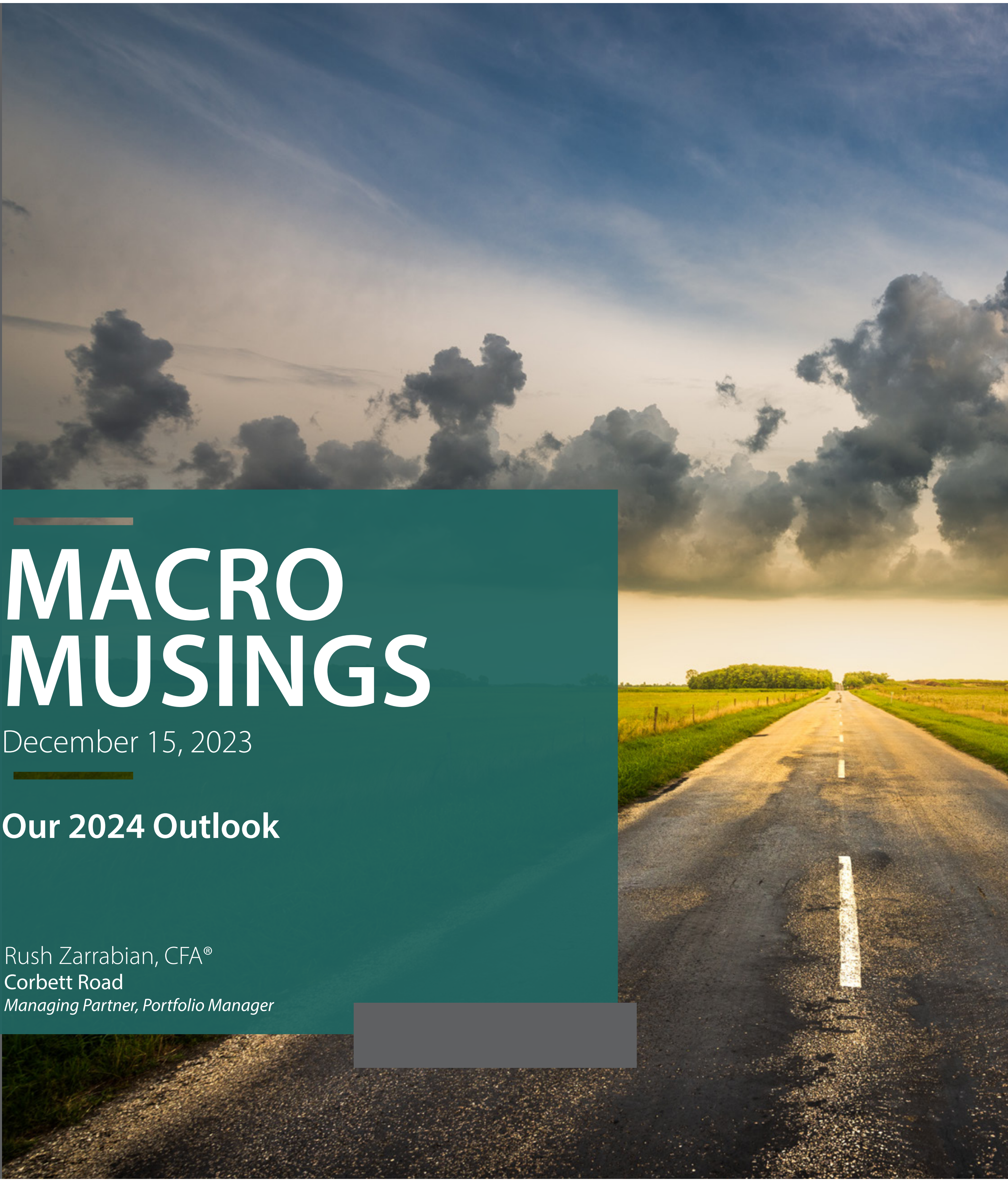
CORBETT ROAD
WEALTH MANAGEMENT



MACRO MUSINGS

December 15, 2023

Our 2024 Outlook

Rush Zarrabian, CFA®
Corbett Road
Managing Partner, Portfolio Manager

SUMMARY

- As we approach 2024, the positive alignment of both **macro**cast™ and **micro**cast™ is significant, indicating improving conditions for risk assets. However, we must acknowledge that although the **macro**cast™ score is positive, it is still relatively low. While we have not seen a positive score immediately fall back below zero, a market correction could push the score back into negative territory.
- The Fed is likely to cut rates in 2024. The exact timing and amount remain uncertain, but current market expectations are for modest cuts by the end of June.
- Following a difficult year for the market in 2022, stocks have rebounded this year. Historical data shows that significant market downturns followed by substantial rebounds are rare but tend to yield continued positive performance in the third year, with an average return of 16.5%.
- 2024 is a presidential election year. Markets typically perform well in election years regardless of the political party in power. Ultimately, broader economic factors and the outlook for corporate profits are more significant drivers of market performance than the political landscape.

OUR RISK MODELS
ALIGN POSITIVELY

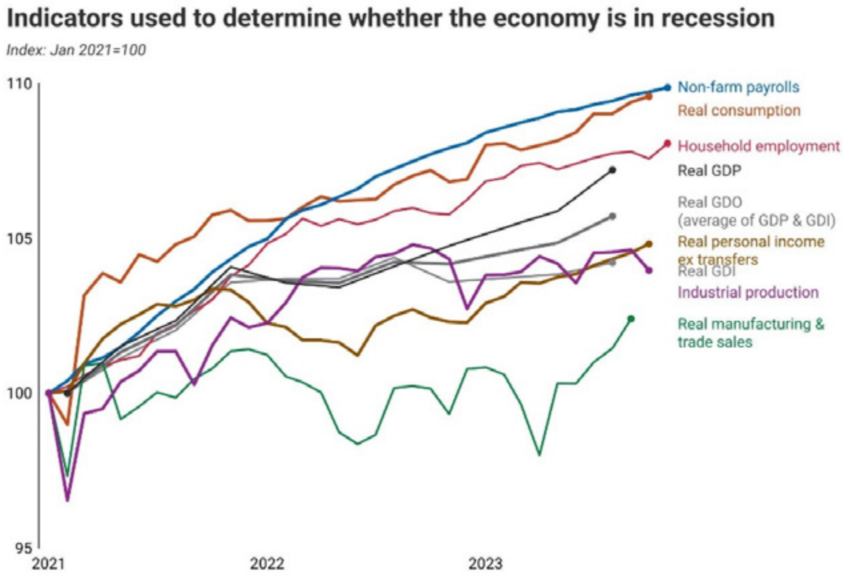
As we enter the new year, **macro**cast™ and **micro**cast™ are aligned positively for the first time in nearly two years.

While **micro**cast™ upgraded to an aggressive allocation towards risk assets in August, **macro**cast™ maintained a negative score up until late last month, when the model flipped positive. The transition to a positive reading reflects the abating recessionary risks, driven by improvements in our technical, economic, and liquidity indicators. While the positive alignment of our two risk models indicates a broader improvement in the market backdrop for risk assets, the current **macro**cast™ score is only modestly positive and any deterioration in market price action could cause the model to revert to negative or fluctuate around the zero threshold. Nonetheless, the move to a positive score is significant, and historical shifts offer some reassurance. Specifically, in the two previous instances **macro**cast™ shifted from zero or negative to positive (February 2012 and May 2020), it did not regress back to zero.

THE ECONOMY ENTERS THE NEW YEAR
ON DECENT FOOTING

Moving into 2024, there are signs of normalizing economic conditions—the economy is no longer overheating, nor is it falling into a recession. Despite the breakneck speed of rate hikes and tightening monetary policy, job growth, while slower, continues to be positive, consumer spending remains robust, and the housing market has demonstrated resilience despite the headwind of higher mortgage rates. Meanwhile, inflation is moderating, reducing the economic strain on consumers and giving the Fed an opportunity to lower rates next year (more on that in the next section).

Taking it all together, recession risks have decreased compared to the beginning of 2023.** While leading indicators continue to read negative, they have not led to a deterioration in real economy data. Leading indicators have been negative all year while the metrics used by the National Bureau of Economic Research (NBER) to identify a recession have yet to rollover (chart from Justin Wolfers):



The NBER defines a recession as: "a significant decline in economic activity that is spread across the economy and that lasts more than a few months."

This puzzling economic divide has left many economists scratching their heads. There's a possibility that the recession might simply be delayed to 2024 due to the "long and variable lags" in monetary policy. Alternatively, the pandemic and its aftermath may have rendered the traditional "rules" as irrelevant for this cycle. As we enter 2024, we believe that the latter is the more probable outcome.

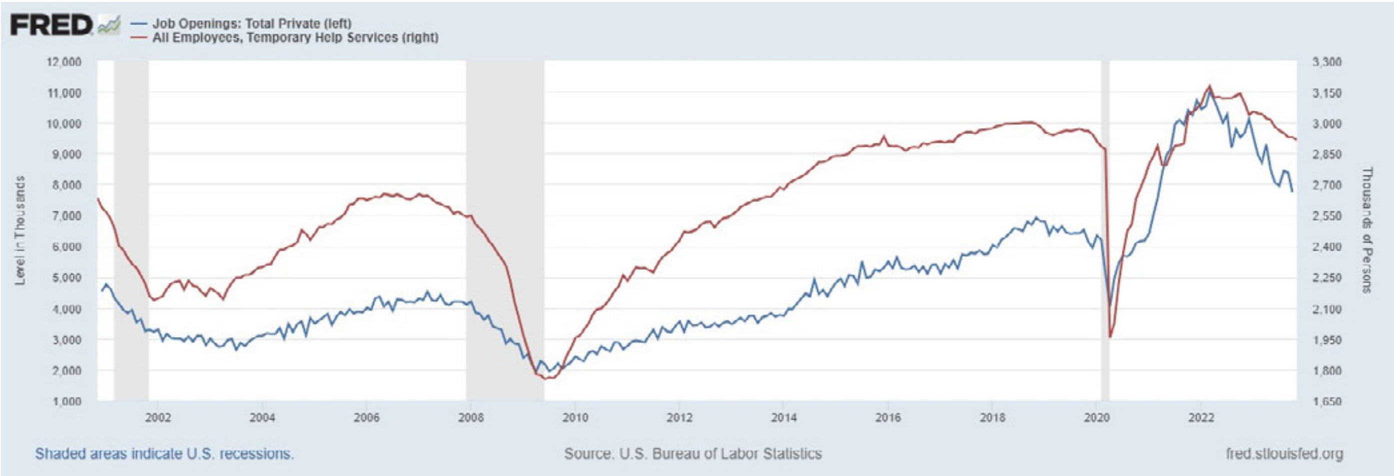
RATE CUTS ARE LIKELY.
BUT WHEN, AND BY HOW MUCH?

We believe the Fed has concluded its rate hikes for this cycle, but now the question is when and how aggressively they reduce rates, which hinges on inflation and employment trends. A "soft landing" scenario, where the Fed gets inflation near the 2% target without a recession, would lead to smaller cuts spread out over time. Conversely, a "hard landing" with job losses would necessitate more aggressive rate reductions.

For the moment, the job market remains healthy. The unemployment rate is near a multidecade low (chart from U.S. Bureau of Labor Statistics):

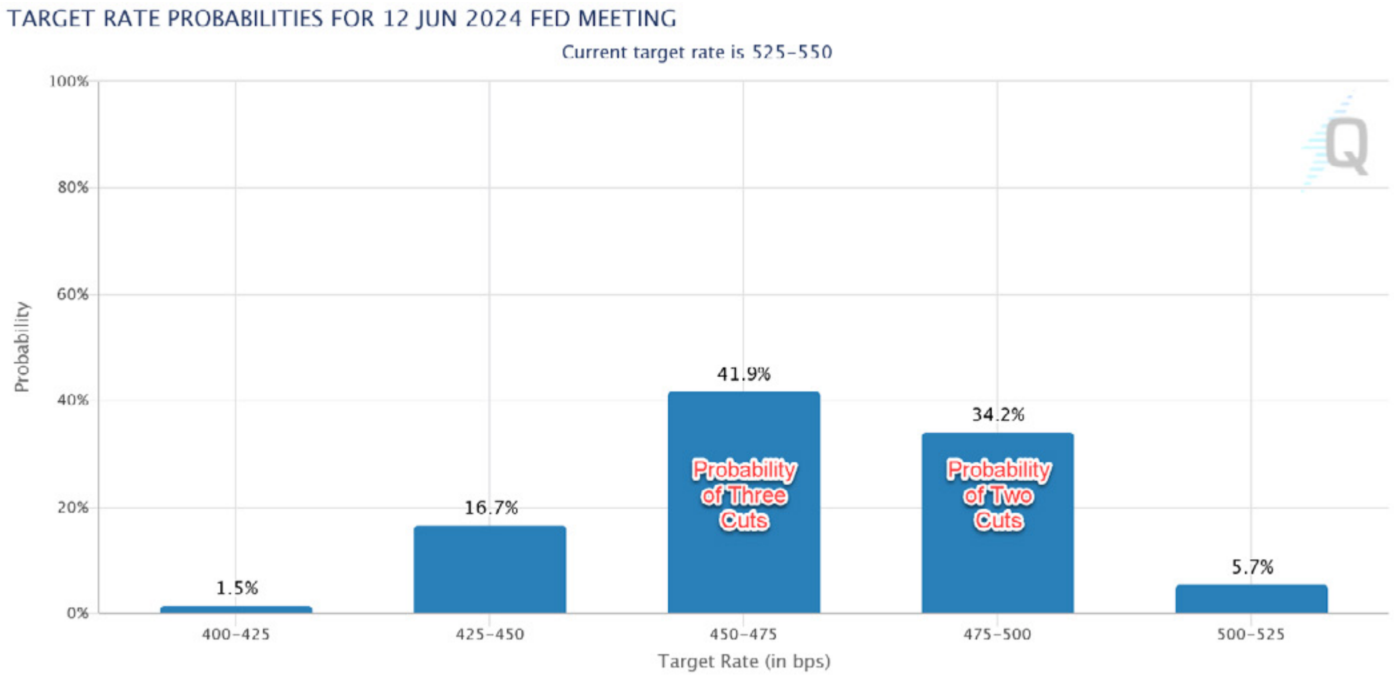
Please see important disclosures at the end of this article

But leading indicators of employment, like job openings and temporary hirings, are coming down (chart from U.S. Bureau of Labor Statistics):



While job openings and temporary hires have come down, they remain near or above pre-pandemic levels. This suggests that while employment growth may be slowing down, it doesn't necessarily indicate an imminent decline in overall jobs.

The current outlook for interest rates next year suggests a confidence that job growth and the economy will continue to be positive. If a significant recession was being anticipated by the market, we would likely see more aggressive projections for rate reductions in the upcoming six months. However, as it stands, investors are predicting a moderate decrease in the Federal Funds rate, ranging between 0.50% and 0.75%. This reduction is expected to occur through two or three separate cuts, each by 0.25%. This is just further evidence that market participants are pricing in a soft landing (Chart from CME):



Please see important disclosures at the end of this article

WHAT HAPPENED AFTER STOCKS RECOVERED **FROM A BIG DECLINE?**

After a challenging 2022 for stocks, the market has experienced a strong rebound. Such a reversal—where a significant downturn is followed by a major upswing—is uncommon. DataTrek highlights that since 1950, there have only been four instances where the market dropped by at least 10% and then rebounded with gains in the subsequent year.

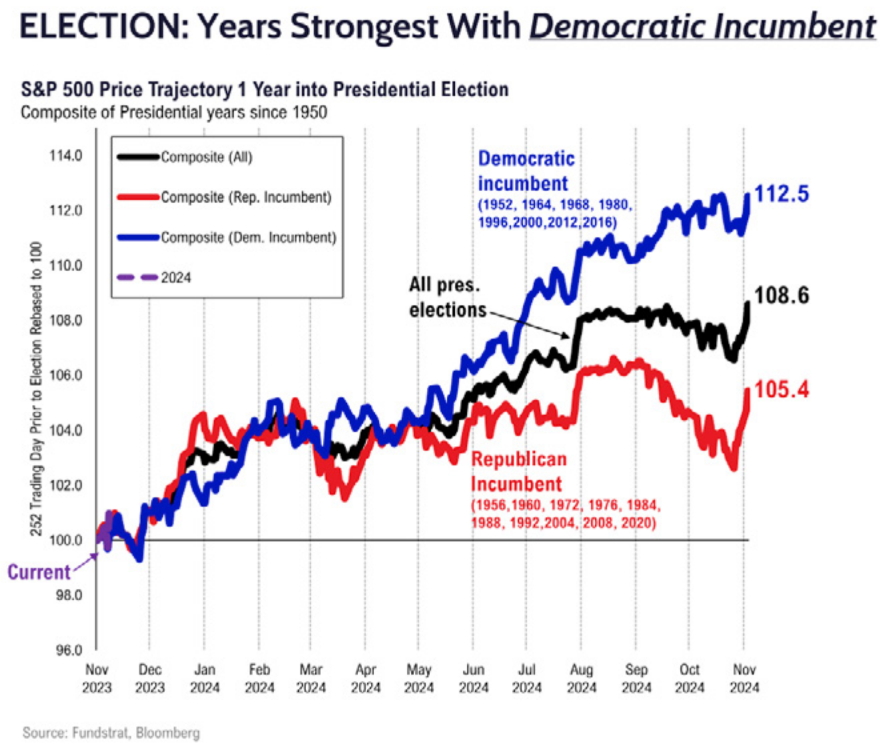
Despite the limited sample, historical patterns indicate that the market continued to perform well in the third year following these occurrences (from DataTrek Research):

> *The late 1950s: 1957 (-10.5 pct), 1958 (+43.7 pct), 1959 (+12.1 pct).*
> *The mid-1970s: 1974 (-25.9 pct), 1975 (+37.0 pct), 1976 (+28.3 pct).*
> *The early 2000s: 2002 (-22.0 pct), 2003 (+28.4 pct), 2004 (+10.7 pct).*
> *After the Financial Crisis: 2008 (-36.6 pct), 2009 (+25.9 pct), 2010 (+14.8 pct).*

The average return in Year 3 was 16.5%. If we avoid a recession next year, there is a good chance the market will continue to generate a positive return.

WHAT ABOUT THE **PRESIDENTIAL ELECTION?**

Although the upcoming election is expected to garner significant attention, historical data indicates that markets typically fare well in election years, regardless of the political party in the White House. The following chart from Fundstrat illustrates the average market performance during election years, categorized by political party:



In assessing market performance during election years, it's better to concentrate on the average return, represented by the black line in Fundstrat's chart, rather than the red and blue lines which denote political party-specific performance. While it's common to see a market pullback in the fall, as Election Day draws near, returns in the year preceding elections are generally positive. The notable exceptions to this trend were the 2000 and 2008 election years. The former was significantly impacted by the bursting of the dot-com bubble while the latter saw a major downturn in the wake of to the Global Financial Crisis (GFC).

This study serves as a crucial reminder that **market fluctuations are primarily influenced by broader economic factors, which impact the outlook for corporate profits, as well as interest rate trends, rather than the political affiliation of the current or future president.**

In summary, there are encouraging signs heading into 2024. Both of our risk models, **macro**cast™ and **micro**cast™, are positively aligned, reflecting the improving backdrop for risk assets. The aggressive allocation recommended by **micro**cast™ reflects the improving breadth, momentum, and trend of recent price action. **macro**cast™ flipping positive highlights the broader improvement in market conditions, capturing the continued resilience in labor markets, moderating inflation, and improving financial conditions. While **macro**cast™ is not yet firmly positive, the initial move is encouraging as we head into the new year.

As economic conditions continue to normalize, the odds of a soft landing are rising. Inflation is trending towards the Fed's target while labor markets are holding up, giving the central bank the opportunity to lower rates next year and ease financial conditions. If the economy manages to avoid a recession, historical studies of price action point to further gains ahead. The third year following a large market decline tends to see continued upward momentum, and while election years always bring about some uncertainty, markets generally see positive returns, regardless of the political party holding office. Ultimately, broader economic factors and their effects will be the key driver of market returns, and the data looks encouraging as we enter 2024.

This is the final Macro Musings of the year. We will publish our 2023 Year in Review next month.

IMPORTANT DISCLOSURES

The chart(s)/graph(s) shown is(are) for informational purposes only and should not be considered as an offer to buy, solicitation to sell, or recommendation to engage in any transaction or strategy. Past performance may not be indicative of future results. While the sources of information, including any forward-looking statements and estimates, included in this (these) chart(s)/graph(s) was deemed reliable, Corbett Road Wealth Management (CRWM), Spire Wealth Management LLC, Spire Securities LLC and its affiliates do not guarantee its accuracy.

The views and opinions expressed in this article are those of the authors as of the date of this publication, are subject to change without notice, and do not necessarily reflect the opinions of Spire Wealth Management LLC, Spire Securities LLC or its affiliates.

All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. ***macro****cast™ and* ***micro****cast™ are proprietary indexes used by Corbett Road Wealth Management to help assist in the investment decision-making process. Neither the information provided by* ***macro****cast™ or* ***micro****cast™ nor any opinion expressed herein considers any investor's individual circumstances nor should it be treated as personalized advice. Individual investors should consult with a financial professional before engaging in any transaction or strategy. The phrase "the market" refers to the S&P 500 Total Return Index unless otherwise stated. The phrase "risk assets" refers to equities, REITs, high yield bonds, and other high volatility securities.*

Use of Indicators

Corbett Road's quantitative models utilize a variety of factors to analyze trends in economic conditions and the stock market to determine asset and sector allocations that help us gauge market movements in the short- and intermediate term. There is no guarantee that these models or any of the factors used by these models will result in favorable performance returns.

Individual stocks are shown to illustrate market trends and are not included as securities owned by CRWM. Any names held by CRWM is coincidental. To be considered for investment by CRWM, a security must pass the Firm's fundamental review process, meet certain internal guidelines, and fit within the parameters of the Firm's quantitative models.

Spire Wealth Management, LLC is a Federally Registered Investment Advisory Firm. Securities offered through an affiliated company, Spire Securities, LLC, a Registered Broker/Dealer and member FINRA/SIPC. Registration does not imply any level of skill or training.

CORBETT ROAD
WEALTH MANAGEMENT

Washington, D.C.
7901 Jones Branch Dr
Suite 800
McLean, VA 22102
Local: 703.748.5836

Boston, MA
101 Arch St
8th Floor
Boston, MA 02110
Local: 617.600.7930

Los Angeles, CA
1901 Avenue of the Stars
Suite 200
Century City, CA 90067
Local: 310.591.5674

Fort Lauderdale, FL
2598 E. Sunrise Blvd
Suite 2104
Ft. Lauderdale, FL 33304
Local: 954.507.6028

Knoxville, TN
800 S. Gay St
Suite 700
Knoxville, TN 37929
Local: 865.444.4520

Phoenix, AZ
2375 E. Camelback Rd
Suite 600
Phoenix, AZ 85016
Local: 602.807.1145

St. Louis, MO
7777 Bonhomme Ave
Suite 1800
Clayton, MO 63105
Local: 314.463.0132

Toll Free: 844.688.4955
info@corbettroad.com
www.corbettroad.com
linkedin.com/company/corbettroad