Summary

Economic data for the week included the final release of Q1 U.S. GDP being revised up slightly, flattish durable goods orders, rising home prices, and lower new home sales. On the inflation side, core PCE continued to decelerate lower.

Equities were mixed last week, with flattish results in the U.S., except for small cap, which gained, and varied results abroad. Bonds generally lost ground as yields rose. Commodities were little-changed with a slight rise in the price of crude oil.

Economic Notes

(0) The final release of **U.S. GDP** for Q1-2024 was revised up by a tenth from the prior estimate to 1.4%. However, under the hood, the important personal consumption growth component was revised down by a half-percent to 1.5%. On the brighter side, non-residential fixed investment, government spending, and residential building were revised up. The PCE price index for Q1was revised up slightly to a 3.4% annualized rate, while the year-over-year rate was steady at 2.6%; core PCE was also revised up a tenth to an annualized 3.7% rate, with little change in the year-over-year rate at 2.9%. The GDP deflator was also little changed at an annualized 3.1% rate, and year-over-year at 2.4%. Nominal GDP growth (inflation added to the normally-quoted real GDP growth rate) was revised up a few tenths to an annualized 4.5%. That measure has traditionally run at a similar rate to the 10-Year U.S. Treasury yield, which ended last week at 4.3%—those two are finally near a more historically-normal balance.

Looking ahead, the Atlanta Fed GDPNow measure for Q2 points to better growth than Q1, at a rate of 2.2%, has steadily fallen to just above the Blue Chip economist consensus that continues to hover around the trend rate of 2.0% or so. Within that growth, 1.25% is attributable to personal consumption, with additions from non-residential fixed investment and private inventories, while net exports amounted to a takeaway of nearly a percent (the latter two tend to be quite variable quarter-to-quarter). While not dramatic, growth data continues to show a steady slowing from last year's more robust levels, along with inflation doing the same, but few alarm bells are ringing yet pointing to a steeper growth decline.

(+/0) **Personal income** for May rose by 0.5%, a tenth stronger than expectations, led by a 0.7% gain in wage/salary income. **Personal spending** rose 0.2%, a tenth short of expectations. The personal saving rate ticked up by 0.2% including revisions to 3.9%.

Closely-watched headline PCE inflation fell a few hundredths, rounding to really no change, while core PCE ex-food and energy rose about 0.1%. Each was in line with forecasts. On a year-over-year basis, headline PCE and core PCE each fell to 2.6%, with headline down a tenth from the prior month and core down two-tenths—the latter representing the slowest pace in three years. Market-based core PCE, recently referenced by Fed Chair Powell a few times, rose 0.15% on the month, amounting to 2.4% on a year-over-year basis. These measures point to steady inflation progress downward.

(+) **Durable goods orders** for May rose by 0.1%, exceeding the median forecast calling for a -0.5% drop, although prior months were revised downward. Removing transports took that gain down to a -0.1% decline, reflecting positive influences from defense aircraft and autos in the former, while core capital goods orders fell -0.6%. Core capital goods shipments similarly fell -0.5% for the month. Over the past year, durable goods orders overall are down -1.5%. This series is normally choppy month-to-month, especially with the lumpy influence of commercial and military aircraft orders, but the year-over-year pace has steadily worsened over the past year. However, some of this is due to inflation normalizing lower, as the series is not adjusted for that.

(+) The **S&P/Case-Shiller 20-city home price index** for April rose 0.4%, a tenth higher than expected. Year-over-year, the pace of growth decelerated by -0.3% to 7.2%—although still robust on a historical basis. For the full year, San Diego's gain of 10% led the way, followed by New York and Chicago, while Portland lagged with a gain of under 2%.

(+) The **FHFA house price index** rose 0.2% in April, a tenth below expectations. For the single month, the New England region led with a 0.7% gain, followed by West North Central (ND south to MO), while West South Central (OK/TX/AR/LA) lagged with a -0.2% decline. Over the last 12 months, national prices rose 6.3%, although a deceleration of -0.4% from the pace of the prior month. Every census region saw gains for the last year, led by New England and Middle Atlantic (essentially NY/PA north, each up over 8%) with West South Central lagging (up 3%). This index includes a broader geographic collection of transactions than does the urban-focused Case-Shiller, demonstrating the broad price strength in housing nationally along with continued low inventories and lack of movement.

(-) **New home sales** fell by -11.3% in May to a seasonally-adjusted annualized 619k units, well below the -0.2% decline expected by consensus, although that also included a substantial revision upward by 94k for April. Sales fell in every region, with minor declines in the West and a substantial drop in the South. Nationally, sales are down -17% over the last 12 months, while the median new home price came in at $417,400, down -1% from a year ago and -9% from 2022's peak levels. In contrast to the rise in existing home sales prices, the drop in prices here has been at least partially due to shrinking home sizes to accommodate the budgets of a wider variety of buyers.

(0) The Conference Board's **index of consumer confidence** for June fell by -0.9 of a point to 100.4 but stayed above the median forecast of 100.0. Within the report, assessments of present conditions ticked up by 0.7 of a point, while expectations for the future fell by nearly -2 points. The labor differential, which measures the ease in finding jobs, improved by over a point. Interestingly, consumers' perceived likelihood of a recession over the next year fell by -2% to 66%, but still remains high, with sour future expectations likely election-related.

(0/-) **Initial jobless claims** for the Jun. 22 ending week fell by -6k to 233k, just below the 235k median forecast, where increases in CA and MA were offset by declines elsewhere around the country. Continuing claims for the Jun. 15 week rose by 18k to 1.839 mil., above the 1.828 mil. level expected. Initial claims have been inching up from lows earlier in the year, but not showing a dramatic trend upward. In fact, since early 2022, claims have settled back into a 200-250k range that was typical of the several years before the pandemic.

Economic Notes

Where do we stand mid-year?

If an investor were to solely take a poll from the media and consumer sentiment indicators, one might assume conditions were less than stellar. However, this is not the case. While one could nearly always find both positive and negative data points to pick from, what stands out is the lack of extremes and, rather, a degree of balance among stronger and weaker areas of the economy and financial markets.

- Economic growth has vacillated in recent weeks/months but softened from the prior pace. While the near-5% real GDP growth reached in mid-2023 appears less likely to repeat in the near-term, growth remains positive near or a bit above the long-term trend pace of 2%. Consumer spending has been the engine, and while there are signs of deceleration and even a bit of some stress (especially with the leveraged, lower-income population), the spending pace continues. Services remain more robust than manufacturing, as the goods buildup during the pandemic still seems to be unwinding somewhat, but ultimately moving back toward normal.

- Inflation has been steadily improving, notably seen in the excitement generated by the May CPI report and reiterated by the May core PCE number last week, but the pace is still above levels

policymakers would like. Remaining inflation has been tied to wage growth (which has slowed) and in particular, shelter and other services. The ongoing damage from worsening inflation has similarly faded, but the sour mood of consumers continues to be more affected by the higher price 'plateau,' following years of above-average inflation. As an example, while headline CPI has risen 4.2% over the past five years at an average annualized basis (the rate of change method usually quoted), price *levels* are almost 25% higher on a cumulative basis—the end result most obvious and distressing for consumers. No doubt this has played into more negative consumer sentiment readings, particularly in more visible areas of rent, food, car insurance, medical care, etc.

- Company earnings growth remains stronger than what was expected earlier in the year. Assuming that a recession is avoided, and even if a minor recession were to ultimately unfold, expectations for 2024 and 2025 remain robust—double-digit growth, in fact, per FactSet estimates. As it's long been noted that stock price returns tend to follow earnings fundamentals, this is a positive story for risk assets, although higher valuations have priced this in somewhat, at least in the mega-cap portions of U.S. growth and technology/communications, where sentiment has also been tied to expectations for artificial intelligence (AI) productivity enhancements (with a timeframe for realization unclear).

- Financial conditions are tighter than they used to be, with rates over 5%, but not tight enough to pull the economy down into recession. To some degree, this is because companies and homeowners took the decade-plus window of extremely low rates to refinance. A strong stock market has also loosened conditions in the other direction, by providing a positive boost to the investor 'wealth effect.' Those offsets have lessened the blow (so far) versus the historical episodes where fast rate hikes led to economic deterioration.

- Concerning the upcoming election, polls continue to show as much polarization as ever, with a tight Presidential race and more extreme policy views a potential catalyst for volatility until November. On the economic side in this year's race, key differences between the parties have been in tax policy (and the future of the 2017 tax cuts), tariffs/trade restrictions (indirectly tie to potential inflation pressures), and immigration (labor force impact). Unfortunately, there are no signs of potential spending and deficit restraint from either side. It's important to be reminded again of the long-term track record in attempting to invest based on political themes or preferences—there isn't one. Staying invested has been the one strategy that has worked, regardless of regime.

- For asset allocations, the bottom line is that conditions look favorable. In years when a certain asset (stocks) and specific sub-groups in an asset class (U.S. large cap growth/technology in stocks, high yield in bonds) have led the way so strongly, the 'fear of missing out' can be a strong initial instinct, and momentum can be a persistent force—at least in the short term. That said, U.S. large cap growth valuations appear rich compared to history by several metrics, with sentiment swings increasingly tied to the outlook and hints about progress with artificial intelligence product demand and related corporate capital spending in that area. On a broader level, over the longer haul, diversified portfolios have proven their merit as conditions have tended to ultimately 'revert to the mean.' Specifically, a variety of asset classes are priced at valuation discounts on a multi-decade perspective in some cases. These include international developed market and emerging market stocks, U.S. large cap value stocks, U.S. small cap stocks, and real estate investment trusts.

Market Notes

Period ending 6/28/2024	1 Week %	YTD %
DJIA	-0.08	4.79
S&P 500	-0.06	15.29
NASDAQ	0.26	18.57
Russell 2000	1.33	1.73
MSCI-EAFE	0.36	5.34
MSCI-EM	0.06	7.49
Bloomberg U.S. Aggregate	-0.65	-0.71

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2023	5.40	4.23	3.84	3.88	4.03
6/21/2024	5.49	4.70	4.26	4.25	4.39
6/28/2024	5.48	4.71	4.33	4.36	4.51

U.S. stocks were mixed last week, with large caps little changed, and small caps seeing gains. The end of the quarter has tended to be an unusual time, due to a variety of portfolio clean-up, 'window dressing,' and index rebalancing issues as considerations, leading to movements in both directions. It's also possible that President Biden's perceived poor performance in the first candidate debate caused another cloud to form over the election, with markets disliking uncertainty more than anything. By sector, energy led with gains of nearly 3% (with rising odds of a Trump victory pointing to better prospects for fossil fuels rather than green energy), followed by a slight gain in communications. On the lagging side, materials and utilities lost about a percent. Real estate gained despite interest rates ticking higher.

Foreign stocks were a mixed bag, with declines in Europe and the U.K., while investors awaited the snap elections in France on June 30, as well as digested a variety of economic data points. On the positive side, Japan saw a gain of several percent, as officials indirectly alluded to further currency interventions to stem the slide in the value of the yen, as well as expectations for a possible central bank interest rate hike (normally a negative, but in this case a potential sign of a return to more normal policy). Emerging market countries were similarly mixed, with India and Korea experiencing gains, while China fell back by over a percent.

Bonds fell back last week as interest rates rose by mid-week, with the PCE release offering little relief by the week's end. While high yield fared a bit better than investment-grade, floating rate bank loans ended best with positive returns. Foreign bonds fell back across the board, along with higher rates due to an expected cautious approach by central banks to cutting rates.

Commodities had a mixed and largely uneventful week, with gains in energy and precious metals, and declines in agriculture (corn and soybeans). Crude oil rose about a percent last week to just under $82/barrel.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset

Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

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Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.