US Economic Review

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CANDOR ASSET ADVISORS

Most economists expect relatively steady GDP growth and retreating inflation

	Real GDP Growth				Inflation		
	2023	2024	2025		2023	2024	2025
US	2.5%	2.6%	1.6%		3.7%	2.4%	1.8%
Euro Area	0.5%	0.7%	1.3%		5.4%	2.4%	2.1%
Canada	1.2%	1.1%	1.8%		3.9%	2.5%	2.2%
Japan	1.7%	-0.1%	1.4%		3.3%	2.5%	2.1%
Korea	1.4%	2.5%	2.2%		3.6%	2.4%	2.0%
Brazil	2.9%	2.9%	2.6%		4.6%	4.4%	4.0%
China	5.2%	4.9%	4.5%		0.3%	0.3%	1.0%
India	8.2%	6.7%	6.8%		5.4%	4.5%	4.1%
Russia	3.6%	3.7%	1.1%		6.0%	7.8%	5.5%
G20	3.4%	3.2%	3.1%		6.1%	5.4%	3.3%
World	3.1%	3.2%	3.2%				

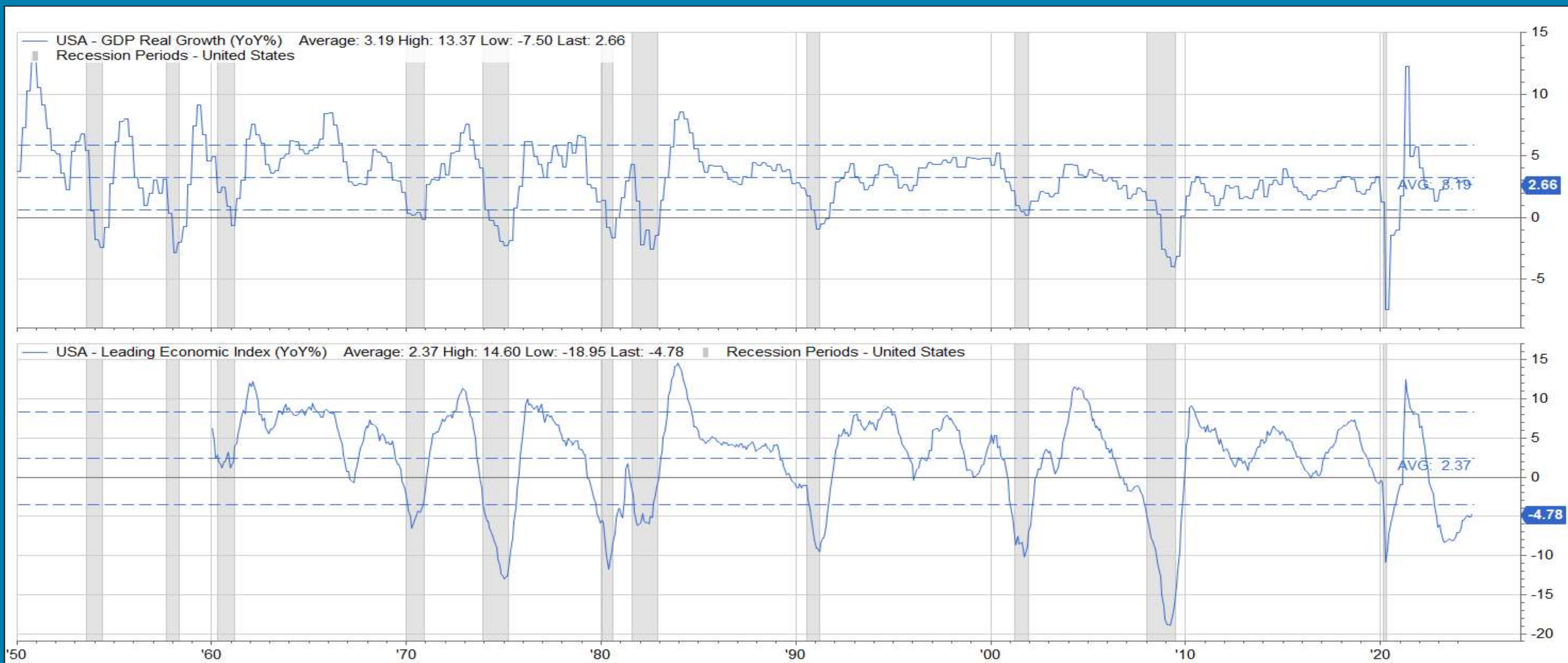
Source: OECD September 2024 Projections

The Fed projects a soft landing with modest real GDP growth, slowing inflation and falling fed funds.

	Median Projection				
	2024	2025	2026	2027	Longer Term
Real GDP Growth	2.0%	2.0%	2.0%	2.0%	1.8%
June Projection	2.1%	2.0%	2.0%		
Unemployment Rate	4.4%	4.4%	4.3%	4.2%	4.2%
June Projection	4.0%	4.2%	4.1%		4.2%
PCE Inflation	2.3%	2.1%	2.0%	2.0%	2.0%
June Projection	2.6%	2.3%	2.0%		2.0%
Core PCE Inflation	2.6%	2.2%	2.0%	2.0%	
June Projection	2.8%	2.3%	2.0%		
Federal Funds Rate	4.4%	3.4%	2.9%	2.9%	2.9%
June Projection	5.1%	4.1%	3.1%		2.8%

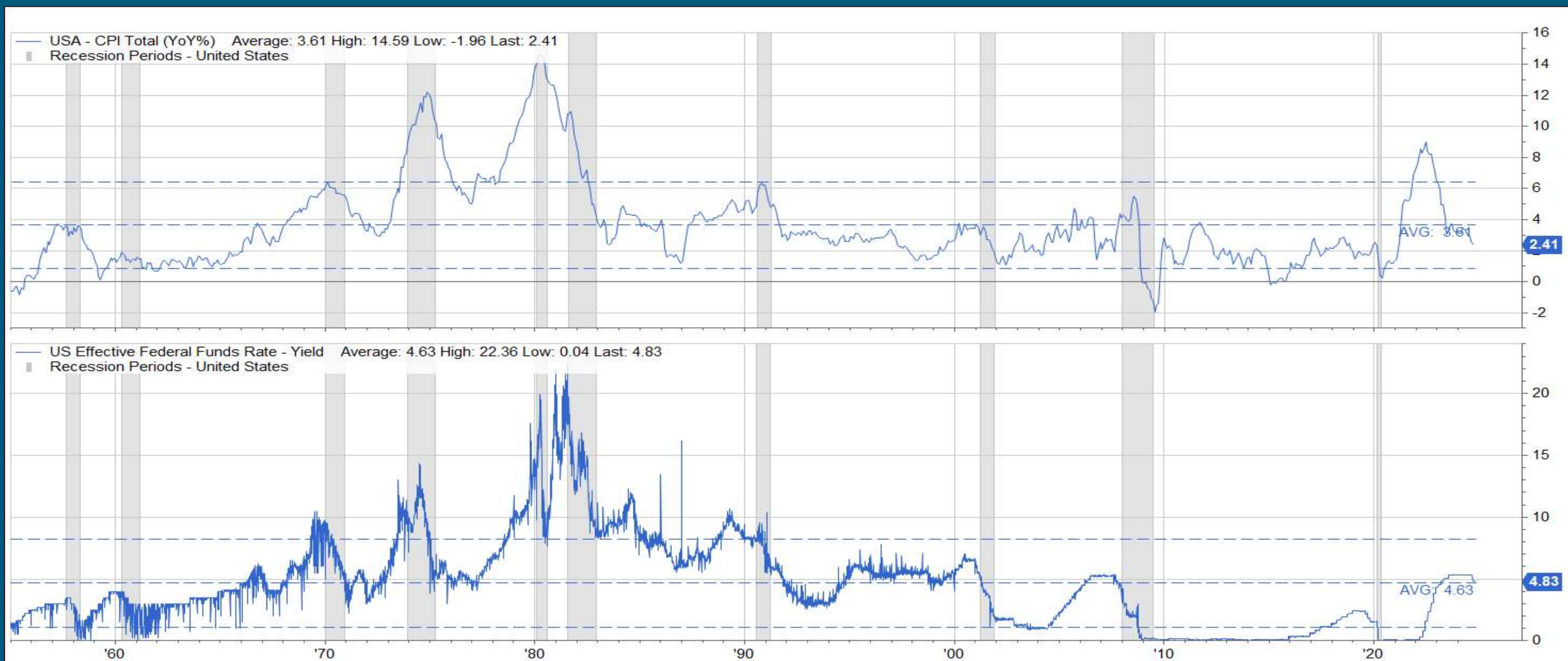
Source: Federal Reserve September 18, 2024 FOMC Projections

US economic growth has moderated and Leading Economic Indicators suggest further softness

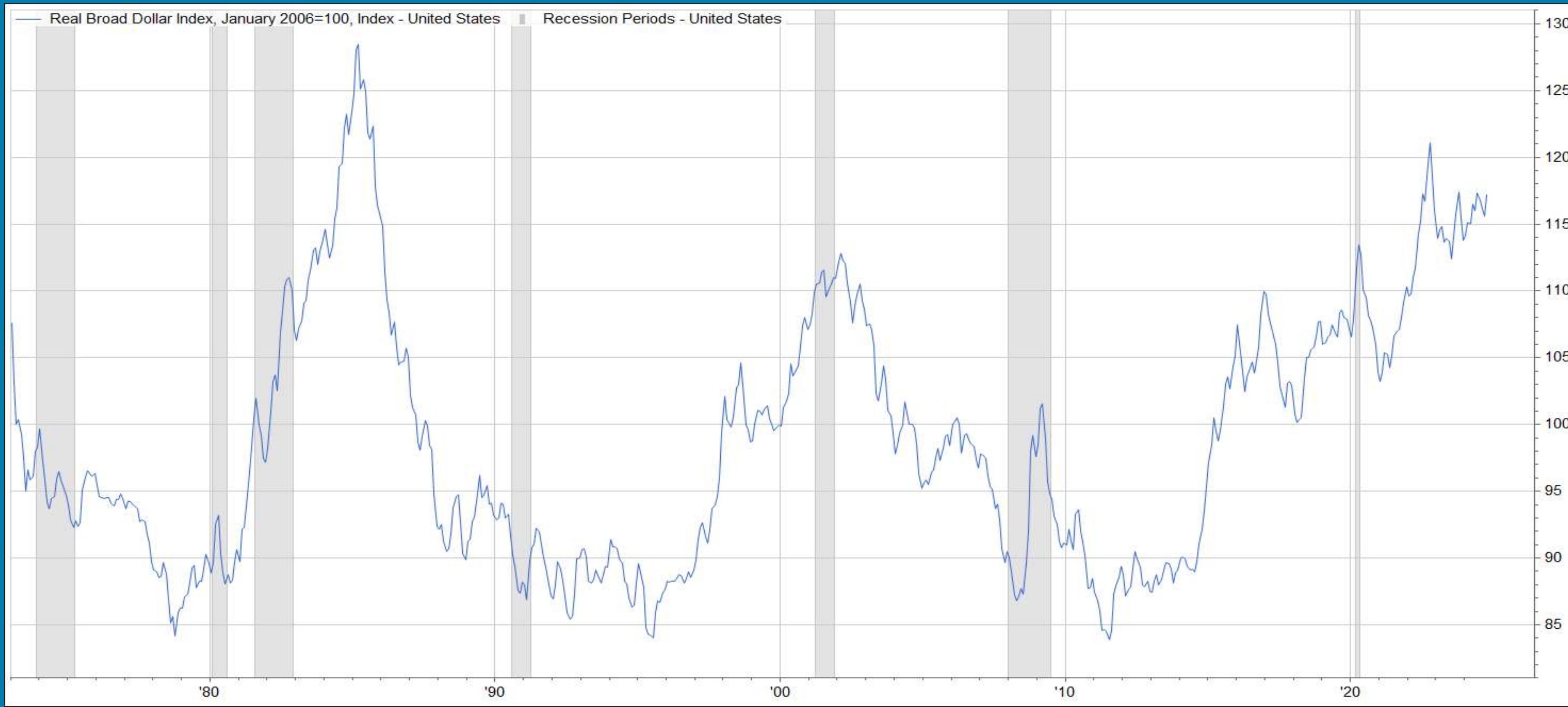


US unemployment is at record lows while wage growth has retreated to historic averages

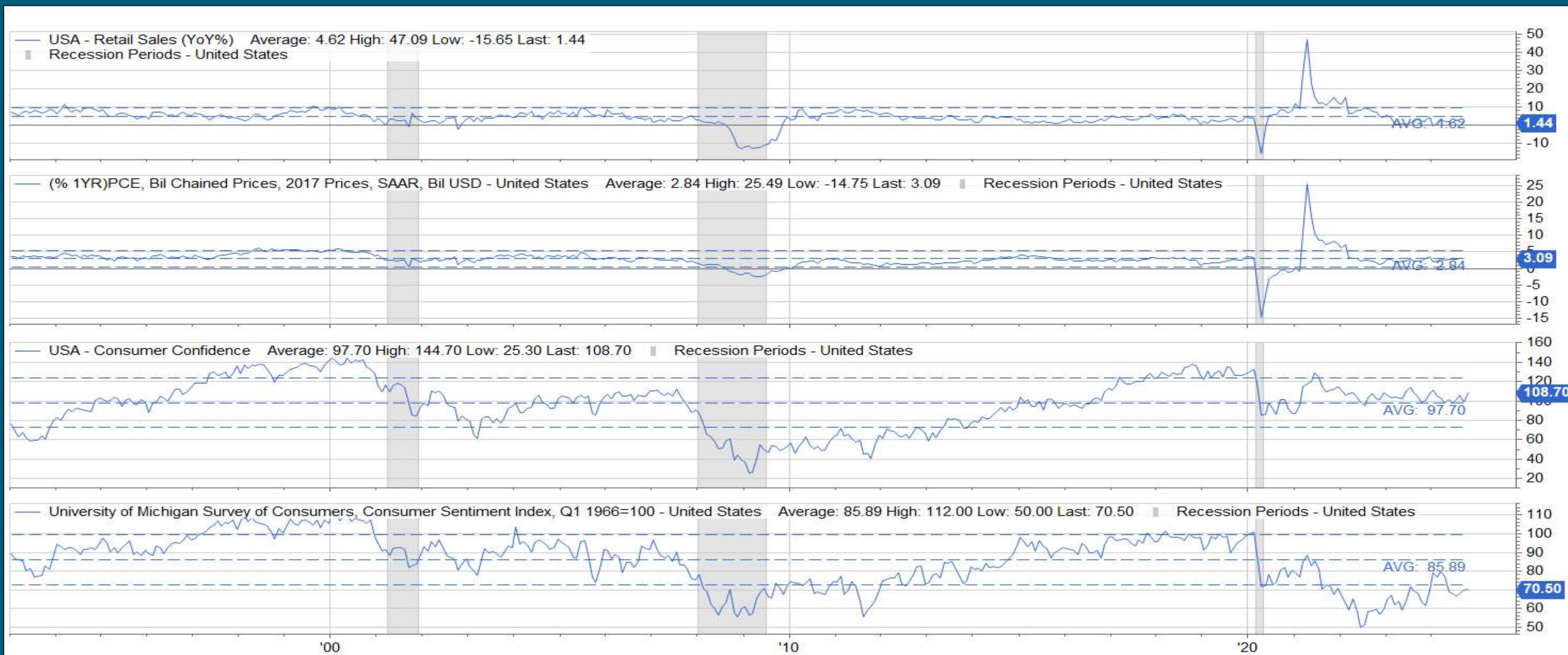
Inflation has retreated and fed funds have started to fall as well as the Federal Reserve sees room to cut



A strong US dollar has served as an import stimulus and inflation depressant

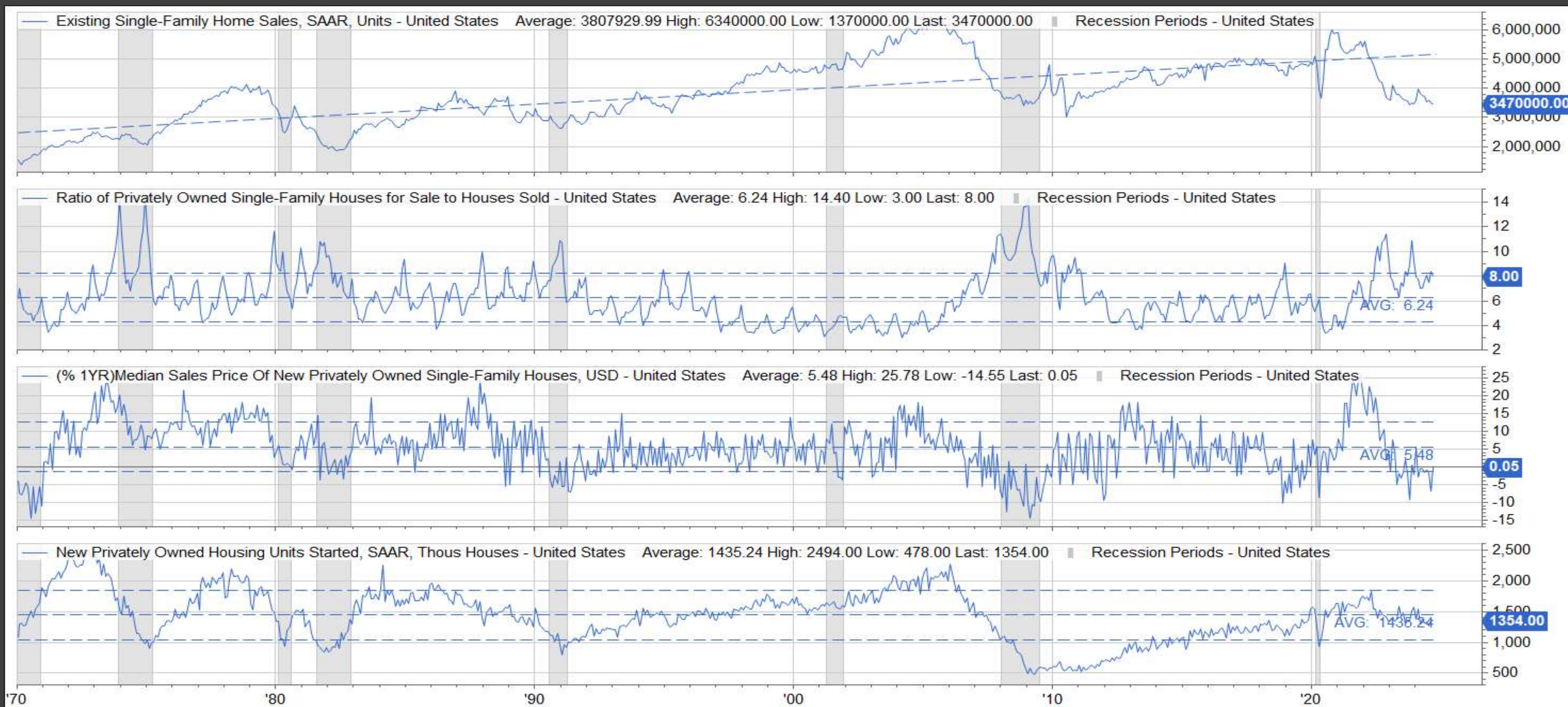


Consumer spending trends are mixed while consumer confidence is uneven

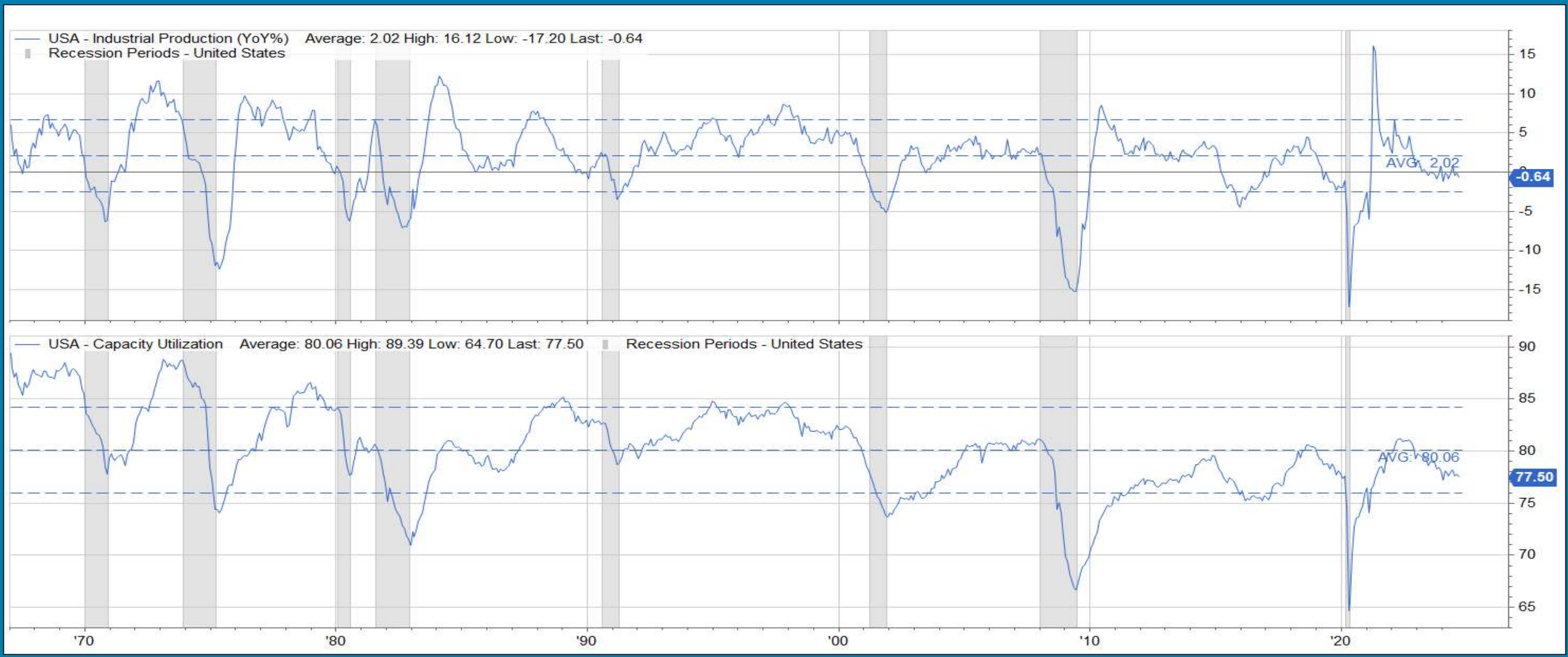


The US consumer's ability to repay debt looks fine while savings rates are depressed

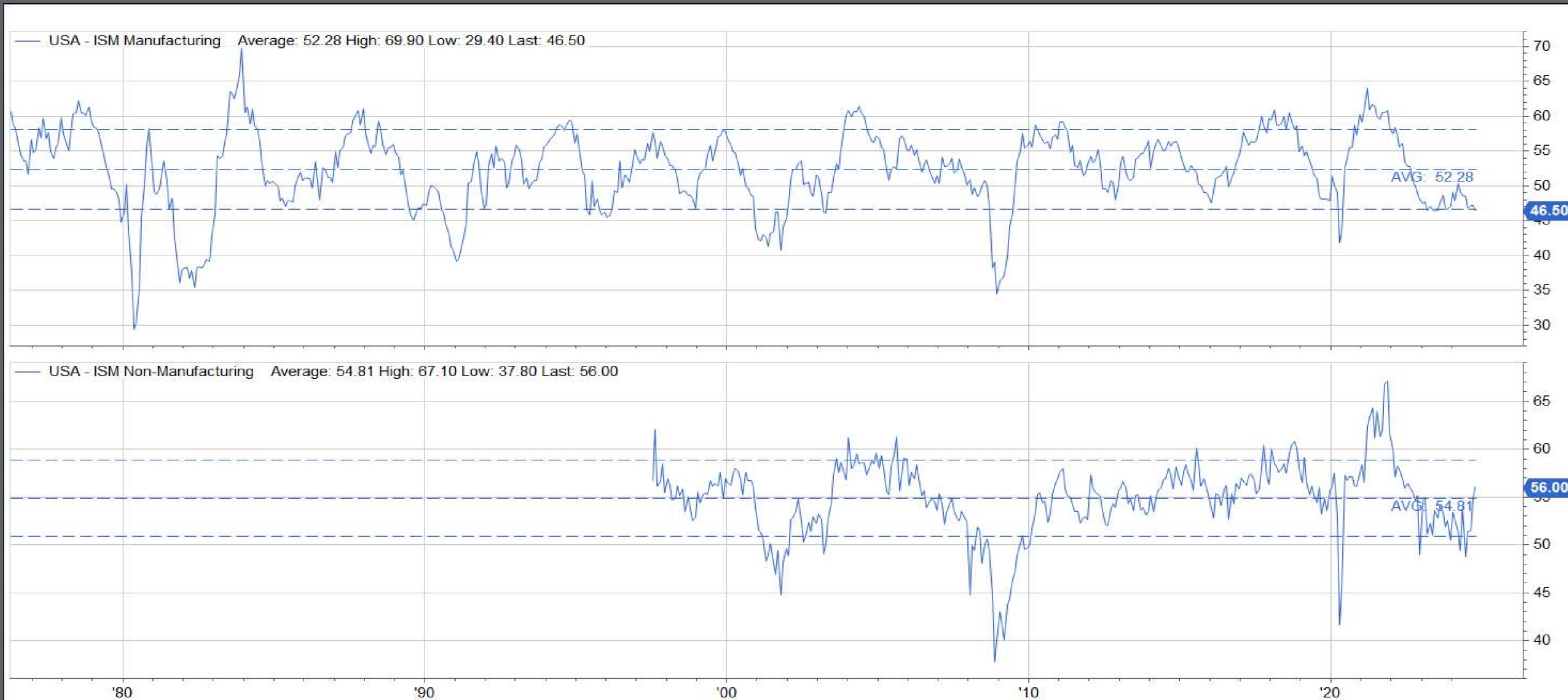
The housing market remains weak due to elevated mortgage rates



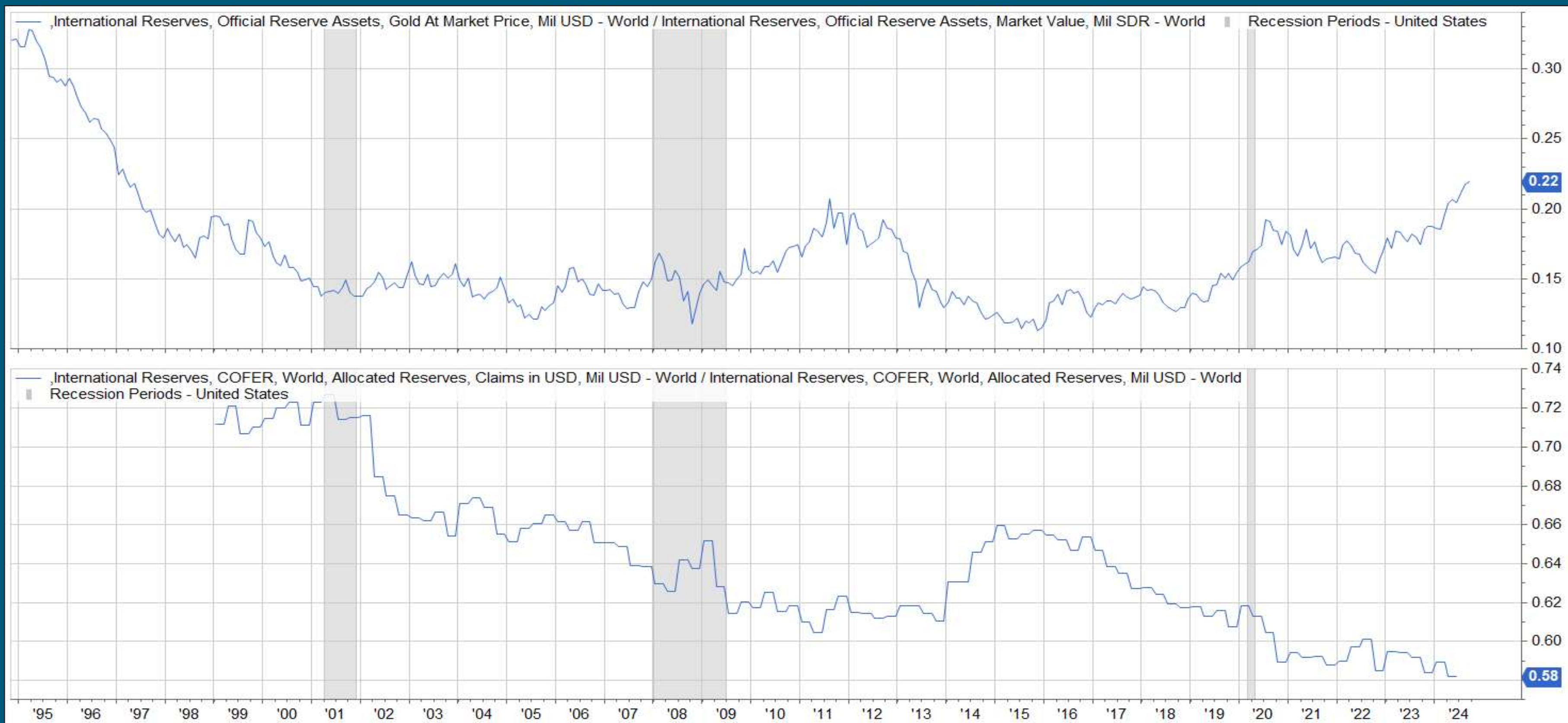
US industrial production has softened and capacity utilization is below average



Purchasing managers order data suggest weak manufacturing and solid servicing order trends



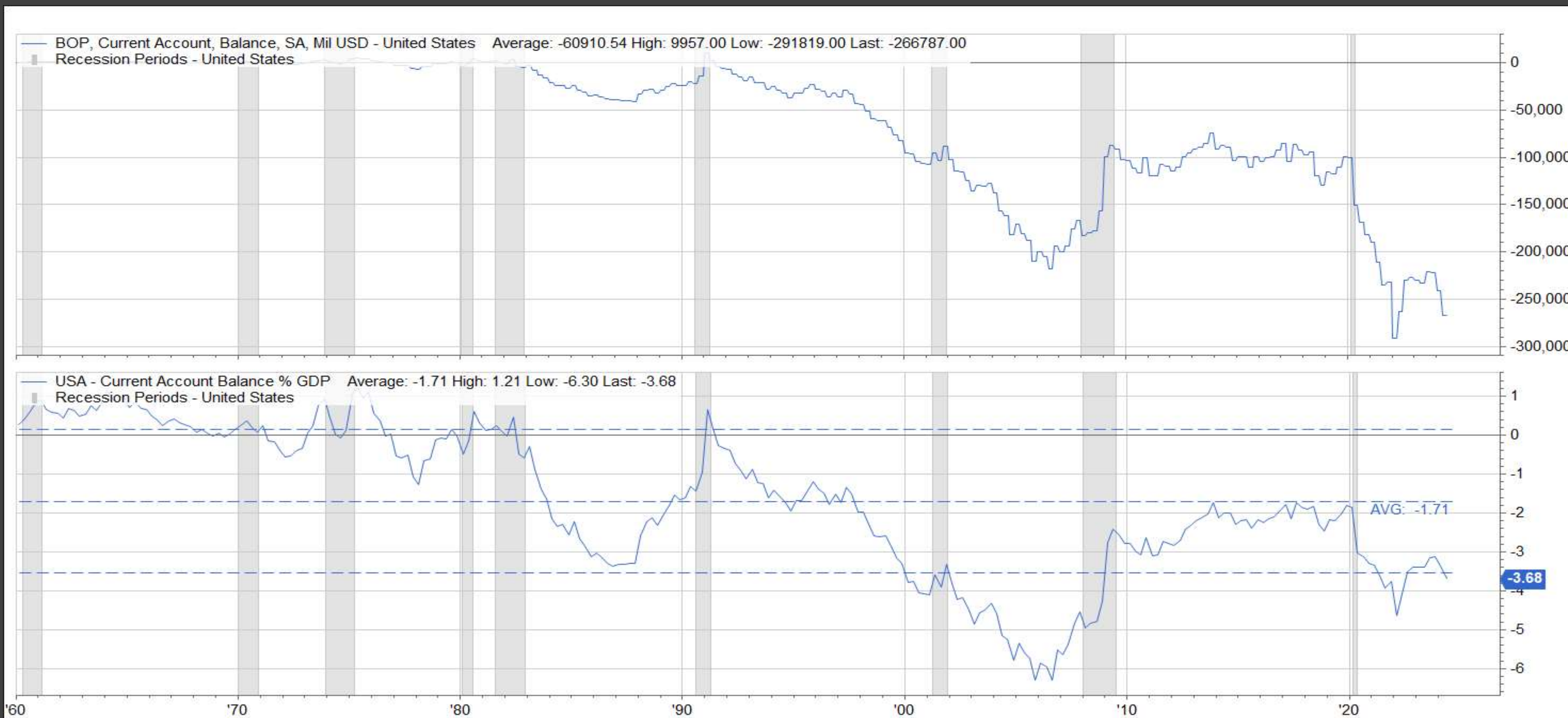
The US $ reserve status has declined while gold has grown



Anticipated Trump Policies

- More tariffs and less immigration
  - Higher tariffs and limiting immigration may reduce economic growth by 1.4% in the first 12 months and stimulate inflation by .9% over the same period according to FactSet
  - Companies are encouraged to reshore in the US to avoid tariffs
- Less energy and financial regulation
  - Lower bank capital requirements and less regulatory oversight encourage lending and/or a return of capital to shareholders
  - Encourages more domestic oil and natural gas production and likely results in lower oil and natural gas prices
  - Discourages electronic vehicle and renewable power production with reduced government incentives
- Less ambitious government anti-trust efforts
  - Encourages more M&A and potentially less onerous large corporation oversight
  - Foreign companies are encouraged to establish a greater US presence to avoid tariffs
- More volatile foreign policy and defense spending over time
  - Trump has not been as supportive of established global alliances
    - The Ukraine war may be resolved sooner, and Russia may be more ambitious in Eastern Europe.
  - Trump has been particularly supportive of the Israeli government. Expect more friction in the Middle East.
- Lower corporate tax rates, preserving existing personal tax breaks and maintaining most entitlement spending
  - Leads to growing fiscal deficits and higher rates over time as investors demand more interest to own US debt
  - Lowering business tax rates from 21% to 15% could boost S&P EPS by 4% according to FactSet
- A more cautious Fed Reserve
  - Stimulative fiscal and inflationary policies cause the Fed to be more cautious on inflation. They potentially keep interest rates higher.

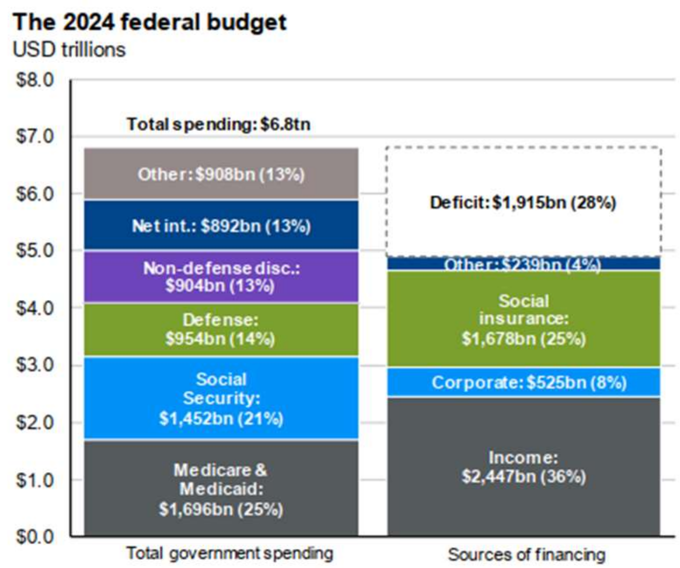
A trade imbalance remains



A growing fiscal deficit is a long-term issue

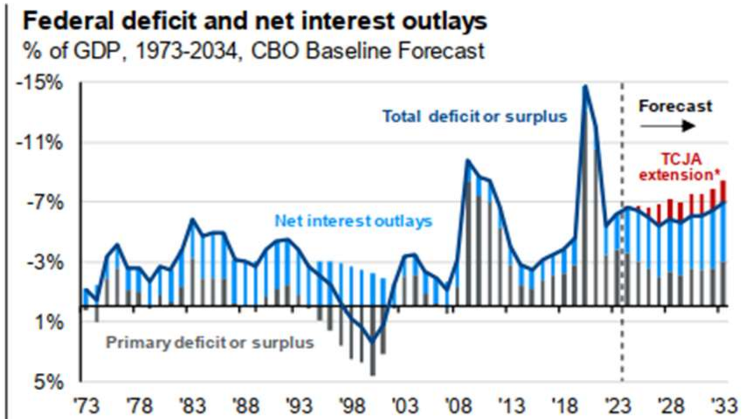
Nondefense discretionary and other spending is only 27% of the budget!

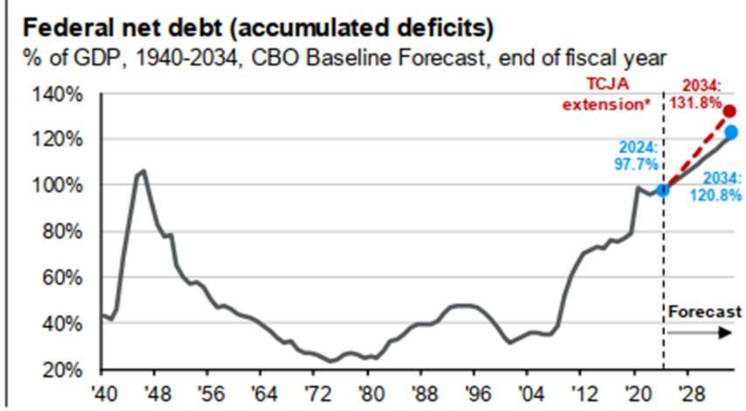
Federal finances



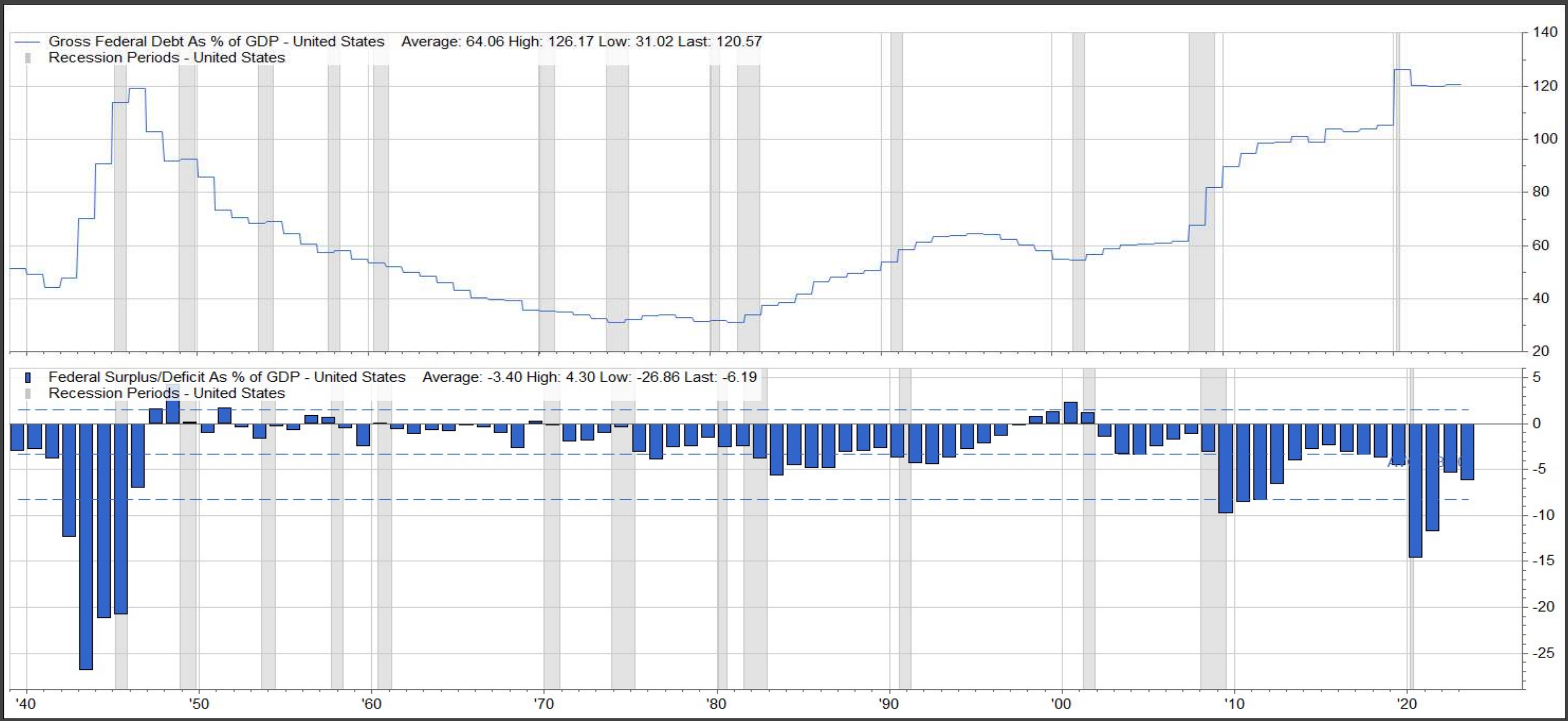
CBO's Baseline economic assumptions

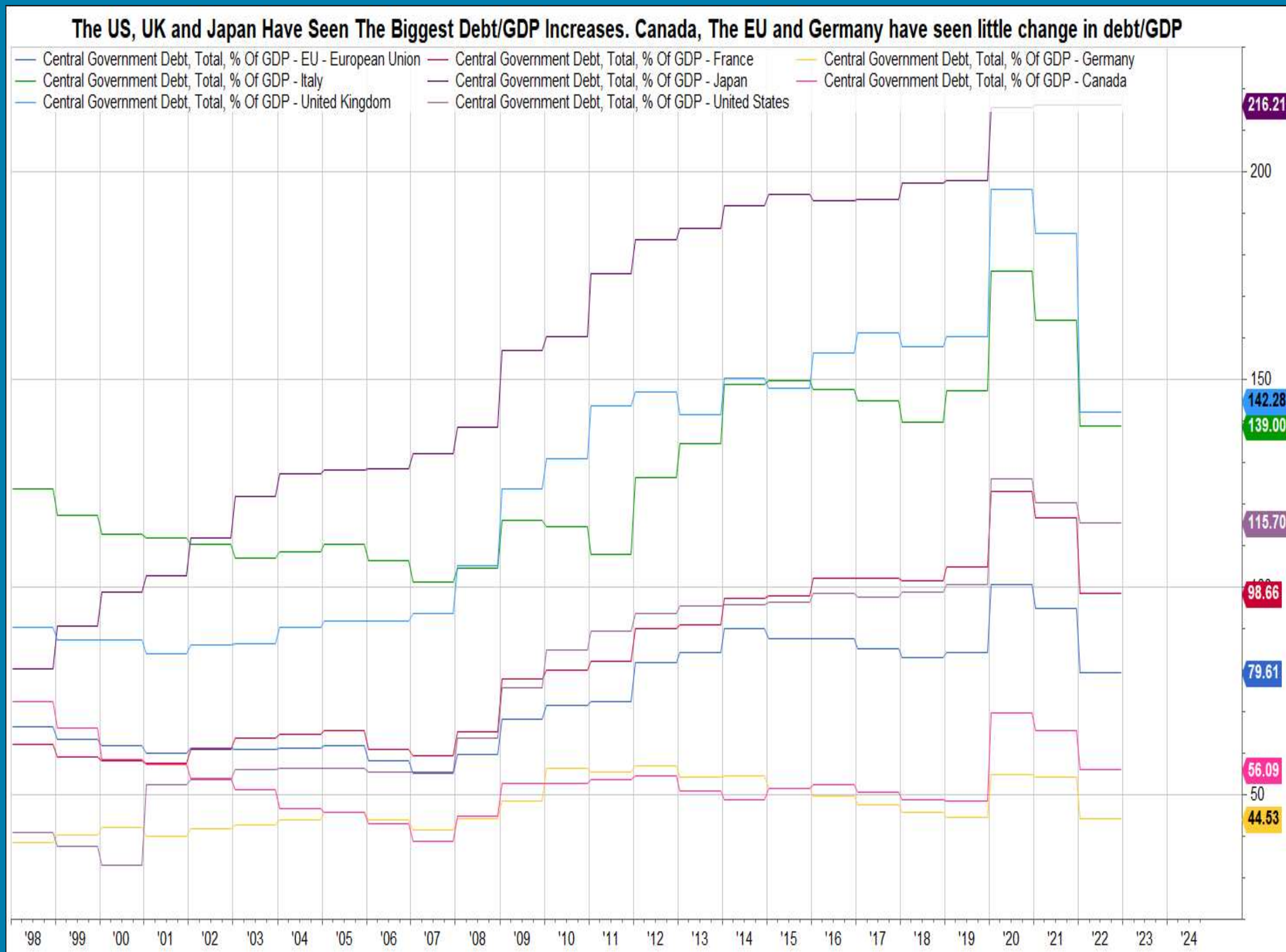
	2024	'25-'26	'27-'28	'29-'34
Real GDP growth	2.9%	2.0%	1.7%	1.8%
10-year Treasury	4.5%	4.0%	3.6%	4.0%
Headline inflation (CPI)	3.2%	2.4%	2.2%	2.2%
Unemployment	3.8%	4.0%	4.3%	4.5%





US federal budget deficits and rising US federal debt to GDP are growing concerns





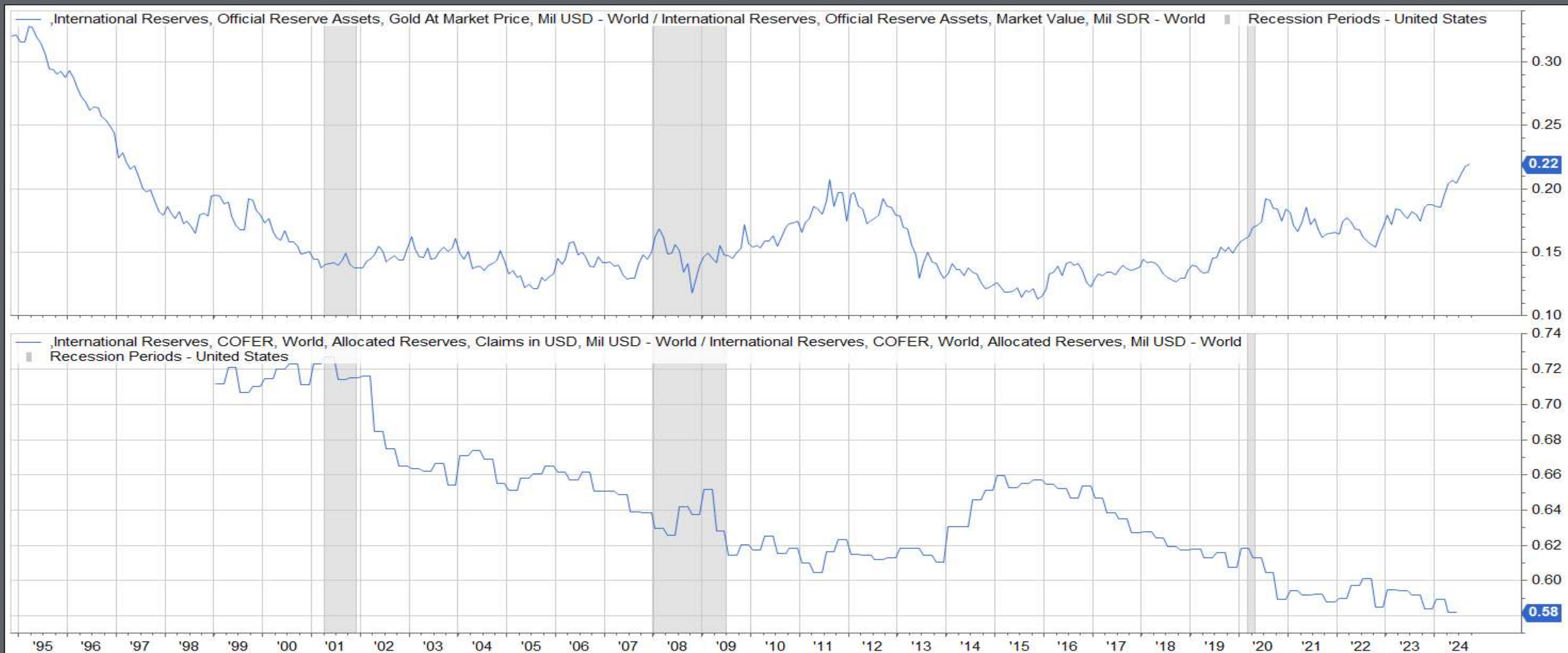
It's time for the US to show some financial discipline. The US' relative debt discipline is fading.

Current Credit Ratings
US AA+

Canada AAA
France AA-
Germany AAA
Italy BBB
Japan A+
UK AA

The CBO estimates US debt/GDP will grow to 125% by 2035 or 143% by 2035 under Trump's plan.

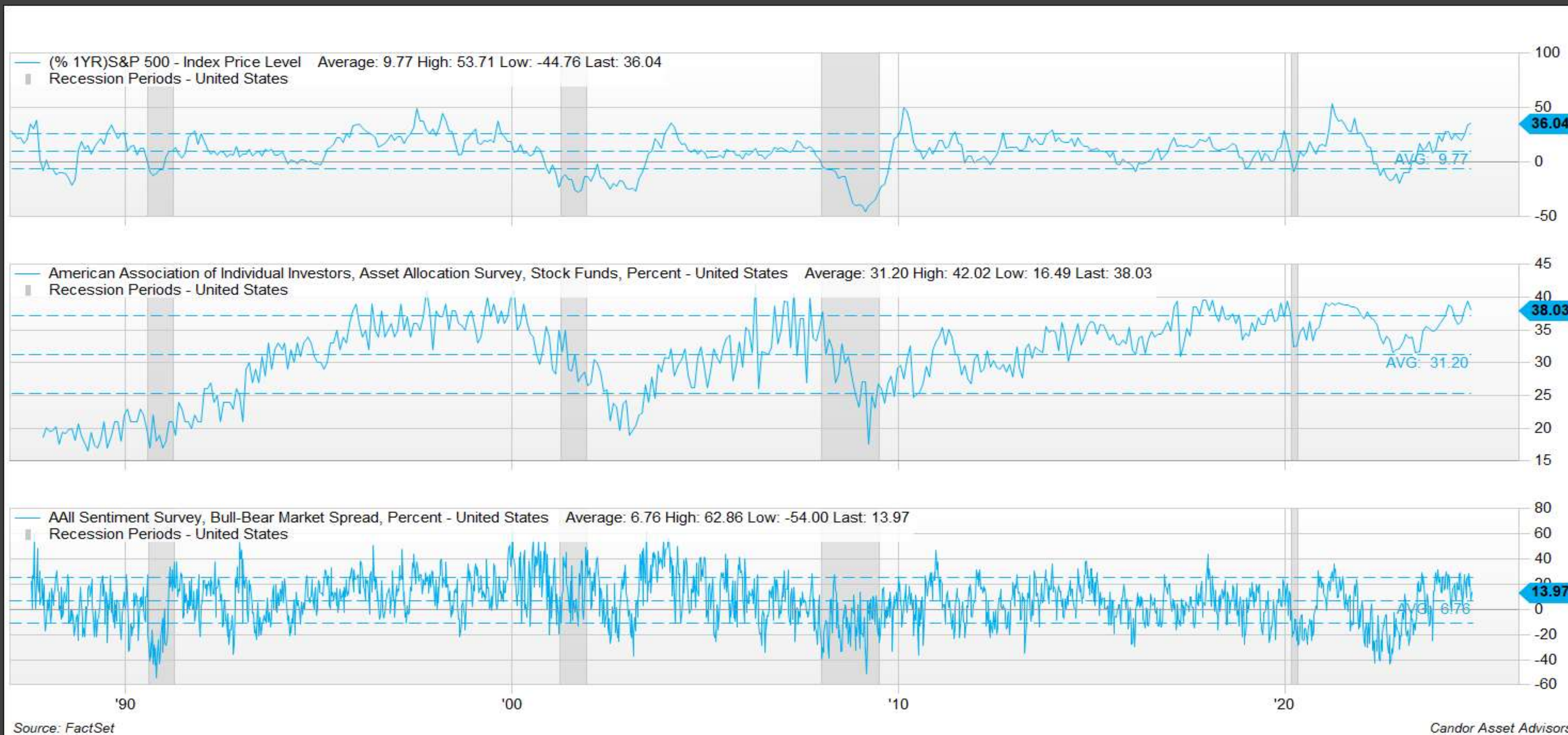
The US dollar has lost some reserve status while gold has gained in popularity



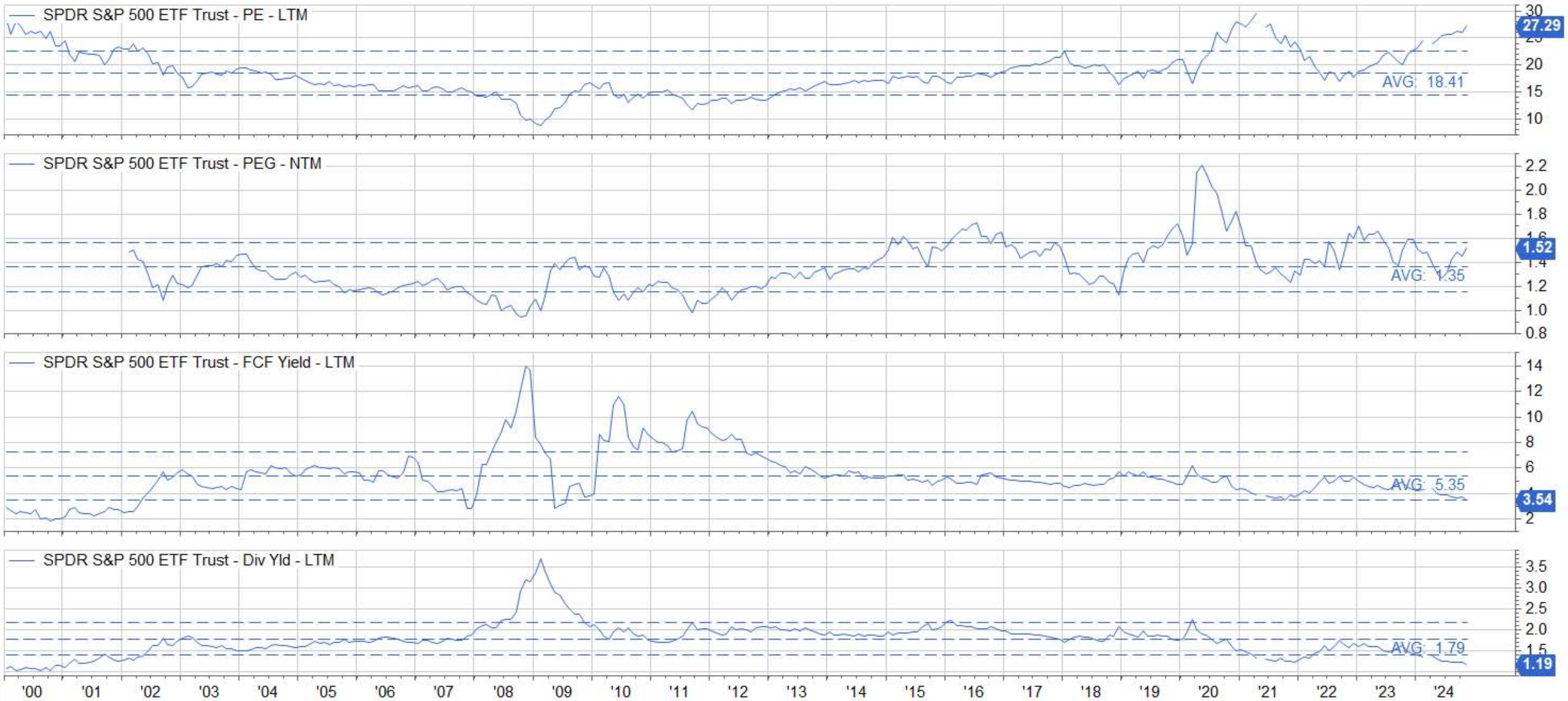
US dollar fundamental put and takes

- - Relative growth in US government debt/gross domestic product
- - Growing US trade deficits
- - The US dollar is losing total reserve share
- ? US relative inflation outlook
- ? US relative political stability
- + The US enjoys faster population growth than most developed nations due to immigration
- + The US remains more business friendly than most of the developed world
- + US government debt interest rates are higher than most other developed nations
- + Near term forecasts suggest faster economic growth in the US than international developed nations

Investors are generally bullish and investment return trend following



The S&P 500's valuation looks elevated



Source: FactSet *Candor Asset Advisors*

Past performance is no guarantee for future results.

Conclusions

- Most economists see slowing global GDP growth and inflation over the next few years
- Real GDP growth has decelerated but remains positive
- Unemployment remains near record lows and wage growth has retreated to historic averages
- Inflation has retreated to historic normal and short-term interest rates are starting to retreat as well
- A strong US dollar has served as an import stimulus/export headwind and inflation depressant
- Consumer spending trends are mixed while confidence remains solid
- Consumers' ability to repay debt looks fine while savings rates are depressed
- The housing market remains weak due to high interest rates
- US industrial production has softened, and capacity utilization is below average
- Purchasing managers order data suggest weak manufacturing and ok servicing order trends
- Trump's tariffs should increase inflation while tax cuts should exacerbate debt growth. Some industries may benefit from a more favorable regulatory environment.
- A growing trade deficit is a long-term issue
- US federal budget deficits and rising US federal debt to GDP are growing concerns
- The US dollar has lost ground as a reserve currency while gold has gained in popularity
- Investors are bullish and often investment return trend following
- The S&P valuation looks elevated suggesting investors are factoring in a soft landing

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