NEAM VANTAGE POINT

# Trade Winds

JULY 2024

ECONOMIC & CAPITAL MARKET OVERVIEW

IN THIS ISSUE ►

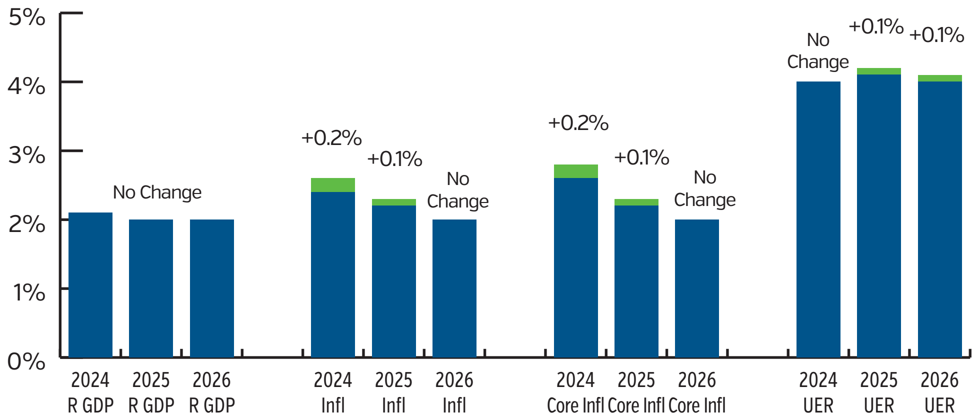


## Monthly Economic Highlights

### JUNE OVERVIEW

During the Fed's most recent meeting, they shared that although inflation is tracking in the right direction, with "notable" progress to date, it still sits at a level with which the Fed is not comfortable. In their Summary of Economic Projections, inflation estimates increased for this year and next, while remaining unchanged at 2% for 2026 and beyond, highlighting their belief in the persistence of higher prices while ultimately meeting its target. With higher near-term expected inflation, median estimates now call for one rate cut this year (versus three in March), in line with the messaging that rates will stay higher for longer. Although considerable progress has been made, the Fed's desire to promote "stable prices for the American people" is leading them to espouse a more restrictive stance for longer, until they can confidently agree that inflation is under control, as indicated by the data. Inflation appears to be the ongoing focus, with the labor market moderating but still healthy.

**Exhibit 1. Fed Projections: FOMC Economic Projections & Change**




*Source: FRB, Haver, NEAM*

In terms of the labor market, payroll additions came in at +272K for the month, bringing the three-month average to +249K. Gains continue to be dominated by healthcare, which is averaging over a third of monthly additions for the past year, with other notable contributors in the government, leisure and hospitality, and construction areas. Despite the consistently healthy gains, the unemployment rate ticked up a notch to 4.0%. The discrepancy lay in the household data figures, which saw the number of unemployed increase by +158K as

*For more information on this topic, please contact the author:*

**Coley Lynch**
Senior Research Analyst
*coley.lynch@neamgroup.com*

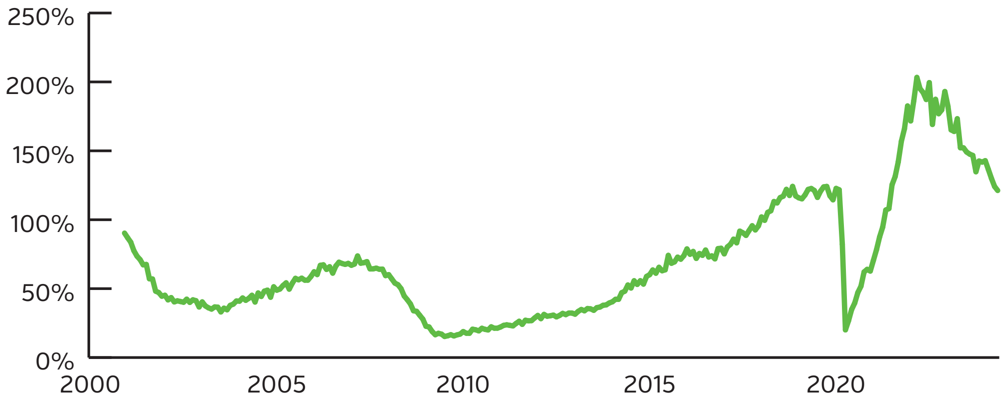
**neamgroup.com**

NEAM New England Asset Management

Partnership at Work®

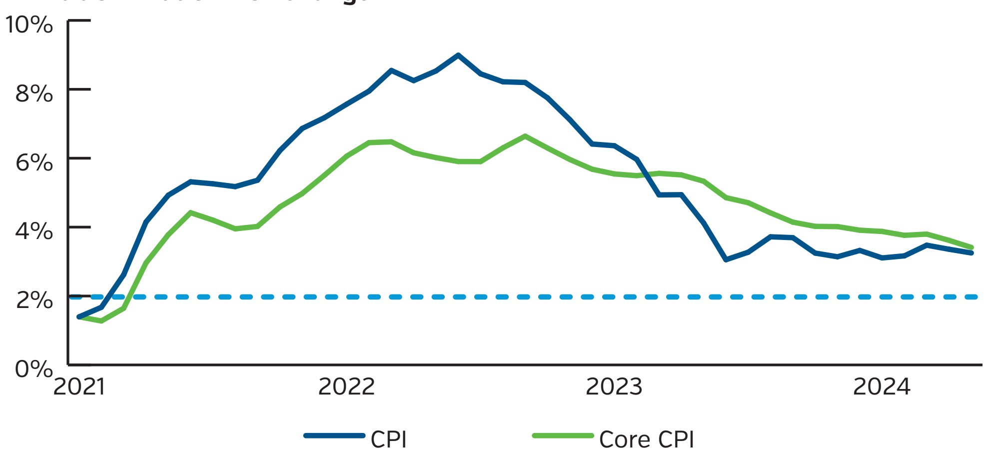
the drop in employment of -408K outpaced the -250K decline in the labor force.  JOLTS data showed that the picture also continues to move into a more balanced position, with the job openings to unemployed figures falling closer to its level in the year leading up to the pandemic.  Hiring rates are down, and those in their jobs are less likely to move or be let go as evidenced by quits rates and stable layoffs. For those employed, wages increased +0.4% for the month, amounting to a 4.1% increase for the year which represented a pause in the descent of this figure from its peak. However, despite the still healthy labor figures, consumer confidence fell slightly as consumers contend with higher rates and persistent inflation.

**Exhibit 2. Job Openings Relative to Unemployed**




*Source: BLS, Haver, NEAM*

**Exhibit 3. Inflation: YoY Change**




*Source: BLS, Haver, NEAM*

On the investment front, national and regional level PMI figures were mixed while industrial production fared better than expected, posting its strongest month since February with a +0.9% gain overall.  Underlying industrial production's gain were jumps in the utilities (+1.6%), mining (+0.3%), and manufacturing sectors (+0.9%), with the manufacturing sector's results at odds with core capital goods orders and shipments, whose retracement and overall slowing trend highlight that the manufacturing sector still faces its challenges.

Inflation for the month of May brought welcome news. CPI came in lower at both the headline and core levels and continues to track south. At the headline level, prices remained stable for the month, with a +0.1% increase in areas of food and +0.2% at the core, offset by a -2.0% drop in energy prices given lower gasoline prices. On a yearly comparative basis, this amounted to a 3.3% gain overall and a drop to 3.4% at the core. On the core goods side, prices remained flat, with declines in apparel, transportation (from lower new vehicle prices), recreation, and education offset by gains in alcohol and other goods. Core services increased +0.2%, driven by a consistent price increase in shelter (+0.4%) and price increases in medical care, tempered by pullbacks in airline fares and for the first time in months, motor vehicle insurance which has been a larger contributor to core service prices of late. Excluding housing, core services fell on the month, the first time since September of 2021. This was an encouraging development, although by no means a trend, and helped bend the annual rate for this specialized category down.

### CAPITAL MARKET IMPLICATIONS

The Fed is awaiting more data before it will deviate from its current policy stance. With economic data moderating on the price and employment front, Treasury yields edged lower, while credit spreads widened slightly, and equities gained.

**Exhibit 4. U.S. Historical Yield Curves**

| | Dec 2020 | Dec 2021 | Dec 2022 | Dec 2023 | June 2024 |
|---|---|---|---|---|---|
| Fed Funds Range | 0.00-0.25% | 0.00-0.25% | 4.25-4.50% | 5.25-5.50% | 5.25-5.50% |
| 2-Year | 0.12% | 0.73% | 4.43% | 4.25% | 4.75% |
| 5-Year | 0.36% | 1.26% | 4.00% | 3.85% | 4.38% |
| 10-Year | 0.91% | 1.51% | 3.87% | 3.88% | 4.40% |
| 30-Year | 1.64% | 1.90% | 3.96% | 4.03% | 4.56% |

*Source: Bloomberg, NEAM*

## Capital Markets

### FIXED INCOME RETURNS

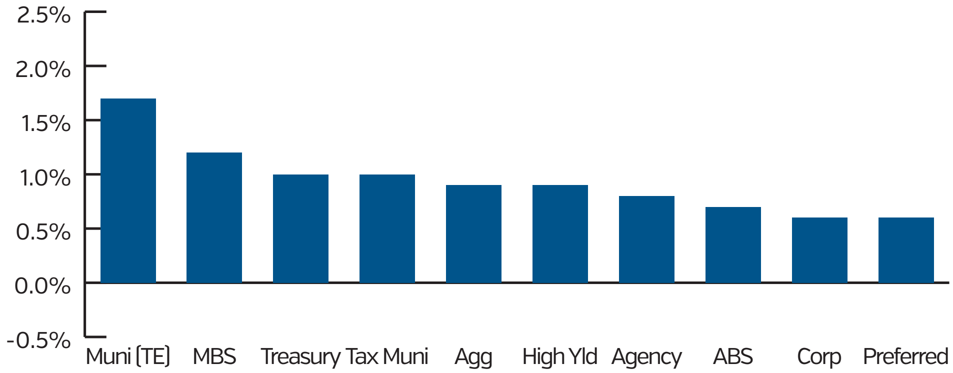
Another month of lower inflation and softening economic data led rates lower. The Fed maintained its stance, however, advocating its need to see more evidence before letting the reigns out. Rates ended the month lower across the curve again, while credit spreads pushed slightly wider.

**Exhibit 5. Fixed Income Returns**

| | June | 3-Month | YTD |
|---|---|---|---|
| Bloomberg Barclays U.S. Aggregate | 0.95% | 0.07% | -0.71% |
| Blended ICE/ BofAML Preferred Stock | 0.60% | 0.45% | 5.30% |
| ICE BofA US Taxable Muni - Broad | 1.00% | -0.07% | 0.03% |
| ICE BofA Municipals Master (TE) | 1.67% | 0.45% | 0.31% |
| Bloomberg Barclays U.S. MBS (fixed rate) | 1.17% | 0.07% | -0.98% |
| Bloomberg Barclays U.S. ABS | 0.67% | 0.98% | 1.66% |
| Bloomberg Barclays U.S. Agency | 0.77% | 0.76% | 0.83% |
| Bloomberg Barclays U.S. Treasury | 1.01% | 0.09% | -0.86% |
| Bloomberg Barclays U.S. Corporates | 0.64% | -0.09% | -0.49% |
| Bloomberg Barclays High Yield | 0.94% | 1.09% | 2.58% |

*Source: Barclays, Bloomberg, NEAM*

**Exhibit 6. Domestic Fixed Income Sector: Month-to-Date Total Returns (6/30/24)**




*Source: Bloomberg, Barclays, ICE BofAML, NEAM - *Taxable Equivalent*

## EQUITY TOTAL RETURNS

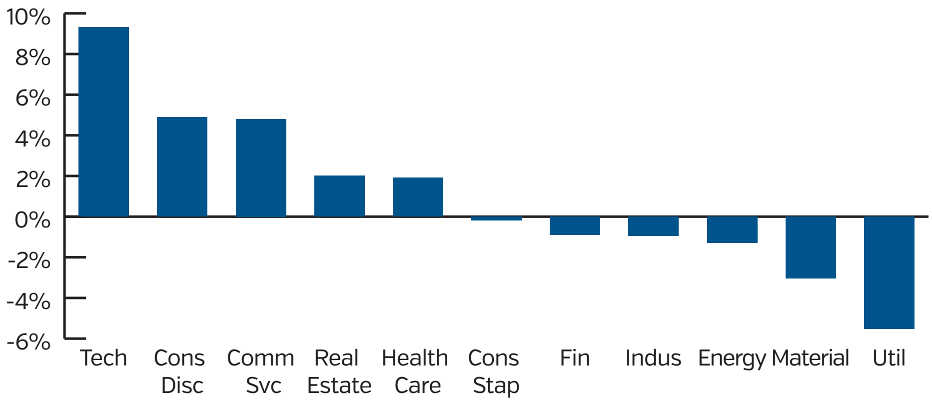
With inflation readings coming down, and economic data moderating, Treasury yields declined further. Domestic equity markets rose for the second month in a row, supported by some of the largest tech-related US equities.

**Exhibit 7. Equity Total Returns**

| | June | 3-Month | YTD |
|---|---|---|---|
| S&P 500 | 3.59% | 4.28% | 15.29% |
| NASDAQ | 6.03% | 8.47% | 18.57% |

*Source: Bloomberg, NEAM*

**Exhibit 8. Domestic Equity Returns: Month-to-Date Total Returns (6/30/24)**




*Source: Bloomberg, NEAM*

NEAM New England Asset Management

**neamgroup.com**

Connecticut | California | Dublin | London