



# Capital Markets Update & Outlook Summary

February 22, 2024

## Market Positives

- Inflation still trending down, January inflation print most likely hiccup
- Quarterly earnings on track to post 7% year-over-year increase
- Outside of Magnificent 7, stocks are not expensive and are starting to perform
- Current tech run slightly below historical bubbles – may have more room to run
- Employment holding up and consumer still spending (January)
- Services spending now at pre-pandemic level
- Second year of bull market typically remains strong – average 12%
- US consumer overall debt service ratios remains historically low
- 70% of current mortgages at 3% or lower
- Fed is done, huge amounts of cash on sidelines could bolster stock returns

## Wall of Worry

- Middle-East growing instability, Israel-Gaza, Hezbollah, Houthis, Iran
- Within a few weeks, Israel plans on invading Rafah unless hostages released & Hamas surrenders – may accelerate expansion of war
- Risks increasing for oil shock, trade and supply disruption
- Shipping costs on the rise
- China in trouble, real estate disaster, sluggish economy, stock market crashing
- Big refinance problems coming for U.S. commercial real estate
- Historically, Fed interest rate campaigns to tame inflation typically ends in recession
- Leading Economic Indicator (LEI) showing recession on way
- Credit card, auto debt, and mortgage delinquencies rising
- Market soft-landing expectation priced to perfection
- Fed rate cuts are being scaled back from investor expectation
- Stock market repricing coming soon

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## Outlook – 2024 “The Times They Are A-Changin’” (*Bob Dylan*)

### Economic & Market Outlook for 2024 - First-Half

- Disinflationary trends & decelerating growth emerges by end of June
- Impressive resilience of the U.S. consumer fades
- Excess savings, financial stimulus come to an end & households become strained by Fed interest rates hikes
- Economy slows, unemployment rises, corporate earnings slow in second quarter
- Geopolitical event rocks markets
- The economy goes into a mild recession & avoids a classic recession
- Fed starts cutting rates in June
- Stocks go into correction or possible Bear market
- Underperforming stocks outperform tech stocks
- Bonds outperform stocks
- S&P 500 Index ends first-half at 4,100

### Economic & Market Outlook for 2024 – Second-Half Turnaround

- Stocks discount economic recovery & rally
- Economy begins recovering
- Corporate earnings rebound
- Stocks outperform bonds
- Tech stocks regain leadership
- S&P 500 Index ends second-half at 5,100
- 6 to 7% overall return for S&P 500 for year
- Inflation reaches Fed Target of 2% or even lower by year-end

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