2024 OUTLOOK
Navigating shifts in sentiment and markets

Opportunity on the horizon, but it won't be easy

December 2023

After the rollercoaster ride over the past year, 2024 should provide an opportunity to look beneath the market's surface toward different asset classes, industries and factors.

"I believe some of the massive shifts in sentiment we've seen this year probably start to normalize, allowing investors to focus on the fundamentals," said **Matt Orton, CFA, Chief Market Strategist at Raymond James Investment Management**. "This is a market environment where some of the things that haven't worked for a long time could finally start to work again. That doesn't mean it's going to be easy. I believe diversification has worked, and it's going to remain essential for success going forward."

"I'm of the belief that we're going to have a recession," said **James Camp, CFA, Managing Director of Fixed Income and Strategic Income at Eagle Asset Management**. The U.S. Federal Reserve's rate hikes happened very quickly, and "it takes a bit of time for the gears to grab the teeth of the economy." Consequently, Camp expects it's probably going to be late 2024 before the Fed reaches its 2% inflation target.

In the meantime, Camp said, the cash that investors have plowed into money market funds is poised to underperform going forward. "I've been through five tightening cycles," he said, "and there is no 1-, 3- or 5-year period where fixed income does not materially outperform cash after a peak in Fed rate hikes."

Key themes for 2024

Get comfortable being uncomfortable	• Inflation is likely to stay elevated. Recession timing is uncertain, but inevitable. • Expect economic uncertainty to persist: No hurricanes, but clouds are forming. • Consumers face headwinds. Don't expect rates to drop till the labor market cracks.
Embrace diversification	• Cash isn't trash, but it's not king either. • Diversified portfolios aren't dead, but static asset allocations are. • We're seeing one of the best fixed income opportunities in more than a decade.
Macro uncertainties, micro opportunities	• High quality, profitable small caps merit consideration. • Income markets, both stocks and bonds, appear to be set up for a strong 2024. • Be selective in emerging markets. Think India, not China.
Earnings growth resumes	• Beneath the surface, the S&P 500 Index has already had an earnings recession. But not all sectors are created equal. Look for opportunity in an expansion of market breadth. • Negative senitment has created opportunities in credit.
Dive into megatrends	• Reshoring and reinvestment via increased capital expenditures; aging population with more chronic diseases; energy transition; generative artificial intelligence (AI).

Bear markets vs. recession

All bear markets and recessions are unique, but a few historical characteristics remain consistent:

- Economic data looks backwards. That's why gross domestic product (GDP) tends to bottom after the stock market, which looks forward.
- The drivers and durations of recessions vary, but they all come to an end.

The prospect of a recession "doesn't mean you shouldn't be invested in the market and doesn't mean cash is the only option," Orton said. "If you plan your investments based on when you think there's a recession, you could miss out."

The cost of waiting for economic recovery before investing

S&P 500 Index bottom	GDP bottom	Days in between those bottoms	S&P 500 return by the time that GDP bottomed	S&P 500 return by the time that GDP started rising again
3/23/2020	6/30/2020	91	20%	30%
3/9/2009	6/30/2009	122	25%	44%
10/31/1990	3/31/1991	151	23%	22%
8/12/1982	9/30/1982	61	12%	31%
10/3/1974	3/31/1975	182	31%	50%
10/22/1957	3/31/1958	90	5%	13%

Source: National Bureau of Economic Research (NBER), Bloomberg, as of 11/30/23

Similarly, Orton said, recessions are not necessarily a harbinger of bad equity returns, especially three, five or 10 years after they end.

S&P 500 performance
Prior to, during and after recessions

Recession	6 months prior	During recession	1 year after	3 years after	5 years after	10 years after
Nov 1948 - Oct 1949	9.83%	4.12%	31.48%	87.98%	171.33%	497.04%
July 1953 - May 1954	-6.46%	27.57%	35.92%	83.74%	144.81%	294.38%
Aug 1957 - April 1958	9.28%	-6.51%	37.31%	66.35%	89.72%	211.33%
April 1960 - Feb 1961	-1.04%	18.40%	13.61%	35.06%	68.41%	111.33%
Dec 1969 - Nov 1970	-7.78%	-3.45%	11.24%	20.63%	25.16%	145.87%
Nov 1973 - Mar 1975	2.86%	-17.90%	28.32%	21.99%	55.33%	252.40%
Jan 1980 - July 1980	7.67%	16.14%	12.92%	55.89%	100.89%	345.64%
July 1981 - Nov 1982	-1.02%	14.66%	25.40%	67.24%	103.23%	350.51%
July 1990 - Mar 1991	3.09%	7.64%	11.04%	29.84%	98.21%	284.66%
Mar 2001 - Nov 2001	-17.84%	-7.18%	-16.51%	8.44%	34.33%	33.16%
Dec 2007 - June 2009	-2.33%	-35.46%	14.43%	57.70%	136.98%	294.17%
Feb 2020 - Apr 2020	1.92%	-1.12%	45.98%	50.11%	?	?

Source: NBER, Bloomberg, as of 11/30/23

"I believe there are plenty of opportunities for people who are going to do their homework and try to find higher-quality companies in the market," Orton said. These include companies with attractive returns on equity, robust free cash flows, strong balance sheets, and rising earnings momentum.

"The stock market does not represent the market of stocks beneath the surface," he said. "Peel back the onion: I believe there's a lot of opportunities within the broader market, fueled by a resumption of growth in earnings as well as by some key megatrends."

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Risk Information:

Investing involves risk, including risk of loss.

Diversification does not ensure a profit or guarantee against loss.

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Many investors consider bonds to be “risk free” investment vehicles. Historically, bonds have indeed provided less volatility and less risk of loss of capital than has equity investing. However, there are many factors that may affect the risk and return profile of a fixed-income portfolio. The two most prominent factors are interest-rate movements and the creditworthiness of the bond issuer. Bonds issued by the U.S. government have significantly less risk of default than those issued by corporations and municipalities. However, the overall return on government bonds tends to be less than these other types of fixed-income securities. Investors should pay careful attention to the types of fixed-income securities that comprise their portfolio and remember that, as with all investments, there is the risk of the loss of capital.

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Definitions

Breadth describes the relationship between the median and the mean of a market index. When a few data outliers result in a mean that is substantially larger (or smaller) than the median of the full data set, then the performance of the entire index is being driven by a “narrow” selection of companies. An index supported by “broad” market movements is one where the median is closer to the mean.

Factor investing is an approach to investing that selects securities based on characteristics associated with higher returns. These characteristics, or factors, can be macroeconomic factors or style factors. Macroeconomic factors are focused on broad risks across asset classes and include the rate of inflation: growth in gross domestic product; and the unemployment rate. Style factors include differences in growth versus value stocks; market capitalization, and industry sector. Factor performance refers to a focus on performance of securities within a particular factor or between groups of different kinds of factors.

Generative artificial intelligence (AI) is a form of artificial intelligence that can create new content that includes text, audio, code, video, and images.

Gross domestic product (GDP) is the total value of goods and services provided in a country during specified period such as a quarter or a year.

Market of stocks is a term market participants use when referring to the diversity of technical or other characteristics that may exist at any given time within the overall stock market. For example, the stock market as a whole may rise or fall on the fortunes of a small number of very large and thus very influential stocks. But within the broader market of stocks, there can be many companies with performance, risk, or opportunities that vary significantly from what market participants may find at the index level.

The National Bureau of Economic Research (NBER) is a private, nonpartisan organization focused on facilitating research of major economic issues, including making the generally recognized official determination of when recessions begin and how long they last.

Quality investing is a strategy that seeks to invest in companies with low debt, stable earnings, consistent asset growth, and strong corporate governance, as reflected in financial metrics such as ratios of return to equity and debt to equity, as well as to earnings variability.

Reshoring describes the effort to bring manufacturing and other services back to the United States from overseas operations.

Return on equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders’ equity.

Indices

The S&P 500 Index measures change in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividend reinvested. The S&P 500 represents approximately 80% of the investable U.S. equity market.

About Raymond James Investment Management

Raymond James Investment Management is a global asset-management company that combines the exceptional insight and agility of individual investment teams with the strength and stability of a full-service firm. We believe providing a lineup of seasoned, committed portfolio managers – spanning a wide range of disciplines and investing vehicles – is the best way to help investors seek their long-term financial goals.

About Eagle Asset Management

Eagle Asset Management, a boutique in the Raymond James Investment Management family, provides a broad array of fundamental equity and fixed-income strategies designed to meet the long-term goals of institutional and individual investors. Eagle's multiple independent investment teams have the autonomy to pursue investment decisions guided by their individual philosophies and strategies.

Contact us at **800.521.1195** or visit **RJInvestmentManagement.com** for more investment insights.

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