Economic Highlights

Executive Summary

- With the European Central Bank (ECB) and Bank of Canada (BoC) both recently cutting interest rates, the world is continuing to pivot away from restrictive monetary policy.
- Nonfarm payrolls expanded by 272,000 in May, well above the gain of 182,000 expected by economists.
- The ISM Manufacturing PMI fell to a three-month low of 48.7.
- Inflation remains sticky despite cooler consumer demand.
- It is difficult for a president to win re-election if the election is a referendum on their first term.
- Biden has the lowest approval rating of any president at this point in his term at 40%.
- The Misery Index has predicted every presidential election winner since 1980.
- EPS estimates for 2024 remain steady at $245, while 2025 continues to inch closer to $280.0.
- Double-digit growth is more challenging to achieve as nominal growth slows

US Economic Cycle Drivers

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U.S. Economic Cycle Drivers

Growth	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Bloomberg Economics GDP Now	1.7	2.9	↓	↓
OECD Leading Economic Indicator Index	100.2	99.8	↑	↑

Inflation	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Bloomberg Economics US CPI Nowcast	3.3	3.1	↑	↓
US Cleveland Fed Inflation Nowcast y/y	3.2	3.3	→	↑
Global Supply Chain Pressure	-0.5	-0.2	↓	↑

Employment	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Unemployment Rate	4.0	3.9	↑	↑
Conference Board Employment Trend	111.4	112.0	↓	↓

Consumer Spending	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Johnson Redbook Retail Sales y/y	5.5	2.8	↑	↑
Adjusted Retail & Food Service Sales	3.0	0.3	↑	↑
Conference Board Consumer Confidence	102.0	104.8	↓	↓

Corporate Profitability	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
S&P 500 Est. Sales NTM Growth Rate	5.9	-	-	↑
S&P 500 Est. EPS NTM Growth Rate	13.2	-	-	↑
Conference Board CEO Confidence	6.5	6.6	↓	↑

Government Policy	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
Budget/ GDP	-5.9	-6.3	↑	↑
USD Real Effective Exchange Rate	109.8	106.0	↑	↑

Central Bank Policy Rate	Latest Value (%)	Value 3mo Ago (%)	Trend q/q	Trend y/y
U.S. Federal Funds Rate Upper Bound	5.5	5.5	→	↑
U.S. Market Implied Policy Rate 1Y Fwd	4.2	3.8	↑	↑

Liquidity	3mo Δ (%)	12mo Δ (%)	Trend q/q	Trend y/y
U.S. Domestic Liquidity	-1.2	-3.2	↓	↓
Global Liquidity Index	-0.9	8.7	↓	↑

US & Global Economic Highlights

With the European Central Bank (ECB) and Bank of Canada (BoC) cutting interest rates in recent weeks, the world is continuing to pivot away from restrictive monetary policy. This pivot will not be complete without the Fed, but domestic mixed economic data will likely keep the Fed on hold for longer.

Headline employment data surprised to the upside. Nonfarm payrolls expanded by a sizeable 272,000 in May, well above the gain of 182,000 expected by economists and above the average monthly gain of 232,000 over the prior 12 months. Revisions to the previous two months were inconsequential, down by only 15,000. Meanwhile, the unemployment rate increased to the Fed's yearend forecast of 4.0%, but the increase was primarily due to people exiting the labor force and not due to layoffs. The average workweek remained at 34.3 hours but ticked up for production and nonsupervisory employees. Additionally, wage growth came in at a larger-than-expected 0.4% for the month and 4.1% on a y/y basis, a discouraging sign for any expected rate cuts in the near term.

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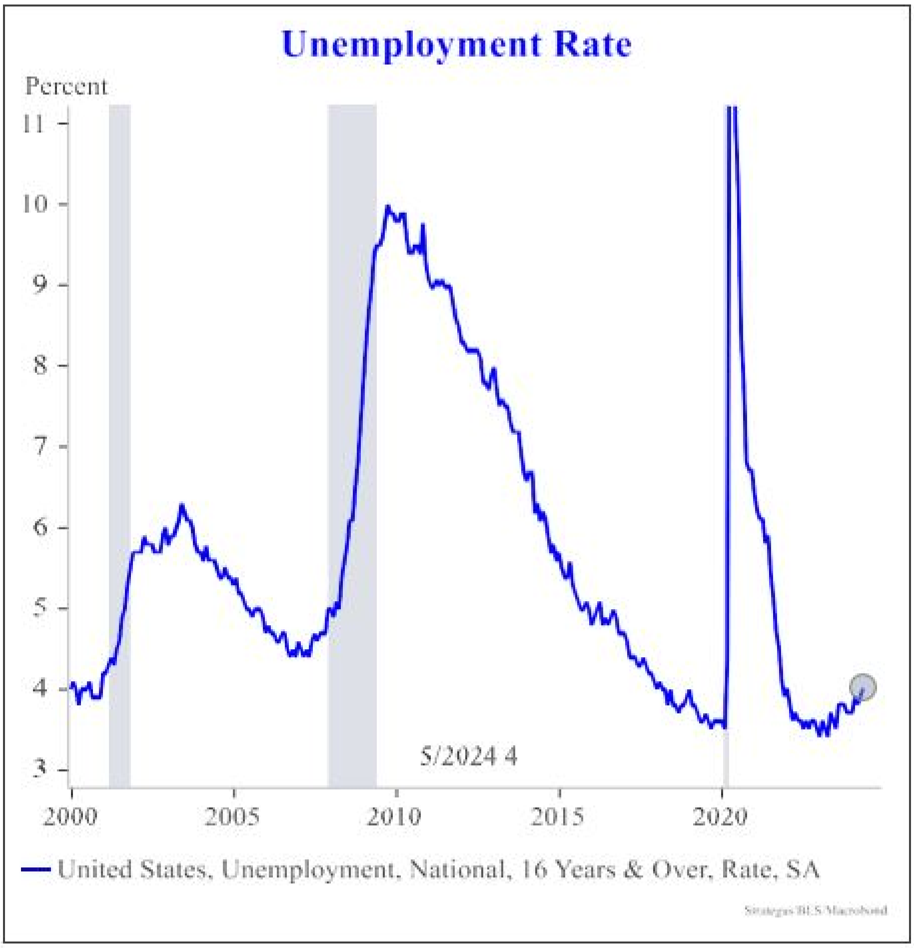
Critical points for the economy:

- With the European Central Bank (ECB)and Bank of Canada (BoC) both cutting rates recently, there is a continued pivot away from restrictive monetary policy worldwide.
- Nonfarm payrolls expanded by a sizeable 272,000 in May, well above the gain of 182,000 expected by economists.
- The ISM Manufacturing PMI fell to a three-month low of 48.7.
- Inflation remains sticky despite cooler consumer demand.



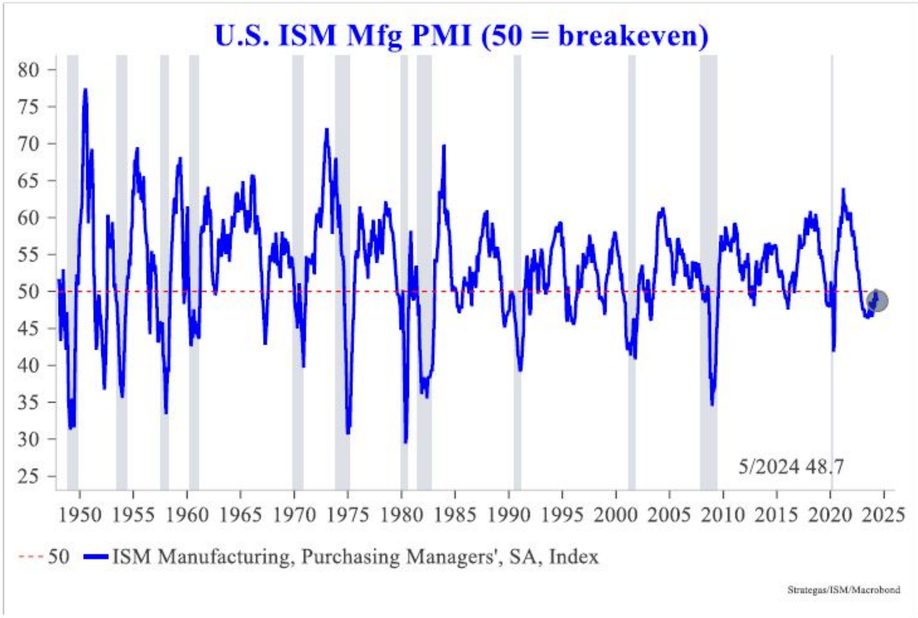
Manufacturing activity continued to weaken. The ISM manufacturing PMI fell 0.5 points to 48.7 in May, a three-month low, below the consensus of 49.6. The index has been below the breakeven level of 50 in 18 of the past 19 months, continuing to reflect sluggish factory activity. The decline was led by a sharp drop in the index for new orders, which fell to its lowest level in a year, indicating weaker demand. Production nearly stalled, inventories continued to shrink, and order backlogs fell at a faster pace. In contrast, the employment index jumped into expansion territory for the first time in eight months, reaching its highest level since August 2022. The increase in employment amid weaker production and falling new orders indicates slower productivity growth in the near term.

Critical points for policy:

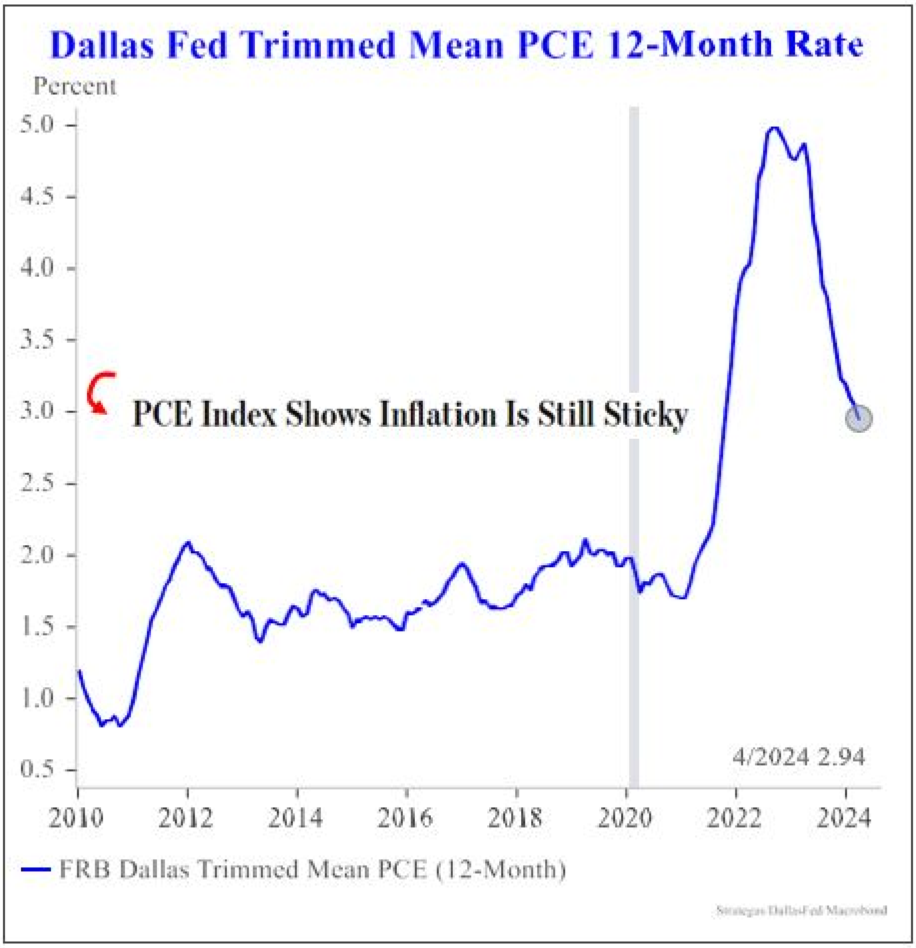
- It is difficult for a president to win re-election when the election is a referendum on their first term.
- Biden currently has the lowest approval rating of any president at this point in his term at 40%.
- The Misery Index has predicted every presidential election winner since 1980.

Critical points for Corporate Profitability:

- EPS estimates for 2024 continue to hold steady near $245, while 2025 continues to inch closer to $280.
- Double digit growth is harder to achieve as nominal growth slows.

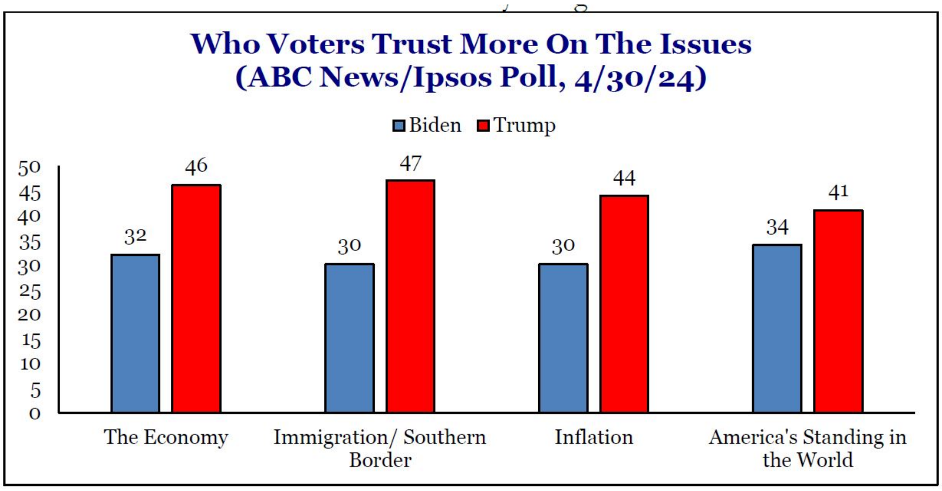


Inflation remains sticky despite cooler consumer demand. Although PCE inflation did not make much progress towards the Fed's 2.0 target, it did come in broadly in line with expectations. The Fed's preferred inflation gauge, the PCE Price Index, rose by 0.3% for the month, while its core was up by slightly smaller 0.2%. On a y/y basis, PCE prices rose 2.7%, while core PCE prices were up 2.8%, basically unchanged from the previous month. Housing inflation eased modestly to 5.6% y/y but remained well above its pre-pandemic level of 3.3%, while super-core inflation changed slightly to 3.4%. Consumer spending cooled in April. Personal consumption expenditures (PCE) rose just 0.2% for the month, down from 0.7% in the prior month and well below the consensus estimate of 0.4%. Real spending on goods declined by 0.4%, while real services spending rose by only 0.1%, the smallest gain since last August. The modest increase in spending was supported by a 0.3% increase in personal income. The personal savings rate, meanwhile, was unchanged at 3.6%, half of its pre-pandemic level and well below its historical average of 8.5%. A low savings rate may lead to slower investment and economic growth in the long run.

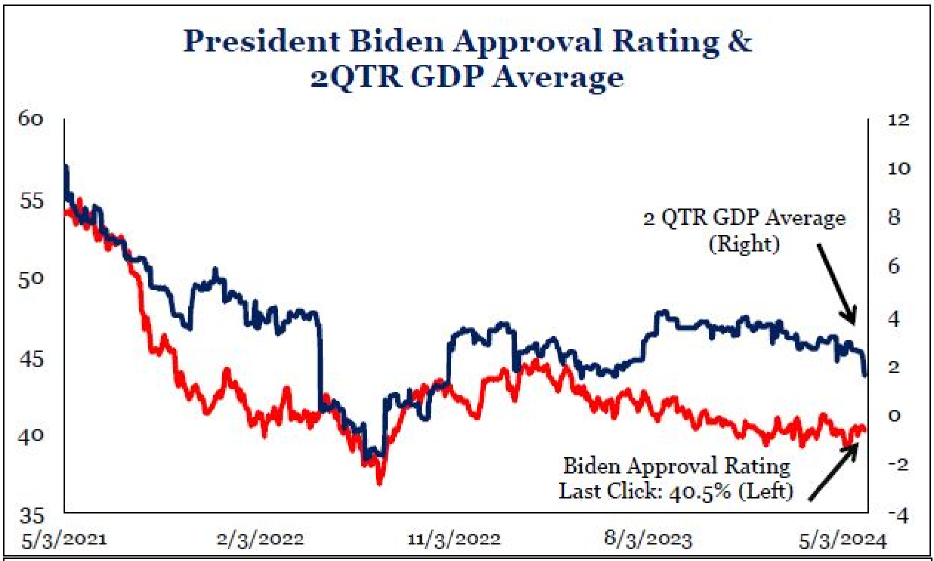


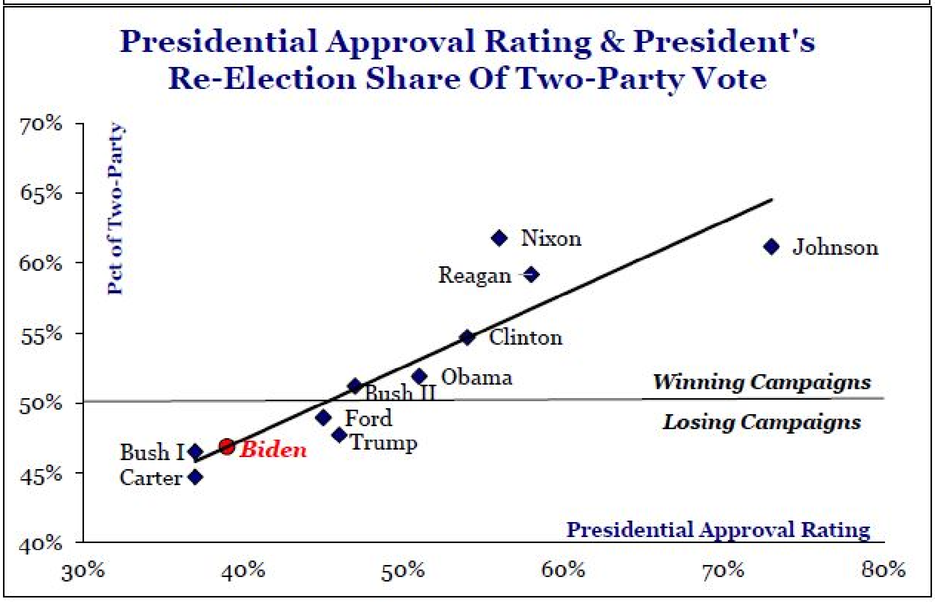
Policy Highlights

It is difficult for a president to win re-election when the election is a "referendum" on their first term. As such, President Biden will use former President Trump's conviction and economic policies to make the election a choice. Four years ago, the election was a referendum on Trump; today, it is a referendum on Biden. Public opinion surveys show that more voters think Trump is better for their economic situation than Biden. Campaigns are not static, however, and Biden is readjusting his campaign to make the election a choice. Biden will argue that Trump is unsuitable to be president after being convicted of a crime. Democratic economists are issuing reports that Trump will be worse for inflation due to deficits, tariffs, politicizing the Fed, and closing the border. Additionally, President Biden recently issued tariffs on China, put out a plan for a ceasefire in Israel, and issued an executive order on immigration. How successful these adjustments will be will depend on how much merit voters put on economic studies versus their feelings on the state of the US economy.

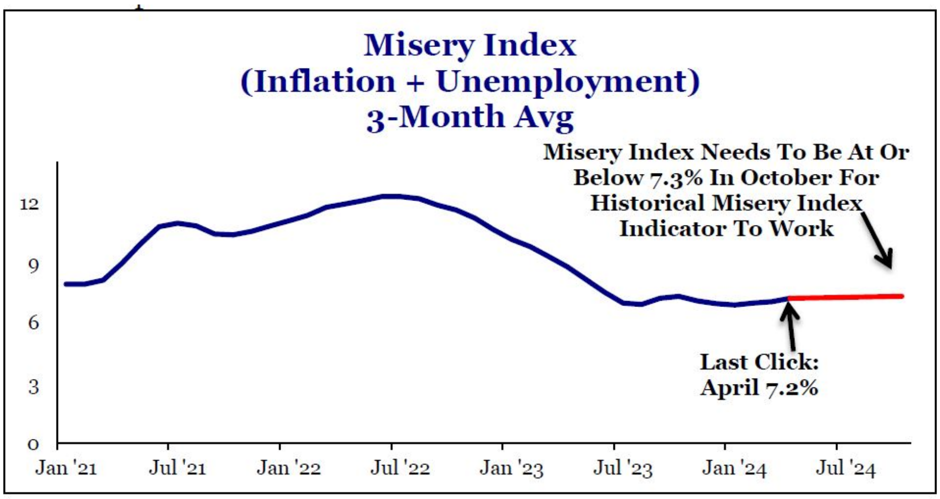


The president's approval rating is the metric that will most likely determine if Biden is succeeding in turning the election from a referendum to a choice with key swing voters. The scatter plot below shows a sitting president's approval rating, a proxy for the percentage of the two-party vote the president receives in re-election. Biden currently has the lowest approval rating of any president in his term at 40%. Biden needs to get his approval rating closer to 45% to win, which is not unreasonable. President Obama's and Trump's approval ratings increased 5-6 points during the summer of their re-election campaigns. But for that to happen, Biden not only needs to make the election a choice between him and Trump, but voters also need to view Biden more in relative terms than in current absolute terms.





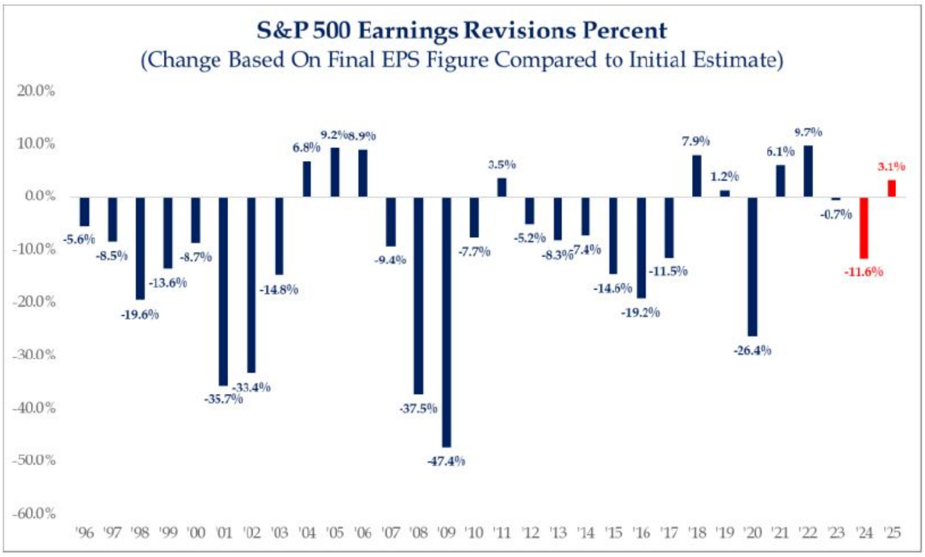
Additionally, it is more difficult to turn the election into a choice when the data is not cooperating. The Misery Index, which combines the inflation and unemployment rates, has predicted every presidential election winner since 1980. If the three-month average of the Misery Index is higher year over year in October, the incumbent party loses; if it is lower, the incumbent party wins. If this holds, Biden needs the Misery Index to be at or below 7.3% in October to win. The Index was 7.23% in April, providing a small margin for Biden going into the summer. But the implication is that Biden needs the economic fundamentals to improve for a better chance of winning the election.



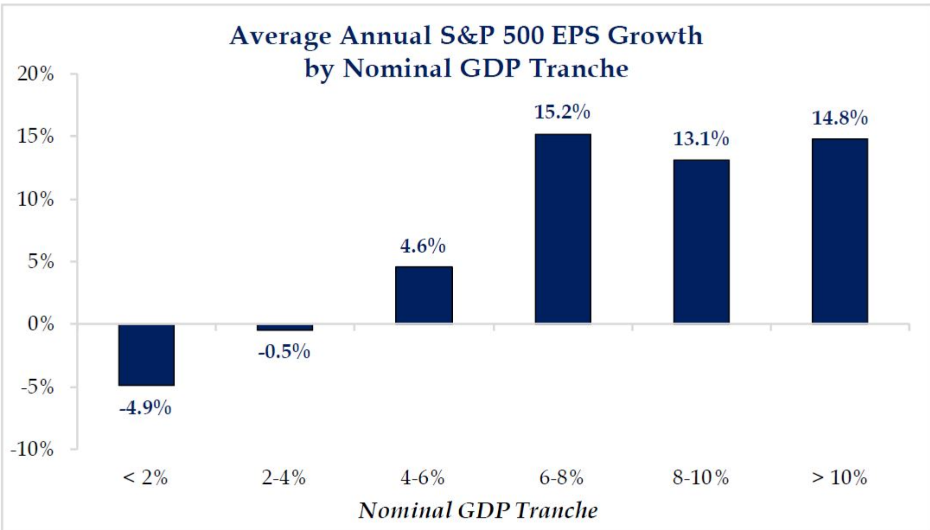
Corporate Profitability Highlights

Now that the Q1 earnings season is officially over, volatility in annual EPS figures has moderated. Estimates for the remainder of 2024 remain steady at nearly $245, while 2025 continues to increase to $280. The expected double-digit growth rate for next year is encouraging, but recent data suggests the economy may be slowing. Manufacturing activity has weakened, and consumers appear to be pulling back on spending. While this seems manageable for now, it leaves little room for error amongst the largest earnings contributors, and earnings growth will need to broaden to keep the growth story intact.

The positive EPS revisions for 2025 are not typical from a historical standpoint. The chart below shows the percentage change in earnings estimates for the S&P 500 from the initial estimate to the final reported figure from 1996 to 2023 (2024 & 2025 are estimates based on current data). The only time period not associated with outside macro events causing upward revisions is the mid-2000s. The other instances are associated with broader macro events: 2011 was the debt crisis, 2018/2019 was the result of corporate tax changes, and 2021/2022 was the result of the COVID-19 recession/shutdowns



Double-digit earnings growth is also harder to achieve as nominal economic growth slows. Despite the continued strength in consensus estimates, it is important to note that historically, the pivot point for EPS growth is when nominal GDP falls below 6%. We are currently in the 4-6% nominal GDP tranche, which indicates an average growth rate of 4.6%. Some years see strong EPS within this range, but the probability declines rapidly.



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