NDR
NED DAVIS RESEARCH

JOSEPH F. KALISH, CHIEF GLOBAL MACRO STRATEGIST

JUNE 10, 2024

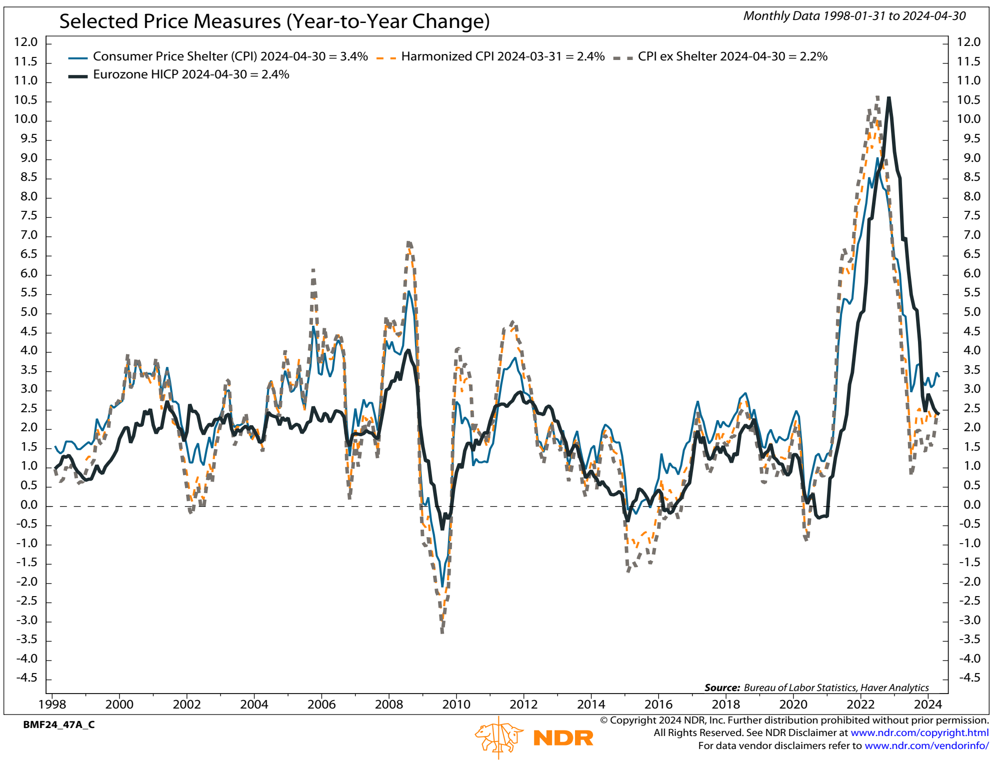
email us

The lunacy of the 2% inflation target

Key Takeaways

- In a close call, we expect the median dot to show one rate cut this year.
- The longer run neutral rate should drift up to 2.75%.
- The Fed should have a higher inflation target than the ECB.

U.S. and Eurozone inflation close using similar methodology



Following Friday's blowout NFP report, nobody is really expecting a July rate cut anymore, much less this week. Our forecast is for one cut after the election, probably in December. An unexpected jump in unemployment this summer could put September in play.

Focus on the SEP

We do not expect any major changes to the statement. Instead, we will focus on the Summary of Economic Projections. The dot plot will be a close call. Our count shows nine participants looking for two rate cuts this year but ten looking for one or none. We also have the median longer run rate moving up to 2.75% from 2.6%.

On the economic side, we have GDP growth for this year ticking down to 2.0% from 2.1% and the unemployment rate moving up to 4.1% from 4.0%. Inflation projections should be largely unchanged at 2.4% and 2.6% for headline and core PCE, respectively.

The press conference will also be important. We still want to know what evidence they see that policy is sufficiently restrictive to bring inflation back down to 2%. We've recently provided ten reasons.

A 2.5% inflation target?

Why do most major central banks have a 2% inflation target? These are different economies with different inflation measures. Is 2% the right target for everyone?

The contrast is stark today between the U.S. and the Eurozone. The ECB targets HICP, which was 2.4% in April. The U.S. CPI was 3.4%. But the U.S. HICP was 2.4%. The main difference is OER, which is why the CPI ex-shelter is 2.2% (see chart). Because Europe ignores OER, it makes **the ECB's 2.0% target easier to hit** than the Fed's. If we accept the ECB's 2.0% target, then **the Fed's should be higher**, say 2.5%. **If the Fed keeps its 2.0% target, then it will be restrictive for longer.**

NDR
NED DAVIS RESEARCH

NDR HOUSE VIEWS (Updated May 28, 2024)

For global asset allocation, NDR recommends an overweight allocation to stocks, underweight allocation to bonds, and a marketweight allocation to cash. Our recommendations are in line with our Global Balanced Account Model.

Equity Allocation

U.S. | Our U.S. asset allocation recommendation is 70% stocks (15% overweight), 25% bonds (10% underweight), and 5% cash (5% underweight). On an absolute basis, we are overweight the S&P 500. We favor small-caps over large-caps and are neutral on Growth versus Value.

INTERNATIONAL | We are overweight Emerging Markets, underweight the U.K. and Pacific ex. Japan, and marketweight on all other regions.

Macro

ECONOMY | The global economy has shown notable resilience, with recession chances waning. Risks include monetary and fiscal policy uncertainty, sticky inflation, and easing Chinese growth.

FIXED INCOME | We reduced our exposure to 100% of benchmark duration, and recommend curve steepeners. We are overweight MBS and underweight CMBS and ABS. We are marketweight everything else.

GOLD | We are currently bullish.

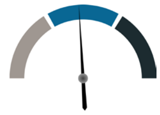
DOLLAR | We are currently neutral.

Economic Summary

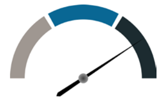
June 10, 2024

Near term activity: ● Accelerating ● Neutral ● Decelerating

Global Economy
(2.7%)



U.S. Economy
(1.5% - 2.0%)



U.S. Inflation
(2.75% - 3.25%)

Economic gauges reflect changes in near-term economic activity. Numbers in parenthesis refer to NDR 2024 forecasts.

Global Asset Allocation

● Overweight ● Marketweight ● Underweight

- ● Stocks (70%)
- ● Cash (10%)
- ● Bonds (20%)

Benchmark: Stocks (55%), Bonds (35%), Cash (10%)

Equities — Regional Relative Allocation

- ● Emerging Markets (15%)
- ● United States (62%) | Europe ex. U.K. (13%) | | Japan (5%) | Canada (2%)
- ● U.K. (2%) | Pacific ex Japan (1%)

Benchmark – U.S. (62.8%), Europe ex. U.K. (12.2%), Emerging Markets (10.4%), Japan (5.5%), U.K. (3.6%), Pacific ex. Japan (2.7%), Canada (2.8%)

Global Bond Allocation

- ● Europe (32%) | U.K. (7%)
- ● U.S. (54%)
- ● Japan (7%)

Benchmark: U.S. (55%), Europe (27%), Japan (13%), U.K. (5%)

U.S. Allocation

- ● Stocks (70%) | Small-Cap
- ● Growth | Value | Mid-Cap
- ● Bonds (25%) | Cash (5%) | Large-Cap

Benchmark: Stocks (55%), Bonds (35%), Cash (10%)

Sectors

- ● Financials (16%) | Utilities (5%)
- ● Consumer Staples (4%) | Real Estate (1%)

Benchmark: Technology (28.1%), Health Care (13.0%), Financials (12.3%), Communication Services (8.9%), Consumer Discretionary (10.9%), Consumer Staples (7.0%), Industrials (8.5%), Energy (4.1%), Utilities (2.3%), Real Estate (2.4%), Materials (2.4%)

U.S. Bonds — 100% of Benchmark Duration

NED DAVIS RESEARCH

NDRsales@ndr.com
www.ndr.com
(800) 241-0621

SARASOTA

3665 Bee Ridge Road Suite 306

Sarasota, FL 34233

United States

800 241 0621 (U.S. & Canada)

941 412 2300

NEW YORK

1270 Avenue of the Americas

11th Floor

New York, NY 10020

(800) 241-0621

LONDON

4 Bouverie Street

Temple, London

EC4Y 8AX

+44 (0) 22 7779.8455

HONG KONG

12/F, 8 Queen's Road East

Wan Chai

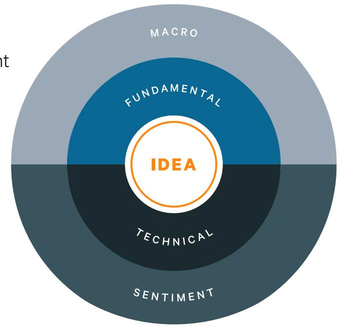
Hong Kong

+852 3416 6676

NDR
NED DAVIS RESEARCH

See the signals.™

Founded in 1980, Ned Davis Research Group is a leading independent research firm with clients around the globe. With a range of products and services utilizing a 360° methodology, we deliver award-winning solutions to the world's leading investment management companies. Our clients include professionals from global investment firms, banks, insurance companies, mutual funds, hedge funds, pension and endowment funds, and registered investment advisors.



Important Information and Disclaimers

NDR (Ned Davis Research) uses the weight of the evidence and a 360-degree approach to build up to market insights. When we say "evidence," we mean processing millions of data series to fuel a historical perspective, build proprietary indicators and models, and calm investors in a world full of bull/bear news hype and hysteria. We believe that no client is too big or too small to benefit from NDR's insights.

The data and analysis contained in NDR's publications are provided "as is" and without warranty of any kind, either expressed or implied. The information is based on data believed to be reliable, but it is not guaranteed. **NDR DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE.**

NDR's reports reflect opinions of our analysts as of the date of each report, and they will not necessarily be updated as views or information change. All opinions expressed therein are subject to change without notice, and you should always obtain current information and perform due diligence before trading. NDR or its affiliated companies or their respective shareholders, directors, officers and/or employees, may have long or short positions in the securities discussed in NDR's publications and may purchase or sell such securities without notice.

NDR uses and has historically used various methods to evaluate investments which may, at times, produce contradictory recommendations with respect to the same securities. When evaluating the results of prior NDR recommendations or NDR performance rankings, one should also consider that **NDR may modify the methods it uses to evaluate investment opportunities from time to time, that model results do not impute or show the compounded adverse effect of transaction costs or management fees or reflect actual investment results, that other less successful recommendations made by NDR are not included with these model performance reports, that some model results do not reflect actual historical recommendations, and that investment models are necessarily constructed with the benefit of hindsight. Unless specifically noted on a chart, report, or other device, all performance measures are purely hypothetical, and are the results of back-tested methodologies using data and analysis over time periods that pre-dated the creation of the analysis and do not reflect tax consequences, execution, commissions, and other trading costs. For these and for many other reasons, the performance of NDR's past recommendations and model results are not a guarantee of future results.**

Using any graph, chart, formula, model, or other device to assist in deciding which securities to trade or when to trade them presents many difficulties and their effectiveness has significant limitations, including that prior patterns may not repeat themselves continuously or on any particular occasion. In addition, market participants using such devices can impact the market in a way that changes the effectiveness of such devices. NDR believes no individual graph, chart, formula, model, or other device should be used as the sole basis for any investment decision and suggests that all market participants consider differing viewpoints and use a weight of the evidence approach that fits their investment needs. Any particular piece of content or commentary may or may not be representative of the NDR House View, and may not align with any of the other content or commentary that is provided in the service. Performance measures on any chart or report are not intended to represent the performance of an investment account or portfolio, as some formulas or models may have superior or inferior results over differing time periods based upon macro-economic or investment market regimes. NDR generally provides a full history of a formula or model's hypothetical performance, which often reflects an "all in" investment of the represented market or security during "buy", "bullish", or similar recommendations. This approach is not indicative of the intended usage of the recommendation in a client's portfolio, and for this reason NDR does not typically display returns as would be commonly stated when reporting portfolio performance. Clients seeking the usage of any NDR content in a simulated portfolio back-test should contact their account representative to discuss testing that NDR can perform using the client's specific risk tolerances, fees, and other constraints.

NDR's reports are not intended to be the primary basis for investment decisions and are not designed to meet the particular investment needs of any investor. The reports do not address the suitability of any particular investment for any particular investor. The reports do not address the tax consequences of securities, investments, or strategies, and investors should consult their tax advisors before making investment decisions. Investors should seek professional advice before making investment decisions. The reports are not an offer or the solicitation of an offer to buy or to sell a security.

Further distribution prohibited without prior permission. Full terms of service, including copyrights, terms of use, and disclaimers are available at https://www.ndr.com/web/ndr/terms-of-service.