



Fixed income remains our preferred asset class, but we also see upside for equity indexes. (UBS)

# How are we positioned?

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**We recommend investors maintain a balanced portfolio, with positive prospective returns across stocks, bonds, and alternative investments.**

### Our Central View

- Economic growth is likely to slow in 2024 as the US economy is in “late cycle.”
- Fed rate hikes have likely peaked.
- Our base case remains a “soft-ish landing,” but the Fed will likely have to start trimming rates in 2024 to avoid a recession.
- Look for quality within each asset class.
- With interest rates nearing a peak, we believe high-quality bonds are attractive.
- We see somewhat modest upside for equities following the recent rally.
- We think earnings growth can accelerate in 2024 despite slowing GDP growth due to base effects in healthcare and energy as well as diminished headwinds from the goods segment of the economy.
- Despite a cooling labor market, consumers remain in good shape. The resumption of student loan repayments, lagged effects from higher interest rates, and elevated mortgage rates could prompt a bit of a slowdown in consumer spending.
- Geopolitical and government shutdown risks are additional potential headwinds.

### Asset Class Views

Fixed income remains our preferred asset class, but we also see upside for equity indexes.

- **Equities:** neutral – we see somewhat modest upside in the year ahead.

- **US Equities:** neutral (upgrade from least preferred) – supported by earnings growth among quality companies (strong balance sheets, relatively stable operating margins, healthy free cash flow yields, strong returns on invested capital).
  - **Style** : neutral on value vs. growth.
  - **Size** : prefer US small caps over US large caps.
  - **Sectors** : most preferred - information technology, energy, and consumer staples; least preferred - materials, utilities, and real estate.
- **EM Equities:** most preferred - many economies are proving resilient, and valuations look appealing.
- **Fixed Income:** most preferred – focus on high-quality with attractive yields and potential for capital appreciation if interest rate expectations fall.
  - **US Fixed Income:** most preferred – US investment grade corporates and agency MBS. Recommend a US TIPS allocation that does not shorten the duration of a portfolio since real yields are at attractive levels across the curve.
- **Oil:** most preferred - supplies remain tight amid solid demand.

#### Some Base Case Targets for December 2024

- S&P 500: 4,700.
- S&P 500 EPS: 240 (9% year-over-year).
- 10-year US Treasury yield: 3.5%.
- WTI oil: USD 91/bbl.
- Gold: USD 2,250/oz.

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