NBC | SECURITIES

INVESTMENT STRATEGY STATEMENT | JULY 1, 2024

# Markets Rally in June

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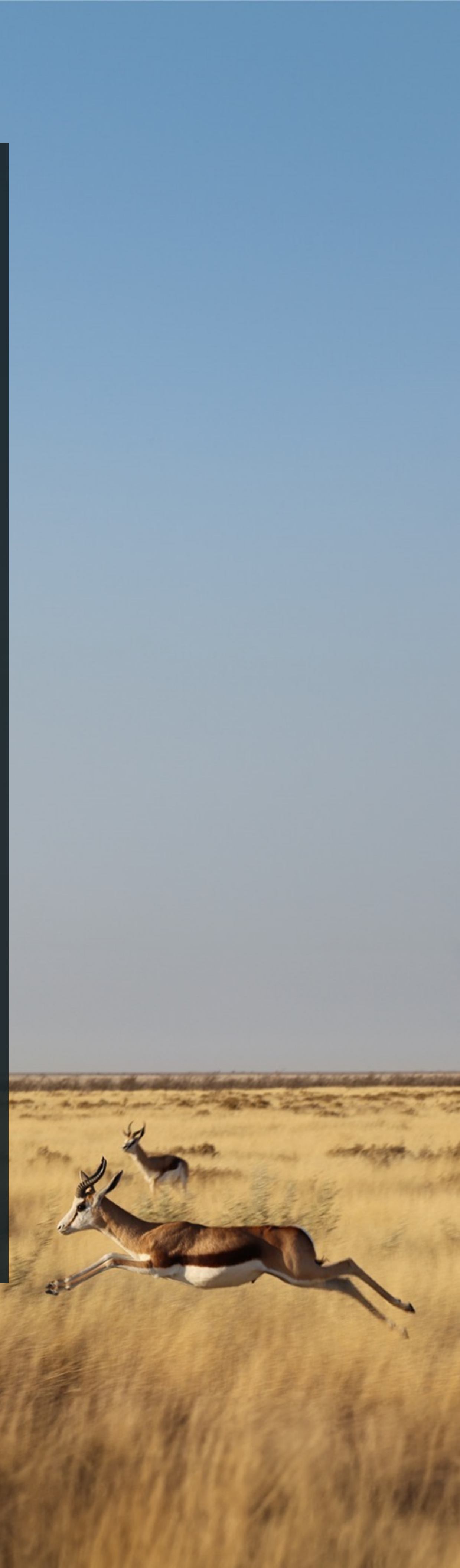


# Performance Review & Outlook

**Disinflation Trend Continues**
June readings on inflation came in lower than expected, giving us two consecutive months of lower year-over-year readings.

**Fixed Income Market Rally**
Yields fell in June and are down 55bps since the recent peak in yields during April.

**Equity Markets Advanced in June**
The S&P 500 was higher by 4% in June and is higher by 15% so far this year.

**Data Driven Fed Leads to Data Driven Markets**
Equity and fixed income markets continued to move on how each data point will impact the Fed's decision-making in June.

**Labor Markets Slightly Cooling:**
Jobless claims and the job openings to job seekers ratio are showing some slack building in the labor markets. We believe this is a cooling of a previously overheated labor market, but we'll continue to monitor for anything deeper.

**Outlook Largely Intact**
Although data has been mixed so far in 2024, our outlook on the key themes driving equity and fixed income markets remain intact.

# Equity Market Overview

June was another impressive month for equity returns, with the S&P 500 rising by nearly 4.0% to close near a record high of 5,460. This continued the strong run so far this year, with the index gaining 15% in the first half. The rally in June came as softer economic and inflation data further supported the potential for rate cuts by the Federal Reserve and solid corporate earnings pushed investors to continue buying stocks.

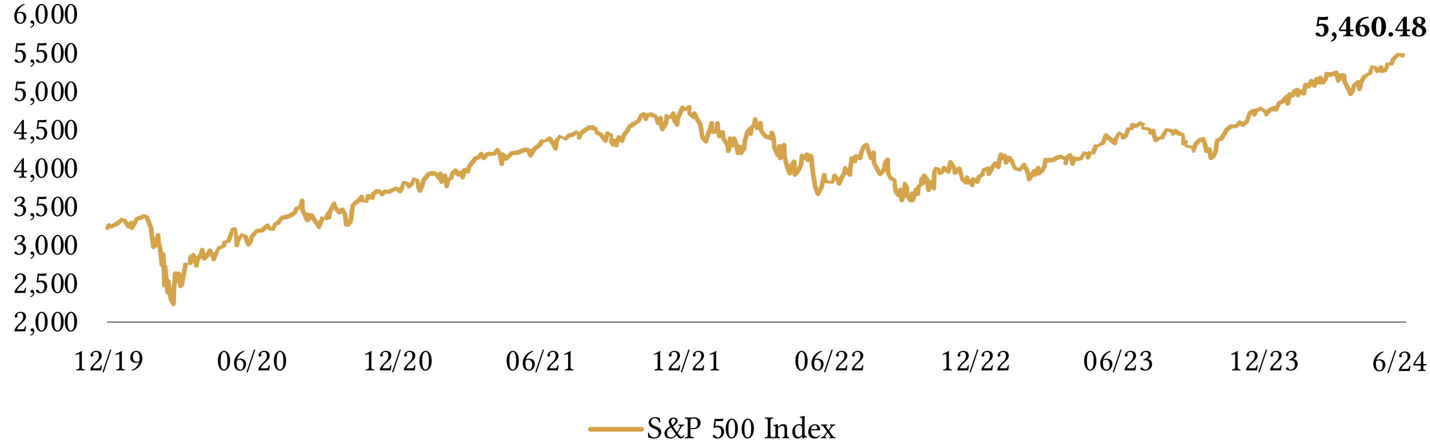
Moving to sector returns, the two biggest gainers in June were information technology (+9%) and communication services (+6%) as the remarkable run of artificial intelligence related names continued on the back of strong earnings releases from a few of the key players in the space. In fact both sectors are now up more than 28% for the year and have accounted for two-thirds of the total return for the S&P 500.

## 12-Month Percentage Change of Indices

| Index (Local Currency) | Level | June | YTD | 12 Month |
|---|---|---|---|---|
| **S&P 500** | 5,460.48 | 3.6% | 15.3% | 24.5% |
| **Dow Industrials (DJIA)** | 39,118.86 | 1.2% | 4.8% | 16.0% |
| **Nasdaq** | 17,732.6 | 6.0% | 18.6% | 29.7% |
| **Russell 2000** | 2,047.691 | -0.9% | 1.7% | 10.0% |
| **US 2yr Treasury** | 4.7535 | 2.9% | 11.8% | 18.6% |
| **US 10yr Treasury** | 4.3961 | 4.7% | 13.3% | 28.5% |
| **Gold (NY Spot $/oz)** | 2,326.75 | 4.3% | 12.8% | 16.9% |
| **Silver (NY Spot $/oz)** | 29.1429 | 16.7% | 22.5% | 16.3% |
| **Copper ($/metric ton)** | 9,455.98 | 7.9% | 11.7% | 10.2% |
| **Oil (WTI Spot/bbl)** | 81.54 | -2.0% | 13.8% | 6.2% |
| **Oil (Brent Spot/bbl)** | 86.41 | -1.2% | 12.2% | 8.6% |
| **Natural Gas ($/mmBtu)** | 2.601 | 47.5% | 3.5% | 7.9% |

Data as of June 28, 2024
Source: FactSet/Bloomberg

**S&P 500 Price Index (12/31/19 -6/28/24)**




On the downside in June, utilities were the worst performing sector (-5%), giving up some of the outsized gains the sector realized in May. The other two detractors were materials (-3%) and energy (-2%). For the year, real estate is the lone negative sector (-3%) as concerns continue about valuations in certain pockets of commercial and office properties.

Last month we discussed the large (and continued) divergence between the S&P 500 and a few other large cap indices that weren't as technology sensitive. Another divergence that we've seen is between large and small capitalization companies. As mentioned above, the S&P 500 has gained more than 15% so far this year. Compare this to the S&P 600 Small Cap Index, which is down -1% in 2024.

*Investors have been rewarded for owning shares of larger companies with stronger balance sheets and less variability in cash flows.*

# Fixed Income Market Overview

The month of June saw a shift in economic data a bit further into the territory of where the Federal Reserve would like to be to entertain a possible rate cut. Specifically, a 0.0% change in CPI m/m combined with a sightly better than expected CPI y/y at 3.3%, inflation data got back to the business of cooling after showing resilience in the beginning of the year. In addition, the labor market, while resilient, continued to show hairline cracks this month as we saw more than one Jobless Claims number report higher than survey.

These improvements do set the stage for the fed to ease monetary policy, but at this month's FOMC meeting Chairman Powell continued to take a cautious approach to rate cuts citing that "in recent months there has been modest further progress toward the Committee's 2% goal, allowing for some policy loosening later this year" but also that "inflation has eased over the past year but remains elevated." The Fed maintains that they are looking to cut one time in 2024 (down from 6 cuts to start the year) but the looming question, especially in an election year, is will that cut come in September or post-election?

We have spoken about movement in the bond market being very reactive to data from the federal reserve. Yields in recent months have moved, as they should, in reaction to economic data. But more specifically, have moved in a direction of anticipation of the economic data's impact on the decisions of the Federal Reserve to potentially lower or maintain the current fed funds rate.

While all of this is a very interesting topic, it has largely overshadowed the two-month long bond rally we have seen as the jobs market has shown small cracks and inflationary pressures have eased over the same period. The 10-year US treasury note peaked back in late April at 4.88%. In June we saw that rate fall to 4.22% (currently hovering around 4.35% as of the end of this month).

**US 10 Yr. Treasury Yield**

| 4.88% | ~4.35% |
|---|---|
| Late April | Late June |

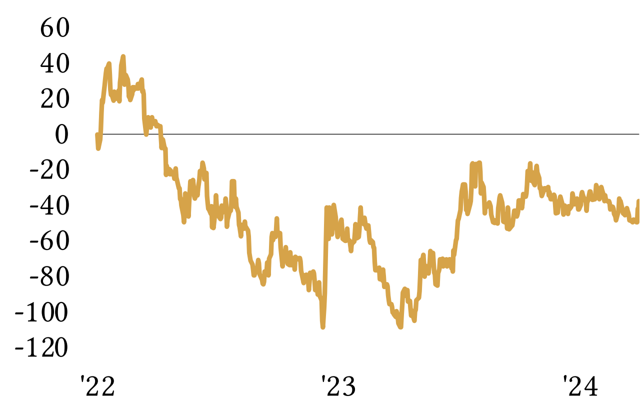
Quite an impressive rally over a roughly 60-day period. Remove all the anticipation of what the Fed will do at their next meeting, and just look at the raw market—you can see the bond market certainly thinks we are moving toward lower rates in the intermediate term.

**10 Year US Treasury Yields (%)**


Now, does that mean the Fed lowers sooner than later? Before the election? Time will tell which direction the data pushes the Fed. But the market has shown us that we are indeed headed in the right direction from the standpoint of a federal reserve that has vowed to take a "data driven" approach to monetary policy. We have now surpassed 700 days of the 10-2 curve being inverted. Even one rate cut could go a long way towards fixing the longest inverted curve in the history of our nation.

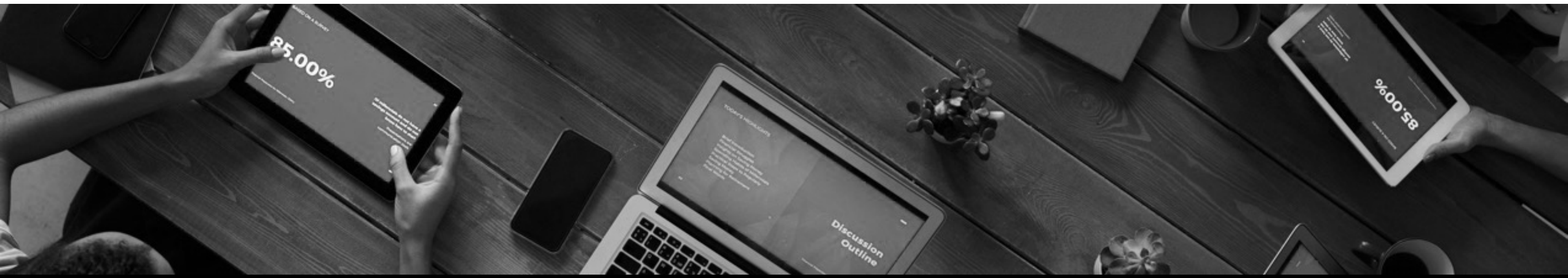
It's safe to say that hopefully, we are much closer to rate cuts than we are to higher rates. And all that points to what NBCSAM has maintained for months now—back to normal.

**2Yr/10Yr Spread (bps)**



# Economic Overview

## Key Economic Indicators



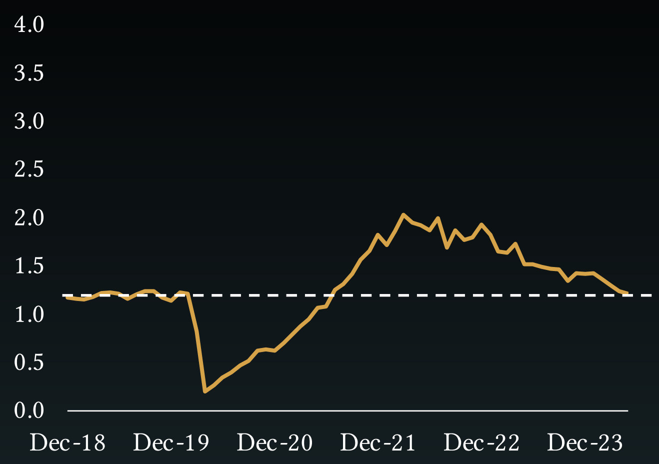

### JOB MARKET

**Job Gains:** The headline jobs number was a substantial increase of 272,000. Through May, the US has had positive job growth for 41 consecutive months, the fifth longest streak in history.

**Unemployment Rate & Jobless Claims:** The unemployment rate increased to 4.0% in May compared to 3.9% in April. Jobless claims have increased over the last few months, with the 4-week moving average increasing to 236,000 from 205,000 at the end of last year. We believe this is a cooling of a previously overheated labor market, but we'll continue to monitor for anything deeper.

**Ratio of Job Openings to Job Seekers:** When comparing job openings from the JOLTS report to active job seekers from the Household Survey, the ratio fell to 1.2x, back to the average from 2019.

**Ratio of Job Openings to Unemployed Workers**

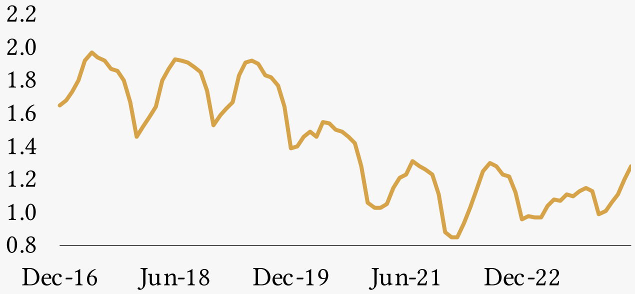



### HOUSING MARKET

**House Prices:** The Case-Schiller 20-City Composite price index was higher by 7.2% over the last 12 months.

**Existing Home Sales & Inventory:** The inventory of existing homes for sale is 37% higher than this time last year, but still down -33.6% versus the same week in 2019. Existing home sales continue to hover near 30-year lows. Both measures continue to be impacted by higher rates causing a lock-in effect and keeping home prices elevated.

**US Existing Home Sales Inventory**



# Economic Overview

## Key Economic Indicators

### PERSONAL INCOME & SPENDING

**Retail Sales:** Retail sales were higher by 0.1% over April and up 2.9% from a year ago. This is a bit slower than the pace in 2023 (up 4.0%), consistent with an economy that is growing at a slower pace.

**Personal Income & Spending:** Personal income came in better than expected, up 0.5% versus April. Retail spending came in lighter than anticipated, rising 0.2% m/m. The spread between income and spending led to a tick higher in the savings rate and is evidence that the consumer is becoming more discerning in their spending.

### ECONOMIC GROWTH

**GDP Growth:** The Bureau of Economic Analysis reported that real GDP increased at an annual rate of 1.4% in the first quarter of 2024, according to the "third" estimate. This growth primarily reflects increases in consumer spending, residential fixed investment, nonresidential fixed investment, and state and local government spending, partially offset by a decrease in private inventory investment and higher imports.

**GDPNow Forecast:** The Atlanta Fed's GDPNow tool is forecasting second quarter GDP growth of 2.25%. This has come down somewhat during the month, but still shows a forecasted growth rate at or above trend.

### INFLATION

**CPI:** The May consumer price index was flat m/m and higher by 3.3% y/y, down from 0.3% and 3.4% in April, respectively. The core CPI was higher by 0.2% m/m and 3.4% y/y, down from 0.4% and 3.6% in April, respectively.

**PCE:** The May PCE price index increased 2.6% y/y, down from 2.7% in April and down from the recent peak of 7.0% in June 2022. The Core PCE price index increased 2.6% y/y, down from 2.8% in April and down from the recent peak of 5.4% in February 2022. This is the lowest core reading since March 2021.

# Conclusion

June continued the flow of mixed but overall positive economic performance. While we believe the slowing in consumer spending growth and the labor market are further evidence of the economy continuing to normalize, we'll continue to monitor the incoming data to see if it becomes anything more concerning. April and May inflation reports resumed the trend of disinflation we've seen since the middle of 2022 and the most recent economic data is supportive of a further cooling in prices. The economy continues to grow, although at a slower pace than 2023. We believe this will lead to continued growth in operating earnings, the fundamental driver of equity markets. Lastly, we believe the rate hiking cycle for the Federal Reserve is likely over as the bar for any further tightening is set very high, and the next change they make will be a cut, we just don't know when that will be. Until this narrative changes, we continue to have a positive outlook for common stocks and fixed income.

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