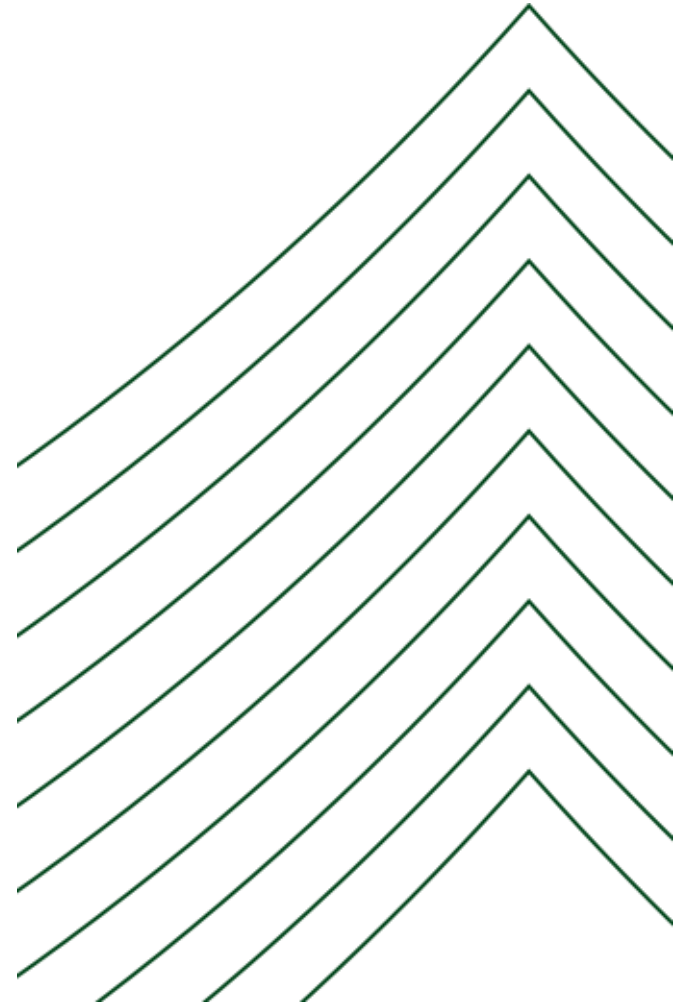


Uncertainty, Markets, and The Economy

FEI Eastern Wisconsin Meeting

March 2025



Macro Economics Review



Aggregate Demand, Gross Domestic Product (GDP) & their drivers

- Aggregate Demand: Value of all goods and services produced in the US economy.
- $GDP = \text{Aggregate Demand} - \text{price impact (inflation)}$
- Drivers:
 - Consumption or Consumer Spending
 - Business Investment
 - Government Spending
 - Net Exports

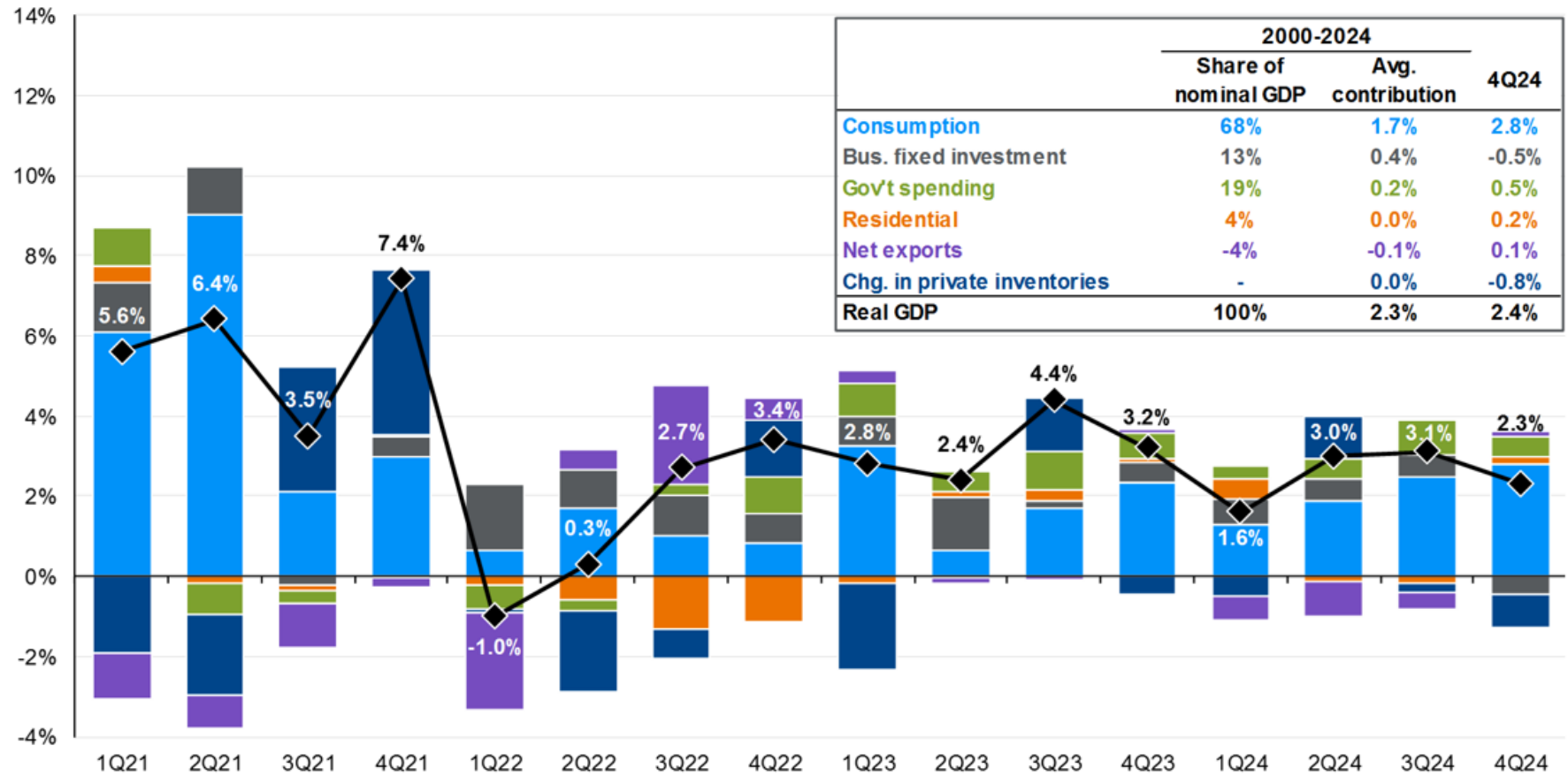
Economic Activity * Productivity → Earnings → Financial Markets



Components of GDP growth

Contributors to real GDP growth

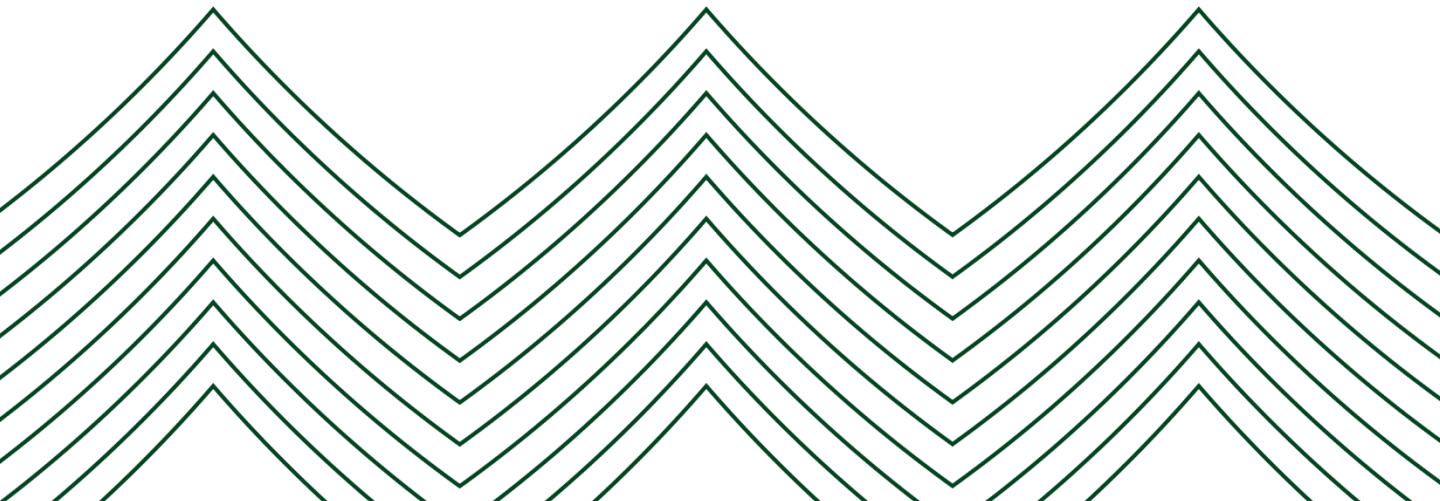
Quarter-over-quarter, seasonally adjusted annualized rate



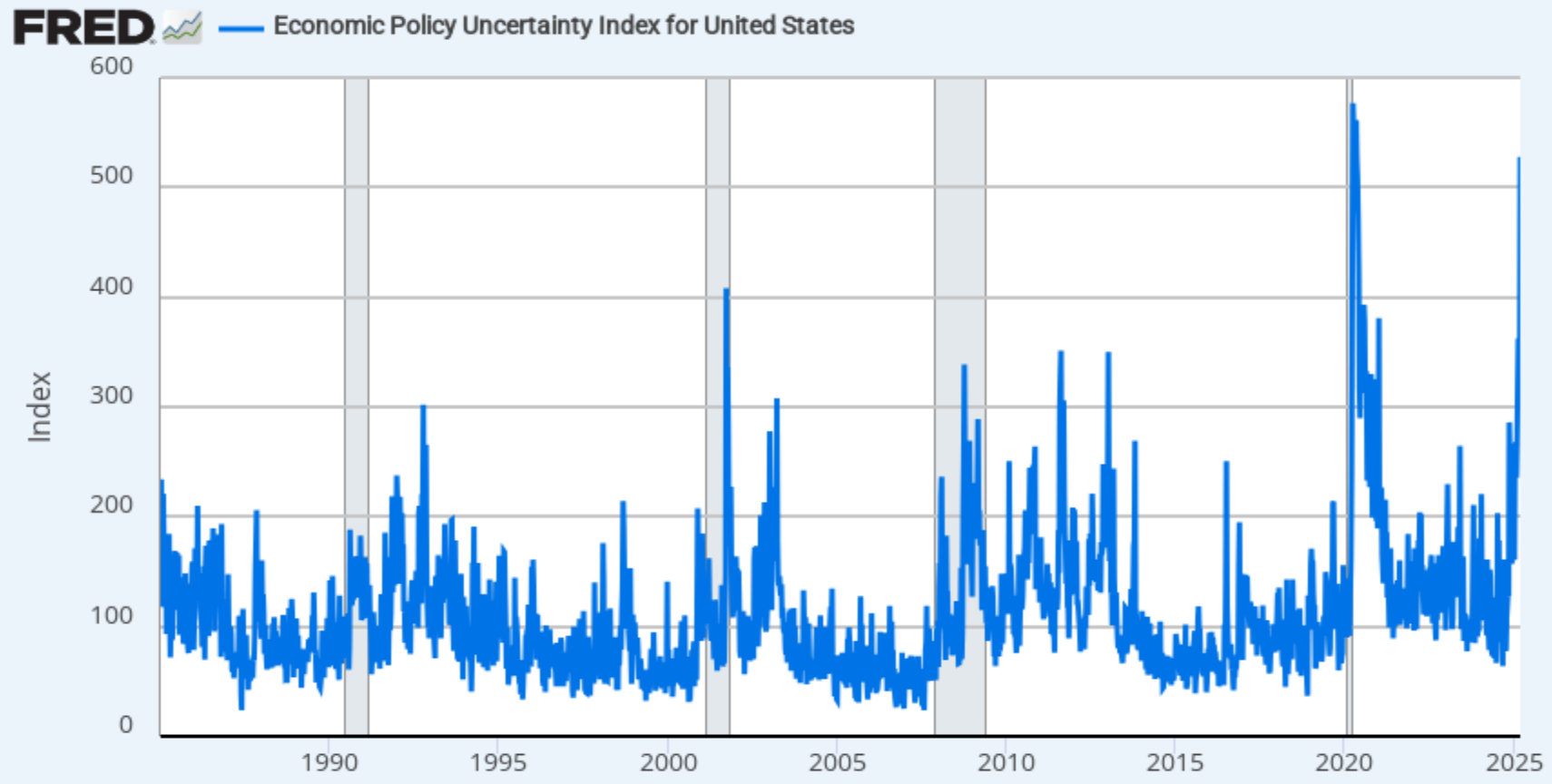
Source: BEA, FactSet, J.P. Morgan Asset Management



Uncertainty



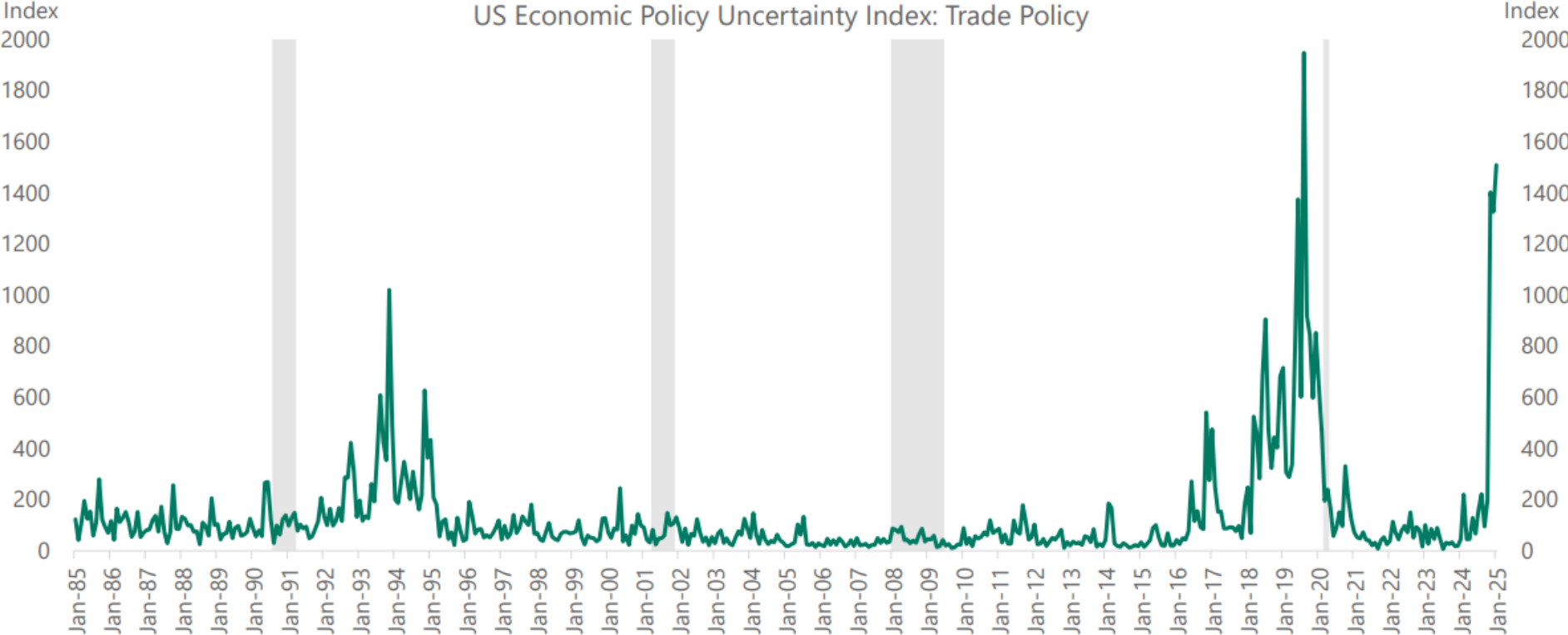
Policy Uncertainty At High Levels



Sources: Baker, Scott R.; Bloom, Nick; Davis, Stephen J. via FRED®
Shaded areas indicate U.S. recessions.

myf.red/g/1EfTa

Driven by Trade Policy Uncertainty



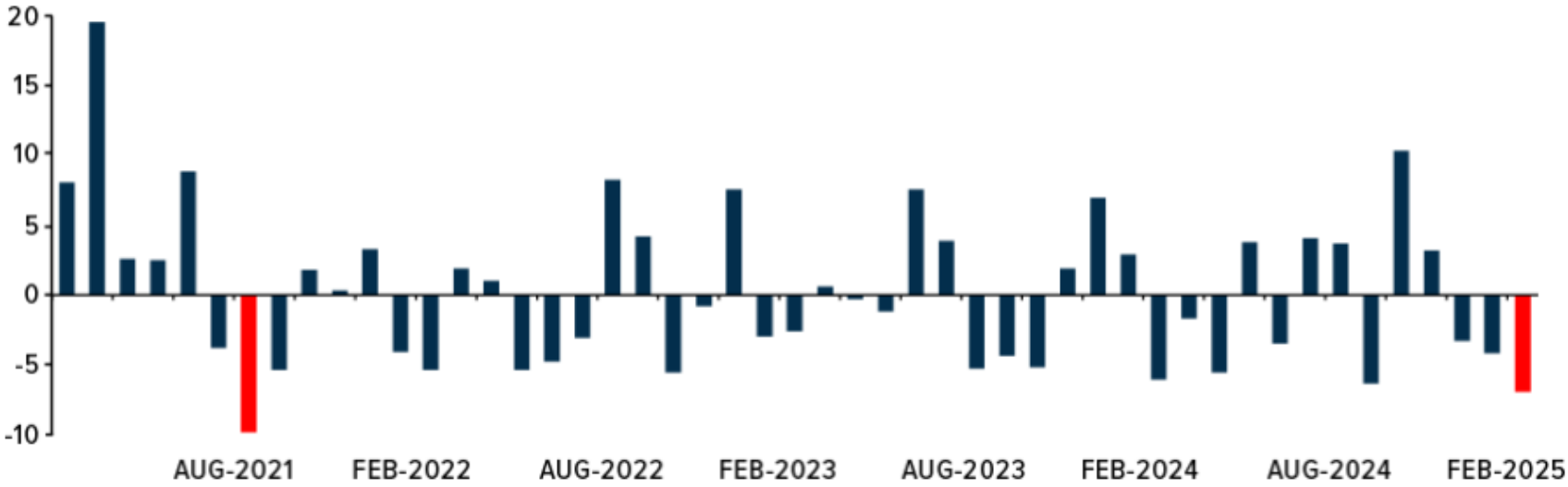
Source: PolicyUncertainty.com, Haver Analytics, Apollo Chief Economist

More Uncertainty Weakens Confidence



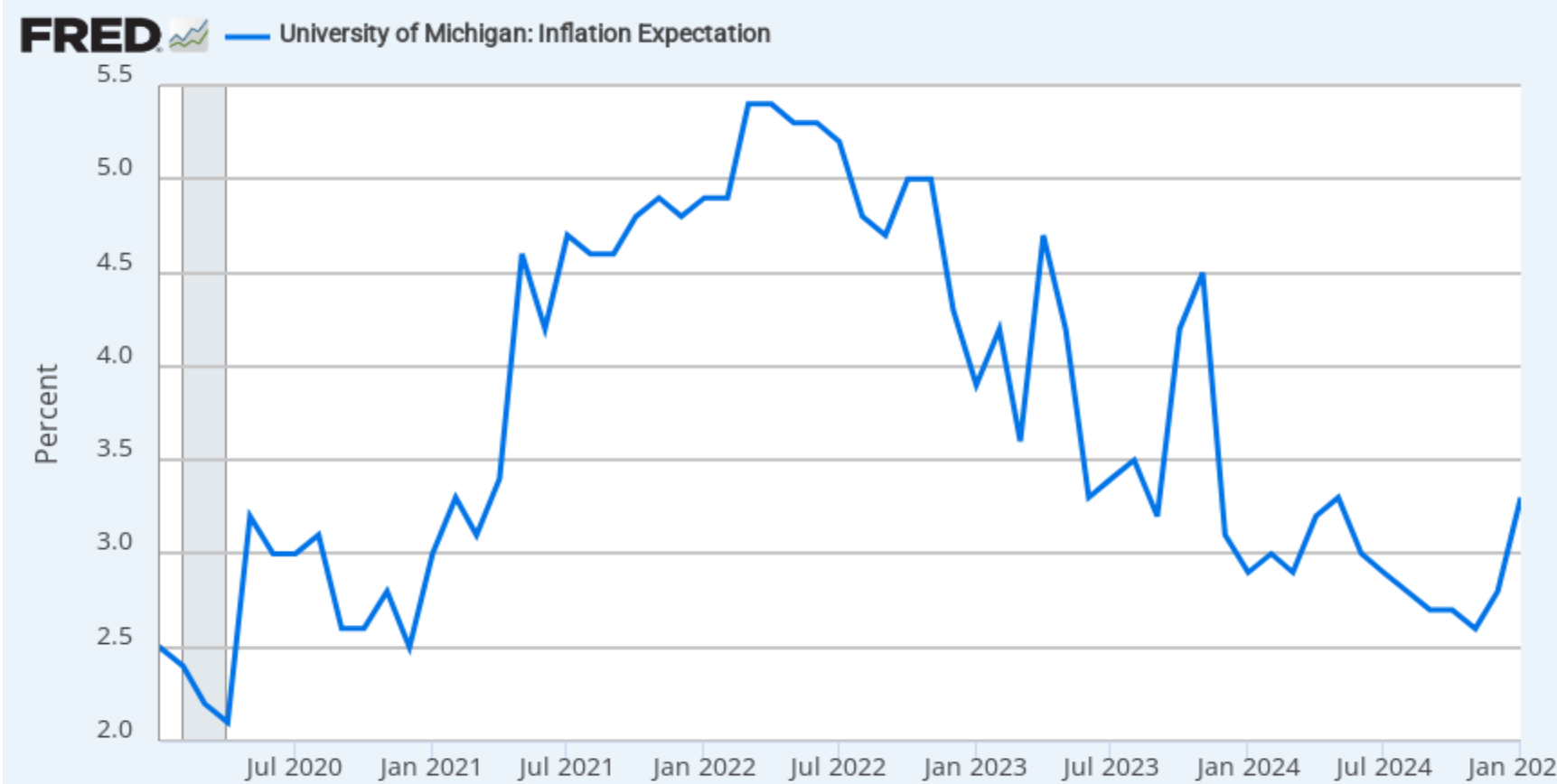
Consumer Confidence Sank at Fastest Rate Since 2021 on Tariff Fears

Conference Board Consumer Confidence Index, Month-over-Month Change | Four-Year Period Through February 2025



Source: Bloomberg, Conference Board, U.S. Global Investors

More Uncertainty Impacts Inflation Expectations

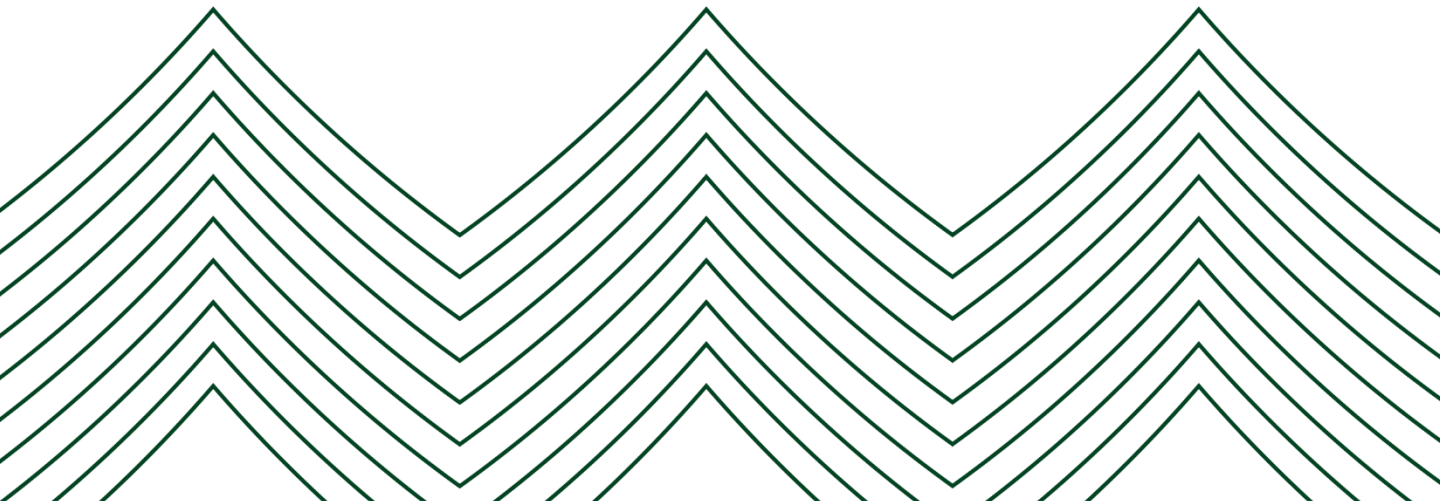


Source: University of Michigan via FRED®
Shaded areas indicate U.S. recessions.

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Consumer Spending

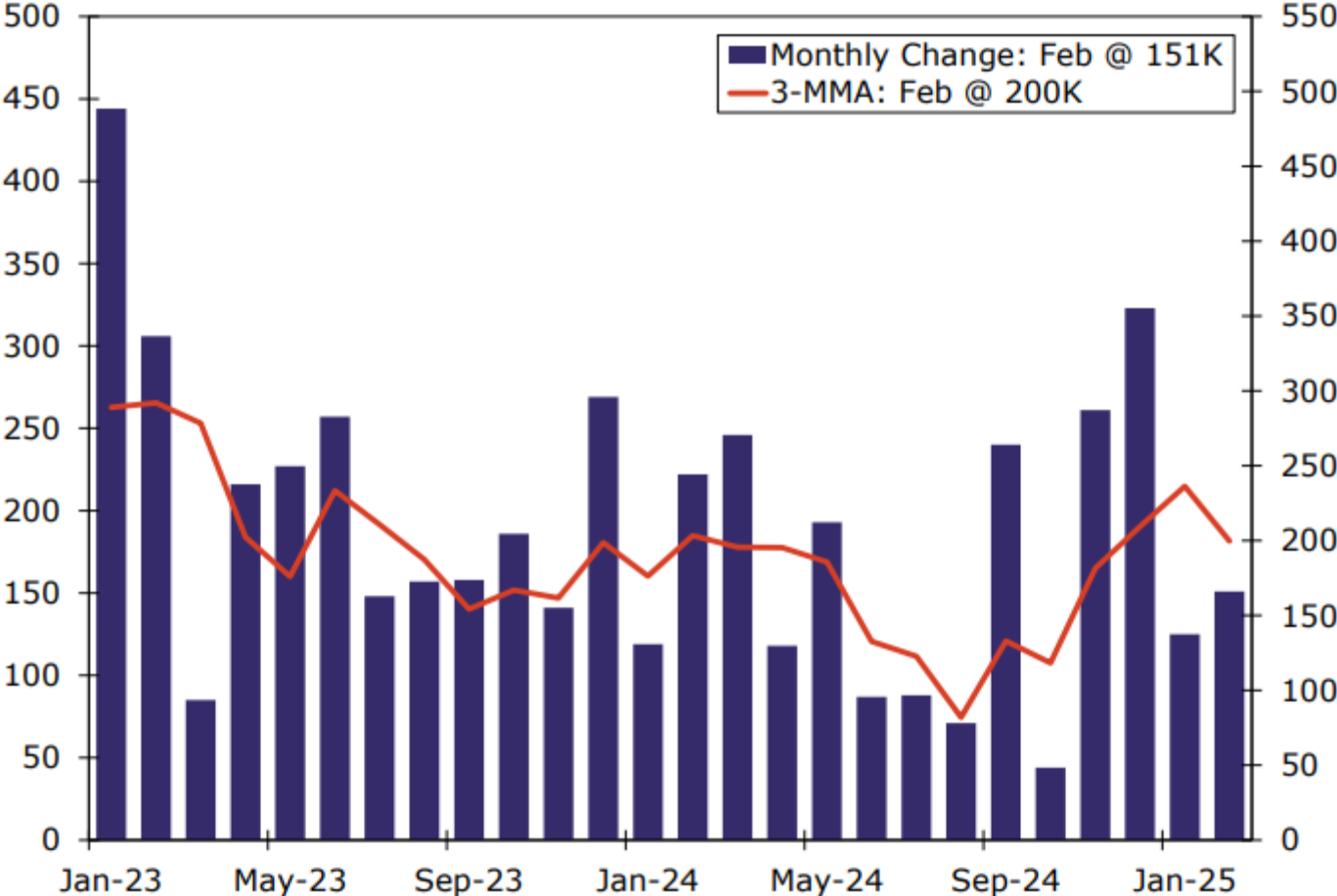


Employment Looks Strong



U.S. Nonfarm Employment Change

Thousands



Source: U.S. Department of Labor and Wells Fargo Economics

Average Hourly Earnings Support Spending

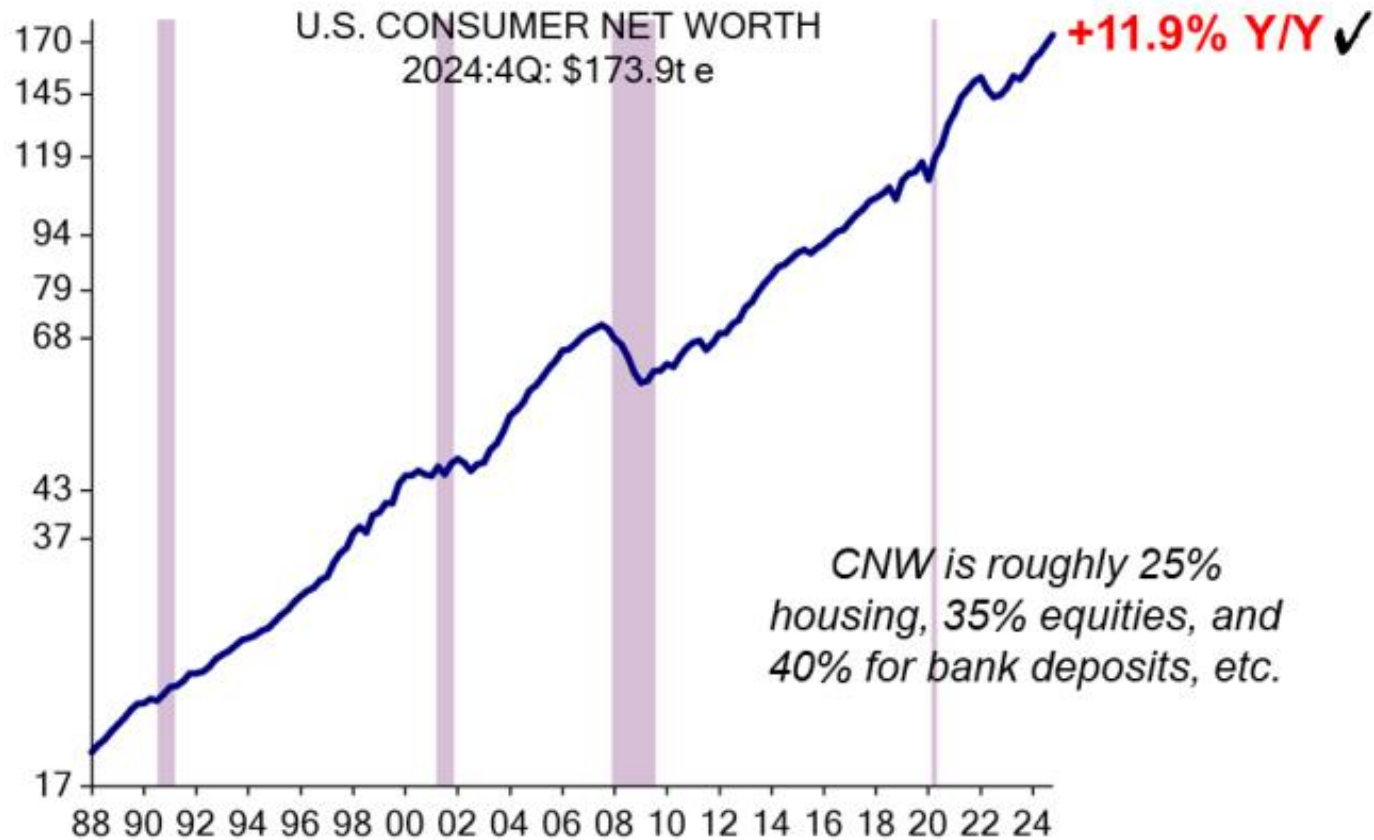


Average Hourly Earnings
Yr/Yr % Change



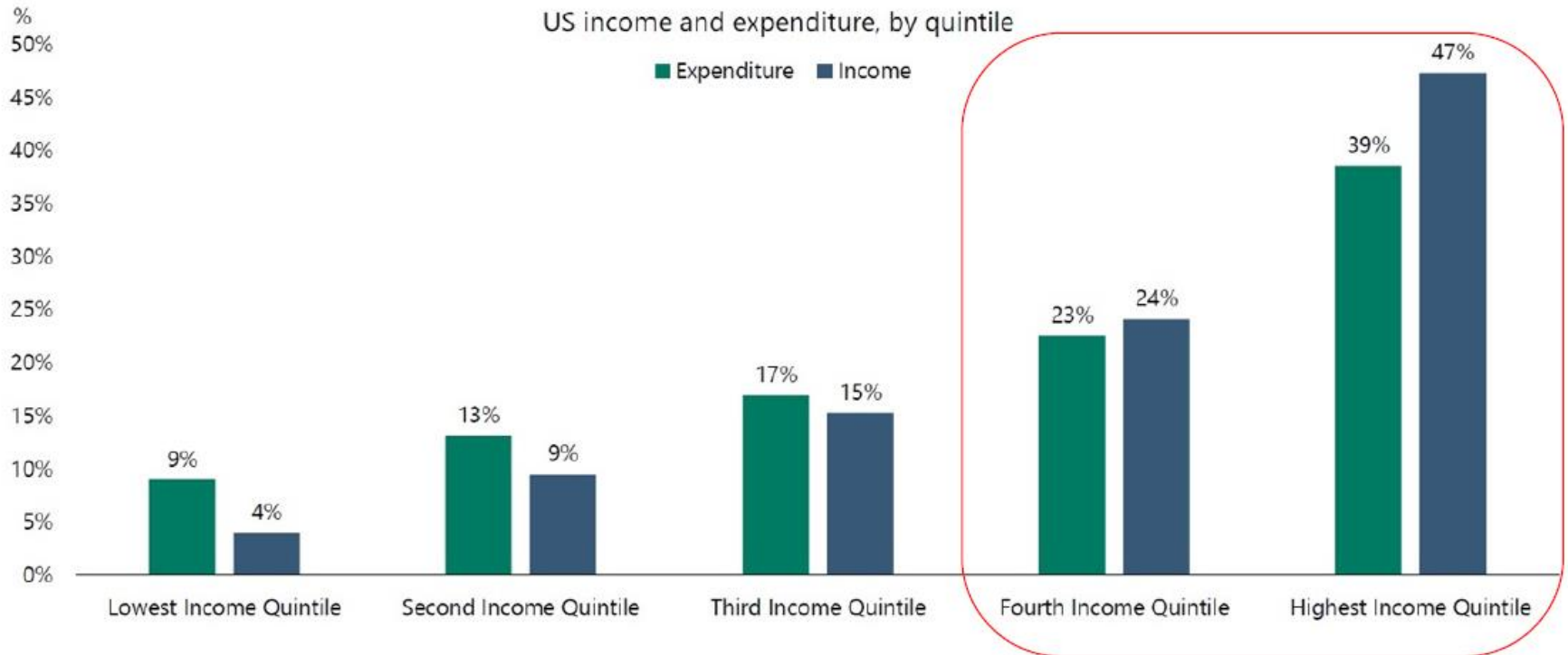
Source: BLS, Macrobond

Wealth Effect Supports Spending, Especially for Retirees



Source: Evercore ISI

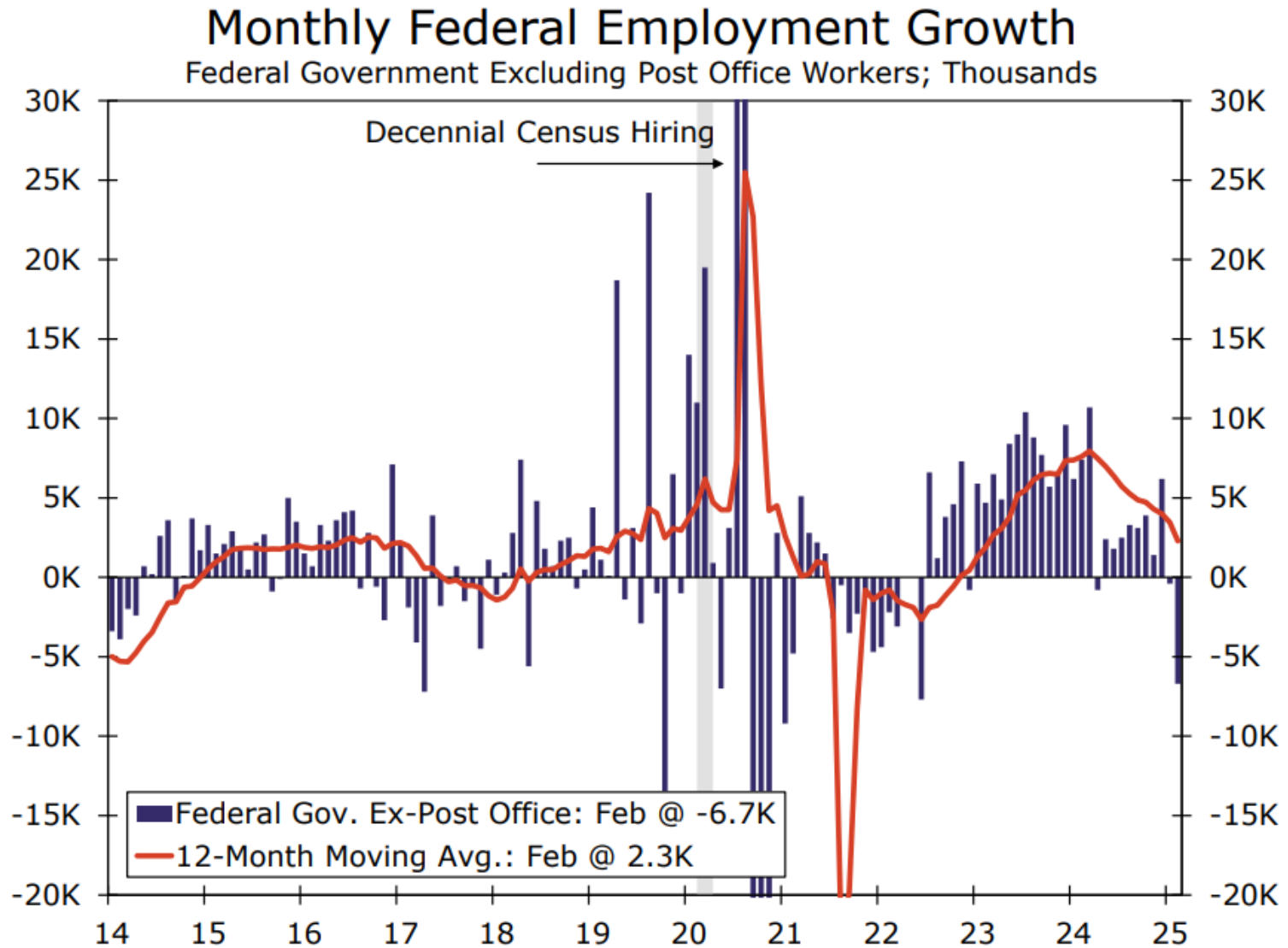
Wealth Effect Supports Spending, Especially for Retirees



**Top 40% of earners drive over
60% of spending**

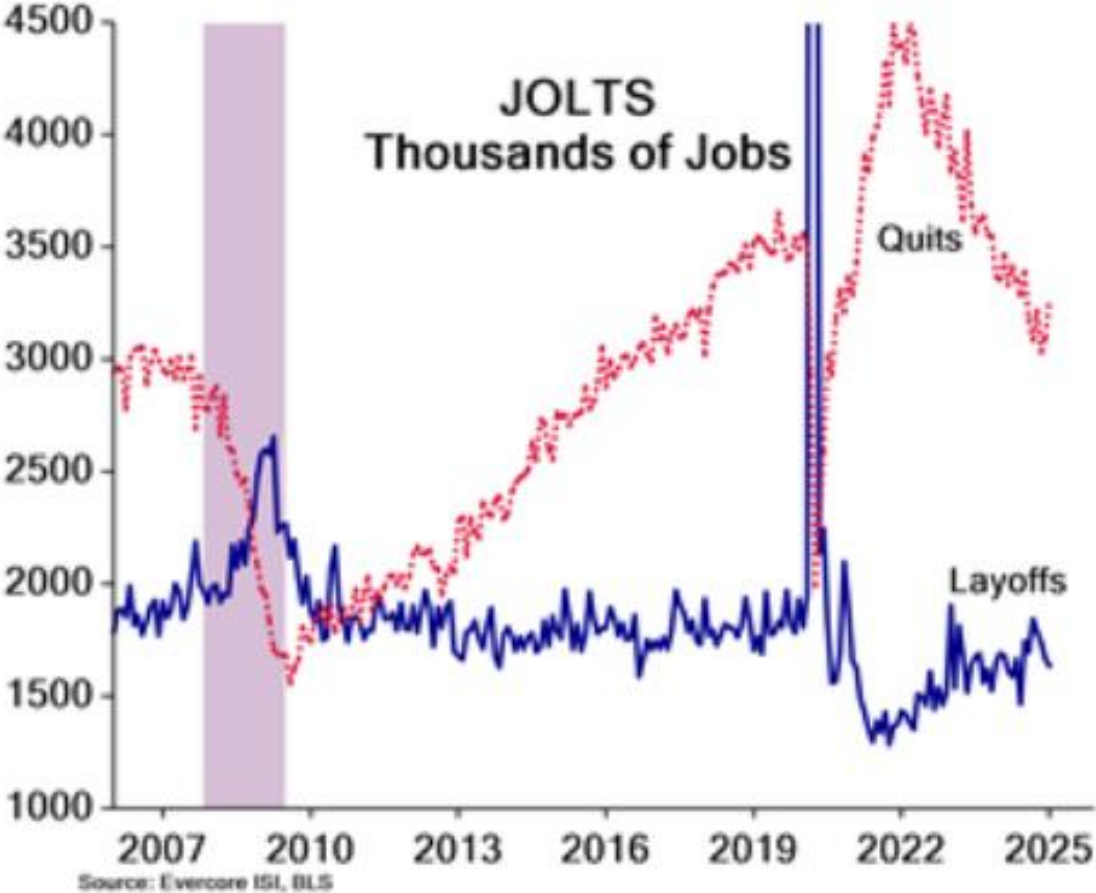
Source: BLS, Haver Analytics, Apollo Chief Economist, Data for 2023

Federal Employment is Falling



Source: U.S. Department of Labor and Wells Fargo Economics

Can the Economy Absorb Rising Layoffs?



Drivers of Economic Growth



Consumer +

+ Investment

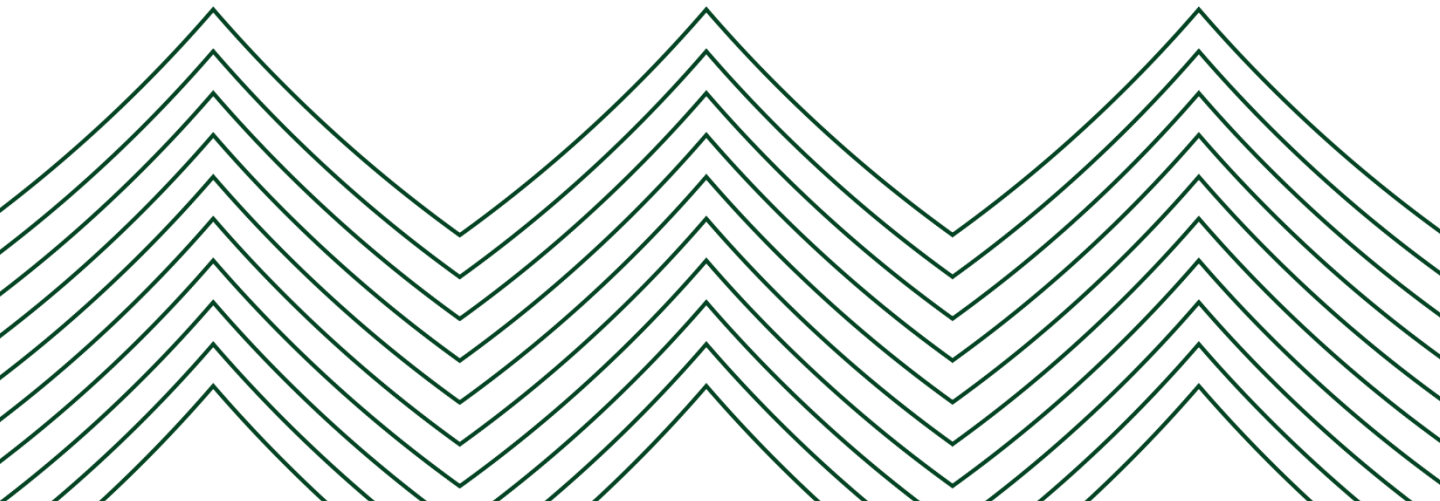
+ Government

+ Exports – Imports

= Growth



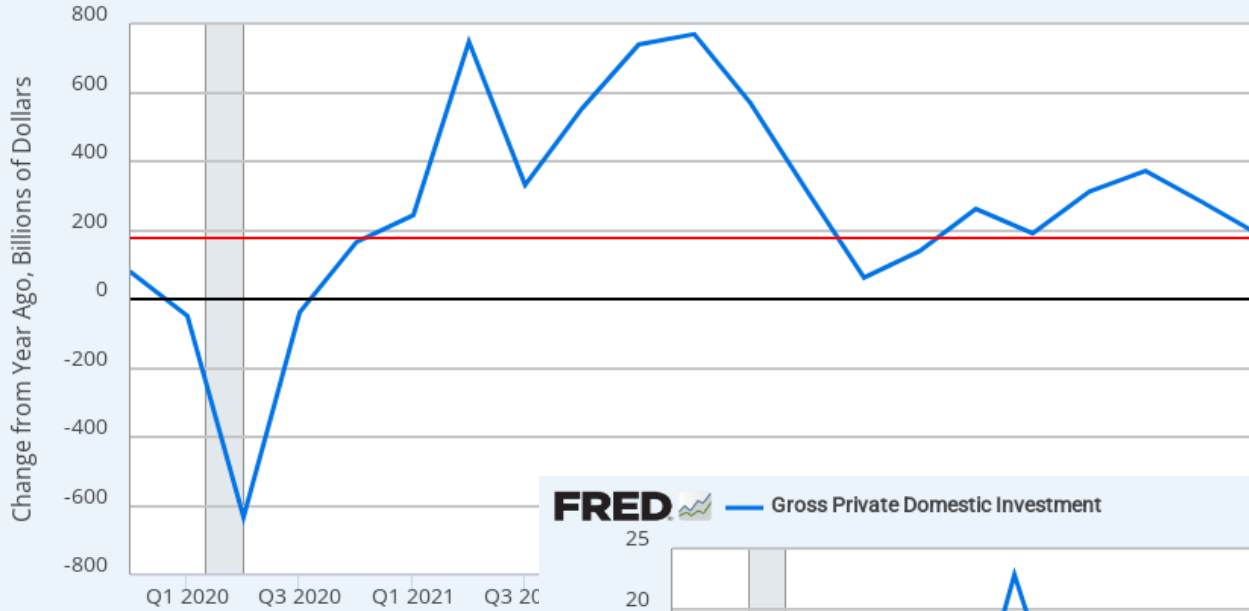
Capital Spending



US Private Investment Is Large & Continues to Grow



FRED — Gross Private Domestic Investment

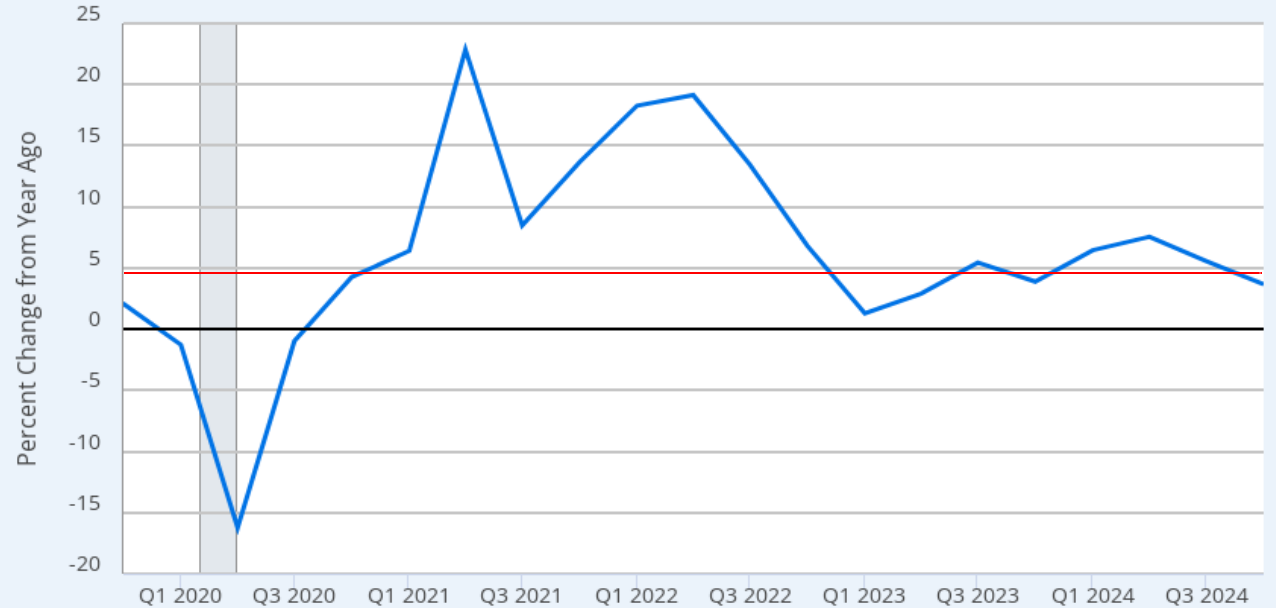


\$200 Billion/Year

Source: U.S. Bureau of Economic Analysis via FRED®
Shaded areas indicate U.S. recessions.

5% Year-over-year Growth

FRED — Gross Private Domestic Investment



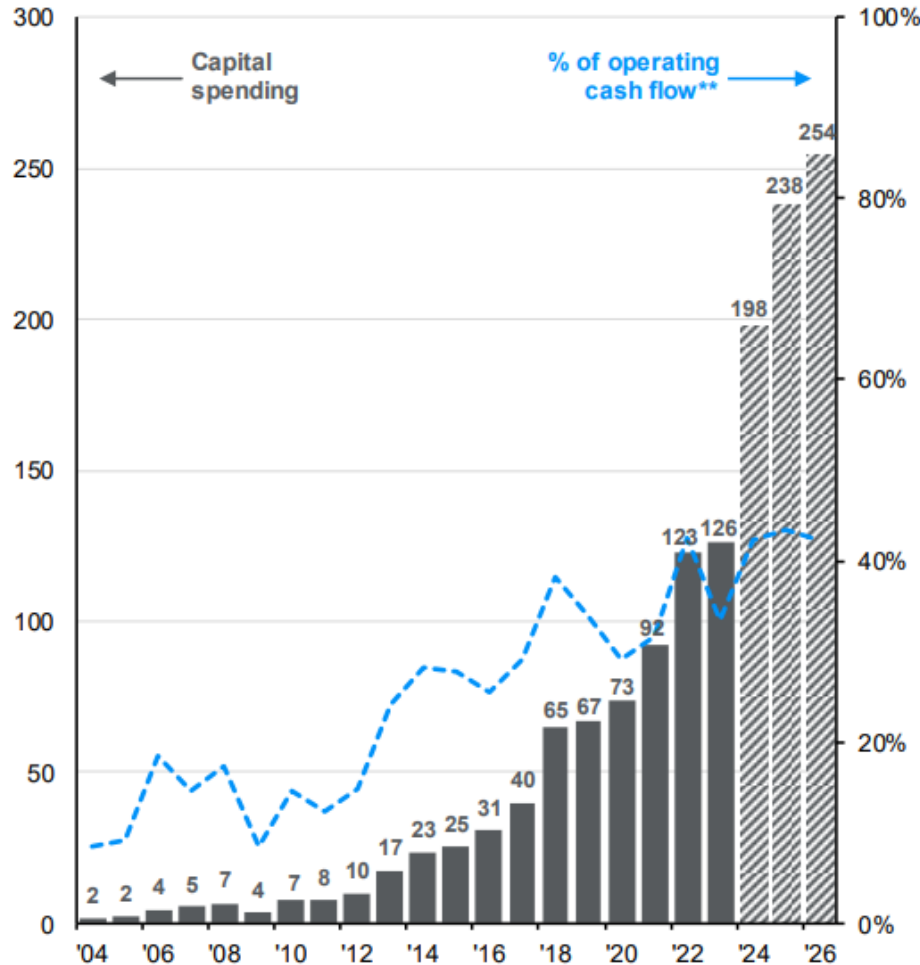
Source: U.S. Bureau of Economic Analysis via FRED®
Shaded areas indicate U.S. recessions.



AI Spending is Not Going Away

Capex from the major AI hyperscalers*

USD billions; Alphabet, Amazon (AWS), Meta, Microsoft, Oracle



Source:

Source: JPM Asset Management. Data from Bloomberg as of Feb. 28th, 2025

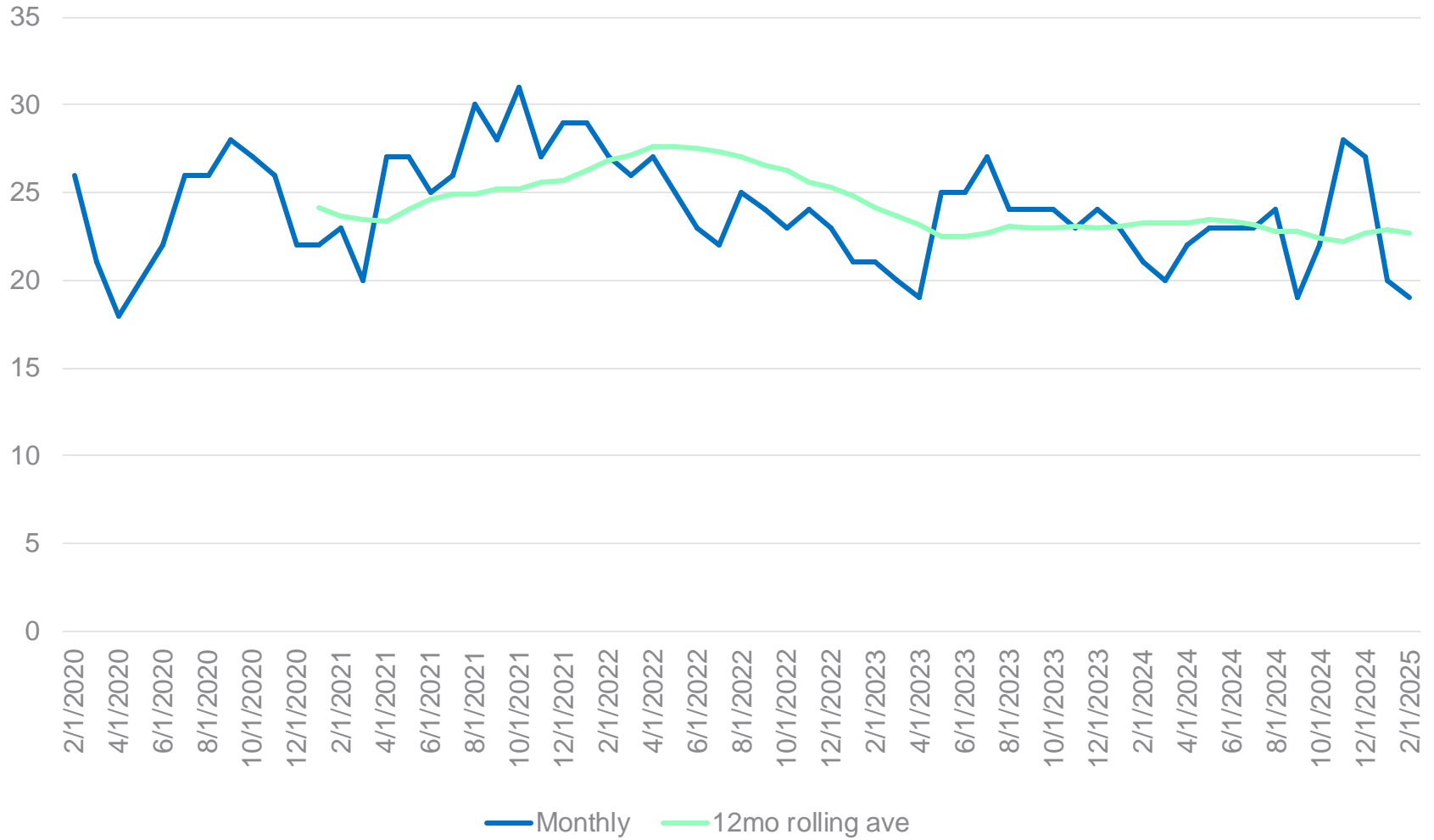
*Hyperscalers are the large cloud computing companies that own and operate data centers with horizontally linked servers that, along with cooling and data storage capabilities, enable them to house and operate AI workloads.

**Reflects cash flow before capital expenditures in contrast to free cash flow, which subtracts out capital expenditures.

Small Business Spending Plans Fading



NFIB Percent Planning a Capital Expenditure During Next 3 – 6 months



Source: NFIB

Drivers of Economic Growth



Consumer +

+ **Investment** +

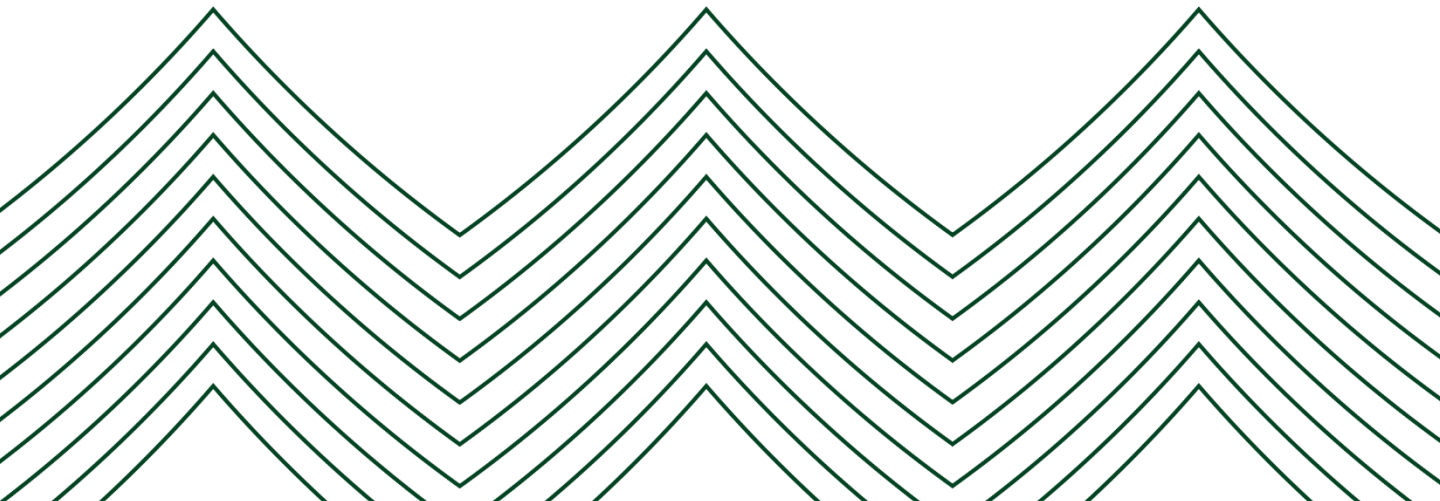
+ **Government**

+ **Exports – Imports**

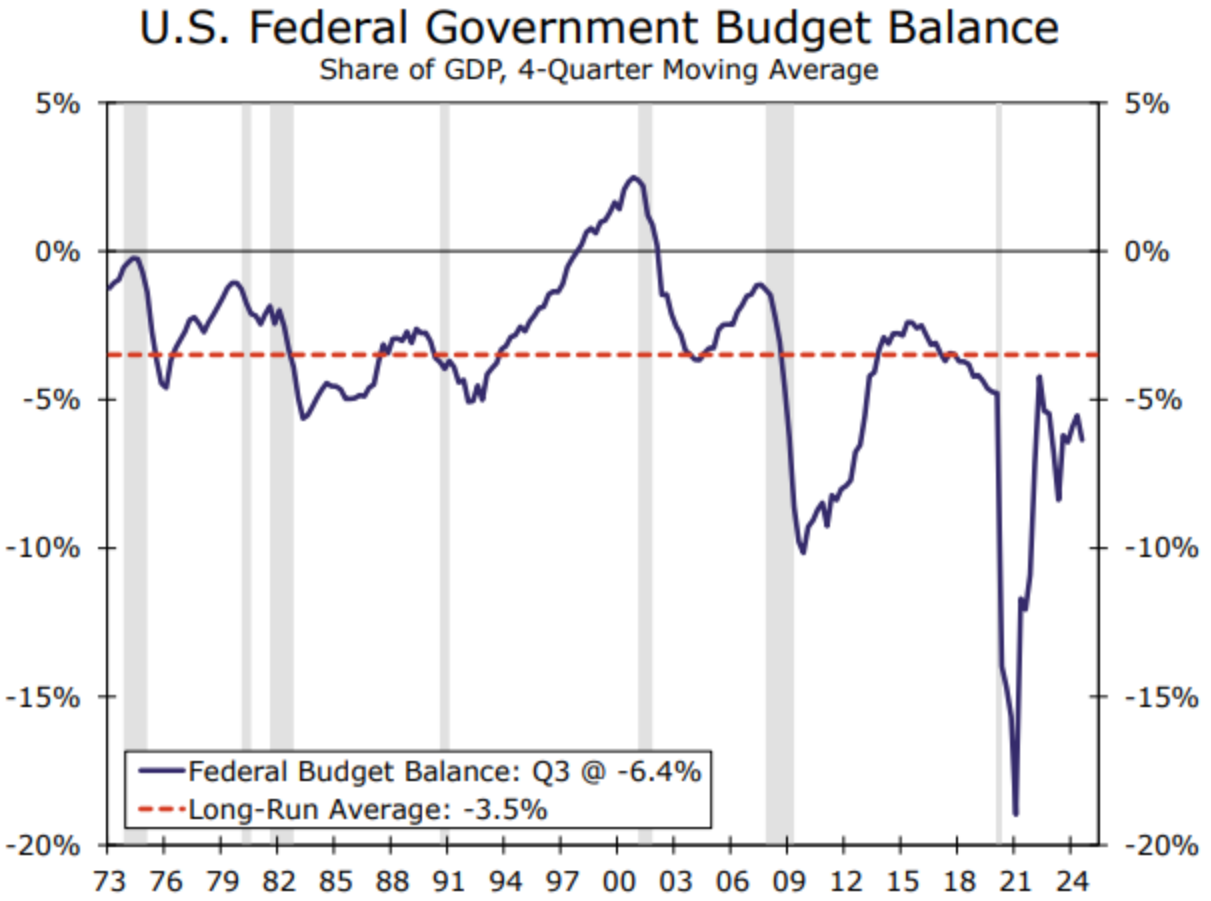
= **Growth**



Government Spending



Government Spending Trend

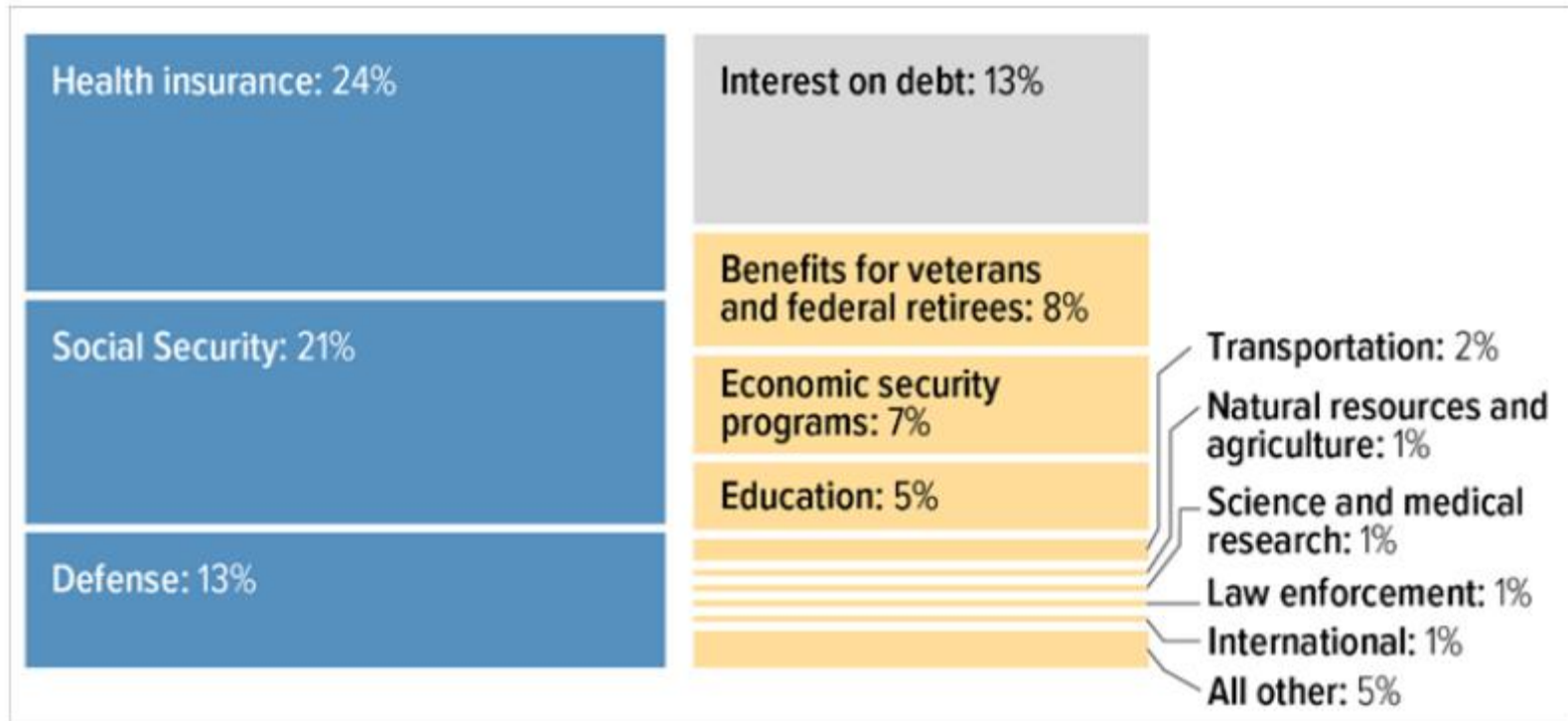


Source: U.S. Department of the Treasury, U.S. Department of Commerce and Wells Fargo Economics

Where Are Federal Dollars Spent?



Federal Budget Allocations



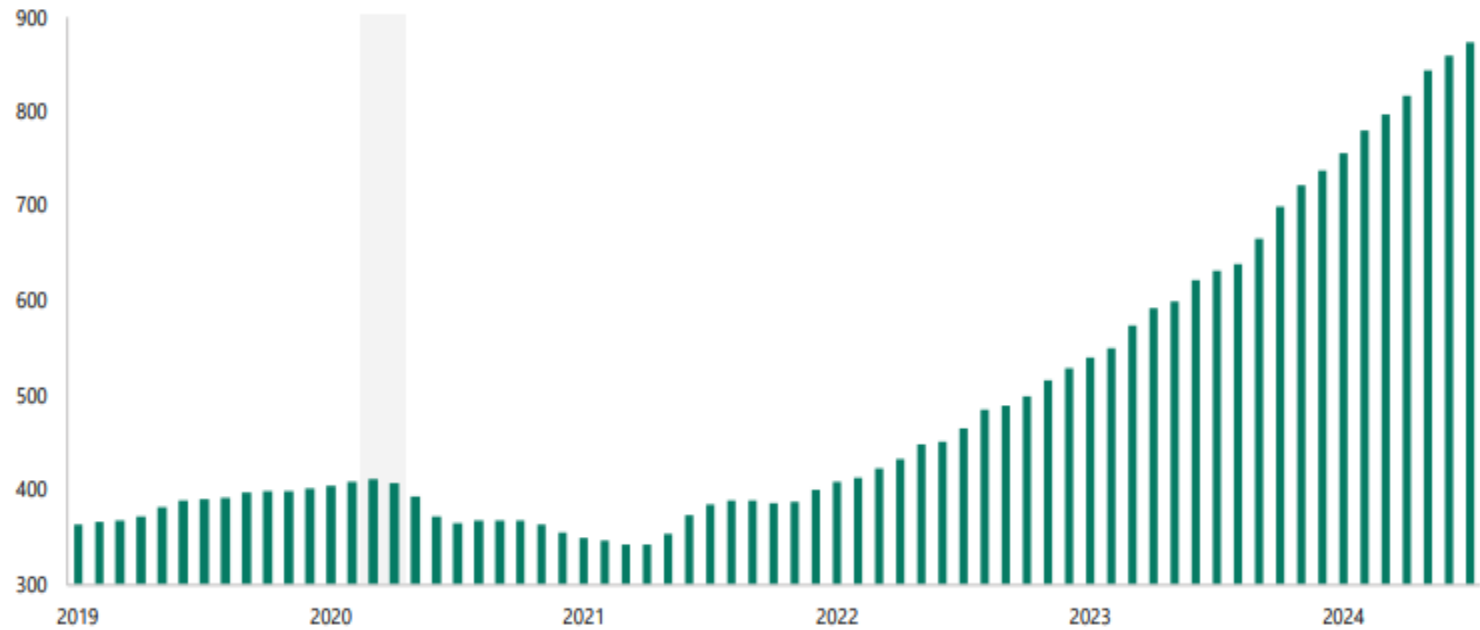
Sources: House Budget Committee, CRFB, OMB, CBPP

Total US Government Interest Expense Nearing \$1 Trillion per Year



TOTAL INTEREST EXPENSE ON PUBLIC ISSUES

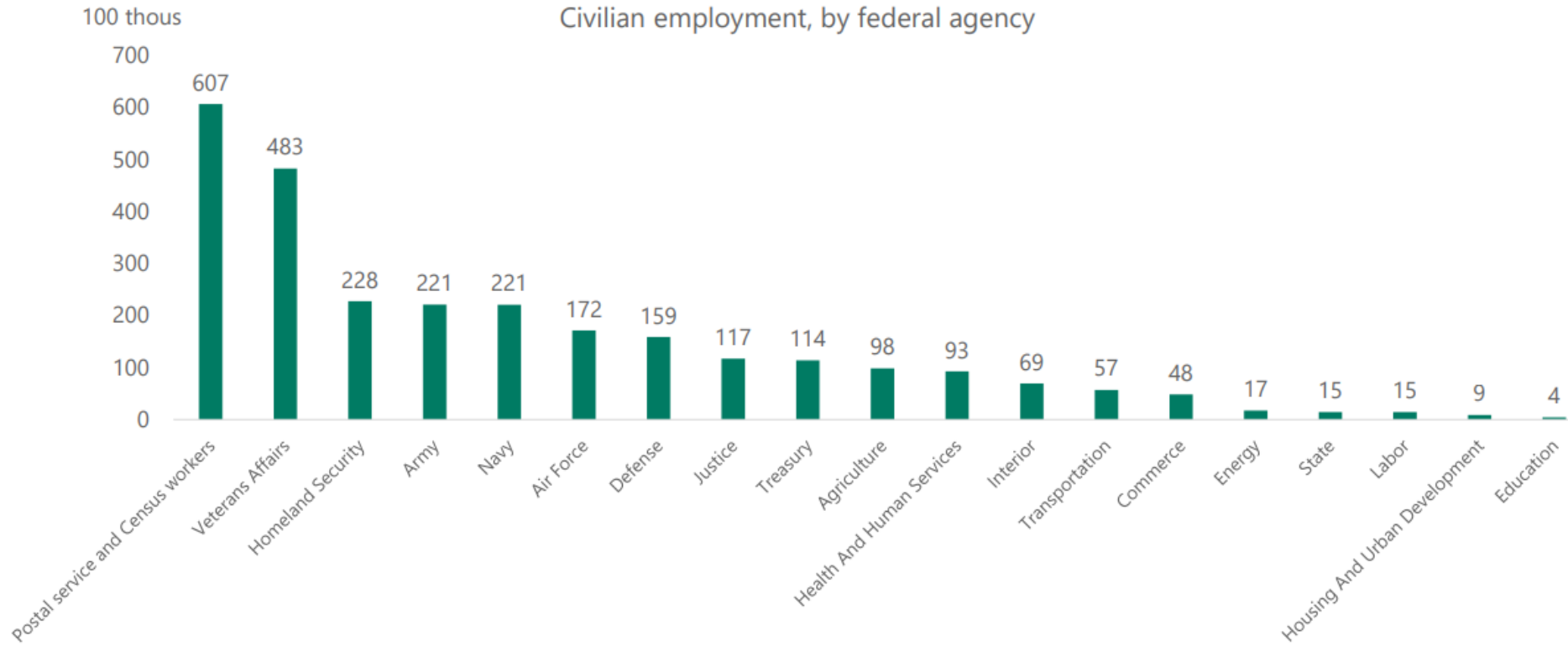
\$ billion, 12-month sum



Data as of July 2024.

Sources: US Treasury, Haver Analytics, Apollo Chief Economist

Federal Agency Employment

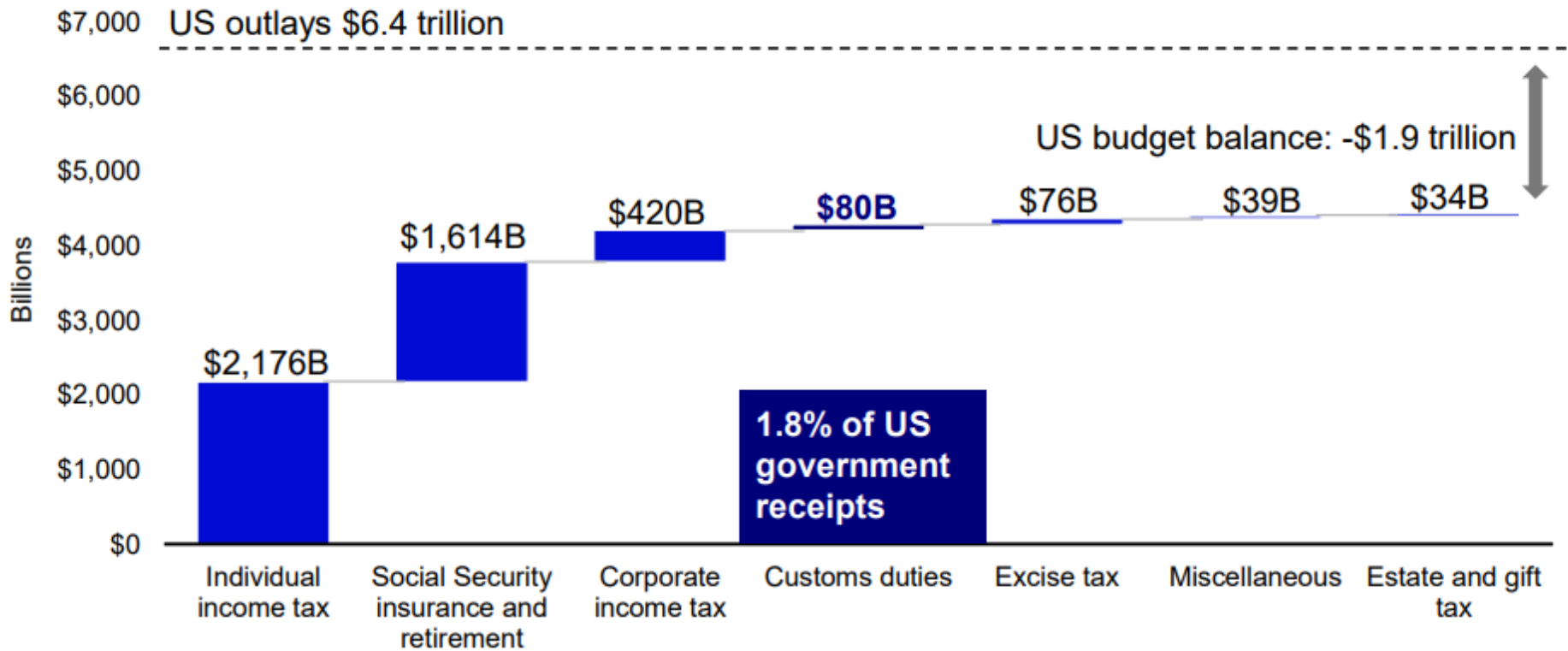


Source: Office of Personnel Management, BLS, Bloomberg, Apollo Chief Economist

Tariff Revenue and Budget Deficit



US government receipts by source (fiscal year 2023)



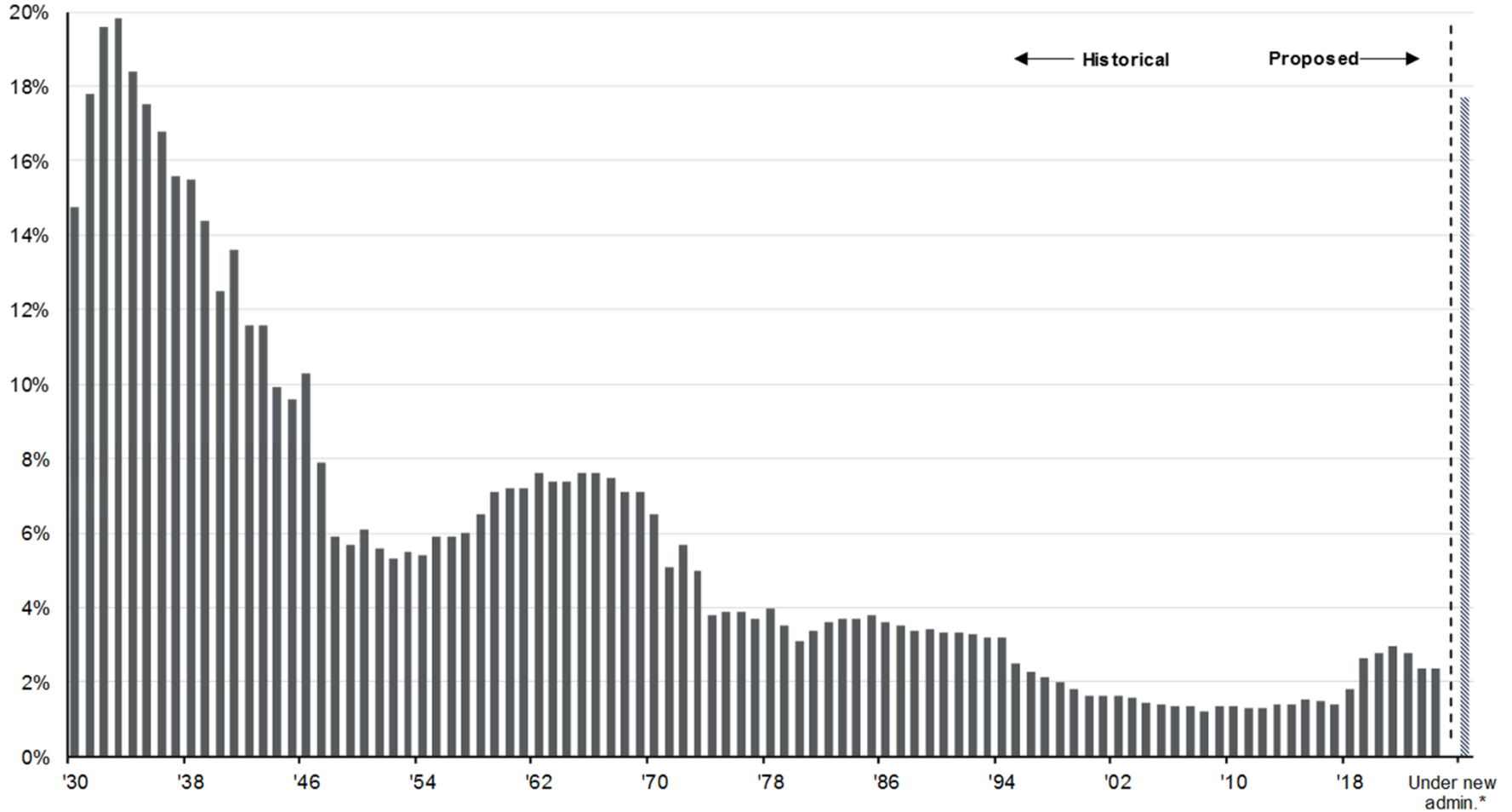
US Imports totaled roughly \$3.5-\$4 trillion in goods and services.

Tariff Revenue and Budget Deficit



Average tariff rate on U.S. goods imports for consumption

Duties collected / value of total goods imports for consumption



Source: Tax Foundation, United States International Trade Commission, U.S. Department of Commerce, J.P. Morgan Asset Management.

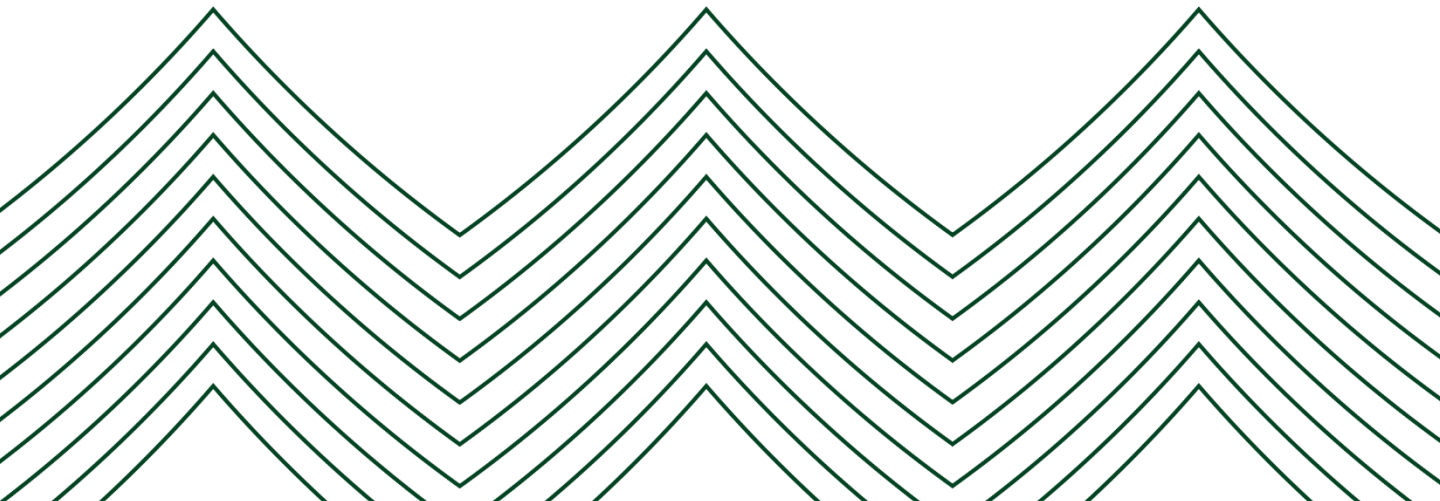
Drivers of Economic Growth



$$\begin{aligned} & \text{Consumer} && + \\ + & \text{Investment} && + \\ + & \text{Government} && - \\ + & \text{Exports} - \text{Imports} && \\ = & \text{Growth} && \end{aligned}$$



Trade



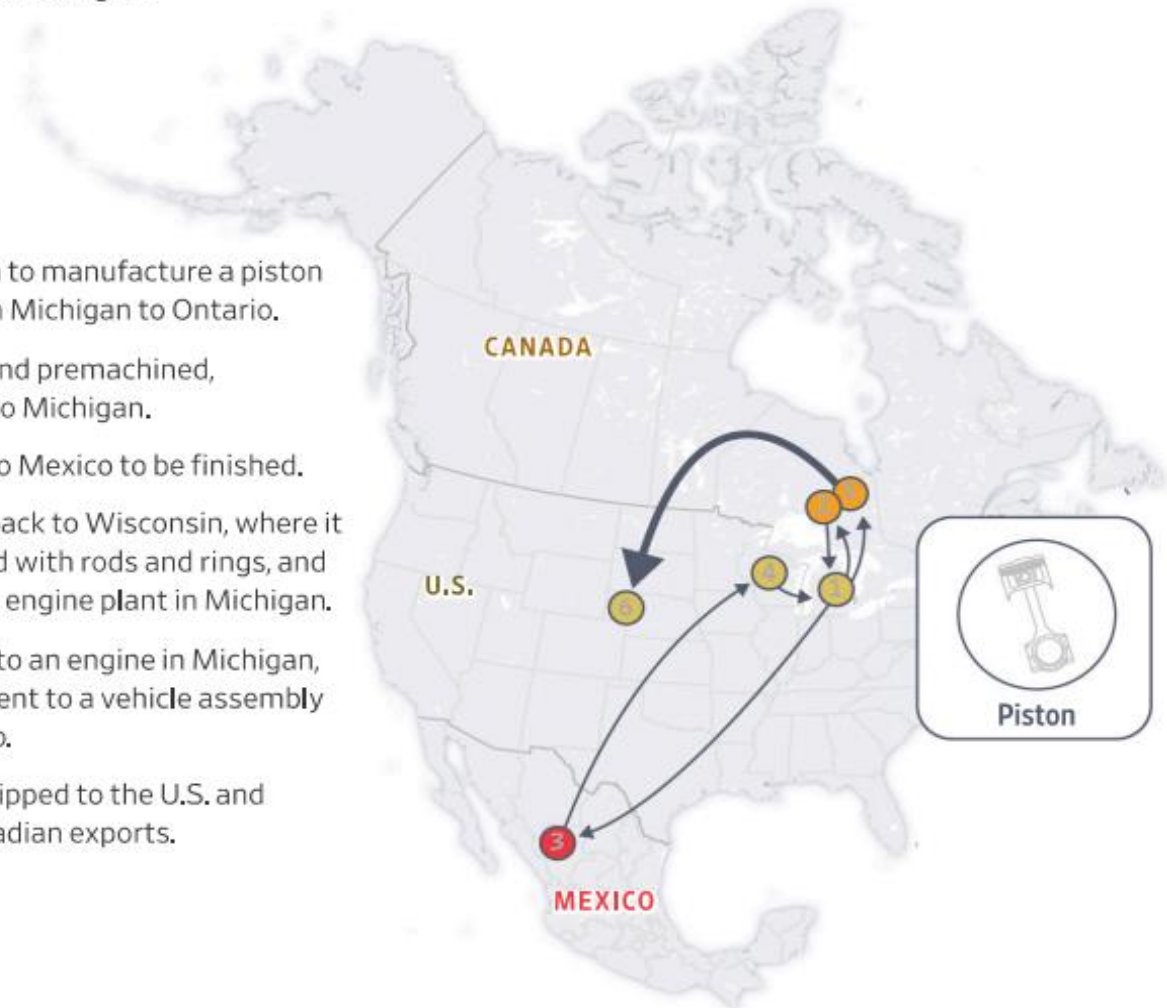
Trade is Complex



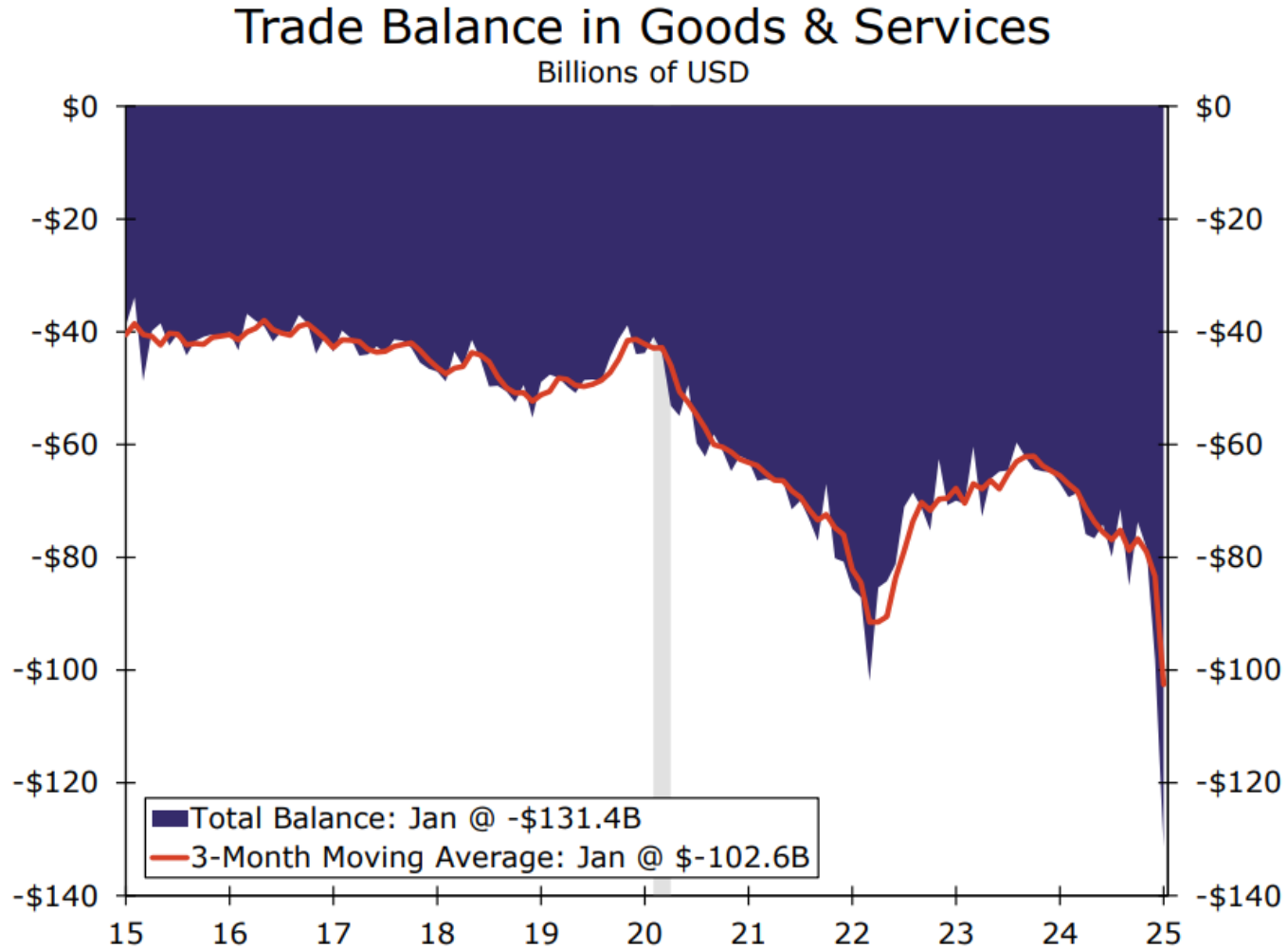
North America produced roughly 16 million car parts in 2023.

Number of border crossings: 6

- 1 Raw aluminum to manufacture a piston is shipped from Michigan to Ontario.
- 2 Piston is cast and premachined, and then sent to Michigan.
- 3 Piston is sent to Mexico to be finished.
- 4 Piston is sent back to Wisconsin, where it gets assembled with rods and rings, and then sent to an engine plant in Michigan.
- 5 Piston is put into an engine in Michigan, which is then sent to a vehicle assembly plant in Ontario.
- 6 Vehicles are shipped to the U.S. and Mexico as Canadian exports.



Trade Balance Significantly Declined in January

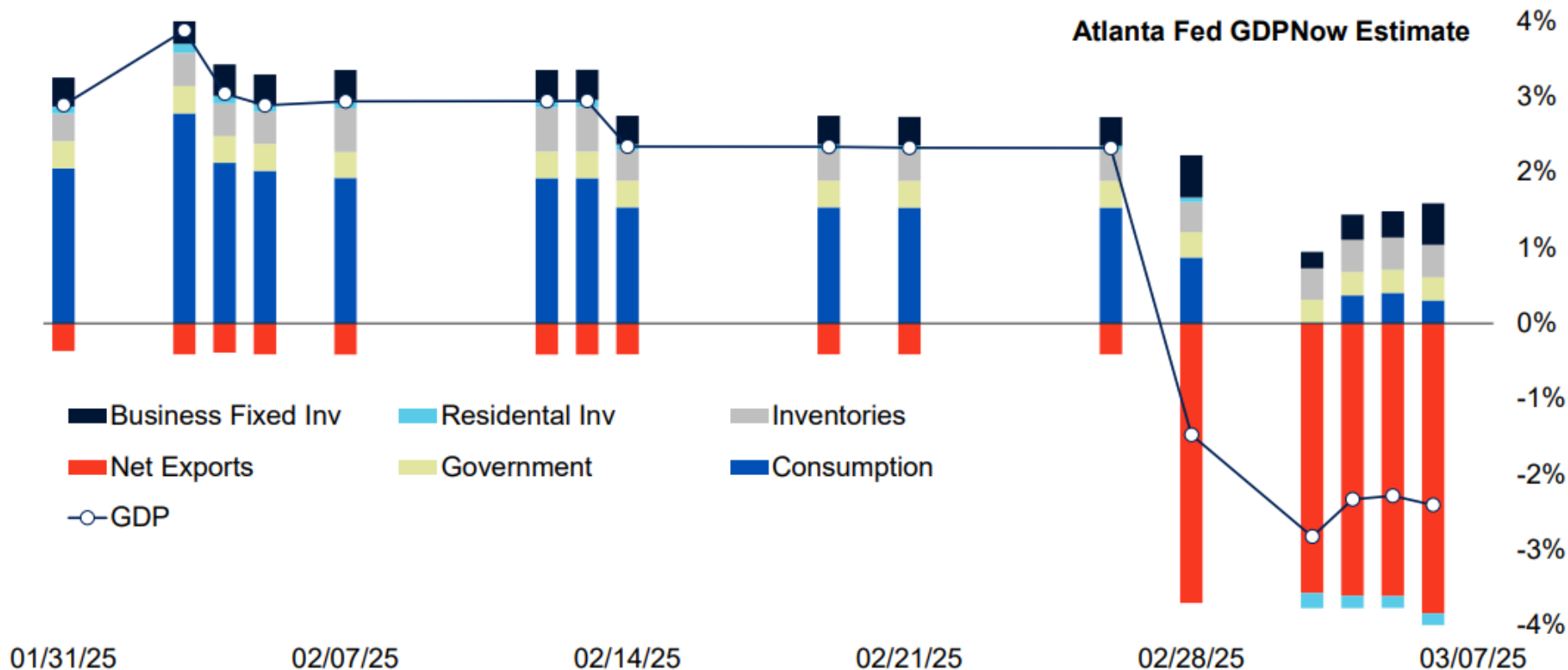


Source: U.S. Department of Commerce and Wells Fargo Economics

Net Exports Show Significant Drag on Economic Growth



Import surge not yet reflected in inventories.



Drivers of Economic Growth



	Consumer	+
+	Investment	+
+	Government	-
+	Exports – Imports	?
=	Growth	

Drivers of Economic Growth

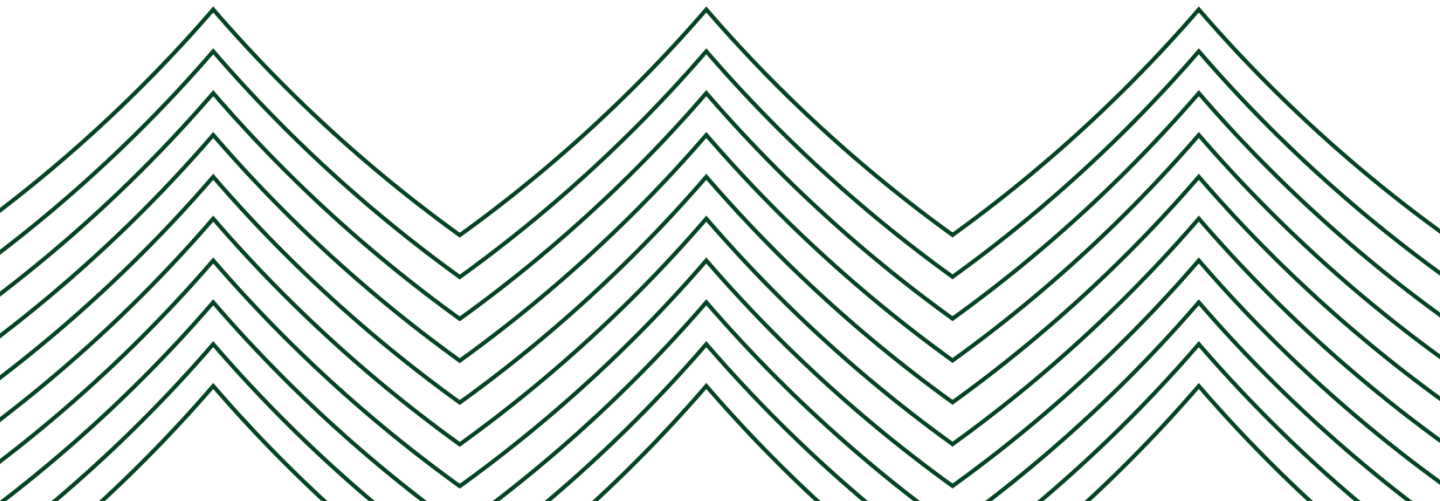


- Consumer** +
- + **Investment** +
- + **Government** -
- + **Exports – Imports** ?
- = **Growth** +

	2000-2024		4Q24
	Share of nominal GDP	Avg. contribution	
Consumption	68%	1.7%	2.8%
Bus. fixed investment	13%	0.4%	-0.5%
Gov't spending	19%	0.2%	0.5%
Residential	4%	0.0%	0.2%
Net exports	-4%	-0.1%	0.1%
Chg. in private inventories	-	0.0%	-0.8%
Real GDP	100%	2.3%	2.4%



Inflation

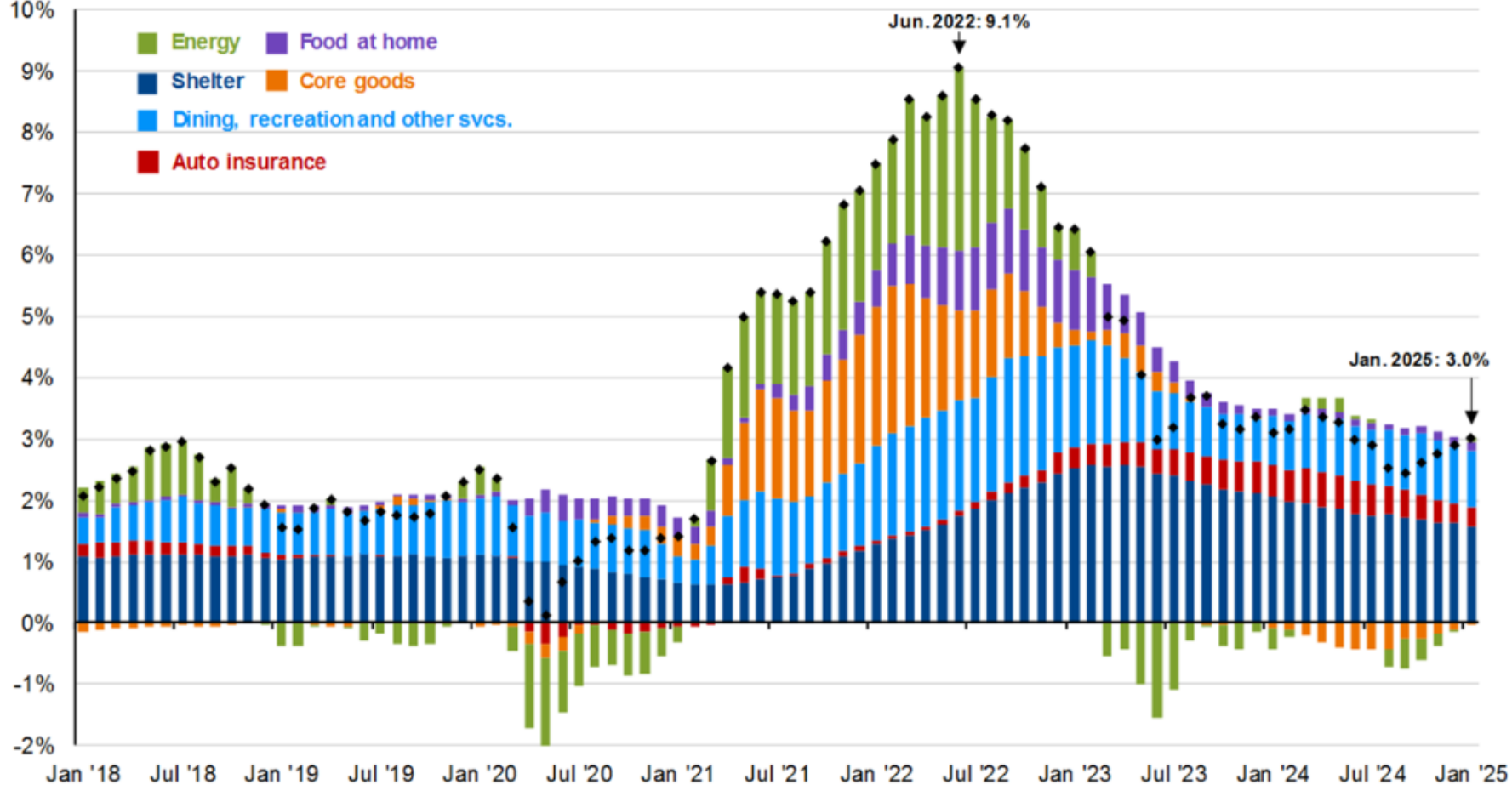


Shelter has been a consistent recent contributor to inflation



Contributors to headline CPI inflation

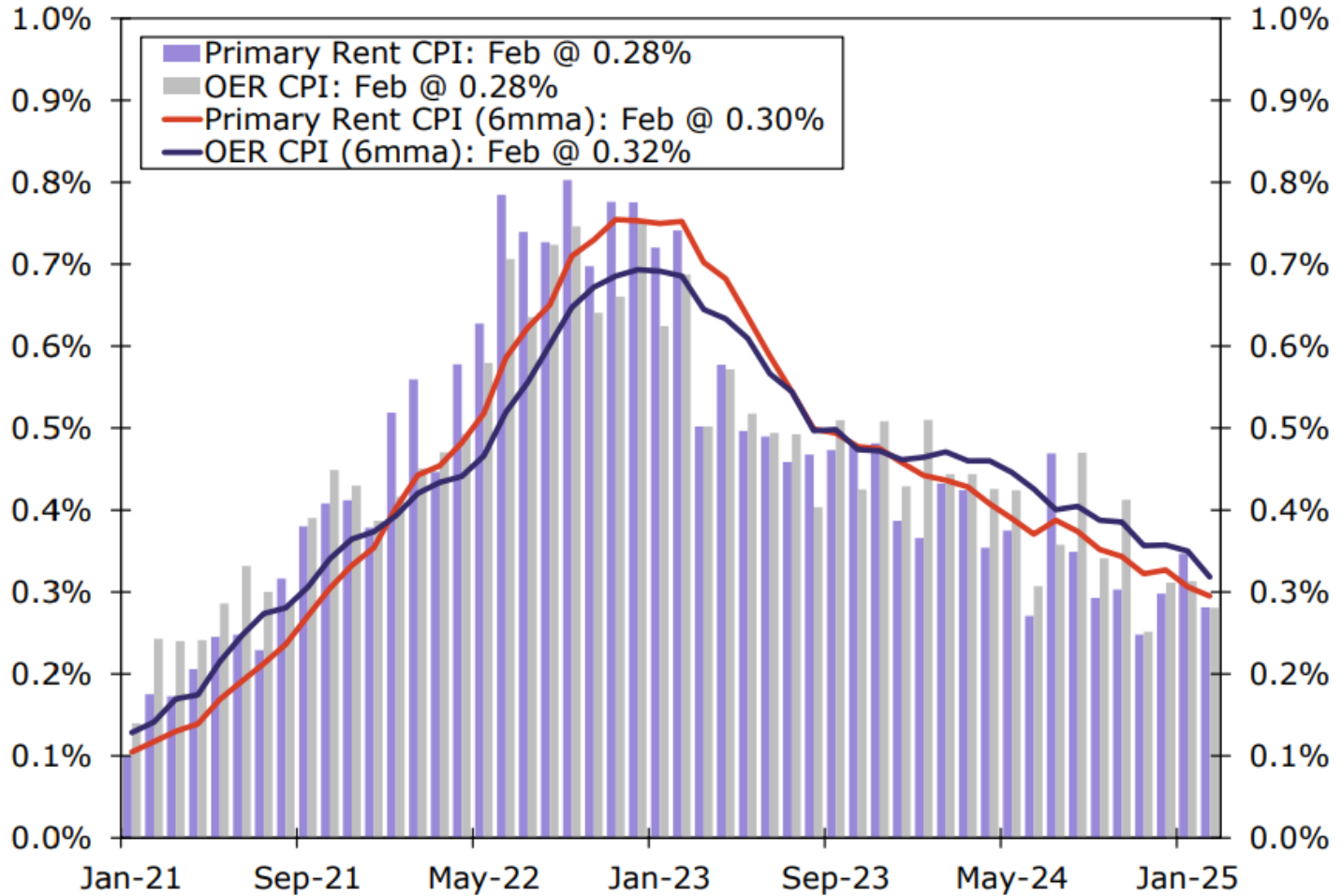
Contribution to y/y % change in CPI, non-seasonally adjusted



Source: BLS, FactSet, J.P. Morgan Asset Management



CPI Primary Shelter Month-over-Month Percent Change

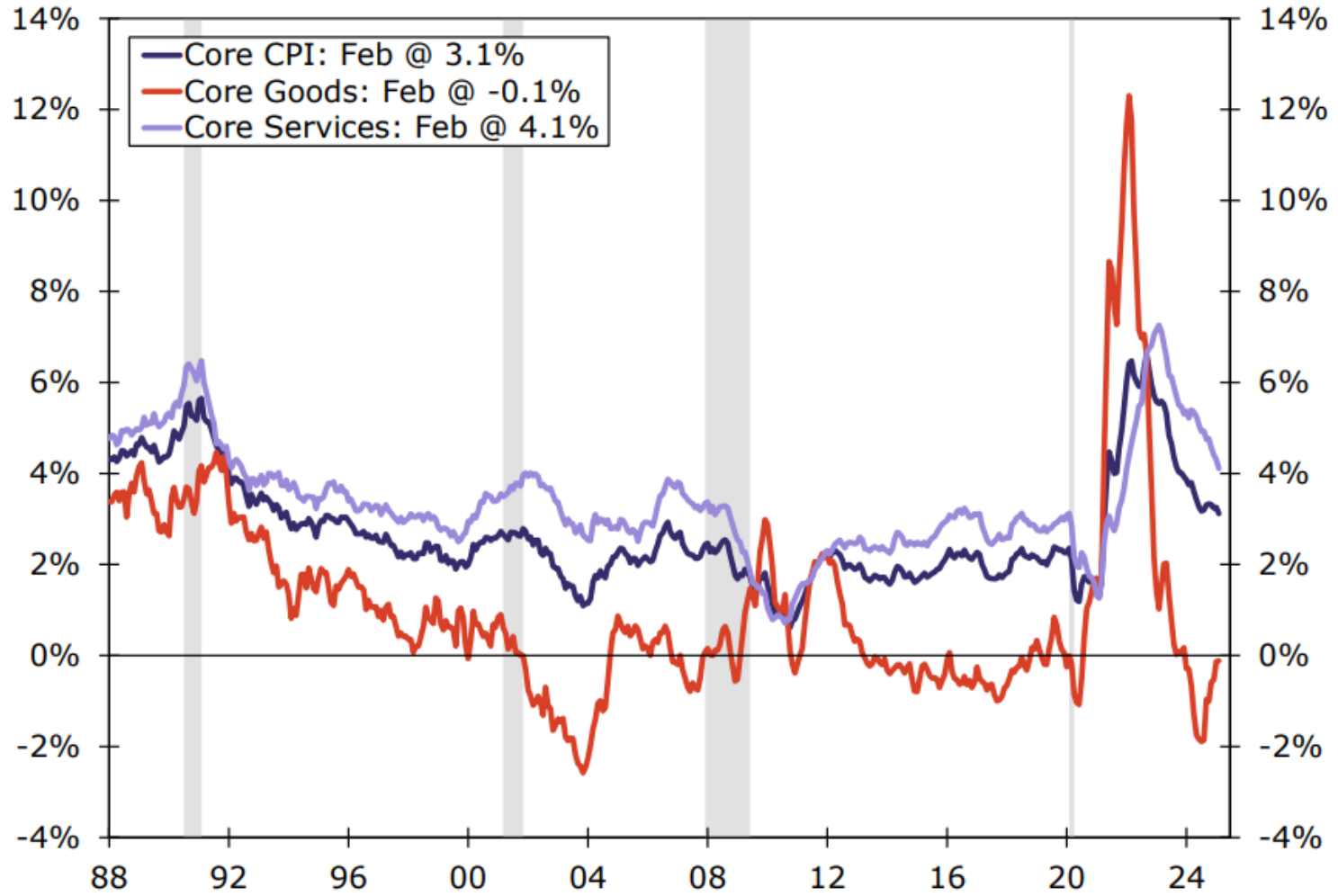


Source: U.S. Department of Labor and Wells Fargo Economics



Core Goods vs. Services CPI

Year-over-Year Percent Change

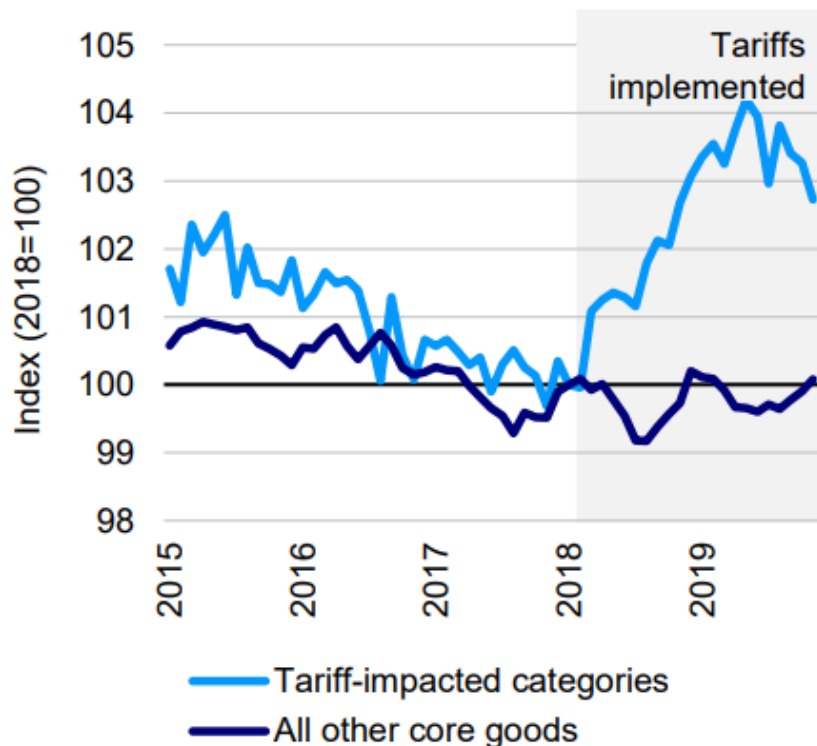


Source: U.S. Department of Labor and Wells Fargo Economics

Will Tariffs Be Inflationary?

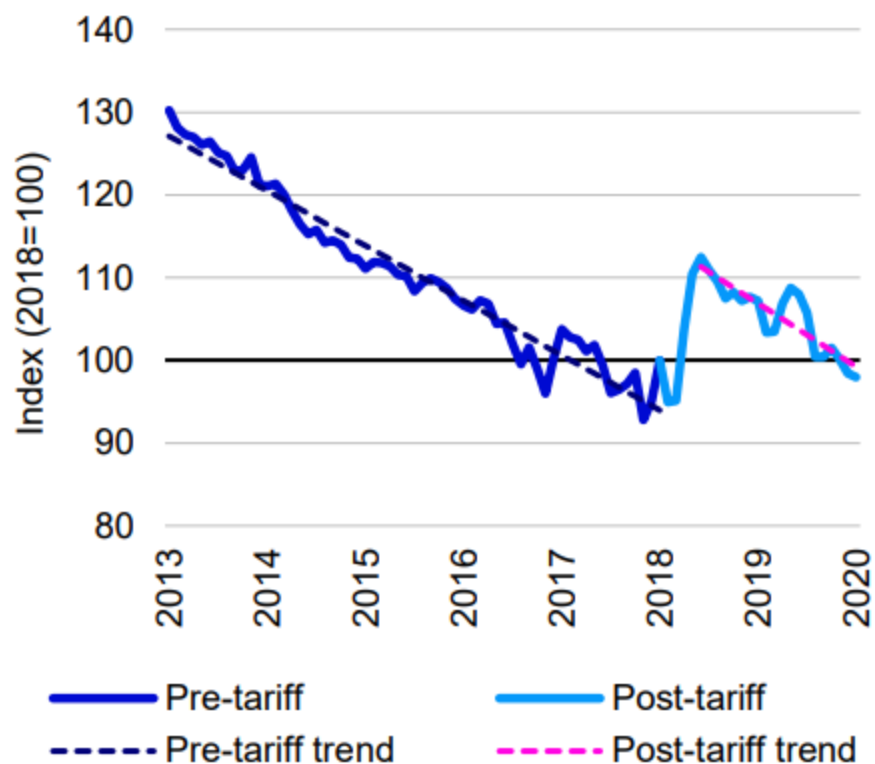


US Consumer Price Index: Tariff-impacted categories vs. all other core goods



Below Chart: CPI for Laundry Equipment increased at first but declined in subsequent months.

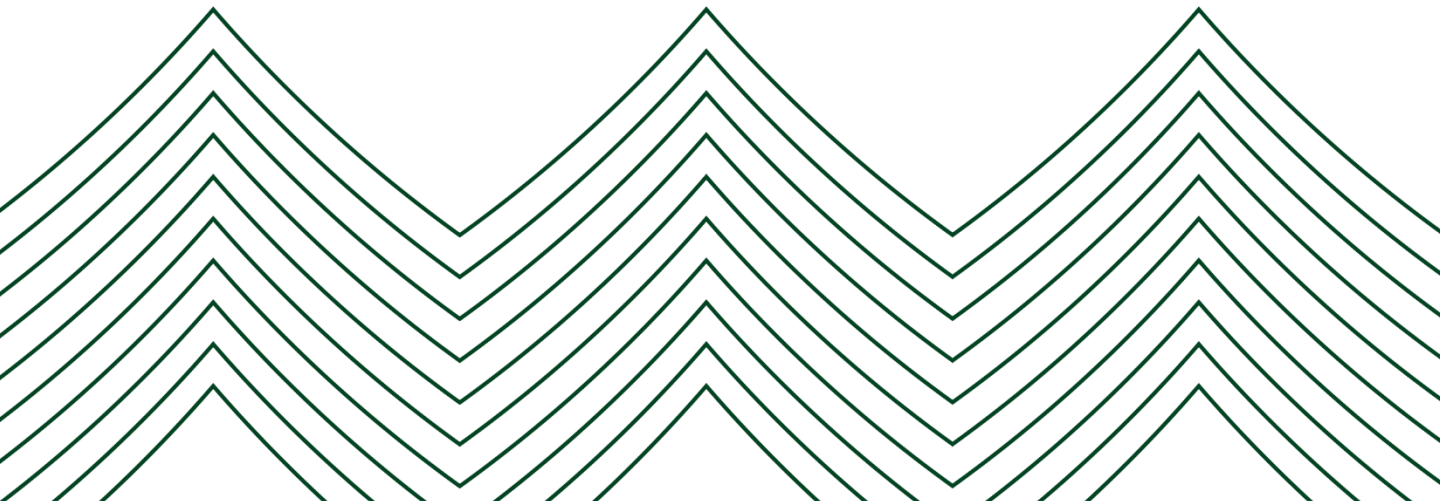
US Consumer Price Index Example: Laundry equipment



Above Chart: In 2018, there was a clear price increase in tariff-impacted categories (E.g., appliances). The price of all other core goods was not affected.



Productivity & Earnings



Stronger Productivity

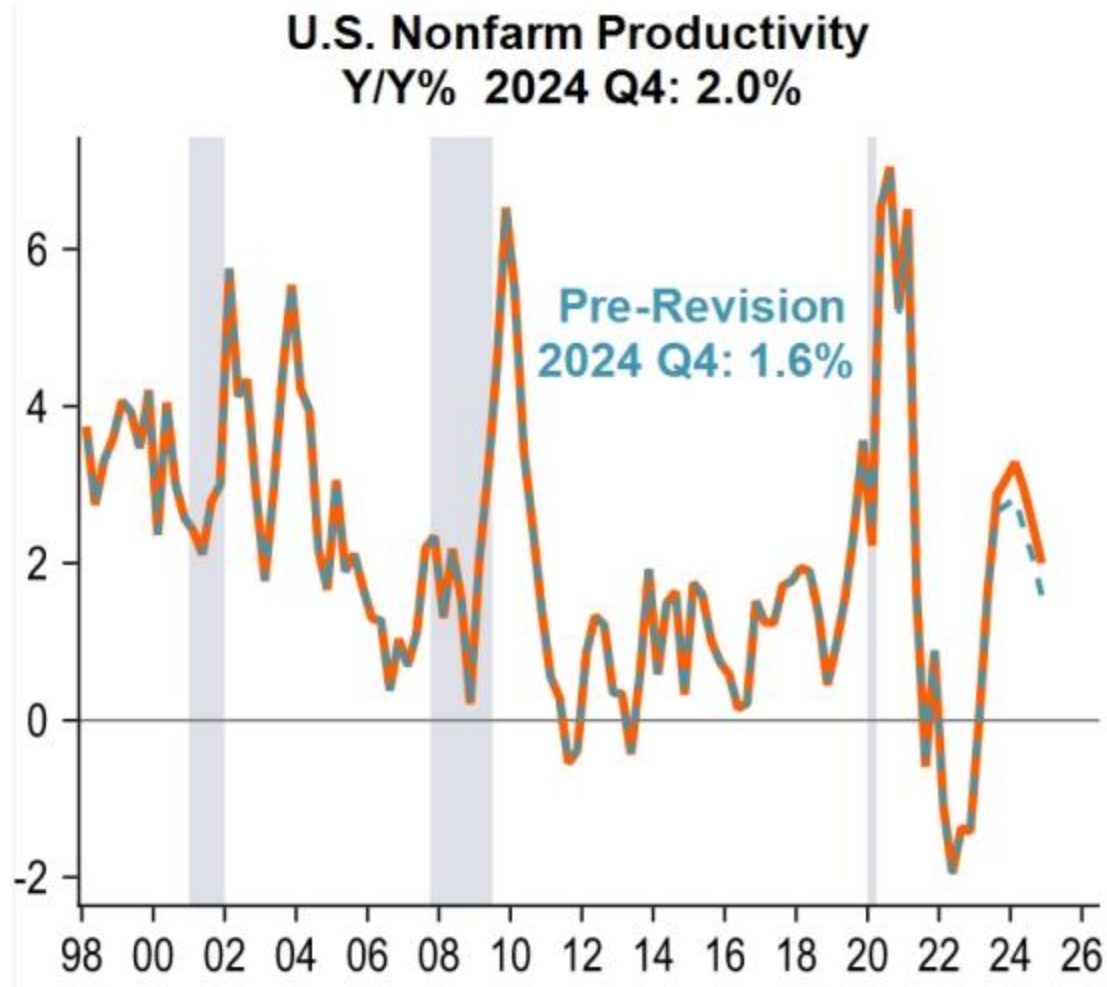
Produce More With The Same Resources



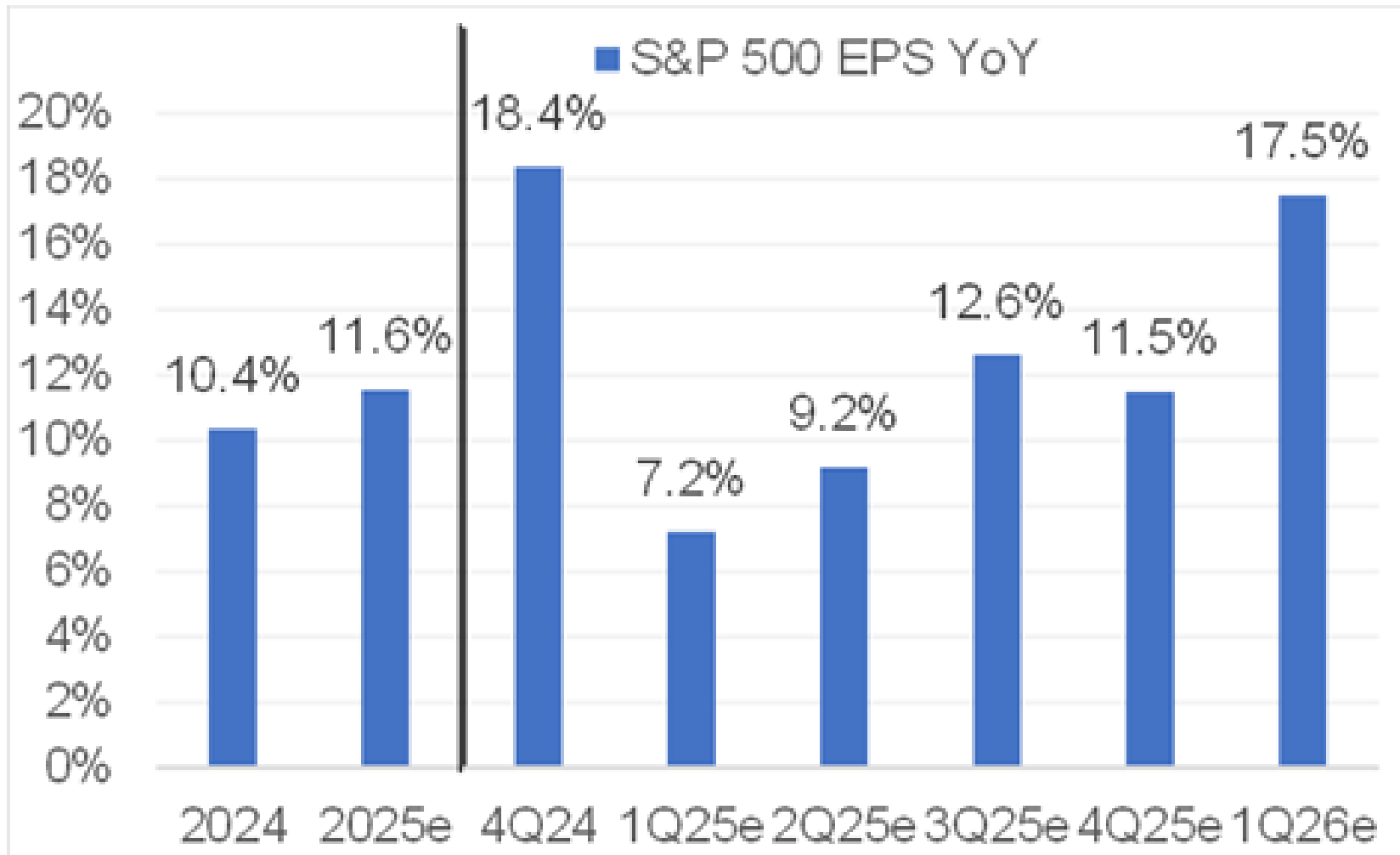


Stronger Productivity

Though Slower to end 2024, Productivity Grew at a 2% year-over-year rate, which is higher than pre-COVID trend



Earnings



Macro Economics Review



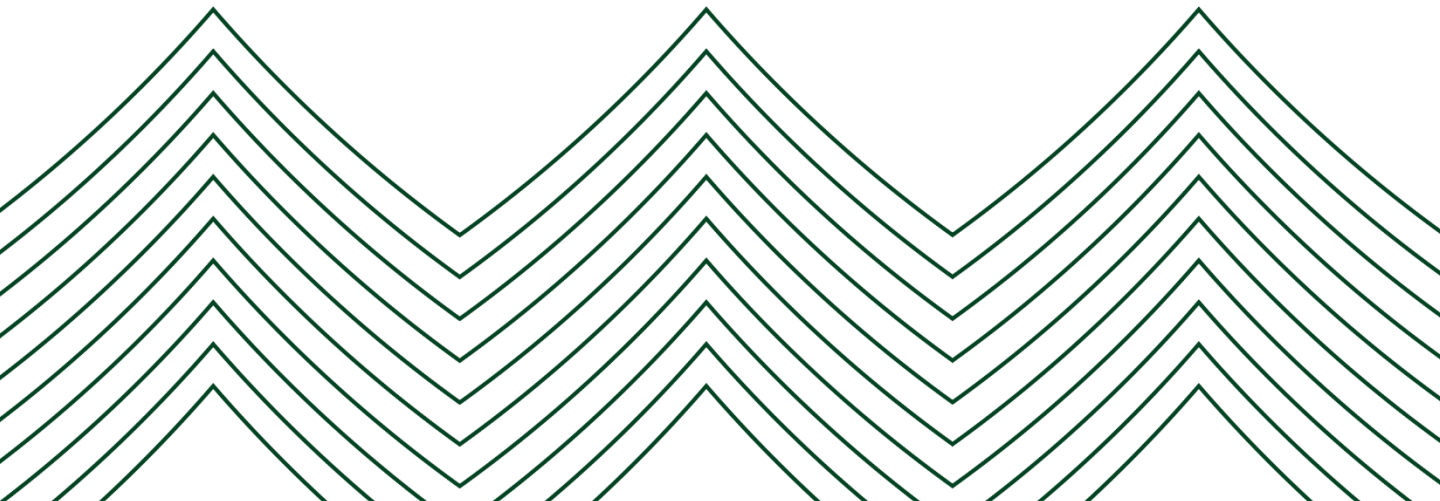
Aggregate Demand, Gross Domestic Product (GDP) & their drivers

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Economic Activity * Productivity → Earnings → Financial Markets



Volatility Is the Toll We Pay

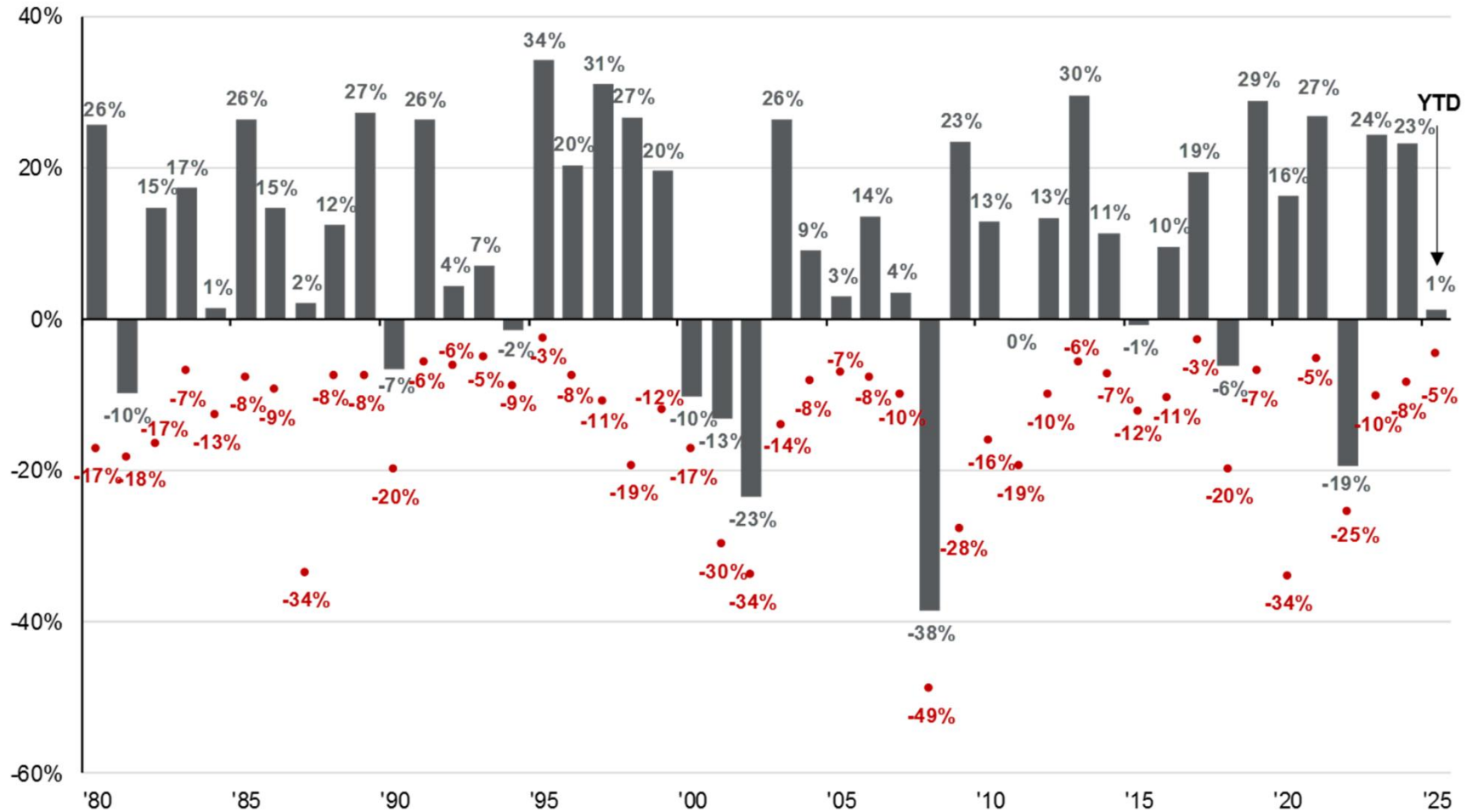


Stocks Returns Vary Greatly



S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.1%, annual returns were positive in 34 of 45 years

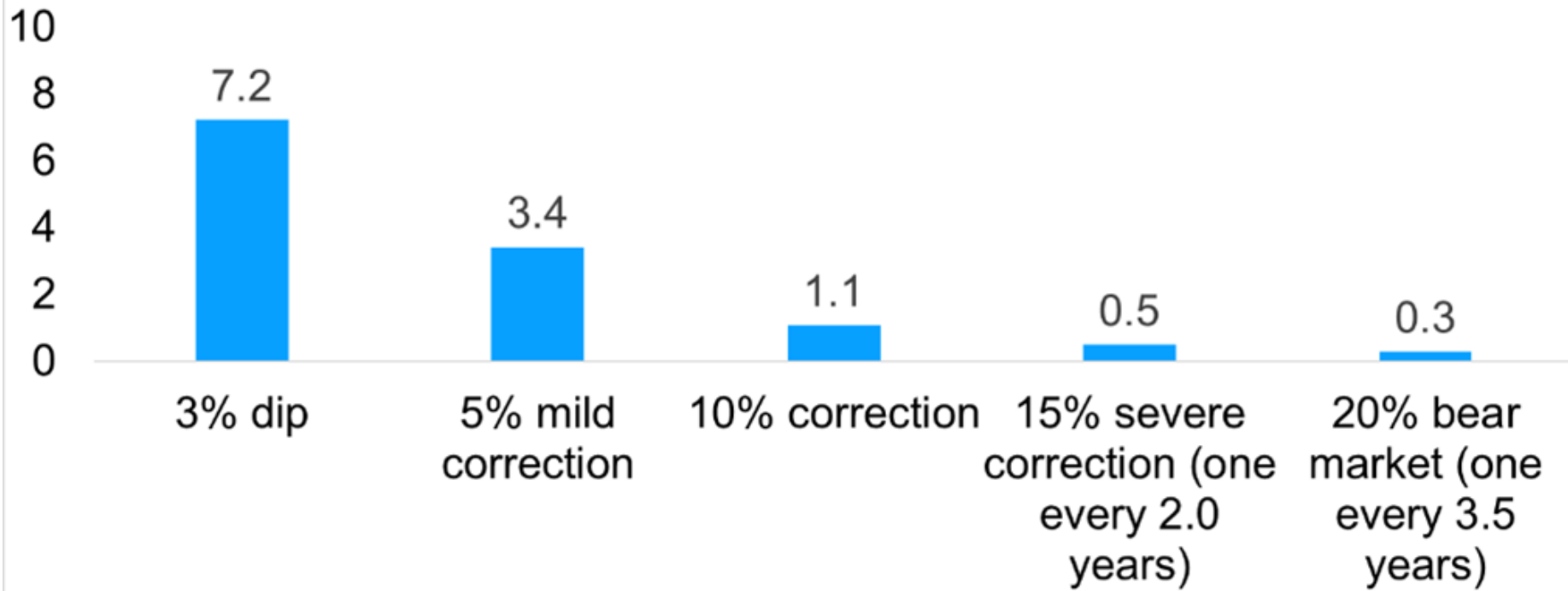


History of Stock Market Declines



Volatility Is The Toll We Pay To Invest

S&P 500 Various Declines Per Year (1928 - 2024)



Source: Carson Investment Research, Ned Davis Research

@ryandetrick

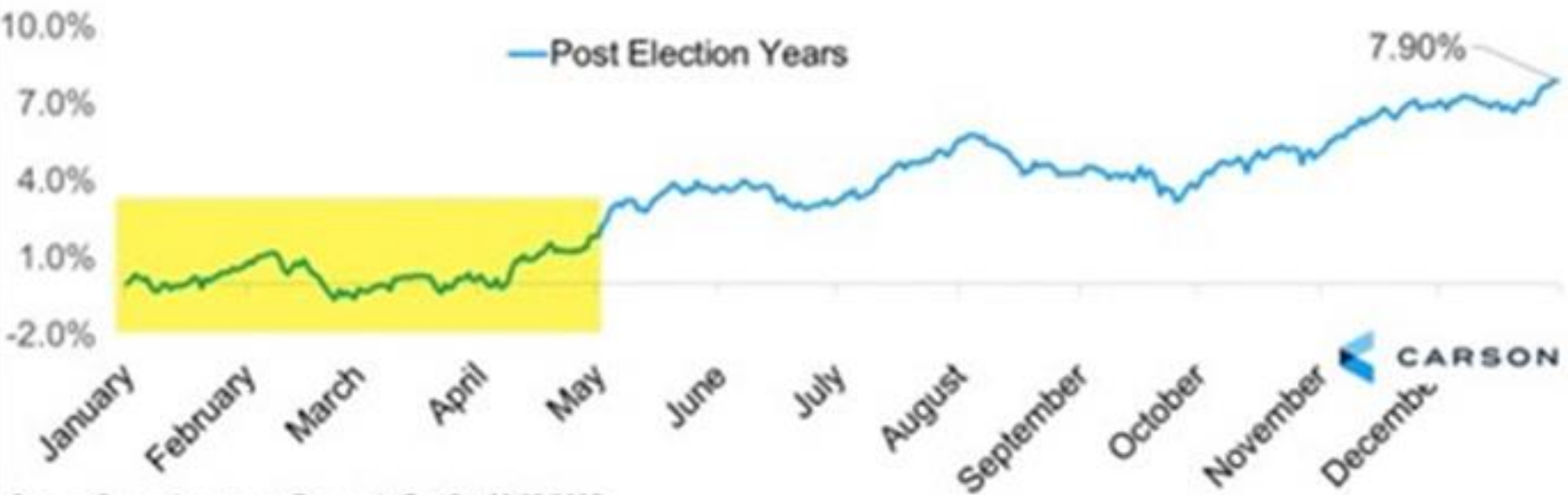


Post-Election Years Tend to be Weak



Chop/Frustration Is Normal Early In A Post-Election Year

Average Year For The S&P 500 During A Post-Election Year (1950 - 2024)



Source: Carson Investment Research, FactSet 03/02/2025
@ryandetrick



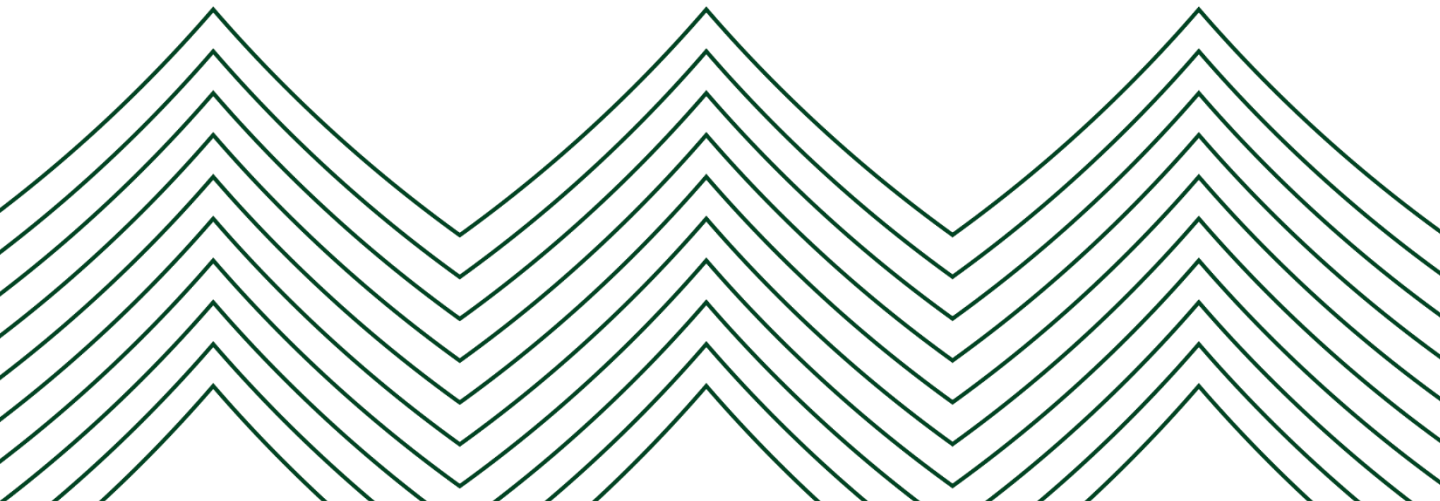
Summary



- Uncertainty is in the driver's seat in 2025
- Aggregate Demand appears supportive but warrants close attention
- Inflation, and impacts from tariffs will bear close scrutiny
- Productivity is above pre-COVID trends and earnings still appear solid
- Volatility is the Toll We Pay to Invest



Questions & Answers





Investment, Securities and Insurance Products:

NOT FDIC INSURED	NOT BANK GUARANTEED	MAY LOSE VALUE	NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY	NOT A DEPOSIT
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