

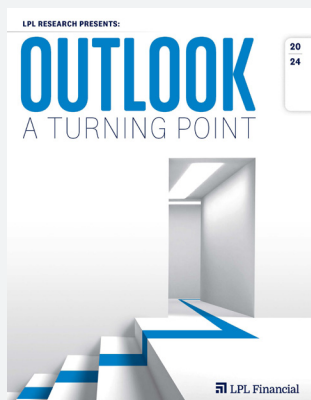
OUTLOOK

A TURNING POINT

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“Despite a likely mild recession in 2024, both bonds and stocks should do well as we anticipate the Federal Reserve will begin to roll back some of 2023’s interest rate increases.”

**- Marc Zabicki,
Chief Investment Officer**



OVERVIEW

In 2024, we believe markets will make a definitive turn to a more recognizable place. En route, the transition will be marked by meaningful shifts in a few key areas. Inflation is going down. The risk of a recession is bubbling up again as the effect of post-pandemic stimulus wanes. And the end of the Federal Reserve’s (Fed) rate-hiking campaign is indeed upon us.

Where the last two years had investors focused on inflation, market volatility, and striving for a sense of economic balance, we now can expect to see some return to the previous status quo—that is, a less-stringent Fed, normalizing inflation, and a slower growth environment. We’ve seen indications of this reset—receding inflation, rates stabilizing, more modest equity market performance, and go-forward economic forecasts that have been dwindling. From our perspective, this turning point for the markets and economic landscape can be characterized as a return to familiar economic and market patterns, leaving behind the volatility of policy and economic swings experienced in recent years, and moving toward a steadier environment.

All of this said, it doesn’t mean that 2024 won’t have its own surprises or potential challenges. Reflecting on 2023, we certainly experienced our fair share of unexpected events. There was positive news: The U.S. economy was strong and the stock market performed relatively well, despite the Fed tightening monetary policy and raising interest rates. On the downside, we faced a regional banking crisis driven by interest rate risk and saw escalating conflict in the Middle East, reminding us that markets are seemingly constantly overcoming obstacles.

LPL Research’s *Outlook 2024: A Turning Point* provides insight and analysis into next year’s opportunities, challenges, and potential surprises. We understand that making progress toward long-term financial goals requires a strong plan and sound advice. The insights in this report, combined with guidance from a financial professional, will help position investors to navigate this turning point and work toward achieving their objectives.

ECONOMY

The economy grew faster than expected in recent quarters, unemployment remained historically low, and activity in some sectors grew (e.g., homebuilding), despite the macro headwinds. The labor market seemed to be a boon for workers in prime position to bargain for better pay and more benefits. In 2024, we believe a recession is likely to emerge as consumers buckle under debt burdens and use up their excess savings, but a Fed that is sensitive to risk management might provide an offset by taking interest rates down again in the new year. Inflation may still remain a concern, but the Fed will likely be less laser-focused given the trajectory is going in the right direction. In sum, we expect a mild recession to occur in 2024, although that may usher in some interest rate decreases from the Fed and offset some of the economic and market impact.

STOCKS

Following the Fed's aggressive rate-hiking campaign in 2022 and 2023, stocks are entering a phase in which market participants will be focused on interest-rate stability—as inflation, we believe, comes down further. Meanwhile, interest rate stabilization should help support stock valuations. And while rates may be the most impactful driver of stock valuations, corporate profits are moving into a sweet spot. Stocks look fully valued at current interest rates, but if rates ease as we expect, we see upside to a year-end 2024 fair-value target range of 4,850 to 4,950. This is based on a price-to-earnings ratio (P/E) near 19.5 and our 2025 S&P 500 earnings per share (EPS) estimate of \$250. Thus, we believe stocks could provide mid-to-high single digit returns in 2024. Risks include a potential widening conflict in the Middle East or Europe, an increase in U.S.-China tensions, and reacceleration in inflation that pushes interest rates higher.

BONDS

The move higher in yields in 2023 was unrelenting, rising alongside a U.S. economy that continued to outperform expectations. With a still-resilient economy to-date, we think Treasury yields could stay relatively high in the near-term, although rates may subside a bit versus the 2023 volatility we have witnessed. Issuance of Treasury securities to fund budget deficits and the potential for the Bank of Japan (BOJ) to finally end its aggressively loose monetary policies in 2024 could keep some upward pressure on yields. However, the big move in yields may have already taken place, and with a potential directional change in interest rates likely coming in 2024, we believe bonds offer compelling value.

GEOPOLITICS

With the onset of the war in the Middle East, geopolitical concerns have broadened as global leaders and diplomats attempt to forge agreements and try to encourage containment of the war. Meanwhile, losses continue to be absorbed by both Russia and Ukraine—amid debates across NATO about the monetary and political costs associated with supplying Ukraine with military equipment. As part of this backdrop, the U.S. has focused on keeping China from acquiring advanced semiconductor technology that can be applied to its expanding military buildup. We are not expecting the geopolitical backdrop to get materially better in 2024, yet history tells us that this risk alone is often not enough to derail opportunities in capital markets.

COMMODITIES

With renewed expectations that the Chinese economy could be supported by a broad fiscal package, coupled with forecasts that many global central banks have completed their respective rate-hiking campaigns, the economic backdrop should remain constructive for oil demand. A potential widening of the Middle East conflict could send prices sharply higher amid tight stockpiles of crude and OPEC+ production cuts. However, should the global economy slow materially more than projected, crude demand may be somewhat offset. A more aggressive fiscal package from China, targeted for infrastructure spending, is a possible catalyst for industrial metals. Precious metals, especially gold, have seen prices rise amid heightened geopolitical and currency risk, and will garner further support in 2024 if the markets continue to consider those risks.

CURRENCIES

The U.S. dollar staged a strong comeback over the second half of 2023. Capital usually goes where it is treated best, and global capital was enticed back to the U.S. on clearer prospects of economic growth and higher rates of return. The dollar remains quite overvalued, however, on a purchasing power parity basis against currencies like the yen, euro, and British pound. But unless global markets witness a more persistent shift toward synchronized global growth, a scenario we are not expecting, foreign currencies as a whole will likely struggle to meaningfully outpace the dollar. Meanwhile, the clear risk for the euro heading into 2024 is that the European Central Bank (ECB) will be forced to aggressively reverse its current tighter policy stance.

ALTERNATIVE INVESTMENTS

After the strong recovery of the equity markets this year and the continued rise of short-term yields, markets have started to calibrate for the new market era. This new direction includes greater dispersion and volatility amid continued decoupling of global economic and policy actions, slowing economic activity, and rising geopolitical risks. All of this adds up to an environment that's conducive for strategies that are nimble, can generate excess returns from both top-down macroeconomic forecasts as well as bottom-up fundamental analysis, have limited stock market sensitivity, and benefit from the rise in volatility. In our view, this could be an opportunity to own global macro hedge fund strategies as well as select private credit and infrastructure investments.

GENERAL DISCLOSURES

The opinions, statements and forecasts presented herein are general information only and are not intended to provide specific investment advice or recommendations for any individual. It does not take into account the specific investment objectives, tax and financial condition, or particular needs of any specific person. There is no assurance that the strategies or techniques discussed are suitable for all investors or will be successful. To determine which investment(s) may be appropriate for you, please consult your financial professional prior to investing.

Any forward-looking statements including the economic forecasts herein may not develop as predicted and are subject to change based on future market and other conditions. All performance referenced is historical and is no guarantee of future results.

References to markets, asset classes, and sectors are generally regarding the corresponding market index. Indexes are unmanaged statistical composites and cannot be invested into directly. Index performance is not indicative of the performance of any investment and does not reflect fees, expenses, or sales charges. All performance referenced is historical and is no guarantee of future results.

General Risk Disclosures

Alternative investments may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.

Investing in stock includes numerous specific risks including the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market. Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies. Value investments can perform differently from the market as a whole. They can remain undervalued by the market for long periods of time. The prices of small and mid-cap stocks are generally more volatile than large cap stocks.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price. Bond yields are subject to change. Certain call or special redemption features may exist which could impact yield. Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate, and credit risk, as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features. Mortgage-backed securities are subject to credit, default, prepayment, extension, market and interest rate risk. Floating rate bank loans are loans issued by below investment grade companies for short term funding purposes with higher yield than short term debt and involve risk. Preferred stock dividends are paid at the discretion of the issuing company. Preferred stocks are subject to interest rate and credit risk. As interest rates rise, the price of the preferred falls (and vice versa). They may be subject to a call feature with changing interest rates or credit ratings. The majority of preferred stocks outstanding are concentrated in the financial sector.

International debt securities involve special additional risks. These risks include, but are not limited to, currency risk, geopolitical and regulatory risk, and risk associated with varying settlement standards. These risks are often heightened for investments in emerging markets.

High yield/junk bonds (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

Municipal bonds are subject to availability and change in price. They are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise. Interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax-free but other state and local taxes may apply. If sold prior to maturity, capital gains tax could apply.

The fast price swings of commodities will result in significant volatility in an investor's holdings. Commodities include increased risks, such as political, economic, and currency instability, and may not be suitable for all investors. Precious metal investing is subject to substantial fluctuation and potential for loss.

Any company names noted herein are for educational purposes only and not an indication of trading intent or a solicitation of their products or services. LPL Financial doesn't provide research on individual equities.

All index data from FactSet. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

All information is believed to be from reliable sources; however, LPL Financial makes no representation as to its completeness or accuracy.

Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. Investing in foreign and emerging markets debt or securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

General Definitions

Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

The PE ratio (price-to-earnings ratio) is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. It is a financial ratio used for valuation: a higher PE ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower PE ratio.

Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability. Earnings per share is generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio.

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

OUTLOOK 2024

The **Bloomberg U.S. Aggregate Bond Index** is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

A company's **market capitalization** is the market value of its outstanding shares. Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share. Classifications such as large-cap, mid-cap and small-cap are only approximations and may change over time.

Equity Definitions

Cyclical stocks typically relate to equity securities of companies whose price is affected by ups and downs in the overall economy and that sell discretionary items that consumers may buy more of during an economic expansion but cut back on during a recession. Counter-cyclical stocks tend to move in the opposite direction from the overall economy and with consumer staples which people continue to demand even during a downturn.

A **Growth stock** is a share in a company that is anticipated to grow at a rate significantly above the average for the market due to capital appreciation.

A **Value stock** is anticipated to grow above the average for the market due to trading at a lower price relative to its fundamentals, such as dividends, earnings, or sales.

Large cap stocks are issued by corporations with a market capitalization of \$10 billion or more, and small cap stocks are issued by corporations with a market capitalization between \$250 million and \$2 billion.

Fixed Income definitions

Credit Quality is one of the principal criteria for judging the investment quality of a bond or bond mutual fund. As the term implies, credit quality informs investors of a bond or bond portfolio's credit worthiness, or risk of default. Credit ratings are published rankings based on detailed financial analyses by a credit bureau specifically as it relates to the bond issue's ability to meet debt obligations. The highest rating is AAA, and the lowest is D. Securities with credit ratings of BBB and above are considered investment grade. The credit spread is the yield the corporate bonds less the yield on comparable maturity Treasury debt. This is a market-based estimate of the amount of fear in the bond market. Base-rated bonds are the lowest quality bonds that are considered investment-grade, rather than high-yield. They best reflect the stresses across the quality spectrum.

The **Bloomberg Aggregate U.S. Bond Index** represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment-grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

High yield/junk bonds (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

Municipal bonds are subject to availability and change in price. They are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise. Interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax-free but other state and local taxes may apply. If sold prior to maturity, capital gains tax could apply.

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