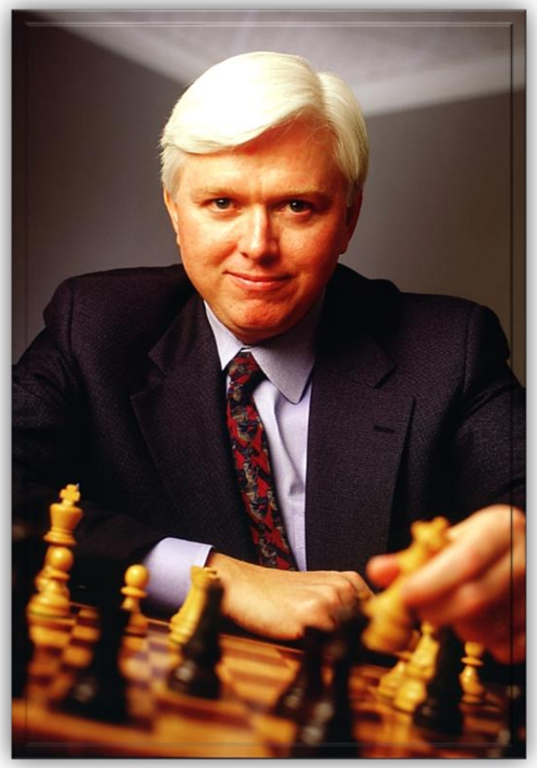
STEARNS
FINANCIAL GROUP

UNCHARTED INVESTMENT WATERS

Magellan Lost Two-Thirds of His Ships and Died Unexpectedly Sailing in Uncharted Waters – Scenario Maps for 2024 Investing

American Association of Individual Investors
Research Triangle Chapter
January 20, 2024



Dennis Stearns – Senior Wealth Advisor – Dennis is a CFP® professional and is nationally recognized for complex high net worth financial planning and the effect of Super Trends on clients' investments, businesses/careers and the economy.

He is the author of several books including ***CEO Road Rules*** ("Must read" – Daniel Jorndt, former CEO, Walgreens), ***Fourth Quarter Fumbles*** *(*"Prepare now for your future!" Mitch Anthony, *New Retirementality)* and ***Fourth Quarter Champions*** *(Regular and Business Edition)*. His new book, ***Ninja Entrepreneurs*** (expected publishing date – February 2024), includes Top Ninja ideas from 120 business owner interviews ("An essential owner's guide" – Doug Tatum, four time National Book Award winner for *No Man's Land*).

Dennis is regularly quoted in major publications including the *Wall Street Journal*, *NY Times*, *Kiplinger Finance*, *TheStreet.com*, *Financial Planning* magazine and the peer-reviewed *Journal of Financial Planning*.

Dennis has advanced training in investment planning, financial planning, business planning and estate planning. Business awards include Most Admired CEO (*Triad Business Journal*), Inc. 5000 and TBJ Fast 50.

Stearns Financial Group (SFG) is a $2 billion Wealth Management and Business Planning firm with offices in Greensboro and Chapel Hill, NC and clients around the U.S. SFG has been called one of the leading scenario planning firms by the Financial Planning Association. More info at www.StearnsFinancial.com.

Want to Lose Your Money? Listen to Millionaires.

"In November 2022, CNBC asked 761 people who owned at least $1 million in investment assets how stocks would perform during the next year.

Fifty-six percent of them responded that U.S. equities would lose at least 10%. Over the previous half-century, stocks had declined by that much only six times. Either most of the survey's participants were unusually insightful, able to predict an event with a 12% probability before it occurred, or they were blithering idiots.

The last time that the poll's respondents were so bearish was in 2008. Which gives the millionaires a perfect record. Whenever they heartily dislike stocks, U.S. equities promptly gain 26%."

Source: Morningstar, 1/2024

The sources of the failed predictions (according to Morningstar's John Rekenthaler:

#1 – Recency Bias

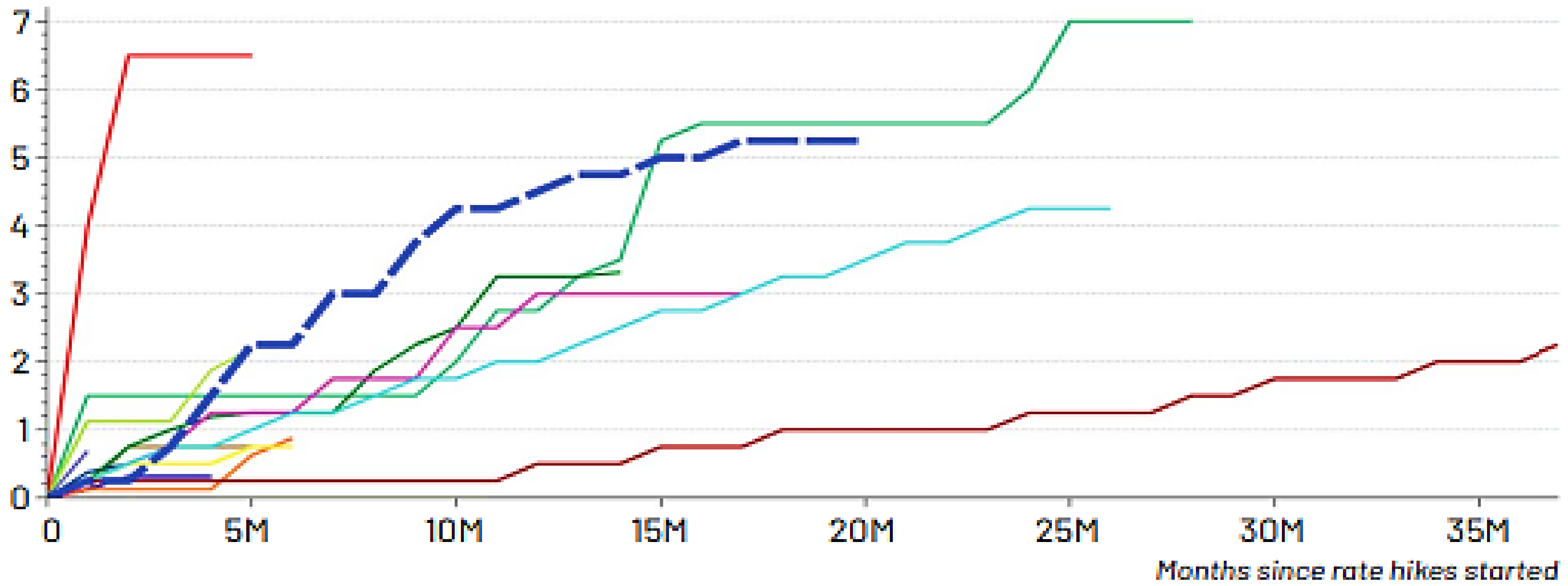
#2 – Group Think

3 – Wishful Thinking

The Fed – One of the Fastest, Steepest Hikes in History

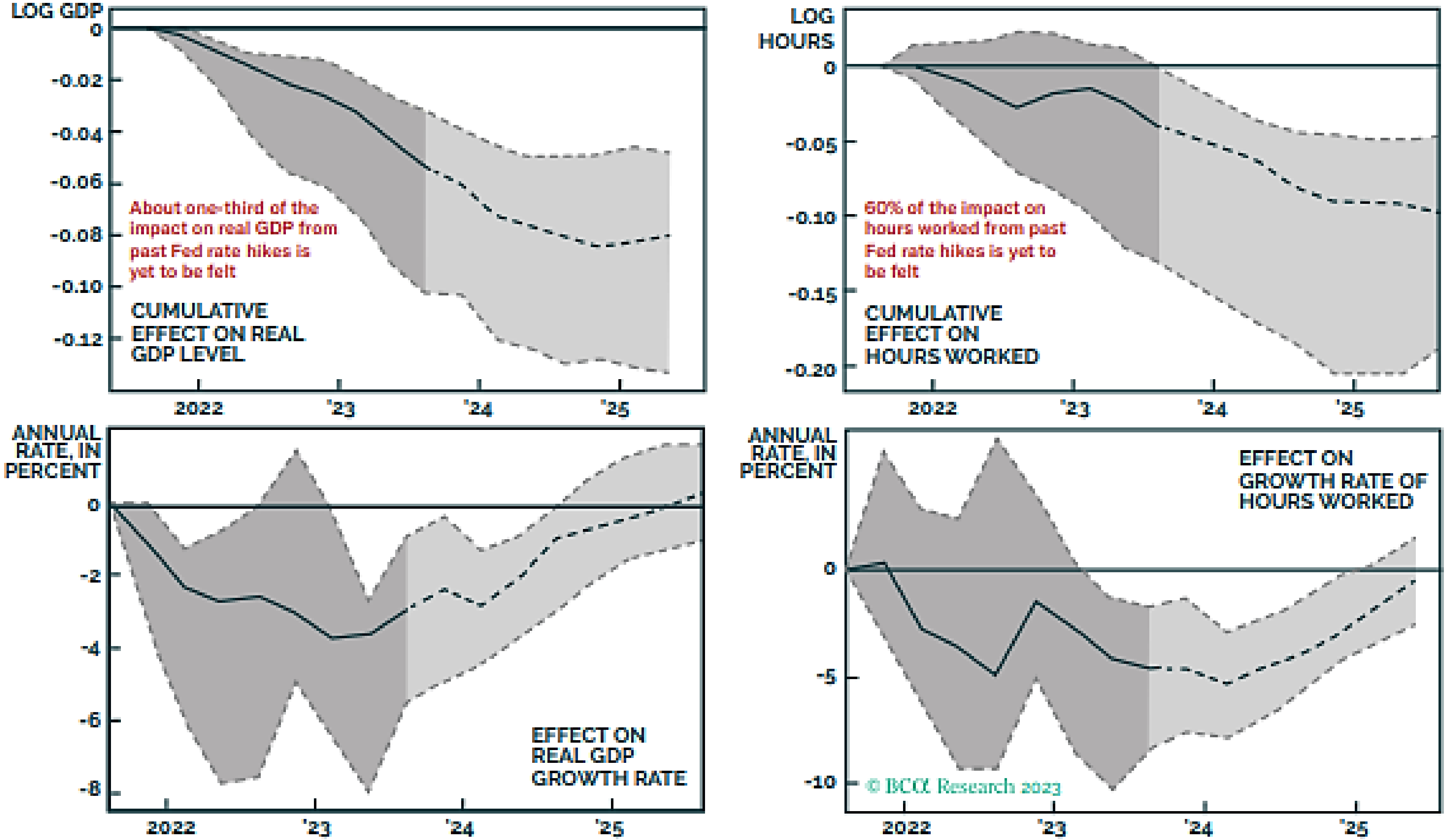
HISTORICAL FED FUNDS RATE HIKE CYCLES

Percentage points; date represents 1st hike



Source: LSEG Datastream/Fatham Consulting, RiverFront;, data as of 11.30.2023. Charts shown for illustrative purposes only. The federal fund rate (fed fund rate) refers to the target interest rate range set by the Federal Open Market Committee (FOMC). This target is the rate at which commercial banks borrow and lend their excess reserves to each other overnight.

The Lagged Effects of Tighter Monetary Policy will Continue to Trickle Down the Economy Next Year



Source: Stefanea D'Amico and Thomas King. ***Past and Future effects of the Recent Monetary Policy Tightening,*** *Chicago Fed Letter,* No. 483 (September 2023). NOTE: Solid black lines depict the median impacts of the monetary policy tightening that have yet to come. The darkly and lightly shaded regions surrounding the solid and dashed black lines, respectively, are the interquartile ranges based on the uncertainty associated with Fed's estimates from the D'Amico and King (2023) Model. T-BILL stands for U.S. Treasury Bill; GDP stands for Gross Domestic Product; and CPI stands for Consumer Price Index. For further details, please consult Stefania D'Amico and Thomas King, ***Past and Future Effects of the Recent Monetary Policy Tightening,*** *Chicago Fed Letter,* No. 483 (September 2023). Authors' calculations based on data from the Federal Reserve Bank of St. Louis, FRED; and Wolters Kluwer, *Blue Chip Economic Indicators,* from Haver Analytics.

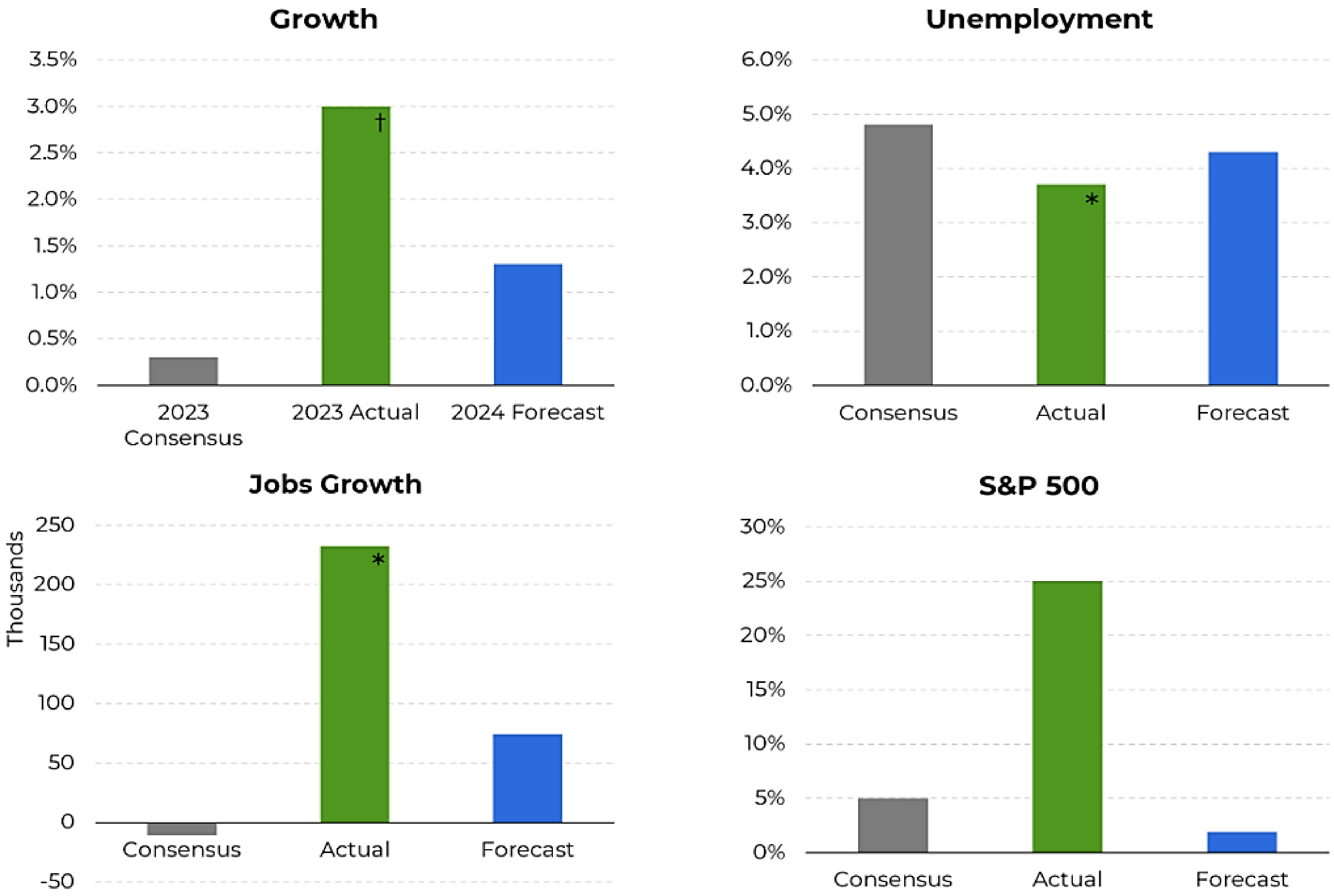
What Moved Markets in 2023?

Expectations Coming into 2023	What Actually Happened?
Recession risk deemed "high"	Rolling sector recessions replaced national recession
Inflation expected to stay elevated	Inflation moderated considerably
Unemployment expected to increase	Unemployment remained low, helping keep consumer spending strong

2023 Scare Events	
Continued Fed tightening	Fed peaked interest rates and projected 2024 easing
Banking Crisis	Crisis contained
U.S. Government Shut-Down & Debt Crisis	Crisis contained
Middle East War	Crisis contained

Source: Stearns Financial Group, as of January 3, 2024.

What Moved Markets in 2023?



Source: Shiller, FRED, SFG Research, BLS, BEA, Atlanta Fed, Bloomberg Consensus Survey, *WSJ* Survey, as of November 30, 2023. †Through Q3 with Q4 estimated. *Through November.

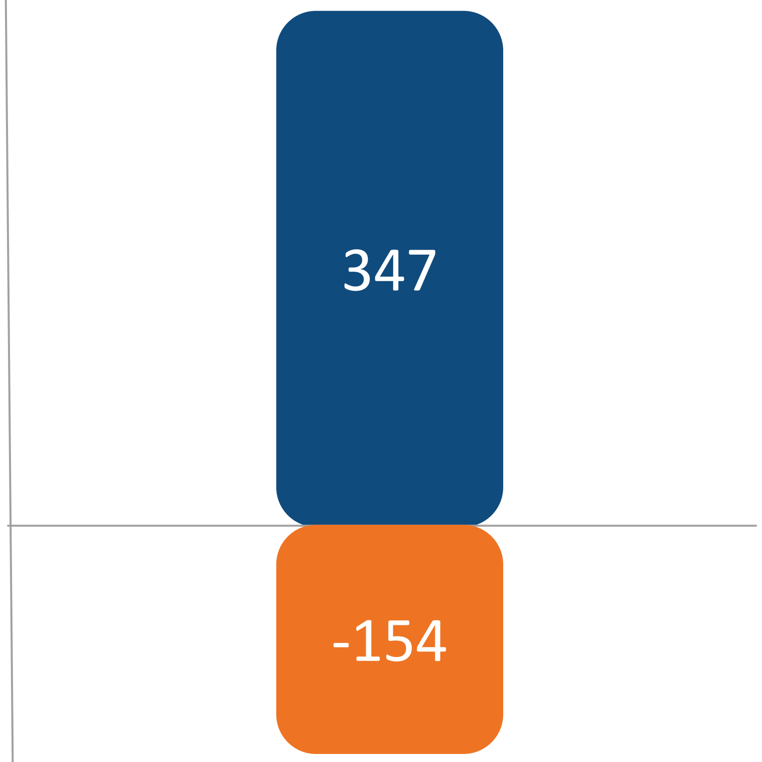
2023 Bond and Stock Returns

U.S. Stocks (S&P 500)	26.30%
International Stocks	15.60%
Bonds	5.50%

	Average 2023 Return*	Forward P/E
"Magnificent 7"	61.2%	28.1x
Remaining Stocks	13.6%	15.3x

*Market capitalization weighted return.

S&P 500 Stocks in 2023



Positive Stocks
Negative Stocks

Source: Stearns Financial Group, as of December 31, 2023.

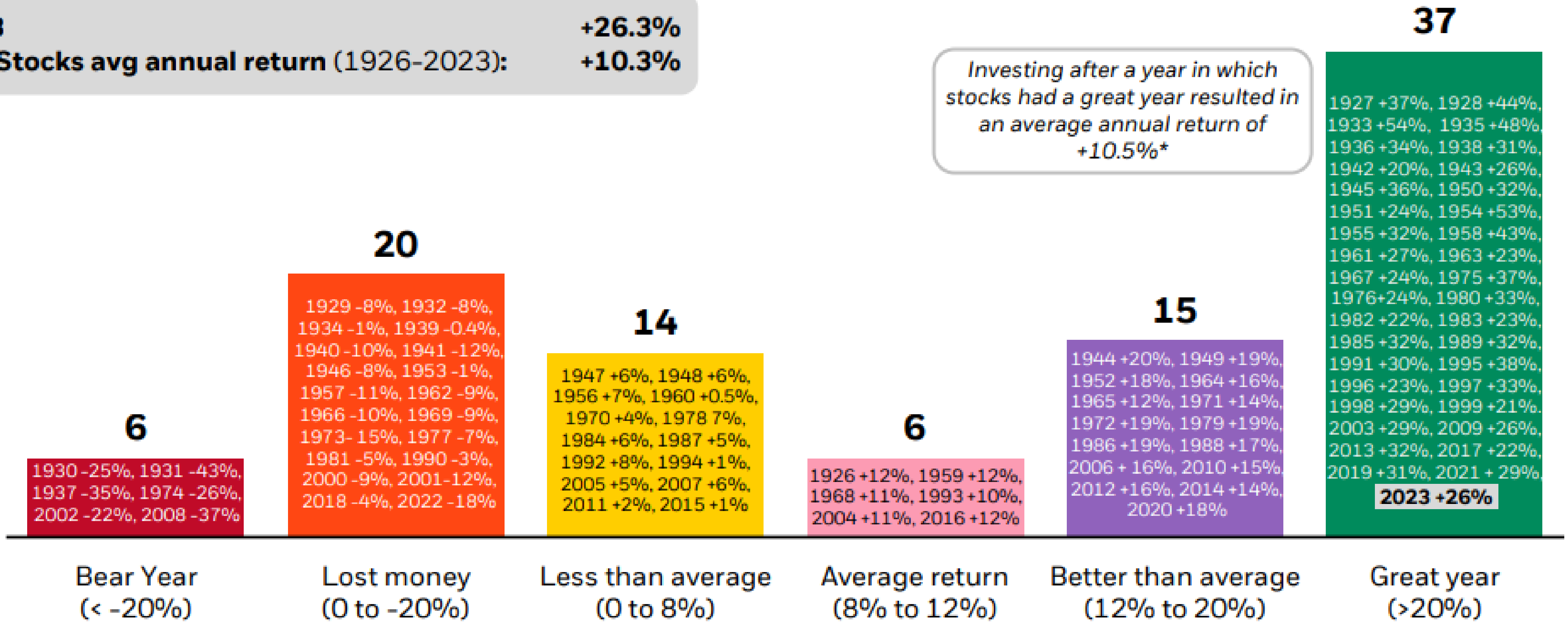
U.S. Stocks Had a Great Year in 2023

U.S. stocks average 10% return, but very rarely return their average in a calendar year

Range of returns for stocks by calendar year

Average annual return, 1/1/26 – 12/31/23

2023	**+26.3%**
U.S. Stocks avg annual return (1926-2023):	**+10.3%**



Source: Morningstar as of 12/31/23. U.S. stocks are represented by S&P 500 Index from 3/4/57 to 12/31/23 and the IA SBBI U.S. Lrg Stock Tr USD Index from 1/1/26 to 3/4/57, unmanaged indexes that are generally considered representative of the U.S. stock market during each given time period. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

Potential 2024 Headwinds

	SFG Risk Assessment
Higher rates for longer	Moderate to High
Wildcard Risk – e.g., Geopolitics	High Headline Risk
Unemployment trends deteriorate	Low to Moderate
Consumer spending decreases due to excess savings dwindling	Low to Moderate
Recession	Low to Moderate
Fed misstep	Moderate

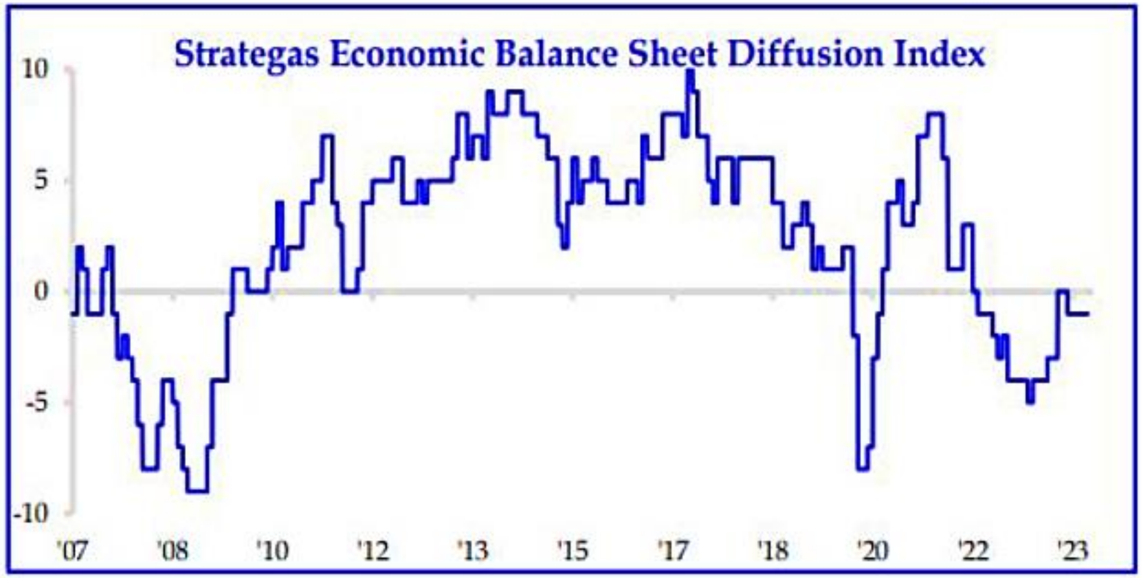
Source: Stearns Financial Group, as of January 3, 2024.

Potential 2024 Tailwinds

	SFG Assessment of Likelihood
Improving corporate profitability	Moderate
Inflation trends continue improving	Moderate (especially shelter)
Economic growth above low expectations	Low to Moderate
AI/Productivity gains (actual)	Low to Moderate
Infrastructure spending	High

Source: Stearns Financial Group, as of January 3, 2024.

- Each month we characterize 14 broad U.S. economic sectors – including both real activity and prices – as *Assets* or *Liabilities*. Our economic balance sheet index remained at -1 this month. There has been a consistent recovery in our index since March, but there is still weakness rolling through some of the components.
- Key supports remain the U.S. labor market, consumer spending, and capex. U.S. real GDP growth in 3Q was robust at ~5% q/q A.R., and 4Q is tracking positive.
- There remains downward pressure on activity in 1H of 2024 (the lagged effects of policy already in place). But by 2H of 2024, some of these lagged effects should be fading (the last Fed rate hike was in July). Fiscal policy could also re-engage with supports ahead of the Nov 2024 U.S. election. So, if the U.S. economy is going to weaken significantly, the window is likely bounded from now until mid-2024.



Assets	Neutral	Liabilities
Capex Eqp	Trade Deficit	Wage Inflation
Employment	Nonres Constr	Int Rate Envr
Cons. Spend.	Govt Deficit	Business Conf
	Housing	Manufacturing
	Credit Environ	
	Cons Conf	
	Price Inflation	

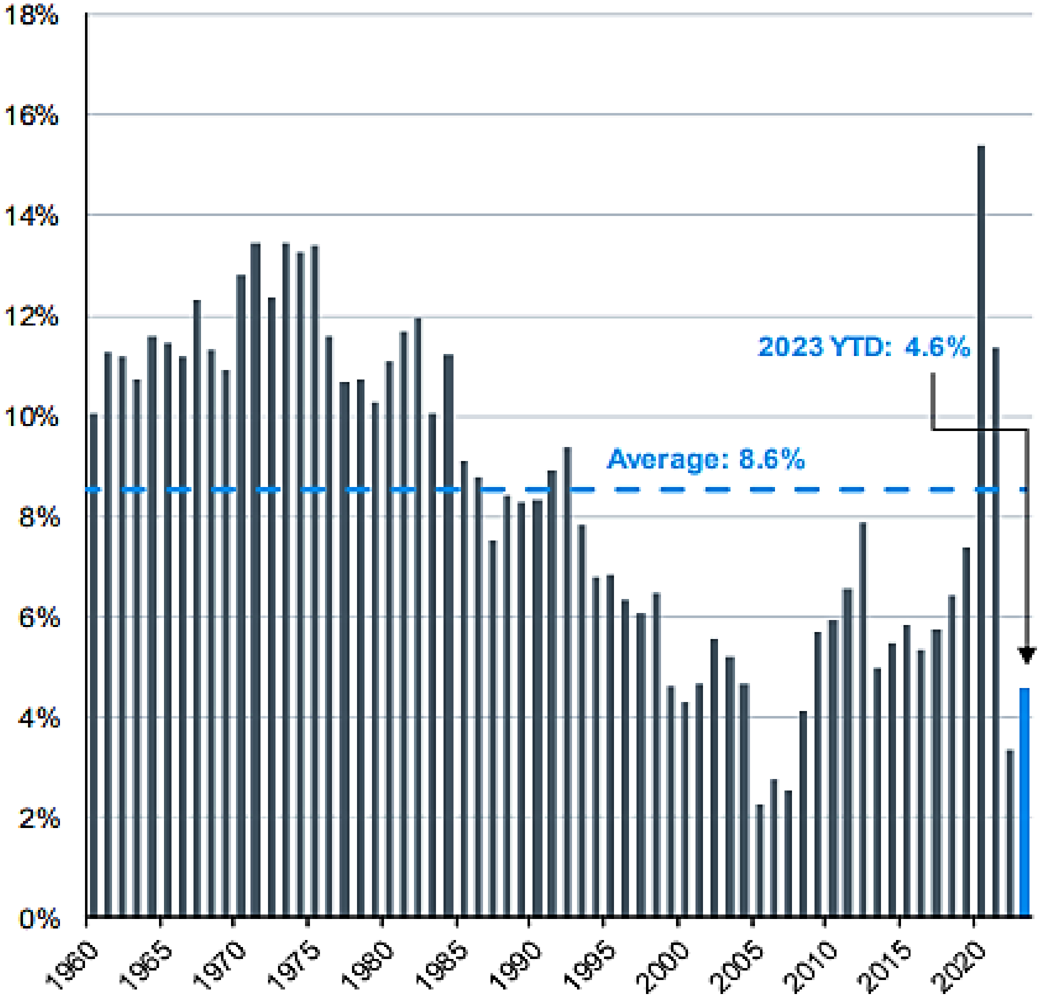
Economic:	Nov '22	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov '23
Assets	2	2	3	3	3	3	3	4	4	3	3	3	3
Liabilities	6	7	7	7	7	6	6	4	4	4	4	4	4
Net	-4	-5	-4	-4	-4	-3	-3	0	0	-1	-1	-1	-1

Source: Strategas – Economic Balance Sheet, as of December 22, 2023.

Consumer Saving and Borrowing

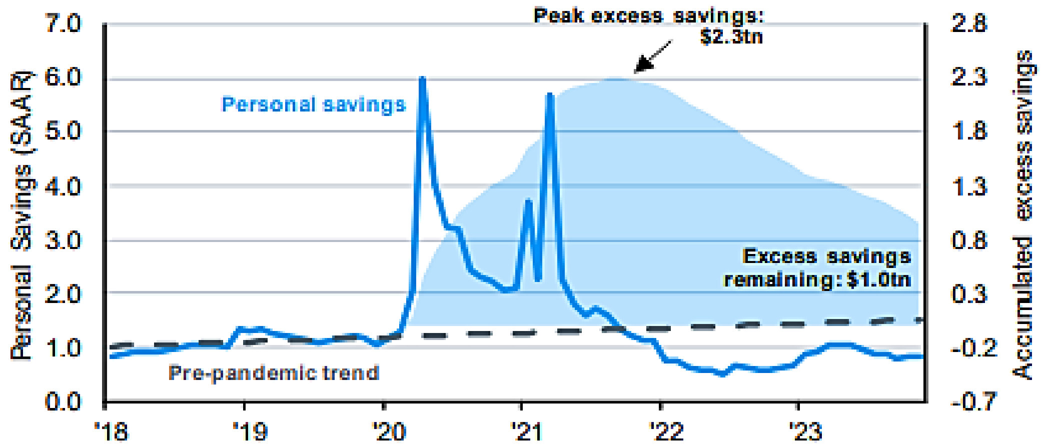
Personal saving rate

Personal savings as a % of disposable personal income, annual



Household excess savings

Trillions of USD



Revolving consumer credit outstanding

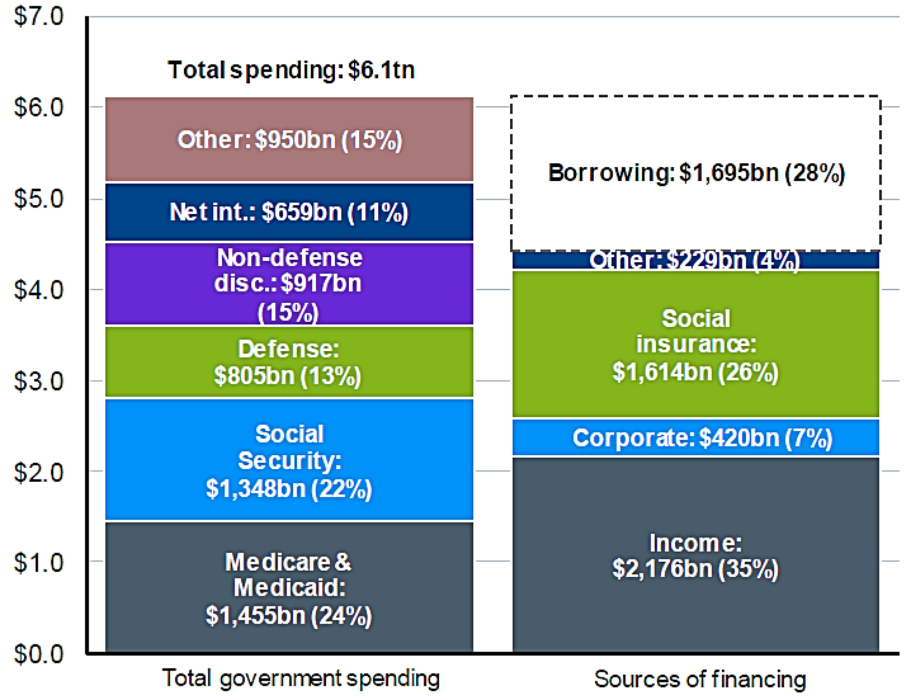
% of disposable income, SAAR

Source: BEA, Federal Reserve, J.P. Morgan Asset Management. From March 2020 to August 2021, consumers amassed a peak $2.3 trillion in excess savings relative to the pre-pandemic trend. Since August 2021, consumers have drawn down on those excess savings, with the remaining reflected in the chart annotation. *Guide to the Markets – U.S.* Data are as of December 31, 2023.

Federal Finances

The 2023 federal budget

USD trillions

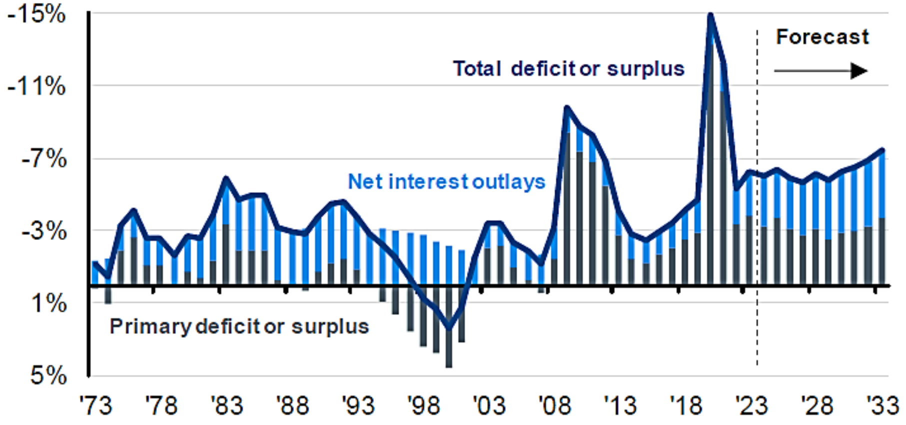


CBO's Baseline economic assumptions

	2023	'24-'25	'26-'27	'28-'33
Real GDP growth	0.9%	2.0%	2.4%	1.9%
10-year Treasury	4.0%	3.8%	3.8%	3.8%
Headline inflation (CPI)	3.3%	2.5%	2.1%	2.2%
Unemployment	4.1%	4.6%	4.5%	4.5%

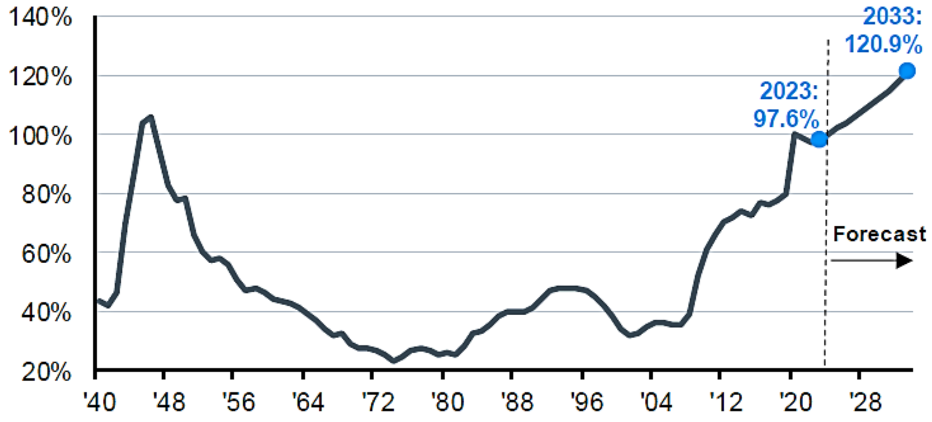
Federal deficit and net interest outlays

% of GDP, 1973-2033, Adj. CBO Baseline Forecast*



Federal net debt (accumulated deficits)

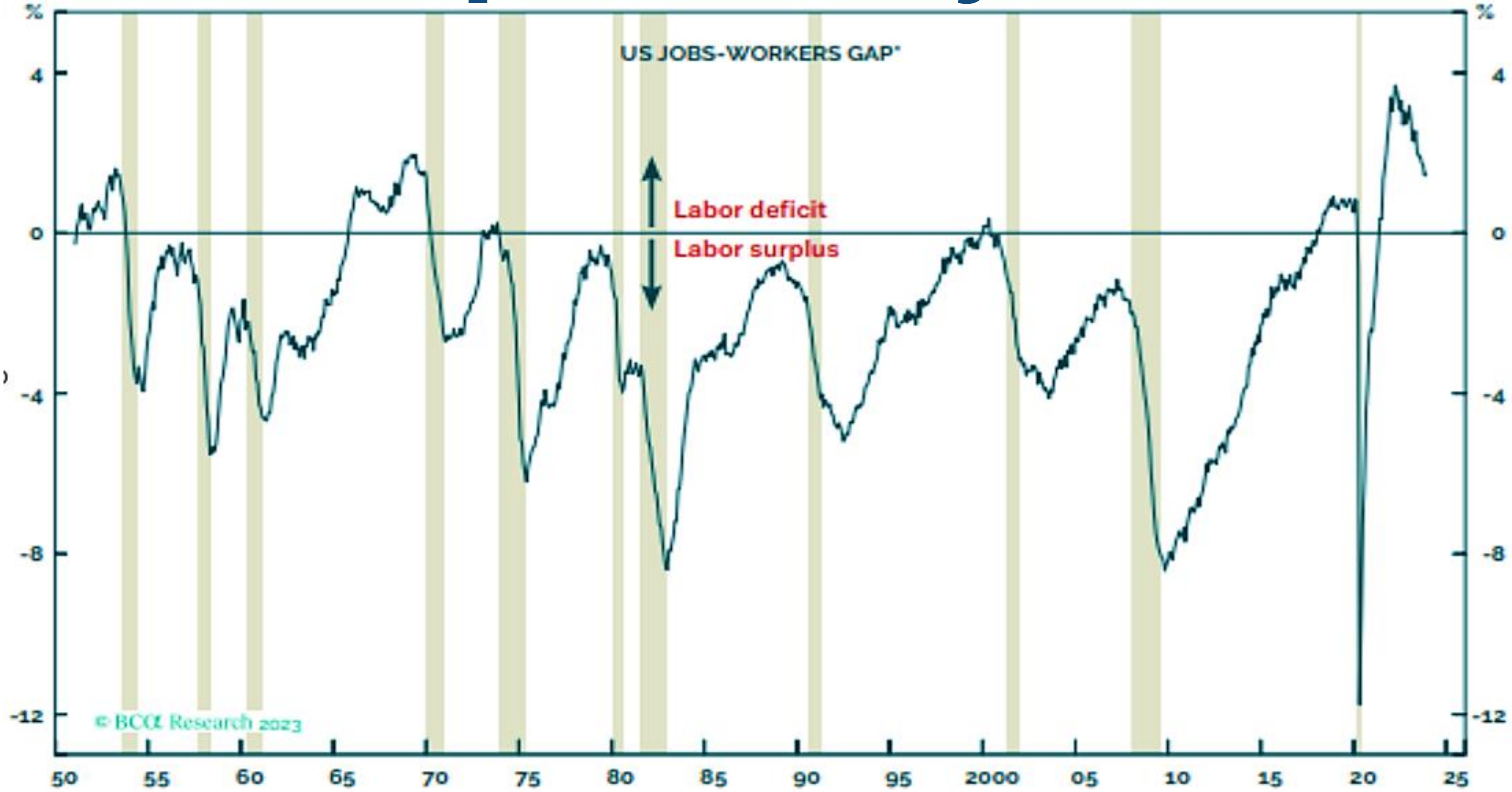
% of GDP, 1940 – 2033, Adj. CBO Baseline Forecast*, end of fiscal year



Source: CBO, J.P. Morgan Asset Management; (Top and bottom right) BEA, Treasury Department.

*Estimates are based on the Congressional Budget Office (CBO) May 2023 An Update to the Budget Outlook: 2023 to 2033, adjusted by JPMAM for FY 2023 forecast errors. Other spending includes, but is not limited to, health insurance subsidies, income security and federal civilian and military retirement. Note: Years shown are fiscal years. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated. *Guide to the Markets – U.S. Data* are as of December 31, 2023.

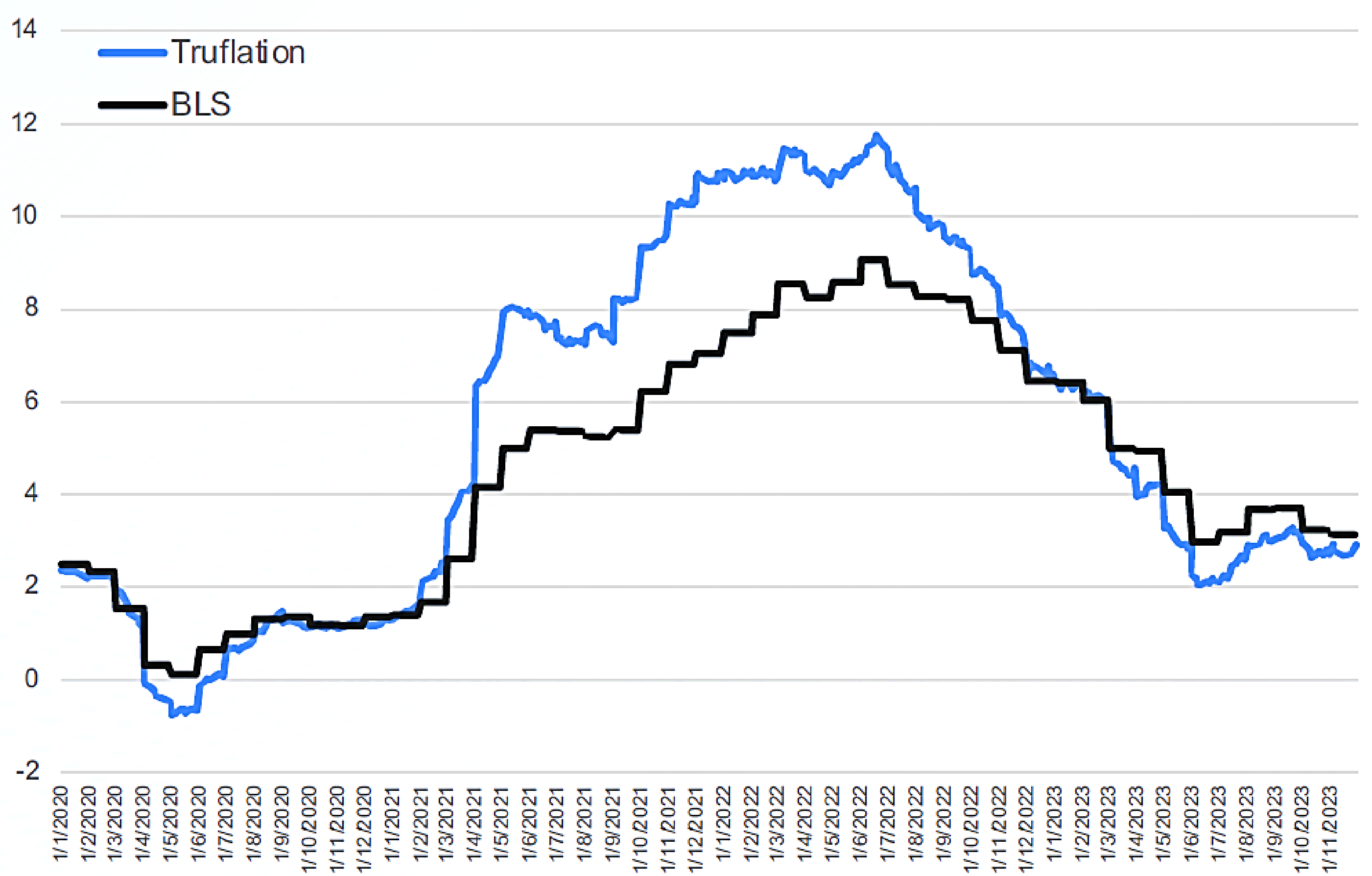
Jobs to Equilibrium by Mid-2024?



*Jobs-Workers Gap is the difference between labor demand (sum or job openings and civilian employment) and labor supply (civilian labor force) as a percent of the labor supply. Historical job openings data are extended using the Composite Help-Wanted Index estimated in Regis Barnichon, "Building a Composite Help-Wanted Index," Economics Letters volume 109, issue 3, (December 2010). Job openings since June 2022 are based on BLS Jolts Job Openings and Estimates using Indeed Job Postings Index. Note: Shaded areas denote NBER-designated recessions.

Truflation Daily Index

	CPI	Truflation
Publisher	Bureau of Labor Statistics (BLS)	Tru Labs Inc.
Data sources	Consumer Survey	Market price data from 30+ sources
# of Datapoints	80,000	13+ million
Report frequency	Monthly	Daily
Available Indexes	CPI Headline, Core, Services vs Goods, Categories & sub-categories	CPI Headline, Core, Services vs Goods, Categories & sub-categories
Weighting	Updated Annually with data from two years ago	Updated Annually with previous years data
Additional calculation	Hedonistic & COLI	None
Exclusions	Owned Prices & Property Taxes	No exclusions



Source: Truflation - Powering better investment decisions for everyone. Methodology Explanation as of December 2023.

Relationship of Inflation and Valuation: *Back to the Green Zone*

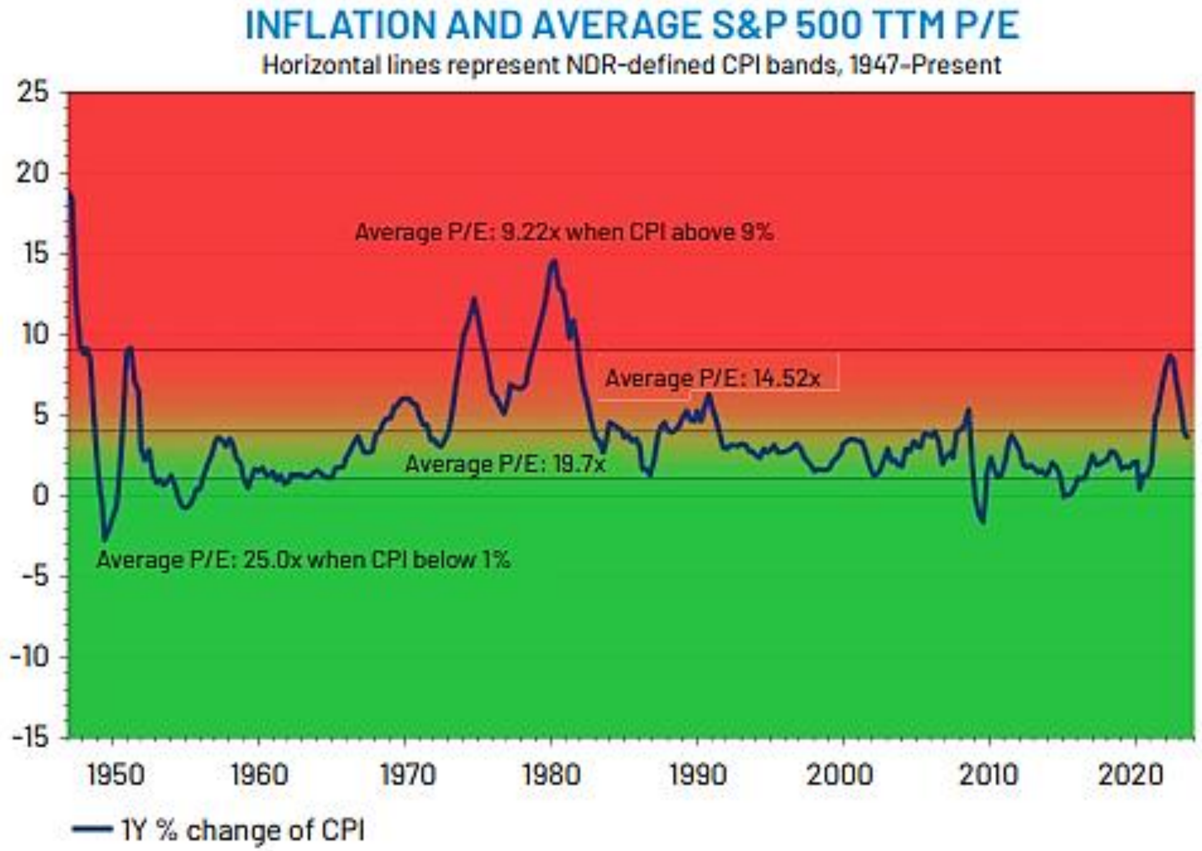
AVERAGE TRAILING TWELVE MONTH (TTM) PRICE-TO-EARNINGS MULTIPLES ON S&P 500 BY INFLATION REGIMES, 1947–2023

S&P 500 P/E multiples by inflation regime, 1947-2023

YoY Change, CPI:	Average S&P 500 P/E	% Gain/year, S&P 500	% Gain/year, US real GDP
Above 9%	9.2	-0.3	1.1
4% to 9%	14.5	1.6	2.5
1% to 4%	19.7	9.8	3.3
Below 1%	25.0	16.9	5.0

Historically, the higher inflation goes, the lower GDP growth, stock valuation (as measured by P/E ratios) and stock returns tend to drop. October 2023's CPI reading was 3.2%, suggesting an inflation zone that has historically been conducive to relatively high P/E multiples and stock returns, according to NDR Research.

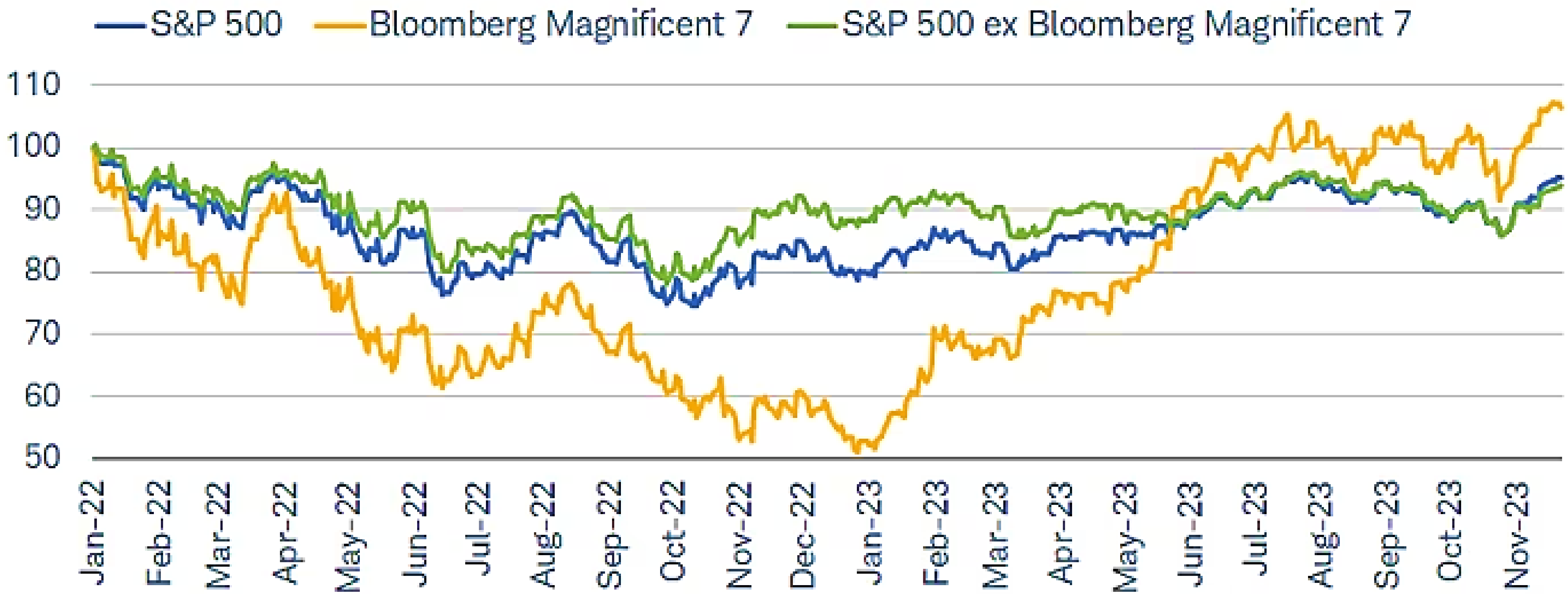
But other factors matter too, including the stability and level of profit margins.



Price-Earnings Ratio (P/E Ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings. An investment cannot be made directly in an index. Gross domestic product (GDP) is a monetary measure of the market value of all final goods and services produced in a period (quarterly or yearly) of time. Source: LSEG Datastream, NDR Research and RiverFront; data monthly, as of October 2023. Shown for illustrative purposes only. Past performance is no indication of future results.

Not Always Magnificent

Charles Schwab: "The dominant market theme in 2023 – and likely heading into 2024 – has been the supremacy of the "Magnificent 7" (Mag7) group of stocks, which pushed cap-weighted indexes like the S&P 500 higher during the year. Without the Mag7, the S&P 500's 2023 year-to-date gains are in the low single digits. In fact, as shown in the chart below, since the S&P 500's prior all-time high in early January 2022, the Mag7 is up by more than 6%, but the "other 493" are actually down by nearly 6%."



Source: Charles Schwab, Bloomberg, as of 11/24/2023.
Data indexed to 100 (base value = 1/3/2022). An index number is a figure reflecting price or quantity compared with a base value. The base value always has an index number of 100. The index number is then expressed as 100 times the ratio to the base value. The Bloomberg Magnificent 7 Index is an equal-dollar weighted equity benchmark consisting of a fixed basket of 7 widely-traded companies (Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, Tesla.) Indexes are unmanaged, do not incur management fees, costs and expenses and cannot be invested in directly. Past performance is no guarantee of future results. All corporate names and market data shown above are for illustrative purposes only and are not a recommendation, offer to sell, or a solicitation of an offer to buy any security. Supporting documentation for any claims or statistical information is available upon request.

BCA's 10-Year Asset Return Forecast

COMPOUND % RETURN P.A.			
	THE PAST (2003-2023)	THE FUTURE (NEXT 10-15 YEARS)	PORTFOLIO WEIGHT
US EQUITIES	9.9	5.0	30
OTHER DEVELOPED MARKET EQUITIES	6.9	5.7	15
EM EQUITIES	9.0	6.5	5
10-YEAR US TREASURYS	3.1	4.4	20
CORPORATE BONDS	4.5	5.5	10
ALTERNATIVES	8.5	8.5	20
TOTAL PORTFOLIO	7.2	5.8	
US INFLATION	2.0	3.0	
TOTAL PORTFOLIO REAL RETURN	**5.2**	**2.8**	

* BASED ON MARKET CAP WEIGHTED AVERAGE OF INVESTMENT GRADE & HIGH YIELD RETURNS.

** BASED EQUALLY-WEIGHTED AVERAGE OF PE, VC, HEDGE FUNDS, DIRECT REAL ESTATE, US REITS, COMMODITIES, FARMLAND AND TIMBERLAND.

*** BASED ON WEIGHTS IN FINAL COLUMN.

NOTE: RETURNS IN LOCAL CURRENCY TERMS EXCEPT FOR GLOBAL INDEXES (US$).

Source: BCA Research, *The Bank Credit Analyst*, December 2023, Vol. 75, No. 6 Special Year-End Issue *OUTLOOK 2024 The End of The Easy Money Era,* as of 12-2-2023.

Long-Term Capital Market Assumptions: *Summary*

2024 RIVERFRONT LONG-TERM TOTAL RETURN FORECASTS (ANNUALIZED, NOMINAL, IN USD)

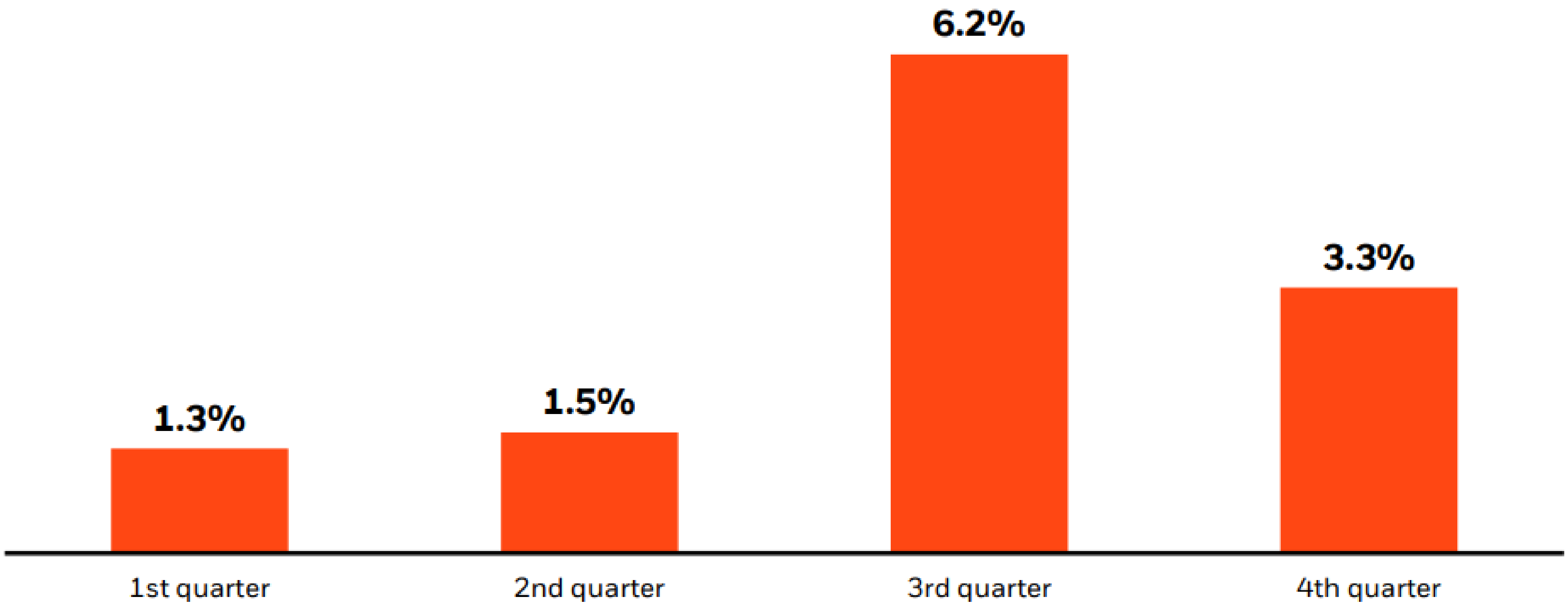
Long-Term Total Return Forecast (Annualized, Nominal, in USD)	Pessimistic: 'Bear' Case	Base Case	Optimistic: 'Bull' Case
US Large-Cap Stocks	1.6%	7.0%	11.5%
Developed International Stocks	1.0%	8.3%	15.2%
Emerging Market Stocks	0.5%	6.3%	13.0%
US Aggregate Bonds	5.2%	5.6%	5.9%
US High Yield Bonds	3.5%	6.5%	7.9%

Source: RiverFront Investment Group's 2024 Outlook & Capital Market Assumptions Tap-Dancing on a *Tightrope. Shown for illustrative purposes. The table above depicts RiverFront's predictions for 2024 using three scenarios (Pessimistic (Bear), Base, and Optimistic (Bull)). The assessment is based on RiverFront's Investment Team's views and opinions as of 12-15-2023. Each case is hypothetical and is not based on actual investor experience. The returns above are not an indication of RiverFront portfolio or product performance. These views are subject to change and are not intended as investment recommendations. There is no representation that an investor will or is likely to achieve positive returns, avoid losses or experience returns as discussed for various market classes.*

U.S. Stocks in a Presidential Election Year

First half of presidential election years tends to be sluggish, followed by a big second half

Average return, 1/1/26 – 12/31/23



Source: Morningstar as of 12/31/23. Stock market represented by S&P 500 Index from 1/1/70 to 12/31/23 and IA SBBI U.S. Large Cap Stocks Index from 1/1/26 to 1/1/70. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

Concentration Risk More of a Concern for Large Caps

S&P 500	
Microsoft Corporation	7.3%
Apple Inc.	7.3%
Alphabet Inc. Class C	3.8%
Amazon.com, Inc.	3.5%
NVIDIA Corporation	3.0%
Meta Platforms Inc. Class A	1.9%
Tesla, Inc.	1.7%
Total	**28.6%**

S&P 600	
Rambus Inc.	0.7%
Comfort Systems USA, Inc.	0.7%
e.l.f. Beauty, Inc.	0.6%
SPS Commerce, Inc.	0.6%
Applied Industrial Technologies, Inc.	0.6%
Ensign Group, Inc.	0.6%
Fabrinet	0.6%
Total	**4.5%**

S&P 400	
Deckers Outdoor Corporation	0.7%
Builders FirstSource, Inc.	0.7%
Reliance Steel & Aluminum Co.	0.7%
Jabil Inc.	0.6%
GoDaddy, Inc. Class A	0.6%
Carlisle Companies Incorporated	0.6%
Manhattan Associates, Inc.	0.6%
Total	**4.6%**

Russell 2000	
Super Micro Computer, Inc.	0.6%
Light & Wonder, Inc.	0.4%
Rambus Inc.	0.3%
Simpson Manufacturing Co., Inc.	0.3%
BellRing Brands, Inc.	0.3%
ImmunoGen, Inc.	0.3%
Onto Innovation, Inc.	0.3%
Total	**2.5%**

Topix 1000	
Toyota Motor Corp	4.7%
Sony Group Corp	2.7%
Mitsubishi UFJ Financial Group Inc	2.4%
Keyence Corp	1.9%
Nippon Telegraph & Telephone Corp	1.6%
Sumitomo Mitsui Financial Group Inc	1.6%
Hitachi Ltd	1.5%
Total	**16.4%**

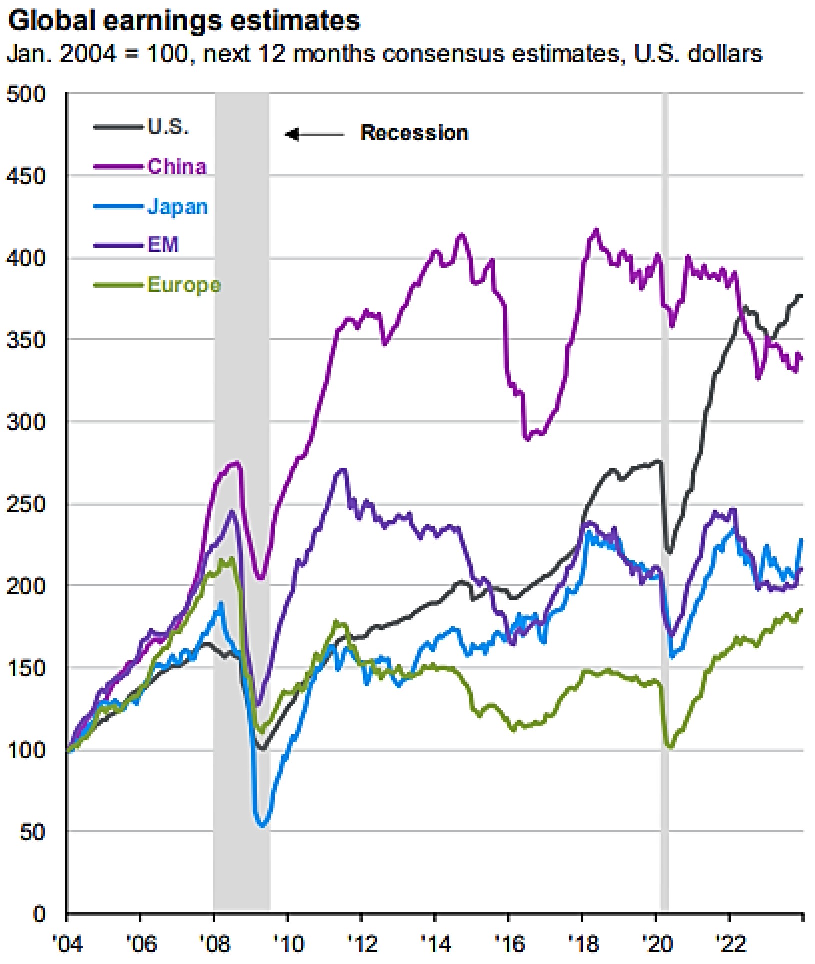
FTSE	
Shell PLC	9.1%
AstraZeneca PLC	8.0%
HSBC Holdings PLC	6.3%
Unilever PLC	5.0%
BP PLC	4.3%
Diageo PLC	3.3%
Rio Tinto PLC	3.2%
Total	**39.2%**

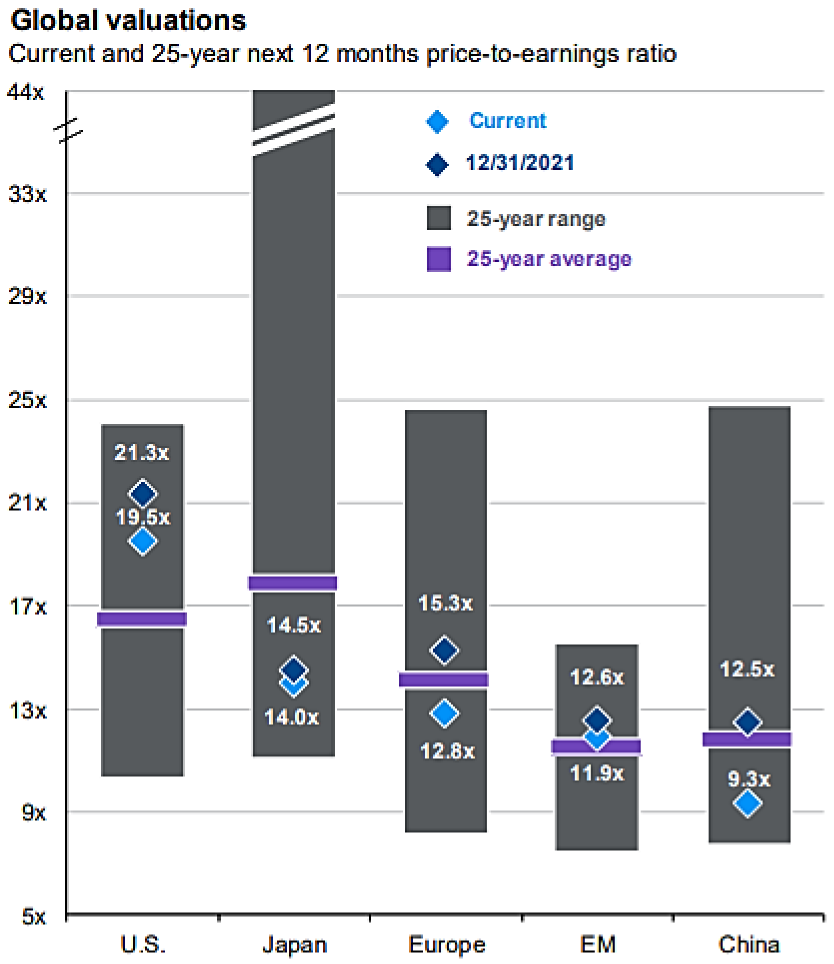
Nasdaq 100	
Apple Inc.	11.1%
Microsoft Corporation	10.4%
Alphabet Inc.	5.8%
Amazon.com, Inc.	5.6%
NVIDIA Corporation	4.3%
Meta Platforms Inc. Class A	3.8%
Broadcom Inc.	3.1%
Total	**44.0%**

Shenzhen	
Kweichow Moutai Co Ltd	6.4%
Ping An Insurance Group Co of China Ltd	2.6%
Contemporary Amperex Technology Co Ltd	2.5%
China Merchants Bank Co Ltd	2.0%
Wuliangye Yibin Co Ltd	1.7%
Midea Group Co Ltd	1.4%
China Yangtze Power Co Ltd	1.3%
Total	**18.0%**

Source: Strategas – Investment Strategy, as of 12.04.23 .

International Equity Earnings and Valuations





Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management. Next 12 months consensus estimates are based on pro-forma earnings and are in U.S. dollars. MSCI Europe includes the eurozone as well as countries not in the currency bloc, such as Norway, Sweden, Switzerland and the UK (which collectively make up almost half of the overall index). Past performance is not a reliable indicator of current and future results. (Right) The purple lines for Em and China show 20-year averages due to a lack of available data. *Guide to the Markets – U.S.* Data are as of December 31, 2023.

A Diversified Portfolio Can Work Even Though it Never Feels Good

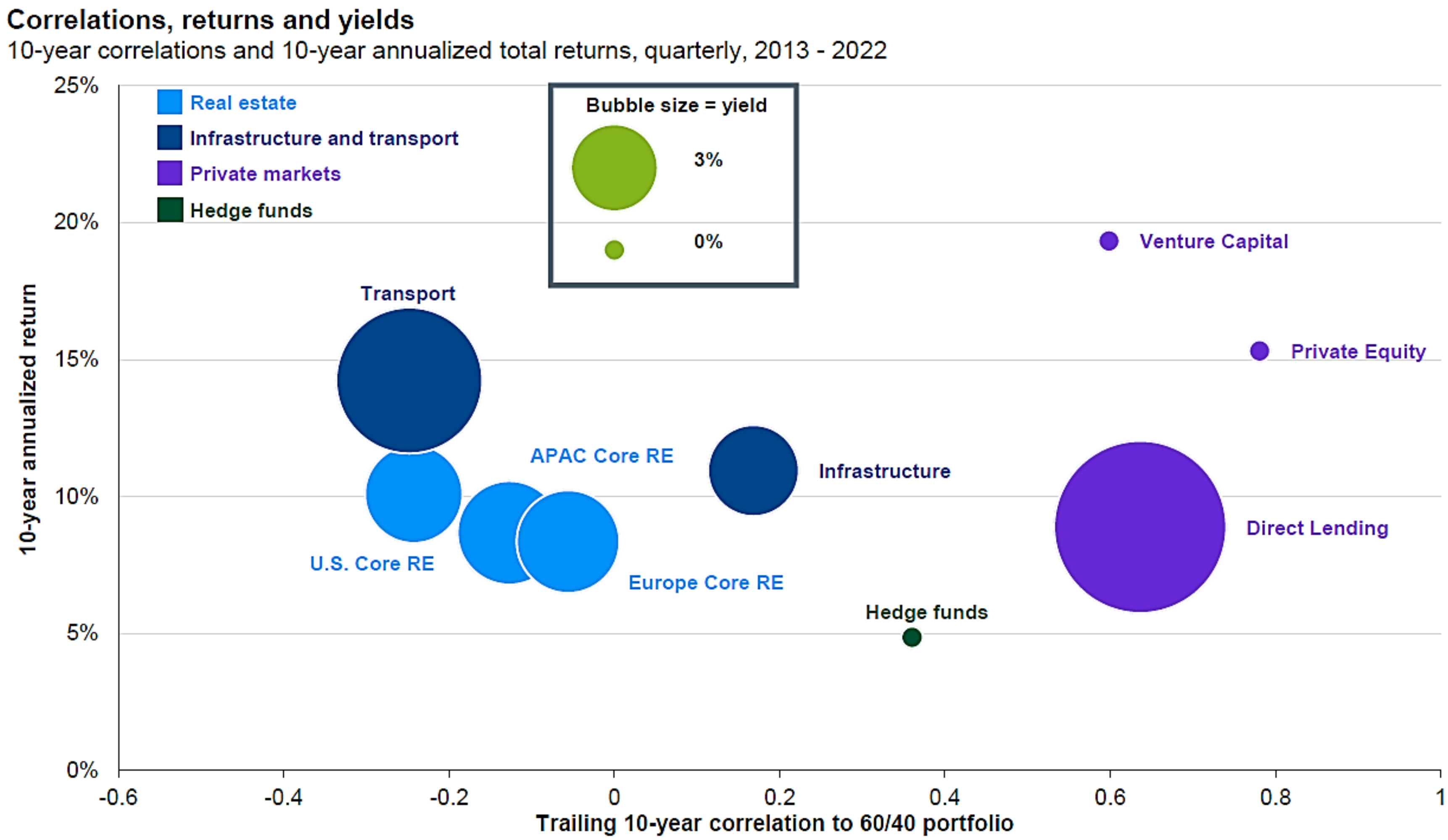
Last 20+ Years

24% U.S. large stocks, 24% U.S. mid cap stocks, 5% international stocks, 2% U.S. small cap stocks, 5% emerging market stocks, 20% U.S. bonds, 20% high yield bonds

Years	S&P 500	Diversified Portfolio	
2000–2002*	-40.1%	-15.7%	"I lost money"
2003–2007	82.9%	91.5%	"Diversification worked"
2008	-37.0%	-28.5%	"I lost money"
2009–2019	351.0%	237.2%	"I didn't make as much"
Q1 2020†	-30.4%	-24.2%	"I lost money"
Q2 2020-2021‡	119.0%	69.8%	"I didn't make as much"
2022	-18.1%	-15.3%	"I lost money"
2023	26.3%	15.9%	"I didn't make as much"
Total Return	**390.8%**	**391.4%**	"Diversification can work even when it feels like its losing"
Gr $100K	**$490,770**	**$491,430**	

Source: Morningstar as of 12/31/23. *Performance is from 9/1/00 to 12/31/23. †Performance is from 1/1/20 to 3/23/20. ‡Performance is from 3/24/20 to 12/31/23. Diversified Portfolio is represented by 24% S&P 500 Index, 24% Russell Mid Cap Index, 5% MSCI EAFE Index, 2% Russell 2000 Index, 5% FTSE Emerging Stock Index, 20% Bloomberg US Aggregate Bond Index, 20% Bloomberg US Corporate High Yield Index. Past performance does not guarantee or indicate future results. Index performance is for illustrative purposes only. You cannot invest directly in the index.

Alternative Asset Correlations, Returns and Yields



Source: Burgiss, Cliffwater, Gilberto-Levy, HFRI, MSCI, NCREIF, FactSet, J.P. Morgan Asset Management. Correlations are based on quarterly returns over the past 10 years through 2022. A 60/40 portfolio is comprised of 60% stocks and 40% bonds. Stocks are represented by the S&P 500 Total Return index. Bonds are represented by the Bloomberg U.S. Aggregate Total Return Index. Ten-year annualized returns are calculated from 2013-2022. This slide comes from the J.P. Morgan Asset Management *Guide to Alternatives. Guide to the Markets – U.S.* Data are as of December 31, 2023.

2024 Potential Opportunities

Growth and Income Investors

- **Bonds** (intermediate duration now has more normal defensive capability)
- **Quality U.S. and International stocks** (focus on good stock pickers)
- **Higher Quality Private Credit** (returns have been very steady)
- **Infrastructure** (energy infrastructure, utility infrastructure, private sector manufacturing infrastructure, and related real estate, ports, roadways, and rail.)

Growth Investors

- **Quality U.S. and International stocks** (focus on good stock pickers)
- **Quality Small Cap stocks** (profit breakout potential, tech enabled)
- **Private equity** (niche and large)
- **Venture Capital**

Questions?

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