OBSERVATIONS

- After five straight weeks of gains and setting two new record highs in May, equity markets traded lower last week as markets absorbed the notion that inflation remains sticky and economic activity is cooling. The S&P 500 fell -0.5% last week while small caps (Rusell 2000 Index) traded flat +0.0%, and the yield on a 10-year Treasury moved higher amid weaker Treasury auctions by 3 basis points to end the week at 4.50%.[1]
- The Friday before Memorial weekend set a record for TSA screenings at America's airports. Over 2.95 million travelers passed through airport checkpoints nationwide, surpassing the prior record set last year during Thanksgiving (11/26/2023). On a year-to-date (YTD) basis as of 5/27/2024, the TSA has logged nearly 349 million screenings, a +6.3% increase from the same period last year.[2]
- Pending home sales fell -7.7% month-over-month (MoM) in April from March, which was worse than expectations, and were down -0.8% year-over-year (YoY).[1]
- Despite sluggish activity in terms of sales, the S&P CoreLogic Housing Prices Index showed that nationally housing prices increased in March to +6.5% YoY—up from February's 6.4% YoY figure.[1]
- The second estimate of GDP shows the US economy expanded at a +1.3% annualized rate in Q1-2024, which was in-line with expectations but below the initial estimate for Q1 GDP of a +1.6% annualized rate—largely reflecting a downward revision to consumer spending.[1]
- Core inflation in the Eurozone rose +2.9% YoY in May, up from April's reading of +2.7% YoY. Services related to inflation, which has been of increased focus by the European Central Bank (ECB), rose +4.1% YoY from +3.7% YoY in April—still it is generally expected that the ECB cuts interest rates by 25bps in June or July.[1]
- The Fed's preferred gauge of inflation, the PCE index, showed that headline PCE inflation was 2.7% YoY in April, unchanged from March's 2.7% YoY rate. Similarly, core-PCE, which excludes food and energy, was 2.8% YoY in April the same rate as in March. PCE housing inflation eased to 5.6% YoY down from March's 5.8% YoY figure.[1]

EXPECTATIONS

- The Fed's Beige Book, a qualitative summary of economic conditions across the US, from May suggested that the US economy remains on solid footing, but that economic activity was either unchanged or eased slightly in most regions of the US.[1]
- Mexico held its Presidential election over the weekend and the unofficial results suggest former Mexico City Mayor and protégé of current Mexican President Andrés Manuel López Obrador, Claudia Sheinbaum has won. Sheinbaum—Mexico's first female President—has promised to continue Lopez Obrador's policies, especially as it relates to aiding poorer Mexicans, and has espoused pragmatism in her approach to dealing with the US and working positively with whomever wins the upcoming US Presidential election.[3]

ONE MORE THOUGHT: US Election Calendar Speeds Up

Normally, the summer months find Presidential candidates putting together policy teams, honing their stump speeches, and beginning to draft more detailed policy proposals. However, this year the calendar has been expedited in part due the first Presidential debate occurring in late June as well as due to the fact that both incumbent President Biden and former President Trump have long established key advisors and positions on a

[1] *Bloomberg LP*
[2] *https://www.tsa.gov/travel/passenger-volumes*
[3] *https://www.economist.com/the-americas/2024/05/27/mexicos-next-president-can-reset-relations-with-the-united-states*

myriad of topics such as taxes, foreign policy, and economics. While precise policy positions may change or evolve as the campaign rolls on, there are already a lot of policy positions that have implications for markets and economy, particularly in the areas of taxes, tariffs, immigration and regulation where there are stark differences in the candidates. Trump is expected to push for increase in tariffs for a wide swath of trading partners including up to a 60% tariff on all Chinese imports as well as the potential for new tariffs on imports coming from Europe, Japan, Canada, and Mexico. The Biden team announced a few targeted tariffs on Chinese goods last month but, thus far, has not announced any further tariff plans. On taxes, Trump is likely to push for the extension of his tax cuts enacted in 2018—which are set to expire in 2025—while Biden wants to increase the headline corporate tax rate and increase the new share buyback tax rate from 1% to 4%. On balance, Trump favors less immigration than the status quo, which is a result of Biden's current border policy. On regulation, the Biden team generally favors select expansion of regulation, particularly in fossil fuel sector, while Trump has pledged to roll back many regulations—some of those enacted by Biden as well as legacy regulations that pre-date both Presidents. While some policies can be implemented via executive action, but in the event of a divided government—with at least one chamber of Congress belong to the opposition party to the winning President—there will be a natural brake on the ability of either winning President to enact their full agenda. Meanwhile, the upcoming Presidential debate on June 27, may provide additional clarity on these points as well as other policies such as immigration or energy that may also have an impact on market sentiment and economic activity. As the election season progresses (and polling numbers firm up) we will also provide regular updates on the likelihood of various election scenarios—Stay Tuned.

CHART OF THE WEEK

Potential Implications of a Blue Wave

Taxes: Corporate tax rate raised from *21% to 28%; share buybacks tax increased from 1% to 4%*

Renewable Energy/ Electric Vehicles: *Stronger environmental regulations; select expansion of green incentives*

Telecommunication: *Expansion of broadband funding*

Homebuilders/Industrials: *Increased immigration should keep wage inflation low in low-wage jobs; limited new tariffs*

Potential Implications of a Red Wave

Taxes: Estate tax exemption extended at the current level; extension of pass-through tax rate of 20%

Banks/Financials: *Reduced regulations; lower capital requirements*

Aerospace/Defense: *Increases in real (inflation-adjusted) spending*

Homebuilders/Industrials: *Lower immigration could lower supply of low-wage laborers; significant new tariffs across numerous sectors*

Source: Clearstead, Capital Group, Strategas, Goldmans Sachs, 5/31/2024

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