Please note: This is an AI generated transcription - there may be slight grammatical errors, spelling errors and/or misinterpretation of words.

Mike Vogelzang:

At the start of 2023, almost nine out of 10 economists predicted the US 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 US 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, 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.

Mike Vogelzang:

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 US 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. US 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.

Mike Vogelzang:

Or more importantly, if the job markets softens, consumers could pull back on spending with significant economic repercussions. And while election years have historically been good for markets, this one promises given the degree of political polarization and the unprecedented legal situation, volatility seems likely as investors anticipate widely divergent directions for US 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 investors 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.

Nick DeCenso:

Good afternoon everyone, and welcome to our CAPTRUST Quarterly Wealth Management webinar. We're delighted that you're here. That was our Chief Investment Officer, Mike Vogelzang in the video you just watched. And our topic today is really an extension of what Mike presented. We'll be deciphering market predictions in 2024 in this session. It will include a look back at 2023, a broad look at what market watchers are expecting this year, and then a discussion of the scenarios that our team at CAPTRUST is specifically monitoring. We'll also be sure to hit some common topics and questions that our clients inquire about. Hopefully we have some time for a few of your questions at the end, and it's my job to make sure that we wrap up on time about 45 minutes past the hour or earlier. So we have two great panelists today. Let's go ahead and bring up Justin and Jennifer from our virtual green room if you'd turn on your cameras. There you are. Hey Justin. Good to see you Jen. Good to see

you as well. All right, so brief introductions here. Justin is a principal with CAPTRUST. He's a charter financial analyst and a certified financial planner, dual threat. Justin serves on CAPTRUST's investment committee. He's also a financial advisor to select families and business owners. Justin is based in San Antonio, spends a lot of his time as well in his hometown of San Diego. Welcome, Justin. Thrilled to have you.

Justin Prawl:

Thanks.

Nick DeCenso:

Jen Perler is a manager at CAPTRUST. She's a certified public accountant leads our fixed income manager research at CAPTRUST. Jennifer is originally from New York and relocated to Houston six years ago. Jen, great to have you and good to see you. Thank you. All right, so let's jump in. We had some fun prepping for this session. I'm really delighted to have Justin and Jen with us today. We can keep this conversational and I believe, as Kara mentioned, if there are questions from our audience today, feel free to pop those questions in the questions panel and I'll be sure to monitor those. We'll get to those if we have time at the end today. Okay, Justin, before we get to the topic de jour 2024, let, let's get your reactions to last year 2023. We just heard from Mike that the market predictors were generally way off on the year. What were your reactions and takeaways from the year?

Justin Prawl:

Yeah, I think when you look back at 2023, Nick, it has to be in recent memory outside of maybe Covid in 2020, the most surprisingly positive year for stocks in the last 10 or 15 years. I mean, if you had a perfect crystal ball that gave you absolutely accurate information, and it told you on January 1st, 2023 that the Federal Reserve was going to continue to hike rates another a hundred basis points to 20 year highs that we were going to have a mini banking crisis in which three of the largest banks in history basically went out of business. That s and p 500 earnings were going to be essentially flat year over year from 2022 to 2023. And then finally, that not only was the war in Ukraine to continue, but a new conflict was going to emerge the bloodiest conflict in 20 years between Hamas and Israel, there'd be a lot of yellow flags, maybe red flags out there.

Justin Prawl:

I think most investors, even given that perfect information, would've likely pulled their equity exposure down, maybe gone to cash. But as we know now, that wasn't the right call. 2023 saw this s and p 500 rise 25% for the entire year. It's an outstanding year. And so why did that happen? And I think that Mike touched on it in the video. It was really this change in investor sentiment from being very, very negative coming out of a really tough 2022 and all this talk about recession in 2023 to swinging more positive and constructive by the end of the year. And it was really two reasons for that. One was just the more widespread awareness of artificial intelligence chat GPT was launched in 2022, really started to gain momentum in 2023. Pretty soon every earnings call was CEOs. You were hearing about chat GBT and how they were implementing artificial intelligence in their businesses.

Justin Prawl:

And so that gave investors a lot of confidence about the productivity enhancements that might come from artificial intelligence. And then secondarily, and perhaps even more importantly, at least as it relates to 2023, was that on November 1st, and I don't know unless you had an anniversary on November 1st or a birthday, you probably don't remember that day, but for economic wonks, that's the day when Federal Powell or federal chairman, federal Reserve Chairman Powell, basically tipped his cards and hinted that the Federal Reserve was at the end of their tightening cycle and even suggested there might be rate cuts in 2024 after that speech, the s and p 500 rose 14%, and just a toured rally over the next two months. And so here we are today as we walk into 2024, the earnings multiple on the s and p 500 expanded from about 16 and a half times at the beginning of 2023 to about 19 and a half times at the end of 2024, not because of earnings growth obviously, but because of a change in investor sentiment. So as we sit here today and we look forward, the prospects for additional multiple expansion I think are fairly low. We do need to see corporate earnings come in strong to continue the markets run. It's certainly part of our base case in our soft landing scenario, but that's what we're looking for right now.

Nick DeCenso:

That's great. Thanks Justin. Jen, how about your perspective? Anything to add?

Jennifer Prawl:

Yeah, sure. I mean, it's certainly echoes some of the sentiment that we heard in the video and that Justin mentioned. But I would say thinking about fixed income markets, bottom line 2023, despite a ton of volatility, lots of uncertainty. It wound up being a very good year for bond investors. The first two thirds of the year were tough, right? We saw interest rates pushing towards 5% in the 10 year. So definitely surprised a lot of people in the marketplace. But in the last months of 2023, inflation cooled a bit. Labor market showed signs of softening, and as Justin mentioned, the Fed effectively ended the tightening cycle and signaled that rate cuts were coming and almost as quickly as they tumbled. You saw bonds rally in those last two months of the year really resulting in strong performance across the board. What's ironic about the volatility in the bond markets is that when you look at it from point in time to point in time, it looks very much like the bond market had a very sleepy year.

Jennifer Prawl:

So the 10 year treasury was actually unchanged year over year. It ended 2023 at around 3.9%, which is essentially where it started. But if you look under the hood, it was really anything but this kind of uneventful year. I have a chart that probably highlights what I'm talking about, this rate volatility, but it shows the yield curve at different points in time throughout the year, and you can see how much that yield curve buried. So coming into the year, as Mike mentioned, market consensus was that these steep interest rate hikes that were pushed through by the Fed in 2022 would tilt the US into a recession leading to this big bond rally. And that call looked very promising in March when we saw yields fall with the regional banking crisis, but the Fed stepped in backstop small banks, the economy was resilient and the Fed kept that tightening campaign on track. Then there were concerns about treasury supply, which also pushed up yields really to above 5% around October. And then again, they came back down sharply in the last few months of the year on the back of some softer data. So again, while the 10 year made this round trip, lots of volatility in the bond market throughout the course of the year.

Jennifer Prawl:

I will say that we've received a lot of questions like why was that volatility so pronounced in the bond markets and it's uncertainty? Essentially, there was this kind of tug of war between a lot of factors. So we had a resilient economy, a resolute fed, we had consistent fed guidance, but we've seen today very differing market expectations regarding the fed's past. So a lot

of give and take leading to these murky outlooks that led to these big moves in the bond market. I guess at the end of the day though, thinking about 2023, like I mentioned, the bond market really finished the year with a bang in the last quarter of the year, and that dovish pivot by the Fed contributed to that sharp decline in rates and positive returns across all sectors. Looking forward, I would say, of course we've heard there's a lot of unknowns on the horizon, the economy, the fed geopolitical conflict, and all of these issues will matter, but the fact that we've had these rising rates over the past few years means that those issues will matter less in fixed income. So because you've had this big rise in rates, we see higher yields across the board and those yields will offer cushion against further. And so really unlike the past decade, fixed income is a very compelling offering from a total return perspective.

Nick DeCenso:

Thanks, Jen. Yeah, these are good visuals as well. So I heard, basically what I heard was it was a really busy year for us in 2023. I am worried about headwinds and the like, but gosh, they have good results. I guess you look at it from a calendar year perspective, good year for investors. Alright, let's pivot a little bit and Jen will stay with you. Carrie, you can take that down, that slide down as well. Thank you. So last year, as I mentioned, you mentioned it seems a surprise to the upside for most market watchers out there, at least compared to what they were predicting at the beginning of the year. What are we seeing those same people thinking about for 2024, both the markets and the economy? Jen, you want to kick us off? Yeah,

Jennifer Prawl:

Absolutely. I would say broadly there's optimism for a soft landing in the market, talking with a lot of investment managers on our side, it certainly seems to be the base case. There's a number of reasons for that, things that they're looking at. First off, inflation. So I would say the disinflation in the CPI has been remarkable. It peaked at about 9.1% in June of 2022, back down to 3.1% in November, come up a bit since then. But I would say inflation expectations have declined and appear anchored thanks to fed tightening expectation from market participants largely is that it should be within striking distance of the fed's 2% target in the next say 12 months. So this kind of thinking is in line with that soft landing base case. That said, who knows, inflation picked up a bit in December, it was like 3.4%. So the markets are definitely looking at inflation and wondering if there's potential

that it could get quite sticky and if it trends higher or continues to stay where it is, some of those rate cuts that the market is anticipating will have to come out along those lines.

Jennifer Prawl:

Interest rates, I would say in line again with that soft landing global central banks appear to be reaching the peak of the tightening cycle. So not necessarily ratcheting back down, but really nearing the peak. The Fed certainly seems comfortable remaining at 5.5% and kind of seeing the cumulative, excuse me, impact of the tightening cycle on economic activity. And there's this lag of course between rate hikes and demands, so there could certainly be more drag in the pipeline, but broadly, while those cuts may not be imminent, it feels like we've neared the end of that tightening cycle. So that's another factor I would say labor, we've heard a lot about labor, this very strong hot labor market. Labor market adjustments though that have been underway probably fall under a soft landing scenario, or at least that's what the market expects. Job openings and the quit rate have declined.

Jennifer Prawl:

Labor force participation is up, productivity has improved. So that's really contributing to better supply side adjustments. And then we have the consumer consumers just, they look good. The balance sheet continue to remain strong. I would say spending could decelerate, but it would really require a large rise in unemployment to cause a contraction, but it's something everyone's watching. We kind of see these estimates of consumer excess savings that are starting to normalize, and those customers in the bottom quintile of income have certainly exhausted that excess savings buffer. But broadly the view is the consumer is on relatively solid footing. And then corporations, I would say corporate ratios are softening, but it's off of very strong levels. So we've seen margins moderate because of these inflationary pressures, but earnings have come in better than expected. Companies look to have been able to grow their top line, leverage has been stable and I think the expectation is companies will be cautious and think from the debt side.

Jennifer Prawl:

I mean interest coverage has come down, but it's still strong and companies did a very good job of extending debt over the last few years,

kind of issuing when rates were at historic lows. So I would say those are probably major things that the market is watching and that the base case is given where those things stand now that the Fed may be able to thread the needle, achieve this kind of elusive soft landing. That doesn't necessarily mean there aren't alternative scenarios at play, but I would say that's the highest probability expectation in the market right now.

Nick DeCenso:

Okay. Wow. Great. Thanks Jen. Justin, anything to add to that? I want to get to the CAPTRUST kind

Justin Prawl:

Of viewpoint. Yeah, I think the only thing I'd add to that is just the disparity between what the market's pricing in for Fed rate cuts in 2024 versus what the Fed has forecast they will do In 2024, the market was pricing in as many as six or seven cuts as recently as a month ago. That's come down by contrast, the fed's only expecting to cut rates three times, so 75 basis points in 2024. So the market is really anticipating a dramatic slowing in the economy, which isn't consistent with earnings growth. So there's some discrepancies between what the market is pricing in for fixed income or for fed rates versus what other aspects of the forecasters are looking at. So I think that how that's resolved in 2024 is going to be important.

Nick DeCenso:

Yeah, good points. All right. From a CAPTRUST perspective then we don't have a crystal ball that I'm aware of, but I know we have our own viewpoints. It was fun for me to hear those in our prep sessions. And Kara, I know we have a slide on this as well, if you can go to the next one. Justin, what do we just broadly, well, here we go. What scenarios do we have our eye on?

Justin Prawl:

Yeah, I think where I'd start with it says it on the slide title there, preparing over predicting CAPTRUST takes a bit of a different view. Our investment committee as it relates to making forecasts as opposed to forecasting a particular level for the 10 year treasury yield at the end of the year or at s and p 500 level, we're really charged with building robust portfolios that can work in different economic environments for our clients. And so specific levels aren't as important as considering the full range of potential

outcomes that we could see coming this year. So for 2024, we came up with four different scenarios, two of which we don't think are likely, I'm not going to spend a lot of time on it, but stagflation being the worst case scenario, high unemployment, persistent high inflation, slow negative economic growth, bad for all asset classes, we don't think that's likely outcome.

Justin Prawl:

Also, we don't think that a productivity fueled growth scenario in 2024 is a likely outcome where the adoption and implementation of artificial intelligence broadly across corporations is really going to play out. Now, we know that's starting to take place. We have no doubt that that's going to continue to take place into the future, but we don't think that's specifically a 2024 story. If you go back and think about the dotcom boom and bust in early 2000, the internet changed our lives and it created some great companies, but it wasn't as if the adoption in 2001 of that technology changed the marketplace. It took three, four or five years, a decade more, and it just constantly gets approved. So it's very possible that artificial intelligence will be adopted more quickly than the internet for commerce and productivity, et cetera. And because we learned from what happened with the web and we can accelerate that process.

Justin Prawl:

But again, we don't think that's a 2024 story specifically, the more likely scenarios, and we've talked about soft landing quite a bit, so I won't belabor the point, but certainly a possible scenario here is a stagnation scenario. And in that one, the way that would come about is you hear about the Federal Reserve hiking interest rates and they have what are called lagged and variable effects. Meaning just because the Fed raises interest rates today doesn't mean it has the full impact on the economy for upwards of estimates of vary, but say 12 to 18 months. And so it's possible in this scenario that all the fed rate hikes that have taken place over the last two years really come to bite on the economy in 2024. And we find ourselves in a situation with a dramatically slowing economy, not talking about recession necessarily, but think kind of 1% annualized growth in that scenario, you're going to see a decline in overall wage growth.

Justin Prawl:

We mentioned credit card debt in the video, and certainly that's situation with high interest rates. It makes it more challenging, especially for those in the lower economic spectrum to meet their needs and it crowds outspending in other spaces like activities, experiences maybe even close. And that can start to have an impact, a negative impact on corporate earnings, in which case corporations may start to lay off more individuals. And it kind of creates this positive feedback loop where you have increasing unemployment, stagnant high inflation, low overall growth, which is not going to be good if it comes to fruition for corporate earnings at all. So that's the stagnation scenario. Again, soft landing is where we think we're going to be, but there are some things that we're looking at. If you'll turn to the next slide, I just want to highlight those. Now for those of you that are clients, this slide should not be a surprise to you.

Justin Prawl:

We publish this every single quarter. Talk about the headwinds and the tailwinds, and this is really designed for you to understand what the investment committee is looking at, what we're discussing when we meet every couple of weeks. And certainly the consumer challenges that I just mentioned before in the stagnation scenario are something that we're watching, but there's also the housing market. The housing market, while prices remain elevated, affordability remains a significant issue for any new buyers in the marketplace. There's simply not enough inventory and why isn't there enough inventory? Well, and that's been a persistent theme in the United States for some time now, really since the great financial crisis. The other thing is people don't want to sell their homes because why would I sell a home that I have a three and a half percent mortgage in to buy a new home and I have to pay six, six and a half or 7% per year on that mortgage?

Justin Prawl:

So it's kind of created this luck in the supply of real estate out there. And so that's a potential issue that we're watching. The uncertainty around the election, certainly there's the election here in the United States, but I'll tell you, there's other elections out there. In fact, this may be one of the most voters may be going to the polls this year globally than in any other previous year. When you look across the entire world, there are leaders being elected in countries that represent 60% of the global economy. Certainly if Taiwan's already had their election, there's an election in Russia, although I think the outcome for that's fairly certain, but there's also

elections in Pakistan. There's an election in Mexico, and of course there's the election in the United States. And so surprises in any one of these, particularly in Mexico for example, so close to the United States and an increasingly important trade partner for us could have some unexpected impacts on the market out there. And then finally, mark or Mark, Mike nailed this one. I mean, investor optimism may be the biggest risk. I talked about it the outset when investors have high expectations, even the smallest miss can create market volatility. So those are the things that we're looking at from potential risks in the marketplace.

Nick DeCenso:

Yeah, that's super helpful. Justin, I've got some questions I want to follow up on what y'all discussed so far. Before I do that, Jen, anything to add? I think Justin nailed it, but just want to be sure. Alright, thanks for that. And Kara, we can take that down that slide. So when we were preparing, we put together some topics that we hear from clients on frequently and we thought giving some broad arching perspective would be good and maybe getting a little bit more focused on some of our questions here. So Jen, let's turn to you first. A lot of folks keep an eye on the Federal Reserve they met today. Some folks may see that on CNBC in front of 'em right now. And I think you've touched on this a little bit, fed funds rates and some expectations, but let's just drill in a little bit more. What are you thinking about what is our team thinking about from a Fed funds expectations and interest rates in general?

Jennifer Prawl:

Yeah, sure. I mean, I think kind of big picture, it's going to be caused the cause for additional volatility going forward. So I think that's just something broadly that we are mindful of over kind of the next year. As you mentioned, and Justin touched upon it a bit too, but right before this webinar, the Fed announced the decision to hold rates steady at five and quarter to five and half percent. I guess tabling that for a second. We know that the Fed, they broadcast their prime to pivot. We see their guidance, they held interest rates steady in December, but they gave kind of the signal that hiking campaign was done and they forecast three quarter point cuts in 2024, which was more than economists predicted. And markets move broadly on that tone. But Justin just mentioned the market has jumped way ahead of this, right?

Jennifer Prawl:

As of this morning, fed futures were pricing in 5 25 basis cuts in 2024, beginning in April and a few weeks ago it was six. So really almost twice as much as you see in the Fed's dot plot. So investors seem to be much more kind of saying why then fed officials about inflation and much more pessimistic on the economy. Both those things can't be right, so either many managers adjust their weight like their bets to better reflect the central bank's intentions or policymakers come around to the market's verdict on the economy. But at the end of the day, I would imagine this certainly is the cause for a lot more volatility and bond markets near term. We have to see how this plays out. Like I said, investor expectations have definitely been tempered following some stronger than expected economic data. So hopes were kind of dwindling leading up to the meeting today, and we've heard fed officials say it's kind of too soon to speculate on the pivot.

Jennifer Prawl:

So especially given the strong labor market, the economy that's still growing strongly. And then they came in and announced today that they would hold rates steady at five and quarter to five and a half percent. But what was unexpected about that statement and kind of cost two year yields to undo a lot of their earlier decline was that the Central bank said they don't expect a cut until they're more confident that inflation is nearing that 2%. So really not as dovish as current rate pricing probably requires, and I would say it seems pretty likely that the market has been too optimistic about the timing and the pace of evening. And so again, because there's that potential for disappointment on the outlook for Fed policy, I would certainly say expect more volatility ahead.

Nick DeCenso:

Okay. All right. Justin, I got a fun one for you. You up. You already brought up elections is your quote. 60% of the world's population has the opportunity to vote this year.

Justin Prawl:

60% of the economic output is represented in elections this year. I'm glad

Nick DeCenso:

You rephrased that. Thank you. And then look, I think presidential election years markets tend to do average to just fine, maybe even above average. But what are your thoughts? What are we thinking about this year?

Justin Prawl:

Yeah, the election question is always a good one, and it's obviously rife with potential for people to get upset. And so this is a nonpartisan view, a very sterile clinical view of election results. So we went back and looked and since 1932 there's been 23 presidential elections. And over the course of those 23 presidential elections, the s and p 500 has been positive in 19 of those 23 years in the four years in which it was negative, those included the Great Depression, world War ii, the dot-com bust, and the great financial crisis. So outside of some large macro event occurring in 2024, the least historically, the probabilities are on your side that this is going to be a positive year, but what causes over this timeframe such a consistently positive return for equities? And the reason is pretty simple. Politicians want to get reelected and the politicians who are in power have the ability to turn the knobs to increase economic activity, whether that's through tax cuts or stimulus packages, we're seeing it right now. And that's not a partisan comment, that's just what happens every year. And in fact, if you go back and look in the years in which were positive for the s and p 500, whether a Republican won or a Democrat president won, the average return was about 17%. And the variance around that Republicans versus Democrats was about a half percent. So there's no statistical significance in terms of who actually wins the presidential election, which leads us to one of our favorite maxims with clients, which is vote with your ballots, don't vote with your portfolio.

Nick DeCenso:

That's a good point. I like that. Some really good nuggets in there. Alright, so we're going to switch gears a little bit here. So another common question we get is these days at least is around cash. Years and years and years, we didn't talk about cash with our wealth management clients was very little yield. Now all of a sudden we have yield to talk about. And I think that some clients are saying, all right, what does this mean for me? Should I move some assets out of bonds or equities into cash? How should I be thinking about this? So this is kind of open here. Justin or Jenny, you want to start with that?

Justin Prawl:

Sure, I'll go. I'm going to put on my financial planning hat and I'll let Jen bring the big guns on the investment side of this. But from

Justin Prawl:

A financial planning standpoint, the choice between cash and equities isn't so much about how much what the yield is on cash right now, because from a financial planning aspect, equities are intended to be long-term investments that you're expecting a large amount of capital appreciation from, whereas fixed income or cash is intended for short-term needs that are going to come up or an emergency savings account, for example. So if you know that in the next year or 18 months that you are going to have a larger expenditure, maybe you have a new car that you need to purchase, maybe your child is going to college and you have tuition to pay, that is not capital. That should be invested in equities, that is capital that should be invested in cash, and you should be thankful for the five plus percent that you can get on short dated treasuries right now.

Nick DeCenso:

Love that, Jen.

Jennifer Prawl:

Yeah, I guess I'm thinking about it more from an institutional standpoint, and I get this question all the time, why not just sit in cash? And that's a tough one. Cash has been very kind and it's been rough to be in more interest rate assets, but if you look at the bond market performance in the last few weeks of the year very quickly, and based on just a little economic weakness, you saw long bonds generate returns of 10% investment grade, intermediate term bonds, three to 4% in some cases. So with cash, while you can lock in those high yields on an overnight basis, there's no guarantee how long you'll be able to achieve those higher yields going forward. So in an environment like this one where we see inflation gradually heading back towards central bank targets where 2024 may be about rate cuts, the ability to generate very attractive yields in longer maturity investments, but also have the prospect for price appreciation that's attractive and you can move out to really just the three to five year range. You don't have to lock in bond yields for 30 years. Just extending out the curve a little bit and being able to achieve in high quality bonds, I mean yields upwards of 6% in some cases. It's definitely a nice balance, right between the safety of cash yields and the ability to lock in yields over an extended period of time.

Nick DeCenso:

That's great perspective. All right, so I want to leave a few minutes here for some questions that we have from the audience. So to do that, Kara, let's bring up our takeaway slide. I want to make sure we clear those first. Just a few simple things here that we want to make sure that hopefully you've heard a lot from Justin and Jen today. I've heard a ton and some great notes, but three takeaways, you heard it in the video from Mike, right? Better to be approximately right than precisely wrong. The second one there, we heard this kind of throughout a little bit, stick to your plan, stay balanced in the face of potential volatility. And then lastly here, I think we heard this a little bit, but when we were thinking of takeaways, we wanted to make sure we called out that optimism is okay, right?

Nick DeCenso:

There's always going to be opportunities in the marketplace. Actually, I remember Justin saying in our prep session, there's always going to be something in your portfolio that you probably don't like. That's okay. But there are things to be opportunistic about and we can help. We certainly do help our clients look for opportunity in the markets and in their portfolios. Alright, so let's pivot to a couple questions here. We've got a few minutes left. So this first one, Justin, just knowing your background, I'm going to go to you, it's on alternatives and I think if I'm summarizing the question here, it's just generally speaking, we talked about stock market, fixed income today and this alternatives. I guess it could be depending on how you define alternatives, but just broadly speaking here, go forward for 2024. What are your thoughts on alternatives and portfolios?

Justin Prawl:

How much time do I have? This is

Nick DeCenso:

My favorite subject.

Justin Prawl:

Yeah, I mean you can think about alternative investments for those who may not be initiated to it is just non-traditional investments, anything outside of stocks and bonds and gold. And so things like private credit, private real estate, private equity, hedge fund type strategies that are designed to have low correlation and volatility. These are all what we consider in our basket of alternatives. And every client situation is different.

Not every client needs alternatives. Not every client should have alternatives, but they can play an important role in client portfolios to increase diversification, maybe increase overall absolute returns, certainly increase risk adjusted returns, and they come in a lot of flavors. And what's nice about what's going on in the industry, and it's been going on the last five years or so, is that there's been this democratization of alternative investment strategies where it used to be just the big institutions who had 20 million to put to work at a clip could get access to these private equity and private real estate funds.

Justin Prawl:

That's no longer the case. There's been an evolution to bring these alternative strategies down to individuals who can invest as little as a thousand or $5,000 and give you access that there are different aspects to traditional private equity, for example, and I'm sure your advisor can walk you through what those are, but we do like it going forward. I think that there's opportunities right now in real estate. There continues to be opportunities in private credit. Venture capital looks very interesting given what's going on, what's going on in public markets. The private markets tend to lag the public markets. So you saw this big drawdown in 2022 in the public markets. It's starting to be felt in the private markets, which means if you're buying in right now, this is not a blanket statement, but with properly due diligence managers and strategies, I think there's a good opportunity there to increase your returns going forward.

Nick DeCenso:

That's great. And you're right. We deserve a whole webinar probably on that question, Justin. Thank you. Alright, maybe one more here. We had a few questions come in and generally the topic is related to federal debt, debt level spending as well. I guess suppose they're linked and seems like there's been this continual concern about it, but I don't know what actually comes of that. At what point do we really get worried? I don't know if now is that time or not. Jen, you want to kick us off there?

Jennifer Prawl:

Yeah, sure. I know this comes up often. I would say just to I guess first take a step back, we had a pandemic. We got the policy response we wanted and we needed, which was kind of unlimited fiscal and monetary support, and we're still in that kind of covid shadow. The Fed is certainly trying to

drain that liquidity away. So you're seeing more discussions on the fiscal side about how we bring down the deficit with debt to GGDP looking so high. That said, the next phase could be this period of sustained growth really because of demographics. So plenty of growth to generate tax revenue, stabilize the federal deficit and government spending. So you're seeing more conversation on fiscal discipline coming from Washington coming. I hate to muddy the message that we're about to see the fed cut rates and that's always good for buyers. You get this bond bull market. So I would hate for people to miss out on yields here making decisions really on supply demand dynamics more than anything else because hard to do.

Jennifer Prawl:

I think what if you think back to the back half of 2023, we saw this big surge in yields, right? Particularly in the long end of the curve and an increase in the term premium. A lot of that was associated with concerns over the onset of treasury supply to fund that growing deficit. Those fears were somewhat el late. And then we did have some, I guess with the market considered upbeat news today from the treasury. So they came out and said today that they were going to increase sales of long-term bonds for February through April by the same amount that they did in the previous quarter. So really keeping with that goal of being very regular and very predictable. They also mentioned that they didn't anticipate needing to make any further increases in longer medium term bond as she for the next several quarters. So I feel like the takeaway today was positive and it was really the fact that that long-term bond amount isn't really surpassing expectations, which was I guess a relief for bond traders because those concerns were really about the market's ability to kind of absorb that growing supply. I wouldn't say I feel like people still, because of these kind of technicals impacting the long end of the curve, not necessarily a place where people want to play, I think they still would prefer to be on the short end of the curve, but at the end of the day, I think that did a little bit today to asage some of those concerns out there, but something to think about.

Nick DeCenso:

Yeah. Thank you, Jen. All right. That was fantastic. Our time went by fast. I want to thank everyone for joining us. This really has been great. We didn't get to all of our questions, but we will follow up with folks as we can. A brief webinar survey will be sent around. We appreciate your feedback and your time. With that, I want to make sure that we thank Justin and Jen. Really

appreciate your time and expertise today. We look forward to hosting you again next quarter. Take care.

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