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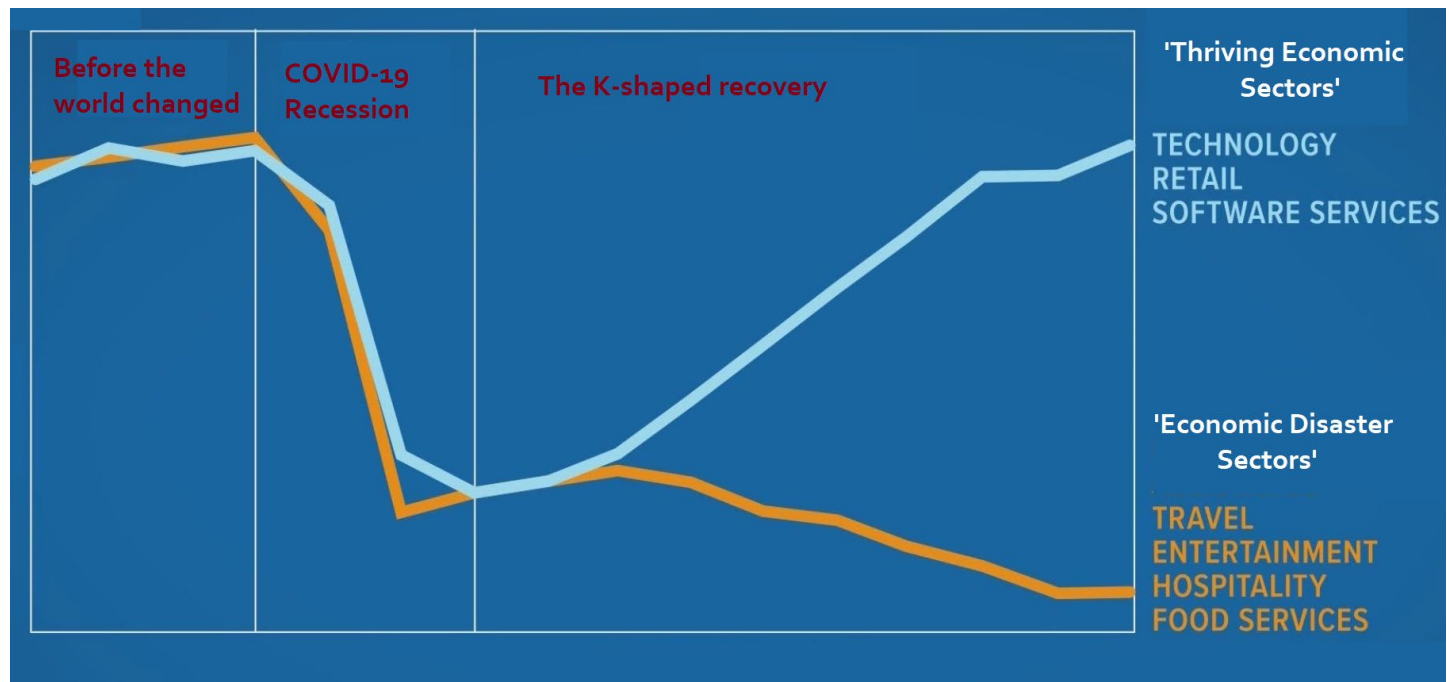


Current Economic Environment & The Impact on Local Government Budgets

Annual Conference
June 11, 2024

Objectives

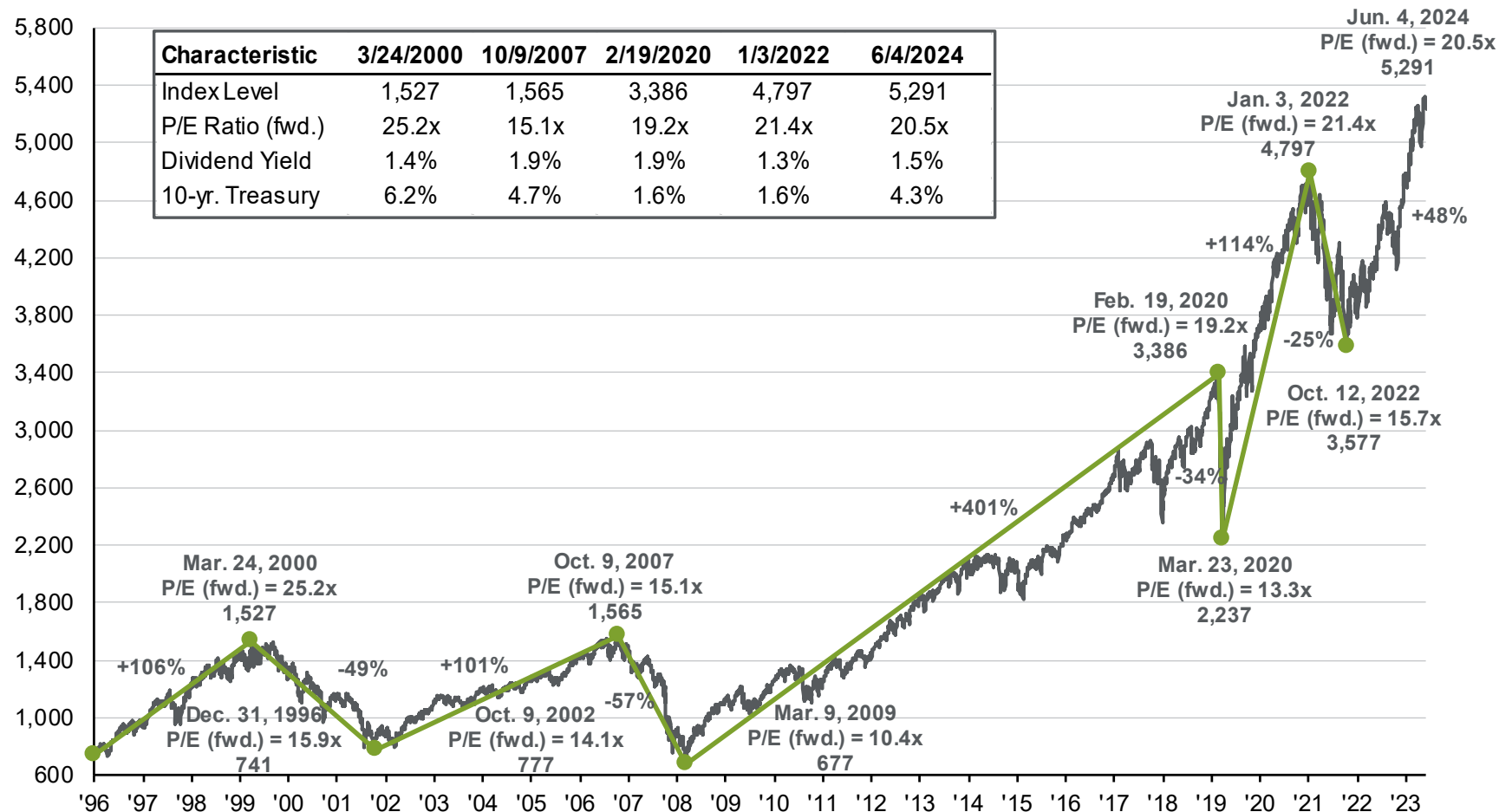
- Examine the factors that are contributing to our “K-Shaped” economy
- Determine the indicators that might lead to a recession
- Analyze how the economy is impacting local government budgets



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How High Can the Stock Market Go?

S&P 500 Price Index

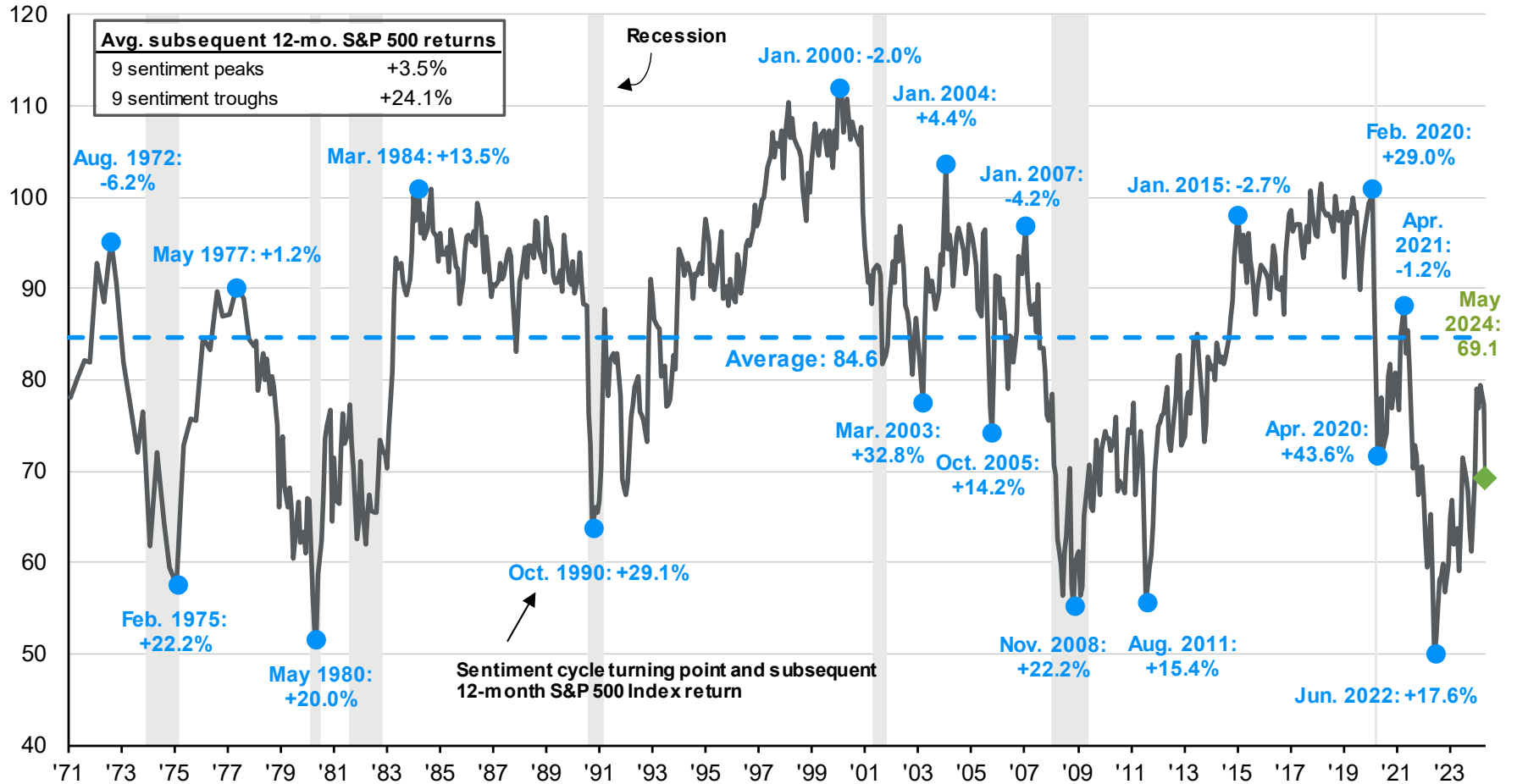


Source: Compustat, FactSet, Federal Reserve, Refinitiv Datastream, Standard & Poor's, J.P. Morgan Asset Management.
 Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat. Forward price-to-earnings ratio is a bottom-up calculation based on IBES estimates and FactSet estimates since January 2022. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns.
 Guide to the Markets—U.S. Data are as of June 4, 2024.

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Consumer Confidence Lagging

Consumer Sentiment Index and subsequent 12-month S&P 500 returns



Source: FactSet, Standard & Poor's, University of Michigan, J.P. Morgan Asset Management.

Peak is defined as the highest index value before a series of lower lows, while a trough is defined as the lowest index value before a series of higher highs.

Subsequent 12-month S&P 500 returns are price returns only starting from the end of the month and excluding dividends. Past performance is not a reliable indicator of current and future results.

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Concentration Concerns

P/E ratio of the top 10 and remaining stocks in the S&P 500

Next 12 months, 1996 - present



Weight of the top 10 stocks in the S&P 500

% of market capitalization of the S&P 500



Earnings contribution of the top 10 in the S&P 500

Based on last 12 months' earnings



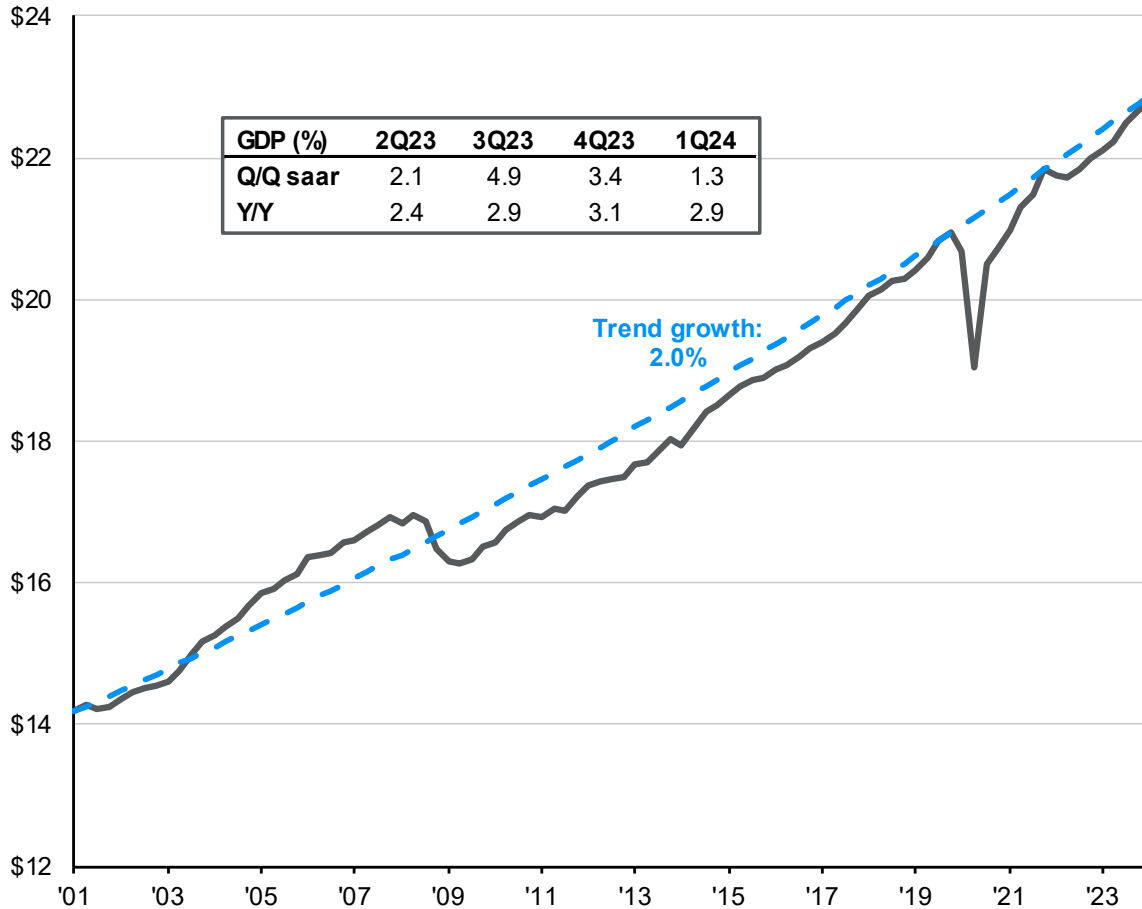
Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. The top 10 S&P 500 companies are based on the 10 largest index constituents at the beginning of each month. As of 5/31/2024, the top 10 companies in the index were MSFT (7.0%), AAPL (6.3%), NVDA (6.1%), AMZN (3.6%), META (2.3%), GOOGL (2.3%), GOOG (1.9%), BRK.B (1.7%), LLY (1.5%), JPM (1.3%), and AVGO (1.3%). The remaining stocks represent the rest of the 492 companies in the S&P 500. *Guide to the Markets - U.S.* Data are as of June 4, 2024.

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Economic Growth Slowing

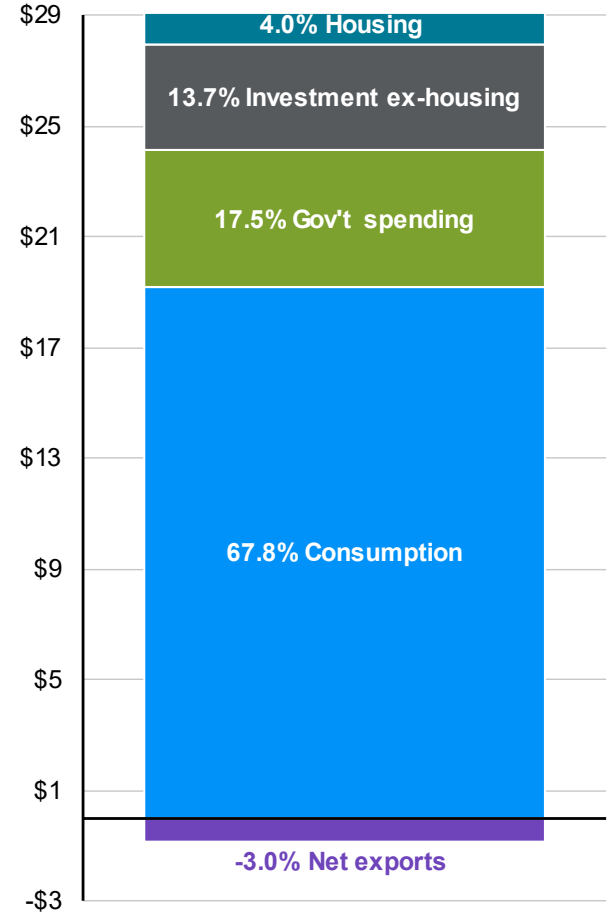
Real GDP

Trillions of chained (2017) dollars, seasonally adjusted at annual rates



Components of GDP

1Q24 nominal GDP, USD trillions



Source: BEA, FactSet, J.P. Morgan Asset Management. Values may not sum to 100% due to rounding. Trend growth is measured as the average annual growth rate from business cycle peak 1Q01 to business cycle peak 4Q19.

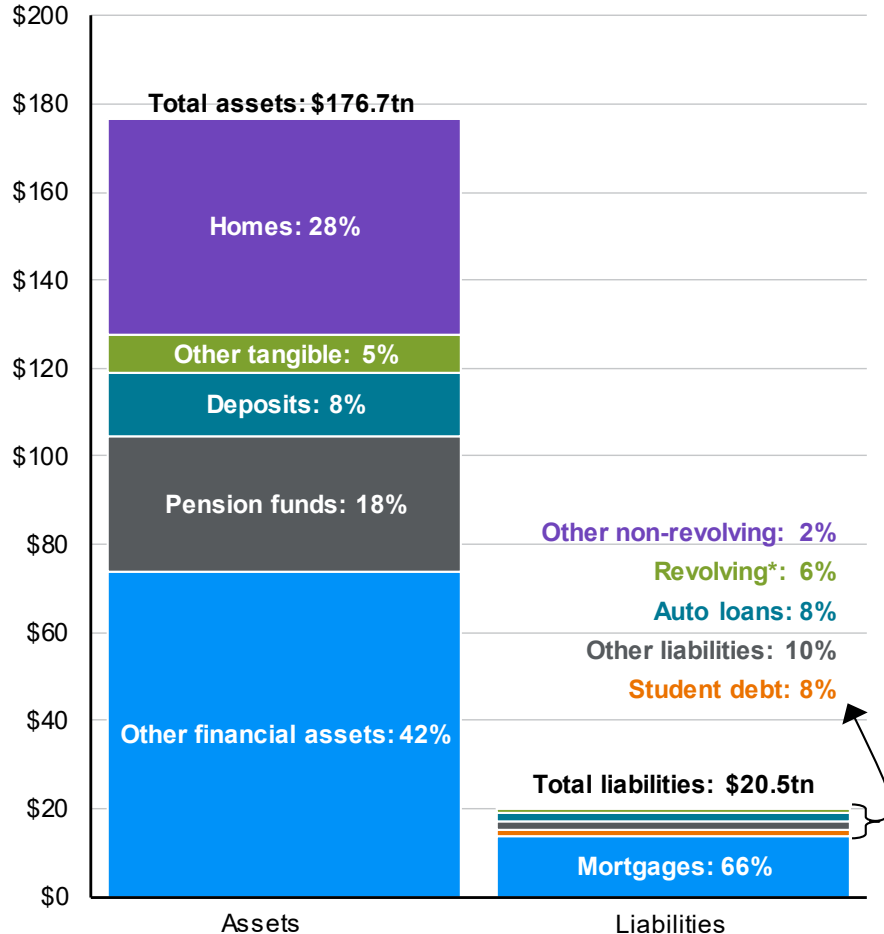
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Consumer Finances

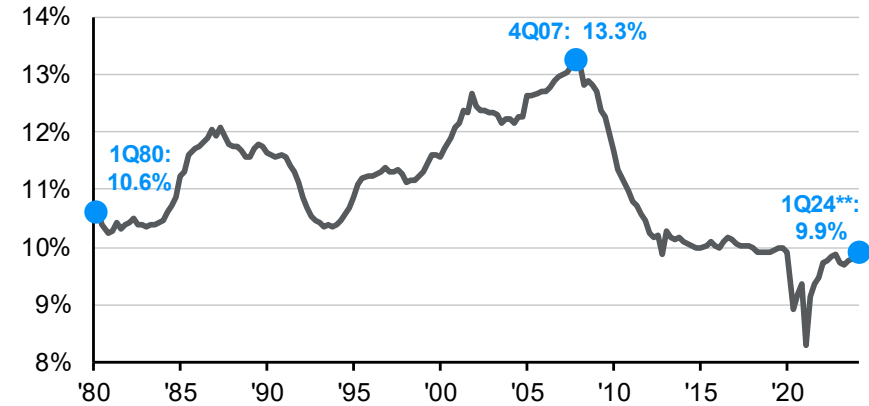
Consumer balance sheet

4Q23, USD trillions, not seasonally adjusted



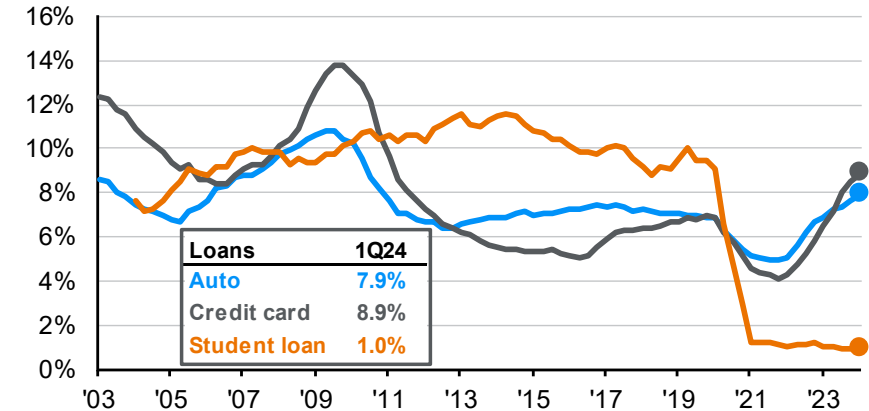
Household debt service ratio

Debt payments as % of disposable personal income, SA



Flows into early delinquencies

% of balance delinquent 30+ days



Source: FactSet, FRB, J.P. Morgan Asset Management; (Top and bottom right) BEA.

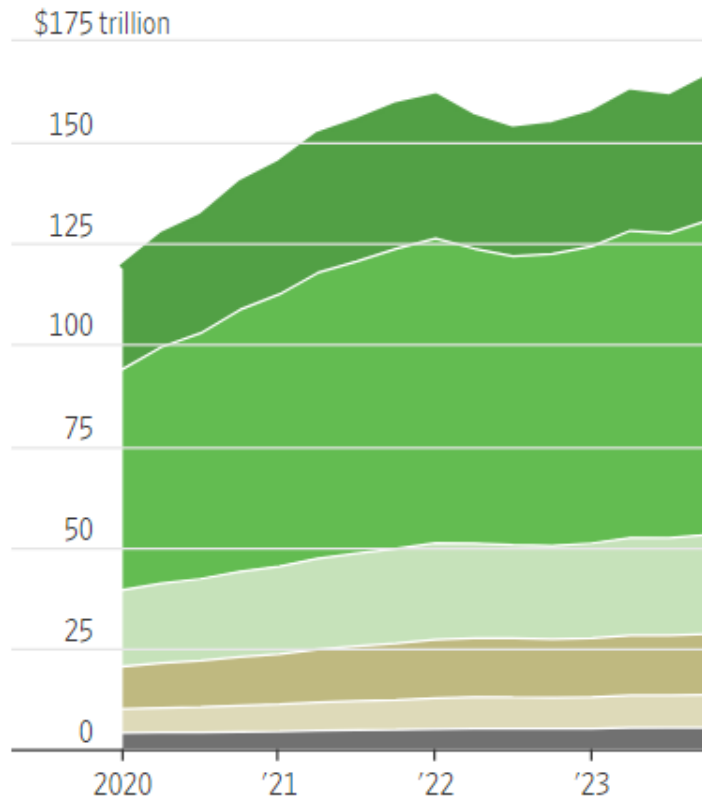
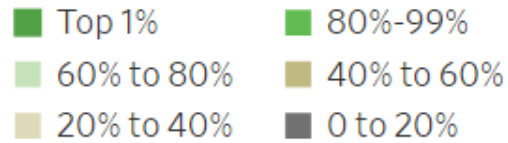
Data include households and nonprofit organizations. SA – seasonally adjusted. *Revolving includes credit cards. Values may not sum to 100% due to rounding.

**1Q24 figures for debt service ratio are J.P. Morgan Asset Management estimates.

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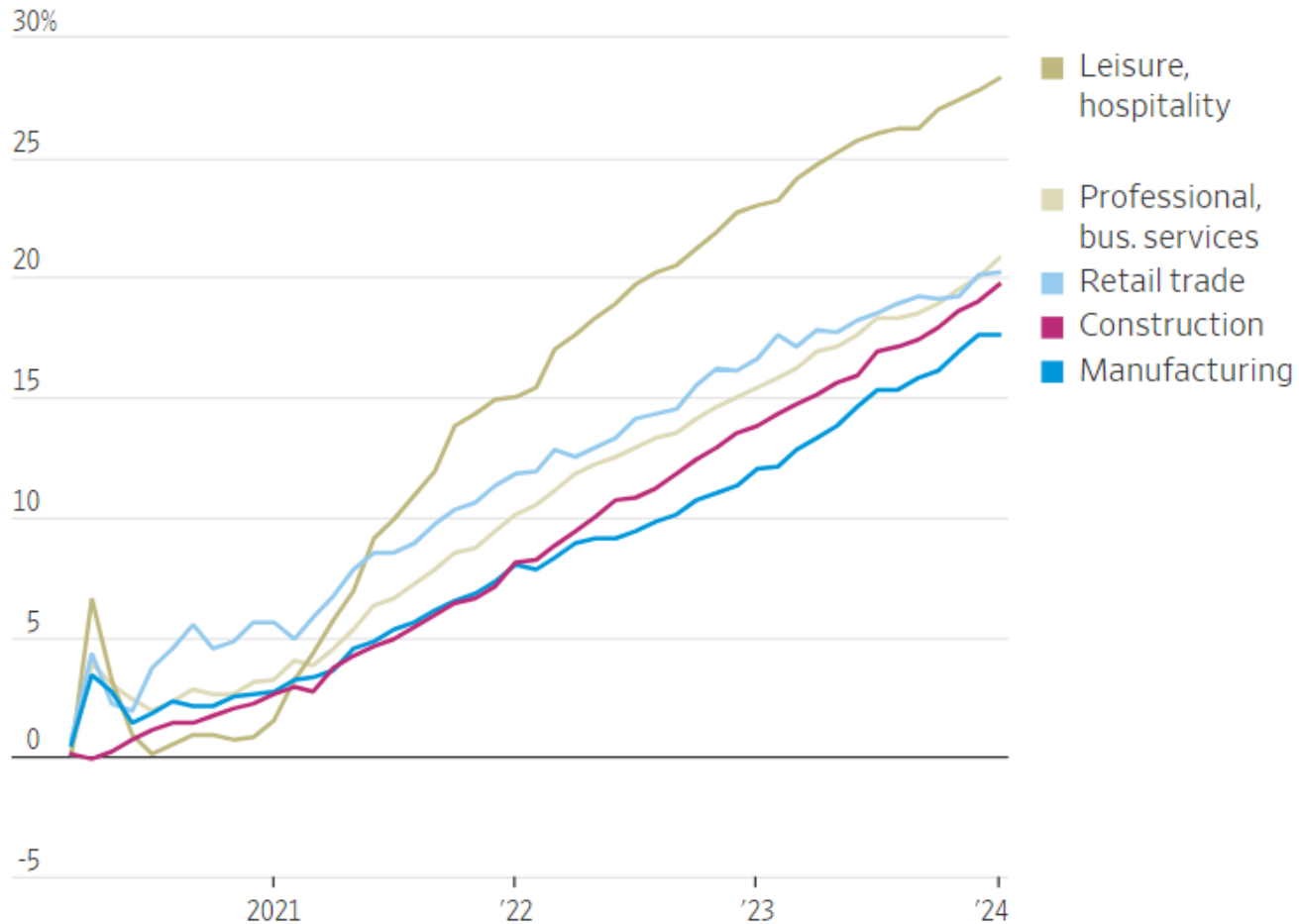
Assets By Income Group



Note: Includes real estate, stocks and pensions.
Source: Federal Reserve

Income Levels Have Gone Up for Everyone

Average hourly earnings, percentage change since February 2020



Note: Seasonally adjusted
Source: Labor Department

Labor Market Not as Strong

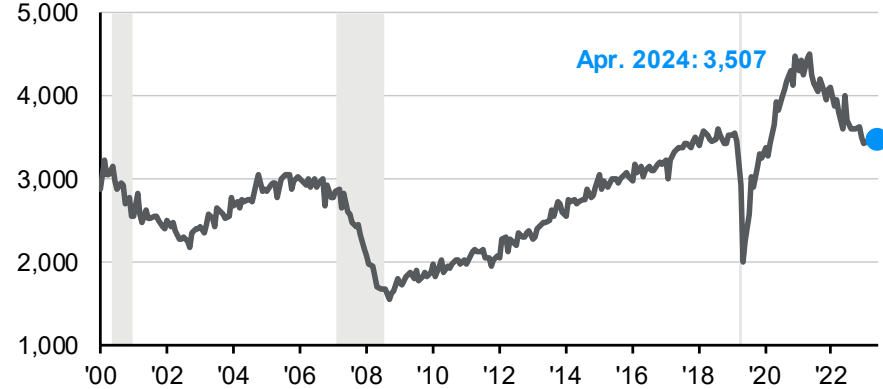
JOLTS job openings*

Total job openings, thousands, seasonally adjusted



JOLTS quits

Total nonfarm quits, thousands, seasonally adjusted



JOLTS layoffs

Total nonfarm layoffs, thousands, seasonally adjusted



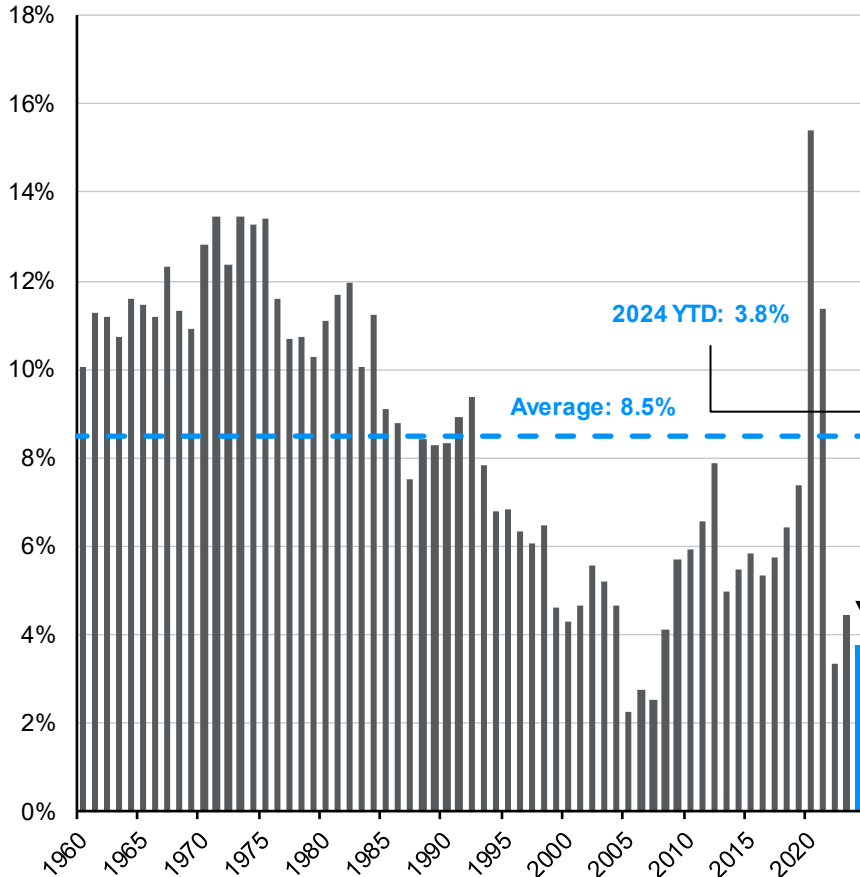
Source: U.S. Department of Labor, J.P. Morgan Asset Management. *JOLTS job openings from February 1974 to November 2000 are J.P. Morgan Asset Management estimates.
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Excess Savings Being Drawn Down

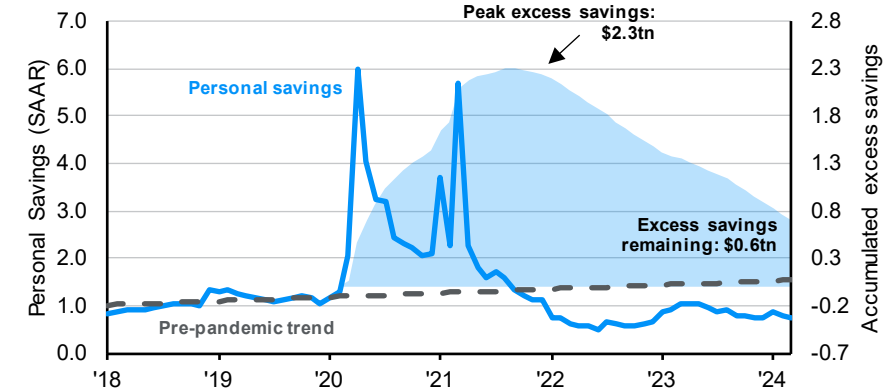
Personal saving rate

Personal savings as a % of disposable personal income, annual



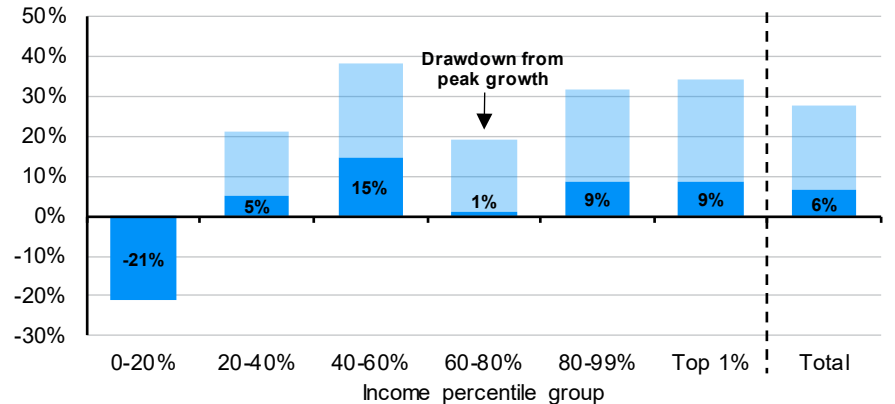
Household excess savings

Trillions of USD



Inflation-adjusted growth in deposits by income percentiles

Checking and savings account balances, % ch 4Q19-4Q23



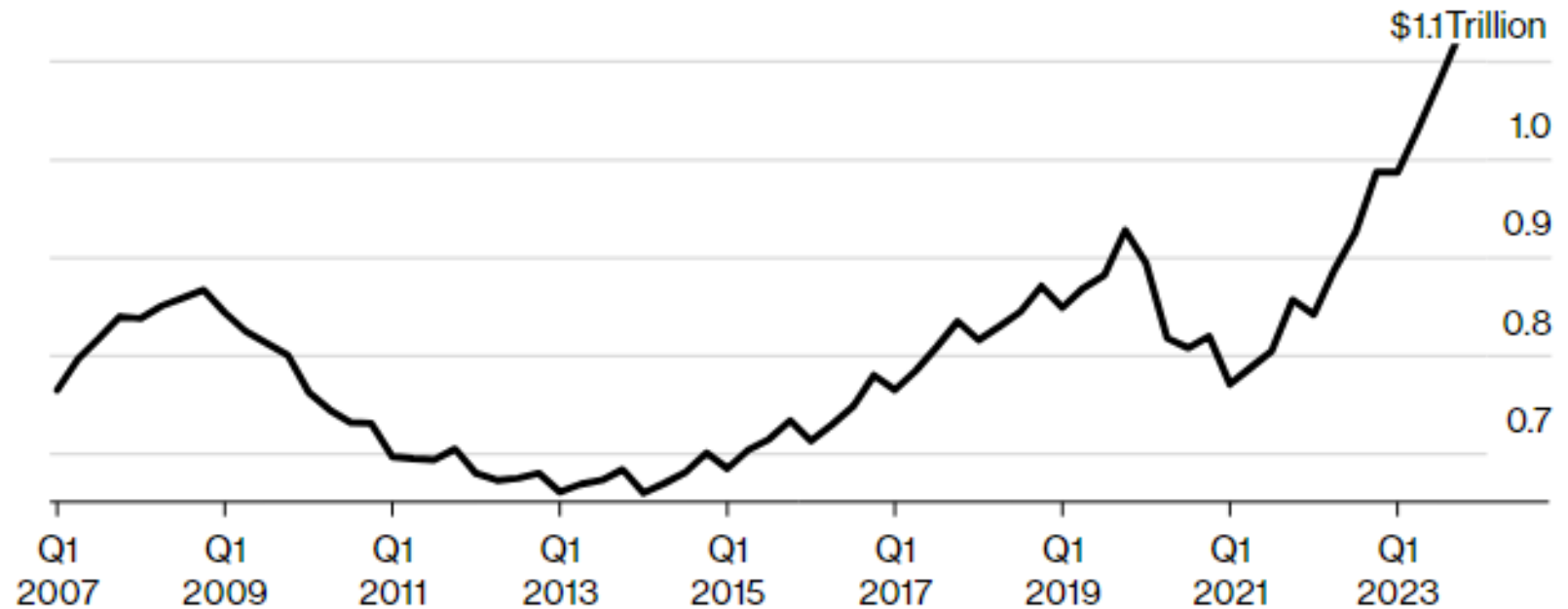
Source: BEA, Federal Reserve, J.P. Morgan Asset Management. (Top right) From March 2020 to August 2021, consumers amassed a peak \$2.3 trillion in excess savings relative to the pre-pandemic trend. Since August 2021, consumers have drawn down on those excess savings, with the remaining reflected in the chart annotation. (Bottom right) Deposits include money in checking accounts, savings accounts, CDs and money market deposit accounts. It does not include direct holdings of money market shares. The light blue area reflects the peak growth in inflation-adjusted savings achieved during the period and the dark blue area reflects current levels.

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Credit Card Usage

Aggregate US credit card balance



Source: Federal Reserve Bank of New York

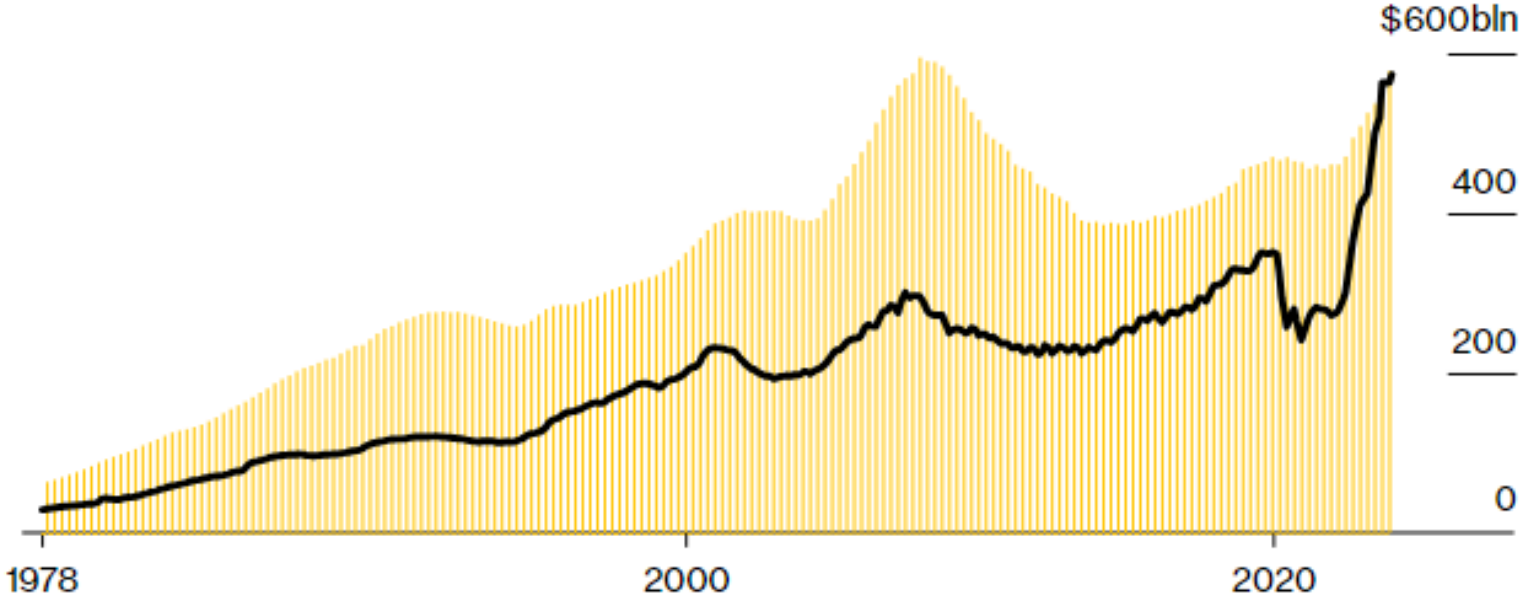
Bloomberg 3/15/24

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Interest Payments by US Households

Seasonally adjusted annual rate

Non-mortgage Mortgage

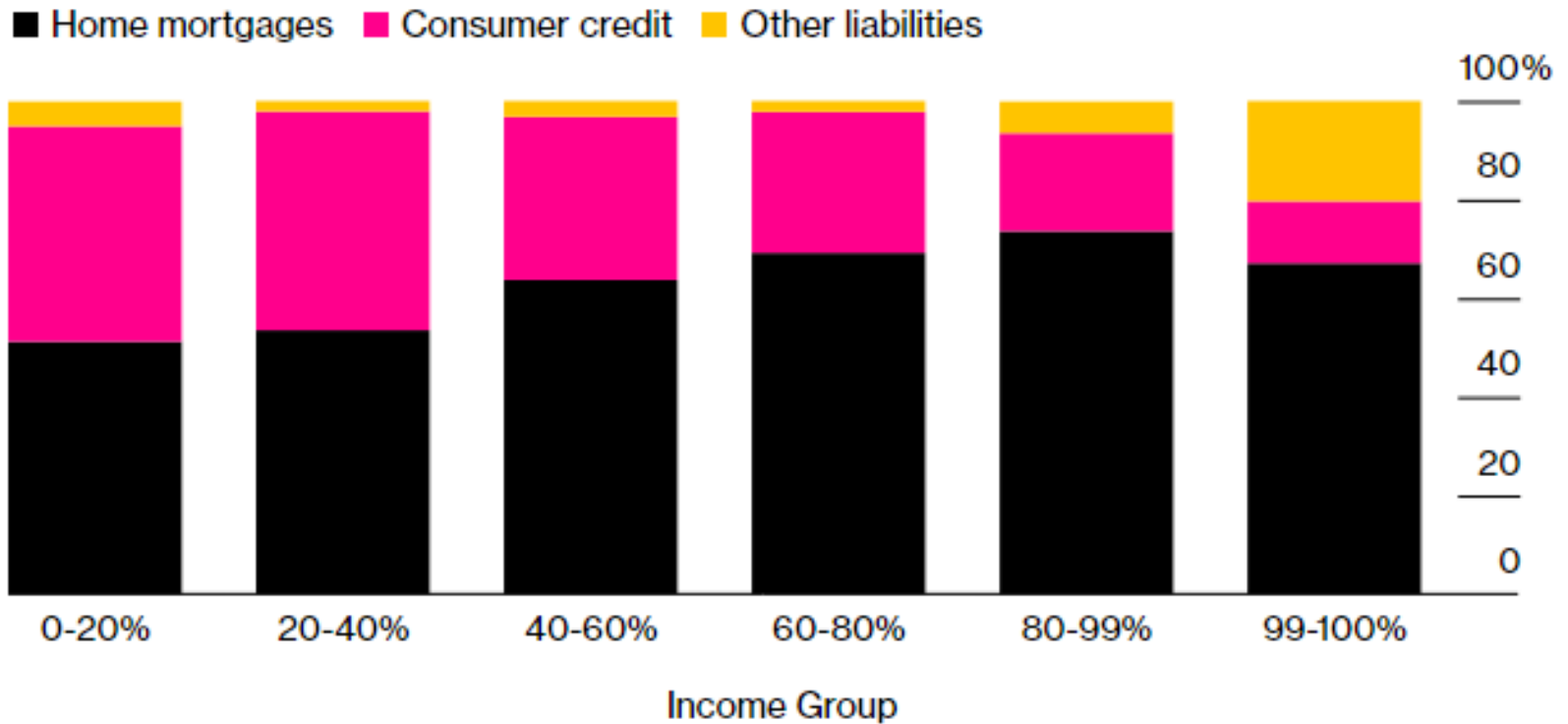


Source: Bureau of Economic Analysis

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Debt Holdings by Category



Source: Federal Reserve

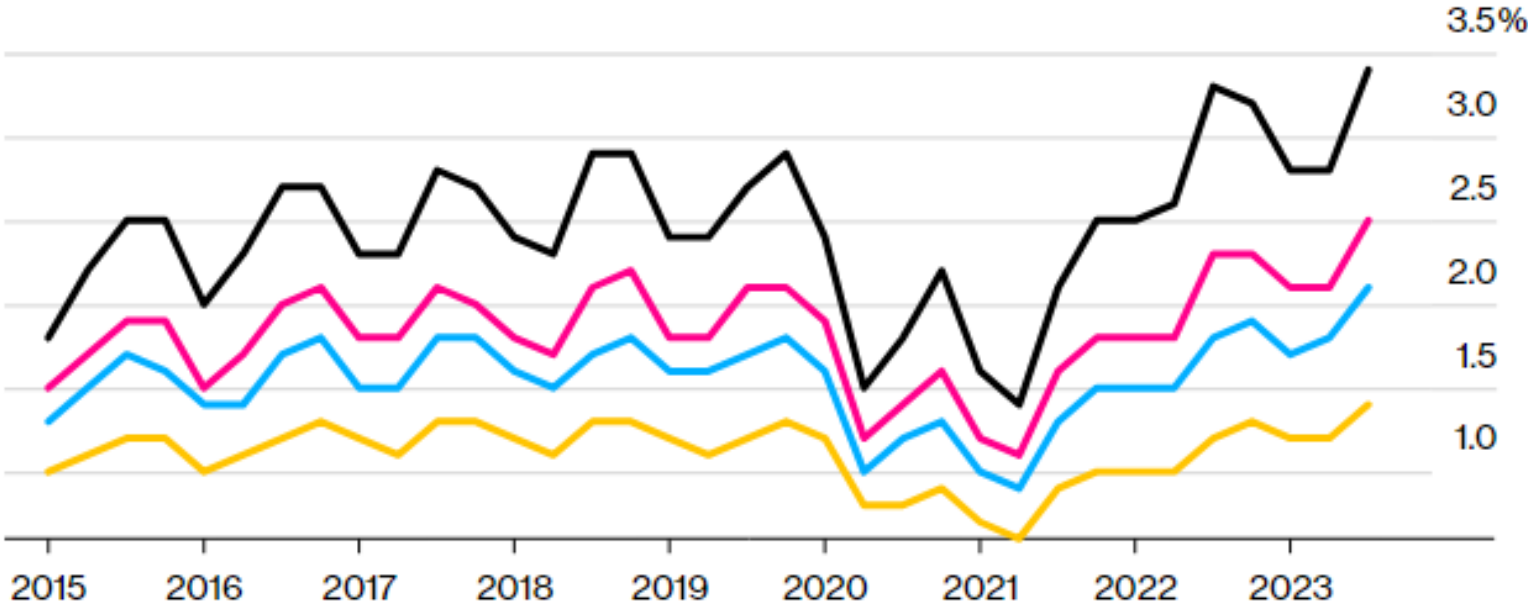
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Delinquencies

Share of borrowers who are newly delinquent on credit card payments

Quartile 1 (Lowest) 2 3 4



Source: New York Fed Consumer Credit Panel, Equifax and Bloomberg

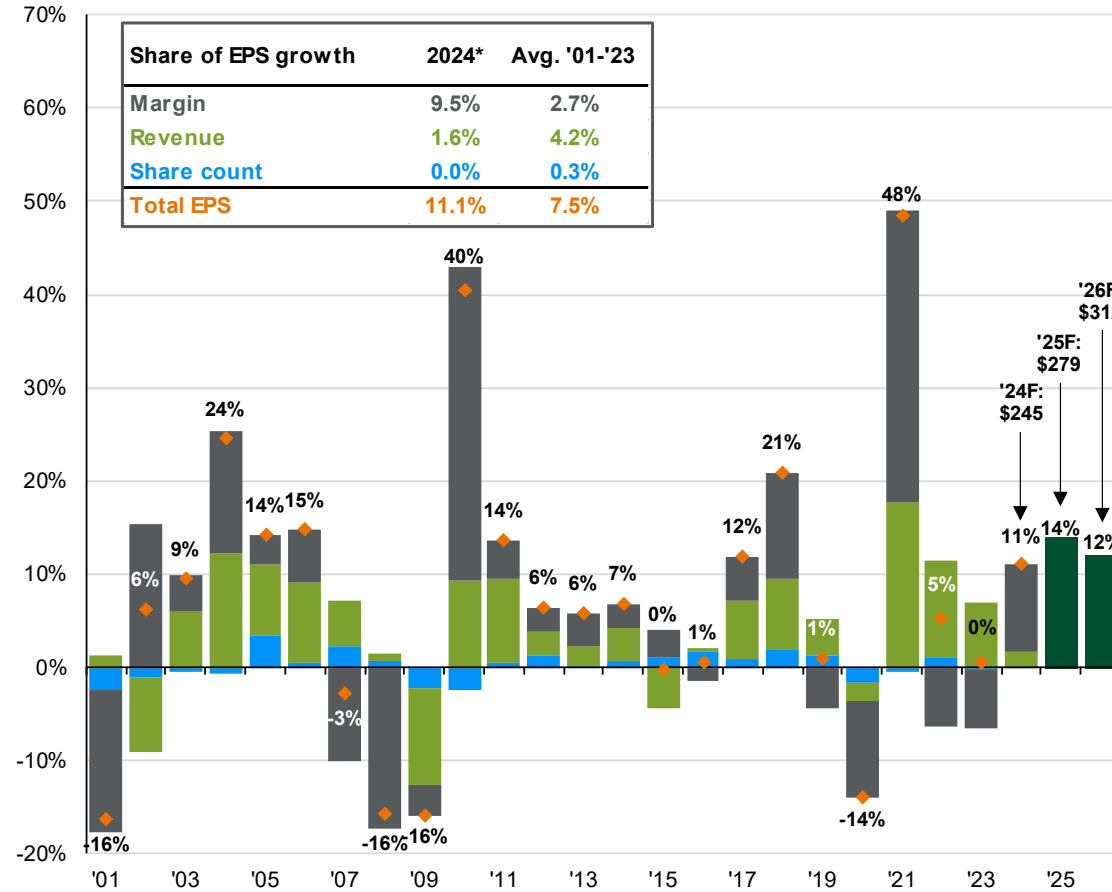
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Corporations are Doing Well

S&P 500 year-over-year pro-forma EPS growth

Annual growth broken into changes in revenue, profit margin and share count



S&P 500 profit margins

Quarterly earnings/sales



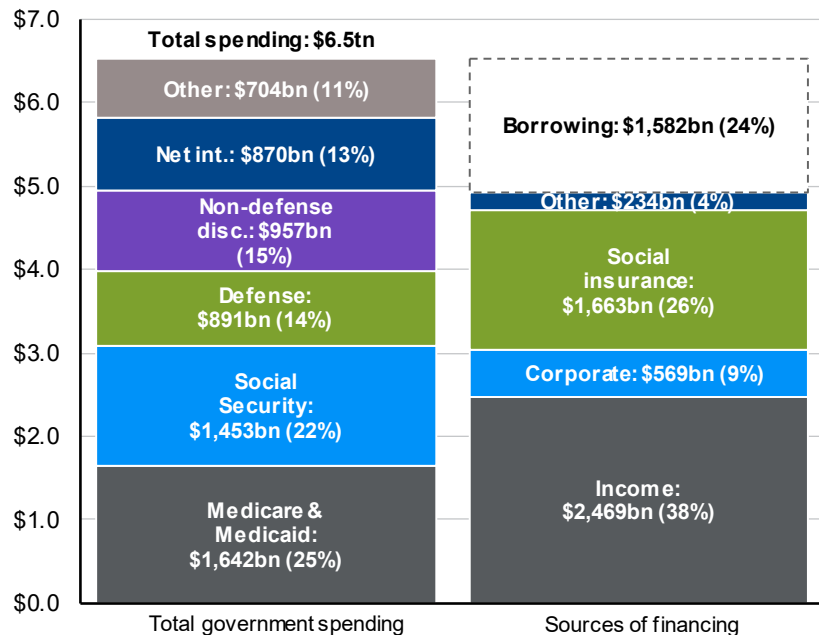
Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management.
 Historical EPS levels are based on annual pro-forma earnings per share. *2024, 2025 and 2026 EPS growth are based on consensus analyst estimates for each calendar year. Past performance is not indicative of future returns.
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Federal Finances

The 2024 federal budget

USD trillions

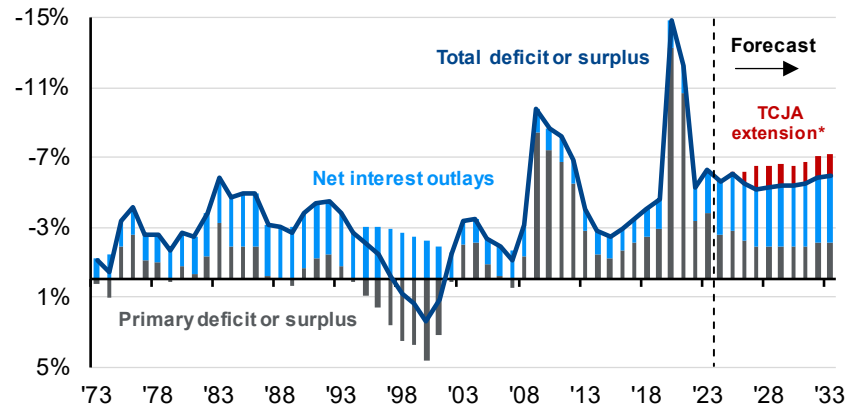


CBO's Baseline economic assumptions

	2024	'25-'26	'27-'28	'29-'34
Real GDP growth	1.8%	2.1%	2.1%	1.9%
10-year Treasury	4.6%	4.3%	3.8%	4.1%
Headline inflation (CPI)	2.6%	2.4%	2.2%	2.2%
Unemployment	4.2%	4.4%	4.4%	4.5%

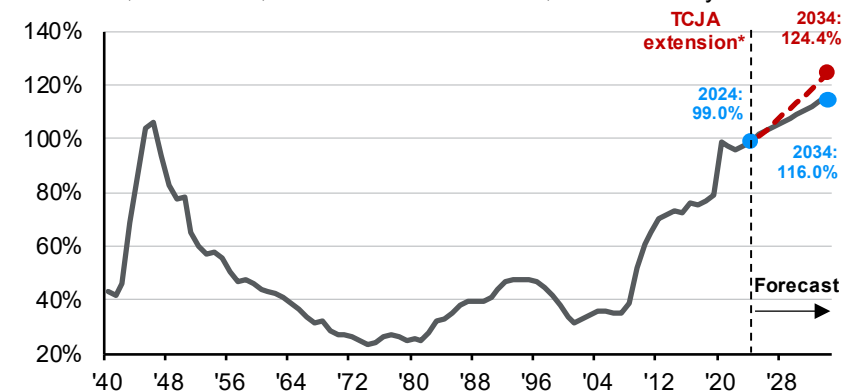
Federal deficit and net interest outlays

% of GDP, 1973-2034, CBO Baseline Forecast



Federal net debt (accumulated deficits)

% of GDP, 1940-2034, CBO Baseline Forecast, end of fiscal year

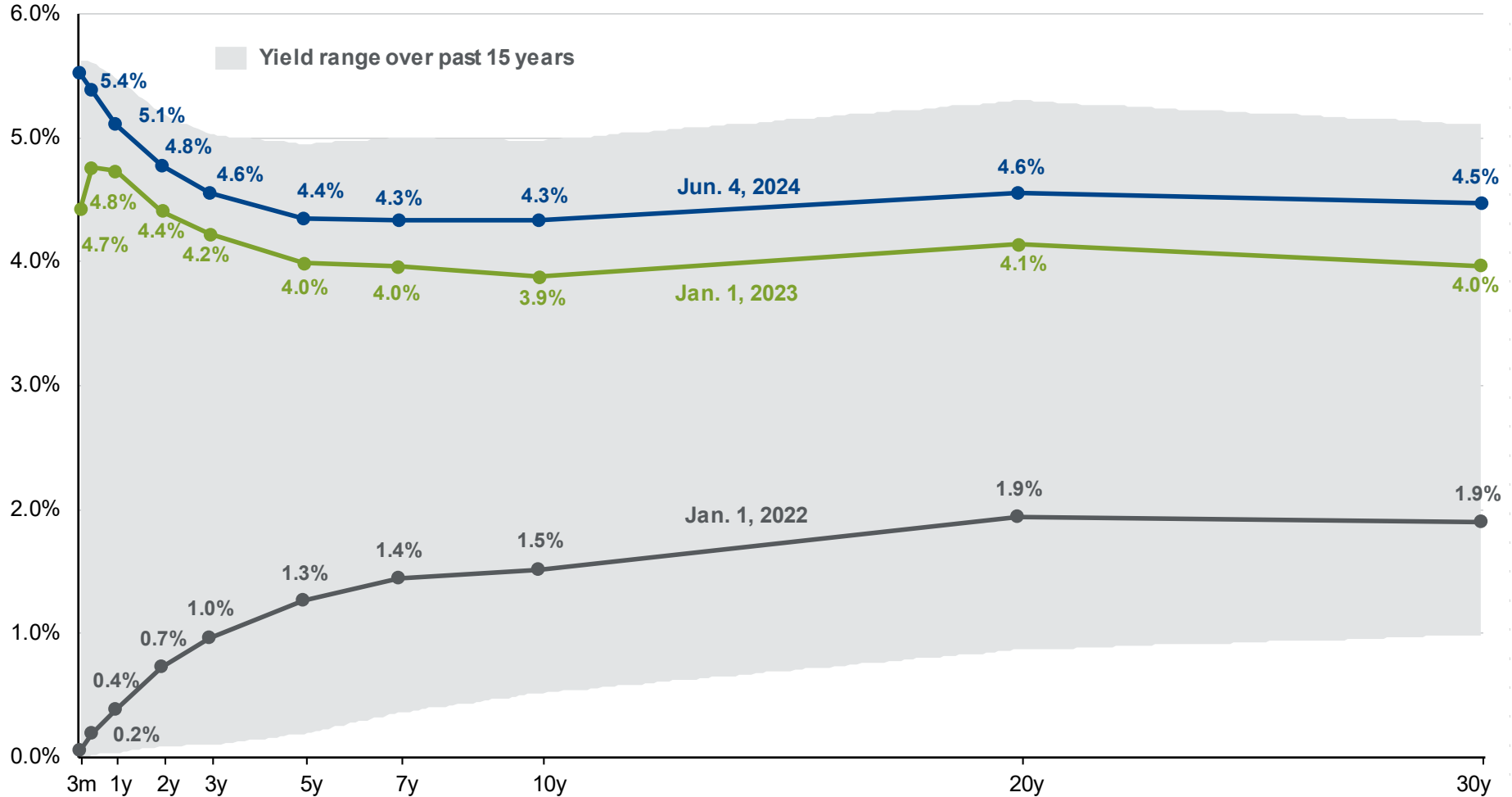


Source: CBO, J.P. Morgan Asset Management; (Top and bottom right) BEA, Treasury Department. Estimates are from the Congressional Budget Office (CBO) February 2024 An Update to the Budget Outlook: 2024 to 2034. "Other" spending includes, but is not limited to, health insurance subsidies, income security and federal civilian and military retirement. Years shown are fiscal years. *Adjusted by JPMAM to include estimates from the CBO May 2023 report "Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues" on the extension of TCJA provisions. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.
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Inverted Yield Curve

U.S. Treasury yield curve



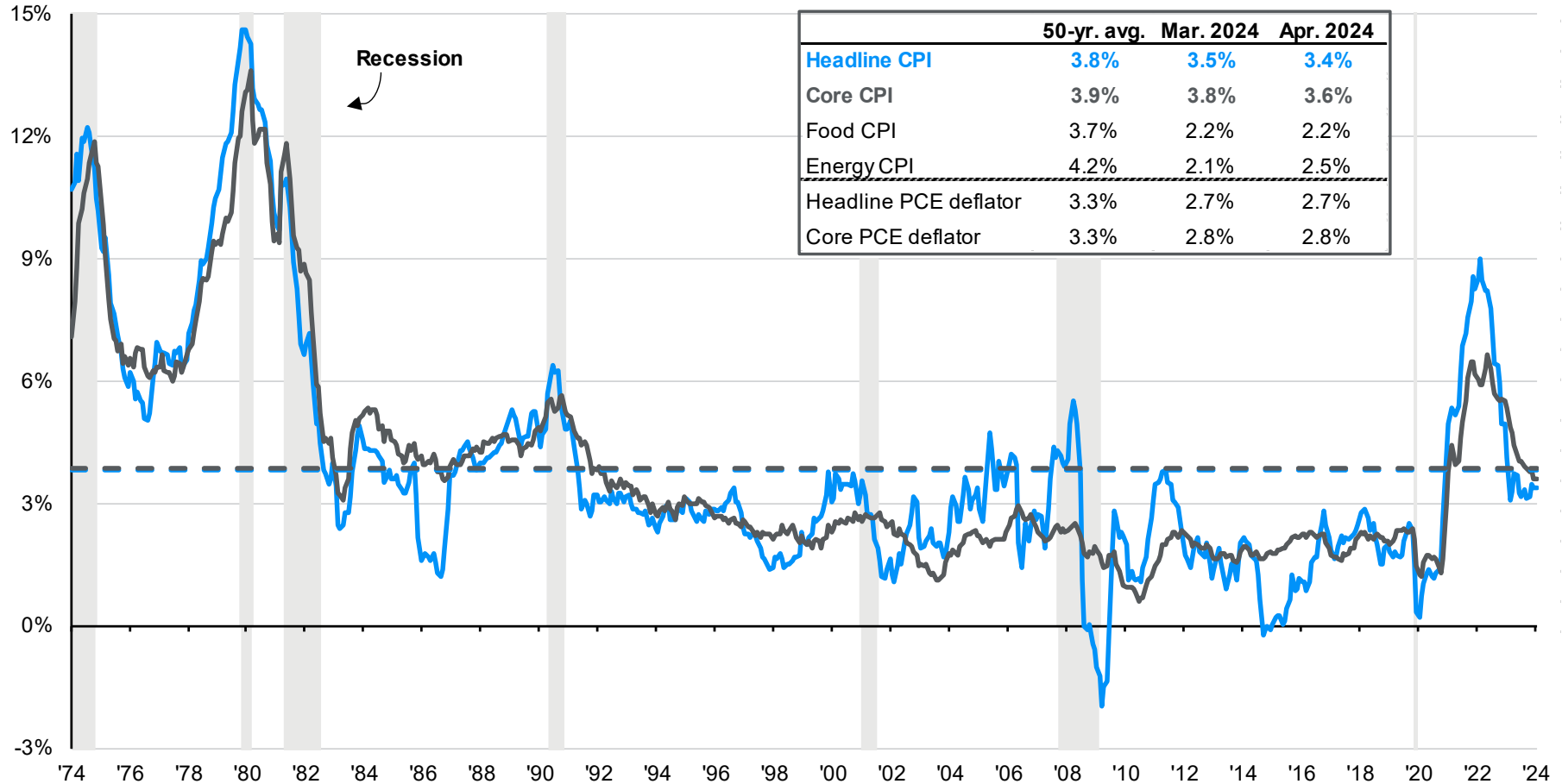
Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.
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Inflation Not Going Away

CPI and core CPI

% change vs. prior year, seasonally adjusted



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

CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations.

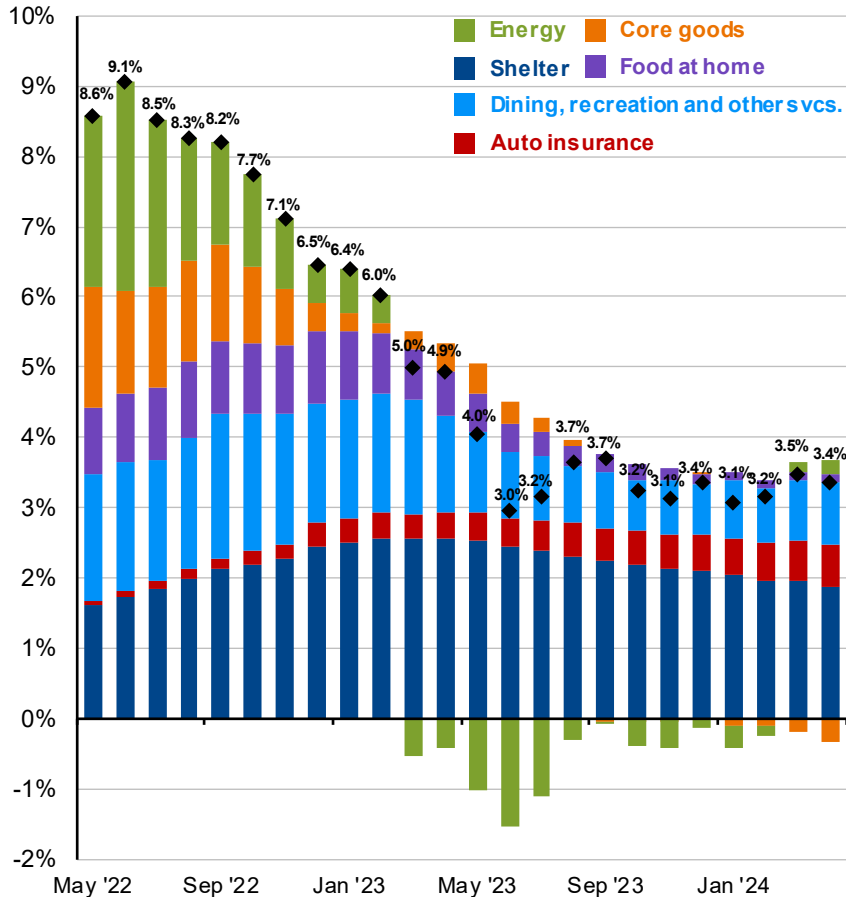
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Components of Inflation

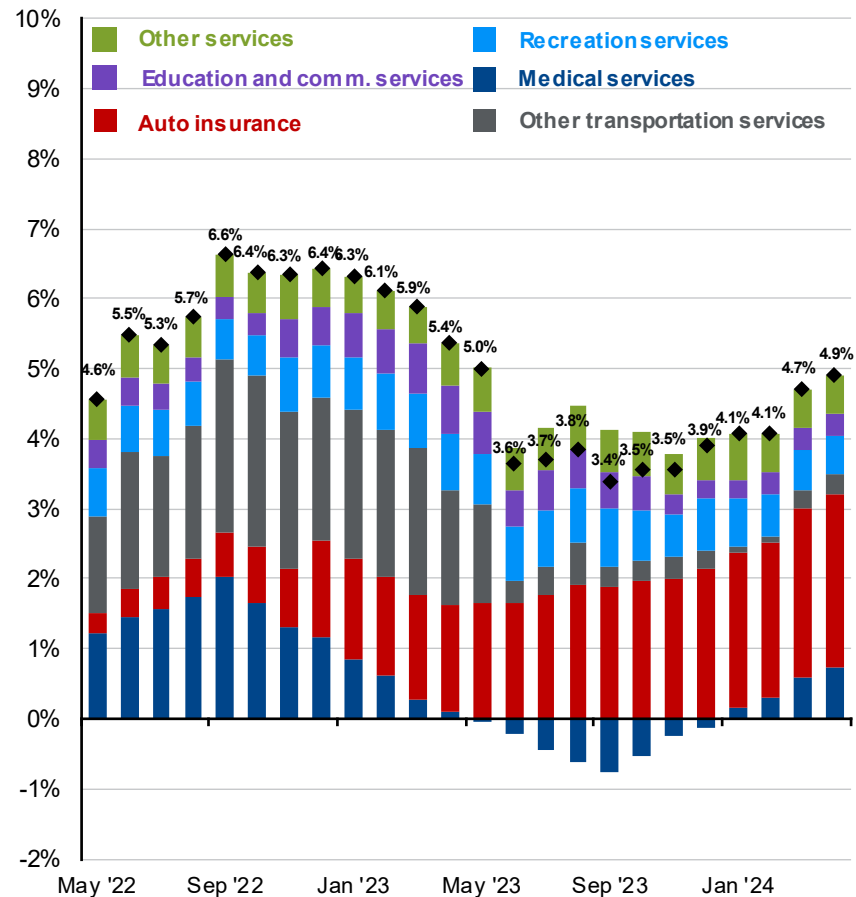
Contributors to headline CPI inflation

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



Contributors to core services ex-shelter CPI inflation*

Contribution to y/y % change in custom CPI index, non-seasonally adj.

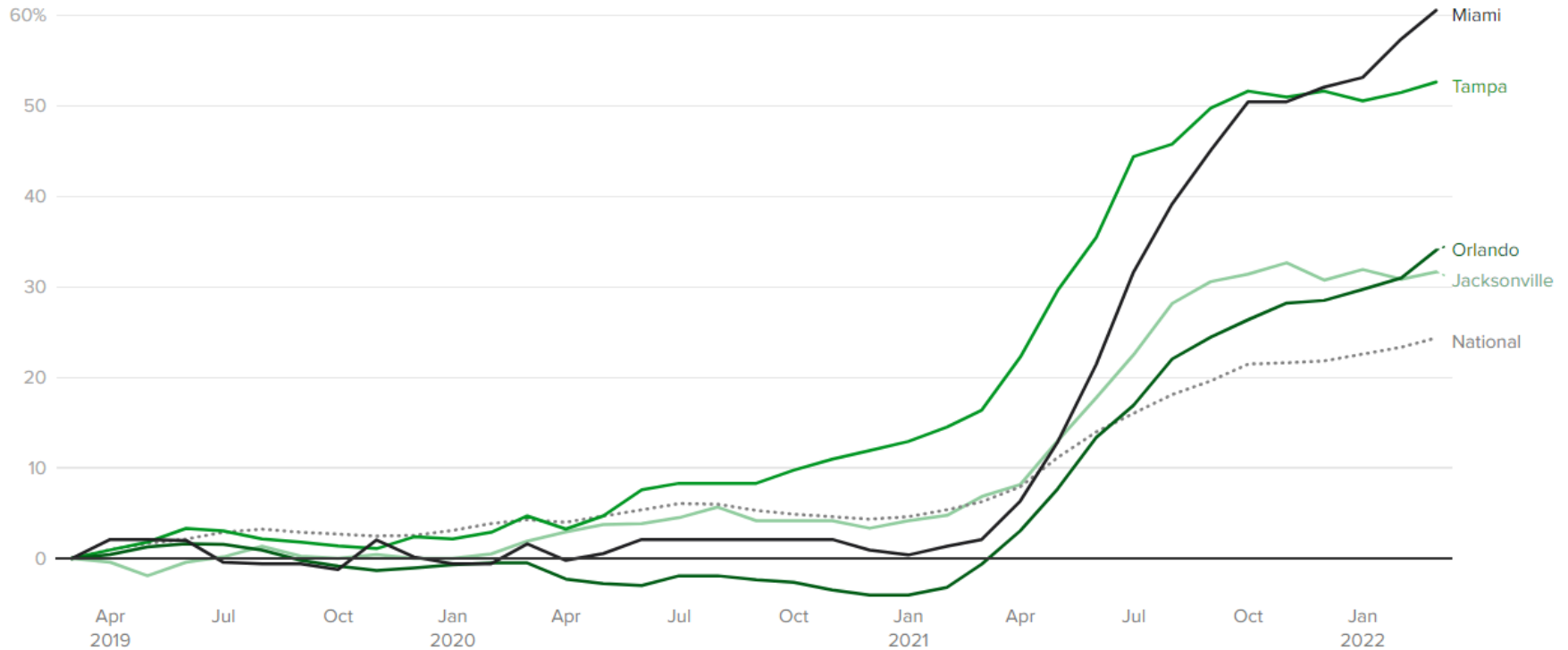


Source: BLS, FactSet, J.P. Morgan Asset Management. Contributions mirror the BLS methodology on Table 7 of the CPI report. Values may not sum to headline CPI figures due to rounding and underlying calculations. *Core services ex-shelter CPI is a custom index using CPI components created by J.P. Morgan Asset Management. (Left) "Shelter" includes owners' equivalent rent, rent of primary residence and home insurance. *Guide to the Markets – U.S.* Data are as of June 4, 2024.

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Florida Housing Costs are Up

Average rents in major Florida metros are shooting up faster than the rest of the country.

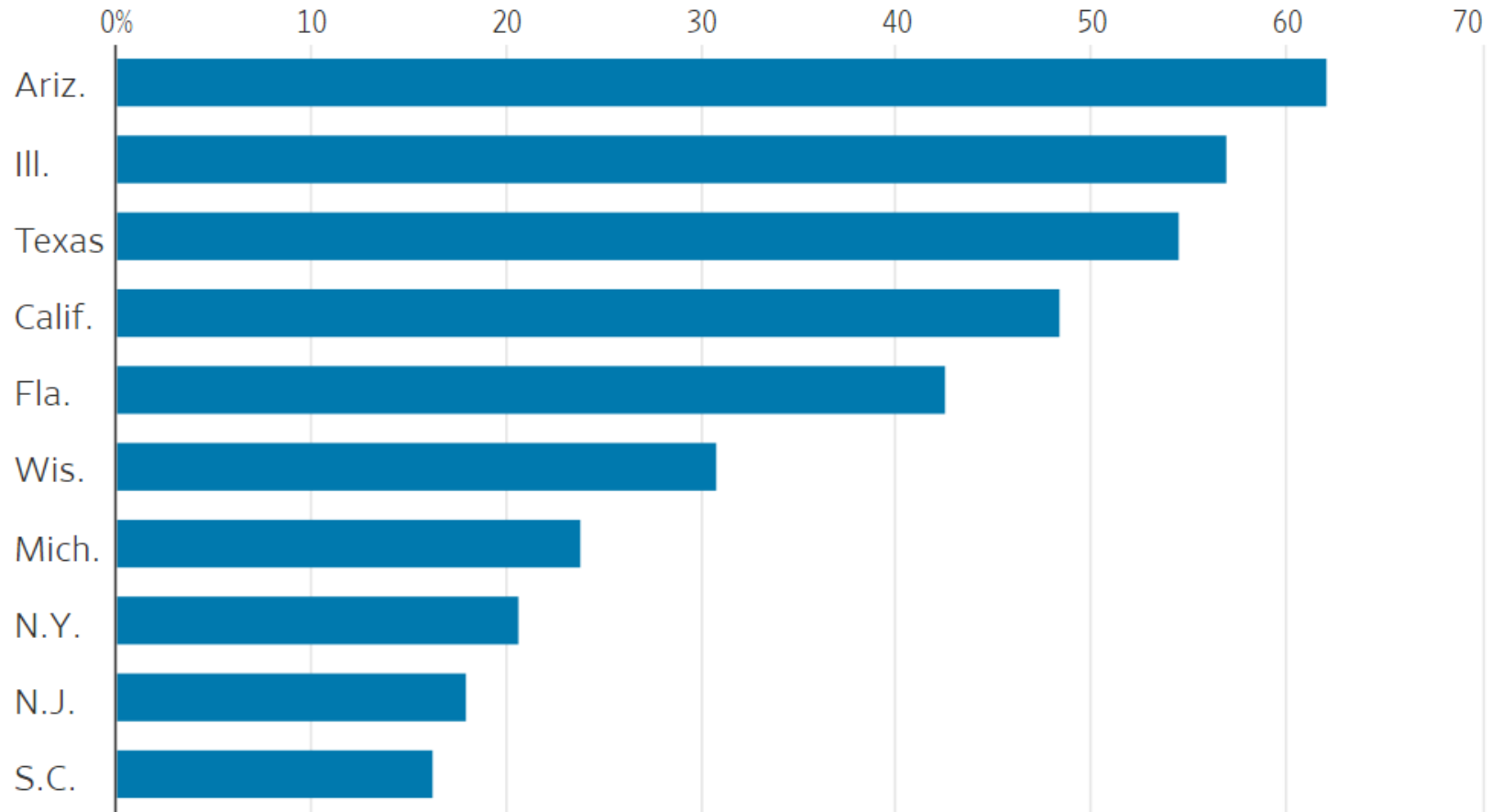


Money Watch

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Property Insurance Crisis

Home Insurance Rate Increases for Select States (2019-2024)



Source: LendingTree

Wall Street Journal 6/9/24

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Average Fixed Mortgage Rates



Rates on new home loans now far surpass rates locked in by Americans with existing mortgages.

Source: [Federal Housing Finance Agency analysis](#). Note: New loan figures show the predicted rate that existing mortgage holders could get on the same mortgages at new market conditions.

New York Times
4/22/24

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Oil Markets

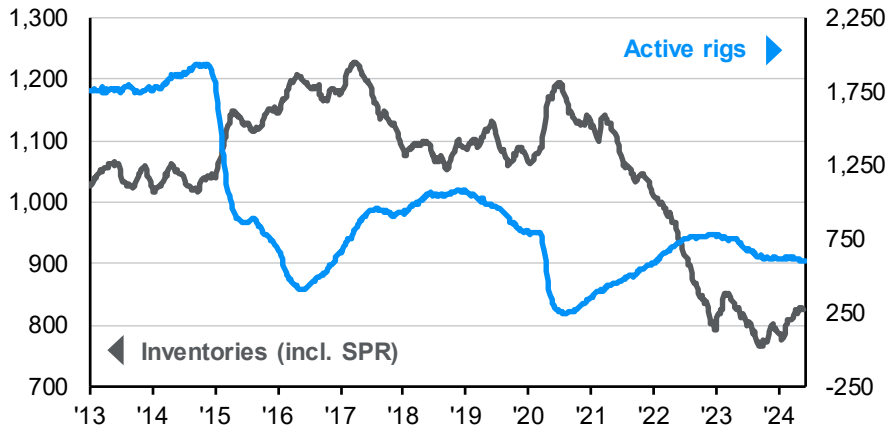
Change in production and consumption of liquid fuels

Production, consumption and inventories, millions of barrels per day

Production	2019	2020	2021	2022	2023*	2024*	2019-2024
U.S.	19.5	18.6	19.0	20.3	21.9	22.3	14.4%
OPEC	33.1	29.4	30.5	32.9	32.2	32.2	-2.6%
Russia	11.5	10.5	10.8	11.0	10.8	10.4	-9.2%
Global	100.3	93.9	95.7	100.0	101.8	102.7	2.3%
Consumption							
U.S.	20.5	18.2	19.9	20.0	20.3	20.5	-0.4%
China	14.0	14.4	15.5	15.2	16.1	16.3	16.5%
India	4.9	4.5	4.7	5.1	5.3	5.6	13.6%
Global	100.9	91.6	97.6	99.9	102.0	102.9	2.0%
Inventory Change							
	-0.6	2.3	-1.9	0.0	-0.2	-0.3	

U.S. crude oil inventories and rig count**

Million barrels, number of active rigs



Source: J.P. Morgan Asset Management; (Top and bottom left) EIA; (Right) FactSet; (Bottom left) Baker Hughes.

*Forecasts are from the April 2024 EIA Short-Term Energy Outlook and start in 2023 unless stated otherwise. Forecasts for the U.S. start in 2024. **U.S. crude oil inventories include the Strategic Petroleum Reserve (SPR). Liquid fuels include crude oil, natural gas, biodiesel and fuel ethanol. Active rig count includes both natural gas and oil rigs. WTI crude prices are continuous contract NYM prices in USD.

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Price of oil

WTI crude, nominal prices, USD/barrel



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Food Prices

RESTAURANTS

McDonald's \$5 value meal is coming in June — and staying for just a month

PUBLISHED WED, MAY 15 2024•2:10 PM EDT | UPDATED WED, MAY 15 2024•3:00 PM EDT

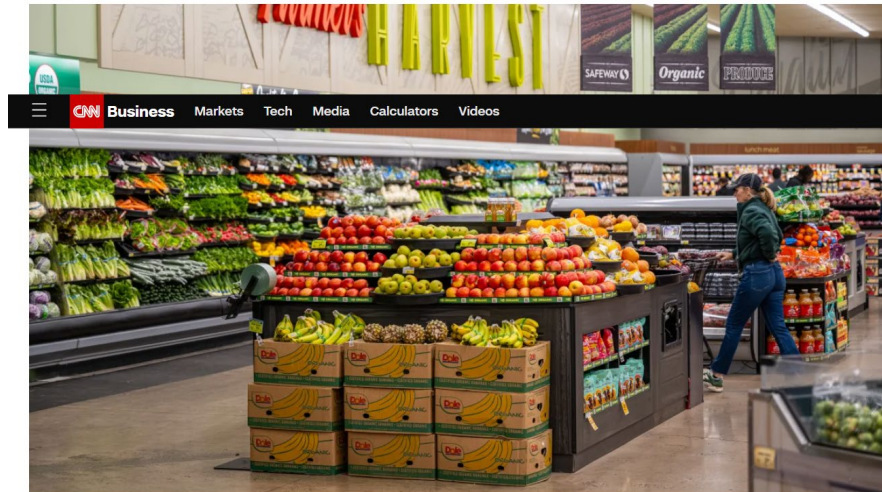


Kate Rogers

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Grocery prices are finally falling

By Danielle Wiener-Bronner, CNN
3 minute read · Updated 12:06 PM EDT, Wed May 15, 2024

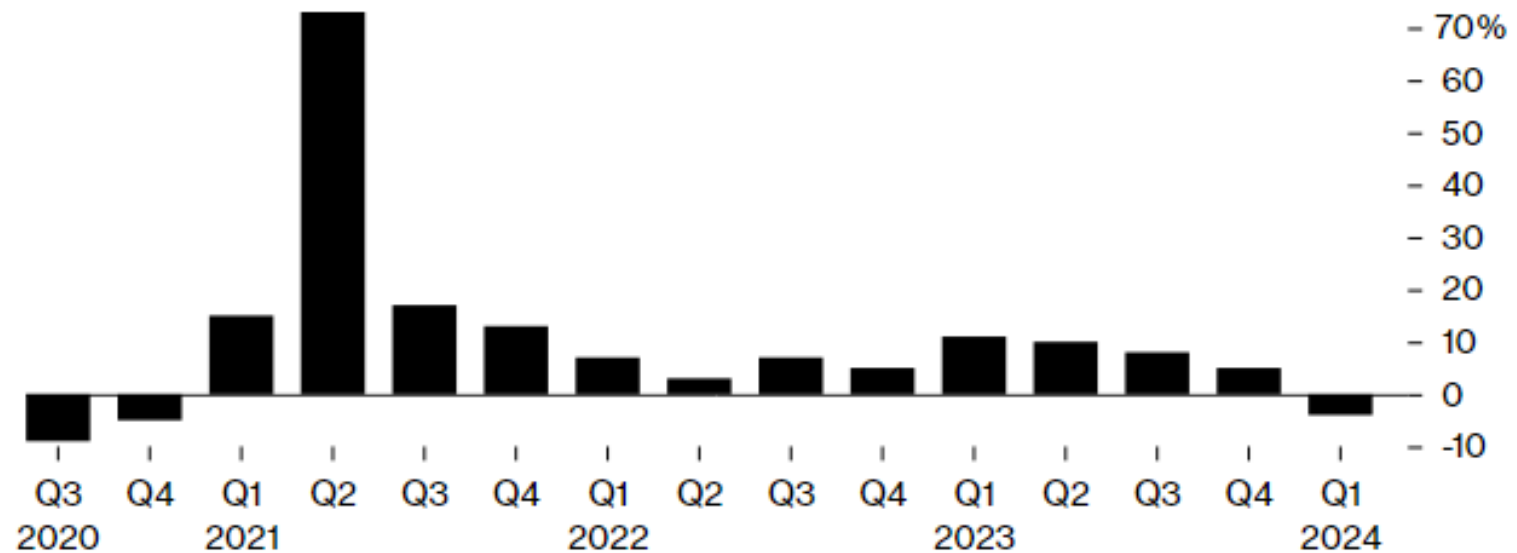


Produce at an Albertsons Cos. brand Safeway grocery store in Scottsdale, Arizona, US, on Wednesday, Jan. 3, 2024. Ash Ponders/Bloomberg/Getty Images

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Starbucks Same Stores Sales

Transactions fell in every geographic segment in the quarter through March 31



Source: Starbucks financial statements.

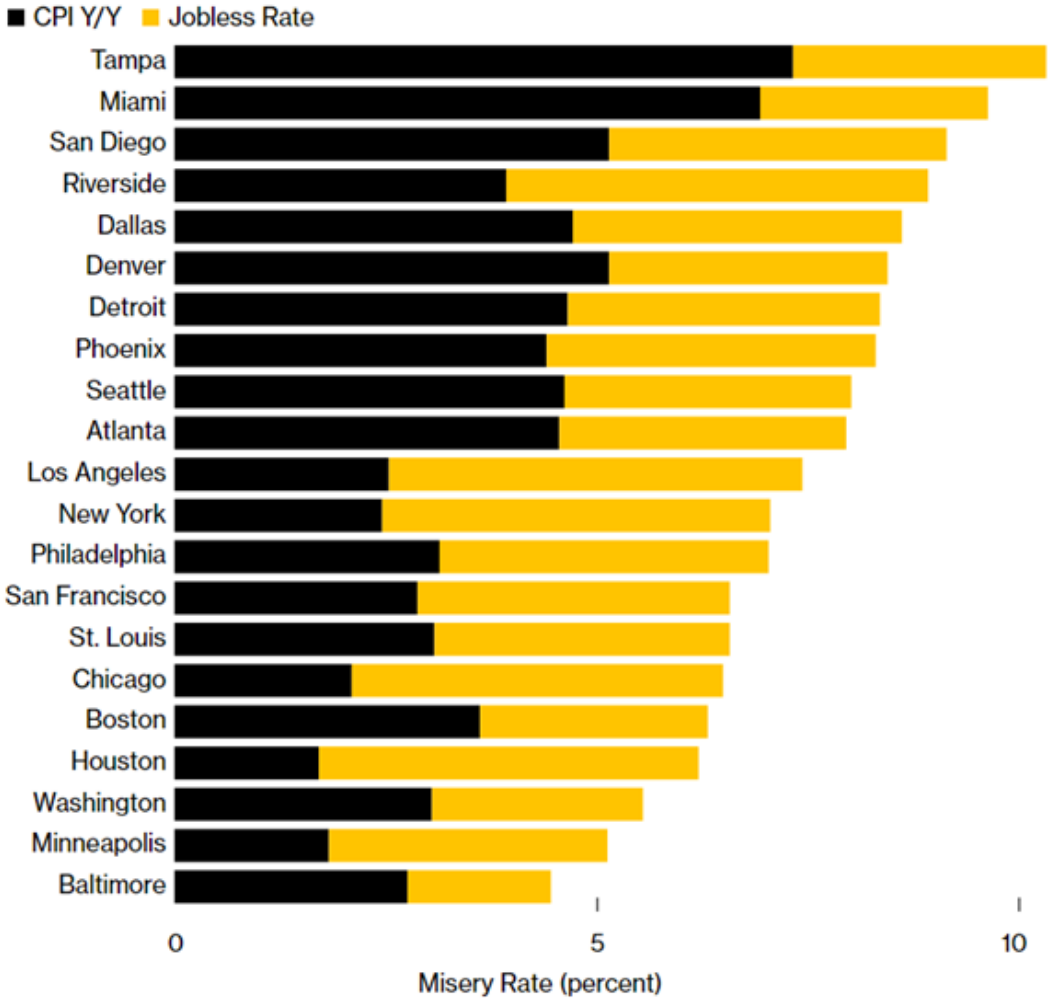
Note: Periods are displayed in calendar quarters, which differ from Starbucks fiscal quarters.

Bloomberg May 1,
2024

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Misery Index

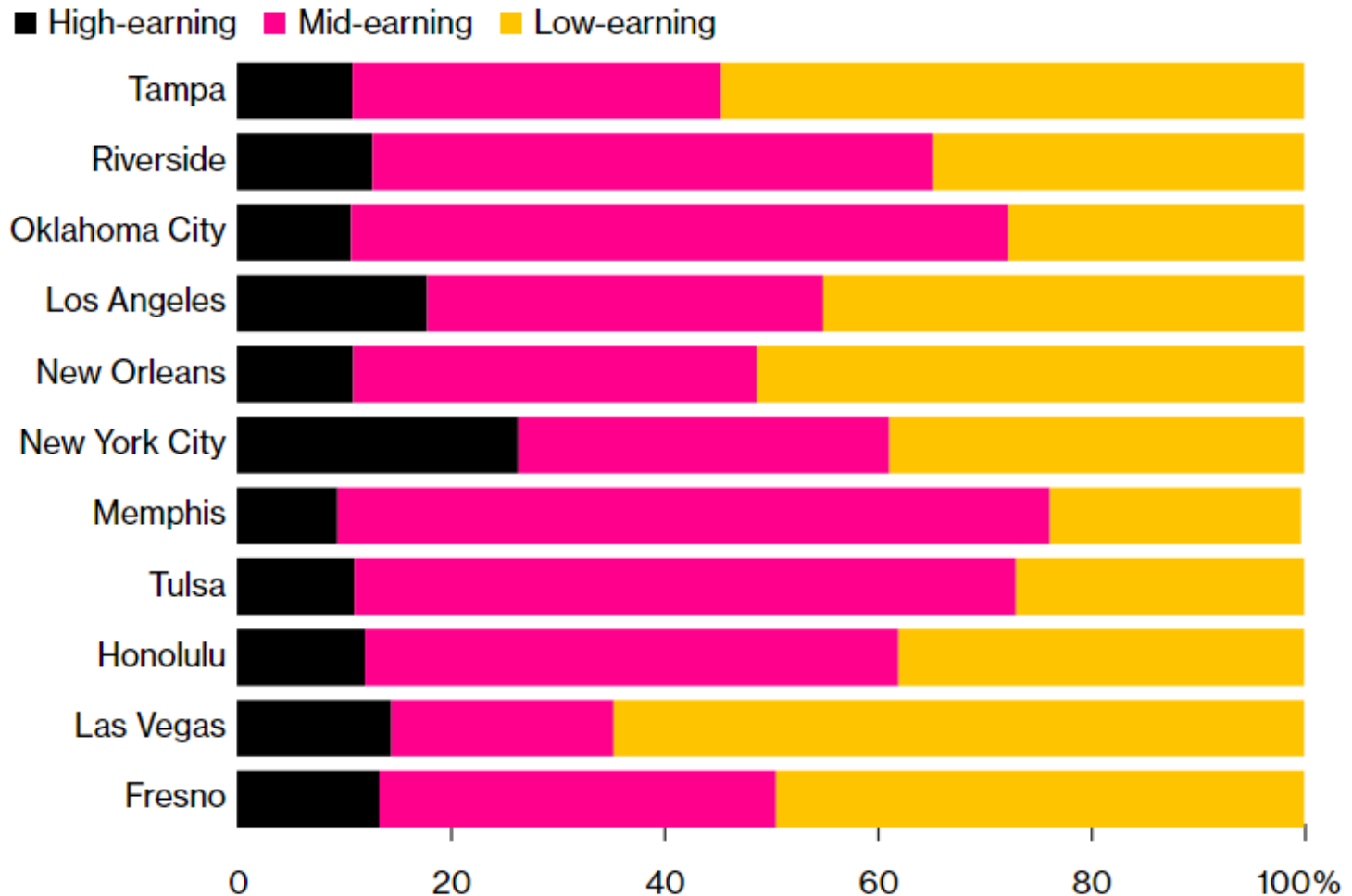
Latest available inflation plus the unemployment rate



Source: Bloomberg calculation using Bureau of Labor Statistics data
 Note: Latest available data

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Worst Cities for the Middle Class



Source: Ludwig Institute for Shared Economic Prosperity

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Session Summary

K Shaped Economy

- The gap between those doing well and those doing not as well is widening
- Good if you have no mortgage or have a rate below 4% and have cash accounts earning above 5%
- Bad if you are renting, looking to buy your first home, have large credit card and student loan debt
- Corporations have healthy balance sheets
- Service economy (concerts, international travel) is surging while goods producing economy is back to pre-pandemic levels
- Excess supply of labor should cap wage increases

Recession?

- Consumer confidence is down
- Geo-political risks with wars in the Ukraine and the Middle East
- Largest number of countries holding nationwide elections in 2024
- If the Fed does not cut interest rates in July, then most likely the first cut would be in December

Impact on Local Government Budgets

- Revenues
 - Assessed property values are rising
 - Sales tax revenue is increasing at a slower pace or is flat compared to previous years
 - Higher interest income
- Expenses
 - EVERYTHING is costing more especially insurance and other services
 - Florida becoming less affordable place to live especially for those who have been here prior to 1990

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Questions



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Presenters' Bio

David Jang

David Jang, CTP

Chairman

35 Years Investment Experience

David Jang is the Chairman of Deep Blue Investment Advisors and directs the firm's strategic growth. David's investment advisory experience, client-focused approach and understanding of the multiple components affecting local governments enables him to provide valuable insight to treasury management, investment management and consulting clients. David routinely speaks at Florida's Government associations, chapters, conferences and CPE seminars which address local, current economic conditions and challenges facing Florida's entities. He serves on the firm's credit and investment committees and is the President of the US Fixed Income Trust.

Prior to joining Deep Blue Investment Advisors, David spent 12 years working with Florida local government clients and 35 years overall in investment advisory services.

David earned his Bachelor's degree in Economics from the Wharton School, University of Pennsylvania. He earned the Association of Financial Professionals (AFP) designation of Certified Treasury Professional (CTP). David is a Registered Investment Advisor with the Florida Department of Financial Regulation.

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