2023 MID-YEAR MARKET OUTLOOK

U.S. ECONOMY
While our base case scenario remains one in which recession begins by year-end, we now view a potential soft landing as a more realistic, though still less than even, probability. We see core rates of inflation continuing to decline and reaching the sub-4% range into CY 2024, and we view the recent turmoil within the regional banking sector as not being systemic in nature.

INTEREST RATES
We see the year likely ending with a federal funds rate target range of 5.25–5.50%, representing a 0.25% increase from its current level, and then a conclusion to the Federal Reserve’s current tightening cycle. Factors contributing to the Fed concluding rate hikes would be a declining pace of core inflation, positive real interest rates, the pending economic impact of previous rate hikes over the past year, and a more restrictive credit environment stemming from recent bank failures. We view a realistic year-end target on the 10-year U.S. Treasury yield to be approximately 3.65%.

INCOME AND CREDIT
We continue to favor opportunities in the high-yield and investment-grade bonds where fixed income investors can benefit from locking in recently elevated yields. We view intermediate-term maturities as best positioned to provide income while mitigating both yield curve steepening and reinvestment risk. Despite the probability of recession, the overall credit environment appears more benign than prior to previous economic downturns.

U.S. STOCKS
We are increasing our year-end 2023 price target on the S&P 500® to 4,600 and now see a realistic one-year target for mid-year 2024 to be about 4,800. This is based on a scenario probability analysis weighted mostly between a moderate recession and soft landing in the year ahead as well as potential tail wind catalysts coming from declining inflation and the conclusion of the Fed’s current tightening cycle. We also now see market conditions as most conducive to balanced allocations of growth and value stocks.

INTERNATIONAL STOCKS
Global investors are likely to benefit from international developed and emerging market equities as growth in advanced and developing regions could be improving in CY 2024 and valuations appear favorable. Europe’s economy has proved resilient, growth remains strong in India, and market conditions appear to be improving in Japan.

WILD CARDS
Potential wild cards in the year ahead include regional banks, the war in Ukraine, U.S. tensions with China, an artificial intelligence (AI) bubble, and the upcoming 2024 election season.
Investments are subject to market risk, including the loss of principal. Asset classes or investment strategies described may not be suitable for all investors.

Past performance does not guarantee future results. Indexes are unmanaged and an investor cannot invest directly in an index.

Equities are subject to market risk meaning that stock prices in general may decline over short or extended periods of time. Indexes are unmanaged and an investor cannot invest directly in an index.

Fixed income investing is subject to credit rate risk, interest rate risk, and inflation risk. Credit risk is the risk that the issuer of a bond won’t meet their payments. Inflation risk is the risk that inflation could outpace a bond’s interest income. Interest rate risk is the risk that fluctuations in interest rates will affect the price of a bond. Investing in floating rate loans may be subject to greater volatility and increased risks.

Growth stocks typically are particularly sensitive to market movements and may involve larger price swings because their market prices tend to reflect future expectations. Growth stocks as a group may be out of favor and underperform the overall equity market for a long period of time, for example, while the market favors “value” stocks. Value investing carries the risk that the market will not recognize a security’s intrinsic value for a long time or that an undervalued stock is actually appropriately priced.

Investments in global/international markets involve risks not associated with U.S. markets, such as currency fluctuations, adverse social and political developments, and the relatively small size and lesser liquidity of some markets. These risks may be greater in emerging markets.

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The 10-Year U.S. Treasury bond is a U.S. Treasury debt obligation that has a maturity of 10 years.

S&P 500® Index: An unmanaged index of 500 common stocks primarily traded on the New York Stock Exchange, weighted by market capitalization.

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