SWS Capital Management
A SHANK WILLIAMS CISNEROS COMPANY

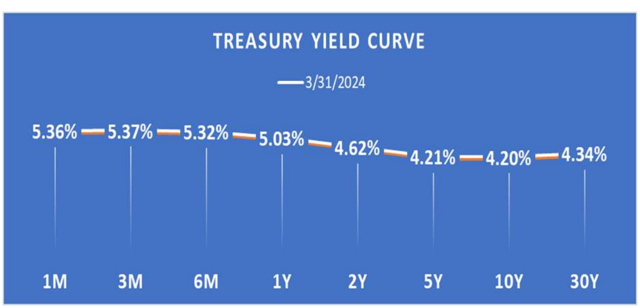
Economic Commentary – March 2024

Belying the satirical aphorism, "Beware of the Ides of March", the public fixed income and equity markets experienced a revival of positive correlations as both ended the month in positive territory. On the backdrop of staunch consumer spending, a relentlessly resilient labor market, an overall softening in supply-side constraints, S&P 500 companies' solid fundamentals, and a U.S. economy that continues to expand at a pace that is above historical trend growth, market participants and investors alike have fostered an appetite for risk assets while concurrently dialing back expectations for rate cuts in 2024.

On March 20, at the conclusion of the Fed's second policy meeting of the calendar year, the FOMC once again unanimously voted to maintain the federal funds target rate range at 5.25% - 5.50%. This was the fifth consecutive pause (inaction) by the FOMC where policymakers ultimately decided to hold the aforementioned rate range at a 22-year high that has been sustained since July 2023. Cited directly in the FOMC Statement and Chair Powell's post-meeting presser, "The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2%." As was mentioned in last month's commentary, we're currently in the terminal phase of the Fed's rate-hiking cycle which commenced in March 2022. While acknowledging that overall progress has been made on subduing inflation, it is this final stage which always proves to be the most onerous, and the central bank has endeavored to assuredly rule out any prospect of an undesired reacceleration in inflationary pressures before it enacts a rate reduction.

While no policy action at the March meeting was widely expected and priced into market dynamics, it was the release of the Fed's updated Summary of Economic Projections that was the most compelling and coveted source of information amongst market participants as it provided deeper insights into the Committees' assumptions and forecasted trajectory for the remainder of 2024. Revised from December 2023's projections, the change in real GDP was boosted to 2.1% from 1.4%, core PCE inflation was increased to 2.6% from 2.4%, the unemployment rate was ticked down 0.1% to 4.0%, and headline PCE inflation was unchanged at 2.4%. Concerning interest rates, the longer-run neutral rate was edged up 0.1% to 2.6%, and the median fed funds rate at the end of 2024 was unchanged at 4.6%. On the surface, an unrevised fed funds rate may seem trivial. However, dissecting the newly released dot plot reveals an underlying dichotomy that exists amongst Fed officials. 10 of 19 members still anticipate making three rate cuts or more in 2024, while 9 of 19 members expect to make two cuts or fewer. Therefore, one shift in opinion either above or below the median rate would have the effect of altering the forecasted target rate of 4.6%, and consequently formulate the market's perception of whether the central bank has a dovish or hawkish outlook.

As Chairman Powell and other Fed policymakers regurgitate recurrent data dependence rhetoric and emphasize the importance of preserving a patient approach, the interest rate futures market is now in harmony with the FOMC's projections of two/three rate cuts in 2024. However, as macroeconomic barometers continue to indicate a robust economy, we expect this period of protracted pauses to extend into the summer months.



U.S. Treasury yield curve slightly bull flattened as longer-dated yields declined more than short-dated yields, slightly widening inversions between key tenors.

2-year/10-year spread: -42 basis points
3-month/10-year spread: -117 basis points
2-year/5-year spread: -41 basis points
3-month/30-year spread: -103 basis points

U.S. Treasury Yield Curve Source: Bloomberg

SWS CAPITAL MANAGEMENT
100 Wall Street, 18th Floor, New York, NY 10005 Telephone 212-461-6500
www.swscapitalmanagement.com

March 2024 Macroeconomic Highlights

Inflation, Expectations, and Consumer Sentiment[1]:
CPI: 3.2% year-over-year (0.4% month-over-month); ***Core CPI***: 3.8% year-over-year (0.4% month-over-month)
PCE: 2.5% year-over-year (0.3% month-over-month); ***Core PCE***: 2.8% year-over-year (0.3% month-over-month)
PPI: 1.6% year-over-year (0.6% month-over-month); ***Core PPI***: 2.0% year-over-year (0.3% month-over-month)
Core PPI less trade services: 2.8% year-over-year (0.4% month-over-month)
Inflation Expectations: 1-year horizon: 3.0%, 3-year horizon: 2.7%, and 5-year horizon: 2.9%
Consumer Sentiment: 79.4 vs. 76.9 in February; ***Current Conditions***: 82.5 vs. 79.4 in February
Consumer Expectations: 77.4 vs. 75.2 in February

Labor Market[2]: The U.S. economy added 275,000 nonfarm payrolls in February, exceeding the 200,000 expected by economists surveyed by Bloomberg. Notable job gains occurred in health care (+67,000), government (+52,000), food services and drinking places (+42,000), social assistance (+24,000), and construction (+23,000).

- U-3 ***official*** unemployment rate: 3.9% vs. 3.7% expectation: +0.2% from January 2024.
- U-6 unemployment rate (marginalized, part-time workers for economic reasons): 7.3% (+0.1%).
- Labor force participation rate: 62.5% (unchanged); Employment-to-population ratio: 60.1% (-0.1%).
- Average hourly earnings for private nonfarm payrolls rose 5 cents to $34.57 (+0.1% month-over-month, +4.3% year-over-year).
- Employment revisions: January 2024 sliced -124,000 to 229,000; December 2023 cut -43,000 to 290,000.

Gross Domestic Product (GDP)[3]: According to the ***third and final*** estimate, real GDP increased at annual rate of +3.4% in the fourth quarter of 2023 vs. +4.9% in the third quarter of 2023. Real GDP increased +2.5% in 2023.

- *Fourth Quarter 2023:* GDP Price Index: +1.6%; PCE Price Index: +1.8%; Core PCE Price Index +2.0%.
- Real disposable personal income: +2.0% vs. +0.3% in the third quarter of 2023.
- Personal savings rate as a percentage of disposable income: 4.0% vs. 4.2% in the third quarter of 2023.
- Average of Real GDP and Real GDI: +4.1% vs. +3.4% in the third quarter of 2023.

Housing Market[4]: Existing-home sales surged +9.5% (month-over-month) from January to a seasonally-adjusted annual rate of 4.38 million in February. Month-over-month sales in the West, South, and Midwest jumped +16.4%, +9.8%, and +8.4%, respectively, while sales in the Northeast were unchanged.

- Year-over-year sales waned -3.3%, down from 4.53 million in February 2023.
- Total housing inventory registered 1.07 million units, +5.9% from January, and +10.3% from one year ago (0.97 million units). Unsold inventory sits at a 2.9-month supply at the current sales pace.
- The median existing-home price for all housing types was $384,500, +5.7% from February 2023 ($363,600), as prices rose in all four major U.S. regions.
- Average commitment rate for a 30-year, conventional, fixed-rate mortgage: 6.79%.
- New Home Sales: 662,000 (-0.3% month-over-month).

[1]Source: Bureau of Labor Statistics (BLS), U.S. Department of Commerce, Federal Reserve Bank of New York – Survey of Consumer Expectations, and University of Michigan Surveys of Consumers
[2]Source: Bureau of Labor Statistics (BLS)
[3]Source: Bureau of Economic Analysis (BEA)
[4]Source: National Association of Realtors (NAR), U.S. Census Bureau, and The Department of Housing and Urban Development

SWS CAPITAL MANAGEMENT

100 Wall Street, 18th Floor, New York, NY 10005 Telephone 212-461-6500
www.swscapitalmanagement.com