GIOA Monthly Webinars 2024

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2024 U.S. Economic & Bond Market Outlook

September 2024

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U.S. Economic & Rates Outlook

Inflation

- Inflation should continue to drift lower until at least December, then move sideways for much of 2025.
- Headline CPI still around 3.0% (as of July), inflation is likely to become sticky above 2.5%
- Near-term, services inflation and housing should push inflation below 3.0%, and down to 2.5% before end of the year.
- But wages likely to pull inflation back to 4.0% by early 2026 absent a recession

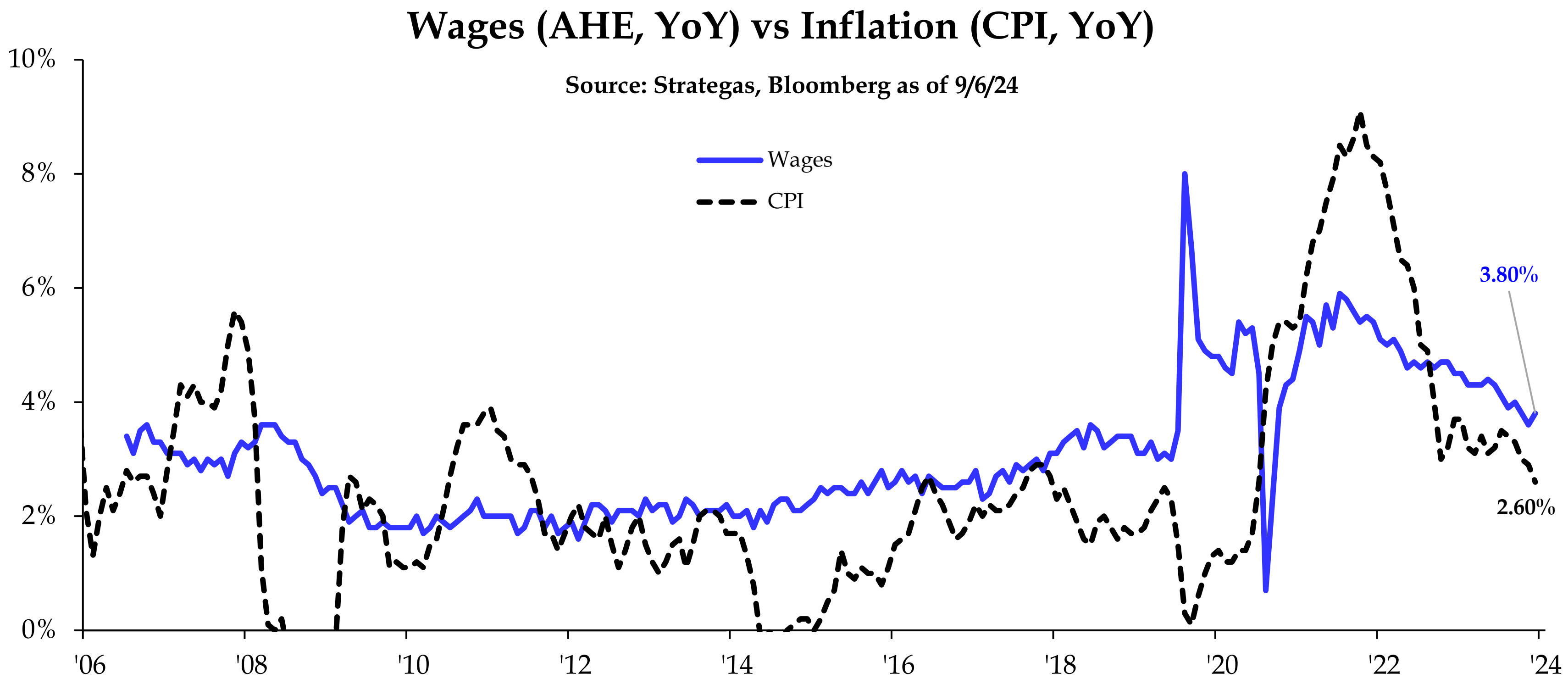
24/25 Rate/Spreads Outlook

- We see 50 bps of cuts this year (Sep and Dec), and 100 bps of cuts next year.
- This presumes a "soft landing" where unemployment doesn't breach 5.0%.
- If unemployment rate moves up faster, then the argument for cuts expands to every meeting, for a total of 200 bps between now and June.
- Strategas recession odds now < 30% for next 12 months.
- Corp & MBS Spreads stable

Consumer Health

- The most important variable in consumer spending is a job.
- Unemployment rate inching higher, but it's been too slow to trigger consumer panic.
- But consumer is "exhausted", looking to take a break.
- Retail sales shows signs of "consumer exhaustion" every 6 months.
- Credit card debt is now a serious long-term headwind for consumer.

Without Recession, Wages Likely to Pull CPI Up



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U.S. Economic & Rates Outlook

2024

	1Q	2Q	3QE	4QE
Real GDP Q/Q % AR	1.40%	3.00%	2.00%	2.00%
Core CPI Q/Q % AR	4.20%	3.20%	2.50%	2.30%
Fed Funds EOP	5.50%	5.50%	5.25%	5.00%

E = End of Period Expected Value

2025

	1QE	2QE	3QE	4QE
Real GDP Q/Q % AR	2.00%	1.80%	1.80%	1.50%
Core CPI Q/Q % AR	2.50%	2.30%	2.80%	2.80%
Fed Funds EOP	4.75%	4.50%	4.25%	4.00%

E = End of Period Expected Value

Soft Landing for Remainder of 2024

Maturity	2024 (Soft Landing) 1Q	2Q	3QE	4QE
1 Year	5.02%	5.00%	4.30%	4.05%
2 Year	4.63%	4.65%	3.80%	3.75%
5 Year	4.22%	4.25%	3.70%	3.70%
10 Year	4.20%	4.25%	3.80%	3.80%
30 Year	4.34%	4.40%	4.10%	4.10%

E = End of Period Expected Value

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And 2025

Maturity	2025 (Soft Landing) 1QE	2QE	3QE	4QE
1 Year	3.90%	3.90%	3.90%	3.95%
2 Year	3.70%	3.70%	3.70%	3.80%
5 Year	3.70%	3.70%	3.75%	3.90%
10 Year	3.75%	3.80%	3.90%	4.05%
30 Year	4.05%	4.10%	4.20%	4.35%

E = End of Period Expected Value

U.S. MBS/Credit Spread Outlook

2024

	1Q	2Q	3QE	4QE
MBS	0.49%	0.48%	0.35%	0.35%
IG Corps	0.90%	0.94%	0.90%	0.95%
HY Corps	2.99%	3.09%	3.15%	3.30%

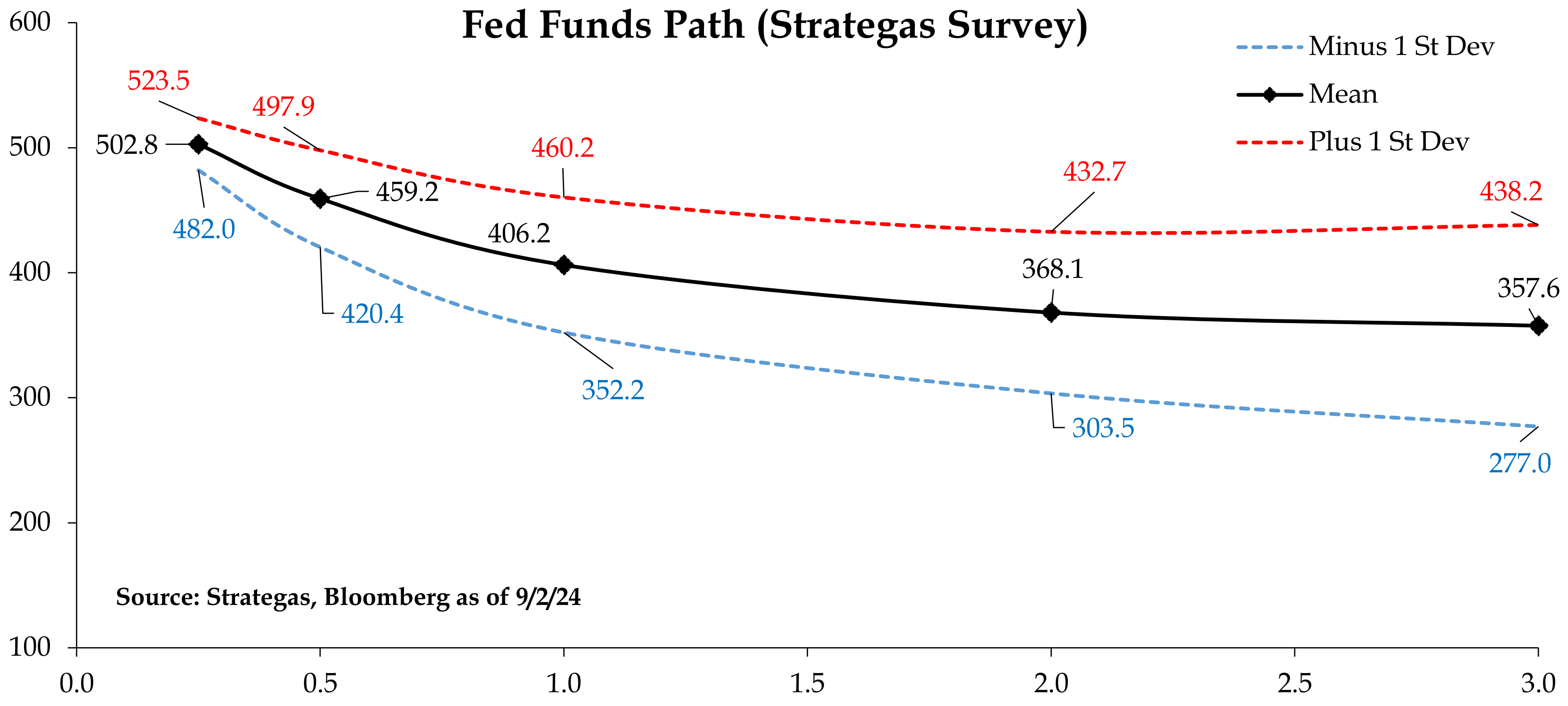
E = End of Period Expected Value

2025

	1QE	2QE	3QE	4QE
MBS	0.35%	0.40%	0.50%	0.55%
IG Corps	1.00%	1.00%	1.20%	1.30%
HY Corps	3.40%	3.40%	3.90%	4.25%

E = End of Period Expected Value

Strategas Clients See 2 Cuts in 2024



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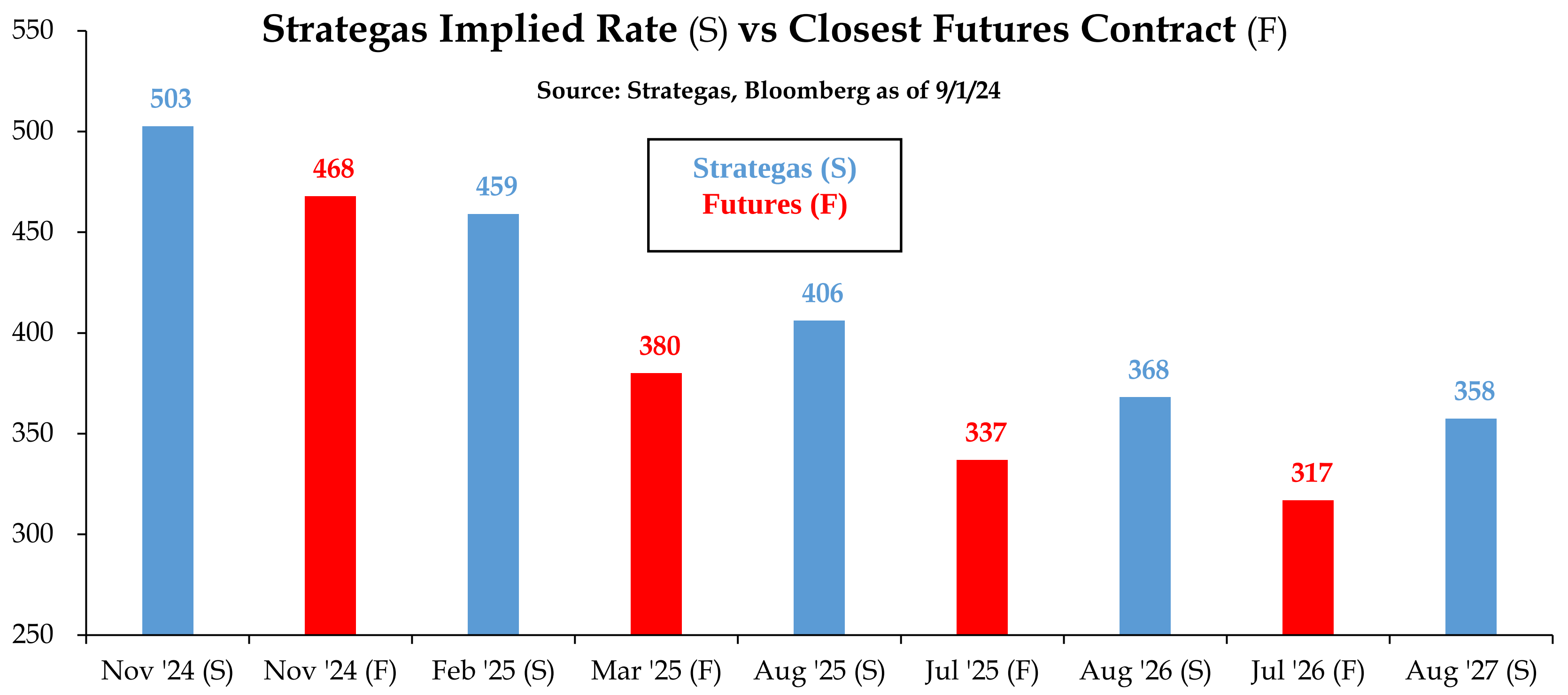
But the Futures Market Disagrees



Strategas IG Corporate Bond Index

Sector	Index Weight	Worst Case	Best Case	Avg Default Risk	OAS
Communications	7.6%	0.03%	0.00%	**0.02%**	1.03%
Discretionary	9.2%	0.23%	0.03%	**0.13%**	1.10%
Staples	10.2%	0.05%	0.00%	**0.03%**	0.92%
Energy	5.0%	0.03%	0.00%	**0.02%**	1.23%
Financials	16.8%	0.09%	0.01%	**0.05%**	1.09%
Health Care	14.4%	0.08%	0.01%	**0.04%**	1.00%
Industrials	11.6%	0.08%	0.03%	**0.05%**	1.15%
Information Tech	12.7%	1.29%	0.02%	**0.65%**	0.99%
Materials	2.5%	0.28%	0.03%	**0.15%**	1.11%
Real Estate	4.7%	0.07%	0.01%	**0.04%**	1.28%
Utilities	5.5%	0.05%	0.01%	**0.03%**	1.22%
Total		**0.24%**	**0.01%**	**0.13%**	**1.07%**

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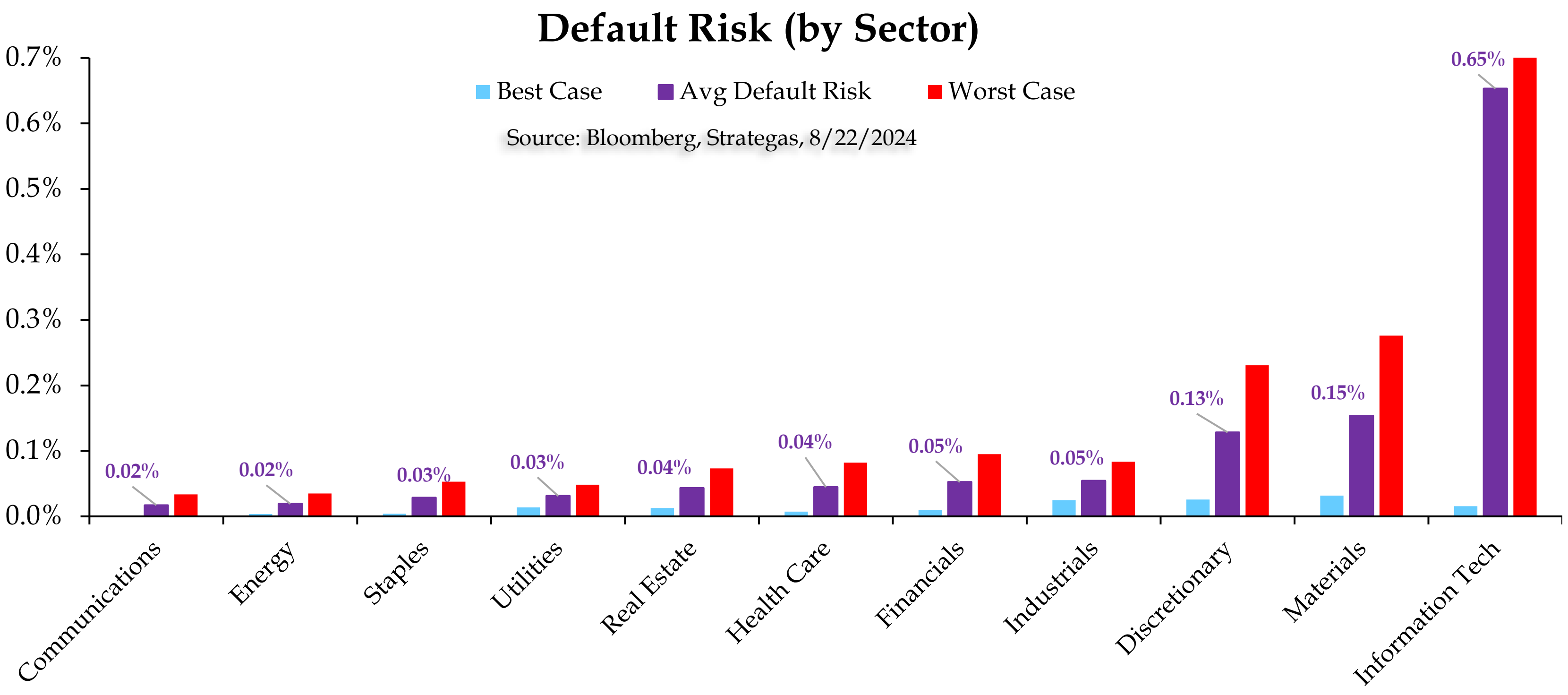
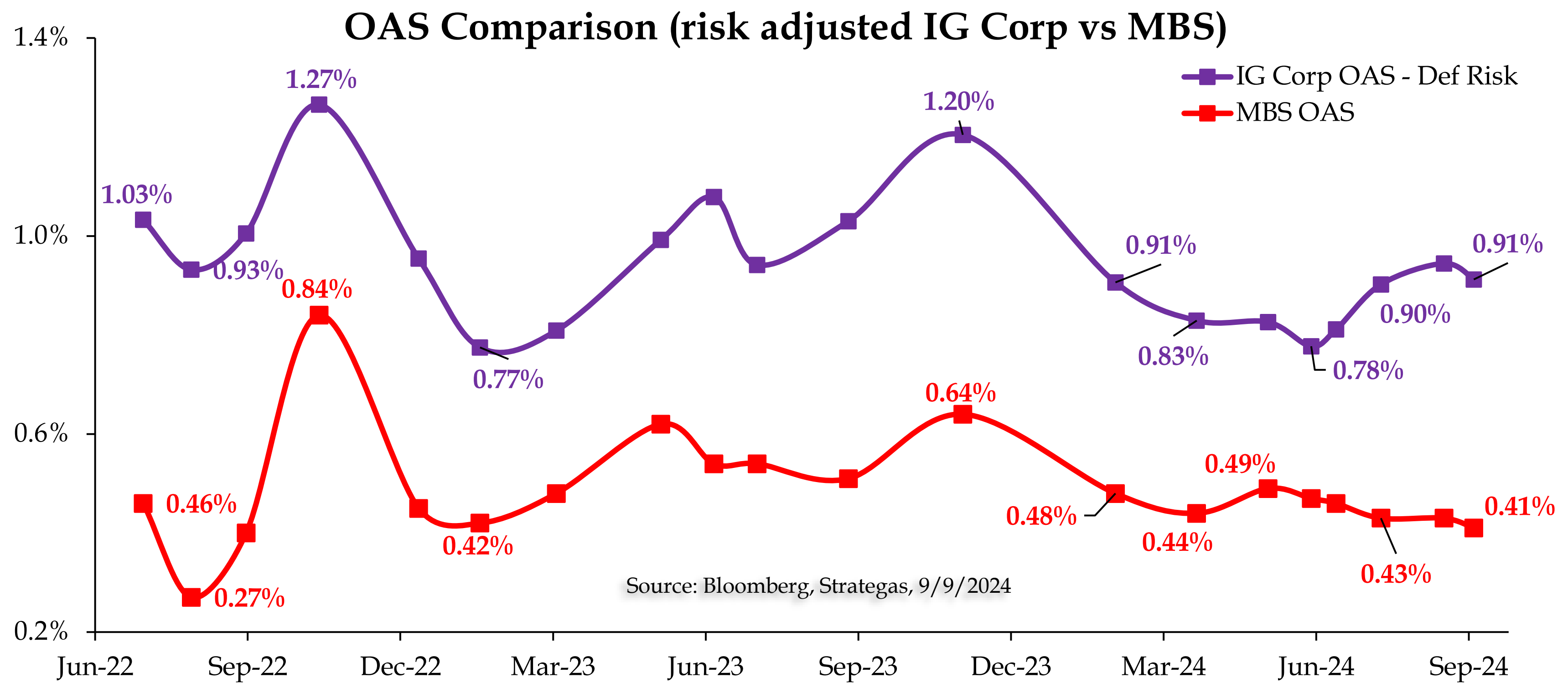
Strategas IG Corporate Bond Index



Watch MBS Spreads as Leading Indicator



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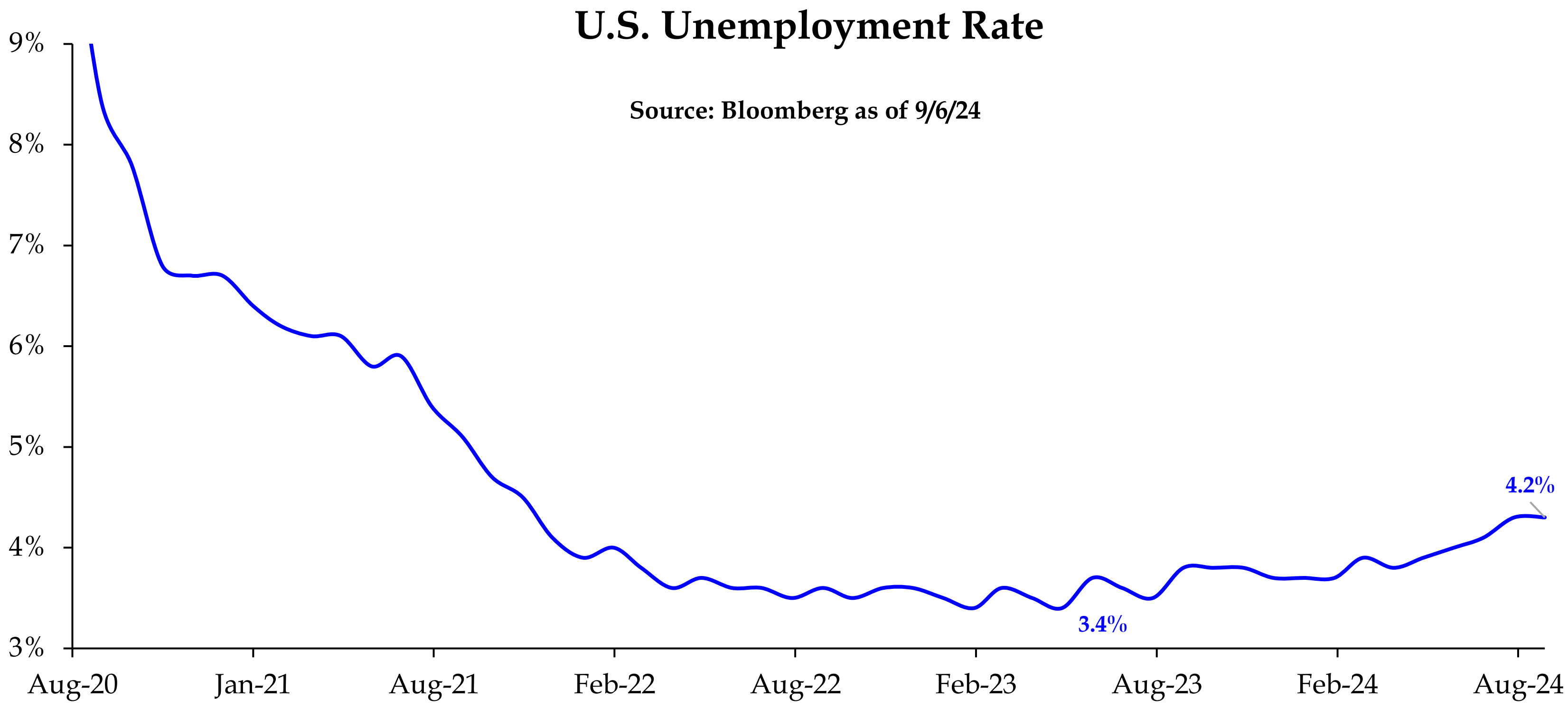
Labor Market is Slowly Weakening



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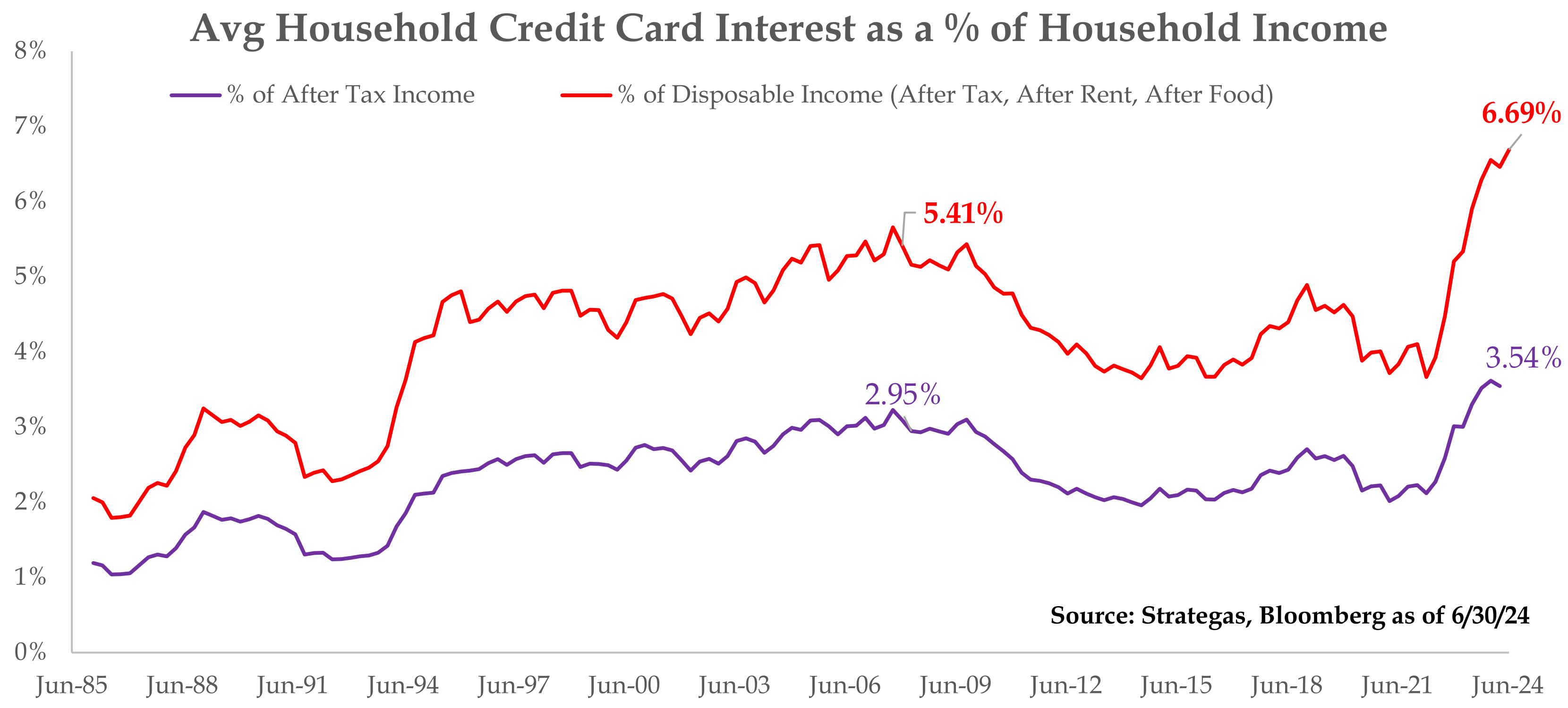
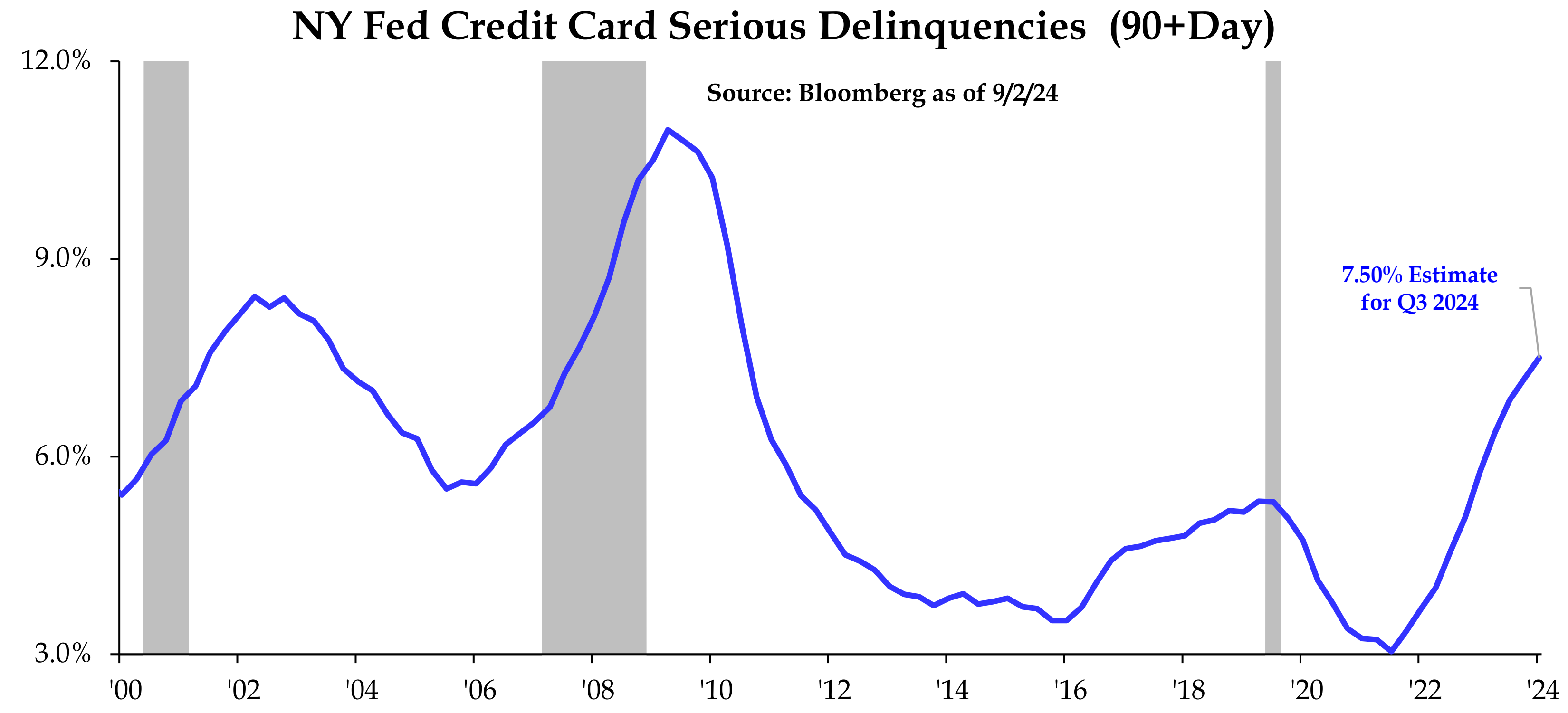
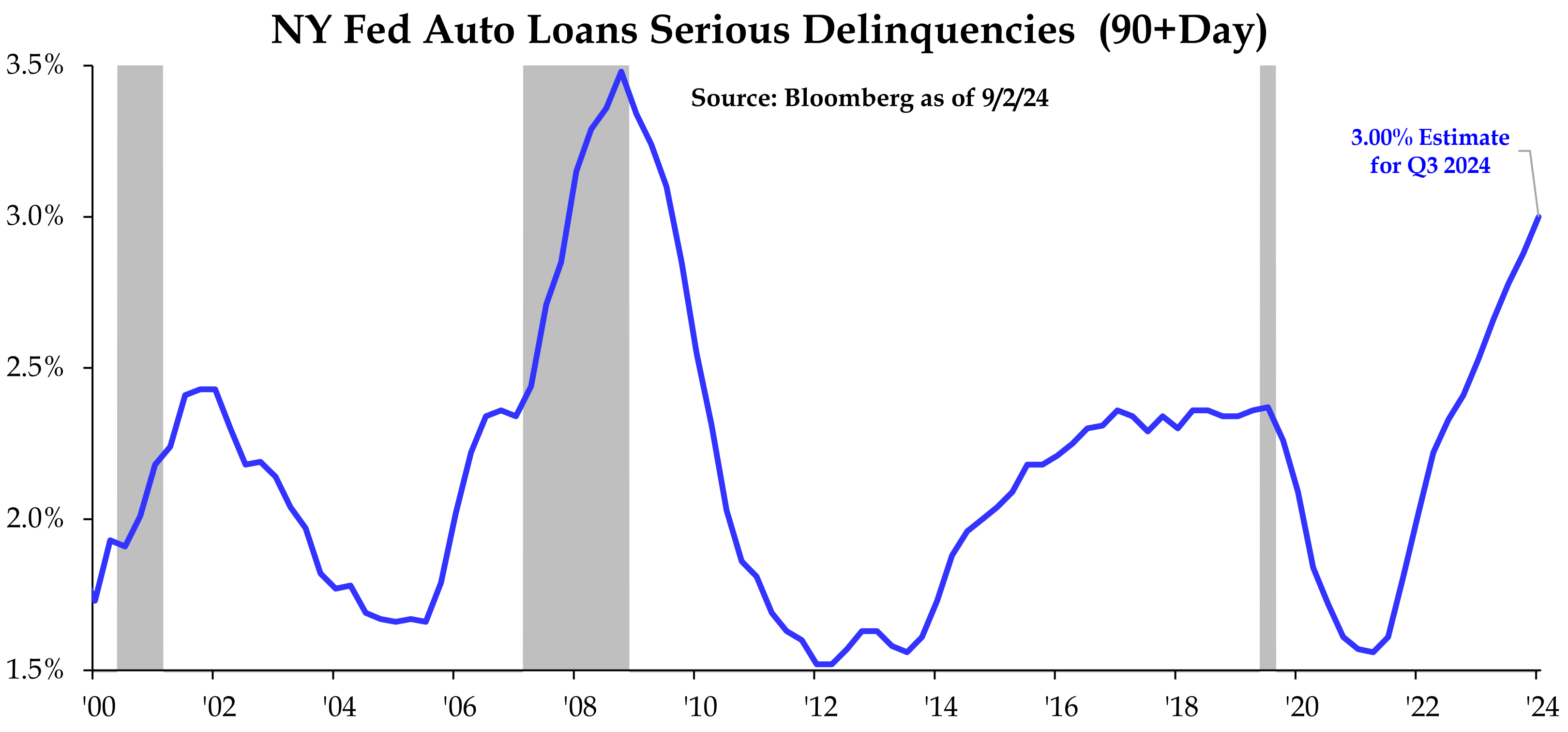
Credit Card Interest Still Crowding out Budgets



Pushing Delinquencies Notably Higher



Auto Delinquencies Still Rising too



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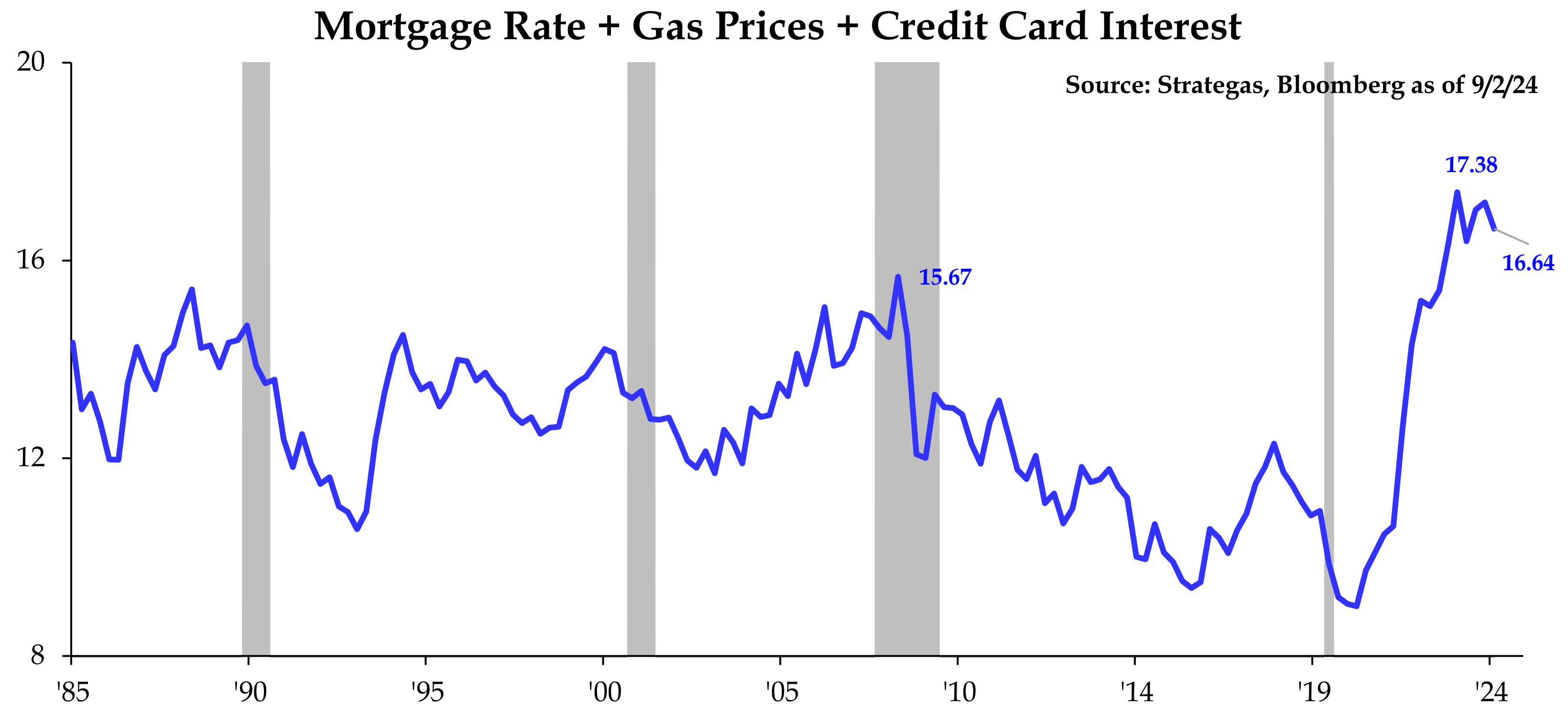
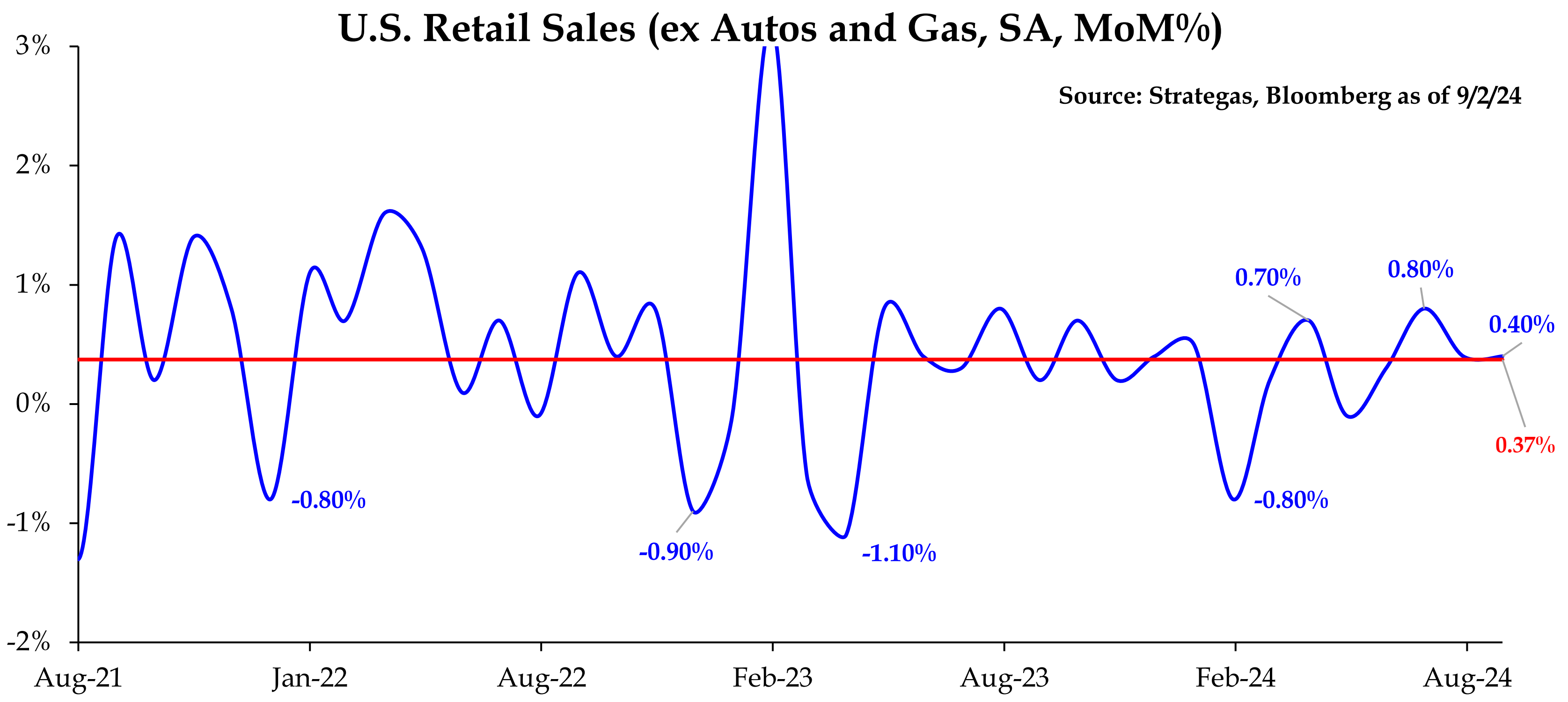
History Suggests Consumer has Already Passed Point of Recession-Inducing Stress



Consumer Floating in and out of Contraction



APPENDIX – IMPORTANT DISCLOSURES