Quarterly SIS Client Newsletter Q4 2023

After a historically challenging year for the financial markets in 2022, 2023 was ultimately a year of recovery – but it took several positive developments in the fourth quarter to make that happen. Coming into Q4, the financial markets had endured two consecutive months of losses, and that trend even continued in October, which finished with the S&P 500 down around 10% and technically in correction territory. Things began to turn around quickly in November, however, thanks to the Federal Reserve finally sending the message investors had been anxiously waiting for – that they were probably finished raising short-term interest rates.

Before we discuss the fourth quarter in more detail, let's go back to the beginning of last year. At the end of 2022, the stock market, as measured by the S&P 500, was down by 19.44%.[1] All three major market indexes were in the red after a year in which the Fed rapidly raised short-term interest rates to fight high inflation. From March to December of 2022, the Fed took its benchmark short-term rate from near zero to 4.37%. That historically aggressive pace pushed long-term interest rates up from 1.74% to 3.83%. Since rising interest rates generally decrease the value of all assets, the bond market also struggled greatly. As we've noted before, 2022 was probably the most challenging year we've ever seen for bond investors thanks to that constant interest rate headwind created by the Fed.

Coming into 2023, however, we were optimistic that the worst was over. Inflation had been falling steadily for six months, and although the Fed was still talking tough, there were signs that they would probably greatly slow their rate-hiking pace in 2023. That likelihood increased in March when two regional banks failed, raising fears that another systemic banking crisis might be in the works. As we noted at the time, the Fed's aggressive rate-hiking pace was directly responsible for those bank failures, and for putting many other regional banks at risk. The Fed's efforts had created a fully inverted yield curve, which occurs when short-term interest rates are higher than long-term rates. In addition to being a classic warning sign of a recession, an inverted yield curve creates many challenges for banks and other lending institutions, especially smaller ones.

Laser Focused

Although several geopolitical issues also emerged in 2023 that could potentially have disrupted the markets (such as the war in Israel and another congressional showdown over the debt ceiling), investors remained laser-focused on the Fed. The markets saw bouts of volatility and struggled mid-year as the Fed continued raising rates in quarter percent

increments – but compared to the extreme volatility of 2022, it was nothing. Still, as noted, the stock market did suffer three straight months of losses from August to October and the bond market struggled as investors nervously waited for the Fed to turn dovish.
That finally happened in November. Although the Fed didn't say definitively that they were done raising rates, they strongly hinted at it mid-month after the release of a slew of economic data indicating that inflation was continuing to slow – as it had been for over a year. That hint was good enough for investors, and it triggered a rebound that – once again – ultimately made 2023 a year of recovery.

In the end, the Fed only raised short-term rates by another percentage point in 2023, compared to over 4% the year before. The Fed funds rate was 4.37% coming into 2023, and it now stands at 5.37%. As for long-term rates, although the interest rate on the 10-year government temporarily hit 5% during that period of nervous anticipation in October, it ultimately ended the year only a fraction of a percent higher than it started the year, jumping from 3.73% to 3.87%.[2] As a result, all major market indices were up during the final quarter. The Dow was up by 13% to finish the year at 15.9%, the S&P 500 was up 11.6% to end at 26.0%, and the NASDAQ was up 13.8% for a total of 44.7%.

Of course, the recovery was also aided by some positive economic data, including a GDP growth rate of 4.9% for the third quarter.[3] Naturally, the artificial intelligence (AI) boom, led by the so-called Big Seven tech companies (Google, Apple, Tesla, Meta, Amazon, Nvidia, and Microsoft), was also a major factor in helping Wall Street recover strongly enough to wipe out the losses of 2022.

As income investors, of course, most of you don't have much invested in the stock market and even those of you who do are using our stock dividend strategies, which can't really include tech stocks because they generally don't pay dividends. The good news, however, is that the bond market also ultimately enjoyed a strong recovery in 2023, with the Barclays Bond Aggregate rebounding from negative territory to end the year up 5.5%.[4] Our own recovery was even better – as you'll read more about in the Fixed Income section below.

Our Take

Looking ahead, the Fed will continue to be a driving force for the markets this year. Although their rate hiking efforts are probably now finished, they have signaled they'd like to start lowering rates again this year. There is also still a lingering chance the economy could tip into a recession. While that would likely put downward pressure on the stock market, it would greatly increase the chances of the Fed lowering rates again, and falling interest rates would probably give bond investors a welcome sustained tailwind. Of course, there are also still many geopolitical factors that could impact the markets this year – from the ongoing conflicts abroad to the 2024 presidential election – so it's important to stay informed.

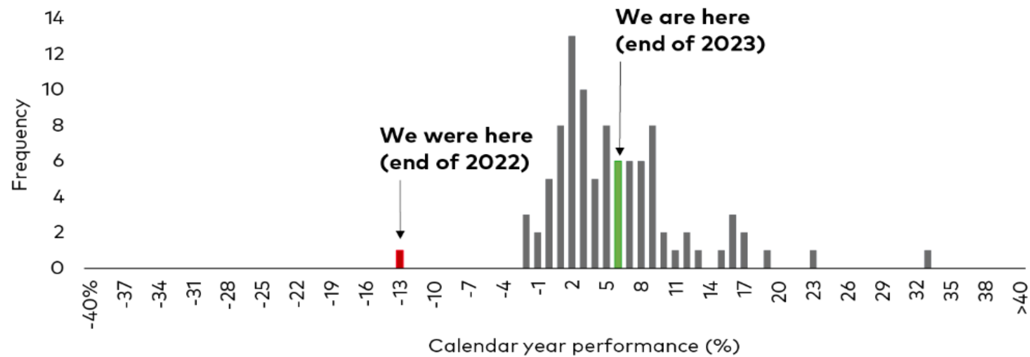
[1]*S&PGlobal.com*

[2]*YCharts.com*

[3] *bea.gov*
[4] *"Strong 4th Quarter Return in Stocks and Bonds," Dec. 29, 2023, advisors.vanguard.com*

Bonds and Fixed Income Securities Overview

Thanks to a strong fourth quarter, our fixed-income portfolios fared much better than the market average to make up for the worst fixed-income market in four decades in 2022. One of our bond portfolios finished the year up by 12% and another was up over 15% for the year. Picking the securities of solid companies in both stock and bonds and staying the course has proven to work in investing. Looking back almost 100 years at the distribution of government and aggregate bond index bond performance, we can see the concentration of returns with very few outlying years with a high frequency.

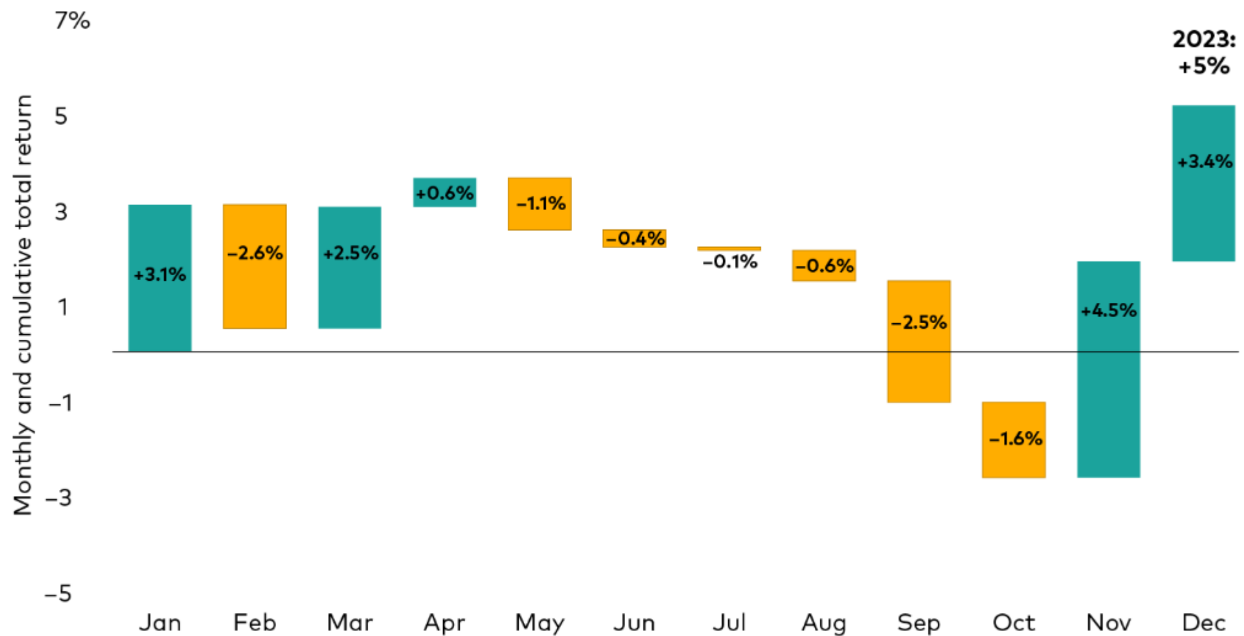


Source: Vanguard

Credit Spreads

Revised data for lower labor and inflation numbers during the quarter helped push the yield curve lower to a bull flattener position or inverted bull flattener to be more precise. Credit spreads came in tighter on top of the US Treasury curve rally with investment grade (IG) and high yield (HY) spreads tightening during November by -21 bps and another -7 bps in December for IG credit. HY saw -58 and -50 bps worth of spread tightening during November/December, bringing overall spreads on IG bonds to -104 OAS and -334 OAS, (Option Adjusted Spread) for HY bonds. All bond sectors tightened through the quarter with Real Estate, Autos, Leisure, Banking, and Financial Services leading the way with -18 to -12 bps worth of tightening. The High Yield (HY) Index tightened by -50 bps MoM and by -145 bps for the entire 2023. Triple CCC let the way followed by single B and double B credits, with CCC credits tightening/rallying by over -300, (3.0%) bps during the year.[1]

<u>Cumulative monthly Barclays Bond Aggregate returns for 2023</u>



Source: Vanguard

Given some weaker reported labor and inflation numbers and the Fed's pivot to a more dovish tone, we've seen bonds and equities rally to a point where we didn't buy any new bonds in Q4. Fixed income markets are mostly professional/ institutional markets and when professionals anticipate a rally, such as we've just experienced, they tend not to offer their bonds out to the market, unless you want to grotesquely overpay of course. Therefore, trading volumes were light for us during the holiday season. However, earning 5.25% in a "fairly" risk-less money market instrument isn't the end of the world, provided we get a selloff during the first quarter of this year to put additional capital to work at better spread/yield levels than where bond yields finished the year.

Fixed Income Outlook & Perspectives

The Bloomberg global bond index increased by 5% in December for the largest monthly gain since December of 2008, when the Fed slashed rates to zero and pushed their quantitative easing policy in November of that year. Needless to say, it's probably been overdone and we're looking at a bit of a bond selloff in the coming months. This should present yet another opportunity to purchase bonds on sale, with decent spreads/ yields to lock in the next few months.

While this year ultimately produced great returns and increased income for our income-based portfolios, we are cautious entering 2024. That's because the financial markets are usually forward-looking, and investors are assuming the Fed will quickly lower rates and therefore bid up bonds back below a 4% yield in the 10-year US Treasury. Given investors have probably priced in a "Goldilocks" scenario for this year, we'll look for continued weakness in

inflation before making material adjustments. We will continue to search for quality companies that pay solid income and interest, but we do expect that returns will revert towards the long-term mean for equity and fixed-income markets this year, provided a recession can be avoided.

[1] *Credit spread data is based on information from information from the following sources: Bloomberg, Vanguard, Charles Schwab, and Reuters.*

Equities Overview

"Great years have most often been followed by good years," – Sam Stovall, Chief Investment Strategist at CFRA

As stated by Sam Stovall above, one of the many axioms on Wall Street based on historical frequency is that good markets follow great markets. While this phrase typically is applied to years, and many are using it to infer that 2024 should be a decent year, following a much better-than-normal 2023, it also applies to a very good December following a great November in Q4. December's results were quite good across the board, as posted below, though behind November's surge following a tough October. We should get some retracement in January, as concern about Q4 earnings cools sentiment a bit, but any pullback should not be much, unless something unexpected enters the fray, like another conflict, or ugly data.

As shown below, over the last 24 months, both the Russell 1000 Growth and Value indices are still down, on a price and total return basis since December 31, 2021, but Growth had one heck of a year in 2023, coming off its lows to return ~42.7% versus 11.4% for Value. As has been discussed here and just about everywhere, the AI-driven rally was the primary catalyst for the growth names this year, while the Fed pivot was the primary catalyst for everything in November and December.

With interest rates falling, growth stocks and small-cap stocks typically outperform. However, because growth stocks raced so far ahead, on valuation even more so than growth, we expect the broadening out of the market to give small-cap and value names a little more lift at least in early 2024 than the large-cap growth champions that lead the way throughout 2023.

Russell 1000 Value Versus Russell 1000 Growth – Last 23 Months

As implied by the results in the tables below, large-cap tech/growth names posted their best relative and absolute performances in many years in 2023, with growth outperforming value by over 30% for the year, on the back of positive revisions in artificial-intelligence-related technology names, in contrast to negative revisions in typical value areas, like financial services. In December, value names outperformed growth, for the second month this year, but still, the tech-heavy NASDAQ beat the other major indices. After a dreadful year, dividend names had relatively strong Decembers, with DVY and DIVY outperforming the major indices for the first time since January.

In December, the total rates of return for the various benchmarks were:

Russell 1000 Value (RLV)	+5.52%	Russell 1000 Growth (RLG)	+4.43%
S&P 500 (SPX)	+4.53%	Dow Jones Industrial Average	+4.93%
NASDAQ (CCMP)	+5.62%	iShares Select Dividend ETF (DVY)	+5.76%
		Sound Equity Income ETF (DIVY)	+6.26%

For 2023, the total returns for the various benchmarks, ***assuming reinvestment*** were:

Russell 1000 Value	+11.41%	Russell 1000 Growth	+42.67%
S&P 500	+26.26%	Dow Jones Industrial Average	+16.18%
NASDAQ (CCMP)	+44.70%	iShares Select Dividend ETF (DVY)	+0.51%
		Sound Equity Income ETF (DIVY)	+5.13%

For the first time in a while, our Dividend ETF outperformed both the Russell 1000 Value and other indices, as value and dividend stocks came roaring back on falling interest rates. We

expect lower rates will continue to support our portfolios, but looking beyond us, the biggest rebound story has been small-cap stocks, which are more rate-sensitive than most.

On December 5, 2023, Bloomberg and Barron's ran stories[1] highlighting the valuation and performance disparity between large-cap stocks, as measured by the S&P 500, and small-cap stocks, as measured by the Russell 2000 index. Bloomberg wrote that the current dive in small caps was near the historical average, when a turn typically has come and those turns have been vigorous, with over 30% gains coming in the subsequent 12 months.

If Sound Income's advisors and clients want us to launch a small-cap product to capture some of this rebound and growth, please speak up, as demand for a small-cap dividend value fund has ebbed and flowed over the last few years. If there is $30MM of demand, we could add a new fund without losing money on the project.

Earnings Revisions Tell Different Tales, Depending on the Focus Period

While aggregate earnings revisions were positive in Q4, in frequency, in December, there were more negatives than positives. According to Ken Polcari, S&P 500 EPS are expected to grow by just 2.4% in Q4'23, below the 4.9% reported in Q3, with the number of companies reducing guidance exceeding those who raised it. His Q4 data provides a much more eye-opening picture of the road ahead than the data we look at, which is more annually focused, but it is worth breaking out, as he does for the contrast, "Consumer Discretionary is expected to be the best-performing sector of the 11 S&P sectors – with earnings growth rate of 43.9%, Communications up 23%, Industrials up 11%, Financials +8%, Utilities + 7%, Information Tech +5%, Real Estate +3%, Consumer Staples +2.5%, Energy is expected to be the worst sector with earnings declining by 29% with Basic Materials down 23% and Healthcare down 21%." [2]

Monthly US Equity Market Report ***12/31/2023***

Fundamental, Technical, and Valuation Snapshots

Fundamentals: Still Better than Feared: Tech continues to improve & HC deteriorate

Trend Economy is growing, input prices (ex-labor) are falling, sentiment is improving, with Fed hikes over.

	Sector	Comment
(+)	Information Tech	AI demand, cost cutting, and BTE orders have lifted #s & outlooks.
(+)	Communications	Still positive revisions for Internet Cos, select Media, and Telecoms.
(+)	Consumer Discretionary	Inprovement in cyclical names on Fed cut & discretionary income growth.
(+)	Financial Services	The Fed pause and soft landing optimism have helped offset volume dip.
(+)	Consumer Staples	Price & cost pressures continue to abate, but volumes are weak.
(+)	Utilities	Rising capacity investments & lower rate outlook are lifting estimates.
(+)	Real Estate	Higher rents marginally offset lower occupancy & rate impacts.
(--)	Energy	High inventories, soft volume & weak earnings have clipped outlook.
(--)	Materials	Falling prices and soft demand hit estimates, but sentiment is improving.
(--)	Industrials	Strikes, falling backlogs & orders hit estimates, but sentiment is rising.
(--)	Healthcare	Biden drug price policies, FX & soft volumes are reducing estimates.

	12/31/2023		Earnings Revisions			Performance (Total RoR)		
	Mix		3 Mo.	6 Mo.		MTD	QTD	YTD
S&P 500			**0.4%**	**1.9%**		**4.5%**	**11.7%**	**26.3%**
Communications	8.8%		4.2%	6.4%		4.8%	10.9%	55.8%
Consumer Discretionary	11.2%		2.7%	9.6%		6.1%	12.4%	42.3%
Consumer Staples	6.7%		0.7%	2.6%		2.7%	5.5%	0.5%
Energy	3.8%		-0.7%	0.4%	Worst =>	-0.1%	-7.0%	-1.4%
Financial Services	12.5%		2.1%	1.7%		5.4%	14.0%	12.1%
Healthcare	12.5%	Worst =>	-7.5%	-11.7%		4.3%	6.4%	2.1%
Industrials	8.8%		-3.8%	-3.8%		7.0%	13.0%	18.1%
Information Tech	28.6%	Best =>	5.0%	12.7%		3.8%	17.2%	57.8%
Materials	2.4%		-3.1%	-6.7%		4.6%	9.7%	12.5%
Real Estate	2.5%		0.2%	0.9%	Best =>	8.7%	18.8%	12.3%
Utilities	2.2%		0.2%	0.4%		1.9%	8.6%	-7.1%

Source: Bloomberg

However, as you can see from the table above, the strong market price action for some of these sectors did not line up with their Q4 revisions very tightly, as revisions, while important, do not factor in the baseline valuations and expectations for improving earnings ahead. Real Estate stocks were the best-performing sector due to their rate sensitivity and the relatively tight valuation spread to replacement costs versus historical norms. As under-utilized office space is gradually converted to housing, where there are shortages, the market equilibrium is seen as returning, even with so many people who live near major cities still working remotely.

As discussed above, the November rally continued in December, with many of the same themes, such as a broadening out of the market strength beyond the Magnificent Seven, small caps surging by another 10%+, as they remain relatively cheap, and cyclicals showing

signs of optimism in their price actions, ahead of fundamental gains. We expected this trend to continue, but at a slower pace, as the current surge in equity prices seems to be pricing in an acceleration in good news that is not yet in the bag, so to speak.

Investment Themes for The Year Ahead

The equity market famously discounts fundamental changes six to nine months in advance, and those leaps are typically front-end-loaded with half of the gaps up or down happening in the first two months of the perceived period. So, the gains and relative underperformance that seem likely to emerge from the themes below have already started moving, and in some cases seem a bit too far ahead of themselves, so some pullbacks seem warranted.

Winning Themes and Industries:

- Lower Interest Rates Will Lift Housing, Capital Spending & M&A, while weakening the USD.
  - Home building and home improvement stocks should benefit.
  - ISM reports manufacturers see a 12% rise in capex in 2024.[3]
  - Rising lending activity should help banks and lift auto company sales.
  - Investment bankers have indicated a pent-up demand to do deals, but higher rates killed activity in 2023. With rates lower, 2024 could be a banner year for transactions.
- The Falling Dollar Should:
  - Help to lift US exports.
  - Support commodity prices, including gold.
- Lower Food & Raw Material Prices and Lower Inflation Will Boost Company Profit Margins.
  - We are even seeing some price cuts in consumer staples (food companies)
  - Restaurant margins should also benefit from moderating costs.
  - P&C insurers should see loss rates fall, as premium growth exceeds cost creep.
- Real Wages Should Again Rise, And Consumers Still Are Chasing Services Over Goods.
  - Travel and entertainment stocks should again benefit.
  - Restaurant companies should benefit.
  - Luxury goods makers should see a rebound as discretionary income rises.
- The Election-Year Spending and Rising Discretionary Income Should Lift Affected Stocks:
  - Media & Advertising.
- The Wars in Ukraine & Israel Have Depleted Munitions Stockpiles and Raised Military Spending.
  - Munitions makers will continue to benefit as it will take a few years to rebuild what is being consumed.

Negative Themes and Potential 2024 Losers:

- Falling Grain Prices Will Likely Hurt Farm Equipment Sales.
- Excess Energy Stockpiles & Productive Capacity Should Hurt:
  - Oilfield Services Outlooks.
  - Demand for US Dollars
- Falling Commodity prices Should Continue to Hit Commodity Stocks, Though EM and China Growth Could Reverse Recent Price Declines Before YE '24.
- Slowdown in EV Demand & Alternative Energy Spending Will Hit Narrow Stocks
- Relative Slowdown in Tech Spending Should Hurt Magnificent 7 Valuations.
- Biden Administration Drug Price Tactics Could Spark Another Selloff in Drug Stocks

Technicals Flipped Back to Bullish, But LT Outlook is Neutral Still

Falling interest rates justified a surge, but until the outlook for sales and earnings growth lifts, the technicals seem to be reflecting what has just happened more than forecasting what will come.

Technicals: Overall Bullish: ST Bullish, IT Neutral, LT Neutral.

Key Positive indicators:		All EMAs, ST MACD, TDD, All Fibonaccis, All Trends, Stochastics					
Key Negative indicators:		IT & LT MACD, ST Highs					
(+)	Trend	10/11 sectors closed up in December, leaving only 2/11 down for the year.					
(-)	Fund Flows	Started negative, went positive mid-month and turned negative at end,					
		Price	**30 Day**	**50 Day**	**100 Day**	**200 Day**	
(+)	Golden Cross [50 dma > 200]	4,770	4,638	4,503	4,449	4,354	
(+)	Price / Moving Average [4 / 4 are "> 1"]		1.03	1.06	1.07	1.10	
(+)	Support Levels are plentiful	4,721	-1.0%	4,658	-2.3%	4,590	-3.8%
(+)	Only one Resistance point	4,789	0.4%				
(+)	Volatility, (VIX)	VIX fell 47 bps to 12.45 after Fed meeting notes suggested rate cuts in '24.					
(+)	Trading Volume	Volume rose slightly y/y on Fed rate outlook, which cut rates & lifted FMV.					

Sources: Bloomberg & StockTA.com

However, the trend of falling interest rates, tightening credit spreads, and rising stock and bond prices continues to foretell better days to come, as we expect rates to continue to fall and the yield curve to normalize when the Fed eventually gets around to reducing the overnight rate. Stocks are still cheaper than bonds on an earnings yield spread basis, but the gap has closed materially with a return to a positive risk-free rate in 2023.

Portfolio News and Changes

In the last month of Q4, we finally connected with a handful of companies that were hiding behind their quiet periods, which allowed us to make a couple of trades.

In one dividend portfolio, we repositioned 1.5% of the portfolio weight in AbbVie and 0.5% of the HR Block into Merck's women's health spin-off Organon (OGN), which we believe has more upside and yield than those two, but also a bit more risk. Organon was Merck's legacy women's health business that was spun out in 2021. Its initial $7B equity market cap fell to $3B over the last two years, as the combination of separation costs, stand-up costs, and falling sales in China led to a 45% decline in EPS, versus initial expectations.[4] Today, we believe that after two years on its own, the separation costs are scheduled to be completed in 2024 at a lower level of expense than in the prior two years. Further, the Chinese war against imported drugs seems likely to ease, as it showed signs of improvement in the latest quarter. More certainly than these trends continuing is the fact that the US Dollar has softened and is likely to continue doing so, which will lift OGN sales and EPS, with ~77% of sales being to consumers overseas.

In addition to OGN's very rich 8.6% dividend yield, which is well covered by its 23%+ FCF yield, we find the company's debt reduction plans and extremely low valuation compelling. OGN trades at under 3.5X 2023 full-year EPS, with low-single-digit sales and EPS growth expected in 2024. The falling dollar and the Chinese government's apparent cooling in pressuring doctors to avoid prescribing US-made drugs encourage us that the consensus estimates are beatable. Also, as every dollar that reduces debt effectively shifts enterprise value to the equity side of the equation, we think that the full merit of the company's FCF should benefit shareholders for the foreseeable future. Our 12-month price target for OGN is just over $21 per share, or 5X 2024 EPS. The stock appreciation and the dividend combined, if realized, would be a 71% total rate of return, which looks quite enticing to us. However, the company has missed estimates for nearly two years, and they have publicly questioned the merits of sustaining their dividend, as it has not helped the share price. There is no need to cut it, but management's track record is spotty, so we have only 2/3 of a normal portfolio weight at this time.

In our other dividend portfolio, we sold Southwest Airlines, to buy a stake in Baxter International (BAX), which is another beaten-down healthcare stock that seems to be turning the corner. Baxter is a $19.6B market cap diversified medical products and services company. It trades at just over 14X depressed 2023 EPS, and 13X forward estimates, with a 3% dividend yield. The company plans to spin off its Vantive dialysis business, which makes up 30% of sales and 15% of EBITDA in mid-2024. The company's earnings and valuation multiples are compressed for four reasons: [5]

1) Concerns over the dis-synergies of the breakup.
2) An inflationary cost squeeze, due to three-year contracts that did not adequately protect the company against the surge in inflation.
3) Slower than expected sales growth in its medical products.

4) Fears that the launch of effective obesity drugs might have negative effects on health care demand, including for Baxter's dialysis products, though that would only be the case if massive amounts of people were prescribed the injectable drugs, beyond the currently forecast long-term plans for the companies making those products.

The contract inflation squeeze and slower-than-expected sales have pulled the company's earnings down by 30% and all the aforementioned factors have pulled its stock price down by ~60%, from over $90 per share in 2020 to a low of $31.84 in Q4 2023. However, the worst pressures for the company appear to be abating. After the spin-off is complete and Baxter renegotiates its contracts to include better cost-adjusting language in mid-2024, analysts expect the company's earnings growth to reaccelerate (in late 2024 and 2025). With higher growth, higher margins, and the dialysis concerns gone, Baxter's multiple is likely to reinflate from its currently depressed levels to 13X forward earnings, back up towards its normal high 20s PE multiple. Accordingly, we estimate that in 18 months, BAX will be trading 50% to 100% higher than its current level. In the meantime, investors are scheduled to collect a generous 3% dividend. Because this upside is higher than our forecast for Southwest Airlines, which only had low-double-digit upside, based on our estimates and consensus estimates, we made the switch.[6]

Performance

After a difficult year for most of 2023, our portfolios ultimately outperformed in Q4, led by strong rebounds in many names including Walgreens Boots, Xerox, Franklin Resources, Viatris, and Tyson Foods. Strong gains from these stocks were held back by ongoing weakness in Healthcare, Energy, and Consumer Staples stocks, where the fundamentals turned out to be weaker than expected.

Characteristics: Cheaper Than the S&P 500, With Higher EPS Growth & Dividend Yield

Our portfolios are still 42% to 44% cheaper than the S&P 500 on a 2024e PE basis, with higher dividend yields, but lower weighted average sales growth expectations. As of year-end, one portfolio was paying a 4.6% annual yield, 3.1X that of the S&P 500 at 43% below its 2024e PE price, while the other was paying a 3.6% dividend, 2.4X the yield of the S&P 500, at 44% below its PE price. One portfolio has a 2024e EPS growth forecast that is 3.9% below the S&P 500, while the other is expected to grow EPS by 9.7%, which is 40 bps below the popular benchmark. With Betas at 0.7X the Index Beta, they should go up and down less than the S&P, based on the historical movement of their constituent shares. The EPS growth plus dividend lines in the tables below indicate our approximate expected forward total returns for both portfolios in the next year. These estimates suggest that one portfolio's return could be 10.8% versus 11.5% for the index outlook, while the other should exceed the consensus estimates for the S&P 500 by 1.8% before fees. These estimates are based on consensus EPS estimates, and the gain forecasts imply that the relative valuation multiples remain the same.[7]

Equities Outlook & Perspective

As discussed above, we expect positive returns in 2024, as interest rates come down further, but the ultimate level of the markets will ultimately be driven by earnings growth that is looking tepid at present. If the economy avoids a recession, as the consensus expects (as do we), stocks should be flat to up for the next seven months, and then move higher, if earnings growth catches a gear, for which there are many potential catalysts.

However, if the lag effects from quantitative tightening bear down and we do fall into a recession, then stocks will likely head lower, especially with the uncertainty over the US election before us. We don't expect this downturn to occur, but it has at least a 25% chance. Most likely, we will see interest rates fall further, the yield curve normalizes, and stocks and bonds move higher.

As always, we greatly appreciate your trust and your business.

Sincerely,

Sound Income Strategies

Investment Advisory Services offered through Sound Income Strategies, LLC, an SEC Registered Investment Advisory Firm.

[1] *Barrons, Bloomberg Article Archives, Dec. 5, 2023*

[2] *Kenny Polcari Newsletter, Dec. 29, 2023*

[3] *ISM Monthly Report, Nov. 2023*

[4] *All stock pricing data is from Bloomberg, which sources company data from company filings or compiles forecasts from analysts' estimates.*

[5, 6, 7] *All internal portfolio data is based on Bloomberg data, weighted for our portfolio holdings as of each month's end.*