OUTLOOK 2024

A TURNING POINT

Considerations to discuss with your financial professional

In 2024, we believe the markets will make a definitive turn to a more recognizable place, characterized by a return to a market and economy that's more familiar, steady and reliable. En route, the transition will be marked by meaningful shifts in a few key areas. Some you already see now. For example, inflation is going down, interest rates are stabilizing, and the economy is starting to soften. For others, only time will tell.

From the economy and stock and bond markets to the wars overseas and investments tied to those volatile areas, it's a lot to make sense of. That's exactly why LPL Research created this report. Chock full of insights, considerations and potential action steps, it's a resource specifically for you on what may lie ahead—so that you and your financial professional can apply relevant insights to your own goals.

> "Despite a likely mild recession in 2024, stocks and bonds should do well since we expect interest rates to glide lower."
>
> *– Marc Zabicki*
> *Chief Investment Officer and Director of Research, LPL Financial*

ECONOMY: From surprisingly strong to mildly cool

The economy has grown faster than expected despite inflation and high interest rates, as unemployment remained historically low, and activity in some places (e.g., homebuilding) even grew. This was surprising, but welcome news. On the flip side, credit card balances have risen, student loan payments have resumed, and consumers have mostly used up their excess savings—making conditions right for consumer spending to stall and the economy to potentially contract at some point in 2024.

LPL Research expectations	Action steps to consider
Mild recession in the beginning to midyear 2024. Silver lining: interest rates edge down.	Stay focused on your long-term investment strategy.
Inflation has come down significantly, but it will continue in some places (e.g., housing and food).	Ensure your portfolio fosters growth and protects for inflation if you're retired. (e.g., stocks).
Interest rates may glide lower in the new year although they could stay higher versus the pre-pandemic era.	Keep an eye on interest rates. Rents and mortgage rates may come down in 2024. We expect home prices to stay steady, given tight inventory.

CONSIDERATIONS TO DISCUSS WITH YOUR FINANCIAL PROFESSIONAL

2023 Q3 CORPORATE EARNINGS

~7.7%

Above estimates, in position to enter the sweet spot in 2024

STOCK MARKET: A shift to solid, but not spectacular

Based on our belief that interest rates won't spike again and that inflation will continue to come down, stocks are entering a phase where focus will be on interest-rate stability. When rates rise, stocks tend to fall in value, so it's good news that the chances of future rate spikes are reduced. This opens the door to a return to stock market norms that you're used to.

So where does that ultimately leave things for the stock market in 2024? We forecast solid returns, but not spectacular. An economic slowdown should be partially offset by a glide lower in interest rates, meaning stocks may be helped by easier Federal Reserve policy even as the economy softens. Risks include a potential widening conflict in the Middle East or Europe, and an increase in U.S.-China tensions.

LPL Research expectations	Action steps to consider
High single digit returns for the S&P 500.	Stay open to opportunities that can emerge during a recession.
Potential for muted stock market reaction to recession, since the market factored it in, in 2022.	Revisit your portfolio should interest rates rise or fall significantly.
Potential for opportunity in certain sectors and regions.	Examine stocks from these sectors and regions: ▪ Large caps, stocks from larger, well-established companies ▪ Energy and communication services stocks ▪ Stocks in the U.S. and Japan

3 TOP REASONS TO OWN BONDS

- Diversification
- Liquidity
- Income

BOND MARKET: Back to normal

The move higher in yields in 2023 was unrelenting, rising along a U.S. economy that continued to outperform expectations. This puts Treasury yields squarely back to levels last seen over a decade ago and more importantly, back to providing income. Yields may stay elevated, but the big move in yields has likely taken place, which further supports our belief that bonds offer compelling value.

LPL Research expectations	Action steps to consider
Bonds will be able to meet income needs, eliminating the need to assume risk (e.g., from the stock market). Core bonds offer the most attractive risk-adjusted returns. Certain corporate bond sectors will be attractive.	Examine these types of investments and strategies that can generate attractive income: ▪ U.S. Treasury securities (e.g., bills, notes, and bonds) ▪ AAA-rated agency mortgage-backed securities ▪ Short maturity investment-grade corporate bonds ▪ Laddered portfolios ▪ Holding individual bonds to maturity to take advantage of higher yields

GEOPOLITICS & RELATED INVESTMENTS: An increasingly complicated landscape

With the onset of the war in the Middle East, geopolitical concerns have broadened beyond the Ukraine/Russia war. It's important to remember, regions of volatility can always affect markets—not only the stock market, but the commodities and currencies markets as well. We're not expecting the geopolitical backdrop to get materially better in 2024, but we also know from history that risk alone is not often enough to derail opportunities. That's why we're offering a few insights in this space—consider it as some additional food for thought, things to consider discussing with your financial professional:

- Diversification across sectors, regions and types of investments can provide protection from volatility and offer opportunity.
- Precious metals prices, especially gold, will offer opportunities if turbulence continues.
- The economic backdrop should remain constructive for oil demand. Oil prices could move sharply higher if the Middle East conflict widens, offset by the risk of a potentially slower global economy. All of this means there could be opportunity in this space.
- The dollar made a strong comeback in the second half of 2023. Even though currencies like the yen, euro and British pound have weakened to attractive levels, foreign currencies as a whole will likely struggle to meaningfully outpace the dollar until economic growth returns across the globe.

ALTERNATIVE INVESTMENTS: Embracing agility in a volatile market

We recommend investment strategies that can adapt to changing market conditions, generate additional returns through economic forecasts, and have limited sensitivity to market changes. Strategies like managed futures and hedge funds can help investors diversify their portfolios, especially those heavily weighted in stocks and bonds.

Finding opportunity at every angle

If there ever was a year that confirmed that no one knows what the market will bring, 2023 fits the bill. But that's precisely why it's so important to have an idea of the road ahead. It sets you and your financial professional up to navigate the twists and turns that will inevitably arise, and do so in a way that's true to your north star—achieving your financial goals, dreams and aspirations. Because at the end of the day, that's what it's all about. As always, our knowledgeable professionals will be by your side to help you stay on track and stay informed every step of the way.

Inspired by the insights?

Get in touch with your financial professional to see how you may meaningfully apply them to your goals.

If you'd like to delve deeper for in-depth and detailed investment analysis, visit go.lpl.com/outlook.

CONSIDERATIONS TO DISCUSS WITH YOUR FINANCIAL PROFESSIONAL