BlackRock

# New regime, new opportunities

## Income Outlook 2024

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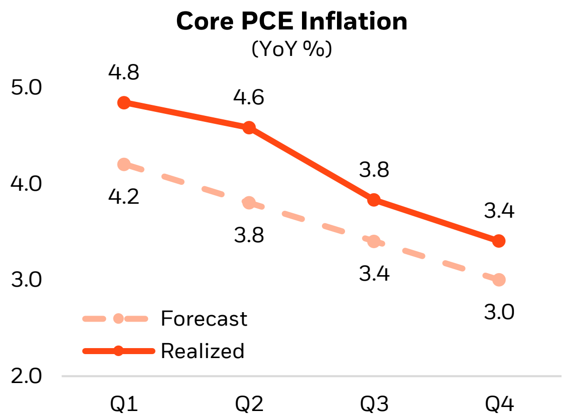
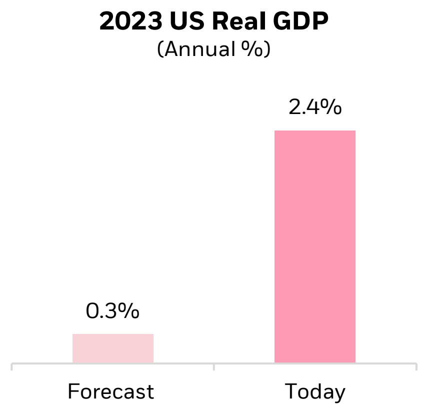
USRRMH0124U/S-3311961-1/21

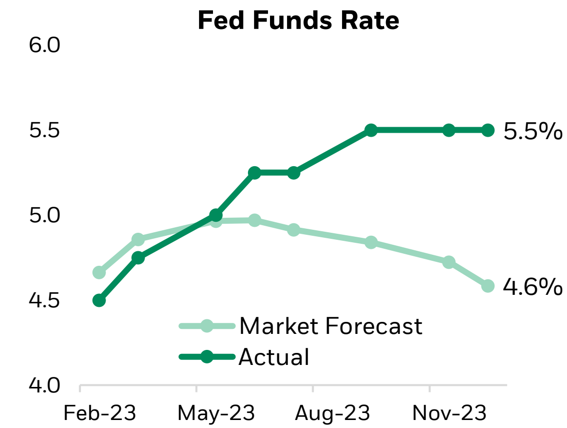
# 2023 in review

## 2023 Expected versus Actual

Forecasts as of December 31, 2022



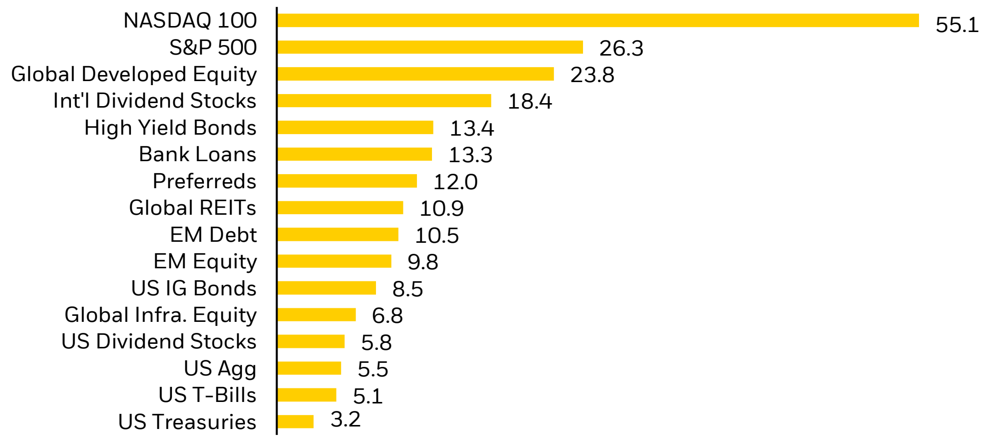




## 2023 Asset Class Returns

**What led?**
- Tech stocks
- International dividend equities
- Credit

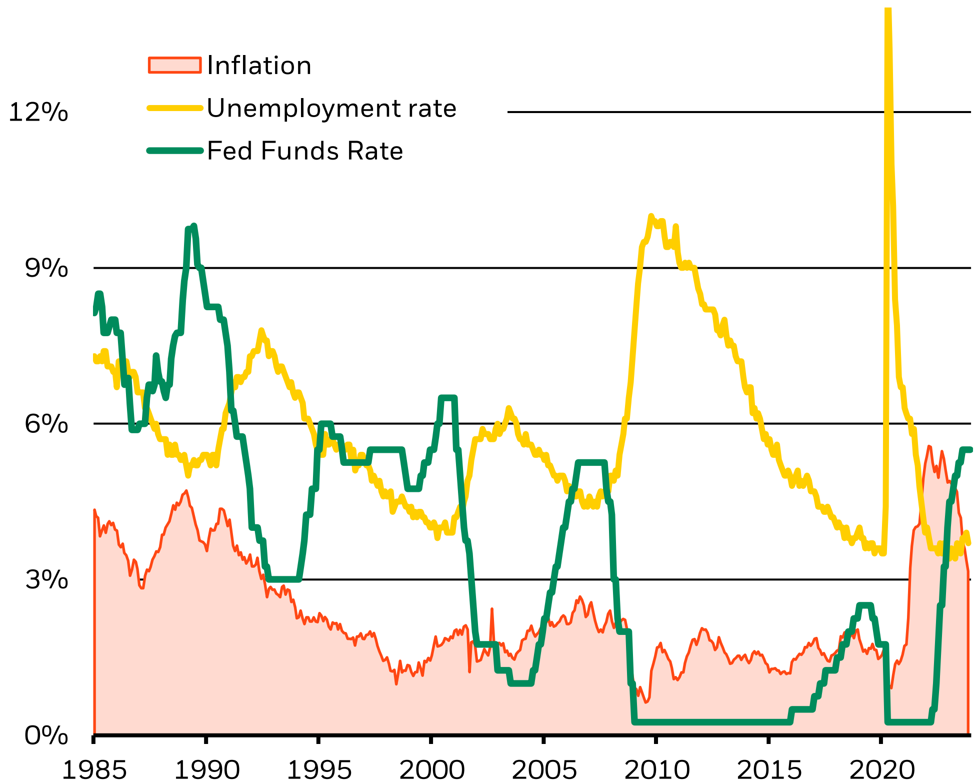
**What lagged?**
- US Treasuries
- Cash
- US high dividend equities

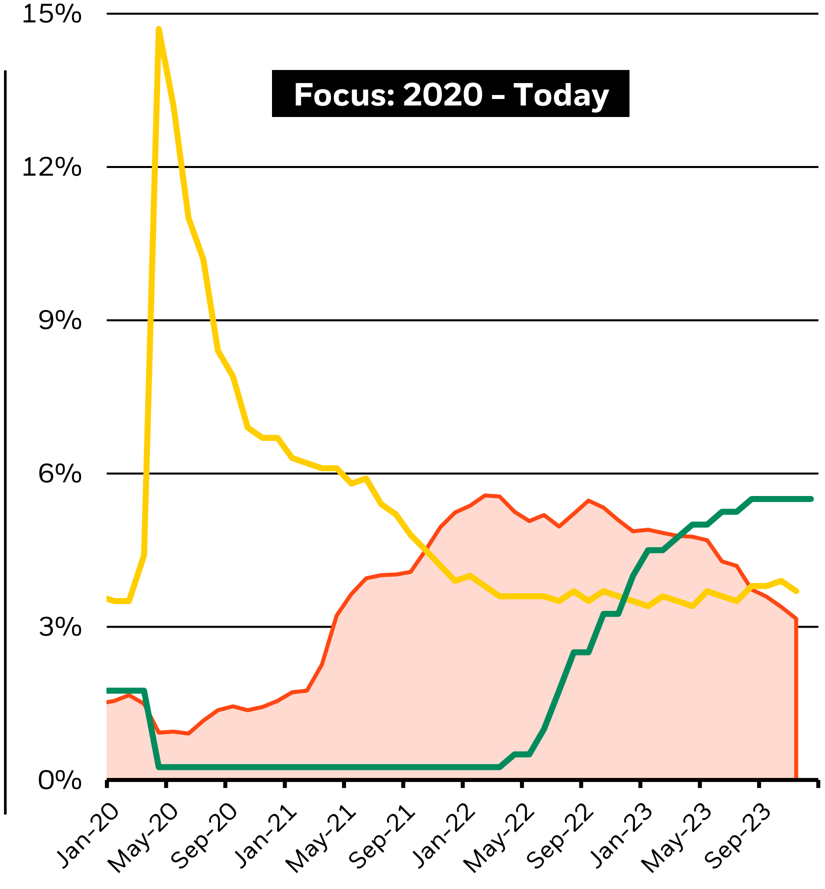



**Source: BlackRock, Bloomberg and Morningstar as of 12/31/2023. Past performance is not an indication of future results. Returns are not annualized. For illustration purposes only. Index performance is for illustrative purpose only. Investors cannot directly invest into an index.** Projected Federal Funds rate projections reflect market pricing of the 3-month Secured Overnight Financing Rate (SOFR). US Dividend Stocks: MSCI USA High Dividend Index. Int'l Dividend Stocks: MSCI World ex USA High Dividend Yield Index. Global REITs: FTSE EPRA Nareit Developed Index. Global Infra. Equity: S&P Global Infrastructure Index. EM Debt: JPM EMBI Global. US IG Bonds: Bloomberg US Corp Bond. High Yield Bonds: Bloomberg US HY 2% Issuer Cap. Bank Loans: Morningstar LSTA Leveraged Loan Index. Preferreds: S&P Preferred Stock Index. US Treasuries: Bloomberg US Treasury 10+ Year Index. Global Developed Equity: MSCI World Index. EM Equity: MSCI Emerging Market Index. US T-Bills represented by the Bloomberg US Treasury Bills Index.

# Inflation, economic growth, and Fed policy likely to continue to dominate the narrative in 2024

## U.S. inflation, unemployment, and rates since 1985

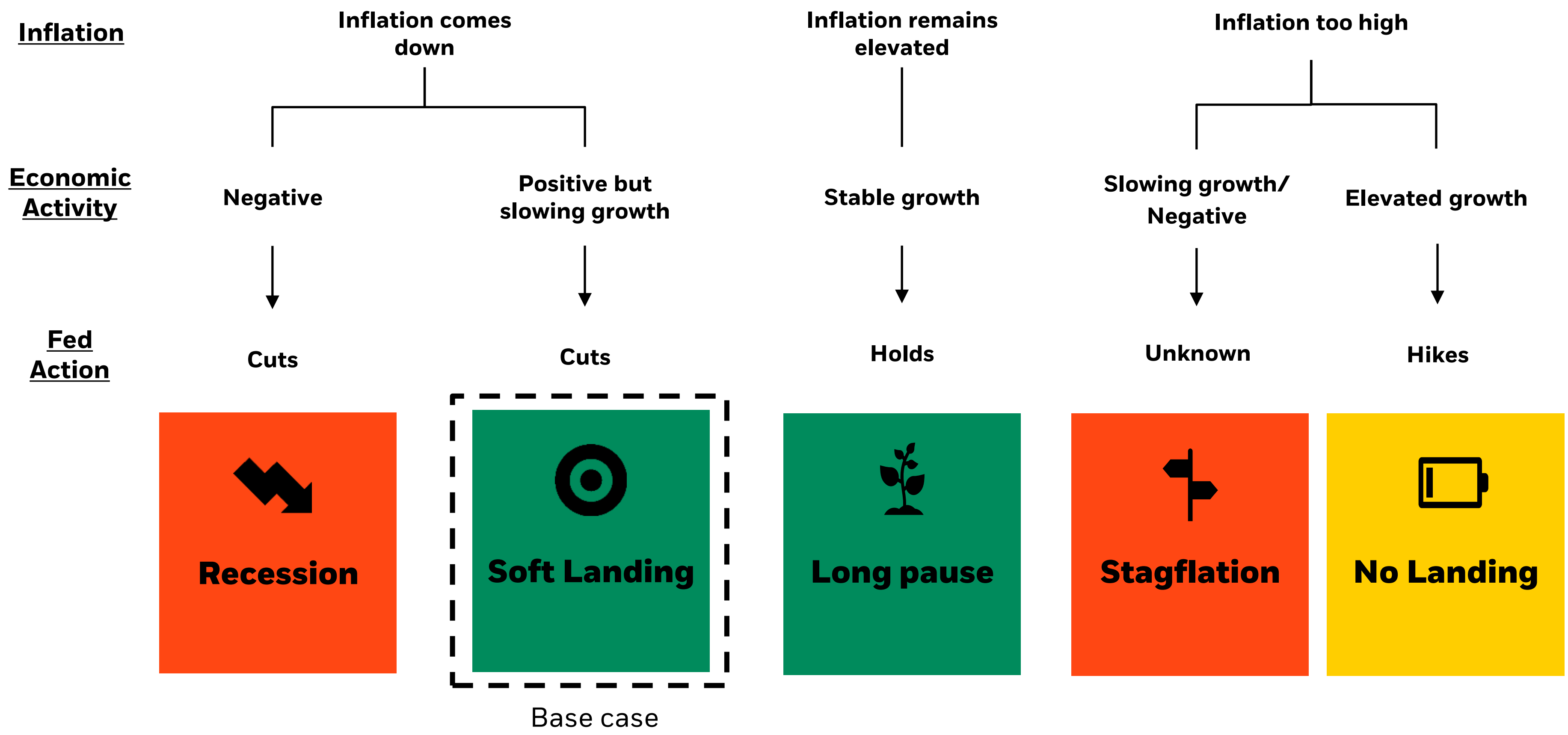



Source: LSEG Datastream, BlackRock, as of December 31, 2023. Inflation measured by Core PCE.

MULTI-ASSET INCOME OUTLOOK

# Potential scenarios for 2024




Our base case remains that growth will continue to moderate but stay positive, with inflation coming down but still above the Fed’s 2% target. 2024 rate cuts are likely but current pricing looks aggressive.

For illustration purposes only. Forward-looking estimates may not come to pass.
The scenarios outlined reflect the views and opinions of the BlackRock Multi-Asset Income Team as of 12/31/ 2023 and are subject to change at any time due to changes in market or economic conditions.

MULTI-ASSET INCOME OUTLOOK

# Potential scenarios for 2024

## A closer look at the most likely scenarios

| | | Macro | | | Projected Year-end Levels | | | | | Projected 2024 Total Return Heatmap | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Scenarios** | **Description** | **Inflation** | **Growth** | **Fed** | **Fed Funds** | **10Y Tsy** | **US IG Spreads (bps)** | **US HY Spreads (bps)** | **S&P 500** | **Cash** | **10Y Tsy** | **US IG** | **US HY** | **S&P 500** | **Covered Calls** |
| Base Case: **Soft Landing** | Growth below 2%, inflation comes down to around 2%. Policymakers can ease both the fed funds rate and forward guidance now that inflation is down. | Down | Down | Cuts | 4.25% | 3.75% | 90 | 285 | 5200 | | | | | | |
| **Long pause** | Growth moderates towards 2%, inflation still in 2-3% range. Fed stays on hold as long-term inflation target is not reached yet. | In line | Stable | Hold | 5.25% | 4.25% | 110 | 350 | 4950 | | | | | | |
| **Recession** | Growth falls into negative territory. Defaults pick up in credit, duration works as a hedge now that inflation concerns are removed. Shallow recession. | Down | Negative | Cuts | 3.25% | 3.25% | 190 | 700 | 4000 | | | | | | |
| **No landing** | Economy 'stays' hot and surprises to the upside, inflation remains above 3%, Fed restarts hiking to keep inflation under control. | Too high | Up | Hikes | 6.00% | 5.50% | 130 | 475 | 4250 | | | | | | |
| | | | | **Current** | **5.25%** | **3.86%** | **98** | **323** | **4770** | | | | | | |

**For illustration purposes only. Forward-looking estimates may not come to pass.**

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# How are we positioning for our soft landing base case?

Selectivity will be key as certain pockets appear rich while others carry underappreciated risks.

1. **Tactically managing duration** to maintain ballast
2. Leaning into **covered calls** for upside potential and income generation
3. Emphasizing **quality dividend growers** within US equities
4. Balancing equity risk with **low duration, high quality fixed income via CLOs**
5. Staying nimble within **lower quality credit**

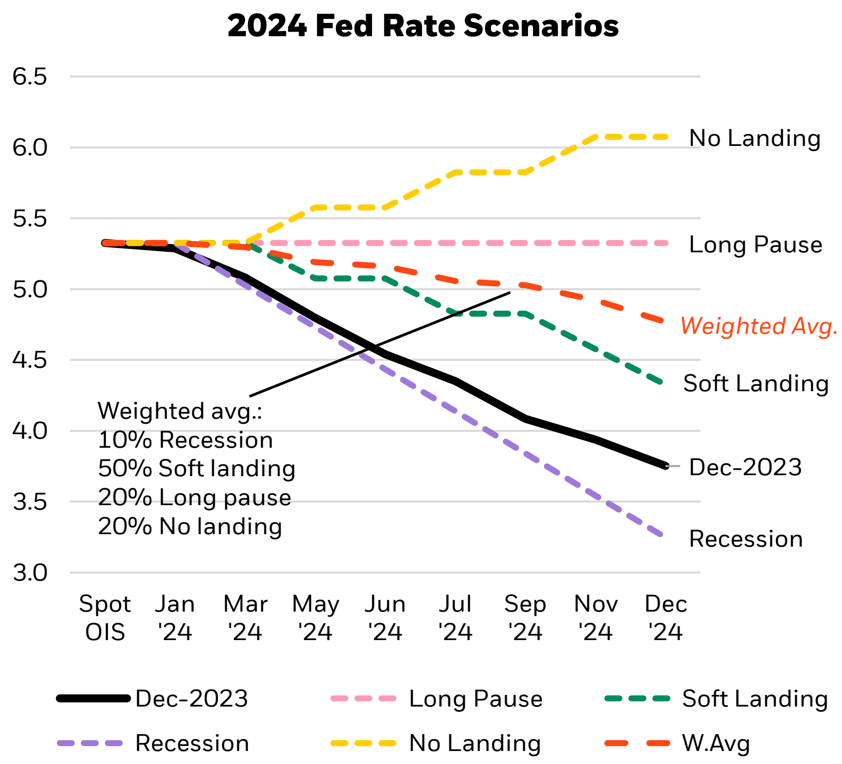
Focus on diversified sources of **total return**

As of 12/31/2023. Subject to change.

# Staying tactical with duration amidst elevated rate volatility

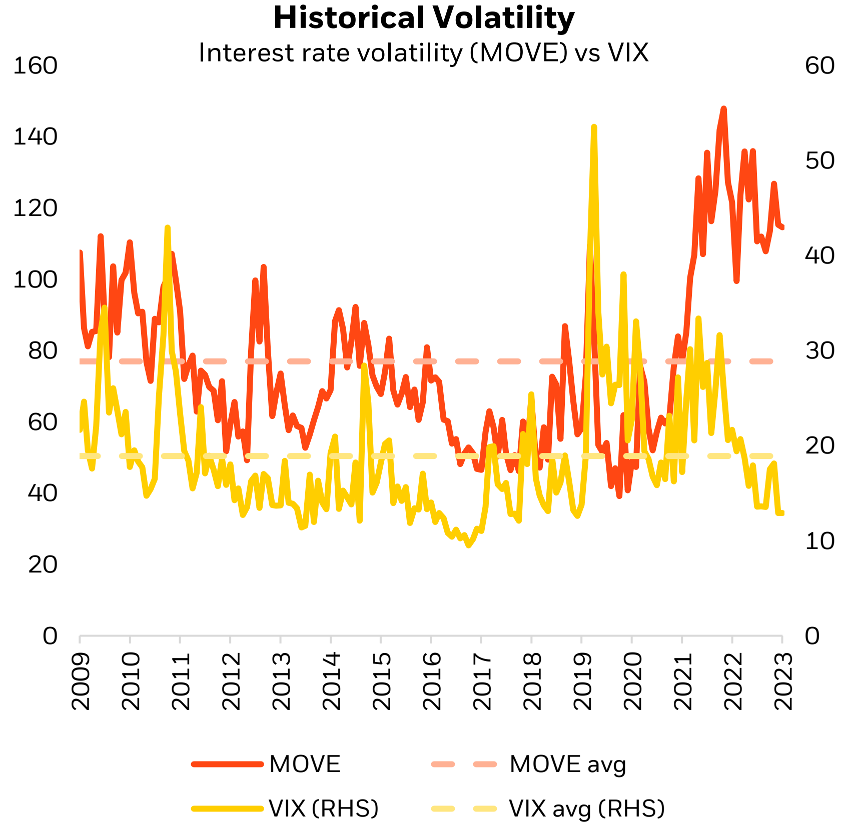
## Current pricing of rate cuts for 2024 may be too aggressive

Strong economic data, including a resilient labor market and stubborn services inflation, may constrain the Fed's potential for rate cuts




## Rate volatility at 20-year highs

By contrast, equity volatility has returned to historically low levels.




**Forward-looking estimates may not come to pass. Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.**

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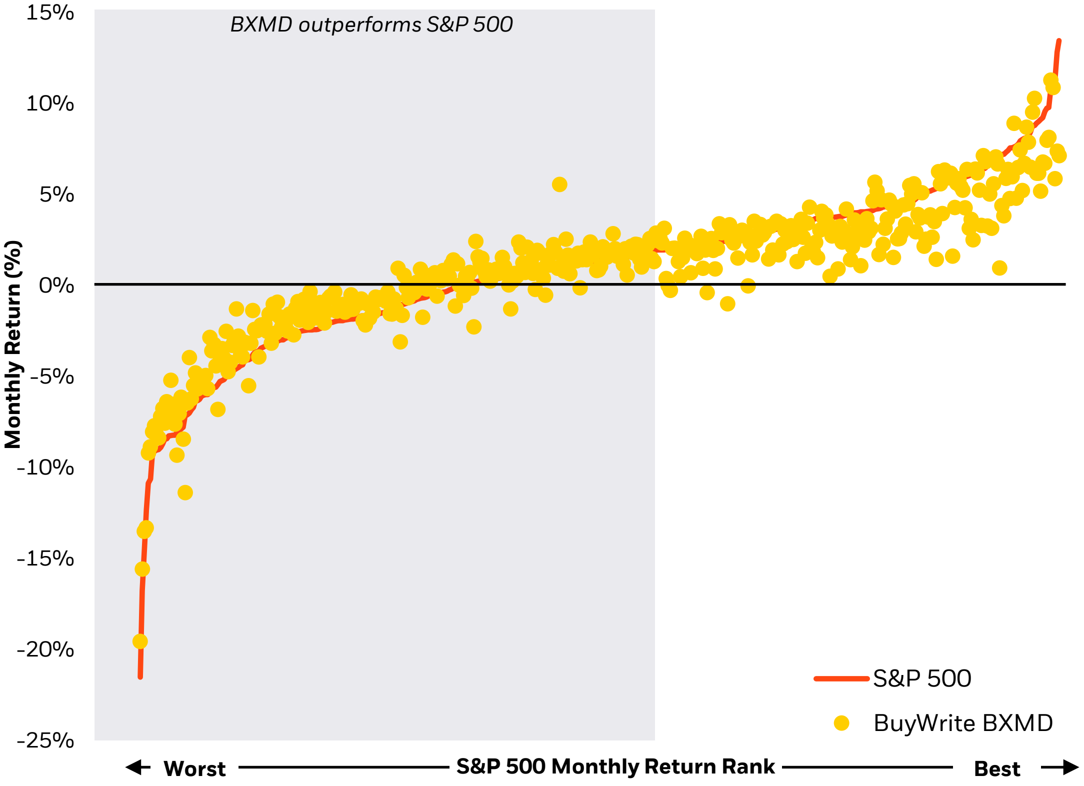
# Covered calls can provide upside potential and income generation in periods of uncertainty

While we see potential for gains across equities in 2024, tight monetary policy, reasonably low economic slack and continued macro uncertainty make widespread upside moves in stocks less likely.

**S&P 500 Monthly Returns with corresponding Covered Call Index (BXMD) Returns: July '86 – December '23**

| S&P 500 Monthly Return | BXMD Average | S&P 500 Average | Difference |
|---|---|---|---|
| **< -8%** | -9.3% | -10.5% | **+1.2%** |
| **-8% to -6%** | -6.2% | -6.8% | **+0.7%** |
| **-6% to -4%** | -3.8% | -4.9% | **+1.2%** |
| **-4% to -2%** | -1.7% | -2.8% | **+1.1%** |
| **-2% to 0%** | -0.6% | -1.2% | **+0.6%** |
| **0% to 2%** | 1.3% | 1.0% | **+0.3%** |
| **2% to 4%** | 2.4% | 3.0% | -0.6% |
| **4% to 6%** | 4.0% | 4.9% | -0.9% |
| **6% to 8%** | 5.2% | 6.9% | -1.7% |
| **> 8%** | 7.6% | 9.7% | -2.1% |

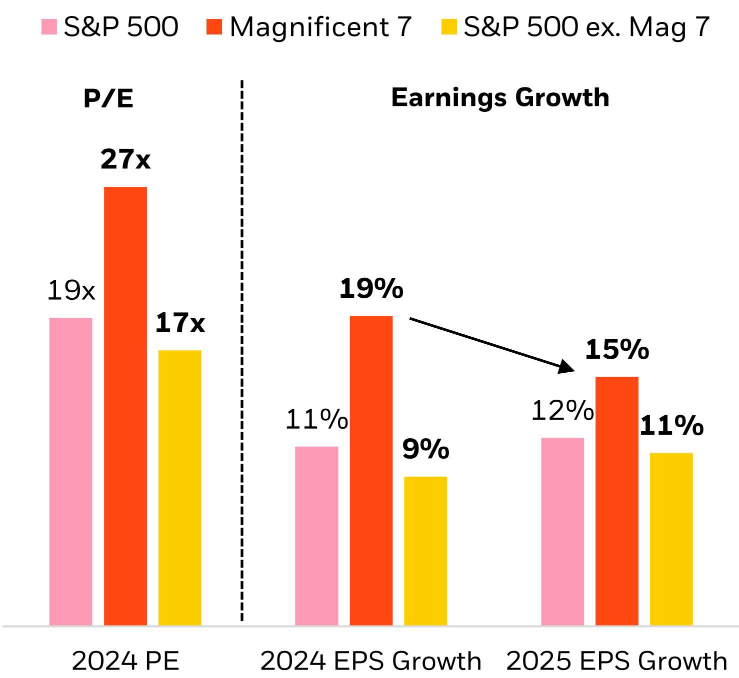



**Past performance is not an indication of future results.**
Source: Bloomberg as of 12/31/2023. Monthly returns data starting July 1986. It is not possible to invest directly in an index. For illustration purposes only. The CBOE S&P 500 30-Delta BuyWrite Index (BXMD) tracks the value of a hypothetical portfolio that overlays a short 30-delta call option on the S&P 500 Index.

# Potential for a broadening of leadership in equity markets

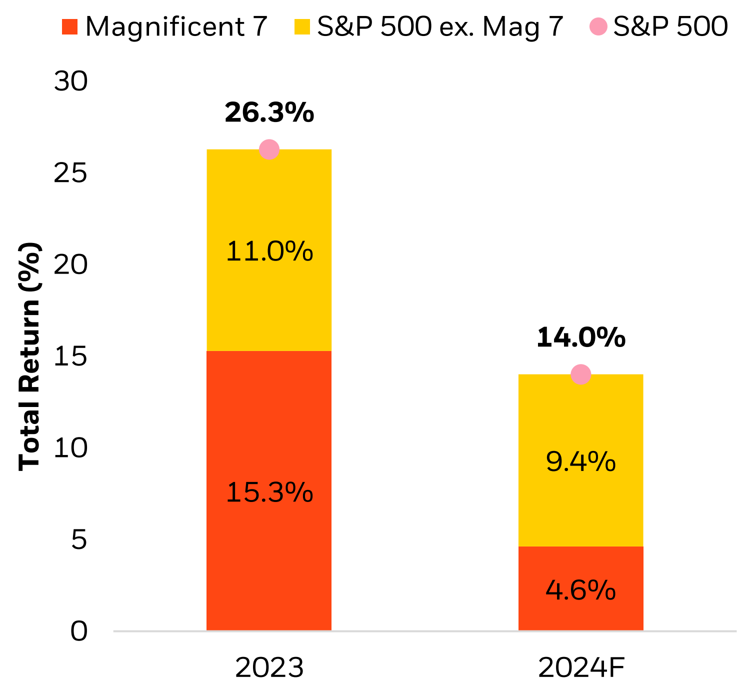
The Magnificent 7 dominated the 2023 equity rally, but earnings growth may favor the rest of the S&P 500 in 2024.

**Forward P/E Multiples and Earnings Growth Forecasts**




- Mag 7 is trading at a P/E multiple of 27x (80th %ile in the last 20 years), while the rest of the S&P 500 is at 17x (58th %ile in the last 20 years).
- Mag 7 earnings growth is expected to decline from 19% in 2024 to 15% in 2025, while the rest of the S&P 500 increases from 9% to 11%.

**Total Return Projections**




Therefore, assuming no change in P/E multiples and that earnings growth forecasts are accurate, the **rest of the S&P 500 is projected to outperform the Mag 7 in 2024**.

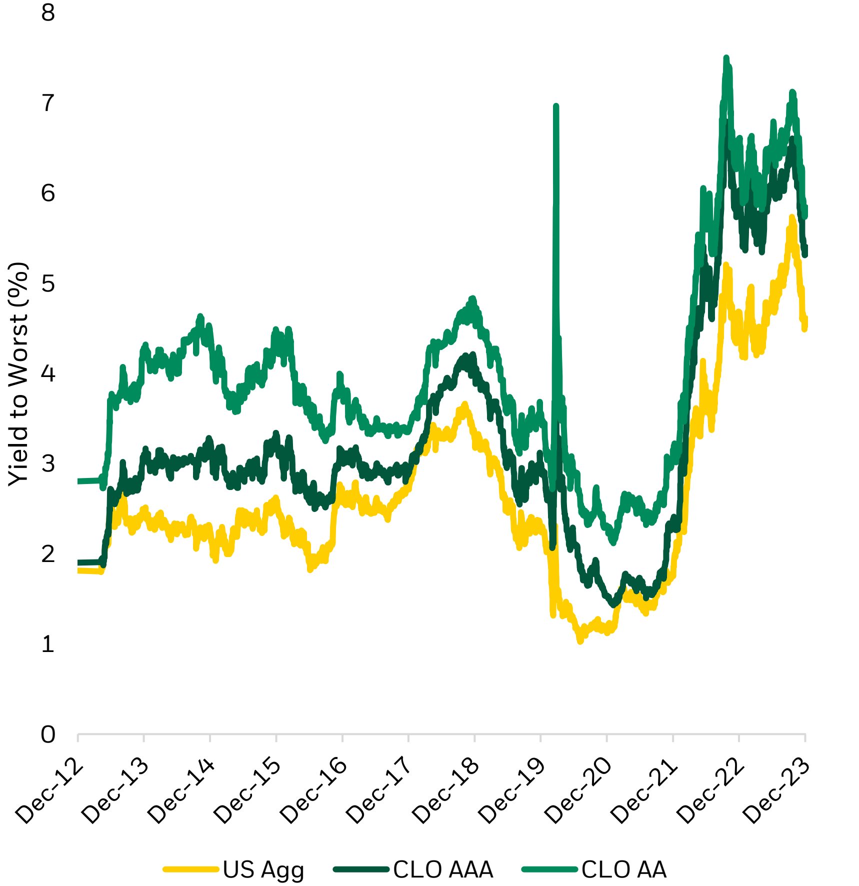
Forward-looking estimates may not come to pass.

Source: Bloomberg as of 12/31/2023. The Magnificent 7 is comprised of the following stocks, weighted by market cap: AAPL, AMZN, GOOGL, MSFT, META, NVDA, and TSLA. The S&P 500 x Mag 7 is comprised of the remaining stocks in the index weighted by market cap. Earnings growth forecasts and Forward P/E multiples represented by Bloomberg estimates, reflecting the consensus earnings and earnings per share across sell-side analyst estimates.

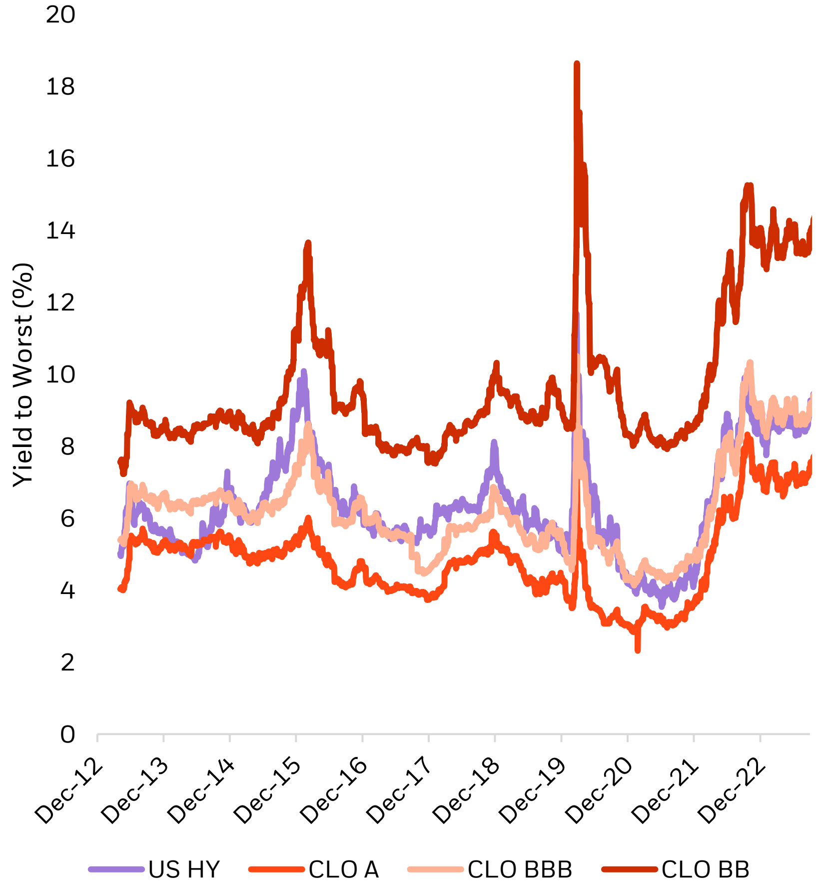
MULTI-ASSET INCOME ASSET CLASS VIEWS

# CLOs offering attractive yields relative to other fixed income markets of similar credit worthiness

## High quality CLOs versus US Agg




## Lower quality CLOs versus HY bonds



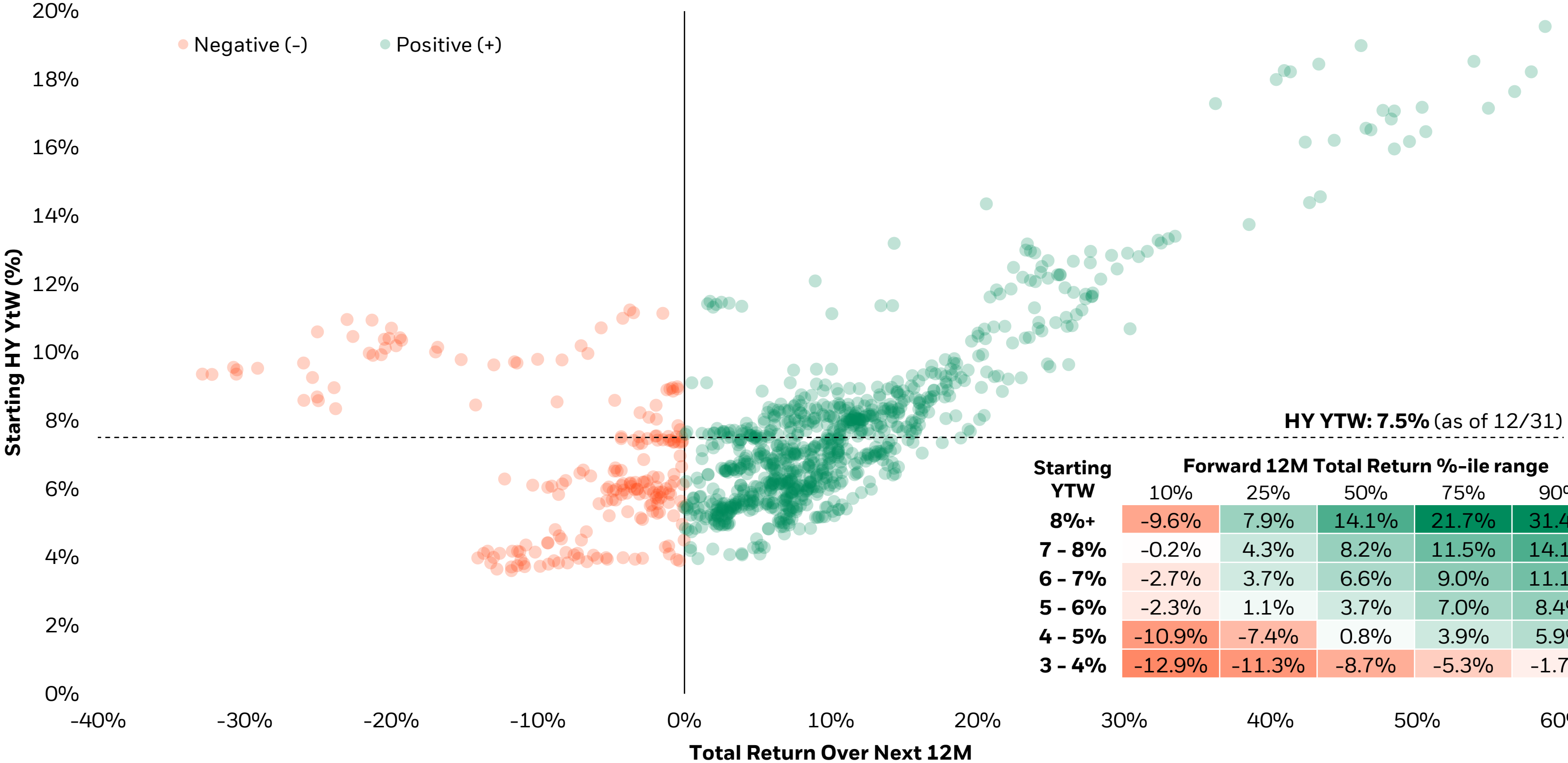

**Past performance is not an indication of future results.**

Source: Bloomberg as of 12/31/2023. It is not possible to invest directly in an index. For illustration purposes only. US Investment Grade bonds represented by the Bloomberg US Corporate Bond Index. US CLO represented by the Palmer Square CLO Senior Debt Index.

# High yield bonds may continue to offer attractive returns given elevated yields

When the high yield bond market has yielded above 7%, forward 12-month returns have been compelling[1]

### Starting yield-to-worst (%) versus 12-month forward return (%)




| Starting YTW | Forward 12M Total Return %-ile range | | | | |
|---|---|---|---|---|---|
| | 10% | 25% | 50% | 75% | 90% |
| **8%+** | -9.6% | 7.9% | 14.1% | 21.7% | 31.4% |
| **7 - 8%** | -0.2% | 4.3% | 8.2% | 11.5% | 14.1% |
| **6 - 7%** | -2.7% | 3.7% | 6.6% | 9.0% | 11.1% |
| **5 - 6%** | -2.3% | 1.1% | 3.7% | 7.0% | 8.4% |
| **4 - 5%** | -10.9% | -7.4% | 0.8% | 3.9% | 5.9% |
| **3 - 4%** | -12.9% | -11.3% | -8.7% | -5.3% | -1.7% |

**The figures shown relate to past performance. Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.**

Source: Bloomberg as of 12/31/2023. 1. High yield bond market represented by the Bloomberg US Corporate High Yield Index. Weekly Bloomberg data for the period beginning 1/1/2002 used to determine historical forward returns. Yields and returns derived from Bloomberg Ba, B, Caa US High Yield Total Return Indices, weighted using the current index ratings composition. Yield reflects yield-to-worst of the index.

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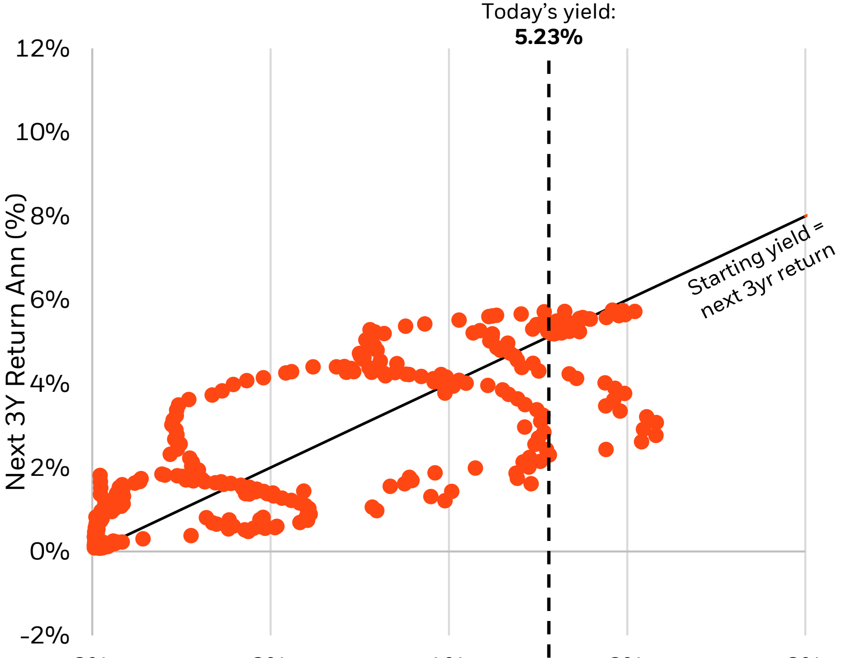
# Higher starting yield has been a strong predictor of total return for multi-asset income strategies, but not for cash

Due to the risk of reinvesting at lower yield levels, historical cash returns have been highly unpredictable.

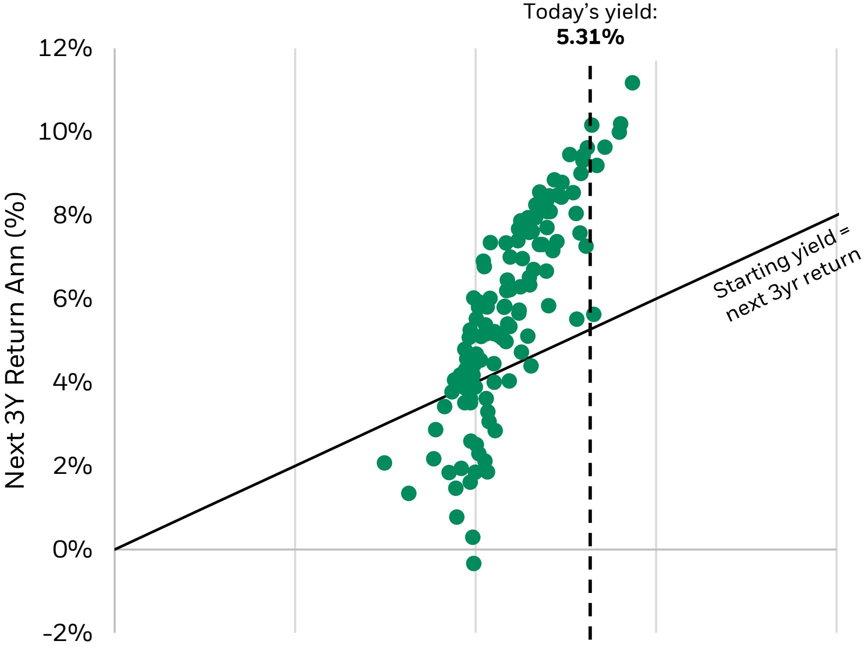
## Cash

Initial yields vs subsequent 3Y returns since 1991




## Multi-Asset Income Index Blend

Initial yield vs subsequent 3Y return since 2010




**Past performance is not an indication of future results.**
Index performance is for illustrative purpose only. Investors cannot directly invest into an index. Source: BlackRock, Bloomberg as of 12/31/2023. T-bills represented by Bloomberg US Treasury Bill Index. Multi-Asset Income Index Blend is comprised of 33.34% MSCI World High Dividend Index, 33.33% Bloomberg US Corporate Bond Index, and 33.33% Bloomberg US High Yield Bond Index. For illustration purposes only. Yield reflects yield-to-worst (%) for fixed income and dividend yield (%) for equity.

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# Why consider a multi-asset income strategy in 2024?

| The backdrop | Why multi-asset income? |
|---|---|
| **A hard landing is unlikely**<br>U.S. economic resiliency to support growth outlook | Without a hard landing, being too defensive can bring significant opportunity costs. A multi-asset income strategy may help balance upside/downside risks while providing competitive income. |
| **Rate hiking cycle has ended**<br>History shows markets perform well after hiking ends | Many yield assets lagged in 2023, namely dividend stocks and quality bonds, but a Fed easing cycle could provide an additional boost to income markets. |
| **Multi-year highs in yields**<br>Income markets are compelling after the move up in yields | Income *plus* capital appreciation potential exists across many markets today. Coupled with the potential diversification from bonds returning, the opportunity set for income is as compelling as it's been in many years. |

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MULTI-ASSET INCOME ASSET CLASS VIEWS

# Key income areas at compelling levels

## Levels of key asset classes

◆ Current ▲ Average

| Fixed Income | 10-year range: low | Current | 10-year range: high | % of days above (below) current level |
|---|---|---|---|---|
| **High Yield** Yield | 3.5% | 7.6% | 11.7% | **23.0%** |
| **Floating Rate Loans** Yield | 3.6% | 9.4% | 13.1% | **7.2%** |
| **Investment Grade** Yield | 1.7% | 5.1% | 6.4% | **12.0%** |
| **Mortgage-Backed Securities** Yield | 0.9% | 4.7% | 6.1% | **7.9%** |
| **Treasuries (10-Yr)** Yield | 0.5% | 3.9% | 5.0% | **5.9%** |
| **Equity** | | | | |
| **Global Dividend Stocks** Forward P/E | 10.0 | 13.2 | 16.8 | **21.0%*** |

**Past performance is not an indication of future results.**

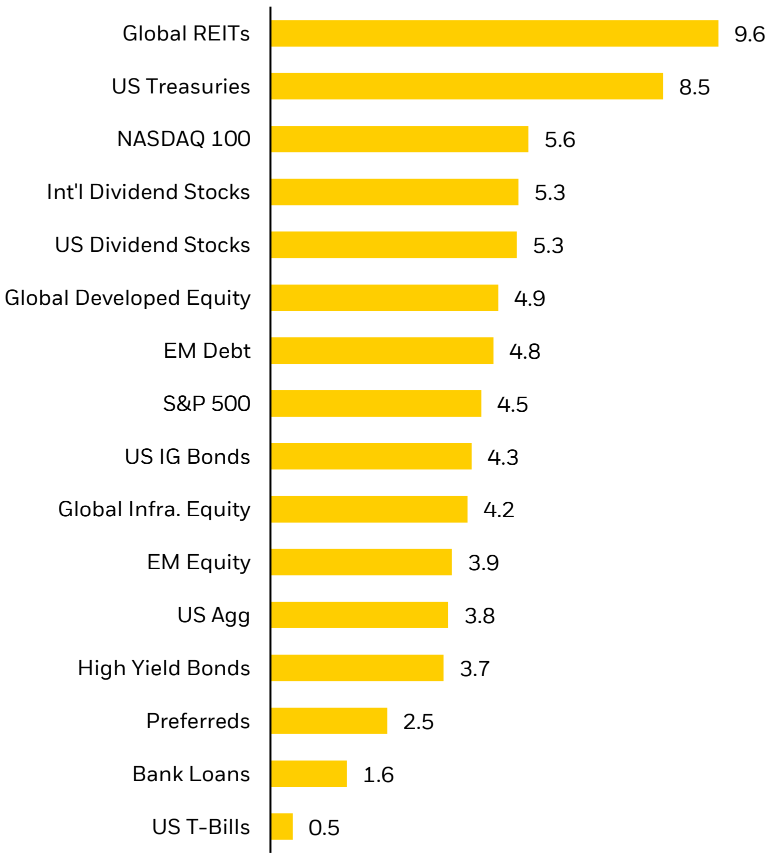
Source: Bloomberg as of 12/31/2023. Returns are not annualized. *Calculated as percentage (%) of days P/E was lower than the current level. High Yield represented by Bloomberg US High Yield 2% Issuer Cap Index. Floating Rate Loans represented by the Morningstar LSTA US Leveraged Loan Index. Investment Grade represented by the Bloomberg US Corporate Bond Index. Mortgages represented by the Bloomberg US MBS Index. Treasuries represented by the 10-year Government Bond Index. Dividend Stocks represented by the MSCI World High Dividend Index. For illustration purposes only. Index performance is for illustrative purpose only. Investors cannot directly invest into an index.

# Market snapshot

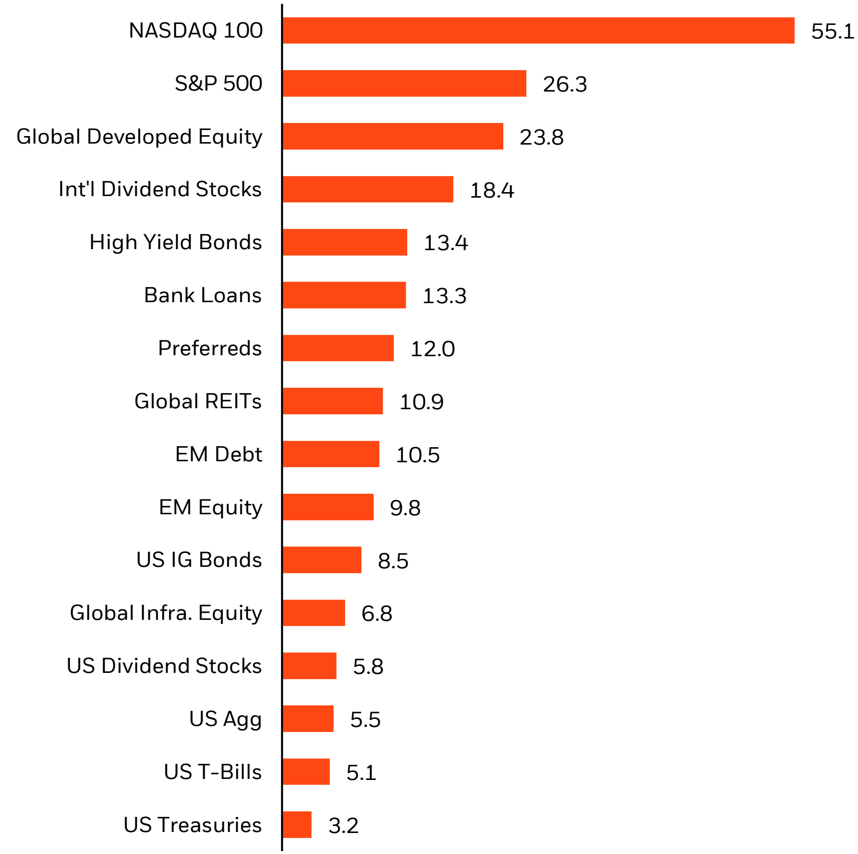
MARKET SNAPSHOT

# Asset Class Returns

## Asset Class Returns – MTD 2023




## Asset Class Returns – 2023 Calendar Year



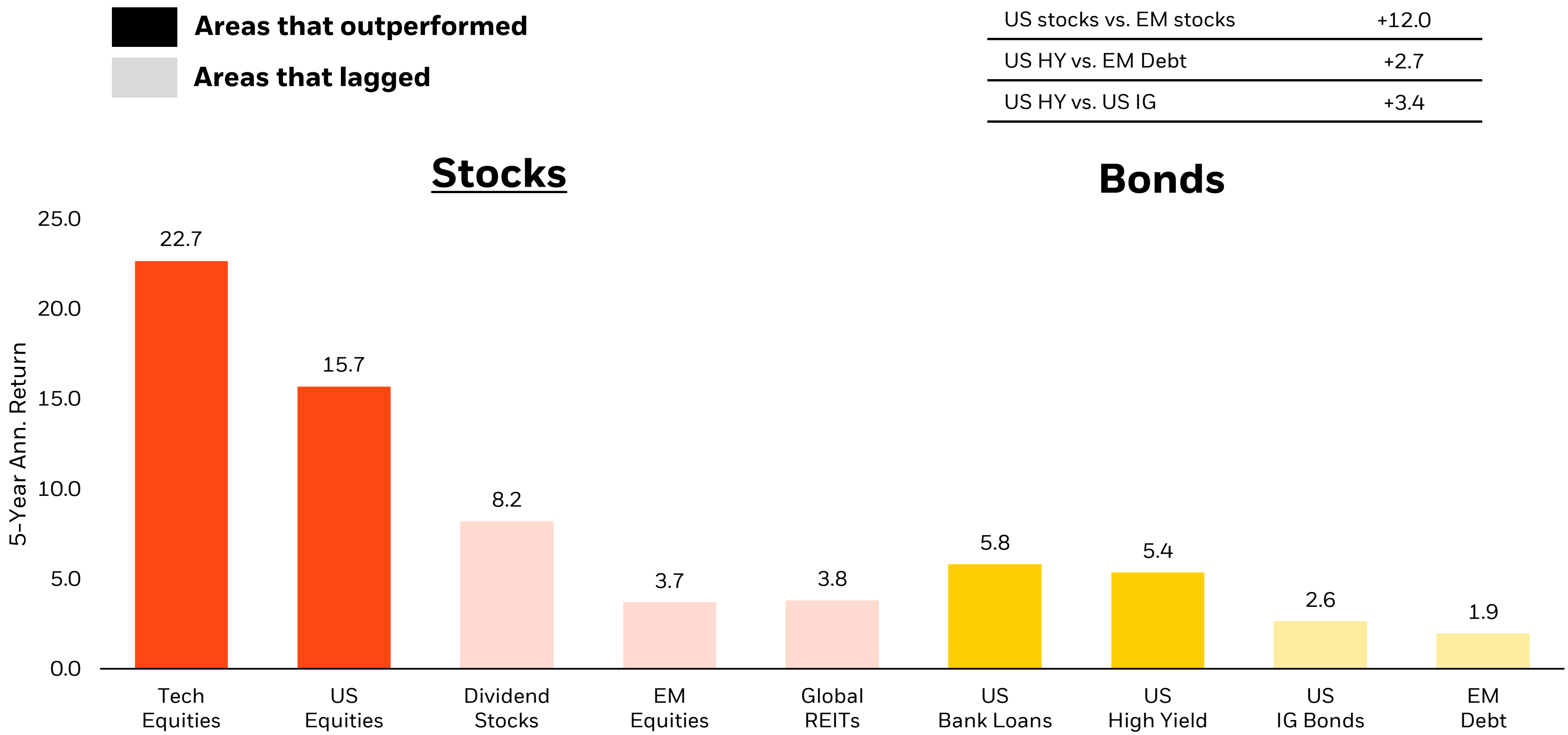

Source: BlackRock, Bloomberg and Morningstar as of 12/31/2023. **Past performance is not an indication of future results. Returns are not annualized. For illustration purposes only. Index performance is for illustrative purpose only. Investors cannot directly invest into an index**. US Dividend Stocks: MSCI USA High Dividend Index. Int'l Dividend Stocks: MSCI World ex USA High Dividend Yield Index. Global REITs: FTSE EPRA Nareit Developed Index. Global Infra. Equity: S&P Global Infrastructure Index. EM Debt: JPM EMBI Global. US IG Bonds: Bloomberg US Corp Bond. High Yield Bonds: Bloomberg US HY 2% Issuer Cap. Bank Loans: Morningstar LSTA Leveraged Loan Index. Preferreds: S&P Preferred Stock Index. US Treasuries: Bloomberg US Treasury 10+ Year Index. Global Developed Equity: MSCI World Index. EM Equity: MSCI Emerging Market Index. US T-Bills represented by the Bloomberg US Treasury Bills Index.

MARKET SNAPSHOT

# How have markets fared the last 5-years?

Annualized 5-year returns, 2018-2023

| Asset Class Scorecard | Diff. |
|---|---|
| Tech stocks vs. dividend stocks | +14.5 |
| US stocks vs. EM stocks | +12.0 |
| US HY vs. EM Debt | +2.7 |
| US HY vs. US IG | +3.4 |

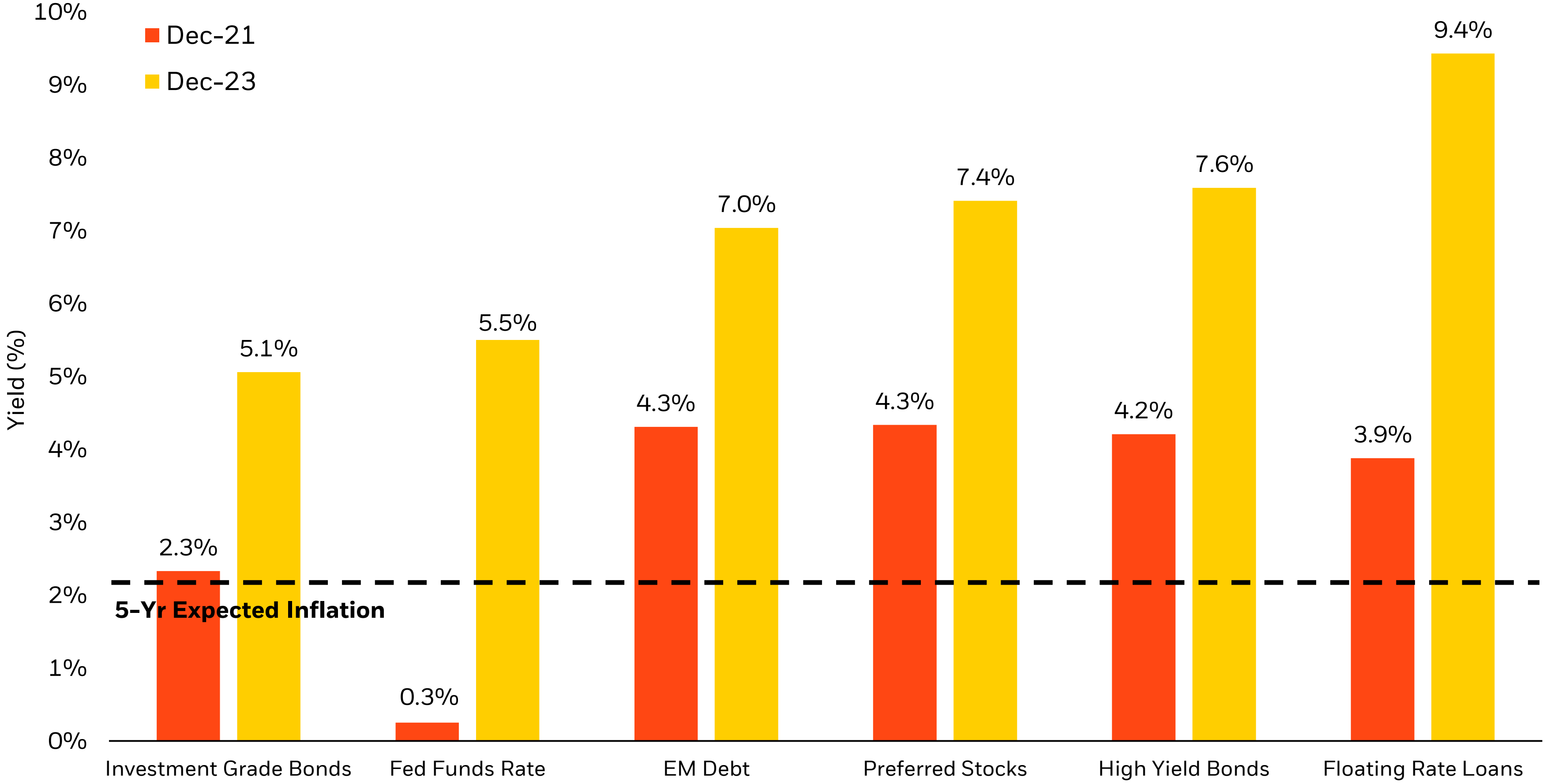



**Past performance does not guarantee future results.** Index performance is for illustrative purposes only. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Source: BlackRock, Morningstar as of 12/31/2023. Tech Equities represented by Nasdaq 100, US Equities represented by S&P 500 TR USD, Dividend Stocks represented by MSCI World High Dividend Yield NR USD, EM Equities represented by MSCI EM NR USD, Global REITs represented by FTSE EPRA Nareit Developed TR USD, US Bank Loans represented by Morningstar LSTA US LL TR Index, US High Yield represented by Bloomberg, US HY 2% Issuer Cap TR USD, US IG Bonds represented by Bloomberg US Corp Bond TR USD, EM Debt represented by JPM EMBI Global TR USD

MARKET SNAPSHOT

# A repricing across bonds has led to more attractive yields

## Yields of major fixed income assets classes, December 2021 vs. December 2023




Source: Bloomberg as of December 31, 2023. **Past performance is not indicative of future results.** It is not possible to invest directly in an index. For illustration purposes only. Yields represented by yield to worst. Investment grade bonds represented by Bloomberg US Corporate Index. High Yield Bonds represented by Bloomberg US High Yield Index. Floating Rate Loans represented by Morningstar LSTA US LL Index. Preferred Stocks represented by ICE BofA U.S. Corp All Capital Securities. EM Debt represented Barclays USD EM Debt. Inflation represented by the U.S. 5-year breakeven inflation rate. Breakeven rates are calculated by subtracting the real yield of the inflation linked maturity curve from the yield of the closest nominal Treasury maturity.

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# Risks

**Capital at risk.** The value of investments and the income from them can fall as well as rise and are not guaranteed. The investor may not get back the amount originally invested.

Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

**Capital growth / income variation**
Investors in income-oriented strategies should understand that capital growth is typically not a priority and values may fluctuate and the level of income may vary from time to time and is not guaranteed.

**Risk to Capital Growth through Distributions**
Income-oriented strategies may make distributions from capital as well as income or pursue certain investment strategies in order to generate income. Whilst this might allow more income to be distributed, it may also have the effect of reducing capital and the potential for long-term capital growth.

**Risk to Capital Growth through Derivative Use (covered calls)**
Covered calls may aim to generate more income. This may reduce the potential for capital growth.

**Equity risk**
The value of equities and equity-related securities can be affected by daily stock market movements. Other influential factors include political, economic news, company earnings and significant corporate events.

**Interest Rate Risk**
Fixed interest securities such as corporate or government bonds pay a fixed or variable rate of interest (also known as the 'coupon') and behave similarly to a loan. These securities are therefore exposed to changes in interest rates which will affect the value of any securities held.

**Credit risk**
Fixed income securities issued by governments can be affected by the perceived stability of the country concerned and proposed or actual credit rating downgrades. Fixed interest securities issued by companies carry a risk of default where the issuing company may not pay income or repay capital to the investor when due.

# Risks

**High Yield Bonds**
Companies which issue higher yield bonds typically have an increased risk of defaulting on repayments. In the event of default, the value of your investment may reduce. Economic conditions and interest rate levels may also impact significantly the values of high yield bonds.

**Exchange rate risk**
The return of your investment may increase or decrease as a result of currency fluctuations.

**Emerging market risk / Emerging European market risk**
Emerging market investments are usually associated with higher investment risk than developed market investments. Therefore the value of these investments may be unpredictable and subject to greater variation.

**Structured Credit Products**
Structured credit products such as asset backed securities ('ABS') pool together mortgages and other debts into single or multiple series credit products which are then passed on to investors, normally in return for interest payments based on the cash flows from the underlying assets. These securities have similar characteristics to corporate bonds but carry greater risk as the details of the underlying loans is unknown, although loans with similar terms are typically packaged together. The stability of returns from ABS are not only dependent on changes in interest-rates but also changes in the repayments of the underlying loans as a result of changes in economic conditions or the circumstances of the holder of the loan. These securities can therefore be more sensitive to economic events, may be subject to severe price movements and can be more difficult and/or more expensive to sell in difficult markets.

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