Making **Sense**

2024 Market & Economic Outlook

As the year comes to an end, we want to share our views on potential headwinds and tailwinds for next year and beyond. Be sure to watch our 2024 Market Outlook for the full analysis. After a humbling 2023 for prognosticators, in today's note, we want to focus on the ten topics that we believe will matter most in 2024.

1. **The path of inflation.** As has been the case for the past two years, inflation will likely remain an area of focus next year. Even though the rate of inflation is trending downward, core inflation remains at 4% as of November's Consumer Price Index, double the Fed's 2% target.[i] **We believe inflation will remain a hot topic in 2024, and all eyes will be on the Federal Reserve's monetary policy.**

2. **The labor market.** The bright spot of the economy continues to be the labor market, despite the Fed's dramatic rate hikes since early last year. November's unemployment rate came in at 3.7%, above the recent low of 3.4% but still low by historical standards. Wage and job gains have slowed recently but remain above average. Overall, the strong labor market is driving consumer spending, which makes up roughly 70% of the U.S. economy. **Looking ahead, we will be watching initial and continuing jobless claims for signs of softening in the job market.**

3. **Monetary policy.** The Federal Reserve increased the federal funds rate four times in 2023 but has been on pause since July. The overnight rate currently stands at a range of 5.25% to 5.50%. At the December FOMC meeting, members left the overnight rate unchanged once again. According to their summary of economic projections, the overnight rate will be 4.6% at the end of 2024, meaning they're pricing in three 25 basis point rate cuts during the year. As we discuss in our 2024 Market Outlook video, historically markets outperform when the Fed holds rates unchanged versus when they cut the federal funds rate—the reason being the Fed is often cutting rates because the macroeconomic environment is deteriorating. **Fed funds futures are currently pricing a more than 60% chance of a cut in March and the potential for six cuts next year. We, however, don't believe the Fed will begin cutting rates that early in the year, and we expect fewer than six cuts in 2024.**

4. **Commercial real estate.** Commercial real estate (CRE) prices are under pressure. As of November, the overall CRE market experienced a 22% price decline from the recent peak.[ii] Banks outside of the top 25 largest institutions hold roughly 70% of CRE bank loans.[iii] Factor in the $1.5 trillion in CRE loans to be refinanced by the end of 2025[iv], **we believe the commercial real estate market will remain a risk factor in 2024 and potentially beyond.**

5. **Election year and geopolitical unrest.** We are already receiving questions about next year's election and the potential impact on markets. **We first remind clients that having a long-term financial plan in place allows for peace of mind during uncertain times.** Secondly, albeit a small sample size, the fourth year of newly elected presidential terms tends to be positive for the S&P 500.

   As for geopolitical unrest, there is always a wall of worry. In the presentation, we cover the major geopolitical events since World War II compared to S&P 500 returns and recovery times. On median, the S&P 500 takes just 16 trading days to recover following the event's market bottom. Additionally, 12-months following the market bottom, the median return is 13.6%.

6. **Corporate earnings and market valuation.**[v] Earnings growth in 2023 was muted, to say the least. We don't yet have fourth quarter results, but the bottom-up estimate for this year's earnings growth is just 0.7%. Looking ahead to next year, analysts expect earnings growth to recover sharply to 11.8%. **While we do not expect earnings to grow that sharply, we do expect to see decent earnings growth in the year ahead as companies spent 2022 driving efficiencies.** As for market valuation, the S&P 500's price-to-forward earnings multiple is elevated compared to the long-term average but is well below the extremes we saw in 2021.

7. **S&P 500 price target.** We go into detail during our discussion regarding our bear, base, and bull cases for the next 12 months. **Our base case places the S&P 500 price level at 4,850, or a 4.9% change from December 11, 2023.**

8. **Recession market performance.** Throughout this year, we've covered the factors for and against a recessionary event. **Regardless, if a recession were to occur, we believe it will be short and shallow in nature.** Possibly more importantly, what have stocks done during and after a recession? Since World War II, the S&P 500 often *rose* during recessions and saw an average 21.3% return one year following the end of a recession.

9. **Balance between stocks and bonds.** We continue to believe finding the right balance of stocks and bonds in a portfolio will be key to a successful allocation. With the sharp rise in bond yields since early 2022, the expected return spread between stocks and bonds has narrowed. **Put simply, bonds are finally providing decent forward return to portfolios.**

10. **Market tenets to remember.** As we often remind clients, reacting to market events can have long-term impacts to portfolios. **Historical data consistently shows that time in the markets, not timing markets, is rewarded over the long-term.** So, while it may be tempting to make market moves during times of increased volatility, we urge you to work with your financial partner to develop and stick to your long-term financial plan.

Capital Management Group | First Citizens Bank | 8510 Colonnade Center Drive | Raleigh, NC 27615
Brent Ciliano, CFA | SVP, Chief Investment Officer
brent.ciliano@firstcitizens.com | 919.716.2650

First Citizens Bank | 8510 Colonnade Center Drive | Raleigh, NC 27615
Phillip Neuhart | SVP, Director of Market and Economic Research
phillip.neuhart@firstcitizens.com | 919.716.2403

[i] BLS, FOMC
[ii] Strategas, Green Street
[iii] FDIC
[iv] Bloomberg, FDIC, Apollo, as of Q3 2023
[v] FactSet