GUIDE TO THE GAUGES

Quarterly Economic and Capital Market Review

Second Quarter 2024

Economy

Monetary Policy

Valuations

Investor Sentiment

Interest Rates

Guide to the Gauges

Our Latest Assessment of Key Economic Indicators

We believe that over the long term, stock prices are driven by two things: earnings, and what people are willing to pay for those earnings. These five gauges reflect our outlook for the factors that we believe drive stock prices.

Each gauge is comprised of a number of individual indicators, which the Investment Team evaluates on an ongoing basis to determine if the gauge is neutral, positive, or negative.

Second Quarter Summary

The economy has defied the naysayers and continues very strong in the face of recession calls. While GDP growth continues, it has begun to slow this year. While we cannot completely rule out a recession in 2024, the strength of the job market suggests that any potential recession in the year ahead would be short and shallow.

During the June FOMC press conference, Fed Chair Powell suggested that the next policy move is unlikely to be a rate hike. He also indicated that rate cuts would not be appropriate until the committee has greater confidence that inflation is on a sustainable path to its 2% target or if there is an unexpected weakening of the labor market.

We continue to hold the Valuations gauge in a neutral position as we believe stocks remain "fairly valued" at the index level. Investor sentiment, which is a contrarian indicator, moved one notch forward to the slow reverse position. While still bullish, we believe investor sentiment has moved from more elevated levels of optimism observed at the end of Q1.

The gauges represent the firm's expectations for the market, and how changes in the market will affect the strategy, but are only projections which assume certain economic conditions and industry developments and are subject to change without notice.

No Change in Position

Economy

This quarter, we held the Economy gauge in neutral to reflect that while GDP growth was above trend in 2023, it has begun to slow this year. Manufacturing activity in the U.S. has been in contraction for 19 out of the last 20 months. Service sector activity has also slowed with 2 of the last 3 months in contraction, although 46 out of the last 49 months have been in expansion. The Federal Reserve appears to be achieving the elusive soft landing, although we cannot completely rule out a recession in 2024. However, given the strength of the job market, we believe any potential recession would be short and shallow.

Key Takeaways

GDP
The third and final reading of GDP for Q1 2024 came in at 1.4%, up slightly from the second estimate of 1.3%. The Atlanta Fed's GDPNow is forecasting 1.7% for Q2 2024 GDP. The U.S. economy continues to defy the skeptics, although it is beginning to show signs of slowing.

Labor Market
The third and final reading of GDP for Q1 2024 came in at 1.4%, up slightly from the second estimate of 1.3%. The Atlanta Fed's GDPNow is forecasting 1.7% for Q2 2024 GDP. The U.S. economy continues to defy the skeptics, although it is beginning to show signs of slowing.

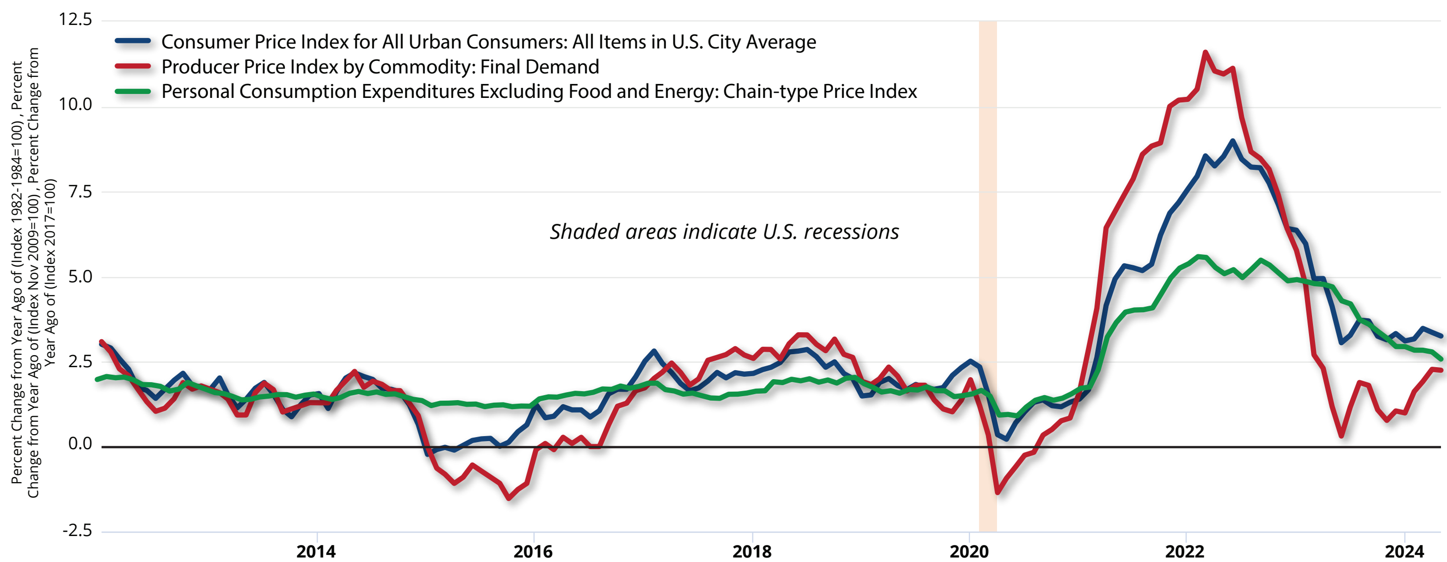
Inflation
Headline Consumer Price Index (CPI) and Producer Price Index (PPI) for May came in at 3.3% and 2.2%, respectively. Both were lower than consensus estimates. The Fed's preferred measure of inflation, Core Personal Consumption Expenditures (PCE), came in as expected in May at 2.6% and declined 0.2% from April's 2.8% reading.

Inflation Measures Cooling

The rate of inflation continues to move closer to the Federal Reserve's target of 2%, although the last mile can often be the bumpiest.

Consumer Price Index for All Urban Consumers
Personal Consumption Expenditures
Producer Price Index by Commodity

01/01/2012 to 05/01/2024



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

Source: fred.stlouis.org

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

No Change in Position

Monetary Policy

This quarter, we held the Monetary Policy gauge in neutral to reflect that the Federal Reserve continues to be on hold. During the June FOMC press conference, Fed Chair Powell suggested that the next policy move is unlikely to be a rate hike. He also indicated that rate cuts would not be appropriate until the committee has greater confidence that inflation is on a sustainable path to its 2% target or if there is an unexpected weakening of the labor market.

Key Takeaways

Rate Hikes
June marked the seventh consecutive meeting where the Federal Reserve held rates steady in a range of 5.25%-5.5%. July will mark one year since the last rate hike.

Fed Fund Futures
Fed fund futures are currently pricing in four rate cuts through July of 2025.

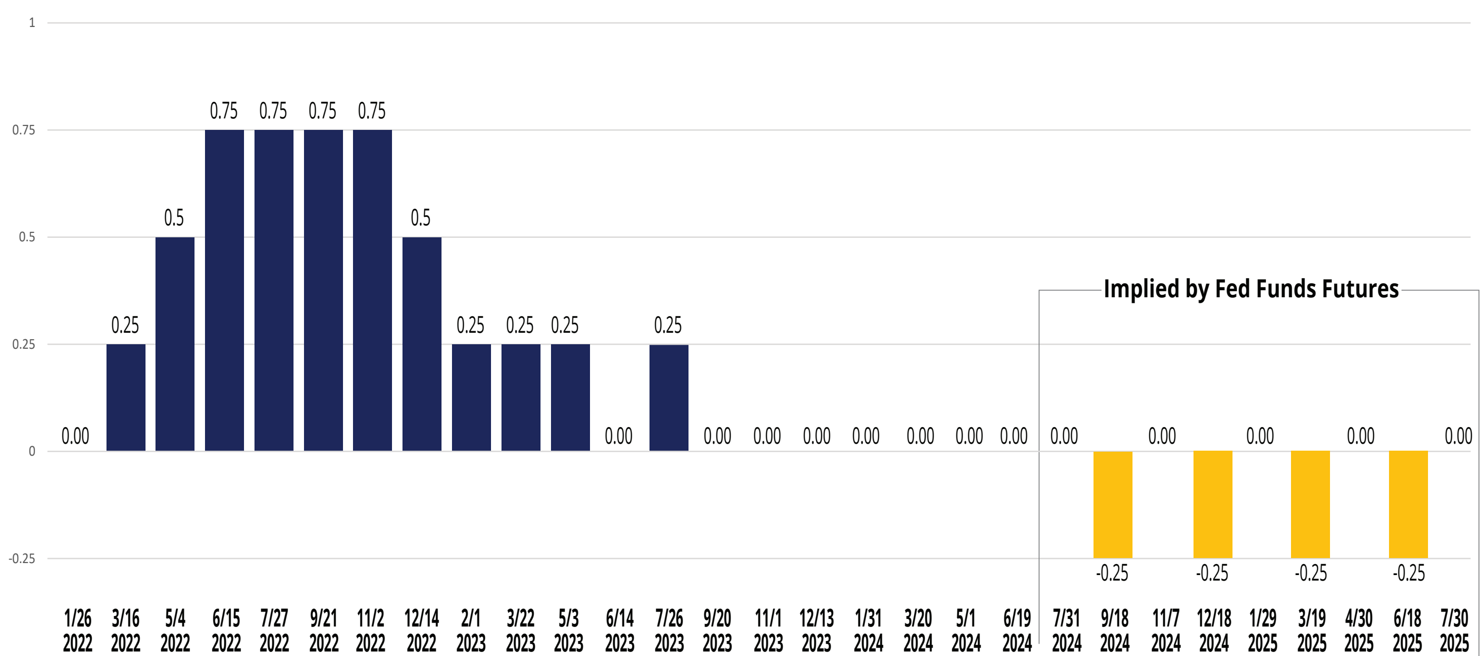
Balance Sheet
The Fed also announced that the pace of Quantitative Tightening (QT) would slow in June from a reduction of $60B in Treasury securities a month to $25B. The current target of reducing mortgage securities by $35B a month will remain in place.

Fed on Hold

After raising rates to a range of 5.25%-5.5%, the Fed has been on hold since July of last year. Fed fund futures are currently pricing in four rates cuts through July of next year.

Fed Rate Hikes: Actual and Implied by Fed Funds Futures

As of 6/30/2024



Source: Clark Capital, fred.stlouisfed.org, CME FedWatch Tool. For illustrative purposes only. Past performance is not indicative of future results. Neither past actual, projections, nor other forward looking statements regarding future financial performance of markets are only predictions and actual events or results may differ materially.

No Change in Position

Valuations

This quarter, we held the Valuations gauge in neutral to reflect that forward P/E multiples remain in "fair value" range for S&P 500 companies.

Key Takeaways

P/E Multiples
Despite multiple record highs in 2024, the S&P 500 remains in "fair value" range as earnings growth has kept valuations near average levels over the last few decades.

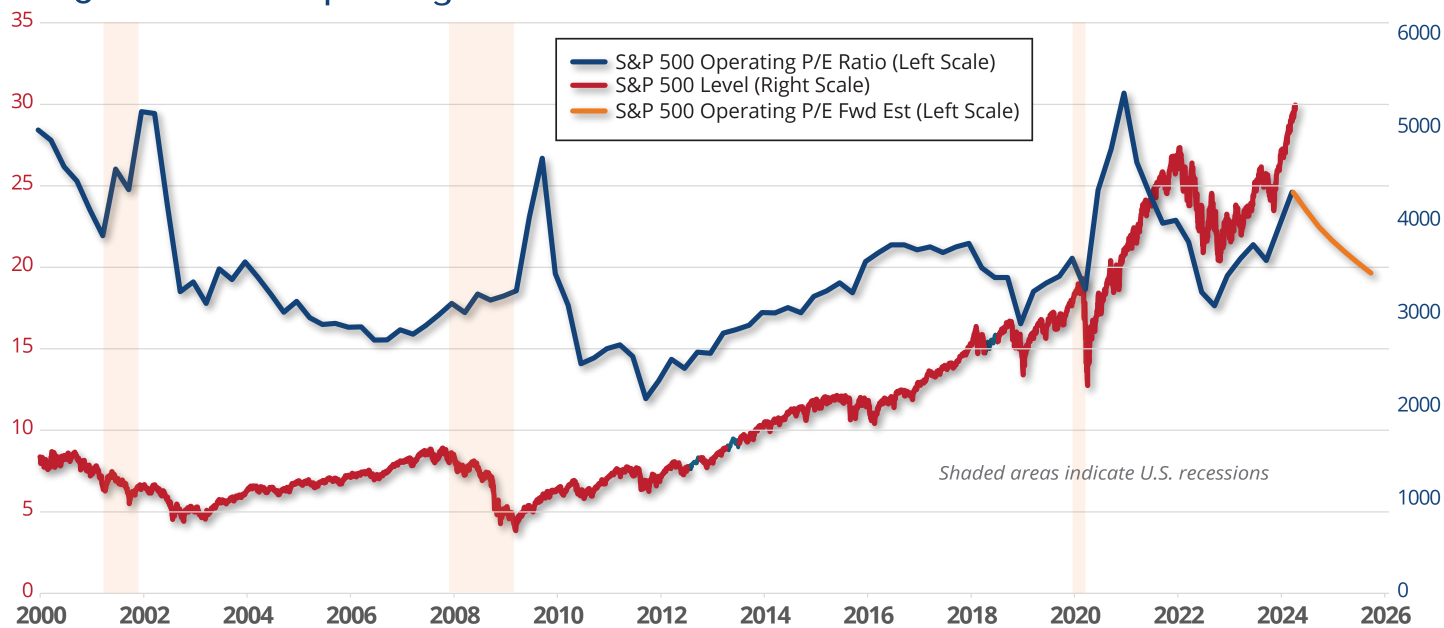
Earnings
Analysts are currently forecasting ~12.2% operating earnings growth in 2024 and ~15.3% growth in 2025. Both would represent record S&P operating earnings. We acknowledge that these estimates will likely be revised in the future.

S&P 500 Calendar Year Operating Earning per Share Actuals & Estimates

For Q1 2024, 82% of S&P 500 companies have reported EPS either in line with or above analyst estimates. Remember, over time, earnings drive stock prices.

S&P 500 Level and Operating P/E/Ratio

12/31/1999 to 05/31/2024



Source: S&P, YCharts. For illustrative purposes only. Past performance is not indicative of future results. Neither past actual, projections, nor other forward looking statements regarding future financial performance of markets are only predictions and actual events or results may differ materially

Moved one notch
to the right

Investor Sentiment

This quarter, we moved the Investor Sentiment gauge from half reverse to slow reverse to reflect that investor sentiment, while still bullish, has moved from more elevated levels of optimism observed at the end of Q1. We also observed that stock volatility, as measured by the VIX Index, has remained subdued. Investor sentiment is a contrarian indicator. The more fear and pessimism among investors, the more positive for stocks, and vice versa. This is a sensitive gauge and can change quickly.

Key Takeaways

AAII Survey
At the end of March, the AAII Investor Survey reached 50% bullish, a potential warning sign of a pullback. That signal proved to be correct as the S&P 500 declined during the month of April. As equity markets recovered in May and June, the survey moved to a slightly elevated level of bullishness but not to the degree observed at the end of Q1.

VIX Index
After ending Q1 at a level of 13.01, the VIX index surged to 21.36 by April 19th as the S&P 500 declined by more than 5%. The VIX index ended June at 12.44 as the S&P 500 regained its prior levels.

What Does the AAII Survey Indicate About Bullish and Bearish Sentiment?

Since it's inception in 1987, the AAII Survey has been a useful contrarian indicator. In the past when the survey has reached extreme levels of bullishness or bearishness, a change in direction for the market often follows.

Week Ending	Bullish	Neutral	Bearish
6/26/2024	44.5%	27.2%	28.3%
6/19/2024	44.4%	33.1%	22.5%
6/12/2024	44.6%	29.7%	25.7%
6/5/2024	39.0%	29.0%	32.0%

Historial View

Historical Averages	37.5%	31.5%	31.0%
1-Year Bullish High	52.9%	Week Ending 12/20/2023	
1-Year Neutral High	38.4%	Week Ending 9/13/2023	
1-Year Bearish High	50.3%	Week Ending 11/1/2023	

Source: American Association of Individual Investors. For illustrative purposes only. Past performance is not indicative of future results.

No Change in Position

Interest Rates

This quarter, we held the Interest Rates gauge in the neutral position to reflect that the Federal Reserve remains "higher for longer."

Key Takeaways

Change in Yields
Portions of the yield curve have risen since the beginning of the year as the Fed has communicated that potential rate cuts may take longer than the market expects as inflation remains above their target. Long-term yields remain below the highs of October of 2023.

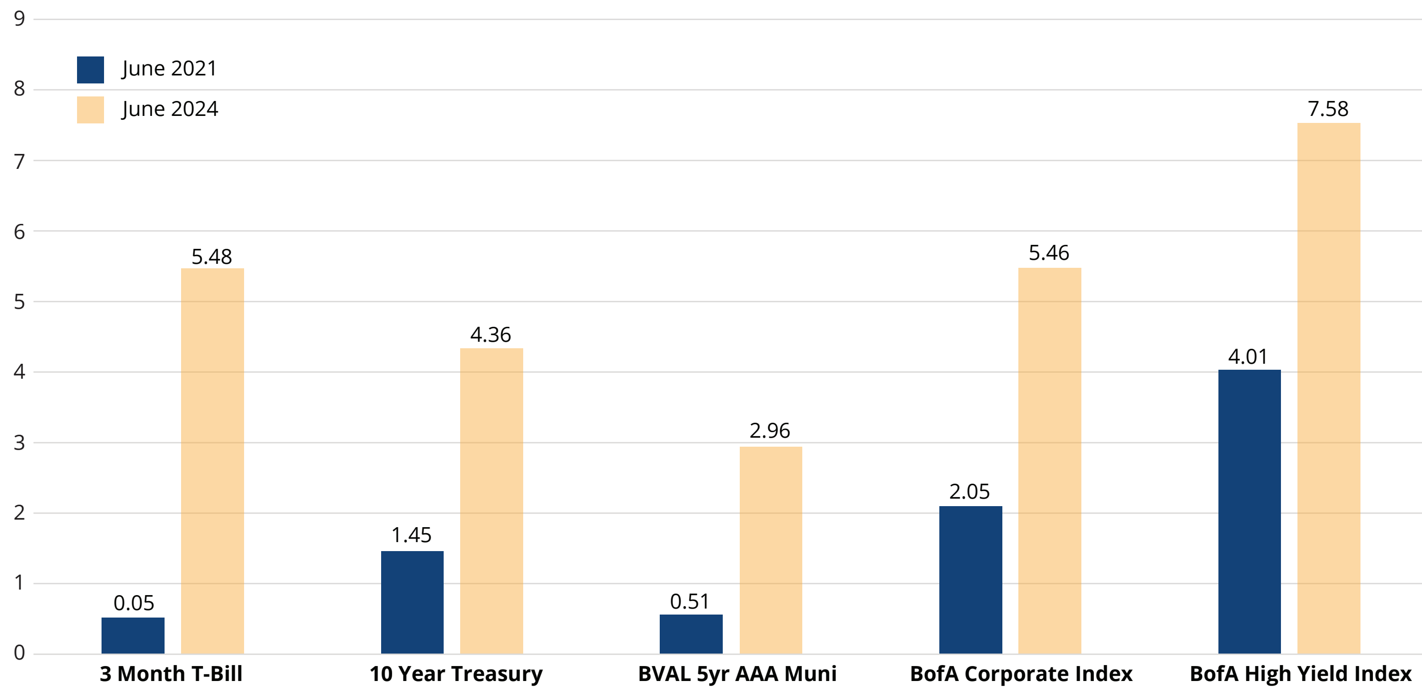
Yield Curve
The yield curve is currently inverted, a signal that often precedes recessions, though it doesn't predict their depth or duration. We expect the U.S. economy to avoid recession and achieve a soft landing, but the possibility of recession cannot be ruled out completely.

Interest Rate Volatility
Interest rate volatility, as measured by the BofA MOVE Index, increased from 86.38 at the end of Q1 to 121.15 by April 15th as long-term interest rates continued to move higher during the month. The BofA MOVE Index ended May at 98.59.

Yield Moving Higher

Yields for Treasuries, municipals, investment grade corporates, and high yield bonds are significantly higher than three years ago, presenting a potentially attractive opportunity for fixed income investors.

Change in Yields June 2021 to June 2024



Source: fred.stlouisfed.org

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The Standard and Poor's 500, or simply the S&P 500, is a stock market index tracking the stock performance of 500 large companies listed on stock exchanges in the United States.

The 3 Month Treasury Bill Rate is the yield received for investing in a government issued treasury security that has a maturity of 3 months.

The 10 Month Treasury Bill Rate is the yield received for investing in a government issued treasury security that has a maturity of 10 months.

The MOVE Index measures U.S. interest rate volatility. The index tracks the movement in U.S. Treasury yield volatility implied by current prices of 1-month OTC options.

The ICE BofA US Corporate Index Total Return Index tracks the performance of investment grade rated corporate bonds in the U.S.

The ICE BofA U.S. High Yield Index tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market.

The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. Changes in the CPI are used to assess price changes associated with the cost of living. The price-to-earnings (P/E) ratio relates a company's share price to its earnings per share.

The Producer Price Index (PPI) is a family of indexes that measures the average change over time in selling prices received by domestic producers of goods and services.

VIX of VIX (or VVIX) is a measure of the volatility of the Chicago Board Options Exchange (CBOE) Volatility Index (VIX). The CBOE's VIX measures the short-term volatility of the S&P 500 indexes, and the VVIX measures the volatility of the price of the VIX. In other words, VVIX is a measure of the volatility of the S&P 500 index and alludes to how quickly market sentiment changes.

Gross domestic product (GDP) is a monetary measure of the market value of all the final goods and services produced and sold in a specific time period by countries.

Fixed income 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), and extension (principal repayments may not occur as quickly as anticipated, causing the expected maturity of a security to increase).

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.

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