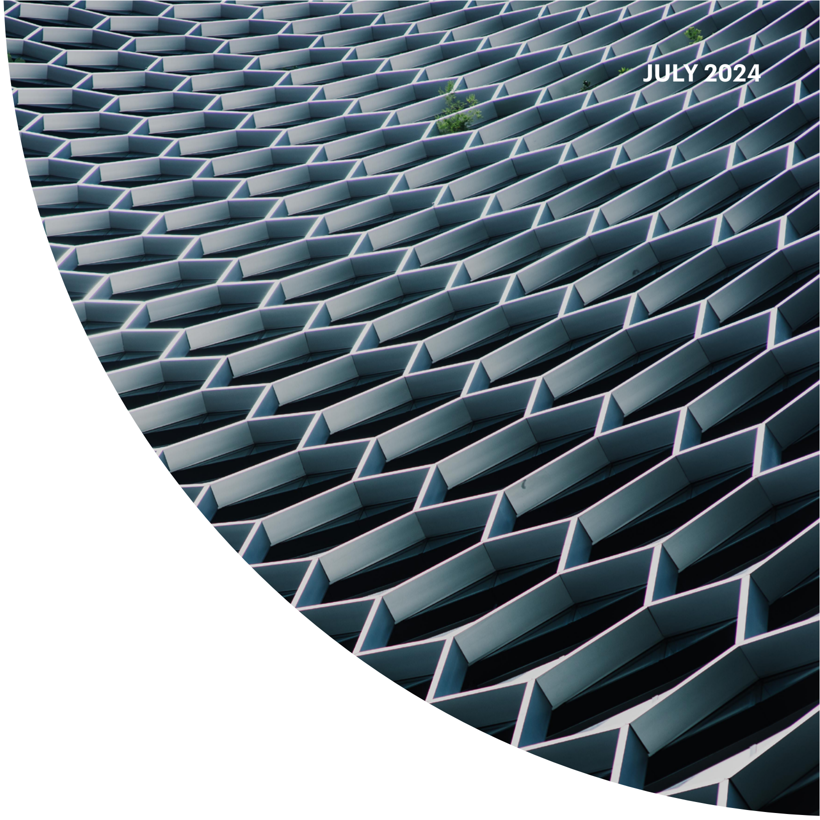

Allspring

Macro Matters

SUMMER EDITION

Macro Matters provides a concise, comprehensive look at macroeconomic themes that matter to clients.

Is the Fed too cautious?

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Key takeaways

01

Growth: Mixed growth data both in the U.S. and internationally are an advantage for central banks. While retail sales, credit card, and jobs data indicate increasingly pressured U.S. consumers, manufacturing and services appear stabilized. Internationally, French and U.K. data have weakened while Germany has seen some stabilization. In China, growth continues to disappoint.

02

Inflation: Inflation's momentum is pointing downward again. U.S. inflation seems to have turned lower after a sticky first half of 2024. Outside the U.S., we continue to expect inflation to decline further in the eurozone and the U.K. while China remains under deflationary pressure driven by weaker growth.

03

Rates: Monetary policy divergence will continue for now. While the European Central Bank (ECB) and the Bank of Canada have started to cut rates already, we don't expect the Federal Reserve (Fed) to cut before September at the earliest.

Growth: Will weaker growth help central banks bring inflation under control?

In the U.S., elevated rates and a slowing housing market should bring economic growth down further. With real growth appearing to stabilize between 1.5% and 2.5%, a recession looks unlikely. The Fed can currently stay on the sidelines, choosing slightly slower growth over lowering rates right now. As the U.S. elections approach, we might see some uncertainty on future fiscal policy that could produce more volatility in asset prices. These effects historically have been short term only, though, and a shift in focus back to growth and inflation is very likely afterward.

From an international perspective, growth data have been mixed, with Germany seeing some positive stabilization while France has disappointed. Also, economic growth in the U.K. has weakened, driven partly by elevated short-term interest rates and also by the wet weather, which has hurt retail sales. European consumers are rebuilding their savings rather than spending the increase in their real incomes. In China, growth continues to disappoint as consumption stays below pre-COVID levels, and fiscal measures haven't seemed to meaningfully improve China's slowing housing market.

Inflation: Inflation is clearly losing momentum.

In the U.S., inflation's breadth (how widely is it dispersed?) and persistence (how sticky is it?) have been decreasing lately, and we expect to see further progress toward the Fed's 2% inflation rate target. While core goods' prices have been deflationary thus far in 2024, services prices also needed to fall in order to move overall price levels further down toward the inflation rate target. Headline inflation (which includes food, beverages, and commodities) has the potential to decline more quickly than core inflation (which excludes food and energy) because commodity and food prices have dropped lately, while core inflation—the measure the Fed prefers to focus on—will grind lower gradually.

Internationally, we continue to see strong convergence toward inflation targets. The eurozone and the U.K. are already quite close to target inflation. Continued elevated rates, moderation in wage negotiations, and weak external demand are putting downward pressure on growth and inflation. China remains the outlier, continuing to struggle with a deflating housing bubble and inadequate monetary and fiscal policy response.

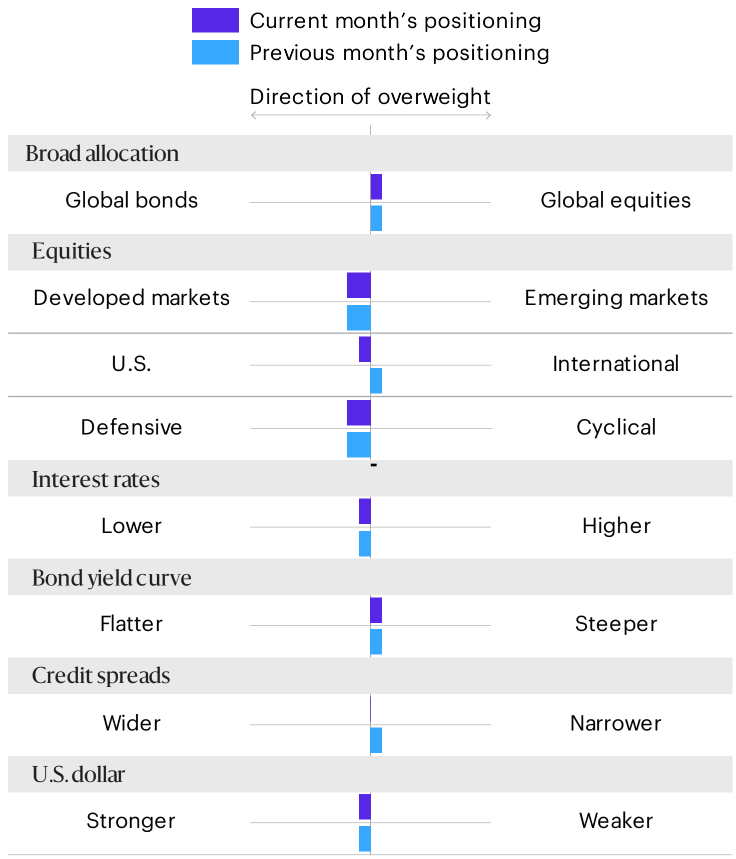
Rates: Will the U.S. continue to lag international markets in cutting rates?

Interest rate cuts are back on the agenda now. After the rate market largely priced out U.S. rate cuts for this year, we see them coming back again. The U.S. interest rate curve is pricing two cuts, similar to the U.K., while the eurozone is likely to see three cuts in 2024. The Fed will probably remain cautious and data-driven in light of a recent upgrade in rate expectations for 2024 and 2025. That said, we believe weaker growth and falling inflation should pave the way for a first cut by September followed by another one before year-end. Thus far, U.S. consumers have been robust, but we see cracks appearing in consumer spending, driven by weaker labor and housing markets.

Outside the U.S., the growth and inflation pictures are much weaker and more cuts are justified. International economies also benefit from weaker currencies due to wider interest rate differentials relative to the U.S. given their higher reliance on exports to generate economic wealth. In China, we expect more fiscal and, ultimately, monetary policy stimulus. The current measures don't look sufficient to turn negative consumer sentiment around.

POTENTIAL ALLOCATIONS BASED ON TODAY'S ENVIRONMENT

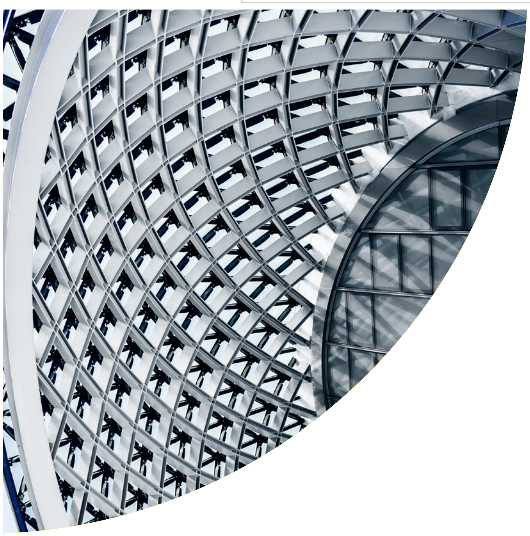
The table below depicts our views on short-term trends. These perspectives are developed using quantitative analysis of data over the past 30 years overlaid with qualitative analysis by Allspring investment professionals. The positioning of each bar in the table shows the direction and magnitude of an overweight.



For illustrative purposes only.
Source: Allspring Systematic Edge–Multi-Asset, based on the team's analysis of current data and trends for each category of assets.

For further information

We're committed to thoughtful investing, purposeful planning, and the desire to deliver outcomes that expand above and beyond financial gains. Visit our website at www.allspringglobal.com.



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