

February 7, 2024

Dear Valued Investor,

Stocks are off to a solid start in 2024. January gains are particularly enjoyable because of the old adage from the Stock Trader's Almanac, "As goes January, so goes the year." Nearly 75 years of historical data shows that when the S&P 500 has risen in January, the average gain for the remainder of the year has been about 12%. This January, the S&P 500 was up 1.6%.

Stocks have also historically fared well after the broad index has reached a new all-time high, as the S&P 500 did last month for the first time in over two years. The average 12-month gain after a new high, with more than a 12-month wait between those highs, has been nearly 12%, with gains 13 out of 14 times.

Those new highs have prompted some to wonder if stock valuations are too rich. They're elevated, no doubt, but they still look reasonable considering today's interest rates. Interest rates and price-to-earnings ratios tend to move in opposite directions when rates are elevated. Big tech companies, like Alphabet, Meta, and Microsoft, are another justification for high valuations. Their impressive earnings power is the reason why earnings growth is poised to accelerate and should help prevent valuations from getting too stretched.

A soft landing for the U.S. economy, though not assured, may also help push stocks higher despite full valuations — assuming inflation continues to ease. The job market remained surprisingly strong in January, adding over 350,000 jobs as wages rose. Although that could possibly contribute to a delay in Federal Reserve (Fed) rate cuts until summertime, markets may have adjusted to fewer cuts already. Good news may be good news.

We see a lot of merit in the bull case, but the bears have plenty to support their case as stocks attempt to continue to climb the proverbial "wall of worry" and build on year-to-date gains. Presidential elections bring uncertainty, which may add some volatility even though stocks usually rise during election years. Commercial real estate continues to plague some regional banks.

A treacherous geopolitical climate cannot be dismissed, particularly a potentially wider conflict in the Middle East. Shipping goods around the world is taking longer and costing more. Military aggression by China toward Taiwan cannot be ruled out, nor can some spillover from China's soft economy.

In reviewing the full picture of what to expect from markets this year, a resilient U.S. economy, easing inflation pressure, and growing earnings create a favorable backdrop for both stocks and bonds. But with high valuations and mounting geopolitical risks, modest positive returns appear most likely.

As always, please reach out to your financial advisor with questions.

Sincerely,



Jeffrey Buchbinder, CFA
Chief Equity Strategist
LPL Research

This material is for general information only and is not intended to provide specific advice or recommendations for any individual. There is no assurance that the views or strategies discussed are suitable for all investors or will yield positive outcomes. Investing involves risks including possible loss of principal. Any economic forecasts set forth may not develop as predicted and are subject to change.

References to markets, asset classes, and sectors are generally regarding the corresponding market index. Indexes are unmanaged statistical composites and cannot be invested into directly. Index performance is not indicative of the performance of any investment and do not reflect fees, expenses, or sales charges. All performance referenced is historical and is no guarantee of future results. Any company names noted herein are for educational purposes only and not an indication of trading intent or a solicitation of their products or services.

All index data from FactSet.

The Standard & Poor's 500 Index (S&P500) is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

All information is believed to be from reliable sources; however, LPL Financial makes no representation as to its completeness or accuracy.

This research material has been prepared by LPL Financial LLC.

Securities and advisory services offered through LPL Financial (LPL), a registered investment advisor and broker-dealer (member FINRA/SIPC).

Insurance products are offered through LPL or its licensed affiliates. To the extent you are receiving investment advice from a separately registered independent investment advisor that is not an LPL affiliate, please note LPL makes no representation with respect to such entity.

**Not Insured by FDIC/NCUA or Any Other Government Agency | Not Bank/Credit Union Guaranteed
Not Bank/Credit Union Deposits or Obligations | May Lose Value**