



MORNINGSTAR Wealth

The 2024 Outlook in Charts

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Key Topics Addressed in the 2024 Outlook



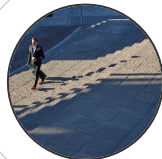
Economic Questions & Portfolio Positioning



The Big Risks Ahead, Including Geopolitics



The Growth Opportunities in AI




Taking Advantage of Higher Rates



Our Best Investment Ideas for 2024

Our 2024 Outlook is Differentiated

Our Starting Point is Your Clients' Concerns. We Then Seek Morningstar's Best Expertise to Address It



Morningstar Wealth

2024 Outlook

Empowering Investor Success

RISK AWARE MINDBET

Economic Questions and Portfolio Positioning


GROWTH MINDBET

The Growth Opportunities Available From AI

The Risks Ahead, Including Geopolitics

Taking Advantage of the 5%+ Rate Reset

Our Best Investment Ideas for 2024



WELCOME TO OUR 2024 OUTLOOK

DAVE GIBBY
Chief Research and Investment Officer

We stand at the threshold of 2024, the external environment makes the prospect of uncertainty increasingly a reality of opportunities. Our approach to the year will be a blend of caution and optimism.

For many, the investment arena may appear daunting given recent market volatility. For us, as investment professionals, emerging periods of market volatility and pessimism should not be seen as a barrier to investment but rather as a normal part of the journey to reach financial goals.

We know that 2024 will bring surprises for all investors. Rather than treat the future as if it is a blank slate, we'll be focused on the outlook on the horizon of the market. We see potential in this environment, with opportunities to add value in fixed income and selected equity markets, among other ideas. By helping investors navigate a horizon of challenges, the most path leads to a better outcome for you, making certain decisions that match the 2024 environment.


The Key Questions on Your Mind

For our 2024 outlook, we've made a conscious effort to spotlight the key issues on the minds of investors, informed by our [2024 Investor Study](#). We have shared our assessment on leading worries, not leading opportunities, when putting together our best investment ideas for 2024. We've brought together our insights from across Morningstar's global Research, Analysis, and Investment team to give them insight on each of the following topics:

- The Macro Building & Resilience Questions:** In a world where economic conditions can seem fragile, our role is to provide clarity and direction. By helping investors navigate economic uncertainty, we're helping them build a resilient portfolio.
- Today's Risks, Including Geopolitical Tensions:** The global political stage is undeniably difficult. But we don't let it cloud our long-term view. It becomes crucial to evaluate political uncertainties while staying anchored to our investment principles.
- Understanding AI—Both Opportunities and Risks:** Artificial Intelligence represents a potential revolution. We're looking for opportunities, but we're also looking for risks. Understanding how AI can impact various sectors is key.
- Taking Advantage of the 5%+ Rate Reset:** Higher rates can be intimidating. But they also offer up new opportunities. We're looking for ways to take advantage of this rate reset to build robust portfolios and optimize portfolio returns.
- Shoring Up Our Investment Ideas:** Select portfolio construction, our aim is to help shape future. We're looking to share our best investment ideas, offering insights for informed and confident decision-making.

In the face of these challenges, we at Morningstar remain fundamentally focused, serving as the key pillars of our investment approach. Perhaps the most significant pillar is adopting a long-term perspective on investment, which can be especially difficult to maintain in volatile environments. While market fluctuations may sway investor sentiment in the short run, prudent investors stay the course, focusing on meeting their portfolio horizon and their goals.

Most investors have long-term goals (such as retirement) and should therefore focus on long-term value creation. Similarly, it is worth noting that risk management is a critical pillar of successful investing. An effective risk management strategy balances investment opportunities with future uncertainty, helping investors to navigate through market volatility.



Investors Should be Positive as We Enter 2024

While creating our annual outlook is a challenging task, there are three areas that I believe are particularly important as we enter the year ahead:
















My Top 3 Takeaways from the Morningstar 2024 Outlook


- Reinvest in the AI:** Some of our best opportunities are in AI. While we're not alone in seeing this, we are prepared to act on it. We are seeing a lot of AI-related opportunities, which is why we're seeing a lot of AI-related opportunities. We are seeing a lot of AI-related opportunities, which is why we're seeing a lot of AI-related opportunities.
- Stay True to Basics:** The key to long-term success is to stay true to the basics. We are seeing a lot of AI-related opportunities, which is why we're seeing a lot of AI-related opportunities. We are seeing a lot of AI-related opportunities, which is why we're seeing a lot of AI-related opportunities.
- Risk Comes Opportunity:** Investing in risk comes opportunity. We are seeing a lot of AI-related opportunities, which is why we're seeing a lot of AI-related opportunities. We are seeing a lot of AI-related opportunities, which is why we're seeing a lot of AI-related opportunities.

Putting this together, it becomes clear that the key to successful investing is in maintaining a long-term view, adopting a long-term perspective, and adopting a long-term perspective. We are seeing a lot of AI-related opportunities, which is why we're seeing a lot of AI-related opportunities. We are seeing a lot of AI-related opportunities, which is why we're seeing a lot of AI-related opportunities.

Our Thanks to the Contributors

I am immensely grateful to the 2024 team of researchers and analysts at Morningstar whose expertise and insights are reflected in this document. It is a great honor to be able to share their work with you. The team listed below deserves the most credit, though, whose advice and insights have helped us to make our best investment ideas for 2024.

 Mike Walker Chief Investment Officer, Growth	 Mark Walker Chief Investment Officer, Growth	 Mike Gray Chief Investment Officer, R&I
 Ryan S. Murphy Senior Analyst, Growth	 Derek Gannon Senior Analyst, Growth	 Betsy Kurland Senior Analyst, Growth
 David Baker Senior Analyst, Growth	 Mark Walker Senior Analyst, Growth	 Brian Harty Senior Analyst, Growth
 Hong Chang Senior Analyst, Growth	 Michael Pohl Senior Analyst, Growth	 Pamela Colwell Senior Analyst, Growth
 James Lee Senior Analyst, Growth	 Tyler Chen Senior Analyst, Growth	 M. New Senior Analyst, Growth



Economic Questions and Portfolio Positioning

Why Focus on Economics?

Investors are often focused on the macroeconomic environment, inflation, and economic growth. The impact of these factors on the economy is not just in terms of economic growth, but also in terms of the impact on the economy. The impact of these factors on the economy is not just in terms of economic growth, but also in terms of the impact on the economy.

Key Takeaways

- We expect further economic growth in 2024. Our "base case" includes inflation returning to normal in 2024, with a resulting increase in the U.S. economy's growth rate. It is possible for economic growth to increase significantly from mid-2023 and into 2024.
- Concerns around potential recession risks and the inflation outlook will likely persist. While our base case for the U.S. includes a soft landing, such concerns, there are a wide range of potential outcomes around the base case.
- Among regions, the U.S. economy is the most resilient. By looking for undervalued areas of the market, defensive assets are attractive. Value assets are also well positioned generally, with small cap assets offering a healthy discount.
- Global economies pose a challenge to any "base case" assessment. In general, global risks include geopolitical and no longer on the list. For example, Russia's war in Ukraine has led to a global energy crisis, which is a global energy crisis, which is a global energy crisis.

Turning Ideas into Actions for 2024

- Inflation Likely Lower for Longer**
While we expect inflation to be lower for longer, our base case is for inflation to fall back to normal levels. The U.S. economy is the most resilient, with a base case for inflation to fall back to normal levels. The U.S. economy is the most resilient, with a base case for inflation to fall back to normal levels.
- Recession Risk Awaits, But Not Our Base Case**
While we expect a recession to be avoided in the U.S., although risks remain. If a recession does occur, we expect it to be a recession, with a base case for inflation to fall back to normal levels. The U.S. economy is the most resilient, with a base case for inflation to fall back to normal levels.
- Defensive Options to Play a Role**
While we expect the economy to be strong, we expect it to be strong, with a base case for inflation to fall back to normal levels. The U.S. economy is the most resilient, with a base case for inflation to fall back to normal levels.

Top 3 Takeaways from the 2024 Outlook



The Key is a Robust Portfolio:

Some of our favored opportunities—including banks and emerging markets—can be cyclical. We size these exposures carefully and add offsets to create more robust outcomes.



Say Yes to Bonds: We like longer-term bonds more than we have in a decade, but we are prepared for surprises, which is why alternatives and short-duration bonds still factor into our portfolio construction.



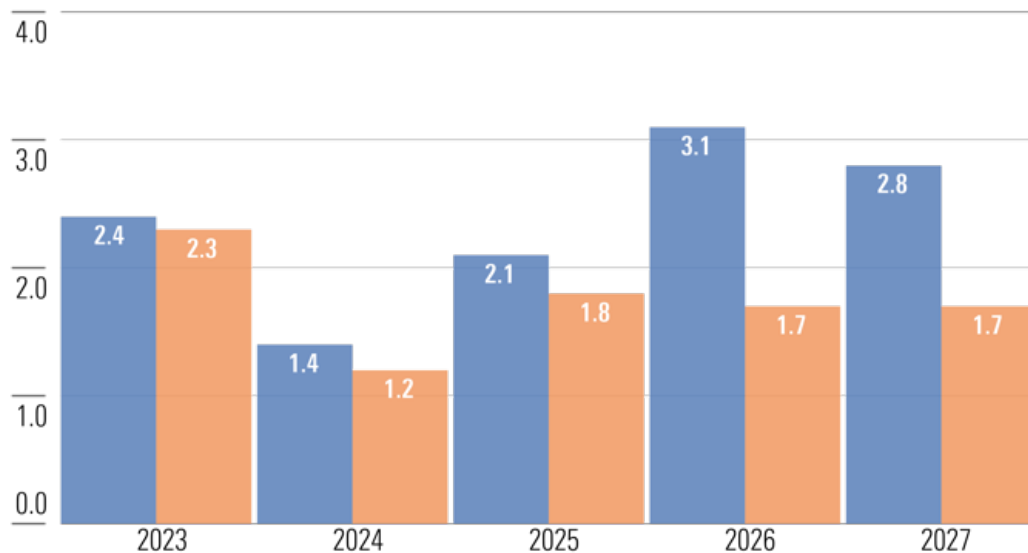
Risk Creates Opportunity:

Increasing return prospects within fixed income make it a more compelling opportunity but select equity markets still offer more attractive returns.

Economic Growth and Inflation in U.S. Expected to be Lower in 2024

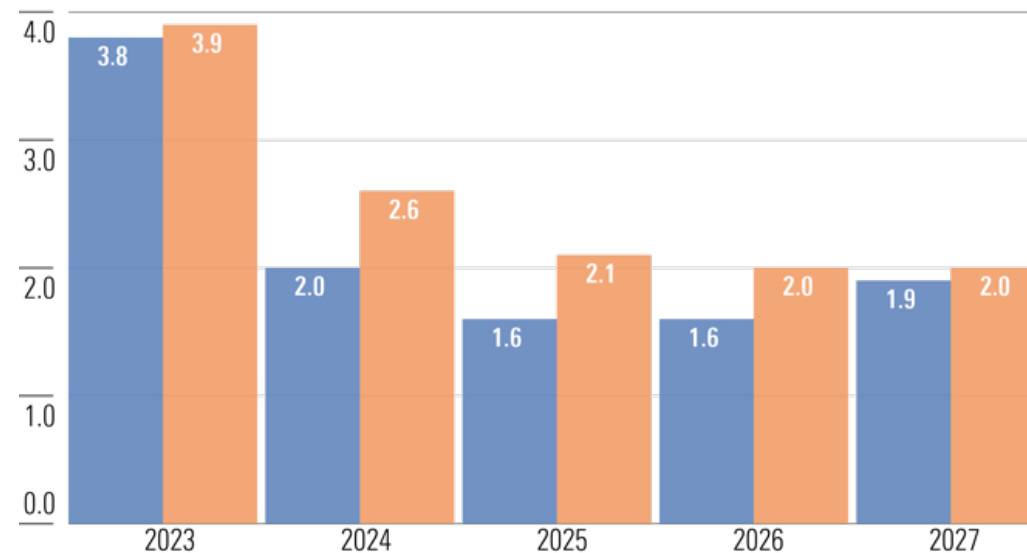
Real GDP Forecast Comparison

■ Morningstar ■ Consensus



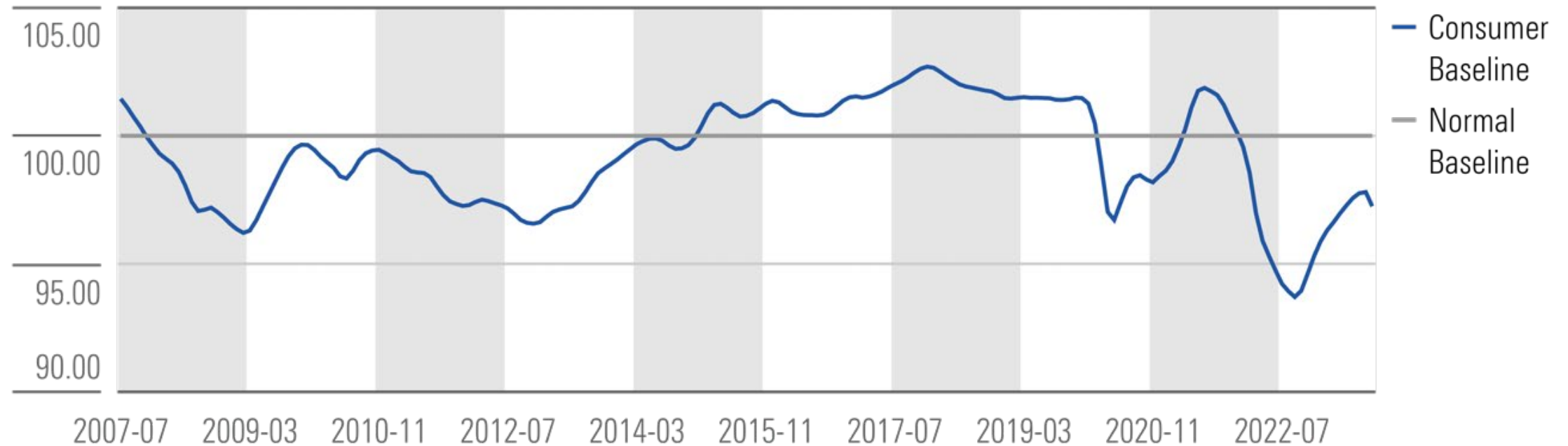
Inflation (Personal Consumption Expenditures) Forecast Comparison

■ Morningstar ■ Consensus



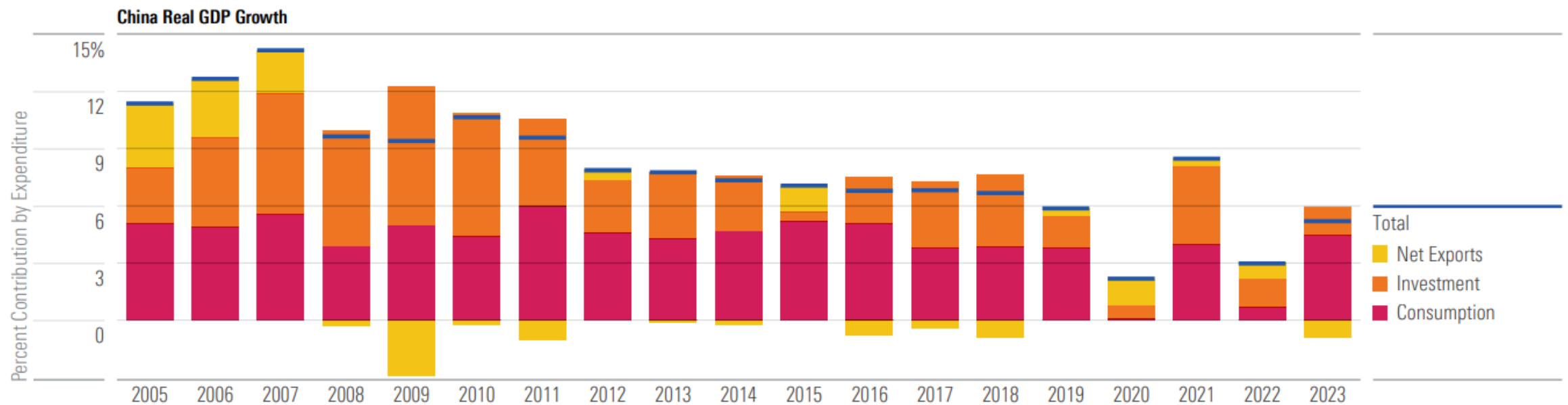
Eurozone Consumer Confidence Remains Weak

Europe remains fragile economically. Economic growth has been essentially flat since Covid, with the Eurozone now likely to be in a technical recession.

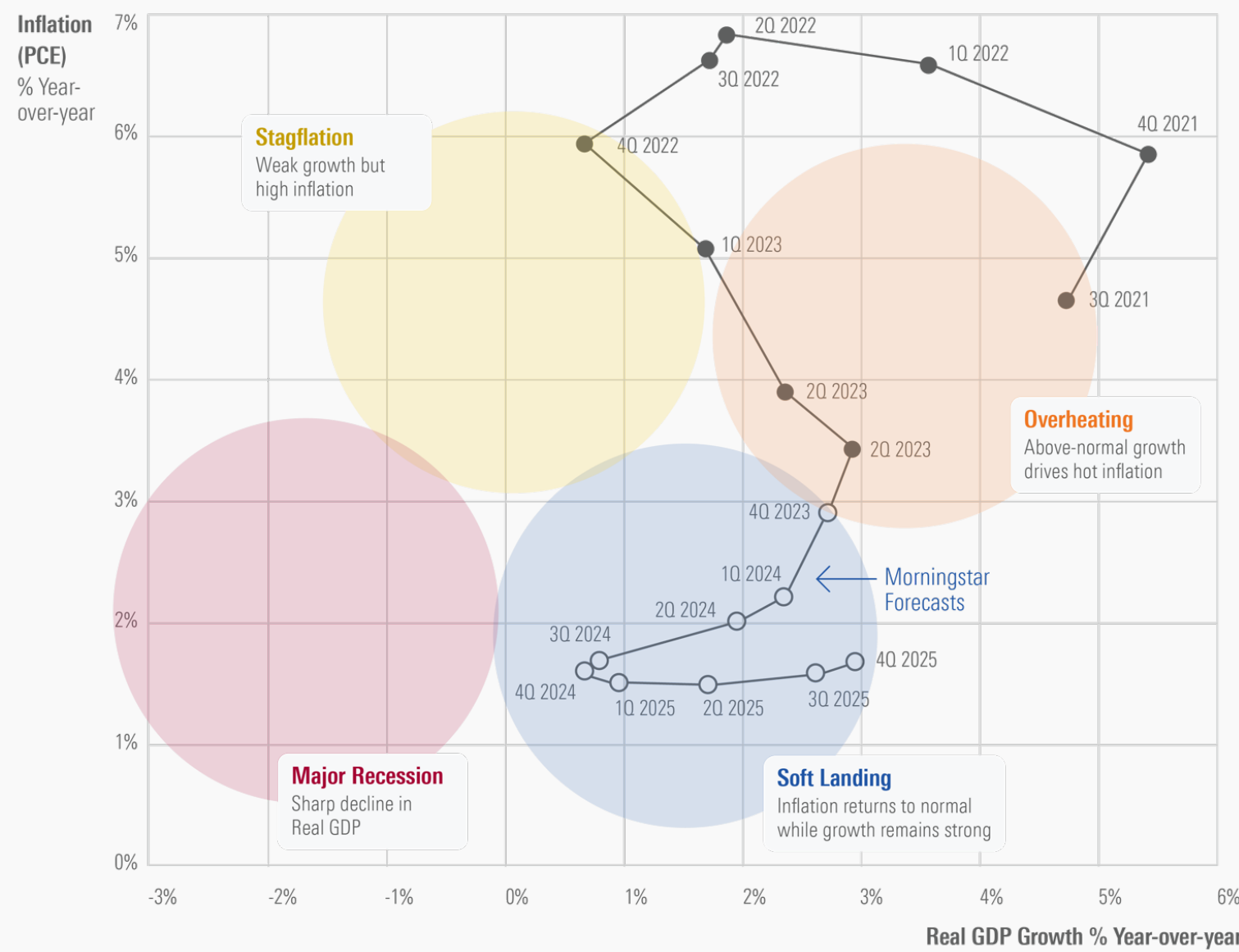


China's Growth Trajectory is a Challenge

Many eyes are directed at China, where inflation is less of an issue. Economic weakness could still present a challenge in 2024 though, as well as geopolitical threats over Taiwan and commercial property risks.



Economic Pathways Carry a Wide Range of Potential Outcomes

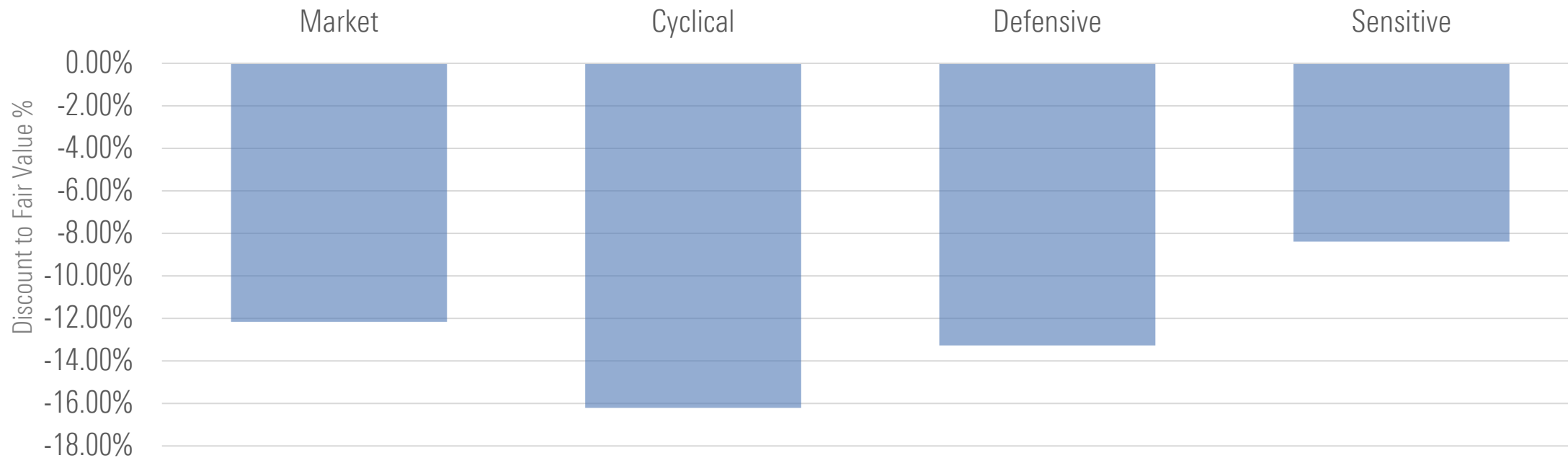


In terms of portfolio positioning, our base case macro-outlook of lower growth, inflation and rates, but without a recession, is supportive of classic multi asset portfolios invested in bonds and equities.

Source: Morningstar calculation. Morningstar Markets Observer. Data as of October 31, 2023. For illustrative purposes only.

Globally, Valuations for Defensive Sectors Look Reasonable To Us

While we see valuation dispersion between cyclical and defensive stocks, in aggregate both markets are offering discounts, while sensitive stocks are closest to fairly value.



Source: Morningstar Equity Manager Research. Sector roll up includes: Cyclical (materials, consumer cyclicals, financial services, real estate), Defensives (Healthcare, utilities, consumer staples) and Sensitives (Communication services, energy, industrials, technology). Numbers reflect the average discount across the U.S., Europe, and Asia. Data as of November 15, 2023. For illustrative purposes only.

Current Headline Risks are Plentiful Entering 2024

This collection of concerns is daunting, but it's worth remembering that not every risk requires a whole new portfolio to survive its realization.

A well calibrated portfolio should weather external shocks fairly well.

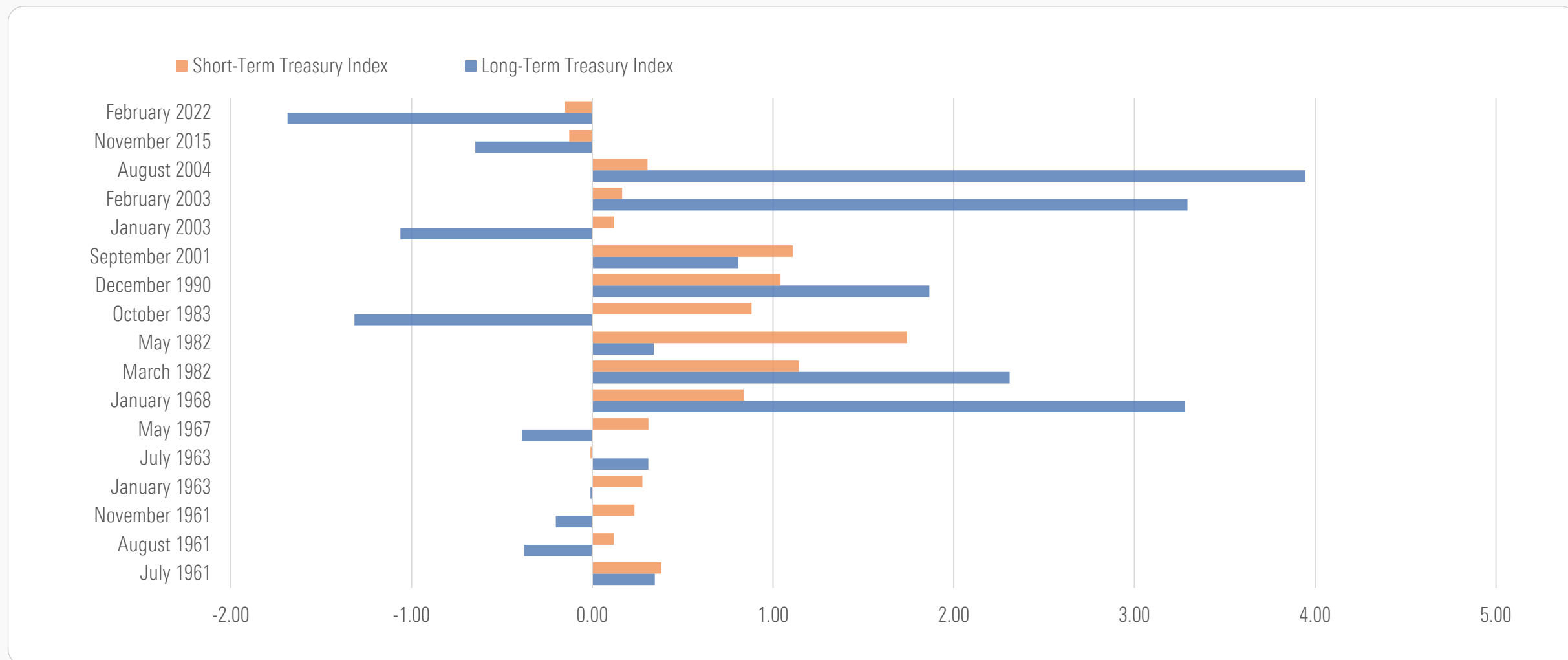


Our Approach to Handling New Risks as We Enter 2024

Risk	Impact	Nature of Risk	Potential Opportunity	Offsetting Positions
Commercial Real Estate Crash	Regional bank write-downs	Cash Flow Impairment: Banks	Oversold regional banks	
Expanding Middle Eastern Conflict	Energy market disruption	Oil price shocks, which, in turn, could increase recession risk for vulnerable economies		Cheaply priced energy assets like U.S. MLPs and European energy
Prolonged Ukraine/Russia Conflict	Energy/food market disruption, European economic pressure	Food or oil price shocks, which, in turn, could increase recession risk for vulnerable economies		Cheaply priced energy assets like U.S. MLPs and European energy
China's Secular Growth Crash	Stagnating or collapsing Chinese economy	Cash Flow Impairment: Chinese Equities, Heightened recession risk for trade partners	Oversold Chinese Technology Equities	
China/U.S. Conflict	Rapid reshoring, global economic uncertainty	Global equity volatility		Long-term, high-quality government bonds
Resurging Inflation	Higher interest rates, falling corporate earnings, heightened recession risk	Equity and fixed income volatility		Short-term, high-quality government bonds & hedged alternatives
Developed Market Sovereign Deficits	Increased term premium (investors demanding higher long-term yields)	Cash flow impairment: Longer-term yields reset higher, price loss		Short-term, high-quality government bonds & hedged alternatives
U.S. Contested Election	U.S. political uncertainty	Short-term U.S. equity volatility		Long-term, high-quality government bonds

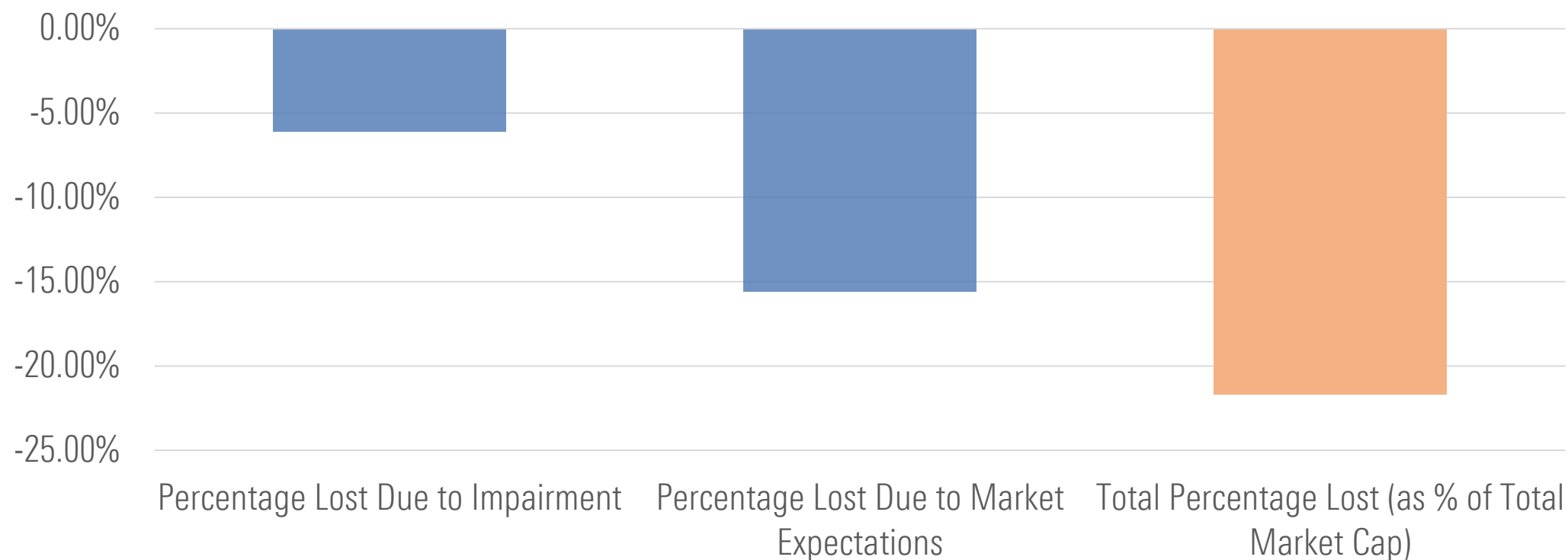
Source: Morningstar. Risks assessed as of November 15, 2023. For illustrative purposes only.

U.S. Government Bond Monthly Performance When Geopolitical Risk Spikes



Source: Morningstar Direct, SBBI Long Term Government Bond Index, and SBBI 1 Year Constant Treasury Index. Data from Jan 1961 through October 2023. Geopolitical events identified by the Historical Geopolitical Risk Index. Index downloaded from <https://www.matteoiacoviello.com/gpr.htm> on November 10, 2023. Periods of heightened geopolitical risk identified by first targeting months with an index level at one standard deviation and then selecting those months in which the subsequent month had a higher index level. For illustrative purposes only.

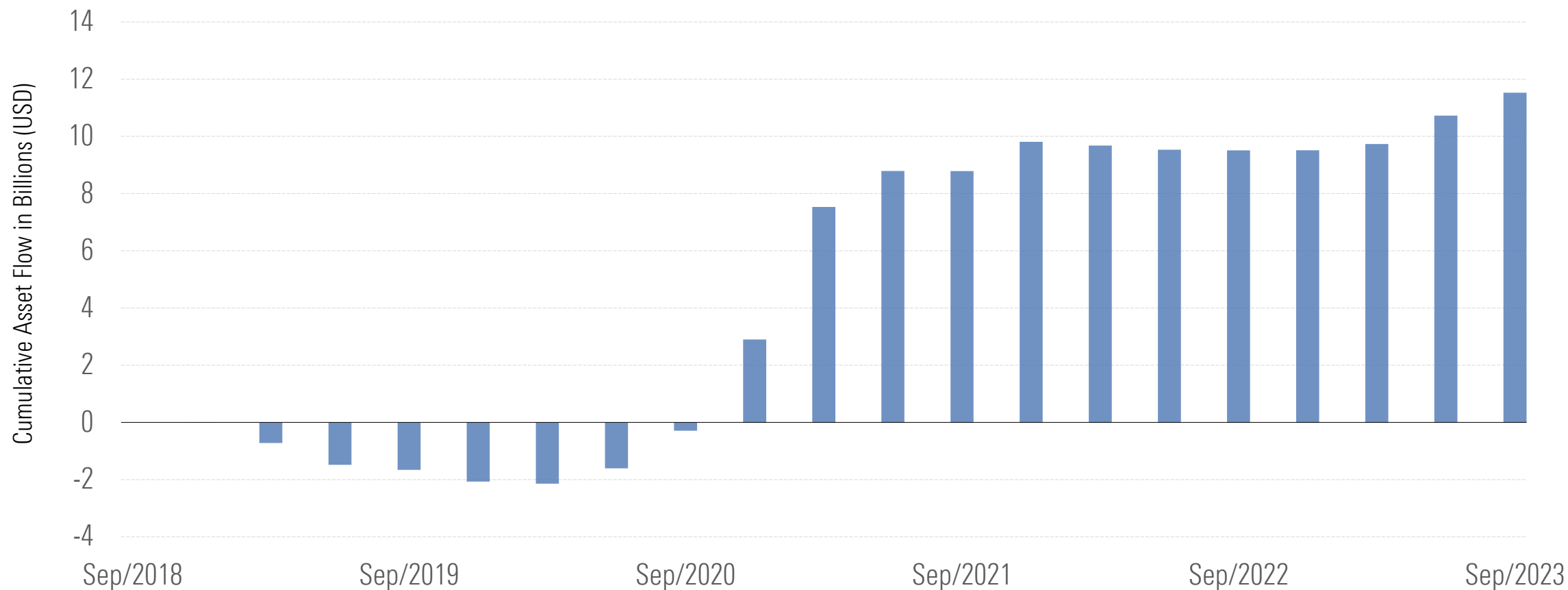
2023 Bank's Market Loss versus Estimated Commercial Real Estate Impairment



Source: Morningstar calculation, assessing implied impairment from commercial real estate (CRE) versus aggregate market capitalization. Banks were chosen based on the KBWB index and MER Coverage. East West Bancorp, First Horizon Corp and Western Alliance Bancorp are not covered by MER and were excluded from the analysis. Data as of November 14, 2023. For illustrative purposes only.

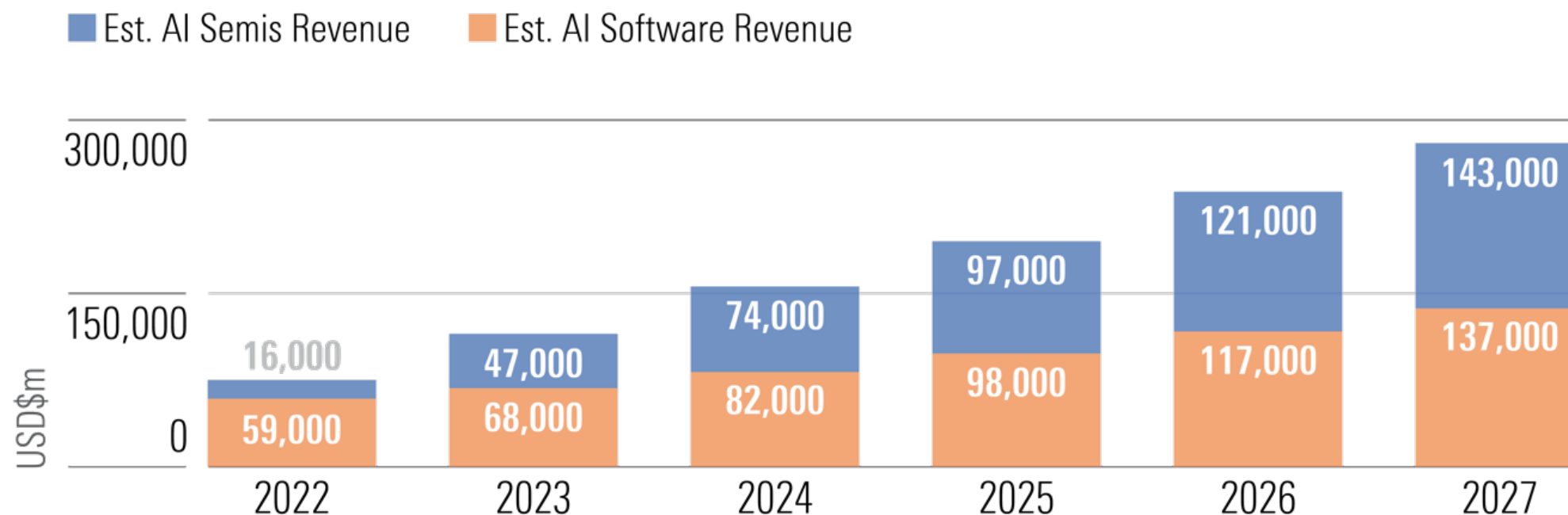
Cumulative Flows into Artificial Intelligence & Big Data Funds & ETFs

Global Flows Over Last Five Years



Source: Morningstar Direct, Morningstar Global Thematic Database. Data as of September 30, 2023. For illustrative purposes only.

Artificial Intelligence has a Long Growth Runway Ahead



Source: Morningstar, Company Documents. Data as of Oct 3, 2023. For illustrative purposes only.

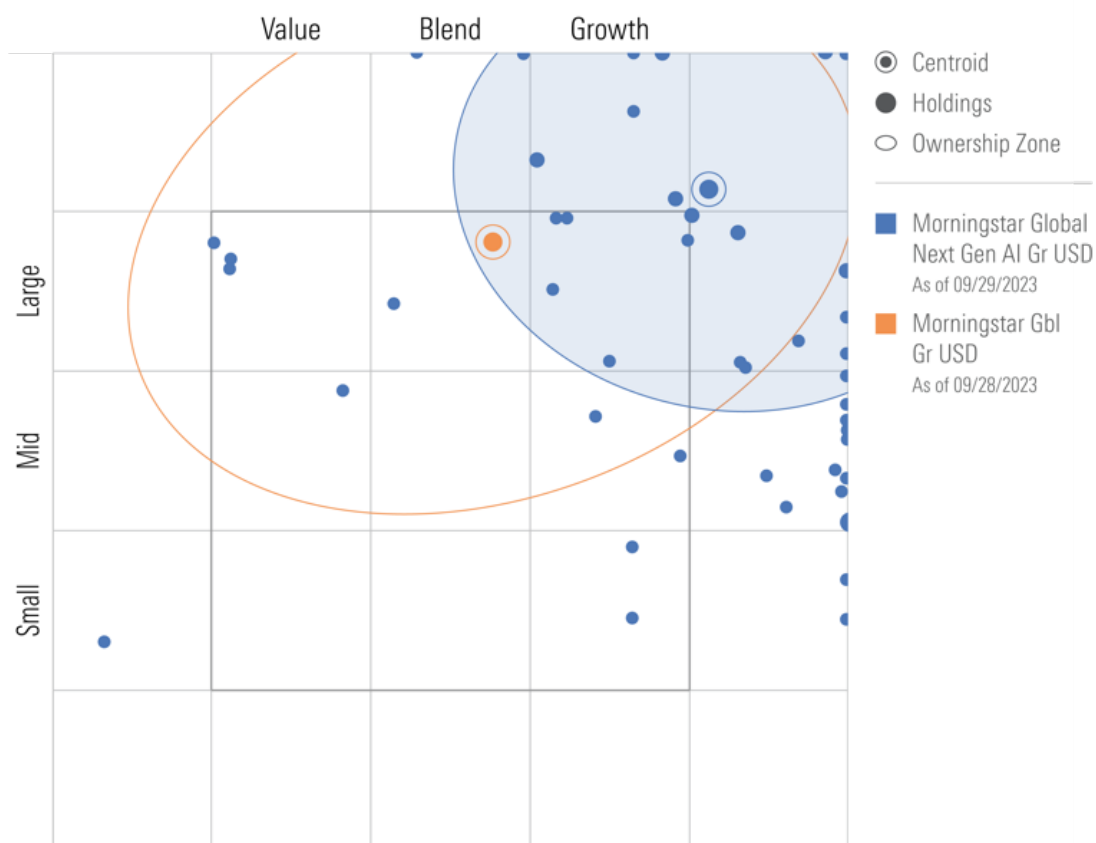
The Top 10 Stocks Held in AI and Big Data ETFs and Mutual Funds Globally

Name	Ticker	Sector	Morningstar Star Rating	Economic Moat
NVIDIA Corp	NVDA	Technology	★★★	Wide
Microsoft Corp	MSFT	Technology	★★★	Wide
Alphabet Inc Class A	GOOGL	Communication Services	★★★★	Wide
Amazon.com Inc	AMZN	Consumer Cyclical	★★★	Wide
Advanced Micro Devices Inc	AMD	Technology	★★★	Narrow
Tesla Inc	TSLA	Consumer Cyclical	★★★	Narrow
ServiceNow Inc	NOW	Technology	★★★	Wide
Meta Platforms Inc Class A	META	Communication Services	★★★	Wide
Taiwan Semiconductor Manufacturing Co Ltd ADR	TSM	Technology	★★★★★	Wide
Snowflake Inc Ordinary Shares - Class A	SNOW	Technology	★★★★	None

Source: Morningstar Global Thematic Database, Star Rating and Economic Moat Data as of October 31, 2023. For illustrative purposes only. Please note that references to specific securities or other investment options within this piece should not be considered an offer (as defined by the Securities and Exchange Act) to purchase or sell that specific investment.

For AI, Balance Risk and Opportunity

At a Portfolio Level, Beware of Significant Style Biases

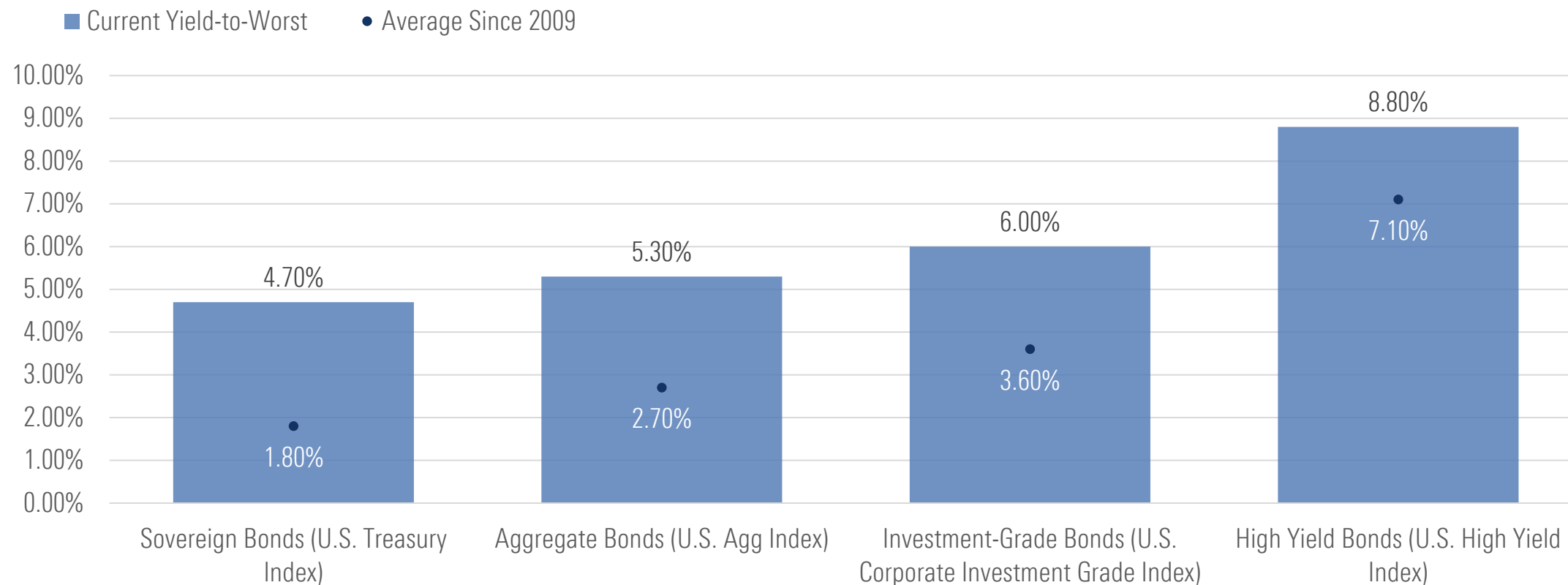


Investors Have a Bad Track Record of Timing the Entry and Exit of Thematic Funds



Source: Morningstar Direct. Morningstar Global Next Generation Artificial Intelligence Index. Data as of October 31, 2023. For Source: Morningstar Direct, Morningstar Global Thematic Research Database. 5-Year Total Returns, Investor Returns and Return Gap for Thematic and Non-Thematic Funds. Investor return is the asset-weighted return, adjusted for inflows/outflows. It shows the net impact of buying high and selling low. Data as of June 30, 2023. Domiciles included in this chart: Ireland, Luxembourg, United Kingdom, and the United States. purposes only.

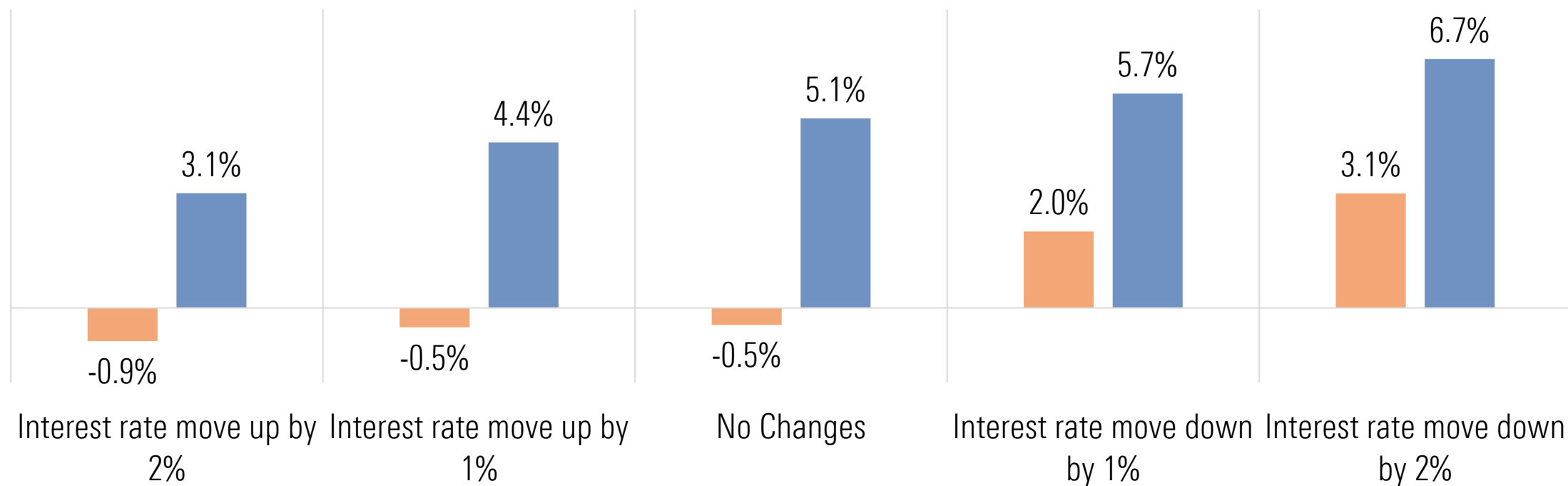
Bond Yields are Very Attractive Relative to Recent History



One-Year Simulated Total Return across Interest Rate Scenarios

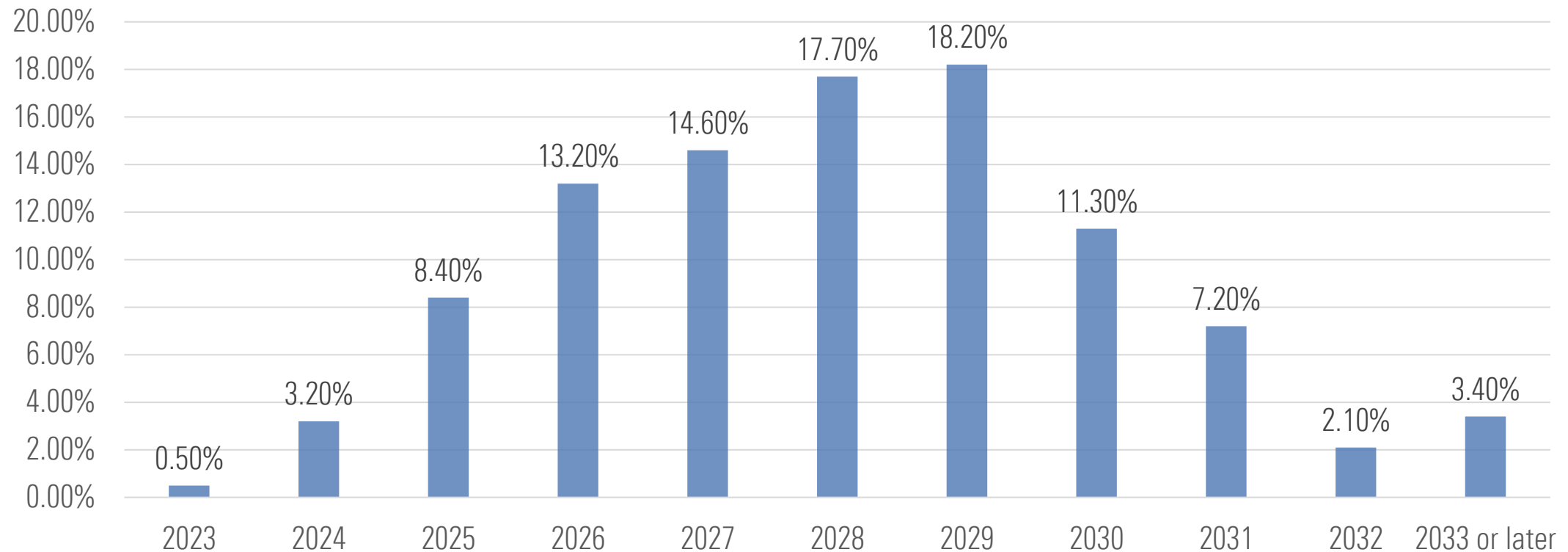
Short-term U.S. Treasury Bond Index

As of 12/2021 As of 10/2023



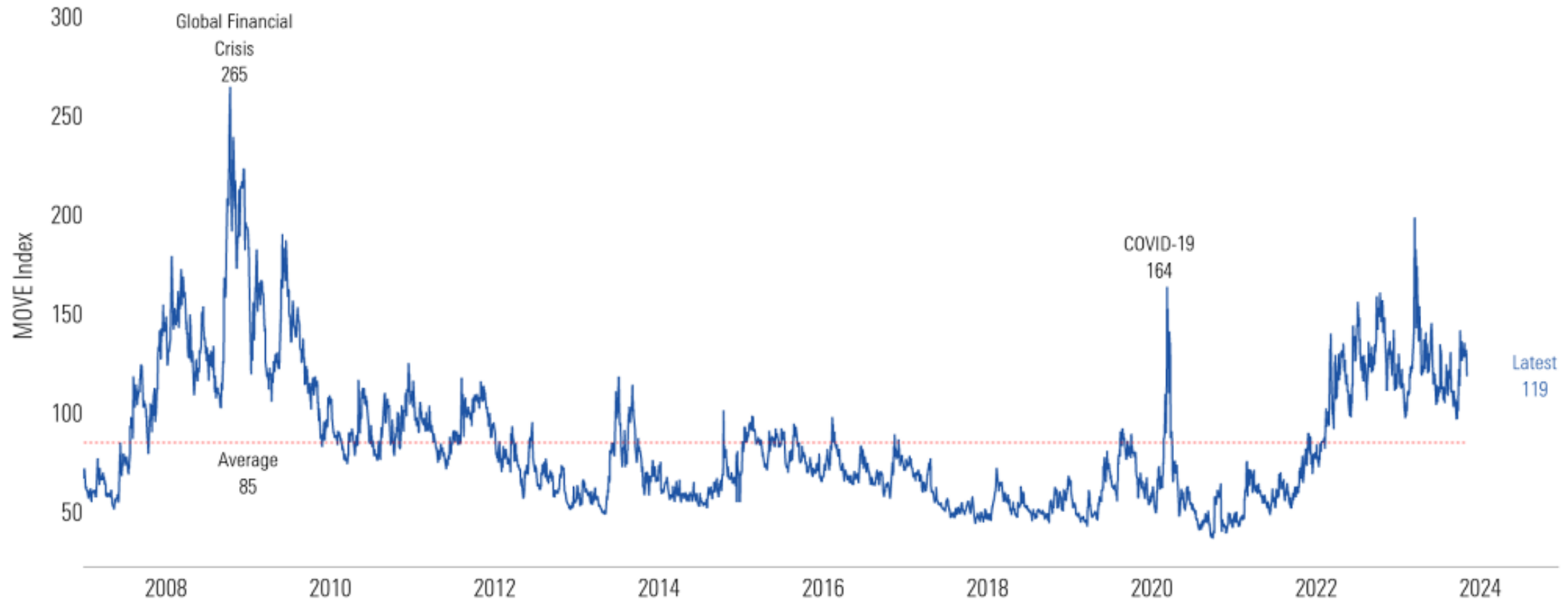
High-Yield Bond Maturity Schedule as a Percentage of Outstanding

No Signs of a Debt Cliff.



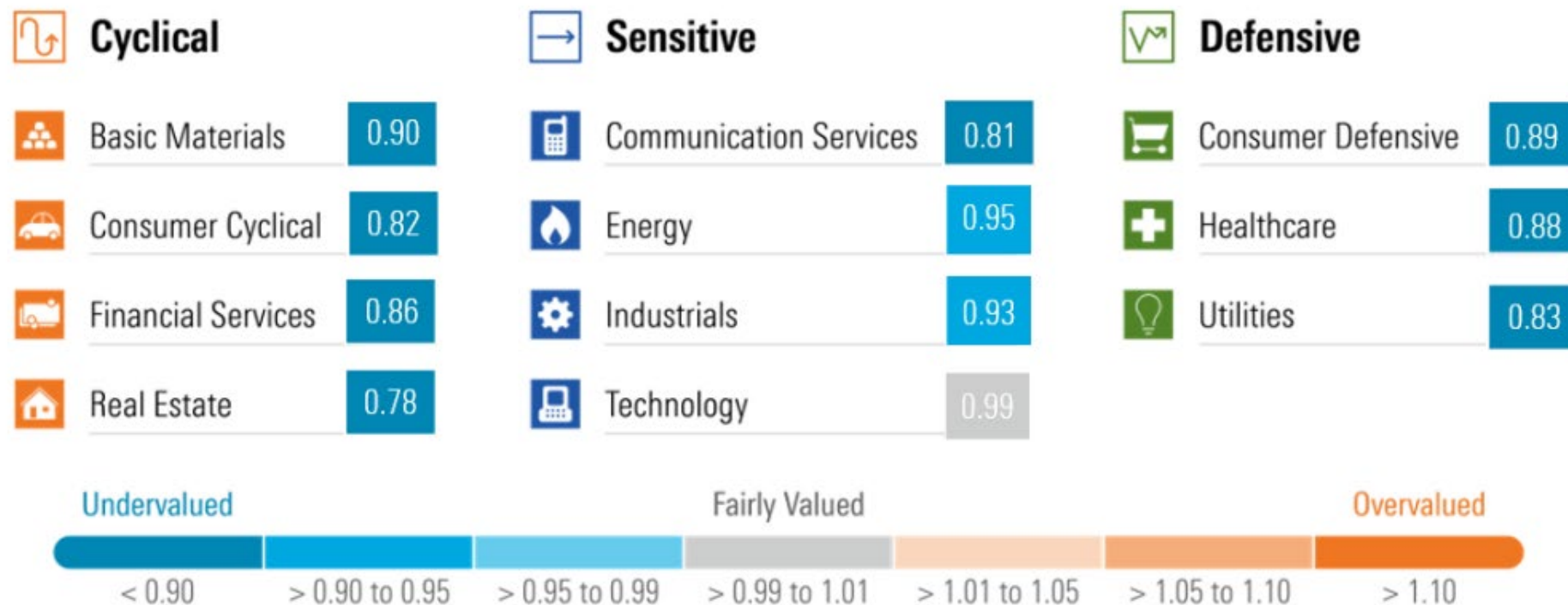
Source: Morningstar calculation. Morningstar U.S. High Yield Bond Index. Data as of October 31, 2023. For illustrative purposes only.

Bond Market Volatility Remains Elevated, Making Some Investors Feel Uneasy



Source: Morningstar, Clearnomics. ICE BofAML MOVE Index since 2007. Data as of November 3, 2023. For illustrative purposes only.

Price to Fair-Value for Morningstar Market Global Sector Index Averages



Source: Morningstar Equity Research calculations. Average of U.S., Europe, and Asia price to fair-value as of November 15, 2023., as of November 15, 2023

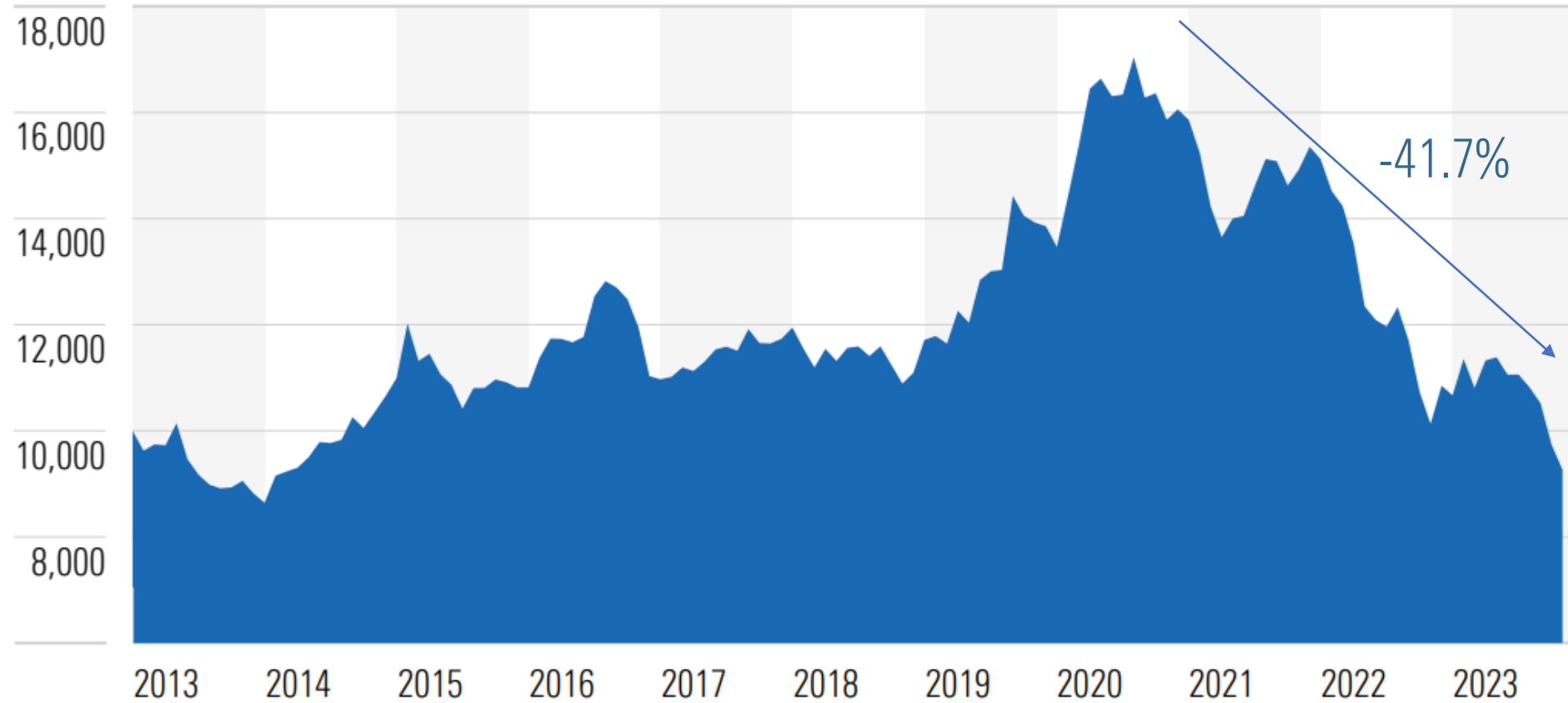
Price to Fair-Value for Morningstar U.S. Style Indexes

		Style			
		All	Value	Core	Growth
Size	All	0.95	0.83	0.96	1.01
	Large	0.98	0.86	1.00	1.02
	Mid	0.87	0.78	0.89	0.96
	Small	0.75	0.61	0.78	1.04

Looking at the style box across Europe, we can see the biggest valuation opportunity exists in the bottom left corner — small value stocks.

We note that small-cap stocks are hard to place in a single bucket, in large part because so many disparate industry groups.

The 10-Year + U.S. Treasury Index has Fallen Heavily. Bonds are Now Appealing



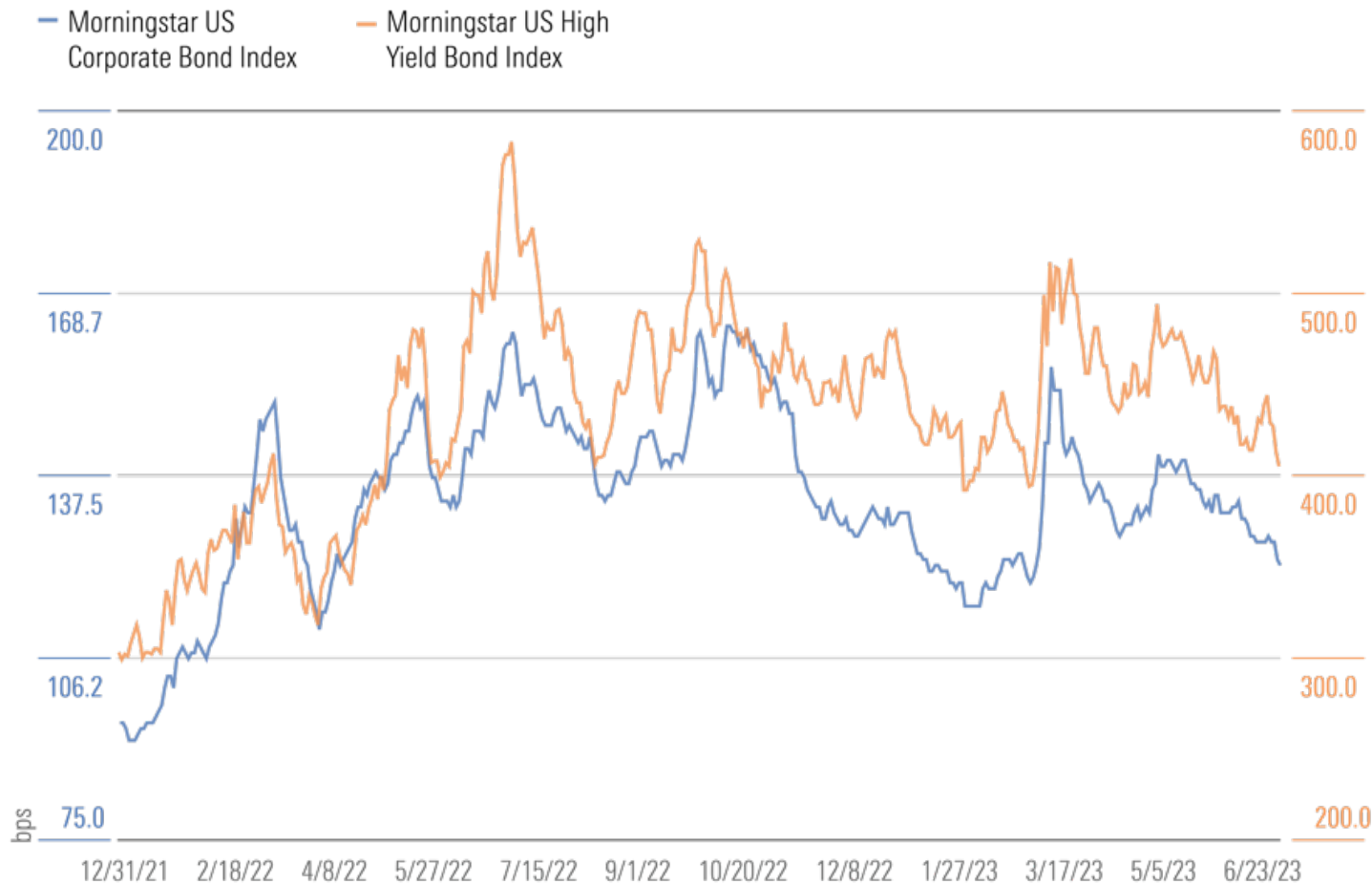
Source: Morningstar Direct, Morningstar US 10+ Yr Treasury Bond TR USD, data as of November 15, 2023. For illustrative purposes only.

The Yield Curve (10-Year Minus 2-Year) is Still Negative in the U.S.



Source: Federal Reserve Bank of St. Louis, 10-Year Treasury Constant Maturity Minus 2-Year Treasury Constant Maturity, as of October 31, 2023.

Corporate Spreads Remain Tight Despite Economic Risk



In this environment, we don't need to stretch for yield.

For this reason, our analysis leads us to favor government bonds—particularly U.S. Treasuries—on a risk-adjusted basis. Withstanding another serious inflation run, the skew of upside to downside looks favorable to us. Of note, we do see appeal in short-term corporate bonds, where we can achieve positive real yields.

Summary of Portfolio Opportunities

Taken together, the below culminates as a list of our best ideas. By balancing these convictions into a broader diversified portfolio, we foresee a positive outlook for 2024 and beyond



International equity opportunities



Healthcare, banks, and utilities sectors



Small-cap and value stocks



Second-derivative AI stocks



Positive real yields in fixed income



Treasuries over corporates



Diversified currency outside U.S. dollar

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