

U.S. Economic and Market Outlook

Harbour Trust

INVESTMENT MANAGEMENT COMPANY

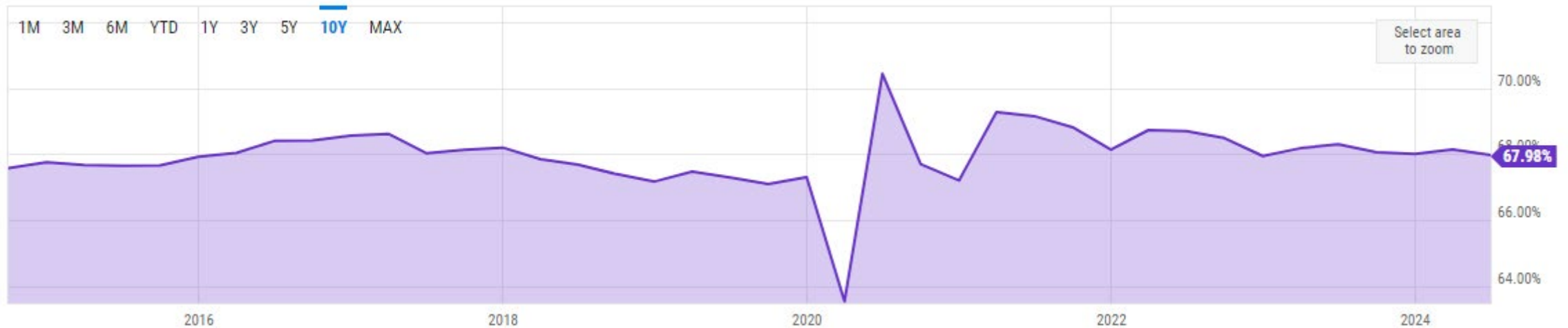
Managing Your Wealth, Securing Your Future

Presented By: Steve Skalka, Chief Fiduciary Officer



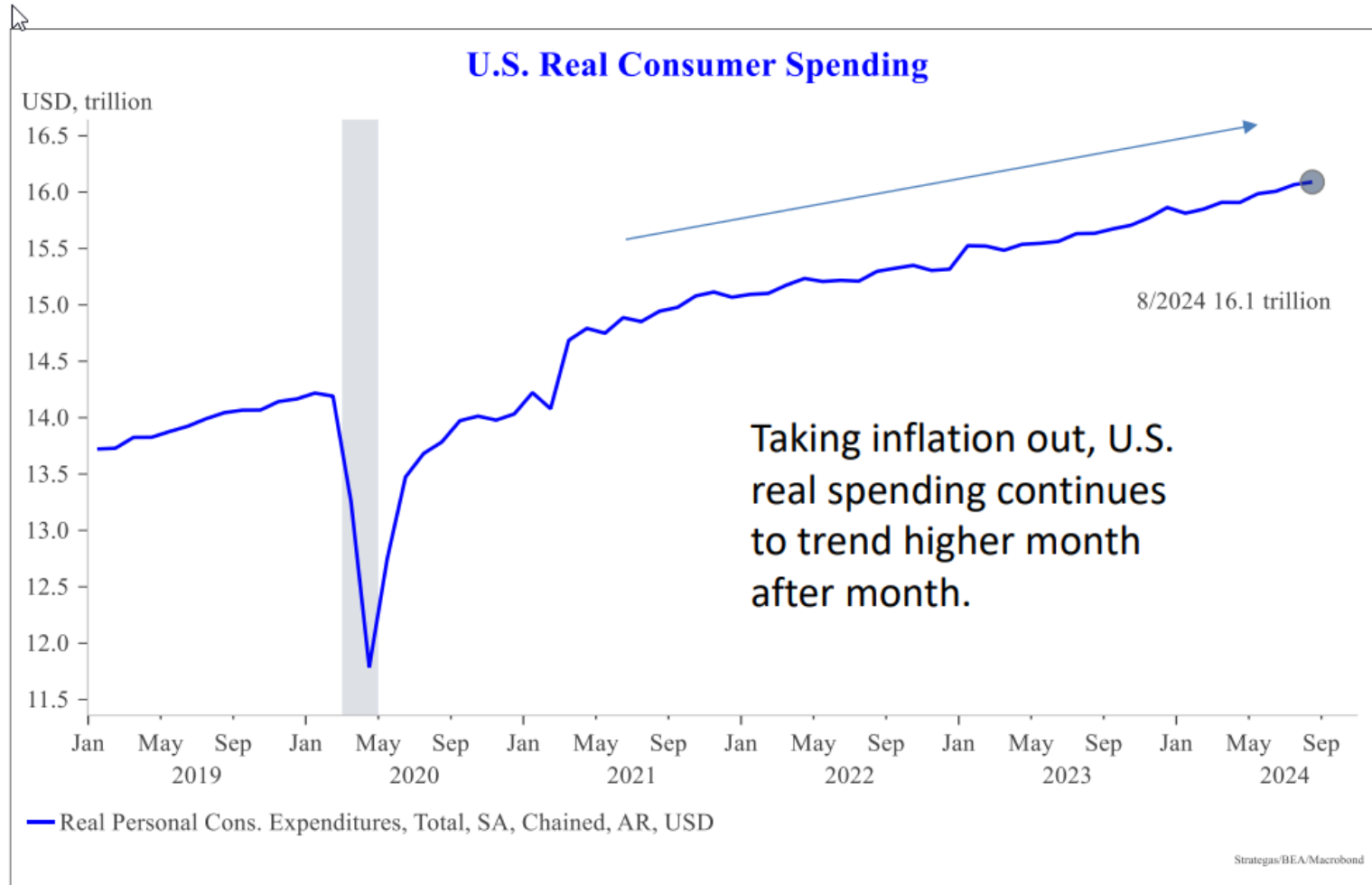
The CONSUMER is Key to U.S. Economic Growth

- U.S. Personal Consumption Expenditures (% of G.D.P)



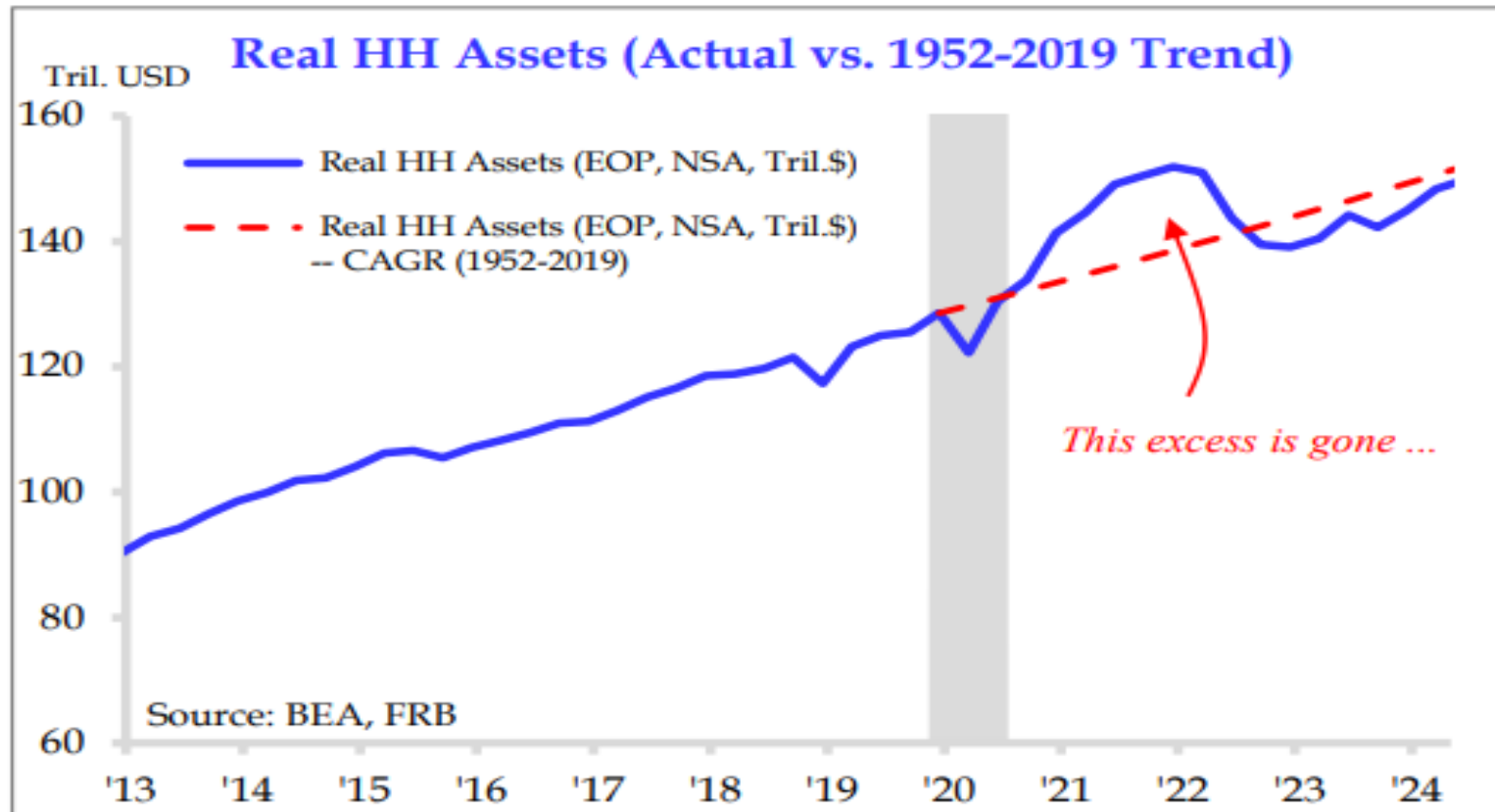
ycharts.com

BROAD U.S. DATA CONTINUE TO SHOW CONSUMER GROWTH



How did we avoid a recession?

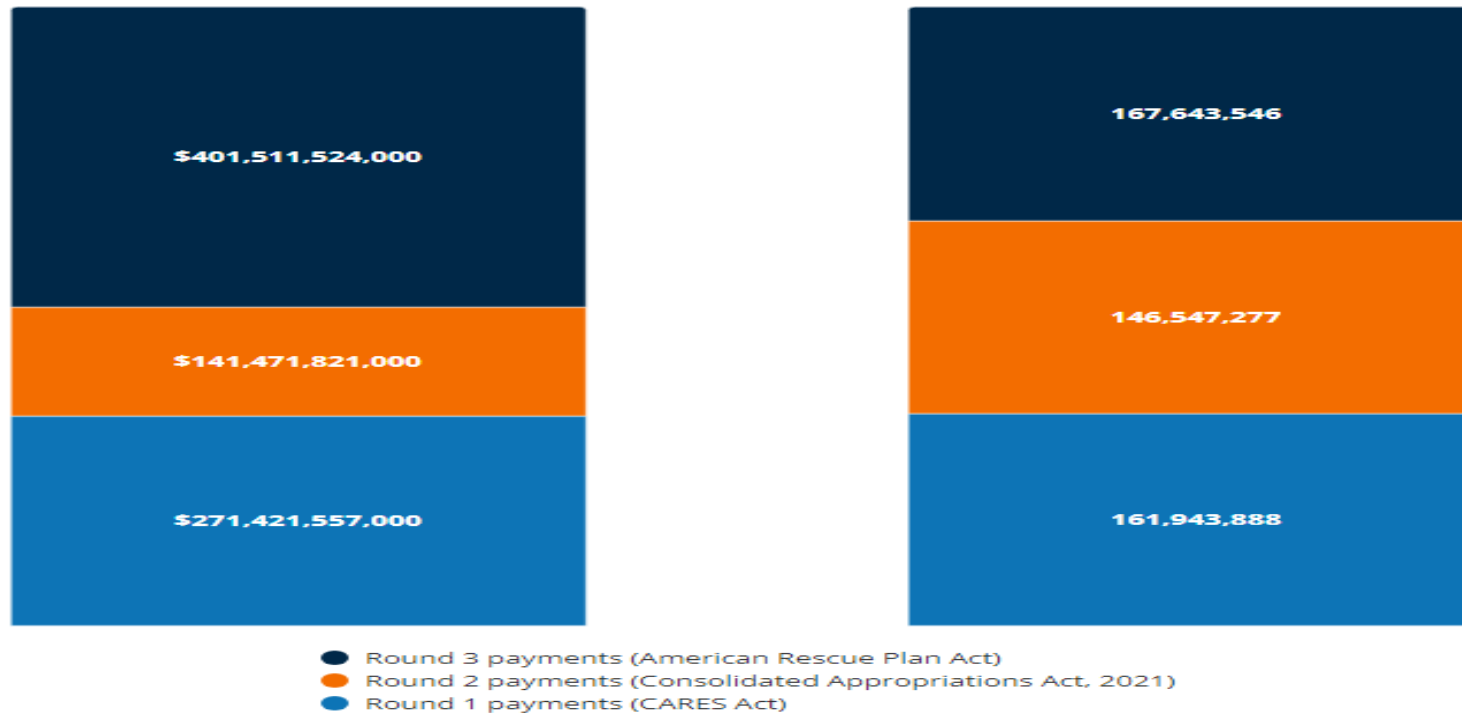
(Assets = What a household owns)



So where did all of the money come from?

Amount of payments

Number of payments

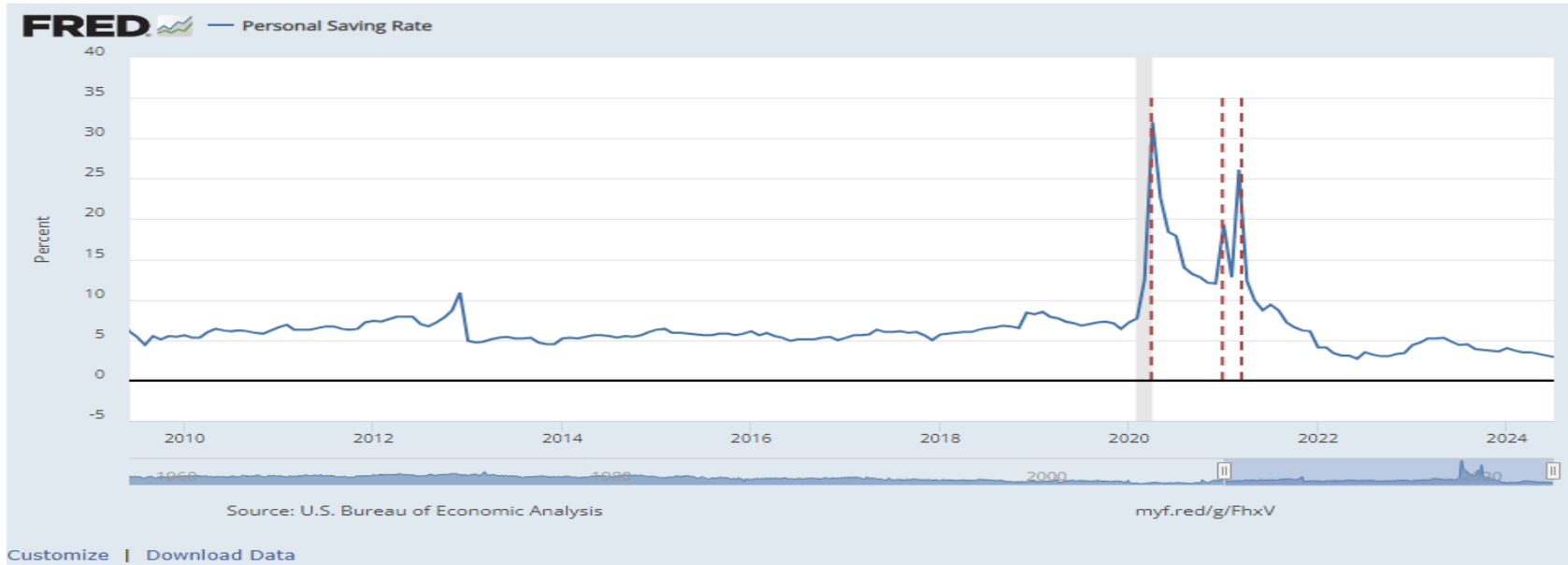


Federal response to Covid estimated at \$4.6 trillion

Other Sources of Consumer Cash

- Solid job market
 - Low unemployment
 - Wage gains
- Investment portfolio growth
- Real estate appreciation
- Inheritance

Consumers Like to Spend “Easy” Money



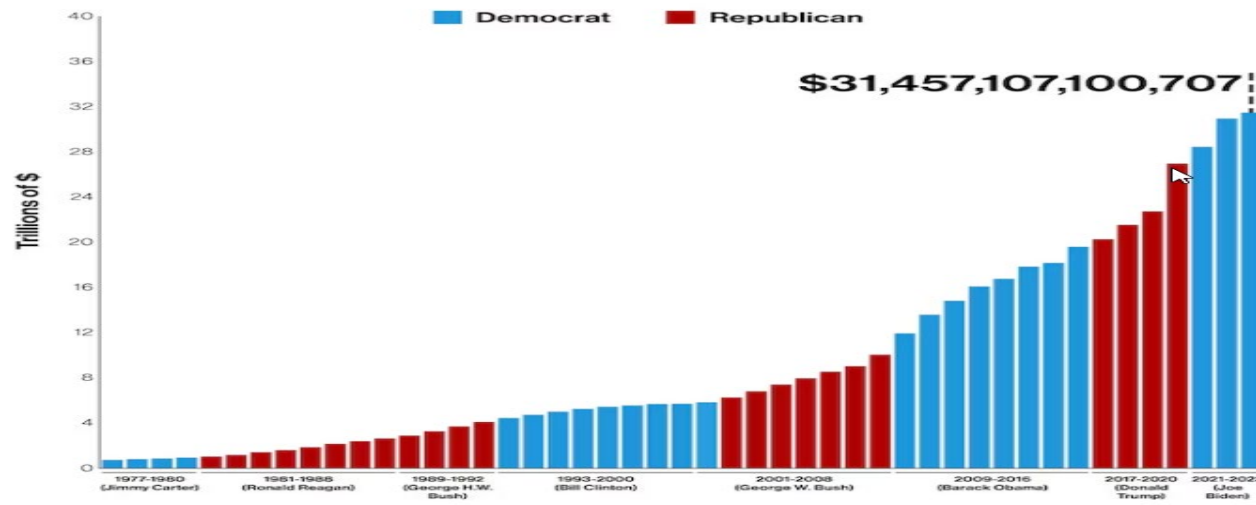
Round 1, March 2020: **\$1,200** per income tax filer, **\$500** per child (CARES Act)

Round 2, December 2020: **\$600** per income tax filer, **\$600** per child (Consolidated Appropriations Act, 2021)

Round 3, March 2021: **\$1,400** per income tax filer, **\$1,400** per child (American Rescue Plan Act)

Where have all the fiscal conservatives gone?

National Debt Year by Year



SOURCE: U.S. DEPARTMENT OF THE TREASURY

National Debt Year by Year
Source: U.S. Department of the Treasury

ABC NEWS

Problem = Once a benefit is given it is **difficult to take away**

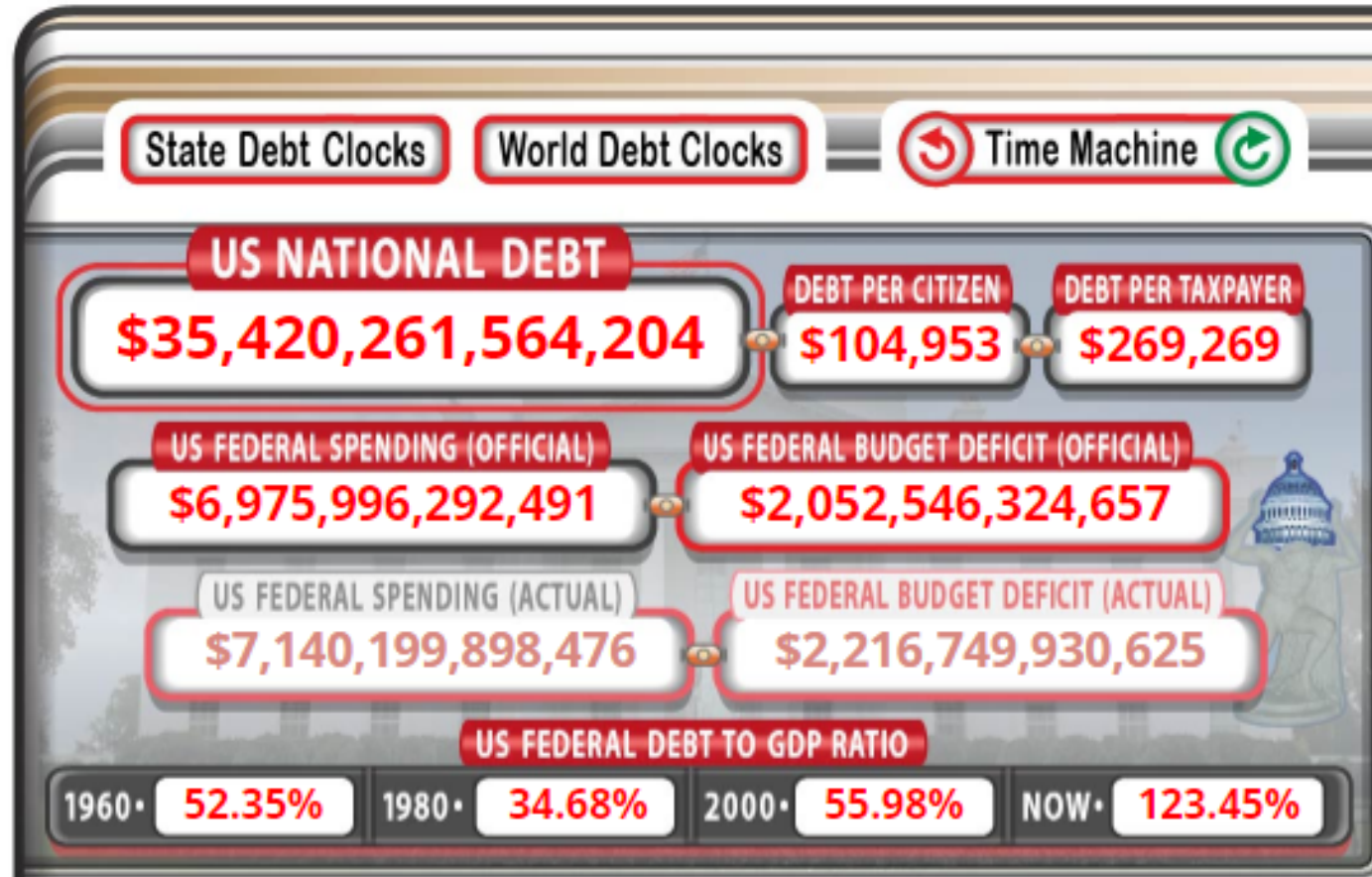
*Since 2009 only recession was in February-April 2020

U.S. CONTINUES TO ADD TRILLIONS OF DOLLARS OF DEBT IN RECORD SPEED

Time Required to Reach Total U.S. Debt Levels	
<u>Of:</u>	
\$10 Trillion	232 Years
\$20 Trillion	9 Years
\$30 Trillion	4.5 Years
\$31 Trillion	8 Months
\$32 Trillion	8 Months
\$33 Trillion	3 Months
\$34 Trillion	3 Months
\$35 Trillion	7 Months
<i>Latest Level</i>	<i>\$35.27 Trillion</i>

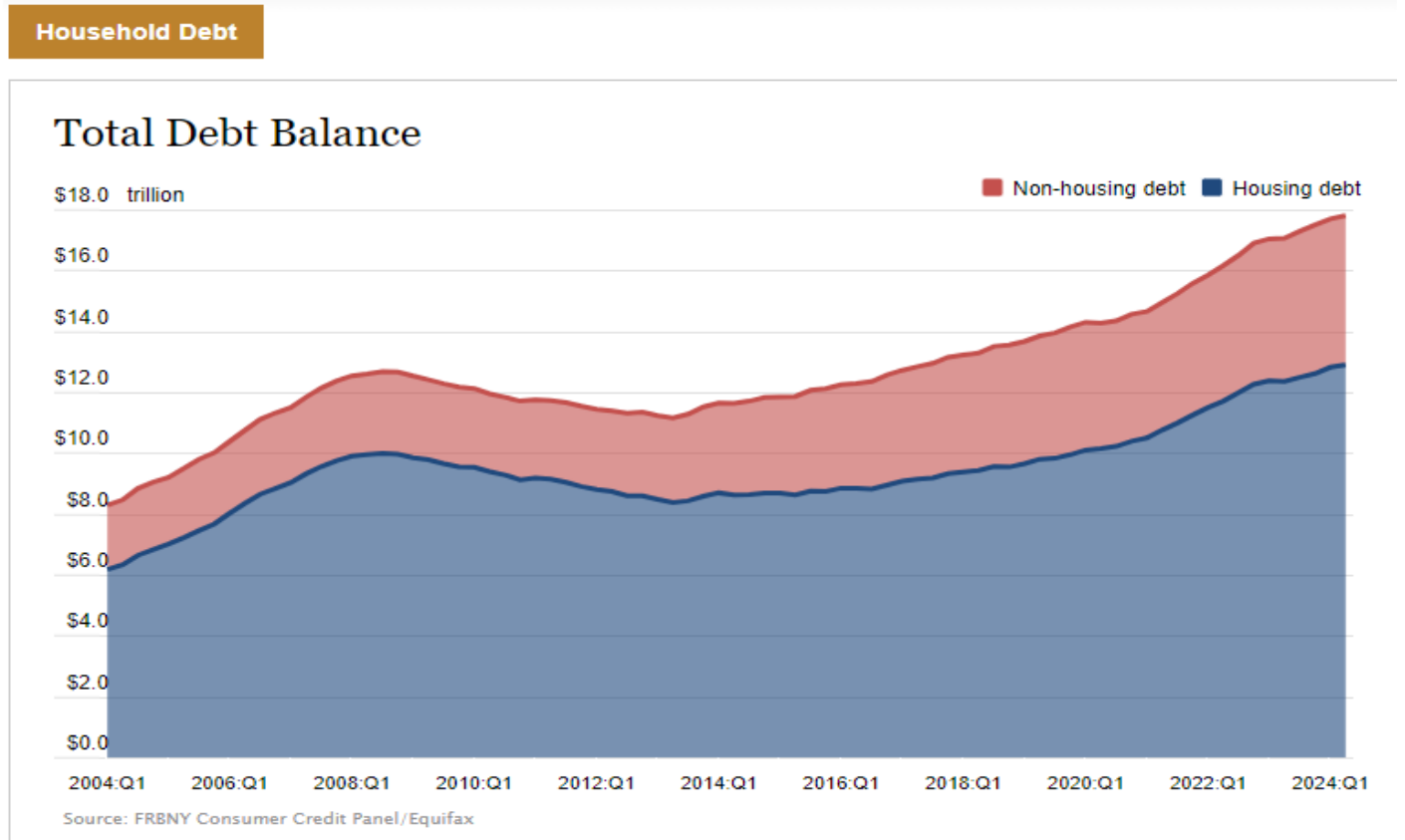
*Six months on
average to reach
each additional
trillion in debt
from \$31 - \$35.*

A Little Perspective

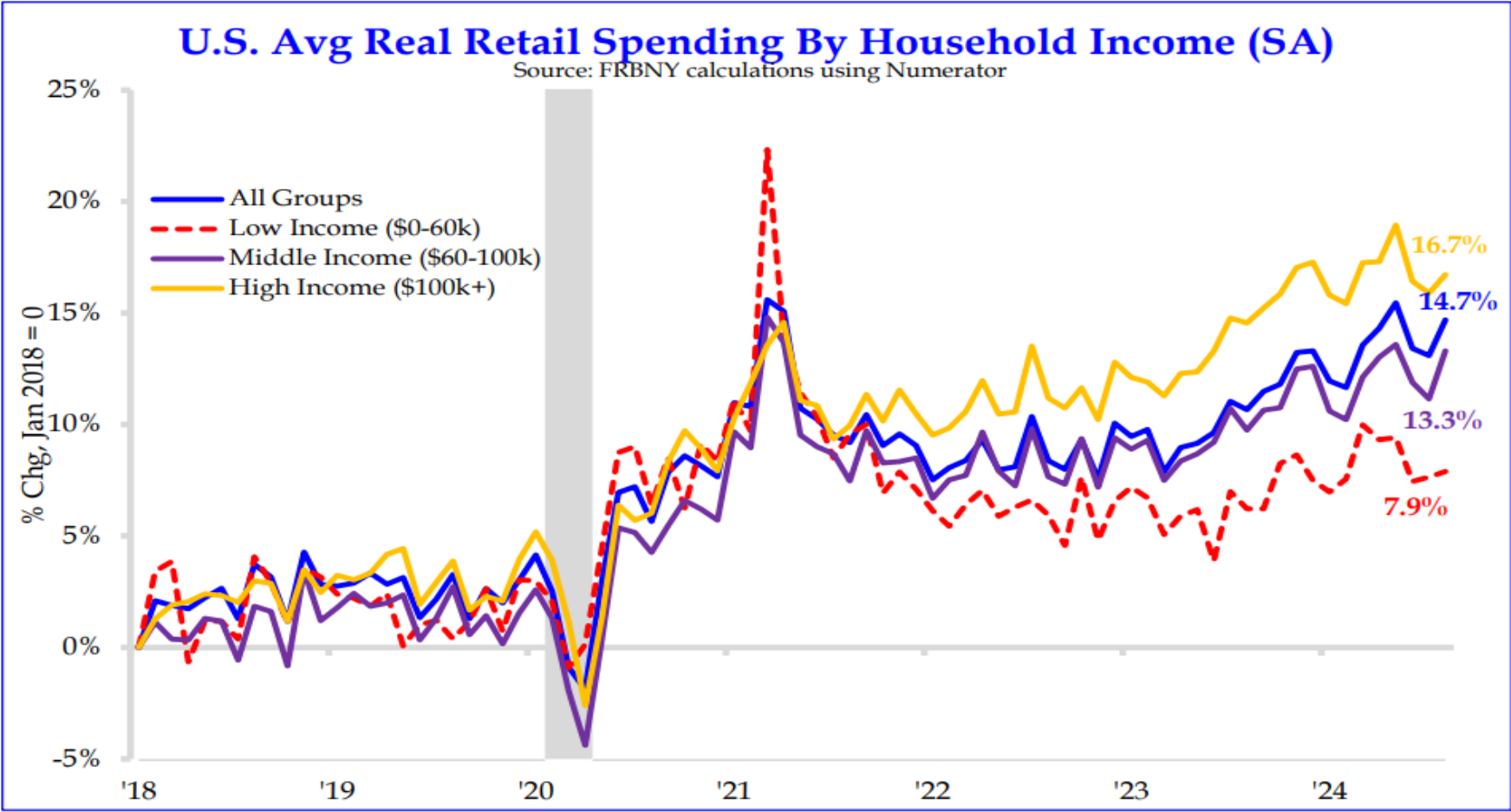


US Debt Clock.org

The U.S. Consumer had ample funds to spend thus far to support economic growth, but is it sustainable?



Sustainable?

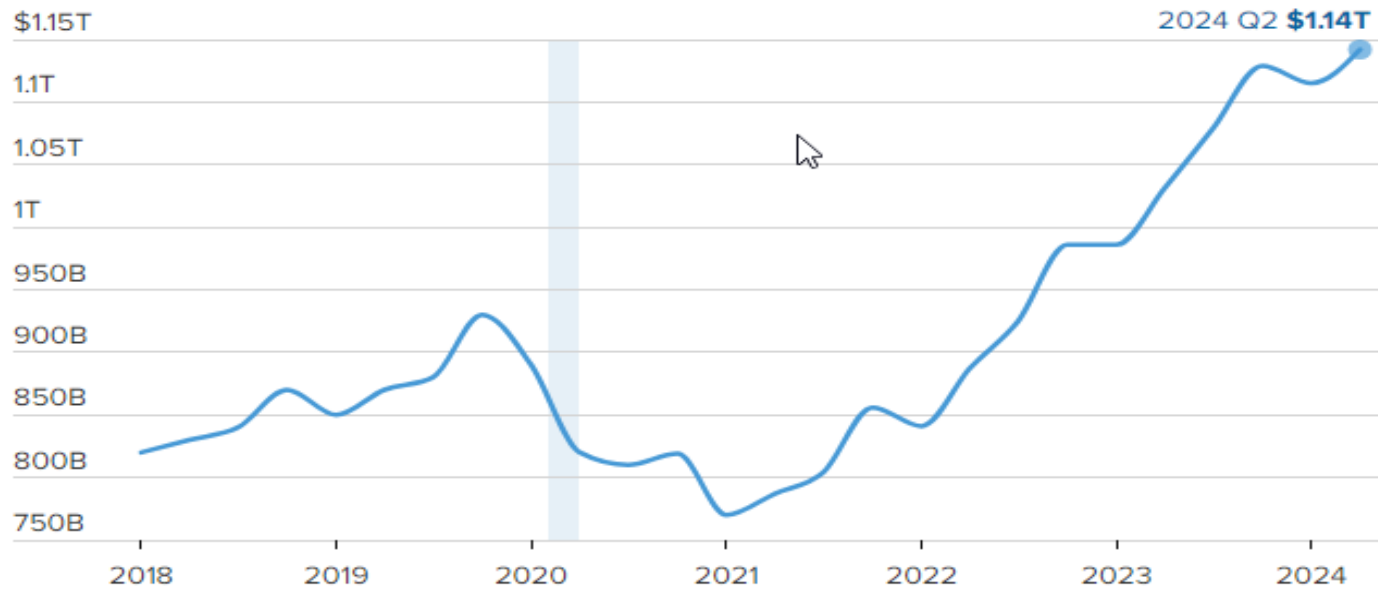


Note: data through August 2024. Source: FEDS note, Hoke, Feler, Chylak, (10/2024). [The Fed - A Better Way of Understanding the US Consumer: Decomposing Retail Spending by Household Income](#)

Sustainable?

Credit card debt hits fresh high

Total credit card balances in the U.S.
Q1 2018–Q2 2024

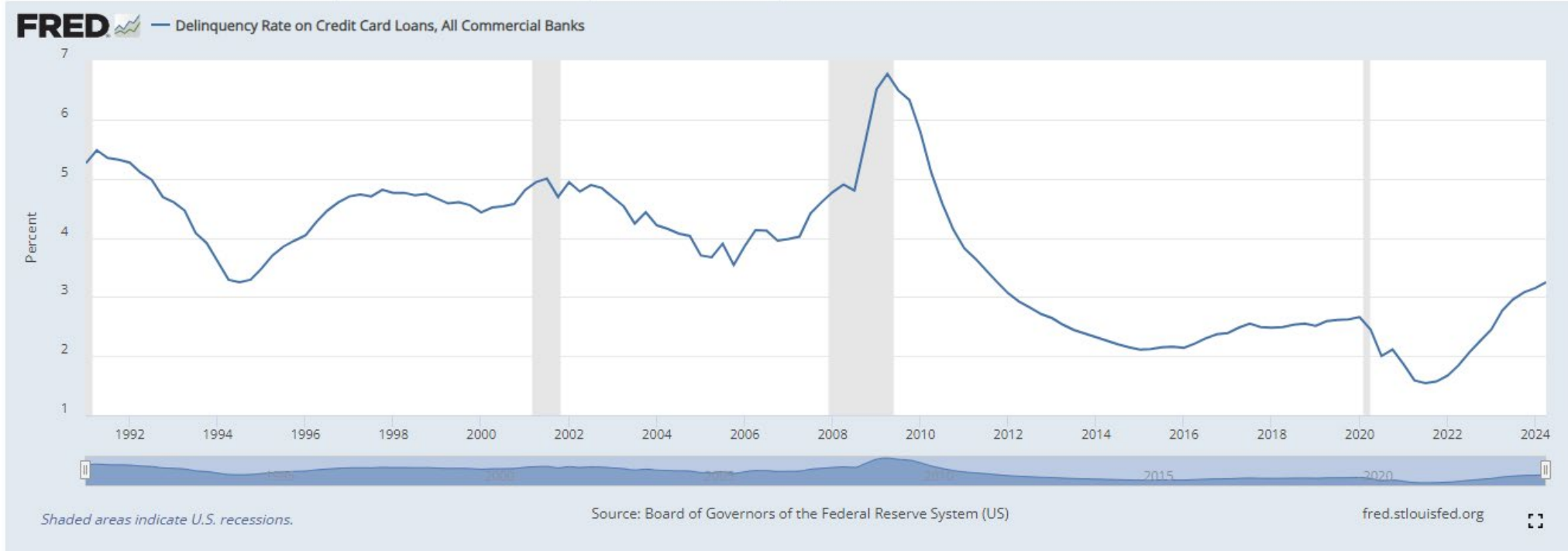


Note: Shaded area indicates recession.

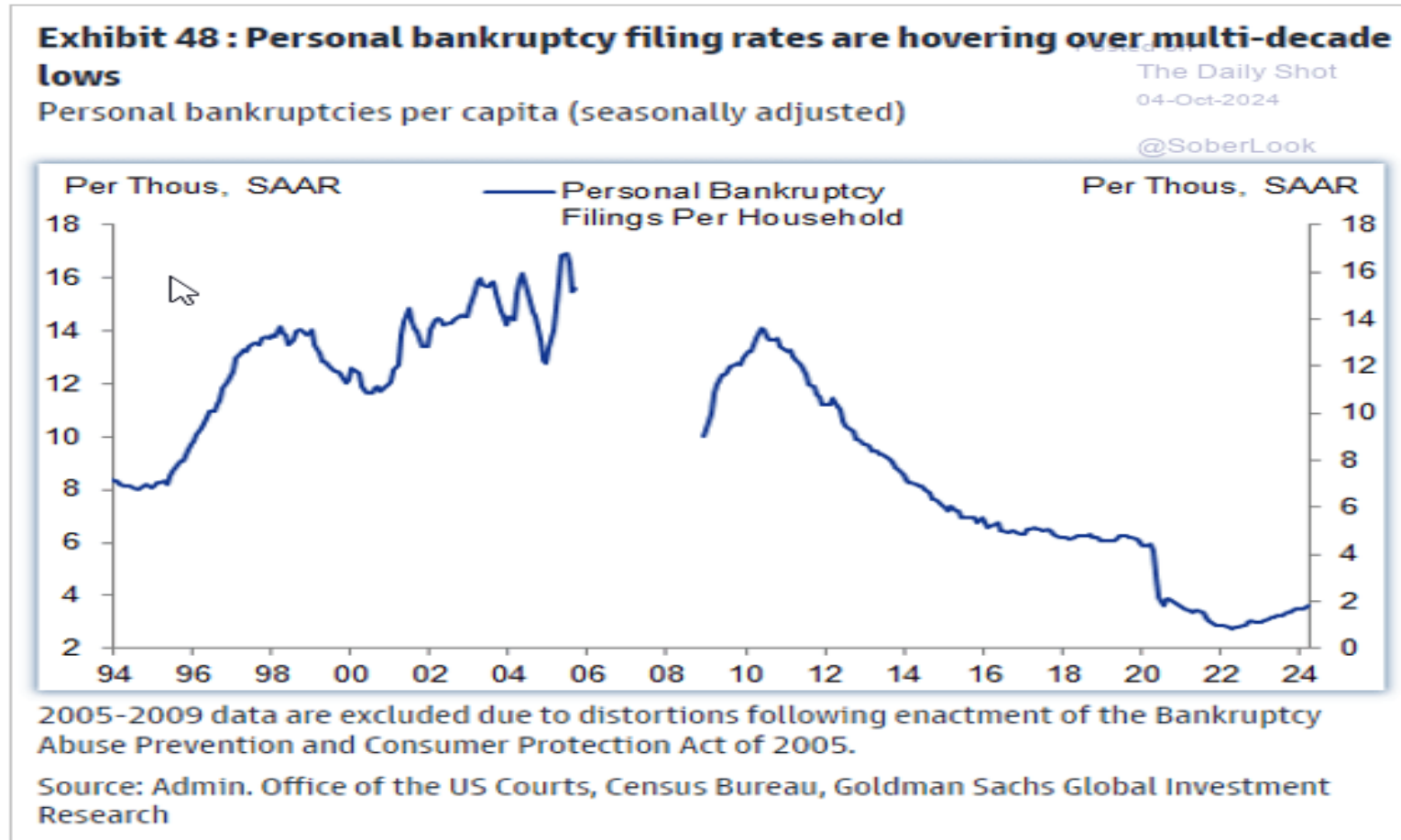
Source: Federal Reserve Bank of New York
[Quarterly Report on Household Debt and Credit](#)
Data as of Aug. 6, 2024



Sustainable?



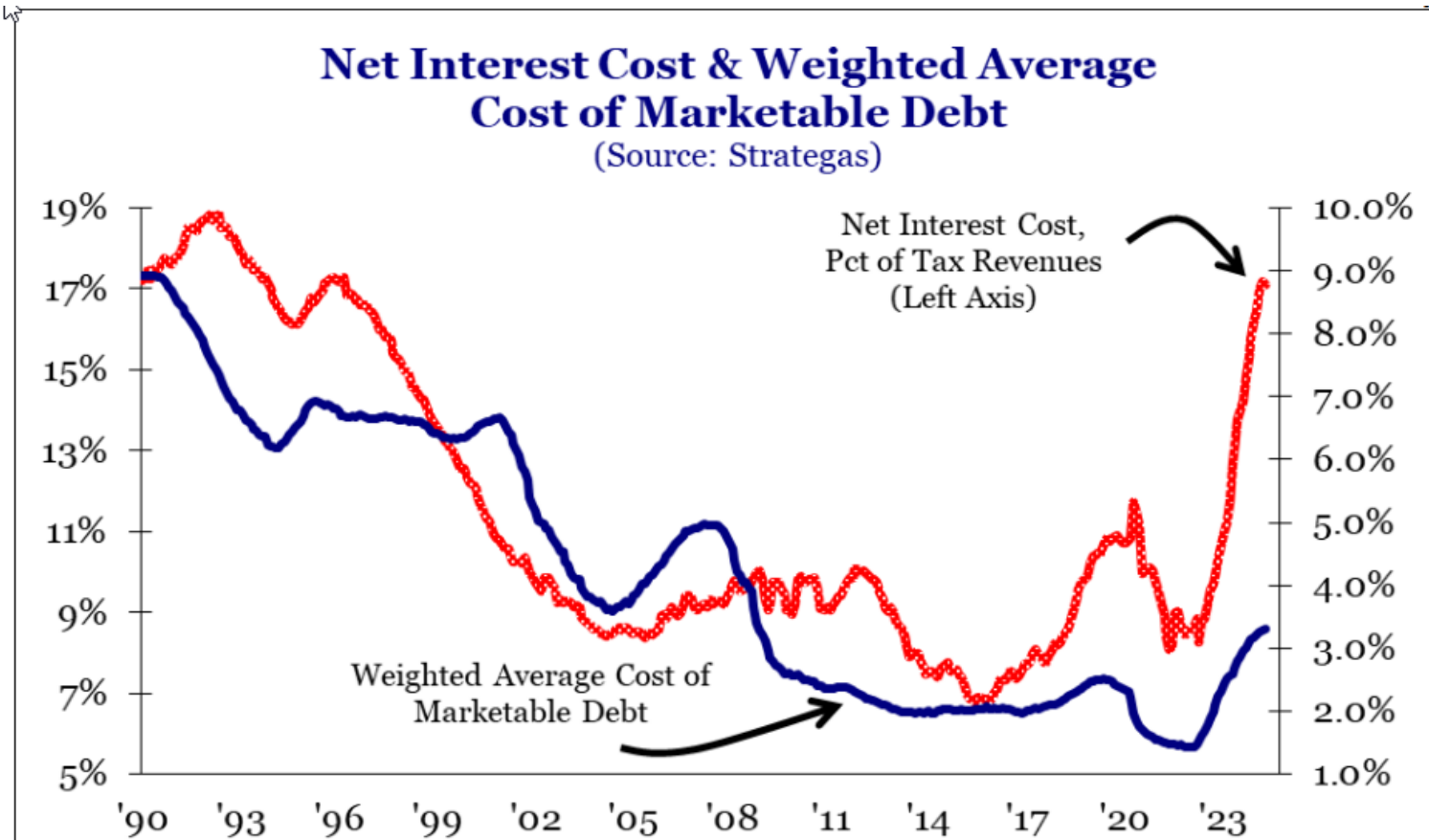
Sustainable?



Source: Goldman Sachs: @Mike Zaccardi

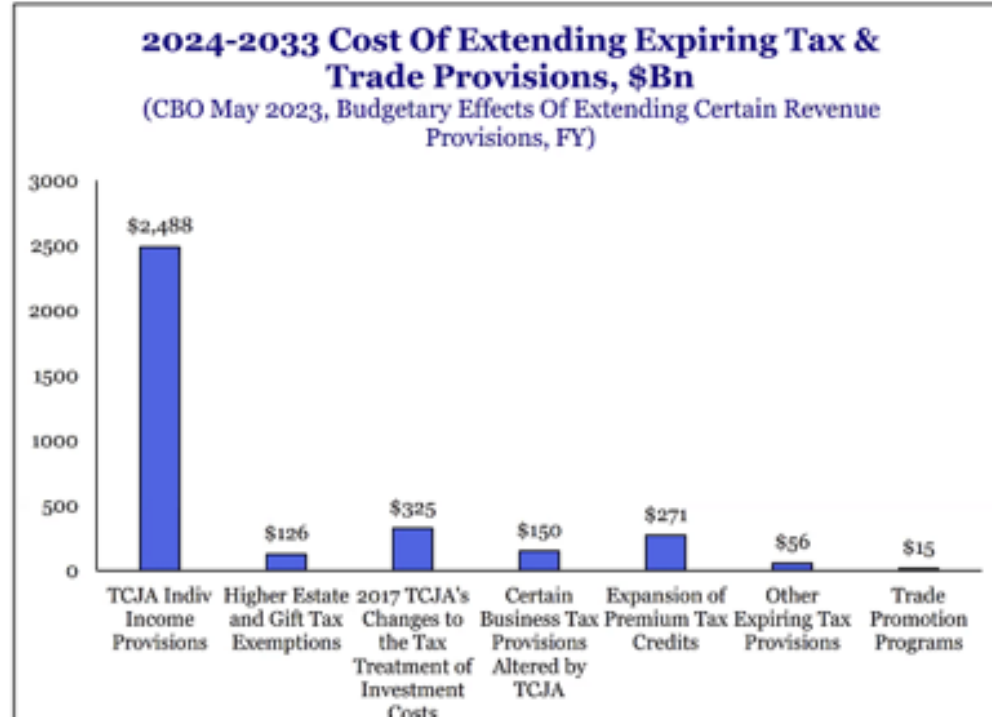
Sustainable?

Does fiscal spending have a limit?
Is this time different?



Having Fun Until the Bill Comes Due?

2025 Could Be The Largest Year For Tax Policy Since 1913



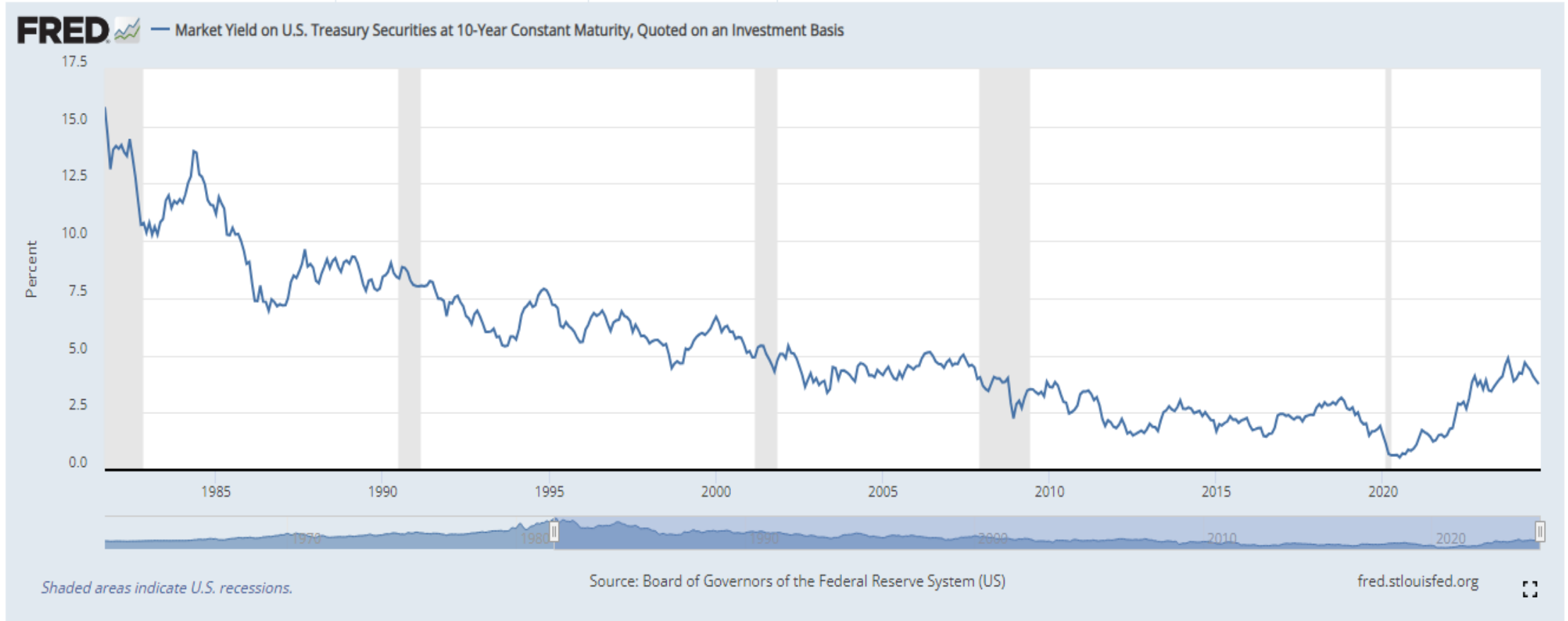
- Expiring individual tax provisions from the Tax Cuts and Jobs Act
- Expiring tax provisions for small businesses
- Affordable Care Act subsidies
- The Global Minimum Tax
- The Inflation Reduction Act's Energy Tax Provisions
- Housing tax policy
- Cryptocurrency tax policy

Fixed Income Market Outlook

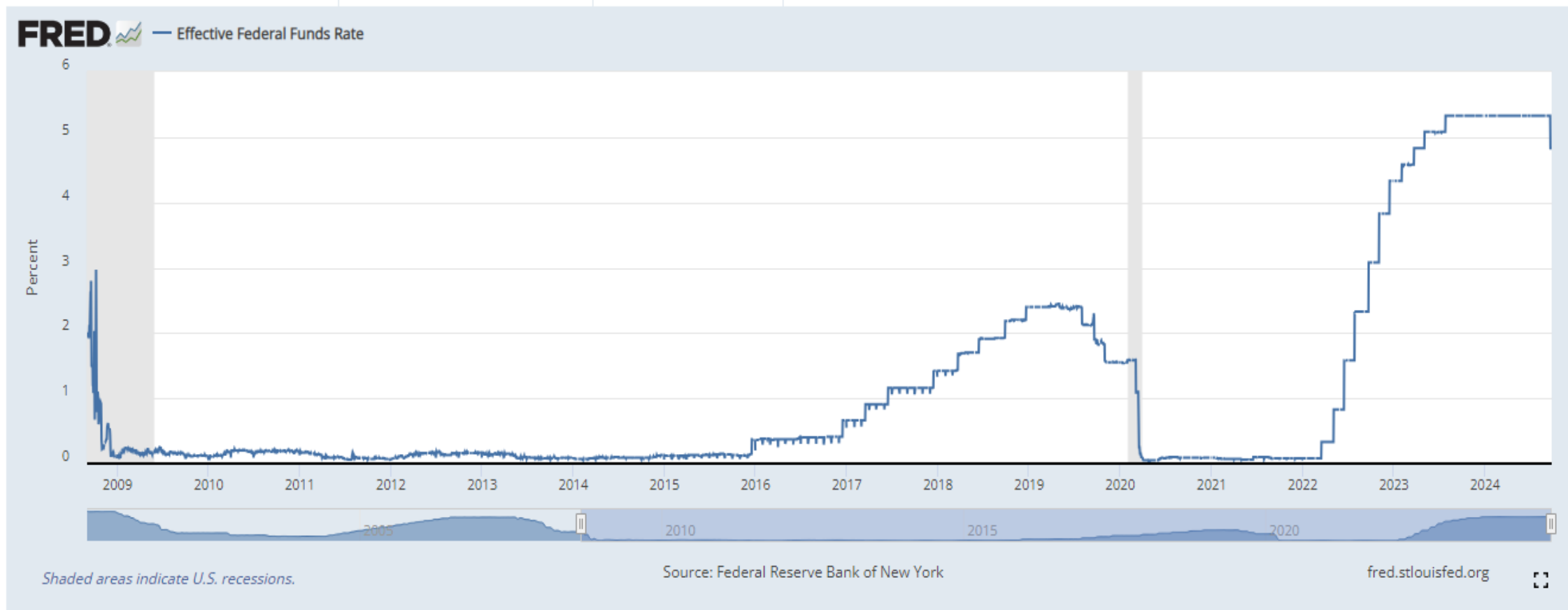
U.S. Economy is highly dependent upon **DEBT**

- Federal Reserve Board's (Fed's) dual mandate
 - Maximum Employment
 - Stable Prices (Think inflation)
- How the Fed impacts interest rates
 - Short-term rates via Fed Funds Rate
 - Intermediate/Long-Term rates via direct purchases (Supply and Demand) and various other monetary policy tools

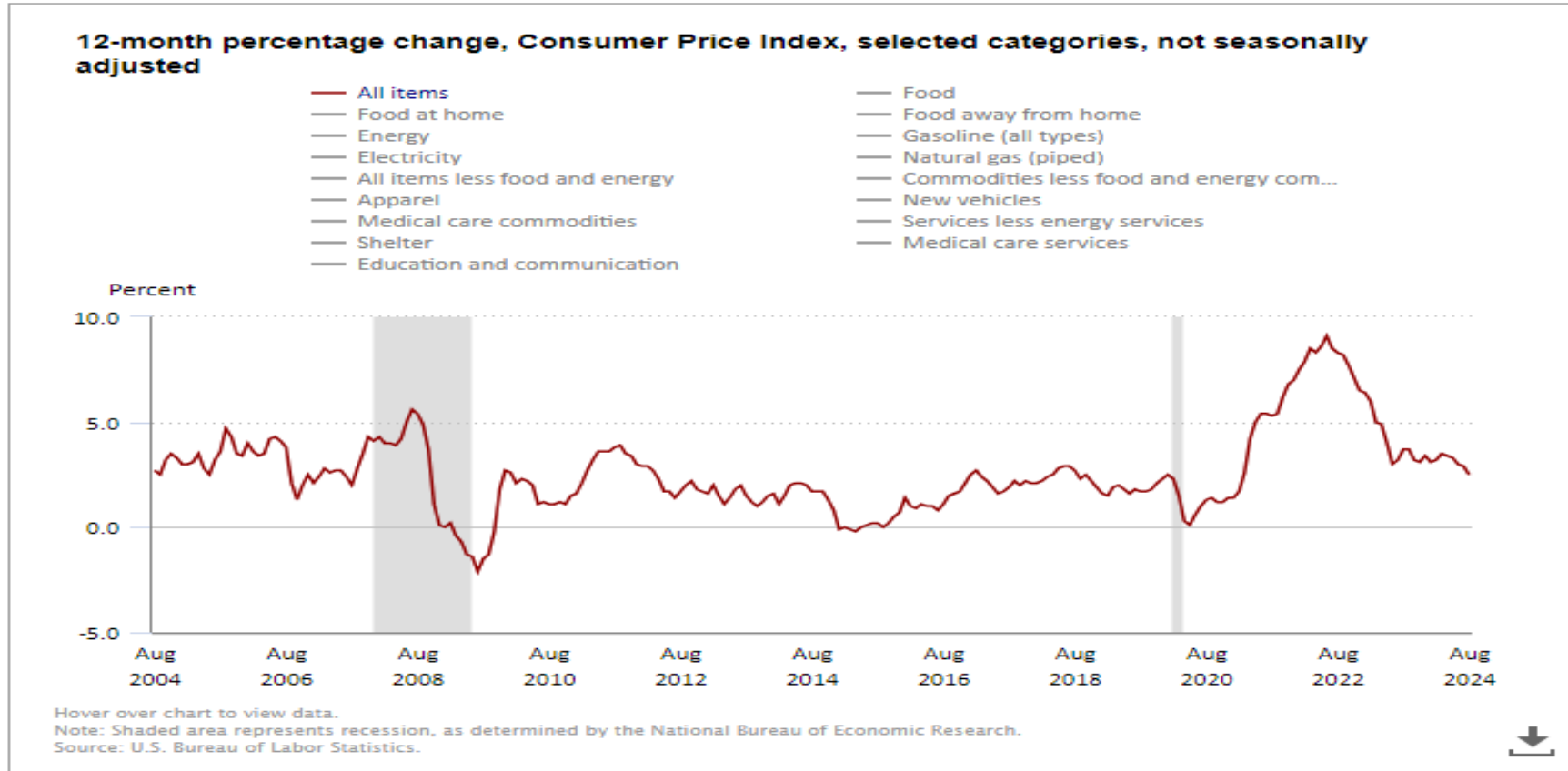
Historical Perspective on Interest Rates



Fed Policy Recently Shifted in Response to **INFLATION**



Good News = Inflation Has Subsided

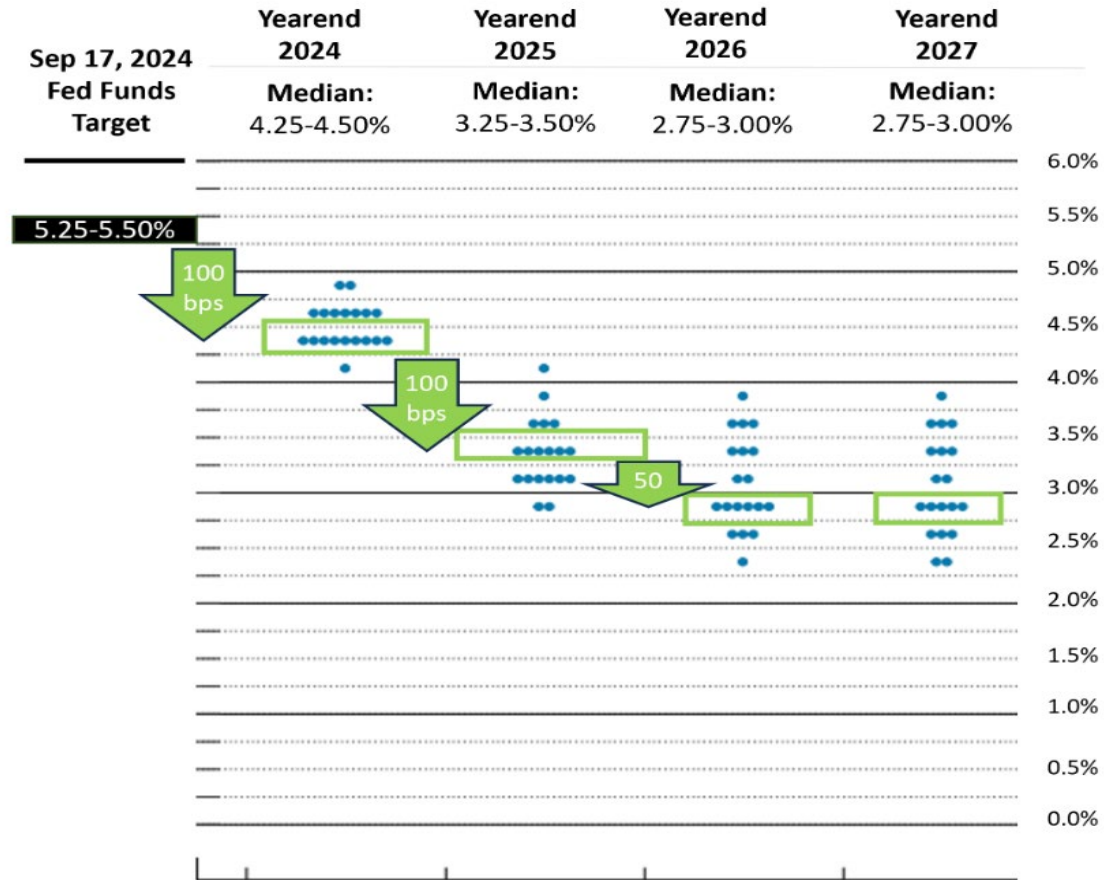


Early Indications Employment Environment May Be Vulnerable (quits, hiring, job postings and wages)



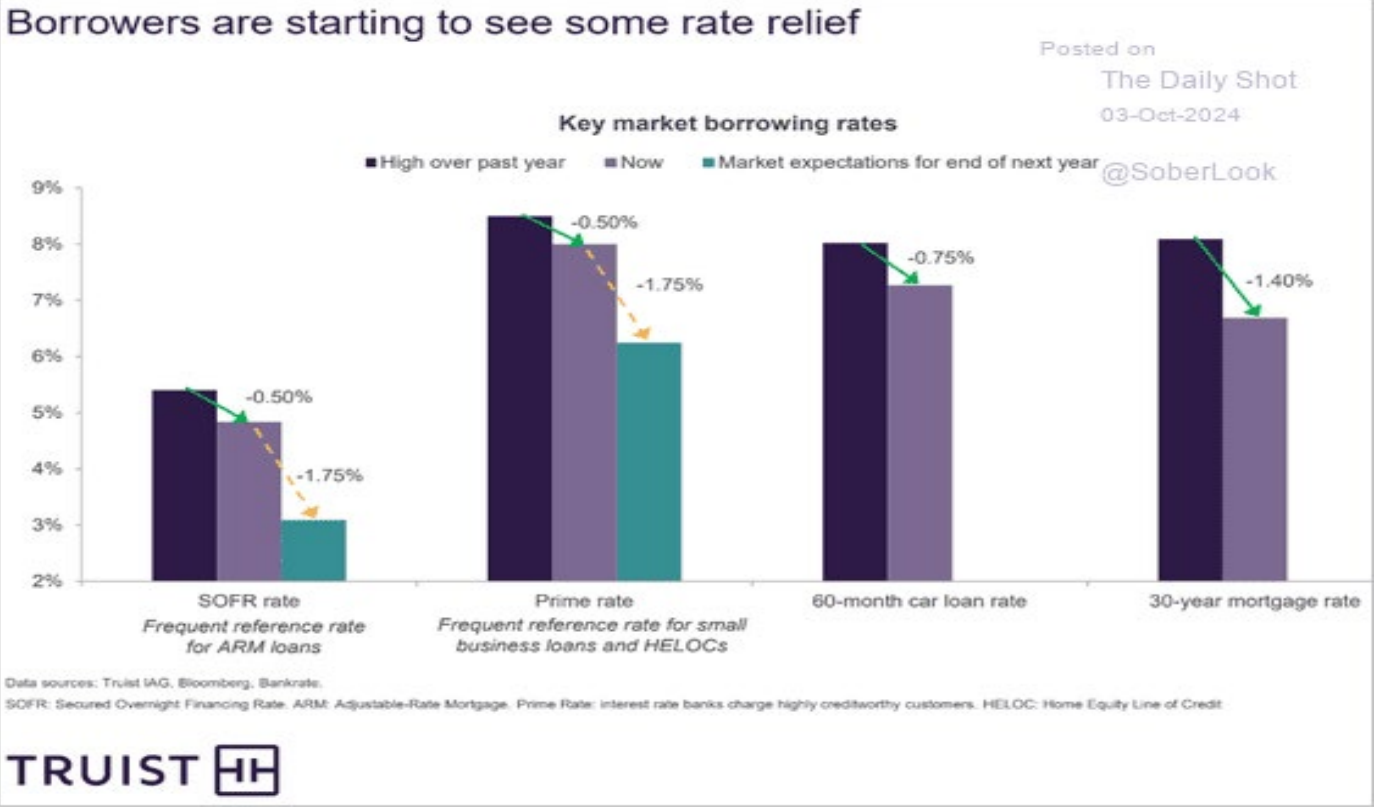
Fed appears on a mission to lower interest rates further

Figure 1: September 2024 Fed Dot Plot Showing Projected Target Range of Fed Funds Rate



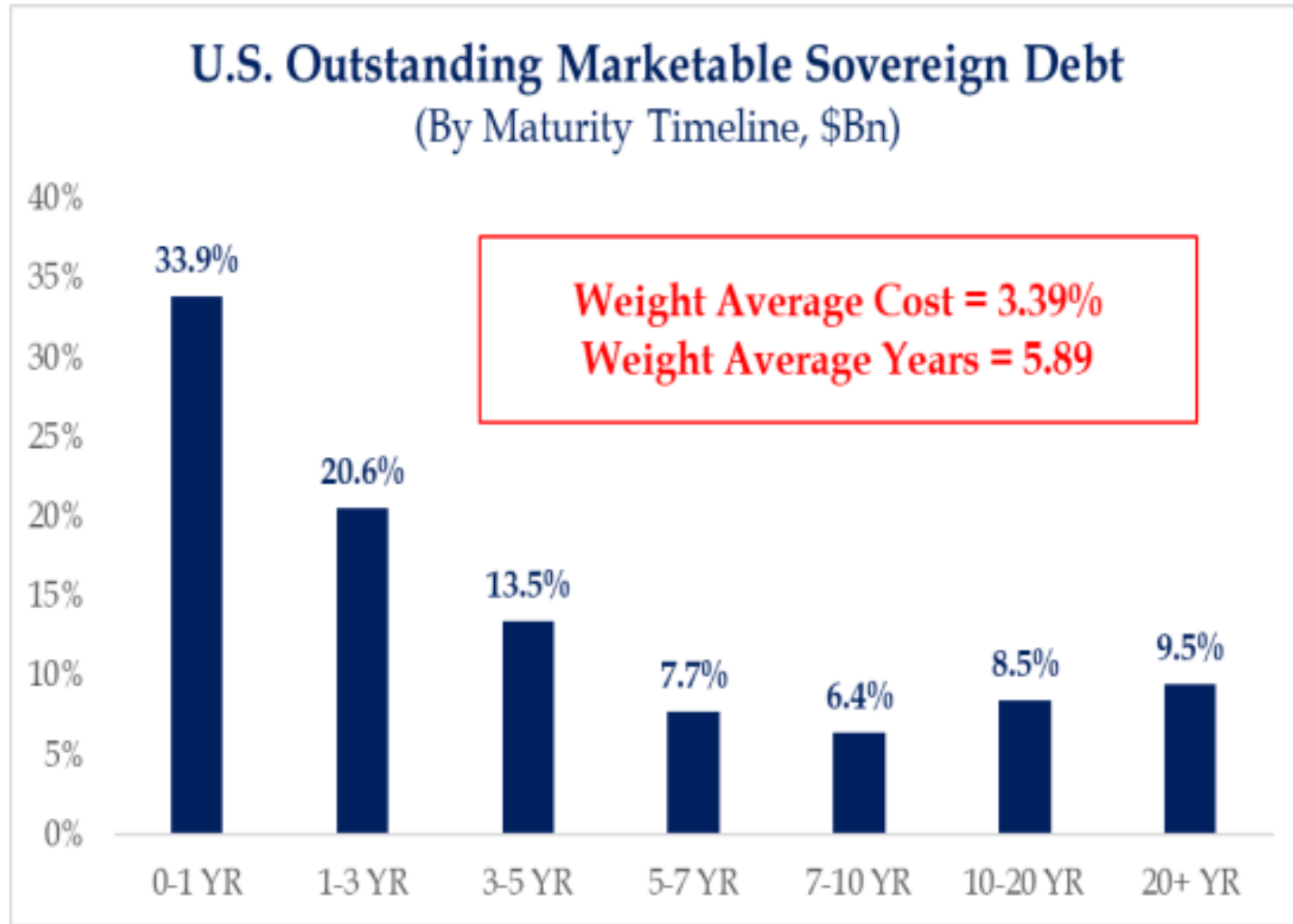
Source: September 18, 2024 FOMC Summary of Economic Projections and Bondsavvy calculations.

Lower Rates Would Help U.S. Consumers



Truist Advisory Services

And the Federal Government



What does this mean for Fixed Income Markets?

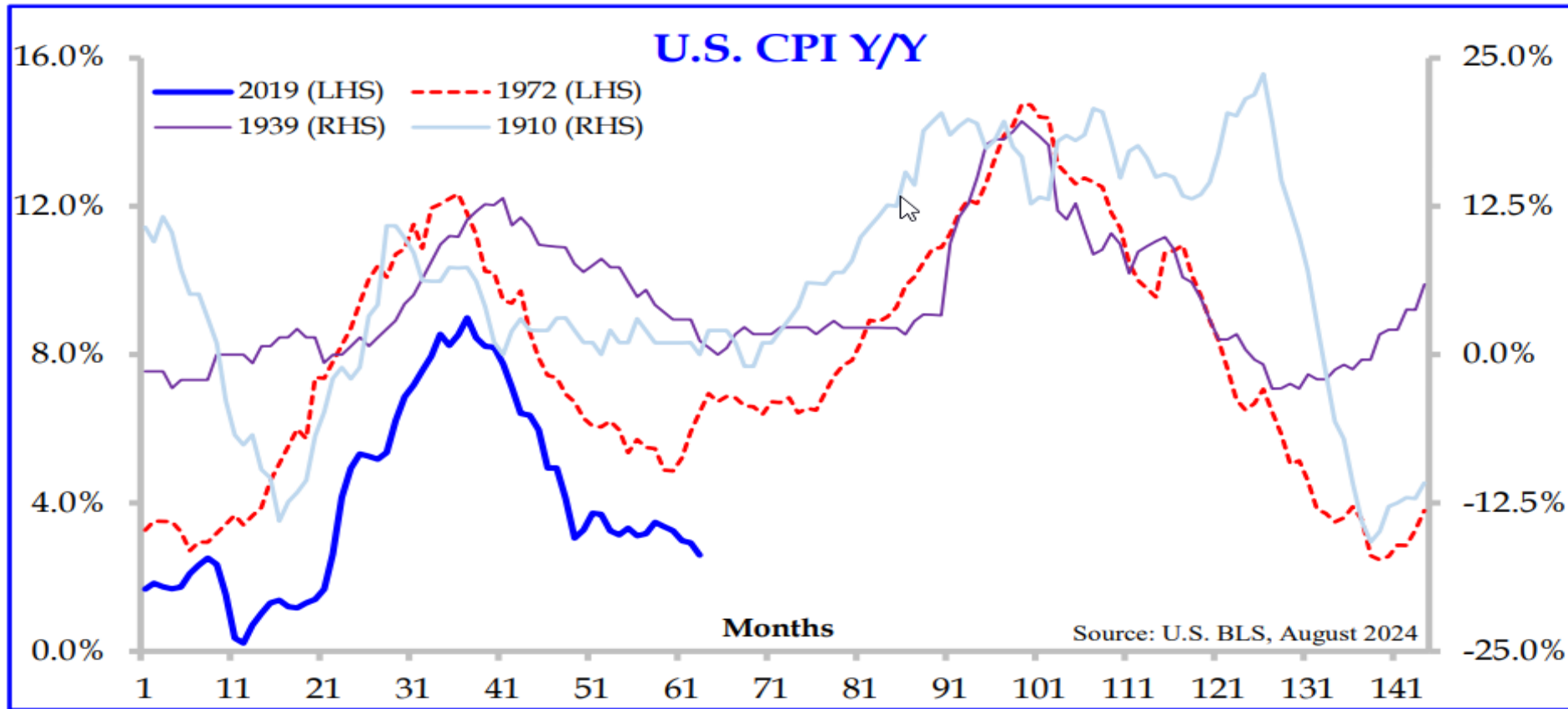


MILLION DOLLAR QUESTION

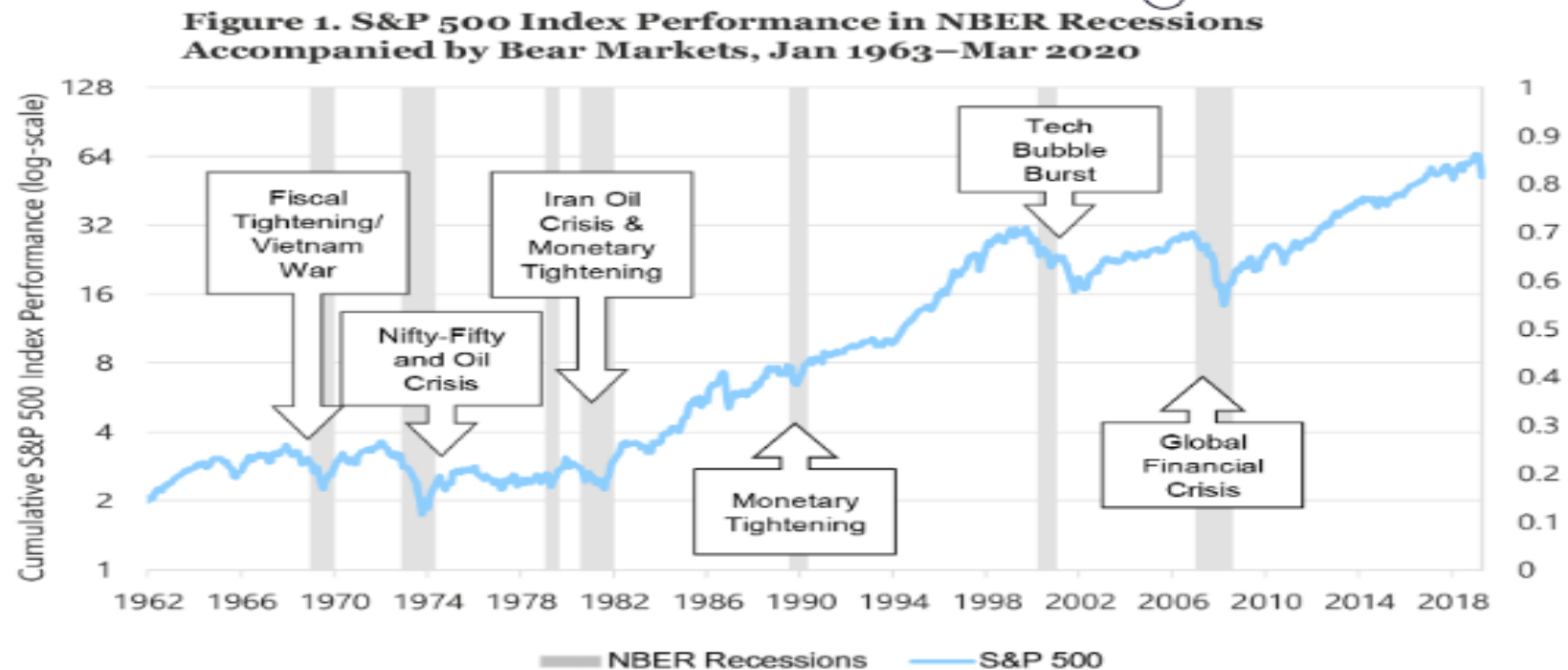
Is inflation under control?

History of Being Stubborn

U.S. INFL HAS COME IN WAVES HISTORICALLY



Equity Market Outlook



Note: The chart represents the cumulative return of the S&P 500 Index adjusted for inflation. The shaded areas indicate periods of economic recessions defined as by NBER.

Source: Research Affiliates, LLC, based on data from FactSet, NBER, and Robert Shiller.

Equity markets have a tendency to trend downward going into a recession.

Makes sense since you purchase equities for future earnings potential and in general earnings decline during recessions

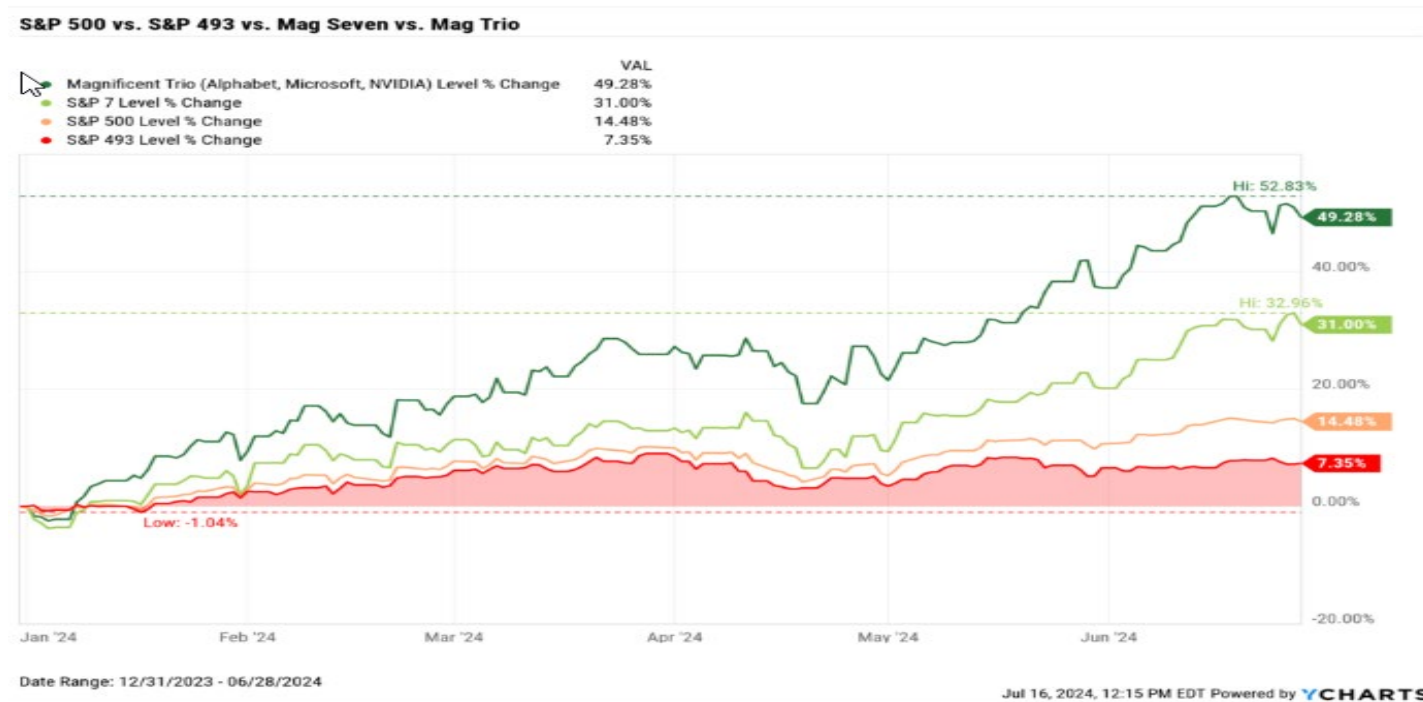
Chart 1: US corporate earnings strongly linked to economic activity



Source: Refinitiv, Schrodgers Economics Group, 5 December 2022. 60669:

2025 Base Case = No Recession But...

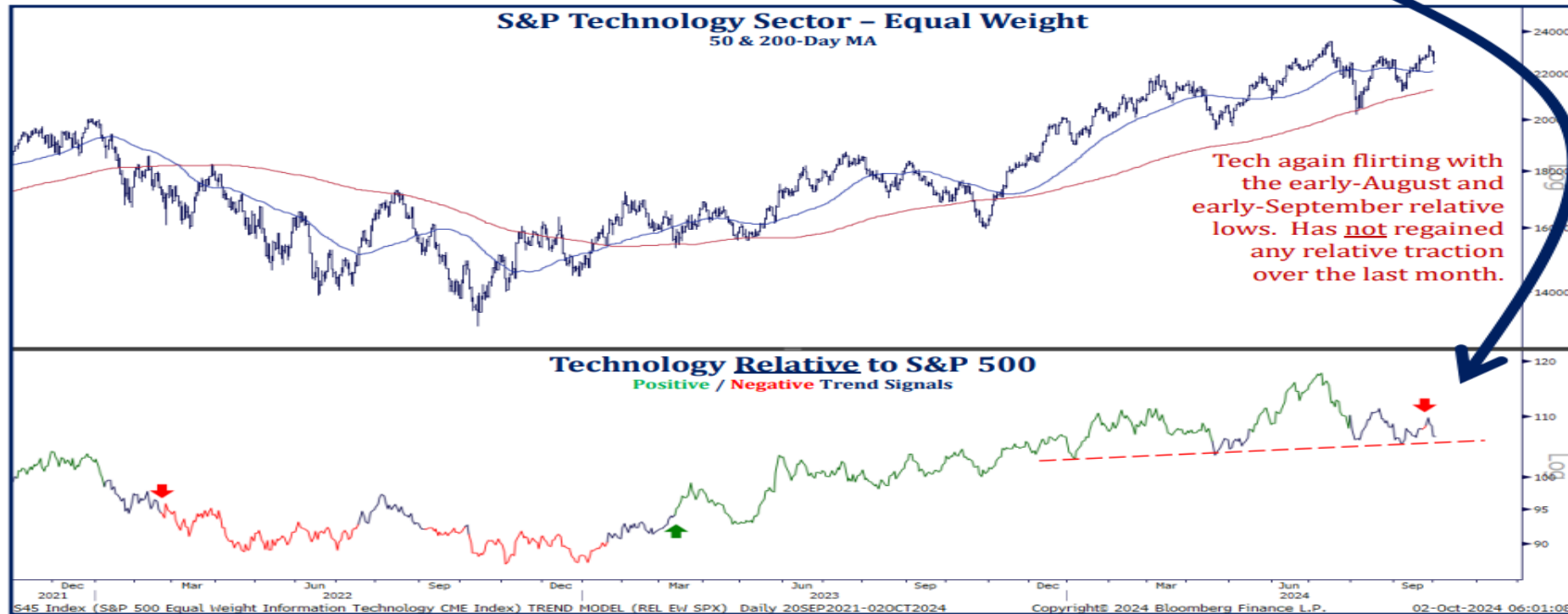
- Investment Performance has been targeted
- First half of the year dominated by big tech



Mag 7 : Apple, Amazon, Alphabet, Meta, Microsoft, Nvidia and Tesla (roughly **30% weighting of S&P** and accounted for 59.6% of first half 2024 performance)

Leadership Shift in Second Half

TECH'S RELATIVE PROFILE CONTINUES TO WEAKEN



Performance momentum building in rate sensitive sectors (e.g. Utilities, REITs and Financials) also seeing strength in Industrials

Equities will also be impacted by election results.

Harris theme = stimulate growth through earmarked spending

Consumer Staples/Consumer Discretionary Stocks expected to benefit from a Harris presidency

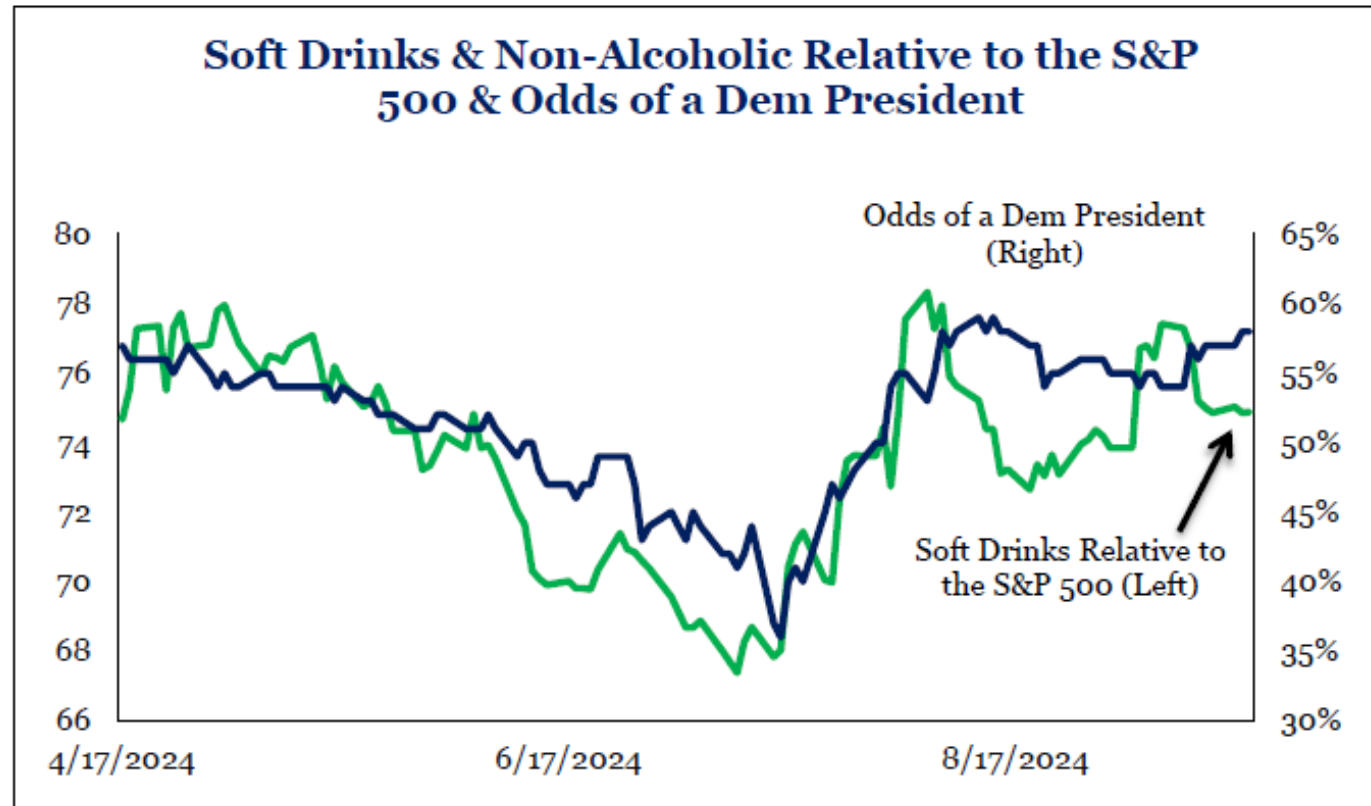
Sectors are Highly Correlated with four government aid programs

- 1) Tax refunds
- 2) Student loan payments (deferment/forgiveness)
- 3) Food Stamps/SNAP
- 4) Medicaid

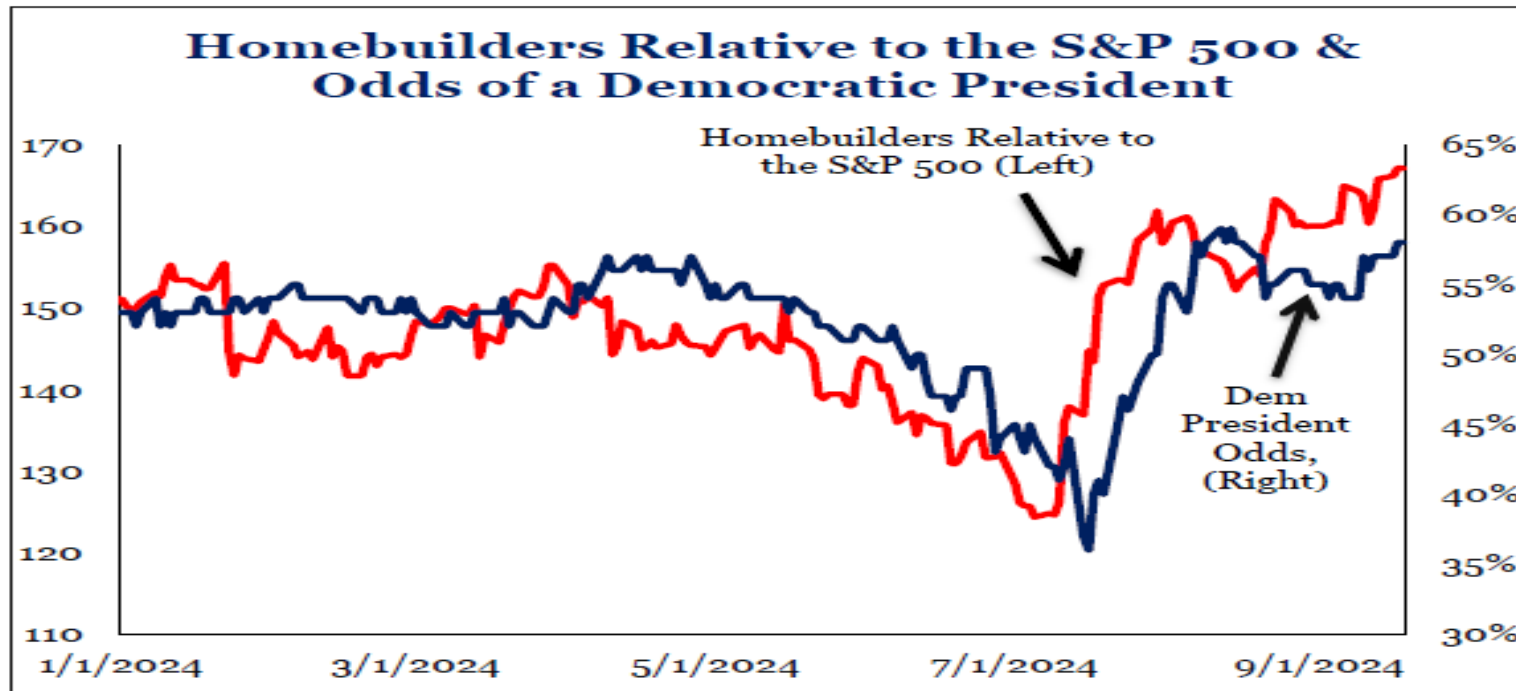
Harris wants to expand while Trump wants to move back toward pre-pandemic levels

An Interesting Example

SOFT DRINKS REPRESENT ROUGHLY 10% OF SNAP SPENDING AND ARE CORRELATED WITH HARRIS' ODDS

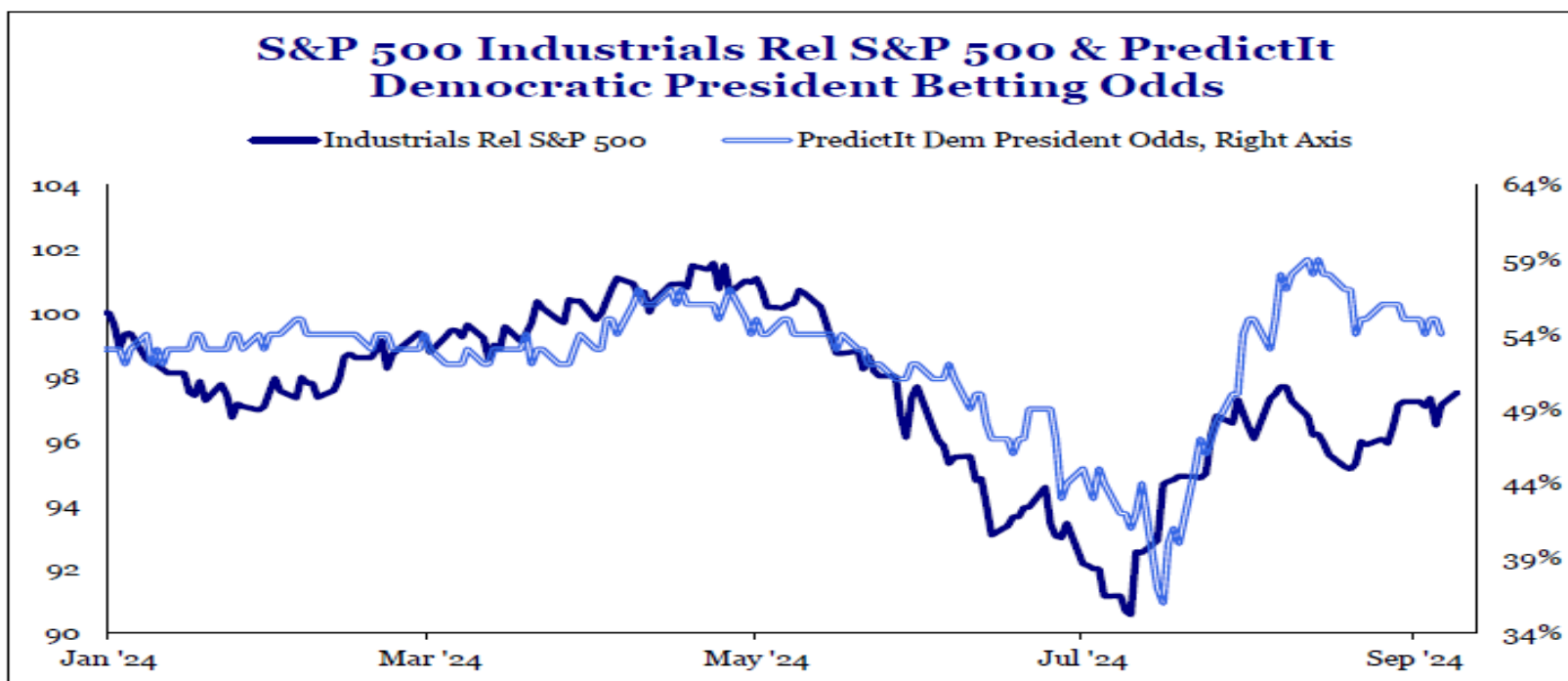


Homebuilders Demonstrate a Strong Correlation to a Harris Win



Attributed to Harris proposal to provide \$25k tax credit to first time homebuyers

Industrials Perhaps the Most Levered Sector to a Harris Win




Secures Inflation Reduction Act spending (green infrastructure)/Increased defense spending/Slower deglobalization

Trump Theme = focused more on general economic policy and less on targeted spending

- Faster Deglobalization
 - Onshoring (manufacturing construction)
 - Tariff protections (hurts China helps India/Mexico/Canada)
 - Supply chain security (semiconductors/Taiwan)
- Less regulation (banks, traditional energy, materials)
- More diversified energy policy (pumps brakes on green transition)
- Less aggressive taxation (corporate tax impact on earnings)
- More aggressive trade negotiations (USMCA/NAFTA review 2026)
- Crypto currency adoption
- Less military intervention (Ukraine resolution)



Regardless of election outcome we anticipate opportunities for respectable equity market returns in 2025.

- Solid economic growth comparatively
 - Unemployment remains low
 - Credit spreads remain tight
 - Consumers continue to spend
 - Treasury auction demand remains strong (recent weakness)
 - Well-positioned to increase productivity (AI)
 - Expect a liquidity boost in first half of 2025 regardless of election outcome (\$700 bn from U.S. Treasury General Account)
- 

2025 Base Case Summary

Fixed Income Market : Yields trend downward resulting in market value appreciation

Equity Market : Respectable return opportunities will be available but leadership drivers will shift. Performance will largely be driven by ability to navigate these shifts.

Potential game changers:

- Inflation 2nd wave
- Widening credit spreads
- Reduced Treasury auction demand
- Unforeseen geopolitical event (ie. Middle East, Ukraine)
- Unforeseen domestic event (ie. election turmoil, terrorist attack, labor strike)

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