CFO CAPITAL MANAGEMENT
PLAN PROTECT PROSPER

CFO Economic and Financial Market Outlook: January 2024 Update

The U.S. stock market rallied to close out the year with very strong performance during the fourth quarter. The S&P 500 Index returned 24.23% for the year and 11.24% in the fourth quarter alone. Led by stronger than anticipated economic growth, a strong labor market, and declining inflation, although still sticky. The U.S. economy was able to avoid a much-anticipated recession in 2023 and make significant progress towards the potential for an economic soft landing despite falling short of central bank economic targets. As we exit 2023 many economic indicators are pointing towards the U.S. currently experiencing late business cycle expansion and declining recession probabilities for this year.

Market optimism in the fourth quarter was related to projected Federal Reserve interest rates cuts in 2024, accompanied by stronger than expected consumer spending and higher than anticipated economic growth. Strong U.S. stock market returns were led by mega cap stocks, with the Magnificent Seven (GOOG, AMNZ, AAPL, META, MSFT, NVDA, TSLA) paving the way and accounting for over 70% of the S&P 500's 2023 total return. The average stock however, trailed the major averages by more than 10% for the year, despite an almost 15% rally over the last 2 months of 2023.

As was the question last year, the key question again in 2024 is whether central banks can continue to keep the economy titled towards a soft-landing scenario while avoiding the potential for a recession. As we mentioned above, we believe economic indicators are leaning towards a higher probability of a soft landing, but we are not fully ruling out the potential for a shallow recession this year. The current 2024 consensus view is for a "Goldilocks" economic environment, that is not too hot and not too cold. This Goldilocks outlook is centered on the hopes of a continued decline in inflation, double digit earnings growth and a soft landing for the U.S. economy.

While we do believe the probability of this outcome has increased, we feel that the full likelihood of a Goldilocks environment this year is unlikely. We believe the most likely outcome for the year is that the economy will remain strong enough to support earnings growth at the cost of minimal movement toward the Fed's inflation objective of 2%. This will lead the Fed to move more cautiously towards reducing/cutting interest rates throughout the year. Ultimately leading to less rate cuts than what the Goldilocks consensus has forecasted into its outlook, which is around 5-6 interest rate cuts throughout the course of the year.

Investors should anticipate a more challenging landscape for stocks with slowing consumer spending. Over the past few months many stocks have become overly valued as market sentiment has turned bullish due to expectations of aggressive Fed Rate cuts in the months ahead. There remain major geopolitical risks, especially as we look toward the current state of the Middle East region and ever-growing political dysfunction in Washington, D.C. With markets focused highly on monetary policy, record non-recession, non-war deficits will continue to accumulate higher interest expenses than years past and impact a large percentage of government spending. Fiscal policy and its' economic implications cannot be ignored by the markets much longer. With the anticipation of volatile markets swings ahead, know that we will continue to look for opportunities where valuations and investment themes seem favorable.

Respectfully submitted,

The CFO Capital Management Team, January 2024