MERIDIAN
Financial Partners
Clarify the path. Enjoy the journey.

Quarterly Review + Market Outlook

October 8, 2024

MERIDIAN
Financial Partners
Clarify the path. Enjoy the journey.

Agenda

- A Return Towards Normal?
- Economy
- Consumer
- Markets

AI:
Why it Matters to Markets

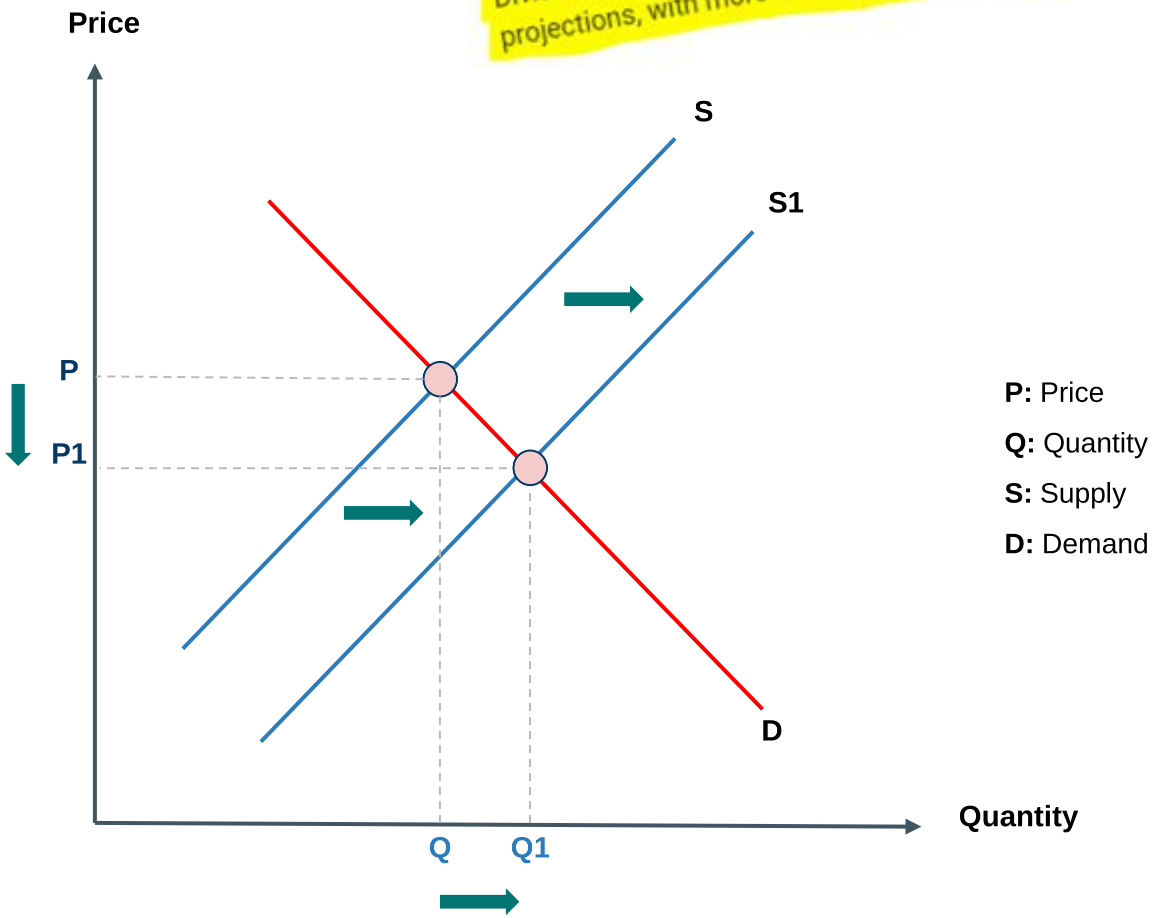
AI Impacts Productivity

J.P. Morgan Puts AI Savings at $2B

Dividends from technology investment have nearly doubled from early projections, with more "big impacts" expected.

- IGNITES, 2024

- Productivity is how much we can produce with the same (or less) amount of work
- Productivity works through the **SUPPLY SIDE** of the economy



Oracle reports rising top line as it hooks up database service to AWS

Ellison, who celebrated his 80th birthday during the quarter, explained that the company's so-called Autonomous Database helped improve the bottom line.

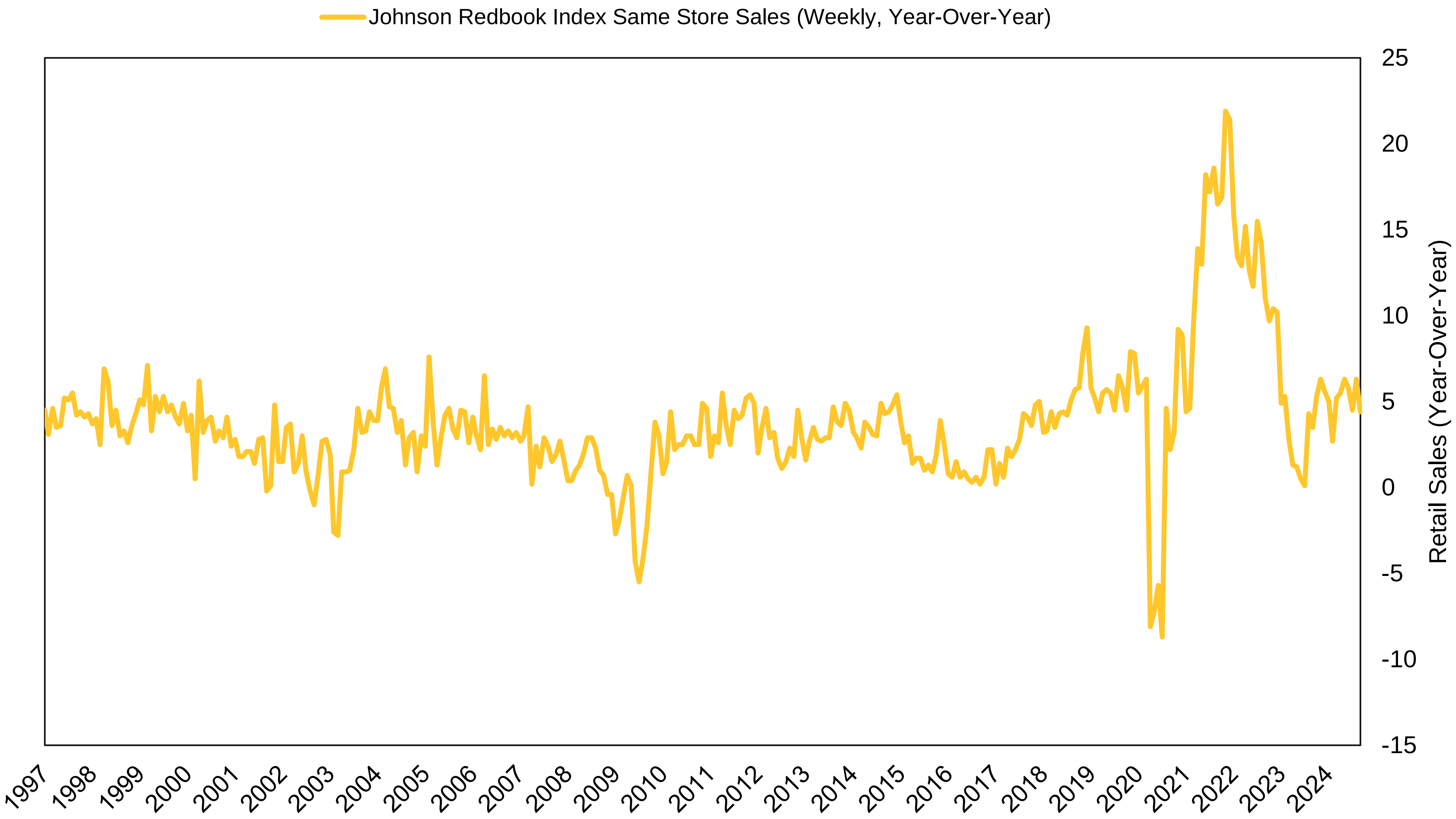
"It's fully automated, no human labor, much more secure. The margins for the autonomous database business is much higher or much higher than the traditional Oracle business. Those margins are stunningly high."

- The Register, 2024

MERIDIAN Financial Partners

Economy: Returning to Normal

Retail sales are back to normal

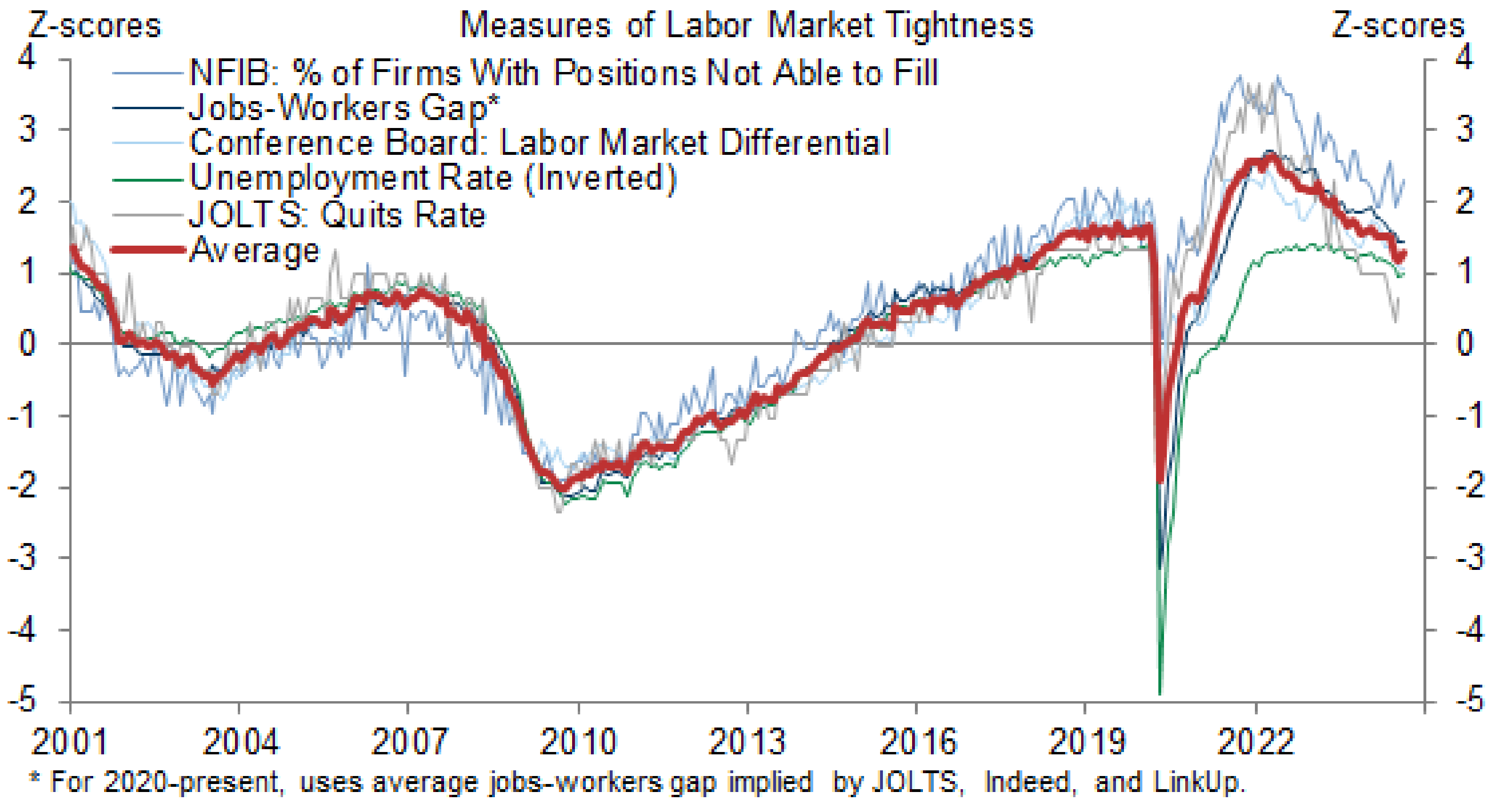


Source: Bloomberg, calculations by Horizon Investments 8/26/24

The Johnson Redbook Index is a sales-weighted of year-over-year same-store sales growth in a sample of large US general merchandise retailers representing about 9,000 stores.

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

No matter how you define it – the labor market is normalizing

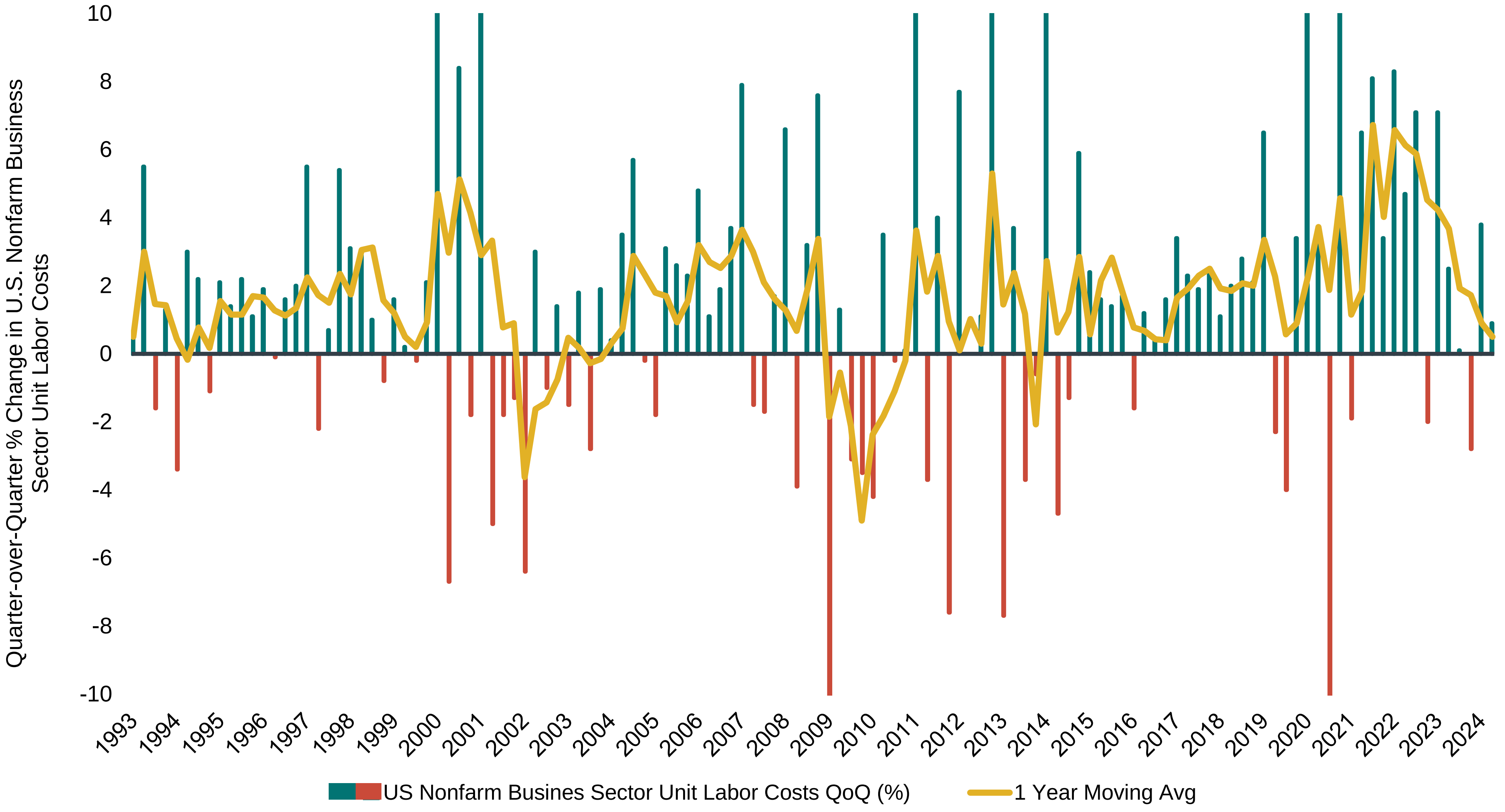


Source: Goldman Sachs, 9/15/24

NFIB: The National Federation of Independent Business
JOLTS: Job Opening and Labor Turnover Summary
Conference Board Labor Market Differential is an indicator that takes the percentage of consumers who say jobs are plentiful and subtracts the percent that says jobs are hard to find

Same story, different data set: Unit Labor Costs

Cost per worker after accounting for productivity gains is back to **normal**

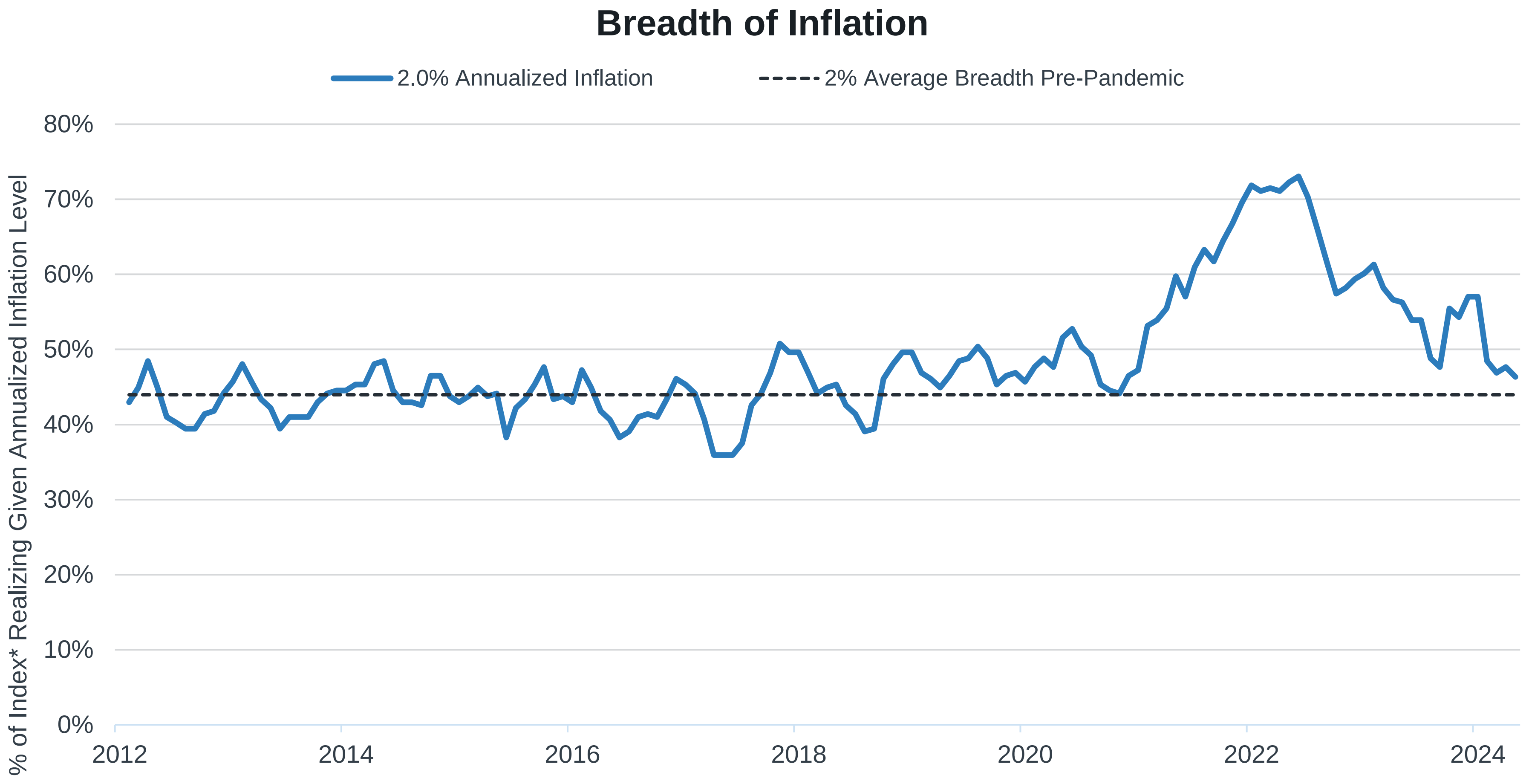


Source: Bloomberg, calculations by Horizon Investments 8/21/24

MERIDIAN Financial Partners

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

Same story, different data set: Breadth of Inflation



Source: Bloomberg, calculations by Horizon Investments 7/31/2024

Not just wage inflation normalizing, but a broad swath of prices have also **normalized**.

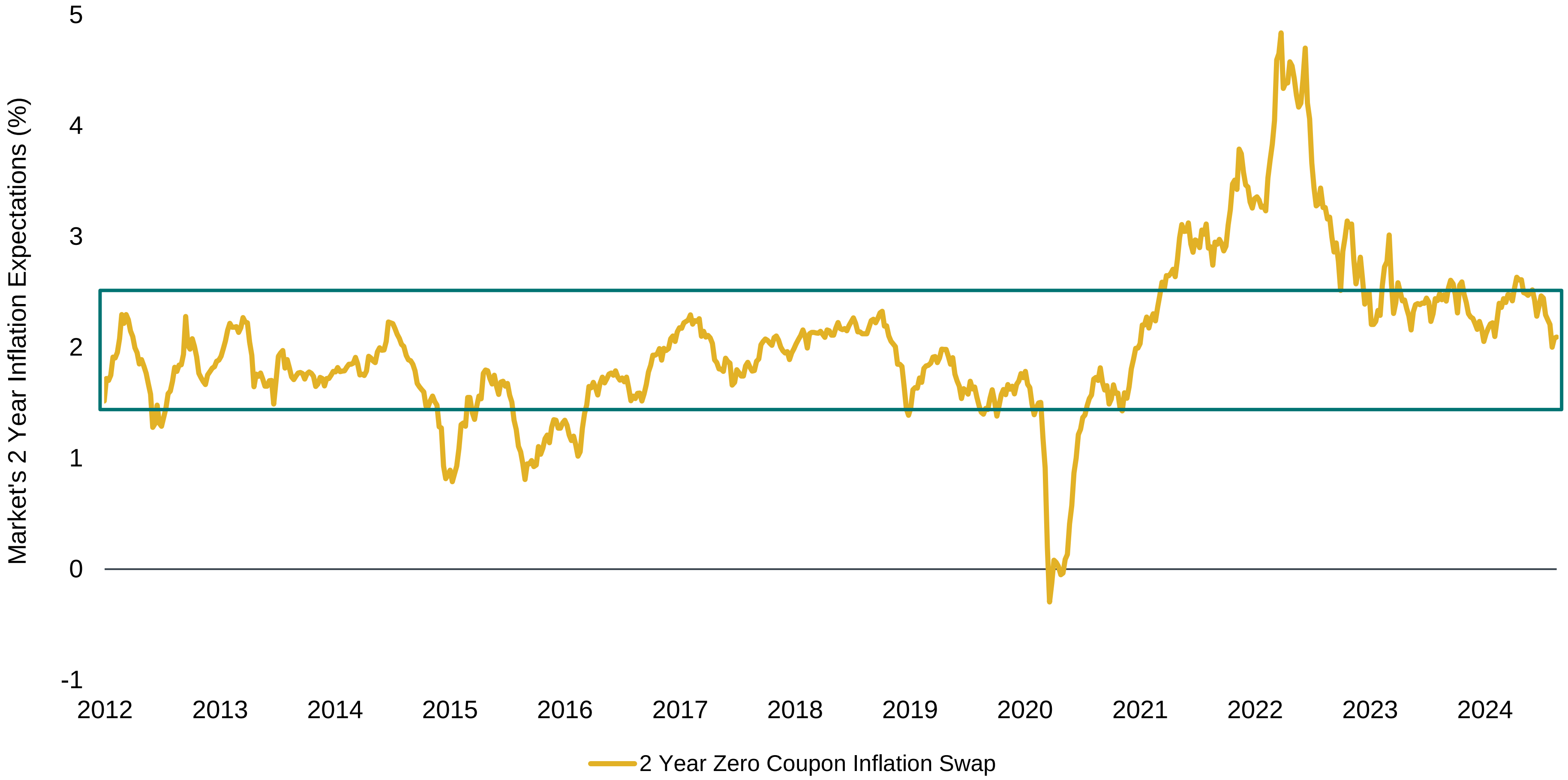
MERIDIAN Financial Partners

**Calculation only looks at categories with a CPI index weight greater than or equal to 0.25% as of the July 2024 CPI Report*

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

Same story, different data set: Market's Inflation Expectations

The market's expectation of inflation expectations for the next two years has **normalized**.

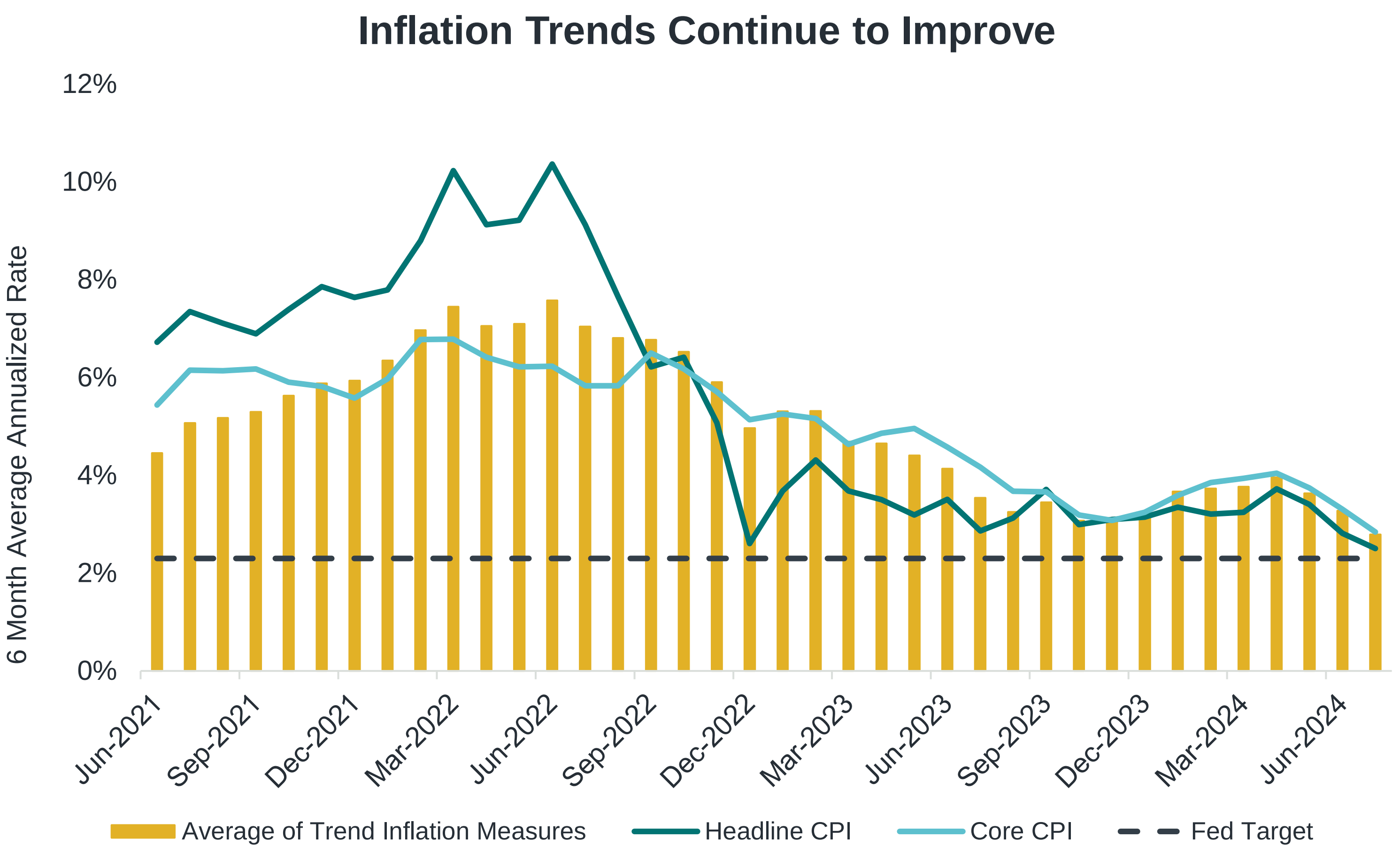


Source: Bloomberg, calculations by Horizon Investments 8/21/24

MERIDIAN Financial Partners

Inflation Trends

- Multiple measures of Labor Market
- Unit Labor costs normal
- Inflation breadth normal
- Inflation future expectations normal
- **Normalized Inflation**



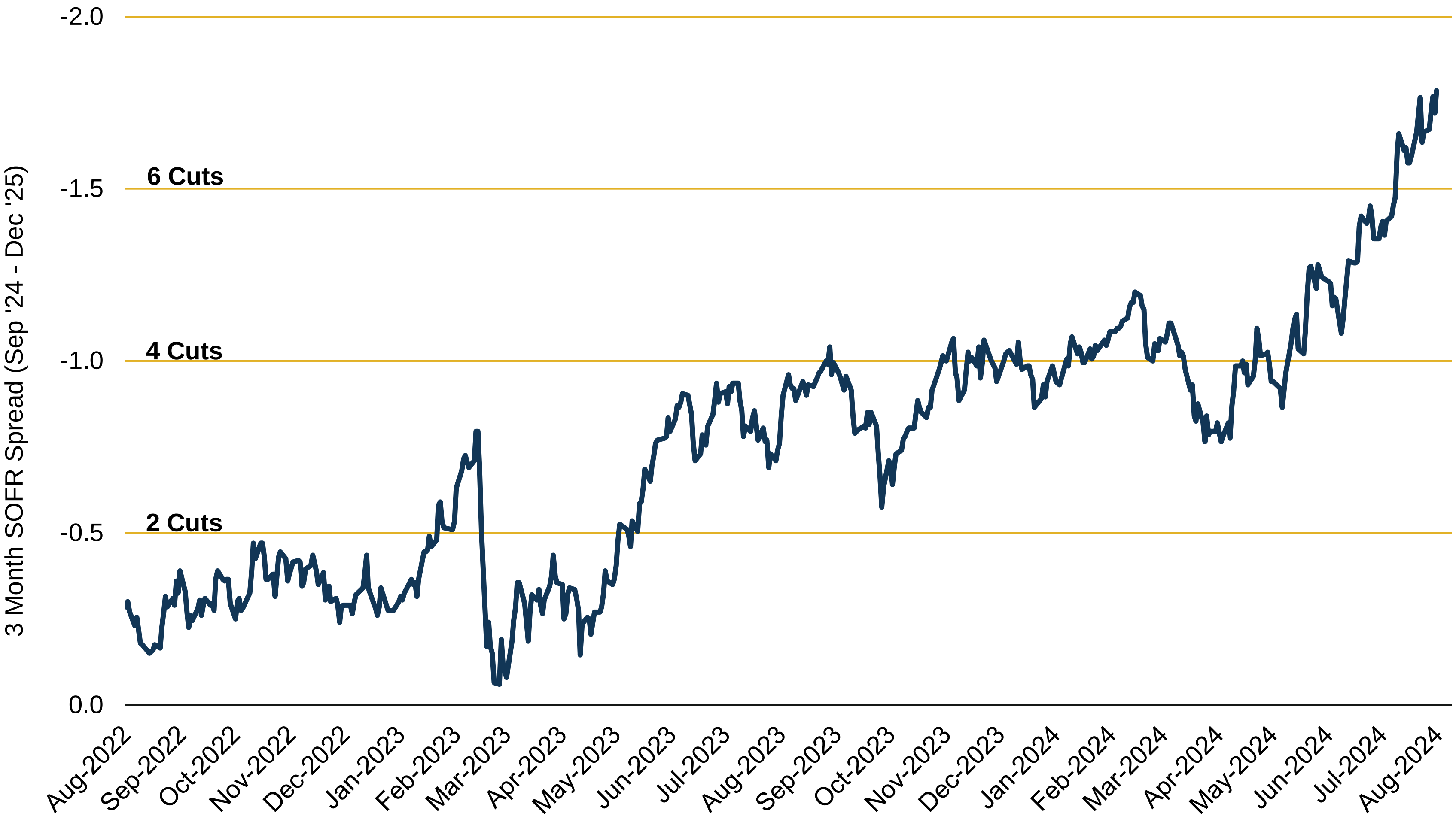
Source: Bloomberg, calculations by Horizon Investments 8/14/24

Headline CPI: Measures the average change in prices for a representative basket of goods and services over time.
Core CPI: Measure of the average change in prices for a representative basket or goods and services, excluding volatile items like food and energy, over time
Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

Oh, and don't forget the Fed is "back to normal," as well

Fed being back to fighting primarily against labor market weakness (rather than primarily against inflation) means that the "Fed Put" is back to its **normal** prominence

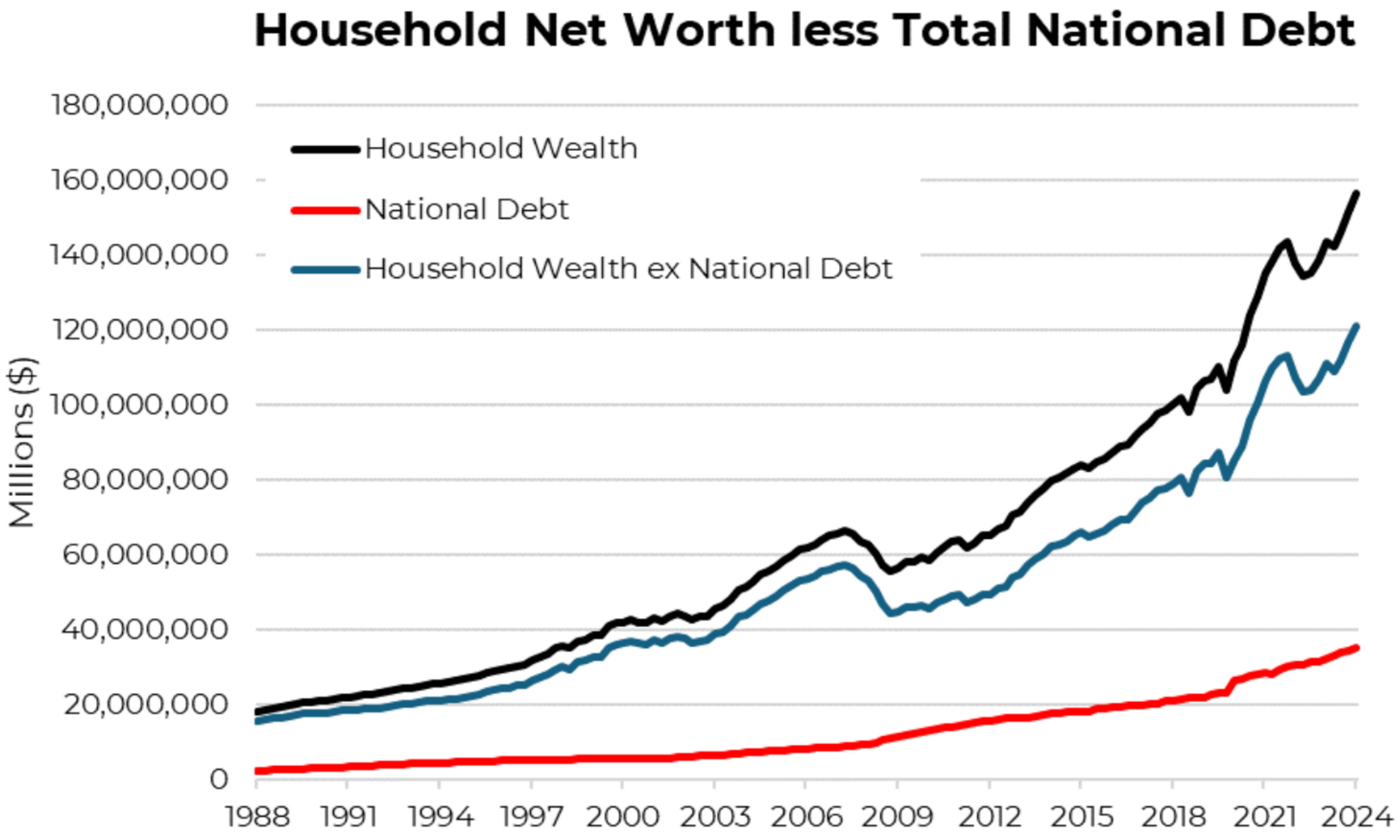
Number of 25bp Fed cuts market is pricing from September 2024 - December 2025



Source: Bloomberg, calculations by Horizon Investments 8/23/24
Federal Funds rate estimated using Secured Overnight Financing Rate (SOFR) futures contracts.

Consumer

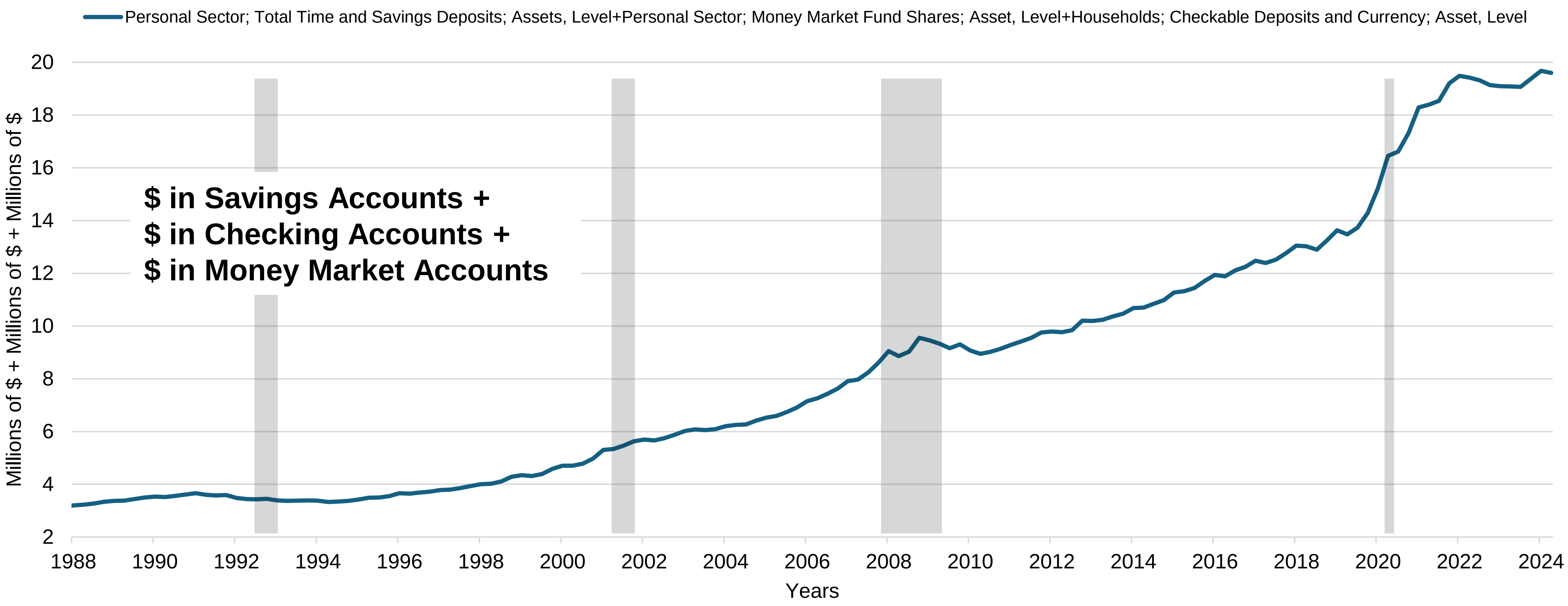
Don’t forget both sides of the consumer’s balance sheet



Source: X (@EconomPic), 9/24/24

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

And considering TOTAL U.S. consumer liquidity – they're still flush



Shaded areas indicate US recessions.

Source: Federal Reserve, 9/25/24

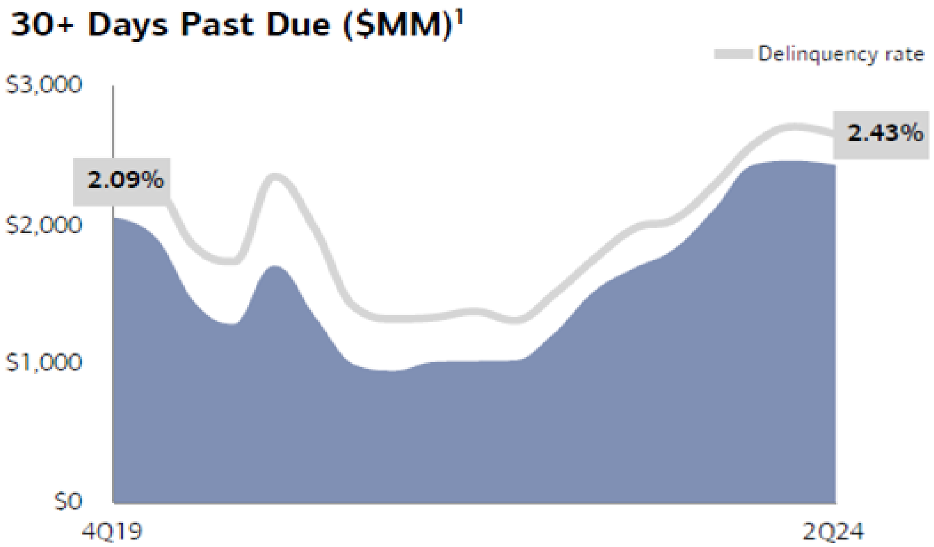
MERIDIAN Financial Partners

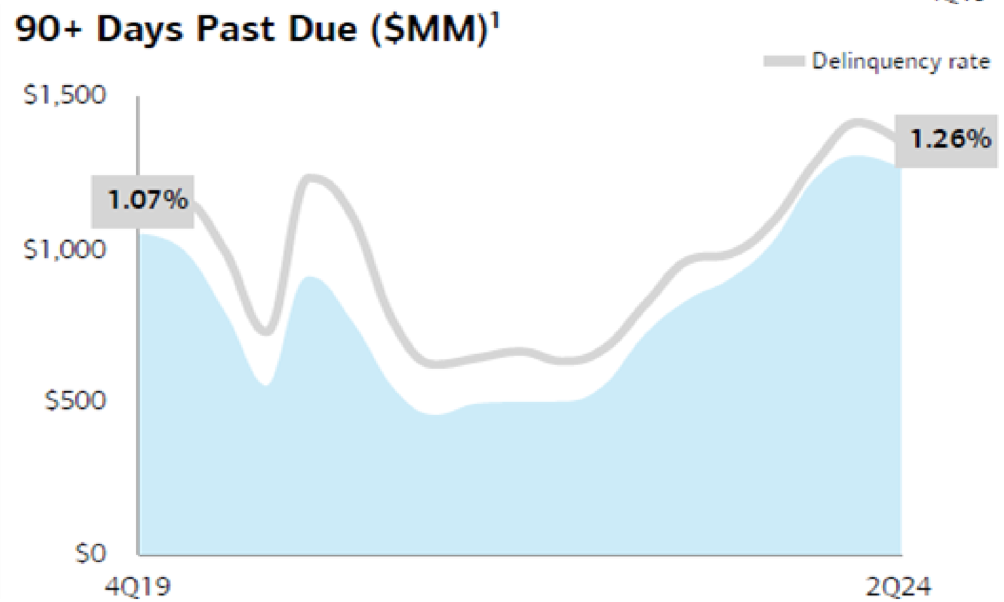
Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

Maybe credit card delinquencies are going to get us, though

Is this "normal"?

After rising post-pandemic, delinquency rates for credit cards have stabilized at normal levels - but that's just a recent history, how does the consumer look if we go back further?



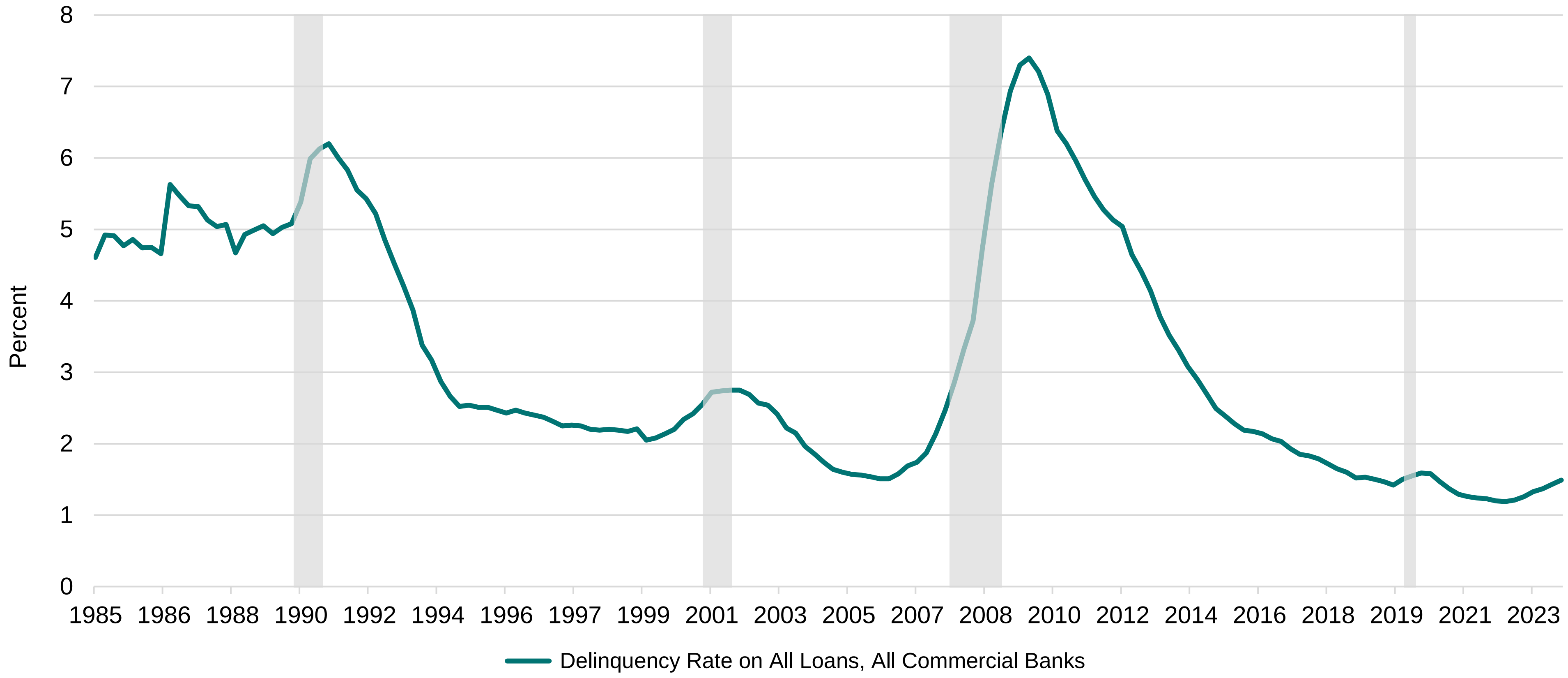


Source: Bank of America, 7/16/24

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

Delinquency rates for all consumer loans are in good shape

But maybe that's masking some weakness under the surface?



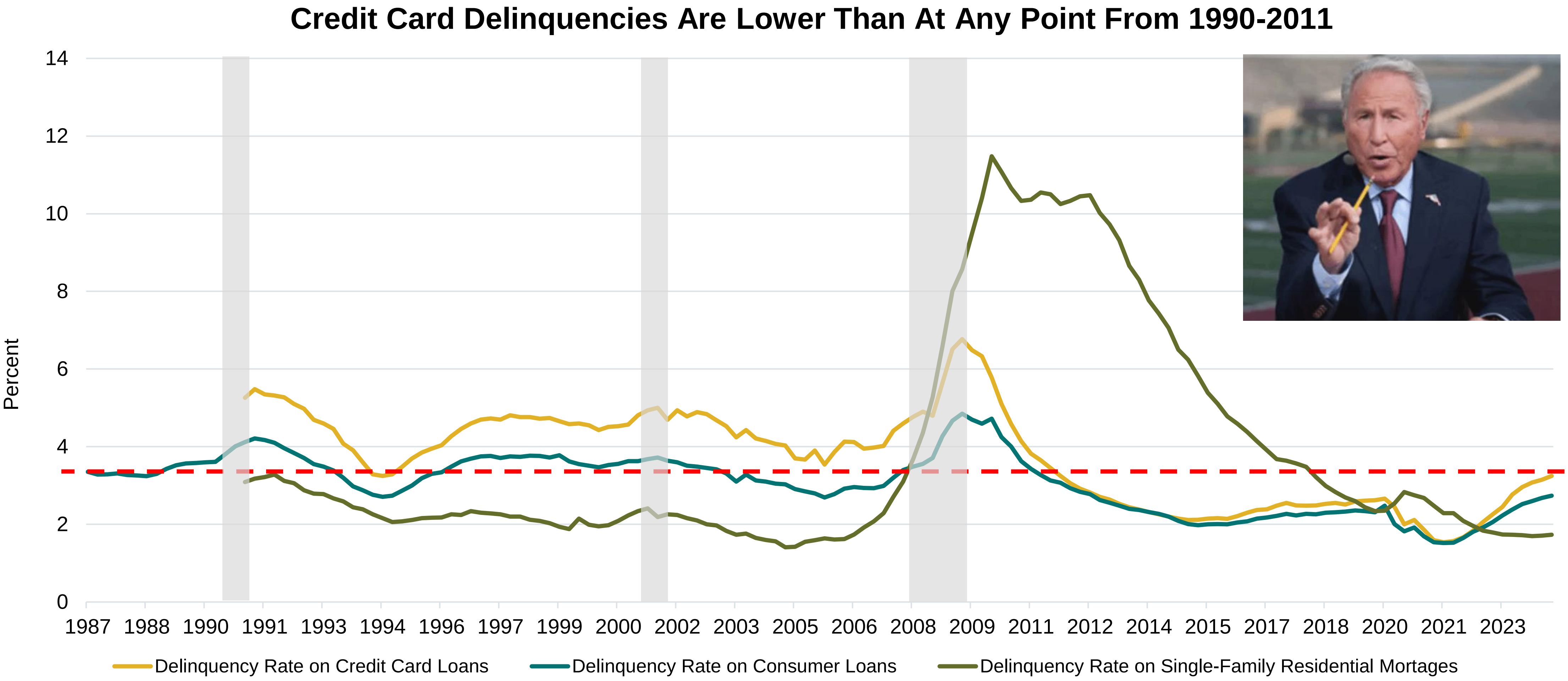
Source: St. Louis Fed, 8/19/24

MERIDIAN Financial Partners

Shaded areas indicate U.S. recessions.

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

But if you dig a little deeper

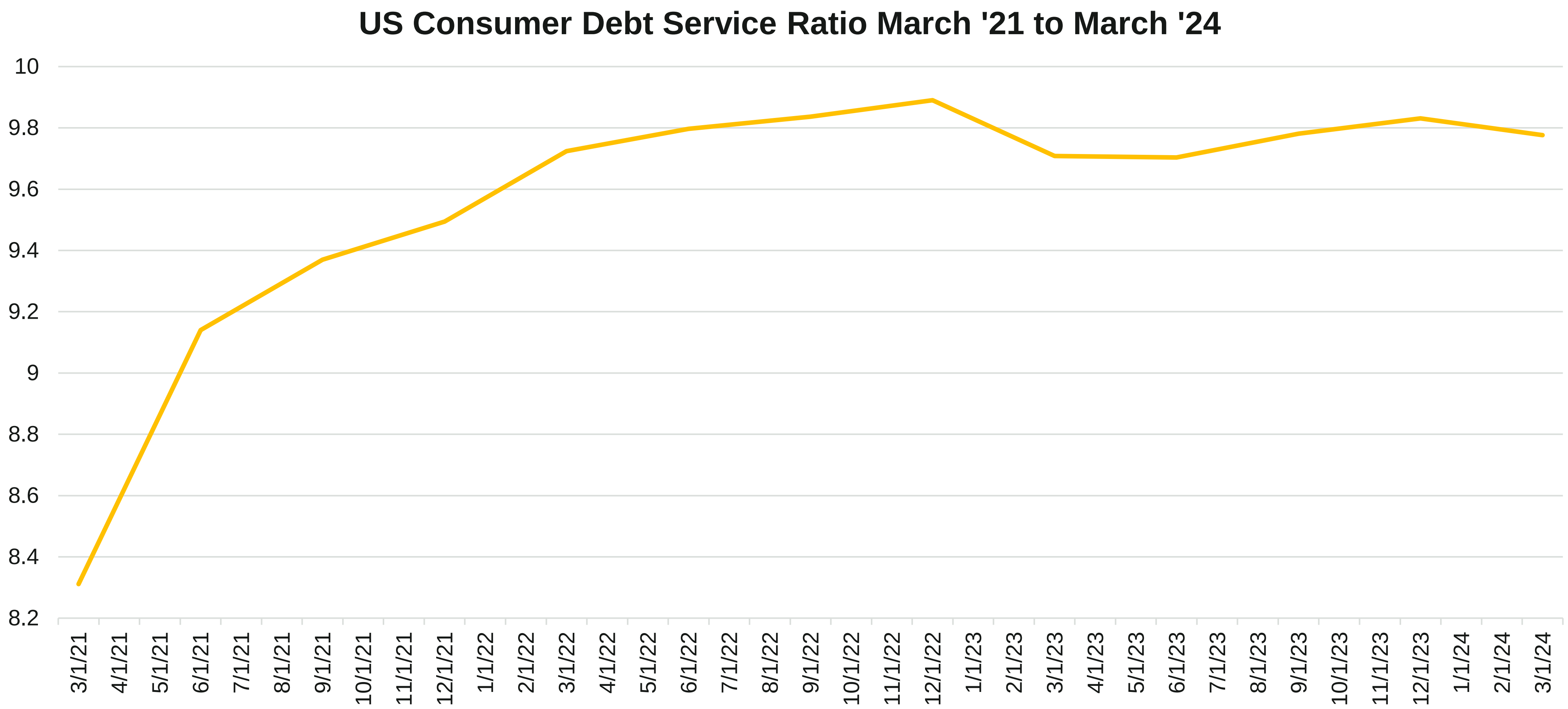


Source: St. Louis Fed, 8/20/24

MERIDIAN Financial Partners

Shaded areas indicate U.S. recessions.
Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

But the U.S. consumer debt service ratio is skyrocketing, right?

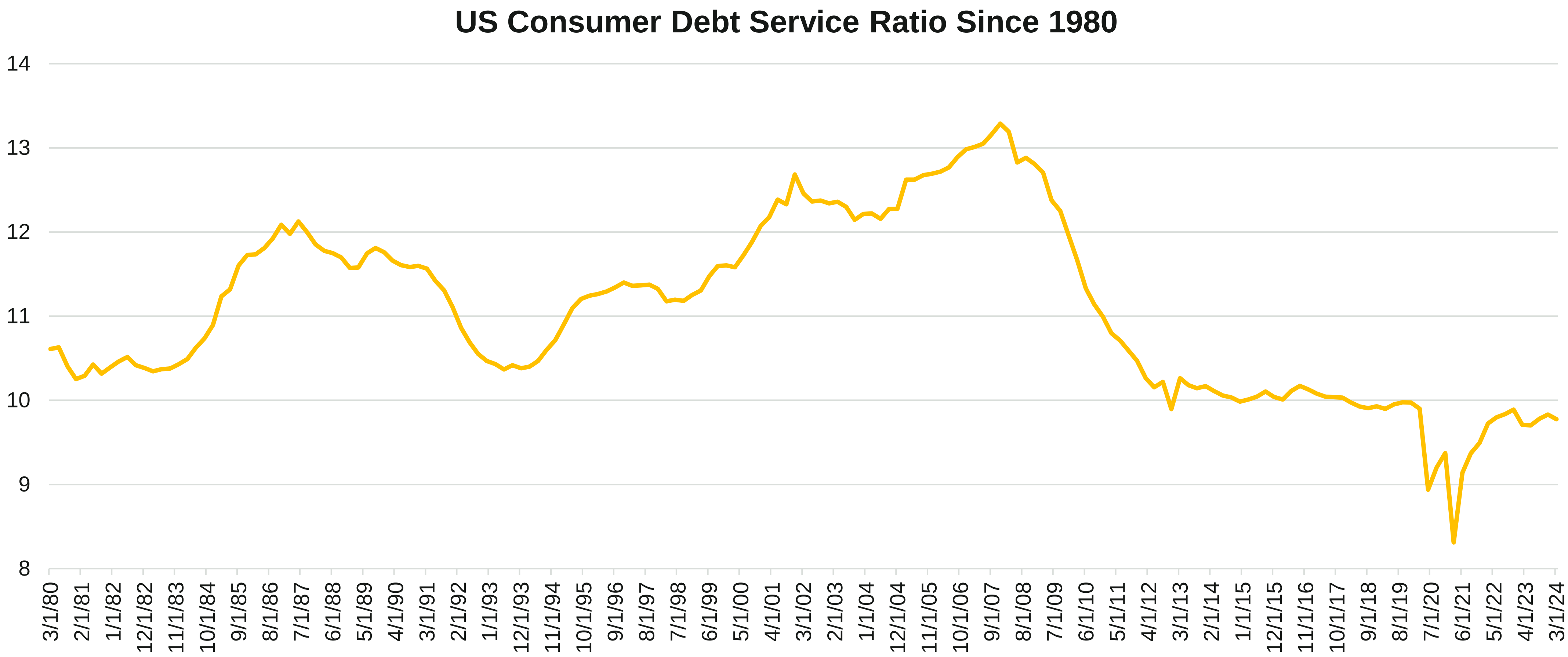


Source: Bloomberg, calculations by Horizon Investments 9/30/24

MERIDIAN Financial Partners

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

Oh wait, yeah, never mind.

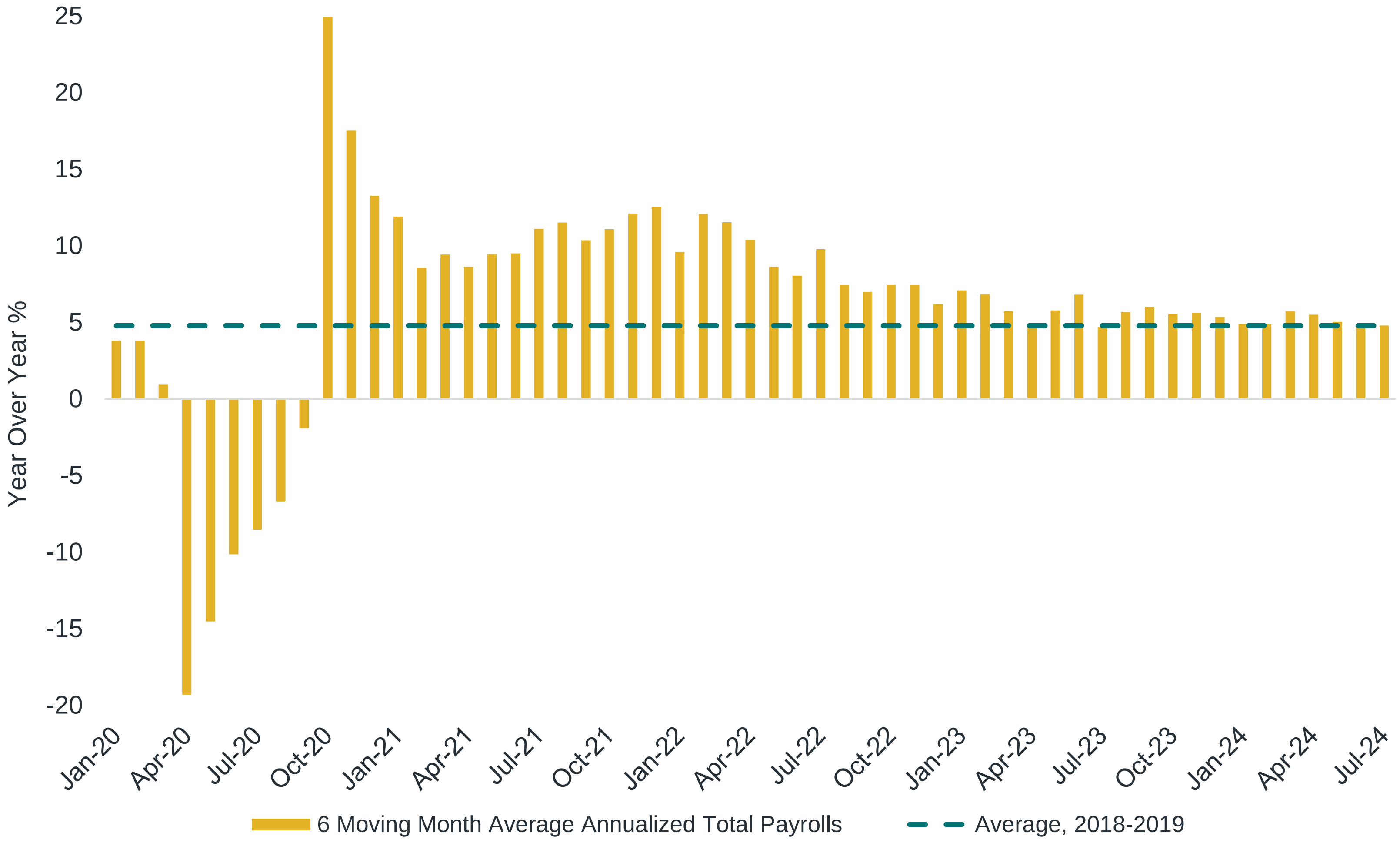


Source: Bloomberg, calculations by Horizon Investments 9/30/24

Consumer spending power back to pre-COVID levels

The consumer is in great financial health today, but what about tomorrow?

They must continue earning the money they are spending, just as they are now in a completely **normal** matter.

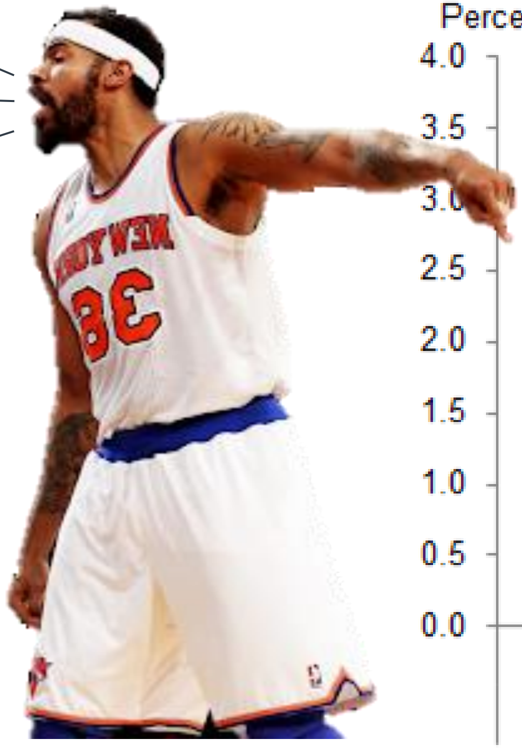


Source: Bloomberg, calculations by Horizon Investments 7/31/24

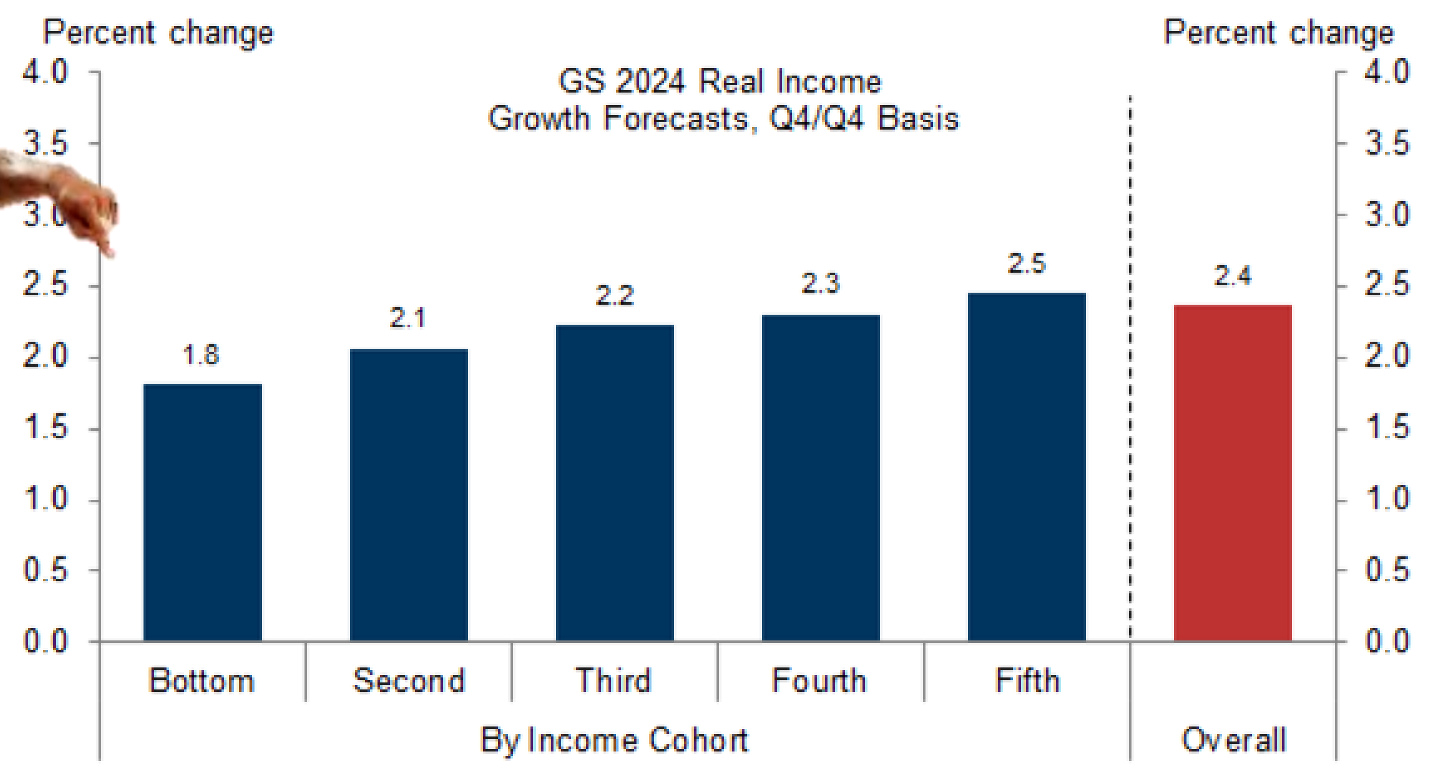
And that holds across all income groups

Even are after adjusting for inflation.
(which nobody believes me on, but ~~ball~~ numbers don't lie!)

BALL DON'T LIE



Real Incomes Are Growing for All Income Groups



Source: Goldman Sachs, 8/19/24

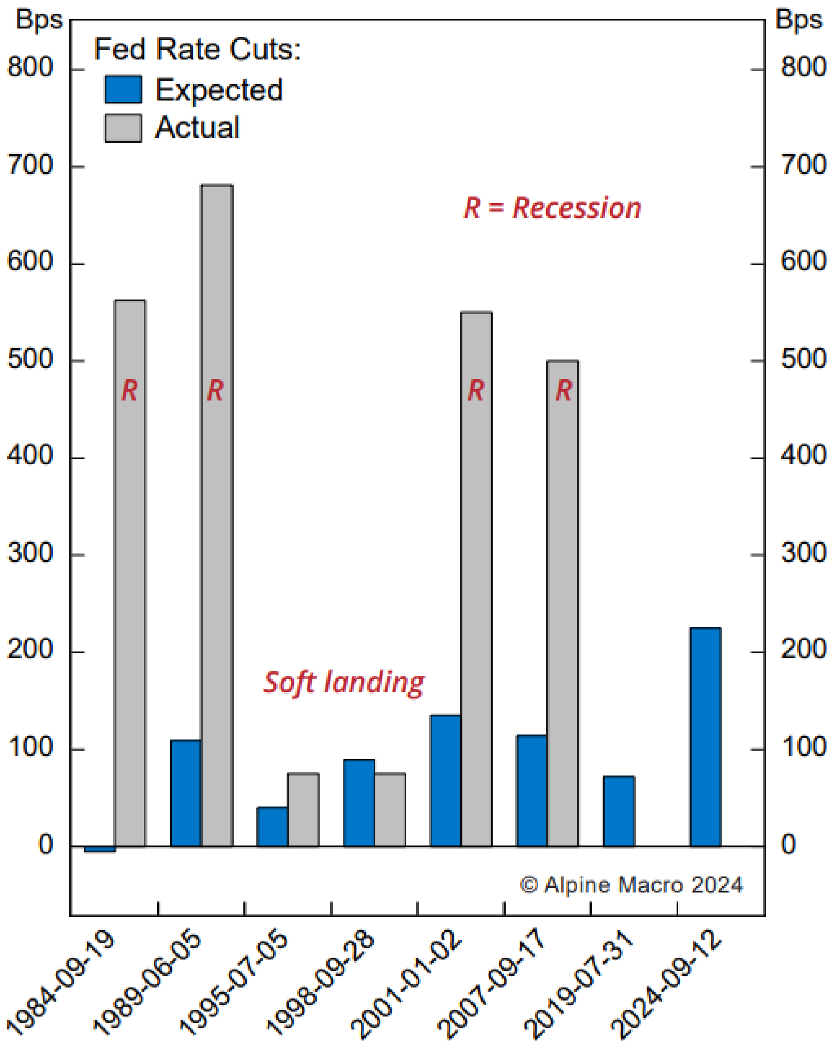
MERIDIAN Financial Partners

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

NOT GUARANTEED | CLIENTS MAY LOSE MONEY | PAST PERFORMANCE NOT INDICATIVE OF FUTURE RESULTS

Markets

Markets likely a good predictor of Fed cuts when no recession

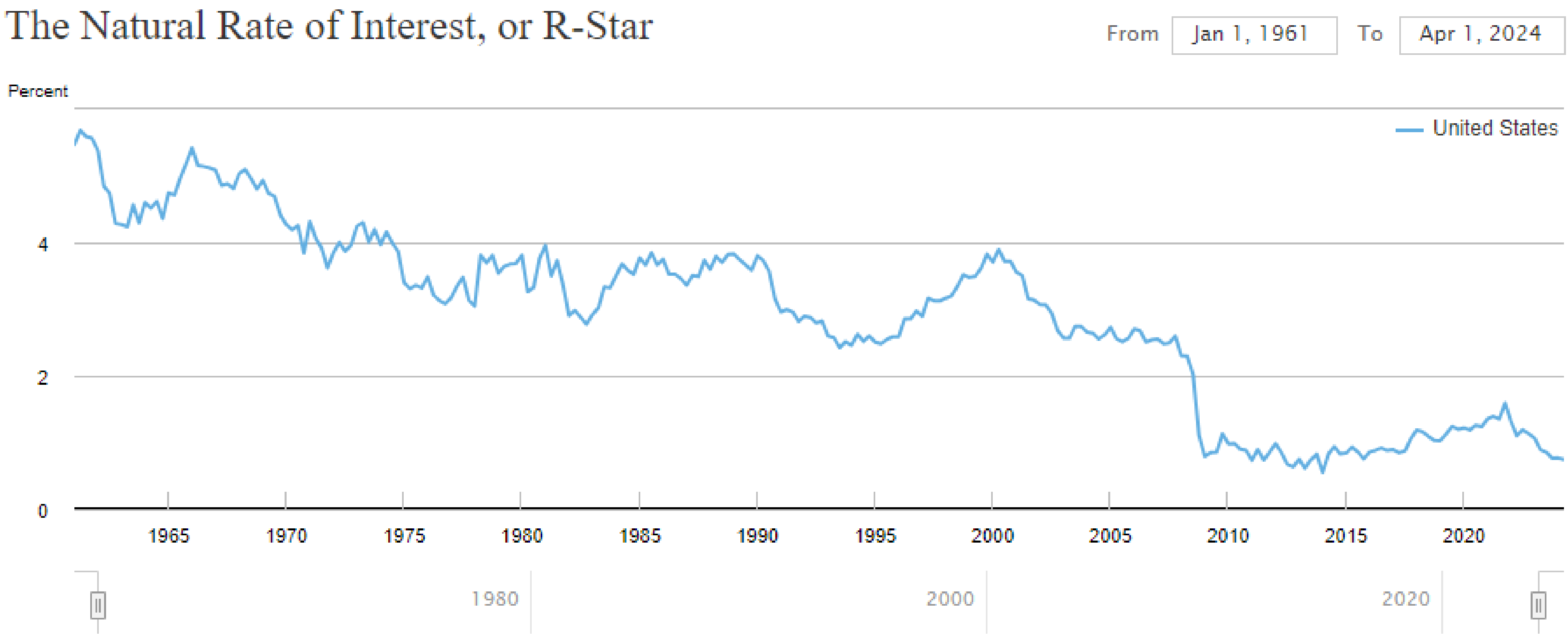


This would imply ~3% end point for the Fed Funds rate

Source: Alpine Macro, 9/16/24

How do we get a reasonable estimate of where the 10-year rate should be?

1) Start with the "neutral rate" **~1%**



Source: Federal Reserve, 9/25/24

The Natural Rate of Interest (R-Star) is the short-term interest rate that would prevail when the economy is at full employment and stable inflation: the rate at which monetary policy is neither contractionary nor expansionary.

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

2) Add in 10yr inflation expectations of **~2%**

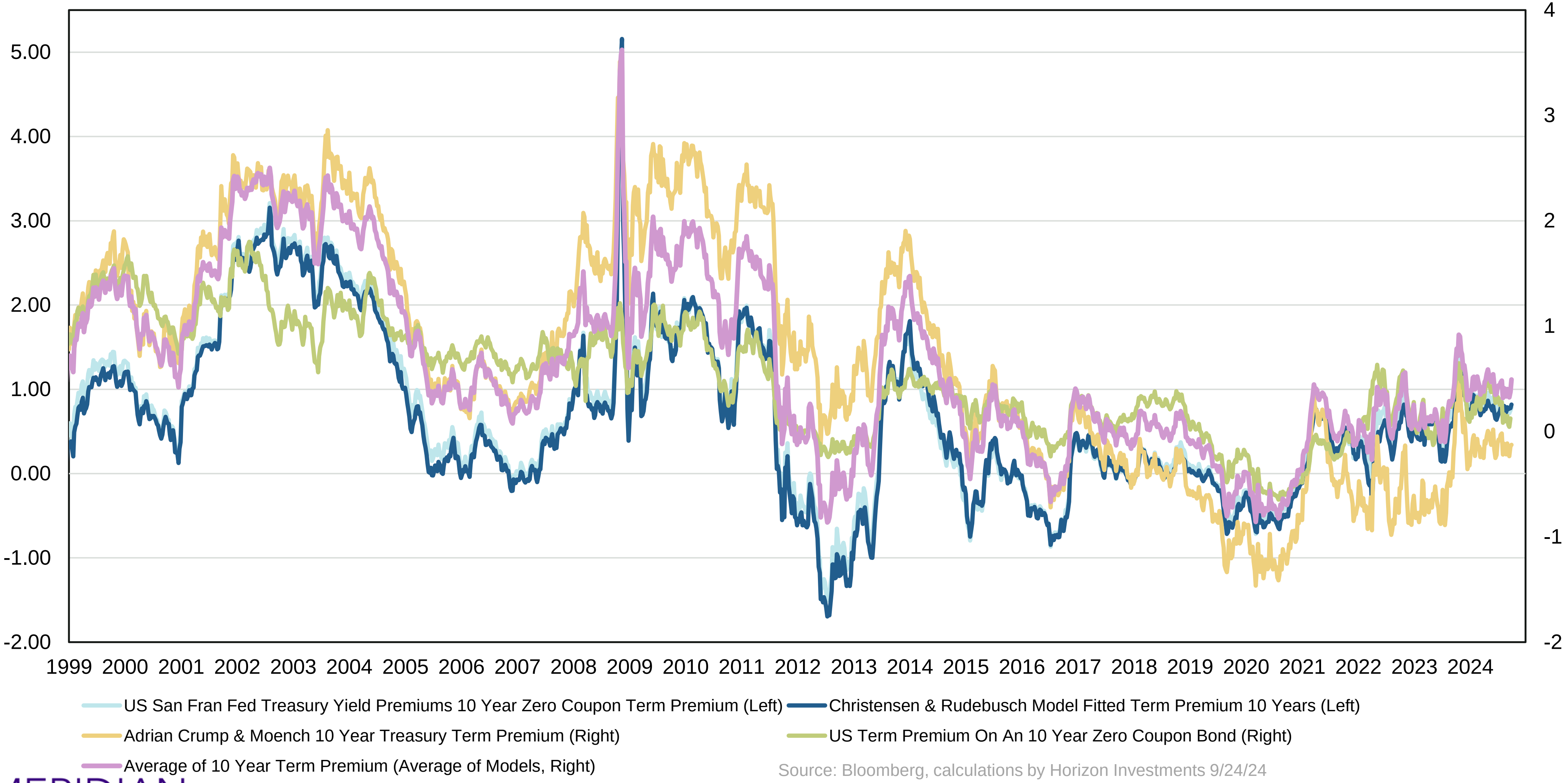
Source: Bloomberg, calculations by Horizon Investments 9/24/24

MERIDIAN Financial Partners

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

NOT GUARANTEED | CLIENTS MAY LOSE MONEY | PAST PERFORMANCE NOT INDICATIVE OF FUTURE RESULTS

3) Add in term premium **~0.5%**

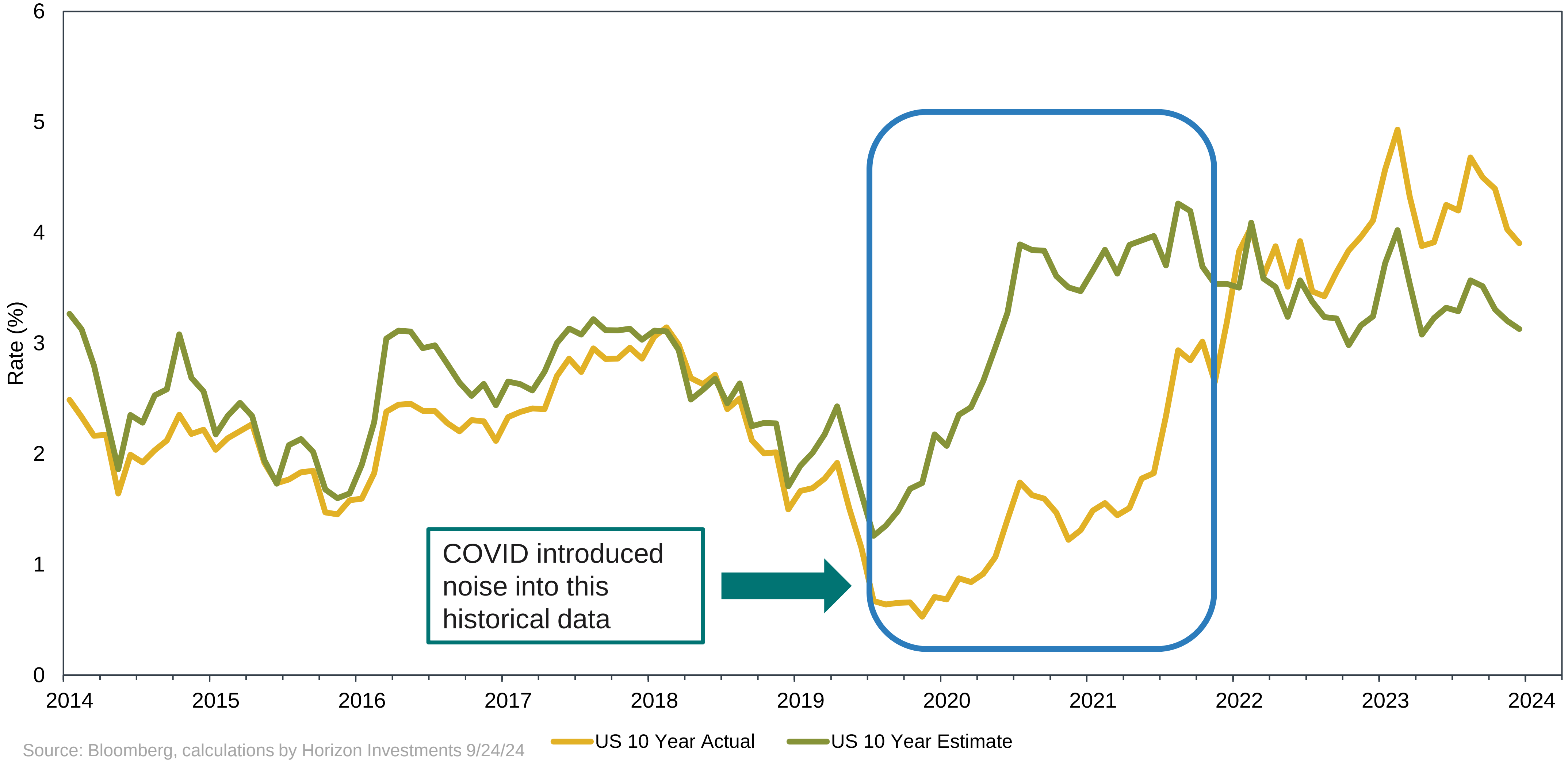


Source: Bloomberg, calculations by Horizon Investments 9/24/24

MERIDIAN Financial Partners

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

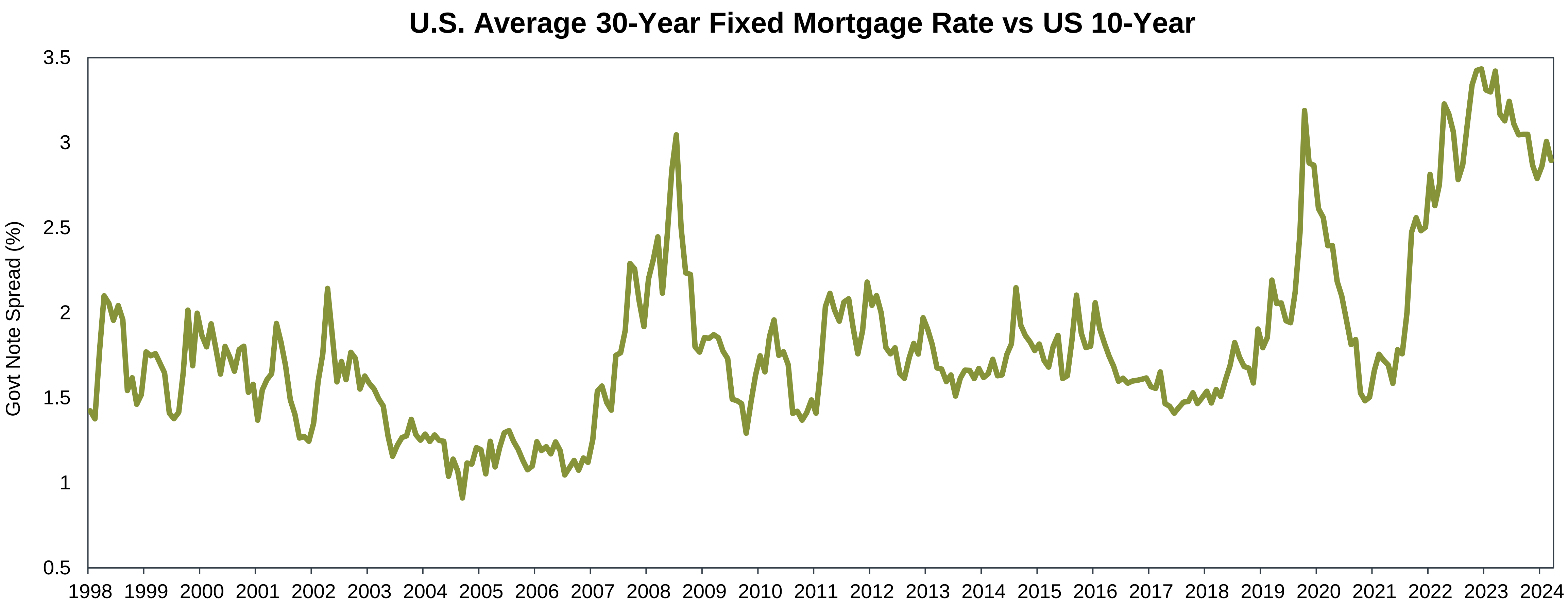
And voila, 3.5%-ish is the imperfect number!



Source: Bloomberg, calculations by Horizon Investments 9/24/24

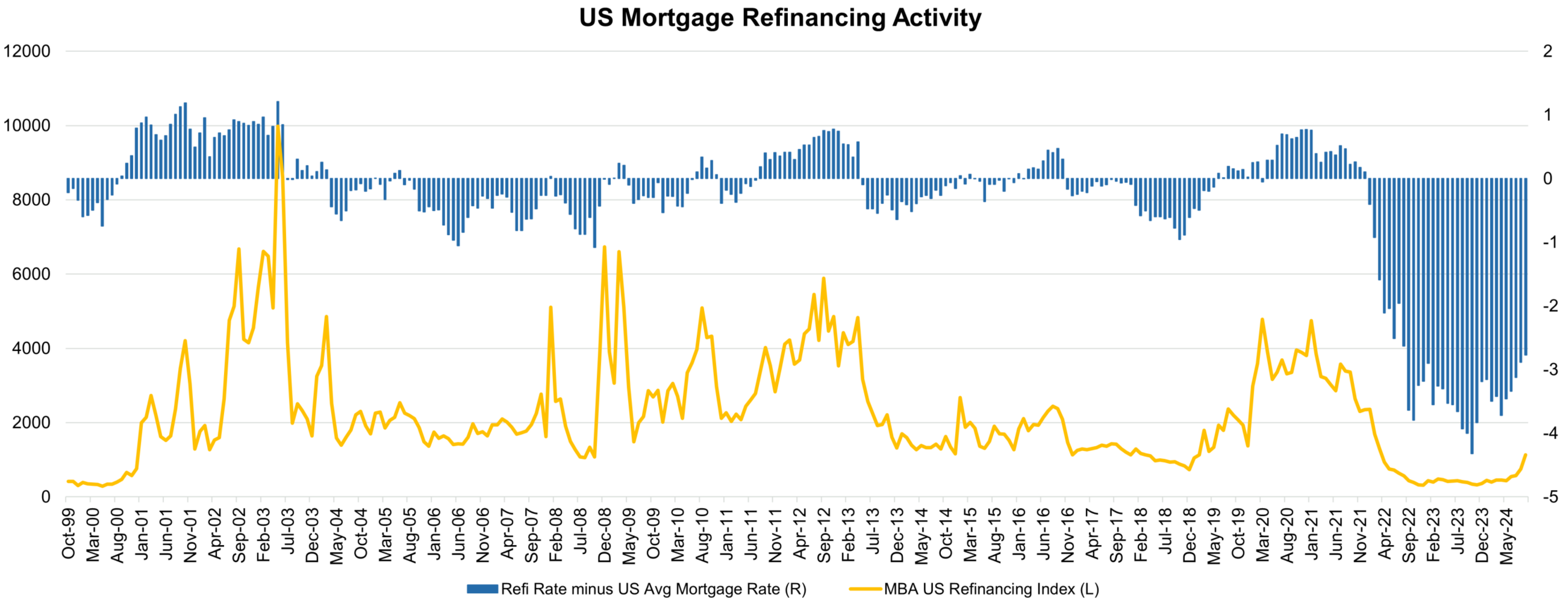
Mortgage rates are likely too high for where Treasuries are today

So, what if they normalize?



Source: Bloomberg, calculations by Horizon Investments 9/26/24

A mortgage refi wave if rates drop = tailwind for the economy



Source: Bloomberg, calculations by Horizon Investments 9/23/24

MERIDIAN
Financial Partners

Refi: Refinance

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

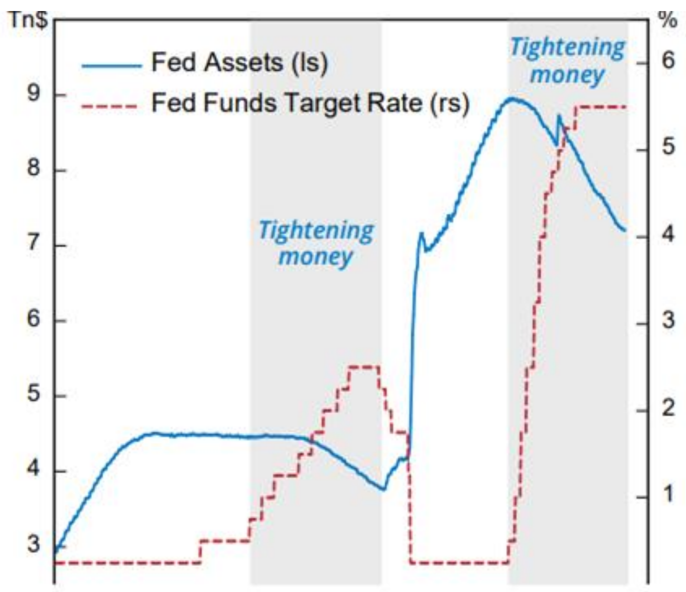
Strong spending + Money Loosening = Broader market

Loosening monetary conditions are defined as

1. Decreasing Fed Funds rates and,
2. Quantitative Easing - could help boost market breadth.

This would benefit small- and mid-cap companies, along with anything not called the "Mag 7"

Money Is Still Tight, But Will Soon Ease



Source: Alpine Macro, 7/29/24

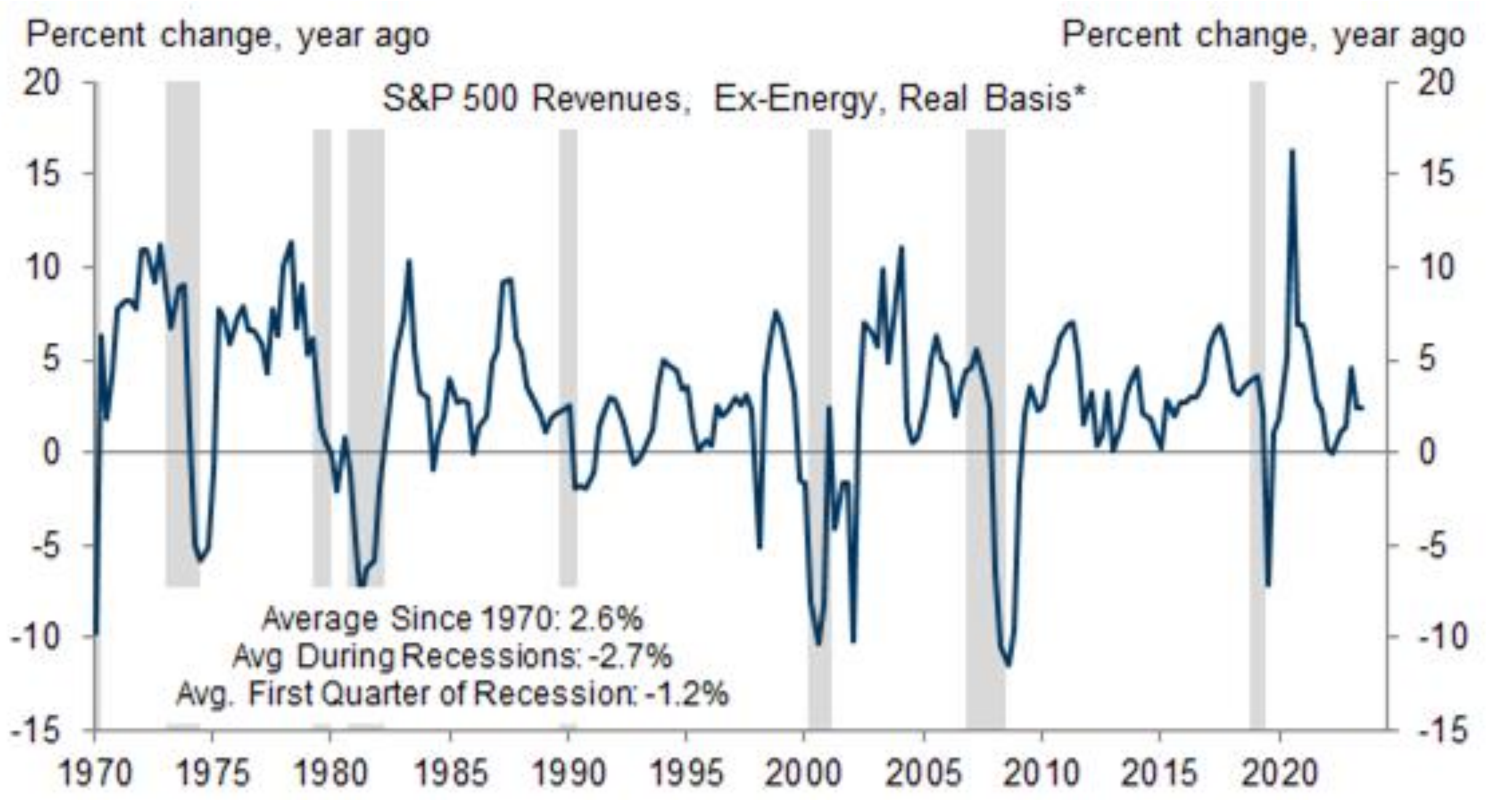
Shading denotes Fed tightening cycles

The "Mag 7" or the "Magnificent 7" are a group of high-performing and influential companies in the U.S. stock market: Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla.

Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

And corporate revenues are back to growing at normal levels

Corporate Revenues Are Growing at a Historically Average Pace

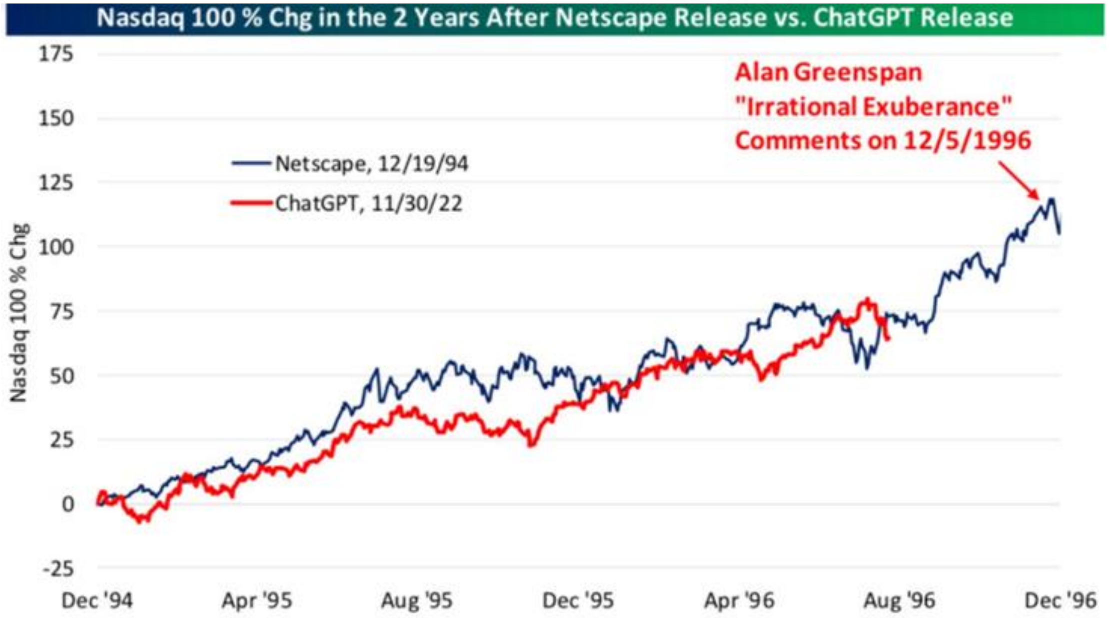


Source: Goldman Sachs, 8/19/24

*Deflated by GDP prices excluding energy goods and services
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.

MERIDIAN Financial Partners

Tomorrow's Market: Similarity to the 1990s

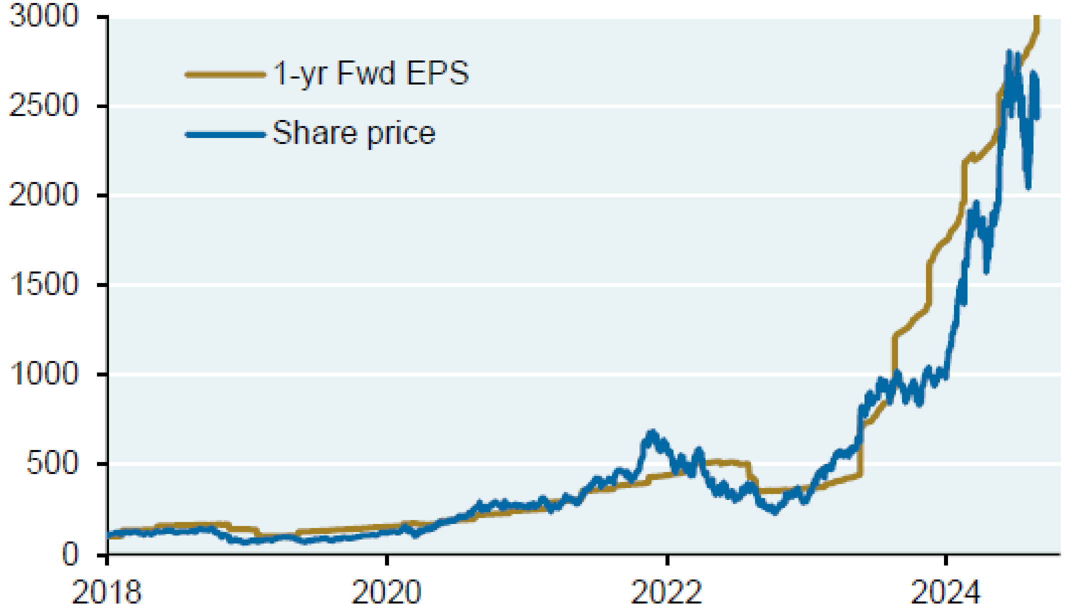


Source: RBC, 7/29/24

The Nasdaq 100 Index is a collection of the 100 largest, most actively traded companies listed on the Nasdaq stock exchange. The index includes companies from diverse industries like manufacturing, technology, healthcare, and others. It is not possible to invest directly in an index. Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

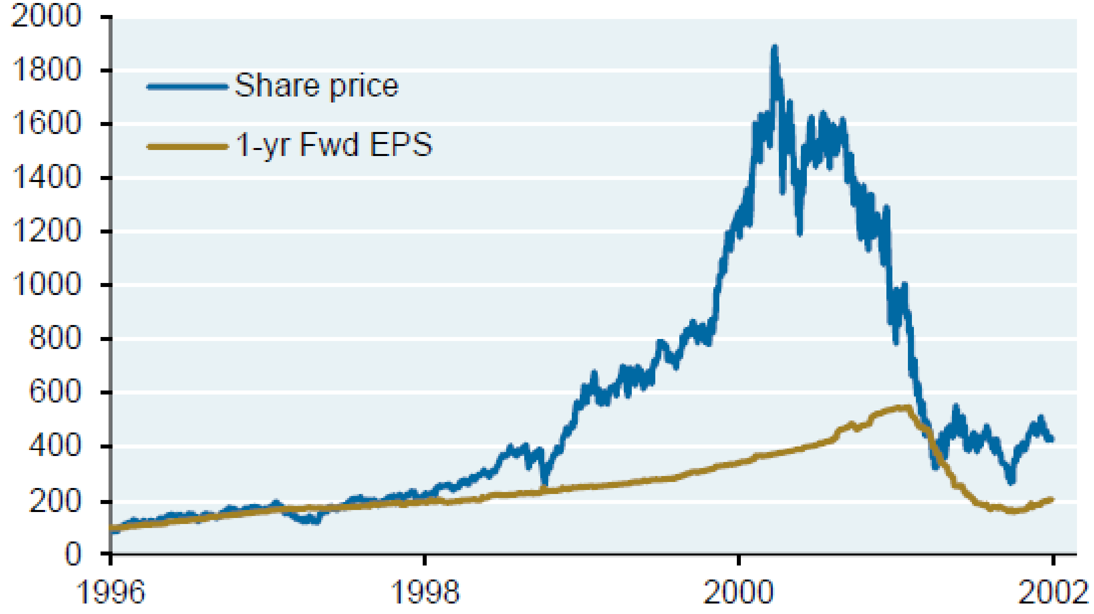
Tomorrow's Market: Difference from the 1990's

Nvidia share price vs 1-year forward EPS
Index (100 = January 2018)



Source: Factset, Bloomberg, JPMAM, August 30, 2024

Cisco share price vs 1-year forward EPS
Index (100 = January 1996)



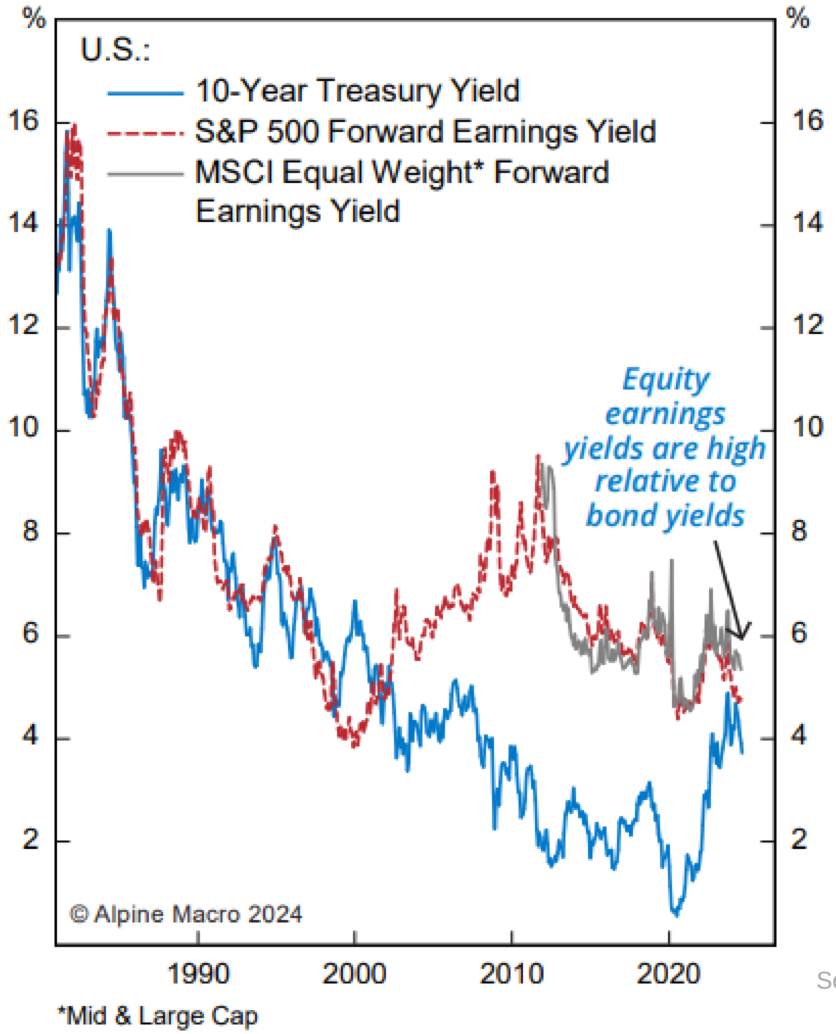
Source: Factset, Bloomberg, JPMAM, June 25, 2024

Source: JPMorgan, 9/3/24

One-year forward earnings per share (EPS) is a projected number for the amount of earnings per share a company is expected to generate over the next 12 months. For illustrative purposes only. This is not a recommendation to buy or sell any securities. Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

More 1990s similarities

EPS yields nearly at parity with bonds

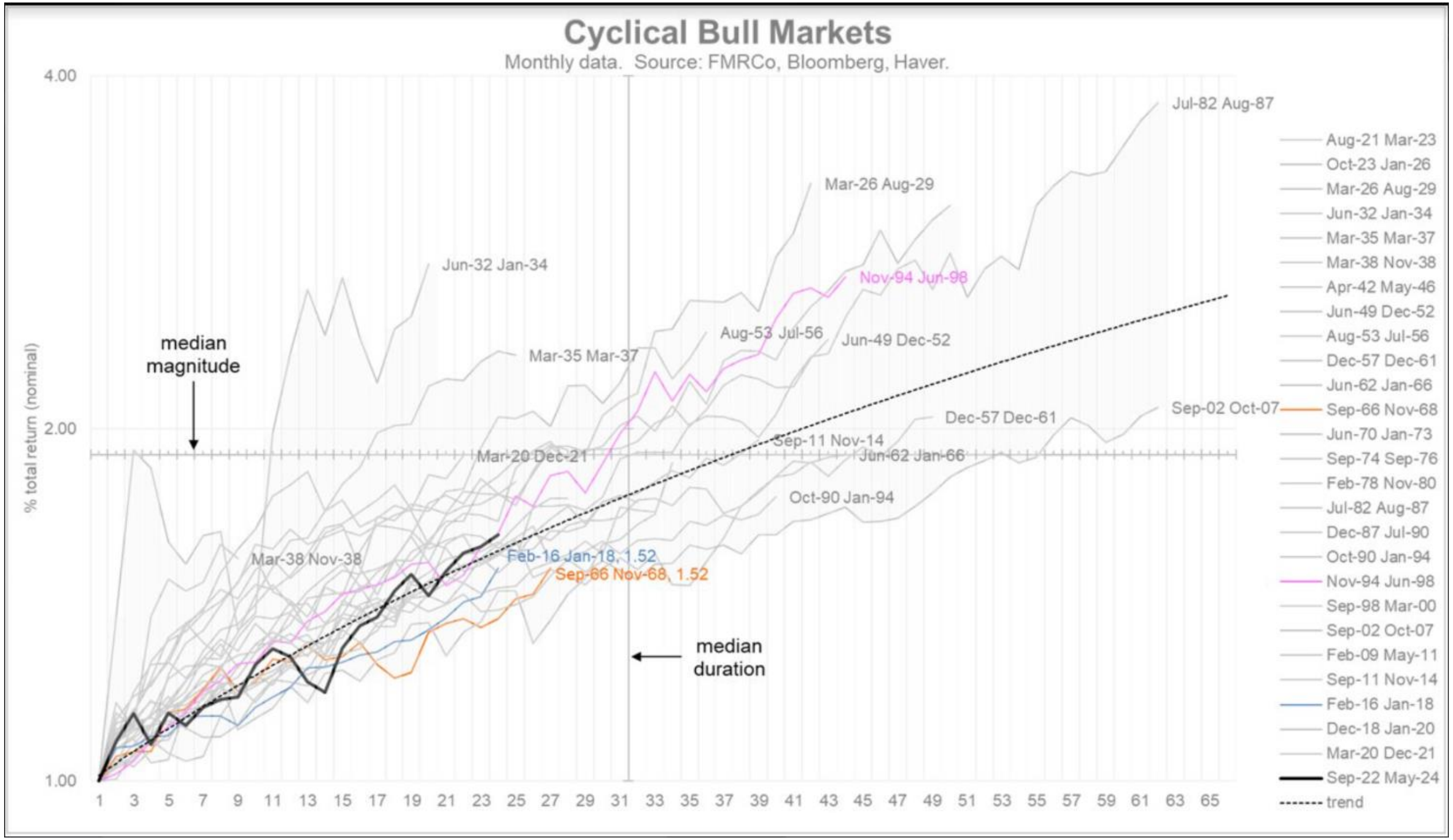


Source: Alpine Macro 9/23/24

EPS = Earnings per share

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.
The MSCI Equal Weighted Index is an alternative to the market cap weighted indexes that gives equal weight to all constituents in an index at each rebalance date.
Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

Bull market history: A “regular” one has plenty of room to run



Source: RBC, 9/13/24

Tomorrow's Market: Stock market during Fed cutting cycles

Beware of analysis that does not take account of the Macroeconomic environment within which a Fed cutting cycle is occurring – VERY different implications if the Fed is cutting to address a recession/panic vs cutting to "get back to **normal.**"

Annualized Returns During Different Fed Regimes

Annualized Return Since 1990	S&P 500	Russell 2000	Consumer Staples	Health Care	Utilities	Financials	Consumer Disc.	Industrials	Materials	Tech	Energy
Cutting Cycles	**0%**	**-1%**	**10%**	**8%**	**1%**	**0%**	**0%**	**-2%**	**2%**	**-5%**	**-5%**
Last Cut to First Hike	12%	15%	10%	11%	2%	13%	17%	13%	11%	19%	11%
Hiking Cycles	6%	6%	1%	6%	7%	4%	3%	6%	4%	15%	11%
Last Hike to First Cut	18%	11%	16%	21%	18%	21%	16%	17%	12%	28%	15%

Nine Cutting Cycles Since 1990

Start	Cutting Cycles Since '90	Duration	Cuts (bps)	GDP	S&P 500	Russell 2k
July-90	**Gulf War Recession**	784	525	1.3	14%	13%
July-95	**Mid-Cycle Adjustment**	209	75	2.4	15%	10%
September-98	**FX Crisis, Mid-Cycle Adj.**	49	75	5.1	9%	6%
January-01	Dot-Com, 9/11	342	450	0.6	-16%	-2%
November-02	Lagging Recovery	231	75	1.4	6%	13%
September-07	Housing Crash	225	325	1.8	-9%	-11%
October-08	Great Recession	69	200	-2.1	-7%	-12%
July-19	**Mid-Cycle Adjustment**	91	75	3.8	2%	0%
March-20	Covid-19 Pandemic	13	150	2.6	-21%	-30%

Source: UBS, 9/4/24

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.
The Russell 2000 Index is a small-cap U.S. stock market index that makes up the smallest 2,000 stocks in the Russell 3000 Index.
Information obtained from third-party sources is believed to be reliable but has not been vetted by the firm or its personnel.

Takeaways

- This is an economy that is normalizing after four years of a war/war-recovery period through which “typical” leading indicators did not work.

- Don’t underestimate an employed U.S. consumer when they are in healthy financial shape, have a job, are getting raises in excess of inflation, and continue to spend money.

- From our perspective, the mid-1990s continues to be the most appropriate comparison to what we believe is in store for markets:
    - Productivity-led rise in revenues/earnings
    - Robust job market
    - Healthy consumer
    - Fed either out-of-the-way or actively easing policy.

Disclosure

This presentation should not be distributed to any other parties. This presentation is to be presented as a whole and should be altered in any way. Past performance does not guarantee future results. The commentary in this presentation is not a complete analysis of every material fact with respect to any company, industry, or security. The opinions expressed here are not investment recommendations but rather opinions that reflect the judgment of Horizon as of the date of the report and are subject to change without notice. Opinions referenced are as of the date of publication and may not necessarily come to pass. Forward-looking statements cannot be guaranteed. We do not intend and will not endeavor to provide notice if and when our opinions or actions change. Horizon Investments is not soliciting any action based on this document. This document does not constitute an offer to sell or a solicitation of an offer to buy any security or product and may not be relied upon in connection with the purchase or sale of any security or device.

The material presented has been obtained from sources considered to be reliable, but the accuracy and completeness cannot be guaranteed. The investments recommended by Horizon Investments are not guaranteed. There can be economic times when all investments are unfavorable and depreciate in value. Clients may lose money.
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 Russell 2000 Index is a small-cap U.S. stock market index that makes up the smallest 2,000 stocks in the Russell 3000 Index. References to indices or other measures of relative market performance over a specified period of time are provided for informational purposes only. Reference to an index does not imply that any account will achieve returns, volatility or other results similar to that index. The composition of an index may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility, or tracking error targets, all of which are subject to change. Indices are unmanaged and do not have fees or expense charges, both of which would lower returns. It is not possible to invest directly in an unmanaged index.

Horizon Investments, LLC is an investment adviser registered with the U.S. Securities and Exchange Commission. Registration does not imply a certain level of skill or training. More information about Horizon's investment advisory services can be found in its Form ADV Part 2, which is available upon request.

MERIDIAN Financial Partners