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Investment Strategy
2024 Market Outlook

Brian G. Belski
Chief Investment Strategist
BMO Capital Markets Corp.
212-885-4151
brian.belski@bmo.com

Nicholas Roccanova, CFA
Head of US Strategy
BMO Capital Markets Corp.
212-885-4179
nicholas.roccanova@bmo.com

Ryan Bohren, CFA
Head of Canadian Strategy
BMO Nesbitt Burns Inc.
416-359-4993
ryan.bohren@bmo.com

Sooyun Hong
Head of Portfolio & Thematic Strategy
BMO Capital Markets Corp.
212-885-5117
sooyun.hong@bmo.com

Lexi Wang, CFA
Quantitative Analyst
BMO Capital Markets Corp.
404 825-9397
lexi.wang@bmo.com

Dillon Suresh, CFA
Investment Strategy Associate
BMO Capital Markets Corp.
416-728-5108
dillon.suresh@bmo.com

BMO Capital Markets

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2024 Market Outlook

Normal for Longer

The final sentence of the opening "prologue" from our 2023 Market Outlook said the following: "*Buckle up – the road to normalcy is fraught with truth and reality – and that is a very good thing*." Indeed, US stock market performance and fundamentals in 2023 followed the script in our view to lay the foundation for what we continue to believe will be a path of normalcy for earnings growth, valuation trends, and price performance that is likely to unfold over the next three to five years. In other words, "normal for longer"; and yes, this is a play on words from what we view as one of the most overused phrases in 2023 (e.g., higher for longer). As such, we believe US stocks will attain another year of positive returns in 2024, albeit while demonstrating more sanguine, broadly distributed, and fundamentally defined performance relative to the last decade or so. In other words, *normal and typical*.

The "Yeah-but Bears" Not Going Away Anytime Soon

Unfortunately, the "yeah-but bears" will likely continue to morph their narrative to fit their cause. As investment strategists, our job is to invest – *period*. To be sure, the humility of being wrong when the market posts negative returns (e.g., 2022 and 2018) has actually "helped us" see the forest through the ever increasingly noisy and windblown trees that are rampant with negativity and doubt like no other time in our career. What has transpired in our society, let alone the world of investing has been anything but typical into and out of the COVID-19 pandemic. Which generates a very common-sense query in our minds – why does the bearish narrative continue to rely so heavily on formulaic, quantitative, backward-looking macro and academic postures? The simple answer is their incessant need to make "market calls only" and prove that the market is wrong when it is exhibiting positive performance. Unfortunately, bearish fear sells, and bulls are routinely doubted and panned. So, get ready for another year of analysis paralysis of US Federal Reserve policy, the impacts of the "unflattening of the yield curve (instead of saying 'steepening'), unemployment drifting higher, and of course the "Chicken Little recession" and its market impact that has been apparently just around the corner for the past few years and counting due to the lag effects of higher inflation and interest rates (a lag effect that mysteriously keeps getting pushed out – the epitome of the "yeah-but bears"). Yes, at some point any or all these data points and other negative/unhealthy facts will transpire – but not when every bear and doubter is waiting, forecasting, and relying on the inevitability of their actual occurrence and the inherent goal of being able to say, "I told you so". For our part, we prefer to stay in our lane and invest.

Transitioning From the All or None and Toward the Norm Will Take Time

Believe it or not, we are aligned with the naysayers on one very important topic – *typical versus atypical*. Liquidity-induced performance and 0% interest rates are not typical. All-or-none investing – e.g., all large cap + no small cap; all Technology + no Financials; all growth + no value; all stocks + no bonds; all momentum + no fundamentals have clouded and defined the investing landscape for most of the past 15 years, in our view. But that does not make it normal or typical. To the contrary, it is normal for good news to be good news and market performance to be dictated and defined by fundamental and company-specific analysis. Those investors that remain fixated on making market calls and basing individual investment decisions on market multiples and GDP, for instance, are likely in for more pain than gain in our view. After all, the stock market is market of stocks – stocks that are companies – and companies that have products, services, a track record of results that are led by management teams. In other words, good old-fashioned stock picking is likely to be rewarded – not a macro or quant screen that must equate to X or some pre-conceived conclusion that tells you when to buy or sell. To reiterate, we believe 2024 will be Year 2 of at least a 3-5 year process that will see US stocks exhibit more normal and typical performance, paced by a backdrop of normal and typical GDP and earnings growth, valuation, and bond yield ranges. Call it goldilocks, nirvana; label it what you will. But an outlook for high-single to low double-digit market performance is far from a "perma-bull" moniker. We prefer, a common sense and yes more humble approach to investing versus trying to prove that our narrative is always correct.

S&P 2024 Year-End Target Models

S&P 500 Price Target 5,100

Unlike last year, we are once again enthusiastic about stock market potential heading into 2024. As we have contended all year, we continue to believe that US stocks are in a bull market that has now entered its second year. And while there is a growing possibility that the S&P 500 continues to grind higher in the coming weeks to finish above our 2023 year-end price target of 4,550, we believe it will be difficult for the market to replicate similar gains in 2024 given historical bull market performance patterns that suggest lower, but still solid gains, with our new target implying 11.9% from the latest levels. We also believe that volatility is likely to subside as macro-environment resiliency continues to surprise alongside falling inflation, but we still expect there to be bumps along the way as investors continue to grapple with market expectations and Fed messaging. In addition, underlying leadership patterns are likely to be very different next year, with significantly more participation coming from non-mega-cap stocks. Finally, there has been a lot of debate about the probability of a US recession next year, but that is a discussion we will leave for the economists. But if one does occur, we would borrow an acronym from the political lexicon to describe its likely severity – RINO or recession in name only since labor market data continues to remain remarkably resilient and employment levels are what almost always determine how good or bad things get in the economy from our perspective. So, we will continue to take our cue from labor market trends and unless they take a sharp turn for the worse, we are simply not concerned about the recession debate at this point.

So, what does this mean from an investment perspective? In a simple sense, we believe investors will need to own a little bit of "everything" and not tilt too far in one direction or another from a sector, style, and size perspective – a sharp contrast to the trends that prevailed during 2023. However, this should not be interpreted as a recommendation to be more passive when making decisions – to the contrary, we believe active investment strategies will be even more important next year as many of the largest stocks that drove performance within sectors are unlikely to maintain that momentum in 2024, forcing investors to search for other opportunities further down the market cap spectrum.

S&P 500 EPS Target $250

Similarly, we are anticipating a significant rebound in S&P 500 earnings next year with our new target implying a growth rate of roughly 13.6% from both our current 2023 year-end EPS target and bottom-up consensus estimate of $220. Yes, this may seem aggressive given that the consensus economic forecast is calling for little GDP growth during 2024. But similar forecasts were being made last year and companies proved they were more than capable of delivering in a challenging macro environment in 2023 with the S&P 500 delivering its highest aggregate surprise levels in over 10 years (excluding the pandemic). Therefore, even if surprise levels normalize next year (5% historical average), we believe EPS of $250 is reasonably attainable given that the current 2024 bottom-up number is roughly $245 and the next year estimate has typically declined about 3.9% in the year following. As such, unlike last year, we expect the P/E multiple to remain relatively static, with gains being driven primarily through earnings growth next year.

Exhibit 1: 2024 S&P 500 Target Model Scenarios

Scenario	Price	EPS	Rationale
Bull	5,500	$260	US economy defies the vaunted yield curve indicator and avoids recession, inflation declines more rapidly than expected throughout the whole year, 10yr yield slowly declines throughout the entire year getting closer to 3%. This leads to better multiple expansion and earnings growth to deliver an above-average calendar year gain.
Base	5,100	$250	US recession in name only is the foundation as labor market remains resilient; Fed remains on pause in 1H with rate cuts commencing later in year; 10yr yield is range-bound just over 4% for the first half, then declines in 2H as inflation gets closer to Fed target. Earnings growth picks up the slack for market returns with a more normal calendar year return.
Bear	4,100	$230	Economy has something more than a mild recession; Fed underestimated the lagged effects of its policy; unemployment starts to accelerate, risk off comes back in full force (investors and companies), earnings growth stalls as multiples compress. Good news is interest rates and inflation probably accelerate to the downside. Bad news is this will probably lead to sizeable calendar year decline

Source: BMO Capital Markets Investment Strategy Group.

Exhibit 2: 2023 & 2024 S&P 500 Targets

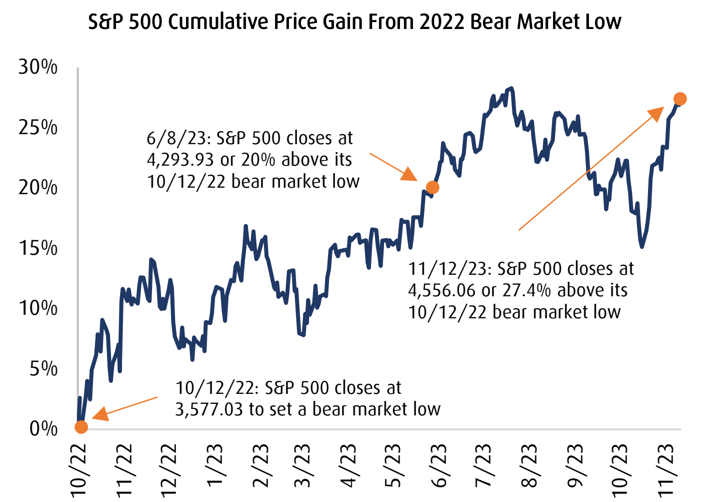
Price Target			
Model	**Category**	**2023E**	**2024E**
Dividend Discount Model	Fundamental	4,750	5,175
Fair Value Price-to-Earnings Model	Valuation	4,350	5,050
Expected Return*		0%	11.9%
Latest S&P 500 Close		4,556	
Price Target		4,550	5,100
Earnings Per Share Target			
Model	**Category**		
Macroeconomic Regression Model	Macro	$215	$240
Bottom Up Mean Consensus Expectation	Fundamental	$220	$245
Normalized EPS	Mean Reversion	$200	$205
Expected EPS Growth		0.5%	13.6%
Prior Year S&P 500 EPS**		$219	$220
EPS Target		$220	$250
Implied P/E		**20.7X**	**20.4x**

*Based on 11/22/2023 closing price.
**Based on our prior-year EPS target if EPS is not fully reported for index.
Source: BMO Investment Strategy Group.

This Is a Bull Market That Is Entering Its Second Year

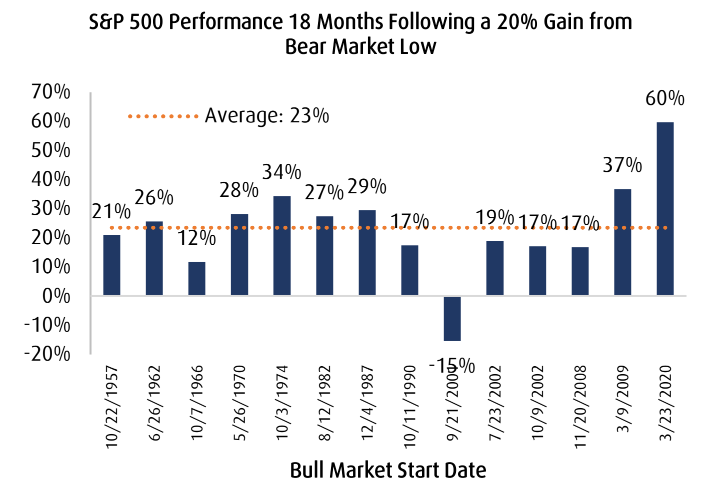
The S&P 500 closed more than 20% above its 10/12/22 bear market price low on June 8, a feat commonly accepted to mark the start of a new bull market. For our part, we have been adamant in our belief for quite some time that the 2022 mid-October low represented the end of the bear market and that a new bull market has commenced, and historical data appears to support our case. For instance, once the overall market has climbed 20% above its previous price low, that low signaled the start of a new bull market in all but one of the prior 14 instances (Exhibit 3). The exception came during the early 2000s when the market was unwinding from the collapse of the tech bubble and the aftermath of the 9/11 terrorist attacks – periods that do not resemble the current market environment, in our view. In fact, the S&P 500 has gained an average of 23% in the 18 months following the 20% threshold (Exhibit 4), which in the current context would roughly represent 2024 year-end. For reference, the S&P 500 closed at 4,294 on June 8 and applying the average 18-month gain would imply an index level of roughly 5,280. In other words, we believe this is and continues to be a bull market now entering its second year.

Exhibit 3: S&P 500 Is Now Roughly 27% Higher Than Bear Market Low



Source: BMO Capital Markets Investment Strategy Group, FactSet.

Exhibit 4: 20% Moves Off Price Lows Almost Always = a Bull Market

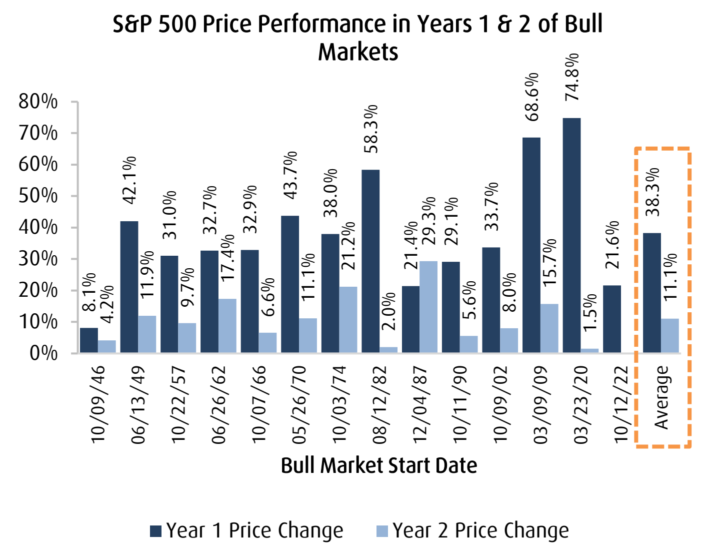


Source: BMO Capital Markets Investment Strategy Group, FactSet.

Expect Lower, but Still Solid Gains for Year Two of the Bull

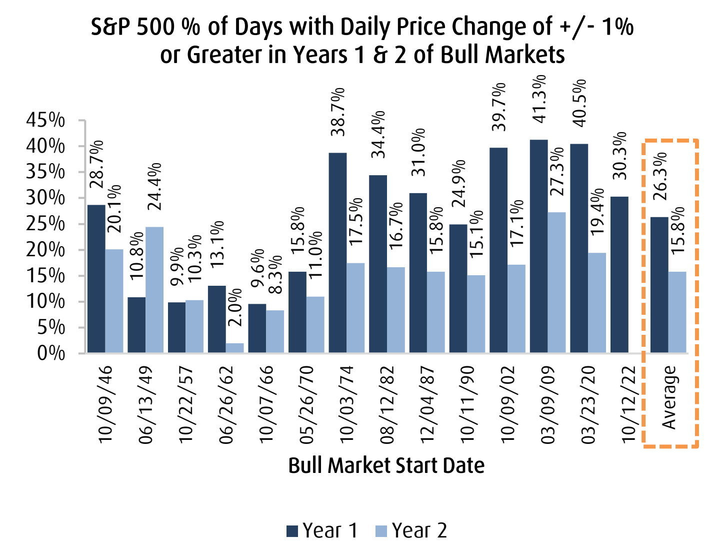
Our work shows that the S&P 500 has historically gained an average of 11.1% during year two of bull markets, much smaller than the 38.3% average gain seen in year one, but still a double-digit return, nonetheless (Exhibit 5). In fact, the 12/4/1987 to 7/16/1990 bull market was the only one going back to 1945 where the second year outpaced the first year in terms of performance (29.3% vs. 21.4%). Our work also shows that price returns tend to be notably less volatile during the second year of bull markets with the percentage of outsized daily price changes (+/- 1%) for the S&P 500 roughly 42% lower in year two versus year one (Exhibit 6). And despite history pointing to lower volatility in the months ahead, we still believe there will likely be some choppiness along the way as the believability of the bull market continues to get questioned. As Exhibit 7 shows, the S&P 500 has still averaged a roughly 10% max drawdown in the second year of bull markets, suggesting that investors should remain active and disciplined when it comes to their investment process rather than being passive or reactive to shorter-term performance trends. Finally, there is one characteristic we expect to improve dramatically in the upcoming year – the percentage of stocks outperforming the index. As Exhibit 8 shows, participation levels were considerably below-average during the bull market's first year, something we view as abnormal and likely to revert to the historical norm next year.

Exhibit 5: Stocks Log Lower Gains in Second Year of Bull Markets



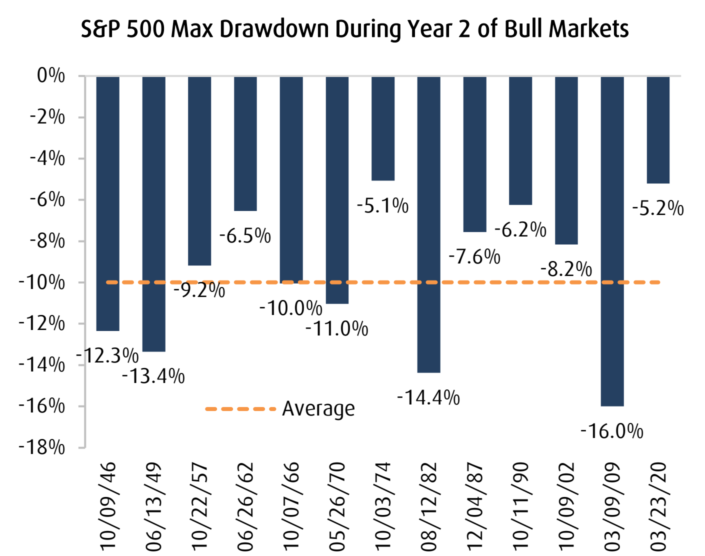
Source: BMO Capital Markets Investment Strategy Group, FactSet.

Exhibit 6: Big Moves Less Common in Second Year of Bull Markets



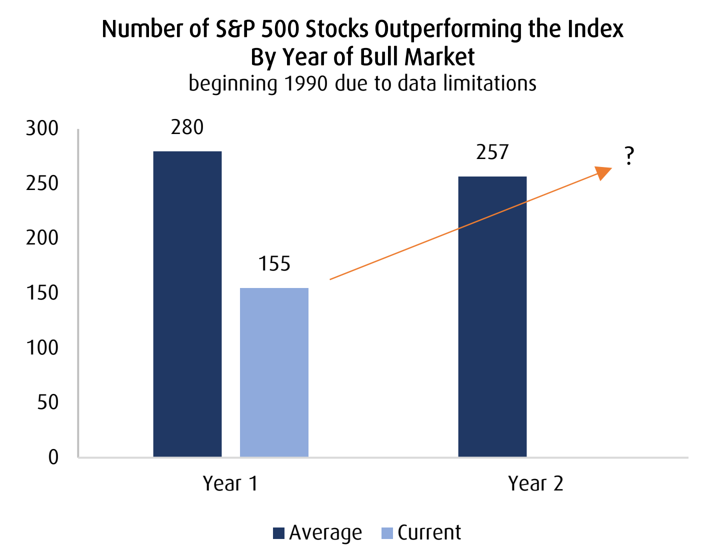
Source: BMO Capital Markets Investment Strategy Group, FactSet.

Exhibit 7: Corrections Are Inevitable for All Parts of Bull Markets



Source: BMO Capital Markets Investment Strategy Group, FactSet.

Exhibit 8: Leadership Trends Likely to Revert to Historical Norms

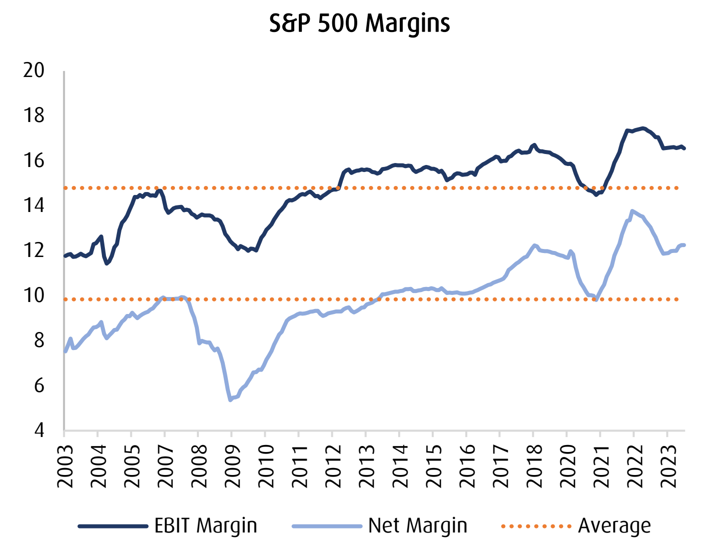


Source: BMO Capital Markets Investment Strategy Group, FactSet.

Earnings Trends Have Remained Resilient Despite Perceived Challenges

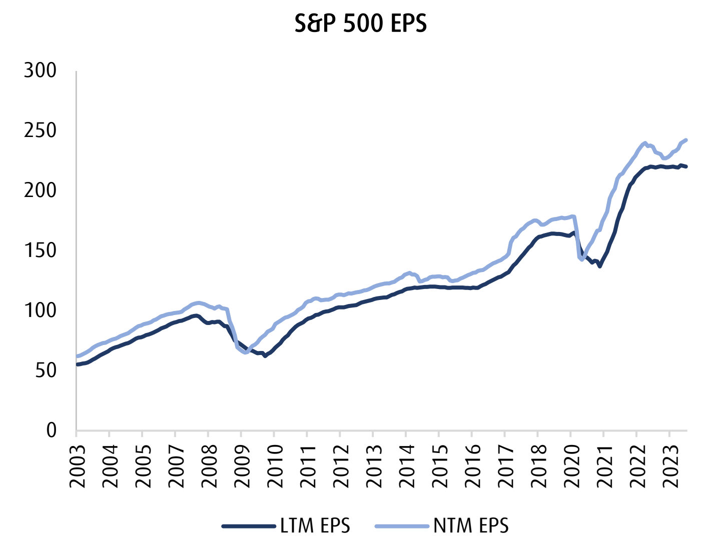
The trajectory of US stock earnings has been a very popular and highly debatable topic based on our client conversations. For much of the year, many believed that the combination of high inflation and rising interest rates would lead to a significant deterioration of earnings growth due to the pressure that both were perceived to have on profit margins. We have disagreed with this notion all along and the data appears to support our view that earnings pessimism has been and continues to be overstated. First, we never bought into the profit margin worry because US stocks entered the year in a position of strength, with margins at historically high levels. So, our take was there would be more than enough cushion for stocks to absorb some deterioration without collapsing earnings. Indeed, as Exhibits 9-10 show, trends have unfolded as we expected. For instance, while EBIT and net margins are certainly lower, they remain well above-average. In addition, EPS levels have been quite resilient with trailing numbers essentially stable for most of 2023, while forward expectations have rebounded in recent months. Second, revision trends appear to support a more positive backdrop. According to our work, revisions and earnings growth have exhibited a strong positive relationship historically, with the former typically leading the latter by several months (Exhibit 11). Therefore, we expect the recent uptick in revisions to translate into improved earnings growth in the coming months.

Exhibit 9: Margins Have Not Collapsed Despite Macro Pressures



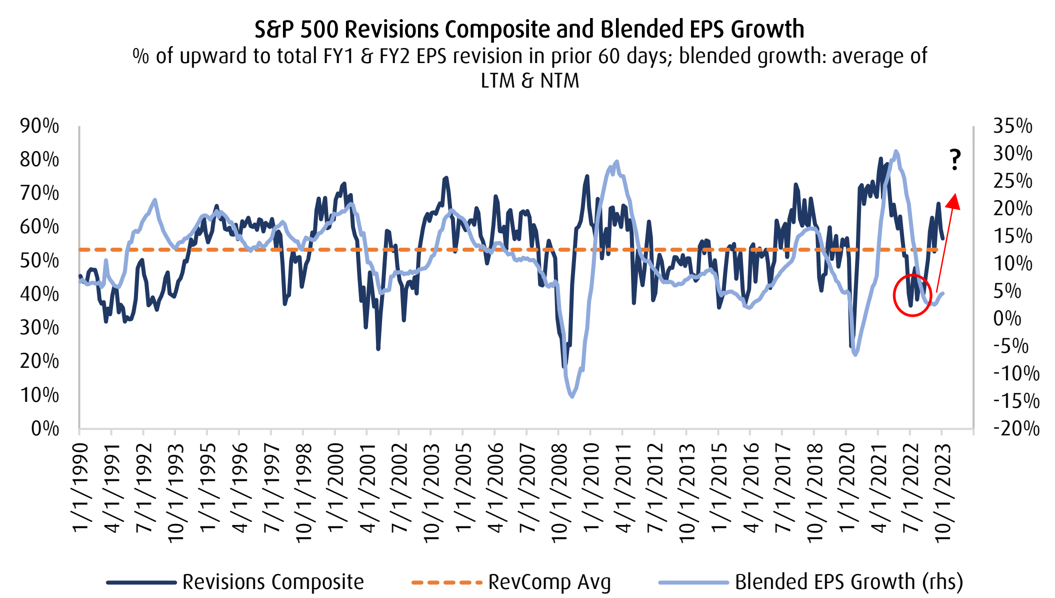
Source: BMO Capital Markets Investment Strategy Group, FactSet.

Exhibit 10: EPS Has Been Stable While Expectations Have Improved



Source: BMO Capital Markets Investment Strategy Group, FactSet.

Exhibit 11: Revisions Breadth Has Recovered, Which Should Be Positive for Earnings Growth

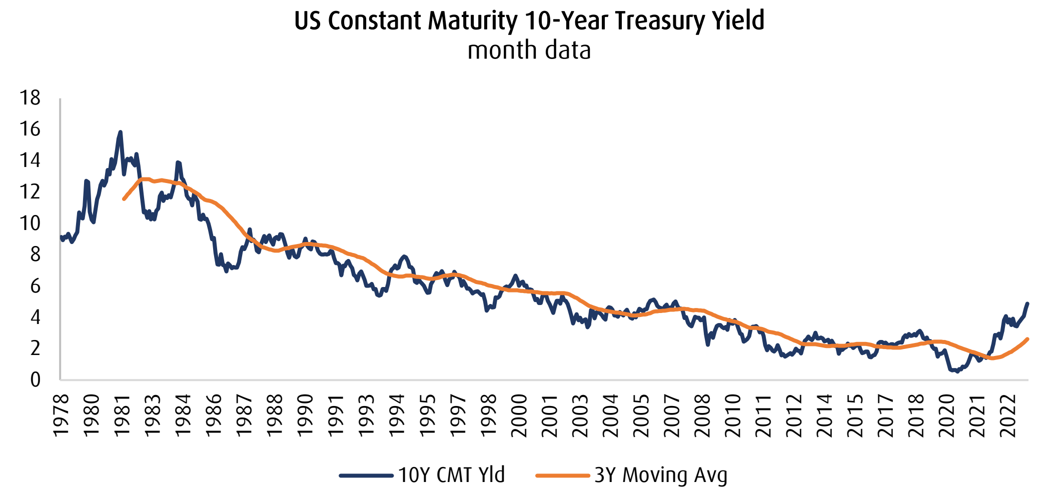


Source: BMO Capital Markets Investment Strategy Group, FactSet.

Higher Interest Rates Are Not Necessarily a Roadblock

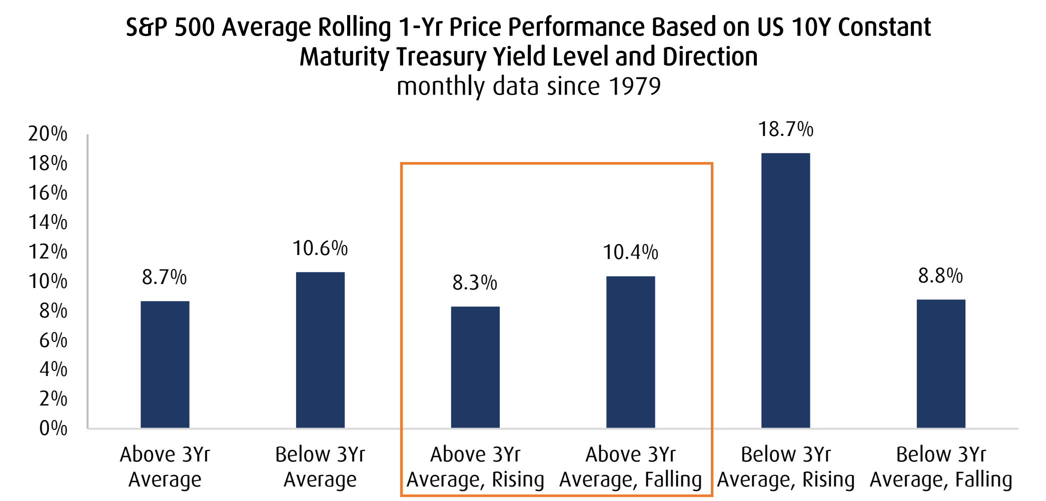
The 10-year US Treasury yield has remained consistently above 4% in recent months with levels at one point almost breaching 5%, a level not seen in more than 15 years (Exhibit 12). And given what is likely to be a higher-for-longer interest rate backdrop, yields are likely to remain much higher when compared to recent years for the foreseeable future, a scenario that continues to worry many investors as it relates to US stock market performance. However, our work shows that US stocks can perform quite well in a higher interest rate environment, despite perceptions to the contrary. For instance, we analyzed rolling one-year monthly periods since 1979 and calculated S&P 500 performance under various rate scenarios (Exhibit 13). While we found that US stocks have performed better when the US 10-year Treasury yield was below its three-year moving average, gaining an average of 10.6%, the S&P 500 has still registered a solid average gain of 8.7% when yields were above-average. Similarly, when the yield was rising and above average, the S&P 500 still managed a respectable 8.3% average gain. More important, should yields begin to decline from current levels our analysis suggests that the market can deliver a double-digit gain even if yields remain above average.

Exhibit 12: US 10Y Treasury Yield Has Broken Firmly Above Its 3Yr Moving Average Yield This Year



Source: BMO Capital Markets Investment Strategy Group, FRB.

Exhibit 13: Above-Average Yields Are Not Necessarily a Stock Market Hinderance, Regardless of Direction

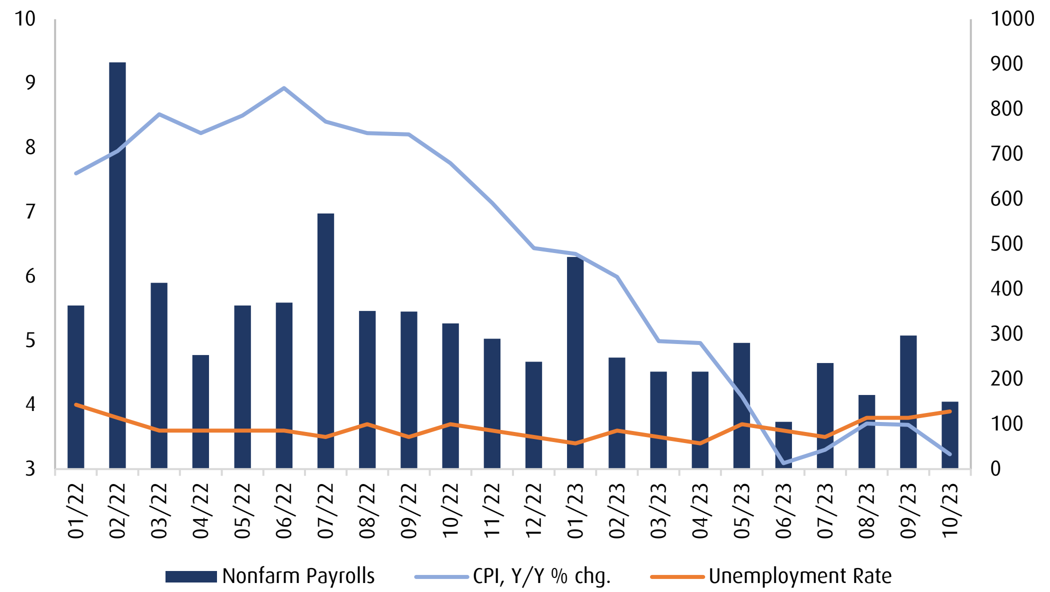


Source: BMO Capital Markets Investment Strategy Group, FRB.

Labor Market Strength and Consumption Trends Support a Soft-Landing Scenario

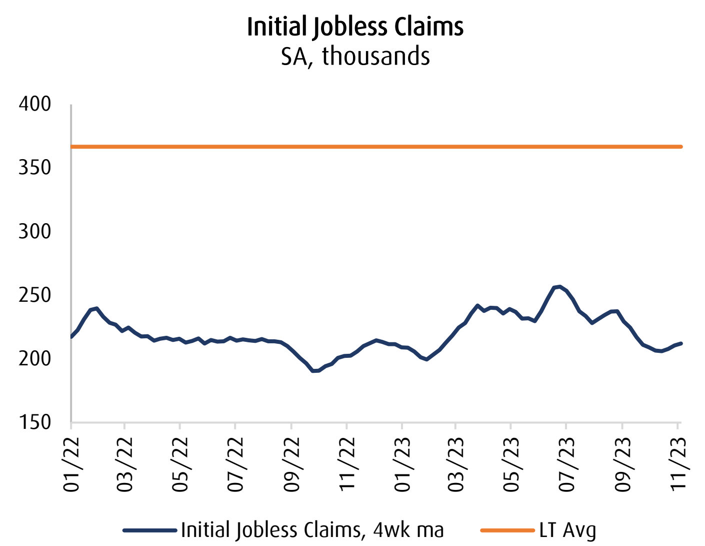
Entering 2023, the biggest worry was that the Fed was underestimating its tightening campaign and that the cumulative effect would lead the economy into a severe recession. Well, after 5¼ ppts of rate hikes it has become increasingly clear that the worst-case scenario has not materialized. In fact, inflation has continued to decelerate at a faster-than-expected rate, while the labor market and consumption trends have remained remarkably resilient despite some bumps along the way (Exhibits 14-16). Therefore, unless trends in these indicators take a significant turn for the worse in the coming months, we believe at a minimum that any sort of recession that may occur is likely to be a very shallow one or maybe the fabled soft-landing scenario (no recession) is becoming increasingly more believable.

Exhibit 14: Inflation Has Steadily Declined While Labor Market Strength Has Remained Resilient



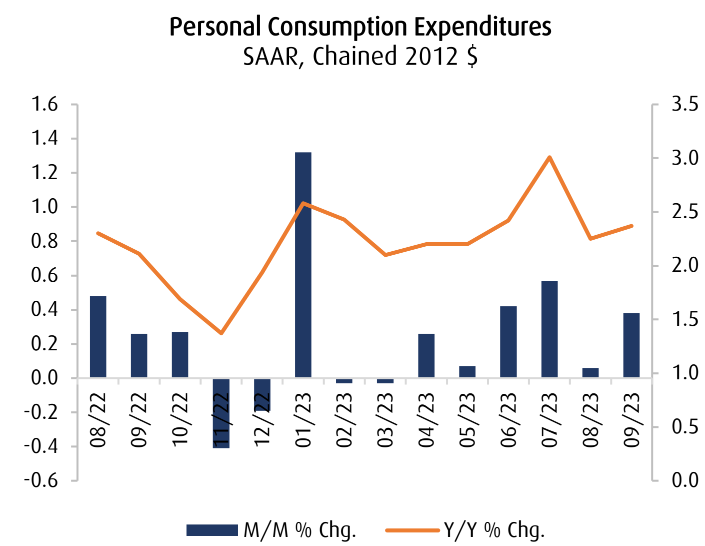
Source: BMO Capital Markets Investment Strategy Group, FactSet, BLS, DOL.

Exhibit 15: Jobless Claims Remain Well Below Average



Source: BMO Capital Markets Investment Strategy Group, FactSet, DOL.

Exhibit 16: Consumption Trends Have Improved Lately

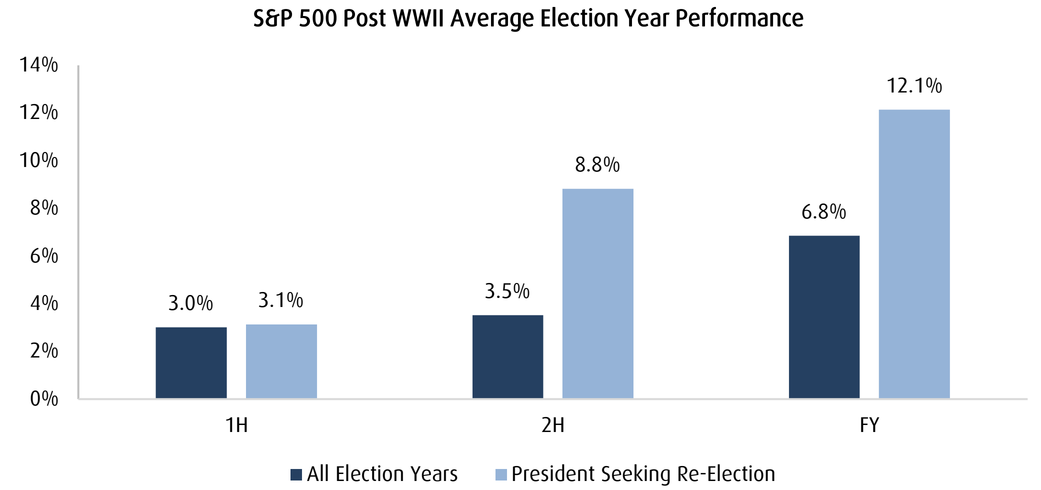


Source: BMO Capital Markets Investment Strategy Group, BEA.

Presidential Election Year Performance

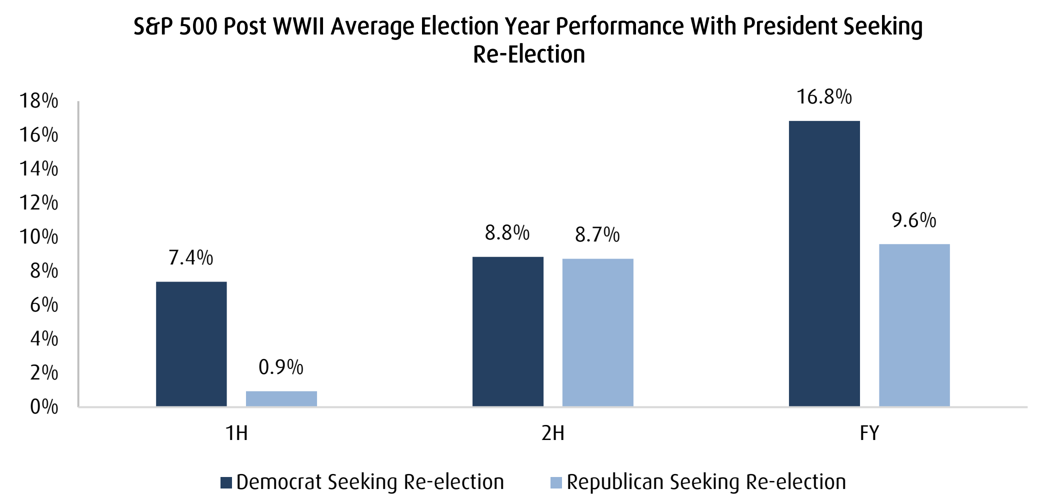
With the Presidential election slated for 2024, there has been a lot of discussion about how US stocks tend to have more muted gains relative to historical averages during election years. While this is certainly true – the S&P 500 returns an average of 6.8% during all election years from 1950 compared to an average of 9.1% for all years – we believe the data deserve a closer inspection. For instance, 2024 represents a re-election year for President Biden and we found that S&P 500 calendar year performance during re-election years has tended to be much better than average, gaining 12.1% (Exhibit 17). However, performance trends during the first half of the year tend to resemble all election years before jumping sharply during the second half of the year. In addition, market performance has been significantly better, on average, when a Democratic President is seeking re-election, with a full-year gain of 16.8% (Exhibit 18). Therefore, we believe the election and its potential market impact is being over-generalized since historical trends within the current context actually argue for above-average gains.

Exhibit 17: Presidential Election Years Tend to Have Lower Average Market Performance, but Re-Election Years Are Much Better



Source: BMO Capital Markets Investment Strategy Group, Bloomberg.

Exhibit 18: Market Performance Is Significantly Above Average When a Democratic President Is Seeking Re-Election



Source: BMO Capital Markets Investment Strategy Group, Bloomberg.

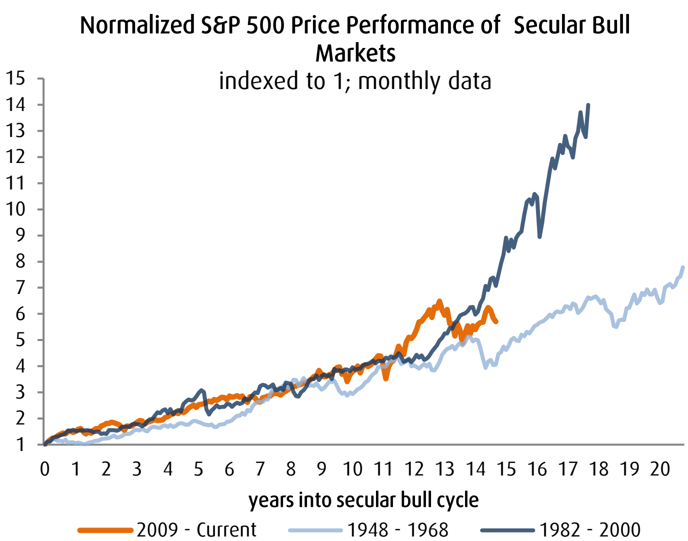
Path of Secular Bull Remains on Track as It Progresses Further Into Its Second Half

The Fed's tightening campaign over the past 18+ months has been nearly unprecedented in its rapidity and especially when compared to previous policy actions during the past 30 years. The bear market of 2022 was a direct response to the uncertainty surrounding what higher rates would mean for the economy and stocks going forward, in our view, and that negativity hung around for a good part of 2023 as well. For our part, we did not let the inflow of volatility and uncertainty deter us from our 20-year secular bull market stance for US stocks, a prediction that we originally made back in 2010. Instead, we opted to take a wait-and-see-approach to the historic rate hikes and take our cues from the data – and lo and behold, all those worst-case scenario forecasts never came to fruition. In fact, economic data (specifically employment) and corporate earnings have remained remarkably resilient, while inflation has subsided and is getting closer to the Fed's target. Thus, we continue to believe that October 12, 2022 marked the end of another cyclical bear market and the resumption of the secular bull market with trends to date very similar to those of the previous two secular cycles (Exhibit 19). With that said, it is important to remind investors that periods of declines and volatility will inevitably occur again just as they have in the past, but these periods will not necessarily derail the secular bull, in our view.

Longer-term performance trends, in the form of ten-year annualized holding period price returns, have stabilized in recent months after the bear market of 2022 dented performance (Exhibit 20). Nonetheless, the level has yet to dip below the rolling one-year average (i.e., historical annualized average), a level the market first exceeded in 2018 for this secular bull. In fact, the recent trend does not look too dissimilar from the paths of the previous two secular cycles where the ten-year annualized returns peaked somewhere around the halfway point, fell near the one-year average return level for a few years, but then managed to maintain those levels throughout the conclusions of both.

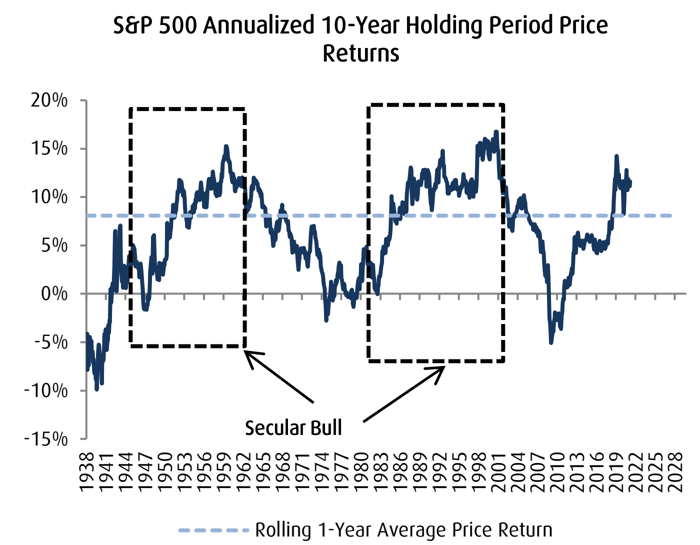
While there is certainly no perfect historical comparison that can be used to lay out the road map for stocks in the future, we are confident that the secular bull market can continue to roll on, especially given the current fundamental states of US stocks and the economy.

Exhibit 19: The Secular Bull Market Has Been Reignited



Source: BMO Capital Markets Investment Strategy Group, FactSet.

Exhibit 20: Longer-Term Returns Have Stabilized

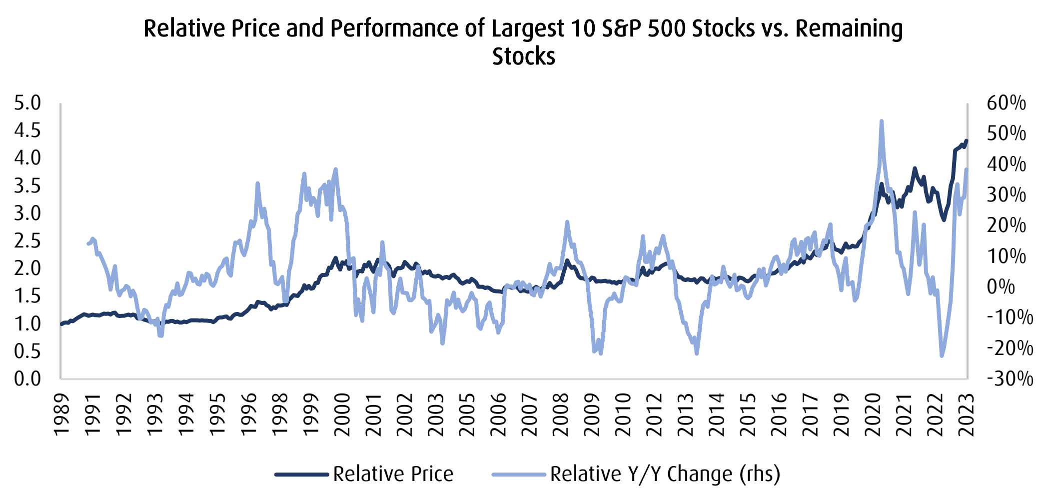


Source: BMO Capital Markets Investment Strategy Group, FactSet.

"Smaller" Is Likely to Be a Key 2024 Theme

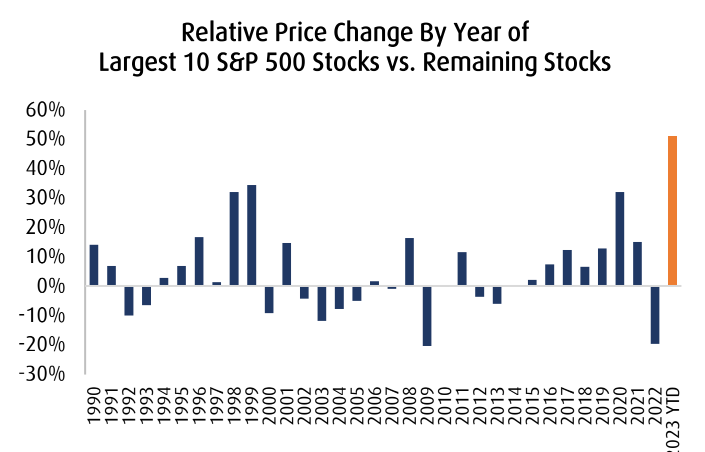
It is no secret that 2023 S&P 500 gains have been primarily driven by a handful of mega-cap stocks. In fact, an analysis of the 10 largest S&P 500 stocks compared to the remaining stocks within the index show that relative performance is on pace to be one of the best years ever for this subset. For instance, the relative year-over-year price change recently hit 38%, which represents the 99th percentile of all trailing one-year relative returns since 1990. In addition, the recent strength has pushed the relative price to a historical high (Exhibit 21). Furthermore, 2023 YTD relative performance of roughly 51% is on track to be the best year in over three decades and more than 20% higher than the second-best year, which occurred in 1999 when these stocks outperformed the remaining ones by 34% (Exhibit 22). Therefore, we believe it is highly unlikely that these trends can continue into 2024 and expect the rest of the index to perform significantly better on a relative basis next year. And while some investors may be concerned that the market is likely to struggle without these stocks leading the way, our analysis shows that the S&P 500 has performed just fine following peaks in relative performance of the 10 largest stocks. As Exhibit 23 shows, the S&P 500 has averaged a 14.3% return in the year following prior relative performance peaks since 1990. In fact, the only period where the index posted a loss occurred in 2001, and as we mentioned previously, we do not consider that to be a comparable period.

Exhibit 21: The Largest S&P 500 Stocks Have Driven Performance



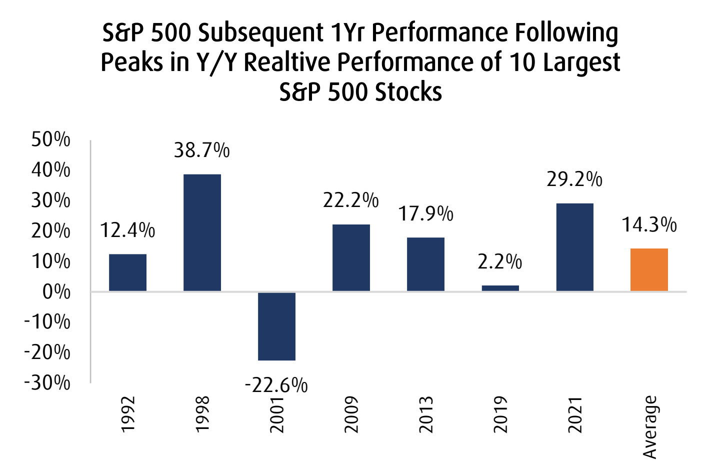
Source: BMO Capital Markets Investment Strategy Group, Bloomberg.

Exhibit 22: 2023 Is on Track to Be Best Year Ever for Largest Stocks



Source: BMO Capital Markets Investment Strategy Group, FactSet.

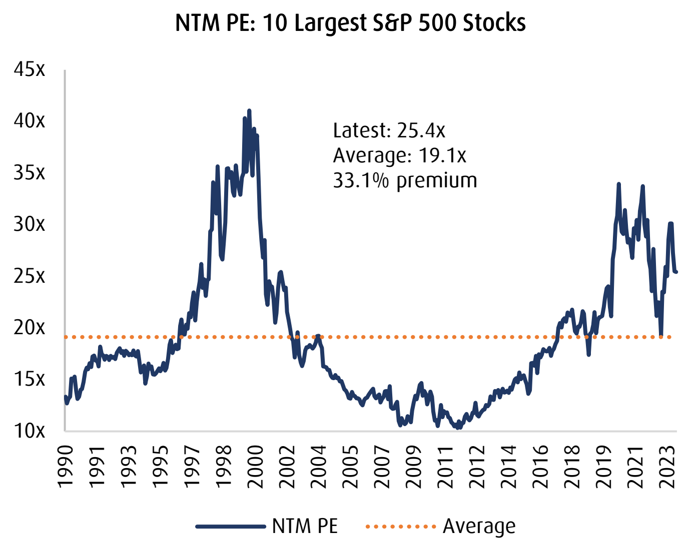
Exhibit 23: S&P 500 Can Perform When Large Stock Leadership Fades



Source: BMO Capital Markets Investment Strategy Group, FactSet.

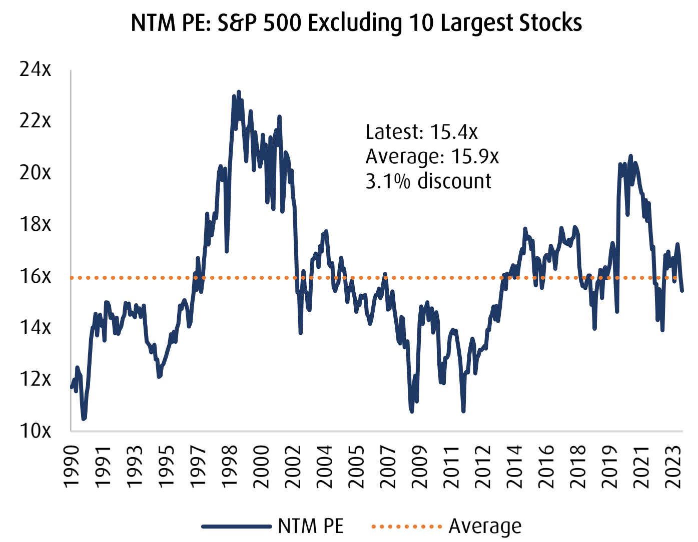
The fundamental backdrop is another reason that we expect the rest of the index to begin performing better in the coming year. Valuation for the 10 largest S&P 500 stocks is quite stretched relative to historical norms. For instance, the NTM P/E of these stocks is roughly 25.4x now, which represents more than a 33% premium to its longer-term average (Exhibit 24). By contrast, the rest of the index has an NTM P/E of 15.4x, which represents a slight discount to its longer-term average (Exhibit 25). In addition, NTM EPS growth for the 10 largest has certainly improved significantly over the past few months and probably partly responsible for the impressive performance, but similar levels have typically represented peaks in growth historically (Exhibit 26). On the other hand, NTM EPS growth for the rest of the index bottomed earlier in 2023 and has been improving ever since (Exhibit 27). Thus, we believe reasonable valuation and a recovering earnings backdrop strongly favors these stocks and would recommend that investors position portfolios accordingly.

Exhibit 24: Largest S&P 500 Stocks Trade at a Substantial Premium



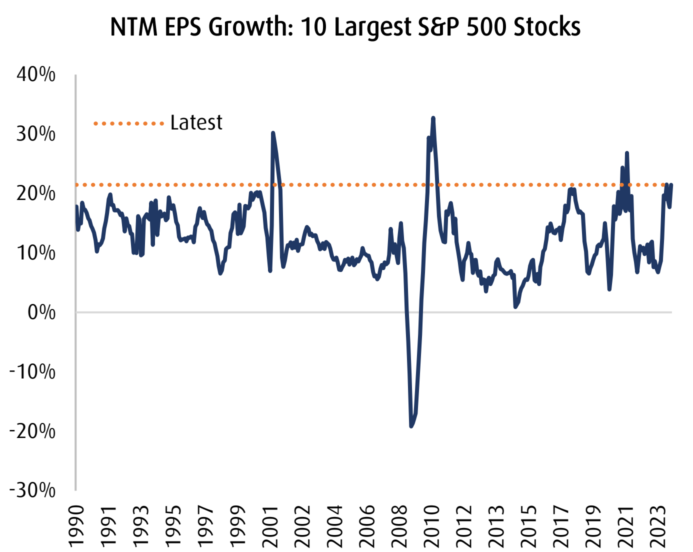
Source: BMO Capital Markets Investment Strategy Group, FactSet.

Exhibit 25: Rest of Index Trades at a Slight Discount



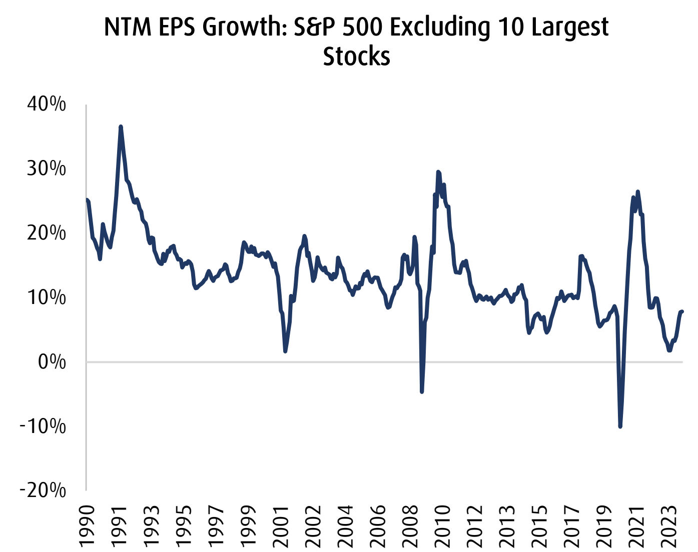
Source: BMO Capital Markets Investment Strategy Group, FactSet.

Exhibit 26: Earnings Growth of Largest Stocks May Be Peaking



Source: BMO Capital Markets Investment Strategy Group, FactSet.

Exhibit 27: Earnings Growth for Rest of Index Is in Recovery Mode



Source: BMO Capital Markets Investment Strategy Group, FactSet.

Sectors, Size, and Style Recommendations

US Sector Opinions

Exhibit 28: US Sector Opinion Summary

Sector	Opinion	Index Weight	Target Weight	BMO Investment Strategy Group Headline
Communication Services	MW	8.9	9	Paced sector performance for most of 2023, time to book some gains; neutralize growth and value positions
Consumer Discretionary	MW	10.7	11	Tough to OW when two stocks comprise 50% of sector; cannot UW and bet against the consumer; be selective
Consumer Staples	UW	6.3	5.5	Remains a defensive favorite despite underperformance last 12-months; growth remains lackluster
Energy	UW	4.1	3.5	Massively underperformed underlying commodity last 12 months; stay with the integrated names only
Financials	OW	12.8	13.5	More hated now than 2009; the best value proposition in US stocks by a long shot; focus on scale
Health Care	MW	12.6	12.5	COVID-19 overhang hurting pharma; focus on value names with steady cash flow, dividends, and stable earnings
Industrials	MW	8.3	8.5	Quintessential stock pickers sector; lack of dominant name in sector makes bottom up opinions more vital
Information Technology	OW	29.1	30	Not just about The Magnificent 7 – own the core "Consumer Staples Tech" and sharpen selectivity
Materials	UW	2.4	1.5	Lagging underlying commodities in most cases; akin to Energy, will falter if global growth slows
Real Estate	MW	2.4	2.5	Contrarian play, as Real Estate fears are very consensus; focus on consistent payouts
Utilities	MW	2.4	2.5	Very oversold; multiples have come back to reality, but debt to equity remains elevated; own dividend growth

Source: BMO Capital Markets Investment Strategy Group; Key: OW: Overweight, MW: Market Weight, UW: Underweight

Exhibit 29: S&P 500 Annual Sector Performance

Year	COMSV	COND	CONS	ENRS	FINL	HLTH	INDU	INFT	MATR	RELS	UTIL	SPX
1990	-17.7%	-14.9%	12.4%	-1.4%	-42.1%	14.1%	-10.2%	0.3%	-13.9%		-7.3%	-6.6%
1991	7.9%	38.3%	38.4%	2.4%	43.8%	50.2%	26.0%	6.6%	21.5%		16.0%	26.3%
1992	11.0%	17.5%	3.0%	-2.3%	19.8%	-18.1%	6.8%	0.6%	7.2%		0.3%	4.5%
1993	10.8%	12.8%	-6.3%	11.2%	7.8%	-11.0%	15.8%	20.5%	10.5%		7.8%	7.1%
1994	-8.4%	-9.9%	6.8%	-0.4%	-6.4%	10.2%	-4.8%	19.1%	3.3%		-17.2%	-1.5%
1995	37.3%	18.2%	36.2%	26.0%	49.6%	54.5%	35.9%	38.8%	17.3%		25.2%	34.1%
1996	-2.2%	10.5%	23.2%	21.7%	31.9%	18.8%	22.7%	43.3%	13.4%		0.2%	20.3%
1997	37.1%	32.3%	30.5%	22.0%	45.4%	41.7%	25.0%	28.1%	6.3%		18.4%	31.0%
1998	49.3%	39.6%	13.9%	-2.0%	9.6%	42.3%	9.3%	77.6%	-8.0%		10.0%	26.7%
1999	17.4%	24.1%	-16.6%	16.0%	2.3%	-11.6%	19.9%	78.4%	23.0%		-12.8%	19.5%
2000	-39.7%	-20.7%	14.5%	13.2%	23.4%	35.5%	4.5%	-41.0%	-17.7%		51.7%	-10.1%
2001	-13.7%	1.9%	-8.3%	-12.3%	-10.5%	-12.9%	-7.0%	-26.0%	1.0%		-32.5%	-13.0%
2002	-35.9%	-24.4%	-6.3%	-13.3%	-16.4%	-20.0%	-27.6%	-37.6%	-7.7%	-15.1%	-33.0%	-23.4%
2003	3.3%	36.1%	9.2%	22.4%	27.9%	13.3%	29.7%	46.5%	34.8%	20.8%	21.1%	26.4%
2004	16.0%	12.1%	6.0%	28.8%	8.2%	0.2%	16.0%	2.1%	10.8%	21.9%	19.6%	9.0%
2005	-9.0%	-7.4%	1.3%	29.1%	3.7%	4.9%	0.4%	0.4%	2.2%	7.4%	12.8%	3.0%
2006	32.1%	17.2%	11.8%	22.2%	16.2%	5.8%	11.0%	7.7%	15.7%	36.8%	16.9%	13.6%
2007	8.5%	-14.3%	11.6%	32.4%	-20.8%	5.4%	9.8%	15.5%	20.0%	-20.5%	15.8%	3.5%
2008	-33.6%	-34.7%	-17.7%	-35.9%	-56.9%	-24.5%	-41.5%	-43.7%	-47.0%	-45.0%	-31.5%	-38.5%
2009	2.6%	38.8%	11.2%	11.3%	14.8%	17.1%	17.3%	59.9%	45.2%	20.8%	6.8%	23.5%
2010	12.3%	25.7%	10.7%	17.9%	10.8%	0.7%	23.9%	9.1%	19.9%	28.0%	0.9%	12.8%
2011	0.8%	4.4%	10.5%	2.8%	-18.4%	10.2%	-2.9%	1.3%	-11.6%	7.9%	14.8%	0.0%
2012	12.5%	21.9%	7.5%	2.3%	26.3%	15.2%	12.5%	13.1%	12.2%	16.2%	-2.9%	13.4%
2013	6.5%	41.0%	22.7%	22.3%	33.2%	38.7%	37.6%	26.2%	22.7%	-1.5%	8.8%	29.6%
2014	-1.9%	8.0%	12.9%	-10.0%	13.1%	23.3%	7.5%	18.2%	4.7%	26.1%	24.3%	11.4%
2015	-1.7%	8.4%	3.8%	-23.6%	-3.5%	5.2%	-4.7%	4.3%	-10.4%	1.2%	-8.4%	-0.7%
2016	17.8%	4.3%	2.6%	23.7%	20.1%	-4.4%	16.1%	12.0%	14.1%	0.0%	12.2%	9.5%
2017	-6.0%	21.2%	10.5%	-3.8%	20.0%	20.0%	18.5%	36.9%	21.4%	7.2%	8.3%	19.4%
2018	-16.4%	-0.5%	-11.2%	-20.5%	-14.7%	4.7%	-15.0%	-1.6%	-16.4%	-5.6%	0.5%	-6.2%
2019	30.9%	26.2%	24.0%	7.6%	29.2%	18.7%	26.8%	48.0%	21.9%	24.9%	22.2%	28.9%
2020	22.2%	32.1%	7.6%	-37.3%	-4.1%	11.4%	9.0%	42.2%	18.1%	-5.2%	-2.8%	16.3%
2021	20.5%	23.7%	15.6%	47.7%	32.5%	24.2%	19.4%	33.4%	25.0%	42.5%	14.0%	26.9%
2022	-40.4%	-37.6%	-3.2%	59.0%	-12.4%	-3.6%	-7.1%	-28.9%	-14.1%	-28.4%	-1.4%	-19.4%
2023	51.7%	32.5%	-5.0%	-4.5%	2.7%	-4.3%	7.7%	50.9%	3.8%	-2.5%	-12.0%	18.7%

Source: BMO Capital Markets Investment Strategy Group. Performance calculated through 11/22/23. REITs are used as a historical proxy for the Real Estate sector, which was officially established in Sept. 2016.

US Sectors

Overview = Own the Winners (Tech for Growth) and Be Contrarian (Financials for Value)

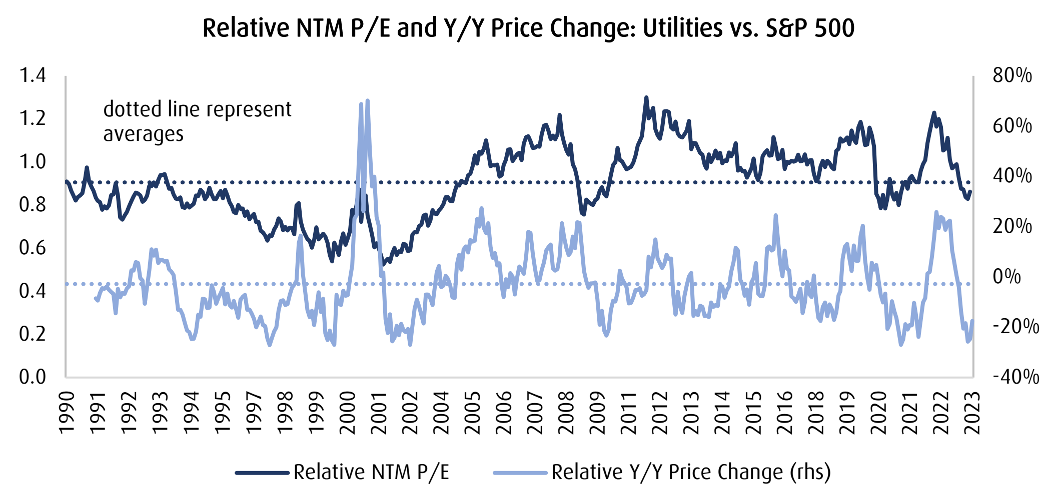
Welcome to everything in moderation. To be clear, having two sectors out of eleven as overweight positions heading into 2024 might not be considered an exciting allocation. However, as performance broadens out, we believe sector calls will be become less important relative to bottom-up stock picking. In fact, for most of 2023, disparity with respect to price performance, earnings growth, and valuation has been steadily increasing within most sectors according to our work. Furthermore, when the three most important secular growth sectors in our view (Technology, Discretionary, and Communication Services) are unilaterally dominated in terms of performance by one or two stocks, the likelihood of that domination should "normalize". This is not to say those stocks/sectors will underperform – to the contrary. Given our view of each sector's secular fundamental prowess, we believe other constituents and industries will "pick up the slack". We believe this favors Technology over both Communication Services and Discretionary considering the relative and absolute size of the sector, number of companies, diversification, and most importantly, impressive cash flow, dividend growth, and earnings stability. For Financials – everyone's favorite sector to hate – we believe the sector is primed for a massive contrarian reversal. First off, most institutional investors are very underexposed and have been overemphasizing the negative "what ifs" – including, but not limited to, credit blowing up, real estate melting down, expansive loan losses, and unmanageable consumer debt. None of these have materialized to date. As such, we continue to believe the theme of owning scale within Financials remains key, thereby benefitting money center banks, brokerages, and asset managers. We also believe stabilizing bond yields over the next few years will only help regional banks (M&A remains a major theme, to combat competition with money center banks) as well as select private equity companies.

Sector Changes

Upgrading Utilities to Market Weight From Underweight

- As strategists, we have admittedly been reluctant to favor Utilities for most of our career. Our reasoning has mostly been defined by our concerns regarding the sector's traditional premium, if not downright expensive valuation metrics, decelerating cash flow, and inhibiting debt to equity ratios that have been commonplace for Utilities for most of the past 20 years.
- However, thanks to one of the sharpest pullbacks in price and valuation in decades, Utilities are no longer expensive according to our models. Furthermore, the sector is likely to benefit from stabilizing, if not likely compressed bond yields in 2024.

Exhibit 30: Relative Valuation and Performance Trends Suggest a Turnaround for Utilities



Source: BMO Capital Markets Investment Strategy Group, FactSet.

Downgrading Communication Services to Market Weight From Overweight

- While we continue to believe Communication Services is a secular growth leader along with Technology and parts of Consumer Discretionary, we are choosing to "book our gain." Most investors have quickly forgotten that the sector was universally disliked heading into 2023, only to benefit from the tax-loss selling reversal that essentially kicked off the Magnificent 7 run during the first half of 2024.
- We would advise investors to neutralize the barbell within the sector by adding more exposure to the yield, value, and contrarian areas within the sector relative to the higher-octane mega caps.

Exhibit 31: Communication Services Barbell Fundamental Snapshot

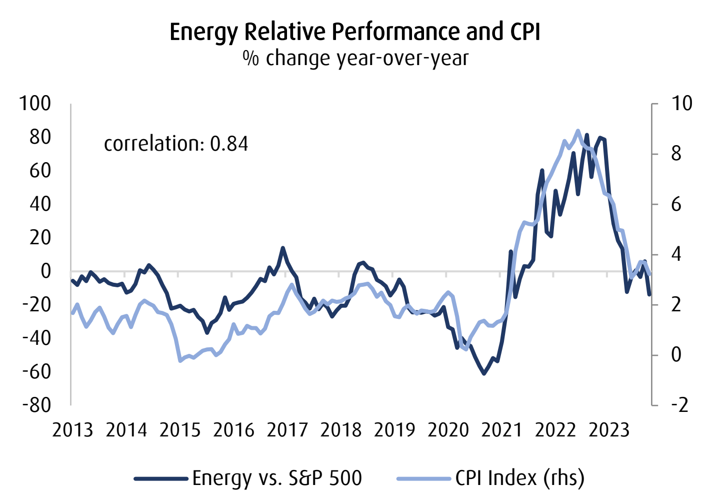
Ticker	Company	YTD Price Change	NTM P/E	2024E EPS Growth	Dividend Yield
Growth Stocks					
GOOGL	Alphabet Inc. Class A	53.4%	20.4	16.6%	0%
META	Meta Platforms Inc. Class A	178.4%	19.5	21.3%	0%
NFLX	Netflix, Inc.	58.0%	30.0	30.6%	0%
	Average:	**96.6%**	**23.3**	**22.8%**	**0%**
Value Stocks					
T	AT&T Inc.	-13.6%	6.4	3.0%	7.0%
VZ	Verizon Communications Inc.	-8.0%	7.8	-1.7%	7.3%
CMCSA	Comcast Corporation Class A	21.3%	10.0	9.3%	2.7%
DIS	Walt Disney Company	8.4%	20.1	19.9%	0.0%
	Average:	**2.0%**	**11.1**	**7.7%**	**4.3%**

Source: BMO Capital Markets Investment Strategy Group, FactSet.

Downgrading Energy and Materials to Underweight From Market Weight

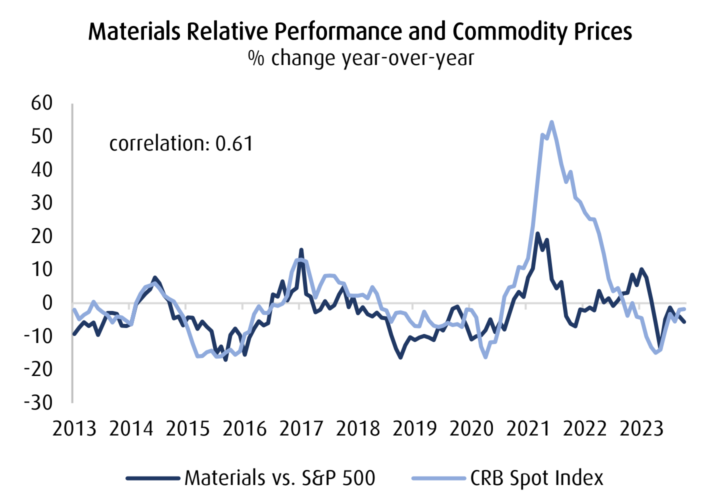
- Both sectors displayed disappointing performance in 2023 as oil and commodity prices slid throughout the year. As such, we believe both sectors will likely remain under pressure in 2024 as consensus forecasts are for lower inflation and slower global growth, which should lead to continued deceleration in underlying commodity prices, in our view.
- Focus on integrated oil companies with steady dividend yields within Energy and paper/forest products and gold in Materials.

Exhibit 32: Lower Expected Inflation Is a Big Challenge for Energy



Source: BMO Capital Markets Investment Strategy Group, FactSet, BLS.

Exhibit 33: Lower Commodity Prices Likely to Weigh on Materials



Source: BMO Capital Markets Investment Strategy Group, FactSet, CRB.

US Size and Style – ELE – Everybody Love Everybody

Exhibit 34: US Size and Style Opinions

Sector	Opinion	Comments
Large cap (LC)	MW	Outsized move in 2023 is likely precursor to broader participation in 2024; maintain exposure to stability; add risk down cap
Mid cap (MC)	MW	Massive discount to large cap in terms of valuation; earnings more mixed relative to small, but operating performance solid
Small cap (SC)	MW	Valuation at all-time lows relative to large and mid; earnings are improving faster than mid; slight tilt over mid cap
Value	MW	Traditional value sectors should drive performance, barbells within Comm Services and Health Care will also bolster
Growth	MW	Perception of lower bond yields, let alone stabilization will maintain the Growth bid; focus on steady earnings and cash flow

Source: BMO Capital Markets Investment Strategy Group; Key: OW: Overweight, MW: Market Weight, UW: Underweight

Exhibit 35: S&P 500 Style and Size Annual Performance

Year	SPX	SGX	SVX	MID	SML
1995	34.1%	35.6%	32.5%	28.6%	28.6%
1996	20.3%	21.9%	18.7%	17.3%	20.1%
1997	31.0%	34.7%	27.1%	30.4%	24.5%
1998	26.7%	40.6%	12.5%	17.7%	-2.1%
1999	19.5%	27.3%	10.7%	13.3%	11.5%
2000	-10.1%	-22.5%	4.2%	16.2%	11.0%
2001	-13.0%	-13.5%	-13.2%	-1.6%	5.7%
2002	-23.4%	-24.5%	-22.5%	-15.4%	-15.3%
2003	26.4%	23.9%	29.0%	34.0%	37.5%
2004	9.0%	4.7%	13.3%	15.2%	21.6%
2005	3.0%	2.5%	3.5%	11.3%	6.7%
2006	13.6%	9.4%	18.0%	9.0%	14.1%
2007	3.5%	7.7%	-0.4%	6.7%	-1.2%
2008	-38.5%	-35.9%	-41.2%	-37.3%	-32.0%
2009	23.5%	29.3%	17.4%	35.0%	23.8%
2010	12.8%	13.2%	12.4%	24.9%	25.0%
2011	0.0%	2.8%	-2.9%	-3.1%	-0.2%
2012	13.4%	12.4%	14.7%	16.1%	14.8%
2013	29.6%	30.4%	28.8%	31.6%	39.7%
2014	11.4%	13.0%	9.6%	8.2%	4.4%
2015	-0.7%	3.8%	-5.6%	-3.7%	-3.4%
2016	9.5%	5.1%	14.3%	18.7%	24.7%
2017	19.4%	25.4%	12.6%	14.5%	11.7%
2018	-6.2%	-1.4%	-11.3%	-12.5%	-9.8%
2019	28.9%	29.1%	28.6%	24.1%	20.9%
2020	16.3%	32.0%	-1.4%	11.8%	9.6%
2021	26.9%	31.0%	22.2%	23.2%	25.3%
2022	-19.4%	-30.1%	-7.4%	-14.5%	-17.4%
2023	18.7%	24.1%	12.7%	4.9%	0.9%

Source: BMO Capital Markets Investment Strategy Group. Performance calculated through 11/22/23.

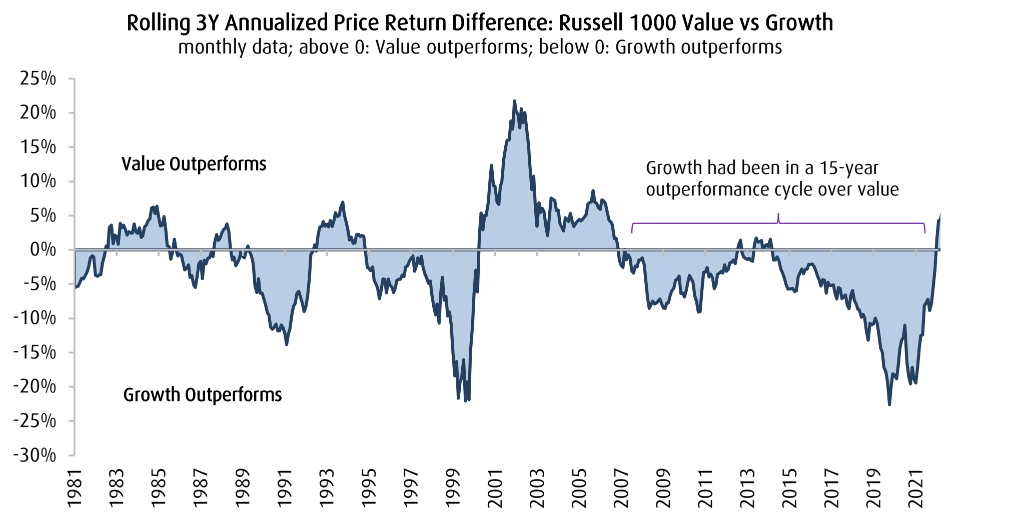
Value and Growth Coexisting

Following our broader theme of normalization and moderation, we believe US value and growth stocks are heading into "coexist mode". Gone are the days of massive multi-year periods of outperformance of growth over value. While we continue to focus less on the actual growth and value indices and more on the underlying stocks, it is important to note that the S&P Value Index has only outperformed in three calendar years since the GFC. Growth has clearly carried the mantle of momentum and performance during the QE era, but is likely to give way (not underperform, but share) performance with Value going forward.

- Value Playbook: Dividend growth massively underperformed in 2023, mostly due to Financials, but also the impact of higher bond yields on Utilities and REITs and other traditional ultra-defensive areas. Thanks to declining and/or stabilizing bond yields, this trend should reverse as 2024 unfolds. Therefore, value investors should invest accordingly and overweight positions that exhibit traditional dividend growth attributes as well as GARP (growth at a reasonable price) and YARP (yield at a reasonable price) characteristics.

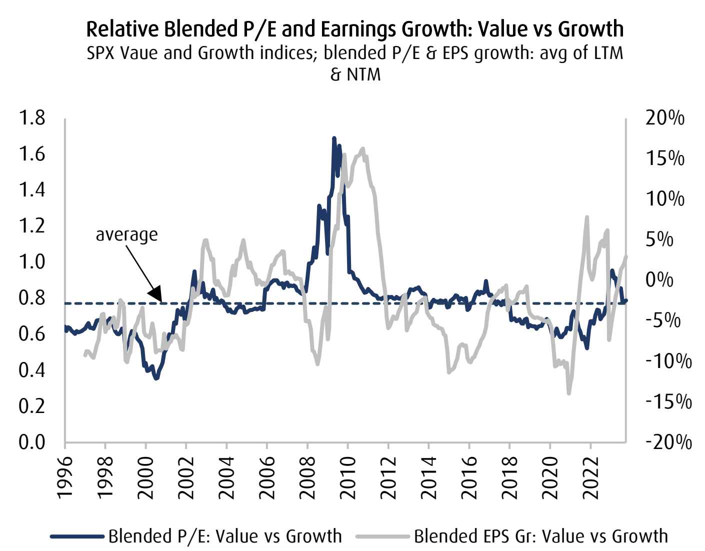
- Growth Playbook: We believe there is a very good chance that the "Magnificent 7" will not be as unified in terms of performance trends in 2024. For instance, company-specific fundamentals are very different, with recent price performance trends in the 4Q portending to increasingly varied performance in 2024. This likely opens the door for increased participation with traditional growth areas (especially within Technology), a trend that would be very healthy in our view. Given the outperformance of growth, we believe investors should be much more prudent and focus on themes (not just liquidity or momentum), stable growth, and even dividends within Growth sectors.

Exhibit 36: Style Cycles Tend to Be Long-Lasting, Indicating That Recent Value Shift May Be Here to Stay



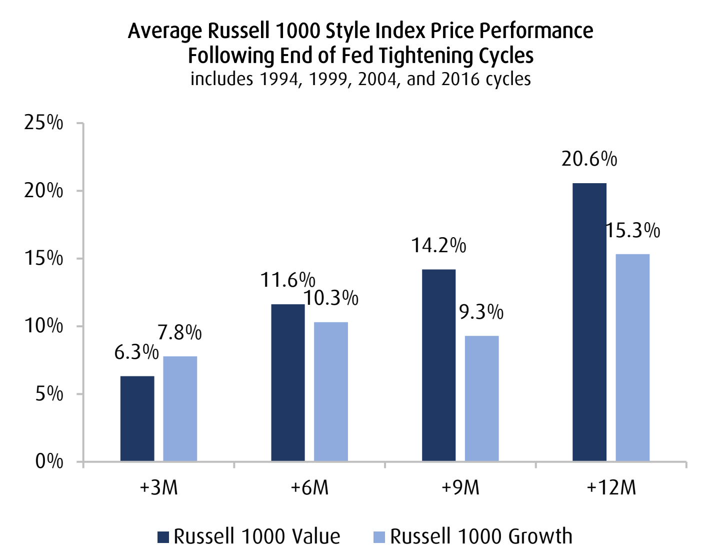
Source: BMO Capital Markets Investment Strategy Group, FactSet, Russell.

Exhibit 37: Value Offering Reasonable Valuation With Stronger Growth



Source: BMO Capital Markets Investment Strategy Group, FactSet.

Exhibit 38: Value Tends to Outperform Following End of Rate Hikes



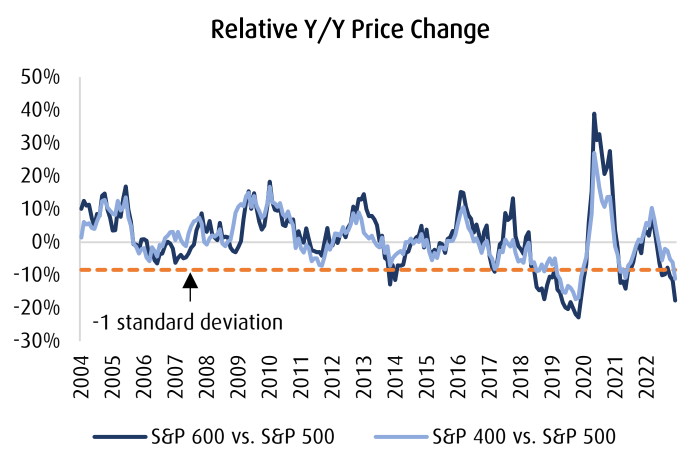
Source: BMO Capital Markets Investment Strategy Group, FactSet, Russell.

Let's Get Smaller

There's no other way to paint it, small- and mid-cap stocks dramatically underperformed in 2023. Each of the following compounded at least some of the issues facing smaller US companies in 2023 – from the US banking woes and their perceived impact, to fears surrounding longer duration assets, to the general (and more common sense) move to liquidity (larger companies). However, despite the broader headwinds, small- and mid-cap stocks thanks in part to remarkable cash flow and operating performance weathered the storm in our view. As such, with earnings growth beginning to follow suit (especially in small-cap stocks) and valuation and performance displaying multi-year, if not all-time lows, we believe it is appropriate to add to small- and mid-cap stocks heading into 2024.

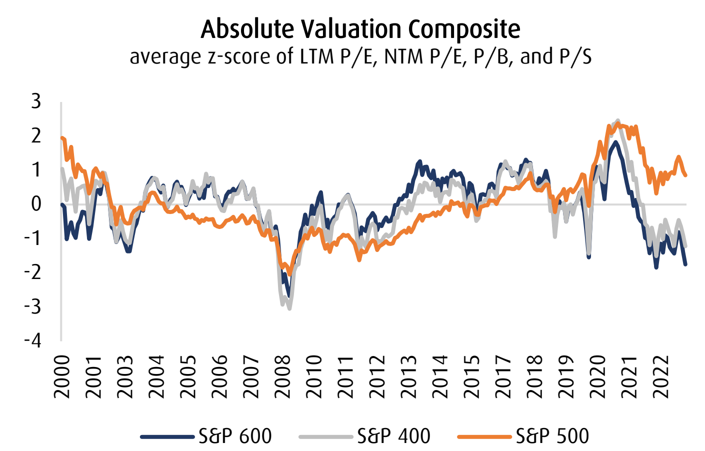
- Equalize small-, mid- and large-cap positions (most all-cap and core investors are excessively underweight small- and mid-cap in our view).
- Slight advantage to small-cap, given massive underperformance and potential stabilization of earnings growth relative to mid-cap.
- Focus on dividend growth and cash flow prowess for stability (especially Financials and select defensives) and bottom fish stable growth in secular growers (Comm Services, Discretionary, Technology and Health Care).

Exhibit 39: SMID Appears Significantly Oversold



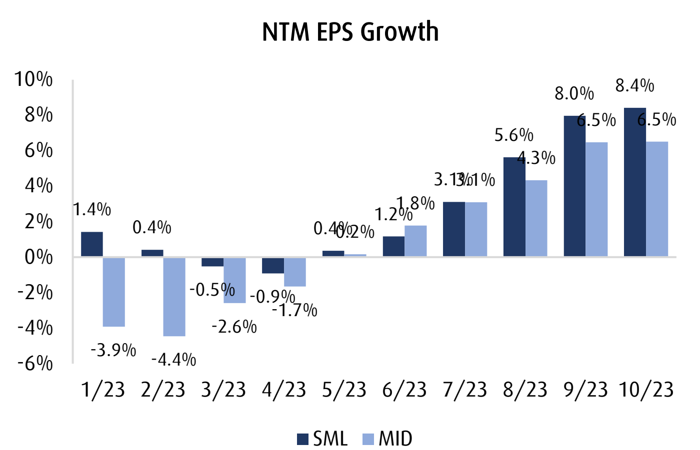
Source: BMO Capital Markets Investment Strategy Group, FactSet.

Exhibit 40: SMID Trades at Substantial Discounts



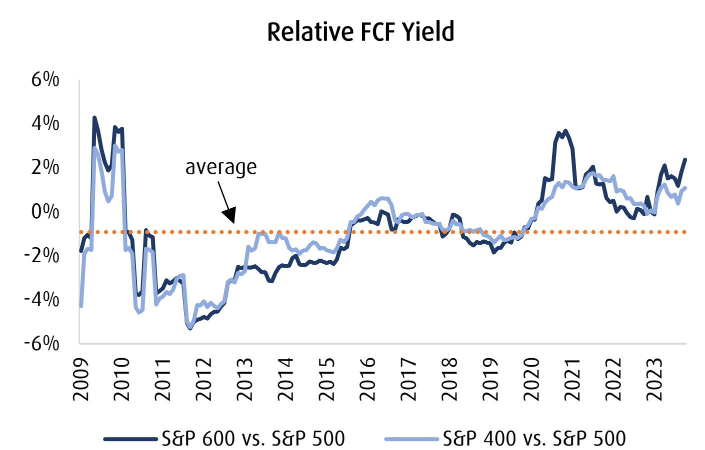
Source: BMO Capital Markets Investment Strategy Group, FactSet.

Exhibit 41: SMID EPS Growth Has Rebounded Sharply



Source: BMO Capital Markets Investment Strategy Group, FactSet.

Exhibit 42: SMID Has Improved Cash Flow



Source: BMO Capital Markets Investment Strategy Group, FactSet.

2024 Market Outlook – Canada

The Return of "Tigger"

Several years ago, we began to refer to the Canadian stock market, economy, and investors as the literal equivalent to the mythical creature "Eeyore" from "Winnie the Poo". An "Eeyore" extrapolates the negative conditions or rainy weather today to a stormy environment and fear of tomorrow. Welcome to the current Canadian climate heading into 2024. To be clear, we mean no disrespect when labeling the Canadian stock market and investors as Eeyore. To the contrary, we respect it and have continued to learn from it. After all, defense is usually the best offense. However there comes a time when common sense, reality, and yes, fundamentals lead us to a different conclusion relative to the consensus for 2024. Stating the obvious, Canadian investing trends in 2023 were dominated by macro data points (actual and potential – that have yet to transpire by the way), resulting in the S&P/TSX posting its worst performance versus the S&P 500 since 2015. Yes, this comes after strong outperformance relative to most other developed markets and its neighbor to the south in 2022. However, for our part, we believe the depth of underperformance underscores the paralyzing pessimism that traditionally persists in Canada relative to the increasingly clear fact that recent softness in domestic economic activity is more than priced in at current valuations. Furthermore, the economic "Armageddon" that most investors have been basing their investment decisions on for the past several months has not occurred and has once again been way overblown. Indeed, given the strong value position of the TSX relative to other global markets, we continue to believe Canada is well-positioned for an extended period of NORMALIZATION that we expect to unfold over the coming years. Furthermore, as growth begins to re-accelerate in the second half of 2024, we believe this pessimism will turn to optimism, driving a long-overdue valuation expansion into the end of the year. Overall, while our initial target was not reached in 2023, we believe the rebound we expected for the Canadian stock market was only just delayed as investors digested the impact of higher rates. As such, as the reality of a more resilient economy and rebounding earnings growth in the second half transpires, we believe the TSX can and will attain higher prices with a 2024 year-end price target of 23,500 on earnings of $1,500. This represents just over a 16% return based on our current price and a multiple improvement to 15.7x from the current level below 14x – still well below the long-term average multiple of 17x. Yes, Canada is the contrarian call in 2024.

Valuation Normalization With a Dose of Downside Protection

Yes, Canada offers asymmetric upside, in our opinion. As we have written about extensively, valuation normalization favors Canada longer term, a process that should also add downside protection during periods of heightened volatility. Firstly, TSX valuation is well below historical average multiples and trading near recession trough valuations, in our opinion. As such, as earnings confidence improves and overall growth transitions back toward more historical "normal" high-single digits, we believe TSX valuations will slowly normalize back toward historical averages (see Exhibits 43 and 44). Secondly, with a massive amount of pessimism priced in, Canadian equities will likely continue to see downside protection during bouts of heightened volatility (see Exhibit 45).

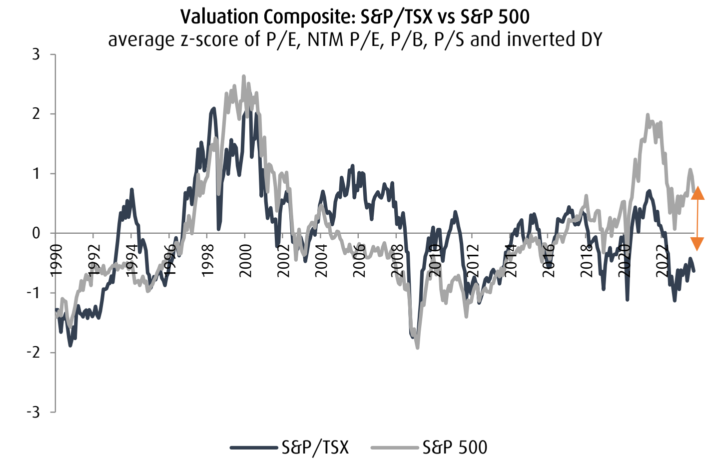
Broadening US Performance = Stronger TSX

We believe the broadening out of equity performance should and will benefit Canadian equities heading into and in 2024. In fact, the concentration of US Equity performance in the mega-cap stocks has been a key defining characteristic of global equity performance so far in 2023. As such, we believe as US equity market performance broadens out heading in 2024, and investor confidence improves from the current dreadful levels, such trends will also benefit Canadian equity performance. In fact, the TSX has been highly correlated to the S&P 500 excluding these mega-cap names, suggesting to us that broadening US performance equals a stronger TSX (see Exhibit 46).

US Will Remain the Key Driver of Growth

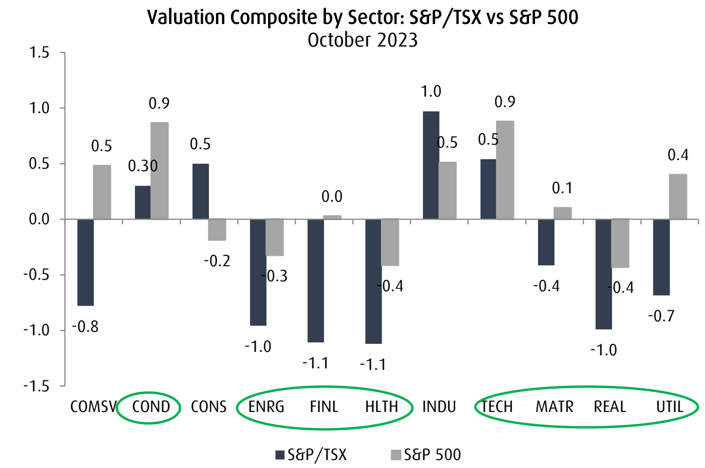
While there has been some clear economic divergence between Canada and the US, we believe Canadian investors should remain focused on the leading nature of US economic activity when looking at the broader growth trajectory of Canadian equity markets. Indeed, Canadian economic growth and earnings growth are highly correlated with the US, with only minor historical deviations (see Exhibit 47). As such, investors should stay focused on the improving US earnings growth outlook which will continue to drive performance over the longer term, in our opinion. Yes, "As America goes, so goes Canada".

Exhibit 43: Valuation Spread Persists



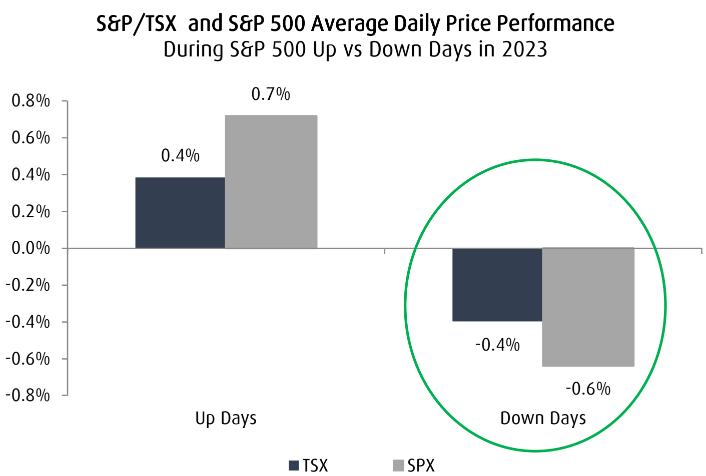
Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

Exhibit 44: Canadian Value Is Broad-Based



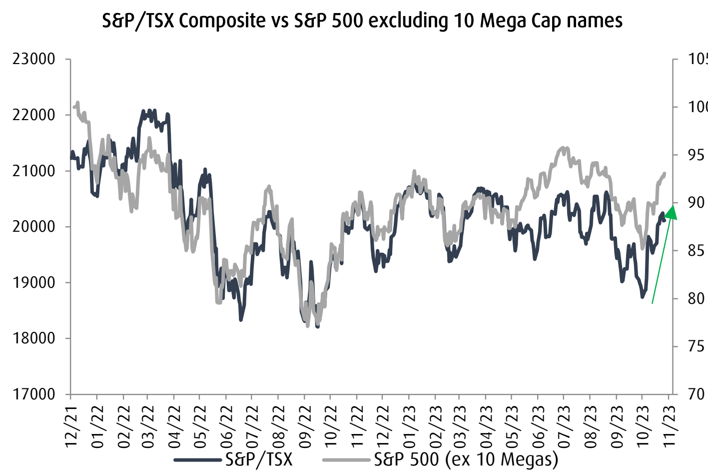
Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES

Exhibit 45: TSX = Downside Protection for Second Year in a Row



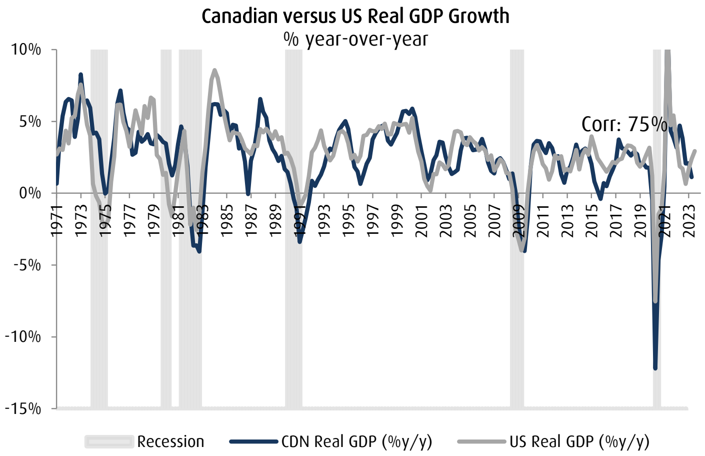
Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

Exhibit 46: Broadening US Performance Will Benefit Canada



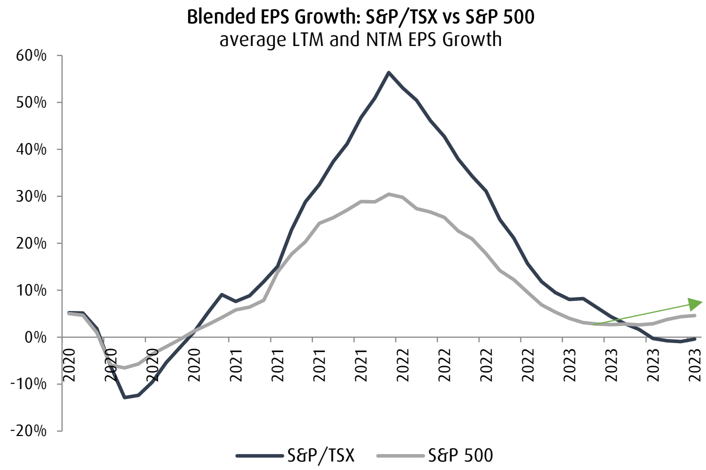
Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES

Exhibit 47: Ultimately, Canadian Growth Is Driven by US Growth



Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

Exhibit 48: US Earnings Growth Is Rebounding, Canada to Follow



Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES

S&P/TSX Price Target 23,500

From our perspective, 2023 has been a disappointing year for Canadian equities as the TSX has clearly struggled to keep pace with the S&P 500. However, despite this underperformance our work suggests a lot of negativities are already priced into Canadian equities. As such, the recovery we expected in 2023 has likely been delayed to 2024 when we believe investors will begin to see through the economic and interest rate rhetoric that has dominated this year. Overall, we believe the downside is likely to be more limited in Canada and the upside potential is far greater, particularly when investor confidence broadens out. Our base case assumes softer commodity prices, but a slowly improving growth profile into the end of 2024. We believe this will add support for further valuation improvement into the end of 2024, with the TSX reaching a new all-time high of 23,500. This represents just over a 16% annual return based current price and a multiple improvement to 15.7x from the current below 14x, and still well below the long-term average multiple of 17x. Additionally, we believe active investment strategies will remain a key pillar for 2024. In other words, investors will need to remain nimble throughout the year rotating in and out of areas to take advantage of what we think will be evolving market conditions particularly in the first half of the year.

S&P/TSX EPS Target $1,500

As expected, the TSX experienced a minor earnings contraction this year with S&P/TSX EPS declining around 6% in 2023. However, earnings expectations have already started to stabilize, with strong positive surprise in the third quarter and net positive revisions seen over the last few months. As such, we believe 2024 will see a mild earnings recovery, with the bulk of the recovery occurring in the second half of the year. Overall, we expect growth to normalize back to the mid- to low single-digit range by the end of the year and into 2025. This should be supportive of valuation expansion through 2024. We expect the twelve-month trailing P/E to expand to 15.7x by the end of 2024 from the current sub 14x LTM P/E. Yes, this remains firmly below the long-run average trailing P/E of 17x leaving significant room for further valuation expansion over the coming years.

Exhibit 49: 2024 S&P/TSX Composite Target Scenarios

Scenario	Price	EPS	Rationale
Bull	26,000	$1,600	US economy avoids recession, Canadian economy rebounds sooner than most think, inflation declines more rapidly than expected and longer-term interest rates slowly decline. • Leads to better multiple expansion and normalization. • Earnings surprise to the upside so TSX hits new all-time high.
Base	23,500	$1,500	Slow economic growth to start the year with 2H economic recovery, rates stabilize, and inflation slowly returns to target. 10yr yield averages sub-4% and slowly declines throughout the year. • Continued slow multiple expansion and normalization. • Earnings Growth remains slow but improves in 2H so TSX hits new all-time high.
Bear	17,000	$1,200	Hard landing; high interest rates impact employment and final demand. Unemployment starts to accelerate, risk off comes back in full force, recovery pushed to 2025 or further. • Multiples DO NOT expand (maybe even compress further) • Earnings follow typical "recession" decline (-20-30%).

Source: BMO Capital Markets Investment Strategy Group, Bloomberg.

Exhibit 50: 2023 & 2024 S&P/TSX Targets

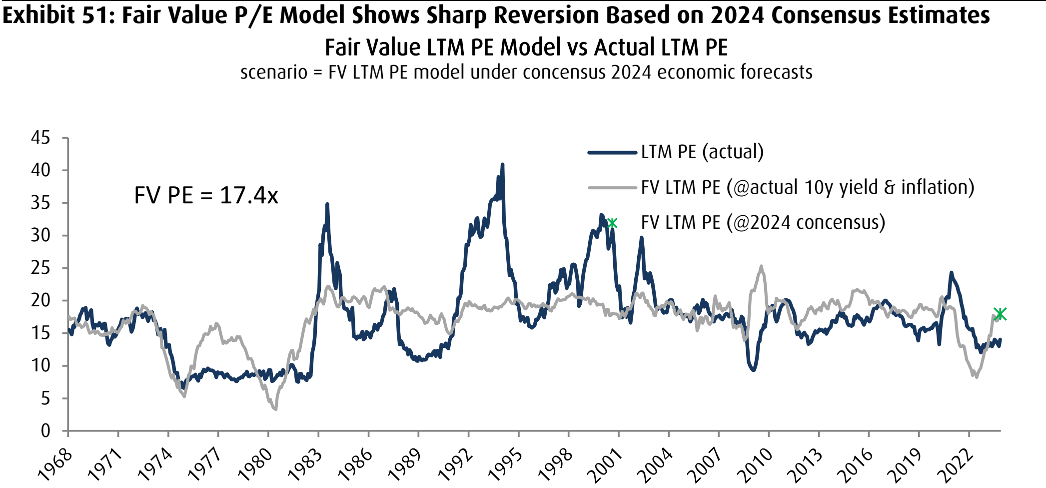
Price Target			
Model	**Category**	**2023E**	**2024E**
Dividend Discount Model	Fundamental	22,500	22,925
Fair Value Price-to-Earnings Model	Valuation	25,100	25,444
EPS Revision Model	Mean Reversion	20,025	23,100
Macroeconomic Regression Model	Macro	22,674	22,156
Expected Return*		4.4%	16.8%
Latest S&P/TSX Close		20,114	
Price Target		21,000	23,500
Earnings Per Share Target			
Model	**Category**		
Macroeconomic Regression Model	Macro	1,443	1,443
Mean Consensus Regression Model	Fundamental	1,450	1,502
Mean Consensus	Fundamental	1,432	1,588
Expected EPS Growth		-6.4%	3.4%
Prior Year S&P/TSX EPS**		$1,552	1,450
EPS Target		$1,450	1,500
Implied P/E		**14.1x**	**15.7x**

*Based on 11/22/2023 closing price. **Based on our prior year EPS target if EPS is not fully reported for index.
Source: BMO Investment Strategy Group.

Key Notes on Our Models and Underlying Assumptions

Our models were built on BMO Economics outlook for GDP growth and interest rates, and consensus outlook for commodity prices. The models assume inflation trends back to target while interest rates stabilize but remain high, and commodity prices are soft through 2024. Given the front-loaded economic weakness in these forecasts and slightly negative commodity prices, our regression model is showing a more modest gain for the TSX. Meanwhile our fair value P/E model shows the potential upside for valuation reversion in 2024 if inflation and interests rates follow the consensus script. This model uses a regression of the relationship between long-term interest rates and inflation to derive a long-term fair value P/E. When we apply the 2024 consensus estimates for the US 10-year yield and inflation, and then apply that to our 2024 EPS estimate, the model implies a fair value target of above 25,000 for the TSX. Indeed, this model shows valuations reverting to near historical averages during the year if current consensus is achieved. Our Dividend Discount model remains are historically most accurate model and based on consensus assumptions is show a solid gain just shy of our target.

Exhibit 51: Fair Value P/E Model Shows Sharp Reversion Based on 2024 Consensus Estimates



Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

Sectors, Size, and Style Recommendations

Canadian Sector Opinions

Exhibit 52: Canadian Sector Opinion Summary

Sector	Opinion	Index Weight	Target Weight	BMO Investment Strategy Group Headline
Communication Services	OW	3.9%	4.5%	Excessively oversold; challenges to pure yield remains elevated; largest YoY relative weighting loss in TSX.
Consumer Discretionary	OW	3.7%	4.5%	Contrarian play in the face of economic concerns; however, well managed companies + cyclical tail wind.
Consumer Staples	UW	4.5%	3.5%	Easing inflationary pressure in 2024 will likely be key headwind within an already expensive sector.
Energy	MW	18.3%	18.0%	Fundamentally sound = deep value, strong cash generation; possible oil price weakness provides resistance.
Financials	OW	30.2%	31.5%	Pessimism is at historic extremes; steadfastly maintaining holdings, especially with large US platforms.
Health Care	UW	0.3%	0%	Prefer U.S for diversification.
Industrials	UW	13.2%	12.0%	Expensive, earnings have struggled to meet expectations; focus on areas where growth is leveraged to US.
Information Technology	OW	8.5%	9.0%	Strong outperformance likely has room to run but sharpen selectivity.
Materials	MW	11.1%	11.0%	Global growth slowing and underlying commodities losing momentum in the face of dissipating inflation.
Real Estate	MW	2.3%	2.0%	Canadian Real Estate is less interest sensitive relative to other high yielding sectors, particularly since 2002.
Utilities	MW	4.0%	4.0%	Very oversold, multiples have come back to reality, focus on dividend growth over yield

Source: BMO Capital Markets Investment Strategy Group. Key: OW: Overweight, MW: Market Weight, UW: Underweight

Exhibit 53: S&P/TSX Annual Sector Performance

Year	COMSV	COND	CONS	ENRS	FINL	HLTH	INDU	INFT	MATR	RELS	UTIL	S&P/TSX
1990	-12.6%	-25.1%	-11.4%	-10.5%	-21.7%	-21.3%	-24.3%	2.8%	-19.3%		-2.4%	-18.0%
1991	21.5%	14.0%	21.4%	-19.0%	21.1%	61.5%	-10.5%	55.9%	-3.6%		1.3%	7.8%
1992	-11.2%	-1.2%	0.9%	3.5%	-11.9%	-14.2%	-11.1%	20.0%	-1.5%		-4.4%	-4.6%
1993	16.4%	21.0%	4.0%	33.1%	27.8%	5.6%	27.6%	18.6%	56.8%		19.1%	29.0%
1994	-1.8%	-11.6%	-1.8%	-7.1%	-6.1%	13.4%	3.0%	-7.2%	4.1%		-9.6%	-2.5%
1995	2.7%	0.6%	19.4%	15.2%	14.1%	62.3%	13.7%	34.0%	7.6%		6.3%	11.9%
1996	30.9%	25.4%	15.2%	36.8%	49.9%	30.1%	30.4%	21.7%	9.7%		22.4%	25.7%
1997	39.2%	28.4%	16.2%	3.1%	49.8%	-11.1%	19.2%	40.1%	-26.2%		38.2%	13.0%
1998	21.1%	6.7%	23.6%	-30.4%	0.6%	-0.3%	-11.2%	7.6%	-12.3%		-4.0%	-3.2%
1999	85.0%	-0.5%	13.3%	26.2%	-13.0%	13.1%	4.1%	188.8%	12.4%		-30.6%	29.7%
2000	22.5%	9.5%	38.1%	46.3%	45.6%	3.8%	28.2%	-31.1%	-8.9%		42.6%	6.2%
2001	-29.6%	1.7%	27.4%	6.1%	1.3%	15.2%	5.5%	-62.1%	8.9%		6.4%	-13.9%
2002	-21.9%	-21.3%	0.9%	12.7%	-5.0%	-42.8%	-31.3%	-64.8%	5.5%		2.1%	-14.0%
2003	12.6%	19.5%	18.9%	23.6%	24.4%	1.3%	21.1%	67.0%	26.0%		19.9%	24.3%
2004	8.2%	8.3%	9.3%	28.7%	16.5%	-17.4%	0.2%	11.5%	5.7%	11.2%	5.0%	12.5%
2005	9.7%	8.6%	-2.2%	61.3%	20.5%	-3.5%	16.5%	-15.8%	13.9%	20.0%	33.1%	21.9%
2006	16.4%	13.2%	3.9%	3.2%	15.9%	-0.7%	12.7%	27.3%	38.0%	23.5%	2.1%	14.5%
2007	16.2%	1.8%	-6.8%	5.0%	-4.6%	-27.1%	8.6%	48.1%	29.1%	-11.6%	6.9%	7.2%
2008	-27.4%	-37.5%	-7.8%	-36.3%	-39.0%	-34.4%	-26.9%	-54.3%	-27.1%	-45.2%	-24.0%	-35.0%
2009	0.7%	11.1%	6.1%	35.0%	38.3%	28.6%	23.7%	44.3%	33.4%	35.0%	12.7%	30.7%
2010	16.2%	21.8%	8.3%	10.0%	6.3%	50.3%	14.4%	-11.6%	35.8%	26.4%	12.6%	14.4%
2011	19.0%	-17.9%	4.8%	-12.3%	-6.6%	49.6%	2.0%	-52.6%	-21.8%	1.1%	1.6%	-11.1%
2012	6.4%	18.7%	20.4%	-3.6%	12.8%	24.1%	12.7%	-3.2%	-6.9%	16.2%	-0.8%	4.0%
2013	8.1%	39.5%	21.4%	9.9%	19.1%	71.7%	34.9%	36.2%	-30.6%	0.5%	-8.6%	9.6%
2014	10.5%	26.4%	46.9%	-7.8%	9.8%	30.2%	20.0%	34.0%	-4.5%	18.0%	11.3%	7.4%
2015	-1.0%	-3.5%	11.0%	-25.7%	-5.5%	-15.8%	-12.5%	14.8%	-22.8%	3.1%	-7.8%	-11.1%
2016	9.9%	8.2%	6.1%	31.2%	19.3%	-78.6%	20.7%	4.4%	39.0%	4.1%	12.7%	17.5%
2017	9.9%	20.4%	6.4%	-10.0%	9.4%	32.7%	17.9%	16.2%	6.3%	5.8%	6.2%	6.0%
2018	-5.3%	-17.7%	0.6%	-21.5%	-12.6%	-16.6%	-3.9%	12.5%	-10.6%	-2.8%	-13.4%	-11.6%
2019	8.2%	13.1%	12.8%	16.2%	16.9%	-11.4%	23.6%	63.5%	22.1%	17.4%	31.6%	19.1%
2020	-8.3%	14.4%	2.8%	-30.8%	-2.9%	-23.6%	15.3%	80.3%	19.5%	-13.0%	10.6%	2.2%
2021	19.1%	16.3%	20.6%	41.8%	31.6%	-20.1%	15.1%	18.3%	2.3%	33.1%	7.5%	21.7%
2022	-7.0%	-8.1%	8.5%	24.4%	-12.7%	-62.2%	0.2%	-52.2%	-0.2%	-24.3%	-14.0%	-8.7%
2023	-8.7%	6.0%	11.7%	3.7%	0.1%	2.1%	3.7%	61.3%	-6.2%	-5.0%	-7.3%	3.8%

REITs are used as a historical proxy for the Real Estate sector which was officially established in Sept. 2016.
Source: BMO Capital Markets Investment Strategy Group. Performance calculated through 11/22/23.

Canadian Sectors

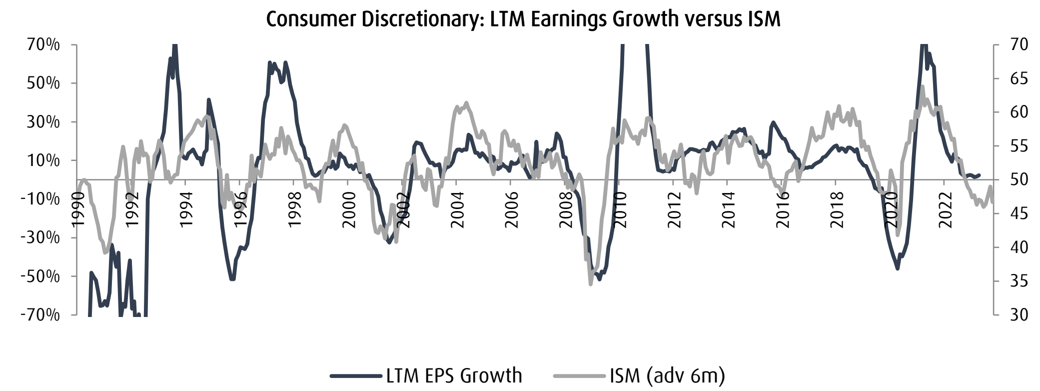
Overview = Own the Winners (Tech for Growth) and Be Contrarian (Financials and Communication Services for Value and Consumer Discretionary for Cyclical Rotation)

Akin to the US, Canadian sector investing should be equated to everything in moderation, with a bit more of a contrarian twist. While a broadening out of equity performance should benefit Canadian equities, the results will likely be sector agnostic for the most part. As such, we are employing only modest Overweight and Underweight stances heading into 2024 as we believe sector calls will be become less important relative to bottoms-up stock picking. Furthermore, the "normalization" process that we expect to transpire in 2024 will favor more value-oriented sectors like Financials (everyone's favorite sector to hate, blame, and pillage). We believe such emotional and consensus-driven decision-making is way overdone, with sentiment reaching extreme levels of pessimism that the market has not experienced in decades. From our lens, Canadian Banks in particular (especially those with well-established and thriving US platforms) remain excellent stewards of capital. As such, Financials remain our largest Overweight. However, there is no denying that most institutional and global investors are very underexposed and have been overemphasizing the negative "what-ifs" – including, but not limited to credit blowing up, real estate melting down, expansive loan losses, and unmanageable consumer debt. All these concerns have been well telegraphed and well-managed by companies in our opinion. Therefore, we continue to believe the sector is well-positioned and is poised to outperform and thrive during the normalization process. For growth investors in Canada, the strength in Technology is likely to proceed – especially given the broadening out of overall North American equities. Furthermore, we believe Canadian Technology is becoming increasingly correlated to small- and mid-sized public and private companies in the US especially, thereby providing an additional tailwind. As such, we are maintaining our Overweight stance on Technology for 2024, but caution investors to focus on bottoms-up stock picking relative to making broader sector decisions.

Sector Changes

- Upgrading Consumer Discretionary to Overweight From Market Weight
    - ✓ While the Canadian consumer has certainly struggled and will likely continue to face challenges given the current state of elevated interest rates compared to the last three years, we believe much of these concerns are already "priced in." As such, we believe the Consumer Discretionary sector is positioned to be a strong contrarian play, as our work shows that the sector typically exhibits its best performance during the early stages of an economic recovery. In fact, the sector traditionally troughs with respect to both price performance and earnings growth in the midst of economic weakness… NOT after.
    - ✓ In addition, given Discretionary' s relatively small weight in the TSX (one that includes a strong breadth of well managed companies), we believe the sector is ripe for stock pickers to find both value and growth.

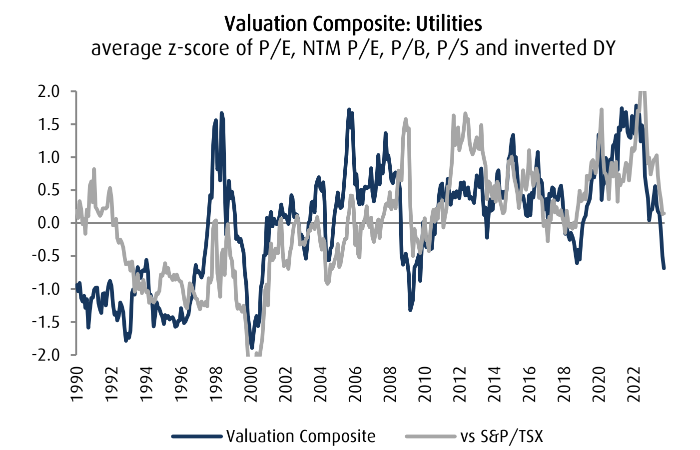
Exhibit 54: Troughing Economic Activity Typically Marks the Trough in Earnings Growth and Performance



Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

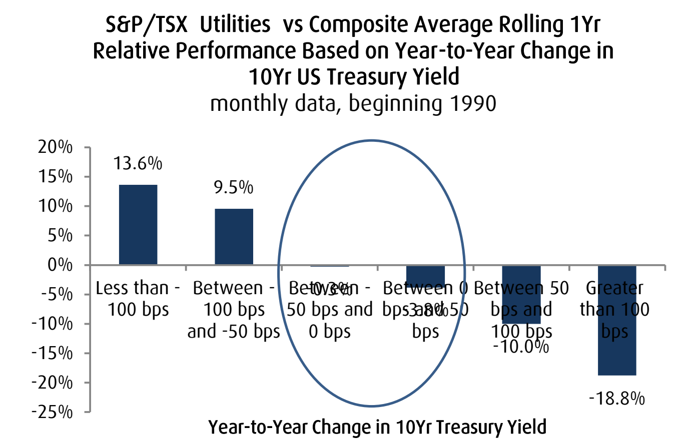
- Upgrading Utilities to Market Weight From Underweight
    - ✓ Admittedly we have been reluctant to favor Utilities for most of our career. Our reasoning has mostly been defined by our concerns regarding the sector's traditional premium, if not downright expensive valuation metrics, and lack of organic growth that have been commonplace for Utilities for most of the past 20 years.
    - ✓ However, thanks to one of the sharpest pullbacks in price and valuation in decades, Utilities are no longer expensive according to our models. Furthermore, the sector is likely to benefit from stabilizing, if not likely compressing bond yields in 2024.

Exhibit 55: Valuations Have Collapsed to Decade Lows



Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

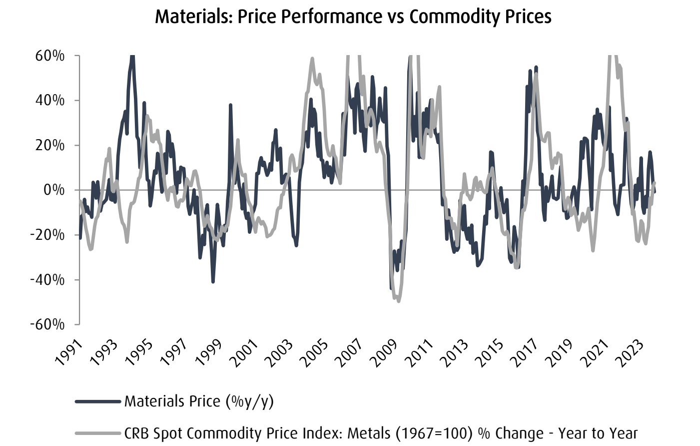
Exhibit 56: Utilities Can Be Flat in Flat Interest Rate Environment



Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

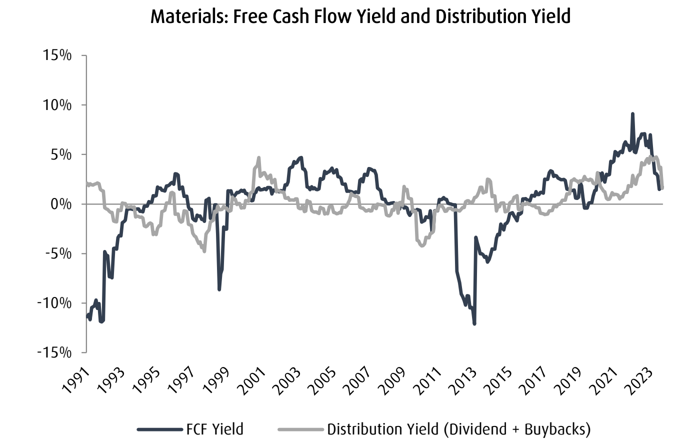
- Downgrading Materials to Market Weight From Overweight
    - ✓ Materials displayed disappointing performance in 2023, especially considering above average inflation and rising underlying commodity costs across most sub industries. As such, this does not bode well for the sector in 2024, especially as consensus forecasts are for lower inflation, decelerating underlying commodity prices and slower global growth.
    - ✓ Remain focused on paper/forest products and gold in Materials.

Exhibit 57: Choppy Commodities = Choppy Price Performance



Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

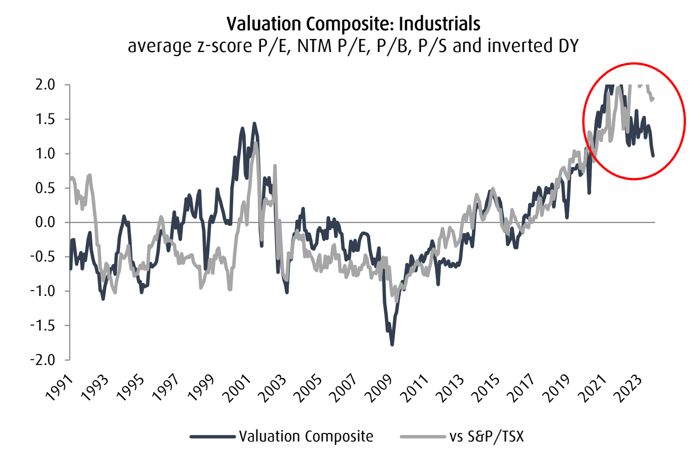
Exhibit 58: Cash Flow and Distributions Have Eased Sharply From Record Levels



Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

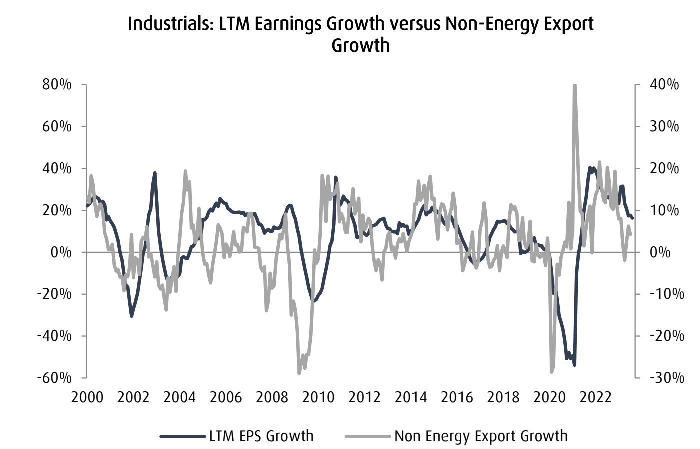
- Downgrading Industrials to Underweight From Market Weight
  - ✓ To be clear, this is just mild underweight as we believe a broadening of performance requires more active stock selection. With that said, Industrials is one of the most expensive sectors is the TSX, thereby limiting any potential valuation expansion, especially in the face of decelerating earnings growth through 2024.
  - ✓ Focus on rails, waste, and other select areas where much of their growth comes from the US.

Exhibit 59: Industrials Remains One of the Most Expensive Sectors in the TSX, as Such Likely to See Continued Multiple Compression



Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

Exhibit 60: Earnings Growth Continues to Slow From Elevated Levels



Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES.

Canadian Size Opinions

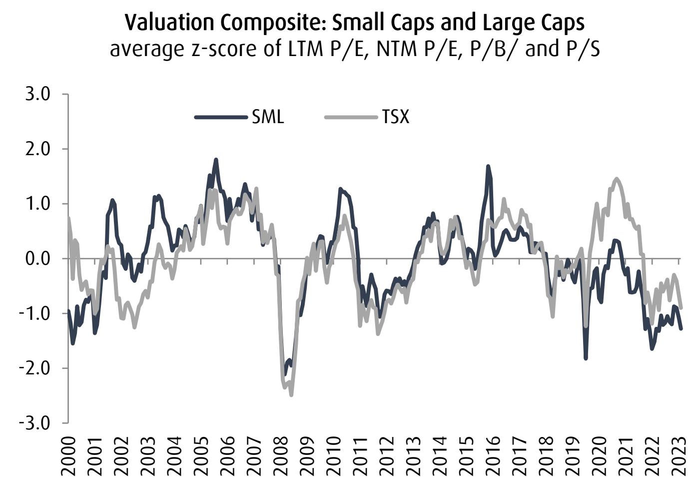
Exhibit 61: Canadian Size Opinions

Sector	Opinion	Comments
Large cap	MW	Large cap is trading at a deep discount to history, while earnings and profitability are likely to trough in the early part of 2024. Canadian Large Cap is well-positioned for the broad Normalization process but remain highly selective.
Small cap	MW	Small Cap is value within a value market, additional earnings growth and profitability have trough before their large cap peers. Canadian Small Cap is well-positioned for the broad Normalization process but remain highly selective.

Key: OW: Overweight, MW: Market Weight, UW: Underweight; Source: BMO Capital Markets Investment Strategy Group.

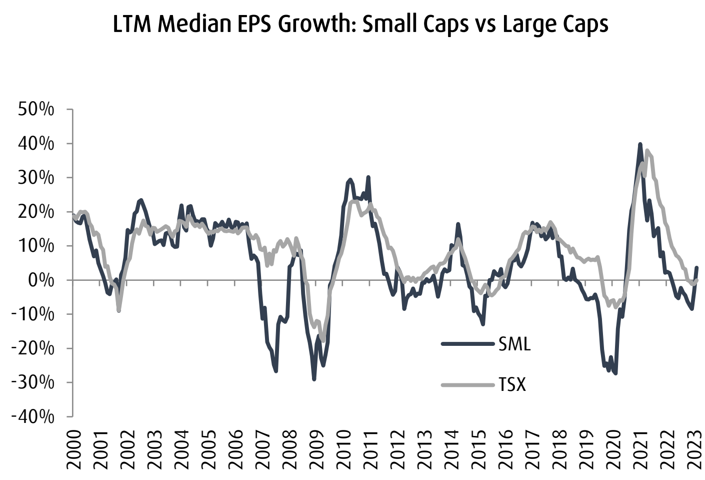
Bottom Line: With Canada being the clear contrarian trade, an improving outlook and multiple expansion should be a tailwind for both Large Cap and Small Cap equities. Overall, Canadian small cap is value within a value market, suggesting there are plenty of contrarian opportunities in the small-cap universe, particularly outside the resource sectors. Yes, choppy commodities suggest investors should lean larger cap in these sectors, but selectivity remains key. Especially given the large cash positions of the large-cap Energy and Materials companies, which in our opinion leaves room for a significant acquisition cycle in 2024 and into 2025.

Exhibit 62: Canada Is Broadly a Deep Value Market



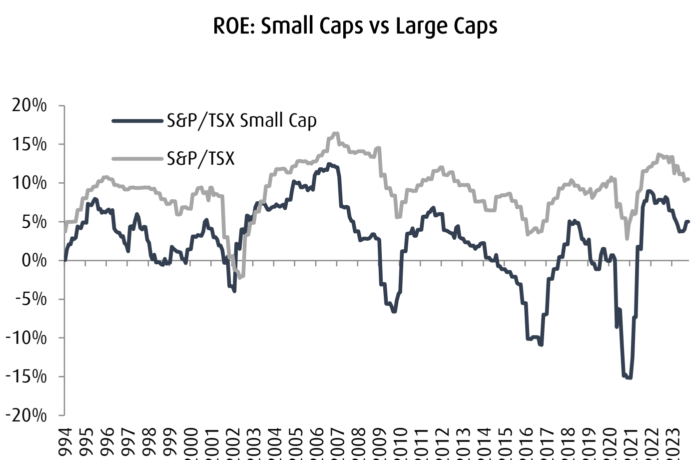
Source: BMO Capital Markets Investment Strategy Group, FactSet.

Exhibit 63: Small Cap Growth Is Already Rebounding



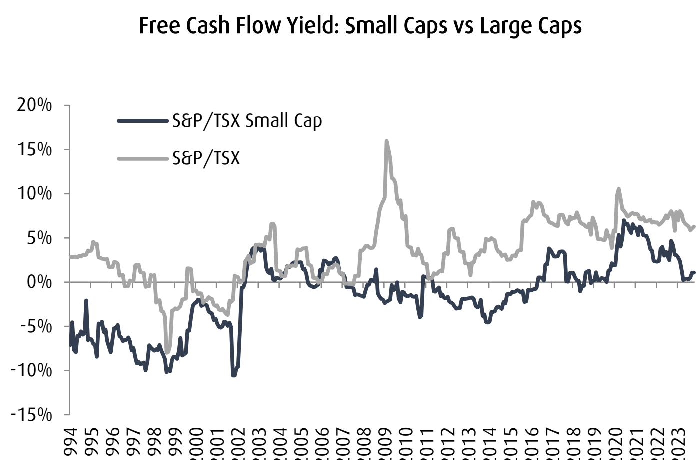
Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES

Exhibit 64: Small Cap Profitability May Have Troughed



Source: BMO Capital Markets Investment Strategy Group, FactSet.

Exhibit 65: Cash Generation Is Stronger in Large Cap



Source: BMO Capital Markets Investment Strategy Group, FactSet, IBES

Implementations Strategies

US Portfolio Strategy

US Tactical

US Large Cap Disciplined Value

US Dividend Growth

US SMID Cap

US All Cap

US Multi-Factor Growth and Value ETFs

Canadian Portfolio Strategy

Canadian Ex-MEF (Anything but the Big Three)

Canadian Small Cap

Canadian GARP

North American Portfolio Strategy

Canadian Equity Plus

US Equity Plus

North American Dividend Growth

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Hold	Market Perform	49.3 %	16.7 %	50.0 %	44.3 %	40.7 %	37.5%
Sell	Underperform	2.4 %	18.2 %	2.7 %	1.4 %	1.0 %	4.8%

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http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

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BMO Capital Markets

Equity Research Analysts

Director of Research – US
Penn Egbert 929-599-7583

Director of Research – Canada/UK
Camilla Sutton, CFA 437-332-2248

Diversity & Talent Strategy
Alison Gilbert 416-618-8293

Chief Operating Officer
Monica Shin 416-359-4894

Managing Editor
Daniel O'Keefe 347-979-6165

ENERGY

Oil & Gas – Integrateds
Randy Ollenberger 403-515-1502
Phillip Jungwirth, CFA 303-436-1127

Oil & Gas – E&P
Phillip Jungwirth, CFA 303-436-1127
Mike Murphy, P.Geol. 403-515-1540

Oil & Gas – Services
Phillip Jungwirth, CFA 303-436-1127
John Gibson, CFA 403-515-1527

Oil & Gas – Market Specialist
Jared Dziuba, CFA 403-515-3672

Transition Energy
Ameet Thakkar 713-546-9741

Carbon Innovation
Rachel Walsh, CFA 403-515-1517

MATERIALS

Commodity Strategy
Colin Hamilton +44 (0)20 7664 8172

Base Metals & Mining
Rene Cartier, CPA, CA, CBV, CFA 416-359-5011
Katja Jancic, CFA 212-883-5109
Alexander Pearce +44 (0)20 7246 5435
Jackie Przybylowski, P.Eng., CFA 416-359-6388

Precious Metals & Minerals
Andrew Mikitchook, P.Eng., CFA 416-359-5782
Kevin O'Halloran 416-278-7023
Brian Quast, P.Eng., JD 416-359-6824
Raj Ray, CFA, B.Eng. +44 (0)20 7246 5430

Fertilizers & Chemicals
Joel Jackson, P.Eng., CFA 416-359-4250

US Chemicals
John McNulty, CFA 212-885-4031

Building Products
Ketan Mamtora 212-883-5121

INDUSTRIALS

Transportation & Aerospace
Fadi Chamoun, CFA 416-359-6775

Diversified Industrials
Devin Dodge, CFA 416-359-6774
John Gibson, CFA 403-515-1527

Business Services and Education
Jeffrey M. Silber 917-239-4910

Environmental Services
Devin Dodge, CFA 416-359-6774

CONSUMER DISCRETIONARY

Retailing/Consumer
Tamy Chen, CFA 416-359-5501

Retail & Services
Simeon Siegel, CFA 212-885-4077

Cannabis
Tamy Chen, CFA 416-359-5501

Restaurants, Beverages, Agribusiness & Protein
Andrew Strelzik 212-885-4015

Leisure
Tristan M. Thomas-Martin 212-885-4106

Automotive
Tamy Chen, CFA 416-359-5501

Education
Jeffrey M. Silber 917-239-4910

Special Situations
Stephen MacLeod, CFA 416-359-8069

CONSUMER STAPLES

Food Retail
Kelly Bania 212-885-4162

HEALTHCARE

BioPharma
Evan David Seigerman 212-444-4328

Biotechnology
Evan David Seigerman 212-444-4328
Etzer Darout, Ph.D. 617-960-2363
Kostas Biliouris, Ph.D. 347-504-4987

FINANCIALS

Canadian Banks & Asset Managers
Sohrab Movahedi 416-359-7157

US Financial Services
James Fotheringham 212-885-4180

US Asset Managers
Rufus Hone, CFA 416-359-8304

Insurance (US)
Michael Zaremski 646-873-5043

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Tom MacKinnon, FSA, FCIA 416-359-4629

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Étienne Ricard, CFA 416-359-5296

REAL ESTATE

REITs (Canada)
Michael Markidis, CFA 416-917-5035

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John P. Kim 212-885-4115
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INFORMATION TECHNOLOGY

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Keith Bachman, CFA 212-885-4010

Software
Daniel Jester 415-354-7520

Technology
Thanos Moschopoulos, CFA 416-359-5428

Semiconductors
Ambrish Srivastava, Ph.D. 415-591-2116

Telecom/Media/Cable
Tim Casey, CFA 416-359-4860

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Electric Utilities & Independent Power
Ben Pham, CFA 416-359-4061

Utilities, Power & Renewables
James M. Thalacker 212-885-4007

MACRO

Investment Strategy
Brian G. Belski 212-885-4151
416-359-5761

Canadian Equity Strategy
Ryan Bohren, CFA 416-359-4993

US Equity Strategy
Nicholas Roccanova, CFA 212-885-4179

ESG Strategy
Doug A. Morrow 416-359-5463

Economics
Douglas Porter, CFA 416-359-4887
Michael Gregory, CFA 312-845-5025
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Quantitative/Technical
David Cheng 416-359-7383

Exchange Traded Funds
David Cheng 416-359-7383

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