PRIVATE AND CONFIDENTIAL

Economic Update for LFMA

April 18, 2024

Presenter introduction

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It’s a dry heat

WEALTH MANAGEMENT

A Hot Economy May Be Cause for Caution

Apr 10, 2024

Stronger-than-expected U.S. economic growth may not deliver the earnings growth tha
bullish investors expect. Here’s what to consider for your portfolio

The No-Landing US Economy Is Too Hot to Cool Inflation

March jobs report comes in hot: The US economy added 303,000 positions last month

By Alicia Wallace, CNN

FORBES › MONEY › MARKETS

Will A Resilient Economy Keep Inflation Hot?

Brad McMillan Contributor

I help Main Street investors understand and act on current news

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The US economy is not as hot as you probably think it is

contrarian take on America in five charts

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ECONOMY | JOBS

Jobs Growth of 353,000 Blasts Past Expectations as Labor Market Stays Hot

Unemployment was 3.7% as labor market defies predictions of significant slowdown

Our task: separate signal from noise

Signal

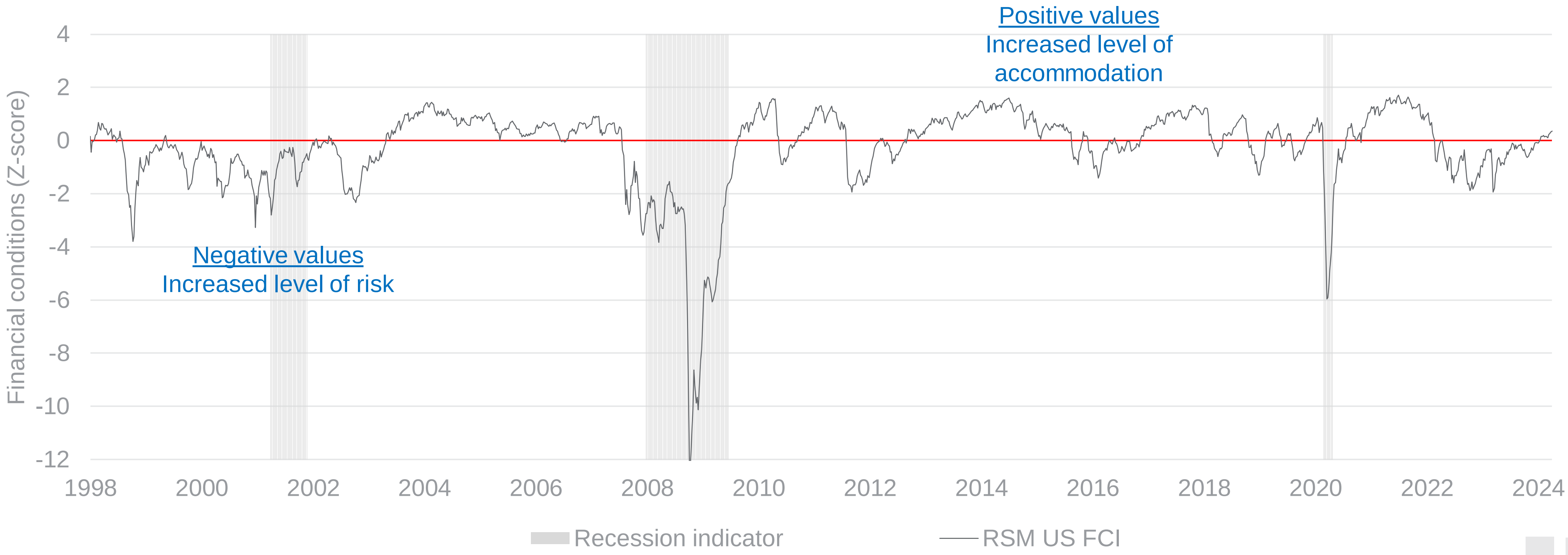
Noise

Economic trends

Financial conditions at neutral, adding to our call for a soft landing

After 18 months of increased levels of risk priced into financial assets, financial conditions have been slightly accommodative since mid-January

U.S. financial conditions



Source: Bloomberg, RSM US

Economic growth outlook

01 The economy has been much more resilient than predicted.

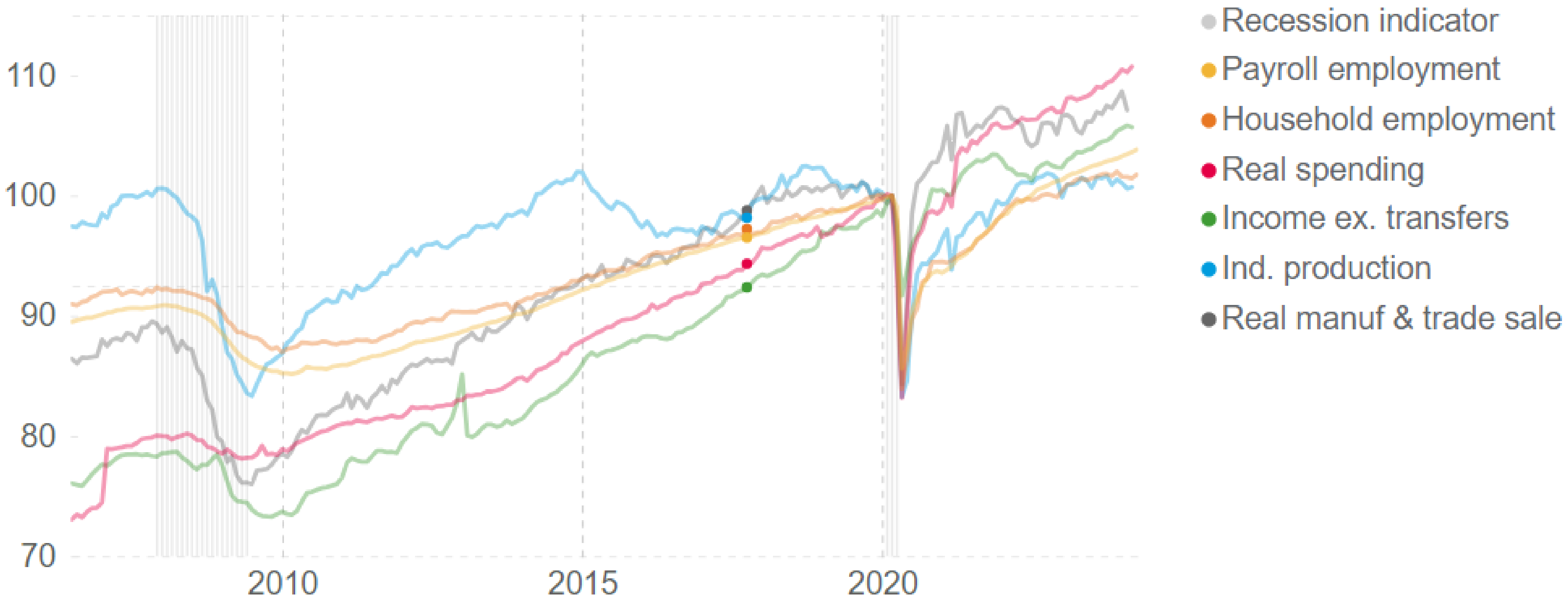
02 We have updated our forecast for annual GDP growth in 2024 to 2.2%.

03 Recession probability remains significantly low at 15%.

04 The risks of the economy outperforming exceed underperforming in 2024.

The economy has been much more resilient than predicted

No sign of recession according to our recession tracker using the NBER criteria

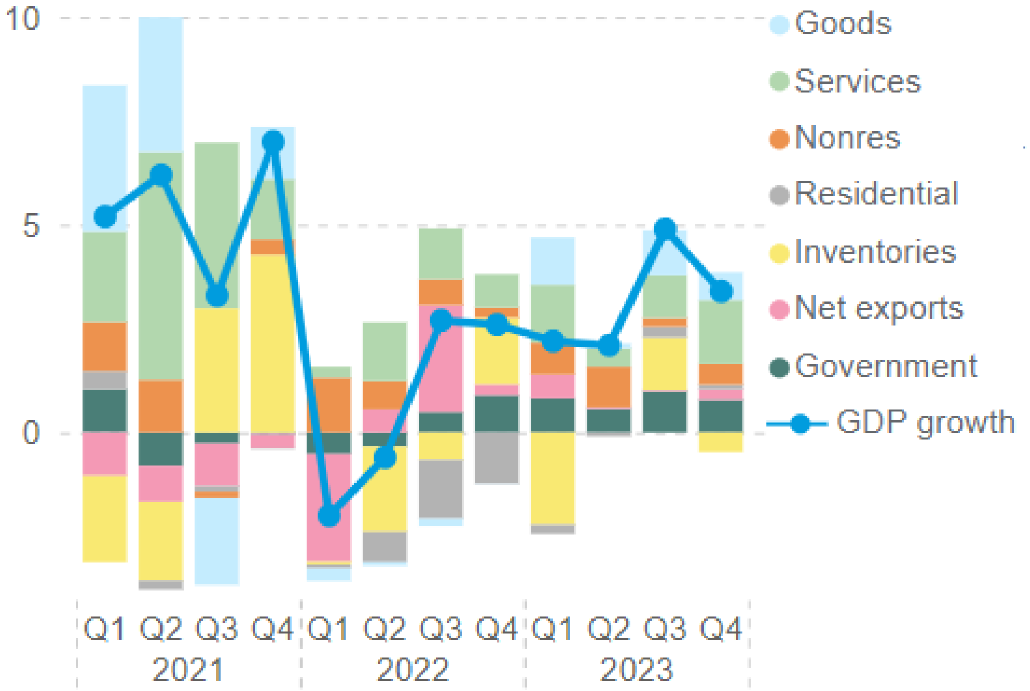


Note: Normalized with 2020 = 100. Source: BEA, RSM US

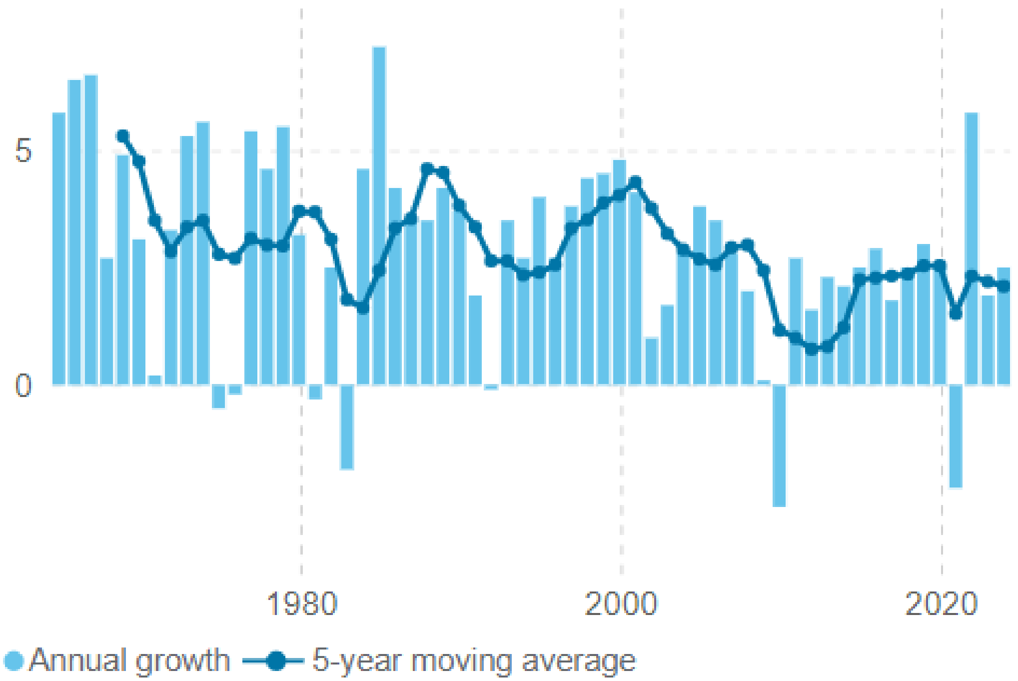
Our GDP forecast at 2.2% for annual growth in 2024 with upside

Driven by a strong labor market, excess savings, stock market wealth effect and investment incentives

Real GDP growth, quarterly annualized



Real annual growth



Source: BEA, RSM US

Employment outlook

01 Over the past three months, the U.S. economy has generated an average of 276,000 jobs; over the past six months: 244,000.

02 That captures the underlying trend in the domestic labor market and is well aligned with our own proprietary data and other corporate surveys on current and future hiring.

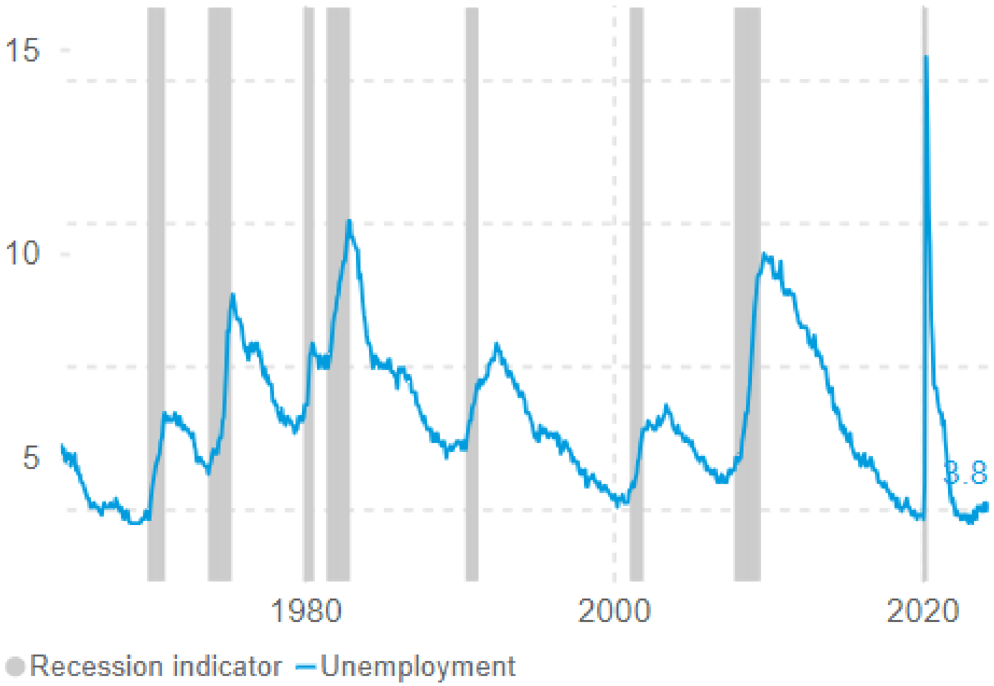
03 The unemployment rate stays at 3.8%, the 26th consecutive month that the rate has remained below 4%.

04 Employment of prime-age workers between 25-54 up to 83.4%, indicative of what we estimate to be the strongest labor market since the 1950’s.

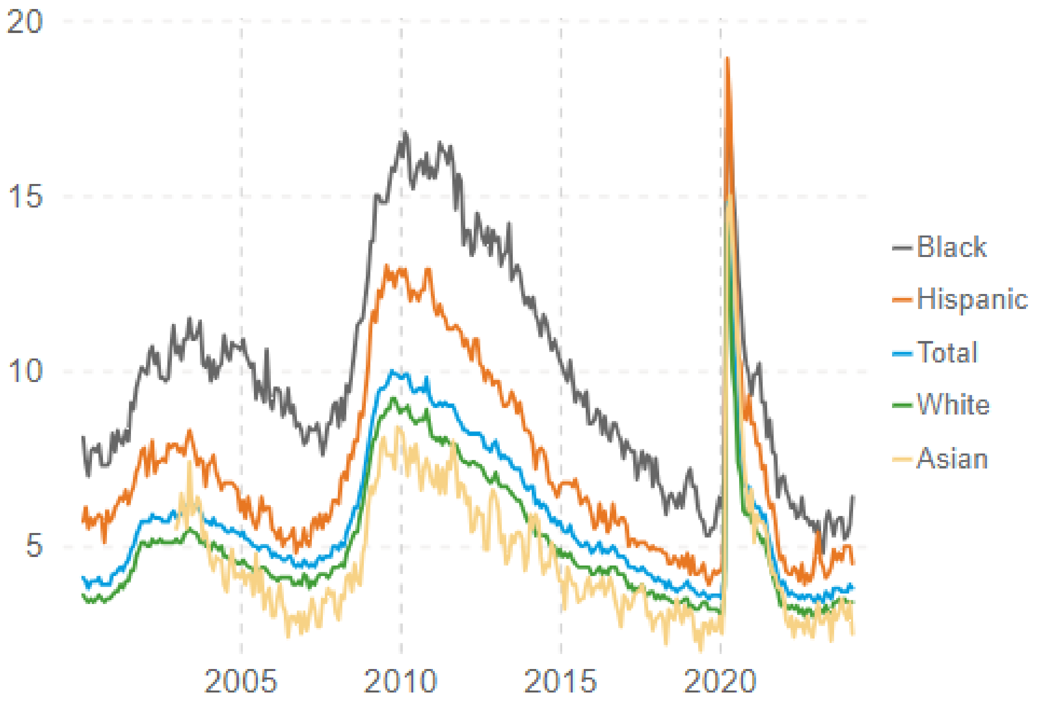
Signs of the strongest labor market since the 1950's

Unemployment rate under 4% for more than 2 years

Unemployment rate



By demographics



Source: BLS, RSM US

Inflation outlook

01 Overall trend: disinflation and great progress in 2H’23, yet bumpy toward the 2% target in 2024.

02 Fed’s key metric: PCE at 2.5% in Feb. 24; Core PCE at 2.8% y/y. Slight rebound from CPI metrics in the first three months add risks to Fed’s rate cut timing.

03 Wage growth remains solid: above 4% for both hourly wage rate and employment cost index—the Fed’s key gauge. Thus, continuing pressure on service inflation beside housing.

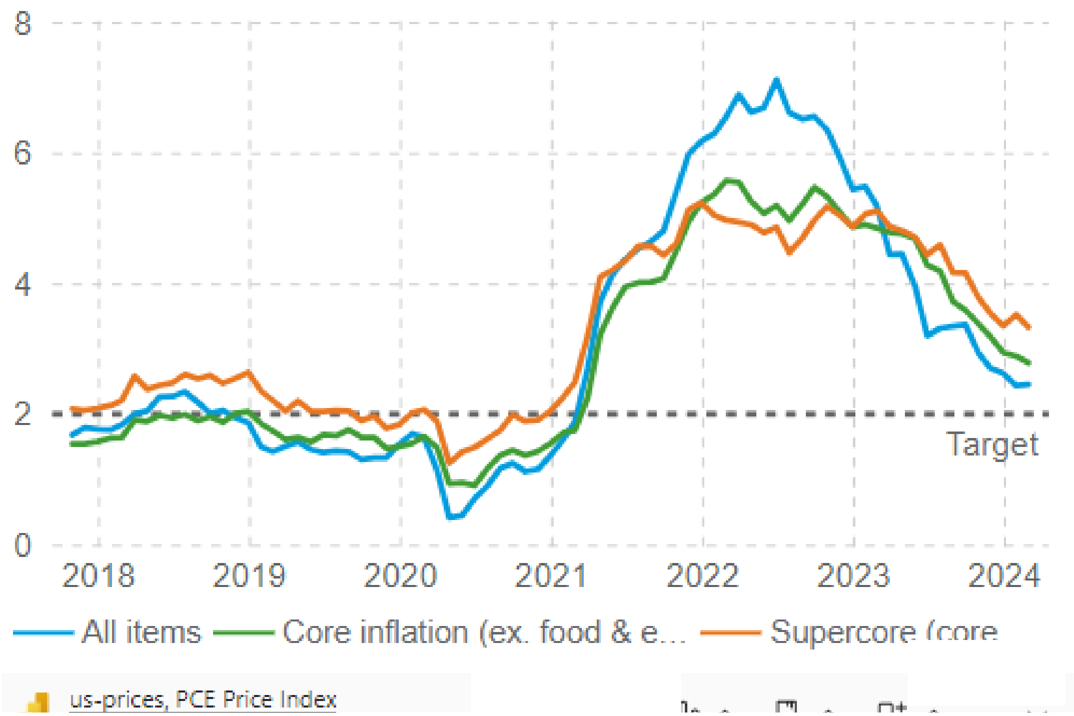
04 The is a path to 2% by mid-year for underlying PCE inflation: housing inflation finally catch up with declines in housing price due to mortgage rates.

02 Inflation expectations well-anchored. Fed could tolerate inflation slightly higher than 2% and begin cutting rates to shift toward growth mandate.

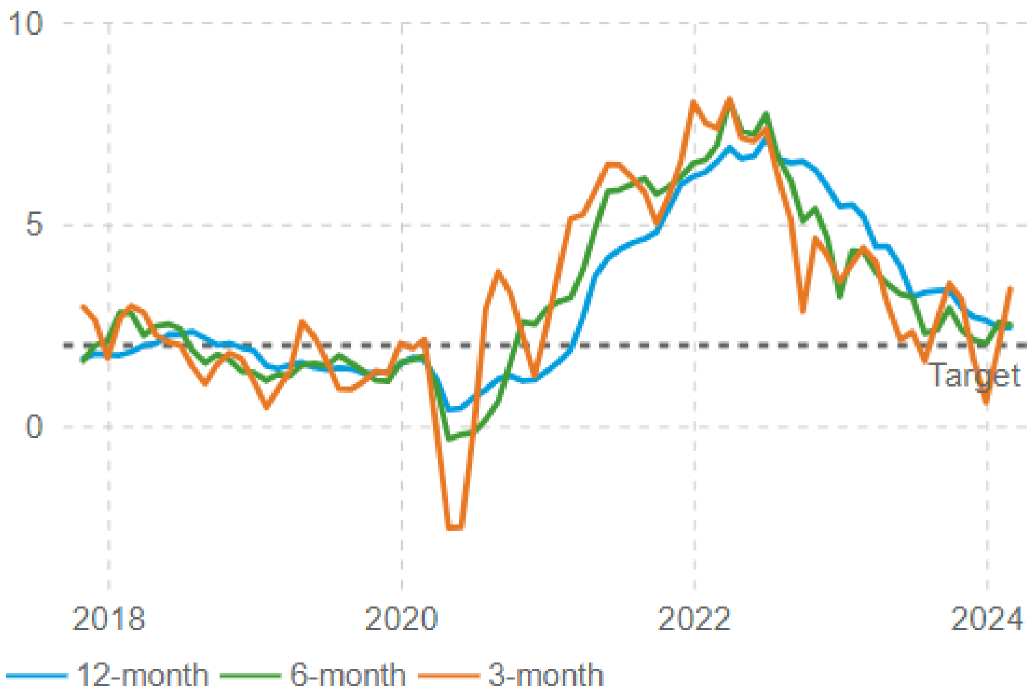
Rapid disinflation since 2022’s high with the target in sight

Despite a rebound in January, short-term 3 and 6-month inflation points to target

PCE inflation year-over-year



Annualized PCE

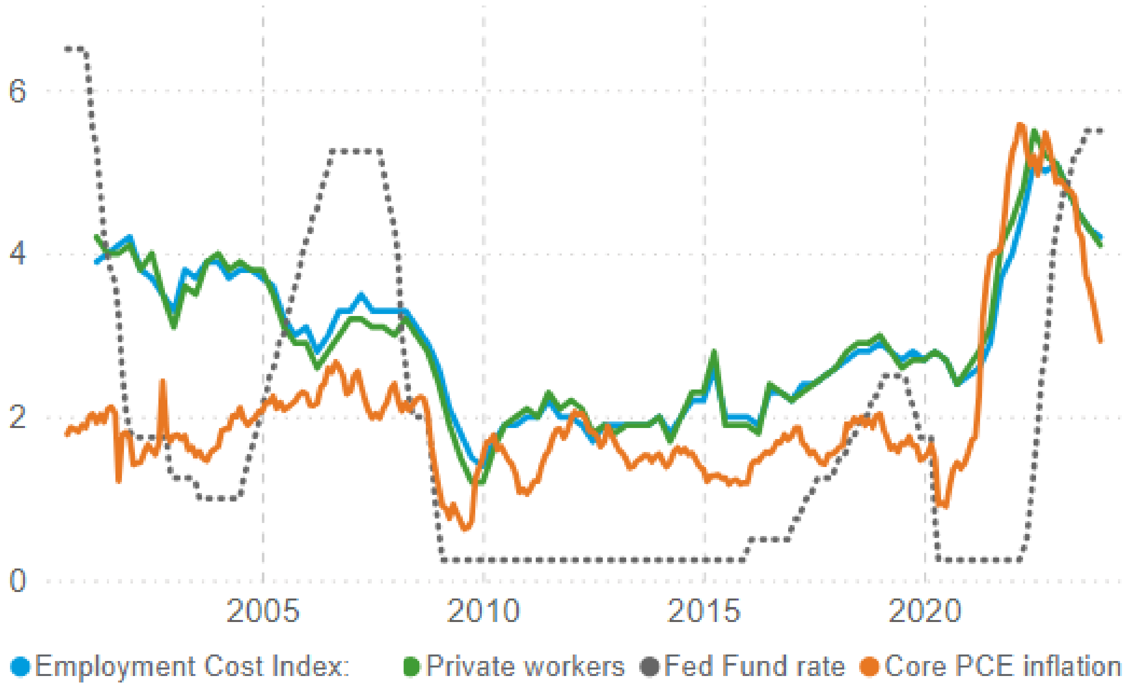


Source: BEA, RSM US

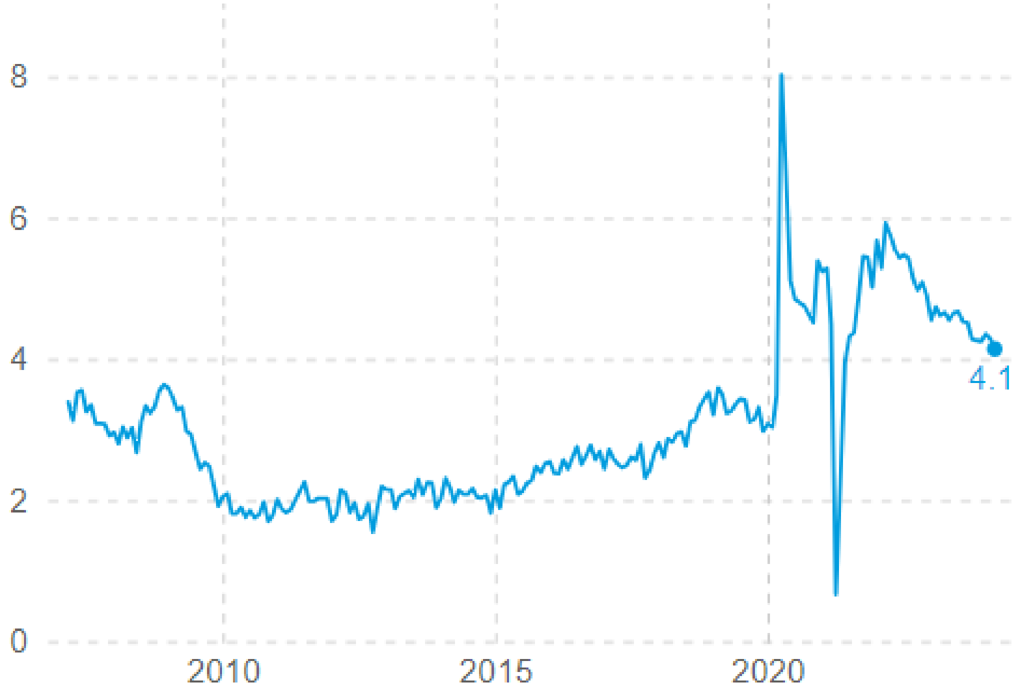
Wage growth remains elevated due to tight labor market

Real wage turns positive as inflation comes down; support stronger spending

Employment cost index



Hourly wage growth, 12-month



Source: BLS, BEA, Federal Reserve, RSM US

Personal spending and income outlook

01 American consumers are much more resilient than expected, supported by a strong labor market and excess savings.

02 Personal income grows faster than inflation, helping real income to stay positive toward the end of 2023 and the start of 2024.

03 Consumers spending down their pandemic excess savings, which will likely runout by mid-year. Most of the excess savings is held by the top income earners.

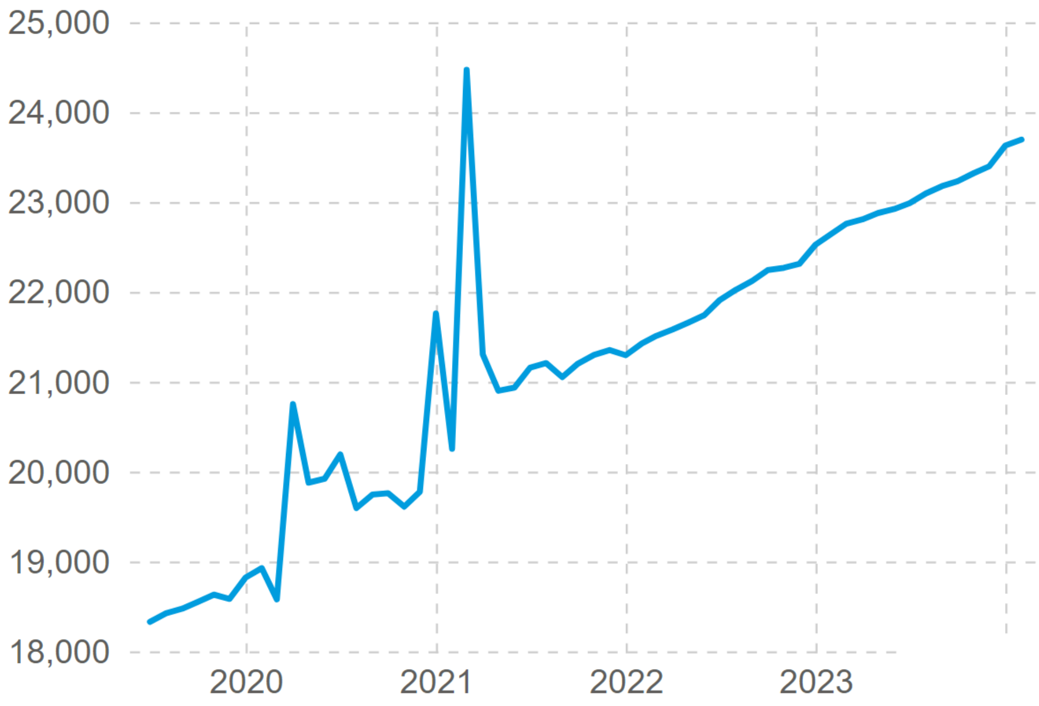
04 The wealth effect from the surge in equity market is significant. the increase in total spending would account for between 1.1% and 4.8% of nominal gross domestic product.

02 Consumer confidence has picked up in the last 6 months as inflation is under controlled, slowly catching up with the hard data on overall consumption demand.

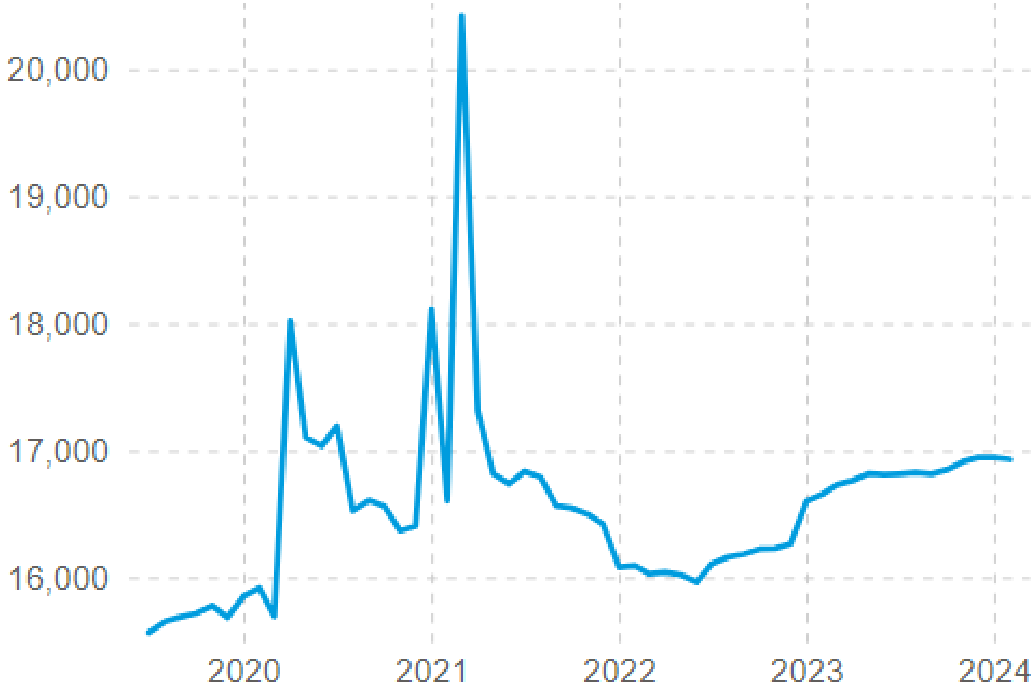
Personal income grows faster than inflation

Services spending continues to be a strong support

Nominal income



Real income



Source: BEA, RSM US

Fed and financial conditions outlook

01 Fed is in no rush to cut rates as inflation remains sticky.

02 Baseline forecast: first cut in June, followed by 2 more cuts every other meetings. But the rebound in inflation in the past 3 months raises the chance that rate cut will be pushed back to July.

03 Market has been aligning its expectations closer to what the Fed will likely do, which means less volatility.

04 Signs of an eventual easing of financial conditions in the second half of the year are on the horizon and are an essential factor in the recent improvement in financial conditions.

02 Gains in equity markets in general and the valuations of a select number of technology stocks were a tailwind behind spending last year and will most likely be again in the first quarter.

Fiscal and household balance sheets

01 Fiscal policies are restrictive in the short-run to avoid inflationary pressures, as well as to allow normalization after massive pandemic relief efforts.

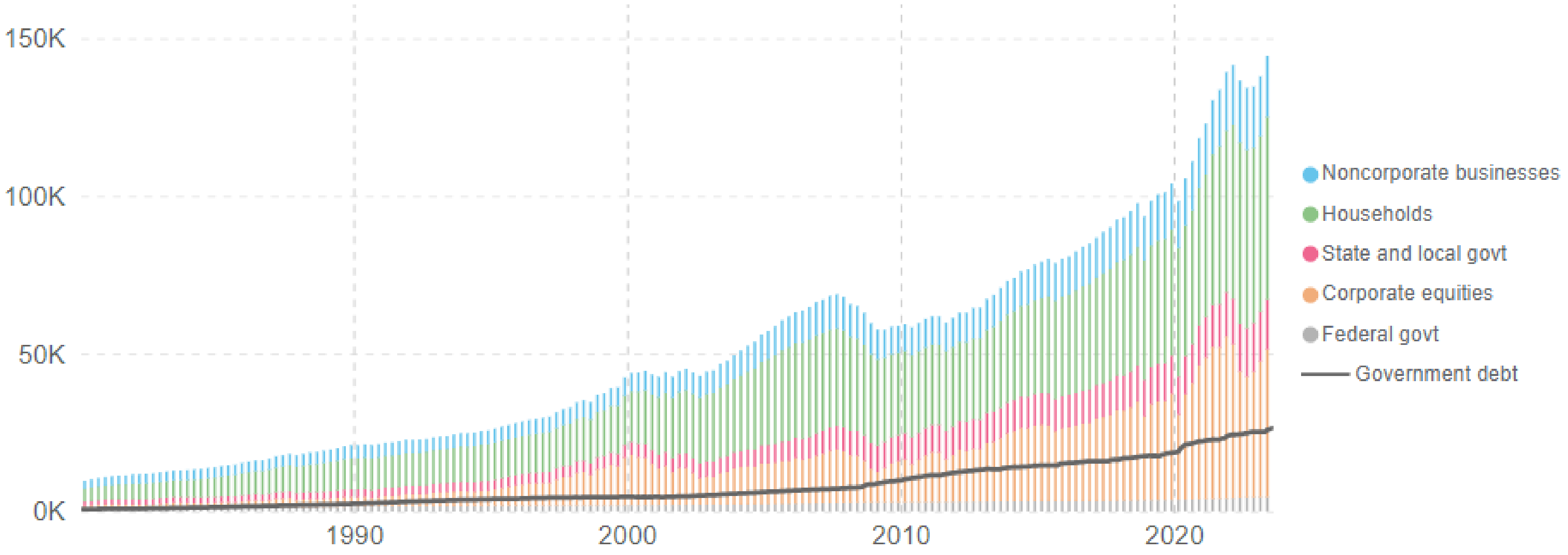
02 Long-term spending however is implemented via industrial policies that are expected to boost productivity and lower inflation.

03 Household balance sheets remain strong, bolstered by equity market gains and solid income growth.

04 The debt problems for both the government and consumers remain insignificant and non-systematic at the current time. Yet, any early signs of distresses should be closely watched.

Total debt remains low compared to total wealth

Total non-financial assets and government debt
$ billions



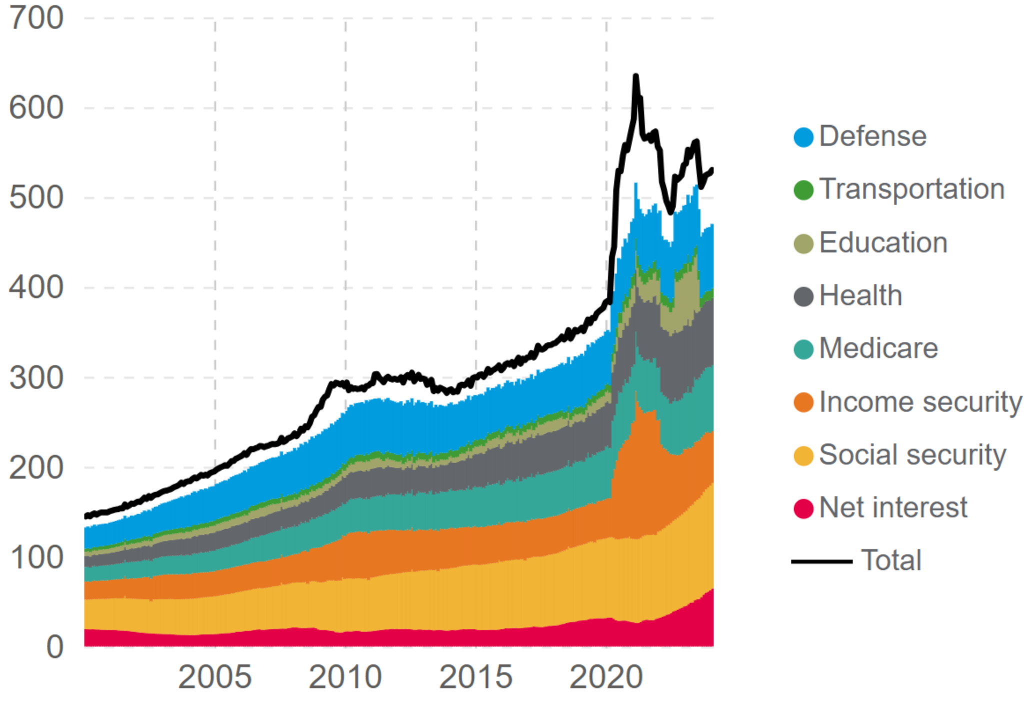
Source: U.S. Treasury, Federal Reserve, RSM US

Fiscal policies restrictive short-term to prevent inflation pressures

Long-term spending however is implemented via industrial policies that are expected to boost productivity and lower inflation.

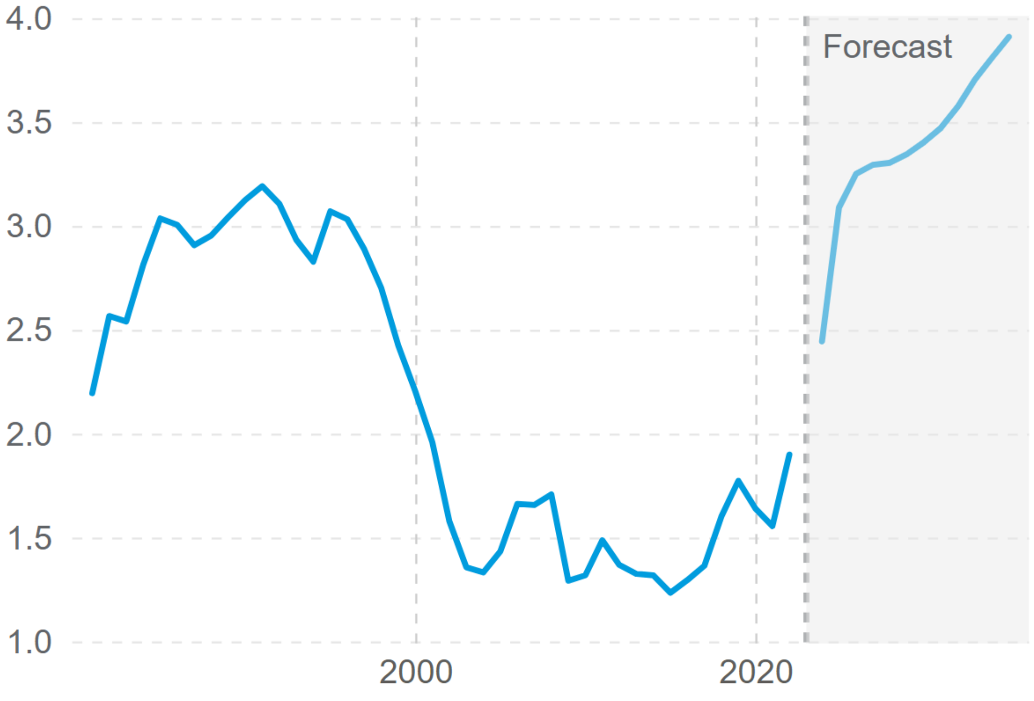
Government monthly expenditure

$ billions, 12-month moving average, NSA



Net interest payments to GDP ratio

CBO's May update using 3.8% 10-year yield for 2023



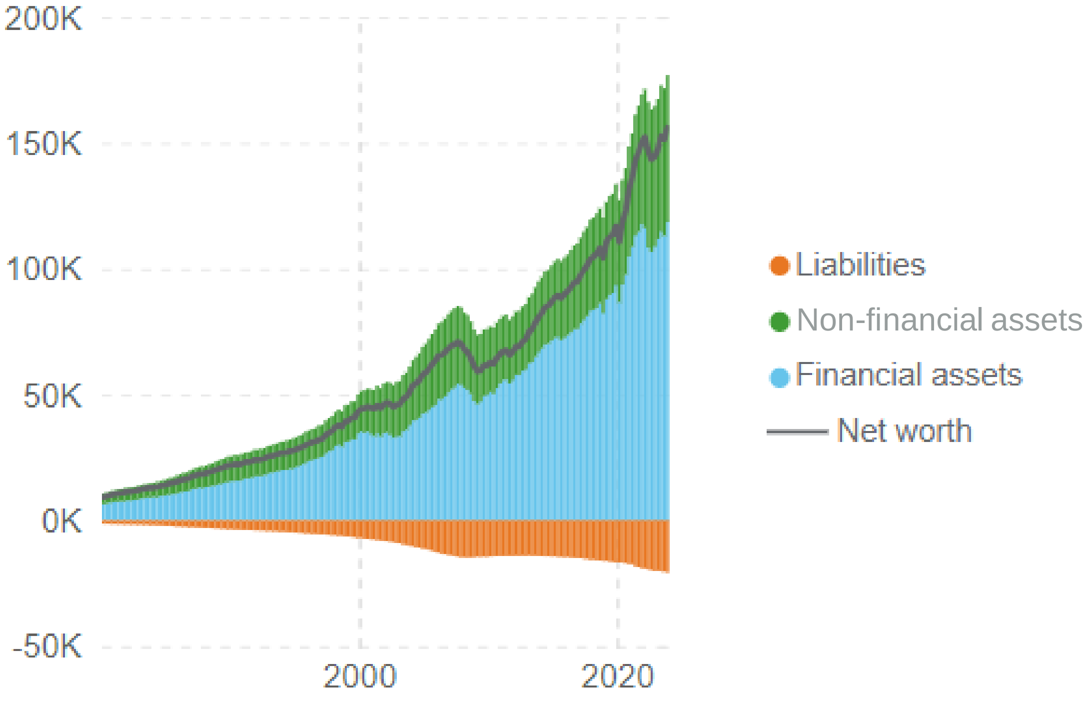
Source: U.S. Treasury, White House, RSM US

Household balance sheet remains strong

On the back of sharp equity gains; debts allocation continues to skew toward mortgages

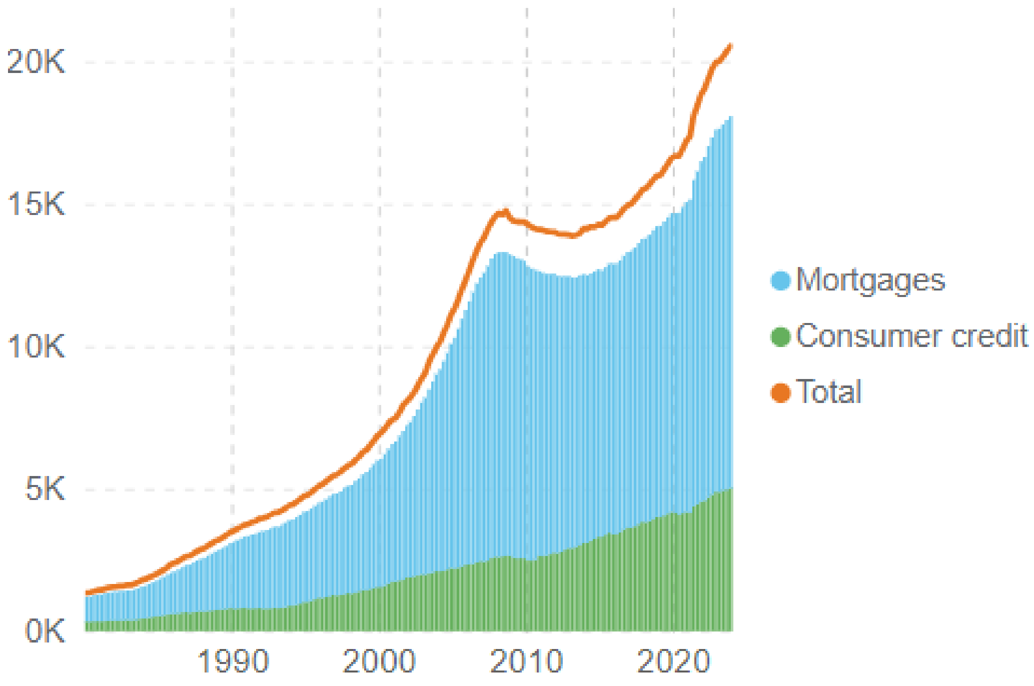
Household balance sheet

$ billions



Major debt types

$ billions

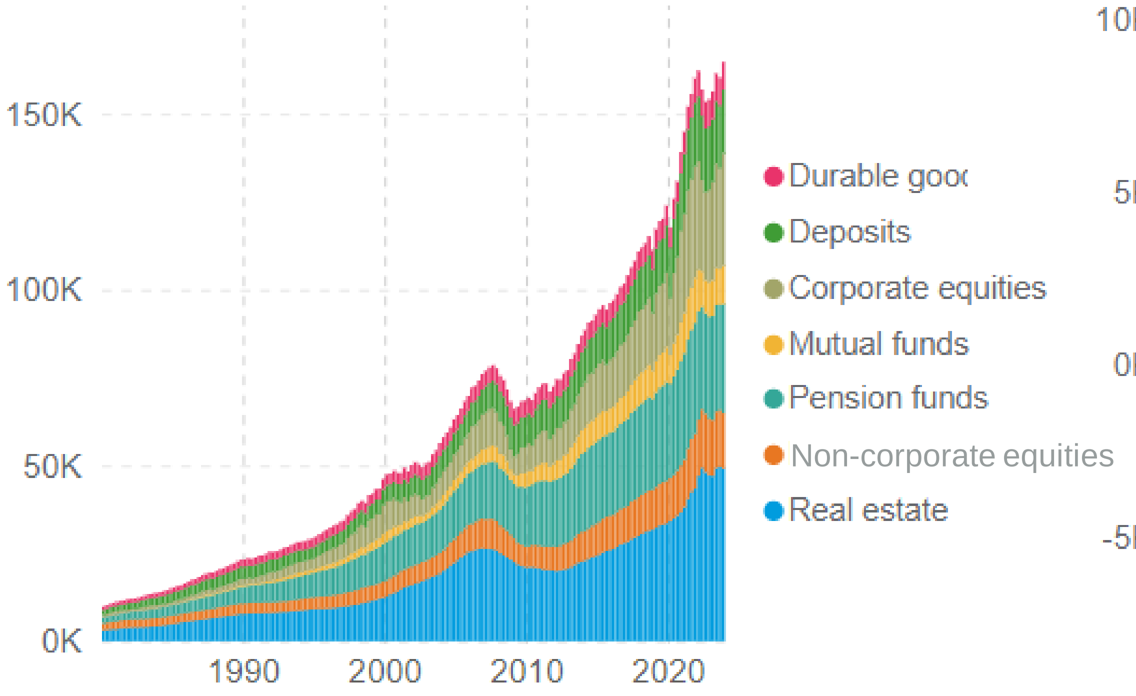


Source: U.S. Treasury, White House, RSM US

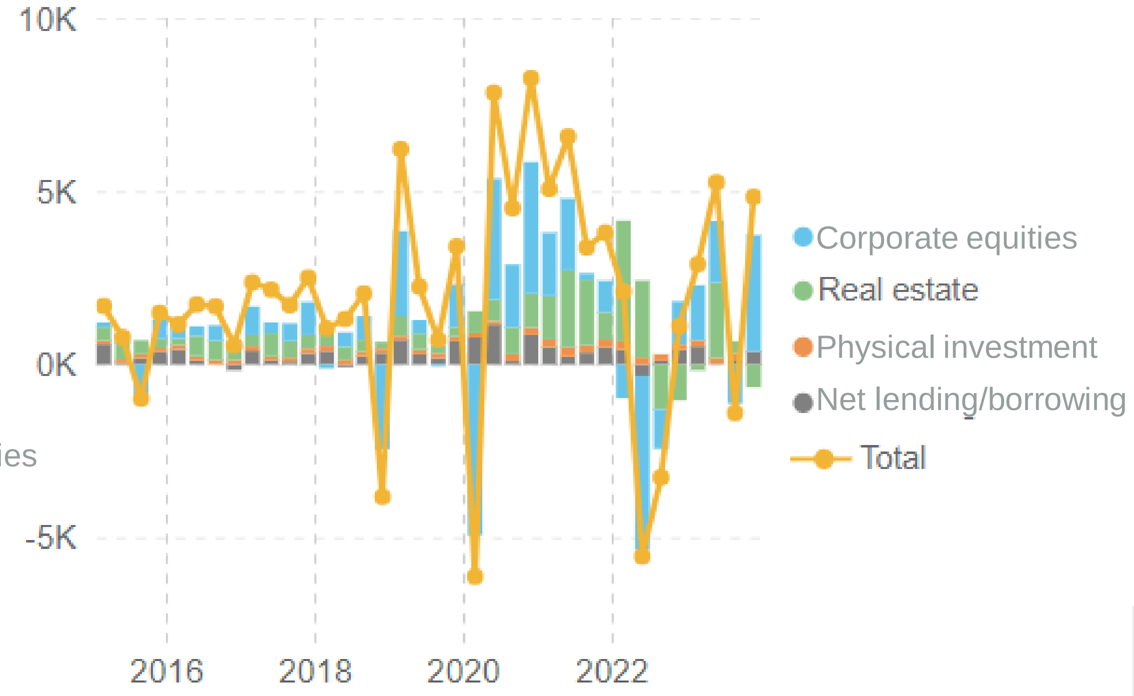
Household net worth continues to rise

Via equity and real estate price surges

Household major asset types
$ billions



Change in household net worth
$ billions

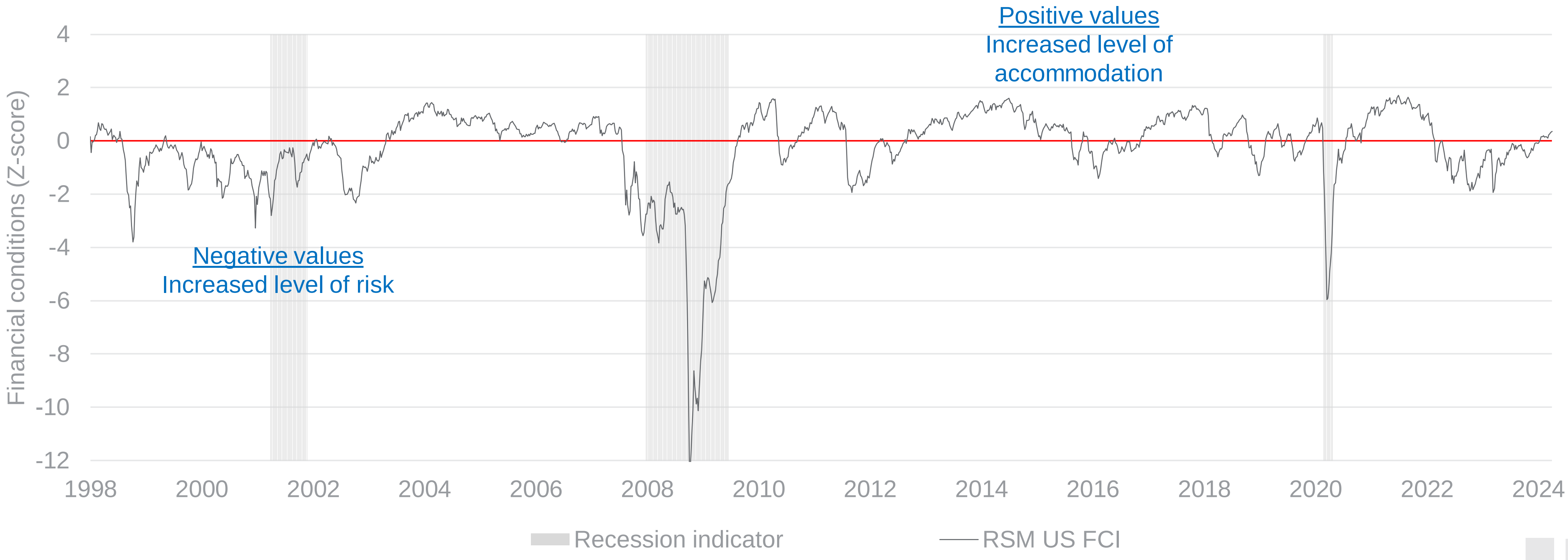


Source: U.S. Treasury, White House, RSM US

Financial conditions at neutral, adding to our call for a soft landing

After 18 months of increased levels of risk priced into financial assets, financial conditions have been slightly accommodative since mid-January

U.S. financial conditions



Source: Bloomberg, RSM US

Philanthropy trends to watch

Endowments are at record highs

Foundation Assets Are at All-Time Highs, but Don't Expect a Giving Boom

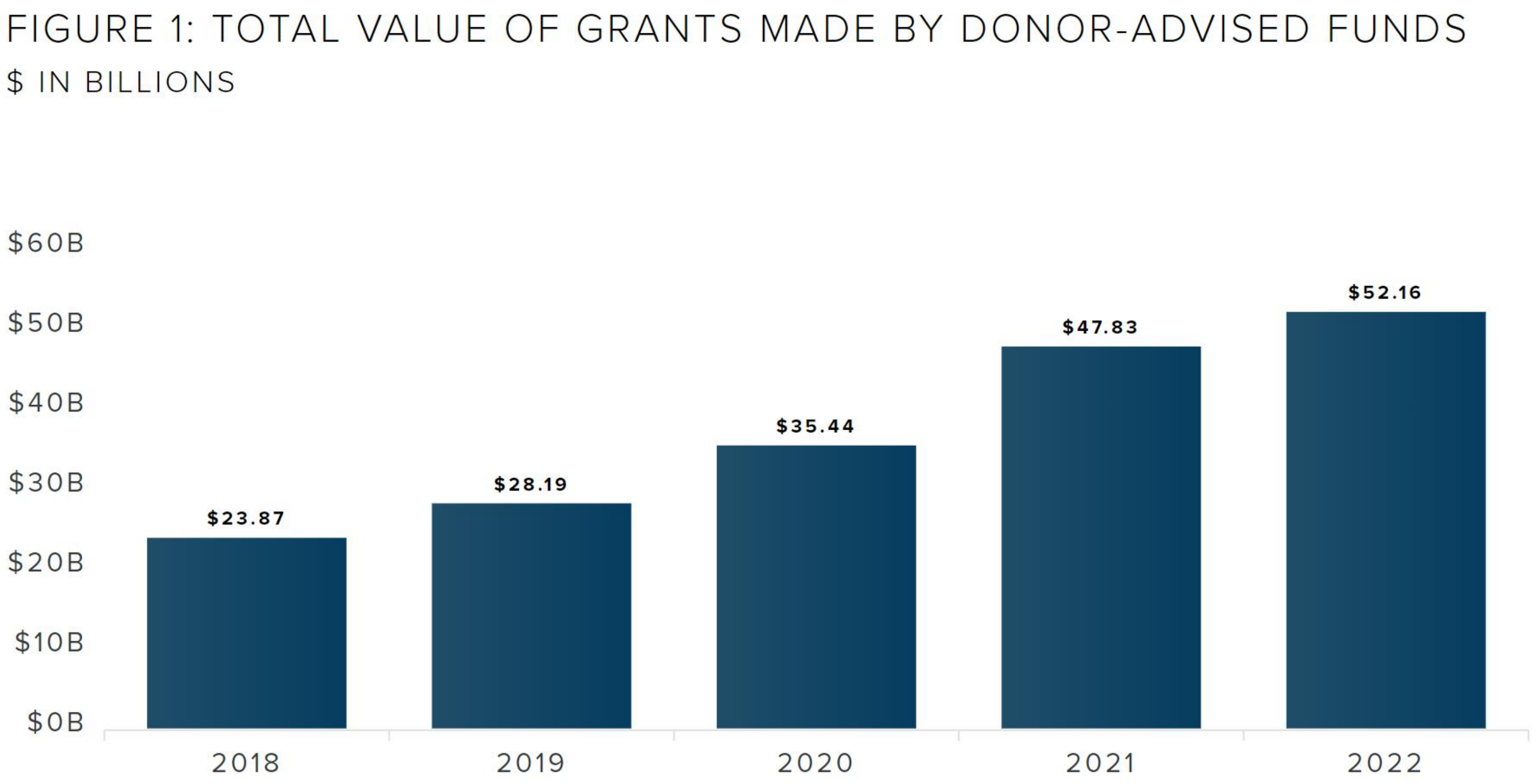
The stock-market rally in the final stretch of 2023 left foundations with $1.48 trillion in assets.

By *Sara Herschander* | JANUARY 4, 2024

KURT AMTHOR, GETTY IMAGES

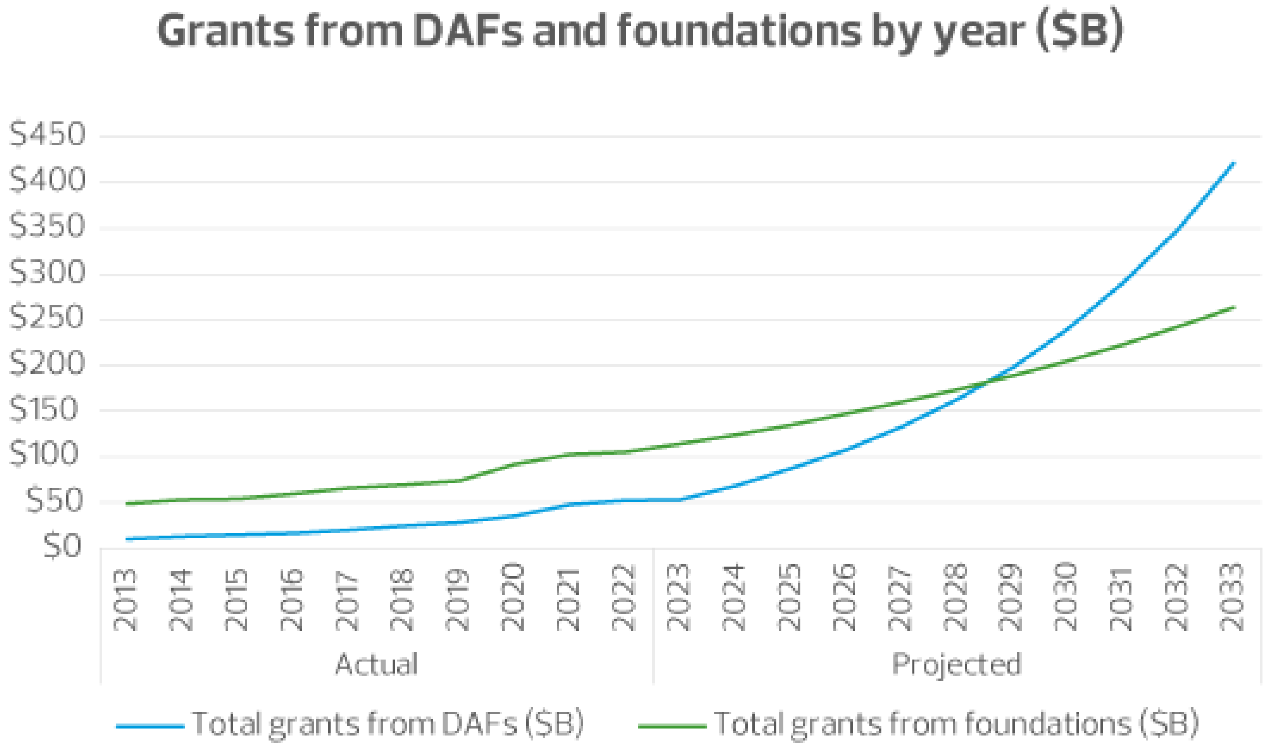
Source: Chronicle of Philanthropy: https://www.philanthropy.com/article/foundation-assets-are-at-all-time-highs-but-dont-expect-a-giving-boom

But don't forget about DAFs



Source: National Philanthropic Trust, *The 2023 DAF Report*: https://www.nptrust.org/reports/daf-report/

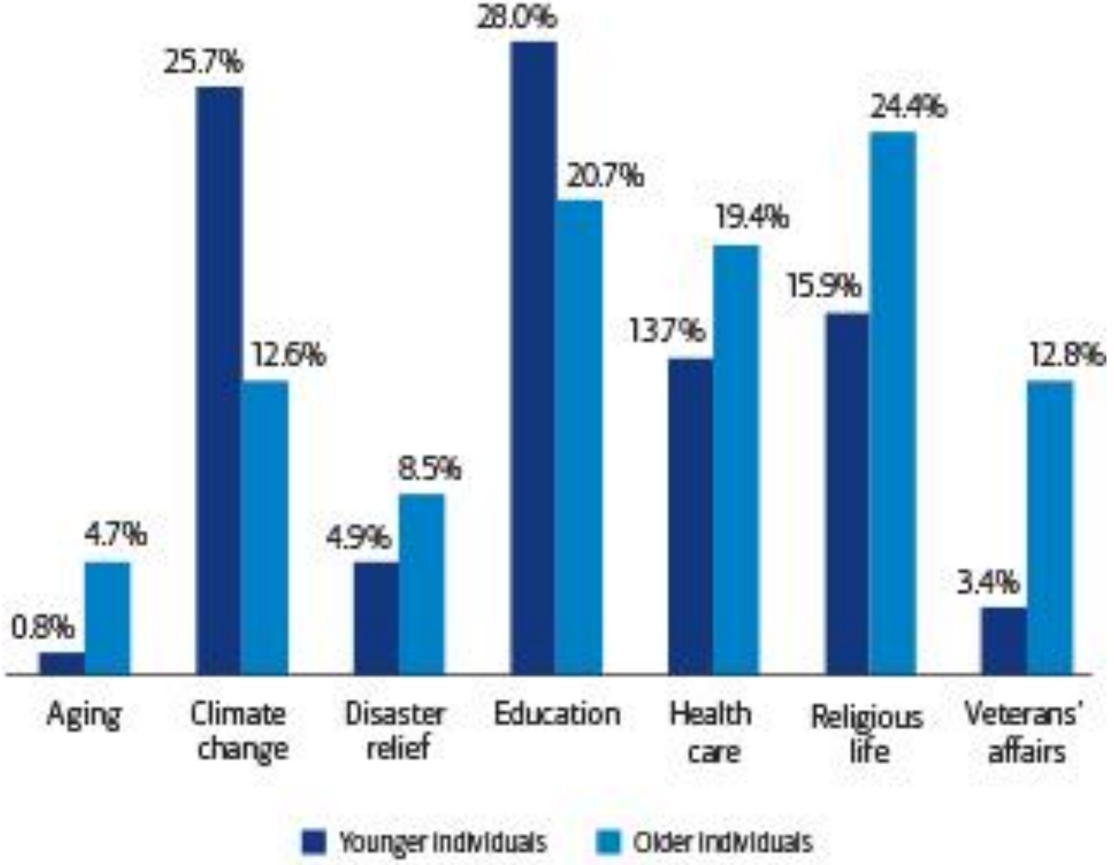
DAFs are on pace to give more than foundations



Source: National Philanthropic Trust; Giving USA; RSM US LLP

Prioritization of causes varies greatly by generation

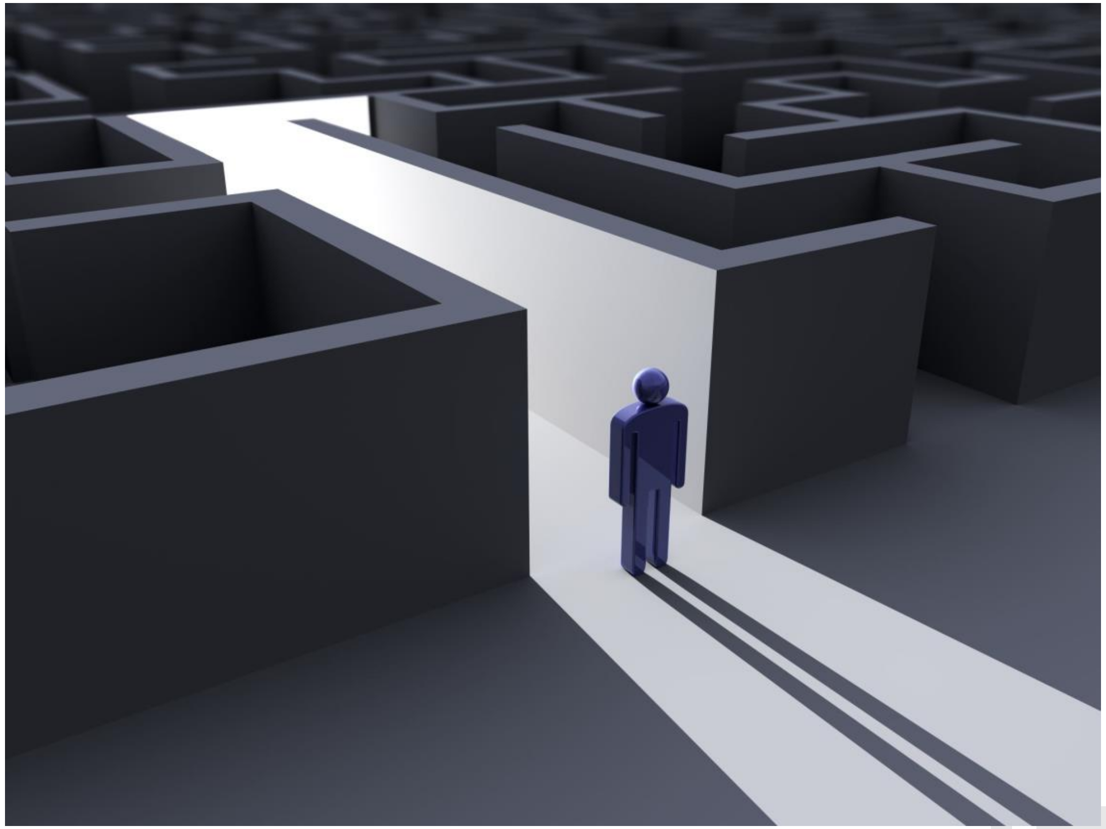
Important causes/issues by age



Source: Bank of America, *Giving with purpose*: https://www.privatebank.bankofamerica.com/articles/2023-bank-of-america-study-of-philanthropy.html

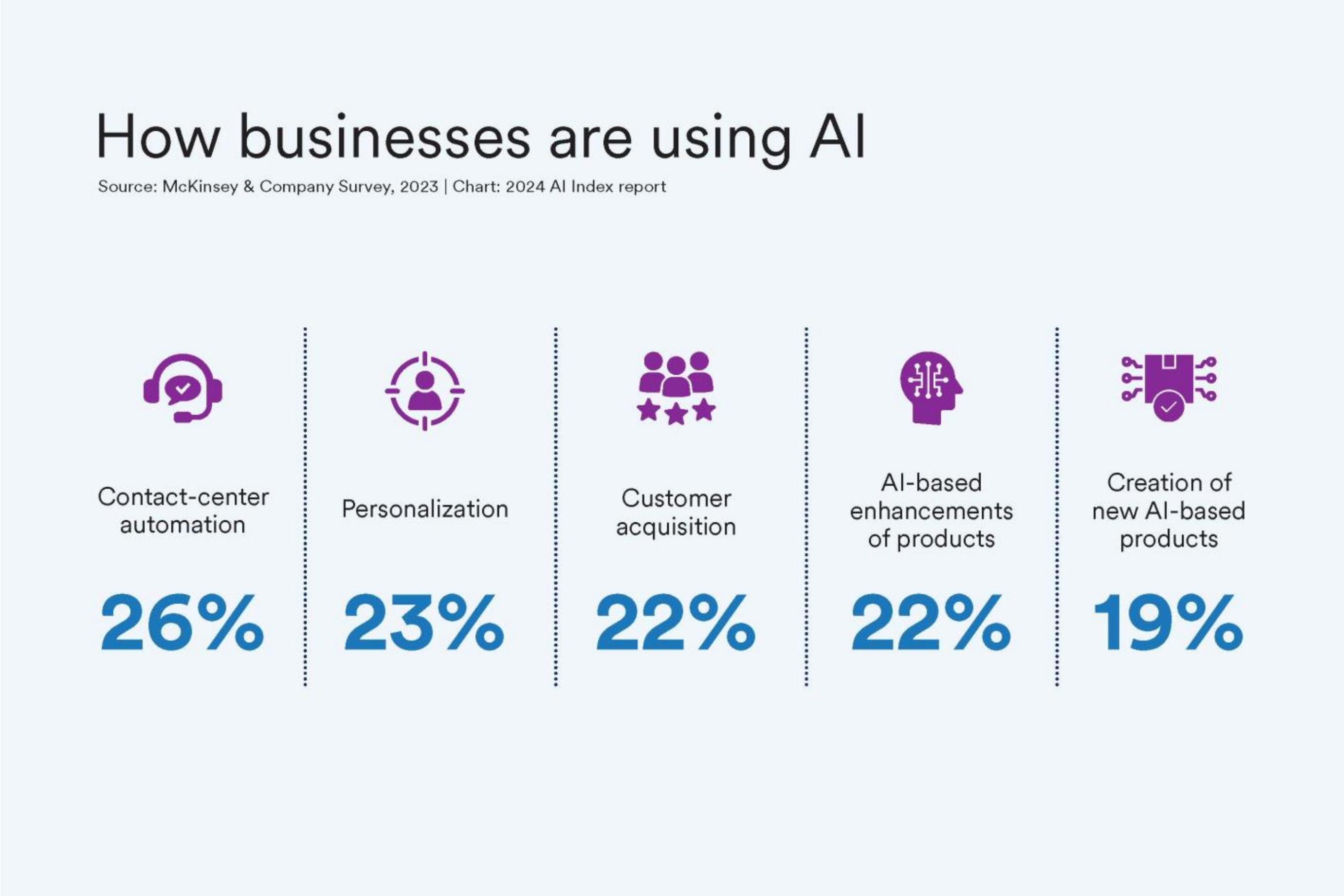
What to make of this data

- 2024 (and especially 2025) should be a strong fundraising year, from a macroeconomic perspective
- The long decline in small-dollar donors is not likely to rebound
- DAFs will continue to grow as a source of philanthropy
- Fundraising strategies need to adapt with donor preferences on causes and connections



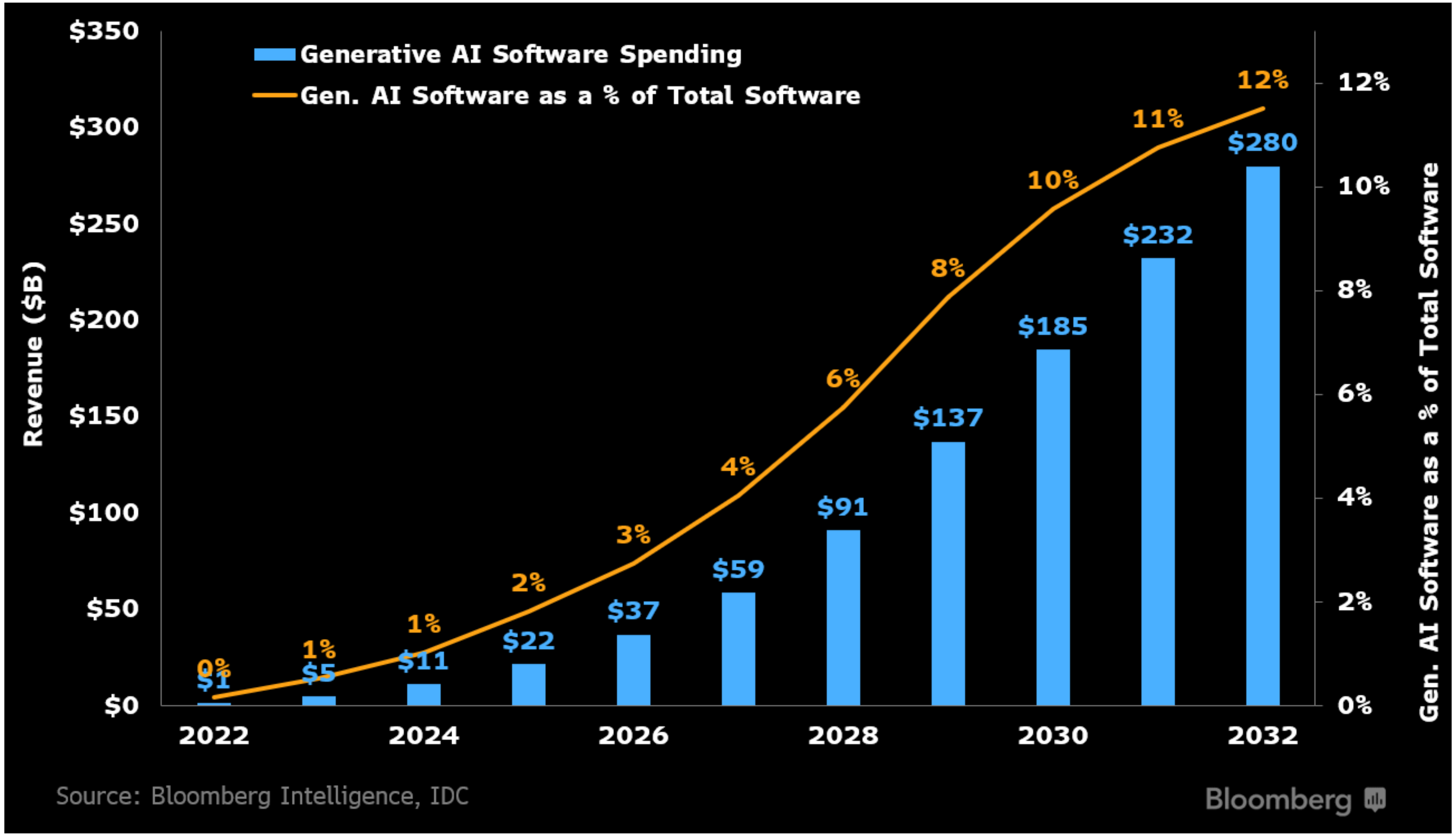
What about AI?

Generative AI is the present …



Source: Stanford University Human-Centered Artificial Intelligence, *AI Index: State of AI in 13 Charts*: https://hai.stanford.edu/news/ai-index-state-ai-13-charts

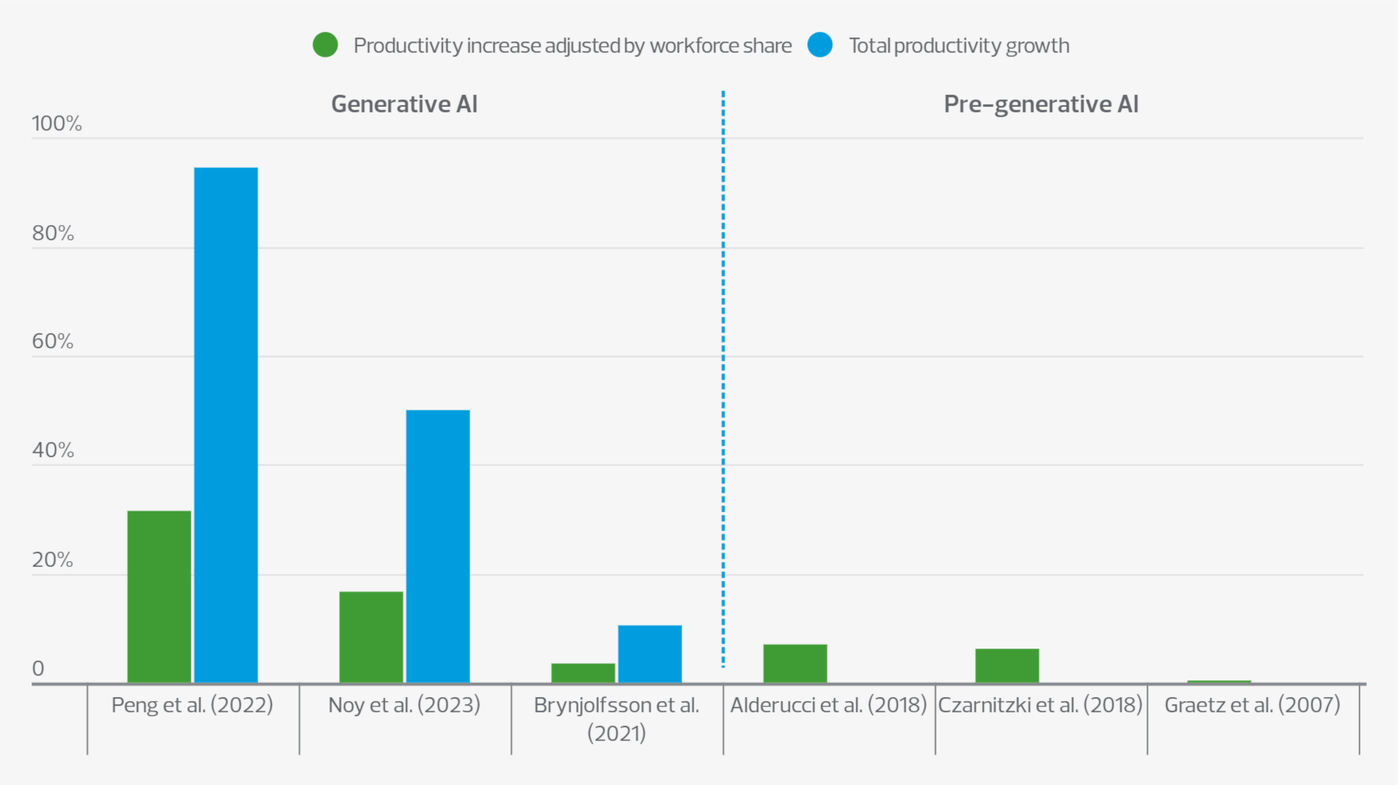
… and the future



Source:

Research confirms AI's impact

AI's impact on productivity growth

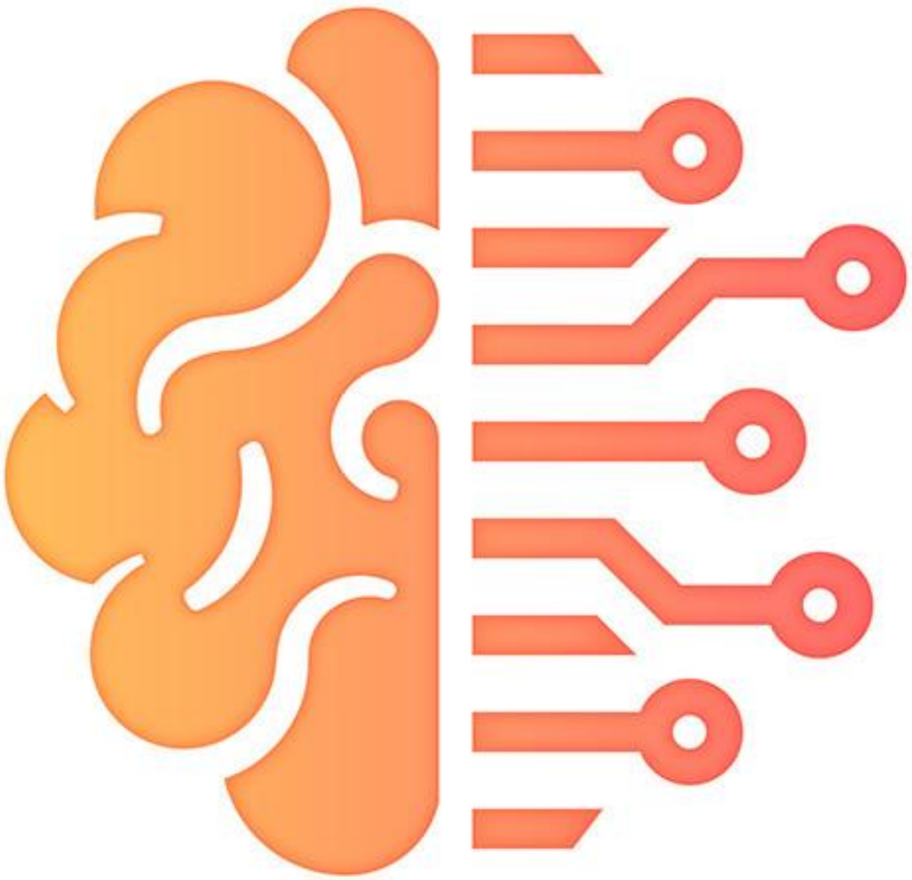


Source: RSM US LLP

Note: The year indicates the last date of data used based on available information.

How to adopt AI responsibly

1. Be knowledgeable and informed.
2. Address anxiety and fears.
3. Stay human-centered.
4. Use data safely.
5. Mitigate risks and biases.
6. Identify the right use cases.
7. Piloting the use of AI.
8. Job redesign and workplace learning.



Source: Kanter, Fine, & Deng, *8 Steps Nonprofits Can Take to Adopt AI Responsibly*: https://ssir.org/articles/entry/8_steps_nonprofits_can_take_to_adopt_ai_responsibly

Questions?

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