



# GIOA Monthly Webinars 2024

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The logo for BAIRD is a dark blue parallelogram tilted to the right. The word "BAIRD" is written in white, bold, serif capital letters across the center of the parallelogram.

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# *2024 U.S. Economic & Bond Market Outlook*

September 2024

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Technical Analysis  
Industry Surveys  
Bespoke Research  
Corporate Services  
Institutional Sales & Trading  
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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

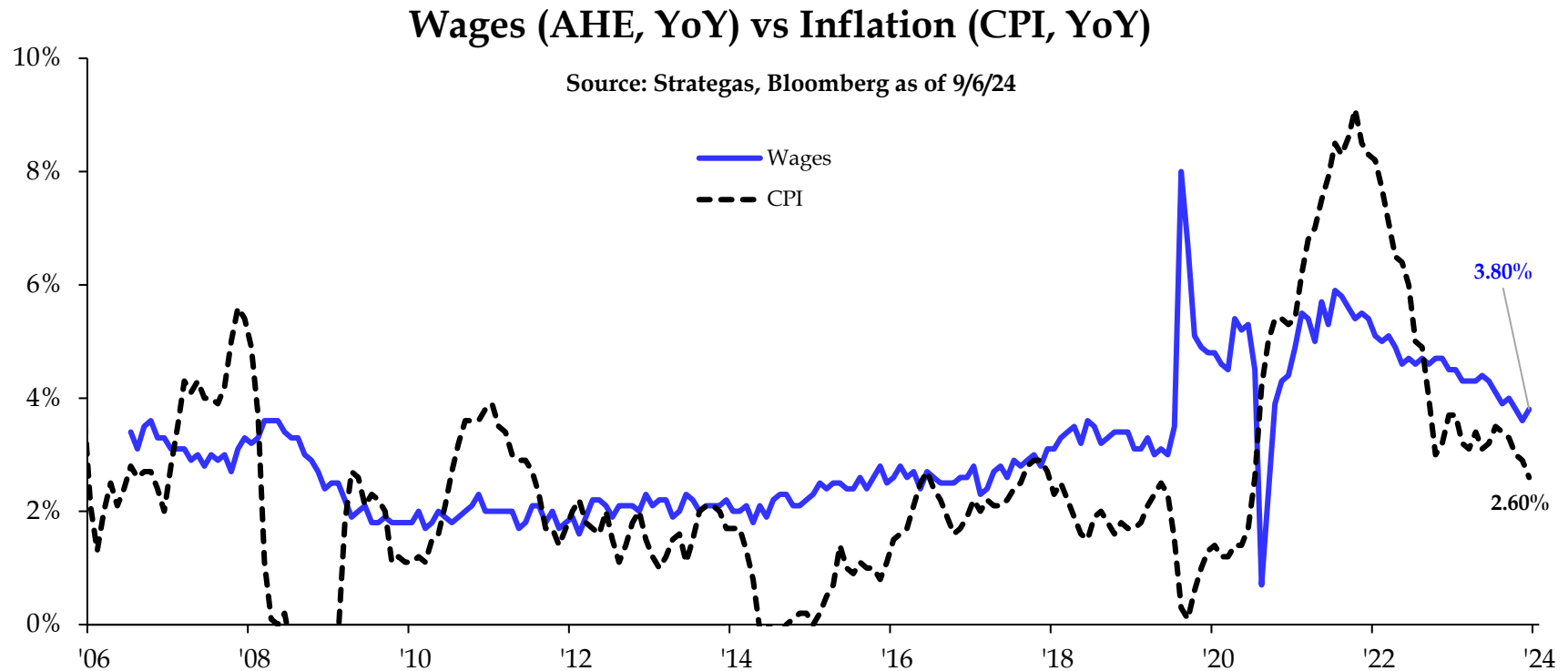
- We see 50 bps of cuts this year (Sep and Dec), and 100 bps of cuts next year.
- This presumes a “soft landing” where unemployment doesn’t breach 5.0%.
- If unemployment rate moves up faster, then the argument for cuts expands to every meeting, for a total of 200 bps between now and June.
- Strategas 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





# U.S. Economic & Rates Outlook

	<u>2024</u>			
	<u>1Q</u>	<u>2Q</u>	<u>3QE</u>	<u>4QE</u>
<b>Real GDP Q/Q % AR</b>	1.40%	3.00%	2.00%	2.00%
<b>Core CPI Q/Q % AR</b>	4.20%	3.20%	2.50%	2.30%
<b>Fed Funds EOP</b>	5.50%	5.50%	5.25%	5.00%

E = End of Period Expected Value

	<u>2025</u>			
	<u>1QE</u>	<u>2QE</u>	<u>3QE</u>	<u>4QE</u>
<b>Real GDP Q/Q % AR</b>	2.00%	1.80%	1.80%	1.50%
<b>Core CPI Q/Q % AR</b>	2.50%	2.30%	2.80%	2.80%
<b>Fed Funds EOP</b>	4.75%	4.50%	4.25%	4.00%

E = End of Period Expected Value



## Soft Landing for Remainder of 2024

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

E = End of Period Expected Value



## And 2025

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

E = End of Period Expected Value



## U.S. MBS/Credit Spread Outlook

	<u>2024</u>			
	<u>1Q</u>	<u>2Q</u>	<u>3QE</u>	<u>4QE</u>
<b>MBS</b>	0.49%	0.48%	0.35%	0.35%
<b>IG Corps</b>	0.90%	0.94%	0.90%	0.95%
<b>HY Corps</b>	2.99%	3.09%	3.15%	3.30%

E = End of Period Expected Value

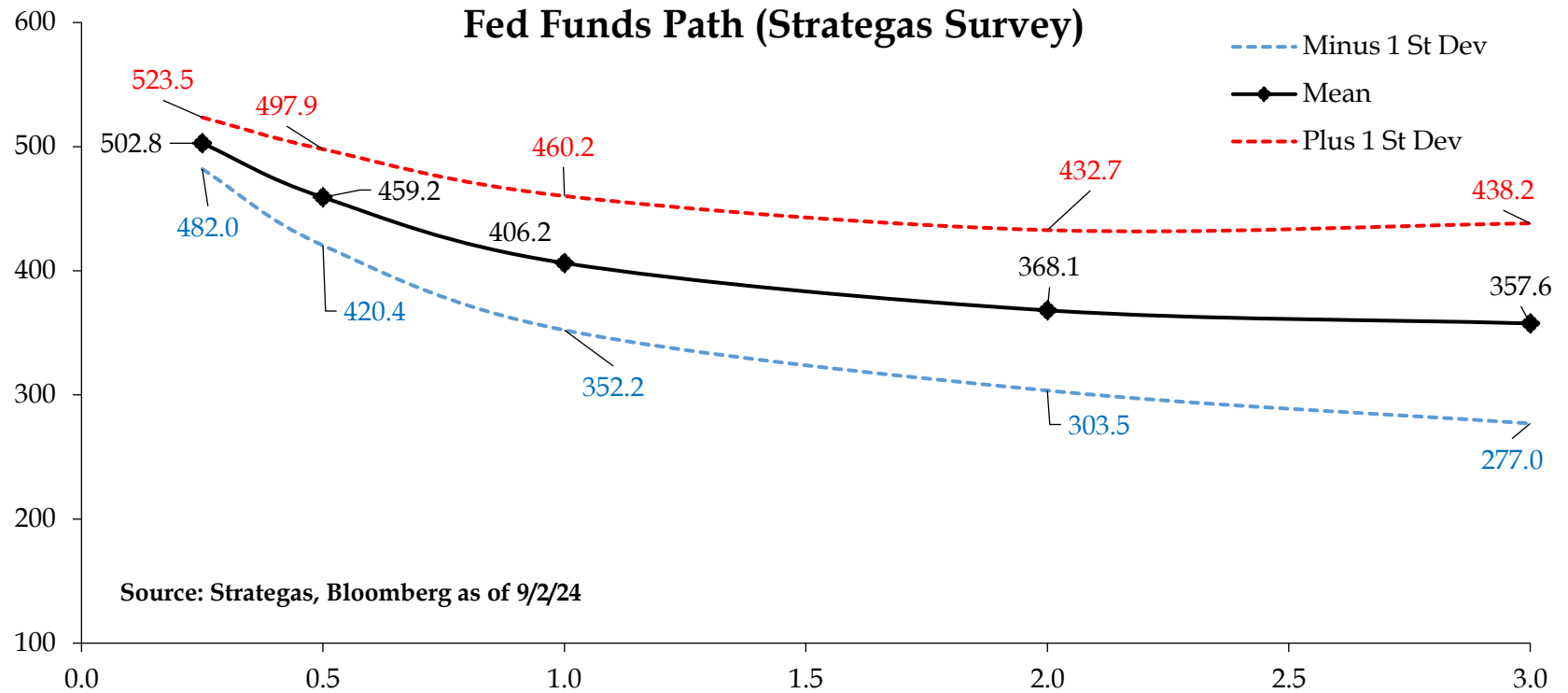
	<u>2025</u>			
	<u>1QE</u>	<u>2QE</u>	<u>3QE</u>	<u>4QE</u>
<b>MBS</b>	0.35%	0.40%	0.50%	0.55%
<b>IG Corps</b>	1.00%	1.00%	1.20%	1.30%
<b>HY Corps</b>	3.40%	3.40%	3.90%	4.25%

E = End of Period Expected Value





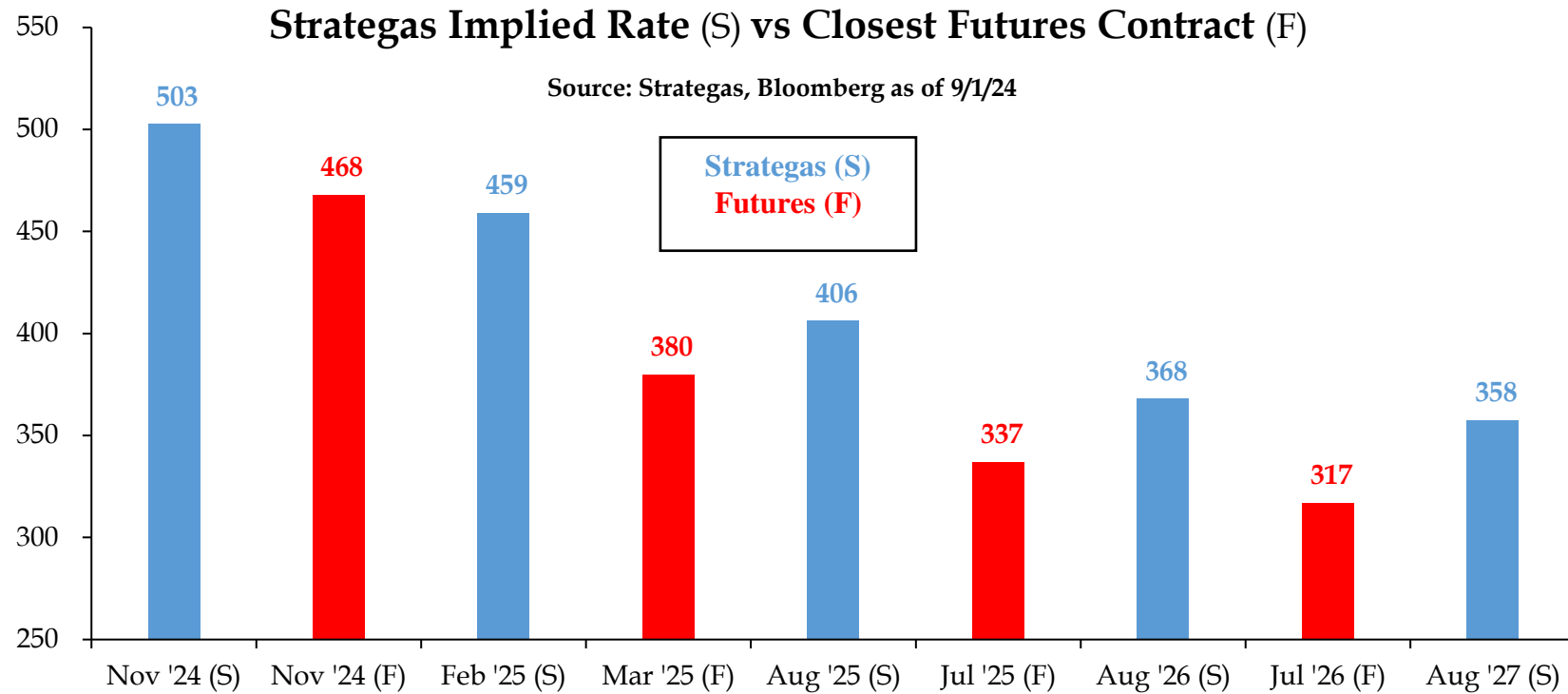
# Strategas Clients See 2 Cuts in 2024



Source: Strategas, Bloomberg as of 9/2/24



## But the Futures Market Disagrees



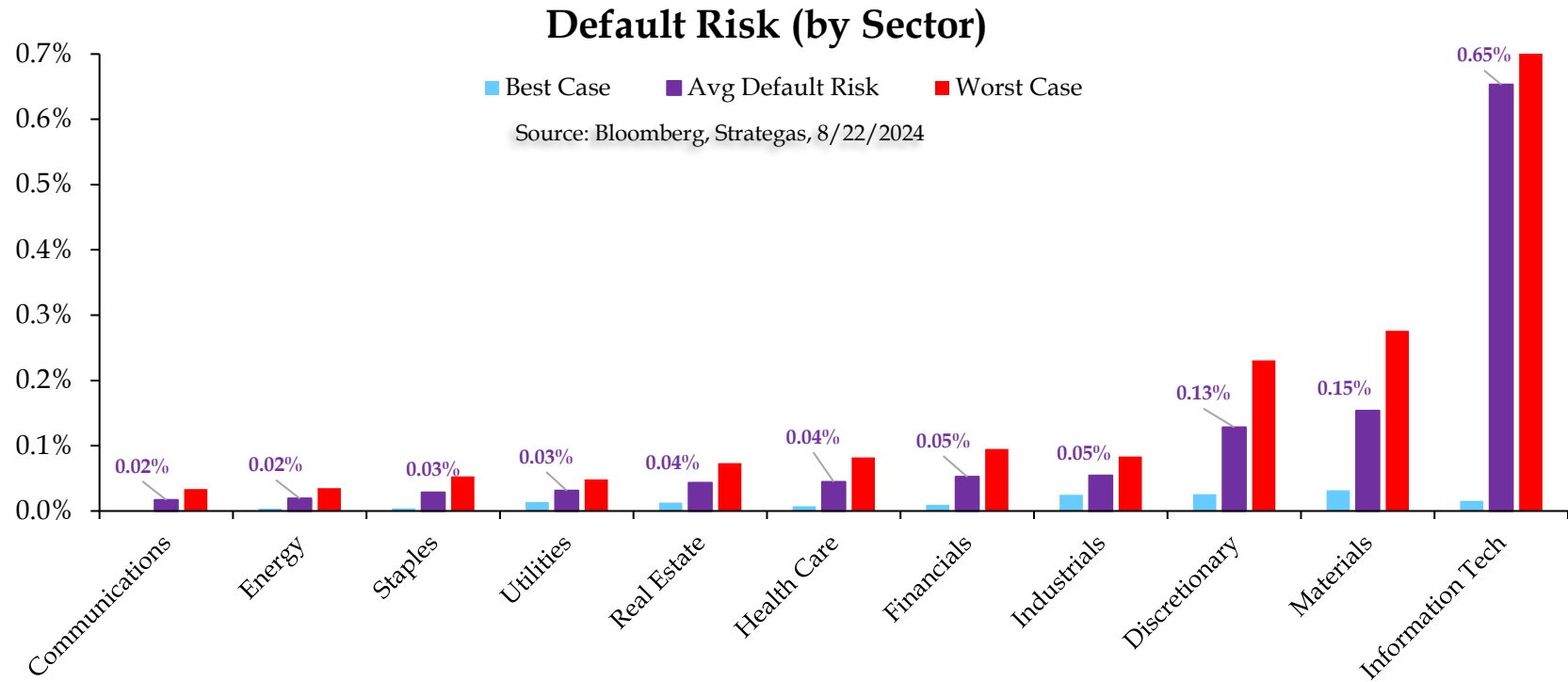


## Strategas IG Corporate Bond Index

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%
<b>Total</b>		<b>0.24%</b>	<b>0.01%</b>	<b>0.13%</b>	<b>1.07%</b>

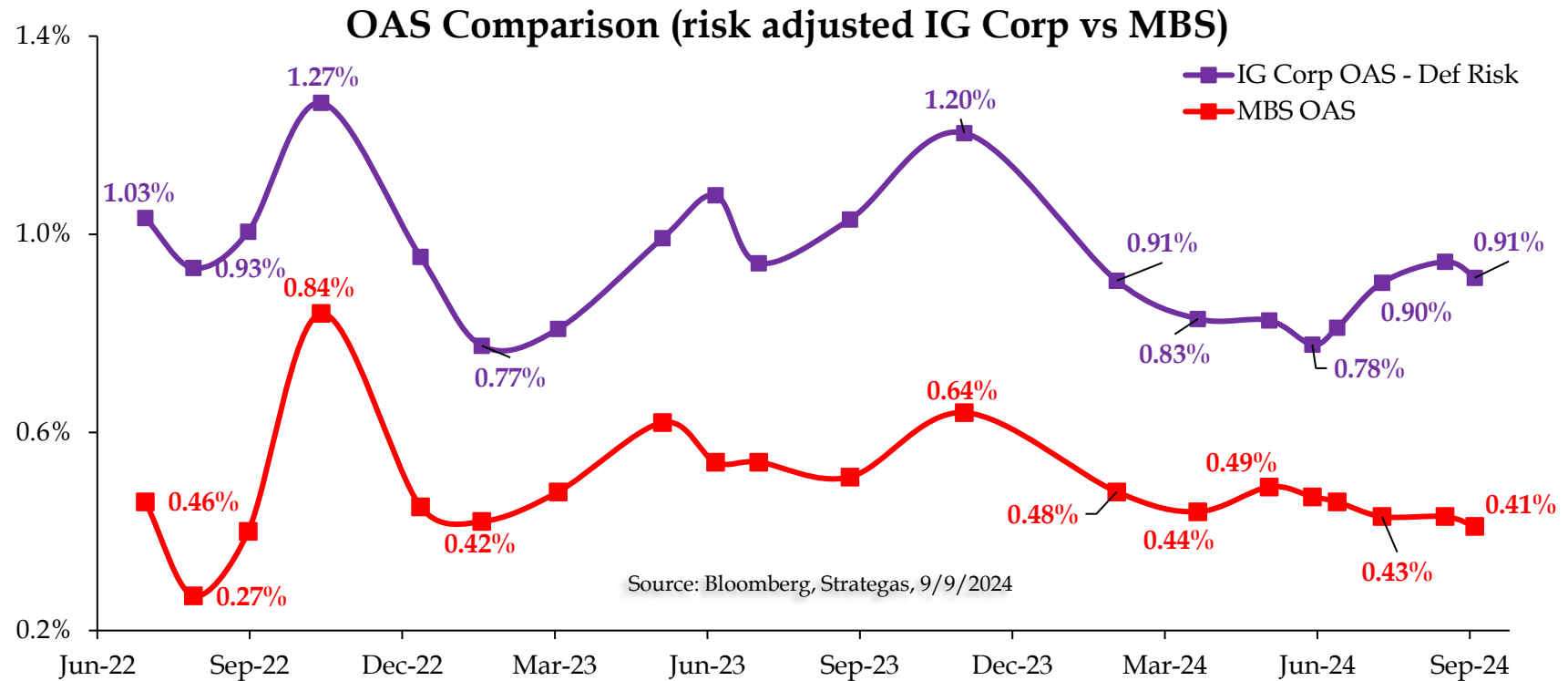


# Strategas IG Corporate Bond Index



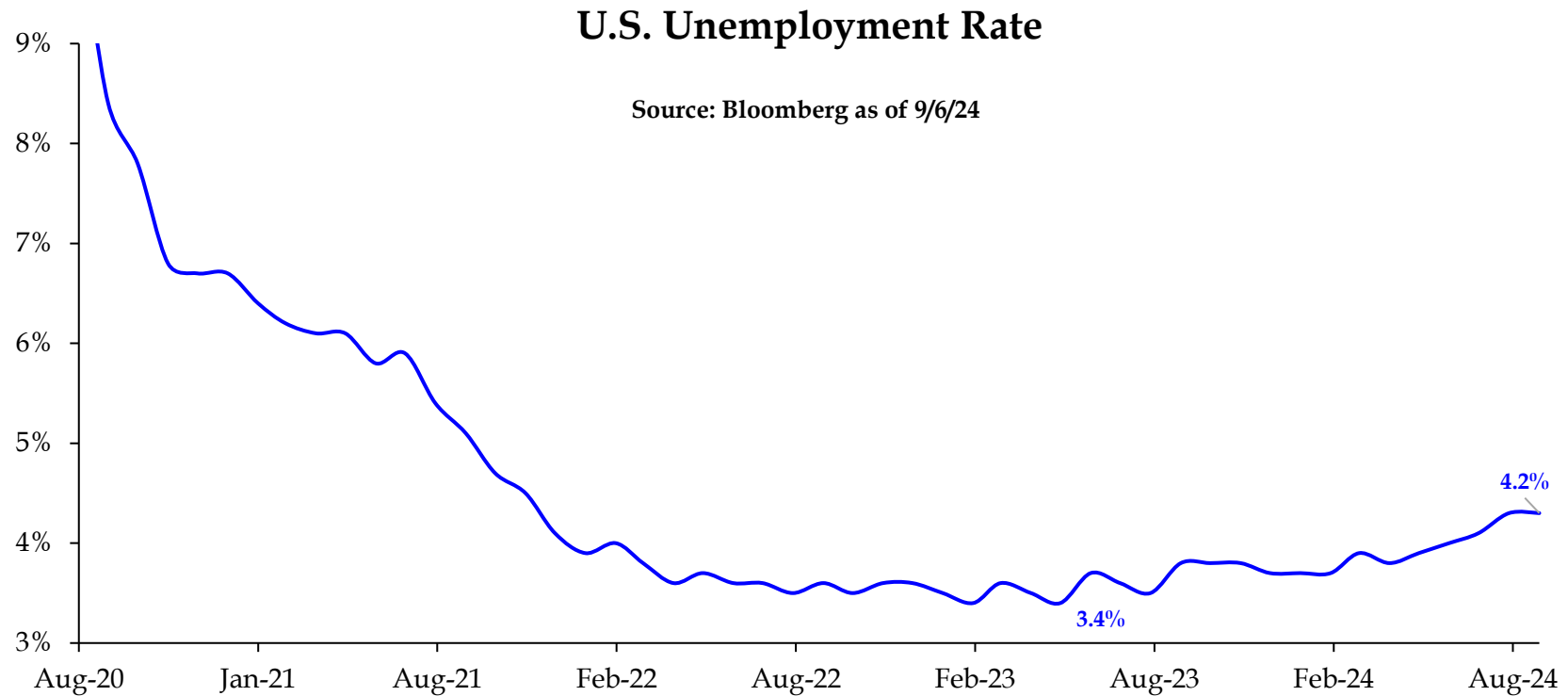


# Watch MBS Spreads as Leading Indicator



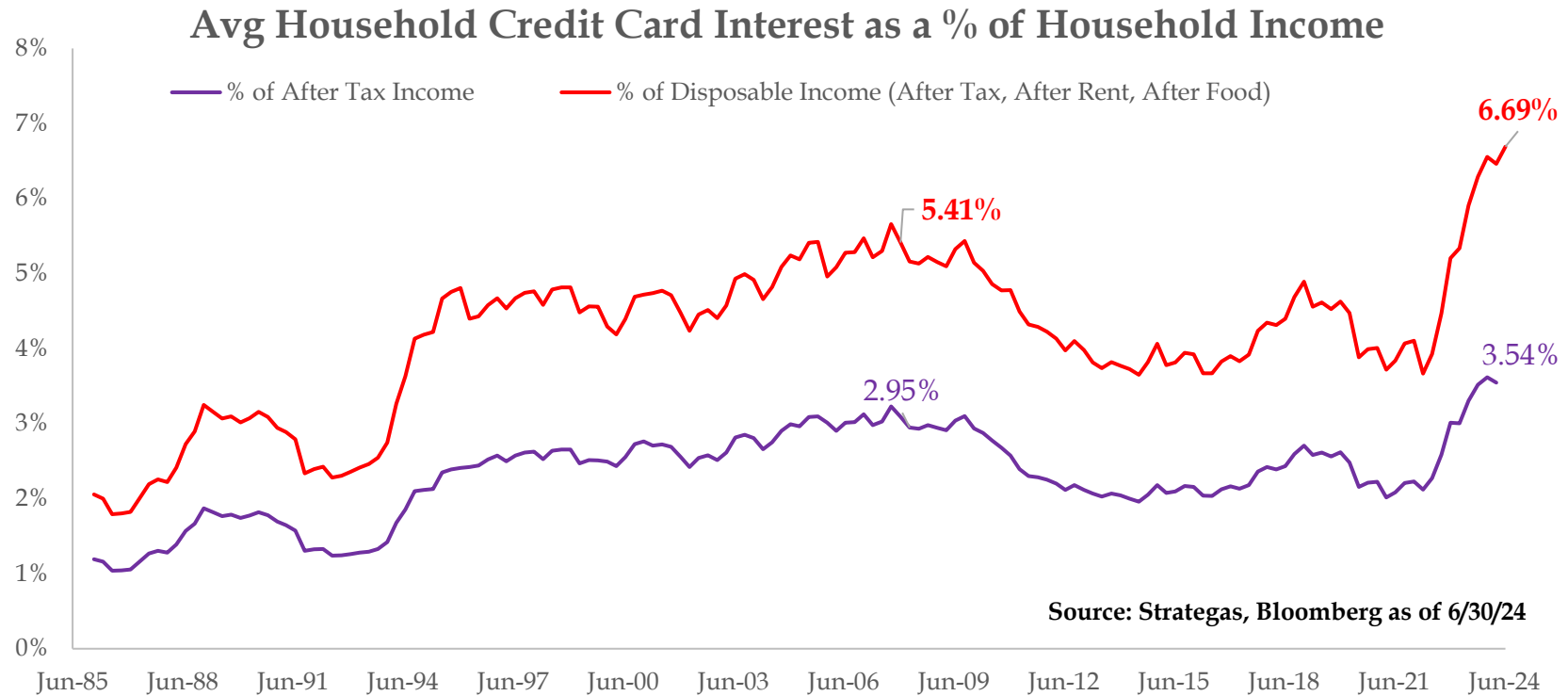


# Labor Market is Slowly Weakening



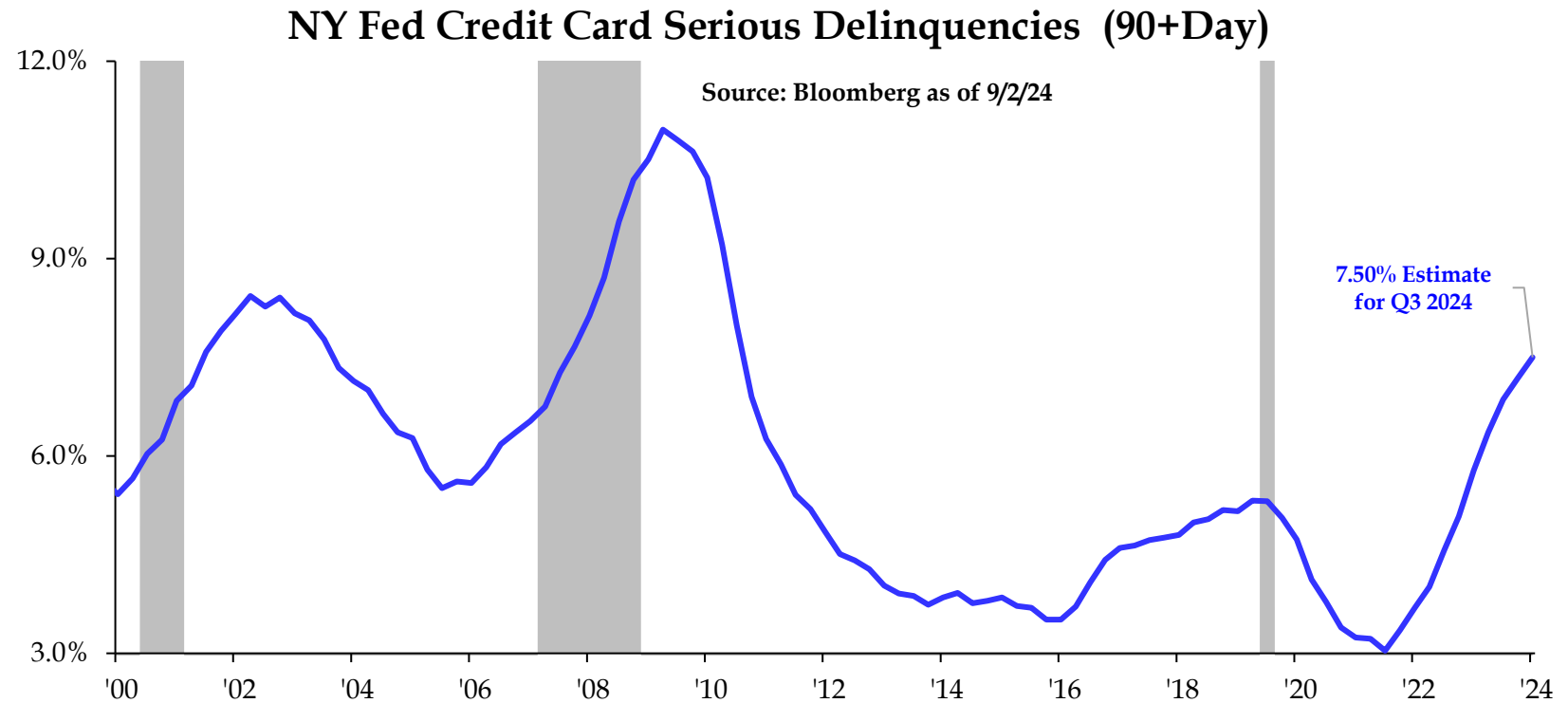


# Credit Card Interest Still Crowding out Budgets





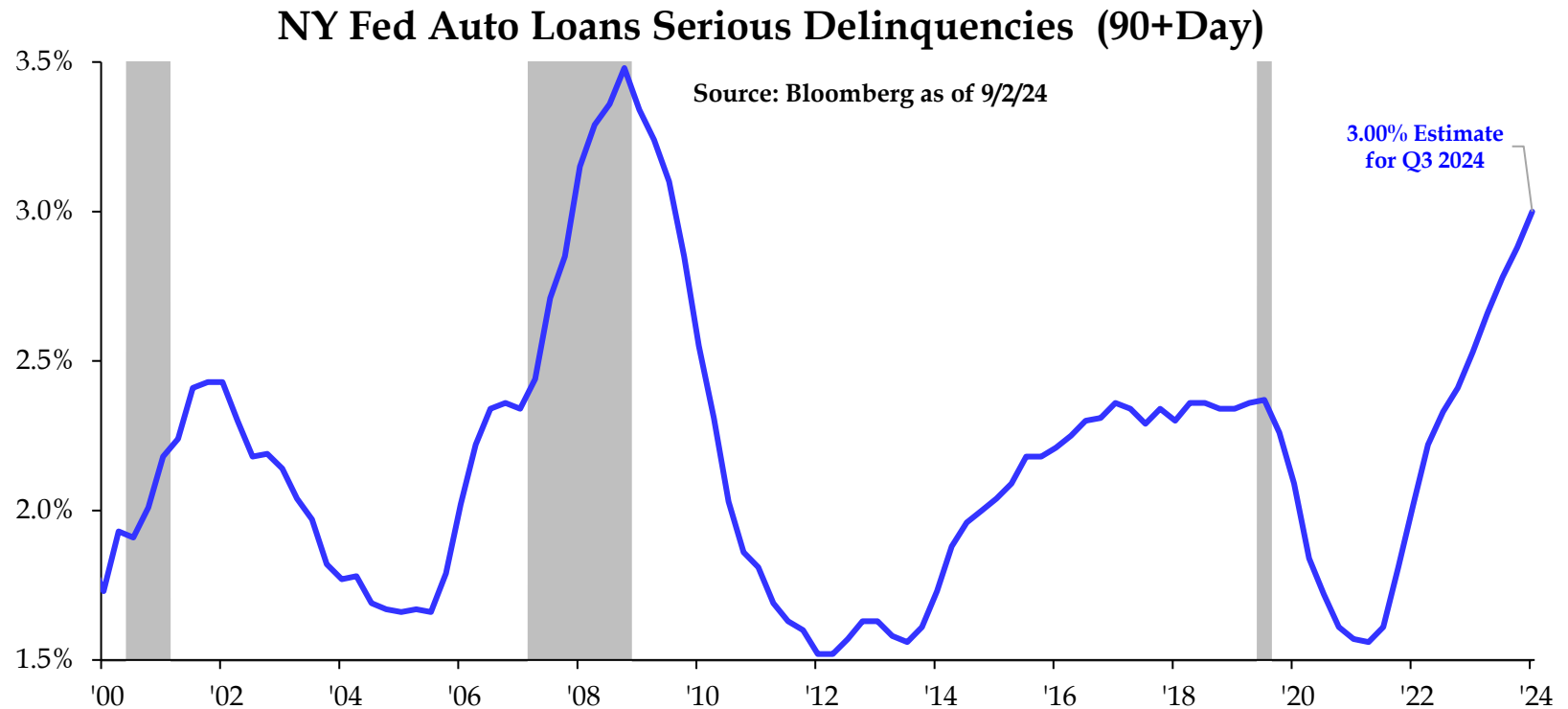
# Pushing Delinquencies Notably Higher





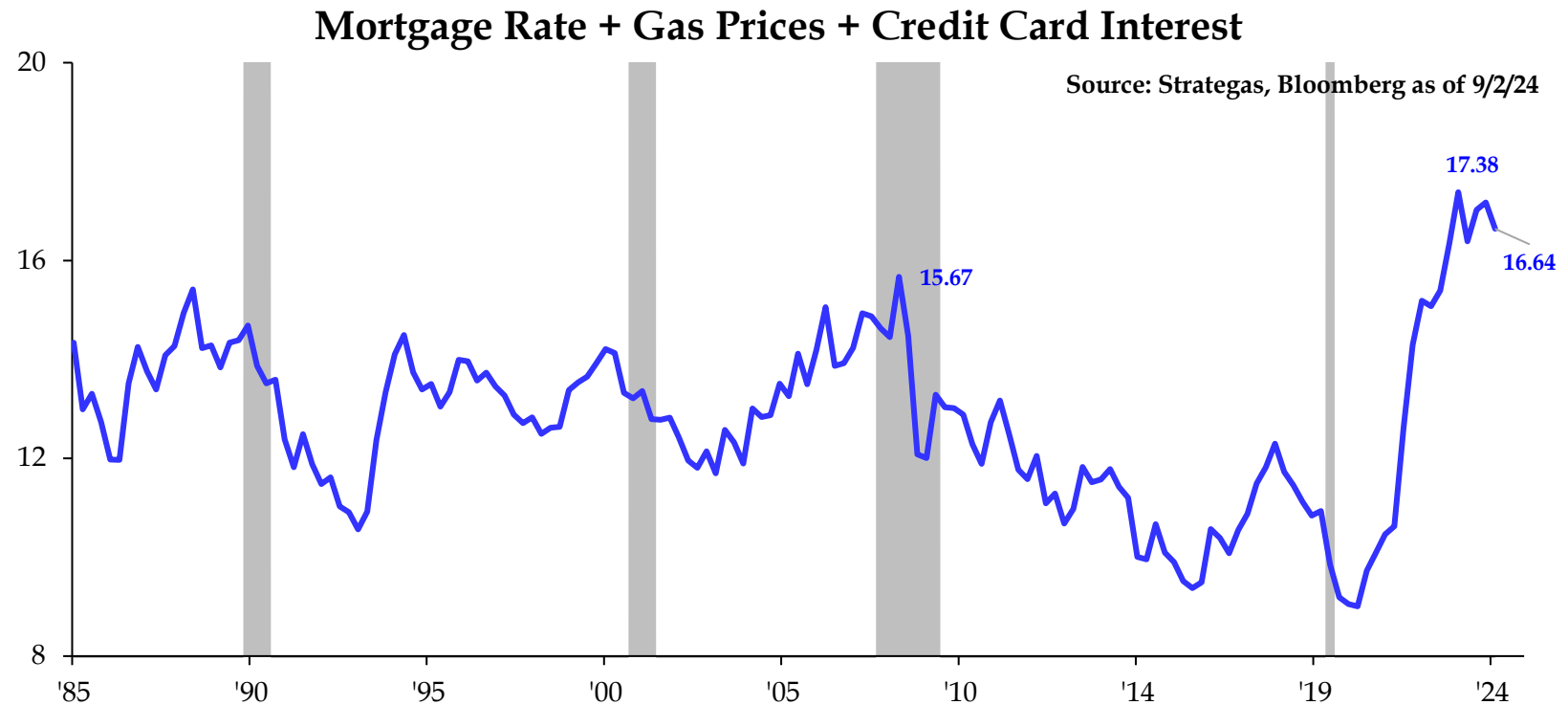


# Auto Delinquencies Still Rising too



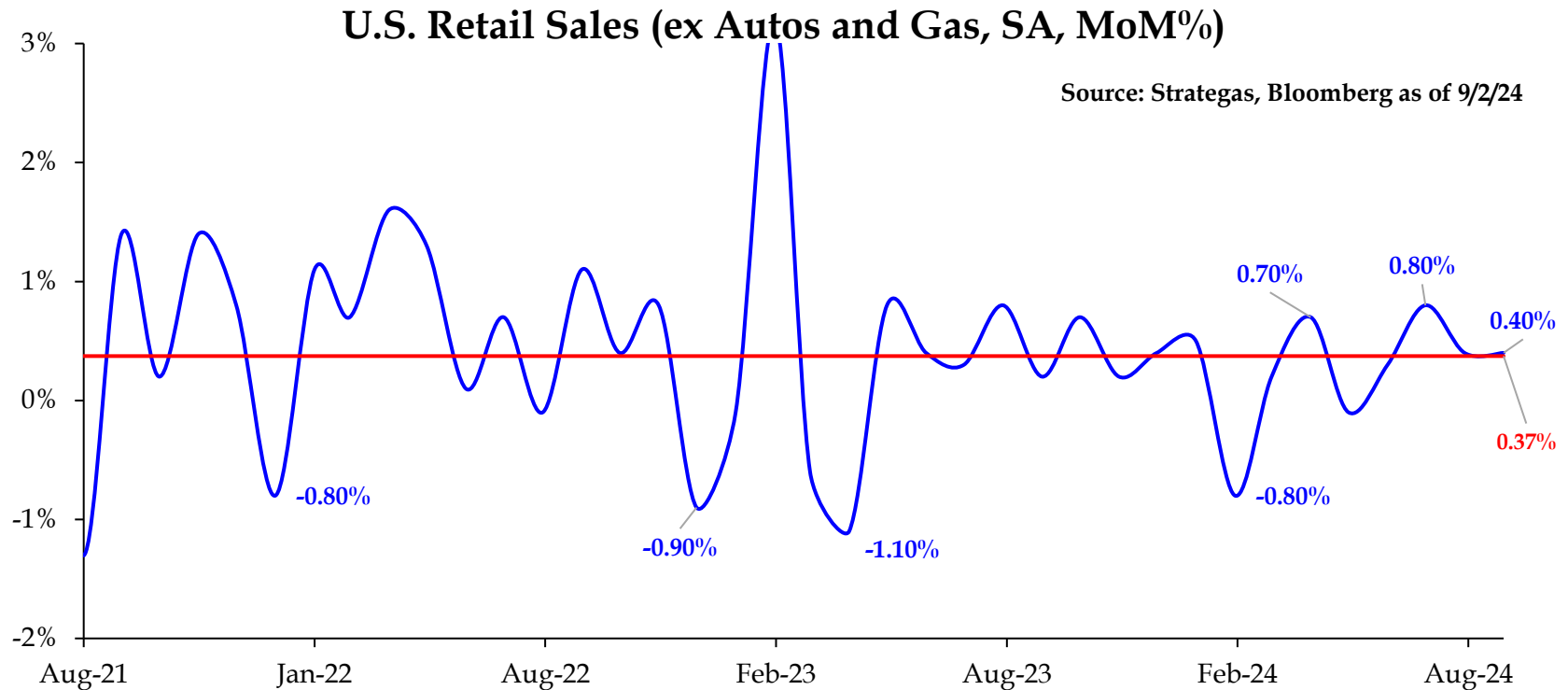


# History Suggests Consumer has Already Passed Point of Recession-Inducing Stress





# Consumer Floating in and out of Contraction





## APPENDIX – IMPORTANT DISCLOSURES

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