

Market & Economic Briefing

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Chief Investment Officer

Economic Update

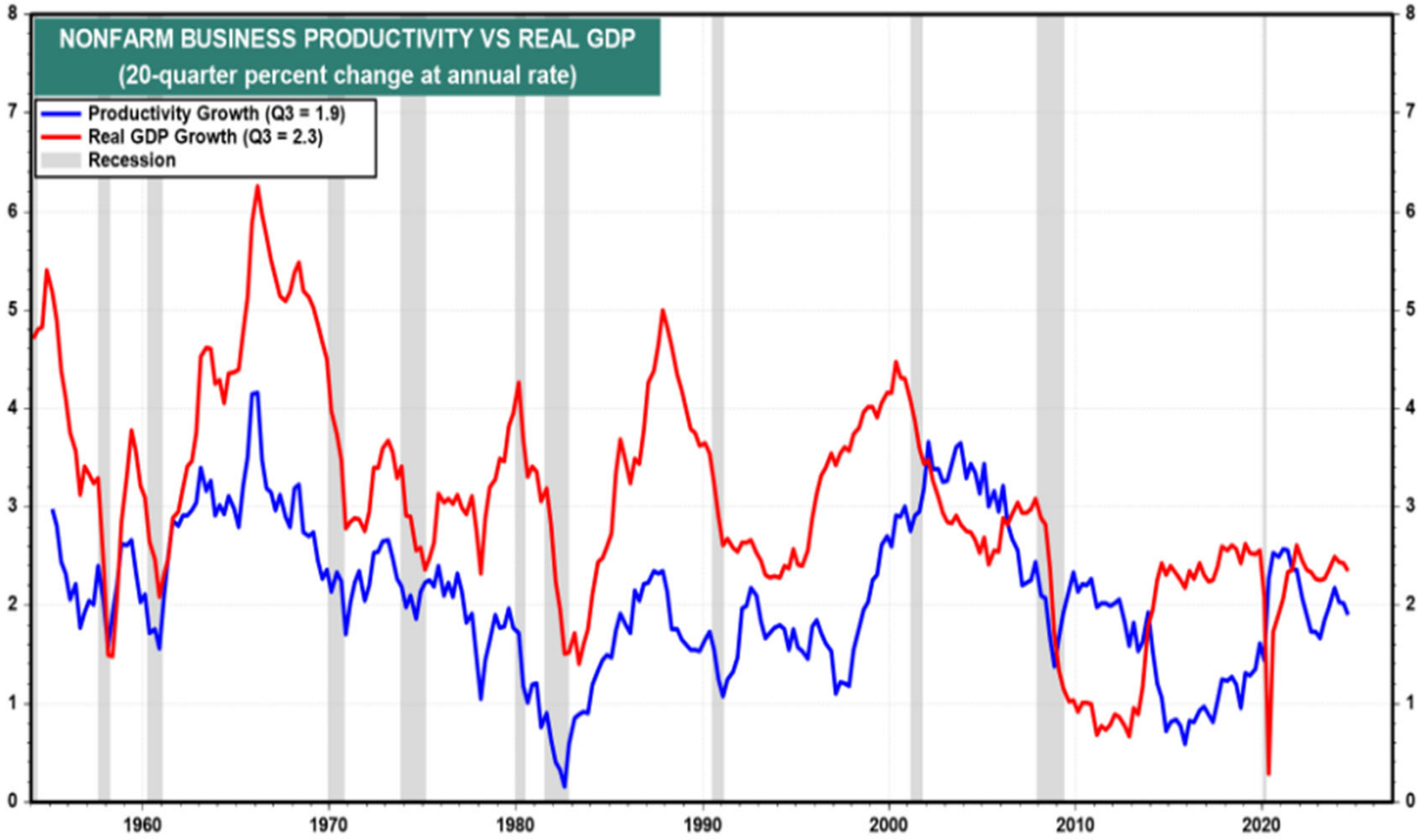
Monetary Policy To Provide Less Support This Year

Sends Hawkish Pause Message & Forecasts a Soft Landing

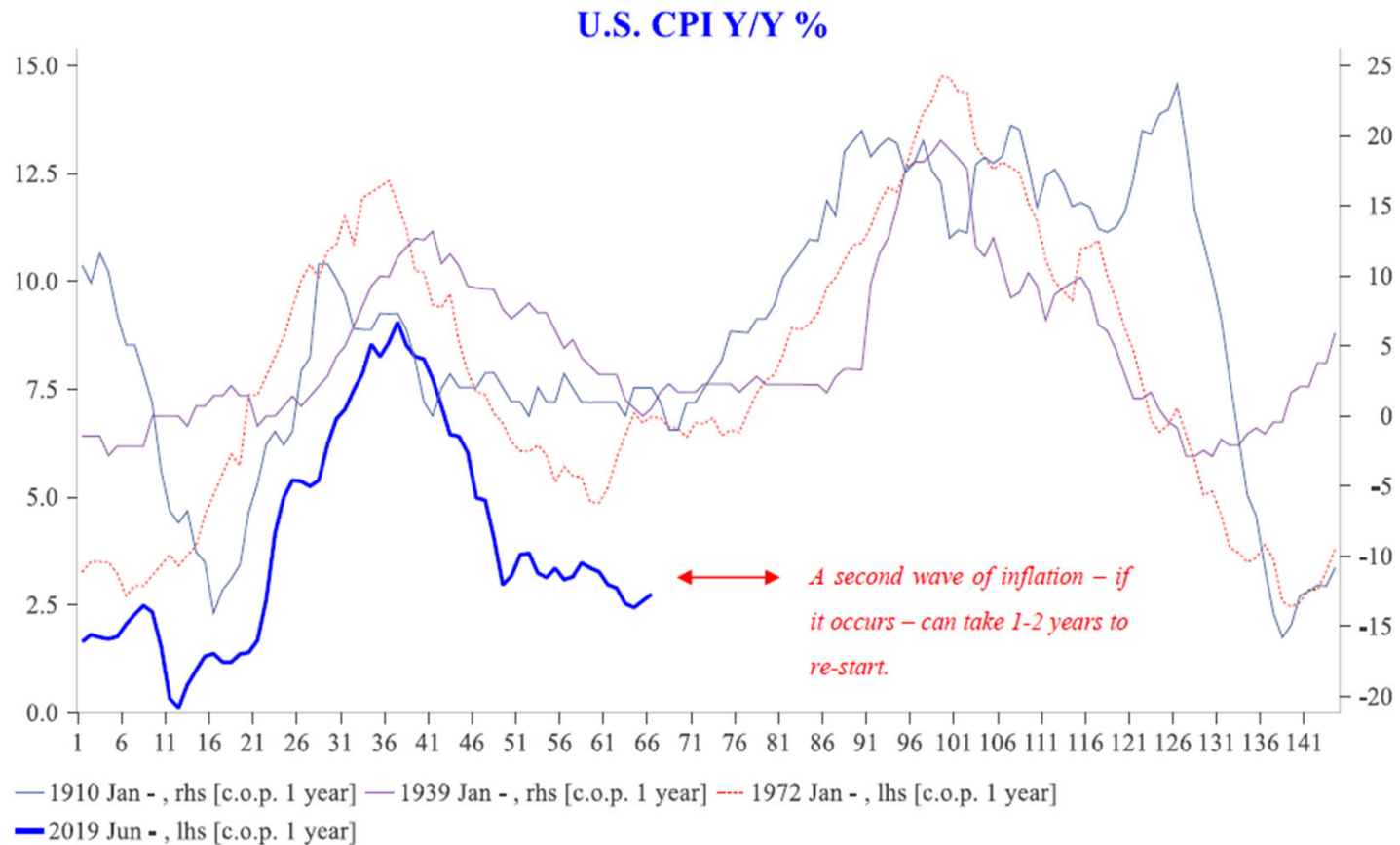
Percent

Variable	Median ¹					Central Tendency ²					Range ³				
	2024	2025	2026	2027	Longer run	2024	2025	2026	2027	Longer run	2024	2025	2026	2027	Longer run
Change in real GDP	2.5	2.1	2.0	1.9	1.8	2.4-2.5	1.8-2.2	1.9-2.1	1.8-2.0	1.7-2.0	2.3-2.7	1.6-2.5	1.4-2.5	1.5-2.5	1.7-2.5
September projection	2.0	2.0	2.0	2.0	1.8	1.9-2.1	1.8-2.2	1.9-2.3	1.8-2.1	1.7-2.0	1.8-2.6	1.3-2.5	1.7-2.5	1.7-2.5	1.7-2.5
Unemployment rate	4.2	4.3	4.3	4.3	4.2	4.2	4.2-4.5	4.1-4.4	4.0-4.4	3.9-4.3	4.2	4.2-4.5	3.9-4.6	3.8-4.5	3.5-4.5
September projection	4.4	4.4	4.3	4.2	4.2	4.3-4.4	4.2-4.5	4.0-4.4	4.0-4.4	3.9-4.3	4.2-4.5	4.2-4.7	3.9-4.5	3.8-4.5	3.5-4.5
PCE inflation	2.4	2.5	2.1	2.0	2.0	2.4-2.5	2.3-2.6	2.0-2.2	2.0	2.0	2.4-2.7	2.1-2.9	2.0-2.6	2.0-2.4	2.0
September projection	2.3	2.1	2.0	2.0	2.0	2.2-2.4	2.1-2.2	2.0	2.0	2.0	2.1-2.7	2.1-2.4	2.0-2.2	2.0-2.1	2.0
Core PCE inflation ⁴	2.8	2.5	2.2	2.0		2.8-2.9	2.5-2.7	2.0-2.3	2.0		2.8-2.9	2.1-3.2	2.0-2.7	2.0-2.6	
September projection	2.6	2.2	2.0	2.0		2.6-2.7	2.1-2.3	2.0	2.0		2.4-2.9	2.1-2.5	2.0-2.2	2.0-2.2	
Memo: Projected appropriate policy path															
Federal funds rate	4.4	3.9	3.4	3.1	3.0	4.4-4.6	3.6-4.1	3.1-3.6	2.9-3.6	2.8-3.6	4.4-4.6	3.1-4.4	2.4-3.9	2.4-3.9	2.4-3.9
September projection	4.4	3.4	2.9	2.9	2.9	4.4-4.6	3.1-3.6	2.6-3.6	2.6-3.6	2.5-3.5	4.1-4.9	2.9-4.1	2.4-3.9	2.4-3.9	2.4-3.8

Continued Productivity Gains Will Support Future Economic Growth

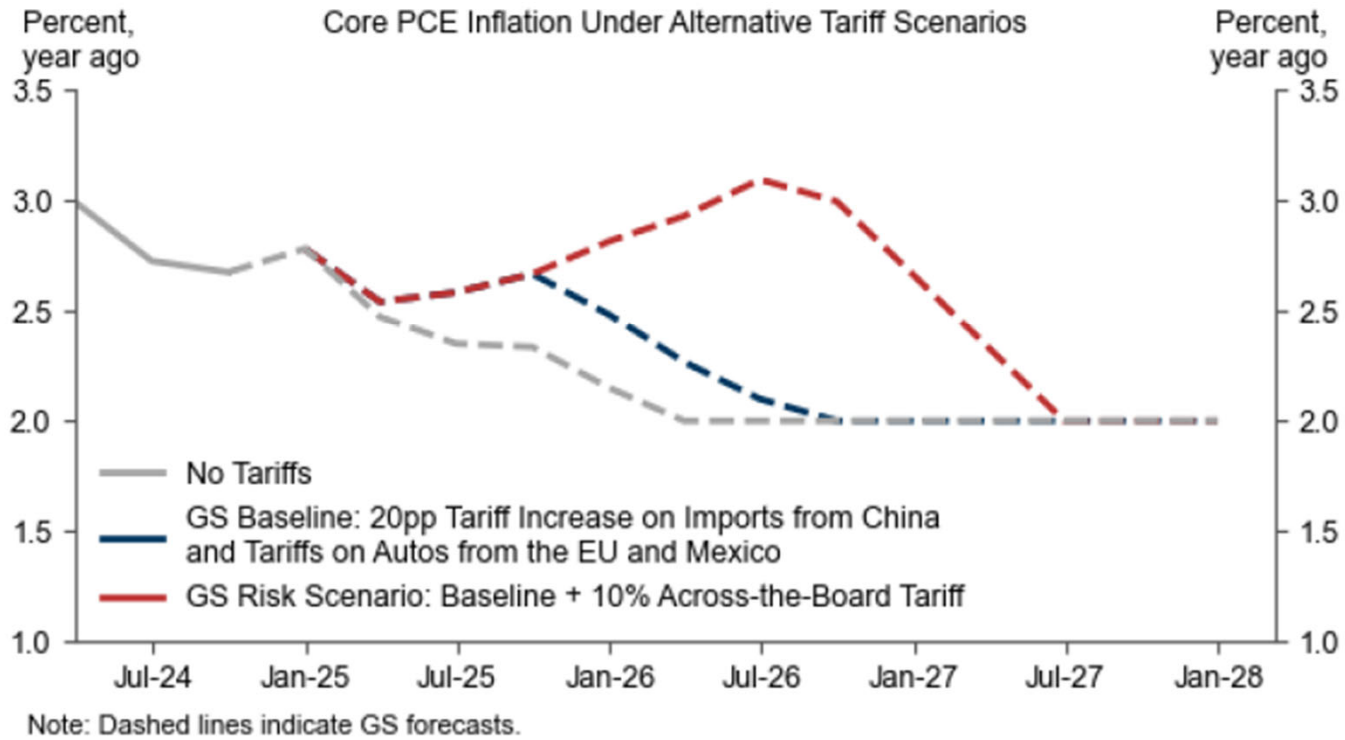


Much Progress on Inflation but Fed Now Faces a “Last Mile” Problem

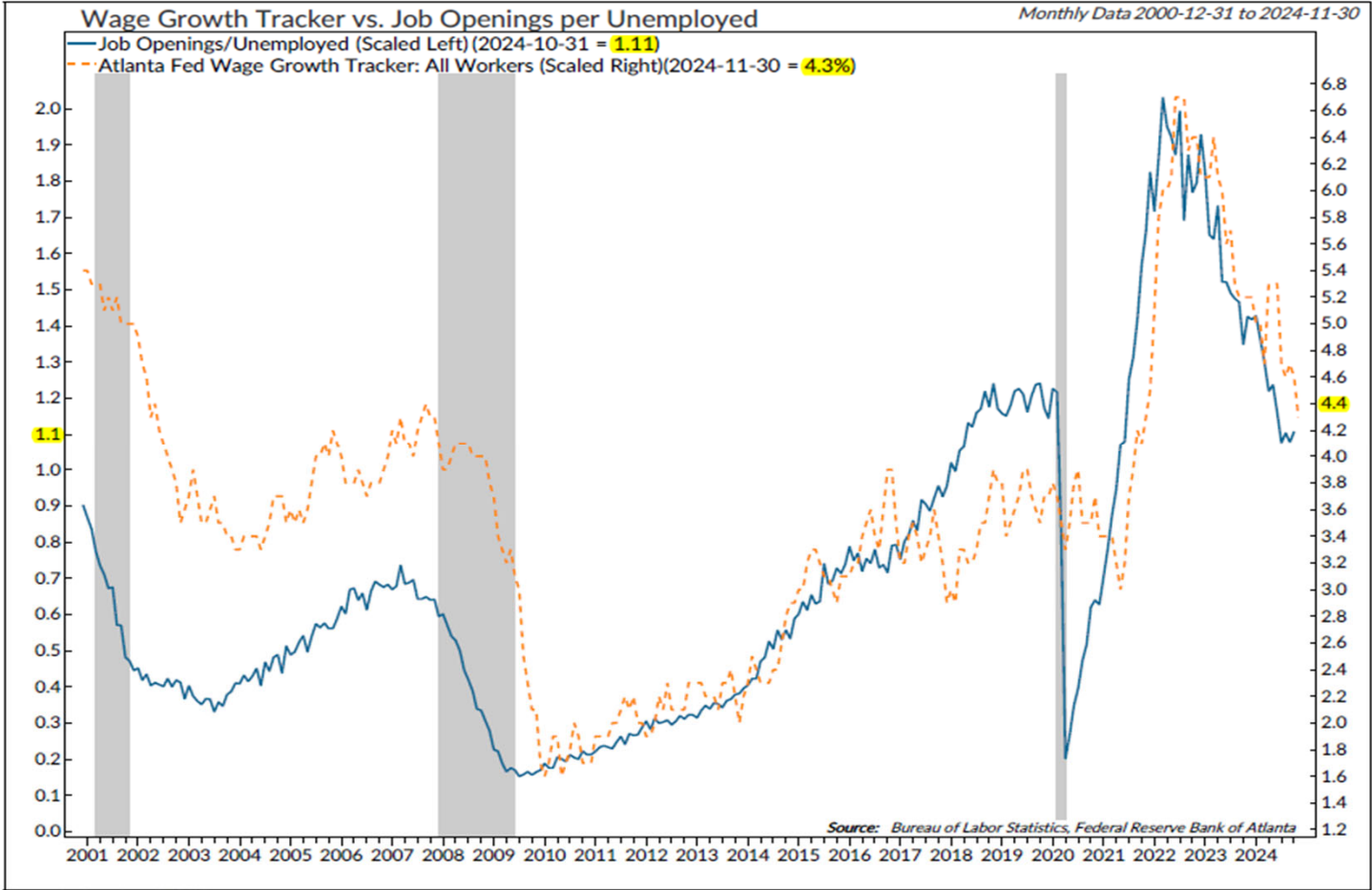


Trump Tariffs & Impact on Inflation

China (and Auto) Tariffs Would Modestly Delay Disinflation, But a Broad 10% Tariff Would Cause Reacceleration



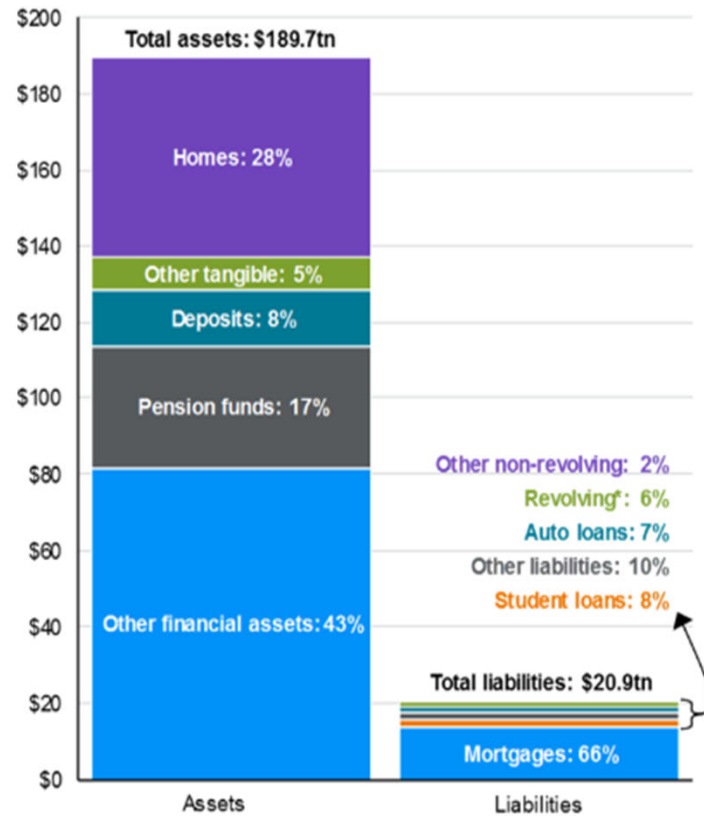
Deportations Could Spur Faster Wage Growth



Consumer Savings & Wealth Effect Have Helped Support Spending So Far

Consumer balance sheet

3Q24, USD trillions, not seasonally adjusted



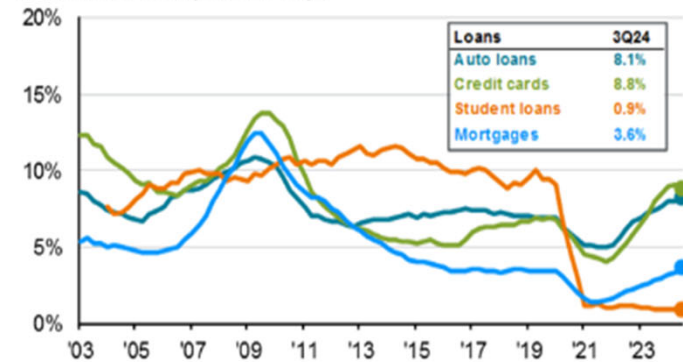
Household debt service ratio

Debt payments as % of disposable personal income, SA



Flows into early delinquencies

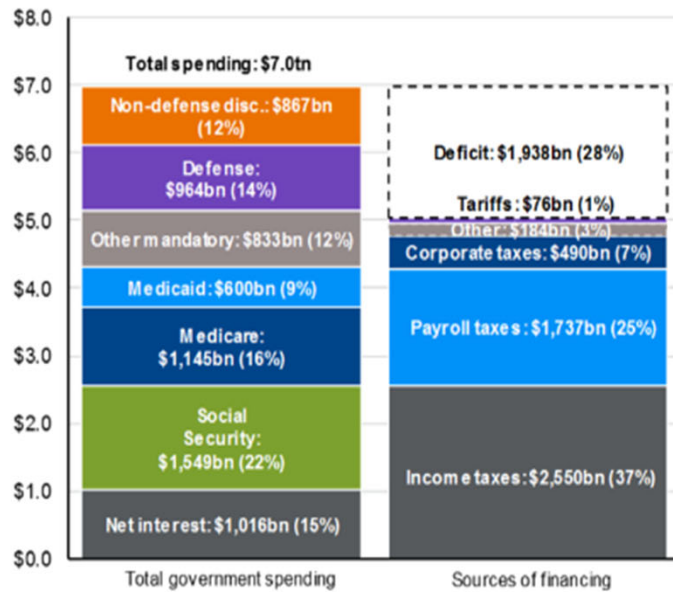
% of balance delinquent 30+ days



Federal Budget & Deficit Picture

The 2025 federal budget

USD trillions

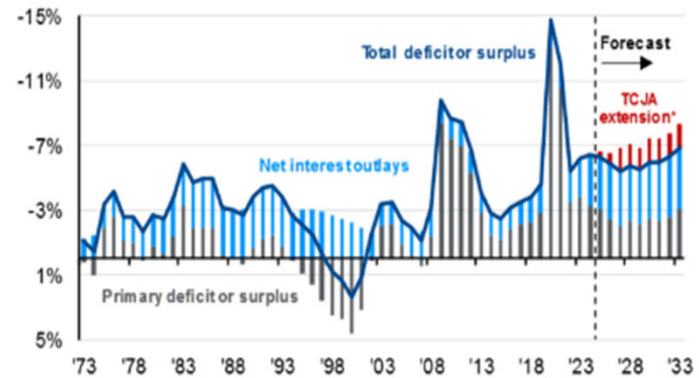


CBO's Baseline economic assumptions

	2024	'25-'26	'27-'28	'29-'34
Real GDP growth	2.9%	2.0%	1.7%	1.8%
10-year Treasury	4.5%	4.0%	3.6%	4.0%
Headline inflation (CPI)	3.2%	2.4%	2.2%	2.2%
Unemployment	3.8%	4.0%	4.3%	4.5%

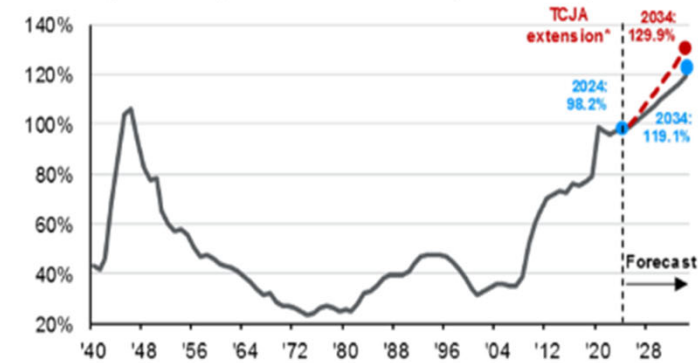
Federal deficit and net interest outlays

% of GDP, 1973-2034, CBO Baseline Forecast



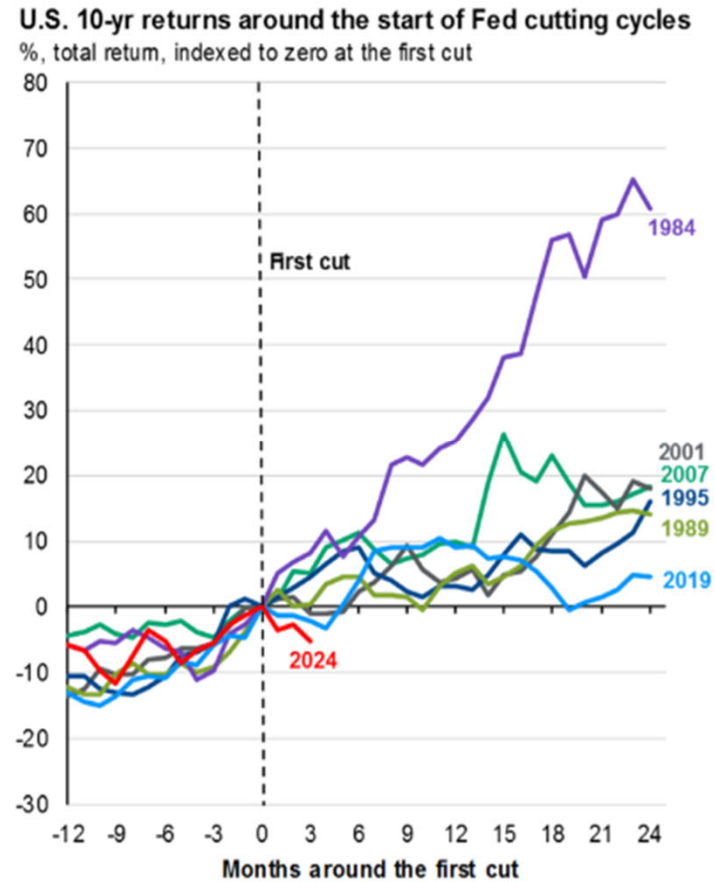
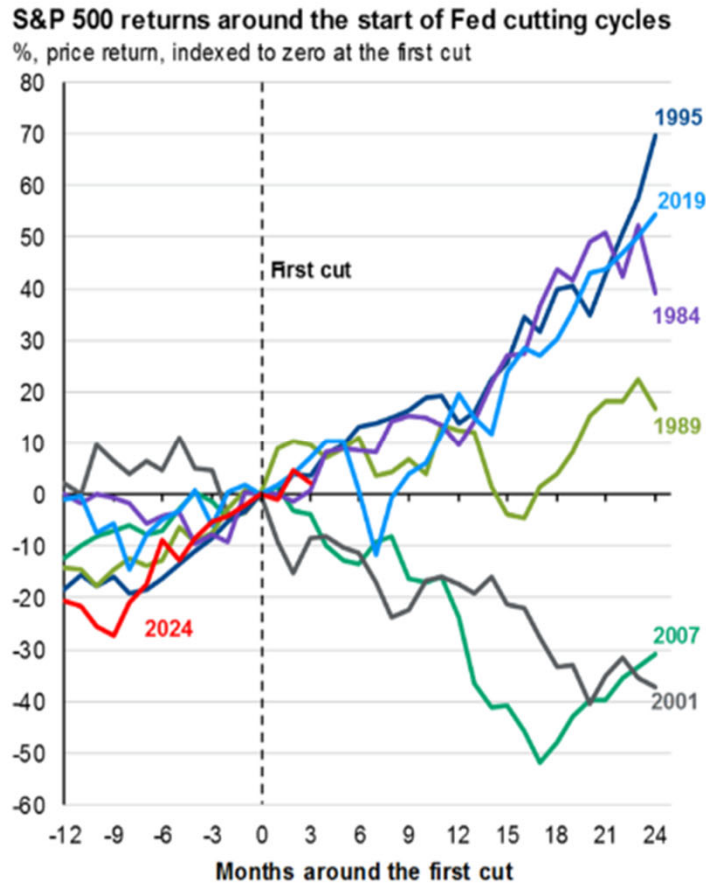
Federal net debt (accumulated deficits)

% of GDP, 1940-2034, CBO Baseline Forecast, end of fiscal year

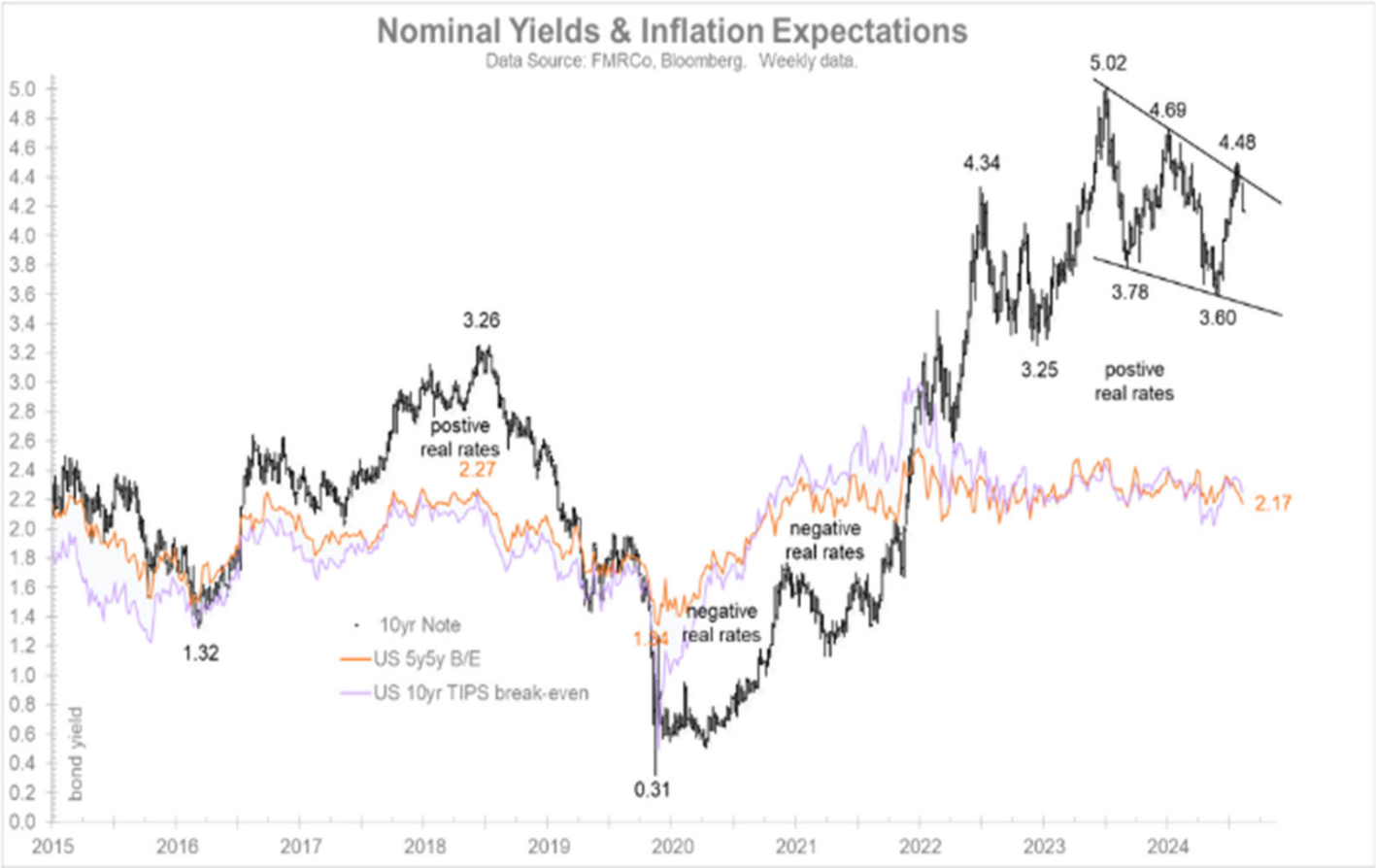


Fixed Income Outlook

Stocks on Path of Past Non-Recessionary Fed Easing Cycles, Bonds Are Not

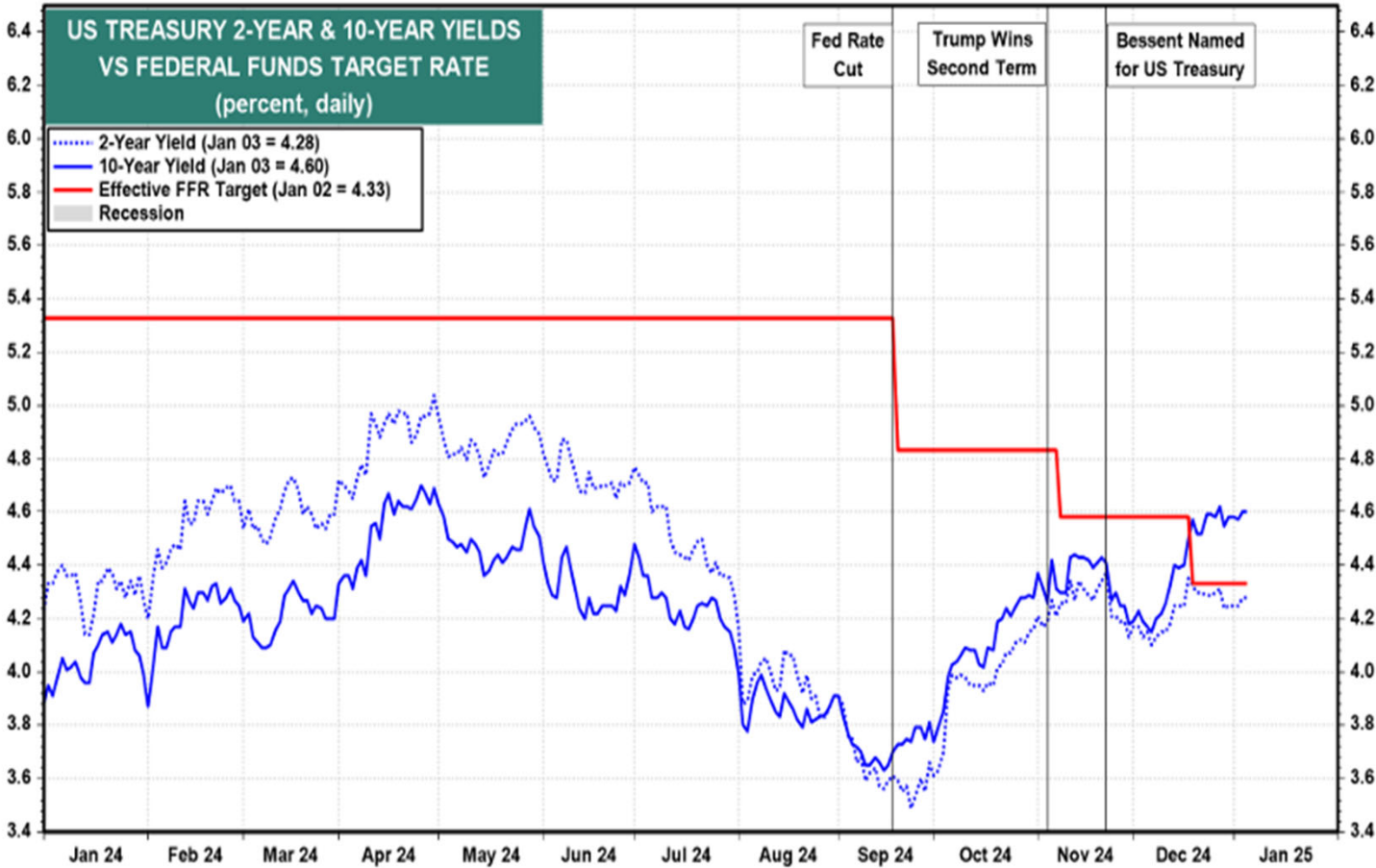


Most Important Price in the World: The 10-year U.S. Treasury Bond



Source: FMRCo. Data as of 12/1/24.

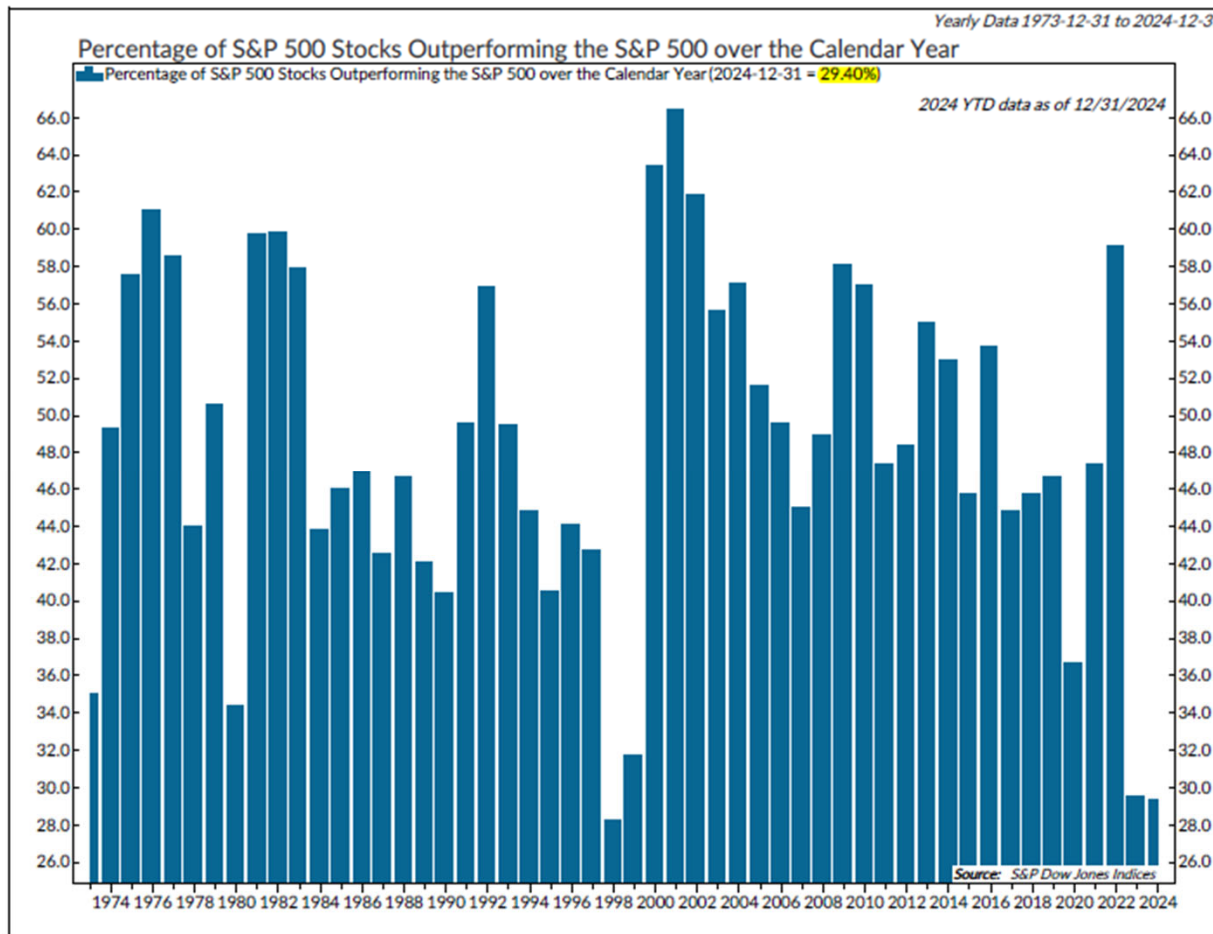
The Bond Vigilantes are Making a Come Back



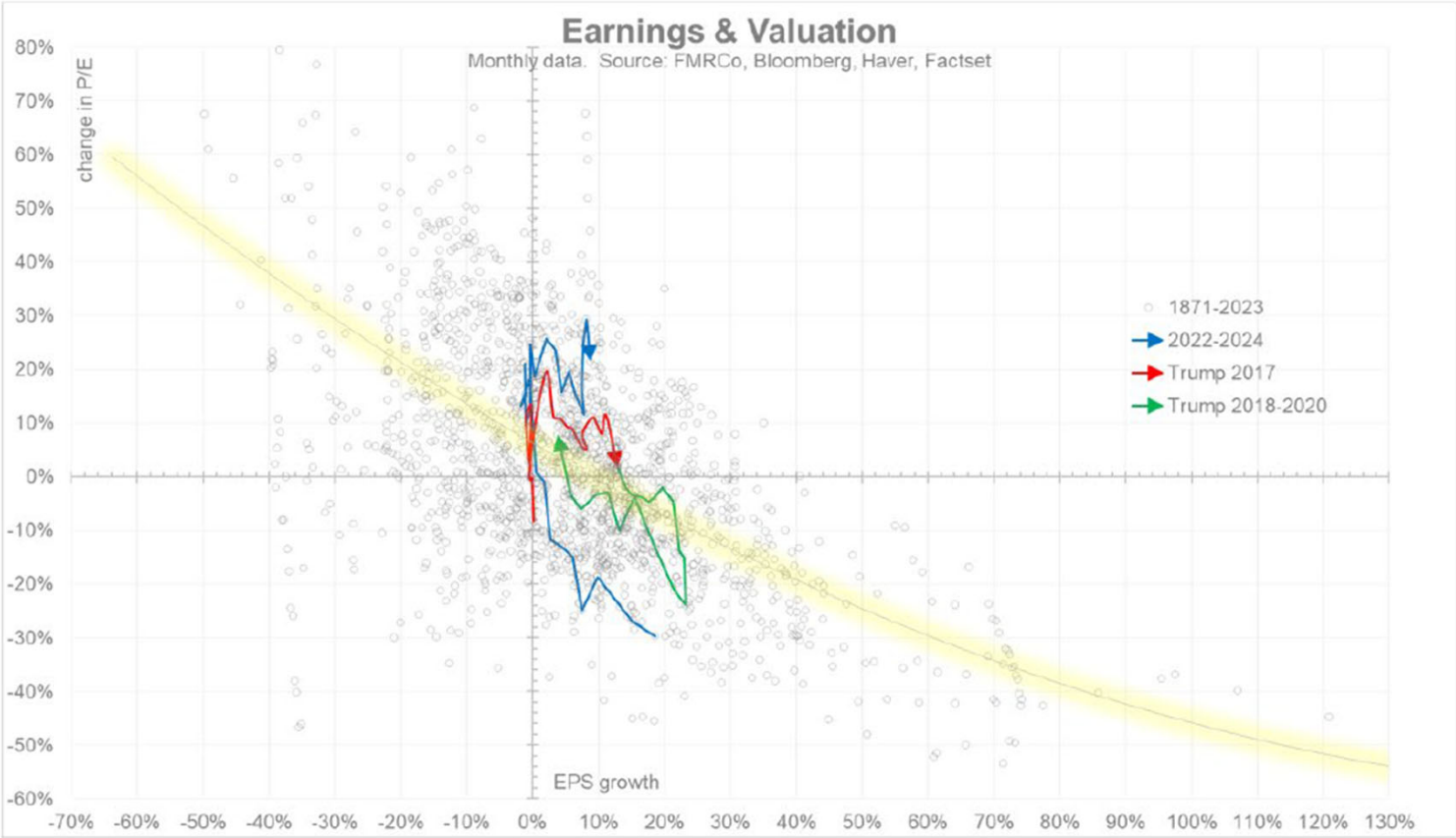
Source: Yardeni Research.

Equity Outlook

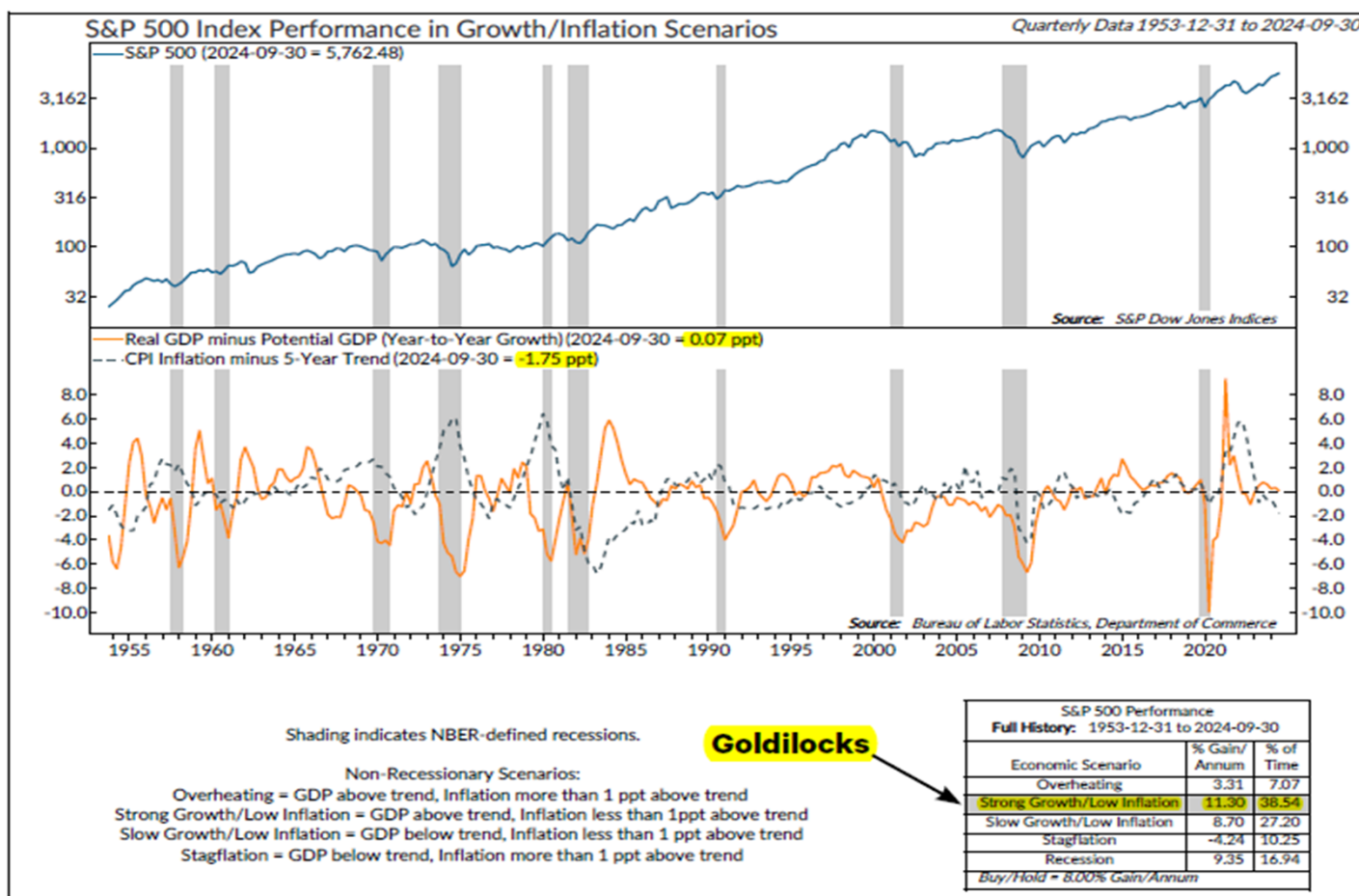
S&P 500 Set Records in More Ways Than One in 2024



Rare Amplification Effect Driving Force for S&P 500 Returns in 2024



Solid Economic Growth and Moderating Inflation Best for Stock Returns



Bull Markets Seldom Die of Old Age

S&P 500 Index Performance in Year 3 of Cyclical Bull Markets				
Bull Start	Bull Survives Year 3?	Two Year % Change	Year 3 % Change	Comments
6/13/49	Yes	59.0	13.1	Post-War boom, disinflation
9/14/53	No	98.1	4.9	Shallow recession 7/1953 - 5/1954
10/22/57	No	43.7	-5.9	Shallow recession 8/1957 - 4/1958
6/26/62	Yes	55.7	0.2	Three hikes 7/1963 - 12/1965
10/7/66	No	41.7	-10.2	Inflation returns, Fed reverses 8/1968 cut
7/24/84	Yes	61.0	30.0	Fed cuts 7 times 11/1984 - 8/1986
10/19/87	No	54.4	-10.0	Shallow recession 7/1990 - 3/1991
10/11/90	Yes	37.9	13.1	1994-1995 hikes ended in soft landing
10/9/02	Yes	44.8	5.6	.com recovery into housing bubble
3/9/09	No	95.1	3.9	ECB debt crisis and U.S. credit downgrade
10/3/11	Yes	52.7	17.2	ZIRP supported recovery from financial crisis
2/11/16	Yes	45.2	2.0	Hikes in late-2018 almost derailed bull
9/30/22	??	60.7	??	First cut on 9/18/2024
All Case Median		54.4	4.4	
Bull Survives Year 3 Median			13.1	
Bull Doesn't Survive Year 3 Median			-5.9	

Source: S&P Dow Jones Indices. See [T 202](#) for NDR-defined cyclical bull and bear market criteria.

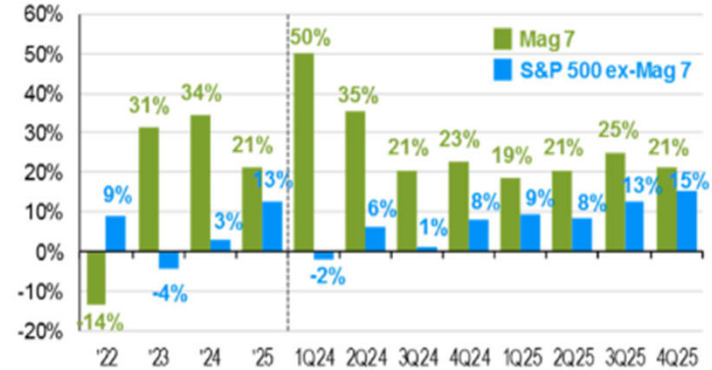
Magnificent 7 Still Dominated in 2024 Despite “Great Rotation” Trade Hopes

Performance of “Magnificent 7” stocks in S&P 500*
Indexed to 100 on 1/1/2021, price return



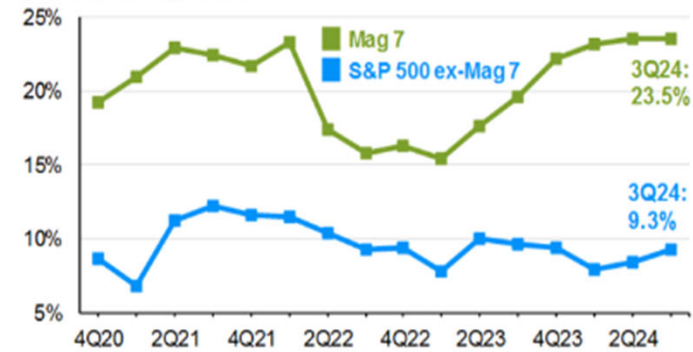
Earnings growth

Pro forma EPS, estimates 4Q24 onwards, y/y



Profit margins

Quarterly earnings/sales



S&P 500 Valuation and Concentration Continue to Remain Above Average

P/E ratio of the top 10 and remaining stocks in the S&P 500
Next 12 months, 1996 - present



Weight of the top 10 stocks in the S&P 500

% of market capitalization of the S&P 500



Economic concentration in the S&P 500

% of S&P 500 metric, 3Q24



The Bar of Expectations is Being Raised for S&P 500 2025 Target

Year-End 2025 Wall Street Strategist Targets		
Firm	Px Target	Date Changed
Yardeni Research	7,000	11/10/2024
Deutsche	7,000	11/25/2024
BMO Capital Markets	6,700	11/18/2024
Natixis	6,700	11/8/2024
BofA Securities	6,666	11/26/2024
Barclays	6,600	11/25/2024
RBC	6,600	11/25/2024
CFRA	6,585	11/20/2024
Goldman Sachs	6,500	11/19/2024
Morgan Stanley	6,500	11/18/2024
<i>Average</i>	<i>6685</i>	
<i>Current S&P</i>	<i>6032</i>	

In addition to hot flows, the sell-side strategists are approaching 2025 with elevated expectations.

Morgan Stanley is finally bullish on stocks: Why the firm now sees 11% upside through 2025

BMO sets next year's S&P 500 target at 6,700, or a 14% gain from here

Yardeni lifts S&P 500 targets as Trump reignites 'animal spirits'

Deutsche Bank forecasts S&P 500 at 7,000 for 2025-end; Barclays raises to 6,600

RBC sees S&P 500 rallying 11% through end of 2025

JPMorgan sees S&P 500 rising to 6,500 in 2025 thanks to AI and deregulation

Goldman Sachs forecasts S&P 500 target of 6500 for 2025-end, joins Morgan Stanley

Bank of America sees 11% gain for S&P 500 next year and even bigger returns for certain stocks

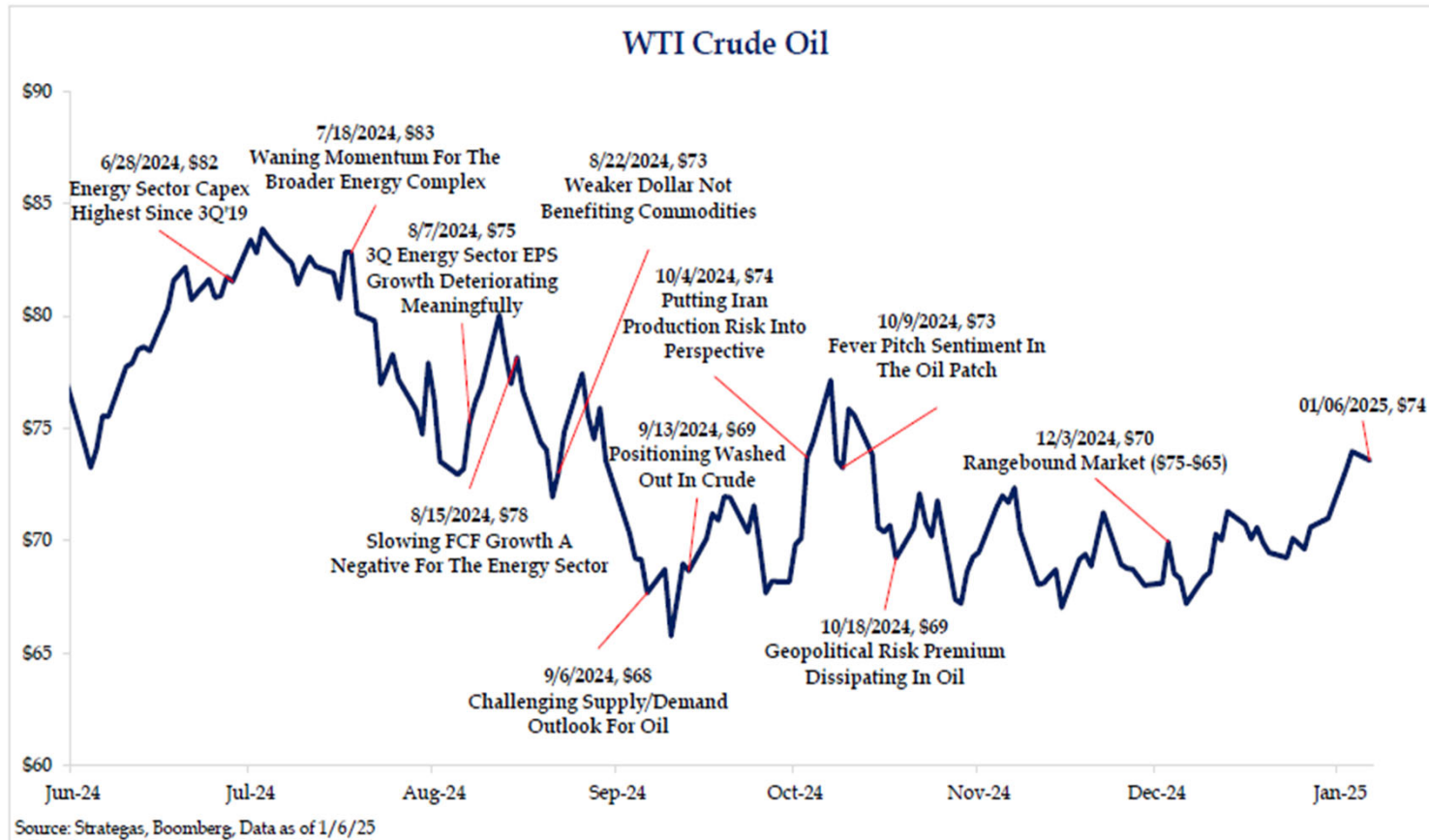
Questions?

Appendix

Greater Fool Theory?

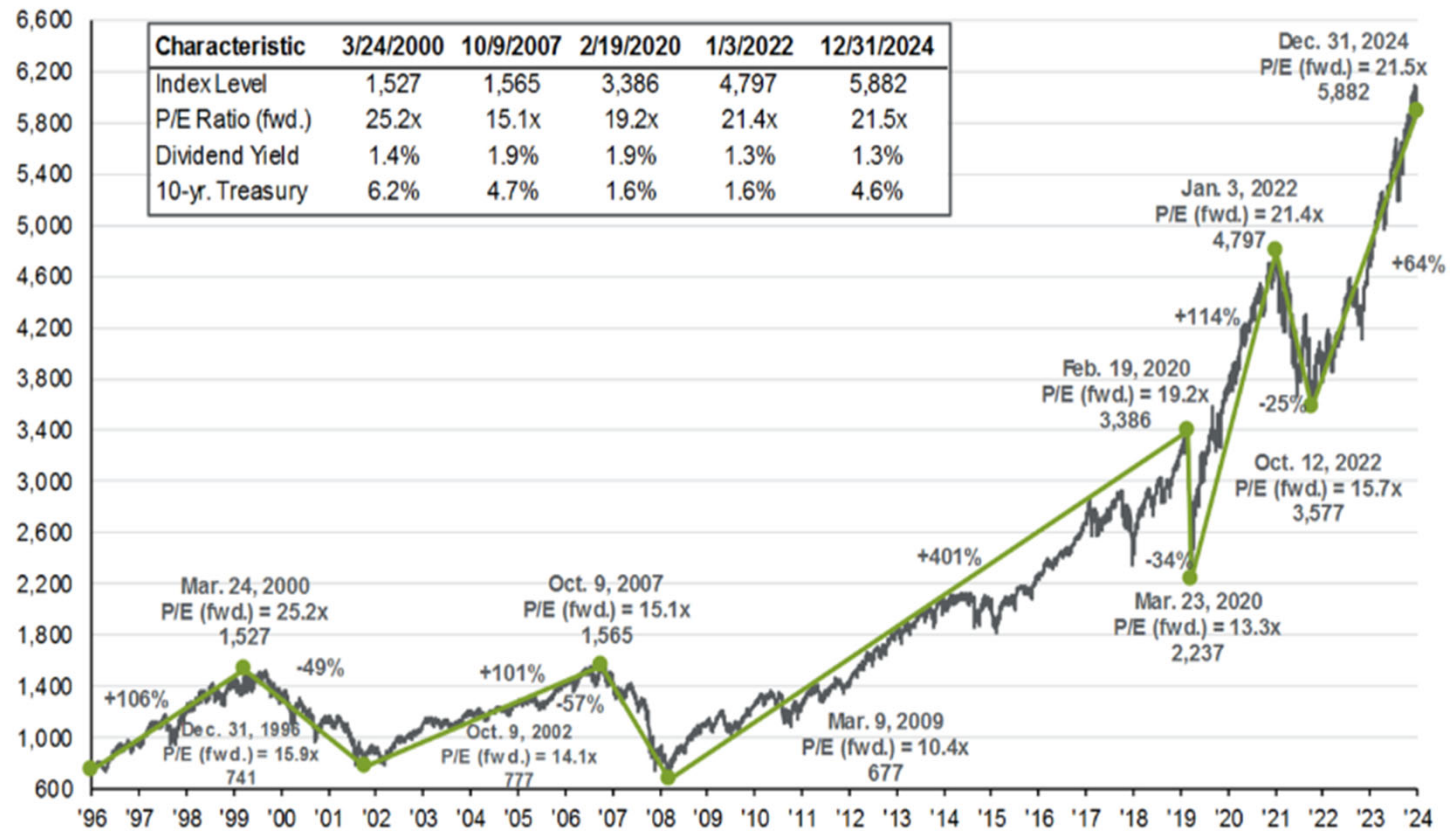


WTI Outlook



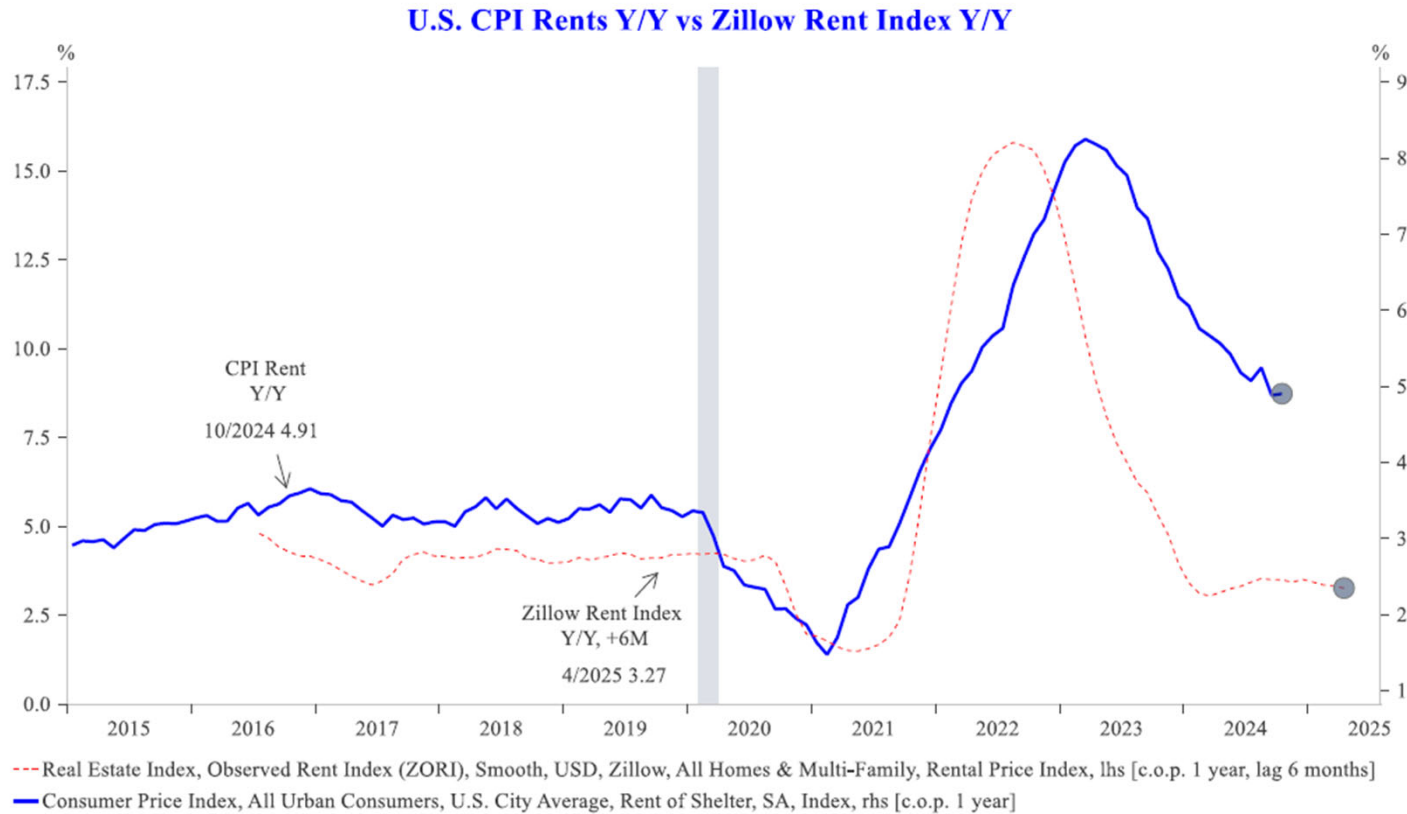
When are We in Bubble Territory?

S&P 500 Price Index

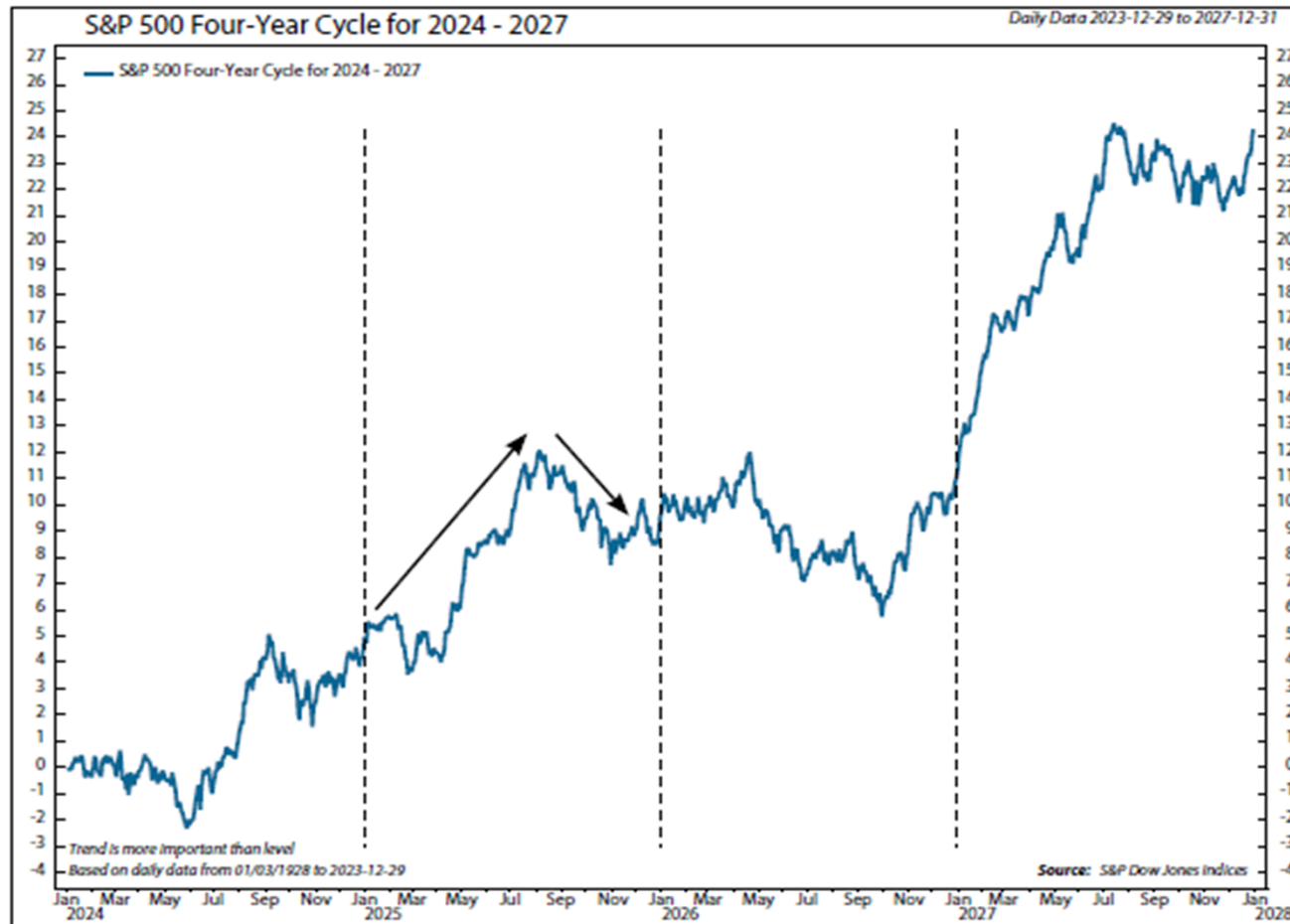


Shelter Cost Main Reason Behind Inflation's Stall

MORE TIMELY RENT DATA HAVE ALREADY ROLLED CONSIDERABLY



Post – Election Years Start Strong, End Weak



Stock Bull Market Most Likely to Continue into 2025

