

GENESIS®

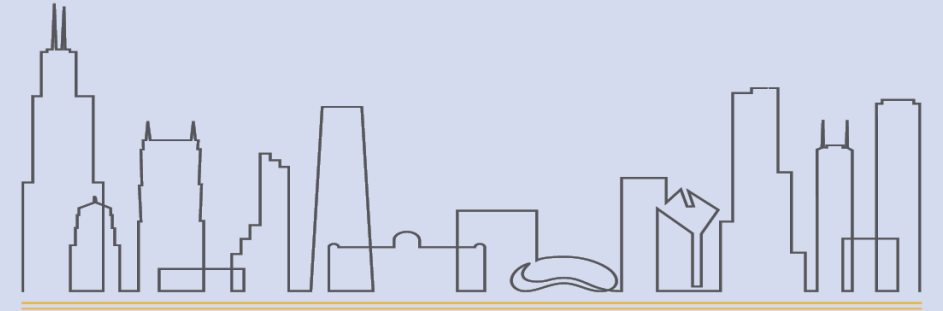
GENESIS® 2024 CLIENT FORUM

BUILDING CONNECTIONS



A Member of the Berkshire Hathaway Family of Companies

BUILDING CONNECTIONS



Bill Rotatori, Chairman and Chief Executive Officer, New England Asset Management (NEAM)

“U.S. Economic and Capital Market Outlook”



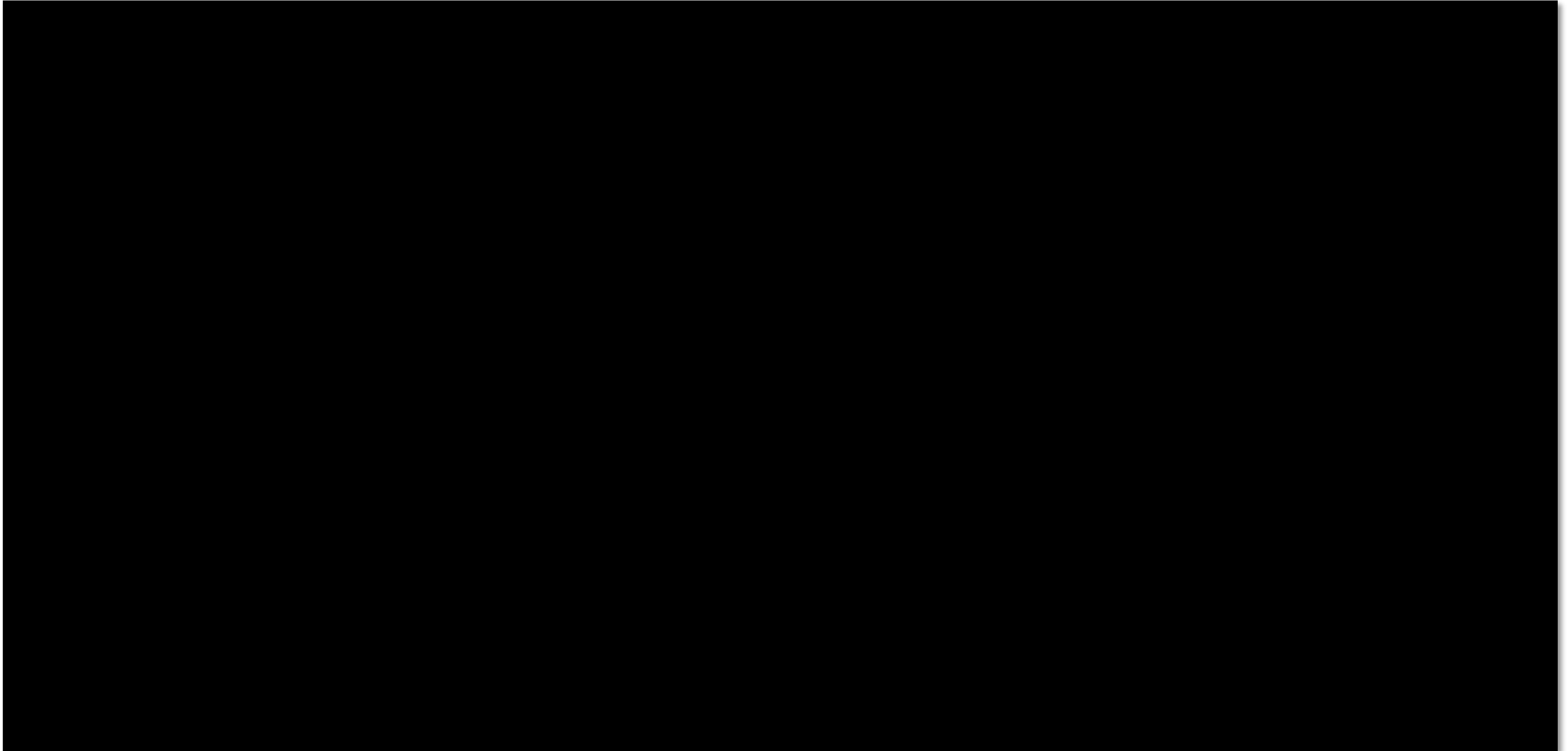
Partnership at Work®

The Waiting is the Hardest Part

Genesis Client Forum

April 2024

Tom Petty and The Heartbreakers – The Waiting



- Economic Outlook
- Labor Markets & Inflation
- Federal Reserve Policy
- Capital Market Implications & Strategy Recommendations

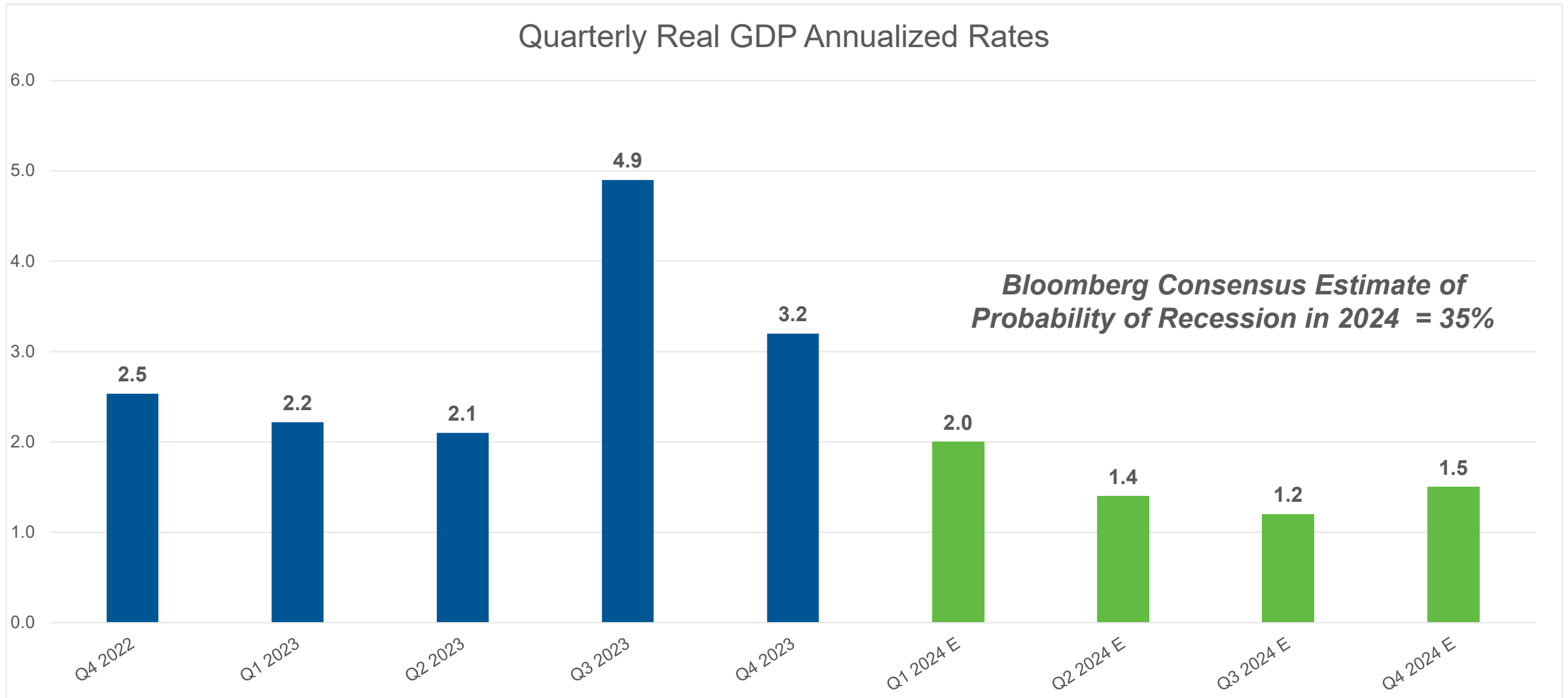
A decorative graphic consisting of two overlapping, wavy, curved shapes. The left shape is dark blue and the right shape is green. They meet at a central point where the text is located.

Economic Outlook

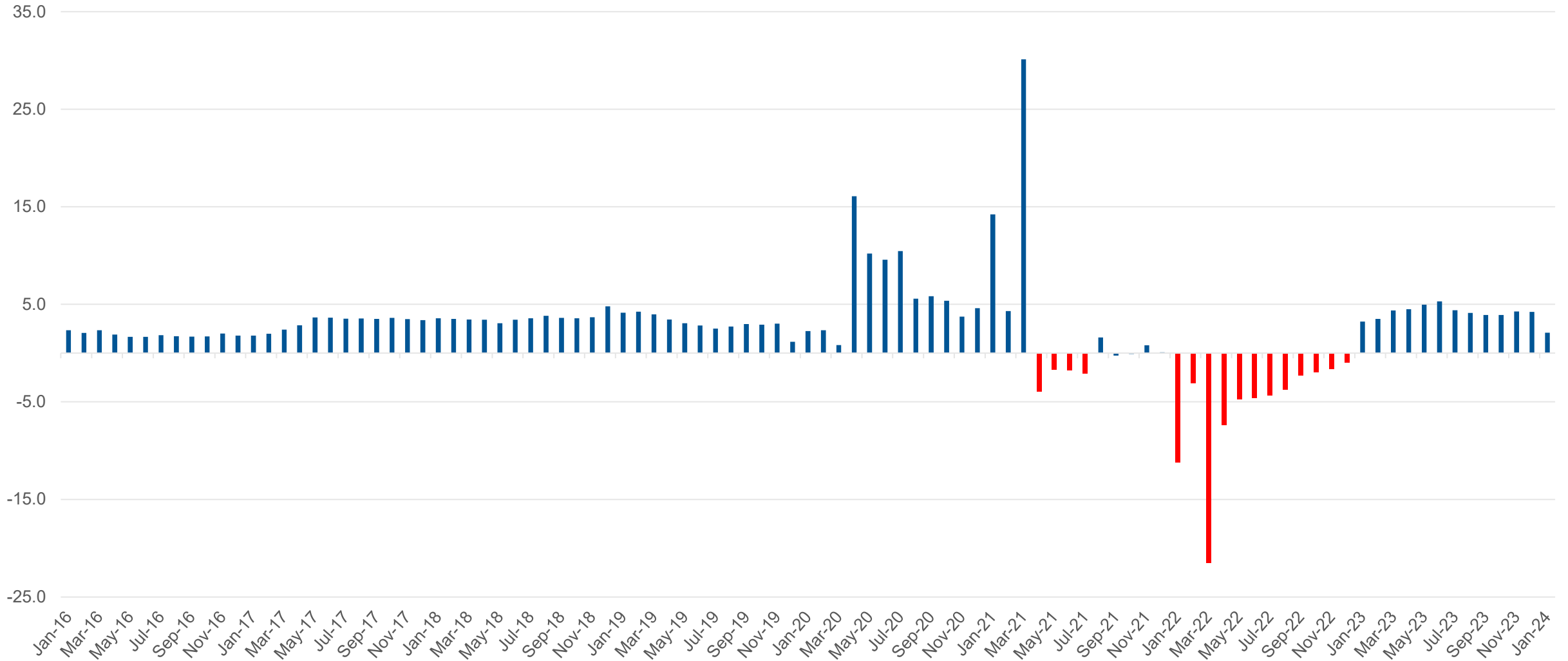
Quarterly Real Economic Growth – Actual and Estimated



Quarterly Real GDP Annualized Rates

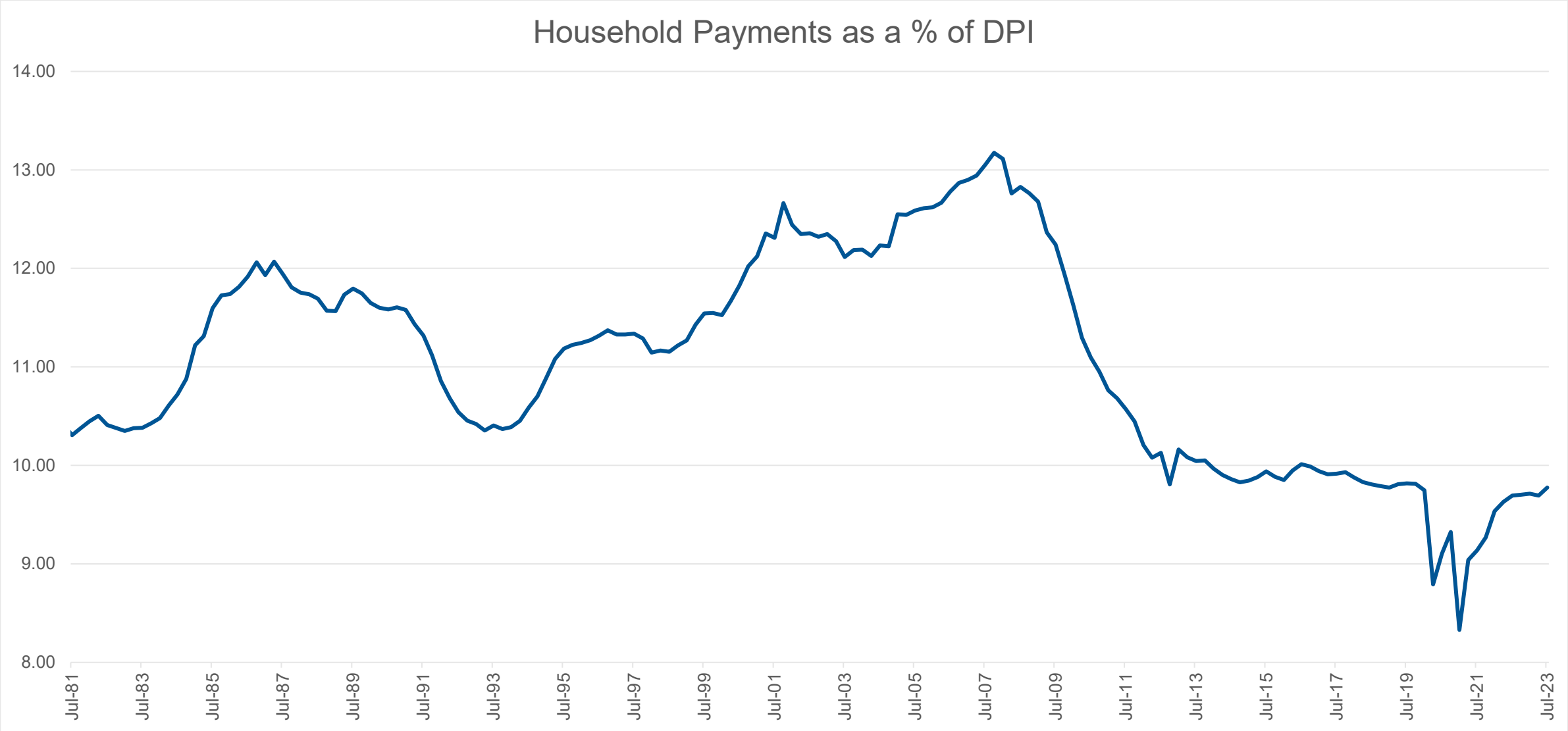


Real Disposable Personal Income Growth



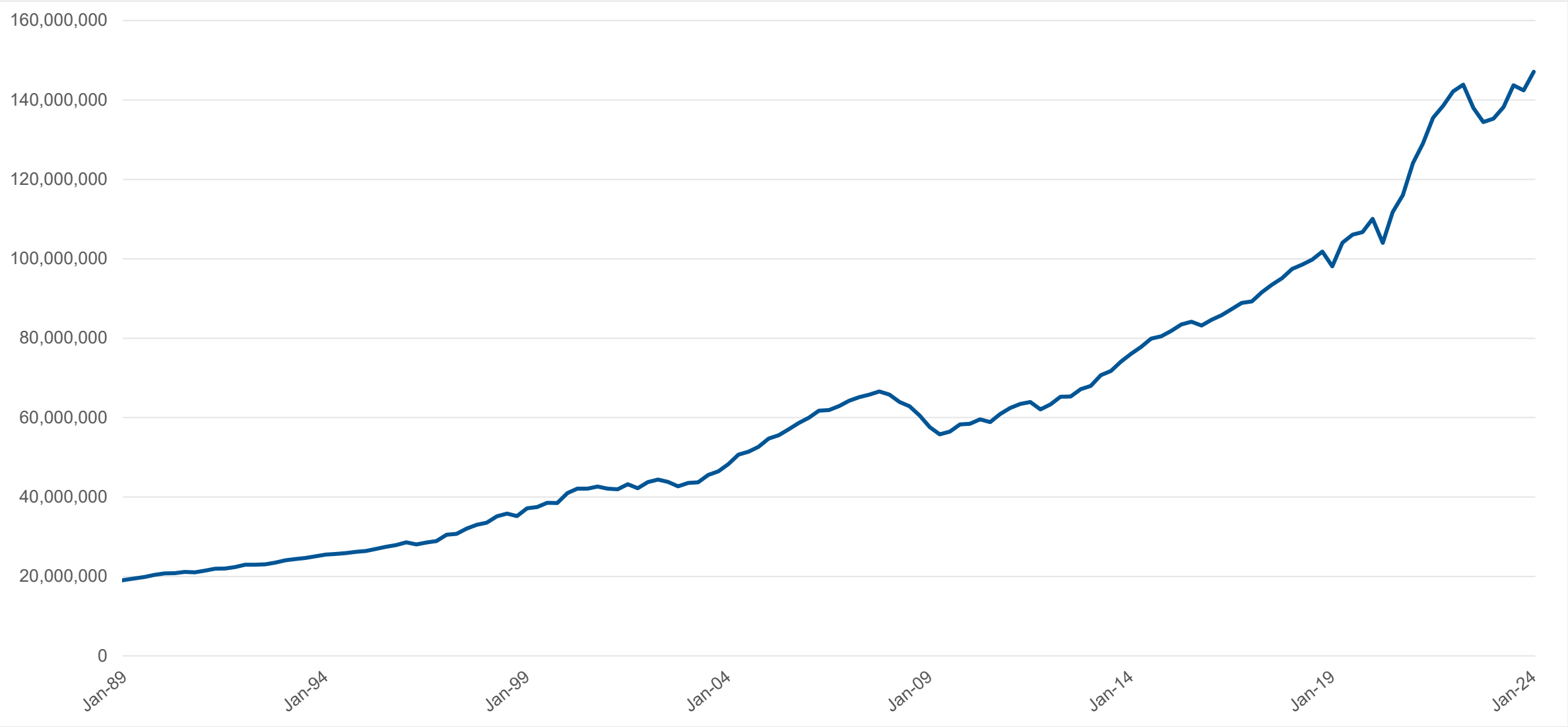
Source: Federal Reserve Bank of St. Louis, NEAM Analytics

Household Debt Service Ratio Near Historic Lows



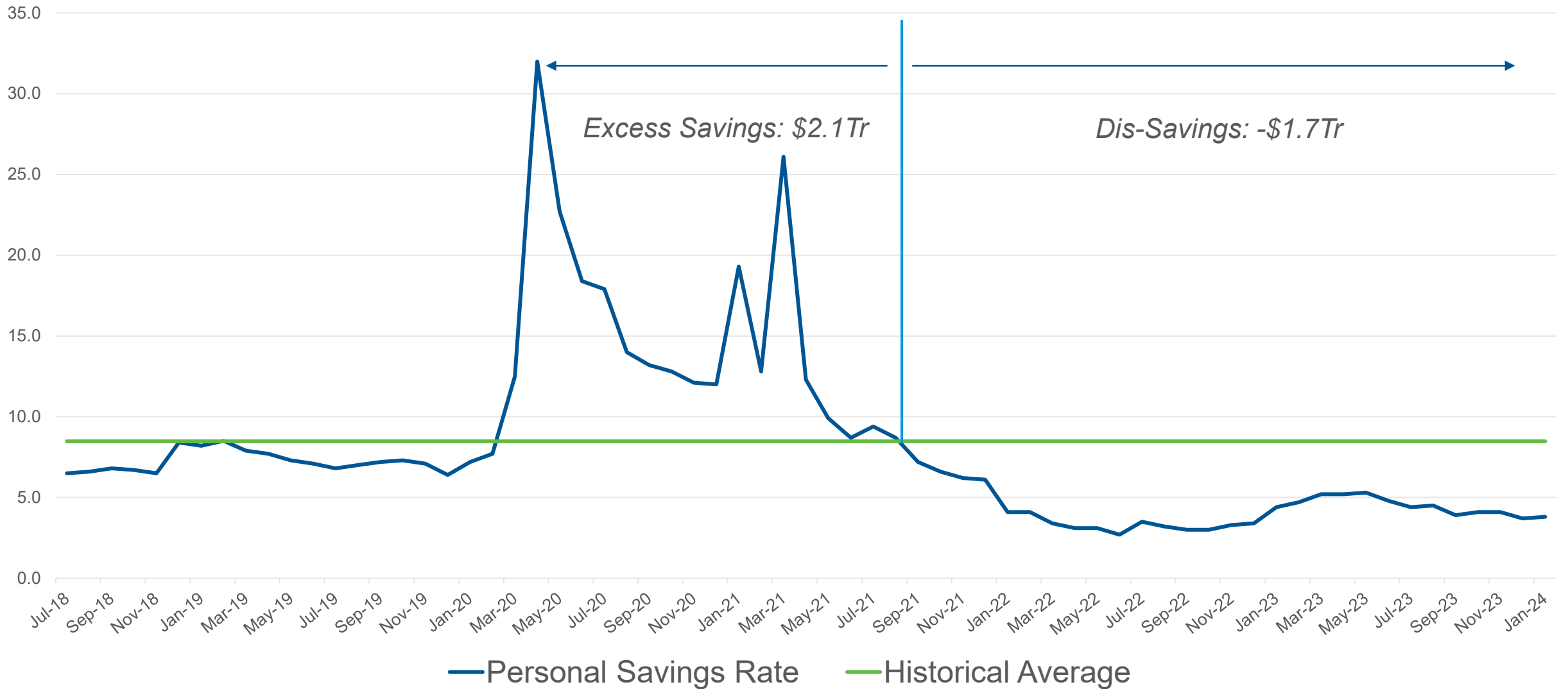
Source: Board of Governors of the Federal Reserve System, Haver Analytics, NEAM Analytics

Household Net Worth

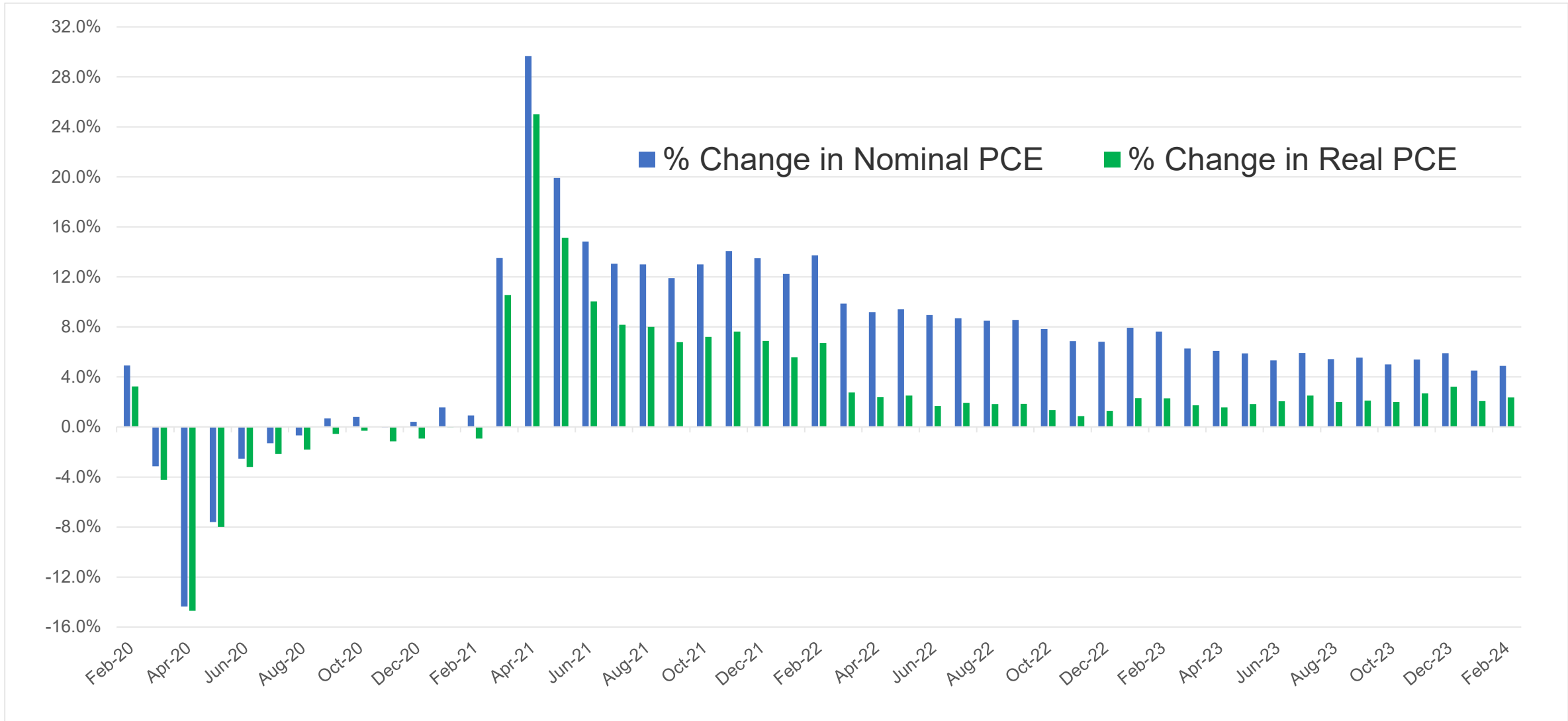


Source: Federal Reserve Bank of St. Louis, NEAM Analytics

Personal Savings Rate

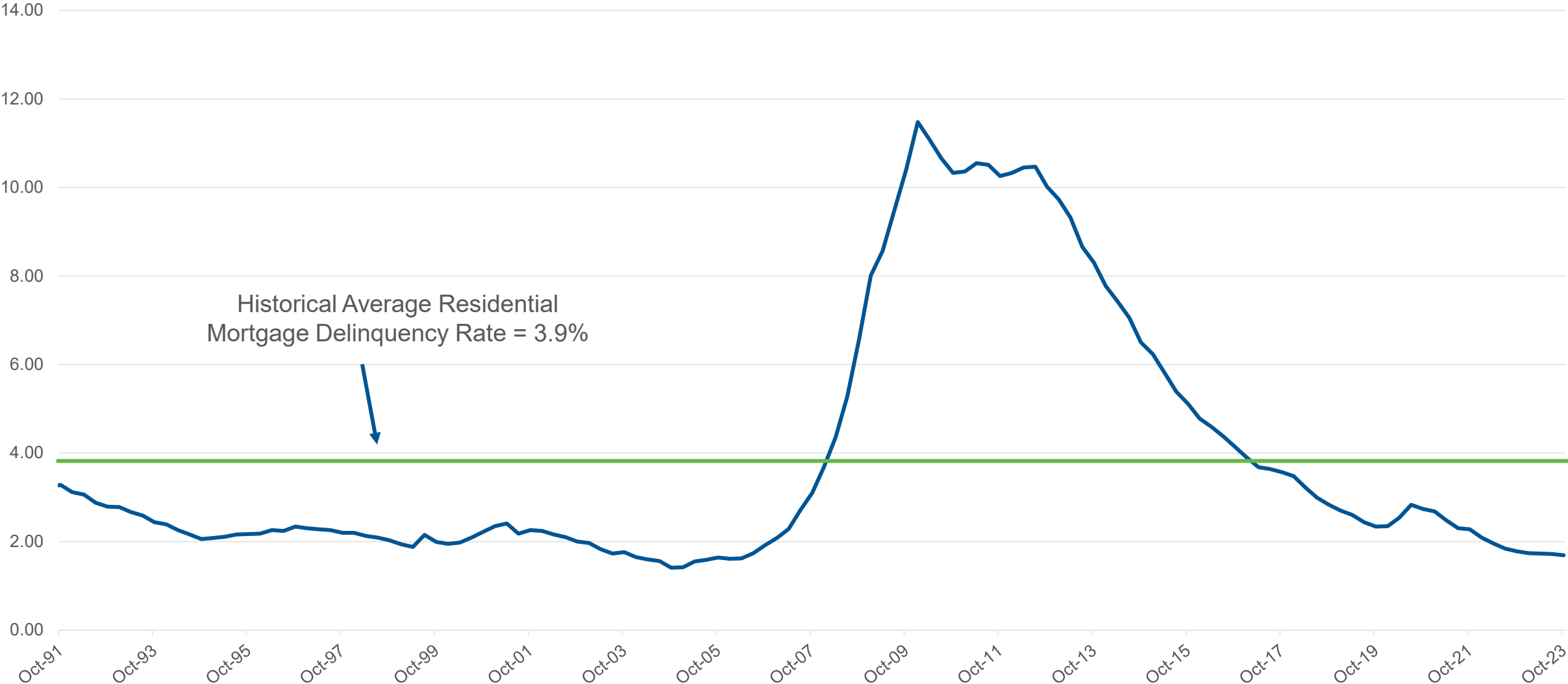


Consumer Spending Nominal and Real



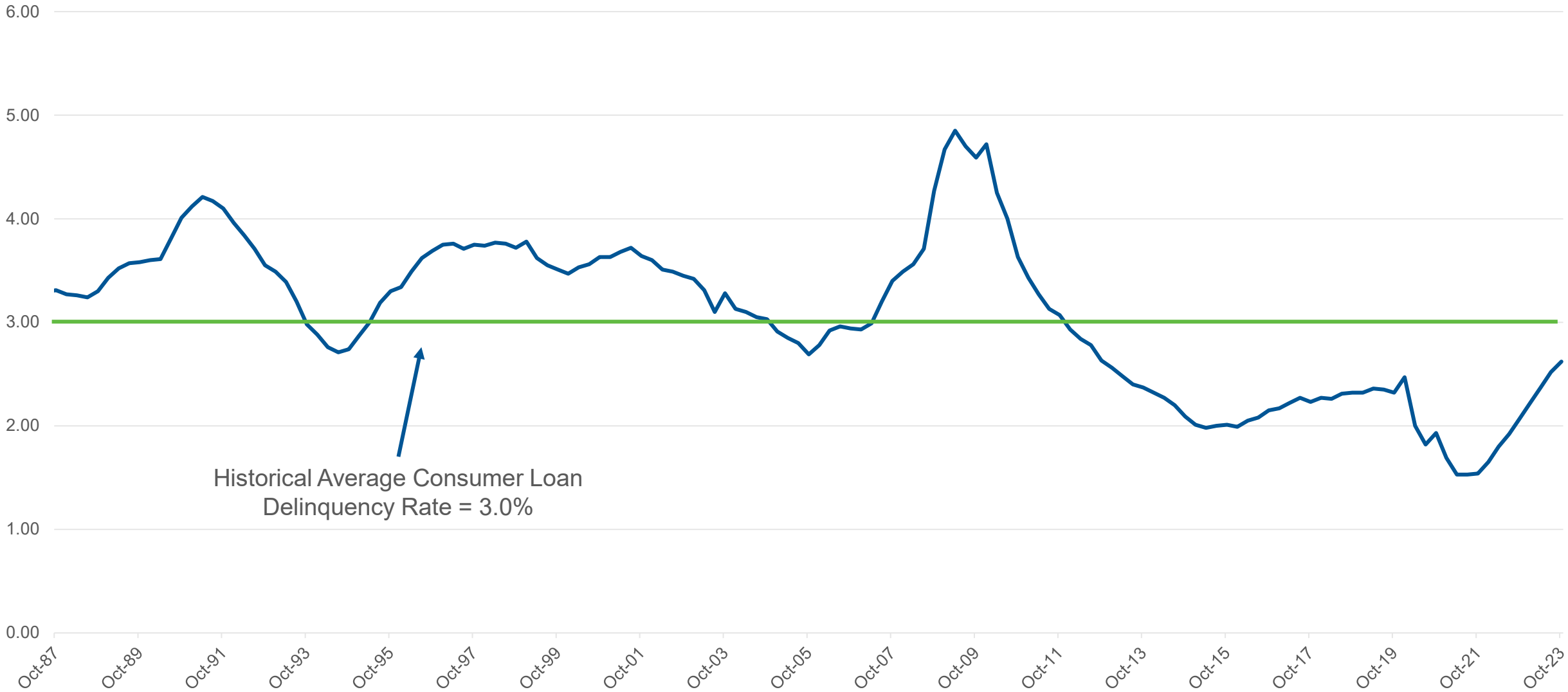
Source: Federal Reserve Bank of St. Louis, NEAM Analytics

Delinquency Rate – Residential Mortgage Loans



Source: Federal Reserve Bank of St. Louis, NEAM Analytics

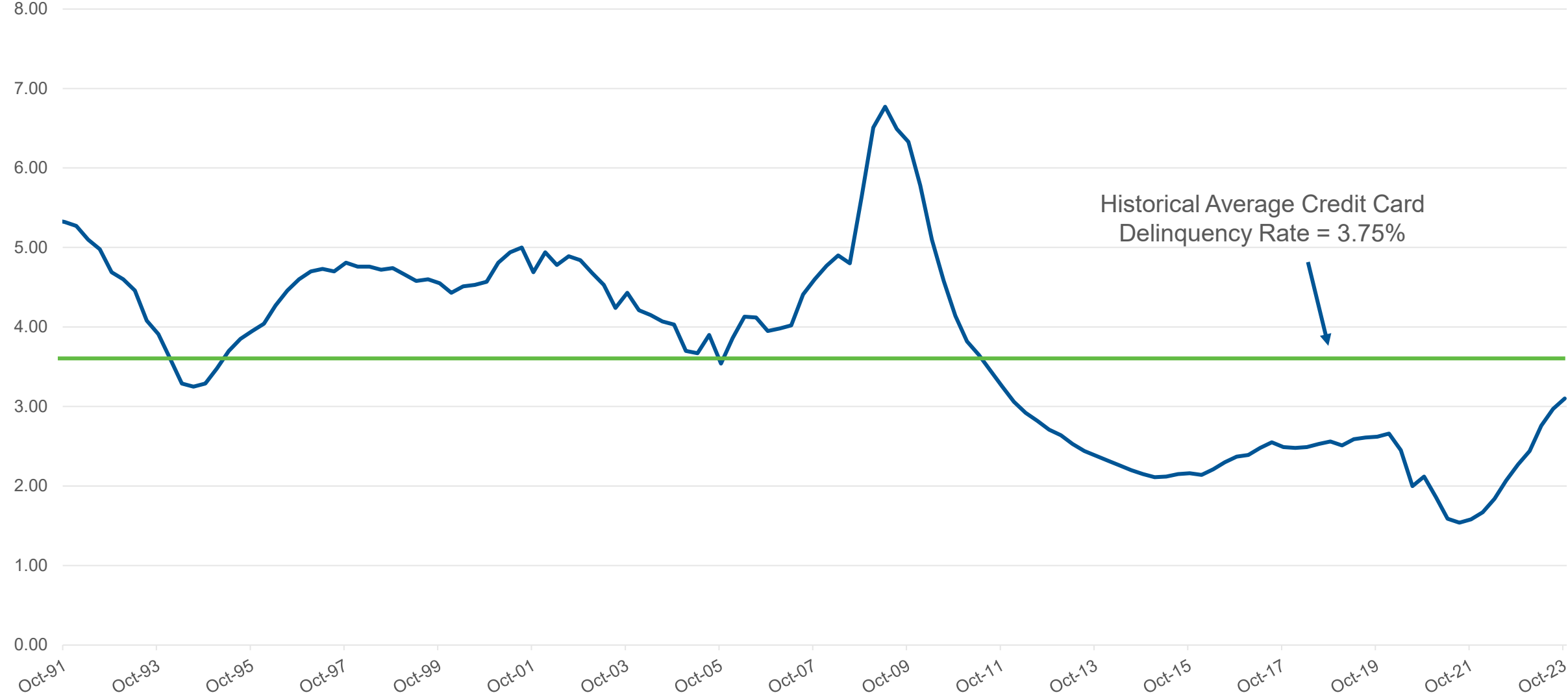
Delinquency Rate – Consumer/Auto Loans



Historical Average Consumer Loan
Delinquency Rate = 3.0%

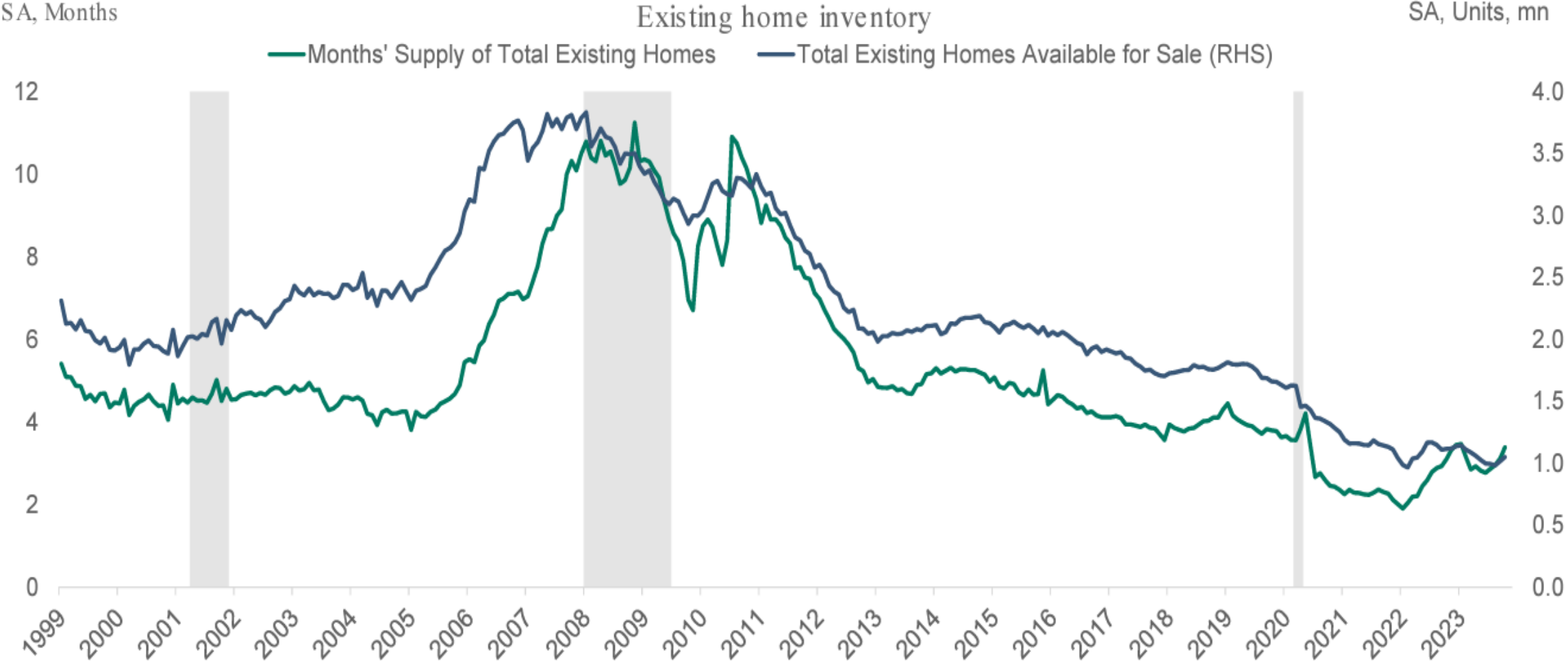
Source: Federal Reserve Bank of St. Louis, NEAM Analytics

Delinquency Rate – Credit Card Loans



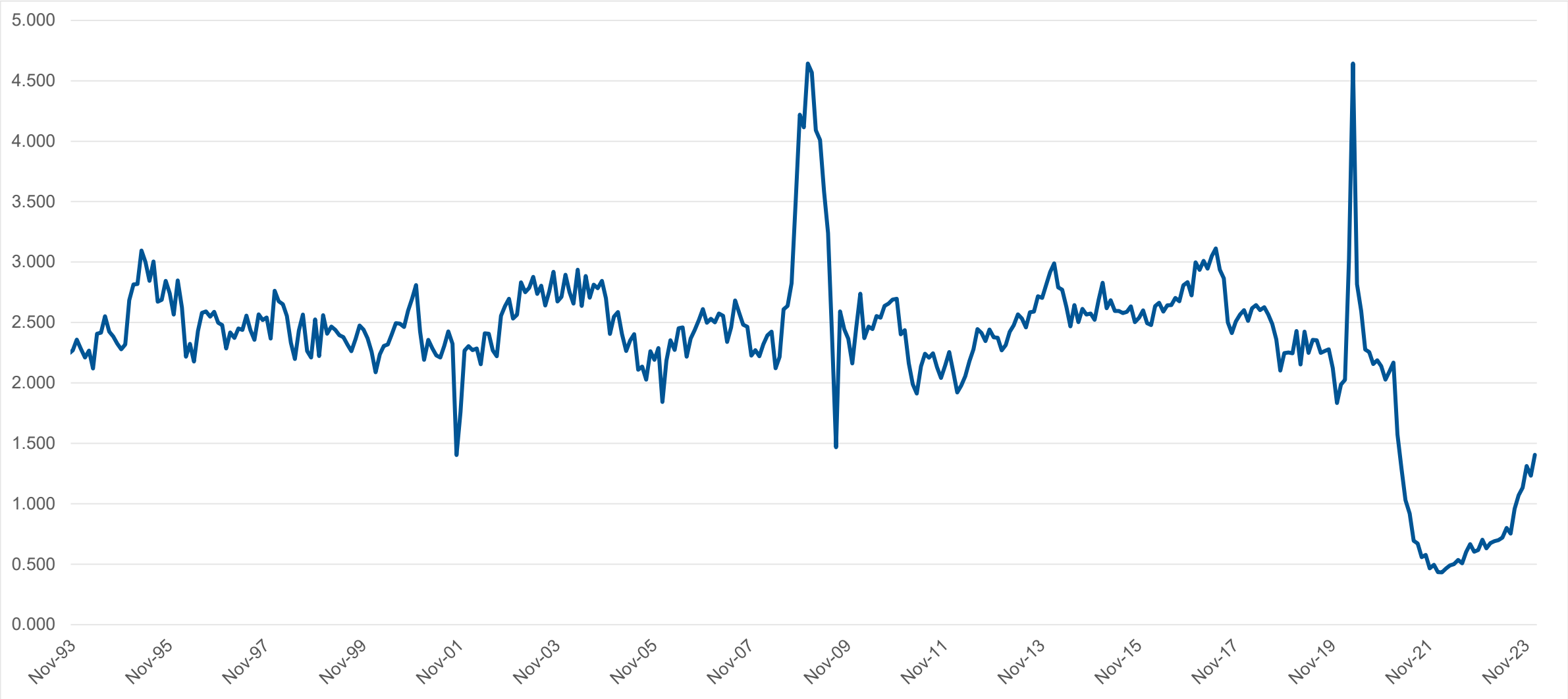
Source: Federal Reserve Bank of St. Louis, NEAM Analytics

Housing Inventory Remains Constrained



Source: NAR, Apollo Global, NEAM Analytics

US Auto Inventory to Sales Ratio

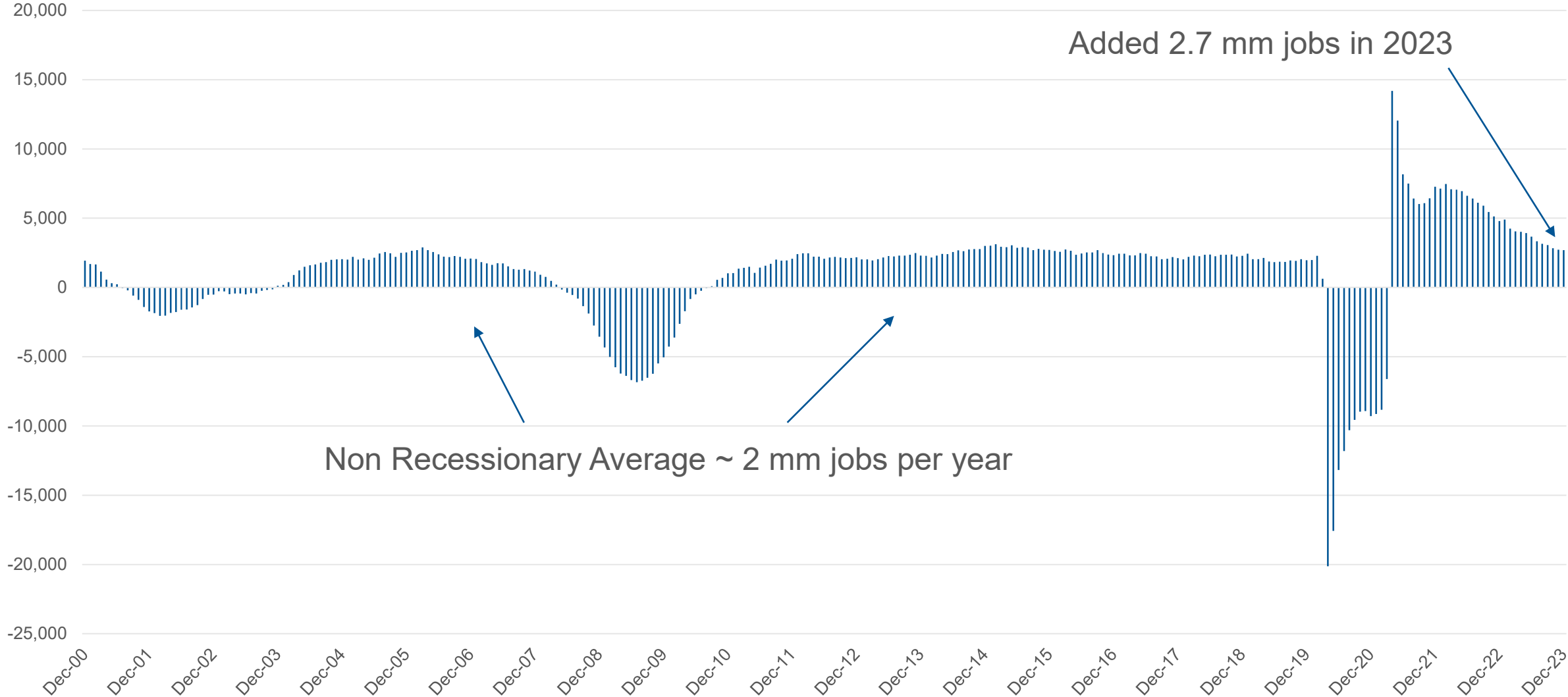


Source: Federal Reserve of St. Louis, NEAM Analytics



**Labor Markets &
Inflation**

Annual Employment Growth

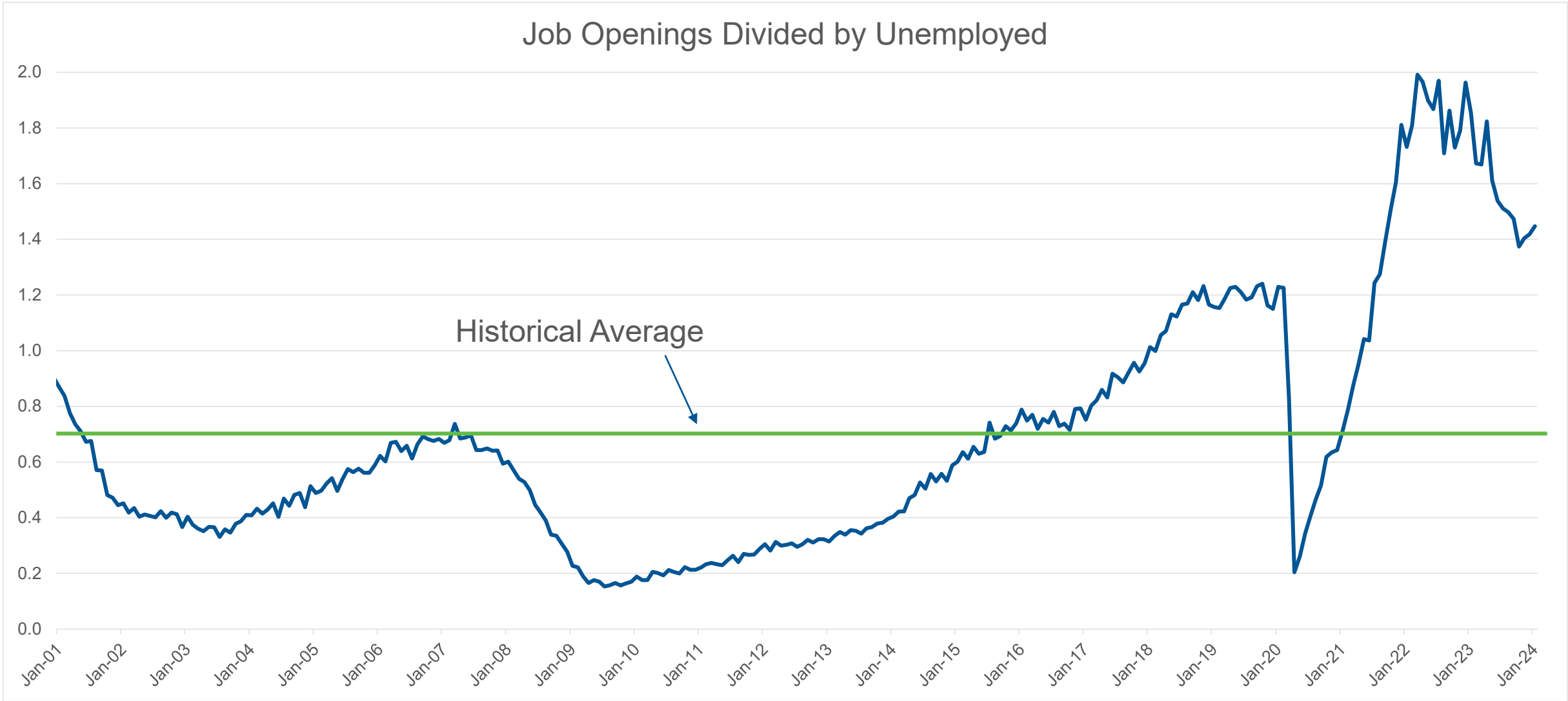


Added 2.7 mm jobs in 2023

Non Recessionary Average ~ 2 mm jobs per year

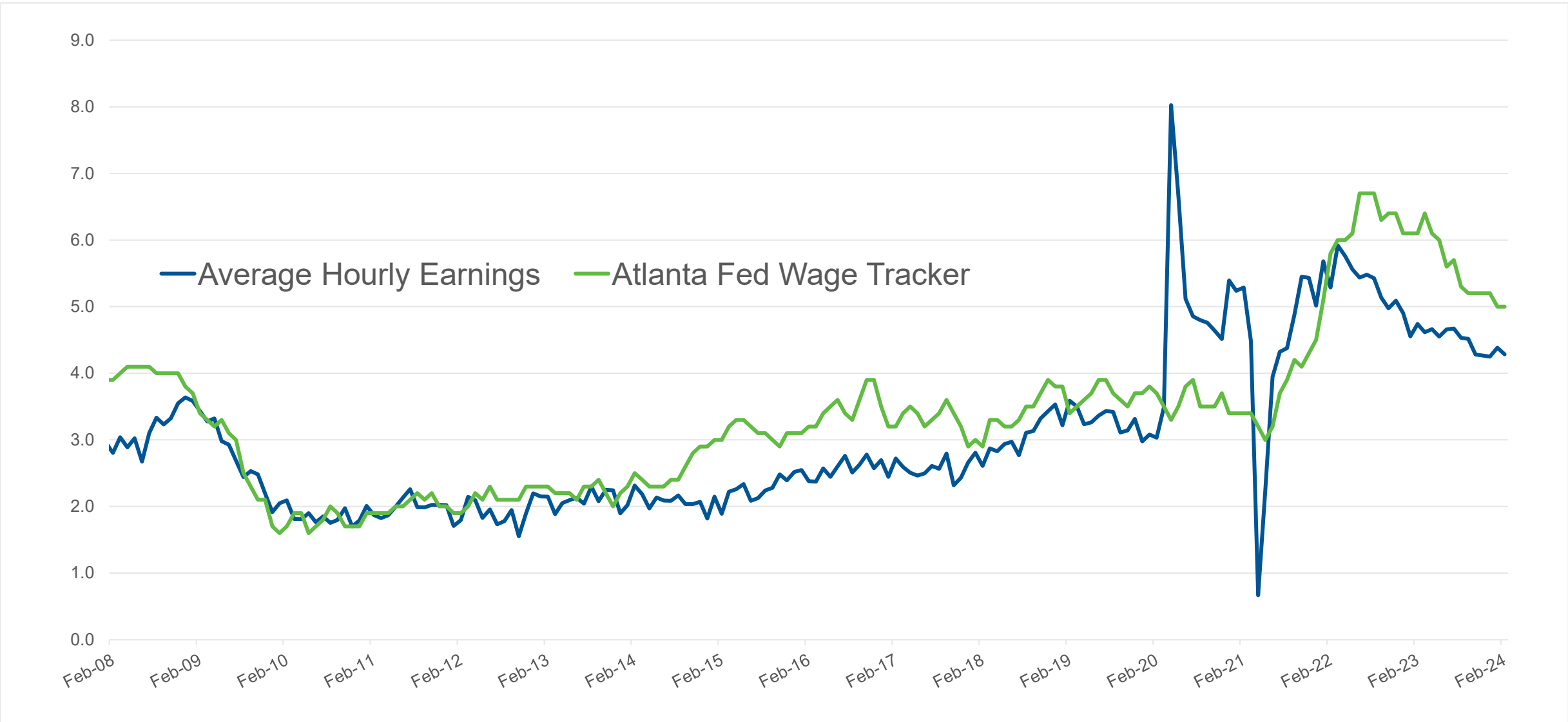
Source: Federal Reserve of St. Louis, NEAM Analytics

Job Openings and Unemployment Level



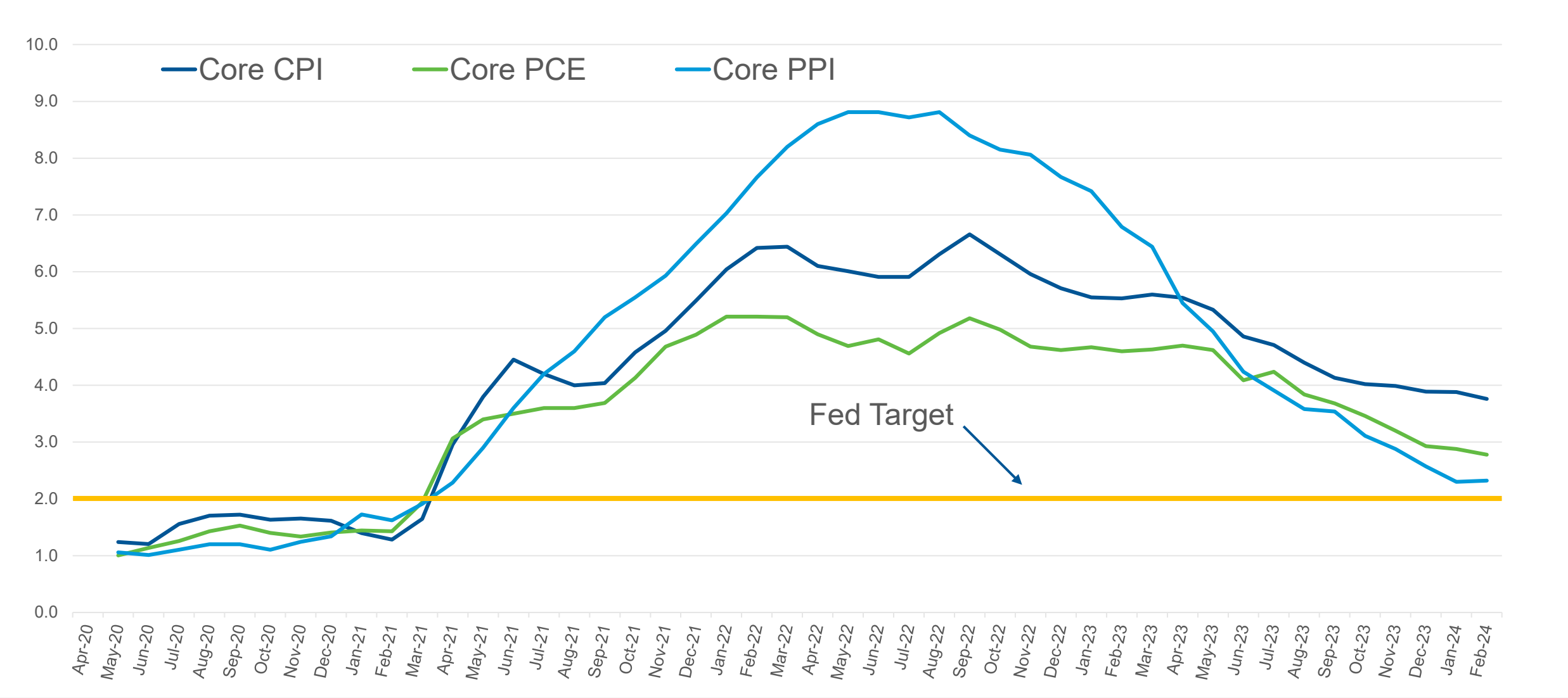
Source: Federal Reserve of St. Louis, NEAM Analytics

Wage Costs Remain Elevated



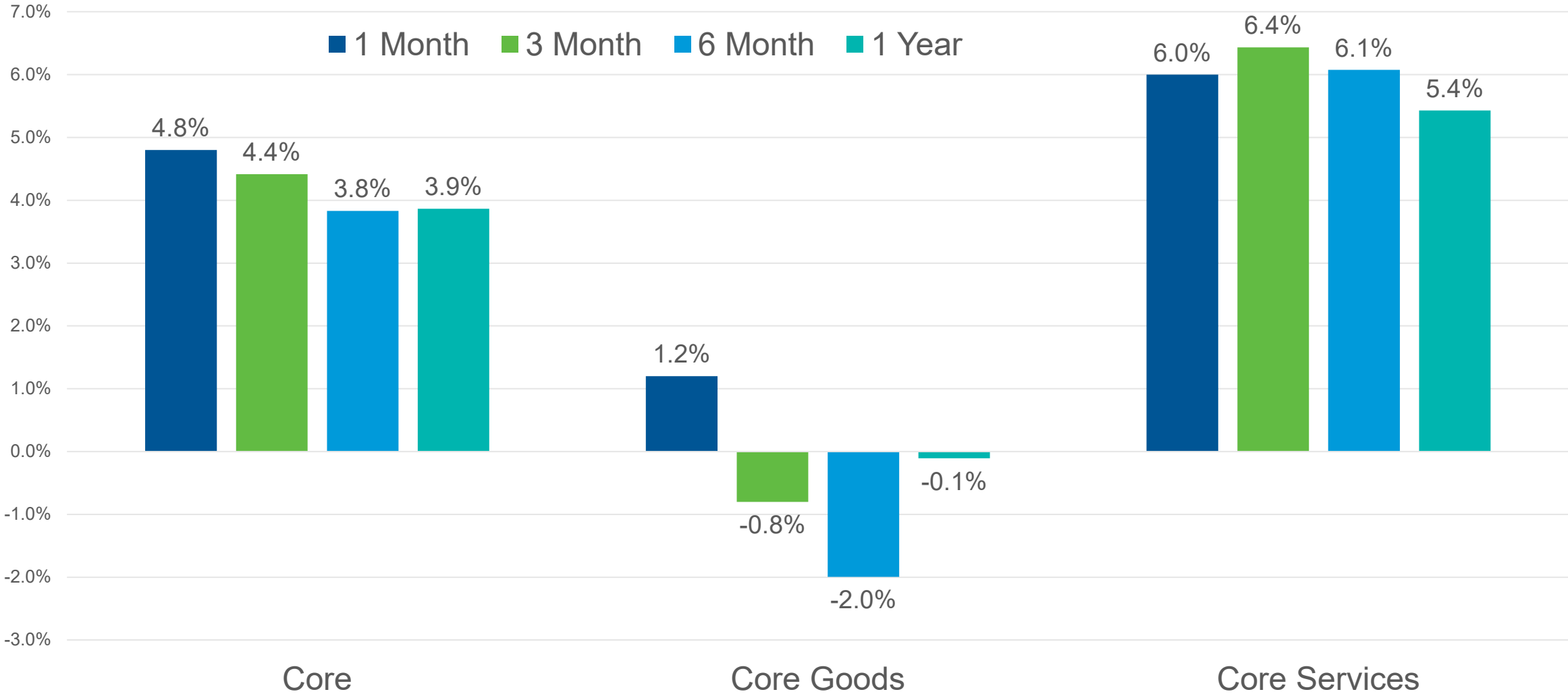
Source: Federal Reserve Bank of St. Louis, NEAM Analytics

Core Inflation Readings – Year over Year



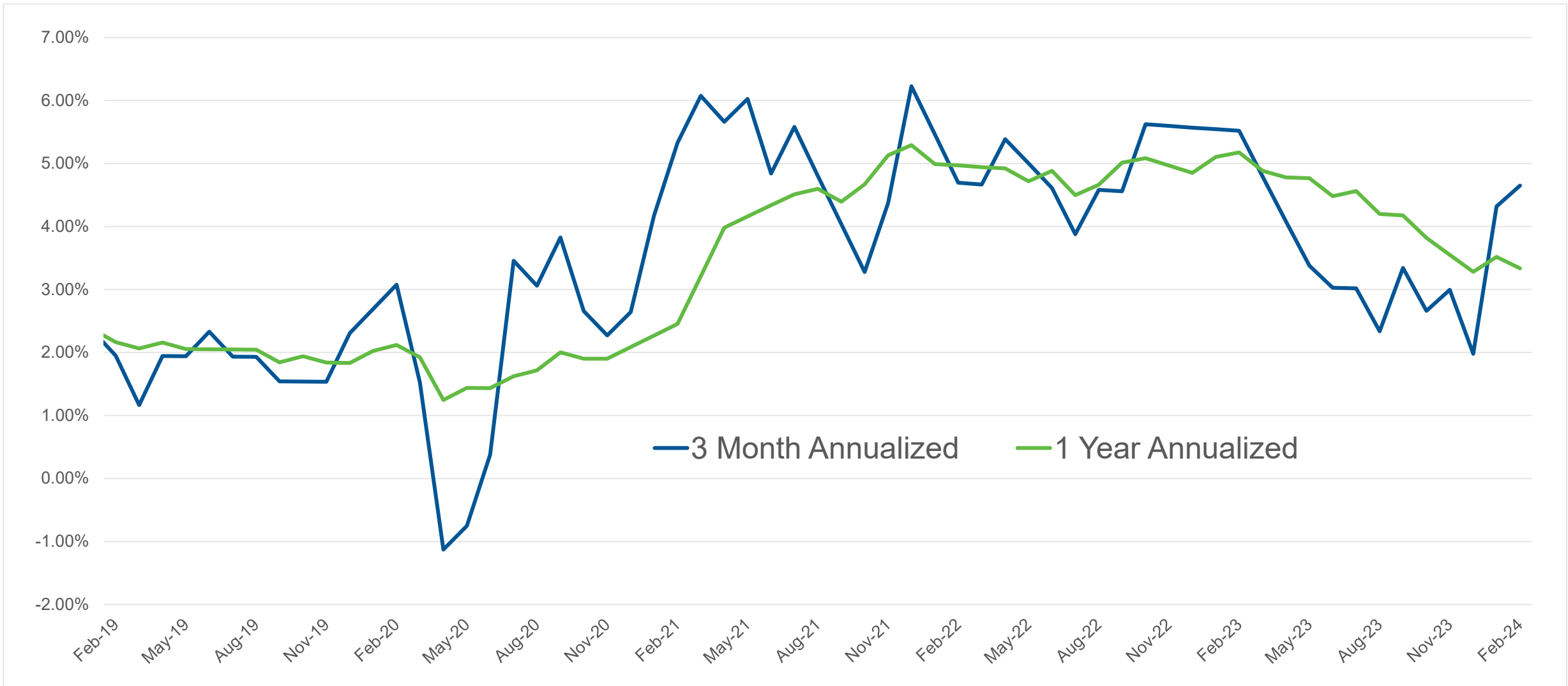
Source: Federal Reserve Bank of St. Louis, NEAM Analytics

CPI Inflation Trends by Category – February 2024



Source: Bureau of Labor Statistics, NEAM Analytics

Core PCE Services Ex Housing



Source: Federal Reserve Bank of St. Louis, NEAM Analytics



Federal Reserve Policy

Current Cycle

- Commenced in March 2022
- 11 Rate Hikes for a total of 5.25%

2022

Phase 1: How Fast to Increase Rates?

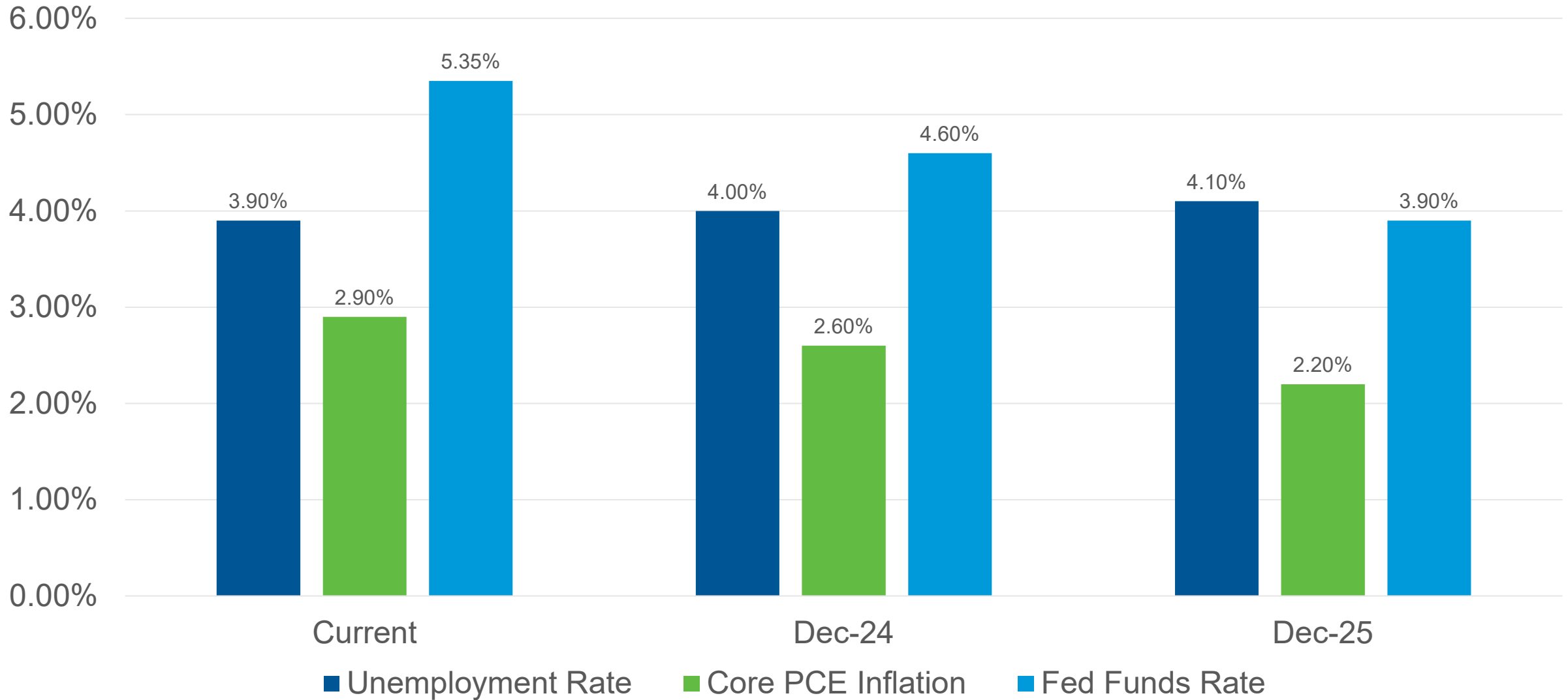
2023

Phase 2: How High to Increase Rates?

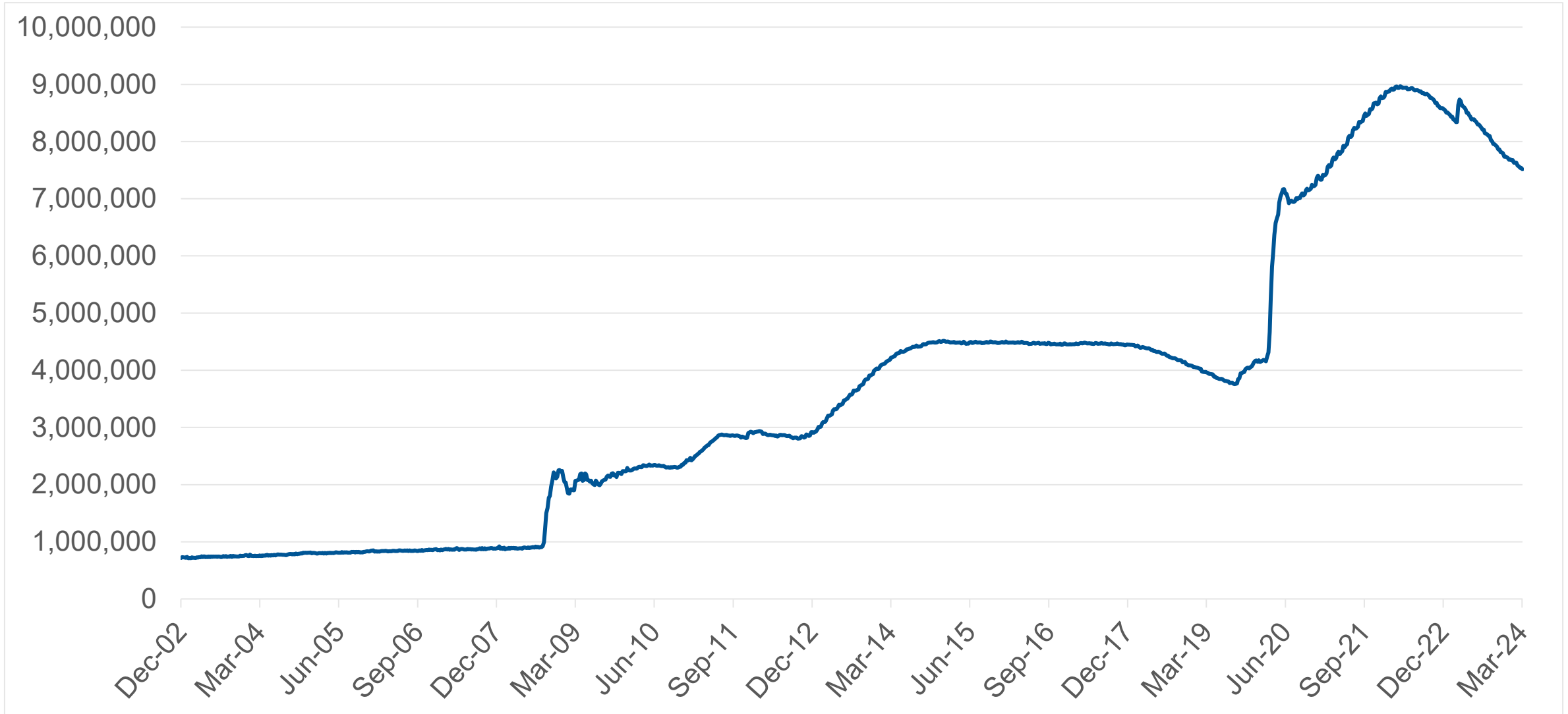
2024

Phase 3: When to Start Cutting Rates and by How Much?

The Fed's Latest Projections (March 2024)



The Federal Reserve Balance Sheet – QT Takes Hold



Source: Federal Reserve of St. Louis, NEAM Analytics

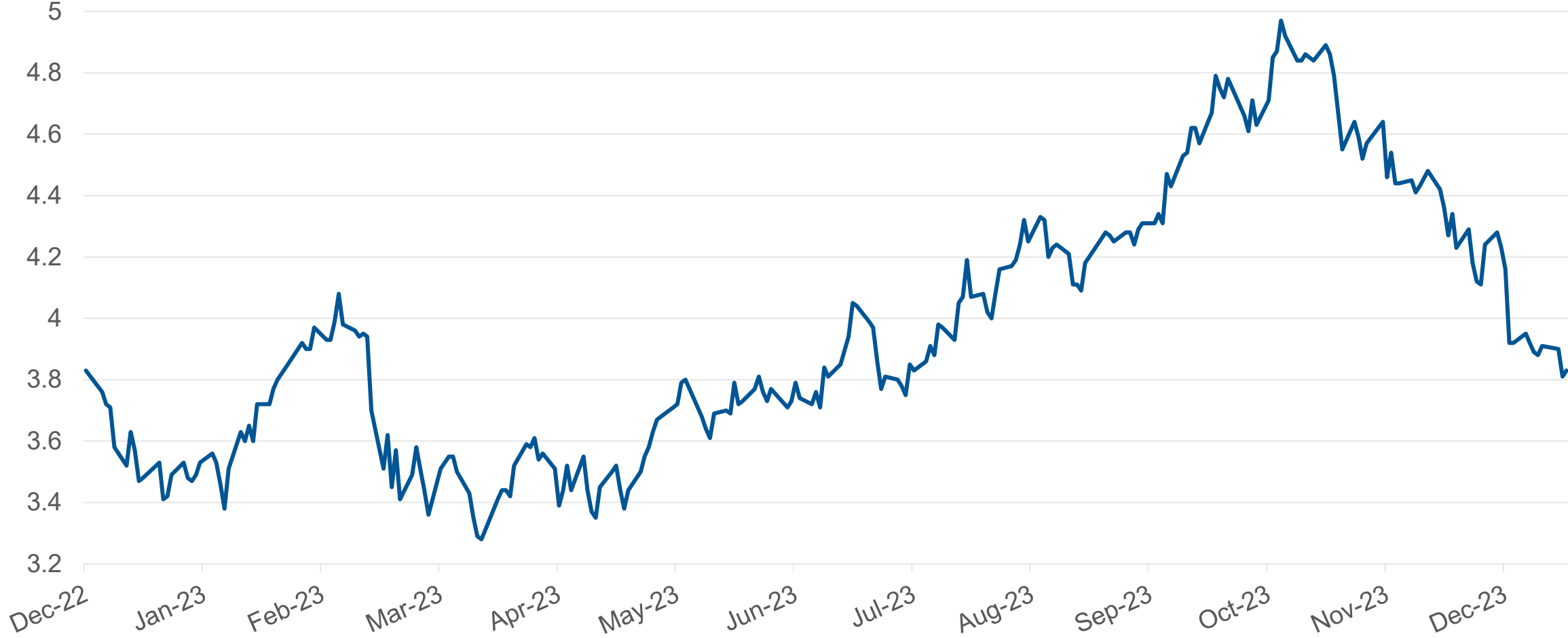


**Capital Market
Implications & Strategy
Recommendations**

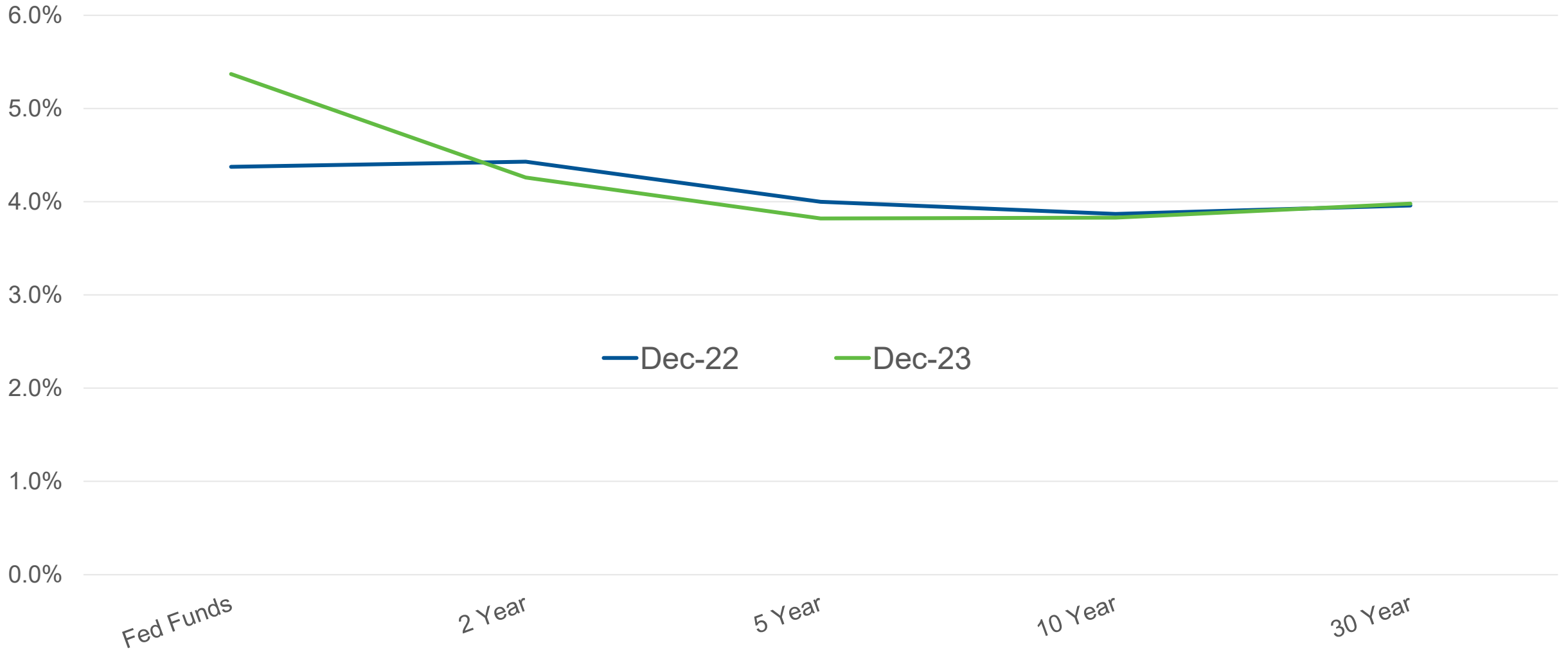
2023 Was a Wild Ride for Treasury Yields



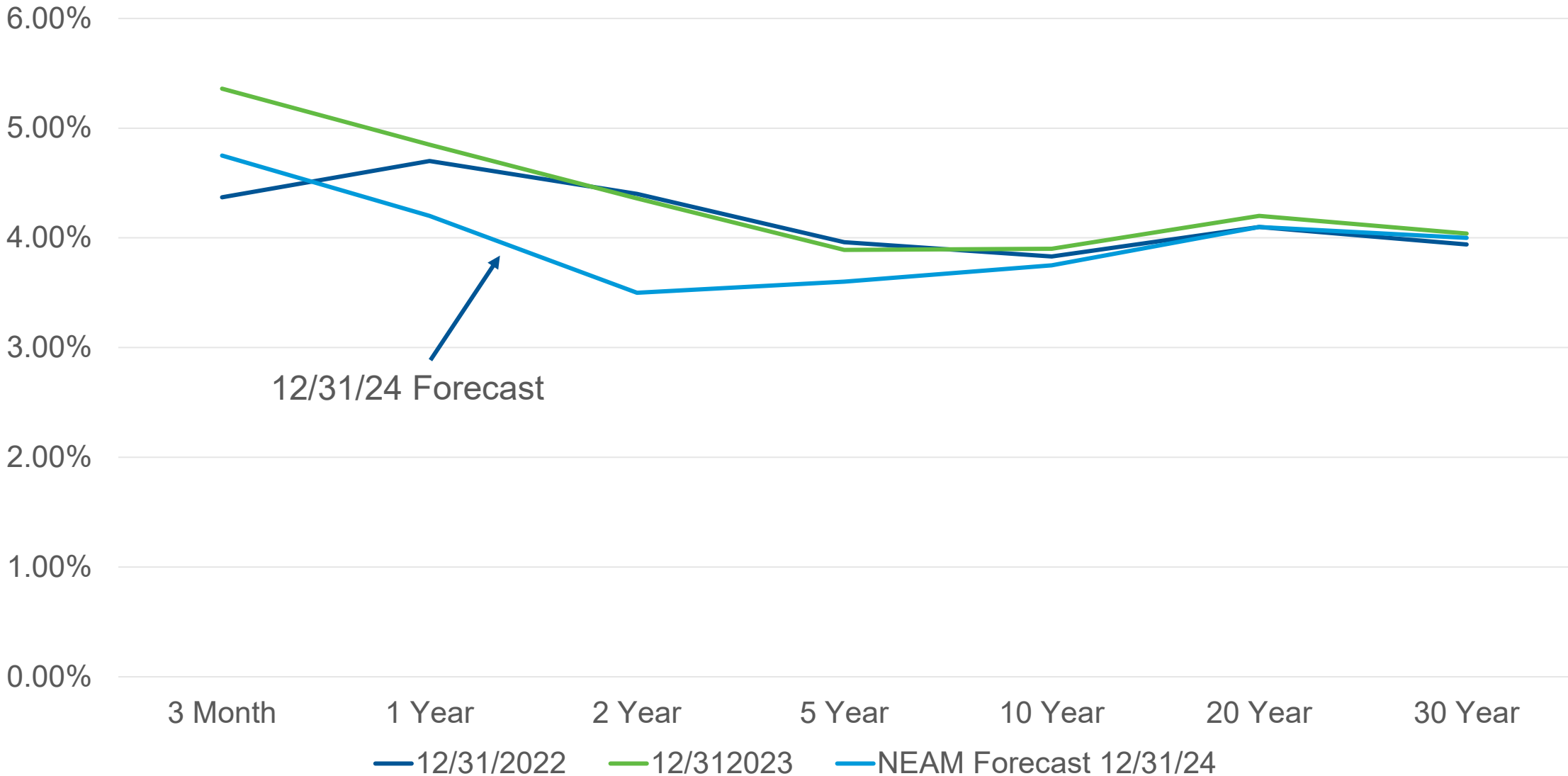
10 Year US Treasury Yield



A Lot of Motion but Little Progress



NEAM Interest Rate Forecast



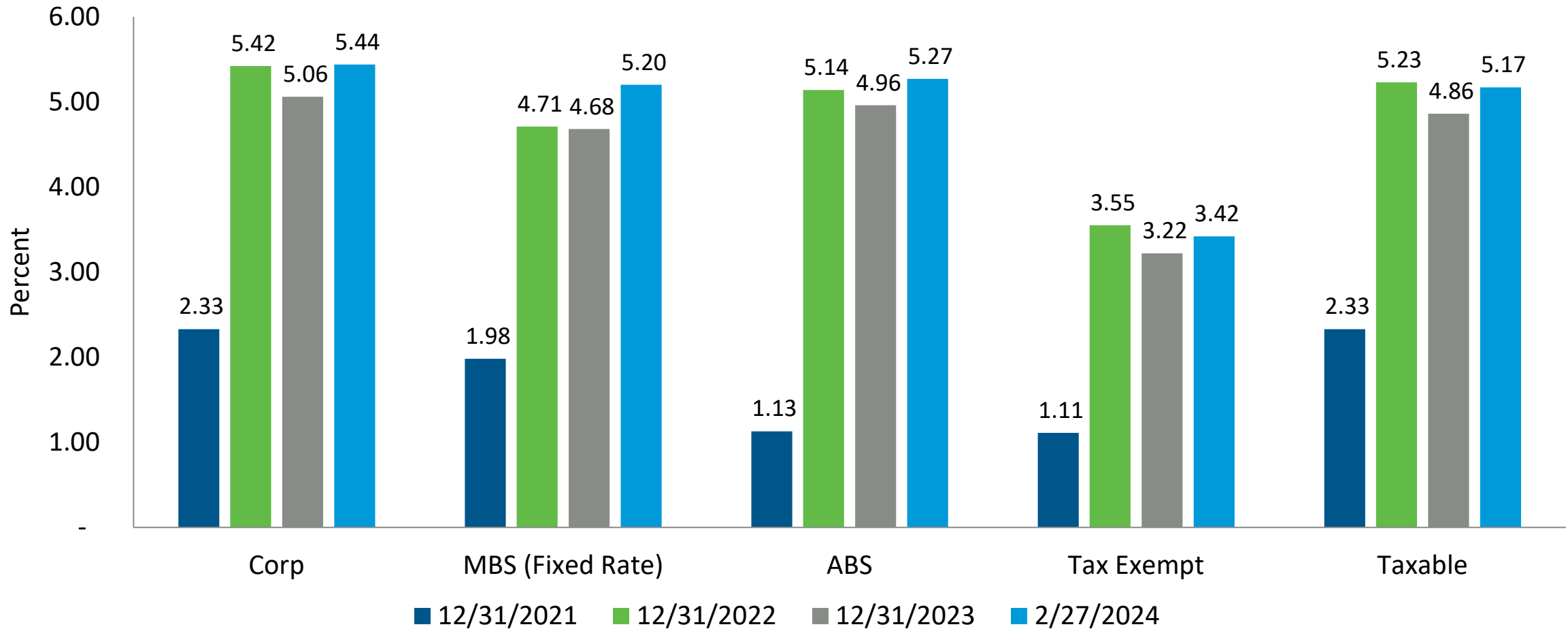
Real Interest Rates



Historically Attractive Opportunities in Investment Grade Fixed Income



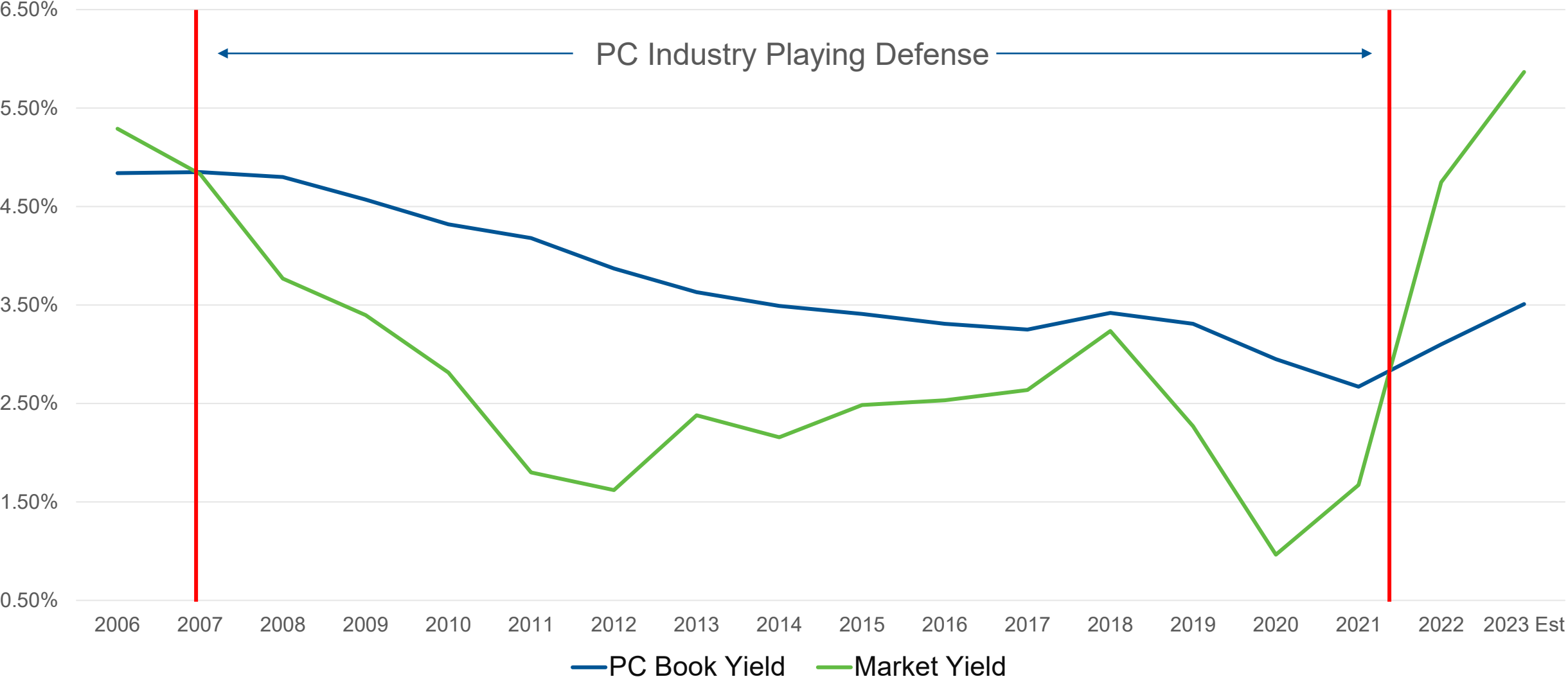
Comparative Yields



Source: Bloomberg Barclays



Fast Break: Defense to Offense



Source: Bloomberg Barclays, SNL, NEAM Analytics

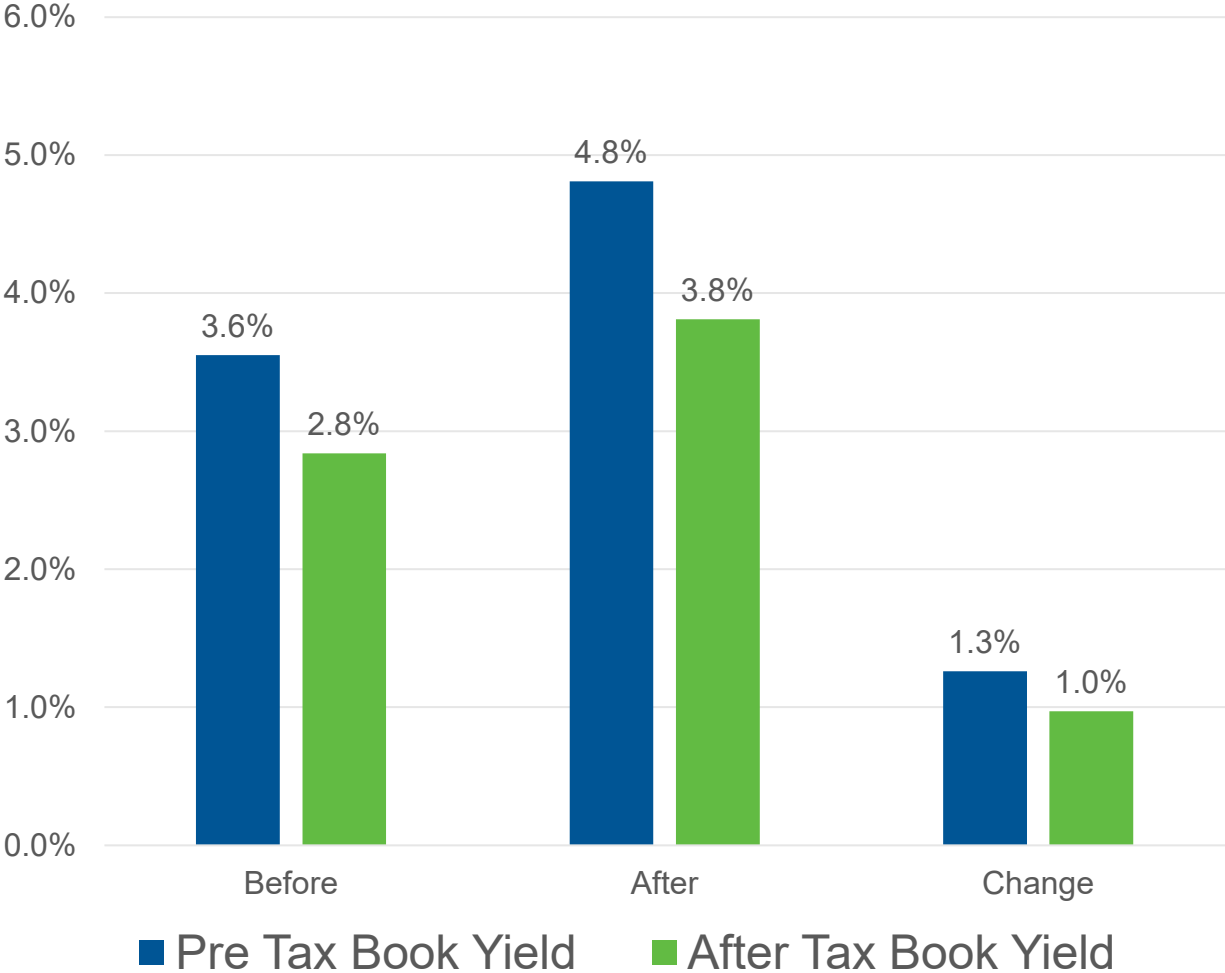
Market Yield and Book Yield – Sample PC Universe



Payback Period Framework for Income Enhancement

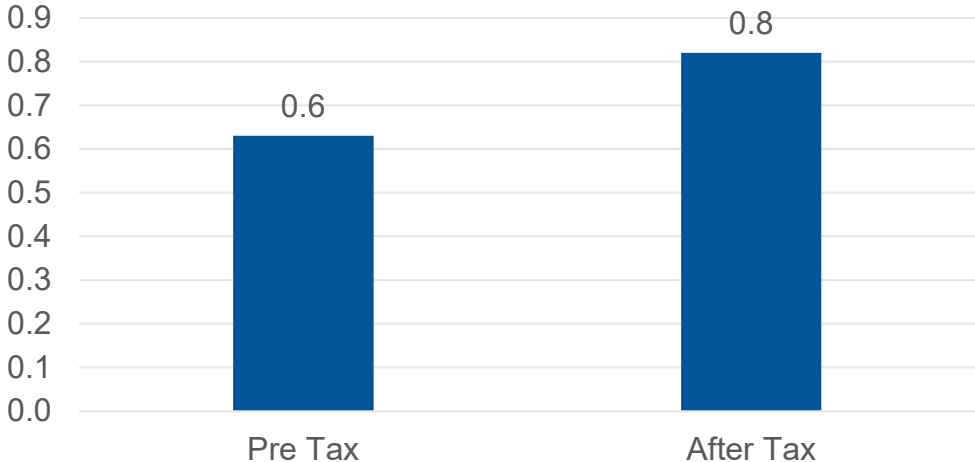


Yield Comparison



	<u>Before</u>	<u>After</u>	<u>Change</u>
Market Value (\$bb)	\$37.3	\$37.3	\$0.0
Book Value (\$bb)	\$39.3	\$39.0	-\$0.3
Unrealized G/L (\$bb)	-\$2.0	-\$1.7	\$0.3
Pre-Tax Book Yield	3.6%	4.8%	1.3%
After-Tax Book Yield	2.8%	3.8%	1.0%
Pre-Tax Income (\$bb)	\$1.4	\$1.9	\$0.5
After-Tax Income (\$bb)	\$1.1	\$1.5	\$0.4

Payback Period



Relative Value: Stocks and Bonds



S&P 500 PE / Bond PE



Source: Bloomberg, NEAM Analytics. Series is S&P500 PE Ratio divided by 1/Yield of 10 Year UST

- Take advantage of the opportunities in investment grade fixed income – Go on Offense!
- Revisit your asset allocation - You may not need to take as much risk to earn targeted returns.
- Emphasize the “durability” of the book yields being added to your fixed income portfolio – no time to be short duration targets.
- Be prepared for additional volatility as there are plenty of potential catalysts – The Waiting is the Hardest Part!

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