

# THE ECONOMY AT A GLANCE

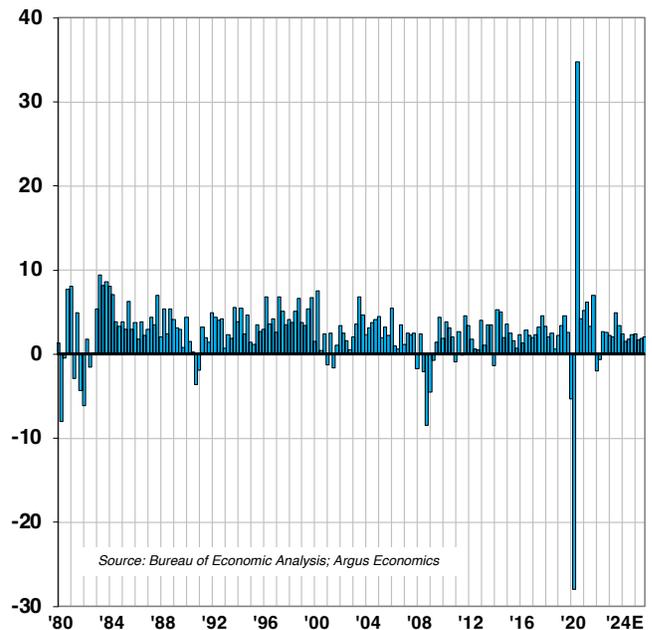
## ECONOMIC HIGHLIGHTS

April 22, 2024  
Vol. 91, No. 60

### RAISING 1Q GDP GROWTH FORECAST TO 2.4%

The final reading of U.S. Gross Domestic Product expanded in the fourth quarter at an annualized rate of 3.4%, up from the second estimate of 3.2%. Consumer spending, designated as Personal Consumption Expenditures (PCE), contributed 2.2 points of the increase. Our 2024 GDP forecast is still for 2.0% growth. We have raised our 1Q24 GDP forecast to 2.4% from 2.3% and lifted our 2Q estimate to 1.5% from 1.3%. Our second half estimate is unchanged. We expect 2Q to be the weakest quarter of 2024. On April 4, the Atlanta Fed's GDPNow model estimated 1Q24 growth of 2.5%. Based on our analysis of the Nowcast, we believe that PCE, Residential Investment, Intellectual Property, and Government could all add to 1Q GDP, while Equipment, Nonresidential Structures, Net Exports, and Inventories may detract from or add very little to growth. Our 2024 forecast assumes inflation continues to fall and the Fed has completed its rate-hike campaign, with monetary easing likely to begin in the second half of the year. In recent data, the New Orders component of the ISM Purchasing Managers Index for March rebounded to 51.4 from a contractionary 49.2 in February. The headline PMI also rebounded. That raises our hopes (slightly) for the manufacturing sector. Our outlook for spending in the huge services category remains positive. The services PMI came in at an expansionary 51.4 in March, although it declined from 52.6 in February. The economy is on a growth path, but the yield curve is still inverted so a geopolitical surprise could trigger a slowdown. Our forecast is for GDP to grow 2.0% on 2025.

### GDP TRENDS & OUTLOOK (% CHANGE)



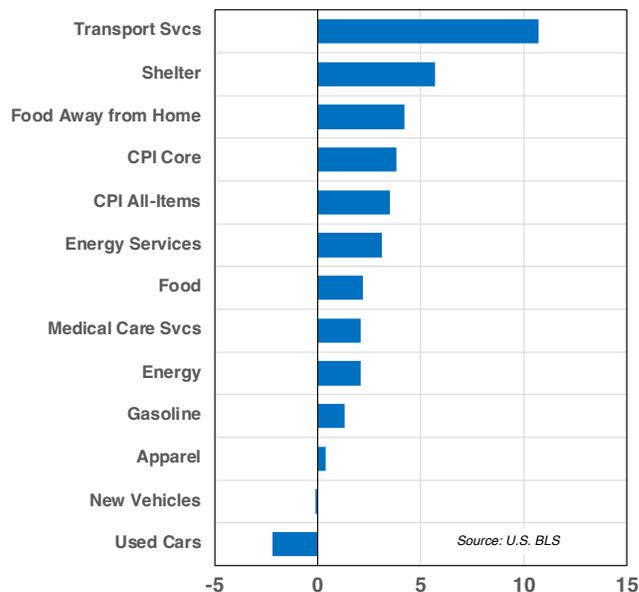
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# ECONOMIC HIGHLIGHTS (CONTINUED)

## INFLATION PROGRESS CHALLENGING

According to the latest CPI report, the overall inflation rate in March of 3.5% was higher than the prior month's rate of 3.2%. That bit of bad news was compounded by a steady reading in the core CPI rate, which excludes the impact of food and energy and rose at an annual pace of 3.8% over the past year. What's propping up core CPI? Two main factors: Transportation Services (+10.7% YOY) and Shelter (+5.7%). These elements of the index have prices that don't typically fall sharply. Energy prices are also starting to tick higher. Also of note was the recent Producer Price Index. PPI measures pricing trends farther up the supply chain. Here, we see a modest decline in the rate of inflation on a monthly basis. We think the June 2022 CPI rate was the peak reading for the index this cycle, as the housing market cools, supplies of new vehicles are replenished, and the price of oil stays below \$90 per barrel. The Fed has lifted the fed's fund rate from 0.0% to above 5.25% over the past 18 months, and the rate hikes appear to be reducing inflationary pressures. We look for the U.S. central bank to be lowering rates in 2H24 and 1H25.

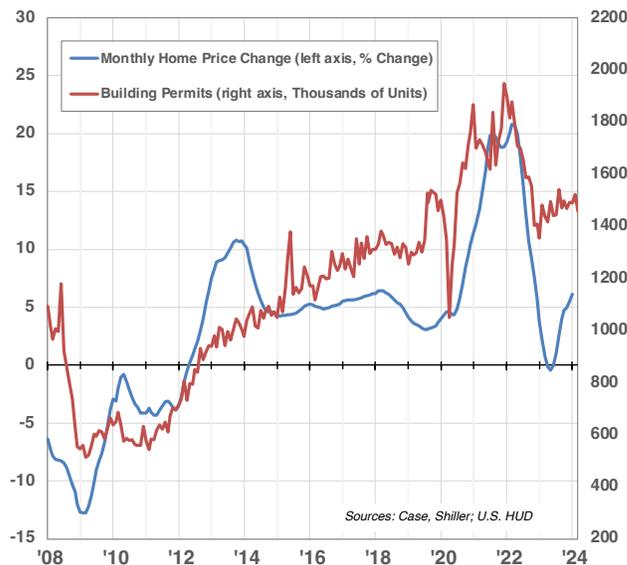
INFLATION FACTORS (% CHANGE Y/Y)



## HIGHER RATES FRUSTRATE HOME BUYERS

Homebuilder confidence was unchanged in April after four consecutive increases, according to the recent National Association of Home Builders/Wells Fargo Housing Market Index. The index value was 51. A reading over 50 indicates that more builders see conditions as good than poor. NAHB Chairman Carl Harris said that many "frustrated buyers" were "back on the fence waiting for interest rates to fall." The 30-year mortgage rate rose to 6.88% recently from 6.62% on January 4, according to Freddie Mac. The Commerce Department reported March Housing Starts of 1.32 million at a seasonally adjusted annual rate, down 4.3% from a year earlier. Based on the April 16 GDPNow estimate from the Atlanta Fed, first-quarter GDP is expected to rise 2.9%, with positive contribution from residential fixed investment. The S&P/Case-Shiller National Home Price Index jumped 6.1% in December. We expect it to rise about 4% for February. The Zillow Home Value Index was up 3.6% in February. The 10-year Treasury yield is a benchmark for mortgage rates. It disconcertingly recently rose to 4.60% from 3.95% on January 2.

HOUSING MARKET TRENDS

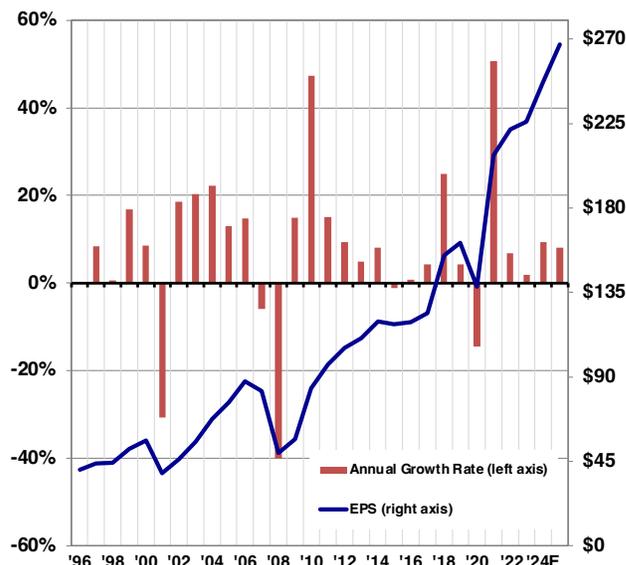


# FINANCIAL MARKET HIGHLIGHTS

## OUR EPS GROWTH FORECAST FOR 1Q24

Consensus estimates for 1Q24 EPS growth range from mid-single-digits to high-single-digits. This follows 10% growth in 4Q EPS, according to Refinitiv. Leading sectors for 1Q24 are expected to be Communication Services (+27% EPS growth year-over-year), Technology (+21%), Utilities (+19%), and Consumer Discretionary (+17%). On the downside, earnings from the Energy and Materials sectors are both expected to decline 24%. Healthcare earnings are expected to slip 5%. For 2024, our full-year S&P 500 earnings estimate is \$247, implying high-single-digit growth from 2023 levels. Remember, companies often exceed earnings expectations. Last quarter, just over four-fifths of companies exceeded consensus expectations; and the average beat against expectations was above 7%. Over the preceding decade, about 75% of S&P 500 companies exceeded expectations; and those companies on average topped consensus quarterly EPS estimates by about 6%.

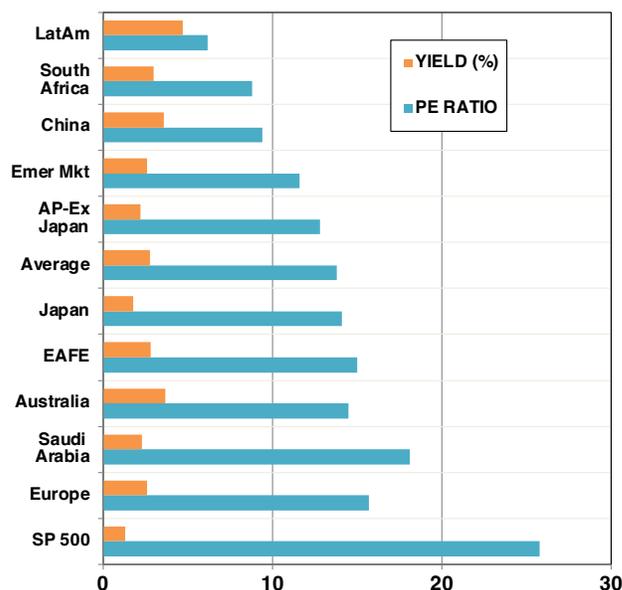
S&P 500 EPS TRENDS & ESTIMATES



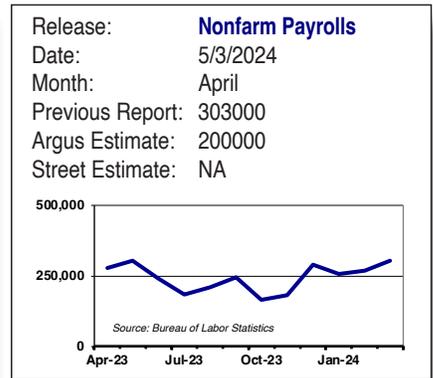
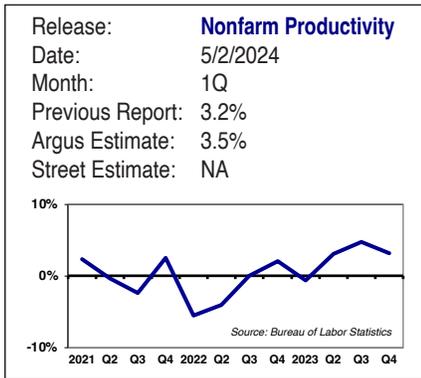
## GLOBAL STOCKS A BARGAIN COMPARED TO U.S. STOCKS

As global markets struggle in the environment of higher interest rates, renewed conflict in the Middle East, and the lingering battle between Russia and Ukraine, one thing has not changed: foreign stocks are cheaper than U.S. stocks. And with the large run-up in late 2023 and first quarter of 2024, U.S. stocks are even more expensive. The trailing P/E ratio on the S&P 500 is 26, above the global average of 14 and well above the 6-12 average P/Es for stocks in emerging markets. The current dividend yield for the S&P 500 is 1.3%, versus the global average of 2.8% and Asian, Australian, and Latin American yields of 2%-5%. The foreign region that does not completely fit the pattern is the Middle East. The average P/E on a Saudi Arabian stock is a high 18.1 and the yield is a low 2.3%. This can be attributed to high oil prices. Taking a step back, investors generally are willing to pay a higher price for North American securities because of the transparency of the U.S. financial system as well as the liquidity of U.S. markets. What is more, global returns can be volatile across individual countries, given currency, security, political, and geopolitical risks. Indeed, U.S. stocks (ETF SPY) have outperformed EAFE (ETF EFA) over the past year as well as over the past five years. Even so, we recommend that growth investors have approximately 5%-10% of their equity allocations in international stocks to take advantage of the value.

GLOBAL EQUITY VALUATION METRICS

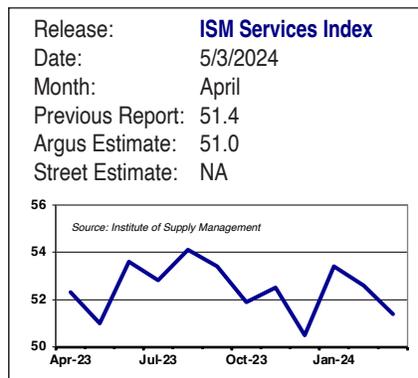
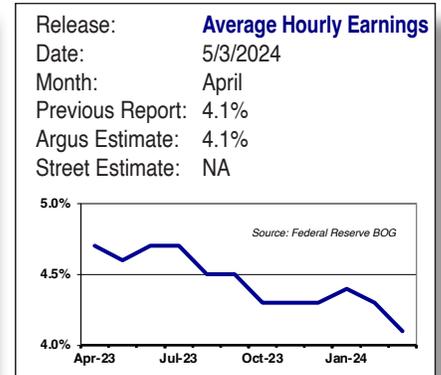
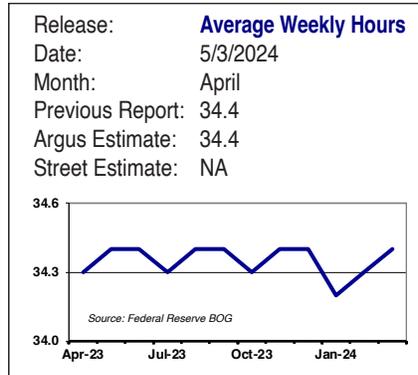
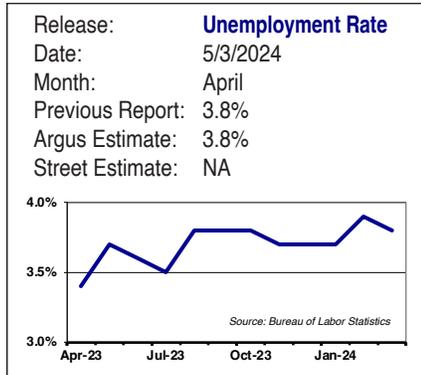


# ECONOMIC TRADING CHARTS & CALENDAR



*Previous Week's Releases and Next Week's Releases on next page.*

# ECONOMIC TRADING CHARTS & CALENDAR (CONTINUED)



## Previous Week's Releases

| Date   | Release              | Month      | Previous Report | Argus Estimate | Street Estimate | Actual |
|--------|----------------------|------------|-----------------|----------------|-----------------|--------|
| 23-Apr | New Home Sales       | March      | 662 K           | 672 K          | NA              | NA     |
| 24-Apr | Durable Goods Orders | March      | 4.5%            | 4.8%           | NA              | NA     |
| 25-Apr | GDP Annualized QoQ   | 1Q Advance | 3.4%            | 2.4%           | NA              | NA     |
|        | GDP Price Index      | 1Q Advance | 1.6%            | 2.8%           | NA              | NA     |
| 26-Apr | PCE Deflator         | March      | 2.5%            | 2.7%           | NA              | NA     |
|        | PCE Core Deflator    | March      | 2.8%            | 2.8%           | NA              | NA     |
|        | Personal Income      | March      | 4.6%            | 4.7%           | NA              | NA     |
|        | Personal Spending    | March      | 4.9%            | 5.0%           | NA              | NA     |

## Next Week's Releases

| Date   | Release                  | Month | Previous Report | Argus Estimate | Street Estimate | Actual |
|--------|--------------------------|-------|-----------------|----------------|-----------------|--------|
| 6-May  | Total Vehicle Sales      | April | 15.49 mln.      | NA             | NA              | NA     |
| 8-May  | Wholesale Inventories    | March | -1.5%           | NA             | NA              | NA     |
| 10-May | U. of Michigan Sentiment | May   | 77.9            | NA             | NA              | NA     |

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