SOUTHWEST MISSOURI BANK

ECONOMIC OUTLOOK AND INVESTMENT POLICY - FOURTH QUARTER 2024

SMB Trust Services

ECONOMIC FACTORS	CURRENT OUTLOOK
U.S. GDP Growth	We expect domestic economic growth to hold steady at an above-trend annualized rate of 2.0% - 2.5% in 4Q24 and 1Q25.
Federal Funds Rate	The Fed seems ready to cut its policy rate by another 0.25% in both November and December. The pace of easing may slow down in 2025.
Inflation	Disinflationary forces in the economy should push measures of core annual inflation from 3.0% to near 2.5% by the end of the year.
Employment	Monthly payroll gains around 150,000 and an unemployment rate under 4.5% in coming months would suggest a soft landing is underway.
Consumer Confidence	Still-elevated price levels and policy uncertainty following the election could weigh on sentiment in coming months.
Oil Price	Expectations of weak demand in China and Europe have offset escalating tensions between Israel and Iran to keep WTI around $70/barrel.
Housing	Housing market activity will probably remain suppressed until 30-year fixed mortgage rates drop another 100 basis points to near 6%.
International Economies	Above-trend GDP growth in India and Indonesia in 2024 is likely to offset by weakness in China, the euro zone, and the UK.

FIXED INCOME

	MINIMUM		NEUTRAL		MAXIMUM
FIXED INCOME			●		
Core Bonds				●	
TIPS	●				
Non-Investment Grade			●		
International	●				

CURRENT OUTLOOK

We prefer to hold short to intermediate-term US government bonds and investment-grade corporate bonds, which we expect will benefit from a de-inversion of the yield curve (when short rates decline while long rates stay anchored). We believe high quality bonds will play a key role in dampening the volatility of diversified portfolios in 2025 and beyond due to the improved coupon cushion they provide compared to most of the last 15 years.

If longer-term Treasury yields climb closer to 5%, we would consider extending the duration in client portfolios. We would expect Treasury and Fed officials to take various actions to stem increases in longer-term yields much above 5%.

U.S. high yield corporate bond spreads have narrowed by about 250 basis points since the regional banking turmoil in the spring of 2023, supported by resilient economic data and favorable supply-demand dynamics. Further spread tightening and declining yields would make high yield bonds less appealing.

EQUITIES

	MINIMUM		NEUTRAL		MAXIMUM
EQUITIES			●		
Large Cap			●		
Mid Cap				●	
Small Cap		●			
Developed International			●		
Emerging Markets		●			

CURRENT OUTLOOK

The most important underlying components of the U.S. economy (aggregate job growth, wages, consumer spending) do not appear on the cusp of an imminent contraction. This is important because most extended periods of U.S. equity market declines over the last 70 years coincided with recessions. Now that the Fed has begun easing policy, the bar is even higher to be stategically underweight equities, even if valuations are extended relative to history.

Signs of an expansion of corporate earnings growth to more sectors and industries outside of the top 10 S&P 500 stocks so far in 3Q24 is a welcomed development. This could create the conditions for another leg of the current bull market that would likely prove more durable than the narrow leadership of 2023 and 1H24.

Given the balance of risks and opportunities, we think it makes sense to keep equity allocations focused on areas of the market that exhibit quality characteristics in terms of leverage, earnings volatility, and return on capital. If we see a cyclical reacceleration in the economy accompanied by lower interest rates, small cap, international, and value style stocks could become more appealing.

ALTERNATIVES*

	MINIMUM		NEUTRAL		MAXIMUM
ALTERNATIVES*			●		
	CAP PRES	IWSG	BAL	GWSI	GROWTH
Gold		●	●	●	
Hedged Equity					
Arbitrage					

CURRENT OUTLOOK

We recommend most portfolios maintain a moderate allocation to gold given our assessment that the economic, policy, and geopolitical backdrops remain well suited for the precious metal. The beginning of a Fed rate cut cycle, two active wars, and strong global central bank demand outside the U.S. should position gold to improve the risk-adjusted returns of portfolios in coming quarters. Our alternatives allocations, as seen in the table to the left, are designed to decrease the overall risk profile of our five investment objective-based portfolios (CAP PRES, IWSG, BAL, GWSI, and GROWTH.)

The above minimum/neutral/maximum recommendations represent MainStreet Advisors' current positions relative to our Strategic Asset Allocation ranges. Views expressed have a six- to twelve-month horizon and are those of the MainStreet Advisors Investment Committee.

*Cap Pres: Capital preservation; IWSG: Income with some growth; Bal: Balanced; GWSI: Growth with some income