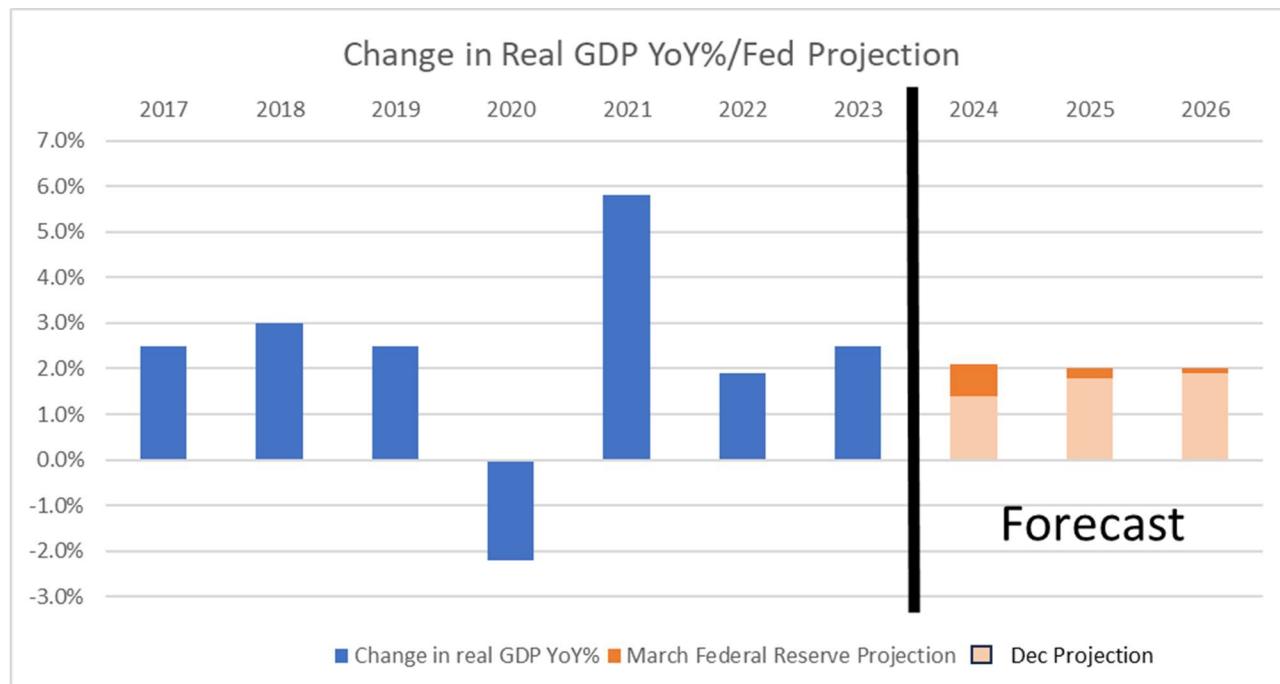


Q1 2024 Commentary and Investment Outlook

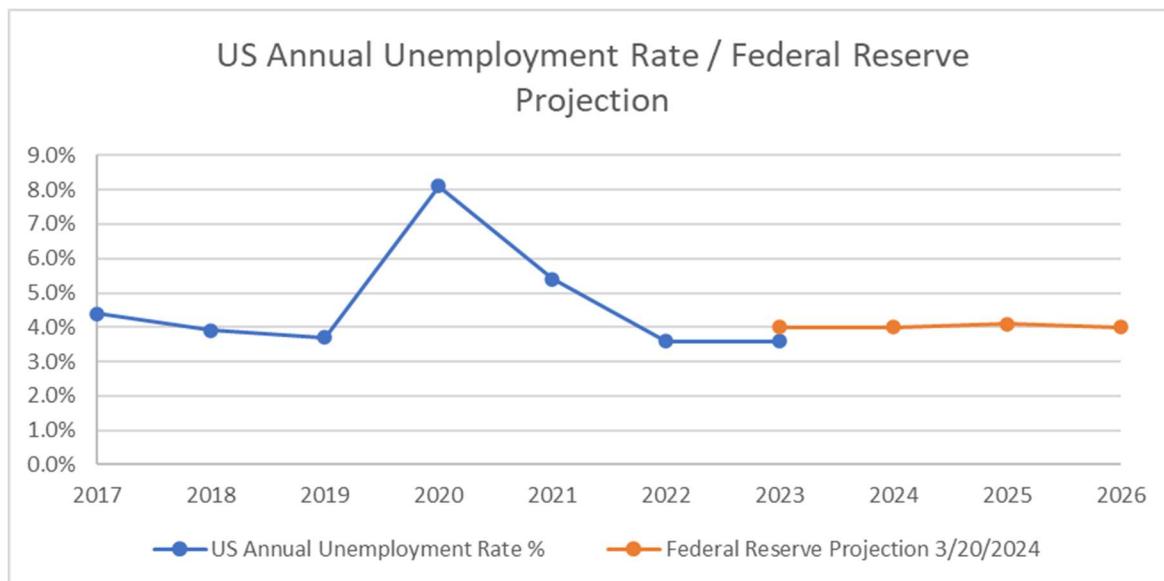
As the quarter came to a close, the Federal Reserve in their most recent FOMC meeting left interest rates unchanged and released new quarterly economic projections. The projections focused on the economy (GDP), the unemployment rate, and prices (Personal Consumption Expenditures). The first two projections indicate continued strength in the economy for the remainder of this year and 2025. The PCE projection indicates gradual movement to the Federal Reserve's 2% target, over the next few years.

If these projections reflect what actually transpires, then the Federal Reserve will likely not crash the economy, causing a "hard landing", but will come closer to a "soft landing". If the inflation target is not reached in 2024, and the economy thrives, then "no landing" will be achieved. The term "no landing", is a new term for what has historically been called a "goldilocks" scenario.



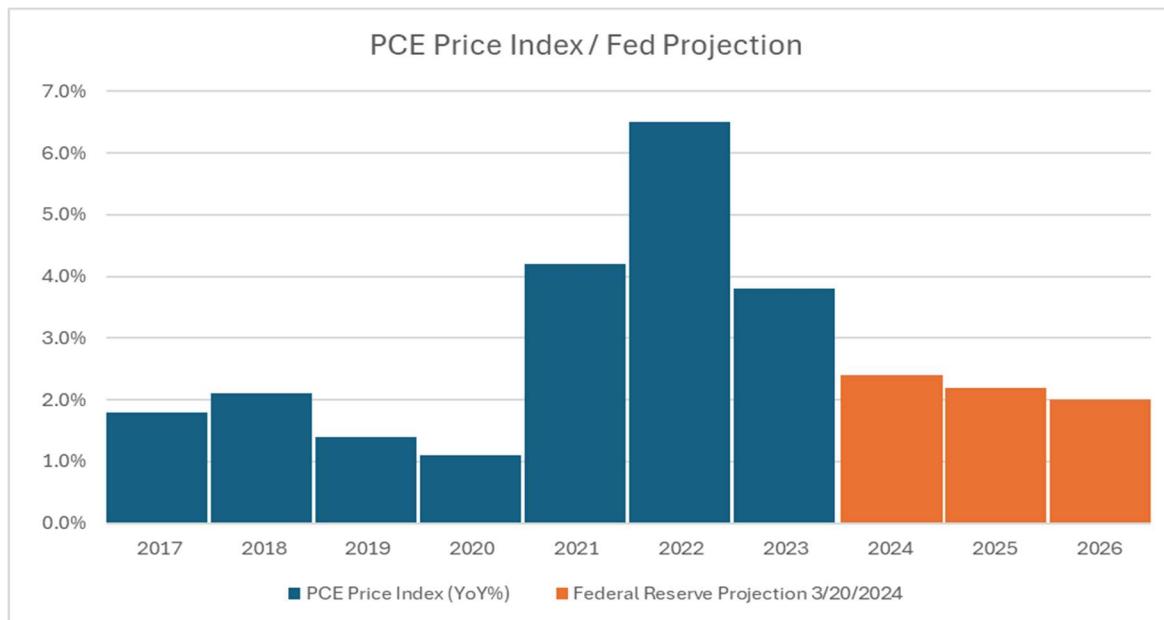
Source: Bureau of Economic Analysis, Federal Reserve Board – Economic Projections - 3/20/2024

As noted in the GDP chart, the economy is expected to grow 2.1%¹ this year, which is above the historical long-run average and significantly higher from the 1.4%² growth which was projected in The December 2023 Summary of Economic Projections. The economy has performed very well in the face of restrictive monetary policy, most likely due to the residual effects of the pandemic stimulus deployed by the Federal Reserve (monetary), and the Government (fiscal) to individuals and businesses. This is a goldilocks situation.



Source: Bureau of Labor Statistics, Federal Reserve Board – Economic Projections - 3/20/2024

The employment picture is very positive as the economy has been adding 250,000³ jobs per month on a trailing one-year average. Companies continued to hire in the face of higher rates. The unemployment rate is expected to hit 4% by the end of 2024⁴, mostly unchanged from the 4.1% projected in December. As a reminder, 4-5% unemployment is considered full employment. Again, this occurred with a restrictive monetary policy and reinforces the second leg of the goldilocks situation for the Fed.



Source: Bureau of Economic Analysis, Federal Reserve Board – Economic Projections - 3/20/2024

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The chart above reflects the Federal Reserve's often preferred indicator of inflation, Personal Consumption Expenditures (PCE). The chart is the annual PCE, year-over-year percentage change, but as a reminder, the economic release occurs monthly which contains twelve data points. These monthly releases often do not move in one direction, but often have months that show prices increase at a greater percentage than expected and higher than the previous release. That is why economists look for directional trending, which considers monthly volatility of inflation data, but the focus is on a trend in a direction over time. The projection clearly indicates the disinflationary downward trend in the data from its peak in 2022.

The FOMC interpreted data showed that inflation at the start of 2024 remained "elevated". However, the view on inflation did not change the overall narrative. Chairman Powell spoke about prices in his press conference.⁵ Inflation is "moving down gradually on a sometimes bumpy road to 2%". His comments indicate that the Fed will monitor inflation, and if price pressures do not ease, the Fed will maintain higher interest rates as long as needed. This is a "no landing" scenario.

Officials affirmed their view for three rate cuts this year, even as they raised their economic outlook⁶.

What does this mean for interest rates and bonds? Goldilocks/"no landing" means that rates will remain higher for longer and the chances of a "soft landing" increase. We project that the Federal Reserve will start cutting the Overnight Target Rate in the latter half of 2024, but if rates are cut two or three times, rates will remain higher (restrictive) for years to come.

If this is the case, the yield curve should steepen over time, but it may not occur entirely by way of short-term rates, it may occur with longer-term rates rising, faced with the reality that the Federal Reserve can remain restrictive longer.

A "no landing" scenario will continue to favor short-to-intermediate maturity strategies over longer maturity strategies. "No landing", considers an overall stable economy, which allows companies to thrive. While there could be issues of concern over the next year that may affect the economy, a "no landing" scenario means that inflation takes a little longer to achieve the target rate as the economy remains resilient and unemployment remains low.

SWS Capital Management's (SWSCM) philosophy is based on a value-oriented, active management style which emphasizes liquidity and risk management. This philosophy is woven into all our strategies. Security selection, sector allocation, and yield curve positioning are based upon our interest rate forecast as well as our fundamental economic outlook.

As always, we appreciate your business.

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US Indices	Q1 Return
ICE BofA US 3-Month Treasury Bill Index	1.29%
ICE BofA US 1-Year Treasury Bill Index	0.84%
Bloomberg U.S. Aggregate Index	-0.78%
Bloomberg US Corporate Investment Grade Index	-0.40%
Bloomberg U.S. Treasury Index	-2.89%
S&P 500 Index	10.16%

Source: Bloomberg as of 3/29/2024

¹ Federal Reserve Board Projection, 3/20/2024

² Federal Reserve Board Projection, 12/13/2023

³ US Employees on Nonfarm Payrolls, Bureau of Labor Statistics, trailing 12-month average, March 2024

⁴ Federal Reserve Board Projection, 3/20/2024

⁵ FOMC meeting 3/20/2024

⁶ FOMC Federal Funds Target Rate Projection, 3/20/2024

Disclosure

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