

# Outlook 2024: A Turning Point

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## Get inside perspective from LPL Research as the economy and markets pivot to something more familiar.



Despite a likely mild recession, stocks and bonds should do well since we expect rates to glide lower.



- Marc Zabicki, Chief Investment Officer, LPL Financial

In 2024, LPL Research believes the markets will make a definitive turn to a more recognizable place, characterized by a return to a market and economy that's more familiar, steady and reliable. En route, the transition will be marked by meaningful shifts in a few key areas. Some you already see now. Inflation is going down, interest rates are stabilizing, and the economy is starting to soften. For others, only time will tell.

From the economy and stock and bond markets to the wars overseas and investments tied to those volatile areas, it's a lot to make sense of. That's exactly why LPL Research created this report. Chock full of insights and potential action steps, it's a resource on what may lie ahead — so that you and your financial professional can apply relevant insights to your own goals.

### Economy: From surprising strong to mildly cool

The economy has grown faster than expected despite inflation and high interest rates, as unemployment remained historically low, and activity in some places (e.g., homebuilding) even grew. This was surprising, but welcome news. On the flip side, credit card balances have risen, student loan payments have resumed, and consumers have mostly used up their excess savings — making conditions right for consumer spending to stall and the economy to potentially contract at some point in 2024.

LPL Research expectations	Action steps to consider
Mild recession in the beginning to midyear 2024. Silver lining: interest rates edge down.	Stay focused on your long-term investment strategy.
Inflation has come down significantly, but it will continue in some places (e.g., housing and food).	Ensure your portfolio fosters growth and protects for inflation if you're retired. (e.g., stocks).
Interest rates may glide lower in the new year although they could stay higher versus the pre-pandemic era.	Keep an eye on interest rates. Rents and mortgage rates may come down in 2024. We expect home prices to stay steady, given tight inventory.

### Stock market: A shift to solid, but not spectacular

Based on our belief that interest rates won't spike again and that inflation will continue to come down, stocks are entering a phase where focus will be on interest-rate stability. When rates rise, stocks tend to fall in value, so it's good news that the chances of future rate spikes are reduced. This opens the door to a return to stock market norms that you're used to.

So where does that ultimately leave things for the stock market in 2024? We forecast solid returns, but not spectacular. An economic slowdown should be partially offset by a glide lower in interest rates, meaning stocks may be helped by easier Federal Reserve policy even as the economy softens. Risks include a potential widening conflict in the Middle East or Europe, an increase in U.S.-China tensions, and reacceleration in inflation.

LPL Research expectations	Action steps to consider
High single digit returns for the S&P 500.	Stay open to opportunities that can emerge during a recession.
Potential for muted stock market reaction to recession, since the market factored it in, in 2022.	Revisit your portfolio should interest rates rise or fall significantly.
Potential for opportunity in certain sectors and regions.	<ul style="list-style-type: none"> <li>Examine stocks from these sectors and regions:</li> <li>Large caps, stocks from larger, well-established companies</li> <li>Energy and communication services stocks</li> <li>Stocks in the U.S. and Japan</li> </ul>

### Bond market: Back to normal

The move higher in yields in 2023 was unrelenting, rising along a U.S. economy that continued to outperform expectations. This puts Treasury yields squarely back to levels last seen over a decade ago and more importantly, back to providing income. Yields may stay elevated, but the big move in yields has likely taken place, which further supports our belief that bonds offer compelling value.

LPL Research expectations	Action steps to consider
Bonds will be able to meet income needs, eliminating the need to assume risk (e.g., from the stock market).	Examine these types of investments and strategies that can generate attractive income: <ul style="list-style-type: none"> <li>U.S. Treasury securities (e.g., bills, notes, and bonds)</li> <li>AAA-rated agency mortgage-backed securities</li> <li>Short maturity investment-grade corporate bonds</li> <li>Laddered portfolios</li> <li>Holding individual bonds to maturity to take advantage of higher yields</li> </ul>

### Finding your angle of opportunity

If there ever was a year that confirmed that no one knows what the market will bring, 2023 fits the bill. But that's precisely why it's so important to have an idea of the road ahead. It sets you and your financial professional up to navigate the twists and turns that will inevitably arise and do so in a way that's true to your north star — achieving your financial goals, dreams, and aspirations. Because at the end of the day, that's what it's all about. As always, our knowledgeable professionals will be by your side to help you stay on track and stay informed every step of the way.

If you'd like to delve deeper and get detailed investment analysis, including insights on geopolitics, commodities, currencies and more, read the full report.

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