

THE ECONOMY AT A GLANCE

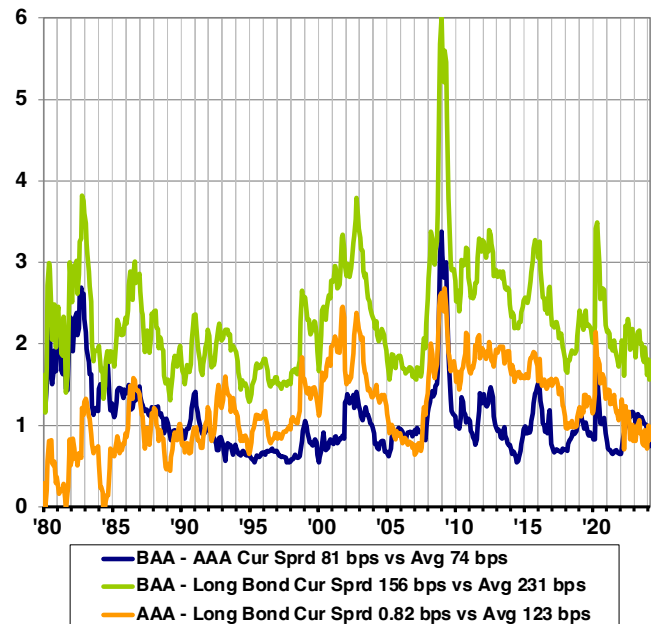
ECONOMIC HIGHLIGHTS

April 8, 2024
 Vol. 91, No. 50

BOND SPREADS NARROW

Yields on Treasury bonds have been rising in recent weeks on concerns over stubbornly high inflation. Meanwhile, yields on corporate bonds have risen, but not as rapidly as Treasury yields -- this as investors remain optimistic about the potential for economic and profit growth (and thus lower default rates). As a consequence, spreads between corporate-bond yields and Treasury-bond yields have narrowed. The spread between AAA-rated corporate bonds and 10-year government bonds in February was 82 basis points (bps), below the 35-year average of 123 bps and down 20 bps from December. The gap between the government 10-year bond yield and a BAA-rated bond (still investment grade) in February was 156 basis points, below the historical average spread of 231 bps and down about 25 bps in the past two months. We watch these spreads closely for a few reasons. From an asset-allocation standpoint, tight corporate-bond spreads signal that corporate-bond prices are above historical fair value, and that might lead us to under-weight the segment in our model portfolios. From a market standpoint, the changes in the spreads offer clues to the bond market's view of corporate financial strength, which appears to be improving given the narrowing spreads. This is important as the economy approaches a period of slower growth.

CORPORATE/GOVERNMENT BOND SPREADS (%)

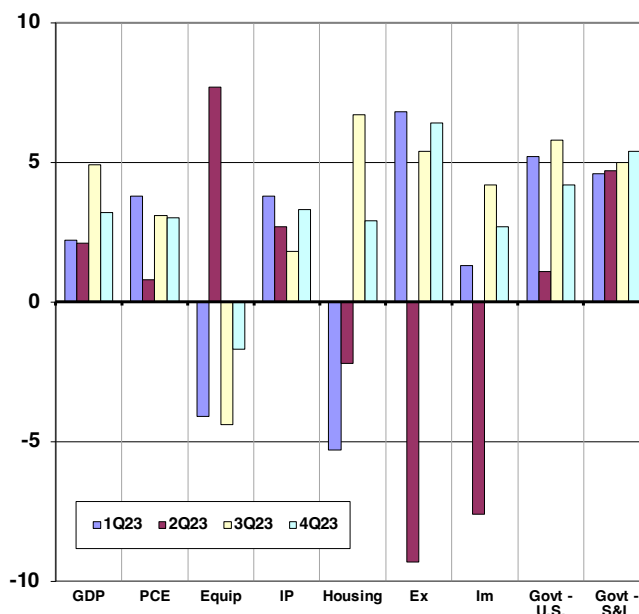


ECONOMIC HIGHLIGHTS (CONTINUED)

4Q GDP

As reported by the Bureau of Economic Analysis (BEA) 4Q23 GDP was solid, with contributions from consumer spending, private investment, exports, and government spending. Personal consumption expenditures (PCE) on durable goods increased, despite a decline in motor vehicles and parts. Gross private domestic investment in structures rose further after an 11.2% increase in 3Q and a 16.1% increase in 2Q. A report from the U.S. Treasury Department attributed the surge in construction to spending on manufacturing facilities for computers, electronics, and electrical products (bolstered by the CHIPS Act), adding that these categories have become a dominant component of manufacturing construction. We expect 1Q24 growth to slow to 2.3%. The March 26 GDPNow forecast for 1Q24 from the Atlanta Fed was 2.1%, with an estimate for 1.9% growth in PCE. Residential fixed investment and intellectual property could make strong contributions to 1Q GDP according to the Nowcast. For the remainder of 2024, we expect GDP growth of 1.3% in 2Q, 1.8% in 3Q, and 2.3% in 4Q. Our full year 2024 estimate is 2.0%. Our 2025 estimate is also 2.0%.

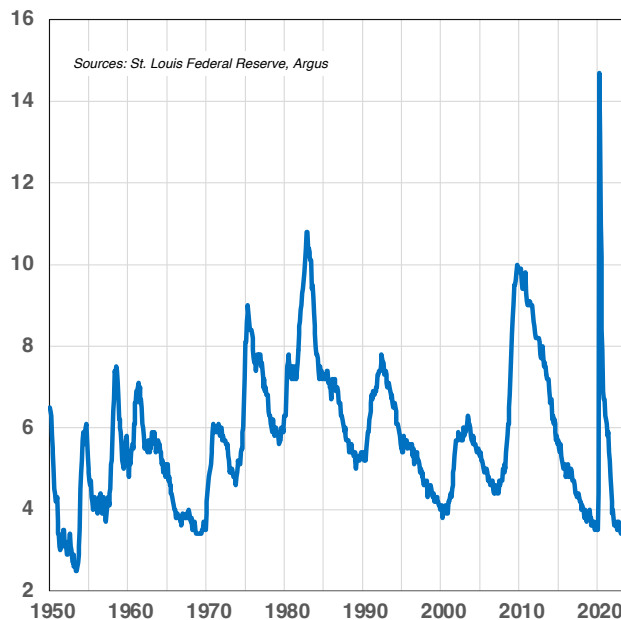
GDP GROWTH DRIVERS (%)



JOBS REPORT REDUCES ODDS OF JUNE RATE CUT

The Bureau of Labor Statistics (BLS) reported that the U.S. economy generated a whopping 303,000 new jobs in March. Gains in February and January combined were revised higher by 22,000. The three-month average is now 276,000, above the 12-month average of 231,000 and suggesting a very robust job market. The unemployment rate dropped to 3.8% from 3.9%, which remains below the threshold for triggering the widely followed Sahm Rule recession indicator. Average hourly earnings increased 12 cents month-to-month and are now 4.1% higher year-over-year. The average workweek rose to 34.4 hours in March from 34.3 hours in February. Job gains occurred in healthcare, government, and construction. Employment showed little change over the month in mining, quarrying, and oil and gas extraction; manufacturing; wholesale trade; transportation and warehousing; information; financial activities; and professional and business services. Before the employment report, futures contracts suggested a 94% probability that the Fed will keep the funds target at 5.25%-5.50% when it meets on April 30 and May 1. After the release, there was little change. The chance that the funds rate will be lower after the June meeting dropped to 57% from 64%.

U.S. UNEMPLOYMENT RATE (%)

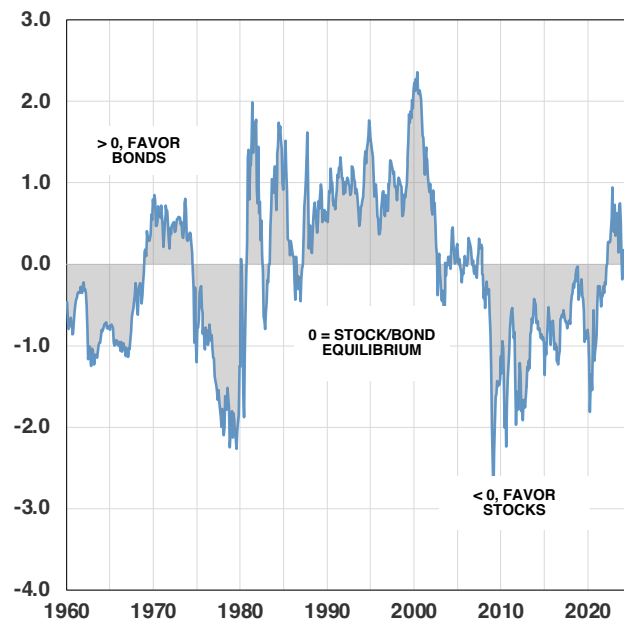


FINANCIAL MARKET HIGHLIGHTS

STOCK-BOND MODEL NEAR EQUILIBRIUM

Our stock-bond asset-allocation model, which we call the Stock-Bond Barometer, is indicating that bonds are the asset class offering the most value at the current market juncture -- but not by much. Our model takes into account current levels and forecasts of short-term and long-term government and corporate fixed-income yields, inflation, stock prices, GDP, and corporate earnings, among other factors. The output is expressed in standard deviations to the mean, or sigma. The mean reading from the model, going back to 1960, is a modest premium for stocks (of 0.16 sigma), with a standard deviation of 0.97. The current valuation level is a 0.14 sigma premium for stocks, below the historical average and indicating that stocks are not dramatically overvalued. Other valuation measures also show reasonable multiples for stocks. The current forward P/E ratio for the S&P 500 is about 19.6, within the normal range of 13-24 and down from 23 in 2021. The S&P 500 dividend yield is 32% of the 10-year Treasury yield, compared to a long-run average of 39% and all-time low of 18% from 1999. We expect the results from our valuation model to tilt toward stocks as interest rates head lower in 2024 and earnings growth picks up. Based in part on the output from our Stock-Bond Barometer, our recommended asset-allocation model for moderate accounts is 74% growth assets, including 72% equities and 2% alternatives; and 26% fixed income, with a focus on core and opportunistic segments of the bond market.

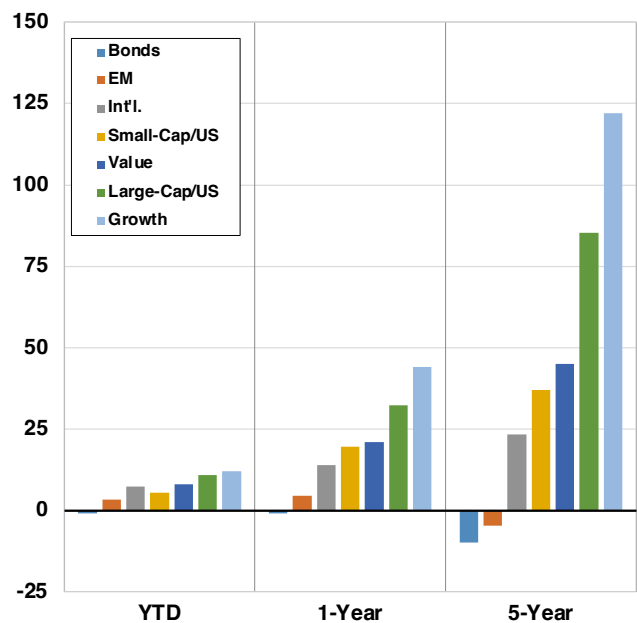
**STOCK BOND BAROMETER
(STANDARD DEVIATIONS)**



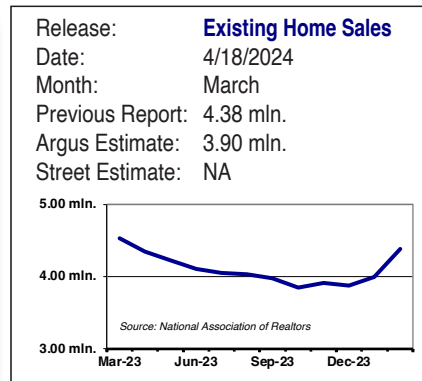
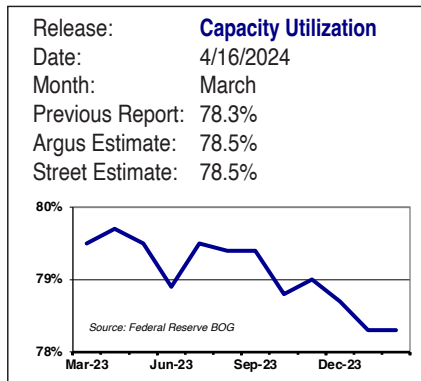
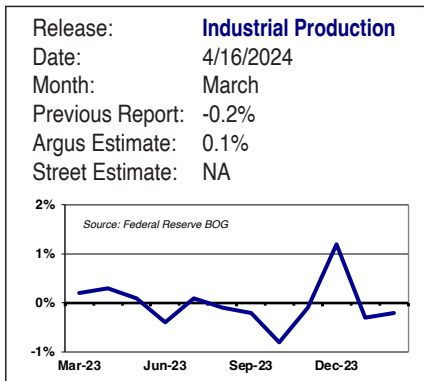
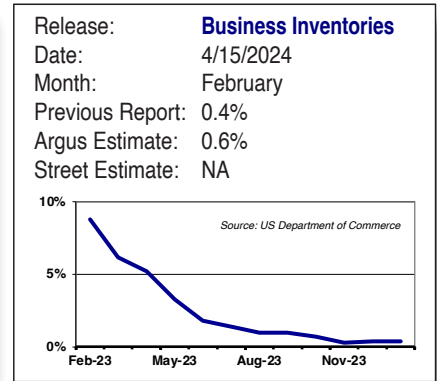
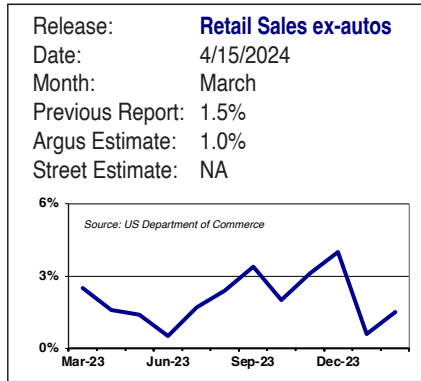
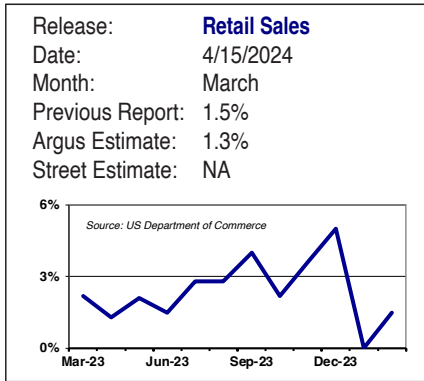
ARGUS'S FAVORED CLASSES, SEGMENTS

March was another solid month for equity investors. We favor large-caps for growth exposure and financial strength, while small-caps offer value. Our recommended exposure to small- and mid-caps is 12%-13% of equity allocation, below the benchmark weighting. U.S. stocks have outperformed global stocks over the trailing one- and five-year periods. We expect this long-term trend favoring U.S. stocks to continue, given volatile global economic, political, geopolitical, and currency conditions, as well as the strength of the innovative U.S. Technology industry. Still, international stocks offer favorable near-term valuations and we target 5%-10% of equity exposure to the group. Growth rebounded in 2023 and outperformed value as interest rates stabilized. Over the longer term, we anticipate that growth, led by the Tech, Consumer and Healthcare sectors, will top returns from value, led by Energy, Real Estate and Materials, due to favorable secular and demographic trends.

**MARKET SEGMENT RETURNS
(% THROUGH 3/28/2024)**



ECONOMIC TRADING CHARTS & CALENDAR



Previous Week's Releases and Next Week's Releases on next page.

ECONOMIC TRADING CHARTS & CALENDAR (CONTINUED)

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
10-Apr	Consumer Price Index	March	3.2%	3.4%	NA	NA
	CPI ex-Food & Energy	March	3.8%	3.7%	NA	NA
	Wholesale Inventories	February	-2.2%	-1.6%	NA	NA
11-Apr	PPI Final Demand	March	1.6%	1.8%	NA	NA
	PPI ex-Food & Energy	March	2.0%	2.1%	NA	NA
12-Apr	Import Price Index	March	-0.8%	0.4%	NA	NA
	U. of Michigan Sentiment	April	79.4	79.5	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
23-Apr	New Home Sales	March	662 K	NA	NA	NA
24-Apr	Durable Goods Orders	March	4.5%	NA	NA	NA
25-Apr	GDP Annualized QoQ	1Q Advance	3.4%	NA	NA	NA
	GDP Price Index	1Q Advance	1.6%	NA	NA	NA
26-Apr	PCE Deflator	March	2.5%	NA	NA	NA
	PCE Core Deflator	March	2.8%	NA	NA	NA
	Personal Income	March	4.6%	NA	NA	NA
	Personal Spending	March	4.9%	NA	NA	NA

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