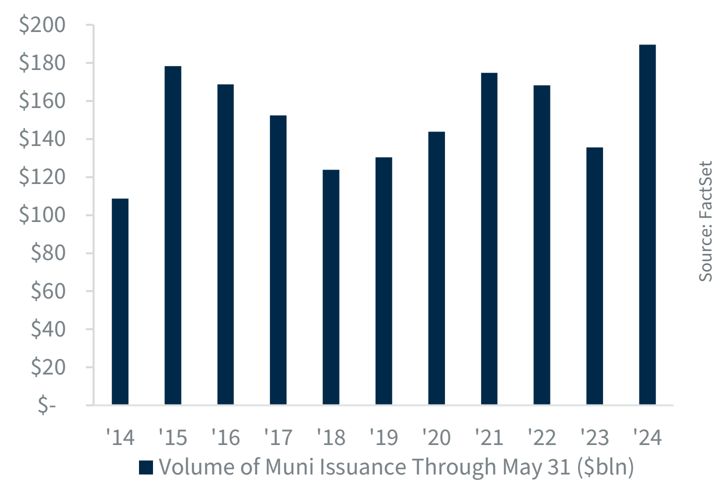
- **Treasury yields across the curve declined in May, despite hawkish comments from Fed speakers and lingering supply concerns.** Despite some mid-month volatility caused by three poorly received auctions, the 10-year Treasury yield ended the month at 4.51%, 18 bps lower. Interest rates continue to move directionally with fed rate cut expectations.
- **Fed speakers walked back Powell's dovish stance following last month's FOMC meeting.** The messaging from Fed officials remained consistent: policymakers need more time to gain confidence that inflation is moving sustainably back to the Fed's 2.0% inflation target. Fed fund futures are now only expecting 1-2 rate cuts by year end.
- **Corporate bond spreads steadied near their lowest levels in nearly three years.** Strong demand and solid corporate profits helped investment grade spreads grind two bps tighter to 85 bps. High yield spreads are hovering near their recent lows, but concerns about a slowing US economy led to some profit taking, pushing spreads modestly wider to 308.
- **Municipal bonds closed out the month with modest losses (-0.3%)—the sector's second worst May performance in ten years.** The underperformance was driven by a sharp increase in issuance, which is off to its busiest start to the year since 2015. Despite high interest rates, issuance is up nearly 40% above the same period last year.

Global Bonds | 12-Month Outlook

- **The market has priced in a gradual easing cycle due to the economy's resilience and strong labor market.** While the Fed has penciled in three rate cuts in 2024, followed by further easing in 2025, the market only expects 1 to 2 rate cuts by year end. We are more sanguine believing economic data will allow the Fed to deliver two to three cuts this year.
- Despite lingering **inflation concerns**, Fed officials still believe that real (or inflation adjusted) policy rates are in restrictive territory. Restrictive policy rates will help slow growth and inflation in the coming months and lead to lower bond yields later this year. **We maintain our 3.75% 10-year Treasury yield year-end forecast.**
- **The higher yield environment provides investors with another opportunity to lock in attractive yields ahead of the Fed's upcoming easing cycle.** While the Fed patiently waits for growth and inflation to slow, the elevated level of rates provides a cushion if the economy slows more than expected and provides reasonable income along the way.
- **Corporate bond spreads (investment grade, high yield, emerging markets) are historically tight;** however, all-in yields remain attractive. We favor investment grade over high yield given resilient corporate earnings. High yield credits spreads have limited room for further compression and remain vulnerable to economic weakening.

Rate Cut Expectations Drive 10-Year Treasury

Highest Muni Issuance In Over A Decade



Commodities & Currencies | Commodity Prices Continue To Rally

Commodities & Currencies | Recent Trends

- **The Bloomberg Commodity Index (+1.3% MoM) continued its recent positive streak,** posting its third consecutive month of gains—its longest stretch of gains in two years. While oil prices were weaker, (WTI -6.0% MoM) strength in industrial and precious metals, grains, and soaring natural gas prices (+29.9% MoM) supported the broader Index.
- **Precious metals have been on a tear this year, with gold and silver prices notching new, all-time highs**, up 13.2% and 26.4% YTD, respectively. Central bank buying and concerns about sticky inflation have supported gold prices this year. Precious metals are also benefiting as they are often viewed as a hedge against inflation.
- **Optimism on a rebound in global manufacturing activity has driven the Bloomberg Industrial Metals Index higher (+1.4% MoM) for the third consecutive month.** Strong demand for copper, driven by an improving global backdrop and growing AI demand, have been behind the recent surge—with industrial metals up +18.3% YTD.
- **The US Dollar Index (-1.5% MoM) declined for the first time this year.** Although higher sovereign yields in the US vs. Europe still favor a stronger dollar, a divergence in yield took place in May as European yields increased while US yields fell. This eroded some of the relative interest rate differential between sovereign yields and helped push the dollar lower.

Commodities & Currencies | 12-Month Outlook

- **Commodity prices should remain steady** throughout the year, although there may be divergent trends within the subindexes. Heightened geopolitical risk, ongoing conflicts in commodity-producing regions, escalating tensions in the Middle East, droughts, and trade disputes could lead to interim bouts of volatility in select commodities.
- **Supply/demand dynamics will remain key factors driving oil prices in 2024.** OPEC's decision to slowly unwind voluntary production cuts starting October, combined with weaker demand, record US production and the need to refill the Strategic Petroleum Reserve should keep prices range bound in the next 12 months. We maintain our $85/barrel oil price target.
- **The US dollar has likely peaked for this cycle** with the Fed tightening cycle behind us. However, a sustained move lower will require a further upswing in global economic growth and a narrowing in relative interest rate differentials, which should occur once the Fed kicks off its easing cycle. The large current account deficit remains a long-term negative.
- **The euro should remain stable vs. the US dollar, staying in a 1.05-1.10 range.** The ECB is expected to cut rates in June; but policymakers will not want to diverge much from the Fed. The still historically depressed **Japanese yen could strengthen** as more hawkish BOJ policy diverges from other central banks and with the BOJ intervening in currency markets.

Commodity Prices Have Turned Higher

Silver Prices Reach Highest Level Since 2013

Summary | Key Year-End Forecasts and Views

1 ECONOMY

US GDP: +2.1%

The US economy remains on solid footing, supported by a strong labor market and a healthy consumer. However, rising credit card balances, slowing job growth and dwindling savings are likely to dampen consumption in the months ahead. Economic activity should gradually ease over the coming quarters, with growth moderating to a 2.1% pace in 2024. Despite the concerns about lingering inflation, we expect core PCE to gradually ease over the next 12 months.

2 BOND MARKET

10-Year Treasury: 3.75%

Bond yields remain at elevated levels, providing investors an opportunity to lock in an attractive income stream before the Fed starts to dial back some of its policy restraint. With growth and inflation set to slow over the coming months, the Fed should be able to kick off its easing cycle. While the market has priced out most of the Fed's rate cuts, we still expect them to deliver two to three rate cuts by year end. This should lead to lower yields, with the 10-year Treasury yield falling to 3.75% by year end.

3 EQUITIES

S&P 500: 5,200

Solid earnings growth has taken over as the main driver of equity returns despite valuations being at a cyclical high. Although economic growth is moderating, the slowdown should not put too much of a dent in corporate profitability. We reiterate our 5,200 year-end target for the S&P 500 ($240 EPS, 21.5x P/E multiple). We continue to favor the US over Europe and Japan. Small caps and select emerging markets (i.e., India, Mexico) are also poised to outperform.

4 DOLLAR DIRECTION

EUR/USD: 1.0750

The tailwinds supporting the US dollar have largely run their course. However, the more resilient US economy should keep the US dollar supported near term. But once the Fed kicks off its easing cycle and the global recovery picks up steam, the US dollar should gradually start to weaken. The euro may struggle to gain traction as the ECB should ease ahead of the Fed. The Japanese yen has room to appreciate as the BOJ gradually normalizes its policy stance.

5 OIL

Oil: $85/barrel

Conflicting supply and demand dynamics should remain key drivers of the oil market going forward. While OPEC+ nations have maintained their production cuts (at least through October 2024), US production has ramped up. Moderating global growth and higher US crude stockpiles suggest weak demand, while the US Government need to refill the Strategic Petroleum Reserve is pushing demand in the opposite direction. This should keep oil prices in a tight range around our $85/barrel price target.

6

Volatility: ↑

Volatility has eased back toward pre-pandemic levels as supply chains normalize, inflation recedes and central banks' eye cutting interest rates. Possible triggers for an interim spike include unforeseen geopolitical risks, overly optimistic equity sentiment and the upcoming US presidential election. Bond volatility has returned to pre-financial crisis (2008) levels, however fiscal concerns, Treasury supply dynamics, shifting rate expectations and growth and inflation trends could push volatility higher.

DISCLOSURES

Diversification does not ensure a profit or guarantee against a loss. Investing in small cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor.

SMALL CAPS | Investing in small cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor.

EMERGING MARKETS | Investing in emerging markets can be riskier than investing in well-established foreign markets.

INTERNATIONAL INVESTING | International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

SECTORS | Sector investments are companies engaged in business related to a specific economic sector and are presented herein for illustrative purposes only and should not be considered as the sole basis for an investment decision. Sectors are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

OIL | Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

CURRENCIES | Investing in currencies is generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

GOLD | Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

FIXED INCOME | Fixed-income securities (or “bonds”) are exposed to various risks including but not limited to credit (risk of default of principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise.

Investments in municipal securities may not be appropriate for all investors, particularly those who do not stand to benefit from the tax status of the investment. Municipal bond interest is not subject to federal income tax but may be subject to AMT, state or local taxes.

US TREASURYS | US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value.

US DOLLAR | The US Dollar Index is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies,[1] often referred to as a basket of U.S. trade partners' currencies.[2] The Index goes up when the US dollar gains "strength" (value) when compared to other currencies.

DEFINITIONS

AGGREGATE BOND | **Bloomberg US Agg Bond Total Return Index:** The index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

HIGH YIELD | **Bloomberg US Corporate High Yield Total Return Index:** The index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody’s, Fitch and S&P is Ba1/BB+/BB+ or below.

CREDIT | **Bloomberg US Credit Total Return Index:** The index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

MUNICIPAL | **Bloomberg Municipal Total Return Index:** The index is a measure of the long-term tax-exempt bond market with securities of investment grade (rated at least Baa by Moody’s Investors Service and BBB by Standard and Poor’s). This index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

PCE INDEX | **Personal Consumption Expenditures (PCE) Index:** The PCE price index looks at U.S. inflation by measuring changes in the cost of living for households. It tracks the prices of a basket of goods and services, each with different weightings, to reflect how much a typical household spends every month.

BG COMMODITY INDEX | **Bloomberg Commodity Index** is calculated on an excess return basis and reflects commodity futures price movements.

BLOOMBERG INDUSTRIAL METALS INDEX | **Bloomberg Industrial Metals Index** reflects the returns that are potentially available through an unleveraged investment in the futures contracts on industrial metal commodities.

BLOOMBERG ENERGY INDEX | **Bloomberg Energy Index** is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return of underlying commodity futures price movements only and is quoted in USD

MSCI EM ASIA INDEX | The **MSCI Emerging Markets (EM) Asia Index** captures large and mid cap representation across 8 Emerging Markets countries*. With 1,160 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

NASDAQ | The **Nasdaq Composite Index** is a market capitalization-weighted index of more than 3,700 stocks listed on the Nasdaq stock exchange. As a broad index heavily weighted toward the important technology sector, the Nasdaq Composite Index has become a staple of financial markets reports.

S&P 500 | The **S&P 500 Total Return Index:** The index is widely regarded as the best single gauge of large-cap U.S. equities.

EMERGING MARKETS EASTERN EUROPE | **MSCI EM Eastern Europe Net Return Index:** The index captures large- and mid-cap representation across four Emerging Markets (EM) countries in Eastern Europe. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

ASIA EX JAPAN INDEX | **The MSCI AC Asia ex Japan** Index captures large and mid cap representation across 2 of 3 Developed Markets (DM) countries* (excluding Japan) and 9 Emerging Markets (EM) countries in Asia. With 983 constituents, the index covers approximately 85% of the free float adjusted market capitalization in each country.

AC WORLD INDEX | **The MSCI AC World** Index is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International (MSCI) and is comprised of stocks from 23 developed countries and 24 emerging markets.

EMERGING MARKETS LATIN AMERICA | **MSCI EM Latin America Net Return Index:** The index captures large- and mid-cap representation across five Emerging Markets (EM) countries in Latin America. With 116 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS | **MSCI Emerging Markets Net Return Index:** This index consists of 23 countries representing 10% of world market capitalization. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 23 countries.

JAPAN | **MSCI Japan Net Return Index:** The index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

EUROPE | The **MSCI Europe Index** captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe*. With 428 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

MSCI EAFE | The **MSCI EAFE** (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations.

MSCI EM | The **MSCI Emerging Markets Index** captures large and mid cap representation across 25 Emerging Markets (EM) countries*. With 1,420 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

CITIGROUP ECONOMIC SURPRISE INDEX | **Citigroup Economic Surprise Index** represents the sum of the difference between official economic results and forecasts. With a sum over 0, its economic performance generally beats market expectations. With a sum below 0, its economic conditions are generally worse than expected.

ISM MANUFACTURING INDEX | The **ISM Manufacturing Index**, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms.

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DATA SOURCES

FactSet as of 6/4/24.

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