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THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

June 3, 2024
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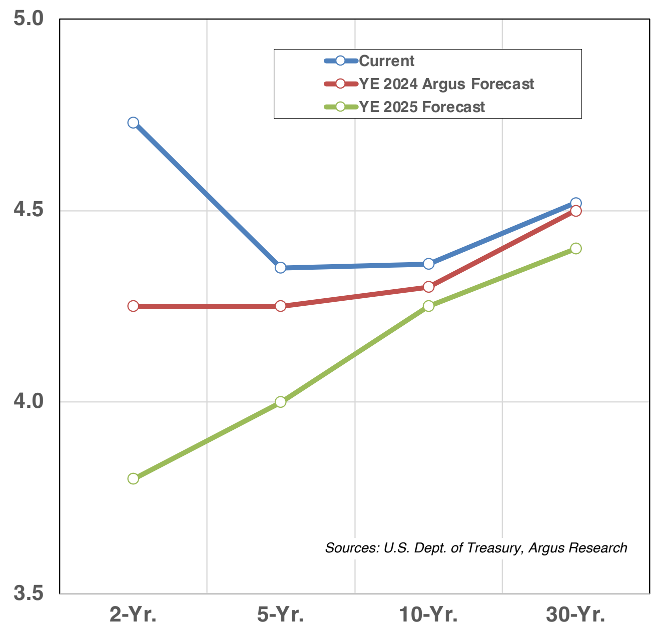
YIELD CURVE HEADED TOWARD UPWARD SLOPE

The yield curve has been inverted for months now. But what has changed over the past year is that the inversion isn't so steep. Back in April 2023, 2-year Treasury yields were about 100 basis points above 10-year yields. Now the gap is 35 basis points. There are a couple of reasons for this change and, in our view, they point toward an upcoming shift to a normal upward-sloping curve in the next few quarters. First, U.S. economic trends have been positive. Fixed-income investors have moved away from fears of deflation and are again seeking a premium in yields versus inflation. That has lifted rates across the yield curve. Second, the Fed finally is in front of the inflation curve. The central bank is now building a cushion, or a gap, between fed funds and core PCE in order to push inflation back toward 2.0%. This is all well and good -- but if the Fed's gap is too wide for too long, the central bank risks tipping the economy into a recession (which is allegedly what the inverted yield curve is signaling). Fed Chairman Jerome Powell has explained to financial markets that he and his colleagues want to continue fighting stubborn inflation, so they are likely to keep short-term rates high for an extended period of time. But the day will come when the data shows that the central bank has brought inflationary pressures to bay, and it will then start to lower rates in order to keep the economy growing. We think that first rate cut will be in September, with a second cut after the U.S. presidential election. Assuming those lower rates keep the economy in a growth gear, longer-term rates should remain stable and the yield curve should once again slope upward.

YIELD CURVE & OUTLOOK (%)



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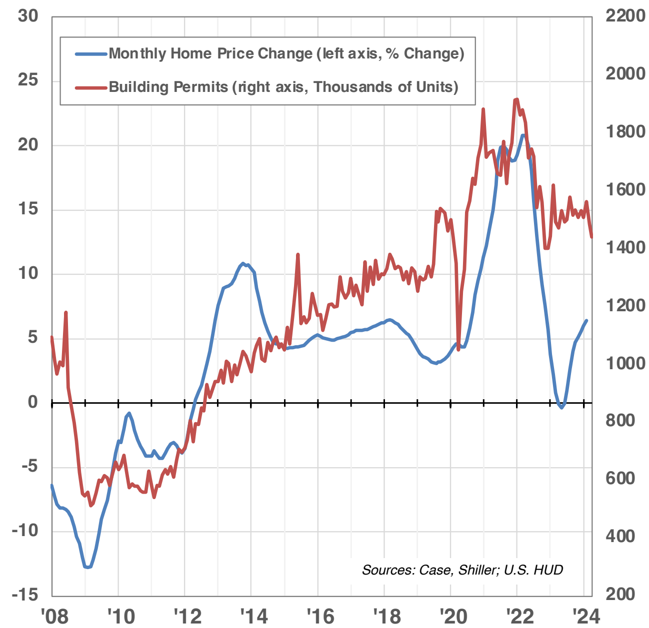
HOUSING NEEDS RATE RELIEF

The underlying fundamentals of the housing market remain strong. Still, mortgage rates above 7% are pushing prospective buyers to the sidelines and could turn housing from being a contributor to 2024 economic growth to being a drag unless the economy gets rate relief. Homebuilder confidence declined for the first time since November 2023, according to the May National Association of Home Builders/Wells Fargo Housing Market Index. “The market has slowed down since mortgage rates increased and this has pushed many potential buyers back to the sidelines,” NAHB Chairman Carl Harris said after mortgage rates topped 7% for a fourth consecutive week. Other industry executives see strong drivers of long-term demand. “While it appears interest rates will remain higher for slightly longer, the market continues to remain massively underbuilt and pent-up demand is only being exacerbated,” said Nicholas Fink, CEO of Fortune Brands Innovations, whose products include Moen faucets, Therma Tru doors, and Master Locks. Based on the May 16 GDPNow estimate from the Atlanta Fed, residential fixed investment is expected to make a small positive contribution to 2Q GDP, but there are risks from new data that looks lackluster. High mortgage rates are a challenge, but we remain bullish on the sector because demographics point to strong demand amid a decades-long shortage of affordable homes.

HOUSING MARKET TRENDS

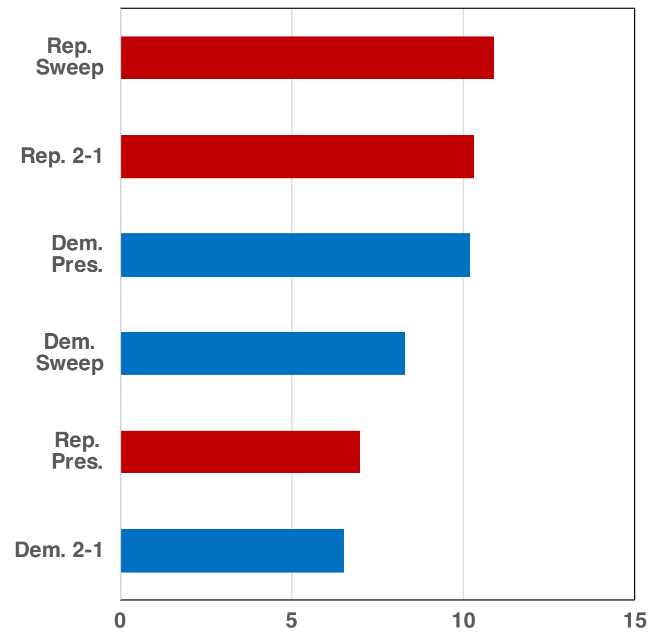


FINANCIAL MARKET HIGHLIGHTS

POLITICAL PARTIES DON'T ALWAYS IMPACT MARKET RETURNS

The U.S. presidential election is approaching. But it's not just the presidency that's up for grabs, as control for the House of Republicans and Senate also will be contested. The popular Wall Street wisdom is that the best outcome in Washington is gridlock. But our analysis does not substantiate that widely held perception. Our work suggests that the market actually outperformed in years in which one party prevailed, though the results fail to establish a clear pattern. We start with the base-line 9% annual average market performance since 1945. Political scenarios that topped this average included a Republican president and Congress (+10.9%), and Republicans controlling the White House and either the House or the Senate (+10.3%). Still, in years in which the White House was occupied by a Democrat, stocks also outperformed (+10.2%). Heading into November voting, current odds favor a Republican president, a Republican House of Representatives, and a toss-up for the Senate. At stake is a party's ability to set tax and fiscal policy and a trade and regulatory agenda, while also selecting the Cabinet and members of the Federal Reserve.

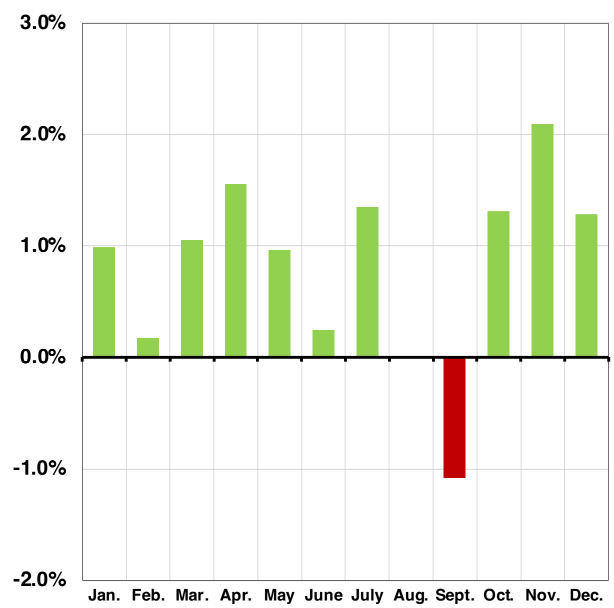
STOCK PERFORMANCE IN POLITICAL SCENARIOS (AVG ANNUAL S&P 500 % CHANGE)



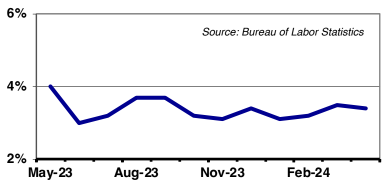
JUNE JINX?

June is not one of the better months for stocks, according to our analysis of market returns since 1980. On average, equity investors in June eke out a 0.2% positive return for the month -- better than only the weakest months of February, August, and September. The winning percentage is 61%, higher than only the 3Q summer months. We note that market returns in June have exceeded 5% only three times in the past 37 years. Clunkers? We have seen a few, including 2008 (-8.6%), 2002 (-7.2%), 2010 (-6.1%), and 1991 (-4.8%). June typically is a quiet month for earnings, as the second quarter draws to a close. But don't be surprised by fireworks on the economic, interest rate, and inflation fronts. The nonfarm payrolls report will be watched to determine the strength of the employment and thus consumer segments of the economy. The Federal Reserve meets and is not expected to lower the federal funds rate, but may signal intentions for the balance of the year. Inflation data released mid-month should indicate that pricing pressures continue to moderate from peak established two years ago. That slowdown in inflation has spurred a bull market that has climbed approximately 40% since bottoming in October 2022. We'll see if returns can withstand the June jinx.

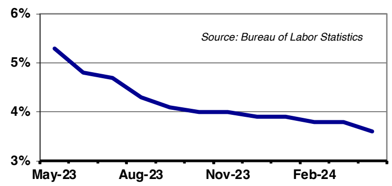
AVERAGE MONTHLY S&P 500 APPRECIATION



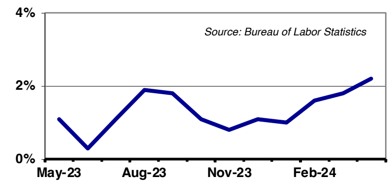
Release: **Consumer Price Index**
Date: 6/12/2024
Month: May
Previous Report: 3.4%
Argus Estimate: 3.4%
Street Estimate: NA



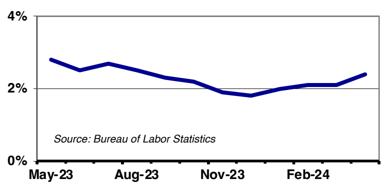
Release: **CPI ex-Food & Energy**
Date: 6/12/2024
Month: May
Previous Report: 3.6%
Argus Estimate: 3.6%
Street Estimate: 3.5%



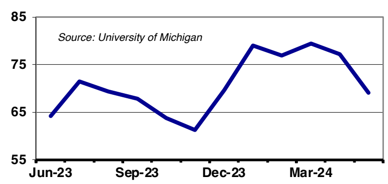
Release: **PPI Final Demand**
Date: 6/13/2024
Month: May
Previous Report: 2.2%
Argus Estimate: 2.1%
Street Estimate: NA



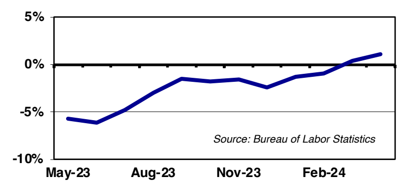
Release: **PPI ex-Food & Energy**
Date: 6/13/2024
Month: May
Previous Report: 2.4%
Argus Estimate: 2.3%
Street Estimate: NA



Release: **U. of Michigan Sentiment**
Date: 6/14/2024
Month: June
Previous Report: 69.1
Argus Estimate: 71.0
Street Estimate: 73.0



Release: **Import Price Index**
Date: 6/14/2024
Month: May
Previous Report: 1.1%
Argus Estimate: 0.9%
Street Estimate: NA



Previous Week's Releases and Next Week's Releases on next page.

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
3-Jun	ISM Manufacturing	May	49.2	50.1	49.7	**47.8**
	ISM New Orders	May	49.1	50.1	NA	**45.4**
	Construction Spending	April	**10.5%**	9.1%	NA	**10.0%**
4-Jun	Factory Orders	April	1.5%	1.3%	NA	NA
5-Jun	ISM Services Index	May	49.4	50.1	50.7	NA
6-Jun	Trade Balance	April	-$69.4 Bil.	-$70.0 Bil.	-$69.4 Bil.	NA
7-Jun	Nonfarm Payrolls	May	175 K	168 K	185 K	NA
	Unemployment Rate	May	3.9%	3.9%	3.9%	NA
	Average Weekly Hours	May	34.3	34.3	34.3	NA
	Average Hourly Earnings	May	3.9%	3.9%	NA	NA
	Wholesale Inventories	April	-2.3%	-1.9%	NA	NA
	Total Vehicle Sales	May	15.75 mln.	15.85 mln.	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
18-Jun	Industrial Production	May	-0.4%	NA	NA	NA
	Capacity Utilization	May	78.4%	NA	NA	NA
	Retail Sales	May	3.0%	NA	NA	NA
	Retail Sales ex-autos	May	3.6%	NA	NA	NA
	Business Inventories	April	0.7%	NA	NA	NA
20-Jun	Housing Starts	May	1,360 K	NA	NA	NA
21-Jun	Existing Home Sales	May	4.14 Mln.	NA	NA	NA
	Leading Index	May	-0.6%	NA	NA	NA