2024 Macro and Market Outlook:

Stranger in a Strange Landing

Executive Edition

Chief Investment Office

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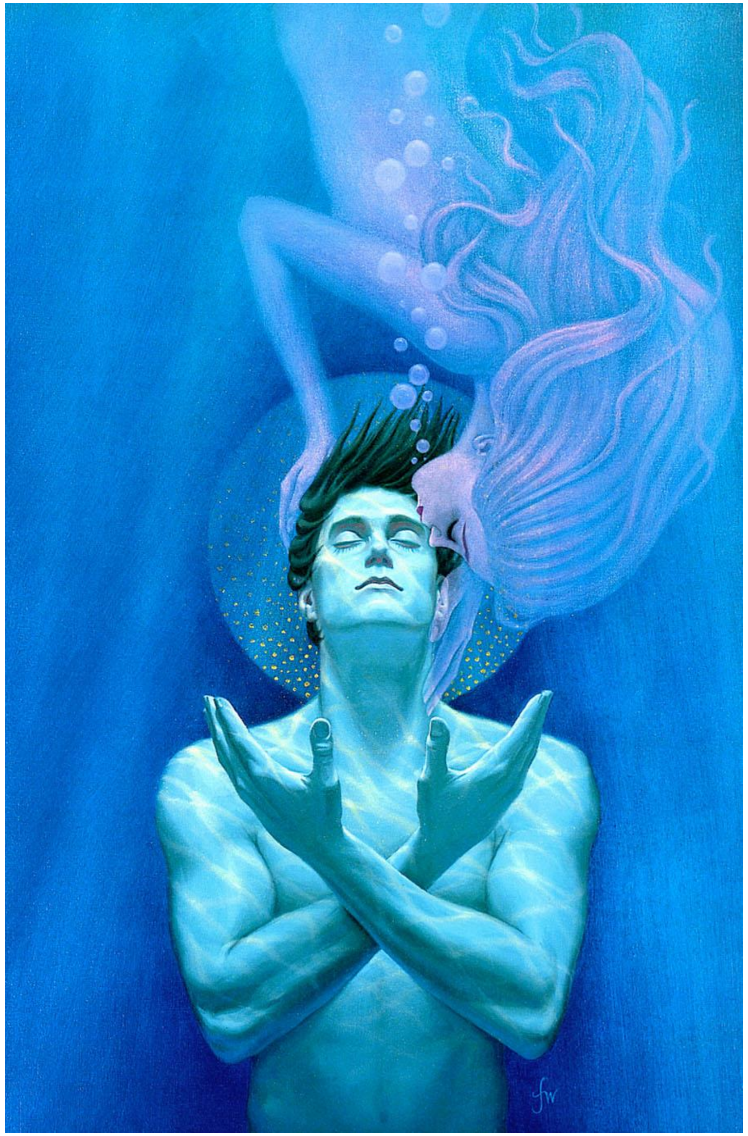
2024 Outlook: Stranger in a Strange Landing

- We must appreciate the unique, and in part unprecedented, *strangeness* of the current economic and market cycle
- The pandemic shut down and policy response has had long-tail impacts, continuing to skew data, challenging long-held macro and market relationships and sending conflicting signals
- Instead of Hard, Soft, or No, **we expect a *Strange Landing* in 2024**, where data is conflicting, cycles are discordant, and policy is potentially distorting; we think this will result in wide trading ranges (but not necessarily trends) for markets, sudden changes in data/narratives, and unexpected market reactions
- This *strangeness* requires investors to have the following traits:
  - **Vigilance**: Complacency could be dangerous in 2024, either by extrapolating recent trends in data or ignoring crowded consensus sentiment/positioning
  - **Selectivity**: We see potential for strong returns in *selective* areas in 2024, with a wide gap between winners and losers
  - **Responsiveness**: We see the potential for wide trading ranges over the course of 2024, creating opportunities for investors



Source: Illustration History, cover illustration for *Stranger in a Strange Land* by Robert A. Heinlein

NewEdge WEALTH

The Strange Landing

Strange Landing

Economy:
Growth slows from 2023's rapid pace, but initially avoids a recession helped by fiscal spending, easy financial conditions, and continued labor market resilience. Data continues to tell conflicting stories, with signs of weakness contrasting with signs of recovery.
Potential for rapid changes in data.

Fed Reaction:
The Fed aims to tweak policy lower, but not signal outright easing for fear of stoking growth/inflation. Weak data necessary for confirmation of aggressive easing. Easing could be interrupted if USD weakens and commodities rally, or if wage growth rebounds.

Macro:
Yields volatile but upwardly biased on resilient economic data not confirming Fed rate cut expectations, while further yield downside dependent on weaker economic data. USD lower if Fed perceived as easy vs. peer central banks, but higher if Fed does not deliver easing.

Risk Asset Reaction:
Resilient growth keeps equity credit fundamentals healthy, but interest rates start to bite in 2H24 as refinancing begins at higher rates. Valuations whipsawed by liquidity, positioning/sentiment, and 2025 recession/EPS risks.

2024 Outlook Summary

Macro and Policy

- **Recession:** no recession in 1H24, and a higher probability of recession in 2025 vs. 2H24, though we are monitoring changes in data closely
- **Labor Market/Consumer:** the labor market remains tight, supporting U.S. consumer, but watching signs of peripheral easing in data
- **Inflation:** we expect continued moderation, but are attune to risks that inflation remains sticky (above 2%) or reaccelerates
- **Fed Policy:** we expect 3 cuts in 2024, with more cuts dependent on economic data weakening materially
- **Treasury Policy:** large deficit spending continues, with funding of the deficit a key influence on liquidity

Fixed Income

- **Ranges:** similar to 2023, we expect wide ranges for Treasury yields in 2024 with upside driven by better economic data/stickier inflation/a tighter Fed/Treasury issuance, and downside driven by weaker economic growth/soft inflation/an easier Fed
- **Credit:** all-in yields remain elevated, but tight starting spreads and increasing issuance credit upside risk to spreads over the year
- **Munis:** finding opportunities in selective parts of the muni curve and credit ratings
- **Portfolio Positioning:** opportunistically adding to duration, highly selective about credit exposure, looking outside of the index

Equities

- **Ranges:** we expect a wide trading range for equities in 2024, with the potential for an uptick in volatility, with a very different starting point than 2023 on valuation/sentiment/positioning
- **Upside:** better EPS growth than expected (productivity, economic strength already baked in), liquidity remains highly supportive to keep valuations elevated
- **Downside:** weaker EPS growth than currently expected for 2024/2025, liquidity becomes a headwind to already-elevated valuations
- **Portfolio Positioning:** continued focus on quality, selectivity imperative (mostly in beaten up indices)

Alternatives

- **Themes:** cautious optimism, acknowledging that the higher cost of capital requires greater selectivity across private strategies, while also creating opportunities to benefit from disruption to fundraising
- **Private Equity:** focusing on managers with operational value-add, instead of financial engineering, primarily in lower middle market; secondaries are attractive, along with selective GP stakes
- **Private Credit:** "a golden age *for some*" a keen focus is necessary on underwriting given the proliferation of new entrants
- **Volatility Strategies:** the potential for higher volatility in 2024, while issuer credit remains healthy and an important watch item

Asset Allocation for 2024

Fixed Income

Remain Neutral

- *Rationale:* Interest rate volatility is likely to remain elevated as rates remain in broad ranges with the high end driven by resilient growth, higher inflation, and/or a tighter Fed, and the low end driven by weakening growth, slowing inflation, higher issuance and/or an easier Fed. Current yields are attractive relative to recent history and broad fixed income can serve as a portfolio hedge in a recessionary environment.
- *Preferences:* We look to selectively add duration if yields rise, while also being selective within credit given tight spreads and rising issuance. Munis offer opportunities at selective parts of the yield curve and credit quality spectrum.

U.S. Equity

Remain Neutral

- Rationale: Valuations begin 2024 at elevated levels for major indices, which reduces upside potential from multiple expansion and while EPS estimates are optimistic for 2024 and 2025, upside could be driven by improved efficiency and resilient growth.
- *Preferences:* We continue to emphasize quality across equity sub-asset classes. We are balanced between Growth and Value and prefer Large Caps over Small Caps broadly (though see high potential to add value in Small Caps).

International Equity

Remain Neutral

- *Rationale:* International equities provide opportunity for selection within indices given low valuations and improving earnings trends. International markets are more exposed to a global economic slowdown but valuations are attractive relative to history.
- *Preferences:* We prefer developed over emerging markets, due to better earnings trends for developed companies and a less uncertain regulatory backdrop compared to emerging markets.

Alternatives

Remain Overweight

- *Rationale:* We are cautiously optimistic, seeing changes to the cost of capital (interest rates moving higher) as creating opportunity for select managers to add operational value, while opportunity is created in the current disruption to fundraising.
- *Preferences:* We prefer private markets exposure over hedge funds. Within private markets we prefer lower middle market private equity, secondaries, GP stakes, early stage venture, thesis-driven infrastructure, and select private credit.

Real Assets

Remain Neutral

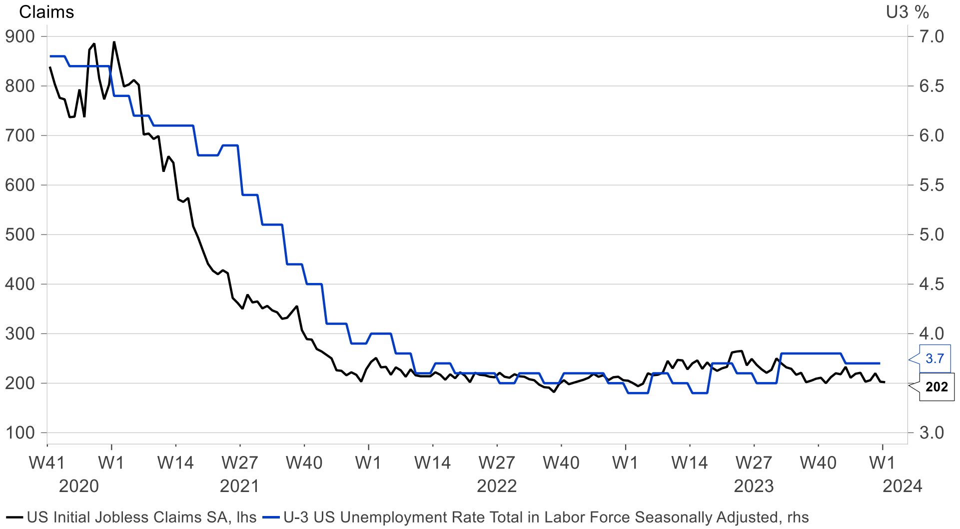
- *Rationale:* Inflation has peaked, but geopolitical tensions remain, which could disruption supply and demand for some commodities.
- *Preferences:* We prefer TIPs and select commodity exposure. Real estate continues to be in a correction, but opportunity for new-money, high quality and opportunistic distressed are emerging, given lower valuations.

U.S. Economic Outlook

Key Points

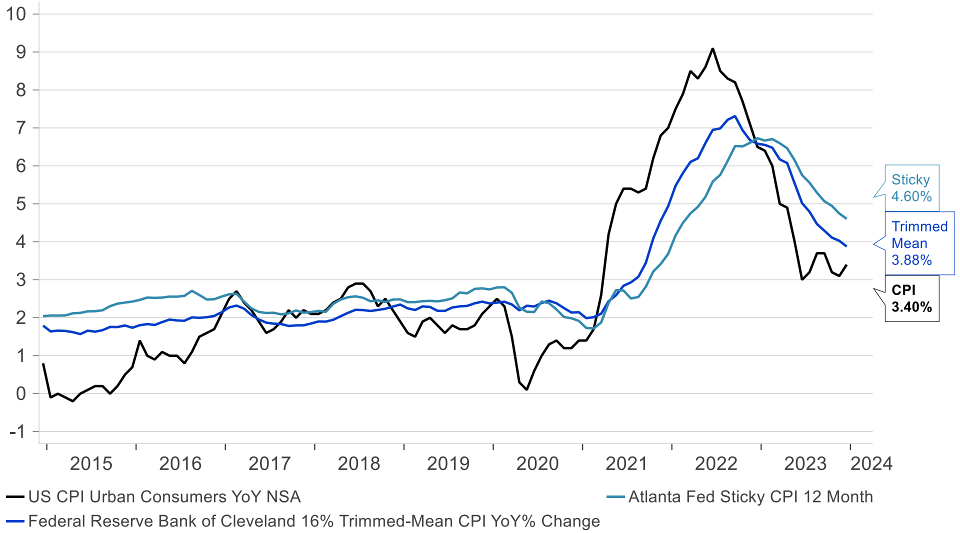
- **Recession?:** We do not expect a recession in 1H24 and will continue to monitor data to gauge risk of weakness building into 2H24, or, more likely, 2025; Bloomberg recession probability of 50% for the next 12 months is likely too high
- **Growth:** We see upside to the consensus 2024 GDP growth estimate of 1.3%, but not as much as 2023 due to tougher YoY comps and a higher starting point
- **Inflation:** In early 2024, we expect inflation to continue to moderate, but are watching for signs that inflation could either remain sticky above 2% or reaccelerate due to factors like gasoline prices and wage growth
- **Labor:** As the U.S. economy averts a recession, we expect the labor market to remain tight, though we are monitoring closely for signs of "fraying"/slowing in secondary labor data as a warning sign of potential softness to come
- **Consumer:** With a still-tight labor market, continued healthy wage growth, and moderating inflation, we can expect consumer spending to remain resilient in 1H24 thanks to positive real wage growth; consumer balance sheets in aggregate are healthy, but signs of rising defaults should be monitored closely
- **Manufacturing:** After over a year in contraction, we expect U.S. PMIs to begin to recover in 2024
- **Housing:** Housing will likely remain in a distorted cycle in 2024 given locked-in low mortgage rates for existing homes; note: housing construction has begun to rebound, reflecting demand for new homes

US Initial Jobless Claims and Unemployment Rate



Inflation Moderated, But Watch Sticky/Broad Inflation Measures

Headline CPI YoY%,Trimmed-Mean CPI YoY%, and Atlanta Fed Sticky CPI YoY%



Source: NewEdge Wealth, Macrobond, Bloomberg

Data as of 1/16/24

Policy Outlook

Monetary Policy

The Fed Wants to Tweak Not Ease if Economy Remains Firm

- We expect the Fed to tweak rates lower by ~75 bps (3 cuts) as inflation moderation gives the Fed room to ease policy, but a resilient economy, along with fears of inflation's return, keeps the Fed from wanting to endorse the 7+ cuts priced in by January 2025
- We think that economic data would need to weaken (beyond the GDP slowdown and unemployment uptick baked into the Fed's current 2024 forecast) to justify the current bond market pricing of policy
- The Fed will likely change its Quantitative Tightening (balance sheet shrinkage) plans in 2024, citing a rundown in Reverse Repo balances (driven by Bill issuance) and a desire to sustain Reserves above a "desired buffer"; QT plans also interplay with Treasury funding decisions

Key Observations:

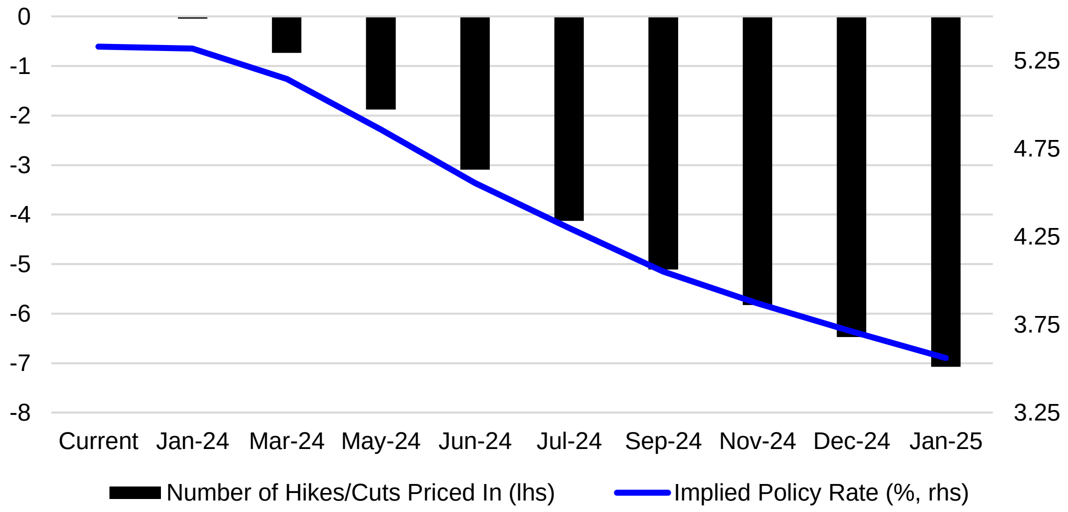
- **Financial Conditions are Easy:** Financial conditions are back to their easiest levels since early 2022/late 2021; if sustained, this would be stimulative to nominal economic growth.
- **The Full Impact of Interest Rates Have Not Yet Been Felt:** The long-tail of over a decade of QE (with the fever pitch of ultra-easy policy in response to the pandemic) has resulted in many borrowers not feeling the full impact of higher rates after the great refinancing wave of 2020/2021; the end result is a delayed/dulled real economy impact of tighter Fed policy to growth

Financial Conditions Back to Easy Territory

Bloomberg US Financial Conditions Index

Source: NewEdge Wealth, Macrobond, Bloomberg

WIRP: Fed Funds Implied Overnight Rate and Number of Cuts



Source: Bloomberg, NewEdge Wealth, Data as of 1/16/24

Fiscal Policy Outlook

Fiscal Policy

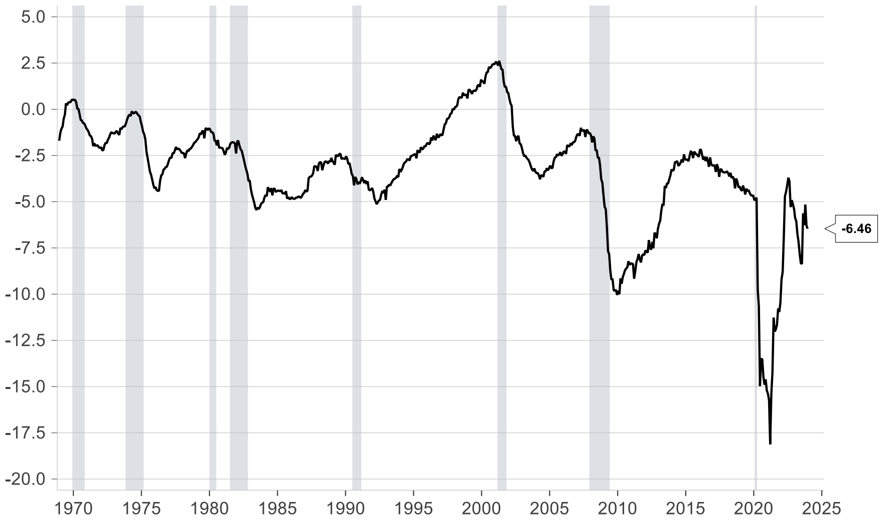
Big Deficits Need Big Funding

- The U.S. budget deficit is expected to reach $2 trillion in fiscal 2024, and is running at 6.5% of nominal GDP, a historically high level without a recession or war (and on a strong numerator of nominal GDP)
- To fund this deficit, the Treasury will issue $2 trillion in debt in 2024 (double from 2023)
- TBAC (Treasury Borrowing Advisor Committee) projects over a 20% increase in coupon issuance across the curve in 2024
- The key watch item is the mix between short-term Bills, and medium/long-term Notes and Bonds: 2023's upside liquidity surprise came from Treasury's move to fund more with Bills as longer-term rates rose, but Bills now make up 22% of Treasury debt outstanding (TBAC has a target of 15-20% for Bills)

Little Indication from Either Party for a Desire to Change Fiscal Trajectory

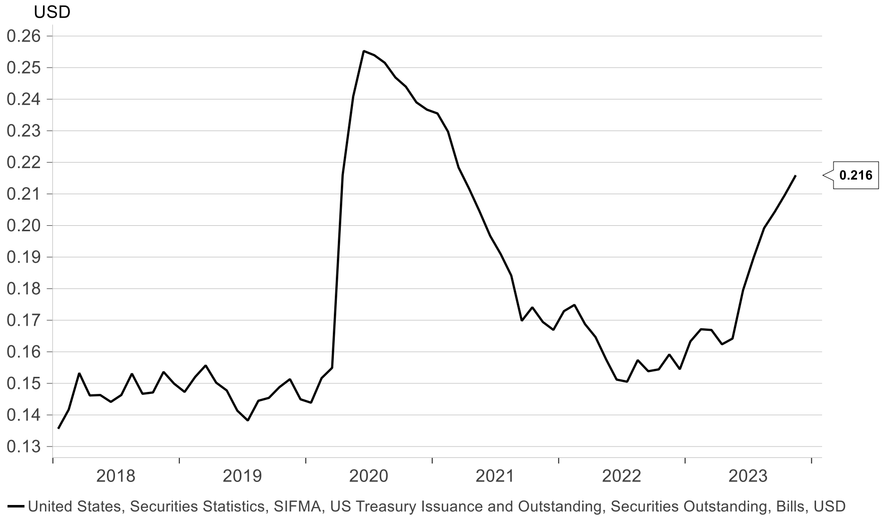
- Compared to coming out of the GFC, there has been a notable shift in voter and legislator sentiment about deficits, exemplified by neither party emphasizing a "fiscal prudence" or "balanced budget" platform (the 2020 observation from Marko Papic about the "median voter" caring less about deficits, so Washington would care less about deficits continues to look prescient)

US Treasury Federal Budget Deficit Or Surplus as a % of Nominal GDP



Source: NewEdge Wealth, Macrobond, Bloomberg

Treasury Bills as a % of Total Treasury Debt Outstanding



Source: NewEdge Wealth, Macrobond, Bloomberg SIFMA (Securities Industry & Financial Markets Association)

2024 Equity Outlook

Key Points

S&P 500 Range

- We think it best to approach the S&P 500 in 2024 with a range and plan in mind if the high or low end of the range is experienced (regardless of the dominant narrative/emotion at the time).
- We could see the S&P 500 trade in a wide range over the course of 2024 (4,200-5,200), and yet make little trending progress (note we had a 1,000-point trading range in 2022 and 2023!).
- This range assumes no recession (further downside if a recession materializes that hits corporate earnings).

S&P 500 Earnings

- Current consensus: $243 for 2024 (+11%), $270 for 2025 (+10%).
- Upside Potential: Driven by a better economy than expected (though this may have limited impact on EPS estimates), better margins driven by productivity, or improved sentiment that sparks investment/M&A.
- Downside Risk: Weaker economic growth than expected, or an already high bar for margin expansion baked in.

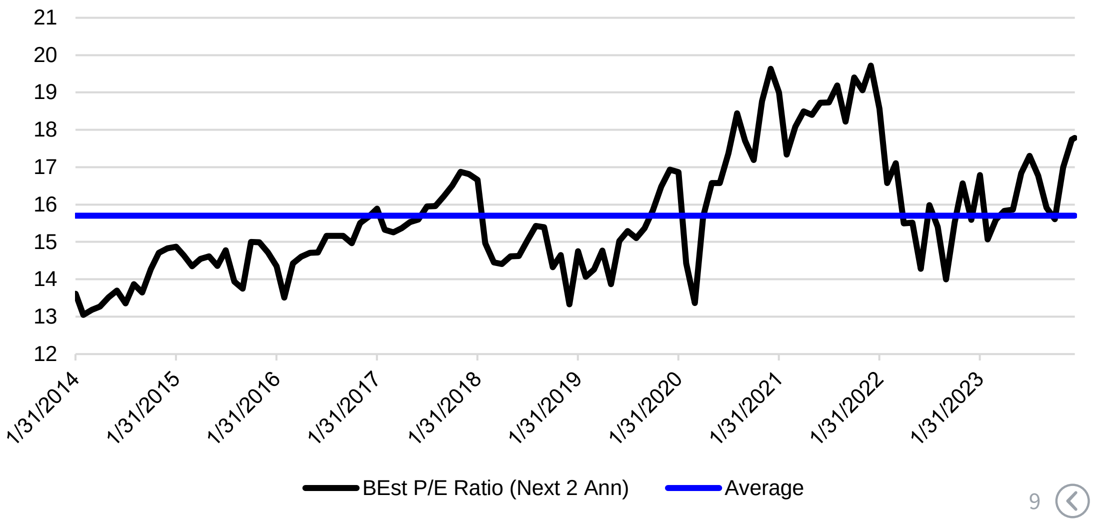
S&P 500 Valuation

- PE is starting 2024 at an elevated 19.7x forward (20x was the ceiling in 2023, 19x was the ceiling in 2018 and early 2020).
- The "average" stock PE is no longer "cheap" after a 20% expansion in the equal weight S&P 500 PE to end 2024.
- An easier Fed/liquidity helps PE valuations, while a tighter Fed/liquidity could bring valuations back down towards average.

S&P 500 Nears All-Time High

Source: NewEdge Wealth, Macrobond, Bloomberg

S&P 500 2 Year Forward PE: Already Expensive on 2025 Estimates



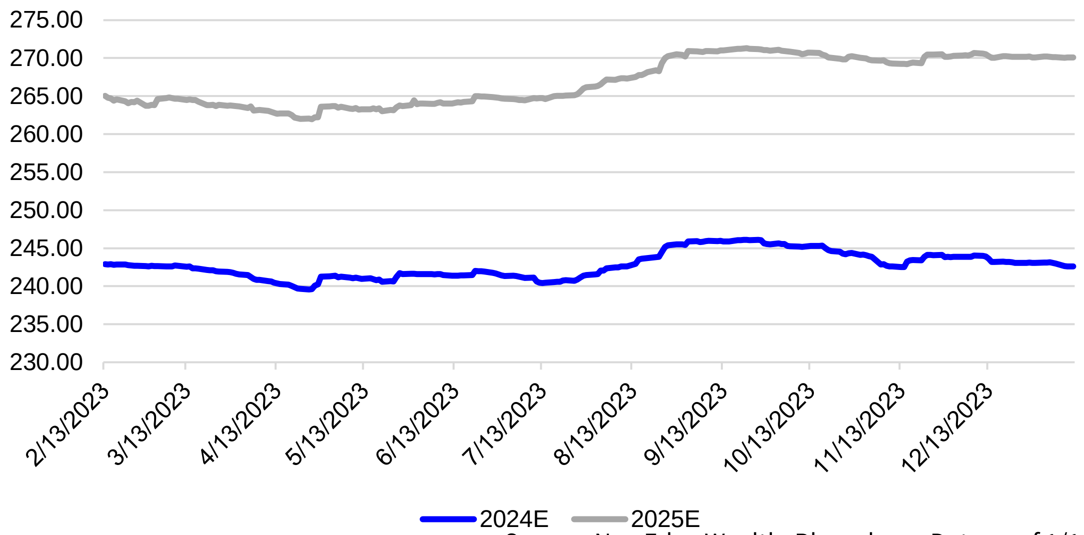
Source: NewEdge Wealth, Bloomberg; Data as of 1/16/24

2024 Equity Outlook

Factors That Will Drive Equities in 2024

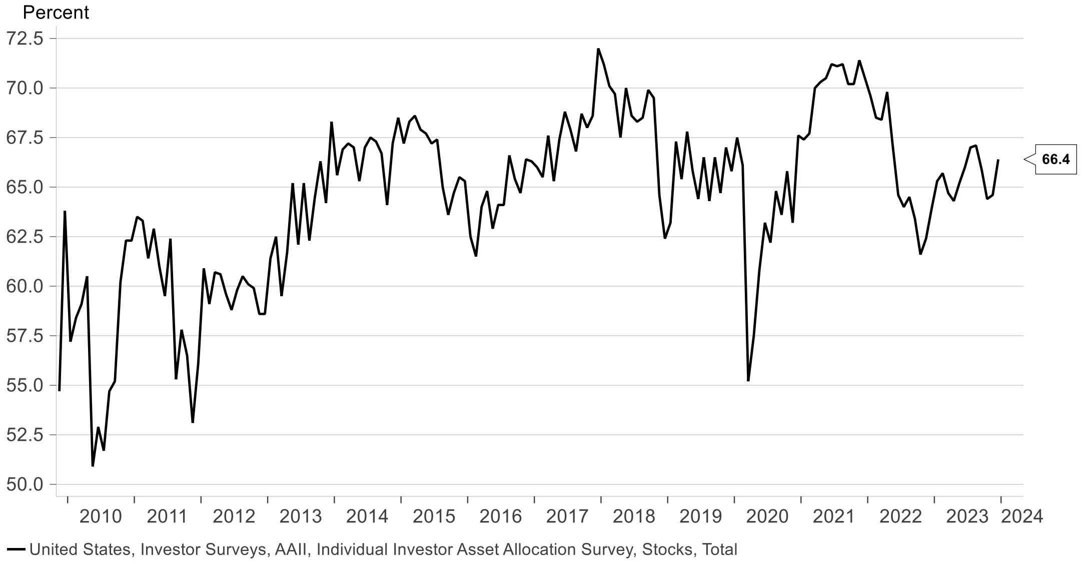
- **Technicals**: Encouragingly, the momentum and breadth thrust at the end of 2023 has historically led to above-average returns over the next 12 months; watch for tactical signs of overbought/oversold over the course of 2024 to interpret a potentially wide trading range.
- **Earnings Revisions**: 2023 benefitted from EPS estimates remaining steady through the year (despite recession fears); an EPS revision downcycle would be a key negative for equities (possibly due to rising odds of a 2025 recession); EPS revisions higher could be driven by productivity, and higher growth/inflation
- **Liquidity**: This is the biggest wildcard for 2024, with factors like Fed Balance Sheet/Quantitative Tightening, Treasury funding/cash balance being key drivers of equity valuations/returns.
- **Positioning**: Broad measures of positioning are stretched but not as extreme as early 2018 and late 2021; a chase to extremes would be positive for equities in the short term, but when extremes are reached, this would be downside risk.
- **Sentiment**: Various sentiment measures are nearing optimistic extremes but can persist; once positioning catches up to sentiment, sentiment likely becomes a key risk.
- **Rotations**: Given one-sided sector flows in 2023 (into Tech and out of most other sectors with Healthcare, Energy, and Financials seeing the most), leadership rotations could be sharp and swift in 2024.

S&P 500 EPS Estimates (Bloomberg Consensus)



Source: NewEdge Wealth, Bloomberg; Data as of 1/16/24

AAII Individual Investor Asset Allocation Survey: Stocks



Source: NewEdge Wealth, Macrobond, Bloomberg American Association of Individual Investors (AAII)

2024 Equity Outlook: Themes

- **Ranges Not Trends, Be Epictetus:** For the S&P 500, we see the potential to be stuck in a wide range to the year (10% to the upside, 10% to the downside) as the conditions for a low volatility, trending market (like 2019 or 2021) are not present; this range could present opportunities for tactical allocations if needed.
- **Still Quality, but Look for Tarnish, Not Trash:** We believe we are still in a late-cycle environment (low unemployment, high interest rates), which, though it can persist for some time, means investors should not grow complacent about growth or balance sheet risks; investors can consider laggards from 2023 that have "tarnish" (needs to reduce costs, growth hurdles) but not "trash" (weak balance sheets and profitability).
- **The Selective Tide Lifts Some Boats, Index Returns May Be Misleading:** Opportunities abound for equities that were left behind in 2023's narrow market and are now underestimated and under-owned; cap-weighted indices may struggle in 2024 given 2023's concentration, while beaten-up indices (Value, small-cap international, non-US) provide greater opportunity for *selectivity,* even if index level returns are lackluster.
- **Breadth Must Come:** 2023's positive, concentrated returns were made possible by powerful EPS growth and margin expansion by the largest weights in the S&P 500; with Magnificent 7 EPS growth slowing materially in 2024 and multiples having already re-rated, a broader cohort in the S&P 500 will need to deliver on earnings growth (only 56% of S&P 500 companies had positive EPS growth in 2023).
- **Liquidity is the Darkhorse:** Liquidity was a surprise tailwind to markets in 2023, helping boost valuations to elevated levels; broad liquidity, including both Fed and Treasury actions, will need to be monitored in 2024, as a shift to tighter liquidity could pressure valuations that are at the high end of historical ranges.
- **The Only Thing to Fear is Greed Itself:** Sentiment and positioning need to be monitored closely; if they get too stretched (like early 2018 and late 2021), equity markets will struggle given the high bar to surprise to the upside and lack of incremental buyers.

2024 Fixed Income Outlook

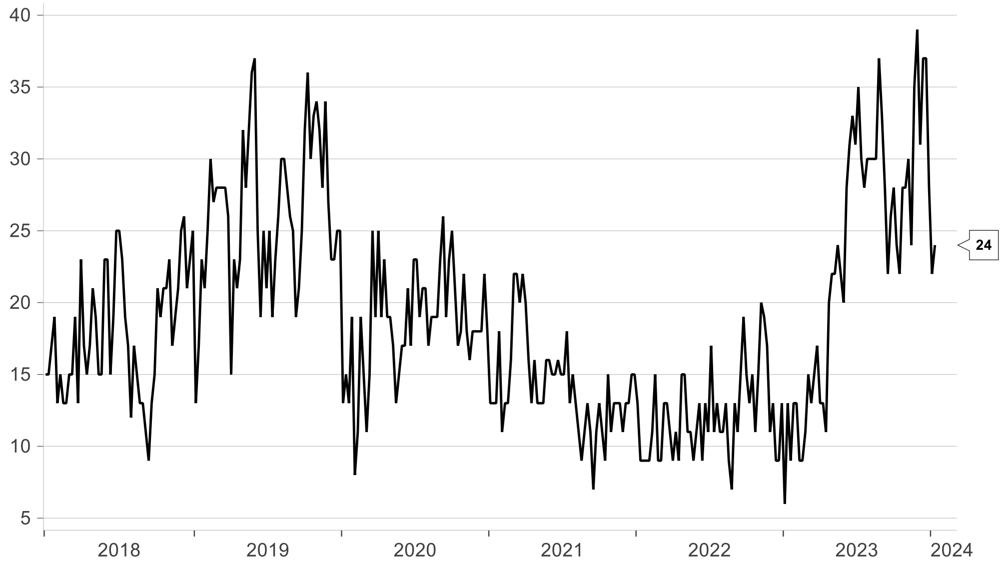
Factors That Will Drive Bonds in 2024

- **Fed expectations**: With more than six rate cuts prices in, bond markets hold a high conviction that the Fed won the inflation battle and can begin to quickly lower rates. The Fed is pushing back, warning that the strength of the economy may once again push up prices. The "push-pull" between the Fed and markets set a trading range, and unless/until the economy goes into recession, this prevailing range offers elevated coupon returns and modest spread and duration returns.
- **Inflation**: Bond markets have priced inflation expectations to perfection, predicting 2% inflation by the end of 2024. However, there remains a risk of a "bear steepening" occurring in the yield curve, similar to what was experienced in the summer of 2023.
- **Liquidity**: The Fed has contemplated slowing the pace of QT. For specific markets – like Treasuries, Munis, MBS, and corporate bonds – structural illiquidity post-GFC means that the "end" of QT may not necessarily bring relief unless combined with rate cuts.
- **Positioning**: Distortions between futures and cash markets will continue to play a dominant role in the pricing of rate cut expectations, which in turn affect valuations across fixed income. The credit overweight could shift to Treasuries, MBS, and other sectors when faster rate cuts do eventually follow.
- **Issuance**: Treasury issuance will remain large-scale. IG and HY bond issuance by corporations is expected to increase by $250 billion. Supply indigestion will continue to challenge duration positioning.

10 Year Treasury Yield and Citi Economic Surprise Index

Source: NewEdge Wealth, Macrobond, Bloomberg

U.S. JP Morgan Treasury Investor Sentiment All Client Long



Source: NewEdge Wealth, Macrobond, Bloomberg

Source: NewEdge Wealth, Bloomberg; Data as of 1/16/24

2024 Fixed Income Outlook: Credit

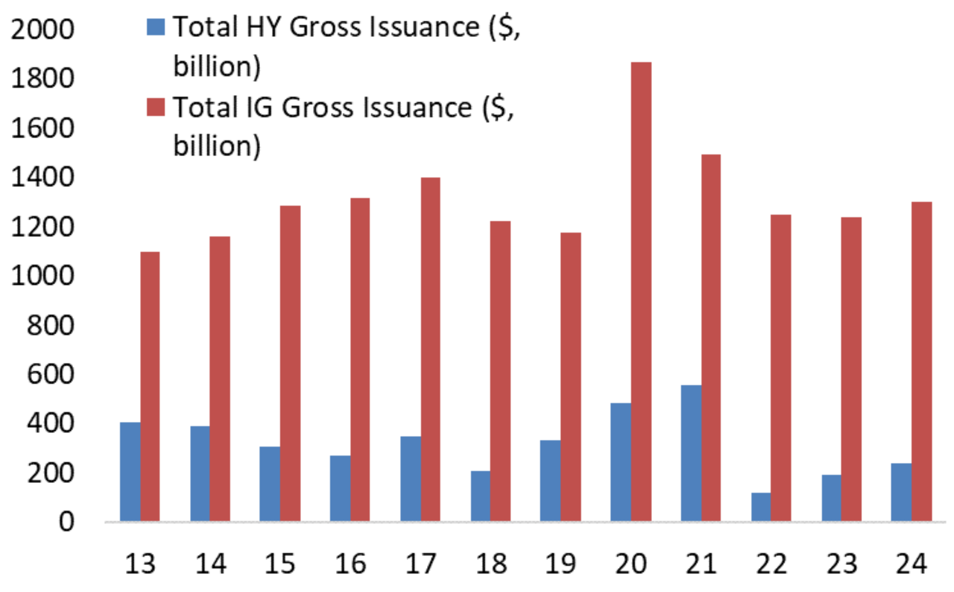
Key Points

Issuance

- High-yield corporate new issuance may reach $250 billion in 2024 should the current narratives of the soft landing prevail.
- Investment grade new issuance in 2024 may come in at $1.3 trillion, owing to a more active maturity calendar.
- Issuance is concentrated in A and BBB-rated categories for a total of over $1.2 trillion in IG. In High Yield, there is a $30 to $50 billion increase in B and BB-rated issuance. CCC issuance remains low at around $11 billion.

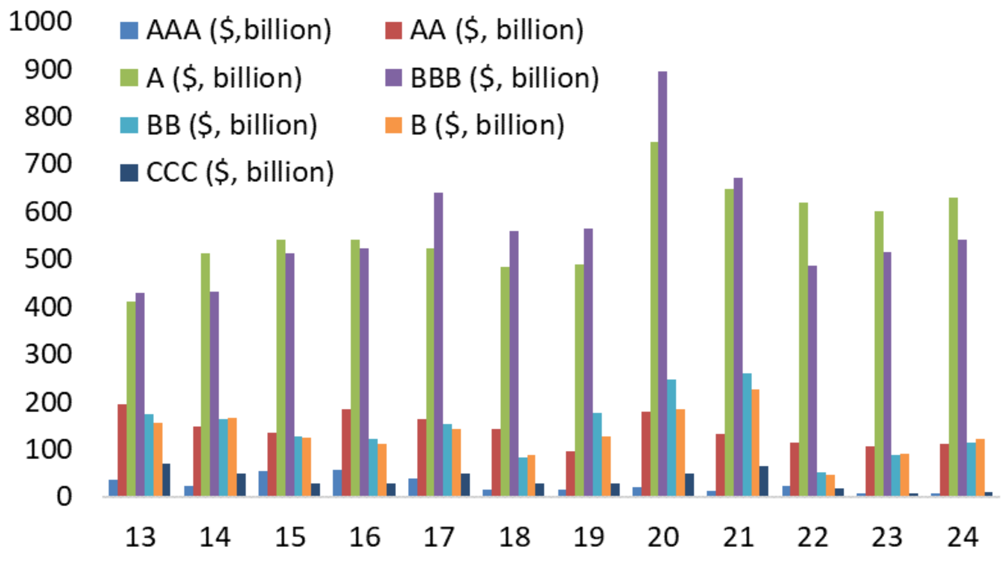
Defaults & Spreads

- IG default is expected to rise to 1-1.5% and HY to 2-2.5%. The implied default from CDS is 2.5% for IG and 4% for HY. The default outlook is benign, but distress is slowly on the rise.
- Upside Potential: issuance is well absorbed; moderate distress in HY attracts investor demand in a lower Treasury yield environment.
- Downside Risk: weaker economic growth than expected can push spreads 200 basis points wider and lead to a decline in HY primary issuance.
- HY starts in a near overvalued state compared to 2022-23. Yet, yields around 8% to 11% across BB to CCC can continue to attract interest via investors “chasing yields.”
- The weakest sectors, healthcare, communications, and technology, are also experiencing the largest rise in default rates and are in significant disinflation/deflation. These three sectors represent 34% of the HY index and pose a risk for further deterioration of credit more broadly.



Source: Bloomberg, NewEdge Wealth

As of 1/15/24



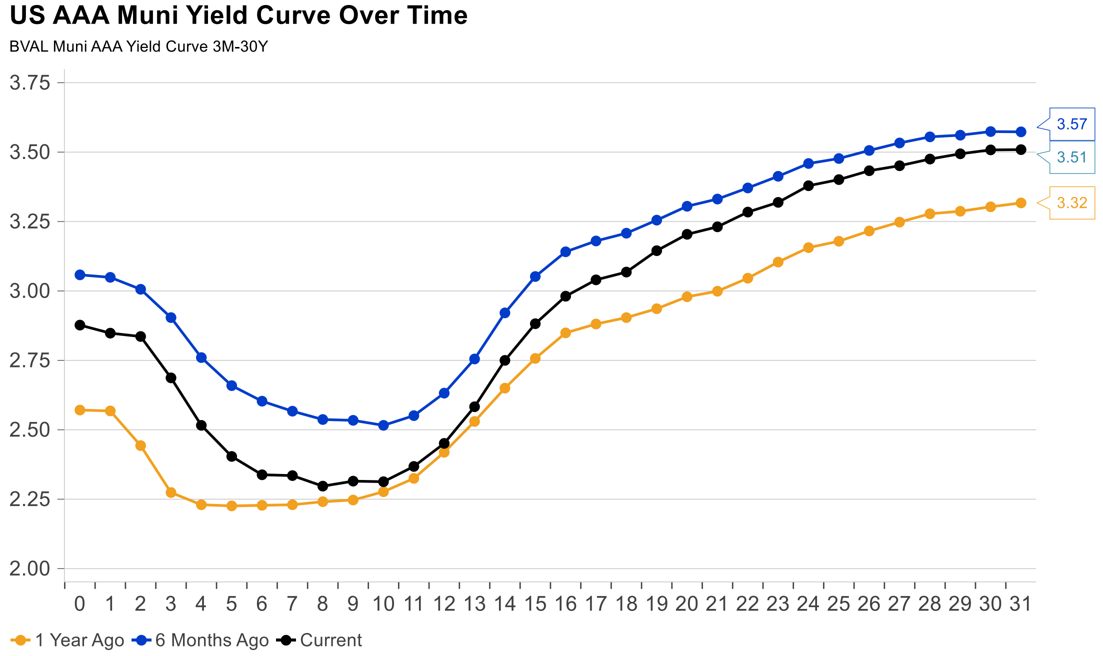
Source: Bloomberg, NewEdge Wealth

As of 1/15/24

2024 Fixed Income Outlook: Munis

Key Points

- The municipal yield curve currently presents attractive opportunities. Target a barbell maturity structure to capitalize on high front-end and intermediate yields, which provides less rate risk and a potential for total return. Consider taxable alternatives if buying in 2-10 years.
- Investors will need to be alert to future rate volatility, especially with the market anticipating a major change in monetary policy followed by a fast-approaching national election. We believe investors will be rewarded by adhering to a “buy the dip” mentality when and if this occurs.
- Spread compression in munis was not a dominant theme in 2023 the way it was in 2021 (massive tightening) and 2022 (unwinding of historically tight spreads). In 2024, look opportunistically for A rated and BBB rated securities as spreads remain attractive.
- Demand will be supported by a healthy fundamental backdrop and historically attractive tax-equivalent yields while Supply/Demand dynamics should continue to improve.
- Although year-over-year growth of tax receipts slowed for parts of the country in 2023, tax collections are coming off a historic base in 2022 and moderating from the strong growth and stimulus since the pandemic. Municipal credit-rating upgrades significantly outpaced downgrades overall in 2023, and while we expect the positive momentum to continue into 2024, we believe this trajectory will slow somewhat going forward.



Source: NewEdge Wealth, Macrobond, Bloomberg

Data as of 1/16/24

2024 Fixed Income Outlook: Themes

- **Ranges to Dominate, Again:** For the 10Y and the 2Y, we see the potential for another year of wide ranges, where yields finish roughly where they started. Although inflation is falling, there remain risks for upside surprises (Suez supply disruptions and U.S. economic strength). The upper end of the range (5 - 5.25%) offers strategic duration extension opportunities ("by the dip"), whereas the lower end (3.4% - 3.5%) are tactical underweight duration positions.

- **Upping the Quality, but Cash Is Not Trash:** A late-cycle environment (low unemployment, higher interest rates) persisting for some time means that credit stress only slowly builds while yields can display erratic volatility when Fed expectations are reassessed. As the economy holds up, the Fed may stay higher for longer which qualifies cash equivalents (T-bills/short duration) not as "trash equivalents."

- **Fixed Income Selection:** While 2023 was dubbed as "buy everything," 2024 may play out differently. If the Fed follows market expectations for 6.5+ rate cuts, the economy will likely have weakened substantially, which means credit spreads would widen and riskier fixed-income (loans, structured credit, EM) and floating rate would lag. In this scenario, Treasuries, MBS, high-quality IG, and preferreds would outperform. Given the Fed is more likely to deliver between 2 to 3 cuts, credit still plays a role in portfolios, but more selectively.

- **Slow Distress Building in Credit:** Default rates have been historically low due to low rollover risk, sufficient liquidity, and ample demand for corporate credit issuance. But the Fed's tightening is feeding through bank lending, private credit, and rising defaults in High-Yield. The HY Index default rate has risen to 2% from sub 0.8% in 2022, while the implied default from CDS is 4%, and the spreads of weaker credits and low-rated HY would widen.

- **End of QT/Problematic Liquidity:** As Treasury issuance complicates demand-supply dynamics, primary dealers will be forced to take more Treasuries on their balance sheets, which can worsen liquidity. The buy-and-hold nature of fixed-income as institutions rush in to lock in higher yields could exacerbate illiquidity against the backdrop of an increased role of Commodity Trading Advisors in Treasury futures. The end of QT could be risk-on, but only if the Fed also cuts rates.

- **Investor Positioning:** Long-only investors likely maintain long positioning on the belief that inflation will return to pre-pandemic levels. But the futures markets will remain speculative on outcomes for the Fed and the economy, creating inherent instability subject to violent unwinds of "basis trades" and derivatives positioning in duration.

2024 Alternatives Outlook

Venture Equity

High-quality businesses are still getting funded.

Early-stage businesses are being pressed to focus on profitability.

Early-stage valuations have been resilient, but a reset is underway.

Opportunities in emerging technologies but wariness around the potential for bubbles to form (particularly around AI).

The Opportunity: Green shoots are beginning to emerge in venture, and we see opportunities to gain access to higher quality businesses at more attractive entry points with normalized valuations.

Private Equity

The cost of leverage and capital has risen dramatically, which pressures high leverage/financial engineering strategies,

Increasing focus on how return is generated at the company level,

As the exit environment has remained tight and return of capital has slowed, so has the pace of new commitments.

The Opportunity: We see more opportunities for quality growth across the lower middle market and middle market vs. the upper market, where financial engineering tends to be more prevalent.

Manager selection and quality of return generation matter more than ever as the dispersion between winners and losers widens. Managers focused on driving value creation through margin expansion, operational efficiency, and building a higher quality cap table to drive returns will prevail over those that lean on financial engineering.

Private Credit

A “golden age” for some (low defaults, high base rates), but risk management critical.

Structure as the arbiter of return (i.e., leverage).

Focus on underwriting track record, downside protection, and stress testing.

Market oversaturation risk and manager selection becoming more critical.

The Opportunity: As the elevated interest rate environment persists and syndicated loan markets remain effectively closed, we see greater long-term opportunity across private credit with a critical eye towards underwriting and downside protection particularly as new entrants flood the marketplace.

2024 Alternatives Outlook

Secondaries

Pickup in secondary activity on both the LP Led and GP Led side.

Declining private equity valuations and LP desire to normalize the denominator effect will lead to greater discounts.

GPs need to begin to return capital to investors will increase supply of GP-led deals.

Liquidity solutions are being tested – NAV lending, carve-outs, hybrid facilities.

The Opportunity: We anticipate a pickup in secondary deals coming to market as LPs and GPs seek to generate liquidity for investors. Secondary funds will be able to take advantage of attractive pricing as valuations reset.

Growth Equity

Valuations are coming under pressure as the IPO window remains largely closed.

Green shoots of investments as valuations normalize and as exit opportunities ramp up (increased M&A activity and IPO window reopening).

Continued focused interest on profitable business models and countercyclical sectors.

The Opportunity: Opportunities will present if the IPO window continues to reopen and as M&A activity reaccelerates.

Private Real Estate

Office real estate market has already begun to show early signs of recession.

Most sectors have experienced near-record low vacancy & elevated rents (with the exception of commercial).

Multifamily has experienced demand growth as low supply and affordability of single-family homes has worsened.

Stress in the space overall has reduced new capital supply.

The Opportunity: Market dislocations may create attractive pockets of buying opportunity in the next 12-18 months. We will likely see openings, particularly in distressed spaces in 2024, such as office and commercial, which could cause contagion across the industry. The opportunity in triple net lease is growing as we are seeing large corporations evaluate how they want to capitalize their balance sheets.

2024 Alternatives Outlook: Themes

- **OUR OVERALL SENTIMENT IS CAUTIOUS OPTIMISM**: We are cautiously optimistic throughout private markets as we believe dispersion across managers will continue to widen - manager selection and quality of returns will increasingly matter. Manager Selection matters.
- **THE COST OF CAPITAL MATTERS**: The elevated cost of capital will impact managers who utilize leverage to generate returns. Upper-market private equity funds will be affected disproportionately greater than the lower-market and middle-market funds that traditionally use less leverage and financial engineering.
- **BENEFITTING FROM FUNDRAISING DISRUPTION**: Fundraising will be more challenged as the IPO market and M&A activity have remained under pressure, thus preventing funds from making distributions decreasing the velocity of capital being put back to work. Secondaries have been the beneficiary of this increasing need for liquidity and we will continue to see opportunities across the LP Led and GP Led spaces.
- **NIMBLENESS IS REWARDED**: Investors with dry powder and fresh capital available in 2024 will be able to take advantage of investing in higher-quality assets at more attractive valuations and entry points.
- **AI/TECHNOLOGY CREATE OPPORTUNITIES**: The rapid pace of technological advancement and use of AI will continue to drive opportunities, particularly in sectors like healthcare, fintech, and green tech/decarbonization.
- **THESIS DRIVEN INFRASTRUCTURE:** Infrastructure has begun to emerge as an area of interest, exhibiting resilient cash flows as volatility and inflation have persisted. The acyclical nature of infrastructure assets may present further opportunities through continued market uncertainty. Clean energy infrastructure in particular, as well as electrification, are essential for a transition to decarbonize the economy and environment.
- **BIG TRENDS CREATE BIG OPPORTUNITIES**: With shifting demographics and an aging population, there will be greater opportunities in healthcare, particularly with technology, as well as in real estate as the need for senior living facilities continues to grow.
- **SELECTIVITY IN DEMOCRATIZATION**: Democratization of private markets – we are seeing more vehicles with increased liquidity and with lower investor qualifications as sponsors attempt to expand beyond institutional capital and access private wealth customers.
- **WATCHING REGULATIONS**: Regulatory changes and increasing compliance requirements are influencing market operations, particularly around reporting, transparency, and data privacy, affecting deal structuring and compliance costs.

"It is not what happens to you, but how you react to it that matters."

-Epictetus

Chart Library

U.S. Economic Outlook

U.S. Economic Outlook

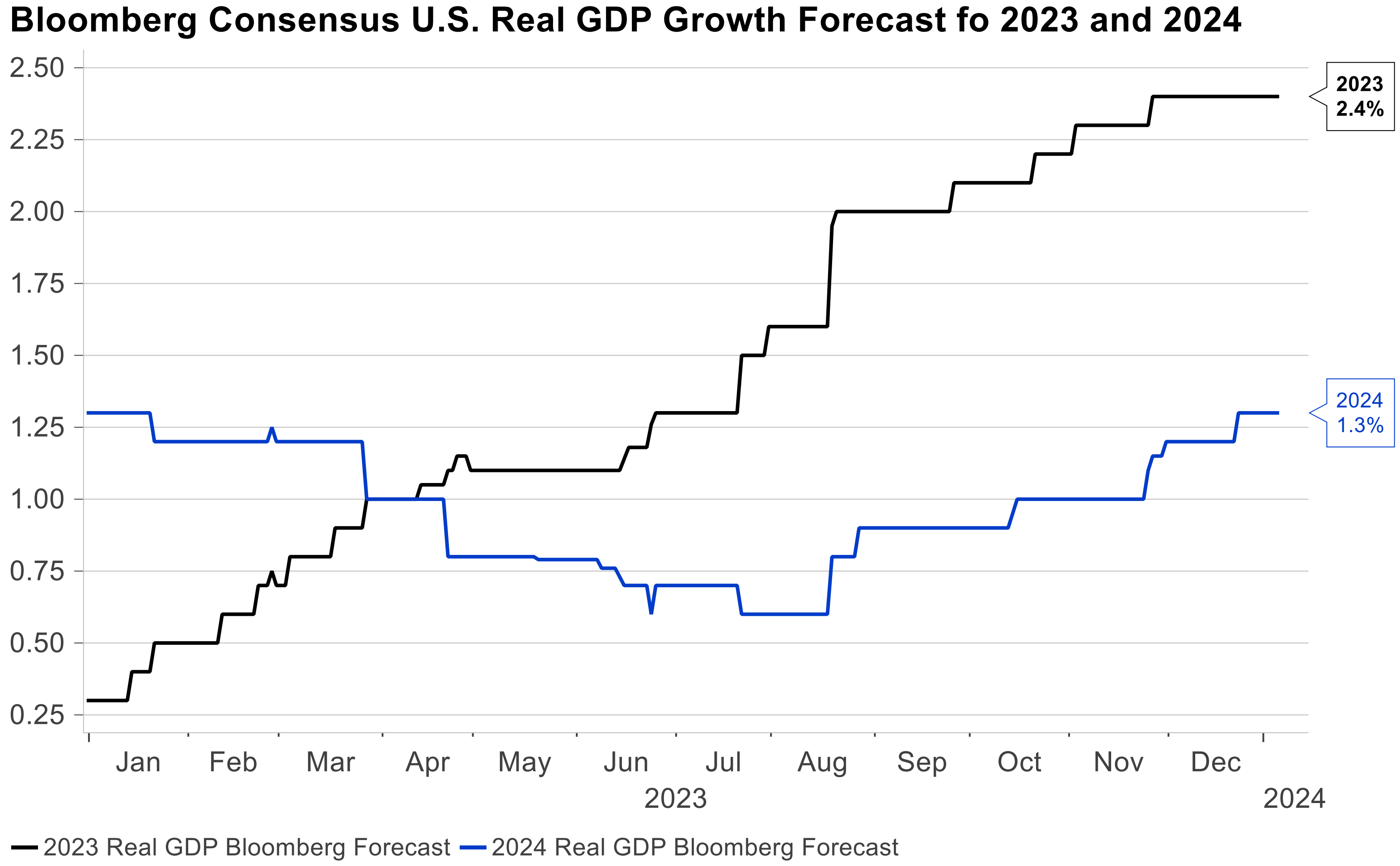
Key Points

- **Recession?:** We do not expect a recession in 1H24 and will continue to monitor data to gauge risk of weakness building into 2H24, or, more likely, 2025; Bloomberg recession probability of 50% for the next 12 months is likely too high
- **Growth:** We see upside to the consensus 2024 GDP growth estimate of 1.3%, but not as much as 2023 due to tougher YoY comps and a higher starting point
- **Inflation:** In early 2024, we expect inflation to continue to moderate, but are watching for signs that inflation could either remain sticky above 2% or reaccelerate due to factors like gasoline prices and wage growth
- **Labor:** As the U.S. economy averts a recession, we expect the labor market to remain tight, though we are monitoring closely for signs of "fraying"/slowing in secondary labor data as a warning sign of potential softness to come
- **Consumer:** With a still-tight labor market, continued healthy wage growth, and moderating inflation, we can expect consumer spending to remain resilient in 1H24 thanks to positive real wage growth; consumer balance sheets in aggregate are healthy, but signs of rising defaults should be monitored closely
- **Manufacturing:** After over a year in contraction, we expect U.S. PMIs to begin to recover in 2024
- **Housing:** Housing will likely remain in a distorted cycle in 2024 given locked-in low mortgage rates for existing homes; note: housing construction has begun to rebound, reflecting demand for new homes

Watch Items

- **Fiscal Deficits**: Large fiscal deficits/stimulus dampen the odds of recession, though present interesting challenges for Treasury fund/liquidity
- **Inflation stickiness**: The bond market, Fed, and consumers all are forecasting/expecting inflation to easily return to 2%; watch USD weakness, oil prices, shipping costs, and wage growth as key sources of upside inflation surprise
- **Soft Data vs. Hard Data**: 2022 and 2023 saw soft/sentiment data was much weaker than hard/real data, but sentiment data has started to rebound for consumers and businesses; this could help leading indicators that use soft data, but may not have much of an impact on real economic activity (given weak soft data did not translate slowing growth in 2022 or 2023)

2023 Was the Year of Rising GDP Forecasts



Source: NewEdge Wealth, Macrobond, Bloomberg

At the start of last year, analysts did not have high-hopes for 2023 GDP growth, expecting just +0.25%, with negative GDP (a recession) predicted over the course of the year.

As economic data continued to come in better than expected (economic surprises were positive/rising for much of 2023), analysts raised their forecasts (initially analysts cut 2024, expecting a strong 2023 to take from 2024, but this reversed during the robust summer of growth).

For 2024 GDP, analysts have increased their forecasts to 1.3%. Initially, we see some upside to these forecasts, but less so compared to 2023 given tougher comparisons and a less-dire starting point.

The Street and Fed Expect a Slowdown but Not a Recession in 2024

Bloomberg Consensus and Federal Reserve Key Economic Forecasts

Bloomberg Consensus as of 1/7/24, Federal Reserve Summary Economic Projections Median as of 12/13/24

	Street 2023E	*Fed 2023E*	Street 2024E	*Fed 2024E*	Street 2025E	*Fed 2025E*
Real GDP YoY%	2.4%	*2.6%*	**1.3%**	***1.4%***	1.7%	*1.8%*
Consumer Spending	3.1%		**1.3%**		1.4%	
Government Spending	3.9%		**1.8%**		1.0%	
Private Investment	-1.0%		**1.0%**		2.4%	
Exports	2.6%		**1.4%**		2.4%	
Imports	-1.5%		**1.3%**		2.4%	
PCE Price Index	3.8%	*2.8%*	**2.4%**	***2.4%***	2.4%	*2.1%*
Core PCE	4.2%	*3.2%*	**2.6%**	***2.4%***	2.6%	*2.2%*
Unemployment	3.6%	*3.8%*	**4.2%**	***4.1%***	4.3%	*4.1%*

Bloomberg Consensus Quarterly GDP Forecasts for 2024

	1Q24E	*2Q24E*	3Q24E	*4Q24E*
Real GDP YoY%	2.2%	*1.7%*	0.7%	*0.8%*

Source: Bloomberg, Federal Reserve, NewEdge Wealth, Data as of 1/7/24

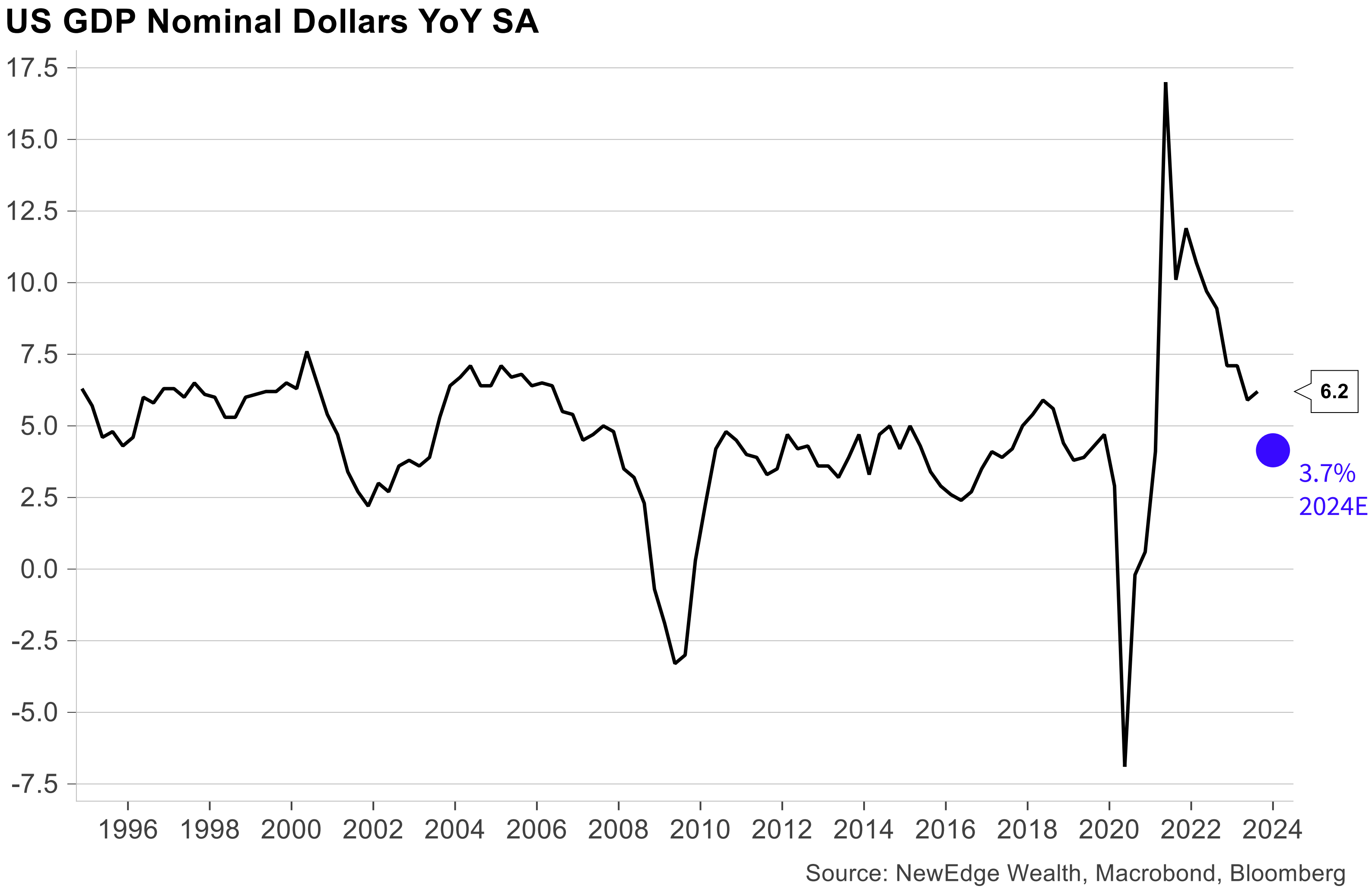
The Street and the Fed expect slower growth in 2024, but not a recession, based on the quarterly GDP forecasts from Bloomberg.

Interestingly, even without a recession call, both the Street and Fed have a meaningful uptick in unemployment forecasted.

Inflation is expected to moderate in further in 2024, getting close to the Fed's 2% goal.

The slowdown in growth and inflation implies a meaningful slowdown in nominal GDP from 2023 into 2024. This is notable given the equity market's expectation for an acceleration in top line revenue growth in 2024.

Nominal GDP Expected to Slow in 2024



With slowing real GDP growth and inflation, the Street is expecting a marked slowdown in nominal GDP growth in 2024 to 3.7% from 6.2% in 2023.

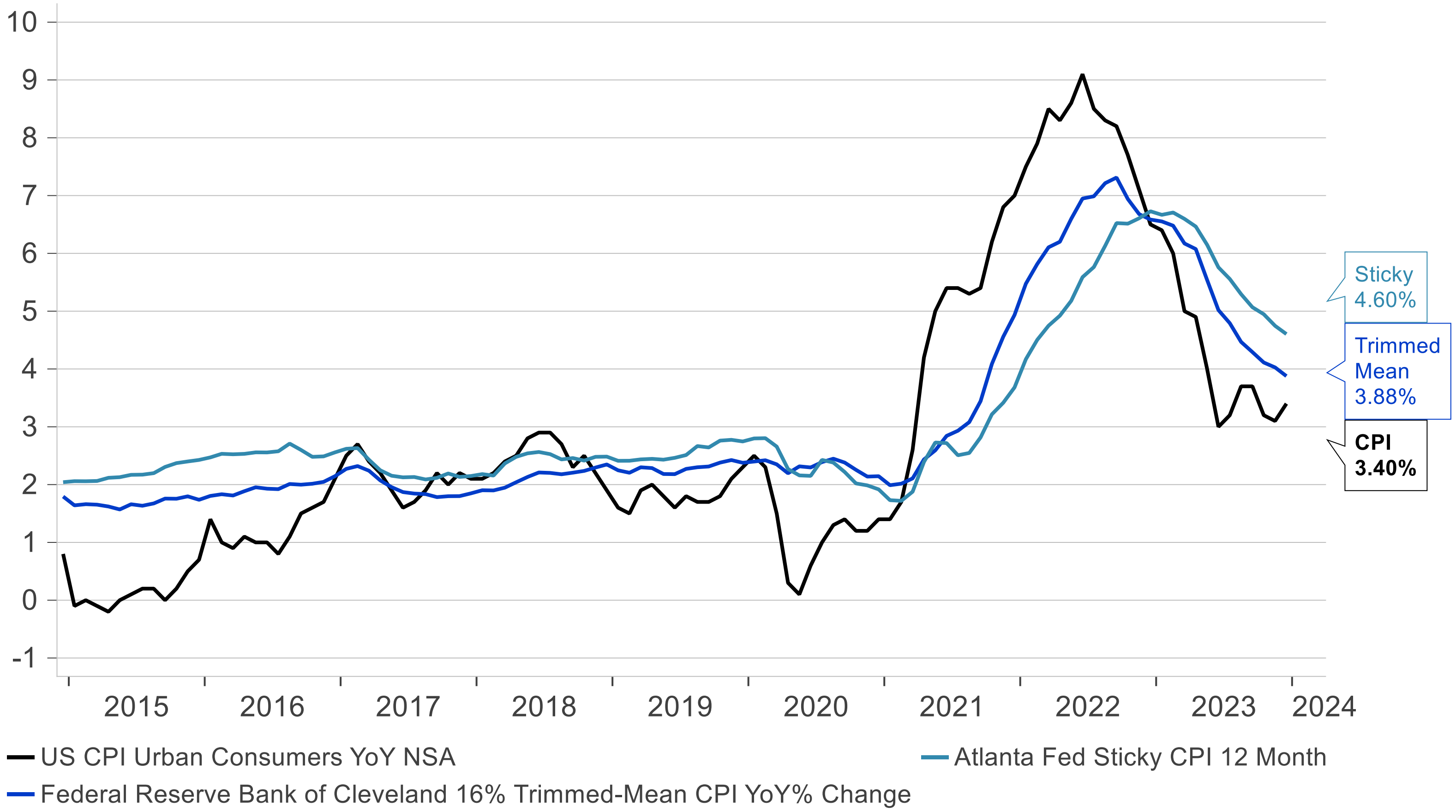
This would return nominal GDP back to the pre-pandemic, "secular stagnation" range.

This nominal GDP slowdown is also notable in the context of S&P 500 consensus EPS forecasts that bake in a revenue growth acceleration in 2024 and 2025.

Inflation Moderating but Not Vanquished

Inflation Moderated, But Watch Sticky/Broad Inflation Measures

Headline CPI YoY%,Trimmed-Mean CPI YoY%, and Atlanta Fed Sticky CPI YoY%



Source: NewEdge Wealth, Macrobond, Bloomberg

Much progress has been made on inflation in the last 18 months, as Headline CPI fell from 9% in the summer of 2022 to 3.4% in the latest December reading.

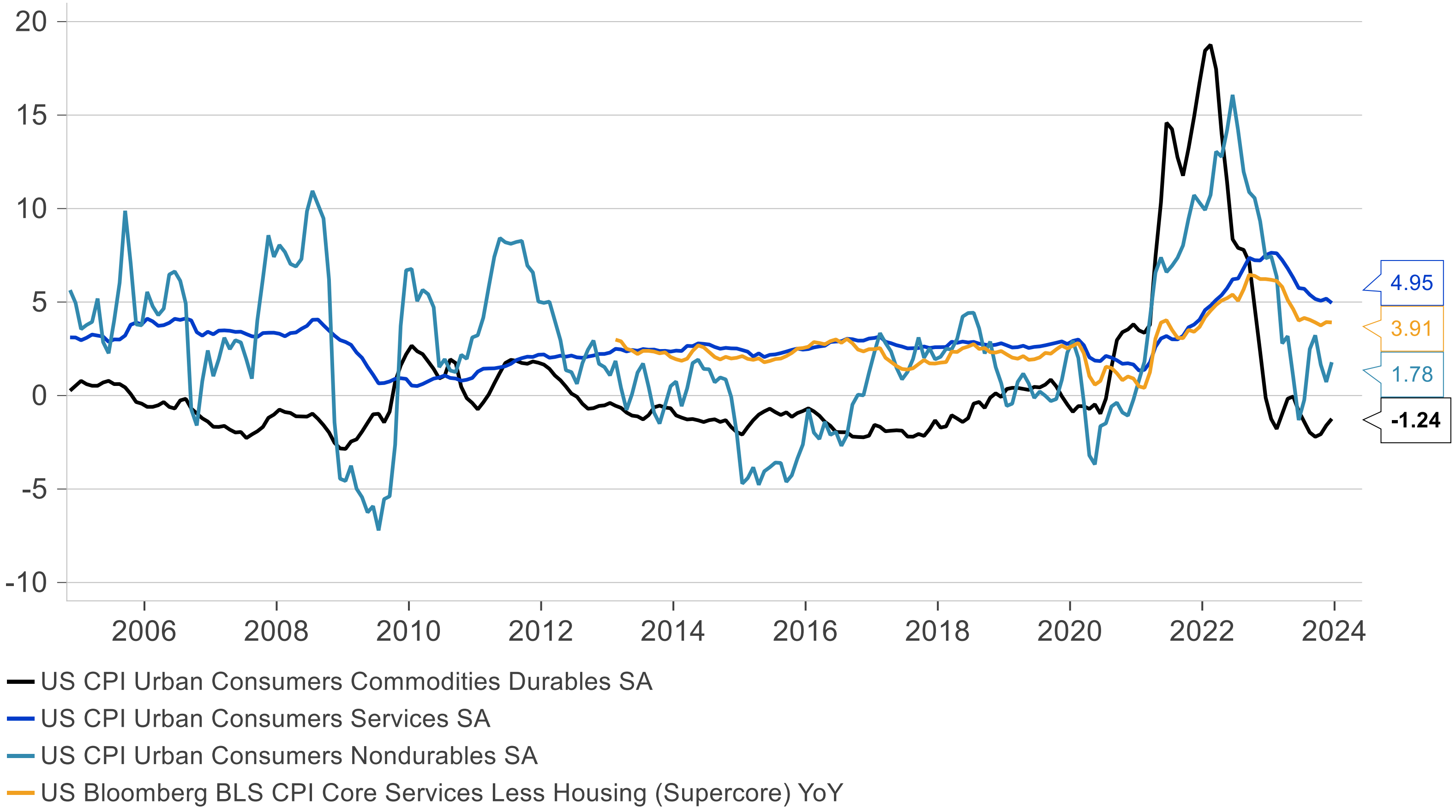
A significant portion of this decline was driven by falling oil and durable goods prices (detailed next).

A watch item for the Fed to claim "victory" over inflation is the return alternative CPI measures (like Trimmed Mean and Sticky CPI) back closer to pre-pandemic ranges, as they remain elevated today.

Inflation: Breaking it Down Between Goods and Services

Sticky Inflation Persists as Cyclical/Pandemic-Era Inflation is Gone

CPI Durables, Non-durables, Services, and Services Ex-Housing (YoY %)



Source: NewEdge Wealth, Macrobond, Bloomberg

The pandemic-era surge in durable goods prices ended 2 years ago: durable goods have been in disinflation for 2 year and outright deflation for 1 year.

Non-durable goods prices are highly correlated to oil prices and have benefitted from oil's plunge over the last 18 months.

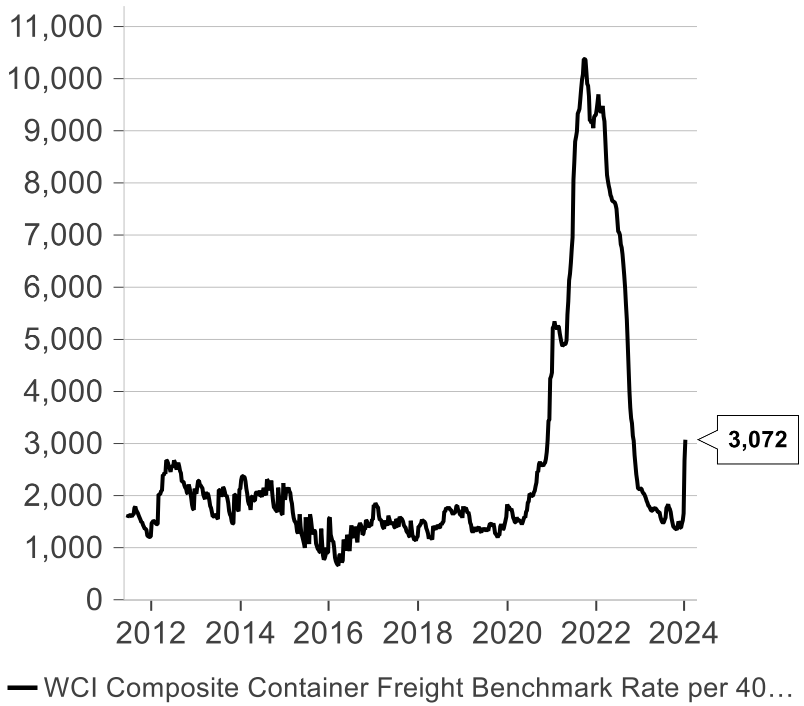
Services inflation remains elevated at 4.95%, with a large portion due to lagging housing-related statistics.

Even ex-housing, though, services inflation (called SuperCore) of 3.91% remains above pre-pandemic ranges.

Inflation: Remaining Vigilant on Shipping and Oil

Container Shipping Costs Jump on Red Sea Disruption

WCI Composite Container Freight Benchmark Rate per 40 Foot Box
Drewry



Source: NewEdge Wealth, Macrobond, Bloomberg

Oil Prices YoY an Important Component of Headline Inflation

WTI Oil YoY %

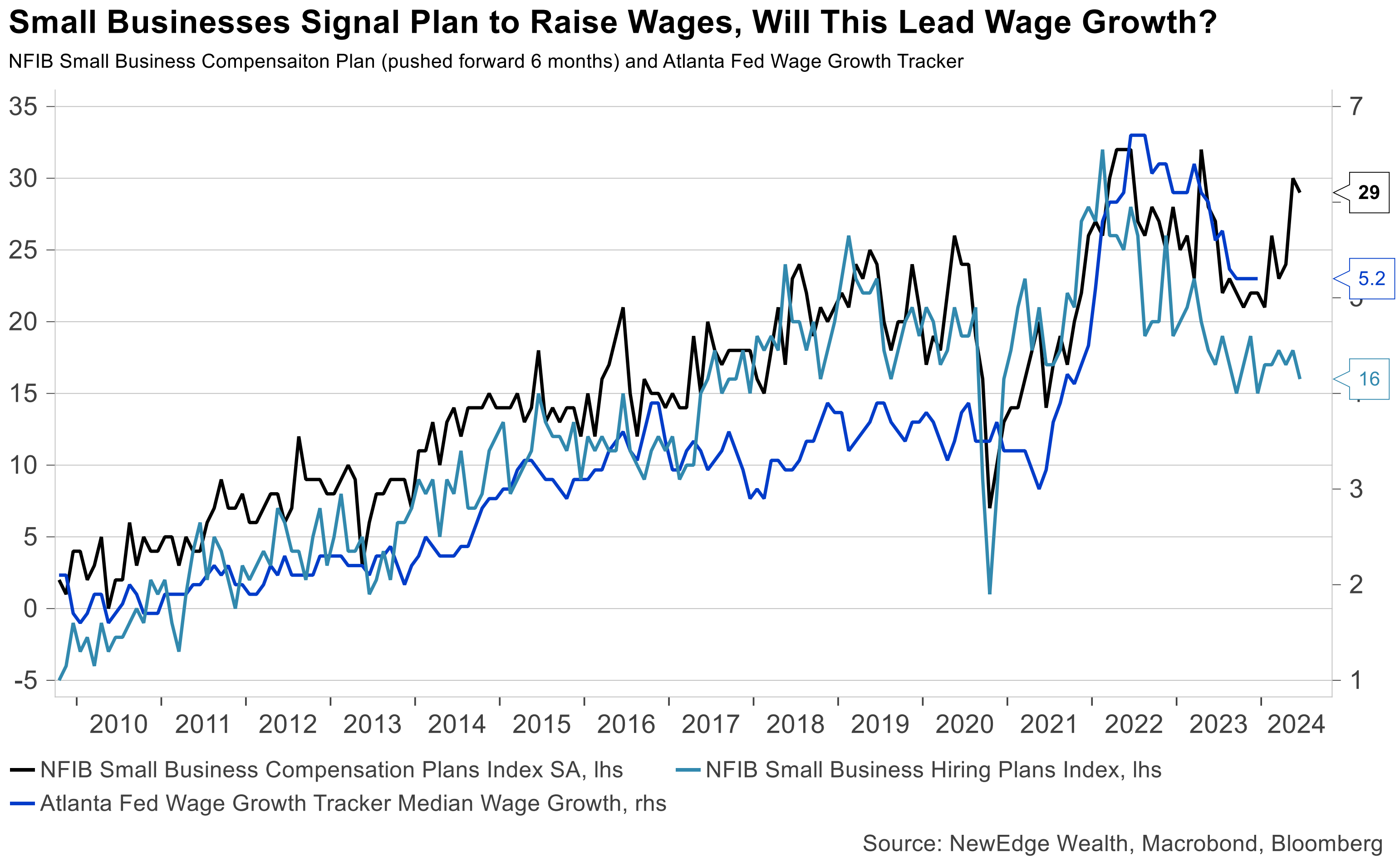
Source: NewEdge Wealth, Macrobond, Bloomberg

Falling shipping costs and oil prices have been two important drivers of Durable Goods and Non-Durable goods disinflation/deflation.

Shipping costs have jumped higher on geopolitical conflicts disrupting trade routes, with shipping costs in unaffected areas rising as well.

The descent of oil prices from being +75% YoY in 2022 to being -45% YoY in 2023 was a major driver of headline disinflation. Oil prices are now nearly flat YoY, meaning they are no longer a major source of inflation downside, nor are they a contributor to inflation upside at these levels.

Inflation: Remaining Vigilant on Wages

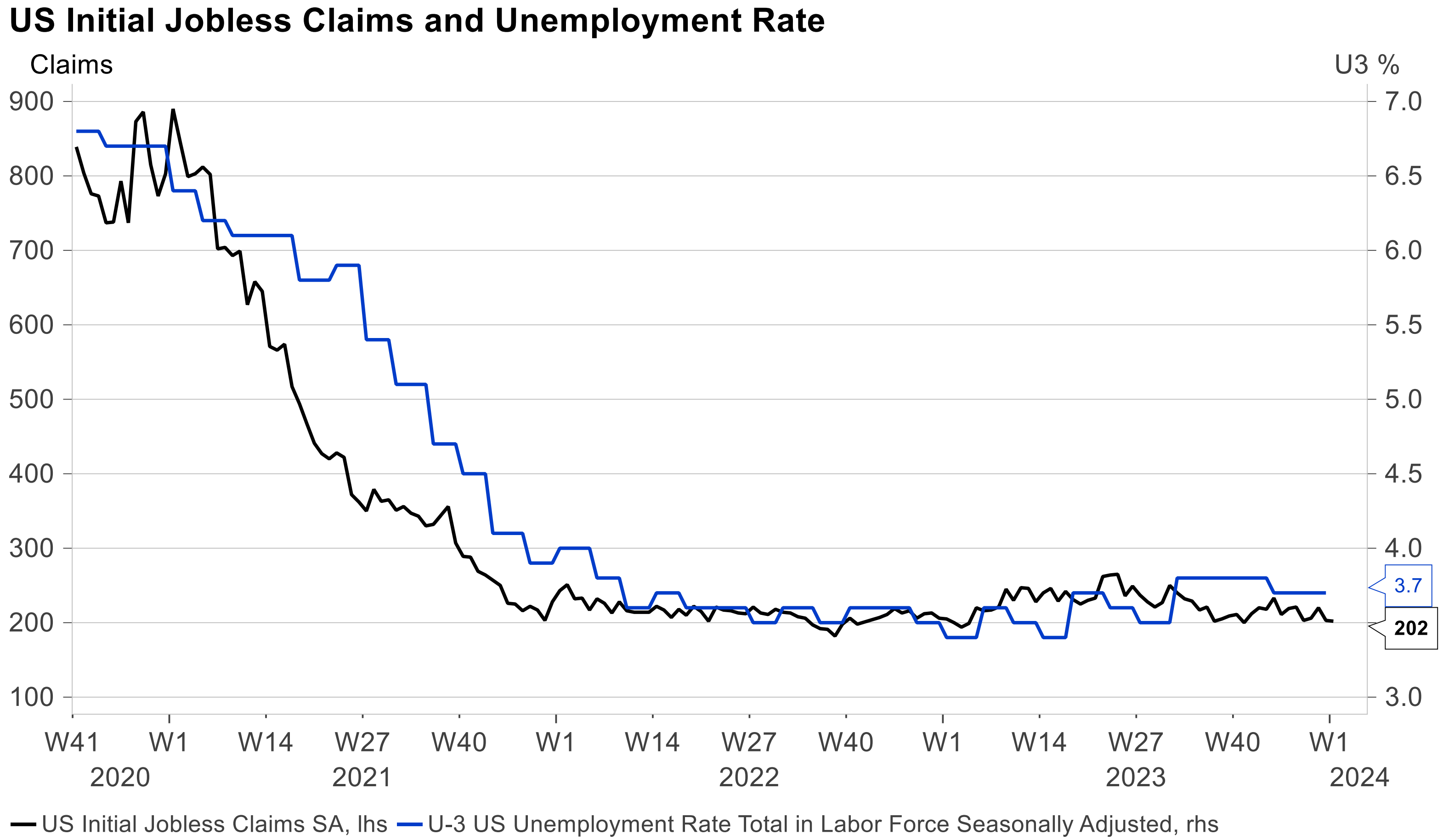


National Federation of Independent Business (NFIB) data is volatile and so it should be taken with a grain of salt, however for the past 6 months the NFIB Small Business Survey has been signaling higher wages ahead.

This survey has typically led wage growth by ~6 months.

This wage survey data has diverged from plans to add jobs, which is an interesting/strange divergence.

Labor: Little Stress Seen in Major Labor Data



Source: NewEdge Wealth, Macrobond, Bloomberg

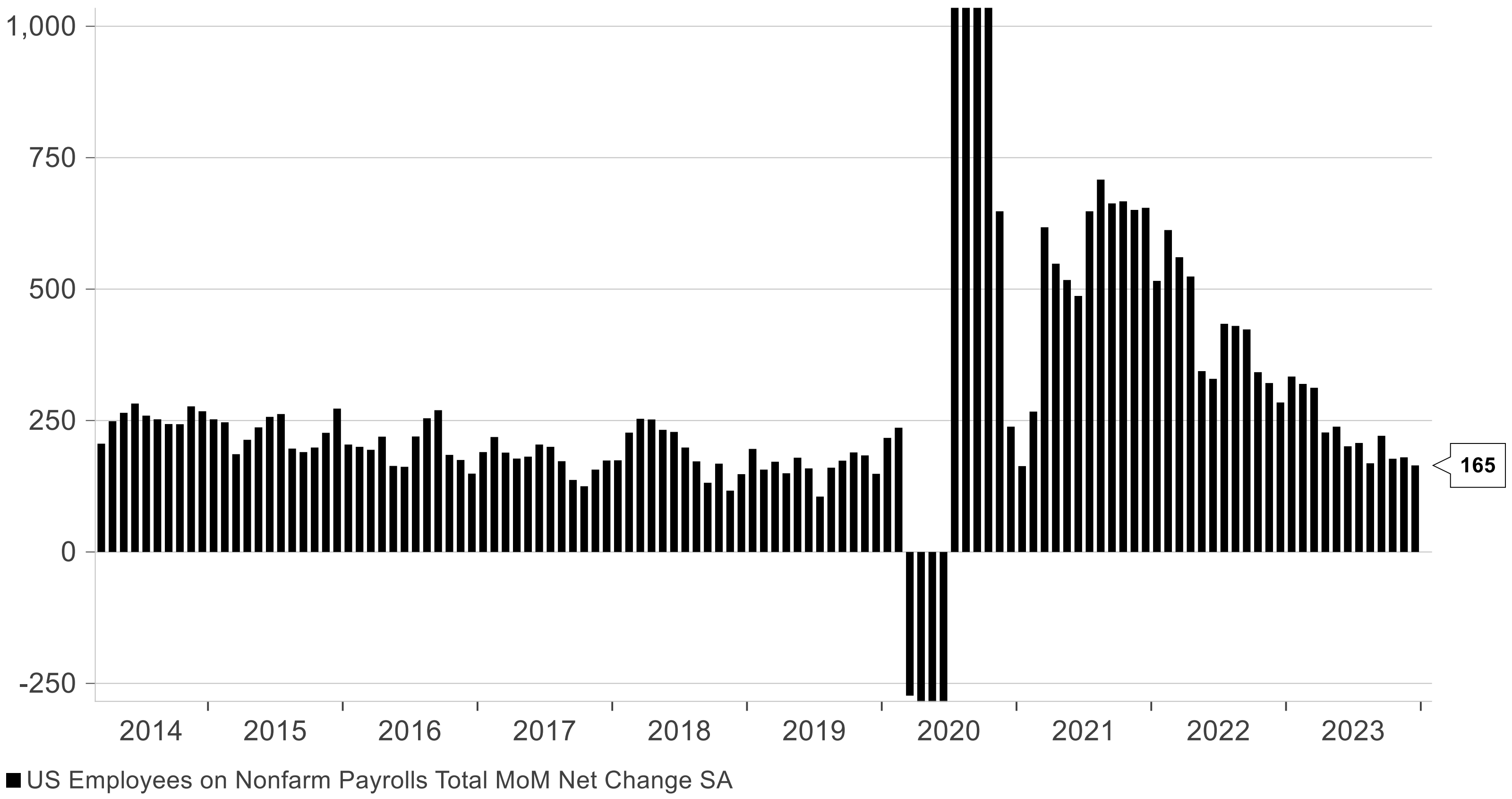
Initial jobless claims remain subdued and near multi-year lows, while the unemployment rate has hovered just above a 50-year low.

The 2023 rise in unemployment was not driven by a deterioration in labor demand, but instead a jump in labor supply (workers rejoining the labor force and new entrants from a wave of immigration). This allowed for the immaculate wage disinflation, as wage growth was able to slow *without* the Fed-feared job losses/pain.

Labor: Job Additions are Slowing, but Still Healthy

Pace of Job Additions Slows (3 Month Average)

US Employees on Nonfarm Payrolls Total MoM 3 Month Change, 2020 Truncated



Source: NewEdge Wealth, Macrobond, Bloomberg

Job additions are slowing in the U.S. but are still healthy within the pre-pandemic range.

A dip below 100k would likely garner attention from the market (hoping weaker data would result in an easier Fed), but likely would not be enough to cause the Fed to meaningfully change its policy outline.

We will be fascinated to see how the market interprets a negative nonfarm payrolls print, with the consensus assumption being this would be good for equities due to an easier Fed policy path. However, we think this could be a negative surprise, as it would imply a weaker EPS forecast than what is currently priced in to markets.

Labor: Softness in Quits and Temporary a Warning Sign?

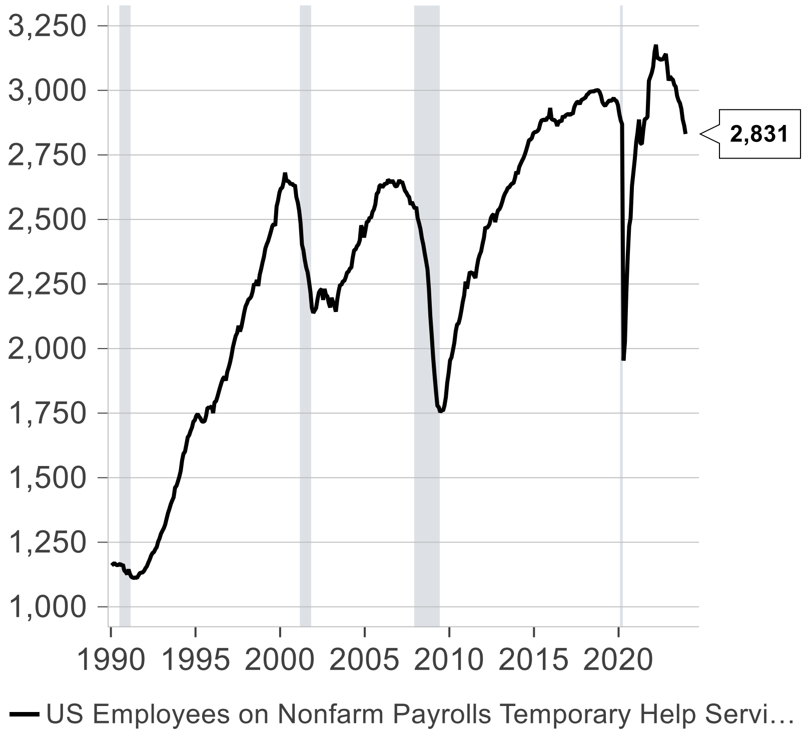
Quits Rate Back to Pre-Pandemic Peak

US Quits Rate SA

Source: NewEdge Wealth, Macrobond, Bloomberg

Temporary Labor Rolling Over Similar to Prior Pre-Recssion Periods

US Employees on Nonfarm Payrolls Temporary Help Services SA



Source: NewEdge Wealth, Macrobond, Bloomberg

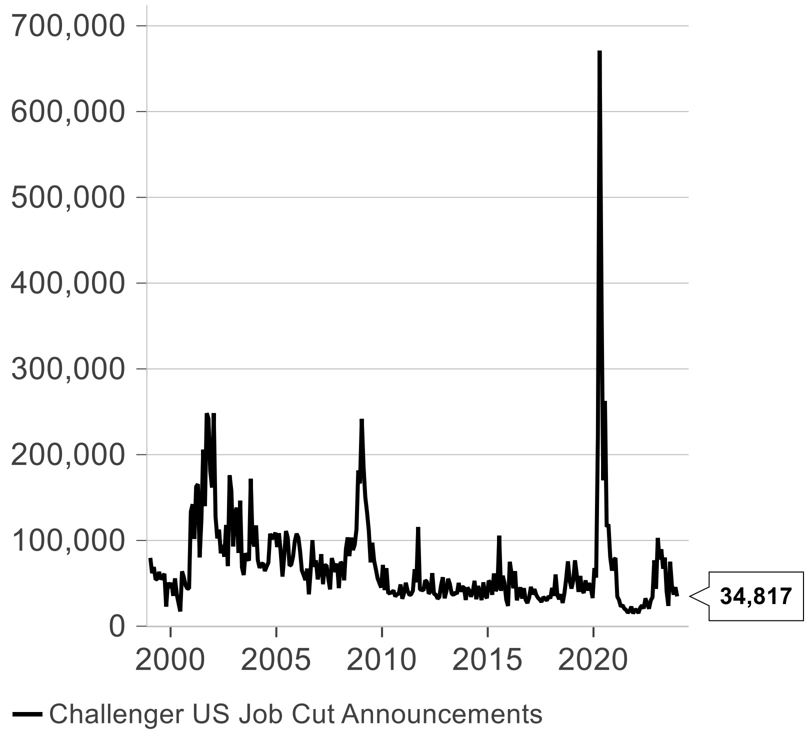
The Quits rate fell precipitously in 2023, signaling workers' fading confidence that they could easily find another/better job.

Temporary labor has also rolled over, signaling businesses are looking for ways to cut back on labor expense. This measure could just be normalizing from the pandemic surge, but now that it is below 2019 levels, watchers should be vigilant that this could be an early warning sign of labor demand softening.

Labor: Job Cuts Subdued, but Weekly Hours Getting Trimmed

Job Cut Announcements Remain Subdued

Challenger US Job Cut Announcements



Source: NewEdge Wealth, Macrobond, Bloomberg

Weekly Hours Getting Trimmed

US Average Weekly Hours All Employees Total Private SA

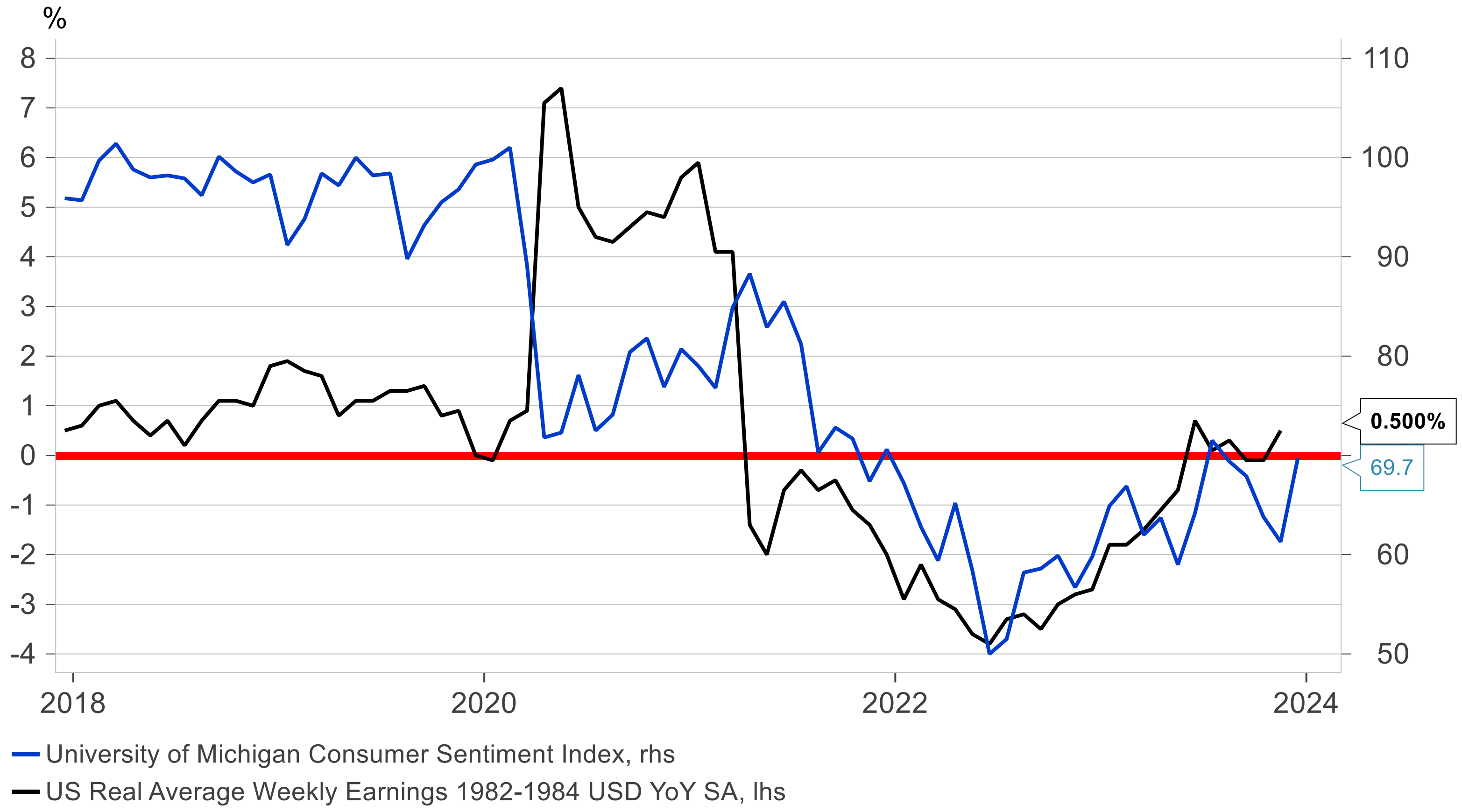
Source: NewEdge Wealth, Macrobond, Bloomberg

In 2023, weekly hours fell to 2016/2017 levels, suggesting employers are making efforts to reduce labor expense without initiating layoffs.

Layoff trackers, like the Challenger Job Cut Announcements, remain subdued. A few high-profile job cuts were announced recently, but these are expected to be enacted over multiple years.

Consumer: Real Wage Growth Now Positive is a Tailwind

US Real Average Weekly Earnings YoY and University of Michigan Consumer Sentiment



Source: NewEdge Wealth, Macrobond, Bloomberg

Falling inflation, mainly due to falling gasoline prices, has pushed real wage growth back into positive territory.

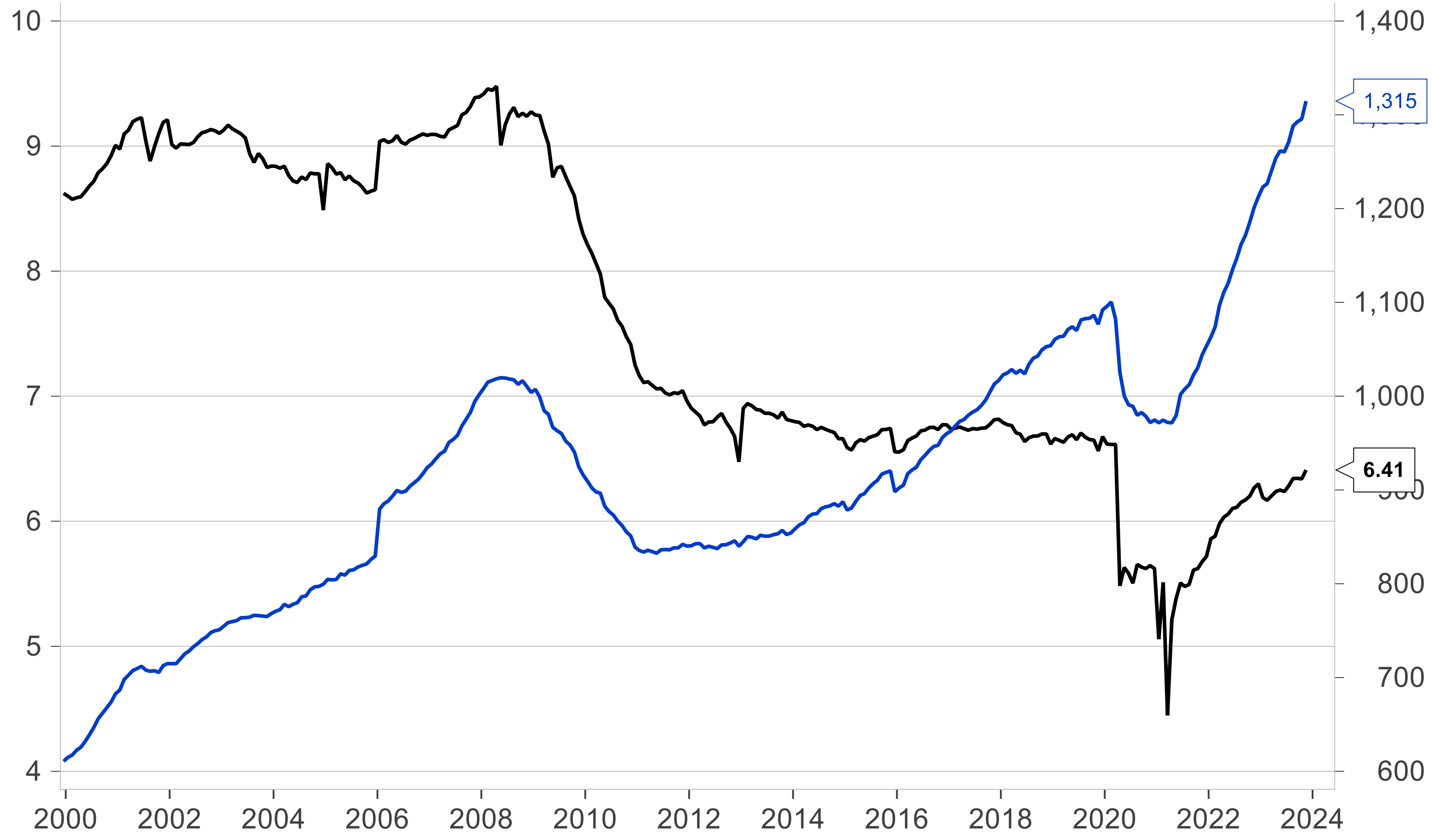
This has boosted consumer sentiment, as consumers regain purchasing power after 2 years of pricing rising faster than wages.

Wage growth slowing or inflation jumping higher could disrupt this trend, but for now this is supportive of continued consumer spending.

Data as of 1/16/24

Consumer: Absolute Debt is High, but Not Stretched Compared to Incomes

Consumer Revolving Credit Absolute and as a % of Disposable Income



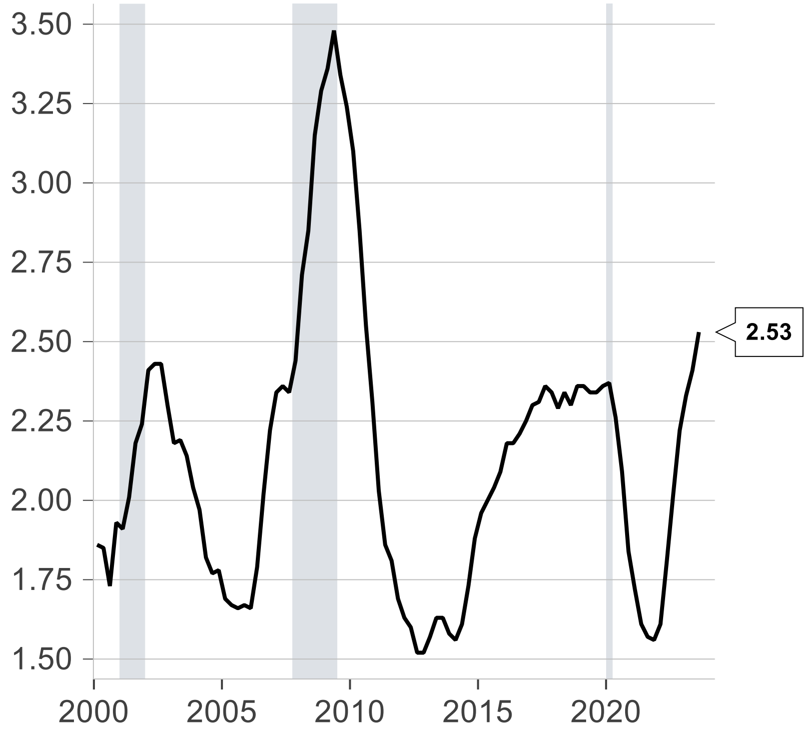
Source: NewEdge Wealth, Macrobond, Bloomberg

Revolving credit balances (credit card debt) have surged to new all-time highs post pandemic, but thanks to strong disposable income growth, these balances are not stretched vs. income levels.

If/when incomes are challenged in a period of job losses/recession, these large credit card balances could become a greater concern.

Consumer: Watching Delinquencies

US NY Fed Equifax Transition Serious Delinquency 90+ for Auto Loans by Age All



Source: NewEdge Wealth, Macrobond, Bloomberg

US Credit Card Delinquencies 30+ Days Composite

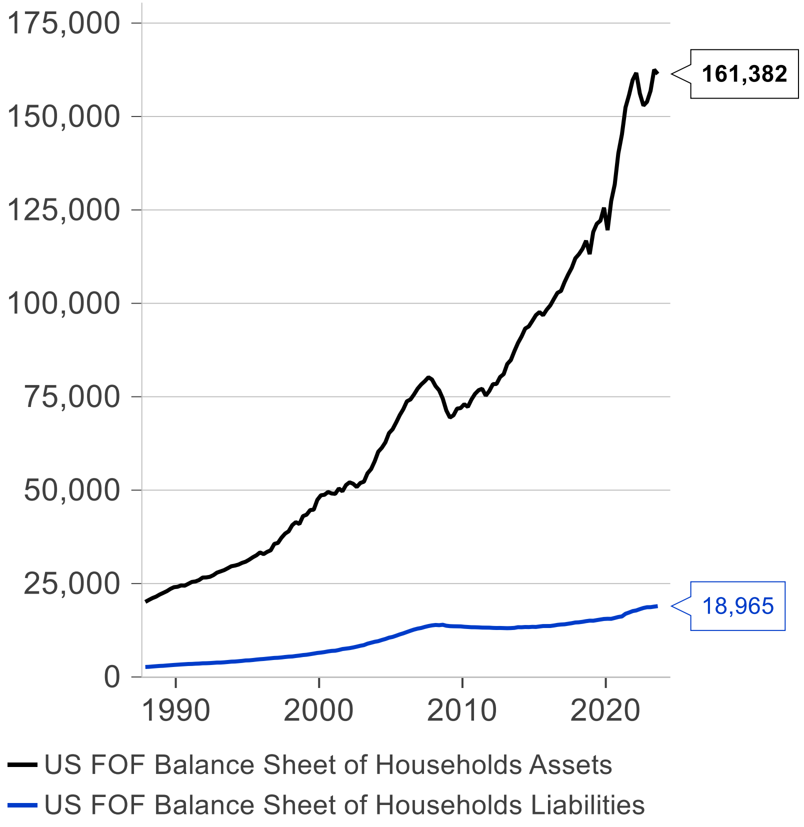
Source: NewEdge Wealth, Macrobond, Bloomberg

Delinquencies for auto loans and credit cards have been rising, which is notable during a period of strong wage growth and full employment.

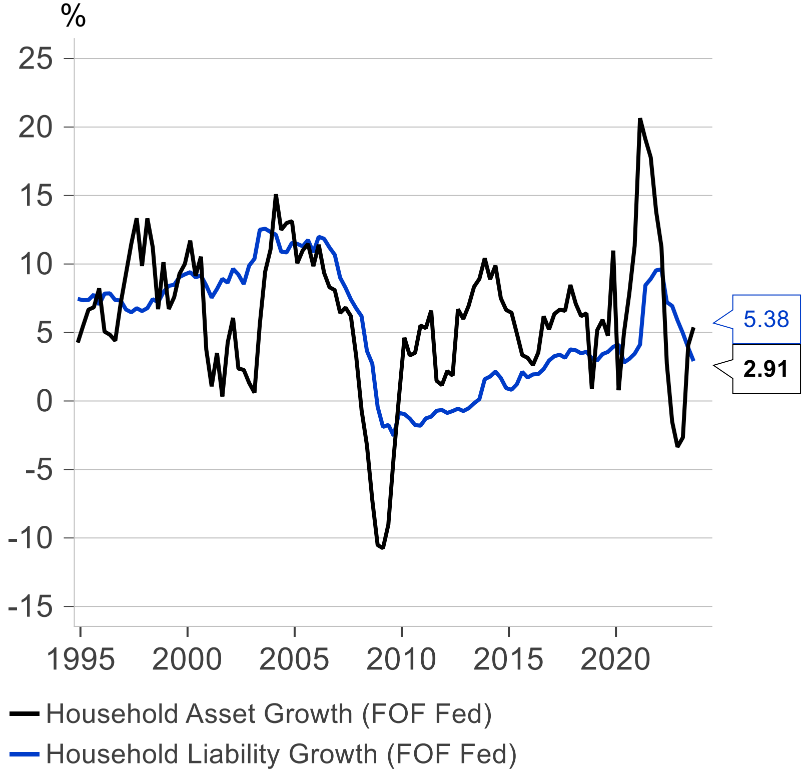
Auto loans have been particularly weak given the surge and then fall in car prices that left many consumers with large payments on significantly underwater cars.

Credit card delinquencies have risen but are still below pre-pandemic levels and are well below Great Financial Crisis (GFC) levels.

Consumer: Broad Consumer Balance Sheets OK



Source: NewEdge Wealth, Macrobond, Bloomberg



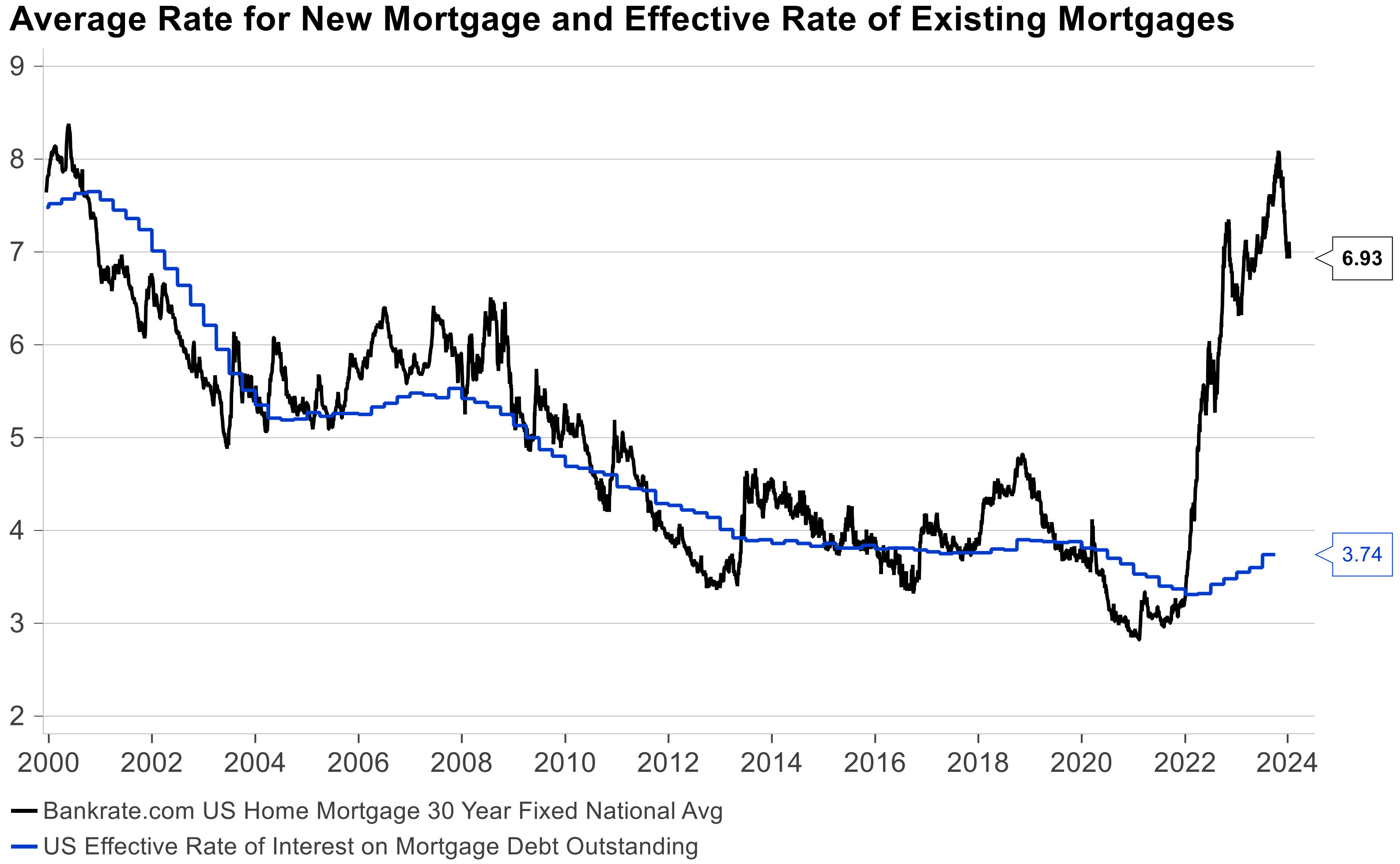
Source: NewEdge Wealth, Macrobond, Bloomberg

Consumers' assets have been consistently growing faster than liabilities for much of the period post the GFC.

This compares to the lead-up to the GFC, when consumers' liabilities grew faster than assets for multiple years, setting up for the 2008 consumer balance sheet recession.

Recent volatility in asset growth was caused by weaker stock, bond, and housing prices, which have since recovered bringing Household Assets back to new all-time highs.

Consumer/Housing: Low Locked-In Mortgage Rates Create Distortions



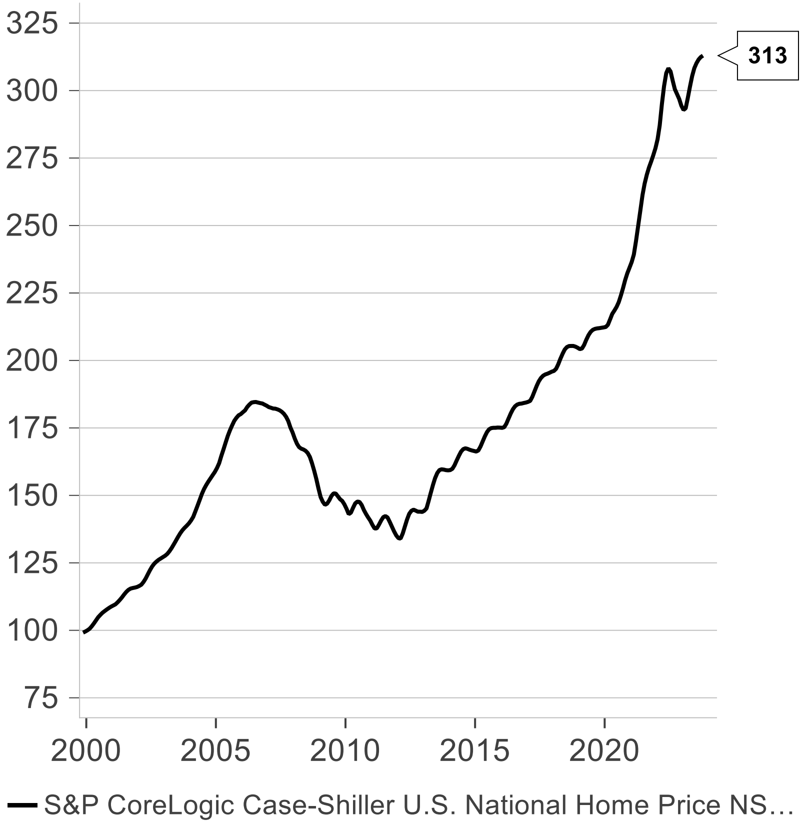
Source: NewEdge Wealth, Macrobond, Bloomberg

The *strangest* cycle of them all has to be U.S. housing, after years of underinvestment and policy distortions have created an imbalanced market.

Housing demand is still robust, but housing supply has been stifled by the good fortune of mortgage borrowers locking in low rates on their existing homes.

Consumer/Housing: House Prices at New All-Time High, Rebounding Construction

Home Prices Resume Their Ascent



Source: NewEdge Wealth, Macrobond, Bloomberg

Residential Construction Spending

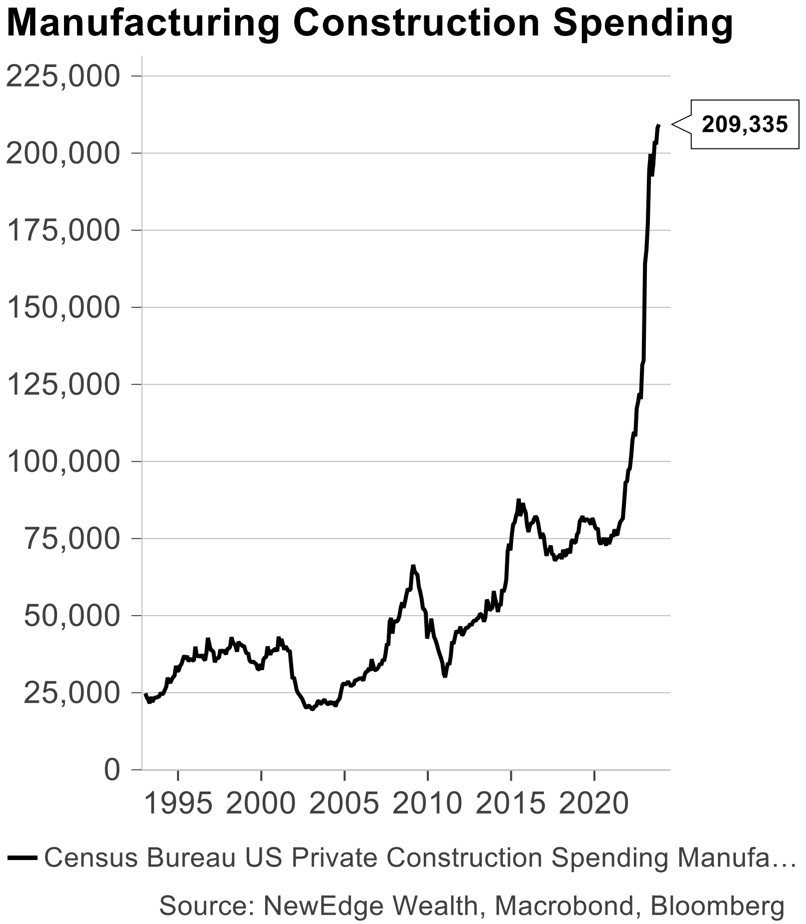
Source: NewEdge Wealth, Macrobond, Bloomberg

After a soft start to 2022, house prices are back to a new all-time high.

Note that house prices do lead housing-related inflation statistics, suggesting that after the disinflation forecasted by 2022's easing, a rebound in housing inflation is possible.

Residential construction is rebounding after a soft 2022/early 2023. This could be an upside driver to 2024 GDP growth.

Manufacturing: Construction Spending Not Having Broad Benefits

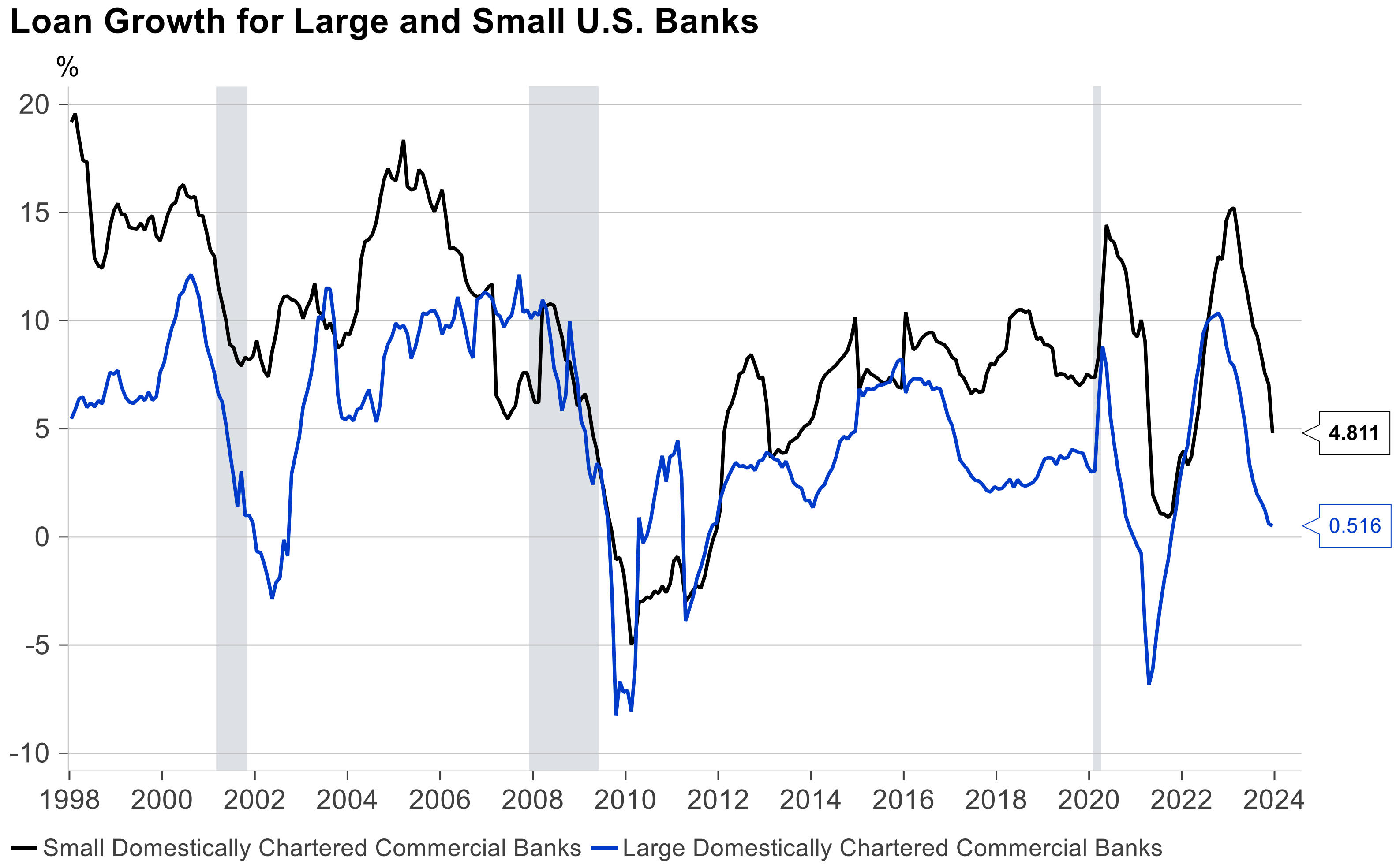


Despite a massive, parabolic surge in manufacturing construction spending (driven by fiscal stimulus like the CHIPS Act), broad measures of manufacturing activity/sentiment have been weak.

The US ISM Manufacturing PMI has been sub-50, contraction territory, for over 12 months, with little signs from leading components that a sharp rebound is imminent.

This weak PMI is partially due to pandemic normalization, where supply chain disruptions enabled large price hikes by manufacturers and distorted inventory balances.

Bank Loans: Loan Growth Still Slowing, Can it Stabilize in 2024?



Source: NewEdge Wealth, Macrobond, Bloomberg Federal Reserve

Post the regional bank issues of 2023, loan growth for both small and large banks has slowed materially.

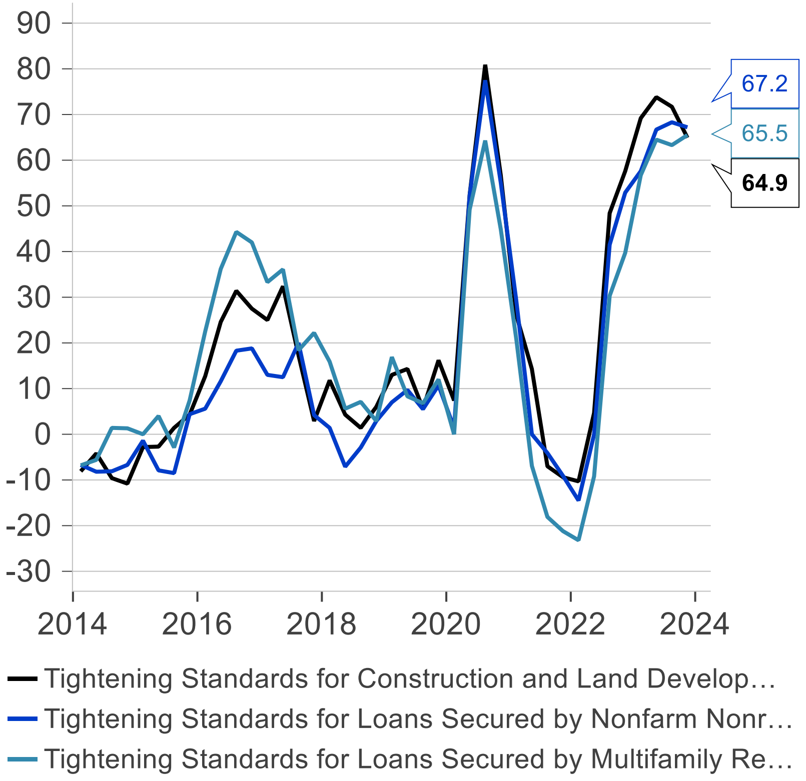
Large bank loan growth slowed from +10% at the start of 2023 to +0.5% at the end of 2023.

Small bank loan growth slowed from +15% at the start of 2023 to +5% at the end of 2023.

Interestingly, Senior Loan Officer Surveys (SLOOS) have signaled a slight *easing* in lending standards. Could this easing, plus the benefit lower future interest rate expectations cause loan growth to stabilize in 2024? Or will it continue to fall into negative territory?

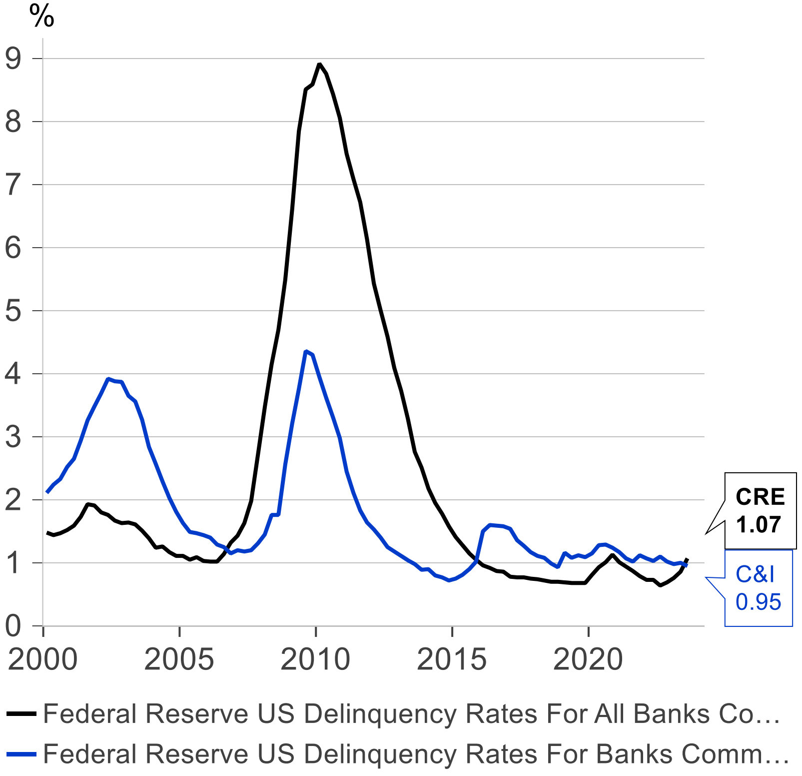
Bank Loans: Slightly Easing Standards, Delinquency Subdued

Loan Standards for Commerical Real Estate (%)



Source: NewEdge Wealth, Macrobond, Bloomberg

Delinquency Rates for Commercial Real Estate and Commercial & Industrial



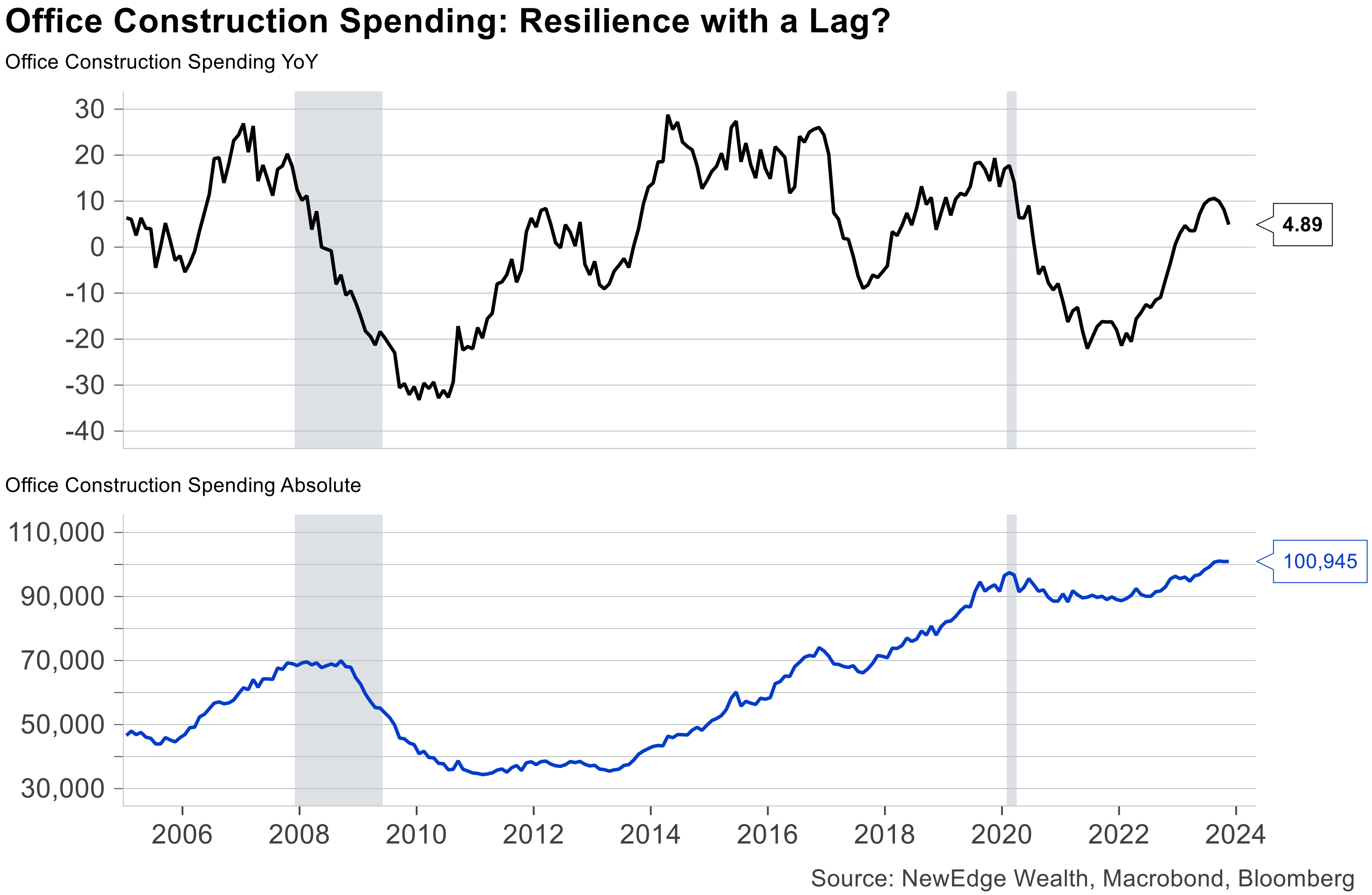
Source: NewEdge Wealth, Macrobond, Bloomberg

Even for the much-feared commercial real-estate (CRE) sector, loan standards have eased slightly (except for multifamily real estate).

Note there has been a slight uptick in CRE delinquencies, but nowhere near as bad as "CRE Armageddon" headlines would suggest.

Commercial & Industrial loan delinquencies remain contained, reflecting still robust corporate profit fundamentals.

Office Construction Spending Still Near Record Highs!



For all of the angst about office commercial real estate, office construction spending is still near all-time highs and has only just started to see its growth rate slow from +10% YoY in mid-2023 to +5% at the end of 2023.

This data lags significantly, given the long-lead time and cycle of this kind of construction.

This will be interesting to watch in 2024, as it could slow sharply if completed projects are not back-filled with new buildings.

Policy Outlook

Policy Outlook

Monetary Policy

The Fed Wants to Tweak Not Ease if Economy Remains Firm

- We expect the Fed to tweak rates lower by ~75 bps (3 cuts) as inflation moderation gives the Fed room to ease policy, but a resilient economy, along with fears of inflation's return, keeps the Fed from wanting to endorse the 7+ cuts priced in by January 2025
- We think that economic data would need to weaken (beyond the GDP slowdown and unemployment uptick baked into the Fed's current 2024 forecast) to justify the current bond market pricing of policy
- The Fed will likely change its Quantitative Tightening (balance sheet shrinkage) plans in 2024, citing a rundown in Reverse Repo balances (driven by Bill issuance) and a desire to sustain Reserves above a "desired buffer"; QT plans also interplay with Treasury funding decisions

Key Observations:

- **Financial Conditions are Easy: F**inancial conditions are back to their easiest levels since early 2022/late 2021; if sustained, this would be stimulative to nominal economic growth.
- **The Full Impact of Interest Rates Have Not Yet Been Felt:** The long-tail of over a decade of QE (with the fever pitch of ultra-easy policy in response to the pandemic) has resulted in many borrowers not feeling the full impact of higher rates after the great refinancing wave of 2020/2021; the end result is a delayed/dulled real economy impact of tighter Fed policy to growth

Fiscal Policy

Big Deficits Need Big Funding

- The U.S. budget deficit is expected to reach $2 trillion in fiscal 2024, and is running at 6.5% of nominal GDP, a historically high level without a recession or war (and on a strong numerator of nominal GDP)
- To fund this deficit, the Treasury will issue $2 trillion in debt in 2024 (double from 2023)
- TBAC (Treasury Borrowing Advisor Committee) projects over a 20% increase in coupon issuance across the curve in 2024
- The key watch item is the mix between short-term Bills, and medium/long-term Notes and Bonds: 2023's upside liquidity surprise came from Treasury's move to fund more with Bills as longer-term rates rose, but Bills now make up 22% of Treasury debt outstanding (TBAC has a target of 15-20% for Bills)

Little Indication from Either Party for a Desire to Change Fiscal Trajectory

- Compared to coming out of the GFC, there has been a notable shift in voter and legislator sentiment about deficits, exemplified by neither party emphasizing a "fiscal prudence" or "balanced budget" platform (the 2020 observation from Marko Papic about the "median voter" caring less about deficits, so Washington would care less about deficits continues to look prescient)

Financial Conditions are Easier Than When the Fed Started Cutting Rates

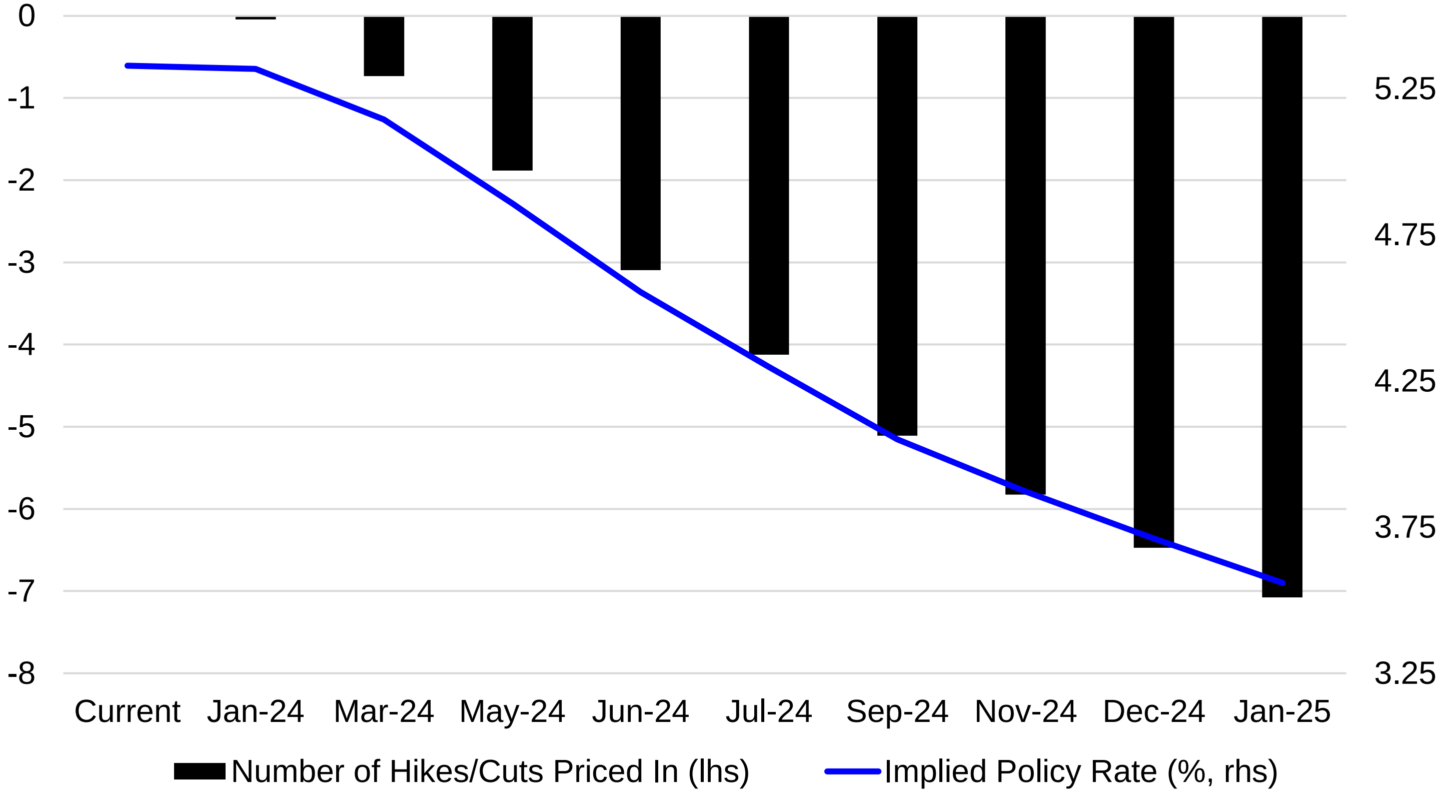
Soaring stocks, low volatility, falling yields, tightening spreads, and a weakening USD have all contributed to a rapid easing in financial conditions back up to levels not seen since before the Fed started cutting rates.

In 2022, tightening financial conditions was seen as an urgent task for the Fed, as it was trying to control elevated inflation.

With inflation lower/moderating, there is less urgency to talk down financial conditions; however, the Fed has acknowledged that easy conditions are stimulative and could work against them in their continued inflation fight.

The Bond Market Expects A LOT of Cuts in 2024

WIRP: Fed Funds Implied Overnight Rate and Number of Cuts



Source: Bloomberg, NewEdge Wealth, Data as of 1/16/24

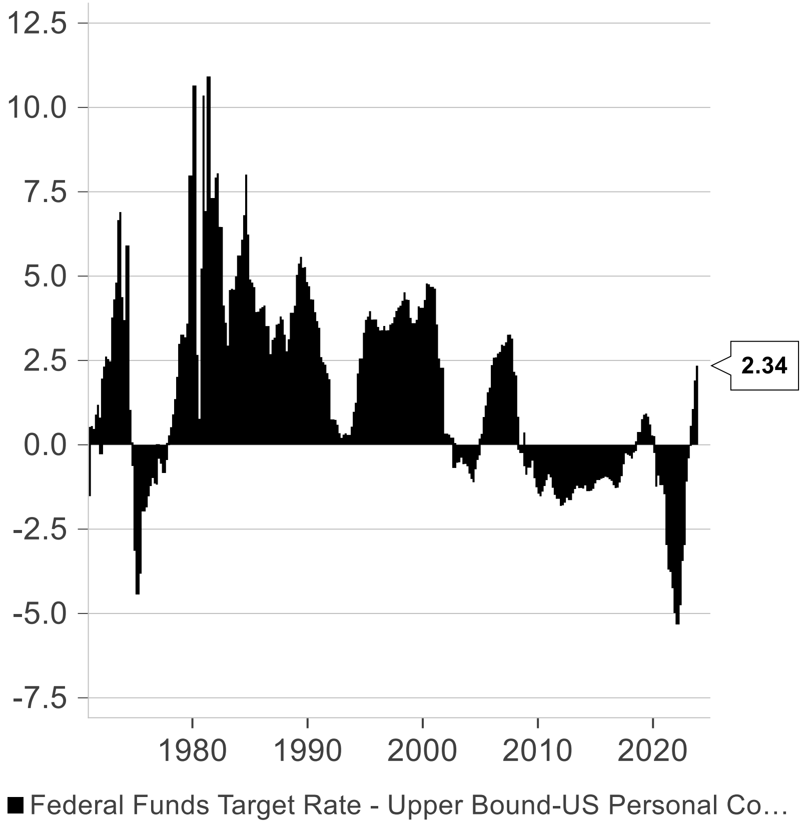
The Fed says 3 cuts (2024 median dot in December 2023 dot plot), but the bond market is pricing in 6.5 cuts in 2024.

The Fed has pushed back *some* against this pricing and will likely continue to do so if economic data remains resilient.

In order to see 6+ cuts in 2024, we think we would need to see a distinct weakening in economic data, primarily the labor market. Falling inflation alone is likely not enough to support this degree of cuts.

The Fed is Willing to Cut Rates as Inflation Falls, to Keep a Lid on Real Yields

Real Fed Funds Rate using Core PCE



Source: NewEdge Wealth, Macrobond, Bloomberg

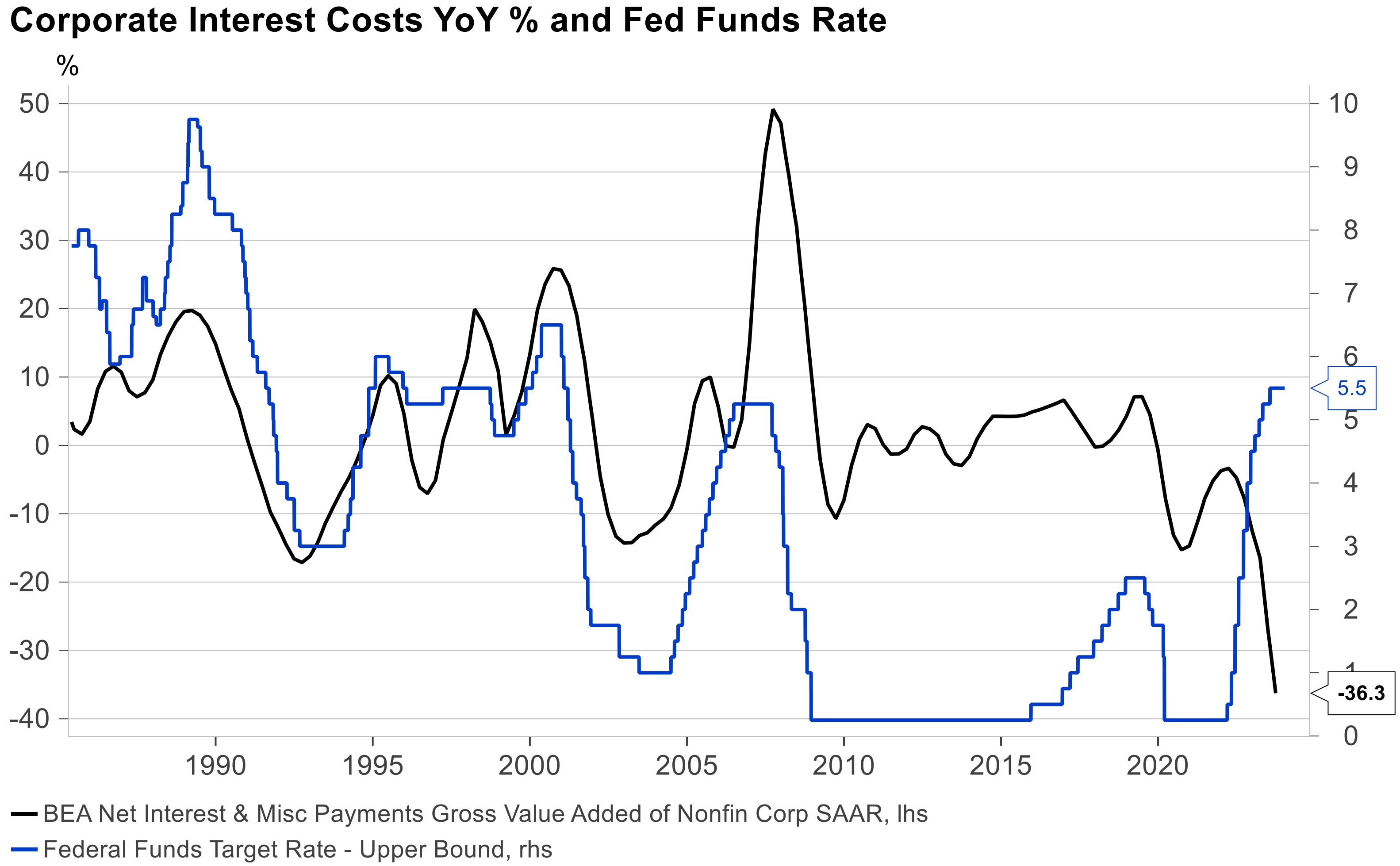
10 Year Real Yield

Source: NewEdge Wealth, Macrobond, Bloomberg

The Fed has cited high real yields as the (narrow) sign that financial conditions are “tight”.

The Fed’s rationale for cutting rates in 2024 is that as inflation falls, real yields will rise (real = nominal - inflation), making policy increasingly restrictive and risking a deeper slow down.

The Pinch of Higher Rates is Dulled by the Long-Tail of QT



Source: NewEdge Wealth, Macrobond, Bloomberg

We have written extensively about the long-tail impact that prolonged QE has had on U.S. corporate and consumer balance sheets (February 2023, July 2023, November 2023).

This reached a fever pitch in 2020 and 2021, when rates were ultra-low and allowed for a great wave of refinancing.

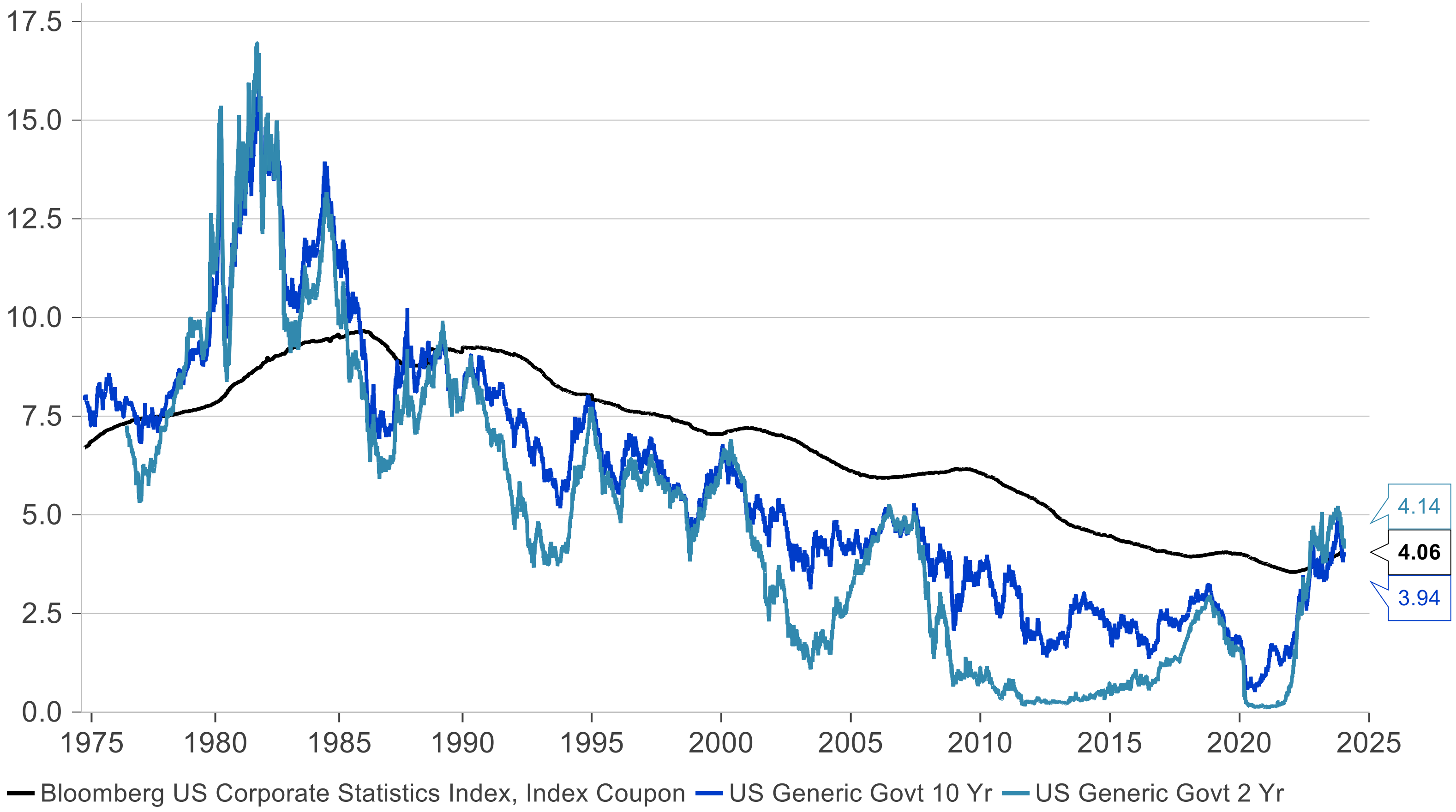
The result is that as the Fed has raised rates in 2022 and 2023, net interest costs for corporates in aggregate have fallen (according to BEA data), meaning that corporations are seeing a bigger increase in their cash interest income than their interest expense. **Higher rates have been short term stimulative to corporates in a post QE world!**

Refinancings begin to kick in in late 2024 and early 2025, meaning we could begin to see the delayed real economy impact of higher rates (if sustained).

Refinancing: A Watch Item for Late 2024 and 2025

Despite Recent Drop in Yields, Refinancing at Higher Yields is Still a Watch Item

Investment Grade Corporate Bond Index Average Coupon, 10 Year Treasury Yield, 2 Year Treasury Yield



Source: NewEdge Wealth, Macrobond, Bloomberg

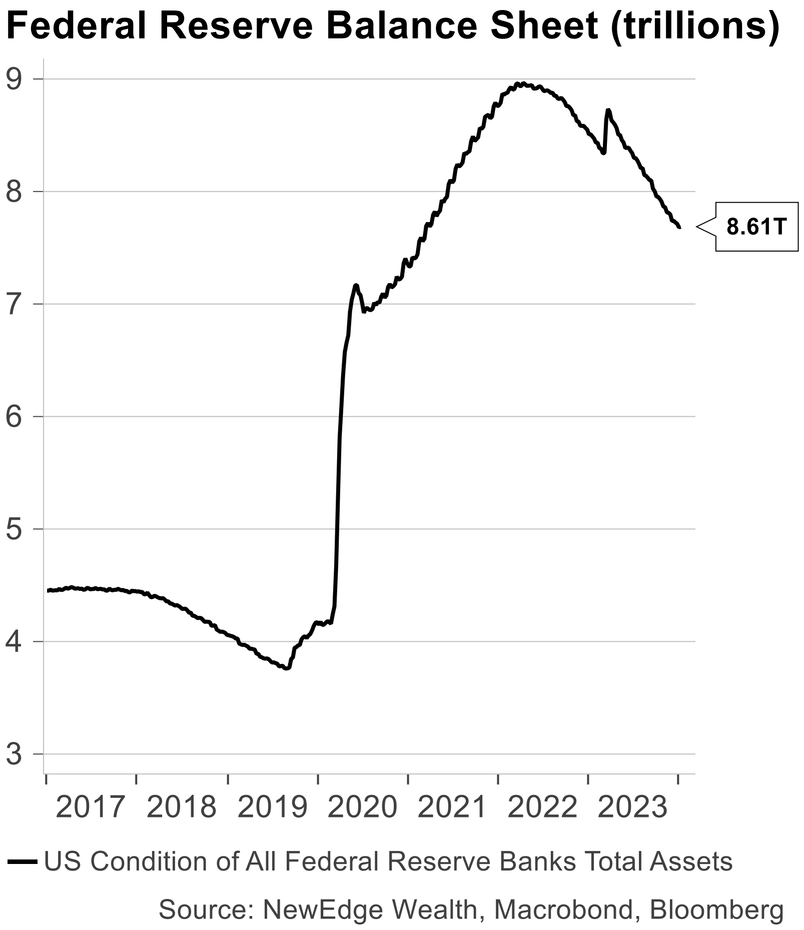
As of 1/10/24

The average coupon on corporate bonds is at or below most of the current Treasury curve for the first time since the 1980s.

This implies that as corporations need to refinance, they will be doing so at higher interest rates, a notable shift from the past 40 years when interest rates persistently marched lower.

Late 2024 begins the refinancing needs, with a bigger wave in 2025 and 2026. If rates remain elevated, corporates will have to contemplate a brave new world of higher yields.

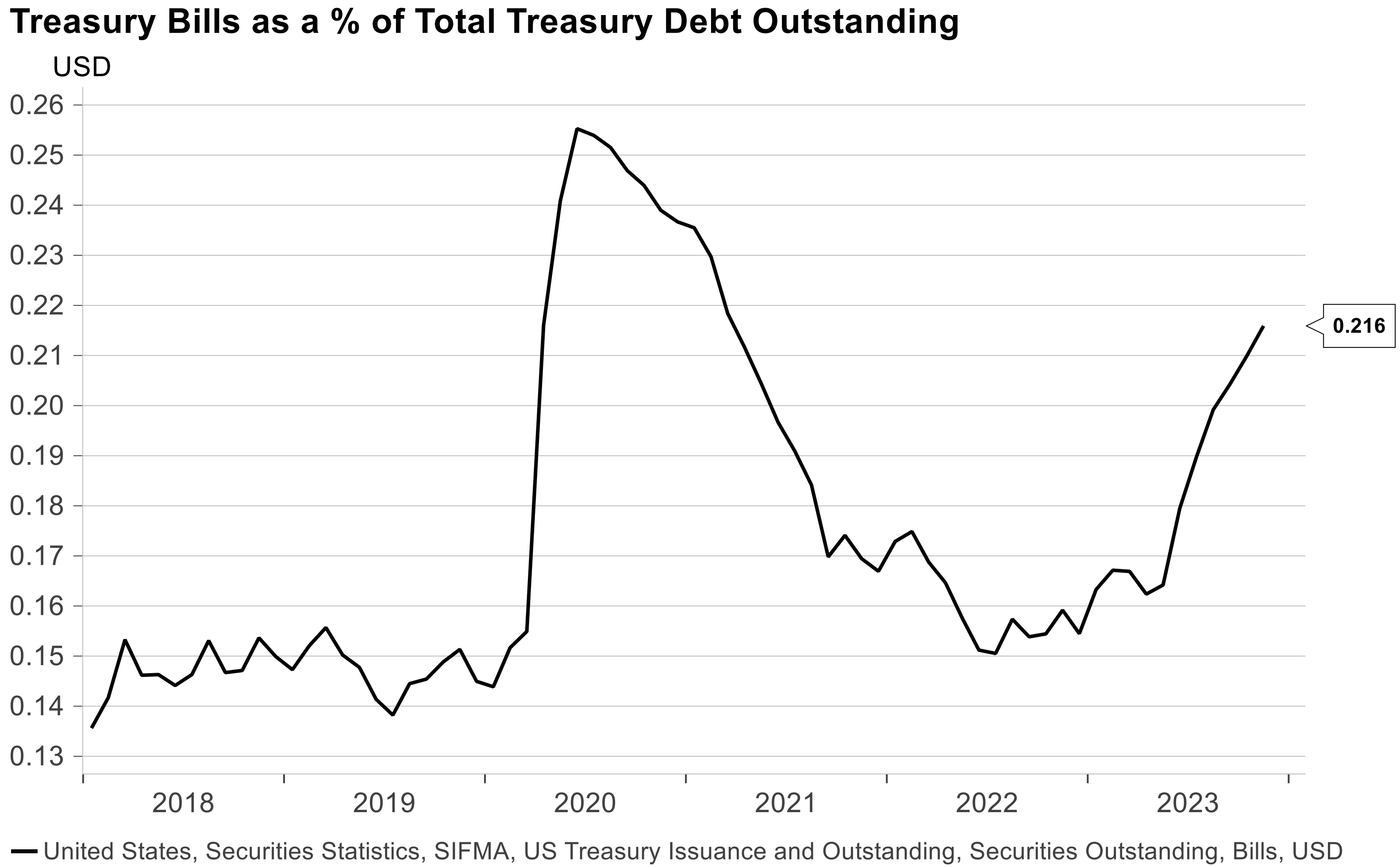
Changes to QT Coming in 2024



The Fed has signaled coming changes to QT as they look to preserve a "buffer" of Reserves liquidity for the financial system.

Lorie Logan recently called out the falling Reverse Repo Balance as the watch item for when QT could change. Reverse Repo Balances have been falling as money market funds have been absorbing higher Bills issuance from the Treasury (next slide).

Yellen is the Fourth Member of Destiny's Child: Bills, Bills, Bills

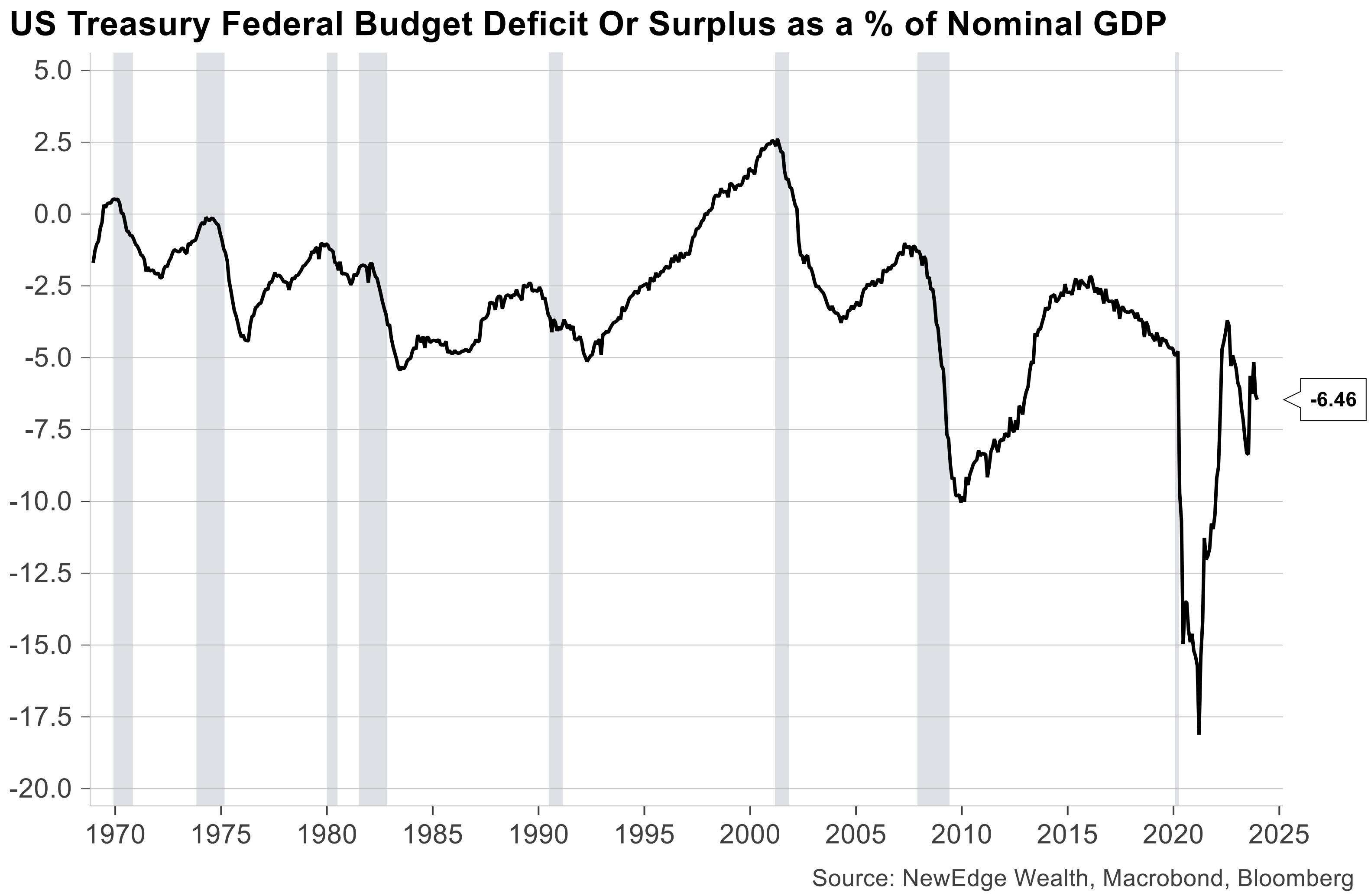


Source: NewEdge Wealth, Macrobond, Bloomberg SIFMA (Securities Industry & Financial Markets Association)

Treasury Secretary Janet Yellen's shift to larger Bill issuance in 2023 likely helped to stave off a larger Treasury market sell-off, as Treasury investors would have had to absorb greater Coupon issuance.

The path for Bills vs. Coupons in 2024 will have an important impact on liquidity, not just impacting financial market plumbing, but also potentially impacting risk asset pricing (which benefits from an ample liquidity backdrop).

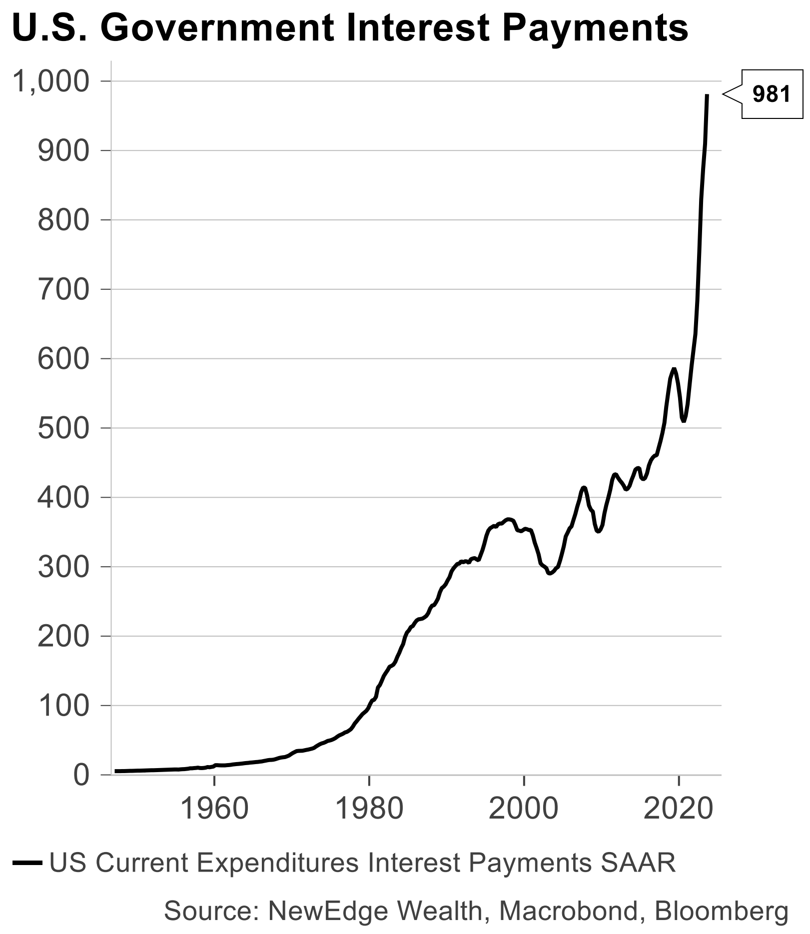
U.S. Budget Deficit Elevated

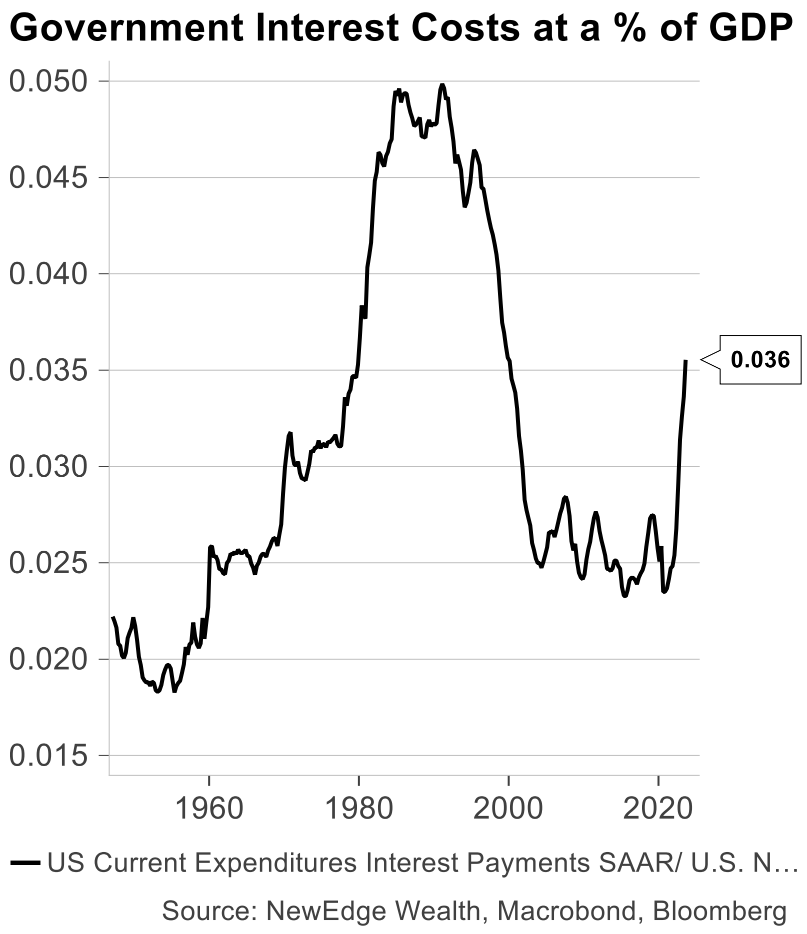


The reason for this large Treasury Bills and Bonds issuance is the large fiscal deficit.

For a non-wartime economy that has strong nominal GDP, U.S. budget deficit spending is historically elevated at 6.5% of GDP.

U.S. Government Interest Payments Surge on Higher Rates and Higher Deficits



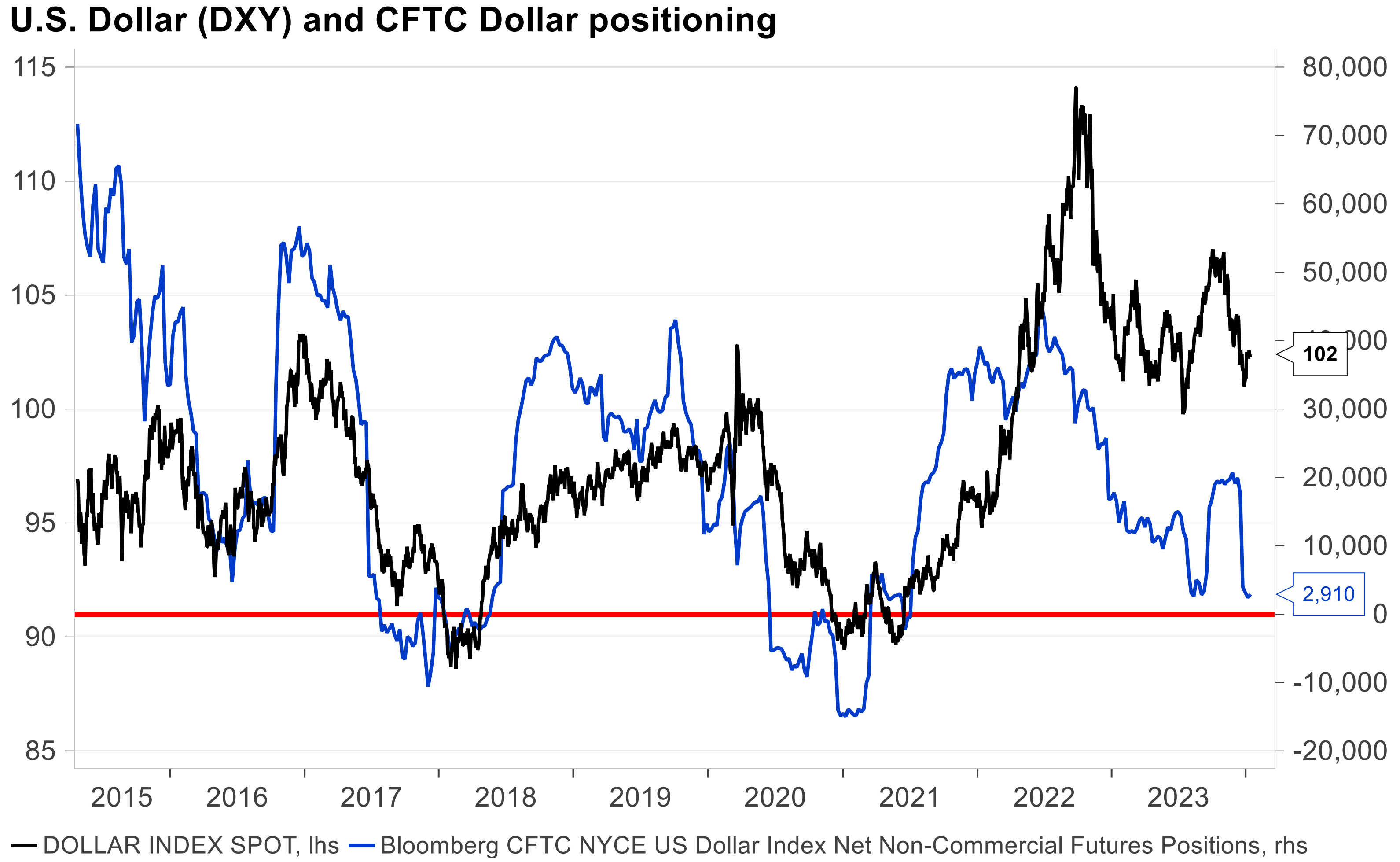


In a world of low rates and low inflation, running large deficits came at little consequence.

But as inflation has increased and rates have risen, the cost to service large debt balances has ballooned (mostly as low long-term rates were not pursued aggressively when they were present).

U.S. government interest payments on its debt is nearing $1 trillion.

Watching the USD



Source: NewEdge Wealth, Macrobond, Bloomberg

The USD is an all-important factor in financial markets for 2024.

A stronger USD likely benefits U.S. assets over foreign assets, but also has the potential to tighten financial conditions.

A weaker USD would support non-U.S. assets, which typically benefit from major USD bear markets.

Positioning is an important contraction indicator (positioning is long at peaks and short at troughs). Today, USD positioning is getting close to short levels seen in 2017 and 2021, but not quite there yet. If these short levels are reached, a positive view on the USD would be supported.

Equities

Equities

Tactical 1Q24

Tactical 1Q24 Outlook

Equities in 1Q24

Potential for Choppy Trading:

- Given sharp rally, short term skewed to the downside with support at 50 day (~4,600) and 100 day (~4,500).
- EPS updates are a source of volatility after large run-ups in share prices since 4Q23; note sell-side EPS estimates have lowered bars (estimates cut over the course of 4Q23).
- **Watch the Relative Strength Index (RSI) and high beta divergence in the S&P 500**: The S&P 500 is nearing new highs, but momentum is not as strong as December, while High Beta has begun to lag again; these are two important divergences that suggest choppier trading in the near term.

Leadership Rotations Lasted Only a Week, Can They Resume?:

- **Russell 2000 Small Caps** have given up half of their outperformance over the S&P 500 since October, risking the recent sharp rally could be another head-fake and not a breakout (watch for how the index interacts with support).
- **Growth leadership resumed after a brief lull vs. Value**, suggesting it is too early to call for Value leadership in 2024; Growth sectors like Tech are expensive but remain in technical uptrends.
- **Non-U.S. mixed** with Developed helped by Japan nearing 34-year highs in its equity market, while Emerging plumbs new relative lows on China weakness.

Key Events/Drivers in 1Q24

- **Fed Meetings:** The Fed will announce a rate decision and hold a press conference on 1/31 and 3/20; a plethora of Fed speak outside of the meetings could also move markets.
- **4Q23 EPS season that provides 2024 outlooks**: Companies will be providing results for the last quarter of 2023 and outlooks for 2024 from mid-January until mid-February.
- **Treasury Funding**: Treasury funding announcements moved markets in 2023 (to the downside after a larger than expected coupon issuance over the summer, and to the upside after a smaller than expected issuance in the fall); the next announcement is 1/29/24.
- **Fiscal budget and potential shutdown risk**: 1/19 and 2/1 are key dates when funding expires for some spending programs, raising the risk of a government shutdown.
- **Early election indications**: The first wave of votes in the 2024 primary elections begin in January in Iowa and New Hampshire, giving an early read about 2024's candidates.
- **Global central banks decide on rates, watching Japan:** Japan's central bank meets twice (1/23, 3/19) with all eyes on indications if the most-dovish developed central bank will end its negative interest rate policy.
- **Energy costs from weather/geopolitics:** Rising energy costs could roil disinflation/friendly Fed narratives.

S&P 500's RSI Divergence

S&P 500 with Moving Averages and 14-Day RSI

Relative Strength Index (RSI) divergences do not have to be a death knell for a rally, but they should be watched closely as a sign of potential near-term "exhaustion."

An RSI divergence happens when the index hits a new high, but the RSI does not, suggesting a deterioration in momentum.

This was a helpful warning sign in December 2021, for example, and subtly in summer 2023. This signal gave false warnings multiple times in 2021's trending market.

NewEdge WEALTH

Source: Bloomberg; Data as of 1/16/24

S&P 500's High Beta Divergence

S&P 500 High Beta ETF (SPHB) Absolute (Top) and Relative to S&P 500 (bottom)

For the recent rally to continue, it is helpful to see the highest risk/volatility parts of the market lead, as a sign of risk-appetite improving.

High Beta stocks not hitting a new relative high in July 2023 was an important harbinger of weaker trading in 3Q23.

We note the soft relative performance of High Beta to start 2024.

Source: Bloomberg; Data as of 1/16/24

Russell 2000 Small Caps Give Up Relative Performance, Watch Support

Russell 2000 Absolute (Top) and Relative to S&P 500 (bottom)

Despite consensus calls for small caps to dominate in 2024, the Russell 2000 has gotten off to a rough start, giving up about half of its outperformance vs. the S&P 500 that it posted in the 4Q23 rally.

Watch how this index interacts with support at its moving averages for signs that this is just a pull-back in an emerging uptrend (possibly given the momentum thrust in 4Q23) OR a continuation of the prior downtrend and underperformance.

Source: Bloomberg; Data as of 1/16/24

That Was Brief: Growth Rallies vs. Value After Brief Lull, Can it Break to New Highs?

Russell 1000 Growth vs. Value

Growth got off to a rocky start vs. Value to begin 2024, but quickly reversed that underperformance in a strong week 2 of trading.

Growth is nearing a relative high vs. Value last tested in 2021 and 2020.

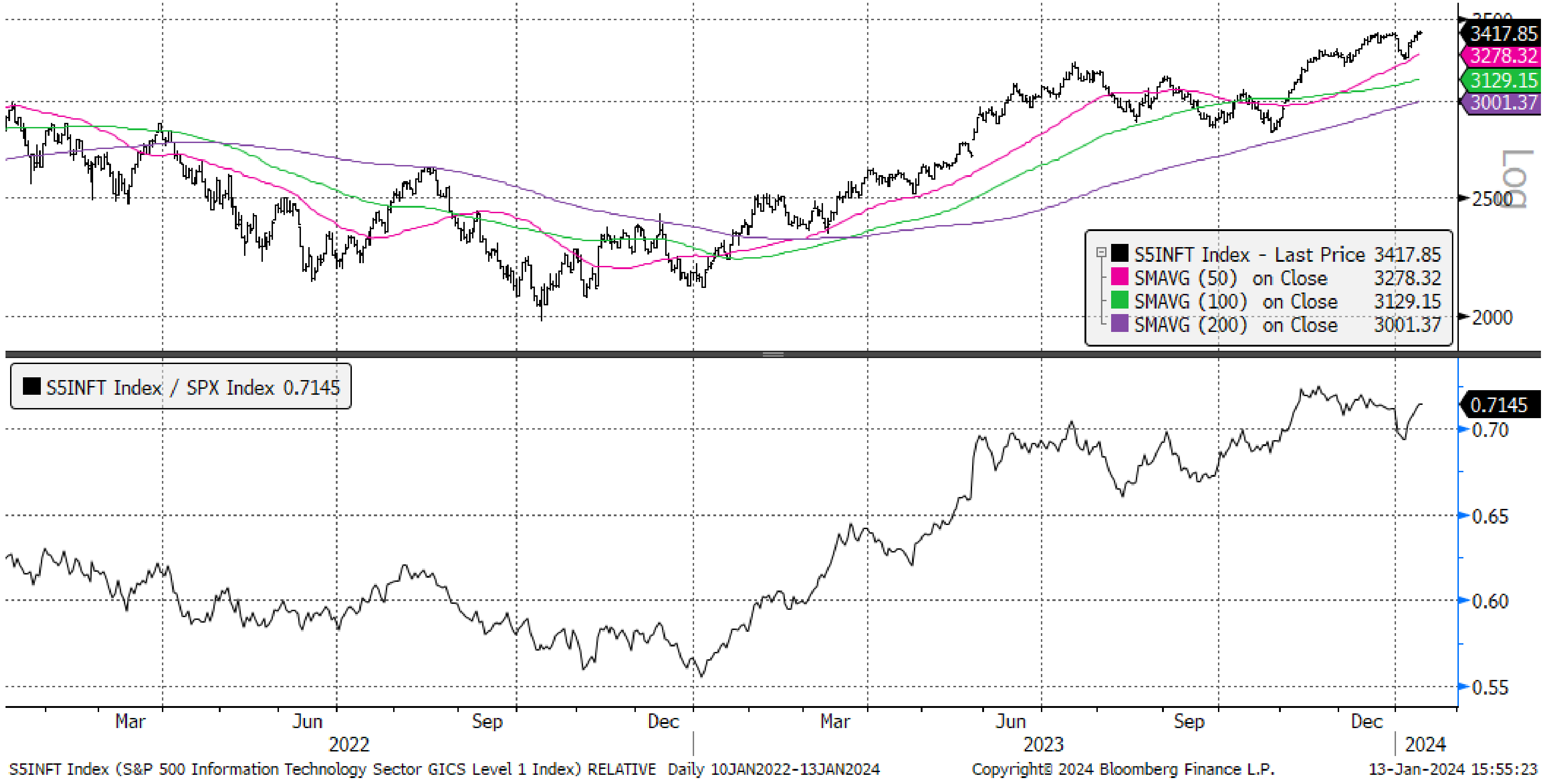
Can Growth break to new relative highs or will Value take over as market leadership?

It is too soon to tell but could be decided over the course of 1Q24.

Source: Bloomberg; Data as of 1/16/24

Tech: Expensive, but in "Happy in its Lane, Flourishing"

Technology Sector Absolute (top) and Relative to S&P 500 (bottom)



Tech is expensive and crowded (based on sharp sector inflows in 2023), but it remains in a distinct uptrend on both an absolute and relative basis.

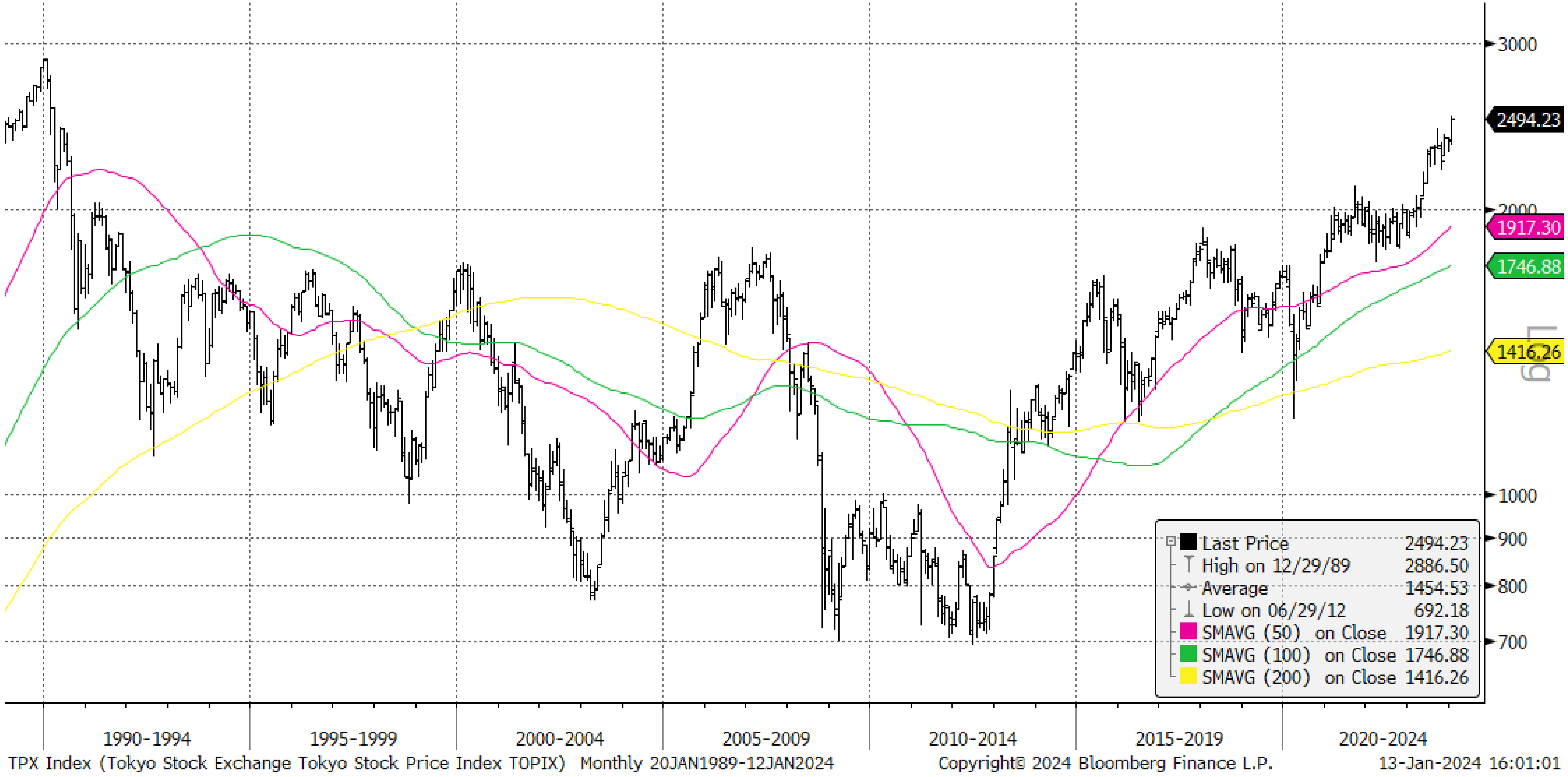
Until this breaks down, Tech is like the Capybara in mud: "Unbothered. Moisturized. Happy. In its Lane. Focused. Flourishing."

NewEdge WEALTH

Source: Bloomberg; Data as of 1/16/24

Party Like its 1989: Japan TOPIX Nears Levels Not Seen in 35 Years

Tokyo Stock Exchange TOPIX Index



After nearly 35 years, the Tokyo Stock Exchange is nearing its 1989 high.

The index is overbought in the short term, which could spark some consolidation, but this would be a momentous exit from what has been a *Lost Generation* for Japanese stocks.

Source: Bloomberg; Data as of 1/16/24

Equities in 2024

2024 Equity Themes

- **Ranges Not Trends, Be Epictetus:** For the S&P 500, we see the potential to be stuck in a wide range to the year (10% to the upside, 10% to the downside) as the conditions for a low volatility, trending market (like 2019 or 2021) are not present; this range could present opportunities for tactical allocations if needed.
- **Still Quality, but Look for Tarnish, Not Trash:** We believe we are still in a late-cycle environment (low unemployment, high interest rates), which, though it can persist for some time, means investors should not grow complacent about growth or balance sheet risks; investors can consider laggards from 2023 that have "tarnish" (needs to reduce costs, growth hurdles) but not "trash" (weak balance sheets and profitability).
- **The Selective Tide Lifts Some Boats, Index Returns May Be Misleading:** Opportunities abound for equities that were left behind in 2023's narrow market and are now underestimated and under-owned; cap-weighted indices may struggle in 2024 given 2023's concentration, while beaten-up indices (Value, small-cap international, non-US) provide greater opportunity for *selectivity,* even if index level returns are lackluster.
- **Breadth Must Come:** 2023's positive, concentrated returns were made possible by powerful EPS growth and margin expansion by the largest weights in the S&P 500; with Magnificent 7 EPS growth slowing materially in 2024 and multiples having already re-rated, a broader cohort in the S&P 500 will need to deliver on earnings growth (only 56% of S&P 500 companies had positive EPS growth in 2023).
- **Liquidity is the Darkhorse:** Liquidity was a surprise tailwind to markets in 2023, helping boost valuations to elevated levels; broad liquidity, including both Fed and Treasury actions, will need to be monitored in 2024, as a shift to tighter liquidity could pressure valuations that are at the high end of historical ranges.
- **The Only Thing to Fear is Greed Itself:** Sentiment and positioning need to be monitored closely; if they get too stretched (like early 2018 and late 2021), equity markets will struggle given the high bar to surprise to the upside and lack of incremental buyers.

2024 Equity Outlook

Key Points

S&P 500 Range

- We think it best to approach the S&P 500 in 2024 with a range and plan in mind if the high or low end of the range is experienced (regardless of the dominant narrative/emotion at the time).
- We could see the S&P 500 trade in a wide range over the course of 2024 (4,200-5,200), and yet make little trending progress (note we had a 1,000-point trading range in 2022 and 2023!).
- This range assumes no recession (further downside if a recession materializes that hits corporate earnings).

S&P 500 Earnings

- Current consensus: $243 for 2024 (+11%), $270 for 2025 (+10%).
- Upside Potential: Driven by a better economy than expected (though this may have limited impact on EPS estimates), better margins driven by productivity, or improved sentiment that sparks investment/M&A.
- Downside Risk: Weaker economic growth than expected, or an already high bar for margin expansion baked in.

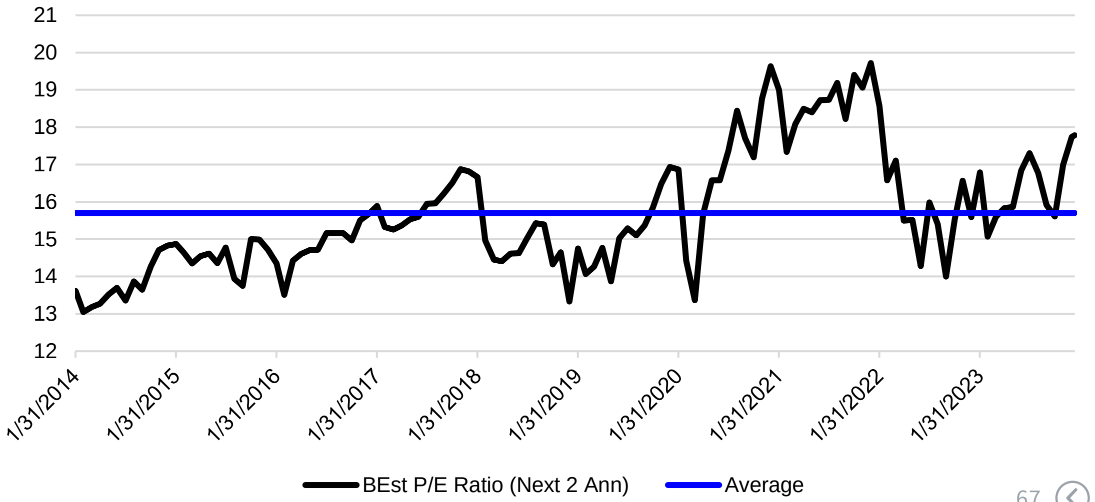
S&P 500 Valuation

- PE is starting 2024 at an elevated 19.7x forward (20x was the ceiling in 2023, 19x was the ceiling in 2018 and early 2020).
- The “average” stock PE is no longer “cheap” after a 20% expansion in the equal weight S&P 500 PE to end 2024.
- An easier Fed/liquidity helps PE valuations, while a tighter Fed/liquidity could bring valuations back down towards average.

S&P 500 Nears All-Time High

Source: NewEdge Wealth, Macrobond, Bloomberg

S&P 500 2 Year Forward PE: Already Expensive on 2025 Estimates

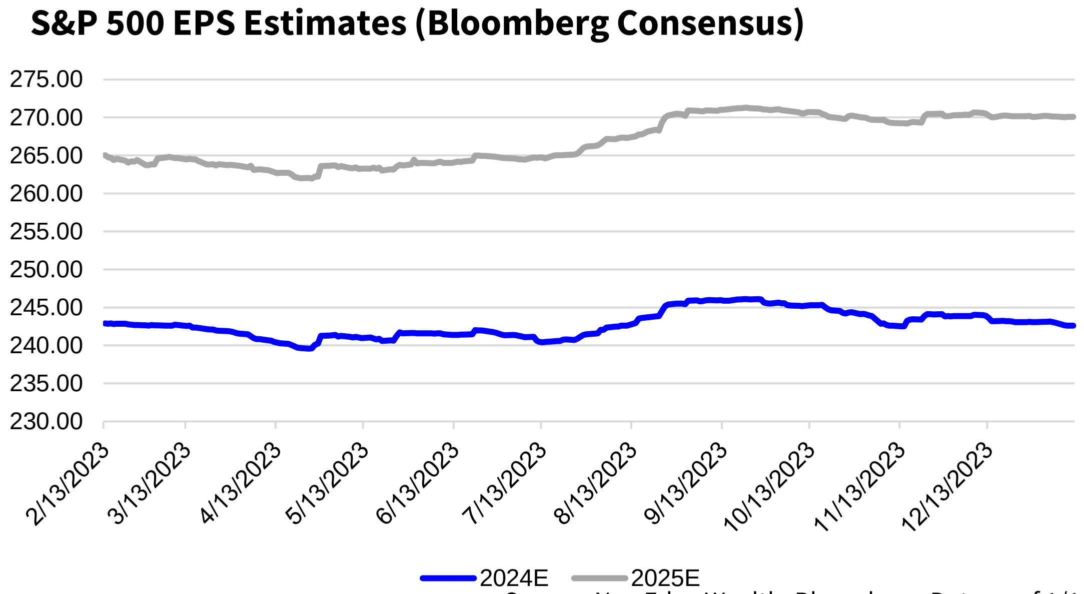


Source: NewEdge Wealth, Bloomberg; Data as of 1/16/24

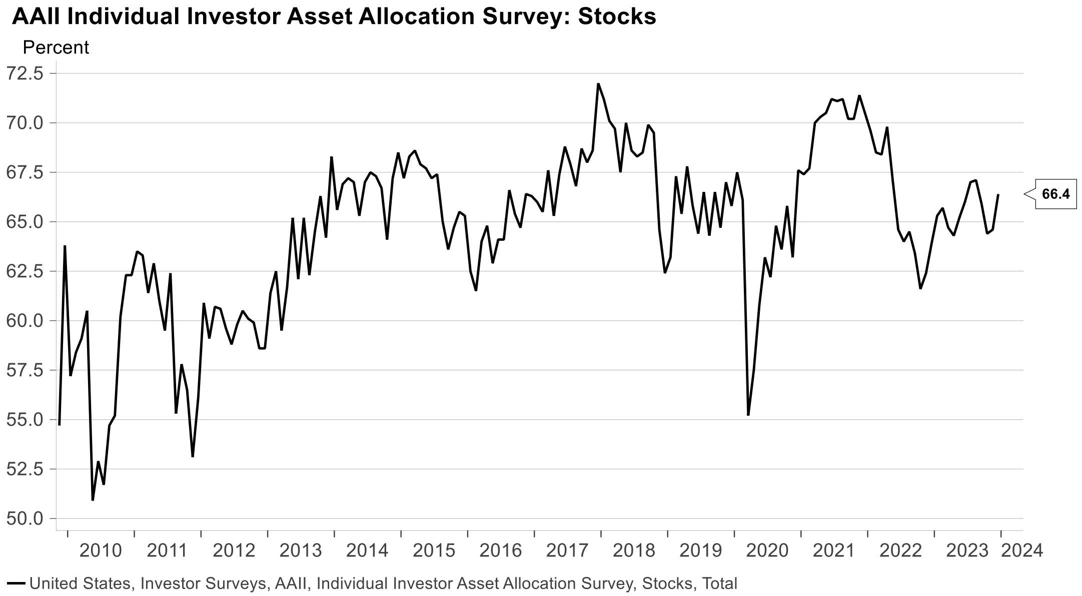
2024 Equity Outlook

Factors That Will Drive Equities in 2024

- **Technicals**: Encouragingly, the momentum and breadth thrust at the end of 2023 has historically led to above-average returns over the next 12 months; watch for tactical signs of overbought/oversold over the course of 2024 to interpret a potentially wide trading range.
- **Earnings Revisions**: 2023 benefitted from EPS estimates remaining steady through the year (despite recession fears); an EPS revision downcycle would be a key negative for equities (possibly due to rising odds of a 2025 recession); EPS revisions higher could be driven by productivity, and higher growth/inflation
- **Liquidity**: This is the biggest wildcard for 2024, with factors like Fed Balance Sheet/Quantitative Tightening, Treasury funding/cash balance being key drivers of equity valuations/returns.
- **Positioning**: Broad measures of positioning are stretched but not as extreme as early 2018 and late 2021; a chase to extremes would be positive for equities in the short term, but when extremes are reached, this would be downside risk.
- **Sentiment**: Various sentiment measures are nearing optimistic extremes but can persist; once positioning catches up to sentiment, sentiment likely becomes a key risk.
- **Rotations**: Given one-sided sector flows in 2023 (into Tech and out of most other sectors with Healthcare, Energy, and Financials seeing the most), leadership rotations could be sharp and swift in 2024.



Source: NewEdge Wealth, Bloomberg; Data as of 1/16/24



Source: NewEdge Wealth, Macrobond, Bloomberg American Association of Individual Investors (AAII)

Data as of 1/16/24

2024 Equity Positioning – Our Regional Preferences

Asset Class	Tactical View	Positioning Notes
U.S. Equities	**Neutral**	• We remain in a late cycle environment and expect slow and steady progress across economic activity, earnings growth, and policy normalization but we expect increased volatility and dispersion across industries. • The macro environment is broadly supportive for equity markets, but performance will be capped by valuation levels and driven more by progress towards fundamental earnings growth.
Large Cap	**Overweight**	• Large cap companies with strong balance sheets and earnings resilience should continue to lead in H1 as earnings growth will be modest and slow to broaden out. • These companies should continue to perform well in an uncertain macro environment while quality companies should provide some insulation to increased market volatility.
Small Cap	**Underweight**	• We remain underweight small and mid cap companies but expect these companies to perform well in the second half of the year as earnings growth for this segment recovers and the environment gets more supportive. • Within this segment we like high quality companies with low leverage and positive free cash flow generation.
International Equities	**Neutral**	• While the macro environment for international equities is more challenging than the U.S., we believe this is more than reflected in today's valuations, and incremental improvements in economic growth and more supportive policy could help reflate broad international markets (plus a weaker USD). Like the U.S., earnings growth will be the primary driver of returns.
Developed	**Overweight**	• Developed markets are inherently less cyclical and should provide some insulation relative to Emerging Markets if economic activity decelerates more than expected. Developed markets also offer a greater universe of quality companies which is our most preferred style in this environment. • We see the most healthy trends for economic and earnings growth in Japan
Emerging	**Underweight**	• We remain underweight Emerging Markets primarily due to China's heavy influence on the index performance. While Chinese economic growth appears to be stabilizing, a weak labor market and slower global demand will continue to weight on valuations until we see more meaningful government support, aimed to boost domestic investment and helping to halt the slide in the Chinese property market. • We do see improving trends in Latin America.

2024 Equity Positioning – Our Style & Sector Preferences

Style	Tactical View	Positioning Notes
Growth	**Neutral**	Growth stocks meaningfully outperformed their value counterparts in 2023 and despite elevated valuations we believe the case for fundamental earnings growth remains stronger in this segment in H1, primarily due to the high-quality characteristics of the largest companies in the index. Elevated valuations and crowded positioning temper our enthusiasm, however, and we prefer more established defensive growers over less profitable secular growers.
Value	**Neutral**	Value stocks are inherently more cyclical and leveraged to an economic and earnings recovery. While we do expect performance to broaden out, we expect this recovery to come in the second half of this year and remain neutral currently. Within value we have a preference for dividend growers with lower leverage and positive free cash flow generation. We see greater opportunity to add value through stock selection in Value.

Sectors	Tactical View	Positioning Notes
Technology	**Overweight**	Despite elevated valuations, the Technology sectors offers a combination of defensive growth and increased operational efficiency following substantial cost cuts in 23'. We believe the sector can grow into today's valuations and longer term it continues to benefit from the secular tailwinds of AI and growth of the digital economy. Watching crowded positioning closely.
Communications	**Overweight**	While the Communications sector has re-rated substantially over the past 12 months, it continues to offer relatively attractive valuations, with the potential for expanding operating margins and mid-teens annualized EPS growth over the next two years. The sector is heavily concentrated in META and GOOGL which continue to benefit from a recovery in ad spending and secular growth from the evolution of AI.
Healthcare	**Overweight**	We believe Healthcare is in the early stages of a cyclical earnings recovery, while at the same time the sector offers a combination of attractive valuation, defensive growth, expanding profitability, and easier YoY comparison in 2024. The sector has historically performed well in both a late-cycle environment and at the beginning of policy easing cycles. The sector also saw sharp outflows in 2024.
Energy	**Neutral**	We are neutral on the energy sector mainly due to structural headwinds to higher oil and gas price in the first half of the year, although the sector can serve as an effective hedge to geopolitical risks and upside surprises to inflation. The sector offers attractive valuations however we expect income and buybacks to drive the majority of returns this year until underlying supply/demand imbalances normalize and ultimately support higher prices.

2024 Equity Style Tilt – Quality Across Global Equities

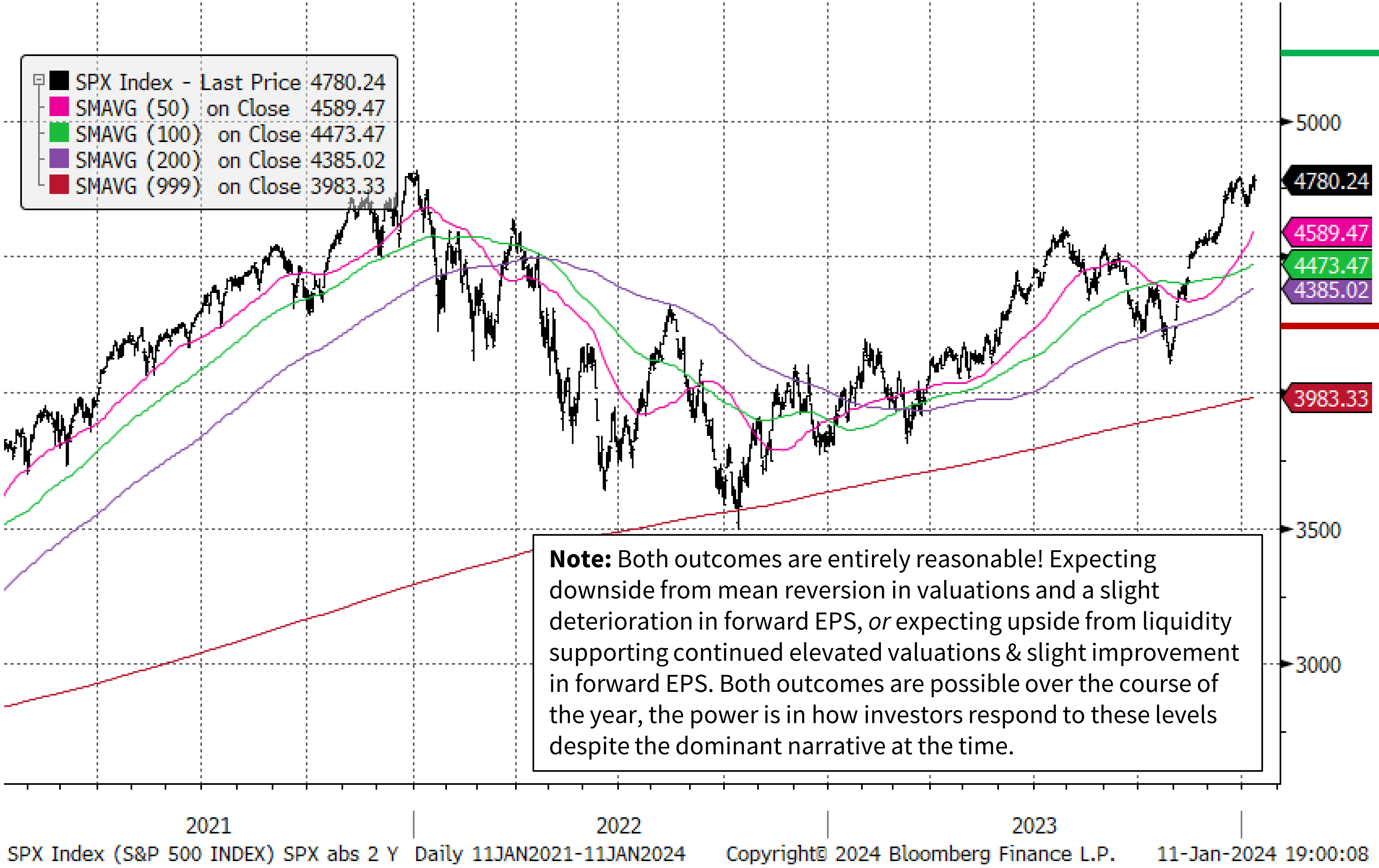
2024 Equity Factor – Focus on Quality

- **Quality performs well in a late cycle environment**
  - Slowing economic activity, softer global demand, and margin pressures will continue to act as headwinds to corporate profitability. Companies with strong balance sheets, operational efficiency, and competitive advantages should continue to be the market leaders in 2024.
- **Quality can provide downside protection against rising volatility and potential growth scares**
  - Our themes of slow and steady progress towards normalization, and the tug of war between market expectations and reality likely means we are in for year of elevated volatility, which can be insulated by focusing on businesses that are less sensitive to macro conditions.
- **Focus on Quality but cast a wider net across global markets**
  - We expect market performance to broaden out as the year progresses and believe diversification will benefit investors after last year's historically narrow performance. This year we want to cast a wider net and focus on quality across global markets and capitalizations.

How We Define Quality Businesses:

- Positive Free Cash Flow Generation
- Attractive or Reasonable Valuations
- Durable/diversified sources of top line growth
- Resilient profit margins
- Strong balance sheets/low leverage
- Efficient capital allocators

A Range for 2024: Reasonable Outcomes are Wide Outcomes



Note: Both outcomes are entirely reasonable! Expecting downside from mean reversion in valuations and a slight deterioration in forward EPS, *or* expecting upside from liquidity supporting continued elevated valuations & slight improvement in forward EPS. Both outcomes are possible over the course of the year, the power is in how investors respond to these levels despite the dominant narrative at the time.

High End: 5,200 (+10%)
Assumes multiples stay elevated as EPS continues to grow from 2024 into 2025 (10% return equivalent to EPS growth, implying valuations can sustain at 19.7x+).

Economic growth, positive EPS revisions and liquidity must remain very supportive.

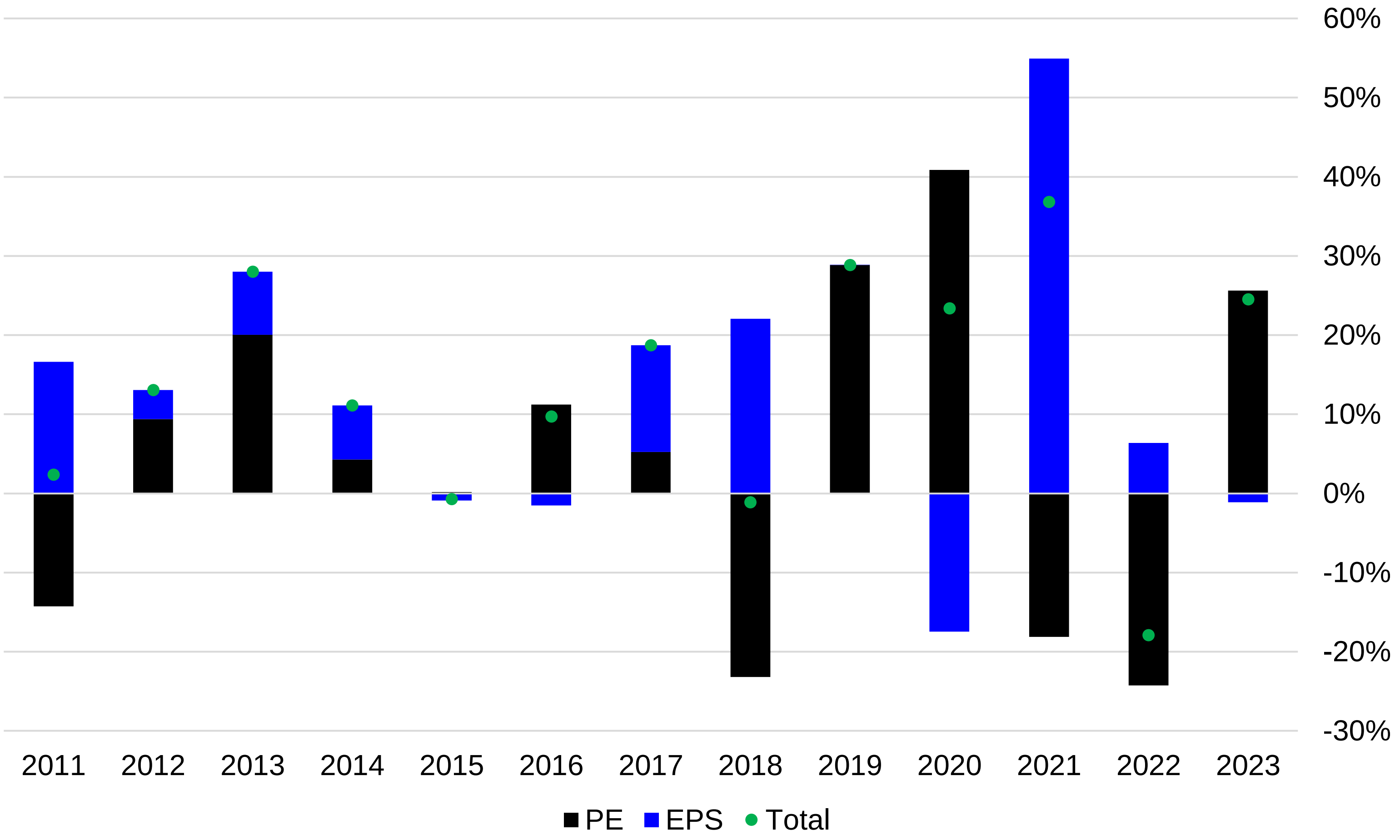
Low End: 4,200 (-10%)
If assuming no change to EPS estimates (implies no recession risk), this would be a return to average valuations (17.5x 2024 of $243 and 16x 2025 of $270).

Watching for deterioration in EPS estimates, or tighter liquidity as key drivers of downside. Note this does not include a recession.

Source: Bloomberg; Data as of 1/16/24

S&P 500's Returns Driven By PE Expansion in 2023

S&P 500 Return Attribution



2023's strong S&P 500 returns were entirely driven by PE expansion, as 2023 EPS fell slightly.

This outcome was highly unique in recent years, given the Fed was still "technically" tightening policy (raising rates, quantitative tightening), however as we will show below, liquidity was a stealth tailwind in 2023, helping to boost valuations (alongside positioning, Tech optimism, and concentrated returns).

For 2024, we see the onus on EPS to deliver, given the starting point of elevated valuations.

Source: NewEdge Wealth, Bloomberg; Data as of 1/16/24

Equity Returns by Style

Performance by Style (U.S.)

Style	S&P 500	NDAQ 100	Large Cap Core	Large Cap Growth	Large Cap Value	Mid Cap Core	Mid Cap Growth	Mid Cap Value	Small Cap Core	Small Cap Growth	Small Cap Value	Min Vol
2024 YTD	0.27%	0.0098%	0.069%	0.788%	-0.696%	-1.56%	-1.27%	-1.61%	-3.73%	-1.68%	-3.89%	1.000%
2023	24%	54%	24.577%	41.510%	8.968%	15.24%	24.95%	10.39%	15.11%	5.44%	12.01%	8.225%
2022	-20%	-33%	-20.387%	-29.893%	-9.695%	-18.74%	-27.44%	-13.92%	-21.62%	-21.19%	-16.49%	-10.878%
2021	27%	27%	24.825%	26.727%	15.9%	21.09%	12.25%	26.22%	13.46%	-1.30%	26.03%	19.181%
2020	16%	48%	18.731%	37.074%	0.183%	14.98%	34.55%	2.31%	18.34%	12.68%	2.47%	3.476%

Returns based on iShares/Vanguard/Invesco ETFs.
Source: Bloomberg, NewEdge Wealth

Equity Scenarios

S&P 500 2024 Scenario Analysis

Change vs. 2023E EPS	2024 EPS	PE on 2024 EPS 14x	15x	16x	17x	18x	19x	20x	21x
-10%	$200	2,800	3,000	3,200	3,400	3,600	3,800	4,000	4,200
-5%	$210	2,940	3,150	3,360	3,570	3,780	3,990	4,200	4,410
0%	$220	3,080	3,300	3,520	3,740	3,960	4,180	4,400	4,620
4%	$230	3,220	3,450	3,680	3,910	4,140	4,370	4,600	4,830
9%	$240	3,360	3,600	3,840	4,080	4,320	4,560	4,800	5,040
13%	$250	3,500	3,750	4,000	4,250	4,500	4,750	5,000	5,250
18%	$260	3,640	3,900	4,160	4,420	4,680	4,940	5,200	5,460
22%	$270	3,780	4,050	4,320	4,590	4,860	5,130	5,400	5,670
27%	$280	3,920	4,200	4,480	4,760	5,040	5,320	5,600	5,880

Source: NewEdge Wealth, Bloomberg, as of 1/16/24

What the Bears Say

- **Target:** 4,200 (-10%)
- **Implies:** Slight downside to 2024 and 2025 EPS vs. consensus, possibly due to a “slight” recession, along with trading back towards an average PE valuation on de-risking.
- **Drivers:** A tighter Fed than expected could push valuations back towards average while slowing economic growth (after 2023’s upside surprise) could weigh on EPS.

What the Bulls Say

- **Target:** 5,200-5,400
- **Implies:** Upside to 2024 and 2025 consensus EPS numbers and trading above PE of 20x; implies no recession in 2024 or 2025.
- **Drivers:** EPS upside from technology/productivity that allows for greater margin expansion; PE upside from an easing Fed and liquidity tailwind.

S&P 500 Earnings Power: Revenue Growth Light for 2023, but Watch Margins for 2024

S&P 500 Consensus	2022A	2023E	2024E	2025E
EPS	$223	$221	$243	$270
YoY Change	*13%*	*-1%*	*10%*	*11%*
Revenue Growth	11.10%	3.00%	5.30%	5.60%
Operating Margin	15.70%	14.30%	15.60%	16.40%

Source: Bloomberg Consensus, as of 1/7/24

Note the continued strong revenue growth and a new record baked into margin forecasts.

The record margin in 2022 was made possible by huge revenue growth of +11% driven by high inflation enabling strong pricing power.

The “earnings recession” of 2023 was not typical, as it was entirely driven by margin compression and not lower revenues (typically in a recession both revenues and margins fall).

The cause of 2023’s falling margins was the normalization of revenue growth as inflation fell and pricing power waned.

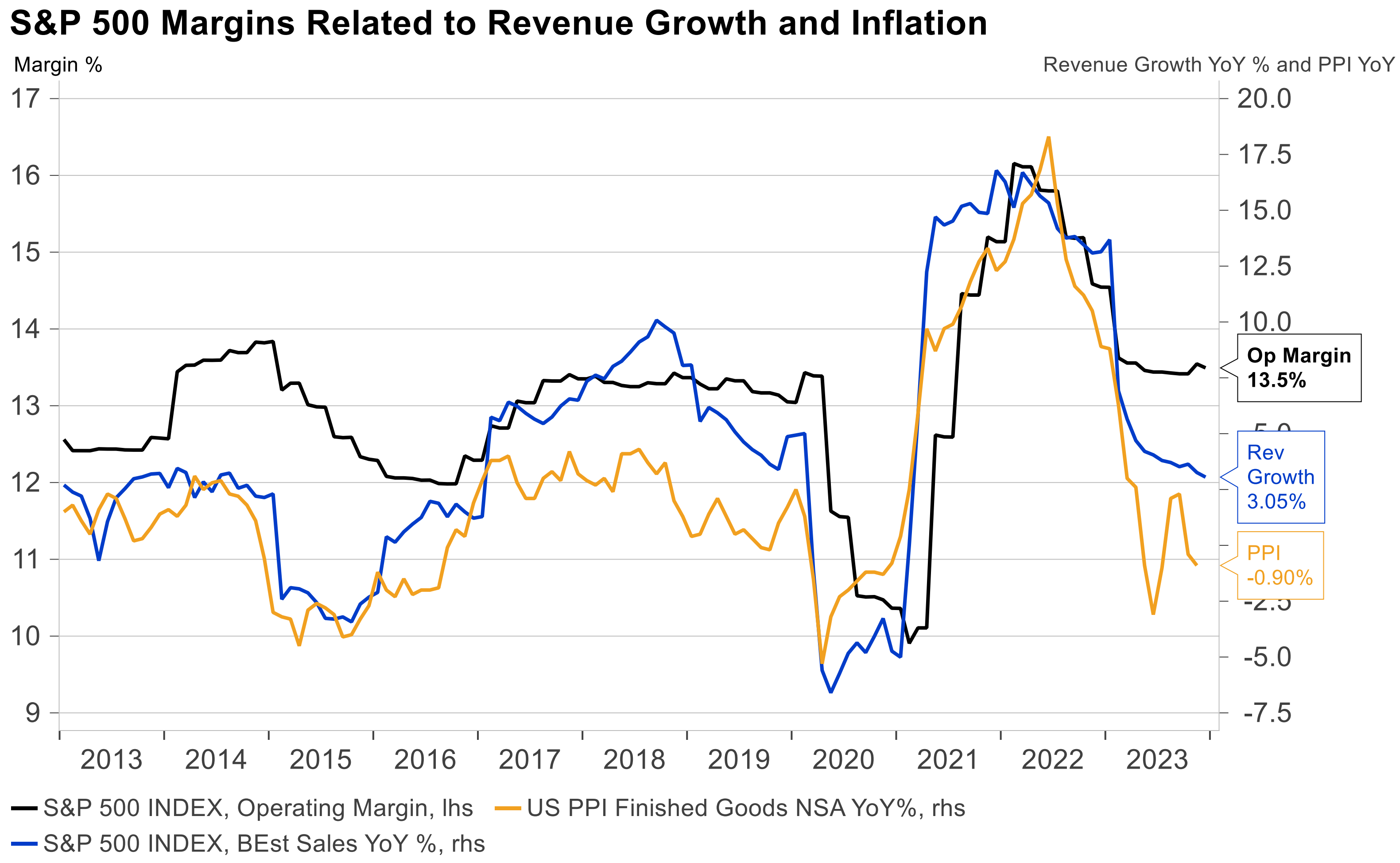
We think 2024 estimates are reasonably optimistic after a year of EPS declines but are certainly not a low bar for upside surprises.

Our biggest watch items in 2024 estimates are both the reacceleration in top line revenue (despite forecasts for falling inflation) and the return to 2022’s record margins, which likely either requires strong pricing power/higher inflation *or* a productivity/technology windfall that lifts broad corporate profitability.

Note, 2024 consensus estimates do not incorporate a recession.

<u>Upside scenario</u>: $250 (+13% YoY, productivity lifts margins, animal spirits drives upside to M&A/investment activity)
<u>Downside scenario with no recession:</u> $220 (0% YoY) for the third year in a row driven by lower revenue growth (given nominal GDP deceleration) and
<u>Downside scenario with recession</u>: $200 (-10% YoY, driven by a moderate recession that drives both revenues and margins lower)

Margins



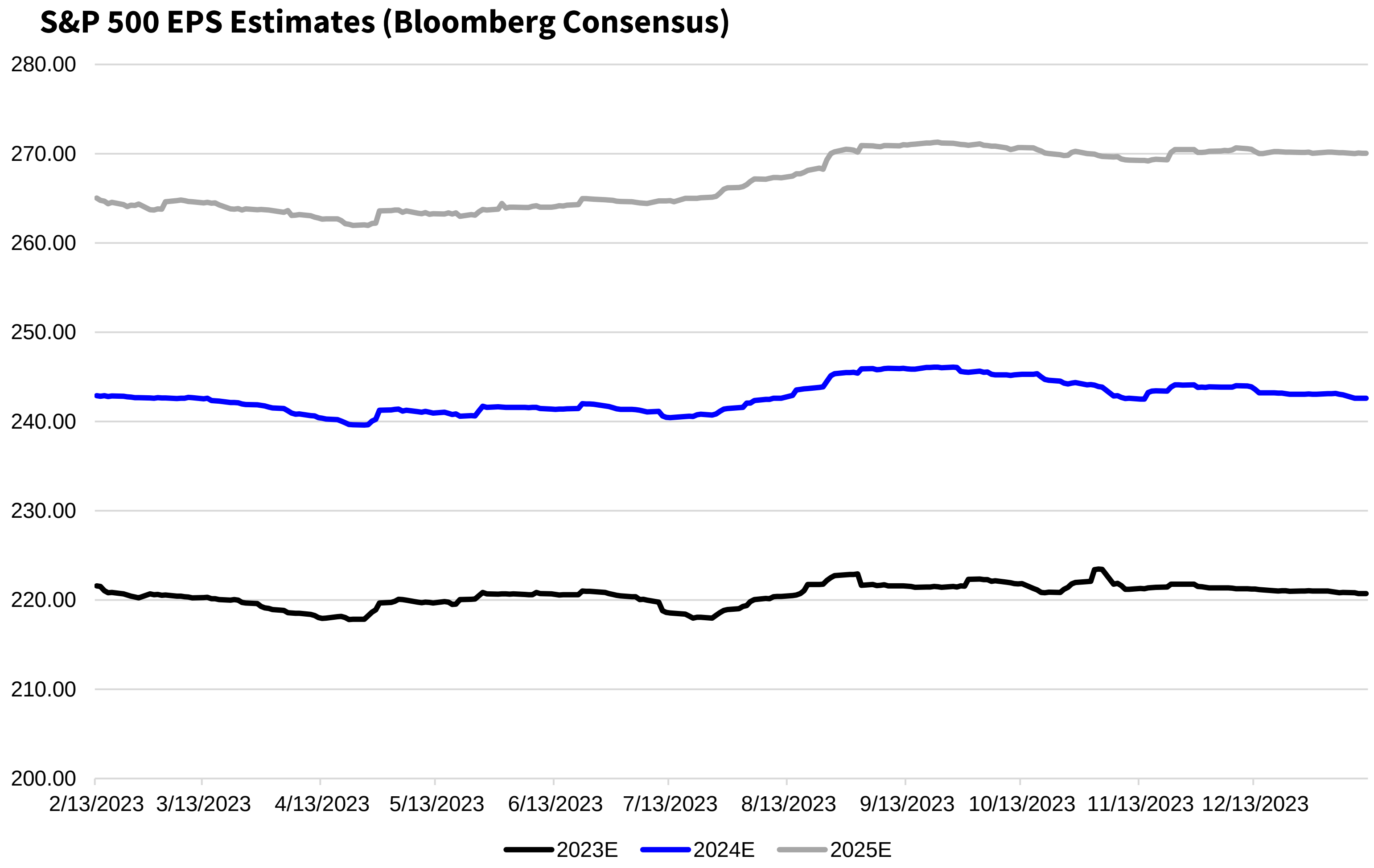
Source: NewEdge Wealth, Macrobond, Bloomberg

2023's EPS downside was driven by margin compression (revenues still grew in 2023 as the U.S. did not experience a recession).

This margin compression was due to the *normalization* of revenue growth following the inflation-driven surge in revenues in 2021 and 2022. High inflation gave companies pricing power, allowing for double digit revenue growth, which created operating leverage that flowed down into strong margins.

Margins have now normalized back to slightly above pre-pandemic levels. The street expects a margin rebound back to 2022 record by the end of 2024.

Watch EPS Estimate Progression



One of the most fascinating dynamics in 2023 was how EPS estimates were relatively static, despite the wide range of narratives experienced (soft landing, hard landing, no landing, credit crisis, AI/tech renaissance).

For 2024, we must watch EPS estimates closely, as a key source of upside/downside for equity markets.

Keep a close eye on 2025 estimates, as these will likely become the biggest concern for markets in 2H24.

Source: NewEdge Wealth, Bloomberg; Data as of 1/16/24

Big Sector Shifts in EPS Growth

Bloomberg Earnings Growth Forecasts by Sector

	2023E	2024E
Communication Services	18.3%	15.5%
Consumer Discretionary	31.1%	9.8%
Consumer Staples	-3.9%	3.7%
Energy	-30.8%	0.5%
Financial	7.3%	6.5%
Real Estate	5.4%	2.8%
Health Care	-21.8%	17.4%
Industrials	14.6%	11.3%
Information Technology	-6.8%	17.8%
Materials	-24.9%	3.0%
Utilities	4.7%	8.5%
S&P 500	**-2.0%**	**10.8%**

Sector Highlights

Discretionary: The sharp slowdown from 2023 to 2024 is primarily due to AMZN EPS growth decelerating from 395% in 2023 to 24% in 2024.

Healthcare: 2023's decline driven by pharma, biotech, and life sciences, which are expected to recover in 2024.

Energy: The sector is only expected to have a tepid recovery after a bruising 2023 EPS decline. Watch oil prices for potential upside to numbers given higher efficiency at energy companies.

Technology: The downside in 2023 EPS was driven primarily by semi-conductors, but these stocks did well in 2023 as they anticipated the expected recovery in 2024 (the current year PE for semis went from 15x to 32x over the course of 2023).

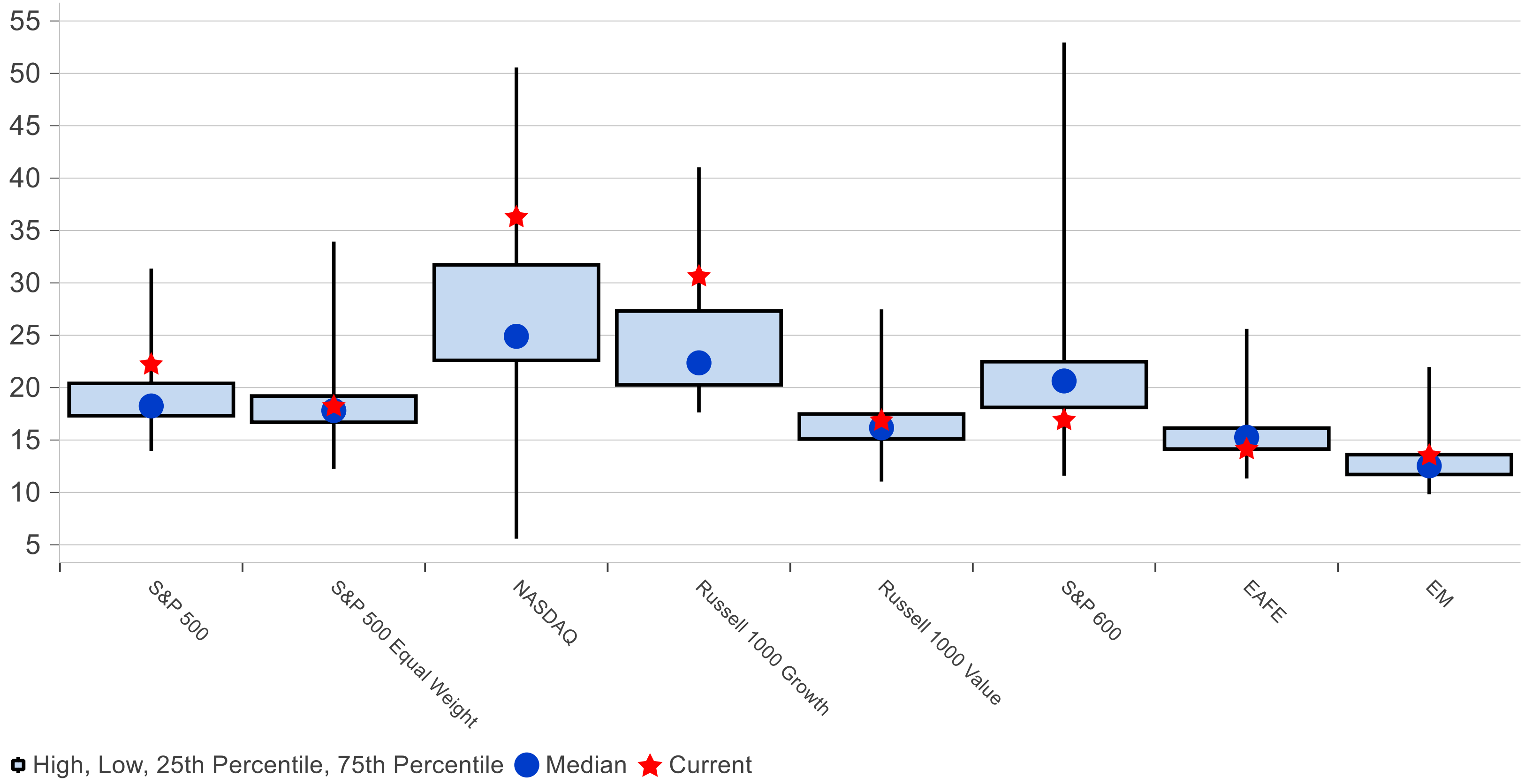
NewEdge Wealth

Source: NewEdge Wealth, Bloomberg; Data as of 1/16/24

Valuations are Historically Stretched for NASDAQ, Growth, and S&P 500

Some Markets are More Expensive Than Others

10 Year PE Valuation Statistics for Major Equity Indices, Using Current Year PE



Source: NewEdge Wealth, Macrobond, Bloomberg

Just looking at the S&P, with its large exposure to Tech/Growth/Magnificent 7 stocks is misleading on valuation.

The "average stock", or the S&P 500 Equal Weight Index, experienced a sharp 20% rerating at the end of 2023 so is now about average in its valuation.

Versus 10 Year Statistics:

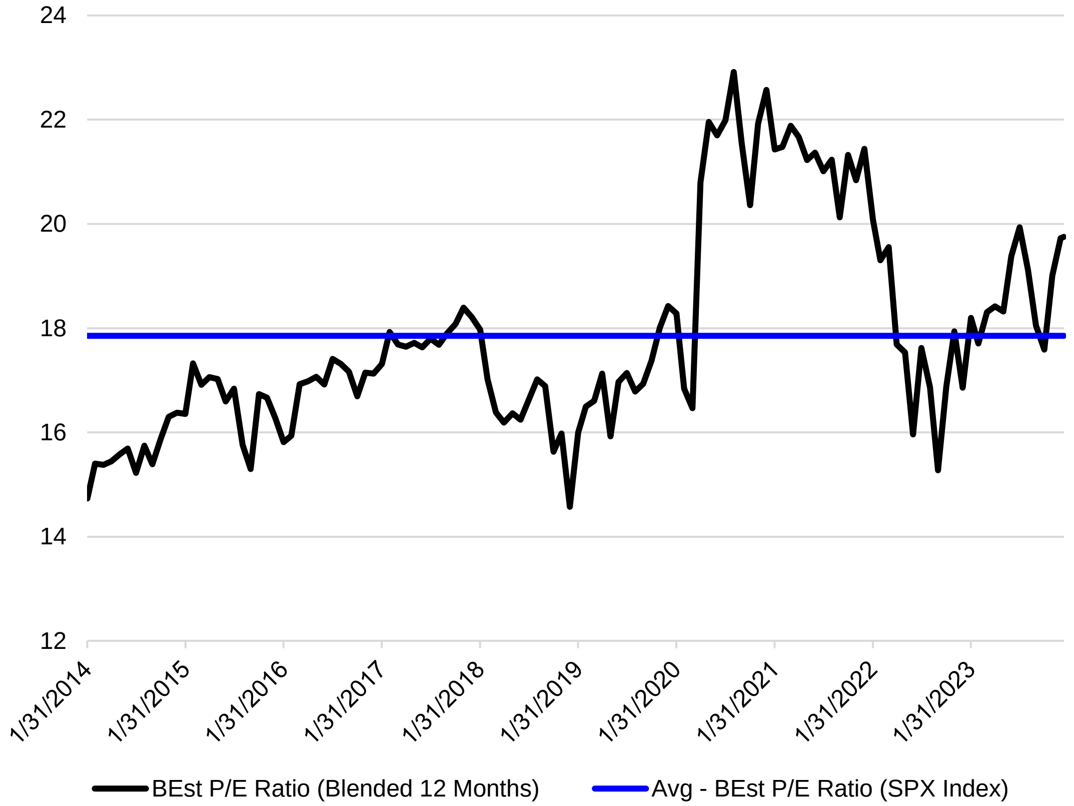
Growth, NASDAQ, and S&P 500 are stretched.

Value, International Developed, and Emerging are average.

Small Caps are below average.

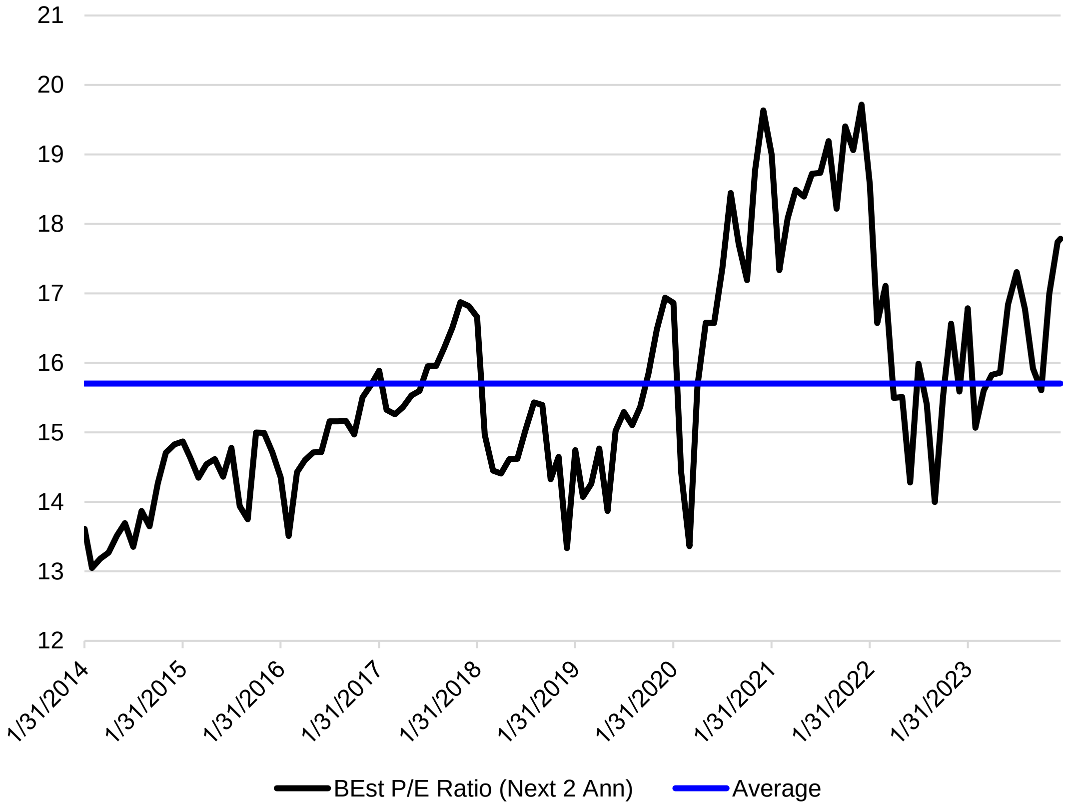
S&P 500 is Expensive No Matter How You Cut It

S&P 500 12 Months Forward PE



The S&P 500 is trading at 19.8x 12 month forward PE, near the peak reached in July 2023, and back to COVID era levels when policy was far more supportive for markets.

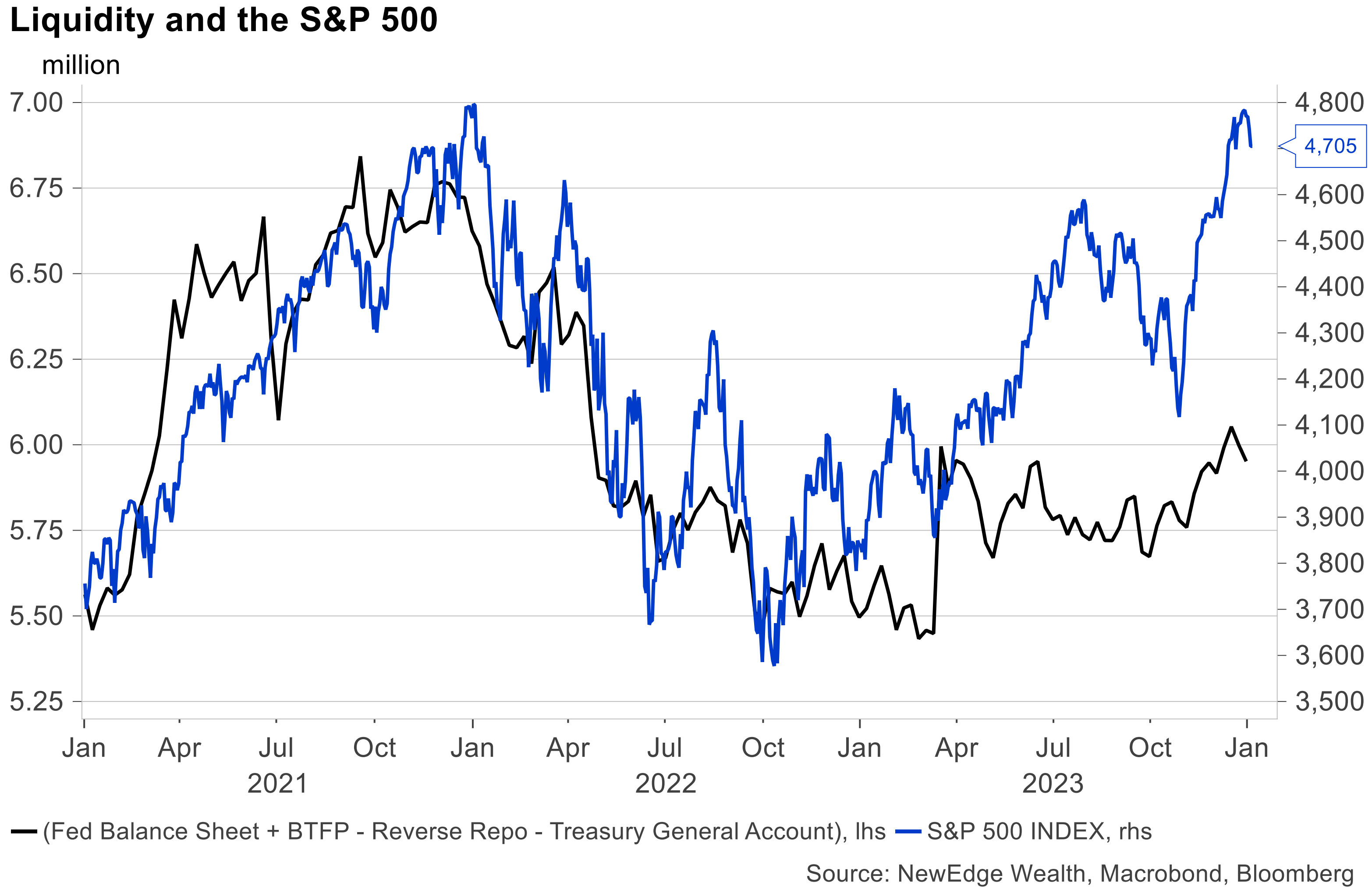
S&P 500 2 Year Forward PE



The S&P is trading at nearly 17.7x 2025 EPS estimates of $270, which is the highest 2-year forward valuation since the COVID era (policy bubble) and the 2000s tech bubble.

Source: NewEdge Wealth, Bloomberg; Data as of 1/16/24

Liquidity is the Darkhorse for 2024

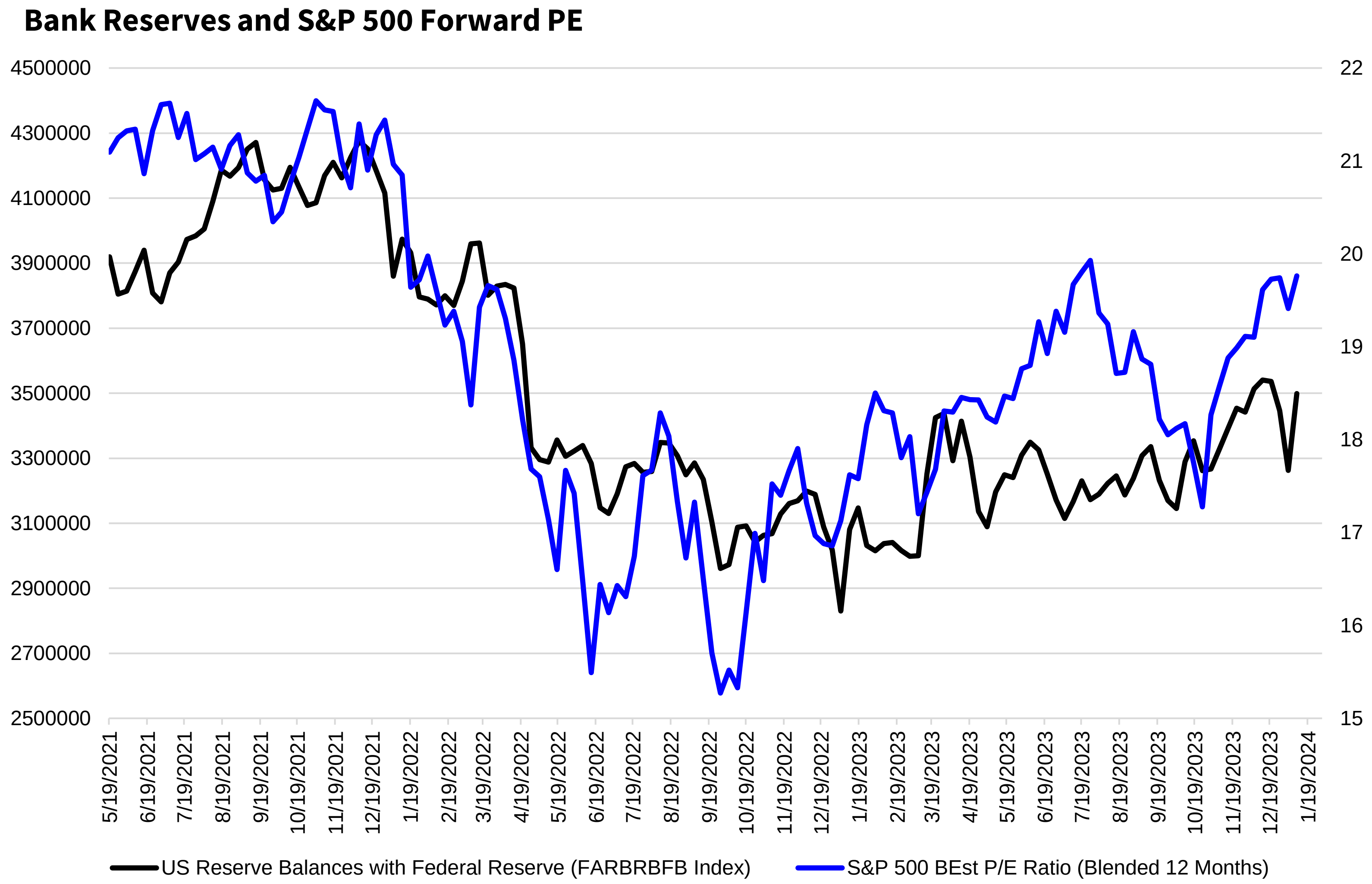


Despite the Fed tightening policy on the surface, liquidity eased in 2023, helping to support risk assets.

The liquidity easing came partially from the Fed, such as the Bank Term Funding Program set up to stabilize regional banks' underwater balance sheets, but also from the Treasury. Treasury actions to spend down excess cash and fund large deficits with Bills instead of coupon Bonds helped to boost liquidity.

As we progress through 2024, liquidity, mostly from Treasury, will have to be monitored as a potential "dark horse" for markets.

Liquidity is the Darkhorse for 2024

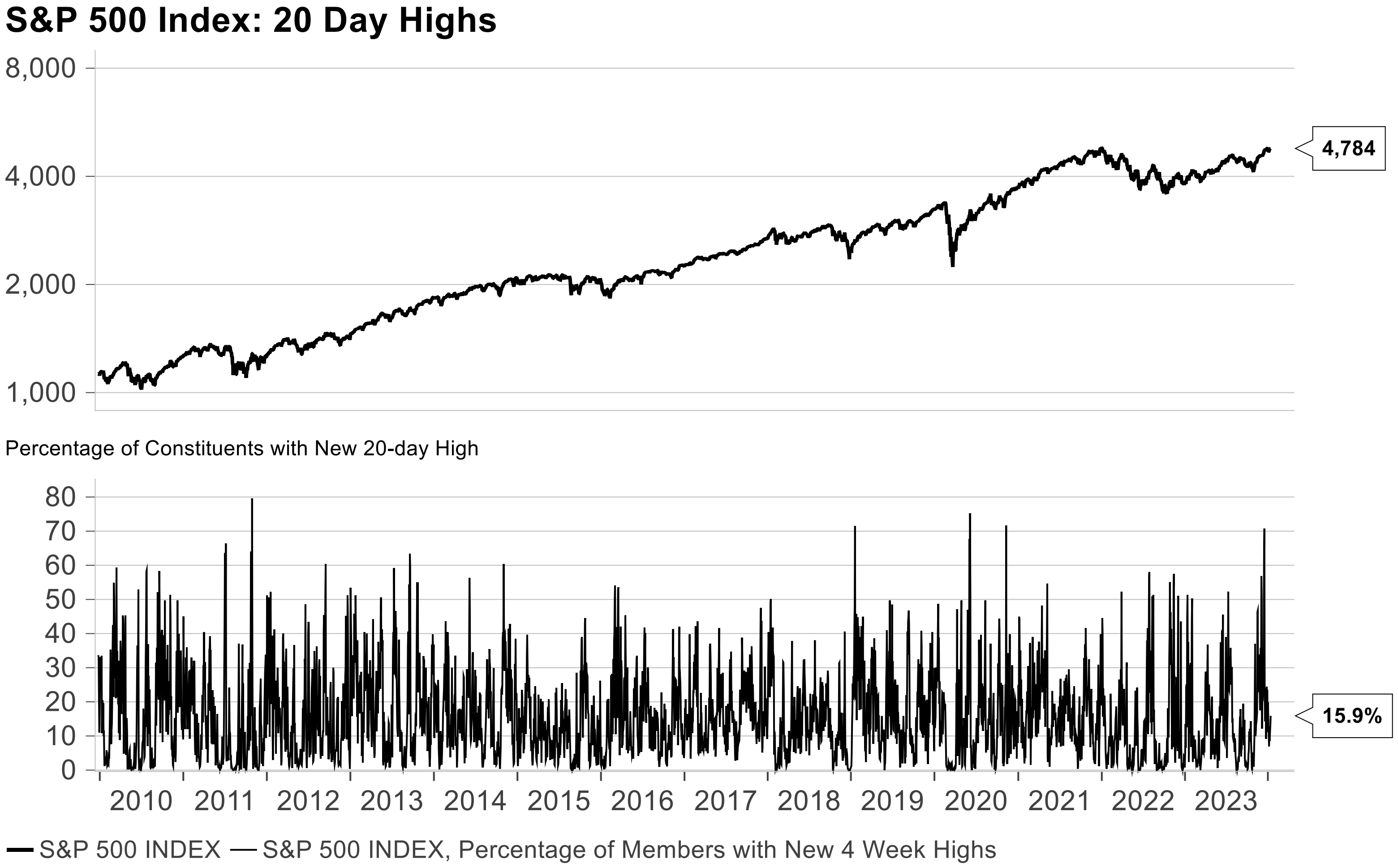


Through the lens of bank reserves and valuations, we can see how liquidity was a headwind to valuations in 2022 and was a tailwind in 2023.

NewEdge WEALTH

Source: NewEdge Wealth, Bloomberg; Data as of 1/16/24

Technicals: A Rare Breadth/Momentum Thrust in December



Source: NewEdge Wealth, Macrobond, Bloomberg

2023 ended with a veritable BANG! as the percentage of S&P 500 names with new 20-day highs surged above 70% in December.

This measure above 70% has typically been seen coming out of major market lows (2011, 2019, 2020), which is why statistical forecasts for returns following this signal hitting suggest above-average equity returns over the next 12 months.

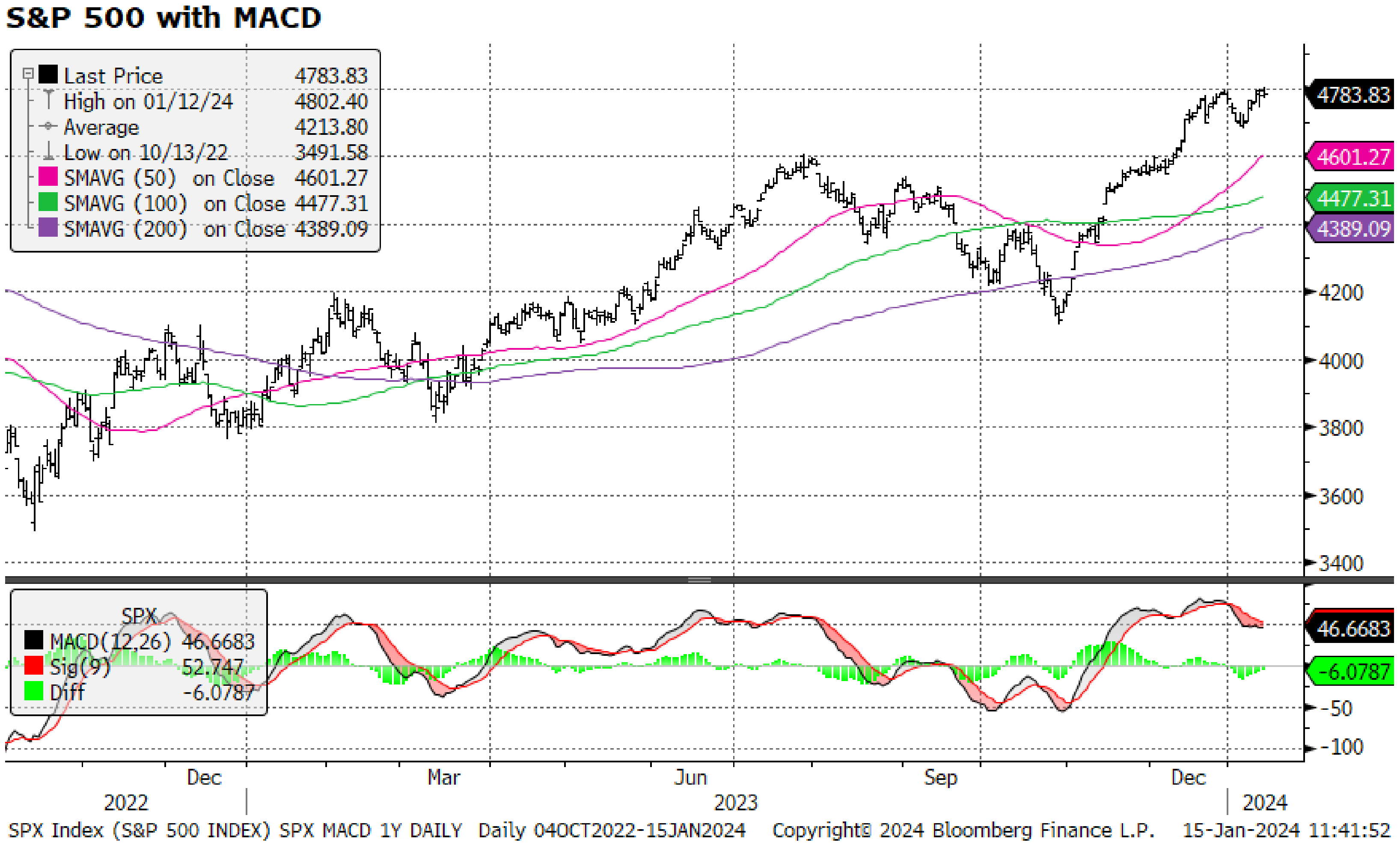
Technicals: Medium Term (Weekly) Momentum Still Positive

S&P 500 with Weekly MACD

SPX Index (S&P 500 INDEX) SPX MACD 5Y WEEKLY Weekly 15JUN2017-15JAN2024 Copyright© 2024 Bloomberg Finance L.P. 15-Jan-2024 11:42:28

Using a momentum measure like the MACD (Moving Average Convergence Divergence), weekly momentum for the S&P 500 still looks positive, driven by the sharp rebound in markets in 4Q23 and resilience to start 2024.

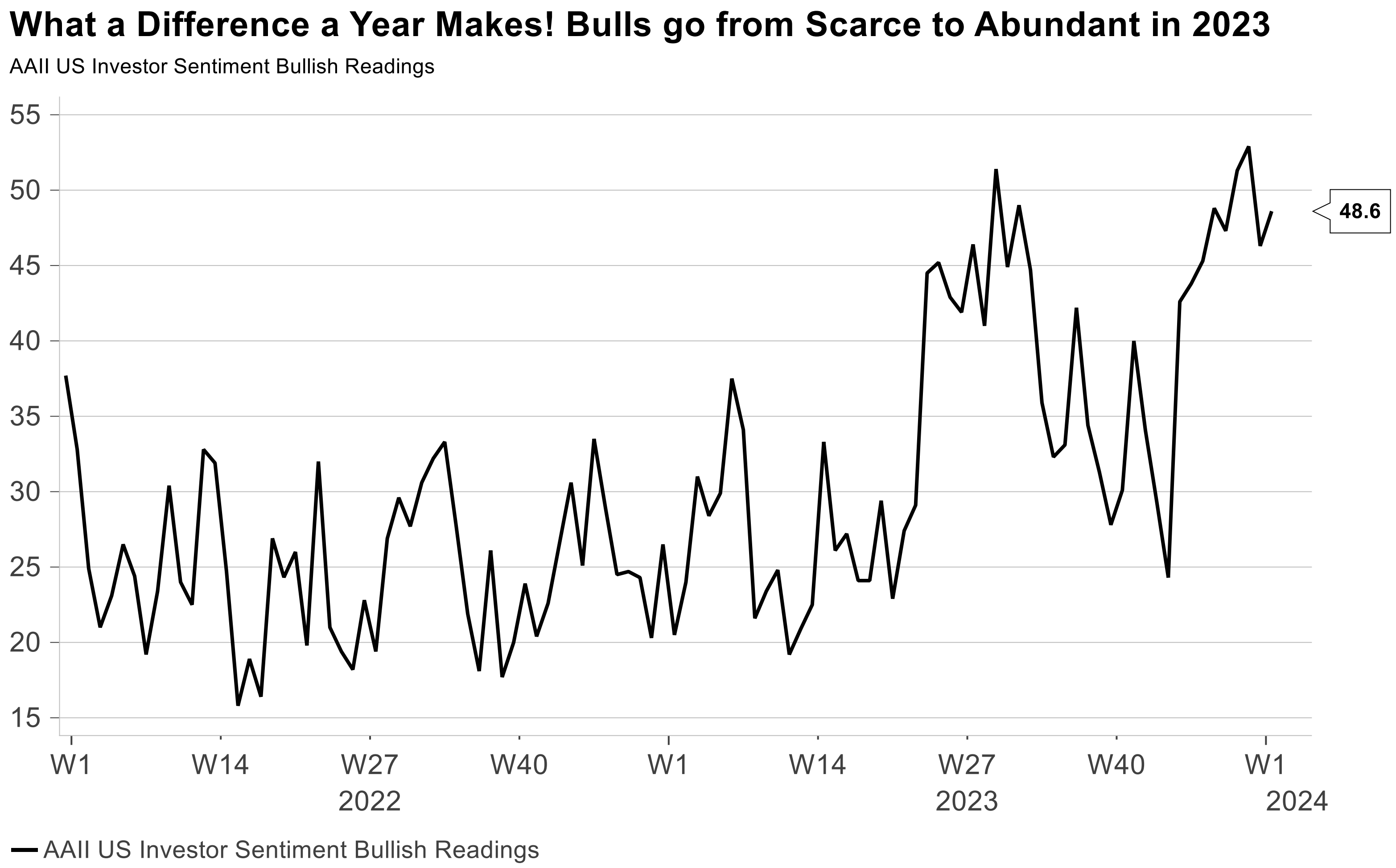
Technicals: Near Term Momentum is Fading



But watch for fading momentum in the short-term (daily) for signs that a consolidation period/pull-back could occur.

Data as of 1/16/24

Sentiment: Resoundingly Bullish



Source: NewEdge Wealth, Macrobond, Bloomberg

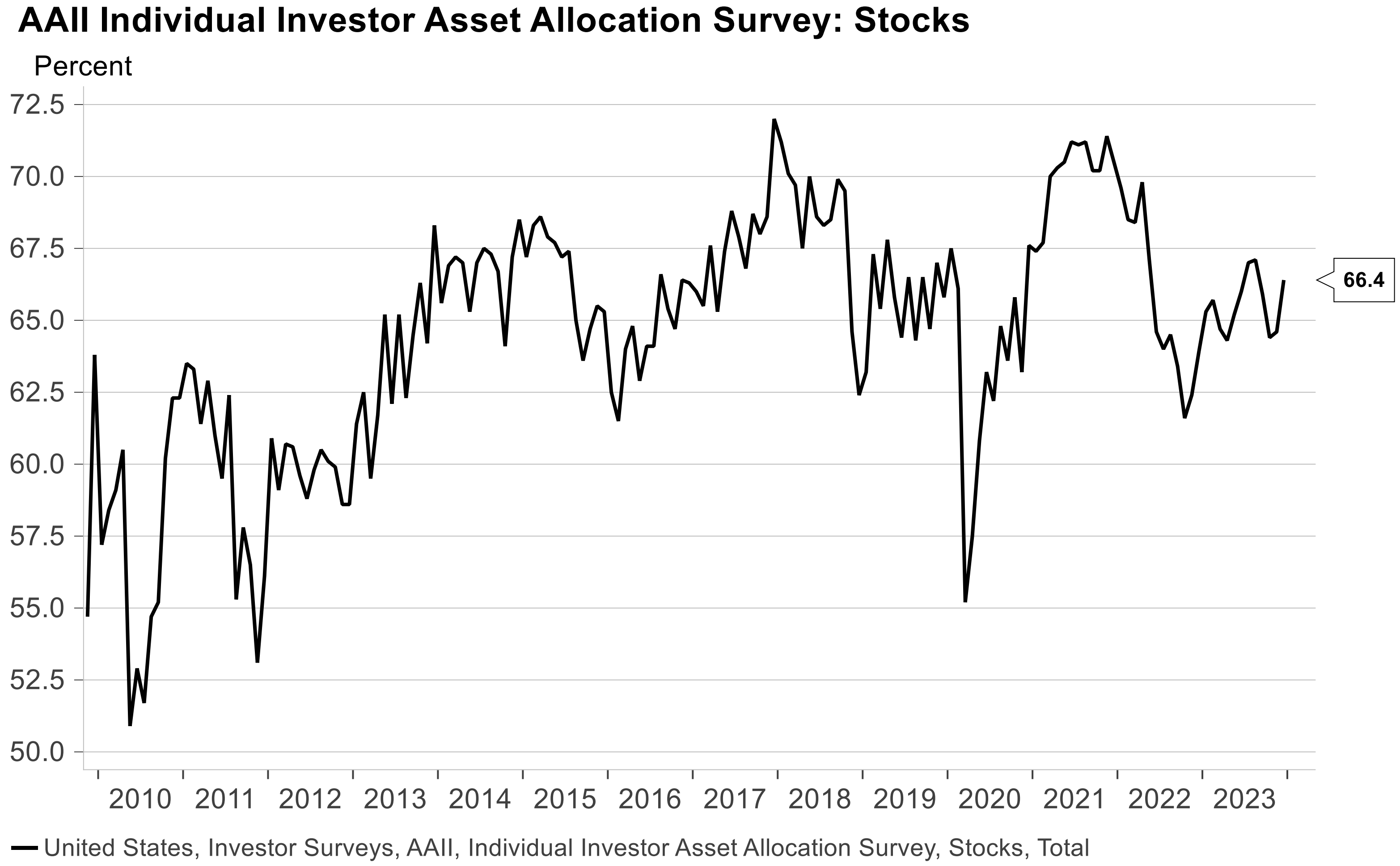
After starting resoundingly bearish in 2023, investor sentiment ended the year resoundingly bullish.

This bullish reading of the AAII Investor Sentiment survey is the highest since 2021.

Sentiment extremes can persist, as they did in 2021, so this is not a great timing tool for a market top.

However, this suggests that the bar for upside surprise is far higher today than the beginning of 2023 when investors had a dour outlook.

Sentiment: Household Equity Allocations Not Back to Prior Highs



Source: NewEdge Wealth, Macrobond, Bloomberg American Association of Individual Investors (AAII)

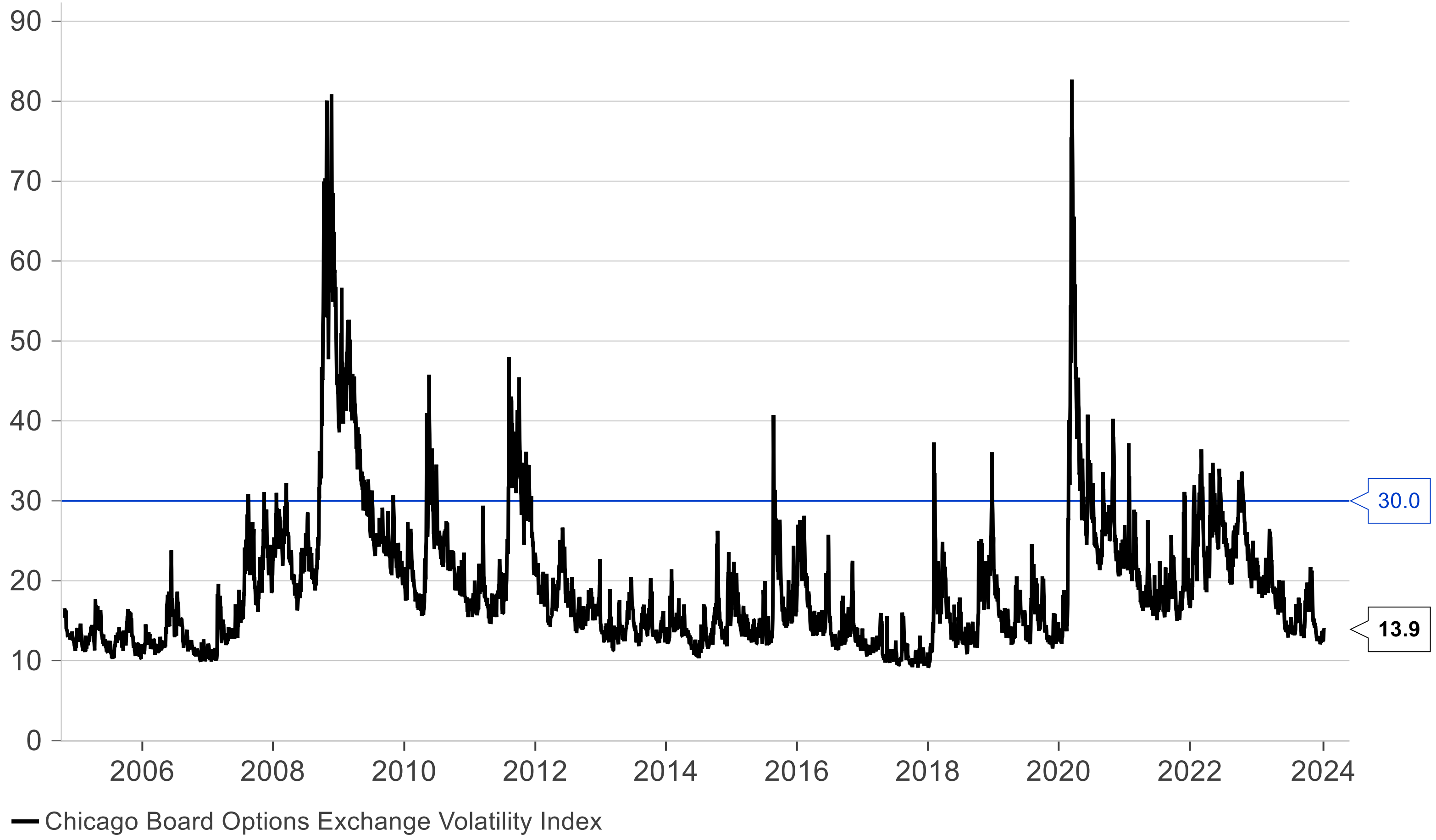
Despite much-improved sentiment, we have not seen individual investors return equity allocations back up to their 2021 peaks.

This is due to slightly higher bond and cash allocations compared to 2021. Notably, cash allocations have been fell rapidly in 2023 to fund stock purchases (cash went from ~25% to ~17%) and bond purchases (bonds went from ~13% to ~16%).

Arguably, there is room for investors to increase equity exposure, but note this typically is a contrarian signal: highest exposure at the peaks, lowest exposure at the troughs.

Sentiment: Watch for VIX Complacency

VIX Index



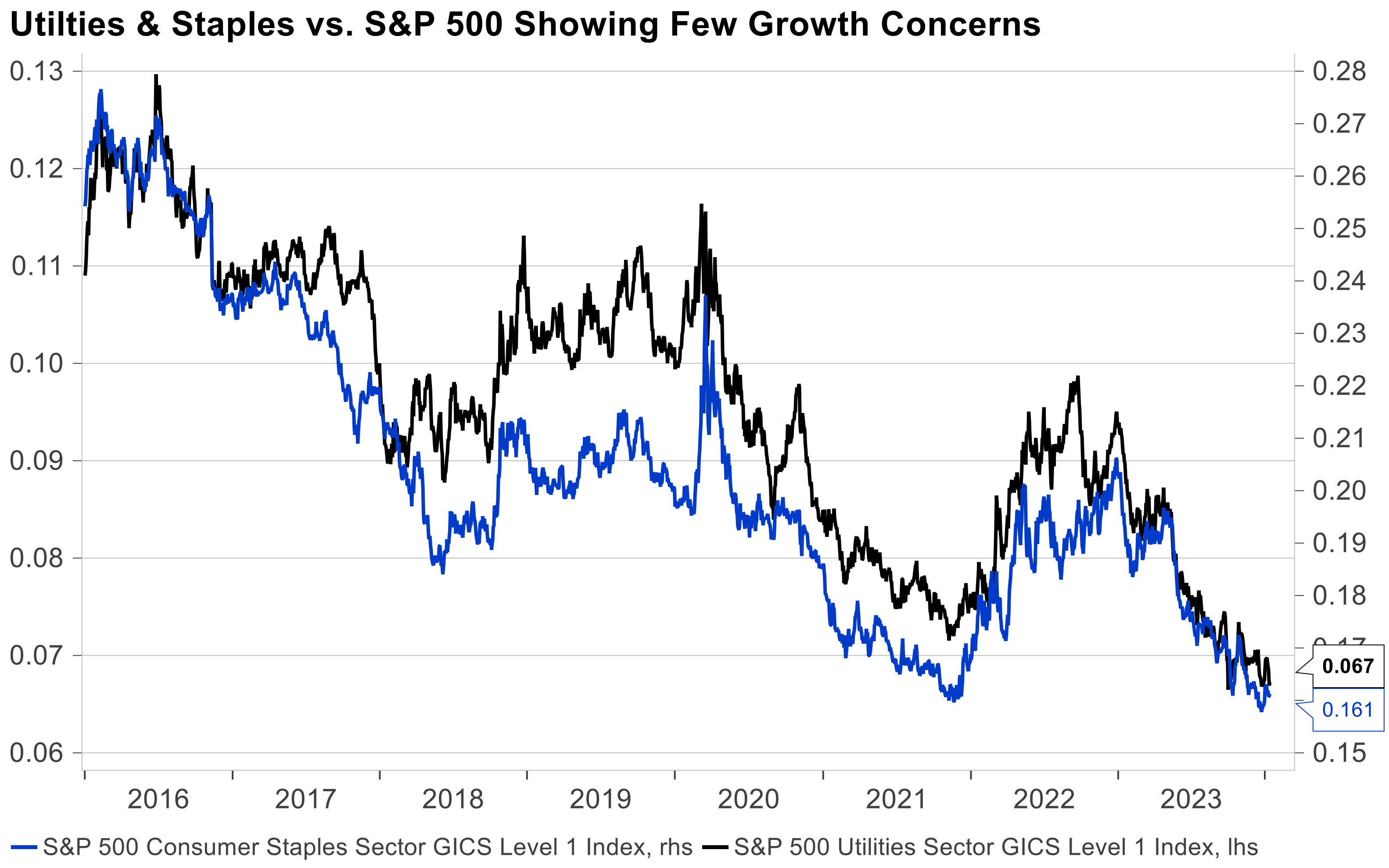
Source: NewEdge Wealth, Macrobond, Bloomberg

Volatility was markedly subdued all through 2023.

The VIX has not reached the lows of the ultra-low volatility years like 2017/early 2018 (which were followed by a snap higher in volatility in an episode known as "Volmageddon").

Investors should monitor the VIX as a sign of complacency and positioning, which could set up for a snap higher at some point during the year.

Sentiment: Defensives Show No Concern for Growth

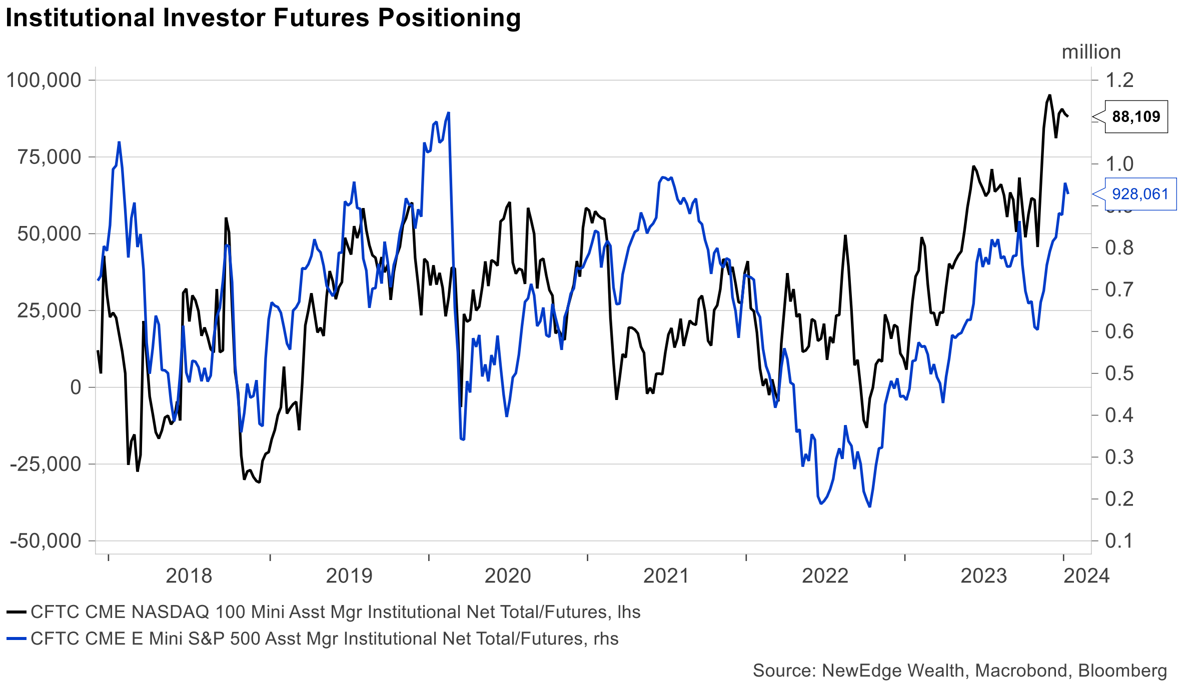


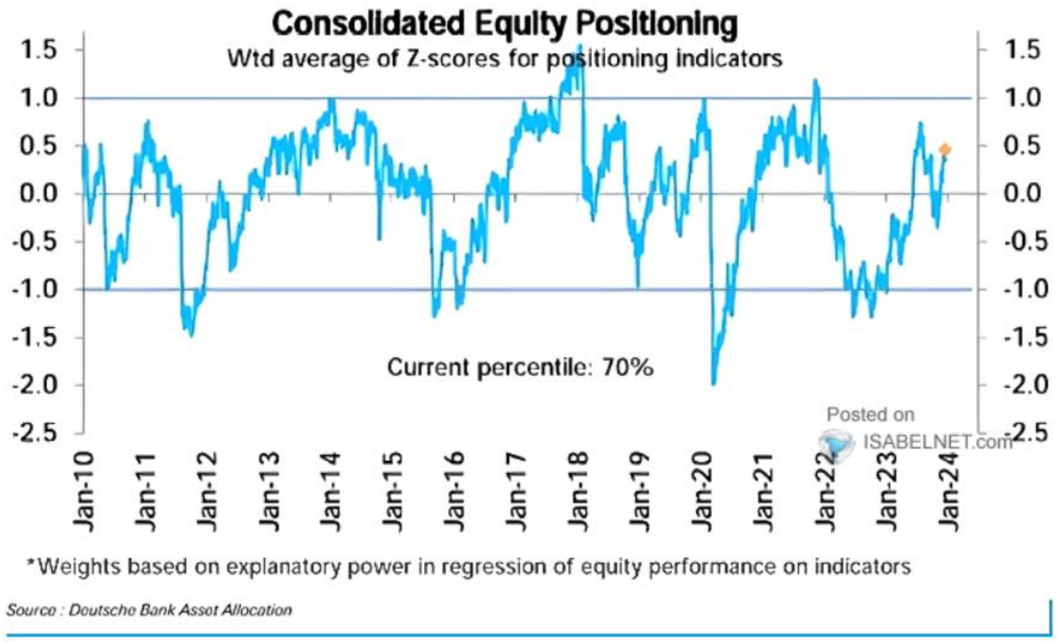
Source: NewEdge Wealth, Macrobond, Bloomberg

Defensive sectors (Utilities and Staples) continue to underperform the S&P 500 sharply, reflecting little market concern about economic growth.

Periods of defensive strength (2018, 2020, 2022) have coincided with weaker market environments and rising fears of a weaker growth ahead.

Sentiment: Institutional Positioning Overweight but Not Extreme





Similar to individual investors, institutional investor positioning went from being underweight to start 2023 to overweight today. This positioning is not yet at extremes; however, the degree of length does suggest a higher bar for upside surprises and incremental investment. As positioning becomes increasingly one-sided, it becomes an increasing risk for equities.

Portfolio Positioning: Growth vs. Value

Factors to Drive Growth vs. Value

- **We are NEUTRAL Growth vs. Value to begin 2024 due to the trade-offs between the styles:**

<u>Growth</u>

- Pros: Strong stock momentum/trends, rising EPS estimates, and above-market EPS growth in the short term and over the long-term (secular tailwinds like Technology and AI).
- Cons: Elevated valuations, index concentration in Mag 7, and crowded positioning.

<u>Value</u>

- Pros: Less-stretched valuations and light positioning (large outflows from Value sectors in 2023), more opportunity for stock selection given lack of index concentration.
- Cons: A continued EPS revision downcycle that persisted through 2023, weaker stock trends/momentum.

Growth vs. Value: A Breakout or a Triple Top?

Russell 1000 Growth vs. Value

Source: NewEdge Wealth, Macrobond, Bloomberg

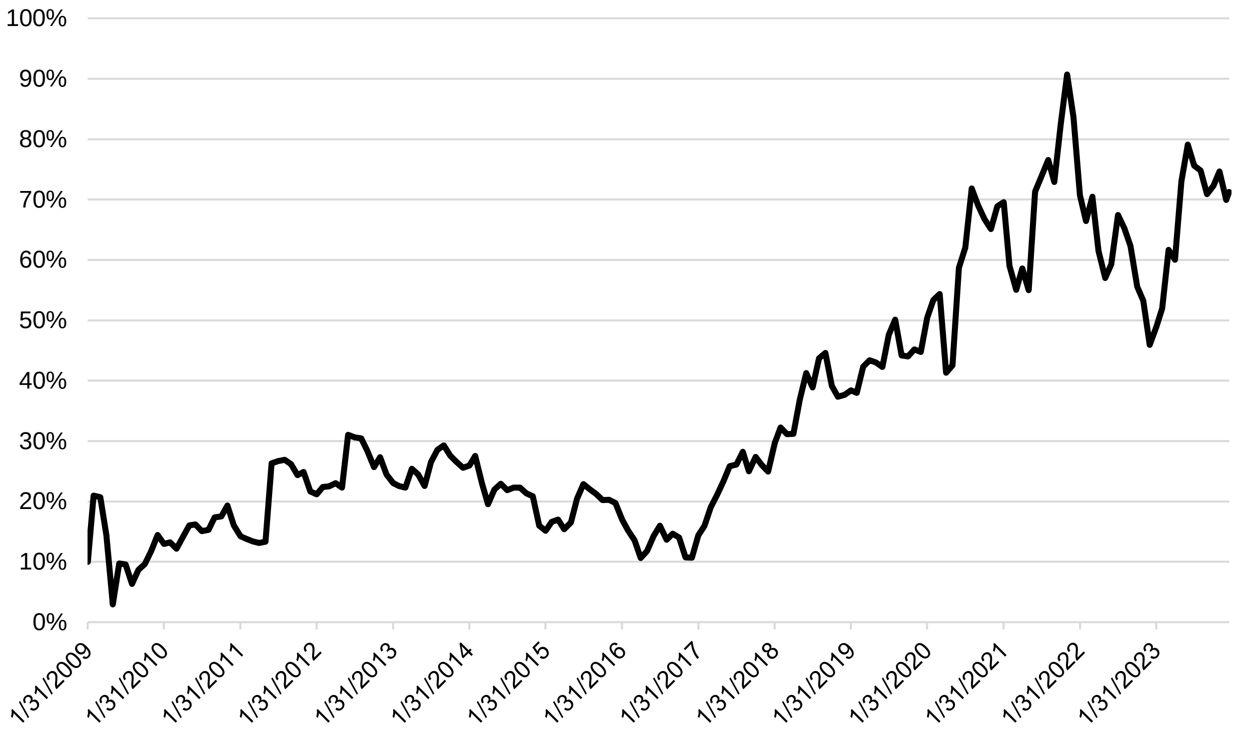
Data as of 1/16/24

Portfolio Positioning: Growth vs. Value

Key Watch Items for Growth vs. Value

- Growth currently trades at a 71% premium to Value.
- This is down from the late 2021 policy bubble peak of 90%, but still well above the long-term average.
- In 2023, there was a notable breakdown in the relationship of real interest rates and Growth PE's. Since 2018 (the first Powell Pivot), these two had been inversely correlated (lower real rates drove higher Growth PE's). Growth PE's rose nearly 30% in 2023 as real interest rates climbed.
- At a 71% premium, there is arguably less room for valuation upside for Growth vs. Value.

Growth vs. Value Forward PE



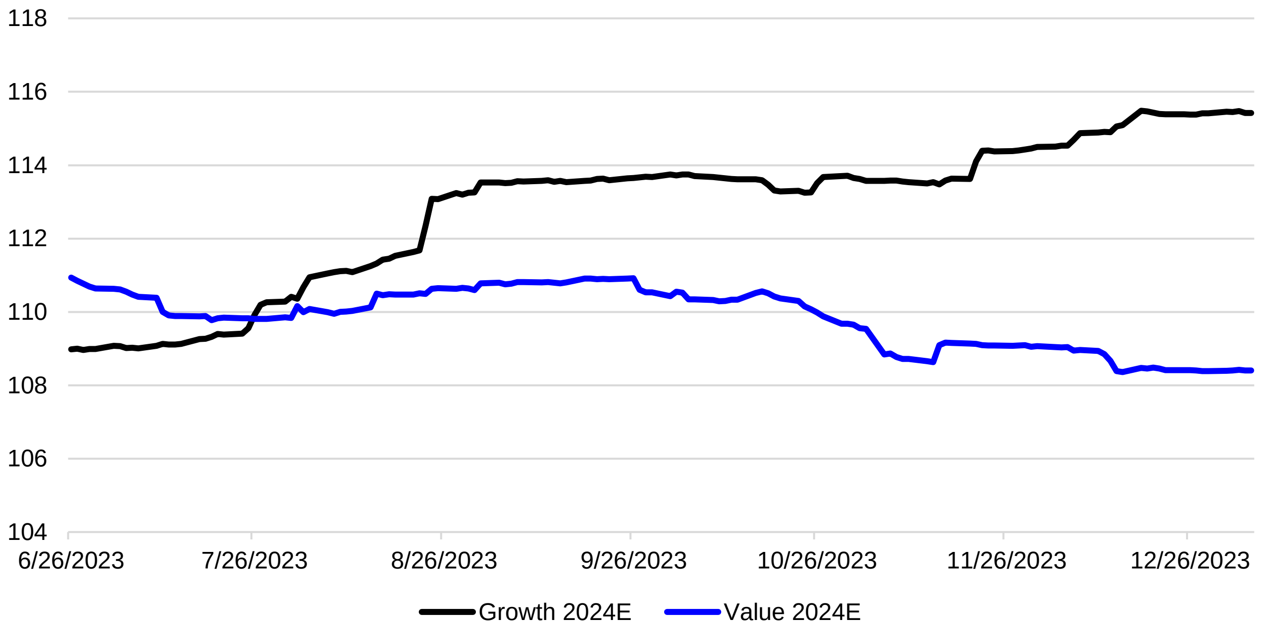
Source: NewEdge Wealth, Bloomberg; Data as of 1/16/24

Portfolio Positioning: Growth vs. Value

Key Watch Items for Growth vs. Value

- 2023's strong Growth performance was not just about PE expansion. Growth's EPS revisions were positive, while Value's were negative.
- For Value to stage a recovery vs. Growth, a turn to positive EPS revisions will likely be necessary.
- Note the sector weightings of Growth vs. Value being an important factor in this EPS growth, with large Growth sectors (like Technology) seeing the biggest revisions upward in 2023 and large Value sectors (like Healthcare) seeing the biggest downward revisions in 2023.

Growth and Value 2024 EPS Estimate Progression



Russell 1000 Sector Weightings

	Growth	Value
Communication Services	11%	5%
Consumer Discretionary	16%	5%
Consumer Staples	4%	8%
Energy	1%	8%
Financials	7%	22%
Health Care	11%	15%
Industrials	6%	14%
Materials	1%	5%
Real Estate	1%	5%
Technology	43%	9%
Utilities	0%	5%

Bloomberg Consensus EPS Forecasts

	2023	2024	2025
Russell 1000 Growth	$ 102.13	$ 115.42	$ 132.25
YoY %	*4.9%*	*13.0%*	*14.6%*
Russell 1000 Value	$ 100.56	$ 108.40	$ 118.83
YoY %	*-1.9%*	*11.6%*	*10.2%*

Source: NewEdge Wealth, Russell Indices, Bloomberg; Data as of 1/16/24

Portfolio Positioning: Small Caps

Factors to Drive Small Caps

- **We are UNDERWEIGHT Small vs. Large Cap U.S. equities on a tactical basis but watching how indices interact with support for signs that the 4Q23 surge in momentum marked a shift in the persistent downtrend.**

- We see a great deal of opportunity for selectivity within Small Caps (similar to Value and International) but note that broad Small Cap indices remain in downtrends vs. the S&P 500 (underperformance).

- The momentum surge in Small Caps at the end of 2023 is notable and could potentially mark a sea change in this downtrend. Watch how the Small Cap Indices interact with support (100-day and 200-day moving averages).

S&P 600 Small Cap (SML Index) Absolute (top) and Relative to S&P 500 (bottom)

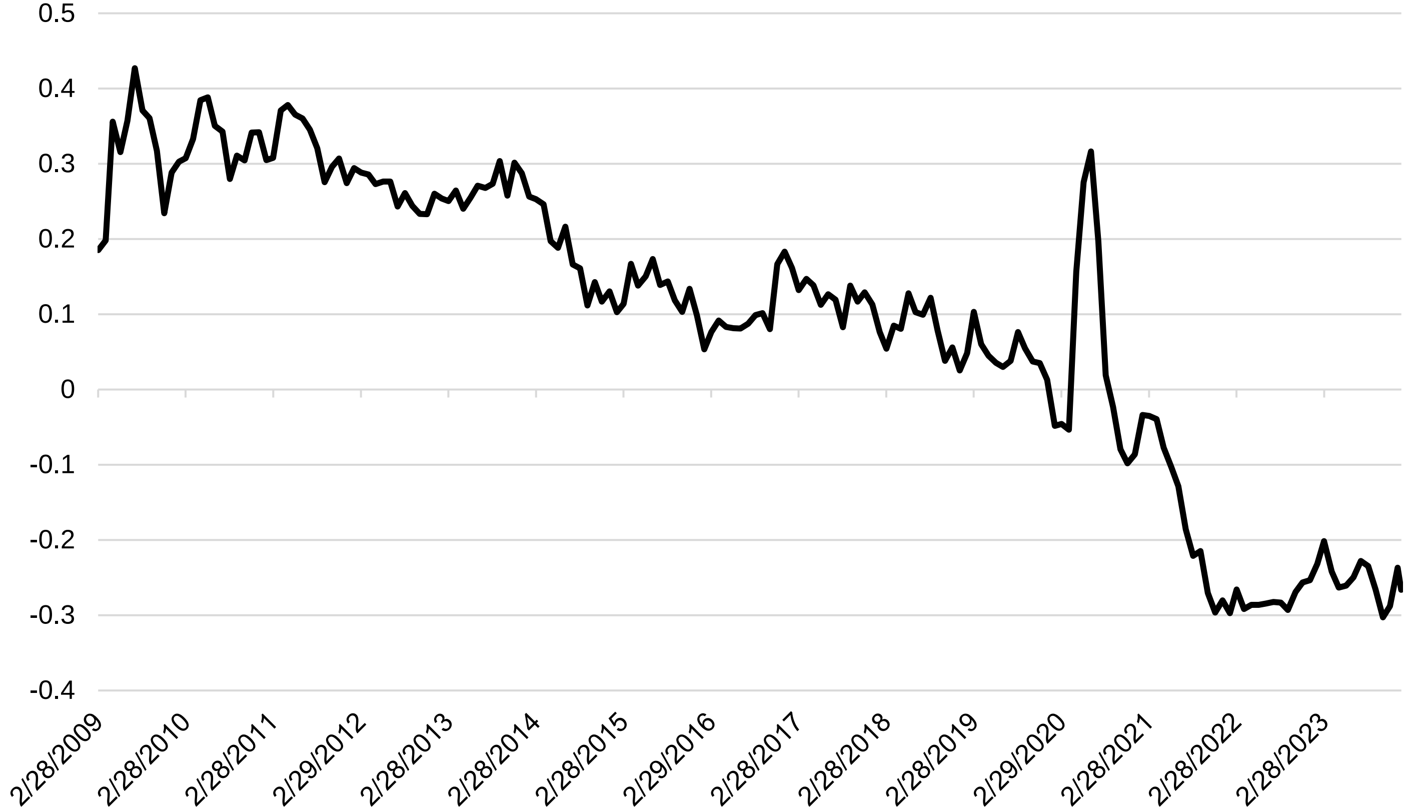
NewEdge WEALTH

Portfolio Positioning: Small Caps

Key Watch Items for Small Caps

- Small caps are trading at a historically large discount to the S&P 500 (S&P 600 at a 26% discount currently).
- Though this discount is alluring, it should be noted that there has been a perpetual de-rating of small cap vs. large cap since the Great Financial Crisis.
- Notably, this de-rating occurred with a falling interest rate backdrop in the past 15 years (compared to large cap indices, small cap indices have larger debt levels, more floating rate debt, and a higher % of unprofitable companies).
- A resumption of falling interest rates could help this re-rating, but it is unclear if it can be sustained.

S&P 600 Premium/Discount to S&P 500



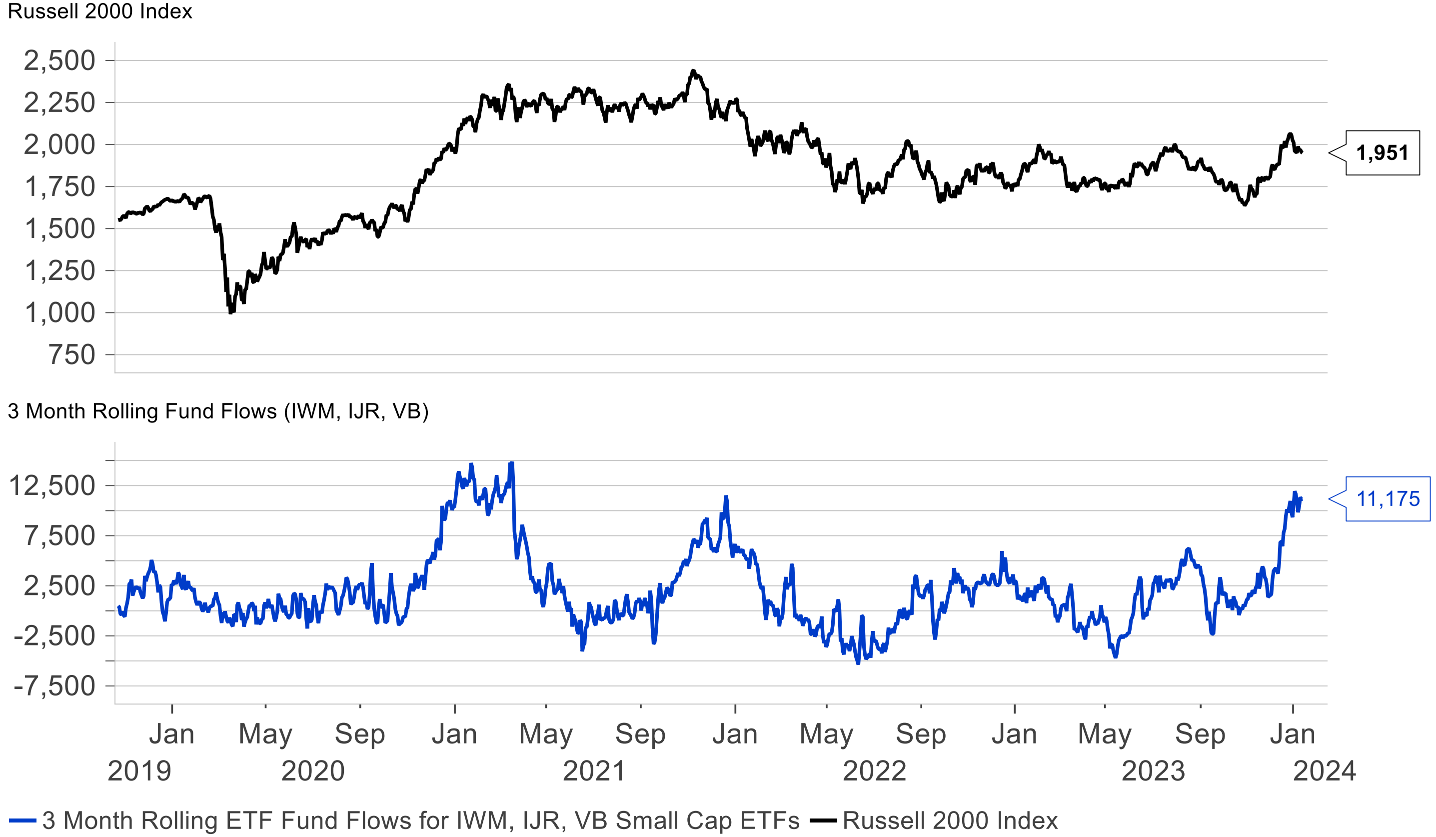
Source: NewEdge Wealth, Bloomberg; Data as of 1/16/24

Portfolio Positioning: Small Caps

Key Watch Items for Small Caps

- The view that Small Caps will lead in 2024 has quickly become consensus, as seen by Wall Street strategists in agreement and ETF flows.
- Here you can see ETF flows into the largest Small Cap ETFs (IWM, IJR, and VB) surging higher when the October rally kicked off. These flows are nearly as large as the meme-stock chase that occurred in late 2020/early 2021.
- This suggests that small cap indices are not as under-owned as consensus narratives suggest.

Small Cap Index and ETF Fund Flows



Source: NewEdge Wealth, Macrobond, Bloomberg

Data as of 1/16/24

Portfolio Positioning: International

Factors to Drive International Equites

- **NEUTRAL Non-U.S. Equities with an Overweight to International Developed and Underweight to Emerging, with selectivity/active exposure favored given wide dispersion in returns**
- The U.S. Dollar (USD) remains a key driver for relative performance of International Developed (EAFE) and Emerging Market (EM) stocks versus the U.S. (S&P 500).
- We remain disciplined on how we interpret short-term trends in the midst of weak long-term trends. There have been some *early* signs of absolute trend improvements, but there have been many false dawns in these indices over the years, with 12–15-year downtrends still in place.
- International cheapness and attractive valuations are not a catalyst when you look at the performance of these indices relative to the S&P 500. These indices have been the ultimate value traps in the past, and although fundamentals are looking better, we need a catalyst (weaker USD, big investment cycle from China) to go overweight.
- We maintain a quality bias for our non-U.S. exposure; we believe quality is an even more powerful driver of individual stock performance outside of U.S. markets.

MSCI World Excluding United States Index vs. S&P 500

Source: NewEdge Wealth, Macrobond, Bloomberg

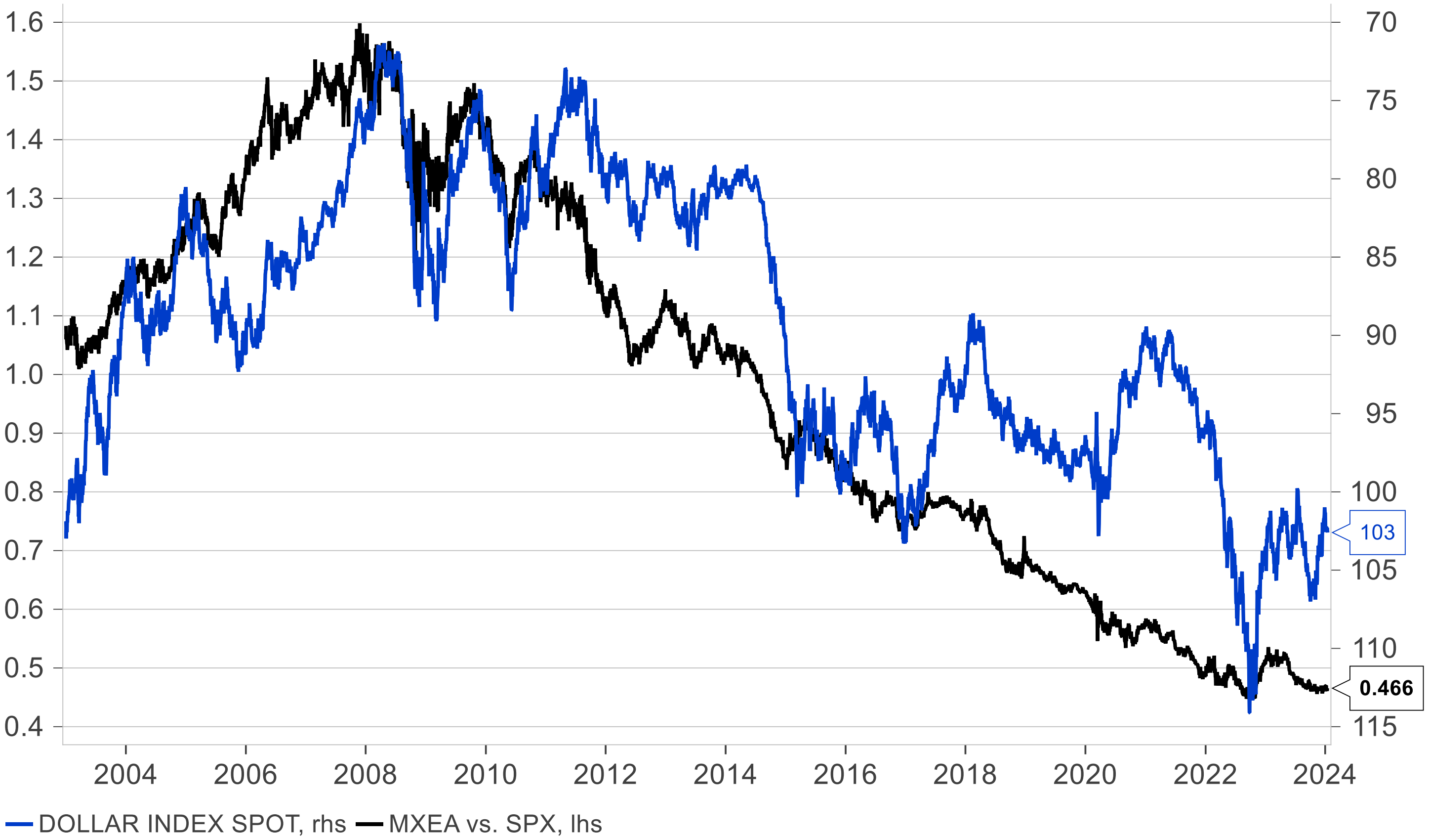
Data as of 1/16/24

Portfolio Positioning: International

Key Watch Items for International

- Watching USD for a sustained breakdown that could justify moving to overweight. Note the dominant uptrend in the USD since the Great Finance Crisis (USD shown inverted in the chart to the right) has been a key headwind for non-U.S. stock performance.
- China's path forward for global stimulus will be important for non-U.S. sentiment and cyclical growth improvement.
- Look for early signs of improved earning revisions within Emerging Markets.
- Policy adjustments in Japan (potentially more hawkish as negative interest rates are potentially phased out) and Europe (potentially more dovish as weak growth and falling inflation give ECB room to cut).
- Geopolitical tensions from 2023 that could spill over into 2024 and have disrupted economic activities such as supply chain disruptions and increases in prices of essential commodities.

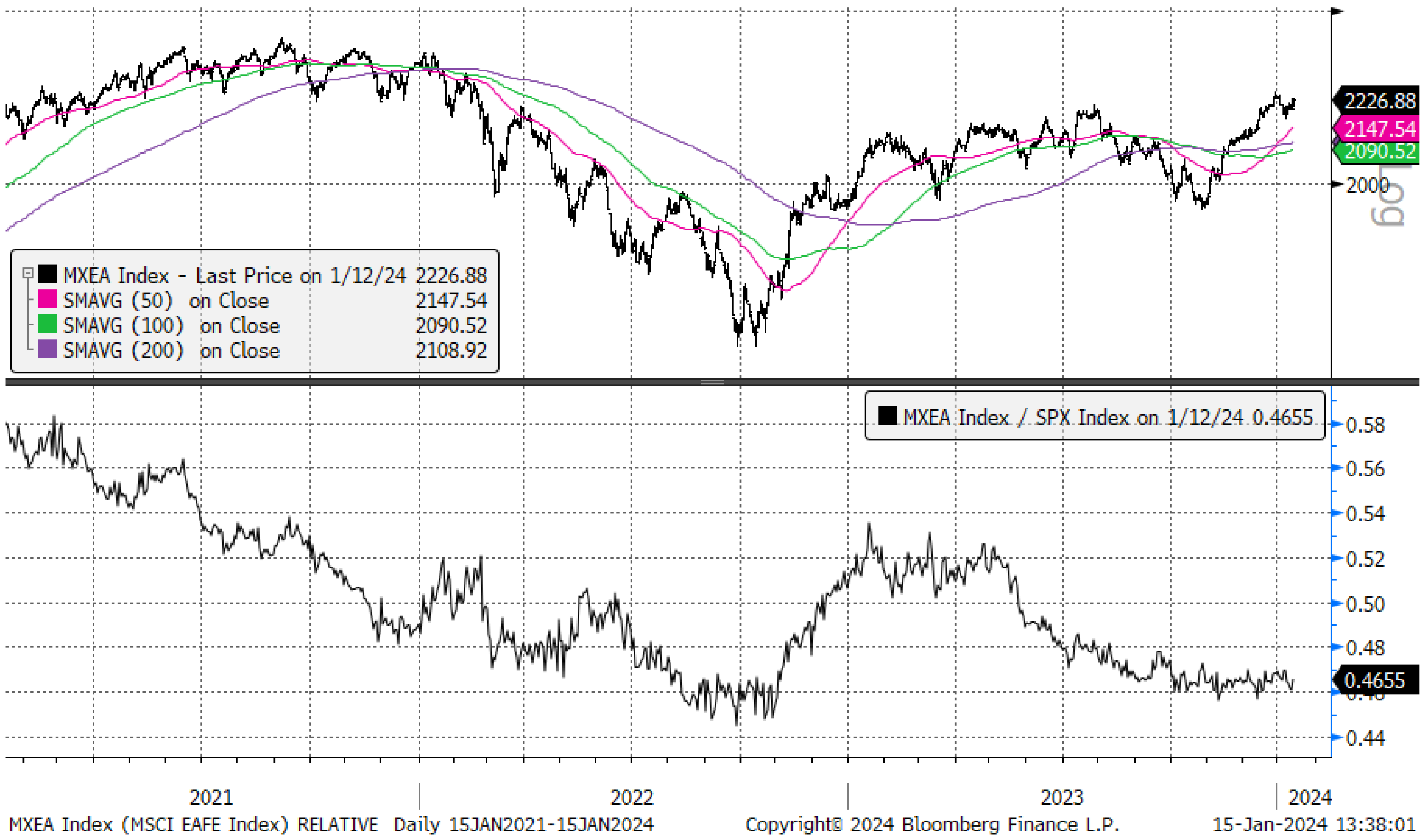
EAFE International Developed vs. S&P 500 and DXY Inverted



Source: NewEdge Wealth, Macrobond, Bloomberg
Data as of 1/16/24

Portfolio Positioning: International

MSCI International Developed (MXEA) Absolute (top) and Relative to S&P 500 (bottom)



International Developed

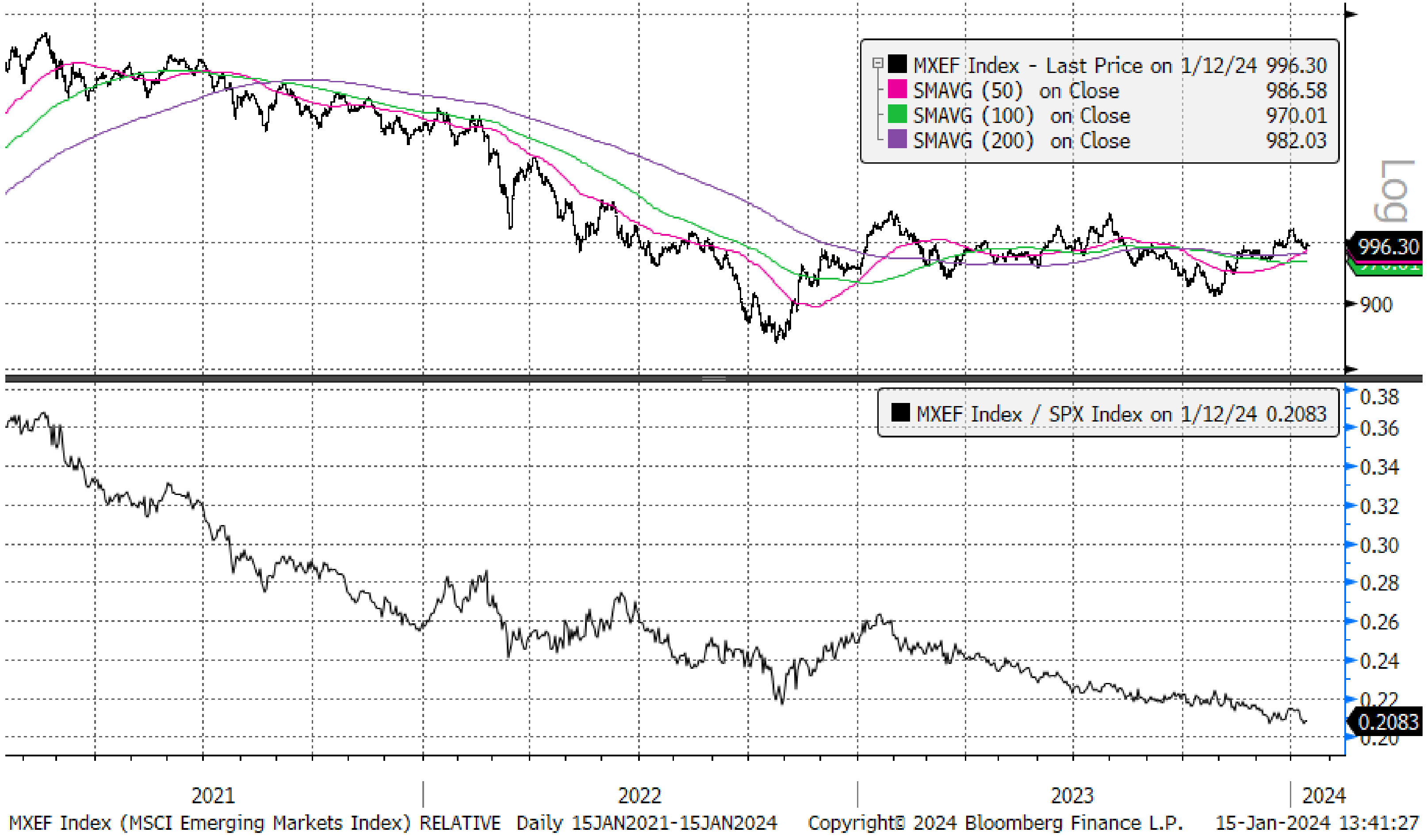
International Developed is looking stronger on an absolute basis, testing the highest level in over a year (notably further from its 2021 high compared to the U.S.).

Note the relative downtrend/weak relative performance that still persists.

Within International Developed, Japanese equities are trading far stronger than European equities.

Portfolio Positioning: International

MSCI Emerging Markets (MXEF) Absolute (top) and Relative to S&P 500 (bottom)



Emerging Markets

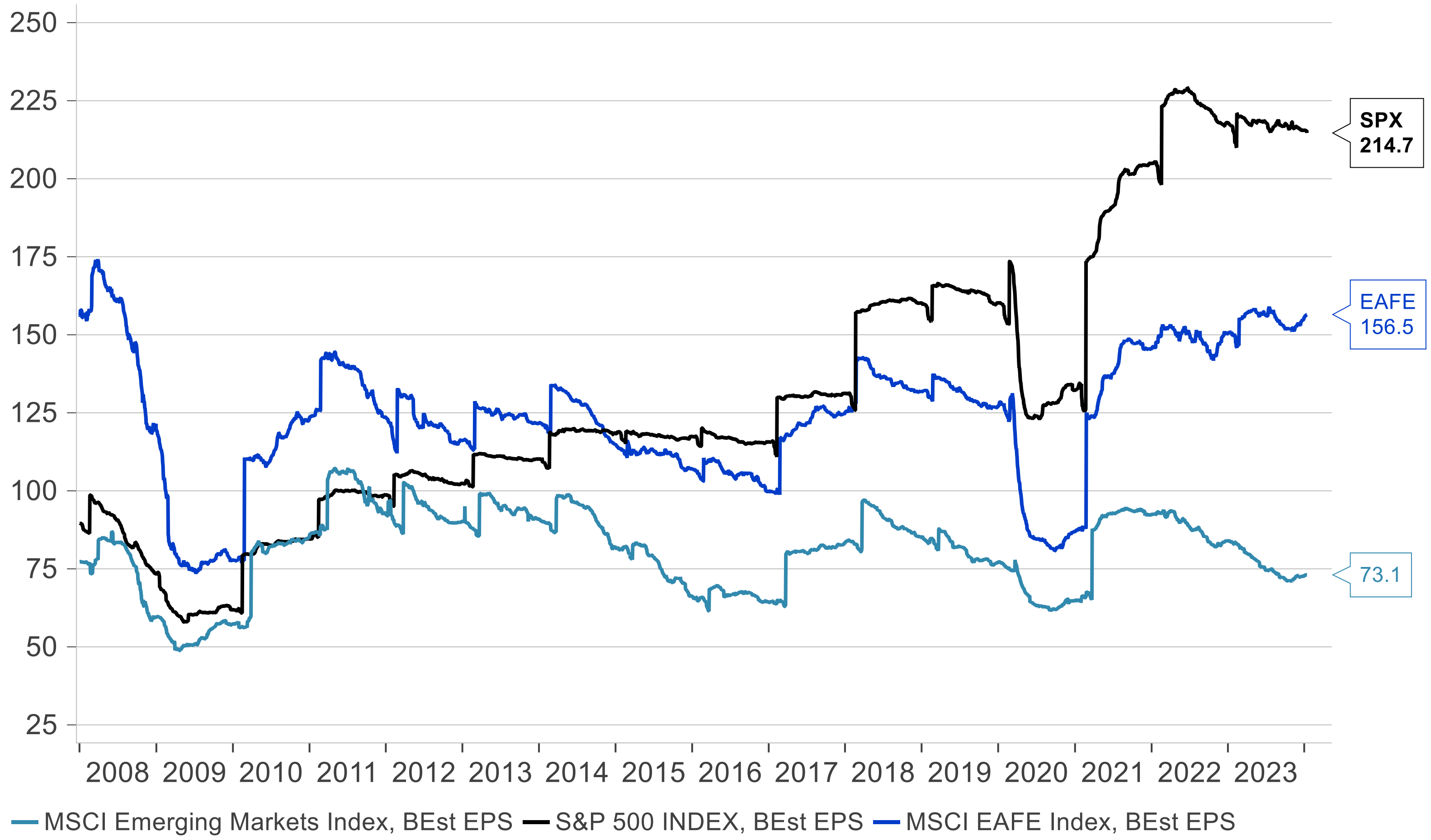
The Emerging Markets remain in a distinct downtrend vs. the S&P 500, with little improvement in the absolute chart as well (a nascent “golden cross” with the 50-day crossing above the 200-day moving average is notable but was also a false signal in 2023).

China continues to be a huge drag on the EM index, as it remains in a downtrend and is nearing its 2022 lows. China has been a falling knife, alluring for contrarian “so bad it’s good” investors but remaining weak.

On the other hand, Latin America has traded stronger recently, benefitting from falling inflation and an end to the tightening cycle.

Portfolio Positioning: International

Earnings Per Share S&P 500 and EAFE International Developed



Source: NewEdge Wealth, Macrobond, Bloomberg

International Drivers

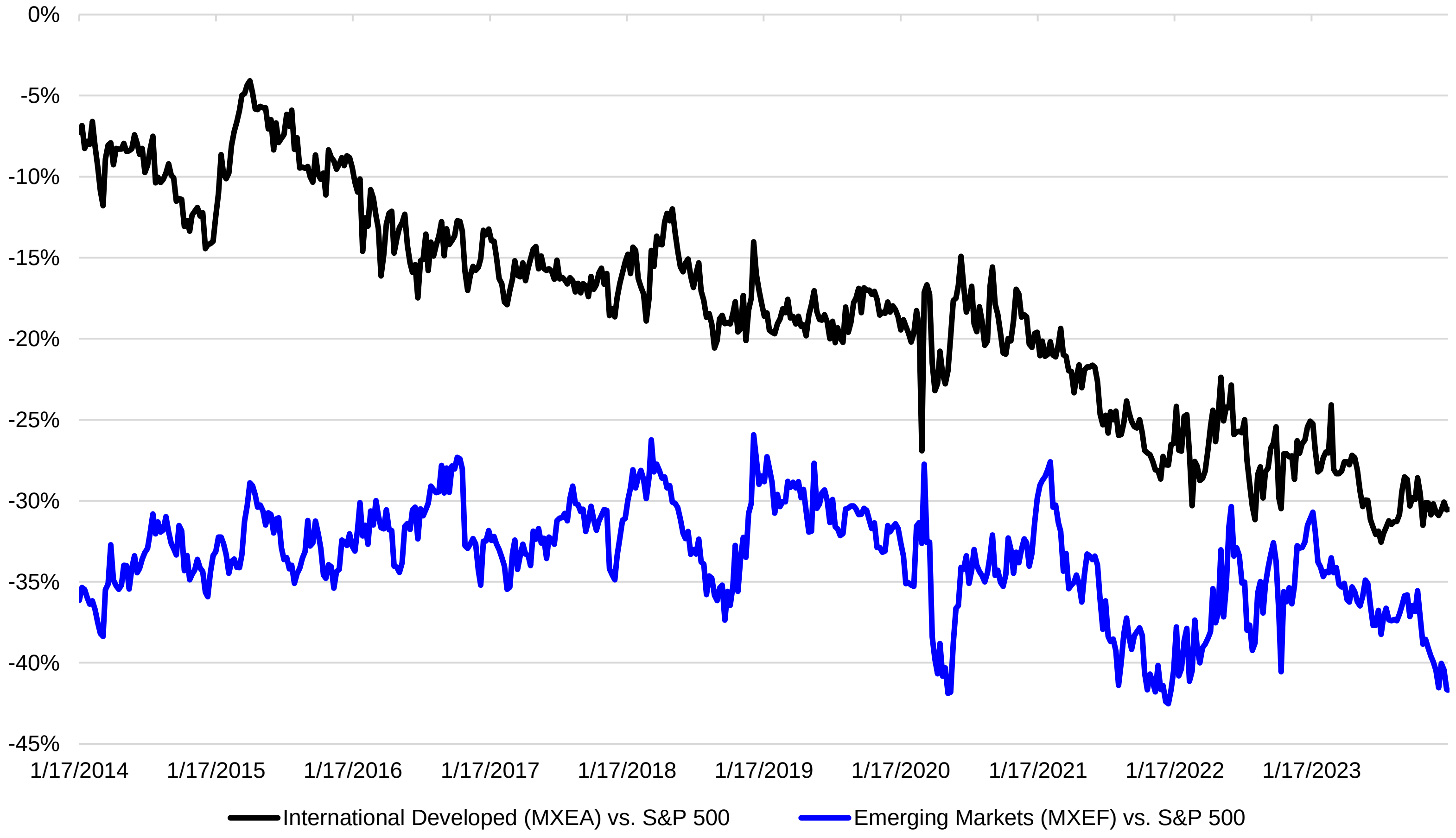
The Emerging Markets' weak stock performance is verified by the index's weak EPS trends. EM has seen EPS contraction since late 2021. Note signs of a nascent upturn in EM EPS, which could be an important factor for 2024 returns.

International Developed has had surprisingly resilient EPS trends in 2023, posting better growth than even the U.S.

Data as of 1/16/24

Portfolio Positioning: International

Discount of International Developed and Emerging Markets PE vs. S&P 500



International Drivers

Non-U.S. stocks have traded at perpetual and growing discounts vs. the U.S. since the start of the Great Financial Crisis (which was the peak of the ex-U.S. bubble that formed in the 2000s).

These large discounts have not been a catalyst for outperformance for non-U.S. shares over the last decade, highlighting how these indices have been a classic "value trap."

Today, International Developed trades at a 30% discount and Emerging trades at a 40% discount, both near-decade lows.

For these indices to re-rate vs. the U.S., we would likely need to see better EPS trends outside the U.S., a weaker USD, a growing appetite for non-U.S. assets (capital outflows from the U.S. possibly due to weak USD and/or underperformance of dominant U.S. stocks, similar to how the tech bubble bursting in 2000 led to capital outflows).

Source: NewEdge Wealth, Bloomberg; Data as of 1/16/24

Fixed Income

2024 Fixed Income Themes

- **Ranges to Dominate, Again:** For the 10Y and the 2Y, we see the potential for another year of wide ranges, where yields finish roughly where they started. Although inflation is falling, there remain risks for upside surprises (Suez supply disruptions and U.S. economic strength). The upper end of the range (5 - 5.25%) offers strategic duration extension opportunities ("by the dip"), whereas the lower end (3.4% - 3.5%) are tactical underweight duration positions.

- **Upping the Quality, but Cash Is Not Trash:** A late-cycle environment (low unemployment, higher interest rates) persisting for some time means that credit stress only slowly builds while yields can display erratic volatility when Fed expectations are reassessed. As the economy holds up, the Fed may stay higher for longer which qualifies cash equivalents (T-bills/short duration) not as "trash equivalents."

- **Fixed Income Selection:** While 2023 was dubbed as "buy everything," 2024 may play out differently. If the Fed follows market expectations for 6.5+ rate cuts, the economy will likely have weakened substantially, which means credit spreads would widen and riskier fixed-income (loans, structured credit, EM) and floating rate would lag. In this scenario, Treasuries, MBS, high-quality IG, and preferreds would outperform. Given the Fed is more likely to deliver between 2 to 3 cuts, credit still plays a role in portfolios, but more selectively.

- **Slow Distress Building in Credit:** Default rates have been historically low due to low rollover risk, sufficient liquidity, and ample demand for corporate credit issuance. But the Fed's tightening is feeding through bank lending, private credit, and rising defaults in High-Yield. The HY Index default rate has risen to 2% from sub 0.8% in 2022, while the implied default from CDS is 4%, and the spreads of weaker credits and low-rated HY would widen.

- **End of QT/Problematic Liquidity:** As Treasury issuance complicates demand-supply dynamics, primary dealers will be forced to take more Treasuries on their balance sheets, which can worsen liquidity. The buy-and-hold nature of fixed-income as institutions rush in to lock in higher yields could exacerbate illiquidity against the backdrop of an increased role of Commodity Trading Advisors in Treasury futures. The end of QT could be risk-on, but only if the Fed also cuts rates.

- **Investor Positioning:** Long-only investors likely maintain long positioning on the belief that inflation will return to pre-pandemic levels. But the futures markets will remain speculative on outcomes for the Fed and the economy, creating inherent instability subject to violent unwinds of "basis trades" and derivatives positioning in duration.

2024 Fixed Income Positioning – Our Risk Factor Preferences

Factors	Tactical View	Positioning Notes
Duration	**Overweight**	The Fed can lower rates if inflation gets closer to their target. Duration can be extended to 7Y – 20Y bonds, but we maintain an underweight to 30Y duration until Core CPI readings show inflation closer to 2-2.5%.
Curve	**Overweight**	The 2Y/10Y yield curve is likely to normalize to positive on rate cut pricing and a resilient economy. The curve will “bullish steepen” on cuts and “bearish steepen” on growth. The sweet spot on the curve is between 7Y and 10Y to capture the improvement of carry & roll down.
Credit Spread	**Neutral**	With 2Y – 5Y IG bonds trading at a 65 – 85bp spread to Treasuries while long duration credit spreads are sub-175bps, IG offers relatively low-risk premiums. High Yield spreads are moving below 300bps, which, when coinciding with a sub-15 VIX and equity markets near record highs, has historically been associated with the overvaluation of HY. We are neutral on IG and tactically look to reduce HY.
Sectors	**Neutral HY/Loans, overweight MBS, UST, Preferreds**	As the Fed likely reduces rates sometime this year, floating-rate fixed income is likely to lag. Neutral to slightly Overweight: loans, T-bills, and FRNs. That said, H1 2024 will continue to offer a high reinvestment return (5.35%) for T-bills/CP/money markets. We are overweight MBS, Treasuries (7-20Y), and preferreds for duration.
Outside Index	**Overweight EM**	In a generally weaker dollar environment, Emerging Markets tend to outperform. EM bonds continue to offer attractively higher 7% – 12% yields as other central banks are cutting faster than the Fed, and inflation in Emerging Markets continues to moderate on currency strength and the avoidance of recessions.

2024 Fixed Income Outlook

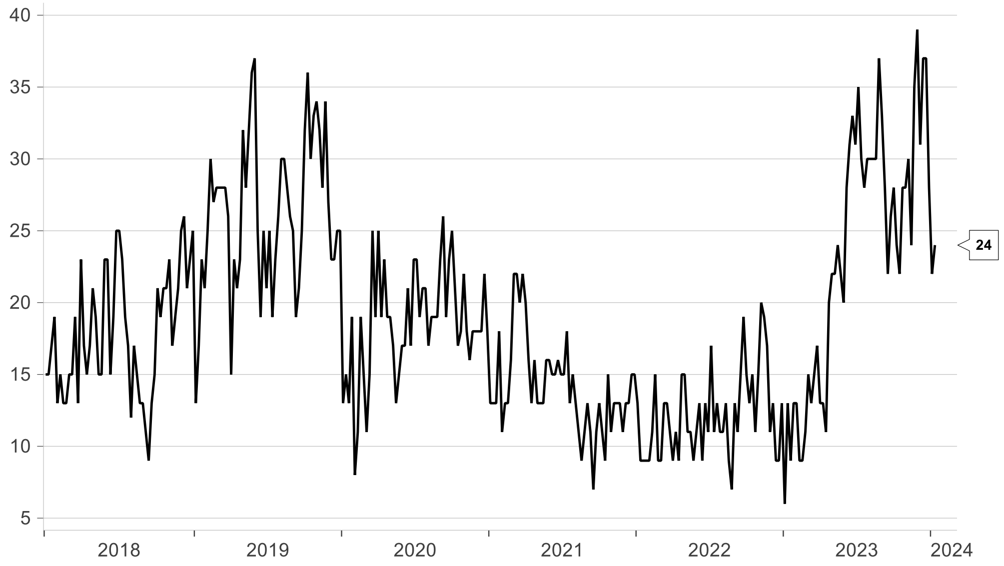
Factors That Will Drive Bonds in 2024

- **Fed expectations**: With more than six rate cuts prices in, bond markets hold a high conviction that the Fed won the inflation battle and can begin to quickly lower rates. The Fed is pushing back, warning that the strength of the economy may once again push up prices. The “push-pull” between the Fed and markets set a trading range, and unless/until the economy goes into recession, this prevailing range offers elevated coupon returns and modest spread and duration returns.
- **Inflation**: Bond markets have priced inflation expectations to perfection, predicting 2% inflation by the end of 2024. However, there remains a risk of a “bear steepening” occurring in the yield curve, similar to what was experienced in the summer of 2023.
- **Liquidity**: The Fed has contemplated slowing the pace of QT. For specific markets – like Treasuries, Munis, MBS, and corporate bonds – structural illiquidity post-GFC means that the “end” of QT may not necessarily bring relief unless combined with rate cuts.
- **Positioning**: Distortions between futures and cash markets will continue to play a dominant role in the pricing of rate cut expectations, which in turn affect valuations across fixed income. The credit overweight could shift to Treasuries, MBS, and other sectors when faster rate cuts do eventually follow.
- **Issuance**: Treasury issuance will remain large-scale. IG and HY bond issuance by corporations is expected to increase by $250 billion. Supply indigestion will continue to challenge duration positioning.

10 Year Treasury Yield and Citi Economic Surprise Index

Source: NewEdge Wealth, Macrobond, Bloomberg

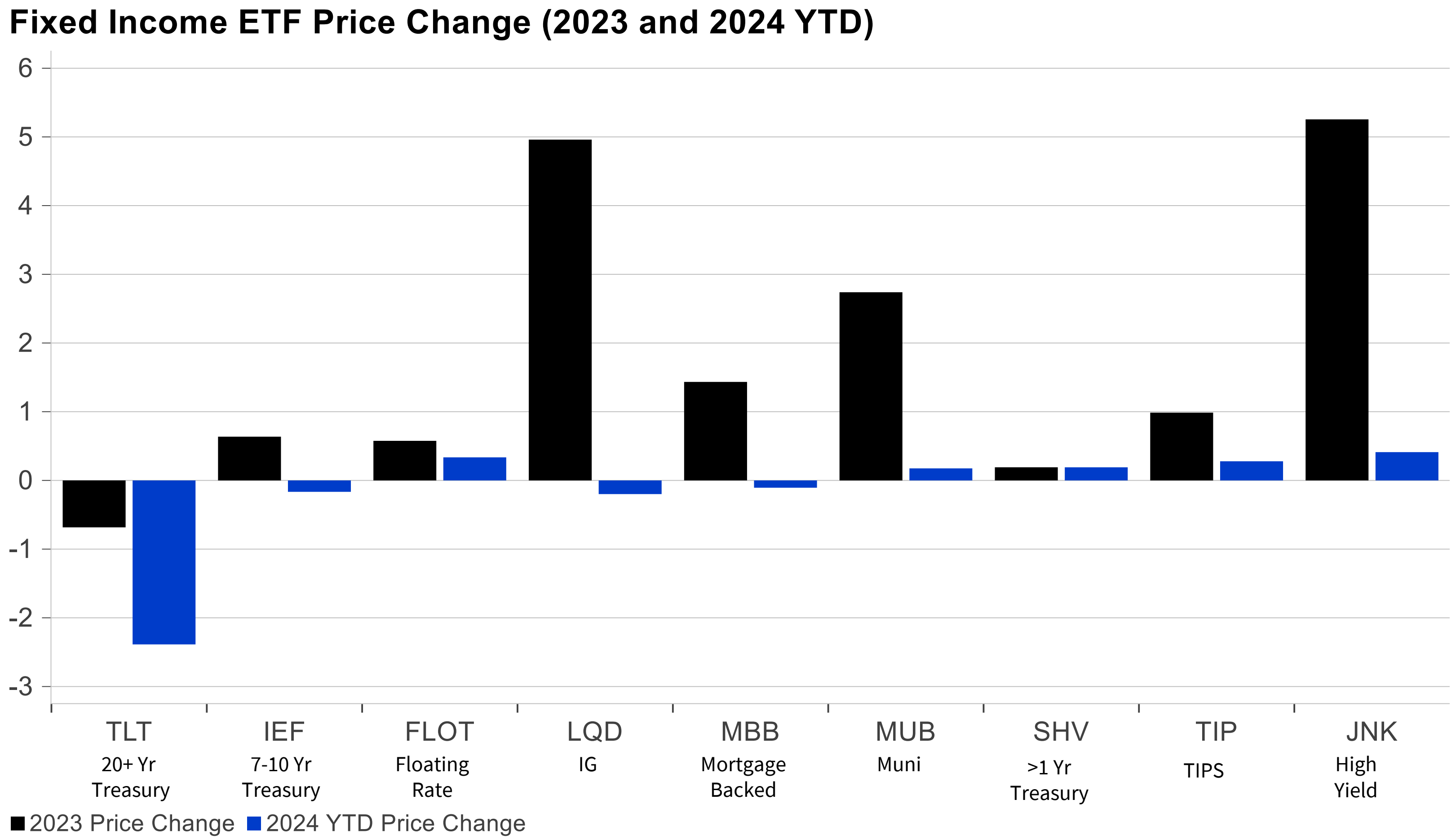
U.S. JP Morgan Treasury Investor Sentiment All Client Long



Source: NewEdge Wealth, Macrobond, Bloomberg

Source: NewEdge Wealth, Bloomberg; Data as of 1/16/24

Better Performance in 2023 but 2024 Challenged?



Source: NewEdge Wealth, Macrobond, Bloomberg

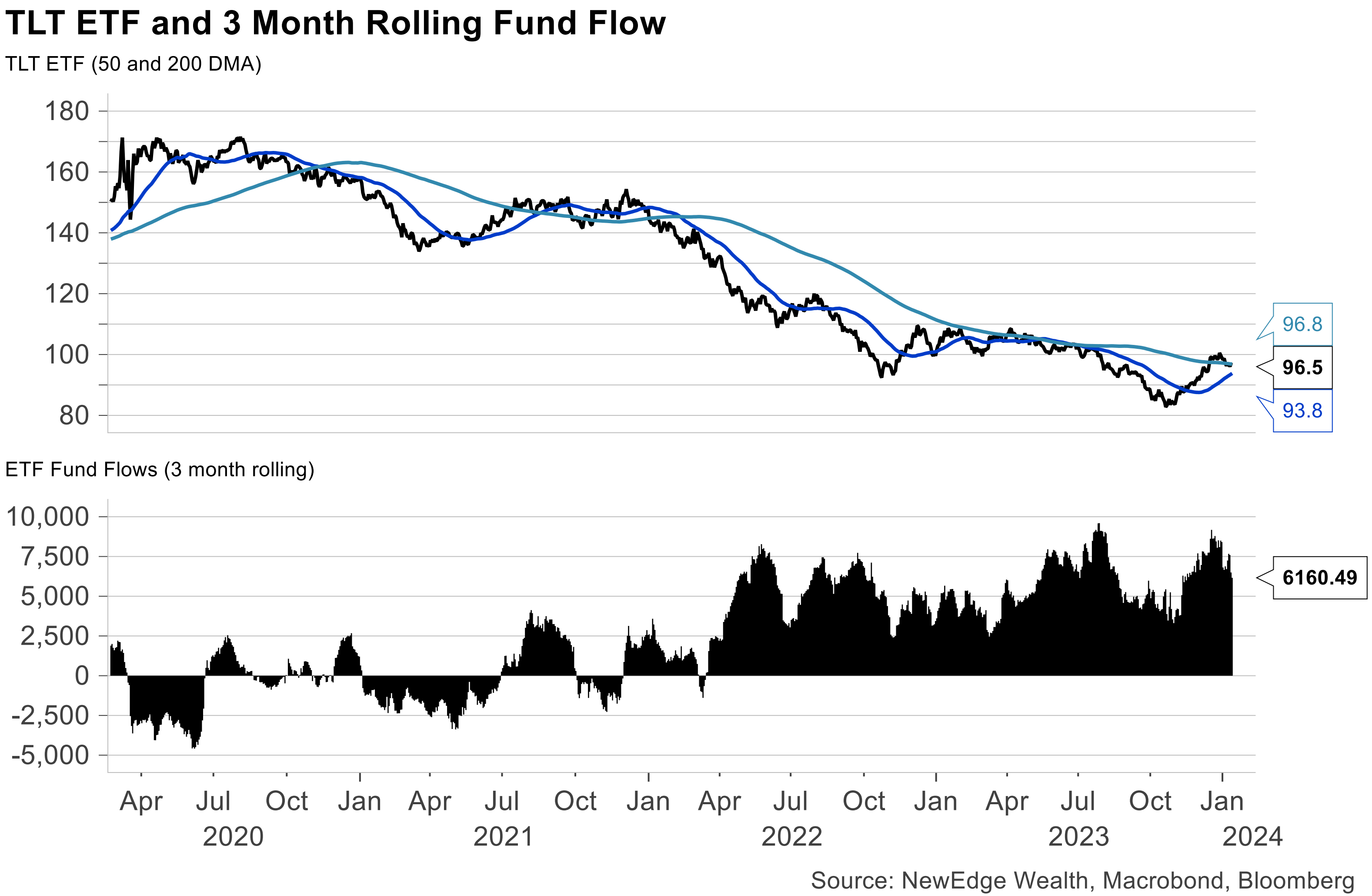
As of1/16/24

Bonds are off to a sluggish start to 2024, as price gains for this year are expected to be lower than in 2023 due to lower starting yields for many bonds.

For portfolio management, a tactical range trading strategy is appropriate to manage duration in a politically and economically uncertain year.

The extension of duration should be diversified between intermediate to 10Y-20Y Treasuries, intermediate, high-quality investment grade bonds, and emerging market bonds.

Investor Bet on Lower Yields Ahead

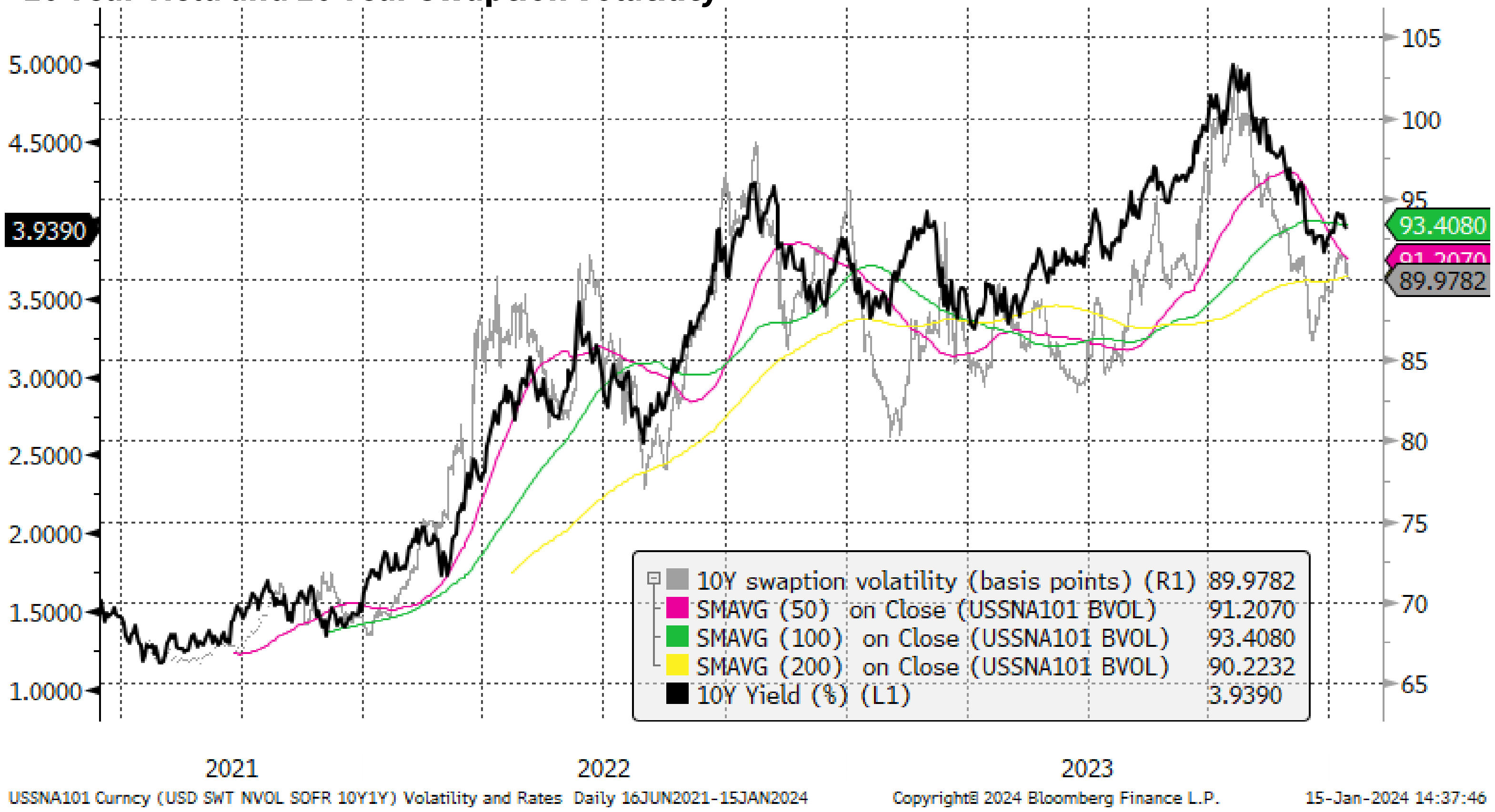


As of 1/10/24

Flows into long-dated Treasury ETFs were robust all through 2022 and 2023, as investors continuously tried to pick the top in yields and the bottom in price for ETFs like TLT.

Continue to Expect Yields to Follow Volatility

10 Year Yield and 10 Year Swaption Volatility



Source: Bloomberg, NewEdge Wealth

As of 1/15/24

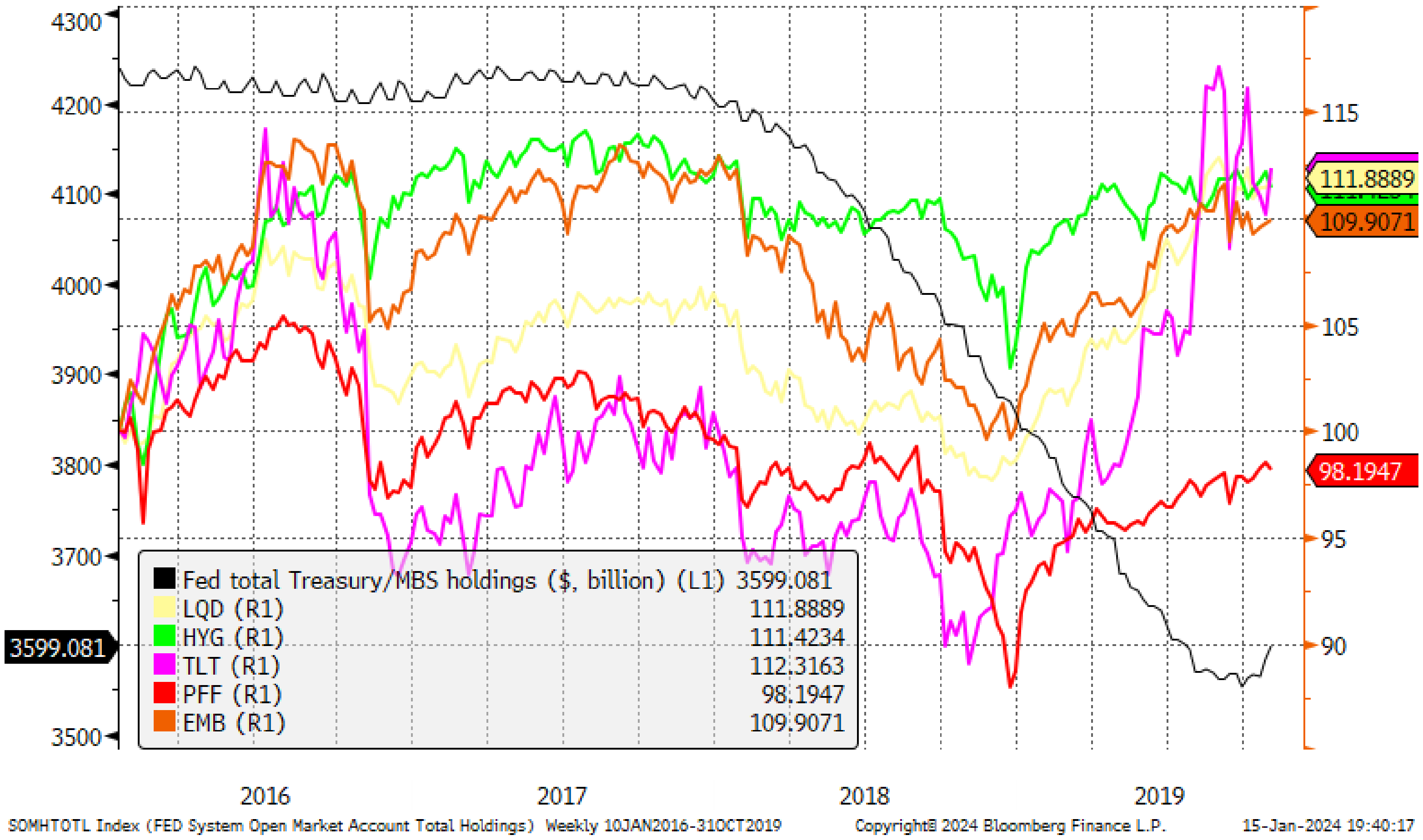
The strength of the economy, large-scale fiscal issuance, and the Fed remaining restrictive until at least mid-2024 will likely keep the upward pressure on Treasury yields in the first half of 2024.

The term premium is negative, the yield curve remains inverted, and interest rate volatility is high while positioning by leveraged funds is net short.

These are technical reasons for the direction of the 10Y yield to be driven by recurring bouts of volatility.

“End” of QT: What Performs and Not In Fixed-Income

Fixed Income Performance Following the End of QT in 2019



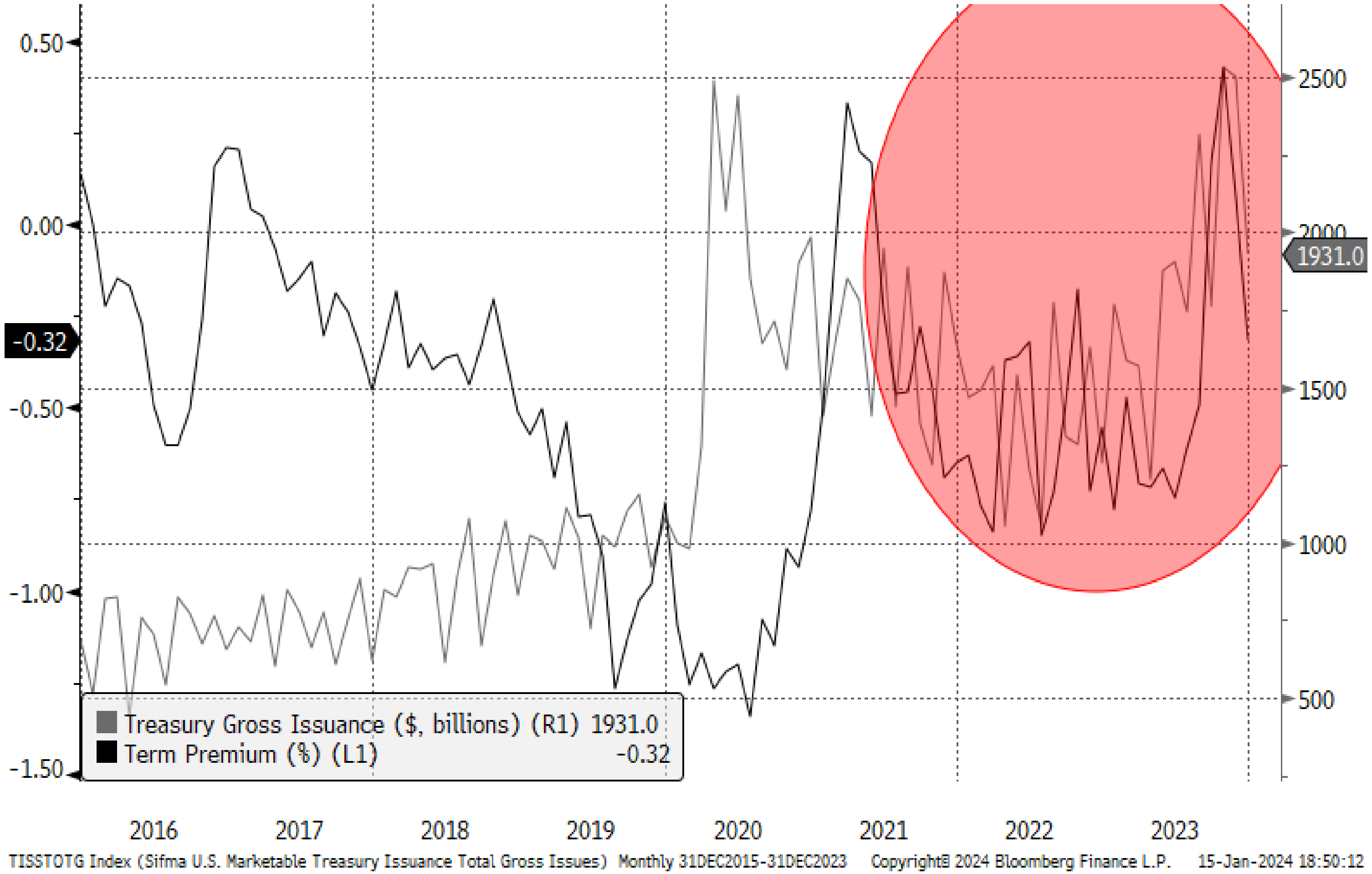
Source: Bloomberg, NewEdge Wealth

As of 1/15/24

There are increasing ‘signals’ that the Fed is getting closer to slowing down to eventually end QT. It could be a risk-on event for markets, especially fixed-income. When the Fed slowed down QT (by Q2 2019), credit, EM, and longer-term Treasuries outperformed. This happened, however, coincidingly with the Fed cutting rates.

Term Premium and Treasury Issuance

Treasury Term Premium and Treasury Gross Issuance



Source: Bloomberg, NewEdge Wealth

As of 1/15/24

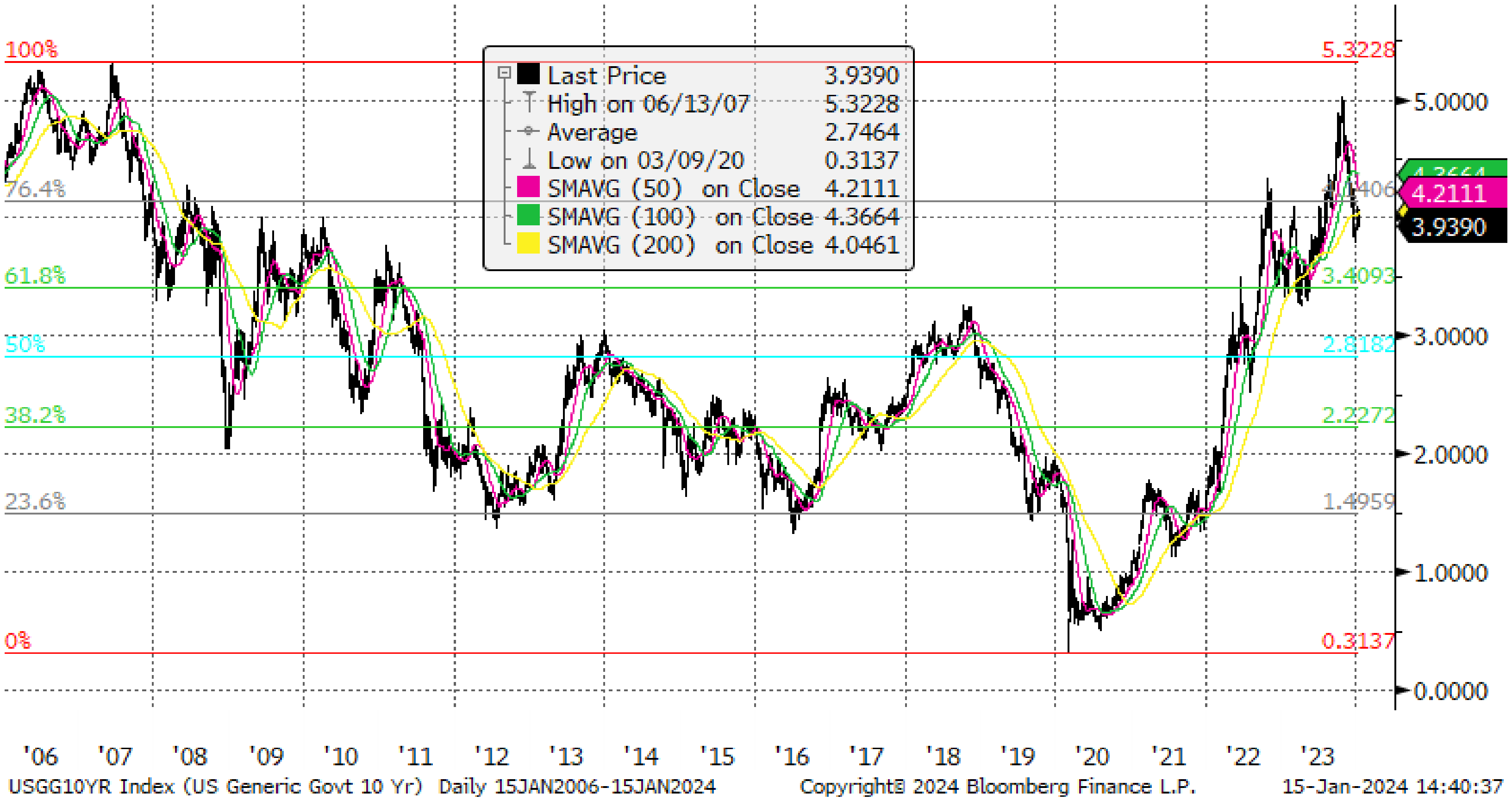
The term premium, which is the extra yield investors demand for holding longer-dated paper, has been closely correlated with the gross issuance of Treasuries since 2020.

The large deficits required to manage the economic fallout from the pandemic will not decline unless Congress cuts spending drastically. In an election year, that is unlikely to happen.

While rate cut expectations have put the "fiscal risk" on the back burner, large issuance that must be skewed to longer maturities to control the debt can push the term premium higher once again.

10Y Range: 3.4% to 5%

10 Year Treasury Yield



Source: Bloomberg, NewEdge Wealth

As of 1/15/24

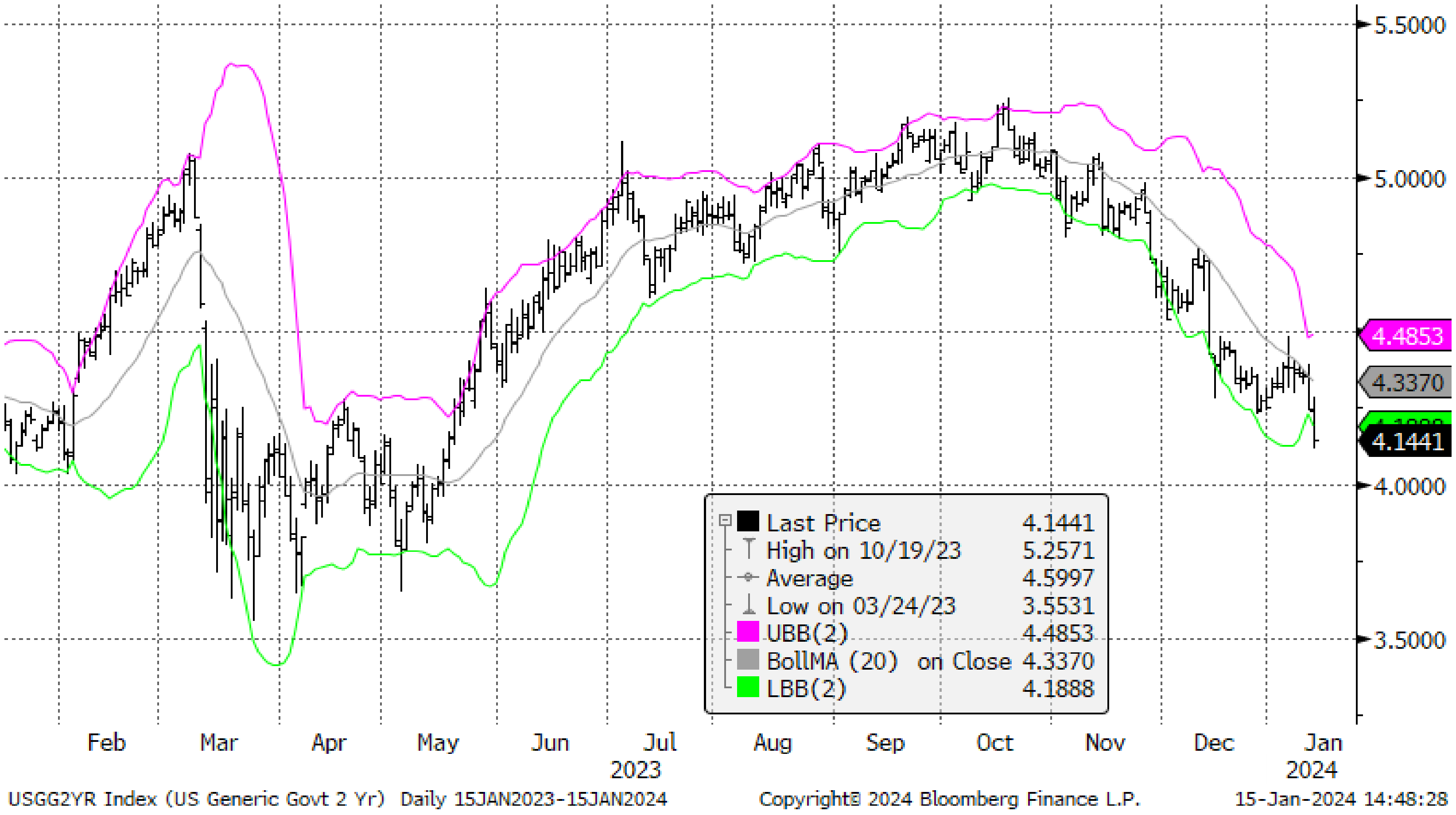
The 10Y yield could traded at the higher end of the 3.4% to 5% range in the first half of 2024 on improving growth data and increased Treasury coupon issuance.

A full retracement to the 2007 highs of 5.32% is still *possible*, provided the 61.8% retracement at 3.40% holds as support.

An interim decline from 3.65% to 3.4% cannot be excluded if the next CPI and payroll data continue to soften, which can fuel speculation of an early cut in March that may lead to a second Fed pivot to front-loaded cuts.

2Y Range: 3.5% to 5.25%

2 Year Treasury Yield



Source: Bloomberg, NewEdge Wealth

As of 1/15/24

The 2Y yield is likely to drift closer to 4% as markets attempt to price in the first "full" phase of the easing cycle.

Yet, the Fed is less eager to cut soon and quickly unless (super) core inflation eases faster or if economic growth weakens.

Short-term Treasuries may have to recalibrate the Fed's restrictive stance when the economy shows further signs of resilient strength, which could drive up yields towards 5%.

2024 Credit Outlook

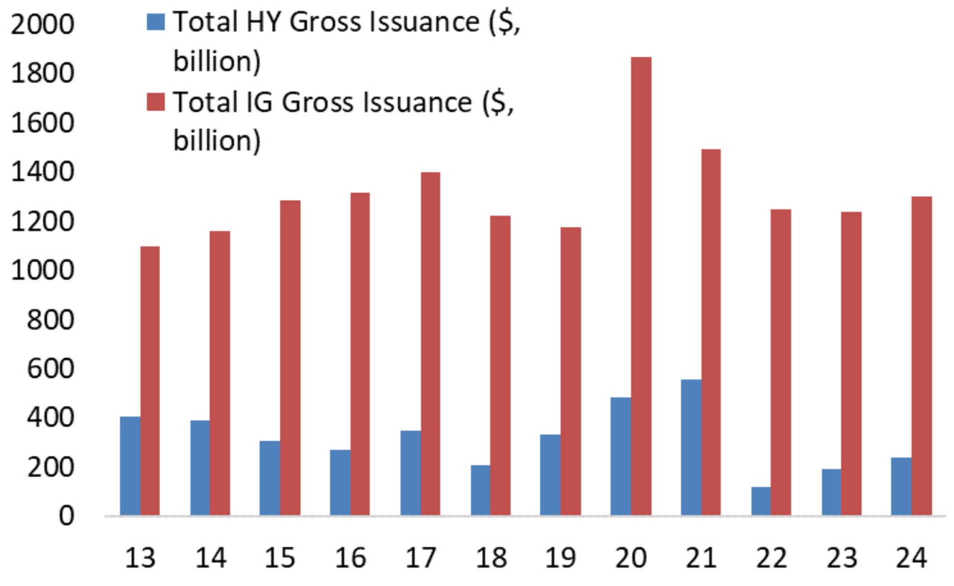
Key Points

Issuance

- High-yield corporate new issuance may reach $250 billion in 2024 should the current narratives of the soft landing prevail.
- Investment grade new issuance in 2024 may come in at $1.3 trillion, owing to a more active maturity calendar.
- Issuance is concentrated in A and BBB-rated categories for a total of over $1.2 trillion in IG. In High Yield, there is a $30 to $50 billion increase in B and BB-rated issuance. CCC issuance remains low at around $11 billion.

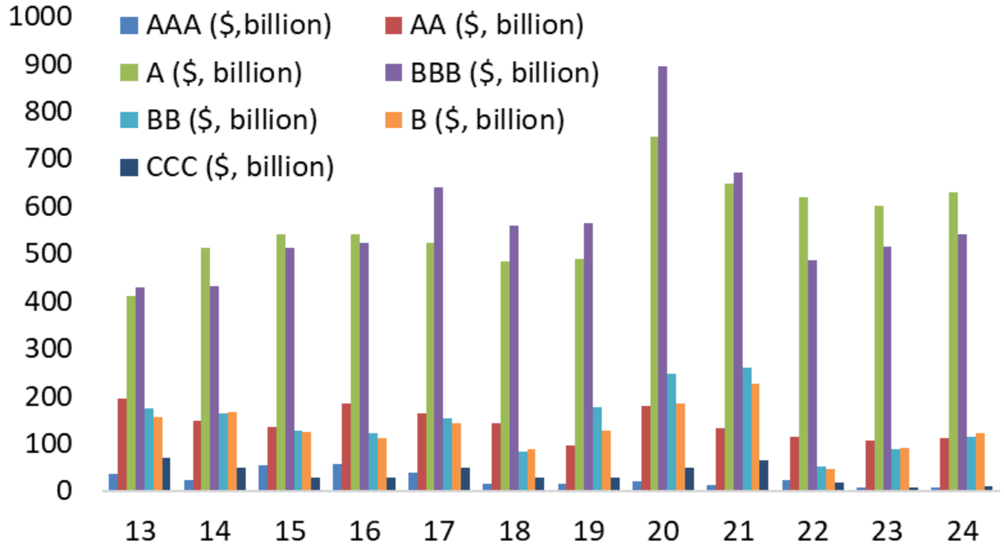
Defaults & Spreads

- IG default is expected to rise to 1-1.5% and HY to 2-2.5%. The implied default from CDS is 2.5% for IG and 4% for HY. The default outlook is benign, but distress is slowly on the rise.
- Upside Potential: issuance is well absorbed; moderate distress in HY attracts investor demand in a lower Treasury yield environment.
- Downside Risk: weaker economic growth than expected can push spreads 200 basis points wider and lead to a decline in HY primary issuance.
- HY starts in a near overvalued state compared to 2022-23. Yet, yields around 8% to 11% across BB to CCC can continue to attract interest via investors “chasing yields.”
- The weakest sectors, healthcare, communications, and technology, are also experiencing the largest rise in default rates and are in significant disinflation/deflation. These three sectors represent 34% of the HY index and pose a risk for further deterioration of credit more broadly.



Source: Bloomberg, NewEdge Wealth

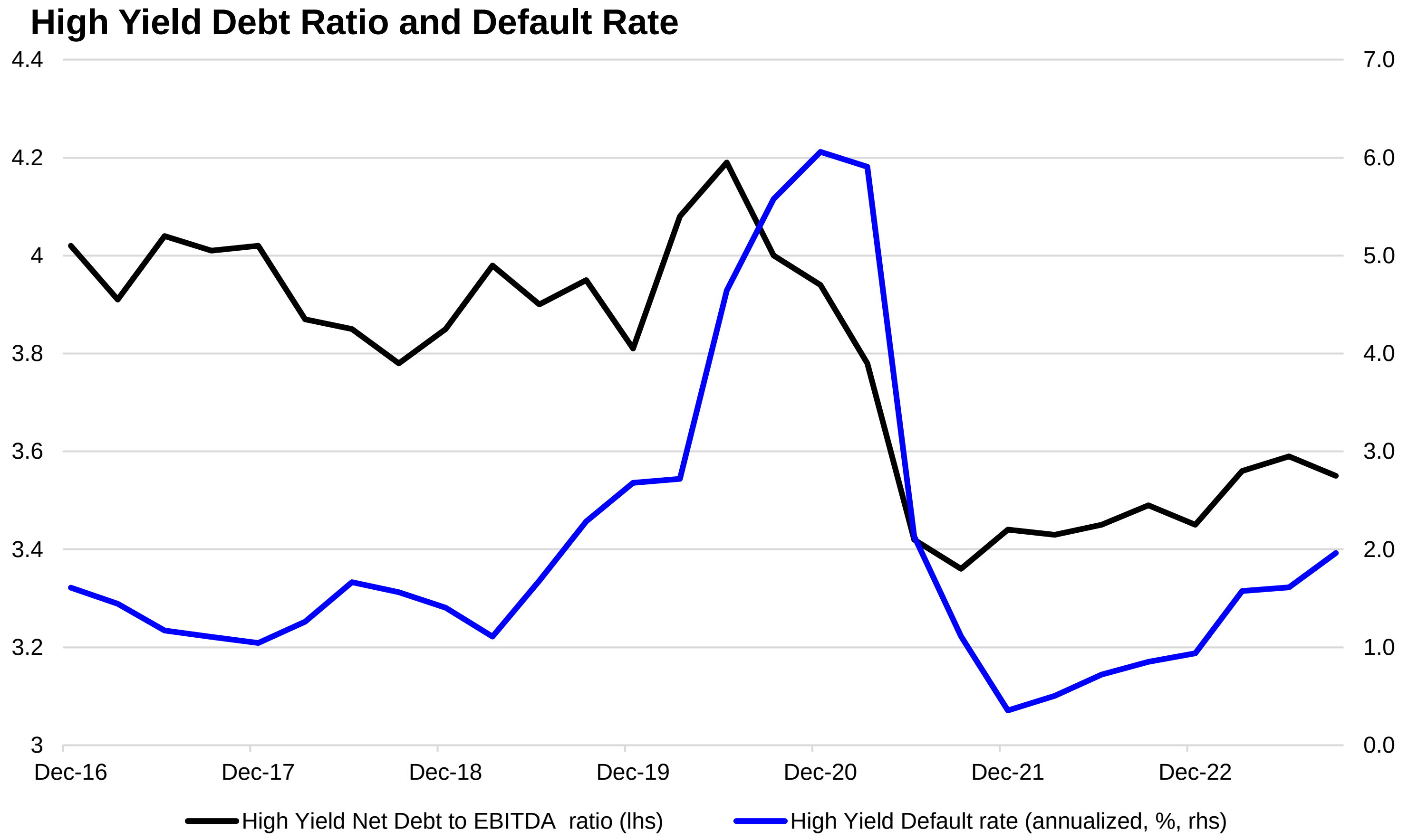
As of 1/15/24



Source: Bloomberg, NewEdge Wealth

As of 1/15/24

High Yield: Rising Mild Distress



Source: Moody's Barclays High Yield Index

As of 1/10/24

Downgrades are poised to outweigh upgrades again in 2024. 2023 saw more downgrades than upgrades due to higher interest rates pressuring company balance sheets.

Default and selective default actions could remain an elevated portion of total negative actions, and there is scope for the HY index default rate to climb toward 3- 3.25% from ~2% today.

In 2023, upgrades comprised only 40% of the year's total rating actions. This means that all three rating agencies downgraded more companies than they upgraded. In 2024, the projected downgrades could rise as delinquencies, bankruptcies, and defaults catch up with credit markets.

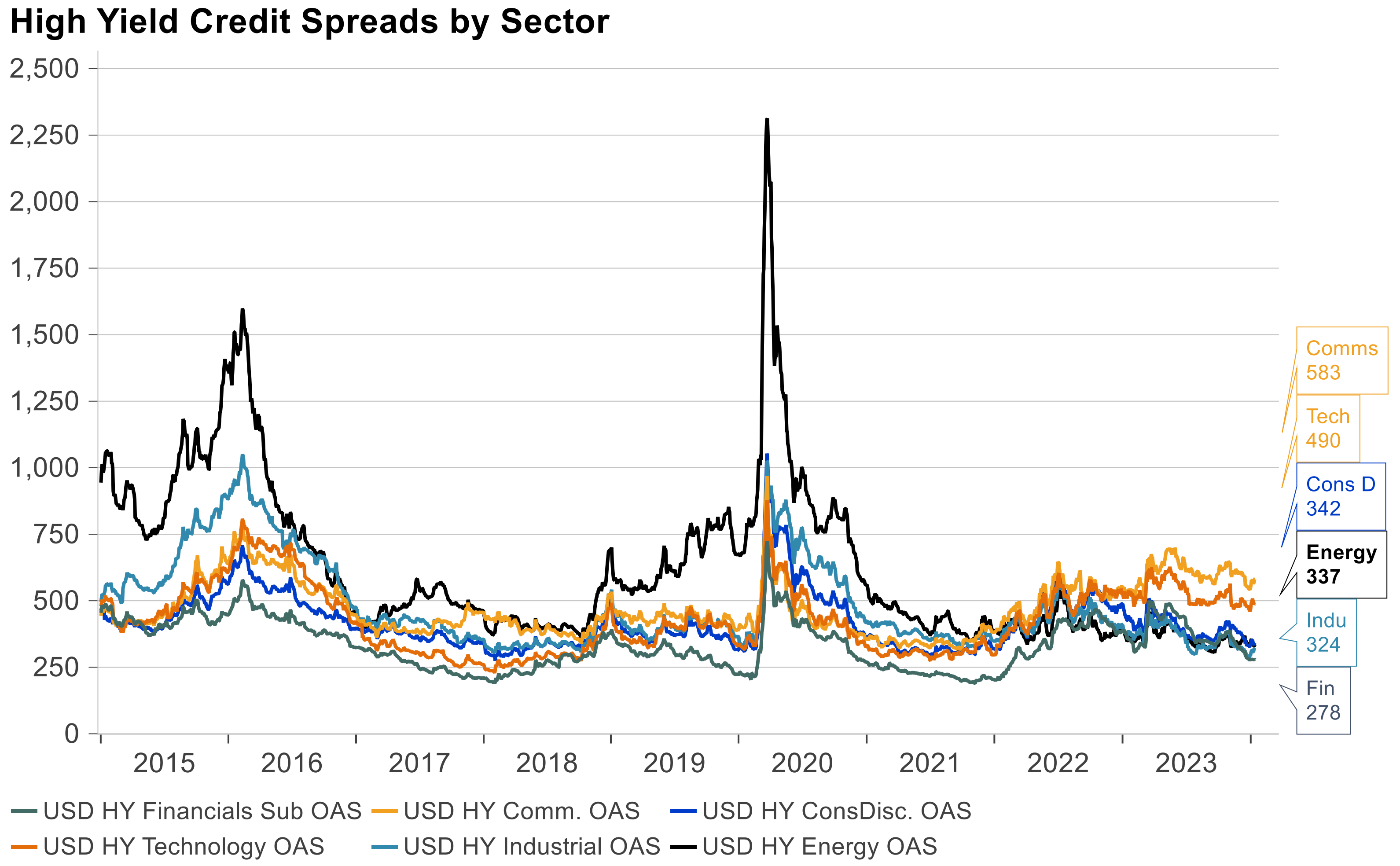
Credit Spreads Have Scope to Widen

As of 1/16/24

Our base case is for a moderately wider IG spread environment on larger issuance, a (bullish) steeper Treasury curve, and rising default rates. The higher end of the IG average spread is 200 basis points vs. the lower end at 110 basis points. A tighter spread would prevail if liquidity were to rise substantially.

The implied range for the High Yield Index option-adjusted spread (OAS) is 400 to 650 bps for year-end 2024 (signaling the potential for spreads to widen). The default rate and weak sectors like Healthcare can contribute to the widening of HY spreads. The risk-on sentiment in equities on rate cuts and a soft landing could push spreads temporarily below 300 basis points.

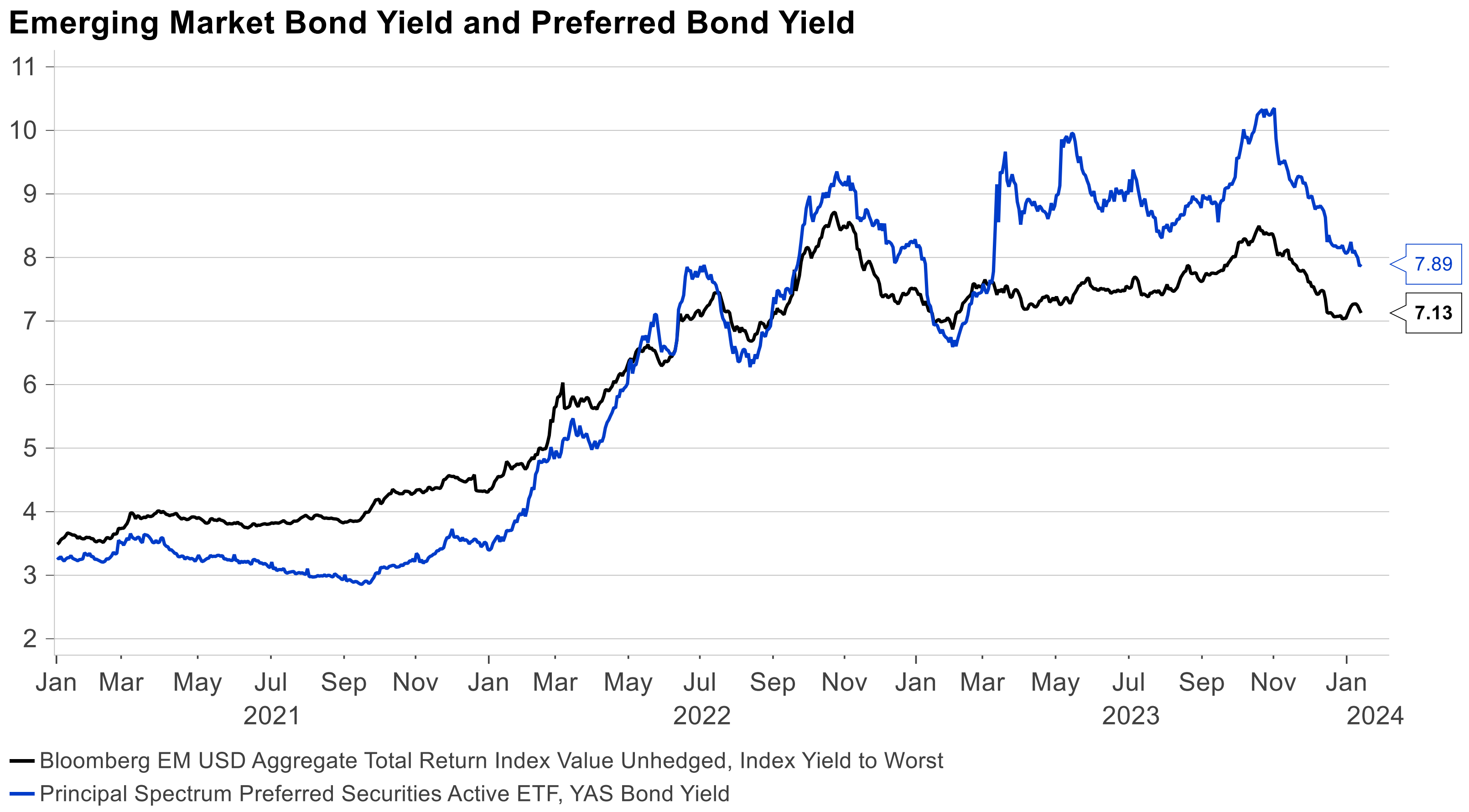
High Yield Sector Spreads: Energy and Consumer Discretionary Lead



Source: NewEdge Wealth, Macrobond, Bloomberg
As of 1/16/24

The energy sector (which remains one of the largest constituents of the HY index) is leading at 336 basis points despite sluggish oil prices. Capex discipline and lower leverage have driven improved performance.

Special Cases: Emerging Markets and Bank Preferreds



Source: NewEdge Wealth, Macrobond, Bloomberg

As of 1/16/24

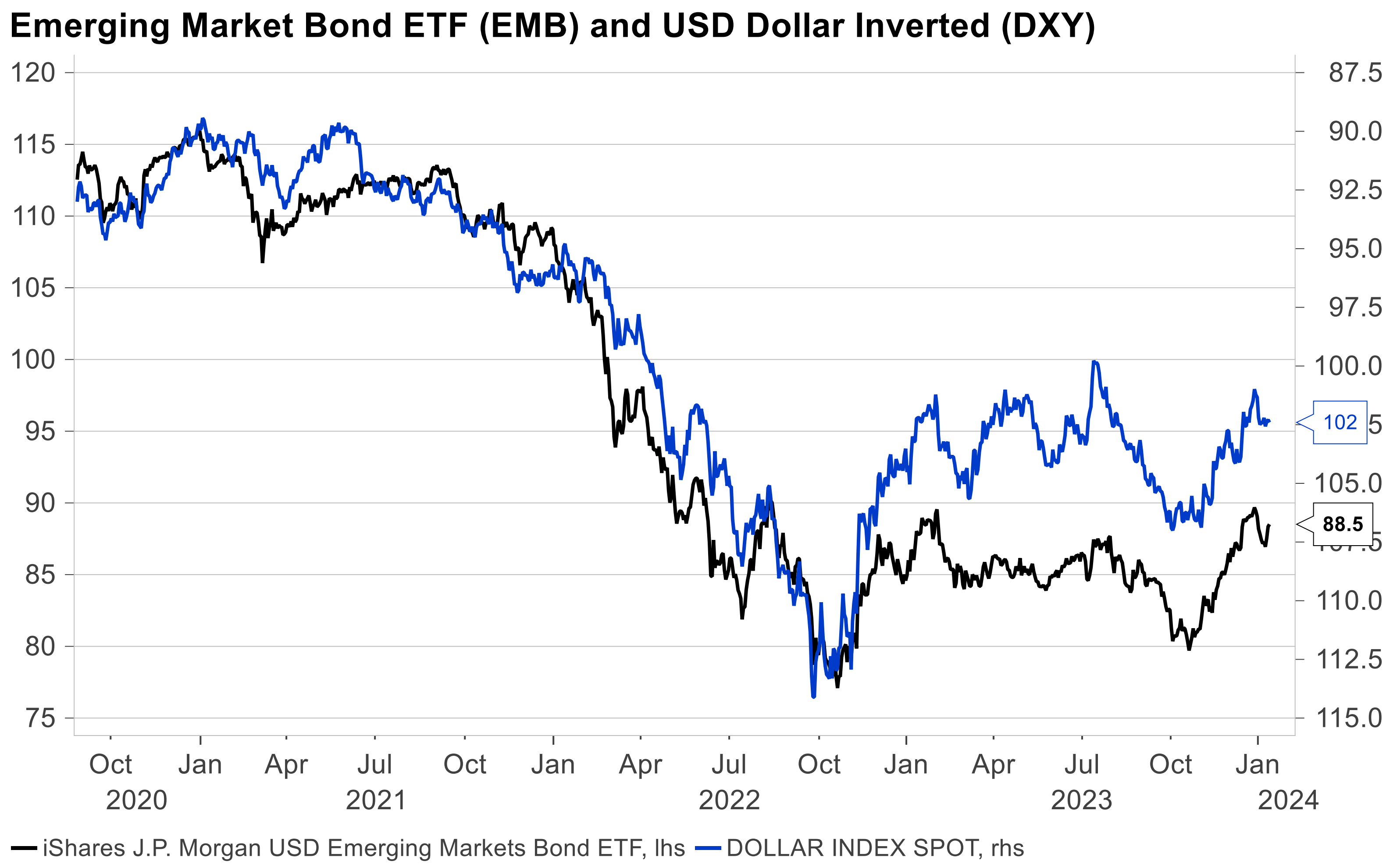
Starting in 2024, two fixed-income asset classes stand out.

Emerging Markets have interest rates that are much more restrictive than the U.S. and Europe. EM central banks have started to lower rates, while the U.S. and Europe may follow by H2 2024.

The weakness of the dollar that could follow an easier Fed, in addition to continued easing by EM central banks, would be supportive of local fixed income.

Bank preferreds are high-yielding as some level of stress remains within regional banks. Yet, with lower U.S. rates and ample deposits and capital, preferreds could offer attractive risk/reward.

Emerging Market Debt Linked to the USD Outlook



Source: NewEdge Wealth, Macrobond, Bloomberg

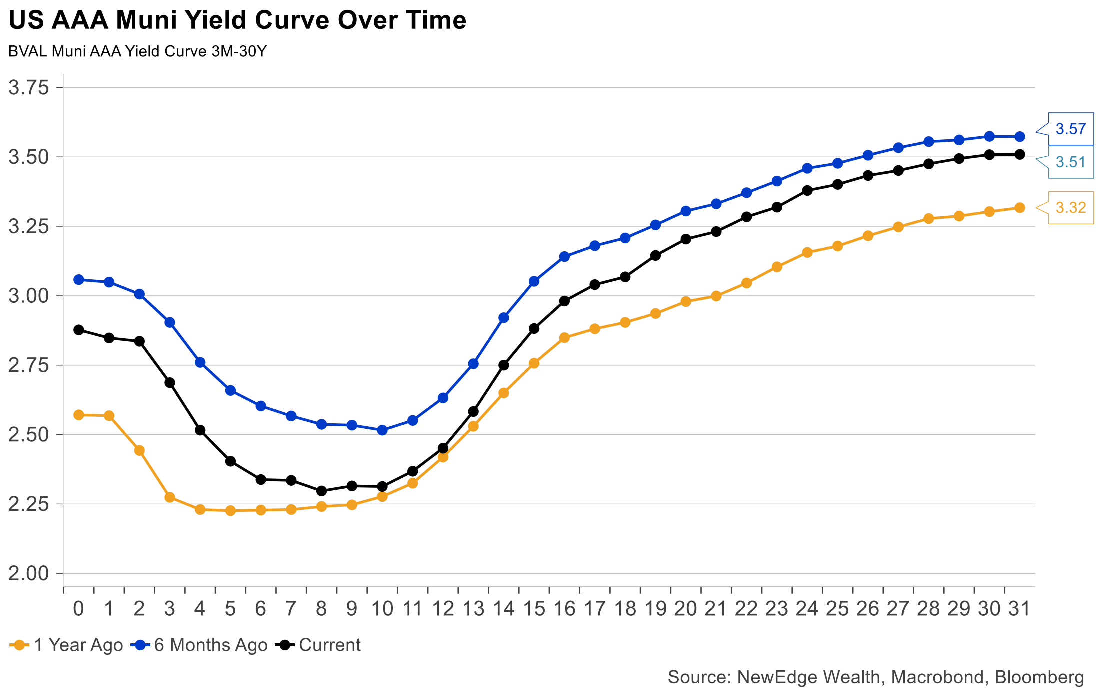
As of 1/16/24

The path of the USD must be considered when assessing EM debt, as the two have been closely inversely correlated.

2024 Muni Outlook

Key Points

- The municipal yield curve currently presents attractive opportunities. Target a barbell maturity structure to capitalize on high front-end and intermediate yields, which provides less rate risk and a potential for total return. Consider taxable alternatives if buying in 2-10 years.
- Investors will need to be alert to future rate volatility, especially with the market anticipating a major change in monetary policy followed by a fast-approaching national election. We believe investors will be rewarded by adhering to a “buy the dip” mentality when and if this occurs.
- Spread compression in munis was not a dominant theme in 2023 the way it was in 2021 (massive tightening) and 2022 (unwinding of historically tight spreads). In 2024, look opportunistically for A rated and BBB rated securities as spreads remain attractive.
- Demand will be supported by a healthy fundamental backdrop and historically attractive tax-equivalent yields while Supply/Demand dynamics should continue to improve.
- Although year-over-year growth of tax receipts slowed for parts of the country in 2023, tax collections are coming off a historic base in 2022 and moderating from the strong growth and stimulus since the pandemic. Municipal credit-rating upgrades significantly outpaced downgrades overall in 2023, and while we expect the positive momentum to continue into 2024, we believe this trajectory will slow somewhat going forward.



Data as of 1/16/24

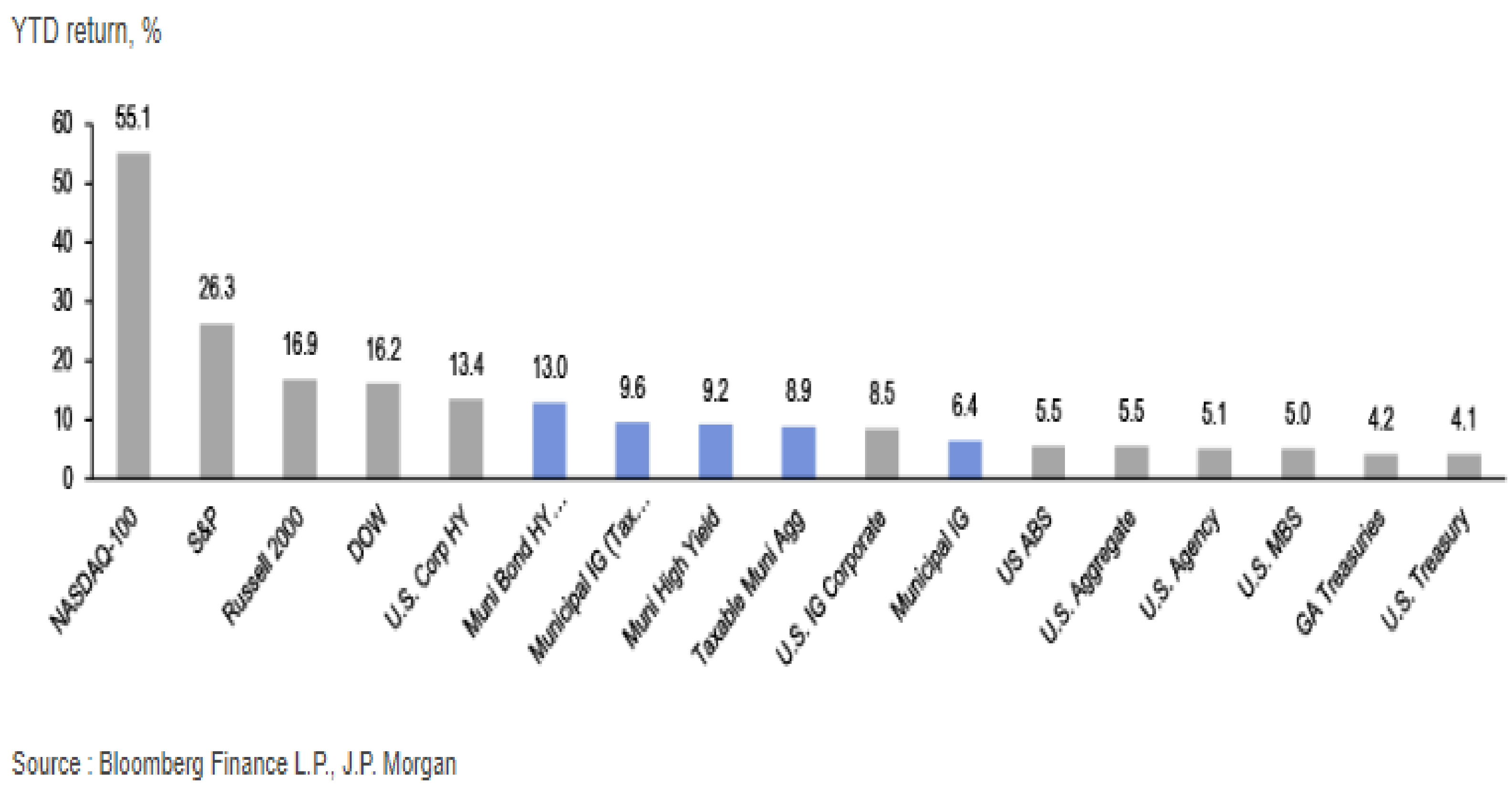
Municipal Bond Yields Remain Near Multi-Year Highs

Even after the significant rally at the end of 2023, the yield-to-worst of the Bloomberg Municipal Bond Index, is near levels not seen since the heights of the "Bernanke taper tantrum" in 2013 and the onset of the Pandemic in 1Q 2020.

Challenges in 2024 include currently rich muni market valuations, increased supply forecasts, volatile UST rates market, and dependency on improving technical conditions, such as higher flows into the asset class.

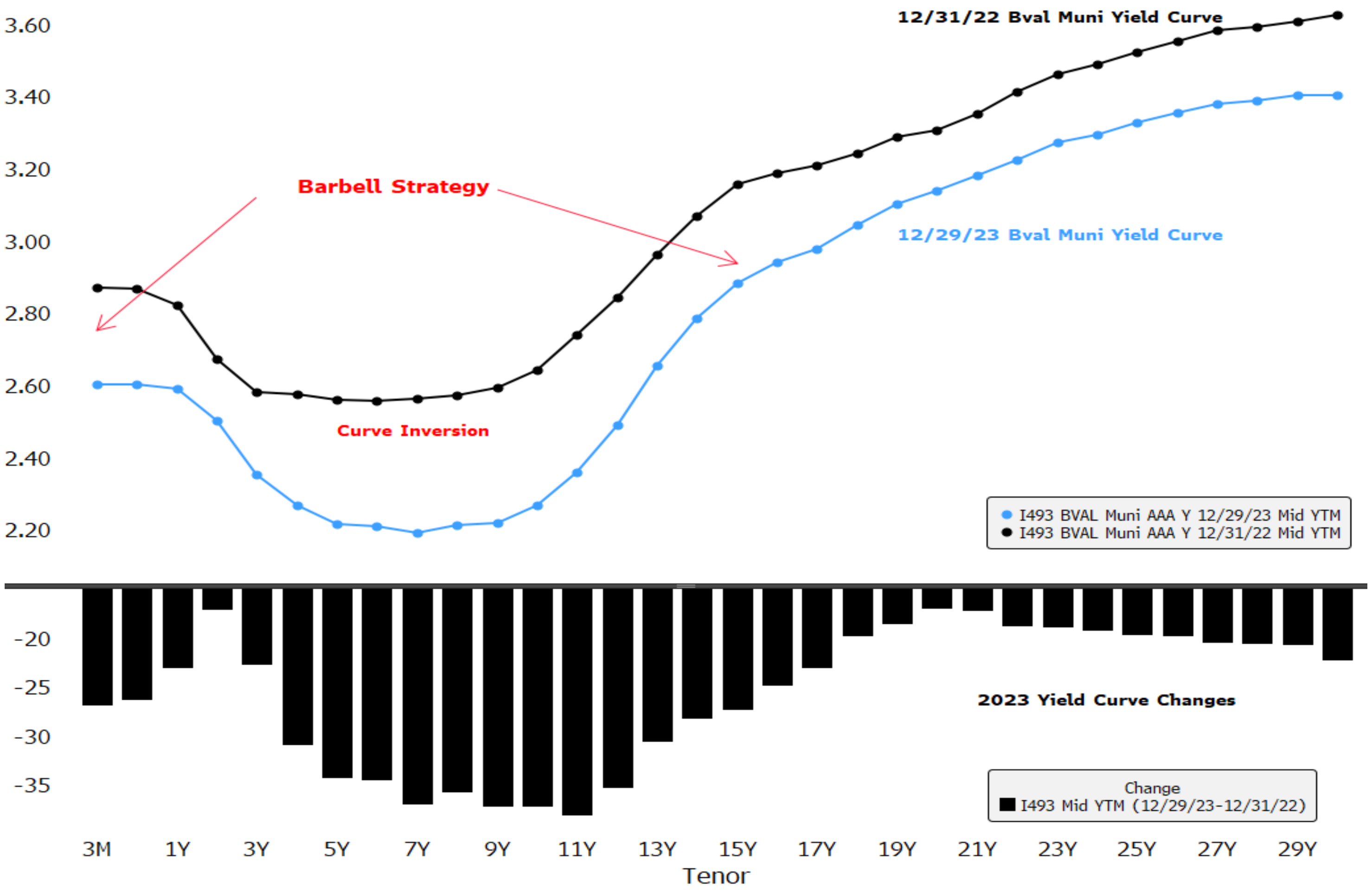
Source: NewEdge Wealth, Bloomberg; Data as of 1/16/24

In 2023, the return in IG Munis lagged major stock indices and IG Corporates but outperformed Treasuries



2023 saw munis outperform Treasuries but lag major stock indices as broad markets shifted to risk-on positioning.

Municipal Yield Curve Changes and Opportunities



As 2024 begins, the municipal yield curve presents attractive opportunities, especially for those considering barbell strategies that take advantage of the inversion of a portion of the front end and intermediate area, allowing investors to capture higher yields and total return potential with less rate risk.

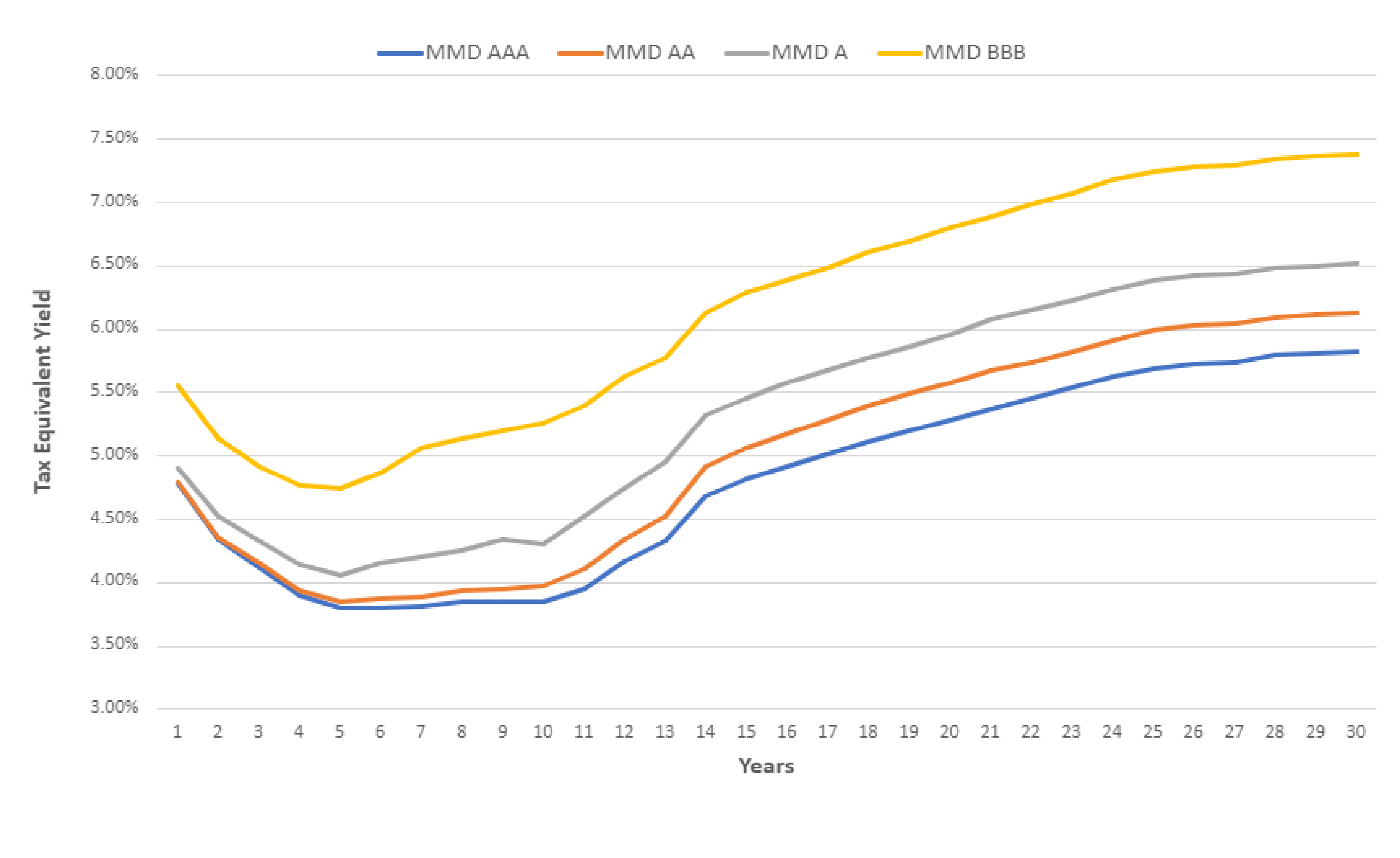
The 1-10 AAA slope will be decided more by the timing of the Fed easing cycle and how aggressive they are.

Positive U.S. economic fundamentals, including solid levels of tax receipts and strong rainy-day fund levels, coupled with the higher yields still available to investors, should be supportive for the market in 2024. Improving technical conditions, such as higher flows into municipal bond funds, may represent additional opportunities.

Source: NewEdge Wealth, Bloomberg; Data as of 1/16/24

Opportunities Beyond AAA

Muni Curves by Ratings as of 1/9/24



The municipal yield remains upward-sloping and offers attractive tax equivalent yields (TEY), especially when considering non-AAA securities. TEY yields for A rated municipals are 5.25%-6.00% in the intermediate area of the curve, while BBB yields are over 6.50% in 20 years.

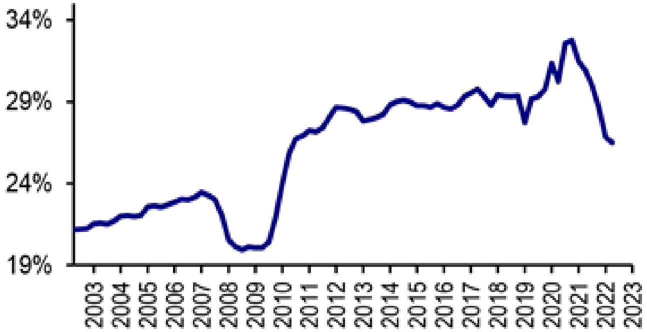
NewEdge WEALTH

Source: MMD REFINITIV, NewEdge Wealth. Data as of 1/9/24. Tax-equivalent yield assumes the top marginal tax bracket of 40.8% , which includes the 37% income tax rate and the 3.8% in Medicare tax.; Data as of 1/16/24

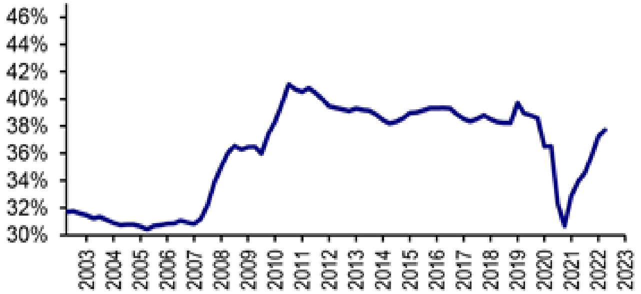
Credit Remains Stable

State & Local Tax Revenues – % of total tax revenues (data as of 9/30/23)

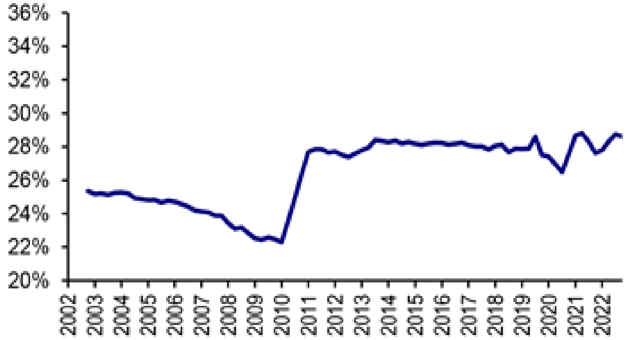
Income Tax



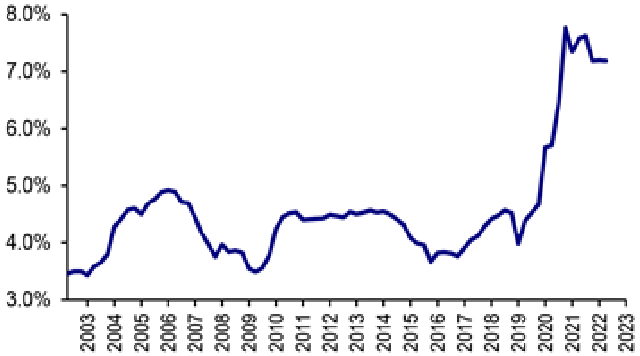
Property Tax



Sales Tax



Corporate Tax



Source: U.S. Census Bureau. Note: Seasonally adjusted data.

Source: JP Morgan, as of 9/30/23

The fundamental backdrop of the municipal market remains strong as we begin 2024. Over the last year, the record-setting growth in tax revenues and rainy-day balances has moderated, and municipal credit is returning to a more normalized environment.

Municipal tax receipts are still significantly above levels experienced prior to the COVID-19 pandemic, and we expect that these revenue streams will continue to come in at healthy levels over the next year.

We also anticipate spending growth to decelerate as many states move beyond the one-off expenditures of last year following the unprecedented fiscal stimulus during the pandemic.

Alternative Investments

Alternative Themes for 2024

- **OUR OVERALL SENTIMENT IS CAUTIOUS OPTIMISM**: We are cautiously optimistic throughout private markets as we believe dispersion across managers will continue to widen - manager selection and quality of returns will increasingly matter. Manager Selection matters.
- **THE COST OF CAPITAL MATTERS**: The elevated cost of capital will impact managers who utilize leverage to generate returns. Upper-market private equity funds will be affected disproportionately greater than the lower-market and middle-market funds that traditionally use less leverage and financial engineering.
- **BENEFITTING FROM FUNDRAISING DISRUPTION**: Fundraising will be more challenged as the IPO market and M&A activity have remained under pressure, thus preventing funds from making distributions decreasing the velocity of capital being put back to work. Secondaries have been the beneficiary of this increasing need for liquidity and we will continue to see opportunities across the LP Led and GP Led spaces.
- **NIMBLENESS IS REWARDED**: Investors with dry powder and fresh capital available in 2024 will be able to take advantage of investing in higher-quality assets at more attractive valuations and entry points.
- **AI/TECHNOLOGY CREATE OPPORTUNITIES**: The rapid pace of technological advancement and use of AI will continue to drive opportunities, particularly in sectors like healthcare, fintech, and green tech/decarbonization.
- **THESIS DRIVEN INFRASTRUCTURE:** Infrastructure has begun to emerge as an area of interest, exhibiting resilient cash flows as volatility and inflation have persisted. The acyclical nature of infrastructure assets may present further opportunities through continued market uncertainty. Clean energy infrastructure in particular, as well as electrification, are essential for a transition to decarbonize the economy and environment.
- **BIG TRENDS CREATE BIG OPPORTUNITIES**: With shifting demographics and an aging population, there will be greater opportunities in healthcare, particularly with technology, as well as in real estate as the need for senior living facilities continues to grow.
- **SELECTIVITY IN DEMOCRATIZATION**: Democratization of private markets – we are seeing more vehicles with increased liquidity and with lower investor qualifications as sponsors attempt to expand beyond institutional capital and access private wealth customers.
- **WATCHING REGULATIONS**: Regulatory changes and increasing compliance requirements are influencing market operations, particularly around reporting, transparency, and data privacy, affecting deal structuring and compliance costs.

The State of Private Markets – Asset Classes

Venture Equity

High-quality businesses are still getting funded.

Early-stage businesses are being pressed to focus on profitability.

Early-stage valuations have been resilient, but a reset is underway.

Opportunities in emerging technologies but wariness around the potential for bubbles to form (particularly around AI).

The Opportunity: Green shoots are beginning to emerge in venture, and we see opportunities to gain access to higher quality businesses at more attractive entry points with normalized valuations.

Private Equity

The cost of leverage and capital has risen dramatically, which pressures high leverage/financial engineering strategies,

Increasing focus on how return is generated at the company level,

As the exit environment has remained tight and return of capital has slowed, so has the pace of new commitments.

The Opportunity: We see more opportunities for quality growth across the lower middle market and middle market vs. the upper market, where financial engineering tends to be more prevalent.

Manager selection and quality of return generation matter more than ever as the dispersion between winners and losers widens. Managers focused on driving value creation through margin expansion, operational efficiency, and building a higher quality cap table to drive returns will prevail over those that lean on financial engineering.

Private Credit

A “golden age” for some (low defaults, high base rates), but risk management critical.

Structure as the arbiter of return (i.e., leverage).

Focus on underwriting track record, downside protection, and stress testing.

Market oversaturation risk and manager selection becoming more critical.

The Opportunity: As the elevated interest rate environment persists and syndicated loan markets remain effectively closed, we see greater long-term opportunity across private credit with a critical eye towards underwriting and downside protection particularly as new entrants flood the marketplace.

The State of Private Markets - Asset Classes

Secondaries

Pickup in secondary activity on both the LP Led and GP Led side.

Declining private equity valuations and LP desire to normalize the denominator effect will lead to greater discounts.

GPs need to begin to return capital to investors will increase supply of GP-led deals.

Liquidity solutions are being tested – NAV lending, carve-outs, hybrid facilities.

The Opportunity: We anticipate a pickup in secondary deals coming to market as LPs and GPs seek to generate liquidity for investors. Secondary funds will be able to take advantage of attractive pricing as valuations reset.

Growth Equity

Valuations are coming under pressure as the IPO window remains largely closed.

Green shoots of investments as valuations normalize and as exit opportunities ramp up (increased M&A activity and IPO window reopening).

Continued focused interest on profitable business models and countercyclical sectors.

The Opportunity: Opportunities will present if the IPO window continues to reopen and as M&A activity reaccelerates.

Private Real Estate

Office real estate market has already begun to show early signs of recession.

Most sectors have experienced near-record low vacancy & elevated rents (with the exception of commercial).

Multifamily has experienced demand growth as low supply and affordability of single-family homes has worsened.

Stress in the space overall has reduced new capital supply.

The Opportunity: Market dislocations may create attractive pockets of buying opportunity in the next 12-18 months. We will likely see openings, particularly in distressed spaces in 2024, such as office and commercial, which could cause contagion across the industry. The opportunity in triple net lease is growing as we are seeing large corporations evaluate how they want to capitalize their balance sheets.

2024 Outlook: Private Equity Buyout

The State of Private Equity Buyout

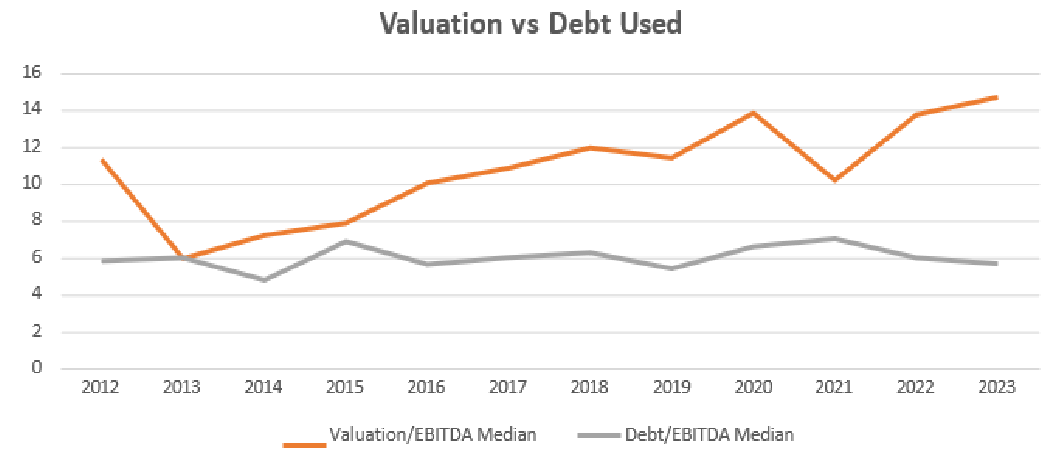
- Deal multiples remain strong despite an elevated rate environment and reduced activity.
- Dry powder remains elevated as capital deployment has slowed.
- Achieving excess return will become more challenging especially for firms who focus on generating returns through financial engineering.
- We have begun to see the effects of the syndicated loan market closure and the higher cost of leverage across the broader private equity ecosystem. We continue to believe that larger funds using significant amounts of leverage, which we define as greater than 4x EBITDA, could see their returns diminish considerably over time.

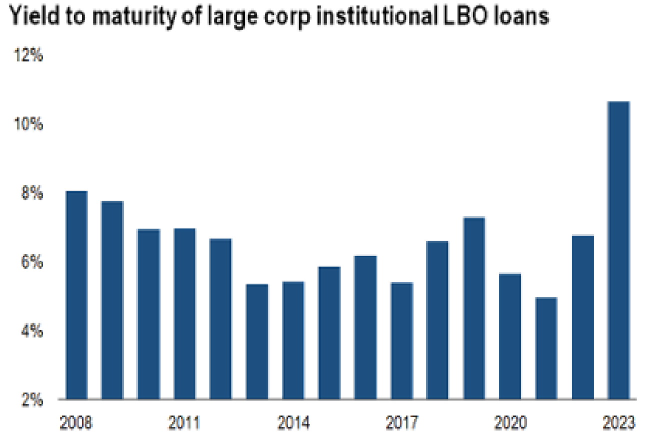
2024 Outlook

- The private equity buyout market is entering the era we will deem “The Great Bifurcation”. PE returns across the board will likely be reduced due to higher cost of capital and lower forward return expectations for all asset classes.
- Not all PE is created equal in the way returns are generated, and manager selection will matter more than ever as dispersion widens.
- Private Equity exit activity remains at extraordinary lows. Firms are seeking alternative paths to liquidity, including the rise of continuation funds (also known as GP-Led Secondaries), which allow GPs to extend beyond the finite timelines of PE funds.
- The fundraising environment will continue to remain under pressure as LPs wait to receive payouts from prior vintages.

The Opportunity

- We see more opportunities for quality growth across the lower middle market and middle market vs. the upper market, where financial engineering tends to be more prevalent.
- Manager selection and quality of return generation matter more than ever as the dispersion between winners and losers widens. Managers focused on driving value creation through margin expansion, operational efficiency, and building a higher quality cap table to drive returns will prevail over those that lean on financial engineering.





Source: PitchBook | LCD • Data through Sept. 30, 2023

Sources: https://pitchbook.com/news/articles/amid-investor-caution-expensive-cost-of-debt-lbo-equity-contributions-top-50
US Buyout/LBO - Source: Pitchbook US Buyout data as of September 22, 2023

2024 Outlook: Growth Equity & Venture Equity

The State of Growth Equity & Venture Equity

- **Growth Equity**: We continue to have near-term concerns about later-stage venture growth as companies are only starting to feel the pain of a full year of higher rates. With the closure of the IPO window, which is only now starting to reopen, many of these companies are now being forced to consider recapitalizing before going public, as many had budgeted for a liquidity event in 2022 and 2023 and are running out of the runway needed to complete an IPO.
- **Venture Equity**: 2023 was a dismal year for capital raising and new commitments.
- 2022's disruptions have created opportunities in early-stage ventures. Valuations for resilient companies in attractive industries, such as artificial intelligence and machine learning, have been stable to strong.

2024 Outlook

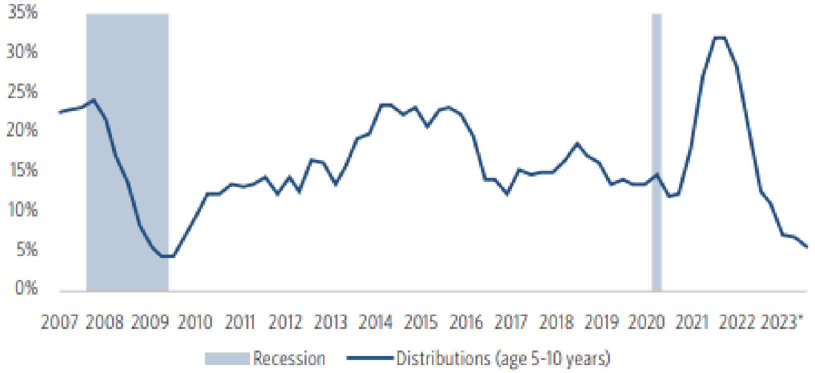
- Positive economic signals and easier policy could lead to a pickup in IPO activity.
- Average fund size will likely decline as a result of fundraising challenges.
- **Growth Equity**: We are seeing a pickup in return to interest as valuations begin to come in meaningfully. Some deals are getting done, and we are seeing green shoots for additional activity in 2024, but it will remain sparse compared to 2021.
- **Venture Equity**: Valuations have further to reset, but dry capital is starting to be put to work at more rational valuations. We will continue to see valuations normalize further.
- We will continue to see a return to pace, particularly around AI, green tech, energy, and biotech. We are also beginning to see some return to interest and allocation among the larger managers.

The Opportunity

- **Growth Equity:** Opportunities will present if the IPO window continues to reopen and as M&A activity reaccelerates.
- **Venture Equity:** Green shoots are beginning to emerge in venture, and we see opportunities to gain access to higher quality businesses at more attractive entry points with normalized valuations.

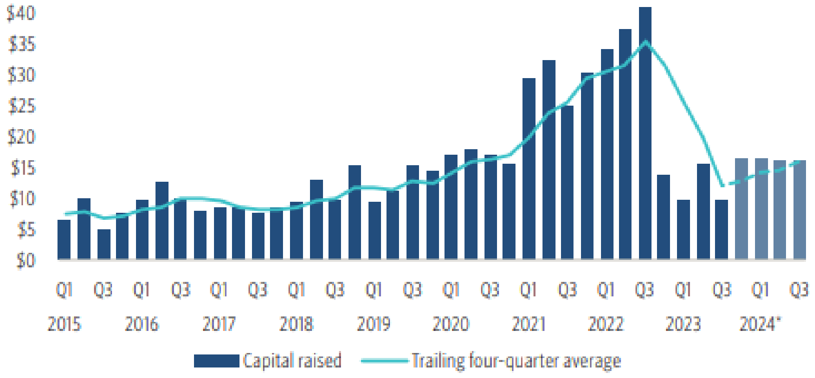
Outlook: US VC fundraising is expected to increase, making it stronger than 2023 but comparable with 2020 figures.

Average VC fund distributions as a share of all beginning NAV



Source: PitchBook • Geography: US • *As of September 30, 2023

Quarterly VC capital raised ($B) with trailing four-quarter average and one-year forecast



Source: PitchBook • Geography: US • *As of November 16, 2023

2024 Outlook: Private Credit

The State of Private Credit

- Despite the risk that base rates decline as the Fed cuts, rates are likely to remain higher than prior cycles for longer, meaning all in yields remain attractive. Private credit has continued to offer meaningful spreads over base rates and traditional fixed income, even as most agree that we have passed peak yields.

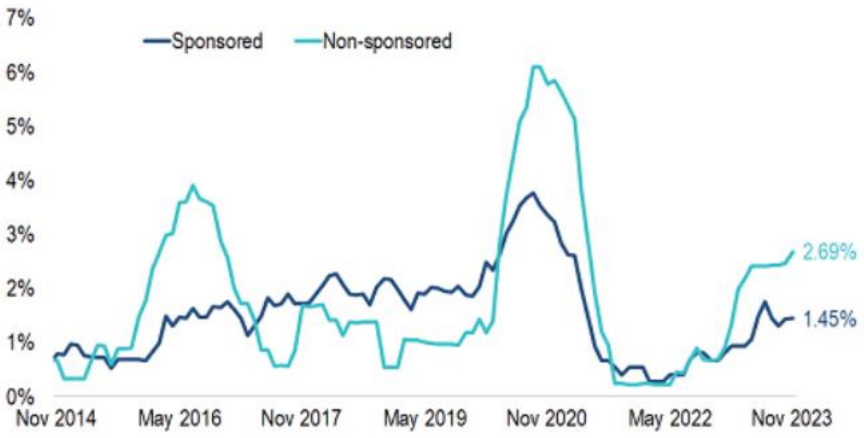
2024 Outlook

- You may have heard that it is a "golden age" for private credit investing, we believe it is more "the golden age for some."
- We expect to see default rates tick up as the true effect of elevated rates begin to hit company income statements and balance sheets. We believe a mix of larger, more diversified, and smaller niche players can provide the best risk reward without overbuying into the hype around this asset class.
- Thus far, we continue to see the issuance of paper with higher yields vs. traditional loans, however, we expect PC yields to moderate if/when base rates eventually come down.
- The syndicated loan market continues to remain closed and structural shifts may prevent a return to its prior state.
- There will be a renewed focus on covenants and debt recovery as we see defaults begin to rise.
- We believe another significant risk to the space is the emergence and the oversupply of so many new funds coming to market. However, the impending debt maturity wall in 2025 will likely flood the marketplace demand for capital.
- There will be a washout at some point of funds that have not established a foothold in the marketplace.
- Oversupply of capital will cause spread compression and reduction of credit quality. Due diligence and manager selection will remain critical.

The Opportunity

- As the elevated interest rate environment persists and the syndicated loan markets remain closed, we see greater long-term opportunity across private credit with a critical eye towards underwriting and downside protection particularly as new entrants flood the marketplace.

Sponsored vs non-sponsored broadly syndicated loan default rates by issuer count



Sources: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index • Data through Nov. 30, 2023

2024 Outlook: Private Real Estate

The State of Private Real Estate

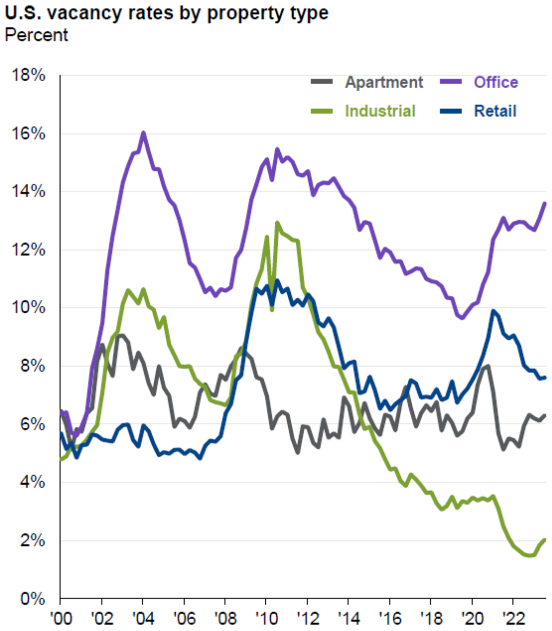
- Real estate is really a tale of two cities, where multifamily and industrial remain strong due to a structural housing shortage and high replacement costs (we are watching multi-family closely, though with slowing rent growth and appreciation, plus a large increase in new supply of apartments), while office continues to experience pronounced weakness and uncertainty. As weakness in office real estate continues, distressed and opportunistic investment opportunities will likely emerge.

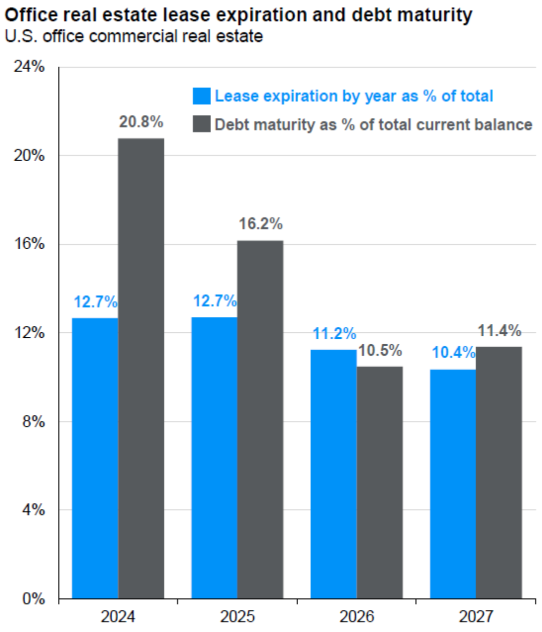
2024 Outlook

- Capital supply has reduced in the debt space, revealing potential opportunities for thoughtful investors with dry powder.
- Industrial will continue to outperform and maintain the lowest vacancy rates.
- We see an opportunity in medical offices, senior housing, and student housing - places with natural contractual obligations to release.
- Multifamily rents will begin to normalize as a glut of new construction comes online in major cities and the Sunbelt. However, new construction loans have slowed.

The Opportunity

- Market dislocations may create attractive pockets of buying opportunity in the next 12-18 months. We will likely see openings, particularly in distressed spaces in 2024, such as office and commercial, which could cause contagion across the industry. The opportunity in the triple net lease is growing as we are seeing large corporations evaluate how they want to capitalize their balance sheets.





Source: NCREIF, NAREIT, Statista, J.P. Morgan Asset Management.
The cap rate, which is computed as the net operating income over sales price, is the rate of return on a real estate investment property. All data are as of September 30, 2023.
Data are based on availability as of November 30, 2023.

Source: JLL, J.P. Morgan Asset Management. "U.S. Office Outlook – 3Q 2023," JLL, November 2023. "Office Loan Landscape – Distress," JLL, November 2023.
Data are based on availability as of November 30, 2023.

2024 Outlook: Secondaries

The State of Secondaries

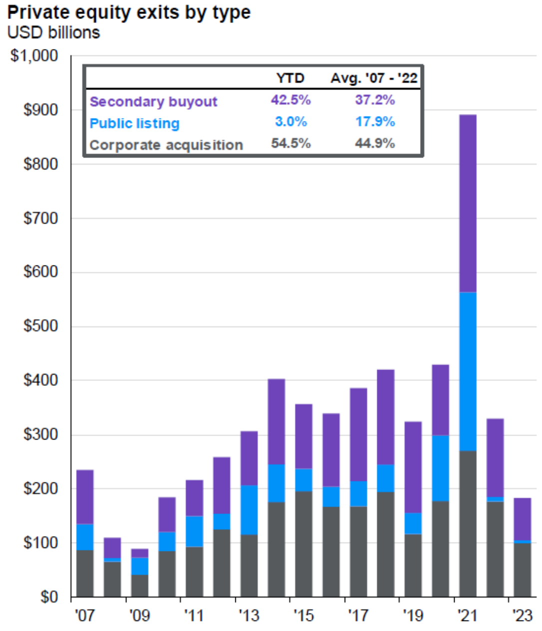
- We see multiple forces creating opportunities in secondaries including rebalancing, as large allocators are being forced to reduce their private market exposure given weakness in public markets, leading to secondaries funds being able to buy these stakes at a discount.
- Secondary market volume has come down dramatically as LPs and GPs have held onto assets as long as possible, but face impending liquidity needs.

2024 Outlook

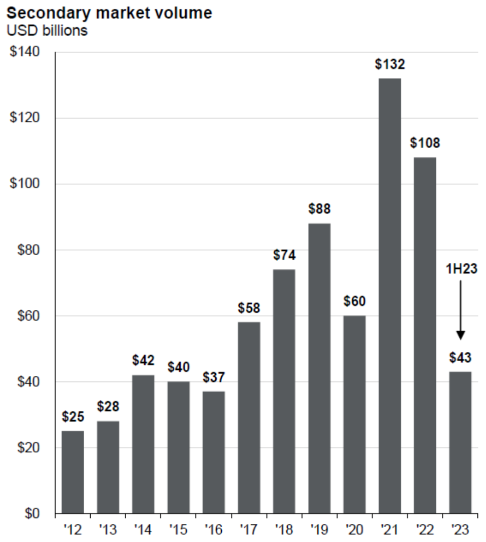
- We will see a pickup in secondary activity on both the LP Led and GP Led sides accelerating the velocity of capital back to investors as funds become increasingly eager to return capital.
- Declining private equity valuations and LP desire to normalize the denominator effect will lead to greater discounts.
- GPs need to begin to return capital to investors which will increase supply of GP led deals.
- Less-traditionally used liquidity solutions are being tested including NAV lending, carve-outs and hybrid facilities.

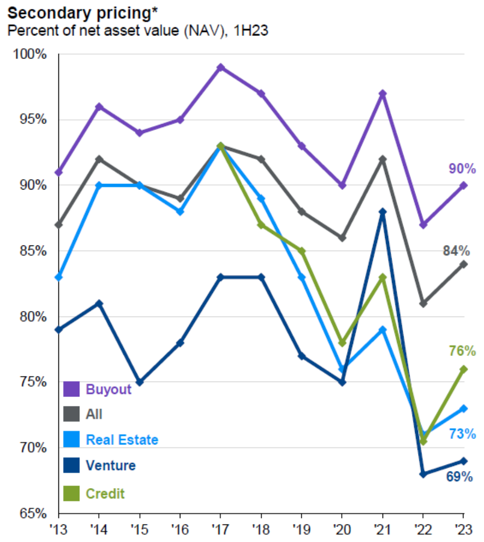
The Opportunity

- We anticipate a pickup in secondary deals coming to market as LPs and GPs seek to generate liquidity for investors. Secondary funds will be able to take advantage of attractive pricing as valuations reset.



Source: PitchBook, J.P. Morgan Asset Management.
B2B is business to business. B2C is business to consumer. Natural resources = Materials & resources and energy. Private equity deal and exit data are as of September 30, 2023.
Data are based on availability as of November 30, 2023.





Source:, Greenhill, Jefferies, J.P. Morgan Asset Management. "H1 2023 Global Secondary Market Review," Jefferies, July 2023. *Secondary pricing of LP portfolios.
Data are based on availability as of November 30, 2023.

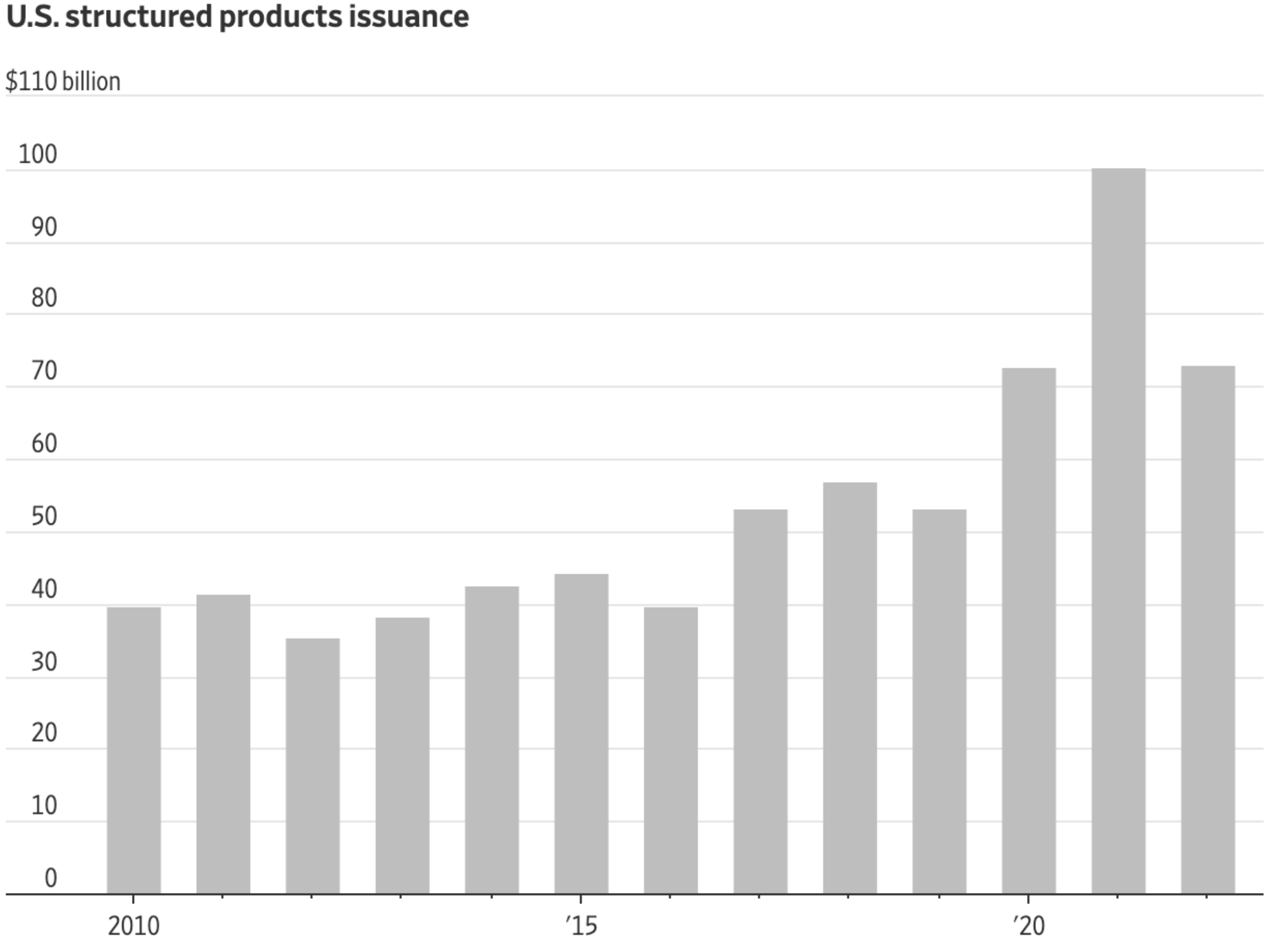
NewEdge WEALTH

Volatility Strategies

2024 Outlook: Structured Notes

In 2023, the U.S. market is estimated to have experienced record issuance for Structured Products, with Structured Retail Products (SRP) reporting $116.5 billion in the year. Higher interest rates, both within the U.S. and outside of it, helped boost new issuance Structured Note pricing, generally allowing investors to achieve greater upside potential or increased downside protection (compared to lower interest rate years with similar levels of volatility). Detracting from Structured Note's appeal in 2023 were bank issuer credit concerns in Q1/Q2 (highlighted by the failure of Silicon Valley Bank and the emergency acquisition of Credit Suisse by UBS in March of 2023) and declining volatility. While these were meaningful headwinds, they did not curb investor demand for these protected investments in 2023.

While Structured Note terms are extremely customizable (often making broad commentary on them challenging), most Structured Notes are issued with some form of downside protection against loss of principal investment, positive returns, or both. These types of protected investments often become more attractive to investors as equity market valuations become stretched or uncertainty around the future of the economy and markets increases. Given what investors experienced in 2023, this helps us explain why investor demand for Structured Notes maintained at the levels it did despite the stated headwinds.



Note: Does not include exchange-traded notes. 2022 data through Nov. 9
Source: Prospect News

2024 Outlook: Structured Notes

Looking towards 2024, we are optimistic about the odds of volatility returning to the market, improving new issue Structured Note terms. The soft landing that the U.S. economy appears to be pricing in today is far from a certainty. Any economic news published that detracts from this narrative has the potential to cause meaningful volatility within the market in 2024. Furthermore, while we view a U.S. recession as a low probability event for 1H24, 2H24 2025 remains unclear. As economic data is published over the coming quarters, we could see 2025 economic expectations (positive or negative) begin to be priced into the market.

In today's environment, we prefer Structured Notes that are **defensively positioned** and allow investors to achieve positive returns on investment, even if broad equity index performance is flat or experiences a pullback in the near term. Example Structure types include Snowball Stepdown, Contingent Yield, and Digital Notes.

Source: NewEdge Wealth, Macrobond, Bloomberg

Data as of 1/16/24

Focusing on credit risk, Credit Default Swap (CDS) rates have stabilized from their 2023 peaks (indicating less perceived risk of defaults) and the three major bond rating agencies (Fitch, Standard & Poor's, and Moody's) have largely maintained stable credit outlooks on major U.S. Structured Note issuers. That said, we continue to monitor credit ratings for signs of deterioration that could impact the bank's ability to repay their debts (including Structured Notes).

Whenever utilizing Structured Notes, diversification of issuer exposures should remain a priority for investors to mitigate exposures to any single issuer in the event of an issuer default.

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Investing involves risk, including possible loss of principal. Past performance is no guarantee of future results.

All data is subject to change without notice.

Abbreviations/Definitions: AI: artificial intelligence; CB: central banks; CPI: Consumer Price Index; Dot Plot: The Fed dot plot is published quarterly as a chart showing where each of the 12 members of the FOMC expect the federal funds rate to be for each of the next three years and the long term; EBITDA: Earnings before interest, taxes, depreciation and amortization; EM: emerging markets; EPS: earnings per share; HY: high yield; IG: investment grade; Initial Jobless Claims: measures the number of individuals who filed for unemployment insurance for the first time during the past week; IPO: initial public offering; Treasury General Account (TGA): Treausry's cash balance held at the Fed; Trimmed mean inflation: a measure that strips out the fastest and slowest growing prices each month, leaving behind a less noisy measure of core inflation; VIX is the ticker symbol for the Chicago Board Options Exchange's CBOE Volatility Index, a popular measure of the stock market's expectation of volatility based on S&P 500 index options.

Disclosures

When referencing asset class returns or statistics, the following indices are used to represent those asset classes, unless otherwise notes. You cannot invest directly in an index. Index returns shown are total returns which includes interest, capital gains, dividends, and distributions realized over a given period of time. An individual who purchases an investment product which attempts to mimic the performance of a benchmark or index will incur expenses such as management fees and transaction costs which reduce returns.

TIPS: Bloomberg Barclays Global Inflation-Linked: U.S. TIPS Total Return Index Unhedged
Municipals 5-Year: Bloomberg Barclays Municipal Bond 5 Year (4-6) Total Return Index Unhedged USD
Core Bond: Bloomberg Barclays US Agg Total Return Value Unhedged USD
U.S. MBS: Bloomberg Barclays US MBS Index
High Yield Municipals: Bloomberg Barclays Muni High Yield Total Return Index Value Unhedged USD
High Yield: Bloomberg Barclays US Corporate High Yield Total Return Index Value Unhedged USD
Foreign Bond: Bloomberg Barclays Global Aggregate ex-USD Total Return Index Value USD (50/50 blend of hedged and unhedged)
EM Debt (unhedged): J.P. Morgan GBI-EM Global Diversified Composite Unhedged USD
U.S. Large Cap: S&P 500 Total Return Index
U.S. Small Cap : Russell 2000 Total Return Index
International Developed: MSCI EAFE Net Total Return USD Index
Emerging Markets: MSCI Emerging Markets Net Total Return USD Index
World: MSCI ACWI Net Total Return USD Index
U.S. Equity REITs: FTSE Nareit Equity REITs Total Return Index USD
Commodities: Bloomberg Commodity Total Return Index
Midstream Energy: Alerian MLP Total Return Index
Hedge Funds: Hedge Fund Research HFRI Fund of Funds Composite Index
U.S.: MSCI USA Net Total Return USD Index

Europe: Euro Stoxx 50
United Kingdom: UK FTSE 100
Japan: Tokyo TOPIX Stock Exchange Index
China: Hang Seng Index
Brazil: Ibovespa Brasil Sao Paulo Stock Exchange Index
India: NSE Nifty Index
South Korea: Korea Stock Exchange KOSPI Index
Taiwan: Taiwan Stock Exchange Index

REITS Diversified: FTSE Nareit Eqty Diversified Total Return Index
REITS Healthcare: FTSE Nareit Eqty Health Care Total Return Index
REITS Industrial: FTSE Nareit Eqty Industrial Total Return Index
REITS Lodging/Resorts: FTSE Nareit Eqty Lodging/Resorts Total Return Index
REITS Office: FTSE Nareit Eqty Office Total Return Index
REITS Residential: FTSE Nareit Eqty Residential Total Return Index
REITS Retail: FTSE Nareit Eqty Retail Total Return Index
REITS Self Storage: FTSE Nareit Eqty Self Storage Total Return Index
REITS Data Centers: FTSE Nareit Equity Data Centers Total Return Index
REITS Specialty: FTSE Nareit Equity Specialty Total Return Index
Real Assets Agriculture: Bloomberg Sub Agriculture Total Return Index
Real Assets Industrial Metals: Bloomberg Sub Industrial Metals Total Return Index
Real Assets Precious Metals: Bloomberg Sub Precious Metals Total Return Index
Real Assets Energy: Bloomberg Sub Energy Total Return Index

Any questions?

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