

STUDENT OF THE MARKET

Market

Outlook

Q1 2024

BlackRock[®]

Market Outlook

Today's market moves.

What to know about markets right now

1

MARKETS

**Markets closed
out 2023 on a
high note**

2

THE FED

**The Fed signals
rate cuts in 2024**

3

ECONOMY

**The economy
remains resilient**

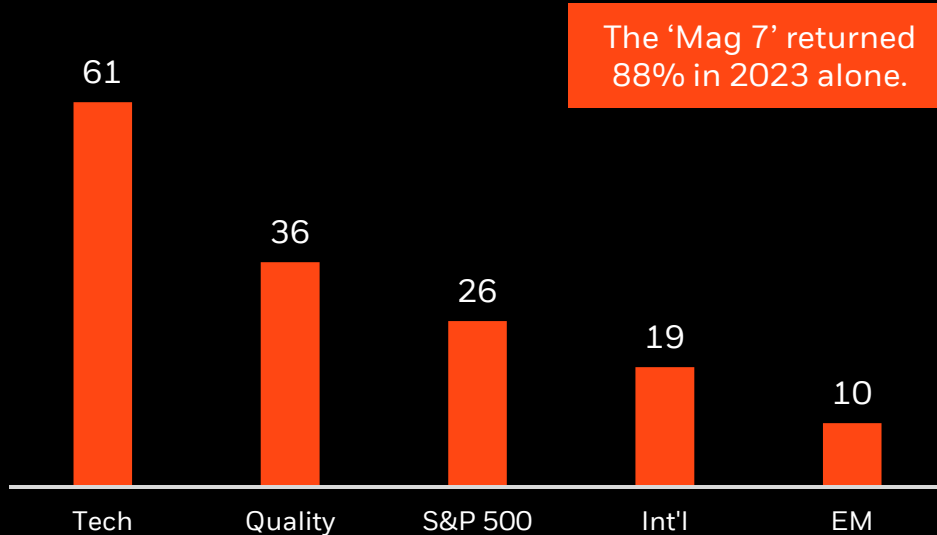
What it means for portfolios

2023 WRAPPED: EQUITIES



Equity markets delivered double digit returns despite forecasts for a 2023 recession...

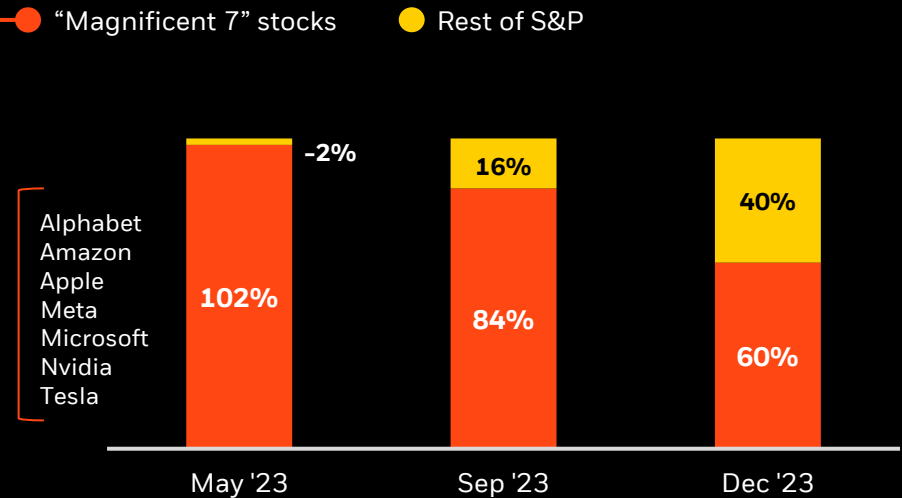
2023 performance (%)¹



The 'Mag 7' returned 88% in 2023 alone.

... and although AI drove markets through the first half of 2023, we saw market **performance broaden out**, particularly in Q4

Contribution to S&P 500 YTD performance (% , May – Dec 2023)²



Looking ahead into 2024...

Quality is key

We expect slowing growth in 2024, with the potential for an uptick in volatility leading us to prefer quality and lower-risk exposures.

Megaforces may drive opportunity

Megaforces such as artificial intelligence, changing demographics, and a fragmenting world create investment opportunities in tech, healthcare, and select EM markets.

¹ Source: Bloomberg as of 12/29/23. "Tech" defined as the S&P North American Technology Sector Index, "Quality" as MSCI USA Quality Gross Total Return Index, "S&P 500" as the S&P 500, "Int'l" as MSCI EAFE, and "EM" as MSCI Emerging Markets Index.

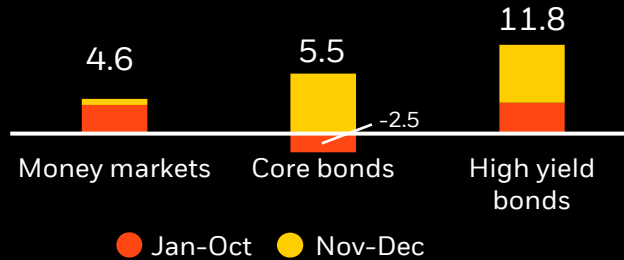
² Source: Bloomberg as of 12/29/23. "Magnificent 7" stocks include Apple, Amazon, Meta, Microsoft, Alphabet, Nvidia, and Tesla.

2023 WRAPPED: BONDS



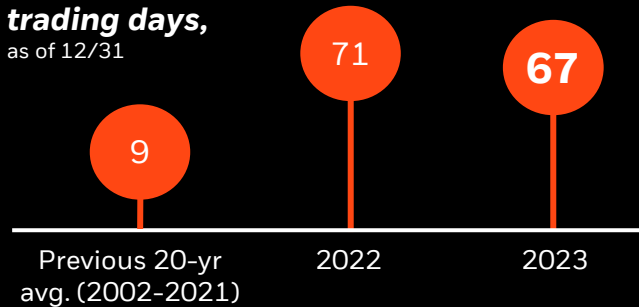
Bonds rallied in November and December to finish the year firmly in positive territory.¹

Returns (%), as of 12/31



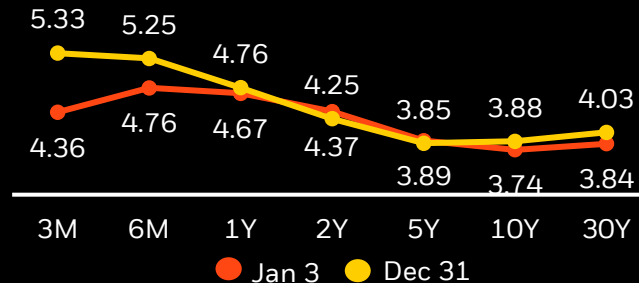
But it was a roller coaster of a year, with **67 +/- 0.5% trading days**.²

+/- 0.5% trading days, as of 12/31



Ultimately, **interest rates finished the year close to where they started**, despite the 10Y hitting a peak of 4.99% in Oct.³

Yields (%), as of 12/31



Looking ahead...

...into 2024

▶ Bank on cash rates falling

We expect the Fed to start cutting rates in mid-2024.

▶ Bullish on bonds

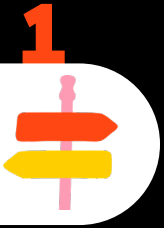
Bonds may have attractive return potential ahead of Fed rate cuts.

▶ Opportunities for active positioning

Active managers may be able to take advantage in this type of market.

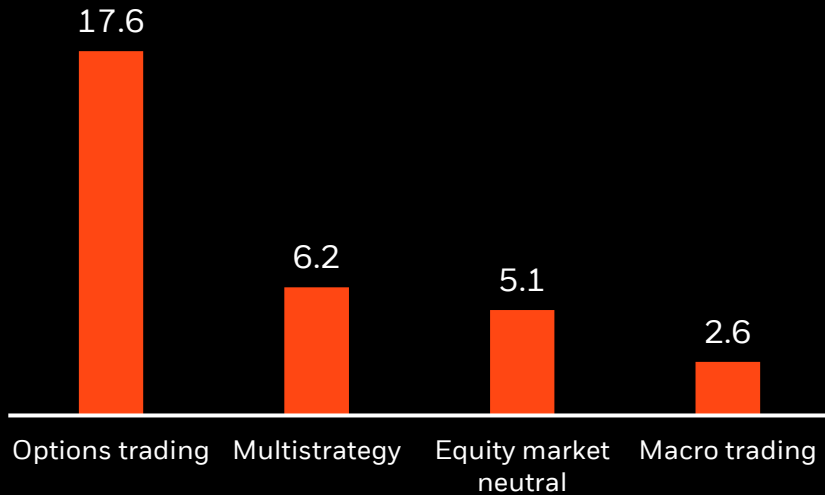
1 Source: Morningstar as of 12/31/23. Asset classes are represented by their respective Morningstar fund category averages 2 Source: Morningstar as of 12/31/23. Bonds represented by the Bloomberg U.S. Agg Bond TR Index. 3 Source: Bloomberg as of 12/31/23.

2023 WRAPPED: ALTERNATIVES



Diversifying alternatives delivered strong returns in 2023

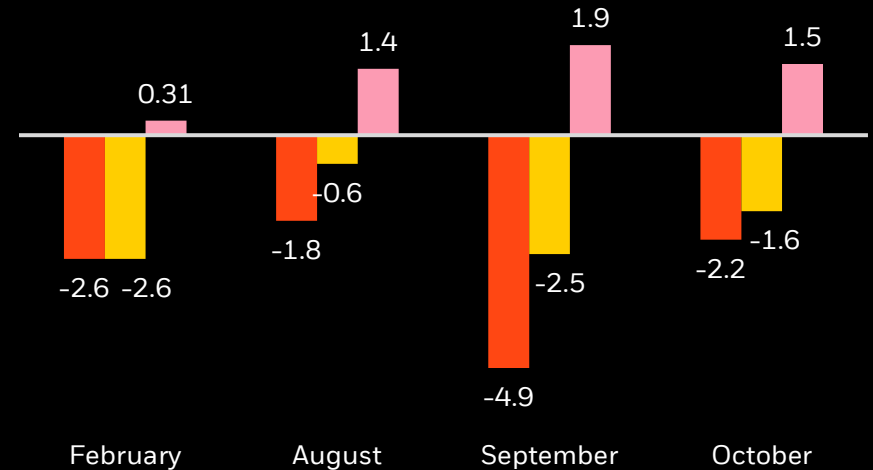
2023 returns¹



Alts stepped up to the plate when stocks and bonds were both down in 2023

Monthly performance (%)²

● Stocks ● Bonds ● Alts



Looking ahead into 2024...

Alts expected to shine as diversifiers and sources of potential return

We could continue to see elevated stock/bond correlations amid inflation and rate volatility, suggesting the need for additional diversifiers such as alts. We also believe they can deliver strong return potential in 2024.

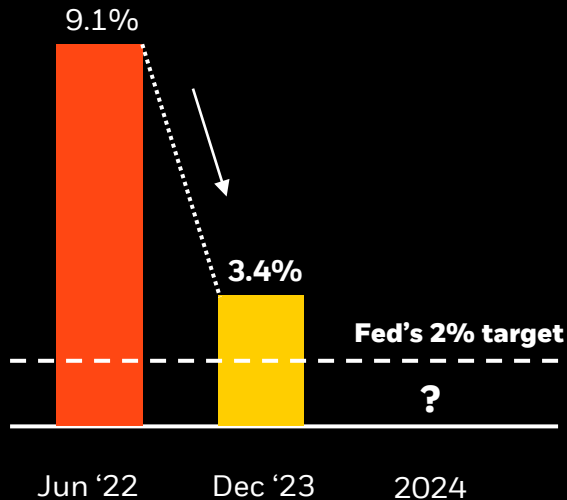
¹ Source: Morningstar as of 12/31/23. Performance reported is average category performance. ² Source: Bloomberg, Morningstar as of 10/31/23. Stocks represented by S&P 500, bonds by Bloomberg U.S. Agg Bond Index, and Alts by the Morningstar US Fund Equity Market Neutral category average.

Inflation continues to trend downwards

While it may still be some time before inflation drops to the Fed's 2% target, sustainable progress towards that target may allow the Fed to ease interest rates down to less restrictive levels.

Inflation continues to fall...

12-month change in inflation rate¹



...and the majority of Fed members expect it to continue falling

Distribution of FOMC core PCE inflation projections for Dec 2024²



vs.



think **inflation** will drop to **2.3%-2.7%**

think **inflation** will stay between **2.9%-3.5%**

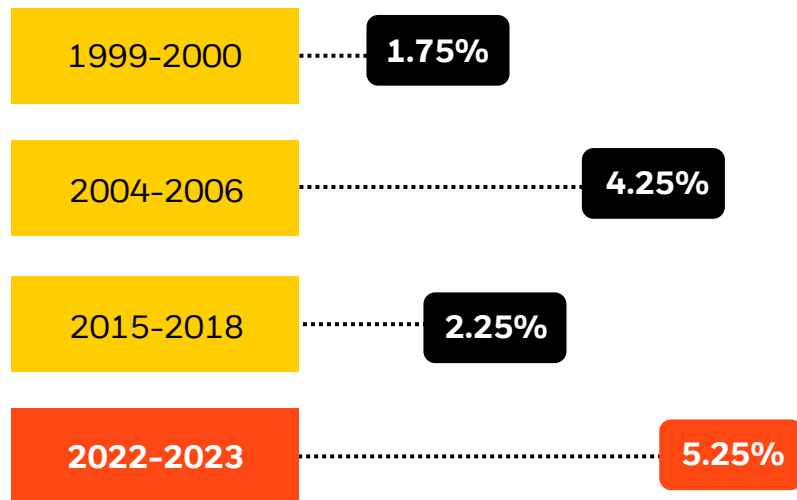
¹ Source: Bureau of Labor Statistics, Bloomberg as of 12/31/23. ² Source: Federal Reserve, as of meeting on December 12-13, 2023.

The Fed is discussing when to cut rates

The Fed has been holding interest rates at 5.25-5.50% since July, and has started discussing when it might pivot to rate cuts. While the “when” is not yet clear, we do expect cash rates to fall this year.

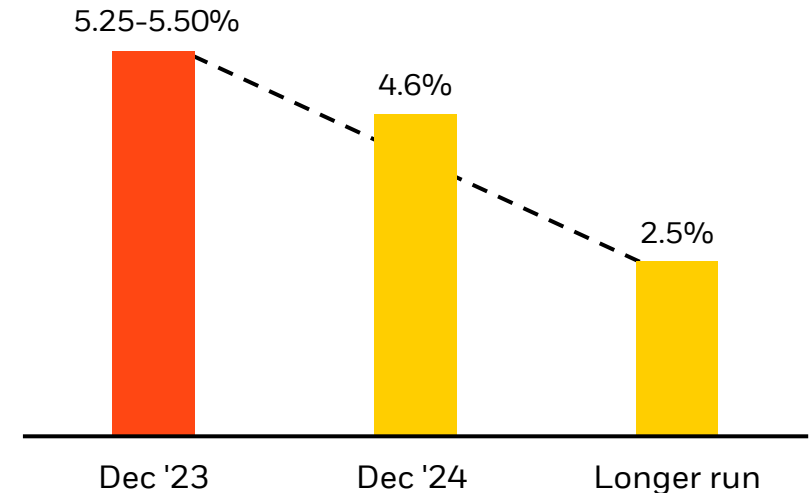
A look back at U.S. Fed Funds increases

Last four Federal Reserve rate hiking cycles¹



The Fed signals rate cuts in 2024

Median Fed rate projection²



Did you know?

The average time between the Fed's last hike and first cut over the last three cycles was **10 months**.³

¹ Source: U.S. Federal Reserve, as of 9/20/23. ² Source: U.S. Federal Reserve as of 12/13/23. ³ Source: BlackRock, Federal Reserve as of 12/31/23.

The economy remains resilient

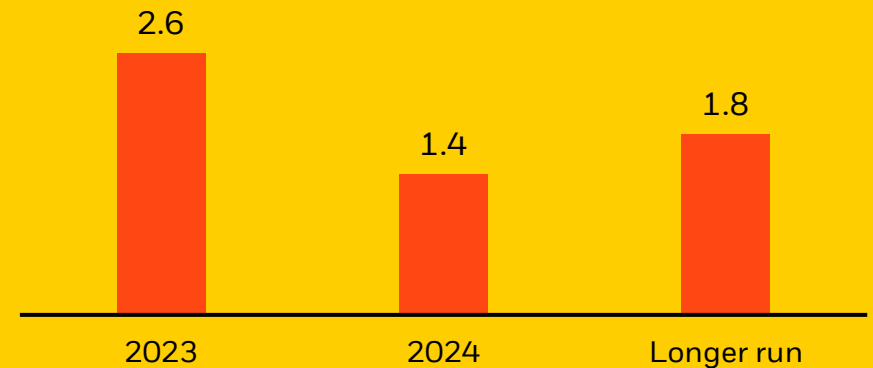
We don't see a recession on the horizon, as GDP growth projections remain positive and unemployment remains at a healthy level. We do, however, expect growth to normalize from currently elevated levels.

1

U.S. GDP growth is expected to remain positive through 2024

FOMC GDP growth expectations¹

GDP growth stayed positive through 2023, and the Fed is projecting that to continue, but at a more “normal” pace than in 2023.

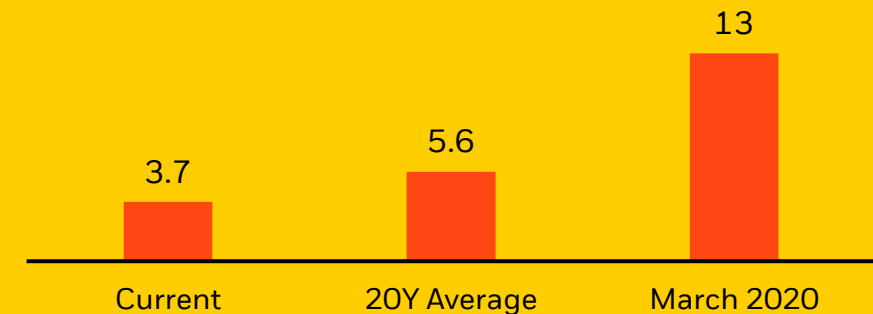


2

Unemployment sits at a healthy level, well below recessionary levels

Unemployment rate²

Unemployment continues to stay low, with its current level almost 2% less than its 20-year average.



¹ Source: U.S. Federal Reserve as of 12/13/23. ² Source: Bloomberg as of 1/11/24.

What it means for portfolios

1

Rethink your cash allocation

With **cash yields expected to fall**, high allocations to cash could work against your long-term plan.

Work with your advisor to **determine the right allocation to cash.**

2

Review your stock holdings

We prefer **high quality stocks** at the core.

We also see **opportunities to complement** that high quality core with **growthier names** that may benefit from the **mega forces** driving markets.

3

Stay invested for the long term

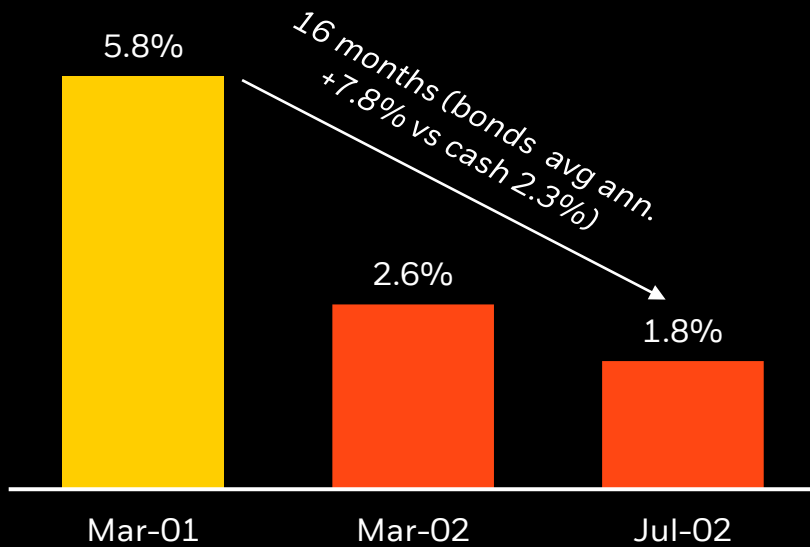
Maintaining a diversified portfolio doesn't always feel good, but over the long run, **it may win.**

Resist the temptation to try to time markets, or you **might miss out on unexpected upside.**

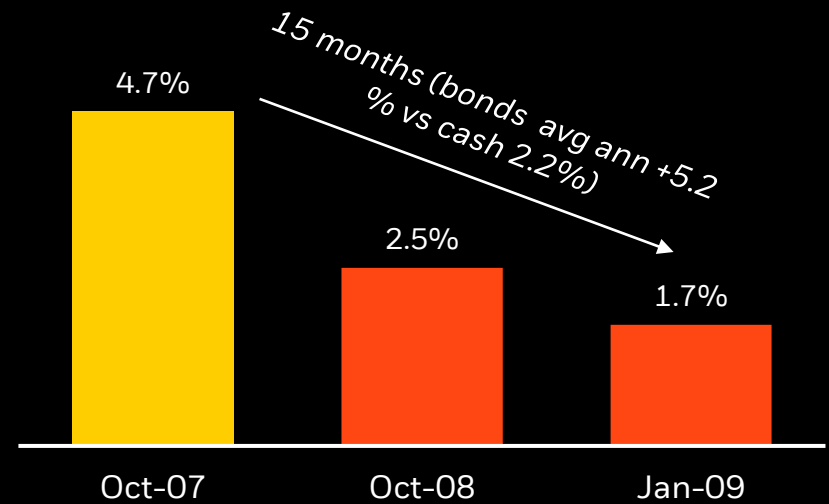
Cash yields can fall rapidly when the Fed pivots to rate cuts

In past cycles, we saw cash rates fall by over 2% in the first year following a peak in rates.

Money market fund returns fell from a high of 5% in March 2001 to below 2% in July 2002



Money market fund returns fell from a high of 4% in Oct. 2007 to below 2% in Jan. 2009



Source: Morningstar as of 12/31/23. U.S. bonds represented by the IA S&P US Gov IT Index from 1/1/26 to 1/3/89 and the Bloomberg U.S. Agg Bond TR Index from 1/3/89 to 12/31/23. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

Cash hasn't been top dog during the 'pause' period

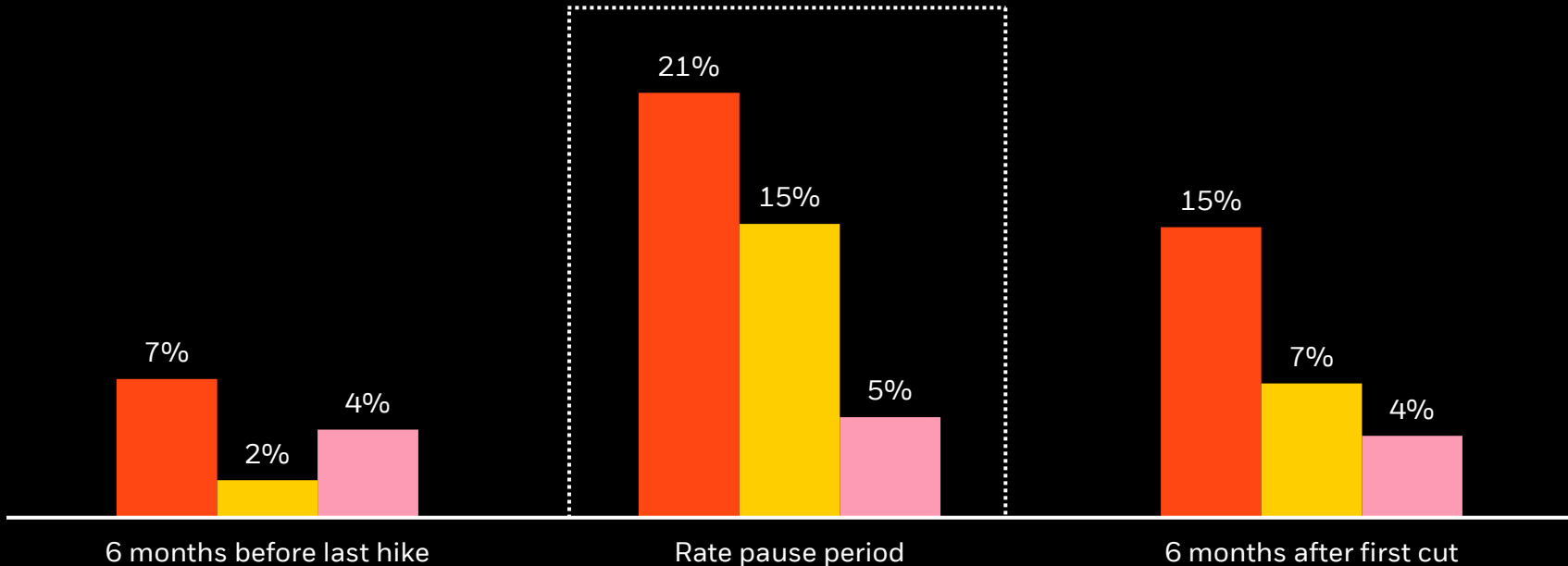
We believe a Fed pause is finally here, and history shows that 1) cash underperforms significantly during a 'pause' and 2) investing before the first cut may reap the most benefits. Now may be a good time to get reinvested.

Press 'play' on investing during the Fed pause

Not only do stocks and bonds sweep cash by a landslide, but they also generate overall higher returns before the first cut

Avg. total return (annualized), %

● Stocks ● Bonds ● Cash



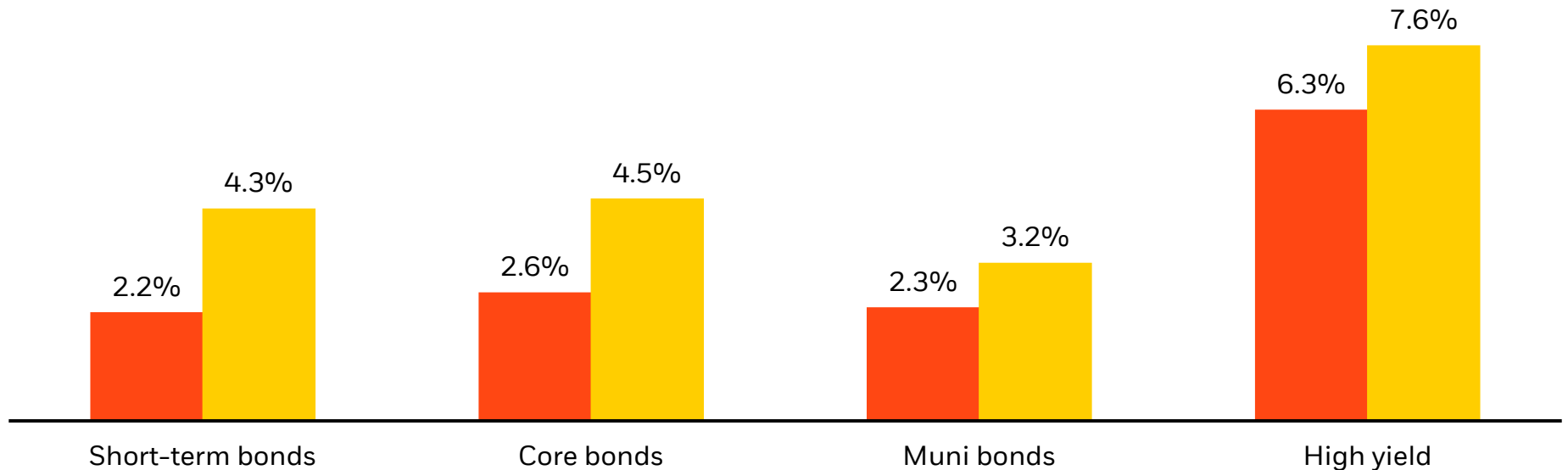
Source: Bloomberg, as of November 16, 2023. Total return analysis produced by iShares Investment Strategy. Historical analysis calculates average performance of the S&P 500 index, the Bloomberg US Aggregate Bond Index (bonds), the Russell Top 200 Growth Index (Russell 200 Growth), and the Bloomberg U.S. Treasury Bills: 1-3 Months TR Index (cash) in the 6 months leading up to the last Fed rate hike, between the last rate hike and first cut, and the 6 months after the first cut. The dates used for the last rate hike of a cycle are: 2/1/1995, 3/25/1997, 5/16/2000, 6/29/2006, 12/19/2018. Dates used for the first rate cut are: 7/6/1995, 9/29/1998, 1/3/2001, 9/18/2007, 8/1/2019. Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

Yields are still high

After a decade of low bond yields, investors are finally able to enjoy income on their bonds again.

Fixed income yields (%)

● Avg. yield 2013-2023 ● Dec 2023



Source: Bloomberg; Morningstar as of 12/31/2023. Yield is represented by yield to worst, a measure of the lowest possible yield that can be received on a bond that fully operates within the terms of its contract without defaulting. Short-Term bonds refers to the Bloomberg US Corporate 1-3 Year Index. Core Bonds refers to the Bloomberg U.S. Aggregate Bond Index. Muni Bond refers to the Bloomberg Municipal Bond Index. High Yield refers to the Bloomberg High Yield Index. **Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.**

Seek quality at the core of your portfolio

We continue to see opportunity in the mega-cap quality companies that have been driving markets forward. These companies have historically held up well through volatility and have outperformed when the Fed is at peak rates.

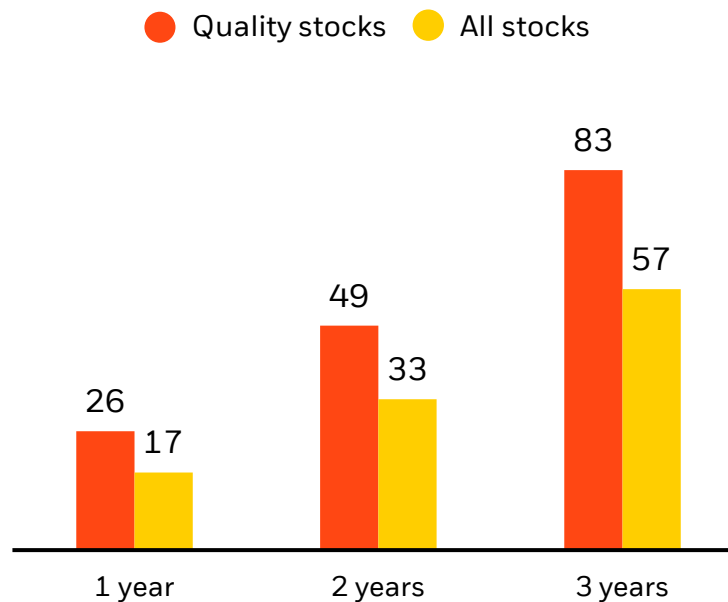
What is quality?

Companies with...

Positive earnings	Stable cash flows
Healthy balance sheets	Consistent and growing dividends

Quality has done well when the Fed stops hiking

Avg. cumulative returns (%), after Fed hiking cycle ends (1984-2019)*



*Source: BlackRock Fundamental Equities, with data from the Board of Governors of the Federal Reserve System and Bloomberg, March 2023. All equities represented by the Russell 1000 Index and bonds by the Bloomberg U.S. Aggregate Index. "Quality" is defined as the top quintile of stocks ranked in the Russell 1000 Index using a proprietary research screen that assesses companies on 13 "quality" metrics. Returns are calculated from the month when the Fed stops raising rates for six hiking cycles from 1984 to 2019.

A look into our 'mega themes' that may create mega growth opportunities...

1

AI & digital disruption

- ▶ Mega-cap tech may still have room to run
- ▶ Beyond the "Magnificent 7", a broad number of companies are incorporating AI to improve productivity

Talk to your advisor about **incorporating AI exposures**, and ensure you're **allocated to stocks beyond mega-cap names** that could benefit from AI.

2

Aging demographics

- ▶ An aging population may **create opportunities to invest in the healthcare sector**, which has lagged the broader market in 2023

Consider allocating to **healthcare** as a **longer-term investment**.

3

A fragmenting world

- ▶ A rewiring of global supply chains creates **opportunities for countries viewed as "friendlier"** to the U.S., such as **India and Mexico**

Get more **granular in international markets** in a rapidly changing world. We see a lot of potential in **Mexico and India**.

STAY INVESTED FOR THE LONG TERM

Stocks have continued higher regardless of party holding the presidency

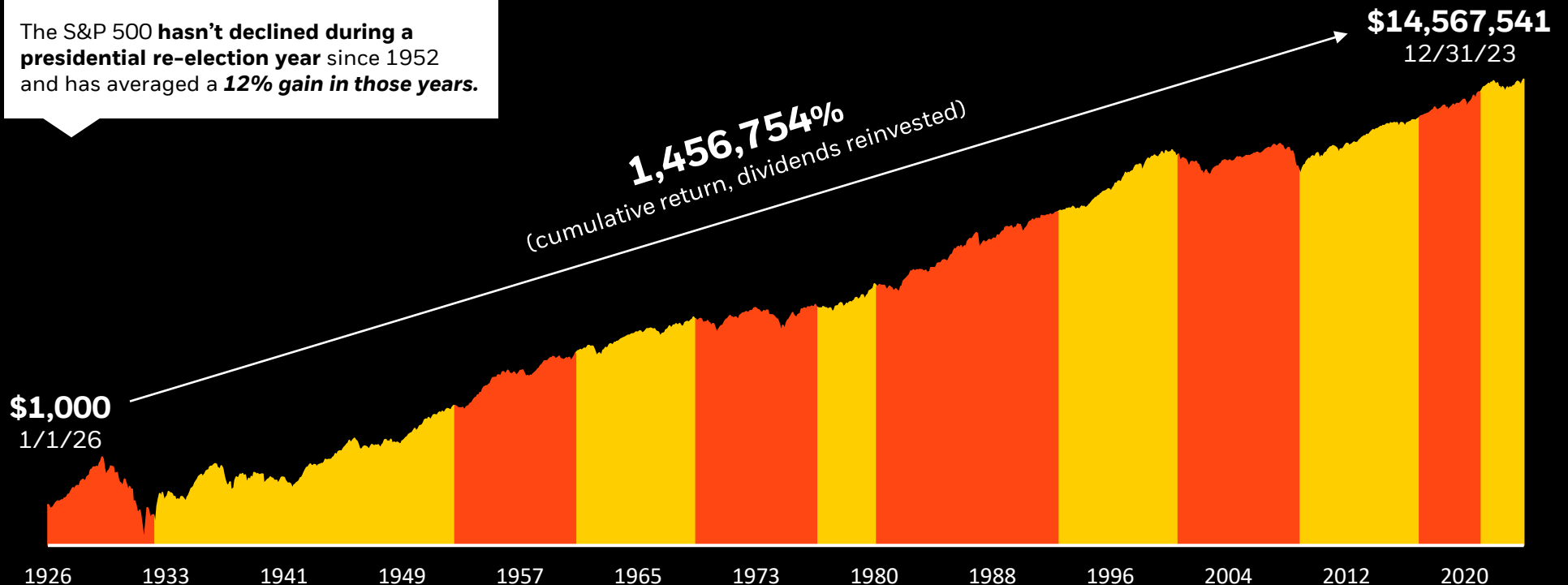
Growth of \$1k since 1926

Cumulative returns, 1/1/26 – 12/31/23

Democrats

Republicans

The S&P 500 **hasn't declined during a presidential re-election year** since 1952 and has averaged a **12% gain in those years**.



















Morningstar as of 12/31/23. Stock market represented by the S&P 500 Index from 1/1/70 to 9/30/23 and IA SBBI U.S. large cap stocks index from 1/1/26 to 1/1/70. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

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A diversified portfolio can work even when it feels like it's losing

Consider the example below with a diversified portfolio made up of 25% U.S. large cap stocks, 19% U.S. mid cap stocks, 7% international stocks, 5% U.S. small cap stocks, 4% emerging market stocks, 25% U.S. bonds and 15% high yield bonds.

Years	S&P 500	Diversified Portfolio	
2000–2002*	-40.1%	-15.7%	  "I lost money"
2003–2007	82.9%	87.1%	  "Diversification worked"
2008	-37.0%	-26.6%	  "I lost money"
2009–2019	351.0%	219.7%	  "I didn't make as much"
Q1 2020†	-30.4%	-23.1%	  "I lost money"
Q2 2020–2021‡	119.0%	66.6%	  "I didn't make as much"
2022	-18.1%	-15.5%	  "I lost money"
Total Return	288.6%	301.6%	  "Diversification can work even when it feels like its losing"
Gr \$100K	\$388,610	\$401,550	

Source: Morningstar as of 12/31/22. *Performance is from 9/1/00 to 12/31/02. †Performance is from 1/1/20 to 3/23/20. ‡Performance is from 3/24/20 to 12/31/21. Diversified Portfolio is represented by 25% S&P 500 Index, 19% Russell Mid Cap Index, 7% MSCI EAFE Index, 5% Russell 2000 Index, 4% FTSE Emerging Stock Index, 25% Bloomberg US Aggregate Bond Index, 15% Bloomberg US Corporate High Yield Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

Bringing it all together

1

**Stocks and bonds
finished the year strong**

**Stay invested for
the long term**

2

**The Fed signals
rate cuts in 2024**

**Rethink your
cash allocation**

3

**U.S. economy
remains resilient**

**Review your stock
holdings: quality at
the core, alongside
select growth
opportunities**

Market Outlook: Q1 2024

Returns as of 12/31/23	Total Ret 1 Year	Total Ret 5 Years	Total Ret 10 Years
Bloomberg US Agg Bond TR USD	5.53	1.10	1.81
Bloomberg US Corporate High Yield TR USD	13.44	5.37	4.60
Credit Suisse Event Driven USD	6.53	4.69	2.79
Credit Suisse Global Macro USD	-7.48	6.98	4.38
Credit Suisse Hedge Fund USD	5.20	5.72	3.92
Credit Suisse Long/Short Equity TR USD	10.21	5.80	4.68
Credit Suisse Multi-Strategy USD	8.42	5.85	5.14
IA SBBI US IT Govt TR USD	2.90	0.62	1.26
IA SBBI US Large Stock TR USD Ext	26.29	15.69	12.03
MSCI EAFE NR USD	18.24	8.16	4.28
MSCI EM NR USD	9.83	3.69	2.66
MSCI USA Sector Neutral Quality NR USD	30.44	15.33	11.23
Russell 1000 TR USD	26.53	15.52	11.80
Russell 2000 TR USD	16.93	9.97	7.16
Russell Mid Cap TR USD	17.23	12.68	9.42
S&P 500 TR USD	26.29	15.69	12.03
S&P 500 Value TR USD	22.23	14.11	10.01
US Active Fund Large Blend	21.79	14.10	10.23
US Fund Bank Loan	12.19	4.42	3.35
US Fund High Yield Bond	12.08	4.70	3.68
US Fund Inflation-Protected Bond	2.82	2.93	1.98
US Fund Intermediate Core Bond	5.59	1.05	1.66
US Fund Intermediate Core-Plus Bond	6.22	1.48	1.93
US Fund Money Market - Taxable	4.58	2.32	1.73
US Fund Multisector Bond	8.13	2.93	2.83
US Fund Nontraditional Bond	6.95	2.56	2.18
US Fund Short-Term Bond	5.73	1.88	1.58
US Fund Ultrashort Bond	5.96	2.09	1.53

Market Outlook: Q1 2024

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