

Weekly Economic Recap –

Economic Growth Slows While Inflation Remains Elevated

Durable goods orders increased slightly more than expected in March (2.6% vs. 2.0% est.) led by aircraft and parts (commercial and defense). At the core level (excluding aircraft) orders rose 0.2% after a downward revision to February's data. The orders were led by computers and machinery.

U.S. economic growth increased at a slower pace than expected in 1Q24 (1.6% vs. 2.5% est.). Personal consumption and gross private investment led the strength in the data. However, it is important to note that personal consumption was weaker than expected. The weakness in the GDP report also came from net exports and inventories which both detracted from growth in the quarter.

Pending sales of existing homes rose more than expected in March and at the fastest monthly pace in three months. The strength was led by sales in the south and the west while midwest sales declined.

The Fed's preferred inflation gauge, PCE Core, increased slightly more than expected on a year over year basis (2.7% vs. 2.6% est.) and in line with expectations on a month over month basis (0.3%). Services inflation remains sticky led by transportation services, (e.g., motor vehicle maintenance) which increased at the fastest monthly pace since September 2022.

Consumers continued to spend in March according to the monthly personal spending data. Personal spending rose 0.8% led by spending on services. Since personal income rose less than spending, the personal savings rate fell to 3.2%, the lowest since October 2022 and well below the historical average over the past 30 years (5.8%).

Key Takeaways:

- US economy increases at a slower-than-expected pace.
- Fed's preferred inflation gauge shows sticky inflation.
- Personal savings rate falls to lowest level since Oct. 2022.
- U.S. equities surge as earnings season continues.
- Yields continue higher as rate cut expectations get slashed.
- Gold prices fall by most since November.

Weekly Market Recap –

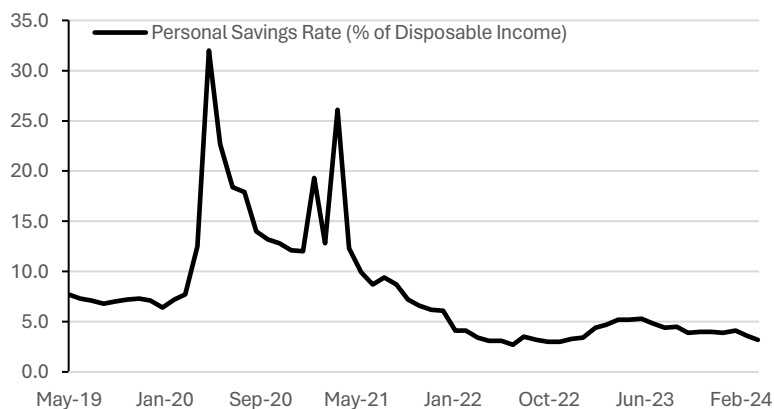
Mega-Cap Tech Earnings Lead U.S. Equities Higher

Equities: The MSCI AC World Index posted its best return since December despite U.S. inflation remaining sticky and economic growth increasing less than expected. Instead, investors welcomed the results of 1Q24 earnings from some of the "magnificent seven" companies. The U.S. led the developed market returns as tech and growth surged. The S&P 500 and Nasdaq both posted their best weekly gain since November.

Fixed Income: The Bloomberg Barclays Aggregate Index was lower for the fourth straight week as Treasury yields moved higher on inflation data and Fed rate cut expectations moved further out in 2024. Credit benefitted from the risk on sentiment as high yield was the best performing fixed income sector. Leverage loans, floating rate bonds and investment grade credit also rallied.

Commodities/FX: The Bloomberg Commodity Index was relatively flat last week. Crude oil prices moved higher on fresh tensions in the Middle East causing global supply concerns. Gold prices fell by the most since November as Fed rate cuts were pushed out and yields remained higher.

Consumer Savings Fall to Lowest since October 2022



Footnotes: Data is as of March 2024.
Source: FactSet Research, Verdence Capital Advisors.

Key Takeaways:

- U.S. economic growth slows as consumers starting to show fatigue.
- Consumer savings have evaporated.
- Inflation remains burdensome to the Fed.
- Investors parse through 1Q24 “magnificent seven” earnings data.
- Consumer and inflation are biggest threat to economy and markets.

A Deeper Dive into Last Week’s Data

Last week, investors absorbed a plethora of key economic data, including 1Q24 GDP and PCE inflation. Both reports signaled to us the Fed will have little, if any, room for policy error on their fight to tame inflation without tipping the economy into a recession. The data caused investors to push out Fed rate cut expectations to September, and now only anticipate one rate cut in total this year, according to the Fed fund futures contracts. Investors also continued to grapple with 1Q24 earnings results. Four of the “magnificent seven” components reported key results, including Meta, Alphabet, Tesla, and Microsoft. This week, we provide a deeper dive into last week’s data.

• **Economic growth shows warning signs:** U.S. economic growth increased at a slower-than-expected pace in 1Q24. While the data showed consumers (which make up the majority of GDP) continued to spend, the pace at which they spent was the slowest since 2Q23. The outlook for the consumer also looks weak with the savings rate at the lowest level since October 2022 and credit card debt at a record high.

• **Inflation progress seems stuck:** The Fed’s preferred inflation gauge remains stuck at current levels (2.8% year over year) and above the Fed’s preferred target (2.0%). In addition, the core price index in the 1Q24 GDP report jumped much more compared to 4Q23 (3.7% vs. 2.0%). What we observed from last week’s inflation data is that service inflation is sticky and hard for the Fed to control. Housing costs continue to be a burden to consumers. Additionally, costs for financial and insurance services continue to rise.

• **“Magnificent seven” companies’ earnings results:** Investors digested the latest quarterly earnings results from Meta, Alphabet, Tesla, and Microsoft. Microsoft and Alphabet both announced better-than-expected results, while Meta and Tesla missed expectations. Shares of Meta Platforms were under the most pressure after the miss as CEO Mark Zuckerberg announced the company’s Reality Labs unit posted a \$3.85 billion loss during the quarter, but also announced investments in AI are increasing.

The Bottom Line:

The Fed meets this week to set interest rate policy (Wednesday). At this time there is little to no chance of a change in policy which is widely different than the beginning of the year when the futures market was pricing in a second round of rate cuts by this meeting. The biggest threat we see to the economy and the market is the consumer that is growing fatigued and inflation not coming down at the pace the Fed is expecting. Consumers have been resilient but their strength is unlikely to be sustainable as credit card debt is at a record high, savings are depleted and confidence is weakening. Inflation is proving to be a bigger nuisance for the Fed. Service inflation is the hardest to control and prices have shown no signs of abating. Some of the areas that are keeping service inflation high are beyond the Fed’s control (e.g., housing prices, insurance costs). While markets may enjoy the earnings results from the big tech companies, when earnings season is over, investors will be left justifying high market multiples in the face of interest rates that are likely to remain higher for longer.

Disclaimer:

© 2024 Authored by Megan Horneman, Chief Investment Officer, Verdenca Capital Advisors, LLC. Reproduction without permission is not permitted. The indexes presented are unmanaged portfolios of specified securities and do not reflect any initial or ongoing expenses nor can it be invested in directly. An investment's portfolio may differ significantly from the securities in the index.

This material was prepared by Verdenca Capital Advisors, LLC ("VCA" or "we", "our", "us"). VCA believes the information and data in this document were obtained from sources considered reliable and correct and cannot guarantee either their accuracy or completeness. VCA has not independently verified third-party sourced information and data. Any projections, outlooks or assumptions should not be construed to be indicative of the actual events which will occur. These projections, market outlooks or estimates are subject to change without notice. This material is being provided for informational purposes only and is not intended to provide, and should not be relied upon for, investment, accounting, legal, or tax advice. Past performance is not a guarantee of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product or any non-investment related content, made reference to directly or indirectly in these materials will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. You should not assume that any discussion or information contained in this report serves as the receipt of, or as a substitute for, personalized investment advice from VCA. Alternative investments are designed only for sophisticated investors who are able to bear the risk of the loss of their entire investment. Investing in alternative investments should be viewed as illiquid and generally not readily marketable or transferable. Investors should be prepared to bear the financial risks of investing in an alternative investment for an indefinite period of time. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. All indexes are unmanaged, and you cannot invest directly in an index. Index returns do not include fees or expenses. Sector Watch Use of this website is intended for U.S. residents only. Any recommendation, opinion or advice regarding securities or markets contained in such material does not reflect the views of Verdenca Capital, and Verdenca Capital does not verify any information included in such material. Verdenca Capital assumes no responsibility for any fact, recommendation, opinion, or advice contained in any such research material and expressly disclaims any responsibility for any decisions or for the suitability of any security or transaction based on it. Any decisions you may make to buy, sell, or hold a security based on this research will be entirely your own and not in any way deemed to be endorsed or influenced by or attributed to Verdenca Capital. It is understood that, without exception, any order based on such research that is placed for execution is and will be treated as an UNRECOMMENDED AND UNSOLICITED ORDER. Further, Verdenca Capital assumes no responsibility for the accuracy, completeness, or timeliness of any such research or for updating such research, which is subject to change without notice at any time. Verdenca Capital does not provide tax, or legal advice. Under no circumstance is the information contained within this research to be used or considered as an offer to sell or a solicitation of an offer to buy any particular investment/security. Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed income investments are subject to various other risks including changes in credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. Lower rated securities are subject to greater credit risk, default risk, and liquidity risk. Commodity-related products, including futures, carry a high level of risk and are not suitable for all investors. Commodity-related products may be extremely volatile, illiquid and can be significantly affected by underlying commodity prices, world events, import controls, worldwide competition, government regulations, and economic conditions, regardless of the length of time shares are held. Data is provided for information purposes only and is not intended for trading purposes. Verdenca Capital shall not be liable for any errors or delay in the content, or for any action taken in reliance on any content. Weekly Insights/Quarterly & Annual Outlook The indexes presented are unmanaged portfolios of specified securities and do not reflect any initial or ongoing expenses nor can it be invested in directly. An investment's portfolio may differ significantly from the securities in the index. Semi-Annual Chart Pack Where shown, performance information presented is that which has been calculated and presented by an unaffiliated third-party manager. We have no insight into the performance of the advisor/product/account or fund shown and do not attempt to determine whether the performance presented is accurate. Therefore, the performance could be incorrect, overstated or not reflective of actual trading of client funds. There is the potential that the performance shown is a back test and not the result of real investment advice and trading. As such, it could not be relied upon as indicative of future returns of a particular strategy. Where performance shown is that of a pooled account, limited partnership, or private equity fund, you should be aware that there is a significant lack of transparency into the operations and investment process and investment vehicles invested in. As a result, pricing and valuation of the underlying holdings which produced the stated performance could be incorrect, stale, or overstated and therefore the performance figures presented cannot be relied upon. Before investing, we encourage you to request additional information, particularly performance information, of any product that you are considering for your client. You should read, as applicable, the Prospectus, SAI, Composite Disclosure and/or performance disclosure associated with any product that you are considering for investment for your or your client's. Products shown may have minimum account sizes or minimum investments which may preclude retail and non-high net worth investors from being able to invest in these products. You should be aware that certain LPs may be closed to new investors and therefore your clients may be prevented from investing in these products. Portfolio Implementation and Rationales The SMA Asset Allocation Models do not represent a personalized recommendation of a particular investment strategy to you or your clients. You should not buy or sell an investment without first considering whether it is appropriate for your client's portfolio. Additionally, you should review and consider any recent market news. All expressions of opinion are subject to change without notice in reaction to shifting market conditions. Data contained herein from third-party providers is obtained from what are considered reliable sources. However, its accuracy, completeness or reliability cannot be guaranteed. Supporting documentation for any claims or statistical information is available upon request. Examples provided are for illustrative purposes only and not intended to be reflective of results you can expect to achieve. Diversification and asset allocation do not ensure a profit and do not protect against losses in declining markets. Any forecasts contained herein are for illustrative purposes only, may be based upon proprietary research and are developed through analysis of historical public data. Investments in growth stocks may experience price volatility due to their sensitivity to market fluctuations and dependence on future earnings expectations. Sector allocation references to market capitalization ("smid cap" or "micro caps" etc.) may be subject to special risks given their characteristic narrow markets, limited financial resources, and less liquid stocks, all of which may cause price volatility. International/global investing can involve special risks, such as political changes and currency fluctuations. These risks are heightened in emerging markets. A significant percentage of the underlying investments in aggressive asset allocation portfolio investments have a higher-than-average risk exposure. You should consider your risk tolerance of each of your clients carefully before choosing such a strategy. An investment with multiple underlying investments (which may include asset-allocation or custom blended investments) may be subject to the expenses of those underlying investments in addition to those of the investment itself. Investments may reside in the specialty category due to 1) allowable investment flexibility that precludes classification in standard asset categories and/or 2) investment concentration in a limited group of securities or industry sectors. Investments in this category may be more volatile than less flexible and/or less concentrated investments and may be appropriate as only a minor component in an investor's overall portfolio. Investment Managers You and your clients should carefully consider investment objectives, risks, charges, and expenses of Funds discussed. This and other important information are contained in the respective Fund prospectuses and summary prospectuses, which should be read carefully before investing. Investment portfolio statistics change over time. Current performance may be lower or higher than return data quoted herein. The investment return and the principal value of an investment will fluctuate; so, an investor's shares/units, when redeemed, may be worth more or less than their original cost. Verdenca relies heavily on unaudited third-party data. Data sources include public data, such as mutual fund data, and non-public data, such as information provided by other investment advisors and managers of limited partnership pooled accounts. Data and/or statistics included in this Portal, including references to performance, opinions, ratings, rankings, manager statistics and demographic information, product, or strategy descriptions, either quantitative or qualitative, are based upon information reasonably available to us as of the applicable date(s) then-published. Information has been obtained from sources that we believe to be reliable, but these sources cannot be guaranteed as to their accuracy or completeness. All data and information produced by a third party has the potential to be incorrect, incomplete, or otherwise misleading. No implication shall be created that the information contained on the Site is correct, including as of any time subsequent to the publish date, and Verdenca does not undertake an obligation to update such information at any time after such date. Verdenca makes no warranty or representation of the veracity of the data and information and its use of the information should not be implied as an endorsement of any material or statements made. Data, particularly non-public data, is subject to error and where the information is not audited, the potential for error is greater. Where shown, performance information presented is that which has been calculated and presented by an unaffiliated third-party manager. We have no insight into the performance of the advisor/product/account or fund shown and do not attempt to determine whether the performance presented is accurate. Therefore, the performance could be incorrect, overstated or not reflective of actual trading of client funds. There is the potential that the performance shown is a back test and not the result of real investment advice and trading. As such, it could not be relied upon as indicative of future returns of a particular strategy. Where performance shown is that of a pooled account, limited partnership, or private equity fund, you should be aware that there is a significant lack of transparency into the operations and investment process and investment vehicles invested in. As a result, pricing and valuation of the underlying holdings which produced the stated performance could be incorrect, stale, or overstated and therefore the performance figures presented cannot be relied upon. Before investing, we encourage you to request additional information, particularly performance information, of any product that you are considering for investment for your or your client's. Certain products shown may have account minimums or minimum investment sizes that are unattainable for your clients and therefore they may not be eligible to invest in these products. Reference to registration with the Securities and Exchange Commission ("SEC") does not imply that the SEC has endorsed or approved the qualifications of Verdenca or its respective representatives to provide any advisory services described on the Site.