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The attached article by Erik Lundh, Principal Economist of The Conference Board, covers everything that I intended to write about but in a more comprehensive way. I do take some exception to the number of Fed interest rate cuts that he expects in 2024, but other than that, I think his analysis is right on.

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The Outlook

The first quarter of 2024 was very strong, and the stock market valuations have become extended. Some of the large brokerage firms, investment banks and money management firms have indicated that the market may have already achieved most of its gains for 2024. The Conference Board report reinforces that point of view.

If this premise is accurate, and we believe that it likely is, then the question becomes; how do we deal with this situation? To get more returns with very little or no capital appreciation will require more emphasis on cash flow than growth. To accomplish this objective, we have been adding some high cash flow ETFs to the portfolios. Most of them are paying out eight to nine percent from dividends plus an option writing strategy. This approach helps to lower the risk and enable the portfolio to gain even in a flat market.

Another feature of these ETF products is that they will participate in the capital appreciation of the market if it does go up, although to a lesser extent than a fully invested fund. One drawback to these products is that they generate taxable income (for non-IRA taxable accounts) from the cash flows. However, it is important to remember the old wall street adage: "Don't let the tax tail wag the investment dog."

As always, if the investment landscape changes and/or there is a "black swan" (like a war or other major geo-political event) we will alter our strategy to endeavor to adapt to the new circumstances.

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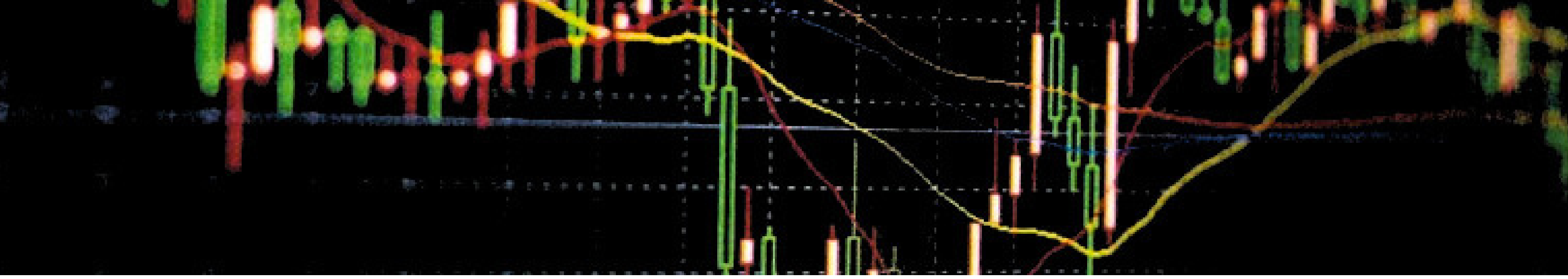


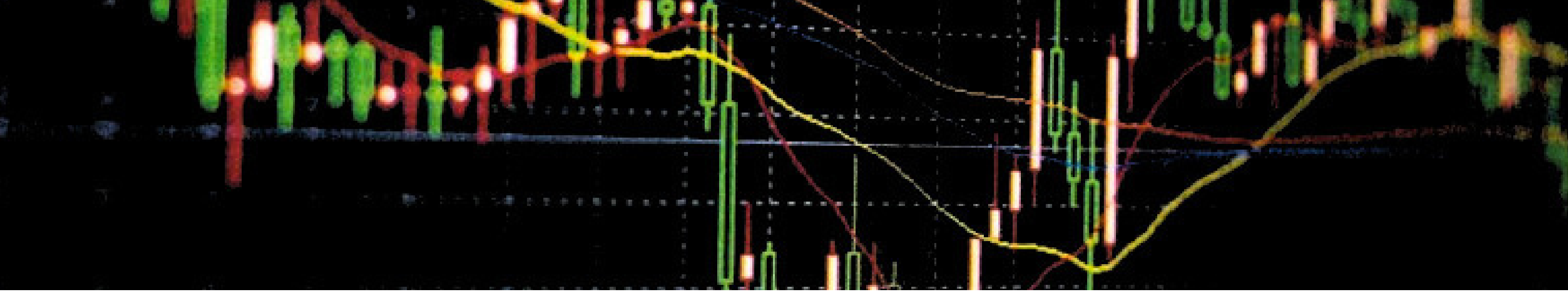
The Conference Board Economic Forecast for the US Economy
Updated 21 March 2024

The US economy entered 2024 on strong footing. Various indicators of business activity, labor markets, sentiment, and inflation have generally been moving in a favorable direction. However, headwinds including rising consumer debt and elevated interest rates will weigh on economic growth. While we no longer forecast a recession in 2024, we do expect consumer spending growth to cool and for overall GDP growth to slow to under 1% over 02 and 03 2024. Thereafter, inflation and interest rates should normalize and quarterly annualized GDP growth should converge toward its potential of near 2 percent in 2025.

US consumer spending held up remarkably well in 2023 despite elevated inflation and higher interest rates. However, this trend is already beginning to soften in early 2024. For instance, retai0sales growth over the first two months of the year were weak. Gains in real disposable personal income growth are softening, pandemic savings are dwindling, and household debt is increasing. Consumers are spending more of their income on service debt and delinquencies are rising. Additionally, the growth in 'buy now, pay later' plans may also weigh on future spending as bills come due. Thus, we forecast that overall consumer spending growth will gradually slow to a standstill in 03 2024 as households struggle to find a new equilibrium between income, debt, savings, and spending. While we anticipate labor market conditions to soften over this period, we do not expect them to deteriorate. As inflation and interest rates abate, consumption should expand once again in late 2024.

Following a pop in early 2023, business investment growth slowed in H2 2023 as interest rate increases made financing activities more expensive. This trend should intensify in H1 2024 as the Fed resists calls to cut interest rates likely until June 2024. Residential investment, which had been contracting since 2021, began to grow again in 03 2023.

Persistent demand for homes and a dearth of supply was the driver. However, looking ahead, we do not expect residential investment growth to sustainably improve until interest rates begin to fall.



Government spending was a positive contributor to growth in 2023 due to federal non-defense spending associated with infrastructure investment legislation passed in 2021 and 2022. However, growth is likely to slow in 2024 and 2025 as infrastructure
spend out stabilizes. Furthermore, political volatility surrounding fiscal policy, debt, and outlays could impact government spending over the next few years.

Labor market tightness has been remarkably persistent over the last year. As this should continue over the coming quarters, we do not expect labor markets to unravel even as the economy slows. The tightness largely reflects a shrinking labor force as Baby Boomers retire. As such, businesses are likely to be resistant to lay off workers.

On inflation, we expect to see continued progress over the coming quarters, but there will be bumps. Supply chains are continuing to heal and price pressures emanating from dwellings and services continue to slowly moderate. Notably, services demand should cool as consumer spending wanes. We expect headline PCE inflation to hit the Fed's 2 percent target in Q3 2024. This expectation will trigger rate cuts starting in June 2024.
We anticipate four 25 bp cuts this year (100bps in total} and an additional four 25 bp cuts in 2025 (100dps in total}.

Erik Lundh

Principal Economist | The Conference Board

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