Market insights

Greater Phoenix Chamber

9/13/24

BOK FINANCIAL

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Investment expertise. Competitive results.

Four centers of expertise. More than 70 experienced investment professionals. Collaborating as one team.

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Investment advisory and consulting

Research and analytics that build the foundation for investment services offered by BOK Financial.

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- Manager selection and due diligence.
- Outsourced CIO services.
- Investment consulting.
- Managed accounts.
- Multi-asset solutions.

Cavanal Hill Investment Management
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A registered investment advisor and subsidiary of BOKF, NA. Fundamental and quantitative research across the capital markets.

- Taxable fixed income.
- Tax-free fixed income.
- Cash management.
- Domestic equity.
- Energy.
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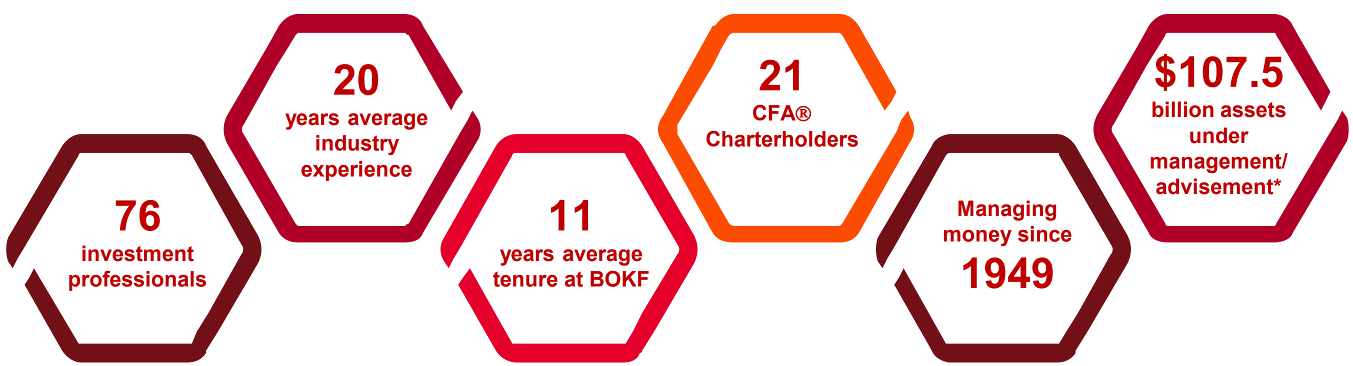
Provides access to a variety of non-traditional asset classes and strategies delivered through limited partnerships.

- Private equity.
- Real assets.
- Hedge funds.
- Semi-liquid or interval funds.
- Liquid alternatives.

Investment Management Communication

A dedicated team providing education and insight into the BOK Financial Investment Management process as well as current economic and market conditions for both internal and external audiences.

- Regular market commentary.
- Timely response to changing market conditions.



*The Investment Management team is part of the BOK Financial Wealth Management division, which had $107.5 billion in assets under management and custody as of June 30, 2024.

Key points

1. Domestic growth remains positive but seems to be softening. While the labor market has experienced some moderation, it is still supportive of the U.S. consumer.

2. Cyclical inflation rates have trended lower, with tailwinds from goods disinflation, while rent and wage inflation decline more slowly. This presents an ongoing headwind to achieving the Federal Reserve’s inflation target of 2%.

3. We believe short-term rates have peaked for this cycle, yet the total number of rate cuts to come is still in question. It is likely the Federal Reserve begins instituting rate cuts this fall.

4. Treasury yields have recently begun to shift downward from higher levels as expectations for Fed easing have come into view. While the yield curve remains inverted, we see areas of opportunity in longer-term bonds.

5. Stock market volatility has increased but broad stock market performance is still positive for the year. We remain invested and dedicated to our diversified approach.

Base case outlook

Economy

Economic growth remains resilient but is moderating from recent elevated levels. Recession odds have diminished but are not gone.

Risks: Higher unemployment and potential geopolitical events.

Policy

We expect the Federal Reserve to lower rates starting this fall. Ongoing fiscal outlays will continue or even expand, supporting demand.

Risk: Persistent inflation keeps rates higher or unexpected difficulty financing the deficit

Markets

Bond markets offer attractive yields but low credit spreads. Current equity valuations reflect solid earnings growth in 2024 and 2025.

Risk: Recession risk leads to earnings decline and widening credit spreads.

The domestic economy

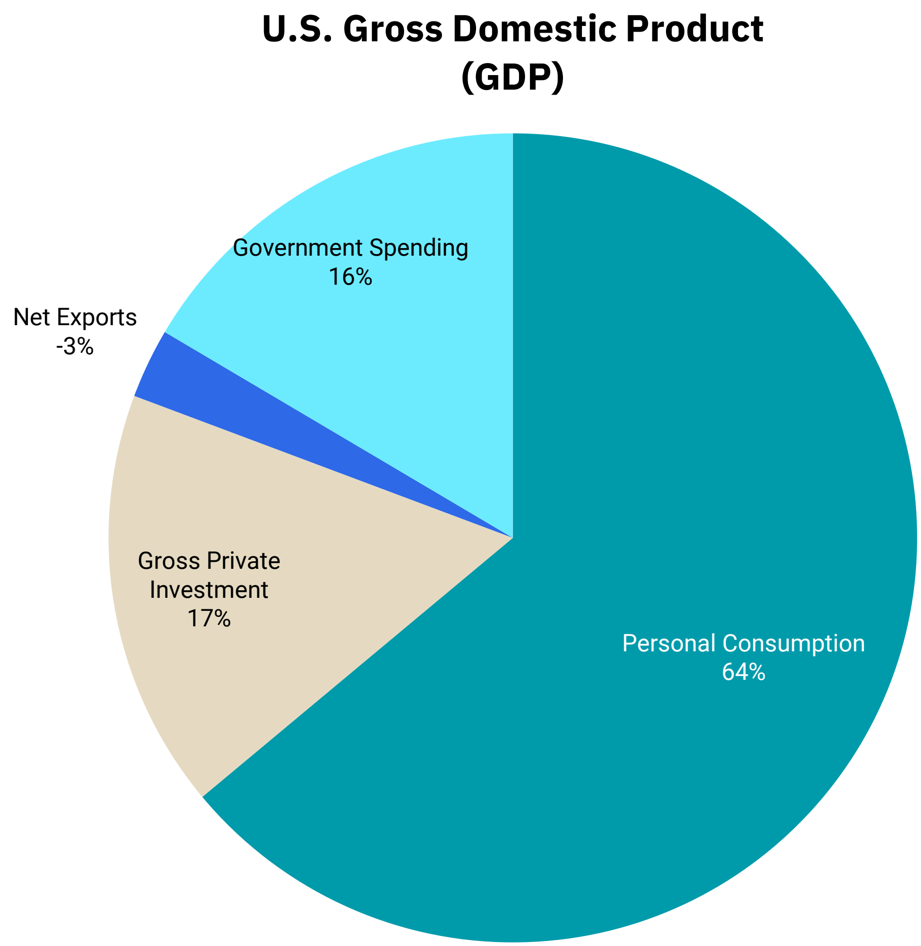
1 Consumers are holding firm.

2 Government spending supporting growth.

3 Business showing cautious confidence.

GDP – The U.S. consumer dominates

- Growth is resilient but is likely to soften over the course of the year.
- A supportive jobs market, wage gains and fiscal spending are underpinning growth.
- More evidence of the lagged impacts of higher rates in 2024 is still possible.
- Upper-income consumers have been driving consumer spending, but all aspects of the consumer, including lower income, are important.



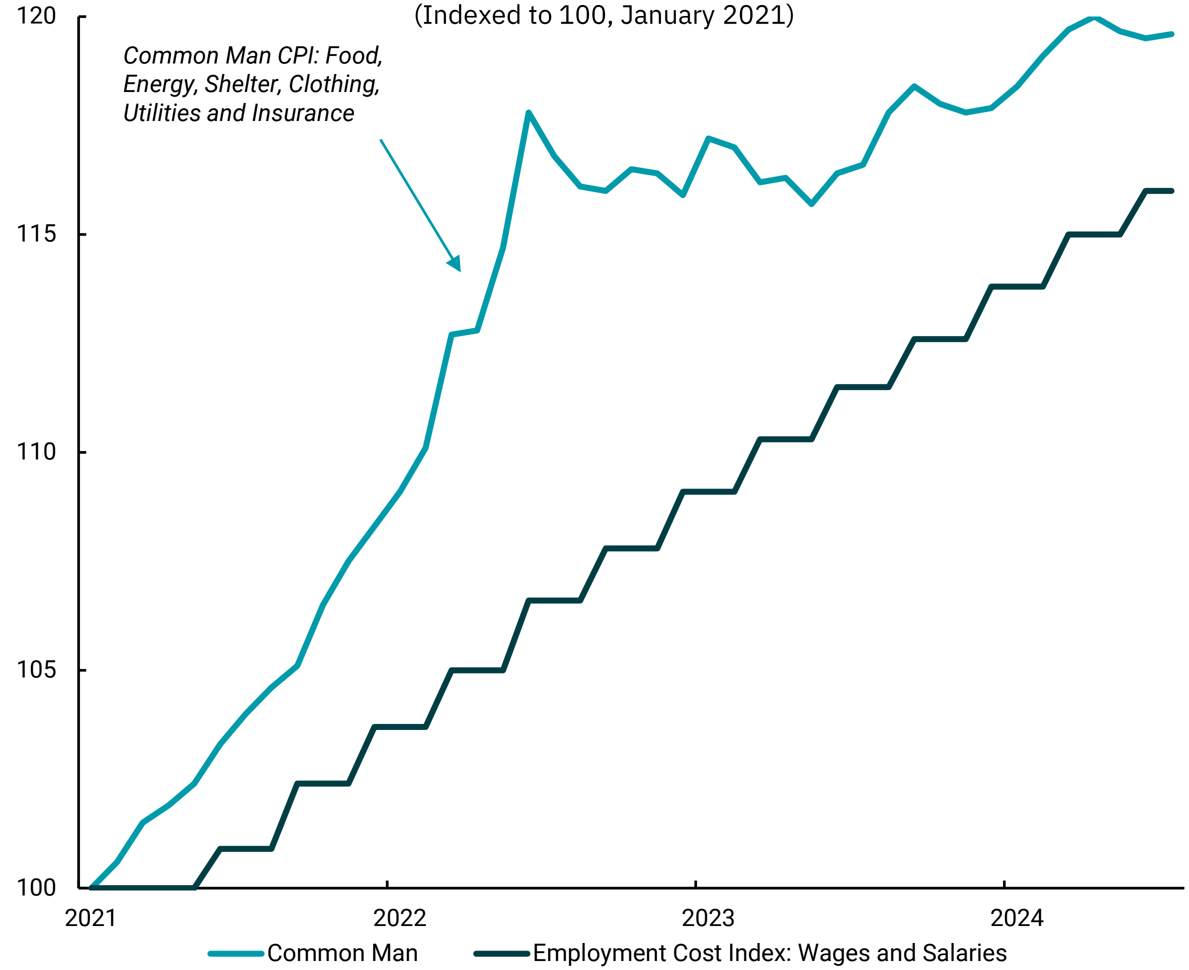
Source: U.S. Bureau of Economic Analysis (BEA).

Consumer - Wages are still on the rise, but

- The lower half of wage earners saw the biggest increase in wages early in the pandemic.
- Wage growth across the spectrum has moderated but remains positive.
- Several large union negotiations, among other catalysts, have influenced wage increases.
- Aggregate inflation increases have mitigated the benefit of higher wages.

Common Man CPI vs. Wages

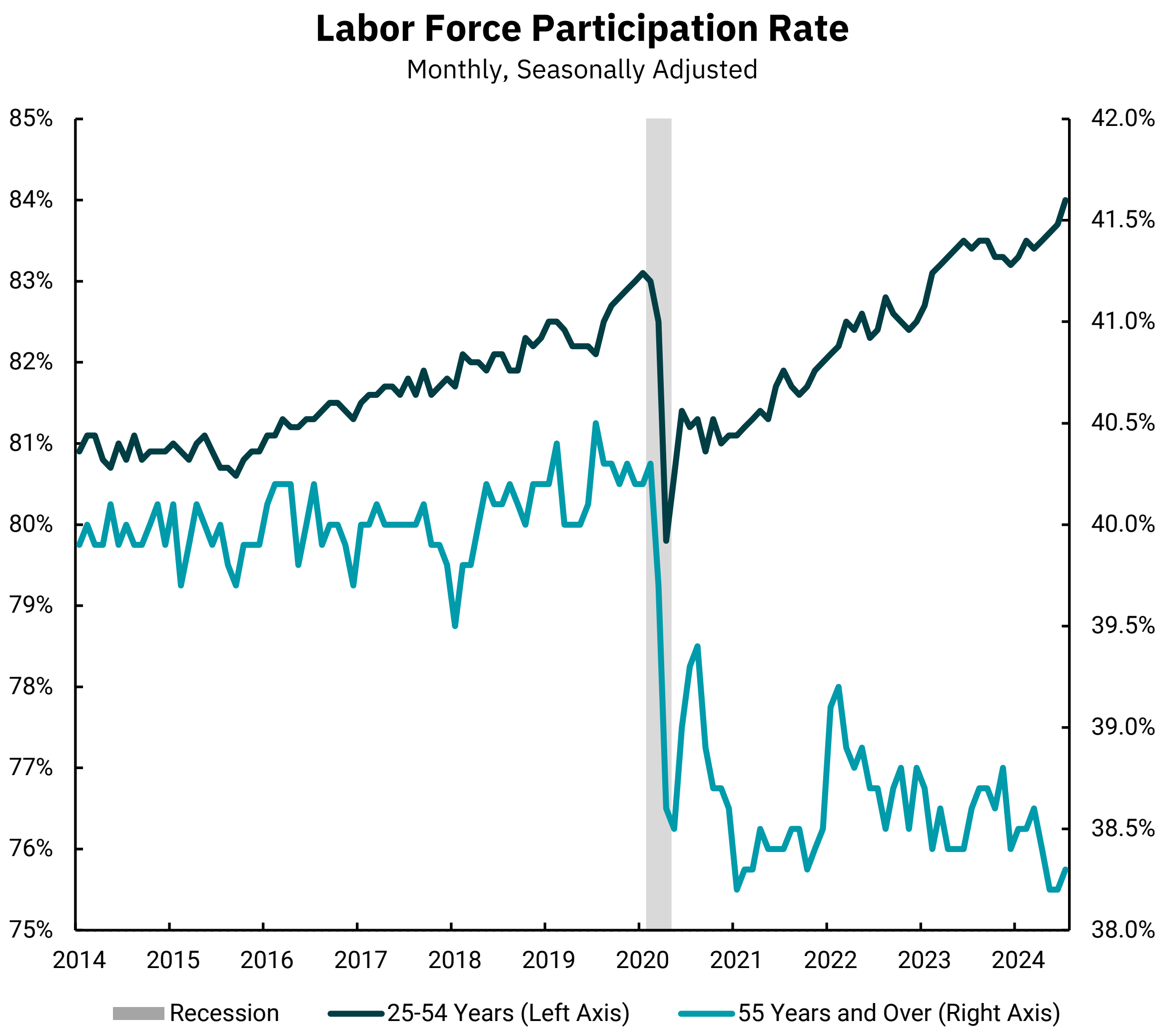
(Indexed to 100, January 2021)



Common Man CPI is compiled and calculated by Strategas.
Source: Strategas, Bureau of Labor Statistics, Haver. Data as of Aug. 31, 2024.

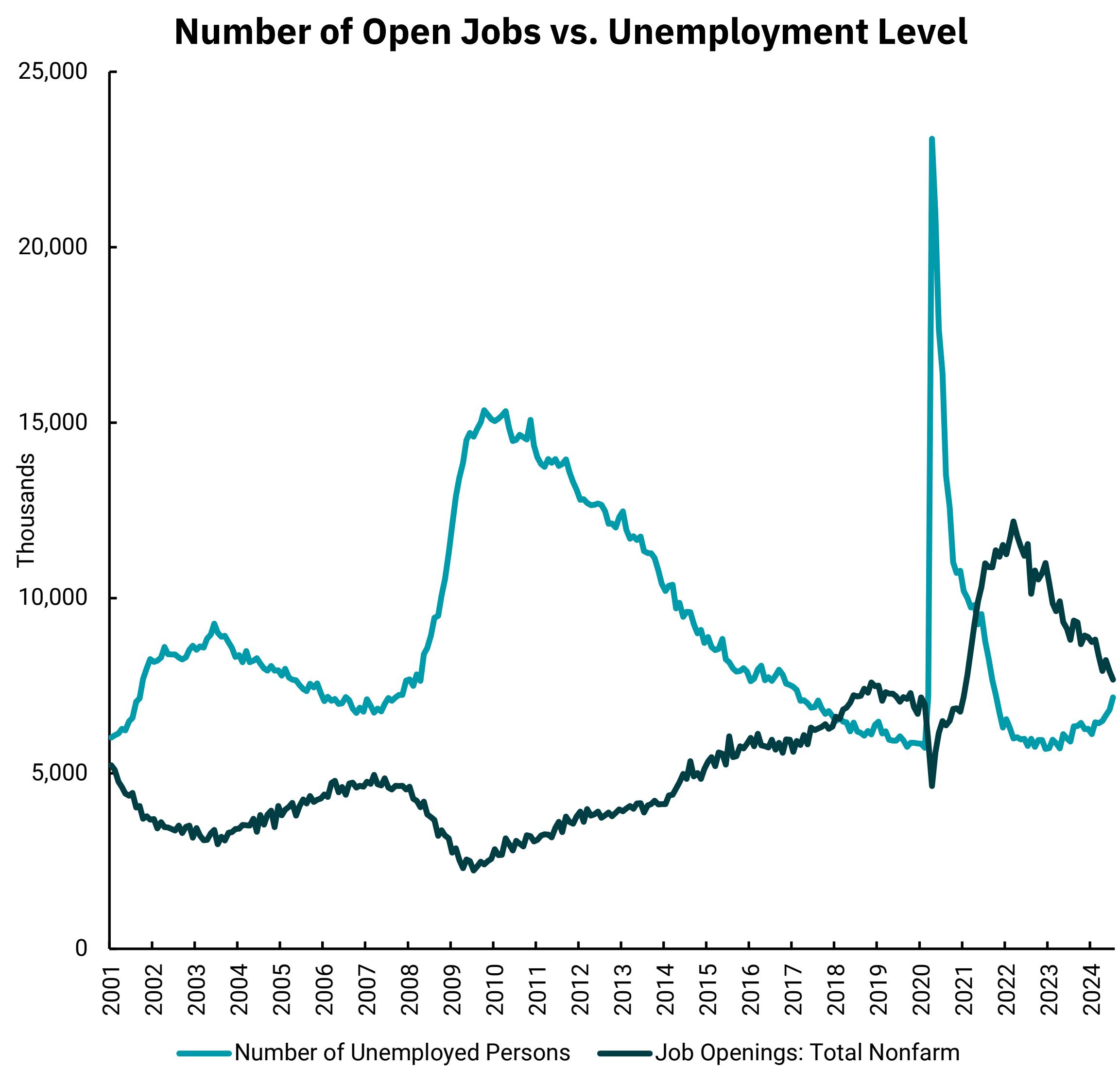
Consumer – Labor force participation

- Overall, the labor market is supportive of the U.S. consumer, with headline unemployment at or below 4% for the longest stretch since the 1960s.
- Prime-age labor force participation is back to and now above pre-pandemic levels.
- Labor force participation for those 55 and over remains significantly lower than pre-pandemic levels.
- The pandemic appears to have had the most impact on those near retirement.



Consumer – Demand for labor slowing

- The labor market continues to moderate as the gap between labor demand and supply comes down.
- This reduction in excess labor demand should result in less inflationary pressure.
- Labor markets can turn suddenly, and any signs of significant deterioration should be watched closely.

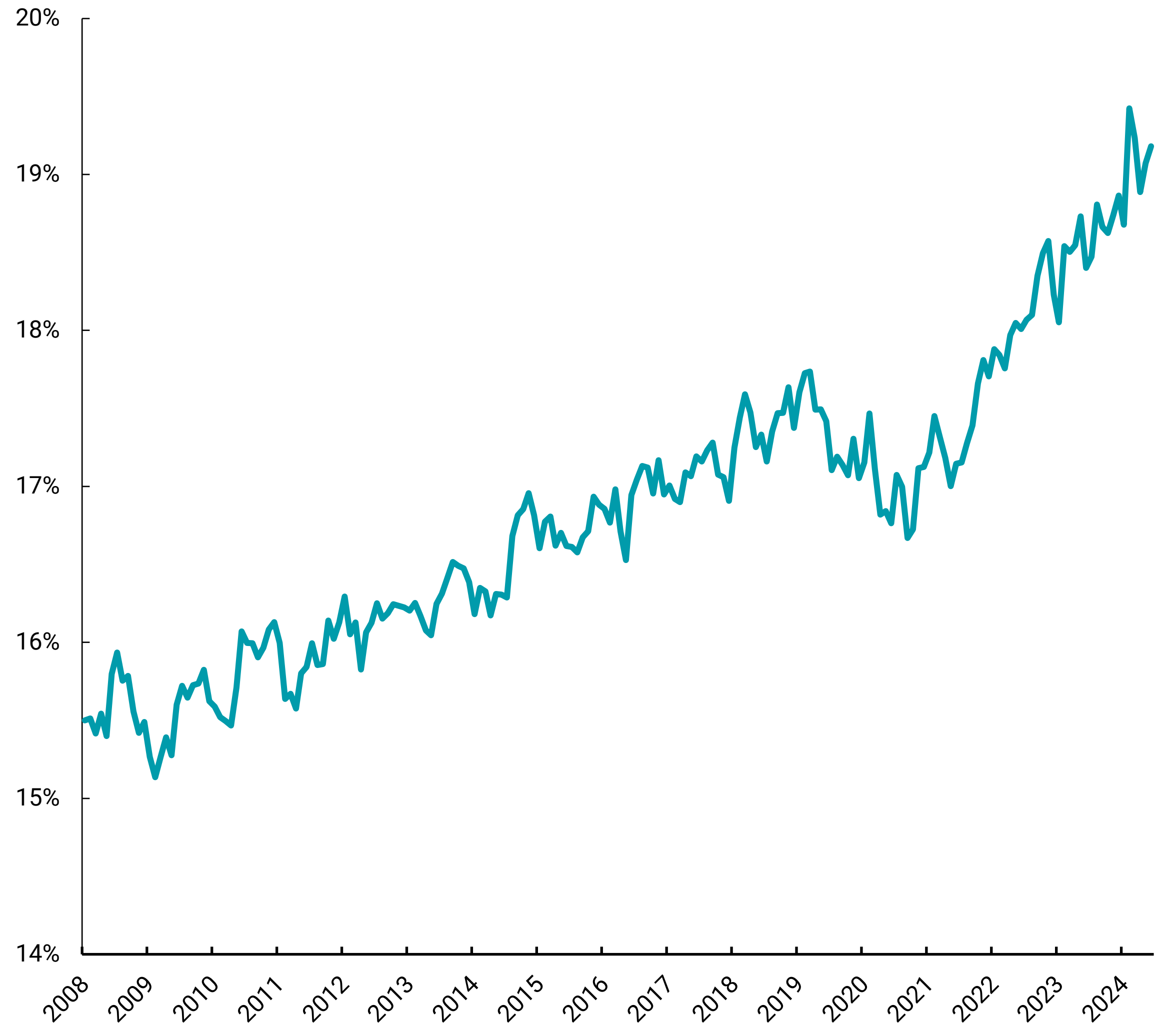


Source: Federal Reserve Bank of St. Louis. Data as of Aug. 31, 2024.

Consumer – Labor supply from immigration

- After a lull caused by the pandemic, immigration and the employment of immigrants has increased.
- Immigrant labor adds support to domestic economic growth.
- This inflow of immigrant labor has helped to limit wage inflation, which should help the Fed begin to lower rates as inflation moves towards its 2% target.

Percent of U.S. Labor Force that is Foreign Born

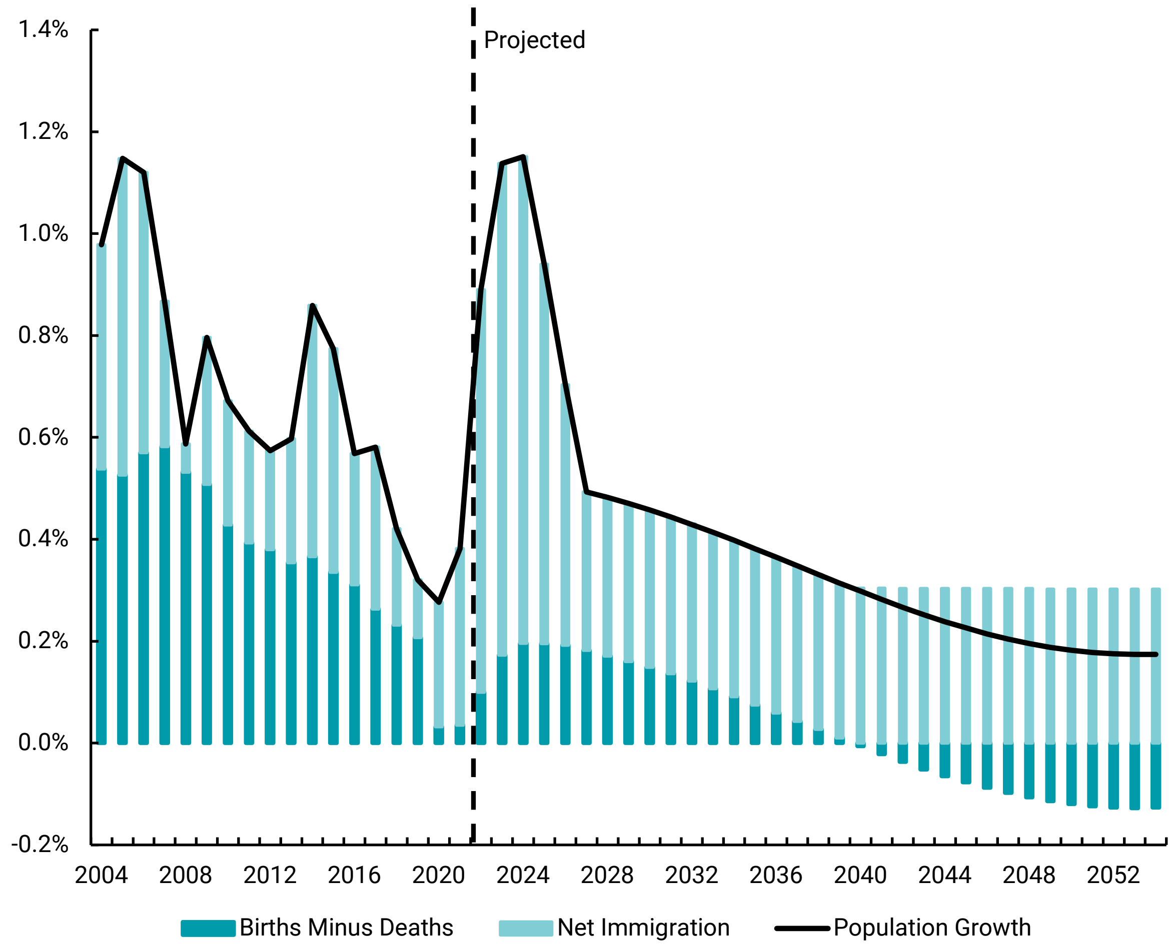


Source: Federal Reserve Bank of St. Louis. Data as of Aug. 31, 2024.

Consumer – Labor as a raw material for output

- A growing economy requires either an increasing population or material improvements in productivity.
- Forecasts for slowing population growth could mean a limited opportunity for economic growth.
- High debt levels increase the importance of economic growth going forward.
- The need for additional labor highlights the economic opportunity possible with a cogent immigration policy.

Demographic Factors that Contribute to Population Growth



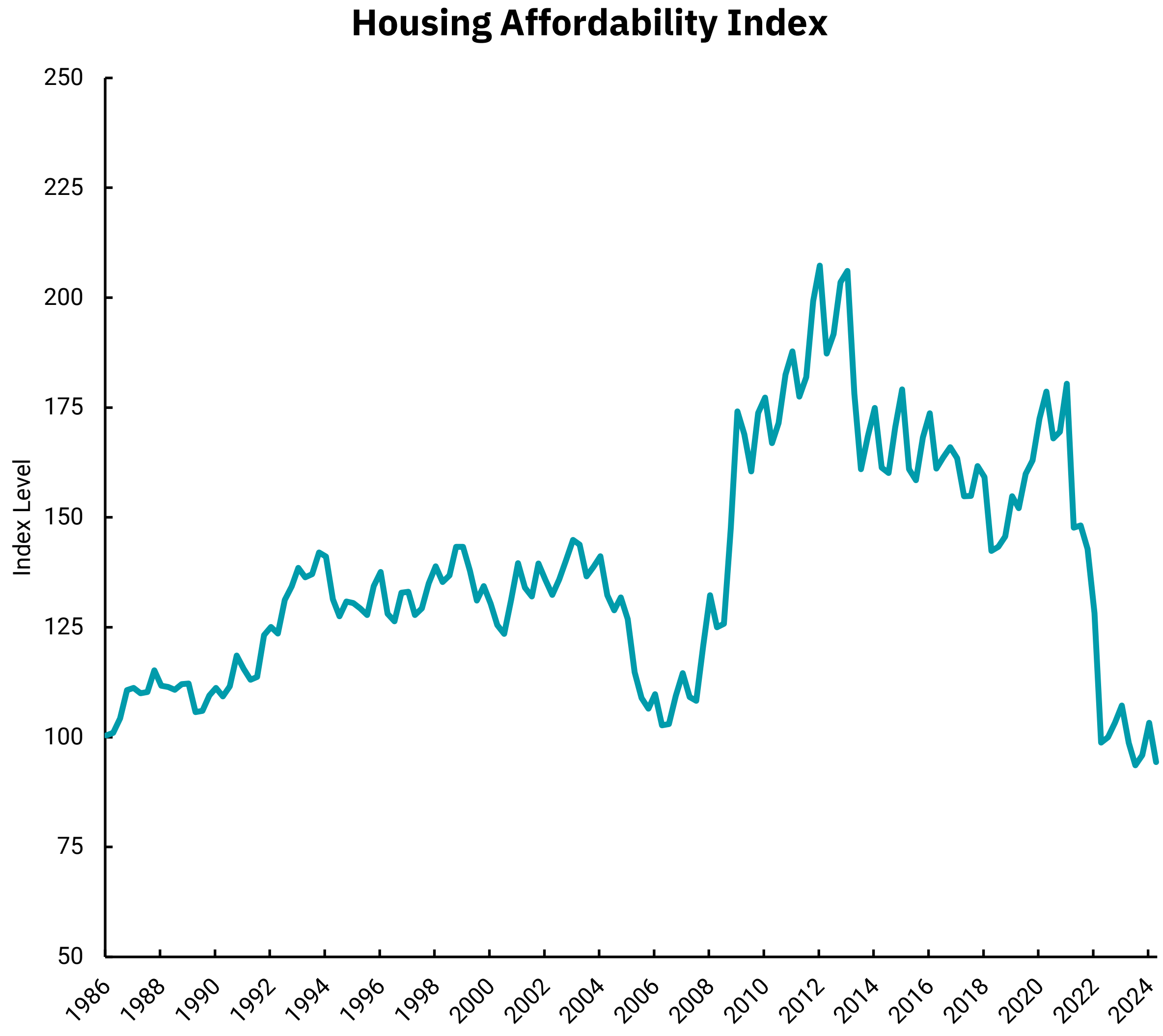
Source: Congressional Budget Office, The Demographic Outlook: 2024-2054.

Consumer – Housing affordability

- Single-family homes are unaffordable for many buyers given the current interest rate and home price environment. Yet, demand still exceeds current supply.

- In response to the lack of available and affordable single-family homes, multi-family units have come to the aid of consumers.

- Looking forward, additional multi-family supply could slow based on elevated material, labor and capital costs.

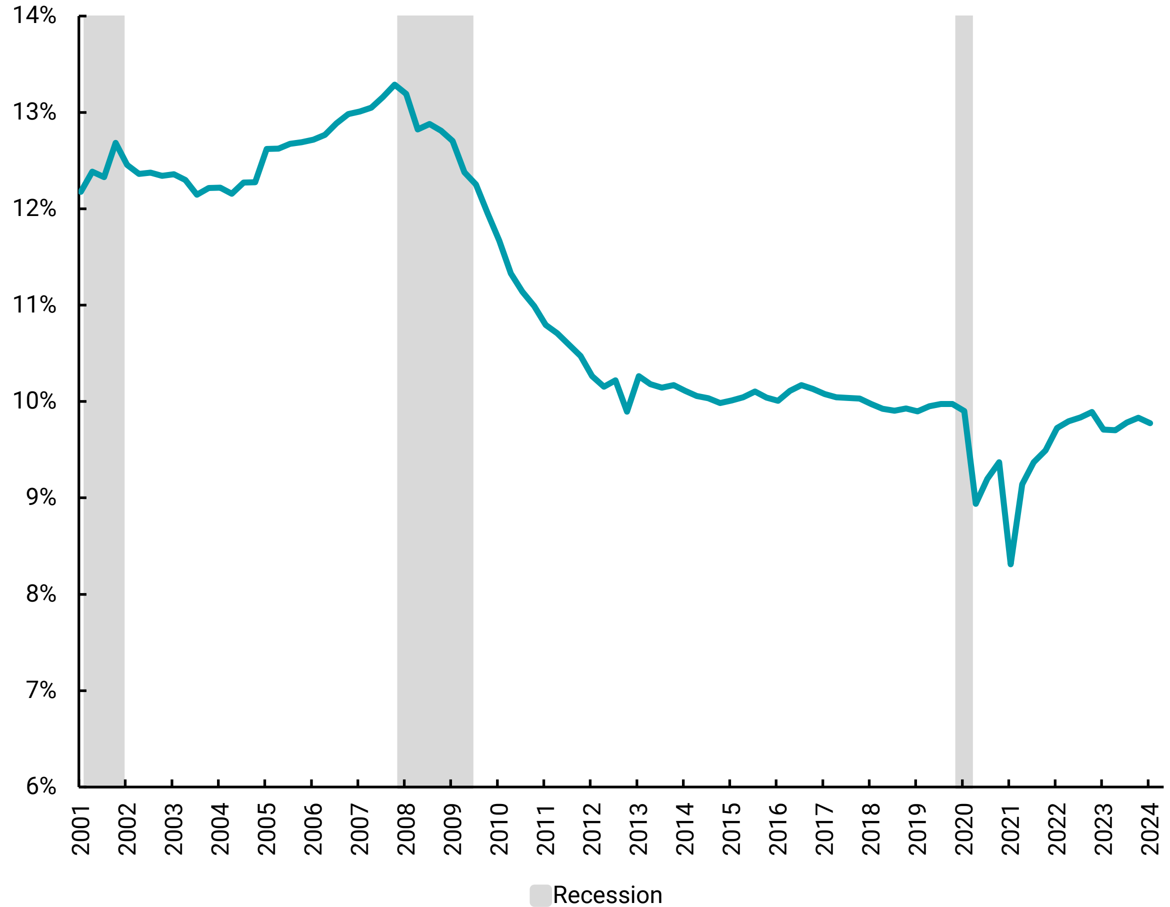


Source: Bloomberg. Quarterly data as of Aug. 31, 2024.

Consumer – Debt as a percent of income

- Household debt has climbed from the COVID depths but has not reached the highs experienced prior to the Great Recession.
- Consumers remain supported by low unemployment and significant wage growth.
- Unfortunately, certain credit markets place lower-income consumers at high borrowing costs, such as credit cards and auto loan debt.

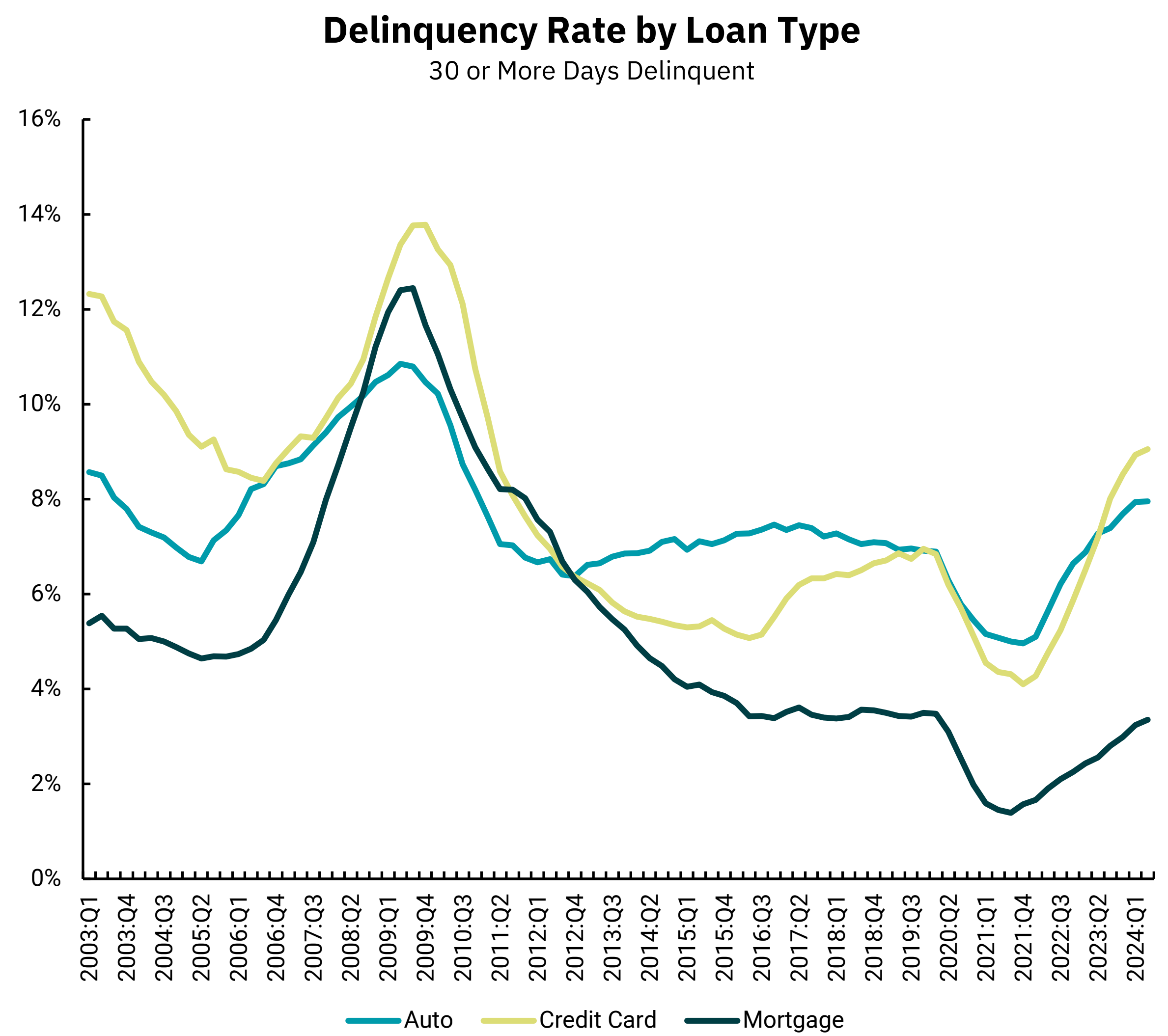
Household Debt Service Payments as a Percent of Disposable Personal Income



Source: Federal Reserve Bank of St. Louis. Quarterly data as of July 31, 2024.

Consumer – Early evidence of consumer stress

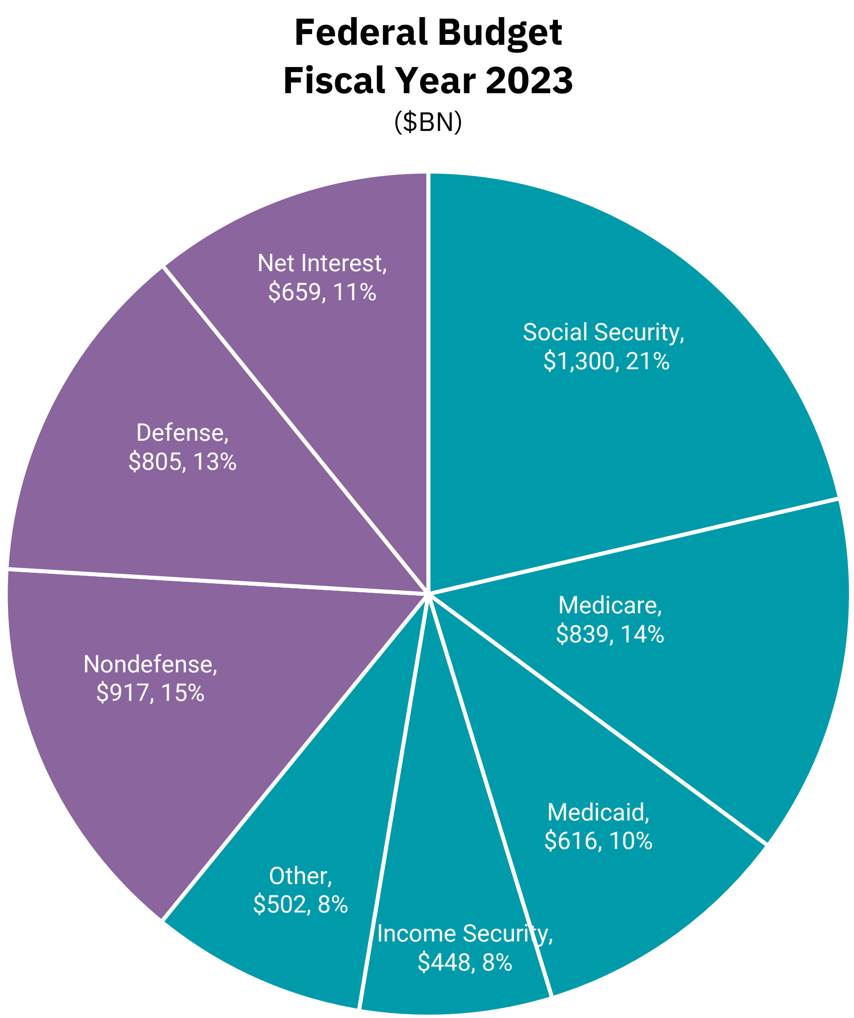
- Household obligations to disposable income remain steady, but there is weakness appearing among consumers.
- Credit card delinquencies are on the rise as consumers face high interest rates.
- Elevated delinquencies are concentrated among those with lower credit ratings.
- While delinquency rates remain below the Great Recession levels, they are at their highest levels since the 2010s, and the trajectory bears monitoring.



Source: New York Fed Consumer Credit Panel, Equifax. Quarterly data as of Aug. 31, 2024.

Government – Budget process makes reducing spending difficult

- The majority of federal spending is mandatory and is indexed to inflation.
- Changes on both the spending and revenue side of the equation are anticipated.
- President Biden's recent budget includes additional spending and tax increases.
- The net effect of the current budget proposal does not meaningfully improve deficits.



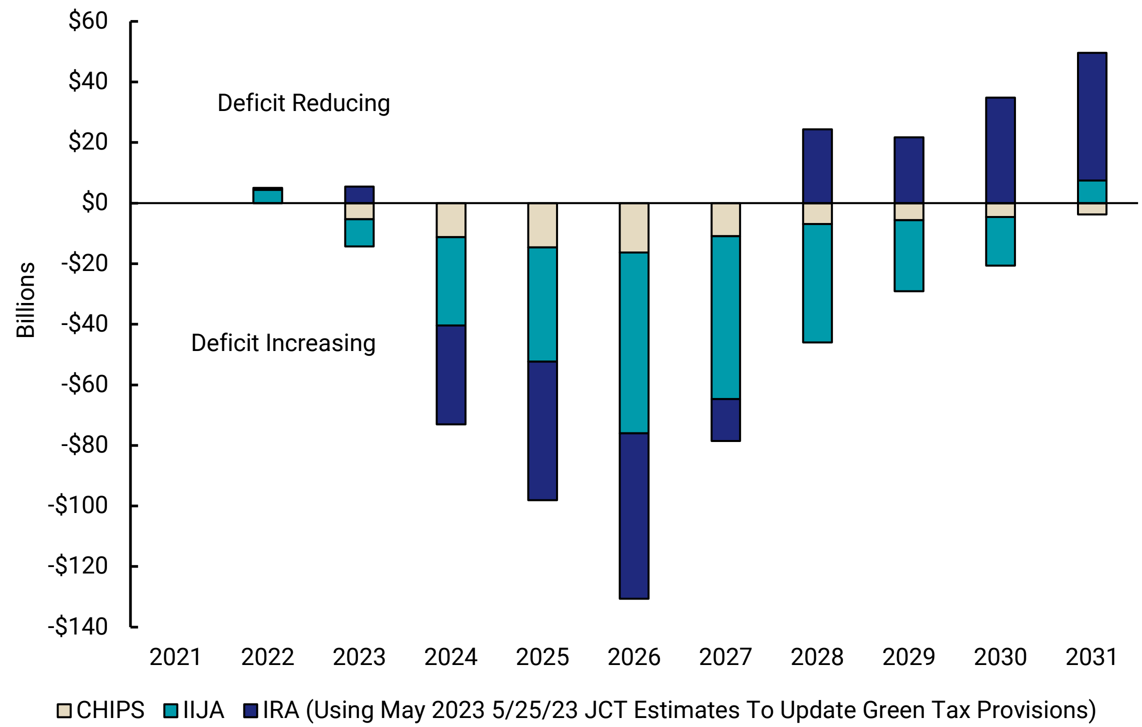
Source: Congressional Budget Office. Data as of Mar. 05, 2024.

Government - Impact of major recent fiscal bills

- Deficit spending is set to increase through 2026 due to legislation passed in recent years.
- This uptick in spending should provide a boost to economic growth in the short run but has potential repercussions for both inflation and interest rates in the long run.
- Moving forward, agreements involving spending cuts and/or tax increases could relieve some of the pressure on inflation and interest rates.

Impact On Surplus (Deficit) Of Major Recent Fiscal Bills

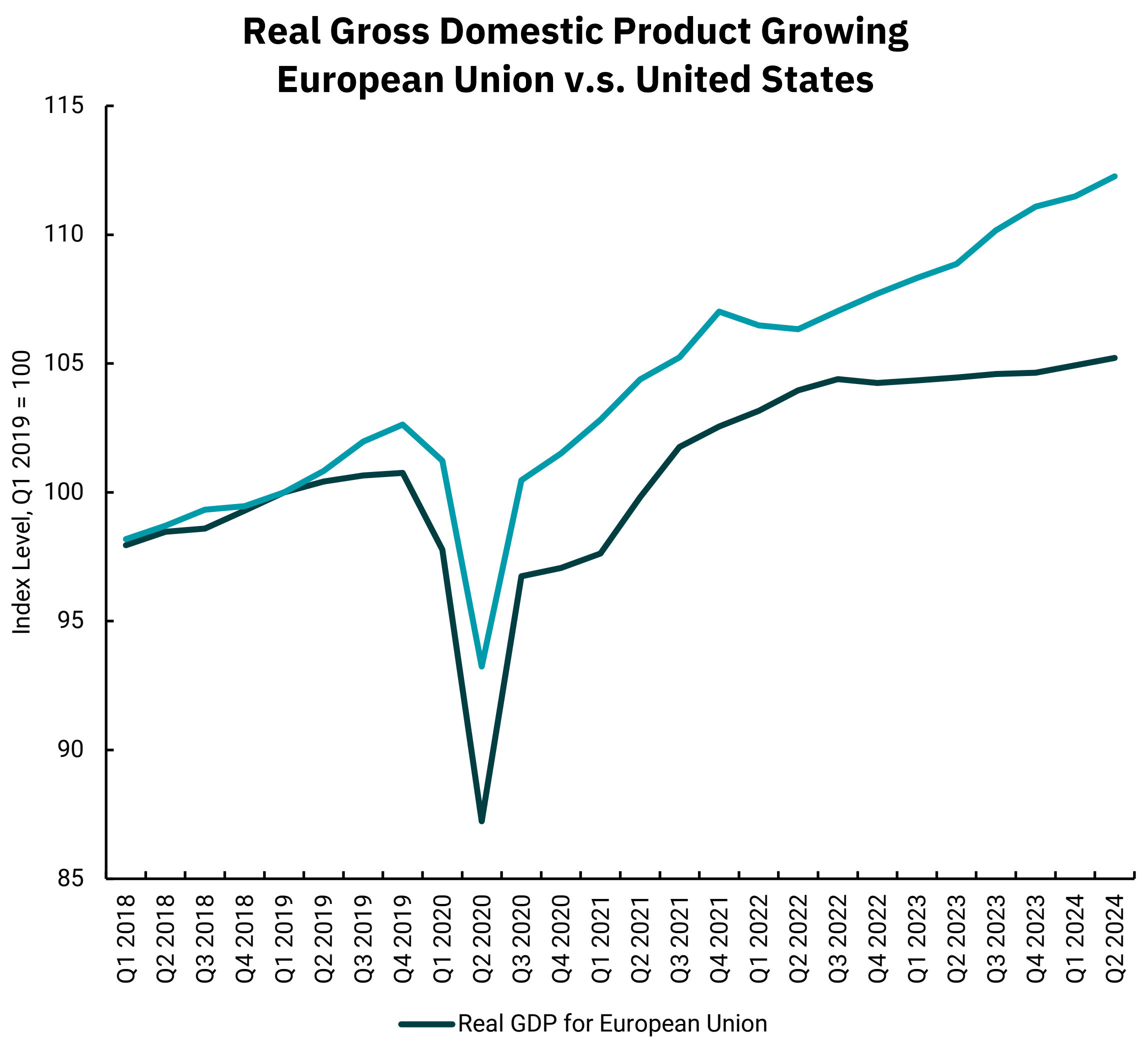
Infrastructure Investment & Jobs Act; CHIPS & Science Act; Inflation Reduction Act (with 5/25/23 Update Green Energy Measures); Congressional Budget Office Scores



Source: Strategas.

Business – U.S. and European growth

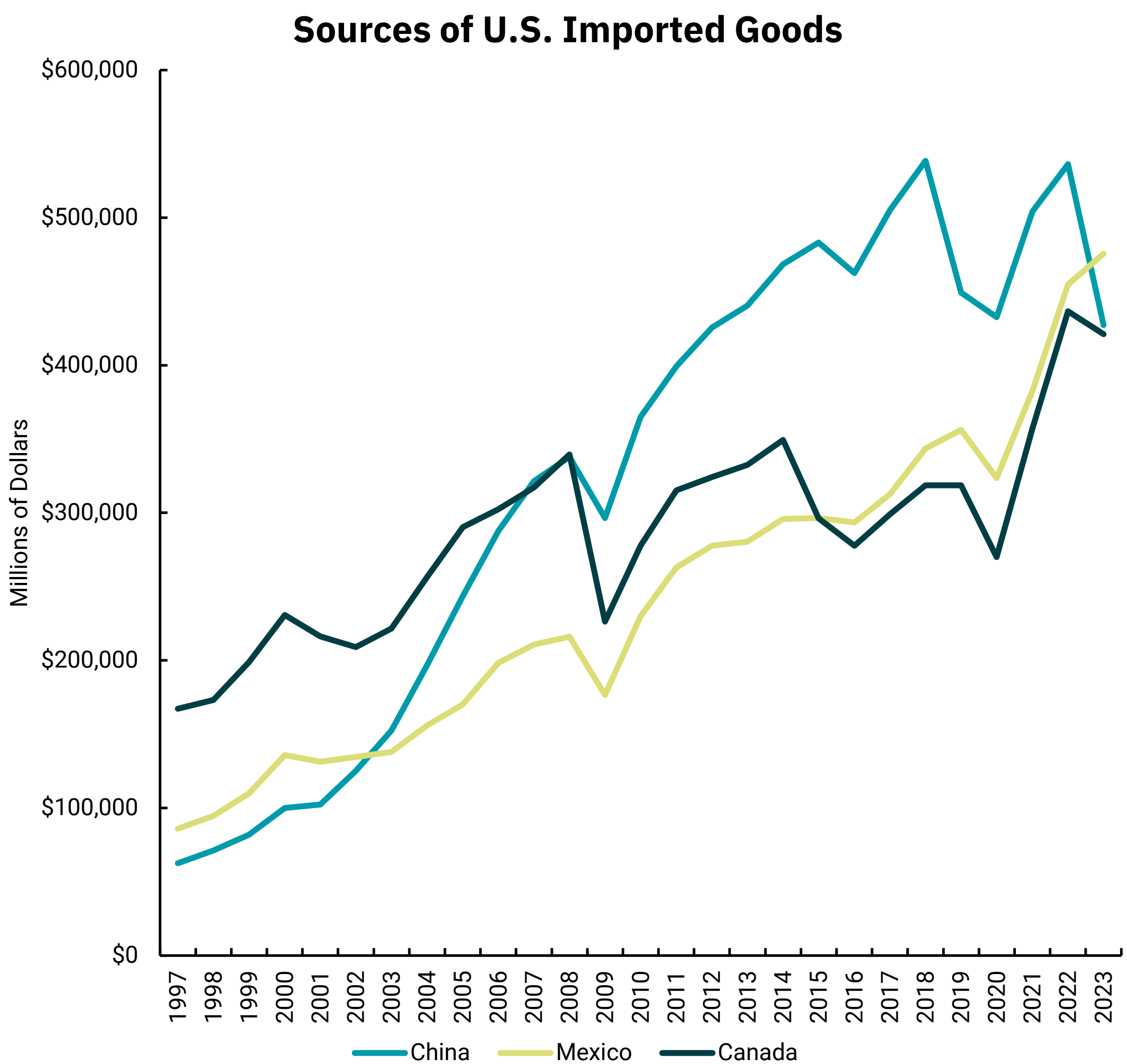
- The divergence in growth profiles from different economic regions post-COVID has been pronounced.
- The European Union is the largest developed economy outside of the U.S.
- The U.S. has found its economic footing as the European Union remains largely flat.
- While there are significant differences between the U.S. and European economies, investors have been reminded just how dynamic the U.S. economic system is.



Source: Federal Reserve Bank of St. Louis. Quarterly data as of July 31, 2024.

Business – Changes to the geography of supply chains

- Mexico has recently overtaken China as the largest source of imported goods for the U.S.
- Ongoing de-globalization and a move to a multi-polar geopolitical environment should support this trend going forward.
- The theme of de-globalization and the increased use of onshoring/ nearshoring may have residual effects on both the labor markets and inflation.



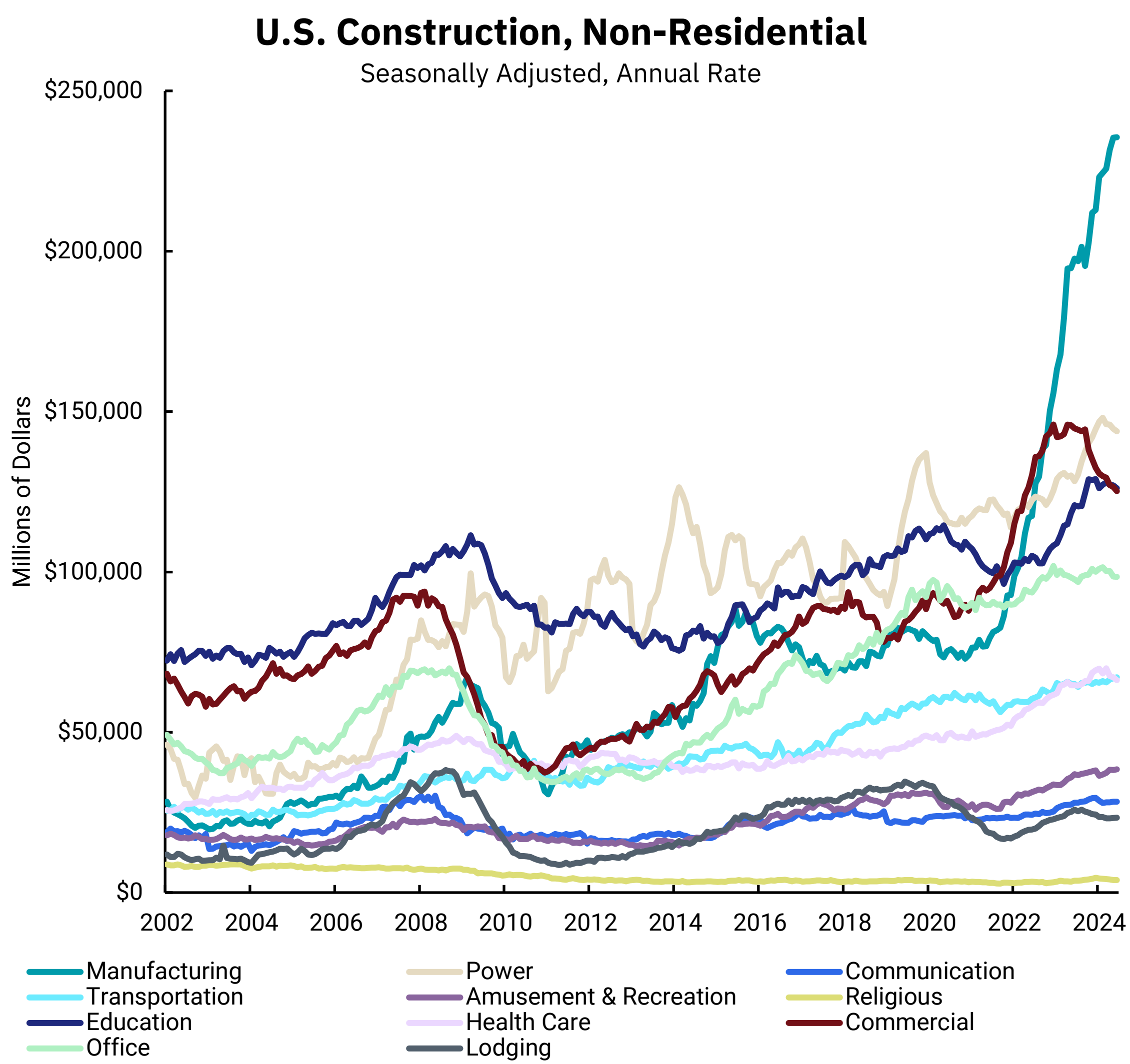
Source: Federal Reserve Bank of St. Louis. Annual data as of Mar. 31, 2024.

Business – U.S. manufacturing facilities on the rise

- Spending on manufacturing projects has moved meaningfully higher.

- As the number of manufacturing production facilities increases, this could bring new domestic jobs to various industries, like semiconductors.

- However, these new domestically manufactured goods may add upward pressure to inflation as labor costs in the U.S. are higher than in many other manufacturing countries.



Source: Federal Reserve Bank of St. Louis. Data as of Aug. 31, 2024.

Policy response

1 Core inflation remains above the Federal Reserve's 2% target.

2 Next rate move is likely lower.

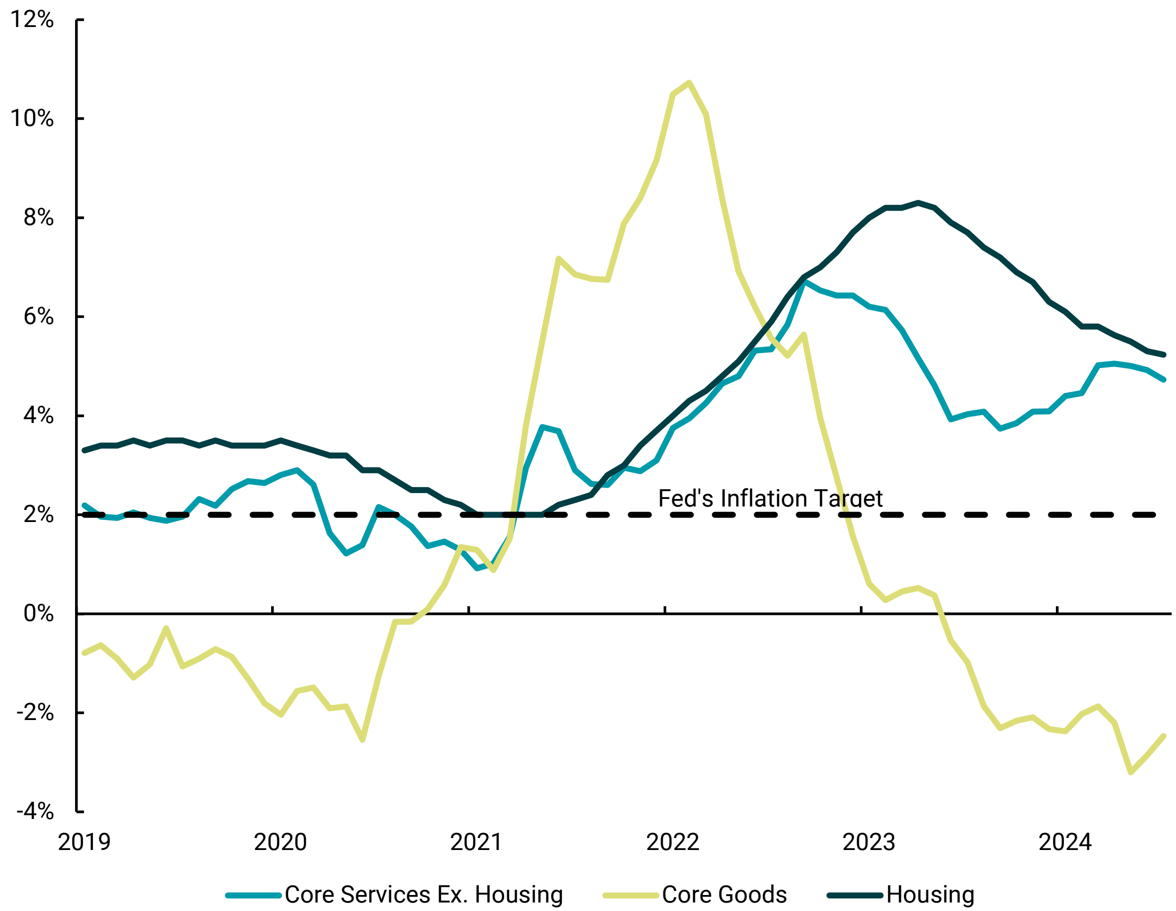
3 Treasury supply going higher.

Inflation remains elevated

- Inflation is moderating but is still above the Federal Reserve's 2% target.
- Core goods inflation is falling rapidly and approaching actual disinflation.
- Housing and rents are improving but remain well above the Fed's target.
- Core services excluding housing, an attempt to measure wages within the CPI data, are above pre-pandemic levels.

Personal Consumption Expenditures Price Index

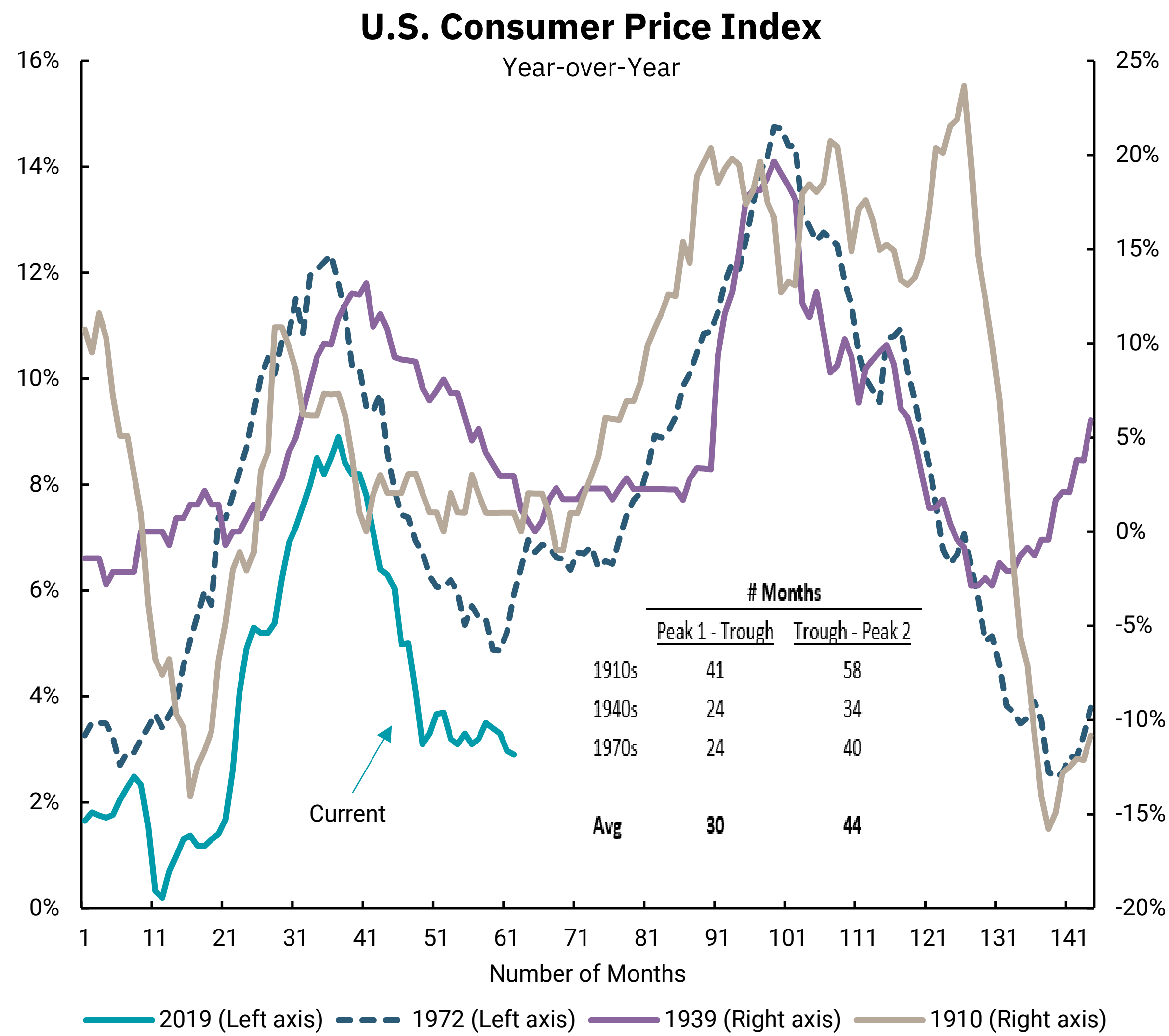
Year-over-Year



Source: Bloomberg. Data as of Aug. 31, 2024.

Inflation waves 1910s, 1940s and 1970s

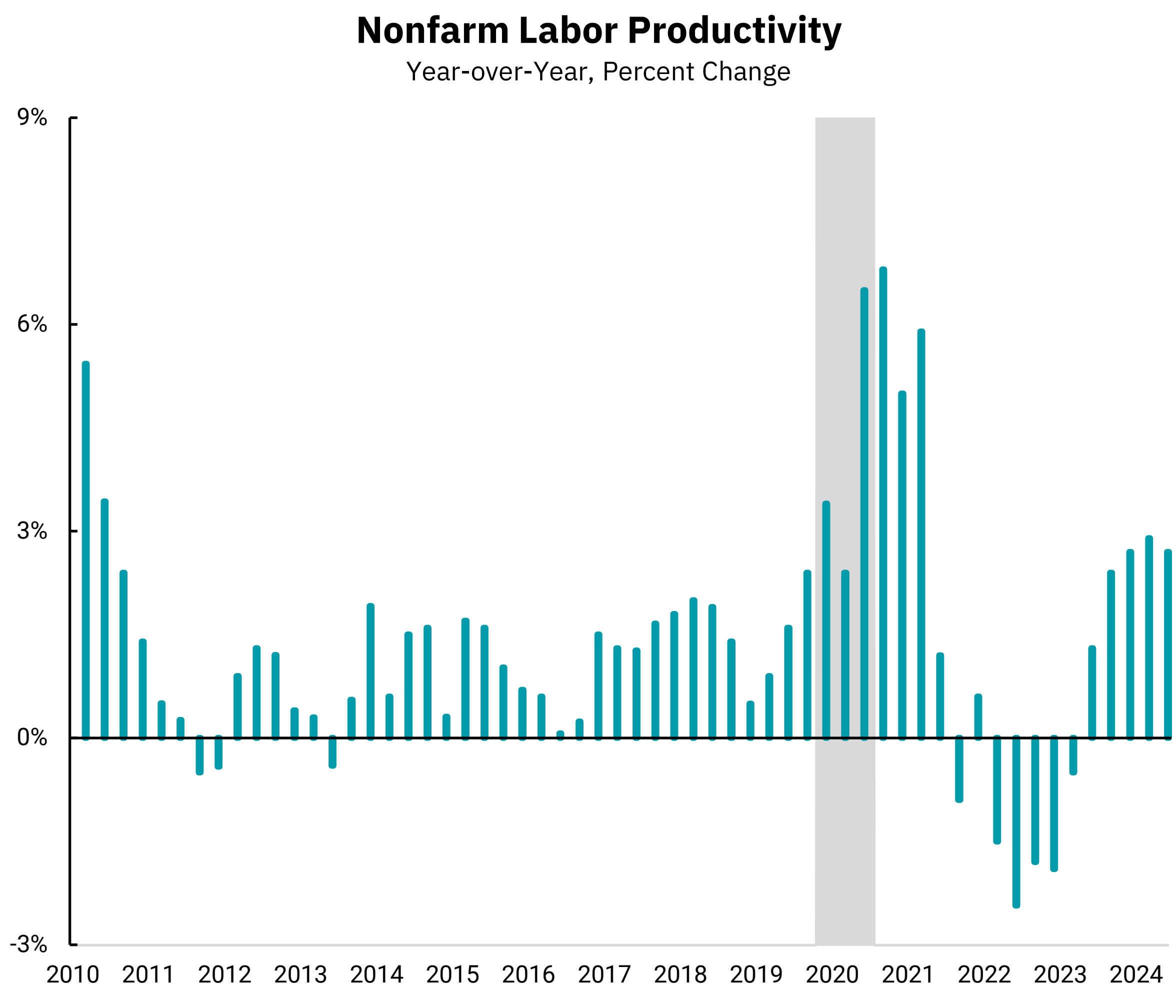
- Historically, bouts of inflation in the U.S. have come in multiple waves.
- Overlaying some of the prior cycles of inflation shows that initial peaks and drawdowns have only been the beginning of the inflation cycle.
- The Fed is playing the long game on inflation. They want to minimize the risk of an “echo wave” of inflation.



Source: Strategas. Data as of Aug. 31, 2024.

Swings in labor productivity

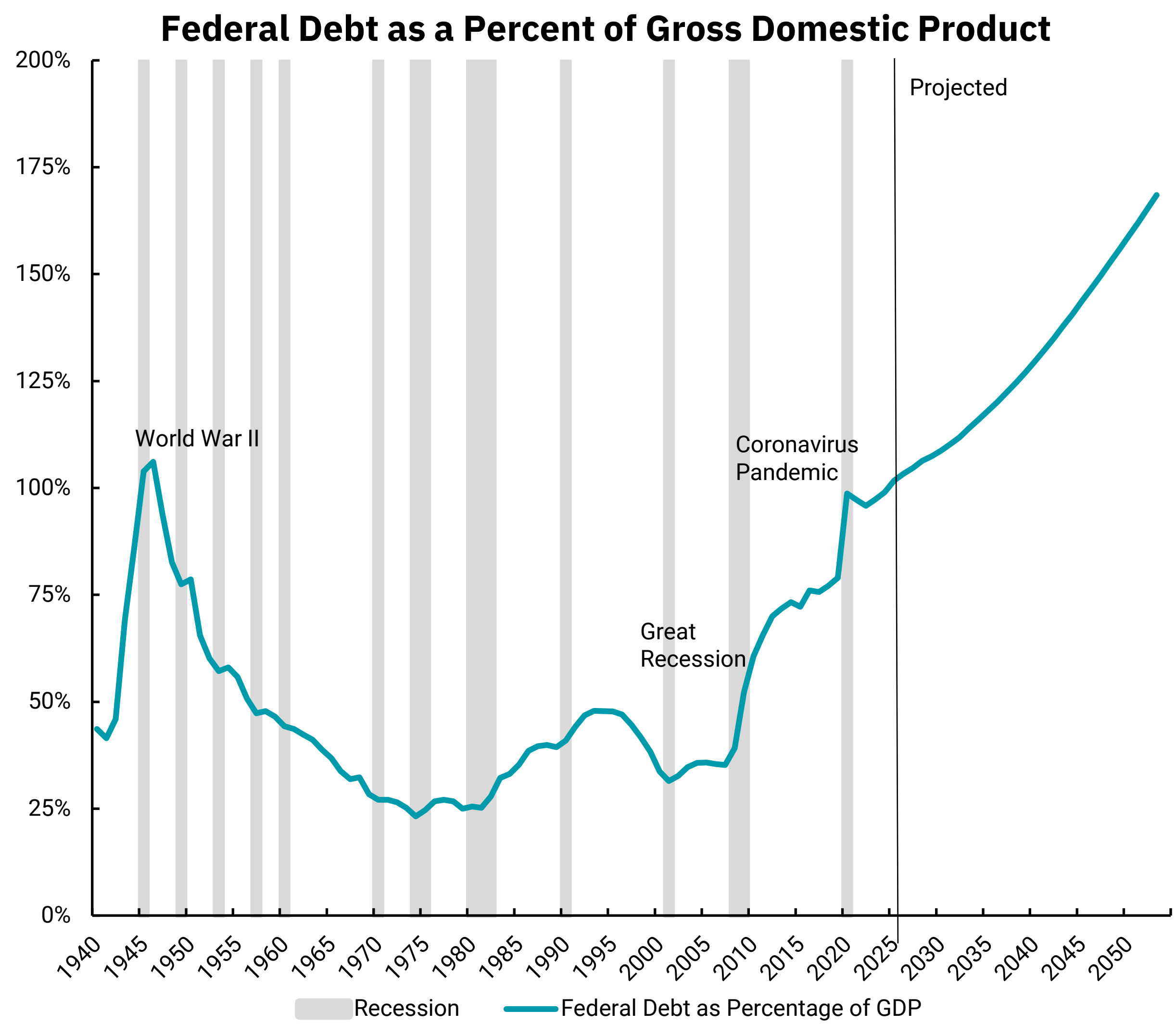
- Two of the primary ways economies grow are through an increase in the size of the labor market, which allows for the possibility of increased production, and increasing productivity.
- Recently, productivity has increased, which can also reduce inflation over time.
- There is also the potential for new technologies, such as artificial intelligence, to increase worker productivity further and increase real wages.



Source: Strategas. Quarterly data as of July 31, 2024.

Government debt - a growing issue

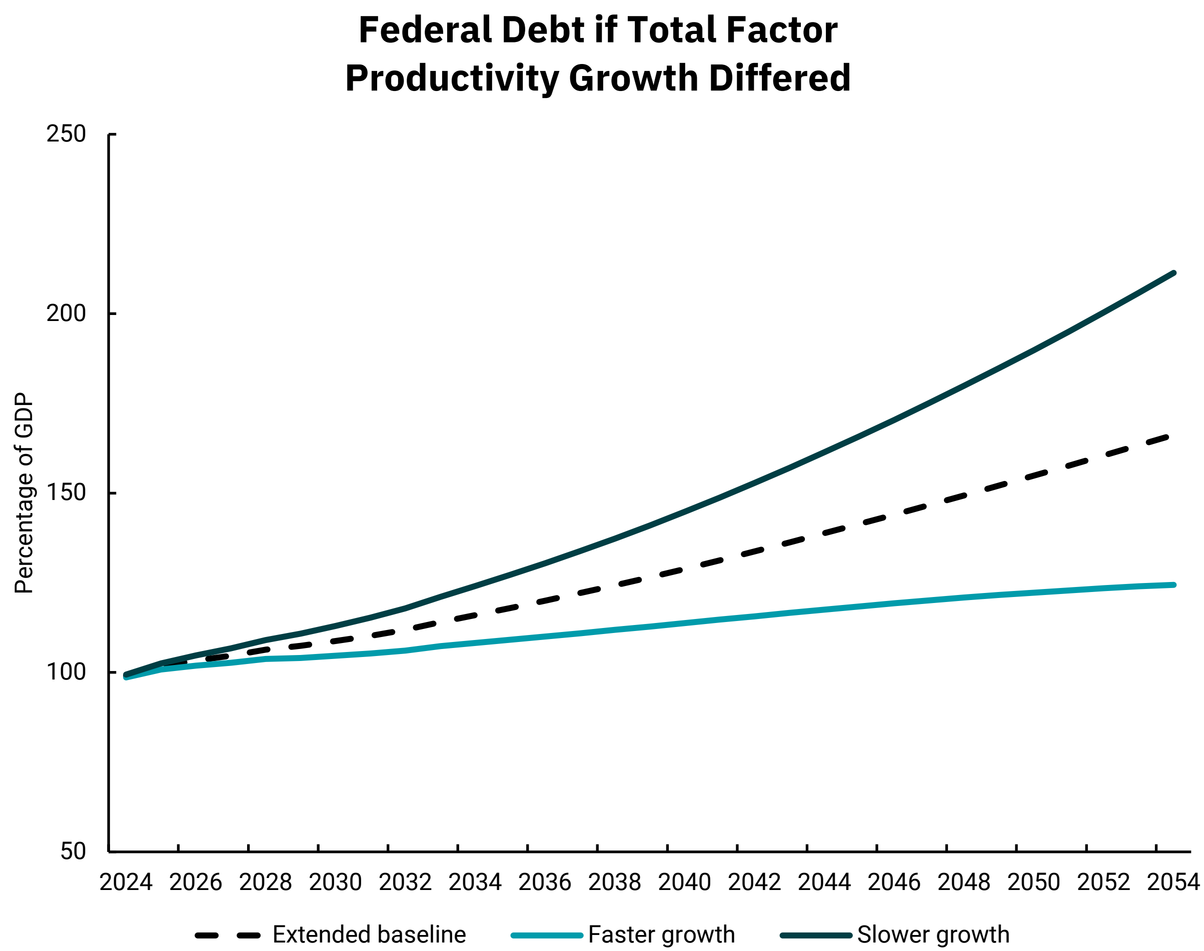
- Debt-to-GDP levels are now higher than at any time save the height of WWII.
- Congressional Budget Office estimates show trillion-dollar deficits going forward and debt-to-GDP ratios continuing to increase.
- Higher interest rates have materially increased the cost of U.S. debt.
- The potential for "crowding out" is increasing as debt levels rise.



Source: Congressional Budget Office. Data shown from CBO's February 2024 report, The Budget and Economic Outlook: 2024-2034.

Debt Forecast variability

- The longer-term implications of small changes in growth are material.
- Total growth factors include interest rates, population growth and productivity.
- Deficit levels are based on current laws which would include the sunsetting of the TCJA resulting in an increase in tax rates.
- We don't have to "balance" the budget in the short run, but a decline in annual budget deficits seems necessary.

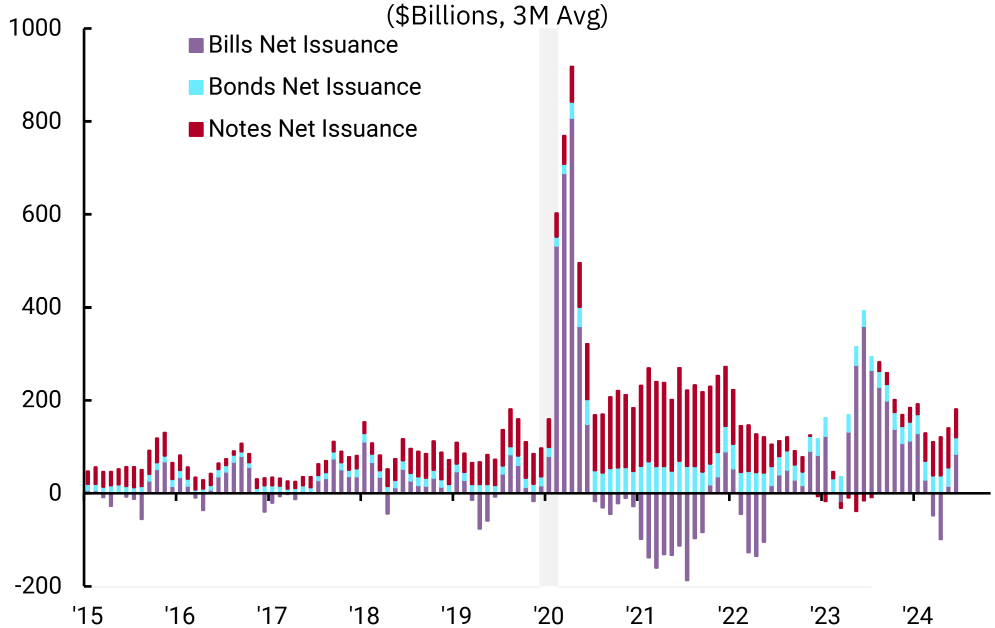


Source: Congressional Budget Office. Data shown from CBO's May 2024 report, The Long-Term Budget Outlook Under Alternative Scenarios for the Economy and the Budget.

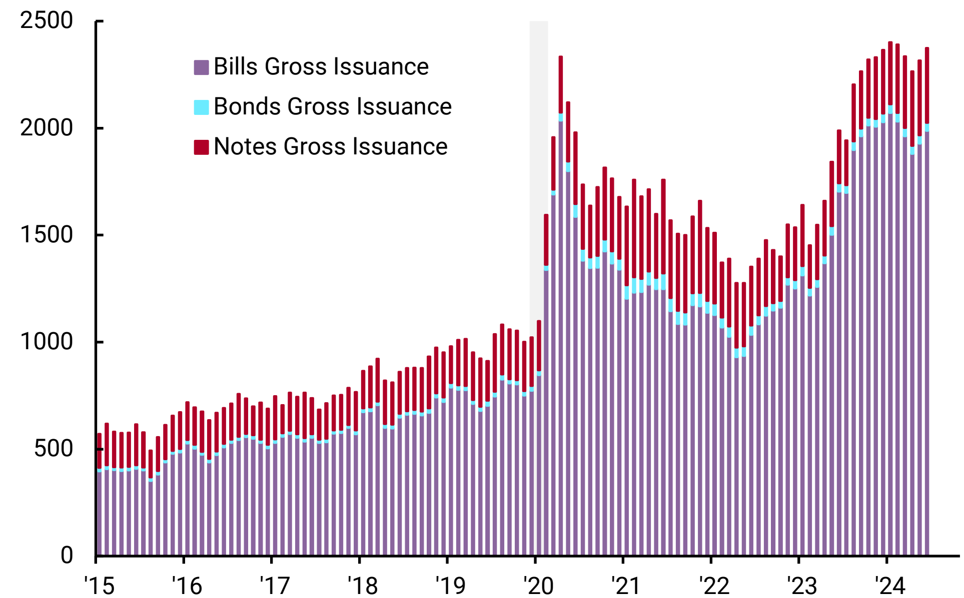
Deficit funding

- Treasury bills have become a larger portion of the debt issuance for the U.S. federal government.
- Since short-term debt obligations like Treasury Bills are tied closer to higher short-term interest rates controlled by the Federal Reserve, these higher rates are reflected in the interest rates paid by the U.S. federal government on short-term obligations.
- Unlike many businesses and consumers, the U.S. federal government did not lock in lower long-term debt obligations during the pandemic. Instead, it is now facing harsher repercussions from higher rates.

U.S. Treasury Bills, Notes, & Bonds
Net Issuance
($Billions, 3M Avg)



U.S. Treasury Bills, Notes, & Bonds
Gross Issuance
($Billions, 3M Avg)



Source: Strategas. Data shown as of Aug. 31, 2024.

Policy comparison

- The policy differences evident in this election are very wide.
- The ability to implement significant policy changes can be limited by the makeup of Congress.
- 2025 will see required action on the debt ceiling and tax policy.

Issue	Democratic Platform	Republican Platform
Trade	Targeted tariffs	Potential for broad tariff policies
Taxes	$3-4 trillion in new taxes	Maintain current policy
Dollar	Status quo	Likely weaker
Regulation	Increased private sector cost	Freeze on new regulations
Immigration	Open	Restrictive
Fiscal	**Limited improvement**	**Limited improvement**
Energy	Aggressive green energy policies	Less restrictive energy transition timetable

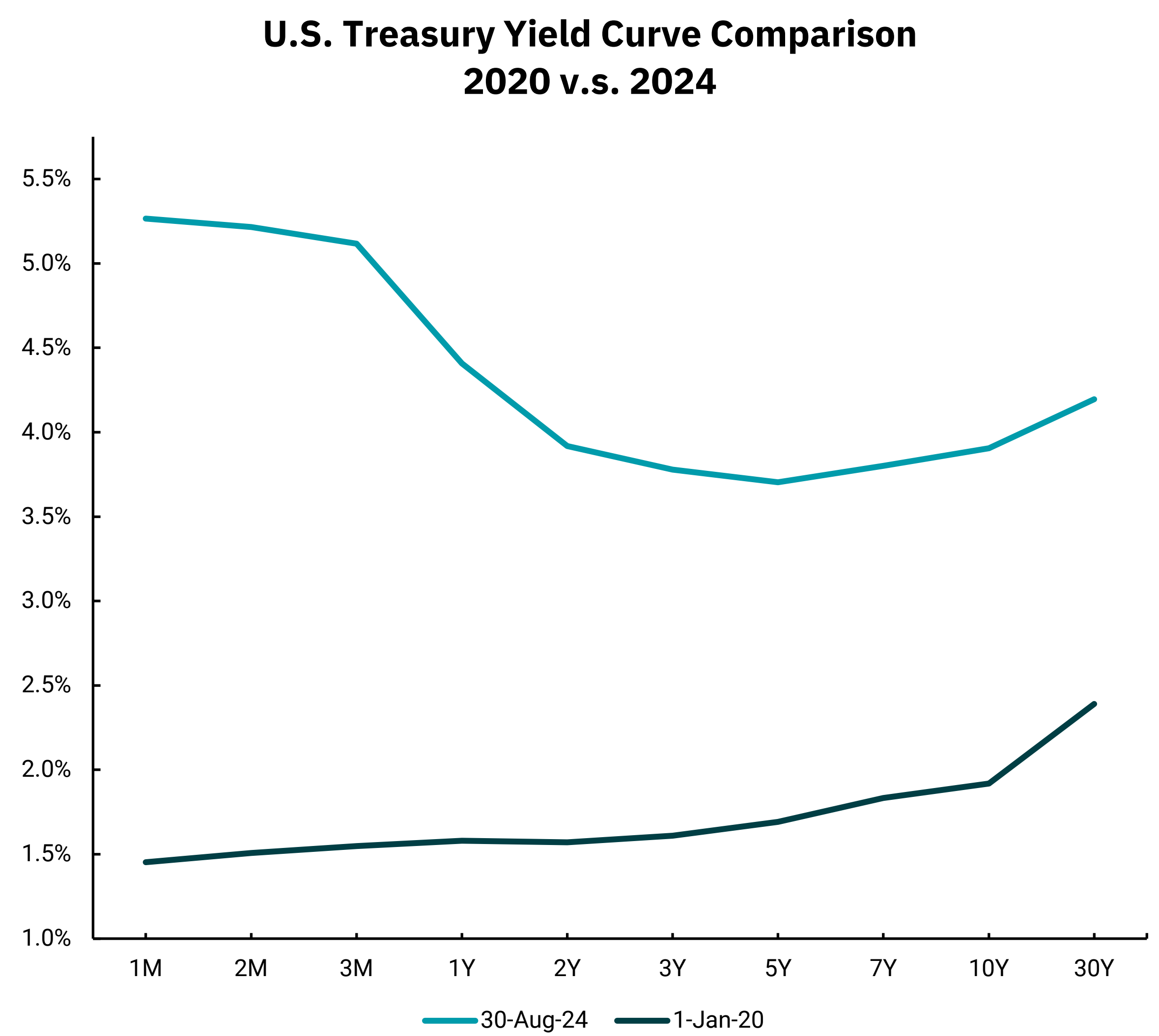
Source: Various sources.

Market pulse

1. Fixed income yields are still relatively high.
2. While volatility has increased, the fundamentals of the stock market appear intact.
3. Alternative investments.

Higher bond market yields

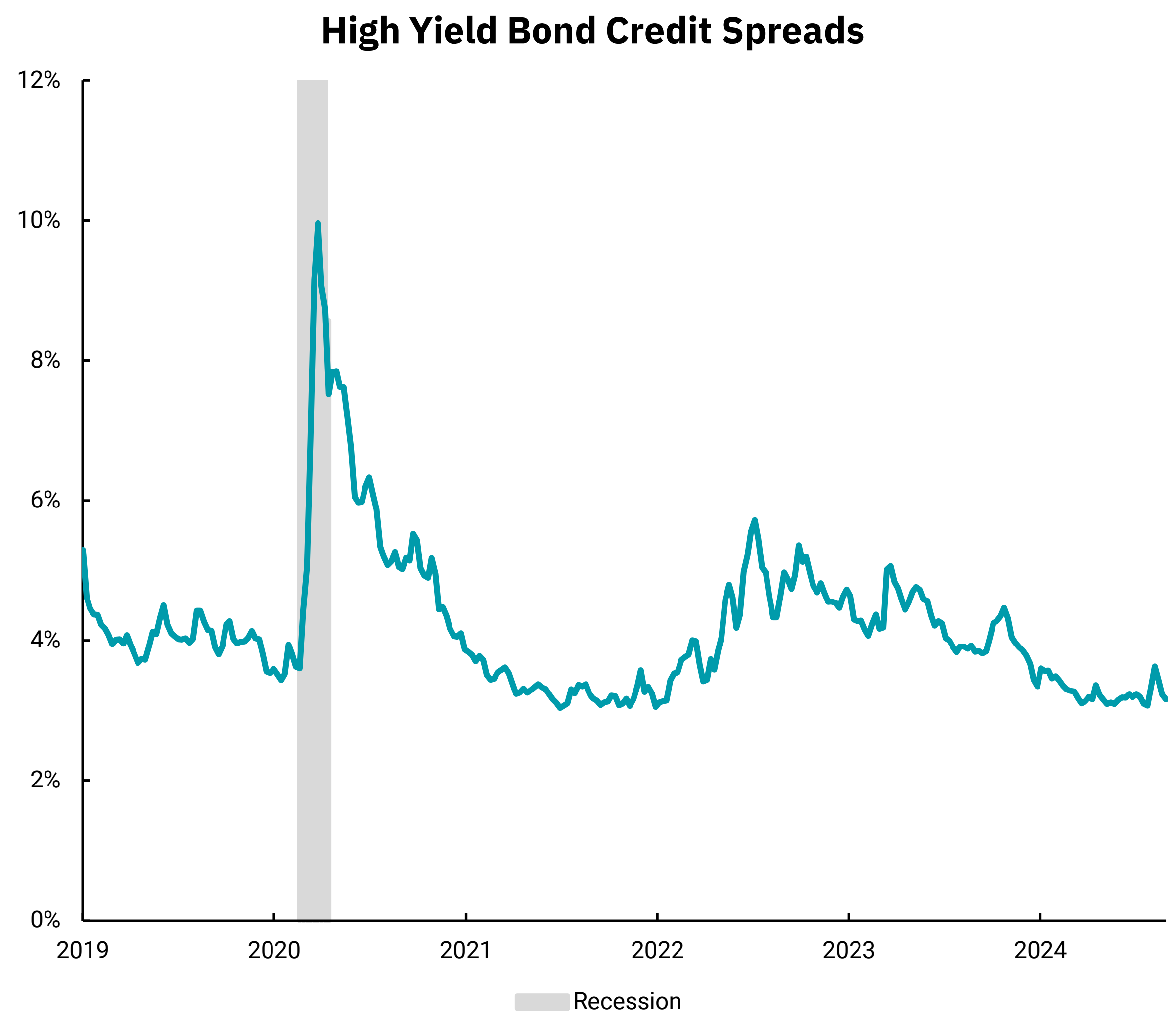
- The curve inversion indicates an expectation that lower rates from the Fed are coming.
- Bonds may represent attractive value at these levels if inflation continues to subside.
- One note of caution is that although credit spreads have remained tight, they have the potential to widen in a worsening economic climate.



Source: Bloomberg. Data shown as of Aug. 30, 2024.

Credit spreads – No recession here

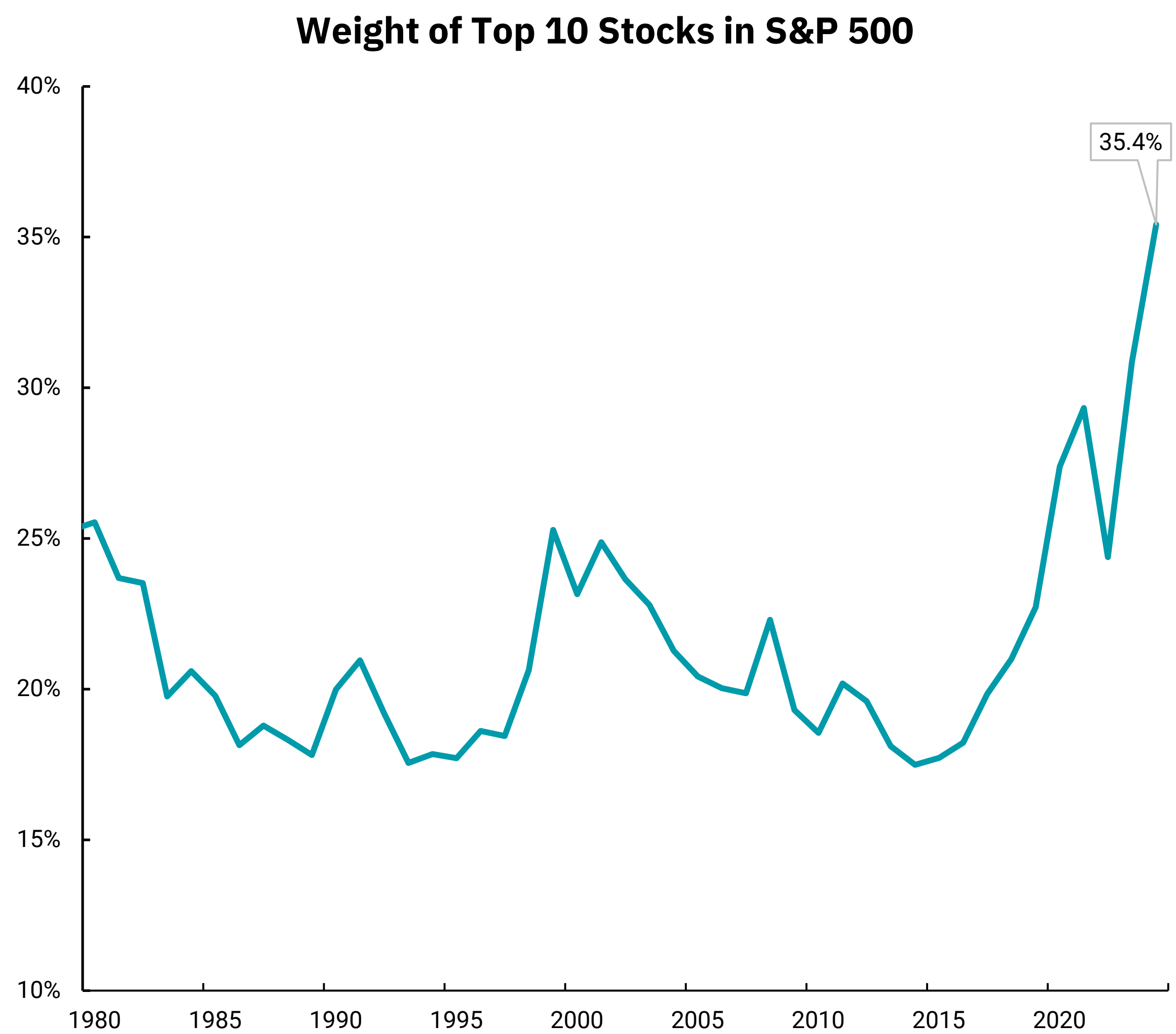
- Credit spreads are one of the most utilized tools to gauge the level of fear in the financial markets.
- It makes sense that high-yield spreads would be the first to rise during deteriorations of economic conditions, as high-yield credit is riskier than investment-grade credit.
- Currently, high-yield credit spreads are not showing much fear in the markets and are at some of the lowest levels of the past five years.



Source: Federal Reserve Bank of St. Louis. Data shown as of Aug. 31, 2024..

Industry concentration

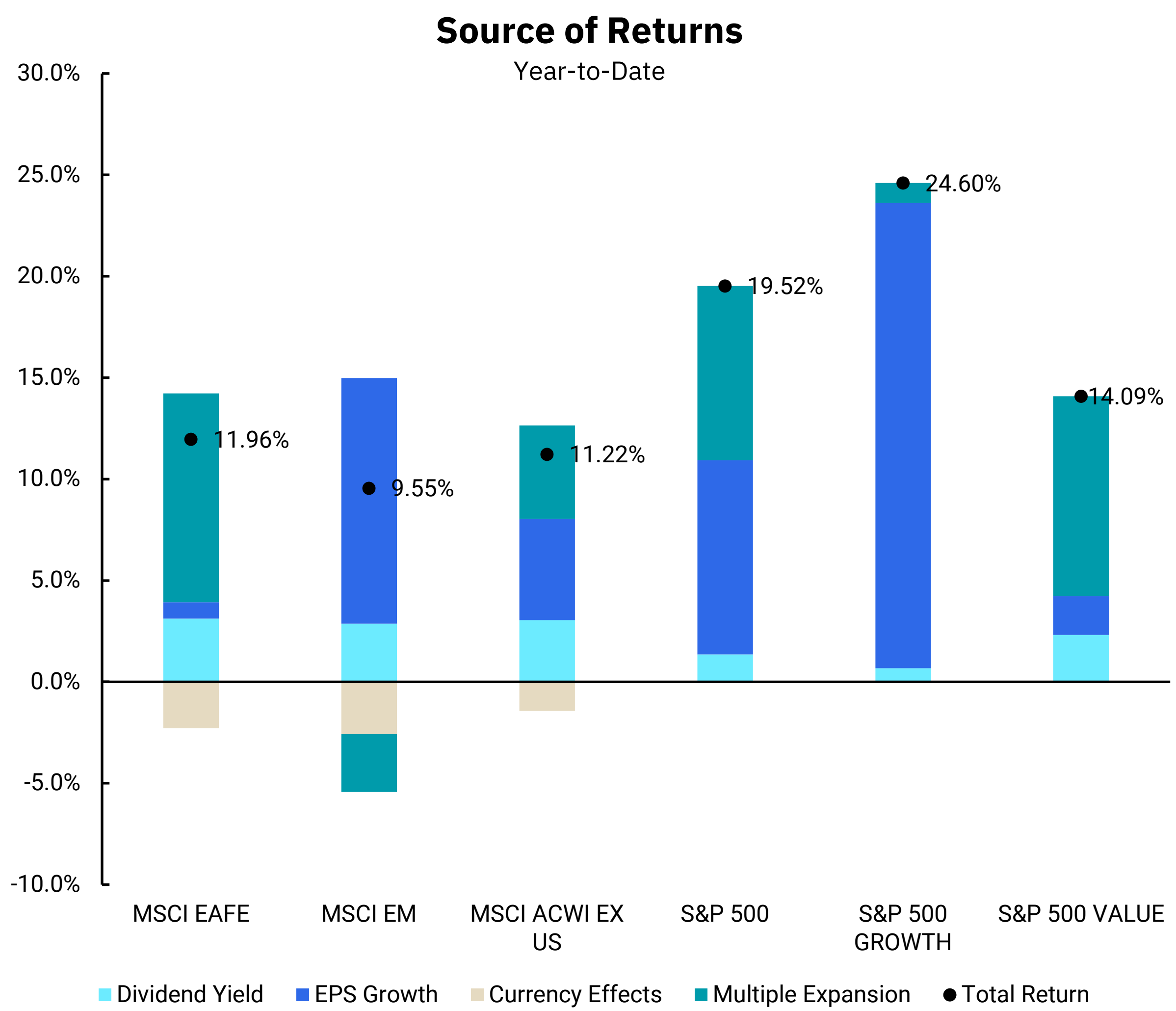
- S&P 500 index returns are largely driven by the highly weighted components of the index.
- Almost 70% of the S&P 500's return in 2023 was driven by just ten stocks.
- Although other areas of the equity markets have performed well in 2024, S&P 500 performance has remained relatively concentrated.



Source: Bloomberg. Data shown as of Aug. 31, 2024.

Returns YTD driven primarily by earnings

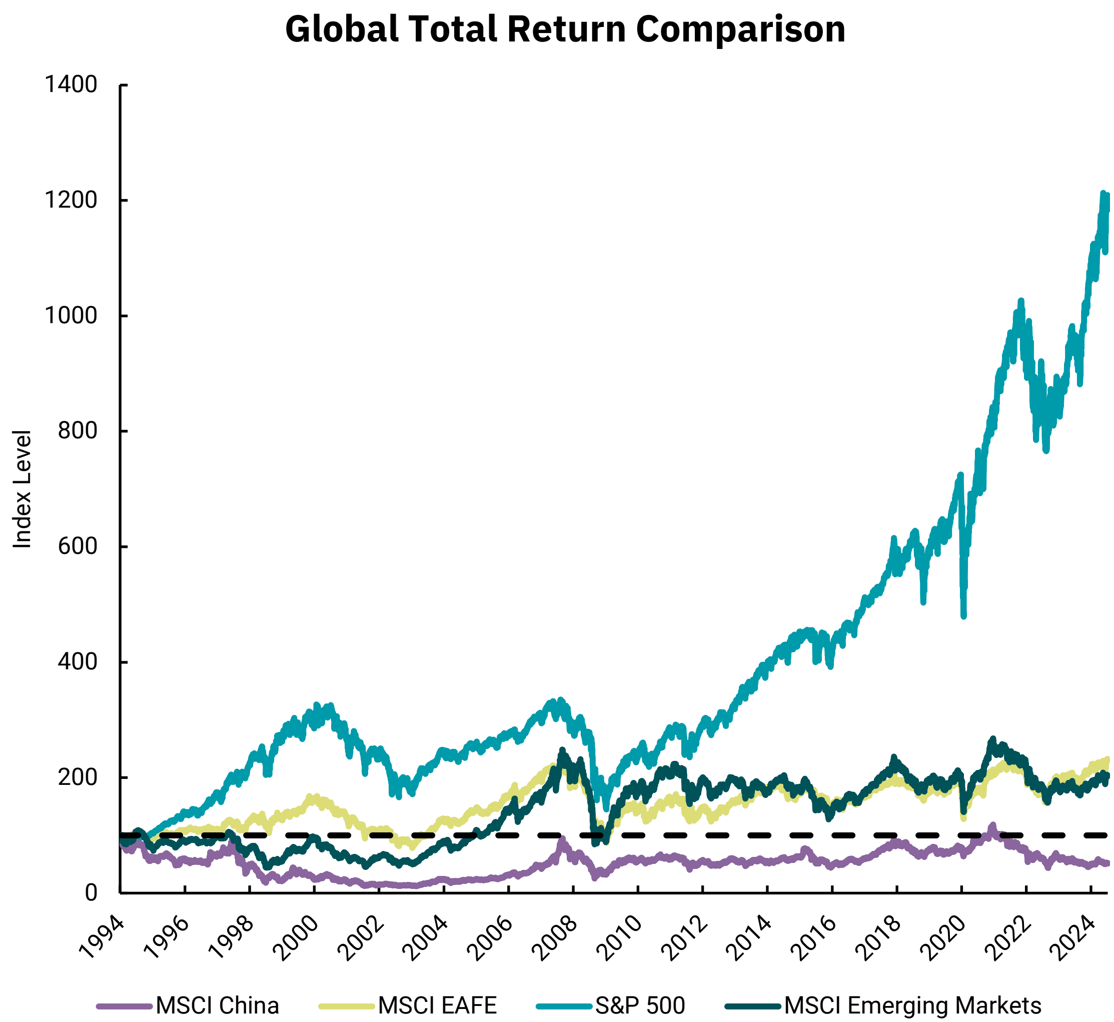
- Unlike some past periods where increasing multiples drove equity market performance, most stock markets this year are seeing earnings growth as a primary driver of returns.
- S&P 500 growth leads the way in performance but has shown a decline in multiples as earnings growth has been faster than price increases.
- Overall market multiples are still extended, but not egregiously high and earnings estimates for the rest of 2024 and 2025 are up double digits.



Multiple Expansion = Total Return YTD - Dividends - Currency Effects - EPS Growth
Currency Effects = Index Return YTD – Currency Hedged Index Return YTD
EPS Growth = Sell-side consenus estimate for 2023 EPS
Dividend Yield = BEst. Div Yld
Source: Bloomberg. Data shown as of Aug. 30, 2024.

Domestic stock market performance continues to impress

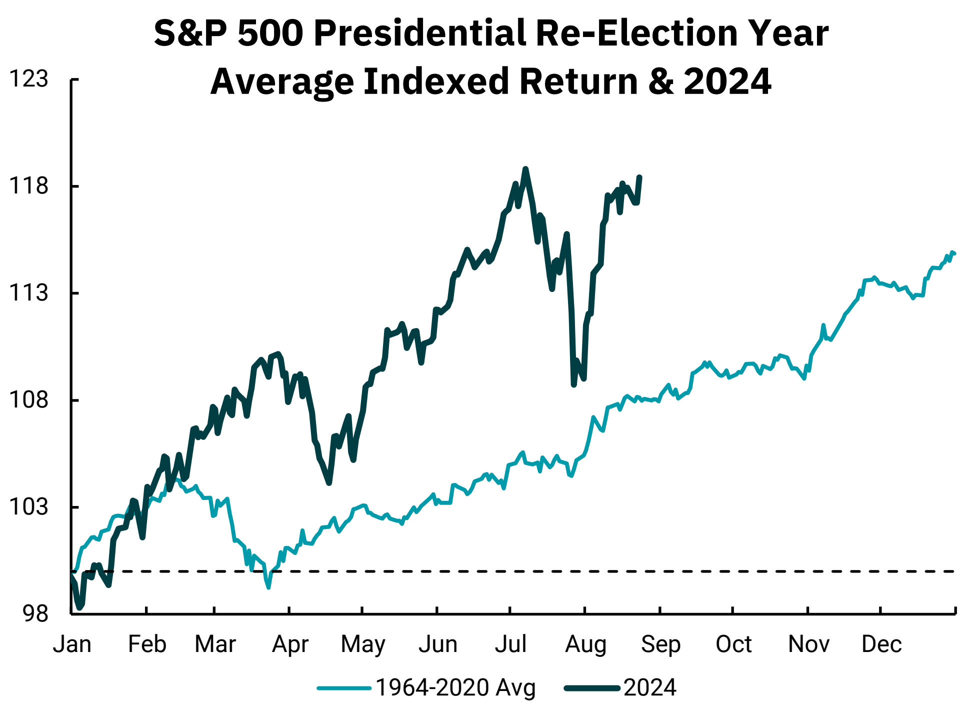
- The S&P 500 domestic market index has performed well when compared to many other alternatives, including developed markets, emerging markets and China.
- Looking specifically at China, its stock market has returned nothing over the last 30 years.
- The exceptionalism of the U.S. economy and U.S. companies has been apparent over the past three decades.



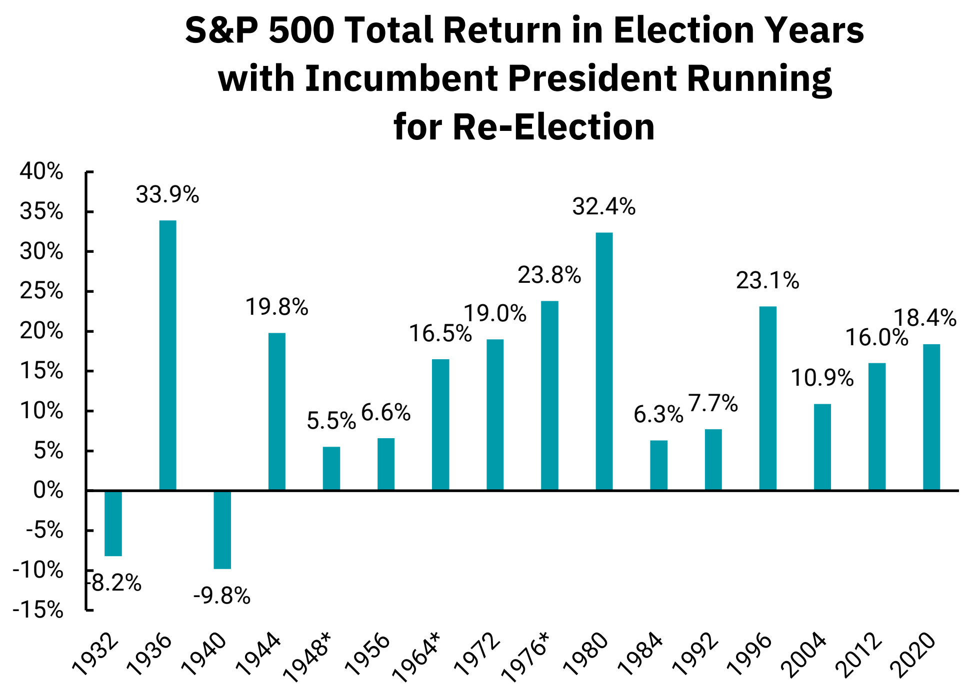
Indexed at 100, Feb. 28, 1994.
Source: Bloomberg. Data shown as of Aug. 31, 2024.

Election year returns positive

- Historically, the S&P 500 has delivered positive returns during most presidential election years.
- With federal government spending set to expand, this could help provide some tailwinds to the market in the coming year.
- Typically, markets prefer divided government, as it generally results in less extreme legislation being passed.



*1964, and 1976 are counted as re-election years



*In 1948 Truman assumed office after FDR's death and sought another term; 1964 Johnson

Source: Strategas. Data as of Aug. 31, 2024.

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Market pulse summary

1. As interest rates are still at relatively high levels, we see pockets of opportunity in the U.S. fixed-income market.

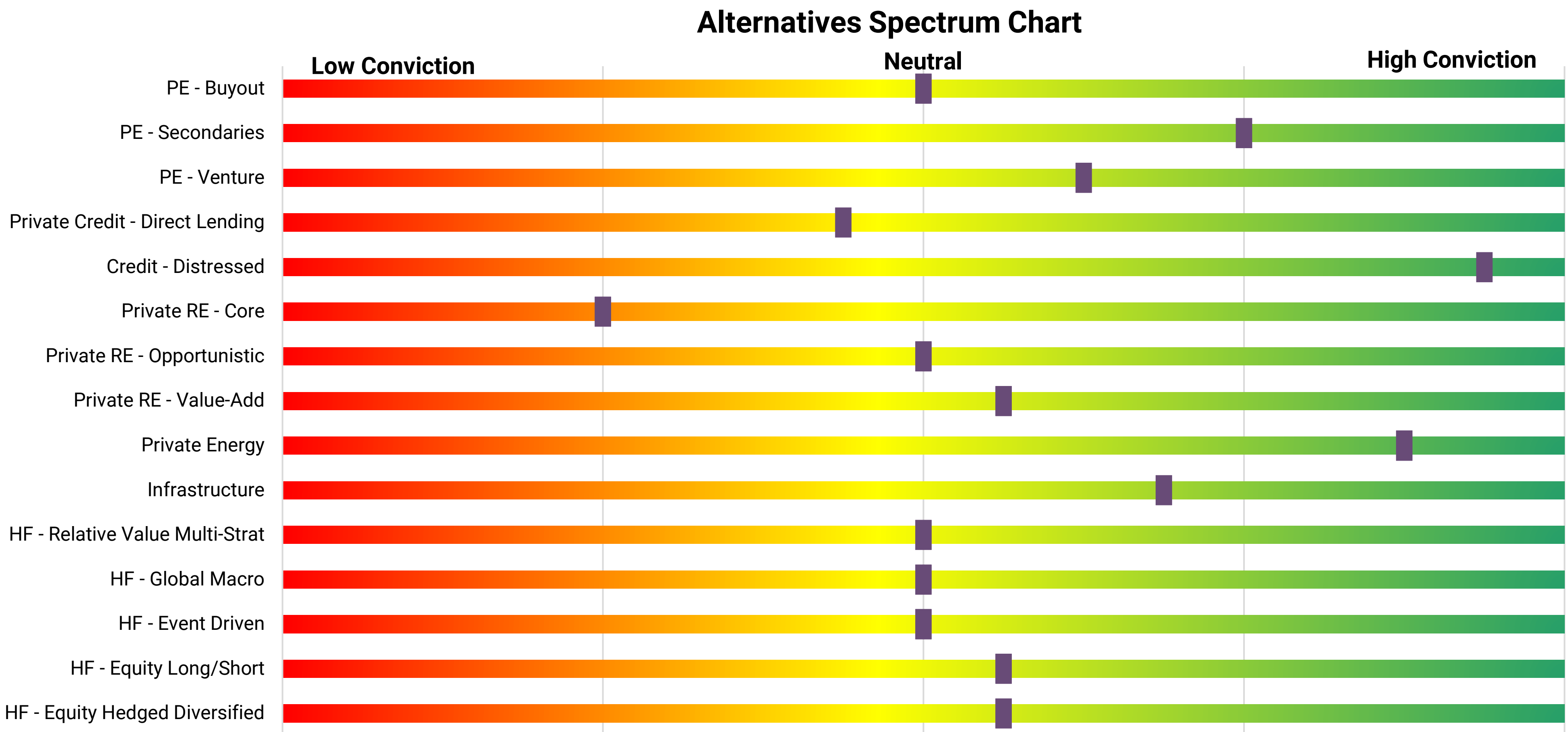
2. Equity valuations appear full, but not overly expensive, assuming growth expectations are realized.

3. Companies have kept healthy margins even with the substantial reduction in inflation, helping to improve the outlook for financial markets. As the last mile of the inflation battle comes into focus, corporate margins will remain important.

4. The federal debt may begin to crowd out some investments and is a growing risk to financial market stability, yet neither party appears to be running on a platform of fiscal responsibility.

5. Alternative investments remain a potential opportunity for investment as distressed assets often provide attractive returns from talented managers.

Alternatives: Our 2024 outlook



- Private equity secondaries provide good value.
- Distressed credit will continue to be attractive as high interest rates have stressed issuers.
- Private energy has been a great performer as OPEC seeks high market levels for crude oil.
- Strong gains in the equity markets should translate to favorable performance in the equity long/short space.

Broad market overview

Returns (%)	1 Mo.	3 Mo.	YTD	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.
Capital Markets							
DJ Industrial Average TR USD	2.03	-1.27	11.75	16.02	6.42	10.32	11.30
NASDAQ 100 TR USD	1.18	8.05	16.96	30.77	11.50	21.76	18.92
Russell 3000 TR USD	2.18	3.22	18.19	23.13	8.05	14.14	12.15
S&P 500 TR USD	2.43	4.28	19.53	24.56	10.01	15.04	12.86
Domestic Large Cap Equities							
Russell 1000 TR USD	2.37	3.57	18.64	23.88	8.74	14.60	12.51
Russell 1000 Value TR USD	2.68	-2.17	15.08	13.06	5.52	9.00	8.23
Russell 1000 Growth TR USD	2.08	8.33	21.12	33.48	11.28	19.34	16.33
Domestic Mid Cap Equities							
Russell Mid Cap TR USD	2.03	-3.35	12.14	12.88	2.37	9.45	9.04
Russell Mid Cap Value TR USD	1.89	-3.40	12.95	11.98	3.65	8.49	7.60
Russell Mid Cap Growth TR USD	2.48	-3.21	9.27	15.05	-0.08	9.92	10.51
Domestic Small Cap Equities							
Russell 2000 TR USD	-1.49	-3.28	10.39	10.06	-2.58	6.94	7.00
Russell 2000 Value TR USD	-1.88	-3.64	9.15	10.90	-0.53	7.07	6.23
Russell 2000 Growth TR USD	-1.11	-2.92	11.74	9.14	-4.86	6.16	7.39
International Equities							
MSCI EAFE NR USD	3.25	-0.42	11.96	11.54	2.89	6.46	4.33
MSCI EAFE Value NR USD	2.56	0.01	12.19	13.75	5.55	6.06	3.01
MSCI EAFE Growth NR USD	3.95	-0.75	11.78	9.39	0.08	6.46	5.42
MSCI ACWI Ex USA NR USD	2.85	0.96	11.22	11.62	0.46	5.54	3.84
MSCI EM NR USD	1.61	5.00	9.55	12.55	-5.06	3.10	2.79
Cash & Fixed Income							
FTSE Treasury Bill 3 Mon USD	0.46	1.37	3.71	5.64	3.17	2.22	1.53
Bloomberg US Agg Bond TR USD	1.44	0.07	3.07	2.63	-3.02	-0.23	1.35
Bloomberg Gbl Agg Ex USD TR Hdg USD	0.80	0.11	3.15	5.26	-0.48	0.51	2.45
Bloomberg US Corporate High Yield TR USD	1.63	1.09	6.29	10.44	1.64	3.92	4.31
Alternatives							
MSCI US REIT GR USD	6.44	0.08	12.84	7.60	0.20	3.89	5.83
Bloomberg Commodity TR USD	0.05	2.89	0.95	5.00	5.65	7.24	-1.29

Source: Morningstar. Data shown as of Aug. 31, 2024.

Asset class quilt

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD	
13.69%	5.67%	21.31%	37.28%	3.17%	36.39%	38.49%	28.71%	-7.54%	42.68%	21.12%	Best Performing
13.45%	1.38%	17.34%	30.21%	0.01%	31.49%	19.96%	27.60%	-9.76%	26.29%	19.53%	
13.22%	1.36%	17.13%	25.03%	-1.51%	30.54%	18.40%	25.16%	-11.19%	18.24%	15.08%	
13.05%	0.55%	13.80%	21.83%	-2.08%	26.54%	18.31%	22.58%	-13.01%	17.23%	10.39%	
8.79%	-0.81%	11.96%	18.52%	-4.38%	25.52%	17.10%	14.82%	-14.45%	16.93%	12.14%	
5.97%	-2.44%	11.19%	14.65%	-8.27%	22.01%	7.82%	11.26%	-17.32%	13.44%	11.96%	
4.89%	-3.83%	7.08%	13.66%	-9.06%	18.44%	7.51%	5.28%	-18.11%	11.46%	9.55%	
2.45%	-4.41%	4.90%	7.50%	-11.01%	14.32%	7.11%	-1.40%	-20.09%	9.83%	6.29%	
-2.19%	-4.47%	2.65%	3.54%	-13.79%	8.72%	3.94%	-1.54%	-20.44%	8.32%	3.15%	Worst Performing
-4.90%	-14.92%	1.00%	2.48%	-14.58%	7.57%	2.80%	-2.54%	-29.14%	5.53%	3.07%	

S&P 500	Mid Cap Blend	Foreign Stocks	Bonds
Large Cap Value	Small Cap Blend	Emerging Markets	
Large Cap Growth	Foreign Bonds	High Yield	

Source: Morningstar. Data shown as of Aug. 31, 2024.

Equity returns across periods

1 Month

	Value	Core	Growth
Large	2.7	2.4	2.1
Mid	1.9	2.0	2.5
Small	-1.9	-1.5	-1.1
Int'l	2.5	2.8	3.2

1 Year

	Value	Core	Growth
Large	21.1	27.1	30.8
Mid	20.2	20.2	19.1
Small	19.2	18.5	17.7
Int'l	19.4	18.2	17.1

3 Year

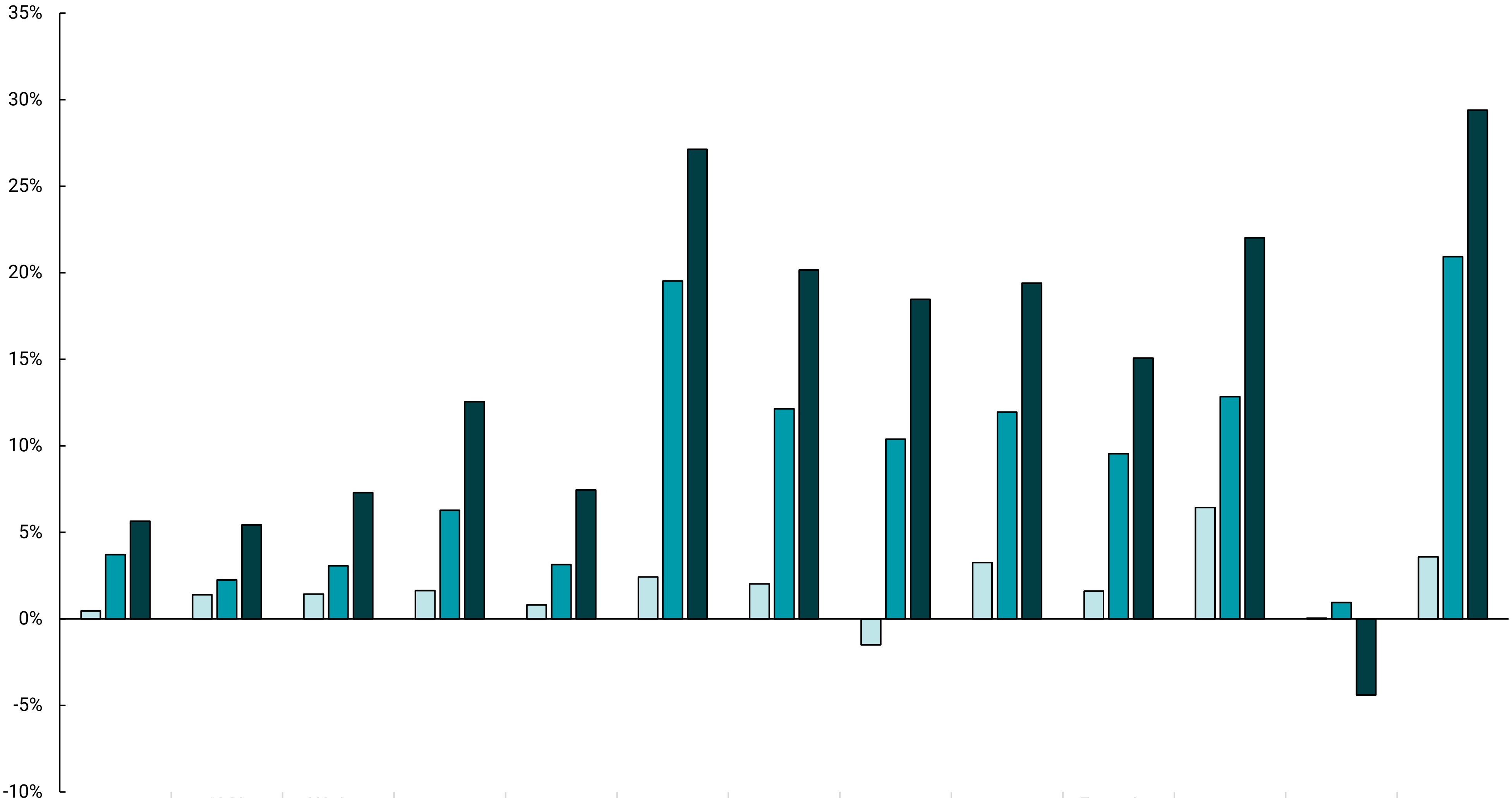
	Value	Core	Growth
Large	7.3	9.4	8.9
Mid	5.4	3.5	-0.5
Small	3.0	0.6	-2.1
Int'l	5.8	2.1	-1.5

5 Year

	Value	Core	Growth
Large	11.2	15.9	19.1
Mid	10.8	11.2	10.5
Small	10.4	9.7	8.3
Int'l	8.0	7.6	6.8

Source: Morningstar. Returns in the style boxes are represented by the Russell indexes and the S&P 500 for the Large Cap Core space. Returns in the international boxes are represented by the MSCI ACWI Ex USA indexes. Boxes shown in red represent returns below 0%. Purple boxes represent returns between 0% and 10%. Returns above 10% are shown in violet.
Data shown as of Aug. 31, 2024.

Market summary

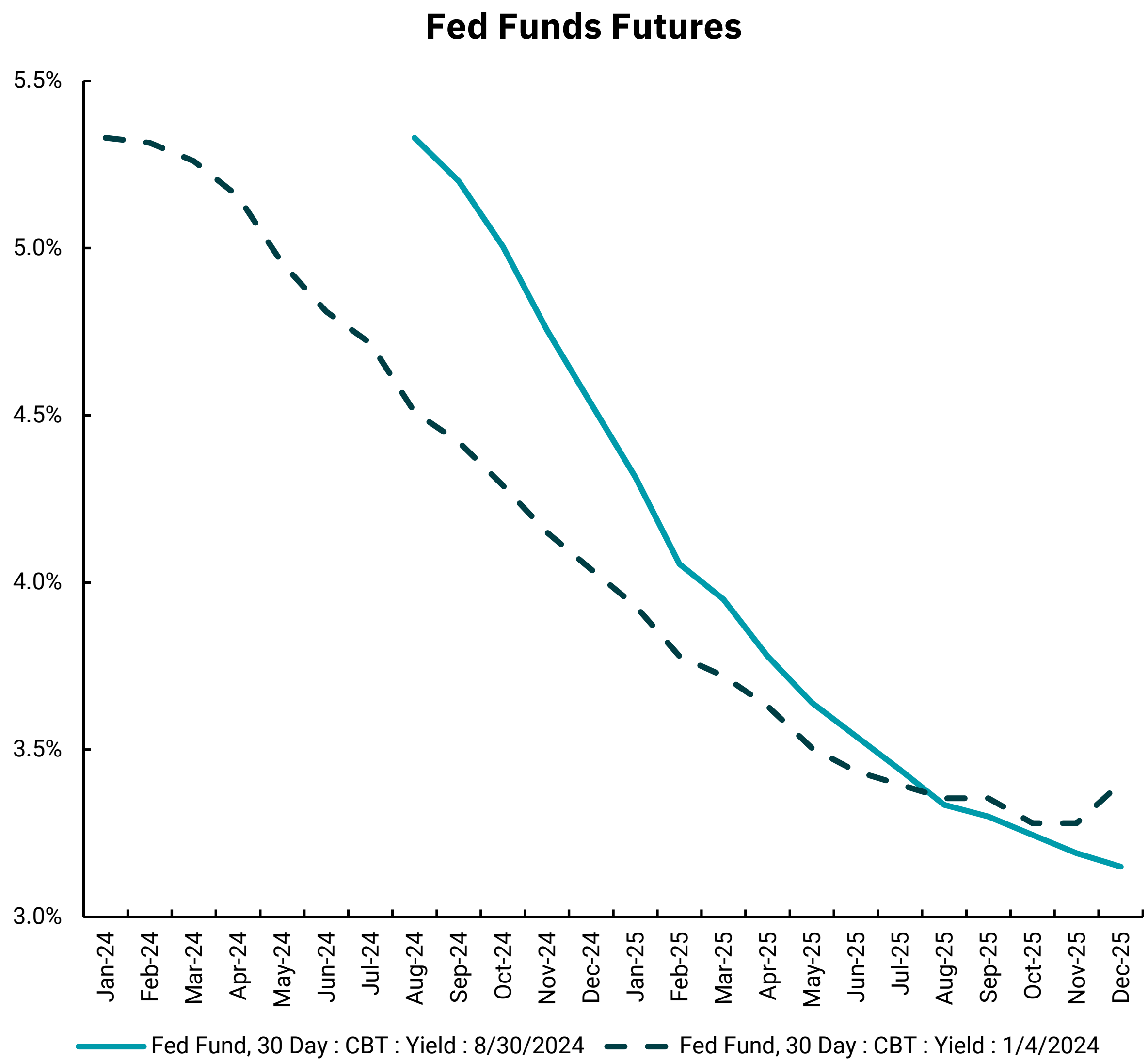


	Cash	10-Yr Treasury	US Agg Bonds	High Yield	Intl. Bonds	Large Cap	Mid Cap	Small Cap	Intl. Dev	Emerging Markets	REIT	Commodity	Gold
1 Month	0.46%	1.40%	1.44%	1.63%	0.80%	2.43%	2.03%	-1.49%	3.25%	1.61%	6.44%	0.05%	3.59%
YTD	3.71%	2.25%	3.07%	6.29%	3.15%	19.53%	12.14%	10.39%	11.96%	9.55%	12.84%	0.95%	20.93%
1 Year	5.65%	5.43%	7.30%	12.55%	7.45%	27.14%	20.16%	18.47%	19.40%	15.07%	22.02%	-4.39%	29.40%

Source: Morningstar. Data shown as of Aug. 31, 2024.

Fed Funds Futures

- Coming into 2024, the market was expecting approximately six rate cuts from the Federal Reserve.
- With stickier-than-expected inflation data arriving in the spring, expectations were pulled back.
- However, recent inflation readings have been encouraging, and as of the end of July, markets are expecting two to three rate cuts in the back half of 2024.



Source: Bloomberg. Data as of Aug. 30, 2024.

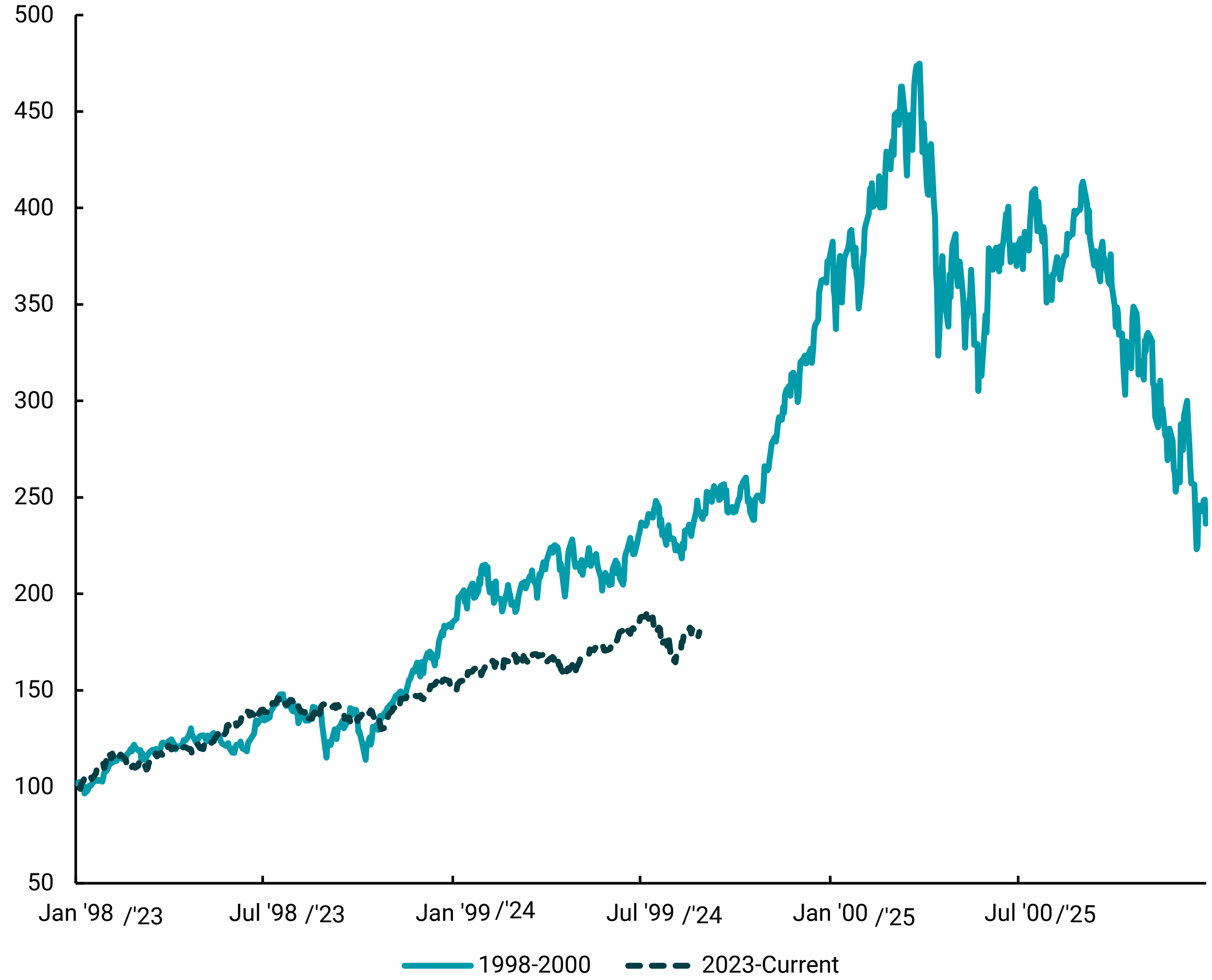
AI bubble?

- Many market participants have proclaimed a bubble in the stocks of companies tied to artificial intelligence.

- However, comparing the performance of the Nasdaq 100 during the dot-com era to the current AI rally shows there may be significantly more room for improved performance attributable to AI.

- Moreover, much of the AI-related equity market performance has come from profitable companies, unlike many of the unprofitable surging stocks of the dot-com era.

Nasdaq 100 Index
1998-2000 vs. 2023-Current



Source: Strategas. Data shown as of Aug. 31, 2024.

Disclosures

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