

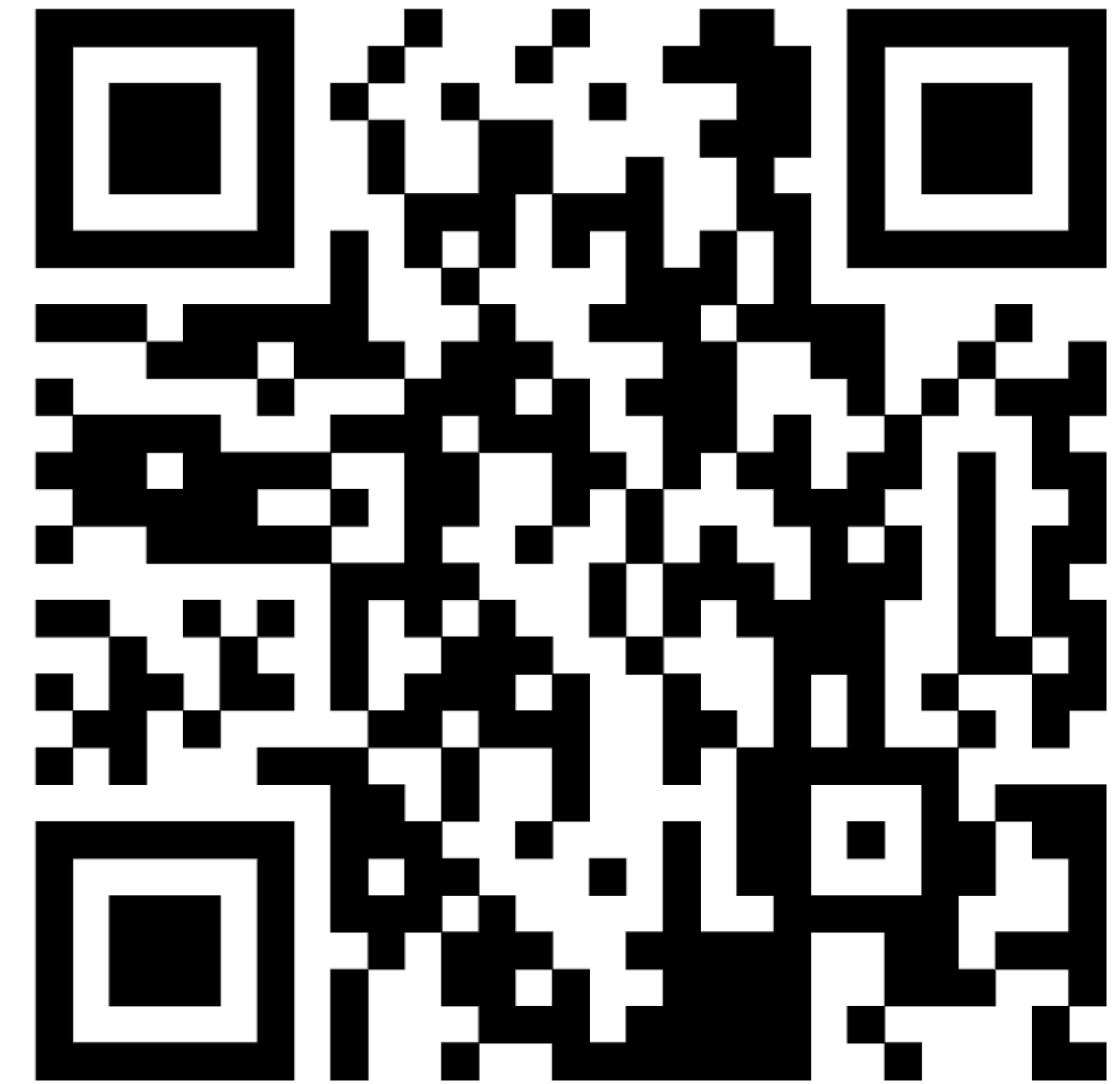
# Economic & Market Outlook: It All Depends On Your Time Horizon

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Senior Equity Strategist  
Senior Vice President

December 2024

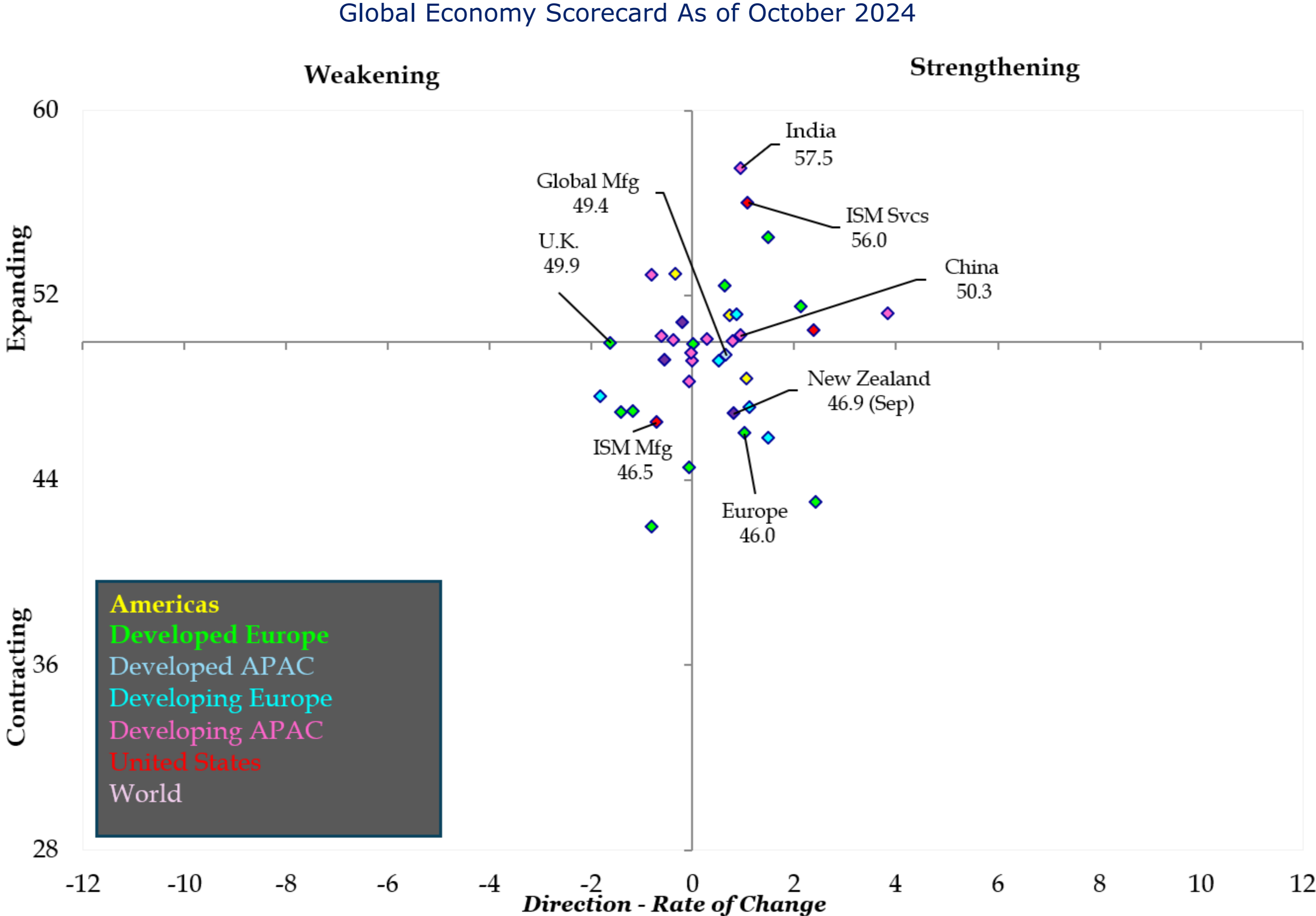
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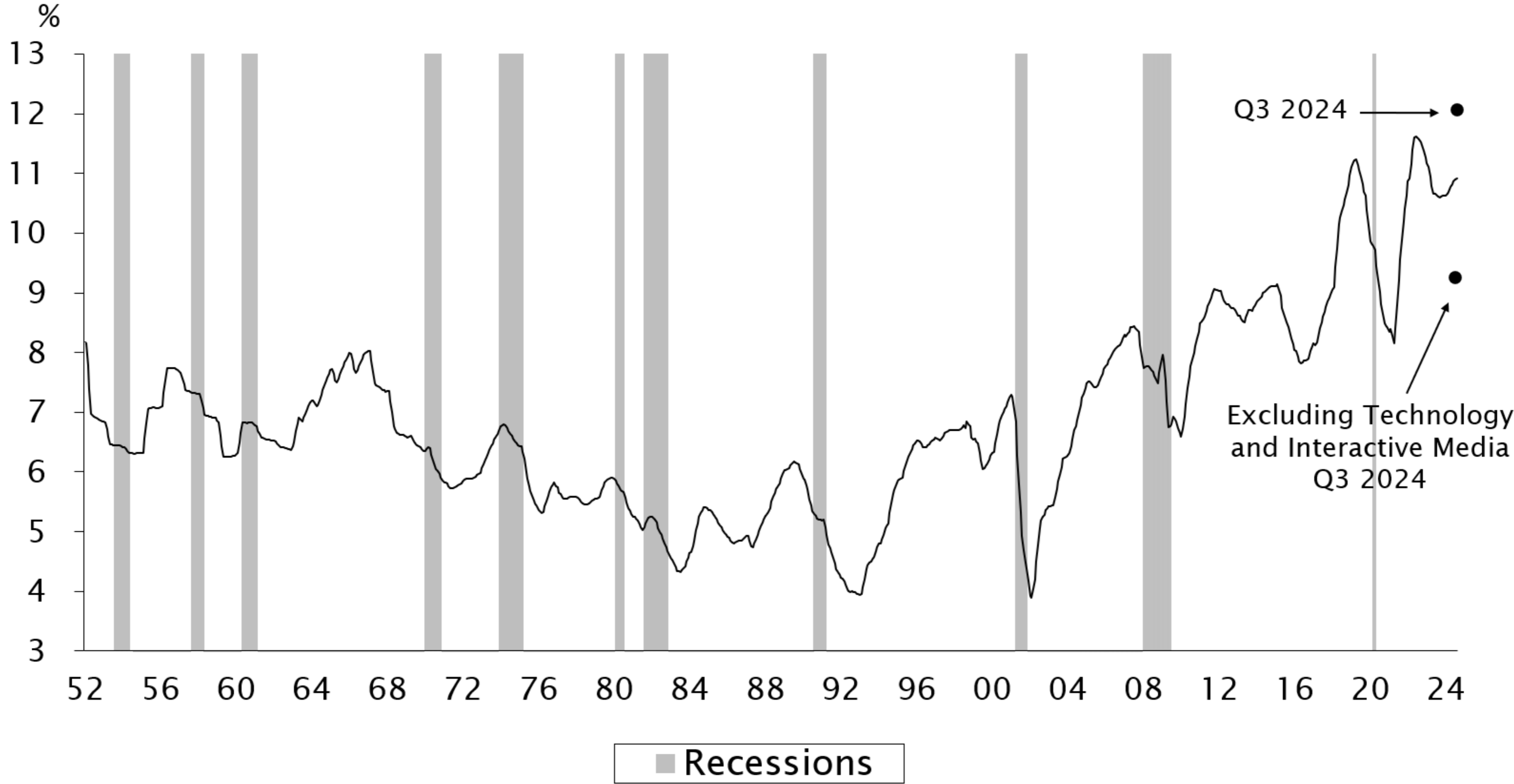
# Can the globe skirt a recession?



Source: Strategas Research Partners. Data as of October 31, 2024

# Profit margins are at a record level

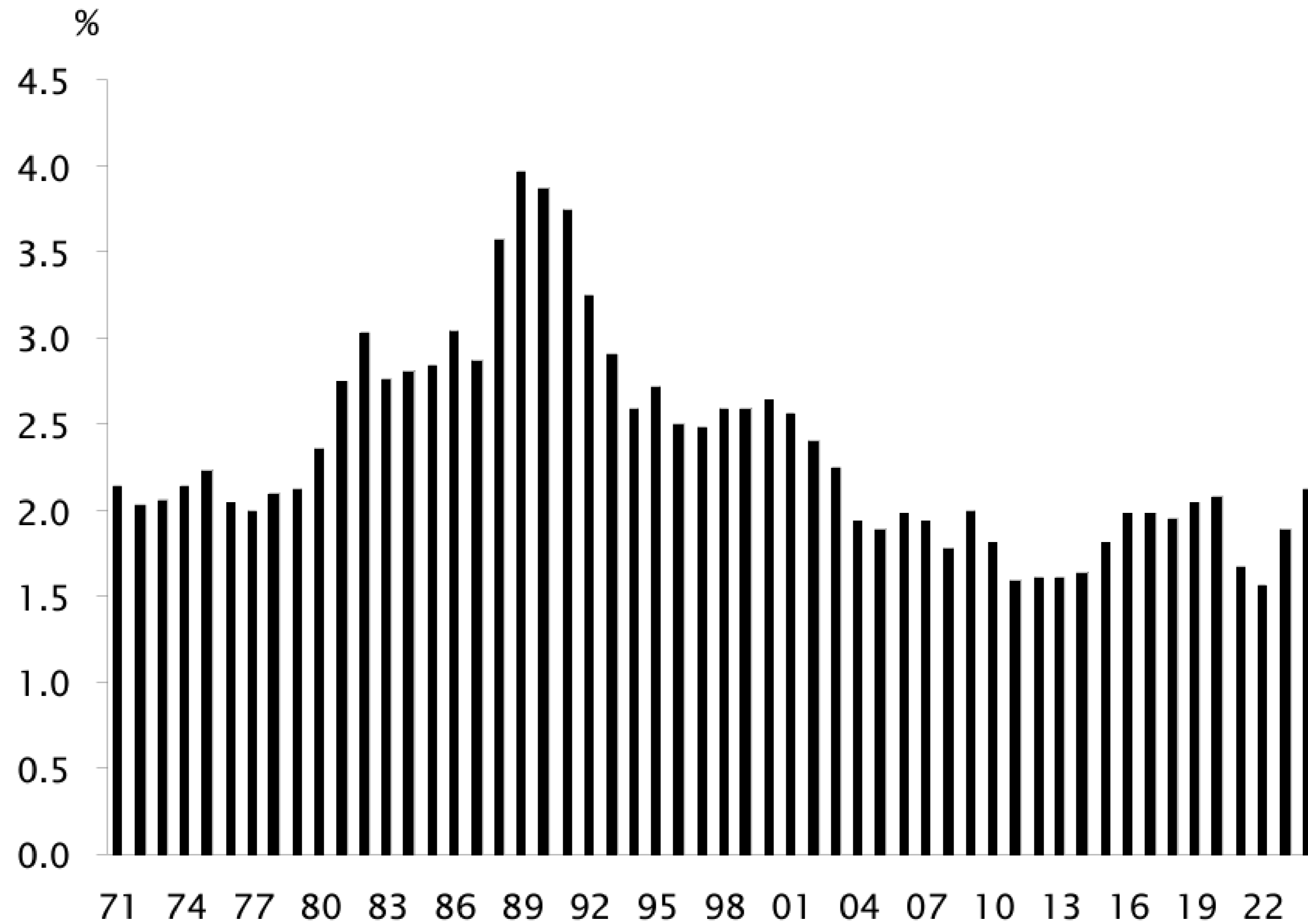
The S&P 500 Net Profit Margins  
1952-Q3 2024E



Source: Empirical Research Partners. Based on trailing 4-quarter aggregated data smoothed on a trailing 3-month basis. Excludes financials and REITs. Prior to 1977 the large-cap universe is used. November 12, 2024

# Corporate debt service is handleable

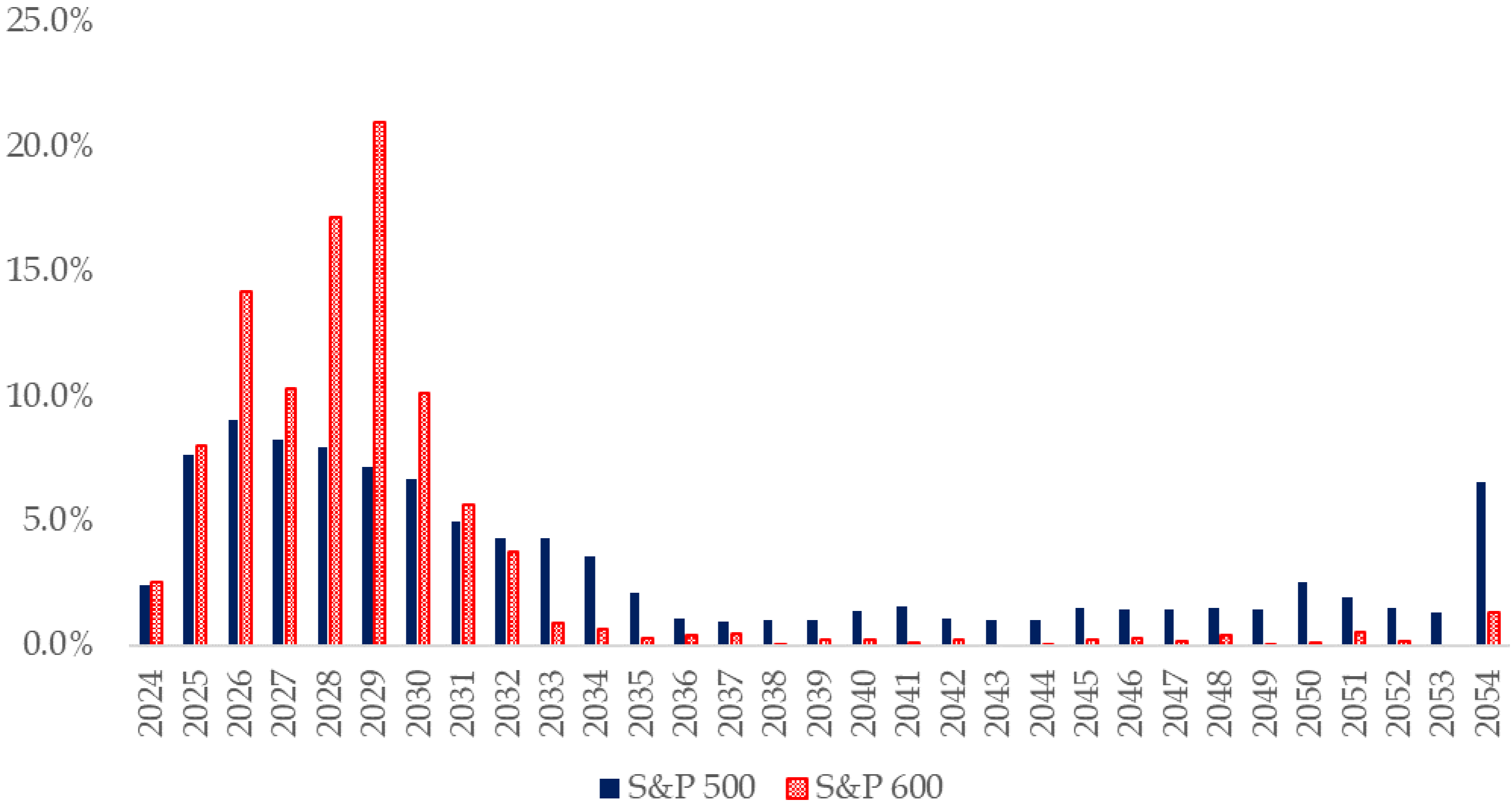
U.S. Public Companies Interest Expense As A Share of Revenues  
1971 Through First-Half 2024



Source: Corporate Reports, Empirical Research Partners Analysis. August 13, 2024

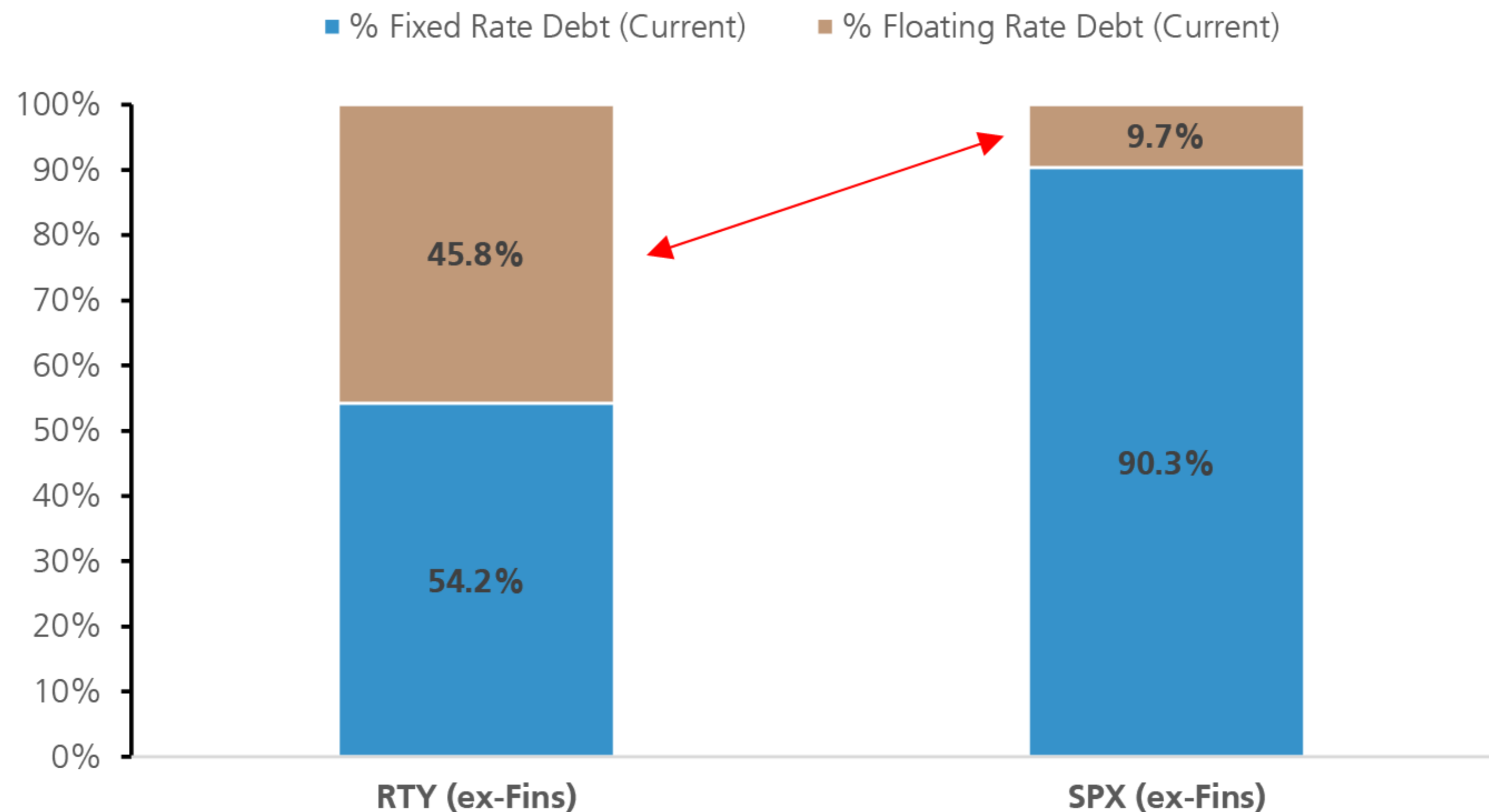
# Maturing debt is largely a small cap problem

S&P 500 vs. S&P 600  
Debt Distribution by Maturity



Source: Strategas Research Partners. July 31, 2024

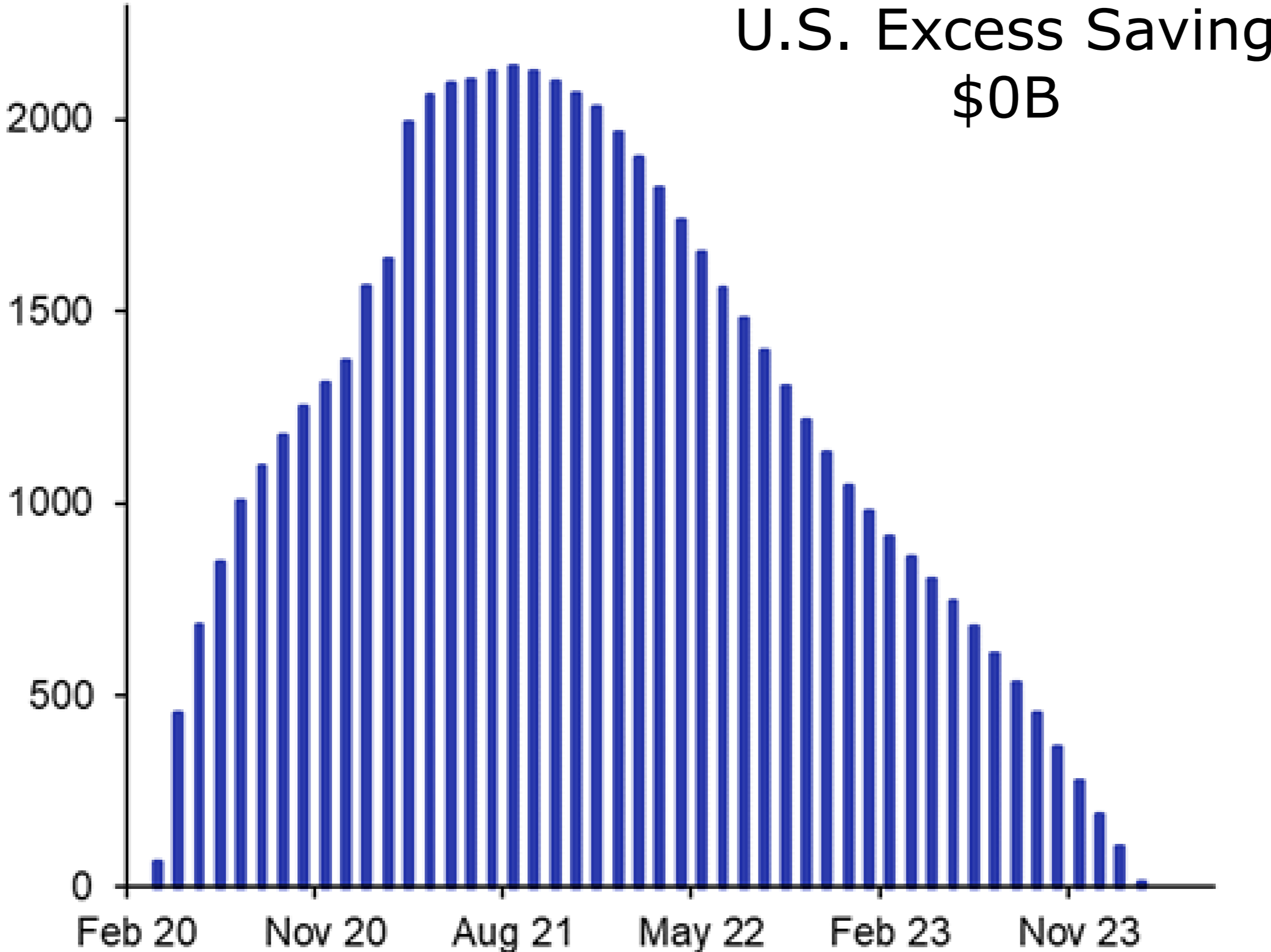
# Declining rates could be a windfall to variable rate debt-heavy small caps



Source: Bloomberg. UBS Research. July 18, 2024. RTY is the Russel 2000 Index. SPX is the S&P 500 Index.

# Easy come easy go

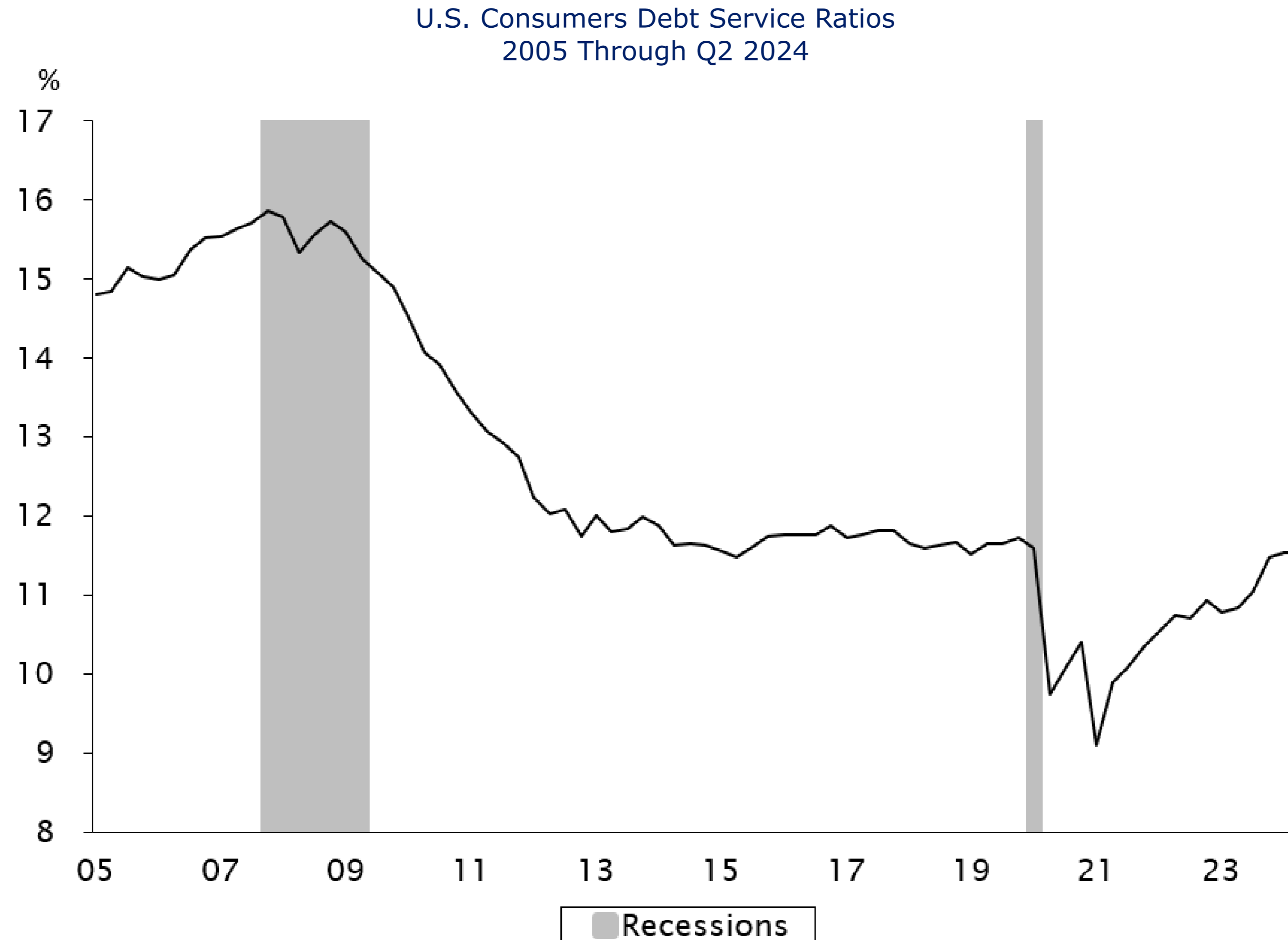
Excess Savings Are Gone, i.e., Back To A Normal Level Versus Its Peak Two Years Ago of Over \$2T.



Source: Evercore ISI Research. October 7, 2024



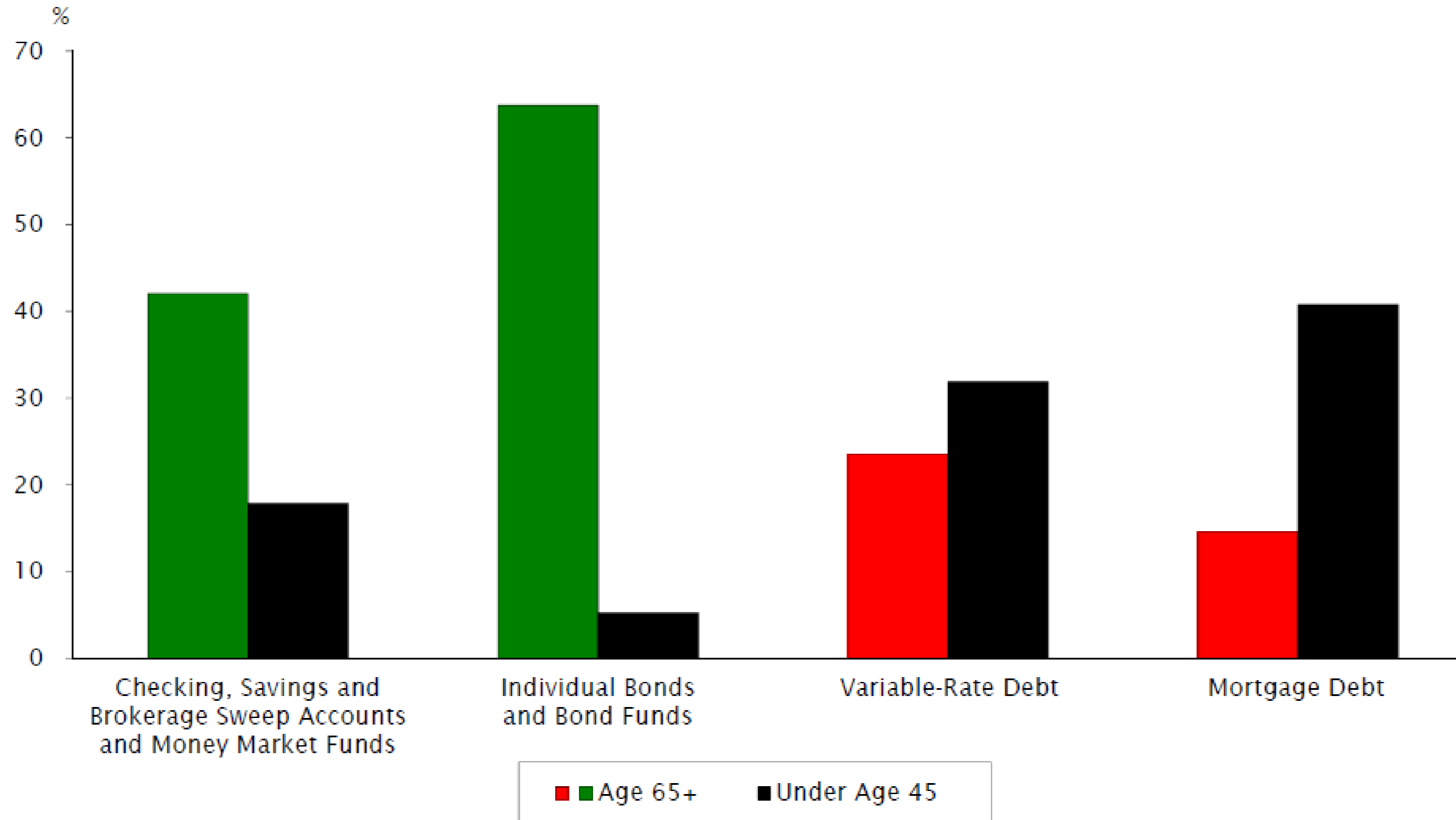
# Consumers' ability to service debt remains strong...



Source: Federal Reserve Board, National Bureau of Economic Research, Empirical Research Partners Analysis. October 8, 2024.

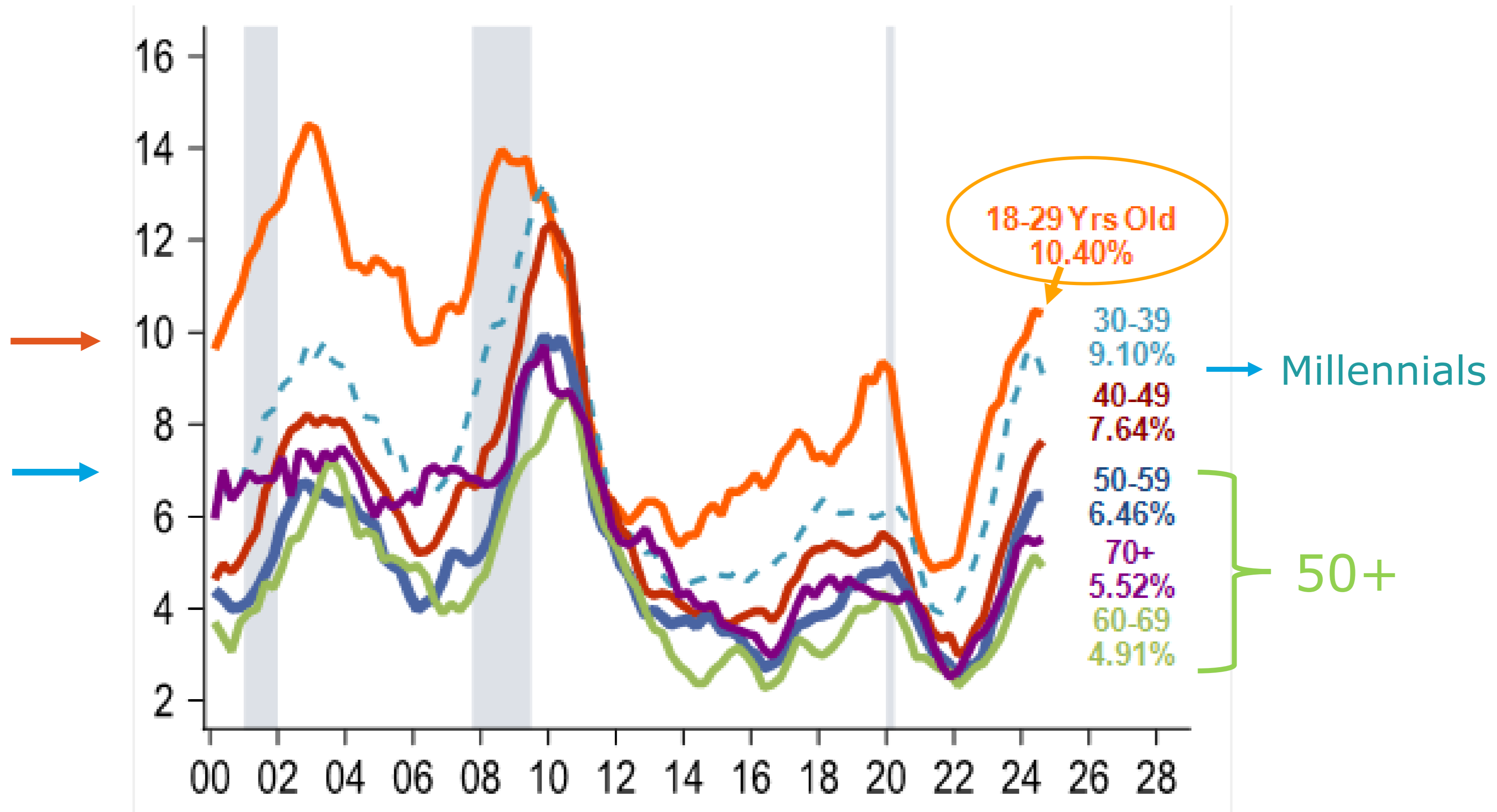
# ...Although the demographic divide is striking

U.S. Consumers- Ages 65 and Over and Under 45  
Share of All Household Assets and Liabilities 2022



# Delinquencies rising for Millennials and Gen Z

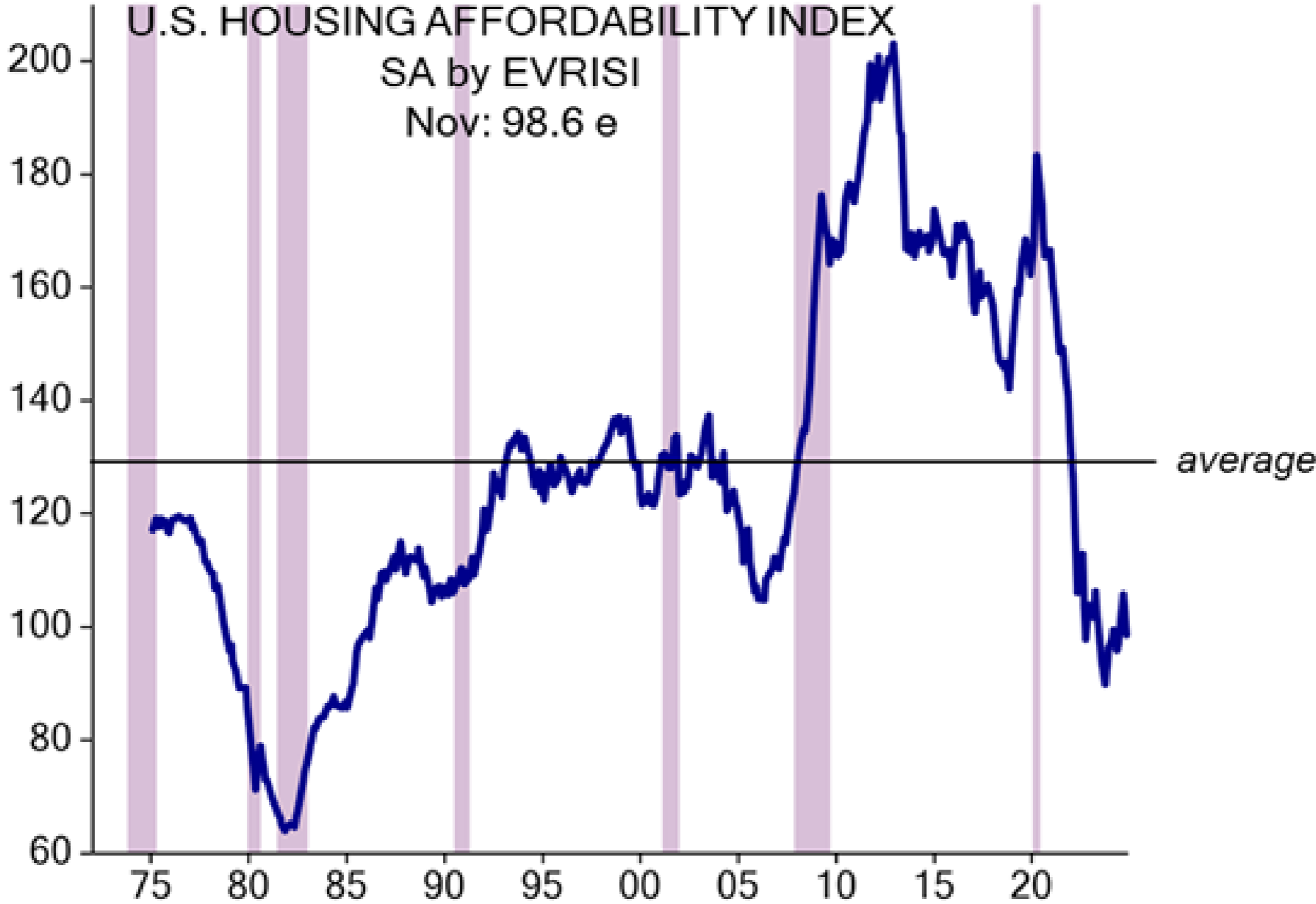
U.S. Credit Card Debt, % 90+ Days Delinquent (NY Fed) 2024 Q3



Source: Piper Sandler Research. Data as of September 30, 2024  
 Note: Shaded areas represent recessions.

# First-time homebuyers priced out...

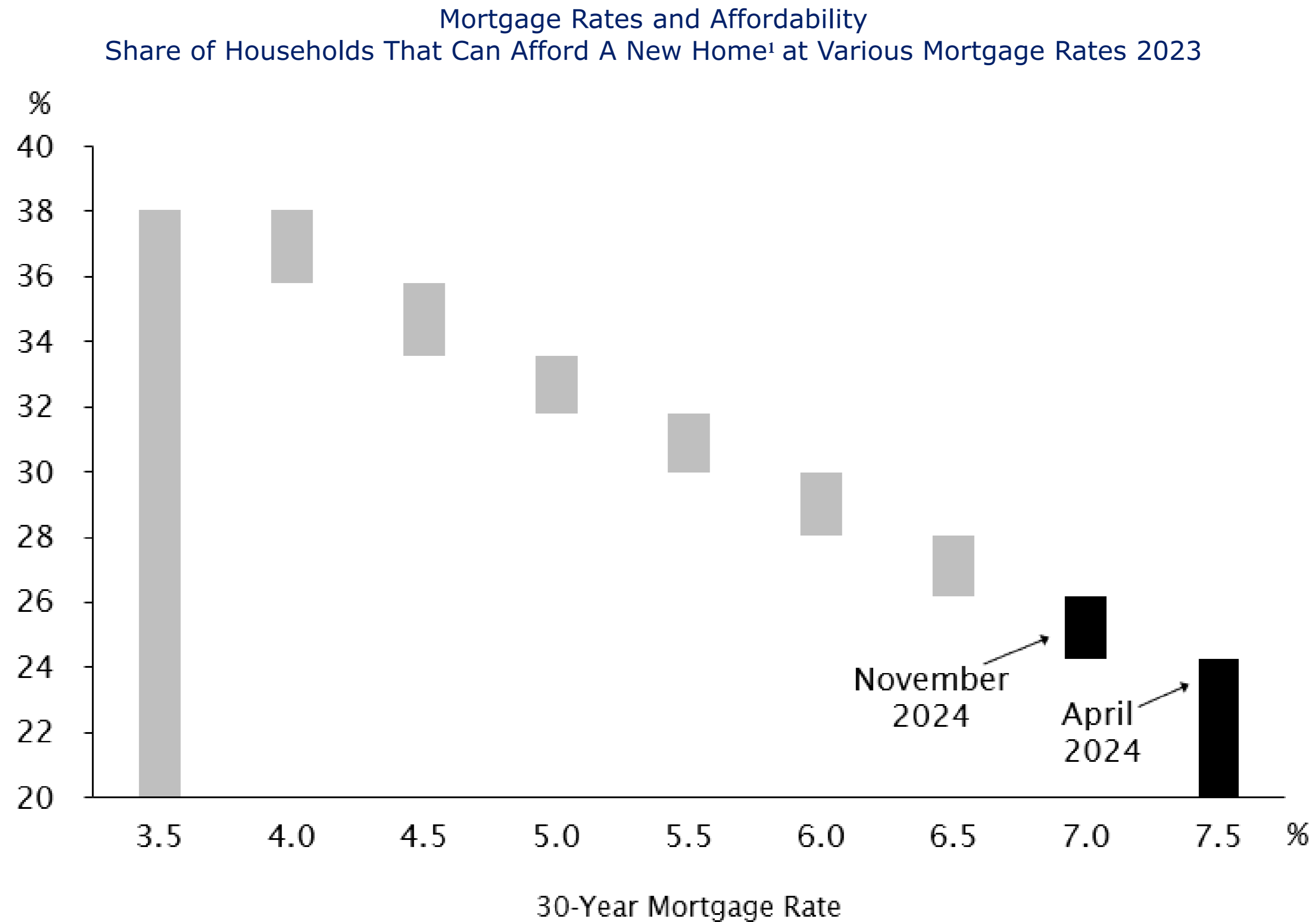
Housing Affordability Index\* 1975 Through Early-November 2024



Source: Evercore ISI Research. November 7, 2024

\* A value of 100 indicates the qualifying income based on median home prices and 30-year fixed mortgage rates equals the median income throughout the U.S. A 20% down payment and 25% of income devoted to mortgage interest and principal are assumed. Shaded bars represent recessions.

# ...But the pool of potential buyers is up substantially since April



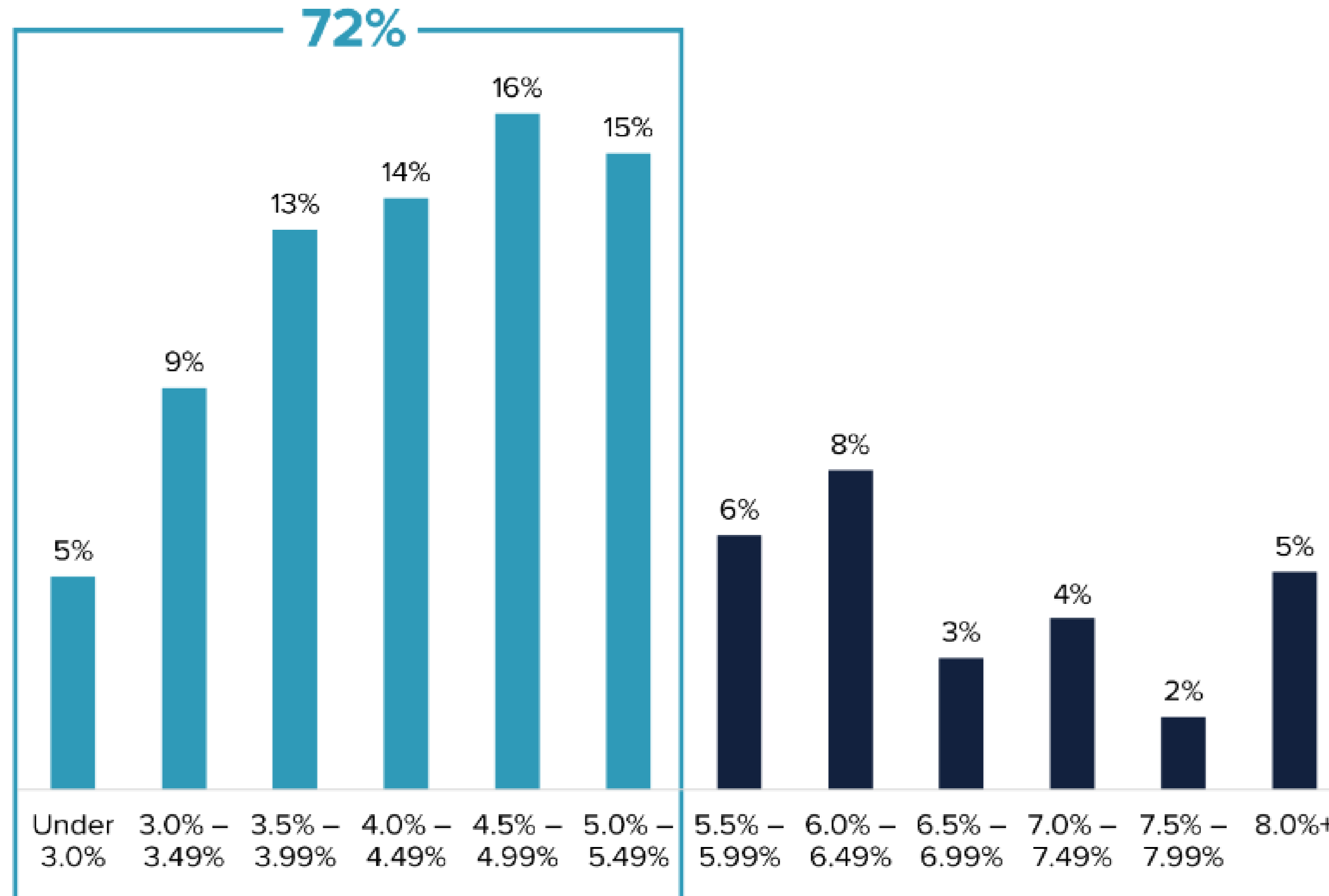
Source: Empirical Research Partners. November 11, 2024

<sup>1</sup> Assumes a new home price of \$476,000, a 10% down payment, mortgage insurance and taxes and a 28% payment to income ratio



# Rooting for a 5.5% mortgage rate

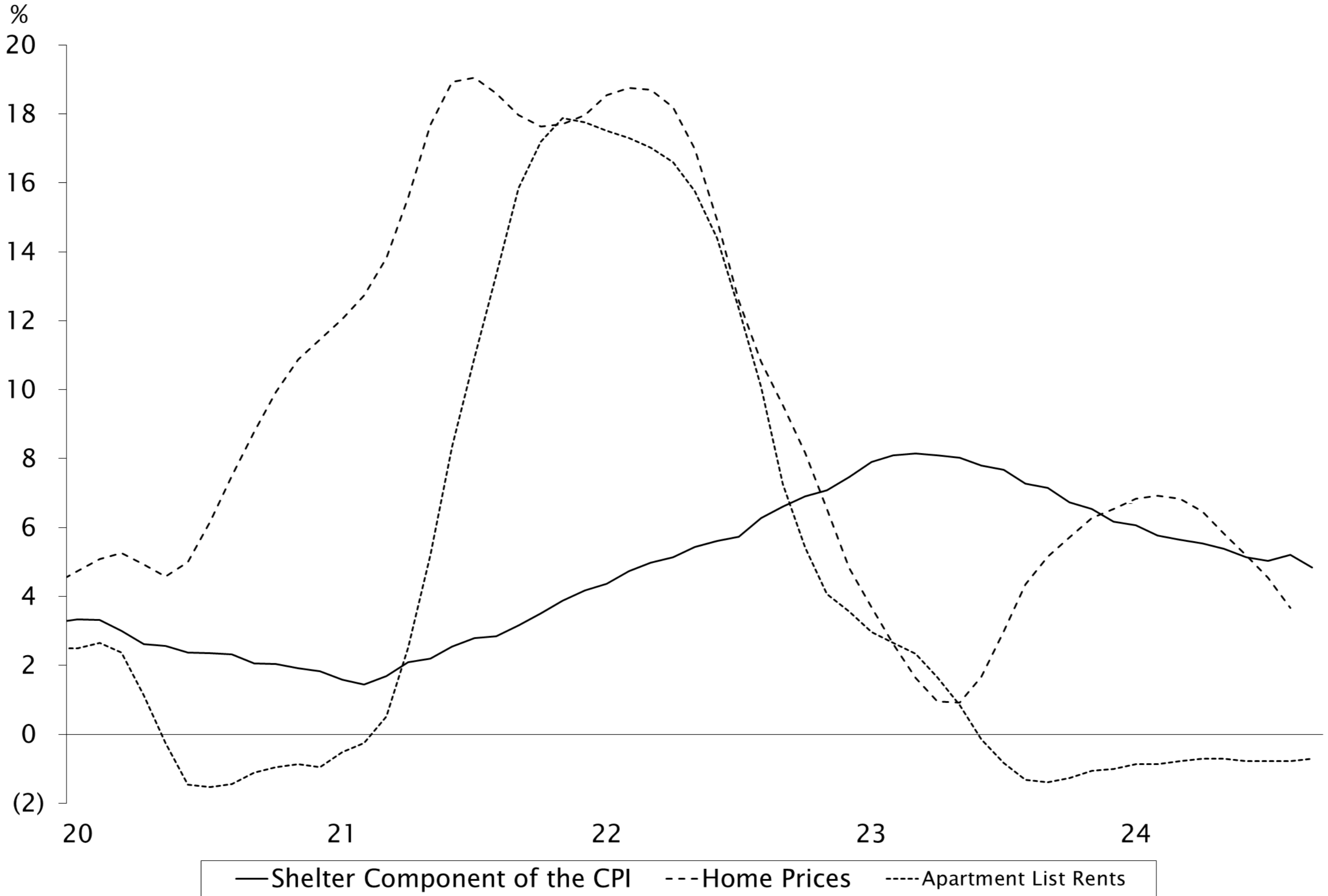
72% of Homeowners and Renters Say That 5.5% Is The Highest Acceptable Mortgage Rate For A New Home (With a Household Income of \$50k+ Who Plan To Purchase Their Next Home With A Mortgage)



Source: UBS Research and New Home Trends Institute by John Burns Research & Consulting, LLC August- September 2023 survey.

# Shelter inflation should ease

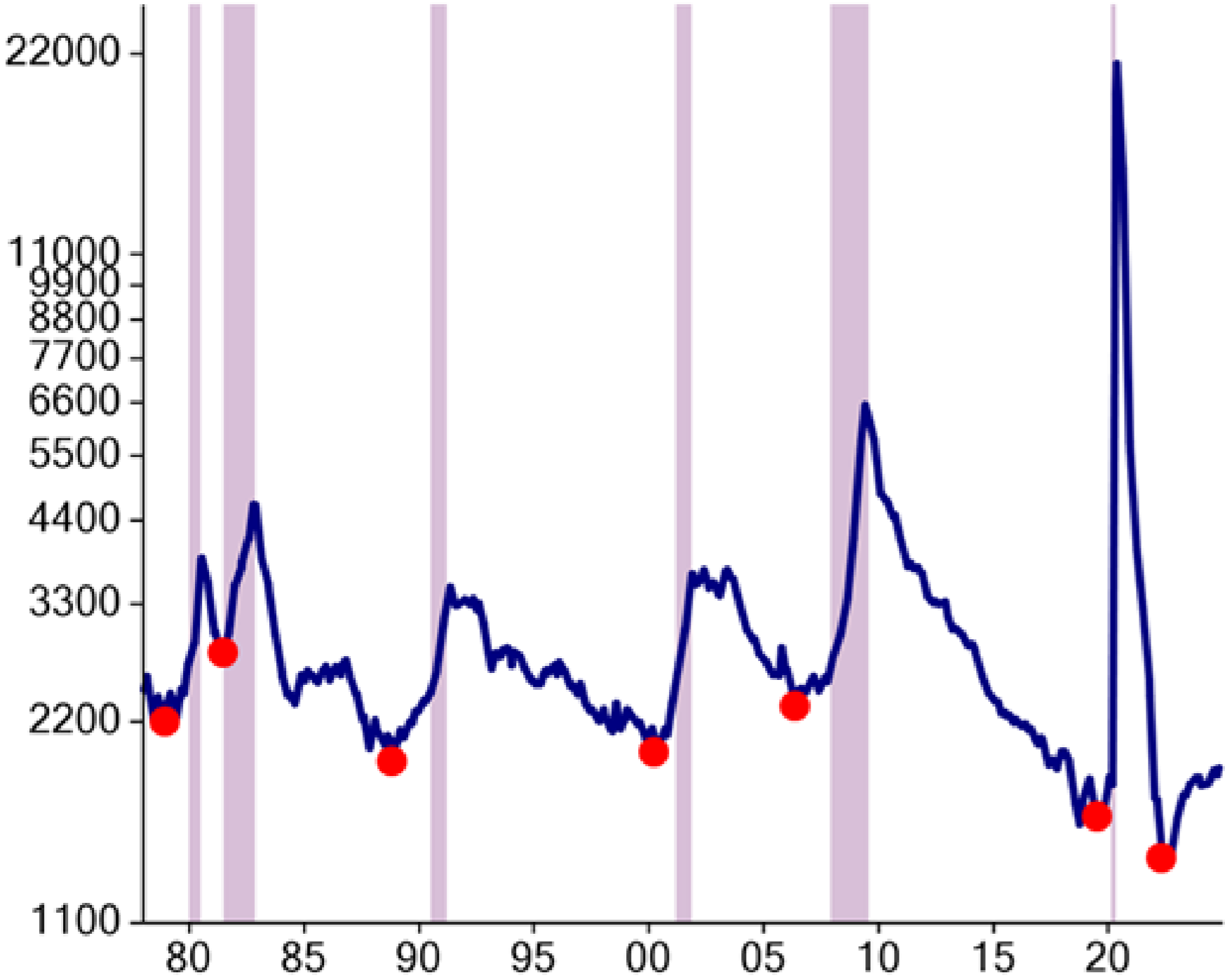
The Shelter CPI, Home Prices and Asking Rents Year-over-Year Changes 2020 Through September 2024<sup>1</sup>



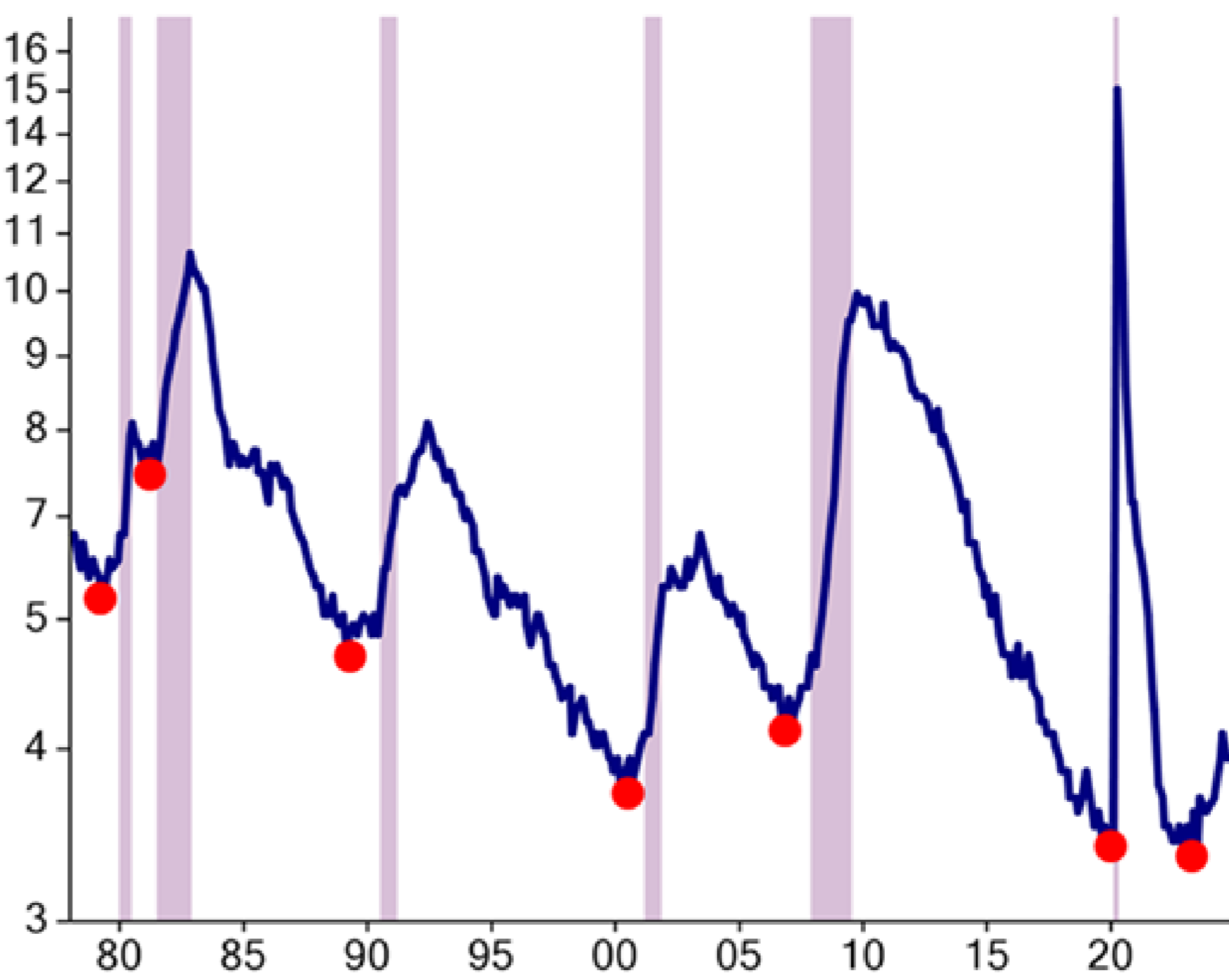
Source: Empirical Research Partners. September 30, 2024  
<sup>1</sup>Home prices are through August 2024

# Worries now focused on jobs

U.S. Continuing Unemployment Claims  
4 Week Average October 26: 1876k

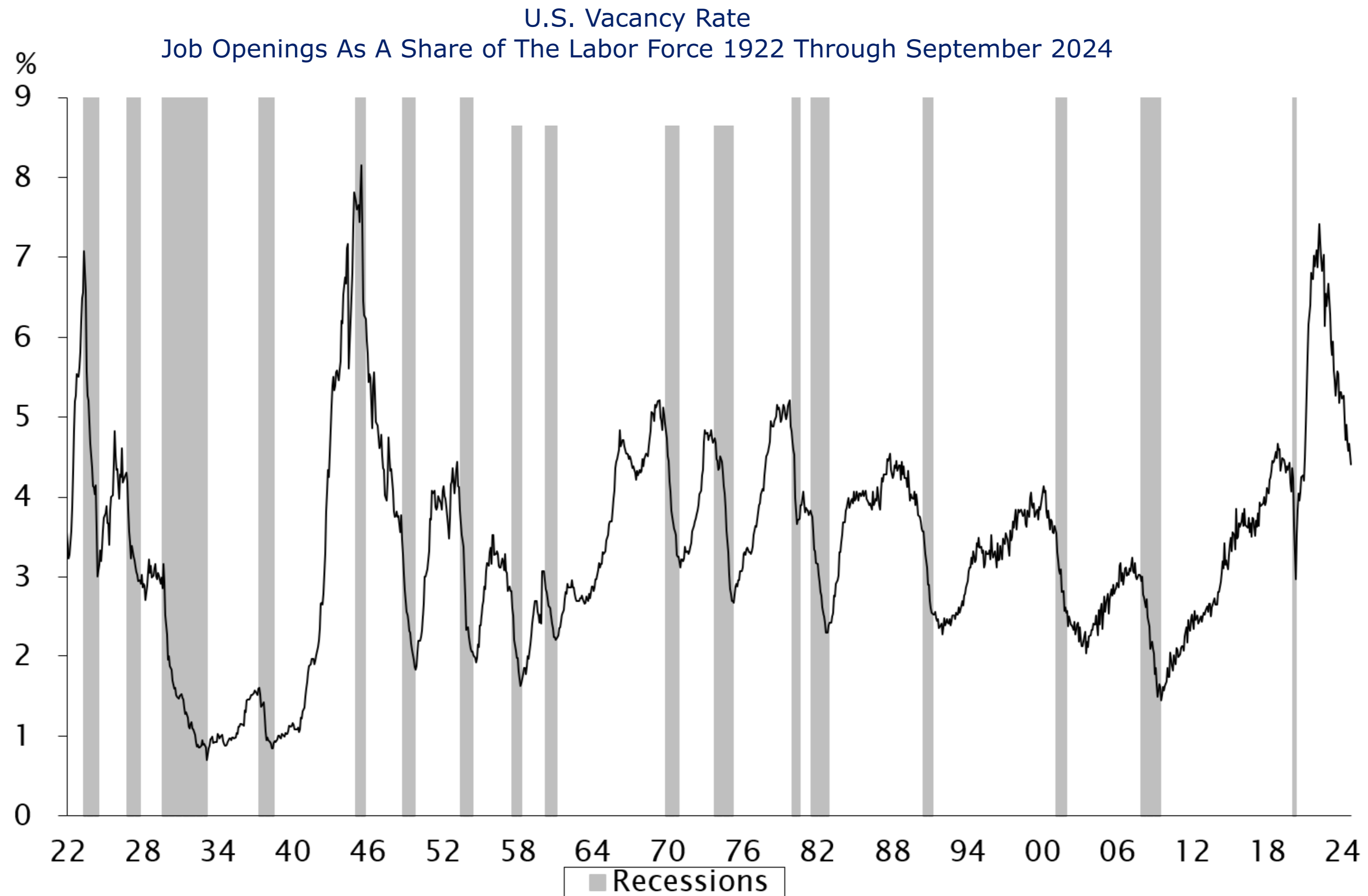


U.S. Unemployment Rate  
Oct: 4.1%



Source: Evercore. October 26, 2024. Shaded bars represent recessions.

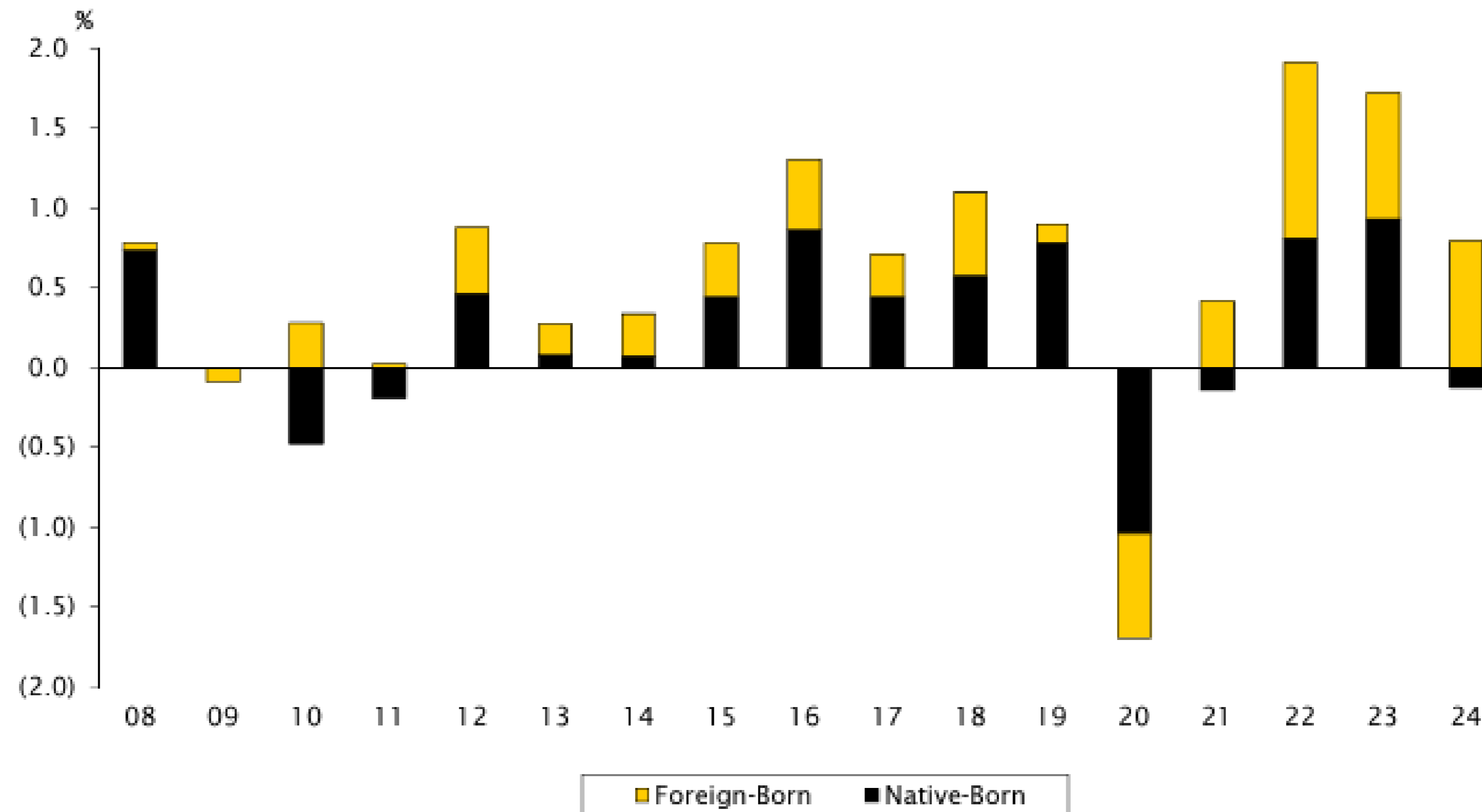
# The labor market has come back closer to balance...



Source: Empirical Research Partners. Data through September 30, 2024.

# ...With immigration an important swing factor

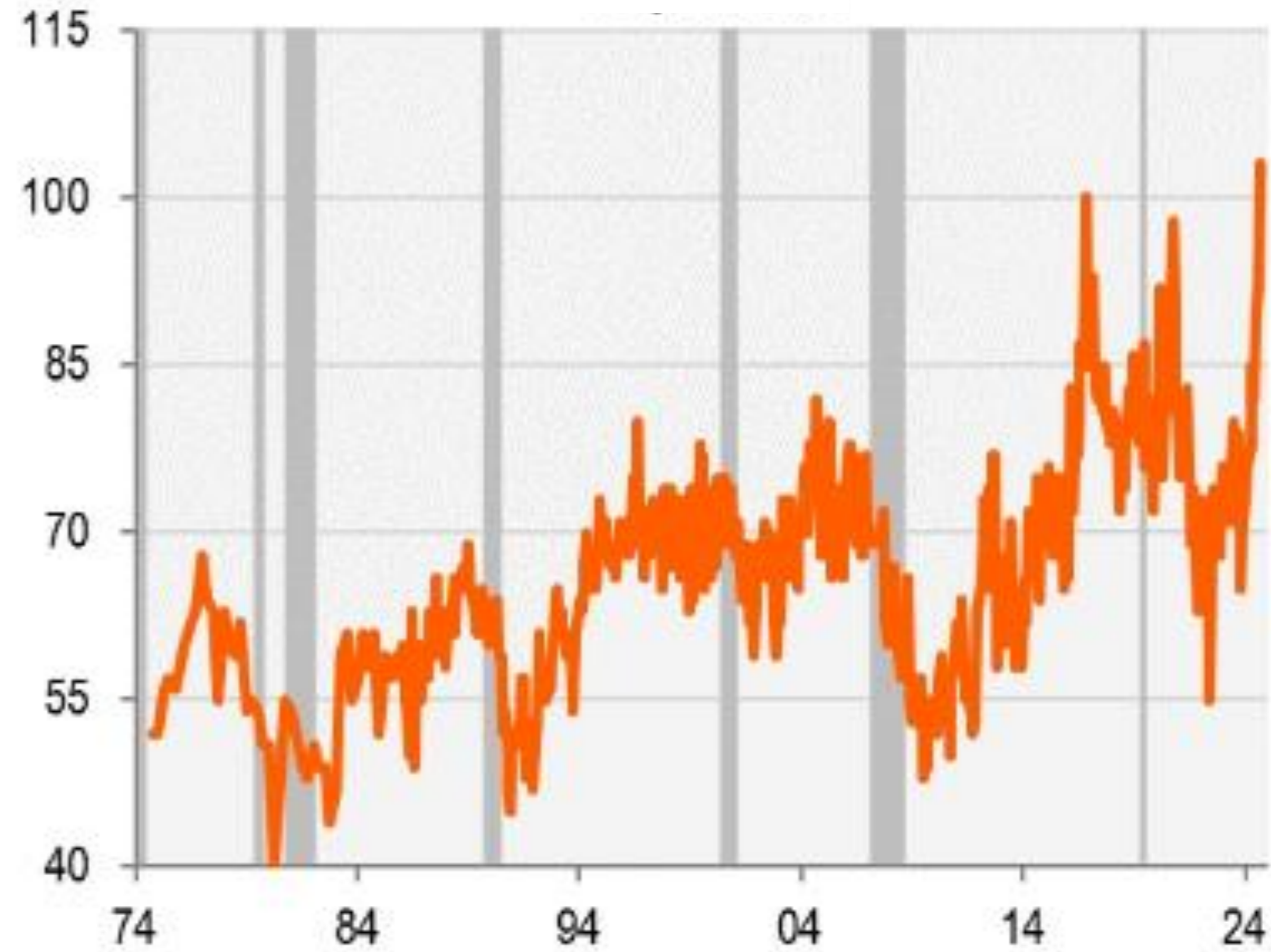
U.S. Labor Force Contributions to Changes By Nativity 2008 Through August 2024





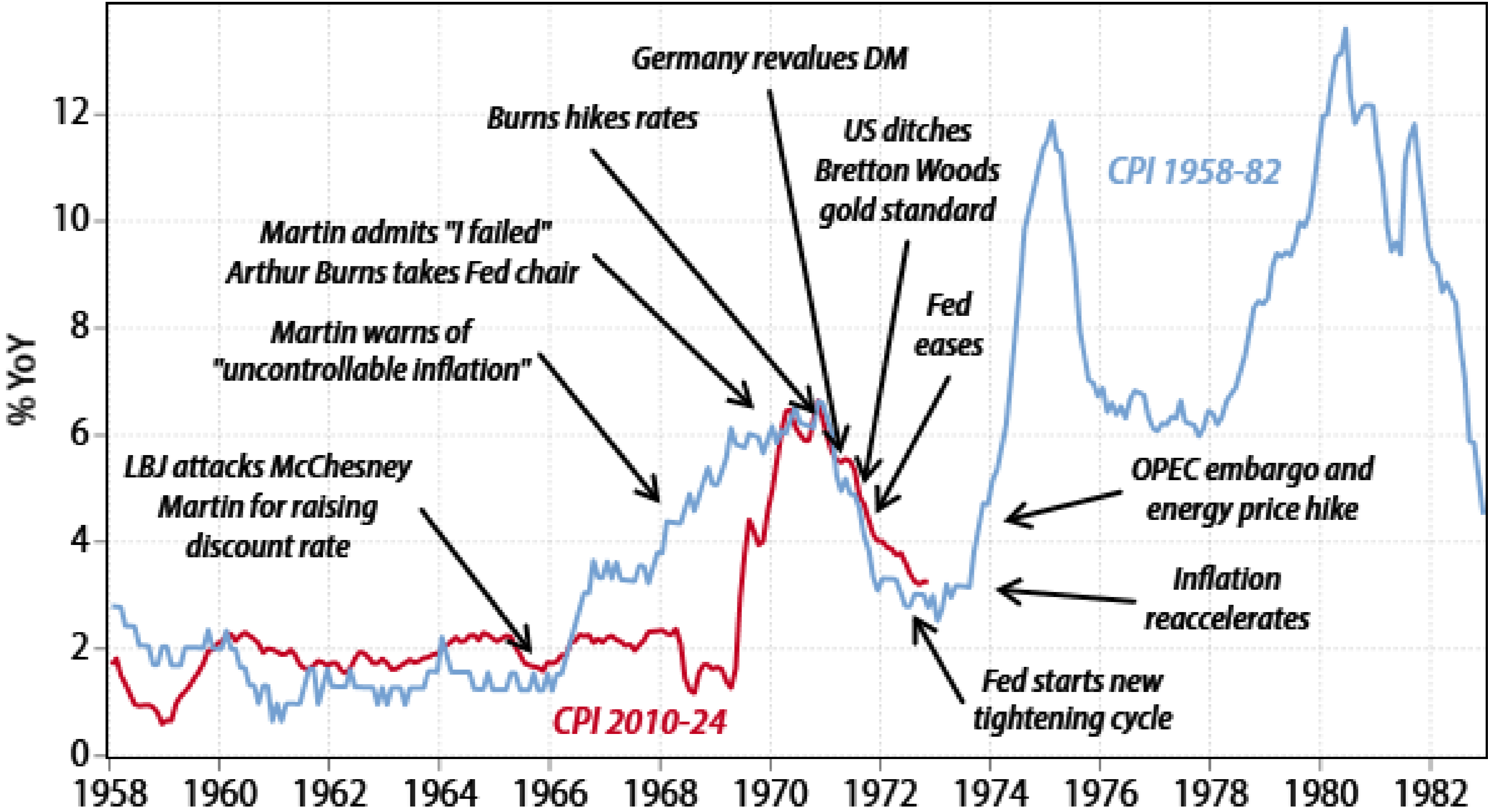
# Small business owners feeling more uncertain than ever

NFIB U.S. Small Business Uncertainty Index  
September 2024: 103.0



# Fingers crossed that the similarity ends here

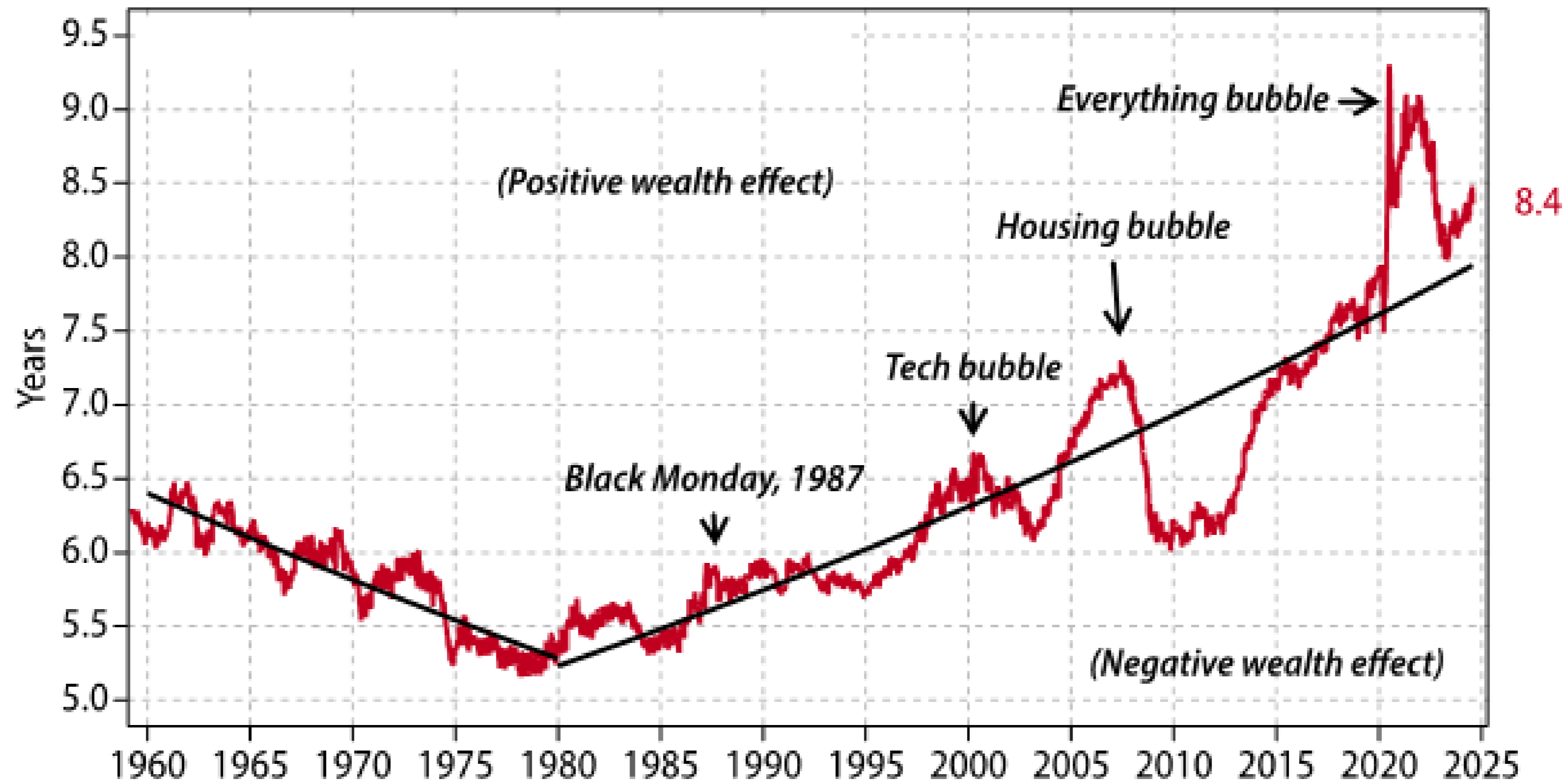
Jay Powell's Record on Inflation Has Been Similar to Arthur Burns'



Source: Gavekal Research/Macrobond. October 23, 2024

# Consumers in great shape—particularly those ages 55+

U.S. Household Net Worth, in Years of Consumption\*

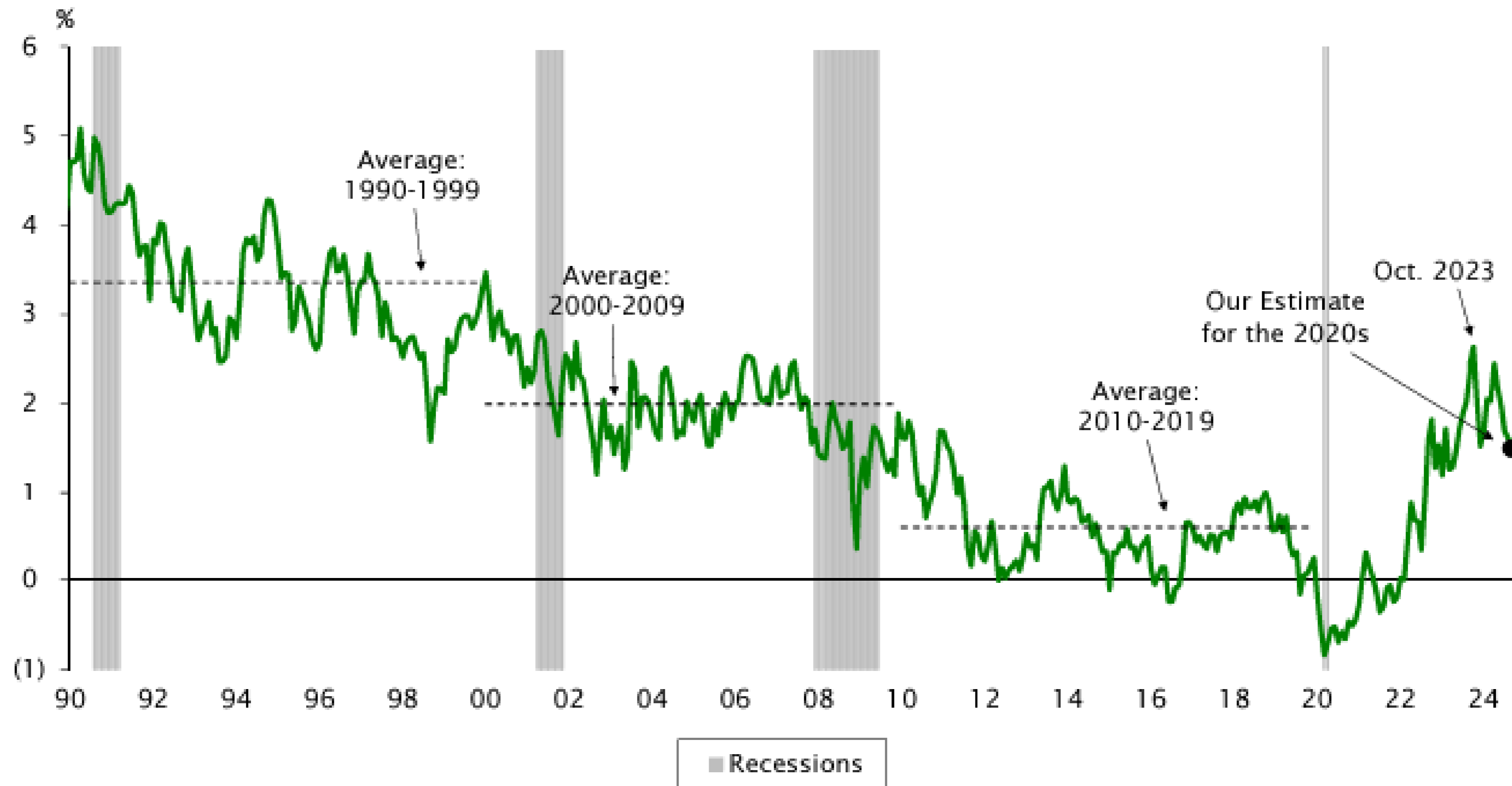


Source: Gavekal Research, Macrobond. Data as of July 31, 2024

\*Net Worth based on flow of funds data, adjusted for recent equity and house price changes

# The next “normal”?

Real Long Rates  
Ten-Year U.S. Treasury Bond Yields Less Ten-Year Inflation Expectations\* 1990 Through Late-September 2024

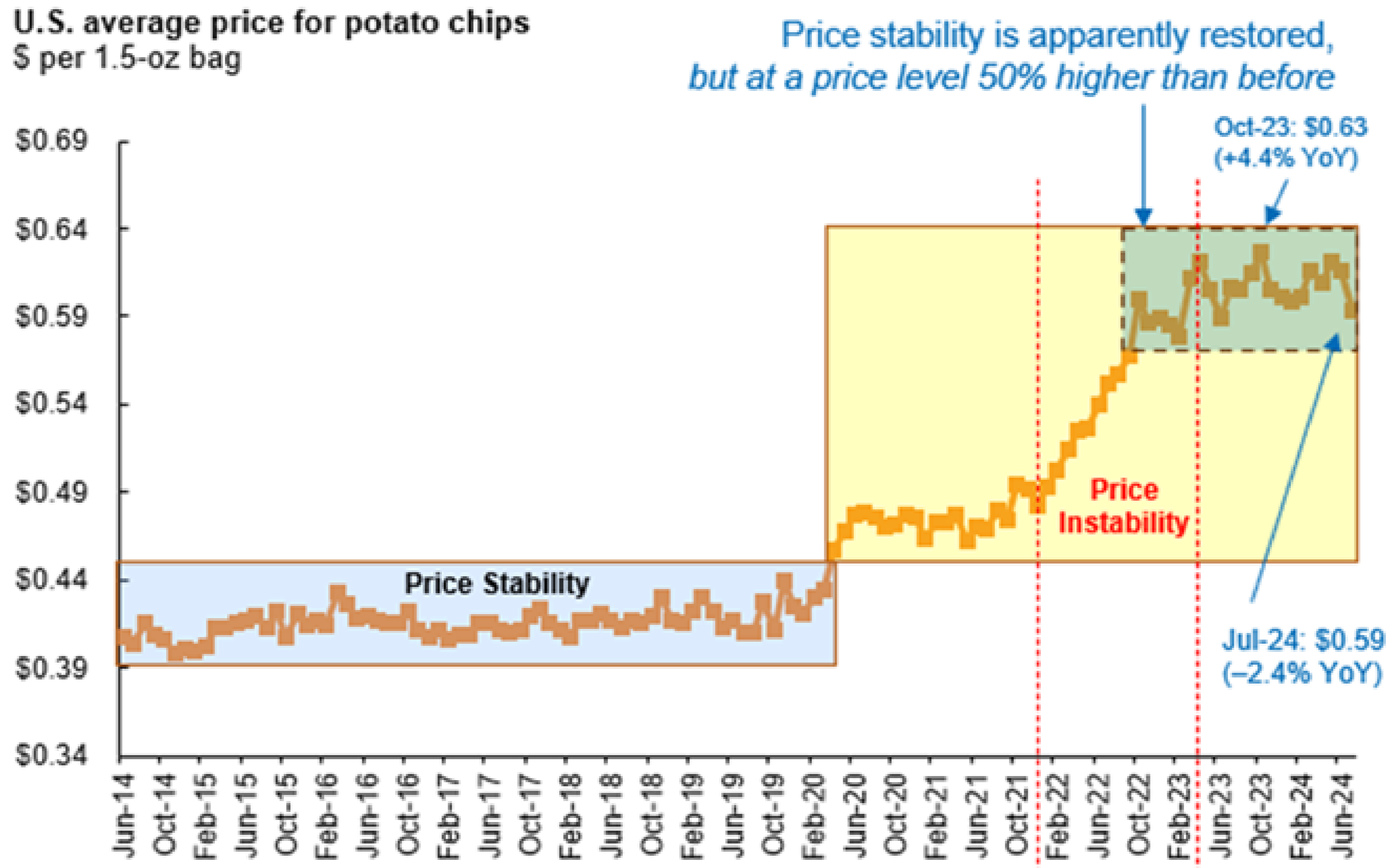


Source: Empirical Research Partners. September 26, 2024.

\*Less the trailing 3-month average of 10-year inflation expectations as estimated by the Cleveland Fed Model. Shaded bars indicate recessions.

# The cost of inflation: “instability,” then “new price level”

A Consumer of Potato Chips Now Pays, on Average, 50% More Than Before COVID

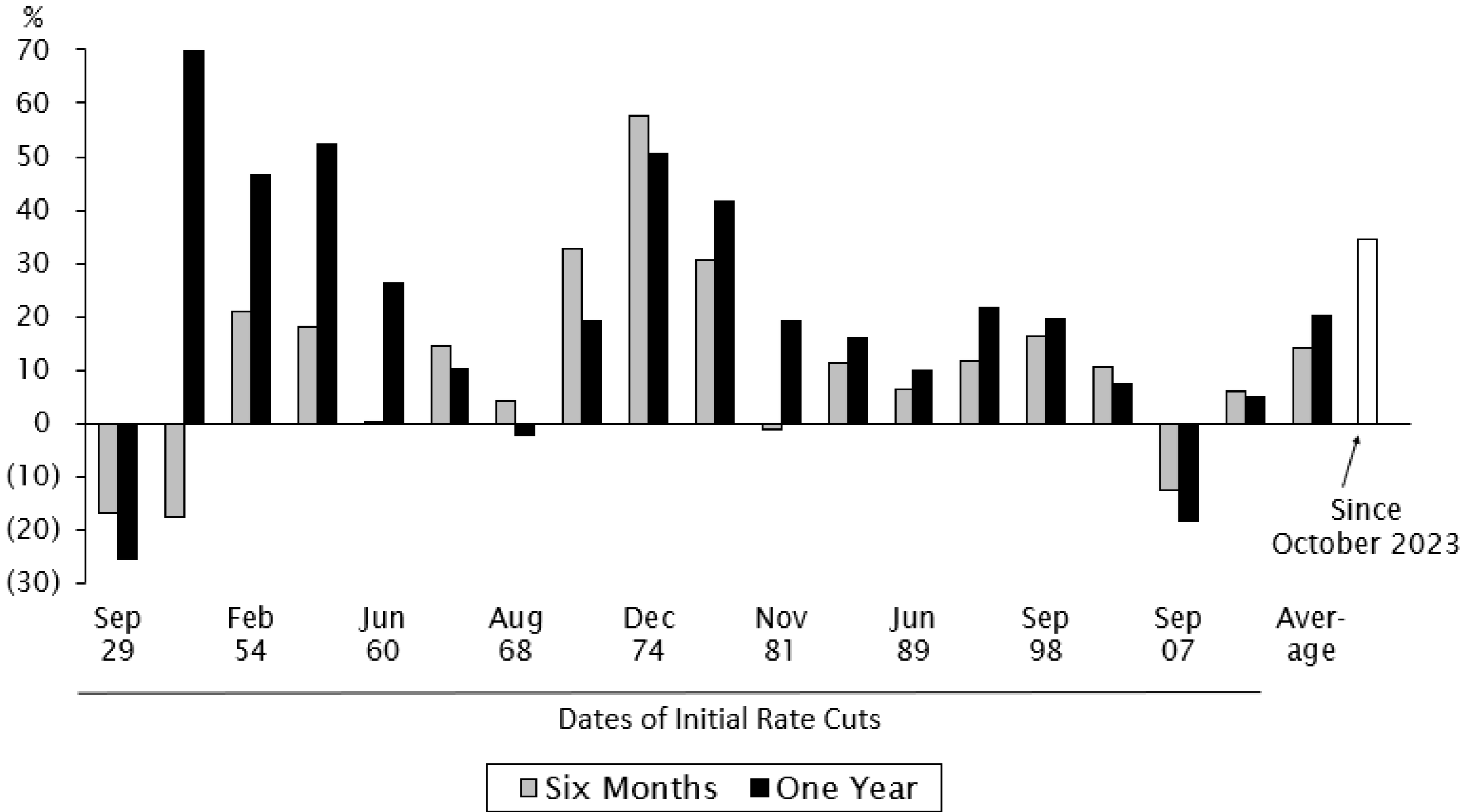


Source: 22V Research. August 18, 2024



# Easing cycles have usually boosted the broad market...

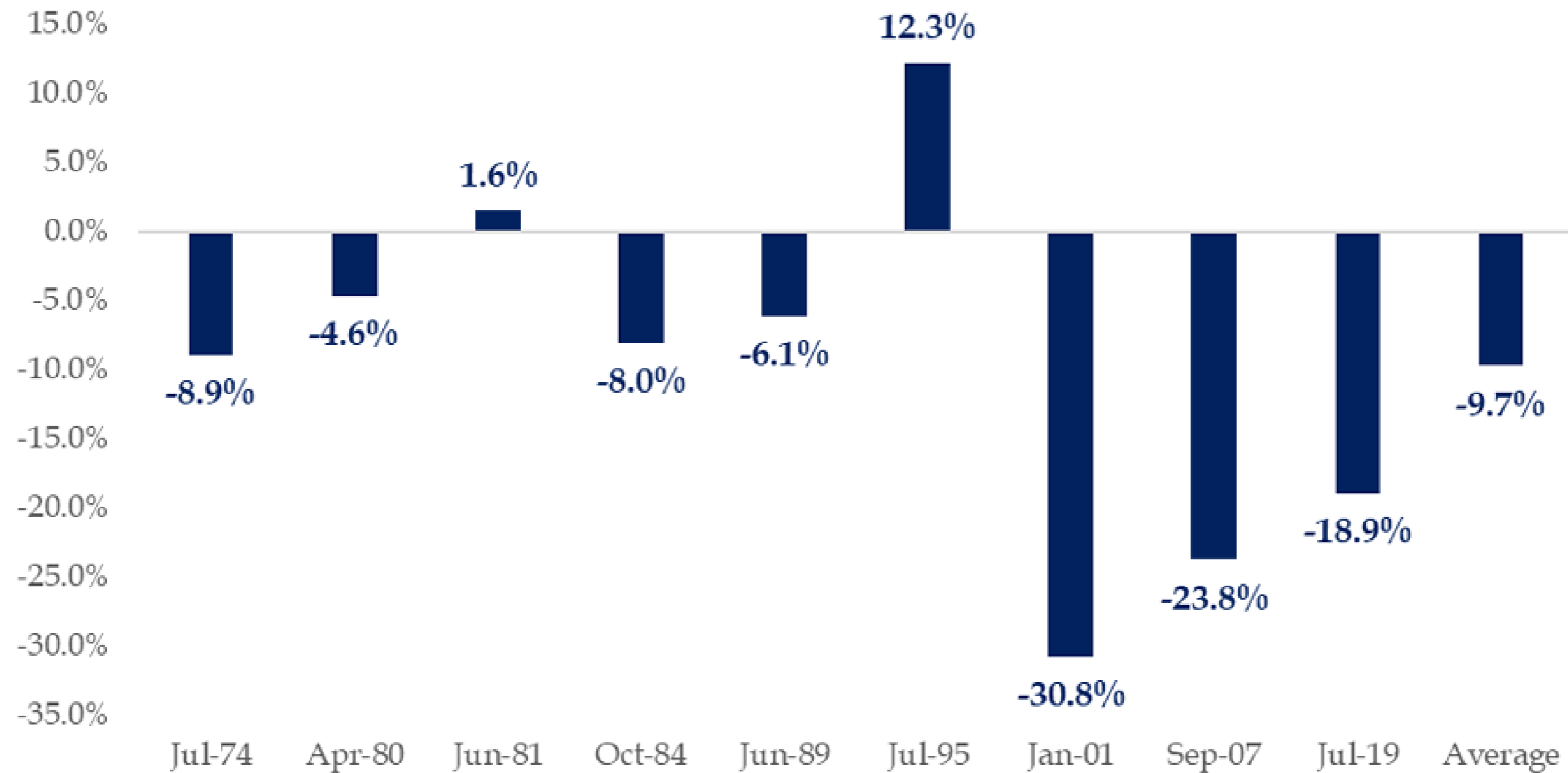
Large-Capitalization Stocks Returns One-Year Following Onsets of Fed Funds Rate Cuts  
Daily Data Compounded 1929 Through Early-November 2024



Source: Empirical Research Partners. November 11, 2024  
Past performance is no guarantee of future results. For illustrative purposes only and not representative of performance for any specific investment.

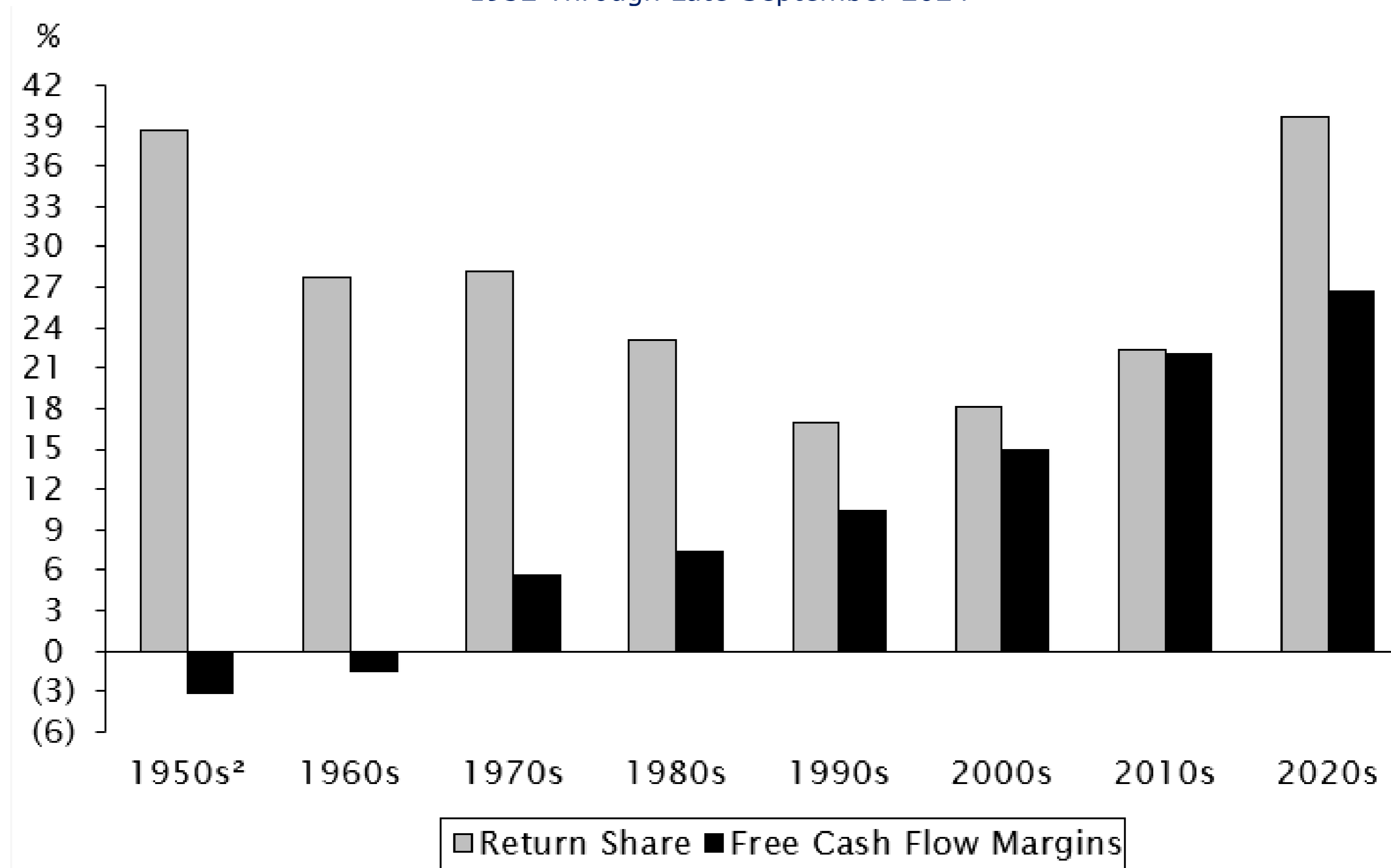
# ...Though we were normally coming out of a recession

Change in S&P 500 Earnings 12-Months After the First Cut of a Fed Funds Rate Cutting Cycle



# The market has been unusually concentrated, for some good reasons

Ten-Largest Stocks<sup>1</sup> Contribution to Market Returns and Free Cash Flow Margins  
1952 Through Late-September 2024

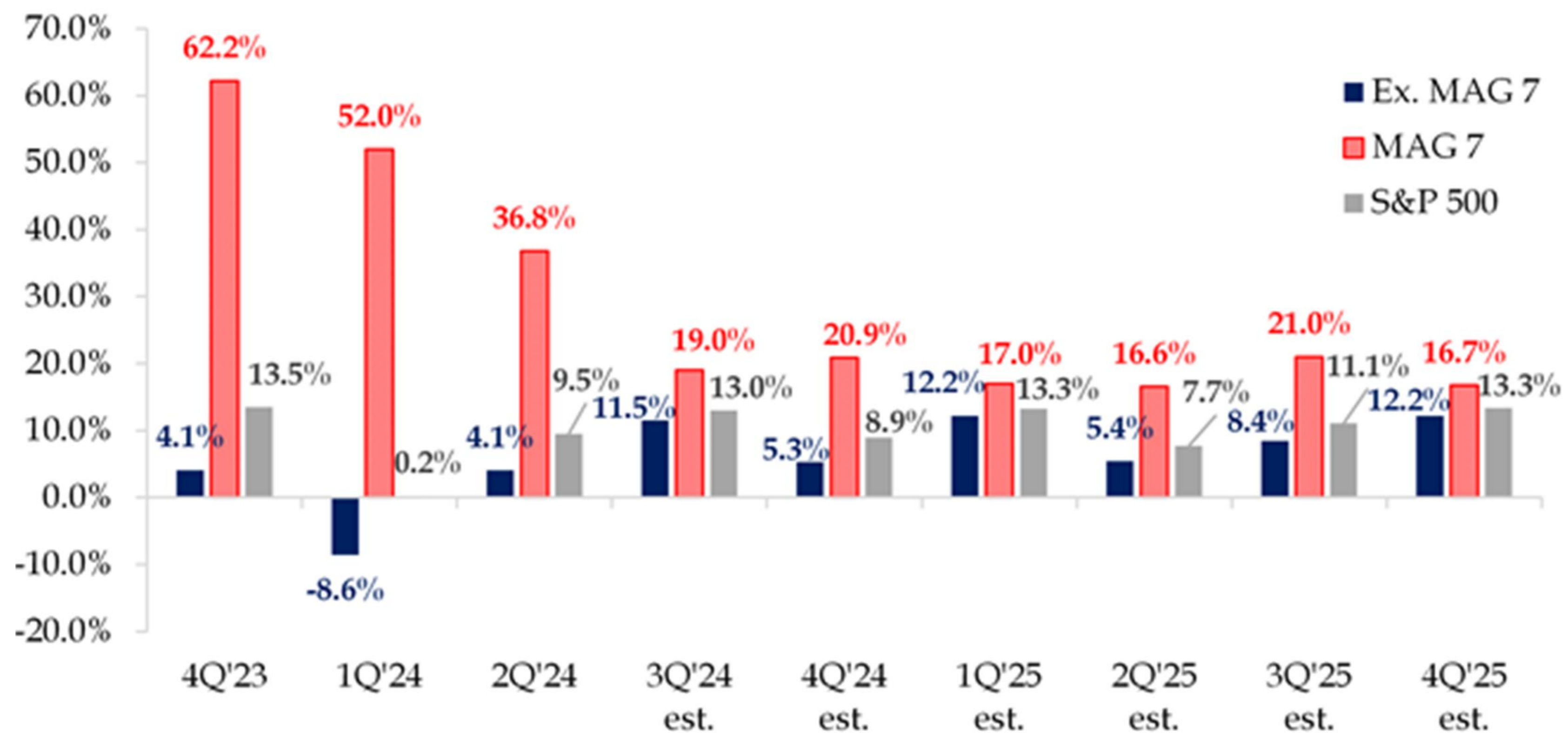


Source: Empirical Research Partners. September 26, 2024

<sup>1</sup>The current top ten are AAPL, MSFT, GOOG, AMZN, NVDA, META, TSLA, BRK.A, LLY and V. <sup>2</sup> Since 1952

# A broadening of income growth

MAG 7 vs S&P 500 Ex. MAG 7  
Net Income Growth



Source: Strategas. Factset. November 14, 2024

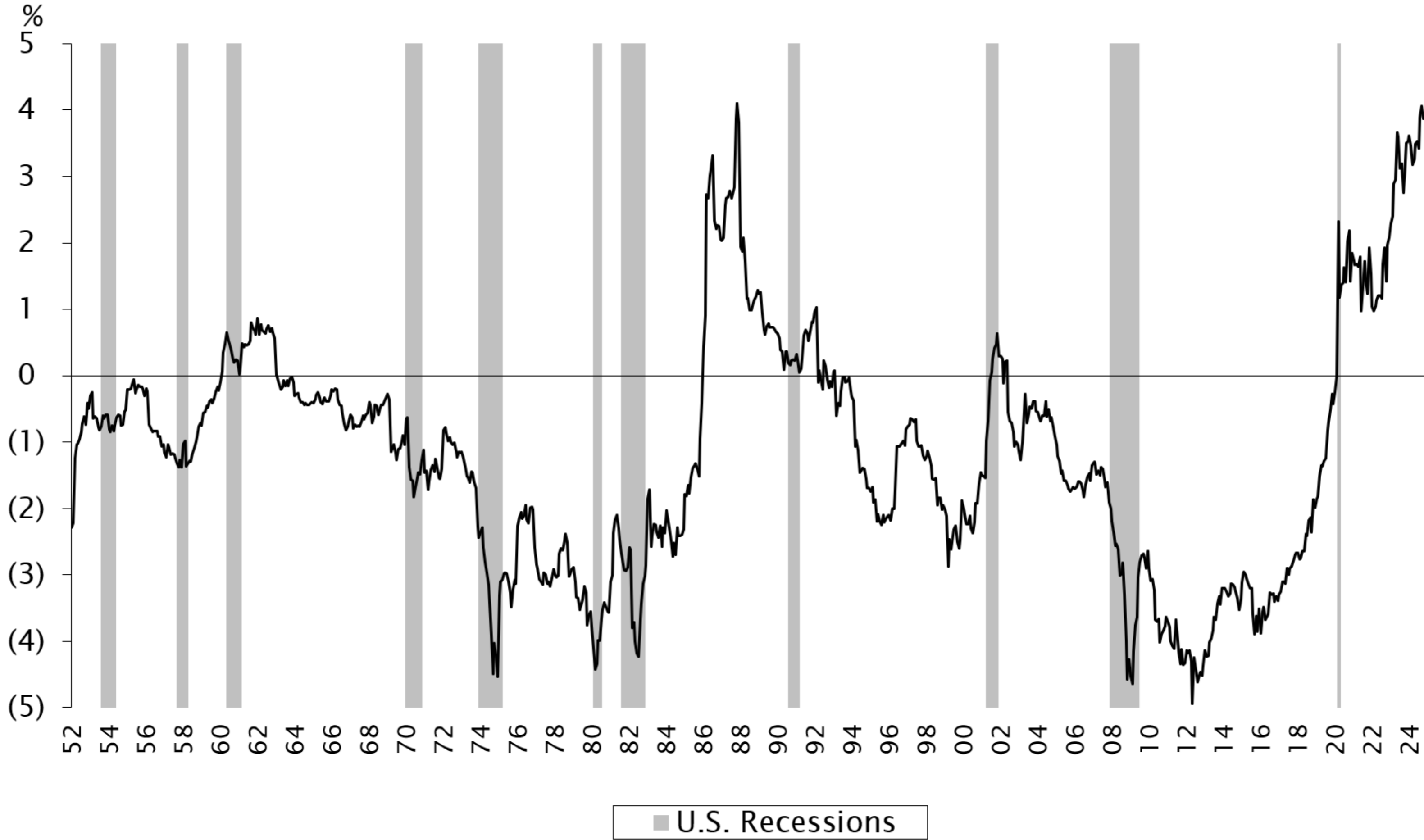
# Defensive stocks are valued at a historically-large discount to early cyclicals

Early Cyclicals Relative Defensives vs. Leading Index



# Energy trades at a record normalized free cash flow yield

Developed Markets Energy Stocks<sup>1</sup>  
Relative Normalized Free Cash Flow Yield<sup>2</sup> 1952 Through October 2024

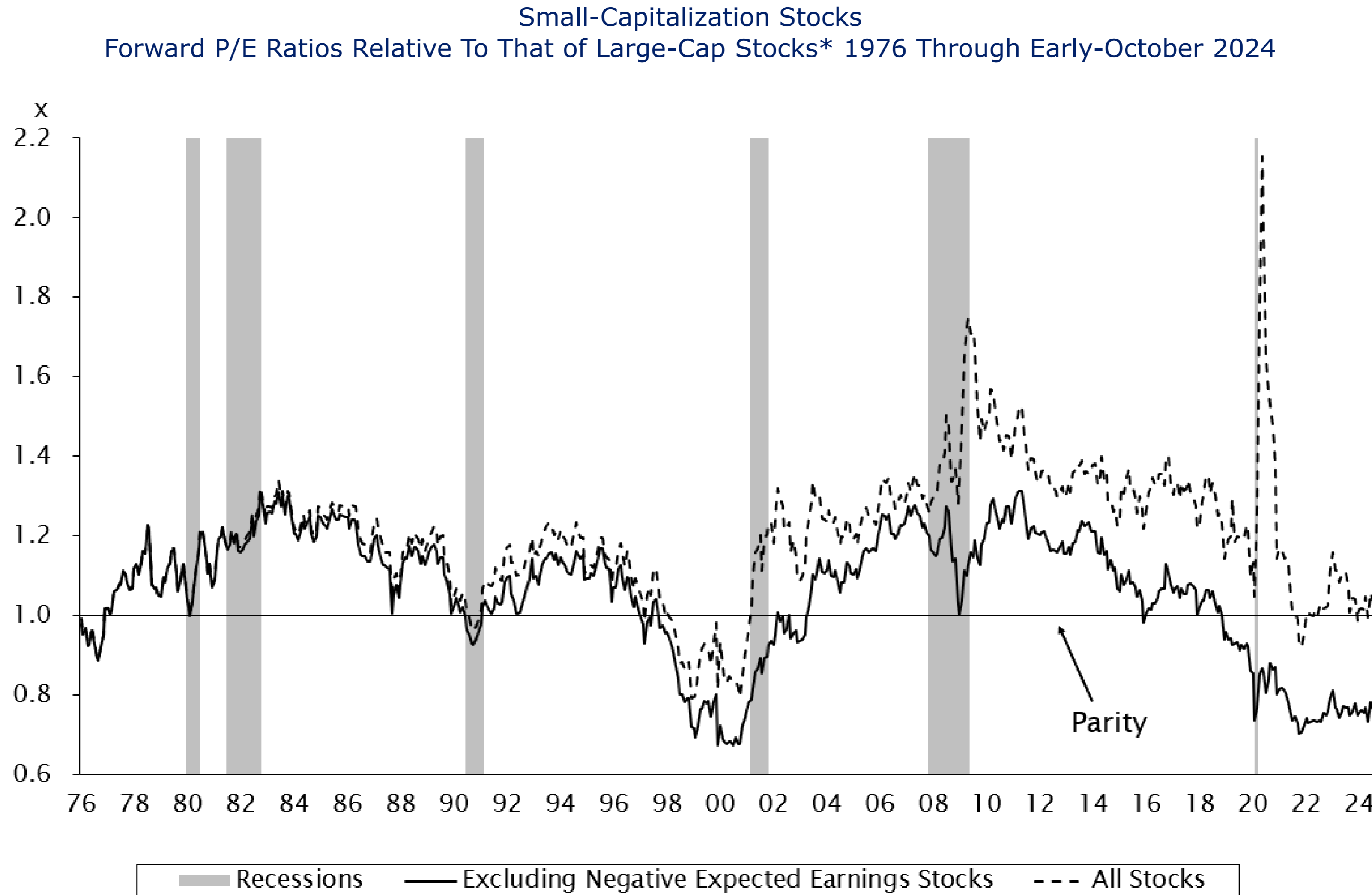


Source: Empirical Research Partners. Data through October 31, 2024.

<sup>1</sup> U.S. Stocks used as a proxy for developed markets prior to 1987.

<sup>2</sup> Equally-weighted data. Normalized free cash flows are based on average free cash flows over a trailing four-year period.

# Profitable small-caps are valued at a historically-large discount to large-caps

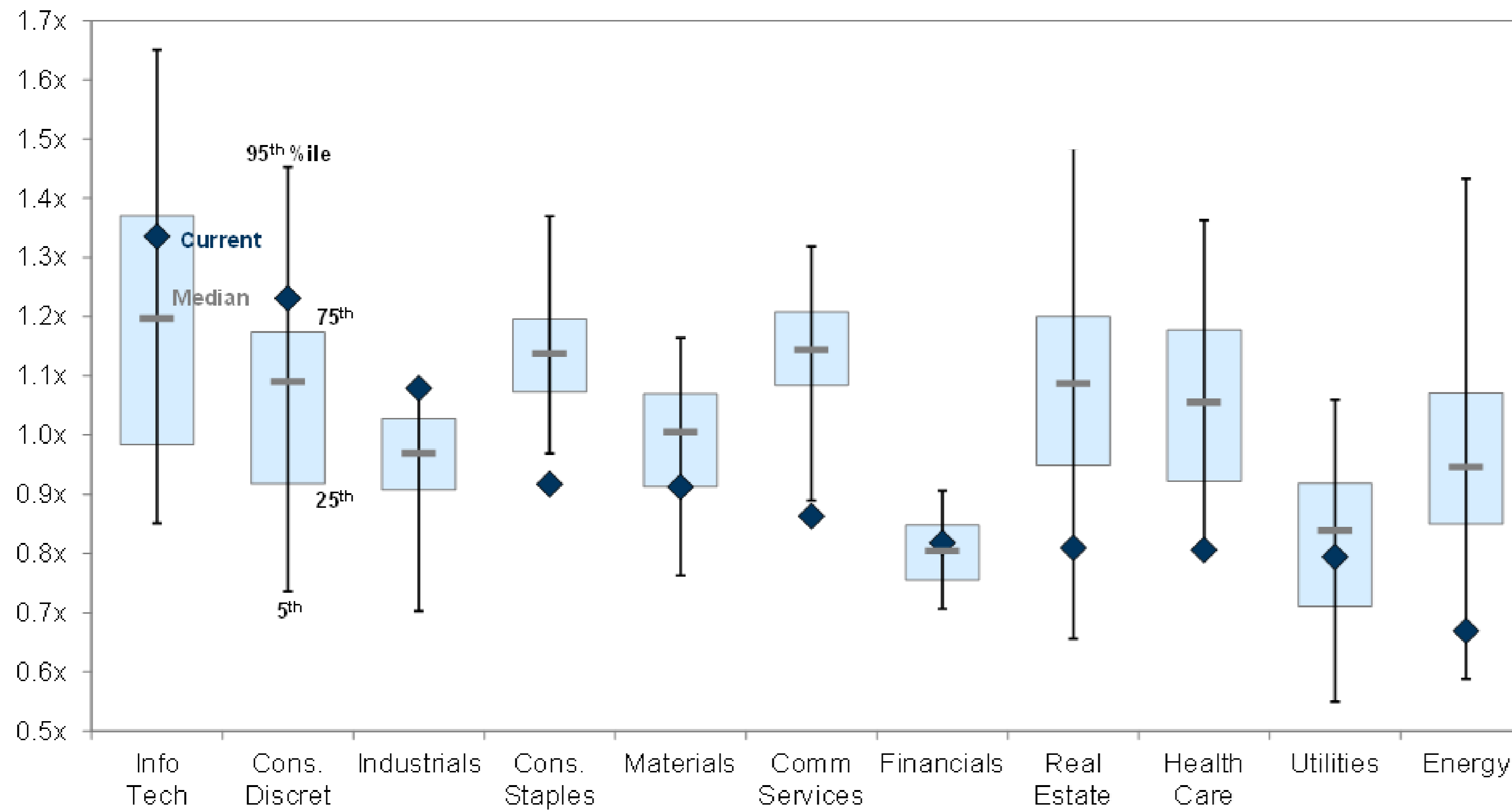


Source: Empirical Research Partners. October 8, 2024  
\*Capitalization-weighted data. Shaded bars represent recessions.



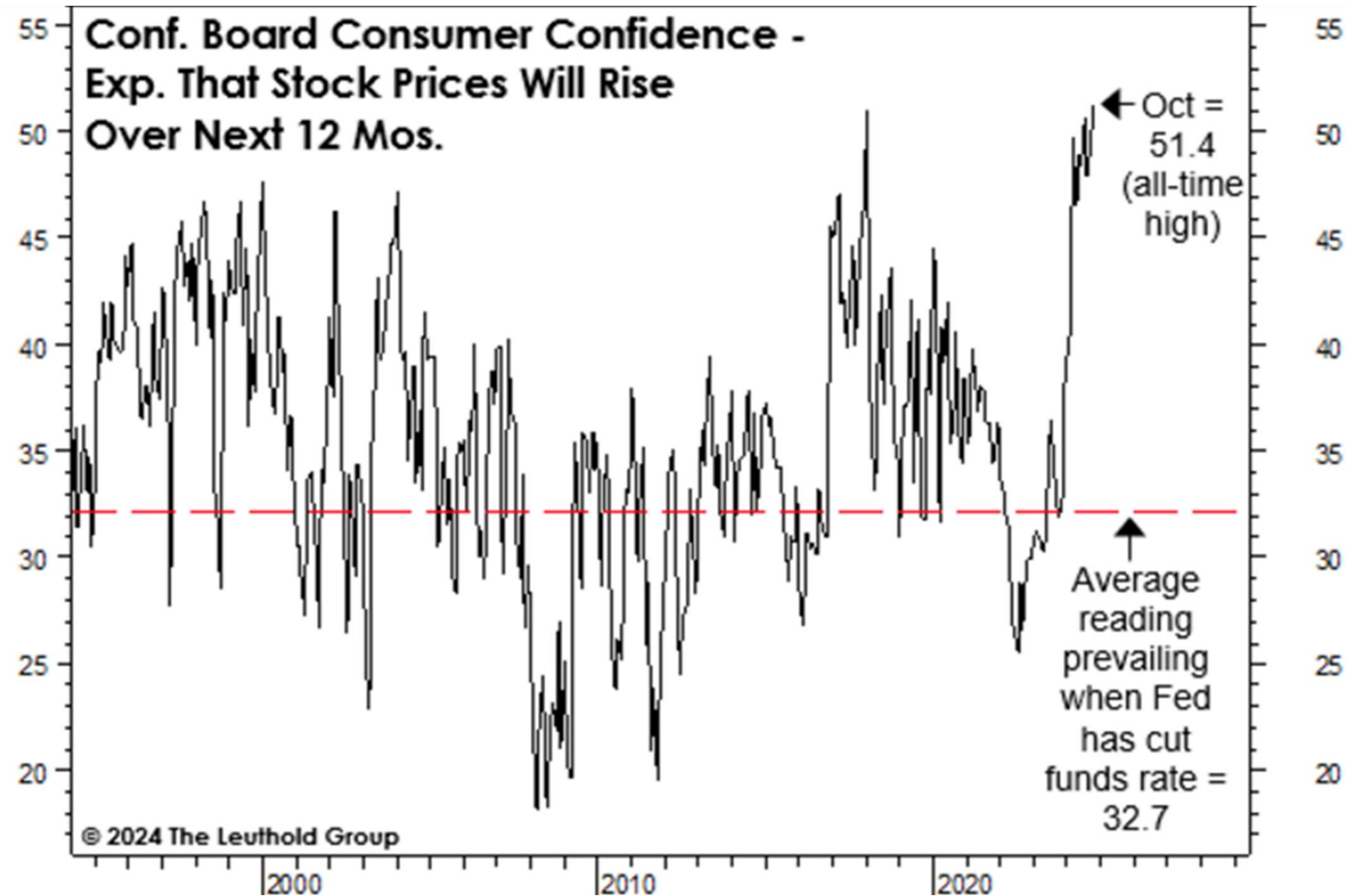
# Sector valuations

Distribution of Sector FY2 P/E Ratios Relative to S&P 500 During Last 30 Years



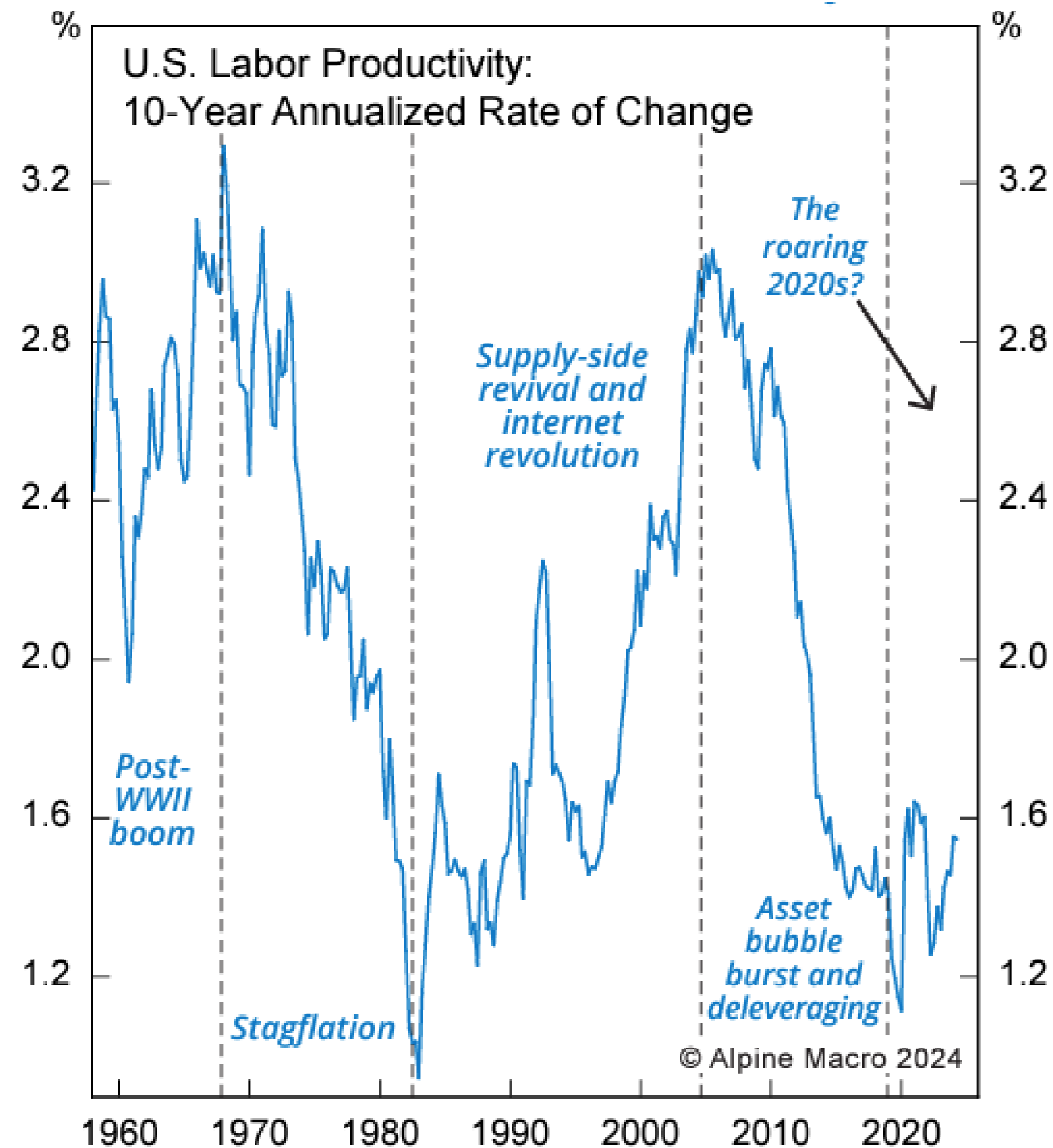
Source: Goldman Sachs Research. November 7, 2024  
Blue bars show P/E Ratios relative to the S&P 500 over the last 30 years. The Diamonds show the current relative P/E of the sector.

# Election years tend to finish strong, but this one takes the cake!



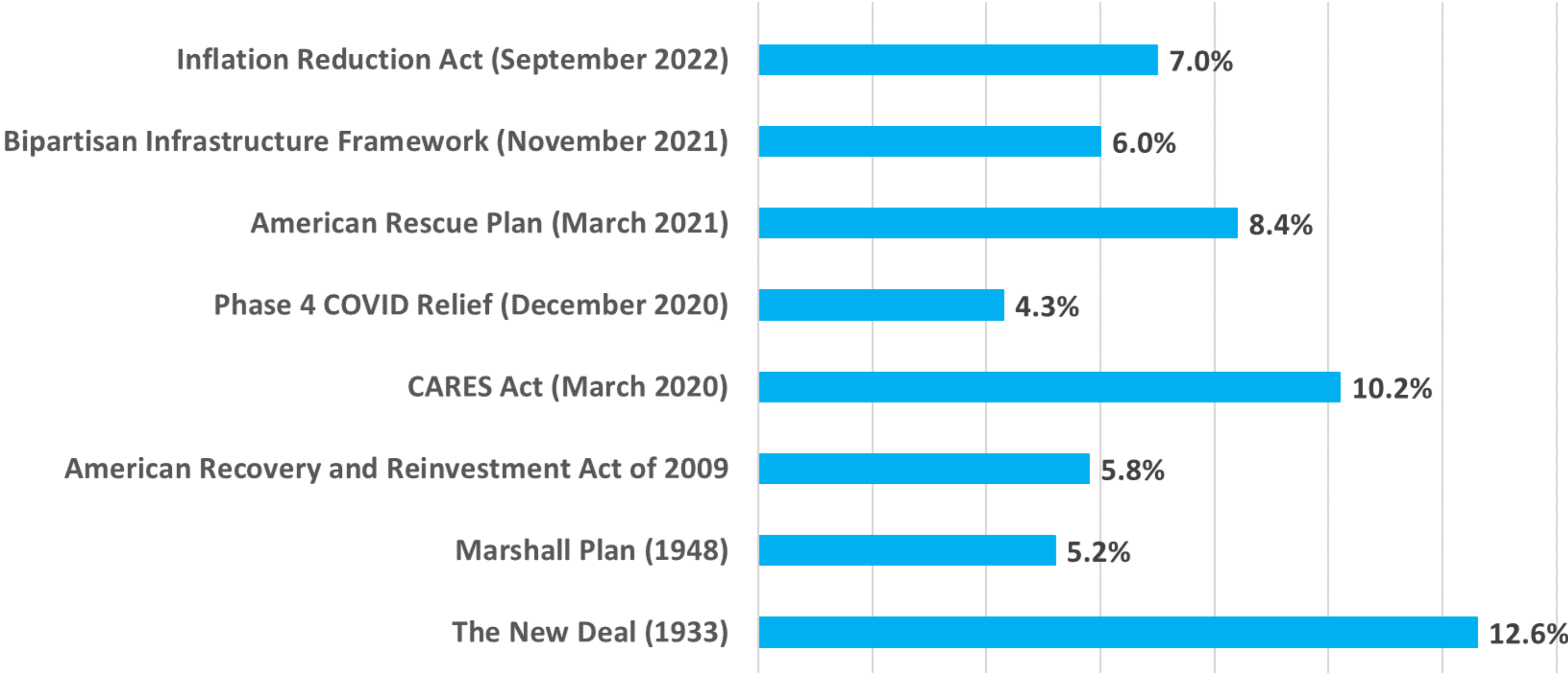
# Although, deregulation and AI could increase productivity and decrease inflation

Secular Trends in U.S. Labor Productivity



# Historic fiscal policy

Select Stimulus as a Percentage of U.S. GDP



Source: Axios and Crown and Company. November 1, 2021. Federated Hermes as of January 18, 2023

# And the debt champion is...

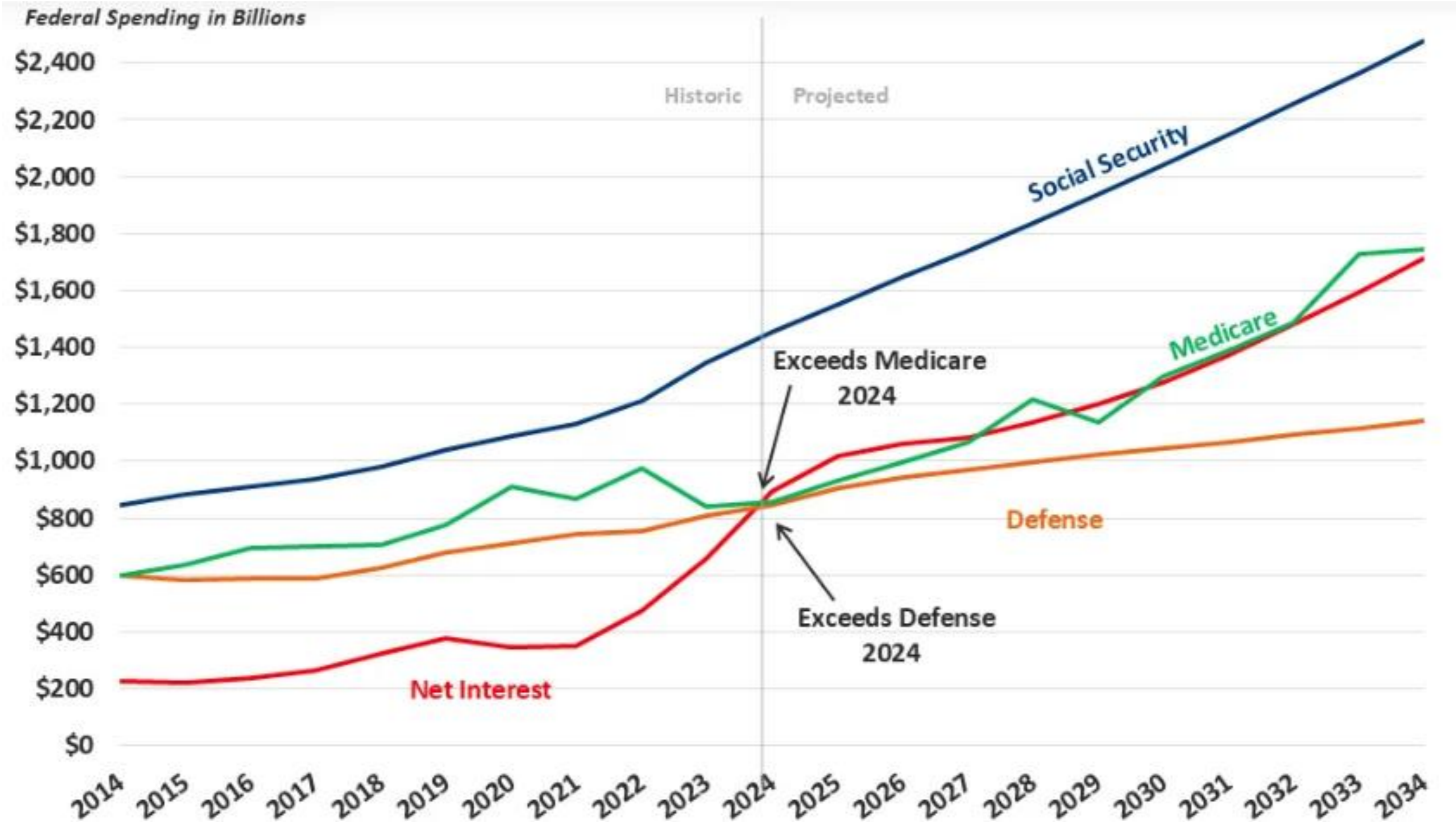
Debt Levels and Increases in Major Economies

	<b>2023 Gross Government Debt</b> <i>US\$ tr</i>	<b>Increase in Gross Government Debt between 2019 and 2023</b> <i>US\$ tr</i>	<b>2023 population</b> <i>millions</i>	<b>2023 Govt Debt per Capita</b> <i>US\$</i>	<b>Increase in Govt Debt per capita between 2019 and 2023</b> <i>US\$</i>
<b>USA</b>	33.42	10.16	335.14	99,711	28,918
<b>Canada</b>	2.34	0.75	39.97	58,617	16,146
<b>UK</b>	3.46	0.96	68.12	50,862	13,356
<b>Japan</b>	10.50	-1.57	124.62	84,278	-11,344
<b>Germany</b>	2.93	0.62	84.54	34,613	6,802
<b>France</b>	3.43	0.77	65.91	51,976	11,246
<b>Italy</b>	3.16	0.47	58.85	53,734	8,747
<b>China</b>	14.66	6.10	1411.40	10,390	4,318



# CBO warns U.S. is drowning in debt

Interest Costs Will Top Defense and Medicare in 2024



Source: Congressional Budget Office & Office of Management and Budget, Renaissance Macro Research. November 20, 2024

# King Dollar

Fed Broad Trade Weighted Dollar Index





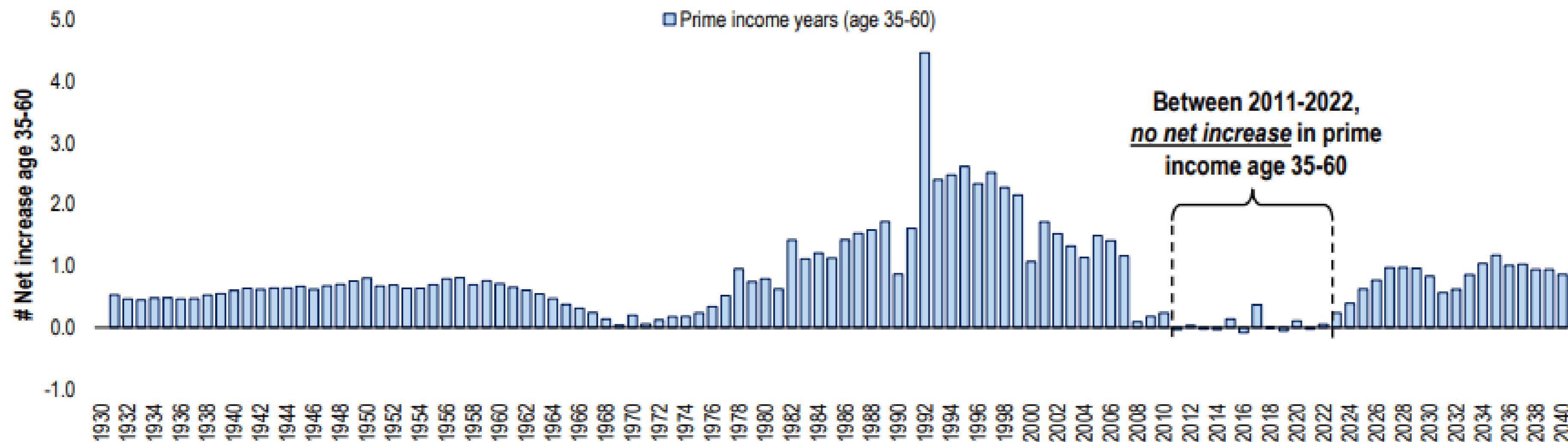
# It all depends on your time horizon: In the long term, prime skilled adults aged 35-60 are growing

## No growth in workforce: 2011-2022: Millennials *replacing* boomers

The potential workforce is actually not growing between 2011-2022 as there is a large offset between Boomers retiring and the replacement of those by millennials.

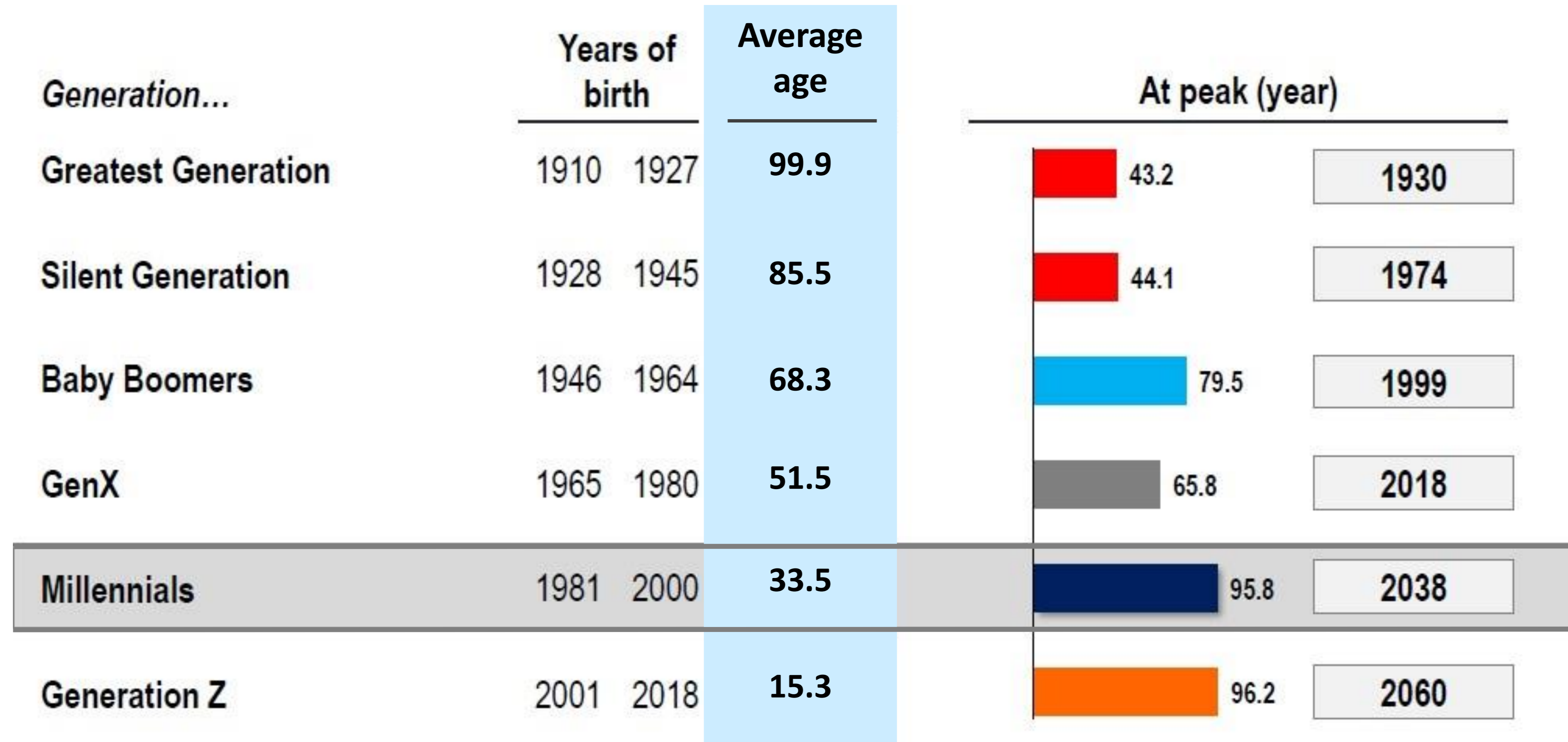
Figure: Number of adults entering prime earning age (35-60)

Number in millions



# The largest generation ever, Millennials are just entering their prime income years

Total U.S. Population Divided by Age Groups



Peak population figures above include immigration. Reduced immigration will lead to a smaller overall size of Gen Z.  
Source: DESA UN Data sets, Fundstrat; Federated Hermes. Updated January 2, 2024

# All will be well

Country	1990 Mln	2005 Mln	90-05 % Δ	2020 Mln	05-20 % Δ	2035 Mln	20-35 % Δ	2050 Mln	35-50 % Δ
China	649.0	829.4	28%	929.8	12%	859.9	-8%	770.1	-10%
United States	147.7	175.5	19%	193.9	10%	199.8	3%	210.0	5%
Europe	430	447.6	4%	446.8	0%	409.5	-8%	372.4	-9%
Japan	76.6	78.6	3%	69.1	-12%	61.4	-11%	49.4	-20%
India	420.4	601.3	43%	802.2	33%	949.0	18%	1001.2	5%
Southeast Asia	215.3	309.0	44%	397.8	29%	445.2	12%	460.9	4%

Source: Evercore ISI Research, September 27, 2022

# Interested in hearing more?

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## LINDA DUESSEL



### Mind on the Market

With more than 30 years of experience, Linda Duessel is nationally recognized for her expertise in analyzing equity market conditions. Linda discusses personal finance with investor groups across the country on topics of interest ranging from the impact of the alternative minimum tax to investing for retirement. Additionally, Linda has been extensively quoted by Associated Press, The Wall Street Journal and Barron's, as well as featured in the annual roundtable for USA Today.

As senior equity market strategist, Linda is part of the equity income team, which is responsible for formulating Federated Hermes' views about the market and the firm's positioning strategies within the equity income team. As senior client portfolio manager, she is responsible for articulating the strategy, process, positioning and performance of Federated Hermes' equity income products.

Like to keep an eye on her insights? Here are three ways:

1

Attend her [quarterly webcasts](#). Focused on timely market trends and topics.

2

Read her weekly market views. Look for them on our [site](#) and in our [weekly email](#).

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