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Market Outlook

Quarterly Economic Review

July **2024**



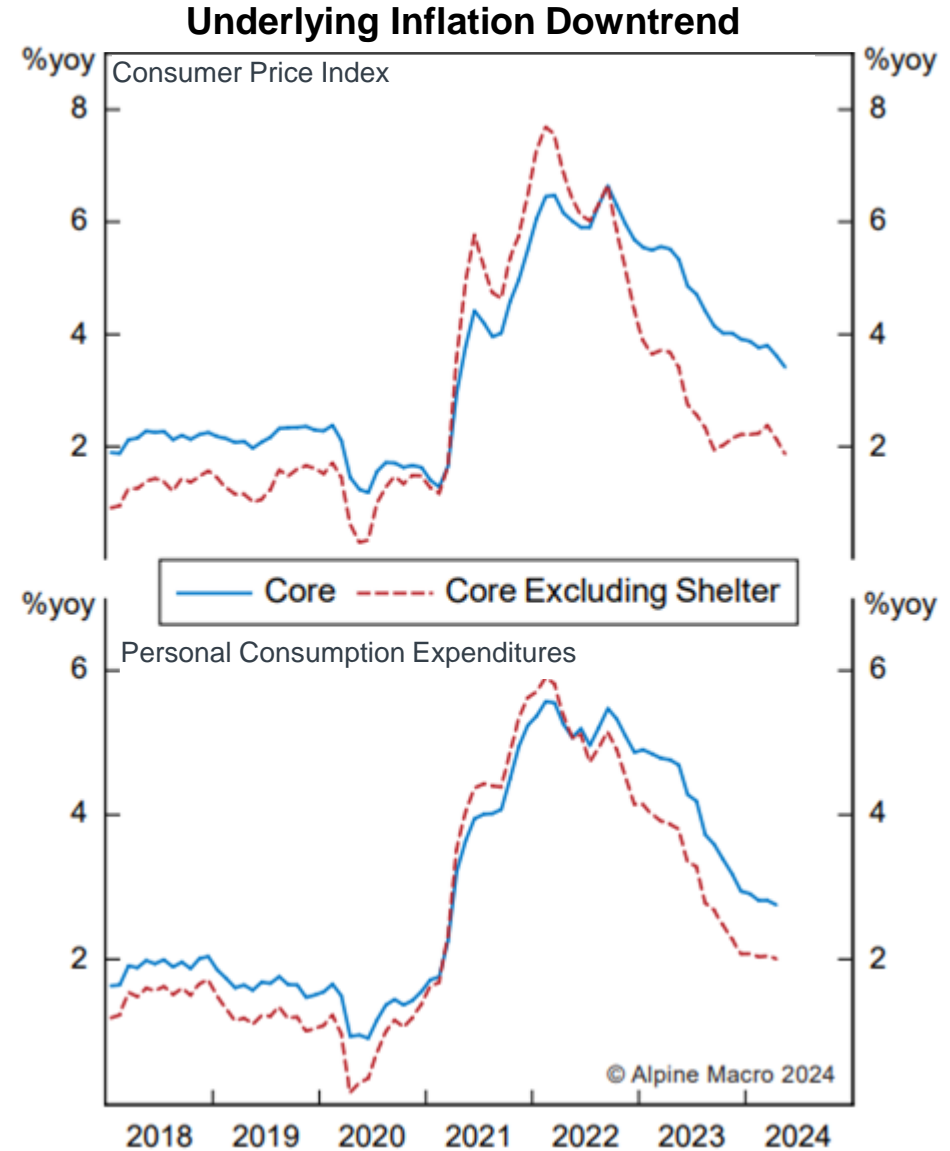
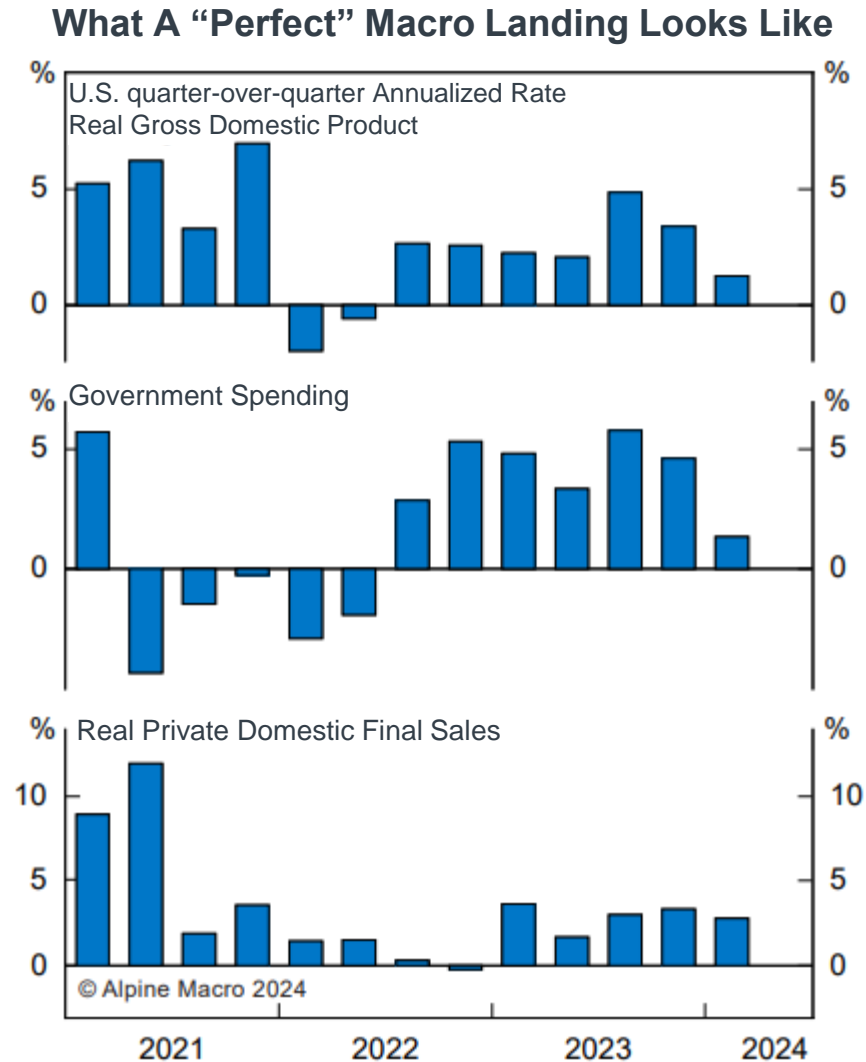
Agenda

- Broad Economy
- Consumer Economy
- Presidential Election
- Markets



Economy: Broad

Soft landing: Pictures are worth a large number of words



Source: Alpine Macro, 6/17/24

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.
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Labor market continues to cool – but it's NOT cold

Job postings

Index change in job postings (February 1, 2020 = 100)
Up to and including June 14, 2024

Week-over-week **-0.1%**
Year-over-year **-13.0%**

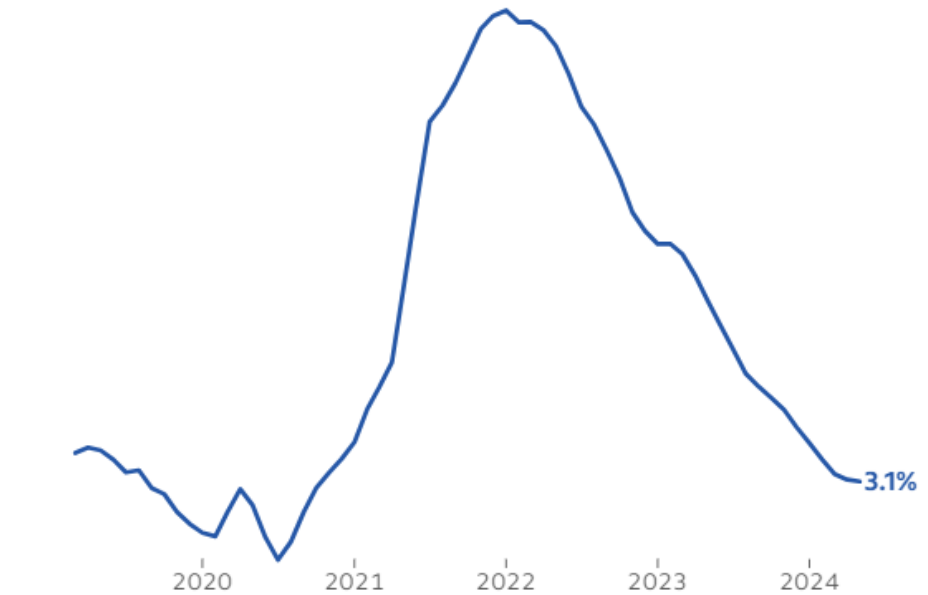


Source: Indeed

Wages

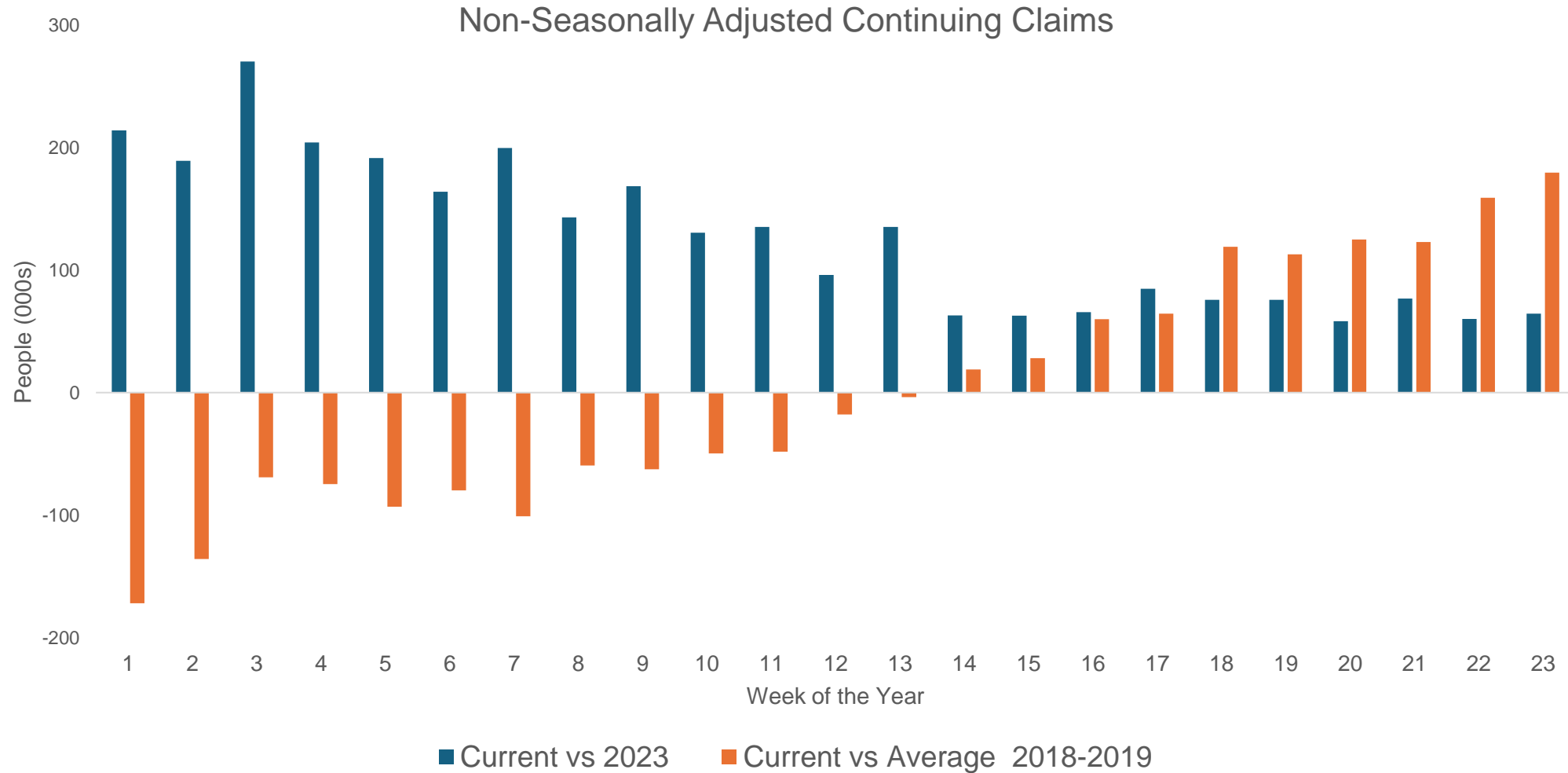
3-month moving average of annual % change in advertised wages/salaries
Up to and including May 2024

Month-over-month **-0.0pp**
Year-over-year **-2.4pp**



Source: Indeed

But labor markets are clearly “off the boil”

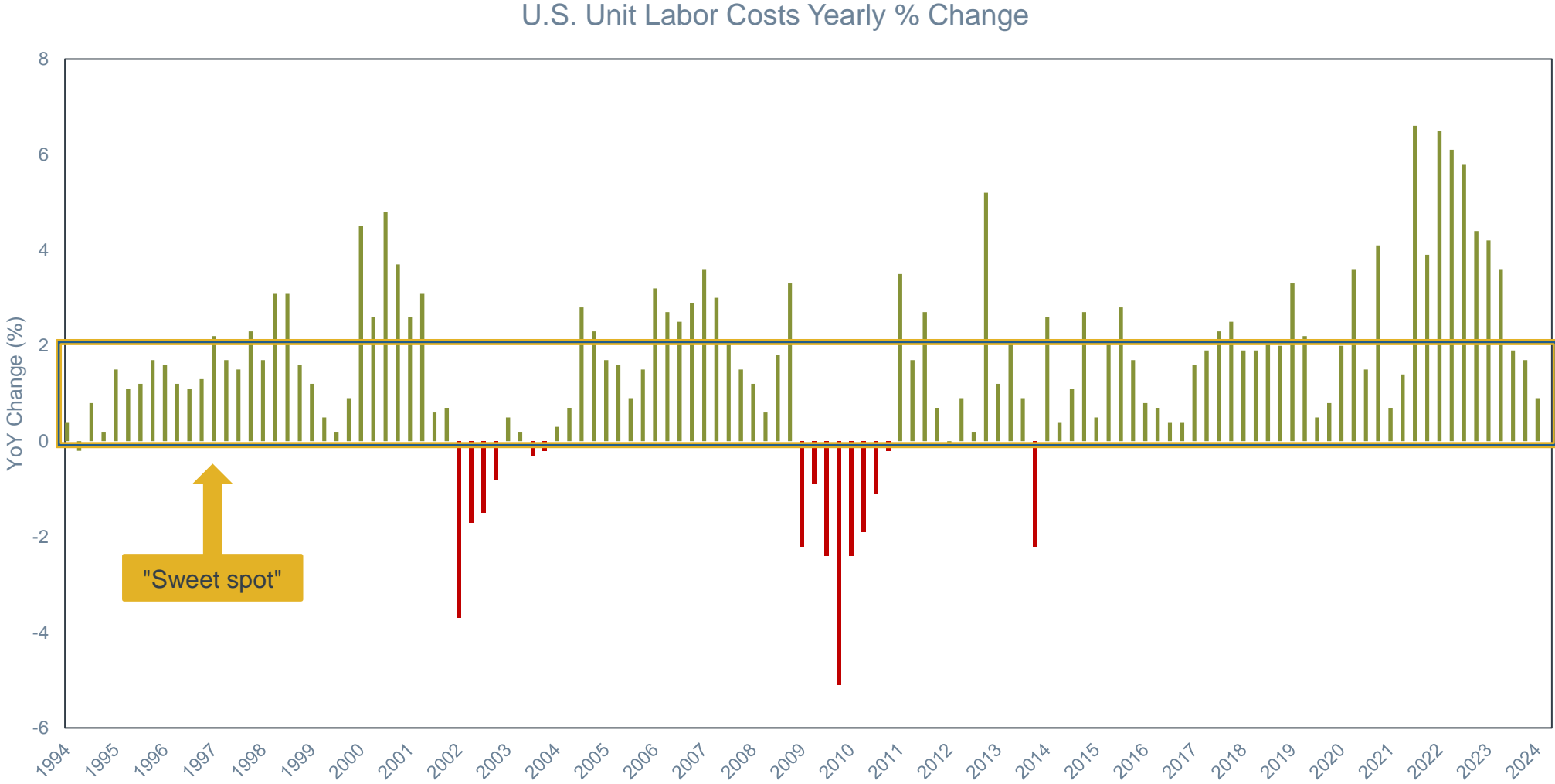


Source: Bloomberg, calculations by Horizon Investments 6/7/24

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Fears of a wage/price spiral have come down dramatically

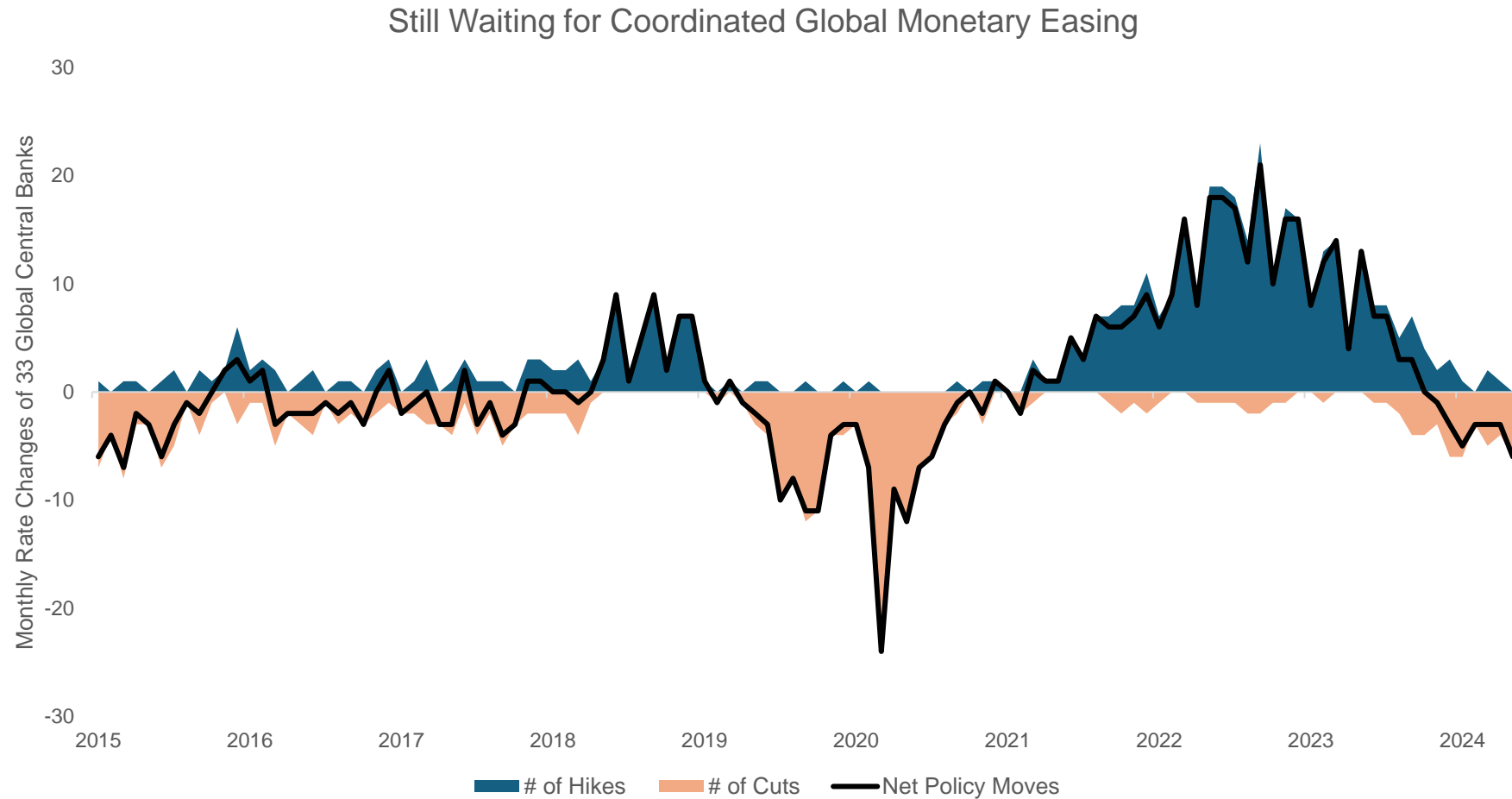


Source: Bloomberg, calculations by Horizon Investments, 6/7/24

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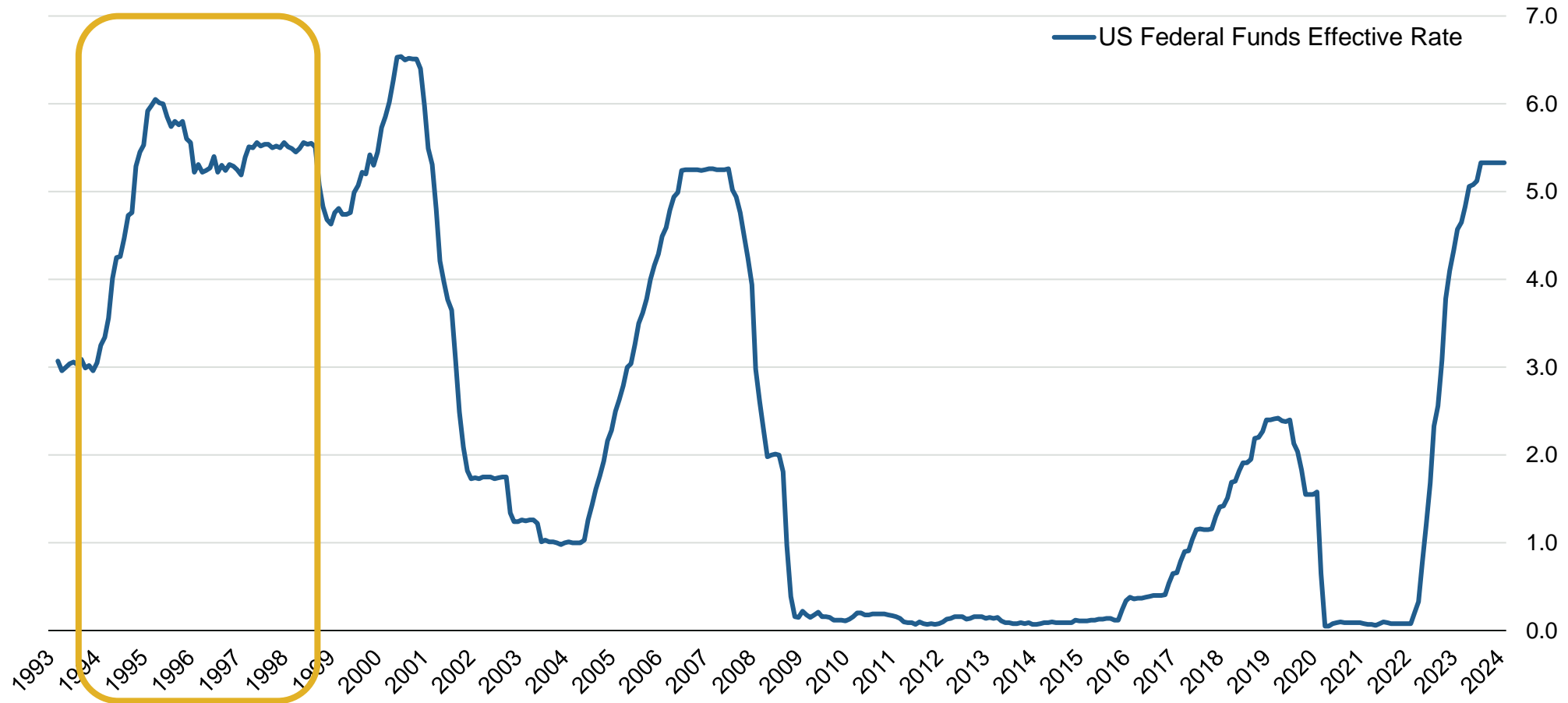
Resilient labor markets means easing hasn't fully begun



Source: Bloomberg, calculations by Horizon Investments, 4/30/24

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Mid-90s looks very familiar – higher for longer, anyone?

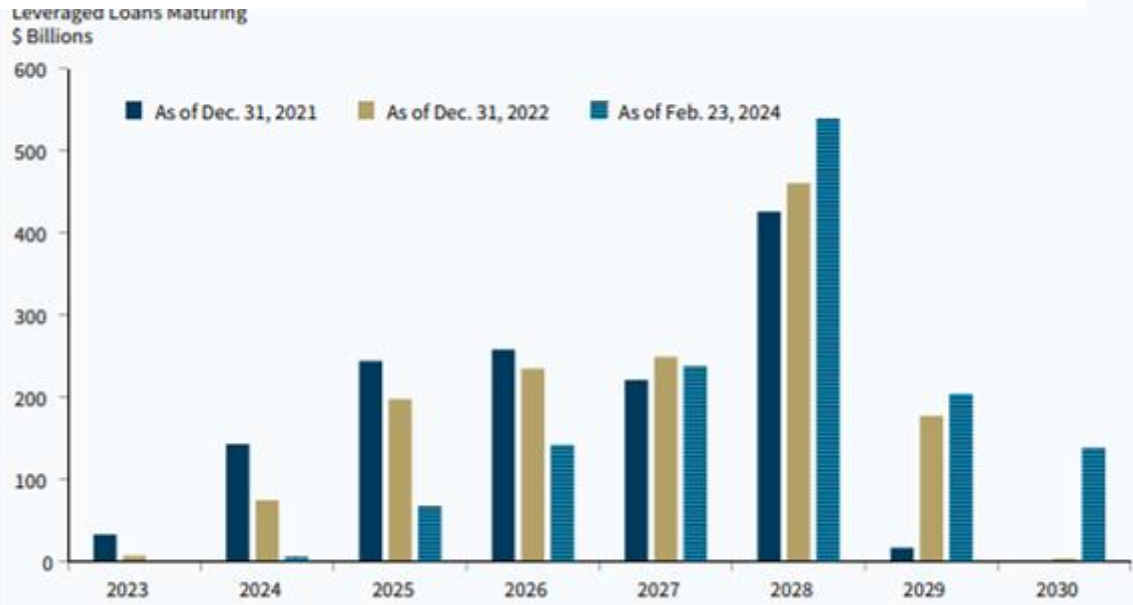


Source: Bloomberg, calculations by Horizon Investments, 3/31/24

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Corporates holding up well in the face of higher rates

Leveraged Loan Borrowers extended Maturities Into the Late 2020s, Reducing Near-Term Refinancing Risks

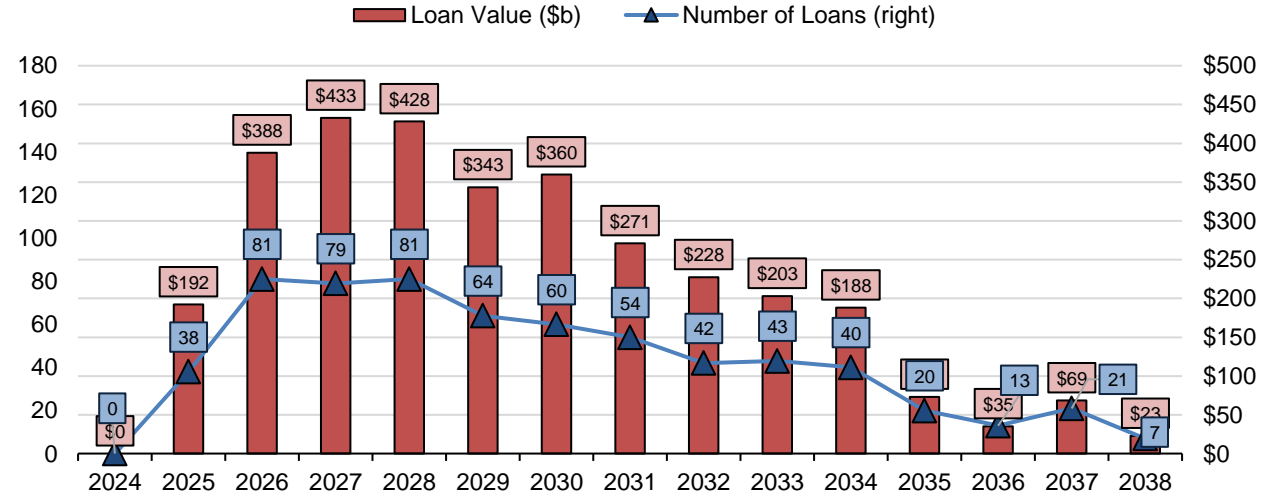


Source: PitchBook Leveraged Commentary & Data.

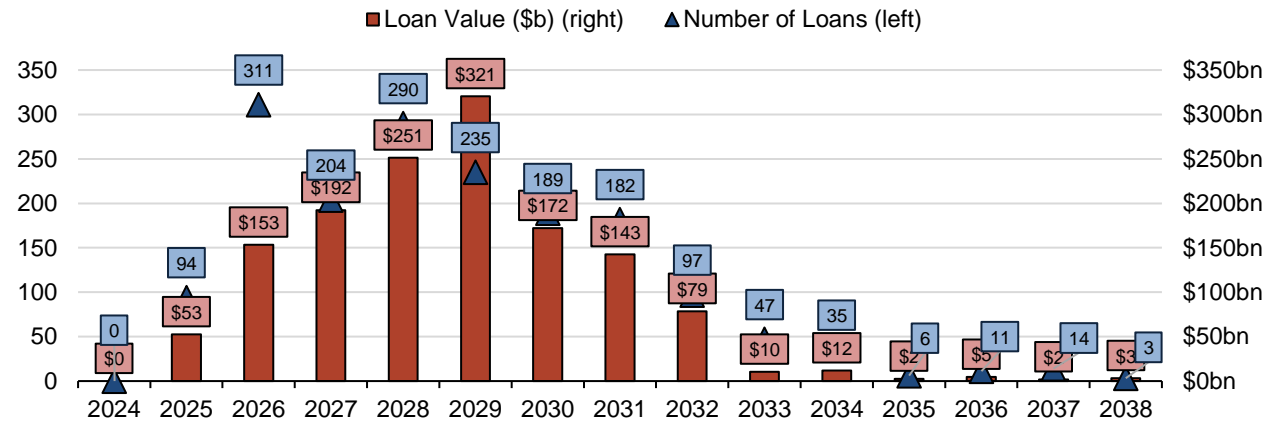
Source: FDIC, 5/29/24

The Bloomberg US Corporate Index measures the investment grade, fixed-rate, taxable corporate bond market. The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. It is not possible to invest directly in an index.

Investment Grade Corporate Credit* Maturity Wall
*Bloomberg US Corporate Index



High Yield Corporate Credit* Maturity Wall
*Bloomberg U.S. Corporate High Yield Index



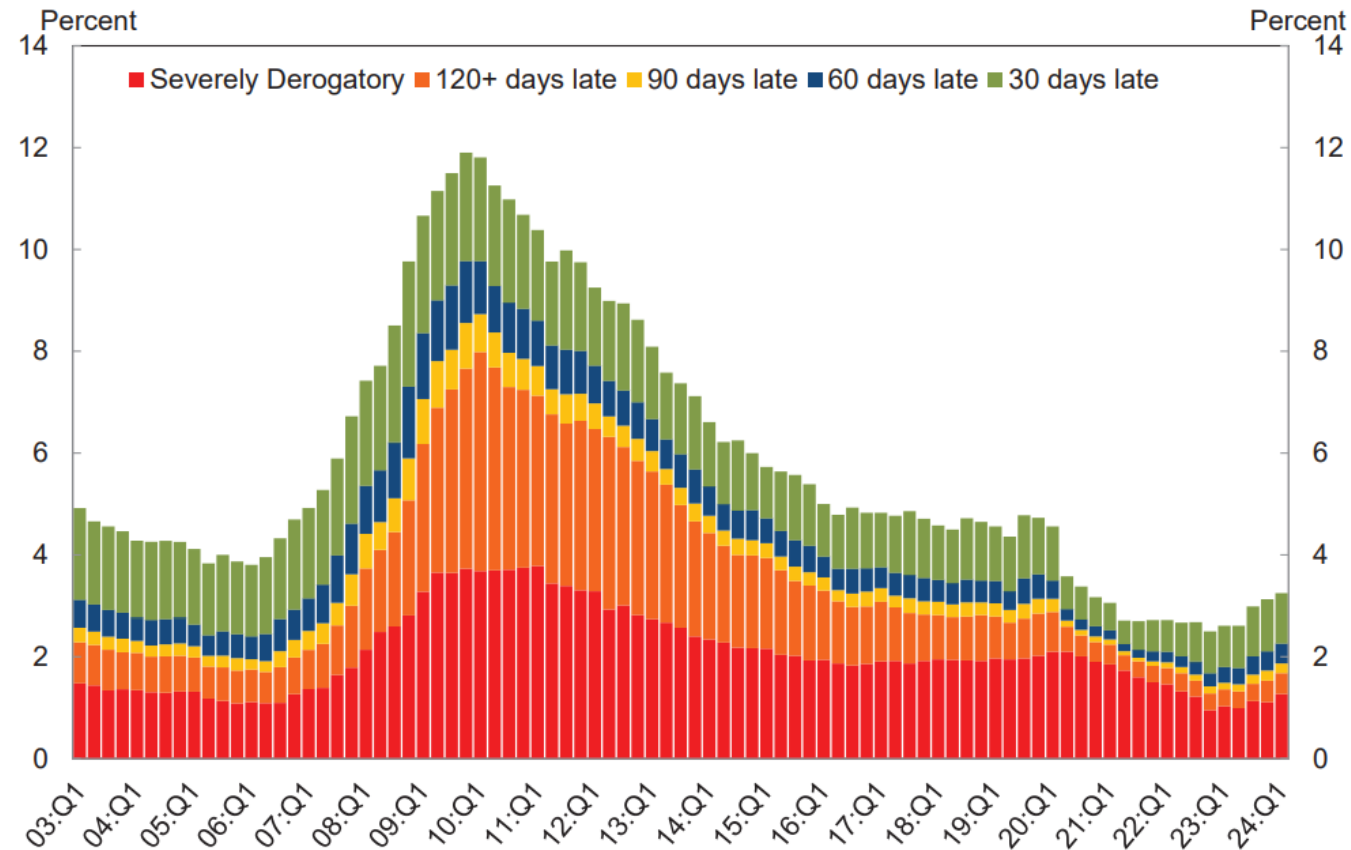
Source: Source: Bloomberg, calculations by Horizon Investments, 6/21/24

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Only small delinquency uptick despite what you're hearing

Total Balance by Delinquency Status



Source: New York Fed Consumer Credit Panel/Equifax

Recent CMBS losses can certainly generate headlines

AAA Holders of 1740 Broadway Commercial Mortgage Backed Security Gets hit
Lower ranking creditors are wiped out

Class	Original Balance	Bond Loss	Percentage loss	Original S&P Rating
A	\$157.5 m	\$40.3 m	26%	AAA
B	38.6	38.6	100	AA-
C	26.7	26.7	100	A-
D	32.8	32.8	100	BBB-
E	44.6	44.6	100	BB-
F	7.8	7.8	100	B+

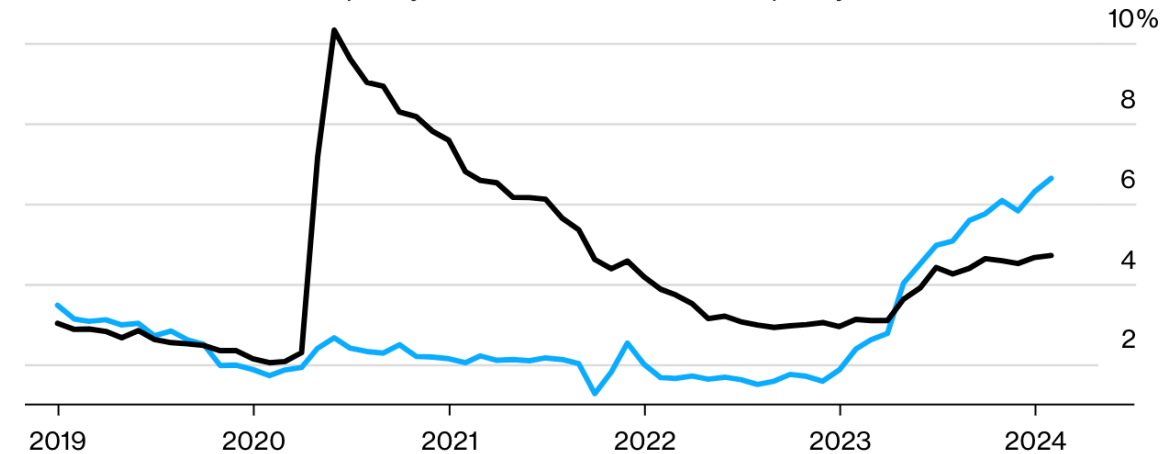
Source: Deutsche Bank AG

Source: Federal Reserve, 5/14/24

CMBS: Commercial Mortgage Backed Security
GFC: Great Financial Crisis

Office Loans Fall Behind on Payments

Overall US CMBS Delinquency Rate / Office CMBS Delinquency Rate

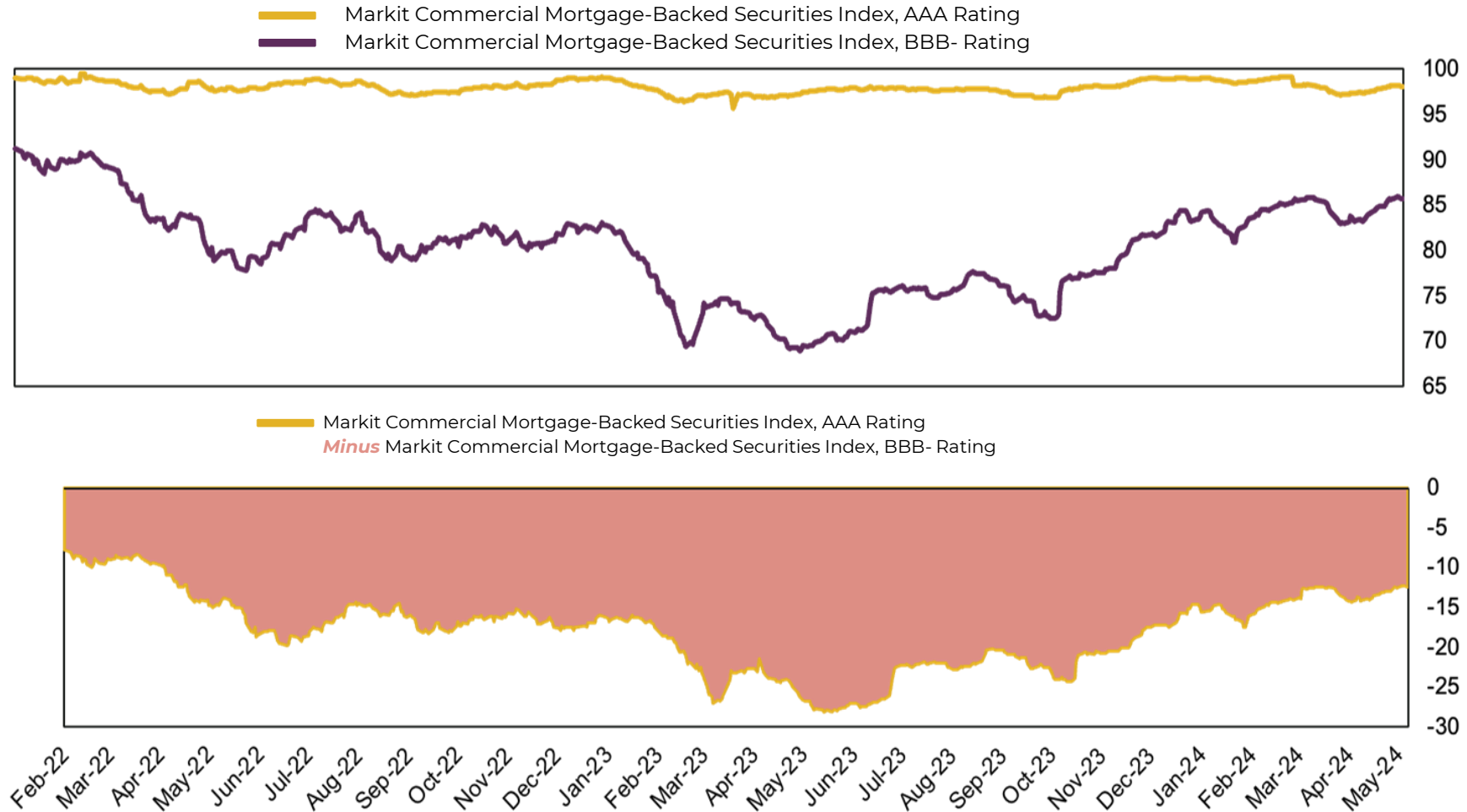


Source: Trepp

Note: Shows delinquency rate -- share of loans 30 or more days late on a payment -- for loans within commercial mortgage backed securities.

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But it's just not coming through in the overall CRE picture

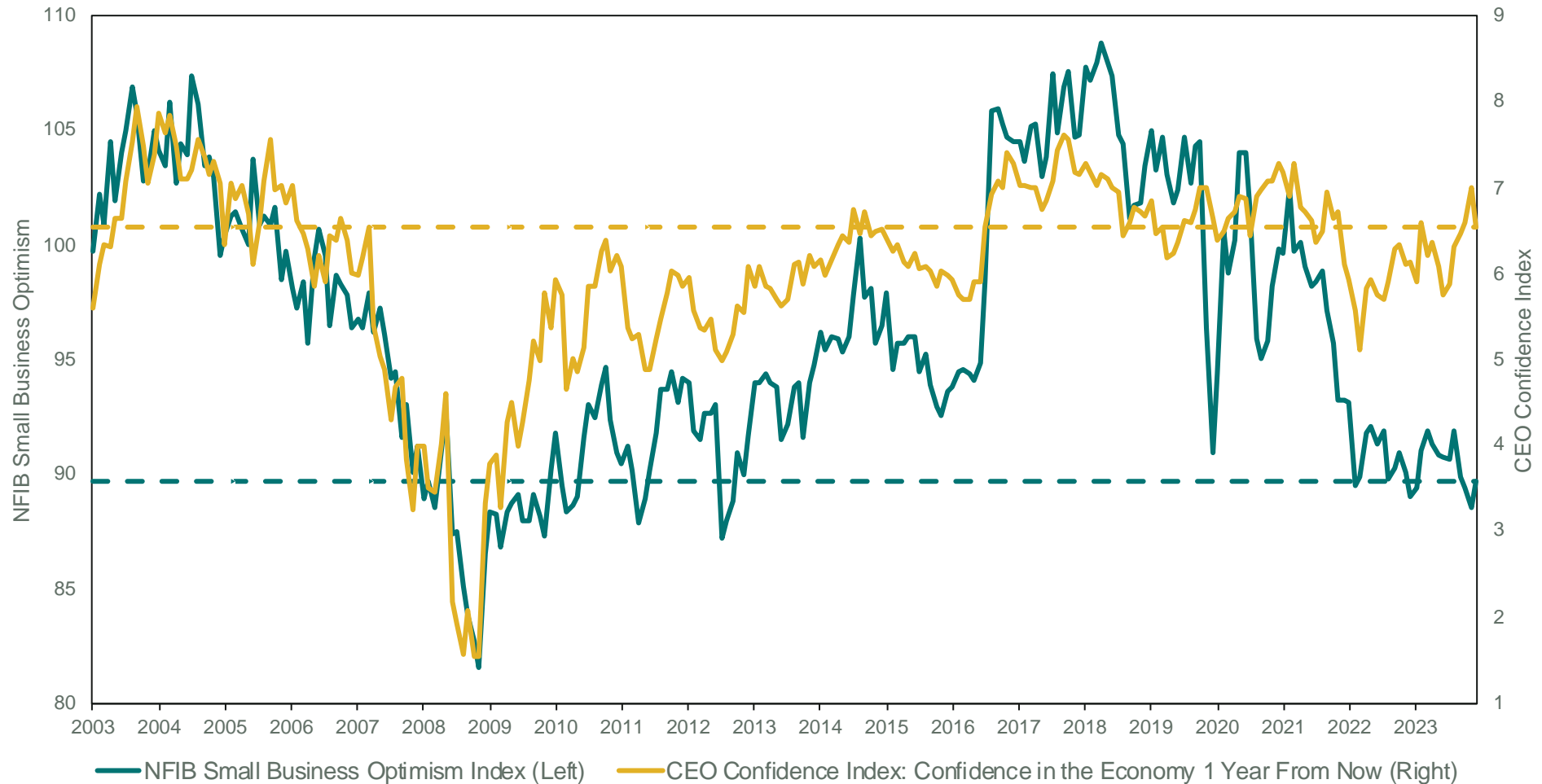


Source: Bloomberg, calculations by Horizon Investments, 5/24/24

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Small business confidence is ~~in the toilet~~ suboptimal



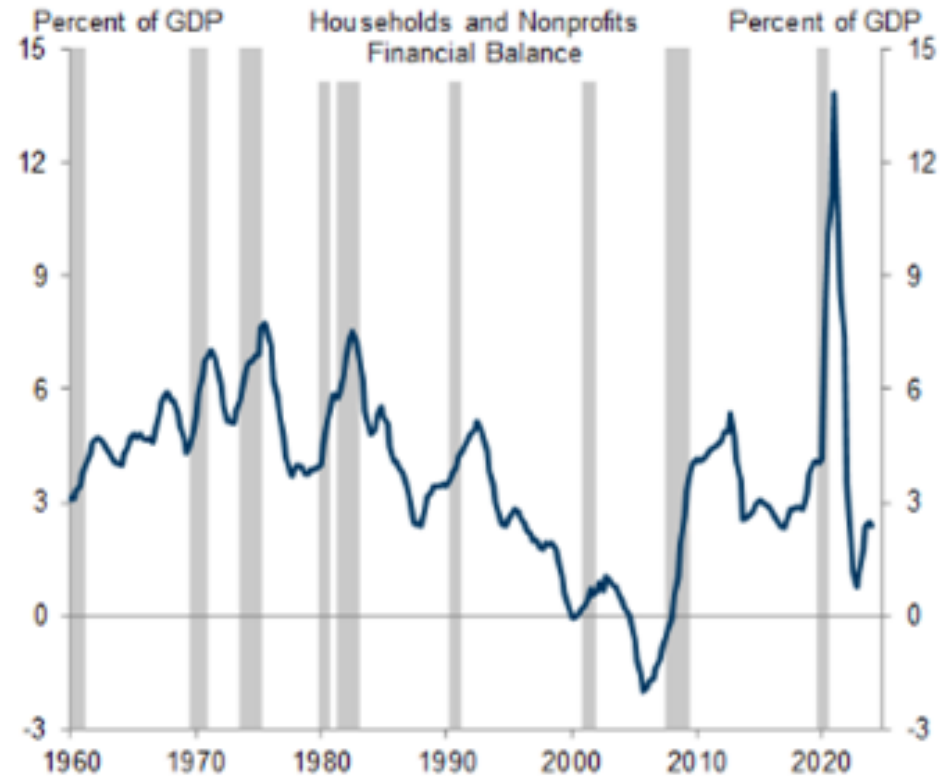
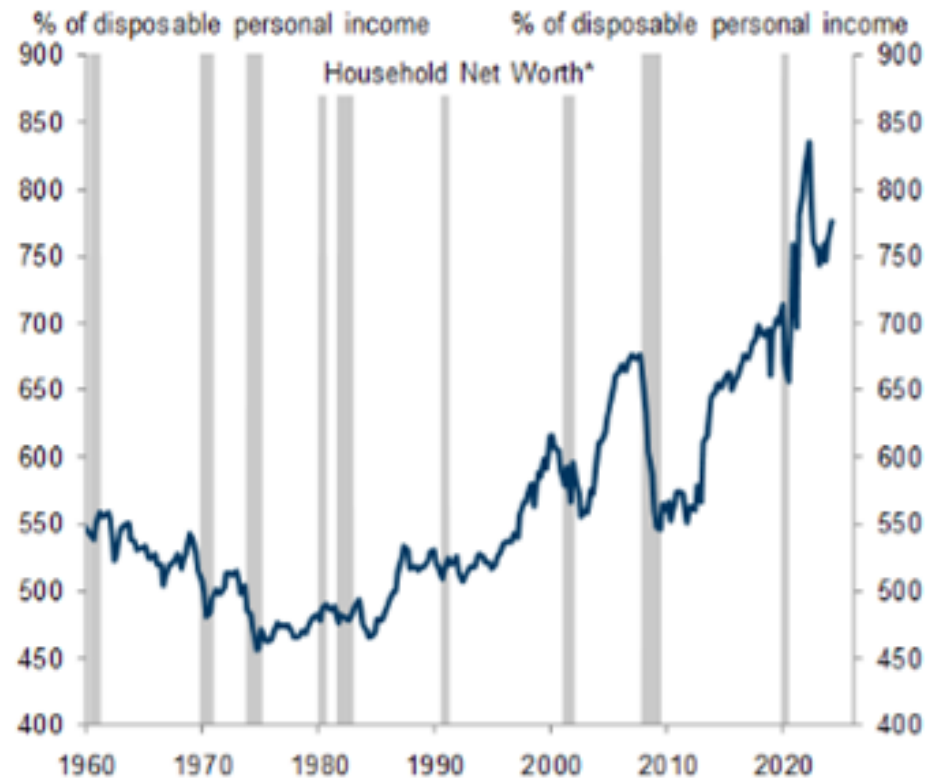
Source: Bloomberg, calculations by Horizon Investments, 5/23/24

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Economy: Consumer

Is this the picture of a “stretched/struggling” consumer?

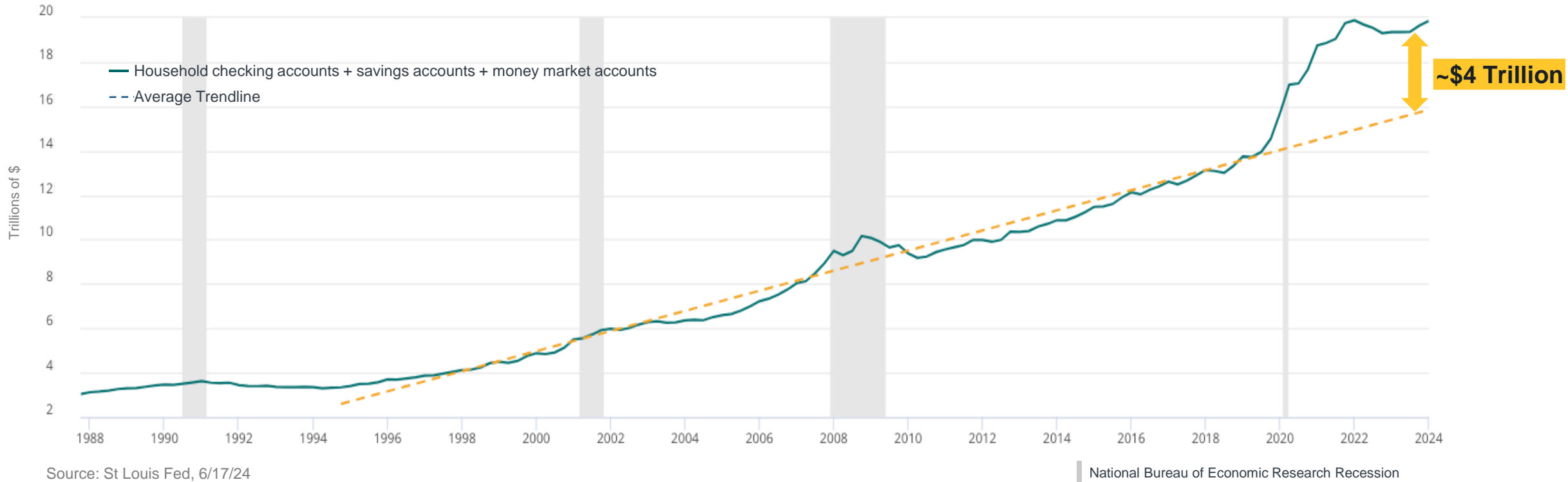


National Bureau of Economic Research Recession

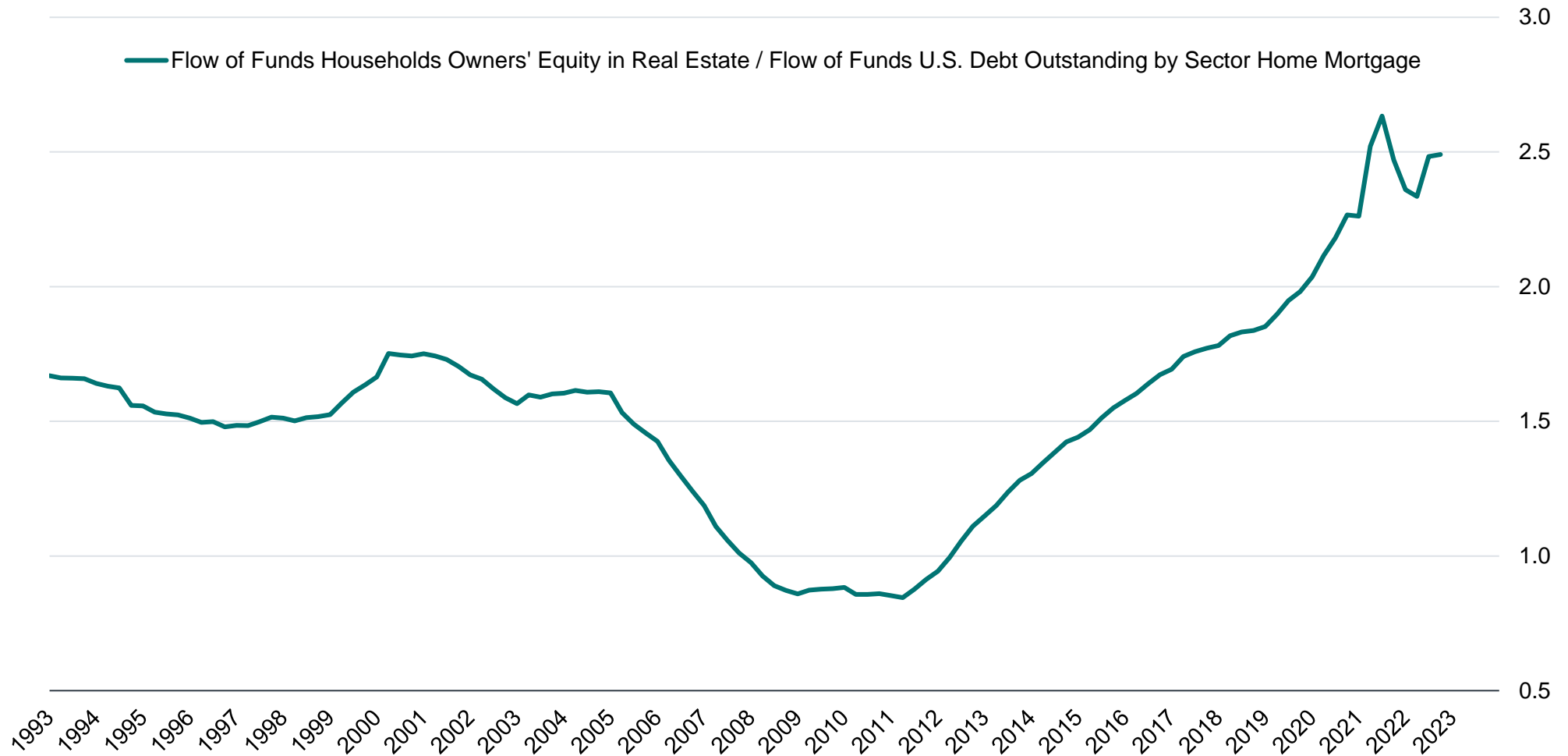
Source: Goldman Sachs, 6/24/24

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Consumers are far more flush than you may realize



U.S. households have a massive amount of home equity



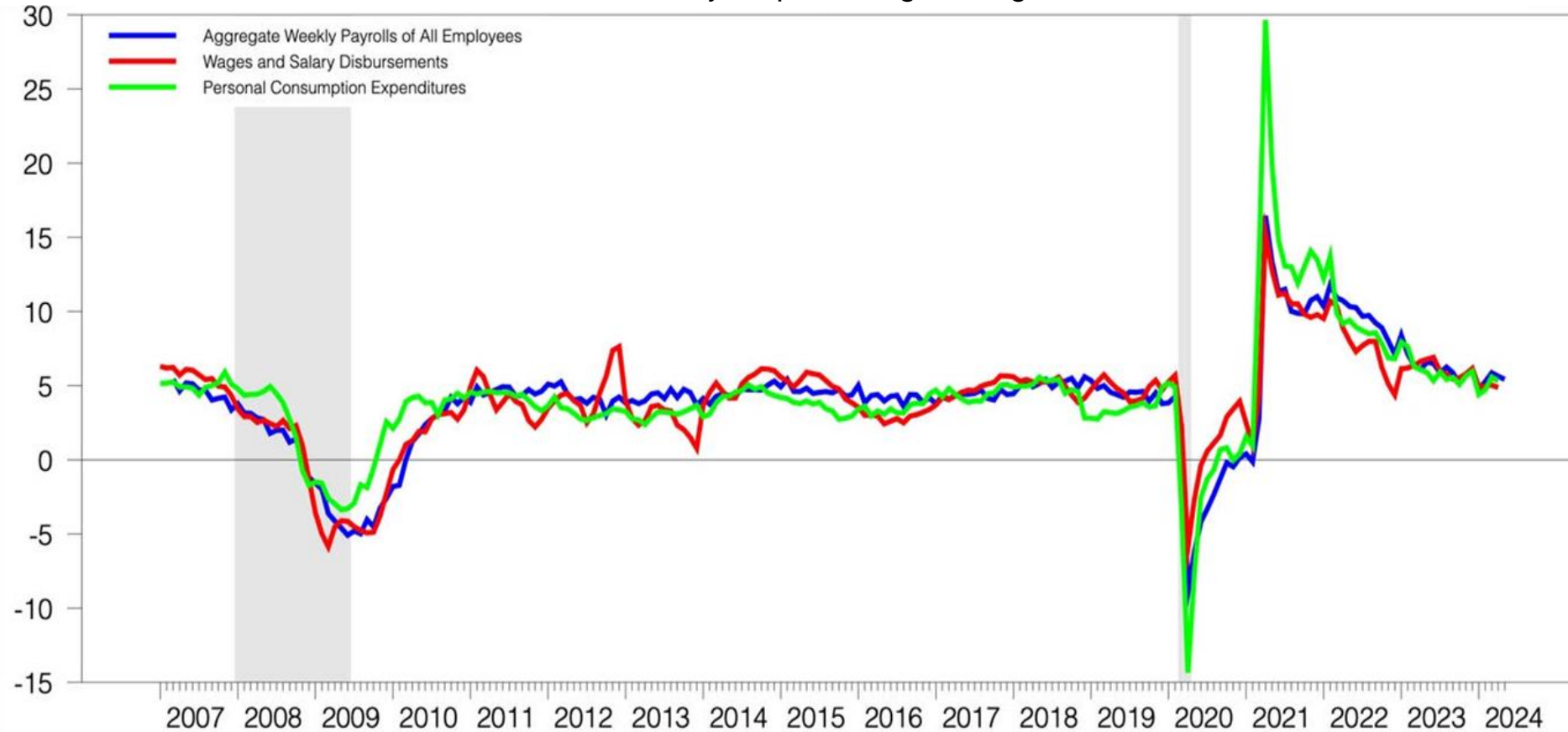
Source: Bloomberg, calculations by Horizon Investments, 6/18/24

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Most consumer stats are settling back down to “normal”

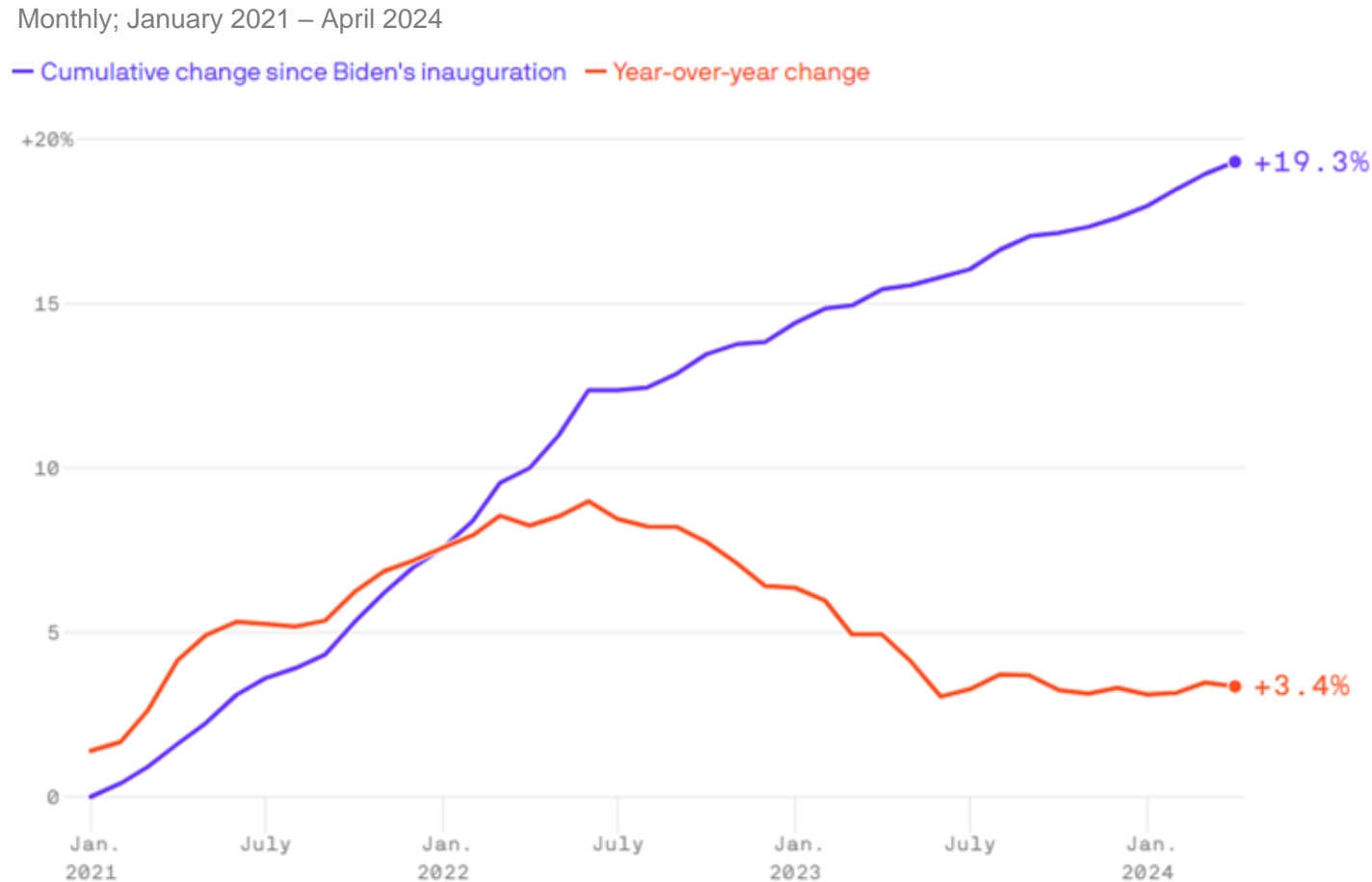
Weekly Payrolls, Wages and Salaries, and Personal Consumption Expenditures
Year-over-year percentage change



web: <https://www.sghmacro.com> * twitter: @timduy * data via fred/author's calculations * chart created: 06/20/2024 07:29

However, it will take time to normalize consumers' psyche

Change in the Consumer Price Index, as measured by "normal people" and economists



Source: Axios, 5/26/24

"Normal people" = non professional economists

An economist is a professional and practitioner in the social science discipline of economics.

The Consumer Price Index measures the overall change in consumer prices based on a representative basket of goods and services over time.

Data: BLS; Chart: Axios Visuals

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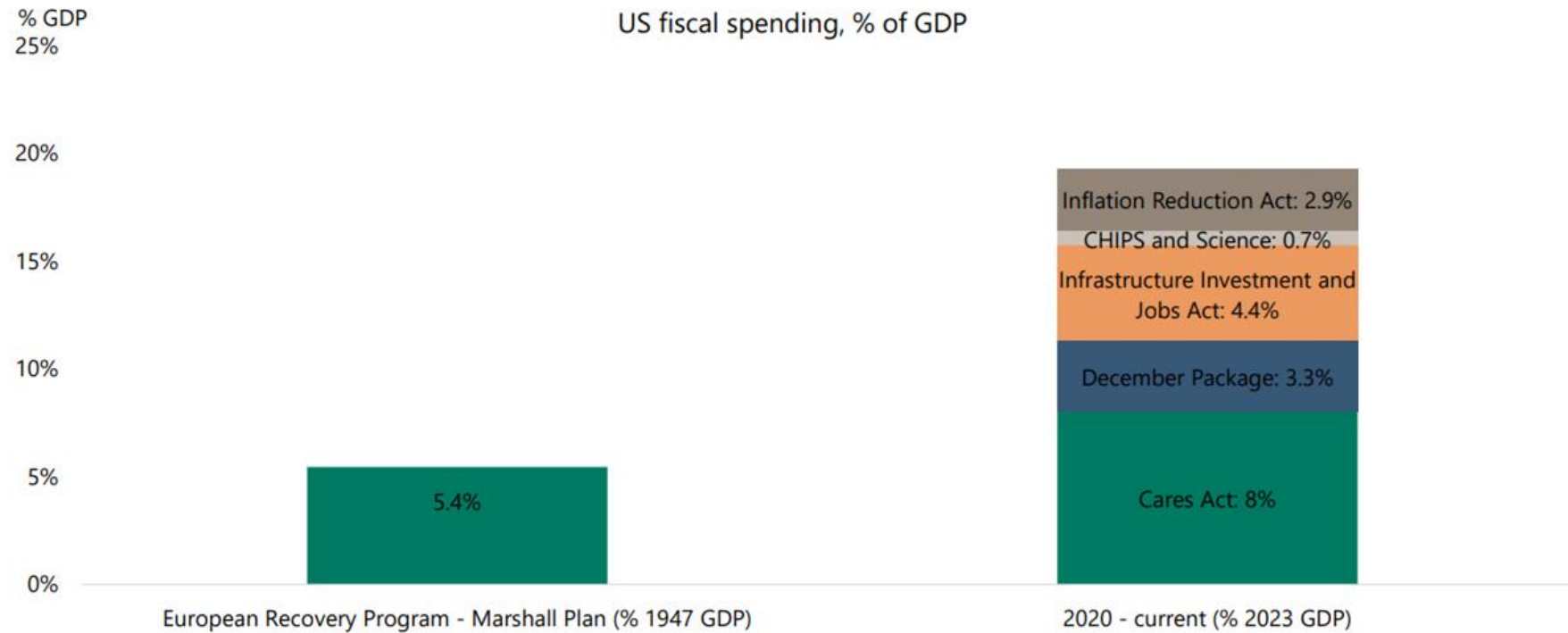
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Election

Here's a sense of how large the COVID response was

Marshall Plan: 5% of 1947 U.S. GDP
Covid response: 20% of 2023 U.S. GDP



Source: BEA, Haver Analytics, Apollo Chief Economist

Source: Apollo, 4/23/24

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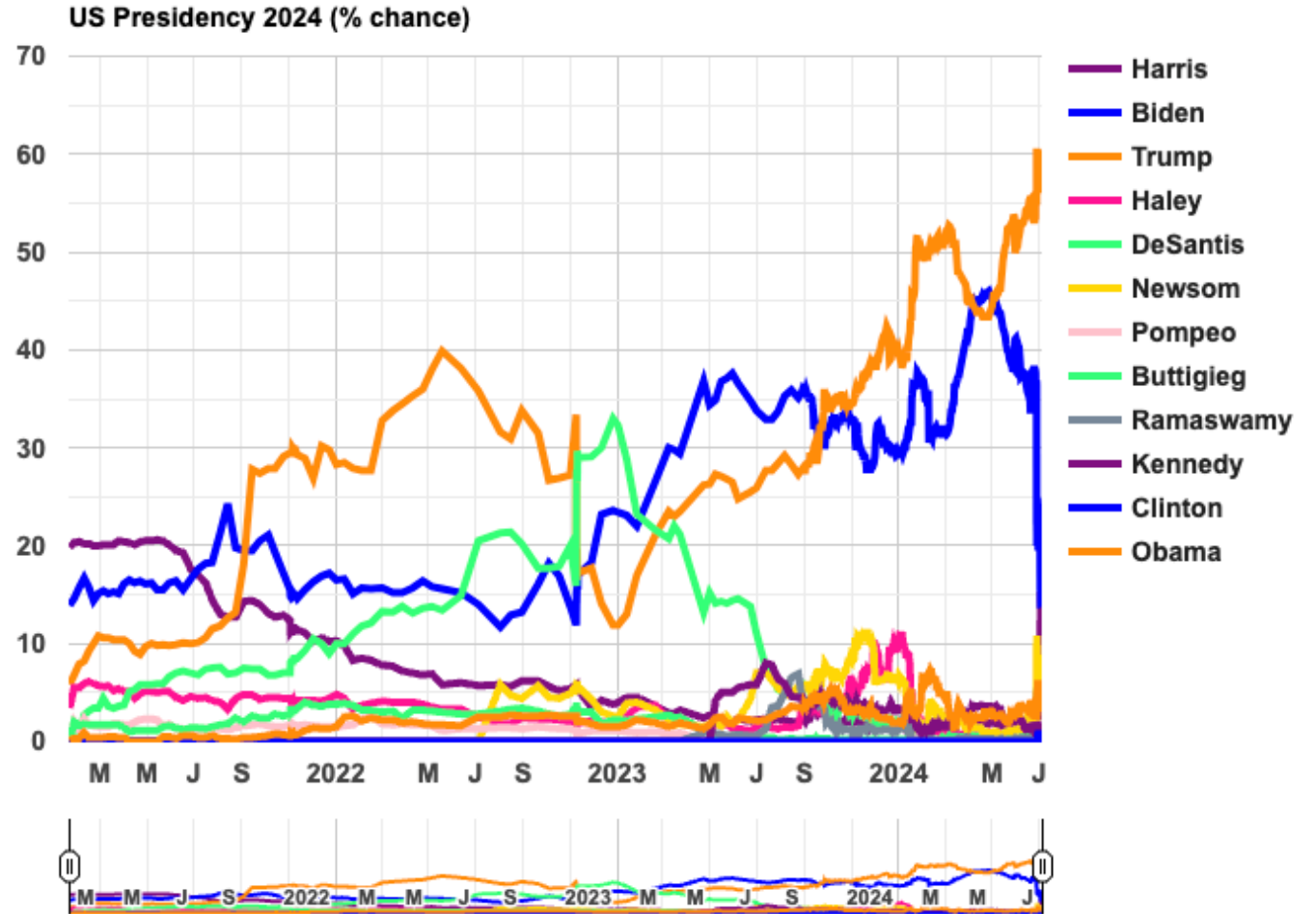
Presidential election cycle will likely be quite volatile

We, the incorrect people:

49% of Americans say stocks are down for the year

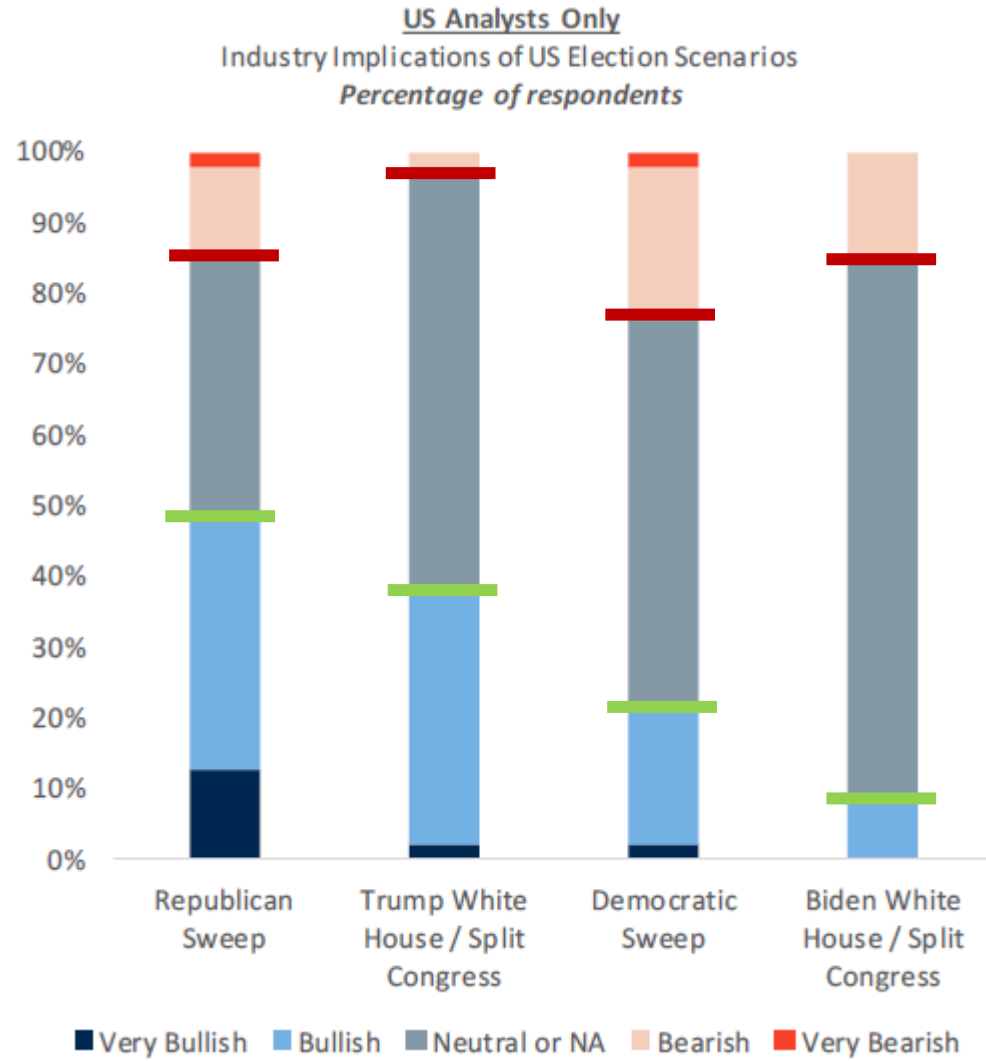
72% say inflation is rising

By Charles PassyVictor Reklaitis



Source: electionbettingodds.com, 7/03/24, 5:52 am; Bloomberg.com, 5/23/24

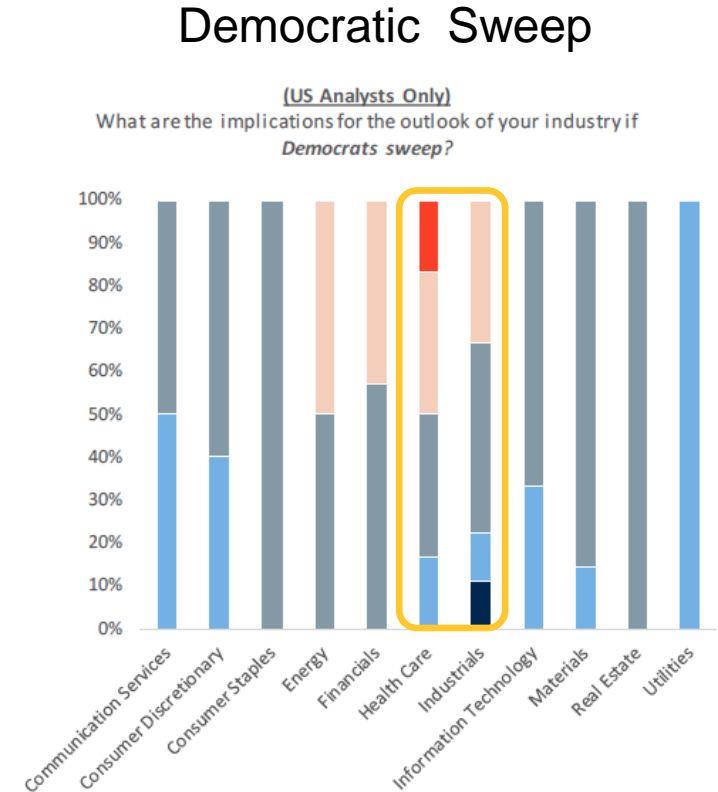
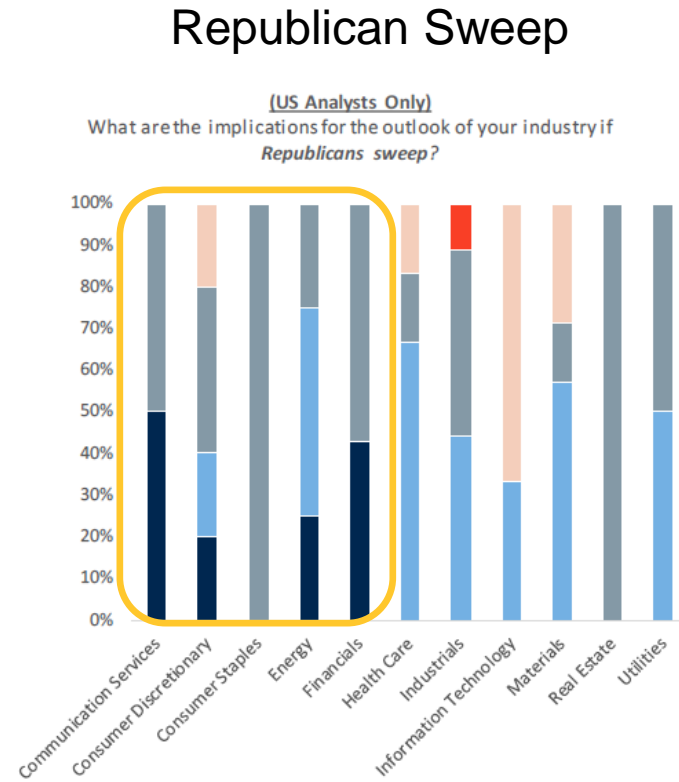
Despite palpable negativity, election isn't driving the market



Source: RBC Capital Markets, 5/15/24

Data above red bars is the total amount of a form of bearish

Data below the green bars is the total amount of some form of bullish



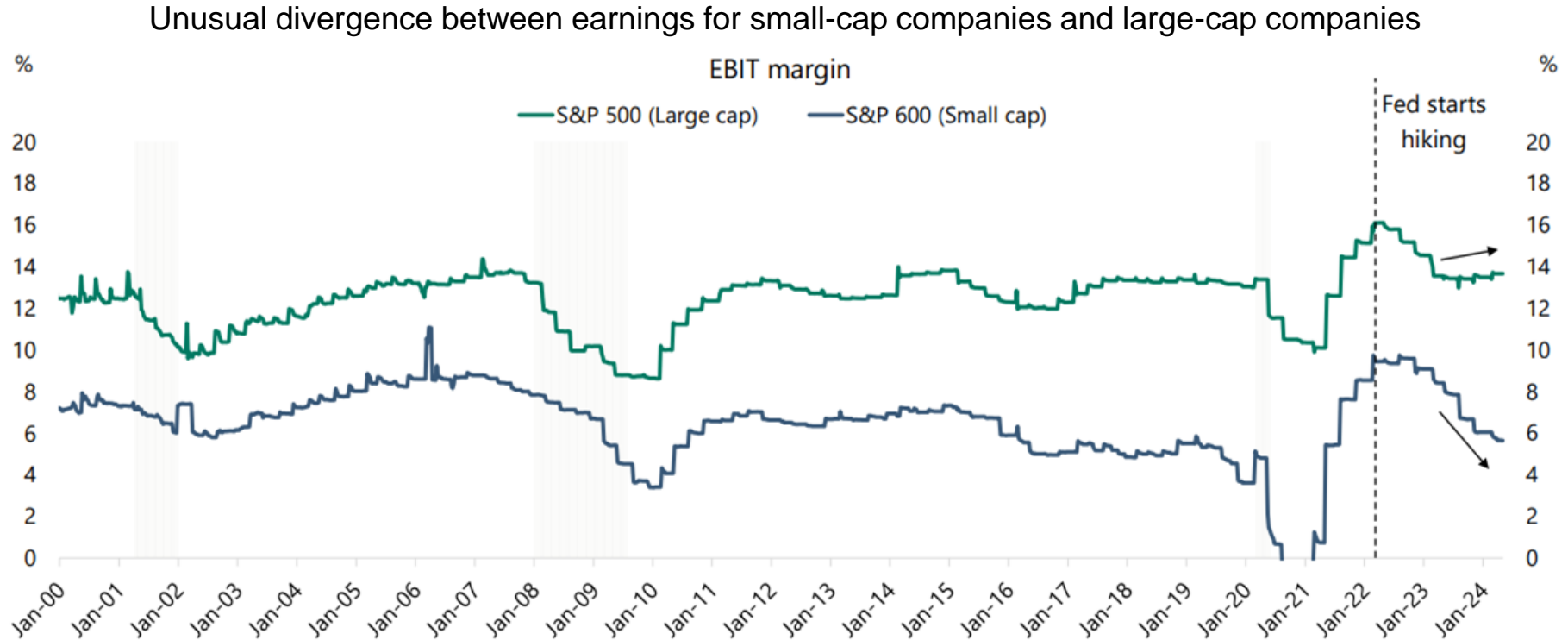
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Markets

A rotation into small caps needs a Fed cutting cycle



Source: Bloomberg, Apollo Chief Economist

EBIT margin, or earnings before interest and taxes margin, is a profitability ratio that measures a company's operating earnings as a percentage of its total revenue. The S&P 500 or Standard & Poor's 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. The S&P Small Cap 600 Index consists of 600 small-cap stocks. A small-cap company is generally defined as a stock with a market capitalization between \$300 million and \$2 billion. It is not possible to invest directly in an index. Source: Apollo, 5/10/24

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Market getting closer to not having “Fed angst” any more

Interest Rate Option Market: Daily change in the 2-year interest rate expected over the next 6 months

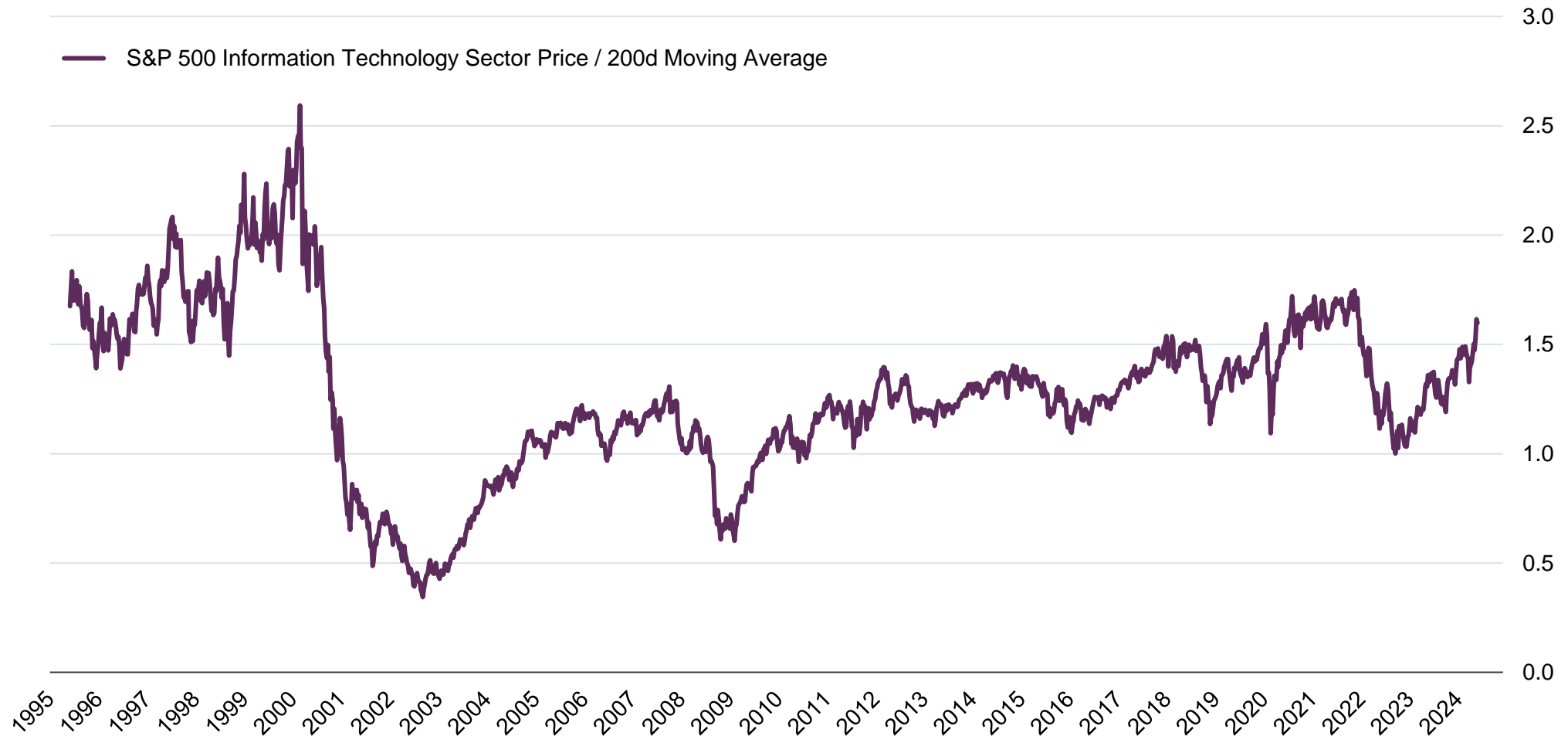


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Tech sector may be stretched, but nothing like the late 90s



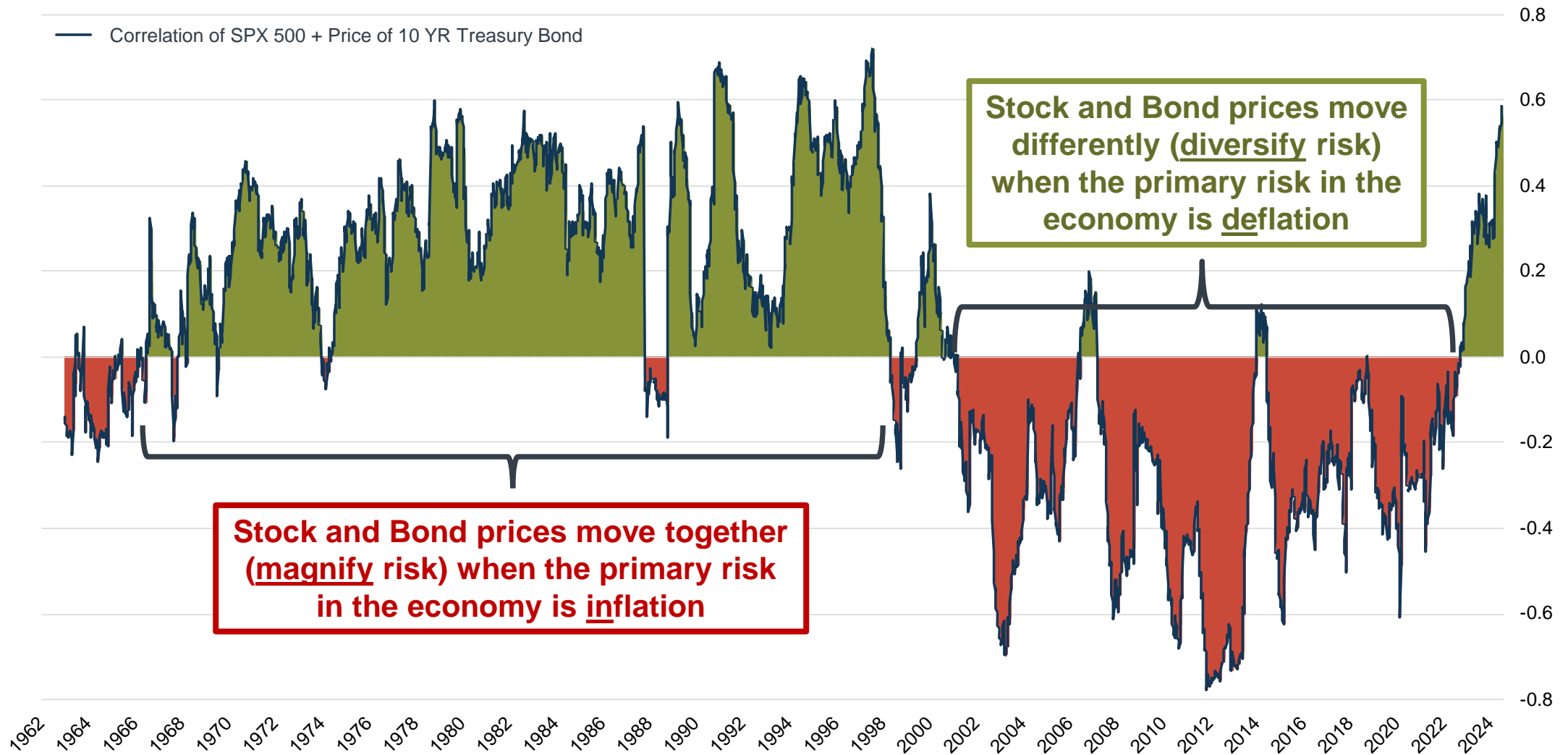
The S&P 500® Information Technology comprises those companies included in the S&P 500 that are classified as members of the GICS® information technology sector. It is not possible to invest directly in an index.

Source: Bloomberg, calculations by Horizon Investments, 6/24/24

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It's important to understand the role of bonds



Source: Bloomberg, calculations by Horizon Investments, 4/30/24

SPX= S&P 500 Index The S&P 500 or Standard & Poor's 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. It is not possible to invest directly in an index.

GT 10 Govt= U.S. 10 Year Treasury

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Takeaways

- AI will likely continue to be a driving factor if it can boost productivity growth like we've seen in recent years.
- Despite a cooling of the labor market, we are by no means in a troubling spot, which could mean that the Fed is willing to keep rates higher for longer.
- Even with all the negativity and volatility, this election (just like most others) should not drive market dynamics over the medium or long term.
- While it may seem a bit stretched, there are some major differences between the tech sector today and the late 1990s, suggesting that we're not in the same bubble territory we were in back then.

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