2024 Investment Outlook &Themes

An Ameriprise Global Asset Allocation Committee publication

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Key Points

2024 Outlook Summary

We see financial conditions in the U.S. continuing to normalize after several years of extremes. Given the right circumstances, areas across Europe and Asia may also see increased economic stabilization in 2024. Key items to watch center around evolving monetary policies, the direction of interest rates, trends in global growth, and whether corporate profits can maintain a positive trajectory. In our view, several developed world central banks now have room to lower policy rates to help support economic activity should growth slow more than expected, particularly if inflation moderates back to target as we expect. However, the delayed effects of prior aggressive rate hikes, elevated core inflation, and higher borrowing costs leave the investment landscape fragile and susceptible to risk if the U.S. is not able to avoid a shallow downturn. That said, we believe interest rate pressures should moderate, U.S. consumer and business balance sheets should remain firm, and several areas of the stock market look attractive. In our view, this leaves room for longer-term investment opportunities if investors can look through a potential period of volatility should conditions deteriorate more than we expect. And while 2024 is a U.S. presidential election year, which will come with outsized noise later in the year, a continuation of divided government may be a welcomed outcome, at least over the short term. Importantly, investors should maintain a pragmatic and flexible investment approach at the start of 2024 and lean into diversification strategies, which should see their correlation benefits return after a few difficult years. Bottom line: 2024 will bring its own set of challenges and surprises as the year unfolds. As such, investors should focus their portfolios on high-quality investments, seek to lock in income streams at higher rates, and remain open to forming opportunities that may shift depending on how the year develops.

2024 S&P 500 year-end price target: 5,200

In our view, there is an opportunity for a broader set of stocks to help lift the S&P 500 Index modestly higher in 2024. We see corporate profits growing by +8% to +10% over 2023 levels, driven by slowing (but positive) global growth, strong expense management, and a normalized supply/demand environment.

2024 U.S. Real GDP target: +1.5%

We believe the pace of economic growth should downshift, but the "story" of the year should be the return of a more normal inflation environment. We project real GDP growth of +1.5% for 2024, which, if achieved, would represent a material slowdown from the +2.4% rate we currently forecast for 2023. Though slower, our 2024 estimate is still a sound pace and should not necessarily be viewed as a negative.

2024 10-Year U.S. Treasury yield target: 3.5%

We enter 2024 looking at price sensitivity, or duration, as a potential tailwind as inflation settles lower. For bonds, lower rates and long-term yields suggest positive price returns on top of healthy coupons.

Market Performance

Sector	Index	U.S. Dollar Terms 2022*	2023**
Equity	S&P 500	-18.1%	+20.8%
	Russell 2000	-20.4%	+4.2%
	MSCI World ex USA	-14.3%	+11.8%
Fixed Income	Bloomberg US Universal	-13.0%	+2.3%
	Bloomberg US Corp HY	-11.2%	+9.4%
	Bloomberg Global Treasury Ex-US	-19.6%	-0.5%
Alternatives	Wilshire Liquid Alternative	-5.6%	+4.0%
	Bloomberg Commodity	+16.1%	-5.4%
	Gold	-0.1%	+12.7%
Oil & Currency	Bloomberg WTI Crude Oil (TR) (USD)	+24.9%	+3.9%
	US Dollar Index	+7.9%	0.0%
Cash	FTSE Treasury Bill 3 Month	+1.5%	+4.8%

Sources: Morningstar Direct and American Enterprise Investment Services Inc. *Total return. ** Total return data as of 11/30/2023.

2023 Review

Stocks started the year with a bang. The S&P 500 posted its strongest January performance since 2019, while the tech-heavy NASDAQ Composite jumped out to its best start to the year since 2001. U.S. economic dynamics during the first few months of the year showed signs of firm but moderating conditions, which proved to be a consistent theme that helped support stocks and ease recession fears through most of 2023.

The turmoil across regional banks emerged in March, setting off a few alarm bells for investors as the first quarter ended. The quick succession collapse of Silicon Valley Bank and Signature Bank instilled fears that a Financial Crisis 2.0 may be forming. While both banks ultimately failed, and a few others needed to be bailed out, the Federal Reserve, FDIC, and U.S. Treasury quickly acted to set up a backstop for depositors. By the end of the quarter, contagion fears subsided. Although the regional banking stress weighed on sentiment and performance across Financials throughout the year, the broader stock market quickly discounted the stress and largely moved on from the events by April.

2023 Market & Economic Themes

• Maintain agility in a period of transition.	• Corporate profit growth could continue to slow and possibly turn negative.
• All bear markets have one key dynamic in common — they eventually end.	• Moving from Defense to Offense.
• Inflation pressures could steadily moderate through 2023 but remain above Federal Reserve targets.	• Quality – from abstract to defined.
• U.S. recession risks should remain elevated through the first half of the year.	• Hello fundamentals, goodbye themes.
• The Federal Reserve could pause rate hikes by the end of the first half but is unlikely to cut rates in 2023.	• **T**here **A**re **R**easonable **A**lternatives (TARA).
• Global growth should reach its lows.	• Prepare portfolios to weather volatility but think longer-term when others may be overly focused on the near term.

Notably, stocks spent most of the first six months of the year marching higher and recovering from 2022's dismal performance. Through the first half of the year, stock prices responded well to falling inflation and resilient economic growth. However, investor enthusiasm over the outsized profit potential associated with Artificial Intelligence was the main driver behind powering a handful of mega-cap Technology stocks higher. This outsized performance across mega-cap Tech helped send the broader S&P 500 and NASDAQ higher, while other areas of the market largely languished through much of the year. That said, moderating inflation, a resilient consumer, tight labor conditions, better-than-feared profit results, stabilizing interest rates, and a Fed close to moving to the sidelines after the most aggressive rate hiking campaign in decades had investors taking an optimistic view of the economy/markets in the first half of the year.

But following the S&P 500 hitting a 52-week high at the end of July, stock and bond prices spent most of the third quarter falling. During late summer and early fall, interest rates accelerated higher as the moderation in inflation slowed, a wave of Treasury supply hit the market, and investors worried that the Federal Reserve would need to raise its fed funds target rate more than expected. At the same time, recession fears began to reemerge. With government bond yields approaching levels last seen before the Financial Crisis, stocks fell in August and September, posting their first back-to-back monthly declines in a year.

Through much of October, stubbornly tight monetary policy, higher energy prices, and weakening consumer trends clouded the investment landscape. Sentiment had largely shifted from an optimistic tone at the start of the year to one much more concerned about fading growth and high interest rates. The resumption of student loan payments, a potential U.S. government shutdown (which was avoided), conflict in Ukraine and the Middle East, and weaker-than-expected growth in China all contributed to pushing the S&P 500 to levels last seen in May by the end of October.

However, as the year comes to a close, the S&P 500 and NASDAQ have rallied to new 52-week highs, as interest rates have declined and consumer inflation falls. Also, the Federal Reserve held its target rate steady for the third meeting in a row this month. Investors now interpret steady rate policy as adding further evidence that rate hikes are finally in the rearview mirror, and policymakers are now more willing to let current policy rates bring down inflation with time, possibly cutting rates in 2024. As a result, stocks have rallied aggressively. Importantly, whether across employment, consumer trends, or inflation, the story is becoming clearer — the trend across each continues to paint a picture of moderation and a steady decline toward normalized levels. And that's after the U.S. economy grew by a stunning +5.2% in the third quarter. In our view, current trends across the economy are exactly what policymakers and bullish investors want to see if a soft landing remains in the cards and why U.S. stock averages are on pace to record a solid year of gains.

Much like every year, our themes and outlooks at the start of the year don't always hit the mark precisely as the year unfolds. But coming into 2023, we correctly identified the potential for improved market trends, falling inflation, and a slowdown in Fed rate hikes. Identifying forming opportunities across bonds, remaining well-diversified, reducing an overly defensive strategy, and investing across quality companies were other themes we believe also helped keep investors on track this year. Undoubtedly, 2024 will bring its own set of challenges and surprises as the year unfolds. Nevertheless, a thoughtful and balanced portfolio approach at the start of the year and a willingness to adjust as conditions evolve are key attributes investors should incorporate into their 2024 outlooks.

2024 Market & Economic Themes

Big Picture Themes	Why is it important?
Market and economic clarity may finally begin to take shape.	The pandemic era of extremes is over, regardless of whether the economy avoids a recession or sees a shallow downturn in 2024. After interest rates aggressively moved higher to combat inflation, the broader market and economy may respond favorably to an environment that sees rates move lower or at least stabilize.
Inflation should approach normalized levels.	The large spikes in demand, extremes in spending patterns, and shocks in supply have run their course. Core inflation could return to the Federal Reserve's 2.0% target by mid-2024. Thus, U.S. economic activity could return to a normalized state, though slow from 2023 levels.
High interest rates are now the wildcard for the market and economy.	Interest rates have moved higher quickly. And while the economy and markets continue to adjust to higher rates, their delayed effects still pose a risk to the outlook.

Economic and Policy Considerations	Why is it important?
While a U.S. recession is possible, it's not probable. However, should a downturn occur, investors should remain invested.	We see U.S. economic activity slowing, though consumer and business conditions could remain sound. However, if a shallow recession were to occur, investors should invest through the downturn, as stocks could start to discount a recovery after a brief decline.
The Fed is likely to cut its target rate. But why it's lowering rates matters to the market.	The Federal Reserve's target rate is likely to come down if its inflation targets are met. But the fed funds rate is likely to remain at elevated levels compared to before the pandemic. While a gradual decline in the target rate is consistent with a soft-landing scenario, more severe rate cuts likely mean growth stalled more than expected, which may be disruptive for stocks.
The U.S. Presidential Election will take up a lot of oxygen. But a continuation of a divided government could be market-friendly.	Outside of the theatrics for control of the White House, the market's primary focus will be on whether divided government in Washington is maintained or if power shifts to one party. Regardless, fiscal policy in 2024 should remain status quo — which could be market-friendly.
Global growth should remain positive, but…	Conditions could improve in Europe and China. However, growth factors and policy responses may be country-dependent. A potentially weaker U.S. dollar and attractive valuations could help support foreign investment returns.

Stock & Fixed Income Themes	Why is it important?
The earnings recession is over. But the 2024 playbook isn't that simple.	Earnings growth should improve in 2024. Focus on companies with recurring revenue that exhibit predictable growth and financial stability. Quality companies can help offset risks from market volatility and elevated rates.
Revisit dividend growth and 2023 stock underperformers.	Dividend growth stocks and bond proxy sectors underperformed in 2023, as did smaller-cap domestic stocks. Easing interest rate pressures, the end of Fed rate hikes, and positive growth in 2024 may eventually add new life to areas of the stock market that have struggled to gain traction.
No need to reach for yield.	Soundly positive real yields put fixed income back on the map for income, total return, and capital appreciation strategies.
Lower policy rates and yields ahead.	Fed policy rates and long-term bond yields may be headed lower in 2024, suggesting solid returns. We may have already seen peak long-term Treasury yields for this cycle.

Portfolio Theme	Why is it important?
Don't put your portfolio in a box. Stay flexible and willing to shift allocations as conditions evolve.	Maintaining a diversified portfolio across asset styles remains the prudent approach. Notably, prospects for a portfolio balanced across areas like stocks and bonds may return to historical patterns as inflation anchors back to target. However, tactical opportunity sets in 2024 may shift based on whether the economy avoids a recession.

Ameriprise 2024 Year-End S&P 500 Scenario Forecast

Favorable Scenario Macro Conditions

- U.S. real GDP rises by +2.0% or more on resilient consumer/business spending.
- The global economy grows by more than +3.0% in 2024.
- U.S. employment remains resilient; The unemployment rate ends the year under 4.0%.
- U.S. core inflation slows at a faster-than-anticipated rate.
- Fed funds target range ends 2024 at 4.25% - 4.50%.
- Several major developed central banks also cut rates by a healthy clip in 2024 to help normalize economic conditions.
- U.S. 10-year Treasury yield ends the year around 4.00%.
- 2024 corporate earnings growth rises by +10% or more versus 2023. Normalizing but positive economic growth keeps the profit recovery on a steady trend. A declining U.S. dollar, as the safety trade unwinds, also gives multinational profits a lift.
- Investors likely look through the political theater of the 2024 Election and discount outcomes that largely point to the continuation of a divided government.
- Ongoing geopolitical threats challenge the status quo. However, the U.S. and China continue to work toward better relations.
- <u>Other Market Considerations:</u>
  Higher stock valuations reflect soft landing scenarios, steady U.S. growth trends, and normalized inflation. Solid labor conditions that do not push inflation higher could allow policymakers more flexibility to lower rates while avoiding a more significant downdraft in the economy. Yet, a strong economy could temper rate cuts if inflation does not cooperate. However, improving consumer/business/investor optimism could translate into broader market participation, allowing areas that languished in 2023 to see momentum. Areas that could benefit from the abovementioned conditions include deeper cyclical value areas and smaller-cap stocks.

Trailing Earnings Multiple Estimate (P/E) = 22.0x

5,400

+14.4% from 12/14/23 level

2024 EPS Estimate = $245.00

Base Scenario Macro Conditions

- 2024 U.S. real GDP advances by about +1.5%. Consumer spending downshifts but remains positive.
- The global economy likely grows by about +3.0% in 2024.
- U.S. employment gains slow. The unemployment rate ends the year in the low 4.0% range.
- Core inflation steadily eases, attaining the Federal Reserve's 2.0% target by mid-year.
- The fed funds target range ends at 4.50% - 4.75%.
- Other global central banks cut rates as inflation moderates.
- U.S. 10-year Treasury yield ends the year near 3.50%.
- 2024 U.S. corporate earnings could grow between +8% and +10% versus 2023.
- Although market volatility may rise heading into the 2024 U.S. Presidential Election in November, the S&P 500 has never declined in a re-election year since 1952. Markets may look through the volatility if Congress remains divided.
- Ongoing geopolitical risks (e.g., in the Middle East and Ukraine) challenge the status quo. U.S./China dialogue remains difficult.
- <u>Other Market Considerations:</u>
  While rates may moderate lower in the back half of the year, the delayed effects of higher interest rates still pose a risk to the growth outlook. That said, opportunities outside of mega-cap Tech look increasingly attractive, particularly if a recession is avoided. High-quality investments (e.g., companies with visible profit trends and low debt) remain key to navigating a complex environment. Have a strategy to put excess cash to work in stocks and bonds should evidence build that a recession in 2024 will be avoided.

Trailing Earnings Multiple Estimate (P/E) = 21.5x

5,200

+10.2% from 12/14/23 level

2024 EPS Estimate = $240.00

Adverse Scenario Macro Conditions

- Real GDP slows. Weakening consumer trends send the U.S. economy into a brief downturn.
- More of the world falls into a shallow recession. Business and consumer spending declines more than expected.
- The U.S. unemployment rate ends the year at 4.5% or above.
- In a downturn, the fed funds target range could end the year at 3.75% - 4.00% as officials look to support weaker-than-expected growth.
- Yet, if inflation remains elevated, rates could end higher than most expect, leaving monetary policy restrictive.
- Slowing global growth dynamics make global rate policy difficult to anticipate and case-by-case across regions.
- U.S. 10-year Treasury yield ends near 3.00%.
- 2024 U.S. corporate earnings growth is essentially flat versus 2023. Reduced economic activity and rising unemployment weigh on demand.
- Potentially polarizing U.S. presidential candidates and uncertain outcomes for control of Congress may weigh on stock prices in the second half.
- Geopolitical risks threaten growth/stability more significantly — particularly if the conflict between Israel and Hamas spreads. Progress on reestablishing U.S./China dialogue stalls.
- <u>Other Market Considerations:</u>
  Slower growth leaves the economy more fragile, and adverse scenarios for the market could remain mixed. Notably, the delayed effects of constrictive rate policy may continue to wear on global activity. However, we believe areas outside of mega-cap Tech largely reflect several of the adverse outcomes outlined above. Given that a potential recession could be shallow, investors should stay fully invested and remain cognizant that stocks may quickly begin to discount a recovery after a downdraft.

Trailing Earnings Multiple Estimate (P/E) = 19.0x

4,200

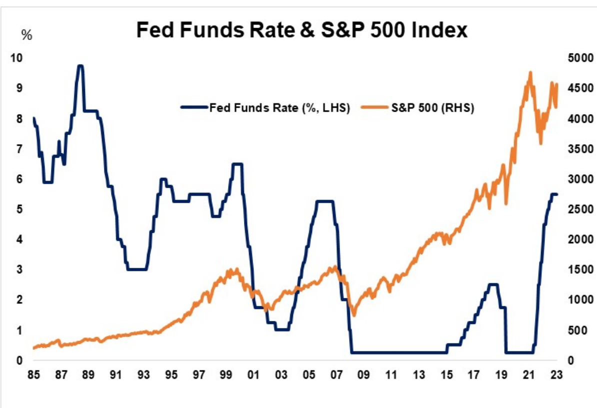
-11.0% from 12/14/23 level

2024 EPS Estimate = $220.00

2024 Outlook

2024 S&P 500 year-end price target: 5,200

In our view, one of the largest opportunities and risks for asset prices in 2024 centers around how interest rates will settle out throughout the year and the environment that ultimately drives changes in monetary policy. Most expect global central banks to ease restrictive policies as the year progresses. But as we noted in our 2024 Themes, the reasons behind potential interest rate cuts and the economic environment driving those cuts are what will most likely influence how asset prices respond as the year evolves. Less restrictive monetary policy that is gradual and supported by stable economic conditions could see stock prices melt higher in 2024, helping participation broaden. But an elevated rate environment that causes growth to suddenly slow more than expected, prompting policymakers to aggressively ease, could see stock prices suffer for a period. Sudden and aggressive cuts in the fed funds rate are usually accompanied by an event trigger, like in the early 2000s, during the Financial Crisis, and the pandemic. Hence, how rates ease (assuming inflation is no longer a problem in 2024) may carry outsized weight in determining if stock prices can continue to rally or if unexpected air pockets create some turbulence along the way. Bottom line: Our base case scenario assumes gradual Fed rate cuts in 2024, with stock prices moving higher as earnings conditions improve for a broader set of industries.



Sources: FactSet and American Enterprise Investment Services, Inc. Data as of 12/8/23.

Sources: FactSet and American Enterprise Investment Services, Inc. Data as of 12/7/23.

In our view, corporate profit trends will likely play a critical influence on the direction of stock prices in 2024. After several quarters of declining year-over-year profit growth, analysts currently expect corporate profits to march higher over the coming quarters. In our view, stable economic conditions warrant a more positive outlook on corporate earnings in 2024 and should a U.S. recession be avoided. In such an environment, and where interest rate pressures are easing, we believe stock multiples have modest room to expand. In the background, a U.S. presidential election and ongoing geopolitical dynamics should be expected to influence stock and bond prices throughout 2024. However, we believe investors are best served at the start of the year by maintaining a largely balanced view of current financial conditions and remain willing to adjust their views as the rate and profit backdrop develop.

Global Asset Allocation Committee 2024 Targets

Key Measure	2023 Actual	2024 Target	Implied Change
U.S. Real GDP	+2.4%*	+1.5%	-0.9 pp
S&P 500 Index**	4,719	5,200	+10.2%
10-year Treasury Yield**	3.91%	3.50%	-0.41%
Fed Funds Target	5.25% to 5.50%	4.50% to 4.75%	-0.75%

Source: American Enterprise Investment Services Inc.; FactSet
pp = percentage points
* Estimated, 2023 Actual based on year-end values
**as of December 14, 2023

Actions to Consider

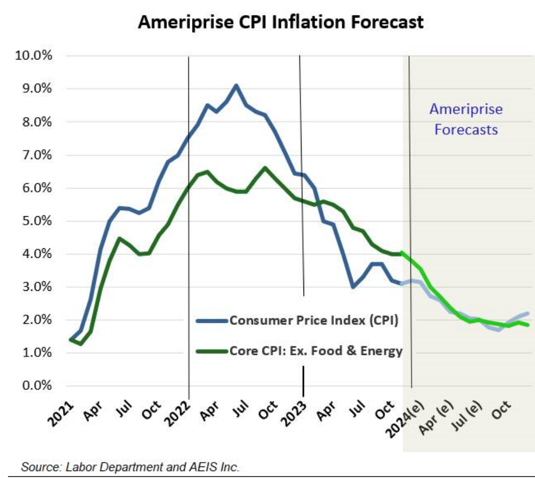
- Investors should rebalance portfolios to strategic or tactical targets. The volatility in stocks and bonds over recent years may have thrown portfolios off target.
- Given that the range of possible investment outcomes remains wide at the start of 2024, investors should maintain a high-quality bias within their portfolios. Avoid aggressively tilting portfolios into an overly offensive or defensive position at the start of the year.
- Assuming the U.S. economy avoids a recession, areas like U.S. small caps, cyclicals, dividend growth strategies, and other laggards of 2023 may outperform. International stocks may also benefit from a stable growth environment. However, if the U.S. economy does slip into a recession, defensive sectors that underperformed in 2023 may outperform for a period.
- **Tactical investors:** Be willing to adjust allocation compositions as the year unfolds and depending on how conditions evolve.
- **Strategic investors:** Revisit income generation, lean on fixed income to generate stable yields, and seek to lock in higher rates.
- Reach out to your financial advisor to construct an approach that works best for you and accounts for your unique needs and goals.

Up Ahead:

Economic Perspective

2023 saw considerable progress relative to the economy's most troubling ailment: Inflation.

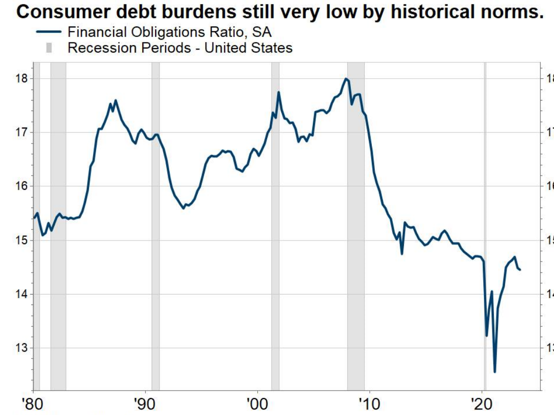
With just a few days to go, 2023 looks to have been a pretty good year for the U.S. economy. Business activity was strong, with real Gross Domestic Product (GDP) seeing average growth of +3.1% through the year's first three quarters – more than double the consensus forecast coming into the year.



The job market also remained surprisingly strong. Total employment grew every month through November, and the unemployment rate, at a recent 3.7%, remained quite low by historical standards. We believe there's room for the unemployment rate to rise modestly in the quarters ahead, thus bringing better balance to labor markets, but conditions should remain favorable overall. Most importantly, inflation continued its steady decline throughout the year. Consumer prices, as measured by the Consumer Price Index (CPI), were 6.5% higher on a year-over-year (y/y) basis at the start of 2023, but by November, that rate had dropped to 3.1%.

2024 Economic Outlook: As we look toward 2024, we believe the pace of economic growth should downshift, but the "story" of the year should be the return of a more normal inflation environment. We project real GDP growth of +1.5% for 2024, which, if achieved, would represent a material slowdown from the +2.4% rate we currently forecast for 2023. Though slower, our 2024 estimate is still a sound pace, in our view, and should not necessarily be viewed as a negative. Downshifting to a more sustainable pace would be a healthy outcome for the U.S. economy, especially if it corresponds with a healthier inflation backdrop.

Consumer debt burdens still very low by historical norms.

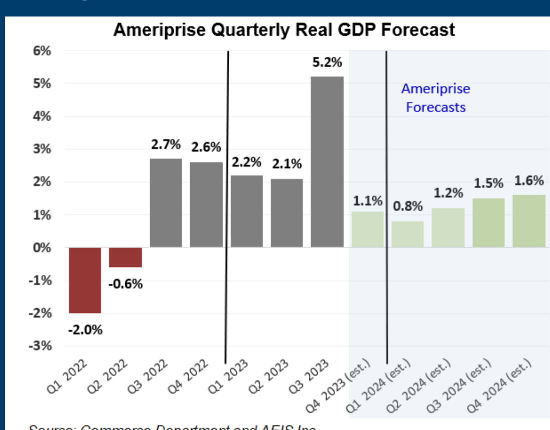


Getting inflation back under control is still key to the outlook. We would not have had so many recession predictions over the last two years if it were not for sharply higher interest rates, and we would not have had the big jump in interest rates if it were not for high inflation. Returning inflation to its historical averages around 2% should help normalize conditions in many aspects of the economy. Fortunately, we believe trends support prospects for a further easing of inflation pressures in the months ahead. We currently forecast CPI inflation to reach the Federal Reserve's target rate of "about 2%" by mid-year. If so, it would likely open Fed officials to taking their foot off the economic 'brakes' and begin lowering interest rates. Lower rates would benefit economic activity, particularly in the housing market, and have historically been good for financial markets as well.

Finally, sound consumer balance sheets should offer the economy a source of support, and we do not see a recession as likely. Consumers enter the new year with low debt-to-income ratios, a good level of savings, strong home values, and sound job prospects. That said, consumers have worked down much of the excess savings they had accumulated during the pandemic. Consumer spending is thus likely to slow to rates more in line with job growth and wage gains – which should remain reasonably sound in our view.

Please see the Economic Perspectives: 2024 Economic Outlook report for more detail.

Ameriprise U.S. Real GDP Outlook



IMF Global Economic Projections

IMF Global Economic Projections

	Actuals				Projections	
	2019	2020	2021	2022	2023	2024
World	2.8	-3.1	6.0	3.5	3.0	2.9
United States	2.2	-3.4	5.7	2.1	2.1	1.5
Euro Region	1.3	-6.3	5.2	3.3	0.7	1.2
Japan	0.7	-4.6	1.7	1.0	2.0	1.0
Developing Asia	5.5	-0.8	7.2	4.5	5.2	4.8
China	6.1	2.3	8.1	3.0	5.0	4.2
India	4.2	-7.3	8.7	7.2	6.3	6.3
Russia	1.3	-3.0	4.7	-2.1	2.2	1.1
Brazil	1.1	-4.1	4.6	2.9	3.1	1.5
Mexico	-0.1	-8.3	4.8	3.9	3.2	2.1

Source: IMF World Economic Outlook, October 2023

Key Equity Themes

Normal: ⁄ ˈnôr·məl ⁄: usual, typical, or expected

Following over two years of extreme market gyrations (for equity and fixed income investors), decades-high inflation and interest rates, and an AI frenzy, we roll out the red carpet for what could be a more 'normal' market environment in 2024. Although the S&P 500 Index experienced a 19% drawdown in 2022, followed by a +21% gain YTD in 2023, remarkably, the index has essentially been flat over the past two years. In 2024, we look for a more balanced market dynamic of normalized economic growth, interest rates, and corporate earnings growth.

The concentrated leadership of a small group of stocks will likely be 2023's most enduring aspect, as the Magnificent 7 benefited from the AI boom, accounting for 70% of the year's gains (and ~30% of the S&P 500 market cap). Conversely, there was limited performance lift from the remaining 493 companies. In 2024, we believe investors should take a more "Panoramic View" of the equity market and consider some of 2023's laggards in a slower-growth, peak-rate, soft-landing environment. However, returning to 'normal' doesn't necessarily mean smooth sailing for investors, as intra-year corrections of over 10% in the S&P 500 are part of a "normal" playbook.

Revisit Dividend Growth. Dividend indices and strategies struggled in 2023 as cash investments offered an attractive, risk-free opportunity. However, the prospects of a Fed rate cut and gradually reduced inflationary pressures could reinforce the benefits of dividend-paying stocks in 2024. Historically, when equity market returns are modest, dividends were a more meaningful contributor to full-year total returns. However, not all dividend-paying equities are the same. We recommend that investors focus on stocks that are growing their dividends rather than searching for higher yields. The total return potential of higher-yielding stocks is often lower than dividend growth due to more limited price appreciation.

Will the Last be the First? In conjunction with the sharp rise in long-term interest rates in 2023 (May through October), many so-called "bond proxy" sectors significantly underperformed the broad market. While this has somewhat reversed with a pullback in rates in late Q4'23, we believe there is more ground to make up in 2024.

In our view, a slowing economy (without a material recession) and expectations for Fed rate cuts in 2024 can continue to lower long-term interest rates, thus catalyzing bond proxy sectors. In conjunction with this tailwind, we view the valuation metrics for these sectors as attractive, thus creating a compelling risk/reward opportunity. For income-oriented investors, the bond proxy sectors also have dividend yields that are above their five-year average. Finally, as a hedge, if the anticipated slower growth, peak rate, and soft-landing thesis does not come to fruition, bond proxy sectors could be a good defensive play.

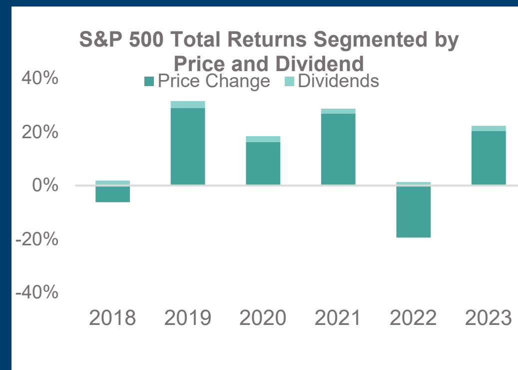
Quality with a Recurring Revenue/Earnings Rebound Twist. While outsized exposure to the Tech sector buoyed returns for the Quality factor in 2023, we believe two attributes within Quality could be well-positioned for 2024:

Recurring Revenue: Companies with a recurring revenue model often have more predictable earnings and higher profitability and are more recession-resistant than their peers. This group could outperform in a slower growth, peak rate, and soft-landing environment.

Earnings Rebound: The earnings instability over the past two years impacted even high-quality companies. However, with a resurgence in earnings power, these stocks could re-rate and provide an attractive risk/reward opportunity for equity investors.

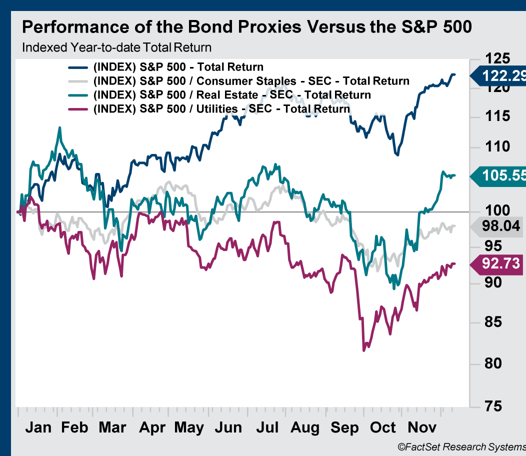
Please see the 2024 Equity Outlook reports for more details.

Revisit Dividend Growth

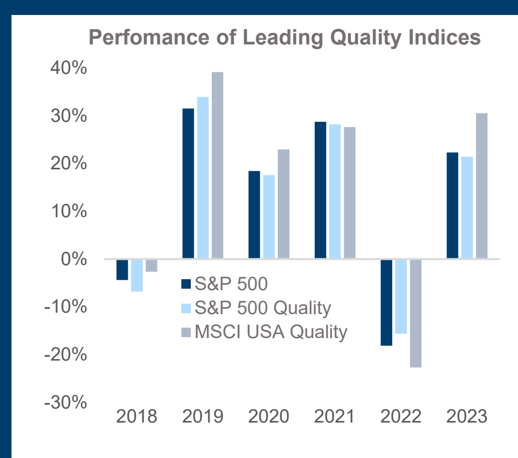


Note: 2023 is YTD as of 12/11/2023.
Source: S&P Dow Jones Indices and AEIS.

Bond Proxy Rebound?



Quality with a Twist



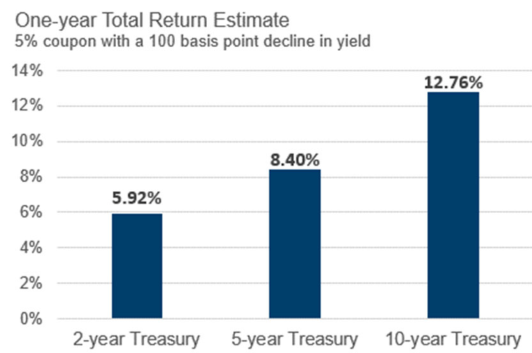
Note: 2023 is YTD as of 12/11/2023.
Source: MSCI, S&P Dow Jones Indices, and AEIS.

Key Fixed Income Themes

Lower Treasury yields likely lie ahead in 2024.

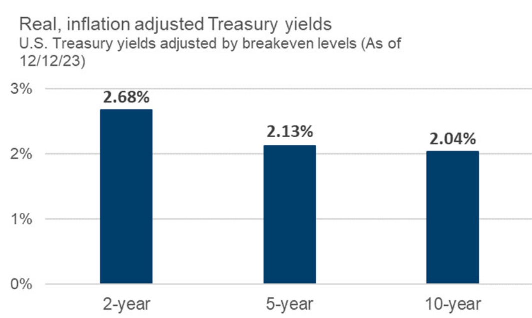
We believe Fed policy rates and long-term bond yields may be headed lower in 2024 as inflation evolves from COVID-19 supply chain distortions. Over the long-term, Treasury markets remain concerned over fiscal prudence, but the next flare-up likely lies after the presidential election and in 2025 when the debt ceiling deadline returns to Congress.

Total return time for fixed income. We enter 2024 looking at price sensitivity, or duration, as a potential tailwind as inflation settles lower. For bonds, lower rates and long-term yields suggest positive price returns on top of healthy coupons. Bond prices rise when yields fall, and longer maturities are more price-sensitive to changes in yield. While credit valuations may be stretched, the Treasury component of yields likely has room for returns. Plus, with geopolitical risk on the rise, we believe U.S. Treasuries will likely contribute stability to blended portfolios once inflation fades from focus.



Source: American Enterprise Investment Services Inc.

Attractive real yield. While the average real yield for 10-year Treasuries barely edged out an above-inflation yield through the decade beginning in 2011, today, fixed income investors enjoy yields 2% above expected inflation. We view current real yields akin to S&P 500 multiples in the low teens as historically very attractive levels. We believe soundly positive real Treasury yields make Government Bonds and fixed income, in general, the starting point for income, total return, and capital appreciation strategies. In our view, there is no longer a need to reach for yield or take unnecessary risks for income.



Source: Bloomberg L.P.

Stay up in quality. We recommend investors remain up in quality within fixed income. The effects of Fed policy tightening leave companies with higher leverage, more vulnerable to shifts in consumer and business spending, and susceptible to refinancing risk. Meanwhile, high-quality companies retain the financial flexibility to adapt and the option to divert free cash flow to pay off debt maturities.

Please see our 2024 Fixed Income Outlook for more details.

An evolving Fed policy approach

We believe Fed policy rates will likely remain elevated into the second half of 2024 as the Fed looks to confirm the embers of inflation have cooled. Once inflation data and market expectations re-anchor around the Fed's 2% long-term target, we could see the Fed trim policy rates to moderate its current, highly constrictive Fed policy range of 5.25% - 5.50%. Easier borrowing conditions likely lie in our future, but first, we believe the Fed needs to confirm inflation's demise.

The Fed's balance sheet run-off (quantitative tightening) will likely wind down next year after removing roughly $1.5 trillion of emergency liquidity injected into bond markets following the COVID-19 outbreak. Treasury markets already experienced nearly twice as much volatility since the start of 2022 compared to the prior decade based on the ICE BofA Treasury Volatility Index, a trend we see continuing.

Now that constrictive policy is in place, we believe the Fed approach has evolved away from supporting asset prices, as seen through the 2010s. We point to the prompt, targeted Fed response to the regional bank runs in March as a template for Fed policy response until inflation has been tamed. We have moved beyond the Fed's put, in our view, and likely see agile but highly targeted interventions in the current stage of the rate cycle.

Ameriprise 2024 Year-End Forecasts (see page 3 for more details)		
Favorable Scenario	Base Scenario	Adverse Scenario
Fed Funds Target Range 4.25% - 4.50%	Fed Funds Target Range 4.50% - 4.75%	Fed Funds Target Range 3.75% - 4.00%
10-Year Treasury 4.00%	10-Year Treasury 3.50%	10-Year Treasury 3.00%

Source: American Enterprise Investment Services Inc.

Fed funds policy forecast: We anticipate the Fed may begin to move away from its highly restrictive stance late next year, with 75 basis points of cuts in our Base Scenario. Our Favorable Scenario captures a clear soft landing, allowing the Fed to cut policy rates more quickly. Meanwhile, our Adverse Scenario accounts for potential softening in consumer and business demand that prompt the Fed to more aggressively normalize policy rates. Other facets of our Adverse Scenario would see stubborn inflation push potential rate cuts into 2025, in our view.

Ten-year Treasury yield forecast: The peak 10-year Treasury yield may be behind us for the cycle as inflation fades. In our Base Scenario, we anticipate that the 10-year Treasury yield settles lower in 2024 as inflation moderates and as the Fed eases its tight policy posture. In our Favorable Scenario we see falling inflation unfolding against a solid growth backdrop, where a shrinking inflation premium makes way for a greater term premium due to growth. Our Adverse Scenario may include a mild recession where long-term Treasuries rally significantly anticipating aggressive rate cuts and prospects for deflation.

Portfolio Positioning & Wrap-Up

Sticking to the basics.

We anticipate the year ahead to ultimately be defined by the effect of the Fed's rate hikes on the economy. Will the hikes have merely slowed inflation and economic activity, or will the consumer become weary and need to retrench, leading the economy into a recession? We are somewhat optimistic about 2024 with our base case that leans towards a soft landing.

Given the uncertainty, we recommend that investors return to basics and focus on traditional asset classes, income stocks, and fixed income at the start of the year. In our view, the best course to chart for 2024 depends on time horizon, risk profile, views on tactical vs. strategic investing, and whether you are in accumulation or decumulation mode. We discuss each below.

Time Horizon: Longer-term risk/reward opportunities are at decade highs (as measured by the implied yield on a portfolio with 60% stocks and 40% bonds). Notably, investors with a time horizon of a few years or more should be less concerned with whether we have a soft landing or an economic recession and instead align portfolios with long-term strategic targets.

Risk Profile: While stocks recovered most of their prior-year losses during 2023, returns within fixed-income investments were more muted, with income from bonds offset by price volatility in certain areas. As we look to 2024, we believe traditional assets should play a central role across risk profiles, reducing some of the need for alternative investments. Additionally, investors should lean further into Fixed Income positions across risk profiles with yields at their highest level since the Financial Crisis (2008-2009).

Strategic vs. Tactical: We recommend tactical investors start the year relatively neutral but be willing to adjust and adapt to changing market conditions. Most notably, we recommend tactical investors consider any short-term weakness along the way as an opportunity to step into equities. Strategic investors should look beyond any market volatility during the year and proactively rebalance if they find their portfolio drifting meaningfully away from their preferred allocation.

Accumulation vs. Decumulation: Investors accumulating assets may find greater opportunity within traditional assets, particularly fixed income, than in recent memory. These investors should consider pullbacks as opportunities to deploy more capital, especially if they are tactical investors. Retired investors spending down their portfolios should work with their advisors to see how this increased yield environment can help them meet cash flow needs. Retired investors should additionally take time to ensure they can comfortably handle any market volatility along the way.

Tying it all together

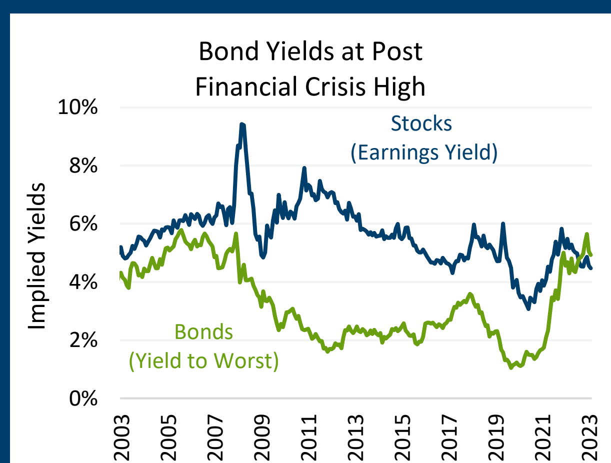
In a world where growth remains positive, inflation is moderating back to normalized levels, and interest rates are stabilizing and possibly even heading lower, stock and bond prices have an opportunity to perform well in 2024. And while risks of a shallow downturn remain present, the pressures of inflation and rapidly rising interest rates have run their course, in our view. Just as the sharp upswing in interest rates was a strong headwind for economic activity and financial market results in the last two years, we believe falling rates should offer solid support to business activity and financial market performance in the quarters ahead. And should conditions potentially evolve into a shallow downturn, strong consumer/business balance sheets and the themes/strategies outlined in these pages should help investors navigate such conditions with confidence. ■

2023 – Stocks recovered from prior year declines while bonds still try to get moving.

Year	Stocks	Bonds	Year	Stocks	Bonds
2023	20.9%	2.9%	2007	3.5%	7.0%
2022	-19.4%	-13.0%	2006	13.6%	4.3%
2021	26.9%	-1.5%	2005	3.0%	2.4%
2020	16.3%	7.5%	2004	9.0%	4.3%
2019	28.9%	8.7%	2003	26.4%	4.1%
2018	-6.2%	0.0%	2002	-23.4%	10.3%
2017	19.4%	3.5%	2001	-13.0%	8.4%
2016	9.5%	2.6%	2000	-10.1%	11.6%
2015	-0.7%	0.5%	1999	19.5%	-0.8%
2014	11.4%	6.0%	1998	26.7%	8.7%
2013	29.6%	-2.0%	1997	31.0%	9.7%
2012	13.4%	4.2%	1996	20.3%	3.6%
2011	0.0%	7.8%	1995	34.1%	18.5%
2010	12.8%	6.5%	1994	-1.5%	-2.9%
2009	23.5%	5.9%	1993	7.1%	9.7%
2008	-38.5%	5.2%	1992	4.5%	7.4%

Sources: Bloomberg, S&P Dow Jones Indices, American Enterprise Investment Services Inc. Stocks are represented by the S&P 500 Price Index and does not reflect the impact of dividends, Bonds are represented by the Bloomberg U.S. Universal Total Return Index. Calculations assume no fees or transaction costs. Past performance is not a guarantee of future results. Data as of 12/12/23.

Bond investors find best valuation since the Global Financial Crisis.



Sources: Bloomberg, S&P Dow Jones Indices, American Enterprise Investment Services Inc. Stocks are represented by the earnings yield (earnings / price) of the S&P 500 Index, bonds are represented by the yield to worst of the Bloomberg U.S. Universal Index. 60/40 is 60% earnings yield from stocks and 40% yield to worst from bonds. Higher implied yields infer lower (better) valuations and vice versa. Data as of 12/12/23.

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Price/Earnings: An equity valuation multiple calculated by dividing the market share price, as of a certain date, by earnings per share. Trailing P/E uses the share price divided by the past four-quarters' earnings per share. Forward P/E uses the share price as of a certain date divided by the consensus estimate of the future four-quarters' EPS.

The **Standard Deviation** measures how concentrated the data are around the mean; the more concentrated, the smaller the deviation.

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Definitions of individual indices mentioned in this report are available on our website at ameriprise.com/legal/disclosures/ in the **Additional Ameriprise research disclosures** section, or through your Ameriprise financial advisor.

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