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Economics Weekly

Macro Highlights From William Blair's 44th Annual Growth Stock Conference

Please refer to important disclosures on pages 19 and 20. Analyst certification is on page 19.

Last week we attended William Blair's 44th Annual Growth Stock Conference in Chicago. It is one of the few remaining generalist conferences, which, over the course of three days, brings together approximately 1,000 institutional investors globally with the CEOs or CFOs of around 260 U.S. quality growth stock companies. From our perspective, the conference always proves to be a fantastic opportunity to gauge the economic reality from the bottom up, relative to our normal 10,000 feet macro top-down view.

In the note below, through the commentary from various companies across the industrial, consumer, tech, healthcare, business services, and financial sector landscapes, we derive a snapshot of an economy that is still normalizing following the pandemic, experiencing rolling pockets of weakness, but is not in recession and seems to be expanding at a moderate pace.

Employment growth, however, is decelerating, but not yet in outright decline. Helpfully for the Fed and consumers, pricing also seems to be significantly lower, but some companies also told us they were forecasting their pricing growth at a slightly higher rate than pre-COVID.

Meanwhile, most sectors are also positioning themselves (or are already actually starting) to benefit from strong structural tailwinds including electrification, AI, and automation.

From what we could glean among the many investors we spoke with throughout the week, the mood was constructive, relatively upbeat, and all were keen to find that new hidden gem and break out of the Magnificent 7 rut.

Caution Around Current Growth, Realistically Constructive About the Future

At the clear risk of overgeneralizing, we felt the messaging coming out of this event was that the economy was ticking over, not in recession, but also still not quite firing on all cylinders, and not expected to reaccelerate much either until at least later this year.

For example, this was the sentiment from one IT staffing company we saw present:

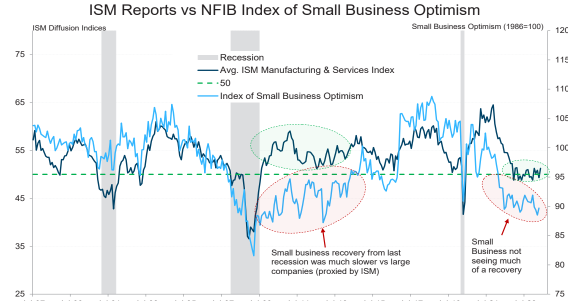
> ***There's little sequential, incremental positives,*** *and some of that gives you some confidence that down the road there may be something.* ***But I wouldn't say, you know, when you look across the whole industry portfolio, that there's any inflection point yet to a different place.*** *I think clients are still worried about the macro, still worried about how their business may perform.* ***They're having good earnings, but it's really on the back of less expense and not runaway revenue growth.*** *And so, I think in the short term here, they're going to remain very cautious in terms of not only how they invest in IT but everything else.*
>
> – IT Staffing Company [emphasis added]

Small and Medium-Size Businesses vs Larger Companies

Smaller businesses continue to face greater headwinds than the larger companies. The reality is that many of these companies are not able to access longer-term debt capital markets, so were unable to lock in low interest rates during the pandemic period as the larger companies were able to do and have therefore been more sensitive to Fed tightening. Meanwhile, many have also been struggling with higher input costs at one end, and then a limited amount of pricing power to pass along those costs at the other. This sentiment would seem to be generally consistent with what we have been seeing in the economic survey data (exhibit 1).

Exhibit 1

ISM Reports vs NFIB Index of Small Business Optimism



Sources: NFIB, ISM, Bloomberg, IHS DataInsight, William Blair Equity Research

For example, one technology solutions company remarked:

> *So, I would say that for the last five quarters,* ***we've definitely seen an increase in the SMB market being more challenging. And we've seen high levels of churn and downgrades****. And for a while that the SMB segment for us actually contracted. It has, over the past few quarters, stabilized. And so, it's a headwind to growth in that it's no longer growing at the—no longer growing but staying flat. That is consistent with a lot of the external data that we've seen around access to capital for particularly startups. And a lot of our SMB space has been made up with—within the software and technology space. So, those startups where either*

[they] have gone out of business or haven't had access to capital. So, that's kind of the one theme.

If I look at the enterprise segment, we certainly felt going back about a year or so that there was a sudden constraint on spending in that area as people were re-evaluating kind of where they were going to spend. ***The economic uncertainty, thinking about what they needed to allocate to AI, all of those considerations meant that there was, in some respects, like a real slowdown or constraint on spending****.*

So, when we've looked at guidance, ***we've worked on the assumption that the macro doesn't improve and doesn't materially deteriorate.*** *So, essentially, staying much the same. We have—when we've looked at SMB, we've said, here's the reality, SMB is going to remain flat with maybe an elevated level of churn and downgrade. But the things that we can control in terms of driving higher renewal rates and driving success with the new and expansion deals based on the work that we've done today, that's what gives us confidence in the guide.*

– Technology Solutions Company [emphasis added]

Another maker of disposable cups and plates for the food industry noted that:

California, the mom-and-pop restaurants are getting hit hard. They can't afford to raise their minimum wage to fight against the QSR, for people staffing. Okay. So they're closing. The national chain accounts such as Panda Express, [inaudible] locals, and the other businesses like Dave's Hot Chicken that we service, they're seeing traffic increase. And Chili's, of course, against McDonald's, I guess—I mean, personally, I would spend $11, get a real burger and French fries and a drink and a salad versus a $15 Big Mac. So, we see some of our clients' volume increase, both online orders and also, in-store dining.

– Packaging Company

A Bifurcated U.S. Consumer

Encouragingly, the state of the U.S. consumer was generally still quite solid, but there were also clear pockets of weakness, specifically at the lower-income end of the spectrum. Though the message here is still somewhat mixed, while we did hear much talk of consumers trading down and moving to private label products, we also heard about consumers trading up.

Weakness in wallet share for lower value restaurants, for example, may be due to more discerning consumers trading up to higher value meals with only slightly higher prices, following the convergence of price differentials between the fast-food and typically more premium fast-casual groups.

Higher income households, meanwhile, are benefiting from still strong employment growth, positive real wage growth, yet, importantly, relative to lower income households, a strong wealth effect coming from price appreciation in financial markets and real estate. Hence, one food manufacturing and retailing company remarked:

It's a little of a bifurcation, right, with the consumer.... But we would say just that the overall pressure on the consumer, particularly on that lower-income sector is going to be favorable and a tailwind as it relates to private label. And we're definitely seeing that again, if you were to look at the more recent trends across the food and beverage space, you're seeing private label outperforming national brands by 200 to 300 basis points.

– Food Manufacturer

More worryingly, one clothing retailer told us that consumers are living from paycheck to paycheck:

I will say just—and you haven't asked this, but you're probably going to—is I think that customer though is really challenged right now. Like ***I think that customer is living paycheck to paycheck. And so we're definitely in a fight with that for that consumer discretionary dollar.*** *So it's tough out there.... Yeah. I think the thing is that the biggest, the most acute pain that's being suffered I think across the consumer right now in the U.S., the people who have never even thought about buying a Patagonia jacket in their life, right.* ***I think these are folks for whom apparel is very discretionary and they're shopping at Goodwill and/or they're shopping at savers where the price point is $6 and ... or they're not shopping at all.*** *And so I think that there is this misconception that somebody who's living paycheck to paycheck and who is a constrained shopper is still shopping apparel.* ***And that's what I think it's not—I think it's similar in furniture, right. I think we gorged a lot on furniture. I think***

we've gorged a lot on apparel. And so I think on the margin, people are just buying less clothing.

The only category, I mean, you probably know better than we do and the only category that in apparel that appears to be going well is specialty running, right. And you know what turns out? You've got to buy running shoes every six months to nine months if you're serious about running. Everything else we can keep wearing. And so I think there is a little bit of this misconception that there's a forced replacement cycle in apparel, and I think that may be true for the most fashion forward of us, but the average American can keep wearing stuff for a while until rates come down. I feel a little better about where the company—where the country's going. And so I can go on about this but I'm not an economist.

– Clothing Retailer [emphasis added]

Yet, another restaurant chain reported it was benefiting from some trading-up:

*And then you've seen on the lower end, **fast food having much greater price increases over the last four or five years than we have in fast casual or CPI. And so that's enhanced our value proposition**, where it's become very transactional, very drive-through kiosk-driven. And c**onsumers are saying, well, for a dollar or two or more or even the same price, I can have a really healthy meal** in CAVA, a great bowl of fresh food.*

– Restaurant Chain [emphasis added]

Even in the HVAC space, one company told us that the consumer here too was surprisingly resilient. Lower fixed rate mortgages were a big factor. The prevailing higher rates have meant fewer homeowners were willing to sell their homes, but those low payments have also meant that consumers have not been constrained when it came to choosing repair their HVAC systems or replace them: "*They're willing to make the investment in something that's going to last 10, 15 years, versus the repair that lasts 2 to 4 years*."

*We are **pleasantly surprised by the resiliency of the consumer** when it comes to HVAC. **We all expected interest rates, the state of the economy and all to have potentially a negative impact. But so far, we haven't seen that. We see demand being steady.** And this is about replacements. It's a nondiscretionary spend at the end of the day. And the cost of repair has gone up significantly more than the cost of new unit. In fact, the shortage of skilled labor required to repair has also moved people more towards replacement, but takes much higher skilled labor to replace the unit, effectively adding to the cost.*

– HVAC Distributor [emphasis added]

Business Investment—A Mixed Bag

As some of the initial quotes in this note already highlighted, businesses are being much more discerning in their budgets, where they are facing significant ongoing pressure on expenses, and the sales cycle has become much longer.

This is still being particularly felt in the software space. It is also still seemingly being felt in the industrial space, despite already having been in recession for the last 18 months. Conversely, sectors that were notably performing quite well include healthcare, government-related, and energy.

So if you think about our six industry segments, you know, the commercial market obviously is by and large going through some malaise. I don't know but I won't use the word recession, and IT spending, but certainly a little bit of a cloudy outlook over top of it right now. But I think that's just for a moment.

On the commercial side, there are some pieces of the industry portfolio that are doing well. Healthcare providers, for sure, have been good and growing through the last, let's say, 18 months that we've been going through what we've been going through in the commercial end-market. Other industry segments and some segments, as you can imagine, like energy and utilities have been strong. Other pieces of consumer industrials. But a few of our larger, most important commercial industry segments like tech, like financial services, haven't yet returned to what I'll call the normal spending patterns that they typically do inside of IT. So we're watching those two industries very closely.

– IT Staffing Company

***So, the past few quarters we felt like the macro environment has stayed pretty steady.** We've talked about that from 2023 into the first quarter of this year. We haven't noticed a significant change in how that feels. As far as the spending priorities, I touched on this a little bit. You will see companies looking to reduce cost. And in* *doing that, that might mean that they have fewer resources to move forward with projects. So they might be making a decision. As they look at multiple RFPs, they might be making a decision, okay, do we do this project now or do we do this project now? And it might not be 'no, Workiva, we're not going to buy you, we're not going to do this project.' It might be a, 'we're going to do this other one first.'*

And so, there is really careful consideration by companies as to the resources that they have in-house and the resources that they're able to afford to be able to move forward with certain projects. And that is something that we—part of this—the deal elongation, you know, this deal cycle elongation that we've been talking about, that's a part of it.

– Cloud-Based IT Data Collecting Company [emphasis added]

Yet a number of companies also felt that in today's world of fast-paced innovation, there was no option but to continue to invest, much like the old adage of the shark that needs to keep water flowing through its gills, or else it dies.

I think companies today realize that, even in somewhat difficult macroeconomic environments, they have to continue to invest in product innovation. *The companies that have been in prior downturns that did not invest in product development and innovation paid a pretty hefty price and were not competitive when that macro situation inevitably turned around. So, you're right.* ***What we are seeing is a lot of resiliency in R&D budgets.*** *Companies are looking out for the long term and understanding that they need to continue to innovate and be competitive.*

– IT Engineering and Simulation Company [emphasis added]

Labor Market—Job Growth Soft, but Not Negative; Rise of the Robots and Automation

The vast majority of companies still felt there was downward pressure on the labor market, though some felt this would improve by the end of the year.

We think JOLTS data is probably still the best source, especially quits, hires, and openings. They tend to give you a good high level view of where macro impact could potentially be on the background screening industry. But then you always have to remember to factor in the verticals because some verticals get affected more by downturns, and as I mentioned, a couple of our big verticals have really held in nicely with the macro. So we're looking at JOLTS data, but probably more importantly is we're talking to our large customers all the time. We're getting insights from them as to where their hiring demands are going and, granted, they don't always get it right either, because we're talking about some guesswork here, but they've got better insights than anybody.

And kind of what we're hearing for 2024 is really mirrored in what we've said with our guidance. We've reaffirmed our guidance, which is we had a negative base in Q1, we're predicting negative base in Q2 and again in Q3 getting better sequentially each quarter, and in Q4, we actually feel we are flat, we should be flat base wise to some potentially even a sliver of positive base growth in Q4. And the reasons we feel that way is because that's what our customers are telling us, that's what they're saying. We're not hearing from any of our large customers any layoffs. *We're not hearing from our large customers any concerns where—but we're also not hearing, hey, we're going to have a great blowout year. They're all kind of saying we're expecting to have good years and we're expecting late Q3 and Q4 to show some growth.*

– Candidate Screening Company for Employers [emphasis added]

We heard almost no companies—outside the healthcare sector—complaining that labor was still hard to find these days. Few companies seemed to be engaged in outright headcount reductions, though many were limiting hiring and allowing some natural attrition to take place.

Automation and innovative technological solutions were also increasingly being discussed with regard to reducing labor requirements, and while workers were not necessarily being let go and being replaced by robots per se, automation at some companies was increasingly limiting the number of workers who might previously have been employed as the company expanded.

One restaurant chain, for example, remarked that where automation was making some roles redundant in the food preparation process, those workers were being redeployed to the front of the restaurant to improve the customer experience. Another told us that while the initial upfront cost was high, over the longer term the margin leverage made up for this:

> *So, as you'd expect,* ***there is an incremental capital cost, but the margin leverage should offset that.*** *But if you then look at a 10-year lease or a 20-year lease and you think about the labor, what we're going to see in terms of labor inflation and the hedge this provides against it,* ***the IRR of the stores, the net contribution over 10 or 20 years is significantly higher and it will become again a hedge against labor, I think gives us some opportunity around pricing power and other things we can do.*** *So, we're very excited about it, but still very, very early.*
>
> – Restaurant Chain [emphasis added]

Another candidate screening company told us automation was increasing the speed of output from days to hours:

> *So when we looked at our vertical strategy around this hourly segment and* ***we knew speed was going to be the big driver here, we then started saying, okay, how does our technology come into play here?*** *And that's when we really, I think, made the biggest move in the market, which is highly automating our technology and our back end.* ***So we've been on literally an 8-year journey of building robotic process automation****, RPA, APIs, and now AI into our tech, which automates how we go and get data from either third parties or government sources, to then use that data to then produce the results of the background check.* ***And our turnaround times now are in the hours, not days.***
>
> – Candidate Screening Company for Employers [emphasis added]

Finally, we also conducted an investor site visit to a food and beverage warehouse distribution center, accompanied by the CFO of a robotics company that was providing the robot labor to receive, stack, and then redistribute pallets of goods.

Giant robot arms were busy dissecting incoming pallets of their contents, before other robots on wheels then whisked those individual boxes away to shelves around the warehouse. The contents of outgoing pallets, meanwhile, are then individually plucked from those shelves, and strategically placed on pallets using AI (think Tetris) for maximum efficiency.

The process was still not perfect; we witnessed several stoppages on the production line, though it was still far faster than human hands. While the company did not present at our conference, the comments made at its recent analyst day included the following remark:

> *Somebody asked this question saying if this is so attractive, then why is that customers are not jumping for it. Right. The way I tend to think about it is this way. You know, you've talked about horses and cars, the demand for, you know, horse-driven carriages.* ***As you think about it, the horse-driven carriage grew for 40 years after Henry Ford invented automotive, right, 40 years. And then the flipping point happened. And then it changed, and it boomed, right. I tend to think about automation to be that right now.*** *And this is the crossing of the chasm. This is the time when you really see a massive adoption coming through.*
>
> – Robotics Company [emphasis added]

Inflation—Pricing in a New Normal

Just about all companies told us that inflation growth was moderating and would continue to moderate. One large global company notably also felt the normal for pricing was no longer 1%-1.5%; rather, it was acting as if the new normal environment was 2%-3%.

> *And that's why if in the past we've always been going up in pricing, every single year of the last 20 years or plus,* ***it's always been 1% to 1.5%, and I think that now we can get 2% to 3%****, and if we can get more than that, we will do it as well. But that's where I see the steady state for now, this 2% to 3%, which is driving a lot of earnings obviously and value for our shareholders.*
>
> – Global Industrial Water Hygiene and Sanitation Company [emphasis added]

Credit Environment—Few Signs of Stress

It was also interesting what we did not hear from companies, i.e., there were few very vocal complaints about the Fed and high interest rates acting as a strong headwind to growth.

That might not actually be the case with regard to SMBs, though it may still very much be the case for the larger companies who do not face significant debt maturity walls until 2025-2026.

When discussing credit, one HVAC distributor felt the environment was actually still pretty good:

> ***We're seeing absolutely great credit risk with our customers*** *who owe us $800 million in accounts receivable. That tells us how the end-market is doing. It tells us what's going on. It tells us how we're doing. And so credit, again, is a great leading indicator, and credit has been exceptionally sound in this market.*
>
> – HVAC Distributor [emphasis added]

Two Most Prevalent Themes: Artificial Intelligence and Electrification

Unsurprisingly, the two most prevalent themes were AI and electrification. Just about every company we saw with almost no exception—and no matter how tangential—was seemingly using AI in some way, shape, or form. Whether it was for stacking pallets, helping consumers choose clothing online, enhancing chatbot experiences, or helping to slice and dice both food and data—you name it, AI was involved. Most also seemed to quite keen to let us know that they have actually been using it for many years now and were not new adopters.

AI—Just About Everywhere You Look

One candidate screening company, for example, told us:

> ***We're totally embracing generative AI, responsible AI in our business.*** *We've already rolled it out in a number of areas. It's already having a pretty nice impact. We've got two main areas we've rolled it out already. One is in our verifications business, we use AI and machine learning to handle our verification requests, which are verification of education, prior education and prior employment. The other one is we've rolled out AI chat in our call centers. This has increased customer satisfaction because of the speed and how people like to chat.* ***It's also allowed us to reduce headcount by probably about 20% in our call centre just because of AI.*** *And we're rolling out multiple new AI pilots within the organization around how to do actual background checks and things like that. So more to come…. So it's pretty cool and next time we'll spend more time on AI. But just so investors know this is a high priority for us and we think we're out in front of it.*
>
> – Candidate Screener for Employers [emphasis added]

Another IT engineering simulation company noted:

> *Finally,* ***AI is another driver for us, and something that we view as a secular tailwind.*** *We are continuing to embed artificial intelligence within our core product capabilities, something that we've been at for a long time, long before everybody's talking about AI. We've been incorporating those AI capabilities into our product sets, AI-enabled design, AI-embedded engineering, and AI-augmented manufacturing. So, it's representing a real shift here for us.*
>
> – IT Engineering Simulation Company [emphasis added]

> *I think on the AI side, what's amazing is that we've been using it for photo technology that we have built to take a photo of something, tag it appropriately. Now what AI is doing is, it's saying—so we would have tagged … this as a white long-sleeved blouse, V-neck, maybe the dress from here it looks like this, right? We would have tagged like four or five things about this thing. AI will look at it, it'll tag 150 things. It'll add all these attributes about it that we could never have known. It might identify it as it's a particular style worn by a celebrity…. You can put in stuff like Gwyneth Paltrow into the text box and get stuff that would look like a Gwyneth Paltrow look.*
>
> – Clothing Retailer

Electrification/Energy/Water—Can't Get Enough of the Stuff

The thirst for more electrical and renewable power is seemingly insatiable, and demand for water is also an important part of this secular trend:

> *First, the macro trends are clearly in our favor. We're going to be more people in the years to come, I guess, that's a very good news, 1 billion more by 2030, 3 billion more by 2050. We will need much more food, like, 56% by 2050. We will need 47% more energy by 2050 and we will need 56% more water by 2030, 20 years earlier than that. And AI and digital, obviously, is driving power more than ever, which needs to be cooled. That's going to require a huge amount of water that ultimately we don't have, because the Earth is using as much water as nature can replenish, which is partly a problem, which is why we need to reuse*

and recycle the water wherever we operate, which is what we do for a living as a company.

– Global Industrial Water Hygiene and Sanitation Company

Well, it's driving ***massive macro investments, $4 trillion capex investments per year required by 2030 in order to achieve some of these goals of tripling renewable capacity and doubling in efficiency. Three trillion dollars by 2030 to expand the grid and upgrade systems in the grid. Five trillion dollars in digitalization required by 2050 to hit some of the net zero goals.*** *These are the macro trends that we've aligned behind to drive our growth going forward.... That creates a huge opportunity, because the global population continues to grow. We're about 8 billion people today, we'll be 9.7 billion by 2050. Forty percent growth in the middle and upper class. That means greater demand for everything; energy, plastics, chemicals, anything that you can think of, because we all want to buy and have a better standard of living. So that means 30%-34% increase in energy demand by 2050, 86% of it from electricity, 84% of that has to be from renewables. That means greater complexity in the grid, a grid that has to expand.*

– Technology Solutions Company [emphasis added]

Interestingly, one clothing retailer we also saw present felt that it too was a beneficiary of this trend by effectively helping supply the picks and shovels to these industries, in the sense of it being a retailer of durable work clothing and cowboy boots that many workers in these sectors wear:

And what external factors impact your business the most? There's a lot of conversations around things happening in pop culture right now. Country music is great for us. We love that. ***The bigger drivers are infrastructure, oil and gas, ag markets. Sort of the functional part of our business is much bigger than all of the fashion pieces of the business together.***

– Clothing and Apparel Retailer [emphasis added]

Miscellaneous: Container Shipping, Reshoring, U.S. Elections, Tipping Fatigue, Sunbelt Growth

Finally, there were some other noteworthy bits and pieces we gleaned from our time at the conference.

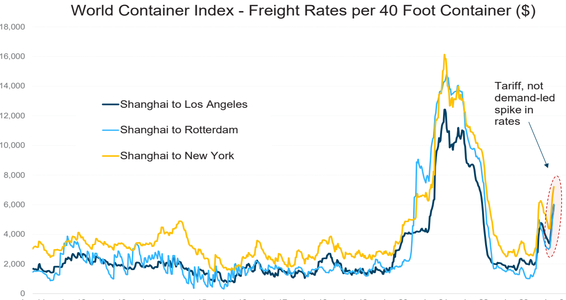
What's Behind the Spike in Container Shipping Prices?

Perhaps the most interesting was what one packaging company told us with regard to the recent spike in container shipping prices: that it is being driving by companies trying to get ahead President Biden's recent 50%-100% tariff increases on goods from Asia, some of which are imposed this year and some next (exhibit 2).

And what's happening is, the new tariffs will start in, I believe, either sometime beginning of August or end of July. So, every manufacturer or importer is trying to rush, to [ship] as many products as they can, as many containers as they can, and ***that's creating a spike in the ocean freight demand.*** *But this demand is not [like] what we've seen in the COVID period where there's a demand-driven spike. It's due to government regulation, tariffs. And we are discussing with freight forwarders and other peers, that* ***we all believe that this is going to be very, very short-lived because there's really nothing to ship afterward.*** *Because once everybody—once these people ship—these companies shipping all these items that are going to be hit with the tariffs, they're not going to ship anything after that.* ***And we're going to see the price probably fall back to even lower than what we're seeing right now.***

– Packaging Company [emphasis added]

Exhibit 2
World Container Index - Freight Rates per 40 Foot Container ($)



Sources: Drewry World Container Index, Bloomberg, William Blair Equity Research

Reshoring

Whereas at last year's conference companies were very keen to downplay any connections they had with China, this sentiment was somewhat less prevalent this year. Still, many companies did talk about diversifying their supply chains and reshoring, if only to be able to respond more quickly to rapidly shifting consumer demand.

> *In today's world, it's impossible. Trends are changing by the minute. Social media is defining what we're going to wear today, tomorrow. And brands have to react very fast to the latest trends. So no more being able to produce large quantities and ship them all over to the U.S. What we see today is a massive move of production onshore or near shore, to be closer to the consumer, to be able to react very fast to market trends. So this is a major, major change.*
>
> – Digital Printing Company for Clothing

A Few Thoughts on the U.S. Elections

Despite the election coming up in November, we heard almost no companies mentioning it. When we did, we found a striking difference between capital markets and the real economy.

Most financial companies were quite positive about capital market activity at the moment, where there was a sense that companies wanted to get deals done before the election, fearing any volatility in financial markets afterward.

With regard to investment, however, some companies felt it was better to put off any major projects until after the election when there was greater certainty around tax and spending priorities.

> *I think also people are looking for a macro standpoint around what the Fed is going to do with rate cuts and I think people are expecting potentially at least one cut this year, maybe in late Q4. And* ***I think people are also waiting for the election to be over. And not that the election would potentially affect the macro, but I think the fact that the election is over could affect the macro, not the result, but the fact that it's done.***
>
> – Industrial Distributor [emphasis added]

Tipping Fatigue

The post-COVID surge in tipping percentages is evidently generating something of a backlash, and is further evidence of a consumer that is struggling with inflation and now starting to push back. Not only did we see several advertisements in the media playing on consumers being increasingly guilted into tipping larger amounts, but one company we saw also made a point to tell us that they intentionally do not do this:

> *And then we say,* ***that insidious little tip thing****, right. So, when the person says, you just got to hit a button before you finish and you've got that guilt-ridden tip you've got to give.* ***We don't do that.*** *Chipotle doesn't do that. The others all do that. And so that tip to me is pricing. It's cute. You can do it however you want, but it's pricing. And that pricing there suggests that those are the average prices for our competition versus us on the most typical bundle. We're exceptionally proud of our price points in the fast casual space.*
>
> – Restaurant Chain [emphasis added]

Growth in the Sunbelt—The Demographic Dividend

With population growth slowing, companies are clearly focusing on those areas domestically where it is still growing the fastest, and they can get the biggest bang for their buck.

> *But the focus of our growth is what I loosely call the Sunbelt. Sunbelt is sort of slang for the states in America with population growth. We like going where there's population growth. Across Florida, Texas, Arizona, there's about 2% population growth. For a concept like ours, it's just a great little tailwind. That means that as those restaurants start to hit our comp base, I have traffic and comp growth just for showing up. That's a really nice dynamic for a restaurant concept.*
>
> – Restaurant Chain

Conclusion

This was yet another incredibly successful event for institutional investors, who were perhaps the most excited we have seen in years about finding high quality and high growth companies and being able to diversify away from the rut of the Magnificent 7.

From a macroeconomic perspective, this is a very two-handed economy—we found growth was generally moving forward at a moderate pace, though there were also clear pockets of ongoing weakness (lower-income consumers, SMBs, tech, and to some extent industrials) balanced against of other areas of strength (middle- and higher-income consumers, healthcare, government-related); however, the economy in aggregate is not currently in recession.

While companies were excited about many of the positive longer-term structural trends (the most prominent being AI, automation, and energy/water/electrification), they still felt there was some near-term softness that needed to be navigated first and were therefore a little more cautious about activity through the remainder of the year.

The U.S. consumer remains resilient, though the lower-income consumer is clearly starting to feel more pressure following the great leveling-up period during COVID, a re-normalization of growth. Within the corporate sector, SMBs continue to be under intense pressure—where they are arguably in recession, in contrast to the large companies that are gaining market share and benefiting from scale, scope, and fixed rate debt. We heard no instances of major credit issues. Nevertheless, for many companies budgets were still very tight, expenses were still being scrutinized closely, and the labor market was under increasing pressure.

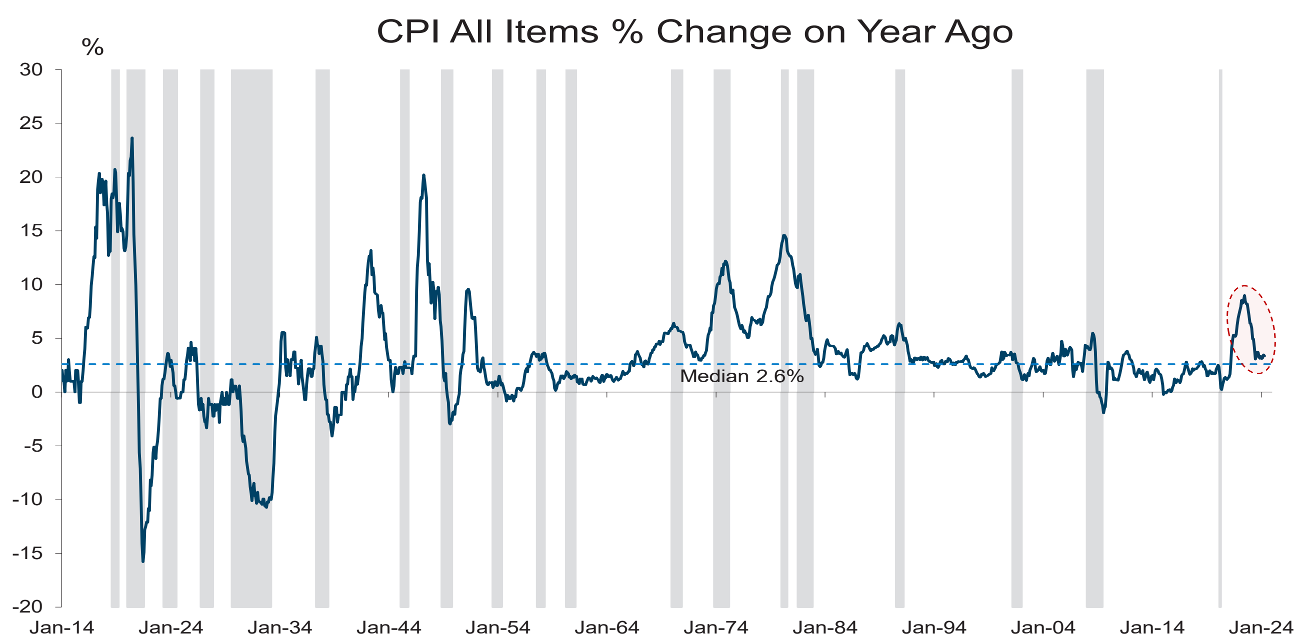
As far as how the Fed might interpret this, it would be pleased with progress on inflation but less so with it settling down to a 2%-3% new normal. It would also see evidence of the softer growth (particularly among SMBs) and also weaker employment prospects as being consistent with at least one rate cut later this year, and more to come as it attempts to preempt further economic weakness.

Highlights in the Week Ahead

Date	Time (ET)	Indicator	Last	Consensus	WB Estimate	Actual
12 Jun	8:30 a.m.	Consumer Price Index (May)	0.3%	0.1%	0.1%	
		CPI Less-Food & Energy	0.3%	0.3%	0.2%	
12 Jun	2:00 p.m.	FOMC Meeting	5.25%	5.25%	5.25%	
13 Jun	8:30 a.m.	Producer Prices Index (May)	0.5%	0.1%	0.1%	
		PPI Less-Food & Energy	0.5%	0.3%	0.2%	

Sources: Bloomberg, William Blair Equity Research

Indicator of the Week: Consumer Price Index



Source: Bureau of Labor Statistics, William Blair Equity Research; Shaded bars = recessions

Economic Scorecard

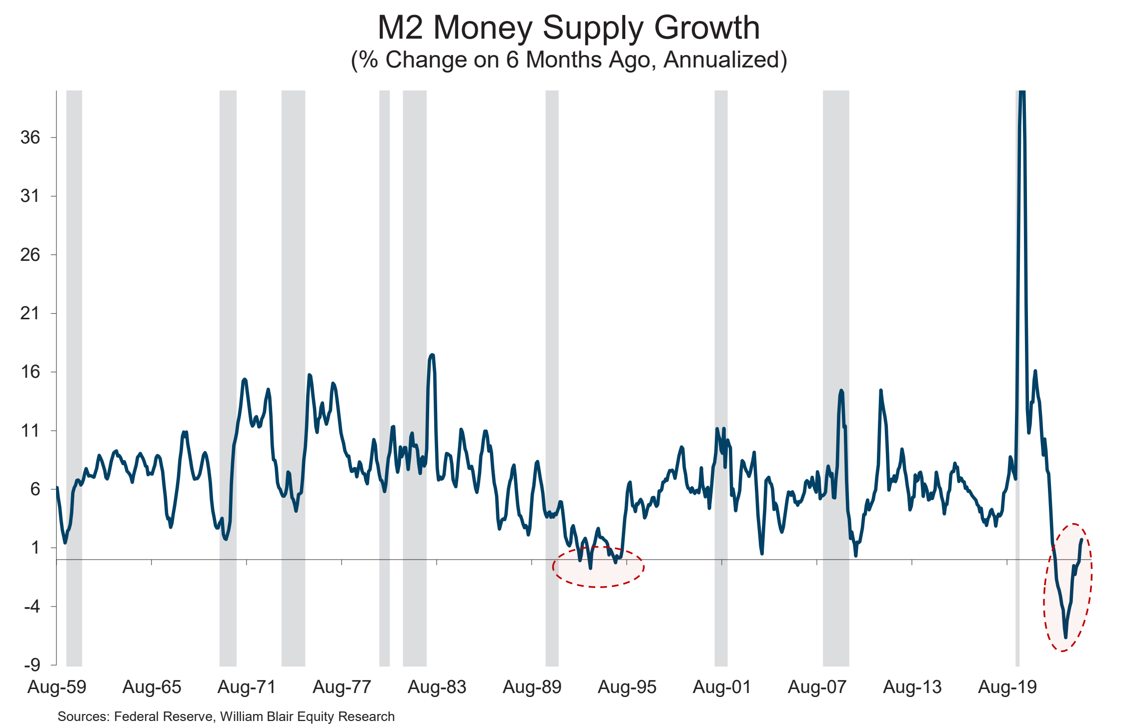
Rolling monthly heat map, % Change on Year Ago (unless otherwise noted)

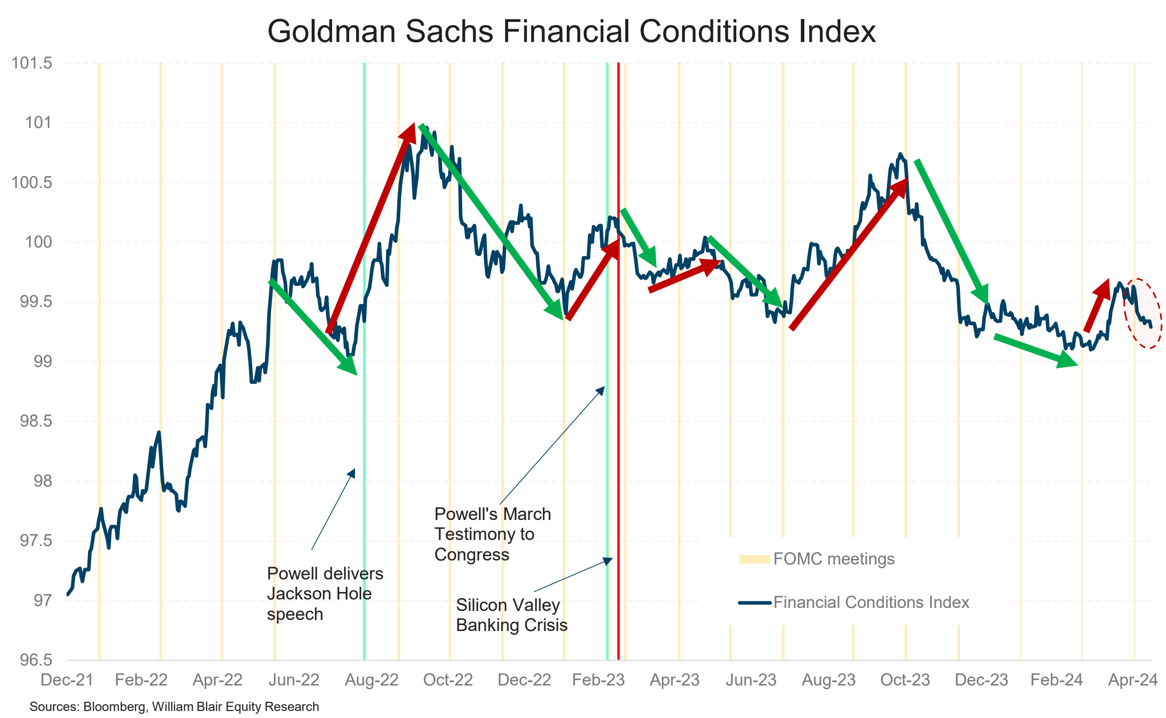
	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24
Growth																			
US Leading Indicators	-6.4	-6.1	-7.0	-8.0	-8.3	-8.2	-8.1	-7.8	-7.9	-8.1	-8.1	-7.6	-7.2	-7.2	-6.4	-5.5	-5.4		
US Coincident Indicators	0.8	1.5	1.4	1.4	1.4	1.7	1.8	1.7	1.4	1.3	1.4	1.9	2.1	1.4	1.5	1.6	1.7		
US Lagging Indicators	7.4	6.3	6.1	5.5	4.9	3.7	2.9	2.3	1.8	1.0	1.3	1.3	0.3	0.9	1.0	1.0	1.4		
Consumer																			
Total Retail Sales	5.4	7.7	5.5	2.2	1.7	2.2	1.6	2.9	3	4.2	2.7	4	5.5	0.3	2.1	3.8	3.0		
Personal Income	4.5	5.8	5.7	5.8	5.7	5.6	5.4	4.9	4.9	4.8	4.3	4.4	4.5	4.6	4.3	4.4	4.5		
Real Disposable Personal Income	-0.9	3.2	3.5	4.4	4.5	5	5.3	4.4	4.1	3.9	3.7	3.9	3.8	2	1.6	1.3	1		
Real Personal Consumption	1.3	2.3	2.3	1.7	1.6	1.8	2.1	2.5	2	2.1	2.1	2.9	3.3	1.9	2.2	2.8	2.6		
Personal Saving Rate (%)	3.4	4.4	4.7	5.2	5.2	5.3	4.8	4.4	4.5	3.9	3.8	3.7	3.6	4.1	3.8	3.6	3.6		
Consumer Confidence (Conference Board)**	109	106	103.4	104	103.7	102.5	110.1	114	108.7	104.3	99.1	101	108	110.9	104.8	103.1	97.5	102	
Employment																			
Employment Growth	3.0	3.2	2.8	2.5	2.5	2.5	2.4	2.1	2.1	2.0	1.9	1.9	2.0	1.8	1.8	1.9	1.8		
ASA Temporary Staffing Index	1.0	-2.1	-6.1	-6.5	-6.8	-5.9	-6.6	-4.7	-4.8	-5.5	-7.5	-7.6	-5.5	-12.2	-9.4	-8.2	-9.3	-10.2	
ISM Employment Index Manufacturing*	50.2	50	48.8	47.8	49.4	50.3	49.1	45	48.6	50.9	47.1	46.1	47.5	47.1	45.9	47.4	48.6	51.1	
ISM Employment Index Services*	49.8	50.4	53.6	51.1	51.2	49.7	52.9	50.9	54.1	52.5	50.4	50.6	43.8	50.5	48	48.5	45.9	47.1	
Unemployment Rate, %	3.5	3.4	3.6	3.5	3.4	3.7	3.6	3.5	3.8	3.8	3.8	3.7	3.7	3.7	3.9	3.8	3.9	4	
Average Hourly Earnings	4.9	4.6	4.7	4.6	4.7	4.6	4.7	4.7	4.5	4.5	4.3	4.3	4.3	4.4	4.3	4.1	4	4.1	
Initial Jobless Claims (avg. wkly. chg. '000s)	208	203	214	224	217	227	252	234	245	217	211	218	206	210	209	215	210	222	
Jop Openings	-4.4	-7.3	-15.8	-21.0	-15.9	-18.8	-18.6	-23.7	-7.5	-13.7	-17.5	-16.5	-19.2	-16.1	-10.5	-13.2	-18.6	-13.4	
Layoff Announcements	129.1	440	410.1	319.4	175.9	286.7	25.2	-8.2	266.9	58.2	8.8	-40.8	-20.2	-20	8.8	0.7	-3.3	-20.3	
Housing Market																			
Housing Starts	-23.7	-20.5	-19.4	-20	-25.2	2.8	-8.2	5.8	-14.1	-7.3	-5.2	6.3	17	1.1	10.1	-4.1	-0.6		
New Home Sales	-24.2	-19.9	-20	-9.7	8	14.4	22.7	34.9	1.2	24.8	16.6	2.5	3.5	3.9	1	3.3	-7.7		
Existing Home Sales	-33.7	-36.7	-23.1	-22.7	-23.7	-20.9	-19.4	-16.7	-15.2	-15.3	-14.3	-6.7	-5.8	-1.7	-3.3	-3.0	-1.9		
Median House Price (Existing Homes)	4.2	-1.3	7.7	4.5	-5.1	-1.9	-3.3	-1.6	2.1	-1.9	-9.3	0.4	-2.2	5.4	-3.6	0.1	3.9		
Existing Homes Inventory (Mths' supply)	3.3	3.3	2.9	2.9	2.9	2.9	2.9	3	3	3.2	3.4	3.5	3.6	3.5	3	3.4	3.4		
New Homes Inventory (Mths' supply)	8.6	8.3	8.4	8.1	7.5	6.9	7.7	7.3	7.9	7.5	7.9	8.8	8.2	8.3	8.9	8.5	9.1		
NAHB Homebuilder Sentiment*	31	35	42	44	45	50	55	56	50	44	40	34	37	44	48	51	51	45	
Inflation																			
Consumer Price Index	6.5	6.4	6	5	4.9	4	3	3.2	3.7	3.7	3.2	3.1	3.4	3.1	3.2	3.5	3.4		
CPI Less-food & energy	5.7	5.6	5.5	5.6	5.5	5.3	4.8	4.7	4.3	4.1	4	4	3.9	3.9	3.8	3.8	3.6		
Producer Price Index	6.4	5.7	4.7	2.7	2.3	1.1	0.3	1.1	1.9	1.8	1.1	0.8	1.1	1	1.6	1.8	2.2		
PPI Less-food & energy	5.7	5	4.6	3.3	3.1	2.8	2.5	2.7	2.5	2.3	2.2	1.9	1.8	2	2.1	2.1	2.4		
PCE Price Index	5.4	5.5	5.2	4.4	4.4	4	3.2	3.3	3.3	3.4	2.9	2.7	2.6	2.5	2.5	2.7	2.7		
PCE Prices Less-food & energy	4.9	4.9	4.8	4.8	4.8	4.7	4.3	4.2	3.7	3.6	3.4	3.2	2.9	2.9	2.8	2.8	2.8		
Business Activity - US																			
Industrial Production	0.6	1.5	0.9	0.2	0.4	0.1	-0.4	0.1	-0.1	-0.2	-0.8	-0.2	1.1	-0.7	0.1	0.1	-0.4		
New Cap Gds Orders less-aircraft & parts	1	5.6	2.7	1.9	1	3.2	1.4	0.4	0.6	0.5	0.8	1.4	0.8	-0.2	3.2	-0.9	2.9		
Business Inventories	16.3	14.6	12	10.2	8.2	5.9	4.6	2.9	1.5	0.8	0.5	0.7	0.3	-0.1	0.2	0.3	0.7		
ISM Manufacturing PMI*	48.1	47.4	47.7	46.5	47	46.6	46.4	46.5	47.6	48.6	46.9	46.6	47.1	49.1	47.8	50.3	49.2	48.7	
Markit US Manufacturing PMI*	46.2	46.9	47.3	49.2	50.2	48.4	46.3	49	47.9	49.8	50	49.4	47.9	50.7	52.2	51.9	50	51.3	
ISM Services Index*	49	54.7	55	51.2	52.3	51	53.6	52.8	54.1	53.4	51.9	52.5	50.5	53.4	52.6	51.4	49.4	53.8	
Markit US Services PMI*	44.7	46.8	50.6	52.6	53.6	54.9	54.4	52.3	50.5	50.1	50.6	50.8	51.4	52.5	52.3	51.7	51.3	54.8	
Business Activity - International																			
Germany Manufacturing PMI Markit/BME*	47.1	47.3	46.3	44.7	44.5	43.2	40.6	38.8	39.1	39.6	40.8	42.6	43.3	45.5	42.5	41.9	42.5	45.4	
Japan Manufacturing PMI Jibun Bank*	48.9	48.9	47.7	49.2	49.5	50.6	49.8	49.6	49.6	48.5	48.7	48.3	47.9	48	47.2	48.2	49.6	50.4	
Caixin China Manufacturing PMI*	49	49.2	51.6	50	49.5	50.9	50.5	49.2	51	50.6	49.5	50.7	50.8	50.8	50.9	51.1	51.4	51.7	
China Manufacturing PMI*	47	50.1	52.6	51.9	49.2	48.8	49	49.3	49.7	50.2	49.5	49.4	49	49.2	49.1	50.8	50.4	49.5	
UK Manufacturing PMI Markit/CIPS*	45.3	47	49.3	47.9	47.8	47.1	46.5	45.3	43	44.3	44.8	47.2	46.2	47	47.5	50.3	49.1	51.2	
France Manufacturing PMI Markit*	49.2	50.5	47.4	47.3	45.6	45.7	46	45.1	46	44.2	42.8	42.9	42.1	43.1	47.1	46.2	45.3	46.4	
Currencies*																			
Euro (EUR/USD)	-5.8	-3.3	-5.7	-2.1	4.5	-0.4	4.1	7.6	7.8	7.9	7.0	4.6	3.1	-0.4	2.2	-0.5	-3.2	1.5	
Renmimbi (USD/CNY)	8.5	6.2	9.9	8.4	4.7	6.5	8.3	5.9	5.3	2.6	0.2	0.6	2.9	6.1	3.6	5.1	4.7	1.9	
Yen (USD/Yen)	13.9	13.0	18.4	9.2	5.1	8.3	6.3	6.8	4.7	3.2	2.0	7.3	7.6	12.9	10.1	13.9	15.8	12.9	
Sterling (GBP/USD)	-10.7	-8.4	-10.4	-6.1	-0.1	-1.3	4.3	5.5	9.0	9.2	6.0	4.7	5.4	3.0	5.0	2.3	-0.6	2.4	
Canadian $ (USD/CAD)	7.3	4.7	7.7	8.1	5.5	7.3	2.9	3.1	2.9	-1.8	1.8	1.1	-2.3	1.0	-0.5	0.2	1.7	0.4	
Mexican Peso (USD/MXN)	-5.0	-8.7	-10.6	-9.2	-11.9	-10.0	-14.9	-17.8	-15.4	-13.5	-8.9	-9.8	-13.0	-8.6	-6.8	-8.2	-4.8	-3.8	
US Equities																			
S&P 500	-19.4	-9.7	-9.2	-9.3	0.9	1.2	17.6	11.1	14.0	19.6	8.3	12.0	24.2	18.9	28.4	27.9	20.8	26.3	
S&P 400 Midcap	-14.5	0.7	-2.3	-6.7	-0.4	-4.3	15.6	8.6	8.8	13.6	-2.7	-0.5	14.4	3.0	11.1	21.3	14.9	23.9	
S&P 600 Smallcap	-17.4	-2.5	-5.1	-10.4	-5.5	-8.9	7.8	3.4	3.6	8.1	-9.3	-5.9	13.9	-0.1	4.5	13.8	10.4	18.1	
Russell 2000	-21.6	-4.8	-7.4	-12.9	-5.1	-6.1	10.6	6.3	3.0	7.2	-10.0	-4.1	15.1	0.8	8.3	17.9	11.6	18.3	

* Diffusion Index, **1985=100, ***Currencies - green/red = strengthening/weakening foreign currency vs dollar

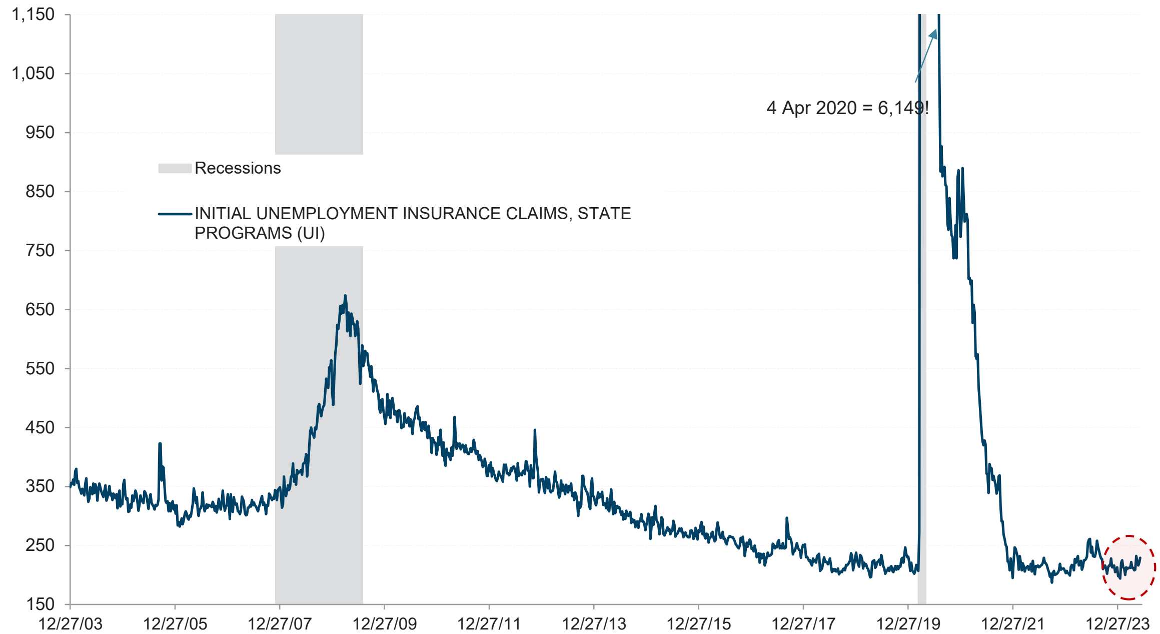
Source: ISM, Federal Reserve, Census Bureau, Bureau of Labor Statistics, Conference Board, Bloomberg, William Blair

Other Economic Indicators



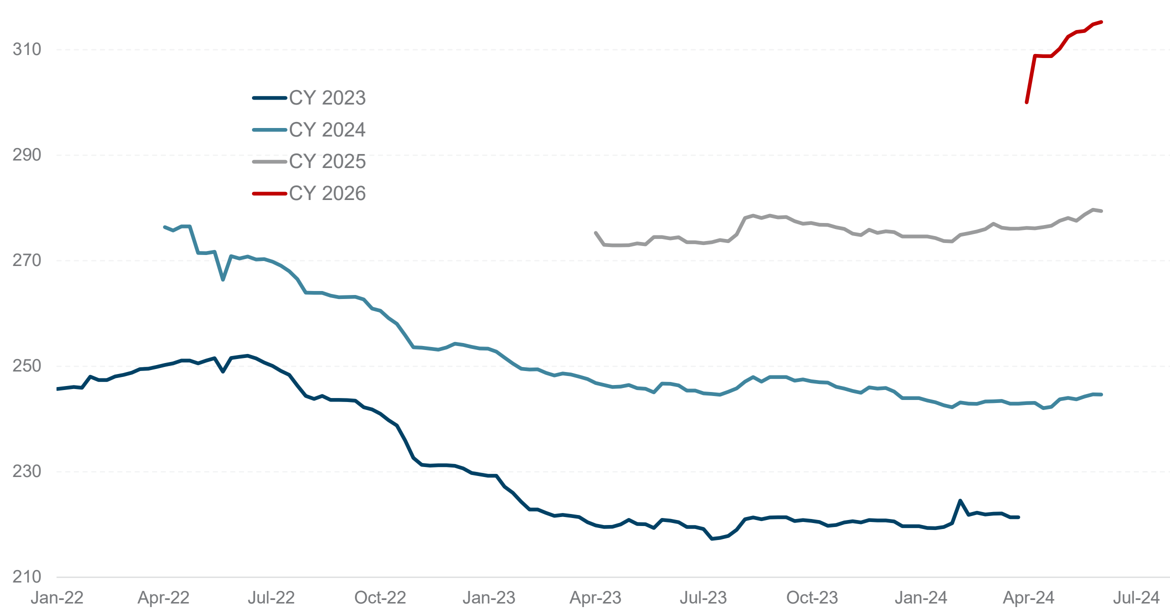


Initial Jobless Claims
('000s, Seasonally Adjusted)

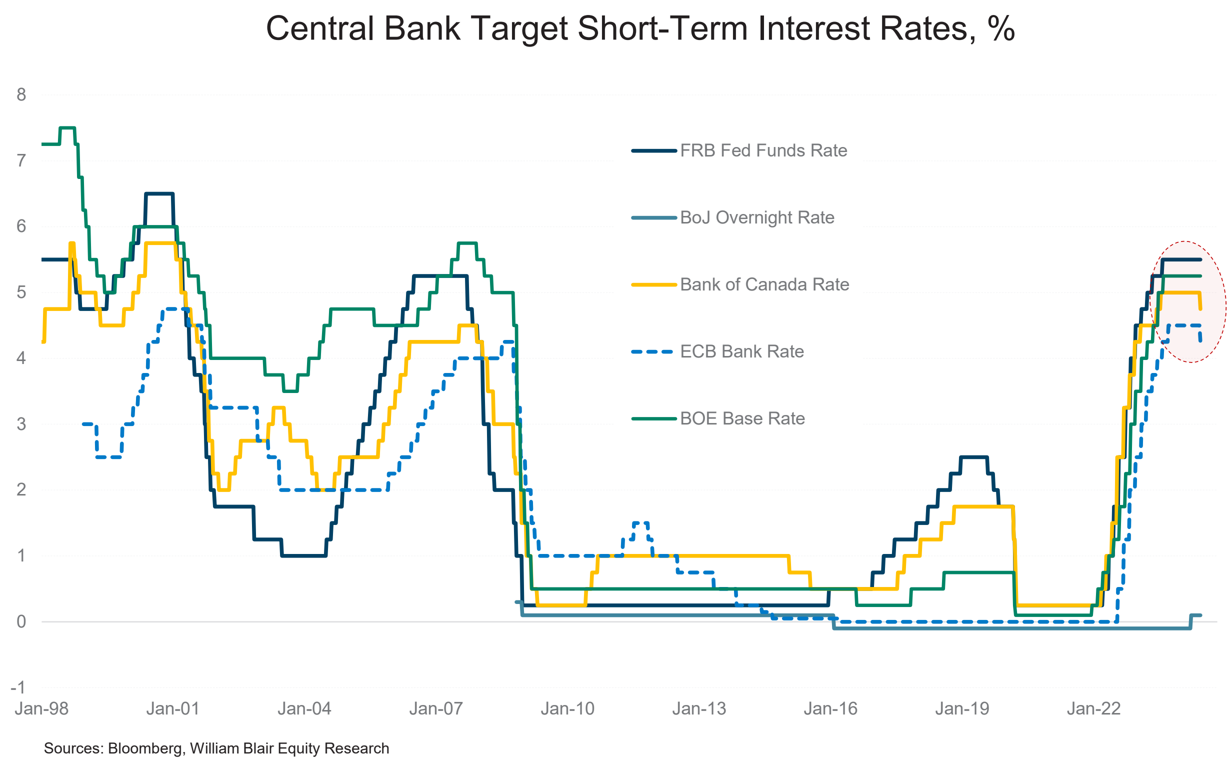


Source: Department of Labor, Bloomberg, William Blair Equity Research

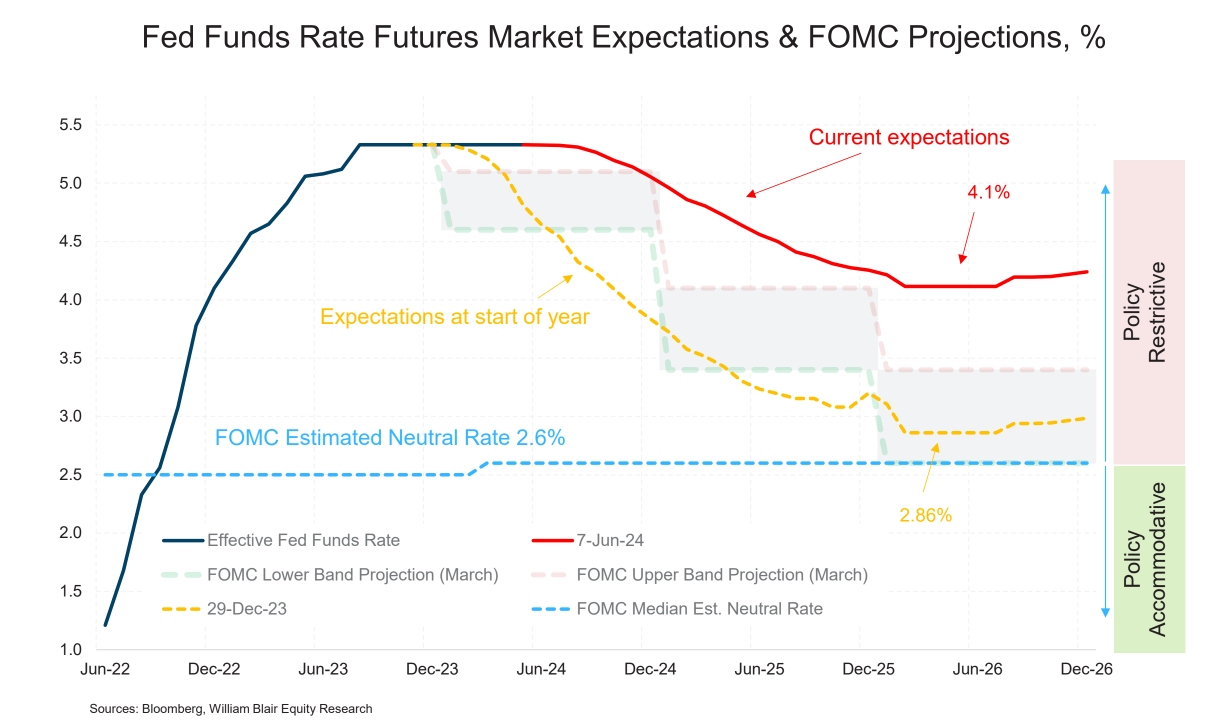
Progression of Calendar Year S&P 500 EPS Estimates
($ per share)



Sources: LSEG, I/B/E/S, William Blair Equity Research



Central Bank Target Short-Term Interest Rates, %
8
7
6
5
4
3
2
1
0
-1
Jan-98
Jan-01
Jan-04
Jan-07
Jan-10
Jan-13
Jan-16
Jan-19
Jan-22
FRB Fed Funds Rate
BoJ Overnight Rate
Bank of Canada Rate
ECB Bank Rate
BOE Base Rate
Sources: Bloomberg, William Blair Equity Research



Fed Funds Rate Futures Market Expectations & FOMC Projections, %
5.5
5.0
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
Jun-22
Dec-22
Jun-23
Dec-23
Jun-24
Dec-24
Jun-25
Dec-25
Jun-26
Dec-26
Current expectations
4.1%
Expectations at start of year
FOMC Estimated Neutral Rate 2.6%
2.86%
Policy Restrictive
Policy Accommodative
Effective Fed Funds Rate
7-Jun-24
FOMC Lower Band Projection (March)
FOMC Upper Band Projection (March)
29-Dec-23
FOMC Median Est. Neutral Rate
Sources: Bloomberg, William Blair Equity Research

S&P 500 Sector Performance

Global Industry Classification System	Current Weight* 07-Jun-24	Week Ago 31-May-24	Month Ago 07-May-24	Qtr-to-Date 28-Mar-24	Year-to-Date 29-Dec-23
S&P 500 Index	**100.00**	**1.32**	**3.07**	**1.76**	**12.10**
S&P 400 MidCap Index		**-2.08**	**-1.85**	**-4.12**	**5.00**
S&P 600 SmallCap Index		**-2.50**	**-1.61**	**-3.59**	**-1.66**
Dow Jones Industrials		**0.29**	**-0.22**	**-2.53**	**2.94**
Nasdaq Composite		**2.38**	**4.90**	**4.60**	**14.13**
Communication Services	**9.56**	**1.73**	**3.15**	**6.00**	**22.50**
Advertising	0.06	-2.04	-2.63	-5.86	0.58
Broadcasting	0.05	-0.28	1.44	7.15	1.63
Cable & Satellite	0.41	-2.81	1.53	-9.36	-14.36
Integrated Telecommunication Services	0.65	-0.58	4.92	-0.24	8.28
Interactive Home Entertainment	0.14	2.87	7.62	6.43	1.05
Interactive Media & Services	6.67	2.72	3.04	9.95	29.59
Movies & Entertainment	1.08	-0.96	1.76	-5.10	19.35
Publishing & Printing	0.03	-0.08	11.04	3.58	10.10
Wireless Telecommunication Svcs	0.45	2.78	10.87	10.17	12.16
Consumer Discretionary	**10.28**	**1.53**	**-1.04**	**-2.71**	**1.92**
Apparel Retail	0.37	3.93	9.70	3.65	11.41
Apparel & Accessories & Luxury Goods	0.12	0.85	-3.73	-15.33	-26.94
Auto Parts & Equipment	0.06	-2.40	-2.99	1.53	-7.81
Automobile Manufacturers	1.43	-0.12	-0.07	0.12	-23.38
Automobile Retail	0.25	1.10	-4.70	-13.17	3.75
Broadline Retail	4.20	4.34	-2.21	2.11	21.02
Casinos & Gaming	0.14	0.18	-2.35	-13.23	-9.71
Computer & Electronics Retail	0.04	3.66	20.34	7.18	12.32
Consumer Electronics	0.07	-0.36	-3.94	9.67	27.01
Distributors	0.10	-2.07	-6.65	-13.15	-5.86
Footwear	0.31	0.38	5.90	4.17	-8.42
Home Furnishings	0.02	-6.98	-3.96	-13.34	9.59
Home Improvement Retail	0.96	-2.27	-4.68	-14.80	-4.82
Homebuilding	0.28	-4.23	-5.24	-10.87	0.84
Hotels, Resorts & Cruise Lines	0.84	2.01	2.37	-2.25	5.43
Household Appliances	0.01	-5.28	-7.26	-26.34	-27.63
Leisure Products	0.02	-2.23	-4.43	3.41	14.48
Restaurants	0.94	0.27	0.56	-5.18	-3.79
Other Specialty Retail	0.12	-5.73	-1.29	-10.41	2.50
Consumer Staples	**6.51**	**0.46**	**1.09**	**1.69**	**8.62**
Agricultural Products	0.10	-2.30	-0.42	-1.21	-10.11
Brewers	0.02	-5.24	-10.86	-22.77	-15.15
Hypermarkets	2.20	1.05	5.98	6.77	20.62
Distillers & Vintners	0.13	-0.50	-3.73	-8.95	-1.87
Drug Retail	0.03	-2.34	-8.70	-26.97	-39.33
Food Distributors	0.08	-0.22	-4.16	-10.49	-0.64
Food Retail	0.08	-0.74	-6.02	-9.01	13.72
Household Products	1.20	1.33	0.27	2.66	13.46
Packaged Foods & Meats	0.69	-1.59	-4.03	-4.60	-2.77
Personal Products	0.14	-3.68	-7.68	-17.97	-15.99
Soft Drinks	1.32	0.40	-0.92	0.80	3.50
Tobacco	0.52	1.78	6.32	10.97	11.98
Energy	**3.62**	**-3.48**	**-3.96**	**-5.24**	**6.78**
Integrated Oil & Gas	1.82	-3.89	-3.60	-2.56	9.06
Oil & Gas Equipment & Services	0.34	-4.62	-6.30	-14.48	-10.72
Oil & Gas Exploration & Production	0.80	-3.86	-7.01	-6.77	2.69
Oil & Gas Refining & Marketing & Transportation	0.37	-1.79	-3.28	-12.90	13.00
Oil & Gas Storage & Transportation	0.36	-1.33	3.17	3.26	16.69

Financials	**12.24**	**-0.47**	**0.49**	**-1.89**	**9.85**
Asset Management & Custody Banks	0.80	-1.29	-0.52	-6.24	-2.00
Consumer Finance	0.58	-1.20	-1.05	-0.81	17.25
Diversified Banks	2.96	-1.50	1.72	-0.30	14.89
Financial Exchanges & Data	1.02	-0.02	-0.68	-3.37	-3.26
Insurance Brokers	0.59	0.66	2.00	-3.23	8.57
Investment Banking & Brokerage	0.99	-0.24	0.48	4.32	10.01
Life & Health Insurance	0.36	-2.26	0.63	-3.29	5.03
Multi-line Insurance	0.13	-3.07	-4.97	-3.53	10.74
Multi-Sector Holdings	1.17	-0.16	1.87	-1.62	16.00
Property & Casualty Insurance	0.96	-0.94	0.86	-0.12	22.32
Regional Banks	0.27	-3.76	-4.90	-5.71	0.69
Reinsurance	0.04	-2.07	1.11	-3.69	8.27
Transaction & Payment Processing	2.39	1.60	-0.33	-3.85	6.60
Health Care	**12.09**	**1.95**	**2.55**	**-1.19**	**7.11**
Biotechnology	1.89	3.24	5.82	1.84	7.27
Health Care Distributors	0.33	2.37	4.35	0.79	15.31
Health Care Equipment	2.31	2.58	2.00	-2.78	6.91
Health Care Facilities	0.21	-0.76	7.78	1.40	24.42
Health Care Services	0.47	0.37	2.63	-12.34	-4.63
Health Care Supplies	0.10	-1.13	-6.83	-15.82	-7.20
Life Sciences Tools & Services	1.35	1.87	1.20	-2.13	5.38
Managed Health Care	1.45	-0.91	-1.61	-1.28	-4.99
Pharmaceuticals	3.96	2.49	3.39	0.47	14.40
Industrials	**8.34**	**-0.97**	**-1.83**	**-3.18**	**7.05**
Aerospace & Defense	1.92	-0.11	0.48	5.73	8.00
Agricultural & Farm Machinery	0.22	-1.65	-9.12	-10.26	-7.83
Air Freight & Logistics	0.41	-0.87	-3.71	-7.86	-7.76
Building Products	0.49	-3.03	-1.45	-0.80	13.09
Construction & Engineering	0.08	-2.40	0.91	3.66	24.80
Construction Machinery & Heavy Trucks	0.61	-2.43	-3.31	-8.67	12.87
Data Processing & Outsourced Services	0.05	-1.36	-1.65	-3.33	-3.75
Diversified Support Svcs	0.26	0.93	-2.59	-3.69	11.61
Electrical Components & Equipment	0.61	-3.86	-2.66	-3.77	13.20
Environmental & Facilities Services	0.40	-2.00	-2.48	-2.09	13.04
Human Resource & Employment Services	0.37	2.45	-0.17	-3.32	0.59
Industrial Conglomerates	0.41	2.51	5.92	3.90	18.49
Industrial Machinery	0.79	-2.56	-3.62	-7.48	3.57
Passenger Airlines	0.16	0.24	-3.12	-0.07	12.60
Railroads	0.55	-1.97	-4.88	-9.42	-6.38
Research & Consulting Svcs	0.22	1.48	1.94	-0.07	8.43
Trading Companies & Distributors	0.27	-3.43	-4.71	-13.33	6.24
Information Technology	**31.10**	**3.83**	**9.40**	**7.94**	**21.41**
Application Software	2.11	2.72	-5.21	-10.18	-7.71
Communications Equipment	0.78	-0.61	0.65	-3.93	2.15
Electronic Components	0.24	-1.20	6.22	12.93	28.82
Electronic Equipment & Instruments	0.15	-2.20	-5.39	-9.93	-6.48
Electronic Manufacturing Services	0.13	-1.31	2.33	-2.18	1.60
Internet Software & Services	0.07	0.27	-3.05	-11.33	-18.46
IT Consulting & Services	0.92	1.90	-4.11	-14.19	-10.08
Semiconductor Equipment	0.97	2.27	7.03	6.04	29.16
Semiconductors	10.62	6.99	22.45	20.13	69.80
Systems Software	8.17	2.53	3.39	0.33	12.02
Technology Distributors	0.06	0.28	1.61	-12.33	-1.35
Technology Hardware, Storage & Peripherals	6.88	2.38	8.01	14.00	2.31
Materials	**2.20**	**-2.03**	**-1.79**	**-3.68**	**4.44**
Commodity Chemicals	0.15	-3.33	-4.81	-4.69	1.40
Construction Materials	0.14	-3.46	-7.87	-9.79	9.75
Copper	0.15	-6.56	-4.13	4.78	15.74
Fertilizers & Agricultural Chemicals	0.14	-5.39	-6.15	-8.83	-0.06
Gold	0.10	-3.76	-2.60	12.62	-2.48
Industrial Gases	0.58	0.73	3.28	-2.35	4.78

Metal & Glass Containers	0.05	-1.38	-1.07	1.65	19.04
Paper Packaging	0.17	-0.94	3.58	4.24	14.90
Specialty Chemicals	0.59	-1.25	-2.98	-5.24	1.45
Steel	0.13	-5.17	-6.00	-17.59	-3.42
Real Estate	**2.12**	**-0.23**	**1.27**	**-4.31**	**-5.61**
Data Center REITs	0.26	-0.49	4.06	-4.93	-1.07
Health Care REITs	0.25	-1.16	4.77	9.83	8.38
Hotel & Resort REITs	0.03	-0.72	-4.86	-13.88	-8.53
Industrial REITs	0.22	-0.26	2.27	-15.37	-17.33
Multi-Family Residential REITs	0.00	2.18	0.59	5.92	5.44
Office REITs	0.02	-2.33	-2.81	-9.65	-10.76
Real Estate Service	0.12	-2.63	-10.87	-17.23	-10.75
Retail REITs	0.28	-0.02	-0.12	-2.13	-2.48
Self-Storage REITs	0.17	0.95	1.51	-3.03	-9.15
Single-Family Residential REITs	0.17	0.95	1.51	-3.03	-9.15
Telecom Tower REITs	0.33	-1.18	5.23	-3.91	-12.87
Timber REITs	0.05	-2.24	-4.84	-18.24	-15.57
Utilities	**2.28**	**-3.93**	**0.05**	**5.86**	**9.66**
Electric Utilities	1.50	-3.86	0.63	7.16	12.70
Gas Utilities	0.04	-0.99	-4.62	-3.44	-0.97
Independent Power Producers & Energy Traders	0.09	-12.27	4.52	9.82	2.29
Water Utilities	0.05	-1.93	-2.71	4.94	-2.83
Multi-Utilities	0.59	-3.05	-1.44	2.76	4.33

*Current Weight is market cap based, based on calculations by William Blair Intl. Ltd.

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DOW JONES: 38799.00
S&P 500: 5346.99
NASDAQ: 17133.10

Additional information is available upon request.

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Market Perform (Hold)	28	Market Perform (Hold)	1
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