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# CLA Economic Outlook 2024

Creating Opportunity in Today's Environment

April 24, 2024

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# CLA exists to create opportunities

With more than 8,500 people, nearly 130 U.S. locations, and a global vision, we promise to know you and help you.



We serve clients across 16 industries and offer more than 20 services.

We serve over **107,000** private households and over **74,000** private businesses.



# CLA Outlook 2024

## Back to Basics

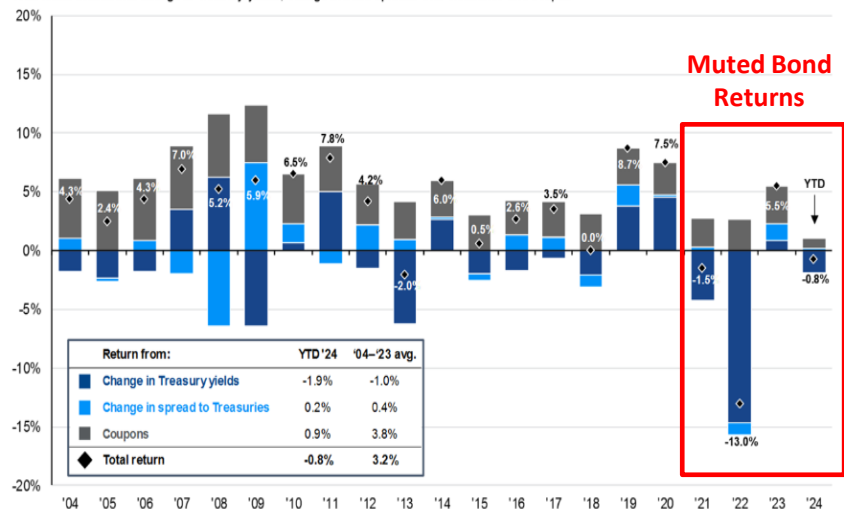


# Market Returns: Bonds & Equities

## US Aggregate Bond Index

### Bloomberg U.S. Aggregate annual total return

Total return broken into change in Treasury yields, change in bond spreads over Treasuries and coupon



Source: Bloomberg, FactSet, J.P. Morgan Asset Management  
*Guide to the Markets – U.S. Data are as of March 31, 2024*

## Global Equity Markets

Returns	YTD 2024		2023		15-years	
	Local	USD	Local	USD	Ann.	Beta
<b>Regions</b>						
<b>US Equities continue to lead</b>						
U.S. (S&P 500)	-	10.6	-	26.3	15.6	0.9
AC World ex-U.S.	8.3	4.8	14.7	16.2	8.4	1.0
EAFE	10.1	5.9	16.8	18.9	8.9	1.0
Europe ex-UK	9.7	6.1	17.3	22.7	9.7	1.2
Emerging markets	4.6	2.4	10.3	10.3	7.0	1.1
<b>Selected Countries</b>						
Japan	19.3	11.2	29.0	20.8	8.2	0.7
United Kingdom	4.1	3.1	7.7	14.1	7.9	1.0
France	8.4	5.9	18.1	22.3	9.8	1.2
Canada	6.9	4.2	13.3	16.4	8.9	1.1
Germany	9.6	7.1	19.8	24.0	8.6	1.3
China	-1.7	-2.2	-10.6	-11.0	4.4	0.9
Taiwan	17.3	12.5	31.1	31.3	14.4	1.1
India	6.4	6.1	22.0	21.3	11.7	1.0
Brazil	-4.5	-7.3	22.7	33.4	4.1	1.4



# Diversified Portfolios Provide Stability

2009-2023		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD
Large Cap	Small Cap	EM Equity	REITs	REITs	REITs	Small Cap	REITs	REITs	Small Cap	EM Equity	Cash	Large Cap	Small Cap	REITs	Com dty.	Large Cap	Large Cap
14.0%	21.9%	79.0%	27.9%	8.3%	19.7%	38.8%	28.0%	2.8%	21.3%	37.8%	1.8%	31.5%	20.0%	41.3%	16.1%	26.3%	10.6%
Small Cap	REITs	High Yield	Small Cap	Fixed Income	High Yield	Large Cap	Large Cap	Large Cap	High Yield	DM Equity	Fixed Income	REITs	EM Equity	Large Cap	Cash	DM Equity	DM Equity
11.3%	21.2%	59.4%	26.9%	7.8%	19.6%	32.4%	13.7%	1.4%	14.3%	25.6%	0.0%	28.7%	18.7%	28.7%	1.5%	18.9%	5.8%
REITs	EM Equity	DM Equity	EM Equity	High Yield	EM Equity	DM Equity	Fixed Income	Fixed Income	Large Cap	Large Cap	REITs	Small Cap	Large Cap	Com dty.	High Yield	Small Cap	Small Cap
10.9%	20.3%	32.5%	19.2%	3.1%	18.6%	23.3%	6.0%	0.5%	12.0%	21.8%	-4.0%	26.5%	18.4%	27.1%	-12.7%	16.9%	6.2%
High Yield	DM Equity	REITs	Com dty.	Large Cap	DM Equity	Asset Alloc.	Asset Alloc.	Cash	Com dty.	Small Cap	High Yield	DM Equity	Asset Alloc.	Small Cap	Fixed Income	Asset Alloc.	Asset Alloc.
8.6%	18.4%	28.0%	16.8%	2.1%	17.9%	14.9%	5.2%	0.0%	11.8%	14.6%	-4.1%	22.7%	10.6%	14.8%	-13.0%	14.1%	4.2%
Asset Alloc.	Com dty.	Small Cap	Large Cap	Cash	Small Cap	High Yield	Small Cap	DM Equity	EM Equity	Asset Alloc.	Large Cap	Asset Alloc.	DM Equity	Asset Alloc.	Asset Alloc.	High Yield	Com dty.
8.1%	16.6%	27.2%	15.1%	0.1%	16.3%	7.3%	4.9%	-0.4%	11.6%	14.6%	-4.4%	19.5%	8.3%	13.5%	-13.9%	14.0%	2.2%
DM Equity	Large Cap	Large Cap	High Yield	Asset Alloc.	Large Cap	REITs	Cash	Asset Alloc.	REITs	High Yield	Asset Alloc.	EM Equity	Fixed Income	DM Equity	DM Equity	REITs	EM Equity
7.4%	16.1%	26.5%	14.8%	-0.7%	16.0%	2.9%	0.0%	-2.0%	8.6%	10.4%	-5.8%	18.9%	7.5%	11.8%	-14.0%	11.4%	2.2%
EM Equity	High Yield	Asset Alloc.	Asset Alloc.	Small Cap	Asset Alloc.	Cash	High Yield	High Yield	Asset Alloc.	REITs	Small Cap	High Yield	High Yield	High Yield	Large Cap	EM Equity	High Yield
6.9%	11.5%	25.0%	13.3%	-4.2%	12.2%	0.0%	0.0%	-2.7%	8.3%	8.7%	-11.0%	12.6%	7.0%	1.0%	-18.1%	10.3%	2.1%
Fixed Income	Asset Alloc.	Com dty.	DM Equity	DM Equity	Fixed Income	Fixed Income	EM Equity	Small Cap	Fixed Income	Fixed Income	Com dty.	Fixed Income	Cash	Cash	EM Equity	Fixed Income	Cash
2.7%	11.5%	18.9%	8.2%	-11.7%	4.2%	-2.0%	-1.8%	-4.4%	2.6%	3.5%	-11.2%	8.7%	0.5%	0.0%	-19.7%	5.5%	1.3%
Cash	Fixed Income	Fixed Income	Fixed Income	Com dty.	Cash	EM Equity	DM Equity	EM Equity	DM Equity	Com dty.	DM Equity	Com dty.	Com dty.	Fixed Income	Small Cap	Cash	Fixed Income
0.8%	4.5%	5.9%	6.5%	-13.3%	0.1%	-2.3%	-4.5%	-14.6%	1.5%	1.7%	-13.4%	7.7%	-3.1%	-1.5%	-20.4%	5.1%	-0.8%
Com dty.	Cash	Cash	Cash	EM Equity	Com dty.	Com dty.	Com dty.	Com dty.	Cash	Cash	EM Equity	Cash	REITs	EM Equity	REITs	Com dty.	REITs
-0.2%	0.7%	0.1%	0.1%	-18.2%	-1.1%	-9.5%	-17.0%	-24.7%	0.3%	0.8%	-14.2%	2.2%	-5.1%	-2.2%	-24.9%	-7.9%	-1.3%



# Setting the Stage: From Volatility to Stability

1 **Tough** – revenues fell and costs remained

3 **Stable** – muted revenue growth with expense control



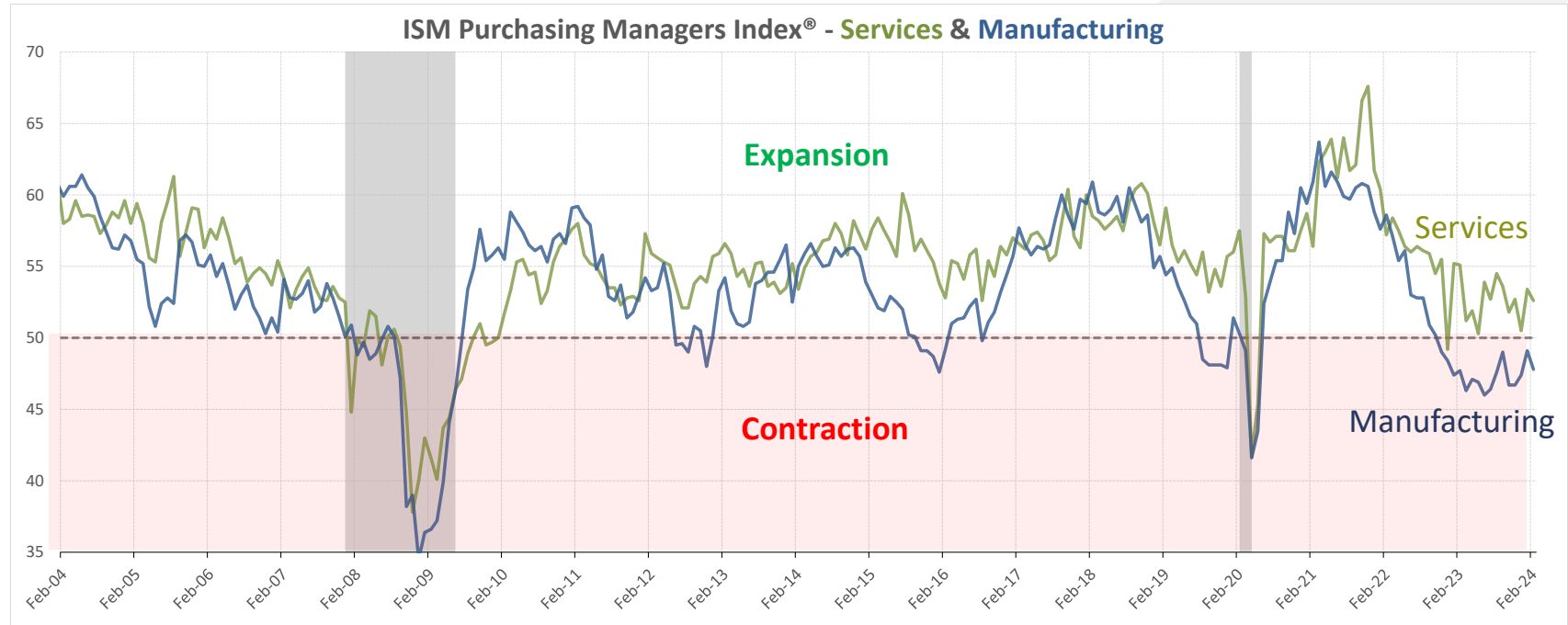
2 **Better** – revenue growth with price hikes

4 **Growth** – revenue driven by with unit growth and price hikes while controlling costs





# Services Outperformed Manufacturing Post-COVID



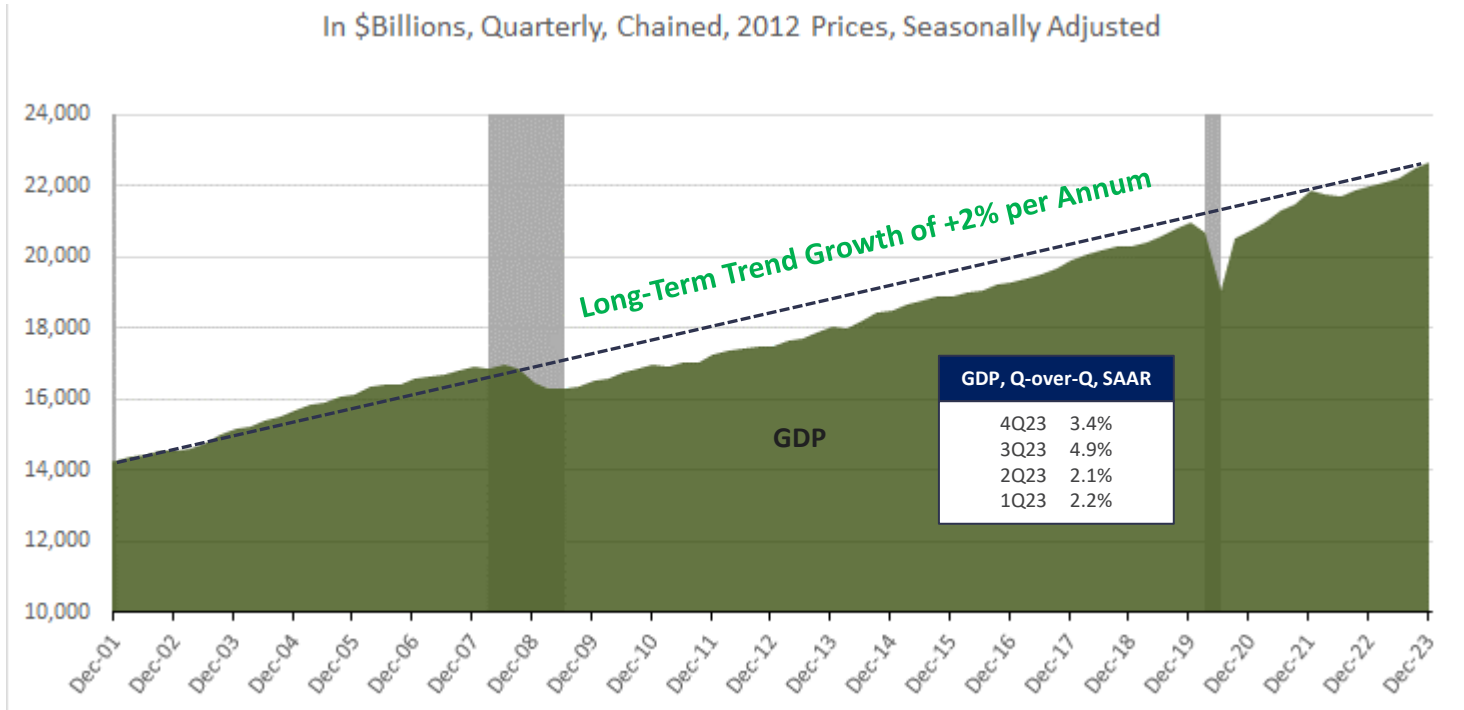
Dark areas denote recessions.

Source: Institute for Supply Management, CLA Wealth Advisors  
Data is based upon availability as of 3/28/2024





# Continued GDP Growth Provides a Stable Backdrop



Source GDP: U.S. Bureau of Economic Analysis, Federal Reserve Bank of St. Louis, CLA Wealth Advisors

Source LEI: OECD, Main Economic Indicators, Copyright, 2016, OECD. Reprinted with permission.

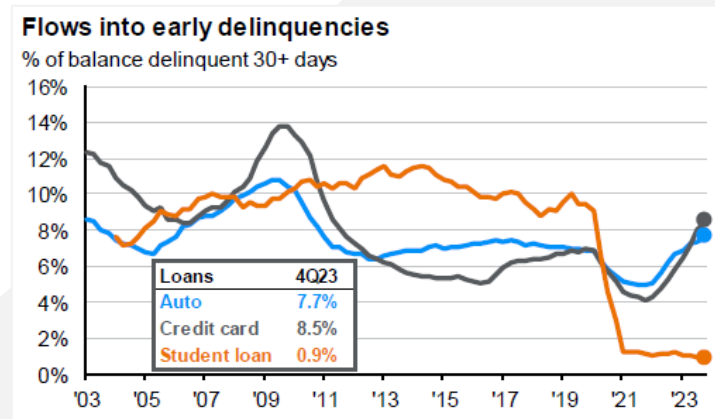
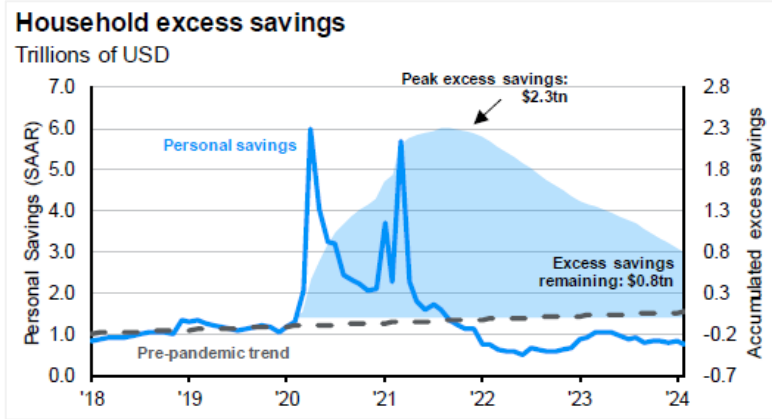
Data is based upon availability as of 4/1/2024

Grey areas denote recessions.





# Consumer Balance Sheets Strong for Now

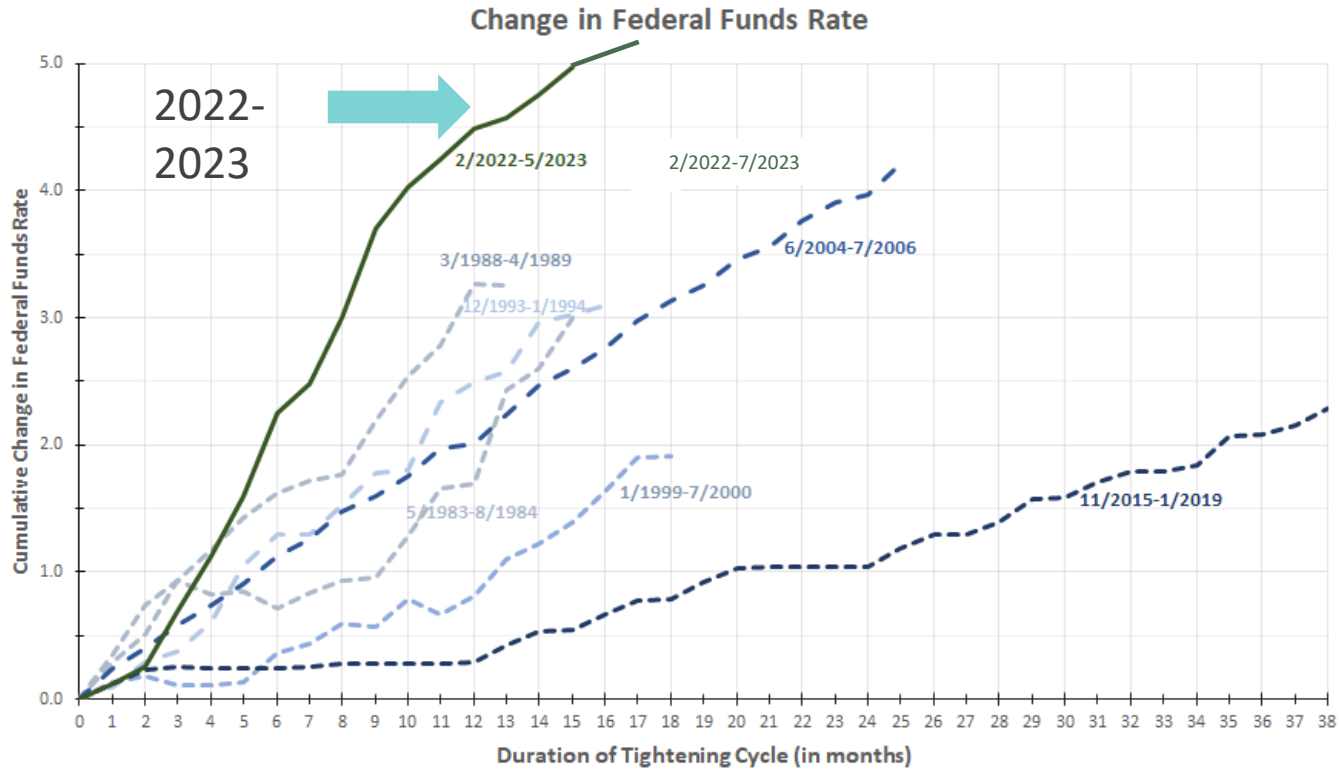


Source: U.S. Bureau of Economic Analysis, Federal Reserve Bank of St. Louis, Board of Governors of the Federal Reserve System, FactSet, JP Morgan Asset Management, CLA Wealth Advisors  
Data is based upon availability as of 4/1/2024.





# Interest Rates Have Never Risen So Far, So Fast



Source: Federal Reserve Bank of St. Louis, CLA Wealth Advisors

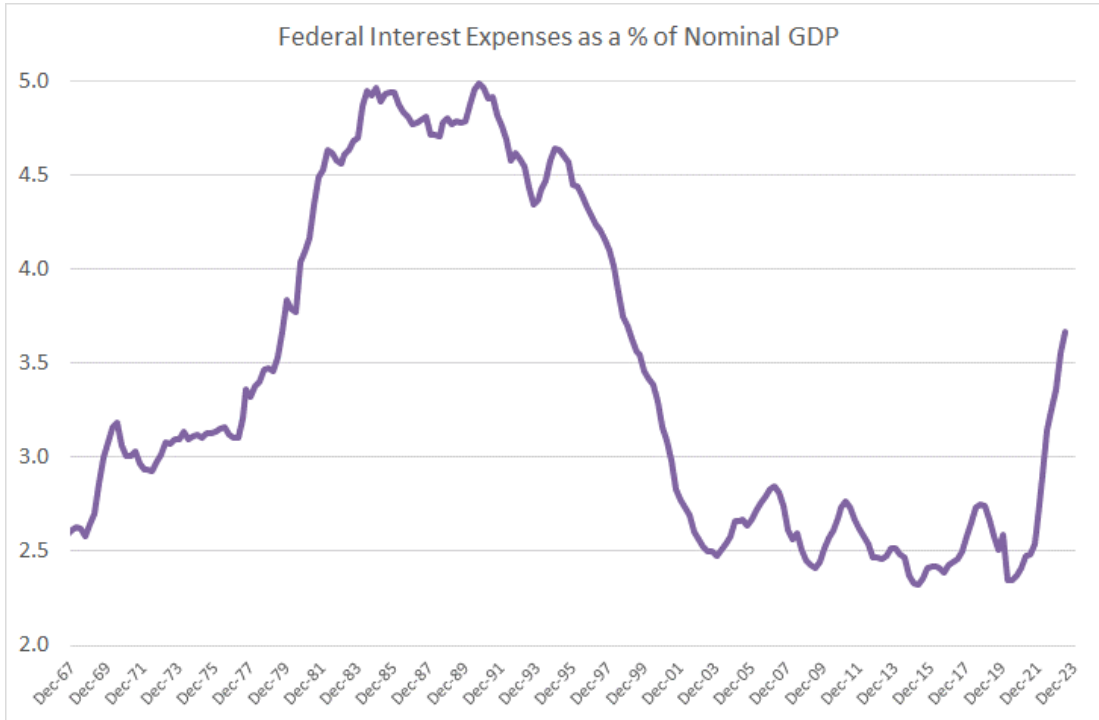
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# Macroeconomy

Higher interest rates have led to higher federal interest expense



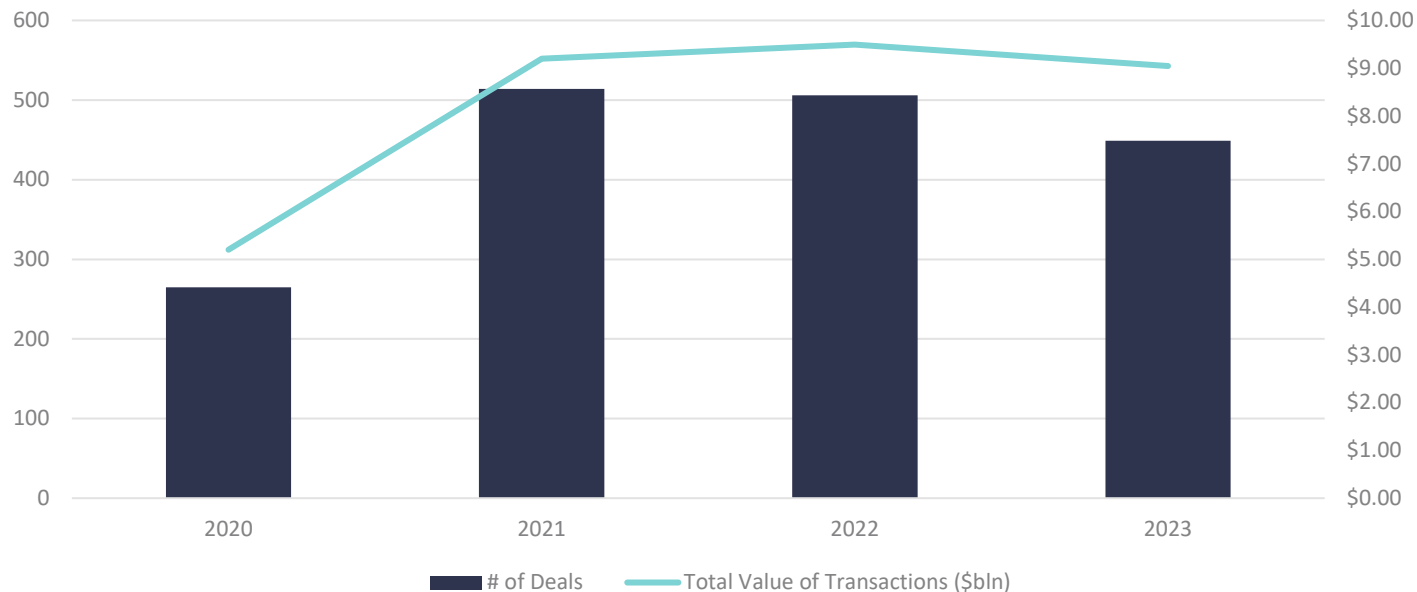
Source: Federal Reserve Bank of St. Louis, CLA Wealth Advisors

Data is based upon availability as of 3/28/2024



# Business Owners Continue to Evaluate Exit Opportunities

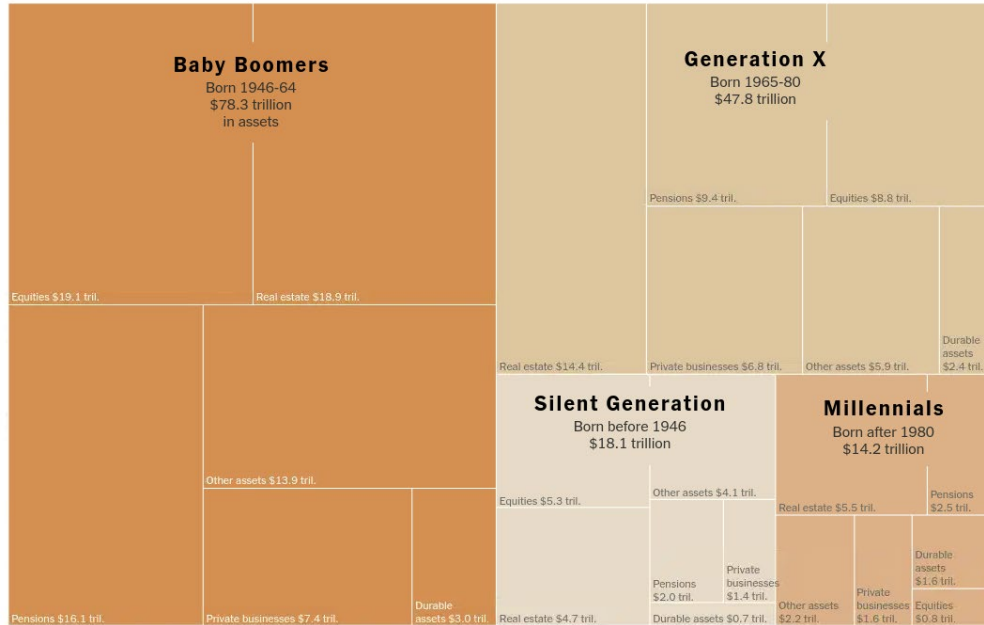
Potential Transactions  
(CLA buy-side and sell-side due diligence)



# Megatrend: Historic Wealth Transfer

Protect your estate and your heirs

**Baby Boomers Hold Half of the Nation's \$140 Trillion in Wealth**



- \$140 trillion in wealth transfer
- Across multiple generations:
  - 50% Baby Boomers
  - 30% Gen X
  - 11% Silent Generation
  - 9% Millennials

Notes: As of the fourth quarter of 2022. The total amount accounts for liabilities, but the individual asset categories do not account for liabilities and do not add up to the \$140 trillion total. The total assets when not accounting for liabilities is \$158 trillion. Pensions include the present value of future benefits as well as the value of annuities sold by life insurance companies. - Source: Federal Reserve

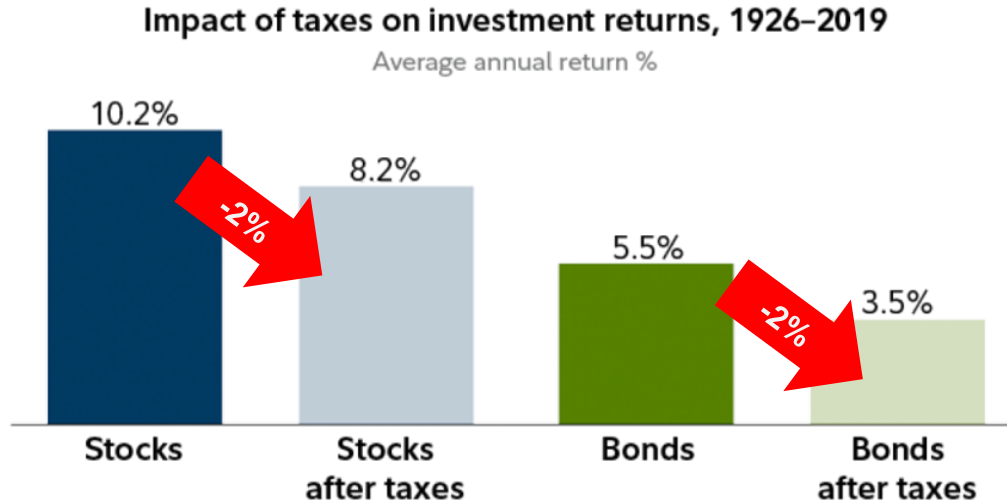
Source: Federal Reserve; <https://www.nytimes.com/2023/05/14/business/economy/wealth-generations.html?smid=url-share>



# Tax-Efficient Investing Drives Meaningful Results

## Taxes can significantly reduce returns

Morningstar cites that on average, over the 94-year period ending in 2019, investors gave up from 1 to 2 percentage points of their annual returns to taxes.



Source: <https://www.washingtonpost.com/brand-studio/wp/2022/01/03/are-taxes-dragging-you-down/>



# Federal, State, and Local Taxes

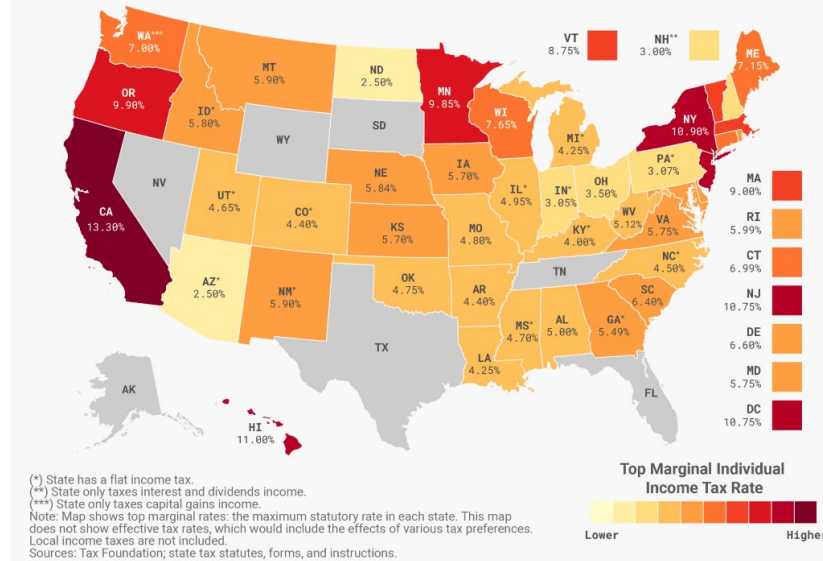
## Federal

Top individual rate expected to increase 37% to 39.6%

**Estate:** Maximum federal estate tax remains at 40% above \$13.6 million

## State and Local

**Top Marginal State Individual Income Tax Rates (as of January 1, 2024)**



**Estate:** Currently, **12 states and Washington, D.C.** charge estate taxes, which are paid in addition to any federal estate tax. The exemption levels vary and range from \$1 million to \$9.1 million

Source: [2024 State Income Tax Rates and Brackets | Tax Foundation](#)

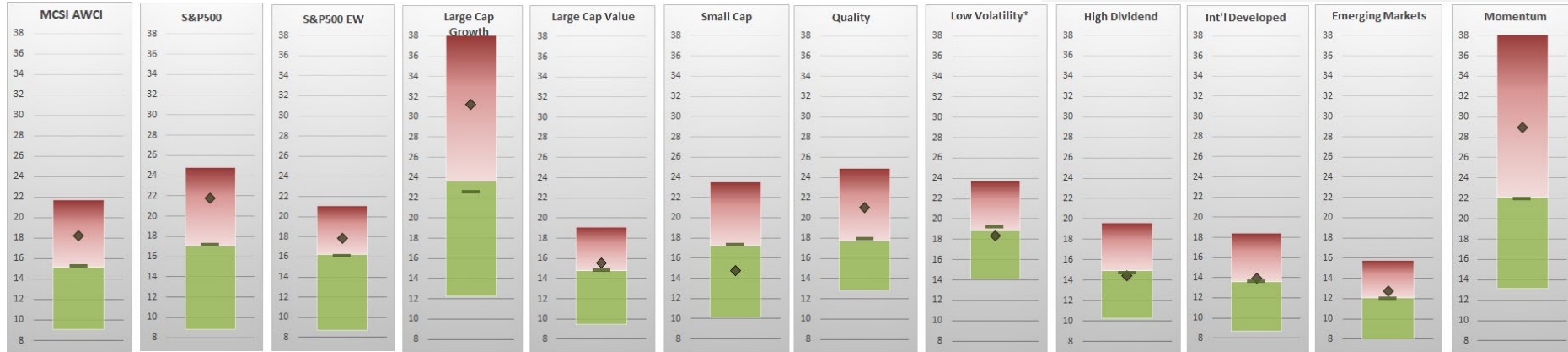






# Managing Risk: Equity Valuations Need to be Monitored

P/E Ratios: Current, Median and Historical Range (E = EPS consensus forecast)  
Data runs from 3/31/2008 to 3/31/24 (except where noted)



\* Data from 5/31/2011

Note: the most recent measurement is denoted by “◆”, and the median value by “—”.

Source: Morningstar, CLA Wealth Advisors

**Fun fact: The Magnificent 7 (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla) trade at a P/E multiple of 29x - 1.7x the 17x P/E multiple of the median S&P 500 stock!**



# 2024 Presidential Elections – What’s at Stake

Alternatives	Party in control of White House and Congress		
	Dems	GOP	Split
Increase taxes	Possible	Unlikely	Unlikely
Entitlement reform	Unlikely	Possible	Unlikely
Continued deficit spending	Likely	Likely	Likely

- Individual income tax increases
- New wealth tax

- GOP control
- Social Security reform
- Tax cuts



The incumbent president is typically favored amid a strong economic backdrop.

Is this time different due to:

**International tensions:**

U.S.-China, U.S.-Israel, and Russia-Ukraine

**Domestic issues:**

Border security, lack of legislative progress due to partisanship, abortion rights



## Inflation Reduction Act

- Created boom in green energy incentives
- Revolutionizes tax credit monetization alternatives
- Incentivizes job creation through bonus credits
- **Industries impacted:** Higher education, nonprofit, manufacturing and distribution, state and local government

## R&D expensing

- Notice 2023-63 provides guidance on:
  - CRO arrangements
  - Business sales
  - Interaction with PCM rules
- **Industries impacted:** technology, manufacturing and distribution



# Protect Yourself as a Business Owner

Year	Future catalyst	Action items today
2026	Phase out period: 2023 – 2026	<ul style="list-style-type: none"><li>• <b>Bonus depreciation</b><ul style="list-style-type: none"><li>○ 100% ended in 2022</li><li>○ Phase out: 80% in '23, 60% in '24, 40% in '25, 20% in '26</li></ul></li><li>• <b>R&amp;D expensing</b><ul style="list-style-type: none"><li>○ Full expensing ended in 2021</li><li>○ Post-2021 requires 5-year amortization</li></ul></li><li>• <b>Section 163(j) interest limitation</b><ul style="list-style-type: none"><li>○ 30% disallowance based on EBITDA ended in 2021</li><li>○ 30% of EBIT base started in 2022</li></ul></li></ul>



# Protect Yourself as an Individual

Year	Future catalyst	Action items today
2026	<b>Tax Cut and Jobs Act cliff: Top individual rate increases from 37% to 39.6%</b>	<ul style="list-style-type: none"><li>• Accelerate compensation from 2026 to 2025</li><li>• Rebalance portfolio into tax-exempt bonds</li><li>• Consider life insurance products</li></ul>
	<b>20% pass-through deduction eliminated</b>	<ul style="list-style-type: none"><li>• Consider deferring cash deductions from 2025 to 2026 or accelerating revenues from 2026 to 2025</li></ul>
	<b>Reduced estate tax exemption (e.g., \$13.6M to \$6.8M based on 2024 levels)</b>	<ul style="list-style-type: none"><li>• Complete gift planning by 2025 using various trusts</li><li>• Consider joint spousal gifts to increase lifetime exemptions</li></ul>
2027	<b>Opportunity zone capital gain deferral ends</b>	<ul style="list-style-type: none"><li>• Consider investing in a qualified opportunity zone fund by the end of 2026</li></ul>

## Invest

Focus on segments with strong profit margins while controlling costs.

## Prepare

Continued higher interest rates are an opportunity to improve your business cost structure using digital strategies and focusing on working capital management.

## Safeguard

Protect your business and yourself by diversifying income streams, using insurance, and preparing for regulatory changes.



# CLA 2024 Outlook – 3 Key Themes



# Thank you!

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