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# INVESTMENT STRATEGY QUARTERLY



# Letter from the Chief Investment Officer

## Markets: *Mild* or *Spicy*?

Lights, camera, cook! On Top Chef, one of America's most popular kitchen competition television shows (and very similar to the UK's MasterChef), contestants walk in with knowledge and experience—but no idea what challenges they are about to face. Their goal: to prepare a dish that pleases the expert chefs judging them. But the judges toss in a mix of ingredients that no contestant would expect. The aspiring chefs have to think on their feet, improvise and beat the clock.

Sound familiar? Not only was fast footwork the investment story in 2023, the competition is set to get stiffer in 2024. Here are our ten themes for the upcoming year—our basic menu. Count on more than a few surprise ingredients throughout the year to spice up the financial markets! Let's head into the kitchen and see what's cooking as we enter 2024.

### 1 US Economy: 'Rotisserie' Cycles

The most talked about US recession in history has yet to materialise. Many economists have stopped waiting for the delivery and have revised the menu. We still believe that a recession will start in the second quarter of this year, but it will likely be the mildest ever. Indeed, it may be so mild that markets barely notice it—just a morsel to whet the appetite for the recovery to follow. We expect the recession to be mild because there are no excesses in the economy, and like a rotisserie oven, many parts of the economy have been rotating from hot to cold independently over the last few years. Case in point: in 2023, travel and leisure were toasty while housing cooled. This rotation reduces the potential for all components of the economy becoming chilled at once—the usual recipe for a more severe recession. Even with a mild recession, a recovery by year end should help US GDP warm to a ~1% growth rate for the entire year.

### 2 Monetary Policy: Chairman Powell, The Top Chef

The Federal Reserve (Fed) is led by our favourite Top Chef: Jerome Powell. Under pressure to cool inflation, he served up a steady course of interest rate hikes over the last eighteen months and whipped inflation from 9% to 3.1% currently. Since that restrictive diet is done, the Fed will turn its attention to fattening the economy as growth concerns mount (i.e., a modest rise in unemployment and a potential recession). Markets are salivating over the possibility of as many as six interest rate cuts in 2024, but we believe that is overly optimistic; we favour three or four. More rate cuts than that would likely mean the economy is struggling more than we anticipate.

> "We still believe that a recession will start in the second quarter of 2024, but it will likely be the mildest ever. Indeed, it may be so mild that markets barely notice it..."

## 3 Fixed Income: A Makeover 'Rescue'

Like the guests on the US television show Bar Rescue, fixed income investors for the last few years may have felt like they were in bad shape, just like the shabby drinking establishments on the show. In both cases, the underlying business and fundamentals are in place and a makeover is all that's needed. That makeover occurred in the bond market as the sharp reset to higher interest rates gave long-term investors an attractive entry point. What was old is new again. At today's elevated yields, the traditional role of fixed income—providing income and diversification from equities—has been restored. With a potentially mild recession and rate cuts on the horizon, we forecast the 10-year Treasury yield to fall to 3.5% in 2024. Sovereign bond yields should fall across other international markets too. A more challenging macro environment could drive yield differentials with corporate bonds wider, even though absolute yields remain attractive. We favour investment-grade corporate and municipal bonds over the lower-rated segments of the market. As in Bar Rescue, location matters.

## 4 US Equities: The Critical Eye Of Gordon Ramsay

In his show Hell's Kitchen, Gordon Ramsay is often hyper critical of the contestants. Just as he has a discerning eye for cooking, investors will need to be more selective in 2024 with their sector, region, style, and market capitalisation choices. That's because a lot of the good news has already been priced into the market, including expectations for a soft landing, Fed rate cuts and easing inflation. The proof in the pudding is that the P/E multiple is trading near the upper end of its 20-year range. For the equity market to move higher, earnings will have to grow to sustain the upward trajectory. Given our expectation for a mild recession, investors should turn a sceptical eye to a consensus earnings estimate of $245 (+12% earnings per share growth). We think that is likely too frothy. Our expectation is that earnings growth will be only 2% to $225 for 2024. History (i.e., election years, Fed easing cycle, etc.) suggests our less spicy expectations for the S&P 500—to 4,850 by year end 2024—make more sense. The US is unique amongst developed stock markets given the extent to which large technology companies aggressively outperformed other stocks, skewing average valuations notably and giving rise to significant disparity.

## 5 Sectors: New Ideas, Richer Flavours

With a slowing economic environment, earnings growth will be a decisive factor in determining sector performance. That's why our 2024 'Michelin Star' sectors are like America's Test Kitchen: familiar spaces being improved by experimenting with new gadgets and ingredients. For Technology, valuations remain reasonable despite the strong performance in 2023 because earnings have outpaced price growth since 2021. Growing acceptance of artificial intelligence by investors will transform it from the newest tech 'gadget' to an investment staple. Expect attention in the sector to remain healthy and supportive. Speaking of healthy, while Health Care underperformed last year, we see it offering some of the strongest earnings growth of any sector in 2024. That should boost investors' appetites. Continued investment in innovative drugs and procedures will further turn up the heat. For Industrials, we expect a bottoming in manufacturing activity followed by continued investments as a result of the Creating Helpful Incentives to Produce Semiconductors (CHIPS) Act and Inflation Reduction Act. The effort to promote reshoring of critical products should be a catalyst for the sector over the next 12 months.

## 6 Small-Cap Equities: Don't Pass Up The 'Dives'

On the US television show Diners, Drive-Ins and Dives, the presenter fires up his bright red 1968 Chevy Camaro convertible and goes roaring around America to find great food in unexpected, small, relatively unknown places not unlike the UK's Rick Stein. While some 'dive' restaurants, look ugly on the

# Letter from the Chief Investment Officer *(cont.)*

outside, the food and atmosphere on the inside make up for it. Underperforming smaller companies may appear unappealing at first glance, but fundamentals under the surface make them worth visiting. First, smaller company shares are trading near a record discount relative to larger equivalents. Second, smaller companies historically outperform large companies coming out of a recession. Third, small companies typically outperform larger counterparts following the first Fed interest rate cut. Fourth, our three favourite sectors (Industrials, Health Care and Info Tech) are three of the four largest sectors in the small company index. Lastly, smaller companies total market value is less than some of the largest individual constituents in the S&P 500, which means that small inflows can have an outsized influence on the pace and magnitude of the rally. Don't drive by without sampling the menu and atmosphere.

## 7 International Equities: US Is 'Grade A'

When looking at the global equity markets, US equities are still our prime choice. Developed market international equities are 'sale priced' relative to US equities, but growth headwinds could spoil earnings trends in the coming quarters, particularly in Europe. Japanese equities may be an outlier in 2024, underpinned by corporate governance reforms and an ongoing economic recovery. Emerging markets remain a long-term opportunity for investors. They should ripen with the end of the Fed tightening cycle, a modest weakening in the dollar and a rebound in economic growth in Asia and Latin America. We continue to see tasty opportunities in select emerging markets, particularly in India and Mexico, where the tailwinds from shifting supply chains and "friendshoring" should continue to provide a recipe for growth.

## 8 Energy: Discipline In The Kitchen

Discipline is important when you're wielding a sharp knife or cooking over an open flame. It's even more important in the energy market kitchen. In 2023, OPEC+ was disciplined when controlling oil supply. And private companies—especially smaller ones—exercised careful capital discipline in drilling for additional oil. In general, we believe energy production discipline will continue to limit the growth of the oil supply. Assuming a very mild recession in the US, a robust rebound in countries like India and China and a recovery in the US and Europe later in 2024, the hunger for more oil will increase. That, combined with elevated geopolitical risk, leads to upside from current levels. As a result, our 2024 year-end target for oil (West Texas Intermediate) is $85/barrel, supporting our contrarian call on the Energy sector.

## 9 Volatility: Turning Up The Heat

Volatility was relatively modest last year from a historical perspective. Why? Because of exceptional pessimism at the beginning of last year. Investors feared a recession, stubborn inflation, imploding corporate earnings and the Russia/Ukraine war. In retrospect, that pessimism was overstated; each of those dynamics had surprisingly more favourable outcomes—at least in the markets' eyes. In 2024, we appear to have the opposite view: uber-optimism leaves the market vulnerable to disappointment. Chop-licking expectations are optimistically forecasting a soft landing, six fed rate cuts, double-digit corporate earnings growth, falling energy prices and a continued consumer spending spree. Combine that with a hotly contested US presidential election and nearly 40 other elections around the globe. If you thought the kitchen was kind of warm last year, get ready for more volatility in 2024.

## 10 Asset Allocation: Pace Yourself At The Buffet

How many times have you gone to a buffet and regretted eating too much of one thing and missing out on something you really wanted further down the line? Well, that doesn't happen at the finest restaurants in the world. There, seven-course meals are perfectly paired, crafted and proportioned. We want investors to experience well-crafted fare, which is why we place so much attention on your wealth manager building an asset allocation that matches your tastes. We are factoring in a modest upside for most asset classes in 2024, but don't let a so-called 'everything rally' distract you from maintaining a commitment to a well structured asset allocation. Faced with a big buffet it is

> “The pessimism of 2023 was overstated; worrying dynamics had surprisingly more favourable outcomes—at least in the markets’ eyes. In 2024, we appear to have the opposite view: uber-optimism leaves the market vulnerable to disappointment.”

tempting to splurge on whatever looks good today, ignoring a balanced, more healthy approach. A savvy cook carefully determines which ingredients, spices and proteins pair best together. Asset allocation strategies, for the most part, should be in place for the long term. They remind me of one of the most famous infomercial taglines of all time—the ‘Set and Forget It’ rotisserie oven. ‘Set it and forget it’ is great advice, particularly in challenging and more volatile markets. Timing is also important: decisive short-term moves can sometimes save a meal, but panic-driven actions can ruin it. That’s why, when it comes to a longer-term investment horizon, we prefer to let things marinate.

We look at the future like the mystery basket in US television cookery programme Chopped—the ingredients inside could be anything. Creative chefs know how to work with what they are given. We encourage you to peek into our kitchen, with our updated views on what’s cooking, throughout the year. World-renowned US chef Bobby Flay said: “Cooking is a subject you can never know enough about. There is always something new to discover.” Don’t let uncertainty scare you out of the market—turn to your sous-chef (AKA your wealth manager)— for support and guidance when things heat up. Wishing you a happy, prosperous—and delicious—2024!

Bon appétit.

**Lawrence V. Adam, III, CFA, CIMA®, CFP®**
*Chief Investment Officer*

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# 2024 US and UK Economic Outlook: Prepare for Landing

**Eugenio J. Alemán, PhD,** *Chief Economist,* Raymond James
**Giampiero Fuentes,** *Economist,* Raymond James
**Jeremy Batstone-Carr**, *European Strategist,* Raymond James Investment Services Ltd.

Just as pilots assess conditions before landing, on both sides of the Atlantic Ocean we are analysing the UK and US economies as we enter what might prove the final leg of the post-COVID-19 journey. Meanwhile, as investors fasten their seatbelts and hope for a soft landing, we economists fine-tune our forecasts for the year. Economic activity is expected to fluctuate and we anticipate a wide range of headwinds and tailwinds to challenge both economies, especially those affecting the US consumer, but despite some turbulence, we continue to believe that there will be a safe landing, albeit not as soft as many might hope.

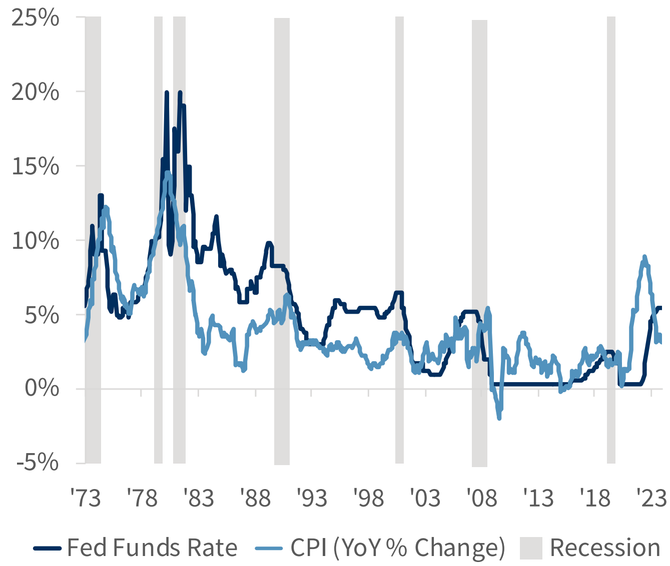
## INFLATION: WE HAVE STARTED OUR DESCENT

After more than a year when some analysts argued that structural changes were probably going to keep inflation higher than during the pre-COVID period while preventing the Federal Reserve (Fed) from achieving its inflationary target, inflationary pressures continued to push lower during the third and fourth quarter of last year with no signs that structural changes would be able to prevent the Fed from achieving the 2% inflation target. Structural challenges face the Bank of England too, despite two consecutive monthly falls in the UK inflation rate. The UK labour market remains tight, supply pressures contributing to persistently high wage claims. Pay deals are, however, heading lower as the economy flirts with a shallow contraction.

The Consumer Price Index (CPI) continued its disinflationary path toward the end of 2023, bringing significant optimism to investors. Hopes of a soft landing and expectations of inflation hitting the 2% medium term target faster than many had expected have pushed markets to believe that both central banks might cut rates several times in 2024, starting in the US, in the first quarter. We disagree with the markets because we believe that the Fed is more concerned about a potential reacceleration of inflation, especially if the US economy can avoid a recession, and it will be very careful in moving rates lower. The Bank of England will likely tread equally warily, at least initially, before cutting interest rates more aggressively in late 2024 and on into 2025.

If we assume the US economy continues to be strong and experiences a soft landing, what would be the rationale for lower rates if the economy can handle a 5.5% federal funds rate and still grow unabated? In this case, we believe the Fed would be more mindful to preserve the opportunity to ease monetary policy if a future recession requires it. For example, along with quantitative

## Inflation and the Fed Funds Rate




Source: RJ Economics, FactSet as of 15/12/2023

easing, the reason the Fed was able to ease monetary policy in the wake of the COVID-19 pandemic was because it started to raise the fed funds rate from 0-0.25% in 2015 to 2.25-2.50% in 2019. On the other hand, if rates were already lower in 2020, the Fed would have had less 'cushion' to work with. No such ambiguity faces the Bank of England. The lagged impact of earlier aggressive rate hikes are clearly suppressing activity, a deliberate policy aimed at more closely balancing demand with available supply of both goods and services.

Even if the US economy slips into a mild recession, as we are still expecting, the Fed is going to be reluctant to move interest rates much lower fearing that lower interest rates could push inflation higher again. That is, if the Fed starts lowering interest rates, the credit cycle is going to start again with an increase in lending, and then potentially generate much higher increases in home prices, which have the potential to reignite inflation again by the end of 2024. If we, on top of this, add continued geopolitical uncertainty or a successful effort by the OPEC+ cartel to push oil prices much higher, then it is very difficult to see rate-setters at either the Federal Reserve or Bank of England accepting stronger economic growth with the potential for a reacceleration of inflation, especially, in the US context, considering that home prices are on the rise again and the inflationary effects of today's increase in home prices are going to start making their rounds this year.

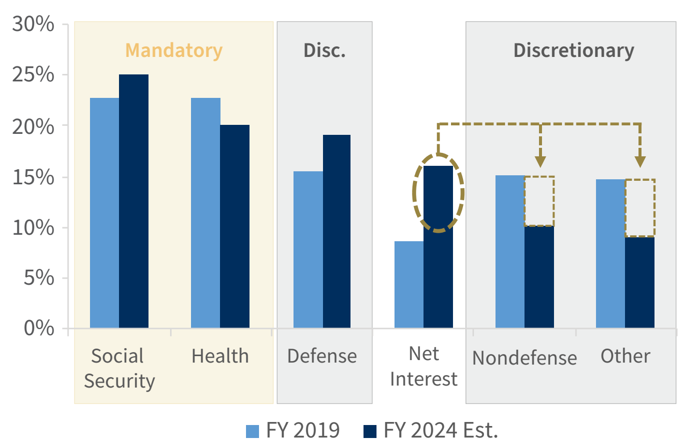
Again, the UK differs, given that banks have been steadily reducing access to credit, especially to businesses, for well over a year. A modern, properly functioning economy cannot survive for long without the supply of credit and the UK is no exception.

A by-product of the Bank of England's approach to monetary policy is that small and medium sized businesses fail for lack of sufficient working capital, a scarring (to use a term popularised during the pandemic) that may serve to ensure that the eventual economic upturn proves sluggish.

### NATIONAL DEBT: SUSTAINED CROSSWINDS

The impact of interest rate increases, amounting to more than 5%-points since the hiking cycle began, has adversely affected both consumers and the government in the United States. The US government's annual interest expenditure on its public debt is projected to surpass $1 trillion in 2024, marking the highest figure on record. However, the challenge lies not in the ability of the US to meet its debt obligations; rather, the biggest issue with the US debt is that the political system needs to agree on an already stretched budget to include these interest payments, as well as a long-term solution to the debt problem.

## Composition of US Government Expenditures




Source: RJ Economics, FactSet as of 15/12/2023

With current available resources, the US is estimated to be able to grow sustainably at ~1.9% without triggering higher prices.

Today, about two-thirds of government expenditures are earmarked for non-discretionary, or mandatory, programs. That is, unless there are changes to current laws, the United States needs to keep paying those expenditures. This is something much like 'fixed costs' in terms of business parlance: there are no degrees of freedom to change those expenditures in the short-to-medium run while at the same time, it needs requires a political agreement between the parties in Congress. The remaining one-third of US government expenditures are discretionary, which the US administration could potentially adjust to allow for payment of higher interest payments on the debt, but these outlays also require political agreement to decide on a solution.

The University of Pennsylvania's PENN WHARTON Budget Model estimates that the US has approximately twenty years for corrective action under current policies before facing inevitable government default.[1] Nevertheless, there is an urgent need for decisions regarding the US budget to be made promptly despite this projected timeframe.

Clearly the state of the public finances really matters to all investors in financial markets, whether they be located in the US or internationally and especially so in an election year. 2024 might prove to be an election year in the UK too (an election must be held before the end of January 2025 and government's seldom like to go to the wire as doing so can be interpreted as a sign of weakness). The health of the UK's public finances are thus just as relevant, but more in the context of a possible fiscal "give-away" as a potential pre-election inducement.

Eight months of the way through the UK's fiscal year borrowing has hit £116bn, around £24.5bn above the equivalent period last year but somewhat lower than levels projected by the Office for Budgetary Responsibility in the Autumn Statement. More encouragingly, falling gilt-edged yields will, if sustained, cut the country's interest bill and provide some scope for pre-election largess. Such a move would likely prove only temporary, a brief "window" opening then closing again as potentially substantial tax rises lie around the corner in a further effort to bring the books more closely into balance.

## LABOUR MARKET: TURBULENCE AHEAD

The US labour market added over 2.5 million jobs in 2023, but nonfarm payrolls started to slow during the last few months of the year. Job openings have been on a downward trend since peaking in 2022 and we expect this trend to continue in the first quarter of 2024. As the economy continues to slow, we expect the labour market to contract slightly starting in the second quarter of this year. This should push the unemployment rate higher, to ~4.8% in the third quarter of 2024, but we expect the labour market to start to recover before the year ends.

The health of the UK Labour market remains no less pivotal, but quite how resilient it is proving is clouded by a methodological adjustment undertaken by the Office for National Statistics, requiring experimental data releases associated with employment, unemployment and inactivity levels. The data purports to show that domestic employment conditions remain broadly healthy, albeit that HMRC data shows a slight, but perceptible, easing. This trend is supported by an equally nuanced dip in job vacancy rates, a possible sign that the recruitment market is slowing, as one might expect against a backdrop of generally subdued economic activity.

While layoffs are always painful and costly for individuals as well as for any economy, we expect them to be much less severe in 2024 than in previous recessions. The average US recession experiences ~2.5 million job losses, while we are only forecasting ~1 million jobs lost during the upcoming slowdown. Equally, we do not anticipate a sharp rise in the numbers of UK unemployed, albeit a further loosening in conditions seems likely as 2024 progresses.

## THE BOTTOM LINE: CLEARED FOR LANDING

Stable and lower inflation, lower job growth, and a weaker consumer are going to slow economic growth from the strong expansion experienced in 2023 to ~1.0% in 2024 in the United States and from 4.3% in 2022 to perhaps just 0.5% over 2023 in the United Kingdom. While we continue to expect the US economy to experience a very mild recession that lasts for two quarters, we want to emphasise that the overall growth for the year will remain positive. With current available resources, the US is estimated to be able to grow sustainably at ~1.9% without triggering higher prices. Therefore, our GDP forecast for the US economy, if it materialises, should not only be welcomed by investors but also by the Fed as inflation will be less likely to reaccelerate. In contrast, if the UK economy flatlines over 2024 (perhaps experiencing several quarters of negative growth in so doing) that would likely prove a more positive outcome than had previously been anticipated. The health of the global economy more generally may prove the ultimate arbiter of how deep and protracted the UK's pedestrian performance ultimately turns out to be.

Additionally, the concept of 'asynchronous recessions' should soften a downturn. That is because several sectors of the economy already experienced a contraction last year. Therefore, as some of last year's expansionary sectors start to weaken, those that contracted in 2023 might start to experience growth. This is true both in the UK and the US. The reason the US economy did not experience a recession in 2023 was because consumer demand, supported by still strong employment and real income growth as inflation has slowed, has kept the US consumer spending.

 [1]Source: https://budgetmodel.wharton.upenn.edu/issues/2023/10/6/when-does-federal-debt-reach-unsustainable-levels#:~:text=Under%20current%20policy%2C%20the%20United,debt%20monetization%20producing%20significant%20inflation)

The economic outlook for 2024 should not be year of 'recession' but rather a year of 'sustained disinflation with weak economic growth.' Importantly for investors, 2024 will likely be the year in which the financial markets' focus switched from obsessing about inflation to obsessing about growth, or the lack of it! According to our forecast, the upcoming US recession will not only be very mild, with fewer job losses and declines in fixed investments, but also shorter in duration than the average recession. While we expect consumer spending to weaken, we expect government and non-residential fixed investment to grow more and provide a cushion to the economic slowdown. For international and UK-based investors alike, what will likely differentiate 2024 from 2023 (and indeed the pandemic period prior to that), is the pendulum's swing from inflation's pre-eminence to growth. Aggregated data masks the strong likelihood that the world's economies will slow, trough and recover at a varying pace over the next two years. The successful identification and preparation for this will define investment thinking over the coming year. The bottom line is that while the US economy may have been cleared for landing. Prospects more broadly are challenging, but far from insurmountable.

**EXPECTED RECESSION VS. HISTORICAL AVERAGES**

| | FORECAST | AVERAGE |
|---|---|---|
| **Economic Contraction** | -0.3% | -2.5% |
| **Average Duration** | 6 months | 10 months |
| **Jobs Lost** | 1M | ~2.5M |
| **Fixed Investment** | -3.2% | -18.5% |

### KEY TAKEAWAYS:

- Inflationary pressures continued to push lower during the third and fourth quarter of last year with no signs that structural changes might prevent central banks from achieving their 2% inflation target.
- Markets have begun to believe that both the Federal Reserve and Bank of England will cut rates several times in 2024, the former starting in the first quarter. We disagree—we believe that the Fed is more concerned about a potential reacceleration of inflation, and it will be very careful in moving rates lower. The Bank of England will likely be slower off the mark, but the pace of UK rate cuts will accelerate as 2024 progresses.
- The very aggressive rate hiking programme over the past two years has negatively impacted both consumers and the government, both in the US and UK.
- The US does not have an issue with the ability to repay its indebtedness; it has an issue with the willingness to do so which lawmakers must address. The pace at which the UK tackles its public finance problem will likely be interrupted by the forthcoming General Election, but will quicken again thereafter.
- Stable and lower inflation, lower job growth, and a weaker consumer are going to slow down economic growth from the strong expansion experienced in 2023 to 1.0% in 2024 in the United States and 0.5% in the United Kingdom.

# A Desynchronising World: Slowing Growth, Decelerating Inflation, Policy Easing

**Professor Jeremy Batstone-Carr,** *European Strategist, Raymond James Investment Services Ltd.**

The lagged impact of restrictive monetary policy around the world will exert downward pressure on the global economy in 2024. Activity across advanced economies outside the United States will be below trend and while the picture across emerging economies will be more mixed, the overall view is one of subdued growth marking the cyclical trough before a partial recovery in 2025. More encouragingly, global inflation has fallen sharply from peak levels in late 2022 and will fall further in 2024 driven in particular by lower food and underlying price pressures as activity weakens and labour markets slowly loosen. Across advanced economies, inflation will decelerate to target levels sooner than envisaged by the European Central Bank and Bank of England, a backdrop allowing a policy pivot towards easier monetary policy as the year progresses. Japan is different, monetary policy inching slowly towards partial normalisation after years of ultra-easy conditions. Thus, the backdrop presents a challenging set-up for financial markets already priced for a smooth transition to a perfect landing. The stage is set for sovereign bond yields to fall and yield curves to steepen while the equity earnings cycle will trough over the first half of the year before reviving thereafter.

Across advanced economies, inflation will decelerate to target levels sooner than envisaged by the European Central Bank and Bank of England, a backdrop allowing a policy pivot towards easier monetary policy...

### JAPAN

Nowhere does uncertainty regarding prospects for investors over 2024 exist more than in relation to Japan and specifically the outlook for the country's monetary policy. The Bank of Japan is undertaking a detailed review regarding the conduct of policy which will be completed by midyear, however, a

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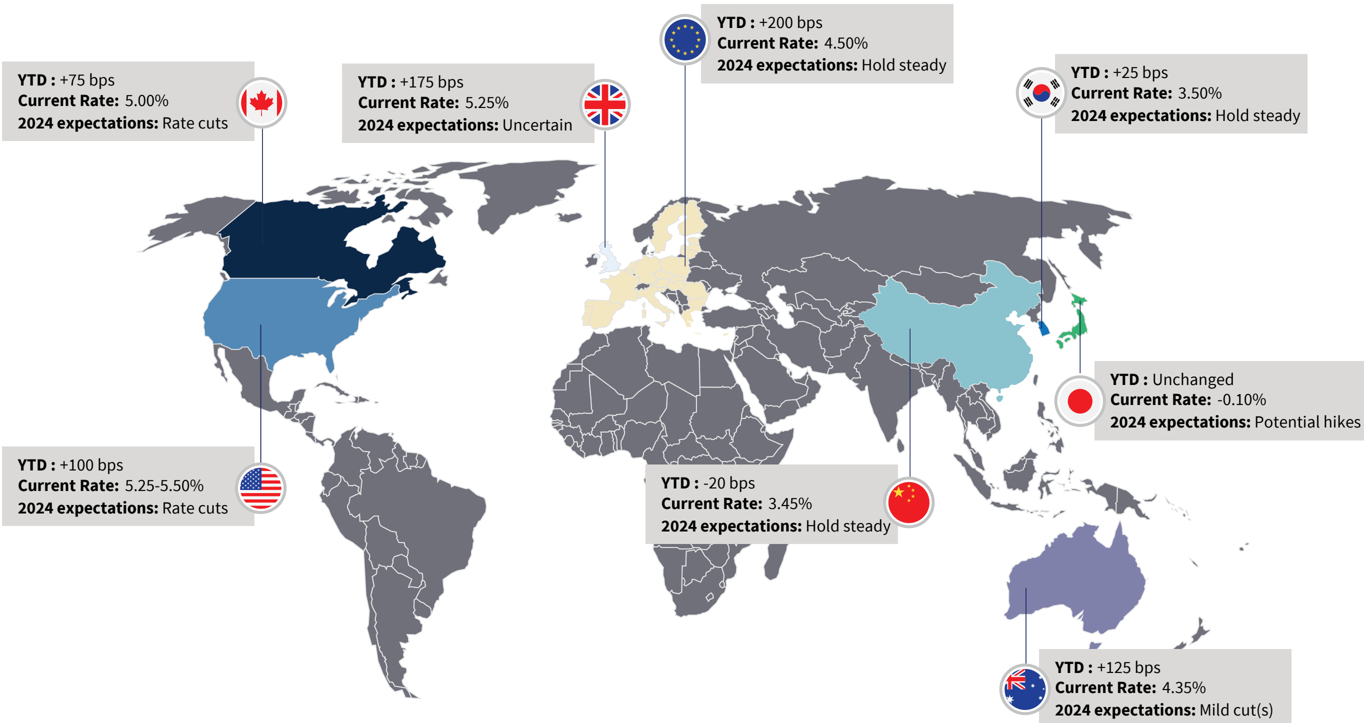
## Global Central Bank Policy Expected to Diverge

Tightening cycle moved in sync, pace of loosening will differ




Source: FactSet, as of 18/12/2023

recent adjustment (loosening) to the previously hard ceiling above which government bond yields may not be permitted has de facto signaled that yield curve control is effectively over. But the Bank's bond purchases continue, and confusion exists because the central bank and the Japanese government are trying to step away from tight management of the bond market while simultaneously preventing the yen from further weakness and supporting demand through fiscal stimulus at the same time. A gradual departure from the policies of the past, including taking interest rates out of negative territory would prove supportive to the currency and encourage international interest in the equity market.

### EURO AREA / UK

Less equivocation surrounds economic prospects for both the euro zone and the UK. Activity will underperform consensus forecasts over 2024, a shallow economic contraction the likely outcome in large part the consequence of the lagged impact of aggressive monetary policy tightening and a deepening credit crunch reflecting the steady withdrawal of credit availability and persistent deterioration in bank lending, both to businesses and households. Admittedly, falling inflationary pressures will impart less of a drag on consumer spending, but this will be offset by a loosening labour market and tighter fiscal policy. Meanwhile higher debt interest costs and subdued business confidence will weigh on investment intentions. Inflation will continue to subside as 2024 progresses, but the European Central Bank and Bank of England will require convincing that price pressures are sustainably on course to hit 2% targets before easing monetary conditions. A likely election in the UK further complicates prospects, but generally, government bond yields will continue to ease lower and corporate earnings will trough over the first half of the year.

### CHINA / INDIA

Following a surge in activity associated with economic reopening in the wake of 2022's pandemic-induced lockdowns, the Chinese economy has lost momentum. This has resulted in an appreciable pick-up in policy support which will deliver a modest cyclical revival, even as trend growth stagnates. Beijing's stimulus efforts have stepped up in response to weakness in the real estate sector and continued caution amongst households reflected in still subdued spending and a greater preparedness to shift savings from property and financial assets into the comparative safety of bank deposits. The People's Bank of China has cut policy rates and embarked upon other measures to revive credit demand which will deliver stability if not a sustained turnaround given the ongoing structural headwinds associated with demographic trends and diminishing returns on investment. A more constructive tone to communication with the United States points to a slow thawing in hitherto frosty relations between the two superpowers, but profound mistrust will take longer to shift.

> "Prospects for India's economy over the longer term are more promising than for most major economies."

In contrast, India will remain the global leader in terms of GDP growth in 2024, even though recent indications suggest activity slipping from earlier high levels. Inflationary pressures will continue to moderate, allowing the Reserve Bank to begin cutting interest rates. Prospects for India's economy over the longer term are more promising than for most major economies. The country is the most populous nation on the planet and will replace China as the world's largest labour force within the next few years. The economy stands to benefit from continued friendshoring of manufacturing supply chains supported by low costs and ongoing structural reform. Parliamentary elections in April/May will be watched closely in relation to Prime Minister Narendra Modi's grip on power.

## EMERGING MARKETS

Unlike the outlook for advanced economies, economic activity will have troughed in the Asia Pacific region over 2023, with growth poised to rebound in 2024 supported by easier monetary policy as regional central banks respond to the adverse impact of weakening global demand on trade activity and the continued decline in underlying inflationary pressures. This should be sufficient to offset the adverse impact of sticky headline prices, the consequence of less beneficial energy price basis effects and elevated food prices the consequence of El Niño weather conditions.

Brazil and Mexico have outperformed their American counterparts in GDP terms over 2023, but this will reverse in 2024 as regional central banks continue to cut interest rates and at a faster pace than emerging economies elsewhere. The outlook for the Argentinian economy remains highly uncertain following S. Javier Milei's presidential election victory. Reform is promised, although his ability to drive through the most aggressive aspects of his policy agenda will face a stiff challenge from the Peronist-dominated parliament.

Prospects for the emerging economies of central and Eastern Europe remain bound by both the uncertainty surrounding the ongoing conflict in Ukraine and slowing economic activity across the euro zone. Although the energy-induced inflation shock of 2022 has unwound and monetary policy loosening has further to run, local currency depreciation against both the dollar and euro will continue, the consequence of slowing global growth and still high inflation differentials.

### KEY TAKEAWAYS:

- Global growth will slow further in 2024, the consequence of the lagged effect of increasingly restrictive monetary policy.
- More encouragingly, global inflation has fallen from peak levels in 2022 and will fall further in 2024 as underlying price pressures decelerate.
- Inflation falling to target levels will allow for a central bank policy pivot to an easing bias. Japan is the exception, envisaged policy normalisation represents a departure from ultra-easy monetary policy conditions and a strengthening yen.
- The Chinese economy will experience a cyclical revival off 2023 lows, but impediments to a structural recovery will remain. The pace of future growth will slow.
- Against this backdrop, the set-up for international financial markets is challenging when already priced for a smooth transition to a near-perfect landing.
- The political cycle converges in 2024; in India, the European Parliament and likely in the UK. The extent to which politics serves to derail the outlook represents a potential threat.
- The stage is set for bond yields to fall and yield curves to steepen. The earnings cycle will trough before recovering, a revival in part based on the continued adoption of artificial intelligence.


# Ready, Set, Lock in Rates

**Tracey Manzi, CFA,** *Senior Investment Strategist,* Investment Strategy
**Professor Jeremy Batstone-Carr**, *European Strategist*, Raymond James Investment Services Ltd.

2023 proved to be another challenging year for the US and international bond markets. Stronger-than-expected growth, concerns about the US federal government's fiscal outlook and the world's leading central bank pledge to keep interest rates higher for longer drove yields (particularly longer-dated maturities) to levels not seen in decades. After the US 10-year Treasury yield climbed above the psychologically important 5.0% level in October 2023, US and developed economy bond yields more generally headed sharply lower in the final months of the year. While bond yields are off their recent peaks they still stand near their highest levels in nearly 15 years. And with a central bank easing cycle coming into view in 2024, we think yields will trend lower in the months ahead. Although, the journey to lower interest rates is unlikely to proceed in a straight line.

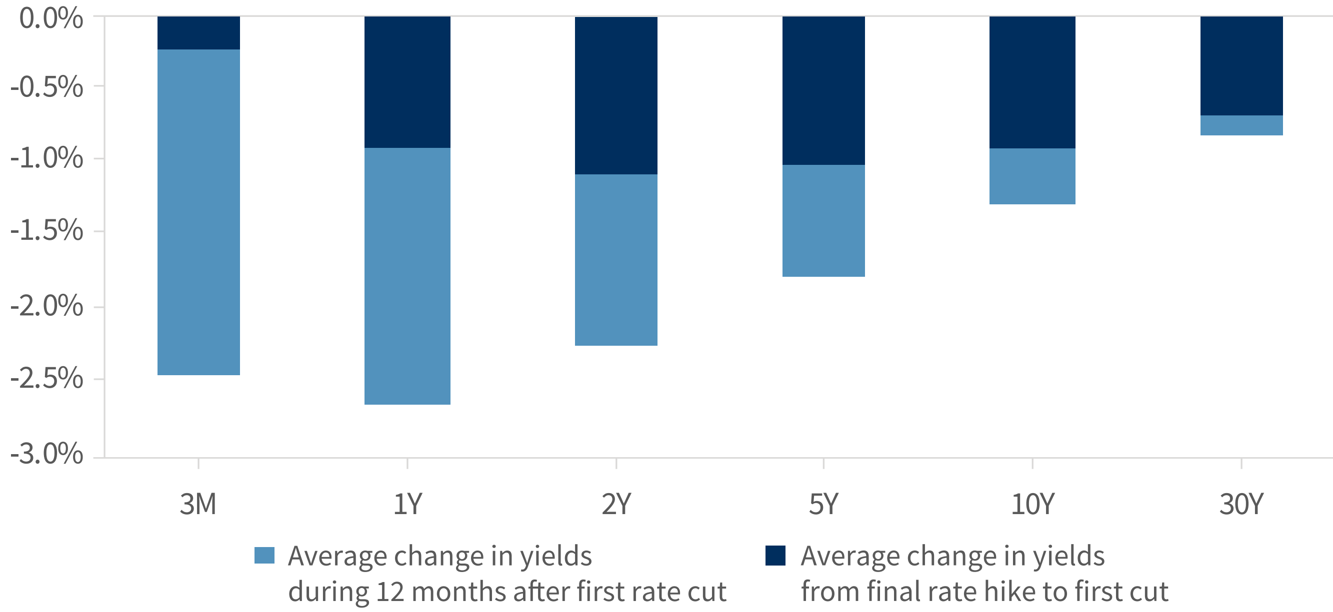
US bonds have historically delivered strong, positive returns when Fed policy is transitioning into an easing cycle. The same is true of international sovereign bond markets too. This should be welcome news for fixed income investors who have endured significant volatility and two back to back years of losses. But, as challenging as the last few years have been, there is a silver lining for investors—and that is, the great rate reset has restored yields to more normal levels. And, with yields now at their highest levels in decades, investors can once again reap the benefits of owning bonds. These include an attractive source of income, reasonable yield cushion to offset adverse movements in interest rates or spreads, potential capital appreciation and diversification from equities. These factors were missing when yields were artificially suppressed in the years following the Great Financial Crisis in 2008/2009.

> While interest rates are well off their recent peaks, yields still stand at their highest level in nearly 15 years.

## MACRO OUTLOOK SUPPORTS OUR CALL FOR LOWER BOND YIELDS

Despite calls for a recession in 2023, the US and Western developed economies more generally remained remarkably resilient. While the long-awaited US slowdown has been delayed, we still believe that a recession is coming as the tailwinds that supported growth are fading. A period of economic contraction elsewhere seems more likely although

## Yield Changes Leading Into and One Year After First Rate Cut




Source: FactSet as of 15/12/2023

emerging economies may broadly dodge that bullet. The US Federal Reserve, in keeping with its developed economy counterparts elsewhere (excepting Japan), have ensured that interest rate policy remains restrictive. The long and variable lags of monetary policy are still working their way through global economies and are expected to become a bigger drag on growth as we progress through 2024. The fiscal impulse that supported consumption during the pandemic period has ended. Job growth is stalling. And the disinflationary trend that started over a year ago is becoming more entrenched. International government bond markets have already sniffed out slower growth and sustained disinflation, driving 10-year Treasury yields from a peak of ~5.0% to 3.90%. The market is also pricing in nearly five 25 basis points of US rate cuts by year-end 2024 and as many as six cuts of a similar magnitude from the European Central Bank. While the market may be overly optimistic about what the Fed will deliver in 2024, we do believe that policy rates are headed lower given our expectation for a mild recession across developed economies next year.

What is up for debate is the pace and magnitude of the central banks' expected rate cuts in the upcoming easing cycle. In the US, Policymakers will likely err on the side of caution in lowering interest rates as concerns about a renewed spike in inflation or a re-acceleration in growth could derail their progress to date. However, if a sharper than expected slowdown materialises or inflation decelerates at a more rapid clip (not our base case), Fed officials have plenty of room to lower rates to cushion the downturn. Given the economy's resilience to the Fed's aggressive rate hikes and the unusual nature of this cycle, volatility is likely to remain elevated as the economy normalises. Therefore, the tug-of-war between the markets' expectation for rates cuts and the Fed's forward guidance is likely to persist. But ultimately, we do believe that the direction for policy rates and US and global Treasury yields will be lower.

### BONDS PERFORM WELL LEADING INTO AN EASING CYCLE

All bonds have historically performed well leading into an easing cycle, whereas the stock market typically only troughs once the corporate earnings cycle hits bottom, generally when economic

> Given our outlook for slower growth, more disinflation and a Fed pivot in 2024, we believe Treasury yields still have room to move lower.

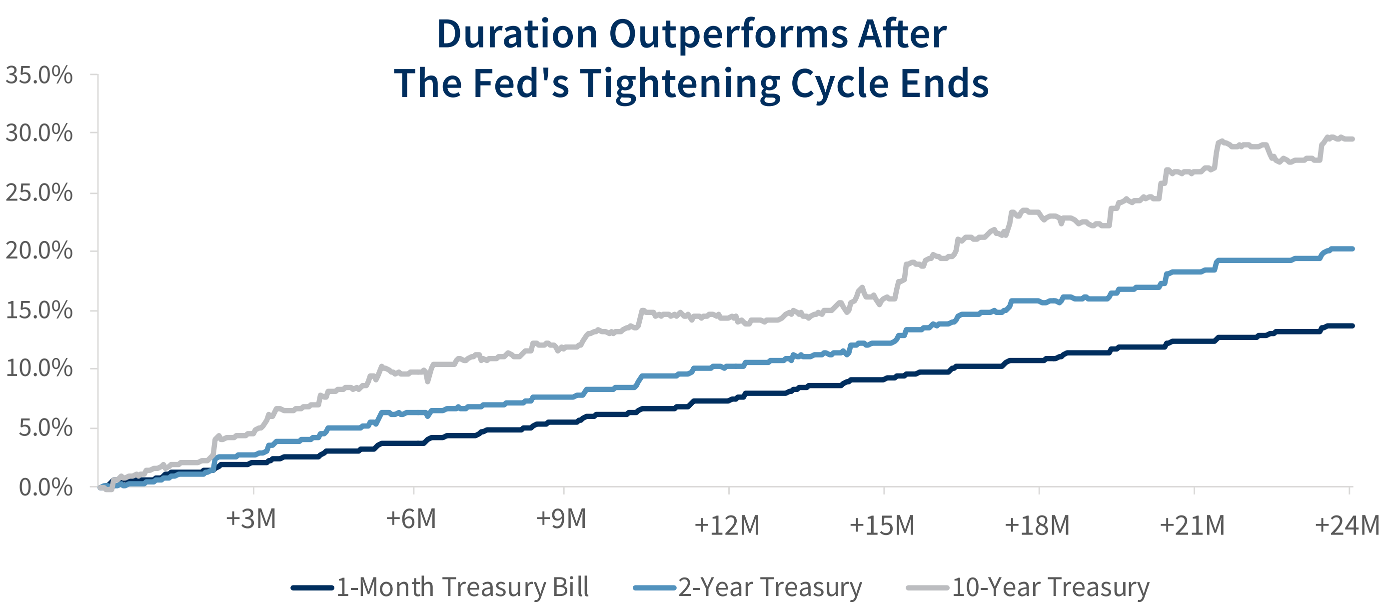
contractions are confirmed. In fact, once the Fed delivers its final rate hike, yields begin to move lower as the market starts to anticipate the next easing cycle. In the last six cycles, the period between the Fed's last rate hike and the first rate cut (i.e., the 'pause') averaged around seven months. Applying this average to the current cycle suggests that the Fed could kick off its next easing cycle as early as the first quarter of 2024—which coincidentally aligns with the timing of the first rate cut according to the fed funds futures contracts. While caution is warranted when looking at averages, as every cycle is different, it is worth noting that on average, 2-year and 10-year Treasury yields have declined more than one whole percentage point during the pause period. Yields fell even further once the Fed started cutting rates. More importantly, high quality bonds delivered strong, positive returns after the Fed's tightening cycle ended. We think the next cycle will deliver similar results. And the US is not alone. Similar results have been identified across developed sovereign bond markets too. Across emerging markets, bond yields have already adjusted as markets have repriced for lower interest rates, but this journey has further to go too.

Cooling inflation pressures, slowing job growth and the end of the Fed's tightening cycle have driven Treasury yields sharply lower in the final months of 2023. The recent decline in 10-year Treasury yields has simply been a retracement of the upside growth surprises and Treasury supply concerns that drove yields higher earlier in the year. In fact, yields are essentially back at the levels that prevailed when the Fed delivered its last rate hike of this cycle (i.e., July 2023). Given our outlook for slower growth, more disinflation and less restrictive Fed policy in 2024, we believe yields still have room to move lower—perhaps not back to the crisis-induced lows reached during the pandemic, but lower than current levels. While the decline in shorter-maturity yields will remain constrained by central bank policy rates, particularly with policymakers reluctant to ease aggressively with inflation still above the 2.0% target, longer maturities will be more responsive to the slowing growth/inflation dynamics. Absent a more aggressive central bank posture, the developed bond yield curve, as represented by the 2-year to 10-year spread, is likely to remain modestly inverted. But over time yield curve shape should return to a more normal, positive, upward slope.

## YIELDS HAVE NOT BEEN THIS ATTRACTIVE IN DECADES

The inflation surge following the pandemic has shifted the global investment landscape. After a decade or more of extraordinarily low bond yields, interest rates have risen to levels not seen in decades. While the process of getting here has been painful, there is a silver lining for investors—and that is, the income is back in fixed income. This is important because the starting level of yields has historically been one of the best predictors of future returns. And with developed economy sovereign bond yields hovering near a 15-year high, bond returns should be much better than they have been in the past.

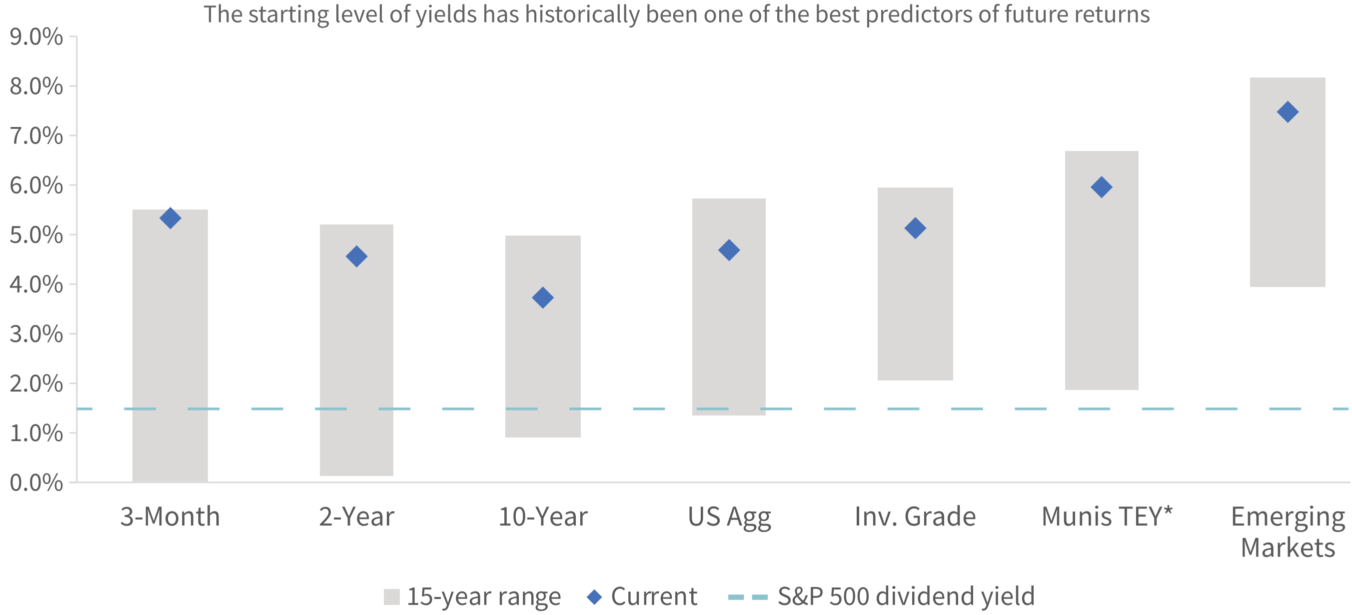
While the majority of a bond's return potential comes from the income component, the opportunity to capture some capital appreciation from a move lower in bond yields is an added bonus for investors. And with a central bank easing cycle coming into focus, we think it would be prudent for investors to consider taking on some additional duration risk and locking in these higher yields while they are still available. This is especially true for investors who have been riding out the storm in cash or cash equivalents, often earning competitive yields of 5.0% or higher. While cash yields are attractive today, their allure will quickly




Source: FactSet as of 15/12/2023

## Yield Opportunities Across All Fixed Income Sectors

The starting level of yields has historically been one of the best predictors of future returns




Source: FactSet as of 15/12/2023

* Tax-Equivalent Yield (TEY) is calculated using a top 40.8% tax bracket.

fade once the broad-based rate cutting process gets underway. In fact, history has shown that cash and cash-equivalents underperform intermediate and longer maturity bonds by a significant margin after central banks deliver their last rate hike.

### LOOKING FORWARD

Our optimism about bonds is driven by the high starting level of yields. While this was true in 2023, it is even truer in 2024. With yields across the fixed income spectrum near their highest levels in nearly 15 years, bonds have not looked this attractive on an absolute basis or relative to equities for a long time. Fixed income has the ability to generate mid-single digit returns or greater in 2024. As growth and inflation momentum slows, we look for lower yields and steeper curves in the months ahead. Given our outlook for a mild recession, we favour the higher-quality sectors of the bond market, which include Treasuries, gilt-edged and other international sovereign bonds, investment-grade corporate(s) and municipal bonds. While high yield corporate bonds offer enticing yields, we remain cautious on the sector given deteriorating fundamentals (i.e., rising defaults, higher bankruptcies, falling interest coverage ratios) and tight credit spreads.

### KEY TAKEAWAYS:

- Stronger-than-expected growth, concerns about the US government's fiscal outlook and the Federal Reserve's pledge to keep interest rates higher for longer drove yields to levels not seen in decades.
- Bonds now offer an attractive source of income, reasonable yield cushion to offset adverse movements in interest rates or spreads, potential capital appreciation and diversification from equities.
- Bonds have historically performed well leading into an easing cycle.
- We believe that fixed income has the ability to generate mid-single digit returns or greater in 2024.

## EQUITY MARKET OUTLOOK

After what ultimately proved a very strong finish to the year global bonds and stocks added a substantial near $20 trillion in value (bonds $6.1 trillion, equities $13.3 trillion) over 2023. More remarkably still, all that was achieved over the final two months of the year as, as recently as 28th October the overall position was unchanged from the start of the year. As ever, it proved to be a surge in financial market liquidity, that did the job, ably abetted by a very high-profile pivot from the Federal Reserve, adjusting its thought process regarding the likely outlook for interest rates as 2024 (a Presidential Election year of course) progresses. But gains were not universal, for all the Chinese administration's efforts, the Chinese stock market was unloved and shunned by international investors perturbed by slowing growth and high-profile problems in the country's sprawling property sector. Nearby Hong Kong registered its fourth consecutive "down" year too, but the Japanese stock market staged a strong revival as the currency strengthened against a subdued US dollar.

After a strong finish to 2023 it is only natural to wonder whether good gains can be built upon over the coming 12-months. Equity valuations appear somewhat stretched, but not aggressively so, and with so much emphasis on the numerator (price) in the much-used Price / Earnings ratio, the focus will surely switch to the denominator (company profits) to justify the recent surge. Typically, share prices struggle to make headway while profits (earnings) are under pressure, but post-pandemic conditions are far from typical, especially when cojoined with rampant investor enthusiasm for the opportunities artificial intelligence (AI) might deliver. The global economy might be slowing down, but the dawn of the AI age could serve to boost corporate earnings across a wide range of sectors, serving to make this earnings downturn far shallower than those of the past.

Furthermore, if the world's central banks (barring the Bank of Japan) really are adjusting their focus, away from inflation (2023's problem) to growth (2024's problem) then a significant tailwind (higher for longer interest rates) is likely about to be removed.

As central banks begin the process of cutting interest rates, so investors will likely begin to position for the ensuing economic upturn. Of course, financial markets seldom move in a straight line and potholes will surely lie in wait as 2024 unravels, but the overall direction of travel will likely be to the upside with benchmark equity indices across a range of geographies ultimately closing the coming year at higher levels than they began it. Add to this the continuing significance of dividend income to broadly diversified portfolios and investors can look forward to a year in which both stock and bond market returns are likely to be both positive and positively correlated.

### KEY TAKEAWAYS:

- Western stock markets delivered strong gains over the final two months of 2023 and 2024 could deliver more of the same.
- As central bankers refocus attention away from inflation and towards the subdued growth outlook, interest rates (a headwind for stock markets over 2023) will likely be cut.
- Investors will begin to look beyond weak activity to an upturn in the economic cycle in late 2024 and on into 2025. Enthusiasm for artificial intelligence will likely remain a dominant theme, with focus switching from technology providers to more broad-based utilisation.
- Prospects for the Chinese stock market remain uncertain. Were the world's second largest economy to stabilise investor interest in the region should revive.
- For the time being investors will likely remain focused on cash generative reliable dividend paying stocks, with risk appetite broadening as recovery prospects brighten over time.

# Two Wars in Two Years: Stark Reminders About Energy Security

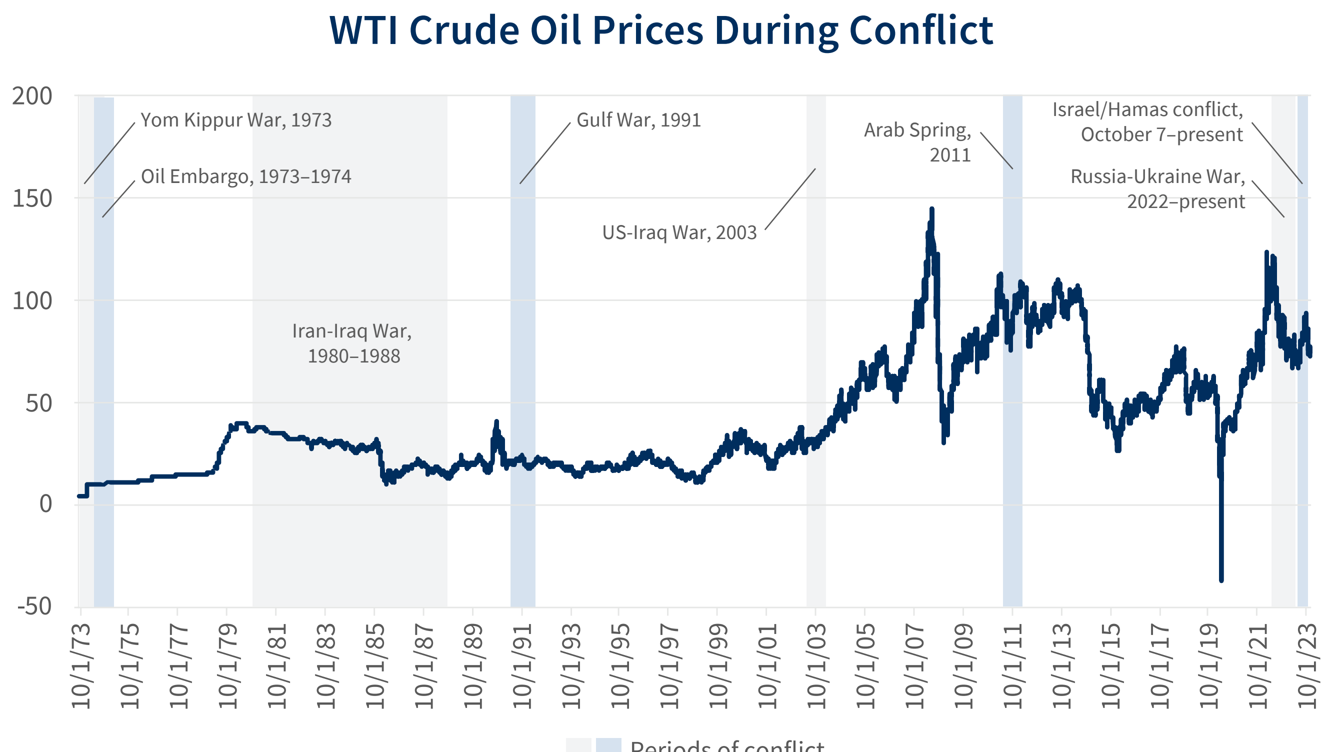
**Pavel Molchanov**, *Managing Director,* Energy Analyst, Equity Research

Half a century ago—October 1973—marked the beginning of an era-defining episode in history: the Yom Kippur War and the subsequent Arab oil embargo of 1973-1974, when individuals and businesses on both sides of the Atlantic found themselves literally out of gas. When Hamas attacked Israel in October 2023, the resulting war did not lead to a physical disruption of oil supply—in that sense, the two situations are different. But if anyone needed a reminder of just how vital energy security is, the latest Middle Eastern conflagration provided a stark wake-up call. In fact, it was the second such wake-up call over the past two years. Let's recall that Russia's invasion of Ukraine in February 2022 led to dramatic changes in Europe's energy sector, as the Kremlin deliberately cut off exports of natural gas into the European market, in a failed attempt to bring the European economy to its knees.

### OIL: SUPPLY AND DEMAND

Geopolitical conflict vis-à-vis Russia and the Middle East naturally tends to increase oil prices. We are also observing an unusually high degree of production discipline by the OPEC+ coalition, with Saudi Arabia having been aggressive curtailing supply for the purpose of propping up prices. Likewise, the private-sector oil and gas industry in the post-COVID era has become more capital disciplined than ever before, which explains why there are fewer rigs running as compared to past periods when oil prices were at current levels. Global oil and gas capital spending fell by approximately 30% between 2013 (the all-time peak) and 2023. By definition, less investment in new oilfields translates into less supply growth. The counteracting variable is pressure on global oil demand resulting from tight monetary policy around the world. All of the major economies continue to face above-average macro risks, which helps explain why oil has stayed below $100/barrel since mid-2022. All that being said, we forecast that West Texas Intermediate (WTI) crude will average $88/barrel in 2024, up modestly from the 2023 average. Brent crude, the global benchmark, should remain a few dollars above WTI.

> The private sector oil and gas industry in the post-COVID era has become more capital disciplined than ever before.




Source: FactSet as of 31/10/2023

## EUROPE NO LONGER DEPENDENT ON RUSSIAN GAS

Natural gas is fundamentally regional in nature: prices on different continents can follow different patterns. Recall that European natural gas prices peaked in the second half of 2022, when the first summer without Russian supply led to widespread fears about wintertime energy shortages. Ultimately, the European economy has been successfully disentangled from its historical dependence on Russian natural gas—via a combination of liquified natural gas (LNG) imports from overseas, energy efficiency, and renewables— and thus prices over the past 12 months have been vastly lower than the unprecedented levels of 2022. Bearing in mind that the US is an important source of LNG for the European market— in other words, a substitute for Russian supply—lower natural gas prices in Europe have some effect on the domestic market. In 2024, we envision the domestic Henry Hub benchmark averaging $4.00/thousand cubic feet, roughly halfway between the 2022 and 2023 averages.

While share prices of oil and gas companies continue to fluctuate with commodities, the energy transition megatrend is alive and well. In 2023, solar installations, green hydrogen deployments, and electric vehicle sales all set records globally—despite the headwinds from high interest rates (raising the cost of capital for project developers) and lingering supply chain complications. Contrary to conventional wisdom, China is leading the way in many aspects of decarbonisation, even though it still burns more coal than the rest of the world combined. One out of every three light-duty vehicles sold in China during 2023 were EVs—the highest share among the G20 major economies—as compared to one out of four in Europe and less than 10% in the US market. Let's also bear in mind that China is the world's largest oil importer, and the EV boom is starting to affect oil demand there. Meanwhile, China's dominance on the supply side of the equation—three-fourths of the world's solar modules and lithium-ion batteries are manufactured there—is such that there are serious concerns in Washington and Brussels about supply chain security. On both sides of the Atlantic, governments are writing big cheques to support the expansion of clean tech manufacturing, thereby reducing reliance on imports from Asia.

> All of the major economies continue to face above average macro risks, which helps explain why oil has stayed below $100/barrel since mid-2022.

> “While share prices of oil and gas companies continue to fluctuate with commodities, the energy transition megatrend is alive and well. In 2023, solar installations, green hydrogen deployments and electric vehicle sales all set records globally.”

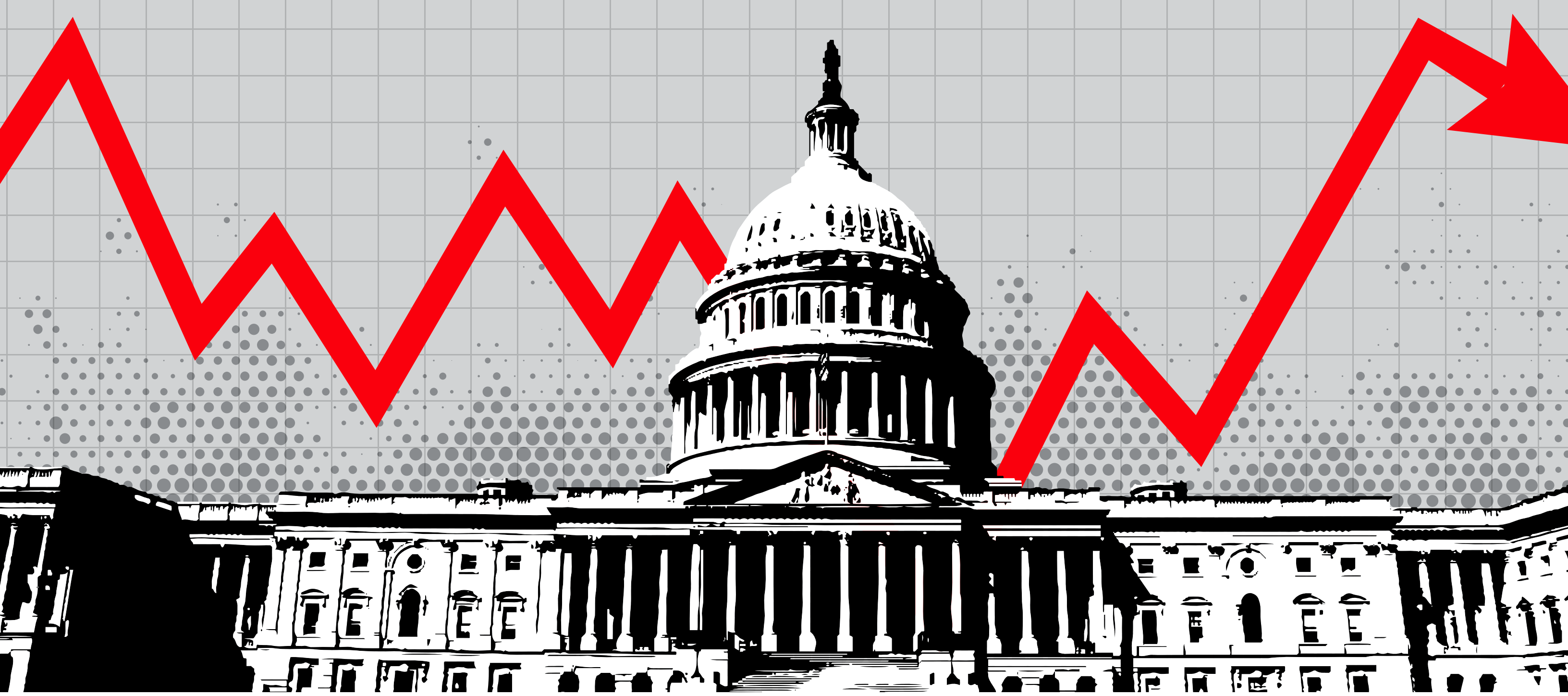
## SUPPLY CHAIN SECURITY

Speaking of supply chain security: Development of energy infrastructure, whether fossil fuel or renewable, requires a wide variety of metals. It is interesting to observe the extent to which metal prices traded in very different ways in 2023. Iron ore and steel were up significantly, despite the economic slowdown in China, which produces and consumes as much steel as the rest of the world combined. By contrast, lithium—which had been the world’s best-performing commodity in 2021—was down sharply. While few of us are accustomed to thinking about metals through the lens of “will a hostile government deliberately withhold supply?”, there is no avoiding some geopolitical risk here. For example, a sizable portion of the world’s nickel is mined in Russia. Lithium is extracted mostly in Australia and South America, but the bulk of it is processed in China. To underscore, both lithium and nickel are critical materials for EV batteries.

Amid the focus on reducing carbon emissions, there is also an important role for climate adaptation, and arguably the number-one case study is water scarcity. Looking ahead to the summer of 2024, it is a safe bet that heat waves will once again dominate the headlines. Global records were shattered in 2023: each month from June through October was the hottest in recorded human history. The consequences include reduced productivity of hydropower (this is a serious issue in Brazil and Canada) and outright water shortages (we have seen this in India, South Africa, and California in recent years). There are also more frequent power grid outages, which serve to bolster demand for distributed generation (such as fuel cells and rooftop solar) and power storage solutions. Simply put, all of us must learn to live with the reality of temperatures that are already above long-term norms and are certain to trend even higher between now and 2050, despite efforts to curb emissions.

### KEY TAKEAWAYS:

- Energy security is vital, and the latest Middle Eastern conflagration is the second wake-up call over the past two years.
- We are experiencing an unusually high degree of production discipline amongst OPEC+ and capital discipline in US producers.
- We forecast that West Texas Intermediate (WTI) crude will average $88/barrel in 2024, up modestly from the 2023 average. Brent crude, the global benchmark, should remain a few dollars above WTI.
- The energy transition megatrend is alive and well. In 2023, solar installations, green hydrogen deployments, and electric vehicle sales all set records globally.
- There are serious concerns in Washington and Brussels about supply chain security



# 2024 Preview: Market Performance in a Presidential Election Year

**Ed Mills,** *Managing Director, Washington Policy Analyst,* Equity Research

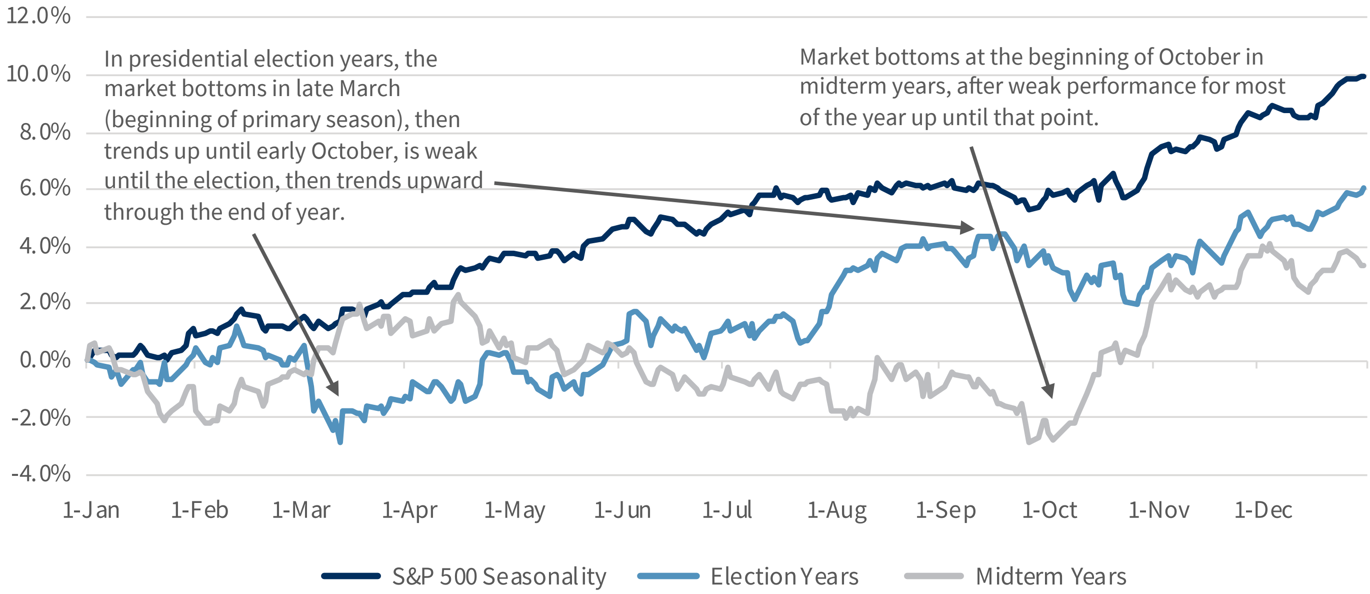
Presidential election years usher in considerable uncertainty. While the most likely scenario remains a rematch of the 2020 election, there seems to be a nagging feeling that something could happen to reset the race and produce an unexpected outcome. This uncertainty, the potential for surprise, and the polarised nature of the political environment may cause investors to be cautious in the upcoming election year. Adding to this uncertainty is lingering geopolitical risk, concerns over the trajectory of the debt and deficit, recession risk, and unresolved government funding decisions. From a market perspective, we would not be surprised to see 2024 track traditional presidential election years, during which there are pockets of weakness during periods of the greatest uncertainty, but a market rebound and renewed strength as we receive clarity on key issues. In this article, we will provide our outlook for the 2024 elections and provide an update on other key issues that Washington will tackle in 2024, with impacts for the US fiscal picture and geopolitical risk.

## HOW COULD THE ELECTORAL CALENDAR IMPACT MARKET PERFORMANCE?

The state of play for the 2024 race will remain fluid ahead of Election Day, but a 2020 presidential rematch remains the most likely situation at this stage of the race. However, many unanswered questions remain in the months ahead, with implications for market sentiment at various turning points. Overall, elections years have historically seen the second lowest market returns of the presidential term cycle, with an average monthly return of 0.54%. However, markets quickly play catch-up after election year uncertainty is resolved, averaging a monthly return of 1.28% during the year after the election. Midterm election years are the weakest point for markets in a presidential term, historically seeing average monthly returns of 0.3% regardless of the party in control of the White House.

As we enter January, we would highlight to investors that the beginning of election years (January-March) historically sees negative market returns as the primary process—and associated political volatility—hits its peak, with average monthly returns of -0.44%. The primary cycle will kick off on

## S&P 500 Seasonality (Avg. Since 1980) vs. Election & Midterm Years




Source: Bloomberg as of 15/12/2023

January 15 in Iowa for Republicans and the first 'official' primary will be on February 3 in South Carolina for Democrats. Two key measures of strength for an incumbent president are his favourability ratings and the right track/wrong track trajectory of the country. Within each of these measures, there are warning signs for Mr Biden, and we will be watching to see if this provides an opening for weaker-than-expected primary election results for the President. Mr Biden has two long-shot candidates running against him, but anything less than 75-80% support will set off renewed alarm bells for his campaign.

As Republican voters head to the primaries, Mr Donald Trump's continued strong polling numbers suggest his likely nomination to the Republican presidential ticket, but his legal challenges remain a significant wildcard ahead of the primary process. If there is a surprise in the Republican primaries, we would need to see voters coalesce around a clear alternative to former-President Trump, picking up momentum in the early states. Should Mr Trump emerge as the Republican nominee, a key debate for the general election will be how much of the election is a referendum on Biden versus Trump, as Mr Trump has similarly unfavourable ratings to Mr Biden.

> We would caution to avoid using the election as too much of a catalyst for investment decisions.

### KEY ELECTORAL INFLECTION POINTS FOR THE MARKET: MARCH, OCTOBER-NOVEMBER

March remains an important inflection point in the electoral calendar, with 34 primary elections, including 16 states holding their primaries on Super Tuesday. The end of the month will provide important clarity on who the prospective nominees might be, with more than half of both parties' delegates awarded ahead of the Republican convention in July and Democratic convention in August. Given this clarity, the period between March and October during an election year has historically seen positive returns (0.97% average monthly returns). Any remaining uncertainty over nominees should be resolved at the nominating conventions—July 15-18 for Republicans and August 19-22 for Democrats. Beyond first quarter volatility, the most significant downside risk is seen in the immediate run up to the election (October through Election Day), with an average monthly return