LPL Financial

201 Washington Street,
Suite 300 Boston, MA
02108

4707 Executive Drive
San Diego, CA 92121

1055 LPL Way
Fort Mill, SC 29715

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

LPL Financial