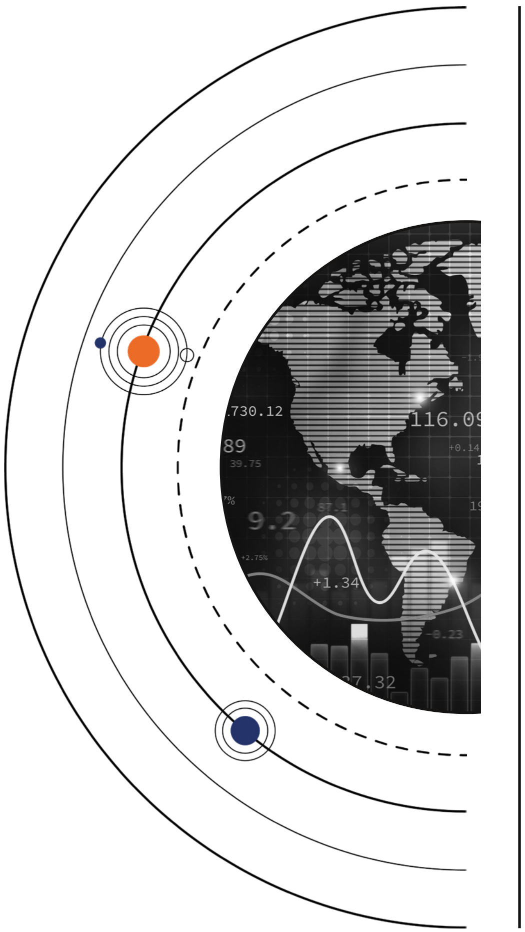
SVN® RESEARCH

State of the Market 2024

MACROECONOMY & LABOR ENVIRONMENT

Macroeconomic & Labor



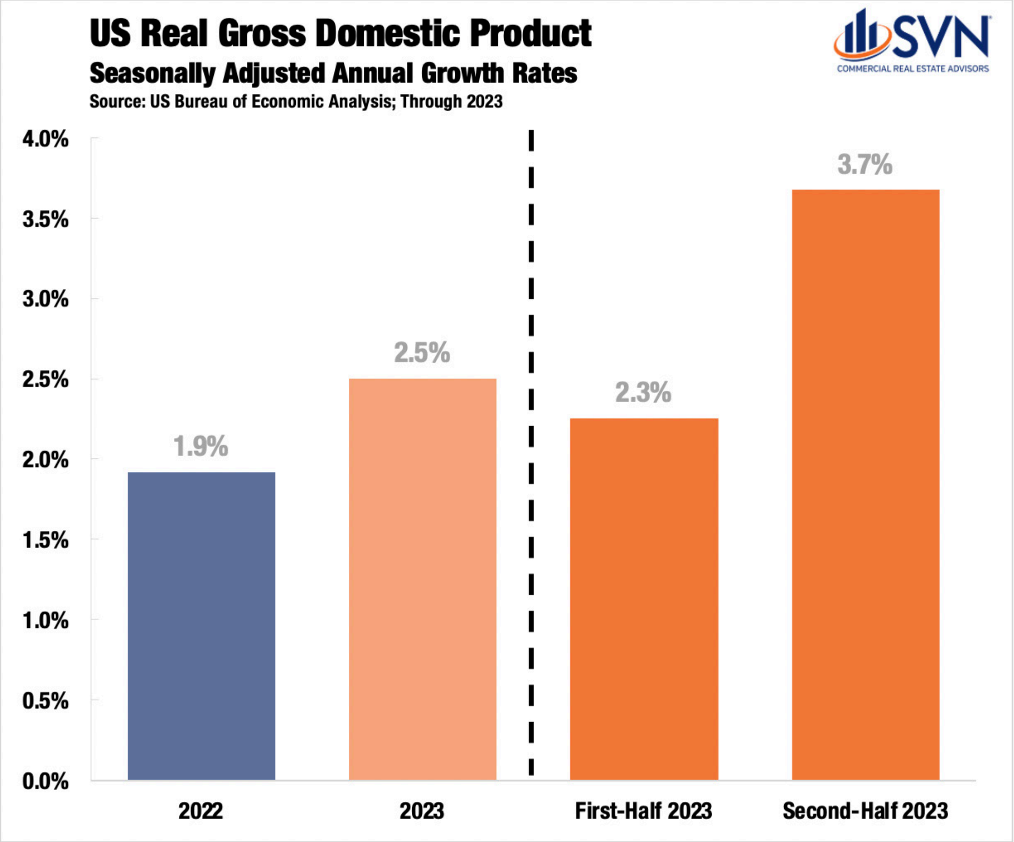
While reaching a consensus on the US economic outlook has been challenging, over the past year, the central question facing market watchers has seemingly shifted from, “Are we entering into recession?” to “Are we experiencing a soft landing?”

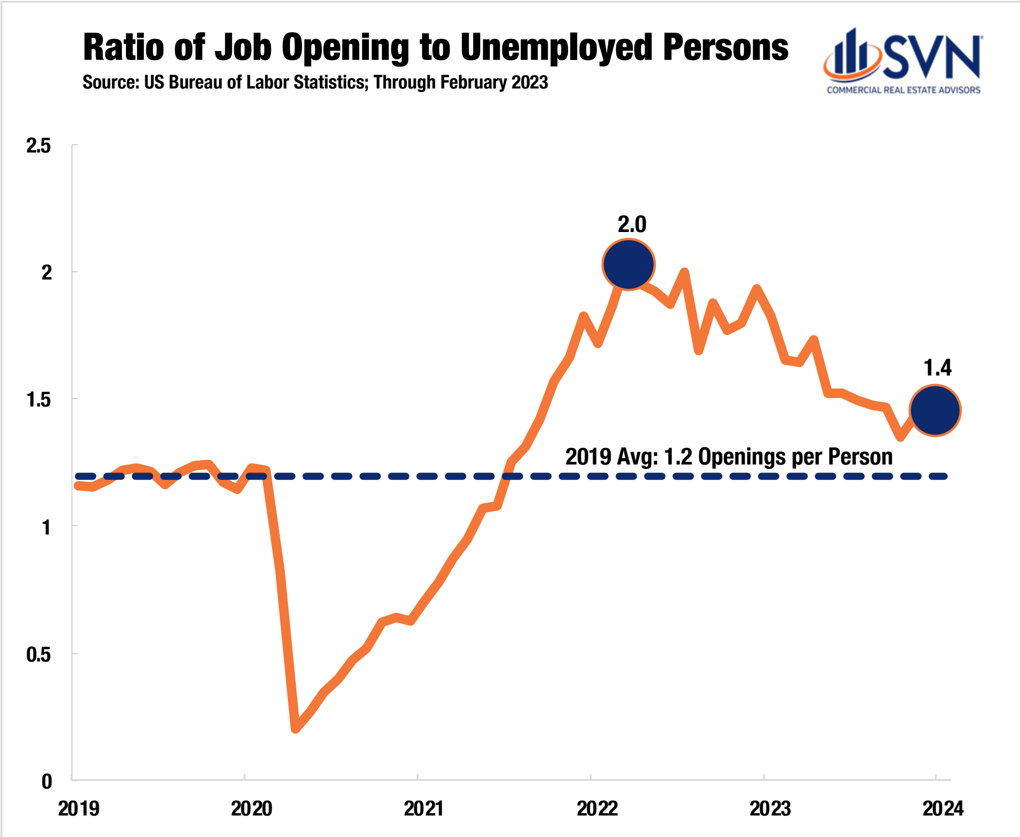
If we take Jamie Dimon and Ray Diallo’s recent admission as a sign, the shift in market expectations reflects the US economy’s enduring positive fundamentals and trend toward price stability.

Economic Growth & Labor Markets

Despite stubborn inflation pressures, rising geopolitical uncertainty, and the most restrictive financing environment in a generation, **US economic growth led all G7 nations in 2023, growing by 2.5%** and surpassing its 2022 pace by 0.6 percentage points. Furthermore, it exceeded this rate during the second half of the year.

While the potential for a recession is never quite fully out of view, consumers have remained remarkably resilient in spending despite inflation pressures and widespread dismay over the cost of living.





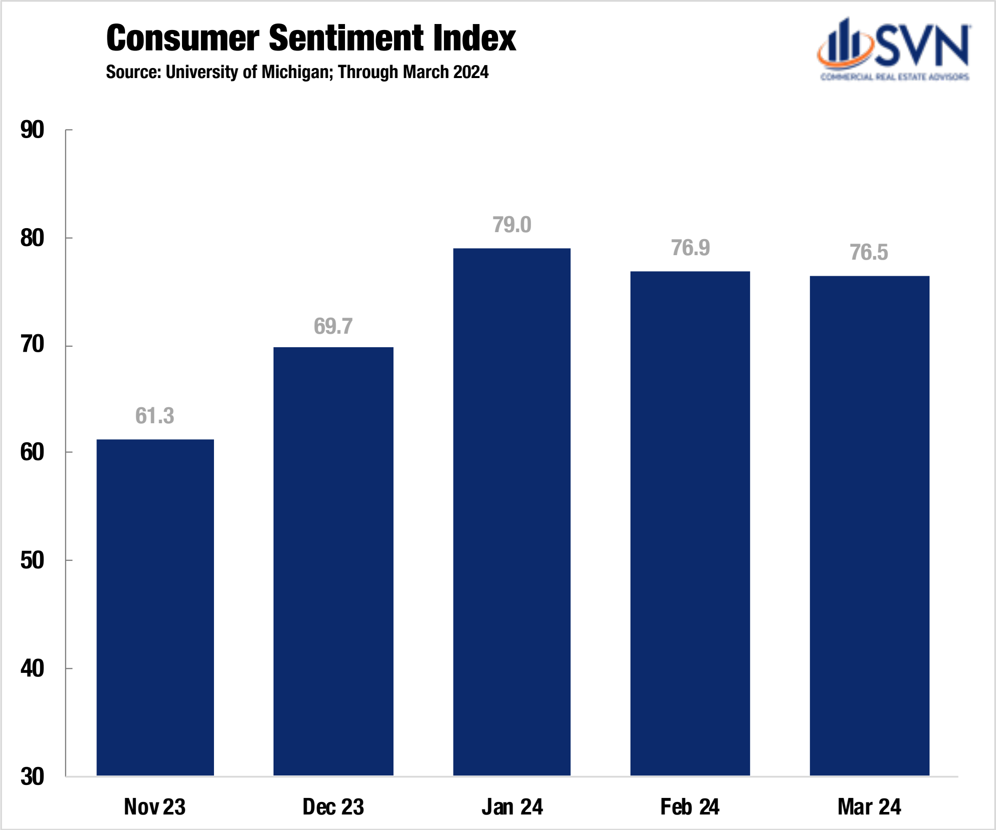
Americans are increasingly struggling to pay their bills, but high employment levels have kept the train moving, and so far, momentum has carried into 2024.

Job growth exceeded consensus expectations during both January and February. Despite an uptick in layoffs, weekly unemployment claims data suggests that laid-off workers are, on average, finding new work relatively quickly.

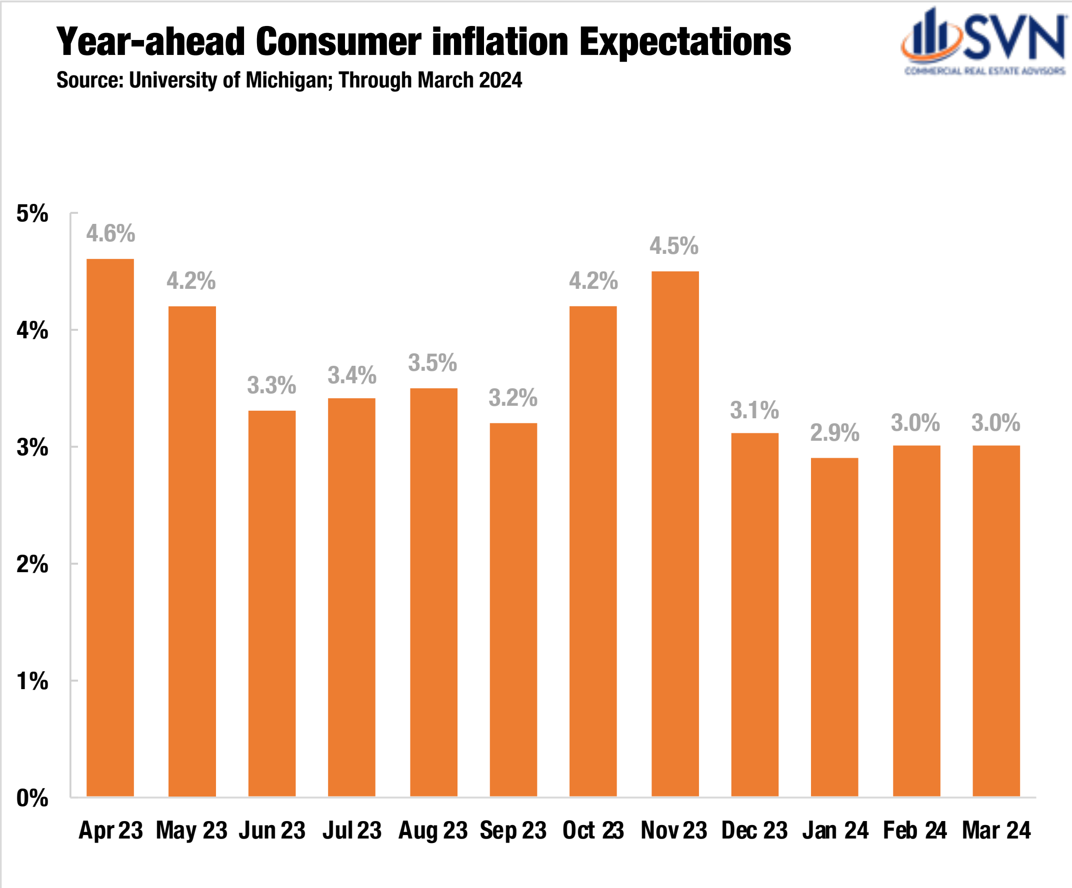
While the number of job openings per unemployed person has receded from a high of 2.3 in April 2022, it remains well above the 2019 average of 1.2 openings per person. Resultingly, **wage pressures have come down from immediate post-pandemic effects but continue to sustain growth-stimulating consumer activity.**

Touching Down, But Gently

Economic activity has continued to expand across the country, and **projections for the real GDP growth rate during the first quarter of 2024 stand at 2.3% as of March 14th**. Nonetheless, signs of an economic cooling remain. Retail sales growth dampened more than expected in February and is sitting alongside falling consumer sentiment to begin the year.



Oddly, such a slowdown rings as good news to both policymakers, who want to see an easing of demand-driven price pressures, and investors, who hope to get



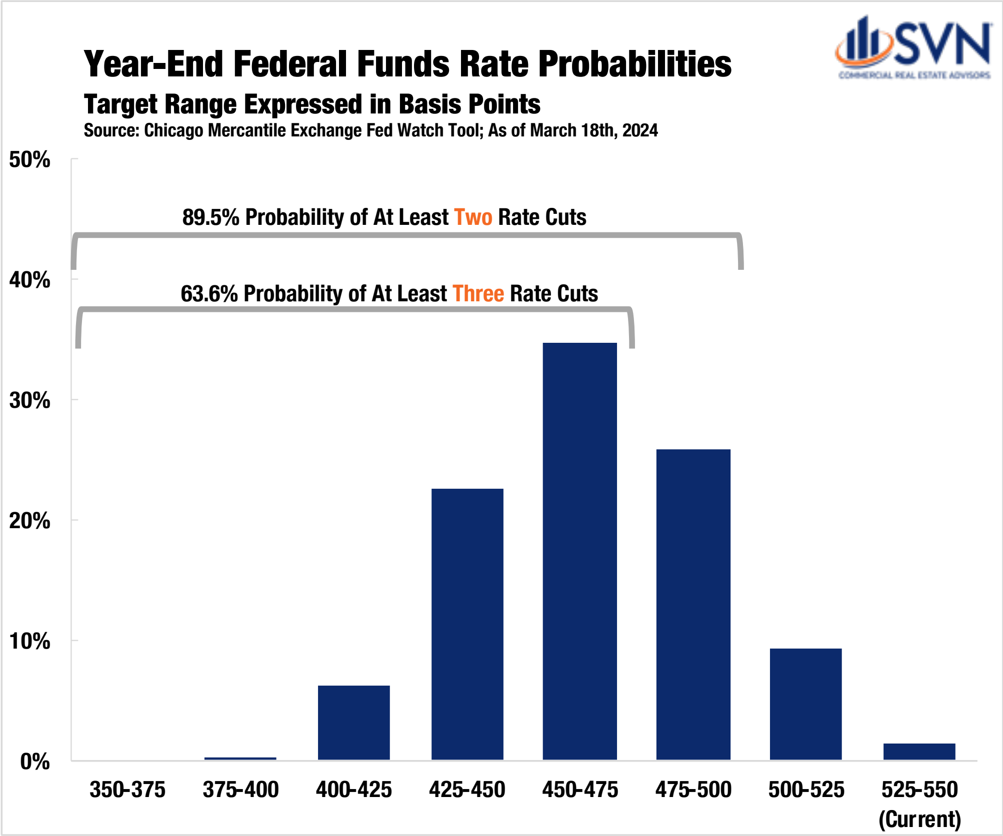
a reprieve from today's high interest-rate environment. While avoiding a job-destroying recession remains for the greater good of everyone, modest reductions in demand are equally imperative in sustaining economic health.

Data from the University of Michigan substantiates this link. **Following a steady decline in year-ahead consumer inflation expectations starting in the spring of 2022, inflation expectations rose again during the Fall of 2023.** They are now declining again, coinciding with the pullback in consumer sentiment.

CEOs also appear to be digesting these soft-landing dynamics positively. According to Business Roundtable's CEO Economic Outlook Index, **America's top executives are significantly more confident about the economy in the months ahead than in previous months.** The outlook index recently exceeded its historical average for the first time in two years, driven by solid expectations for sales and capital investments.

Interest Rate Environment

In total, consumers, investors, and business leaders appear to be coalescing around the soft-landing narrative, but are Federal Reserve policymakers buying it? The FOMC policy meeting and subsequent Summary of Economic Projections, due on March 19th and 20th will offer the most sober view forward.



To close 2023, there was consensus between market and policymaker projections that at least three rate hikes would occur in 2024, initially forecasted to begin as early as March. However, the recent streak of positive

US economic data has softened dovish sentiments, while recent February inflation data will likely re-anchor hawkish caution.

In their latest interest rate projections at the end of 2023, reduced inflation levels led FOMC officials to, on average, forecast that the federal funds rate would finish 2024 at 4.6%. According to the Chicago Mercantile Exchange's Fed Watch Tool, projections of a March rate cut have all but vanished. However, expectations of three 2024 rate cuts haven't. Through March 18th, futures markets continue to forecast a 63.6% probability of at least three rate cuts by year's end.

Moreover, **there is a clear consensus (89MA.5% probability) that at least two rate hikes will arrive in 2024.** Overall, the US macroeconomy and labor market are remarkably strong in terms of growth, both by historical standards and relative to the rest of the world. However, with a seemingly new floor on the cost of living and an array of post-pandemic fiscal dilemmas, investors should remain clear-eyed about the potential consequences of labor market deterioration. So far, we are sailing in the Goldilocks zone.

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