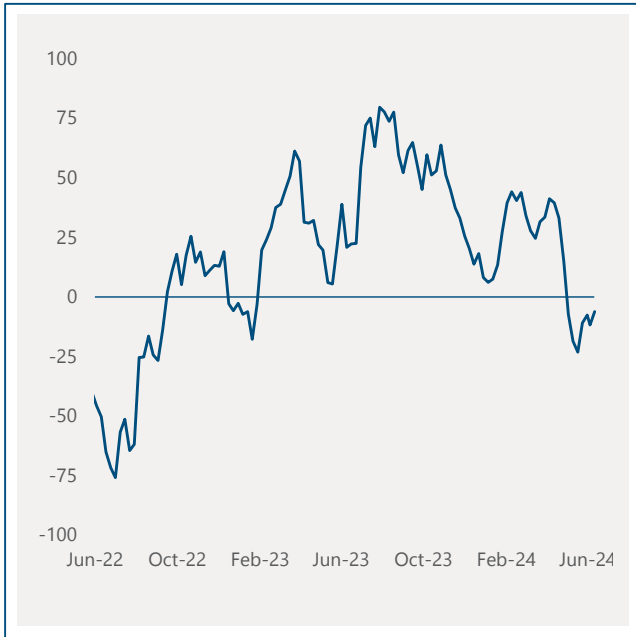


June 2024

Market Review



Cooler Economic Data In May
Citi U.S. Economic Surprise Index



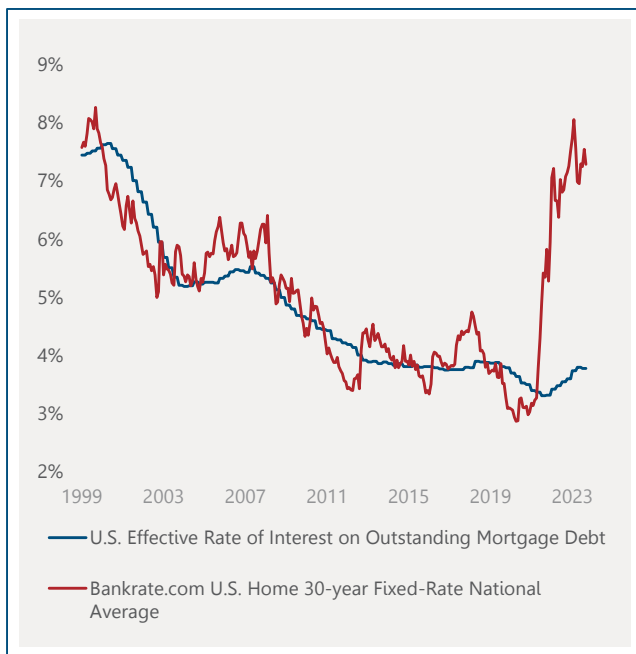
Source: Bloomberg. The Citi Economic Surprise Indices measure data surprises relative to market expectations. A positive reading means that data releases have been stronger than expected and a negative reading means that data releases have been worse than expected.

The Citi U.S. Economic Surprise Index shown in the accompanying chart measures the magnitude of aggregate economic data surprises relative to expectations over time. A positive number indicates better-than-expected data, while a negative number indicates data has been weaker than estimated.

The trend of upside surprises in U.S. economic data began to inflect downward in the first week of April following a strong March nonfarm payrolls report (303,000 jobs added vs. 214,000 estimate). Aggregate surprises entered negative territory on May 3 on weak April nonfarm payrolls (167,000 jobs added vs. 193,000 estimate) and April ISM Services (49.4 vs. 52.0 estimate) releases.

Soft economic data in May suggests the U.S. economy may have entered a period of decelerating growth in the first half of the year. To optimists, this was evidence of the much-heralded soft landing, an economic scenario in which Fed rate hikes of March 2022 through July 2023 slow growth by enough to cool excess inflation without causing a recession. Not surprisingly, U.S. Treasury yields moved lower in May and the S&P 500 rallied 4.8% as investors increasingly priced in a benign economic backdrop for the rest of 2024.

Sluggish Housing Market
30-Year Fixed Mortgage Rate



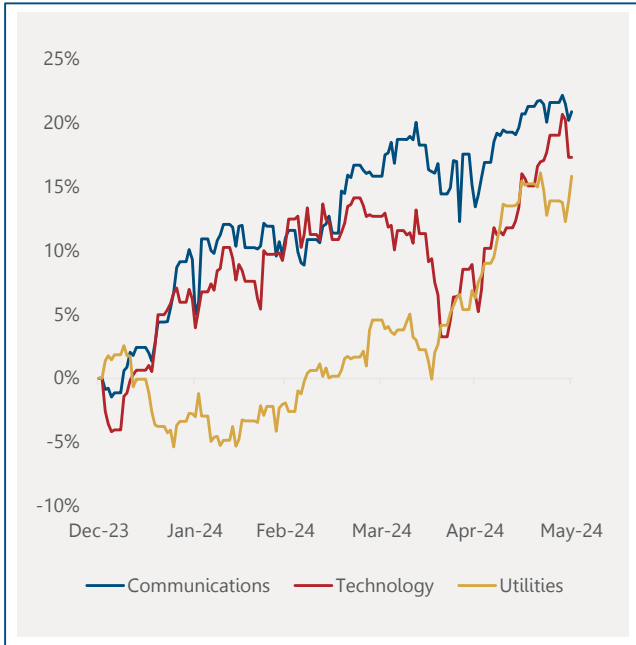
Source: Bloomberg.

The historically wide spread between the average rate paid by homeowners with a 30-year fixed-rate mortgage (3.8%) and the national average rate for new 30-year mortgage loans (7.2%) has suppressed activity in the existing homes market and led homebuilders to offer generous incentives to entice buyers of newly-constructed single-family homes.

Sales of existing homes in the U.S. fell to an annualized rate of 4.14 million units in April, slightly lower than a reading of 4.22 million units in April 2023 and well below the annualized pace of 5.52 million units in April 2022. New mortgage and refinancing volumes have been near 30-year lows for 18 months as both current homeowners and new buyers have balked at sharply higher rates.

Amid suppressed activity, the median selling price of an existing home in the U.S. increased 5.7% in April to \$407,600 from a year ago. The inventory of unsold previously owned homes was 1.21 million units in April, up 16.3% from 1.04 million units a year ago. According to the National Association of Realtors, current unsold inventory would be exhausted in 3.5 months, up from 3.0 months in April 2023.

AI Electricity Demand Boosts Utilities
S&P 500 YTD Top Sector Performance



Source: Morningstar.

U.S. equities regained their momentum in May after falling in April. Encouraging first quarter corporate earnings growth and lower bond yields supported the S&P 500 index's 4.96% gain in the month, bringing its return this year to 11.30%. The bulk of the market's gain this year remains top heavy with the S&P 500 Top 50 index up 15.11%, while the S&P 500 Equal Weight index is only up 5.55%. Ten of the 11 S&P 500 sectors rose in the month, led by technology (+10.08%) and utilities (+8.97%). Energy was the only negative sector.

The typically sluggish utilities sector has found itself in an unfamiliar place leading the S&P 500 over the last three months with a strong 18.10% return, nearly 9% more than then the second-best sector (energy +9.33%). The sector has undergone a sharp turnaround from being one of two sectors down last year along with energy.

Utility stocks have received a jolt of investor enthusiasm as a tertiary play on artificial intelligence. The sector is expected to benefit from growing electricity demand for data centers running artificial intelligence computations. According to Goldman Sachs analysts' projections, data center electricity demand is expected to more than double by 2030.

Share Buybacks Rebound
S&P 500 Annual Share Buybacks (\$ Trillions)



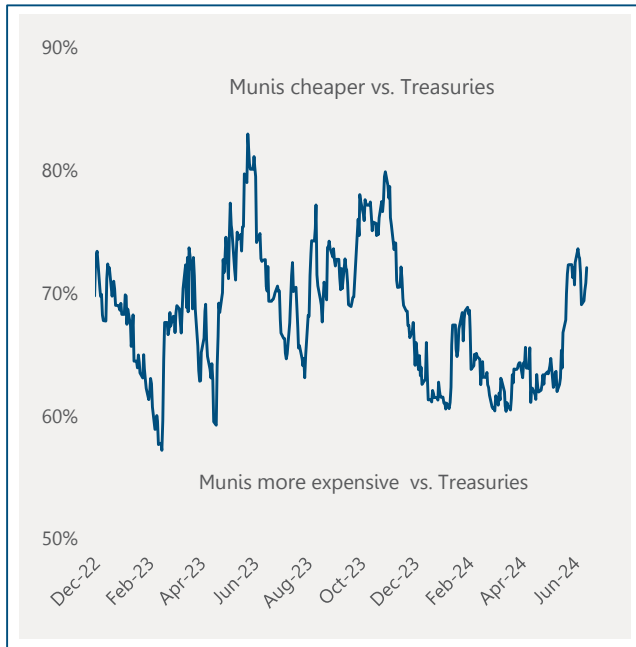
Source: Goldman Sachs. *2024 and 2025 are projections

Strengthening corporate profit margins and the resilient economy are leading to a rebound in share buybacks this year after a 14% pullback last year. Higher borrowing costs and concerns about a potentially weaker economy led corporate executives to reduce spending on buybacks in late 2022 and 2023.

According to Bloomberg, S&P 500 companies bought back \$209.7 billion of their shares in the first quarter, up 5% year over year. Goldman Sachs analysts project S&P 500 buybacks will rebound 13% this year to \$934 billion and grow 16% next year to a record \$1.08 trillion. Nearly a trillion dollars in share buybacks this year will provide a moderate tailwind for the \$46 trillion market cap S&P 500.

Mega cap technology and technology adjacent companies are at the buyback forefront. Apple (AAPL) announced a record U.S. buyback program in May worth \$110 billion. Alphabet (GOOGL) and Meta Platforms (META) announced buyback programs this year worth \$70 billion and \$50 billion, respectively. Microsoft (MSFT) has executed \$48 billion of its \$60 billion buyback program announced in 2021.

Improved Value In Muni Yields
5-Year Municipal-to-Treasury Yield Ratio



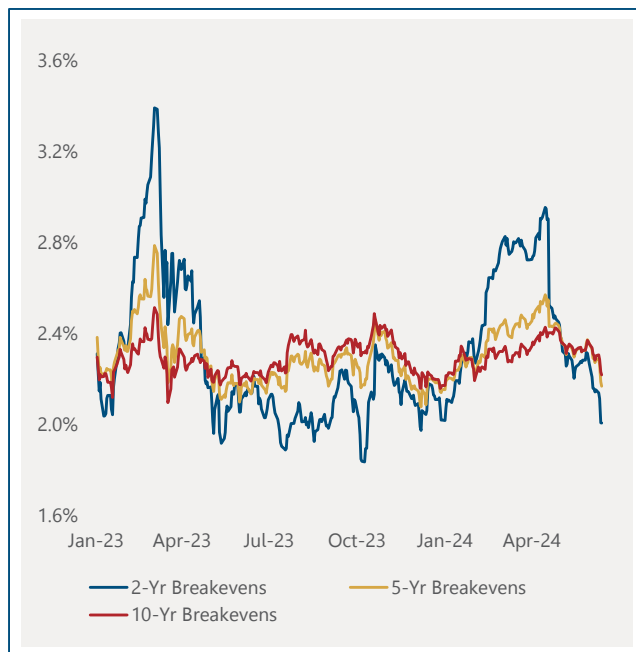
Source: Bloomberg.

The yield-to-worst (YTW) on the Bloomberg Tax-Exempt 5-year Municipal Bond Index as of June 12 was 3.06%, compared to 4.32% for 5-year U.S. Treasury notes, resulting in a Muni-to-Treasury yield ratio of about 71%. Municipal bond yields are typically viewed as cheap when this ratio approaches 80% and expensive when it nears 60%.

It is important to note that interest on most municipal bonds is typically tax exempt at the federal level. Thus, the tax-equivalent yield on the 5-year Municipal Bond Index (assuming a 35% federal tax bracket) as of June 12 was about 4.71%, or nearly 0.40% above the 5-year Treasury yield.

The June through August period has historically been a strong period for municipal bond performance boosted by seasonally weaker supply and positive fund flows. An abundance of pandemic-era federal aid and healthy tax collection trends have bolstered the balance sheets of most municipalities. In 2023, Moody's Investors Service and S&P Global Ratings combined to upgrade the credit ratings of four times as many municipal issuers as they downgraded. Although the ratings upgrade/downgrade ratio leveled off a bit in the first quarter to 2, the broad signal from the ratings agencies remains positive from a credit risk perspective.

Cooling Inflation Expectations
U.S. TIPS Breakevens



Source: Bloomberg.

Market-based inflation expectations dropped abruptly in mid-April following a set of in-line inflation data for March and a weak retail sales print. The 2-year inflation breakeven rate plunged from a 12-month high of 2.95% on April 16 to six-month low of 2.01% on June 12. Breakeven rates measure the difference in yields between a traditional U.S. Treasury and a similar-maturity Treasury Inflation-Protected Security (TIPS).

Inflation expectations rose in the first quarter against a backdrop of mostly hotter-than-expected inflation data along with significant upside surprises in nonfarm payrolls during January, February, and March.

Pricing in TIPS and traditional Treasury markets suggests the Federal Reserve is set to achieve a "soft landing" whereby a policy tightening campaign stamps out excess inflation without causing a sharp rise in the unemployment rate and subsequent recession. The unemployment rate ticked up to 4.0% in May, a two-and-a-half year high and an increase of 0.6% from a cycle low of 3.4% in January 2023.

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