



The Weekly Market Update – 6/24/24: Government Spending Drives Expanding Deficits

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,464.62	0.61%	4.00%	14.57%	30.74%	5,487.03	0.4%
Dow Jones Industrial Average	39,150.33	1.45%	-1.65%	3.88%	18.97%	40,003.59	2.2%
NASDAQ Composite	17,689.36	0.00%	8.00%	17.84%	36.75%	17,862.23	1.0%
Russell 2000	2,022.03	0.79%	-4.83%	-0.25%	15.57%	2,442.74	20.8%
MSCI EAFE (USD)	2,307.56	0.05%	-1.67%	3.19%	13.02%	2,398.71	4.0%
MSCI Emerging Markets (USD)	1,086.93	0.93%	4.47%	6.17%	13.40%	1,444.93	32.9%
Bloomberg Commodity Index	101.73	-0.70%	2.25%	3.12%	3.84%	237.95	133.9%
Barclays U.S. Aggregate Bond	90.62	-0.15%	0.14%	-1.18%	0.35%	112.07	23.7%

Source: FactSet

The U.S. budget deficit is tracking above estimates despite solid economic growth as government spending continues to swell. Last week, the Congressional Budget Office (CBO) increased its projected fiscal 2024 (FY24, ends 9/30/24) federal budget deficit by +27% to \$1.92 trillion (T), compared to its previous budget estimate in February, which forecast a FY24 deficit of \$1.51T. The estimated deficit is 6.8% of U.S. economic output, as of 3/21/24 (U.S. gross domestic product, or GDP, was \$28.3T annualized), compared to 5.0% of GDP in FY19, prior to the pandemic disruption. This year's deficit will be substantially larger than each of the past two years' deficits of \$1.38T in FY22 and \$1.70T in FY23. The factors that the CBO attributed to the +\$410 million (M) increase in the deficit forecast since February included announced student loan forgiveness, funds tied to last year's bank liquidity scare, new funding for Ukraine and Israel, and higher Medicaid expenses. The expanding deficit is not a revenue problem as FY24 revenues (mostly individual and corporate income taxes and payroll taxes) are estimated to increase +10% to \$4.89T (from \$4.44T in FY23). But government outlays are expected to increase +11% to \$6.81T. Also driving the spending increase is surging net interest expense as both total debt outstanding and borrowing rates are higher. Over the first eight months of FY24 (through May), the U.S. net interest expense was \$621M, a year-over-year (Y/Y) increase of +42% (\$437M through May of 2023). This was greater than FY24 defense spending, which totaled \$545M through May. The CBO estimates that federal revenue as a percentage of GDP will be 17.2% in FY24, basically in-line with the 17.3% average over the past 50 years (1974 to 2023). But federal spending is estimated at 24.2% of GDP, well above the 21.0% 50-year average. The deficit forecast has grown despite the CBO revising its 2024 U.S. GDP growth outlook higher to 2.0% from 1.5% in February. Typically, as GDP growth expands, tax revenue will also grow, contributing to a lower budget shortfall. However, with accelerated spending that is not expected in 2024, the CBO projects ongoing annual deficits of \$1.90T or higher through 2034. In our view, this creates challenges for sustained U.S. economic growth and imposes headwinds on investors as we look ahead.

For now, budget and debt concerns have not weighed on equity and fixed income markets Through 4/21/24, the S&P 500 increased +14.6% year-to-date (YTD) and the U.S. 10-year Treasury yield was 4.25% on 4/21/24, down from 4.70% in late April. Equity market gains, in our view, are due to better-than-expected earnings growth in recent quarters, and Treasury yields are lower due to improved inflation data and expectations that the Federal Reserve Bank (Fed) will soon adjust its overnight fed funds interest rate target lower. For FY24, the CBO estimates that total federal debt held by the public will total \$28.2T, representing 99% of GDP, and will swell to 113% of GDP by 2030. Continued GDP growth and lower interest rates could be viewed positively by investors if interest expense pressure recedes, and deficits can trend lower. However, this leaves limited room for error if economic data disappoints.

2024's second quarter comes to a close this week, with key data on consumer spending and inflation due Friday. On 6/28/24, the Bureau of Economic Analysis will report May personal income and outlays. In April, spending was positive but slowed markedly from March. We expect this trend to continue, with spending on services much stronger than spending on goods. The report will also include the personal consumption expenditures (PCE) price index (PI), the Fed's preferred indicator of consumer inflation. Consensus estimates for Y/Y and M/M core PCE PI (excludes food and energy prices) are estimated at +2.6% and +0.1%, respectively.

James D. Ragan, CFA
Director of WM Research
(206) 389-4070
jragan@dadco.com

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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The S&P 400 Index is a market cap weighted index comprised of U.S. stocks in the middle capitalization range, generally considered to be between \$200 million and \$5 billion in market value. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance.

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

U.S. economic growth: Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. The most recent GDP report can be found at www.bea.gov. It is reported by the U.S. Bureau of Economic Analysis (BEA).

Earnings growth. We refer to the weighted average (based upon equity market capitalization) of the earnings per shares (EPS) of all S&P 500 companies compared to the prior period (generally year-over-year). We use data as reported in FactSet.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analysts' estimates from firms that submit estimates to FactSet for a given financial metric.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment. Treasury security data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members – the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and four of the remaining eleven Federal Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth. The minutes from the most recent FOMC meeting is [here](#).

The consumer price index (CPI) is a measure of average change, over time, in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics. Y/Y is year-over-year and M/M is month-over-month.

The U.S. Personal Consumption Expenditures (PCE) Price Index is an indicator of the growth in consumer spending and measures the value of goods and services purchased by persons who reside in the U.S. It is reported monthly by the Bureau of Economic Analysis. PCE inflation is the percentage rates of change in the price index for personal consumption expenditures (PCE).

Personal Income and Outlays is reported monthly by the BEA. Personal income is the income received by, or on behalf of, all persons from all sources: from participation as laborers in production, from owning a home or business, from the ownership of financial assets, and from government and business in the form of transfers. Personal consumption expenditures (PCE) is the value of the goods and services purchased by, or on the behalf of, "persons" who reside in the United States.

The Congressional Budget Office (CBO). Established under the Congressional Budget Act of 1974, CBO provides objective, nonpartisan information to support the budget process and to help the Congress make effective budget and economic policy. Here is a link to the June 2024 [Update to the Budget and Economic Outlook 2024 to 2034](#).

The U.S. Treasury reports monthly data on government receipts and spending by category. The May 2024 report: [Monthly Treasury Statement](#).