

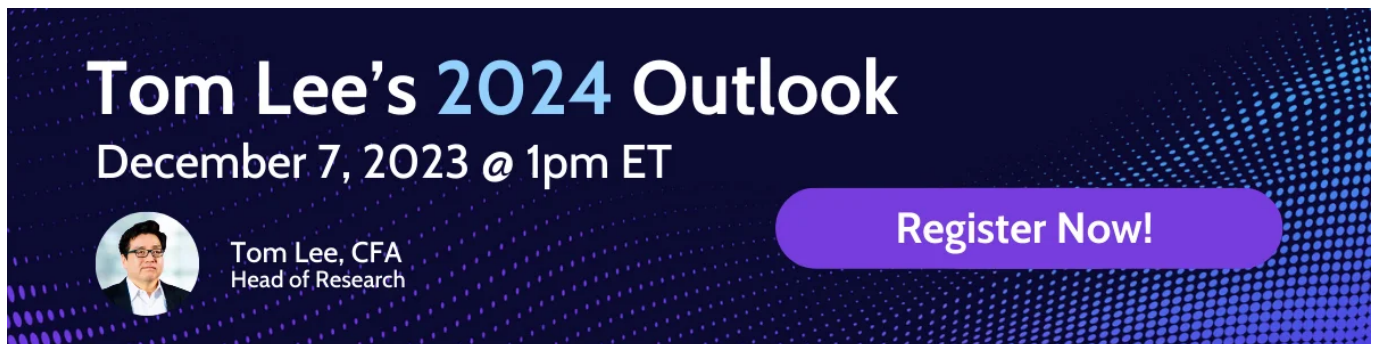
■ 2024 Outlook

December 7, 2023


2024 Year Ahead: Inflation down plus higher demand = P/E expansion.



Tom Lee ^{AG}
HEAD OF RESEARCH



Tom Lee's 2024 Outlook
December 7, 2023 @ 1pm ET

 Tom Lee, CFA
Head of Research

[Register Now!](#)

Please join us today at 1pm ET for our 2024 Year Ahead Outlook.

Register [HERE](#).

[Click here](#) to view our 2024 Outlook deck in PDF format.

In 2023, the S&P 500 gained 20% yet most investors sat on the sidelines as many expected the US economy to slip into a recession. And many remained skeptical throughout 2023 because they saw a Fed that was perceived to be hostile to markets. As we move into 2024, investor skepticism has diminished but investors are generally wary. We are overall positive on equities, but we believe much of the gains will come in the second half of 2023. Here are some high level takeaways:

- Fed shifting from “inflation war” to “business cycle management” = cuts more likely
- Pent-up demand suggests we are more early cycle, not late cycle
- P/E multiples expand given falling interest rates and pent-up demand
- Investors allocate into equities, particularly retail who withdrew \$240 billion in 2023 (vs 20% stock rise)

Bottom line: S&P 500 5,200 by YE, with gains in 2H



We expect equities to surprise consensus to the upside in 2024, delivering +12% to +15% returns.

- **BASE CASE:** Inflation tracks below consensus (and Fed) leading to faster than expected easing of financial conditions. No recession but probably weak jobs in first half 2024. This is a far better macro backdrop than 2023.
- **KEY DRIVER:** Financial conditions ease, leading to lower interest rates:
 - easing inflation is rise in “real” consumer income
 - 30-yr mortgage drops as spread normalizes vs 10-yr (160bp vs 293bp)
 - pent-up demand from corporates
- **EPS:** We see 2024/2025 EPS growth of 11.3%/8.3% to \$240/\$260 driven by cyclical EPS recovery.
 - corporate capex fell past few years, but easing FCIs mean capex recovers.
 - potential GDP recoveries in Europe/Asia and
 - weaker USD suggests upside to EPS.
 - Productivity is also improving.
- **P/E:** We see P/E expanding in 2024 towards 20X. While many argue for valuation compression, since 1937, the highest P/E realized when yields 3.5% to 5.5%. When between 4% to 5%, P/E is >18X 65% of the instances.
- **BEST IDEAS:** Our top sector pick is **Small-cap(\$IWM)** leading a breadth recovery. We also like **Financials, Industrials, and Technology.**
- **YE 2024 TARGET:** Our **2024 YE Target is 5,200** which is 20X 2025 EPS of \$260.

UNKNOWNNS: What will market resolve in 2024?

Impact on equities

- **INFLATION:** Inflation tracks sub-3% on housing and used cars
- **FINANCIAL CONDITIONS:** FCI ease as Fed ends “inflation war”
- **MORTGAGE RATES:** 30-yr drops to 6% as spread to 10Y normalizes
- **PRODUCTIVITY:** Lifts as immigrants and labor supply improve
- **GLOBAL GROWTH:** Lift as Europe/or China emerge from stagnation
- **PENT-UP DEMAND:** US companies expand due to pent-up demand
- **PROFITS:** S&P 500 profits gain >10%
- **MULTIPLES:** P/E reaches 20X equilibrium around 10-yr at 4.5%
- **INVESTOR FLOWS:** Investors allocate out of cash into equities

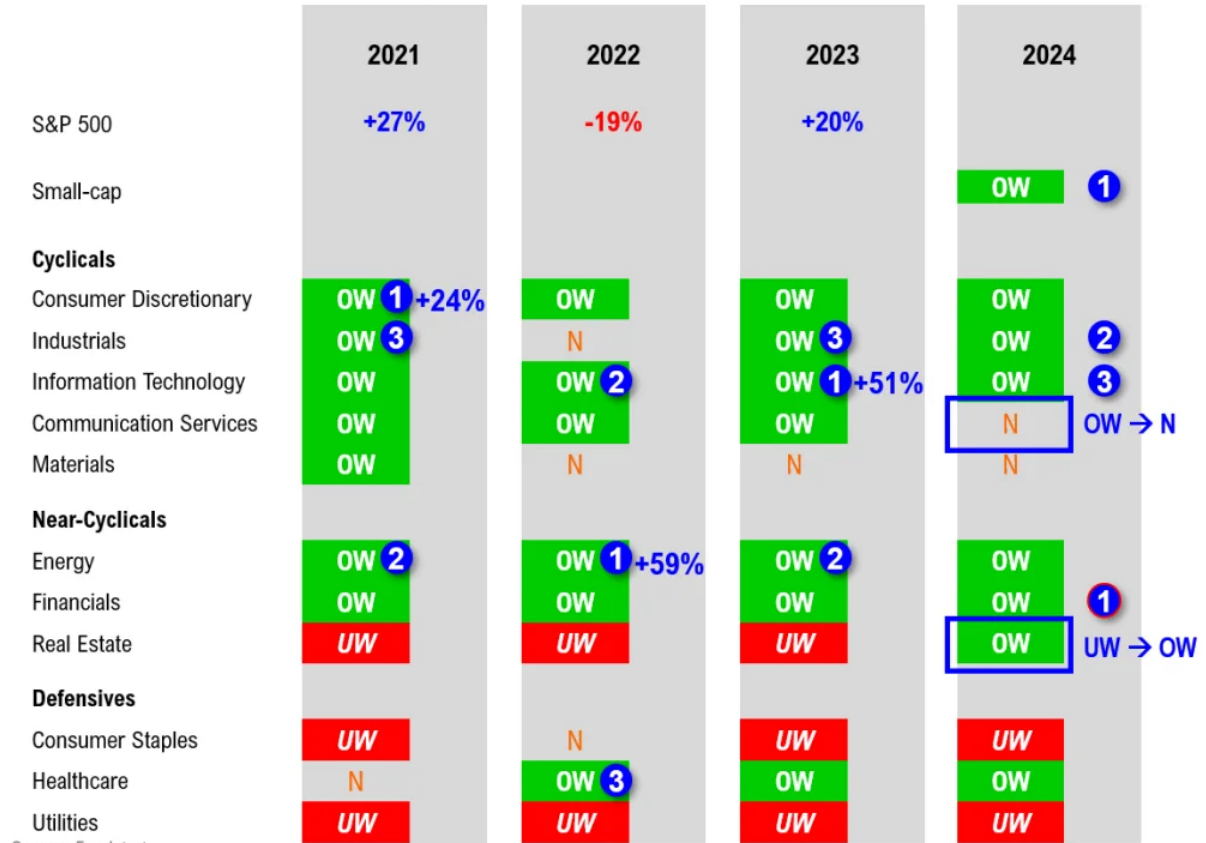
	1H	2H
INFLATION	↑	↑↑
FINANCIAL CONDITIONS	↑	↑↑
MORTGAGE RATES		↑
PRODUCTIVITY	↓	↑
GLOBAL GROWTH	↓	↑
PENT-UP DEMAND	↓	↑
PROFITS	↑	↑↑
MULTIPLES		↑
INVESTOR FLOWS	↑	↑↑



SECTOR: Top Sectors + Upgrades/Downgrades

S&P 500 Sector Views and #1 Sector Pick Performance

OW = Overweight. UW = Underweight. N = Neutral



Source: Fundstrat

Disclosures

This research is for the clients of FS Insight only. FSI Subscription entitles the subscriber to 1 user, research cannot be shared or redistributed. For additional information, please contact your sales representative or FS Insight at fsinsight.com.

Analyst Certification (Reg AC)

Tom Lee, the research analyst denoted by an "AC" on the cover of this report, hereby certifies that all of the views expressed in this report accurately reflect his personal views, which have not been influenced by considerations of the firm's business or client relationships. Neither I, nor a member of my household is an officer, director, or advisory board member of the issuer(s) or has another significant affiliation with the issuer(s) that is/are the subject of this research report. There is a possibility that we will from time to time have long or short positions in, and buy or sell, the securities or derivatives, if any, referred to in this research.

Conflicts of Interest

This research contains the views, opinions and recommendations of FS Insight. At the time of publication of this report, FS Insight does not know of, or have reason to know of any material conflicts of interest.

General Disclosures

FS Insight is an independent research company and is not a registered investment advisor and is not acting as a broker dealer under any federal or state securities laws.

FS Insight is a member of IRC Securities' Research Prime Services Platform. IRC Securities is a FINRA registered broker-dealer that is focused on supporting the independent research industry. Certain personnel of FS Insight (i.e. Research Analysts) are registered representatives of IRC Securities, a FINRA member firm registered as a broker-dealer with the Securities and Exchange Commission and certain state securities regulators. As registered representatives and independent contractors of IRC Securities, such personnel may receive commissions paid to or shared with IRC Securities for transactions placed by FS Insight clients directly with IRC Securities or with securities firms that may share commissions with IRC Securities in accordance with applicable SEC and FINRA requirements. IRC Securities does not distribute the research of FS Insight, which is available to select institutional clients that have engaged FS Insight.

As registered representatives of IRC Securities our analysts must follow IRC Securities' Written Supervisory Procedures. Notable compliance policies include (1) prohibition of insider trading or the facilitation thereof, (2) maintaining client confidentiality, (3) archival of electronic communications, and (4) appropriate use of electronic communications, amongst other compliance related policies.

FS Insight does not have the same conflicts that traditional sell-side research organizations have because FS Insight (1) does not conduct any investment banking activities, and (2) does not manage any investment funds.



This communication is issued by FS Insight and/or affiliates of FS Insight. This is not a personal recommendation, nor an offer to buy or sell nor a solicitation to buy or sell any securities, investment products or other financial instruments or services. This material is distributed for general informational and educational purposes only and is not intended to constitute legal, tax, accounting or investment advice. The statements in this document shall not be considered as an objective or independent explanation of the matters. Please note that this document (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research, and (b) is not subject to any prohibition on dealing ahead of the dissemination or publication of investment research. Intended for recipient only and not for further distribution without the consent of FS Insight.

This research is for the clients of FS Insight only. Additional information is available upon request. Information has been obtained from sources believed to be reliable, but FS Insight does not warrant its completeness or accuracy except with respect to any disclosures relative to FS Insight and the analyst's involvement (if any) with any of the subject companies of the research. All pricing is as of the market close for the securities discussed, unless otherwise stated. Opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The opinions and recommendations herein do not take into account individual client circumstances, risk tolerance, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies. The recipient of this report must make its own independent decision regarding any securities or financial instruments mentioned herein. Except in circumstances where FS Insight expressly agrees otherwise in writing, FS Insight is not acting as a municipal advisor and the opinions or views contained herein are not intended to be, and do not constitute, advice, including within the meaning of Section 15B of the Securities Exchange Act of 1934. All research reports are disseminated and available to all clients simultaneously through electronic publication to our internal client website, fsinsight.com. Not all research content is redistributed to our clients or made available to third-party aggregators or the media. Please contact your sales representative if you would like to receive any of our research publications.

Copyright © 2023 FS Insight LLC. All rights reserved. No part of this material may be reprinted, sold or redistributed without the prior written consent of FS Insight LLC.