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June 2024

Market Update
(all values as of 05.31.2024)

Stock Indices:

Dow Jones	38,686
S&P 500	5,277
Nasdaq	16,735

Bond Sector Yields:

2 Yr Treasury	4.89%
10 Yr Treasury	4.51%
10 Yr Municipal	3.11%
High Yield	7.84%

YTD Market Returns:

Dow Jones	2.64%
S&P 500	10.64%
Nasdaq	11.48%
MSCI-EAFE	5.34%
MSCI-Europe	6.25%
MSCI-Pacific	3.57%
MSCI-Emg Mkt	2.46%
US Agg Bond	-1.64%
US Corp Bond	-1.12%
US Gov't Bond	-1.53%

Commodity Prices:

Gold	2,347
Silver	30.55
Oil (WTI)	77.16

Currencies:

Dollar / Euro	1.08
Dollar / Pound	1.27
Yen / Dollar	156.92
Canadian /Dollar	0.72

Macro Overview

Mixed data sent equity and bond markets into uncertainty, as economic expansion appears to be cooling, yet inflation remains a burden for consumers nationwide. The labor market also seems to be cooling, as the unemployment rate ticked up to 4%, up from 3.9%, the first time in over 2 years that the rate has reached 4%.

Inflation, as measured by the consumer-price index (CPI) rose 3.4% in April from a year earlier. Closely followed by the Fed, core prices which exclude volatile food and energy items, rose 3.6%. Gross domestic product (GDP) rose 1.3% annualized in the first three months of the year, below estimated projections of 1.6%. Bureau of Economic Analysis (BEA) figures also showed that the economy's primary growth indicator, consumer expenditures, advanced 2.0%, somewhat less than expected.

An employment index released each month by the Conference Board, is starting to signal a slowdown in the labor market. The Conference Board Employment Trends Index (ETI) fell in April, indicating that employers are hiring less and laying more workers off. Economists view a cooling labor market as an indicator of a slowdown in consumer expenditures and economic activity.

Consumers are borrowing more in order to keep spending and to keep up with higher prices. The increase in consumer loan balances is a multifaceted issue driven by higher borrowing costs, inflation, depletion of savings, changes in consumer behavior, economic conditions, and lender requirements. These factors collectively contribute to the rising levels of consumer debt from auto loans to credits cards and lines of credit.

The most recent retail data from the country's largest retail chains are finding consumer frugality a concern as consumers become more sensitive to how much they're spending and on what they're buying. Continued elevated interest rates are keeping consumers from larger big ticket purchases such as cars and appliances.

Federal Reserve Bank of New York President John Williams said he expects inflation to resume moderating in the second half of this year, while Michelle Bowman, a Fed Governor, suggested that if progress on inflation stalls or reverses, the Fed might need to consider increasing rates further. Conflicting messages from various Fed members in May drew market confusion, as the direction of interest rates became more ambiguous. The Federal Reserve, which is composed of 12 district presidents and 7 governors, each representing different parts of the country, yet offer varying opinions on economic conditions. The most recent findings from the Federal Reserve's Beige Book, released on May 29, 2024, indicate that the U.S. economy has been expanding at a modest rate since early April of this year. The Beige Book, which is a formal survey conducted and released by the Federal Reserve each month, identifies key attributes of the economy and current conditions.

The IRS has provided temporary relief from penalties for missed RMDs from inherited IRAs for the years 2020 through 2024, but beneficiaries should prepare for compliance with the final regulations starting in 2025.

Sources: Federal Reserve, IRS, Labor Dept., BEA, Conference Board

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YIELD OF 1.35% ON THE S&P 500 INDEX IS MUCH LESS THAN THE 6-MONTH TREASURY AT 5.42%

Rates Hold Steady Yet Still Too High For Consumers – Fixed Income Update

Rates held steady in May as the Fed's indecisiveness stirred confusion in the bond markets. The yield on the benchmark 10 year Treasury bond ended May at 4.51%, down from 4.7% in April this year. Stubbornly high rates continue to pressure consumers as rates on loans remain elevated, hindering consumer expenditures.

Growing debt levels among consumers are becoming a concern especially on variable rate loans, whose interest rates have increased as the Fed has risen short term rates. Higher rates have become a primary factor with rising delinquencies, from auto loans to credit cards. (Sources: U.S. Treasury Dept., Federal Reserve)

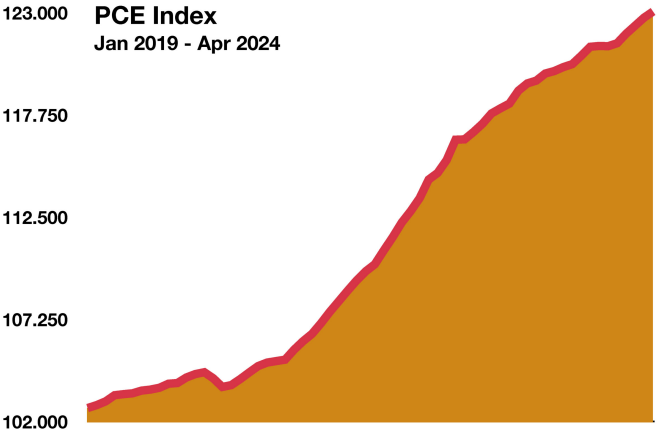
Stocks Perform In May – Equity Overview

Stocks eluded an age old adage to "sell in May and go away", as equity indices outperformed for the month. Domestic equities defied uncertainty created by the Fed as volatility drove stocks higher and lower throughout the month. Despite the month long volatility, all three major equity indices finished May in positive territory. Ten of the eleven sectors of the S&P 500 Index gained in May. Technology and communications services were the largest contributors to the gains seen in May.

The yield of 1.35% on the S&P 500 Index has fallen well below to that of the yield on the 6-month Treasury Bill at 5.42% as of the end of May. This comparison is a metric used by analysts to determine the risk and reward for holding stocks versus short term bonds. (Sources: Bloomberg, S&P, Dow Jones, Nasdaq, U.S. Treasury)

Consumers Still Spending Amid Inflation – Consumer Behavior

Consumer sentiment and spending have remained fairly consistent in recent months, as noted by the Personal Consumption Expenditures Price Index (PCE). Despite a dip in the summer of 2022, current consumer sentiment is at a similar level as before elevated inflation levels emerged. Inflation has steadily decreased for the past 11 months and reached 4% in May 2023, its lowest level since March 2021.



Even with a slowing economy, consumer spending and outlooks have remained resilient. Business investment and pullbacks in inventories have slowed growth, with investor sentiment remaining fragile. This has resulted in two consecutive quarterly decreases in GDP following the previous two-quarters of negative GDP growth.

Data such as this is extremely important to the Fed, which monitors spending and how it affects inflation. However, with aggressive monetary policies in place, deflationary pressures may also continue to grow, potentially negatively impacting asset prices. Declining asset prices can also impact consumer behavior as devaluing home and stock values lead to lower consumer confidence and expenditures. (Sources: University of Michigan, Bureau of Economic Analysis, Federal Reserve)

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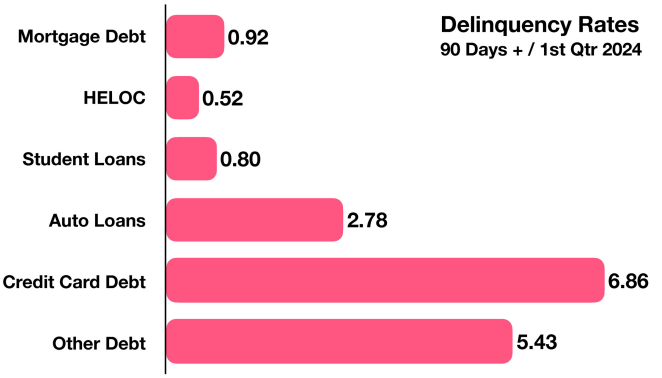
6.86% OF CREDIT CARD BALANCES ARE 90 DAYS DELINQUENT

Delinquency Rates Increasing Among Consumer Loans – Consumer Debt

Consumer loan balances are increasing due to a combination of factors, including rising interest rates, inflation, and changes in consumer behavior.

As the Federal Reserve has raised interest rates to combat inflation, higher interest rates have made borrowing more expensive for consumers. This has a direct impact on consumer loan balances, particularly for credit cards and personal loans, which often have variable interest rates. Rising loan rates have placed additional stress on consumers as loan payments have increased, with some leading to delinquencies. Outstanding balances on credit card and auto loans have seen the largest increase in delinquencies as of the first quarter of the year.

Elevated prices on food and everyday goods and products, have enticed consumers to rely more on credit to maintain their purchasing power. This has resulted in higher credit card balances as consumers use credit to cover everyday expenses. The increased cost of living has particularly affected lower-income households, who are more likely to turn to credit cards to manage their budgets.



Lenders have become more selective in approving loans, particularly for consumers with lower credit scores. However, the demand for credit remains high, leading to increased balances among those who can still access credit. The tightening of credit conditions has also led some consumers to seek alternative financing options, such as payday loans, which can further increase their debt burden. (Sources: Federal Reserve Bank of New York, www.newyorkfed.org/newsevents/news/research/2024/20240514)

IRS Waives Penalties For Missed Inherited RMDs – Tax Planning

The IRS has recently extended relief for certain heirs regarding Required Minimum Distributions (RMDs) from inherited IRAs. The penalties for missed RMDs from inherited IRAs for the years 2020 through 2024 will be waived. This applies to beneficiaries who inherited IRAs from individuals who died after 2019 and were subject to the SECURE Act's 10-year rule.

Under the SECURE Act of 2019, most non-spouse beneficiaries must deplete inherited IRAs within 10 years of the original account holder's death. This rule replaced the previous "stretch IRA" strategy, which allowed beneficiaries to extend distributions over their lifetimes. Initially, there was confusion about whether annual RMDs were required within the 10-year period. The IRS proposed regulations in 2022 that would have required annual RMDs if the original account holder had already started taking distributions. However, this requirement has been waived for 2020 through 2024. The IRS has indicated that 2024 will be the last year for such relief. Starting in 2025, beneficiaries will need to comply with the final regulations, which will likely require annual RMDs if the original account holder had begun taking them. Failure to comply will result in an excise tax of 25% on the amount that should have been withdrawn, reduced to 10% if corrected within two years. Beneficiaries should consider the tax implications of delaying RMDs. While the waiver provides temporary relief, it may result in larger withdrawals and higher tax liabilities in the future. (Sources: IRS, www.irs.gov/retirement-plans/required-minimum-distributions-for-ira-beneficiaries)

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THE UNEMPLOYMENT RATE TICKED UP FROM 3.9% IN APRIL TO 4%

Fed's Beige Book Report Sheds Light On Direction of Economy – Domestic Economy

The Beige Book is a report published by the Federal Reserve System that provides information about current economic conditions across the 12 Federal Reserve Districts nationwide. This past month, data revealed that economic activity increased slightly overall, with ten out of twelve Federal Reserve Districts reporting slight or modest growth. The other two Districts reported no change in activity.

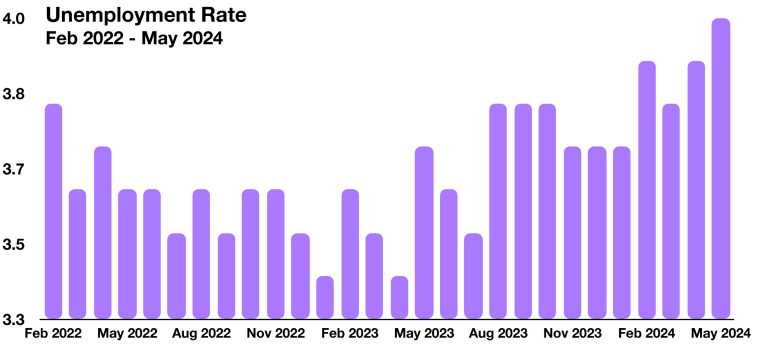
A key economic indicator, retail spending, remained flat to slightly up, reflecting weakening discretionary spending and heightened consumer sensitivity to price increases. The manufacturing sector saw a slight decline in activity, as demand for machinery and metals decreased. Prices continued to rise modestly, with many businesses facing higher expenses. Some companies reported that it has become more difficult to pass along these costs on to consumers, leading to smaller profit margins. Financial conditions tightened slightly, with business loan demand remaining stable but consumer loan quality edging down with delinquencies increasing with certain loans.

Overall, the latest Beige Book release revealed a cautiously optimistic outlook for the U.S. economy, with modest growth and persistent inflation pressures in place. (Sources: Board of Governors of the Federal Reserve System, www.federalreserve.gov/monetarypolicy/publications/beige-book-default.htm)

Unemployment Ticks Up Ever So Slightly – Labor Market Overview

The Department of Labor tracks and compiles data on U.S. workers and employment trends. Identifying what portion of the working population is not employed is measured as the unemployment rate, which is a critical factor that the Fed closely watches. Low unemployment can sometimes trigger inflationary pressures, with wages increasing as employers compete for qualified workers. Higher wages tend to invigorate consumers to spend more, which eventually can lead to inflation.

The unemployment rate ticked up from 3.9% in April to 4%. It was the first time in more than two years that the jobless rate hit 4%. It also marked the extension of a steady climb higher, when the rate was as low as 3.4% last year. Despite a slightly higher unemployment rate, companies continue to hire, but seem to also be letting some workers go.



Workers are seeing slowing wage gains and are less likely to quit than there were a year ago, as evidenced by the quits rate, which has fallen to 2.2% in April, down from 3.0% in April 2020. The U.S. Bureau of Labor Statistics monitors the number of workers that have voluntary quit their current job in pursuit of another position. (Sources: U.S. Bureau of Labor Statistics, Federal Reserve)

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