Economic Commentary & Capital Market Update

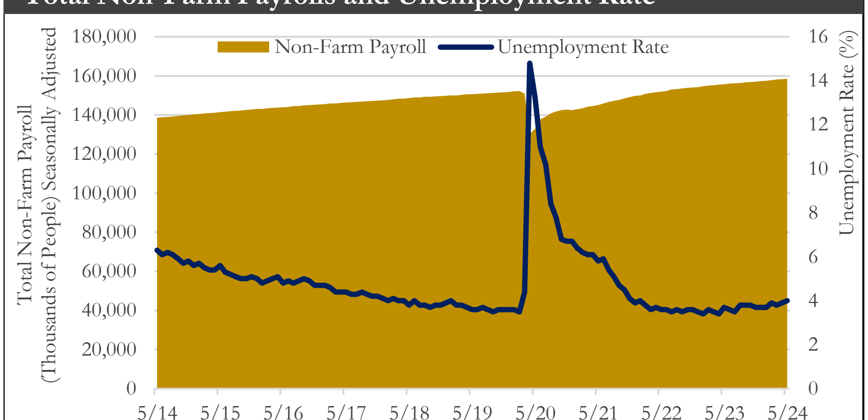
Economic Recap

The U.S. economy has continued to lose momentum. Growth has yet to slow to the point that it would concern policymakers, but it is possible if current trends continue. This could influence the Fed's calculations, but it is unlikely unless it shows up more strongly in the monthly payroll numbers. Moreover, developments in the labor market have been historically lagging indicators, typically showing up later than other signs when an economic shift is looming.

Consumer spending continued to show signs of fading as retail sales barely grew in May following a decline in April. Overall, weak retail sales have been consistent with the U.S. economy losing momentum. Consumers could finally start yielding to the pressures of elevated prices and higher borrowing costs. However, consumer income showed some strength in May; spending was more modest, and most importantly, the core personal consumption inflation index notched its smallest annual gain in more than three years.

Additional business investment slowdown seems likely as higher financing costs have challenged capital expenditure spending. Manufacturing projects have boosted structure spending, but a sharp downshift in new commercial development appears set to drag down overall investment in physical structures.

Total Non-Farm Payrolls and Unemployment Rate



Source: U.S Bureau of Labor Statistics

Although strong recently, the labor market appears poised for moderation. Payroll growth should average roughly 135,000 per month in

New York (HQ)
400 Park Avenue 6th Floor
New York, NY 10022

Chicago
500 West Madison Street,
Suite 1000
Chicago, IL 60661

212.254.4876
info@matrixpcg.com
matrixpcg.com

MATRIX
PRIVATE CAPITAL GROUP

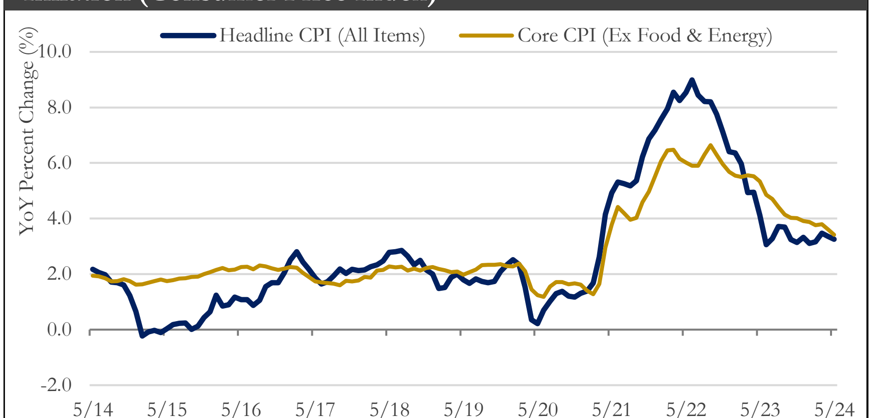
in the second half of the year, a downshift from the 245,500 averaged so far in 2024. Slower employment growth and improving labor supply should generate a slightly higher unemployment rate, reaching around 4.0% or higher this year.

Although concerning, the recent bump in inflation does not appear to be the start of another rapid price run-up, and softer inflation readings have been posted recently. The Fed's preferred inflation gauge, the core personal consumption index, posted at 2.6% in May, down from 2.8% in April.

Inflation

U.S. inflation slowed in May, indicating an easing in price increases after a hot start to the year. The consumer-price index, a measure of goods and service costs, rose 3.3% annually last month. Core prices, excluding volatile food and energy items, climbed 3.4% from a year earlier.

Inflation (Consumer Price Index)



Source: U.S Bureau of Labor Statistics

Last month's deceleration has further supported the idea that the flare-up in inflationary pressures earlier this year has subsided. The three-month annualized rate of change on core dipped to 3.3% – the slowest growth since December 2023.

The 3-and-6-month inflation trends are likely to cool through the second half of the year and be at a level by late 2024 where policymakers would feel comfortable beginning to dial back the policy rate.

Housing Market

The housing market has been tangled in a mire as elevated mortgage

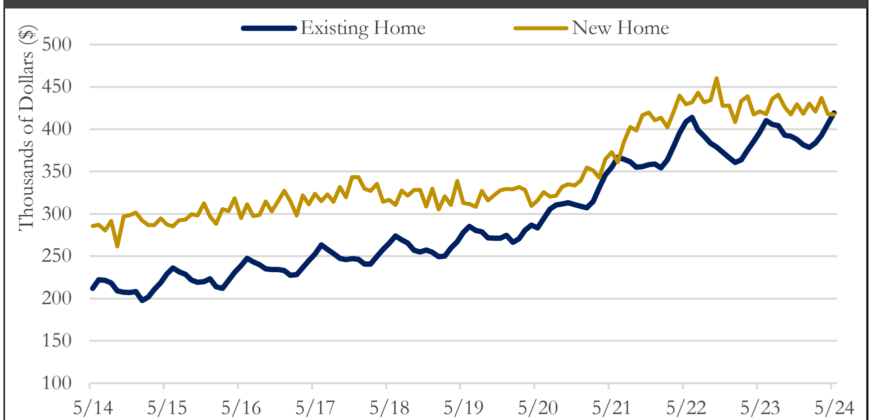
New York (HQ)
400 Park Avenue 6th Floor
New York, NY 10022

Chicago
500 W. Madison Street,
Suite 1000
Chicago, IL 60661

212.254.4876
info@matrixpcg.com
matrixpcg.com

MATRIX
PRIVATE CAPITAL GROUP

rates and record home prices dissuade prospective buyers and keep potential sellers on the sidelines. Mortgage rates rose recently as sticky inflation in the first quarter prompted a rise in rate expectations. Homebuying broadly retreated in response, prompting declines in new and existing home sales.



Source: U.S. Census Bureau, National Association of Realtors

Meanwhile, new home sales have notched a sharper-than-anticipated drop over the month. Although builders have been relatively successful in using sales incentives to stabilize demand; the downturn would suggest that some builders may need help to offset the recent leg up in financing costs. Rising resale inventories may be another hurdle weighing on new home demand. That said, plentiful supply should continue to be a tailwind for builders.

With recent softer inflation readings, long-term interest and mortgage rates have been slipping. Will they decline enough to see any meaningful pick-up in sales activity in 2024? Time will tell.

Labor Market

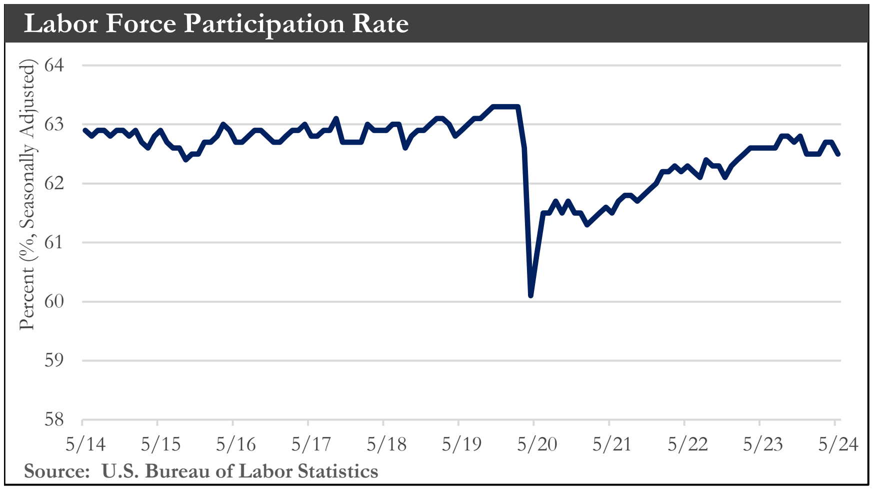
Non-farm employment surged by 272,000 in May. Civilian employment plummeted more than the labor force, pushing the unemployment rate to 4.0%, a 0.1 percentage point increase and a 28-month high. Meanwhile, the labor force participation rate dipped by 0.2 percentage points to 62.5%. Average hourly earnings were up 0.4% in May.

New York (HQ)
400 Park Avenue 6th Floor
New York, NY 10022

Chicago
500 W. Madison Street,
Suite 1000
Chicago, IL 60661

212.254.4876
info@matrixpcg.com
matrixpcg.com

MATRIX
PRIVATE CAPITAL GROUP



New York (HQ)
400 Park Avenue 6th Floor
New York, NY 10022

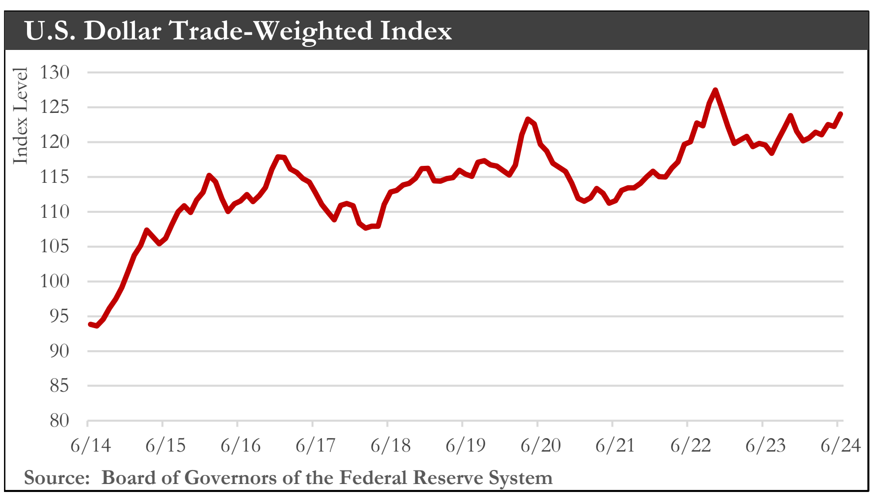
Chicago
500 W. Madison Street,
Suite 1000
Chicago, IL 60661

212.254.4876
info@matrixpcg.com
matrixpcg.com

While employment growth has continued at a solid pace, there have been ample signs that the heat in the labor market over the past few years has largely been removed. Declining job openings, a falling quit rate, narrowing employment growth, and decelerating wage growth all point to a labor market with better balance. Policymakers could see slower inflation reported over the summer so that they can start cutting rates by the Fall.

U.S. Dollar

The strength of the U.S. dollar has changed little, and a period of strength should persist through Q3 of this year. The initial rate cut expected from the Fed is happening later than the monetary easing from several other major central banks, including the European Central Bank, the Bank of England, and the Bank of Canada.



MATRIX
PRIVATE CAPITAL GROUP

Outlook

After a better-than-expected year for economic growth in 2023, the U.S. economy should slow to a below-trend pace in 2024 as the impact of higher interest rates weighs on demand. Although the year began with optimism that easier monetary policy would be in the not-too-distant future, the start of the Federal Reserve's rate-cutting cycle has seemingly been delayed by a flare-up in inflation.

While the recent bump in inflation is undoubtedly concerning, the FOMC would still likely reduce the federal funds target rate later this year as price pressures return to a cooling trend. Supply chains should continue functioning normally, meaning goods prices should remain contained. Food prices are not accelerating, while lower oil prices point to energy cost disinflation in the months ahead. Service sector prices remain problematic, but moderate economic growth and a softer labor market should help relieve some of that pressure.

A return to easing inflation in the year's second half still seems probable, allowing the Federal Reserve to initiate a rate-cutting cycle this Fall. At its September meeting, the FOMC may be in a position to lower the federal funds target rate by 25 bps. The Federal Reserve can afford to be patient since economic growth has continued to hold up remarkably well, largely thanks to a resilient pace of consumer spending.

Capital Markets Commentary

Recap

Stock markets globally posted second quarter returns dominated by U.S. Technology and Communication Services stocks. Led by the often labeled Magnificent 7 (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla), Technology stocks surged almost 14% while the Communication Services stocks were up over 9%. If not for the performance of a handful of companies in these sectors, the broad stock market would have lost ground in 2Q. Bond markets posted positive results in Q2 with only corporate credit in the U.S. breaking even while international fixed income was underwater; the latter because of the strong U.S dollar and declining rates overseas. U.S. equity performance was unusually bifurcated with what seems like extreme concentration

New York (HQ)
400 Park Avenue 6th Floor
New York, NY 10022

Chicago
500 W. Madison Street,
Suite 1000
Chicago, IL 60661

212.254.4876
info@matrixpcg.com
matrixpcg.com

MATRIX
PRIVATE CAPITAL GROUP

New York (HQ)
400 Park Avenue 6th Floor
New York, NY 10022

Chicago
500 W. Madison Street,
Suite 1000
Chicago, IL 60661

212.254.4876
info@matrixpcg.com
matrixpcg.com

MATRIX
PRIVATE CAPITAL GROUP

of positive results, almost like a tale of two markets. While many investors expected the Federal Reserve to begin cutting interest, the Fed appears in no rush to cut rates in the face of inflation that has yet to achieve the kind of decline that gives the Fed the confidence they need to begin changing their interest rate policies.

Large cap U.S. stocks delivered some gains in the second quarter. The gains were concentrated in growth style stocks. However, in a continuation of recent form, growth-style stocks handily outpaced value stocks. While the Russell 1000 Growth Index was up 6.7% the Russell 1000 Value Index was down -2.2%. The broader S&P 500 was up 4.3%, the Russell Mid Cap Index was down -3.4%, while Small-Cap stocks in the Russell 2000 were down -3.3% in Q2.

Bond performance was largely positive in Q2 despite the volatility of interest rates on the benchmark 10-year U.S. Treasury which bounced between 4.3% and 4.7%. The Bloomberg Aggregate Index, representing a broad cross-section of the bond market, posted a 0.1% return for the second quarter. With signals that the Federal Reserve will hold off cutting rates for now, short-term bonds outpaced longer-term maturities. Not surprisingly, corporate bonds with higher credit risk than U.S. Treasuries posted lower returns in this rate environment but barely, down -0.1%. Riskier junk bonds were up 1.1%, while the Bloomberg Global Aggregate Bond Index ex-U.S. bonds was down -2.1%.

Outlook

The outlook for stock returns in the near to intermediate term, despite the strong returns of 2024 year-to-date, remains uncertain given a resolute Federal Reserve in its battle to fight inflation and just a handful of stocks leading the market higher with seemingly stretched valuations. Corporate earnings seem poised to pick up their pace of growth, but it is unclear how long that will last if there is uncertainty surrounding a slowing economy. Expensive valuations are especially true for the Magnificent 7. The NASDAQ 100 Index, about 50% comprised of these stocks, outpaced the S&P 500 by almost 4% for the quarter. At this stage there is scant evidence that stronger performance is beginning to broaden with more favorably priced but slower-growing non-technology and cyclical stocks getting recognized by investors.

The outlook for bonds continues to look rather bright, mainly due to the likelihood that the Fed is closer to the end of its rate hiking cycle, inflation is slowly coming down, and now bonds offer a respectable coupon rate after years of ultra-low interest rates. Over 80% of bonds globally offer coupons of 4% or higher, quite a change after years of ultra-low interest rates. Bond coupon rates finally provide real competition for investment dollars versus stocks for more conservative income-oriented investors, given the more expensive investment profile of stocks.

There continues to be downside risks to the capital markets, which should be kept in mind as 2024 continues to unfold. Political gridlock in Washington, D.C., the war in the Middle East and in Europe to name a few. And the races for the Presidency and Congressional seats that are heating up with conventions just around the corner. Presidential years tend to be positive years for equity returns (though past performance does not guarantee future results).

Also, historically, the Federal Reserve has tended to avoid changing its monetary policy in any meaningful way as elections approach so as not to appear partisan. It is even possible, depending on how inflation data emerges in the months ahead, that there will be no rate cuts this year. And if forces that could negatively impact inflation (like rising oil prices, commodities, wages, or from increased demand from goods and services) slow the decline of inflation or even reverse it, it would be unlikely that the Fed could cut rates. Any combination of the above risks could disappoint investors and persuade them to head for the sidelines.

The longer-term view of markets suggests that the tailwinds stock and bond investors enjoyed in recent years, including massive fiscal stimulus and declining and ultra-low interest rates will not resurface soon to smooth over inevitable hard economic times. On top of that, the unusual expansion of stock valuations from extreme investor enthusiasm for stocks over investment themes like artificial intelligence will run its course. These conditions should favor patient astute stock and bond selection.

Sources: Department of Labor, Department of Commerce, Bloomberg, People's Bank of China, European Central Bank, The Conference Board

New York (HQ)
400 Park Avenue 6th Floor
New York, NY 10022

Chicago
500 W. Madison Street,
Suite 1000
Chicago, IL 60661

212.254.4876
info@matrixpcg.com
matrixpcg.com

MATRIX
PRIVATE CAPITAL GROUP

New York (HQ)
400 Park Avenue 6th Floor
New York, NY 10022

Chicago
500 W. Madison Street,
Suite 1000
Chicago, IL 60661

212.254.4876
info@matrixpcg.com
matrixpcg.com

DISCLOSURES

We do not represent that the information contained herein is accurate or complete, and it should not be relied upon as such. Opinions expressed herein are subject to change without notice. Certain information contained herein (including any forward-looking statements and economic and market information) has been obtained from published sources and/or prepared by third parties and in certain cases has not been updated through the date hereof. While such sources are believed to be reliable, Matrix Private Capital Group does not assume any responsibility for the accuracy or completeness of such information. Matrix Private Capital Group does not undertake any obligation to update the information contained herein as of any future date.

Matrix Private Capital Group is an investment adviser registered with the U.S. Securities and Exchange Commission. Registration does not imply a certain level of skill or training. More information about Matrix Private Capital Group including its advisory services and fee schedule can be found in Form CRS and/or ADV Part 2 which is available upon request.

MPCG-24-19

MATRIX
PRIVATE CAPITAL GROUP

Index Performance as of: 6/28/2024	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year
Russell							
Russell 3000 Value	-0.98	-2.25	6.18	12.91	5.10	8.85	8.07
Russell 3000	3.10	3.22	13.56	23.11	8.02	14.11	12.13
Russell 3000 Growth	6.42	7.79	19.89	32.21	10.31	18.52	15.73
Russell 1000 Value	-0.94	-2.17	6.62	13.03	5.49	8.97	8.20
Russell 1000	3.31	3.57	14.23	23.86	8.72	14.57	12.49
Russell 1000 Growth	6.74	8.33	20.70	33.48	11.27	19.32	16.31
Russell Midcap Value	-1.60	-3.40	4.54	11.95	3.61	8.46	7.57
Russell Midcap	-0.66	-3.35	4.96	12.85	2.35	9.43	9.02
Russell Midcap Growth	1.67	-3.21	5.98	15.05	-0.08	9.92	10.50
Russell 2000 Value	-1.69	-3.65	-0.86	10.87	-0.57	7.03	6.20
Russell 2000	-0.93	-3.28	1.73	10.03	-2.61	6.90	6.97
Russell 2000 Growth	-0.17	-2.92	4.43	9.11	-4.88	6.13	7.36
Standard & Poors							
S&P 500	3.59	4.28	15.29	24.54	9.98	15.01	12.83
Consumer Discretionary	4.89	0.65	5.66	13.08	2.23	10.51	12.22
Consumer Staples	-0.18	1.35	8.98	8.15	7.13	9.44	8.91
Energy Sector	-1.29	-2.42	10.93	15.79	24.23	12.84	3.25
Financials Sector	-0.89	-2.03	10.16	24.15	5.84	10.50	10.52
Health Care Sector	1.91	-0.96	7.81	11.68	6.74	11.52	11.06
Industrials Sector	-0.94	-2.90	7.75	15.47	7.73	11.48	10.36
Information Technology	9.32	13.81	28.24	41.78	19.77	27.13	22.75
Materials Sector	-3.03	-4.50	4.05	8.69	4.52	10.88	8.13
Real Estate Sector	2.01	-1.91	-2.45	5.60	-1.35	4.40	6.25
Communication Services	4.80	9.38	26.68	44.87	6.42	14.70	9.92
Utilities Sector	-5.51	4.66	9.44	7.82	5.88	6.11	8.03
Other U.S. Equity							
Dow Jones Industrial Avg.	1.23	-1.27	4.79	16.02	6.42	10.31	11.29
NASDAQ 100 Stock	6.27	8.05	17.47	30.77	11.49	21.74	18.89
International Equity - Broad Market							
MSCI EAFE NR	-1.61	-0.42	5.34	11.54	2.89	6.46	4.33
MSCI Emerging Mkts NR	3.94	5.00	7.49	12.55	-5.06	3.09	2.79
MSCI Frontier Markets NR	-0.01	0.65	5.93	12.32	-3.21	2.21	0.71
MSCI ACWI NR	2.23	2.87	11.30	19.38	5.43	10.74	8.43
MSCI ACWI ex USA NR	-0.10	0.96	5.69	11.62	0.46	5.54	3.84
MSCI AC Asia ex Japan NR	4.26	7.20	9.75	12.89	-5.77	3.50	4.17
International Equity - Country Region							
MSCI Brazil NR	-3.69	-12.24	-18.70	-7.68	-2.77	-2.13	-0.26
MSCI BRIC NR	1.24	6.26	6.27	8.76	-10.35	-0.74	1.93
MSCI China NR	-1.89	7.09	4.74	-1.62	-17.65	-4.25	1.39
MSCI Europe NR	-0.98	1.32	9.06	13.68	7.43	8.43	6.74
MSCI India NR	6.95	10.21	16.90	34.36	13.43	13.61	9.44
MSCI Japan NR	-0.71	-4.27	6.27	13.15	2.29	6.61	5.53
MSCI EM Latin Amer NR	-6.06	-12.20	-15.68	-5.59	0.95	0.14	-0.31
Fixed Income							
Bloomberg US Agg TR	0.95	0.07	-0.71	2.63	-3.02	-0.23	1.34
Bloomberg U.S. T-Bills	0.41	1.34	2.68	5.50	3.11	2.17	1.49
Bloomberg US Govt	1.00	0.11	-0.83	1.61	-3.19	-0.61	0.92
Bloomberg US Credit	0.67	-0.05	-0.46	4.42	-2.94	0.54	2.21
Bloomberg US Corp HY	0.94	1.09	2.58	10.44	1.64	3.91	4.30
Bloomberg Municipal	1.53	-0.02	-0.40	3.21	-0.88	1.16	2.39
Bloomberg US TIPS	0.78	0.79	0.70	2.71	-1.33	2.07	1.91
Bloomberg Global-Agg	0.14	-1.10	-3.16	0.93	-5.49	-2.02	-0.42
Bloomberg Gbl Agg ex-USD	-0.51	-2.11	-5.26	-0.66	-7.47	-3.56	-1.85
Bloomberg EM USD Agg	0.63	0.68	2.22	7.95	-2.22	0.47	2.51
Alternative Investments							
Alerian MLP	4.45	3.28	17.56	35.49	22.41	11.92	1.91
Bloomberg Commodity	-1.54	2.89	5.14	5.00	5.65	7.24	-1.29
FTSE Nareit Equity REITs	2.89	0.06	-0.13	7.79	0.30	3.90	5.89
S&P Global Nat Res	-4.37	-1.77	0.36	7.81	6.34	8.37	4.49
S&P N.Amer Nat Res	-2.62	-1.42	9.60	17.03	17.09	12.11	2.22

New York (HQ)
400 Park Avenue 6th Floor
New York, NY 10022

Chicago
500 W. Madison Street,
Suite 1000
Chicago, IL 60661

212.254.4876
info@matrixpcg.com
matrixpcg.com

MATRIX
PRIVATE CAPITAL GROUP