

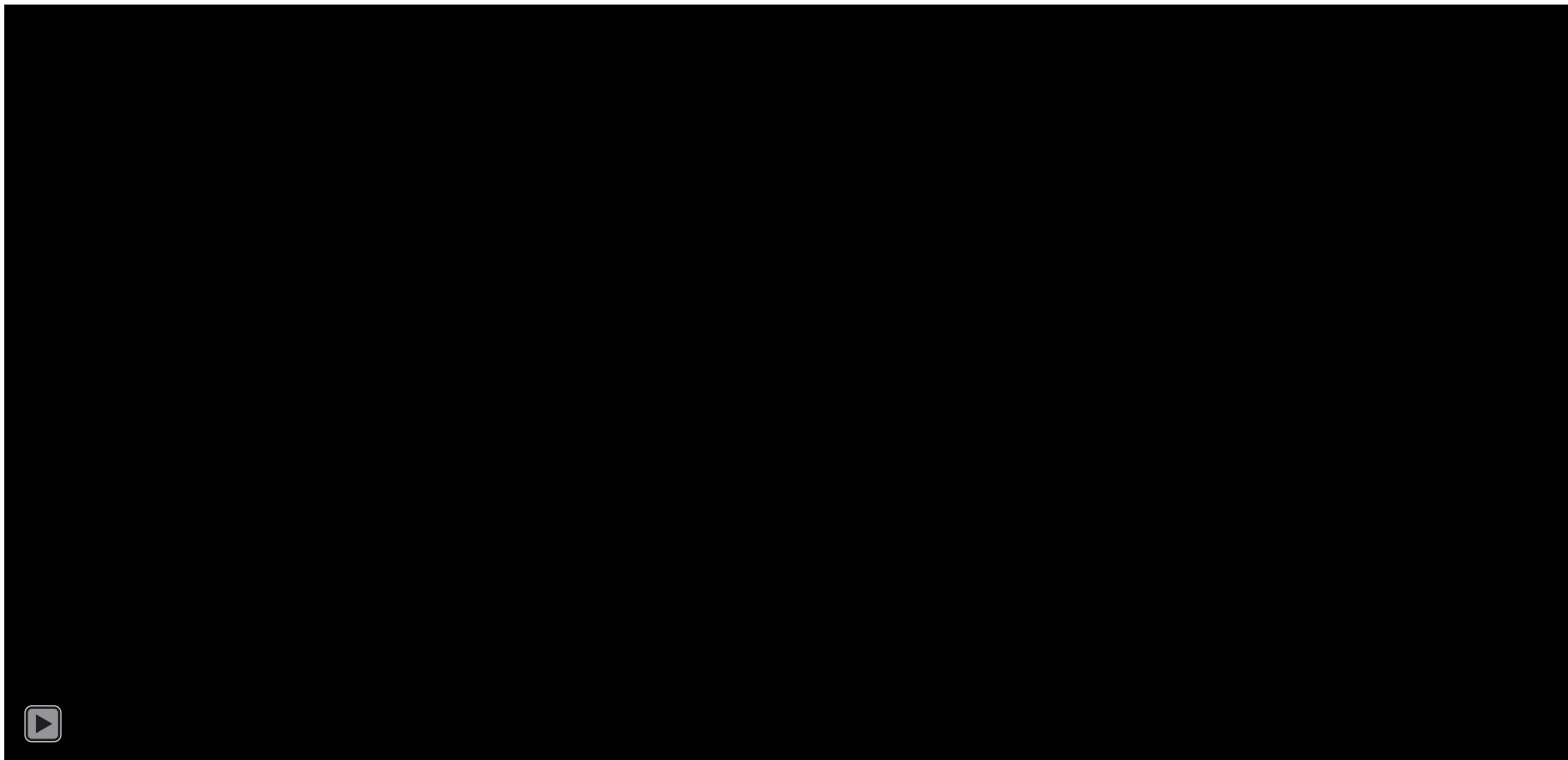


Partnership at Work®

The Waiting is the Hardest Part

March 2024

Tom Petty and The Heartbreakers – The Waiting

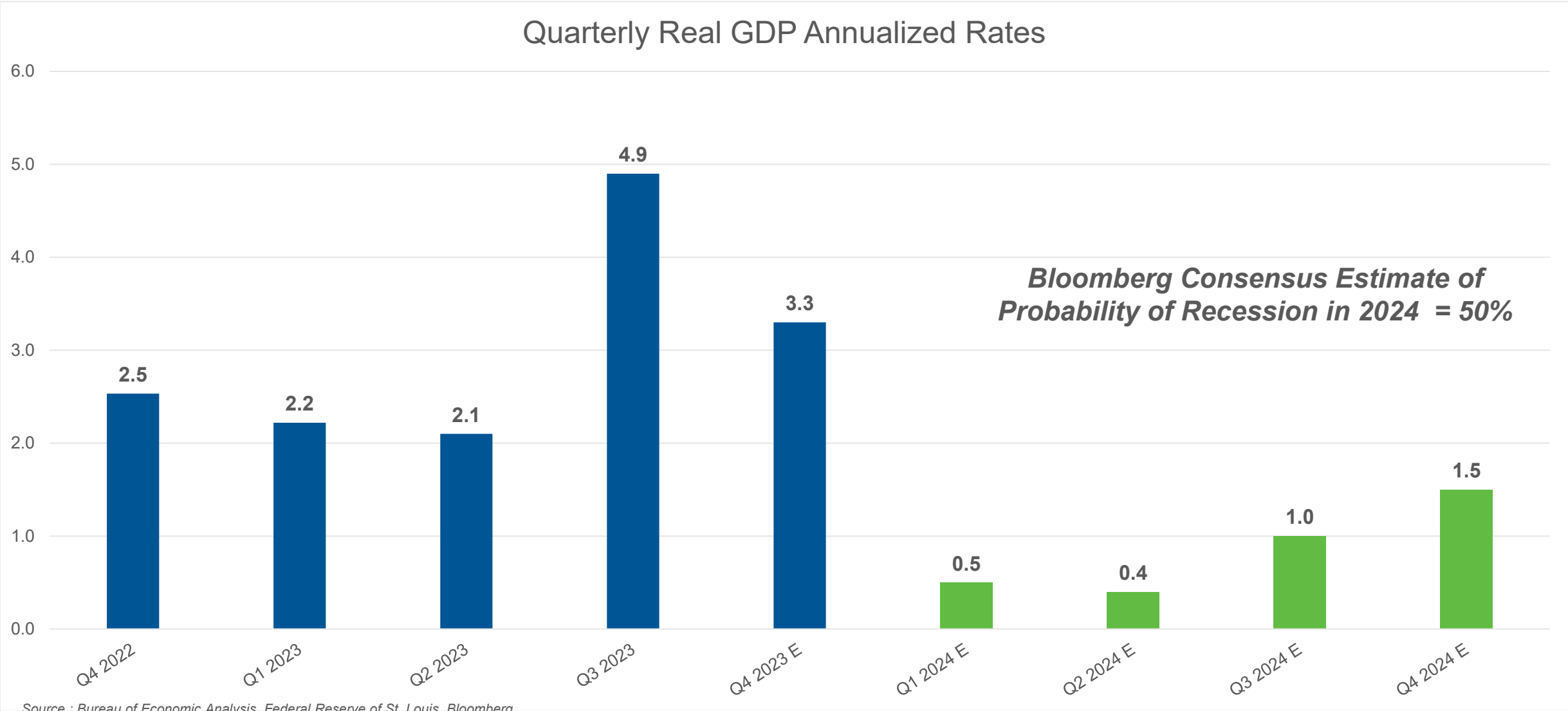


- Economic Outlook
- Labor Markets & Inflation
- Federal Reserve Policy
- Capital Market Implications & Strategy Recommendations

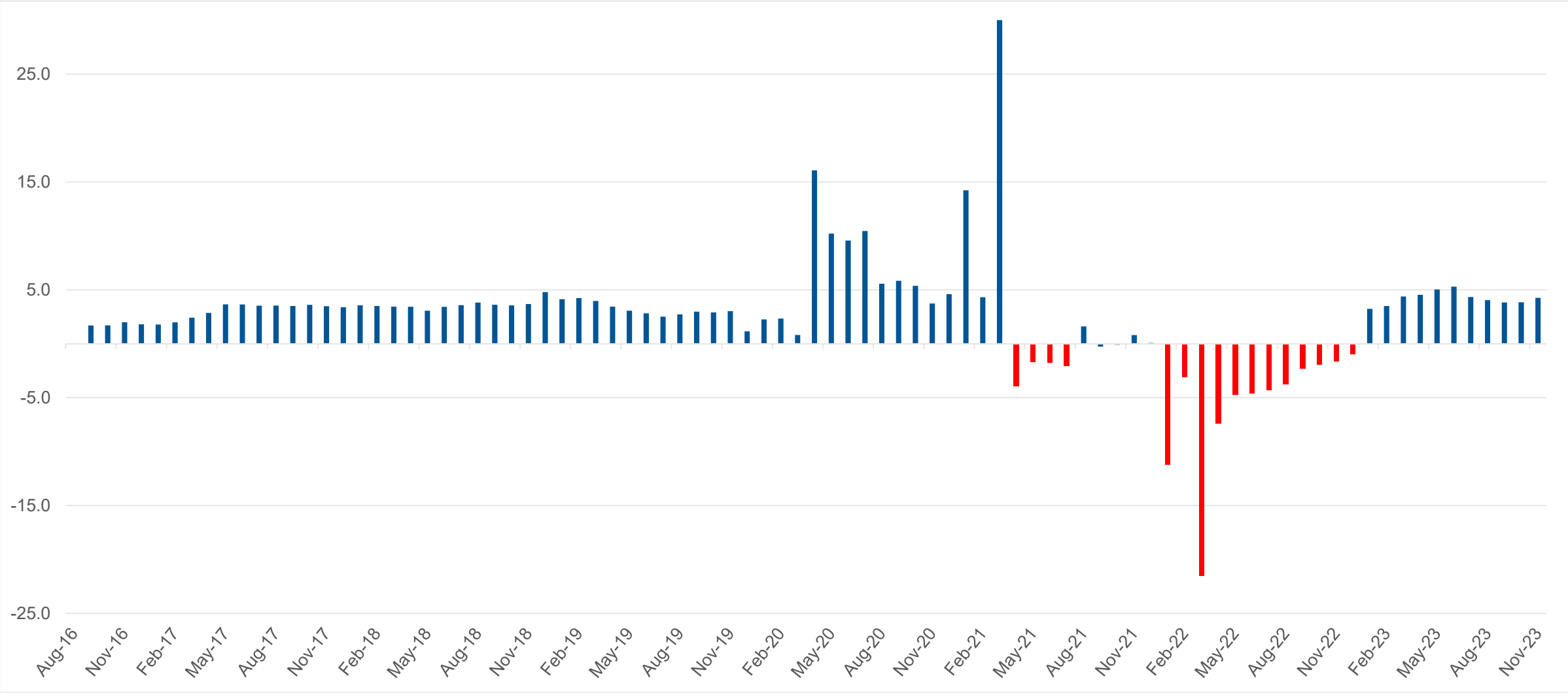


Economic Outlook

Quarterly Real Economic Growth – Actual and Estimated

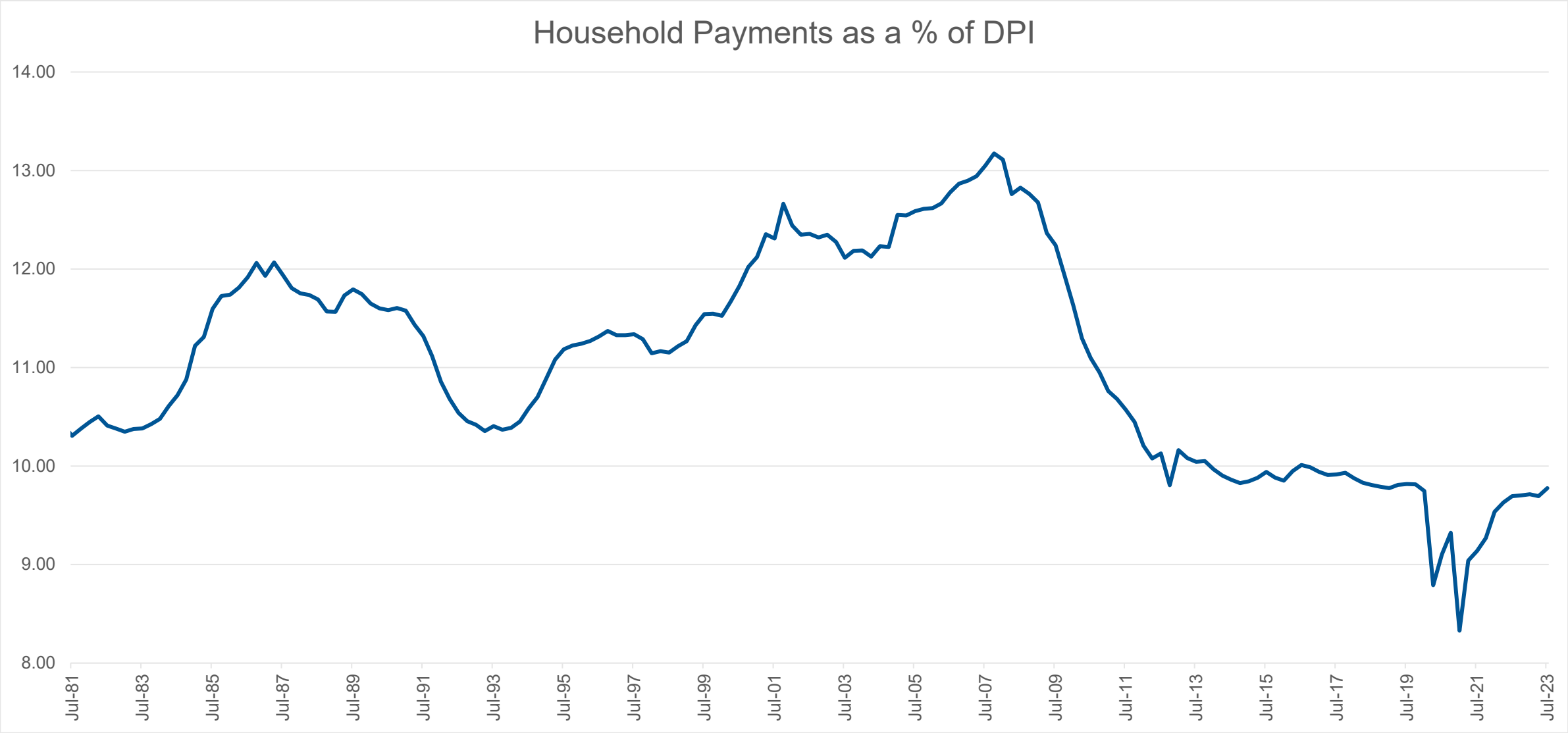


Real Disposable Personal Income Growth



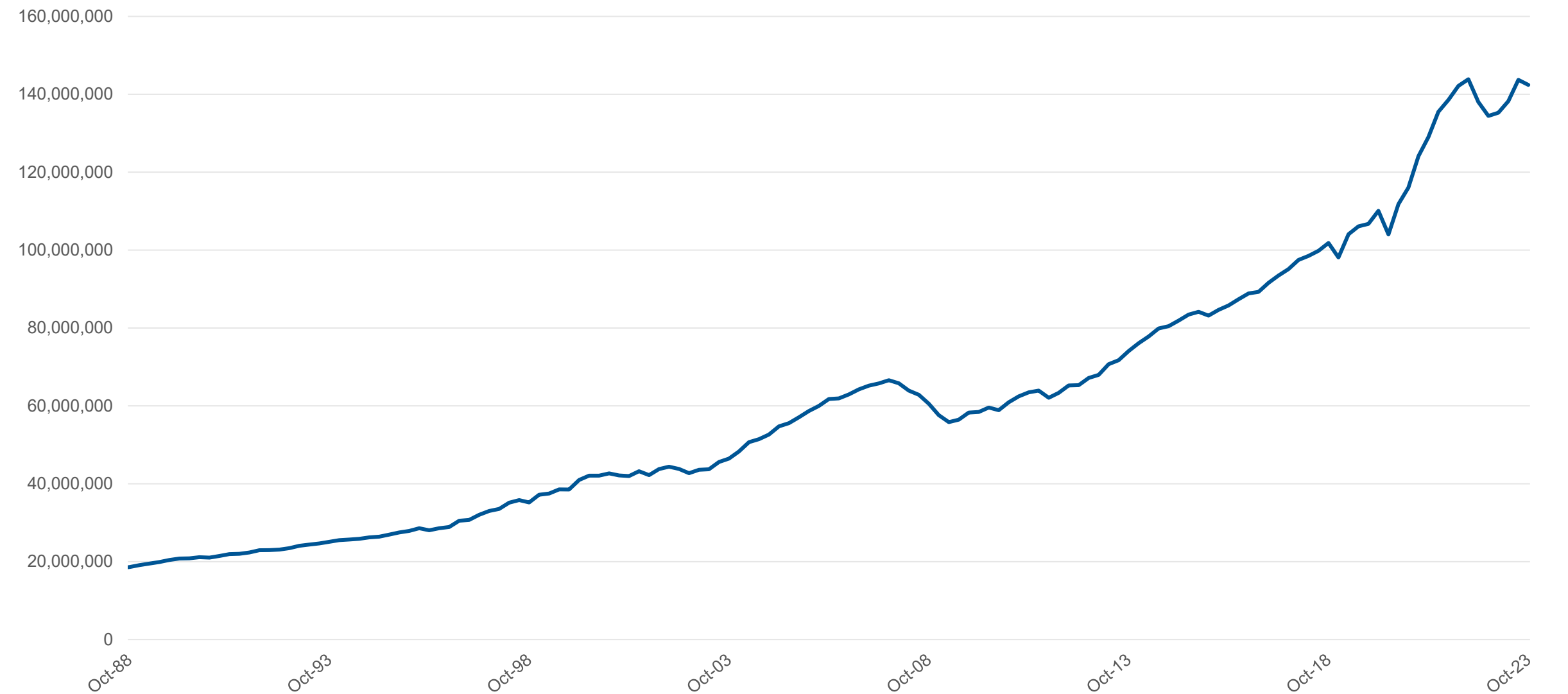
Source: Federal Reserve Bank of St. Louis, NEAM Analytics

Household Debt Service Ratio Near Historic Lows



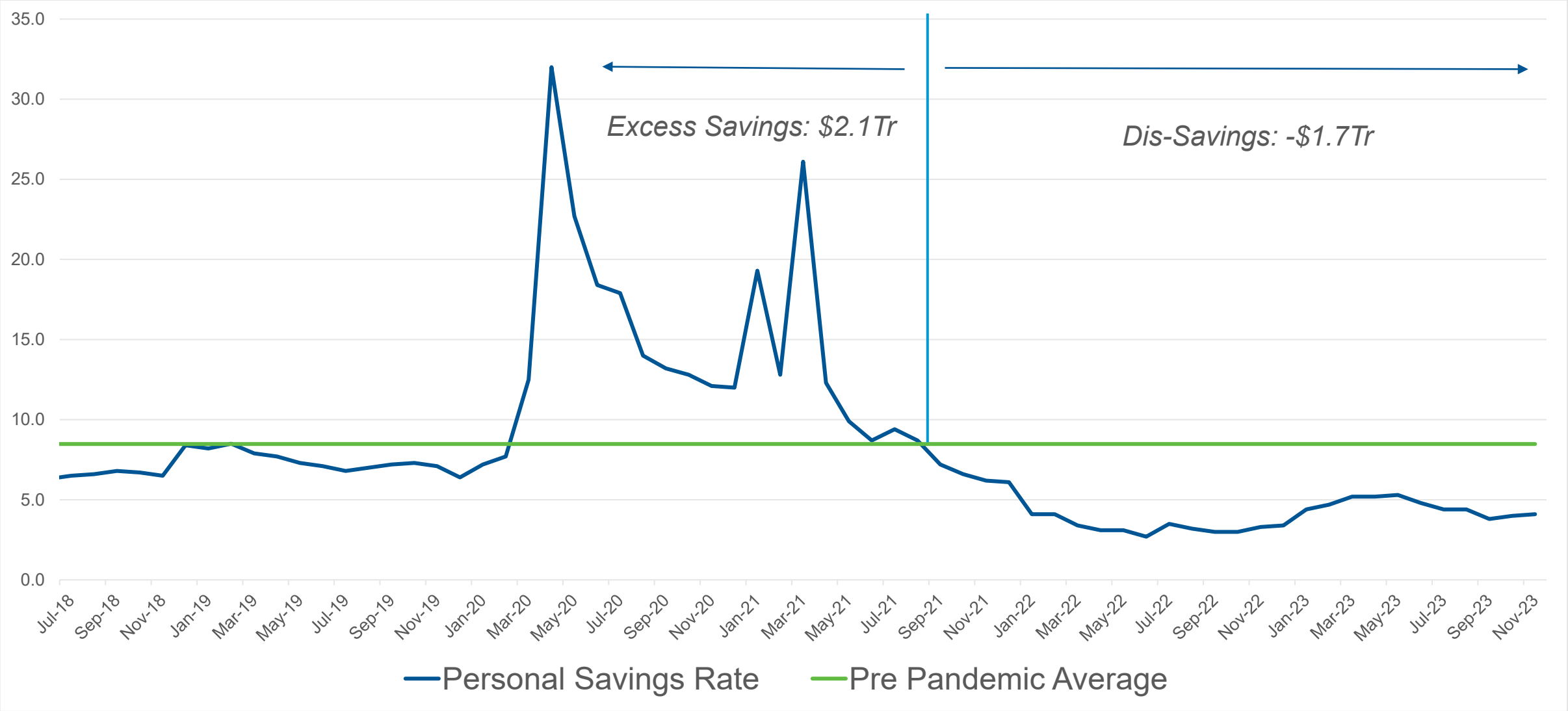
Source: Board of Governors of the Federal Reserve System, Haver Analytics, NEAM Analytics

Household Net Worth



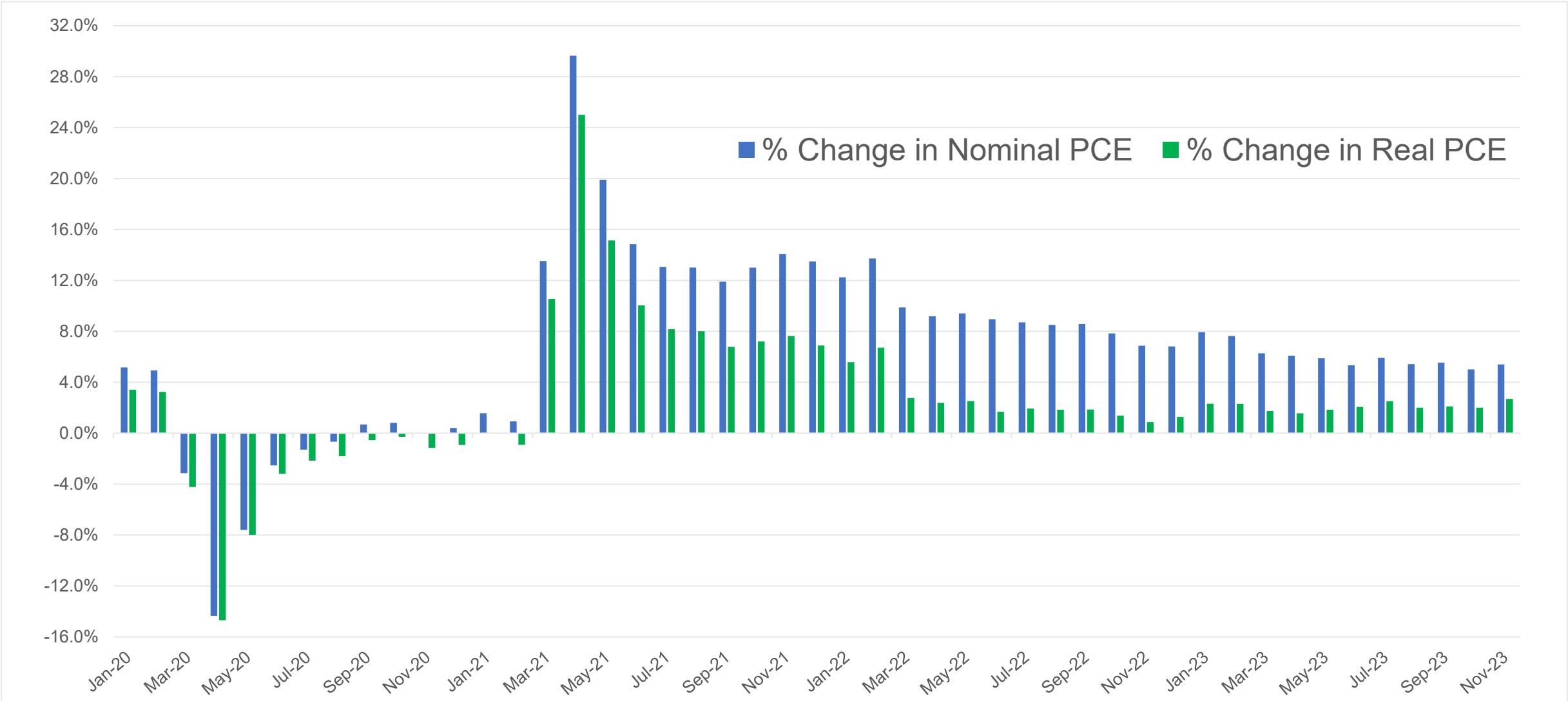
Source: Federal Reserve Bank of St. Louis, NEAM Analytics

Personal Savings Rate



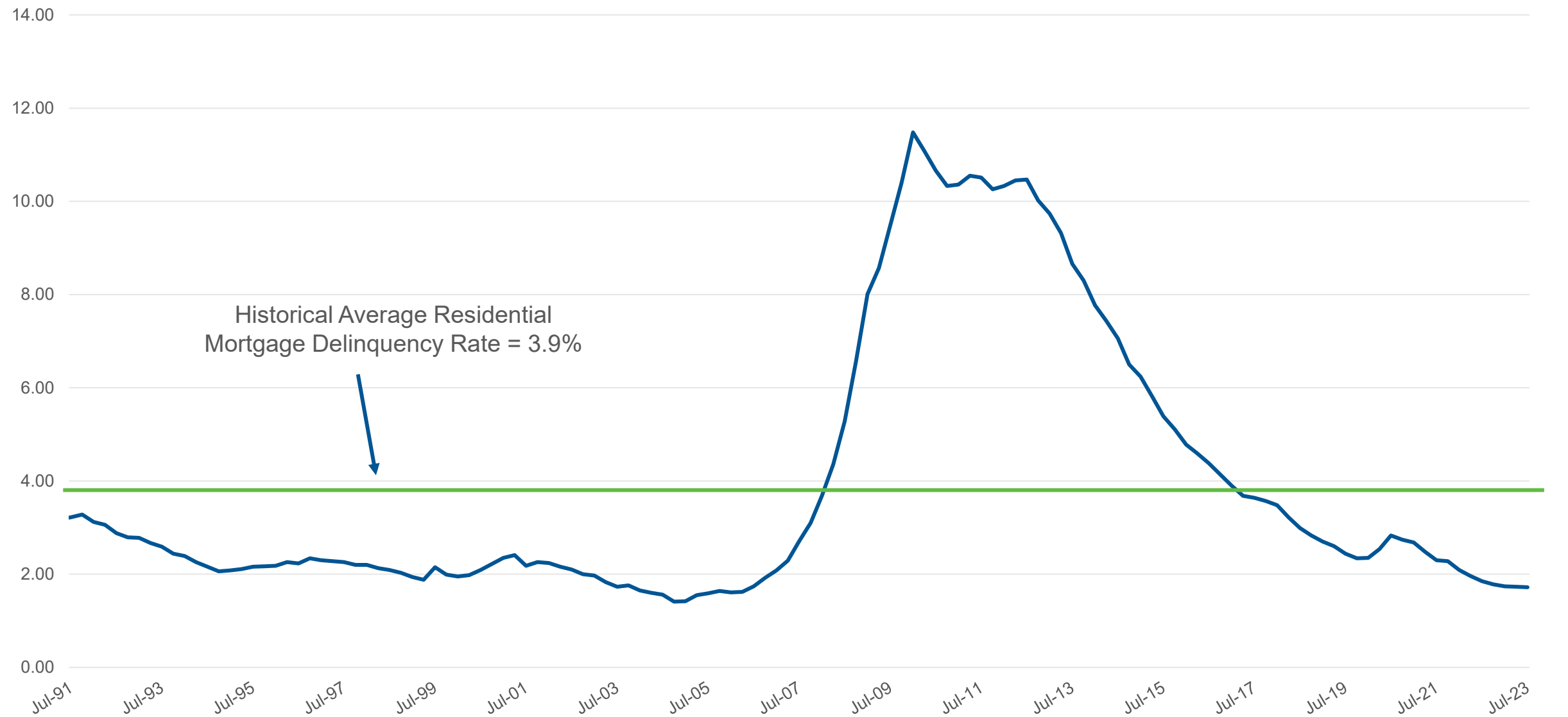
Source: Federal Reserve Bank of St. Louis, NEAM Analytics

Consumer Spending Nominal and Real

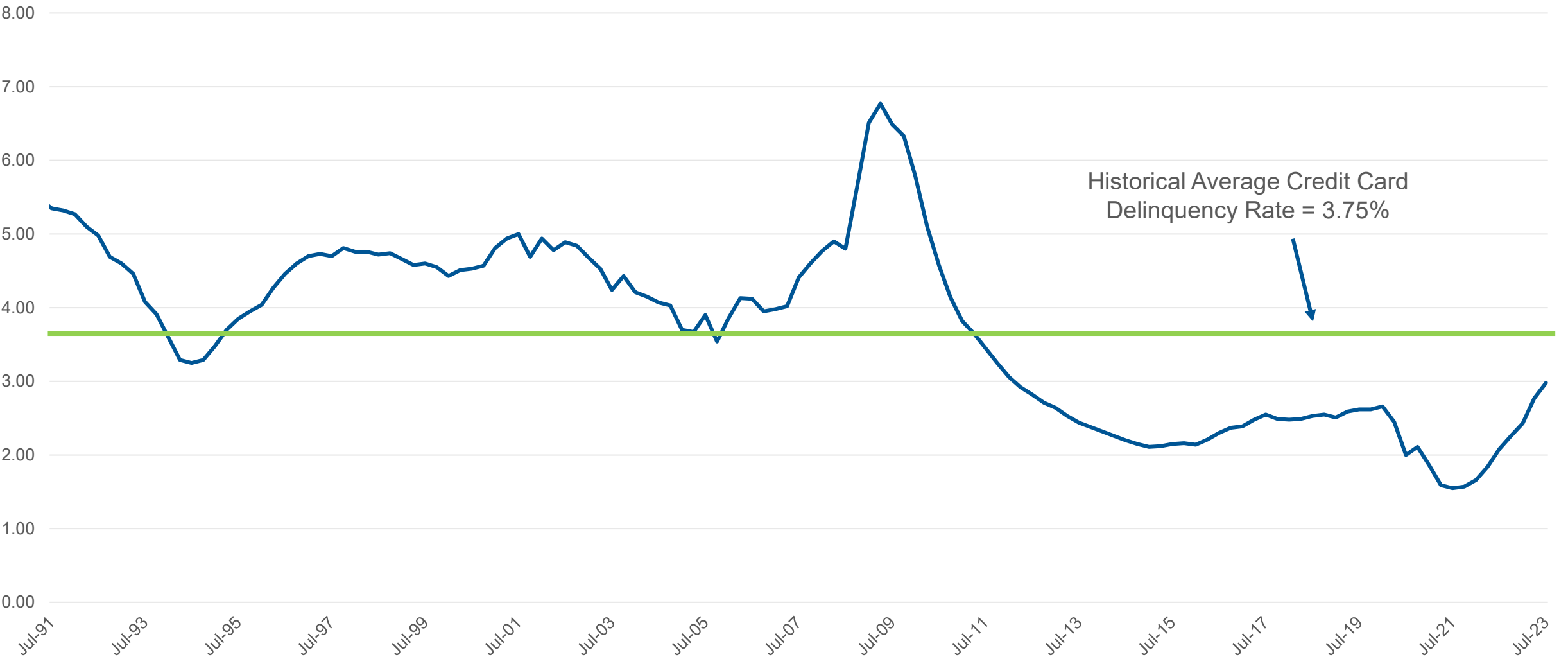


Source: Federal Reserve Bank of St. Louis, NEAM Analytics

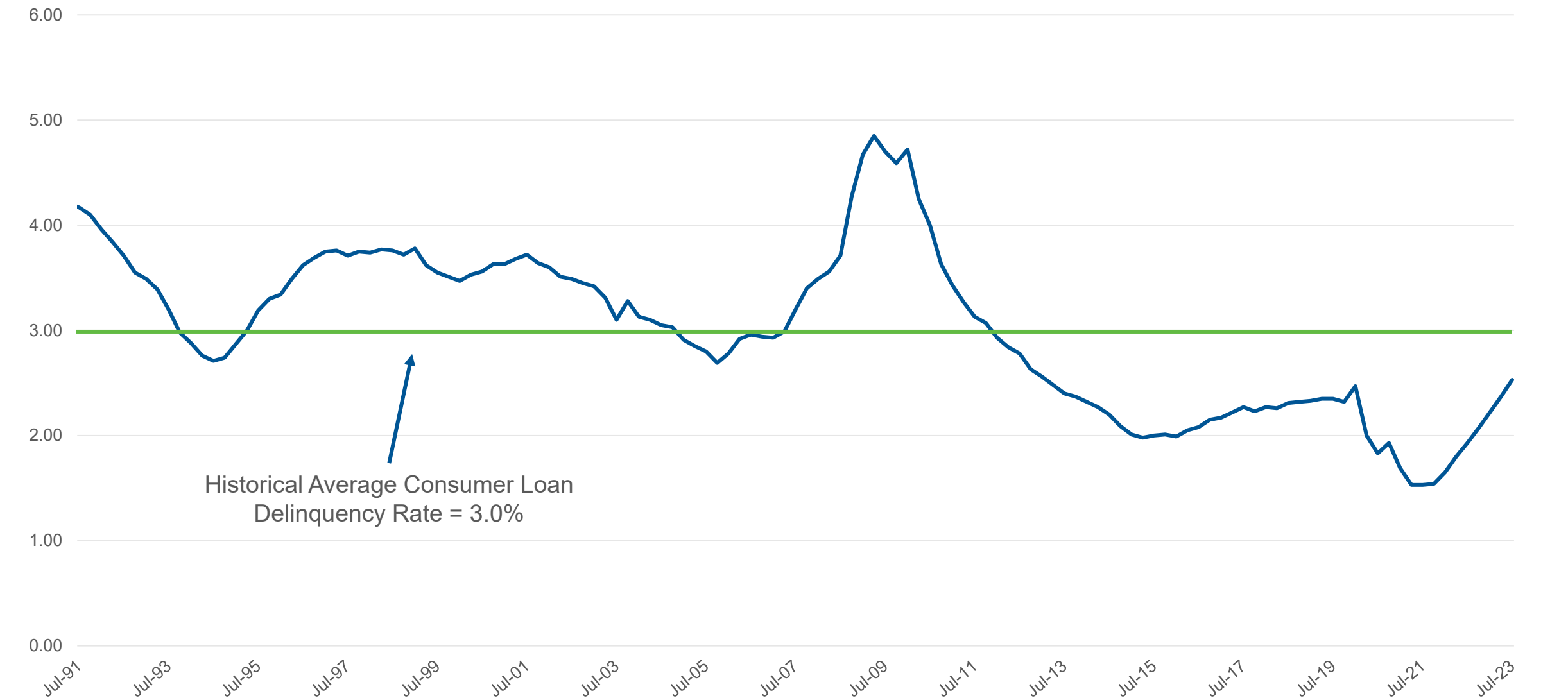
Delinquency Rate – Residential Mortgage Loans



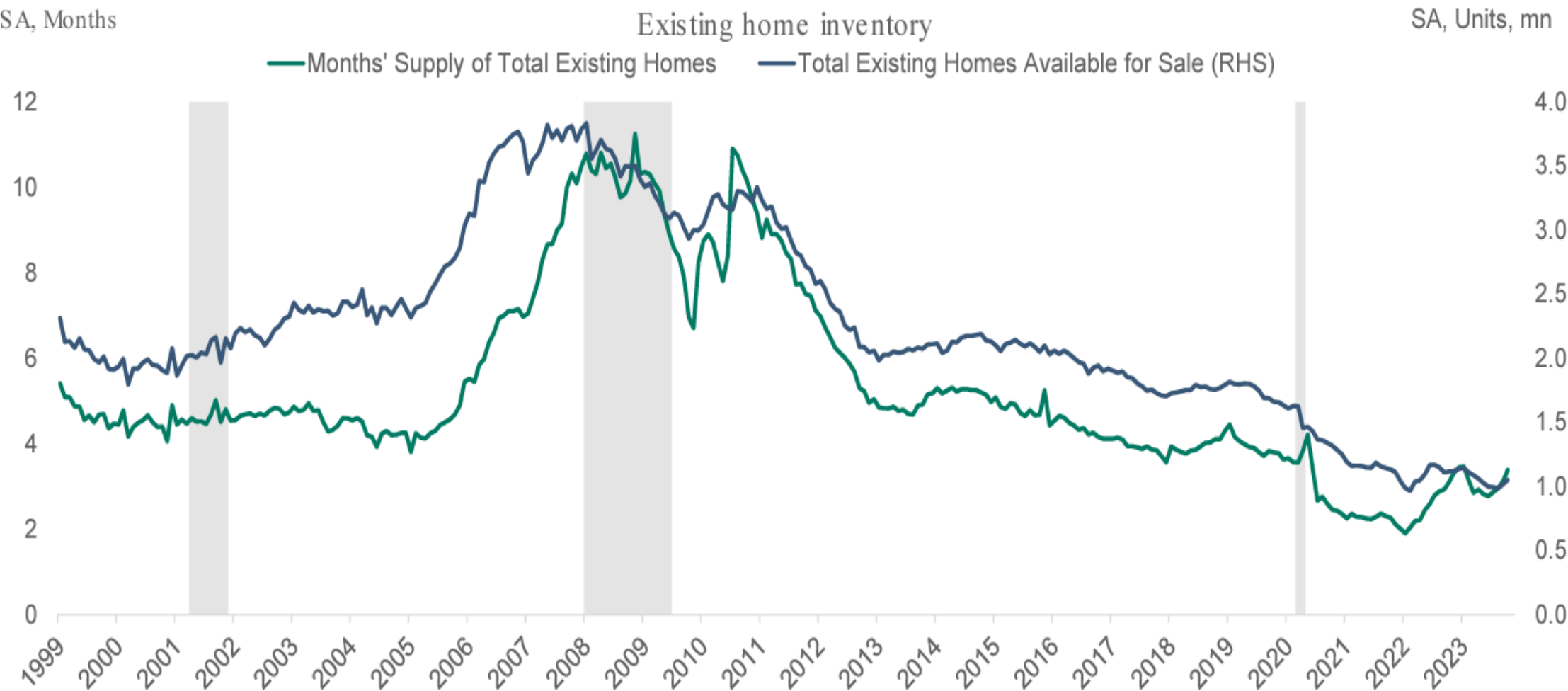
Delinquency Rate – Credit Card Loans



Delinquency Rate – Consumer/Auto Loans

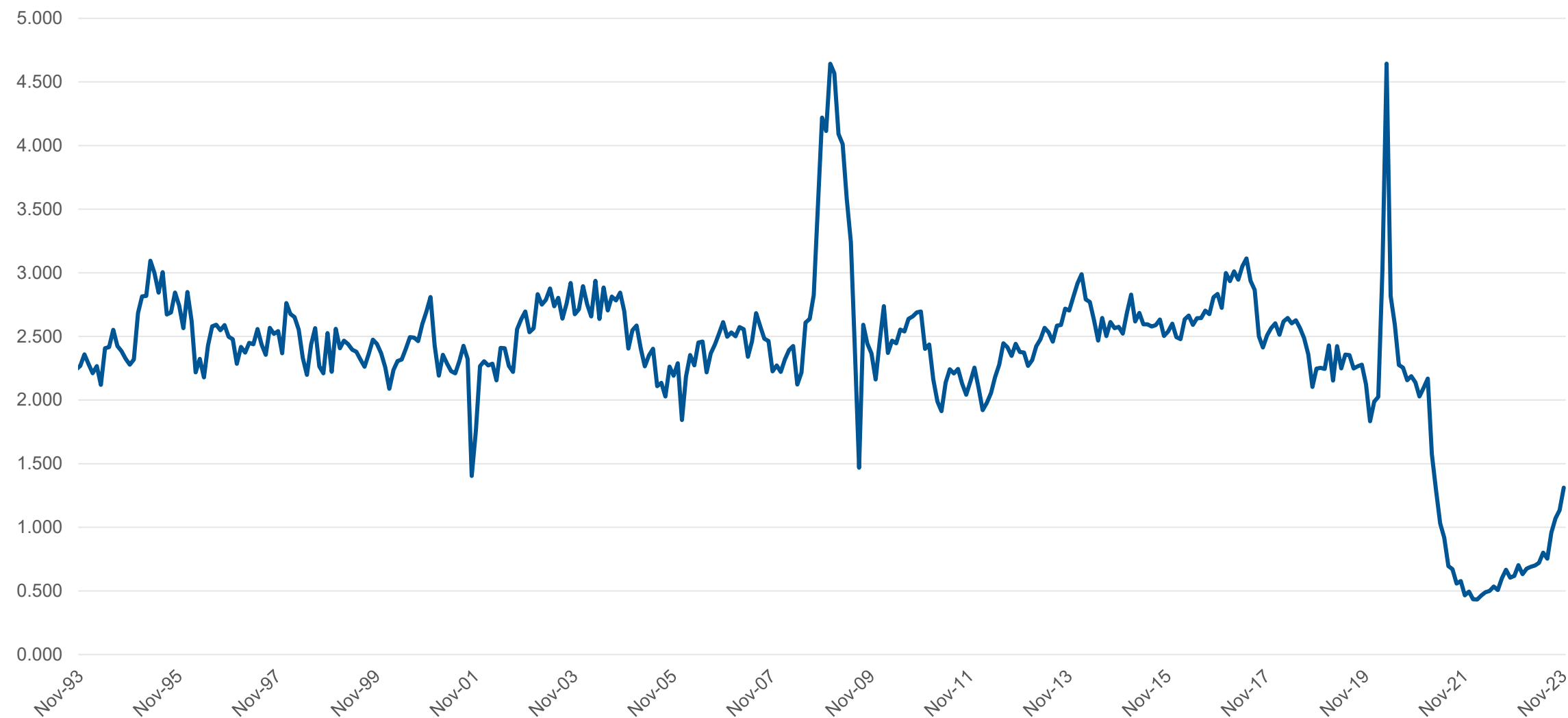


Housing Inventory Remains Constrained



Source: NAR, Apollo Global, NEAM Analytics

US Auto Inventory to Sales Ratio

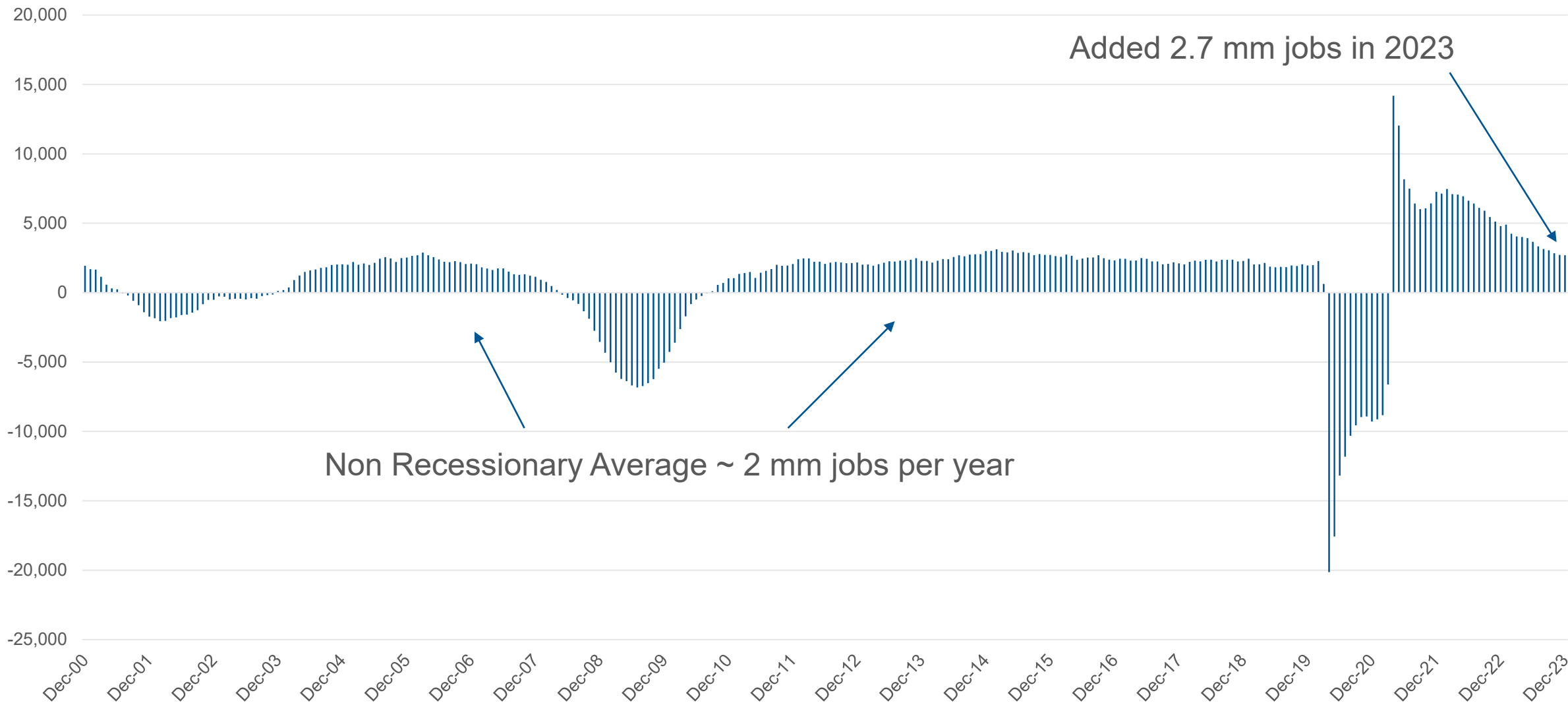


Source: Federal Reserve of St. Louis, NEAM Analytics



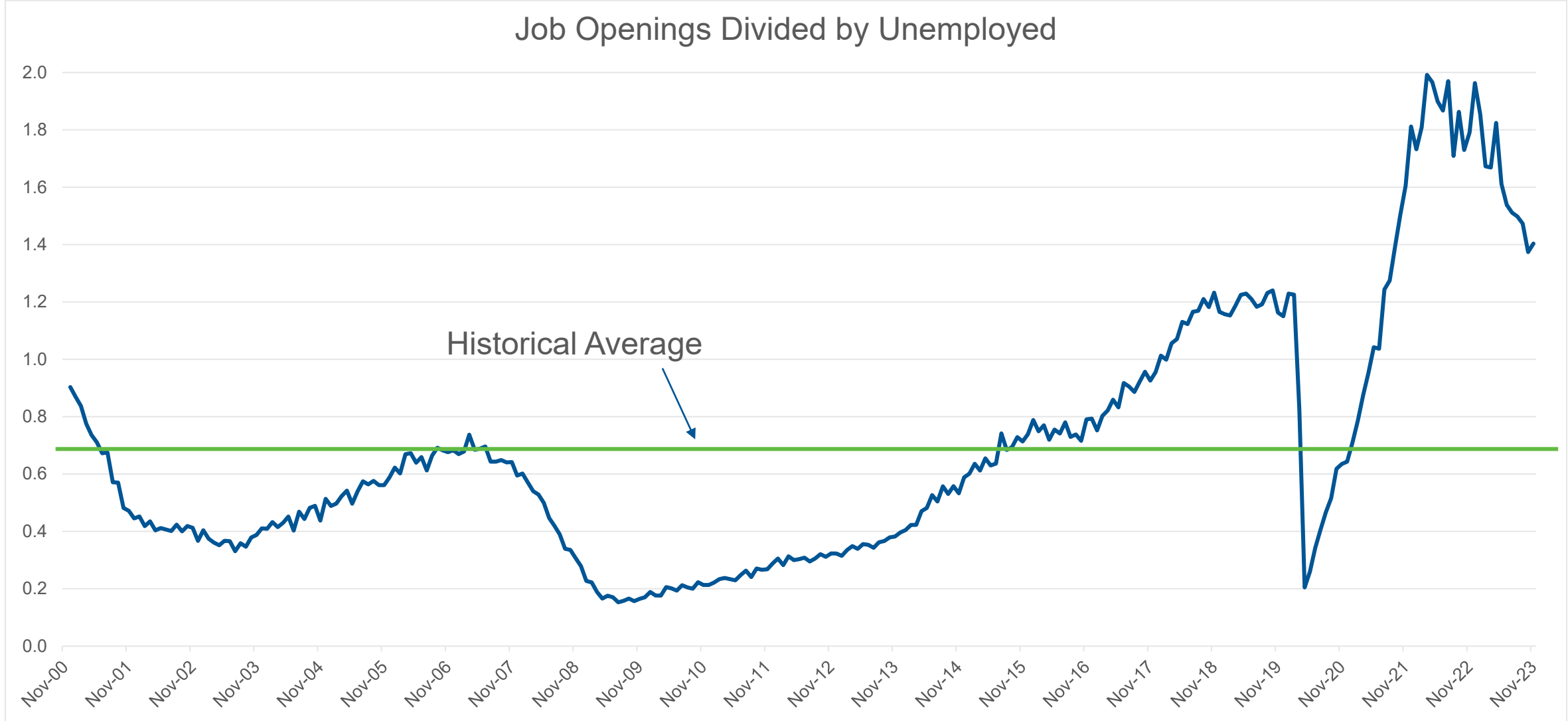
Labor Markets & Inflation

Annual Employment Growth



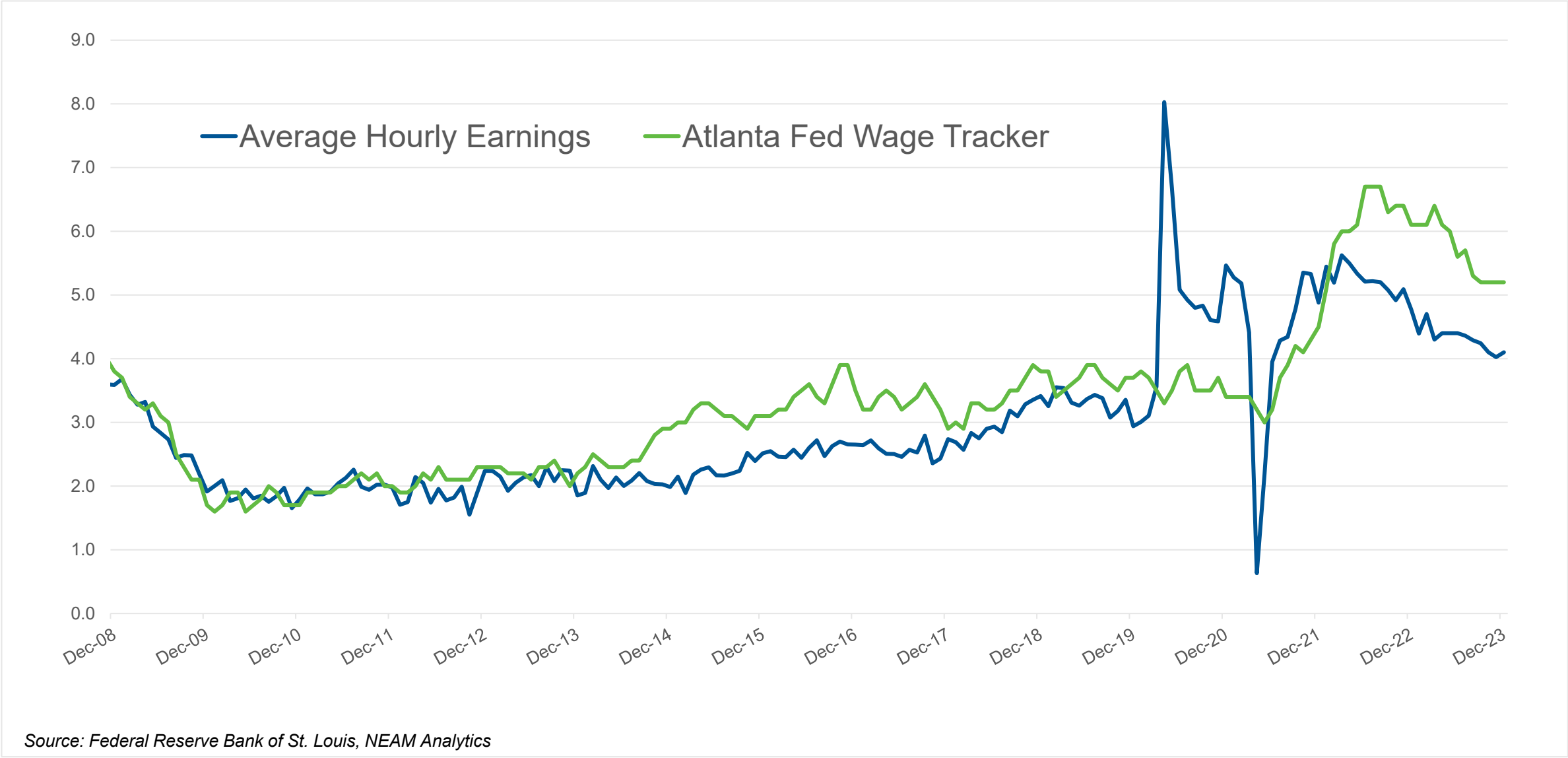
Source: Federal Reserve of St. Louis, NEAM Analytics

Job Openings and Unemployment Level

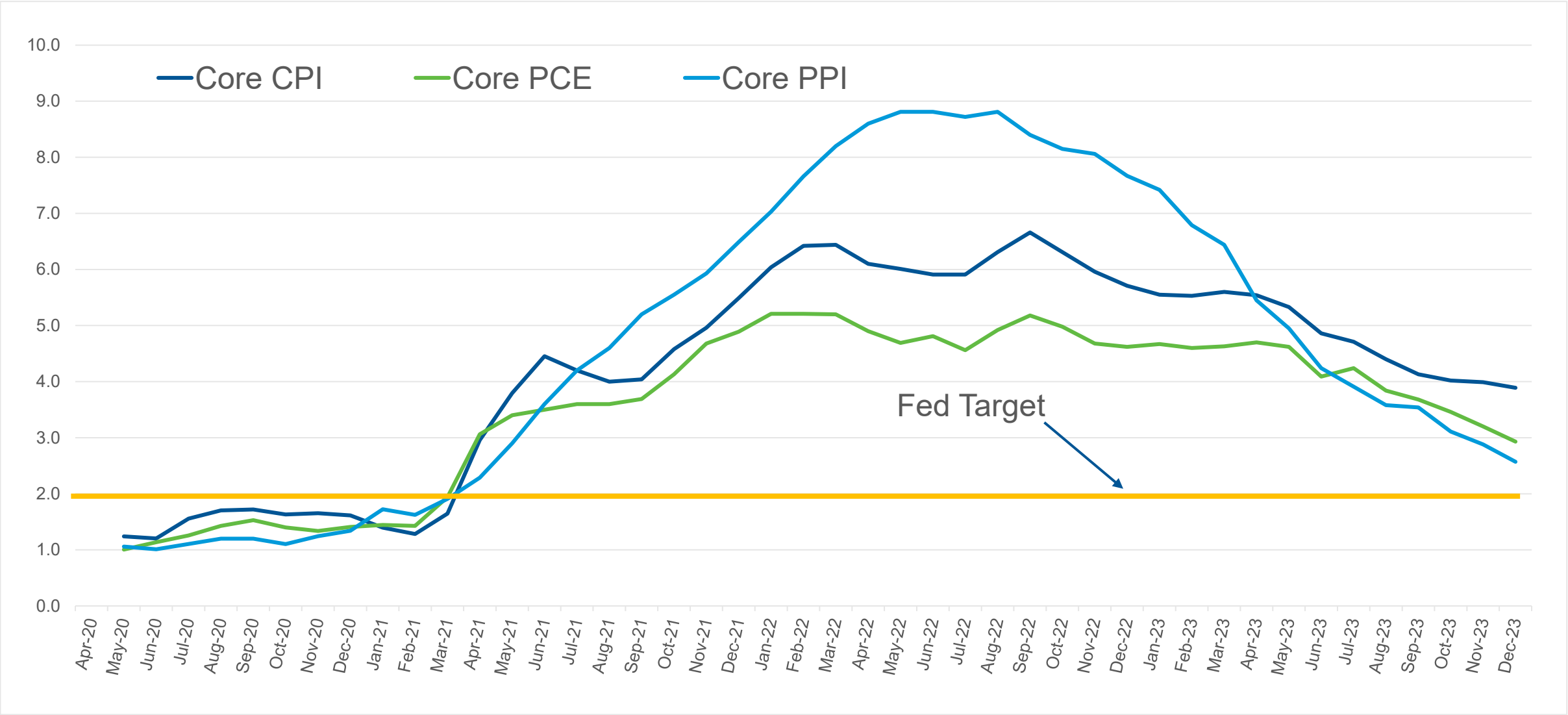


Source: Federal Reserve Bank of St. Louis, NEAM Analytics

Wage Costs Remain Elevated



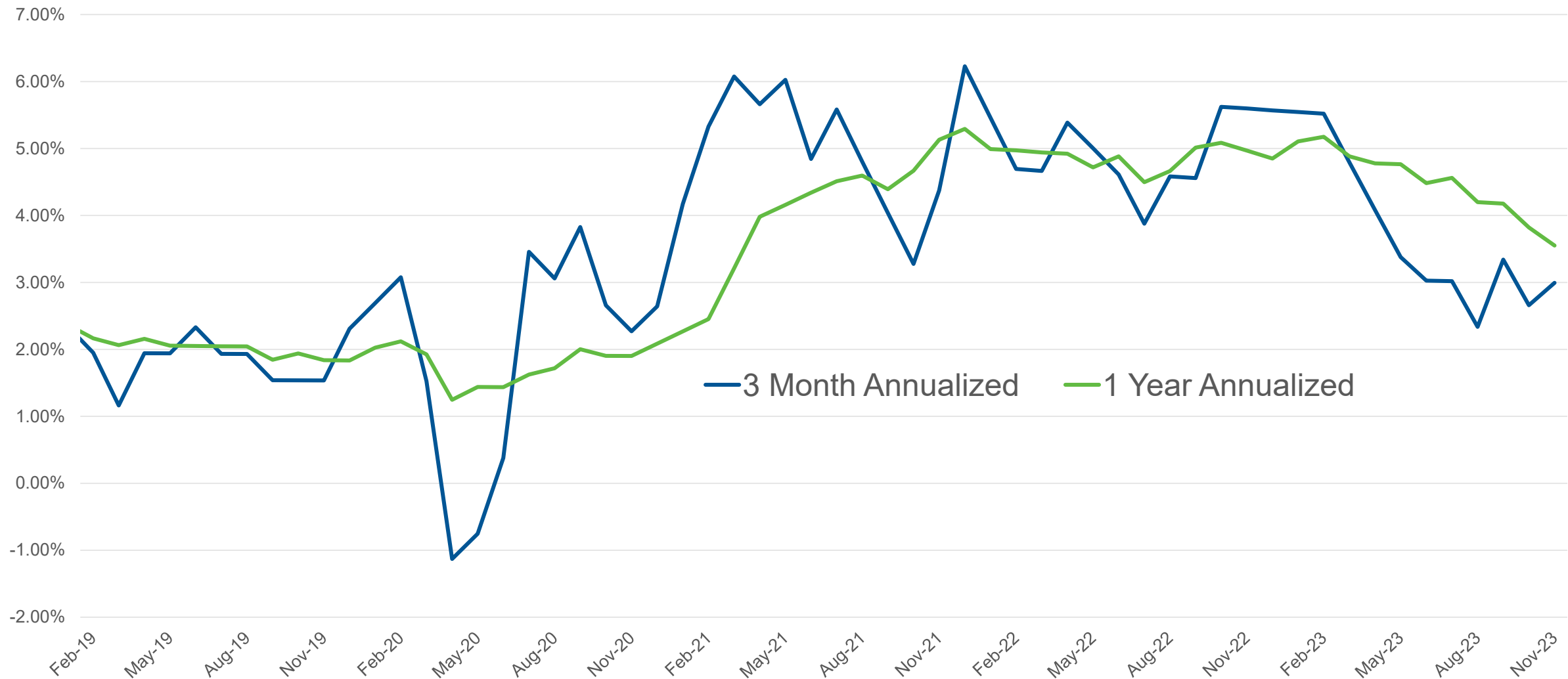
Core Inflation Readings – Year over Year



CPI Inflation Trends by Category – January 2024



Core PCE Services Ex Housing





Federal Reserve Policy

Current Cycle

- Commenced in March 2022
- 11 Rate Hikes for a total of 5.25%

2022

Phase 1: How Fast to Increase Rates?

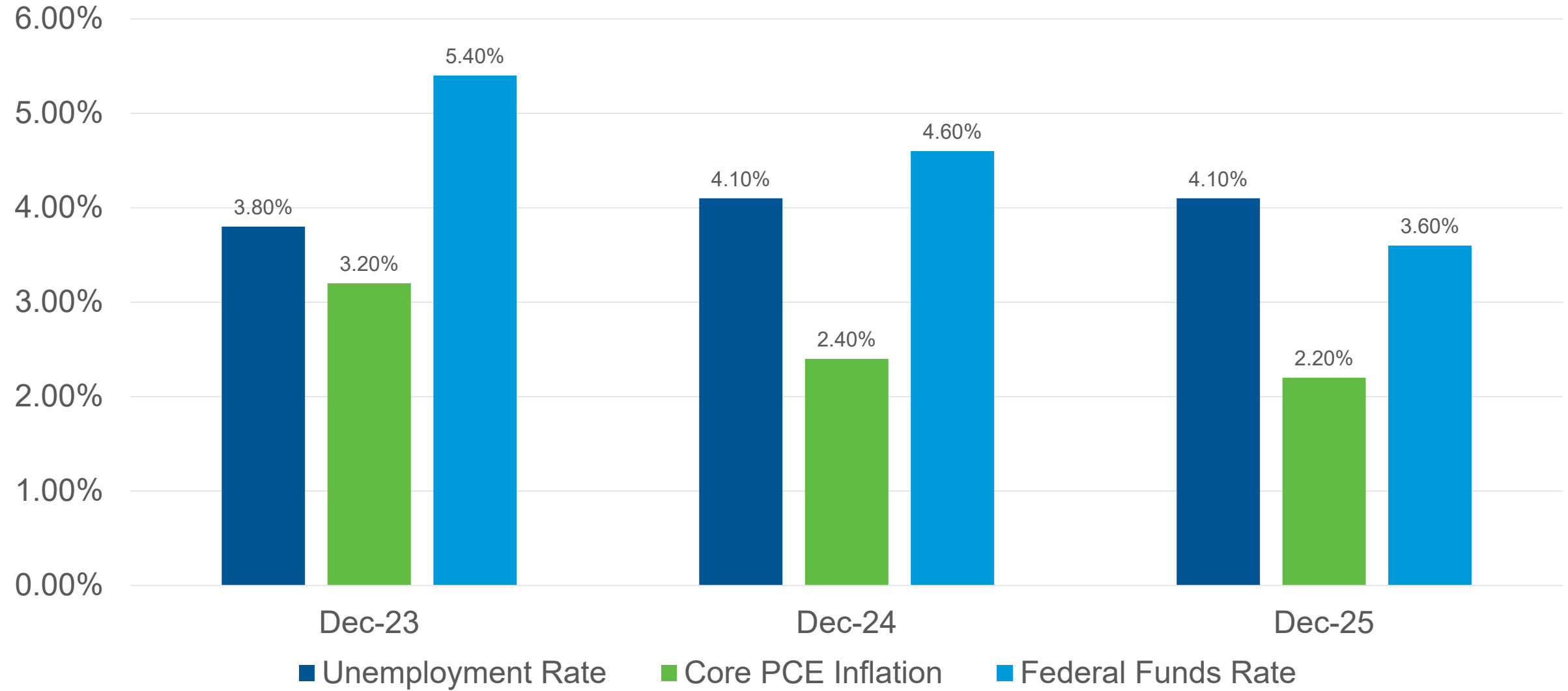
2023

Phase 2: How High to Increase Rates?

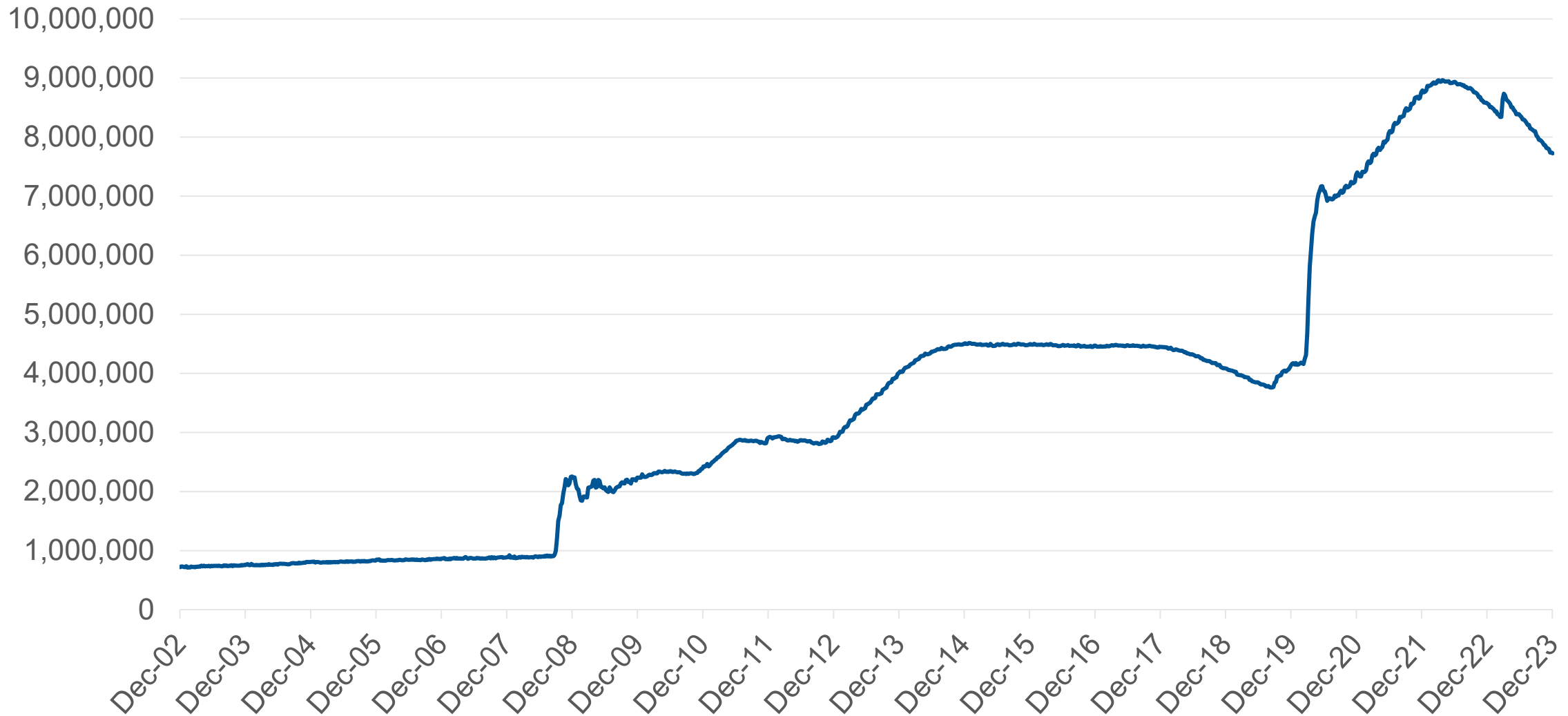
2024

Phase 3: When to Start Cutting Rates and by How Much?

The Fed's Latest Projections (December)



The Federal Reserve Balance Sheet – QT Takes Hold

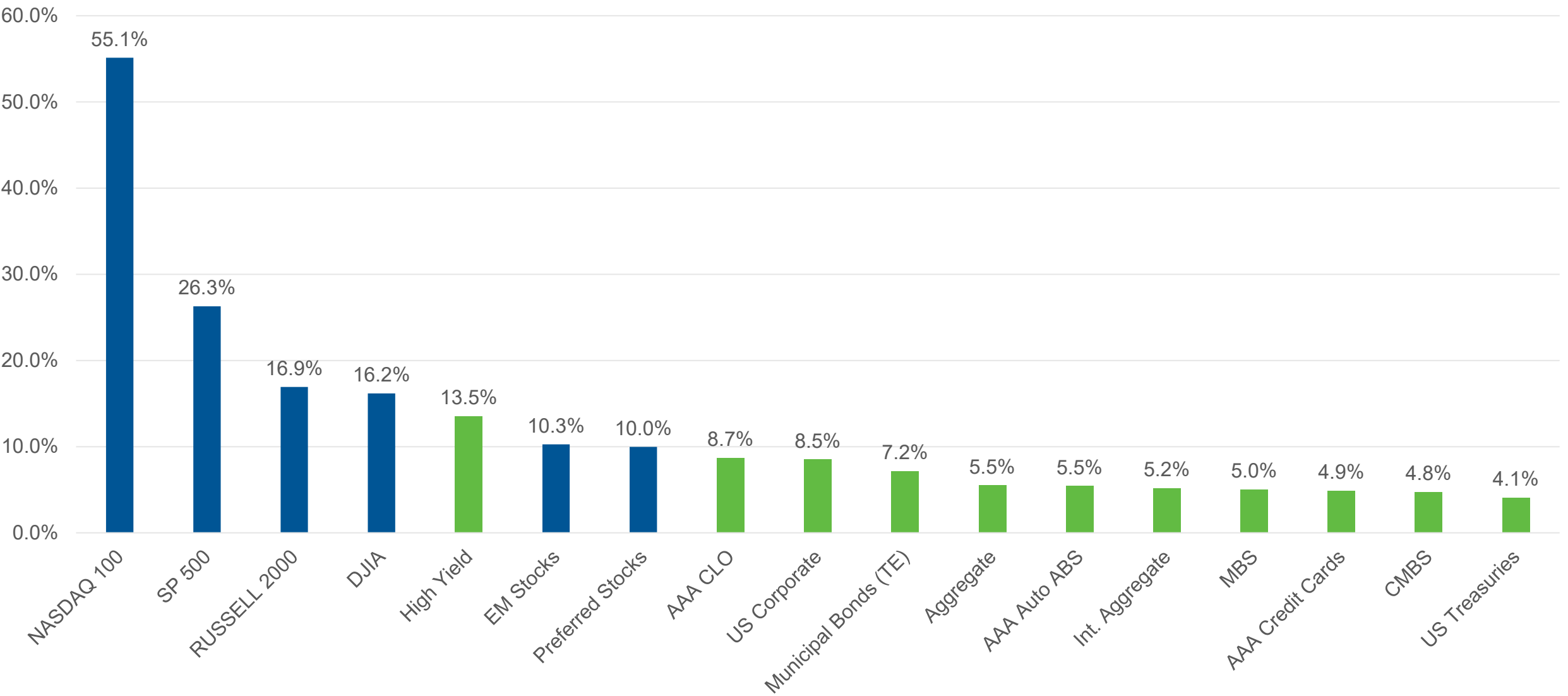


Source: Federal Reserve of St. Louis, NEAM Analytics

The background features two large, flowing, wavy shapes. A dark blue shape starts from the left edge and tapers towards the center. A green shape starts from the center and flows towards the right edge. They meet at a point just above the text.

Capital Market Implications & Strategy Recommendations

Capital Market Returns 2023



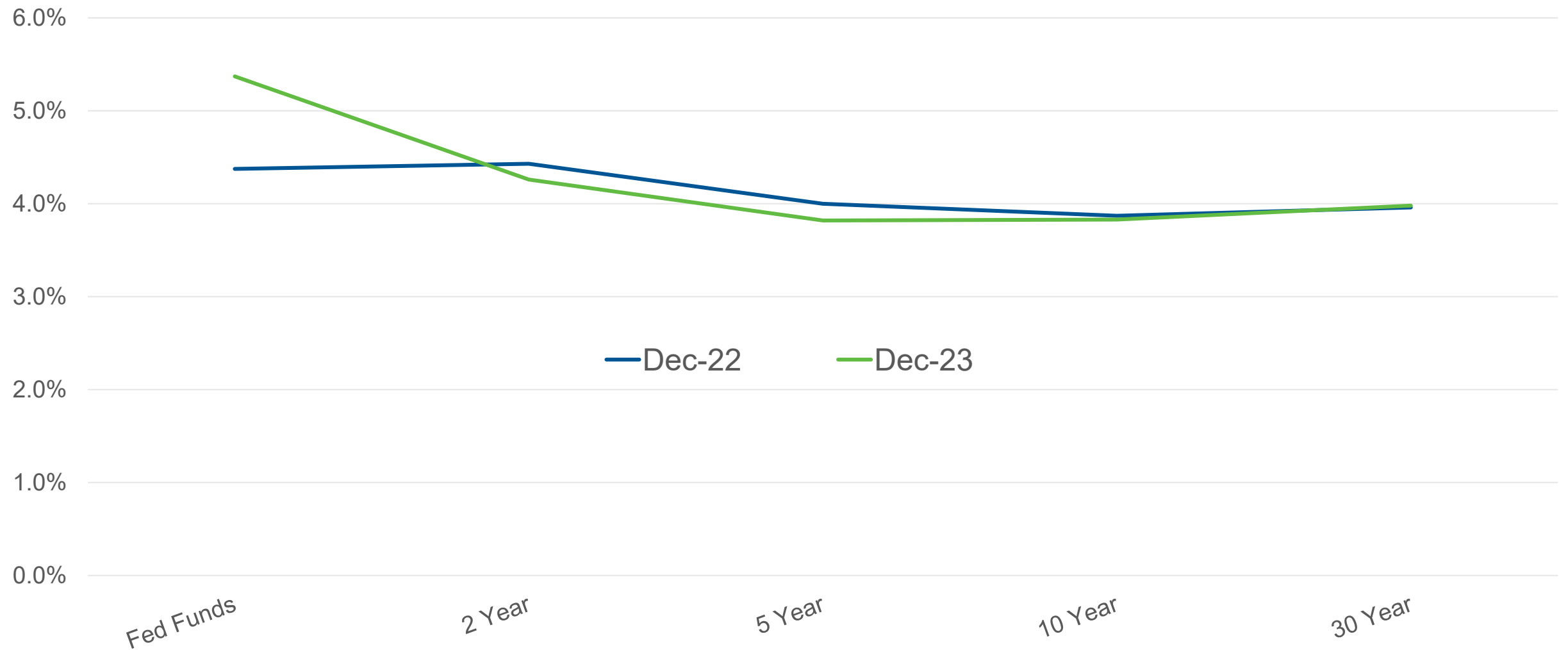
2023 Was a Wild Ride for Treasury Yields



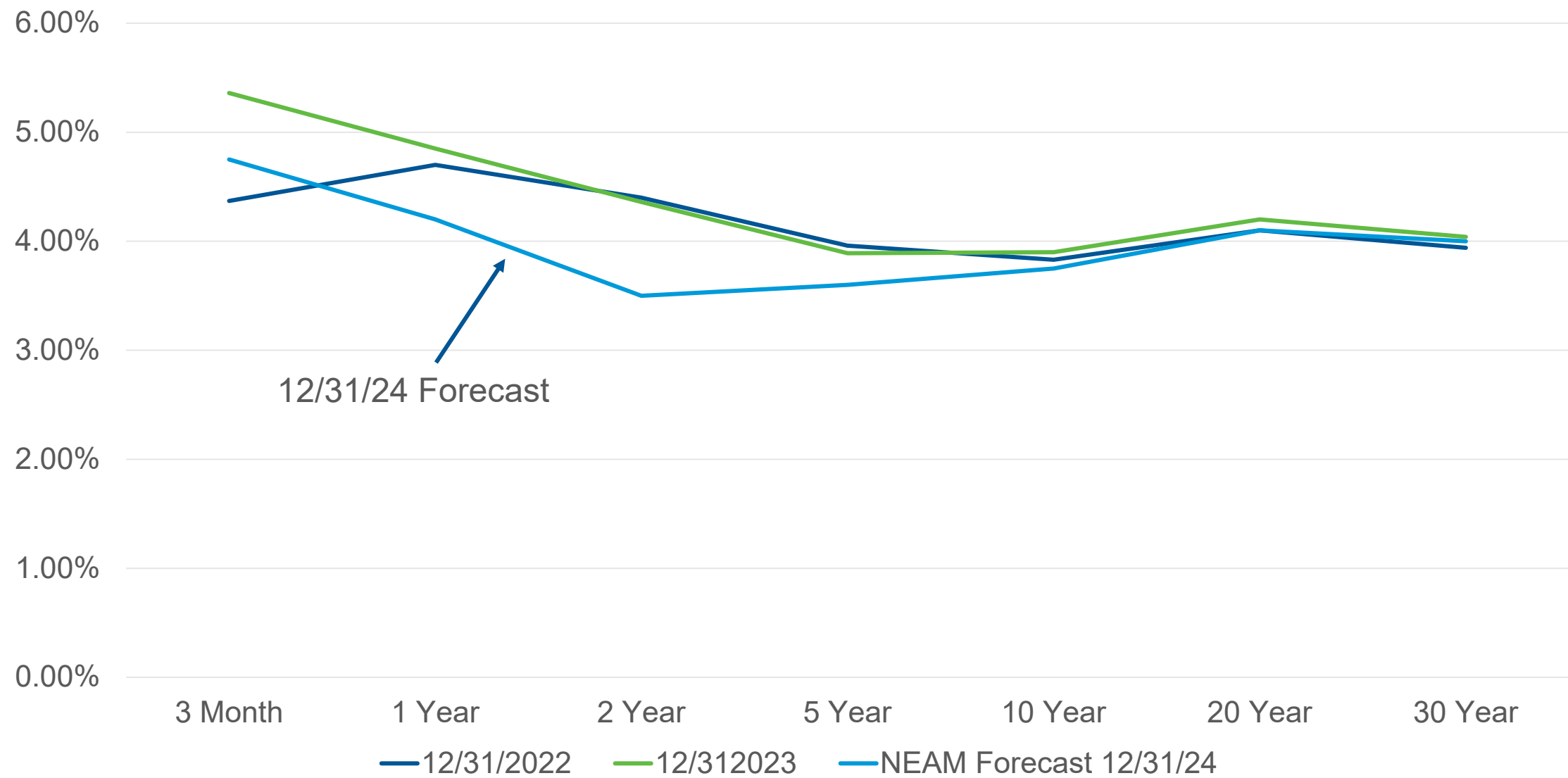
10 Year US Treasury Yield



A Lot of Motion but Little Progress

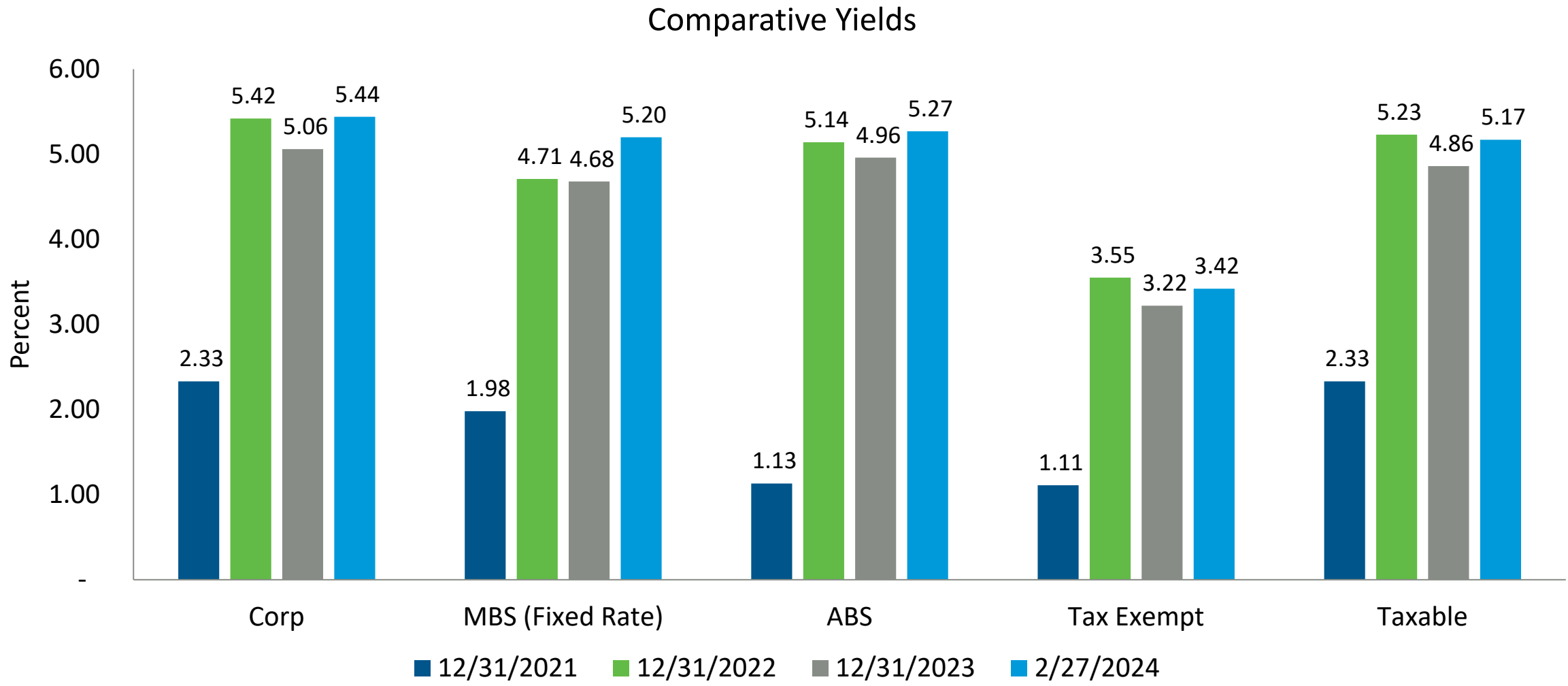


NEAM Interest Rate Forecast

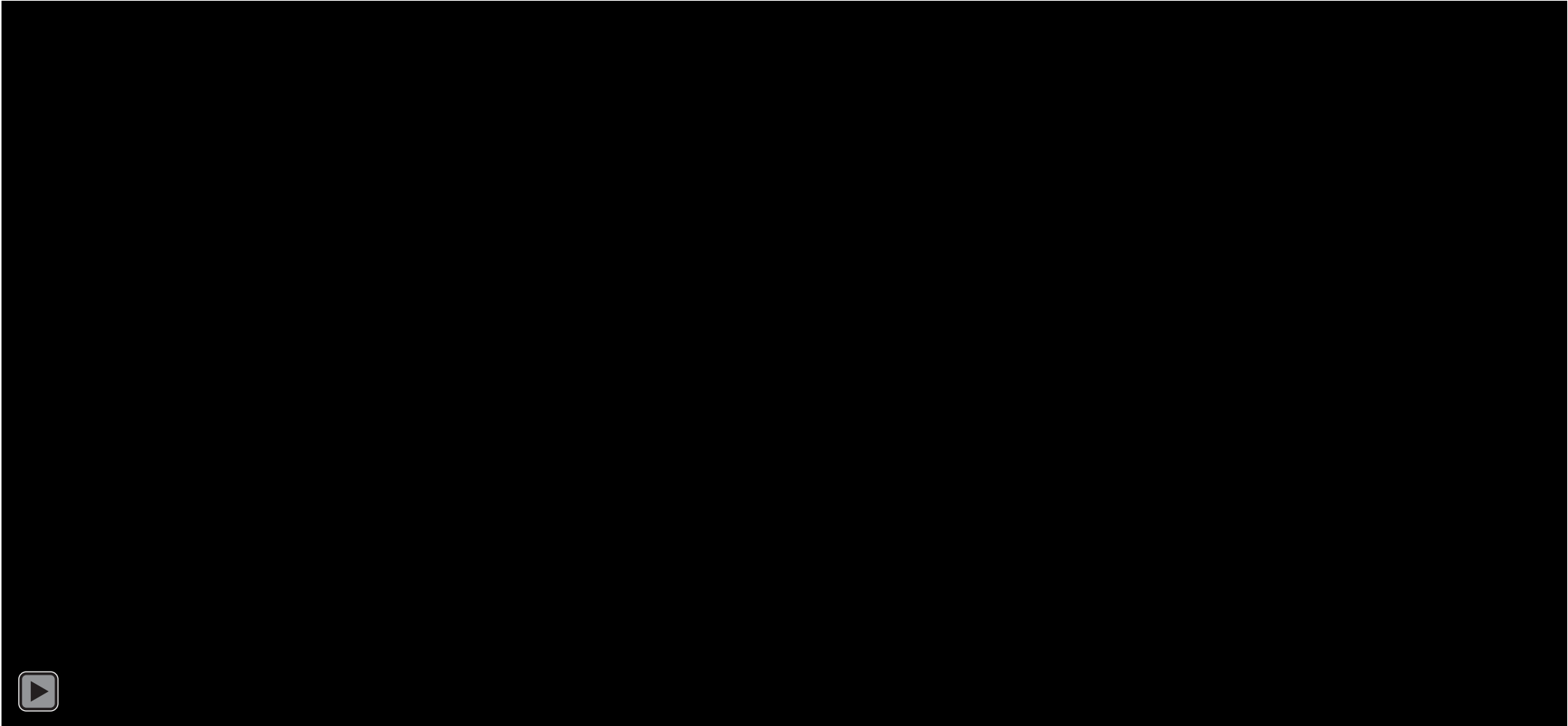


Real Interest Rates

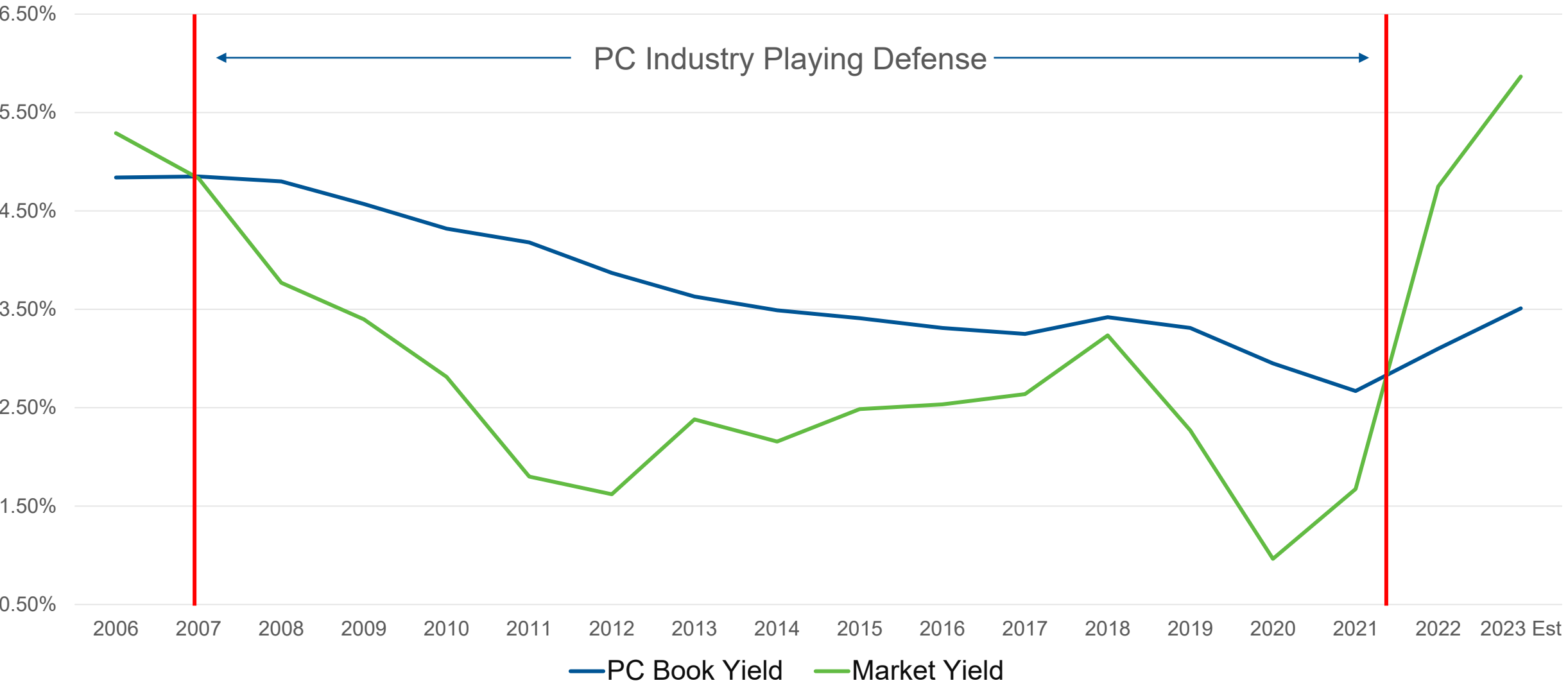




Source: Bloomberg Barclays

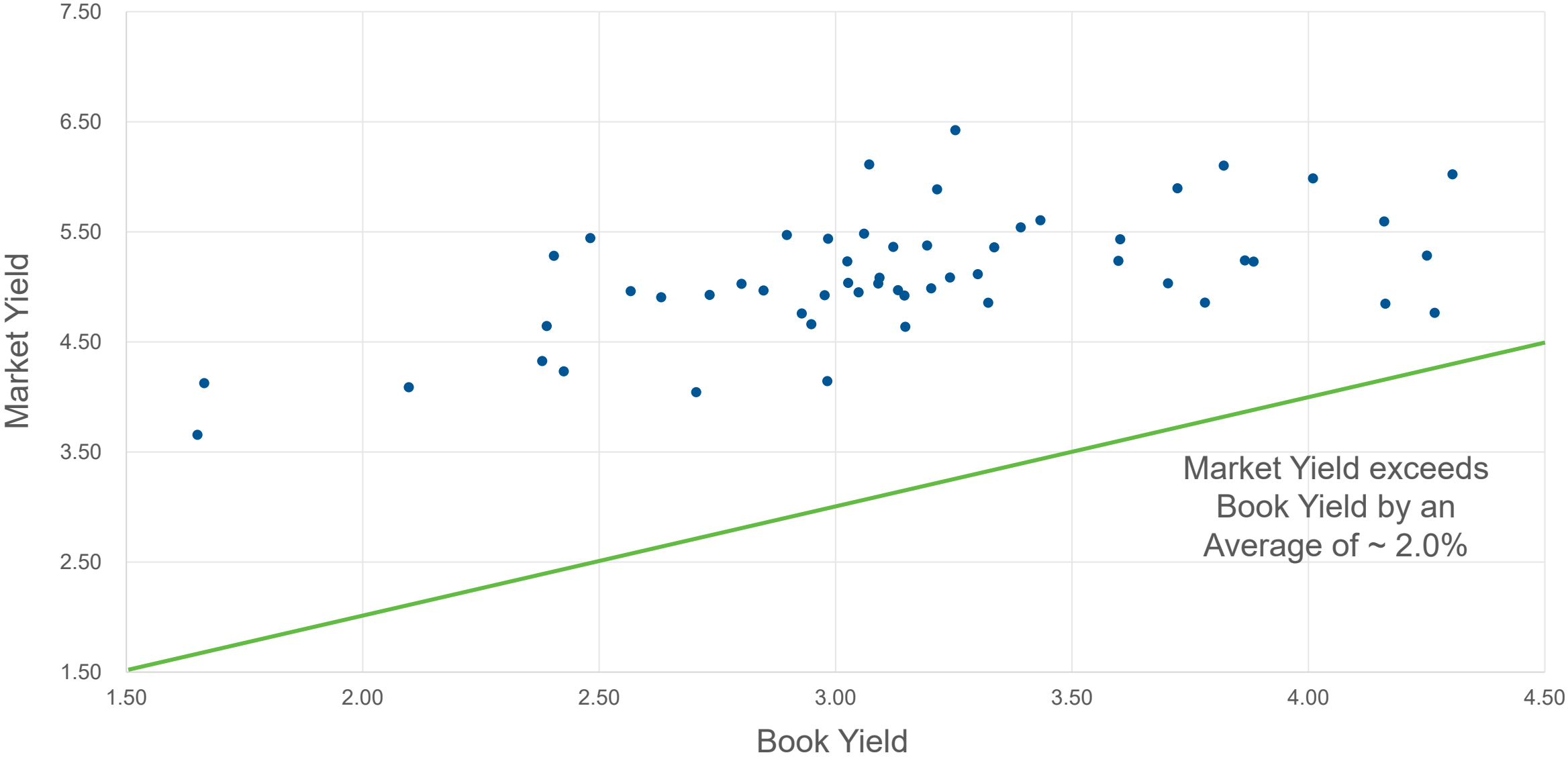


Fast Break: Defense to Offense



Source: Bloomberg Barclays, SNL, NEAM Analytics

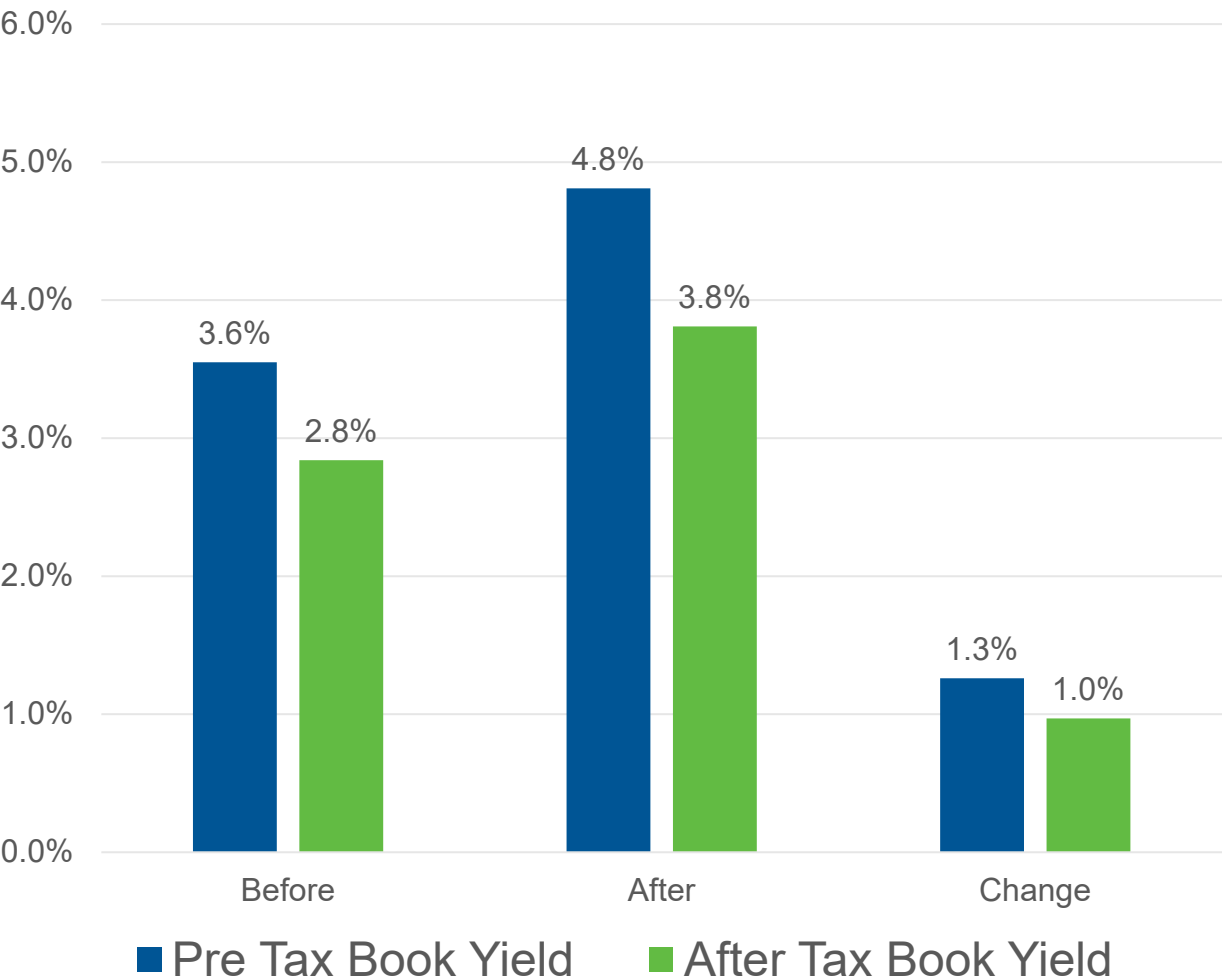
Market Yield and Book Yield – Claims Seminar Attendees



Payback Period Framework for Income Enhancement

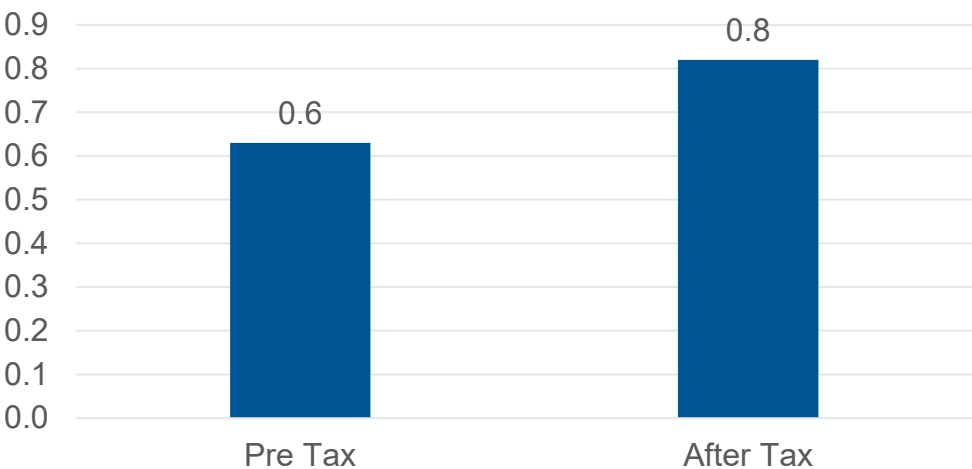


Yield Comparison



	Before	After	Change
Market Value (\$bb)	\$37.3	\$37.3	\$0.0
Book Value (\$bb)	\$39.3	\$39.0	-\$0.3
Unrealized G/L (\$bb)	-\$2.0	-\$1.7	\$0.3
Pre-Tax Book Yield	3.6%	4.8%	1.3%
After-Tax Book Yield	2.8%	3.8%	1.0%
Pre-Tax Income (\$bb)	\$1.4	\$1.9	\$0.5
After-Tax Income (\$bb)	\$1.1	\$1.5	\$0.4

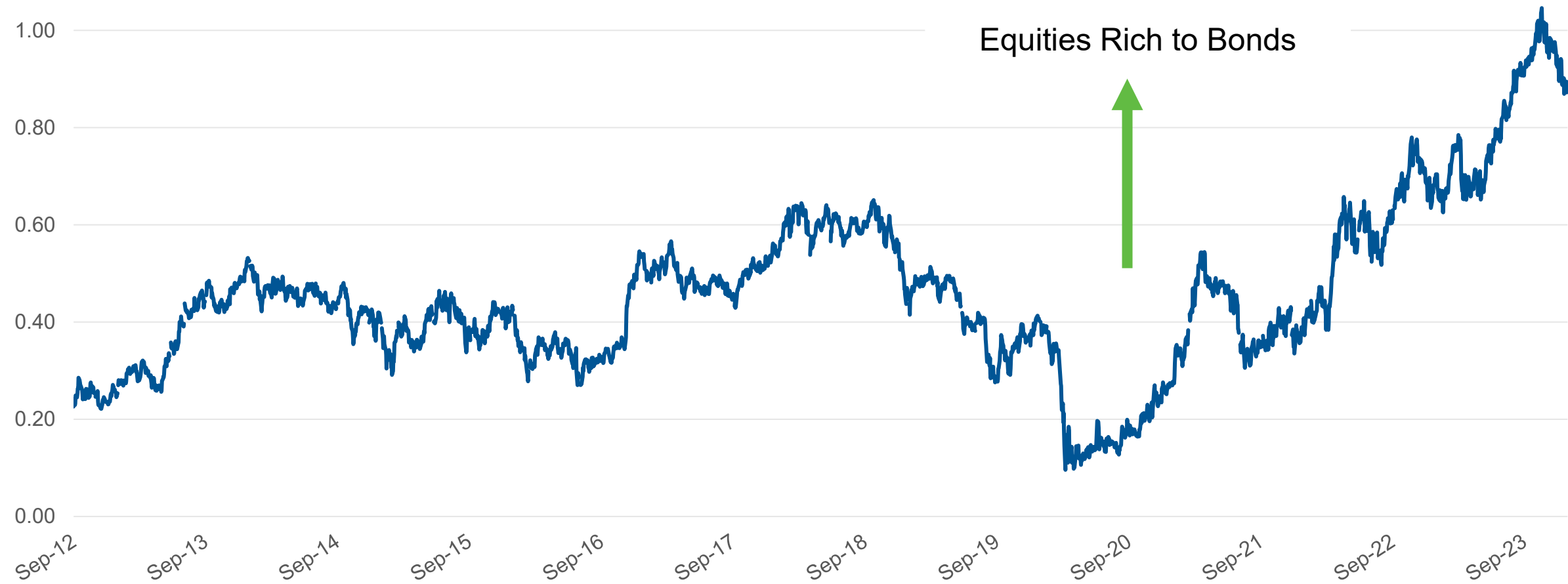
Payback Period



Relative Value: Stocks and Bonds



S&P 500 PE / Bond PE



Source: Bloomberg, NEAM Analytics. Series is S&P500 PE Ratio divided by 1/Yield of 10 Year UST

- Take advantage of the opportunities in investment grade fixed income – Go on Offense!
- Revisit your asset allocation - You may not need to take as much risk to earn targeted returns.
- Emphasize the “durability” of the book yields being added to your fixed income portfolio – no time to be short duration targets.
- Be prepared for additional volatility as there are plenty of potential catalysts – The Waiting is the Hardest Part!