Market & Economic Outlook 2024 – July Update: Not All Markets Are Created Equal

Major Equity Indices	Value (6/30/24)	2Q24 (3/31/24 - 6/30/24) Price Return	2Q24 (3/31/24 - 6/30/24) Total Return*	2024 YTD (12/31/23 - 6/30/24) Price Return	2024 YTD (12/31/23 - 6/30/24) Total Return*
NASDAQ Composite	17,732.60	8.3%	8.5%	18.1%	18.6%
S&P 500	5,460.48	3.9%	4.3%	14.5%	15.3%
Dow Jones Industrial Average	39,118.86	-1.7%	-1.3%	3.8%	4.8%
Russell 2000	2,047.69	-3.6%	-3.3%	1.0%	1.7%
MSCI EAFE (USD)	2,314.63	-1.4%	-0.1%	3.5%	5.7%
MSCI Emerging Markets (USD)	1,086.25	4.4%	5.4%	6.1%	7.7%
Bloomberg Commodity Index	100.99	1.5%	2.9%	2.4%	5.1%
Barclays U.S. Aggregate Bond	89.96	-0.6%	0.1%	-1.9%	-0.7%

Data Source: FactSet, as of 6/30/24; Further discussion of market indices can be found in the Appendix section; Price Returns refer to the change in prices from the beginning of the period to the end of the period; Total Returns include dividends paid.

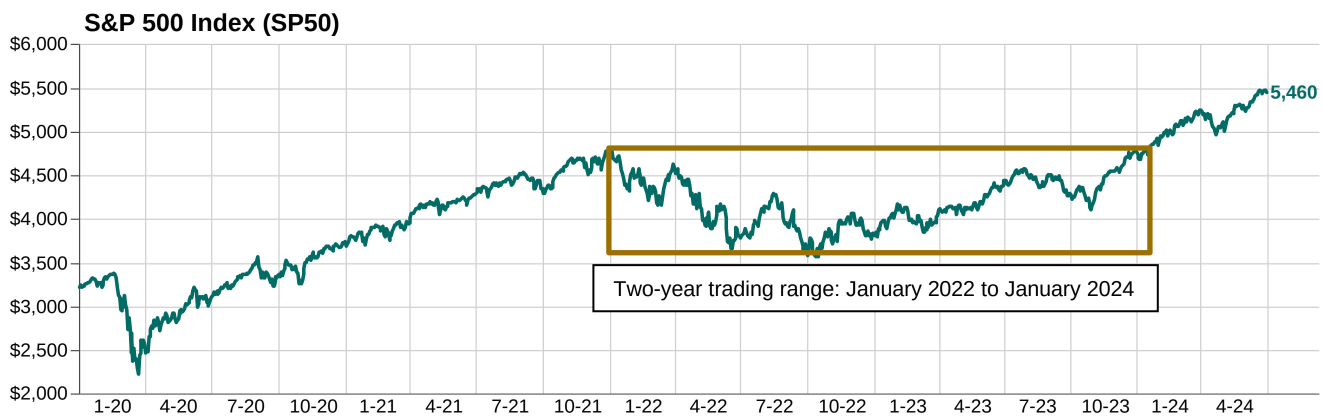
Outlook Summary:

The S&P 500 equity index posted a second quarter (2Q24) total return (includes dividends) of +4.3% and ended the quarter (6/30/24) at a price level of 5,460. In early July, the index rallied further, closing above 5,600 for the first time. The impressive index rally drove a 2024 first half (through 6/30/24) S&P 500 total return of +15.3%. However, equity gains narrowed considerably in the second quarter as many individual stocks and industry sectors trailed the market, and many traded lower. To us, this raises questions about the sustainability of the 2024 rally. A stable, growing U.S. economy should support broad participation across equity indices, while a narrow rally could reflect a late-stage economy and emerging economic weakness, and justify more defensive positioning. This keeps us cautious. In early July, several drivers of equity gains remain in place, including expected higher than recent quarter's earnings growth for the S&P 500, more technology investment to support generative artificial intelligence (GenAI) projects, and anticipation that the U.S. Federal Reserve Bank (Fed) will soon begin an orderly reduction in its overnight interest rate target after leaving the target unchanged at peak levels for the past 12 months. However, multiple factors can work to offset these market drivers, including elevated valuations, weakening consumer data, a rising federal budget deficit and government debt, and potential 2024 election volatility. **Our S&P 500 fair value estimate is 5,000, unchanged from our April 2024 outlook. We see a potential range of 4,800 to 5,400. As of 7/10/24, the S&P 500 traded approximately 4% above the upper band of that range.**

Our more cautious view relative to our April Outlook considers the narrow market rally and elevated index valuation are larger risk factors than eroding fundamentals. In our view, several factors could disrupt investor sentiment and drive a market correction. At the same time, we expect solid earnings growth as companies begin reporting second quarter results. We attribute Q2 equity market gains to a technology-driven rally that outpaced almost everything else, and we believe this creates opportunities for long-term investors to actively rebalance portfolios. Investors can trim positions in highly appreciated holdings and allocate to other holdings that have underperformed. While this can be difficult if the narrow group of leaders continues to surge, it is a prudent strategy for investors looking to manage risk. Below are several of our 2024 expectations as of July.

1. Our S&P 500 fair value estimate is 5,000, and we see a potential fair value range of 4,800 to 5,400.
2. Low volatility and elevated valuations create the potential for a market correction or pullback.
3. Slowing consumer spending will pressure second-half GDP upside, but a 2024 recession is unlikely.
4. The Fed is likely to implement its first interest rate reduction in September and indicate that it sees additional rate cuts ahead.
5. Despite uncertainty, the 2024 election has not impacted equity markets; that could change in the second half.

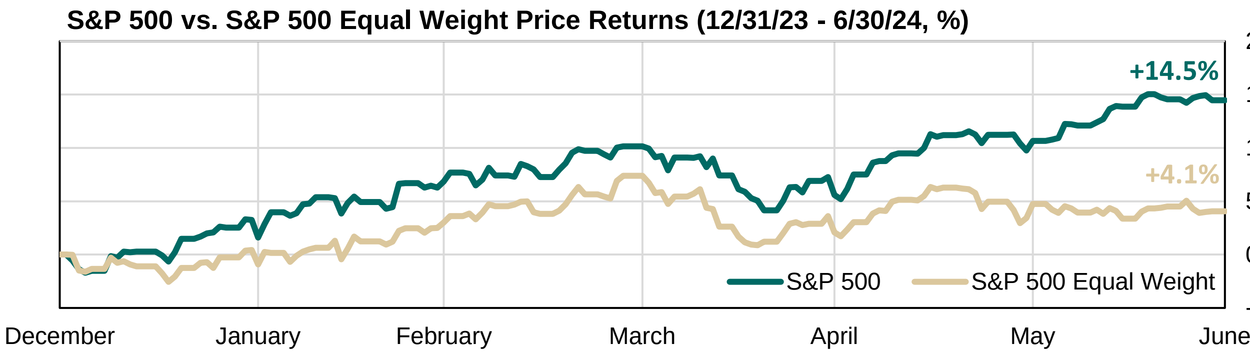
Second quarter review. On the way to the 2Q24 total return of +4.3%, the S&P 500 traded lower to begin the quarter (April's total return declined -4.1%, the only down month for the S&P 500 in the first half), but then rebounded to post solid gains in both May and June. Since breaking out of a 2-year trading range in January (traded above 4,800 for the first time on 1/19/24), the index established 31 new all-time closing highs during the first half of the year.



Data Source: FactSet as of 6/30/24. S&P 500 daily closing prices, 12/31/19 to 6/30/24

Gains were concentrated as six of the eleven Global Industry Classification Standards (GICS) sectors were lower during the quarter, and only two, Information Technology and Communications Services, delivered returns above the index. U.S. economic growth, as measured by gross domestic product (GDP from the Bureau of Economic Analysis, BEA), in 1Q24 was +1.4%, and included a lower contribution from consumer spending than we saw in the second half of last year. Despite a slower economy, S&P 500 companies (weighted by market capitalization) delivered earnings growth of +6%, which exceeded consensus expectations. Still, full-year earnings growth estimates reflect +11% year-over-year growth, a high bar in our view. Not all equity market gains were created equal in the second quarter, and beyond the technology-propelled leadership from the Nasdaq Composite and S&P 500 indices, equity returns were more difficult to sustain.

The narrow leadership of 2Q24 and first-half 2024 U.S. equity market returns is revealed when comparing the returns of the S&P 500 (which is a market capitalization-weighted index) to the Equal Weight (EW) S&P 500 index (which assigns an equal weight to all 500+ index constituents). In 2Q24 (3/31/24 to 6/30/24), as the S&P 500 delivered a quarterly price return of +3.9%, the Equal Weight S&P 500 decreased -3.1%, a delta of 700 basis points. Although the index rallied in the second quarter, the average stock traded lower, creating challenges for active equity investors. We looked at the March to June price change of all S&P 500 constituents and 60% (roughly 300) ended the quarter lower, but strong performance from many of the largest companies by market capitalization (including the technology- and growth-centric "Magnificent 7") led the S&P 500 higher. For the first half (six months ended 6/30/24), the S&P 500 price return was +14.5%, outpacing the EW S&P's +4.1% gain by 1,040 basis points. Over the past 18 months (since the end of 2022), the S&P 500 has gained +42.2% vs. +16.1% for the EW S&P 500. While that level of outperformance is not unprecedented (it last happened 26 years ago in 1998 and 1999), it is rare, and we expect those comparative returns to balance out over time. Over the past 35 years (12/31/89 to 6/30/24), the EW S&P has outperformed the S&P 500 on a compounded annual basis, +8.9% vs. +8.3%, respectively. It is hard to predict when the reversion to the mean (better relative performance from the average stock) will commence (it happened briefly in the fourth quarter in 2023) but we believe the shift will ultimately commence.



Data Source: FactSet and closing index prices from 12/31/23 to 6/30/24. Price return excludes dividends. For a discussion of the calculation of the S&P 500 vs. the Equal Weight S&P 500, please see the disclosure page. Price return is the change in index level, and does not include dividends.

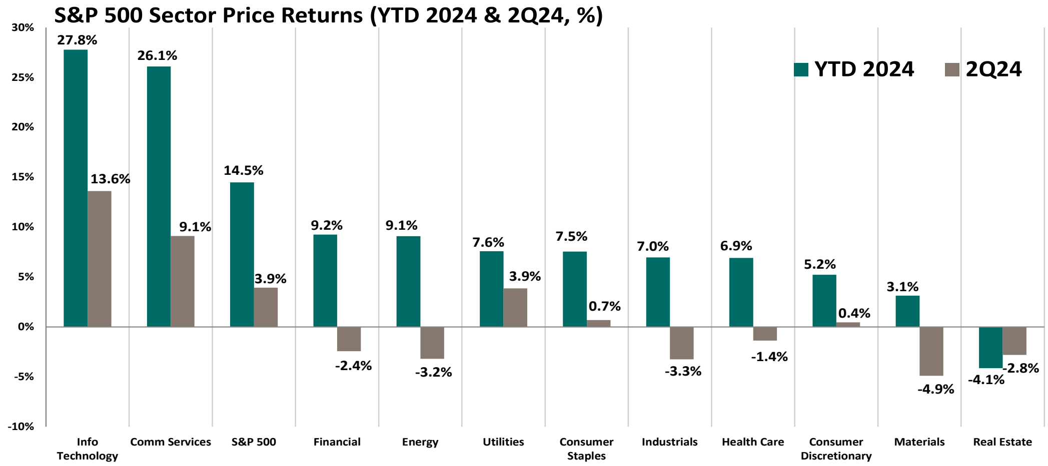
S&P 500 vs. Equal Weight S&P 500 (Price Returns)

	2Q 2024 3/31/24 - 6/30/24	First Half 2024 12/31/23 - 6/30/24	18 Months 12/31/22 - 6/30/24	35 Years (CAGR) 12/31/89 - 6/30/24
S&P 500	3.9%	14.5%	42.2%	8.3%
Equal Weight S&P 500	-3.1%	4.1%	16.1%	8.9%
S&P 500 less EW S&P	7.0%	10.4%	26.1%	-0.6%

Data Source: FactSet and closing index prices from 12/31/89 to 6/30/24. Price return excludes dividends. For a discussion of the calculation of the S&P 500 vs. the Equal Weight S&P 500, please see the disclosure page. Price return is the change in index level and does not include dividends. CAGR is compounded annual growth rate, which computes the annual return with gains reinvested.

S&P 500 sector performance further highlighted narrow participation in gains in 2024. While the S&P 500 index was surging to new highs in the second quarter, just five of eleven GICS sectors were positive, with gains largely attributed to investor enthusiasm for generative AI investment (especially the Technology and Communications Services sectors). Even Utilities, which matched the performance of the index in 2Q24, was pulled into the technology-investment vortex as traders evaluated long-term demand for electricity generation to support growth in data centers. Just five of eleven GICS sectors were positive in the second quarter, and two sectors delivered the bulk of 2024's first-half returns. Negative quarterly returns from Materials, Industrials, Energy, Real Estate, Financials, and Health Care included cyclical sectors that generally are more directly exposed to economic growth and should benefit from an economic "soft landing" (economic growth that slows from 2023 levels but remains positive). The weak relative performance of those sectors perhaps reflects emerging economic uncertainty, driving a rotation into the largest, most liquid stocks.

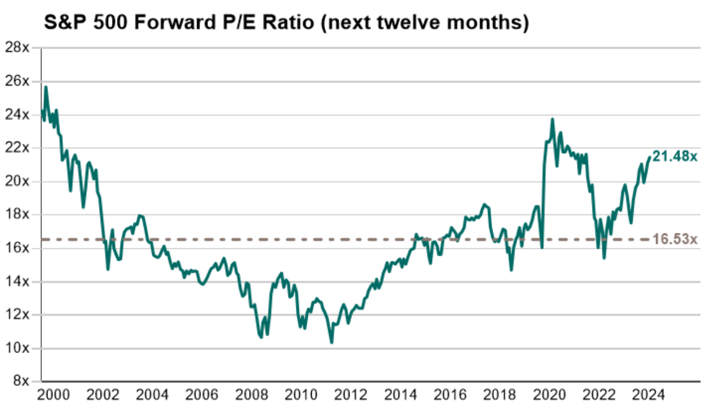
Over the six-month period ended 6/30/24, 10 of the 11 GICS sectors were positive (only Real Estate was down YTD), but sector concentration remained extreme. While Technology and Communication Services increased +27.8% and +26.1%, respectively, no other sector beat the +14.5% return of the S&P 500 index, with the third best-performing sector, Financials, showing an increase of +9.2%. As of the end of June, Technology (comprising 32.4% of the index market capitalization) and Communications Services (comprising 9.3%), combined, represented nearly 42% of the value of the S&P 500. Five of the "Magnificent 7" stocks reside in those two sectors (the other two are in Consumer Discretionary). As we expect improved relative performance from more sectors over time, the question becomes: can the overall index move higher if the large capitalization leaders underperform, or will it require a market pullback or correction to reset and drive sector rotation?



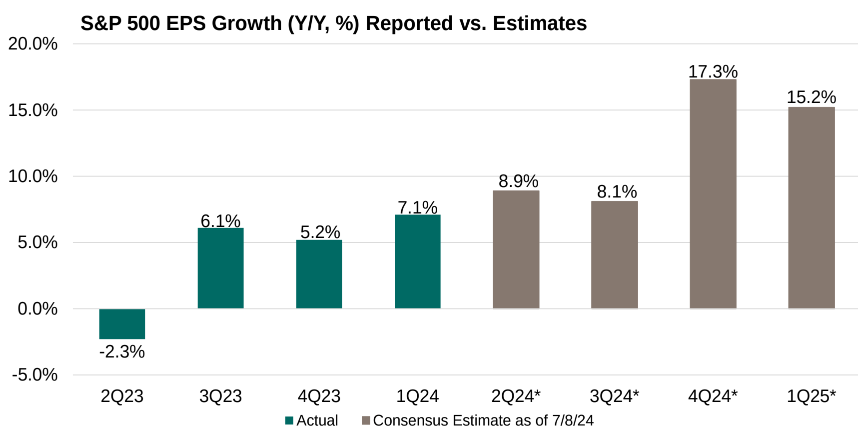
Data Source: FactSet and S&P Global, as of 6/30/24. Price return does not include dividends. See Other Disclosures on page 8 for a description of GICS sectors. Green bars show 6-months ended 6/30/24, gray shows 2Q24 (3/31/24-6/30/24).

Our S&P 500 fair value estimate is 5,000, and we see a potential 2024 range of 4,800 to 5,400. Our fair value is 8.4% below the S&P 500 index level of 5,460 at the end of June, and even our upside target of 5,400 is 1% below the quarter-end value. A retreat to our fair value would reflect a less-than-average market pullback, however. From 1980 through 2023 (a period of 44 years), the average pullback (closing price peak-to-trough) in any calendar year was -14.3%, even as full-year market gains moved higher. In 2022, the S&P 500 declined -19.4% for the full year, but the peak decline was -25.4%, playing out over more than nine months in the 2022 bear market. In 2023, as the index posted a full-year price return of +24.2%, the largest intra-year decline was -10.2% (August to mid-October). In the first half the 2024, the S&P 500 dropped -5.5% peak-to-trough over the first three weeks of April, but since then, the index rallied to recover those losses and trade to new highs.

Our fair value estimate of 5,000 is 19.3x the next four quarters' (3Q24 to 2Q25) FactSet consensus earnings per share estimate (as of 7/10/24) of $259 and 18.1x the 2025 consensus estimate of $277 (this is the price-to-earnings, or P/E, ratio). At levels on 7/10/24, the S&P 500 traded at 21.7x the next four quarters' estimate, a 32% premium to the 16.5x forward P/E average over the past 24+ years (2000 to June 2024). Over the past ten years, a period of strong relative returns for growth stocks, the average index forward P/E was 18.2x. Although the current next four quarters' P/E of 21.7x is still a 19% premium to that average, the 2025 estimated P/E of 18.1x is in-line with that historical average.



Data source: FactSet, using exchange data, as of 7/8/24. See Other Disclosures on page 9 for further discussion of P/Es and Treasury yields.



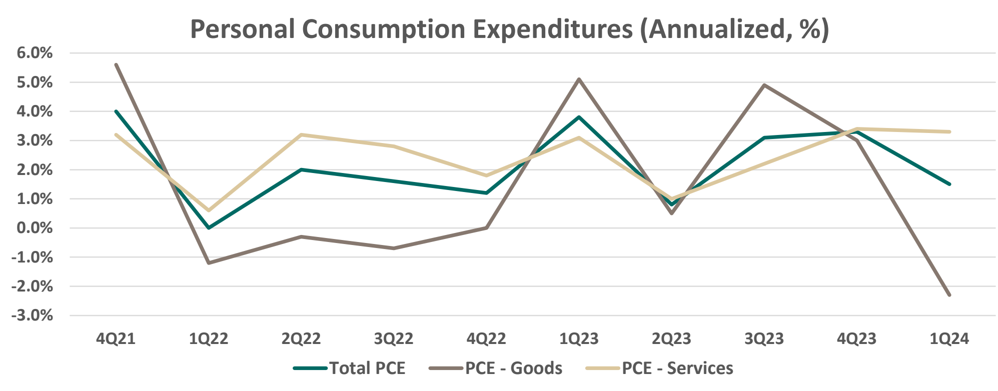
Data source: FactSet consensus estimates, as of 7/11/24. Green are past 4 quarters reported, gray are estimated earnings for the next 4 quarters.

The difference in the current period, however, is that earnings growth estimates remain optimistic, in our view (current FactSet consensus estimates assume 2024 and 2025 Y/Y earnings growth of +11% and +15%, respectively), and interest rates remain significantly above the average over the past 10-year. Rates would remain above average even after including rate cut expectations. The U.S. 10-year Treasury yield, which we view as a proxy for long-term interest rates for use in valuing equities, traded at 4.27% in early July, compared to an average yield of 2.30% over the past 10 years. Our upside fair value level of 5,400 is reached if earnings growth meets or exceeds estimates in 2024 and 2025, and long-term interest rates move lower as expected. The low end of the range would represent a P/E of 17.3x the 2025 EPS estimate, or about 19.0x 2025 expected earnings assuming +8% growth in both 2024 and 2025.

Slowing consumer spending will pressure second-half GDP upside, but a 2024 recession is unlikely. U.S. gross domestic product (GDP), economic output as reported by the Bureau of Economic Analysis (BEA), increased +1.4% (inflation-adjusted annualized growth) in 1Q24, below both the +2.2% FactSet consensus (from Wall Street economists) estimate and the previous quarter's (4Q23) +3.4% growth. This was the lowest GDP print since 2Q22, a period of seven quarters. The key drivers of economic output (consumer spending, business investment, and housing) collectively contributed +2.2% to GDP growth, below the +2.4% quarterly average over the past 5 years but above the +1.4% reported GDP growth as adjustments for inventories and net exports subtracted -1.1% from the final number. The inventory reduction suggests that output was below final demand, perhaps suggesting better growth is ahead, but could also reflect caution from producers. Trade reduced GDP due to weak exports (possible growth headwinds abroad) and surging imports (strong U.S. demand). In our view, while underlying economic trends were better than the headline report, consumer spending slowed from above-trend levels in the second half of 2023, driven by a sequential decline in spending on goods, including weakness in automobiles, recreational vehicles, and restaurants. Spending on services, including health care, financial services, and household services, has remained relatively solid. In the post-pandemic economy, spending on services surged at the expense of goods, but in 2023, both were strong. A few consumer cracks appear to have emerged in 2Q24, including weaker retail sales, an uptick in the unemployment rate, and rising credit delinquencies.

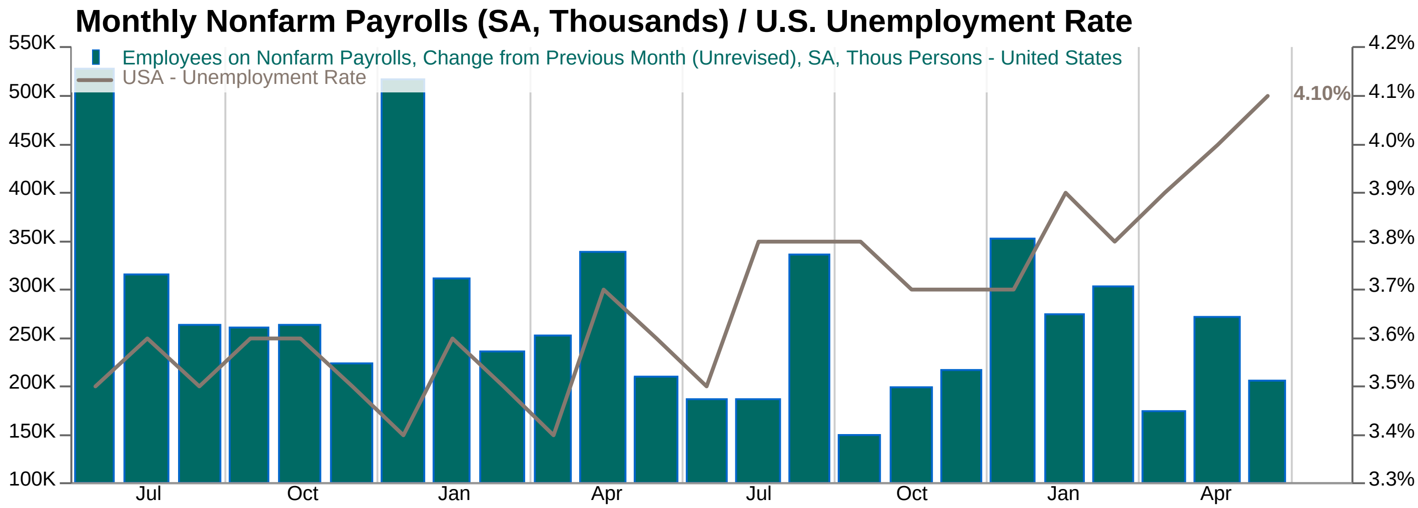
Components of U.S. GDP Growth	**1Q22**	**2Q22**	**3Q22**	**4Q22**	**1Q23**	**2Q23**	**3Q23**	**4Q23**	**1Q24**
GDP (% change from preceding period)	**-2.0%**	**-0.6%**	**2.7%**	**2.6%**	**2.2%**	**2.1%**	**4.9%**	**3.4%**	**1.4%**
Contribution to Percentage Change									
PCE (consumer spending)	(0.03)	1.32	1.05	0.79	2.54	0.55	2.11	2.20	0.98
NR fixed (business investment)	1.32	0.68	0.62	0.24	0.76	0.98	0.21	0.50	0.59
Residential fixed investment (housing)	(0.09)	(0.73)	(1.41)	(1.23)	(0.22)	(0.09)	0.26	0.11	0.59
Government spending	(0.52)	(0.34)	0.49	0.90	0.82	0.57	0.99	0.79	0.31
Consumer, Business, Housing	1.20	1.27	0.26	(0.20)	3.08	1.44	2.58	2.81	2.16
PCE - Goods	(0.30)	(0.09)	(0.18)	(0.01)	1.14	0.11	1.09	0.67	(0.51)
PCE - Services	0.27	1.41	1.23	0.80	1.40	0.44	1.02	1.54	1.49

Data source: U.S. Bureau of Economic Analysis. GDP is gross domestic product, a measure of goods and services produced during the period. GDP is adjusted for inflation, called real GDP. GDP growth is the annualized quarterly growth rate from the prior quarter. Contribution to percentage change is calculated by the BEA by multiplying the growth rate by the category's weight in the inflation-adjusted GDP. PCE is personal consumption expenditures and NR fixed is non-residential fixed investment.

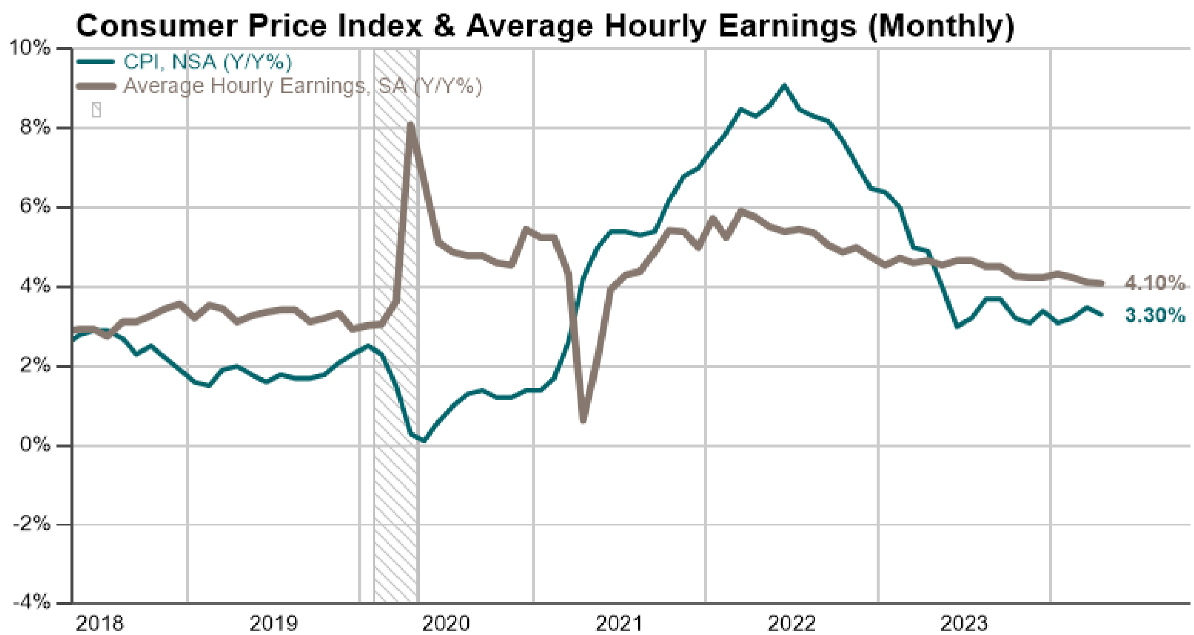


Data source: U.S. Bureau of Economic Analysis. Personal Consumption Expenditures is the consumer spending component of GDP (gross domestic product), a measure of goods and services produced during the period. GDP is adjusted for inflation, called real GDP. The green line is the sequential quarterly annualized growth rate of PCE. Gray is the goods component of that number and gold is the services component.

Jobs data reported by the U.S. Bureau of Labor Statistics (BLS) shows that monthly net nonfarm payrolls (jobs) have remained solidly positive in 2024, although the M/M increases have decelerated. The average monthly jobs increase in 2024 (six months, January through June) was +222 thousand (K), but in 2Q24 (April-June), the monthly average decelerated to +177K. This compared to average monthly jobs gains in 2023 and 2022 of +251K and +399K. More recently, June nonfarm payrolls increased +206K, above the 3-month average, but gains were led by government, health care, and social assistance jobs, while jobs in retail trade, professional services, and manufacturing declined from the prior month. At the same time, the labor force has increased. The June unemployment rate was 4.1%, up from 3.7% in January, and at the highest level since November 2021 (more than 2½ years). At this point, average monthly jobs growth of +177K and 4.1% unemployment reflects a slowing economy but still a "soft landing." If these recent trends continue, however, it could signal a more rapid deceleration in economic activity that could create challenges for investors in the second half of 2024.



Data source: U.S. Bureau of Labor statistics, as of 7/5/24. Measures the monthly change in nonfarm payrolls from its Establishment survey. The unemployment rate comes from the BLS' Household survey.

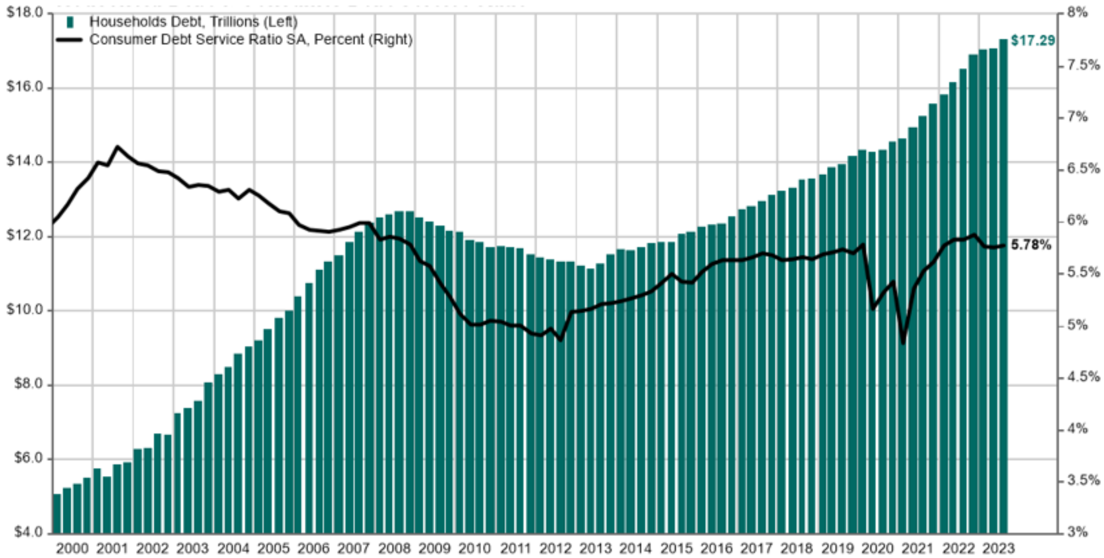


Data source: U.S. Bureau of Labor statistics, as of 6/30/24. CPI is a measure of consumer inflation comparing each month, year-over-year. Average Hourly Earnings is reported in BLS' monthly employment report and is measured from survey responses.

In June 2024, the consumer price index, or CPI (a measure of consumer inflation reported by the Bureau of Labor Statistics), increased +3.0% Y/Y, the lowest monthly Y/Y increase in 12 months. Inflation trends appear to have moved lower again after trending higher in the first quarter. Although the eye-popping inflation reports of the past few years (+9.1% in June 2022 and +5.5% in June 2021) have trended substantially lower, inflation levels remain above the Fed's +2.0% desired level, leading to the Fed leaving its fed funds target rate at a high level. In addition, many consumers are feeling the pinch of higher prices, which have accumulated across the economy. Looking at the cumulative impact of CPI over the past three years (June of 2022, 2023, and 2024), prices have risen +15.7%, more than wages over that time. This decline in "real" wages has contributed to lost purchasing power, a headwind to spending. Inflation (CPI) grew faster than wages (as measured by average hourly earnings, AHE, reported by the BLS) for 25 consecutive months from April 2021 through April 2023. However, this data turned positive (wage growth above the inflation rate) in May 2023 and real wages have been positive for the past 14 months. If this trend continues and consumer spending power improves, it could offset weaker jobs growth and help keep economic growth on track.

Consumer debt, on the other hand, continues to rise. Household debt, which includes mortgages, auto loans, student loans, credit cards, and other personal loans, has increased steadily since 2021 (post-pandemic), reaching $17.69 trillion at the end of the first quarter. A May report from the Federal Reserve Bank of New York showed that 18% of credit card borrowers were using more than 90% of available credit, leading to missed payments and rising delinquencies. Delinquencies have increased for both credit cards and auto loans, perhaps because credit payments as a percentage of disposable personal income have trended consistently higher. The consumer debt service ratio, which compares all consumer credit payments, excluding mortgages, to disposable income (after tax), has returned to pre-pandemic levels. Consumers have used credit to supplement spending patterns, and higher interest rates create potential headwinds as monthly payments rise both due to higher balances and higher borrowing rates. The 2Q24 move lower in interest rates, in anticipation of Fed rate cuts, could provide some payment relief, but is unlikely, in our view, to stimulate spending as borrowing is already elevated.

Household Debt & Consumer Debt Service Ratio

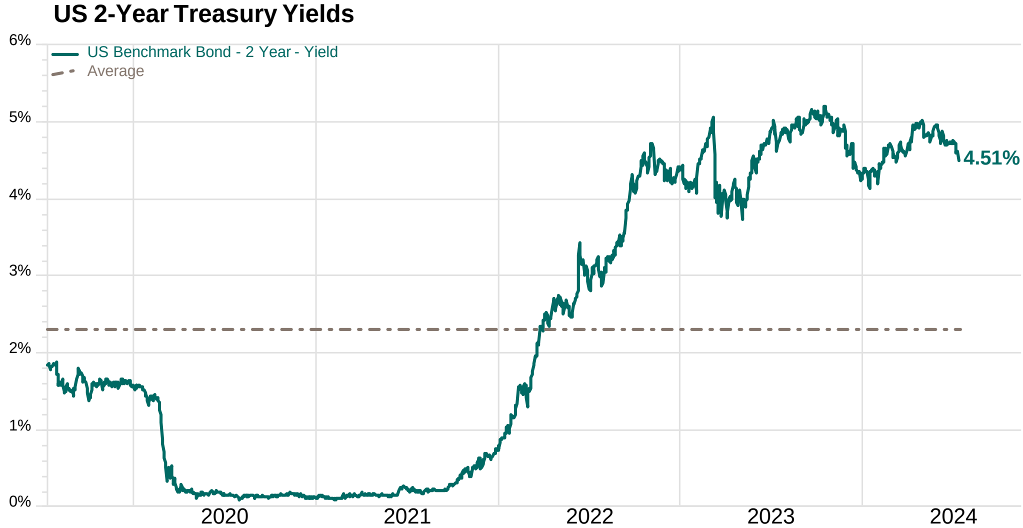


Data source: Household debt: FactSet and the Federal Reserve Bank of New York, as of 3/31/24. Consumer Debt Service Ratio (excludes mortgage debt), as of 12/31/23, FactSet and Federal Reserve Bank of New York.

The Fed is likely to implement its first interest rate reduction in September and indicate that it sees additional rate cuts ahead. Looking back over the past several years, the U.S. 2-year Treasury yield (TY) has moved ahead of Federal Reserve Bank interest rate policy (the Fed manages overnight borrowing rates by managing the fed funds target range). The 2-year TY, which traded near 0.10% in early 2021, began moving higher in the fourth quarter of 2021 (ending the year at 0.75%) as investors began to see signs of inflation pressure. By the time the Fed, in March 2022, first raised its fed funds target to 0.25% from 0%, the 2-year TY had moved to 2.30%. By July 2023, the Fed had raised the fed funds rate to 5.25% (low end of the range), but the 2-year TY first moved above 5.00% in March 2023. Over the past 18 months, the 2-year TY has ranged roughly between 4% and 5%, was 4.51% as of 7/11/24, and has remained below 5.00% since late 2023. While the Fed waits for several months of sustained lower inflation data before lowering its 5.25% to 5.50% target range, recent economic data has been "Fed-friendly" (lower 2Q24 inflation and moderating jobs gains) and, in our view, the 2-year TY is again ahead of the Fed and correctly signaling Fed rate cuts that could even be 0.75%. Although the Fed has an upcoming Open Market Committee meeting at the end of July, recent commentary from Fed Chair Jerome Powell and other Fed Bank presidents suggests policy will remain on hold in the near-term to accumulate more data. At the following meeting in September, the Fed will assess labor and inflation reports for both July and August, and we believe that data will support at least one 0.25% cut in the target rate (that would take it to 5.00% to 5.25%).

The Fed's most recent Summary of Economic Projections (SEP), updated in March, reflected median estimates for the fed funds target of 4.60% at year-end (YE) 2024, 3.90% at YE 2025, and 3.1% at YE 2026. This reflects the Fed's expectation of an orderly path to lower, more normalized, interest rate levels, but also suggests that interest rates will likely remain well-above levels we have seen over the past 15 years since the global financial crisis (since mid-2009, the U.S. 2-year and 10-year Treasury yields have averaged 1.38% and 2.47%, respectively). A sustained higher interest rate regime has implications for financing debt, and higher debt service payments create headwinds for corporate earnings, commercial real estate, and government budgets. Should economic growth falter in 2024 or 2025, causing a steeper slowing of consumer spending, the Fed's path of interest rate cuts would likely be accelerated.

US 2-Year Treasury Yields

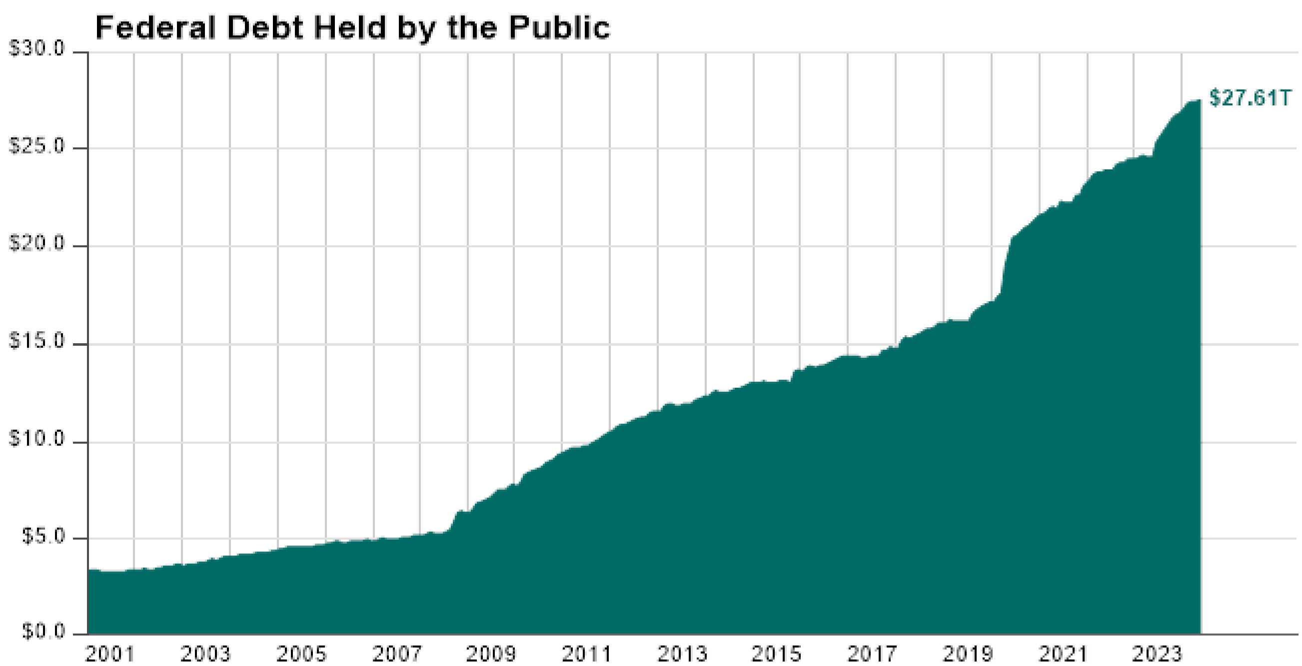


Data Source: FactSet and U.S. Treasury market data, 7/11/19 to 7/11/24. Represents market-traded short-term U.S. interest rates.

Despite uncertainty, the 2024 election has not impacted equity markets; that could change in the second half. While the 2024 U.S. national election has been one of the top media topics of 2024, its impact on investor sentiment and markets was negligible in the first half, in our opinion. Investors are much more focused on economic growth, technology investment, corporate interest rates, and inflation. Not to say that the election outcome cannot impact several of those factors, but there remains considerable uncertainty regarding the potential outcomes of not only the race for President, but the composition of Congress (both the House and Senate) as well. According to polling site FiveThirtyEight, which compiles results of multiple national polls, as of 7/11/24, former President Trump (Trump) leads President Biden (Biden) 42.9% to 40.5% in the national polls, with Robert F. Kennedy Jr. at 9.1%. This is within the margin for error and nearly four months still remain prior to election day with both the Republican and Democrat conventions scheduled in the weeks ahead. Some still believe that party delegates could replace the party nominee at the upcoming conventions; Trump due to legal issues (unlikely, in our view) and Biden due to health concerns. Congressional races are toss ups as well as the current composition of the Senate which reflects a narrow Democrat majority. The Republicans have an equally narrow majority in the House of Representatives. If one party controls the presidency and both houses of Congress, the odds of major legislation passing increases, but there are limits, in our view, as budget deficits and the growing national debt is likely to limit any bold spending bills, as well as the ability to implement tax cuts. Each party's platform is expected to be detailed at their upcoming conventions, but early expectations attach President Trump to increased tariffs, less regulation, more oil and gas production, and a renewal of the 2017 tax cuts. For President Biden, he is linked to energy transition (emphasizing electrification), increased immigration, and higher taxes for corporations and high-income earners. Betting markets allow speculators to place bets on political outcomes and betting site Predict it, as of 7/11/24, reflected a 60% chance of a Trump victory, with the remainder split between President Biden and Vice President Harris.

We advise against making broad portfolio changes in reaction to expected political outcomes as much uncertainty remains. However, the high level of polarization and potential for new candidates, along with geopolitical risks (wars in Ukraine and Palestine), creates uncertainty that we believe adds to considerations that could spark a market correction. In addition, we believe ongoing budget deficits and interest expense on that debt remain a risk for investors and could ultimately contribute to a sustained period of higher-than-expected interest rates. While this risk could be delayed to 2025 or 2026, we would not be surprised if it becomes a topic of debate in the current election cycle.

The U.S. budget deficit has not improved in 2022 and 2023, despite solid economic growth. In the fiscal year ended 9/30/23 (FY23), the Federal budget deficit was $1.7 trillion (T), an increase of +23% from $1.4T in FY22. Through the first nine months (through June) of FY24, the budget deficit was $1.3T and the Congressional Budget Office (CBO) recently estimated a FY24 full-year deficit of $1.9T. The expanding deficit is not a revenue problem as FY24 revenues (mostly individual taxes, corporate income taxes, and payroll taxes) are estimated to increase +10% to $4.9T (from $4.4T in FY23). But government outlays are expected to increase +11% to $6.8T. Also, driving the spending increase is surging net interest expense as both total debt outstanding and borrowing rates are higher. Over the first nine months of FY24 (through June), the U.S. net interest expense was $704B, a year-over-year (Y/Y) increase of +40% ($504B through May of 2023). This was greater than FY24 defense spending, which totaled $609B through June. The CBO estimates that federal revenue as a percentage of GDP will be 17.2% in FY24, basically in-line with the 17.3% average over the past 50 years (1974 to 2023). But, federal spending is estimated at 24.2% of GDP, well above the 21.0% 50-year average. The CBO projects ongoing annual deficits of $1.9T or higher through 2034. In our view, this creates challenges for sustained U.S. economic growth and imposes headwinds on investors as we look ahead. No matter who wins this next election, the President and Congress must begin to address this issue.



Data Source: FactSet and U.S. Treasury, as of 6/30/24. Treasury debt held by the public does not include U.S. Treasury debt that is held in other U.S. government accounts. The total debt including those accounts, as of 6/30/24, was $34.6 Trillion (T).

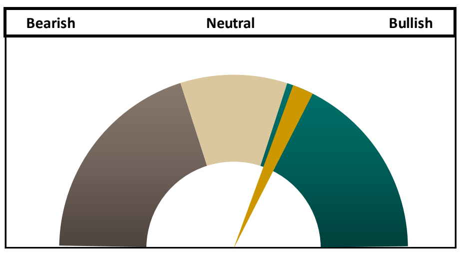
S&P 500 Sector Recommendations - July 2024

GICS Sector	S&P 500 Weight by Market Cap	WM Research 2024 Outlook	Notes (reflect current expectations and are subject to change)	Change
Technology	32.8%	marketweight	strong results powered by Gen AI investment will slow in second half	
Financials	12.5%	marketweight	lower interest rates could spur loan growth, watch credit quality	
Health Care	11.6%	marketweight	winners and losers this year, attarctive valuations	
Consumer Discretionary	10.0%	marketweight	be selective, look for earnings growth, still expect moderating consumer spending	
Communications Services	9.2%	marketweight	look beyond the large-cap leaders, digital ad spending to accelerate (election year)	
Industrials	8.1%	overweight	lagged in Q2 after a strong Q1, we see values but estimates moderating	
Consumer Staples	5.7%	marketweight	valuations now elevated, dividends attractive, defensive	
Energy	3.5%	marketweight	tough Y/Y earnings comparisons, but oil prices rising and balance sheets are solid	
Utilities	2.3%	marketweight	benefits from energy infrastructure demand, but valuations again elevated	
Materials	2.2%	overweight	global commodities are mixed as growth softens, look for value add	
Real Estate (REITs)	2.2%	underweight	first half underperformance creates opportnuties with lower interest rates	

Data source: D.A. Davidson Wealth Management Research, as of 7/12/24.

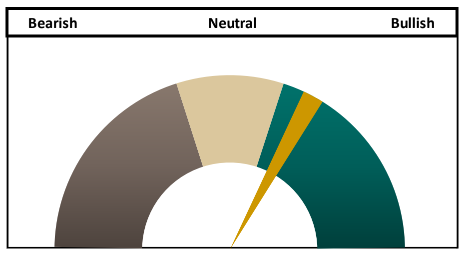
Wealth Management Research Investment Cycle Gauge

Economic Indicator (2024)



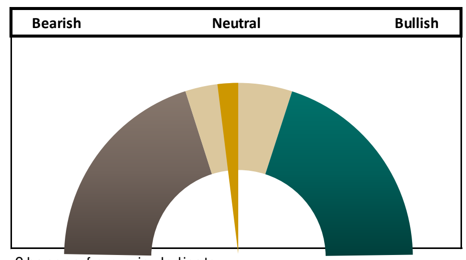
Changes from prior Indicator:
growth has slowed in 2024, so far no recession

Earnings Indicator (2024)



Changes from prior Indicator:
earnings growth likely to accelerate in 2024

Equity Market Indicator (2024)



Changes from prior Indicator:
momentum strong but a correction is overdue

Data Source: D.A. Davidson & Co., as of 7/12/24

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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, exchange-traded companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. Today the NASDAQ Composite includes over 3,000 companies. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification. The Bloomberg U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The Russell 1000® Growth Index is a market cap weighted index that measures the performance of the large-cap growth segment of the U.S. equity market. It includes those Russell 1000 companies with relatively higher price-to-book ratios and higher expected earnings growth rates. The Russell 1000® Value Index includes those Russell 1000 companies with relatively lower price-to-book ratios and lower expected earnings growth rates. The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance.

Other Disclosures: The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

The forward S&P 500 price-to-earnings ratio (P/E) is a valuation measure, calculated by dividing the price of the S&P 500 index over the weighted average earnings per share (EPS) estimate of each company in the index. Earnings are based on "forward" consensus estimates expected over the next 12 months (NTM), using quarterly analyst estimates as provided by FactSet.

Fair value refers to a valuation method based on our view of the intrinsic value of an asset or index, determined by macroeconomic factors and earnings expectations rather than current market prices. This is our view of intrinsic value as of the date of this report.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data as a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at www.bea.gov.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analyst estimates from firms that submit estimates to FactSet for a given financial metric.

The annual price returns of the S&P 500 index are calculated using index closing value on 12/31 of one year to 12/31 of the next year. 2024 returns are calculated as of 3/31/2024. Intra-year, peak-to-trough percentage declines are calculated using the index closing prices from an intra-year high date to a subsequent low date. Closing prices are provided by S&P Global through FactSet. Averages across years are calculated using the arithmetic mean.

S&P 500 earnings growth reflects the year-over-year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members – the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and four of the remaining eleven Federal Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth.

The Federal Reserve Summary of Economic Projections (SEP) is sourced from federalreserve.gov, as of 3/31/24. Year-over-year projections of changes in real gross domestic product (GDP) and projections for both measures of inflation are percent changes from the first quarter of the previous year to the first quarter of the year indicated. Projections for the unemployment rate are for the average civilian unemployment rate in the first quarter of the year indicated. Each participant's projections are based on his or her assessment of appropriate monetary policy. The projections for the federal funds rate are the value of the midpoint of the projected appropriate target range for the federal funds rate or the projected appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. The Summary of Economic Projections is compiled from Federal Reserve Board members and Federal Reserve Bank presidents.

The term "monetary policy" refers to the actions undertaken by a central bank, such as the Federal Reserve, to influence the availability and cost of money and credit to help promote national economic goals. The Board of Governors of the Federal Reserve System is responsible for the discount rate and reserve requirements, and the Federal Open Market Committee is responsible for open market operations. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and, in this way, alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment. Treasury security data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

The U.S. Personal Consumption Expenditures (PCE) Price Index is an indicator of the growth in consumer spending and measures the value of goods and services purchased by persons who reside in the U.S. It is reported monthly by the Bureau of Economic Analysis. PCE inflation is the percentage rates of change in the price index for personal consumption expenditures (PCE).

The National Bureau of Economic Research (NBER) is a private non-profit research organization. The NBER is widely used as an organization that analyzes U.S. economic data and the business cycle, and determines the start dates and end dates of economic recessions. The NBER defines recession as "a significant decline in economic activity that is spread across the economy and that lasts more than a few months" and also looks at the depth, diffusion, and duration of the downturn.

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys. The household survey measures labor force status by demographics, while the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component of the establishment survey is drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work.

The BLS also publishes the Job Openings and Labor Turnover Survey (JOLTS) which measures job openings, hires, and separations from a monthly survey of U.S. business establishments.

The consumer price index (CPI) is a measure of average change, over time, in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics.

Volatility looks at to what degree and how quickly prices move over a given span of time. In the stock market, increased volatility, in the form of rapidly falling prices, is often a sign of rising uncertainty.

The U.S. Census reports annualized monthly data on housing starts, permits, and completions. It is a widely followed measure to track construction activity in the residential housing market. New home sales measures sales of new single-family homes and is a measure of the demand for housing. Home price data is monitored by the S&P CoreLogic Case-Shiller Home Price Index.

We define a "bear market" as a peak-to-trough decline (using closing prices) of -20% or more. We generally use the S&P 500 index as a proxy for the broad market for large, leading U.S. companies.

Daily prices for West Texas Intermediate (WTI) crude oil from Cushing, Oklahoma are quoted daily on a price per barrel basis and are available from the U.S. Energy Information Administration.

We track a measure of wages, average hourly earnings of all private employees, which is calculated and reported on a monthly basis by the U.S. Bureau of Labor Statistics. The data measures average hourly earnings of all private employees on a "gross" basis (includes overtime and late shift work, but excludes benefits).

U.S. monthly receipts, outlay, deficit, or surplus are reported by the U.S. Treasury at fiscal.treasury.gov. Supporting data is also available from the Congressional Budget Office (CBO).

Generative Artificial Intelligence (GenAI): We think of artificial intelligence as using advanced computers to process large amounts of data to ultimately approach human problem solving and decision making. Early versions were often called "machine learning" and could sift through large data sets and accurately predict single outcomes. Now, generative AI goes further to utilize all forms of inputs. While still predictive models, generative AI can give detailed responses, much better than a search engine, which does a good job of telling the user where to go to find additional information. As generative AI systems access more data, they become larger and learn to make better decisions. At each iteration, the system gains knowledge, enhancing its predictive (reliable) capabilities and ability to produce original content. Generative AI systems become more robust as they are used as all new data can be trained into the system, creating new challenges and opportunities.