

**BOARD OF PENSION TRUSTEES  
FOR THE  
CITY OF JACKSONVILLE RETIREMENT SYSTEM  
Thursday, December 5, 2024 at 12:30 PM  
City Hall Conference Room 3C**

**AGENDA**

**1. CALL TO ORDER**

**2. PUBLIC COMMENT**

**3. INVESTMENT AND FINANCIAL MATTERS**

Loomis Sayles Global Macro Economic Update

**4. INFORMATION**

- a. Next regular BOT meeting scheduled for Thursday, December 19, 2024 at 2 PM
- b. Harrison Street Real Estate discussion scheduled for Thursday, February 6, 2025 at 12:30 PM

**5. PRIVILEGE OF THE FLOOR**

**6. ADJOURNMENT**

December 5<sup>th</sup>, 2024

# Macro Update

City of Jacksonville

**PRESENTED BY:**

**Craig Burelle**  
Global Macro Strategist, Credit

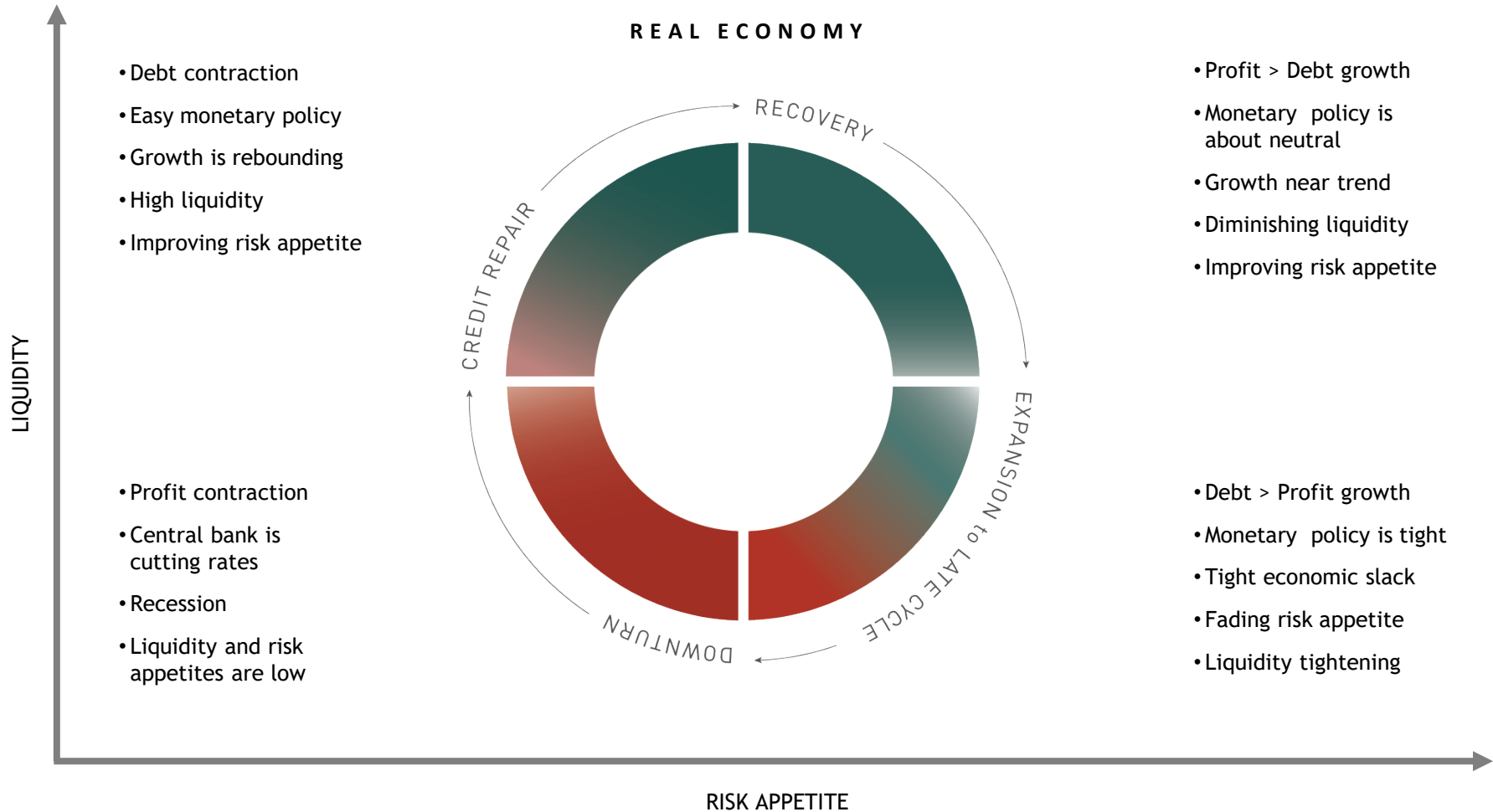


THINK BROADLY. ACT DECISIVELY.

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# credit cycle

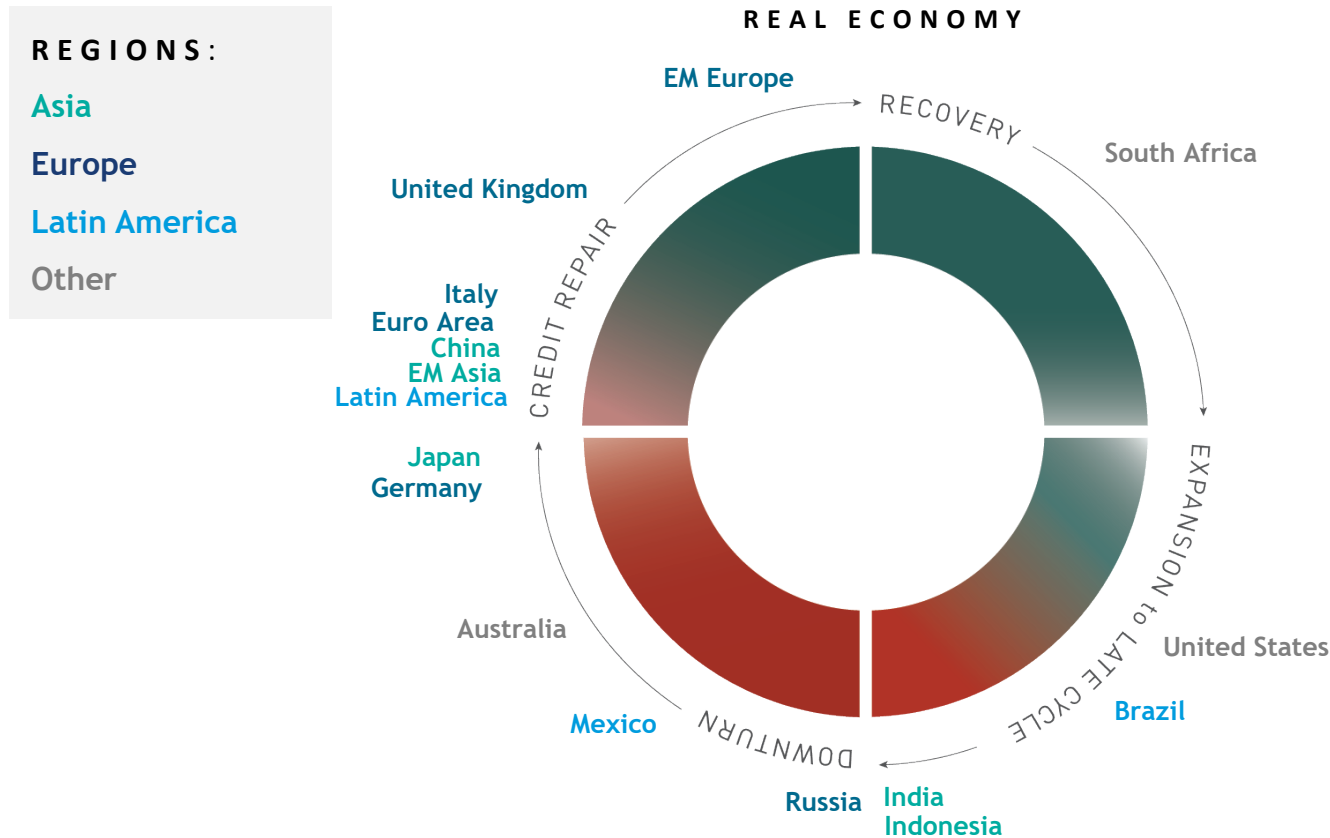
THE UNITED STATES ECONOMY HAS BEEN HOLDING STEADY IN EXPANSION/LATE CYCLE



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# credit cycle positioning by country

## DIVERGING CREDIT CYCLES AMONG COUNTRIES AND REGIONS CAN PROVIDE OPPORTUNITIES



*Views as of 9/30/2024. Dark green shading denotes asset classes the presenter expects to appreciate and red shading denotes asset classes the presenter expects to depreciate at each point in the economic cycle. This material is provided for informational purposes only and should not be construed as investment advice. Investment decisions should consider the individual circumstances of the particular investor. This reflects the current opinions of the presenter and views are subject to change at any time without notice. Other industry analysts and investment personnel may have different views and opinions.*

# LS macro strategies team views

## CREDIT CYCLE SCENARIO PROBABILITIES

	LATE CYCLE – GROWTH SCARE (10%)	MID-EXPANSION – SOFTER FOR LONGER (55%)	LATE CYCLE – HIGHER FOR LONGER (35%)
<b>GENERAL CONTEXT:</b>			
Impact on Risk Appetite	Negative	Positive (US Centric)	Flat
IG / HY Credit Spreads	150 / 500	75 / 265	95 / 325
10-Year Yield	3.25%	4.00%	5.00%
Broad Foreign Exchange View	Flat / Weaker	Flat/Stronger	Weak
<b>MACRO CONTEXT</b>			
Policy Settings	Stagflationary	Steady	Disruptive
Fiscal Impact	Limited	Supports GDP	Fewer FF Cuts, Higher Term Premiums
Tariff Impact	Tax on growth	Marginal	Inflationary
Labor Market	Deteriorating, wage pressure down	Cooling, wage growth softening	Less supply, wages sticky
Consumer Health	Running out of steam	Solid overall, real wages improve	Holding strong in aggregate
Corporate Health	Leverage up, EPS down, defaults up	Earnings growth broadens	Robust economy propels EPS
Default Rate	4.00%	2.75%	3.25%
<b>FED CONTEXT EXPECTED:</b>			
Fed Funds end of December 2024	4.50%	4.50%	4.75%
Fed Funds end of December 2025	3.00%	3.50%	4.25%
<b>MACRO DATA:</b>			
Oil Price \$/bbl	\$60*	\$70 - \$90	Greater than \$90
Core PCE Inflation	Lower, less demand (approx. 2.00% or higher)	Disinflation continues (approx. 2.50%)	Sticky (approx. 3.00%)
Peak US Unemployment	4.50 - 4.75%	Low 4.00%	4.00% or less
US GDP	0.00% (Below trend)	1.50 – 2.00% (Near trend)	2.50% or greater (Above trend)
S&P 500 Index EPS Growth	7.50%	12.50%	10.50%

\*Potential oil spike with geopolitical risks.  
Source: Loomis Sayles, as of 11/20/2024.

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# economic cycle

	2022	2023	2024	2025
<b>REAL GDP GROWTH</b>	2.5%	2.9%	2.7%	2.0%
<b>OVERALL PCE INFLATION</b>	6.6%	3.8%	2.4%	2.0%
<b>CORE PCE INFLATION</b>	5.4%	4.1%	2.7%	2.1%
<b>CURRENT ACCOUNT BALANCE (billion)</b>	-\$1,012	-\$905	-\$1,051	-\$1,157
<b>FEDERAL UNIFIED BUDGET BALANCE, FISCAL YEAR (billion)</b>	-\$1,376	-\$1,695	-\$1,805	-\$1,764
<b>UNEMPLOYMENT RATE</b>	3.6%	3.6%	4.0%	4.3%
<b>AVG. MONTHLY CHANGE IN NONFARM PAYROLLS (THOUSAND)</b>	412	245	196	57
<b>GROWTH IN AFTER-TAX ECONOMIC PROFITS (NIPA)</b>	4.7%	6.7%	6.9%	0.4%

Calendar Year-Average Basis, Except Budget

Data Source: Bureau of Economic Analysis, Bureau of Labor Statistics, 2022 and 2023 actual data, forecasts for 2024 and 2025 from Loomis Sayles Economics Department as of October 15, 2024.

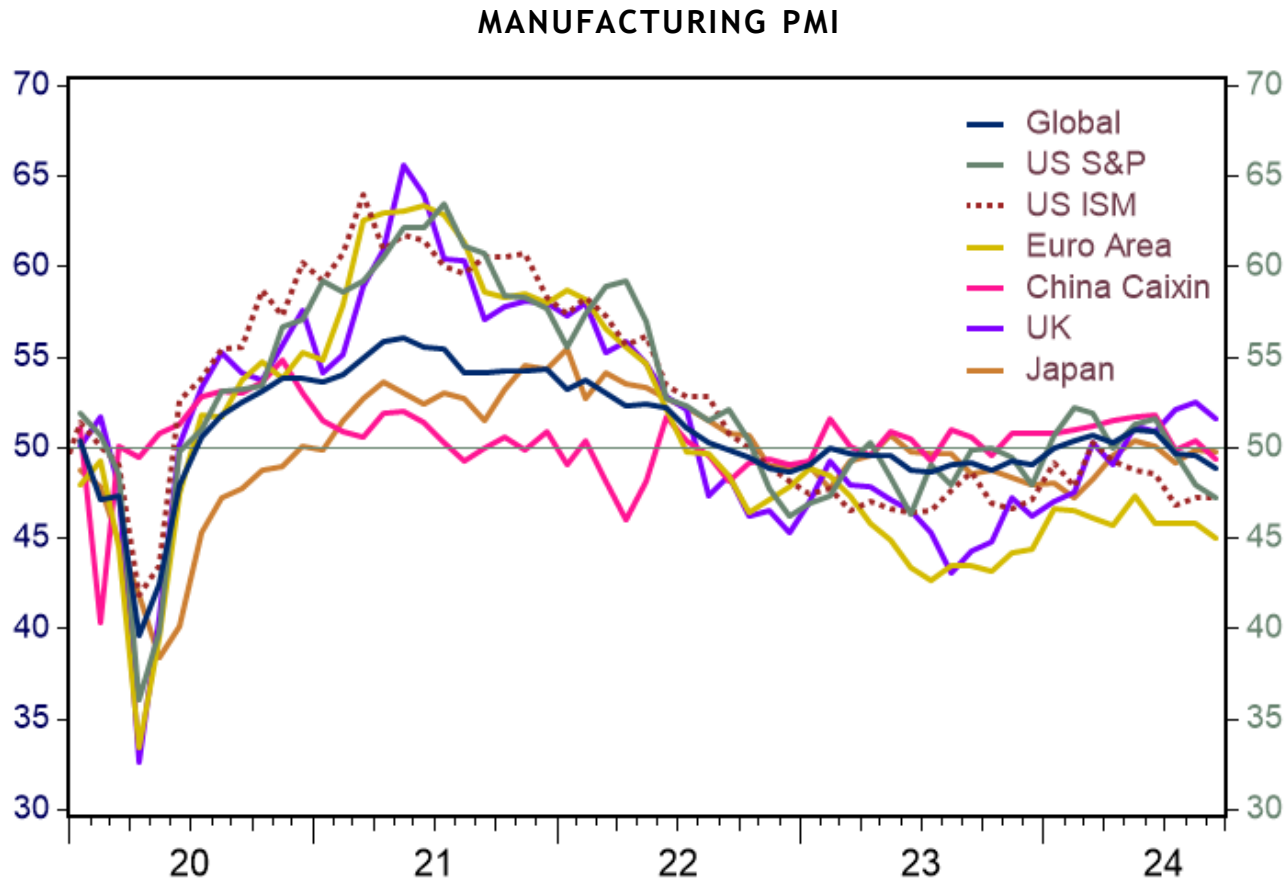
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# weak global manufacturing PMIs

## GLOBAL PMI HAS DROPPED BACK INTO CONTRACTIONARY TERRITORY



Sources: JPM/SPG, SPG, ISM, CIPS/SPG/Haver

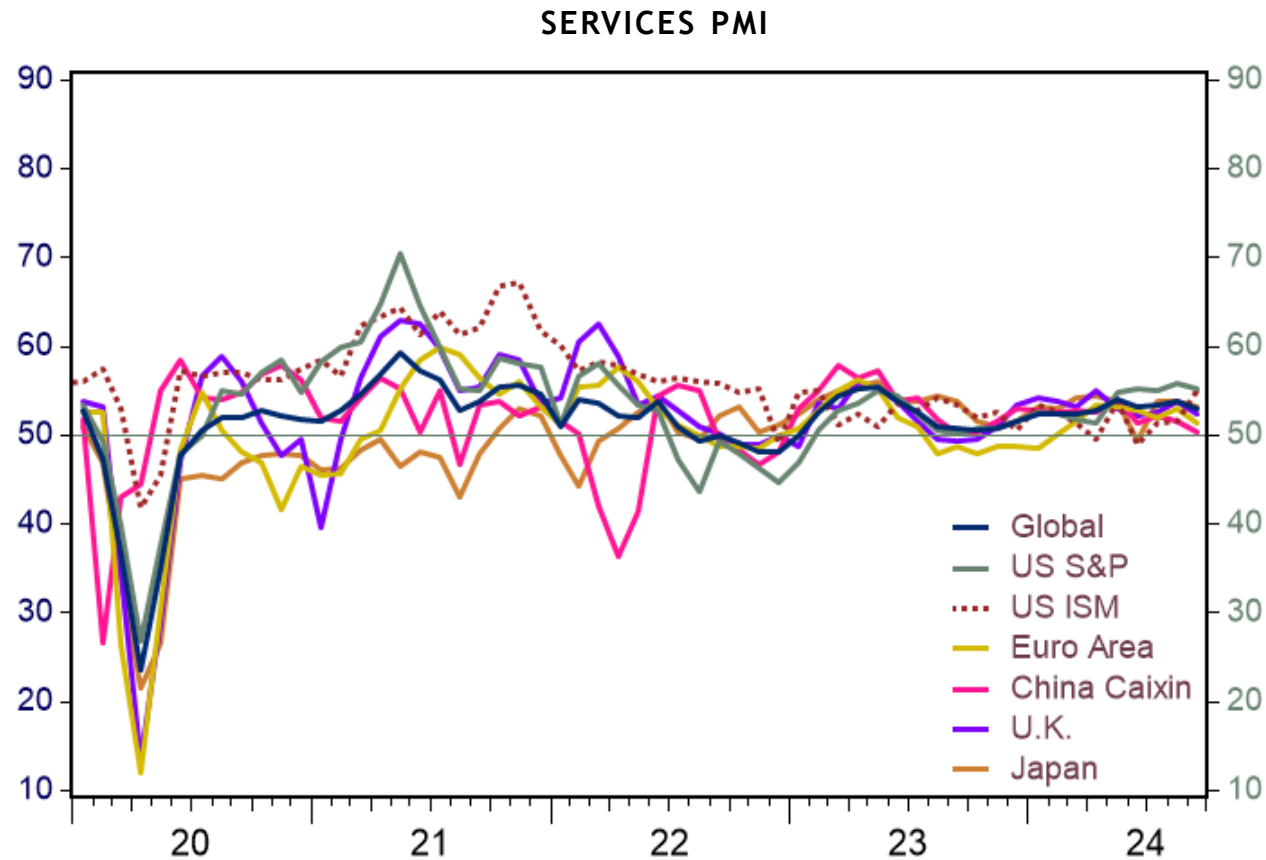
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# global services PMI has been holding up well

SERVICES PMIS HAVE BEEN MORE RESILIENT AND STILL LOOK HEALTHY OVERALL, IN OUR VIEW



Sources: JPM/SPG, SPG, ISM, CXN/SPG, CIPS/SPG/Haver

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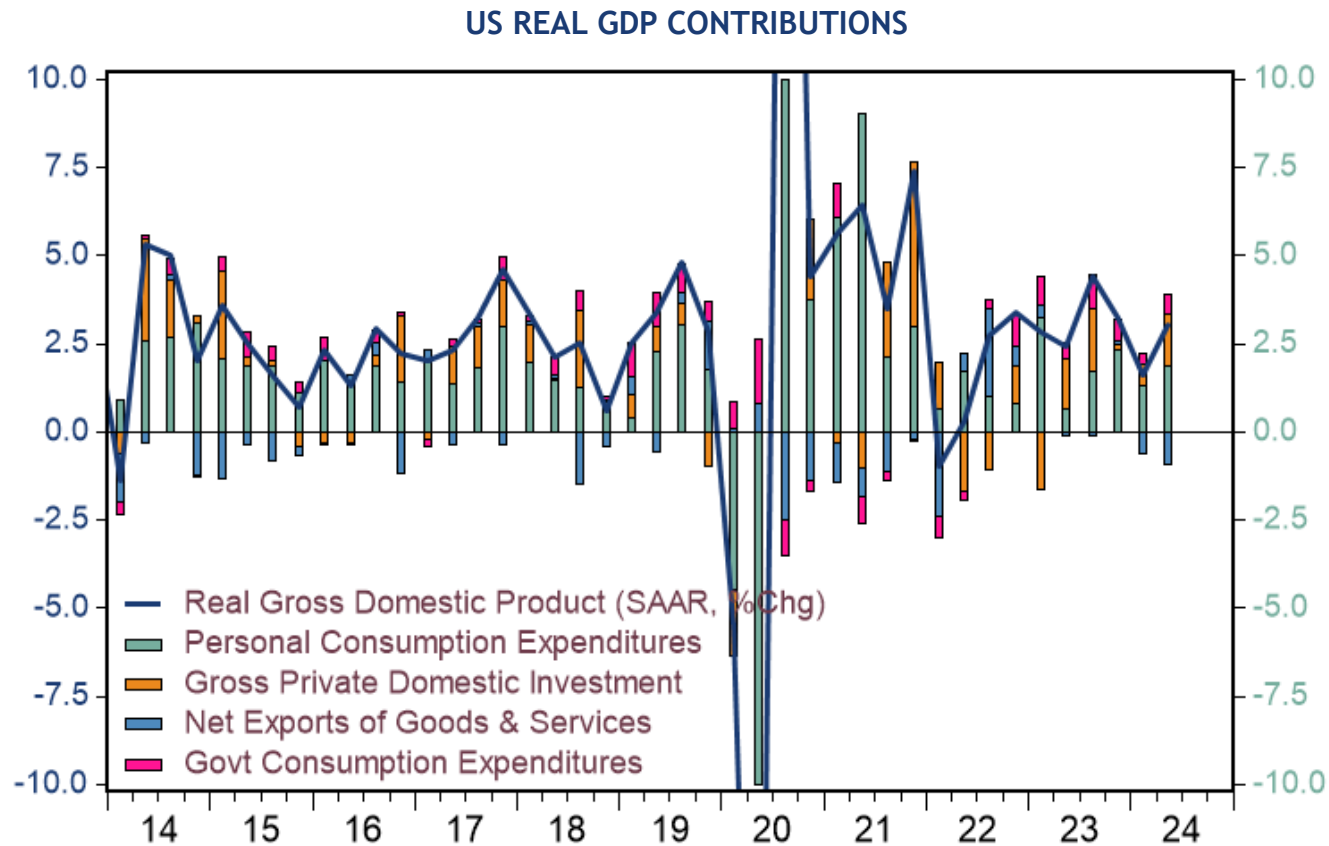
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**Past market experience is no guarantee of future results.**



# US GDP is currently largely driven by consumption

STILL GROWING AT AN ABOVE-TREND PACE. CONSUMPTION REMAINS STRONG IN OUR VIEW.



Source: Bureau of Economic Analysis/Haver Analytics

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# consumption and investment have been slowing China

## REAL GDP CONTINUES TO TREND DOWNWARD WITH LIMITED DOMESTIC DEMAND

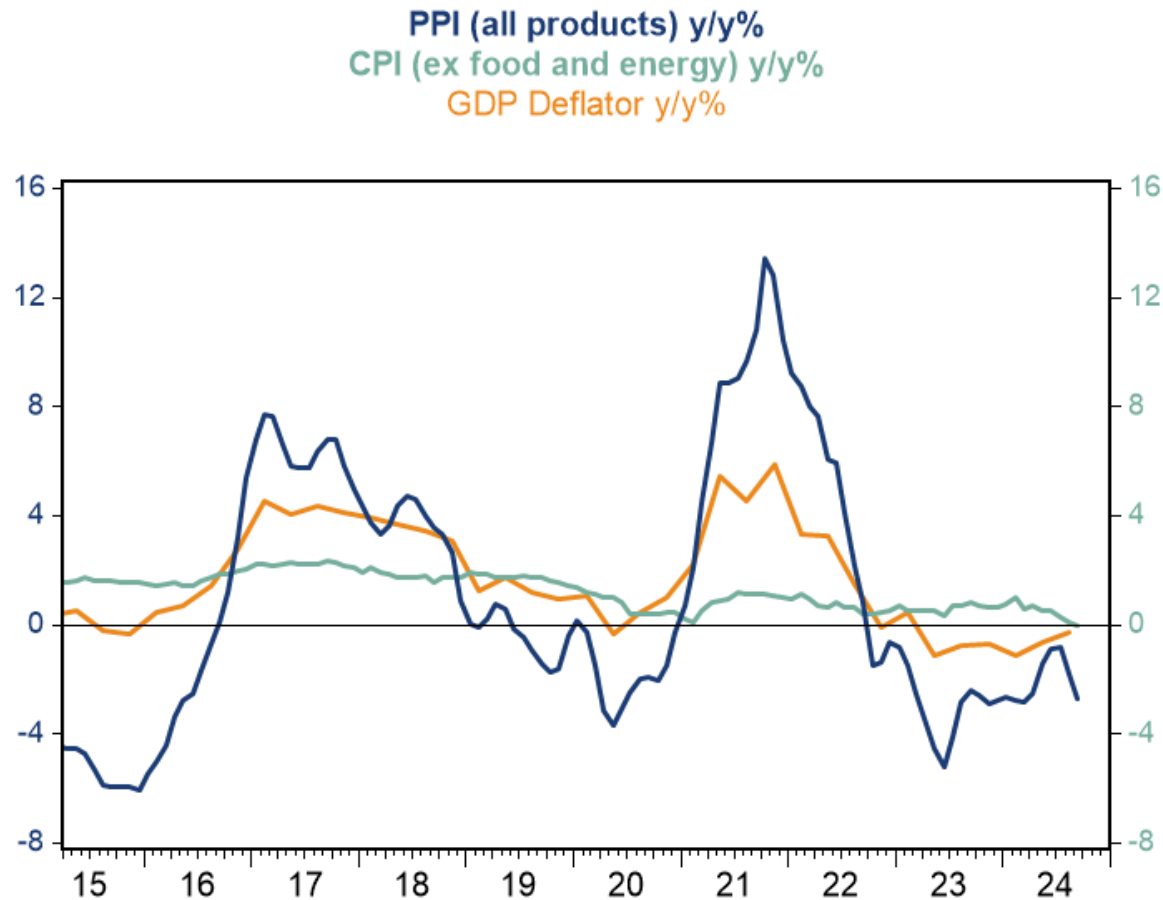


Source: China National Bureau of Statistics/Haver Analytics 10/22/24

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# inflation does not appear to be a problem in China

WE BELIEVE MORE STIMULUS IS NEEDED TO REALLY BOOST THE ECONOMY



Source: China National Bureau of Statistics/Haver Analytics

10/22/24

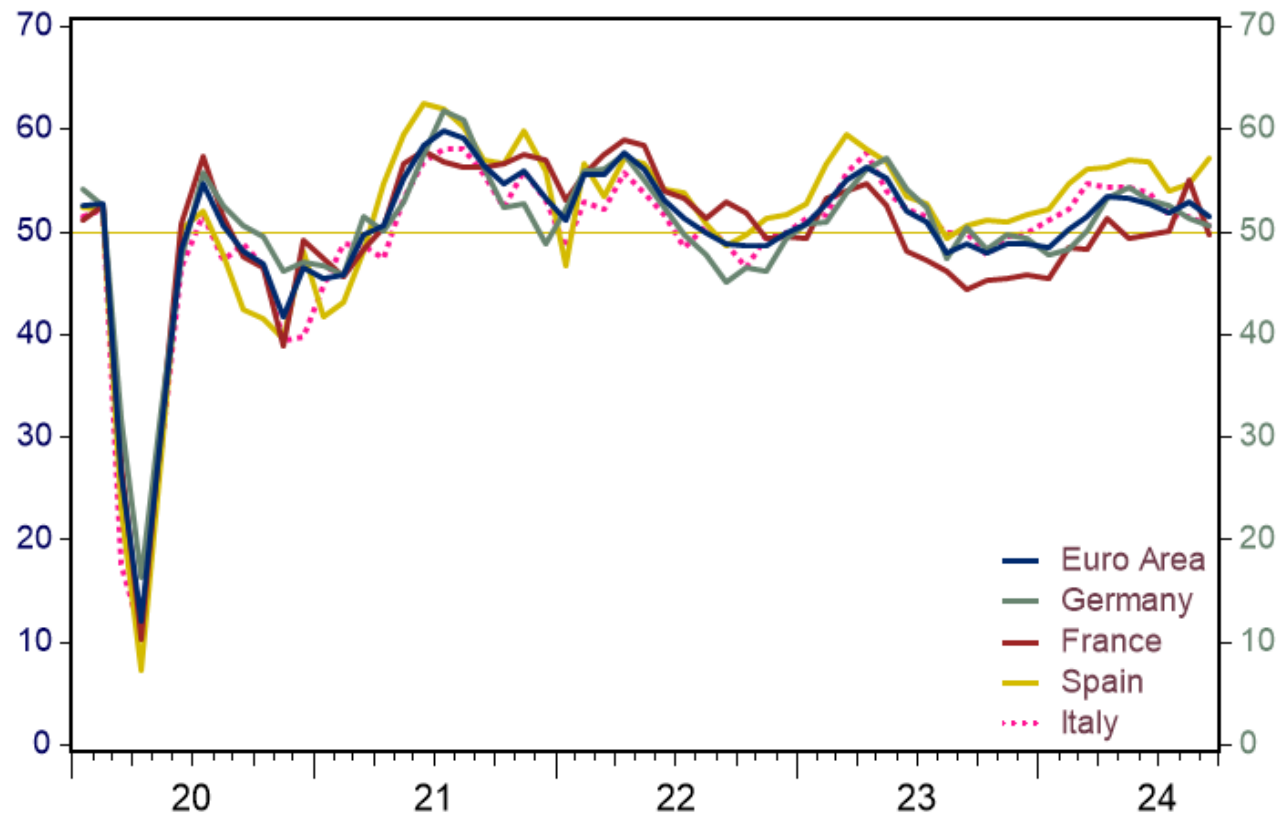
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# European services activity has been expanding

SERVICES ARE LEADING THE ECONOMIC RECOVERY, WHILE MANUFACTURING STRUGGLES

EURO AREA SERVICES PMI



Sources: S&P Global, S&P Global/Hamburg Commercial Bank/H... 10/16/24

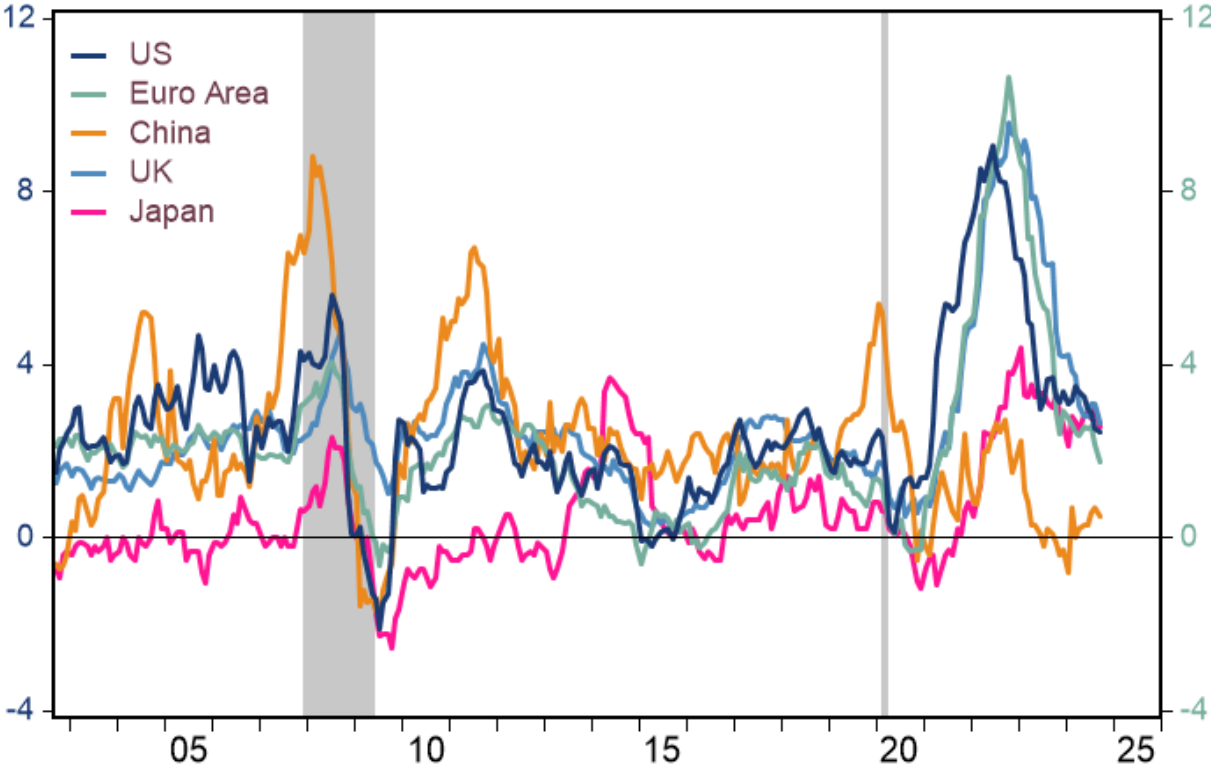
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# headline inflation looks to be normalizing globally

WE EXPECT GRADUAL DISINFLATION TO CONTINUE IN MOST ECONOMIES

GLOBAL INFLATION (YEAR-OVER-YEAR %)



Sources: BLS, EUROSTAT, CNBS/H, ONS, MIC/Haver

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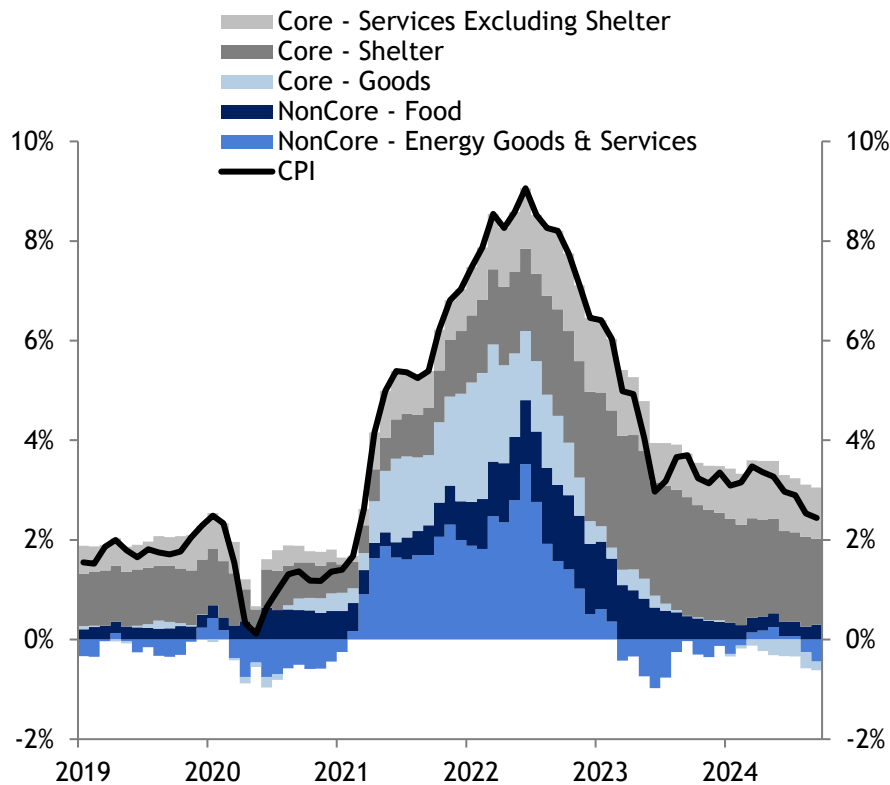
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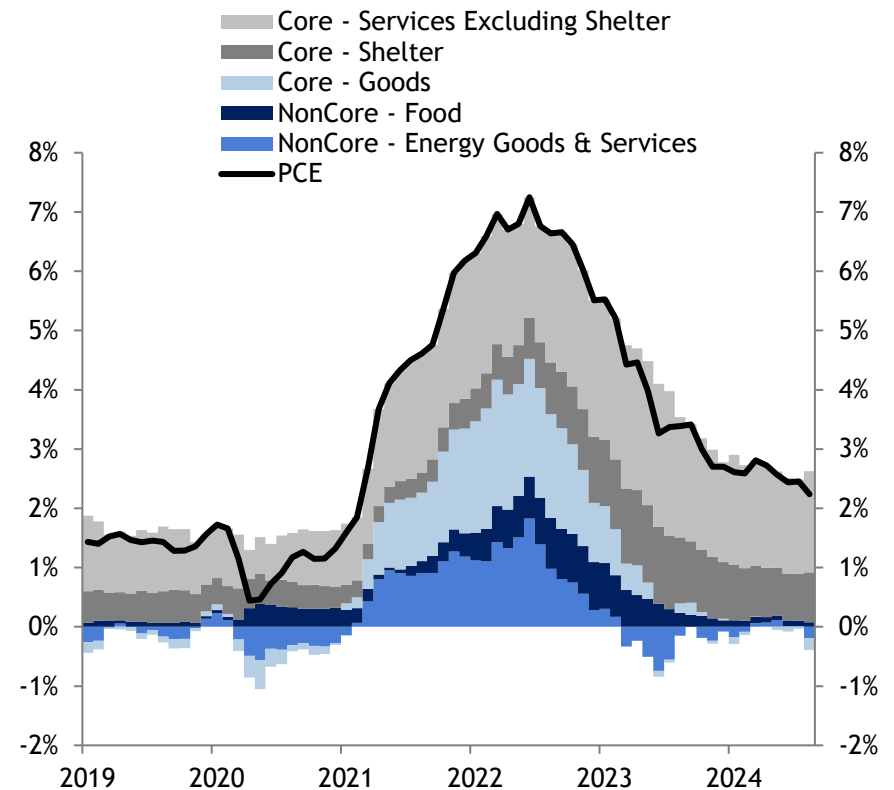
# US headline inflation trending lower

**SERVICES REMAIN A MAIN DRIVER OF ABOVE TARGET INFLATION. WE CONTINUE TO LOOK FOR MORE PROGRESS IN THIS AREA.**

**HEADLINE CPI DECOMPOSITION**



**HEADLINE PCE DECOMPOSITION**



Source: Haver Analytics, Bureau of Labor Statistics, as of 10/22/2024.

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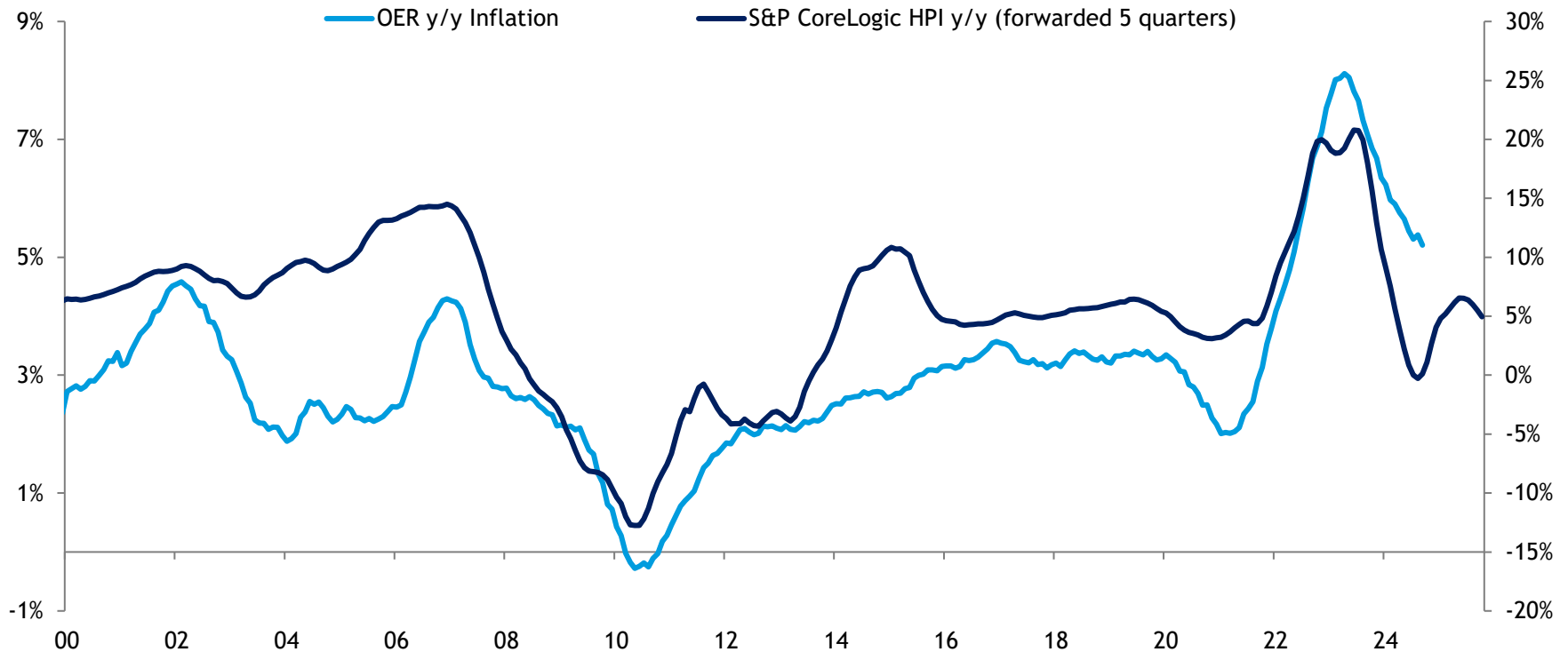
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# shelter inflation likely to continue lower

WE EXPECT THIS COMPONENT OF CPI TO TREND DOWNWARD GIVEN SLOWER HOME PRICE APPRECIATION

HOUSE PRICE APPRECIATION TENDS TO LEAD OER INFLATION



Source: Standard & Poor's, Bureau of Labor Statistics, Haver Analytics, as of 10/22/2024.

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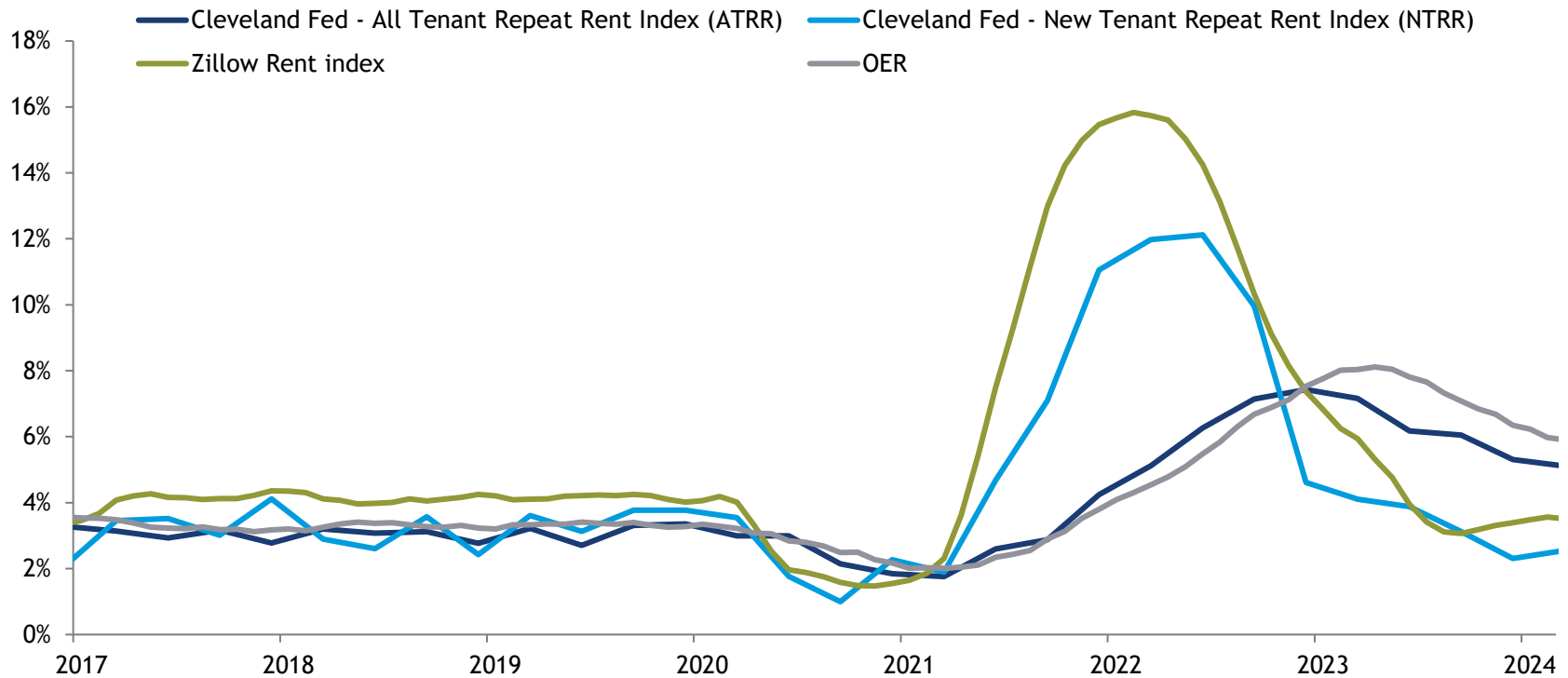
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# alternative rent measures

OFFICIAL SHELTER CPI HAS BEEN MUCH SLOWER TO FALL RELATIVE TO ALTERNATIVE MEASURES, IN OUR VIEW

ALTERNATIVE RENT INDICES (Y/Y%)



Source: Bureau of Labor Statistics, Zillow, as of 10/22/2024.

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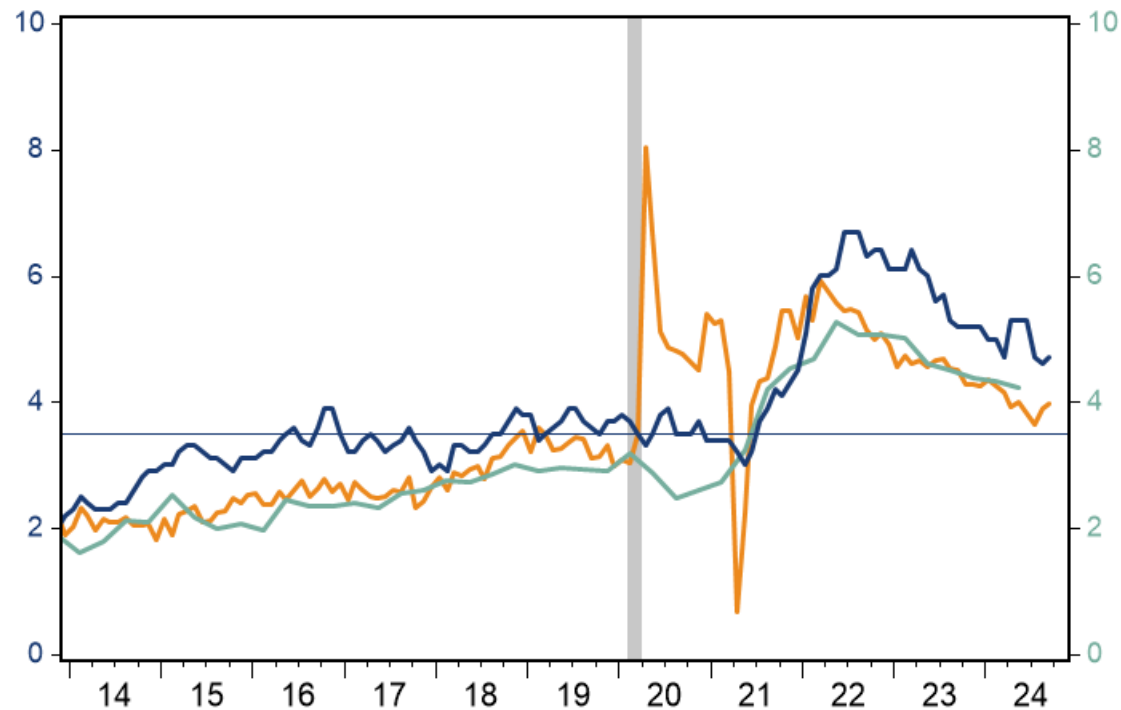
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# wage growth still elevated

**BUT WE CONTINUE TO SEE GRADUAL DECELERATION, WHICH SHOULD CONTRIBUTE TO BROADER DISINFLATION**

**Wage Growth Tracker: Overall: 3-Mo Mov Avg of Median Wage Growth ...**  
ECI: Wages & Salaries: Civilian Workers (SA, Y/Y %Chg)  
Average Hourly Earnings: Total Private Industries (SA, Y/Y %Chg)



Sources: FRBATL, BLS/Haver

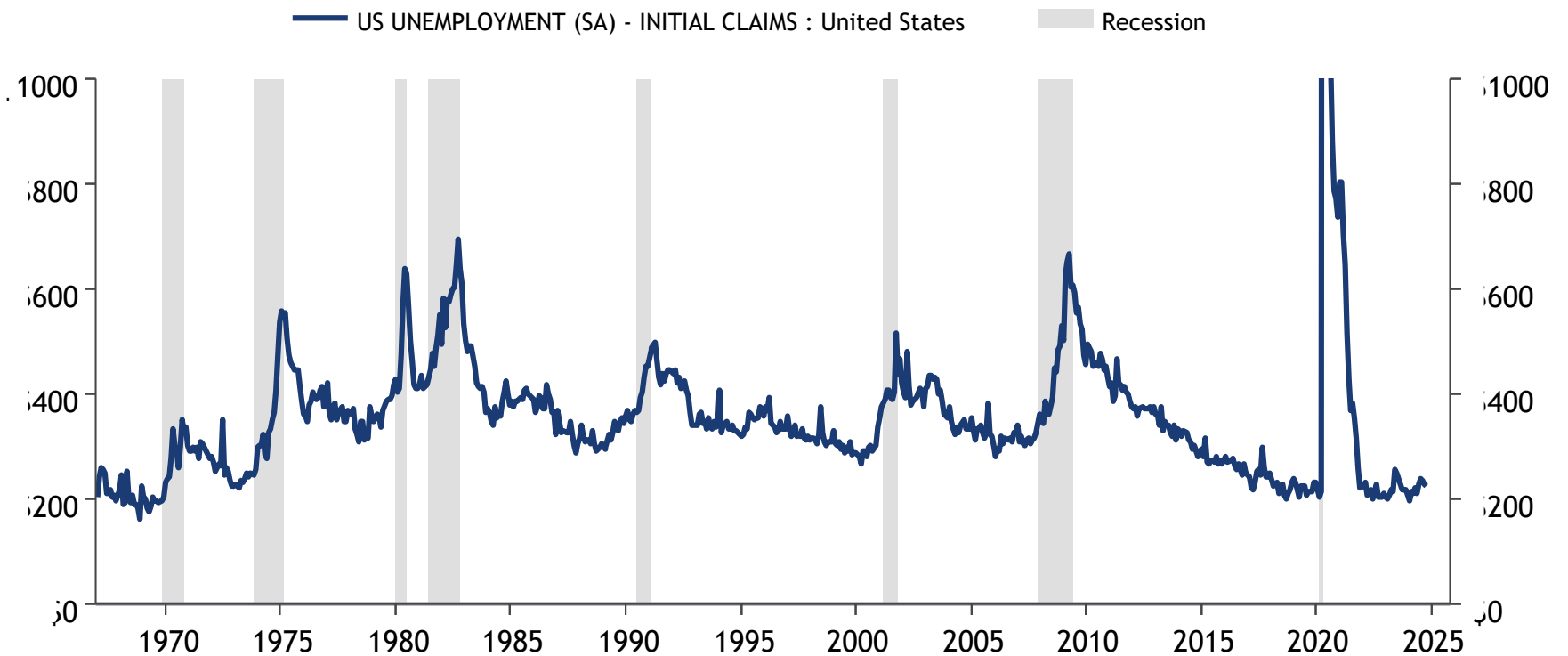
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# claims data still very subdued

WE'VE SEEN A SMALL UPTICK, BUT THE LABOR MARKET STILL APPEARS FAIRLY HEALTHY



Source: LSEG Datastream, data as of 10/17/2024.

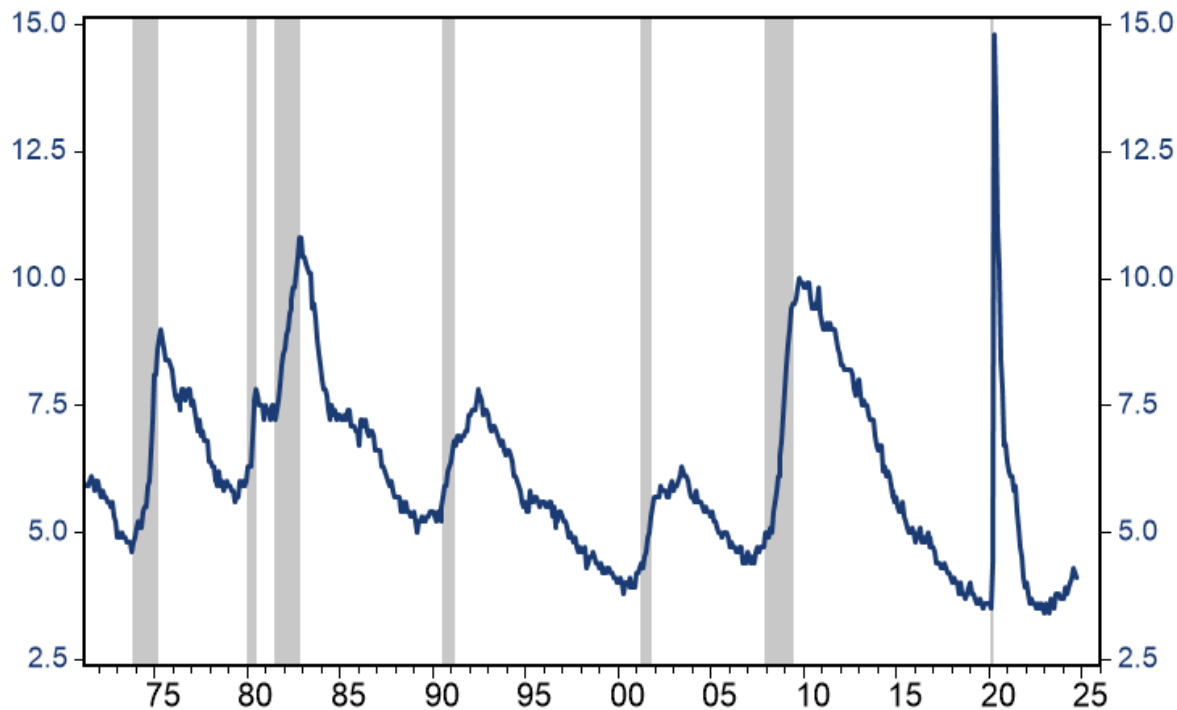
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# unemployment has ticked up

WE NOTE THAT THE LABOR MARKET APPEARS TO BE COOLING, BUT THE LEVEL OF UNEMPLOYMENT REMAINS LOW BY HISTORICAL STANDARDS

Civilian Unemployment Rate: 16 yr +

SA, %



Source: Bureau of Labor Statistics/Haver Analytics

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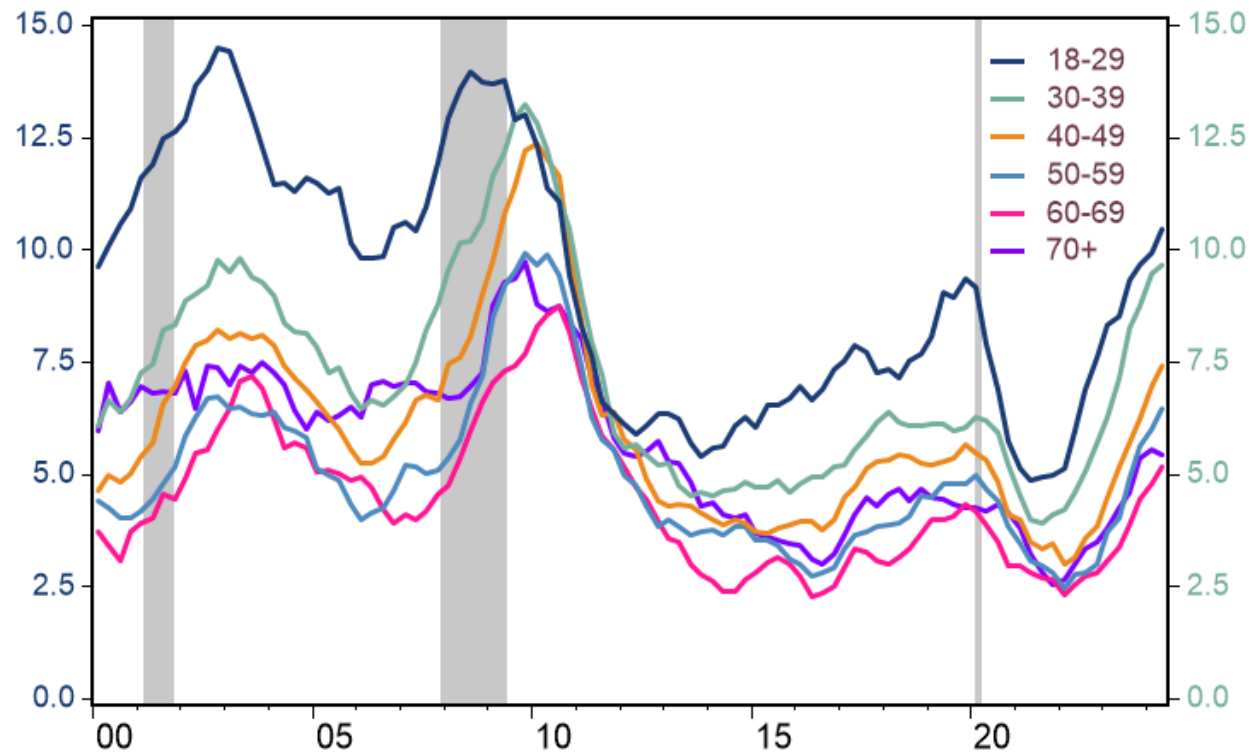
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# credit card delinquencies have been rising

THIS SIGNALS STRESS AMONG CONSUMERS, MOST LIKELY WITHIN THE LOWER INCOME COHORTS

TRANSITION TO SERIOUS DELINQUENCY: CREDIT CARDS (90+ DAYS)  
By Age Cohort



Source: FRBNY Consumer Credit Panel/Equifax/Haver Analytics 10/21/24

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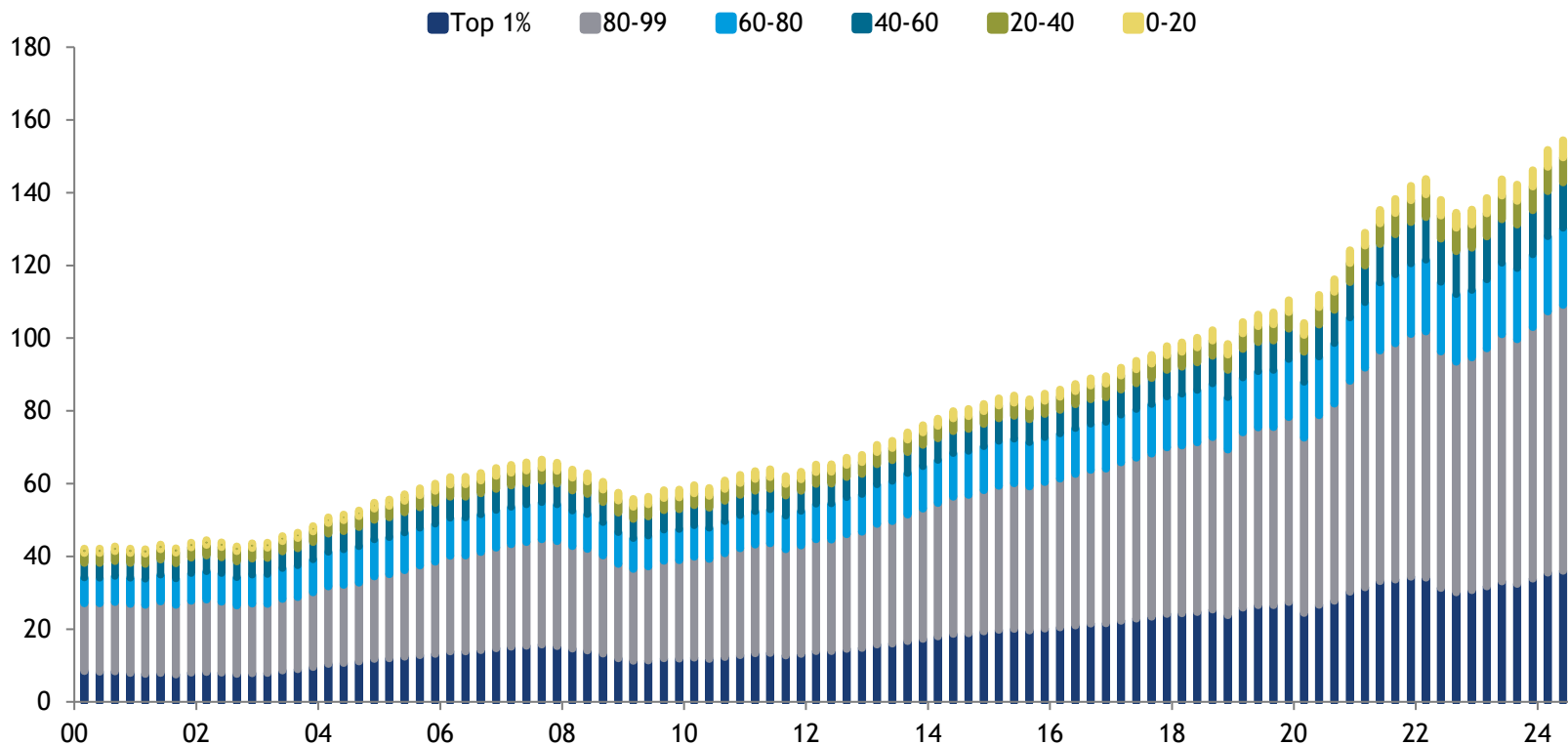
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# US consumer net worth supports spending

WEALTH HAS BEEN GROWING, PARTICULARLY IN HIGHER INCOME COHORTS

Household Net worth by Income Percentile (tril. USD)



\*Total figure updated through 6/30/2024.

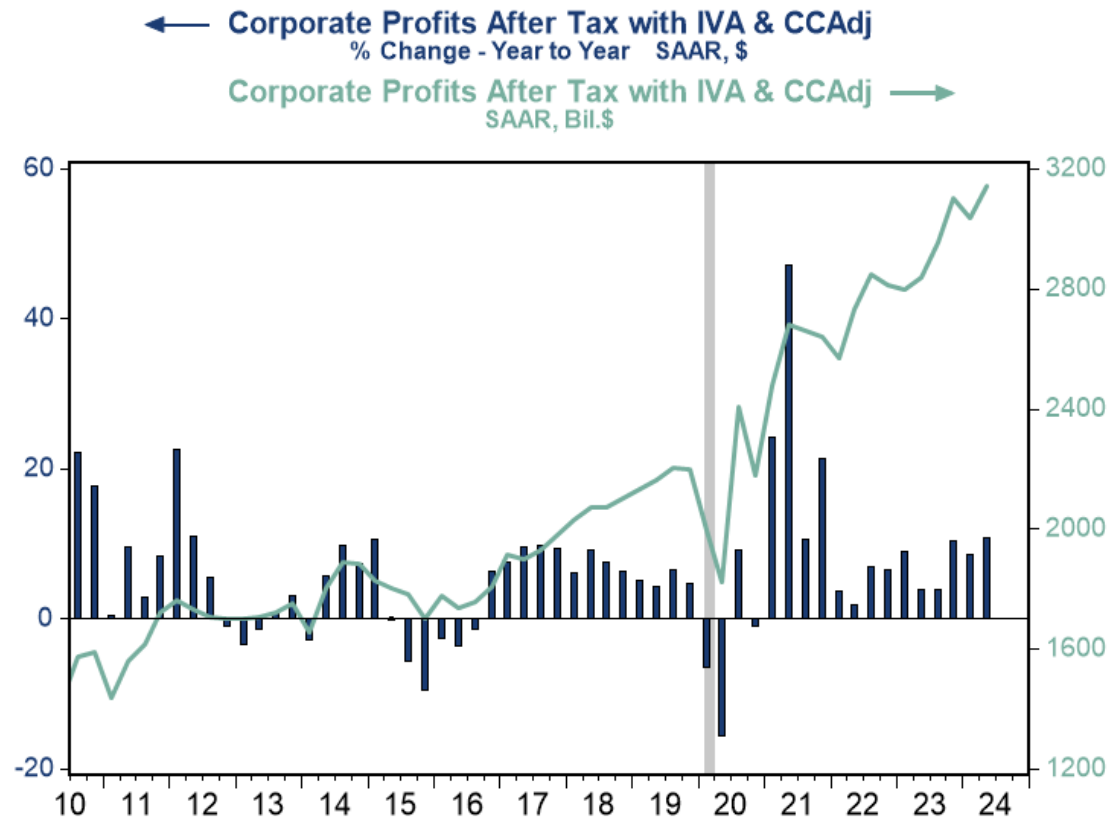
Source: Haver Analytics, Federal Reserve Board as of 9/20/2024.

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# US total economy profits (NIPA)

**CORPORATE PROFITS CURRENTLY REMAIN POSITIVE AND STRONG, A GOOD SIGN FOR CORPORATE HEALTH, IN OUR VIEW**



Source: Bureau of Economic Analysis/Haver Analytics

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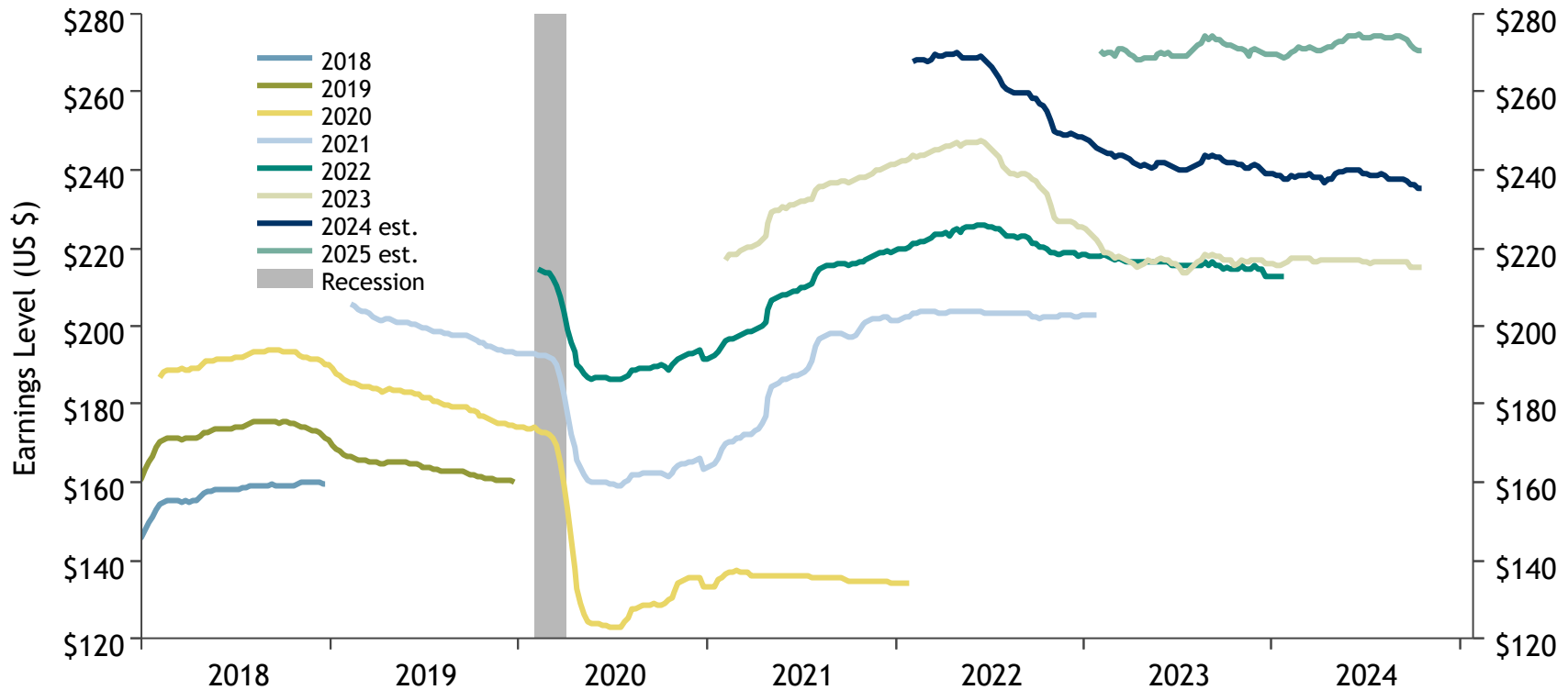
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# S&P 500 earnings estimates

## CONSENSUS EARNINGS ESTIMATES FOR 2024 AND 2025 HAVE HELD UP WELL

Consensus Estimates for S&P 500 Index Earnings per Share by Calendar Year  
Index Earnings Level (US \$)



Source: LSEG Datastream, data as of 10/28/2024.

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# earnings on track to broaden out

## BY MID 2025 WE SHOULD HAVE EVERY SECTOR IN GROWTH MODE

- We are a bit reluctant to embrace the very bullish 2025 consensus estimate for +12.5% EPS growth.
- We believe markets can trade well even if estimates come down toward 7-10%.
- Tech and Comm Services remain among the top, but broadening participation is encouraging for the cycle.

Name		2026 Q1	2025 Q4	2025 Q3	2025 Q2	2025 Q1	2024 Q4
<b>Latest Update: Daily</b>							
<b>Point in time, Quarter End Membership</b>							
▼ S&P 500 Index EPS		13.9%	16.6%	13.3%	9.9%	12.2%	7.7%
▶ Communication Services		12.3%	13.8%	5.9%	16.7%	10.7%	21.7%
▶ Consumer Discretionary		15.2%	16.5%	8.9%	8.7%	12.4%	8.4%
▶ Consumer Staples		8.5%	10.5%	6.6%	5.8%	1.0%	-14.8%
▶ Energy		22.2%	21.1%	15.7%	-2.4%	-9.7%	-25.9%
▶ Financials		10.3%	15.1%	6.8%	0.6%	3.3%	7.4%
▶ Real Estate		7.0%	7.2%	4.4%	3.8%	1.5%	3.3%
▶ Health Care		10.4%	18.6%	12.3%	13.1%	43.7%	13.0%
▶ Industrials		16.4%	19.2%	30.6%	5.6%	11.7%	-3.2%
▶ Information Technology		19.0%	18.8%	21.3%	23.1%	18.7%	17.8%
▶ Materials		16.8%	22.7%	26.2%	12.9%	10.5%	6.6%
▶ Utilities		6.7%	10.2%	11.9%	2.4%	7.0%	11.1%

Source: Bloomberg as of 11/21/2024

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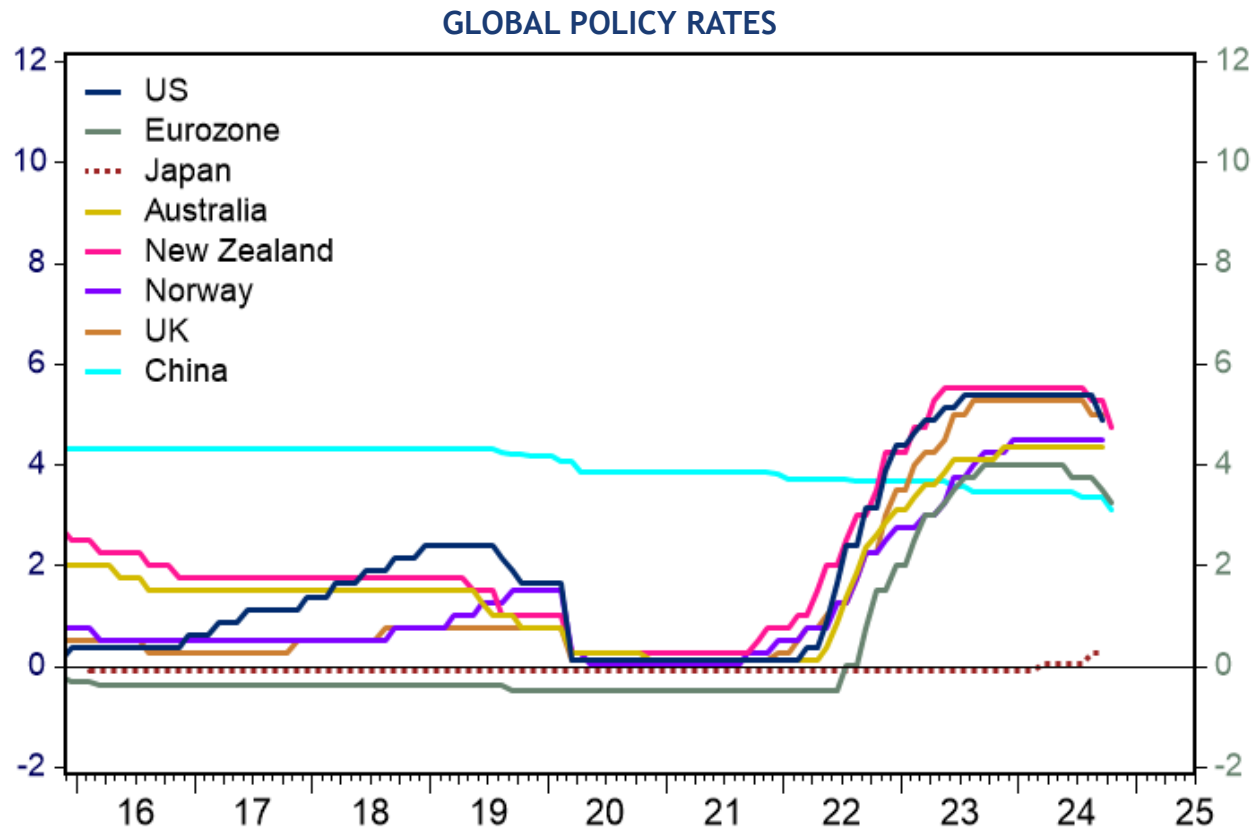
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# global policy rates look to be heading lower

THE GLOBAL CUTTING CYCLE IS UNDERWAY, BUT RATES ARE UNLIKELY TO BE SLASHED GIVEN DECENT GROWTH DYNAMICS AND A SLOW PACE OF DISINFLATION



Sources: FRB, ECB, BoJ, RBA, RBNZ, NB, BoE, PBC/Haver

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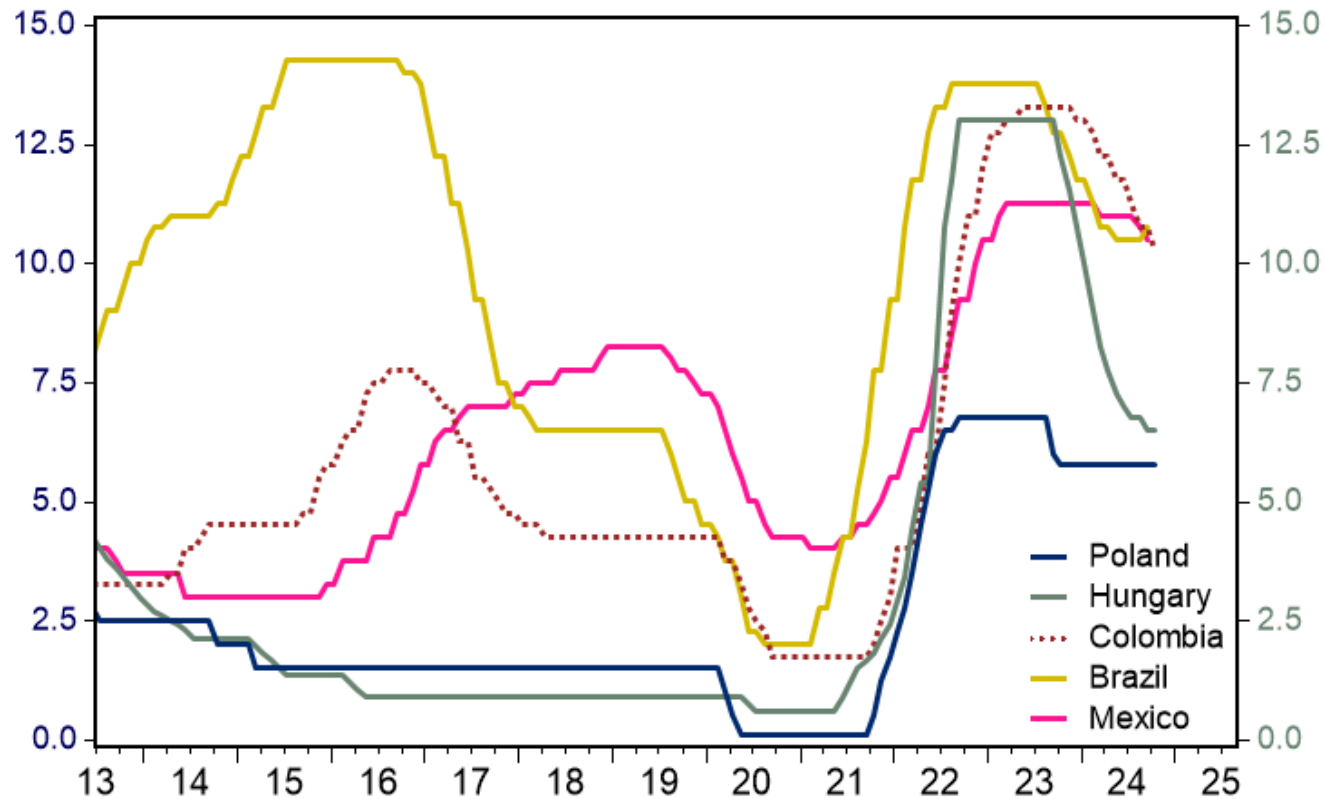
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# emerging market policy rates lower too

**MANY EMERGING MARKET CENTRAL BANKS ARE CURRENTLY FURTHER ALONG IN THE CUTTING PROCESS THAN DM PEERS**

EM POLICY RATES



Sources: NBP, MNB, BANREP/H, BCB, BMEX/Haver

10/22/24

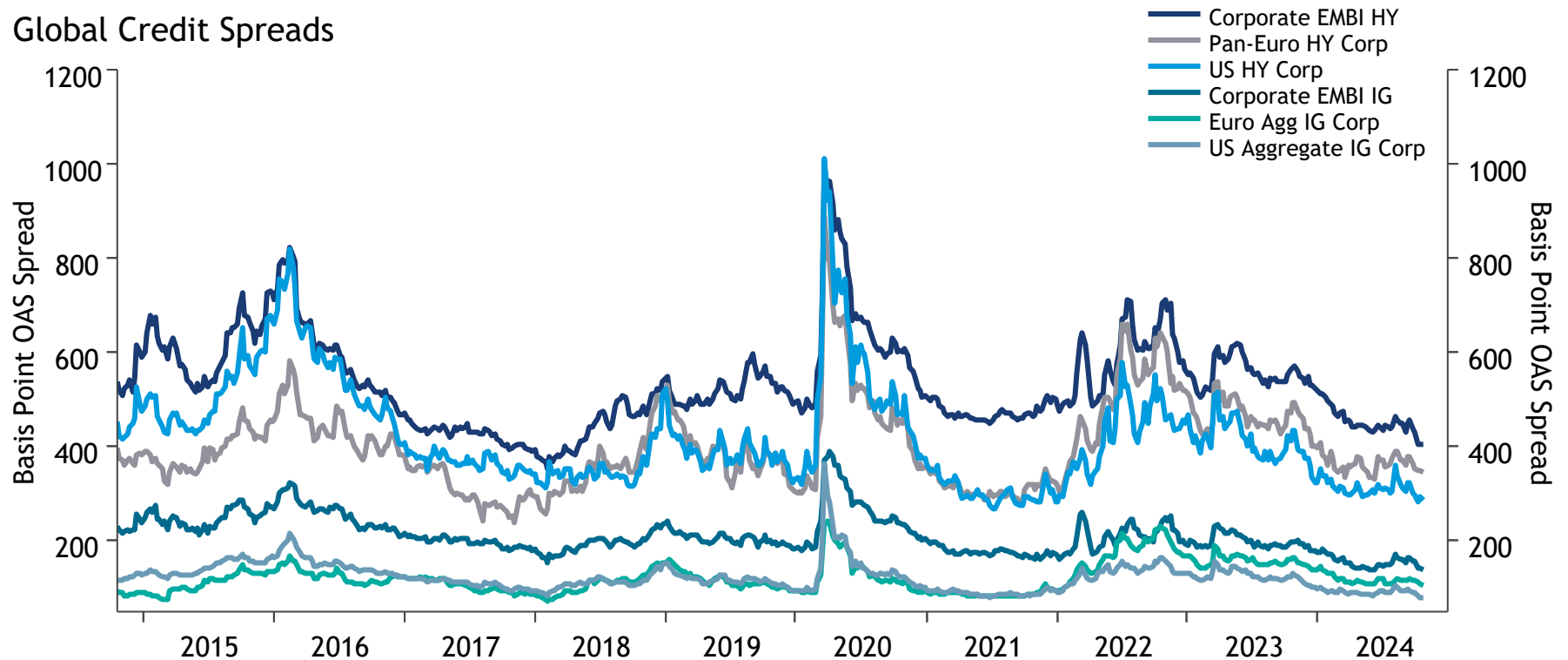
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# global credit spreads have been tight

MUCH OF OUR POSITIVE OUTLOOK ON GROWTH AND CORPORATE HEALTH IS REFLECTED

### Global Credit Spreads



Source: LSEG Datastream, data as of 10/21/2024.

\*OAS is option adjusted spread.

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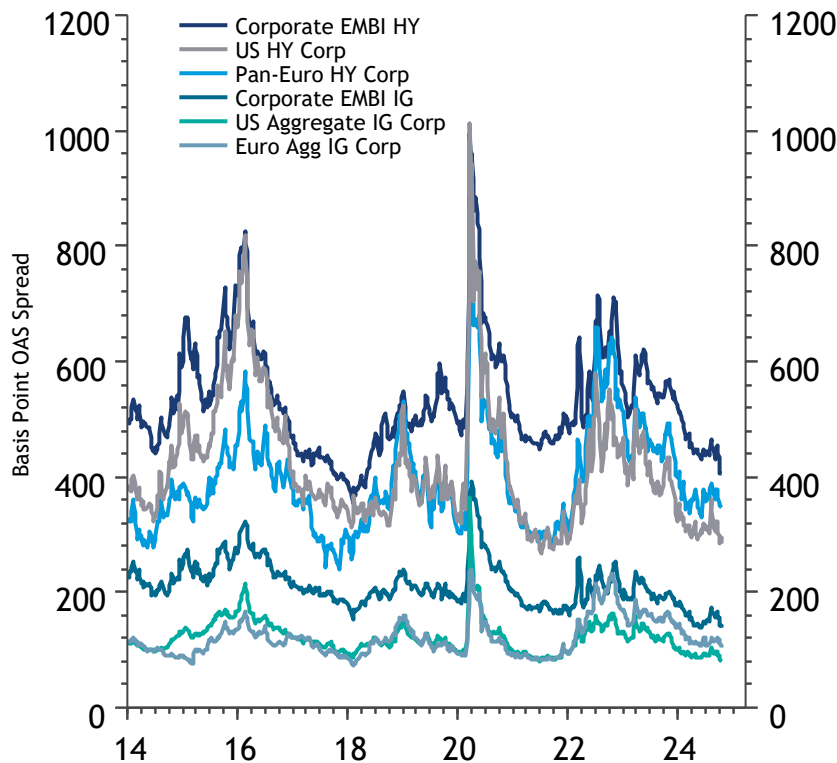
**Past market experience is no guarantee of future results.**

# credit and equity valuations could stay rich

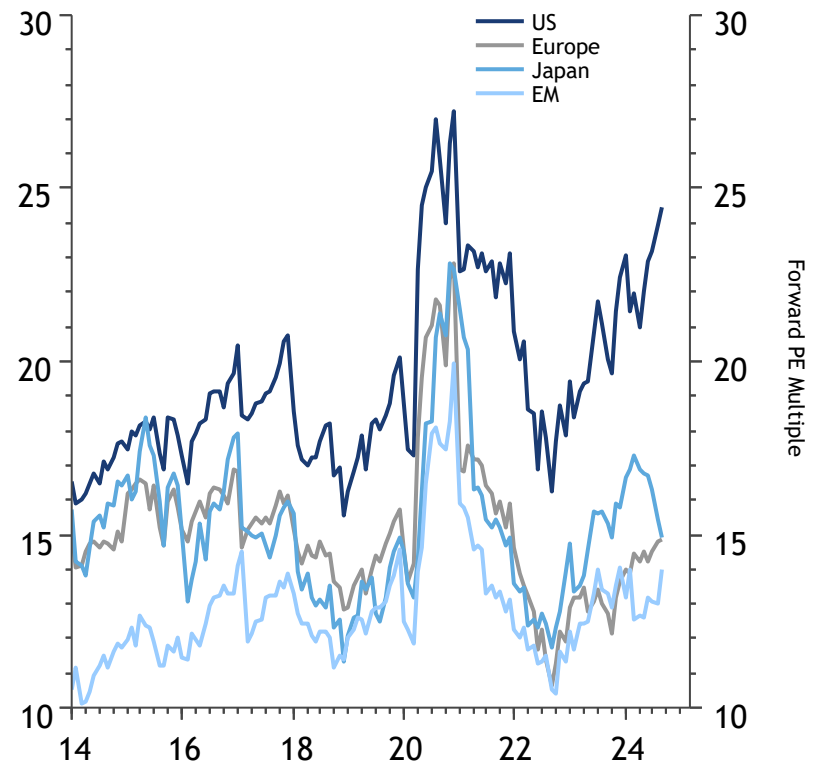
IF THE GLOBAL ECONOMY CONTINUES TO GROW AND CORPORATE EARNINGS HOLD UP THAN WE BELIEVE THESE VALUATION LEVELS CAN PERSIST

Global Credit Spreads

Fixed Income Credit Spreads



Equity Forward PE Ratios



Source: LSEG Datastream, JP Morgan, Bloomberg Barclays, MSCI, data as of 10/21/2024

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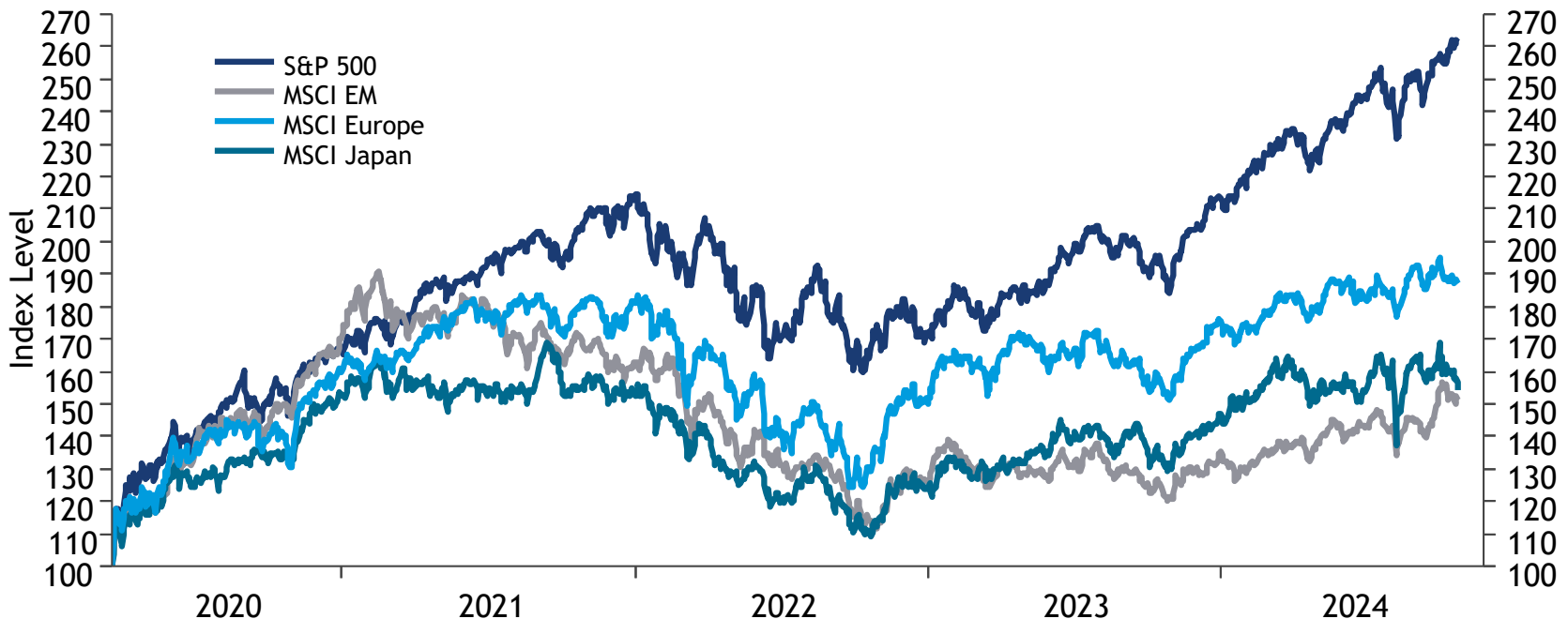
**Past performance is no guarantee of future results.**

# US equities have been outperforming global

## THE S&P 500 INDEX HAS VERY STRONG FUNDAMENTALS WHEN COMPARED TO GLOBAL INDICES

### Global Equity Performance in US Dollar Terms

March 23, 2020 = 100



Source: LSEG Datastream, data as of 10/21/2024.

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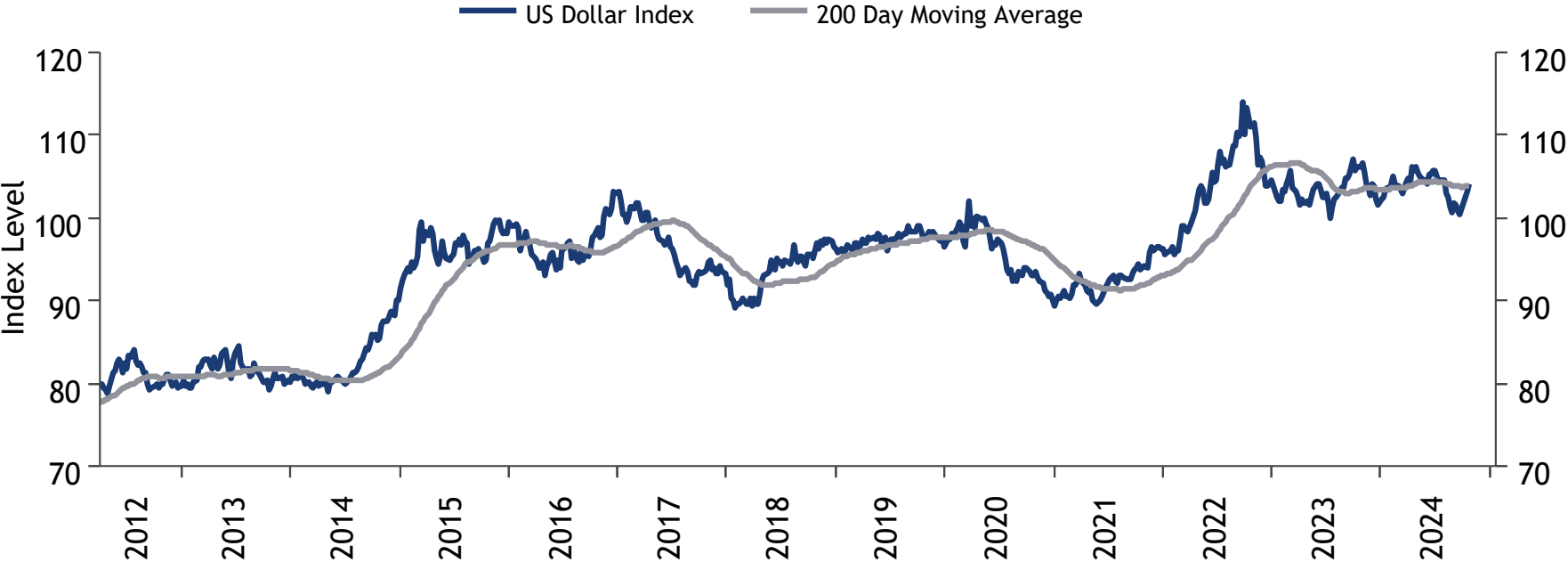
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# US dollar mostly range bound of late

DIVERGING CENTRAL BANK POLICY AND ECONOMIC GROWTH DIFFERENTIALS TEND TO DRIVE THE US DOLLAR

DXY Index



Source: LSEG Datastream, data as of 10/21/2024.

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# developed market interest rates

RATES REMAIN ELEVATED RELATIVE TO RECENT HISTORY BUT APPEAR TO BE PEAKING OUT

## 10-Year Developed Market Government Bond Yields



Source: LSEG Datastream, data as of 10/21/2024.

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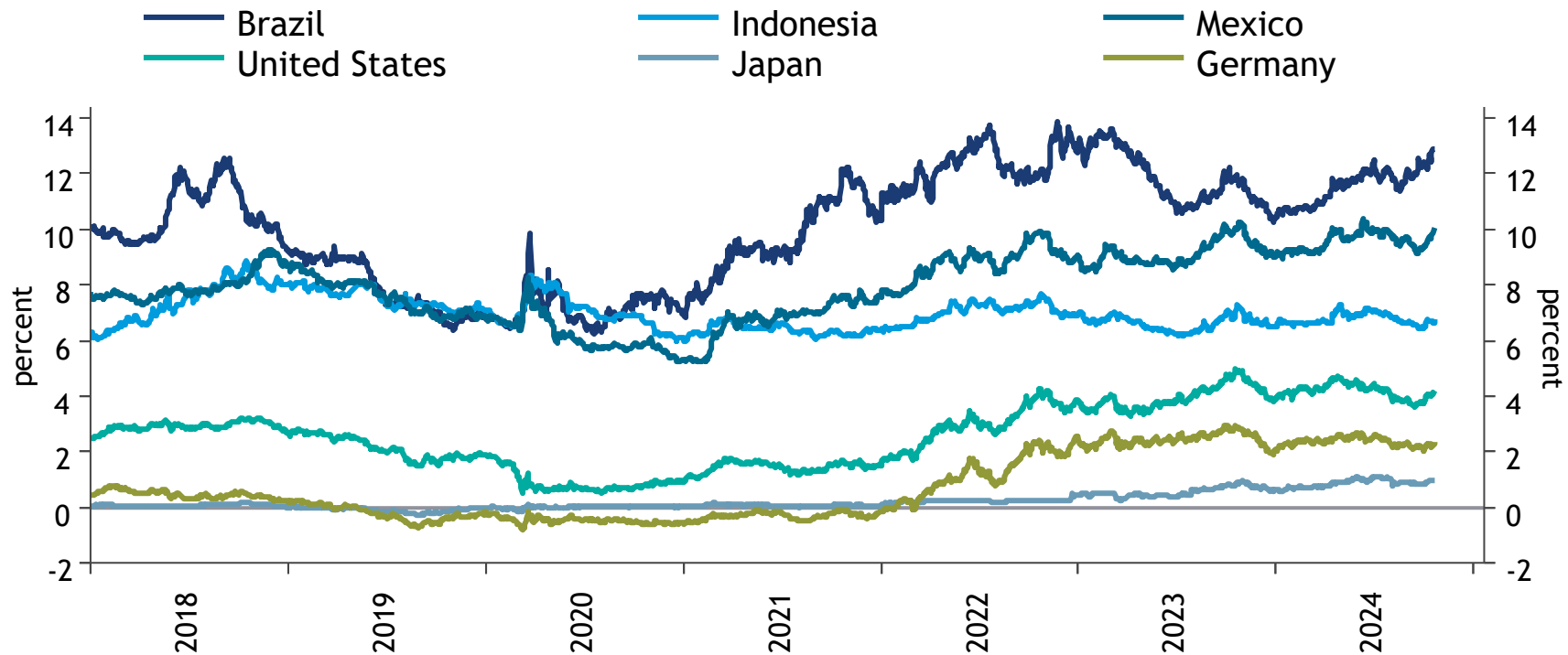
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# where's the yield ?

## EMERGING MARKET RATES CAN OFFER A STRONG CARRY ADVANTAGE IN OUR VIEW

### Local Currency Government Bond Yields 10-Year Yields



Source: LSEG Datastream, data as of 10/21/2024.

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