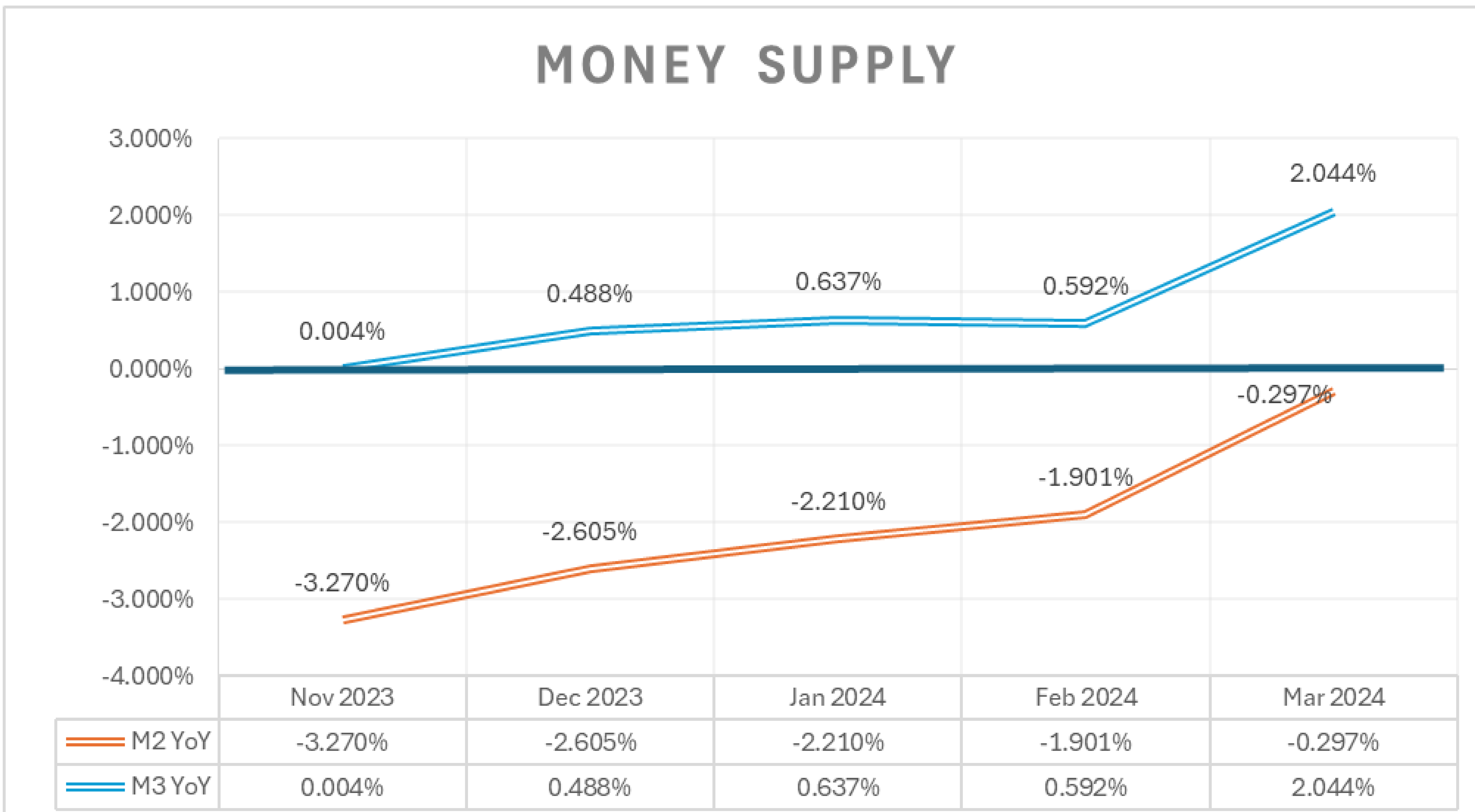
iSectors® Current Research Updates

Inflation remains a crucial issue and will make it difficult for the Fed to materially lower interest rates this year. We point out three main data points acting as inflationary tailwinds. All three of these items act as drivers of demand, which counteracts the Fed's attempt to decrease demand through higher interest rates.

1. Money Supply: The focus on M1 and M2 money supply would lead most people to believe the money supply is still contracting compared to last year. However, when the broader M3 is calculated, we see a continuous uptick in money supply since last November.



2. Consumer Expenditures: Real Personal Consumption Expenditures (PCE) continue to increase every single month. Additionally, the Fed's preferred measure of inflation, the PCE Price Index, which measures "supercore" prices (the price of core services excluding housing), has recently seen its largest monthly increase in more than two years.

3. Fiscal Spending: The current budget deficit is 6.2% of GDP, which would imply an 8% unemployment rate in normal circumstances. Instead, the unemployment rate has been under 4% for 27 consecutive months. This sizeable fiscal stimulus isn't propping up the labor market on its own, but it is certainly helping. The continued spending and strong labor market only add more fuel to the inflation fire.

The Fed is in an incredibly challenging position. Cutting rates beyond anything as small as 25 bps at the next meeting would only add to the inflationary tailwinds mentioned. It would be equally difficult to raise rates because it would increase the chances of a recession in the near term, which would be uncharacteristic of the Fed during an election year. The most likely outcome is that they will stand pat on rates for the remainder of the year, with the potential for one small cut being more likely than additional hikes.

iSectors® Post-MPT Allocations May 2024 Update

The model run this month has brought about some changes in the Post-MPT Allocations, the most significant changes of the last seven months. Growth added a meaningful amount of energy exposure, while greatly reducing healthcare. This is a departure from Moderate, which added a very small amount of energy with only a slight decrease in its healthcare position. The continued high gold exposure, as well as the addition of energy, underscores our stance on inflation and the Fed's current predicament, as previously discussed.

May's Post-MPT Allocations

	Materials	Bonds	Energy	Financials	Gold Bullion	Healthcare	Real Estate	Technology	Utilities	Cash
Post-MPT Growth	**10.00**	**13.20**	**9.30**	**0.00**	**28.60**	**6.00**	**1.50**	**28.40**	**1.00**	**2.00**
Post-MPT Moderate	**0.80**	**4.50**	**1.10**	**1.60**	**29.00**	**17.90**	**0.00**	**29.40**	**13.70**	**2.00**

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Data Sources
bls.gov
fred.stlouisfed.org
bea.gov
shadowstats.com
nbcnews.com/business/economy/data-far-showing-inflation-isnt-going-away-making-things-

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