Please note: This is a transcription so there may be slight grammatical errors

At the start of 2023, almost 9 out of 10 economists predicted the U. S. would soon enter a recession. Rising inflation and a hard-line Federal Reserve had investors feeling pessimistic. All signs pointed to a difficult year ahead. And yet, as 23 progressed, the U. S. not only avoided a recession, but the economy actually grew, quite nicely.

The job market remained strong, wages outpaced inflation, consumers kept spending, and corporate profits avoided a projected tumble. Over the course of the year, inflation waned, and investors enjoyed robust returns from both stocks and bonds. Against the odds, Consensus thinking proved solidly wrong. Now, at the beginning of 2024, consensus expectations have flipped.

Optimism is widespread and a majority of market watchers are predicting a favorable, soft landing this year, where growth slows, but we avoid veering into recession. This prevailing view is driven by strong economic fundamentals and a widely held assumption that the Fed will reverse course in 24 and begin to lower interest rates, providing needed relief to consumers and investors.

Businesses and governments. Confident investors have pinned their hopes on this Goldilocks just right scenario. Where interest rates drop, inflation continues to drift downward, and corporate profits accelerate. All while both the labor market and consumer spending remain strong. At CAPTRUST, we agree that a soft landing is the most likely and certainly the best-case scenario for 2024.

However, it's no sure thing. 2023 was a reminder that the future is unpredictable, even when there's widespread consensus about the path ahead. So, even as we hope for the Goldilocks outcome, we're also considering several factors that could lead the U. S. economy in a different and possibly less favorable direction.

First, there's the real risk that the Fed's actions won't align with investor expectations for interest rate cuts. Any gap between what investors expect and what the Fed delivers could hurt investor confidence and pull markets down since the anticipation of interest rate cuts is already built into market prices.

Another risk this year is the slowdown in consumer spending. U. S. credit card debt has surpassed a trillion dollars for the first time, even as credit card interest rates soar. If consumers see their holiday credit card bills and grimace, or more importantly, if the job market softens, consumers could pull back on spending with significant economic repercussions.

And while election years have historically been good for markets, this one promises fireworks. Given the degree of political polarization and the unprecedented legal situation, volatility seems likely as investors anticipate widely divergent directions for U. S. leadership and the resulting fiscal policy after November.

At the same time, we see increased risk that high geopolitical tensions, along with active regional conflicts, could spill over to the global economy with impacts to world markets and international trade. Of course, Risks are always present, no matter whether the economic forecast is good, bad, or somewhere in between.

So, with that in mind, one trend we're paying extra attention to in 24 is the potential impact of economic expectations themselves. Sometimes called investor sentiment. History suggests that when investor sentiment is overly optimistic, when expectations are too high, market returns often falter.

Investors can be disappointed when reality doesn't match their expectations, even if the underlying reality is good. And so, it's possible that the same optimism currently boosting stock and bond prices may contribute to weakness later, if this just right storyline doesn't play out the way investors expect.

But whatever 2024 has in store, it's wise to maintain a balanced mindset and consider both opportunity and caution as the year unfolds. As investors, it's always better to be approximately right than precisely wrong.

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