LOOK AHEAD
Q1 2024

DISCLAIMER

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Wall Street Parlor Tricks – Precisely Inaccurate

Market Comparison: 2023 Predictions to Present

	S&P 500 Level	S&P 500 Price Return	U.S. GDP Growth	10-Year Treasury Yield
Average Estimate (December 2022)	4,078	+6.22%	+0.30%	3.41%
Actual (December 2023)	4,775	+24.36%	+4.90%	3.89%

2024 Predictions

Wall Street's 2024 Market Predictions

	2024 S&P 500 Forecasts	
Firm	**Year-End Prediction**	**Year-End Prediction % Chg**
Fundstrat	5,200	+8.91%
Oppenheimer	5,200	+8.91%
BMO	5,100	+6.81%
Citigroup	5,100	+6.81%
Deutsche Bank	5,100	+6.81%
Goldman Sachs	5,100	+6.81%
Bank of America	5,000	+4.72%
RBC Capital Markets	5,000	+4.72%
Ned Davis Research	4,900	+2.62%
UBS	4,850	+1.58%
Barclays	4,800	+0.53%
Evercore ISI	4,750	−0.52%
Societe Generale	4,750	−0.52%
Stifel Nicolaus	4,650	−2.61%
Wells Fargo	4,625	−3.14%
Scotiabank	4,600	−3.66%
Morgan Stanley	4,500	−5.75%
Cantor Fitzgerald	4,400	−7.85%
JPMorgan	4,200	−12.04%
Average	**4,833**	**+1.22%**
S&P 500 as of December 26, 2023	**4,775**	

- Last year's predictions underestimated market returns by 291%
- Last year's predictions underestimated GDP growth by 1,533%
- The 10-Year Treasury yield ended the year 14% higher than analyst estimates
- In light of 2023's positive returns, most firms are calling for muted returns for the S&P 500 in 2024

2024 Projected GDP Growth

	United States	China	Japan	Euro Area	Global
U.S. Federal Reserve	+1.40%	–	–	–	–
IMF	+1.50%	+4.20%	+1.00%	+1.20%	+2.90%
World Bank	+0.80%	+4.60%	+0.70%	+1.30%	+2.40%

Data Sources: Federal Reserve, IMF, World Bank, Bloomberg

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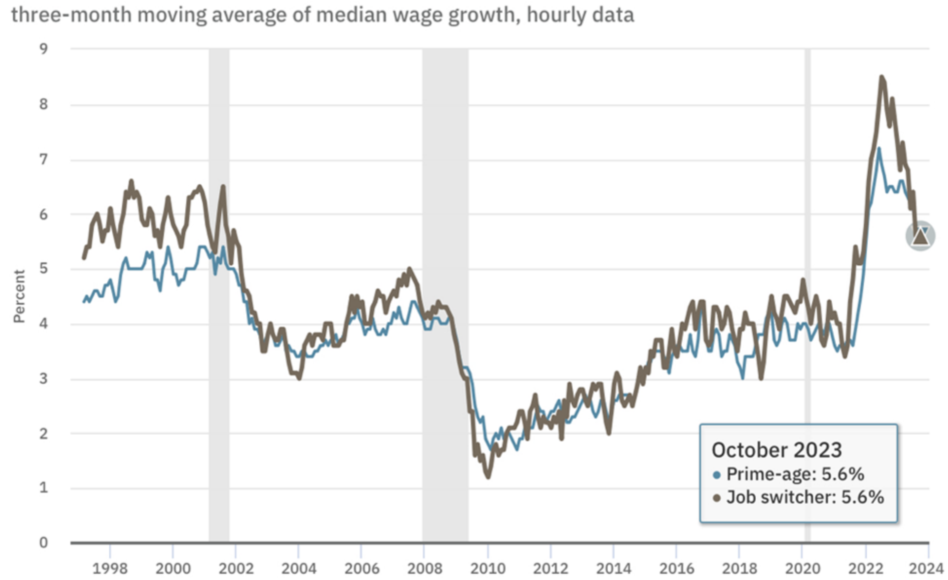
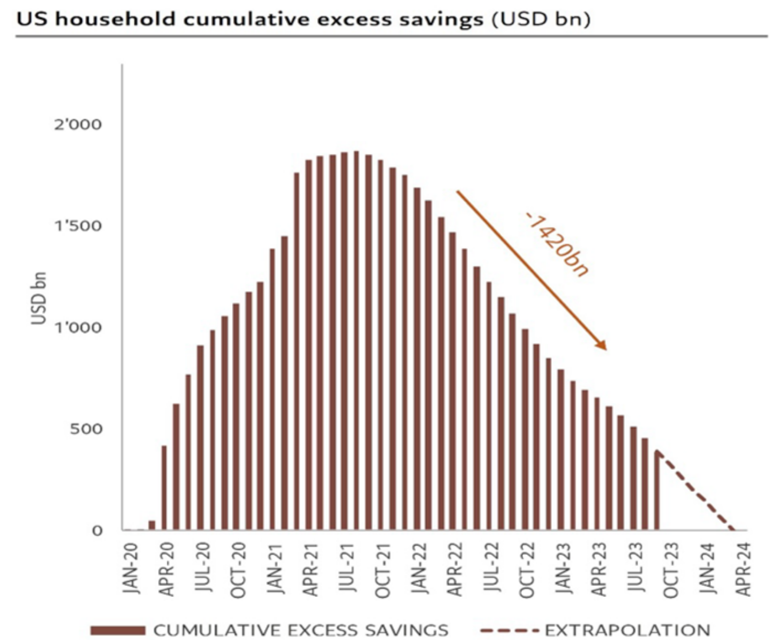
The Consumer is Down but Not Out

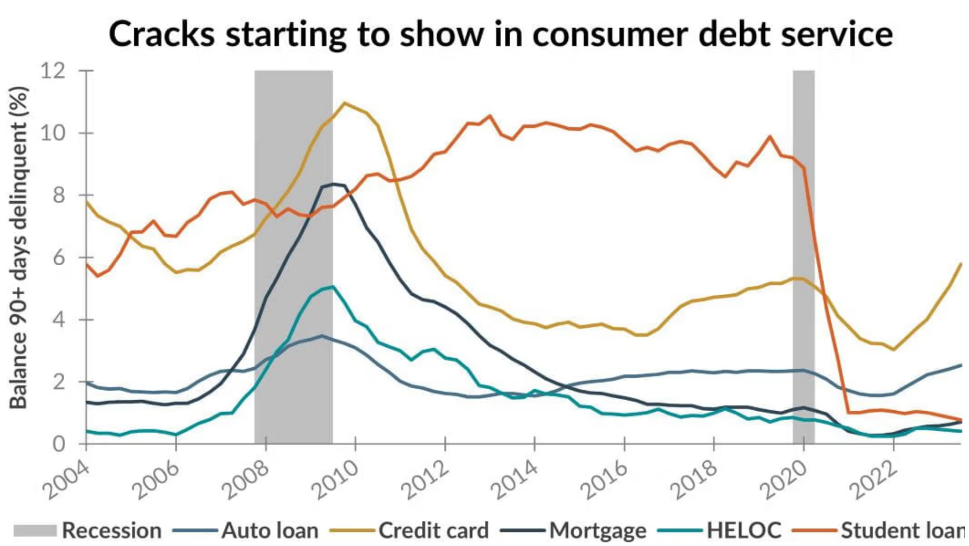
Wage growth is rapidly moderating, with job switchers now getting about the same wage growth as those that remain in jobs. Perhaps that's why there are fewer job openings as the switchers aren't getting the big benefit from jumping around.



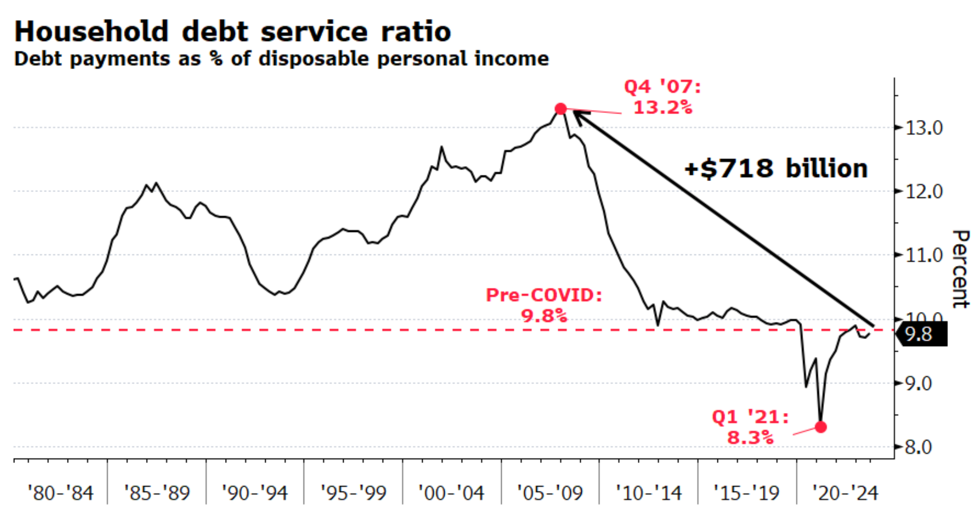
Excess savings while persistent are likely embedded in higher income households. Any excess at this point will add little to future consumption.



Consumer credit delinquencies are on the rise, reflecting strain in the consumer's pocketbook.



While there is plenty of debt service capacity for the consumer, any return to peak levels is simply too optimistic unless lower rates stimulate more credit induced consumption.



Data Sources: Atlanta Fed, Equifax, Pictet, FOMC

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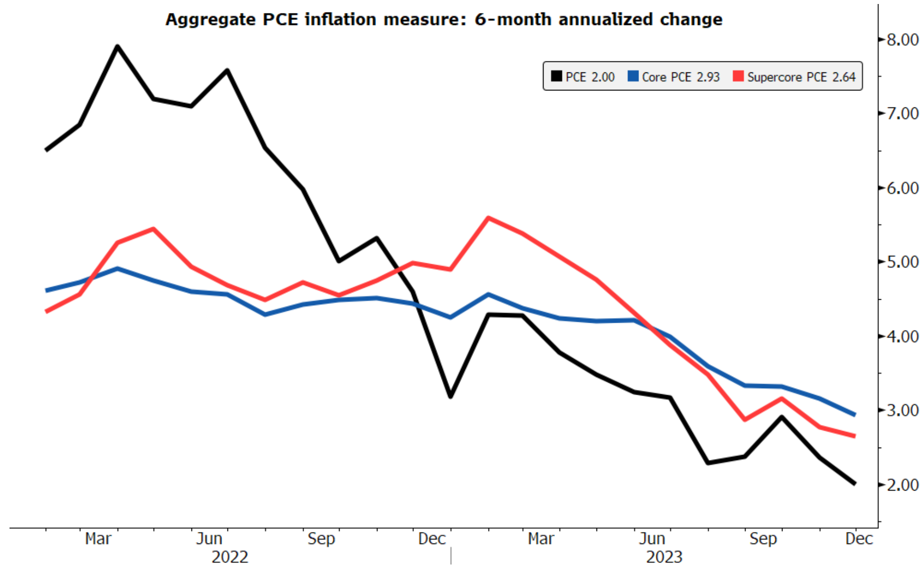
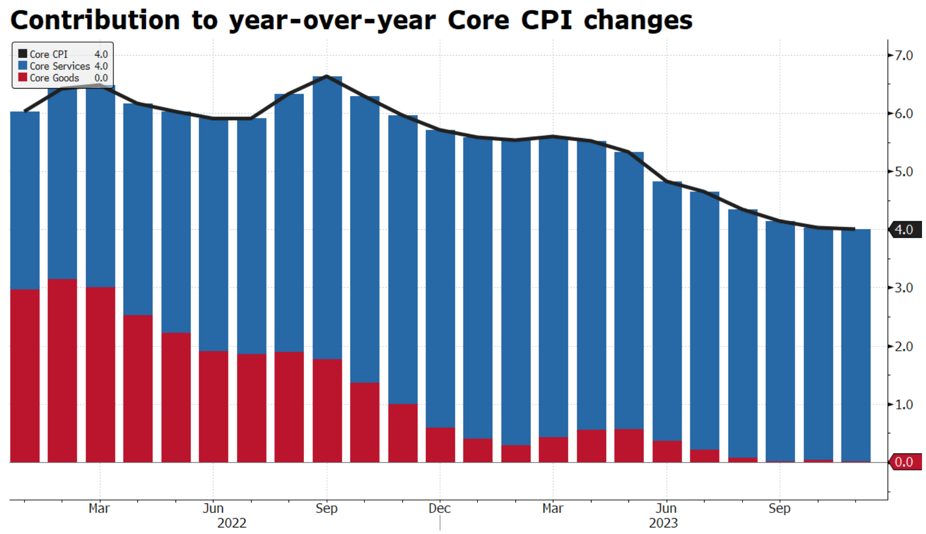
Transitory At Last – Inflation to Disinflation

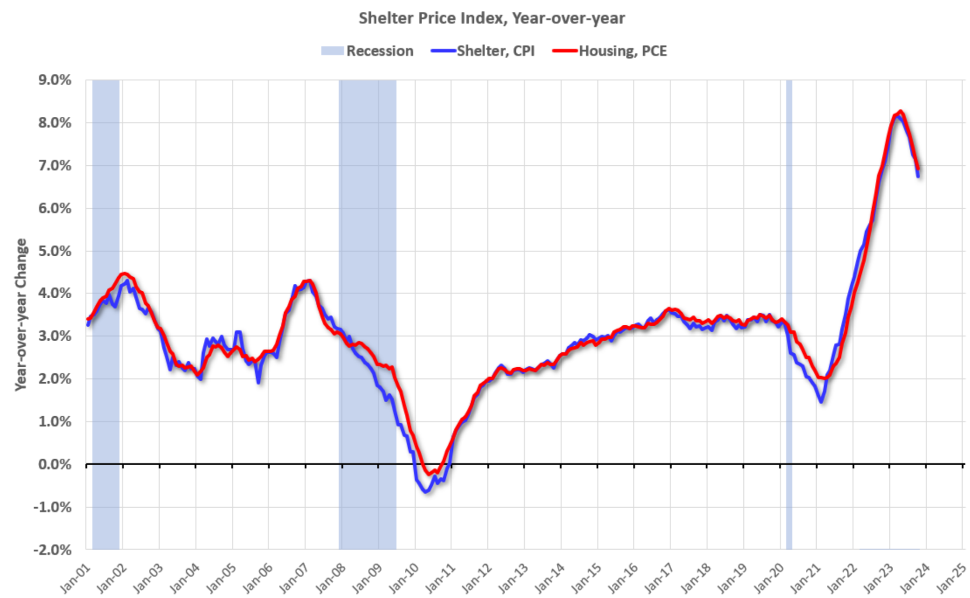
The latest consumer price report (PCE) solidified the continuing moderation trend in prices. Inflation is moving rapidly toward the Fed's 2% target. Considering inflation was peaking at 8% just about 18 months ago, the consumer has slowed considerably.



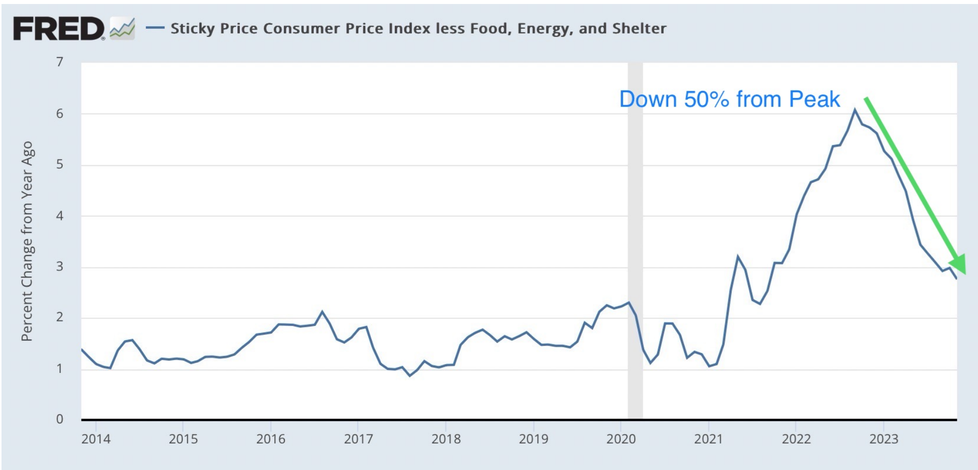
The challenge getting back to the Fed's 2% target depends largely on Services. Core CPI rose 4% in November, with goods prices near zero but services much higher as a result of shelter and transportation.



Shelter inflation continues to slow, with Shelter CPI and Housing PCE both down from cycle peaks seen in March/April 2023. Since asking rents are mostly flat year-over-year, these measures should continue to slow over coming months.



When you look at core consumer prices ex-housing, we are now approaching the Fed's 2% target.



Data Sources: Bureau of Labor Statistics

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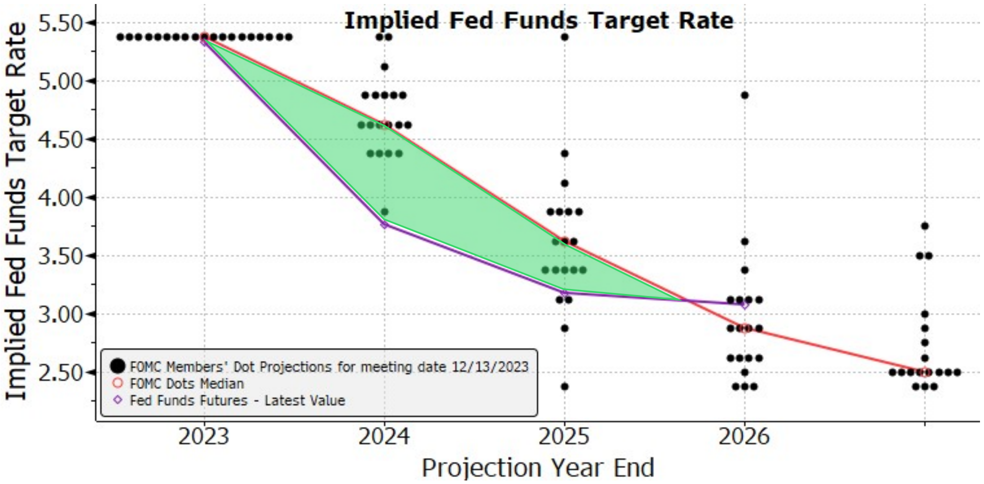
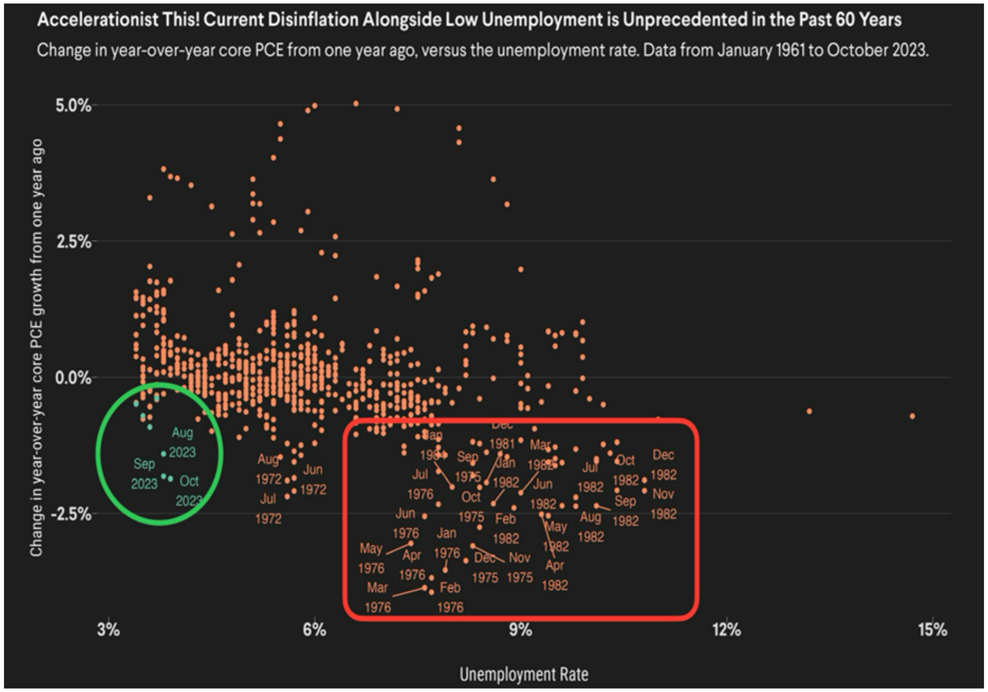
The Fed – Is There Trouble Out There?

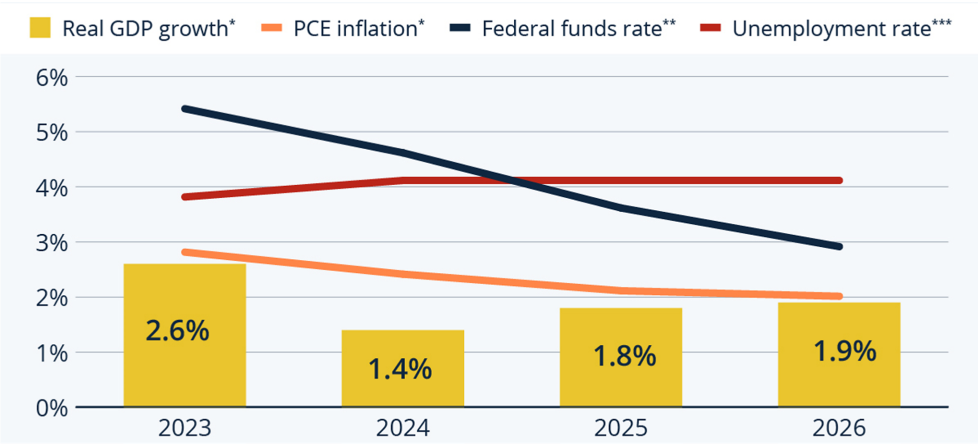
The Fed signaled an end to the recent rate hike cycle. Almost immediately market participants diverged from the Fed's three rate cut signal in 2024. Futures suggest six rate cuts or a Fed Funds rate around 4% next year vs. the Fed's expectation of 4.75%.



Historically rate cuts accompany much higher unemployment and that's likely what market participants are anticipating – no soft landing.



Investors are perhaps more pessimistic than Fed expectations. The Fed expects modest GDP growth, moderating inflation, and only a small rise in unemployment.



Its apparent futures markets are siding with historic trends and rapid rate cuts. Does that mean there is something lurking in the economy that can derail a soft landing?

Data Sources: FOMC, Statista, Roosevelt Institute, AQR

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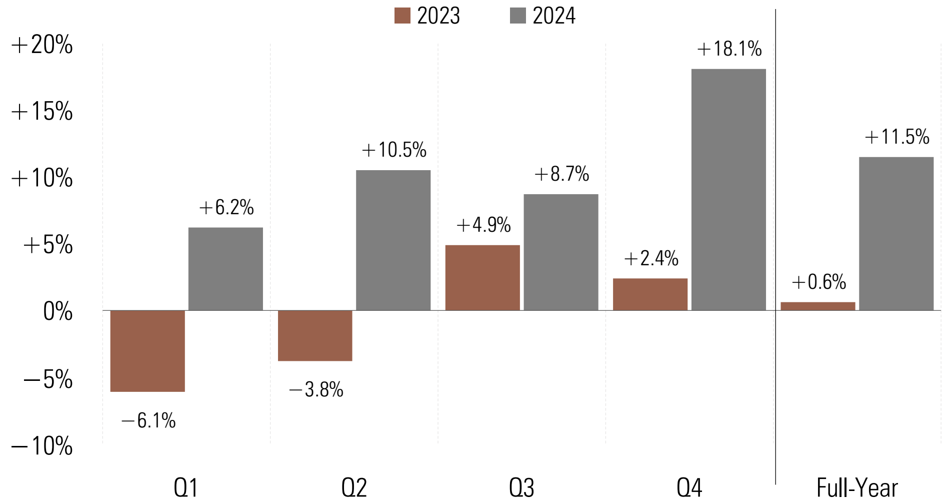
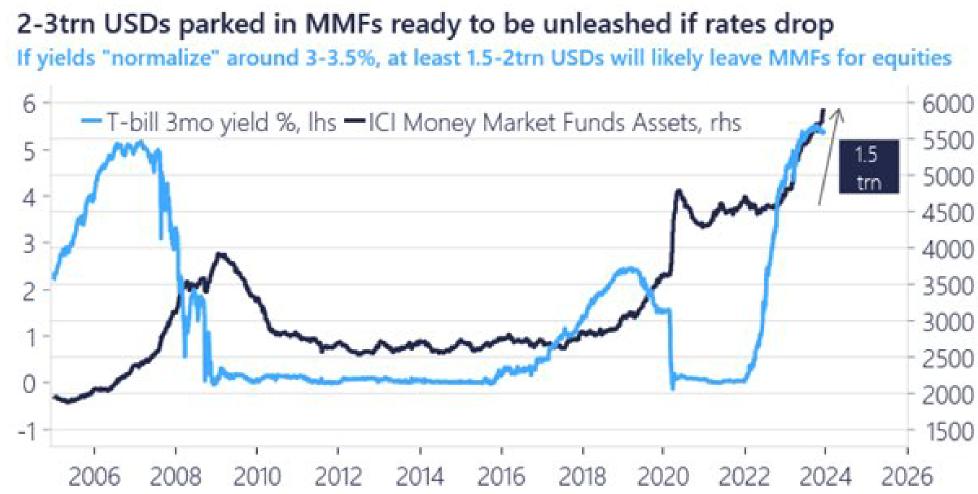
Earnings Always Matter

As for earnings growth currently, we are in a soft patch, but that should be in our rear-view mirror. It's not hard to see the hurdle rate for 2022 earnings growth was harder to beat for calendar year 2023. Yet, 2024 by comparison will get the benefit of the weak earnings growth seen in 2023.

S&P 500 Earnings Growth: 2023–2024

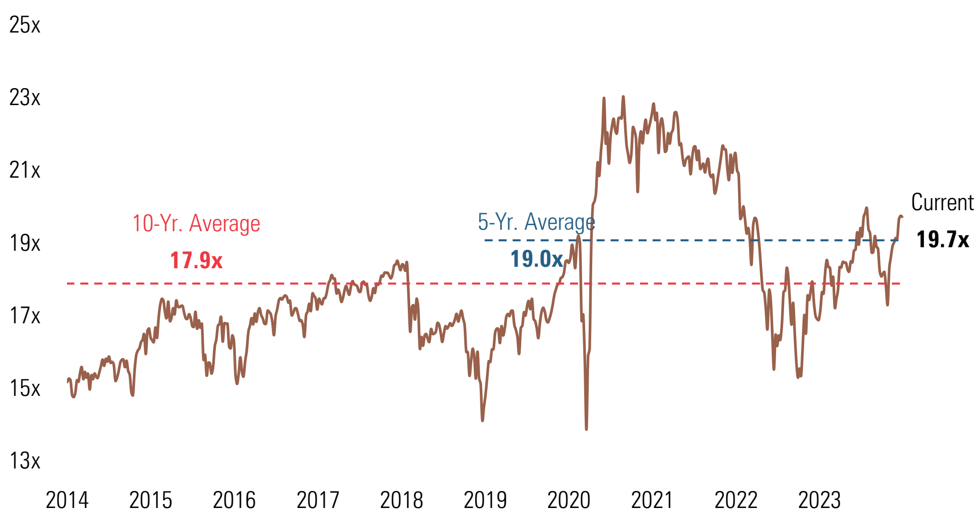


Fed rate cuts are well deserved if this disinflationary trend continues. The gift to equity investors might be in the form of a rotation. If that trend starts, we could see as much as $1.5 to $2 trillion dollars leave money markets for equities. That's nearly 5% of the S&P 500's total market capitalization.



Looking forward, P/E multiples typically expand following the first Fed cut, but economic growth is a key determinant of the trajectory for equity prices.

S&P 500 Forward Price-to-Earnings



While there will be ongoing tension between what the Fed and investors expect in 2024, rate cuts can be great for investors. Let's not lose sight of that part of the pivot.

Equity Returns During Rate Cut Periods

Rate Cut Cycle Start	Rate Cut Cycle End	DJIA	S&P 500	NASDAQ Composite
5/31/1989	2/3/1994	60.0%	50.0%	78.8%
7/5/1995	3/24/1997	49.6%	44.5%	31.9%
9/28/1998	6/29/1999	33.4%	28.9%	51.9%
1/2/2001	6/29/2004	-2.2%	-11.5%	-11.2%
9/17/2007	12/15/2008	-36.1%	-41.2%	-41.6%
7/31/2019	1/14/2022	33.5%	56.2%	81.9%
Average %		23.0%	21.2%	32.0%
Median %		33.5%	36.7%	41.9%

Data Sources: FactSet, Bloomberg, Steno Research

Fixed Income – Win, Win

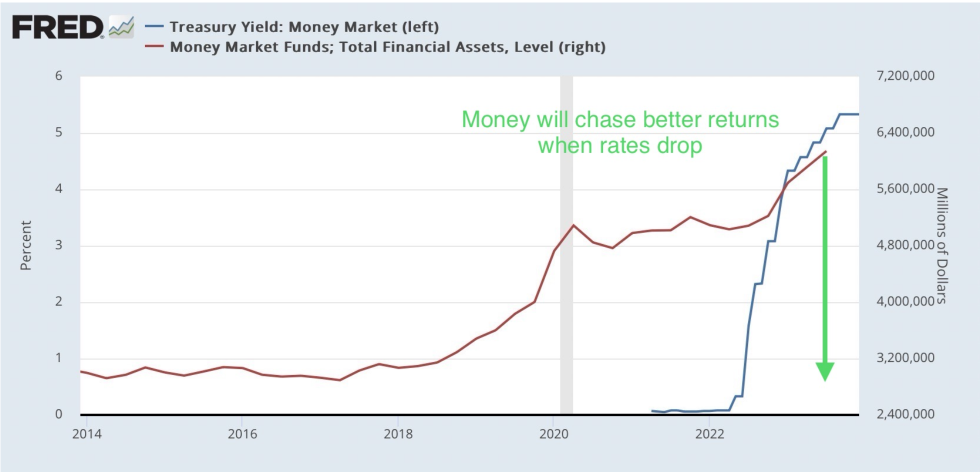
Synchronized weakening in inflation data and some evidence of softening economies have prompted economists to ramp up bets on rate cuts in 2024 for most major central banks.

MOST CENTRAL BANKS ARE PROJECTED TO CUT POLICY RATES IN 2024

As of November 30, 2023 • Central Bank Policy Rates (%)

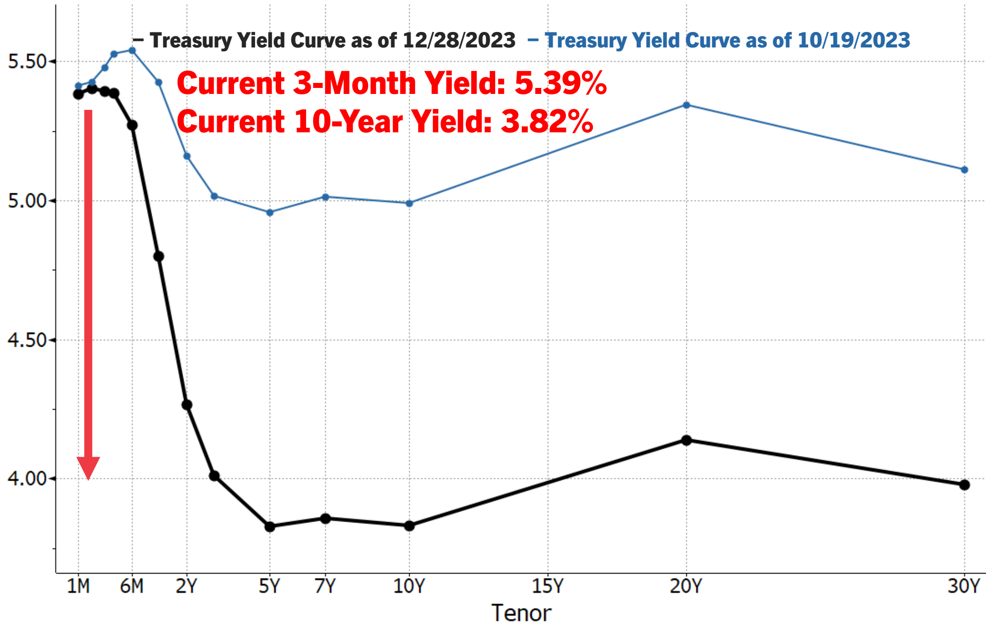
	2021	2022	2023 (F)	2024 (F)
World	1.1	3.7	4.4	4.0
DM	-0.1	3.2	4.5	4.1
US	0.1	4.4	5.4	4.2
UK	0.3	3.5	5.3	4.5
EMU	-0.5	2.0	4.0	2.7
Japan	-0.1	-0.1	-0.1	0.2
EM	2.8	4.4	4.3	3.8

As returns decline in money markets, those dollars could be a powerful catalyst for equity markets and longer duration fixed income. Investors will seek better returns in the coming quarters.



While Treasury yields remain high by recent historical standards, yields have retreated from October's peaks as the Fed — with inflation falling — gears up to lower rates and support a soft landing.

Treasury Yield Curve



Best Performing Areas of Fixed Income

TICKER	NAME	RETURN Q3 2023	RETURN YTD 2023	YIELD % CURRENT	DURATION (YEARS)
EDV	Extended Duration Treasury Bonds	20.60%	3.60%	3.56%	24.19
VCLT	Long-Term Corporate Bonds	15.19%	12.44%	4.86%	13.20
TLT	20+ Year Treasury Bonds	14.79%	4.46%	3.33%	17.21
BLV	Long-Term Bonds	14.25%	8.65%	4.16%	14.20
TLH	10-20 Year Treasury Bonds	12.79%	5.25%	3.88%	13.22

Worst Performing Areas of Fixed Income

TICKER	NAME	RETURN Q3 2023	RETURN YTD 2023	YIELD % CURRENT	DURATION (YEARS)
FLOT	Floating Rate Bonds	1.36%	6.32%	6.00%	1.52
MINT	Enhanced Short Maturity Active	1.37%	6.16%	5.57%	0.81
SHY	1-3 Year Treasury Bonds	2.47%	4.13%	2.99%	1.82
BKLN	Bank Loans	3.33%	12.74%	8.33%	3.10
SHM	Short Term Municipal Bonds	4.00%	3.05%	1.46%	2.59

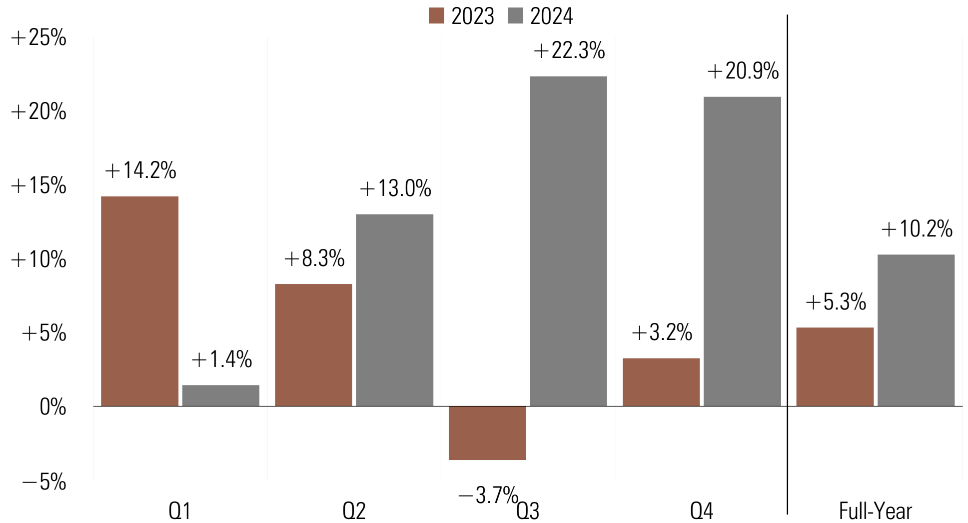
Data Sources: Goldman Sachs, St. Louis Fed, Bloomberg

Developed Markets

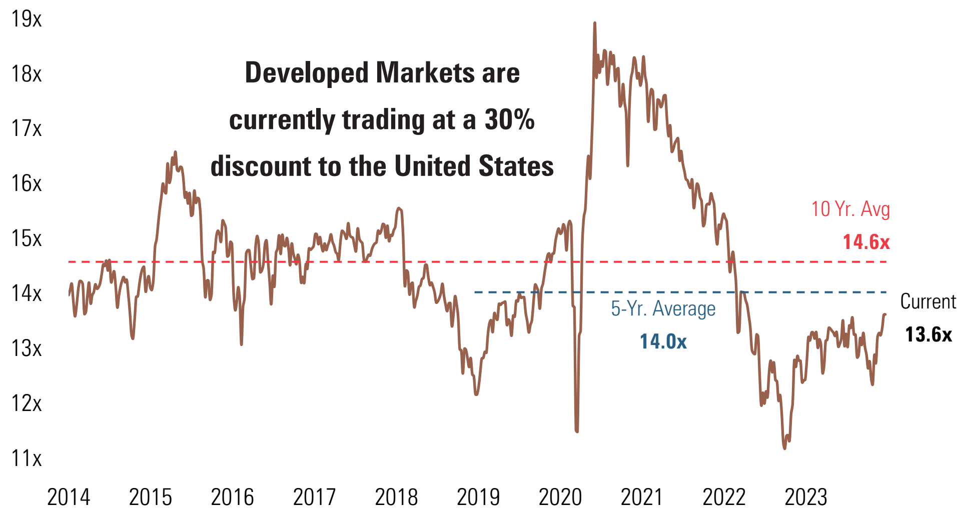
Developed Markets earnings have been resilient in 2023, primarily driven by improved earnings Financials (higher rates), commodities, and Autos/Travel & Leisure/Retail (pandemic recovery). Earnings are expected to rise again in 2024, driven by decent GDP growth, strong oil prices, and a weaker Euro.

Developed Markets valuation discount to the United States remains wide at 30%, reflecting weaker relative economic growth and a higher risk premium for Developed Markets equities.

MSCI EAFE Earnings Growth 2023–2024

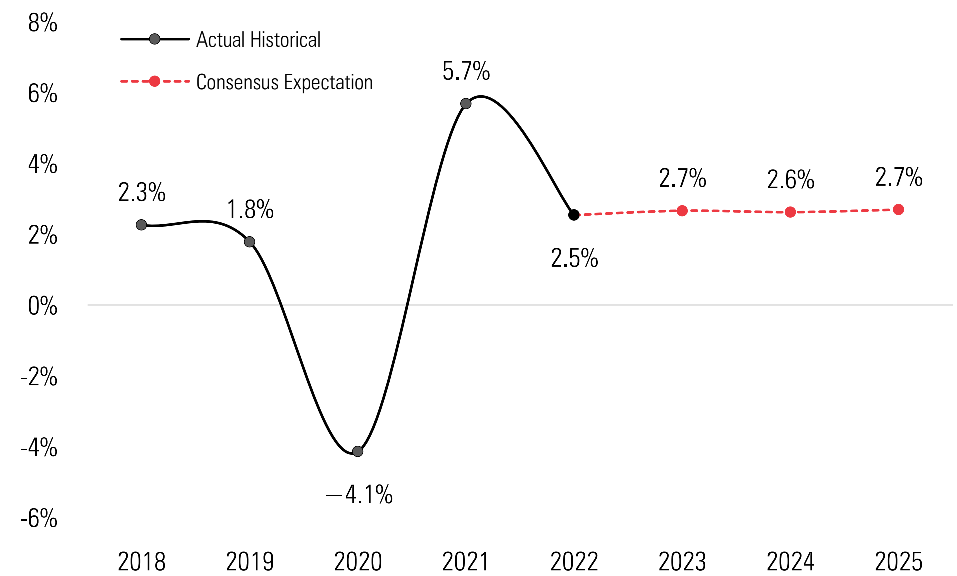


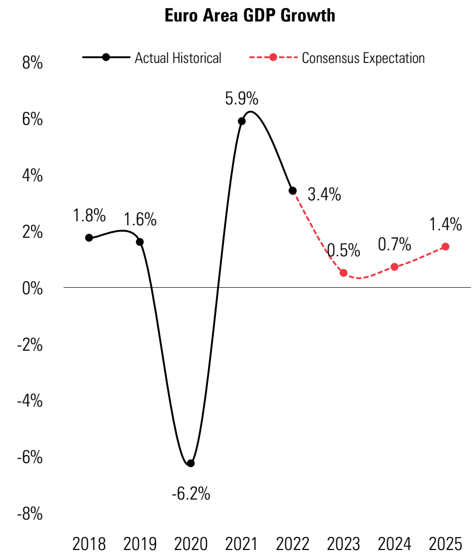
MSCI EAFE Forward Price-to-Earnings

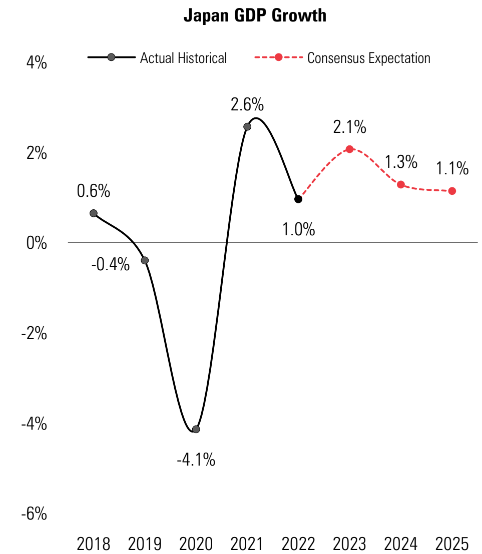


2024 is expected to be a better year for Developed Markets economies, with real disposable income set for a boost as headline inflation slows sharply and nominal wage growth remains firm, supporting consumer spending.

Developed Markets GDP Growth







Data Sources: Bloomberg

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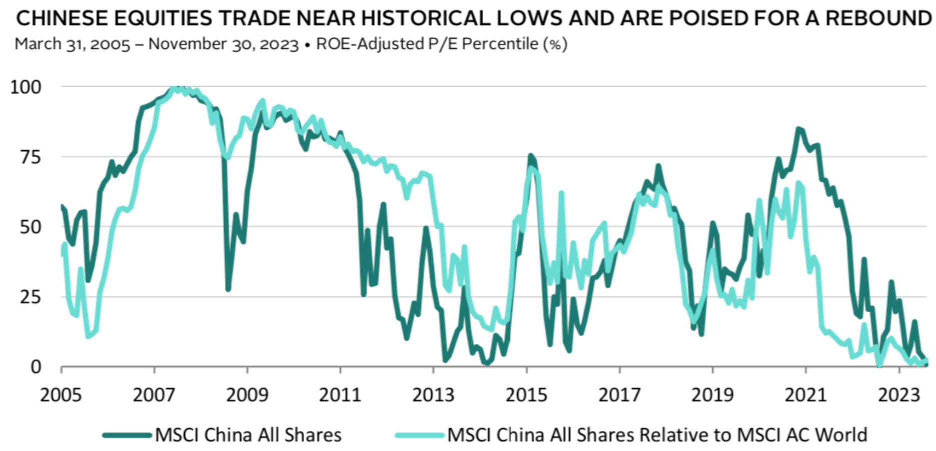
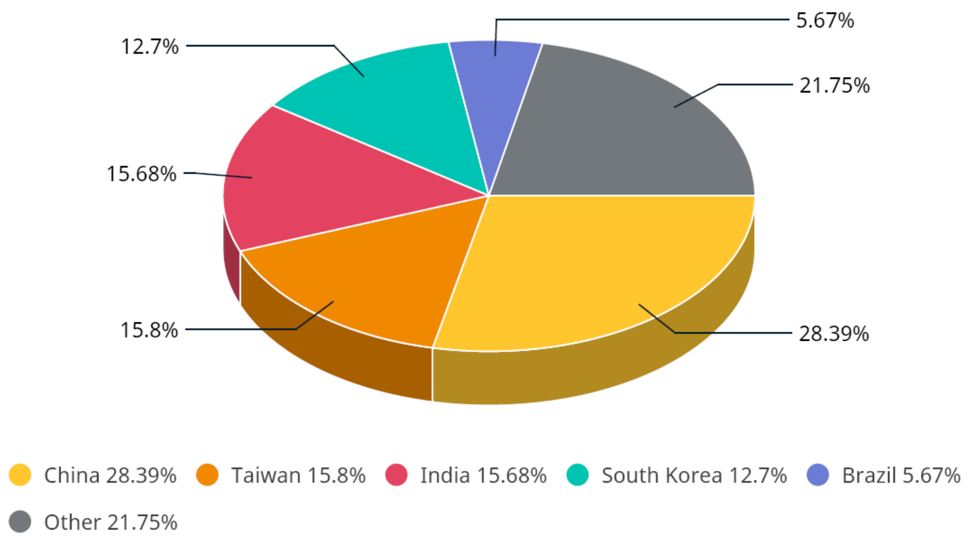
Emerging Markets

The MSCI China index posted its first advance in four months amid a global equities surge in November and a "relief rally" could continue into 2024, driven by historically low equity valuations, easing of China-U.S. tensions, and an improvement in revenue growth.



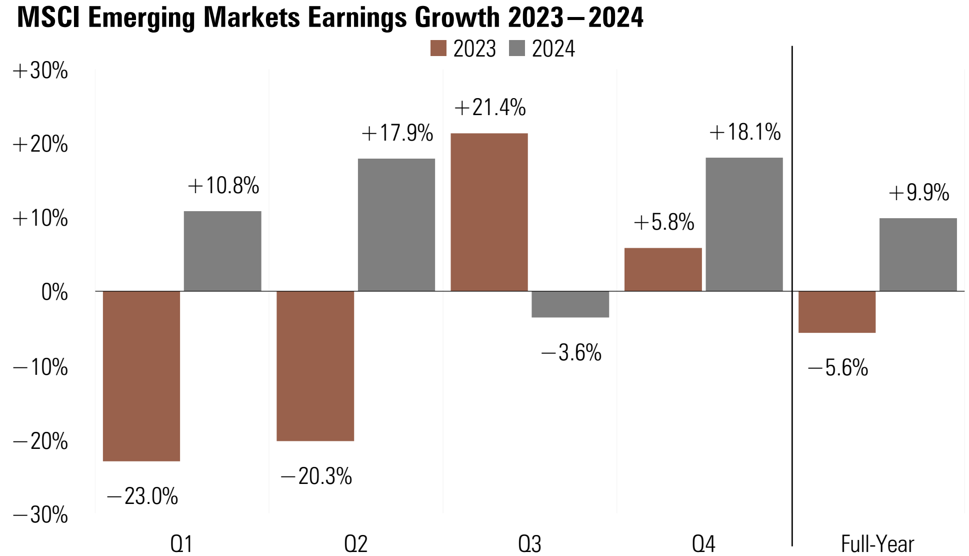
With its rising market clout, India's weight in the MSCI Emerging Markets Index has increased by almost 7% in two years. Meanwhile, that of Chinese and Hong Kong stocks combined has fallen by more than 10 points.

COUNTRY WEIGHTS



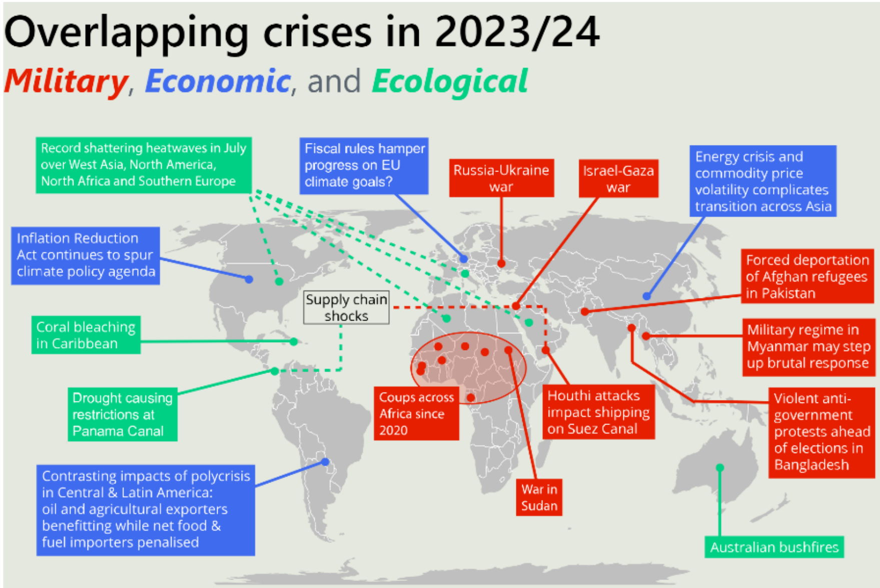
Heading into 2024, the dynamic facing Emerging Market equities is a combination of fading external pressures from higher U.S. interest rates, a strong U.S. Dollar, and slower Mainland China growth but year-ahead forecasts suggest a more benign backdrop ahead.

Emerging Markets valuations have been largely flat during 2023, while the valuation discount to the United States remains wide at 42%.

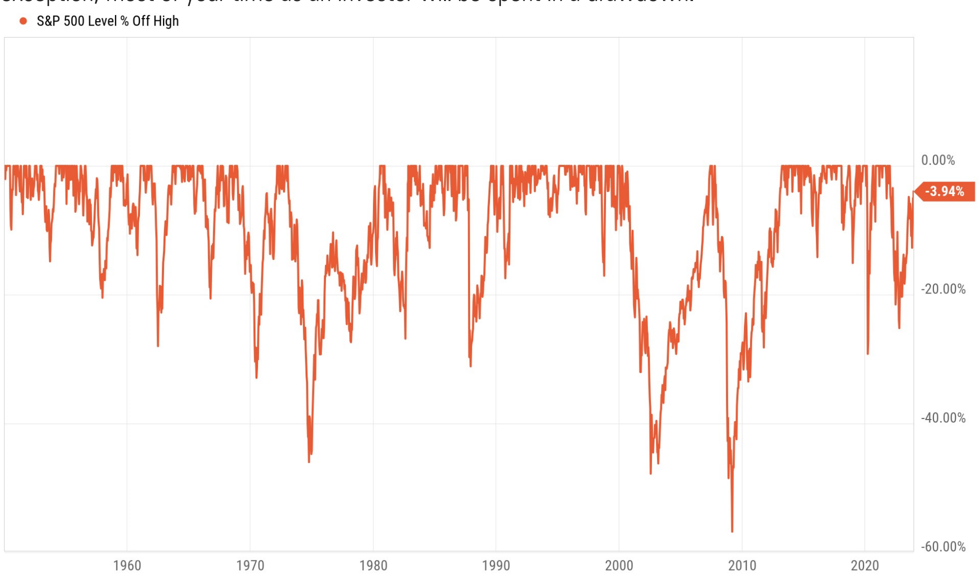


World of Chaos

The macro chaos has been deafening, with overlapping crises erupting globally over the last two years.



Looking at it in a different way; equity drawdowns are sheer violence. Since 1928, the S&P 500 has been in a drawdown over 71% of the time. Which means drawdowns are the norm rather than the exception; most of your time as an investor will be spent in a drawdown.



The repeated point is chaos is part of equity investing and it requires blinders at times. Since I've been a professional investor for over 35 years I've seen:

Five hard recessions	The Dot-com bubble burst
The worst single day in equity history with a one-day drop of over 23%	The Great Financial Crisis
The 1997 Asian Financial Crisis	A global pandemic
The worst homeland terrorist strike – 9/11	Dozens of rate hikes and rate cuts
Gulf War 1, Gulf War 2, and the longest war in our history in Afghanistan	

During this same period of time the Dow Jones has been up 26-fold (2,600%).

It's impossible to time great months like the one we had in November, especially if you try and reflect on all the chaos of the day. However, the future of equity returns looks bright even after a huge rally month.

S&P 500: Biggest Monthly Gains and Forward Total Returns (1950 - Today)

Biggest S&P 500 Monthly Gains			S&P 500 Forward Total Returns						
Rank	Month-Year	S&P 500 % Change	1-Month	3-Month	6-Month	9-Month	1-Year	3-Year	5-Year
1	Oct-74	16.3%	-4.9%	5.5%	21.0%	24.3%	26.0%	42.2%	74.7%
2	Jan-87	13.2%	4.0%	6.0%	18.0%	-6.1%	-3.3%	32.8%	76.2%
3	Apr-20	12.7%	4.8%	12.9%	13.3%	29.2%	46.0%	50.2%	
4	Jan-75	12.3%	6.4%	14.6%	17.7%	19.4%	36.6%	32.0%	88.1%
5	Jan-76	11.8%	-0.8%	1.7%	4.5%	5.0%	5.3%	14.2%	64.6%
6	Aug-82	11.6%	1.2%	17.5%	27.0%	40.9%	44.2%	80.9%	238.5%
7	Dec-91	11.2%	-1.9%	-2.5%	-0.7%	2.5%	7.6%	20.0%	102.7%
8	Oct-82	11.0%	4.0%	10.0%	25.9%	25.8%	27.9%	62.4%	130.1%
9	Oct-11	10.8%	-0.2%	5.3%	12.8%	11.9%	15.2%	71.7%	88.8%
10	Nov-20	10.8%	3.8%	5.6%	17.0%	26.3%	27.9%	32.2%	
11	Aug-84	10.6%	0.0%	-0.7%	11.2%	17.6%	18.2%	121.2%	153.0%
12	Nov-80	10.2%	-3.0%	-5.5%	-3.3%	-9.3%	-5.4%	38.1%	83.4%
13	Nov-62	10.2%	2.3%	4.3%	15.7%	19.4%	21.5%	61.6%	77.2%
14	Mar-00	9.7%	-3.0%	-2.7%	-3.6%	-11.1%	-21.7%	-40.9%	-14.8%
15	Apr-09	9.4%	5.6%	13.8%	20.0%	25.0%	38.8%	70.4%	139.8%
16	May-90	9.2%	-0.7%	-9.9%	-9.2%	4.3%	11.7%	36.8%	71.4%
17	Jul-22	9.1%	-4.1%	-5.9%	-0.4%	2.3%	13.0%		
18	Nov-23	8.9%							
19	Jul-89	8.8%	1.9%	-0.8%	-3.3%	-2.0%	6.4%	35.2%	54.5%
20	Sep-10	8.8%	3.8%	10.8%	17.3%	17.4%	1.1%	57.1%	86.9%
Average (Top 20 Months)			1.0%	4.2%	10.6%	12.8%	16.7%	45.4%	94.7%
Average (All Months)			1.0%	3.0%	6.1%	9.2%	12.5%	41.2%	77.1%
Differential			0.0%	1.2%	4.5%	3.5%	4.2%	4.2%	17.6%

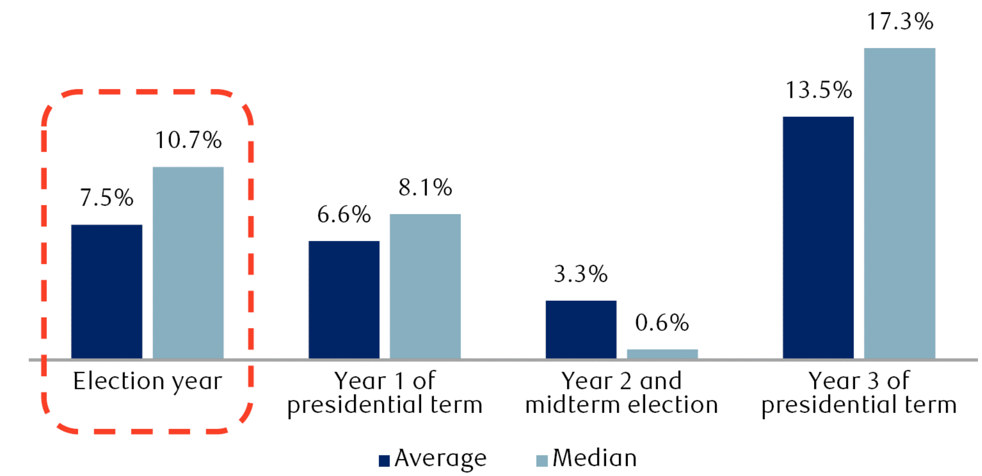
Data Sources: The Polycrisis, YCharts, Creative Planning

Review our video with Best Selling Author of *Psychology of Money*, Morgan Housel, "It's Chaos Out There"

Anecdotally

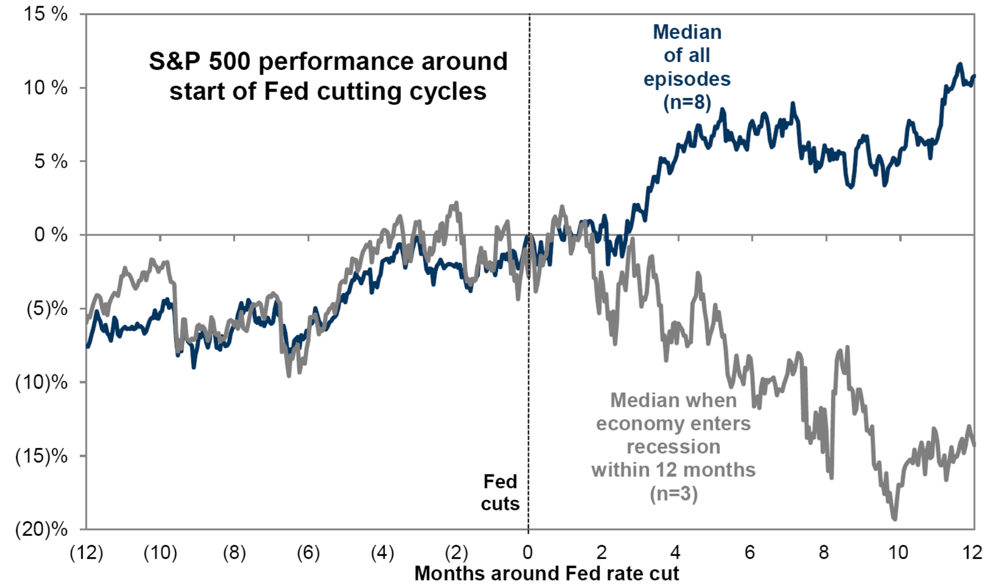
The U.S. stock market has historically traded in a four-year pattern associated with elections. Since 1928, the S&P 500 rose 7.5% on average and ended the presidential election year in positive territory almost 75% of the time.

S&P 500 performance during presidential election cycles since 1928



Historically, the stocks have performed well when the Fed starts cutting rates. In all eight episodes since 1984 has averaged about a 10% gain when the Fed starts cutting. Unless it's a recession (3 episodes). In those cases, the S&P fell about -15%, with a trough of down -20%.

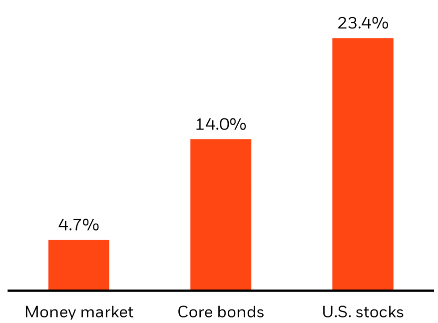
Fed cutting cycles since 1984



A Fed pause has historically signaled a sweet spot for stock and bond returns, with stock gaining 23% and bonds gaining 14% on average.

Strong performance during periods between Fed's last hike and first cut

Average annualized returns (%), 1990 – 2023[1]



Performance during periods between Fed's last hike and first cut

Average annualized returns (%), 1990 – 2023[1]

	2/2/95 to 7/6/95	3/26/97 to 9/29/98	5/17/00 to 1/3/01	6/30/06 to 9/18/07	12/21/18 to 8/1/19	Average
Large value	47.2	18.1	8.3	17.4	29.3	24.1
U.S. stocks	51.3	22.7	-11.4	17.8	36.7	23.4
Large growth	52.9	25.0	-30.3	17.7	46.1	22.3
Core bond	25.2	10.2	15.8	6.6	12.3	14.0
Int'l stocks	16.5	4.2	-15.0	21.0	21.9	9.7
Short bond	14.7	7.6	11.1	5.2	6.3	9.0
Money market	5.4	5.0	6.3	4.8	2.0	4.7

Rate cuts can be great for bond returns, with the Bloomberg U.S. Aggregate Bond Index posting positive returns during each of the last nine major rate-cutting cycles.

With the Fed nearing the end of its current hiking cycle, investors may benefit from extending duration in their bond portfolios.

US Bond Market Performance During Major US Rate-Cutting Cycles (Since 1980)

Fed Rate-Cutting Cycle	# Months	Starting Fed Funds Rate	Ending Fed Funds Rate	Change in Fed Funds Rate	Bloomberg US Agg Total Return	Bloomberg US Agg Ann. Return
Apr 1980 - Jun 1980	3	20.00%	9.00%	-11.00%	18.8%	99.1%
Jun 1981 - Dec 1981	7	20.00%	12.00%	-8.00%	5.8%	10.2%
Apr 1982 - Dec 1982	9	15.00%	8.50%	-6.50%	27.6%	38.5%
Aug 1984 - May 1985	10	11.56%	7.75%	-3.81%	23.0%	28.3%
Dec 1985 - Aug 1986	9	8.00%	5.88%	-2.13%	16.2%	22.2%
Jun 1989 - Sep 1992	40	9.56%	3.00%	-6.56%	46.3%	12.1%
Jan 2001 - Jun 2003	30	6.50%	1.00%	-5.50%	24.3%	9.1%
Sep 2007 - Dec 2008	16	5.25%	0.13%	-5.13%	9.2%	6.8%
Aug 2019 - Mar 2020	8	2.38%	0.13%	-2.25%	5.4%	8.3%

Data Sources: RBC, Blackrock, Goldman Sachs, Creative Planning

Mean Reversion Dashboard

Style Forward P/E as a % of 20-Year Average

Size \ Style	Value	Blend	Growth
Large	108.7%	122.5%	138.3%
Mid	101.9%	104.9%	127.4%
Small	109.7%	111.9%	107.7%

Regions & Countries Forward P/E as a % of 20-Year Average

Regions

World	Developed Markets	Emerging Markets	Frontier Markets
114.8%	99.8%	99.4%	87.3%

Countries

United States	Germany	United Kingdom	China	Brazil	India
124.9%	92.6%	89.7%	75.0%	74.7%	132.4%

Sector Forward P/E as a % of 20-Year Average

Sectors

Energy	Materials	Industrials	Consumer Discretionary	Consumer Staples	Health Care	Financials	Technology	Telecom	Utilities	Real Estate
40.7%	126.5%	121.8%	125.7%	108.1%	119.2%	116.1%	152.1%	113.9%	99.8%	93.4%

Data Source: Bloomberg

Our Views & Recommendations

Our View

- The Fed will continue to pause their rate increase cycle and begin cutting rates in Q2 2024.
- The U.S. Consumer will take a momentary pause on their aggressive spending and, as rate cuts materialize, return to more normalized animal spirits.
- Both developed and emerging markets will benefit from a pause in U.S. interest rates. A pause – and ultimately lower rates – will help reduce inflation in foreign markets, weaken the U.S. dollar, and reduce interest costs for dollar-denominated foreign debt.

Recommendations

- Reaffirm your investment strategy and maintain strategic liquidity to cover spending needs and provide opportunities for cost averaging.
- Rebalance to overweight U.S. Small and Mid Cap from Large Cap Growth. Hedge against potential higher-for-longer interest rate risk by balancing growth with Core and Value.
- Maintain an overweight to Emerging Markets to take advantage of reasonable earnings growth to valuation prospects.
- Move closer to target weights on Developed Markets as year-over-year comps look very favorable.
- Move duration to benchmark and add longer duration on dips.

What's On Our Mind?

ARE WE IN THE MIDST OF A SECULAR REGIME CHANGE FROM:	POSSIBLE ALLOCATION RESPONSES
Moderating Inflation → Possible Disinflation Pause in Rates → Lower Rates in Q2	Benchmark duration and opportunistic longer duration fixed income
Globalization & Importing Deflation → Deglobalization & Higher Costs Carbon Driven Energy → Carbonless Economies	Commodity exposure – Infrastructure
Uncorrelated Stock & Bond Movements → More Decoupling of Stock & Bond Movements	Non-correlated equity alternatives – illiquid, event-driven, hedge, Emerging Markets

THANK YOU

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