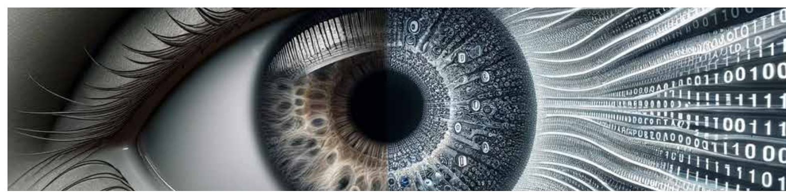
CARSON | Investment Research

# Outlook '24

# Seeing Eye to Eye


> **2024 may be about resourcefulness**, with an unprecedented boom in new technology-oriented construction, a surge in new businesses starts, widespread adoption of new technologies and an increasingly productive workforce.



For the past two years, there have been few places where market participants, strategists, policymakers and the economy have seen eye to eye.

The Federal Reserve (Fed) missed surging inflation in 2022, then markets underestimated the credibility of the Fed's rate-hiking campaign. Strategists missed the underlying strength in the economy at the end of 2022 and well into 2023, with many saying that a fast-approaching recession was nearly inevitable. Many market participants and strategists were too pessimistic about what's turned out to be a solid stock rally in 2023. Consumers have not seen eye to eye with what's really been a pretty good economy, with one prominent survey putting consumer sentiment near levels not seen since the 2008-09 Financial Crisis.

Carson Investment Research also did not see eye to eye with most other strategists heading into 2023. Our "no recession" call was unpopular, but the U.S. economy put in a solid year, stocks responded with strong gains and high short-term yields kept bond investors happy. Our view of 2023 was driven by resources that we thought were receiving insufficient attention, such as strong corporate balance sheets, significant income growth on the back of a strong labor market and deeper-than-expected excess consumer savings.

Where 2023 was about resources, 2024 may be about resourcefulness, with an unprecedented boom in new technology-oriented construction, a surge in new businesses starts, widespread adoption of new technologies and an increasingly productive workforce. A tight labor market is calling for businesses to invest, and the economy is answering. That, along with some continued depth of resources, may be the cornerstone for sustained economic growth in 2024.

In 2024, we believe productivity growth will help the economy avoid a recession and even produce near-trend growth. Productivity has been muted over the last 20+ years, with business investment lagging and widespread availability of cheap labor globally. Productivity grew an average of just 1.2% a year from 2010 to 2019, a meaningful slowdown from the prior decade despite the rapid advance of new technologies. 2023 might have begun a renaissance in productivity growth that may extend into 2024 and beyond, with many potential similarities to the period starting in 1995, when productivity growth allowed the Federal Reserve to end a tightening cycle and let the economy grow while still achieving price stability.

In 2023, **the potential for improved productivity growth was captured in the public imagination with the rapid adoption of generative AI**, artificial intelligence that can draw on a massive amount of training data to create (generate) complex outputs that can look thoughtful and even creative. Even more, the interface can be very user friendly – no programming experience required.

But "seeing eye to AI" on productivity is not so much about the immediate impact of AI on economic growth, but rather the forces that create and foster it. AI itself is a strategic play that can support the long-term growth of corporate profits. In the near term, it's about the continued innovation that investment makes possible.

Overall, in 2024, we see productivity growth compensating for slower job gains in the U.S., which together form the foundation of continued economic growth. Continued disinflation should open the door to potential Fed interest rate cuts, although we don't think they'll have to cut steeply. That should also stabilize longer-term interest rates, helping broad investment-grade bonds modestly outperform cash. International equity markets should improve, but we continue to favor the U.S. This overall backdrop should also provide support for more cyclical sectors. Significantly, it may also help the bull market to broaden, helping the wider universe of stocks look the tech-oriented giants in the eye as equals.

**Carson Investment Research's Outlook 2024: Seeing Eye to Eye delivers both our strategic views on how to position for the long-term and our tactical views of what 2024 might have in store. Together, they can help you make progress toward your financial goals and find the freedom to focus on what matters in your life.**

## '24 Forecast

- Economic reslience supports earnings growth
- Flows back into bonds as markets anticipate rate cuts may help

**RETURNS**

Stocks
**11-13%**

Bonds
**4-6%**

# At-A-Glance

Here we lay out our strategic and tactical recommendations for broad asset classes. These views reflect our latest views on markets, economy, and policy.

Our starting point is the long-term strategic view, which forms the basis of our strategic allocation recommendation. These are built off our long-term views for various asset classes. We then incorporate our views on the economy, technicals, valuations, and policy outlook to generate our shorter-term tactical recommendation, which are meant to adapt to the macro environment.

| | | Strategic View | Policy | Economic | Technicals | Valuations | Tactical View | |
|---|---|---|---|---|---|---|---|---|
| EQUITIES | | Overweight | | | | | Overweight | Better rate environment, resilient consumer, productivity growth may be supportive macroeconomic environment. |
| | U.S. Equities | Overweight | | | | | Overweight | US growth likely to outpace other global economies |
| | International Equities | Underweight | | | | | Neutral | Valuations have become more attractive but economic growth may lag |
| | Emerging Markets | Underweight | | | | | Underweight | Policy risk, especially in China, remains a major issue |
| U.S. Equities | Large Cap | Neutral | | | | | Neutral | Solid companies up top but valuations lean unattractive following a year of defensive flows |
| | Mid & Small Cap | Overweight | | | | | Overweight | Lower rates may contribute to market broadening; valuations attractive |
| | Growth | Underweight | | | | | Neutral | Rich valuations a headwind but slower growth may help tactically |
| | Value | Overweight | | | | | Neutral | We continue to like cyclical value sectors as the economy pushes ahead |
| | Defensives | Overweight | | | | | Underweight | Lower rates are contributing more strongly to cyclicals as recession fears fade |
| | Cyclicals | Neutral | | | | | Overweight | Industrials and energy may benefit from US resilience; reshoring |
| FIXED INCOME | | Underweight | | | | | Underweight | We prefer stocks as we continue to avoid a recession |
| | Treasuries | Underweight | | | | | Underweight | Rallied strongly in late 2023 but moderate gains can continue |
| | Investment Grade Corporate | Neutral | | | | | Neutral | Prefer intermediate exposure; credit background looks strong but spread tightening |
| | High Yield | Overweight | | | | | Overweight | Defaults likely contained if we avoid a recession |
| Diversifiers | Cash | Overweight | | | | | Overweight | Rates still attractive but higher reinvestment risk as the Fed cuts |
| | Real Estate | Overweight | | | | | Neutral | Rates helping; office demand still muted |
| | Commodities | Overweight | | | | | Overweight | Modest exposure to gold as a hedge still merited |

Source: Carson Investment Research 12/12/2023


# Seeing Eye to AI: **Economic Opportunity Through Productivity Growth**

While our economic views for 2024 are more aligned with the consensus than 2023, we take a different view on what the drivers of economic growth will be, emphasizing the upside from productivity growth that may differentiate the current central bank tightening cycle from typical cases in the past.

That view tilts us optimistic on the expansion continuing in 2024, with all the investing implications that follow. Our view is that the watershed moment for generative AI in the last year is not about what artificial intelligence (AI) can do for us right now, even if it has the power to unlock enormous potential down the road, but the environment that allows generative AI and other transformative innovations to flourish. To speak to that, we need to look more closely at productivity.

There are a lot of ways economists break economic growth into constituent pieces. One of the simplest is to look at economic growth as a combination of two basic factors:

If you want to increase economic output (make more stuff), increase the number of workers or increase what each worker can produce.

- More hours worked (which usually means higher employment levels)
- More output per hour worked

If you want to increase economic output (make more stuff), increase the number of workers or increase what each worker can produce. The latter is productivity, and it's an essential economic force. Over the long run, productivity growth is what raises the standard of living, since greater productivity justifies increased inflation-adjusted wages without weighing on profitability.

When it comes to workforce growth, demographics is largely destiny. There are only so many people who are able and available to work. That limit creates challenges as populations age and the percentage of the broad population that is working age declines. When that occurs, labor demand will increasingly outpace labor supply, a phenomenon we've already started to see over the last decade.

There are ways to offset some of these demographic effects: people retiring later or starting to work earlier (for example, through college co-op programs or vocational apprenticeships); creating more family-friendly workplaces; or giving businesses more scope to compete for foreign labor. But ultimately, available labor is a finite resource.

While productivity growth can't be created on demand, there are environments that foster it – for example, by incentivizing investment, encouraging competition and protecting property rights. That's what's created the environment that has given us generative AI, which itself can then seed additional productivity growth in the future.

## Productivity By The Numbers: The Post-Pandemic Story

To understand recent changes in productivity, let's take a look at the numbers. Productivity data, as measured quarterly, can be noisy, and so it helps to broaden the lens out. Since 2020, productivity has averaged a 1.4% annual pace, which is faster than the 2010-19 pace of 1.2%. But there have been a lot of dynamics at play during the last four years.

Productivity surged after the pandemic hit. Economic output regained its pre-pandemic level by Q1 2021, with 8 million fewer workers – which translated to higher productivity. But this was not because the productive capacity of the economy expanded. Workers can be squeezed for a time to produce more amid downsizing – the same thing has happened amid prior recessions. But it lasts only for so long.

Productivity subsequently fell in 2022, "reversing" the gains from 2020-21. As workers got hired once again, it looked like productivity was falling. Newly hired workers had to be trained or re-trained, and periods like these are not great for productivity growth.

But now that the economy is normalizing, all the investment over the last couple of years (including labor, which is business' largest investment) is bearing fruit, and productivity is accelerating. Over the last two quarters, productivity growth is now running at an annualized pace of more than 4.0% – the fastest two-quarter pace since the late 1990s outside of recessions and immediate post-recession periods.

## Higher Productivity Is a Big Deal for the Economy, and Inflation

Wage growth for workers is essentially the sum of productivity growth, inflation and the change in labor's share of income. Faster wage growth implies:

» Faster productivity growth, or

» Higher inflation, or

» An increase in the share of output going to labor (instead of profits), or

» Some combination of the above

Higher wages can result from higher productivity in any number of ways, including businesses introducing more machines and technological resources, or organizing work more efficiently. Workers can also be incentivized to be more efficient. Higher wages can also force less productive firms out of business, raising overall productivity across the economy.

The relationship between wages, productivity, and inflation is probably best illustrated by looking back to history. Here's a chart of productivity starting in the 1970s, broken into various periods. **|Chart 1|**

You can see that productivity surged after 1995. Wage growth ran at a 4.5% annual pace between 1996 and 2004. However, inflation averaged just 2.4%, translating to significant growth in inflation-adjusted incomes. This was because productivity surged to a 3.1% annual pace during that period.

There is also a positive feedback loop between monetary policy and productivity. **|Graphic 1|** Strong productivity growth that is accompanied by low inflation could lead to more expansionary monetary policy. That could lead to greater investment and a "tighter" labor market with low unemployment and faster wage growth. This could in turn fuel further productivity growth, and signal to the central bank that it can keep rates low.

This is essentially what happened in 1995, with then-Federal Reserve (Fed) Chair Alan Greenspan choosing to reduce interest rates despite strong wage growth. He bet that productivity would increase due to technological breakthroughs, and he was right. Part of it was also because expansionary policy led to tight labor markets that boosted productivity further.

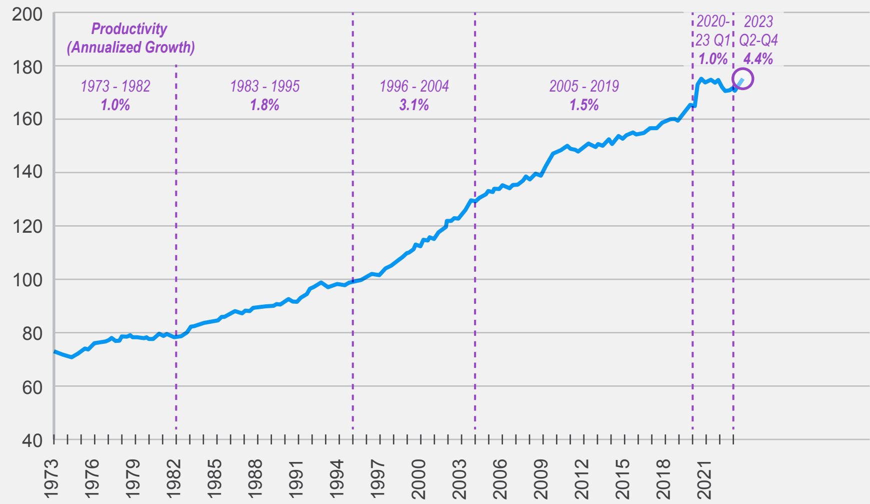
We could potentially be in a similar situation right now, with tight labor markets leading to productivity gains rather than inflation.

Of course, there is a risk that the reverse could happen, with overly tight monetary policy leading to falling investment, more unemployment and slower wage growth, which in turn leads to lower productivity growth.

The good news is that the Powell-led Fed no longer seems to believe that a recession and sharply rising unemployment are required for inflation to fall. They've watched inflation fall over the past year even as real economic growth has accelerated and unemployment stayed low. They are now concerned about the risk of doing too much. That's a big deal, since it means we could see policy easing if inflation heads down in a sustainable way – which it could if productivity runs strong.

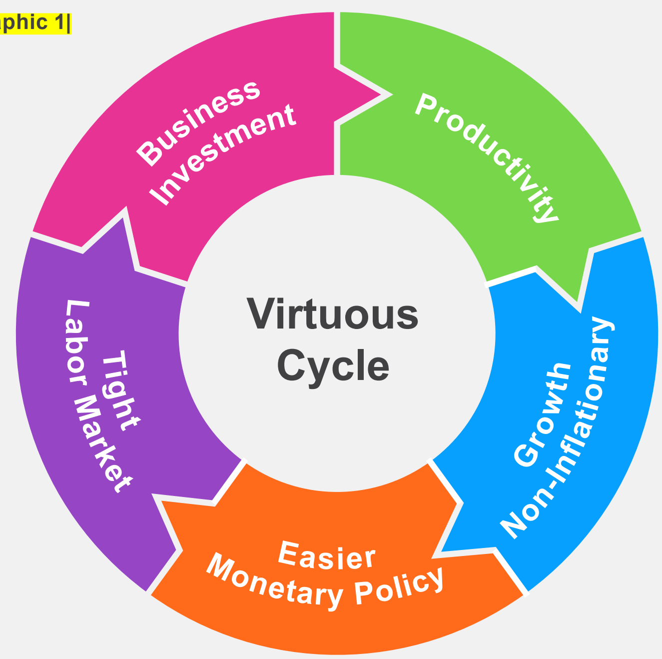
**|Chart 1|**

**Could there be another regime shift for productivity?**
Non-farm Business: Labor Productivity (Index, Q4 1995 = 100




Source: Carson Investment Research, FRED, 11/03/2023

**|Graphic 1|**




Source: Carson Investment Research, 12/12/2023

## A Surge In Entrepreneurship Is Another Productivity Story

Productivity is highest when a new business is formed and then flattens as the business ages. Without new business formation, productivity is suppressed. The decline in the number of startups in 2014 vs. 1980 led to a 3.1% cumulative reduction in productivity[1] for the U.S. economy. Business creation also provides employees opportunities to switch jobs for higher pay. To translate that, if this "startup deficit" didn't occur, real median household income in 2014 would've been $1,600 higher, or $66,500 instead of $64,900. The total lost income over the 35 years would be significantly lower!

But business applications have actually surged over the last three years. The Census Bureau measures applications that have a "high propensity" of turning into a business with a payroll, as well as applications that include a first wages-paid date on IRS forms. On a year-to-date basis through October, the Census Bureau's projection of business formations is running 35% above the 2010-19 average. **|Chart 2|**

## What About AI?

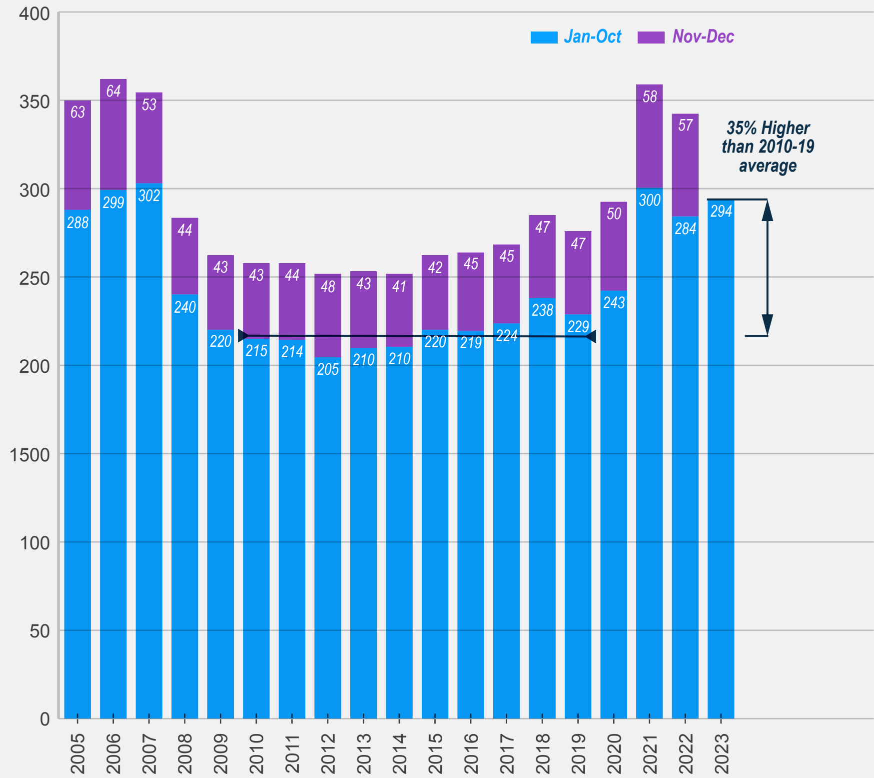
AI is certainly an X-factor with respect to productivity. As always, there's a fear that automation will lead to job losses, but in reality, it can drive cost savings and free workers to do new tasks. As we pointed out above, productivity growth tends to be accompanied by strong labor markets and higher wages, rather than the other way around. Businesses are incentivized to make new investments when labor is expensive.

But keep in mind that it can take a while for technological breakthroughs to translate into productivity. Productivity booms driven by prior milestone technologies – including motor vehicles and personal computers – lagged the initial innovation by over a decade. They only showed up in the macroeconomic data after half of impacted businesses had adopted the technology. New technology can affect individual businesses quickly as investors direct capital to promising companies. But individual businesses are small compared to the scale of the entire economy.

|Chart 2|

**America's Spirit Of Entrepreneurship Is Rising, Again**

Projected Business Formations Within 4 Quarters of Application (Thousands)



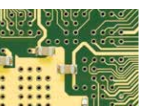

Source: Carson Investment Research, FRED, 11/30/2023

Given the speed at which information travels these days, it may take less than a decade for AI adoption to show up in productivity data. Plus, unlike physical automation, AI is "cognitive" automation that can be rolled out via software. As a recent Brookings study[2] points out, innovation can accelerate as "cognitive" workers not only produce current output but also invent new things, engage in discoveries and generate technological progress that boosts future productivity.

In addition to research and development, it would also include managers rolling out new innovations into production activities across the economy. If cognitive workers are more efficient, they will accelerate technological progress and thereby boost the rate of productivity growth. If productivity growth was 2% a year, improved cognitive efficiency could boost it by 20% – to 2.4%. That's not much year to year, but these gains compound and would mean the economy is 5% larger after a decade.

All in all, there's a lot of reason to believe that the economy could be at an inflection point. A lot of it is riding on policy as well, and how the Fed navigates its policy path over the next year will be critical. But whether over the short or the long run, we think that potential productivity growth continues to be underestimated, which also informs our strategic view on the long-run potential for profit growth and the extension of the long-run "risk premium" for stocks into the future.

> Right now, our LEI for the U.S. points to on-trend economic growth and remains far from a recession signal.



# The Economy

## Proprietary Leading Indicators Point To Continued Expansion

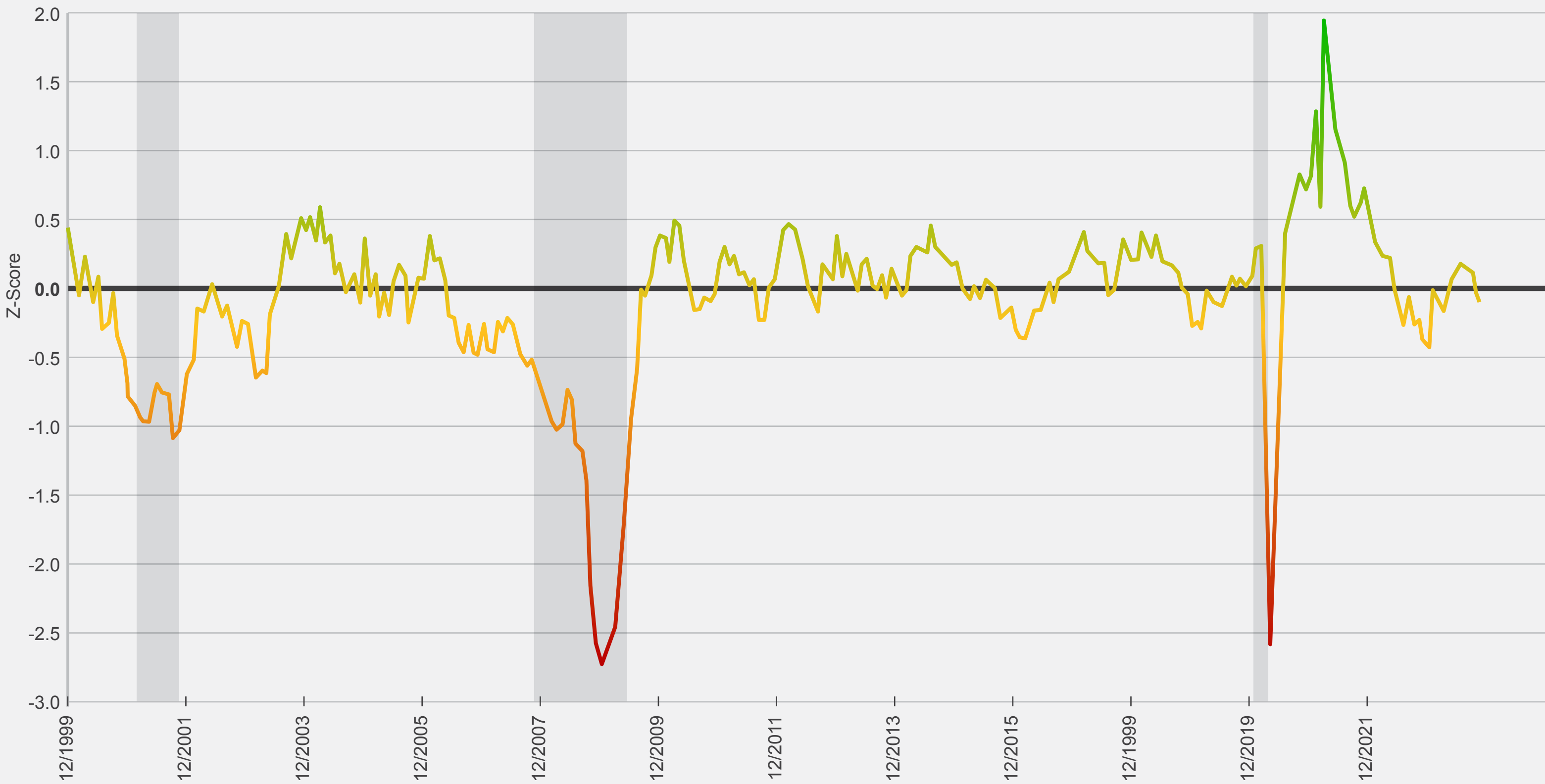
Last year, we did not see eye to eye on leading economic indicators compared to the widely used Conference Board Leading Economic Index. In our 2023 Mid-Year Outlook[3], we publicly started releasing our proprietary leading economic index (LEI), which we use to give us an early warning signal about economic turning points. We produce an LEI for the U.S. and 29 other countries, each one custom built to capture the dynamics of those economies. The individual country LEIs are also subsequently rolled up into a global index to give us a picture of the global economy. These were all developed more than a decade ago and form a key input into our asset allocation decisions.

Our index includes 20+ components, including consumer-related indicators (which make up 50% of the index), housing activity, business and manufacturing activity and sentiment and financial markets. This contrasts with other popular LEIs, which are premised on the fact that the manufacturing sector and business activity/sentiment are leading indicators of the economy. This worked well in the past, but is probably not indicative of what's happening in the economy right now.

The LEI captures whether the economy is growing below trend, on-trend (a value close to zero) or above trend. It can capture major turning points in the business cycle. For example, it declined ahead of the actual start of the 2001 and 2008 recessions. Last year, the index signaled that the economy was growing below trend, and that the risk of a recession was elevated. Note that it didn't point to an actual recession, just that "risk" of one was higher than normal. In fact, our LEI held close to the lows we saw over the last decade for non-recession periods, especially in 2011 and 2016 (after which the economy, and even the stock market, recovered).

**Chart 3|**

**No sign of recession** | Carson Proprietary Leading Economic Index - USA




Source: Carson Investment Research, 10/31/2023 | Shaded areas indicate U.S. recessions

Right now, the situation looks better than it did a year ago. **|Chart 3|**

In a nutshell, the consumer has driven the recovery and carried the economy through last year. That's in the face of major headwinds, mostly driven by a very aggressive Fed, which adversely impacted financial conditions and borrowing costs, housing and business investment and manufacturing. The good news is that with inflation pulling back, we could potentially see the Fed cutting rates next year, and that means all those headwinds are fading and could even become tailwinds in 2024. That should be supportive of corporate profits, and therefore stocks.

Let's take a look at the economic dynamics that may be in play in 2024.

## Household Balance Sheets Are Strong

Falling inflation ("disinflation") should be a tailwind for household wallets in 2024. Stronger inflation-adjusted incomes will likely power consumption going forward, and thus the economy.

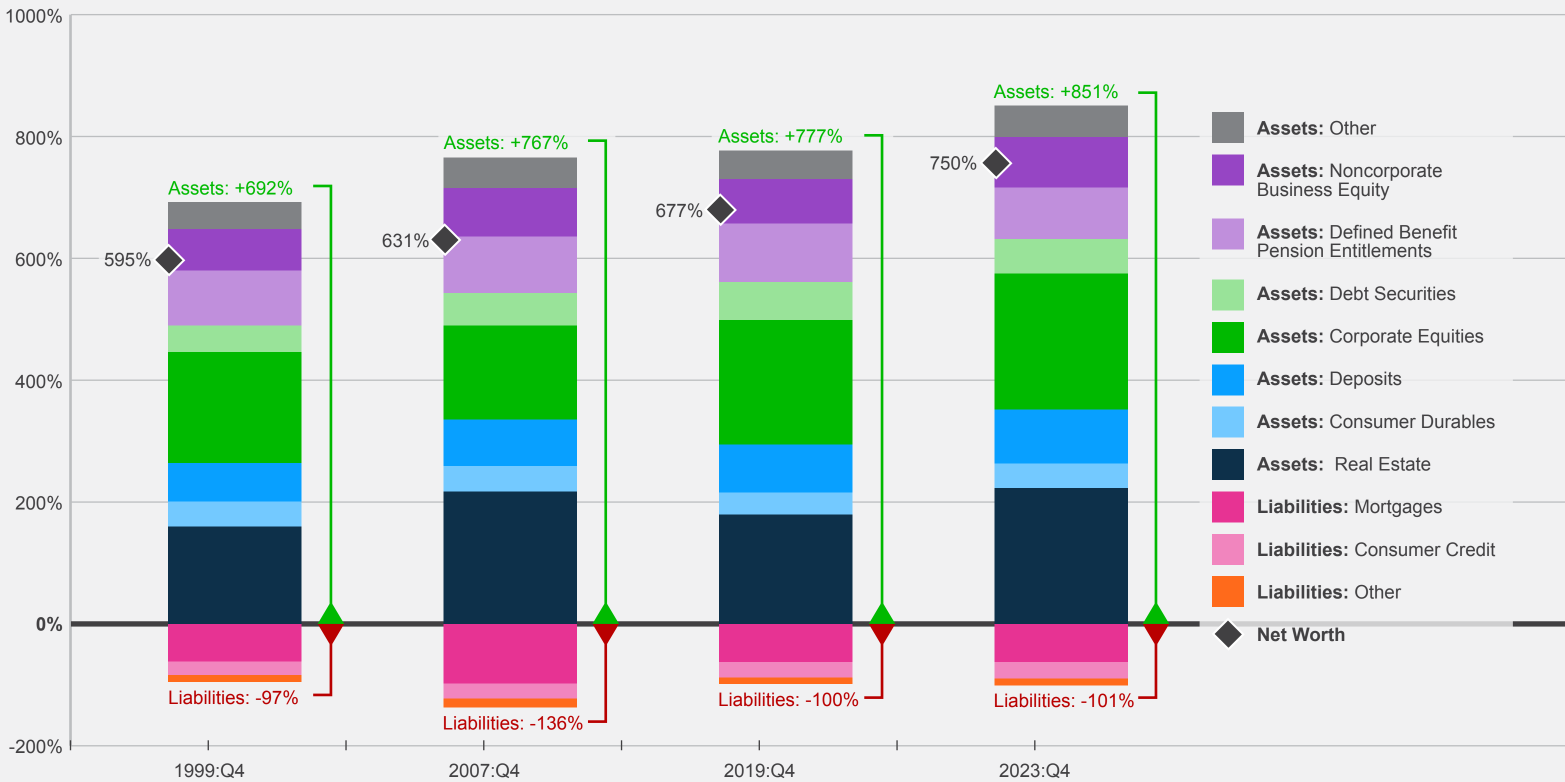
As we pointed out above, consumption has driven growth over the last few years, even in the face of an aggressive Fed whose tightening historically often resulted in a recession. Households' high excess savings, built up during the pandemic, was a big factor in making things different this time. A large portion of that was used to pay down debt and used up during the inflationary period of 2022 and after. But our estimate is that there's still a meaningful $500 billion to $1 trillion left, and keep in mind that's savings in excess of the longer-term norm.

Nevertheless, consumption has been mostly powered by rising incomes and lower savings rates. It's not surprising that savings rates have fallen

**Chart 4|**

**American households are much better positioned financially**

Household Balance Sheets: Assets, Liabilities and Net Worth as a Percentage of Disposable Income




Source: Carson Investment Research, Federal Reserve 11/14/2023

relative to pre-pandemic levels – a big reason is that households are much wealthier now than they were then, thanks to higher home prices and stock prices. At the same time, the ability to lock in low mortgage rates when interest rates were low means debt hasn't increased as much as household assets have.

As a percentage of disposable income, household net worth is now 750%, much higher than the 677% just before the pandemic. And as the chart shows, it's entirely because asset values have increased, while liabilities have stayed more or less the same. In fact, liabilities as a percentage of disposable income are closer to where they were in the late 1990s (near 100%), and well below 2007 levels of 136%, when households were more heavily leveraged **|Chart 4|**

## Easing Rates Could Boost Cyclical Economic Activity

There's good reason to think inflation is headed sustainably lower, potentially allowing the Fed to make a few rate cuts in 2024, starting perhaps as early as spring. That's going to ease borrowing costs.

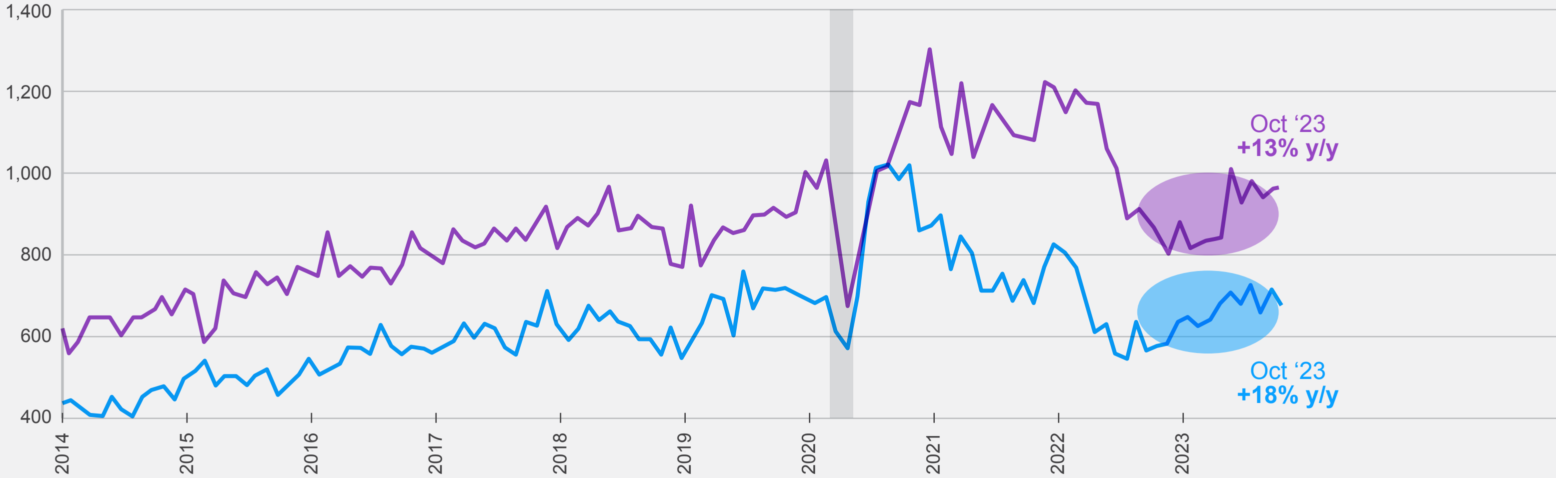
The immediate beneficiary of lower borrowing costs will be residential investment (home and apartment building construction). We got a preview in 2023 – housing activity, especially on the single-family side (which makes up the largest part of residential investment), picked up as mortgage rates eased early in the year. Things cooled down as mortgage rates surged above 8% in the fall, but we could once again see starts and new home sales pick up as rates ease once again.

It's very unlikely mortgage rates pull back to the low levels of 2021, but even moving toward 6% could unlock a lot of activity, especially since there's a lot of pent-up demand. The largest age cohort in America is 25-34 year olds ("millennials"), and those are prime home-buying years. Demographic demand is why housing activity in the new homes market hasn't collapsed despite higher rates.

Chart 5|

**Housing could benefit big-time from easing rates**

Single-Family Housing Starts | New Home Sales (SA, Thousands of Houses)




Source: Carson Investment Research, Federal Reserve 11/14/2023

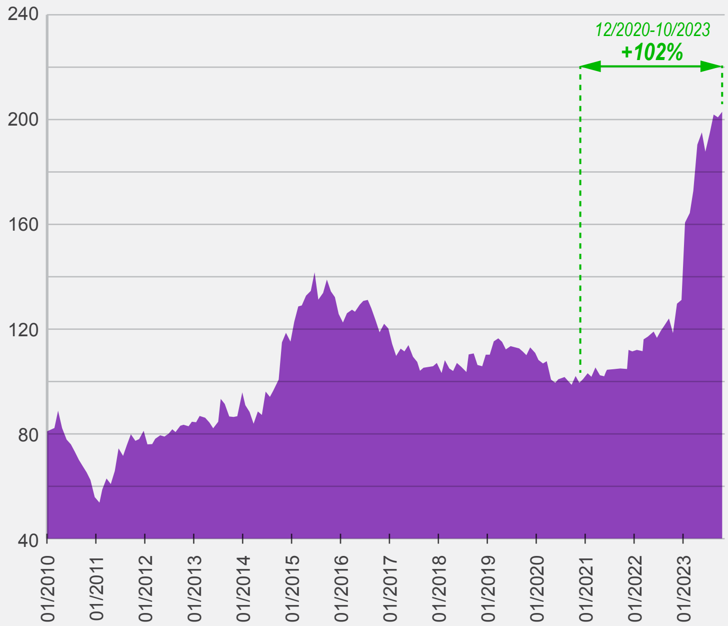
A lot of that demand is focused on new homes, since high rates are leading current homeowners with low existing mortgage rates to stay put. As a result, single-family starts were up 9% year over year in late 2023, while new home sales are up 18%. Economically, new homes sales contribute more to economic growth than existing homes because of design, construction and engineering costs, in addition to brokers' commissions and other transaction costs (which apply to existing homes as well). In addition, sales of new and existing homes both typically provide a secondary boost to demand as new owners make purchases to turn their new house into a home. |Chart 5|

The other beneficiary of lower rates will be businesses, especially small businesses, which tend to borrow more floating rate debt. Business borrowing would potentially improve the investment outlook, increasing overall business activity. Business sentiment has been poor for the last couple of years, especially on the manufacturing side. This is despite hard data telling us that manufacturing production increased in 2023 and is running above pre-pandemic levels. A better financing picture will likely

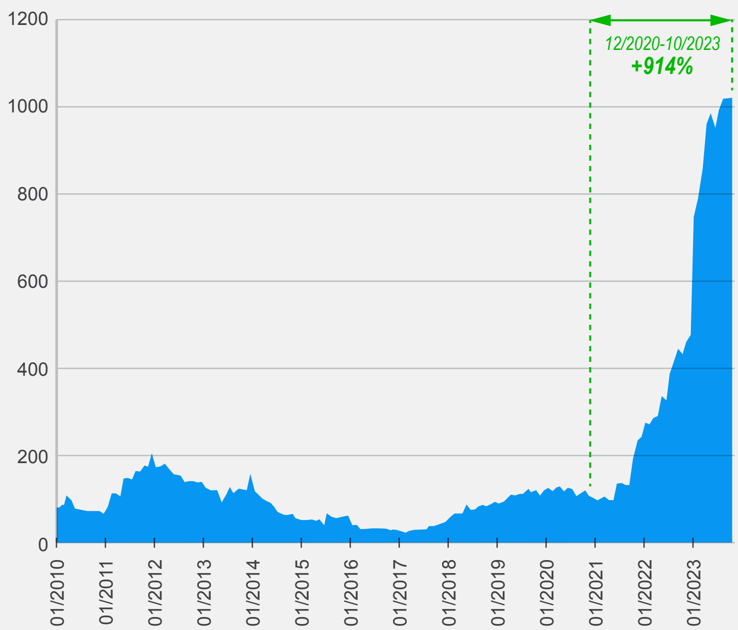
**Chart 6|**

**Manufacturing construction: A breakout, and room to grow**

Real Manufacturing Construction Spending (Index, Dec 2020=100)




Real Computer/Electronic/Electrical Construction Spending (Index, Dec 2020=100)




Source: Carson Investment Research, Census Bureau 11/30/2023

Shaded areas indicate U.S. recessions

Construction spending deflated by PPI - New industrial building construction (NSA)

improve investment sentiment.

All this is likely to come on top of resurging manufacturing construction activity, which has risen an impressive 102% since the end of 2020, even after adjusting for inflation. Construction of facilities that manufacture computers, electronics and electrical equipment (semiconductor and electrical vehicle battery plants) has surged a whopping 914% over the same period. The inflection point came after mid-2022, on the back of the CHIPS and Science Act and the Inflation Reduction Act, which pushed grants and subsidies into reshoring manufacturing facilities. Only a portion of the money authorized by Congress has been released by the Department of Energy so far, so there's plenty more to come[4], not to mention additional funds authorized as part of the bipartisan Infrastructure Investment and Jobs Act. **|Chart 6|**

All told, the economy looks nicely positioned as we head into 2024, with continued consumer strength providing the foundation and the massive headwind of Fed policy potentially turning into a tailwind. Much of the economic uncertainty from late 2022 / early 2023 has receded, and we believe the probability of a recession in 2024 is low, perhaps only around 25%.

**Given our base case of continued economic expansion, tactical portfolios are positioned with an equity overweight and bond underweight as we head into 2024.**

**Equity - Overweight**

**Bonds - Underweight**

> We don't think the Fed will cut more than 3-4 times in 2024, since our base case is for no recession.

# Monetary Policy

## Expect The Fed To Become Less Restrictive As Inflation Eases

The monetary policy outlook in 2024 will be mainly driven by what happens with inflation. Headline inflation has pulled all the way back from 9% year over year in June 2022 to 3.2% in October 2023. The big decline came on the back of lower energy prices, but as you can see below, all the other bars are shrinking, too. **|Chart 7|**

The Federal Reserve tends to look at inflation stripped of food and energy (since these are volatile), and their preferred metric is the Personal Consumption Expenditures Price Index (PCE). Between May and October, "core" PCE (excluding food and energy) has run at a 2.4% annualized pace – well below the 5-6% we were staring at a year ago and getting ever so close to the Fed's 2% target. **|Chart 8|**

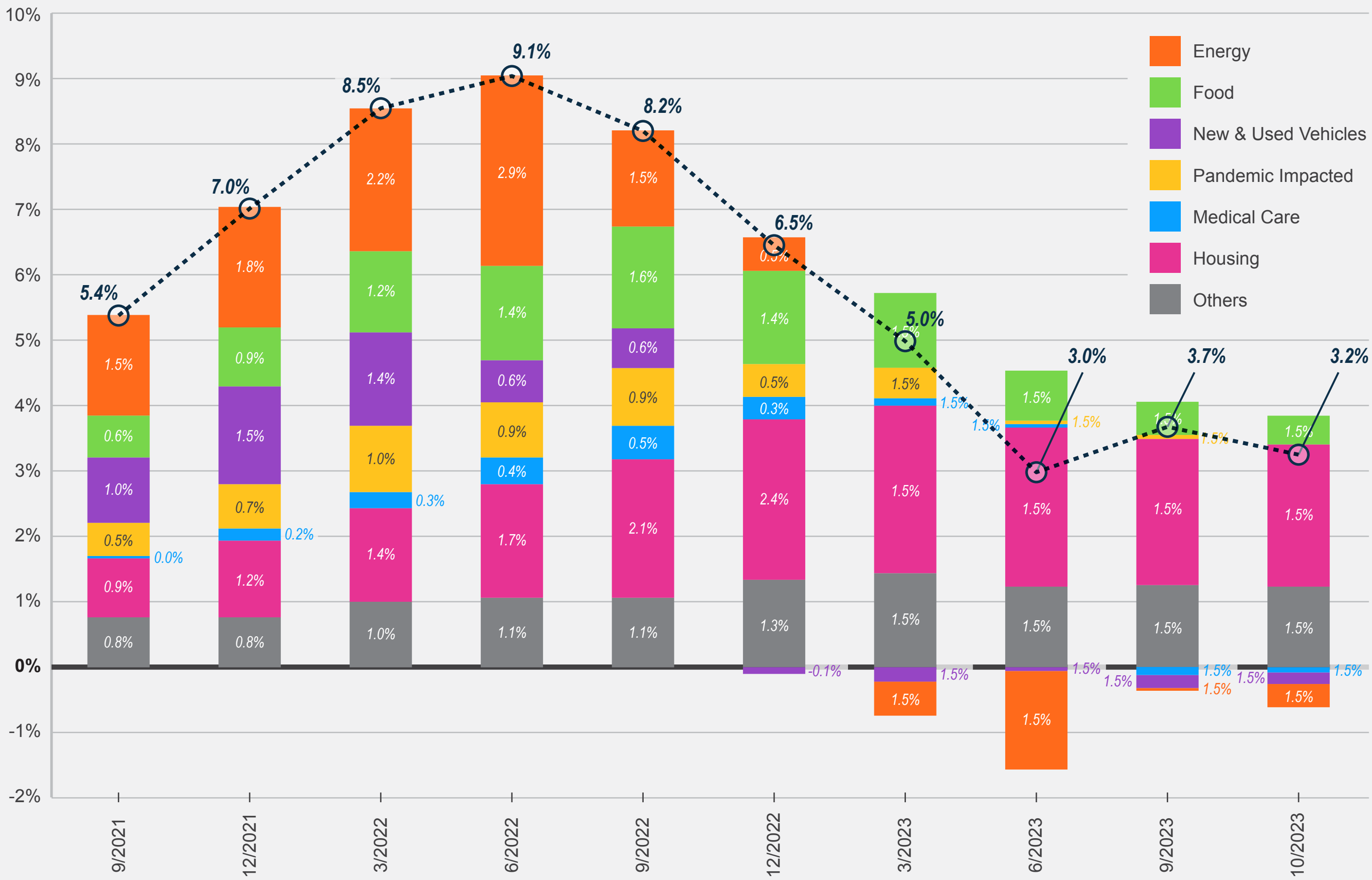
Disinflation has been happening across all major categories. Prices for core goods, excluding food and energy, have been falling for five months in a row now and are now unchanged since last year. A lot of this is because of supply chain healing, and we expect there's more to come over the next several months, especially as auto production continues to ramp up and inventories increase, which will push vehicle prices lower.

Housing disinflation has been in the cards for a while now, with falling market rents indicating that official data will follow. Housing inflation has slowed from an annualized pace of 8-10% to about 5% as of October. We're likely to see more disinflation here, as private market data indicates that rents continue to fall. **|Chart 9|**

Most importantly, we've seen prices falling in core services excluding housing inflation, which the Fed believes is most closely tied to employment levels and resulting demand, and therefore is the place where rate hikes have the potential to have the largest impact. This area is the stubborn "last mile" of inflation. The good news is that we're seeing

**|Chart 7|**

**Inflation has pulled back in a big way** | Contribution of CPI Inflation (Year-Over-Year



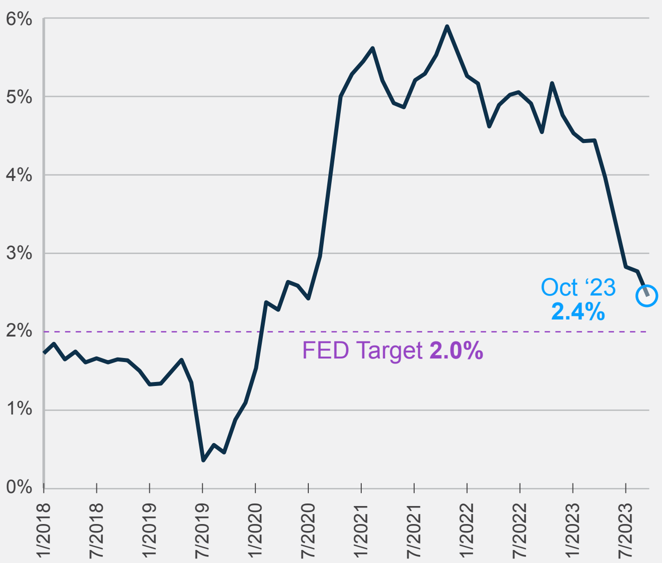

Source: Carson Investment Research, BLS 11/30/2023

Pandemic impacted categories include car and truck rentals, furnishings and supplies, apparel, airline fares, lodging away from home including hotels and motels. Housing includes rent of primary residence and owners' equivalent rent. Medical care includes medical care commodities and services.

**|Chart 8|**

**Disinflation is happening where it matters**

Personal Consumption Expenditure Price Index Excluding Food and Energy (6-Month Change, Annualized

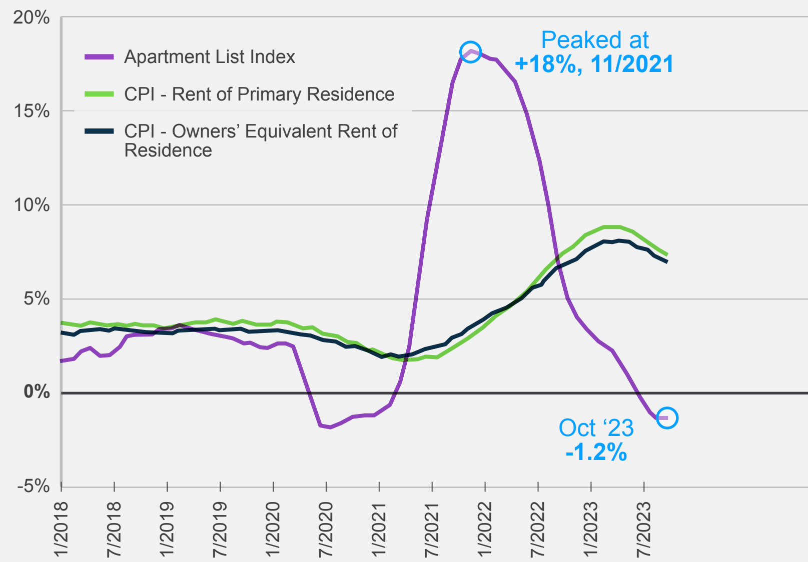



Source: Carson Investment Research FRED, Bloomberg 11/30/2023

**|Chart 9|**

**Official shelter inflation likely to head lower**

Private vs Official Rental Price Changes (Year-Over-Year)




Source: Carson Investment Research, FRED, Apartment List 11/30/2023 disinflation even in this category. That's happened even as the economy has accelerated above trend the past year and the unemployment rate has remained under 4%, signaling that normalization here is not simply tied to employment levels.

## Rate Cuts Are Now On The Horizon

All signs point to inflation easing back to the Fed's target in 2024. As a result, the Fed is unlikely to raise rates again, and in fact, by Spring of 2024, they could even start thinking about rate cuts. If inflation is on a sustainable path lower, there's no need to keep policy rates as restrictive as they are now, especially when there's a risk of breaking the economy.

At the same time, we don't think the Fed will cut more than 3-4 times in 2024, since our base case is for no recession. We think the path of policy rates could resemble what we saw in late 1995 and early 1996, when the Fed cut rates by 0.75 percentage points after an aggressive rate hike cycle in 1994. The reason we're making this analogy is that the rate cut cycle in 1995-96 was in response to easing inflation, rather than a recession – which is what precipitated cuts in 2001, 2007-08 and 2020.

We also note that the Powell-led Fed has been quick to pivot and act aggressively when they realize they're behind the curve.

» In 2018-2019, financial stresses and a slowdown prompted an about face on rate hikes and led them to eventually cut rates.

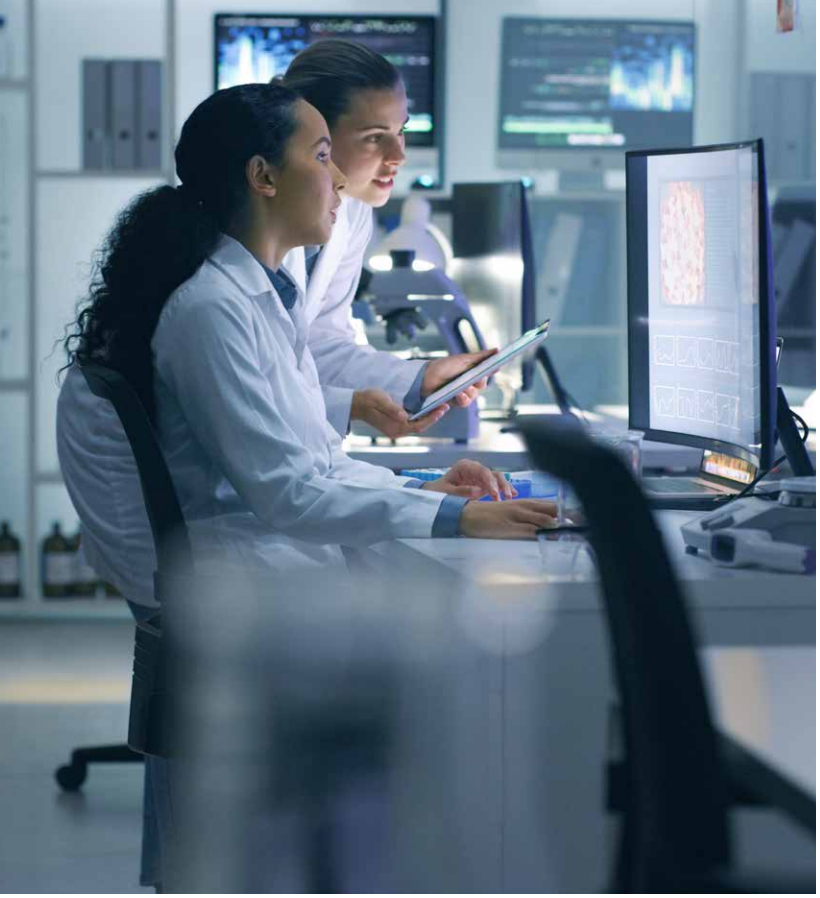
» In 2020 March, facing a deep recession, they didn't hesitate to take rates to zero, and took a series of aggressive measures to ease stresses in financial markets.

» In 2022 June, facing a 40-year high in inflation, they pivoted to a much more aggressive pace of tightening.

As the Fed gets more signs that inflation is easing sustainably and/or the risk of an "unnecessary recession" rises (using Fed Chair Powell's own language), we believe they will pivot and cut rates.

Throw potentially easier monetary policy into the mix of an already resilient economy, and we may have a strong catalyst for equity markets to gear shift higher. **This is another reason we are overweight equities going into 2024, and especially, mid and small cap stocks – which we would expect to benefit from easing rates.**

**Equity - Overweight**




# Stocks

## The Bull Market Should Continue In 2024

2023 has been a year unlike any other. It's had its share of unpredictable shocks, including the regional banking crisis in March and the terrible war in the Middle East . But it's also a year in which the equity markets and many industry strategists just didn't seem to be seeing  eye to eye, from everyone expecting a recession and extension of the bear market at the start of the year, followed by one of the best first halves to a year for stocks ever, to the standard year-end rally in the face of October weakness and building skepticism.

Despite all that, it's amazing how 2023 played out to form. Pre-election years tend to be strong, especially when you have a new president, not to mention there still hasn't been a recession in a pre-election year since WWII. August and September were rough and stocks corrected into a typical late October panic low. Sure, things weren't that simple, but when you look back, it is incredible how closely markets

If we can avoid a recession next year (our base case), then we think the chances of a year with potential low double-digit returns or better is quite likely.

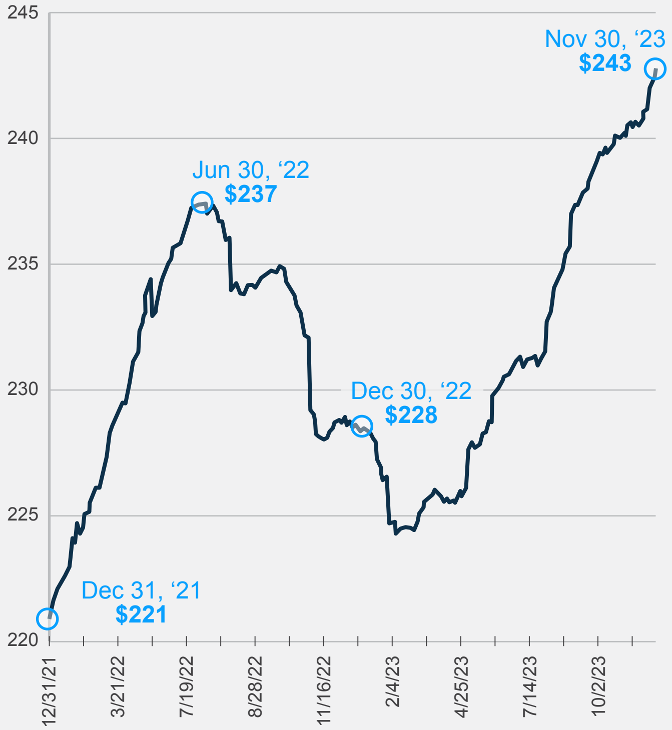
followed the typical script. And while we certainly don't think markets are beholden to that script, we think awareness of what it is can help investors do a better job seeing eye to eye with markets. It certainly did in 2023.

So what could be next? In the end, it comes down to the macro backdrop, and as we've explained in the previous section, we believe the economy is on firm footing. There are places where some are seeing danger signs (as they have been for the last year), but what some view as slowing we view as normalizing. Could we really keep growing at 400,000 jobs a month like last year? No, but a steady 150,000 to 200,000 is perfectly normal and in line with pre-COVID trends. The consumer remains strong and incomes are growing at a very healthy clip as well. If we can avoid a recession next year (our base case), then we think the chances of a year with potential low double-digit returns or better is quite likely.

What could help drive stocks higher, and likely even to new all-time highs during the first half of next

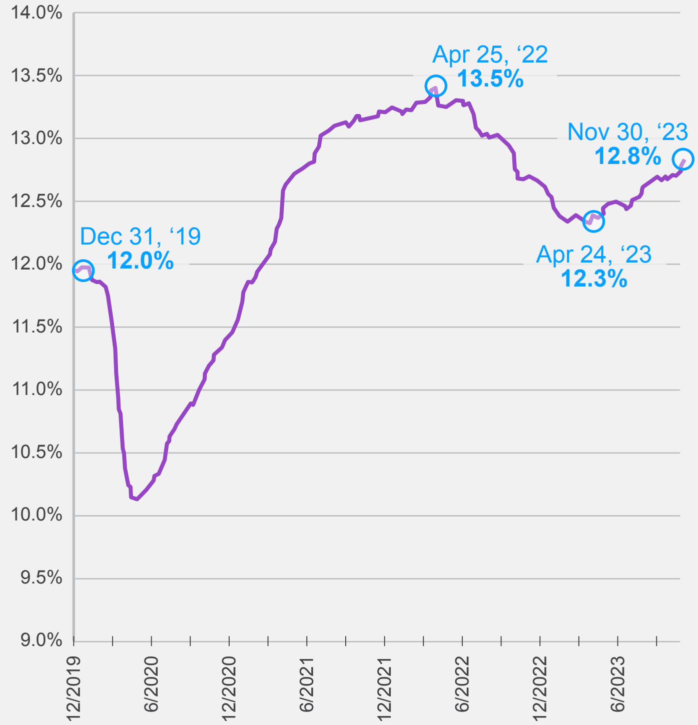
|Chart 10|

**Forward earnings expectations march higher**
S&P 500 Index - Next 12 Months Earnings Per Share




Source: Carson Investment Research, Factset 11/30/2023

**Margins inching higher**
S&P 500 Index - Profit Margin (Forward 12-months)




Source: Carson Investment Research, Factset 11/30/2023
Profit margin estimated as next 12-month earnings divided by sales

year? At the end of the day, it's earnings. We've seen analysts continue to come in too low on estimates, and this trend likely continues. The third quarter was expected to see earnings fall slightly as of the beginning of the quarter; S&P 500 earnings actually came in over 5%. Looking ahead, companies in the S&P 500 now expect to see record profits over the next 12 months. When companies are posting record profits, stocks tend to follow, something we expect to see in 2024.

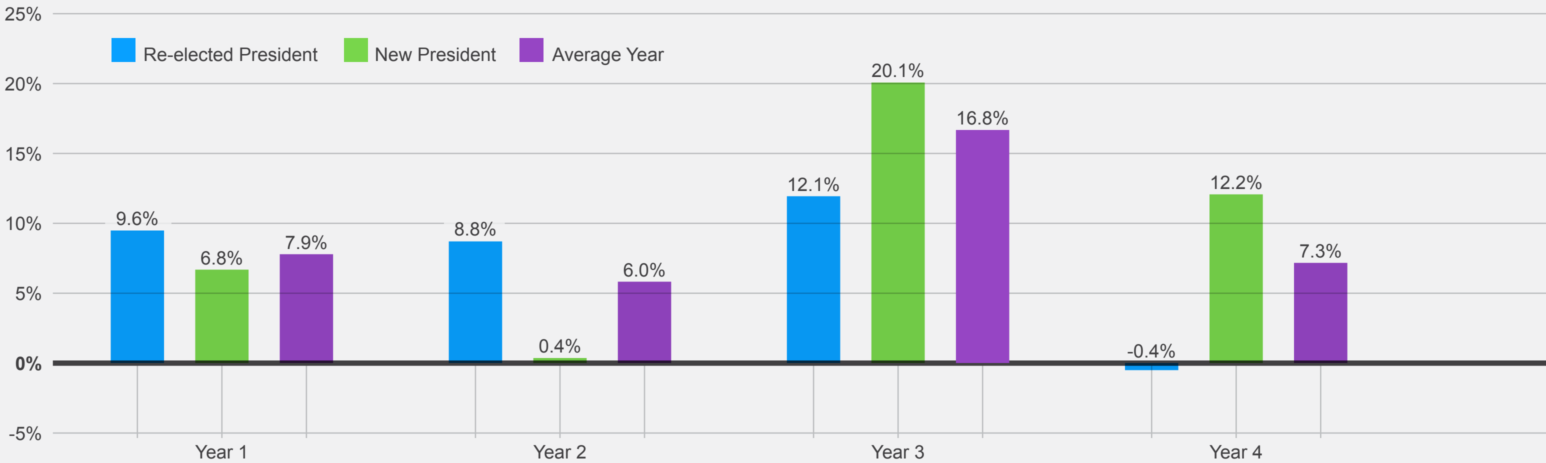
Potentially even more surprising than expected record profits are improving profit margins. There was a lot of skepticism about margins last year with expectations that they were too high and must fall. But since March, we've seen forward 12-month profit margins increase. Improving profits and profit margins supported by continued economic growth next year would provide a strong tailwind for equities. **|Chart 10|**

Looking at last year's "script" and thinking about next year's, we noted many times in 2023 that a pre-election year tends to see strong equity returns, which played out according to form in 2023. Looking at the broader script for the four-year presidential cycle, under a first-term president, returns tend to be weak early, especially during a midterm year, then get much better during the pre-election year (2023 this cycle) and election year, which is where we will be in 2024. Looking back, markets followed the presidential cycle script, with a very weak midterm year and solid pre-election year. Why do we see this pattern? It could be as simple as when a president is up for re-election, there are certain levers they can pull to get the economy and thus stocks into a better mood. Presidents may also have lost political capital late in their second term as "lame duck" presidents, and in fact, 2000 and 2008 were horrible years for stocks, although we know in both years there was much more going on than the presidential cycle. **|Chart 11|**

Diving more deeply into the data, stocks have been higher during an election year of a first-term

|Chart 11|

**Election Years Do Much Better Under a new President**
S&P 500 Returns Based on 4-Year Presidential Returns




Source: Carson Investment Research, YCharts, 12/30/2022

|Chart 12|

**Stocks Have Never Been Lower In an Election year Under a New President**
S&P 500 Performance Under New Presidents (1950-Current)

| Election Year | President | First Year | Midterm Year | Pre-Election Year | Election Year |
|---|---|---|---|---|---|
| 1952 | Dwight D. Eisenhower (REP) | -6.6% | 45% | 26.4% | *2.6%* |
| 1960 | JFK/LBJ (DEM) | 23.1% | -11.8% | 18.9% | *13.0%* |
| 1968 | Richard Nixon (REP) | -11.4% | -0.1% | 10.8% | *15.8%* |
| 1976 | Jimmy Carter (DEM) | -11.5% | 1.1% | 12.3% | *25.8%* |
| 1980 | Ronald Reagan (REP) | -9.7% | 14.8% | 17.3% | *1.4%* |
| 1988 | George H.W. Bush (REP) | 27.3% | -6.6% | 26.3% | *4.5%* |
| 1992 | Bill Clinton (DEM) | 7.06% | -1.5% | 34.1% | *20.3%* |
| 2000 | George W. Bush (REP) | -13.0% | -23.4% | 26.4% | *9.0%* |
| 2008 | Barack Obama (DEM) | 23.5% | 12.8% | 0.0% | *13.4%* |
| 2016 | Donald Trump (REP) | 19.4% | -6.2% | 28.9% | *16.3%* |
| 2020 | Joe Biden (DEM) | 26.9% | -19.4% | ? | *?* |
| Average | | 6.8% | 0.4% | 20.1% | *12.2%* |
| Median | | 7.1% | -1.5% | 22.6% | *13.2%* |
| **% Higher** | | **54.5%** | **36.4%** | **90.0%** | ***100.0%*** |

Source: Carson Investment Research, FactSet, 11/08/2023

president, which is where we will be in 2024, for the past 10 presidents! Even the historically strong pre-election year hasn't seen that happen. Average election year gains of 12.2% for the past 10 first-term presidents provides a strong script script for 2024 and gives us more confidence in our fundamentally driven forecast of potential low double-digit return in 2024. |Chart 12|

## Equity Valuation Outlook

While in the short run any number of variables can and do move stock prices, over the long run, corporate earnings drive returns. The price investors pay for that stream of earnings is equally as important. While value is generally not a reliable short-term timing indicator, valuations can inform secular viewpoints toward various asset classes. Markets also go through periods of time where investors ignore valuations completely, which can lead to those overvalued stocks going through painful mean reversion in the future. We have seen this happen in real time, as the strong rally in late 2020 into 2021 of unprofitable and overvalued stocks came to a firm halt as soon as interest rates began to rise. 2022 was a great reminder that valuations still matter.

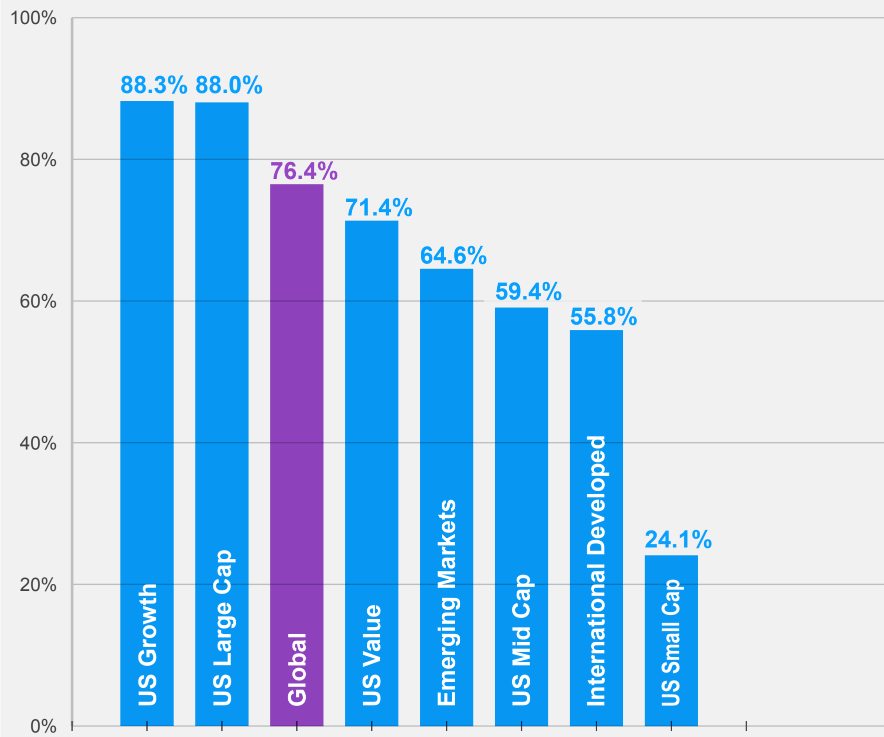
Despite a strong rebound in stock prices in 2023, there remain pockets of attractive valuations across the global universe. We use a combination of different valuation multiples to get a proper read of current levels and to not be overly influenced by various situations that could skew valuations one way or another. The chart below shows the current percentile value of this valuation composite for major equity markets versus the past 25 years (lower values indicate more attractive valuations). By this measure, U.S. small cap stocks are trading at significantly below-average levels, while U.S. mid-caps and developed international markets look reasonable. The strongest performers in recent years – U.S. large cap and especially large cap growth – remain at elevated valuations relative to history. Domestic large cap stocks trade at a premium to the rest of the world, and deservingly so, but even relative to the size of that premium historically, they are trading above average. **|Chart 13|**

When looking at domestic sectors using the same framework, we see a bifurcated market. The so-called "magnificent seven" U.S. mega-cap stocks (Amazon, Apple, Google, Meta, Microsoft, NVIDIA and Tesla) hold large weights across technology, consumer discretionary and communications services, all of which are richly valued relative to their history. Energy – despite being the strongest performing sector the past three years – remains the most undervalued, as fundamentals have kept up with performance. Many defensive sectors are near their historical average levels. Financials

**|Chart 13|**

**Global Equity Valuations**

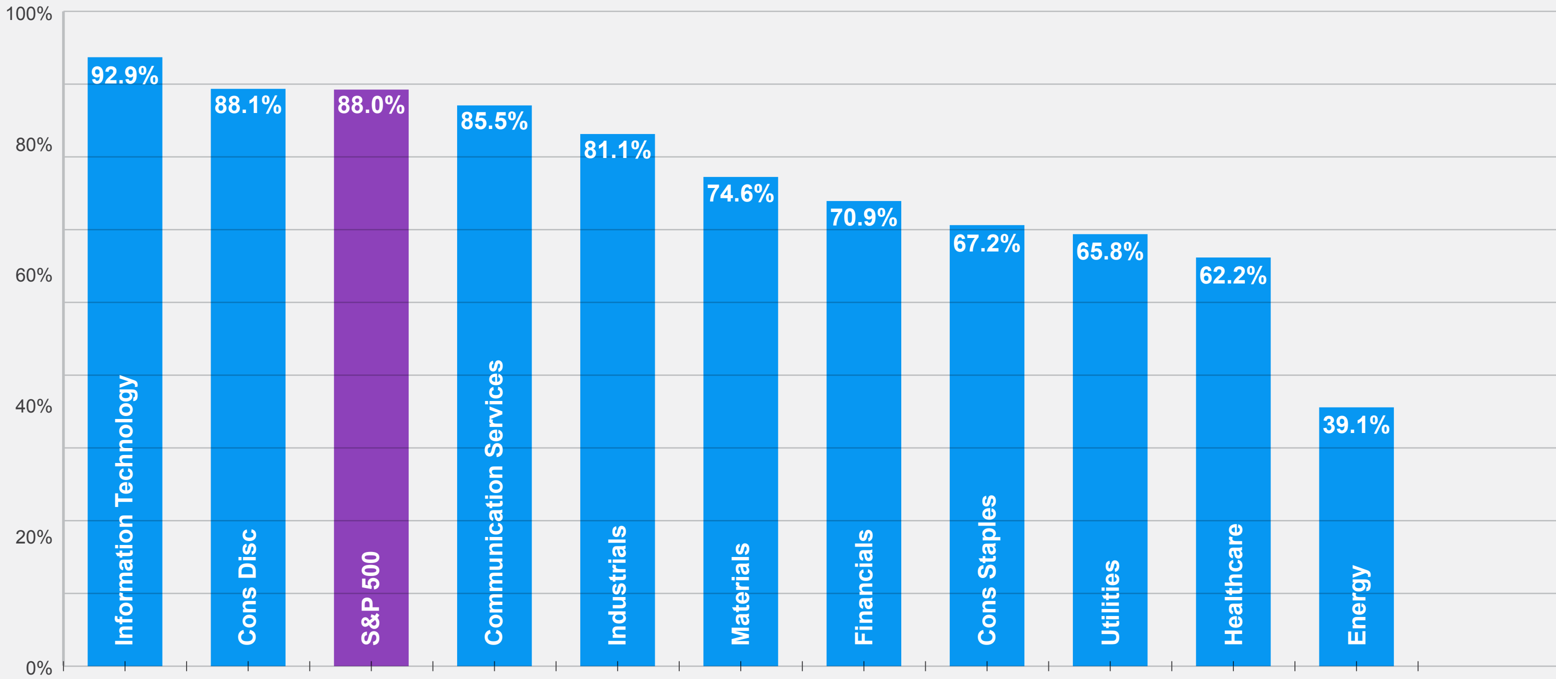
Valuation Composite Percentile




Source: Carson Investment Research, Morningstar Direct, 11/30/23
Valuation Composite is the average of P/E, P/B, P/C, and P/S relative to historical range back to 1999

|Chart 14|

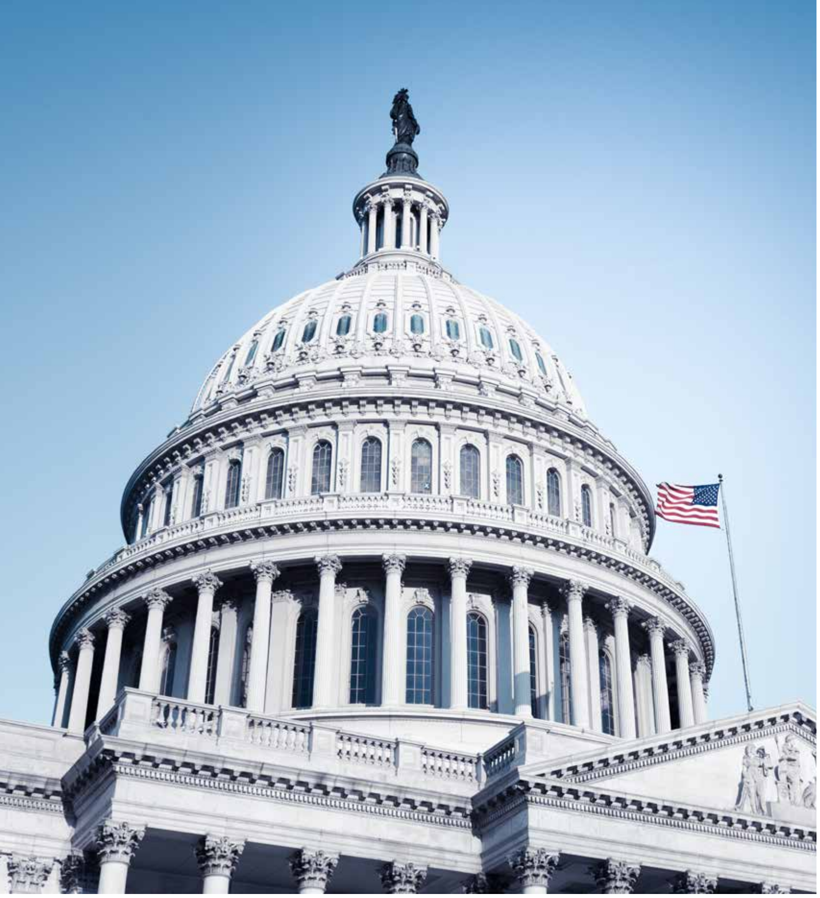
**US Sector Valuations**
Valuation Composition Percentile

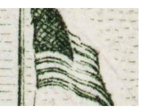



Source: Carson Investment Research, Morningstar Direct, 11/3023
Valuation Composite is the average of P/E, P/B, P/C, and P/S relative to S&P 500 back to 1999

had trade at depressed valuations after the banking crisis in early 2023. As those headwinds fade and the interest rate environment changes, the financial sector could prove to be an attractive opportunity. |Chart 14|

Valuations continue to be a consideration for asset allocation opportunities and are part of the mosaic of indicators and factors that go into our decision-making process. It's never just a question of valuations, and valuations receive less emphasis in tactical positioning. Within our broad tactical positioning, valuations contribute to our favoring small and mid-cap U.S. stocks. Within our sector views, they contribute to our views on energy and our positive outlook for financials.





# Fixed Income

While our view on the economy leads us to favor stocks over bonds in 2024, we believe that bonds are poised to return to their traditional role as a portfolio stabilizer and source of diversification. Bonds have been playing their traditional role of acting as a source of income extremely well recently compared to the last decade, even at shorter maturities.

Many investors' fixed income holdings currently heavily favor short- or ultra-short maturity bonds or cash-like vehicles. According to quarterly Fed data, money market assets were near $6 trillion at the end of Q2 2023, roughly double what they averaged from 2011 to 2017. We believe 2024 may see substantial in-flows to bonds as market participants anticipate the Fed beginning to lower short-term rates, which may help anchor yields despite some likely continued volatility.

Our outlook for the total return of the Bloomberg US Aggregate Bond Index (Agg) in 2024 is 4-6%, based on a yield just under 5.5% and a stable yield outlook overall given our expected path for inflation, the Fed and the economy.

## The Risk Of Short-Term Bonds

Probably the main bond question we've received over the last year is when it's safe to lengthen the maturity profile of bond holdings and hold a more traditional core bond portfolio again. That question is just as relevant for 2024.

The main risks with short maturity bonds are not so much losses (although they can experience some short-term losses) but that you may have to settle for a lower rate if yields drop (reinvestment risk) and that you lose the added portfolio ballast if equity markets become volatile and bonds return to their role as a diversifier.

At the same time, there are bond features that make core bonds less likely to experience the types of losses they have seen over the last several years. First, higher yields mean higher coupon payments to offset potential price losses from raising rates, making fixed income more resilient. Over the long run, coupon payments are overwhelmingly the main driver of bond returns, not price changes, since every bond's eventual price at maturity is fixed at the par value of the bond. That's what makes bonds a "safer" investment. It doesn't matter what the price is now – you know exactly what the price will be at maturity (outside default risk).

In early 2020, the Agg's yield would have had to climb just 0.2 percentage points over a year to result in a flat return. Anything more than that would have resulted in a loss. Now it would require a move four to five times as large. (Some of that resilience can also come from the natural price movement toward par over time.)

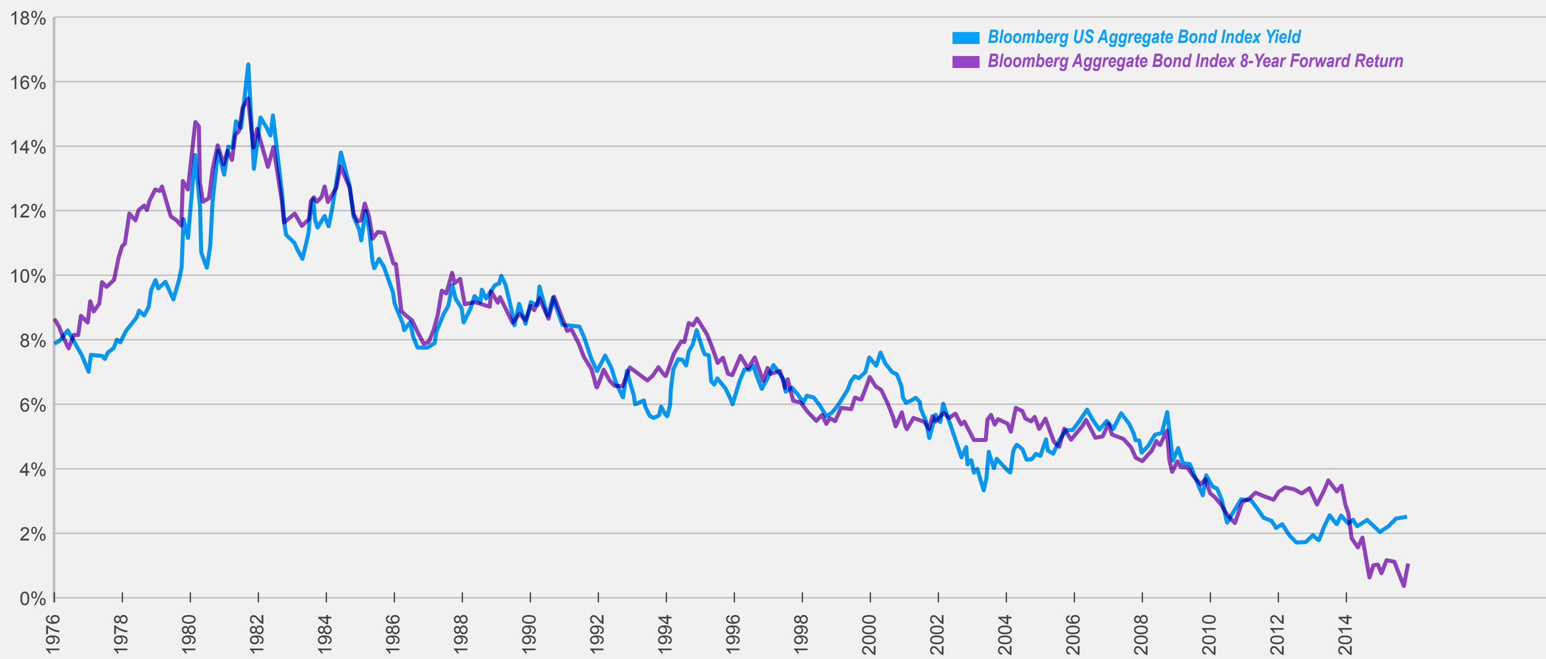
These features of bonds also make the Agg's yield a strong predictor of returns over the long run. Of course, climbing yields are why bonds have seen losses the last several years, but those bond losses do point to stronger return prospects in the future. The yield to maturity for the Agg at the end of November was 5.05%. The average yield from 2010-21 was just 2.34%.

As shown in the chart below, annualized returns for the Agg over the next eight years tracks the yield at the beginning of the period fairly closely, coming within +/- one percentage point annually 74% of the time. By contrast, current short-term bond yields are a weak predictor of future long-term returns because the yield is only good for a short amount of time before the bond needs to be rolled over, and it's hard to forecast where short-term bonds yield will be in the future, especially as you move further out. **|Chart 15|**

Another way of saying it: Short-term bonds have low short-term return uncertainty but high long-term return uncertainty. Long-term bonds have relatively high short-term return uncertainty but relatively low long-term return uncertainty.

Our recommended maturity profile for bond holdings was quite short at the beginning of 2023. We slowly faded rising rates over the course of the year and moved just short of the Agg toward the end of the

**|Chart 15|**
**Yields Guide Future Returns**




Source: Carson Investment Research, FactSet 11/30/2023
All indexes are unmanaged and can't be invested in directly. Past performance is no guarantee of future results.

year. This final move was based on the historical pattern that intermediate maturity bonds start to outperform ultra-short maturity bonds in the six months before the first rate cut after a hiking cycle. This isn't surprising, as markets are forward-looking. We believe the effect in 2024 may be consistent with the past but somewhat weaker, since many initial cuts historically are in response to an economy entering a recession following Fed overtightening, which is not what we expect to see next year.

## Credit Likely To Outperform Treasuries, But We Prefer Equity Risk

Credit spreads were somewhat tight toward the end of 2023 but not unreasonable. As of the end of November 2023, investment grade credit spreads were in the 29th percentile versus history according to the ICE/Bank of America US Corporate Index Option-Adjusted Spread and 0.23 percentage points below the historical median of 1.34%. The corresponding index for high-yield bonds was also at its 29th percentile and 0.87 percentage points below its historical median of 3.84%. Based on our economic outlook, we consider these spreads fairly valued but with any upside from credit spread tightening limited, while an adverse economic scenario would bring downside risk into play.

Credit-sensitive bonds can provide some additional diversification to a portfolio, and all-in yields are attractive at 5.6% for U.S. investment grade corporates and 8.4% for U.S. high yield corporates, based on corresponding Bloomberg indexes. But high-yield bonds in particular do tend to move with equities, and Treasuries typically provide better insulation against downside risk. We believe some of the credit risk in high yield can be mitigated by targeting shorter maturities and focusing on intermediate maturities for investment-grade corporates, balancing that out with some exposure to longer maturity Treasuries.

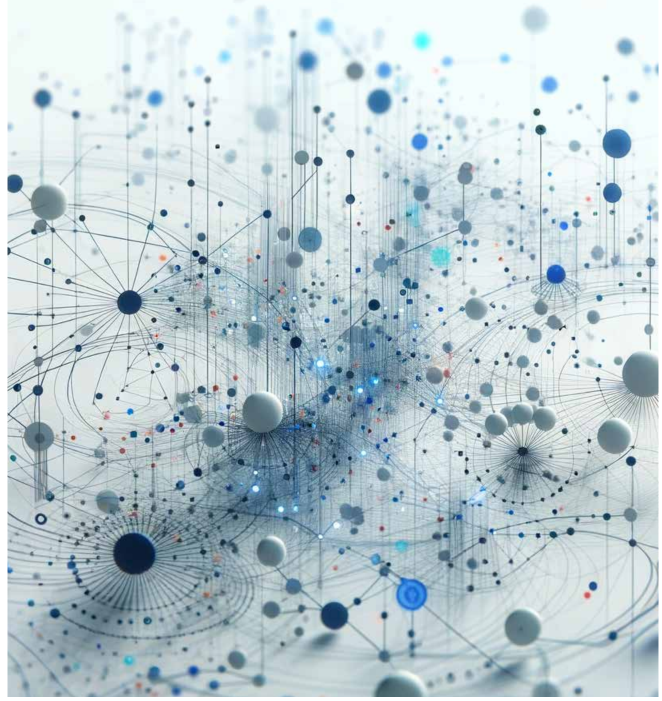

# Our Strategic House Views: **Using Multi-Dimensional Perspectives To Anchor Portfolios**

While our annual outlook emphasizes our view on the economy, policy, valuations and technicals for the next year, for overall portfolio positioning, we always start with our long-term strategic perspective. Our tactical and strategic views do not always see eye to eye. Our strategic views provide a starting point and anchor for recommended tactical allocations. For patient, long-term investors, we believe our strategic positioning provides a sensible allocation in its own right. How much we tilt toward our tactical view on top of that depends on particular market circumstances, but the burden of proof to shift away from our long-term views is meaningful.

We do not rely on a single model when developing our strategic allocations, especially since future expected returns are unpredictable and can vary across time.

For our strategic views, we combine:

- Historical data
- Investing theory supported by a behavioral explanations
- Discretionary perspectives



We do not rely on a single model when developing our strategic allocations, especially since future expected returns are unpredictable and can vary across time.

These are probably best illustrated with a few examples.

## **Overweighting Stocks Over Bonds:** A Historical And Behavioral Perspective

Historical evidence suggests that stocks outperform bonds over the long-term, even after adjusting for inflation. It would be straightforward to simply overweight stocks on the weight of that evidence. Of course, stocks are riskier as well, and so we should be "rewarded more."

But why? An important question, because answering that allows for more conviction in our views.

What's interesting is that the "equity risk premium" cannot be explained[5] by standard economic models. Historically, this premium – the difference between the returns for stocks and "risk-free" cash – has ranged between 4% and 8%. Economic models say that is simply too high, even after accounting for higher risk.

The real return on stocks has been remarkably stable over major sub-periods, and the variability gets smaller as you extend the time horizon. Surprisingly, after adjusting for inflation, bond returns have a similar spread between best return periods and worst as stocks over long periods of time, and even more so if you extend the time horizon to 30 years. **|Chart 16|**

Behavioral finance explains the equity risk premium via myopic loss aversion[6] and mental accounting[7]. If an investor evaluates their stock portfolio frequently (as investors today are more prone to do), they'd probably see their investment outperform bonds only about half of the time (even annually, stocks outperform bonds only 65% of the time). That kicks in loss aversion, where avoiding the pain of losses is valued more than the reward from gains. It's as if people are saying:

"Yes, we get that stocks could go up next year. But they could also go down, and I hate losses. So, I don't want to invest in stocks. It's too risky."

And so, investors require a higher premium to overcome that hurdle. Even worse, loss aversion varies based on prior experience[8], including gains and losses an investor has experienced in the past. And typically, investors become even more conservative amid down markets. As Warren Buffet said:

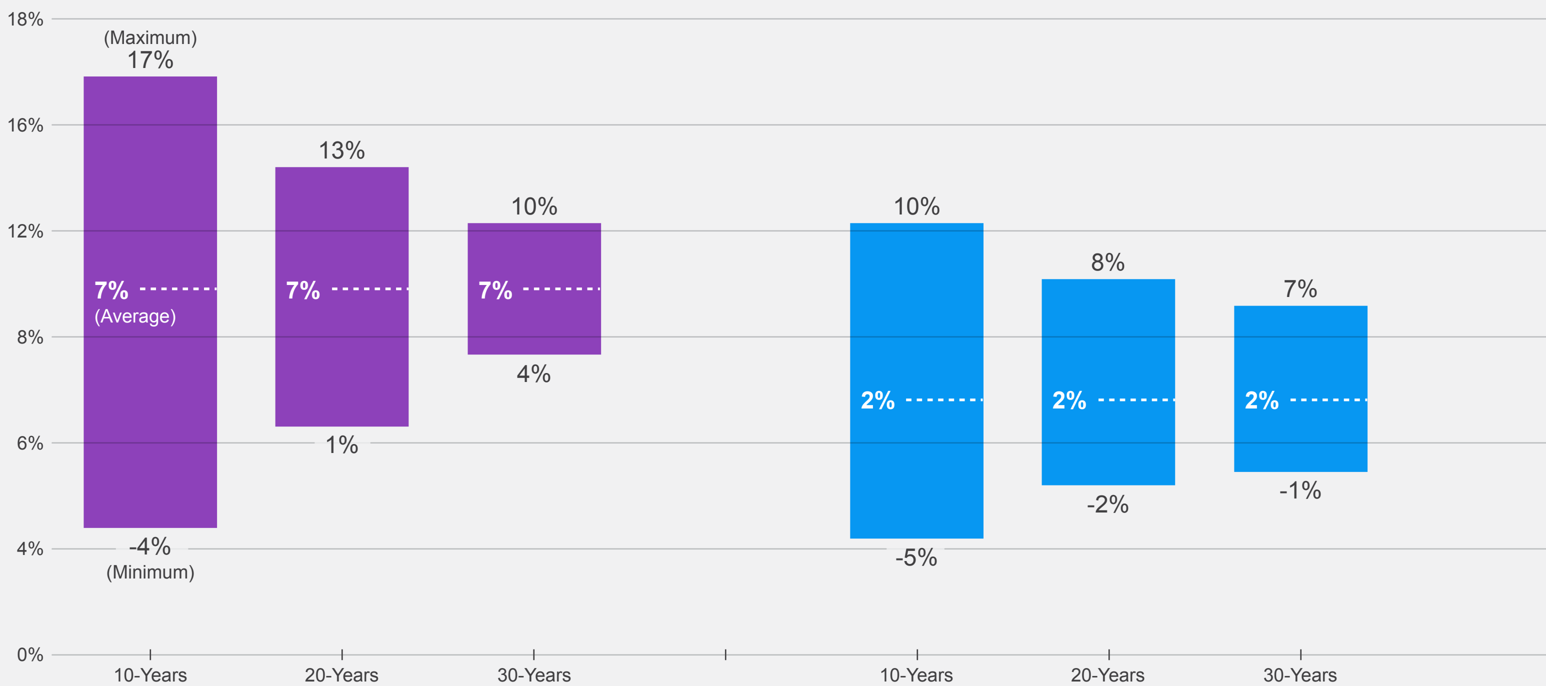
"The stock market is the only place where investors run out of the store during a sale."

## Why We Prefer U.S. Stocks To International Stocks

We are deeply aware of home bias, the tendency to prefer investing in one's own country simply out of familiarity rather than for reasons that have an investment basis. On top of that, international stocks are valued more cheaply than U.S. stocks currently, and so it can seem like a straightforward bet to at least keep international stocks at a neutral weight, let alone overweight them. Nevertheless, our discretionary perspectives form our view in this case.

**|Chart 16|**

**Stocks outperform bonds over the long run, even after adjusting for inflation**




Source: Carson Investment Research, Robert Shiller Data 12/31/2022
Data are annual, Stocks proxied by the S&P Composite and bonds by the US 10-year treasury. Data deflated by CPI.
Returns are calculated as the compounded geometric average over rolling periods

For one thing, U.S. companies are global and capture revenue and profits from across the globe. In fact, 40% of S&P 500 company revenues come from outside the U.S.

Going forward, we also believe economic growth will be relatively faster in the U.S. than in other developed countries. Europe may struggle to cohesively bring together the divergent goals of the northern countries with their southern neighbors (who have to deal with the straightjacket of the euro). The U.K. looks set to struggle with the consequences of Brexit for the foreseeable future, and Japan has significant demographic challenges.

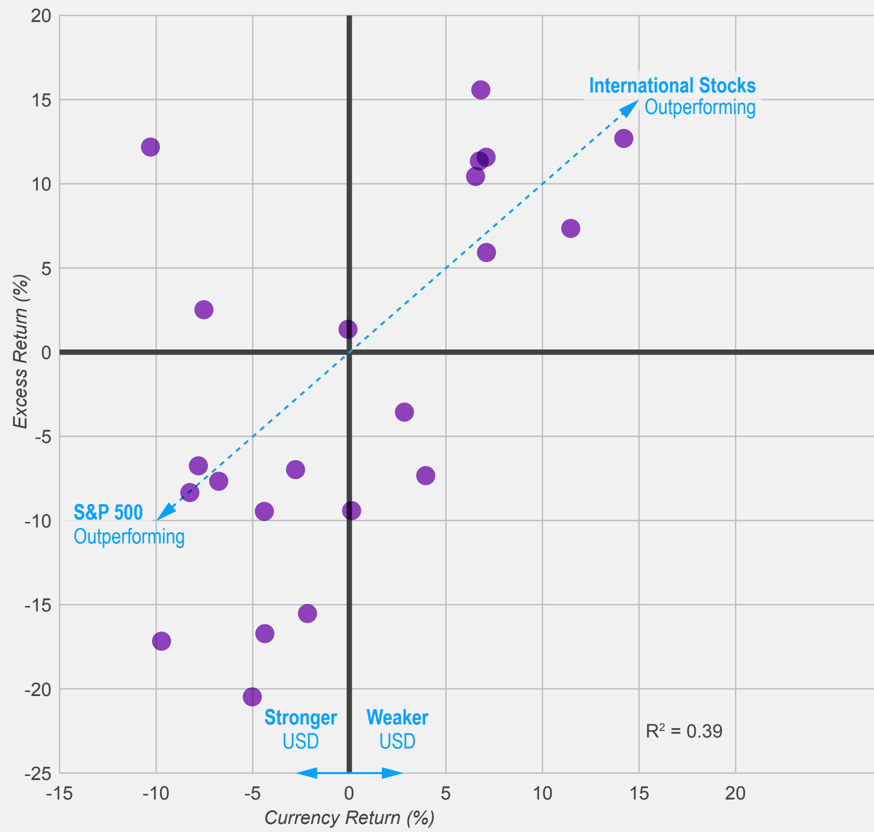
We are also cognizant of the growth risk in emerging markets (EM), especially China. Beyond the political risk (which is not insignificant), we also believe emerging markets have economic challenges going forward. The heyday for EM investors was in the 2000s, when a lot of investment in these countries was geared toward satisfying demand from developed economies. That boost can happen only once, and now the question is whether EM countries can grow based on internal consumption. Household share of national income must rise for that to happen, but that involves redistribution – and that's where the challenge lies.

|Chart 17|

**A currency hurdle for international equities**

Excess Return (MSCI World Ex US - S&P 500) Vs Currency Return

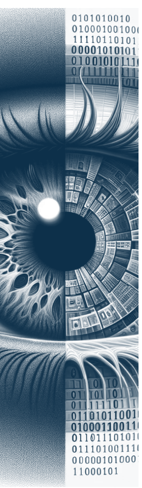
Annual Returns: 2001 - 2022




Source: Carson Investment Research, Factset 08/09/2023
MSCI World Ex US Returns are net returns

Why does this matter? Stronger relative economic growth in the U.S. means the U.S. dollar is likely to remain strong for a while, with the Federal Reserve keeping rates higher than what we've been used to over the past decade. The U.S. dollar is inversely correlated with international equity returns (denominated in dollars), and so a strong dollar could act as a drag on international equity returns. |Chart 17|

The graphic at the front of this Outlook provides an overview of both our strategic and tactical positions, as well as the main drivers behind any differences.



# Seeing Eye To Eye With Good Financial Advice

2023 may have been the bull market that few wanted, which is exactly how bull markets usually start. While it is no individual's intention, the way markets work can challenge, frustrate and even toy with our emotions. When we launched our "Facts versus Feelings" podcast in 2021 (now one of the top 100 financial podcasts in the U.S.), we chose the title with conviction. Investment decisions are challenging because it is a realm where facts should lead but feelings rule. We aim to bring you the facts every day through our blogs, podcasts, publications and social media presence.

> We try to remain focused on how markets actually behave, not how we believe they should behave.

Feelings tempt us to project our views onto markets of what they "should" do, whether because of economic philosophy, political views, fear of losses or even fear of being left out of the current fashionable investment. We try to remain focused on how markets actually behave, not how we believe they should behave.

As an investment research team, Carson Investment Research monitors and assesses underlying factors that can affect market conditions as we deliver advice and provide portfolio management services. We help differentiate good investment ideas that are also timely from good ideas whose time has not yet come or whose value may be best expressed in unexpected places.

Our professional guidance delivers a longer-term outlook that can help you navigate an unpredictable market. That way, you have greater confidence in your plan as you work toward your financial goals and find the freedom to focus on what matters in your life.

Possibly even more important than a good strategist is a source of good financial advice, someone you can see eye to eye with who is aware of your goals and aspirations, your needs and values, but also sometimes your blind spots and biases.

Remember, the path to steady improvement may not be entirely smooth. The key to staying on financial track is to avoid emotional reactions and regularly assess your long-term plan. No matter how stocks and other assets perform this year, you'll want to maintain an actively managed financial plan that caters to your specific financial goals, circumstances, risk-tolerance level and investing horizon.

Contact your professional advisor if you have any questions or concerns about your investing strategy for the year ahead. Meanwhile, we'll continue to keep you updated and informed about market movements and economic changes that can affect your investments. Thanks for reading; We wish you many happy returns in 2024.

**Our professional guidance delivers a longer-term outlook that can help you navigate an unpredictable market.** That way, you have greater confidence in your plan as you work toward your financial goals and find the freedom to focus on what matters in your life.

[1] "Older and Slower: The Startup Deficit's Lasting Effects on Aggregate productivity Growth". Nber Working Paper 23875. September 2017, http://www.nber.org/papers/w23875

[2] Martin Niel Baily, Erik Brynjolfsson, and Anton Lorinek. "Machines of mind: The case for an AI-powered productivity boom." May 10 2023. https://www.brookings.edu/articles/machines-of-mind-the-case-for-an-ai-powered-productivity-boom/

[3] Mid-Year Outlook '23: Edging Closer to Normal, Carson Group. chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.carsongroup.com/wp-content/uploads/2023/07/CP_MYO_2023_071123_Final-1-1.pdf. Accessed 1.8.2024

[4] Zaccardi CFA, CMT, Mike. X. https://twitter.com/MikeZaccardi/status/1716423498099277903?s=20 Accessed 1.8.2024

[5] "Equity Premium Puzzle". Wikipedia. https://en.wikipedia.org/wiki/Equity_premium_puzzle Accessed 1.8.2023

[6] "Myopic Loss Aversion and the Equity Premium Puzzle". Nber Working Paper 4369. May 1993, https://www.nber.org/system/files/working_papers/w4369/w4369.pdf Accessed 1.8.2024

[7] Barberis, Nicholas & Huang, Ming. "The Loss Aversion/Narrow Framing Approach to the Equity Premium Puzzle". Yale University and Cornell University/SUFE. https://nicholasbarberis.github.io/ep_v4.pdf Accessed 1.8.2024

[8] "Prospect Theory and Asset Prices" Nber Working Paper w7220. 25 September 2022, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=214388 Accessed 1.8.2024

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Asset allocation, which is driven by complex mathematical models, cannot eliminate the risk of fluctuating prices and uncertain returns.".

A diversified portfolio does not assure a profit or protect against loss in a declining market.

The return and principal value of stocks fluctuate with changes in market conditions. Shares when sold may be worth more or less than their original cost.

The return and principal value of bonds fluctuate with changes in market conditions. If bonds are not held to maturity, they may be worth more or less than their original value.

The ICE/Bank of America US Corporate Index Option-Adjusted Spread is the calculated spread between a computed OAS index of all bonds in a given rating category and a spot Treasury curve. An OAS index is constructed using each constituent bond's OAS, weighted by market capitalization. This data represents the ICE BofA US Corporate Index value, which tracks the performance of US dollar denominated investment grade rated corporate debt publicly issued in the US domestic market.

The MSCI World ex-U.S. Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries -- excluding the United States. With 871 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

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Investors cannot invest directly in indexes. The performance of any index is not indicative of the performance of any investment and does not take into account the effects of inflation and the fees and expenses associated with investing.

Additional risks are associated with international investing, such as currency fluctuations, political and economic stability, and differences in accounting standards.

Due to volatility within the markets mentioned, opinions are subject to change without notice. Information is based on sources believed to be reliable; however, their accuracy or completeness cannot be guaranteed. Past performance does not guarantee future results.

The S&P 500 is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

The Bloomberg U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

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