SOUTHWEST MISSOURI BANK

ECONOMIC OUTLOOK AND INVESTMENT POLICY - THIRD QUARTER 2024

SMB Trust Services

ECONOMIC FACTORS	CURRENT OUTLOOK
U.S. GDP Growth	Domestic economic growth will likely slow to an annualized rate of 1.5% - 2.0% in the the second half of 2024 and first half of 2025.
Federal Funds Rate	Cooling inflation and slowing labor market growth probably set the stage for an initial Fed rate cut in September.
Inflation	Disinflationary forces in the economy should push measures of core annual inflation from 3.0% to near 2.5% by the end of the year.
Employment	Monthly payroll gains between 100,000 and 150,000 in 2H24 would be a sweet spot for Fed rate cuts without stoking recession fears.
Consumer Confidence	Elevated price levels, a softer labor market, and pre-election political uncertainty could weigh on sentiment in coming months.
Oil	Although a direct Israel/Iran confrontation has so far been contained, elevated tensions could keep a $75/barrel floor under WTI crude oil.
Housing	Housing market activity will probably remain suppressed until 30-year fixed mortgage rates drop another 200 basis points to below 6%.
International Economies	Above-trend GDP growth in India and Indonesia in 2024 is likely to be offset by weakness in China, the euro zone, and the UK.

FIXED INCOME	MINIMUM		NEUTRAL		MAXIMUM
FIXED INCOME			●		
Core Bonds				●	
TIPS	●				
Non-Investment Grade			●		
International	●				

CURRENT OUTLOOK

We continue to favor short and intermediate-term U.S. government bonds and high-quality corporate bonds as they will likely benefit most from a de-inversion of the yield curve in which front-end rates decline but longer rates remain relatively unchanged. We anticipate high-quality bonds will play an important role in dampening the volatility of diversified portfolios in 2H24 and beyond due to the improved coupon cushion they provide compared to most of the last 15 years.

If longer-term Treasury yields push above 5% (like we almost saw in October 2023), we would likely consider recommending extending duration in client portfolios.

U.S. high yield corporate bond spreads have narrowed by about 200 basis points since the regional banking turmoil in the spring of 2023, supported by resilient economic data and less issuance. If signs of a weakening labor market begin to emerge, we will likely recommend reducing exposure to credit and reallocating to government bonds in the core sleeve of portfolios.

EQUITIES	MINIMUM		NEUTRAL		MAXIMUM
EQUITIES			●		
Large Cap			●		
Mid Cap				●	
Small Cap		●			
Developed International			●		
Emerging Markets		●			

CURRENT OUTLOOK

Although not perfect, the most important underlying components of the U.S. economy (aggregate job growth, wages, consumer spending) do not appear on the cusp of an imminent contraction. This is important because most extended periods of U.S. equity market declines over the last 70 years coincided with recessions. It seems difficult to argue that the combination of cooling inflation, a less overheated jobs market, strong corporate profit growth expectations and likely Fed rate cuts can create the conditions for a recession in the U.S. and associated bear market.

An expansion of corporate earnings growth to more sectors and industries outside of the top 10 S&P 500 stocks in 2H24 would be a welcomed development. This could create the conditions for another leg of the current bull market that would likely prove more durable than the narrow leadership of the last 18 months.

Given the balance of risks and opportunities, we think it makes sense to keep equity allocations focused on areas of the market that exhibit quality characteristics in terms of leverage, earnings volatility, and return on capital.

ALTERNATIVES*	MINIMUM		NEUTRAL		MAXIMUM
ALTERNATIVES*			●		
	CAP PRES	IWSG	BAL	GWSI	GROWTH
Gold		●	●	●	
Hedged Equity					
Arbitrage					

CURRENT OUTLOOK

We recommend most portfolios maintain a moderate allocation to gold given our assessment that the economic, policy, and geopolitical backdrops remain well suited for the precious metal. The likely beginning of a Fed rate cut cycle, elevated geopolitical tensions, and domestic political uncertainty leading up to the November election should allow gold to improve the risk-adjusted returns of portfolios in coming quarters. Our alternatives allocations, as seen in the table to the left, are designed to decrease the overall risk profile of our five investment objective-based portfolios (CAP PRES, IWSG, BAL, GWSI, and GROWTH.)

The above minimum/neutral/maximum recommendations represent MainStreet Advisors' current positions relative to our Strategic Asset Allocation ranges. Views expressed have a six- to twelve-month horizon and are those of the MainStreet Advisors Investment Committee.

*Cap Pres: Capital preservation; IWSG: Income with some growth; Bal: Balanced; GWSI: Growth with some income