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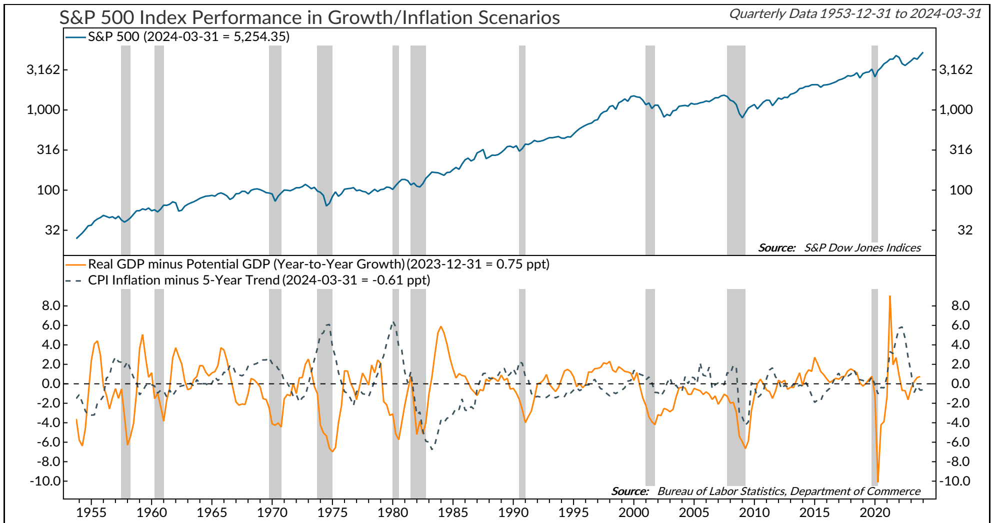
MACRO UPDATE

Is the slowdown finally happening?

Key Takeaways

- A slew of timely data out over the past week points to some softening in the economic picture.
- Stagflation is still out of the question.
- All scenarios, except for stagflation and early recession, are positive for equities.

Currently in strong growth/low inflation environment



Shading indicates NBER-defined recessions.

Non-Recessionary Scenarios:
Overheating = GDP above trend, Inflation more than 1 ppt above trend
Strong Growth/Low Inflation = GDP above trend, Inflation less than 1ppt above trend
Slow Growth/Low Inflation = GDP below trend, Inflation less than 1 ppt above trend
Stagflation = GDP below trend, Inflation more than 1 ppt above trend

S&P 500 Performance
Full History: 1953-12-31 to 2023-12-31

Economic Scenario	% Gain/ Annum	% of Time
Overheating	3.31	7.15
Strong Growth/Low Inflation	10.85	37.88
Slow Growth/Low Inflation	8.70	27.49
Stagflation	-4.24	10.36
Recession	9.35	17.12

Buy/Hold = 7.80% Gain/Annum

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Late last year, our outlook for the U.S. economy for 2024 had been for below-trend growth. Bucking expectations, the general narrative for the U.S. this year has been a surprisingly resilient economy. It's possible that a loosening of financial conditions late last year and early this year, amid strong Fed rate cut expectations, helped fuel the expansion in Q1.

Signs of slower growth

But a slew of timely data out over the past week points to some softening in the economic picture starting in Q2. Both the ISM and U.S. S&P Global manufacturing PMIs weakened more than expected in April.

The Conference Board's Consumer Confidence and the University of Michigan's Consumer Sentiment Indexes deteriorated in April, the former falling to its lowest since July 2022. This is confirmed by recent earnings calls from Starbucks and Amazon, which noted a more cautious consumer. Moreover, the increase in mortgage rates has seen mortgage applications for purchases fall in six of the past seven weeks.

Excess pandemic savings have been whittled down, the labor market has become more balanced, and necessities continue to become more expensive.

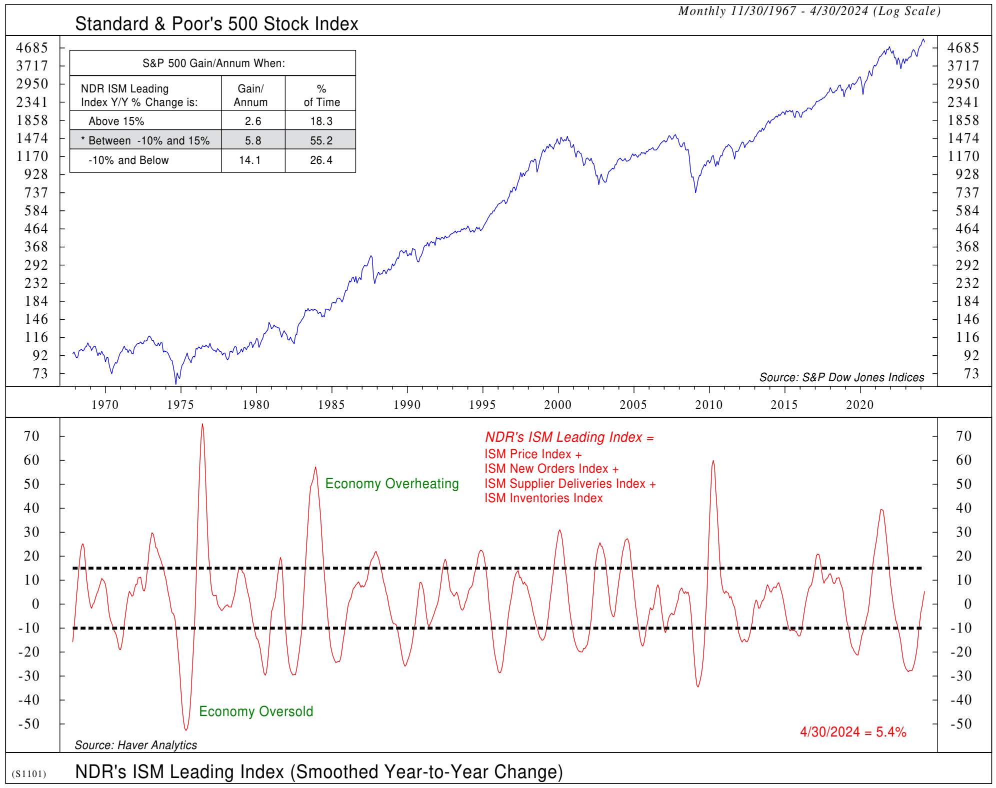
But we wouldn't worry yet. Our U.S. Recession Watch Report is not even showing a remote sign of recession. Some observers have alluded to stagflation, given the stickiness we've been seeing in prices. But we would agree with Fed Chair Powell's assessment at his press conference this week when he said that the current growth, labor market, and inflation picture is not even remotely close to the stagflation of the 1970s.

As shown in the chart, the slower GDP growth and sticky inflation we saw in Q1 are not even close to triggering a stagflation signal. All scenarios, except for stagflation and early recession, are positive for equities.

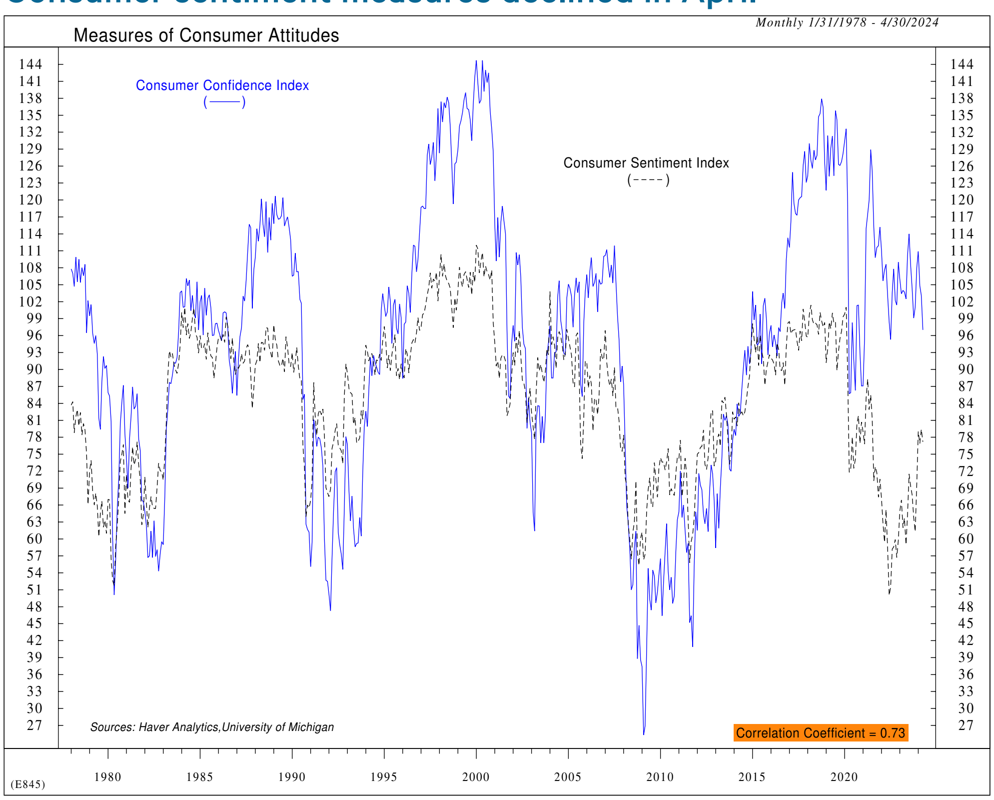
ISM Leading Index remains relatively positive for stocks

The ISM Manufacturing PMI went back into contraction territory in April, falling to 49.2. Similarly, the S&P Global U.S. Manufacturing PMI fell for a second month in April to a stagnant reading of 50.0.

Both are still not at levels associated with recession. Moreover, the NDR ISM Leading Index, which is comprised of indicators within the ISM report, is consistent with continued gains in equities.



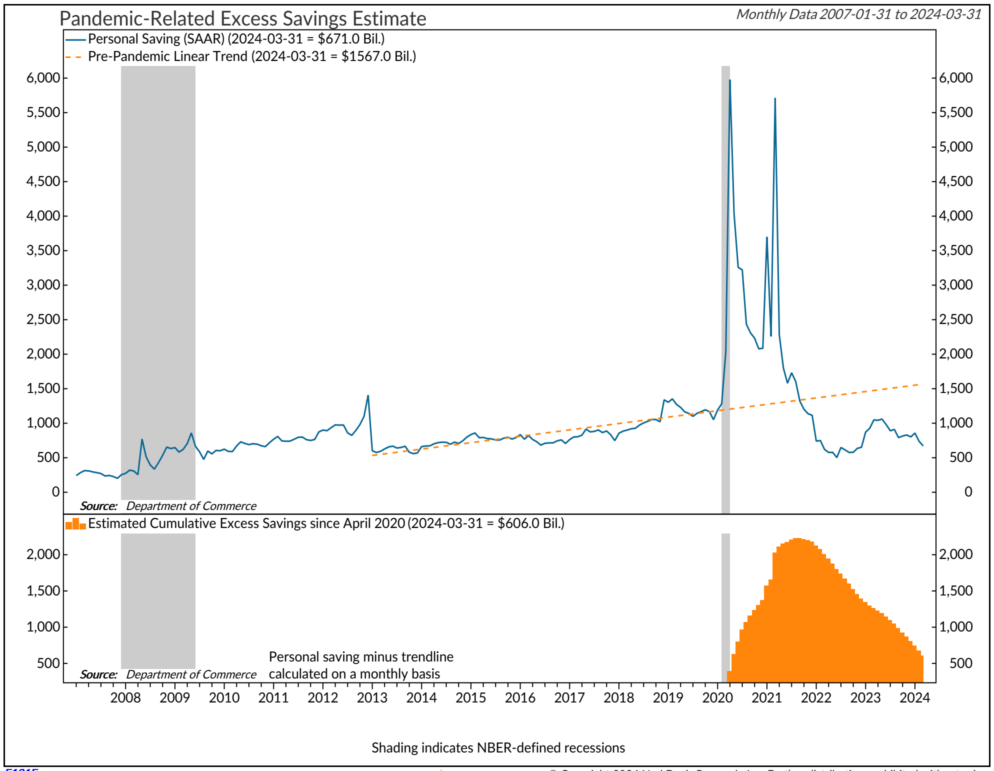
Consumer sentiment measures declined in April



The Conference Board's Consumer Confidence Index and the University of Michigan Consumer Sentiment Index headed lower in April. Soft survey data often leads the hard data on a directional basis, but the soft data tends to exaggerate both to the upside and downside. If sustained, this could suggest some cooling in consumer spending in the months ahead.

Excess pandemic savings have been shrinking and are about half of what they were a year ago. If this pace continues, these savings are likely to be depleted sometime this year.

Pandemic savings likely to be depleted this year



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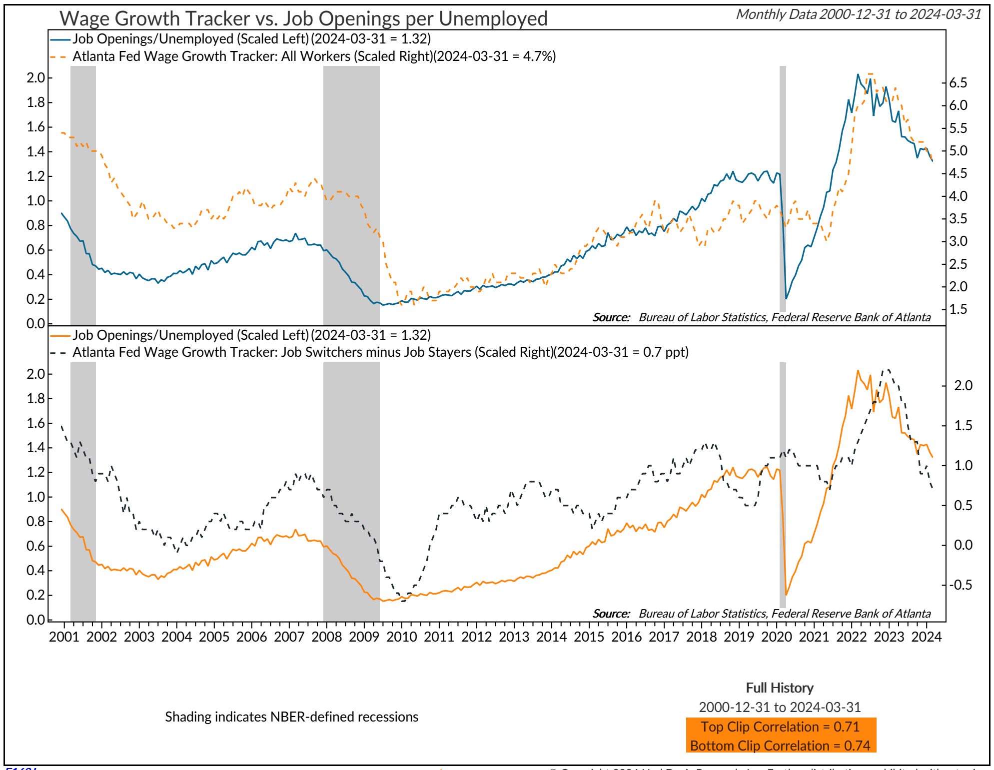
Wage pressures easing, but still higher than pre-pandemic



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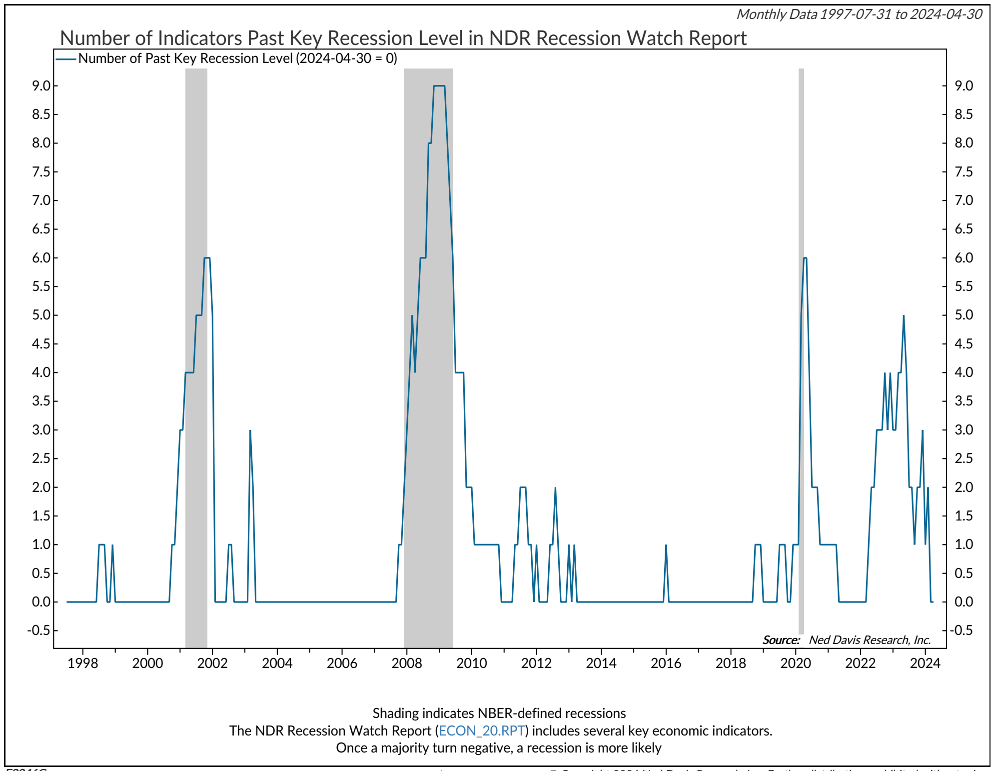
The latest JOLTS showed that the number of job openings-to-unemployed fell to 1.32, its lowest since August 2021, suggesting further easing in wage growth. Nonetheless, the latest reading is still above pre-pandemic levels and indicates that a demand and supply imbalance remains.

None of our Recession Watch indicators is currently negative

The good news is that not one of our U.S. Recession Watch indicators is flashing a negative signal.



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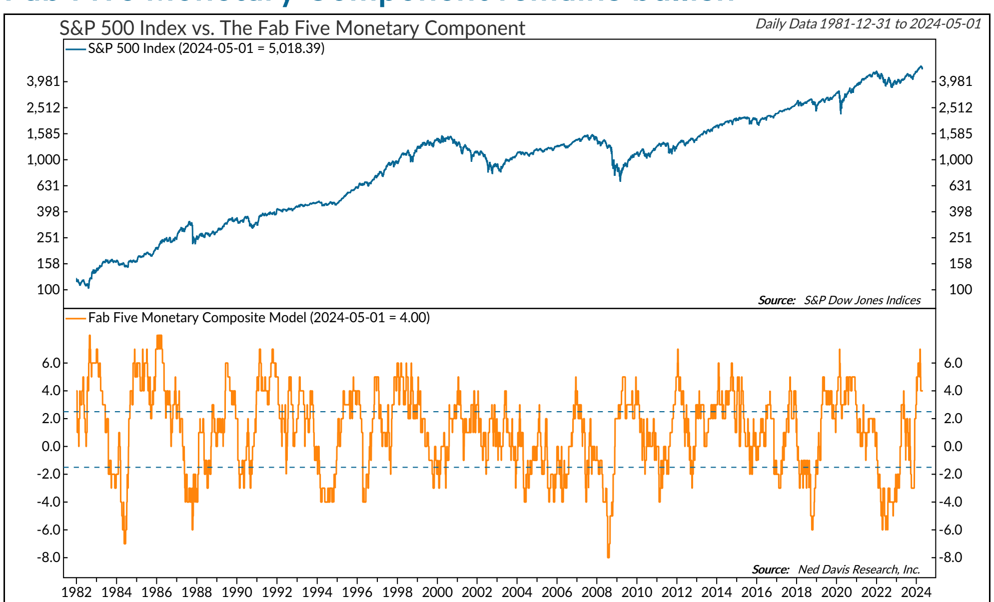
Fab Five Monetary Component remains bullish



Model	Model Reading (As of 2024-05-01)	Model	Model Reading (As of 2024-05-01)
S876	NEUTRAL	S875A	BULLISH
S835	NEUTRAL	S950	BULLISH
S955	BULLISH	S970	BEARISH
DAVIS168	BULLISH	DAVIS194A	BULLISH

S&P 500 Index Performance **Full History:** 1981-12-31 to 2024-05-01		
Fab Five Monetary Component is	% Gain/ Annum	% of Time
Above 2.5	21.20	34.69
-1.5 - 2.5	8.46	45.01
Below -1.5	-7.40	20.31
Buy/Hold = 9.16% Gain/Annum		

DAVIS503

Despite rising yields and the mounting prospect of a longer pause by the Fed, the Fab Five Monetary Composite, although down from its peak earlier this year, remains firmly in the bullish zone for equities.

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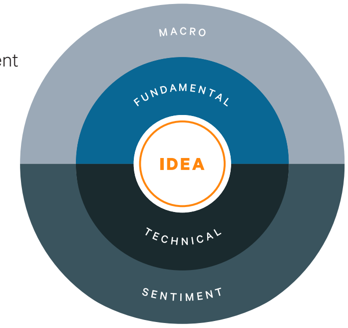

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