

Simona Mocuta

Chief Economist,
Global Macro and Research
Page 2

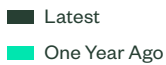
Figure 1
Global Growth Forecasts Steady



Simona Mocuta

Chief Economist,
Global Macro and Research
Page 7

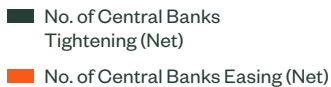
Figure 2
Disinflation Taking Hold in EM



Jerry Holly

Senior Portfolio Manager,
Investment Solutions Group
Page 9

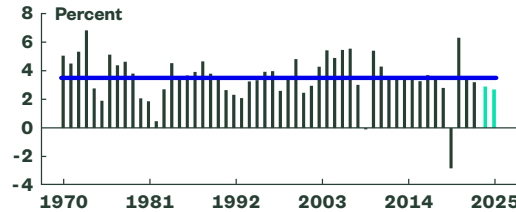
Figure 3
Central Banks Move Towards Easing



Market Forecasts

Q3 2024

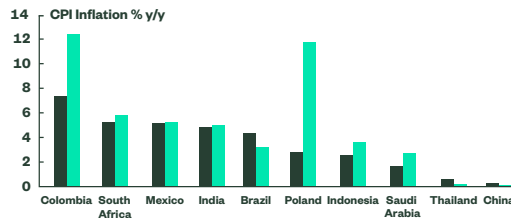
Global Economic Outlook



Source: International Monetary Fund, Macrobond, State Street Global Advisors, as at June 30, 2024. The above forecast is an estimate based on certain assumptions and analysis made by the State Street Global Advisors Economics Team. There is no guarantee that the estimates will be achieved.

- Global performance remains moderate but steady, with broadening signs of a bottoming out in manufacturing, improvement in Europe, and visible deceleration in the United States.
- Political and geopolitical risks loom large. Elections in Mexico, India, and the European Union all brought surprising outcomes, highlighting the limitations of forecasting exercises and the potential for rising volatility ahead of the US elections in November.

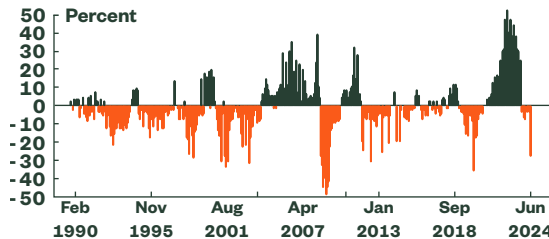
Emerging Markets Outlook



Sources: Macrobond, State Street Global Advisors Economics. Data as of 07/10/2024.

- Disinflation is now in full force among former laggards in the emerging markets universe.
- Until the monetary easing impetus broadens across the globe, the improvement in EM growth will likely be subdued.

Global Capital Markets



Source: Wolfe Research, as of June 30, 2024.

- Market regimes and risk-taking sentiment may be influenced by comparisons with preceding time periods. The relatively easy “comps” that contributed to a favorable risk-taking environment in 2023 and early 2024 look set to become more challenging — and may mean less aggressive equity allocations will be warranted.
- For bond markets, the situation is more mixed with seemingly easier comparisons to be drawn with respect to the monetary policy backdrop — but uncertain impacts from fiscal policy are factors as voters go to the polls in the United States and Europe.

Global Economic Outlook

Simona Mocuta

Chief Economist, Global Macro and Research

The global economy has progressed largely as expected since our last quarterly forecasts update. Growth is expected to slow from 3.2% in 2023 to 2.9% in 2024 and 2.7% in 2025.

Global performance remains moderate but steady, with broadening signs of a bottoming out in manufacturing, improvement in Europe (UK as well as the eurozone), and visible deceleration in the United States. Chinese economic growth has stabilized but remains constrained amid weak consumer sentiment and ongoing challenges in the property sector. Consequently, there has been no change to the global growth forecast this quarter, and only modest adjustments to individual countries.

The inflation story is also progressing roughly as anticipated, with the caveat that the disinflation process had paused in the US earlier this year while continuing to unfold elsewhere. We view this as a temporary phenomenon driven largely by peculiarities around shelter inflation calculations in the US and a delayed catch-up cycle in insurance (home and auto). US inflationary pressures are increasingly narrow and, given the normalizing labor market and anchored inflation expectations, the disinflation process is set to resume. The much-improved May inflation report supports this interpretation. For now, the US Federal Reserve has remained on the sidelines even as other developed market central banks (most recently, the ECB and Bank of Canada) have started lowering interest rates. Nevertheless, we see the Fed joining the easing cycle later in the year, with the pace of cuts quickening in 2025. The “different speeds, same direction” mantra we applied to global disinflation in 2023 applies to global policy easing in 2024–25.

Political and geopolitical risks loom large. Elections in Mexico, India, and the European Union all brought surprising outcomes, highlighting the limitations of forecasting exercises. As we gear up for US elections in November, investors are bound to grapple with rising volatility. Risks to all forecasts are elevated and two-sided.

United States: Taking Chances

Back in March, while celebrating the ongoing resilience of the US economy, we wondered whether we were approaching a “too much of a good thing” situation. We didn’t think we were there just yet, but developments since then have heightened our concerns. Simply put, we worry that the Fed stays too high for too long and in the process endangers the soft landing. These worries intensified with the release of highly favorable (i.e., soft) May inflation data that coincided with a new FOMC dot plot showing a single rate cut this year (versus three cuts projected in March). Admittedly, the June dot plot was probably obsolete even before its release because the May inflation data came out the very morning of the Fed meeting, and was not fully reflected in the SEP (summary of economic projections). We suspect that if the data were available further in advance, the median dot would have shown two rather than just one cut. As it is, only two dots

separate the two scenarios, leaving the door wide open for a dovish reversion down the line. However, the bigger question is this: are even two 2024 rate cuts enough to confidently preserve the soft landing? It is hard to say, but risks to the outlook are increasingly to the downside in our view, especially with the unemployment rate up to 4.1% in June.

Since the mid-March Fed meeting, Q1 GDP was revised lower to 1.3% SAAR (seasonally adjusted annualized) and the unemployment rate has ticked up another tenth to 4.0%, the highest since January 2022. Core CPI inflation has eased four tenths to 3.4% year-on-year (y/y), and core PCE inflation eased two tenths to 2.6% y/y in May. Oil prices are little changed. Wage inflation, as measured by average hourly earnings, moderated two tenths to 4.1% y/y, and Q1 unit labor costs growth was revised down to 0.9% y/y. Meanwhile, job openings have declined by about 700k.

None of the growth/labor market indicators are weak — arguably, they are still fairly strong — and most inflation indicators are not yet fully back to where we need them to be. However, both sets of metrics tell a consistent story of a normalizing, rebalancing economy, where inflationary pressures are receding. Whatever narrow pockets of elevated inflation remain (car insurance, shelter), they are largely rate-insensitive and backward looking; reversion lower in those segments is a matter of time more so than of interest rates. Meanwhile, rising consumer delinquencies signal that the pain of high interest rates is becoming more acute despite the fact that standard measures suggest broad financial conditions remain benign. That pain likely continues to intensify even after the Fed starts easing as the share of newer, higher-rate mortgages continues to increase.

Fed Finally Set To Move?

We had long argued that the Fed should begin calibrating rates lower starting this summer. In March, we argued for 100-125 basis points (bps) worth of cuts this year, which was then further scaled back to 75-100 bps in our midyear Global Market Outlook. Based on incoming data, we'd certainly welcome 100 bps worth of cuts, mindful as we are that policy works with long lags. However, with only four meetings left in 2024, a dot plot now signaling a single cut, and the elections calendar complicating matters, there is a good chance that 50 bps worth of cuts may be the most we get before 2025. To us, that's dangerously and unnecessarily little. Admittedly, we have a lower growth forecast than the Federal Open Market Committee (FOMC) and project a slightly higher unemployment rate. That is perhaps the core distinction between us and the FOMC: it seems to be less about different opinions around what the Fed should do, but rather different opinions about what the economy will do. We believe it to be less robust than the Fed thinks it is, but only time will tell. In any case, to the extent the rate cuts prove minimal this year, more of them get pushed into next year; we see the Fed Funds rate reaching the 3.5% range by end-2025.

Eurozone: Green Shoots

In our previous quarterly update, we wrote that “the combination of steady employment, strong nominal wage gains, and material disinflation, speaks to a delayed yet powerful boost to real consumer incomes in 2024. It is quite likely that a conservative predisposition — especially among German consumers — will limit the positive impact of this on consumer spending. But we doubt it would entirely offset it. So, we still look for above consensus growth of 0.8% this year (down a tenth from December), followed by 1.3% in 2025.”

A better-than-expected start to 2024 warrants that more optimistic view. Real GDP grew 0.3% quarter-on-quarter (q/q) in Q1, and we reverted to the December forecast of 0.9% full year growth for 2024. This happens to be exactly in line with the latest European Central Bank (ECB) staff forecasts, yet still a little better than the market consensus. Uncertainty around election outcomes — particularly in France — introduces a new wrinkle into the story, but support from pent-up demand should ensure this modest degree of acceleration (the economy grew 0.5% in 2023) is achievable.

On sifting through the GDP details, the most troubling story is the drop in investment, which ties back to the loss of international competitiveness following Russia's invasion of Ukraine. The high cost of capital has also been weighing on investment spending. As a result, real fixed investment plunged 1.5% q/q in Q1, the worst performance since the onset of Covid. Indeed, it declined on a year-on-year basis for the first time since Q1 2021. Evidently, a turnaround here is needed for sustained future growth, and a reduction in borrowing costs would help.

On the monetary policy front, the ECB delivered on its strongly telegraphed intention with a 25 basis point Interest rate cut that left the main refinancing operations rate, the marginal lending facility rate, and the deposit facility rate at 4.25%, 4.50% and 3.75%, respectively. Like the Bank of Canada — which also began easing — the ECB positioned this as reducing the degree of restriction. There is now room to do so because since the last hike in September 2023, “inflation has fallen by more than 2.5 percentage points and the inflation outlook has improved markedly. Underlying inflation has also eased, reinforcing the signs that price pressures have weakened, and inflation expectations have declined at all horizons.” However, given elevated wage growth and the fact that more progress still needs to be made on inflation, there was no indication on the timing of the next cut. We anticipate a pause in July and then two more cuts before year-end.

United Kingdom: Slowly Gathering Momentum

The UK economy appears set to gain traction this year, with high inflation and slow economic growth being expected to fade out. We have maintained our 0.8% real GDP growth forecast for 2024 and expect 1.5% growth in 2025, given that business investment, household consumption, and net trade should pick up, supported by broadening disinflation, monetary easing, and lower energy prices.

Following a mild technical recession in the second half of 2023, Q1 GDP growth slightly overshot expectations, rising by 0.6% q/q, with net trade and household and government consumption the major contributors to growth. However, the economy is still weak with only 0.2% y/y growth and the underlying data has been quite volatile. Even so, we expect growth to have improved in the second quarter with lower inflation and rising real wages. Given monetary easing is on the way, business investment and housing activity should recover, albeit at a slower pace. We also expect to see an improvement in terms of trade amid lower energy prices. Meanwhile, consumers turned more optimistic as concerns on living costs subsided, with the UK GFK consumer confidence index reaching a 29-month high in May. We anticipate that the improvement in consumer sentiment should boost retail sales in the next few months. The UK purchasing managers' indices (PMI) for May also signaled a further expansion of UK business activity, with manufacturing coming back strongly to expansion territory, accompanied by sustained but slower services sector growth.

Easing Inflation Bolsters Rate Cut Hopes

Headline inflation in the UK eased sharply to 2.3% y/y in April, albeit slightly higher than both market and Bank of England (BoE) expectations. Lower prices for energy, food, and core goods all contributed to the deceleration. But services inflation remains high, at 5.9% y/y in April, on the back of strong wage growth. As April data is associated with one-off annual price adjustments, we suspect that the upward surprise in inflation data mostly represented noise, rather than a true signal on inflation. Importantly, after a steep rise in April, the latest UK PMI readings suggest that wage pressures eased in May, particularly in the services sector. With disinflation is gathering pace (except in services), and additional declines in utility prices are expected to begin in July, headline CPI fell to 2% in May from 2.3% in April and we anticipate it will fluctuate around the BoE's 2% target for the rest of the year.

The latest labor data revealed further loosening in the job market, albeit at a marginal pace. The unemployment rate for the three months to April inched up one-tenth to 4.4%, the highest level since September 2021. Labor demand continued easing as headline vacancies in the three months to March fell for the 23rd consecutive period to 904k and the vacancy-to-unemployment ratio has nearly normalized back to pre-pandemic levels.¹ Headline wage growth came in above consensus, something largely attributable to strong public sector earnings increases. Private sector wage growth edged down one-tenth to 5.8% y/y. We expect wage pressures to ease further in the coming months, though at a slow pace as labor market slack is growing.

Persistently high services inflation took June off the table for the first Bank of England (BoE) rate cut. We retain our base case of an August start to the easing cycle. We have scaled back our 2024 rate cut expectations, mostly due to the global repricing of rates following hawkish-leaning data, rather than the data itself. That said, broadening signs of labor market cooling mean we still look for at least two cuts this year (possibly three).

Japan: Calm Before the Storm

Three things have gotten clearer in the last three months in Japan:

- 1 Growth impulse remains weak.
- 2 The weaker yen benefits exporters and inflation.
- 3 Positive interest rates might benefit the economy.

We now see the Bank of Japan (BoJ) hiking in July rather than September on potentially higher inflation and fewer cuts by the US Fed. We expect the policy rate to be raised to 0.50% by December 2024, and 1.0% by the end of next year. The Bank will also announce the details of the reduction in its monthly JGB buying in July, making it one of the most important meetings in the BoJ's history.

We have downgraded GDP growth to average just 0.5% y/y in 2024, before picking up to 1.2% in 2025. Private capex essentially remains as the key growth driver; we expect it to reach its all-time high in 2025 as labor saving and production enhancing capex continues to rise amid structural labor shortages. Perhaps the key driver may shift from software investments over time. Furthermore, net exports may normalize in H2 on resumption of production facilities that were hit in Q1.

Household consumption will likely remain weak this year and average just 0.4% y/y, because of strong price effects. Nominally, consumption has been quite robust — since Q4 2021 its growth averaged 3.9% y/y, more than three times the pre-pandemic average (1.2% since 1990). Excluding Q1 (0.4%), it is even higher at 4.3%! However, when measured with price effects, the difference is a meager 0.2 ppts — or 0.9% avg. from 1990 vs. 1.1% from Q4 2021). The implicit price deflator for household consumption has declined to 2.5% y/y, after peaking at 3.8% y/y in Q4 2022. However, we do not expect this disinflation to accelerate amid resuming price pressures. Hence, real consumption may remain weak this year, which goes a long way to explaining why the BoJ has to act decisively on inflation.

Scope for Bank of Japan
to Act

We expect headline CPI to rise to 3.0% y/y in H2 this year, and then decline gradually to 2.0% over the next year. The yen's current level and expiring energy subsidies are expected to add price pressures from May. Headline CPI rose 2.8% y/y in May, three-tenths higher than in April. Wholesale inflation increased to a nine-month high of 2.4% y/y. We expect demand in general to improve, driven by real wages. All these dynamics lead us to upgrade headline CPI to average 2.4% y/y in 2024 and 2.0% next year.

The BoJ treaded cautiously at their June meeting and did not deliver on the widely expected reduction in JGB purchases. Instead, the Bank chose to deliver the details in the July meeting after consulting a "Bond Market Group". During the press conference, Governor Ueda said that the reduction in purchases will be 'considerable', and laid out that the Bank will offer guidance for two years, a development which is welcome. We think the 10-year Japanese Government Bond (JGB) yield will be anchored between 1.0%-1.5% over the long run. The yen may remain on the weaker side for longer, after the US Fed projected as few as one rate cut this year, as opposed to the three cuts projected in March.

All this means that the BoJ may have to frontload a rate hike in July, should the two interim CPI reports feature upside surprises, as we expect they could. We see the policy rate being lifted once more this year, before reaching a terminal rate of 1.0% in 2025.

Emerging Markets Outlook

Simona Mocuta

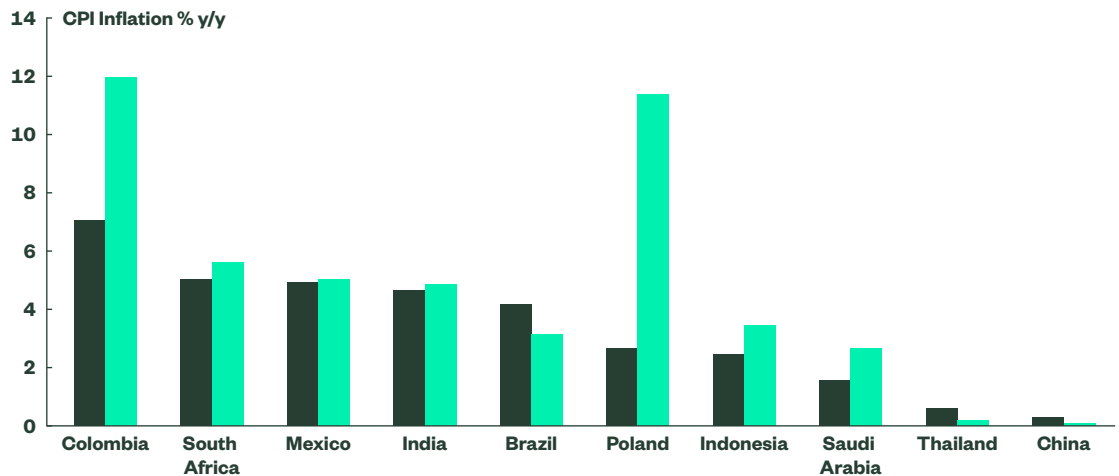
Chief Economist, Global Macro and Policy Research

Disinflation is now in full force among former laggards in the emerging markets universe. Until the monetary easing impetus broadens across the globe, the improvement in EM economic growth will likely be subdued.

The second quarter felt like there was a veritable whirlwind in global markets. But most of that volatility did not originate in emerging markets. It had much more to do with dramatic reassessments of the inflation picture in the United States and the associated Fed policy path. Meanwhile, just as we had been highlighting for some time, the disinflationary process continued across emerging markets, with substantial progress in former laggards (e.g., Poland, Colombia) and some leveling off in countries where price pressures began moderating earlier (Figure 4). China and Thailand both exited deflation, but China continues to trail the EM group with respect to inflationary pressures. In this case, it is more than just the normalization process, it is a story of stunted demand that is likely to persist for a while.

Figure 4
Consumer Price Inflation in Key Emerging Markets

■ Latest
■ One Year Ago

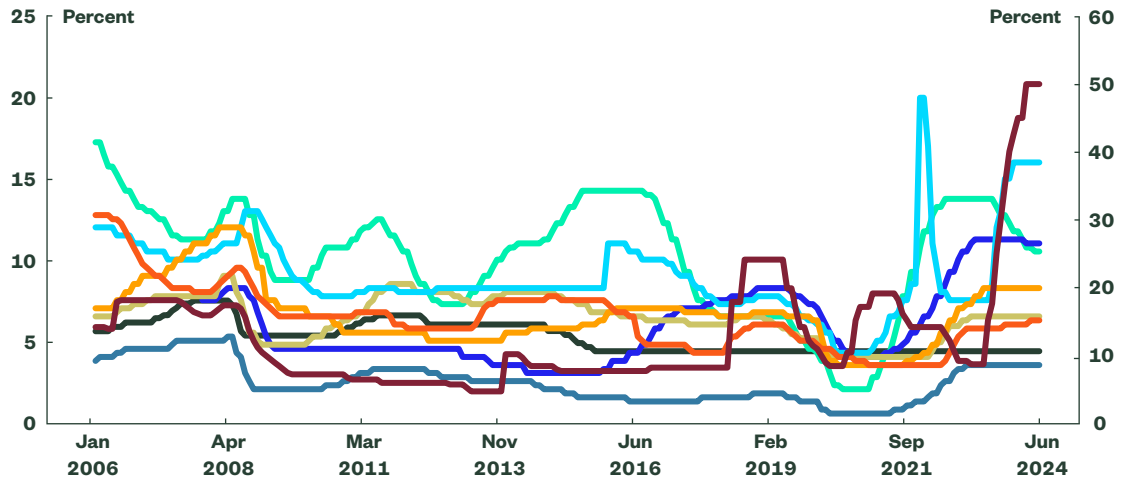


Source: Macrobond, State Street Global Advisors Economics. Data as of 07/10/2024.

In response to easing inflation worries, the rate cutting cycle (which had already been more advanced among EM countries) broadened and intensified. And yet, perhaps more than any other indicator, the spread in interest rate levels and also divergent recent direction, are clear illustrations as to why we cannot truly speak of emerging markets as a cohesive unit (Figure 5).

Figure 5
**Policy Interest Rates in
 Emerging Markets**

- China
- Brazil
- Mexico
- India
- Russia
- South Africa
- South Korea
- Turkey (RHS)
- Indonesia



Source: Macrobond, State Street Global Advisors Economics, PBoC, BCB, Banxico, RBI, CBRF, SARB, TCMB, BOK, BI, as of 07/10/2024.

In terms of growth dynamics, very little has changed in the past three months. In April, we stated that global manufacturing activity was trying to put in a bottom — three months later, it's not much further along in that process. It is perhaps fair to say that growth momentum has been stable in emerging markets in aggregate, whereas clear improvements in continental Europe and the UK have led to a more visible improvement in developed markets in aggregate, despite erosion in the US. The next few months are more likely to mark a “holding” period rather than a genuine break higher, especially as policy uncertainty remains elevated. Until the monetary easing impetus broadens more meaningfully, especially to encompass the US, there is no obvious near-term catalyst for either global or EM growth.

Global Capital Markets Outlook

Jerry Holly

Senior Portfolio Manager
Investment Solutions Group

Market regimes and risk-taking sentiment may be influenced by comparisons with preceding time periods. In that respect, the relatively easy “comps” that contributed to a favorable risk-taking environment in 2023 and early 2024 look set to become more challenging — and may mean less aggressive equity allocations will be warranted. For bond markets, the situation is more mixed with seemingly easier comparisons to be drawn with respect to the monetary policy backdrop — but uncertain impacts from fiscal policy are factors as voters go to the polls in the United States and Europe.

Tough Comps and Tougher Calls

Tough “comps”, or comparisons, arise in a variety of situations, market related or otherwise. When a company has a particularly strong quarter or year, we often hear how it is likely to create a tough comp in the future. In the second quarter of 2023, Nvidia more than doubled their year-on-year sales growth — one example of a tough comp to beat. Yet their most recent earnings report showed another doubling of revenue in even less than a year (showing that tough comps aren’t insurmountable). For anyone who has purchased a house, you’ll be aware that market comps play an important role in the real estate industry. And in commercial real estate, with transaction volumes down 51% in 2023, that creates an environment where it is hard to find comparative transactions to set appropriate cap rates — further challenging the market.² In the macroeconomic sphere, the idea of challenging comps contributed to irritable interest rates and sluggish stocks when elevated monthly US consumer price index (CPI) readings rolled over late in the summer of 2023, as concerns mounted that the steady progress in taming inflation was being interrupted, or worse.

As can be seen, difficult comps may create headwinds to financial progress but they can also contribute to upside surprises for company or market performance. As we look toward the second half of 2024 and evaluate the macro and political risks alongside our quantitative signals, the idea of “comps” as it pertains to broad asset class exposure is starting to take on some differentiated twists and turns. For instance, our sentiment gauges remain in a reasonable place for risk-taking, but because of the way in which volatility and other risk metrics have generally improved, it will inevitably be more challenging to land in a high-conviction pro-growth regime in the months ahead. Across global equity markets, the upward progress experienced over the better part of the last year and a half has made valuation comparisons more difficult, rendering

a greater degree of vulnerability should a negative catalyst emerge. But the opposite is probably true for global bond markets – where the prior period comparisons were overwhelmingly dominated by monetary policy tightening and the path forward appears to be one of easing, or at the very least characterized by a less restrictive rate environment.

For our tactical asset allocation investments, our positioning in broad terms is not dramatically different from where we stood one quarter ago. We continue to maintain a healthy overweight to global equity markets, an underweight to fixed income, and some select exposures to more defensive assets such as cash and gold. But, in contrast to our internal comps from earlier in the year when our expectations for equities were leaps and bounds ahead of bonds, that gap has narrowed meaningfully and it would not take an enormous shift in market sentiment to turn those positions around.

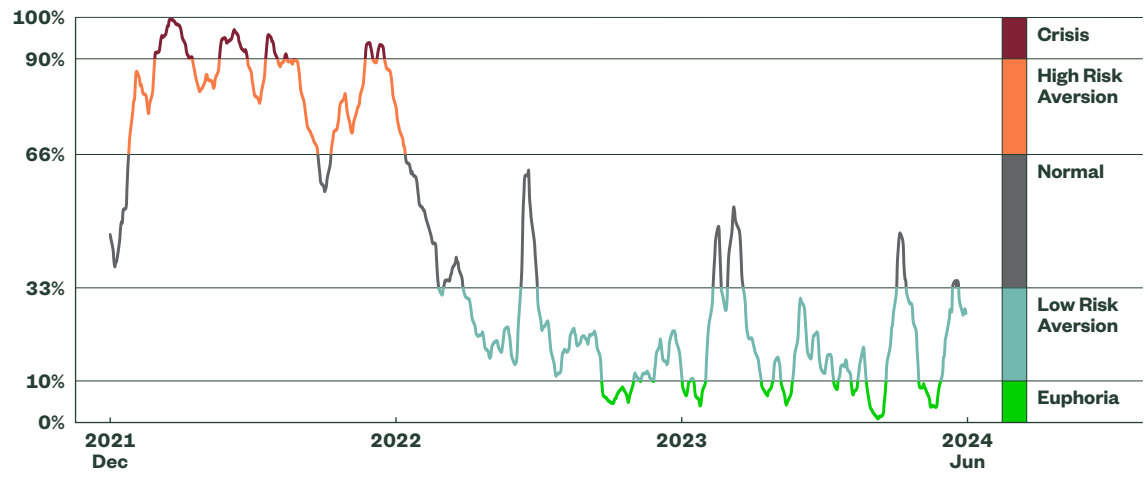
Risk Sentiment Faces More Challenging Comps

In the aftermath of the market turmoil of 2022, which was brought on by a combination of inflation, tightening policy, and rising long-term interest rates, measures of market volatility and risk have consistently eased. The VIX Index, which provides us with investor expectations of annualized volatility of the S&P 500, has sunk from over 36 down to around 12. A similar measure for the Eurostoxx has dropped even further — from nearly 50 in March 2022 to less than 20 today. Credit spreads for hard currency emerging market bonds have tightened by nearly 200 basis points while spreads for global high yield bonds have dropped by close to 300 basis points. And implied currency volatility is anywhere from 50-75% lower than the peak levels reached during 2022.

The good news is that those relatively benign risk indicators have been persistent and continue to portray levels of risk aversion that are not particularly worrisome. However, if we think about these same data points from a change perspective, then the picture becomes a little bit more skewed. In this sense, smaller perturbances in volatility may have the effect of pushing markets into a more threatening regime. In the language of volatility quant modeling, we're referring to a "vol of vol" approach — similar to the way our own Market Regime Indicator (MRI) operates.

This can at least partly be seen by looking at Figure 6. Our MRI spent most of 2022 in high risk aversion and crisis regimes — contributing to our relatively defensive positioning during that period. But as inflation peaked in mid-2022 and the worst of the inflation and rate fears subsided, the MRI quickly shifted gears into a more risk-seeking mode as the environment changed to normal, low risk aversion, and even euphoria at times. That transition towards a more risk-seeking stance was driven by both declining measures of volatility as well as the comparison to the elevated volatility that characterized most of 2022. As we position our portfolios for the remainder of 2024, we're cognizant that many risk indicators continue to hover around low absolute levels — but the "comps" are now tougher when compared to the 2023 experience. All told, the MRI is not pointing to any imminent risks, but it will inevitably be more difficult to persist at lower risk aversion regimes — which may mean less aggressive equity allocations going forward.

Figure 6
**Market Regime
 Indicator (Dec 2021–
 Jun 2024)**

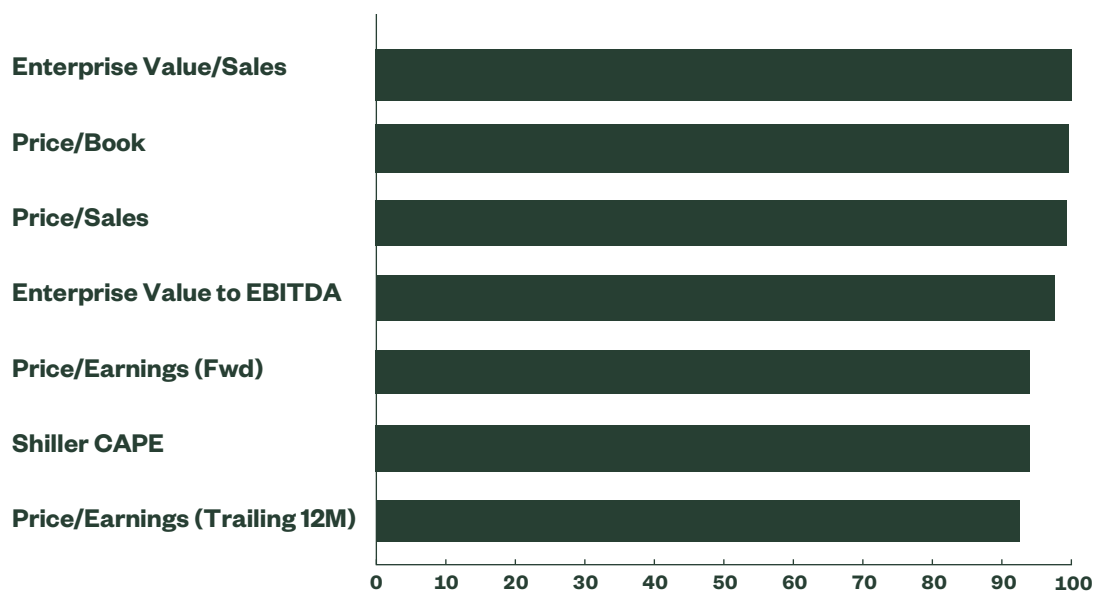


Source: Street Global Advisors Investment Solutions Group, as of June 30, 2024. The data displayed is not indicative of the past or future performance of any SSGA product. All data shown above does not represent the results of actual trading, and in fact, actual results could differ substantially, and there is the potential for loss as well as profit. The Market Regime Indicator (MRI) is a quantitative framework that attempts to identify the current market risk environment based on forward looking market indicators. We believe the factors used, equity implied volatility, currency pairs implied volatility and bond spreads, are good indicators of the current risk environment as they are responsive to real time market impacts and in theory should include all current and forward views of those markets. These factors are combined to create a single measure and used to identify one of five risk regimes: Euphoria, Low Risk, Normal, High Risk, and Crisis.

Equities: More of the Same

While risk regimes and sentiment are an important part of our evaluation of the cross-asset landscape, drivers that are more specifically focused on equity analytics continue to point to a good (but probably not great) environment for stocks. In terms of helpful comparisons, we can look at this from several perspectives. The first, and most obvious method within our quantitatively driven process, is that our expected returns across global equities remain positive but have been consistently falling over the past year. One of the primary drivers of the slow, but steady, deterioration has been the progressive ascent of a handful of valuation metrics. Figure 7 illustrates the relatively expensive valuation landscape for the S&P 500 Index. In contrast to valuations, which weigh on our short-term expectations directly, other efficiency-oriented factors like operating returns relative to total assets continue to prop up our equity outlook, but with less strength than in prior months and quarters — hence the lower (but still positive) return forecasts for equities. However, the flip side of somewhat steep valuations is that we have seen strong support for global equities from a momentum and earnings sentiment perspective. The improvement in earnings and sales expectations, in particular, helps to maintain an overall constructive view on equities — in absolute terms and relative to other assets like bonds or commodities.

Figure 7
**S&P 500 Companies
 Remain Relatively
 Expensive**



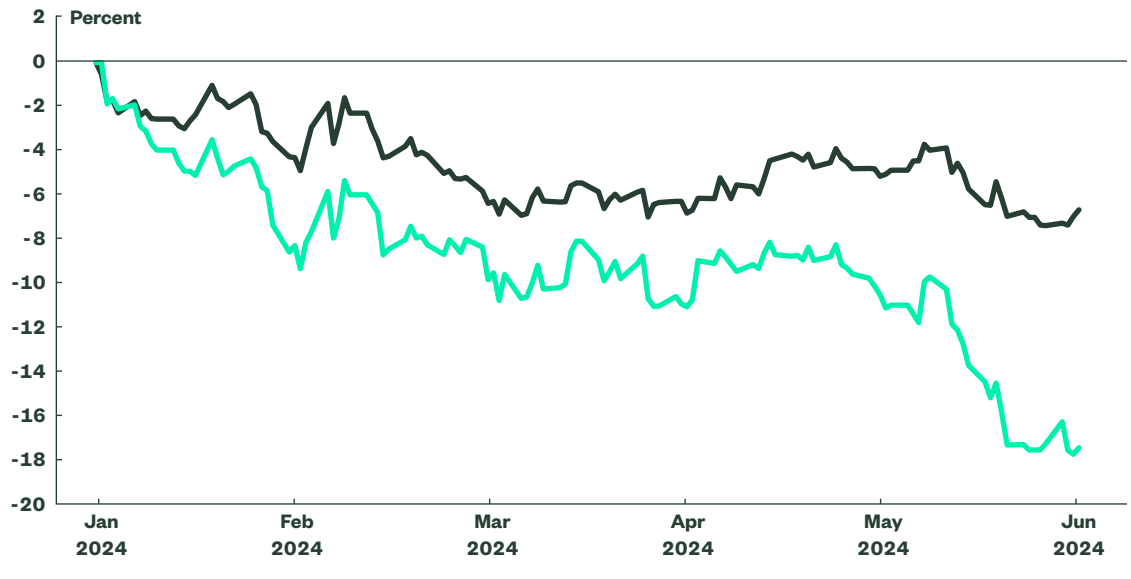
Source: State Street Global Advisors and FactSet. The historical data used to calculate percentiles spans December 2000 through June 2024.

Within our regional equity exposures, most of our allocations remain directionally similar to our positioning earlier in the year; with a healthy overweight to the United States versus other developed markets. It will probably come as no surprise that momentum indicators overwhelmingly support the US when compared to other stock markets, but the US also looks compelling across a host of other factors such as balance sheet quality, strong earnings sentiment, and a comparatively healthy economic backdrop. To be sure, the valuation of US stocks balances the enthusiasm to some degree but until we see more widespread improvements out of Europe or Pacific, valuations alone will not support higher allocations to those regions.

Elsewhere across regional and factor-oriented equity exposures, we retain an optimistic outlook on some of the higher beta pockets of the equity market — which might come as some surprise given the (modest) weakening we are seeing in our overall equity market expectations. Specifically, we continue to hold overweight allocations to emerging market equities and US small caps. In emerging markets, we increased our position as our model-based factors point to a favorable environment for EM even in the face of some turbulent geopolitical developments. Emerging markets sport healthy balance sheets, exhibit relatively attractive valuations (particularly in China where valuations have never been cheaper versus developed markets),³ and have positive and improving earnings sentiment — all of which are supportive of the asset class. For US small caps, by contrast, we remain overweight but our enthusiasm has dimmed a touch. In the last edition of Market Forecasts, we discussed how the relationship between small cap relative returns (vs. large cap) and interest rates was particularly negative in relation to history. And that relationship has incrementally started to ease. However, the total return of small versus large has not followed as small caps continue to meaningfully underperform. If interest rates aren't the primary culprit for the most recent bout of weakness, perhaps Figure 8 can shed some light on the drivers. Compared to an equal-weighted S&P 500 Index (black line), small caps have still underperformed but appear to be establishing some sort of base. When compared with the market cap weighted S&P 500 Index (green line) however, the relative weakness is stark and stabilization less clear. Going forward, attractive valuations continue to represent the most prominent advantage for the asset class, but with interest rates set to ease and earnings and sales sentiment holding up, we continue to think small caps can turn around.

Figure 8
**Small Cap
 Relative Performance
 (Jan–Jun 2024)**

■ S&P Small Cap 600 vs.
 S&P 500 Equal Weighted
 ■ S&P Small Cap 600 vs.
 S&P 500 (Market Cap)



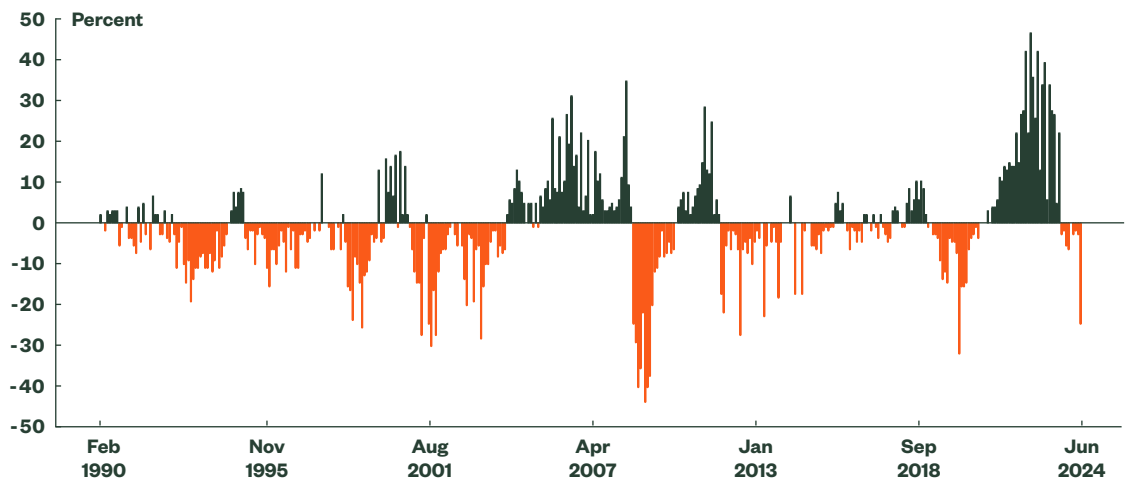
Source: FactSet, State Street Global Advisors, as of June 30, 2024. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

**Monetary versus
 Fiscal in Fixed Income**

To the extent that tougher comps may lead to more difficult progress in equity markets, Figure 9 provides a nice illustration of why the opposite is more likely to be true for global bond markets. As a diffusion index, the chart shows how many central banks around the world have been either tightening (black) or easing (orange), on a net basis. The dramatic and global tightening cycle that emerged as inflation risks rose in the post-pandemic period is clear from the wave of red that prevailed from early 2021 through the fall of 2023. But equally clear is that an easing cycle has begun to emerge over the past six-nine months.

Figure 9
**The Shift Towards
 Central Bank
 Easing Continues**

■ No. of Central Banks
 Tightening (Net)
 ■ No. of Central Banks
 Easing (Net)



Source: Wolfe Research, as of June 30, 2024.

And while a friendlier direction of travel from central bankers is generally welcome for fixed income investors, it is not a panacea. Building political risks have started to exact some concessions in the form of heightened risk premia in countries such as France and the United States. From that standpoint, it's conceivable that US Treasury markets experience something of a replay of the fall 2023 experience when rising debt levels and bond vigilantism caused interest rates to jump by more than 100 basis points. In its latest budget outlook, the Congressional

Budget Office increased its cumulative deficit projections by over \$2 trillion.⁴ Couple that type of fiscal backdrop with a market that is paying more attention to a Republican sweep scenario in November and it becomes less clear that long-term bonds will forcefully benefit in an environment where the Federal Reserve, and other central banks, rein in short-term policy rates.

Our outlook, and positioning, is similarly conflicted between constructive trends that we see emerging at the short end of the curve and more mixed drivers for intermediate and longer maturity bonds. On the plus side, our short-term momentum indicator suggests interest rates may have some capacity to decline. But inputs from our macro-oriented indicators still see enough pockets of resilience to caution against taking on any sort of duration overweight.

That same resilience, coupled with a constructive environment from a risk sentiment perspective, renders a more favorable environment for credit and high yield bonds. Issuer fundamentals continue to look reasonably healthy overall with average leverage below 4.5x even if there are meaningful gaps between the higher and lower rated bonds. Like equity markets, valuations are not terribly compelling with high yield spreads hovering around their tenth percentile from a historical perspective. But until we see a catalyst for spreads to widen, healthy all-in yields continue to support our high yield return forecasts.

Improving Comparisons for Commodities

With the economic growth backdrop continuing to weaken, albeit at “soft-landing” type levels, we prefer to take our active risk in financial assets such as equities over broad-based real assets such as commodities. However, even in commodity markets we are seeing some signs that challenging comparisons from the recent past may be fading at the same time that the probability of other upside catalysts may be rising. Take roll yields as one example. For the better part of the last year and a half, commodity markets (in aggregate and on average) have been in a state of contango whereby the monthly roll yields have been a headwind for investors. But that has started to shift and we’re seeing more markets exhibiting backwardation (positive roll yields). From a supply standpoint, there continues to be a lot of noise out of OPEC+ but recent pronouncements that extend certain oil production reductions through the end of 2025 may help put a floor under prices, especially as US rig counts continue to fall. Add on top of that the ongoing geopolitical risks in the Middle East and in Europe and it may soon be time to take a more constructive stance on commodity markets.

Compare, Contrast, Conclude

Some markets face relatively tough comparisons going forward. In others, the comps are likely getting easier. In neither case do these trends, in isolation, guarantee remunerative rewards or inevitable indigence. But tracking these developments can help to understand what is occurring in the markets and identify potential dislocations. And that is the game plan as we prepare for the second half of the year.

Sources: Bloomberg, FactSet, J.P. Morgan, Barclays, MSCI, Morgan Stanley and The Economist, as of June 30, 2024.

Endnotes

- 1 State Street Global Advisors Economics, May 2024, [Central Bank Check-In: What's Next Around the Globe](#).
- 2 Oliver, Joshua. “Banks face \$2tn of maturing US property debt over next 3 years.” Financial Times, April 1, 2024.
- 3 “EM Stocks Will Outperform as Global Trade Recovers.” MRB Partners. April 25, 2024.
- 4 “An Update to the Budget and Economic Outlook: 2024 to 2034.” Congressional Budget Office, June 2024.

State Street Global Advisors Forecasts as of June 30, 2024

	2024 (%)	2025 (%)
Real GDP Growth		
Global	2.9	2.7
US	2.2	1.4
Australia	1.4	2.6
Canada	0.9	1.4
Eurozone	0.9	1.3
France	1.0	1.2
Germany	0.5	1.1
Italy	0.9	1.2
UK	0.8	1.5
Japan	0.5	1.2
Brazil	1.2	2.4
China	4.7	4.2
India	7.0	6.5
Mexico	2.0	1.9
South Africa	0.7	1.4
South Korea	2.3	2.1
Taiwan	3.5	2.5
Inflation		
Developed Economies	3.0	2.3
US	3.0	2.3
Australia	3.2	2.8
Canada	2.6	2.2
Eurozone	2.4	1.9
France	2.5	1.7
Germany	2.0	1.7
Italy	1.3	1.6
UK	2.5	1.7
Japan	2.4	2.0
China	0.4	1.5

	June 30, 2024 (%)	June 30, 2025 (%)
Central Bank Rates		
US (upper bound)	5.50	4.00
Australia	4.35	3.60
Canada	4.75	3.50
Euro	4.25	3.25
UK	5.25	3.75
Japan	0.10	0.75
Brazil	10.50	7.75
China	2.50	2.30
India	6.50	5.75
Mexico	11.00	8.25
South Africa	8.25	7.50
South Korea	3.50	2.75
10-Year Bond Yields		
US	4.37	3.84
Australia	4.31	4.07
Canada	3.50	2.96
Germany	2.47	2.10
UK	4.15	3.54
Japan	1.06	1.45
Exchange Rates		
Australian Dollar (A\$/\\$)	0.67	0.71
British Pound (£/\\$)	1.26	1.31
Canadian Dollar (\\$/C\\$)	1.37	1.30
Euro (€/\\$)	1.07	1.11
Japanese Yen (\\$/¥)	160.86	133.78
Swiss Franc (\\$/SFr)	0.90	0.95
Chinese Yuan (\\$/¥)	7.27	7.00

One-Year Return Forecasts	USD (%)	EUR (%)	GBP (%)	JPY (%)	AUD (%)	CAD (%)
S&P 500	7.1	3.4	3.3	-10.9	0.7	1.7
Russell 2000	7.4	3.7	3.6	-10.7	1.0	2.0
MSCI EAFE	6.8	3.1	3.1	-11.2	0.5	1.5
MSCI EM	8.1	4.4	4.3	-10.1	1.7	2.7
Barclays Capital Aggregate Bond Index	4.6	1.0	0.9	-13.0	-1.6	-0.6
Citigroup World Government Bond Index	2.5	-1.0	-1.1	-14.8	-3.6	-2.6
Goldman Sachs Commodities Index	1.1	-2.4	-2.4	-15.9	-4.9	-4.0
Dow Jones US Select REIT Index	5.3	1.7	1.6	-12.4	-0.9	0.0

State Street Global Advisors Forecasts, as of June 30, 2024.

The above estimates based on certain assumptions and analysis made by State Street Global Advisors. There is no guarantee that the estimates will be achieved.

About State Street Global Advisors

Our clients are the world's governments, institutions and financial advisors. To help them achieve their financial goals we live our guiding principles each and every day:

- Start with rigor
- Build from breadth
- Invest as stewards
- Invent the future

For four decades, these principles have helped us be the quiet power in a tumultuous investing world and help millions of people secure their financial futures. This takes each of our employees in 28 offices around the world, and a firm-wide conviction that we can always do it better. As a result, we are the world's fourth-largest asset manager* with US \$4.34 trillion[†] under our care.

* Pensions & Investments Research Center, as of December 31, 2022.

[†] This figure is presented as of March 31, 2024 and includes ETF AUM of \$1,360.89 billion USD of which approximately \$65.87 billion USD is in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.

ssga.com

Information Classification: General Marketing communication

State Street Global Advisors Worldwide Entities

Australia: State Street Global Advisors, Australia, Limited (ABN 42 003 914 225) is the holder of an Australian Financial Services License (AFSL Number 238276). Registered office: Level 14, 420 George Street, Sydney, NSW 2000, Australia. T: +612 9240-7600. F: +612 9240-7611. **Belgium:** State Street Global Advisors Belgium, Chaussée de La Hulpe 185, 1170 Brussels, Belgium. T: +32 2 663 2036. State Street Global Advisors Belgium is a branch office of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. **Canada:** State Street Global Advisors, Ltd., 1981 McGill College Avenue, Suite 500, Montreal, Qc, H3A 3A8, T: +514 282 2400 and 30 Adelaide Street East Suite 1100, Toronto, Ontario M5G 3G6. T: +647 775 5900. **Dubai:** State Street Global Advisors Limited, DIFC branch is regulated by the Dubai Financial Services Authority (DFSA). This document is intended for Professional Clients or Market Counterparties only as defined by the DFSA and no other person should act upon it. State Street Global Advisors Limited, DIFC Branch, OT 01-39, 1st Floor, Central Park Towers, DIFC, PO Box 507448, Dubai, United Arab Emirates. Regulated by the DFSA. Telephone: +971 4 871 9100. **France:** State Street Global

Advisors Europe Limited, France Branch ("State Street Global Advisors France") is a branch of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. State Street Global Advisors France is registered in France with company number RCS Nanterre 899 183 289, and its office is located at Coeur Défense – Tour A – La Défense 4, 33e étage, 100, Esplanade du Général de Gaulle, 92 931 Paris La Défense Cedex, France. T: +33 1 44 45 40 00. F: +33 1 44 45 41 92. **Germany:** State Street Global Advisors Europe Limited, Branch in Germany, Brienner Strasse 59, D-80333 Munich, Germany ("State Street Global Advisors Germany"). T: +49 (0)89 55878 400. State Street Global Advisors Germany is a branch of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. **Hong Kong:** State Street Global Advisors Asia Limited, 68/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. T: +852 2103-0288. F: +852 2103-0200. **Ireland:** State Street Global Advisors Europe Limited is regulated by the Central Bank of Ireland. Registered office address 78 Sir John Rogerson's Quay, Dublin 2. Registered Number: 49934. T: +353 (0)1 776 3000. F: +353 (0)1 776 3300. **Italy:** State Street Global Advisors Europe Limited, Italy Branch ("State Street Global Advisors Italy") is a branch of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John

Rogerson's Quay, Dublin 2. State Street Global Advisors Italy is registered in Italy with company number 11871450968 – REA: 2628603 and VAT number 11871450968, and its office is located at Via Ferrante Aporti, 10 - 20125 Milan, Italy. T: +39 02 32066 100. F: +39 02 32066 155. **Japan:** State Street Global Advisors (Japan) Co., Ltd., Toranomon Hills Mori Tower 25F 1-23-1 Toranomon, Minato-ku, Tokyo 105-6325 Japan. T: +81-3-4530-7380. Financial Instruments Business Operator, Kanto Local Financial Bureau (Kinsho #345), Membership: Japan Investment Advisers Association, The Investment Trust Association, Japan, Japan Securities Dealers' Association. **Netherlands:** State Street Global Advisors Netherlands, Apollo Building 7th floor, Herikerbergweg 29, 1101 CN Amsterdam, Netherlands. T: +31 20 7181 000. State Street Global Advisors Netherlands is a branch office of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. **Singapore:** State Street Global Advisors Singapore Limited, 168, Robinson Road, #33-01 Capital Tower, Singapore 068912 (Company Reg. No: 200002719D, regulated by the Monetary Authority of Singapore). T: +65 6826-7555. F: +65 6826-7501. **South Africa:** State Street Global Advisors Limited is regulated by the Financial Sector Conduct Authority in South Africa under license number 42670. **Switzerland:** State Street Global Advisors AG, Beethovenstr. 19, CH-8027 Zurich. Registered with the Register of Commerce Zurich CHE-105.078.458. T: +41 (0)44 245 70 00. F: +41 (0)44 245 70 16. **United Kingdom:** State Street Global Advisors Limited. Authorised and regulated by

the Financial Conduct Authority. Registered in England. Registered No. 2509928. VAT No. 577659181. Registered office: 20 Churchill Place, Canary Wharf, London, E14 5HJ. T: 020 3395 6000. F: 020 3395 6350. **United States:** State Street Global Advisors, 1 Iron Street, Boston, MA 02210-1641.

The views expressed in this material are the views of Simona Mocuta and Jeremiah Holly through the period ended June 30, 2024 and are subject to change based on market and other conditions. This document may contain certain statements deemed to be forward-looking statements. All statements, other than historical facts, contained within this document that address activities, events or developments that SSGA expects, believes or anticipates will or may occur in the future are forward-looking statements. These statements are based on certain assumptions and analyses made by SSGA in light of its experience and perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate in the circumstances, many of which are detailed herein. Such statements are subject to a number of assumptions, risks, uncertainties, many of which are beyond SSGA's control. Please note that any such statements are not guarantees of any future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.

The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security.

It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult your tax and financial advisor. All material has been obtained from sources believed to be reliable. There is no representation or warranty as to the accuracy of the information and State Street shall have no liability for decisions based on such information.

The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the Markets in Financial Instruments Directive (2014/65/EU) or applicable Swiss regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

Equity securities may fluctuate in value and can decline significantly in response to the activities of individual companies and general market and economic conditions.

Companies with large market capitalizations go in and out of favor based on market and economic conditions. Larger companies tend to be less volatile than companies with smaller market capitalizations. In exchange for this potentially lower risk, the value of the security may not rise as much as companies with smaller market capitalizations.

Investments in small-sized companies may involve greater risks than in those of larger, better known companies.

The value of the debt securities may increase or decrease as a result of the following: market fluctuations, increases in interest rates, inability of issuers to repay principal and interest or illiquidity in the debt securities markets; the risk of low rates of return due to reinvestment of securities during periods of falling interest rates or repayment by issuers with higher coupon or interest rates; and/or the risk of low income due to falling interest rates. To the extent that interest rates rise, certain underlying obligations may be paid off substantially slower than originally anticipated and the value of those securities may fall sharply. This may result in a reduction in income from debt securities income.

Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates rise bond prices usually fall); issuer default risk; issuer credit risk; liquidity risk; and inflation risk. These effects are usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

Government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns.

Foreign investments involve greater risks than investments, including political and economic risks and the risk of currency fluctuations, all of

which may be magnified in emerging markets. Investing in commodities entail significant risk and is not appropriate for all investors.

Commodities investing entail significant risk as commodity prices can be extremely volatile due to wide range of factors. A few such factors include overall market movements, real or perceived inflationary trends, commodity index volatility, international, economic and political changes, change in interest and currency exchange rates.

Investing in foreign domiciled securities may involve risk of capital loss from unfavorable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations.

Investments in emerging or developing markets may be more volatile and less liquid than investing in developed markets and may involve exposure to economic structures that are generally less diverse and mature and to political systems which have less stability than those of more developed countries.

Investing in REITs involves certain distinct risks in addition to those risks associated with investing in the real estate industry in general. Equity REITs may be affected by changes in the value of the underlying property owned by the REITs, while mortgage REITs may be affected by the quality of credit extended. REITs are subject to heavy cash flow dependency, default by borrowers and self-liquidation. REITs, especially mortgage REITs, are also subject to interest rate risk (i.e., as interest rates rise, the value of the REIT may decline).

Investing involves risk including the risk of loss of principal.

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without SSGA's express written consent.

Past performance is not a reliable indicator of future performance.

All the index performance results referred to are provided exclusively for comparison purposes only. It should not be assumed that they represent the performance of any particular investment.

The trademarks and service marks referenced herein are the property of their respective owners. Third party data providers make no warranties or representations of any kind relating to the accuracy, completeness or timeliness of the data and have no liability for damages of any kind relating to the use of such data.

© 2024 State Street Corporation.
All Rights Reserved.
ID2251335-4698458.141.GBL.RTL 0724
Exp. Date: 07/31/2025