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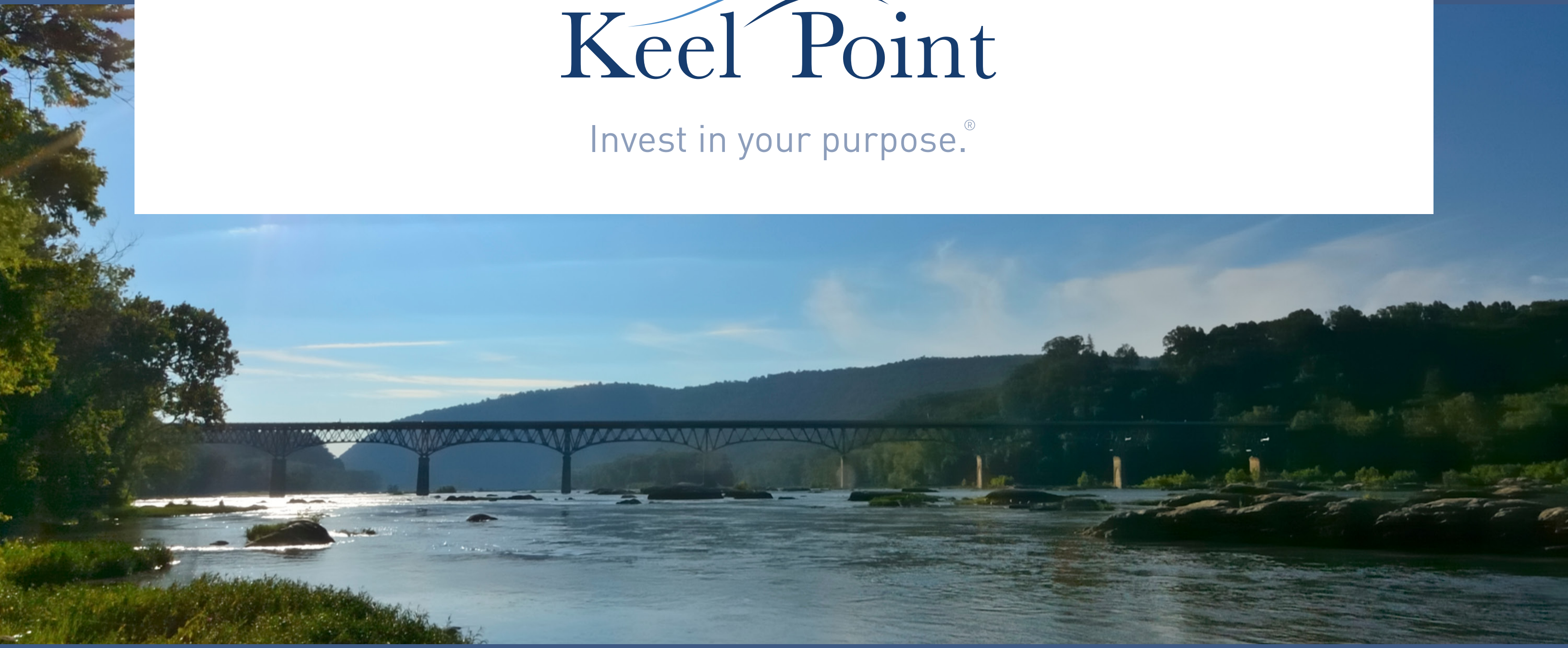

Economic & Financial Markets

2024 Mid-Year Outlook

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Highlights:

- The U.S. economy has been resilient in the face of persistently high inflation.
- U.S. stock prices have been technology driven with signs of market performance broadening.
- Interest rates will come down slowly with confidence that inflation is contained.
- Corporate earnings growth is projected to be strong globally.
- U.S. elections are a significant geopolitical risk.

Economic & Financial Market Outlook for 2024

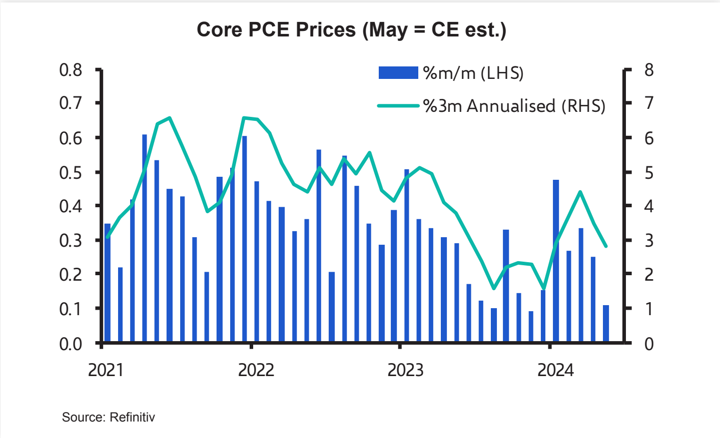
July 2024

The economic and financial market outlook for 2024 is characterized by a complex interplay of risks and opportunities. While global growth is expected to moderate, the resilience of consumer spending and the ongoing adaptation to post-pandemic realities provide a foundation for cautious optimism. Investors will need to navigate a landscape marked by persistent inflation, geopolitical uncertainties, and evolving market dynamics. Diversification, risk management, and a focus on quality assets will be crucial strategies over the next six months.

Economic and Market Surprises Over the Last Six Months

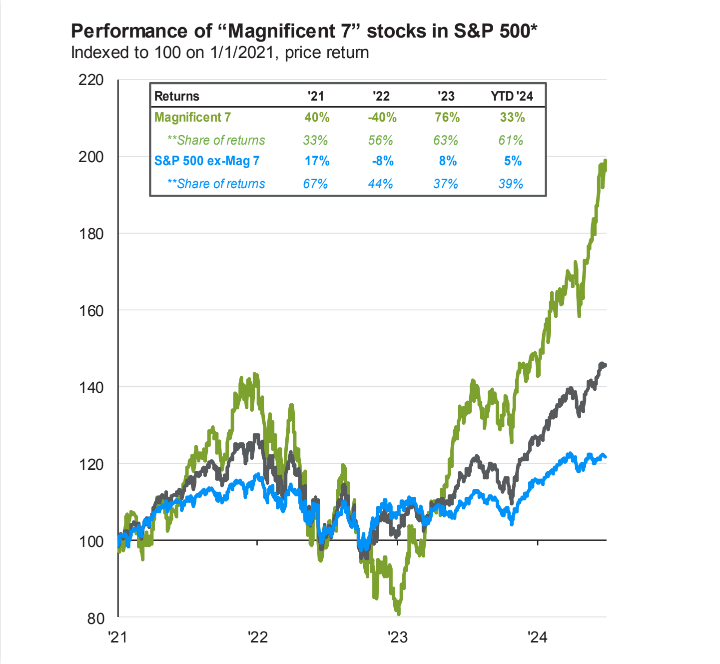
The past six months have been characterized by a series of unexpected events that have impacted the global economic and financial landscape. These surprises have ranged from geopolitical tensions and policy shifts to sudden market movements and unprecedented natural disasters. Most notably:

- Inflation remained persistently high, especially in the housing and other service sectors driven by supply chain disruptions, labor shortages, and rising commodity prices. Despite expectations that inflation would continue to ease at the same pace as in the second half of 2023, the core Personal Consumption Expenditures ("PCE") readings surprised on the upside in the first three months of 2024 and only recently returned to easing in April and May.



- Central banks around the world have been navigating a challenging environment of high inflation and slowing economic growth. The Federal Reserve has maintained its hawkish stance in the face of disinflation stalling in the first three months of 2024. The European Central Bank and Bank of Canada began cutting interest rates in June, with others to follow.

- U.S. Stock prices have been driven higher principally by the technology sectors. Sixty-one percent of first-half 2024 S&P 500 gains are attributable to the Magnificent Seven (Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla and Meta) who reported 50% earnings growth in the first quarter of 2024 compared to no first quarter earnings growth for the other S&P 500 companies.

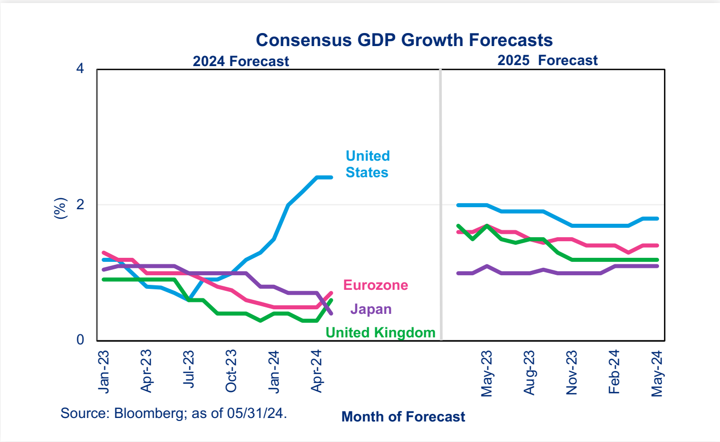


Source: FactSet, S&P, JPMorgan Asset Management – Guide to the Markets – U.S. Data are as of June 30, 2024

Economic Outlook for 2024

Global economic growth is expected to moderate in 2024 as the world continues to grapple with the after-effects of the COVID-19 pandemic, geopolitical tensions, and persistent inflationary pressures. The International Monetary Fund (IMF) projects global GDP growth to slow to around 3.0%, down from an estimated 3.5% in 2023.

- The U.S. economy is projected to grow at a more modest pace of 2.0+% in 2024 than it did in 2023. Consumer spending is growing more slowly, and consumer sentiment has declined amid increasing signs of weakening consumer balance sheets, the pressures of high-interest rates, and higher prices. As a result, second quarter GDP growth forecasts also are being revised down.
- Growth in the Eurozone is expected to be subdued at 1.5%, as the region continues to face energy supply challenges and inflation. The European Central Bank's decision to make its first interest rate cut reflects growing concern about the impact monetary tightening, aimed at curbing inflation, has had in dampening economic activity.

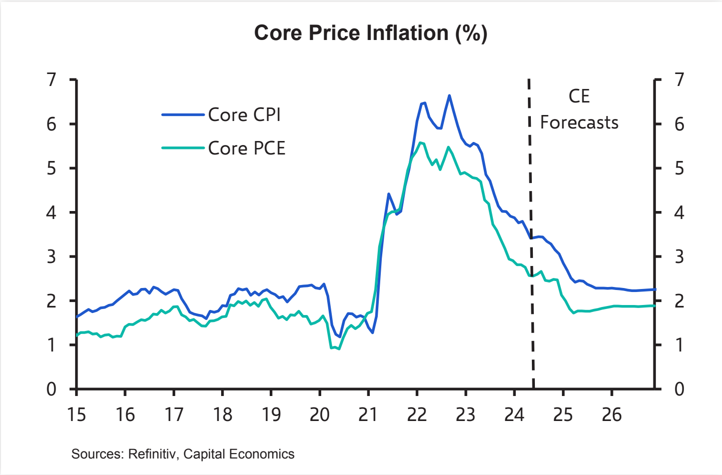


Source: Bloomberg; as of 05/31/24.

- China is struggling to stabilize growth at around 4.5% as the country tries to recover from anti-business government policies, pandemic-related disruptions, high debt levels and demographic challenges.
- Emerging markets are expected to grow at an average rate of 4.0%, driven by resilient domestic demand and improving export conditions. However, they remain vulnerable to external shocks, including fluctuating commodity prices and capital flow volatility.

Inflation is likely to remain a significant concern in 2024 and 2025, albeit at lower levels than in 2023. Central banks are expected to maintain a cautious stance, balancing the need to curb inflation with the risks of stifling economic growth.

- The Federal Reserve is expected to keep interest rates elevated and restrictive, if labor markets remain stable and inflation does not decelerate as anticipated. The Fed's preferred inflation metric – core PCE is projected to hover around 2.5% - 3%. If so, the Fed is projecting one rate cut of ¼% this year. Capital Economics ("CE") is forecasting a more rapid decline in both inflation and Fed interest rates.



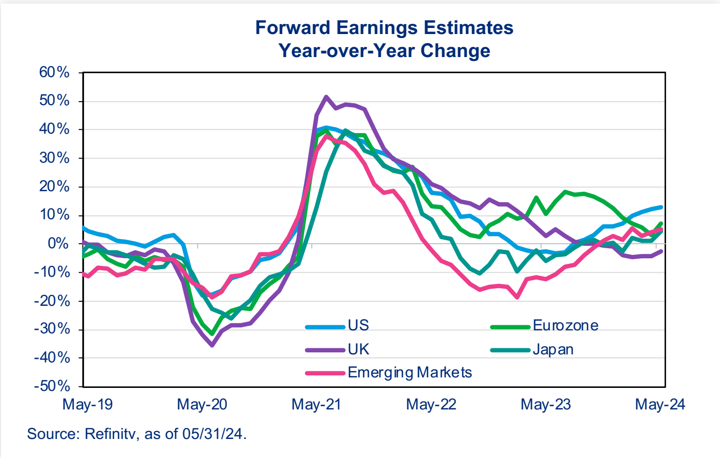
Sources: Refinitiv, Capital Economics

- The global labor market is expected to remain tight, with low unemployment rates but significant mismatches between available jobs and skills. The shift towards remote and hybrid work models will continue to reshape labor dynamics, with an increasing emphasis on digital skills and flexible working arrangements.
- In the U.S., the unemployment rate only recently rose to 4% after record-low unemployment the last two years. It is expected to remain below 4.2% through the rest of this year. Meanwhile, the technology investment driven resurgence in productivity growth is mitigating the impact of rising wages.

Financial Market Outlook for 2024

U.S. equity markets are expected to provide moderate gains through the balance of 2024, driven by a growing economy, stable corporate earnings and expectations that inflation again is easing more quickly than the Fed is expecting.

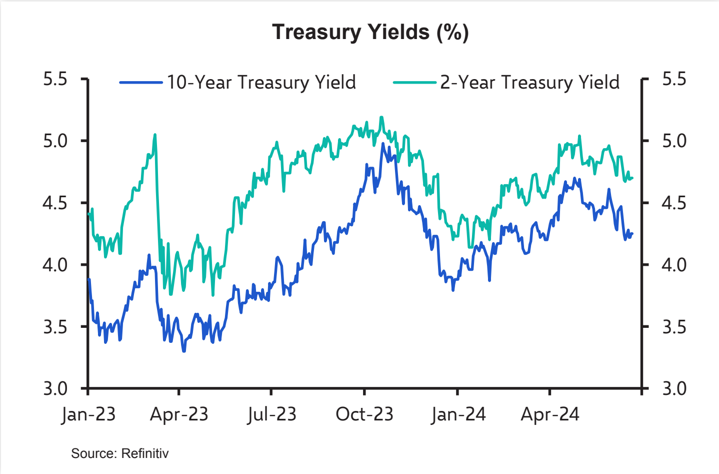
- The outlook for earnings per share ("EPS") growth remains strong. In the U.S., BofA Global Research forecasts 2024 EPS growth at 10.3% and 2025 at 14.3%. Including Europe and Asia Pacific, the estimates for the world total EPS growth are +9.6% in 2024 and +13% in 2025.



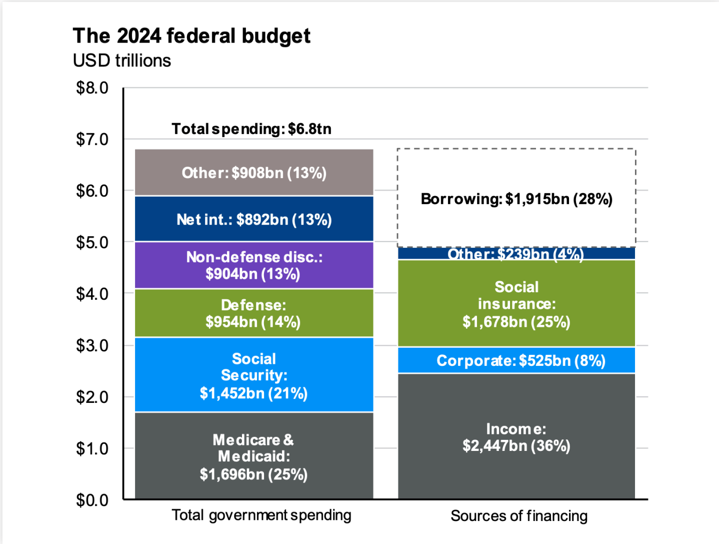
- On a foundation of strong earnings, the outlook for global equities performance remains positive and is enhanced by higher share buybacks, rising global investments in AI, an expected increase in cash flowing into risk assets, and likely Fed interest rate cuts later in 2024 / 2025.
- For the S&P 500, there are signs that earnings growth is broadening out beyond the Magnificent 7 and tech generally. The "other 493" S&P 500 companies are forecast to have 9% earnings per share growth for 2024 overall. The hope for a Federal Reserve rate cut also provides a tailwind for stock prices.
- The principal risks to equity markets are from market valuations already being priced to perfection and from interest rates remaining higher for longer.

The outlook for fixed income markets is generally positive through the end of this year. Ten-year U.S. Treasury yields are expected to remain in the 4% to 4.5% range. Corporate bonds will offer attractive spreads, but credit quality will be a key consideration.

- The principal risks fixed income investments will come from macroeconomic uncertainty around inflation, increasing U.S. Treasury borrowing requirements and the outcome of November national elections.



- The Congressional Budget Office mid-June update to projections shows the Federal deficit reaching near $2 trillion for the fiscal year ending this September, after a similar sized deficit in the prior fiscal year – both during times of strong economic growth and record low unemployment.
- With the U.S. national debt approaching $35 trillion today versus $6 trillion only twenty-four years ago, the portion of the Federal budget consumed by borrowing costs is becoming a dominant portion of government spending.



Source: CBO, J.P. Morgan Asset Management Guide to the Markets June 30, 2024

Commodity markets are expected to remain relatively stable, reflecting U.S. GDP growth averaging 2% to 2.5% for 2024 and the U.S. being the dominant producer of oil and natural gas.

- Oil prices are projected to average $80 per barrel, with potential intermittent spikes due to geopolitical tensions.
- Industrial metals such as copper and aluminum are expected to see strong demand, driven by infrastructure investments and the transition to green energy.
- Precious metals like gold likely will attract safe-haven flows, as uncertainties around the U.S. elections and U.S. borrowing requirements emerge.

U.S. Elections are a Significant Geopolitical Risk

The November elections will provide a rematch of two candidates that have held the office of President of the United States, although there are now questions related to the viability of the Biden campaign post the first debate. Historically, who occupies the White House doesn't have a big impact in U.S. stock markets, and the two current candidates have presided over above-average market performance.

- From Donald Trump's election in 2016 to Joe Biden's election in 2020, U.S. large cap equities were up 15.6% on an average annual rate, and from Joe Biden's 2020 election until today the same market basket has generated a 12.4% annualized return.
- While still too close to call and depending on whether either of the presidential candidates gets a "clean sweep" with a working majority in both houses of Congress, the policies each is espousing will make a difference for the economy, consumers, businesses and, through the economy for investors.

Higher tariffs on imported goods announced by President Biden in May, and even higher, broader tariffs proposed by former President Trump will be inflationary. Both show no interest in reducing fiscal deficits which contribute to inflation and higher interest rates.

- Donald Trump is calling for massive tariff increases, tighter immigration and possibly mass deportation, none of which require legislative action. Any of these measures could re-ignite inflation. His proposed 10% universal tariff and 60-100% tariffs on all imports from China could boost consumer prices by as much as 2.5%.
- Joe Biden has continued the Trump Administration's tariffs on China and added to them. The net impact of his actions to reduce illegal crossings of the U.S. southern borders, is not yet clear, but the net increase to the U.S. labor force from the 9 million who entered illegally during his first three years in office contributed to reducing inflation.

With Congressional approval, both candidates' tax and spending proposals will increase federal deficits, inflation, and interest rates.

President Biden is calling for increasing taxes on companies and higher income families to increase spending on social programs, with the risk of slowing business investment in labor enhancing technologies, including generative artificial intelligence.

Former President Trump's plans, with legislative action, to extend the 2017 tax cuts also include additional cuts for some economic sectors. Unless offset by spending cuts or increased tax revenue from economic growth, these measures would increase the Federal deficit further, which also would add to inflation pressures and higher interest rates.

Keel Point will continue to analyze and report on the impact of election issues and will be holding a webinar in September to discuss it further.

Conclusion

Our economic and market outlook is positive for the balance of 2024 and beyond. There are, however, two caveats: a somewhat normal U.S. election process in November with divided government to continue, and a more-or-less status quo on international geopolitical matters. As we have written above, the opportunities for economic and market surprises – both positive and negative – remain elevated. With earnings growth increasingly priced into an equity market with price / earnings ratios above historical norms, the impact of a negative surprise could be significant. Therefore, a balanced, diversified investment program remains key to continuing investment satisfaction.

Additional market performance information is attached.