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AI Enthusiasm & Rate Cut Expectations Power Stocks Higher in 2023

Markets staged an impressive reversal in the fourth quarter thanks to a surprise dovish pivot by the Federal Reserve, which combined with solid economic activity and declining inflation to push stocks sharply higher and send the S&P 500 to two-plus-year highs, resulting in the best annual return since 2021.

The strong fourth quarter performance somewhat obscures the fact that stocks and bonds started the fourth quarter under significant pressure. First, Treasury yields continued to move higher in early October which weighed on stocks and bonds, just like in the third quarter. Then on October 7th, Hamas soldiers infiltrated settlements in Israel, killing and kidnapping more than 1,200 Israelis in the worst attack on Israel in decades.

The market fallout was immediate, as oil prices spiked on fears a broader regional war would ensue between Israel, Hamas, Lebanon and, potentially, Iran. Higher oil prices fueled a further increase in Treasury yields as investors priced in a possible oil-driven bounce back in inflation. Those factors, combined with a lackluster earnings season, resulted in the S&P 500 falling to the lowest levels since mid-May while the 10-year Treasury yield touched 5.00% for the first time since the mid-2000s. However, markets reversed when Fed Governor Chris Waller made comments that implied rate hikes were over and rate cuts may be coming in 2024. The market reaction was immediately positive as stocks and bonds rallied hard into month-end to finish well off the lows and with just a 2% decline.

That positive momentum continued in November as the S&P 500 posted its best monthly return of 2023, rising more than 9%. There were several factors that fueled this rally. First, numerous Fed officials echoed Waller's commentary and investors priced in rate cuts as early as May, substantially earlier than previously expected. Additionally, the Israel/Hamas conflict did not spread and remained contained between Israel and Hamas and oil prices declined as a result, easing inflation concerns. Finally, inflation metrics continued to decline. The year-over-year increase in the Consumer Price Index dropped to 3.14% and that further fueled investor expectations that rate cuts would come in the first half of 2024. Those factors combined with generally favorable seasonality to fuel a welcomed "Santa Claus Rally."

The Santa rally continued and accelerated in December courtesy of the Fed. At the December 13th FOMC meeting, Fed officials clearly signaled that rate hikes were over and forecasted three rate cuts in 2024, one more than previously forecasted. Additionally, Fed Chair Powell did little to push back against the markets' expectations for rate cuts. Put plainly, the Fed surprisingly pivoted to a more dovish policy stance and that fueled a continuation of the rally that started in late October. The S&P 500 rose to the highest level since January 2022 while the Dow Industrials hit a new all-time high.

In sum, 2023 was a year of surprises for the markets as the expectations for a recession never materialized, inflation fell faster than forecasts, corporate earnings proved resilient and the Fed surprised markets by pivoting to a more dovish future policy. The result was substantial gains for the major averages.

Q4 and Full Year 2023 Performance Review

Stocks enjoyed a broad and powerful rally in the fourth quarter as all four major U.S. stock indices posted strong quarterly gains. Investor expectations for rate cuts in 2024 were a major influence on markets in the fourth quarter as the Russell 2000 and Nasdaq 100 outperformed the S&P 500 over the past three months, as companies in those two indices are expected to benefit most from a sustainable decline in interest rates. For the full year, however, the dual influences of 1) Artificial Intelligence (AI) enthusiasm and 2) Rate cut expectations drove performance as the tech-heavy Nasdaq 100 massively outperformed the other major stock indices, surging more than 50%. The S&P 500 also logged a substantial gain of over 20% thanks mostly to the large weighting of technology stocks in the index. The less-tech-stock-sensitive Dow Industrials and Russell 2000 also enjoyed strong returns in 2023, but relatively underperformed the Nasdaq and S&P 500. Notably, the index performance for the full year 2023 was the opposite of 2022, where we saw the Nasdaq and small caps decline substantially more than the S&P 500 and Dow Jones Industrial Average.

By market capitalization, small caps outperformed large caps in the fourth quarter thanks to those surging rate cut expectations, as lower rates are typically most beneficial for smaller companies. For the full year, however, large caps handily outperformed small caps thanks to the strength in large-cap tech stocks and as the higher rates in the first three quarters of 2023 weighed on small cap performance earlier in the year. From an investment-style standpoint, growth significantly outperformed value both in the fourth quarter and for the full year. The reasons were familiar ones: Artificial intelligence enthusiasm powered tech-heavy growth funds early in 2023 while in the fourth quarter expectations for rate cuts were seen as positive for growth stocks. Growth outperforming value is also the opposite of 2022, where higher rates and recession fears resulted in value outperforming growth.

On a sector level, 10 of the 11 S&P 500 sectors finished the fourth quarter with a positive return, while eight of the 11 sectors ended 2023 with gains. Not surprisingly, the dual influences of artificial intelligence enthusiasm and expectations for rate cuts drove sector trading in the fourth quarter and throughout the year. In the fourth quarter, the influence of expected lower rates was dominant as REITs were the best performing sector, followed by tech. Both stand to benefit from falling interest rates. Cyclical sectors also outperformed over the past three months as expectations for stable economic growth rose as the Fed telegraphed future rate cuts. For the full year, however, the influence of AI enthusiasm was clearly the dominant influence on sector trading, as the three most "AI sensitive" sectors (tech, consumer discretionary and communications services) massively outperformed the remaining eight S&P 500 sectors.

Looking at sector laggards for the fourth quarter and for the full year, defensive sectors including consumer staples and utilities lagged as economic growth was more resilient than expected while higher rates (for most of 2023) reduced the demand for high dividend yielding sectors. Consumer staples and utilities posted negative returns for 2023 after being the best relative performers in 2022.

| S&P 500 Total Returns by Month in 2023 | | | | | | | | | | | |
|--|--------|-------|-------|-------|-------|-------|--------|--------|--------|-------|-------|
| Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
| 6.28% | -2.44% | 3.67% | 1.56% | 0.43% | 6.61% | 3.21% | -1.59% | -4.77% | -2.10% | 9.13% | 4.54% |

Source: Morningstar

| US Equity Indexes | Q4 Return | 2023 Return |
|-----------------------|-----------|-------------|
| S&P 500 | 11.69% | 26.29% |
| DJ Industrial Average | 13.09% | 16.18% |
| NASDAQ 100 | 14.60% | 55.13% |
| S&P MidCap 400 | 11.67% | 16.44% |
| Russell 2000 | 14.03% | 16.93% |

Source: YCharts

Internationally, foreign markets lagged the S&P 500 in the fourth quarter thanks mostly to muted gains in the emerging markets following increased geopolitical tensions in the Middle East and on continued lackluster Chinese economic growth. Foreign developed markets outperformed emerging markets in Q4 on better-than-expected inflation readings and rising expectations other major central banks will follow the Fed’s lead and cut rates in 2024. For the full-year 2023, foreign developed markets registered solidly positive returns but handily underperformed the S&P 500 thanks primarily to the large gains in U.S. tech stocks.

Commodities declined broadly in the fourth quarter as weakness in oil, which was driven by reduced geopolitical fears and rising global economic growth worries, offset a solid gain in gold. Gold rallied on a falling U.S. dollar and hit a new all-time high in early December. For 2023, commodities saw modestly negative returns as concerns about economic growth, especially from China and parts of Europe, weighed on commodity demand expectations. Gold, however, did finish the year with a solidly positive return thanks to the fourth quarter dollar decline.

Switching to fixed income markets, the leading benchmark for bonds (Bloomberg Barclays US Aggregate Bond Index) realized a positive return for the fourth quarter and for the full year as falling inflation and expectations for rate cuts in 2024 pushed bonds higher.

Looking deeper into the fixed income markets, longer-duration bonds outperformed those with shorter durations in the fourth quarter as bond investors reacted to lower-than-expected inflation and priced in future Fed rate cuts. For the full year, however, shorter-duration debt outperformed longer-term bonds as high inflation readings through the first three quarters of 2024 weighed on the long end of the yield curve.

Turning to the corporate bond market, both high yield and investment grade bonds posted sharply positive returns for the fourth quarter as investors embraced the idea of lower interest rates and reduced recession

chances. For the full year, high yield corporate bonds posted a very strong return and outperformed investment grade corporate debt as the resilient economy pushed investors to embrace more risk in return for a higher yield.

Q1 and 2024 Market Outlook

What a difference a year makes.

At this time last year, the S&P 500 had just logged its worst annual performance since the financial crisis, the Fed was in the midst of the most aggressive rate hike campaign in decades, inflation was above 6% and concerns about an imminent recession were pervasive across Wall Street.

Now, as we begin 2024, the market outlook couldn't be much more positive. The Fed is done with rate hikes and cuts are on the way, likely in early 2024. Economic growth has proven more resilient than most could have expected and fears of a recession are all but dead. Inflation dropped substantially in 2023 and is not far from the Fed's target while corporate earnings growth is expected to resume in the coming year.

Undoubtedly, that's a more positive environment for investors compared to the start of 2023, but just like overly pessimistic forecasts for 2023 proved incorrect, as we look ahead to 2024, we must guard against complacency because at current levels both stocks and bonds have priced in a lot of positives in the new year.

Starting with Fed policy, Fed officials are forecasting three rate cuts in 2024 but investors are currently pricing in six rate cuts in 2024 with the first one occurring in March or May. That's a very aggressive assumption and if it is incorrect, we should expect an increase in volatility in both stocks and bonds. Regarding economic growth, it's foolish to assume just because the economy was resilient in 2023 that it will stay resilient. Obviously, that's the hope, but hope isn't a strategy. The longer rates stay high (and they are still high) the more of a drag they create on the economy. Meanwhile, all the remnants of pandemic-era stimulus are gone and there is some economic data that's starting to point towards reduced consumer spending. Point being, it is premature to believe the economy is "in the clear" and a slowing of growth is something we will be on alert for as we start the new year, because that would also increase market volatility. Inflation, meanwhile, has declined sharply but it still remains solidly above the Fed's 2% target. Many investors expect inflation to continue to decline while economic growth stays resilient, a concept traders coined "Immaculate Disinflation." However, while that's possible, it's important to point out it's extremely rare as declines in inflation are usually accompanied by an economic slowdown.

Finally, corporate earnings have proven resilient but companies are now facing margin compression as inflation declines and economic growth potentially slows. Earnings results and guidance in the fourth quarter were not as strong as earlier in 2023 and if earnings are weaker than expected, that will be another potential headwind on markets.

Bottom line, while undoubtedly the outlook for markets is more positive this year than it was last year, we won't allow that to breed a sense of complacency because as the past several years have shown, markets and the economy rarely behave according to Wall Street's expectations.

As such, while we are prepared for the positive outcome currently expected by investors, we are also focused on managing both risks and return potential because the past several years demonstrated that a well-planned,

long-term focused and diversified financial plan can withstand virtually any market surprise and related bout of volatility, including multi-decade highs in inflation, historic Fed rate hikes, and geopolitical unrest.

We understand the opportunities and risks facing both the markets and the economy, and we are committed to helping you effectively navigate this challenging investment environment. Successful investing is a marathon, not a sprint, and even intense volatility is unlikely to alter a diversified approach set up to meet your long-term investment goals.

We thank you for your ongoing confidence and trust and please rest assured that our entire team will remain dedicated to helping you successfully navigate this market environment. Please do not hesitate to contact us with any questions, comments, or to schedule a portfolio review.

Enclosure #1 – Our first enclosure is the Investment Strategy Quarterly piece from Raymond James. This provides a quick understanding of relevant themes in the investment world. Additionally, it provides an economic snapshot as well as a tactical outlook. We like to include this in the Weiss Report as a handy two-page reference.

Enclosure #2 – Our second enclosure brings back one of our preferred economists, Brian Wesbury. In his most recent Monday Morning Outlook he provides his expectation for 2024. While he calls for a “mild recession”, Lenny and I would certainly have a healthy discussion as to why we may not agree. Still, it’s always good to check in on what respected economists are saying.

Enclosure #3 – Our third enclosure provides a discussion of various withdrawal methods for retirees. While it may not be the sexiest of topics, identifying and following a structured withdrawal plan during retirement is one of the best ways to ensure that you have sufficient funding.

Important Disclosures

This report is not intended as a complete description of the securities, markets or developments referred to herein. It should not be viewed as an offer to buy or sell any of the securities mentioned. Information has been obtained from sources considered reliable, but we do not guarantee that the foregoing report is accurate and complete. Additional information and sources are available upon request.

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One cannot invest directly in an index. Past Performance does not guarantee future results. Sector Investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors. Bond prices and yields are subject to change based upon market conditions and availability. International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility.

Investing in commodities is generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

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*Prices of DJIA and NASDAQ as of 10/5/2023 close.

INVESTMENT STRATEGY QUARTERLY QUICKVIEW

JANUARY 2024

THEMES



Prepare for Landing

Markets have begun to believe that the Fed will cut rates several times in 2024. We believe that the Fed is more concerned about a potential reacceleration of inflation and will move carefully. The economic outlook for 2024 should not be year of 'recession' but rather a year of 'sustained disinflation with weak economic growth.'



Market Performance in a Presidential Election Year

We would not be surprised to see 2024 market performance track traditional presidential election years, where there are pockets of weakness during periods of the greatest uncertainty, but a market rebound and renewed strength as we receive clarity on key issues. The most likely scenario remains a rematch of the 2020 election, but a feeling of uncertainty persists.



Ready, Set, Lock in Rates

With the upward pressure on interest rates coming to an end, investors can once again reap the benefits of owning bonds. Bonds have historically performed well leading into an easing cycle, and we believe that fixed income can potentially generate high single-digit, low double-digit returns in 2024.



Respect the Trend but Curb Your Enthusiasm for Stocks Next Year

Despite an economic soft patch, a mid-single-digit return could lift the S&P 500 to 4,850 in 2024, and a mild recession should produce below-consensus earnings of \$225. Lagging small-cap stocks are extremely cheap relative to their larger brethren, but a business cycle contraction and ensuing recovery could be agents of change.



Macro Uncertainty, Micro Opportunities

As the big picture remains unclear in 2024, we are focused on right-sized opportunities: leaning into quality investments, a more supportive environment for small caps, and using selectivity in emerging markets.



A Desynchronizing World: Slowing Growth, Decelerating Inflation, Policy Easing

Global growth will slow further in 2024, the consequence of the lagged effect of increasingly restrictive monetary policy. Tightening happened nearly in lockstep around the world, but easing will be more desynchronized and its effects more disparate between countries..



Two Wars in Two Years: A Stark Reminder about Energy Security

Energy security is vital, and the latest Middle Eastern conflagration is the second wake-up call over the past two years. We are experiencing an unusually high degree of production discipline amongst OPEC+ and capital discipline in US producers.

For more information, refer to the full [Investment Strategy Quarterly](#).

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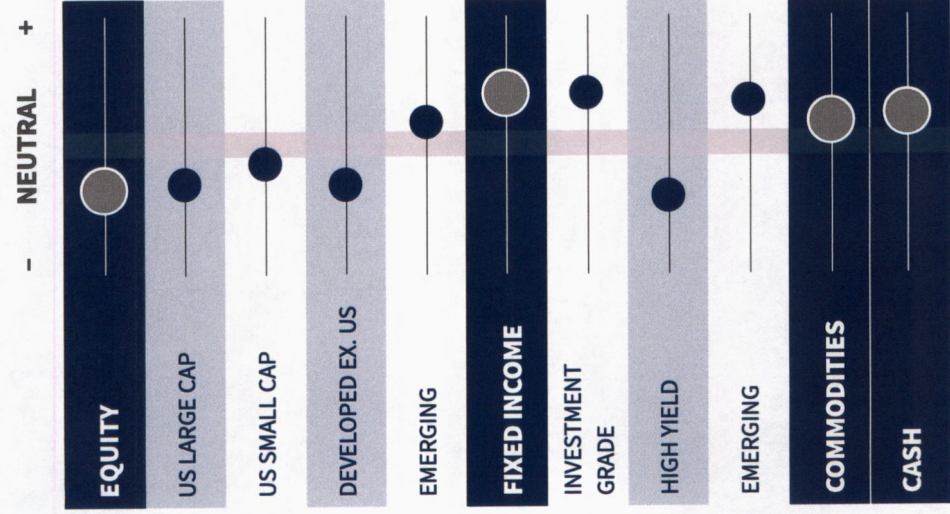
Economic Snapshot

Economic Indicator

| Economic Indicator | NEUTRAL | UNFAVORABLE |
|--------------------------------------|---------|-------------|
| | | |
| GROWTH | | |
| EMPLOYMENT | | |
| CONSUMER SPENDING | | |
| BUSINESS INVESTMENT | | |
| INFLATION | | |
| MONETARY POLICY | | |
| LONG-TERM INTEREST RATES | | |
| FISCAL POLICY | | |
| THE DOLLAR | | |
| REST OF THE WORLD | | |
| MANUFACTURING | | |
| HOUSING AND RESIDENTIAL CONSTRUCTION | | |

Eugenio J. Alemán, PhD
Chief Economist, Raymond James

Tactical Outlook



The tactical asset allocation outlook above reflects the Raymond James Investment Strategy Committee's recommendations for current positioning. Your financial advisor can help you interpret each recommendation within this material relative to your individual asset allocation policy, risk tolerance and investment objectives.

RAYMOND JAMES®

INVESTMENT STRATEGY QUARTERLY QUICKVIEW

JANUARY 2024

Capital Markets Snapshot

| EQUITY | AS OF 12/31/2023 | 4Q 2023 RETURN** | 12-MONTH RETURN** |
|------------------------------|------------------|------------------|-------------------|
| DOW JONES INDUSTRIAL AVERAGE | 37,689.54 | 12.48% | 13.70% |
| S&P 500 INDEX | 4,769.83 | 11.24% | 24.23% |
| NASDAQ COMPOSITE INDEX | 15,011.35 | 13.56% | 43.42% |
| MSCI EAFE INDEX | 1,392.61 | 10.47% | 18.85% |
| RATES | AS OF 12/31/2023 | AS OF 9/30/2023 | AS OF 12/31/2022 |
| FED FUNDS RATE TARGET RANGE | 5.25-5.5 | 5.25-5.5 | 4.25-4.5 |
| 3-MONTH LIBOR | 5.36 | 5.26 | 3.61 |
| 2-YEAR TREASURY | 4.25 | 5.04 | 4.42 |
| 10-YEAR TREASURY | 3.88 | 4.57 | 3.88 |
| 30-YEAR MORTGAGE | 6.95 | 7.74 | 6.66 |
| PRIME RATE | 8.50 | 8.50 | 7.50 |
| COMMODITIES | AS OF 12/31/2023 | 4Q 2023 RETURN | 12-MONTH RETURN |
| GOLD | \$2,071.80 | 11.02% | 13.45% |
| CRUDE OIL | \$71.65 | -21.08% | -10.73% |

*Price Level
**Total Return

DISCLOSURE:

Data is provided by the Investment Strategy Group. This material is for informational purposes only and should not be used or construed as a recommendation regarding any security. All expressions of opinion reflect the judgment of Raymond James & Associates, Inc. and are subject to change.

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Past performance is not indicative of future results. The performance mentioned does not include fees and charges which would reduce an investor's returns. Fixed income securities are subject to interest rate risk. Generally, when interest rates rise, bond prices fall, and vice versa. Specific sector investing can be subject to different and greater risks than more diversified investments. Investing in small-cap and mid-cap stocks generally involves greater risks, and, therefore, might not be appropriate for every investor. High-yield (below investment-grade) bonds are not suitable for all investors. When appropriate, these bonds should only comprise a modest portion of your portfolio. Specific sector investing such as real estate can be subject to different and greater risks than more diversified investments. Declines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments.

INDEX DESCRIPTIONS: Please note that all indices are unmanaged and investors cannot invest directly in an index. An investor who purchases an investment product which attempts to mimic the performance of an index will incur expenses that would reduce returns. Standard & Poor's 500 (S&P 500): Measures changes in stock market conditions based on the average performance of 500 widely held common stocks. Represents approximately 68% of the investable U.S. equity market. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities. The NASDAQ Composite Index is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market. The MSCI EAFE (Europe, Australia, Far East) index is an unmanaged index that is generally considered representative of the international stock market. The returns noted do not include fees and charges which will affect an investor's return.

Bond prices and yields are subject to change based upon market conditions and availability. If bonds are sold prior to maturity, you may receive more or less than your initial investment. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices rise.

Sector Snapshot SECTOR

S&P
WEIGHT

| | | |
|---------------|------------------------|-------|
| OVERWEIGHT | HEALTH CARE | 12.4% |
| MARKET WEIGHT | CONSUMER STAPLES | 6.8% |
| | UTILITIES | 2.3% |
| | CONSUMER DISCRETIONARY | 10.9% |
| MARKET WEIGHT | INFORMATION TECHNOLOGY | 28.3% |
| | FINANCIALS | 13.1% |
| | REAL ESTATE | 2.2% |
| UNDERWEIGHT | COMMUNICATION SERVICES | 9.5% |
| | INDUSTRIALS | 8.2% |
| | MATERIALS | 2.3% |
| | ENERGY | 3.8% |

A Mild Recession and S&P 4,500

Very early this year our economics team got a pleasant surprise: Consensus Economics, which collects forecasts from roughly 200 economists around the world, rated us the most accurate forecasters of the United States for 2022, based on our forecasts for GDP and CPI. Unfortunately, we don't expect a repeat award for 2023.

For 2022, we saw inflation and continued moderate growth. We were right. This past year, in 2023, we anticipated economic weakness late in the year, and put our S&P 500 target at 3,900. Instead, the economy remained resilient and stocks rallied much more than we thought. As we said a year ago: "if it turns out that Chairman Powell and the Federal Reserve have engineered a soft landing – no recession in 2023 and with the market ending 2023 confident of not having a recession in 2024 – then stocks should rally substantially in 2023 and easily beat our S&P 500 target of 3,900." Today, that's what most stock market investors are thinking: a soft landing has been achieved and they should therefore be optimistic about the future.

But we don't think the economy is out of the woods yet. The consensus among economists is now that the economy will continue to grow in 2024, with a soft landing and no recession. We think that's too bullish and see a mild recession with a -0.5% real GDP print on the way for 2024.

The yield curve has been inverted for more than a year and is likely to remain so well into 2024 and the M2 measure of the money supply is down 3.3% from a year ago, while commercial & industrial loans have also declined. Commercial construction has been temporarily and artificially supported by government subsidies in the past couple of years and should soon start faltering. Payrolls have grown very fast in the past year even with an unusually low unemployment rate, suggesting that businesses have over-hired.

Meanwhile, consumer spending looks set to slow. Government payouts, rent and student loan moratoriums, and temporary tax cuts during COVID led to bloated overall savings for many consumers. In turn, they could relax in 2022-23 and save a smaller part of their ongoing earnings than they normally would. But the artificial boost from these government actions is likely to finally run out in 2024, which suggests to us consumer spending will moderate significantly in 2024.

It's also important to realize how much the federal budget deficit expanded last year. The official deficit was about \$1.7 trillion in FY 2023 but would have been \$2.0 trillion if it hadn't been for the Supreme Court striking down much of President Biden's plan to forgive student loans. But that Court decision

didn't change the government's cash flow; the Education Department just wrote up the value of its loan portfolio. In other words, the underlying cash flow situation for the federal government was no different than if we had run a deficit of \$2.0 trillion, or about 7.4% of GDP. For last year, in FY 2022, excluding the student loan scoring, the deficit was about 4.0% of GDP. That's a huge one-year spike in the deficit, which temporarily lifted spending.

But this won't continue. The budget deficit won't grow again in 2024, given the rally in stocks in 2023, big tax payments are likely due, which takes away this temporary stimulus.

What will happen to inflation? We think it keeps heading down in 2024 and may even finish the year at, or perhaps even temporarily below, the Federal Reserve's 2.0% target. However, if we do hit 2.0% don't expect to stay there for long. The Fed is likely to cut rates about as aggressively as the futures market now projects, about 150 basis points in 2024. And, unless the money supply keeps falling, inflation is likely to move back up in 2025 (and beyond); above the Fed's 2.0% target.

What does this mean for stocks? The good news for stocks is that if the economy is weaker than expected and inflation keeps heading down, long-term interest rates will tend to decline, as well. That's important because our Capitalized Profits Model takes nationwide profits from the GDP report and discounts them by the 10-year US Treasury yield, to calculate fair value.

If we use a 10-year Treasury yield of 3.50% the model says the S&P 500 is fairly valued, with current profits, at about 4,450. In other words, for the first time in many years, the US stock market is very close to fair value. And, the path of both profits and 10-year Treasury yields, in the next year, is uncertain.

We expect profits to be weaker than the consensus expects in 2024, and with Fed rate cuts of 150 basis points, the 10-year to end the year around 3.5%. Putting this all together, including the fact that the S&P 500 closed on Friday at 4,754, we think it finishes 2024 at 4,500, or lower.

Remember, this is not a trading model, and it doesn't mean investors should run out and sell all their stocks, it just means investors need to be selective. The past few years have been the most difficult time to forecast in our careers. The US economy has never gone through COVID lockdowns before, plus a reopening, along with such massive peacetime fiscal and monetary stimulus. We understand many think we can do all this with little, or no, significant impact on the economy. We don't believe this conventional wisdom. 2024 will be a tough year.

| Date/Time (CST) | U.S. Economic Data | Consensus | First Trust | Actual | Previous |
|-----------------|-------------------------|-----------|-------------|--------|----------|
| 12-28 / 7:30 am | Initial Claims – Dec 23 | 210K | 209K | | 205K |
| 12-29 / 8:45 am | Chicago PMI – Dec | 50.5 | 52.3 | | 55.8 |

Consensus forecasts come from Bloomberg. This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.

Retirees, What's Your Withdrawal Strategy?

When planning for retirement, we often focus on the accumulation phase: saving diligently and investing wisely. We spend 40 or more years of our lives focused on building the proverbial "nest egg," but after retirement, things change and so should our financial focus.

There are a variety of questions that must be answered. How much should you be withdrawing annually? Should you go with your IRA first or your brokerage account? Should you withdraw a fixed percentage or fixed amount? How much will you leave behind?

Having a well-planned withdrawal strategy is important:

- It helps to prolong the lifespan of your retirement savings.
- It may reduce your overall tax burden.
- It can provide a more balanced income stream.
- It can help in preserving your wealth for legacy purposes.

4 Common Withdrawal Strategies

There are several ways you can go about withdrawing money in retirement. As always, it helps to get advice from a trusted financial advisor, but it never hurts to educate yourself on some options beforehand. We've compiled a list of four below that are commonly used. Which one sounds like the best fit for you?

1. *The 4% Rule*

You've probably heard of the 4% rule, a guideline suggesting that you withdraw 4% of your retirement savings in the first year of retirement, adjusting for inflation in subsequent years.¹ For instance, if you have \$3 million in retirement savings, you withdraw \$120,000 in the first year.

This rule aims to provide a steady income while keeping the principal balance largely intact. However, it's not one-size-fits-all. The rule doesn't account for market volatility, interest rate trends, tax implications, unexpected expenses, or changing personal circumstances.

¹ "What Are Retirement Withdrawal Strategies?" *BlackRock*, 2023, www.blackrock.com/us/individual/education/retirement/withdrawal-rules-and-strategies. Accessed 7 Dec. 2023.

2. *Fixed-Dollar Withdrawals*

Some retirees choose to withdraw a set amount of money each year for a certain number of years. For instance, you might opt to take out \$100,000 every year and then check if this amount still works for you after five years. This approach gives you a steady income to plan your budget around, but it doesn't consider the rising cost of living due to inflation. Also, if you set the amount too high, you might start eating too far into the money you have invested. Plus, if the market is down and your investments are worth less, you might have to sell more than you'd like to get the cash you need.²

3. *Fixed-Percentage Withdrawals*

Another withdrawal strategy is to take out a certain percentage of your total investments each year.³ How much money you'll get can change since it depends on how much your portfolio is worth at the time. This can make your annual income a bit unpredictable, but if you withdraw a smaller percentage than what your investments are expected to earn, your income and the value of your account could actually go up over time. But be careful—if you take out too much, you might run out of money sooner than you think.

For example, if you have \$3 million saved up for retirement, and you decide to withdraw 3% per year, you'll have \$90,000 to use that year.

4. *Systematic Withdrawals*

With a systematic withdrawal strategy, you only withdraw the income (such as dividends or interest) created by the underlying investments in your portfolio. Because your principal remains intact, this is designed to prevent you from running out of money and may afford you the potential to grow your investments over time, while still providing retirement income.⁴ However, the amount of income you receive in any given year will vary, since it depends on market performance. There's also the risk that the amount you're able to withdraw won't keep pace with inflation.

Are there other withdrawal strategies? Certainly. Which strategy is best for you? That really depends upon your unique situation. If you're approaching retirement or lack confidence in your current strategy, we're here to help.

² "What Are Retirement Withdrawal Strategies?" *BlackRock*, 2023, www.blackrock.com/us/individual/education/retirement/withdrawal-rules-and-strategies. Accessed 7 Dec. 2023.

³ "What Are Retirement Withdrawal Strategies?" *BlackRock*, 2023, www.blackrock.com/us/individual/education/retirement/withdrawal-rules-and-strategies. Accessed 7 Dec. 2023.

⁴ "What Are Retirement Withdrawal Strategies?" *BlackRock*, 2023, www.blackrock.com/us/individual/education/retirement/withdrawal-rules-and-strategies. Accessed 7 Dec. 2023.