

Economic Update and Outlook

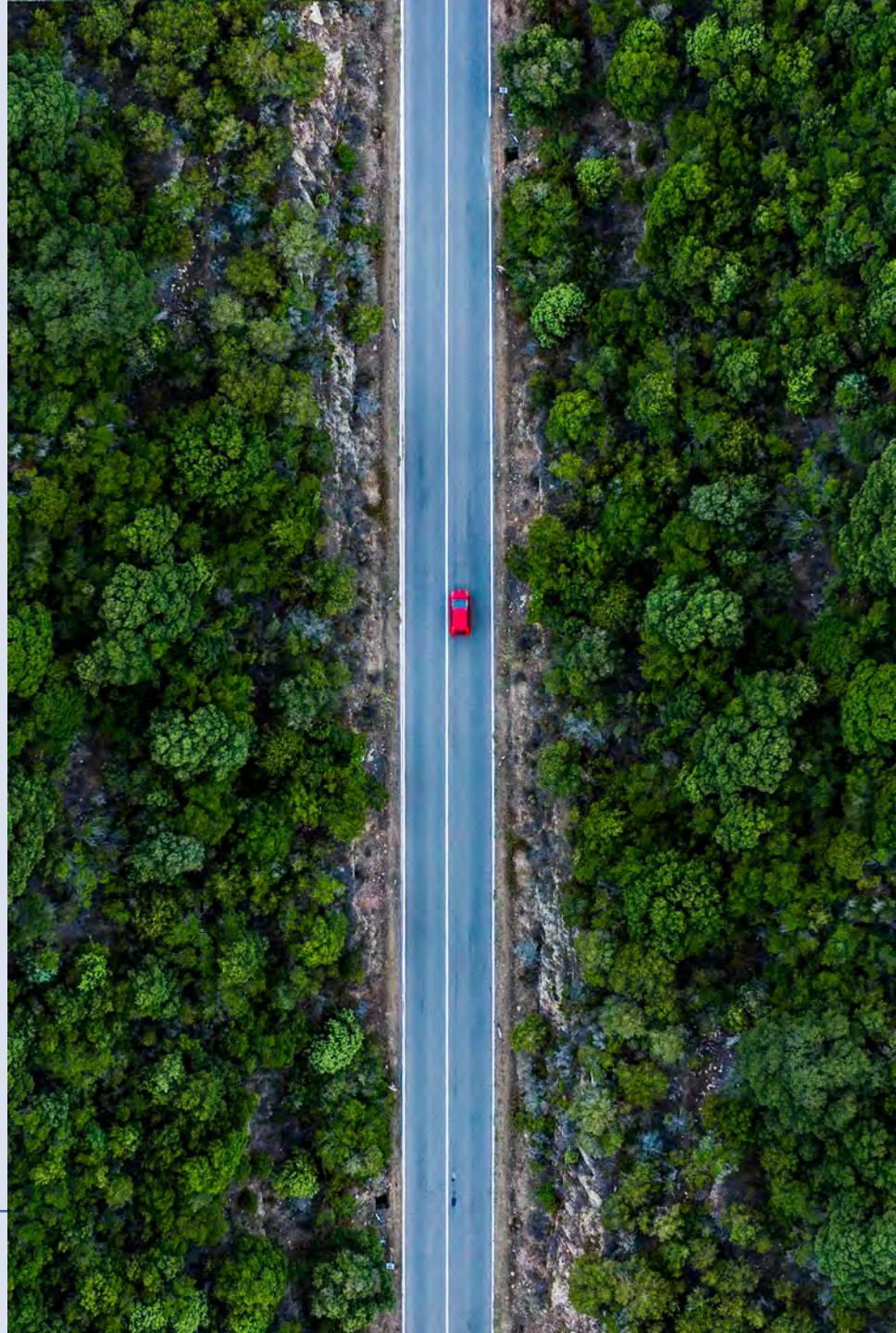
NESGFOA Spring Seminar

April 17, 2025

Eric Simpson, Investment Strategist
Lesley Murphy, Director

Agenda

- Overview of Economic Conditions
- Fixed Income and Equity Markets Overview
- Outlook
- Pillars of Investing
- Questions?



Overview of Economic Conditions



Latest FOMC Meeting

FOMC Statement (edits purposely identified):

~~The Committee judges that~~Uncertainty around the ~~risks to achieving its~~ employment and inflation goals are roughly in balance. ~~The~~ economic outlook is uncertain, and ~~the~~ has increased. The Committee is attentive to the risks to both sides of its dual mandate.

FOMC Press Conference:

“Inflation has started to move up now, we think partly in response to tariffs, and there may be a delay in further progress over the course of this year.”

“...it can be the case that it’s appropriate sometimes to look through inflation if it’s going to go away quickly without action by us if it’s transitory and that can be the case in the case of tariff inflation.”

“There’s healthy levels of job creation ... So overall, it’s a labor market that’s in balance and we watch it very carefully.”

“For right now, the hard data are pretty solid. We are, obviously, aware of the soft sentiment data and the high uncertainty, and we’re watching that carefully, and we think it’s a good time for us to wait for further clarity before we consider adjusting our policy stance.”

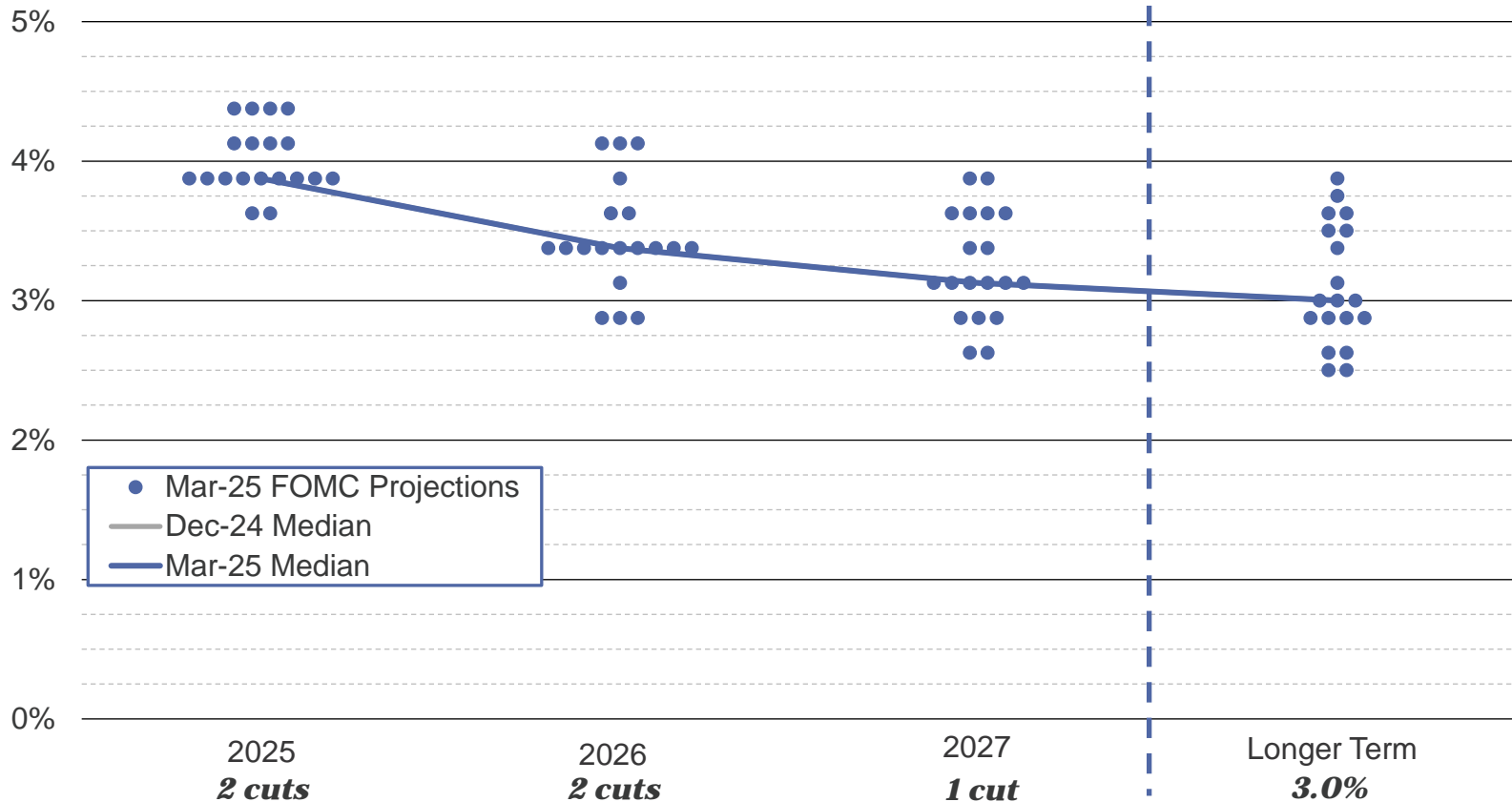
“We’ll patiently watch and understand and... not be in a hurry to get to a place of understanding what our policy response should be until we see how it plays out.”



Fed's Latest "Dot Plot" Shows No Change to Median Projection

Fed Chair Powell: "What would you write down? It's really hard to know how this is going to work out. And, again, we think our policy is in a good place ... where we can move in the direction where we need to."

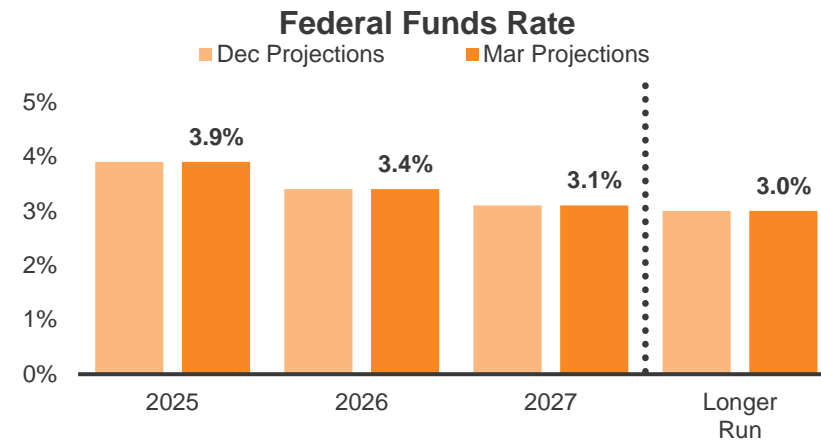
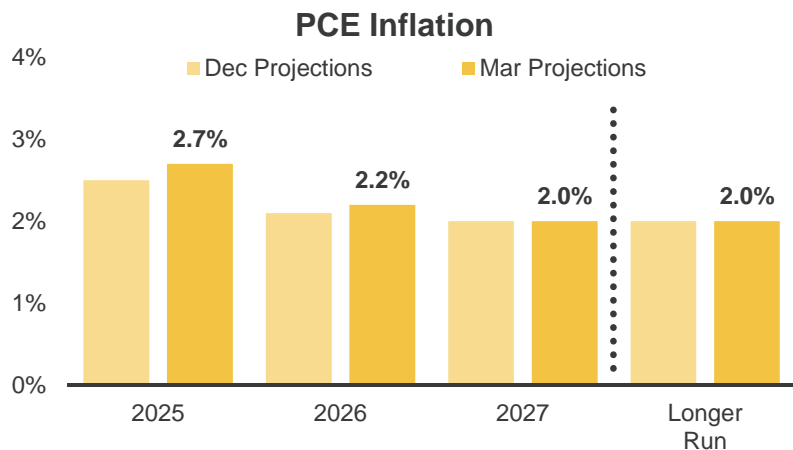
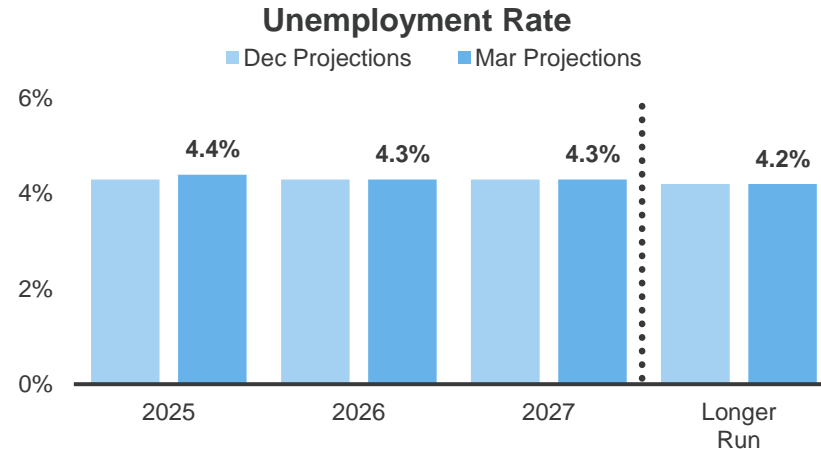
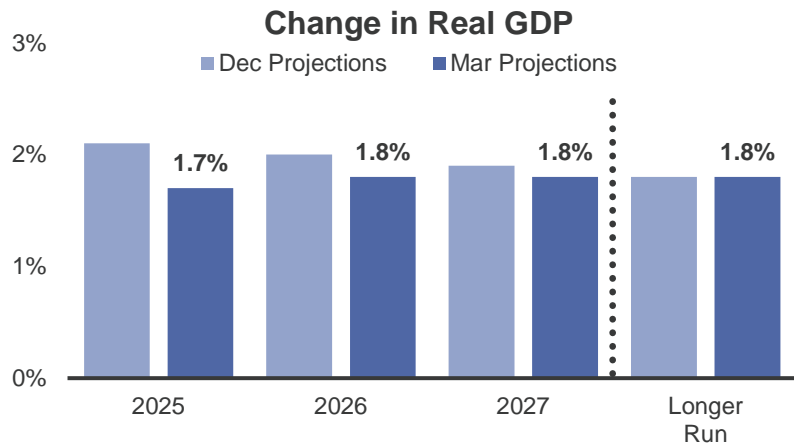
Fed Participants' Assessments of 'Appropriate' Monetary Policy



Source: FOMC Chair Jerome Powell Press Conference, March 19, 2025. Federal Reserve; Bloomberg Finance L.P.. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end. As of March 2025.

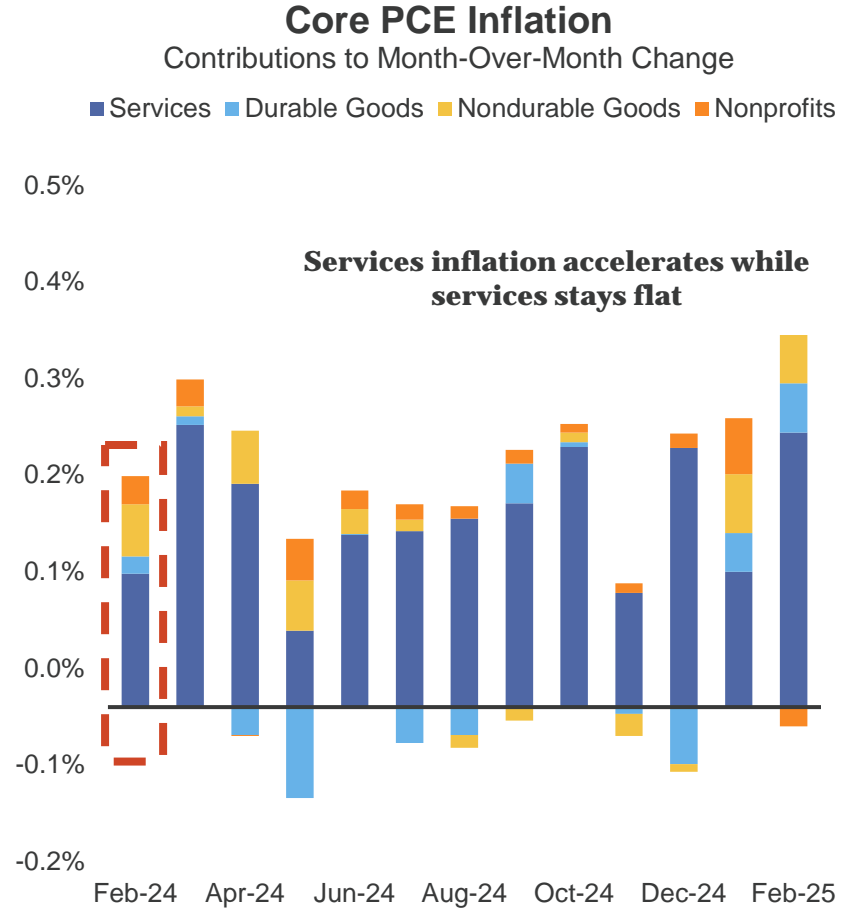
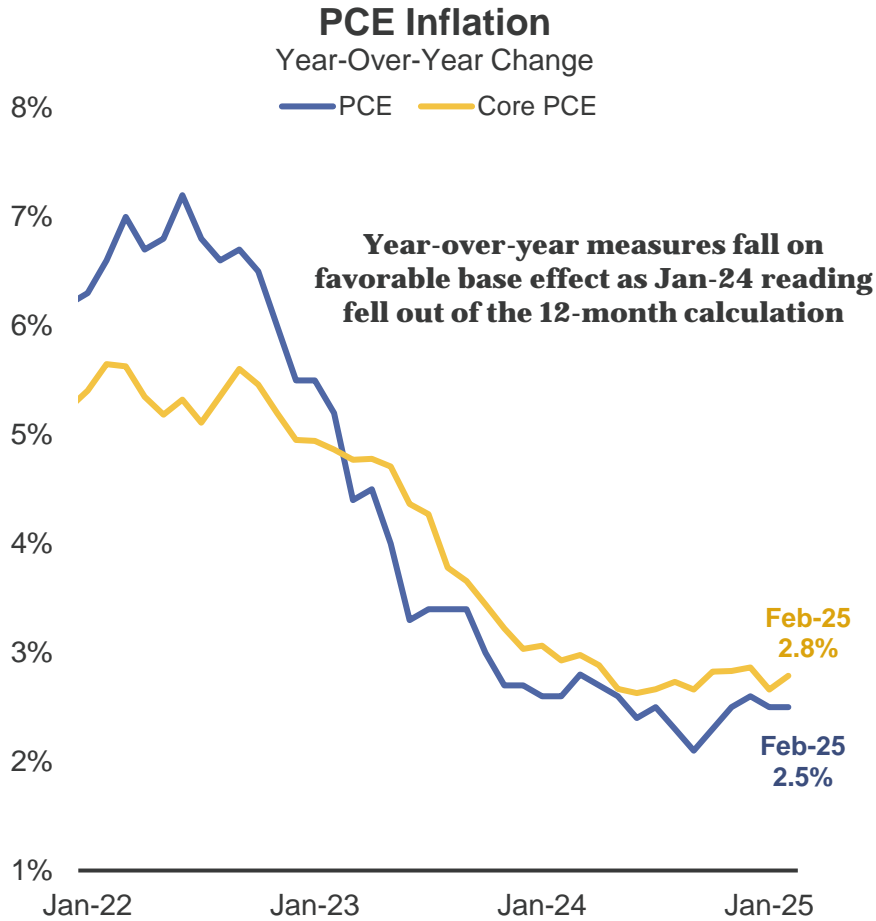
Fed's Updated Summary of Economic Projections

Fed Chair Powell: "... you see weaker growth but higher inflation—they kind of offset—and also, frankly, a little bit of inertia. When it comes to changing something in this highly uncertain environment, you know, I think there is a level of inertia where you just say, maybe I'll stay where I am.



Source: FOMC Chair Jerome Powell Press Conference, March 19, 2025. Federal Reserve, latest economic projections as of March 2025.

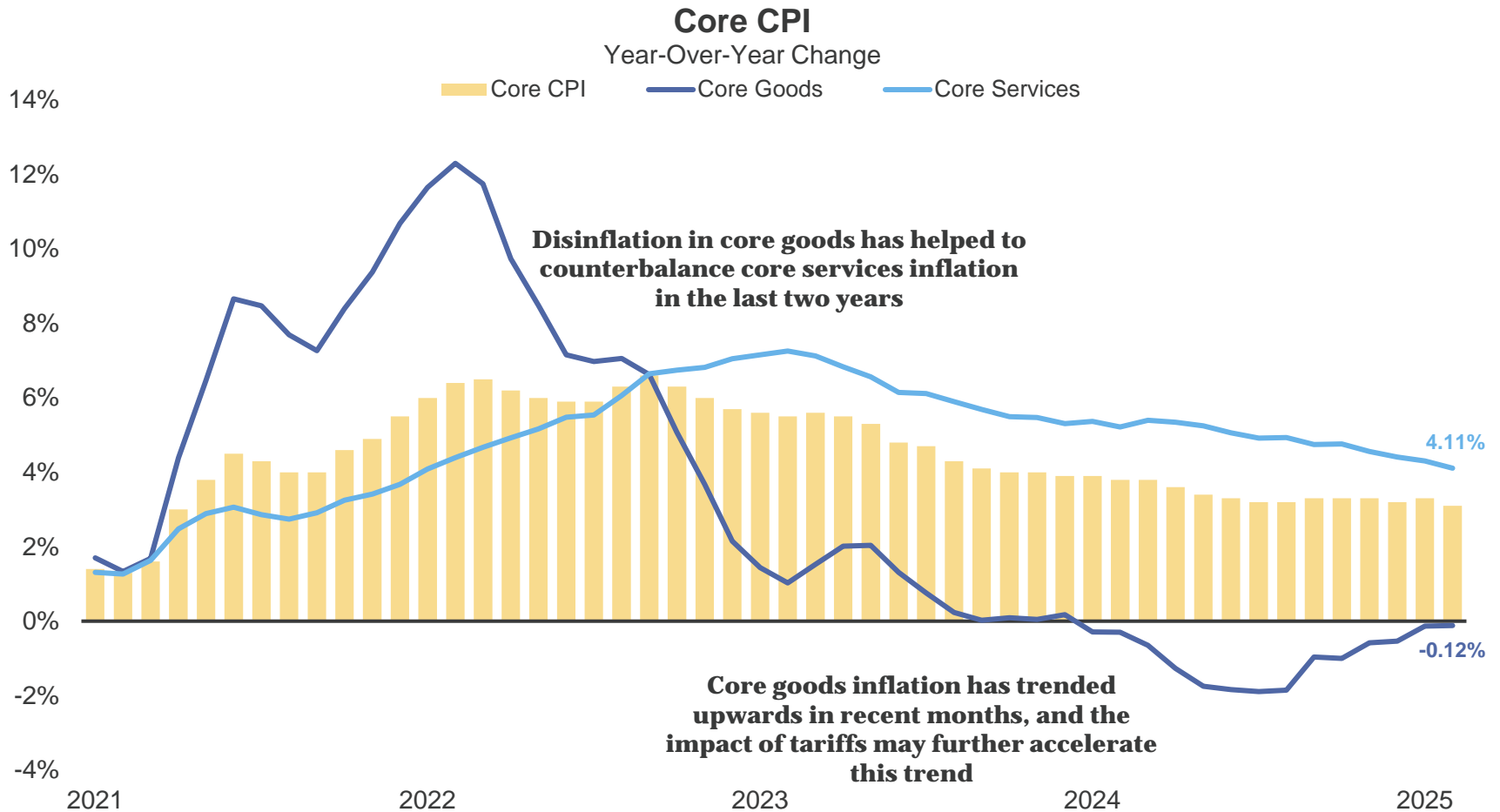
PCE Inflation Remains Above Fed Target



Source: Bloomberg Finance L.P. and Bureau of Economic Analysis, as of February 2025.

CPI Inflation Remains Above Fed Target

Fed Chair Powell on tariff impacts: "...ultimately, though, it's too soon to be seeing significant effects in economic data..."

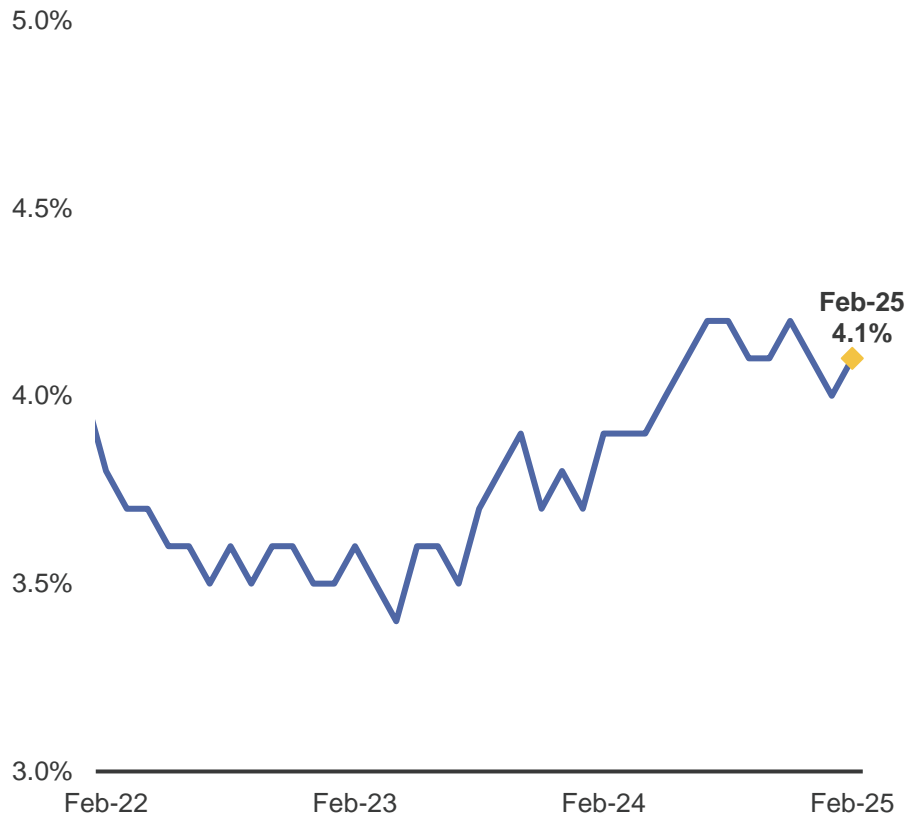


Source: Bloomberg Finance L.P. and Bureau of Economic Analysis, as of February 2025.

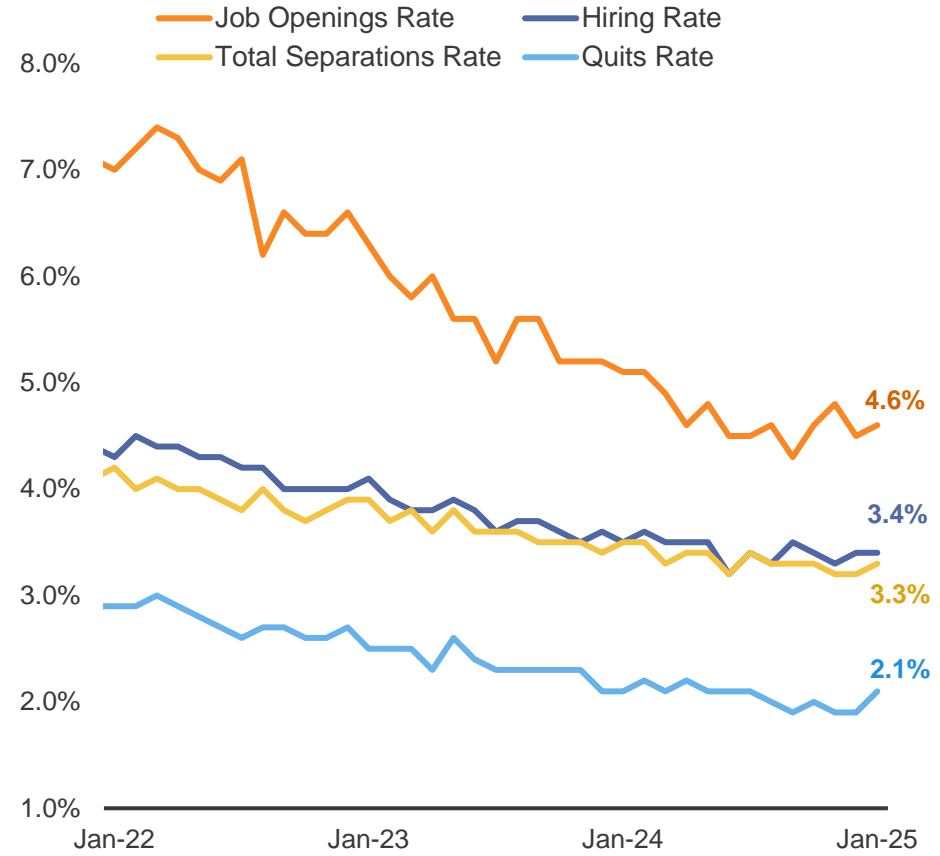
The Labor Market Remains Steady

Fed Chair Powell: "...the hiring rate is quite low. But so is the layoff rate. ... So you're not seeing people losing their jobs, but you're seeing the people who don't have a job having to wait longer and longer."

Unemployment Rate



Job Openings and Labor Turnover

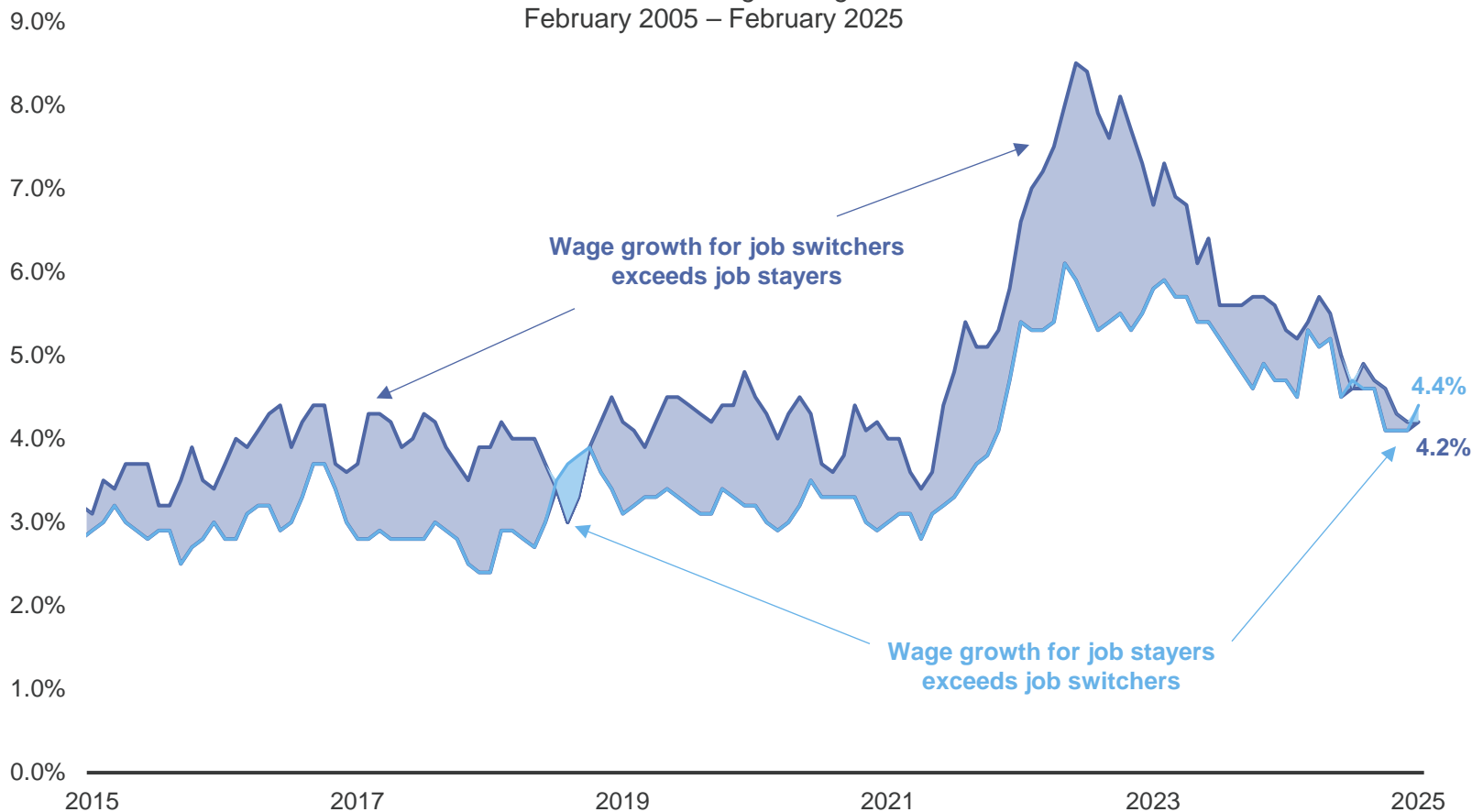


Sources: FOMC Chair Jerome Powell Press Conference, March 19, 2025. Bloomberg Finance L.P., Bureau of Labor Statistics. Unemployment rate as of February 2025. JOLTS data as of January 2025. Data is seasonally adjusted (left). (right).

Wage Growth is Reflective of Slow Hiring Market

Median Hourly Wage Growth: Job Switchers vs. Job Stayers

3-Month Moving Average
February 2005 – February 2025



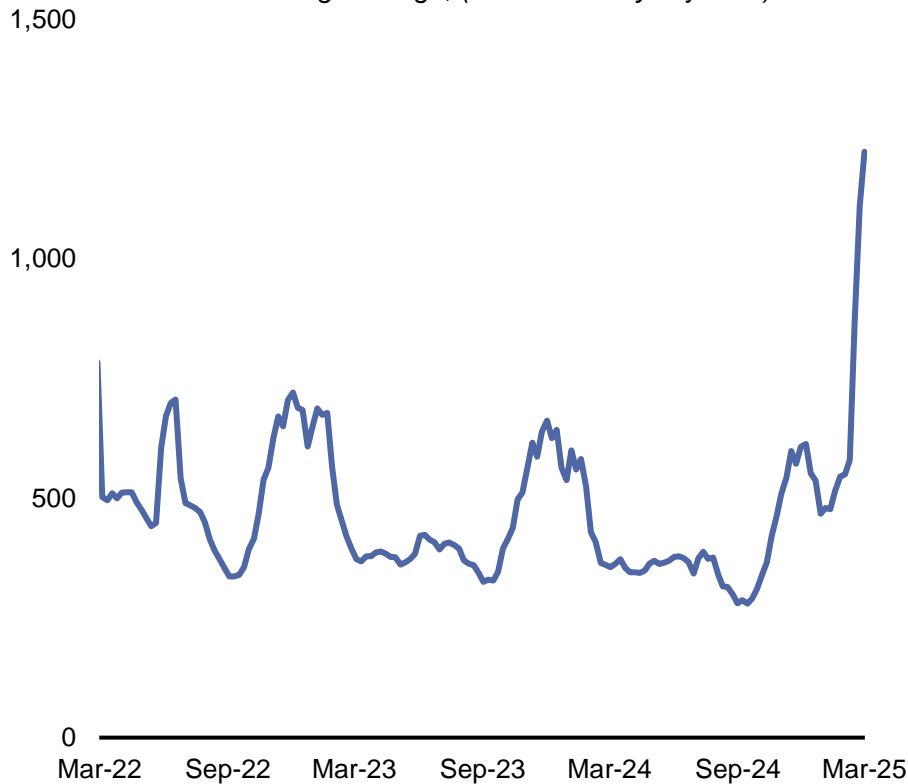
Source: Federal Reserve Bank of Atlanta and FRED, Federal Reserve Bank of St. Louis, as of February 2025.

Federal Employment Remains a Focus

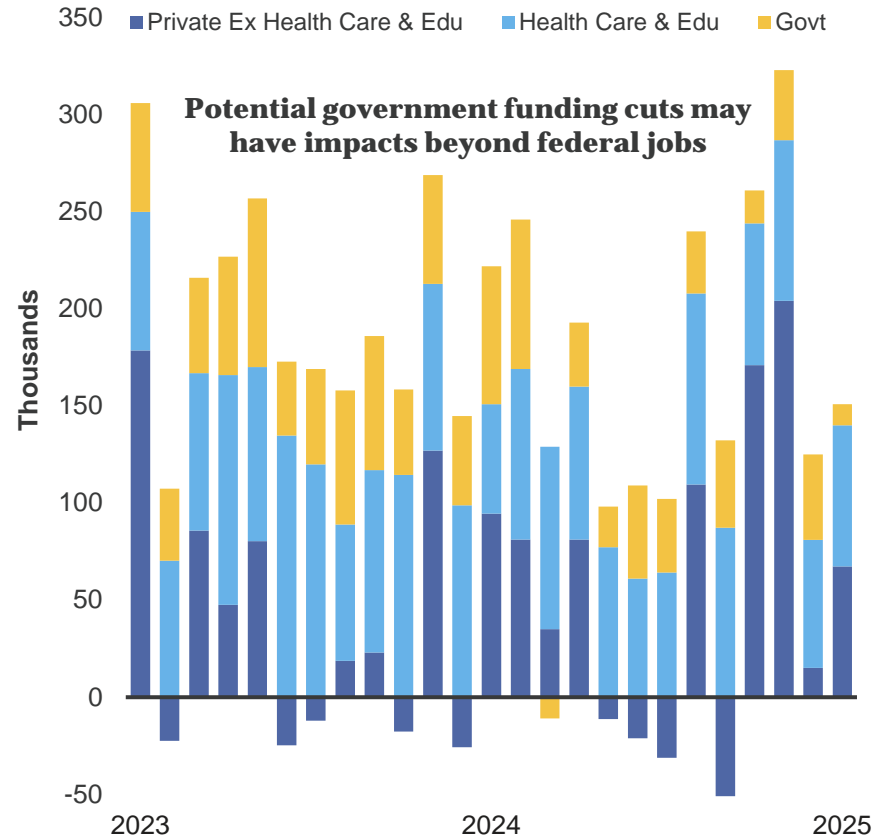
Fed Chair Powell: "There were... a good number of months ... when a lot of the job creation was concentrated in ... educational institutions, health care, state governments."

Initial Jobless Claims: Federal

4-Week Moving Average, (not seasonally adjusted)



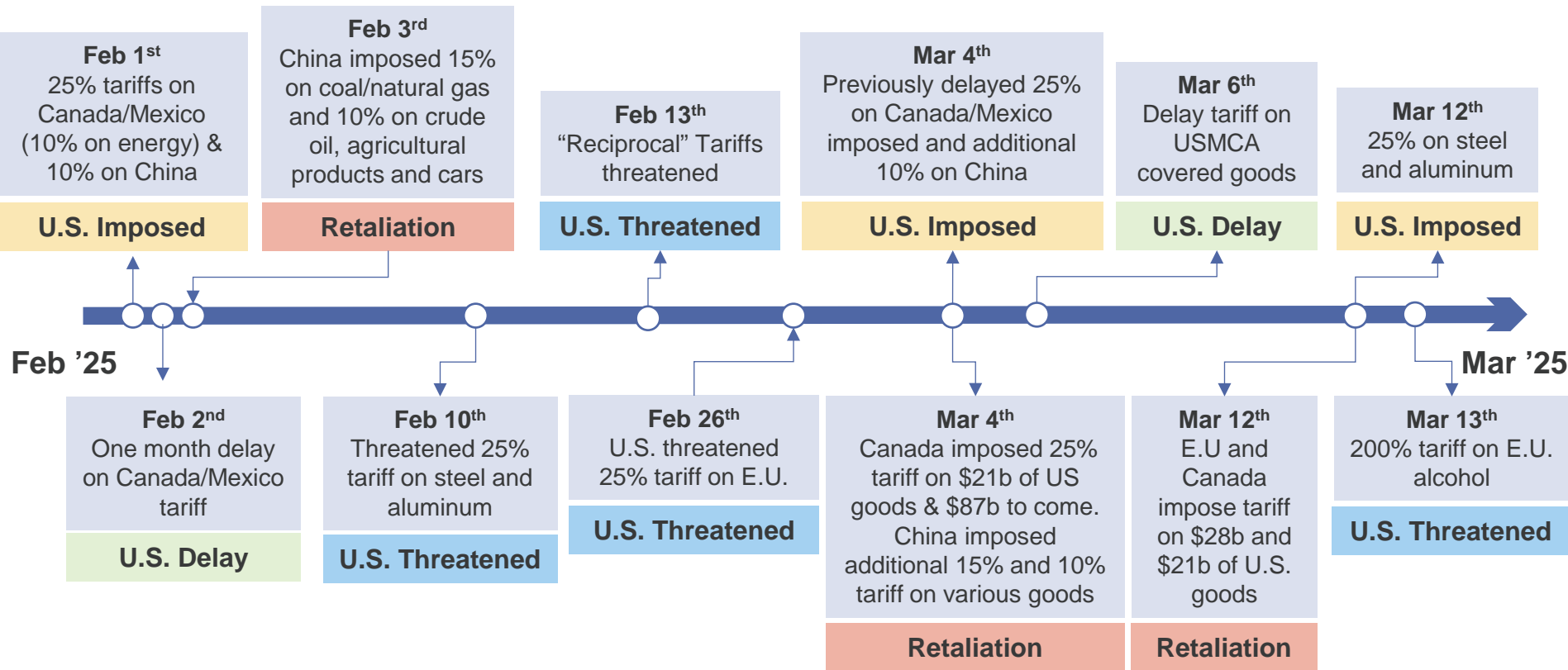
Monthly Change In Nonfarm Payrolls



Sources: FOMC Chair Jerome Powell Press Conference, March 19, 2025. Bloomberg Finance L.P., Department of Labor (left) as of March 2025 and Bureau of Labor Statistics (right), as of February 2025.

Tariff Policy Updates

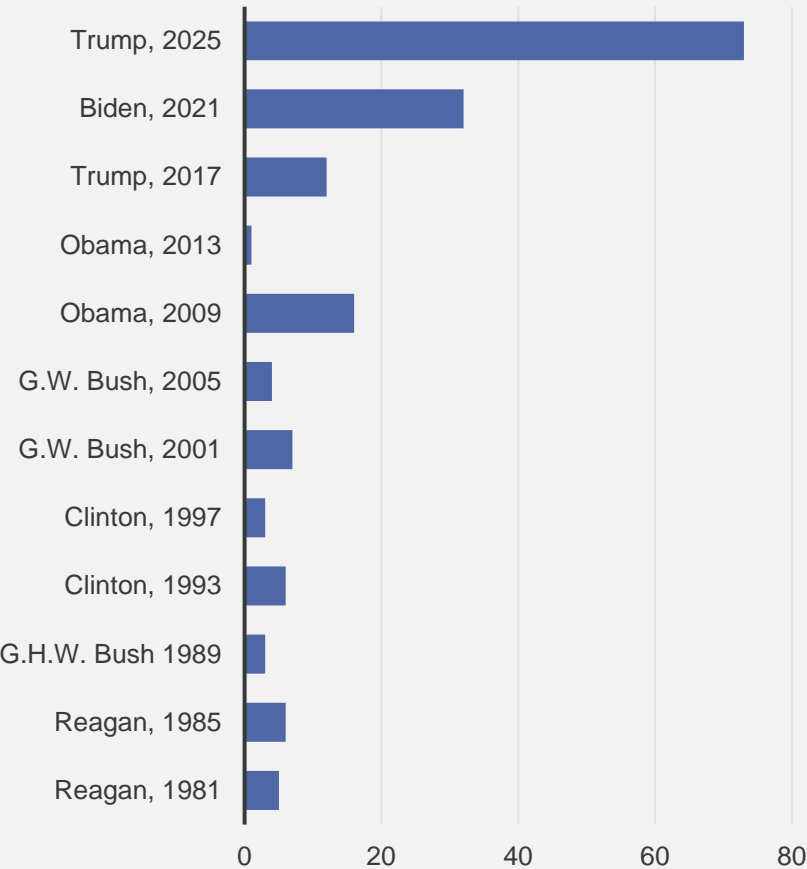
Fed Chair Powell: "...it is going to be very difficult to have a precise assessment of how much of inflation is coming from tariffs ... The answer is, clearly, some of it. A good part of it is coming from tariffs but we'll be working ... to try to find the best possible way to separate nontariff inflation from tariff inflation.



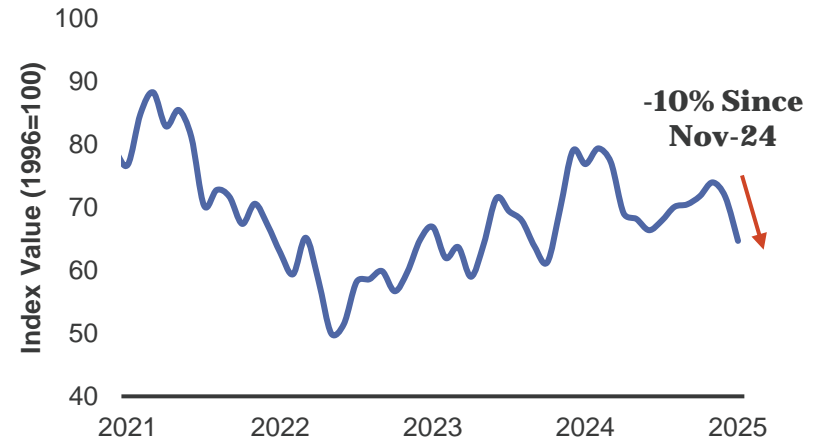
Policy Changes Increase Consumer Uncertainty

Number of Executive Orders Signed In First Month of Term

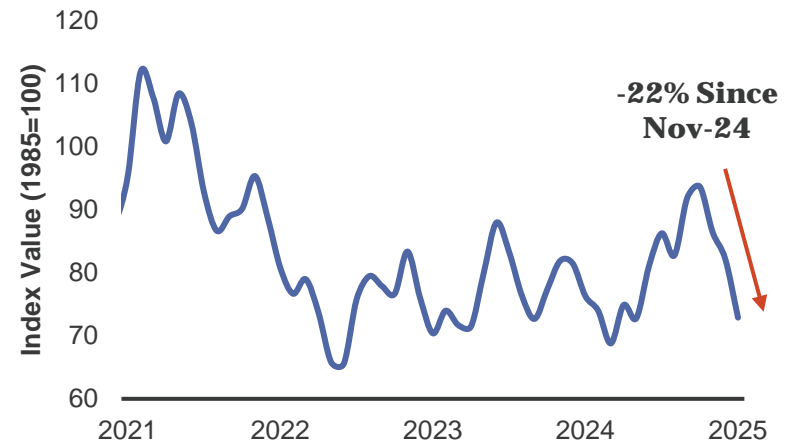
Jan 20 – Feb 20



Consumer Sentiment Index



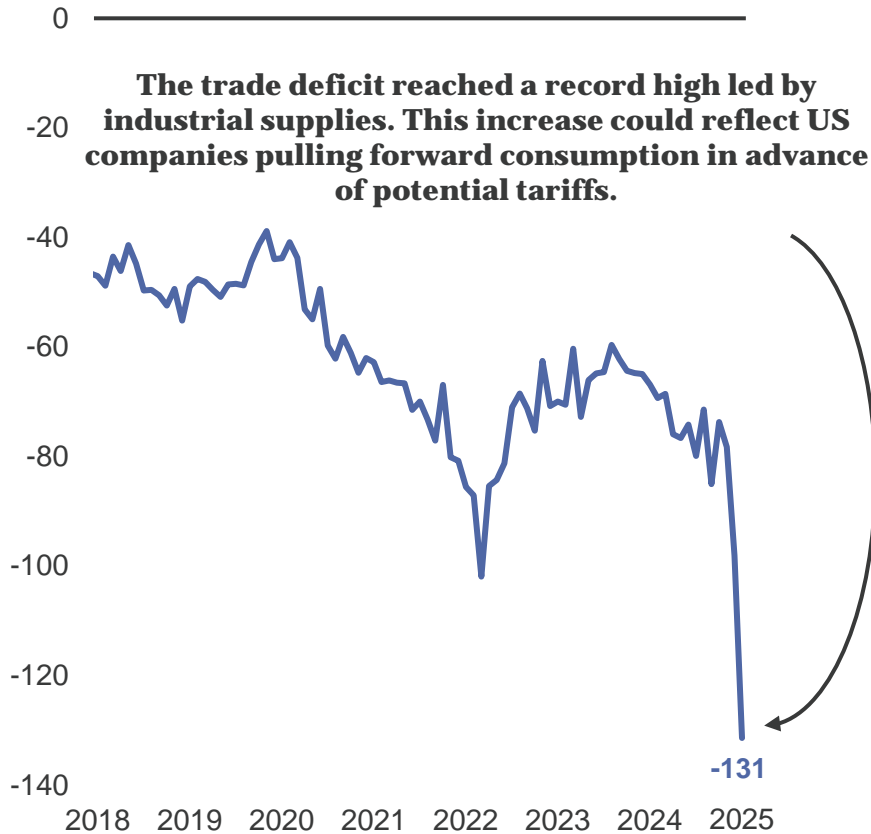
Consumer Expectations Index



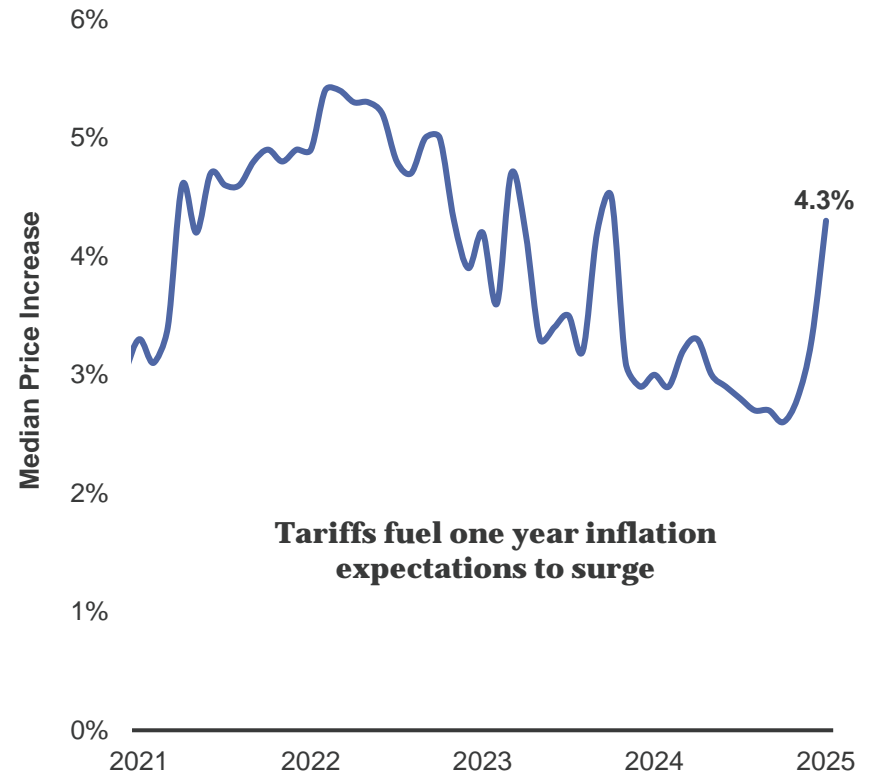
Sources: Bloomberg Finance L.P. and [Federal Register :: Executive Orders](#), as of March 2025. University of Michigan Consumer, as of February 2025 (top right). Bloomberg Finance L.P. and Conference Board, as of February 2025 (bottom right).

Tariffs Weigh on Consumers

U.S. Trade Balance



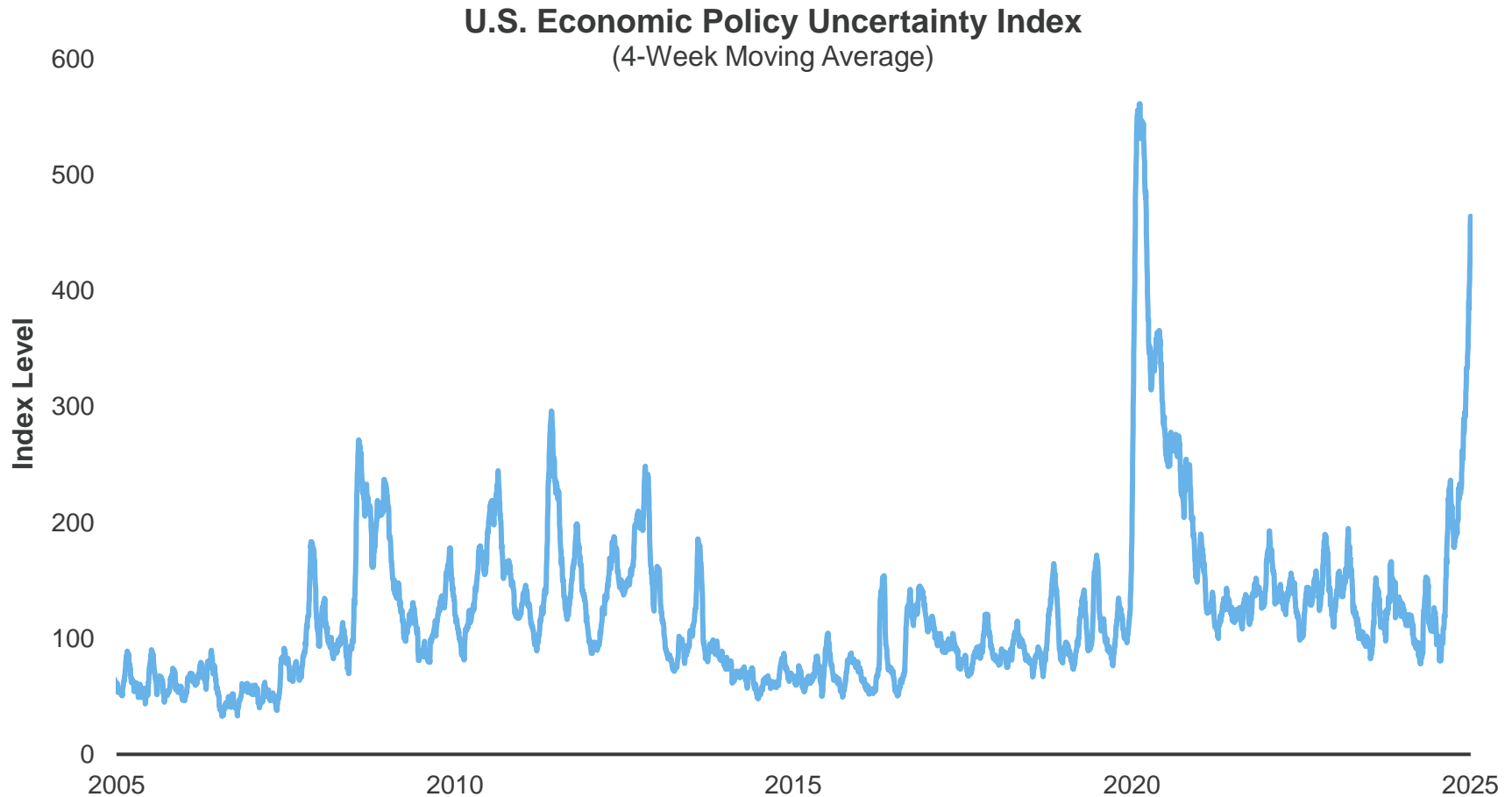
Expected Change in Prices During Next Year



Source: Bloomberg Finance L.P. and the U.S. Census Bureau as of December 2024 (left). University of Michigan Consumer Sentiment, as of February 2025 (right).

Rising Uncertainty Had Led to Risk Off Sentiment

Fed Chair Powell: “We understand that sentiment is quite negative at this time, and that probably has to do with ... turmoil at the beginning of an administration that’s making ... big changes in areas of policy...”



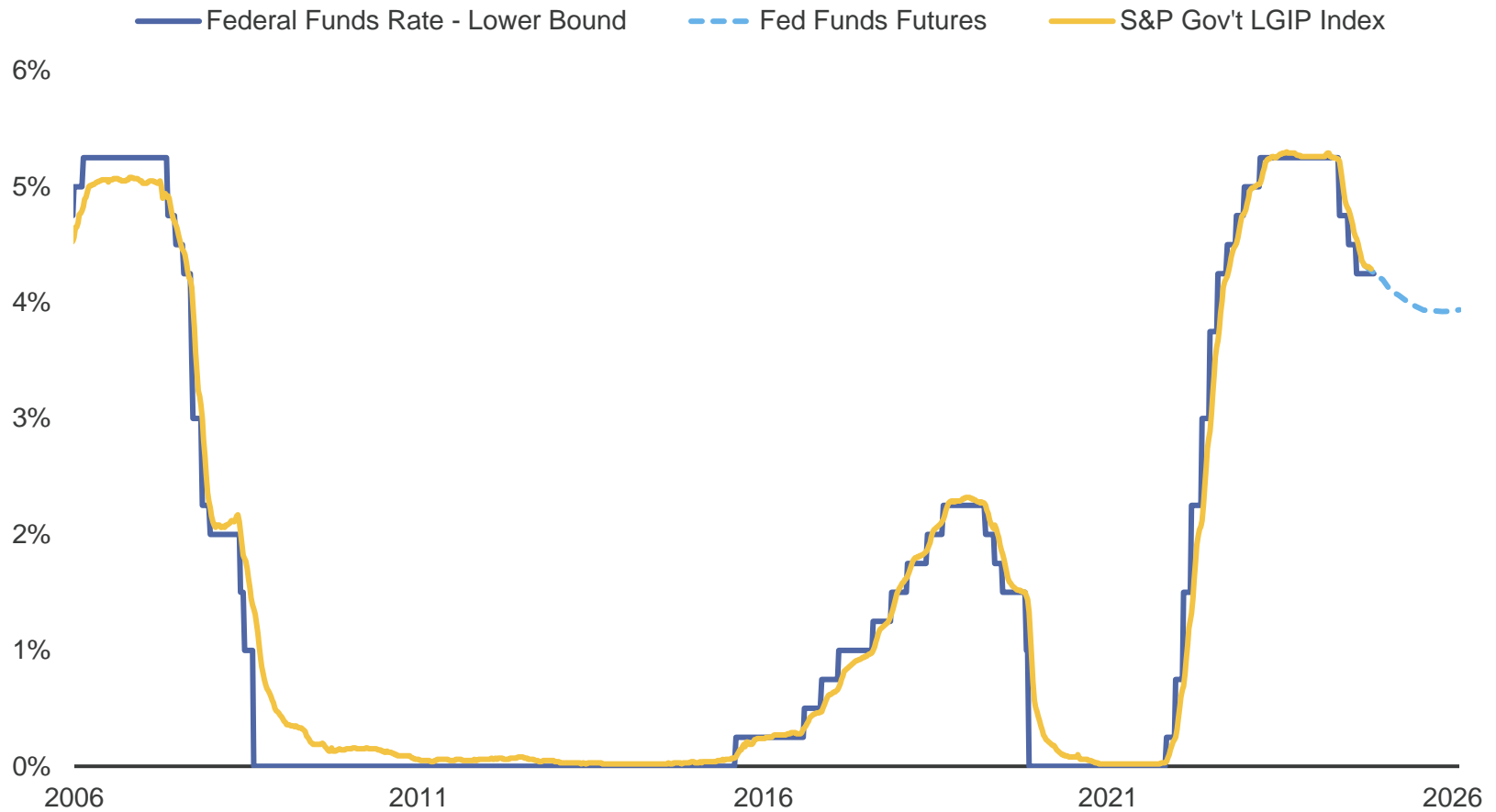
Source: FOMC Chair Jerome Powell Press Conference, March 19, 2025. Bloomberg Finance L.P., as of 3/18/2025. The Baker, Bloom and Davis daily news-based Economic Policy Uncertainty Index is based on newspaper archives from Access World News's NewsBank service.

Fixed Income and Equity Markets Overview



Liquid Investment Yields Tend to Follow Short-Term Rates

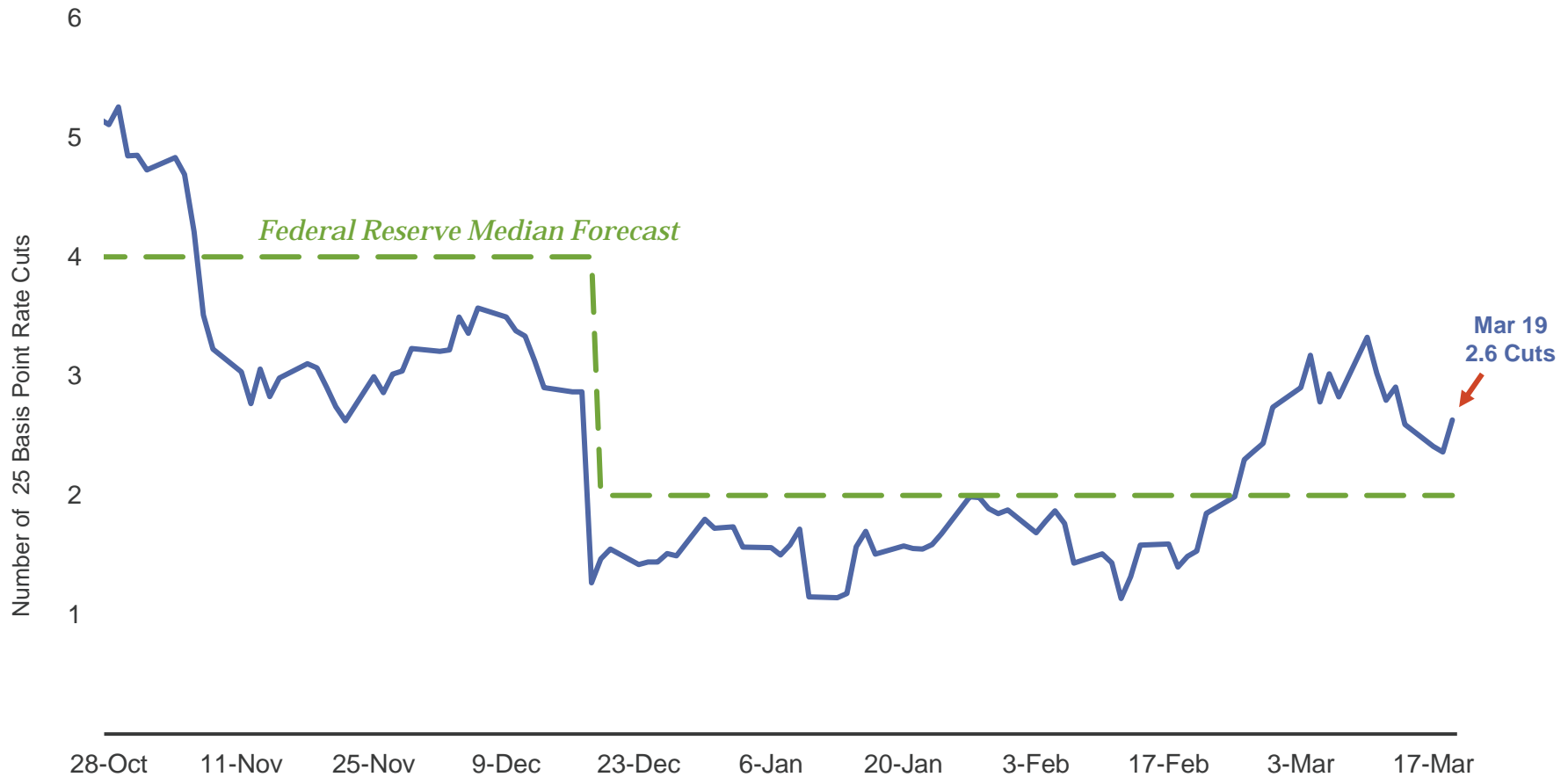
Short-Term Yield Comparison



Source: Bloomberg Finance L.P., as of March 21, 2025. Single day outliers caused by Covid have been excluded.

Markets Price Three Cuts in 2025

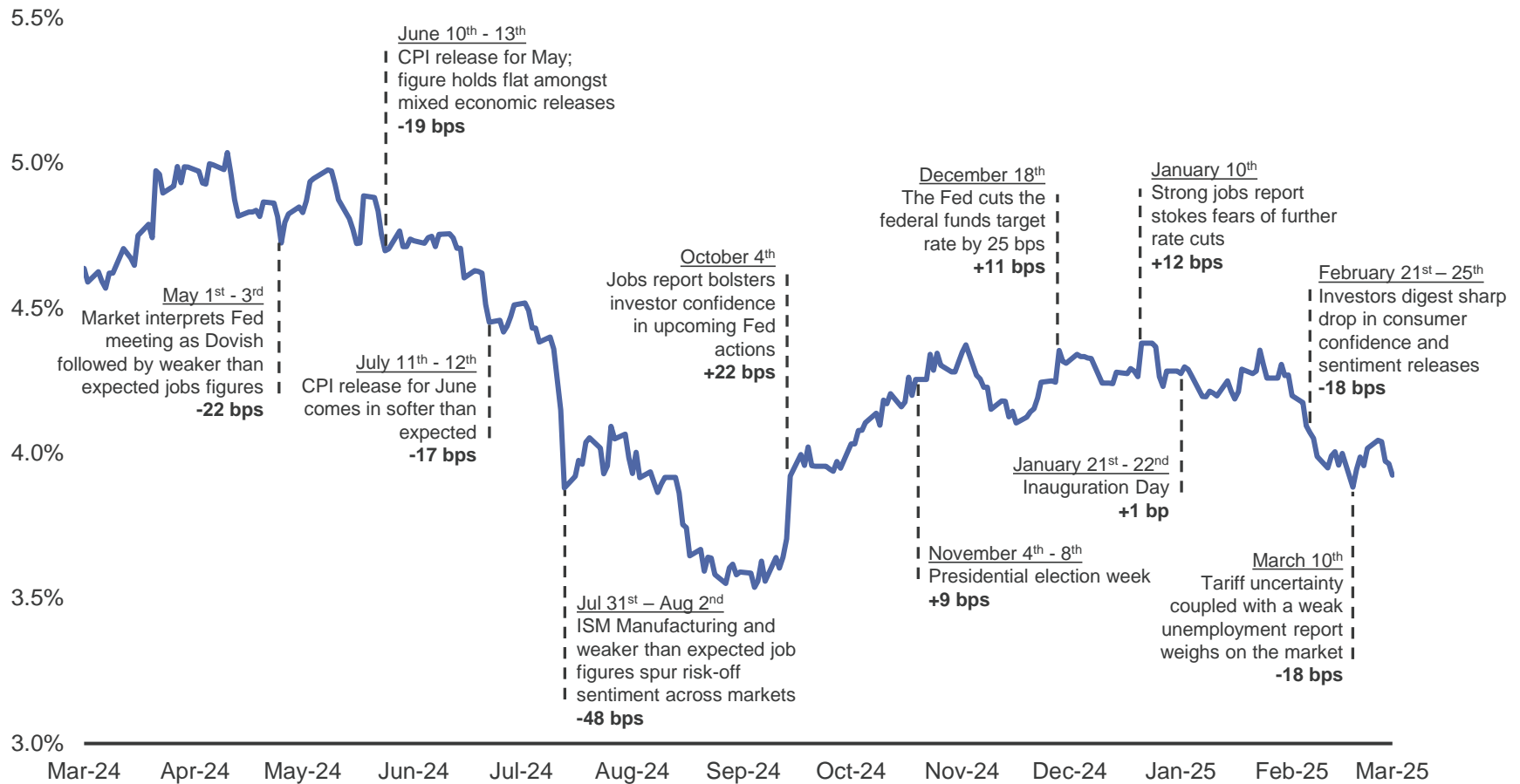
Number of Implied 25 Bps Rate Cuts in 2025



Source: Bloomberg Finance L.P., as of March 19, 2025.

2-Year Treasury Reflects Changing Expectations

2-Year U.S. Treasury Yield



Source: Bloomberg Finance L.P., as of March 21, 2025.

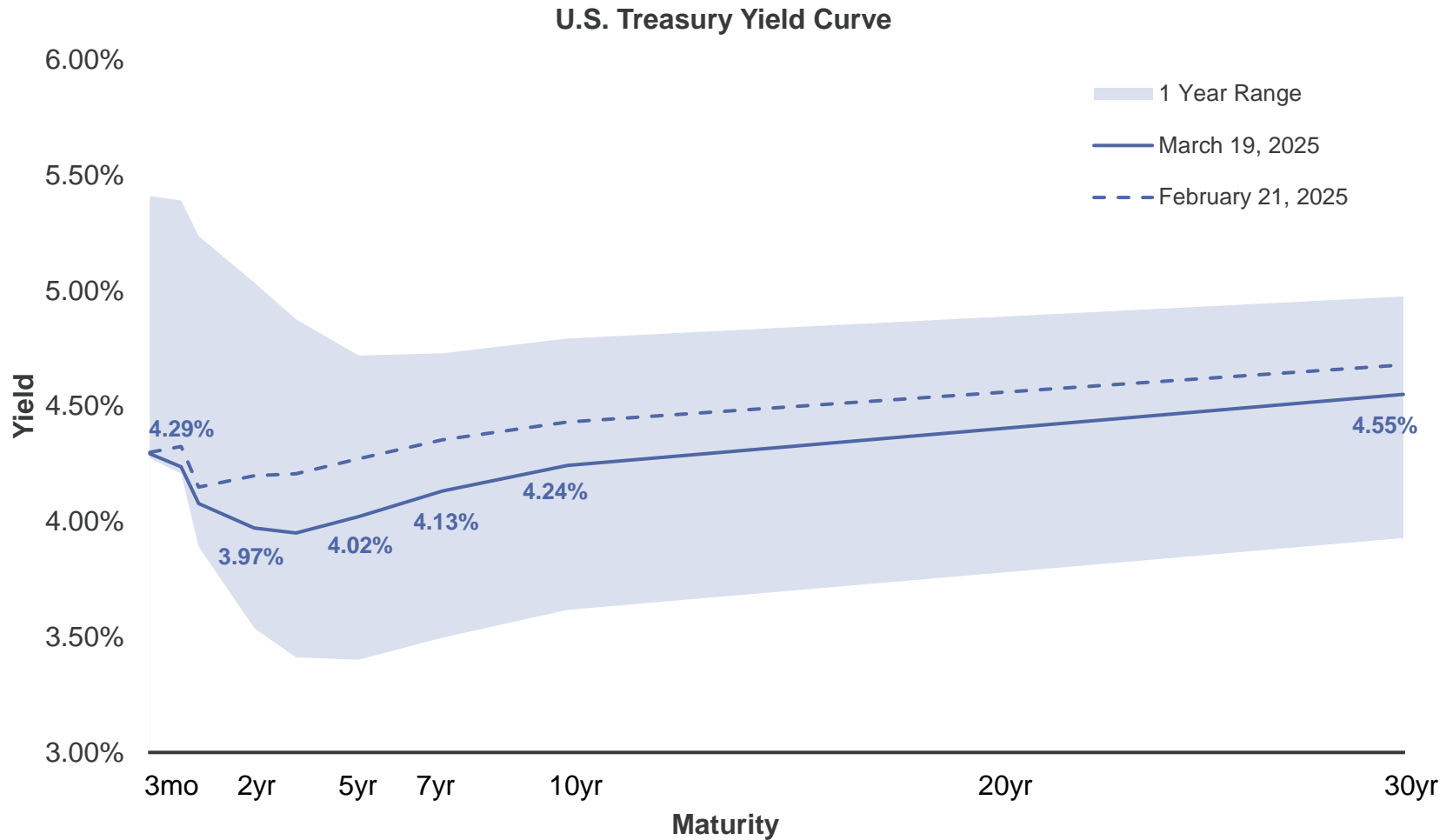
U.S. Bond Market Volatility Spikes Amidst Tariff Talk

Bond Market Volatility (MOVE)



Source: Bloomberg Finance L.P., as of March 20, 2025.

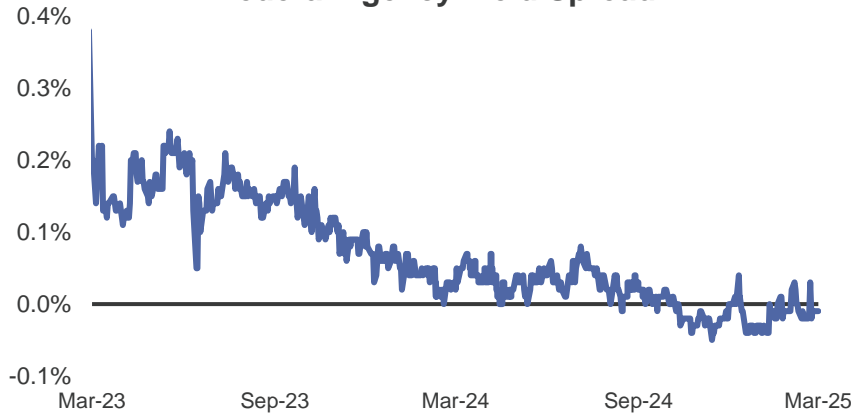
Treasury Yields Lower Month-on-Month



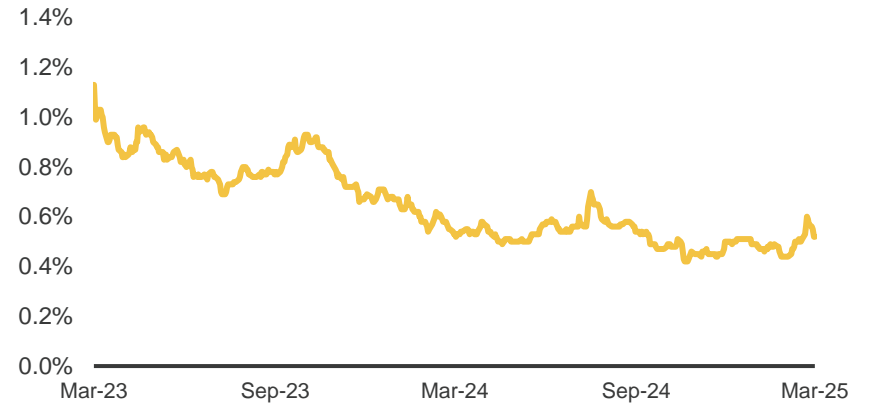
Source: Bloomberg Finance L.P., as of March 19, 2025.

Sector Yield Spreads

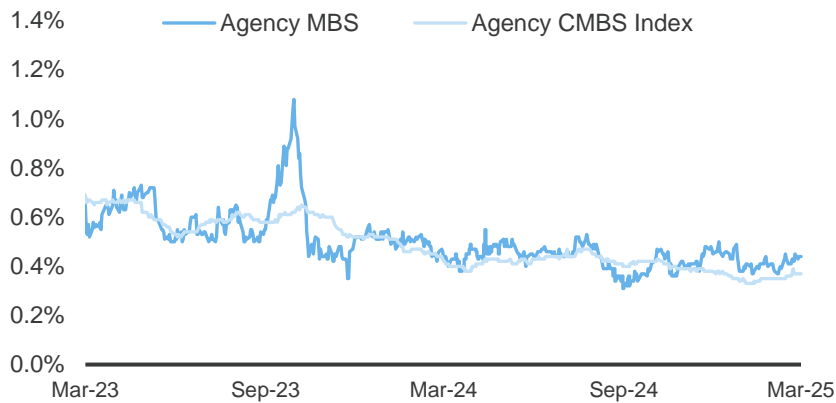
Federal Agency Yield Spread



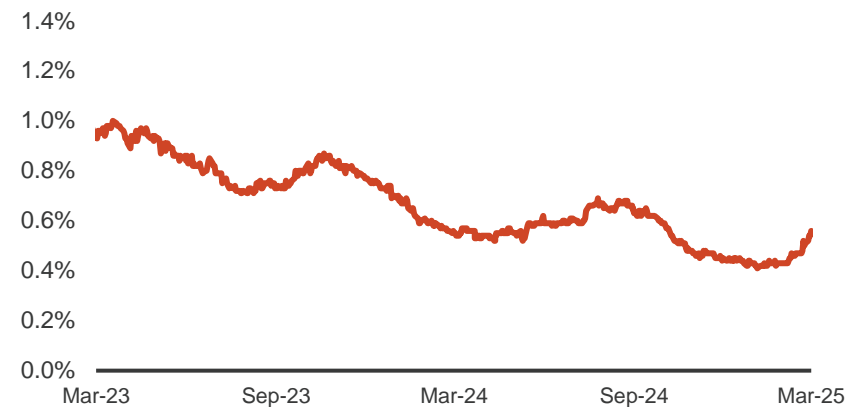
1-5 Yr. AAA-A Corporate



Mortgage-Backed Securities Yield Spreads



Asset-Backed Securities AAA Yield Spreads



Source: ICE BofA 1-5 year Indices via Bloomberg Finance L.P., MarketAxess and PFMAM as of 03/20/2025. Spreads on ABS and MBS are option-adjusted spreads of 0-5 year indices based on weighted average life; spreads on agencies are relative to comparable maturity Treasuries. CMBS is Commercial Mortgage-Backed Securities.

Major Equity and Fixed Income Market Indices

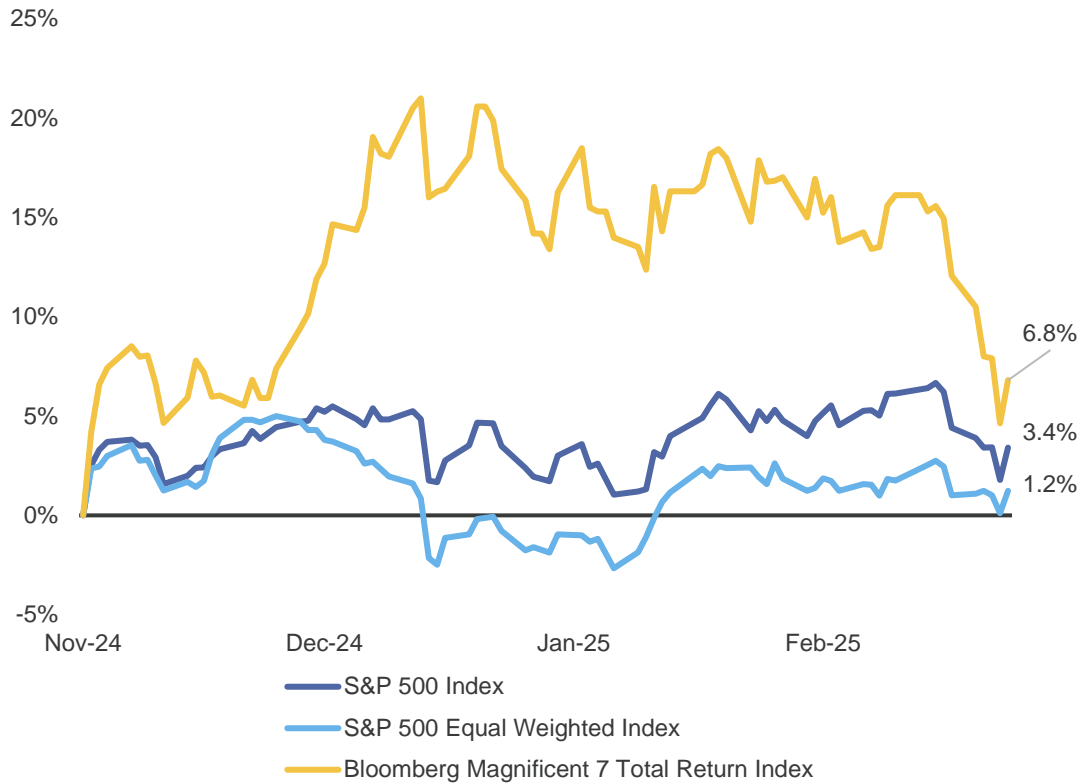
Market Indices as of 02/28/2025						
Domestic Equity	1 Month	QTD	YTD	1 Year	3 Years	5 Years
S&P 500	-1.30%	1.44%	1.44%	19.02%	12.52%	16.81%
Russell 3000	-1.92%	1.18%	1.18%	18.16%	11.56%	16.09%
Russell 2000	-5.35%	-2.87%	-2.87%	7.45%	3.30%	9.35%
Russell 1000	-1.75%	1.37%	1.37%	18.73%	12.03%	16.50%
International Equity	1 Month	QTD	YTD	1 Year	3 Years	5 Years
MSCI ACWI ex US (net)	1.39%	5.47%	5.47%	9.88%	4.61%	7.54%
MSCI EAFE (net)	1.94%	7.30%	7.30%	8.95%	6.42%	8.69%
MSCI Emerging Markets (net)	0.48%	2.28%	2.28%	10.29%	0.46%	4.26%
Fixed Income	1 Month	QTD	YTD	1 Year	3 Years	5 Years
Bloomberg Aggregate	2.20%	2.74%	2.74%	5.95%	-0.43%	-0.52%
Bloomberg Global Agg	1.43%	2.01%	2.01%	3.21%	-2.83%	-1.95%
High Yield Fixed Income	1 Month	QTD	YTD	1 Year	3 Years	5 Years
ICE BoFA HY Index	0.65%	2.04%	2.04%	10.14%	4.88%	4.79%
Alternatives	1 Month	QTD	YTD	1 Year	3 Years	5 Years
MSCI US REIT Index	3.70%	4.78%	4.78%	17.29%	2.79%	6.80%
MSCI World Core Infrastructure	3.04%	4.80%	4.80%	14.70%	3.34%	5.50%
Bloomberg Commodity Index Total Return	0.78%	4.76%	4.76%	11.64%	0.71%	10.55%

Source: Bloomberg Finance L.P., as of 2/28/2025. Net total return is calculated by MSCI using the companies' country of incorporation and maximum withholding tax rate applicable to institutional investors to determine the relevant dividend withholding. Net return comprises of price returns and net dividends, which incorporate impact of taxes on dividends.

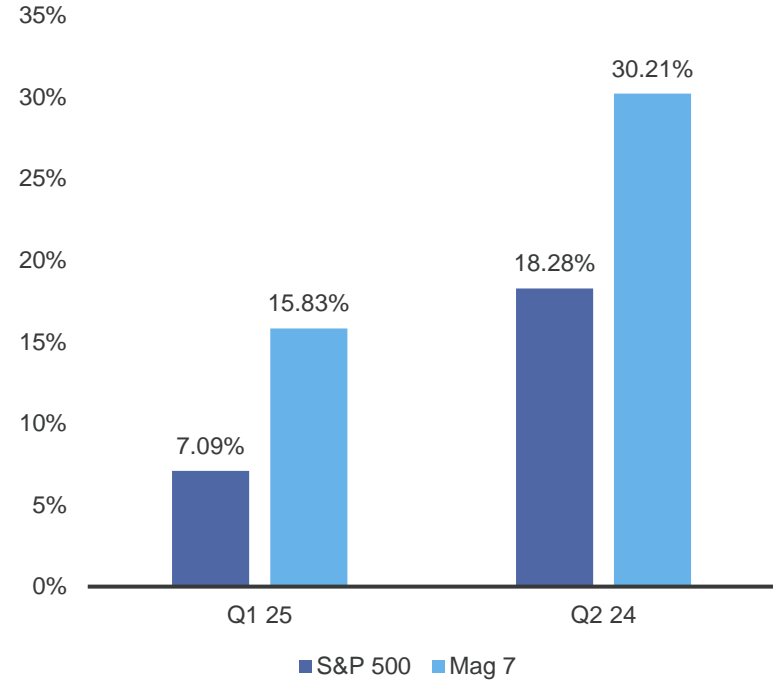
Concentration within the S&P 500

Cumulative Total Returns Since the Election

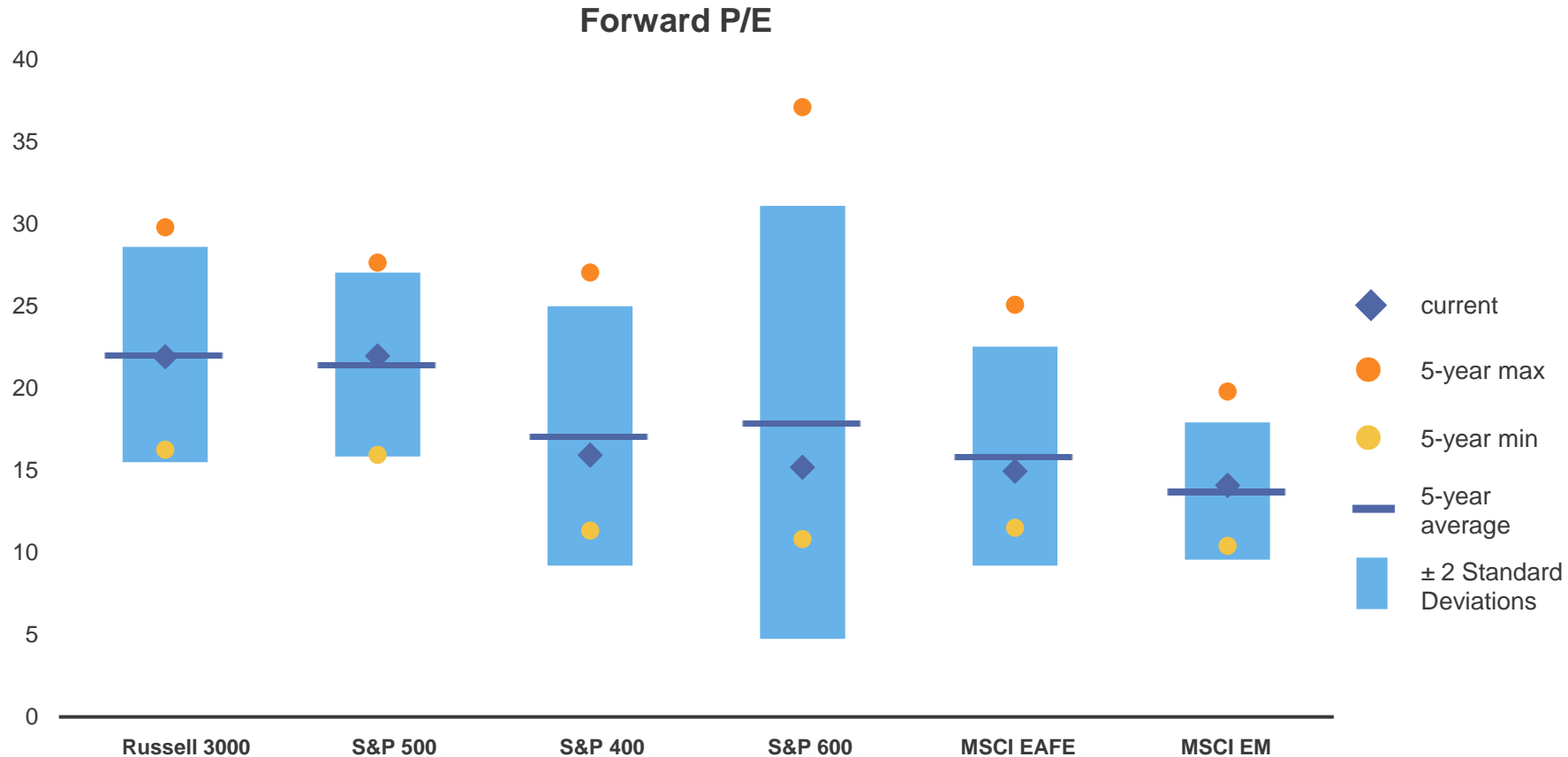
November 5, 2024 – February 28, 2025



EPS Blended Growth



Valuations Below 5-Year Average in Developed Markets Outside the U.S.



Source: Bloomberg Finance L.P., as of 2/28/2025.

Outlook



Factors to Consider for 6-12 Months

Monetary Policy (Global):



- The Fed continued its easing cycle with a total of 100 basis points (bps) of rate cuts in 2024 and suggested another 50 bps in cuts in 2025, which is significantly lower than prior estimates.
- While the Fed and other major central banks (excluding the Bank of Japan) continue to ease, uncertainty around inflation and growth remains.

Economic Growth (Global):



- U.S. economic growth remains strong on consumer spending which remains quite resilient.
- Economic growth outside the U.S. remains modest. Tariffs pose some risks with trading partners.
- Declines in foreign direct investment and weak domestic demand could continue to impact China's growth.

Inflation (U.S.):



- While inflation has fallen since its peak in 2022, progress has stalled in the past few months.
- The Fed has acknowledged higher inflation expectations going into 2025. Further rate cuts will depend on inflation moving closer to its 2% target. Proposed fiscal policies may put pressure on wages and goods costs.

Financial Conditions (U.S.):



- Narrow corporate yield spreads and strong equity returns point to the stability of financial conditions. The potential for deregulation under the incoming administration has buoyed market confidence.
- While our base case is not for a dramatic shift in conditions, the potential impact of future trade and tariff policies warrants attention.

Consumer Spending (U.S.):



- Broad consumer metrics are supportive of economic strength. A growing divergence among consumers exists as lower-income cohorts continue to feel more strain due to the higher overall level of prices.
- An unexpected material deterioration of labor market conditions is the biggest risk to consumer spending.

Labor Markets (U.S.):



- The labor market remains well-positioned and in balance despite intra-quarter data volatility caused by weather events and strikes.
- Layoffs remain near historically low levels; however, the pace of hiring has slowed considerably. Any sustained deterioration has negative impact on economic growth expectations.

Corporate Fundamentals:



- Earnings growth expectations are positive across global equities, but any impacts from tariffs and slower growth need to be closely monitored for any impact on profit margins.
- In the U.S., corporations are expected to post higher profit margins and any tax cuts/deregulation initiatives should be positive.

Valuations:



- U.S. equity and credit markets have experienced a run up in valuations. Any negative shock relating to economic growth could lead to a sell-off.
- International equities look attractive but continued economic and geopolitical uncertainty are leading to increased volatility.

Political Risks:



- Geopolitical risks continue to remain elevated. Broadening of middle east conflict, trade and tariff tensions between the U.S. and China, renegotiation of trade deals with Canada and Mexico along with political uncertainty in Europe add to risks.

● Current outlook ○ Outlook one quarter ago

Stance Unfavorable to Risk Assets

Negative

Slightly Negative

Neutral

Slightly Positive

Positive

Stance Favorable to Risk Assets

Statements and opinions expressed about the next 6-12 months were developed based on our independent research with information obtained from Bloomberg and FactSet. The views expressed within this material constitute the perspective and judgment of PFM Asset Management, a division of U.S. Bancorp Asset Management, Inc., at the time of distribution (12/31/2024) and are subject to change. Information is obtained from sources generally believed to be reliable and available to the public; however, we cannot guarantee its accuracy, completeness, or suitability.

Fixed-Income Sector Outlook – March 2025

Sector	Our Investment Preferences	Commentary
COMMERCIAL PAPER / CD		Strong demand and moderating issuance levels continues to put downward pressure on credit spreads in the short end of the curve.
TREASURIES		We will continue to maintain portfolio durations near 100% of benchmarks given the ongoing rate and policy uncertainty and the attractive level of absolute yields.
T-Bill		
T-Note		
FEDERAL AGENCIES		Bullet spreads remained rangebound through February, supported by a dearth of supply. Ongoing callable redemptions have led to stable issuance despite tighter spreads. We will opportunistically sell bullets and evaluate callables with a preference for longer lockouts.
Bullets		
Callables		
SUPRANATIONALS		We will continue to evaluate new issue opportunities with supranationals. We prefer to rebalance to other sectors when possible in a client's portfolio.
CORPORATES		Our view is that the combination of preliminary Q4 earnings releases, heightened market volatility, and fiscal policy uncertainty may create opportunities to increase exposure at more attractive levels, while technical strength and favorable fundamentals in the sector would likely limit significant downside risks. As a result, we will look to tactically reduce allocations in the sector to make room for future opportunities, with a focus on industry and credit quality-specific selectivity
Financials		
Industrials		
SECURITIZED		We believe the consumer's response to prior monetary policy easing remains a key factor for the ABS sector's outlook in the near term. We will therefore seek to maintain allocations in the sector via the reinvestment of passive cash flows in new issuance over the coming months.
Asset-Backed		
Agency Mortgage-Backed		With narrow spreads and volatility expected to pick up in 2025, we will seek to maintain allocations in the MBS and CMBS sectors.
Agency CMBS		
MUNICIPALS		As spreads continue to remain rich in the taxable municipal space, we will continue to evaluate new issues and sell shorter paper.

● Current outlook

○ Outlook one month ago

Negative

Slightly Negative

Neutral

Slightly Positive

Positive

Pillars of Investing



Pillars of Investing

**Permitted
Investment
Universe**

**Risk/Return
Considerations**

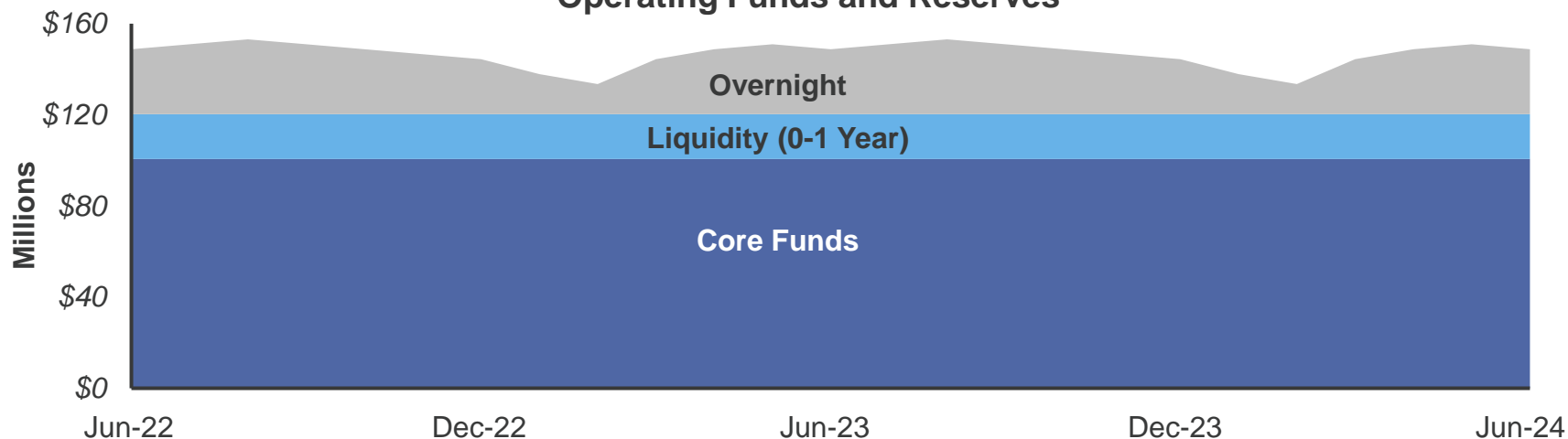
**Cash Flows /
Time Horizon**

Diversification

Disciplined Long-Term Strategy

Optimizing Portfolio Segmentation

Sample Cash Flow Analysis – Operating Funds and Reserves



Overnight

- Cash and cash equivalents, providing immediate access
- Targeted to meet draws in the near future
- Highly liquid for daily needs and unforeseen expenditures

Liquidity

- Laddered investments to known and expected cash flows
- High-quality fixed income

Core

- Reserve funds not expected to be spent for the foreseeable future
- Intermediate- and longer-term investments

For illustrative purposes only.

Interest rates are the headline, but they are not the foundation.

Duration

Manage interest rate risk | Disciplined approach to maintaining target duration

Issuer & Industry Selection

Analyze applicable security structures | Thorough review of issuer-specific trends and credit profile | Macroeconomic factors unique to the industry

Yield Curve

“Roll down the curve” for enhanced earnings | Take advantage of steepness | Identify attractive portions of the curve

Sector Allocation

Increased income potential | Relative sector value analysis | Focused sector allocation

The Case for Diversification –Fixed Income

Index	Annualized Average	FY2024	FY2023	FY2022	FY2021	FY2020	FY2019	FY2018	FY2017	FY2016	FY2015
1-5 Year Corporate AAA-A	1.98%	6.01%	3.64%	-0.10%	2.36%	5.98%	6.27%	1.67%	1.19%	3.32%	1.58%
0-1 Year Corporate	1.97%	5.86%	3.18%	-0.34%	1.37%	5.25%	6.06%	1.31%	1.04%	3.28%	1.45%
1-3 Year Corporate AAA-A	1.85%	5.75%	1.27%	-3.25%	1.11%	5.11%	5.56%	0.57%	0.99%	3.19%	1.38%
1-5 Year AAA U.S. Fixed Rate CMBS	1.80%	5.67%	1.20%	-3.30%	0.46%	4.80%	4.89%	0.30%	0.52%	2.43%	1.31%
0-1 Year Treasury	1.53%	5.33%	0.35%	-3.74%	0.32%	4.54%	4.84%	0.08%	0.51%	2.24%	1.30%
1-3 Year Agency	1.23%	4.90%	0.13%	-4.53%	0.17%	4.14%	4.30%	0.08%	0.25%	1.94%	1.02%
0-5 Year MBS	1.21%	4.70%	-0.05%	-4.61%	0.17%	4.07%	3.96%	0.08%	0.06%	1.31%	0.99%
1-5 Year Agency	1.18%	4.67%	-0.22%	-5.46%	0.07%	3.53%	3.88%	-0.03%	-0.05%	1.27%	0.88%
1-5 Year Treasury	1.15%	4.53%	-0.43%	-5.82%	-0.27%	2.56%	3.06%	-0.35%	-0.11%	1.02%	0.50%
1-3 Year Treasury	1.13%	4.16%	-0.62%	-5.87%	-0.58%	2.15%	2.59%	-0.35%	-0.53%	0.45%	0.15%

Source: Bloomberg Finance L.P., ICE BofA Indices as of June 2024. It is not possible to invest in indices. Annualized returns are calculated assuming a fiscal year starting July 1 and ending June 30.

The Case for Diversification – Broad Markets

2010–2024		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Ann.	Vol.															
Large Cap	Small Cap	REITs	REITs	REITs	Small Cap	REITs	REITs	Small Cap	EM Equity	Cash	Large Cap	Small Cap	REITs	Com dty.	Large Cap	Large Cap
13.9%	20.6%	27.9%	8.3%	19.7%	38.8%	28.0%	2.8%	21.3%	37.8%	1.8%	31.5%	20.0%	41.3%	16.1%	26.3%	25.0%
Small Cap	EM Equity	Small Cap	Fixed Income	High Yield	Large Cap	Large Cap	Large Cap	High Yield	DM Equity	Fixed Income	REITs	EM Equity	Large Cap	Cash	DM Equity	Small Cap
10.3%	17.9%	26.8%	7.8%	19.6%	32.4%	13.7%	1.4%	14.3%	26.6%	0.0%	28.7%	18.7%	28.7%	1.6%	18.9%	11.5%
REITs	REITs	EM Equity	High Yield	EM Equity	DM Equity	Fixed Income	Fixed Income	Large Cap	Large Cap	REITs	Small Cap	Large Cap	Com dty.	High Yield	Small Cap	Asset Alloc.
9.4%	16.8%	19.2%	3.1%	18.6%	23.3%	6.0%	0.5%	12.0%	21.8%	-4.0%	25.5%	18.4%	27.1%	-12.7%	16.9%	10.0%
Asset Alloc.	DM Equity	Com dty.	Large Cap	DM Equity	Asset Alloc.	Asset Alloc.	Cash	Com dty.	Small Cap	High Yield	DM Equity	Asset Alloc.	Small Cap	Fixed Income	Asset Alloc.	High Yield
7.2%	16.6%	16.8%	2.1%	17.9%	14.9%	5.2%	0.0%	11.8%	14.6%	-4.1%	22.7%	10.6%	14.8%	-13.0%	14.1%	9.2%
High Yield	Com dty.	Large Cap	Cash	Small Cap	High Yield	Small Cap	DM Equity	EM Equity	Asset Alloc.	Large Cap	Asset Alloc.	DM Equity	Asset Alloc.	Asset Alloc.	High Yield	EM Equity
5.9%	16.1%	15.1%	0.1%	16.3%	7.3%	4.9%	-0.4%	11.6%	14.6%	-4.4%	19.5%	8.3%	13.5%	-13.9%	14.0%	8.1%
DM Equity	Large Cap	High Yield	Asset Alloc.	Large Cap	REITs	Cash	Asset Alloc.	REITs	High Yield	Asset Alloc.	EM Equity	Fixed Income	DM Equity	DM Equity	REITs	Com dty.
5.7%	15.1%	14.8%	-0.7%	16.0%	2.9%	0.0%	-2.0%	8.6%	10.4%	-5.8%	18.9%	7.5%	11.8%	-14.0%	11.4%	5.4%
EM Equity	Asset Alloc.	Asset Alloc.	Small Cap	Asset Alloc.	Cash	High Yield	High Yield	Asset Alloc.	REITs	Small Cap	High Yield	High Yield	High Yield	Large Cap	EM Equity	Cash
3.4%	10.4%	13.3%	-4.2%	12.2%	0.0%	0.0%	-2.7%	8.3%	8.7%	-11.0%	12.6%	7.0%	1.0%	-18.1%	10.3%	5.3%
Fixed Income	High Yield	DM Equity	DM Equity	Fixed Income	Fixed Income	EM Equity	Small Cap	Fixed Income	Fixed Income	Com dty.	Fixed Income	Cash	Cash	EM Equity	Fixed Income	REITs
2.4%	9.4%	8.2%	-11.7%	4.2%	-2.0%	-1.8%	-4.4%	2.6%	3.5%	-11.2%	8.7%	0.5%	0.0%	-19.7%	5.5%	4.9%
Cash	Fixed Income	Fixed Income	Com dty.	Cash	EM Equity	DM Equity	EM Equity	DM Equity	Com dty.	DM Equity	Com dty.	Com dty.	Fixed Income	Small Cap	Cash	DM Equity
1.2%	4.7%	6.5%	-13.3%	0.1%	-2.3%	-4.5%	-14.6%	1.5%	1.7%	-13.4%	7.7%	-3.1%	-1.5%	-20.4%	5.1%	4.3%
Com dty.	Cash	Cash	EM Equity	Com dty.	Com dty.	Com dty.	Com dty.	Cash	Cash	EM Equity	Cash	REITs	EM Equity	REITs	Com dty.	Fixed Income
-1.0%	0.9%	0.1%	-18.2%	-1.1%	-9.5%	-17.0%	-24.7%	0.3%	0.8%	-14.2%	2.2%	-5.1%	-2.2%	-24.9%	-7.9%	1.3%

Source: J.P. Morgan Guide to the Markets 1Q25.

Questions?



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