

Sussex County

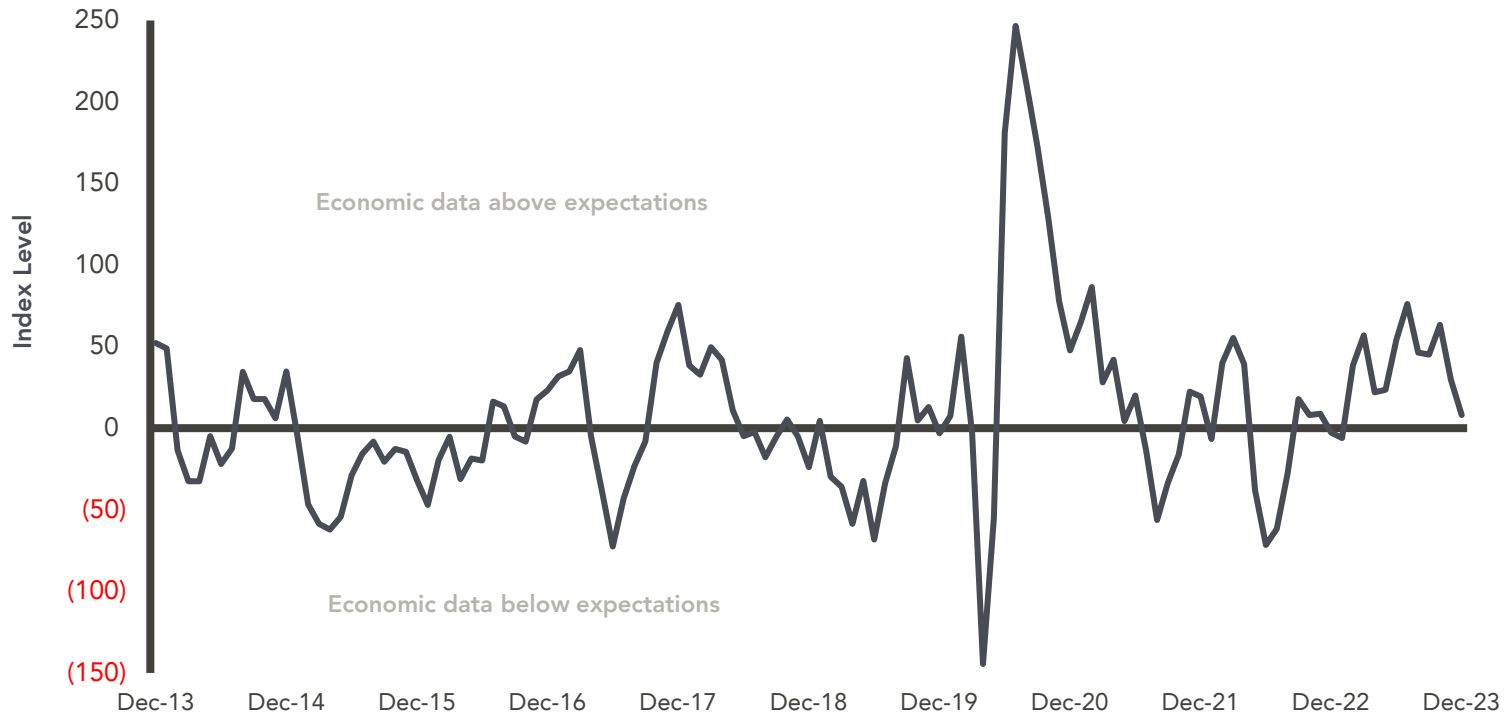
2024 Considerations

Presented by

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Economic surprise index

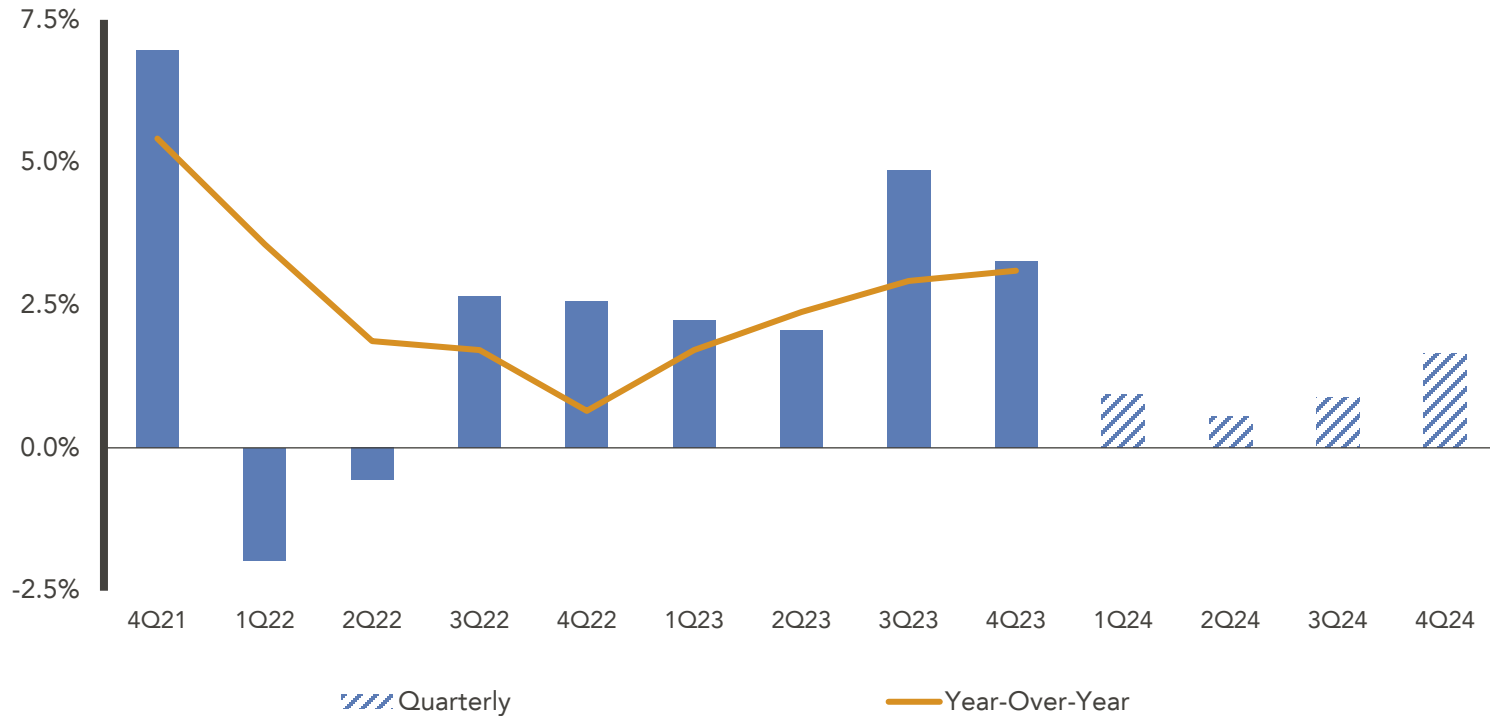
While recession was widely expected in 2023, economic data came in better-than-expected throughout the year



Source: Refinitiv

Consensus GDP growth expectations

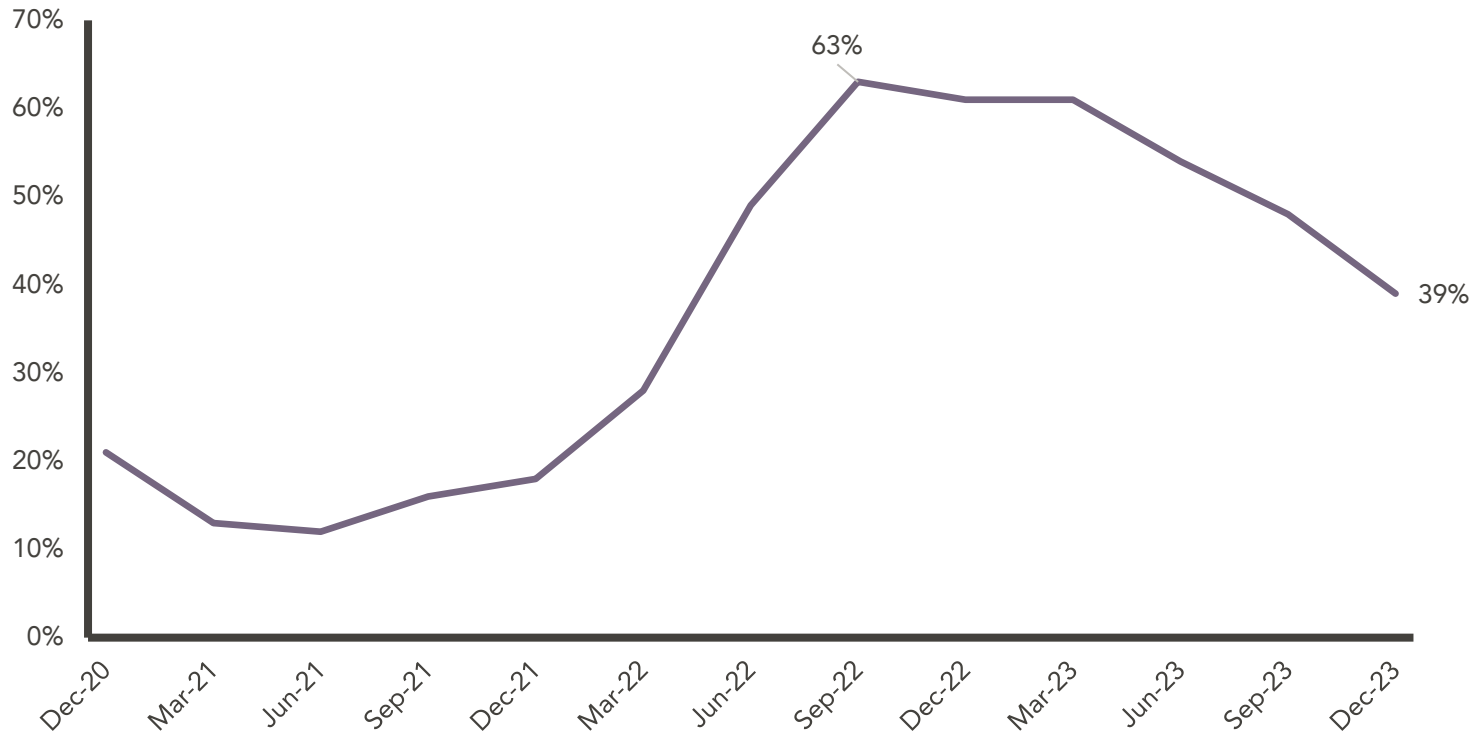
Growth is expected to slow in 2024, but recession is no longer the base-case scenario among economists



Source: The Wall Street Journal Economic Forecasting Survey

Recession probability

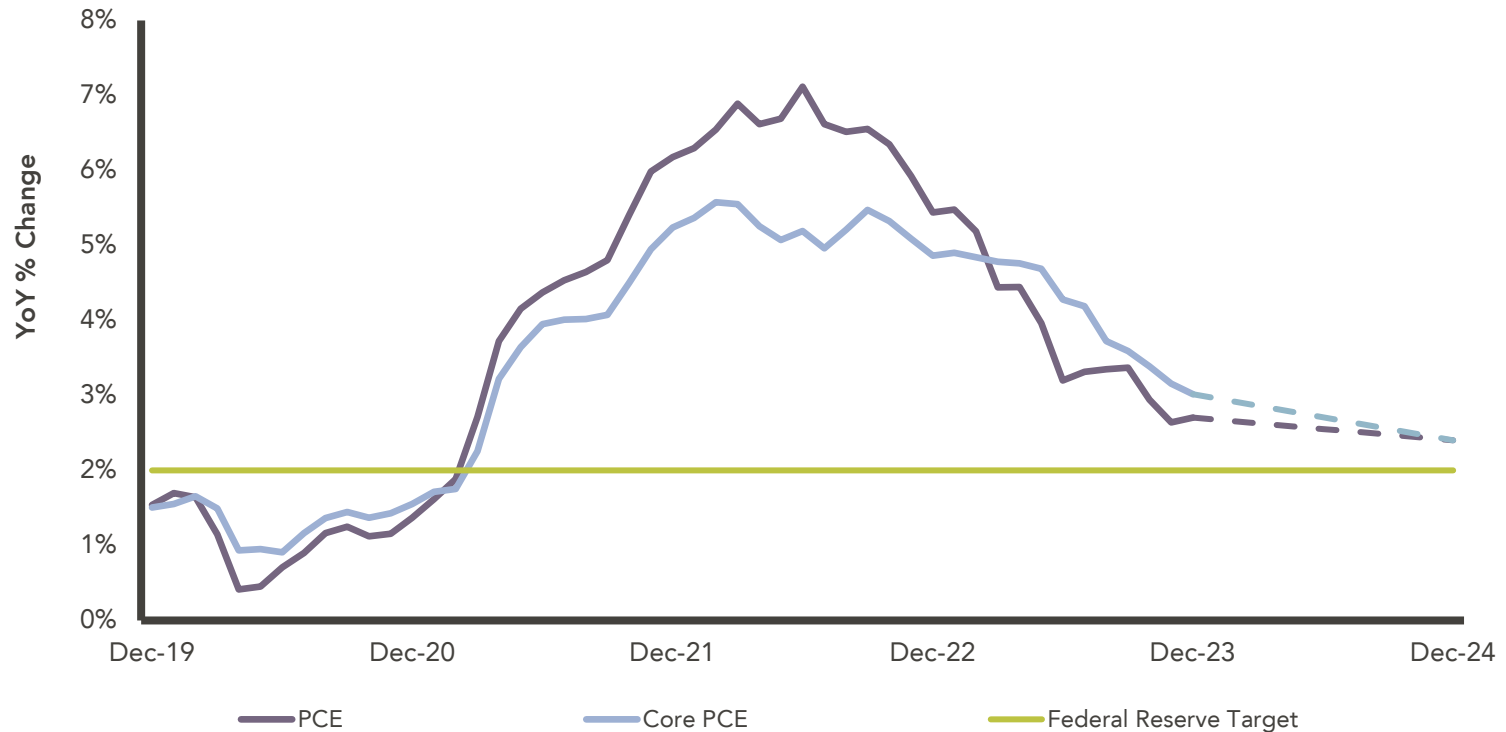
Receding expectations of a recession boosted markets last year, but the economic base-case now reflects an economic "soft landing"



Source: The Wall Street Journal Economic Forecasting Survey

Inflation

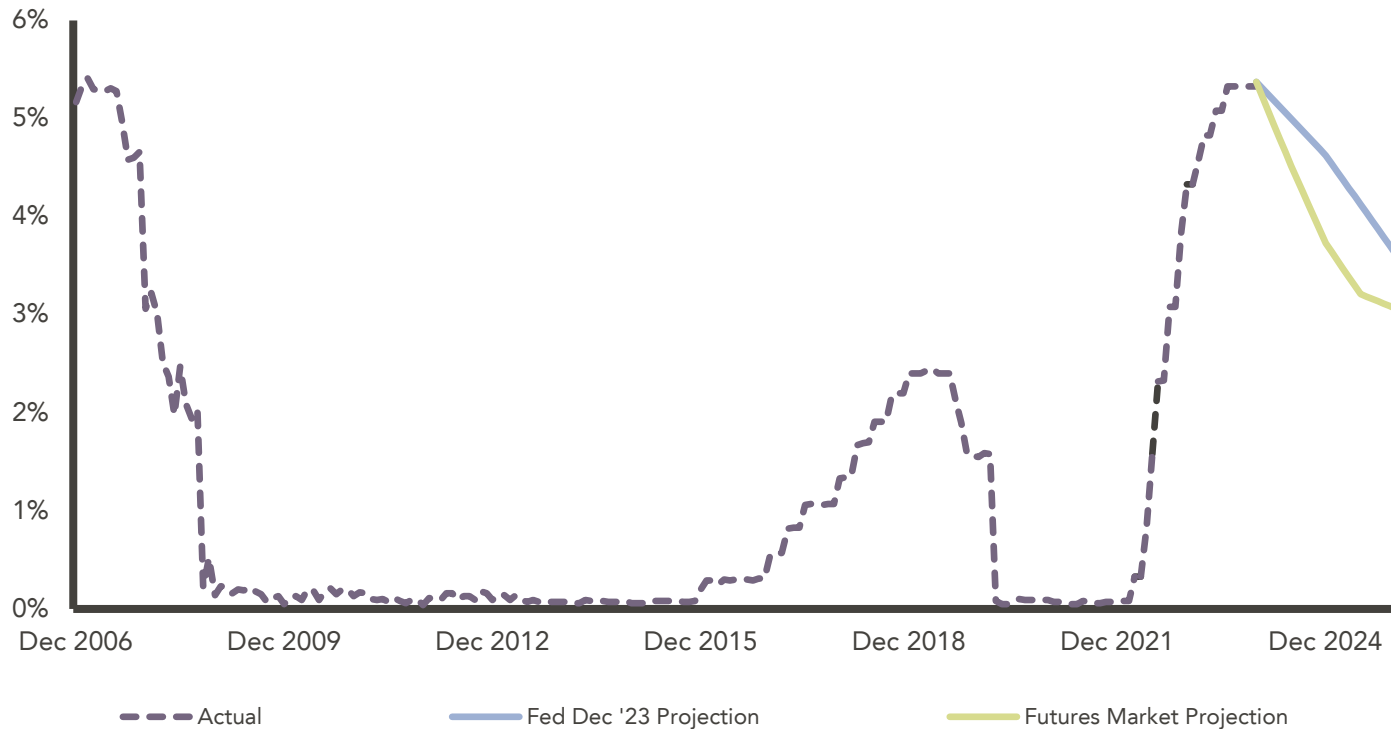
Inflation decelerated notably in 2023, despite better-than-expected economic growth, which also supported asset markets



Source: Refinitiv and Federal Reserve December 2023 Summary of Economic Projections
Dashed lines represent Federal Reserve estimates.

Outlook for short-term interest rates

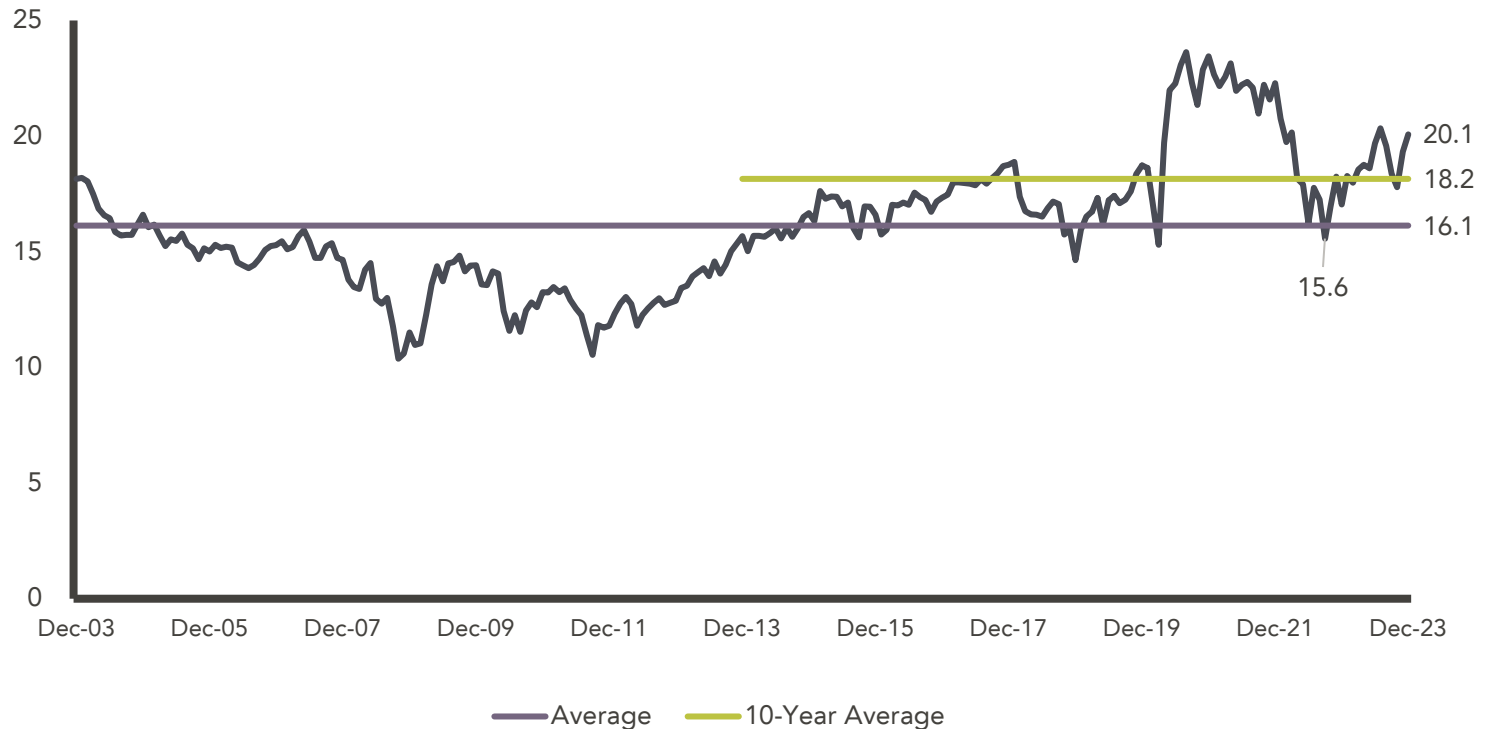
The futures market outlook for Federal Reserve policy also played a role, with rate cut expectations increasing towards year end



Source: Refinitiv

MSCI U.S. forward price-to-earnings ratio

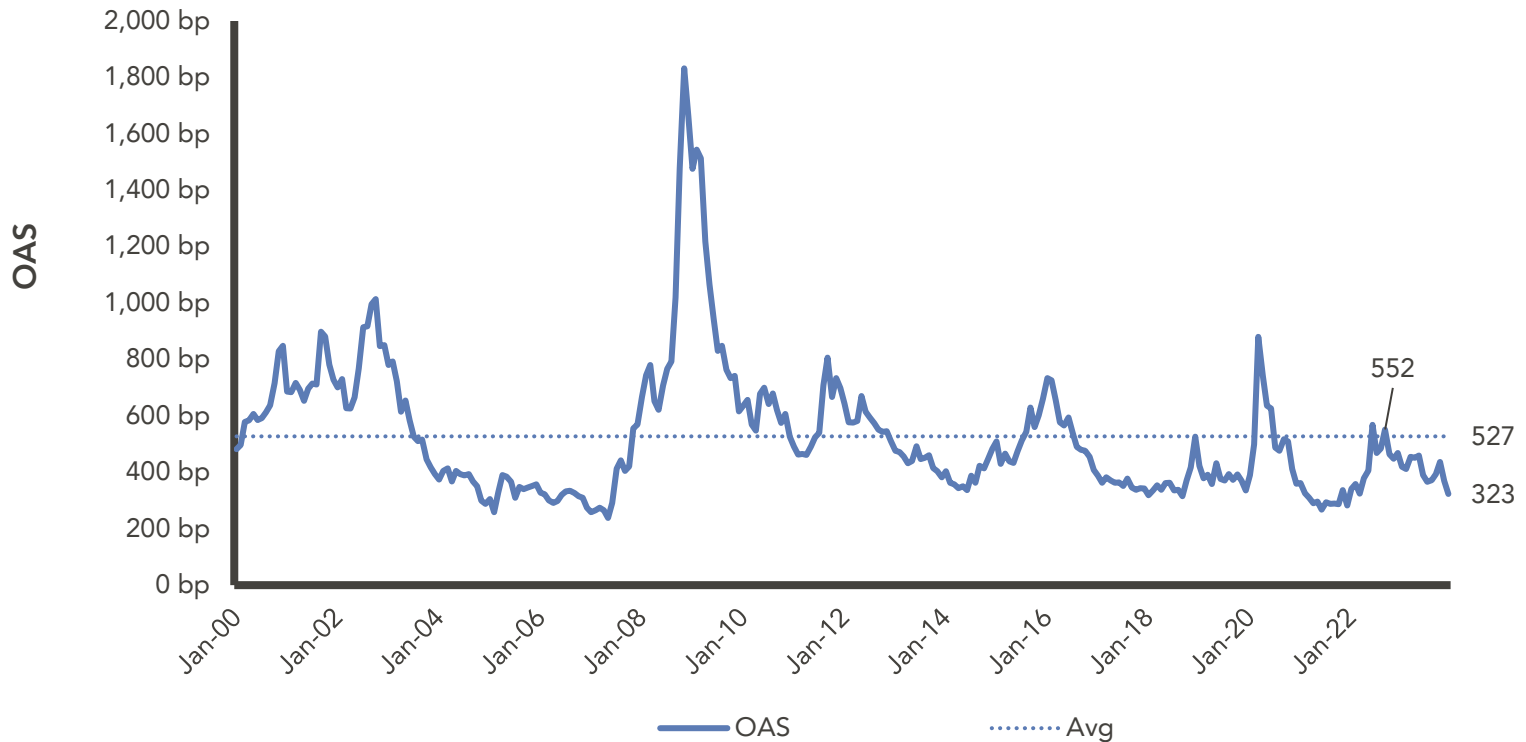
It appears, however, that equity markets have largely priced in the “soft landing”, continued disinflation, rate cuts, etc....



Source: Refinitiv

High-yield debt OAS

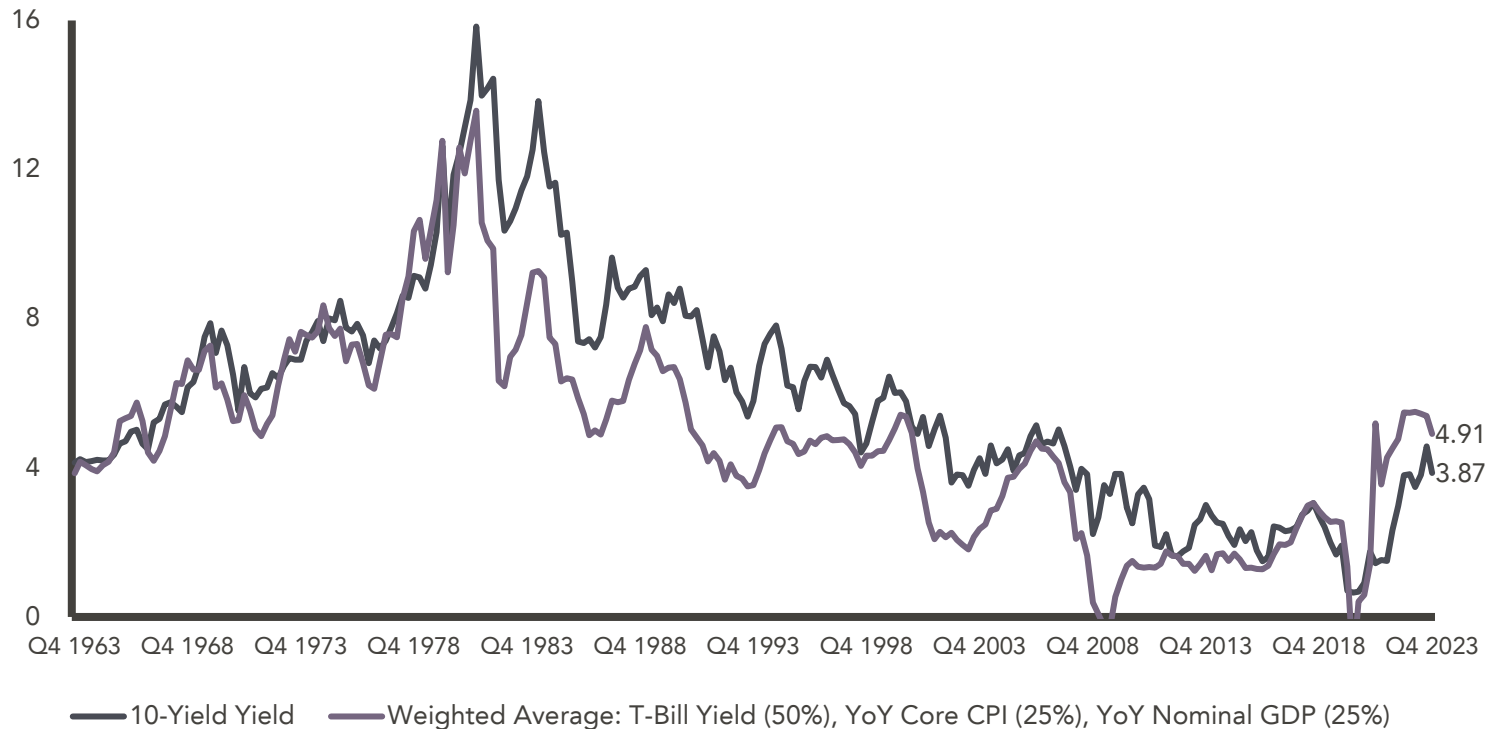
...as have credit markets



Source: Refinitiv

Core fixed income valuations

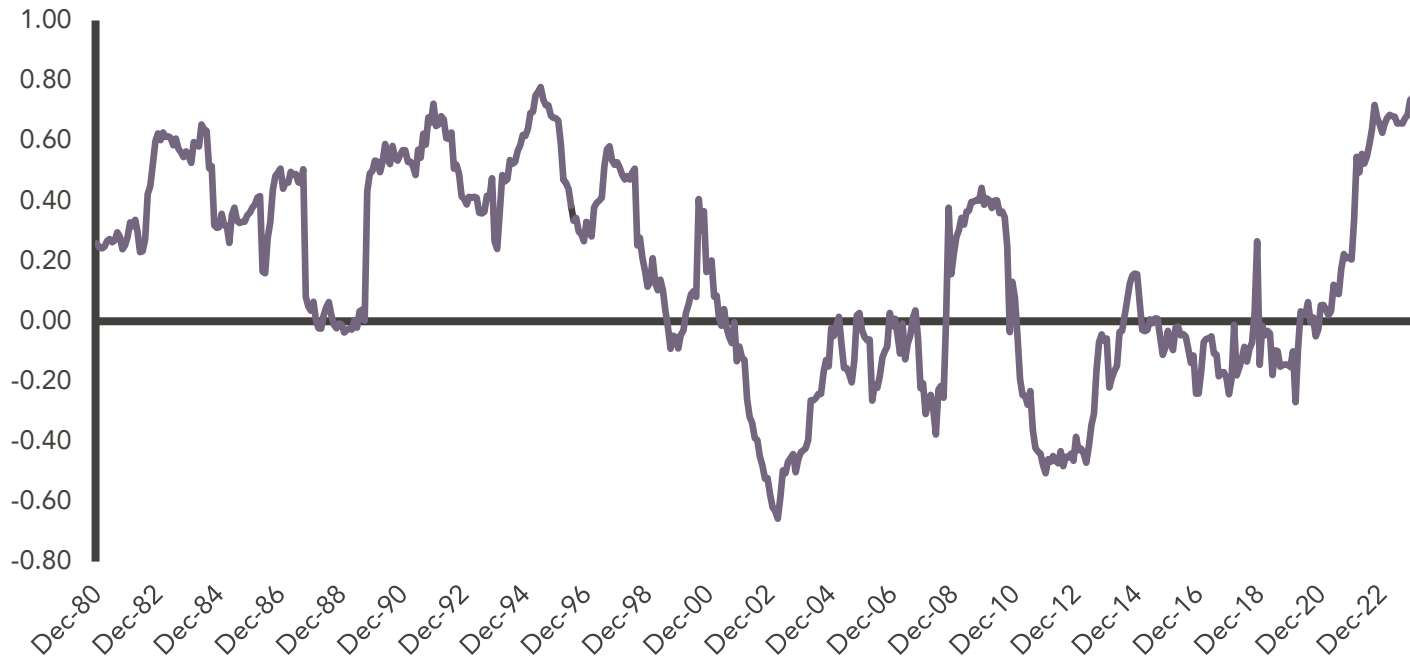
Intermediate-term yields likely require rate cuts, continued disinflation, and/or an economic slowdown to justify current levels



Source: Hussman Strategic Advisors and Refinitiv

Rolling 2-year correlation between equities and fixed income

From a portfolio perspective, the current relationship between equities and fixed income has big implications if it persists



Source: Refinitiv

Summary

- Economic growth in 2023 was much better-than-expected amid rapid disinflation
- Recession expectations have fallen materially, while markets expect the Fed to cut rates dramatically
- An economic “soft landing” appears to be the base-case scenario and largely reflected in market pricing
- If equity markets move higher, a disciplined rebalancing approach seems prudent given valuations
- Given the high correlation between equities and fixed income, overweights to non-traditional asset classes and/or holding excess cash makes sense to us



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