

2024 Economic & Market Outlook



Fisette & Kim Financial Services, LLC

January 20, 2024

968 NE DISCOVERY DRIVE, ISSAQUAH, WA 98029

425.507.9004



Fisette & Kim
FINANCIAL SERVICES
PROFOUNDLY IMPACTING PEOPLE'S LIVES



Scott Milam
FA, RJFS

Greg Leonard
FA, RJFS

Michael Fisette,
MSF, CFP®
President, F&K
FA, RJFS

Ethan Kim,
CFP®
Mg. Dir., F&K
FA, RJFS

Brady Jowell,
CFP®
FA, RJFS

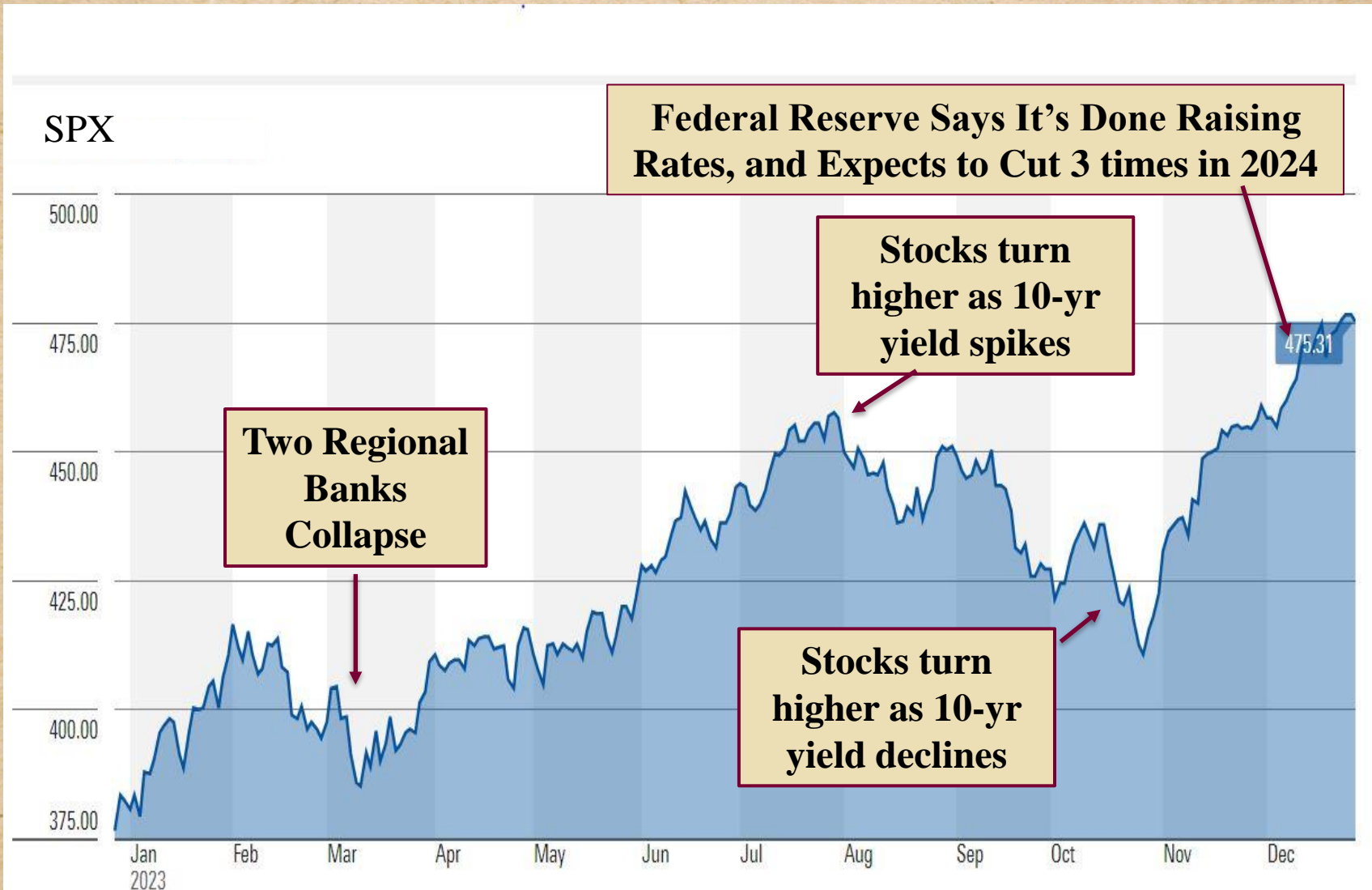
Matt Zager
BA, RJFS

Thank you to Our Sponsors

- PIMCO
- Fidelity
- Virtus/Allianz
- Global X
- Eaton Vance
- Prudential/PGIM
- Federated
- Columbia Threadneedle
- NYL/Mainstay
- Jackson

Raymond James is not affiliated with any of the above companies.

Remember: Only One Thing Matters



Source: Barron's

Good vs Bad



2022: Federal Reserve Bad

2023: Federal Reserve OK

2024: Federal Reserve Good

M

Fed Chair Powell Dec 13, 2023



Source: Youtube

M

**The Federal Reserve is done
raising interest rates, and the
next move will be down.**

**This concludes our
presentation...**

Any Questions?



M/E

Were We Correct in January 2023?

- **Prediction:** The Federal Reserve increases interest rates between 0% - 0.75%; done by March.
- **Actual:** The Federal Reserve increased interest rates 1 percentage point; last hike was in July.
- **Prediction:** Stock selling subsides: Who's left to sell that wouldn't have already sold in 2022?
- **Actual:** Stock selling subsided, and never touched Dec 30, 2022 levels.

Were We Correct in January 2023?

- **Prediction**: Unspent fiscal stimulus from the past 2 years keeps the economy strong in the first half, but peters out in the second half.
- **Actual**: The economy stayed strong all year.
- **Prediction**: Mild recession and 0% GDP growth.
- **Actual**: No recession, and economy is estimated to have grown 2.2%.

Source: Office of Economic & Community Development (OECD)

Were We Correct in January 2023?

- **Prediction:** The Federal Reserve will not lower interest rates in 2023 (unless some big economic problem forces it to).
- **Actual:** The Federal Reserve did not lower interest rates in 2023.

- **Prediction:** The stock market rises, in the face of higher unemployment and a weakening economy.
- **Actual:** The stock market rose sharply, but unemployment stayed very low, and the economy remained strong.

Were We Correct in January 2023?

- **Prediction**: The most widely anticipated recession of all times, fails to materialize.
- **Actual**: The most widely anticipated recession of all times, failed to materialize.

Were We Correct in January 2023?

- **Prediction**: The stock market defies analysts' expectations, and rises double-digits (only 3 of 25 analysts expected stocks to outperform cash).
- **Actual**: Stocks roared higher. However, the stock market is still below where it was 2 years ago.

Were We Correct in January 2023?

- **Prediction**: Earnings decline slightly, but price/earnings multiples rise as inflation declines. (Analysts' estimate profits rise 5.6%)
- **Actual**: Earnings rose around 5%, and the S&P 500 forward price/earnings multiple rose from 16 to 19.

Were We Correct in January 2023?

- **Prediction**: Inflation (core PCE) subsides to the high 2% range, by end of 2023.
- **Actual**: Inflation (core PCE) fell from 4.7% Nov 2022 to 3.2% Nov 2023.

Our Theme for 2024

“Don’t Fear the Fed”



E→B

There's a Lot to be Positive About in 2024

Institute for Supply Management Service Sector Business Activity Index

**The service sector is still growing,
but just barely.**



**50.6
Dec
2023**

U.S. Dollar Index

Dollar Index

The weakening dollar has been good for U.S. multinational companies, as well as our international stock and bond holdings.



As of 1/12/24

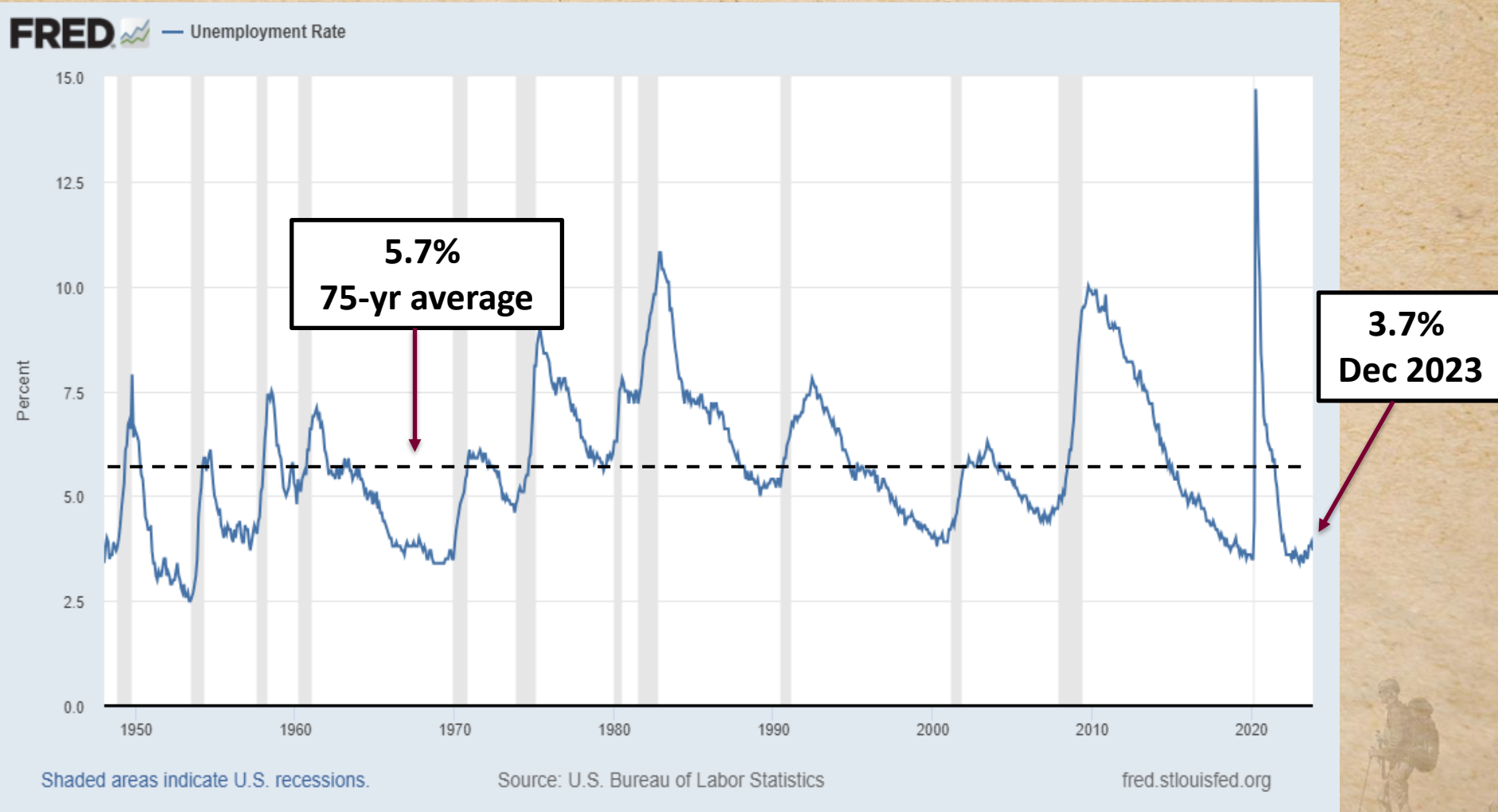
source: tradingeconomics.com

Source: [Tradingeconomics.com](https://tradingeconomics.com)

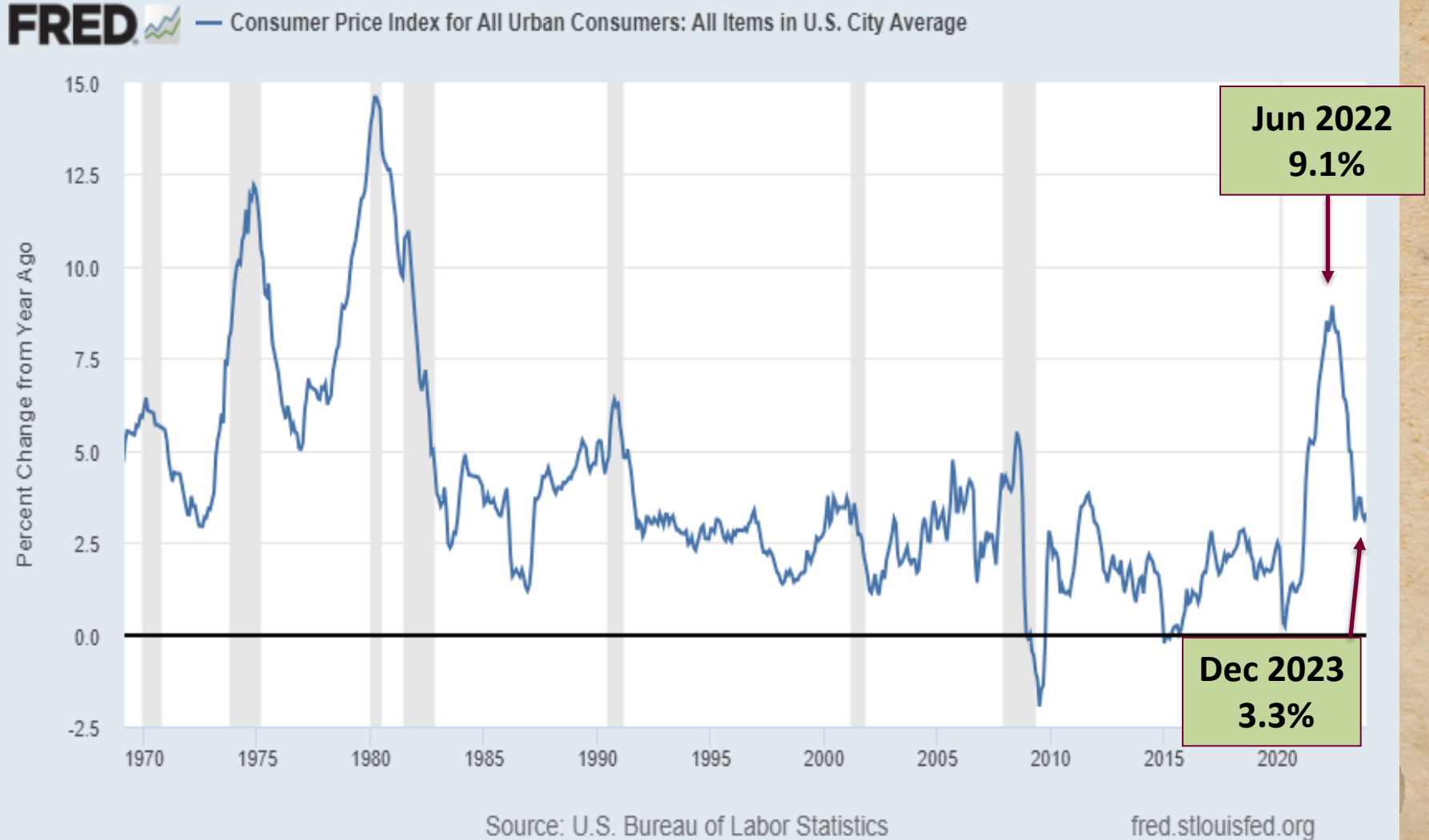
SECURITIES OFFERED THROUGH RAYMOND JAMES FINANCIAL SERVICES, INC., MEMBER FINRA / SIPC. INVESTMENT ADVISORY SERVICES OFFERED THROUGH RAYMOND JAMES FINANCIAL SERVICES ADVISORS, INC. FISETTE © KIM FINANCIAL SERVICES IS NOT A REGISTERED BROKER/DEALER AND IS INDEPENDENT OF RAYMOND JAMES FINANCIAL SERVICES, INC.

B

Unemployment Remains Extremely Low



Consumer Price Increases Are Moderating



However, We Cannot Ignore Several Recessionary Warning Signs



B → S

Most of The World Economy is in Late-Phase Growth

Business Cycle Framework

The business cycle, which is the pattern of cyclical fluctuations in an economy over a few years, can influence asset returns over an intermediate-term horizon. Cyclical allocation tilts are only one investment tool, and any adjustments should be considered within the context of long-term portfolio construction principles and strategic asset allocation positioning.

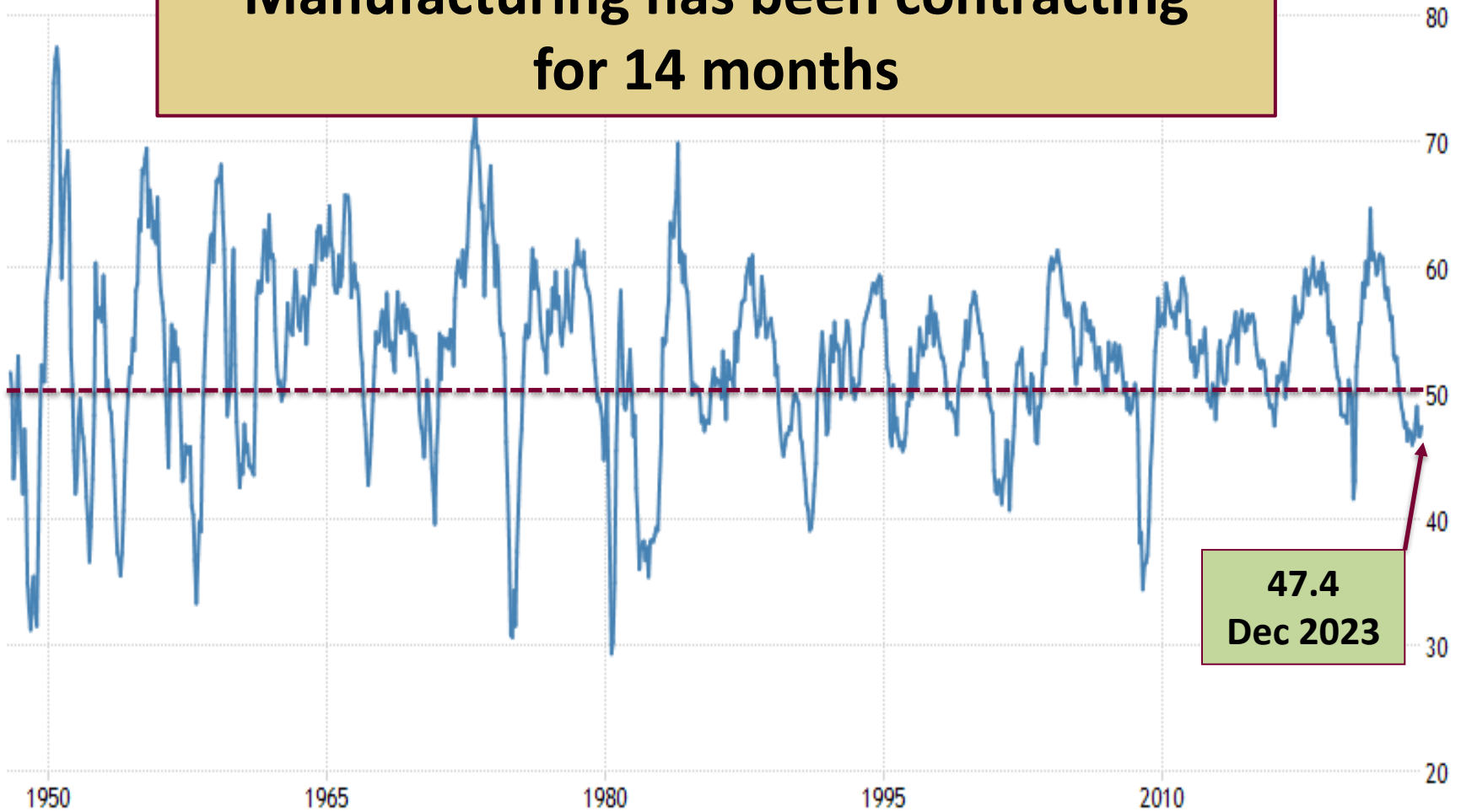
Cycle Phases	EARLY	MID	LATE	RECESSION
	<ul style="list-style-type: none"> • Activity rebounds (GDP, IP, employment) • Credit begins to grow • Profits grow rapidly • Policy still stimulative • Inventories low; sales improve 	<ul style="list-style-type: none"> • Growth peaking • Credit growth strong • Profit growth peaks • Policy neutral • Inventories, sales grow; equilibrium reached 	<ul style="list-style-type: none"> • Growth moderating • Credit tightens • Earnings under pressure • Policy contractionary • Inventories grow; sales growth falls 	<ul style="list-style-type: none"> • Falling activity • Credit dries up • Profits decline • Policy eases • Inventories, sales fall



Source: Fidelity Investments

Institute for Supply Management Manufacturing Business Activity Index

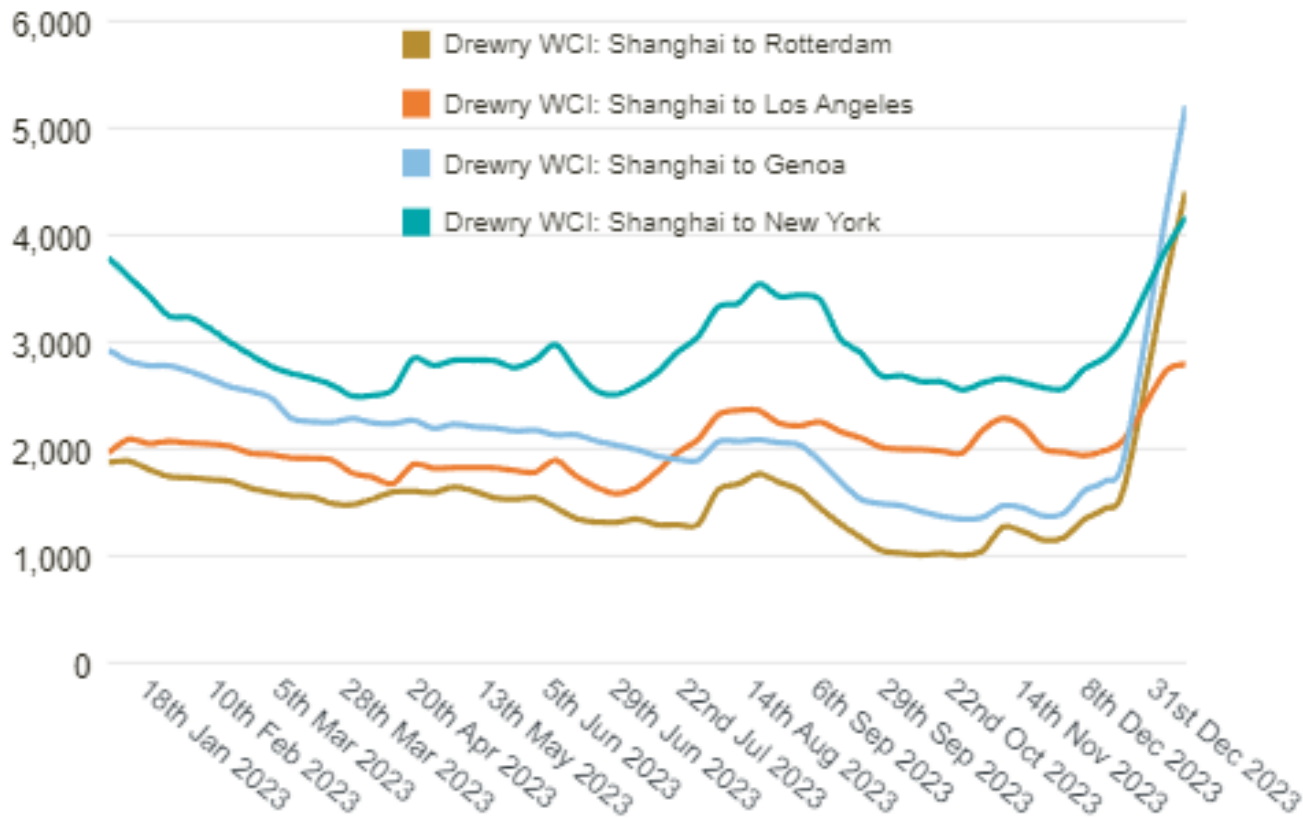
**Manufacturing has been contracting
for 14 months**



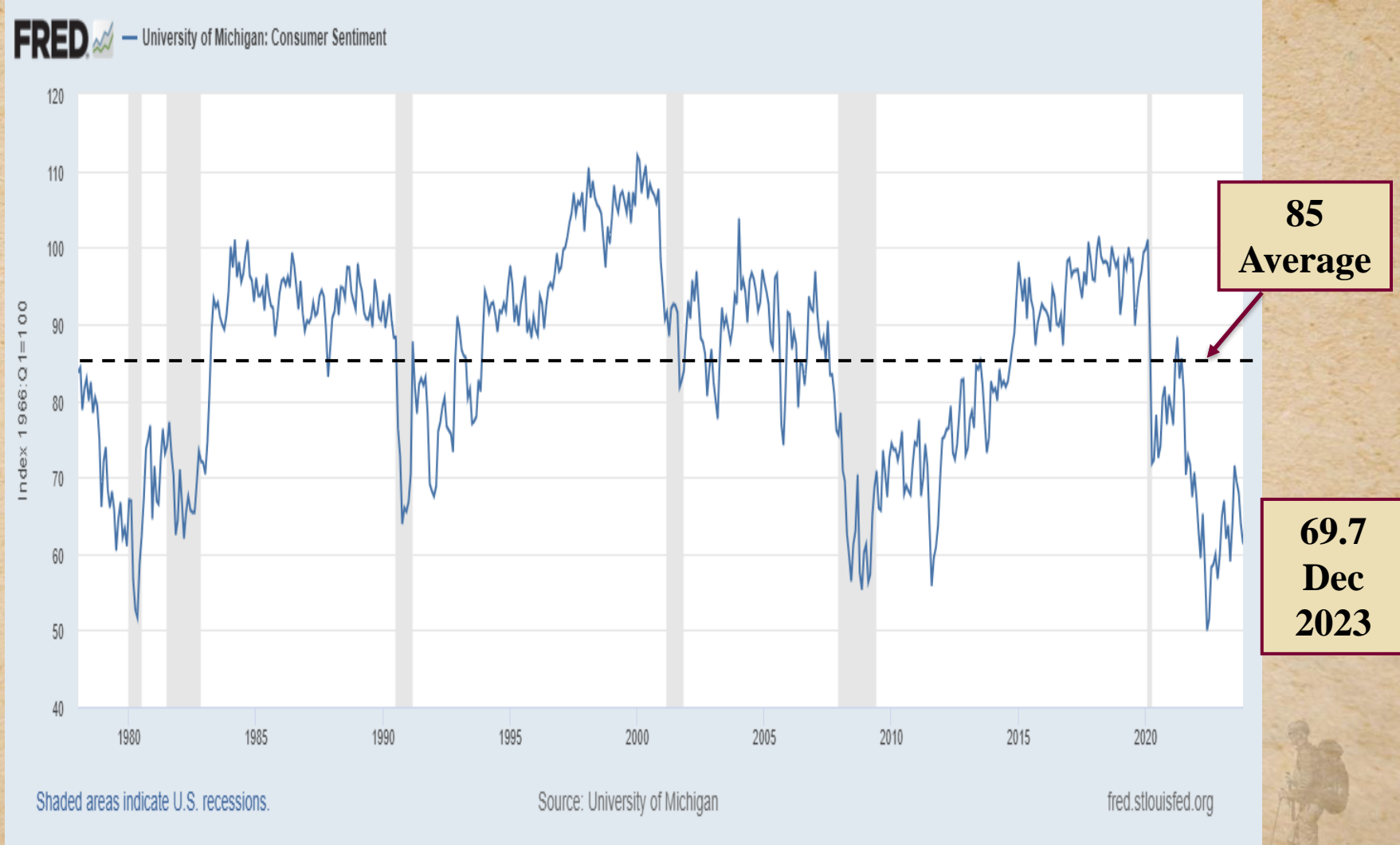
**47.4
Dec 2023**

Freight Shipping Costs Receded, but are Spiking Due to the Red Sea Conflict

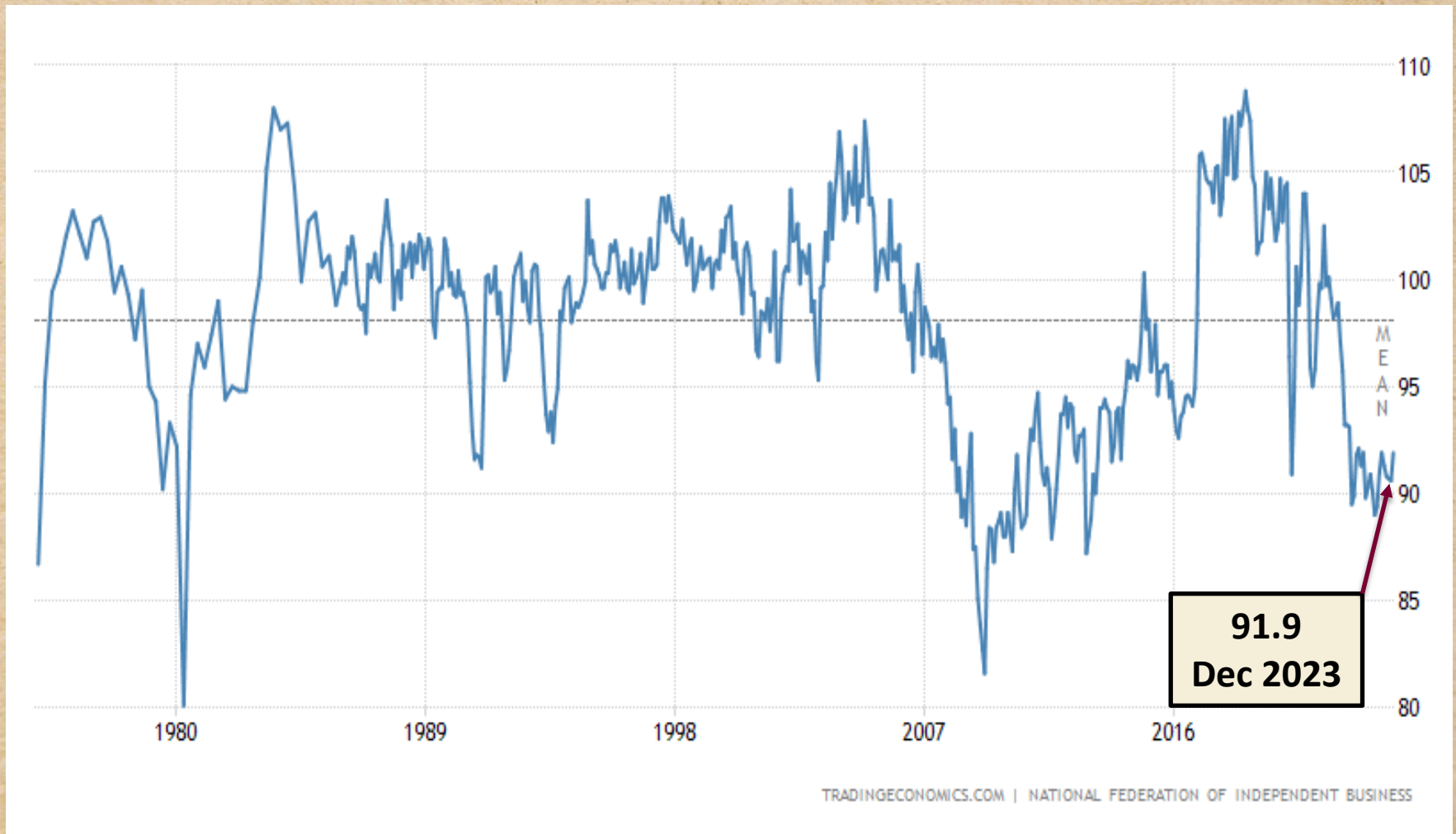
Drewry WCI: Trade Routes from Shanghai (US\$/40ft)



The All-Important U.S. Consumer is Pessimistic



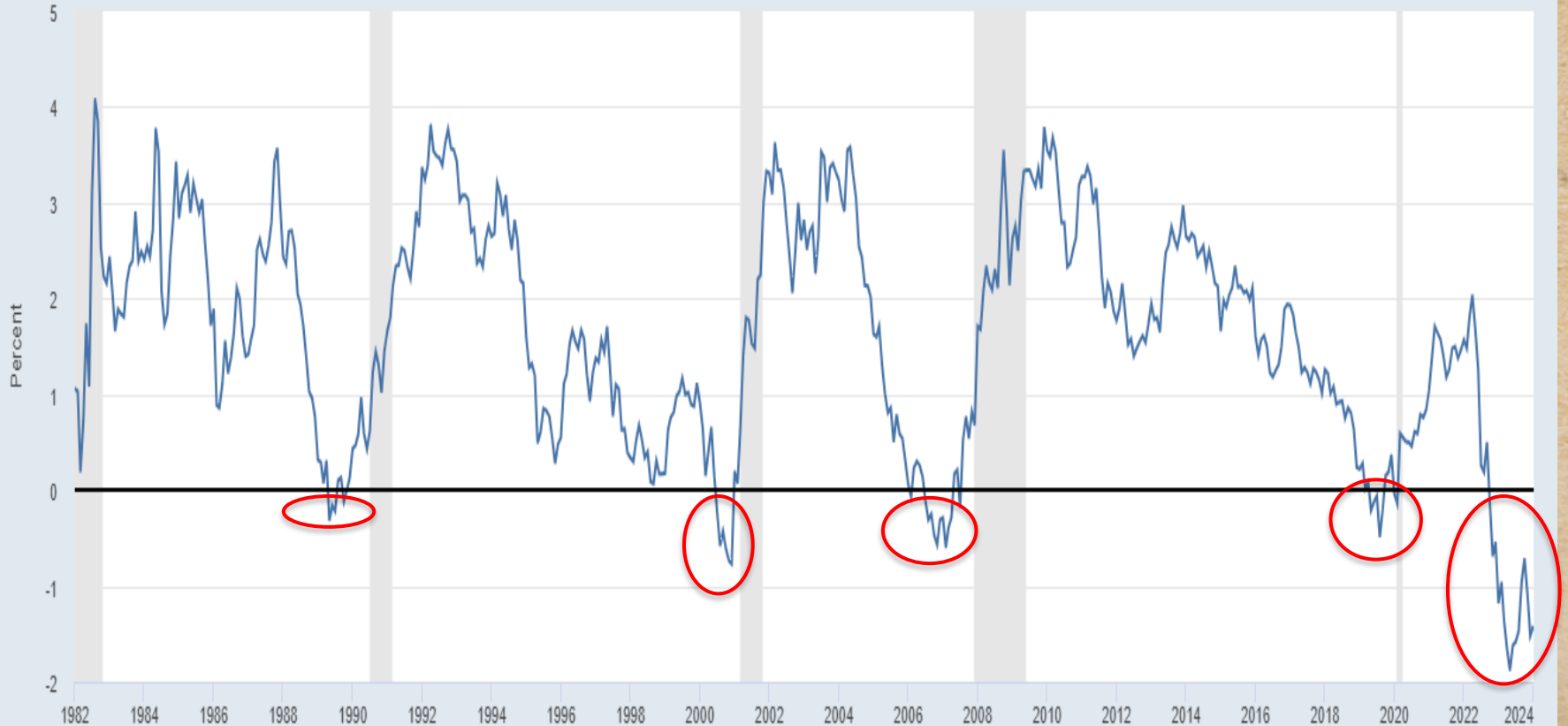
As are Small Business Owners



10-Year vs. 3-Mos Treasury Yield

Best Recession Indicator (when below zero)

FRED  — 10-Year Treasury Constant Maturity Minus 3-Month Treasury Constant Maturity

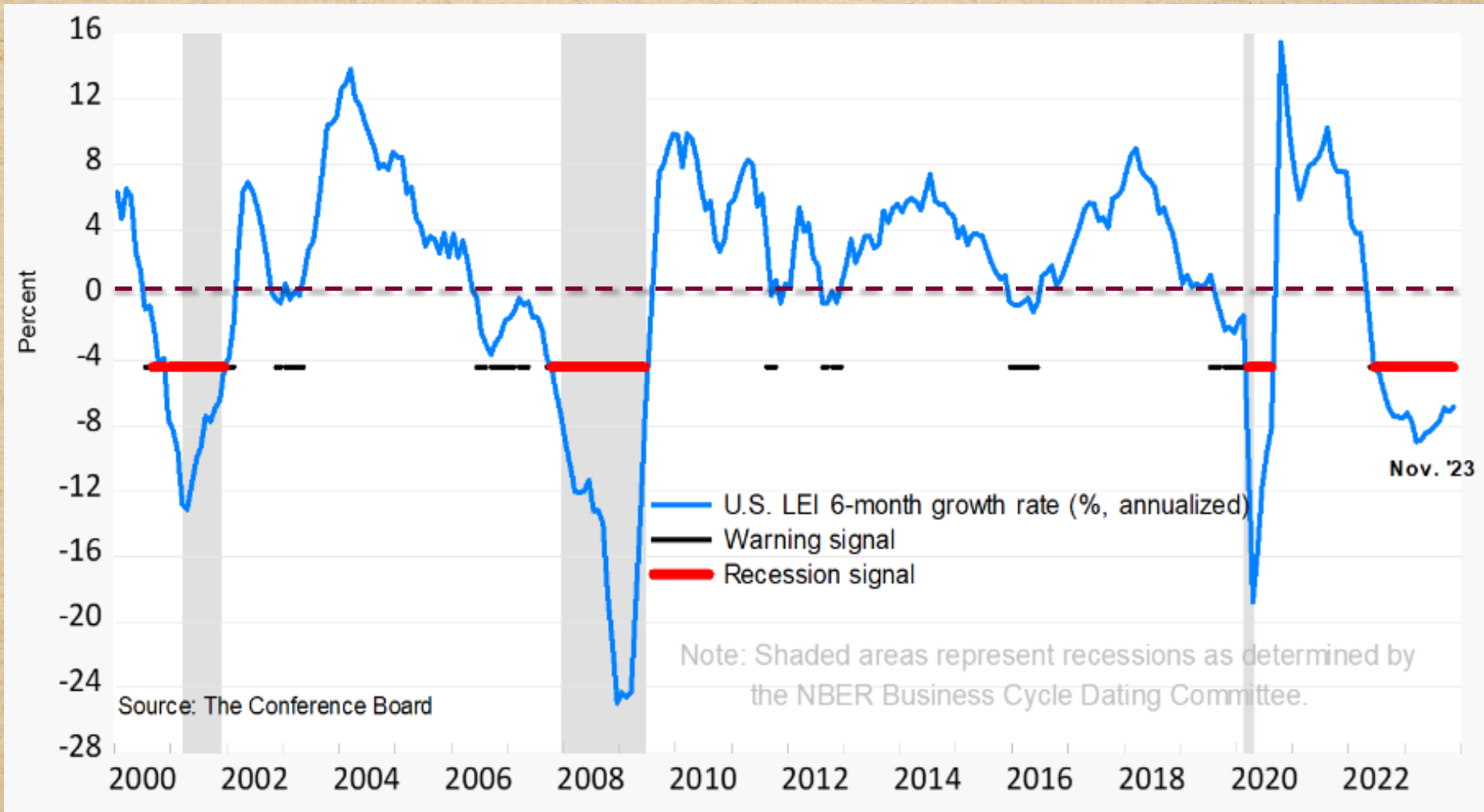


Shaded areas indicate U.S. recessions.

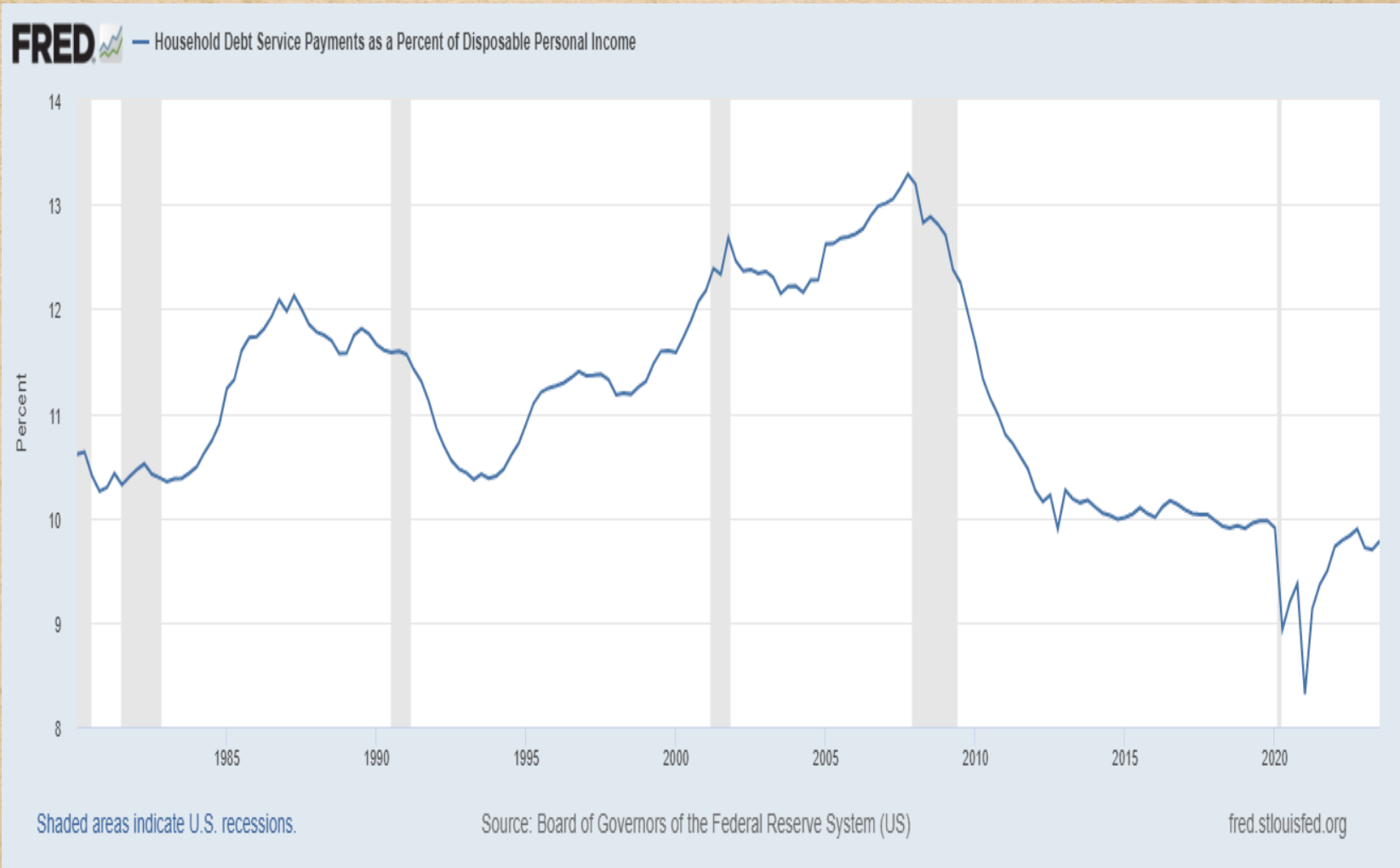
Source: Federal Reserve Bank of St. Louis

fred.stlouisfed.org

Leading Economic Indicators are Negative (Very reliable predictor of recessions)



Consumer Debt is Increasing ...

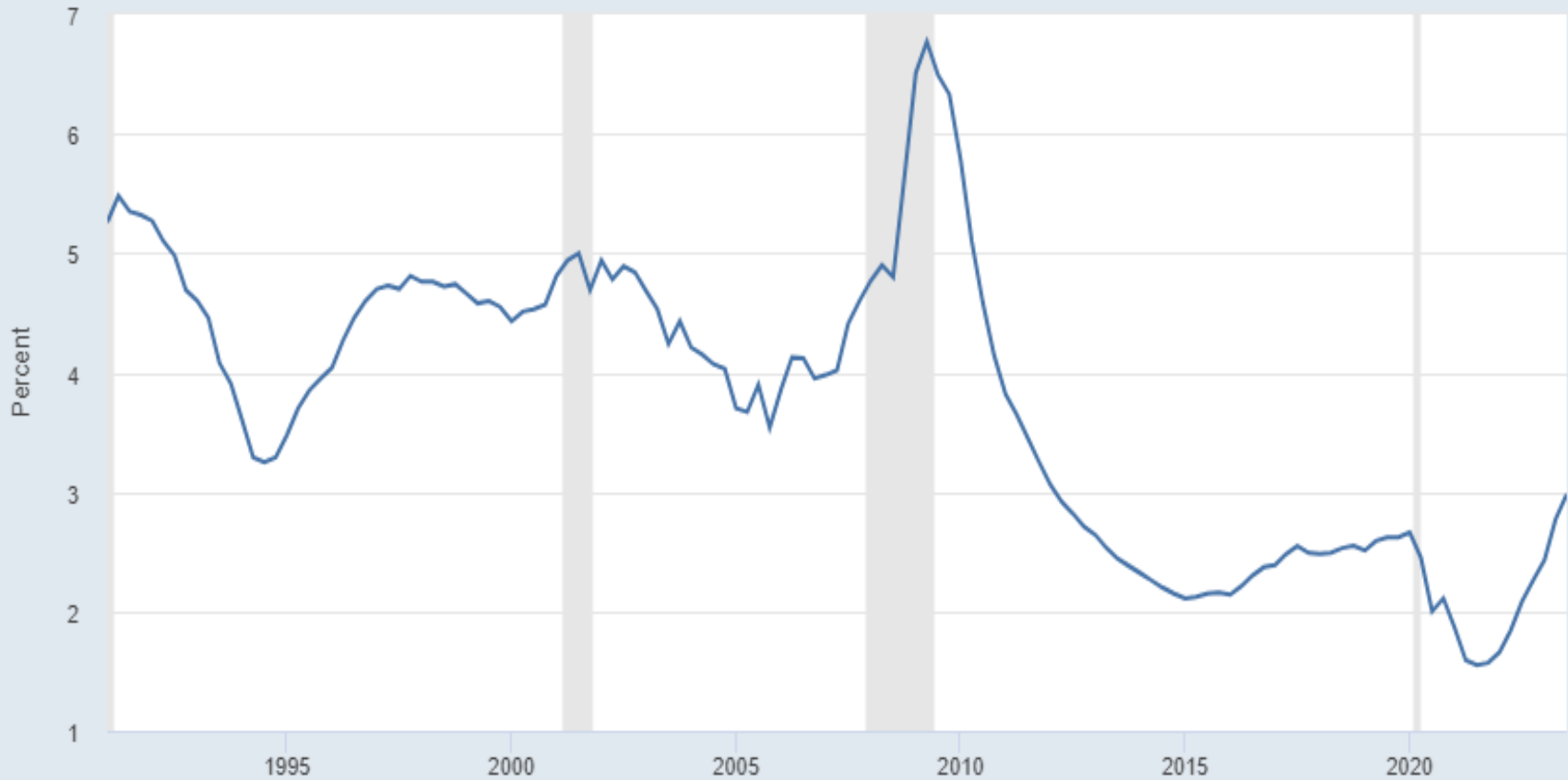


Source: Federal Reserve Bank of St. Louis

... as are Credit Card Delinquencies

FRED

— Delinquency Rate on Credit Card Loans, All Commercial Banks



Source: Board of Governors of the Federal Reserve System (US)

fred.stlouisfed.org

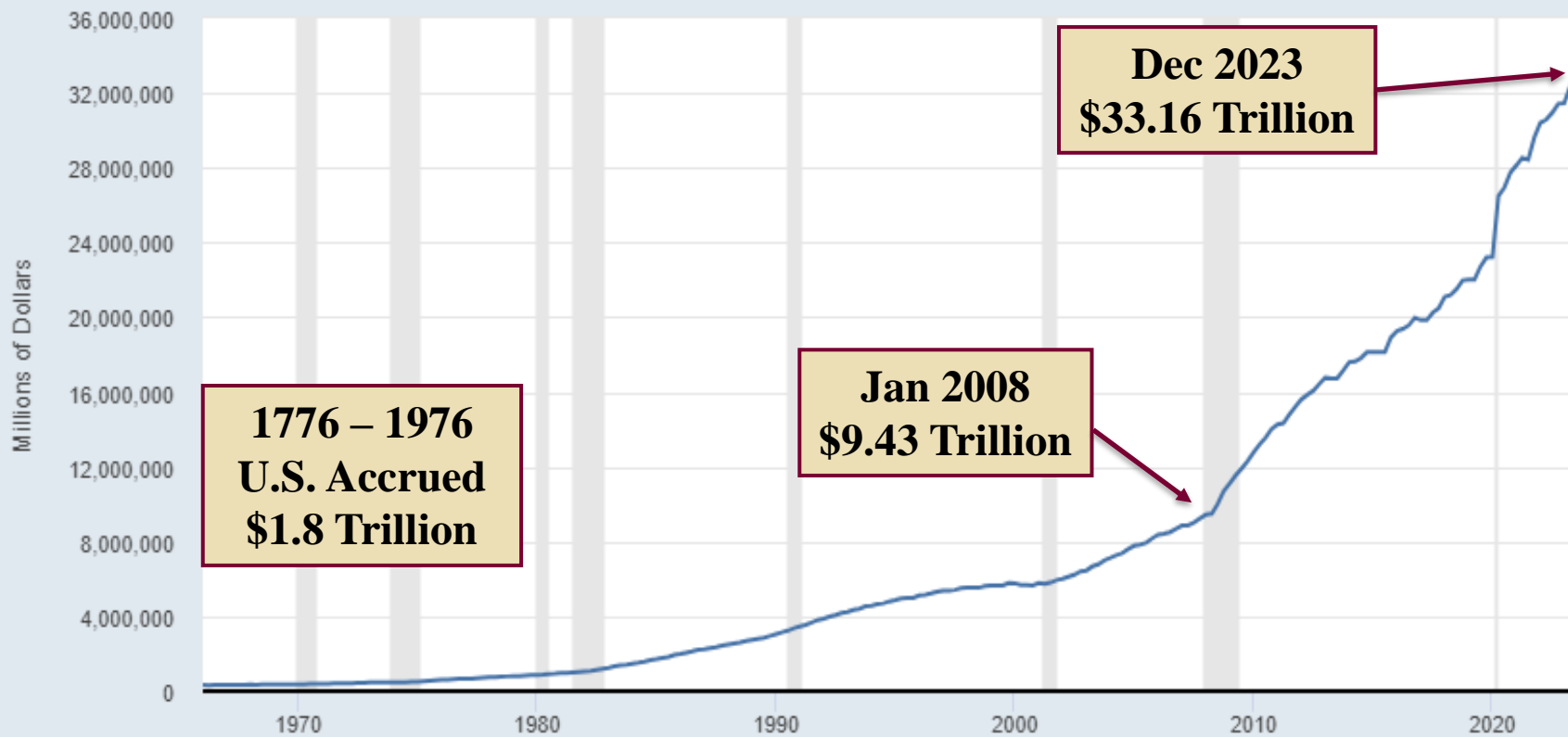
Source: Federal Reserve Bank of St. Louis

G

Federal Debt is Out-of-Control

FRED 

— Federal Debt: Total Public Debt

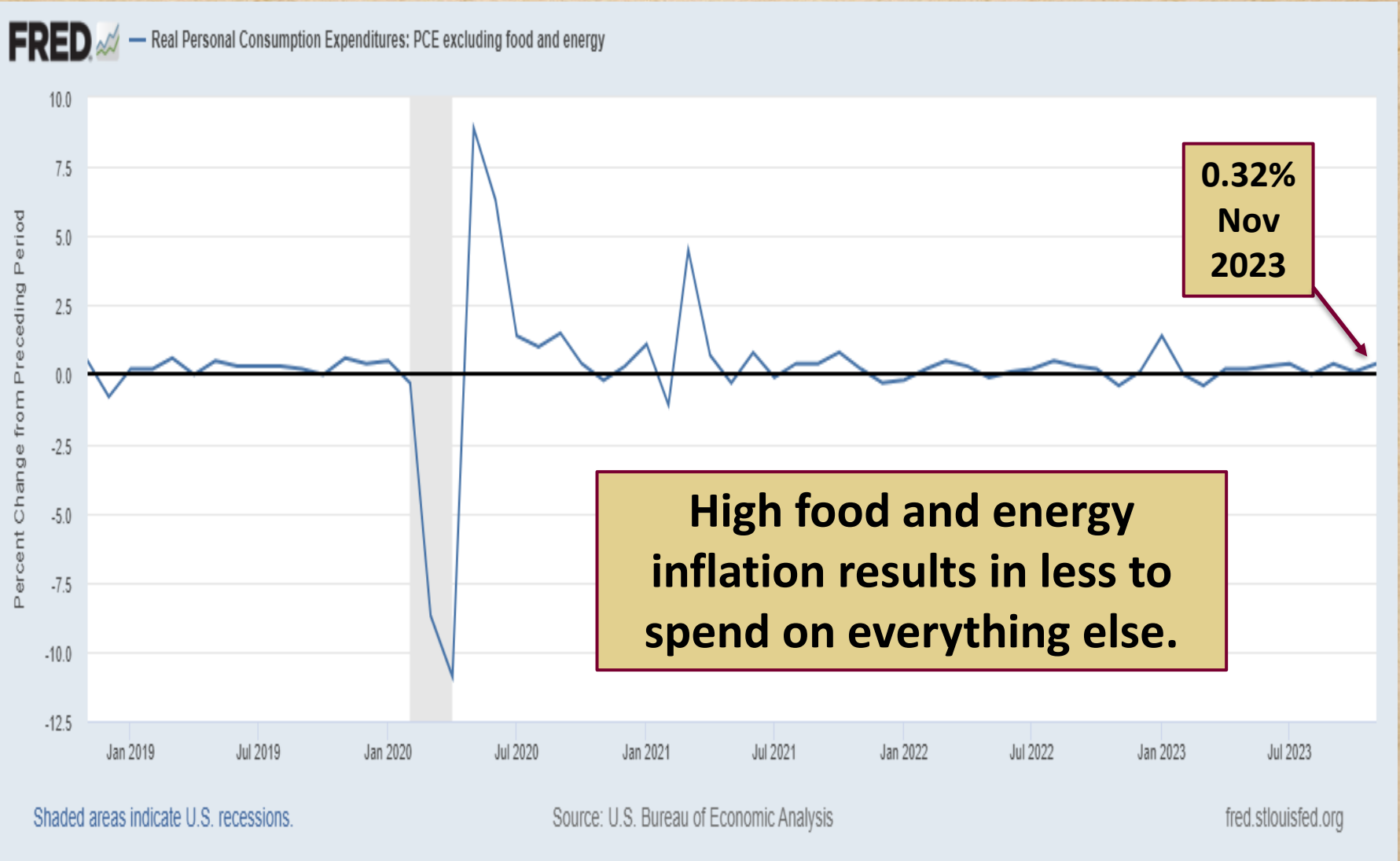


Source: U.S. Department of the Treasury. Fiscal Service

fred.stlouisfed.org

Source: Federal Reserve Bank of St. Louis

Consumer Spending (ex Food & Energy) is Weak



10-yr Treasury Rate Fell Slightly in 2023

Start: 3.90% Low: 3.30% High: 4.98% End: 3.85%

NOT controlled by Federal Reserve

FRED

— Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis

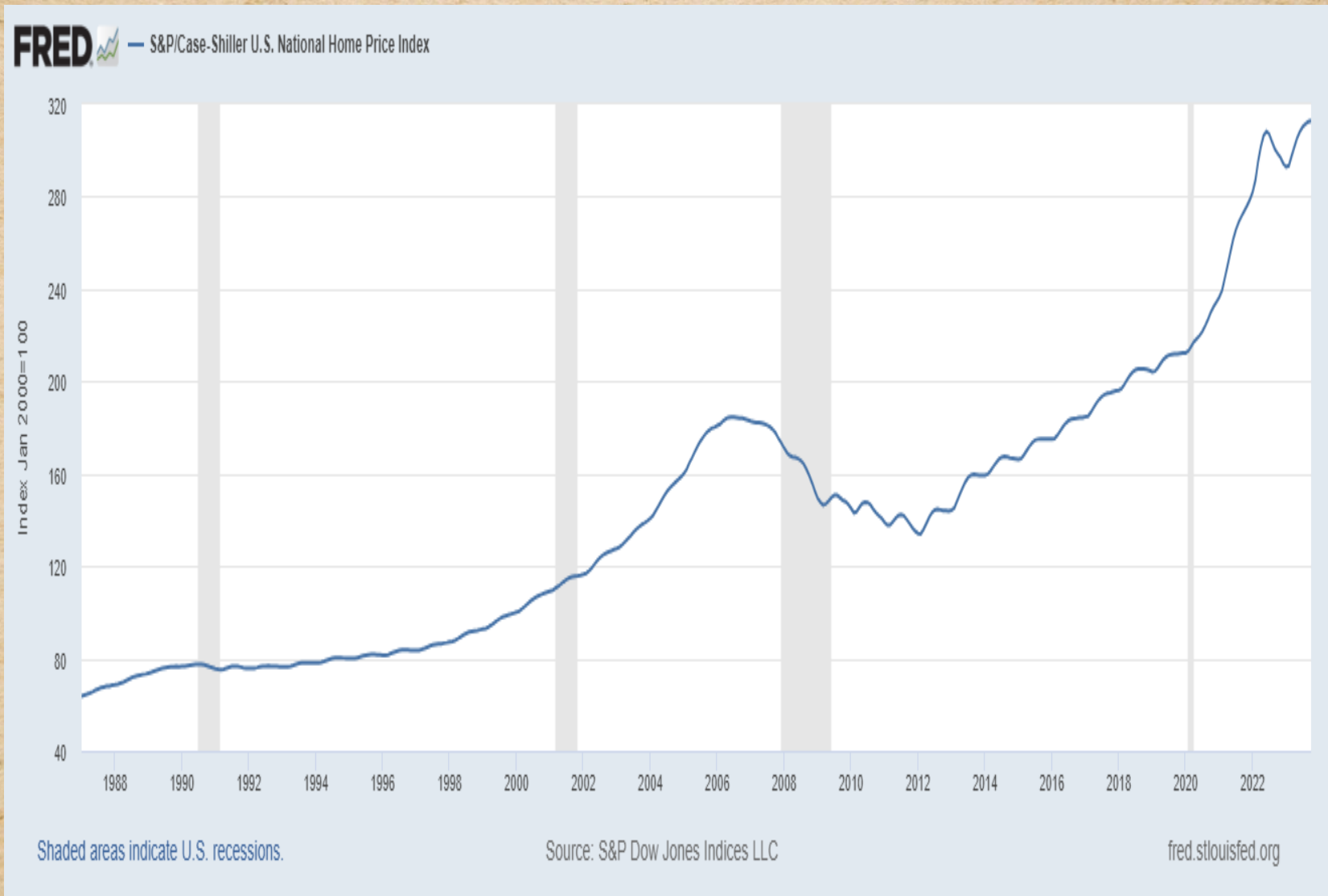


Shaded areas indicate U.S. recessions. Source: Board of Governors of the Federal Reserve System (US)

fred.stlouisfed.org

Source: Federal Reserve Board St. Louis

House Prices Climb to New Highs ...



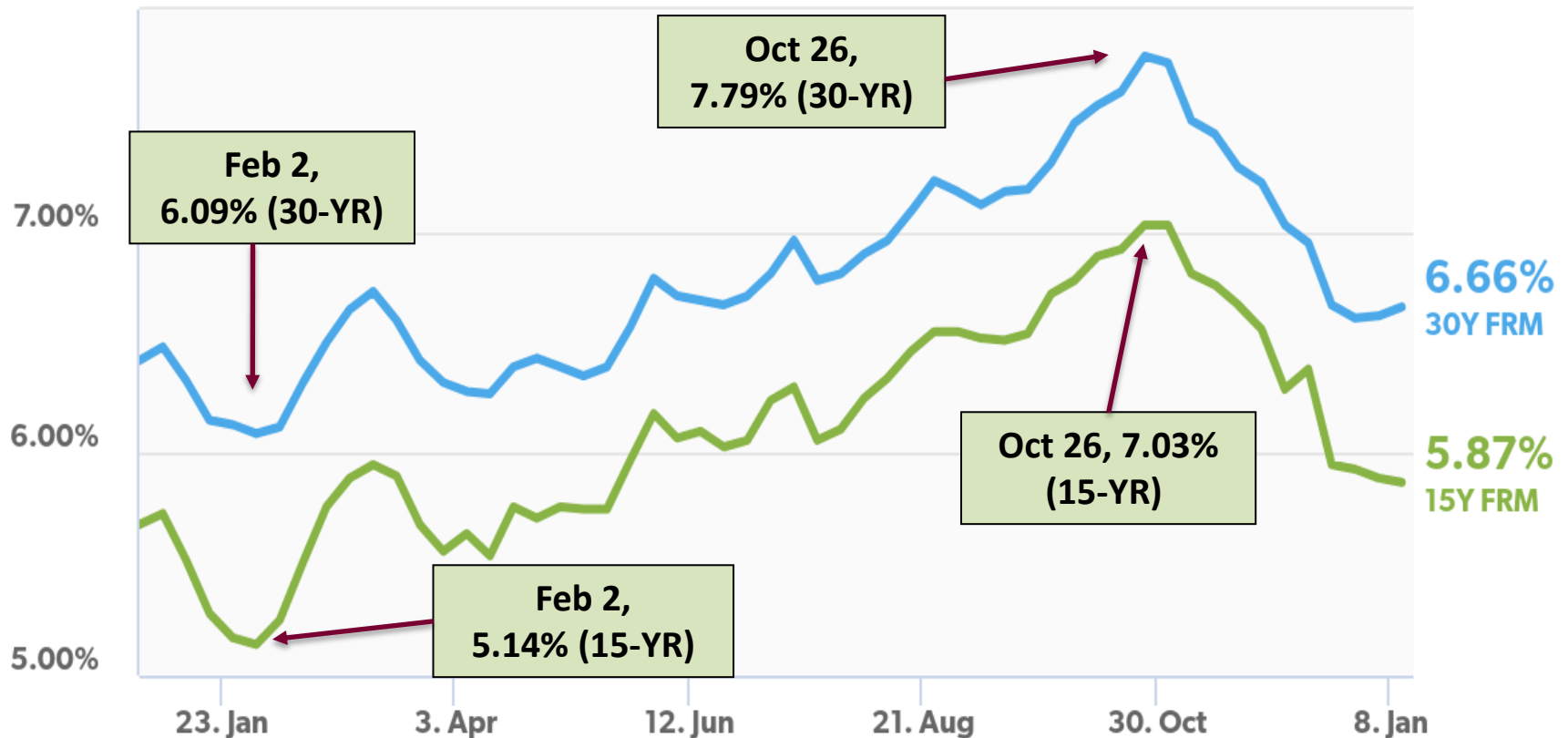
Source: S&P/Case-Shiller

... and Fixed Rate Mortgage Rates Rise



Primary Mortgage Market Survey®

U.S. weekly average mortgage rates as of 01/11/2024



Source: Freddie Mac

Causing Housing to Become Unaffordable

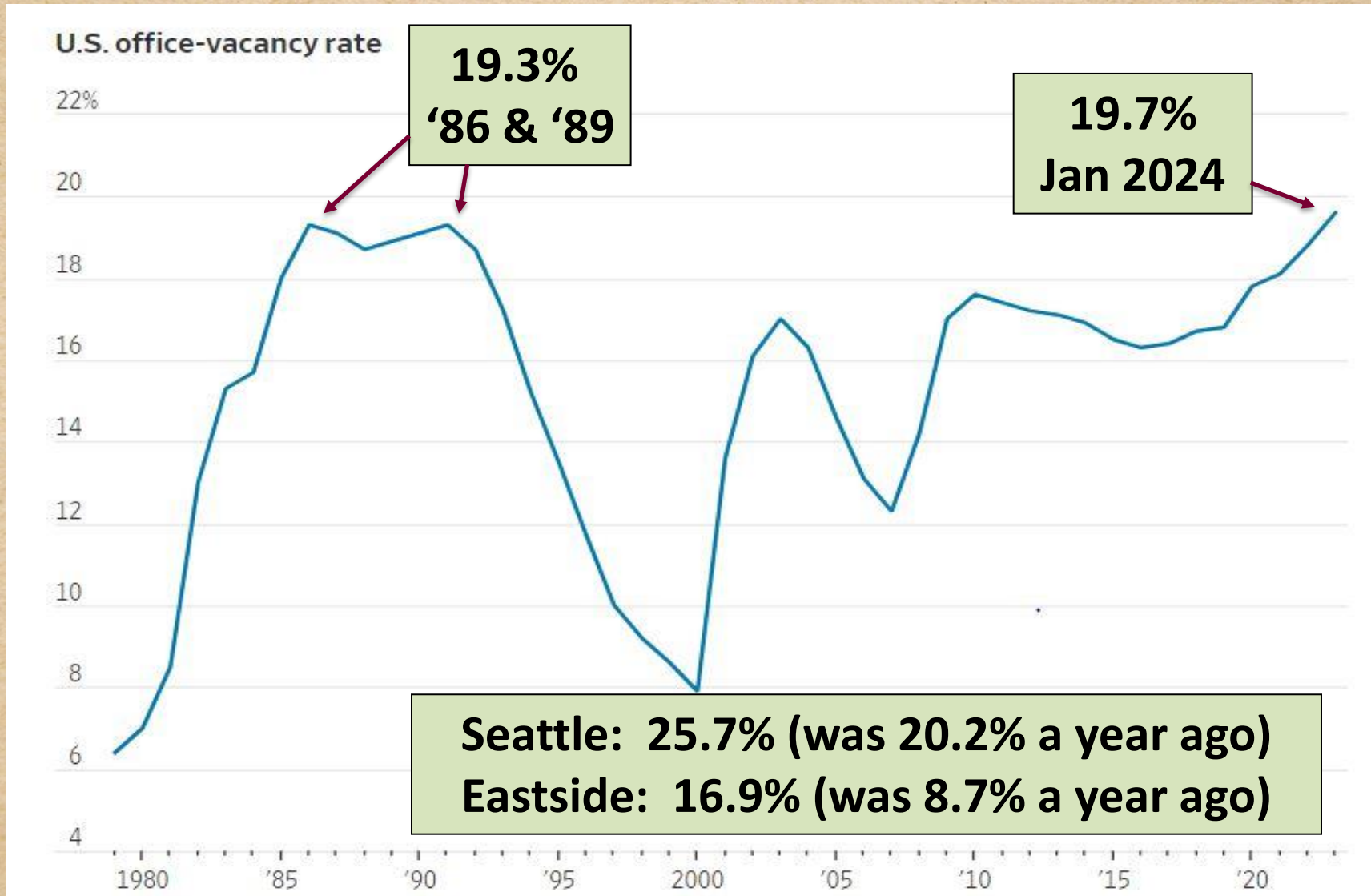
Housing has become increasingly unaffordable
First-Time Homebuyer Index



Sources: National Association of Realtors, Haver Analytics, and J.P. Morgan Wealth Management. Data as of 3Q 2023. Note: A value of 100 means that a family with the median income has exactly enough income to qualify for a mortgage on a median-priced home. An index above 100 signifies that family earning the median income has more than enough income to qualify for a mortgage loan on a median-priced home, assuming a 20 percent down payment.

Source: U.S. National Assoc of Realtors; JP Morgan Asset Management

U.S. Office Vacancies are Sky-High



Source: Moody's Analytics, Cushman & Wakefield

**Although there are Warning
Signs, the Important Thing is
to Focus on the Long-Term**



Ma

Secular Bear Markets (10 - 12 years)



Secular Bull Markets (16 - 18 Years)



Chart 1: Dow Jones Industrial Average: 1885 to present

The Dow Jones Industrial Average (DJIA) rallied to a new all-time high last week to suggest that the secular bull market continues. **9 years so far**



Source: BofA Global Research, Bloomberg

Source: Bank of America

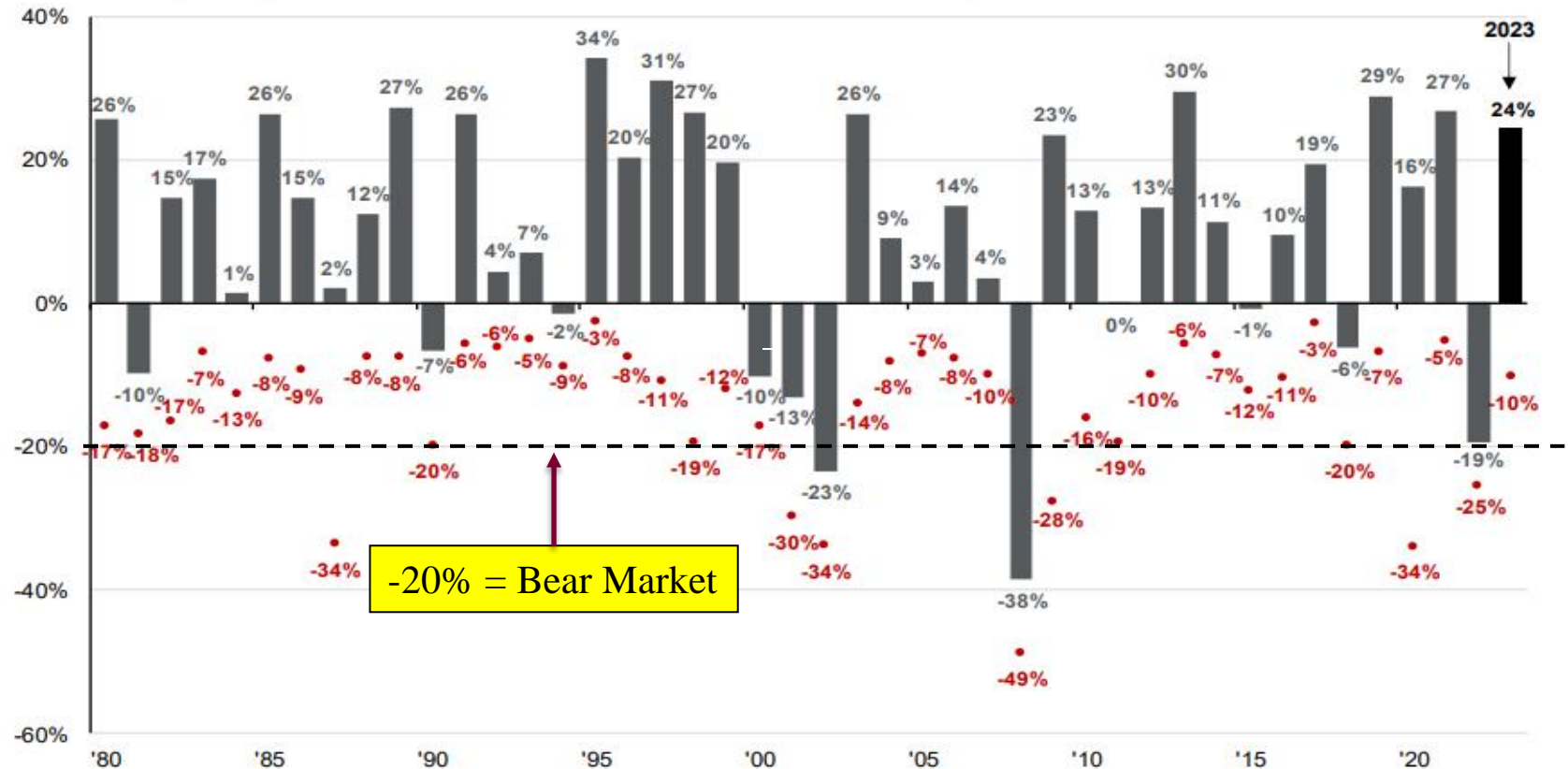
S&P 500 Annual Returns & Intra-Year Declines

Annual returns and intra-year declines

GTM U.S. 14

S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.2%, annual returns were positive in 33 of 44 years



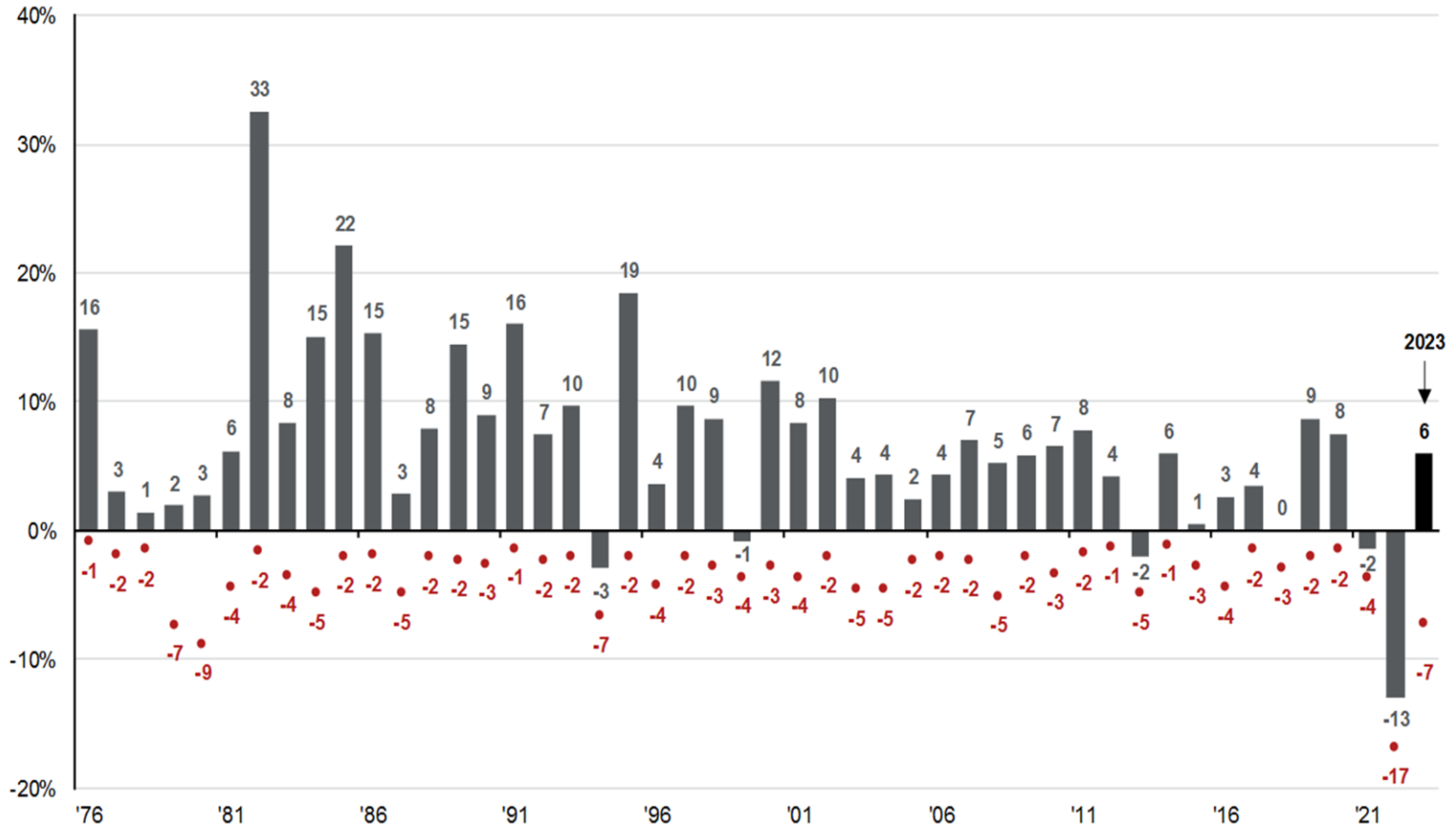
Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only, Returns shown are calendar year returns from 1980 to 2023, over which time period the average annual return was 9.0%. Guide to the Markets - U.S. Data are as of December 31, 2023.

J.P.Morgan
ASSET MANAGEMENT

Bond Returns Have Been Positive 90% of the Time Over the Last 48 Years

Bloomberg U.S. Aggregate intra-year declines vs. calendar year returns

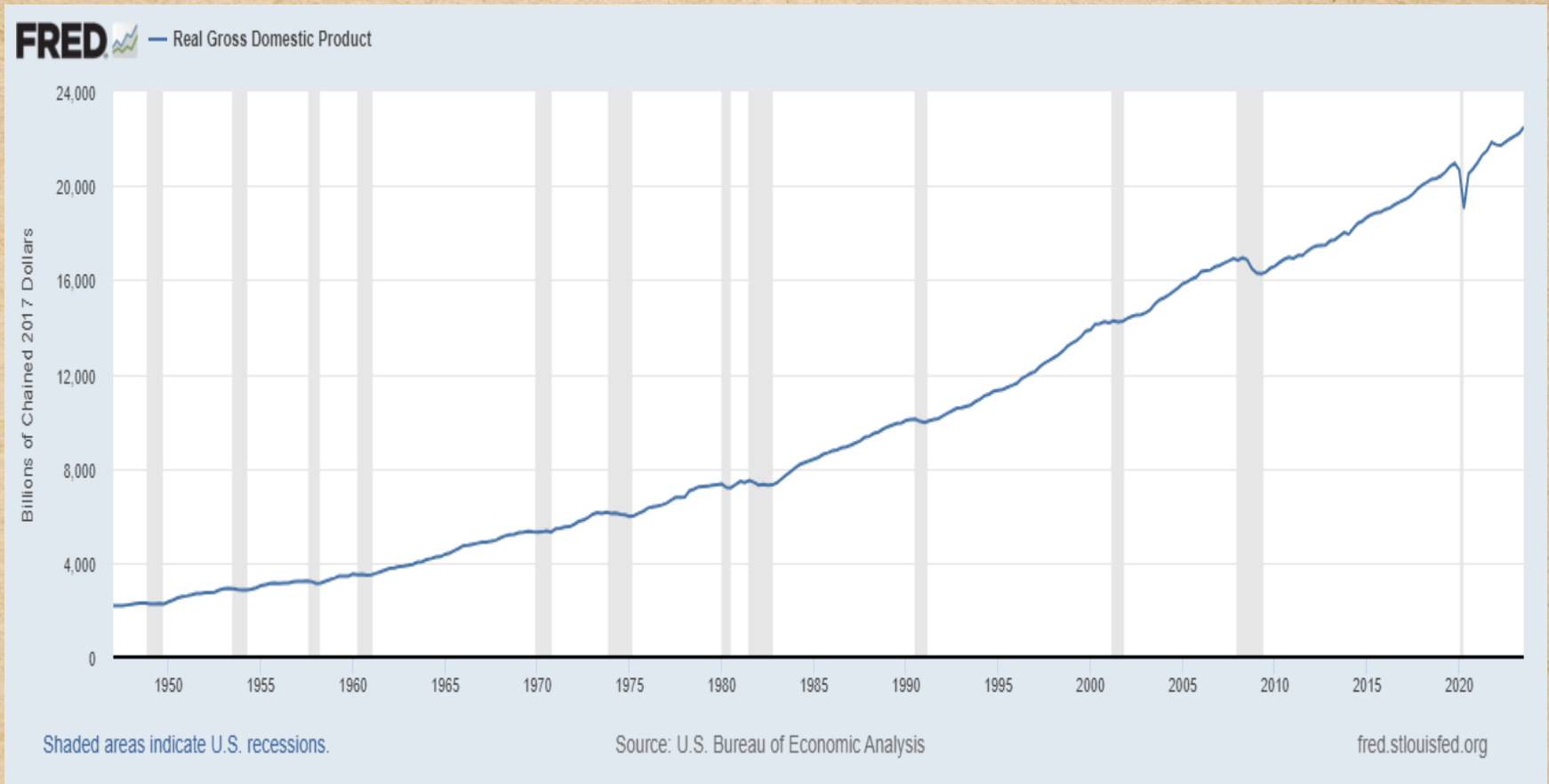
Despite average intra-year drops of 3.4%, annual returns were positive in 43 of 48 years



Source: JM Morgan Asset Management

Ma/M

“The Stock Market Made a New High: Let’s Sell!”



“The stock market makes a new high every 3 of 5 years, because the economy keeps growing.”

Source: Federal Reserve Bank of St. Louis

M

Our 2024 Predictions

- The U.S. possibly experiences a very mild recession in spring/early summer, but the economy grows 1.5% for the full year.
 - The same prognosticators who 12 months ago incorrectly predicted a bad year for stocks and a U.S. recession, now predict no recession; aka “soft landing.”
 - FRB Chair Powell: “The full effects of our tightening have likely not been felt.”

2024 Projections

- **Inflation trends lower, as the economy weakens, with Core PCE declining from 3.1% to 2.5%.**
- **This clears the way for the Federal Reserve to cut rates, but not until summer.**
- **The Federal Reserve does not want to cut rates prematurely, and risk reigniting inflation.**

2024 Projections (Cont'd)

- **Federal Reserve lowers rates from 5.5% to 4.5%, which is still almost twice the rate of inflation.**
- **The 10-yr Treasury yield declines from 4% to 3.25%.**
- **Stocks finish modestly higher (probably a safe assumption, as stocks rise 80% of the time).**

2024 Projections (Cont'd)

- There is a decent chance bonds outperform stocks. We continue to love bonds, as yields have not been this high in two decades.
- The *Magnificent Seven* (Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA and Tesla) take a back seat to the broader market, especially small and value stocks.
- Investors wring their hands over politics.

Raymond James' 2024 Outlook

+ 9.01%

BULL
(25% probability)

5,200
\$245 EPS

Economy **Avoids Recession**
Global Recovery Unfolds
Margin Expansion
Dollar Weakening

+1.68%

BASE
(60% probability)

4,850
\$225 EPS

Mild Recession Lasting 2 Quarters
3-4 Fed **Rate Cuts**
Stable Margins

-9.85%

BEAR
(15% probability)

4,300
\$200 EPS

Severe Recession
Hawkish Policy Response
Contracting Margins
Weakening **Credit Markets**
Strengthening **Dollar**

Forecasted returns include dividends

Source: RJ Portfolio & Technical Strategy

M/S

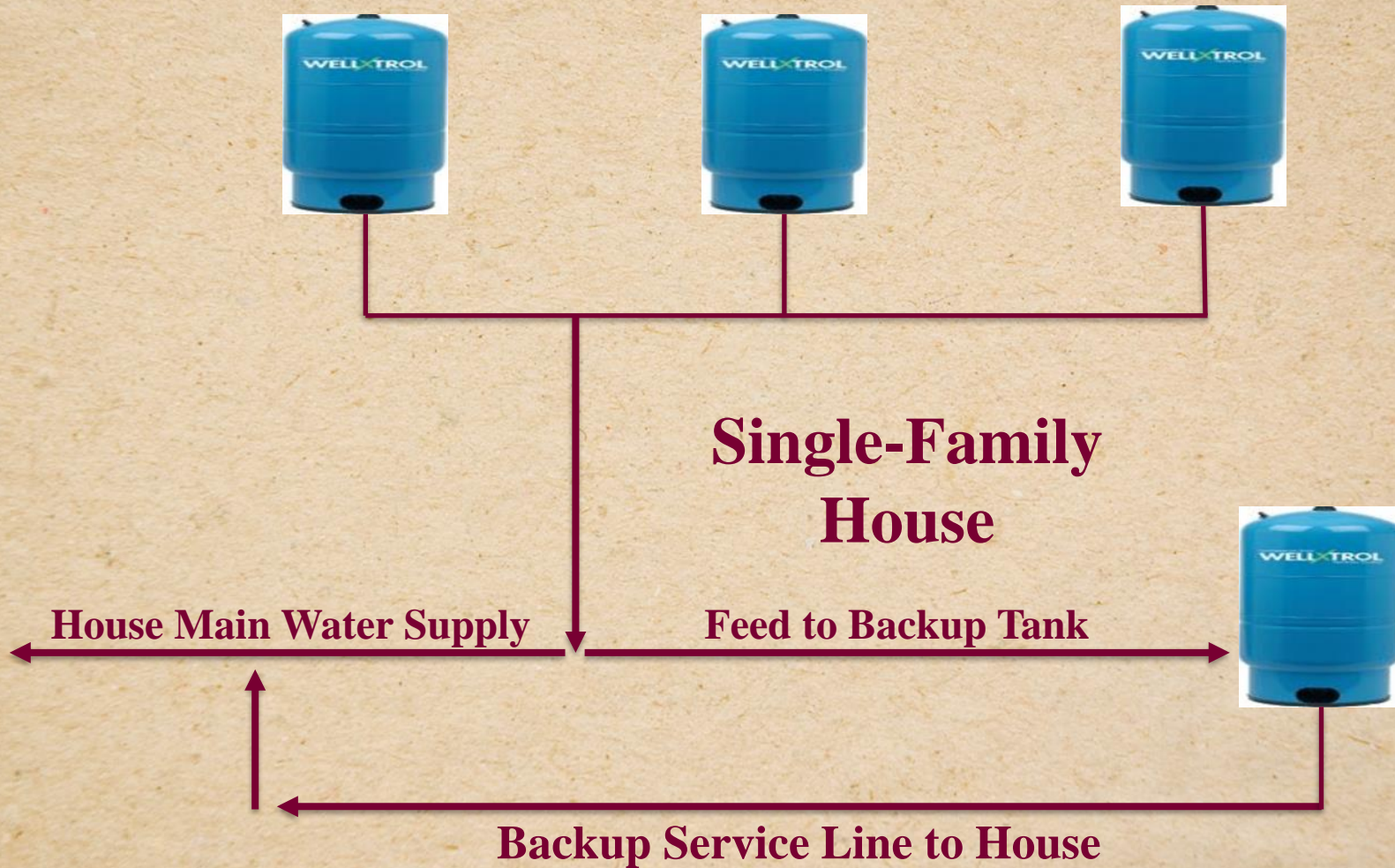
Artificial Intelligence



S/M

AI Real Life Application

Pumphouse (Serves 3 Families)



M/S

Artificial Intelligence

Solution using Google Bard

Question: How do I set up a stand-by pressure tank to store water in my basement, if I am on a well?

Response: To set up a stand-by pressure tank to store water in your basement if you are on a well, you will need the following materials:

- A stand-by pressure tank
- A pressure switch
- A check valve
- A ball valve
- A relief valve
- PVC pipe and fittings
- Electrical wire and connectors

Once you have gathered your materials, follow these steps:

- 1 Choose a location for the tank. The tank should be placed in a level area of your basement that is protected from freezing.
- 2 Mount the tank. Use the included hardware to mount the tank to the floor or wall.
- 3 Install the pressure switch. The pressure switch should be installed on the outlet side of the tank. Connect the pressure switch to the tank using a short piece of PVC pipe and a threaded fitting.

Artificial Intelligence

Solution using Google Bard (Cont'd)

4 Install the check valve. The check valve should be installed on the inlet side of the tank. Connect the check valve to the tank using a short piece of PVC pipe and a threaded fitting.

5 Install the ball valve. The ball valve should be installed on the outlet side of the pressure switch. Connect the ball valve to the pressure switch using a short piece of PVC pipe and a threaded fitting.

6 Install the relief valve. The relief valve should be installed on the outlet side of the ball valve. Connect the relief valve to the ball valve using a short piece of PVC pipe and a threaded fitting.

7 Connect the tank to your plumbing system. Use PVC pipe and fittings to connect the tank to your well pump and your home's plumbing system.

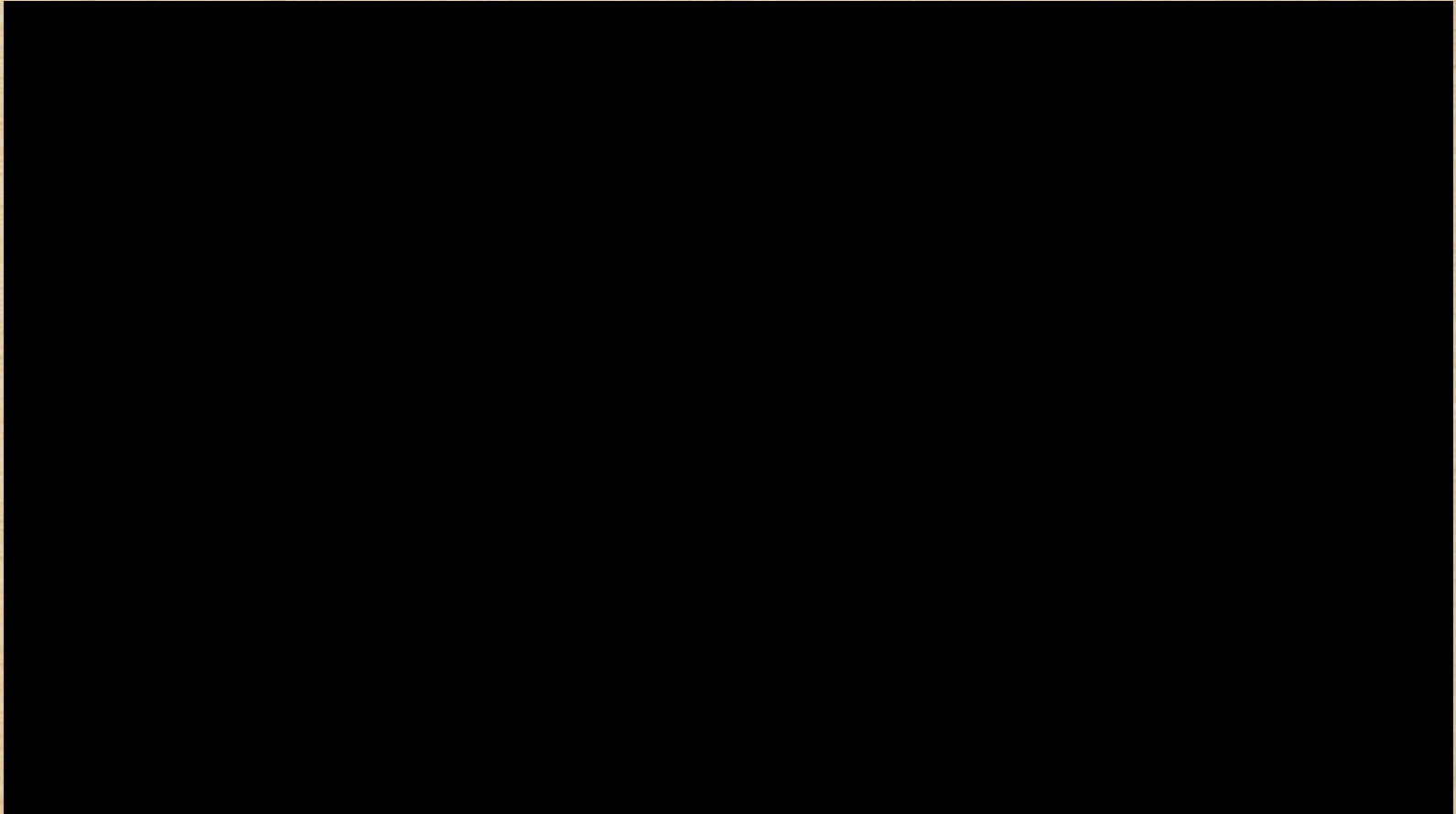
8 Wire the pressure switch to your well pump. Follow the instructions that come with your pressure switch to wire it to your well pump.

Once the tank is installed and wired, you can test it to make sure it is working properly. To do this, turn on the well pump and allow the tank to fill. Once the tank is full, turn off the well pump and open a faucet in your home. The water should flow from the faucet until the pressure in the tank drops below the pre-set cut-off pressure. Once the pressure drops below the cut-off pressure, the well pump will turn on and refill the tank.

Once you have tested the tank and verified that it is working properly, you can close the ball valve and put the tank into service. The tank will now provide you with a backup supply of water in case your well pump fails or if you experience a power outage.

M/S

And Now Add on Quantum Computing!



S/E

The Story of How Michael and Ethan Met in 2007 (from Ethan's perspective)



E/M

Future of Fisette & Kim Financial

- On July 1, 2025, Ethan will succeed Michael as President of Fisette & Kim.
 - Scott Milam will succeed Ethan as Managing Director of Fisette & Kim
- Michael will become President Emeritus.
 - Serve on Investment Committee
 - Continue mentoring FA's
 - Author e-mails and Annual Outlook
 - Meet with clients



M/E

Future of Fisette & Kim Financial

- Everyone at Fisette & Kim uses the same investment strategies, and financial planning procedures. Nothing will change.
- We will ensure everyone is assigned to an FA, with whom they are comfortable.
- The culture of Fisette & Kim is deeply engrained: “*Profoundly Impacting People’s Lives.*”
- Gina and my life’s savings will remain at Fisette & Kim, and Ethan will be our advisor.



E/M

Save the Date

**Client Gala
Carnation, WA
July 20, 2024**



M

- The information contained in this report does not purport to be a complete description of the securities, markets or developments referred to in this material.
- The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete.
- Any information is not a complete summary or statement of all available data necessary for making an investment decision, and does not constitute a recommendation.
- Every investor's situation is unique, and you should consider your investment goals, risk tolerance and time horizon before making any investment. Investing involves risk and you may incur a profit or loss regardless of strategy selected.
- Any opinions are those of Fisetto & Kim Financial Services, LLC, and not necessarily those of RJFS or Raymond James.
- "The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Dow Jones Industrial Average (DJIA),. Commonly known as "The Dow, is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.
- There is no assurance any of the trends mentioned will continue or forecasts will occur.
- Expressions of opinion are as of this date, and are subject to change without notice. Forward looking data is subject to change at any time, and there is no assurance that projections will be realized. All investments are subject to risk. There is no assurance that any investment strategy will be successful.

