2024 Market Outlook

2023 Recap

Heading into 2023, for the first time since its inception in 1999, the Bloomberg survey of strategists had a negative median target S&P 500 return. The index defied the strategists and rallied +24.2% on the year! What led these professionals to be so wrong in 2023?

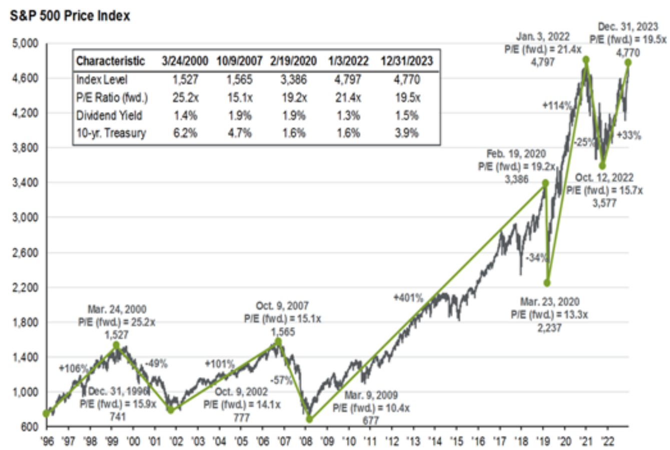
Median SPX target negative for first time on record

Bloomberg Survey of Strategists' S&P 500 Year-End Estimate for 2023

Date	Median Target	Current SPX	% Change to Target
11/18/22	4000	3965.34	0.9
12/1/22	4000	4076.57	-1.9
12/19/22	4075	3817.66	6.7
1/20/23	4075	3972.61	2.6
2/17/23	4075	4079.09	-0.1
3/16/23	4075	3960.28	2.9
4/19/23	4025	4154.52	-3.1
5/18/23	4000	4198.05	-4.7
6/15/23	4100	4425.84	-7.4
7/20/23	4250	4534.87	-6.3
8/21/23	4300	4399.77	-2.3
9/18/23	4435	4453.53	-0.4
10/18/23	4435	4314.60	2.8

Source: Bloomberg

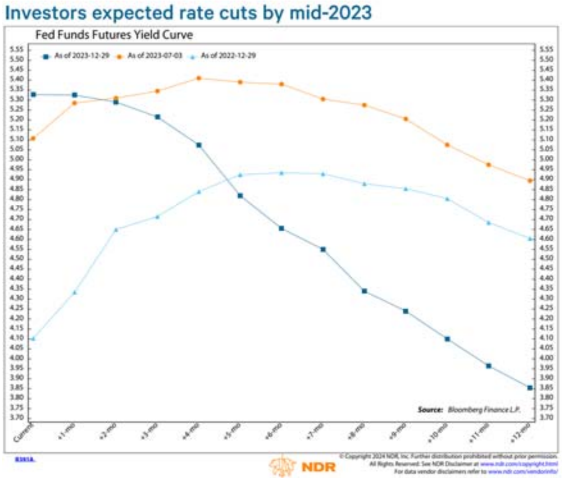
Ned Davis Research T_SP20240104.1

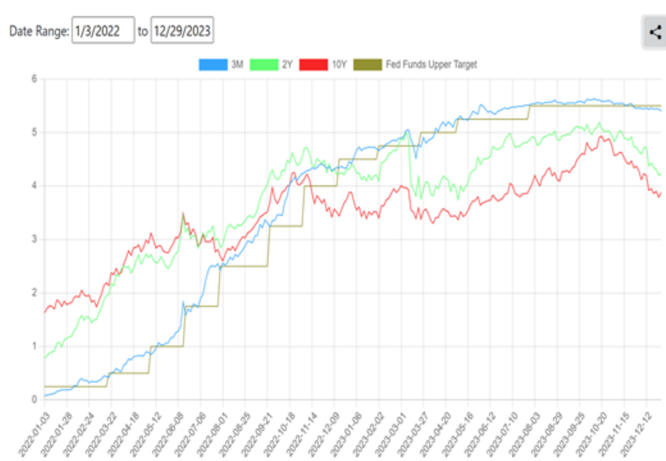


2023 Headwinds

First, there were headwinds from the US Banking crisis, rising interest rates from Central Banks to combat inflation, US debt ceiling and government shutdown fears, and geopolitical risks from conflicts in Russia, China, and Israel. In early March, we had the collapse of Silicon Valley Bank. The Federal Reserve successfully preserved confidence in the banking system by guaranteeing all deposits and minimizing contagion from the event. The Federal Reserve raised interest rates an additional 100 basis points in 2023 to an upper limit of 5.50%. This was two more hikes than previous estimates. There were also no rate cuts in 2023 even though the market quickly priced in 3 cuts before year end as soon as the Fed paused hikes in July.

Investors expected rate cuts by mid-2023





Russia continues its war on Ukraine even with mounting losses and costs. A resolution does not seem to be close. China maintains that they want a peaceful "reunification" with Taiwan but will use force if compelled. The Taiwan election in early January is a test of the influence that China has. When Hamas fired rockets at Jerusalem in early October, they sparked fighting that has grown in the region and has global consequences.

2023 Tailwinds

Even with all these headwinds pushing against the economy we saw estimated growth of 2.6% US GDP and global GDP growth of 2.9%. This performance is attributed to broad improvement in inflation data, Central Bank posturing, and labor market resilience.

Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, Dec. 2022 - Dec. 2023

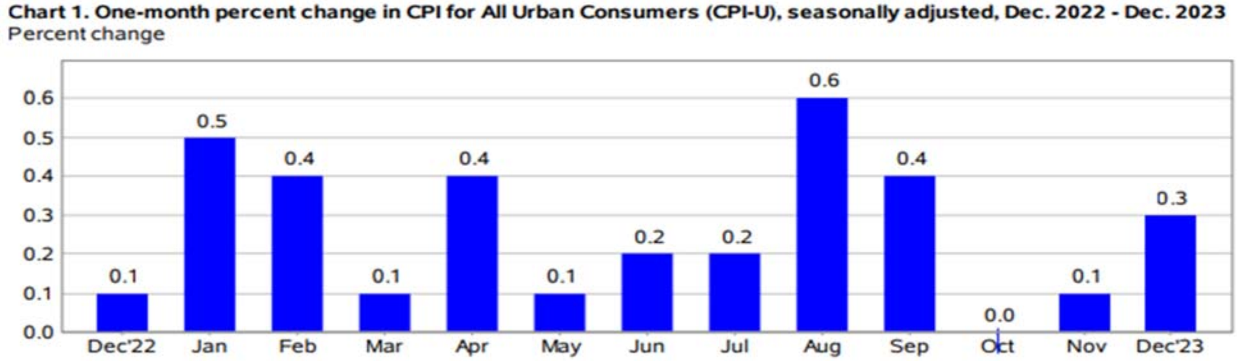
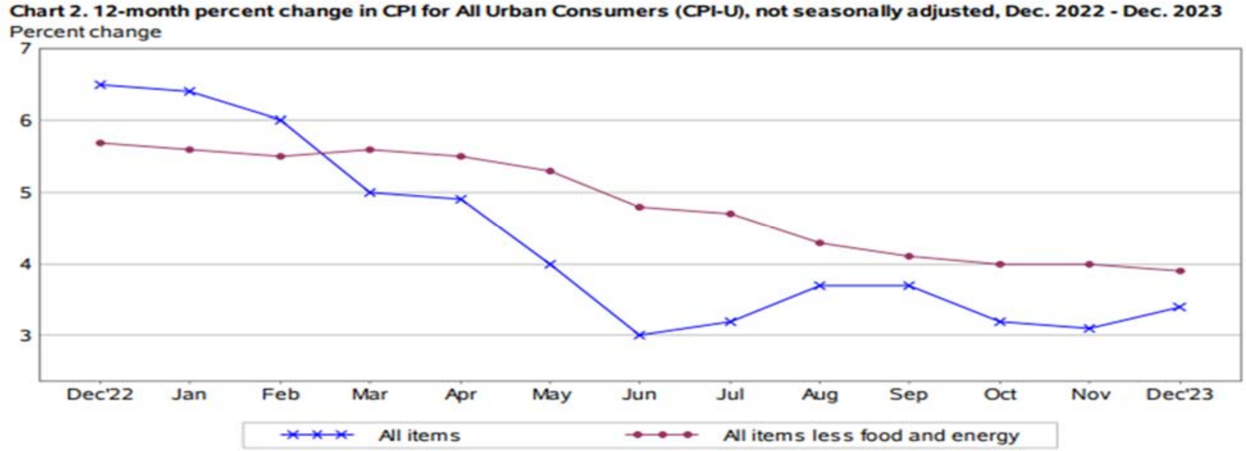
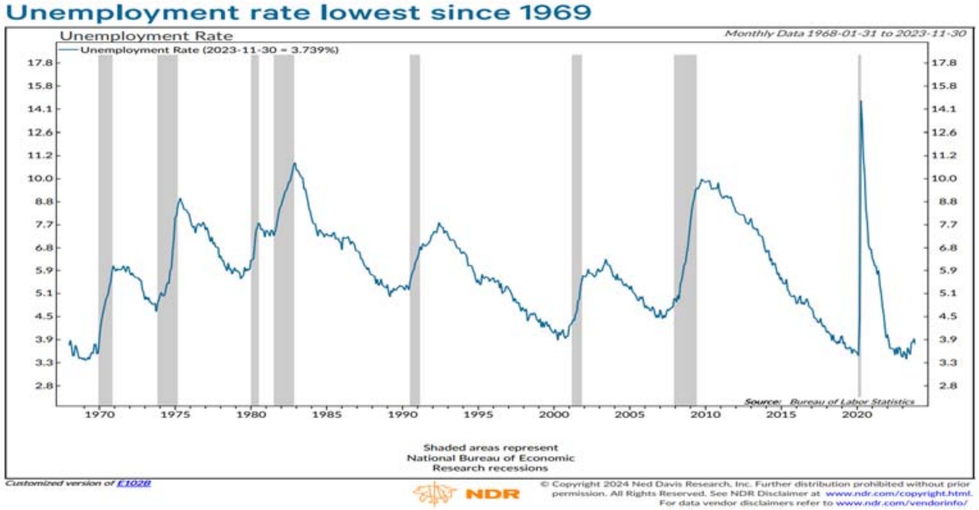


Chart 2. 12-month percent change in CPI for All Urban Consumers (CPI-U), not seasonally adjusted, Dec. 2022 - Dec. 2023



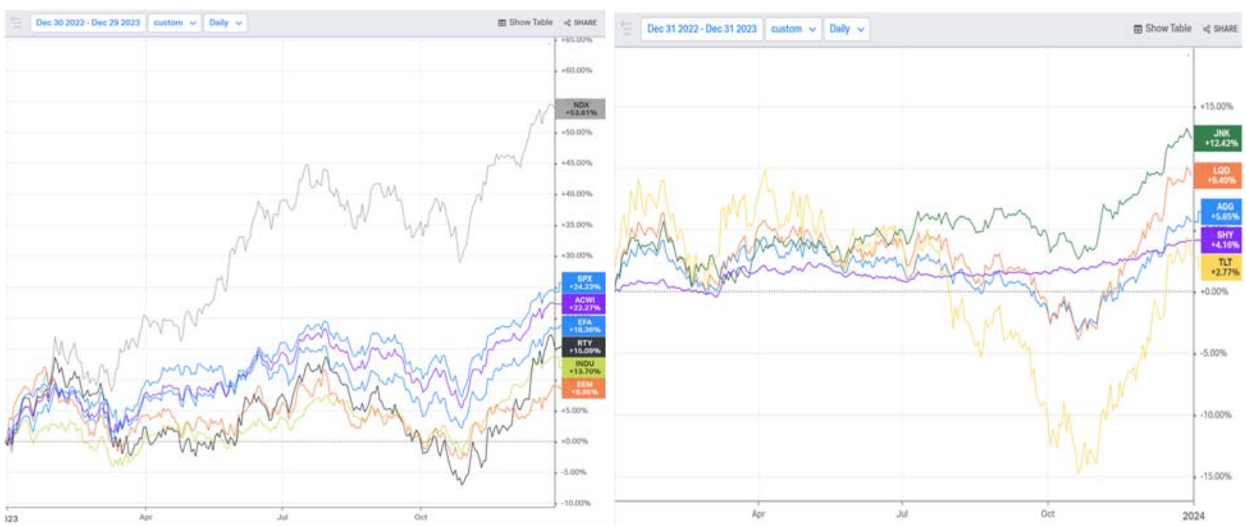
The downward movement of the inflation numbers allowed the Federal Reserve to pause interest rate hikes in July, and even come out in December and forecast 3 rate cuts for the year 2024. Consumer spending remained high throughout the year due to low unemployment rates and excess savings remaining from Covid. Unemployment actually reached 50-year lows in April.

Unemployment rate lowest since 1969



2023 Performance

The below chart highlights a few of the major equity and fixed income indexes returns for 2023.



In 2023, we saw a reversal of many of the 2022 trends. Some of the biggest losers last year were this year's biggest winners. Large cap and tech stocks led the way. Small caps and Emerging Markets, which are both more interest rate sensitive, lagged the other sections of the stock market. The US also outperformed international stocks. The Nasdaq and S&P were flirting with all time highs while the Russell 2000 still lagged the 2021 highs. Below are a couple of charts showing the contribution of megacaps in the S&P 500.

Elite Eight tech stocks beat rest of SPX by 64% in 2023

Ticker	Name
META	Meta (Facebook)
AMZN	Amazon.com
NFLX	Netflix
MSFT	Microsoft
AAPL	Apple
GOOGL	Alphabet
TSLA	Tesla
NVDA	Nvidia

Index (Cap-Weighted)	Gain/Annum % 2022-12-30 to 2023-12-29	YTD % 2022-12-30 to 2023-12-29
Elite Eight	75.24	74.97
S&P 500 Index	24.30	24.23
S&P 492 Index (S&P 500 ex Elite Eight)	11.29	11.26

Customized version of DAVIS23XC

NDR

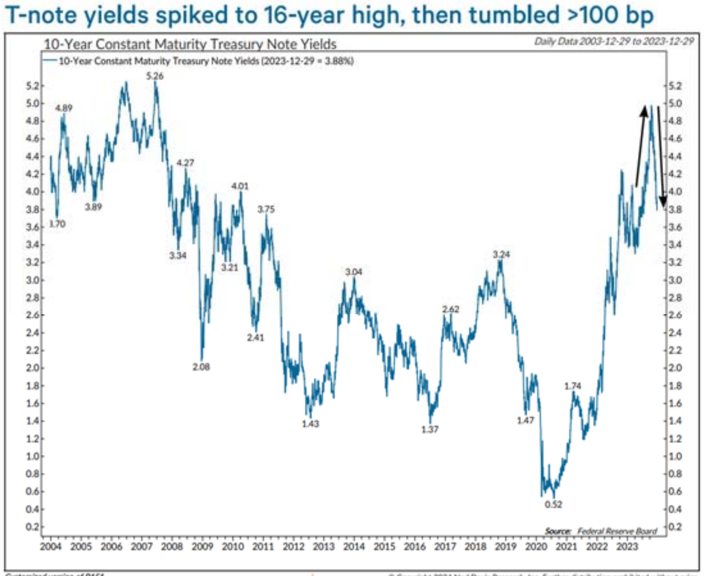
(SOURCE: MSCI, WSJ)

BIGGER THAN MOST COUNTRIES

The five largest stocks in the US (Apple, Microsoft, Alphabet, Amazon and NVIDIA) not only make up 24.2% of the S&P 500, but they're also now bigger than the total market caps of many countries. In the MSCI All World Index, the five US mega-cap tech stocks had the same weighting (15%) as the combined weighting of Japan, China, France and the UK.

Despite high volatility in the bond market the different segments of the market all posted positive gains for the year. The instruments benefited from higher starting coupon levels, and late comments from the Federal Reserve lowering future interest rate expectations. Intermediate duration paid off the most.

T-note yields spiked to 16-year high, then tumbled >100 bp



Customized version of B151

NDR

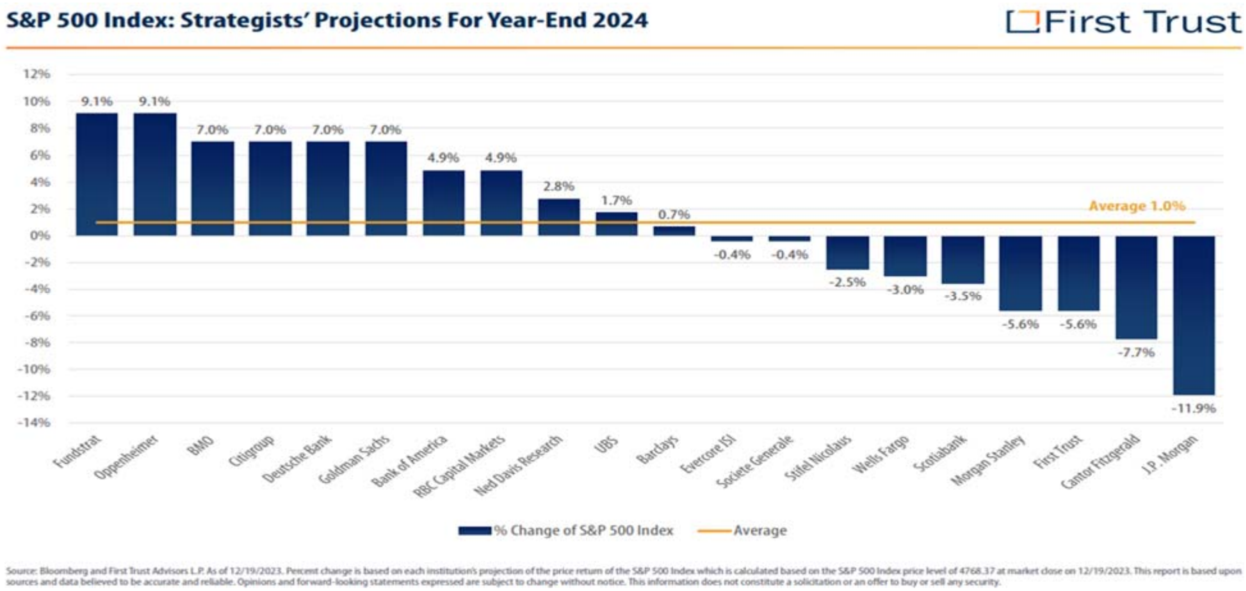
#10 Bond yields soar, then plunge

Concerns over sticky inflation and ballooning budget deficits pushed the long end of the curve to levels not seen in decades. The 10-year Treasury yield soared from 3.30% on April 6 to 4.98% on October 12, the highest level since before the financial crisis (chart, left). "Term premium" returned to the Wall Street lexicon of strategists trying to explain the yield spike.

Much of the damage was done from mid-August to mid-October. Then, as quickly as yields soared, they tumbled to 3.88% by year-end.

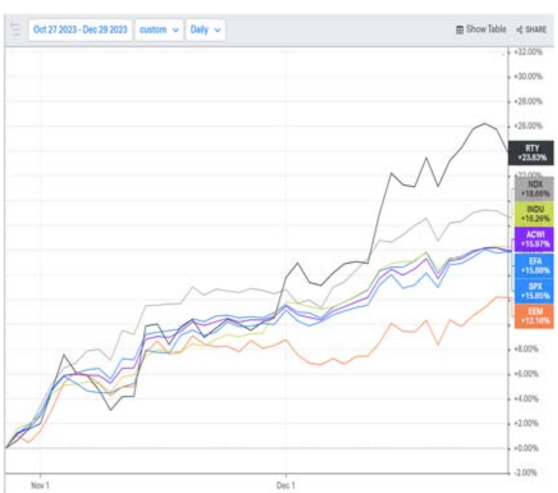
2024 Outlook

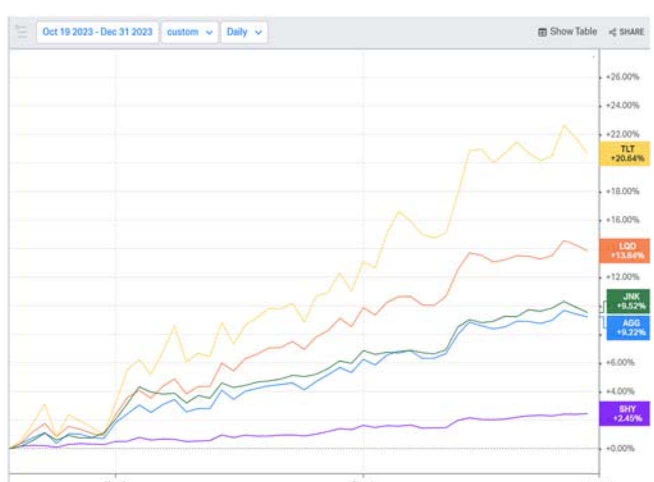
Modest gains are expected for the S&P 500 in 2024. Diversification will benefit portfolios as higher rates will help Fixed Income and Alternatives. We still expect a "soft landing", but not without some turbulence on approach.



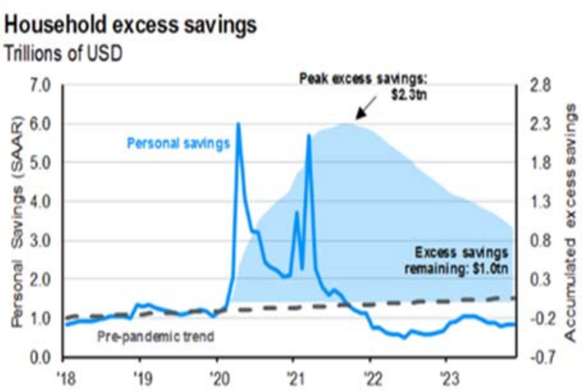
2024 Headwinds

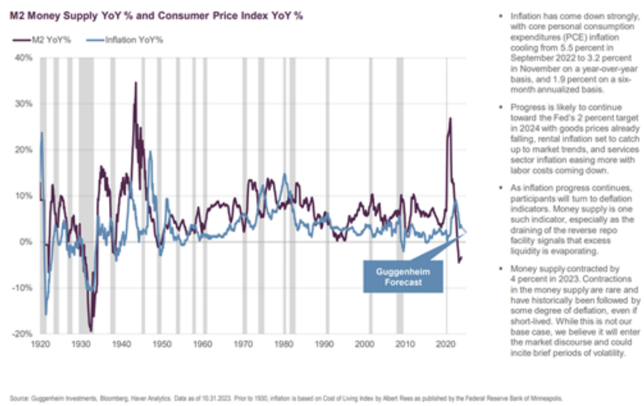
One of the reasons why modest gains are expected is that the stock and bond markets both rallied so strongly into the end of the year. On the stock side the Russell 2000, Dow Jones, and Emerging Markets were all negative for the year before rallying 12%-24% in the last two months. Investment grade corporates, 20+ Treasuries, and AGG were all negative before rallying 9%-20% in the last two months.



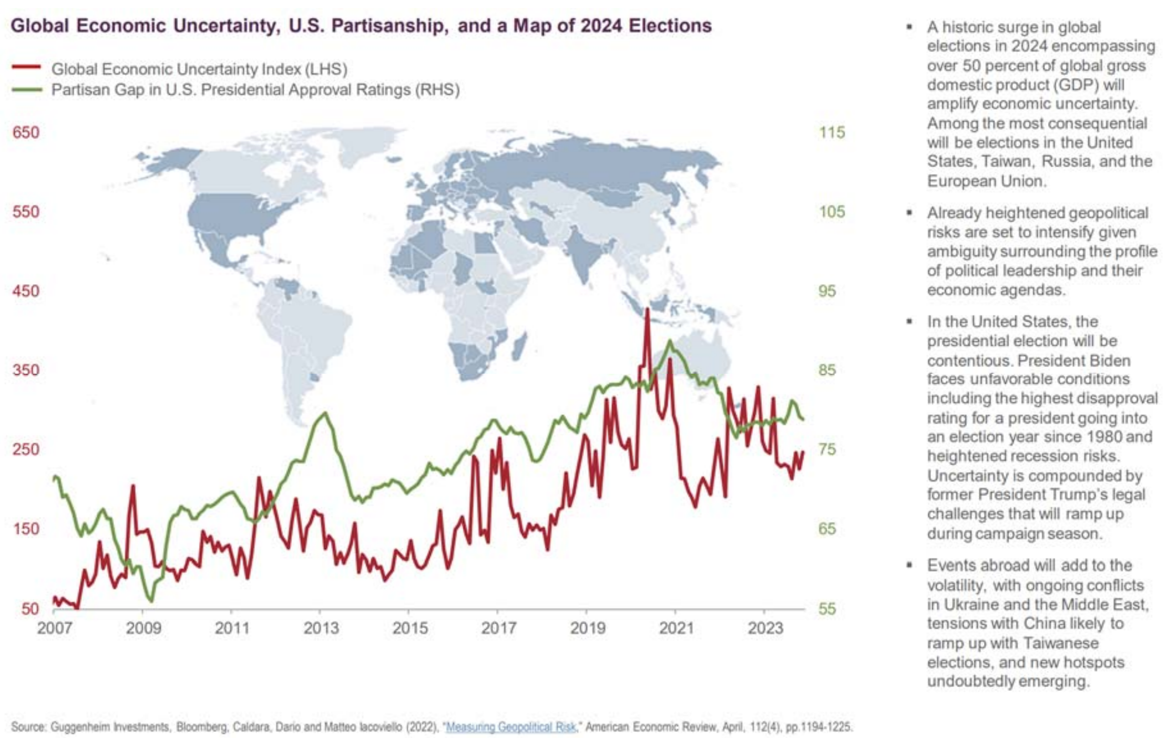


Besides having performance advanced in reaction to a more dovish stance by the Federal Reserve, the market is also pricing in 5-6 rate cuts for the year while the Fed has stated they only expect three. If the Fed is correct the market will need to pull back to align with the actual interest rate movements. Another headwind for 2024 is running out of household excess savings from Covid. With savings spent the contraction of the M2 money supply from the Fed will be felt in the market. The money supply will be the hardest part for the Federal Reserve to get right for a "soft landing".





The greatest unknown is geopolitical risks. Important elections take place this year in the US, Mexico, Russia, India, and Taiwan. The elected officials will have delicate international relations to maneuver. Already, the conflict in the Middle East is rerouting oil around Africa instead of the Suez Canal and is at risk of further escalation.



ROVIN CAPITAL
PARTNERING IN YOUR PEACE OF MIND

2024 Tailwinds

All that being said, the future is bright. The labor market and income growth have proven to be more resilient than thought. Lower interest rates will help the housing market. The private sector is driving new sectors like credit to be profitable. Government spending is expected to go down and revenue up.

2024 IDEAS

At Rovin, we are looking at all aspects of your portfolios on a pre- and post-tax basis. There are opportunities available in each asset class. Below is a nice table from PGIM Investments that shows many of these opportunities. We have already implemented or continue to monitor the appropriate time to implement these for you.

ATTRACTIVE INVESTMENT IDEAS

	THEME	RATIONALE	ASSET CLASSES TO CONSIDER
FIXED INCOME	STEP OUT OF CASH	Elevated inflation and higher yields make it harder to stay in cash. Shorter duration assets can provide attractive income with cushion against further volatility.	• Ultra-short bonds • Short-term corporate
	EXTEND DURATION	With the Fed hike cycle nearing an end and markets pricing in rate cuts in 2024, investors may benefit from extending duration now and locking in higher rates.	• Multi-sector bonds • Intermediate bonds
	SEEK HIGH-QUALITY RELATIVE VALUE OPPORTUNITIES	Extreme volatility since 2022 has compressed valuations across fixed income sectors, creating attractive relative value opportunities in key spread sectors.	• High yield bonds • Emerging market debt
EQUITIES	FOCUS ON STRUCTURAL TRENDS WITH RESILIENT DEMAND	Major transformative changes are afoot globally in areas with resilient demand and growth that do not rely on the economic environment. Structural changes, including digitalization and demographic trends, are changing the investment landscape across industries.	• U.S. growth stocks • Global equities • International equities • Emerging market equities • Public REITs
ALTERNATIVES	DIVERSIFY WITH ALTERNATIVE RETURN SOURCES	Public markets are vulnerable to short-term market noise with prices often overshooting to the downside based on shifting investor sentiment. Private markets benefit from a longer-term view and less frequent mark to market, often providing investors a smoother ride.	• Private real estate • Private credit
TAX MGMT.	TAKE ADVANTAGE OF VOLATILITY TO REDUCE TAX BILLS	After a banner tax-loss harvesting year in 2022, opportunities were more muted in 2023 as markets saw a broad-based rally through much of the year. But a slowing economy and rising geopolitical risks may lead to better tax-loss harvesting opportunities in 2024.	• Direct indexing
RETIREMENT	THINK BROADER TO IMPROVE RETIREMENT OUTCOMES	While moderating, inflation is likely to remain elevated for the foreseeable future, leading to a higher interest rate regime coupled with lower expected traditional asset class returns. As this can be challenging for a traditional 60/40 allocation, long-term investors may benefit from including hedging assets into their retirement allocations.	• Real assets

Your financial peace of mind is our highest priority. Please reach out to your advisor if you have any questions and would like to discuss more.

Your Portfolio Management Team,

Chris Heyman and Dave Dietz