

# Your Clients Top Questions, Answered

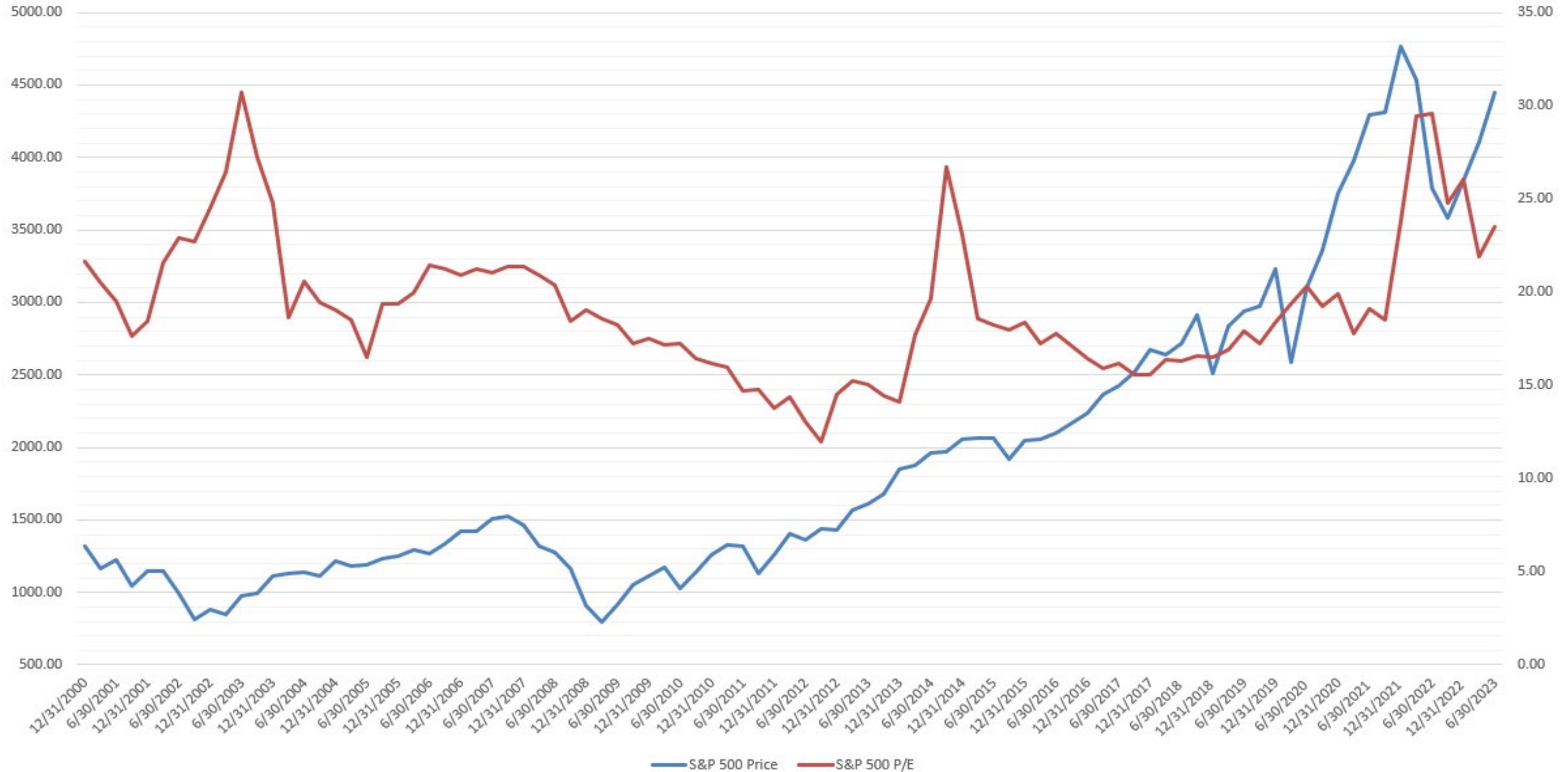


## FAQs

- Are stocks overvalued?
- Will there be a recession in 2024?
- Is the consumer healthy?
- What about commercial real estate?
- Is the dollar losing its reserve status?
- Are you investing in artificial Intelligence?
- How will the 2024 election impact the markets?



# The S&P 500 is trading in fair value range



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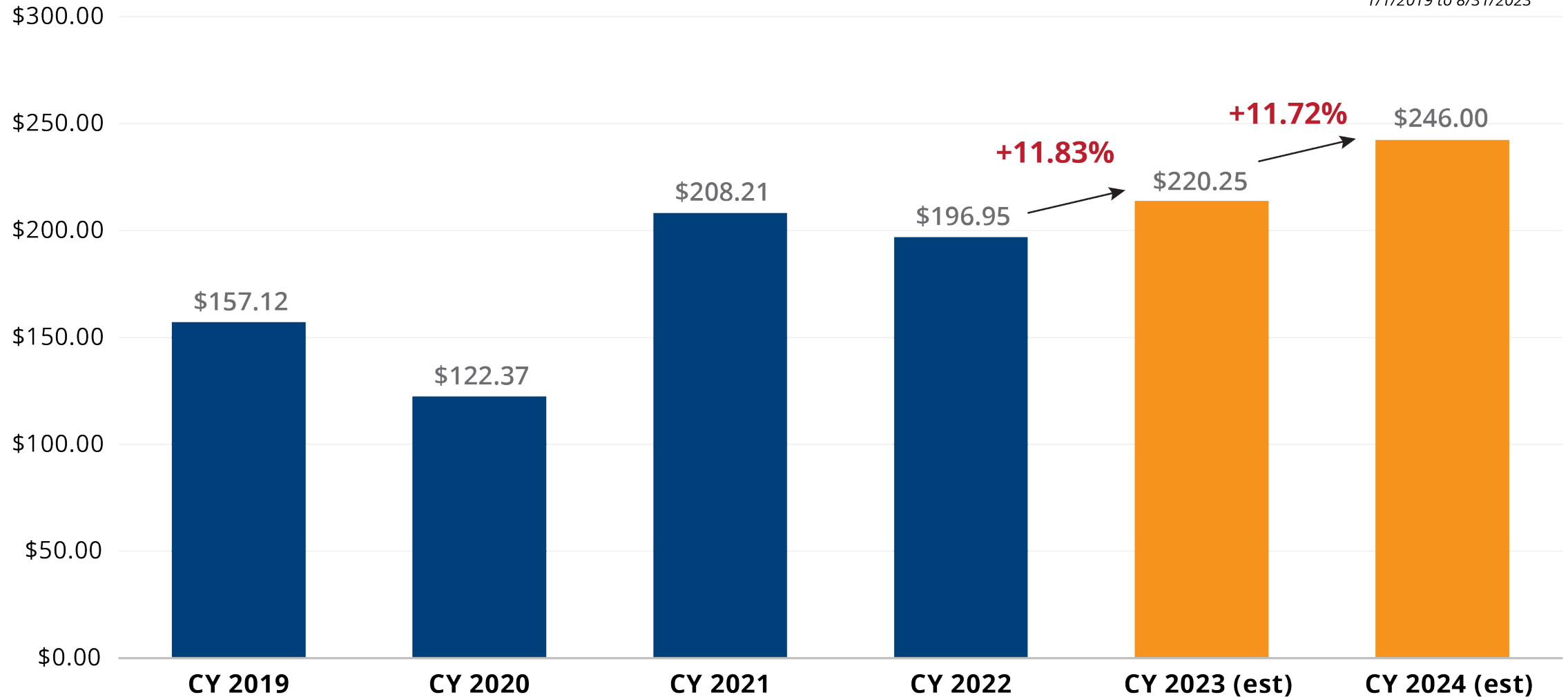
Source: S&P Global



# S&P 500 operating earnings are expected to grow

## S&P 500 Calendar Year Operating EPS Actuals & Estimates

1/1/2019 to 8/31/2023



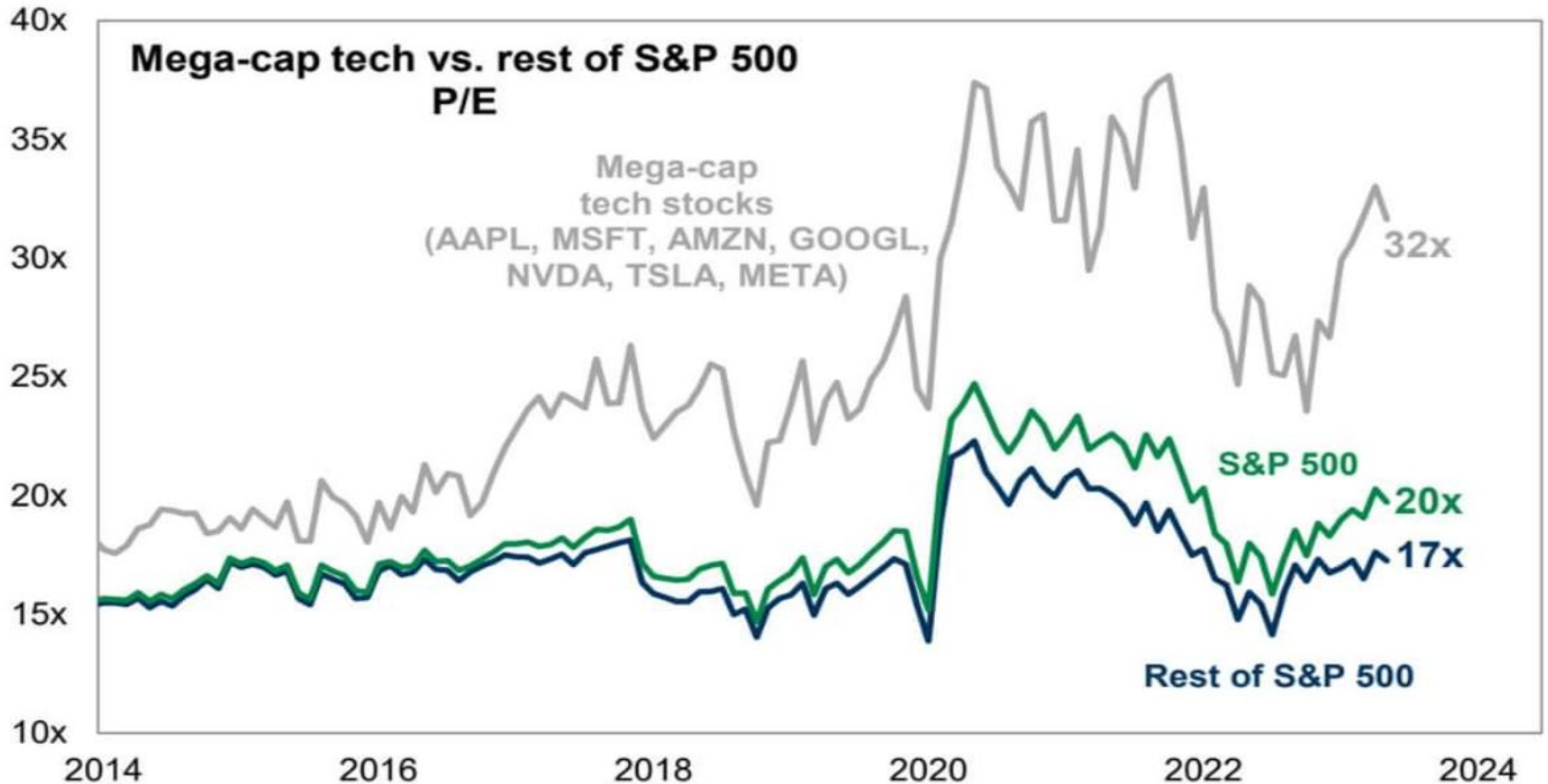
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Source: S&P Global

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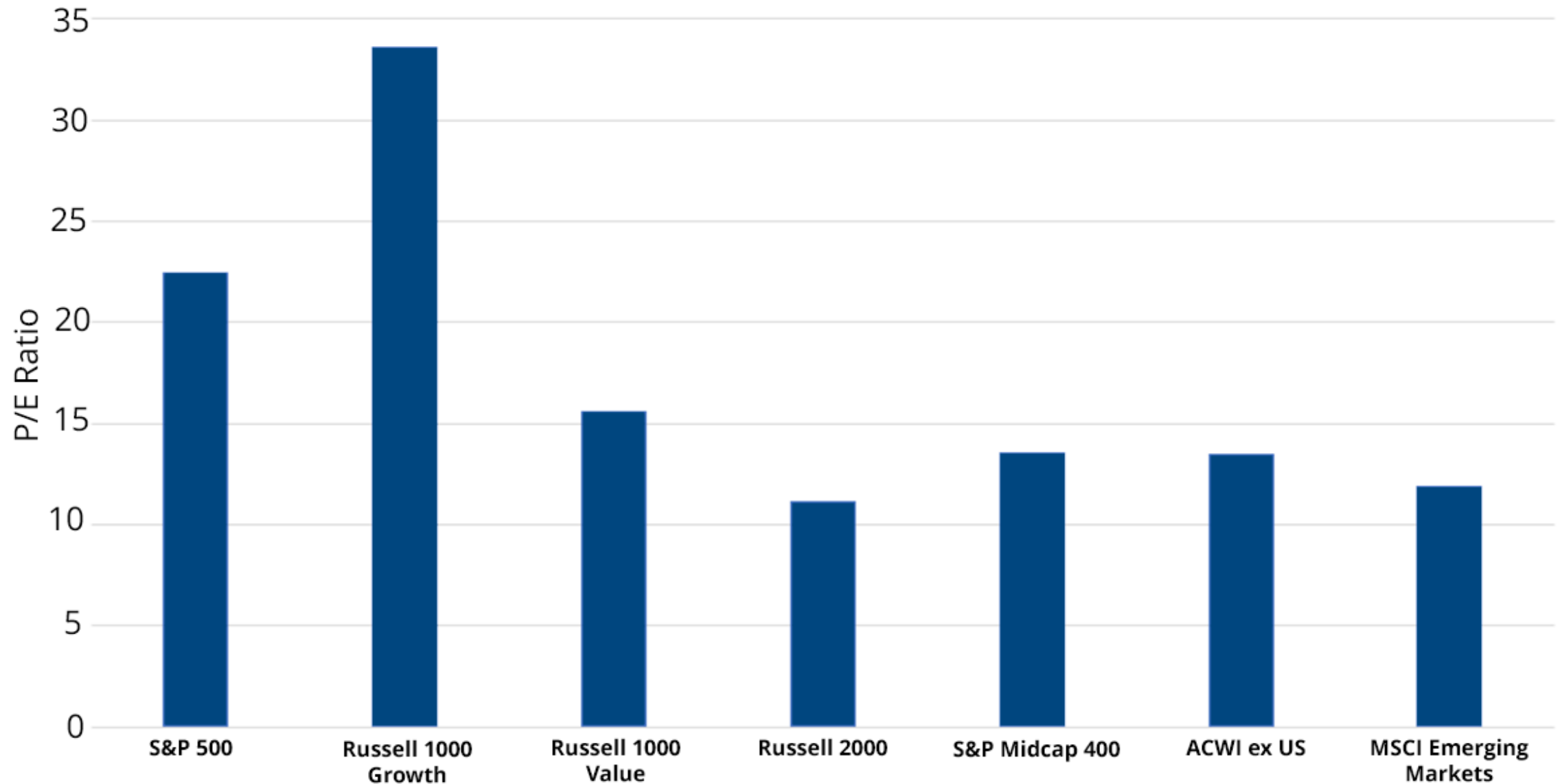


# “Magnificent Seven” skewing valuations



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# Large Value, SMID, and International look cheaper



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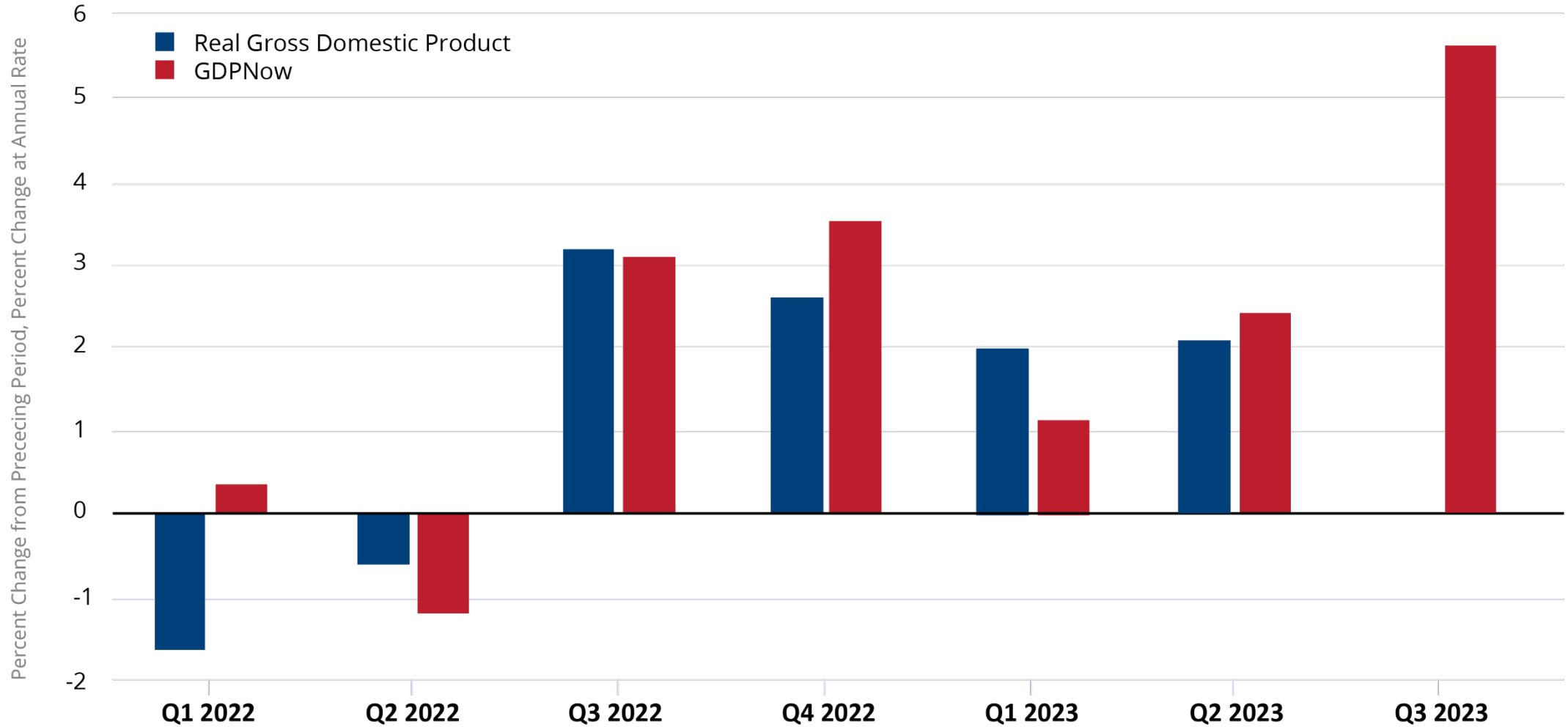
# Will there be a Recession in 2024?

- Q1 and Q2 GDP growth better than expected
- Parts of the economy remain strong, while others have begun to soften
- We believe a slowdown in growth is possible next year
- We believe the odds of no recession or a mild recession in 2024 are 50/50
- No signs of an “earnings recession”



# Growth better than expected in 2023

## Real Gross Domestic Product vs. GDPNow



Sources: BEA; Atlanta Fed; fred.stlouisfed.org

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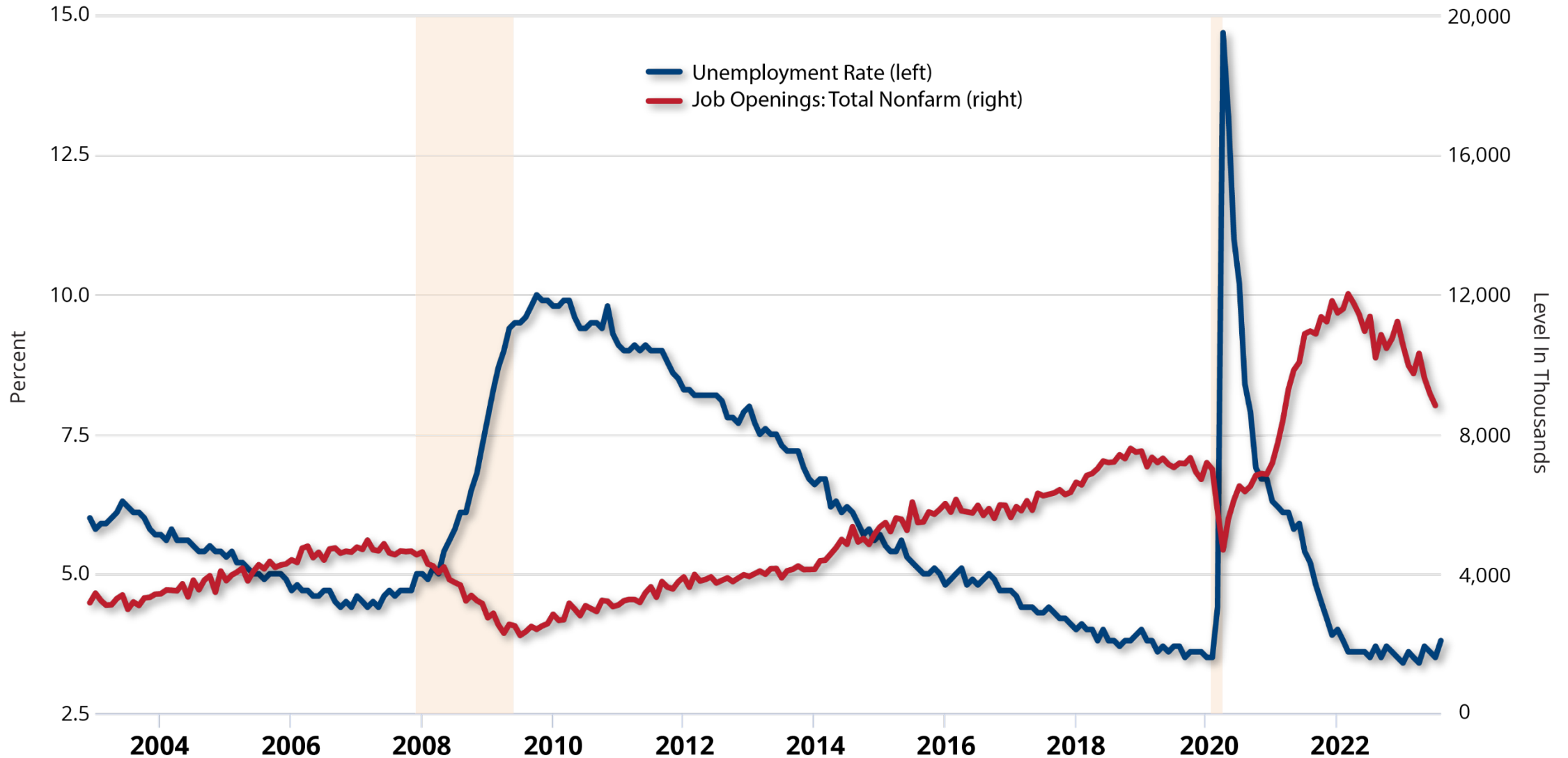




# Low unemployment and plenty of job openings

## Unemployment Rate vs Non-farm Job Openings

1/1/2003 to 8/31/2023



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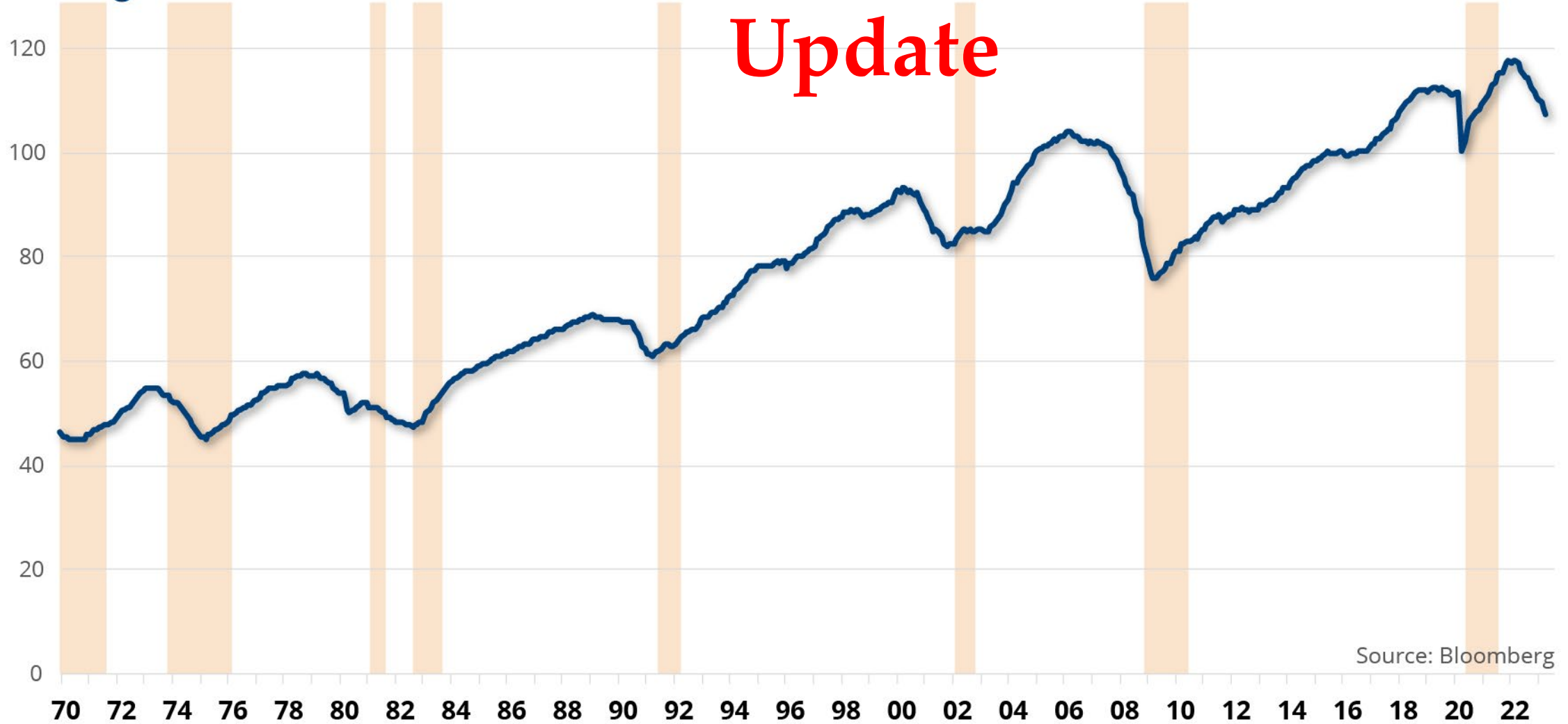
Source: fred.stlouisfed.org



# Some storm clouds on the horizon

## Leading Economic Indicators

1/1/1970 to 4/30/2023



Source: Bloomberg

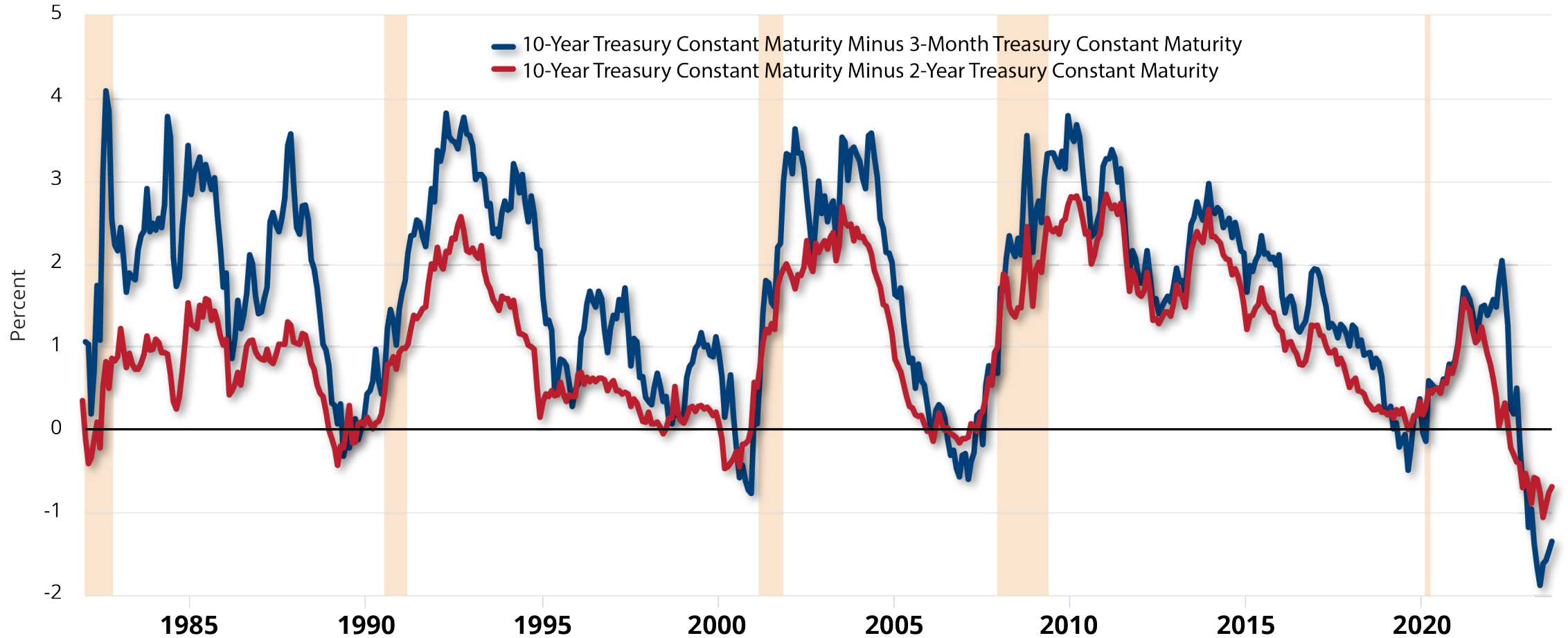
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# The yield curve remains inverted

10-Year Treasury Constant Maturity Minus 3-Month Treasury Constant Maturity  
10-Year Treasury Constant Maturity Minus 2-Year Treasury Constant Maturity

6/30/1984 to 8/31/2023



Source: fred.stlouisfed.org

For illustrative purposes only. Past performance is not indicative of future results.



# What Happens When the Yield Curve Normalizes?

Inversion Period	Deepest Point of Inversion			Yield Curve Normalizes (Reaches 100bps or peak spread)			Change in Yield from Depth of Inversion to Normalization		
	Date	2 yr Treasury	10 yr Treasury	Date	2 yr Treasury	10 yr Treasury	2 yr Treasury	10 yr Treasury	Number of Days
8/18/1978 to 5/2/1980	3/20/1980	15.03	12.62	5/23/1980	8.73	9.85	-630bps	-277bps	64
9/12/1980 to 10/26/1981	5/21/1981	15.75	14.05	11/24/1981	12.15	13.13	-360bps	-92bps	187
1/20/1982 to 7/19/1982	2/18/1982	14.99	14.28	1/6/1983	9.39	10.39	-560bps	-389bps	322
12/13/1988 to 3/20/1990	3/30/1989	9.79	9.34	1/8/1991	7.15	8.16	-264bps	-118bps	649
6/9/1998 to 7/28/1998	6/25/1998	5.53	5.46	10/13/1998	4.13	4.73	-140bps	-73bps	110
2/2/2000 to 12/29/2000	4/7/2000	6.38	5.86	4/20/2001	4.26	5.29	-212bps	-57bps	378
6/8/2006 to 6/7/2007	11/16/2006	4.85	4.66	11/12/2007	2.99	4.00	-186bps	-66bps	361
8/27/2019 to 9/4/2019	8/24/2019	1.53	1.49	1/29/2021	0.11	1.11	-142bps	-38bps	524
	<b>Average</b>	<b>9.23</b>	<b>8.47</b>	<b>Average</b>	<b>6.11</b>	<b>7.08</b>	<b>-312bps</b>	<b>-139bps</b>	<b>324</b>
<b>Current</b>									
<b>7/6/2022</b>	<b>7/3/2023</b>	<b>4.94</b>	<b>3.86</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>

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# Timing NBER Recession Declarations

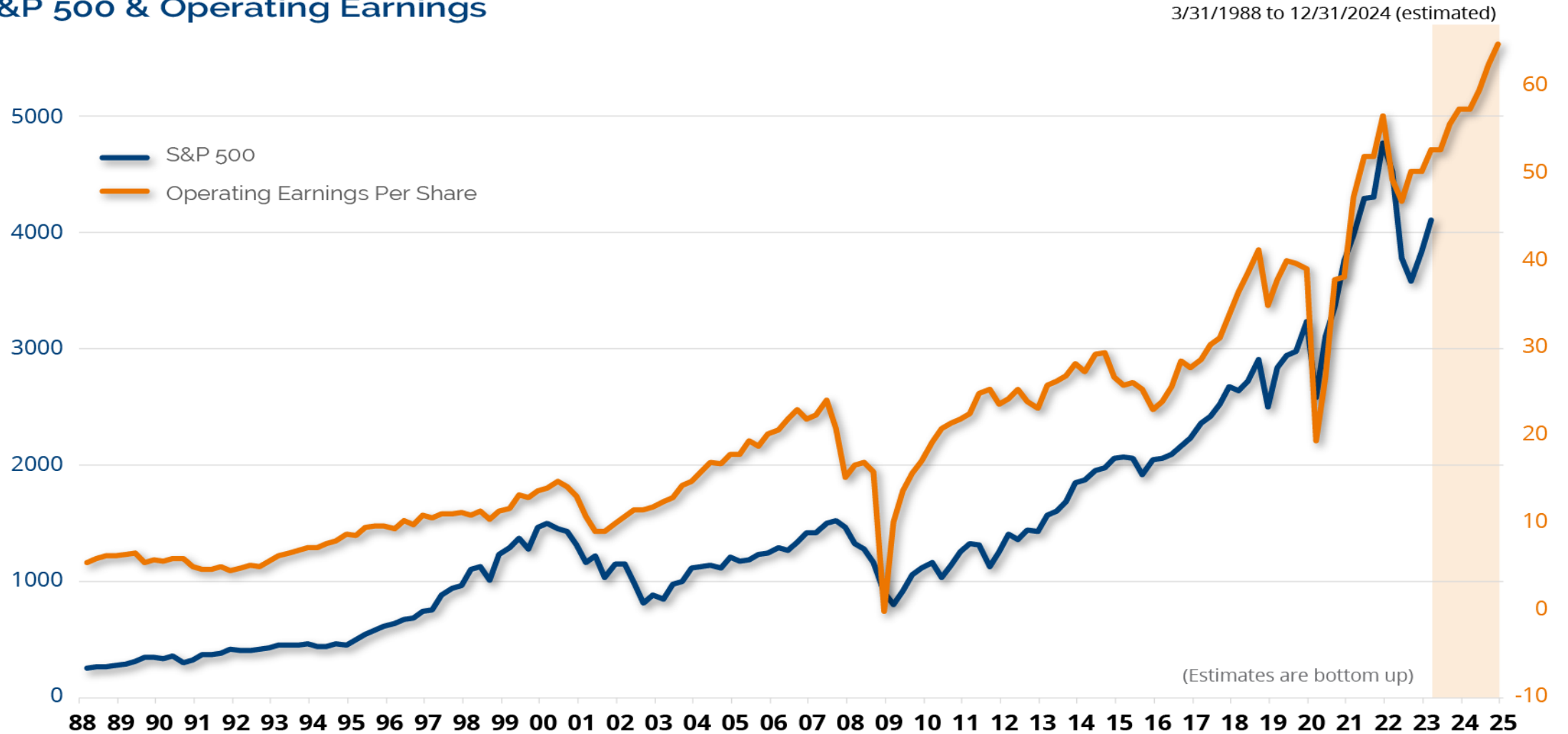
Recession Start Declared	S&P 500	Recession End Declared	S&P 500	Missed Return
06/08/2020	3232	07/19/2021	4258	31.74%
12/01/2008	816	09/20/2010	1143	40.00%
11/26/2001	1157	07/17/2003	982	-15.18%
04/25/1991	379	12/22/1992	440	16.10%
01/06/1982	119	07/08/1983	168	40.59%
06/03/1980	111	07/08/1981	128	16.12%
			<b>Average</b>	<b>21.56%</b>

For illustrative purposes. Past performance is not indicative of future results.



# No signs of an “Earnings Recession”

## S&P 500 & Operating Earnings



Source: S&P Dow Jones Indices.

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## Is the Consumer healthy?

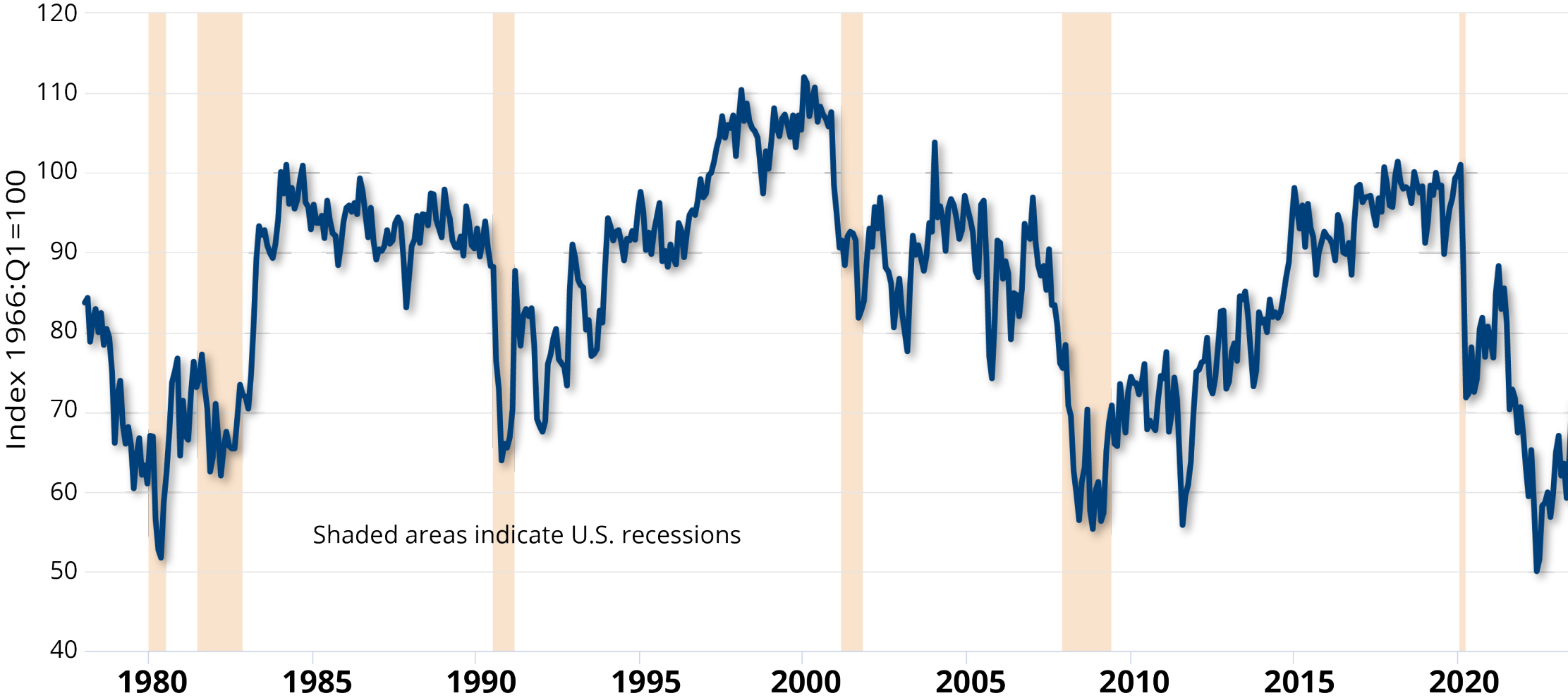
- Consumers are feeling better
- Credit card balances reached one trillion
- Most people are paying off balances or making more than min payments
- Delinquency and charge-off rates are low
- Household wealth is rising again
- Consumers have equity in their homes



# Consumers are starting to feel better

## University of Michigan: Consumer Sentiment

01-31-1975 to 08-31-2023



Sources: University of Michigan, fred.stlouisfed.org



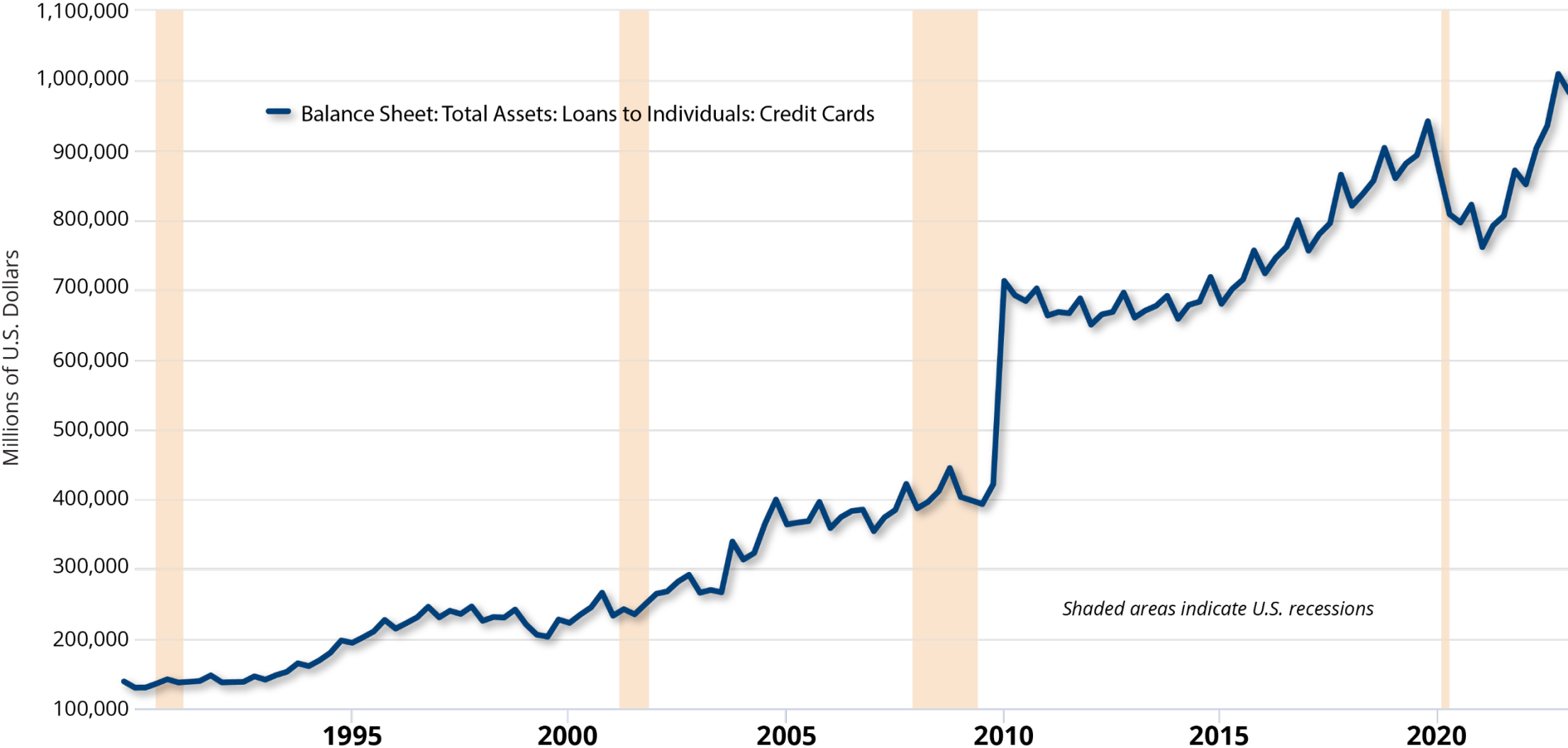
For illustrative purposes. Past performance is not indicative of future results.



# Credit card balances reached one trillion...

Balance Sheet: Total Assets: Loans to Individuals: Credit Cards

1/31/1990 to 8/31/2023



Shaded areas indicate U.S. recessions

Source: fred.stlouisfed.org

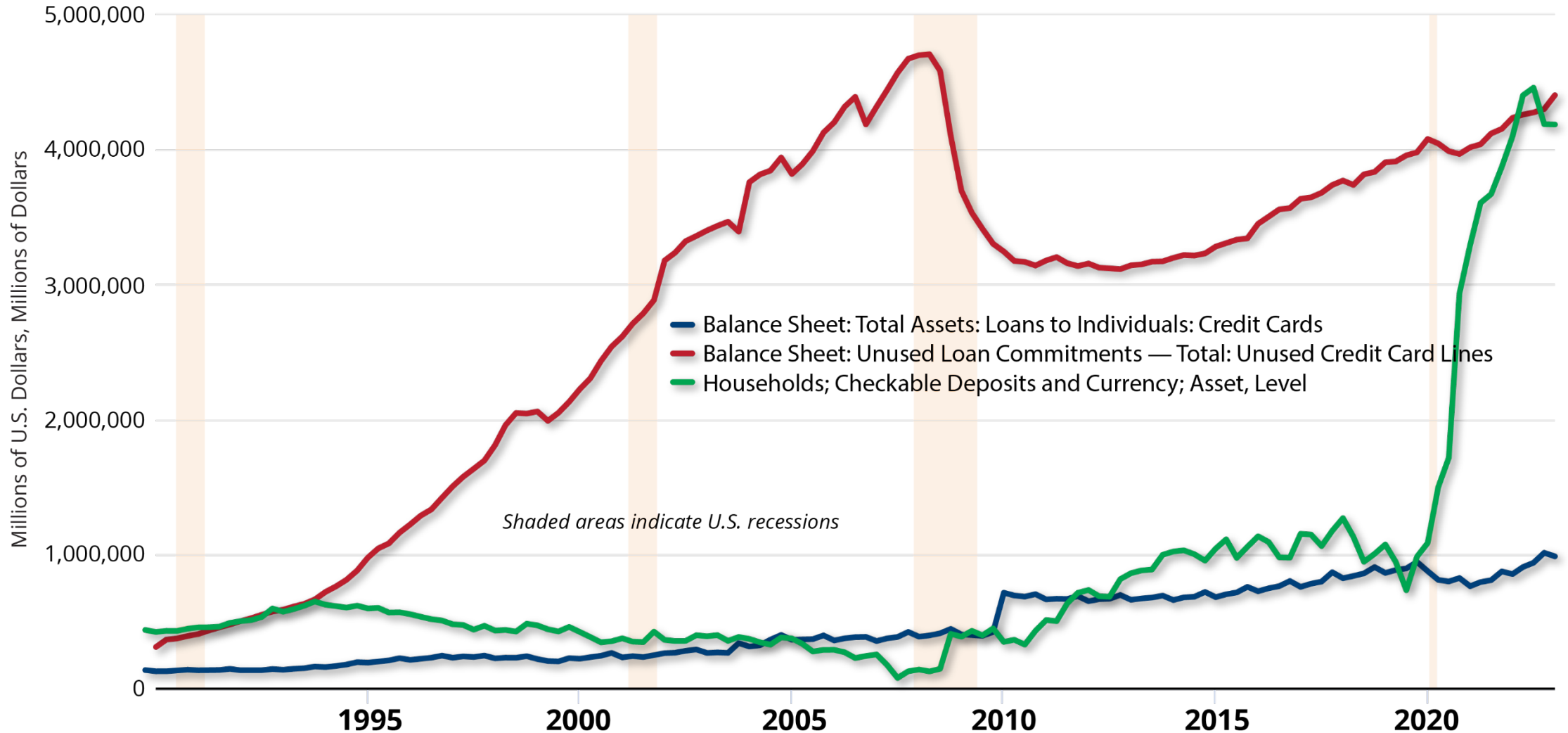


For illustrative purposes. Past performance is not indicative of future results.

# ...but Consumers are not maxing out their cards and have savings

## Credit Card Balance Sheets, Household Checkable Deposits

12/31/1989 to 8/31/2023

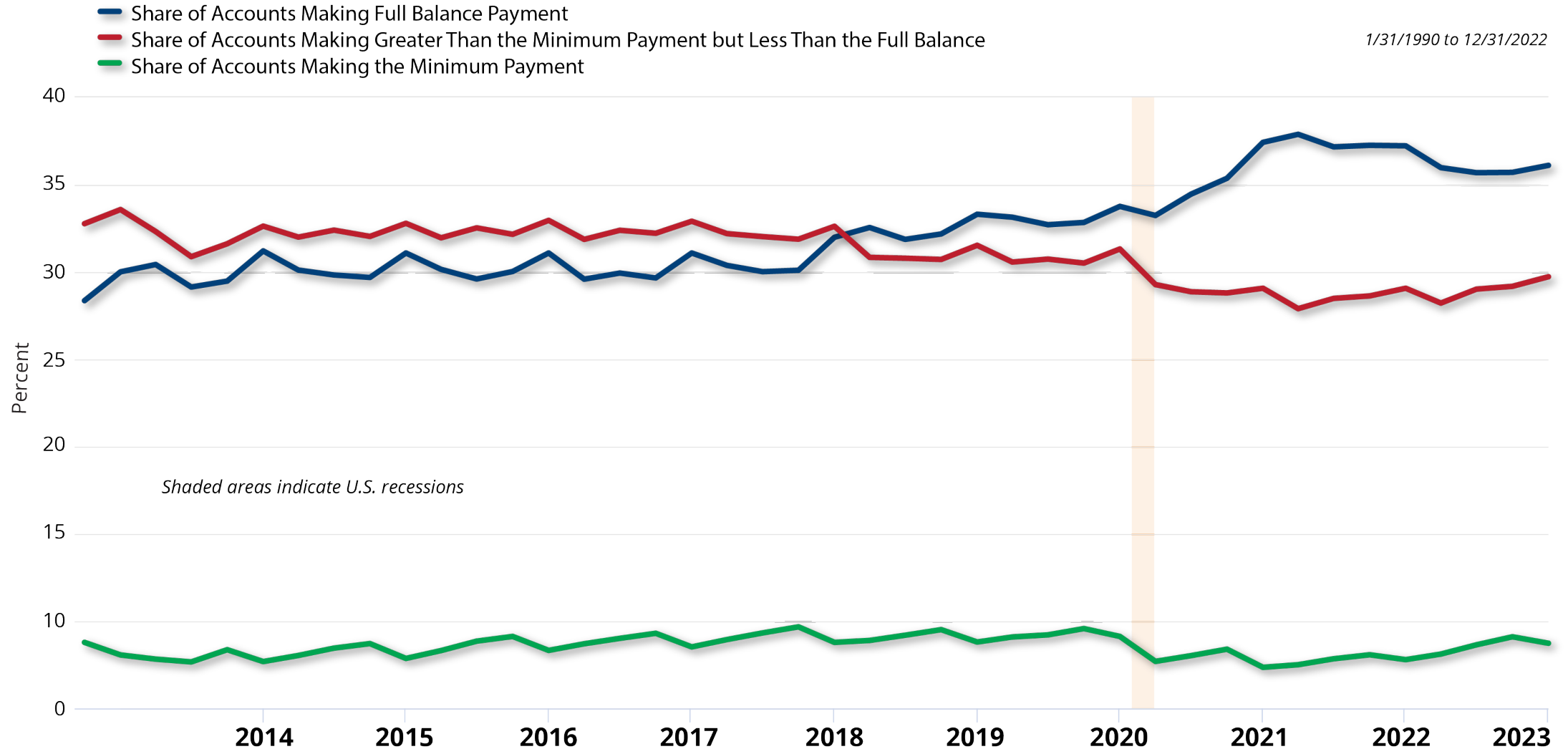


Source: fred.stlouisfed.org

For illustrative purposes. Past performance is not indicative of future results.

# Two thirds of consumers are making more than min payments or paying the full balance on their credit cards

## Large Bank Consumer Credit Card Balances



Source: Federal Reserve Bank of Philadelphia, fred.stlouisfed.org

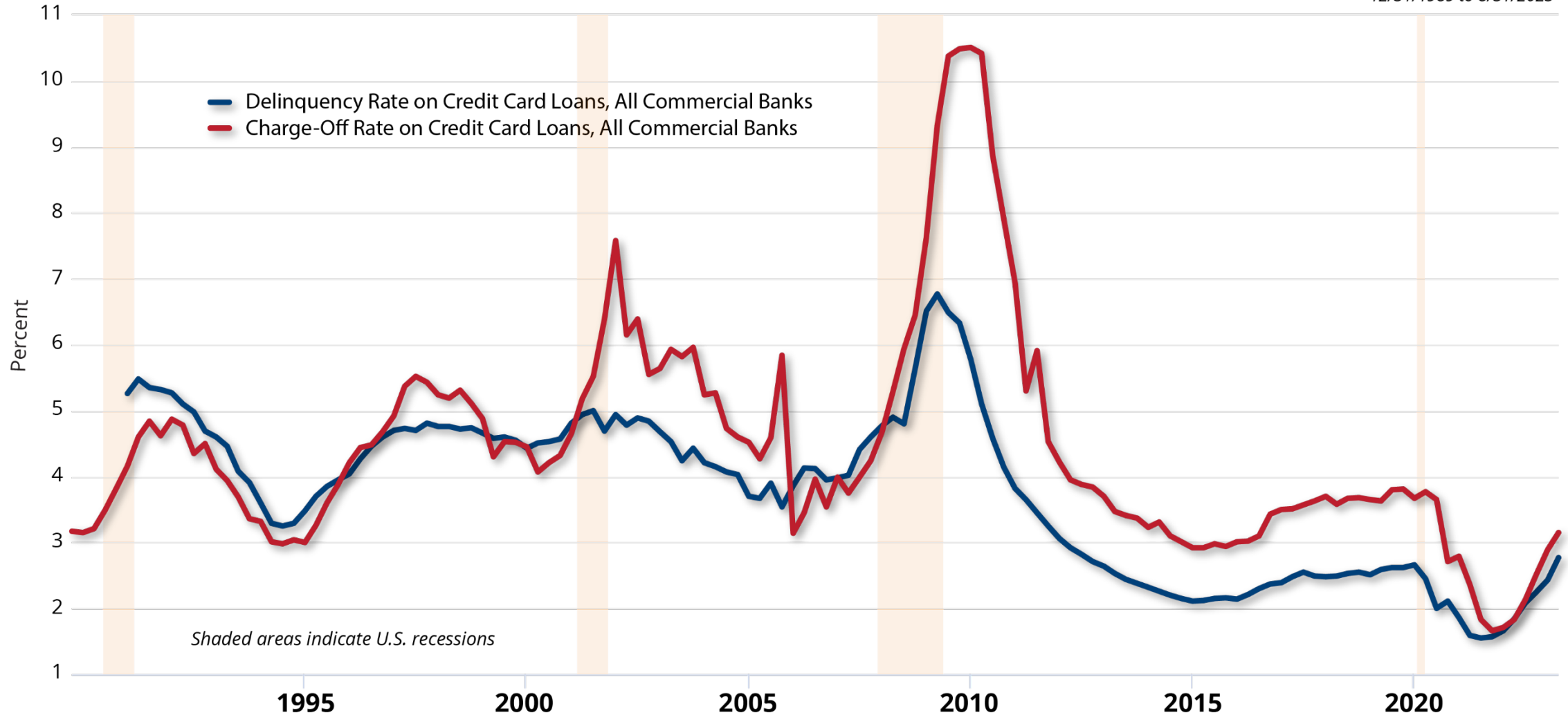
For illustrative purposes. Past performance is not indicative of future results.



# Delinquency/Charge-Off rates on credit cards are historically low

Delinquency Rate on Credit Card Loans, All Commercial Banks  
Charge-Off Rate on Credit Card Loans, All Commercial Banks

12/31/1989 to 8/31/2023



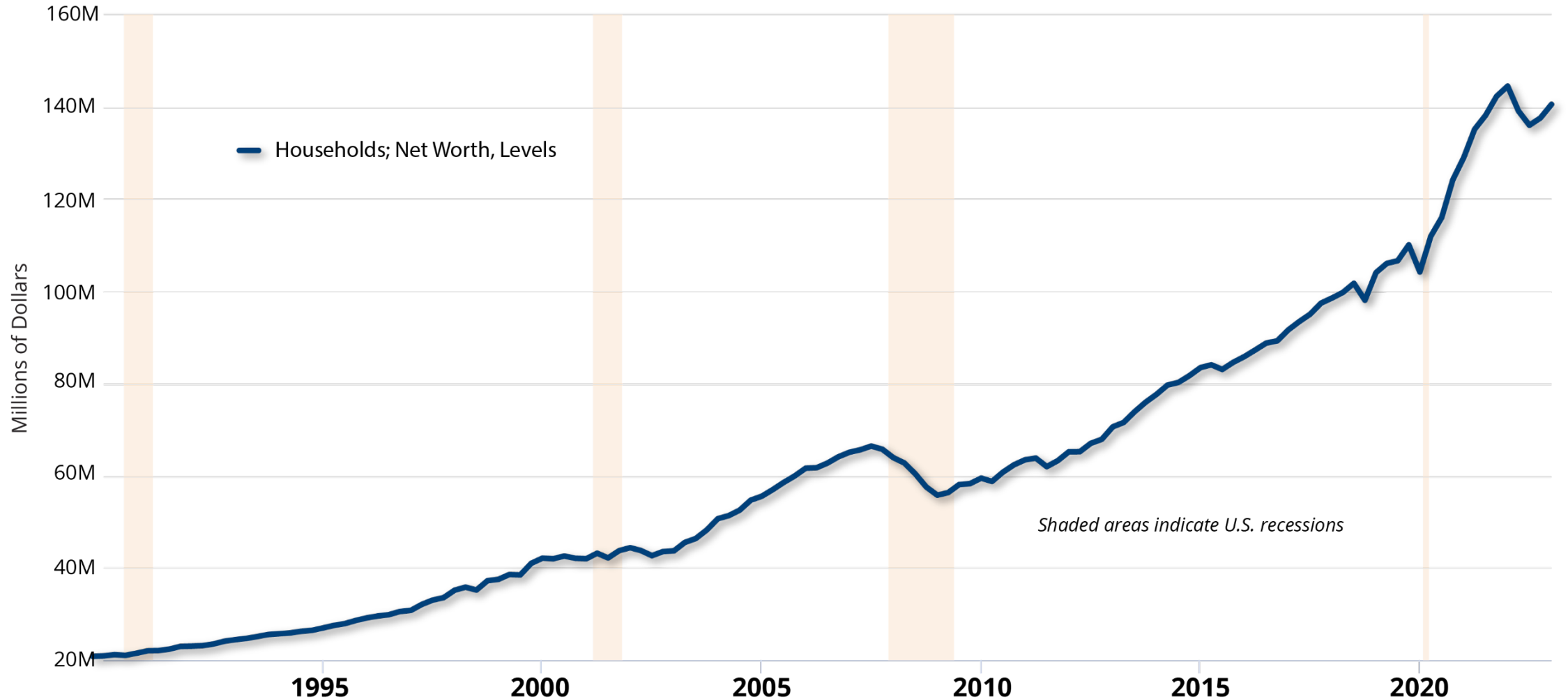
Source: [Fred.stlouisfed.org](https://fred.stlouisfed.org)

For illustrative purposes. Past performance is not indicative of future results.

# Household Net Worth is on the rise again

## Households; Net Worth, Levels

12/31/1989 to 8/31/2023

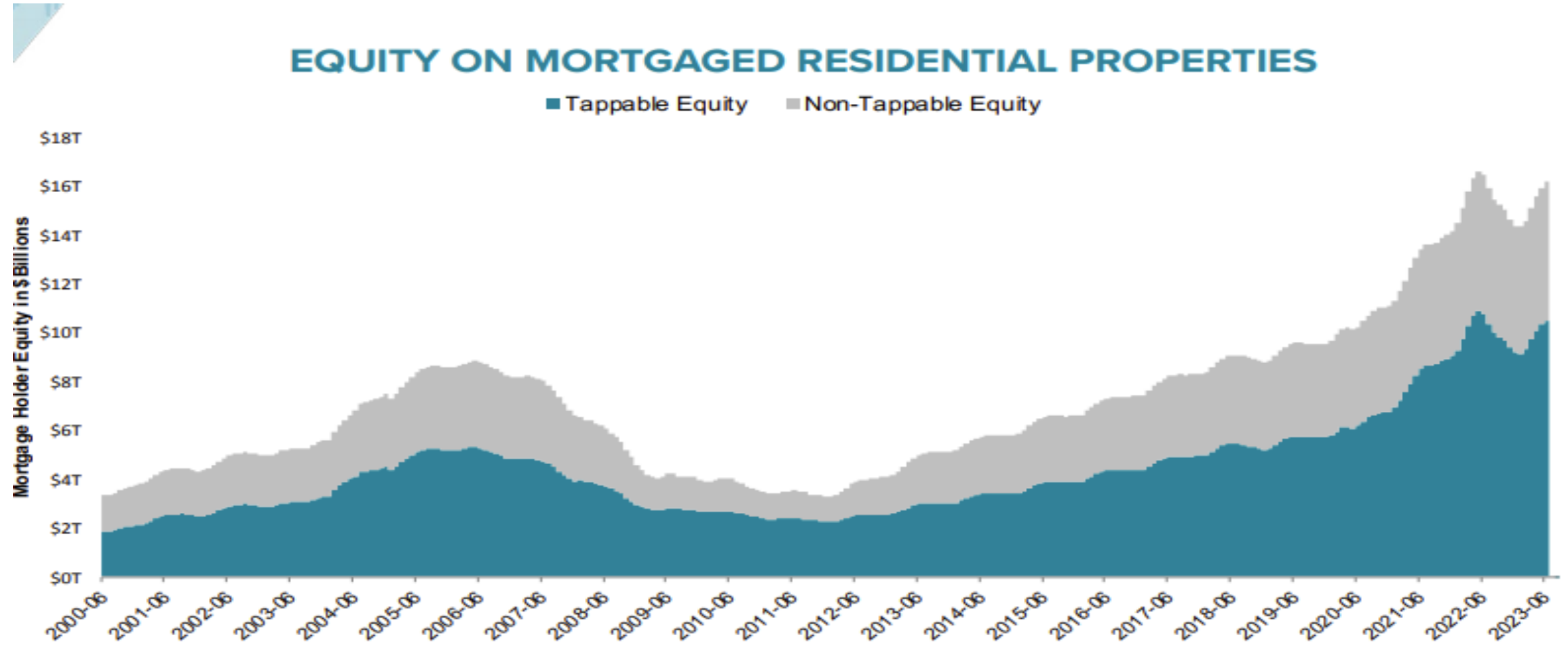


Source: [Fred.stlouisfed.org](https://fred.stlouisfed.org)

For illustrative purposes. Past performance is not indicative of future results.



# Consumer have plenty of equity in their homes



Source: Black Knight, McDash Property Module

\*Tappable equity is equity that could be withdrawn while still maintaining an 80% or lower loan to value ratio

Data through June 30, 2023



For illustrative purposes. Past performance is not indicative of future results.

Source: Black Knight, McDash Property Module

## What About Commercial Real Estate?

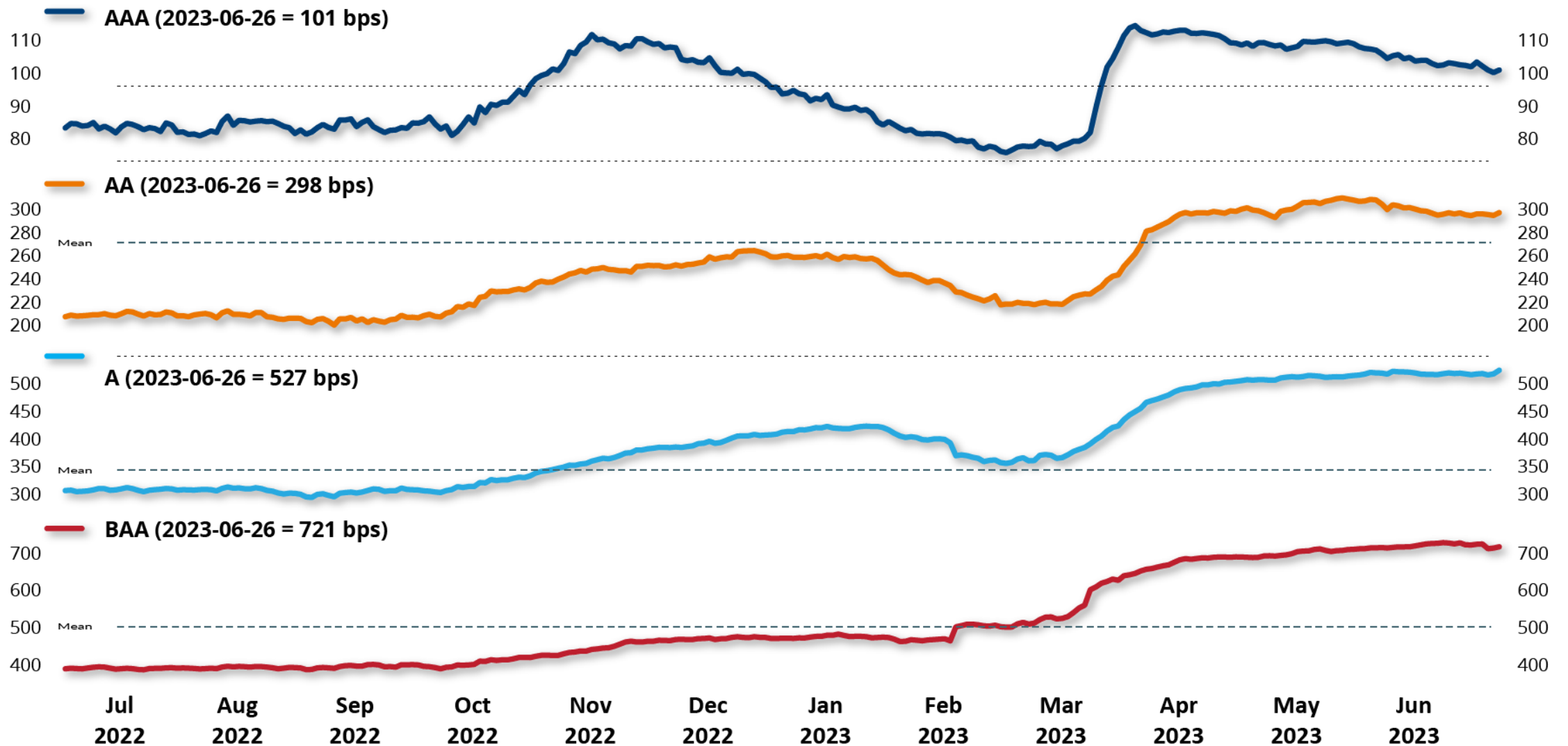
- We believe it is definitely an area to watch
- Higher credit loans holding up well
- Risk seems to be in lower credit loans
- Delinquency and charge-off rates are low



# CMBS spreads have widened significantly, especially for Baa

## OAS for U.S. CMBS by Credit Quality

Daily Data 2022-06-16 to 2023-06-26



OAS = Option-Adjusted Spread

Source: Ned Davis Research

B384R

For illustrative purposes. Past performance is not indicative of future results.

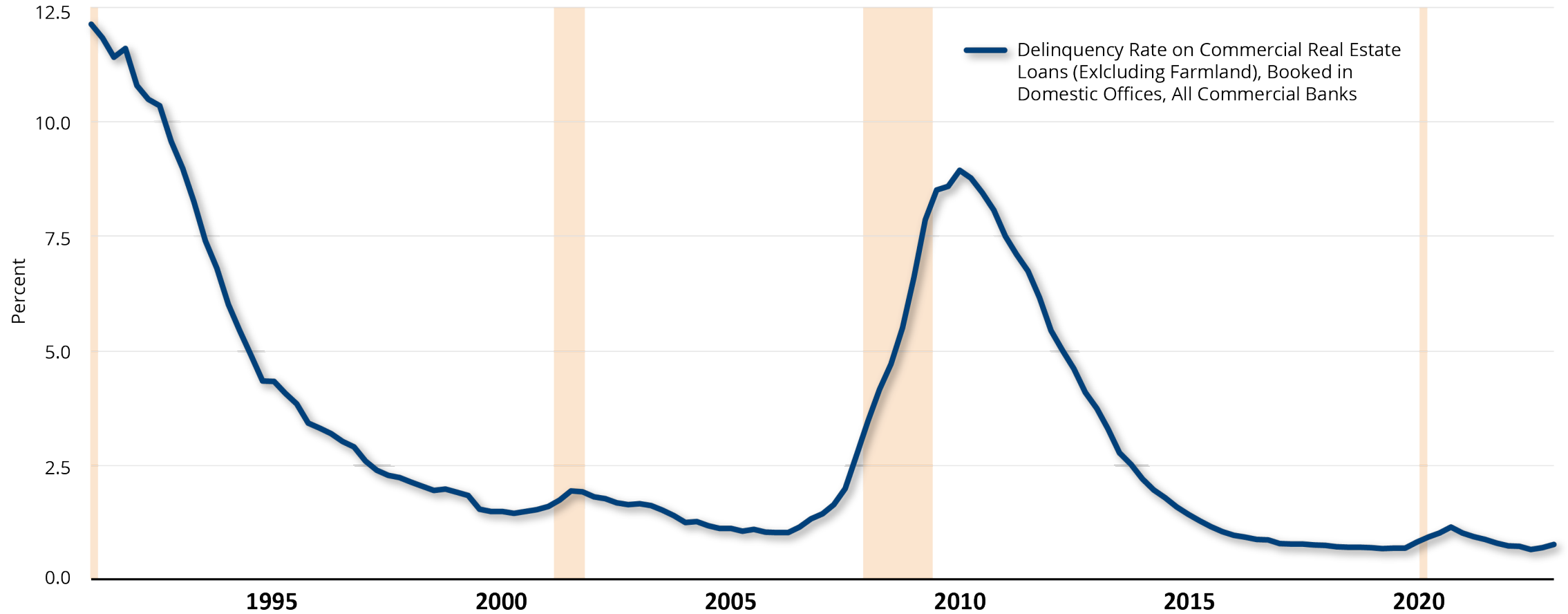




# Delinquency rates on Commercial Real Estate loans are low

Delinquency Rate on Commercial Real Estate Loans (Excluding Farmland),  
Booked in Domestic Offices, All Commercial Banks

1/1/1993 to 1/1/2023



Source: Board of Governors of the Federal Reserve System (US)



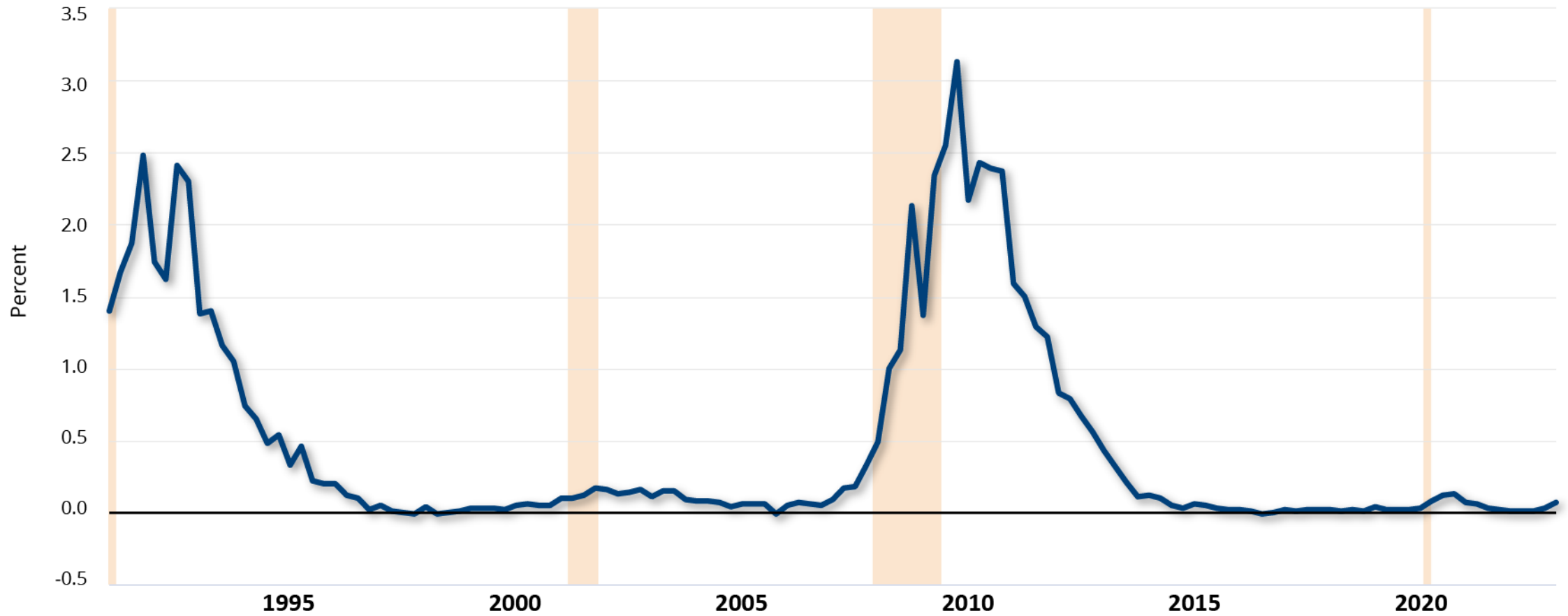
For illustrative purposes. Past performance is not indicative of future results.

FRED Board of Governors of the Federal Reserve System

# Charge-Off Rates on Commercial Real Estate loans are also low

Charge-Off Rate on Commercial Real Estate Loans (Excluding Farmland),  
Booked in Domestic Offices, All Commercial Banks

1/1/1991 to 1/1/2023



Source: Board of Governors of the Federal Reserve System (US)



For illustrative purposes. Past performance is not indicative of future results.

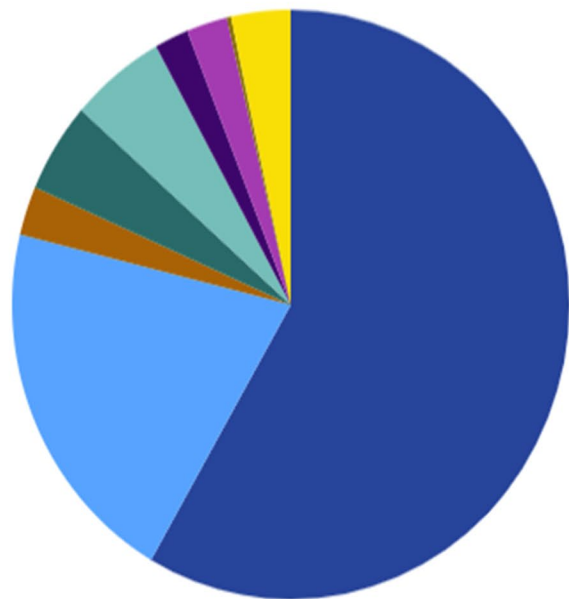
# Is the Dollar going to lose its Reserve Status?

- Widely used by central banks around the world
- Accounts for ~60% of foreign exchange reserves
- Accounts for ~90% of all foreign exchange transactions
- Can be a safe haven during times of crisis



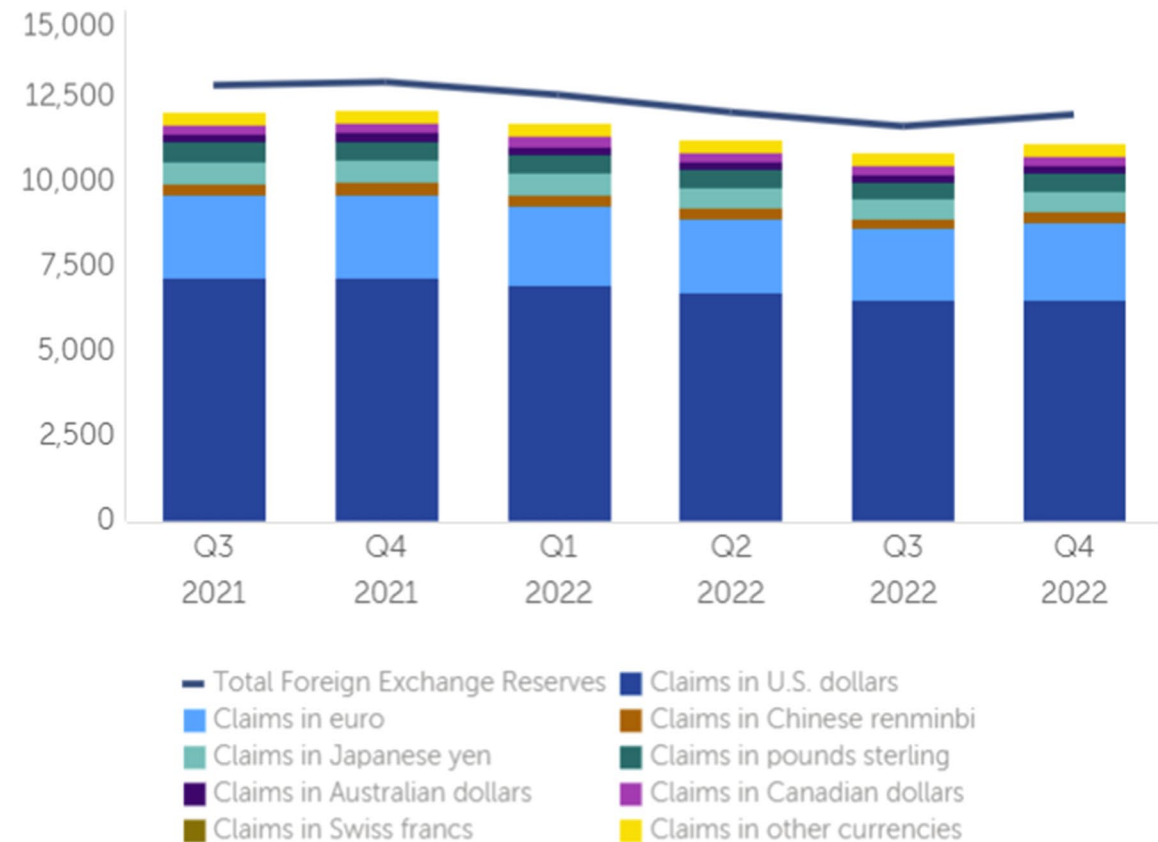
# Foreign Exchange Reserves

World – Allocated Reserves by Currency for 2022 Q4



- U.S. dollars
- Euro
- Chinese renminbi
- Pounds sterling
- Japanese yen
- Australian dollars
- Canadian dollars
- Swiss francs
- Other currencies

World – Official Foreign Exchange Reserves by Currency (U.S. Dollars, Billions)



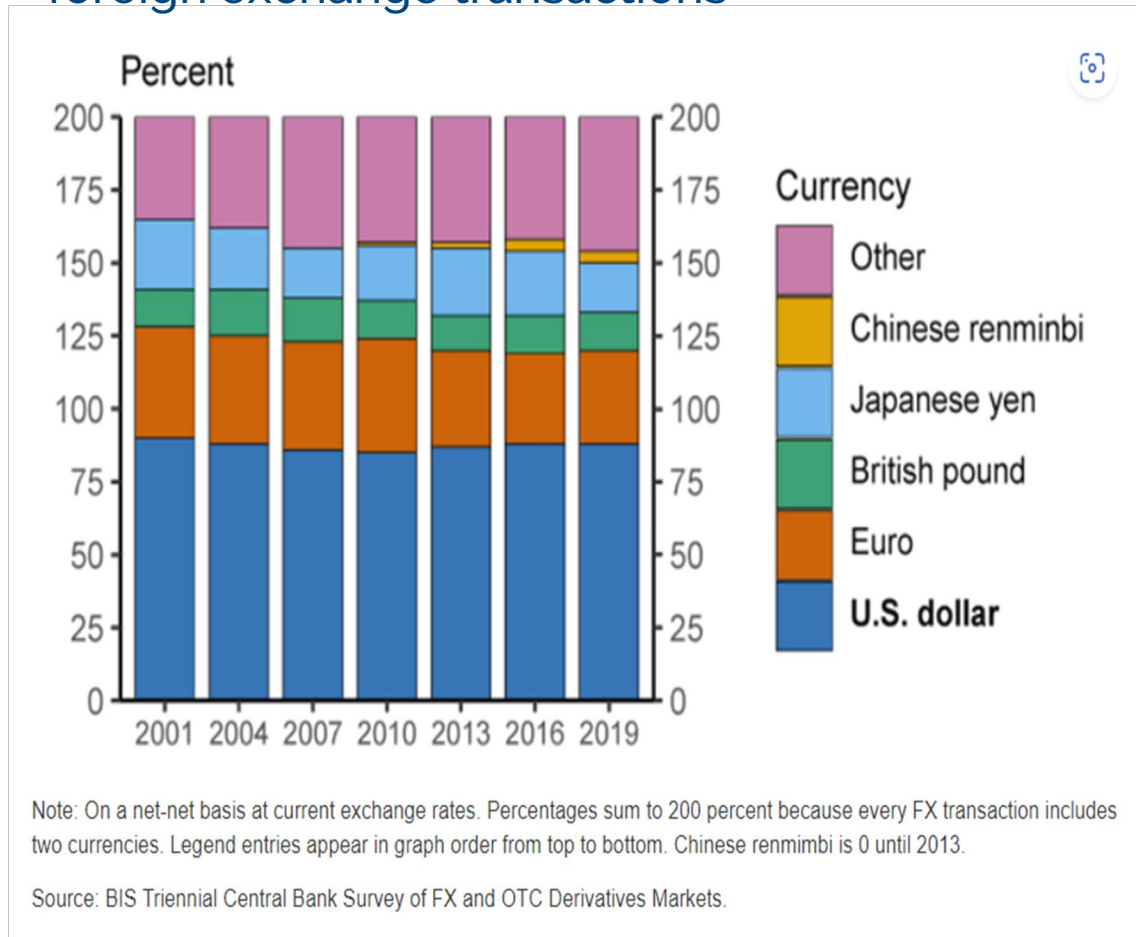
- Total Foreign Exchange Reserves
- Claims in U.S. dollars
- Claims in euro
- Claims in Chinese renminbi
- Claims in Japanese yen
- Claims in pounds sterling
- Claims in Australian dollars
- Claims in Canadian dollars
- Claims in Swiss francs
- Claims in other currencies

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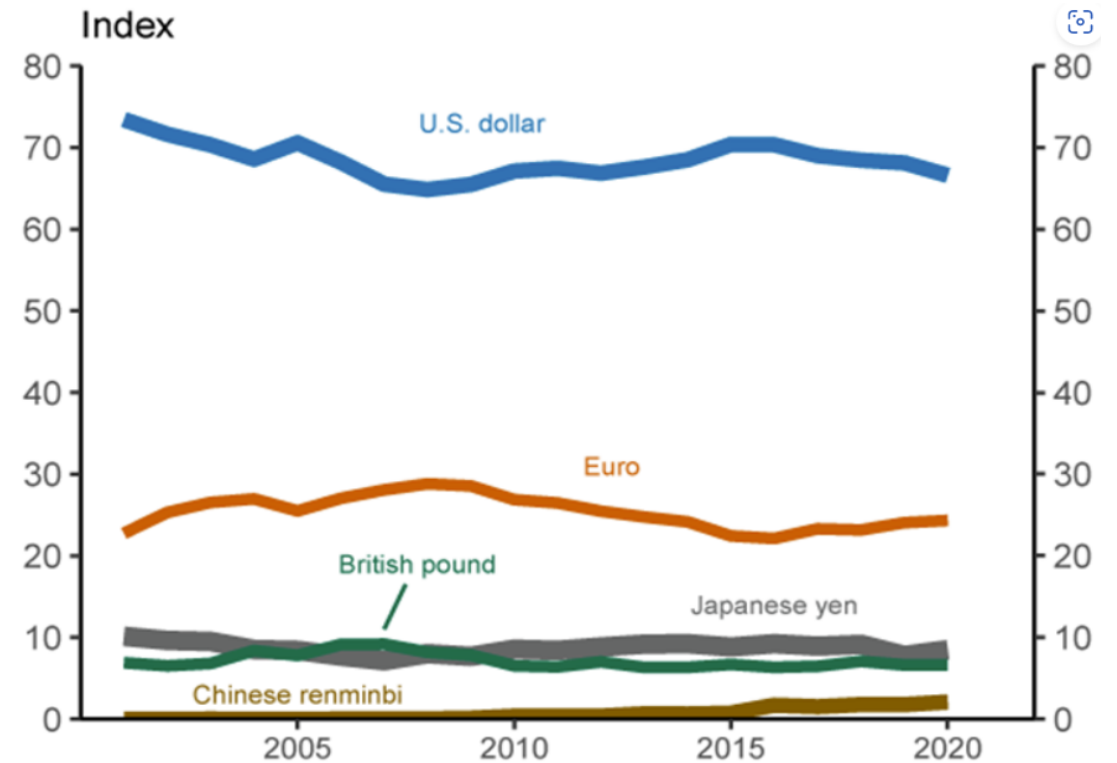


# Foreign Exchange Transactions

## Share of over-the-counter foreign exchange transactions



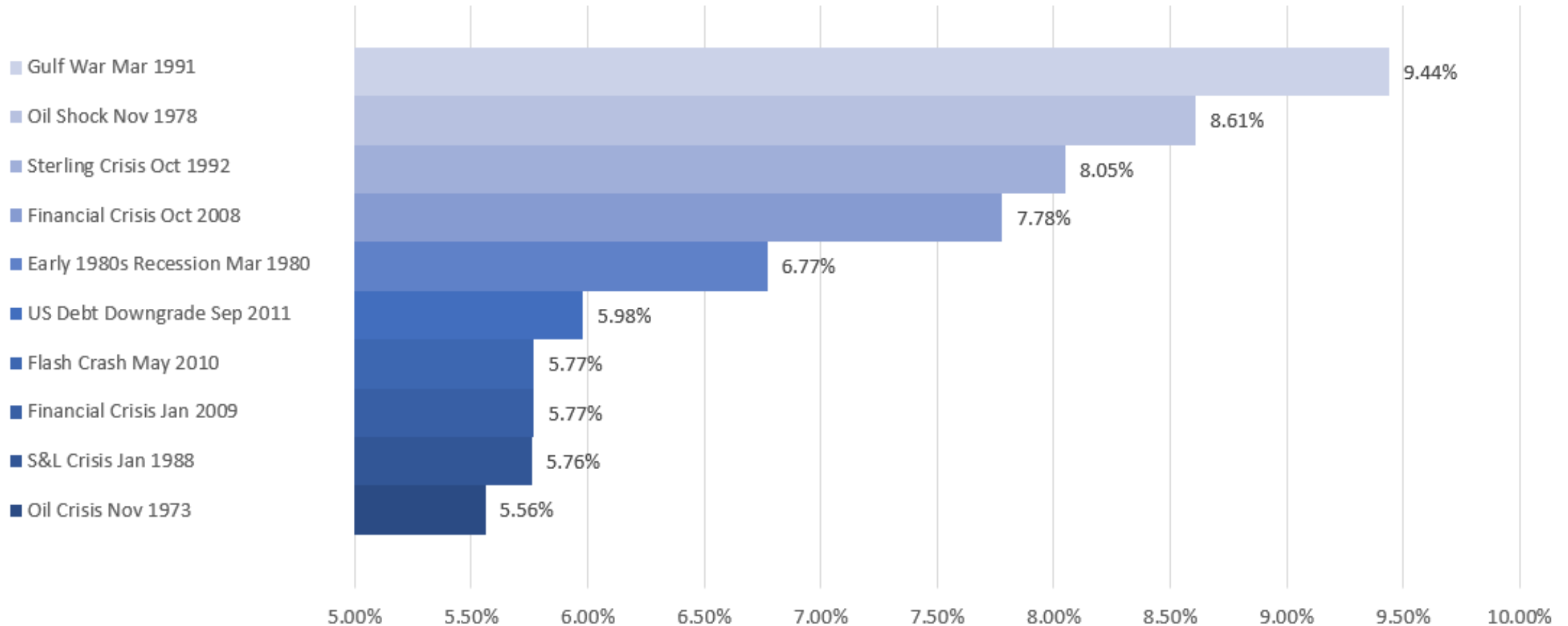
## Index of international currency usage



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# US Dollar Can be a Save Haven

## Biggest Monthly Gains in USD



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# Are you investing in Artificial Intelligence?



# How is AI Transforming Various Industries?

- Healthcare
  - Diagnose symptoms and analyze data
  - AI-powered bots assisting surgeons
  - Remote patient monitoring
- Manufacturing
  - AI systems can monitor every stage of production
  - “Cobots” can perform dangerous jobs
  - Machine learning for predictive maintenance





# How is AI Transforming Various Industries?

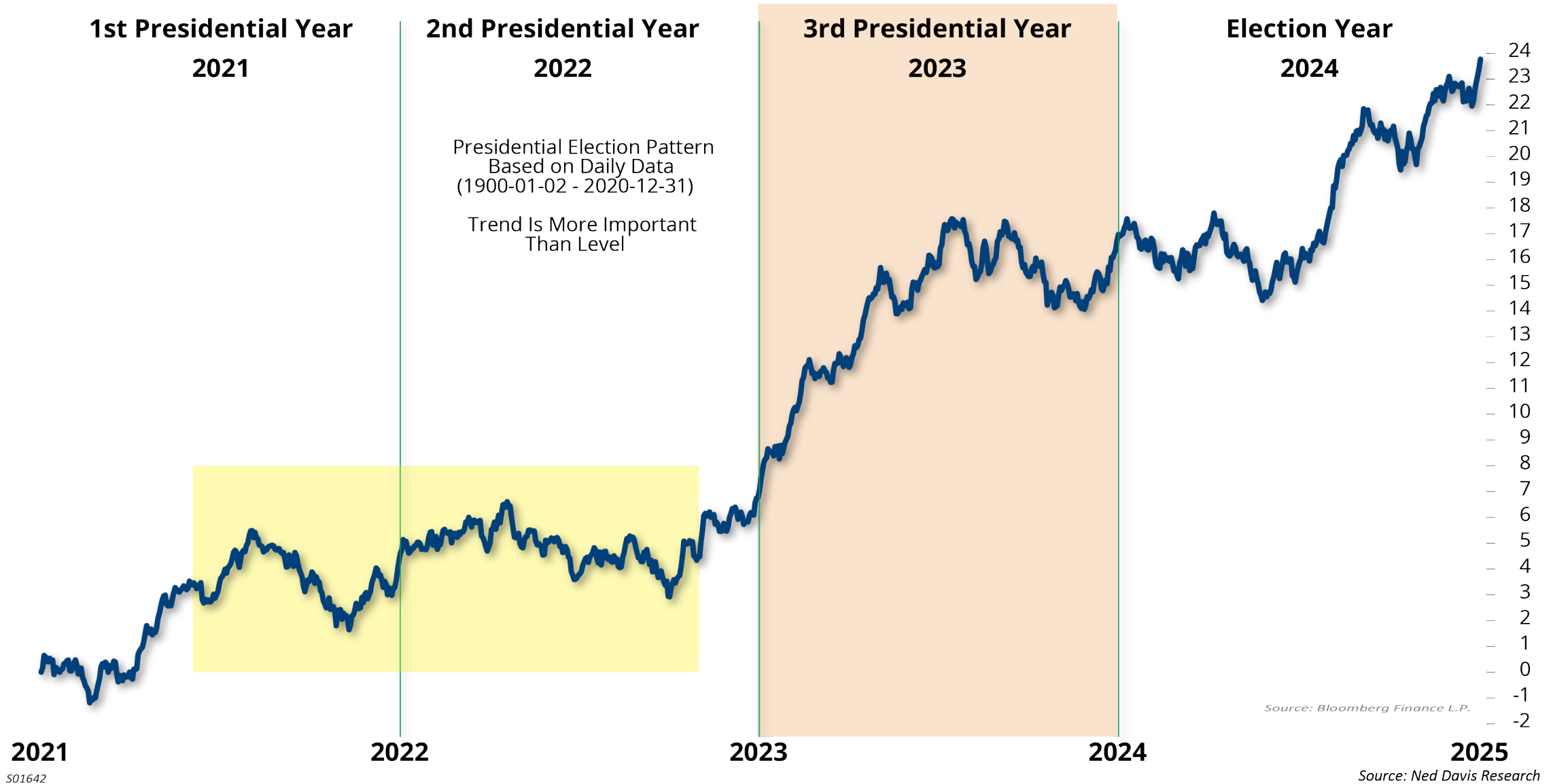
- Finance
  - Chatbots and voice assistants
  - Anti-fraud and risk monitoring
  - Credit underwriting standards
- Retail and E-Commerce
  - Sales forecasting and inventory tracking
  - AI recommendations based on purchase history
  - Respond to questions using natural language processing



# How will the 2024 Election impact the Markets?



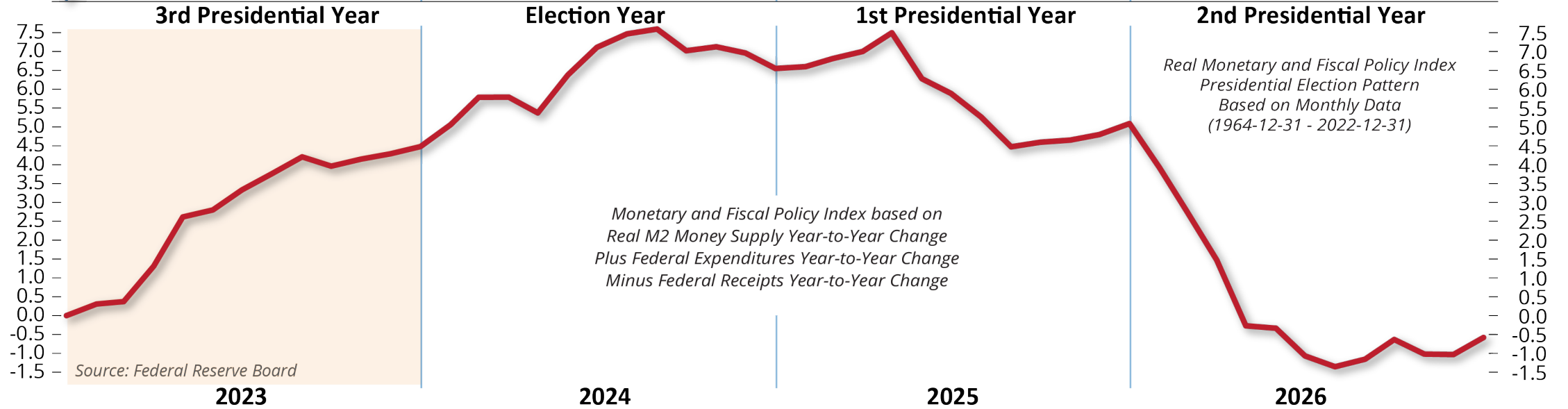
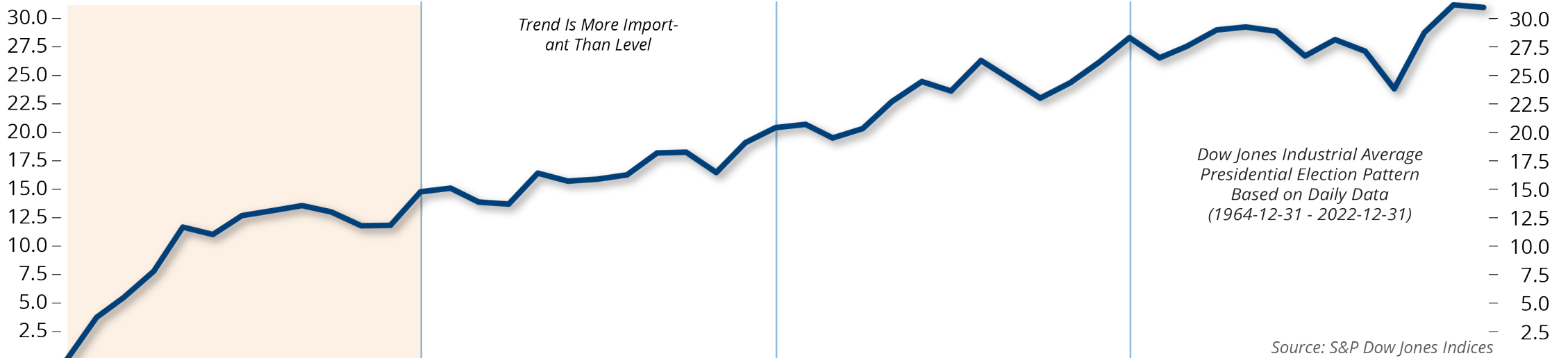
# Dow Industrials Four-Year Presidential Cycle



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# DJIA and Monetary & Fiscal Policy Presidential Cycles



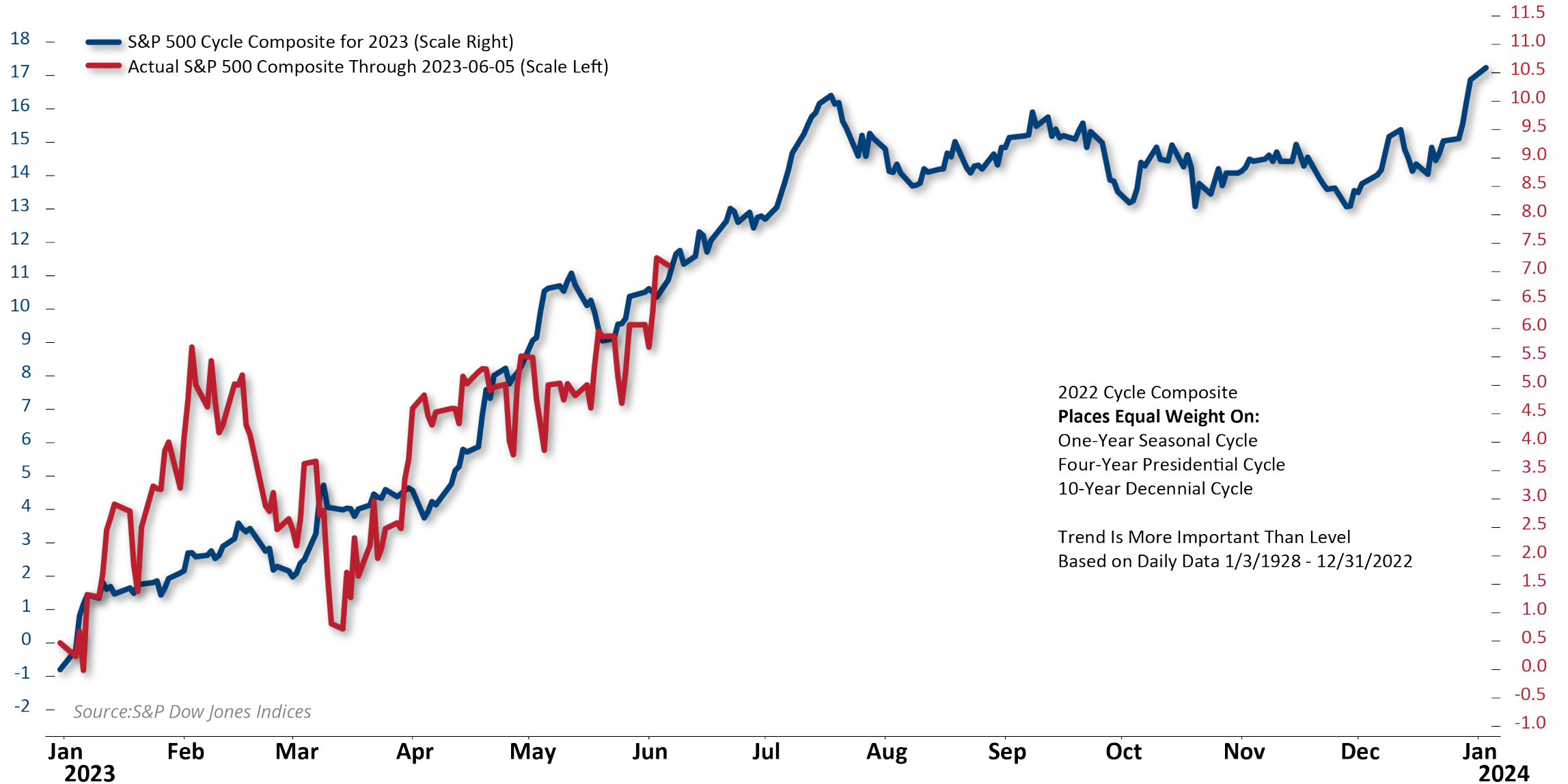
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# S&P 500 Cycle Composite for 2023

Daily Data 2021-12-31 to 2024-01-02



Source: S&P Dow Jones Indices

S01666

Source: Ned Davis Research

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Q&A



# Disclosure

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Investing involves risk, including loss of principal.

Fixed incomes securities are subject to certain risks including, but not limited to: interest rate (changes in interest rates may cause a decline in market value or an investment), credit, prepayment, call (some bonds allow the issuer to call a bond for redemption before it matures), extension (principal repayments may not occur as quickly as anticipated, causing the expected maturity of a security to increase) and inflation risk (rising prices will lower the purchasing power of the investment at maturity).

Non-investment-grade debt securities (high-yield/junk bonds) may be subject to greater market fluctuations, risk of default or loss of income and principal than higher-rated securities.

Foreign securities are more volatile, harder to price and less liquid than U.S. securities. They are subject to different accounting and regulatory standards and political and economic risks. These risks are enhanced in emerging market countries.

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# Benchmark Descriptions

The S&P 500 measures the performance of the 500 leading companies in leading industries of the U.S. economy, capturing 80% of U.S. equities.

The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 2000 Index measures the performance of the 2000 smallest U.S. companies based on total market capitalization in the Russell 3000, which represents approximately 10% of Russell 3000 total market capitalization.

The S&P MidCap 400 provides investors with a benchmark for mid-sized companies. The index covers over 7% of the U.S. equity market, and seeks to remain an accurate measure of mid-sized companies, reflecting the risk and return characteristics of the broader mid-cap universe on an on-going basis.

The MSCI All Country World ex USA Total Return (MSCI ACWI) is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International and is comprised of stocks from both developed and emerging markets.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

References to market or composite indices, benchmarks or other measures of relative market performance over a specified period of time (each, an "index") are provided for your information only. Reference to an index does not imply that the portfolio will achieve returns, volatility or other results similar to that index. The composition of the 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. Investors cannot invest directly in an index.

The 10-year Treasury yield is closely watched as an indicator of broader investor confidence. Because Treasury bills, notes, and bonds carry the full backing of the U.S. government, they are viewed as one of the safest investments.

A leading indicator is a measurable set of data that may help to forecast future economic activity. Leading economic indicators can be used to predict changes in the economy before the economy begins to shift in a particular direction. They have the potential to be useful for businesses, investors, and policy makers.

Index returns include the reinvestment of income and dividends. The returns for these unmanaged indexes do not include any transaction costs, management fees or other costs. It is not possible to make an investment directly in any index.

The volatility (beta) of an account may be greater or less than its respective benchmark.

Gross domestic product (GDP) is the monetary value of all finished goods and services made within a country during a specific period. GDP provides an economic snapshot of a country, used to estimate the size of an economy and growth rate.

GDPNow is a forecasting model that provides a "nowcast" of the official GDP estimate prior to its release by estimating GDP growth using a methodology similar to the one used by the U.S. Bureau of Economic Analysis.

The Dow Jones Industrial Average is the most widely used indicator of the overall condition of the stock market, a price-weighted average of 30 actively traded blue chip stocks, primarily industrials. The 30 stocks are chosen by the editors of the Wall Street Journal (which is published by Dow Jones & Company), a practice that dates back to the beginning of the century. The Dow is computed using a price-weighted indexing system, rather than the more common market cap-weighted indexing system.

The option-adjusted spread (OAS) is the measurement of the spread of a fixed-income security rate and the risk-free rate of return, which is then adjusted to take into account an embedded option. Typically, an analyst uses Treasury yields for the risk-free rate.

Commercial mortgage-backed securities (CMBS) are fixed-income investment products that are backed by mortgages on commercial properties rather than residential real estate.

The Daily Moving Average is a technical indicator used to analyze price trends over a security's average closing price over a period of time.

