Monthly CIO View

Strategy Snapshot

November 2023

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Returns By Asset Class | Monthly & YTD Returns

Returns by Asset Class

Data as of 10/31/2023. All international equity indices are MSCI indices and in USD. Diamonds represent the year-to-date total returns and bars represent monthly returns.

Global Economy | Resilient US Economy, For Now

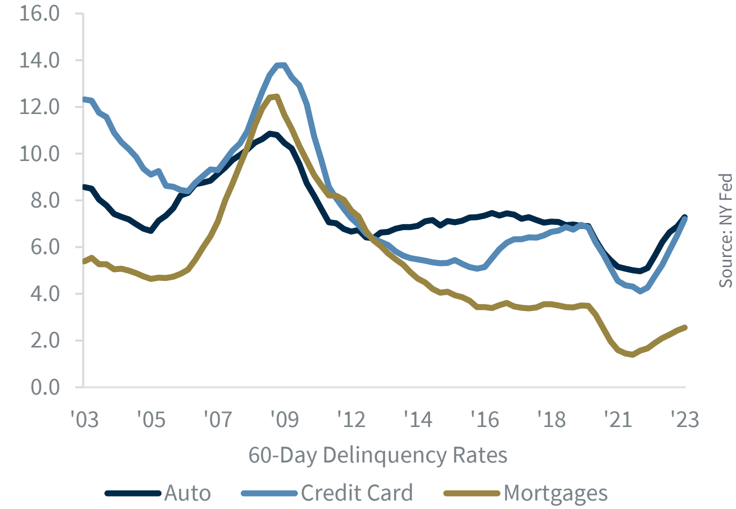
Global Economy | Recent Trends

- **The US economy has proven considerably more resilient than other regions of the world,** with growth supported by a robust labor market and strong consumer spending. While a backward-looking indicator, Q3 growth climbed at an impressive 4.9% annualized pace, putting the economy on track to grow 2.4% this year.
- **Forward-looking indicators, such as slowing job and wage growth, depleted excess savings, rising delinquencies and higher borrowing rates, suggest the economy will slow.** The spike in mortgage rates to ~8% also points to a renewed downturn in the housing sector. In fact, existing home sales fell to their lowest level in more than a decade.
- **Rising energy prices and elevated shelter costs have slowed the disinflationary process** and led to an uptick in year-ahead inflation expectations. Shelter costs, with a weight of nearly 40% in the core CPI measure, have accounted for nearly 70% of the total increase in the Index (+4.1% YoY). Core CPI ex-shelter is already below the Fed's target at 1.9% YoY.
- **Global Purchasing Manager indices point to continued weakness in Europe and China.** The Eurozone's Composite PMI Index fell to 46.5, its lowest level since November 2020, with broad-based weakness in manufacturing, the service sector and employment. China showed signs of emerging from its soft patch, but the property slump remains a major risk.

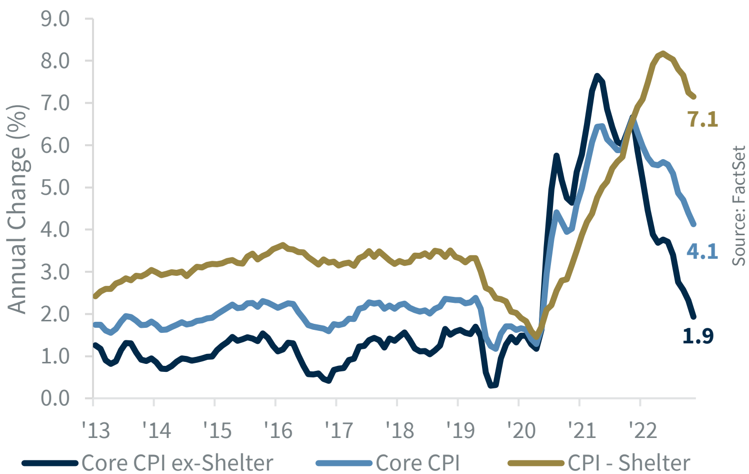
Global Economy | 12-Month Outlook

- **US economic growth surprised to the upside in both 3Q and full-year 2023; however, there are multiple headwinds on the horizon.** Slowing job growth, moderating wage gains, depleted savings, and soaring borrowing costs are likely to weigh on consumer spending in the months ahead. As a result, we expect growth to slow to +0.8% in 2024.
- **Consensus forecasts now expect a soft, non-recessionary landing. However, we still expect the US economy to enter a mild recession in 1Q24.** The interest-sensitive sectors of the economy, housing and small businesses, are likely to face stiffer headwinds from the sharp rise in interest rates since the summer.
- **Europe continues to face an unfavorable mix of stagnating growth and elevated inflation pressures.** While inflation is beginning to moderate, the sharp downturn in manufacturing activity, the knock-on impacts from sharply higher interest rates and substantially tighter lending conditions suggest growth will remain weak.
- **Despite a patchy and disappointing recovery, China's economy remains on track to meet the government's 5.0% growth target**. While Chinese authorities continue to ramp up their efforts to shore up confidence and provide support to the property sector, a substantially stronger rebound does not appear to be in the cards without further stimulus.

Rising Delinquencies Portray Consumer Stress



High Shelter Costs Keep Inflation Elevated

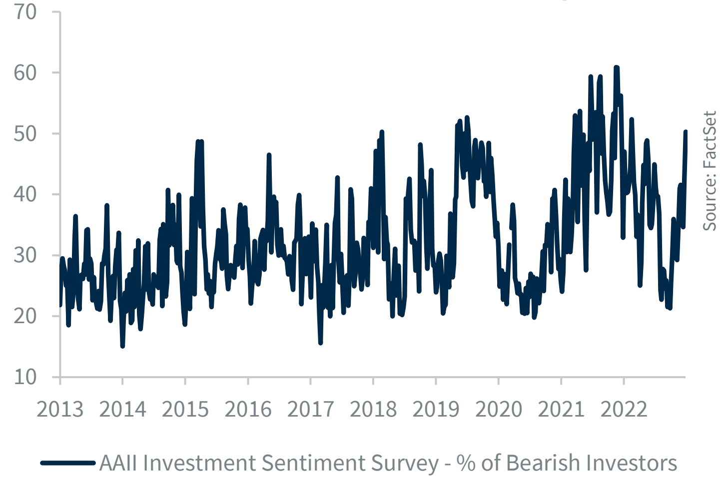


Equities | S&P 500 Enters Correction Territory

Global Equities | Recent Trends

- **Equity markets entered correction territory (a decline of >10%), with both the S&P 500 and NASDAQ falling over 10% from their July 2023 highs and down 2.1% and 2.8% MoM respectively.** Higher interest rates were the largest driver of the recent volatility, as the rise in longer-duration bond yields has weighed on the risk/reward of equities vs. bonds.
- **Small-cap US equities were the largest underperformer in October** as they have a greater sensitivity to rising rates. With the ~7% decline in October (worst monthly decline since November 2022), small-cap US equities are underperforming large cap by ~15% YTD.
- The recent market correction has weighed heavily on investor sentiment. In fact, **the recent AAII Investor Sentiment Survey showed that bearish sentiment has risen above 50% to the highest level year-to-date.** Historically, sharp swings in sentiment have coincided with near-term turning points in the market, which the market saw in the first week in November.
- With ~80% of the S&P 500 market cap having reported, the 3Q23 earnings season was generally solid. **The earnings recession officially ended as the S&P 500 posted its first quarter of YoY EPS growth in four quarters,** and the percentage and magnitude of beats were both above the ten-year averages. The strongest performers were the mega-cap tech related names, which saw earnings growth of >40% YoY during the quarter.

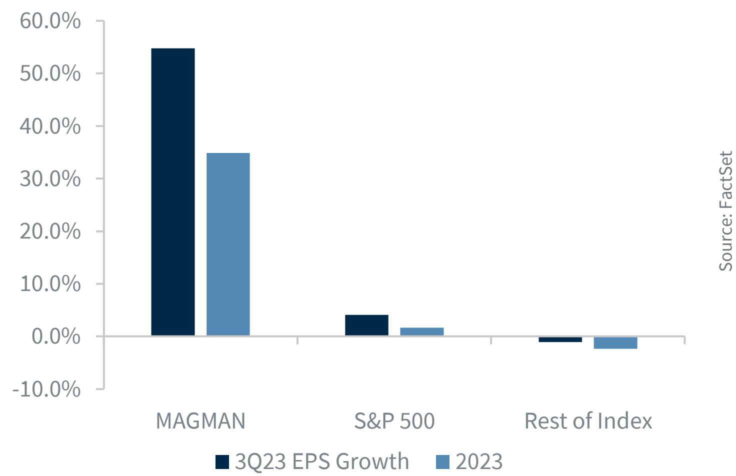
Bearish Sentiment Rises to YTD High



Global Equities | 12-Month Outlook

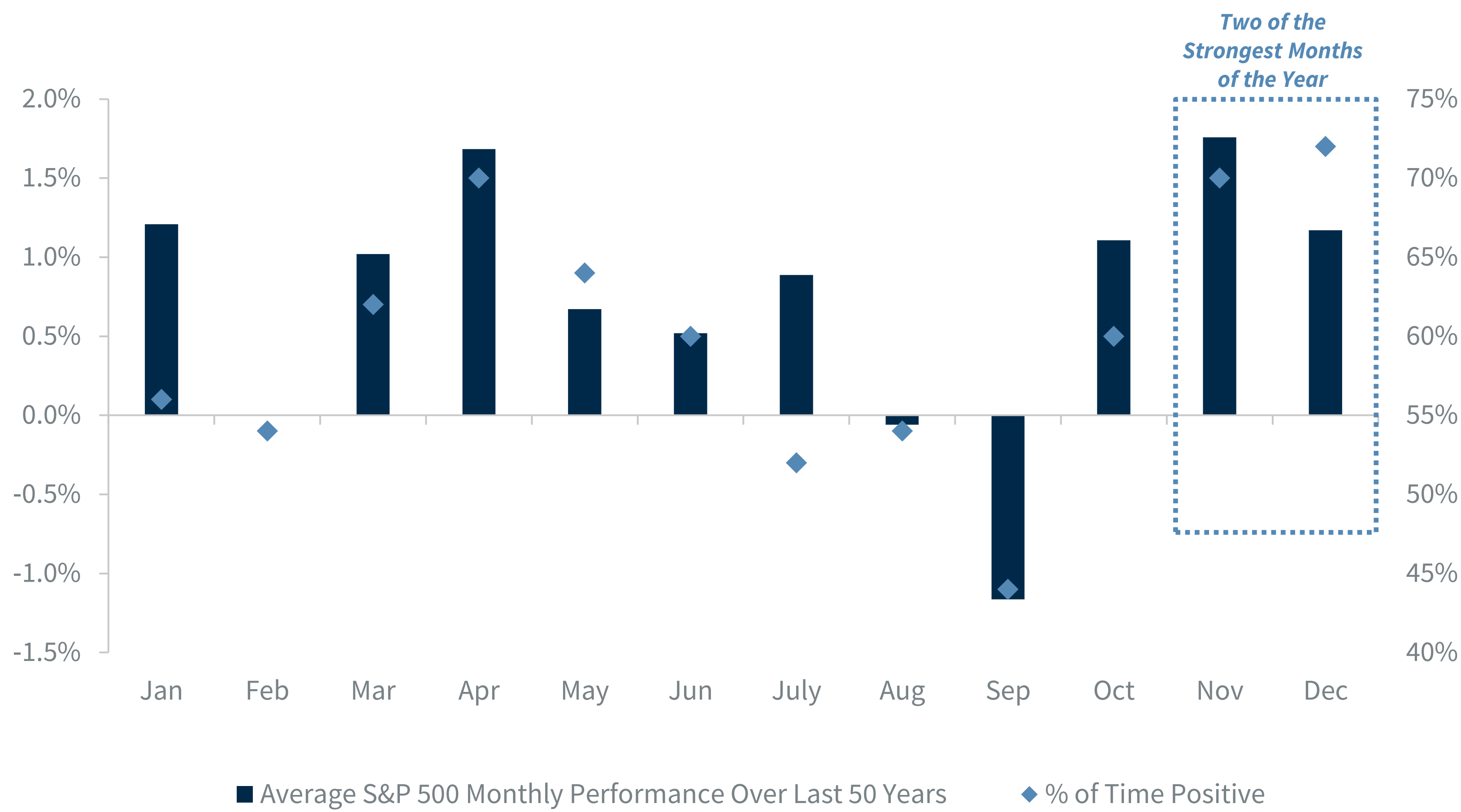
- **With the recent equity market pullback and the S&P 500 trading below our year-end forecast (4,400),** we see modest upside for the equity market near term. However, the upside should be limited over the next twelve months as the US economy enters a mild recession in 1Q24. This will weigh on share prices and earnings.
- **Moderating inflation, the end of the Fed's tightening cycle, and lower bond yields should lift the S&P 500 going forward.** However, these favorable tailwinds have largely been reflected in earnings multiples. Earnings growth will need to take over as the key driver to propel the market higher. We still expect $220 EPS by year-end 2023 and for 2024.
- **European earnings resilience will likely get tested as the squeeze from higher interest rates, tighter lending conditions and fiscal policy turns more restrictive** in the months ahead. While European equities remain undervalued on both an historic basis and relative to US equities, we remain cautious and continue to favor US equities.
- **We remain constructive on emerging market equities; however, selectivity remains crucial.** Further stimulus should support China's recovery and could lift share prices from depressed levels. EM Asia (particularly India) and Latin America should continue to benefit from shifting supply chains and nearshoring trends.

Mega-Cap Tech Related Names Drive EPS Growth



Seasonality Favors A Year-End Rally For The S&P 500

Historically, November Has Been The Strongest Month Of The Year



Source: FactSet, Data as of 10/31/2023

Fixed Income | Bond Market Rout Continues

Global Bonds | Recent Trends

- **The rout in the bond market continued amid stronger than expected growth, shifting expectations about higher-for-longer Fed policy rates and concerns about the federal deficit.** These dynamics drove the 10-year Treasury yield above 5.0% for the first time in 16 years and spilled over into the global bond markets.
- **The sharp rise in longer-maturity yields led to a massive unwinding of the deep inversion in the 2-year/10-year Treasury yield spread.** After peaking at -108 bps in July, the inversion narrowed to a spread of -19 bps. Historically, when the yield curve starts to uninvert, it typically signals that a recession is drawing near.
- **The government's larger than expected deficit ($1.7T in FY23), ramped up borrowing needs (largely financed by the sale of longer-duration bonds), and the Fed's ongoing balance sheet run-off** remain a key concern for bond investors. Price sensitive buyers (i.e., households and mutual funds), have demanded a higher premium to absorb the new supply.
- **Credit spreads widened in sympathy with the equity market weakness.** Investment grade spreads widened 8 bps to a spread of 129, driven primarily by the Financial sector. High yield spreads were 43 bps wider to 437 but remain below their longer-term historical average. According to S&P ratings, US corporate defaults are up 185% over 2022 levels.

Global Bonds | 12-Month Outlook

- Fixed income yields have risen to their highest level in 16 years as economic growth has proven more resilient than expected. However, **the Fed's restrictive policy stance and tighter financial conditions should drive growth and inflation lower over the next 12 months.** Once a recession hits, 10-year Treasury yields will move lower toward 3.5%.
- The Fed continues to talk tough on inflation and has signaled rates will remain high until policymakers are convinced it is moving sustainably lower, while **forward-looking indicators suggest the Fed's work is largely done**. We expect the Fed to pivot to rate cuts in mid-2024. The last rate hike in the cycle tends to be a catalyst for yields to move lower.
- **The recent rise in interest rates has pushed yields to the most attractive levels in over a decade.** High starting yields tend to be the strongest predictor of future returns. Yields on high quality bonds offer the best income opportunities in years and the potential to generate capital gains as yields decline. Bond valuations are also compelling relative to equities.
- **Low refinancing needs have been a key factor behind well-behaved credit spreads.** However, a substantial amount of debt needs to be refinanced over the next few years (likely at higher levels). While yields remain attractive, the current level of spreads, particularly for speculative grade borrowers, does not provide much cushion against this risk.

10-Year Treasury Climbs To 5.0%

Yield Curve Disinverts

Commodities & Currencies | Commodities Slip on Stronger Dollar

Commodities & Currencies | Recent Trends

- **Crude oil prices tumbled ~$10 to $81.02/barrel (-10.8% MoM) following four consecutive months of gains.** While the outbreak of the Israeli-Hamas war lifted prices in early October, the gains were short lived as concerns over a widening conflict and the likelihood of supply disruptions from the region quickly faded (as Israel is not a major producer of oil).
- **Natural gas prices surged nearly 30% in October as the start of the cold weather heating season begins.** Despite the monthly surge, prices are still 7% lower YTD. Similar price action occurred in the European gas markets, which were at the center of last year's turmoil. While storage levels are full in Europe, a colder than expected winter could drive up prices again.
- **Geopolitical tensions in the Middle East drove gold prices sharply higher**, up ~7% MoM, with the precious metal briefly climbing above $2,000 per ounce. However, industrial metals (i.e., copper, aluminum and iron ore) declined 4.5% MoM amid lingering concerns about slowing demand in China and ongoing weakness in the property sector.
- **After a sharp reacceleration over the last few months, the US dollar was broadly stable in October, climbing 0.4% MoM.** The Japanese yen fell 1.5% MoM and is down 14.8% YTD versus the US dollar—on track for its third consecutive year of losses. Despite recent monetary policy tweaks, Japan's negative interest rate policy continues to weigh on the yen.

Commodities & Currencies | 12-Month Outlook

- **Commodity prices have eased over the last year, driven primarily by declines in energy prices (predominately led by lower natural gas prices) and industrial metals.** Geopolitical risks and weather-related disruptions remain among the biggest wildcards that could reverse recent trends and complicate the policy outlook for central banks around the world.
- **After a sharp fall earlier in the year, oil prices are likely to remain elevated** amid curtailed supply from OPEC+ members and ongoing capital discipline from US oil producers. We expect oil prices to remain around our $85-90/barrel forecast over the next twelve months as demand and supply become more balanced.
- **The US dollar's recent acceleration may stall as Fed officials move into wait-and-see mode on policy rates.** We suspect the Fed is likely done raising rates, which should be less supportive for the US dollar as interest rate differentials will no longer be tilting in the dollar's favor. However, a sustained decline is not likely until the global economy starts to recover.
- **The euro's climb following last year's plunge below parity has stalled and upside appears limited** as weaker than expected growth could limit the ECB's ability to push interest rates higher in the months ahead. This should keep the euro broadly stable and trading in a 1.0 to 1.1 range versus the US dollar.

Oil Prices Fall Despite Geopolitical Tensions

Japanese Yen Tumbles Versus US Dollar

Summary | Key 12-Month Forecasts and Views

1 ECONOMY

US GDP: 0.8%

The US economy has remained remarkably resilient, supported by robust job gains and consumer spending, with growth on track to rise 2.4% in 2023. However, there are multiple headwinds on the horizon for the consumer (i.e., slowing job growth, depleted excess savings, student loan repayments, soaring borrowing costs). These dynamics should cool demand and lead the economy into a mild recession starting 1Q24, with full year growth falling to 0.8% in 2024.

2 BOND MARKET

10-Year Treasury: 3.5%

The Fed's tightening cycle has likely come to an end. However, the surprising resilience of the economy will prevent policymakers from signaling their work is done. Moderating inflation and a mild recession will force the Fed to pivot in mid-2024. The final rate hike is often a catalyst for yields to move lower and we expect the 10-year Treasury yield to fall to 3.5% over the coming year. Yields on high quality bonds remain attractive relative to equities. Recession risks keep us cautious on high yield.

3 EQUITIES

S&P 500: ~4,650

We remain cautiously optimistic on the equity market over the next 12 months. While earnings are likely to tread water in 2024 as the macro backdrop becomes more challenging, the end of the Fed's tightening cycle should allow the earnings multiple to modestly improve from current levels. We expect the S&P 500 to rise to 4,650 in the coming year (assumes a $220 EPS and 21x P/E multiple). Earnings growth will need to take over as the key driver to propel the market higher.

4 DOLLAR DIRECTION

EUR/USD: 1.05

Strong growth and higher interest rates have driven the US dollar higher relative to other major currencies (i.e., Japanese yen, euro, pound sterling) in recent months. While these dynamics should continue to support the US dollar in the near term, further appreciation from current levels should become more challenging as US growth begins to slow. With growth remaining weak in Europe, the euro should continue to trade in a 1.0 to 1.1 range over the coming quarters.

5 OIL

Oil: ~$85-$90/barrel

The war premium initially priced into oil prices after the outbreak of the Israeli-Hamas war has faded. However, concerns about a wider regional conflict may persist (although not our forecast). This should keep oil prices around our $85-$90/barrel forecast over the coming year. Solid oil demand, ongoing production cuts from OPEC+ nations, capital discipline from US producers and the need to replenish the depleted Strategic Petroleum Reserve should keep a floor under oil prices.

6 VOLATILITY

Volatility: ↔

Equity market volatility has returned to longer-term historic levels following the pandemic, Russia-Ukraine war, supply chains and inflation spikes over the last few years. However, interim flare-ups should be expected as geopolitical tensions remain high, government dysfunction continues, and unforeseen market stresses could arise. Interest rate volatility remains elevated; but should start to decline once the Fed concludes its tightening cycle.

DISCLOSURES

Diversification does not ensure a profit or guarantee against a loss

INTERNATIONAL INVESTING | International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

SECTORS | Sector investments are companies engaged in business related to a specific economic sector and are presented herein for illustrative purposes only and should not be considered as the sole basis for an investment decision. Sectors are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

OIL | Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

CURRENCIES | Investing in currencies is generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

GOLD | Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

FIXED INCOME | Fixed-income securities (or "bonds") are exposed to various risks including but not limited to credit (risk of default of principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise.

Investments in municipal securities may not be appropriate for all investors, particularly those who do not stand to benefit from the tax status of the investment. Municipal bond interest is not subject to federal income tax but may be subject to AMT, state or local taxes.

US TREASURYS | US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value.

US DOLLAR | The US Dollar Index is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies,[1] often referred to as a basket of U.S. trade partners' currencies.[2] The Index goes up when the US dollar gains "strength" (value) when compared to other currencies.

DEFINITIONS

AGGREGATE BOND | **Bloomberg US Agg Bond Total Return Index:** The index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

HIGH YIELD | **Bloomberg US Corporate High Yield Total Return Index:** The index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

CREDIT | **Bloomberg US Credit Total Return Index:** The index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

MUNICIPAL | **Bloomberg Municipal Total Return Index:** The index is a measure of the long-term tax-exempt bond market with securities of investment grade (rated at least Baa by Moody's Investors Service and BBB by Standard and Poor's). This index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

PCE INDEX | **Personal Consumption Expenditures (PCE) Index:** The PCE price index looks at U.S. inflation by measuring changes in the cost of living for households. It tracks the prices of a basket of goods and services, each with different weightings, to reflect how much a typical household spends every month.

BG COMMODITY INDEX **| Bloomberg Commodity Index** is calculated on an excess return basis and reflects commodity futures price movements.

BLOOMBERG INDUSTRIAL METALS INDEX | **Bloomberg Industrial Metals Index** reflects the returns that are potentially available through an unleveraged investment in the futures contracts on industrial metal commodities.

BLOOMBERG ENERGY INDEX | **Bloomberg Energy Index** is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return of underlying commodity futures price movements only and is quoted in USD

MSCI EM ASIA INDEX | The **MSCI Emerging Markets (EM) Asia Index** captures large and mid cap representation across 8 Emerging Markets countries*. With 1,160 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

NASDAQ | The **Nasdaq Composite Index** is a market capitalization-weighted index of more than 3,700 stocks listed on the Nasdaq stock exchange. As a broad index heavily weighted toward the important technology sector, the Nasdaq Composite Index has become a staple of financial markets reports.

S&P 500 | The **S&P 500 Total Return Index:** The index is widely regarded as the best single gauge of large-cap U.S. equities.

EMERGING MARKETS EASTERN EUROPE | **MSCI EM Eastern Europe Net Return Index:** The index captures large- and mid-cap representation across four Emerging Markets (EM) countries in Eastern Europe. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

ASIA EX JAPAN INDEX | **The MSCI AC Asia ex Japan** Index captures large and mid cap representation across 2 of 3 Developed Markets (DM) countries* (excluding Japan) and 9 Emerging Markets (EM) countries in Asia. With 983 constituents, the index covers approximately 85% of the free float adjusted market capitalization in each country.

AC WORLD INDEX | **The MSCI AC World** Index is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International (MSCI) and is comprised of stocks from 23 developed countries and 24 emerging markets.

EMERGING MARKETS LATIN AMERICA | **MSCI EM Latin America Net Return Index:** The index captures large- and mid-cap representation across five Emerging Markets (EM) countries in Latin America. With 116 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS | **MSCI Emerging Markets Net Return Index:** This index consists of 23 countries representing 10% of world market capitalization. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 23 countries.

JAPAN | **MSCI Japan Net Return Index:** The index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

EUROPE | The **MSCI Europe Index** captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe*. With 428 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

MSCI EAFE | The **MSCI EAFE** (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations.

MSCI EM | The **MSCI Emerging Markets Index** captures large and mid cap representation across 25 Emerging Markets (EM) countries*. With 1,420 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MAGMAN | This acronym refers to a group of six mega-cap tech stocks. Blended growth reflects actual results from MSFT, AMZN, GOOGL, META and consensus estimates for APPL, NVDA as they have not yet reported**.**

INTERNATIONAL DISCLOSURES

DESIGNATIONS

DATA SOURCES

FactSet as of 10/31/2023.

RAYMOND JAMES

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