Arbor Trust
WEALTH ADVISORS

Economic and Market Outlook Dashboard
1st Quarter 2024

The Economy	The Markets	Interest Rate Outlook	Asset Allocation Outlook
The U.S. economy remains resilient, with the first three quarters of 2023 showing above trend real GDP growth. However, economic momentum in 2024 is expected to moderate and should prove increasingly sensitive to uncertainties such as the U.S. election, elevated interest rates, and continuing geopolitical tension. Unemployment remains at 3.7%, despite declines in job openings. Private sector wages have moderated from a peak of 7.0% in March 2022 to 4.1% currently. Wage pressures are decreasing with the quits rate falling and businesses reducing hiring as they face a slowdown in consumer demand. Business spending held up better than expected last year, supported by spending on intellectual property with an emphasis on artificial intelligence capabilities. However, slowing corporate profits could constrain growth in capital expenditures. Consumers have remained resilient, supported by rising wages and a tight labor market. As lending standards remain tight, consumer spending should grow at a slower pace going forward.	Despite Fed tightening, equity markets saw impressive gains last year with earnings growth exceeding expectations. Revenues were the biggest contributor to earnings, with consumer strength and pricing power boosting profits. Bond values were held down by higher interest rates. U.S. Large Cap stocks led the rebound with a 26.3% return in 2023. The top ten stocks in the S&P 500 accounted for roughly 90% of the return. Small Cap stocks were up 16.9% in 2023, a reflection of resilient domestic consumption. In International markets, Developed Equities, represented by the MSCI EAFE Index, were up 18.9% for the year while their Emerging Markets counterparts, as represented by the MSCI EM Index, were up 10.3%. Corporate governance reforms in Japan, better inflation progress in Europe and resilient earnings boosted Developed Markets performance, while the downturn in China offset strong gains in India, Taiwan, and Korea in Emerging Markets.	After hiking rates by a cumulative 5.25% over the last two years, the Federal Reserve has likely finished raising interest rates. At its December 2023 meeting, the Fed's Open Market Committee kept rates unchanged. The Fed made a dovish pivot in December, and the market has now priced in the first rate cut in March and four to six cuts in 2024. Inflation has made tremendous progress in 2023, falling from a high of 9.1% in June 2022 to 3.4% as of December 2023. While not quite back to the Fed's target, 2% inflation by the end of 2024 is possible. Core goods prices trended lower as supply chain distortions and government stimulus continued to fade. Core services prices should fall further in 2024 as wage pressures ease and consumer demand cools. If the economy remains resilient, the Fed will probably only deliver minor policy cuts. However, if we enter a recession, the Fed may have to cut rates more aggressively. Either way, the likely trajectory for rates is downward, but may settle at a higher level than in previous cycles.	While a soft landing still seems plausible for the U.S. economy, there are potential risks that could trigger a recession. These include a contentious U.S. election, the lagged consequence of higher interest rates, and additional geopolitical events. We are still constructive on equities despite the strong rally in 2023. Markets could still perform well in 2024, but we expect gains to broaden beyond the top ten stocks in the S&P 500. Our international allocations stand to benefit from attractive valuations, higher dividend yields, and a weakening dollar. While the stock market may still be vulnerable to various shocks, our focus continues to remain on high-quality companies with strong balance sheets and sustainable earnings. On the bond side, we continue to extend duration with higher quality core offerings that provide attractive yields and offer the potential for price appreciation as rates go lower.

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Each year the Internal Revenue Service (IRS) considers cost-of-living adjustments to the amounts that individuals are allowed to contribute to various tax qualified accounts. While not as dramatic of an increase as we saw in 2023, the 2024 contribution limits have gone up. Please see the new limits below and consider updating your elective deferrals/ongoing contribution amounts.

2024 Annual Contribution Limits on Tax Qualified Plans

Elective deferrals to 401(k), 403(b) and 457 retirement plans:
Maximum employee contribution: $23,000
Additional catch-up contribution available for individuals over age 50: $7,500

SIMPLE IRA Plans:
Maximum employee contribution: $16,000
Additional catch-up contribution available for individuals over age 50: $3,500

Traditional IRAs and Roth IRAs:
Maximum contribution: $7,000
Additional catch-up contribution available for individuals over age 50: $1,000

Contributions to traditional IRAs can be tax-deductible and are subject to IRS rules and regulations including income limits. Modified Adjusted Gross Income phase out ranges are listed below.

- Single taxpayers and heads of household covered by a workplace retirement plan: $77,000 - $87,000
- Married couples filing jointly, if the spouse making the IRA contribution is covered by a workplace retirement plan: $123,000 - $143,000
- IRA contributors who are not covered by a workplace retirement plan and are married to someone who is covered: $230,000 - $240,000
- Married individuals filing a separate return who are covered by a workplace retirement plan: $0 - $10,000.

Roth IRA contributions are also limited by Modified Adjusted Gross Income, but the income limits are different than the limits for traditional IRAs.

- Single taxpayers and heads of household: $146,000 - $161,000
- Married couples filing jointly: $230,000 - $240,000
- Married individuals filing a separate return: $0 - $10,000

Health Savings Accounts:
Maximum contribution: $8,350 for families and $4,150 for individuals
Additional catch-up contribution available for individuals over age 55: $1,000

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