JULY 2023
ECONOMIC & INVESTMENT OUTLOOK

"WHAT GETS US INTO TROUBLE IS NOT WHAT WE DON'T KNOW. IT'S WHAT WE KNOW FOR SURE THAT JUST AIN'T SO." - MARK TWAIN

F.N.B. Wealth Management

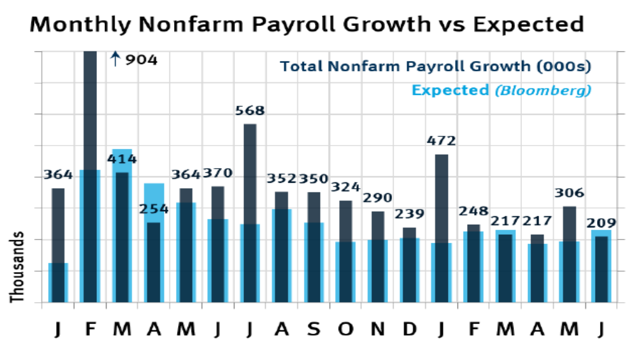
United States

- Economic activity was stronger than previously estimated as Q1 real GDP was revised up notably in the final revision from 1.3% to 2.0%. The increase was primarily driven by an increase in exports and a decrease in imports. In addition, strong consumer spending overshadowed a slowdown in business investment and a decline in the growth of inventories.

- The Personal-Consumption Expenditures (PCE) Price Index, came in as expected in May. The headline PCE increased 0.1% m/m and fell to 3.8% y/y versus 4.3% the previous month. Core PCE, excluding food and energy, rose 0.3% m/m and dropped to 4.6% y/y from 4.7% in April.

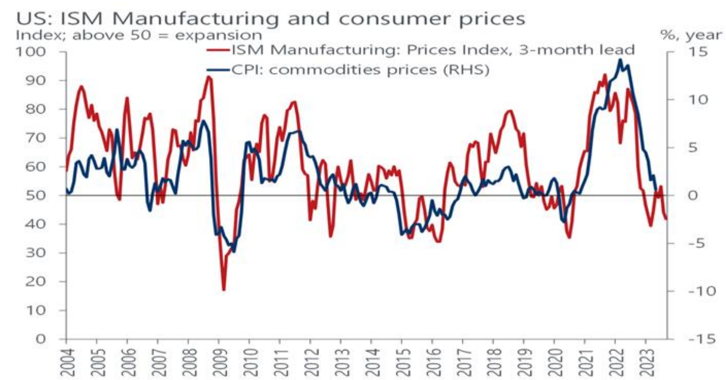
- June's consumer price index (CPI) rose 0.2% m/m and 3.0% y/y, slightly below expectations. Core CPI, ex. food and energy, rose 4.8% vs. 5.3% in May.

- The labor market remains strong but may be showing signs of slowing. Employers added 209k jobs in June, the weakest growth in 30 months. In the 1st half of 2023, payrolls grew by an average of 278k per month, down from nearly 400k per month last year. The household survey showed the unemployment rate decreased to 3.6% from 3.7% in June.



- Average hourly earnings (AHE) increased 4.4% in June y/y compared to May's annual increase of 4.3%. Month-over-month, AHE rose 0.4% and average weekly hours worked increased 0.3%, resulting in a 0.6% increase in average weekly income.

- Economic activity in the manufacturing sector contracted for the 8th consecutive month in June, as the ISM Manufacturing PMI fell to 46%, or 0.9 percentage points (ppts), from 46.9% the previous month. Prices paid remained on a downward trajectory as it decreased 2.4ppts to 41.8%.



Source: ISM/Oxford Economics/Haver Analytics

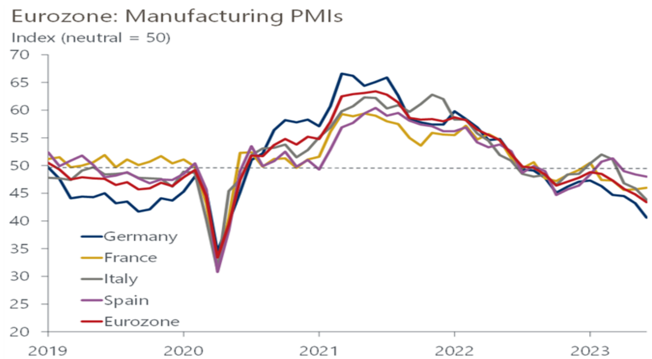
- The June ISM Services Survey came in stronger than expected rising to a 4-month high to 53.9% from 50.3% in May. New orders and employment were positive contributors while the prices paid index dropped to a 39-month low. The services sector expanded for the 6th consecutive month and has been in expansion territory for 36 of the previous 37 months.

Global

- Eurozone headline inflation fell 0.6 ppts to 5.5% in June from 6.1% in May. The primary driver was a drop in energy prices, but food inflation also continued to slow, although it remains historically high. Core inflation rose to 5.4% from 5.3% the previous month, mainly due to transitory base effects from temporarily subsidized public transport prices in Germany last year.

- Consumer prices in China did not budge in June from a year earlier, after growing 0.2% in May and 0.1% in April. The producer price index fell 5.4% from a year earlier in June, the weakest reading since December 2015.

- The Eurozone's Manufacturing PMI was reported at 43.3% in June, the lowest reading since early 2020. Declining demand, amid rapidly shrinking backlogs and destocking, remains the primary factor for these weak numbers.



Source: Oxford Economics/S&P Global

- The U.K. economy is firmly stuck in contraction territory. The June Manufacturing PMI registered 46.5%, down from 47.1% in May and the lowest reading since December 2022.

- The labor market in the Eurozone remains tight with the unemployment rate staying at 6.5% in May, an all-time low.

Source: Oxford Economics/Haver Analytics

- China's economic recovery remains unstable as it deals with mounting debt burdens, stubbornly high youth unemployment, and a beleaguered real estate market.

- China's manufacturing sector contracted for a 3rd straight month in June, rising marginally to 49% from 48.8% in May. The unemployment rate among workers aged 16 to 24 rose to a record 20.8% in May, in part because of evaporating jobs in the manufacturing sector.

- Activities in China's services sector softened further in June to 52.8% from 53.8% in May.

- According to China Real Estate Information Corp., home sales for the top 100 Chinese property developers fell 28.1% by value in June from a year earlier. For the 1st half of the year, average home prices were up 0.1% from the same period a year earlier. The property sector accounts for roughly 25% of China's economy.

Fixed Income

- The yield on the 10-year Treasury note finished Q2 at 3.82%, up from 3.49% at the end of Q1, and basically unchanged from the beginning of the year, when the yield was 3.8%. Earlier this month, the yield moved above 4%, the result of stronger economic data.

- The yield on the 2-year Treasury note hit an intraday high of 5.12% earlier this month which was the highest level since 2007. The yield curve between 2 and 10-year Treasury notes has been inverted since July 2022.

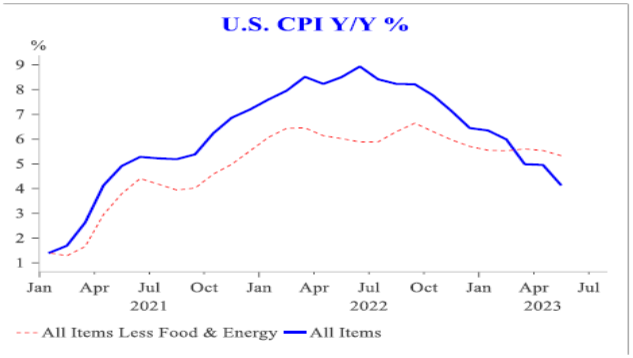
10-2 Year Treasury Yield Spread

- According to Leuthold Group, the 10-year to 3-month Treasury-yield curve has been inverted for eight months; its average lead time in advance of the last 8 business-cycle peaks was 10 months, with a range of 5 to 16 months. Factoring in both duration and depth, the existing inversion is now more severe than all predecessors since the 1960s.

- The Federal Reserve revised the terminal rate, the peak spot where the fed funds rate is expected to climb before being trimmed, up to 5.6% in June , from the previous projection of 5.1% in March. This suggests that the Fed could hike interest rates two more times by 25 basis points each, implying a fed funds rate of 5.5% to 5.75% by year-end.

- Inflation appears to have peaked y/y. Base effects indicate this will likely continue. However, interest rates appear to be going in the opposite direction with numerous central banks still considering rate hikes.

- Peak inflation does not mean rate hikes are finished. History strongly disagrees with a "stop and go" monetary policy.



- Good news – the real fed funds rate is now back in positive territory.

Tactical Fixed Income Allocation

- Neutral duration to the fixed income strategy's respective benchmark as fixed income markets price in slower economic growth, lower inflation, and the Fed Funds rate approaching its terminal rate.

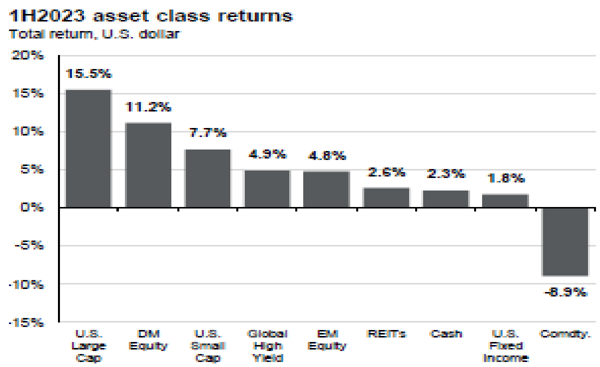
- Slight overweight to short-term investment grade corporates - capture additional income with minimal incremental risk.

F.N.B. Wealth Management

Equity Market

- Stocks and bonds posted healthy returns to start the year due to stronger than expected economic activity, elevated profit margins, AI exuberance, and a moderation in interest rate expectations.

- The S&P 500 finished the 1st half of 2023 up 16.9%. The top 10 companies in the S&P 500 accounted for over 95% of the index's performance. The NASDAQ is up 32.3% over the same time period.

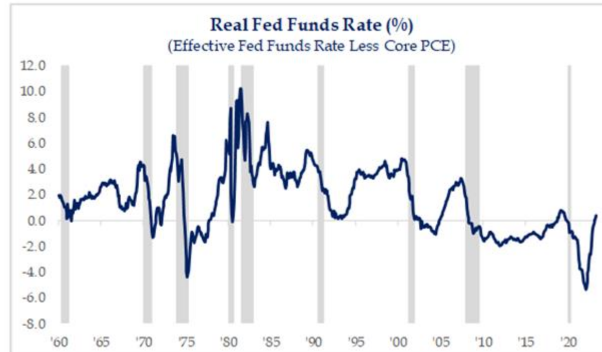


Source: Bloomberg, FactSet, FTSE Russell, MSCI, NAREIT, S&P

- Apple's 9% gain in June helped it become the first company to reach a $3 trillion market valuation. For perspective, the collective market cap of the S&P 400 and S&P 600 is roughly $3.5 trillion.

- Apple's weight in the S&P 500 reached a new high of 7.72% and now has a larger weight in the index than the Materials, Real Estate, and Utilities sectors combined.

- According to Strategas, equity market performance during periods of rising real Fed Funds rate is overall quite strong. The average return over the nine previous periods is 12.1%, which outpaces the compound return of the equity market from 1960 to now by approximately 1.5%



- Equity performance following a rising real Fed Funds rate is less certain. In the 12 months following periods of a rising Fed Funds rate, the equity market was up double digits in 4 of the 9 instances and down in the remaining 5.

Tactical Equity Allocation

- Overweight to U.S. Large Cap stocks with an emphasis on equities with quality, defensive, and strong cash flow characteristics.

- Underweight to International Developed with no exposure to Emerging Markets. Although valuations remain attractive relative to U.S. equities, these asset classes may be pressured by slowing global growth and recessionary pressures.

- Exposure to gold in an environment of high inflation, declining U.S. Dollar, and geopolitical tensions.

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