CALAMOS WEALTH MANAGEMENT

2024 OUTLOOK:

A Year of Economic Contrasts

2024 promises to be a pivotal one for US and global economies

Executive Summary

In our 2024 Outlook, we examine three themes that we believe will shape the economy in the coming year and impact the US and global markets.

Theme 1: Policy Pivot

While "higher for longer" was a theme last year, the Fed is expected to shift to rate cuts this year, possibly beginning as early as March.

Theme 2: Recession Risk

Recession fears are surfacing again in 2024, as consumer spending slows down and the effects of the rate hikes kick in.

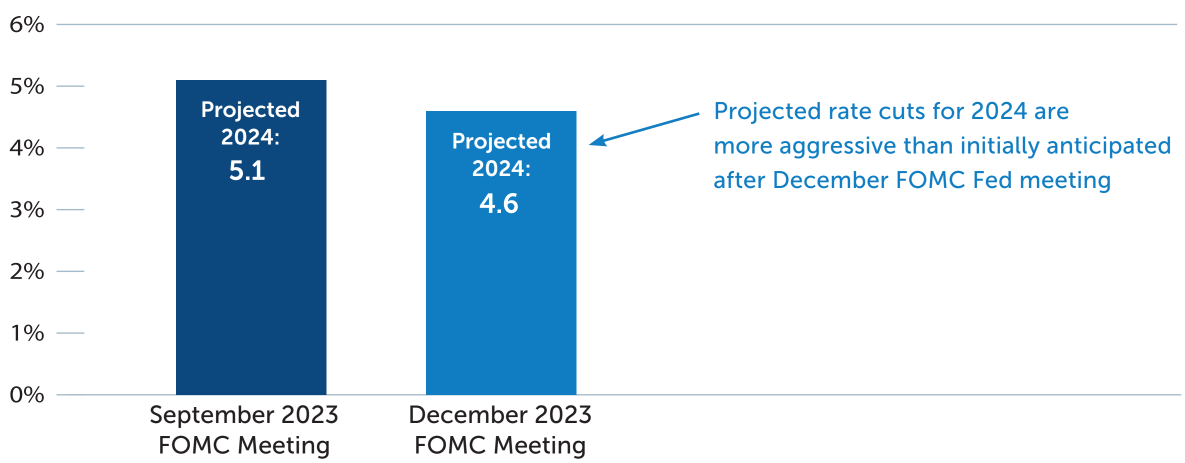
Theme 3: Election Year

The Senate race and the US presidential election will have a major impact on the economic outlook, as voters are feeling the pinch of high inflation and will have to choose between two very different leadership styles.

Theme 1: Policy Pivot

Perhaps market expectations of Fed policy will finally come to fruition in 2024. Markets consistently underestimated the Fed's commitment to rate hikes in 2023 and revisions to forecasts were a frequent occurrence. Could the same happen again in 2024? This was looking somewhat likely before the FOMC meeting on December 13, 2023. At this meeting, the Fed gave its clearest signal yet that its aggressive tightening campaign is over by projecting more aggressive rate cuts in 2024. Based on market expectations, these cuts could come as early as March.

FED'S 2024 RATE FORECAST



Source: FOMC, Bloomberg

To be sure, there remains a bit of a gap between official forecasts and investor forecasts, with investors expecting six rate cuts while the Fed anticipates three. However, both groups finally appear to be on the same page.

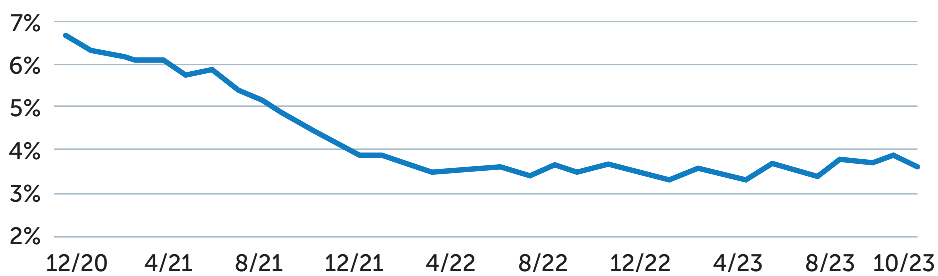
In addition to the Fed, we think that most major central banks in developed economies will begin to reduce their policy rates in 2024. Japan is one notable exception as it may end its negative interest rate policy and raise rates. In emerging markets, China will likely continue to ease to support its slowing economy, while Brazil and India may also cut rates.

When looking at next year, the most prominent risk appears to be a scenario in which inflation remains elevated. This would likely cause the Fed to refrain from rate cuts, which could negatively impact the markets.

Theme 2: Recession Risk

The US economy defied recession fears in 2023, with Gross Domestic Product (GDP) growth much stronger than expected. It peaked in the third quarter, rising a whopping 5.2% year-over-year. In addition to the surprise in GDP growth, the unemployment rate remained low despite the Fed's rate hike campaign. At 3.7%, the unemployment rate is right where it was when the Fed began raising interest rates in March 2022. As Treasury Secretary Janet Yellen recently said, "Economists who've said it's going to require very high unemployment to get this done are eating their words."

US UNEMPLOYMENT RATE



US unemployment remains low, despite aggressive Fed hikes.

Sources: Bureau of Labor Statistics, Bloomberg

Despite the fourth quarter Fed pivot, many are dusting off their recession forecasts, pointing to a potential slowdown in consumer spending, as a potentially looming impact from the rate hiking cycle. This could be due to a number of factors, including student loan repayments, slowing wage growth and rising household debt. Almost all of the excess pandemic savings has been spent down, and we have seen evidence of an increase in credit card delinquency rates indicating that consumer spending may be starting to wane..

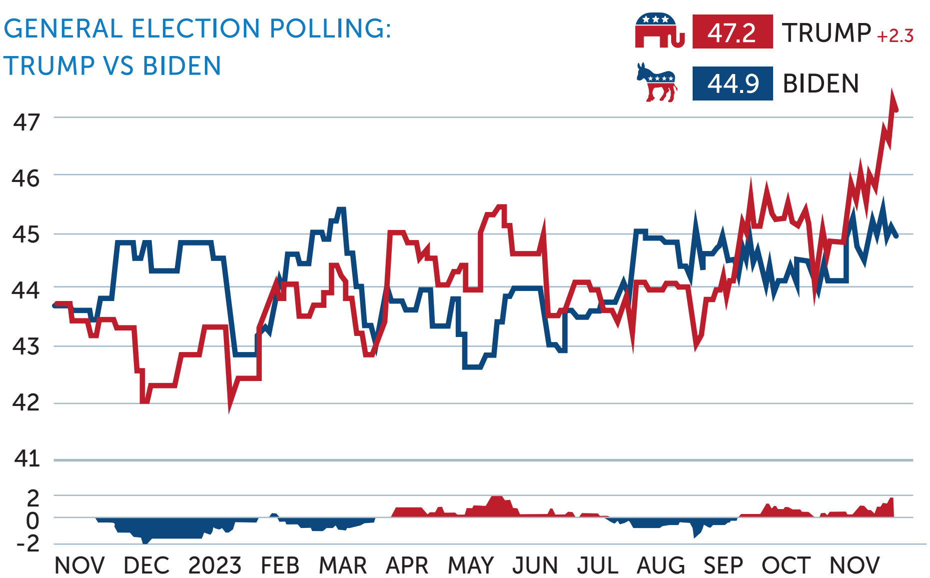
OUR VIEW:

> "Although markets' expectation of a recession has once again risen, we remain optimistic around a soft landing scenario - tempered inflation but no recession."

Theme 3: Election Year

Though there is still quite a bit of time before the November election, prediction markets favor a rematch between former President Donald Trump and President Joe Biden. This would mark the sixth presidential rematch in US history and the first since the 1950s. As always, the economy will be a prominent issue in the election. Though the economy has thus far escaped an expected recession and proved surprisingly resilient in 2023, the impact of elevated inflation, particularly higher food and gas prices, is weighing on voters. If a recession occurs before the election, it could prove insurmountable for President Biden's reelection prospects.

GENERAL ELECTION POLLING:
TRUMP VS BIDEN



As of January 2024, Trump holds a modest lead, although much time remains before the election.

Source: Real Clear Politics

The Senate landscape appears to favor Republicans, who are defending just 11 of the 34 Senate seats up next year, all in states carried twice by Donald Trump. Senate Democrats have just a one-seat majority, which means the loss of one seat would cost them the Senate if Biden loses, and a two-seat loss would flip the Senate even if they win.

> "Though the economy has thus far escaped an expected recession and proved surprisingly resilient in 2023, the impact of elevated inflation is weighing on voters."

Our 2024 Portfolio Recommendations

01 **From a high-level asset allocation standpoint, we recommend a balanced mix of stocks and bonds for investors.** We favor US equities and maintain a modest growth tilt in many client portfolios. Tech stocks led the US market in 2023, but small and mid-cap stocks also gained some momentum. We expect this trend to continue given high levels of cash and attractive valuations.

02 We added fixed income to many client portfolios in the second half of 2023 (reducing the underweight stance), given our view that rates were nearing peak levels and evidence that inflation was trending lower. **We feel that a more neutral duration stance reflects the risk/reward balance for fixed income in 2024.**

03 **We believe private alternatives are an attractive destination for investor capital in the coming years.** These private alternatives can provide diversification benefits, while also potentially enhancing returns. Private credit is at the top of this list, given yields that are currently in the low double digits for senior secured loans. Aside from private credit, **we also recommend having exposure to private equity, private real estate and private real assets.** A thoughtful combination of these four "food groups" can offer substantial benefits to investors.

04 **We also encourage our clients to step out of cash, particularly given the opportunity in fixed income.** While money market funds are currently yielding around 5%, these yields will likely come down in 2024, perhaps quite substantially. In contrast, the relatively elevated bond yields offer an opportunity to lock in higher levels of income for longer.

05 Geopolitical risks will likely continue to weigh on investor sentiment over the next year, with the ongoing conflict in Ukraine and the outbreak of war between Israel and Hamas in the Middle East. **Particularly with respect to geopolitical risks, our best advice is to remain diversified and not try to time the market.**

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