

Davenport Asset Management presents:

Virtual Investor Summit Series

Investment Implications of the 2024 Presidential Election

September 12, 2024

DAVENPORT
ASSET MANAGEMENT



Davenport & Company LLC Member NYSE-FINRA-SIPC

Introduction



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Important Disclosures:

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Orlando's Outlook: Washington Driving the Bus in 2024

Presented by

Philip J. Orlando, CFA

Senior Vice President

Chief Equity Strategist

August 2024

Federated Advisory Services Company

Investors scale a steep and diverse wall of worry in 2024

Presidential & Congressional Election

Southern Border Crisis

Soaring Federal Debt/GDP Ratio

Recession Risk – Hard Landing or Soft Landing?

Pace of Inflation Decline

Federal Reserve's Monetary Policy Response

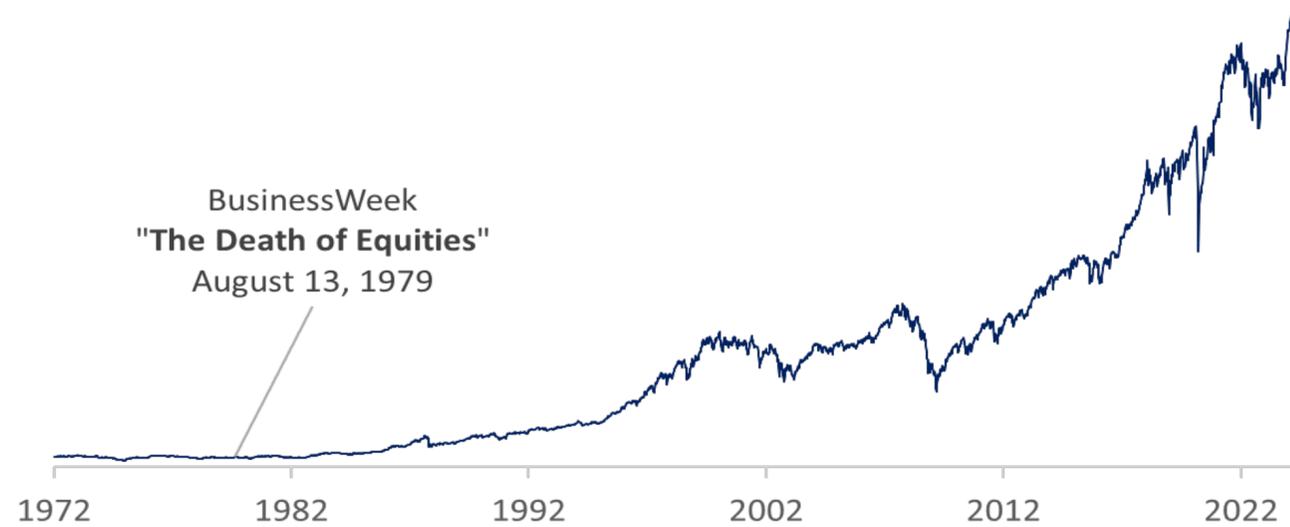
Growing Geopolitical Risk –

Russia/Ukraine, China/Taiwan, Israel/Hamas &
Iran/Hamas/Hezbollah/Houthis/North Korea

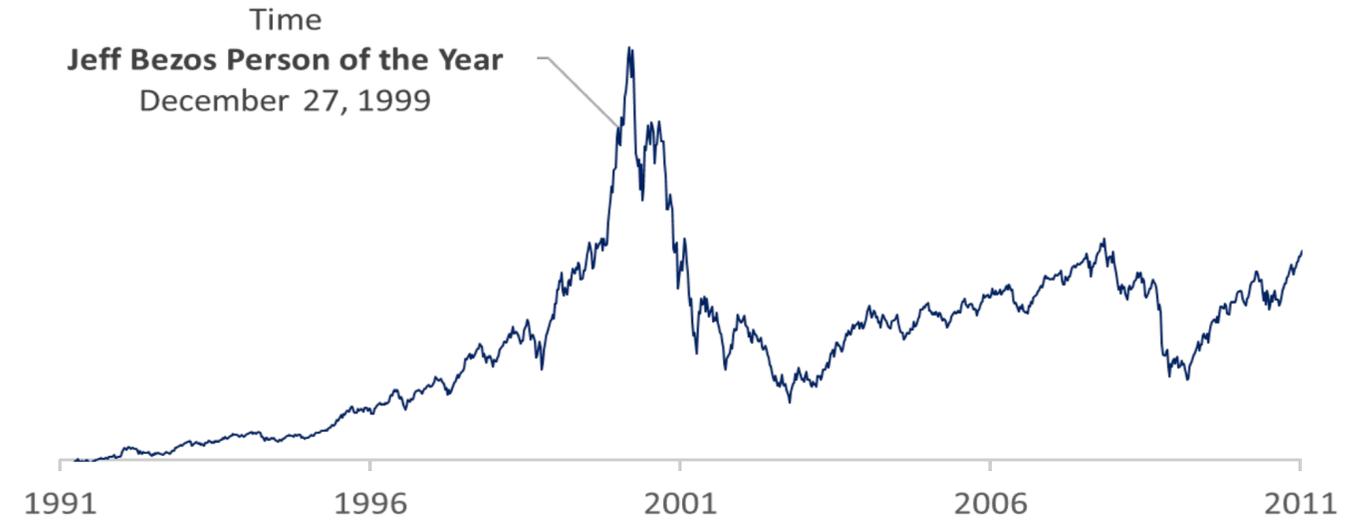
The Magazine Indicator is a reverse indicator

“Whom the Gods would destroy, they first put on the cover of BusinessWeek” (Paul Krugman)

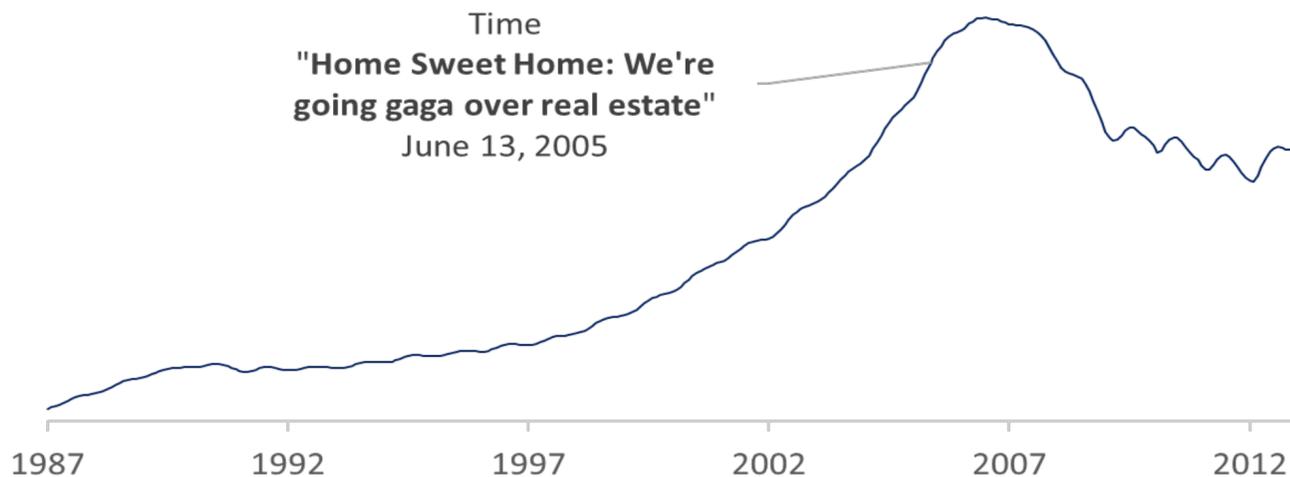
DJIA



NASDAQ Composite



Case Schiller Home Price Index



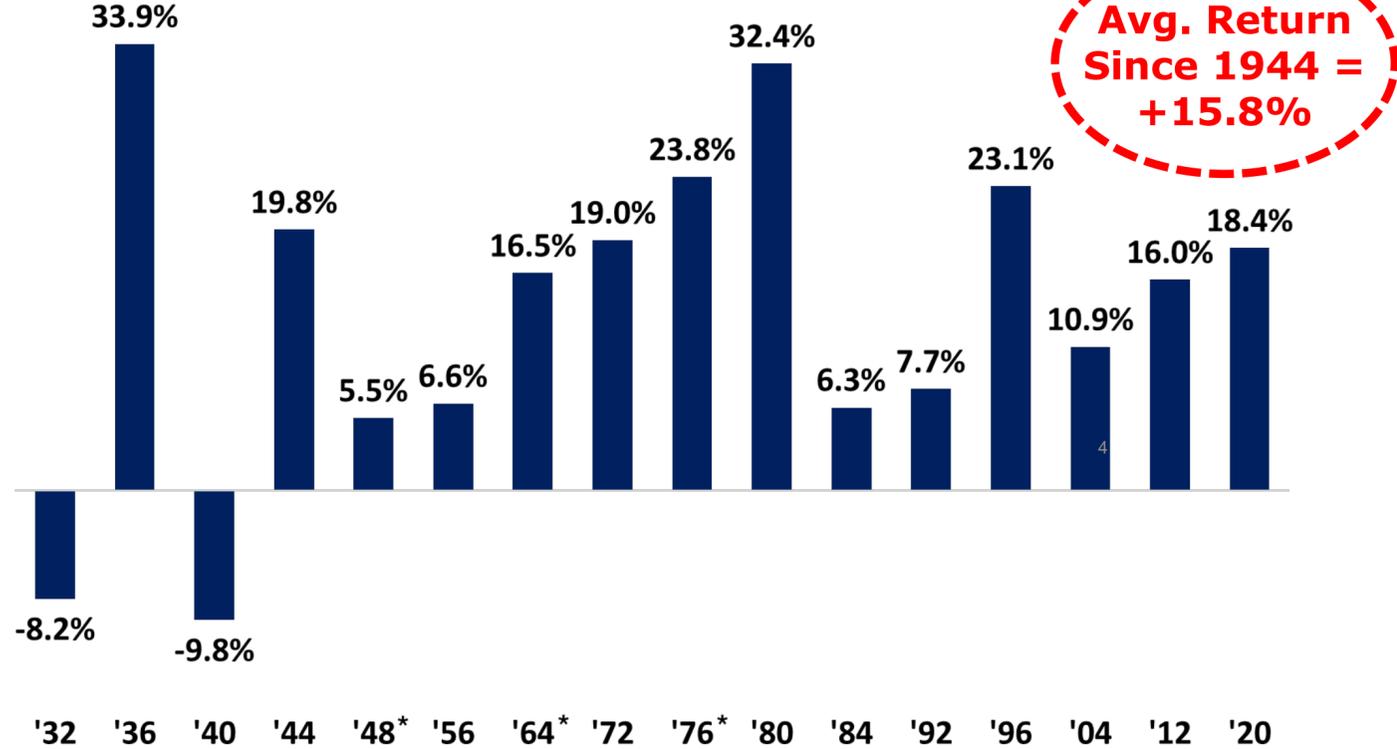
S&P 500



Source: Bloomberg. Data as of August 1, 2024. Past performance is no guarantee of future results.

Presidential election years tend to be positive for stocks

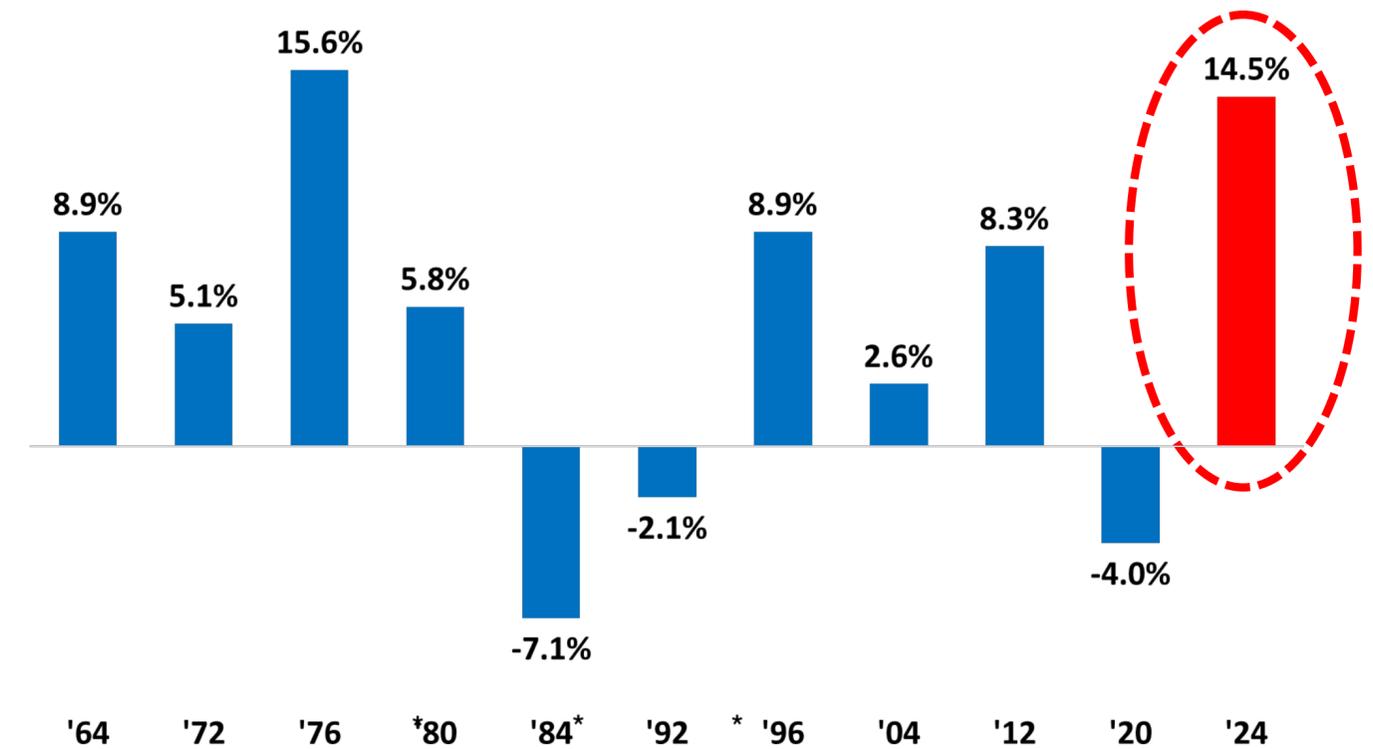
S&P 500 Total Return in Election Years with Incumbent President Running for Re-Election



*In 1948 Truman assumed office after FDR's death and sought another term; 1964 Johnson assumed office after JFK's death and sought another term; 1976 Ford assumed office after Nixon's resignation and sought another term

The S&P 500 has increased in 13 straight Presidential re-election years

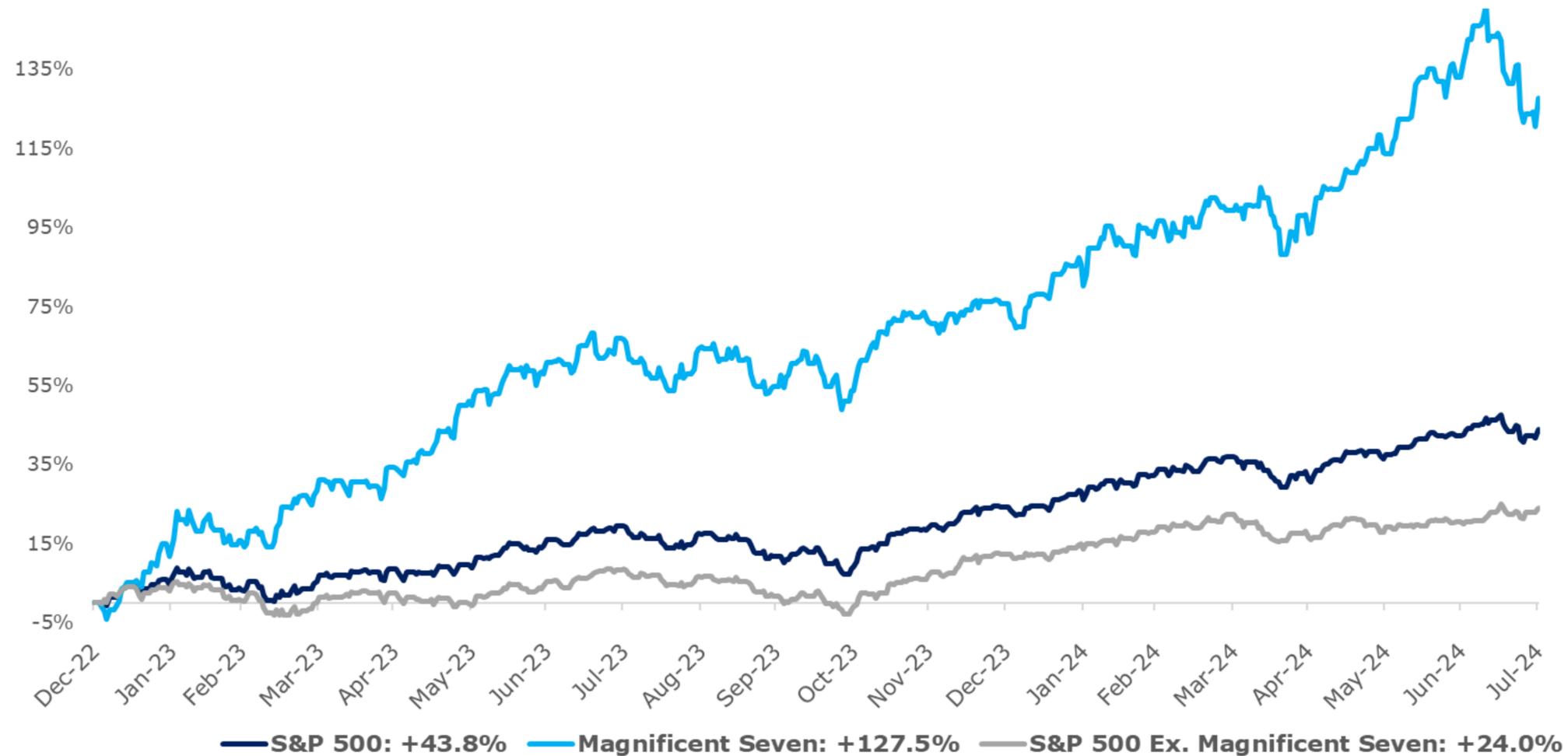
S&P 500 Price Return First Half of Presidential Re-Election Years



2024 is the second best re-election year since 1964 for the S&P 500

Equity market returns driven by Big Tech

Significant divergence between big tech and the rest of the market



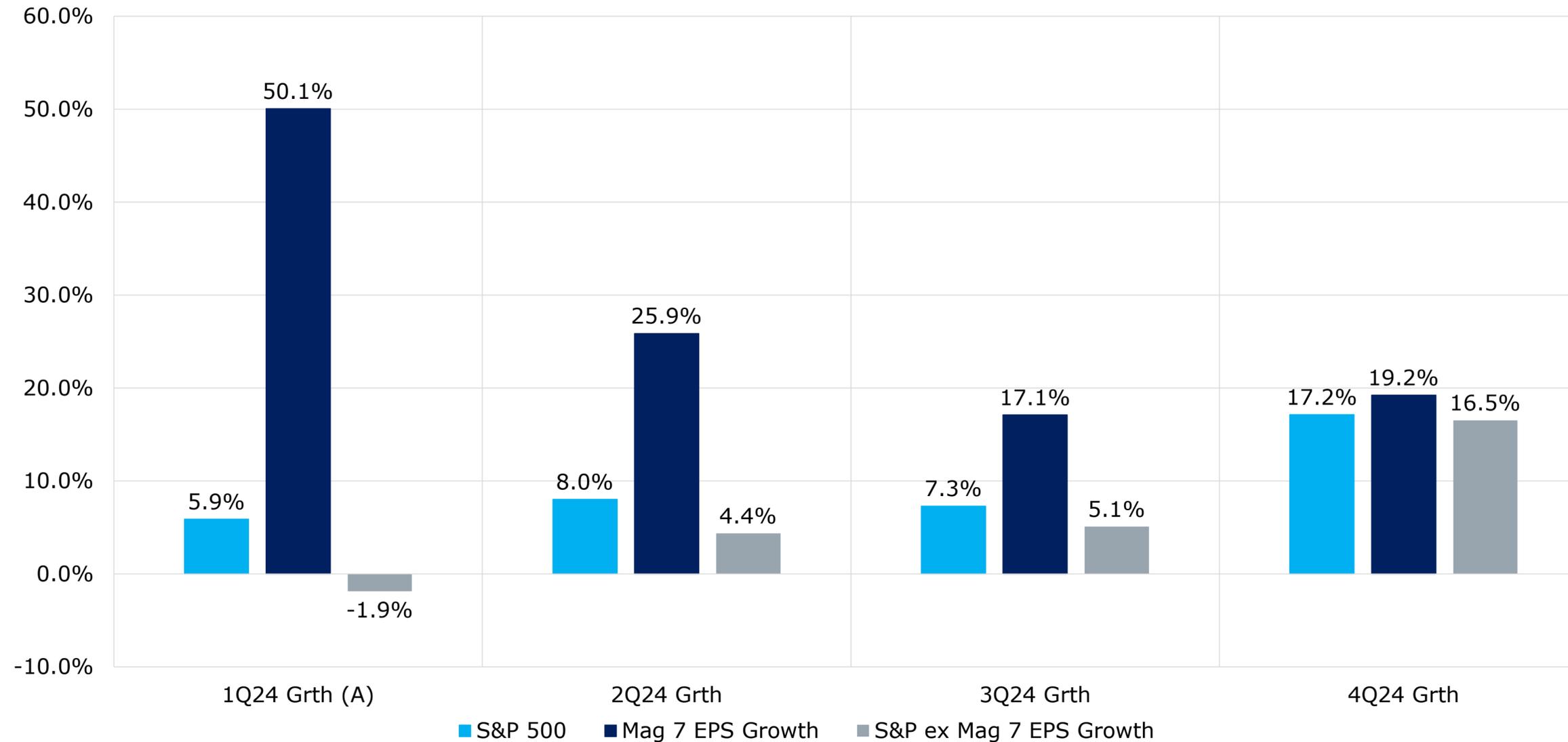
Magnificent Seven - S&P 500 Weights as of 7/31/2024							
Apple	Microsoft	NVIDIA	Alphabet	Amazon	Meta	Tesla	Total
6.9%	6.7%	6.2%	4.0%	3.7%	2.2%	1.4%	31.1%

Note: Performance reflects price return not total return.
Source: Federated Hermes, Bloomberg as of July 31, 2024.

Earnings growth: changing of the guard

Potential to broaden by the end of the year

Expected Earnings Growth by Quarter
GAAP Data

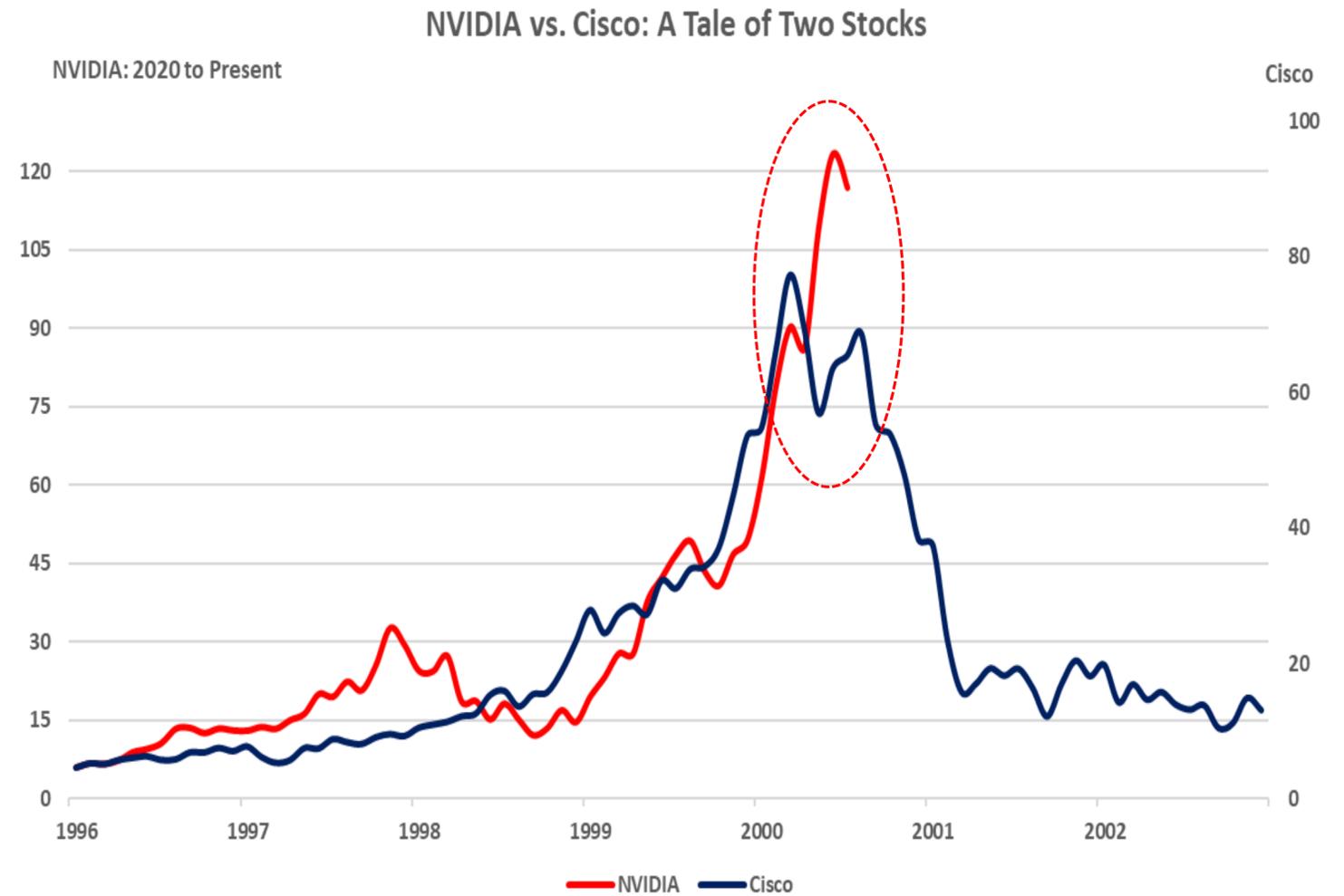
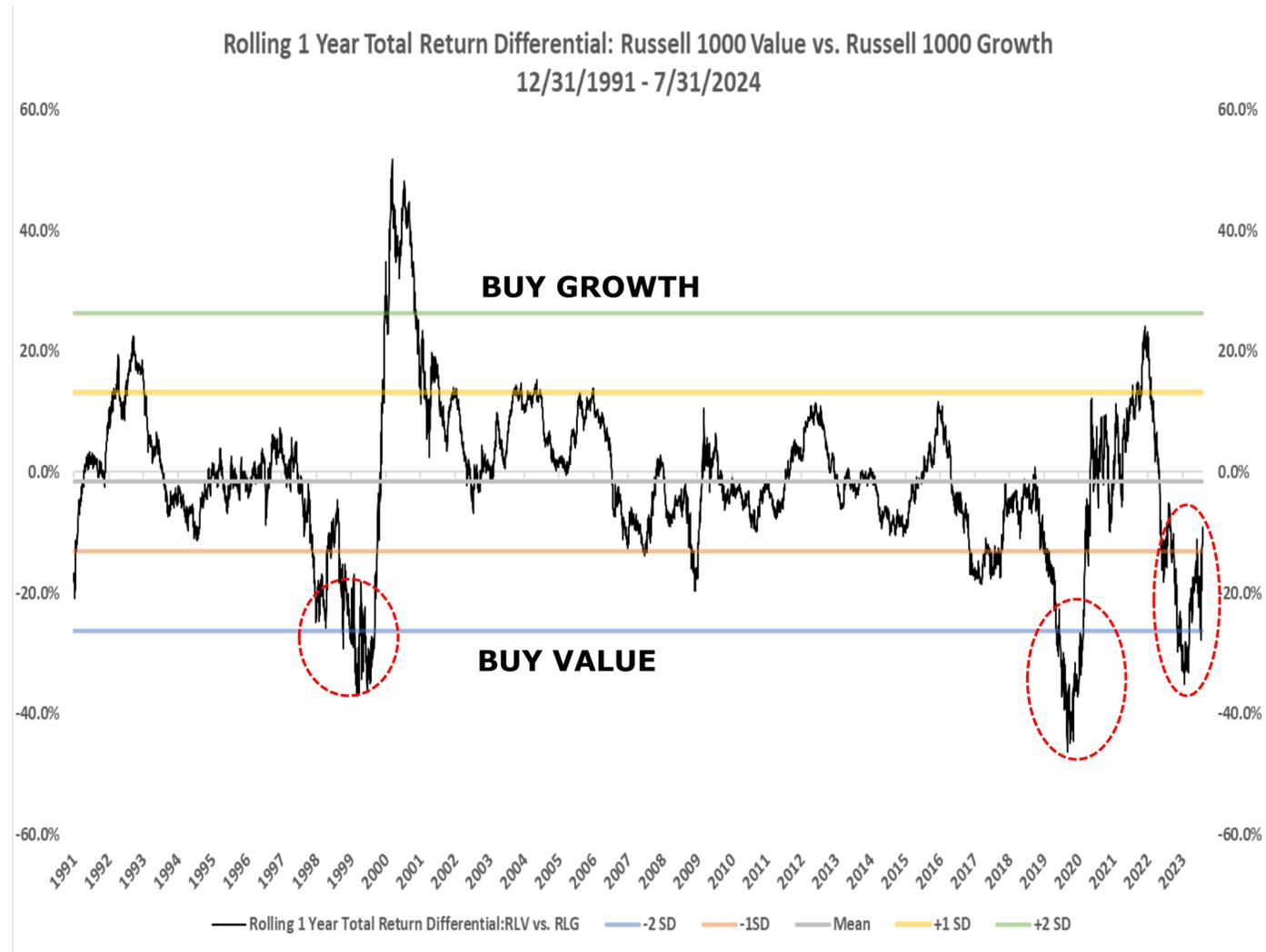


Note: Magnificent 7 = Apple, Inc., Amazon.com, Inc., Alphabet, Inc., Meta Platforms, Inc., Microsoft Corp., NVIDIA Corp., and Tesla, Inc.

Source: Federated Hermes, UBS, FactSet as of June 30, 2024.

Growth investors party like it's 1999

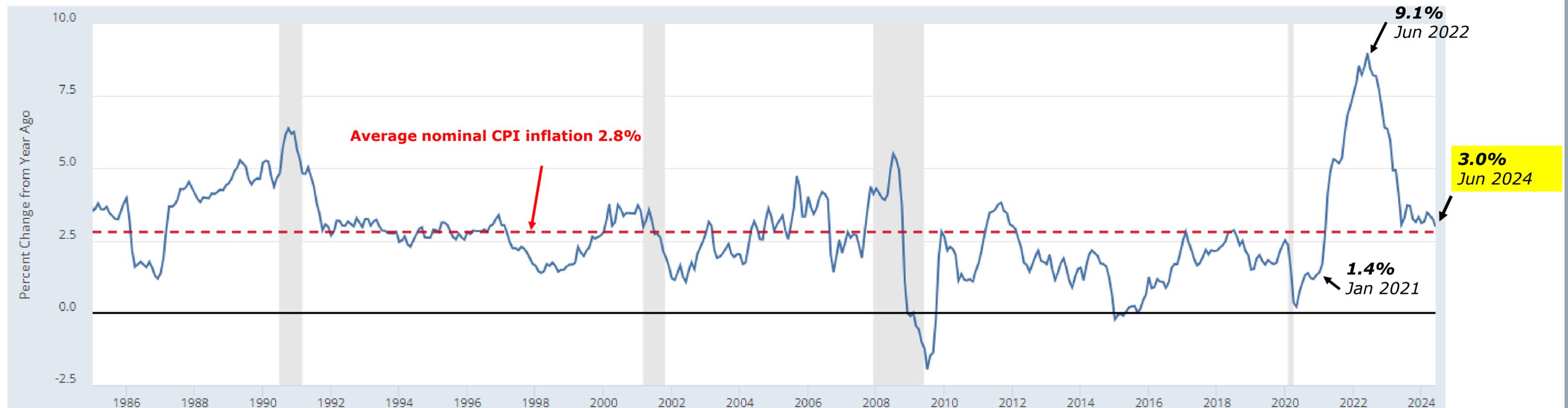
Are we close to an inflection point that favors value?



Source: Bloomberg as of August 1, 2024. Past performance is no guarantee of future results.

Nominal CPI rose from 1.4% y/y in January 2021 to a 41-year high of 9.1% in June 2022

Consumer Price Index
(percent change at annual rate, monthly)



Note: Shaded areas indicate recessions.
Source: FRED Economic Data and Bureau of Labor Statistics as of July 11, 2024.

Sharp divergence between declines in Headline and Core inflation (y/y)

Federal Reserve likely to remain hawkish and patient on interest rates

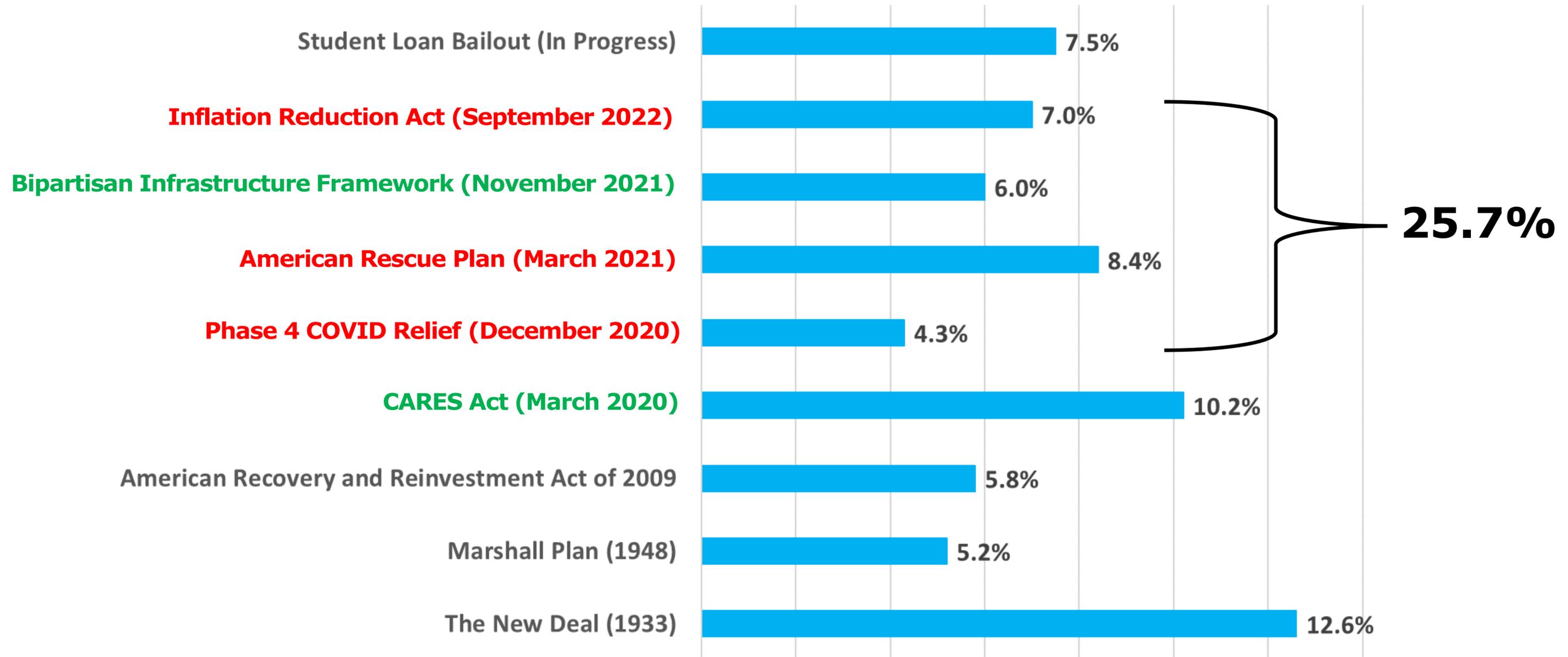
	Consumer Price Index (CPI)				Personal Consumption Expenditure Index (PCE)			
	Headline		Core		Headline		Core*	
Peak	9.1%	(June '22)	6.6%	(Sept. '22)	7.1%	(June '22)	5.6%	(Feb. '22)
Current	3.0%	(June '24)	3.3%	(June '24)	2.5%	(June '24)	2.6%	(June '24)
Change	(6.1%)		(3.3%)		(4.6%)		(3.0%)	
Time	24 Months		21 Months		24 Months		28 Months	
Change/ Month	(0.25%)		(0.16%)		(0.19%)		(0.11%)	
Headline/Core Change/Month Ratio	1.6:1				1.7:1			

***Federal Reserve's preferred measure of inflation. In its June 2024 Summary of Economic Projections, the Fed estimates that core PCE will approximate 2.0% by year-end 2026, for an average monthly decline of (0.02%) over the next 30 months.**

Source: Bloomberg and Federated Hermes as of July 26, 2024.

Historic Fiscal Policy

Select Stimulus as a Percentage of US GDP



The recovery is complete: GDP output gap fully closed in 1Q21

The V-shaped recovery has transitioned to a new economic expansion

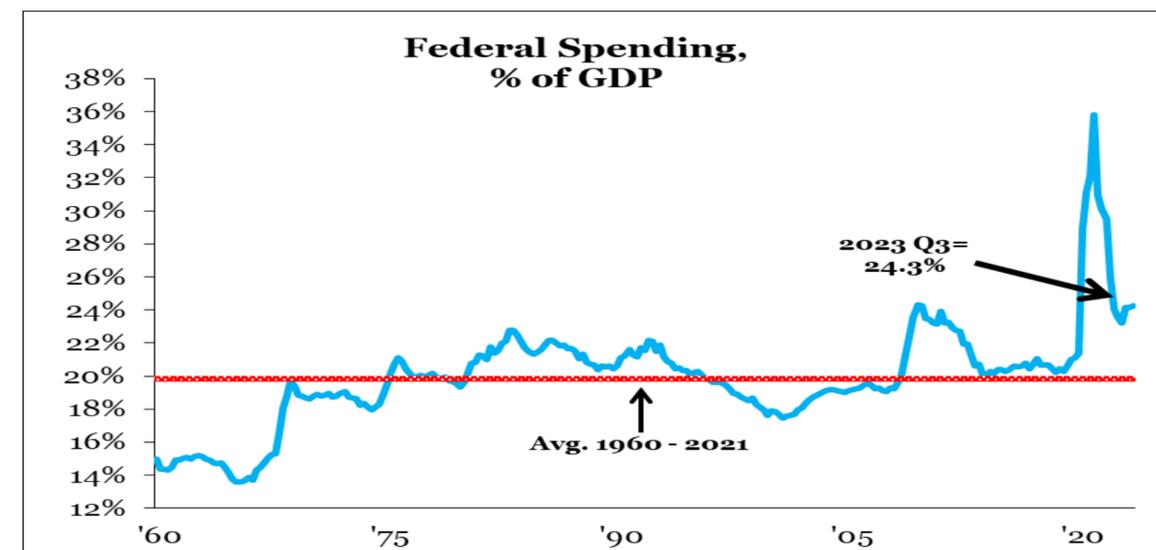
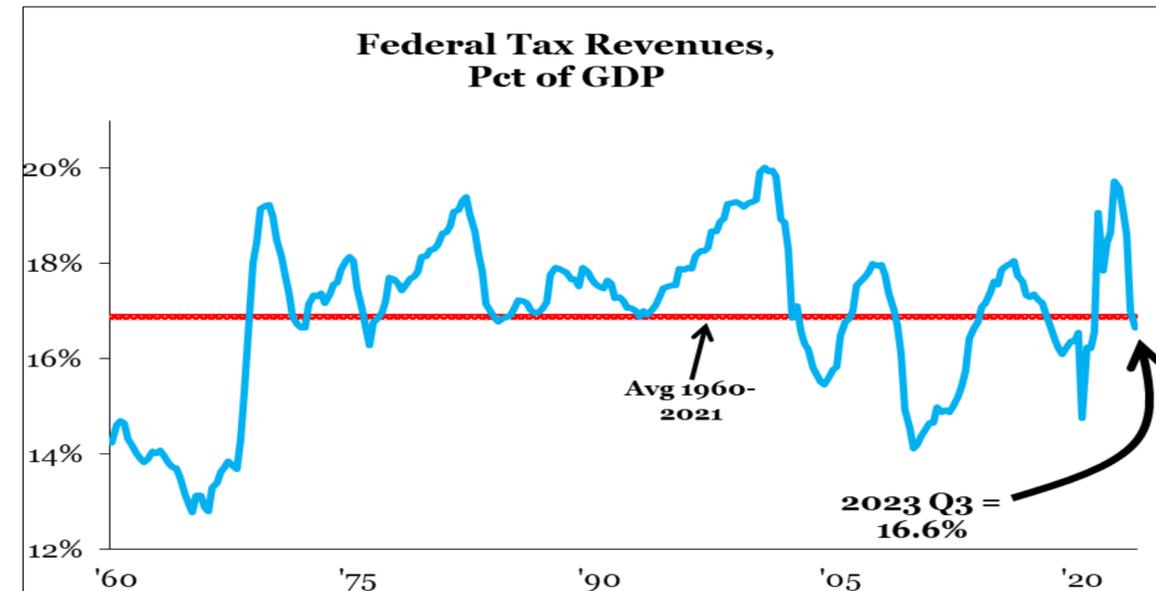
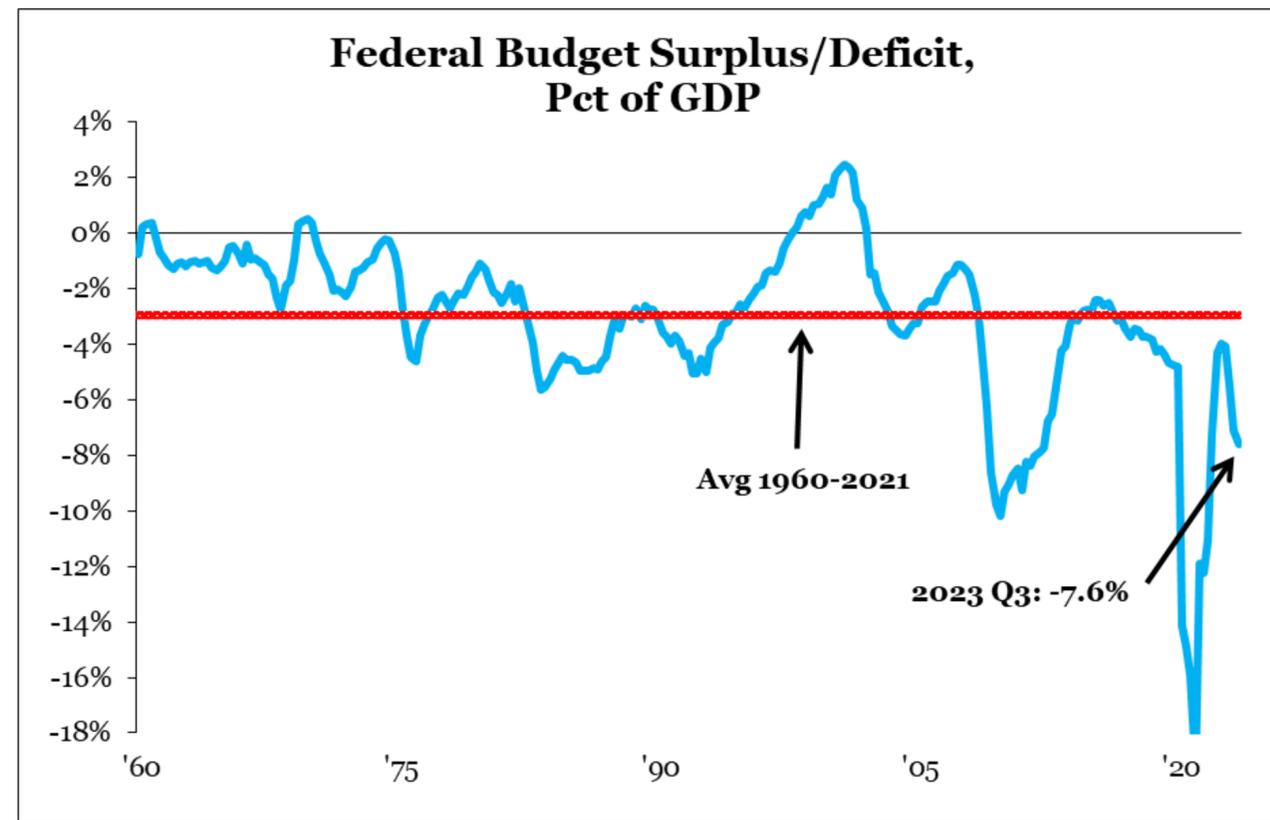
U.S. Real GDP (Chained \$)



Source: Bloomberg & Federated Hermes. As of August 2, 2024.

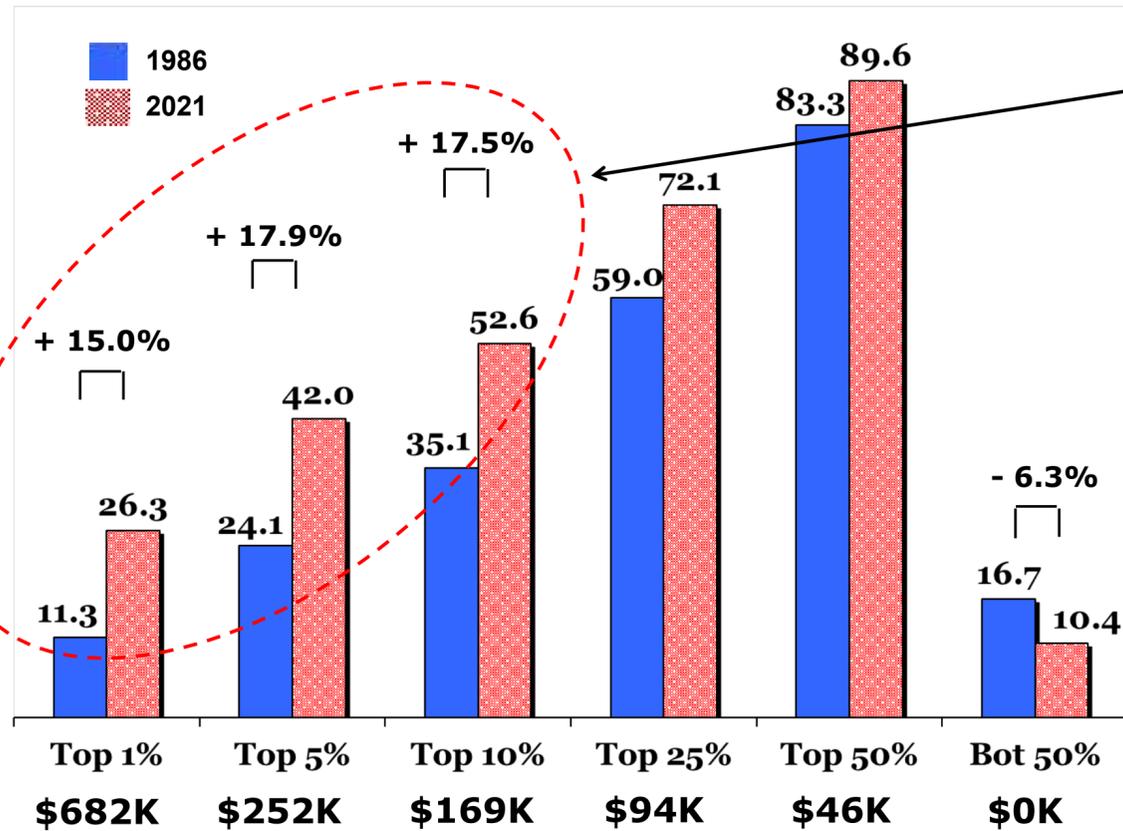
We have a spending problem, not a tax problem

Fiscal deficit driven by excessive spending, not a lack of tax revenues



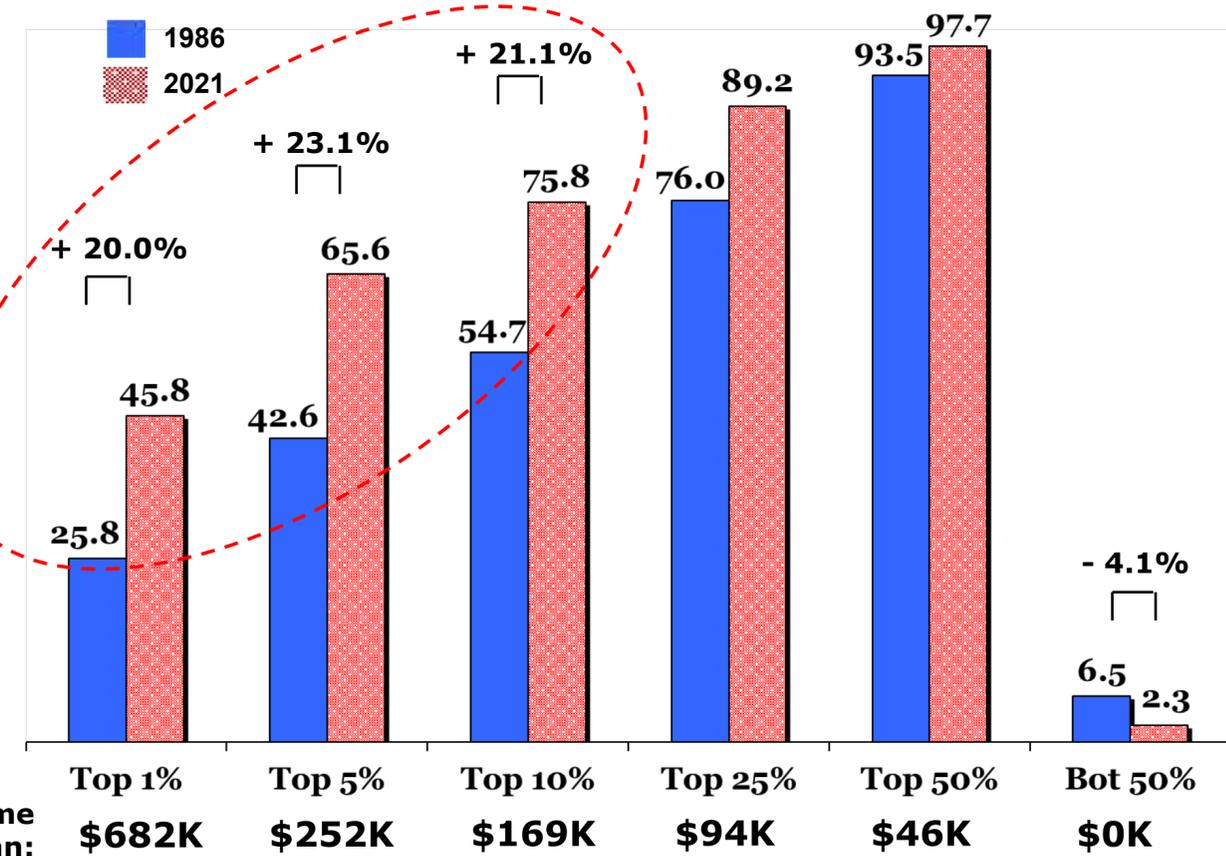
Higher earners are already paying a progressively larger share of the Federal tax burden

Income Tax Shares As Pct Of Income Earned



The "rich" are certainly getting richer...

Income Tax Shares As Pct Of Income Taxes Paid



2021 Income greater than:

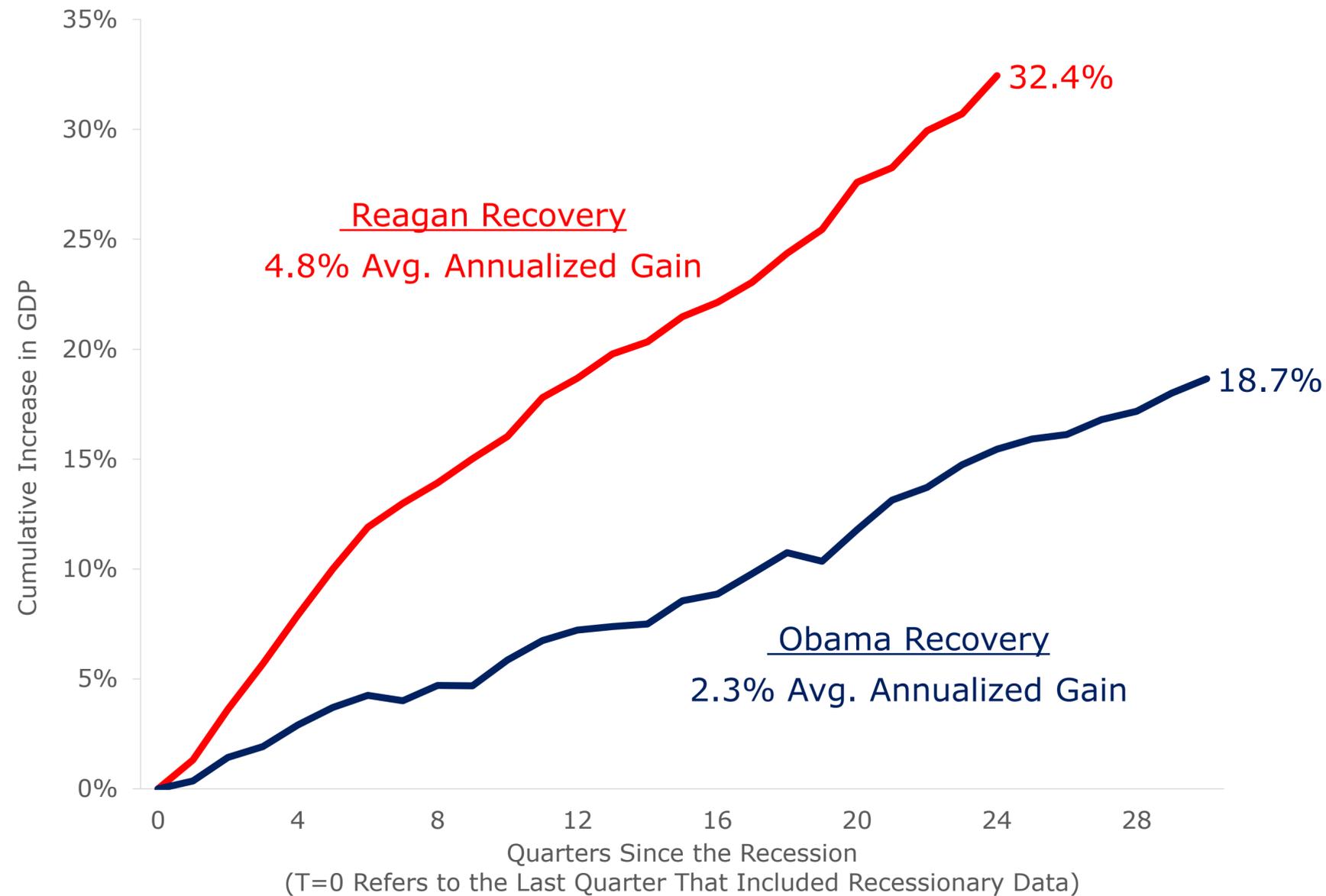
...but they are also paying a proportionately larger share of federal taxes

2021 Income greater than:

Fiscal Policy Matters – The “Zarnowitz Rule”

Examining the Different Post-Recession Recoveries Under Ronald Reagan and Barack Obama

Cumulative Change in Real GDP Following the Recession



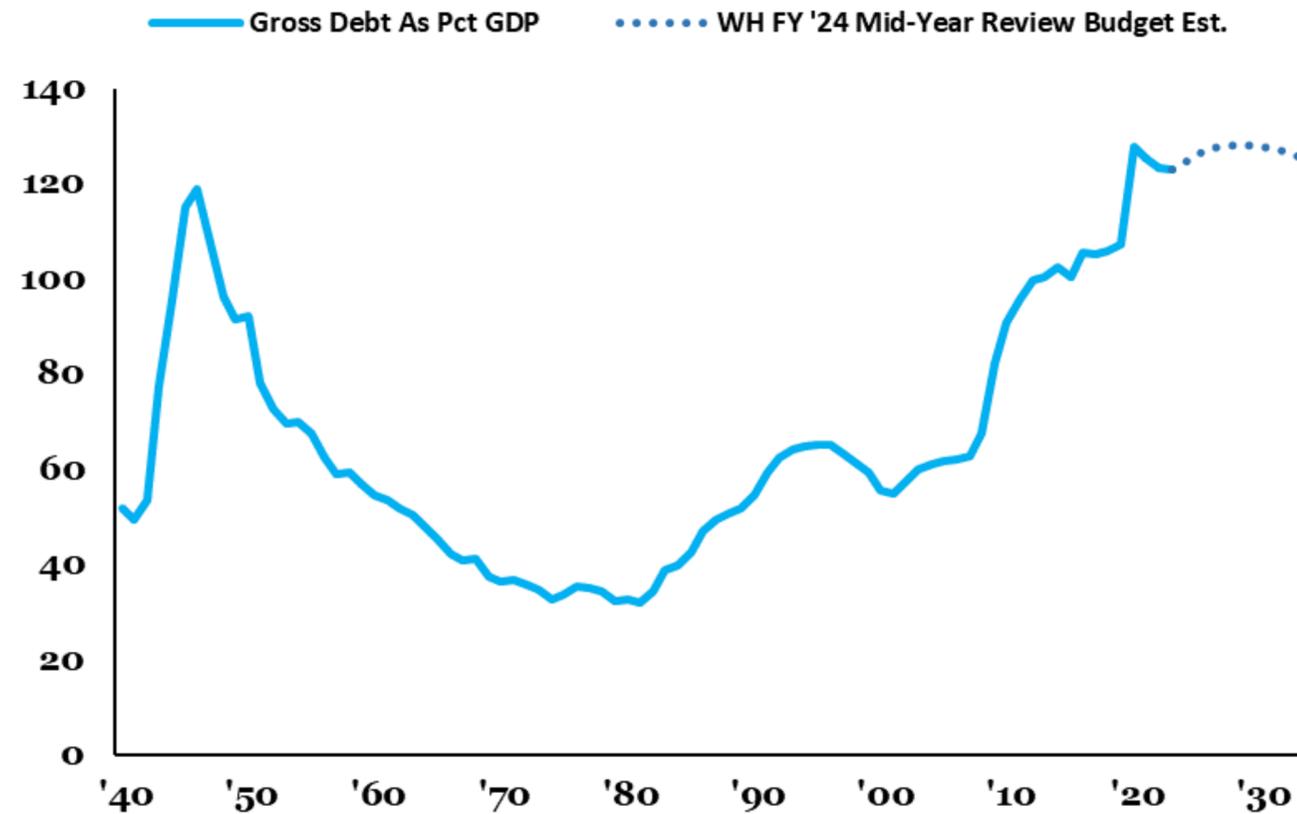
Recession “Inherited” by Each President		
	Reagan	Obama
Dates	July 1981 – Nov. 1982	Dec. 2007 – June 2009
Length	17 Months	19 Months
GDP Trough	-6.1% (Q1 1982)	-8.5% (Q4 2008)

Note: GDP statistics referenced are all Real_GDP metrics using chained 2017 dollars. The “Cumulative Increase in Real GDP” figures use seasonally adjusted, annualized Real GDP figures, while the “Average Annualized Gain” and “GDP Trough” statistics use the seasonally adjusted, annualized Q/Q Changes in Real GDP.
 Source: Federated Hermes, Bloomberg as of 6/30/2024.

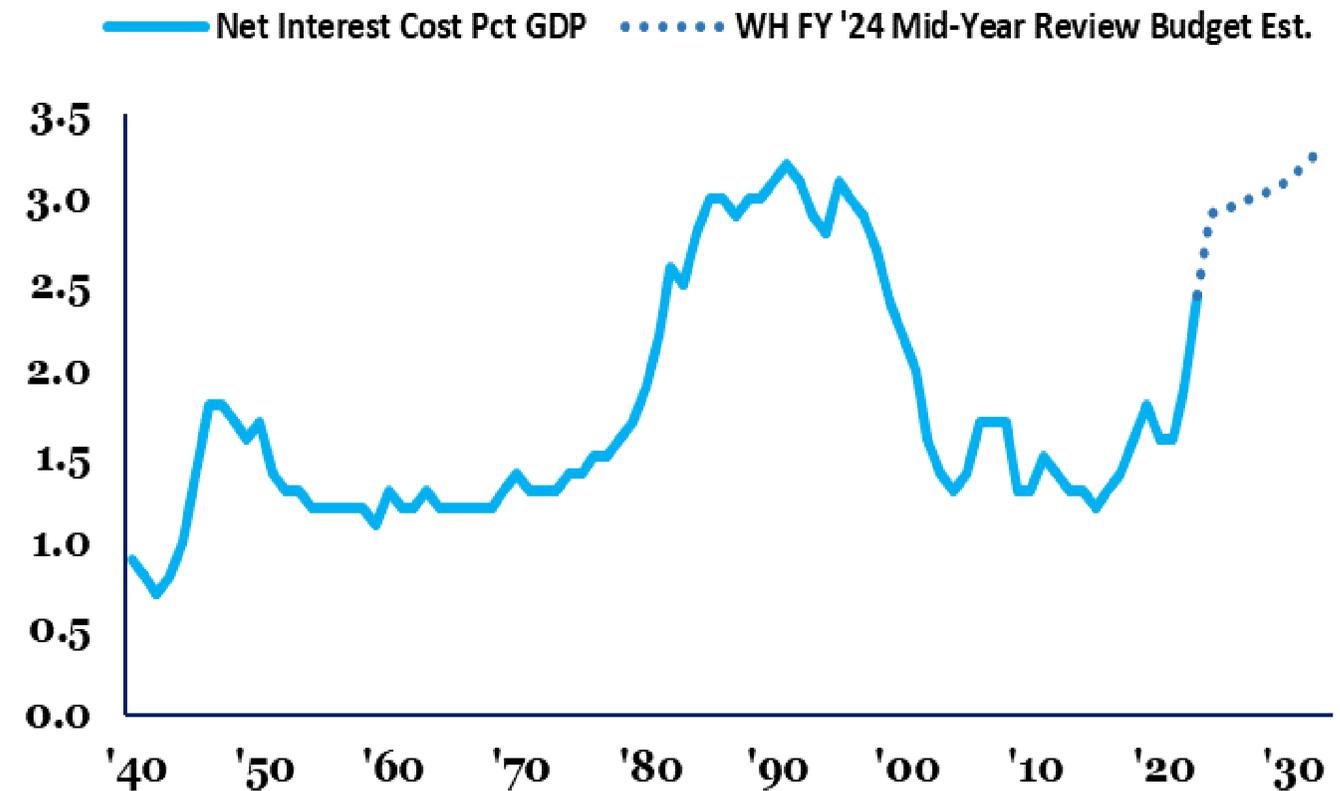
The total federal debt is a growing problem

While debt levels have risen sharply, low rates mean that the interest burden has fallen dramatically

Total Federal Debt To GDP



Interest Expense as a % of GDP

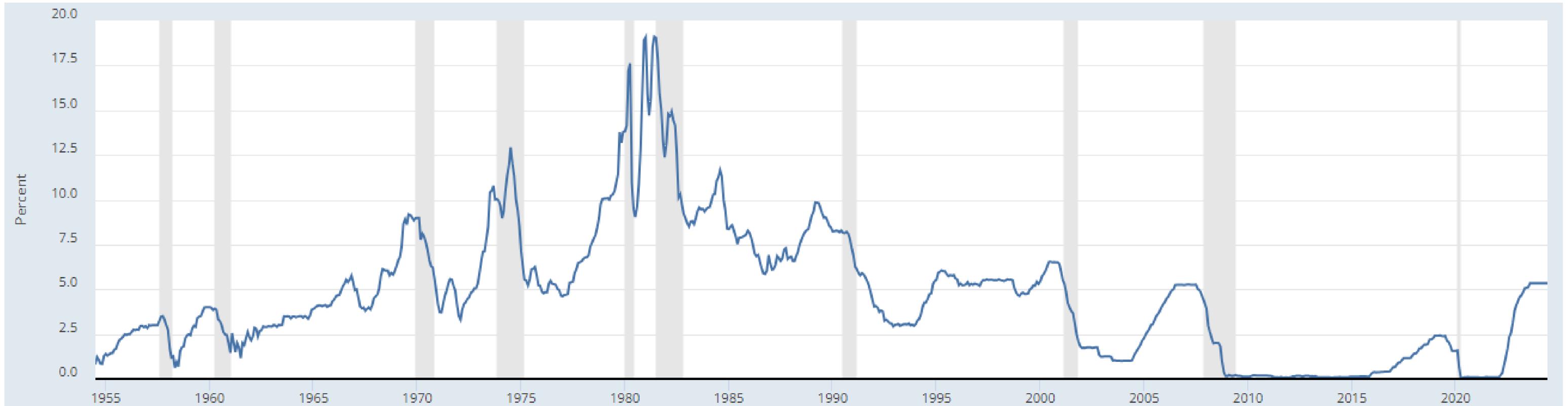


Federal Debt Held by Public (7/26/24)	\$27.8 trillion
Federal Debt Held by Fed Gov't Accounts (7/26/24)	\$7.2 trillion
Gross Federal Debt (7/26/24)	\$35.0 trillion
Federal Reserve Balance Sheet (7/24/24)	\$7.2 trillion
Current \$ GDP (LTM avg thru 2Q24)	\$28.1 trillion
Total Debt/GDP Ratio	125%

Source: Strategas Research Partners as of February 6, 2024. Federated Hermes as of August 2, 2024.

Fed's first hike typically precedes next recession by several years

Fed Funds Rate: 5.50%



Note: Shaded areas indicate recessions. Fed Funds Rate refers to the upper band.
Source: FRED Economic Data as of July 1, 2024.

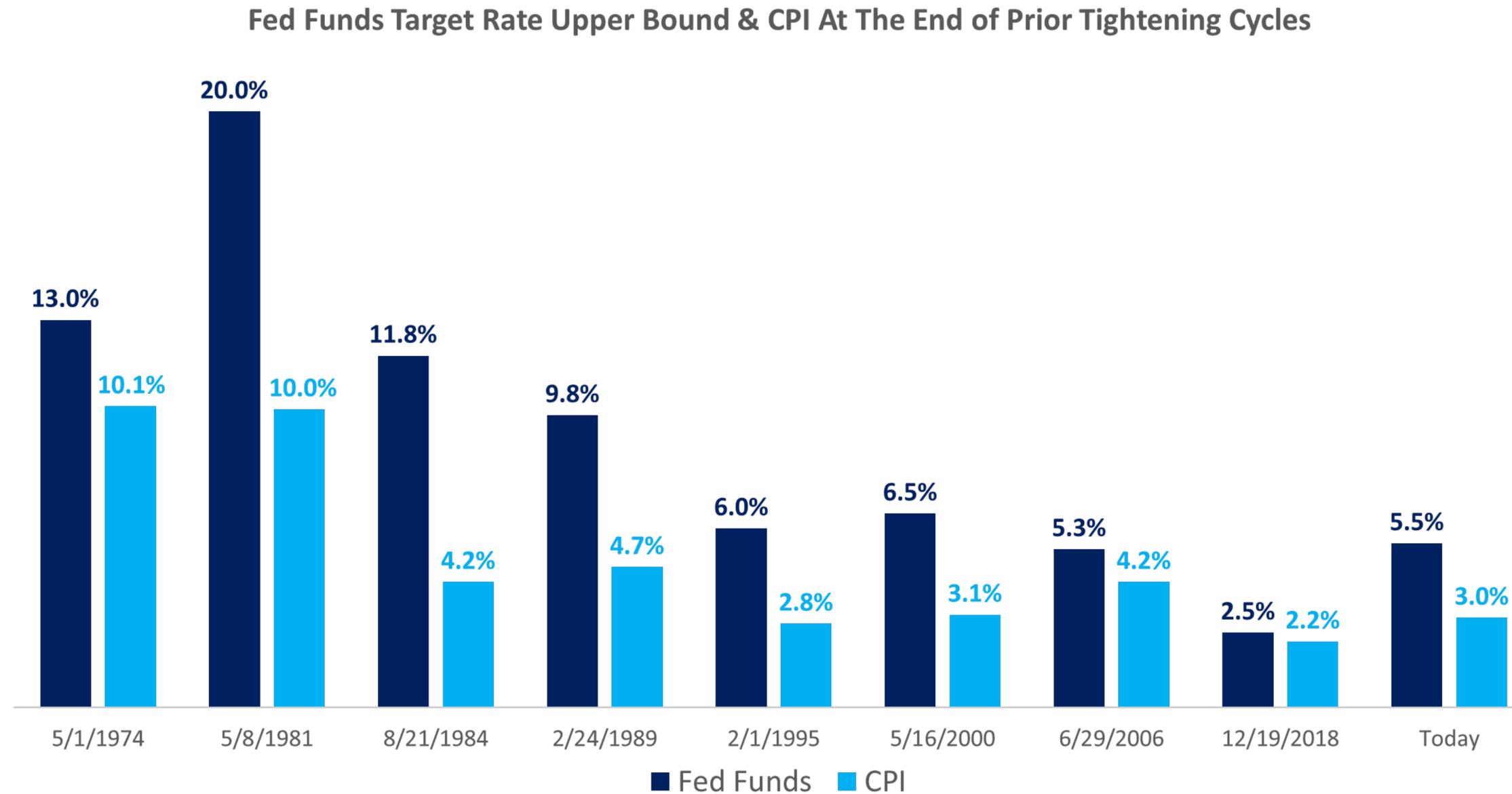
Stocks historically tend to rally during Federal Reserve interest rate hiking cycles and pauses, but correct during rate cuts

Market Movements During Fed Policy Cycles						
<i>S&P 500 Price Appreciation</i>						
Fed Cycle	Hike Duration (days)	Hike Return	Pause Duration (days)	Pause Return	Cut Duration (days)	Cut Return
90-91 Recession	801	14.8%	101	12.2%	1187	29.5%
1995 Soft Landing	362	0.1%	155	17.8%	209	14.8%
Dot Com Recession	322	5.5%	231	-6.9%	903	-27.6%
Great Financial Crisis	729	11.6%	446	19.4%	455	-39.9%
Covid	739	3.9%	219	26.8%	231	-19.5%
Current	497	4.8%	166*	2.9%*	?	?
Average	575	6.8%	230.4	13.8%	597	-8.6%
Median	613	5.1%	219	17.8%	455	-19.5%
Max	801	14.8%	446	26.8%	1187	29.5%
Min	322	0.1%	101	-6.9%	209	-39.9%

*Current market pause is ongoing; duration and return figures are measured relative to the latest chart update.
Source: Federated Hermes, Bloomberg as of January 8, 2024.

A primary prerequisite for Fed easing:

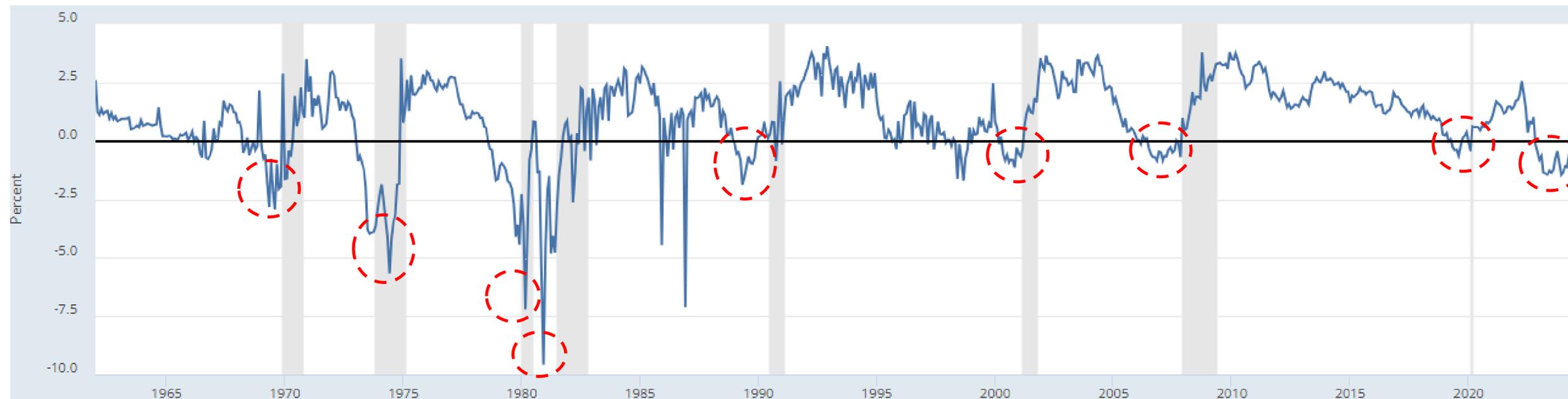
Positive real rates



Source: Strategas Research Partners and Federated Hermes as of July 11, 2024.

Inverted yield curve typically forecasts recessions by 1-2 years

10-Year Treasury Constant Maturity Minus Federal Funds Rate

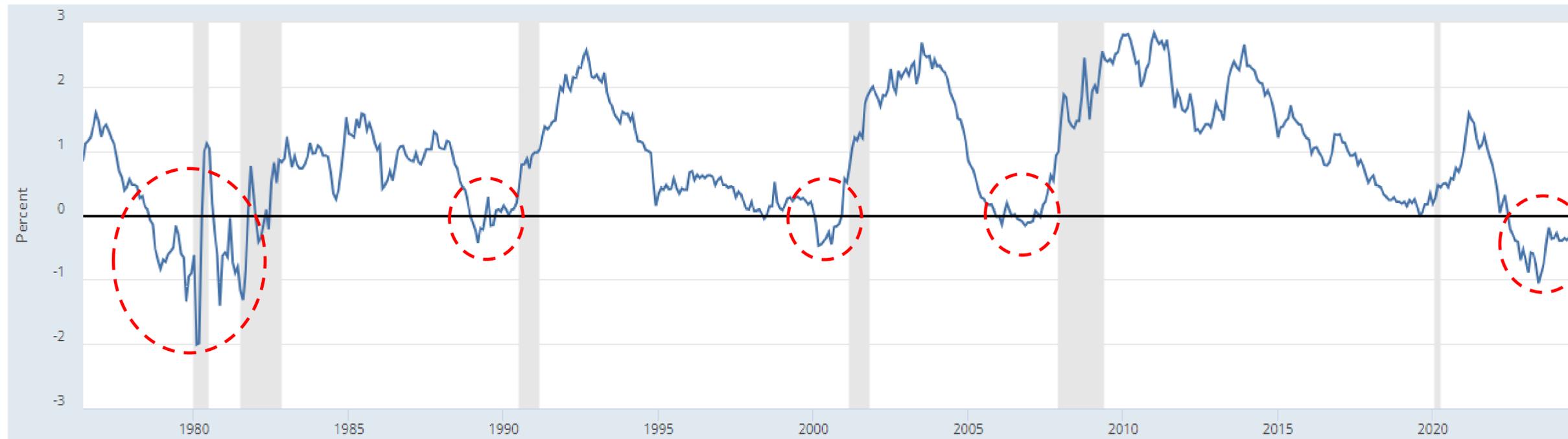


10's: 3.81%
-FF: 5.50%
YC: -1.69%

10's = Benchmark 10yr Treasury Yield. FF = Fed Funds (upper limit). YC = Yield Curve. Shaded bars indicate recessions. Past performance is no guarantee of future results. Source: FRED Economic Data as of August 2, 2024.

The 2/10 spread is narrowing...

10-Year Treasury Constant Maturity Minus 2-Year Treasury Constant Maturity



10's:	3.81%
-2's:	3.91%
YC:	-0.10%

Note: Shaded areas indicate recessions.
Source: FRED Economic Data as of August 2, 2024.

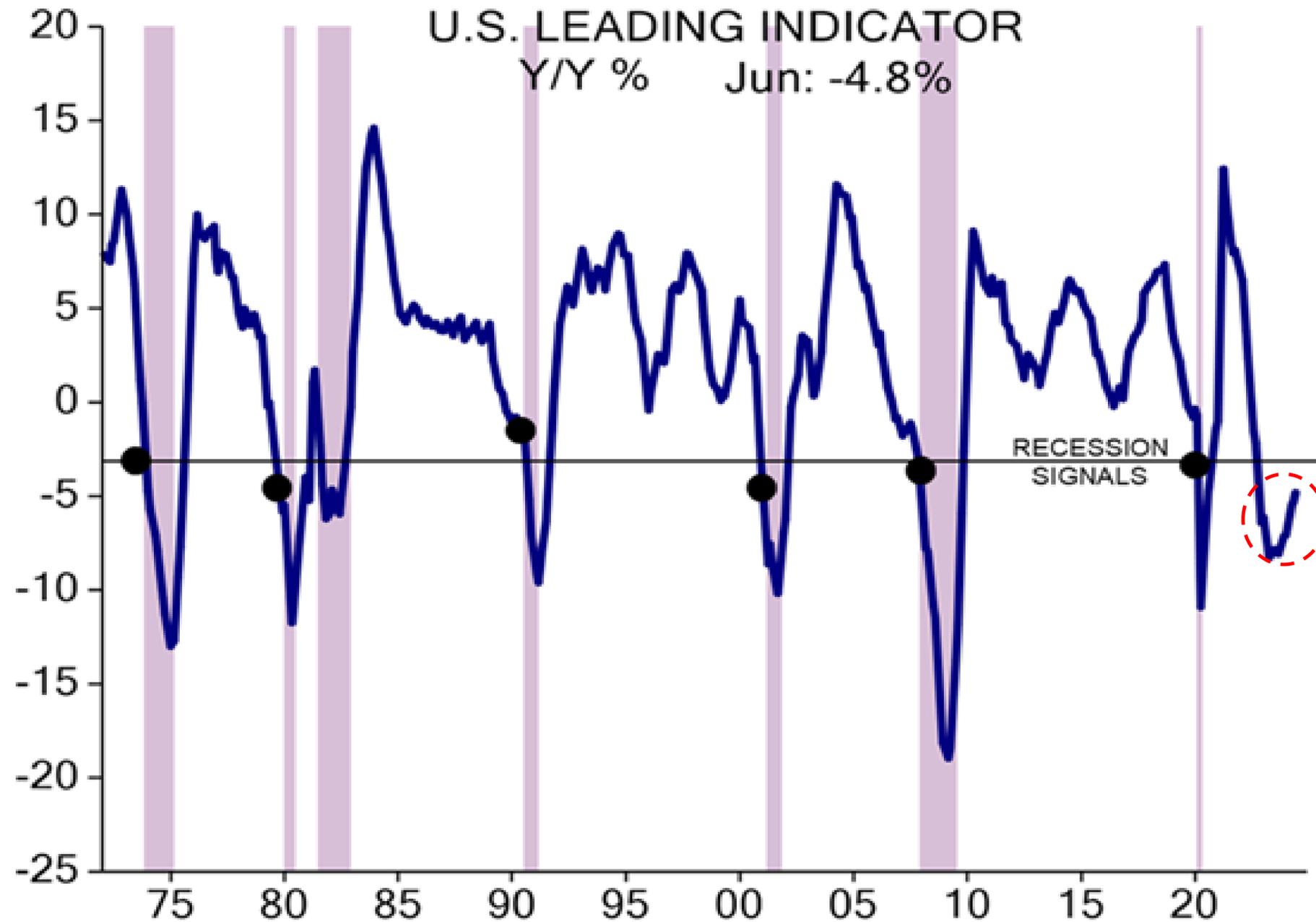
...and the 3-month/10-year curve is also narrowing

10-Year Treasury Constant Maturity Minus 3-Month Treasury Constant Maturity



Note: Shaded areas indicate recessions.
Source: FRED Economic Data as of August 2, 2024.

June's monthly Leading Economic Index (LEI) remains negative



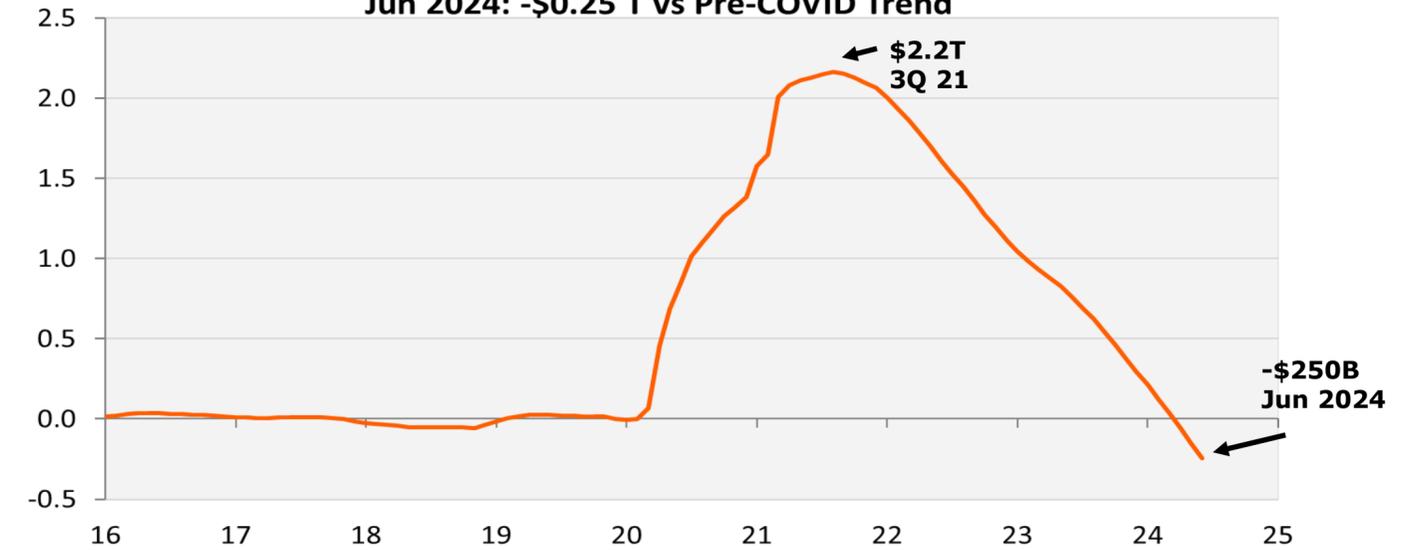
Note: Shaded areas indicate recessions.
Source: Evercore ISI as of August 1, 2024.

Personal balance sheets are under pressure

Personal Savings Rate (monthly)



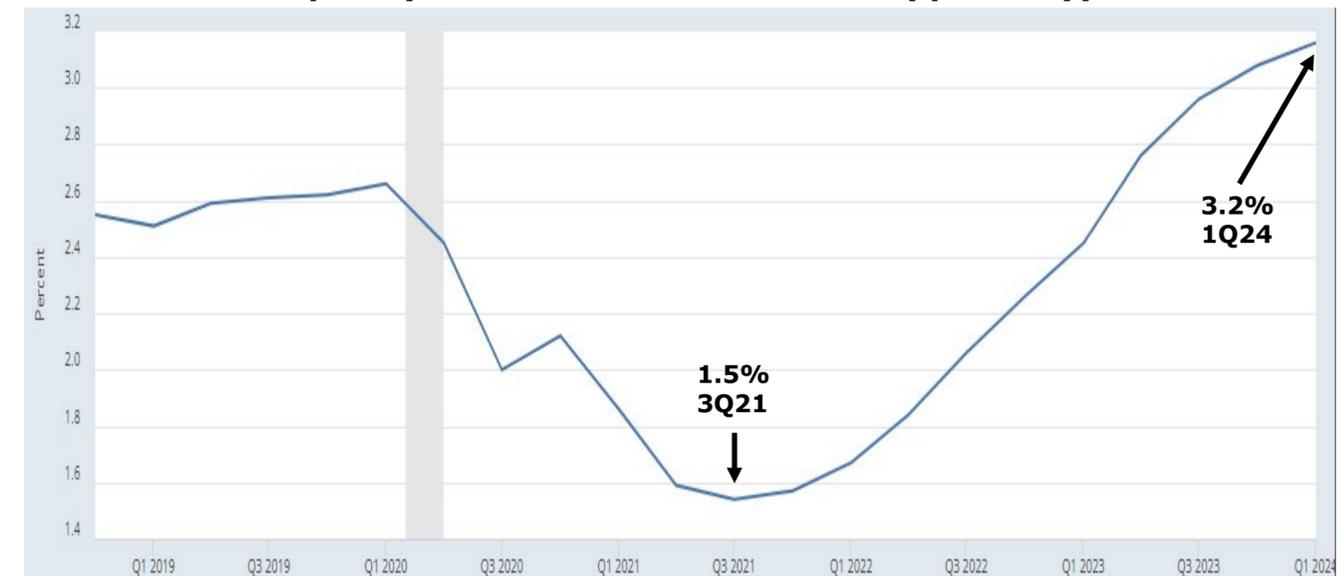
U.S. Personal Savings (Cumulative)
Jun 2024: $-\$0.25$ T vs Pre-COVID Trend



Consumer Loans: Credit Cards and Other Revolving Plans (monthly)



Delinquency Rate on Credit Card Loans (quarterly)



Note: Shaded areas indicate recessions.
Source: FRED Economic Data as of July 1, 2024. Piper Sandler Macro Research as of July 26, 2024 (top right).

Retail sales slowing sharply from post-covid peak

Retail sales y/y % change

Retail Sales Season	2024	2023	2022	2021	2020	2019	2018
"MARPRIL"	3.2%	1.9%	7.9%	39.8%	(13.0%)	3.1%	4.4%
BTS	2.3%*	2.8%	9.7%	14.7%	4.2%	3.3%	5.1%
XMAS	N/A	2.7%	7.2%	15.3%	5.8%	4.2%	2.6%
Average	N/A	2.4%	8.5%	23.2%	(1.0%)	3.5%	4.0%

Note: The three most important retail sales seasons share a 73% positive correlation over the past 30 years. Personal consumption accounts for 70% of GDP.

MARPRIL = March & April combined.
 BTS = Back to School (June through September) *2024 BTS shows June only
 XMAS = Christmas (October through January)

Green shaded areas indicate a positive reading above 4%.
 Red shaded areas indicate a negative reading.
 Yellow shaded areas indicate a positive reading below 4%.

Source: Bloomberg, Commerce Department and Federated Hermes as of July 26, 2024.

Labor Union gains could fuel wage inflation

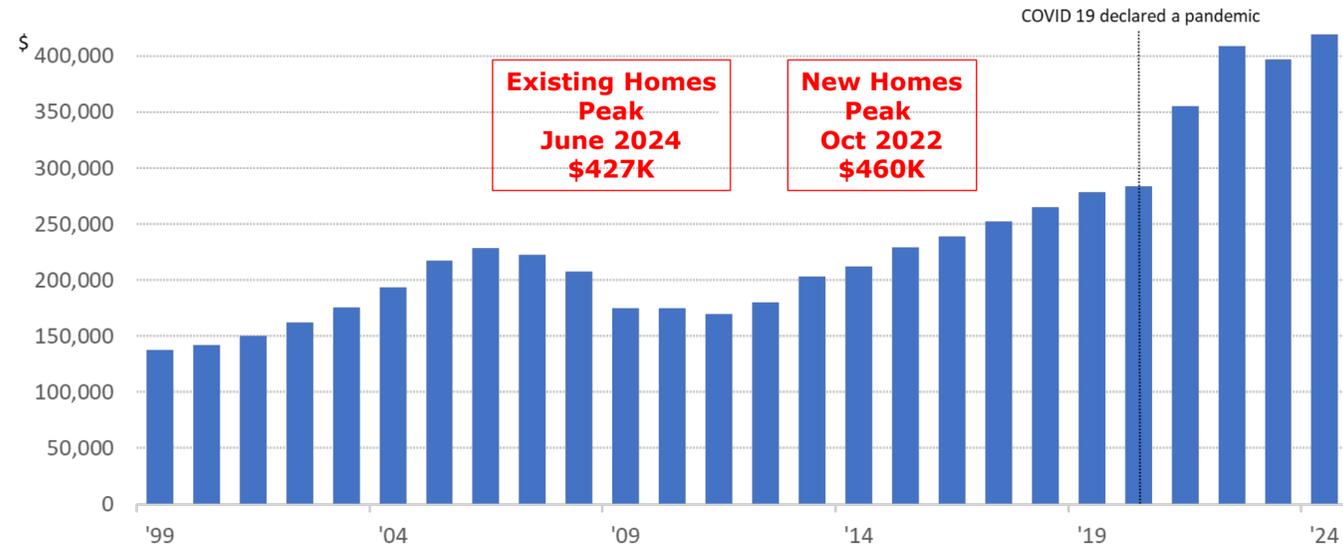
- **Rail Workers United** - 24% wage gains over five years (4.8% per year) for 115,000 rail workers.
- **UPS** – 35% wage gains over five years (7.0% per year) for 340,000 workers.
- **West Coast Dock Workers** – 22,000 dockworkers receive 32% wage gains over six years (5.3% per year) and a one-time “hero” bonus.
- **Hollywood** – Writers Guild of America (11,500 workers) struck on May 2, followed by the Screen Actors Guild (SAG) (160,000 workers) in sympathy on July 14.
- **United Auto Workers (UAW)** – targeted strike on September 14 impacted 150,000 workers at General Motors, Ford, and Stellantis. The agreement is for a 25% wage increase over 4 years (6.3% per year).
- **State of Illinois** – American Federation of State, Country and Municipal Employees (Afscome) received wage gains of 19.3% over four years (4.8% per year) for 35,000 public workers.
- **Airline Pilots:**
 - **Delta** – 13,000 pilots received wage gains of 34% over four years (8.5% per year).
 - **American** – 15,000 pilots secured wage gains of 46% over four years (11.5% per year).
 - **United Airlines** – 16,000 pilots won wage gains of 40% over four years (10.0% per year).
 - **Southwest Airlines** – 11,000 pilots won wage gains of 50% over five years (10.0% per year).

Investment Conclusions:

- Average Hourly Earnings (AHE) have risen by 3.6% y/y through July 2024.
- Union wage gains are running well above inflation.
- The Federal Reserve is targeting 3.0% annual wage inflation.
- If companies pass the wage increases onto their customers in the form of higher prices, inflation will rise.
- If companies absorb the wage increases to protect market share, then profit margins, corporate profits and share prices will decline.
- The combination of these factors will result in economic stagflation – rising inflation, slower economic growth and increased risk of recession.

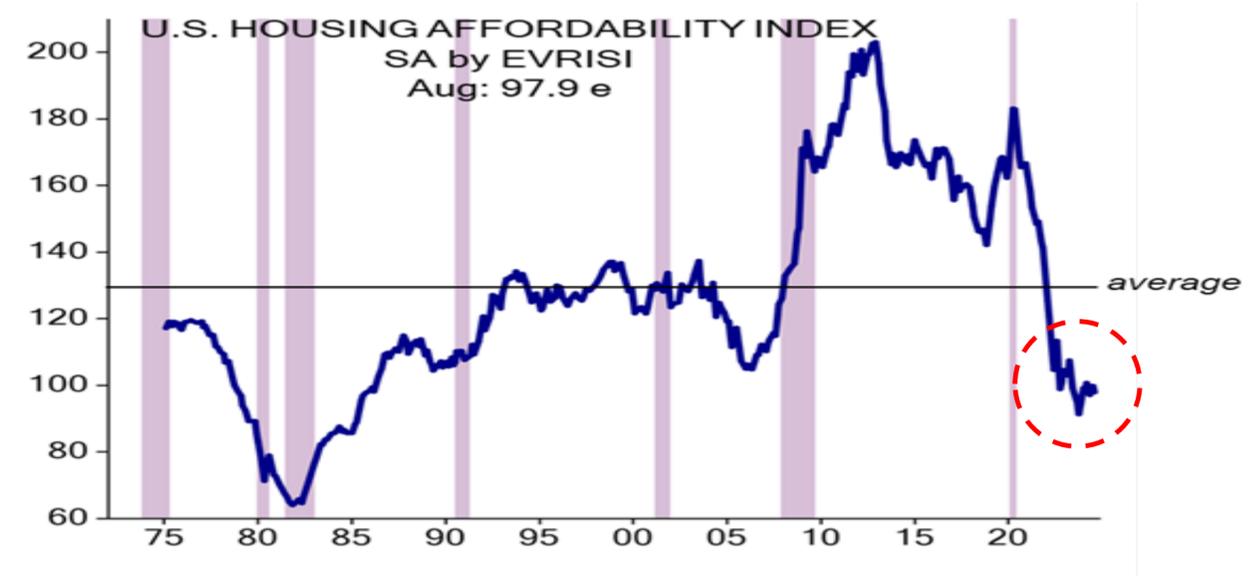
Housing affordability plummets

Median Sale Price of Existing Homes from May of Each Year



Note: World Health Organization declared Covid-19 a pandemic in March 2020.
Source: National Association of Realtors as of July 1, 2024.

United States Housing Affordability Index



Note: Higher values represent greater affordability. Shaded areas indicate recessions.
Source: Evercore ISI as of August 1, 2024.

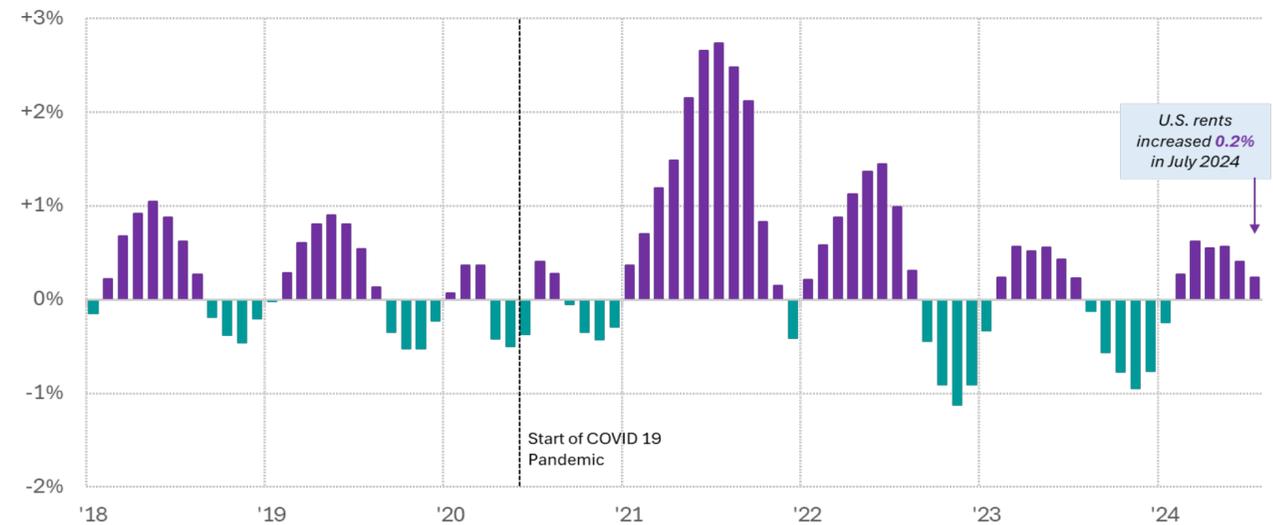
30-Year Fixed rate Mortgage Average in the United States



Source: FRED Economic Data as of July 1, 2024. Shaded bars indicate recessions

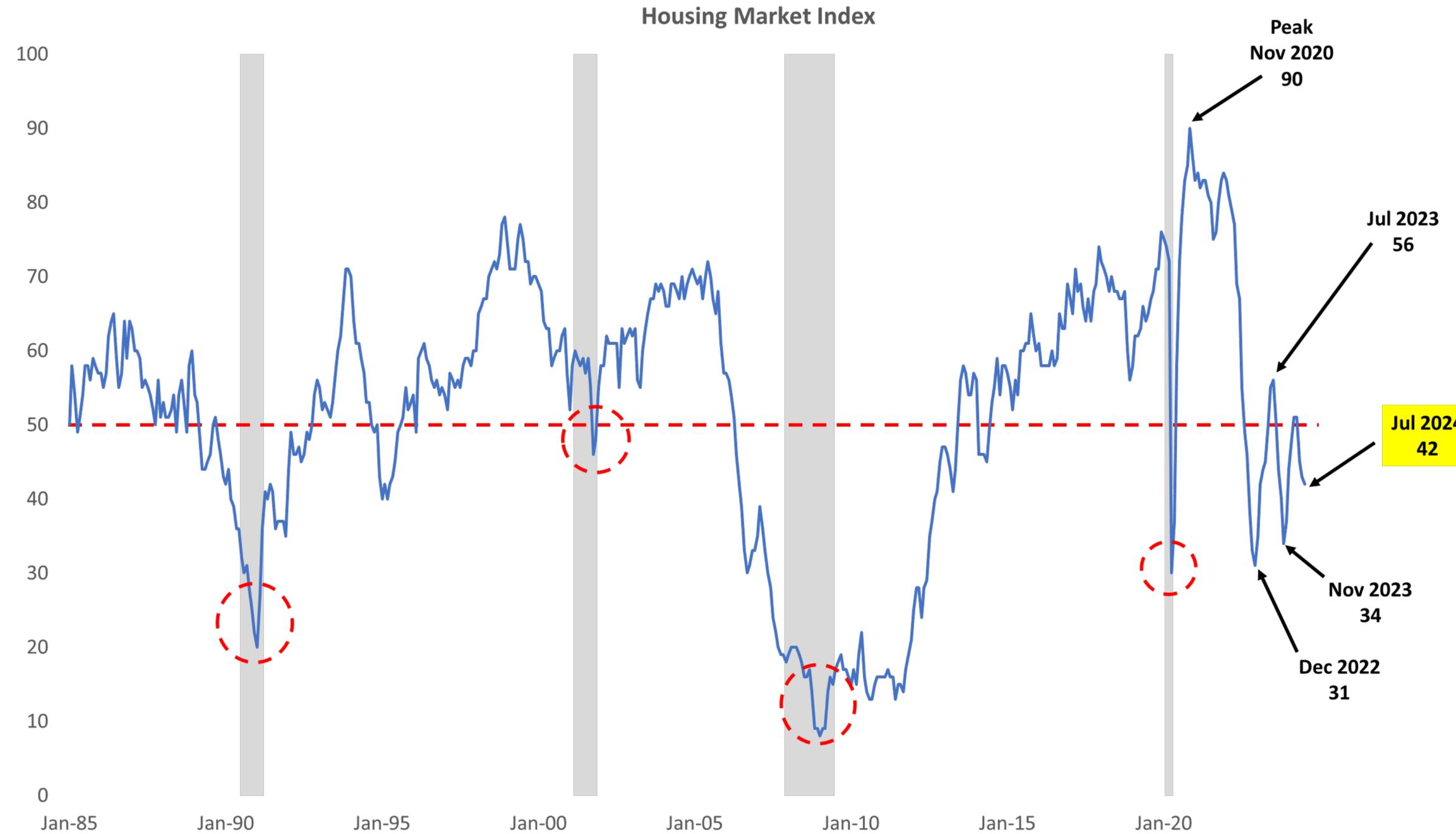
Shaded areas indicate recessions. Past performance is no guarantee of future results.

Month-over-Month Change in National Rent Index (2018 – Present)



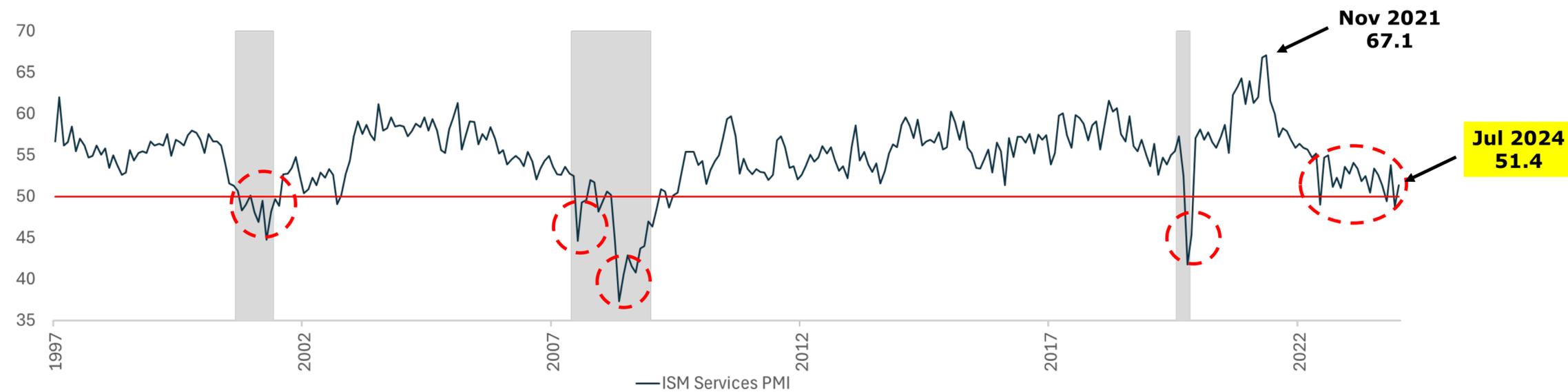
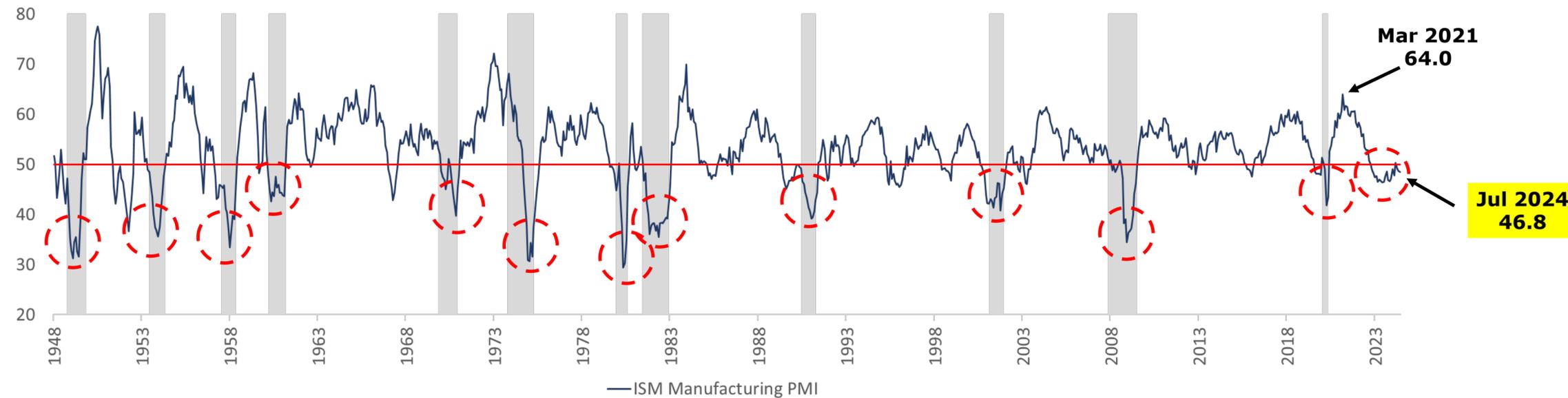
Source: Apartment List Rent Estimates as of August 1, 2024.

Housing softens in mid-2024



Note: Shaded areas indicate recessions.
Source: NAHB/Wells Fargo Housing Market Index. U.S. Census Bureau. As of July 26, 2024.

Manufacturing ISM falls deeper into contraction territory



Note: Shaded areas indicate recessions.
Source: ISM and Bloomberg. As of August 5, 2024.

K-shaped recovery in labor market – canary in the coal mine?



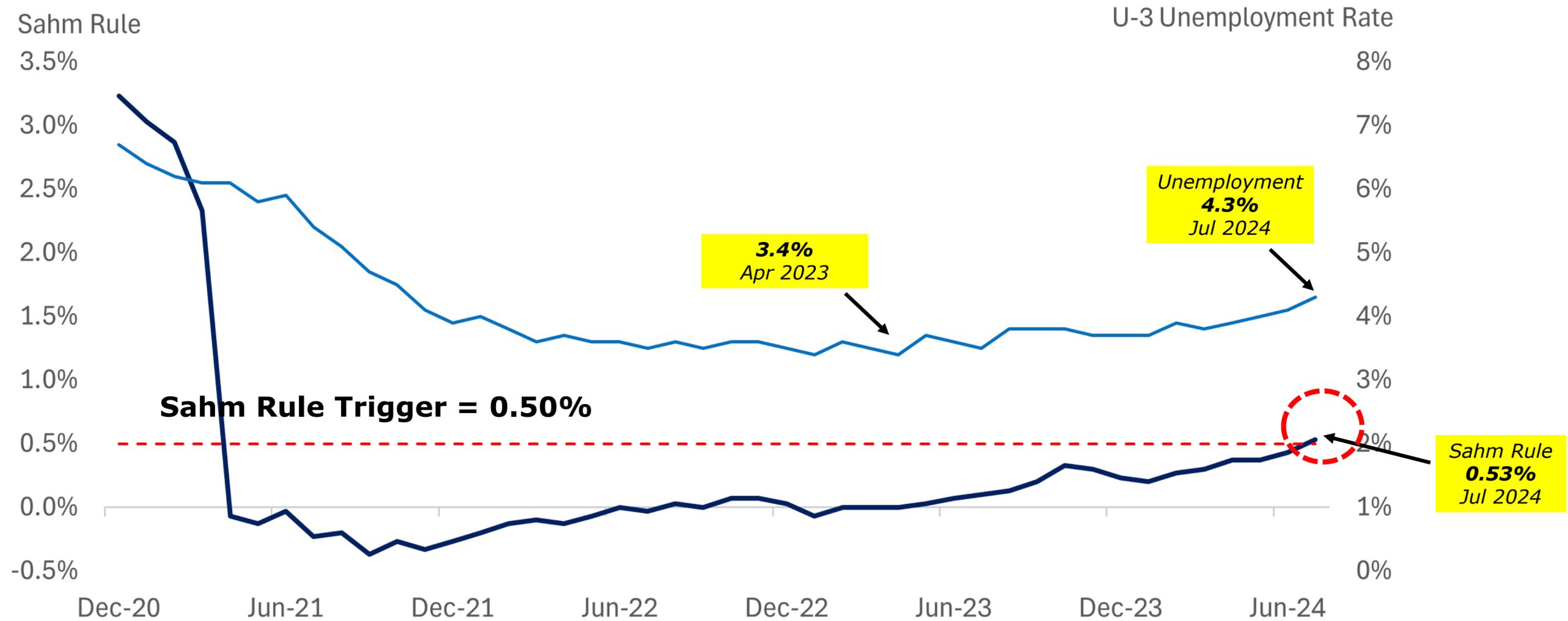
- Pre-pandemic unemployment (for those over 25 years of age with less than a high school diploma) was 5.8% in February 2020. It soared to a cycle peak of 21.3% in April 2020 and declined to a 31-year record-low of 4.3% in November 2022. Since then, it rose to 6.7% in July 2024.
- Pre-pandemic unemployment (U-3) for the overall economy was 3.5% in February 2020, a half-century low. It soared to a cycle peak of 14.8% in April 2020 and declined to 3.4% in April 2023, a new 53-year low. But it rose to 4.3% in July 2024.
- Pre-pandemic unemployment (for those over 25 years of age with a bachelor's degree or higher) was 1.9% in February 2020. It soared to a cycle peak of 8.4% in April 2020 and declined to a 22-year low of 1.8% in September 2022. It has since risen to 2.3% in July 2024.

Note: In its June 2024 Summary of Economic Projections, the Federal Reserve estimates that U-3 will rise to 4.2% by year-end 2025.

Unemployment continues its gradual rise

Sahm Rule teeters just below critical threshold

Unemployment and the Sahm Rule



Source: Bloomberg as of August 2, 2024.
Sahm Rule – an increase of 0.5% from the trailing 12-month low in the 3-month rolling average of the unemployment rate indicates the economy is in the early stages of a recession.

Four election tail events in a short amount of time

Trump Conviction



Biden Debate Freeze



Trump Assassination Attempt

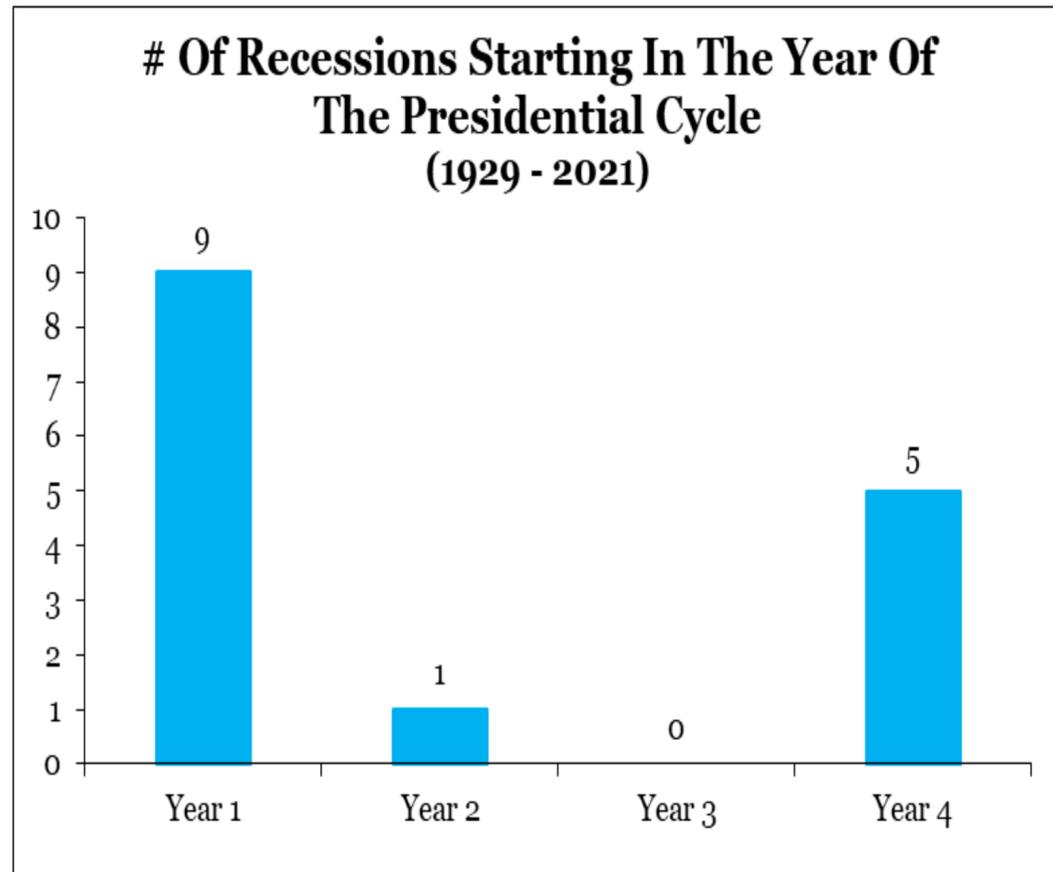


**New Presidential Candidate
100 Days
Pre-Election**



Political cycles are important for the economy and stocks

Recessions have been a determining factor in whether presidents get re-elected



Financial Crisis / Great Recession considered January 2008 (Year 4)*.

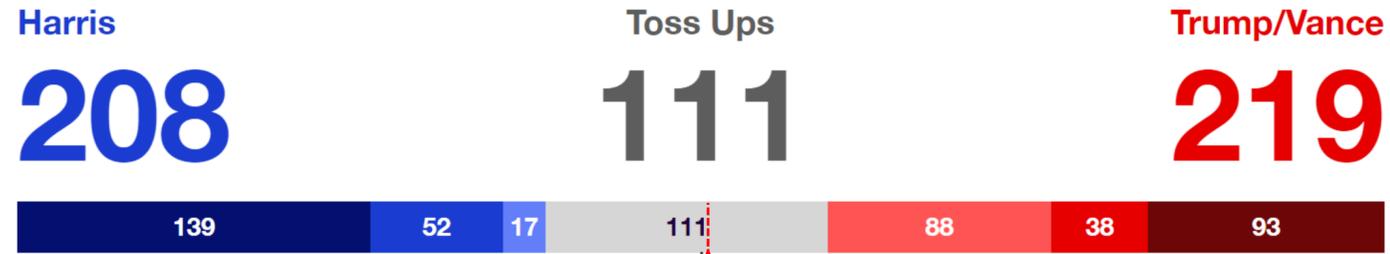
No Recessions Two Years Before Re-Election

President	Recession?	Re-Elected?
Obama	No	Yes
Bush II	No	Yes
Clinton	No	Yes
Reagan	No	Yes
Nixon	No	Yes
LBJ	No	Yes
Eisenhower	No	Yes
Truman	No	Yes
FDR	No	Yes
FDR	No	Yes
FDR	No	Yes
Wilson	No	Yes

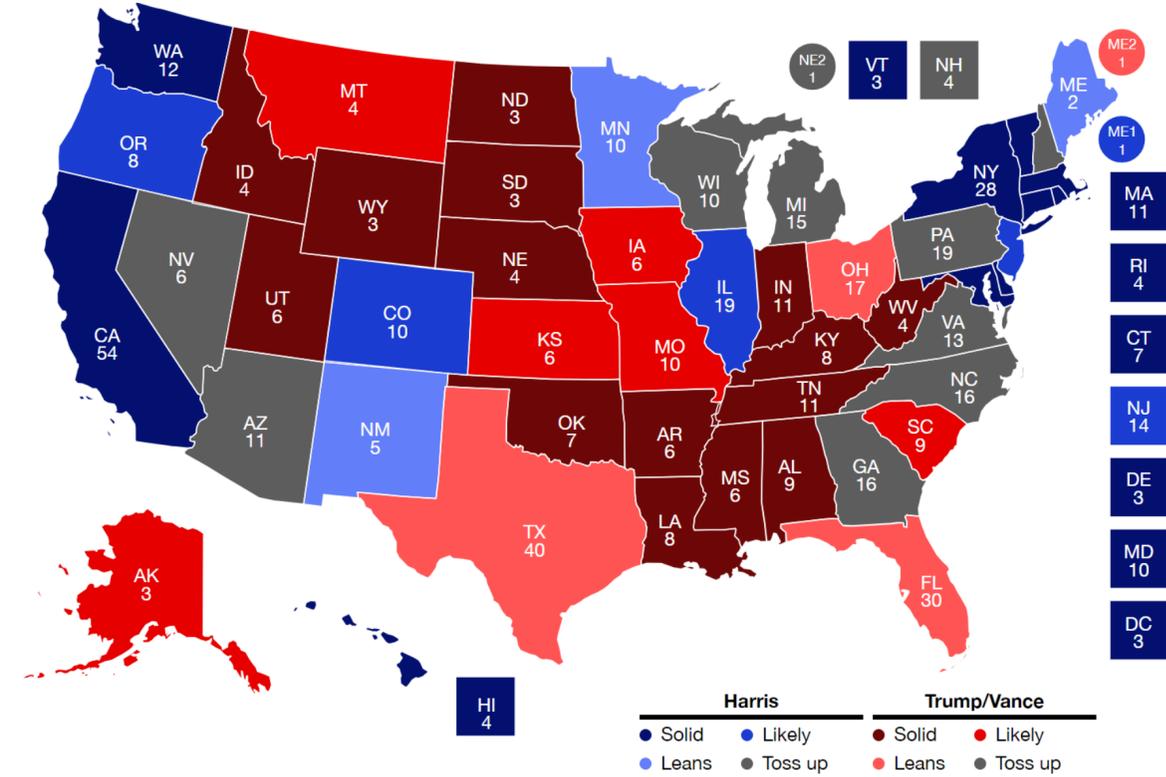
Recessions Two Years Before Re-Election

President	Recession?	Re-Elected?
Trump	Yes	No
Bush I	Yes	No
Carter	Yes	No
Ford	Yes	No
Hoover	Yes	No
Taft	Yes	No

2024 Presidential Election Electoral Vote Map & Projection



270 Votes Needed to Win



SOLID D	LIKELY D	LEAN D	TOSS UP	LEAN R	LIKELY R	SOLID R
139	52	17	111	88	38	93
CA (54) NY (28) WA (12) MA (11) MD (10) CT (7) HI (4) RI (4) DC (3) DE (3) VT (3)	IL (19) NJ (14) CO (10) OR (8) ME CD1 (1)	MN (10) NM (5) ME (2)	PA (19) GA (16) NC (16) MI (15) VA (13) AZ (11) WI (10) NE CD2 (1) NV (6) NH (4)	TX (40) FL (30) OH (17) ME CD2 (1)	MO (10) SC (9) IA (6) KS (6) MT (4) AK (3)	IN (11) TN (11) AL (9) KY (8) LA (8) OK (7) AR (6) MS (6) UT (6) ID (4) NE (4) WV (4) ND (3) SD (3) WY (3)

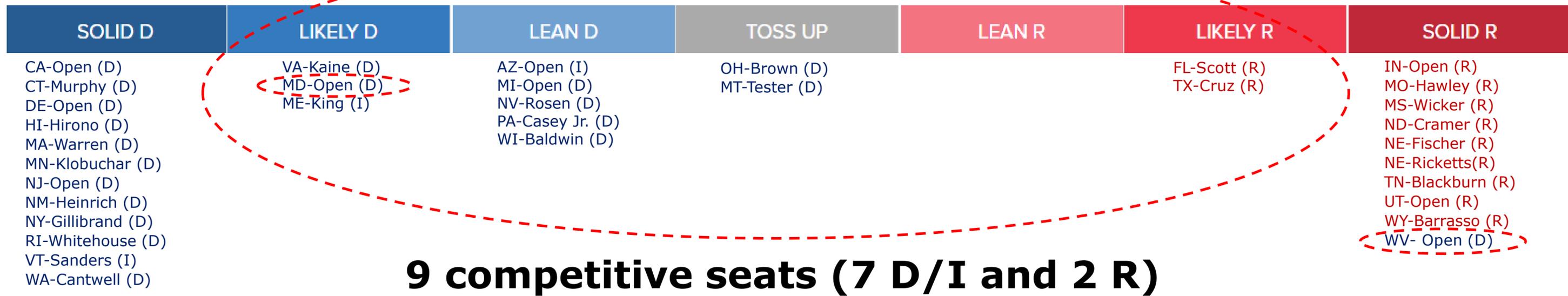
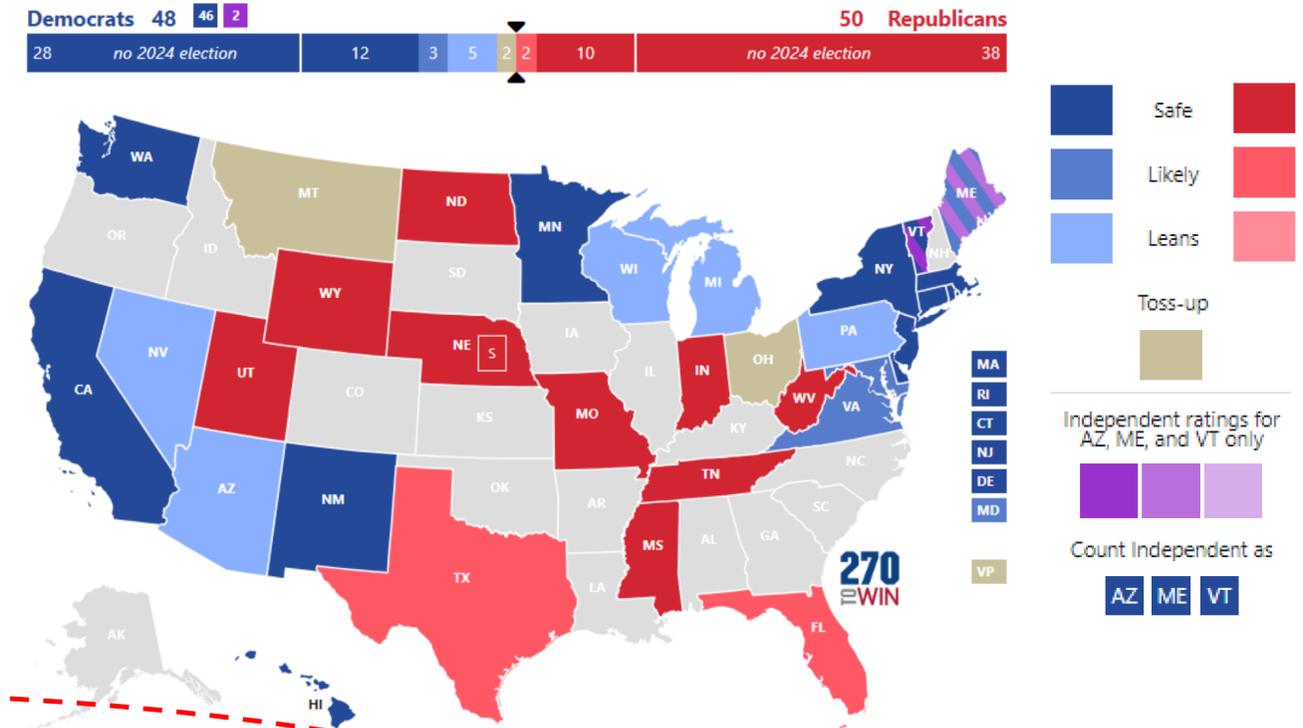
Source: Real Clear Politics as of July 29, 2024.

Down-Ballot impact on the Senate

Current Senate: **51 Democrats** – **49 Republicans**

23 Democratic seats and **11 Republican seats** up for re-election

Republicans need to flip a **Net of 2 seats** OR a **Net of 1 seat** and the **Presidency** for Senate Control

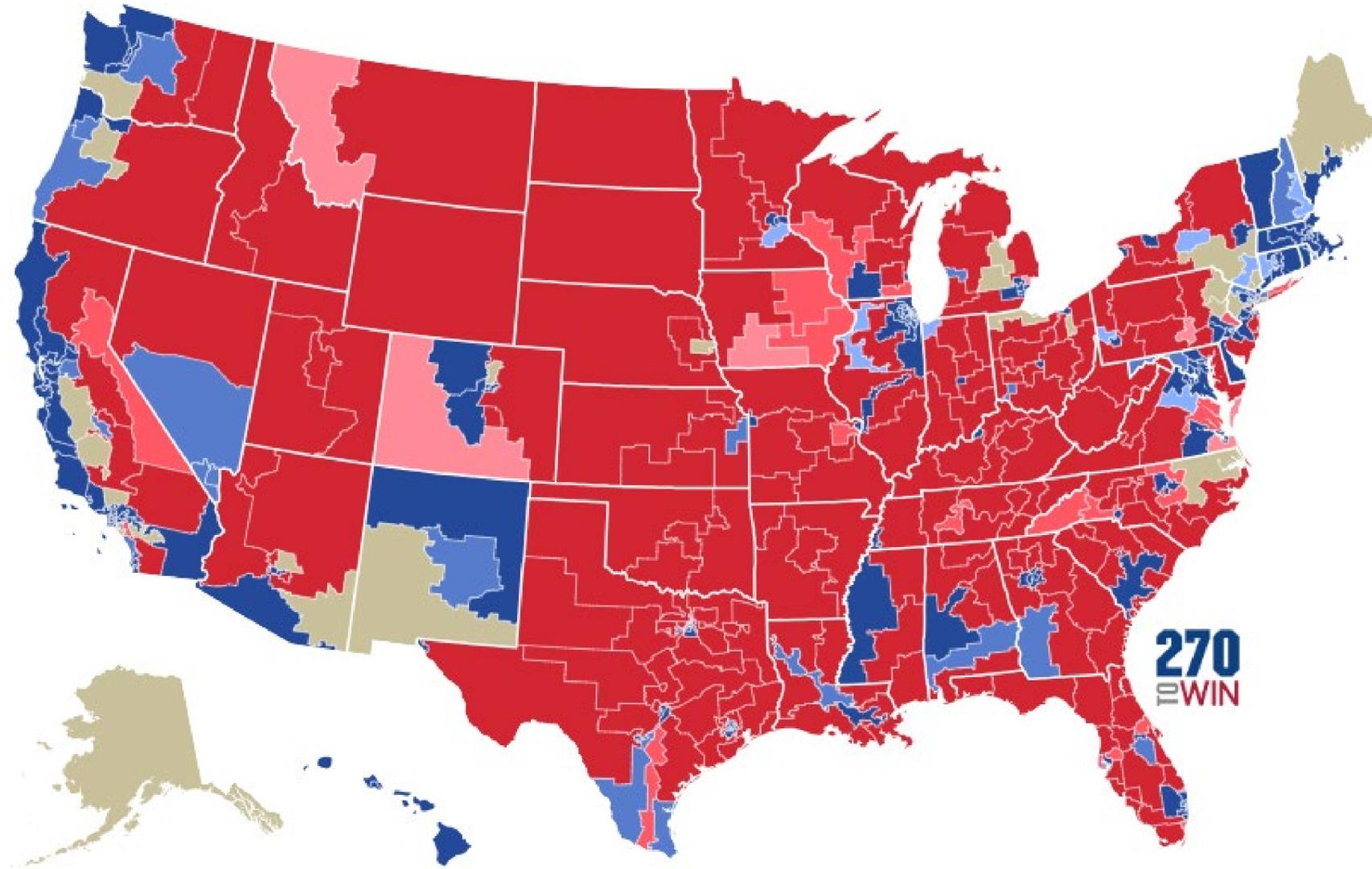


9 competitive seats (7 D/I and 2 R)

2024 Consensus House Election Map & Projection



Current House:
220 Republicans – 213 Democrats

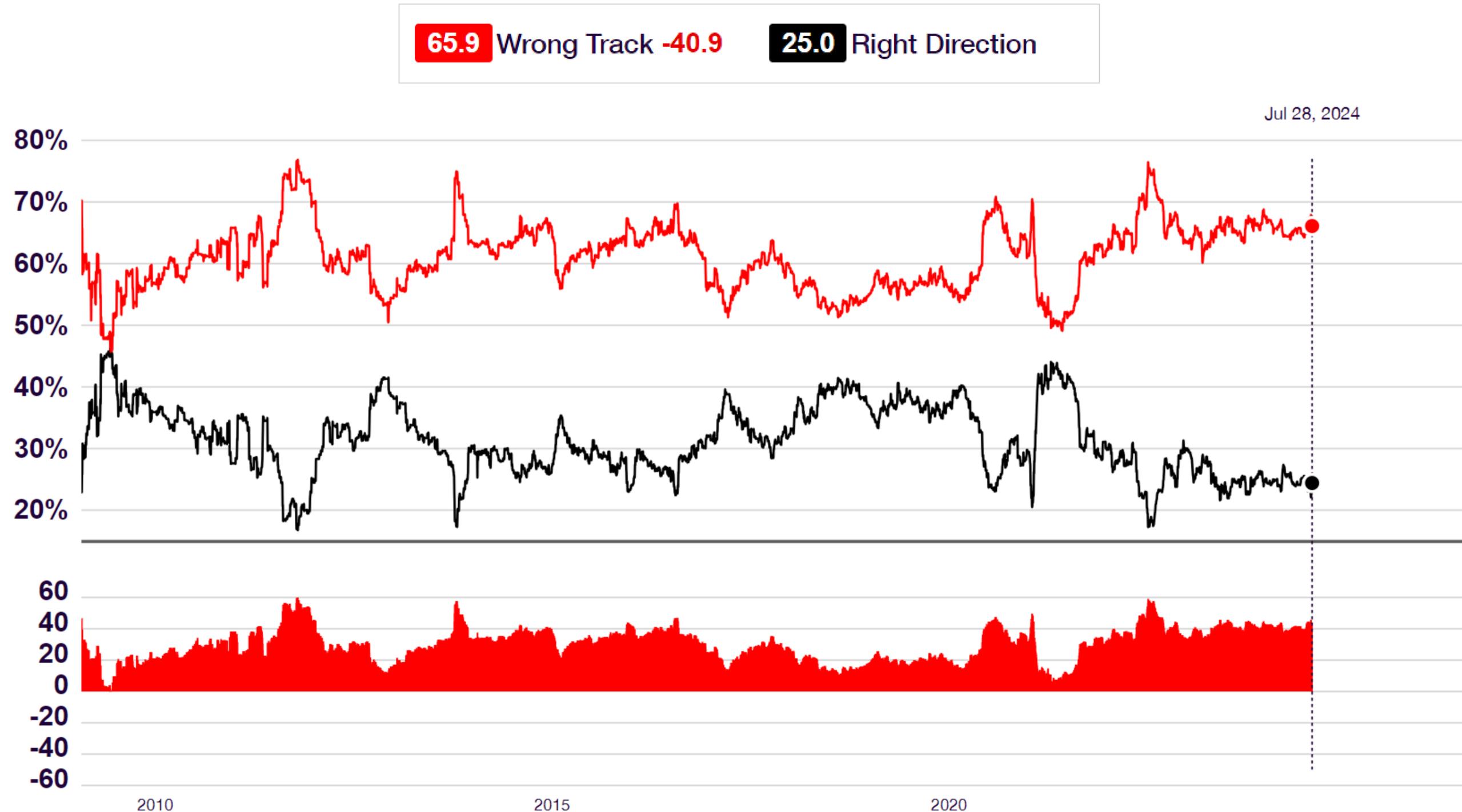


House Elections 2024			
	Dem	Rep	Toss-up
Current	213	220	2 *
Consensus Forecast	201	209	25
Interactive Map Above	201	209	25

* Vacant Seat(s)

Source: 270towin.com as of July 11, 2024.

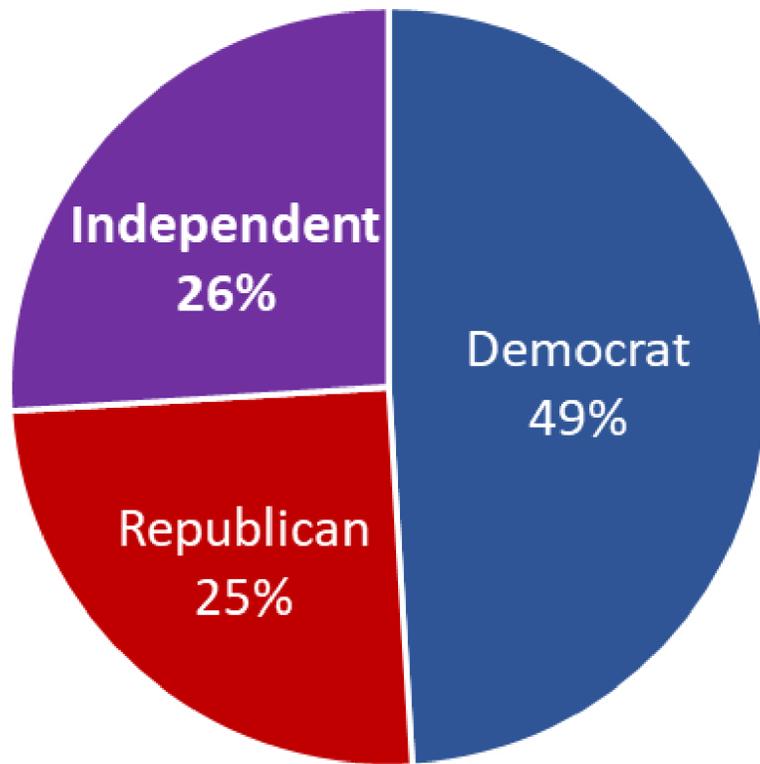
Direction of the Country



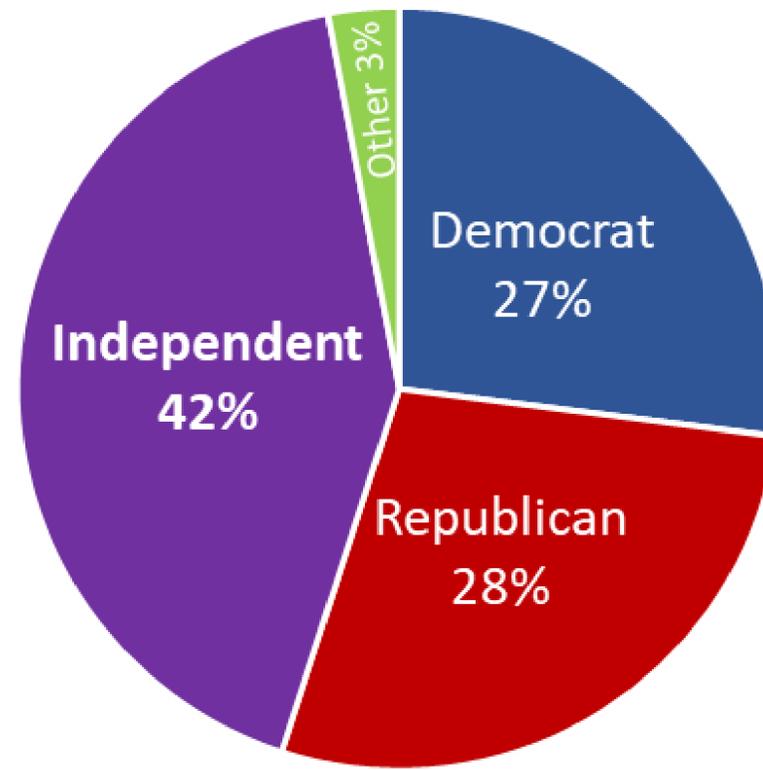
Source: RealClearPolitics as of July 29, 2024.

It's all about the Independent voters once again

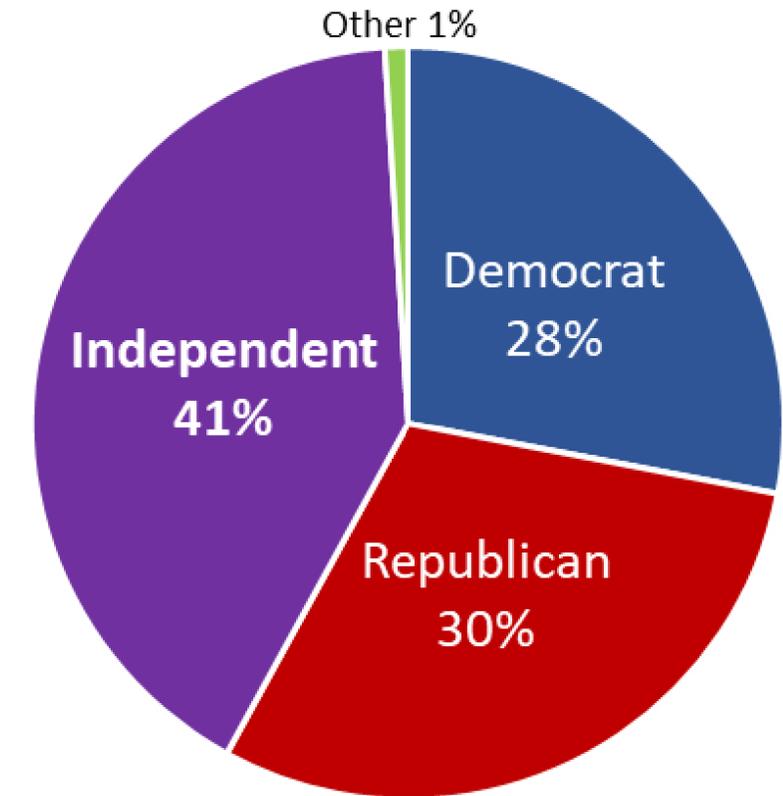
**Party Affiliation Identification
as of 2008**



**Party Affiliation Identification
as of September 2020**



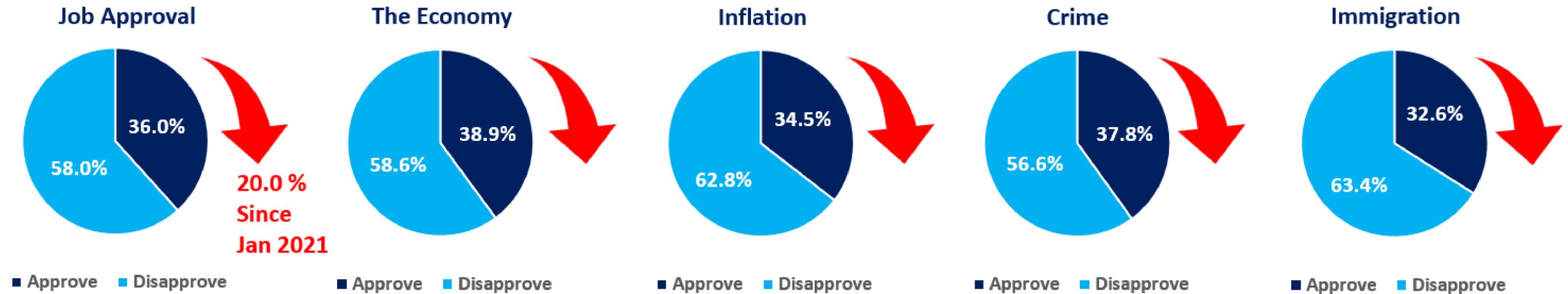
**Party Affiliation Identification
as of July 2024**



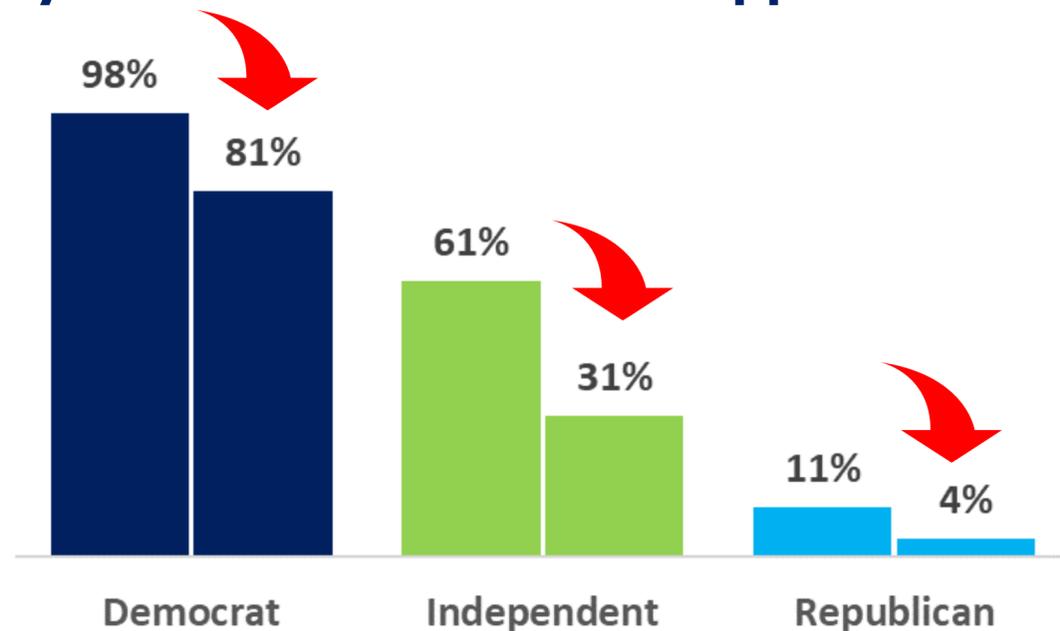
***When asked of Independents "As of today, do you lean more to the Democratic Party or the Republican Party?" 47% were Republican leaning, 41% Democratic leaning, with 12% undecided.**

Latest polling data from July 1 - 21, 2024.
Source: Gallup/The Wall Street Journal, January 7, 2015 (left) and Gallup as of July 29, 2024.

President Biden's most recent approval ratings



Party Breakdown of Biden's Approval Ratings

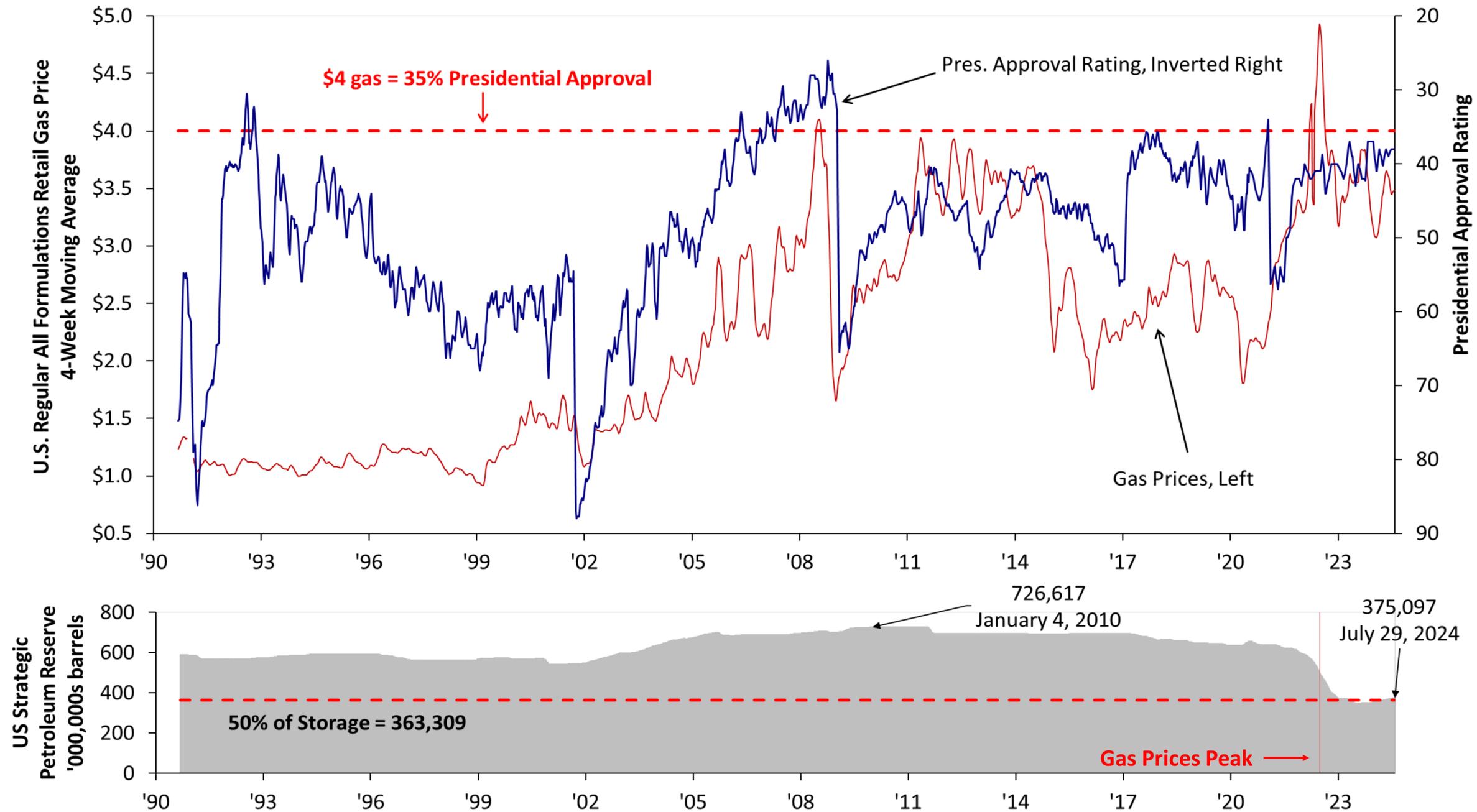


Recent Gallup polling has found that Independent party approval of President Biden has plunged **30 points** since he took office.

37.2% Weighted Avg. Approval

Sources: Job Approval poll is from Gallup as of July 29, 2024. The Economy, Inflation, Crime, Immigration are RealClearPolitics Poll Averages as of July 29, 2024.

Rising gas prices historically pressure Presidential approval

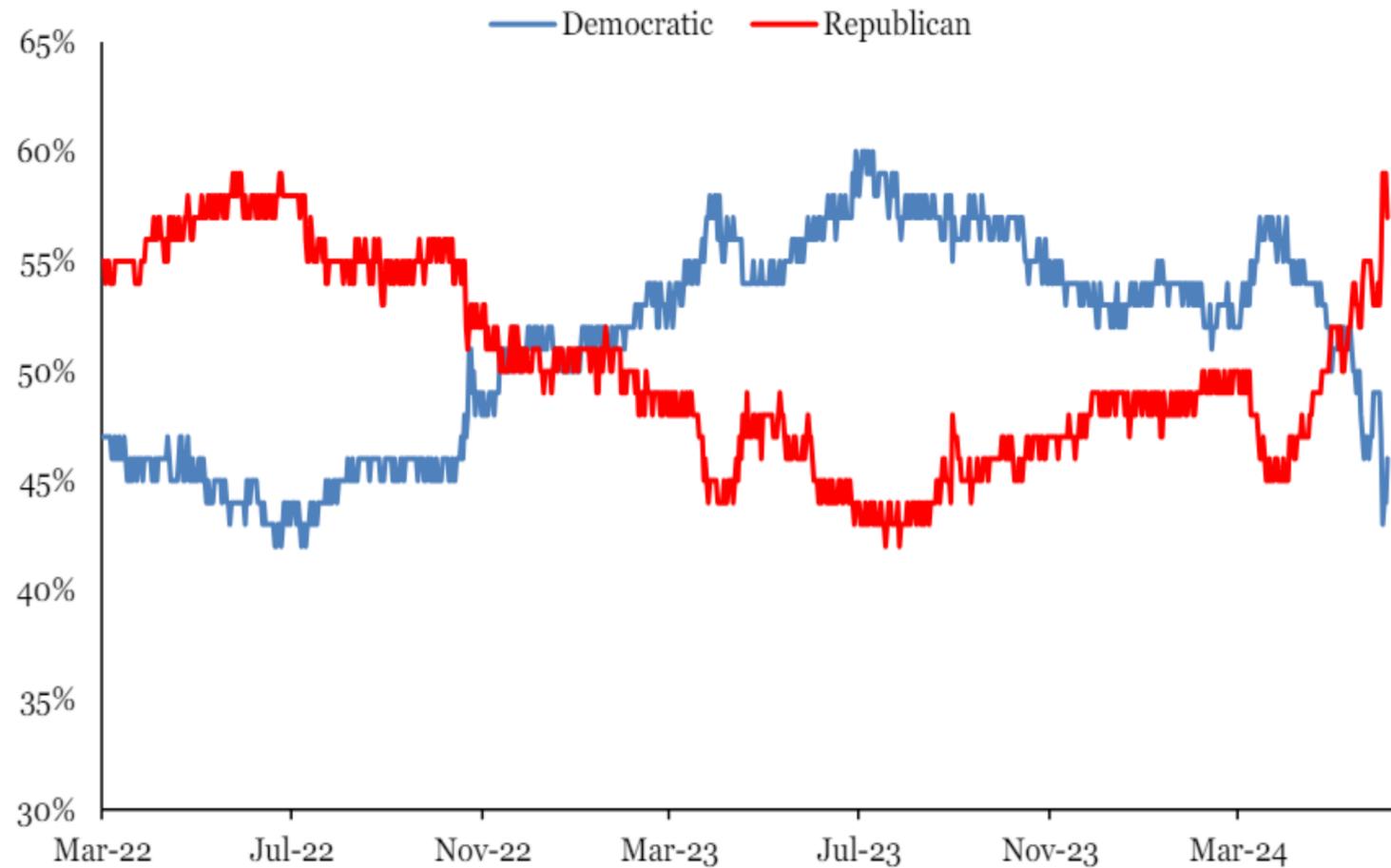


Source: EIA and Strategas Research Partners, as of August 2, 2024.

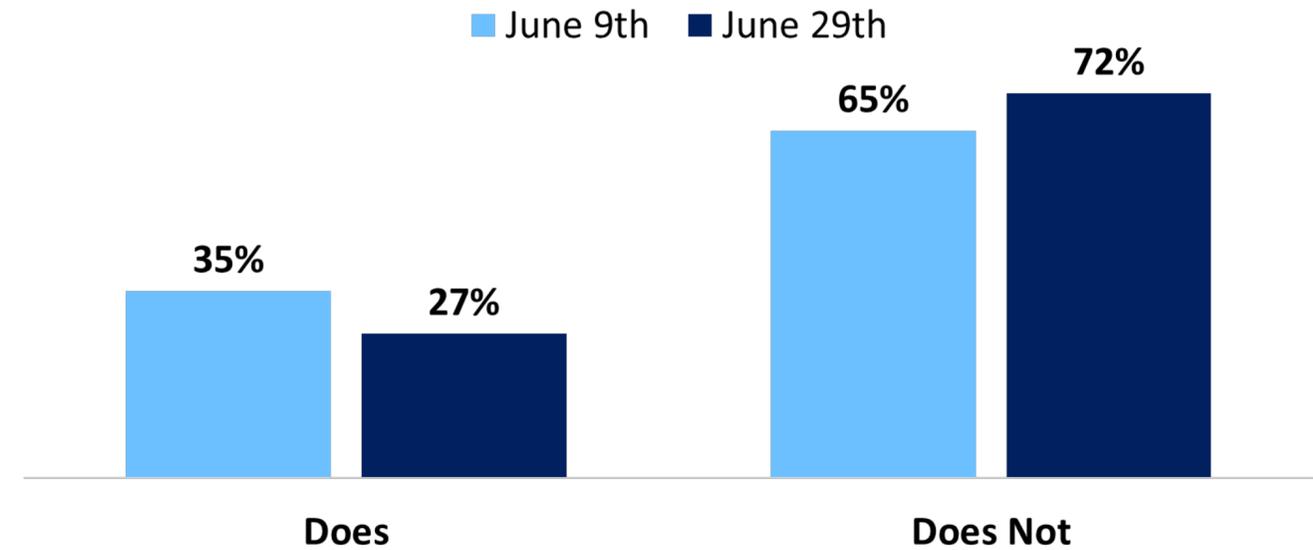
Post-debate polls show a hit to Biden

Presidents losing their first debate while losing in the polls all went on to lose the election

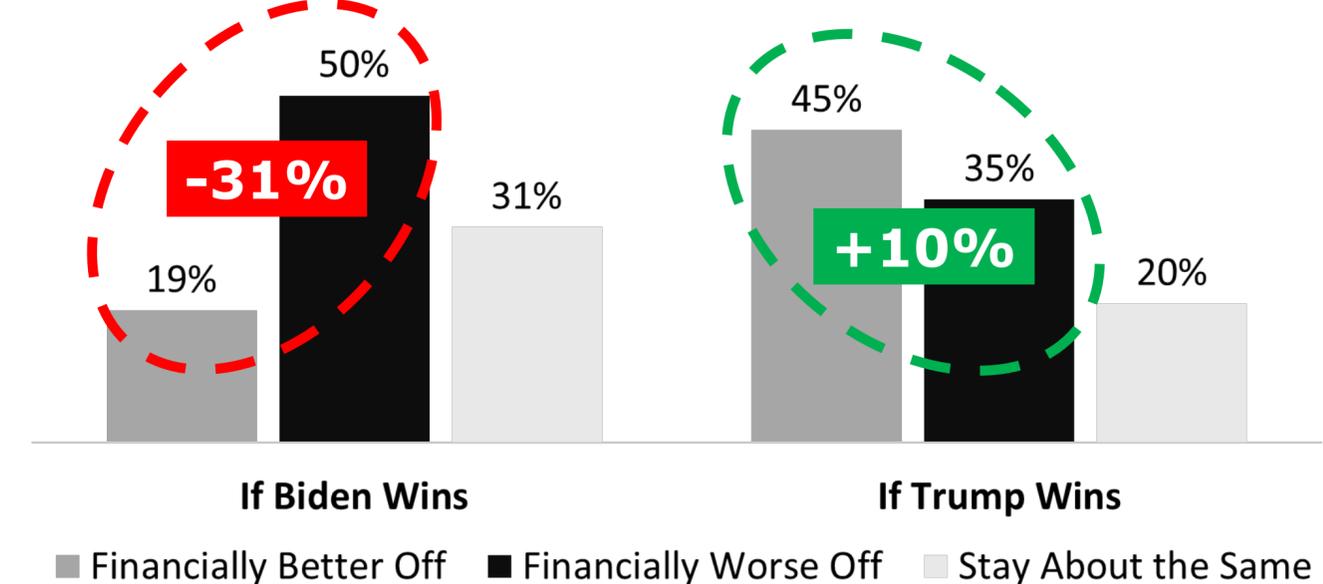
Betting Odds: Which Party Will Win the 2024 U.S. Presidential Election?



Does Biden Have the Mental & Cognitive Health to Serve as President?



How Would Biden/Trump's Policies Affect Your Personal Finances?



Source: PredictIt, CBS News Polls, and Strategas Research Partners as of July 1, 2023.

The stock market will forecast the next president

The S&P 500 has correctly picked the winning political party in a presidential election 20 of 24 times since 1928 (83% accuracy).

S&P 500 Performance 3 Months Prior To Presidential Election

Year	S&P 500 Price Return	Incumbent Party	
'28	14.91%	Won	✓
'32	-2.56%	Lost	✓
'36	7.92%	Won	✓
'40	8.56%	Won	✓
'44	2.29%	Won	✓
'48	5.36%	Won	✓
'52	-3.26%	Lost	✓
'56	-2.58%	Won	✗
'60	-0.74%	Lost	✓
'64	2.63%	Won	✓
'68	6.45%	Lost	✗
'72	6.91%	Won	✓
'76	-0.09%	Lost	✓
'80	6.73%	Lost	✗
'84	4.80%	Won	✓
'88	1.91%	Won	✓
'92	-1.22%	Lost	✓
'96	8.17%	Won	✓
'00	-3.21%	Lost	✓
'04	2.16%	Won	✓
'08	-19.48%	Lost	✓
'12	2.45%	Won	✓
'16	-1.90%	Lost	✓
'20	2.26%	Lost	✗

If the stock market is positive collectively during August, September and October, then the incumbent party usually holds the White House...

But if the S&P 500 is negative, then the opposing party usually wins.

2024 Presidential Election platforms

Differences matter to markets



	Issues	Impact
	Taxes	Higher taxes on corporations and HNWI. Lower taxes for middle/lower classes
	Trade/Tariffs	Maintain China tariffs
	Immigration	Less firm on illegal immigration
	International Relations	Firm supporter of Ukraine
	Energy	Renewable energy and stronger environmental regulations
	Tech manufacturing	CHIPs Act
	Telecommunications	Increase spending (broadband)
	Industrials	Infrastructure spending



	Issues	Impact
	Taxes	Extension of 2018 tax cuts
	Trade/Tariffs	Favors broad-based tariffs
	Immigration	Strong stance on illegal immigration; deportations
	International Relations	Ukraine – Russia negotiations?
	Energy	Emphasis on domestic drilling
	Healthcare	Proposed deregulation, greater M&A activity, Managed Care
	Defense	Increased spending
	Banks, Financial	Less regulation

But Harris had a very progressive policy agenda during 2020 primary

1. End The Filibuster
2. Expiration of the Trump Tax Cuts
3. 30-35% Corporate Tax Rate
4. Universal Basic Income
5. Medicare For All
6. March In Rights For Drugs
7. Ban fracking
8. Green New Deal
9. Cannabis



Most of these policy proposals require a Democratic Senate and probably a larger Democratic House than what will come from the 2024 election. But the wide scope of these proposals has moved the needle with investors relative to Biden.

GDP: Unprecedented V-shaped recovery

Views are as of July 25, 2024

	1Q	2Q	3Q	4Q	FY
2008	(1.6)	2.3	(2.1)	(8.5)	(0.1)
2009	(4.6)*	(0.7)*	1.5	4.3	(2.6)
2010	2.0	3.9	3.1	2.1	2.7
2011	(1.0)	2.7	(0.2)	4.6	1.5
2012	3.3	1.8	0.7	0.4	2.3
2013	4.0	1.1	3.5	3.5	2.1
2014	(1.4)	5.3	5.0	2.0	2.5
2015	3.6	2.5	1.6	0.7	2.9
2016	2.3	1.3	2.9	2.2	1.8
2017	2.0	2.3	3.2	4.6	2.5
2018	3.3	2.1	2.5	0.6	3.0
2019	2.2	3.4	4.6	2.6	2.5
2020	(5.3)	(28.0)**	34.8	4.2	(2.2)
2021	5.2	6.2	3.3	7.0	5.8
2022	(2.0)	(0.6)	2.7	2.6	1.9
2023	2.2	2.1	4.9	3.4	2.5
2024	1.4A	2.8A	1.8E	1.7E	2.4E
2025	N/A	N/A	N/A	N/A	2.0E

Note: *Great Recession ended June 2009. **Pandemic Recession ended April 2020.
Source: The Commerce Department as of July 25, 2024 and includes benchmark revisions recently made.

Federated Hermes Forecast

Views are as of August 7, 2024

	2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E
Real GDP	2.5%	(2.2%)	5.8%	1.9%	2.5%	2.4%	2.0%	N/A
Core CPI	2.3%	1.6%	5.5%	5.7%	3.9%	3.2%	2.7%	2.5%
Core PCE	1.6%	1.5%	4.9%	4.4%	2.9%	2.8%	2.3%	2.0%
Benchmark 10yr Treasury Yield	1.92%	0.92%	1.51%	3.88%	3.88%	3.60%	3.50%	4.30%
Fed Funds Rate (upper band)	1.75%	0.25%	0.25%	4.50%	5.50%	5.00%	4.00%	3.50%
S&P 500 EPS	\$167	\$137	\$208	\$219	\$228	\$250	\$275	\$300
Target Forward P/E	23.6x	18.1x	21.8x	17.1x	19.1x	20.0x	20.0x	20.0x
S&P 500 Target Price	3,231	3,756	4,766	3,840	4,770	5,520	6,000	6,500

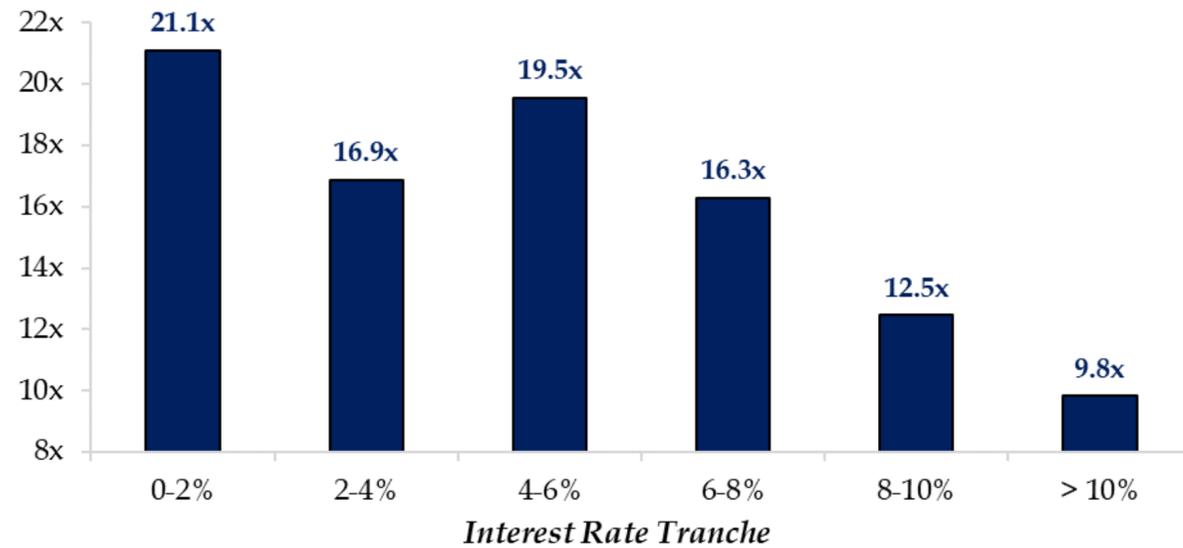
PCE = Personal Consumption Expenditures. 2019, 2020, 2021 and 2022 are actual. 2023 is actual unless otherwise noted.

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Source: Federated Hermes and the Commerce Department.

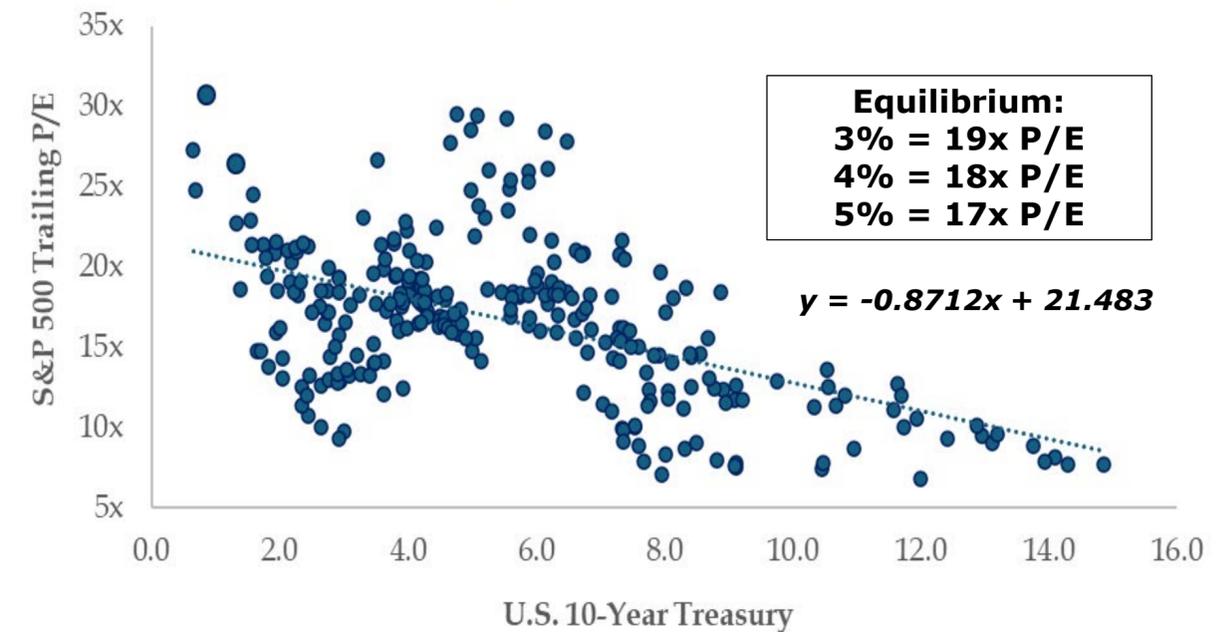
“Rule of 20” and “Fed Model” suggest that rising inflation and interest rates could compress P/E’s

S&P 500 Average Trailing P/Es by Interest Rate Tranche



When yields are below average, rising rates tend to drive valuations higher

U.S. 10-Year Treasury Yield vs. S&P 500 Trailing P/E (1953 - Current)



Source: Strategas Research Partners as July 11, 2024.
Past performance is no guarantee of future results.

Federated Hermes Investment Focus

Views are as of August 7, 2024

PRISM Asset Allocation

Equities
3% Overweight

Fixed Income
5% Underweight
Duration: 105%

Cash
2% Overweight

Recommended Equity Sector Allocation

Overweight

- Energy
- Financials
- Health Care

Neutral

- Industrials
- REITs
- Staples
- Utilities

Underweight

- Comm. Services
- Cons. Discretionary
- Materials
- Technology

Active Positioning

Equities

Overweight

- U.S. Small Cap Growth
- U.S. Large Cap Value
- Emerging Markets

Neutral

- International Developed
- International Small-Mid Cap
- U.S. Small Cap Value

Underweight

- U.S. Large Cap Growth

Bonds

Overweight

- Emerging Markets
- MBS

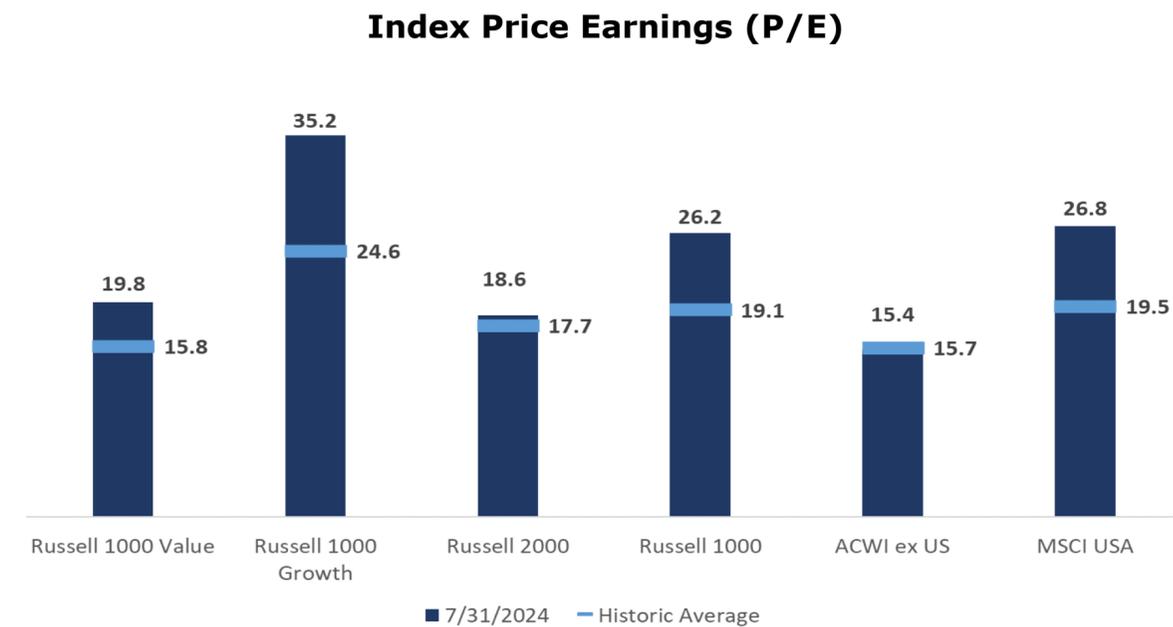
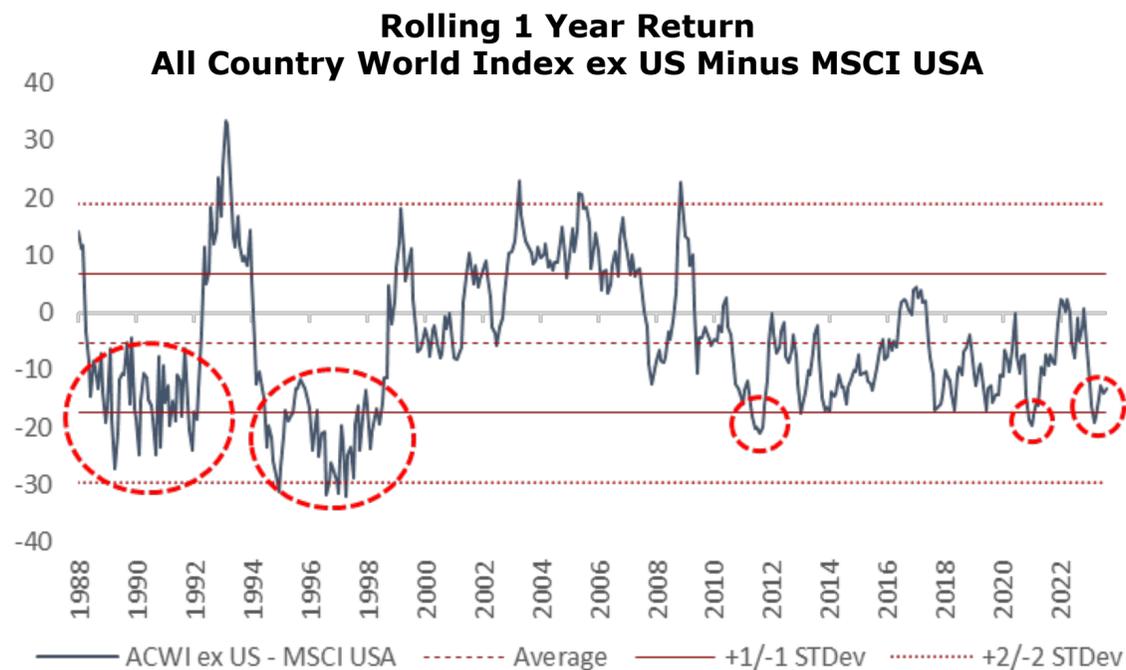
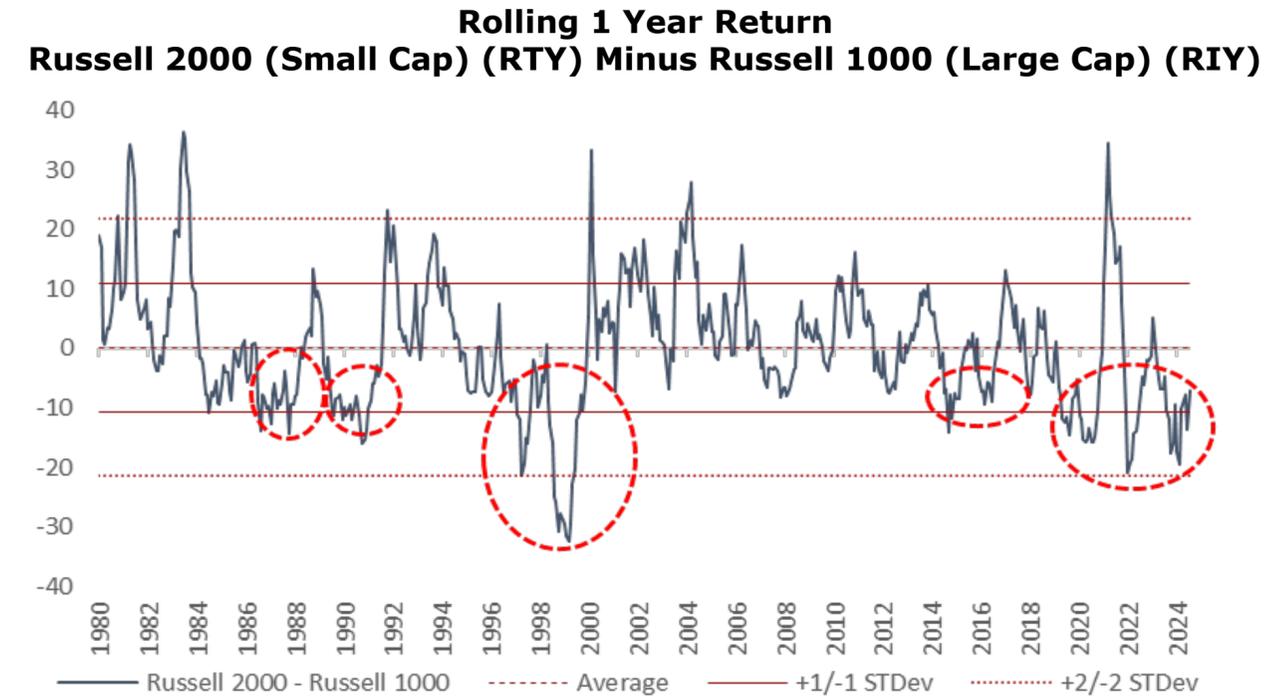
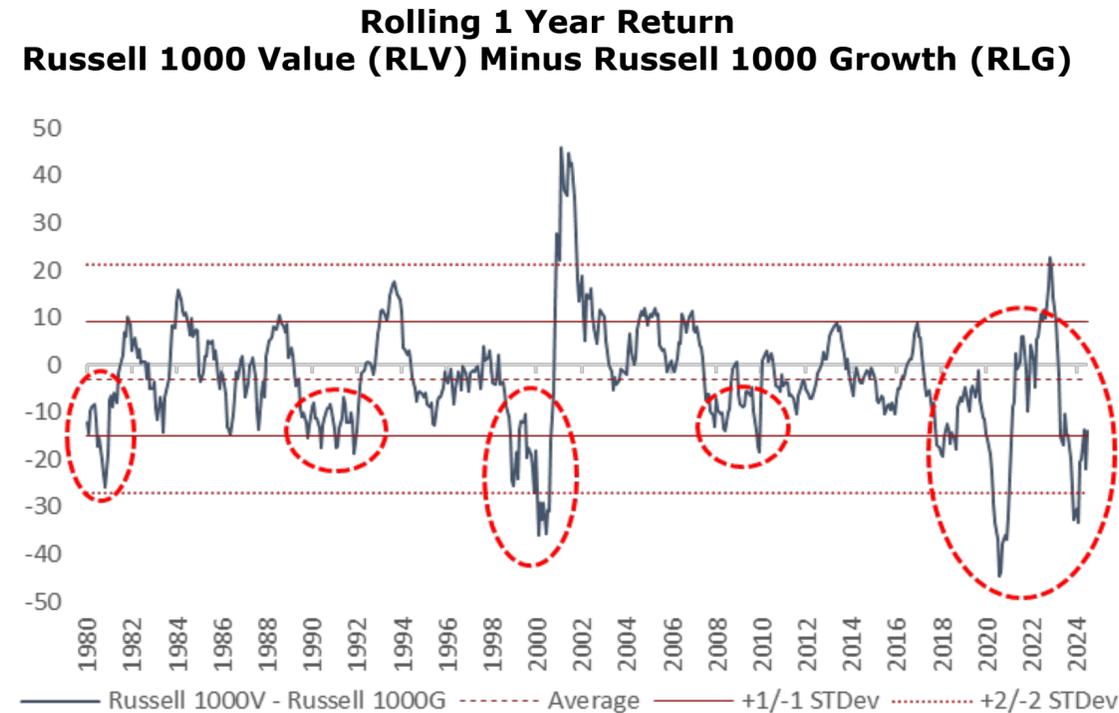
Neutral

- International Developed
- IG Corporates
- Munis
- TIPS

Underweight

- CMBS
- High Yield
- Treasuries/Agencies

Overweight Domestic Large and Small Cap Value and International



Source: MSCI, Russell, Bloomberg and Federated Hermes. As of July 31, 2024.
 For illustrative purposes only and not indicative of any investment. An investor cannot invest in an index.

NOTE: P/E adjusted to include only positive earnings.

Conclusion: We have a bullish long-term view on equities

- **Peak inflation**
- **Peak Federal Reserve tightening**
- **Peak equity valuation**
- **Economic and corporate profit growth have troughed**
- **Potential for more economic-, business-, and market-friendly fiscal policies**

Biography



Philip Orlando, CFA

Chief Equity Market Strategist

Head of Client Portfolio Management

Senior Vice President

43 Years of Industry Experience

Phil Orlando is Federated Hermes' chief equity strategist and the head of the Client Portfolio Management team. He joined Federated in 2003 and, with more than 40 years of industry experience, Phil is responsible for the formulation of Federated Hermes' views on the economy, the financial markets and the firm's positioning strategies.

He serves as the chairman of both the Macro Economic Policy and the PRISM Asset Allocation committees. As the head of the Client Portfolio Management team, Phil is responsible for bringing extensive macroeconomic, investment strategy and product knowledge directly to clients in collaboration with the sales team.

Throughout his career, Phil has been recognized for his ability to accurately synthesize the interrelationship among highly complex financial, economic and political market developments, and translate them into easily understandable concepts. He is a popular keynote speaker, addressing many national investment conferences.

For more than 25 years, Phil has been a regular contributor to the financial media, including CNBC, Bloomberg, Fox Business News, Reuters, The Wall Street Journal and The New York Times, among many other media outlets.

Phil received his bachelor's degree and MBA from New York University. He is a CFA® charterholder.

Phil is married and has three children. While he spends much of his time off with his family, he is also very active in charity work. He is on the Board of Directors of two Westchester-based charities that work with special-needs children: The Foundation for Empowering Citizens with Autism (FECA) and Extraordinary Ventures New York (EVNY). He is also an advisory-board member of the Cancer Support Team (CST).

Interested in hearing more?

Scan the QR codes for additional information

Website resources

FederatedHermes.com/PhilOrlando

- Sign up for email updates
- Watch YouTube videos
- Connect on LinkedIn



Join Phil's next webinar



- October 3, 2024 @ 3 p.m. ET
- Featuring Phil Orlando, RJ Gallo, hosted by Linda Duessel



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Past performance is no guarantee of future results.

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Investing involves investment risk, including possible loss of principal.

Investing in equities is speculative and involves substantial risk. Value stocks may lag growth stocks in performance, particularly in late stages of a market advance. Due to their relatively high valuations, growth stocks are typically more volatile than value stocks.

Small company stocks may be less liquid and subject to greater price volatility than large company stocks.

International investing involves special risks including currency risk, increased volatility, political risks, and differences in auditing and other financial standards.

Questions?

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