



We'll get you there.

CPAs | CONSULTANTS | WEALTH ADVISORS

CLA Outlook 2024

Back to Basics

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.



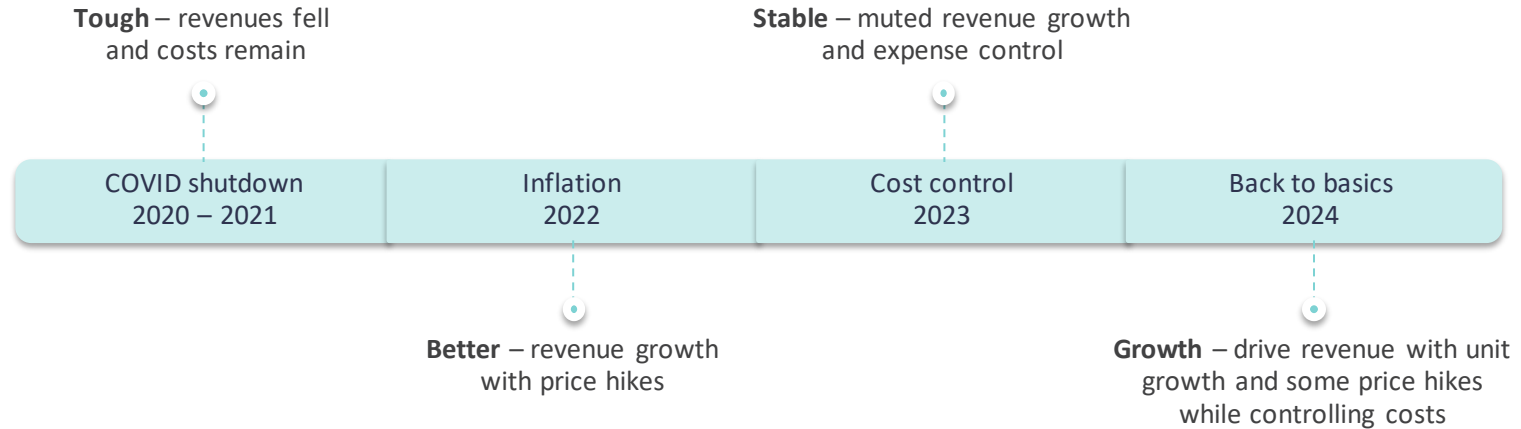
We serve clients across 16 industries and more than 20 service capabilities.



CLA Outlook 2024 — Back to Basics



How Businesses Have Driven Profits



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.

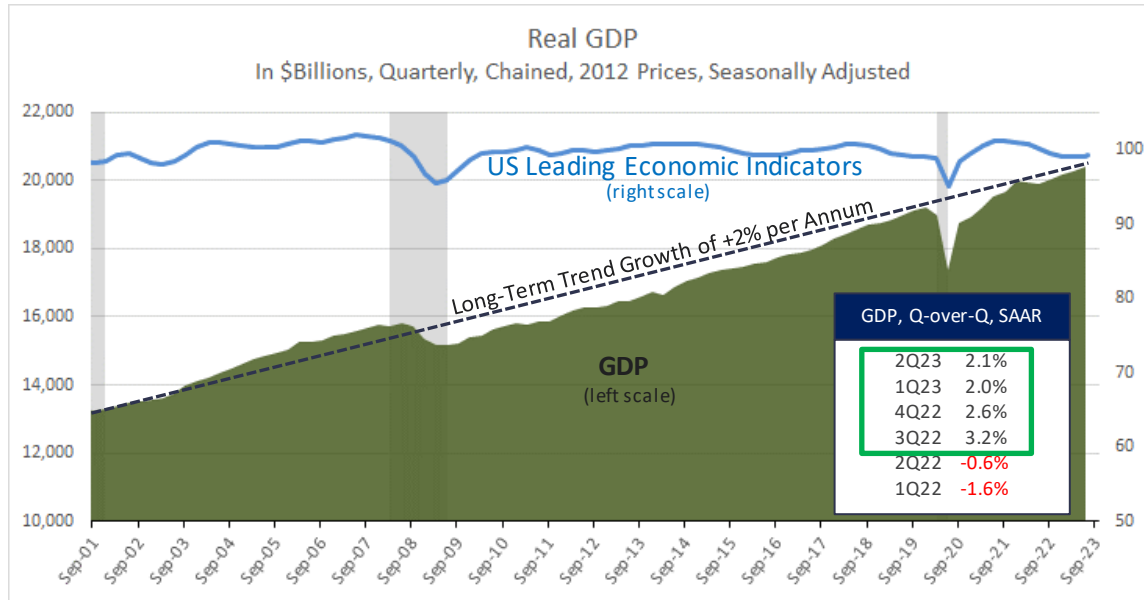


CLA 2024 Outlook – 3 Key Themes



Continued GDP Growth Provides a Stable Backdrop

GDP



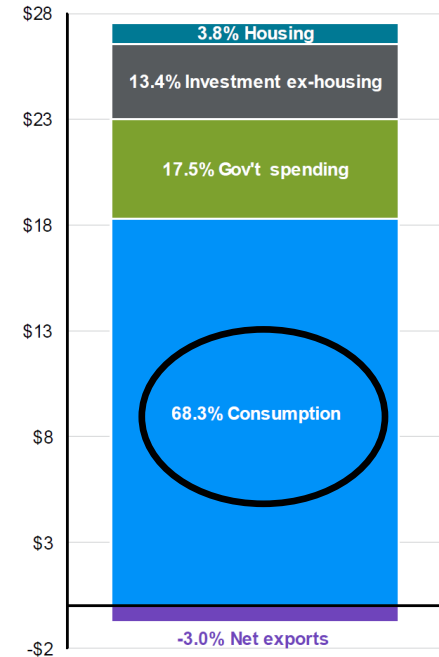
Grey areas denote recessions.

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.

Components of GDP

2Q23 nominal GDP, USD trillions



Source: BEA, FactSet, Standard & Poor's, J.P. Morgan Asset Management

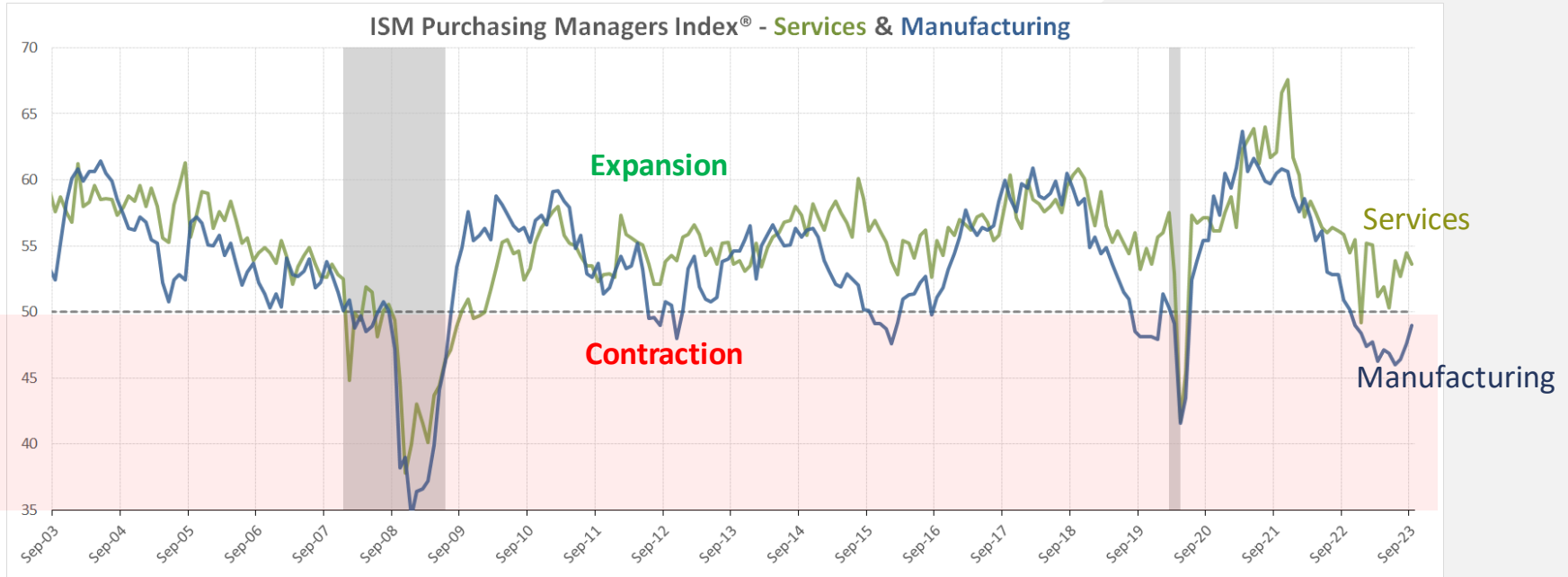
Data is based upon availability as of 9/13/2023





Macroeconomy

Business conditions — ISM[®] services and manufacturing



Dark areas denote recessions.

Source: Institute for Supply Management, CLA Wealth Advisors
Data is based upon availability as of 10/31/2023





Extreme Data Swings to Renormalize

Data from January 1991 to September 2023



Long-term Average:

5.8%

2.6%

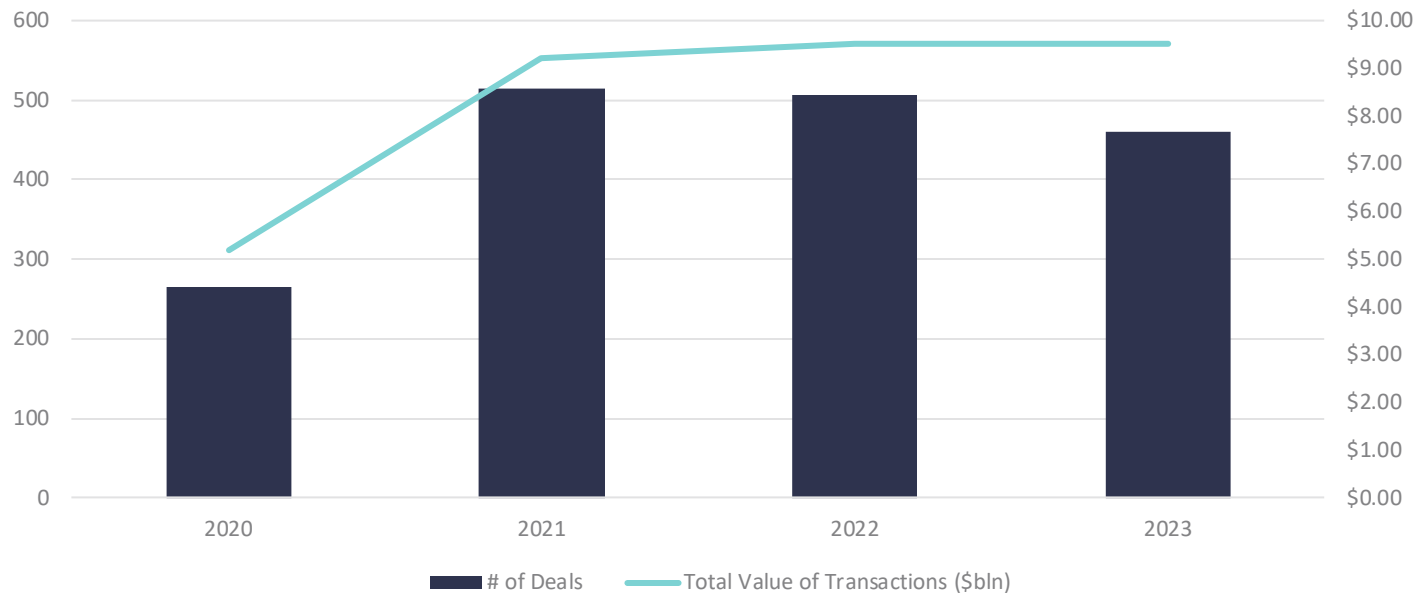
2.8%

704k



Business Owners Continue to Evaluate Exit Opportunities

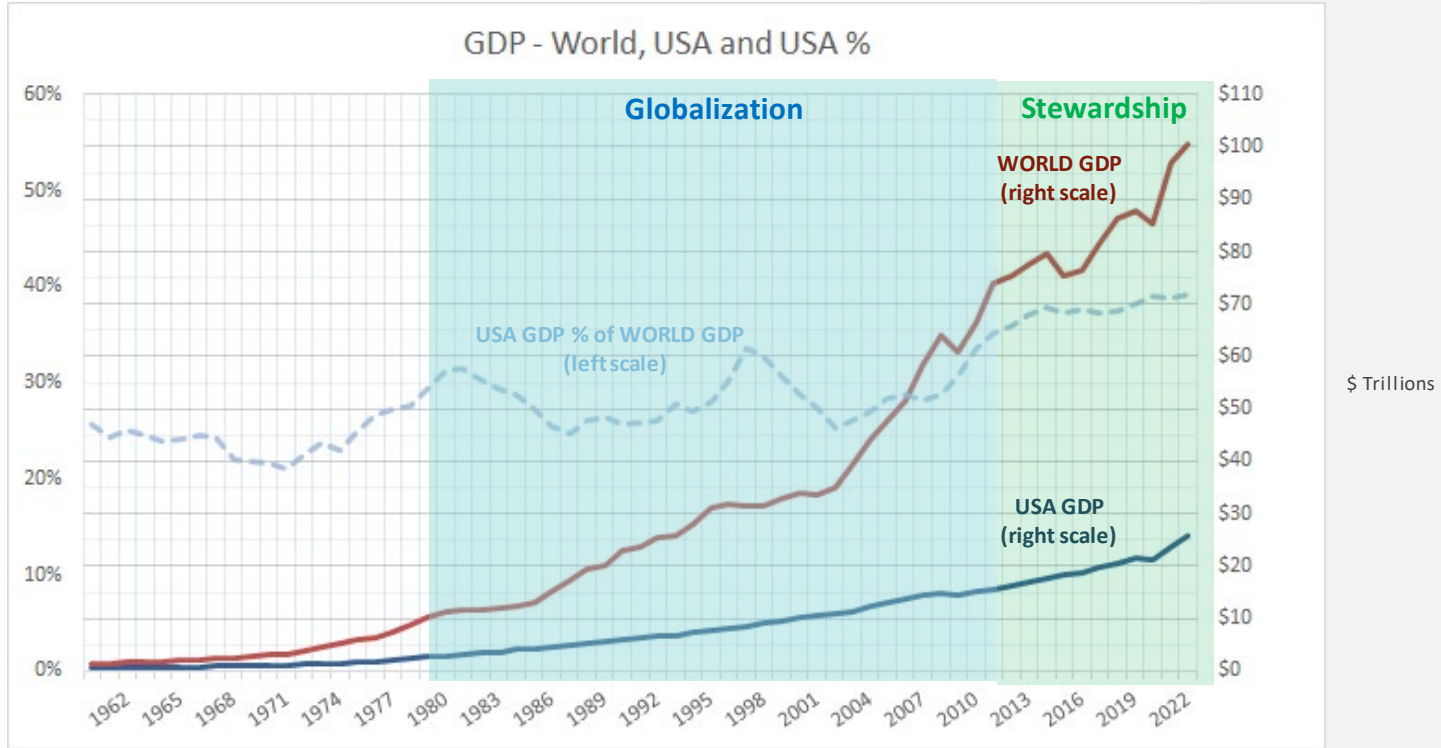
Potential Transactions
(CLA Buy-side and Sell-side Due Diligence)





Other Key Megatrends: Globalization and Stewardship

Morningstar data shows that US Public Companies continue to expand their current 37% revenue allocation



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



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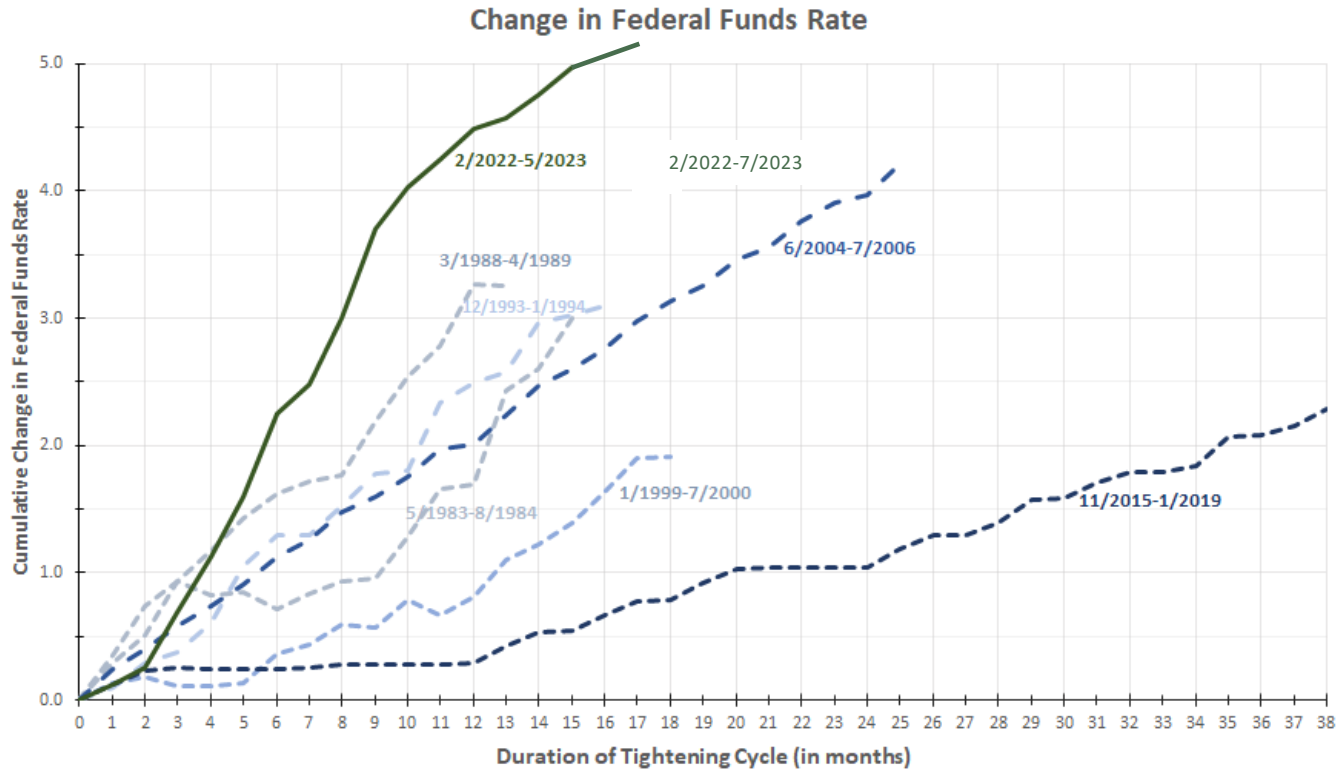


CLA 2024 Outlook – 3 Key Themes





Interest Rates Have Never Risen So Far, So Fast



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

Data is based upon availability as of 9/13/2023

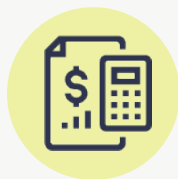


Higher Rates and Industries

In a world of higher rates, the costs of operating your business are higher.



Higher wages



Higher financing costs



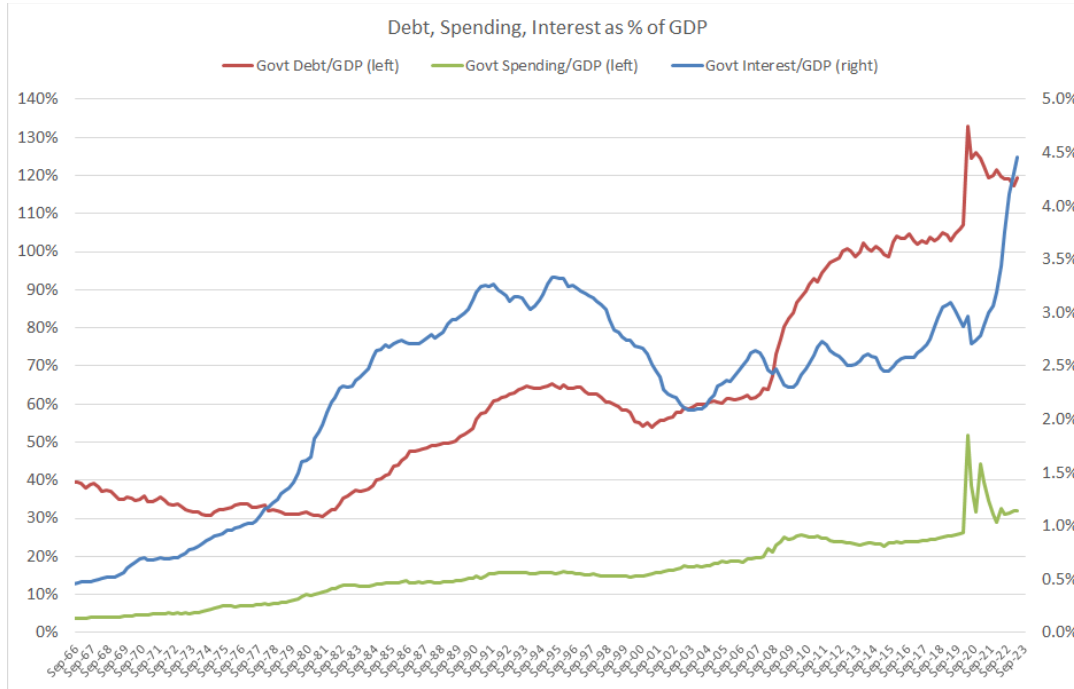
Handling your working capital and excess cash





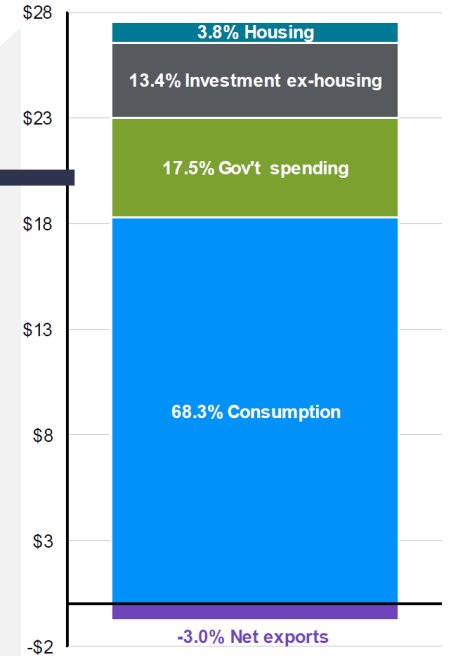
Rising Interest Costs Affect Governments and Businesses

GDP



Components of GDP

2Q23 nominal GDP, USD trillions



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.

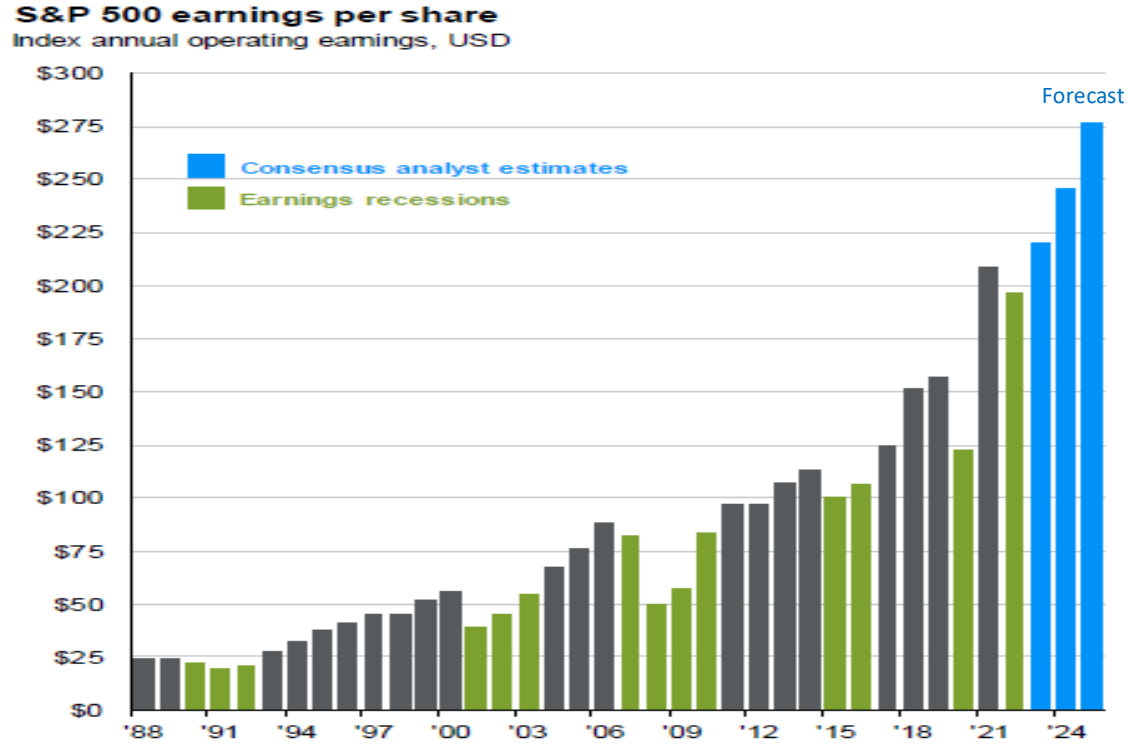
Source: BEA, FactSet, Standard & Poor's, J.P. Morgan Asset Management

Data is based upon availability as of 9/13/2023





Business Preparing for Growth in 2024 Despite Higher Rates




Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management

Source: Bureau of Economic Analysis, National Federation of Independent Business ("NFIB"), U.S. Census Bureau, Manufacturers: Inventories to Sales Ratio, Federal Reserve Bank of St. Louis, CLA Wealth Advisors

Grey areas denote recessions.
Data is based upon availability as of 10/31/2023.



Megatrend: Workforce of the Future



Continuous learning - Help your people gain necessary work skills and use talent management and outsourcing services to fill gaps

Self-propelled careers - Transition from grid pay-scale to a merit-based approach

Culture - Build trust, transparency, and teamwork in your organization

Wellness - Create opportunities for your people to live well and be happy

Quality - Drive growth while reducing enterprise risk and cybersecurity is more critical than ever



Megatrend: Industry 4.0

Industry 4.0 is the trend of transforming the way products and services are designed, created, and delivered.



Digital strategies:
Artificial intelligence
and big data



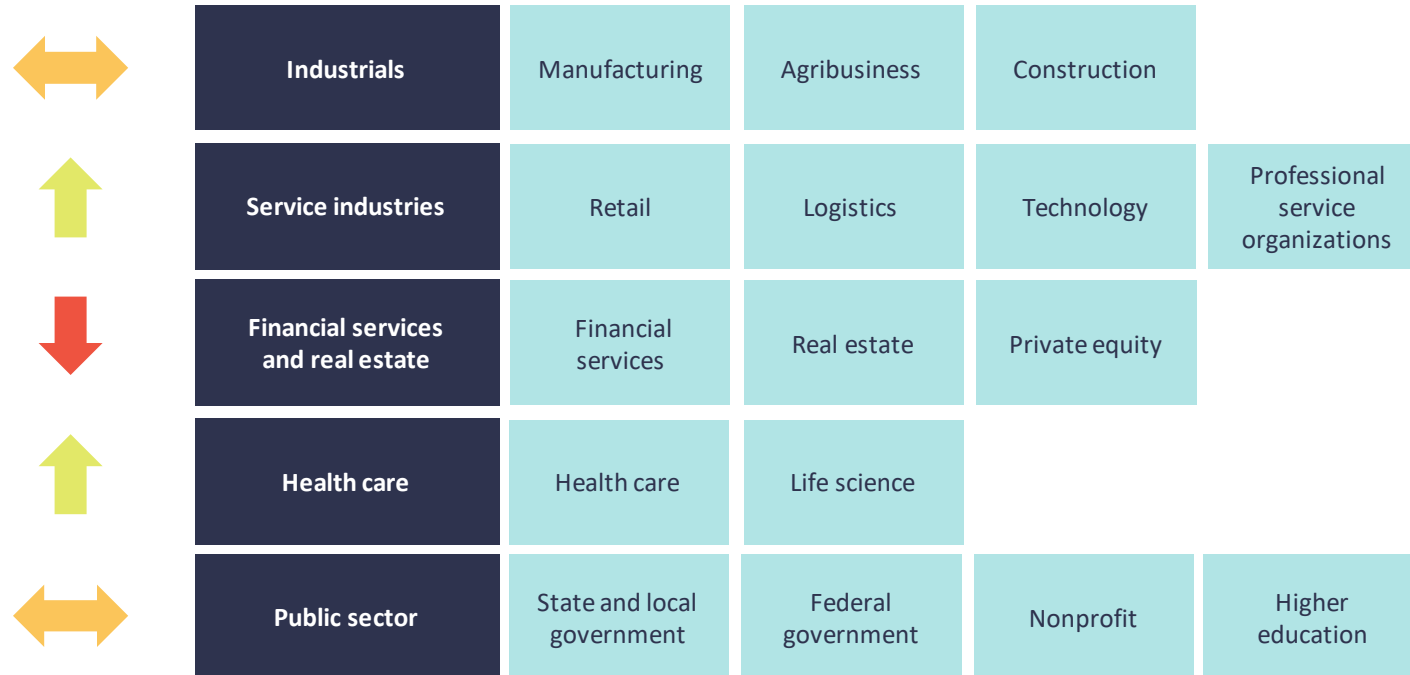
Talent management:
Reskilling and using
outsourcing for increased
flexibility and agility



Cybersecurity is
taking an elevated
importance for
business owners



Industries Are Responding Differently to Higher Rates



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 adjusting to regulatory changes.



CLA 2024 Outlook – 3 Key Themes



Industry: Big Picture

Challenges

Elevated Labor and interest rate costs

Cash liquidity challenges

Talent shortage

Too much data and no way to use it

Opportunities

Outsourcing, automation,
shared space arrangements

Funding sources, IRA tax credits,
government grants

Competitive pay with incentives,
flexible work arrangements



Industry Insights: Risk Mitigation

Agriculture

Addressing eroding profitability as farm net income falls

Construction

Projects being modified amid high interest rates

Federal Gov

Partisan divide creates threat of shutdown and inaction

Real estate

Distress in commercial office real estate

Financial services

Unrealized balance sheet losses

State and local government

Talent retention as labor looks to private sector

Private equity

Monitor fund leverage and capital structures for portfolio companies

Retail

Concern about consumer amid high interest rates



Industry Insights: Creating Opportunities

Professional services

Using digital for efficiency and focus on advisory

Technology

Restructuring compensation packages to attract and retain talent

Healthcare

Automation and outsourcing to address labor shortage

Higher education

Focus on driving value for rising tuition

Manufacturing

Using digital to optimize inventory management

Nonprofit

Monitor tax policy for charitable giving

Transportation

Tax strategies to improve liquidity amid higher rates



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

Employee Retention Credit

- IRS has suspended ERC claims processing due to perceived fraud; filing integrity is crucial
- 2020 claims due 4/15/24; 2021 claims due 4/15/25
- **Industries impacted:** Healthcare, manufacturing and distribution, nonprofit, retail, agriculture, construction

R&D Expensing

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



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



Protect Yourself as a Business Owner

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



Protect Yourself as an Individual

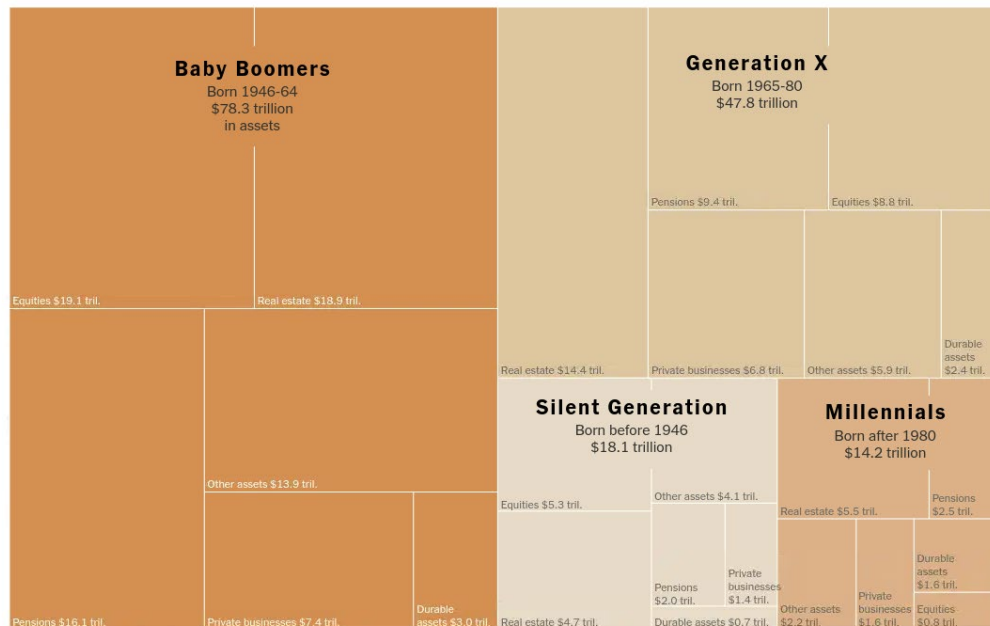
Year	Future Catalyst	Action Items Today
2026	Tax Cut and Jobs Act cliff: Top individual rate increases from 37% to 39.6%	<ul style="list-style-type: none">• Accelerate compensation from 2026 to 2025• Rebalance portfolio into tax-exempt bonds• Consider life insurance products
	20% pass-through deduction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



Megatrend: Historic Wealth Transfer

Protect Your Estate and Your Heirs

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

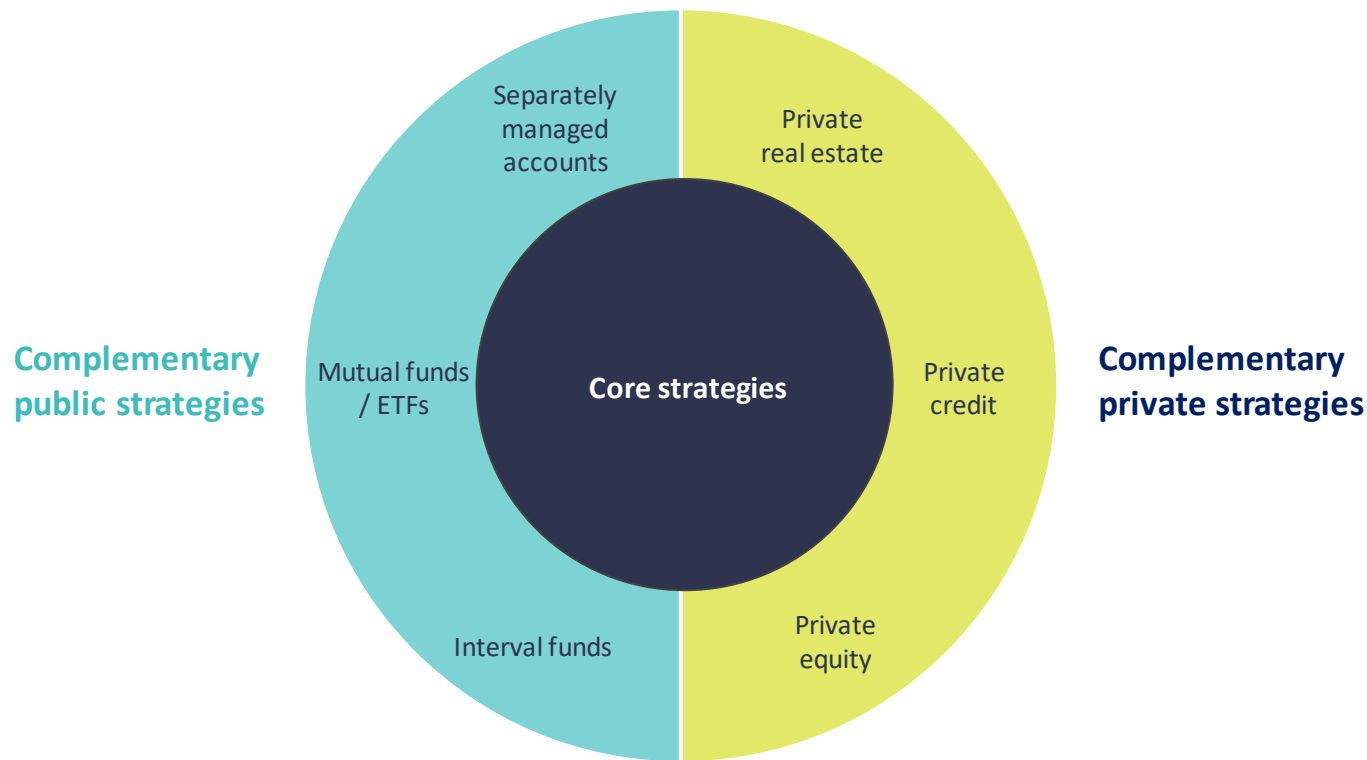


Notes: As of the fourth quarter of 2022. The total amount accounts for liabilities, but the individual asset categories do not account for liabilities and do not add up to the \$140 trillion total. The total assets when not accounting for liabilities is \$138 trillion. Pensions include the present value of future benefits as well as the value of annuities sold by life insurance companies. - Source: Federal Reserve

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



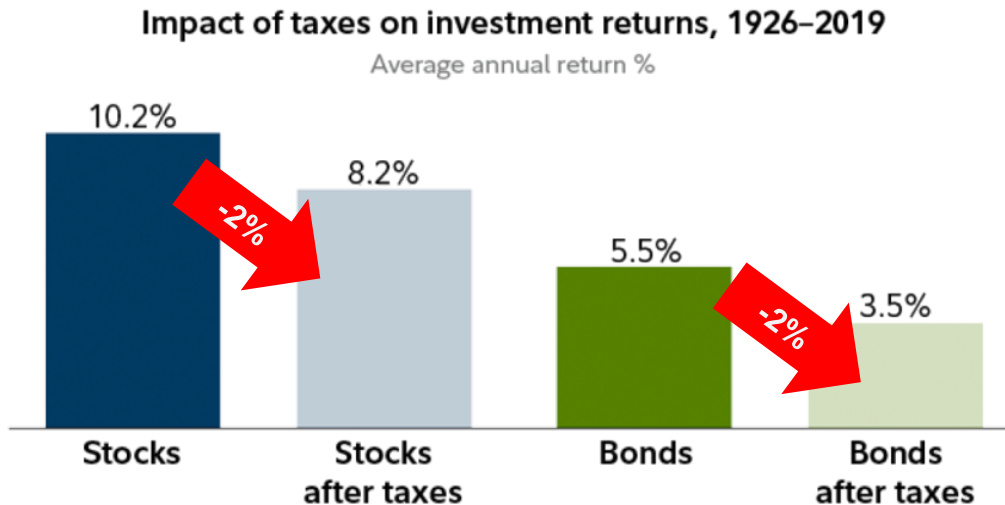
Protect Your Portfolio Using Diversification



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.





CLA 2024 Outlook – A Summary

	Industry	Markets	Policy	Megatrend
Dig deeper for growth as economic conditions renormalize post-COVID	Improve your business using data science (digital)	Complement broad exposures with specific tilts in public and private markets	In an election cycle, analyze specific policy developments (Inflation Reduction Act and Section 174 R&D)	Stewardship and globalization
Continued higher interest rates driven by resilient economy	With higher debt costs, look for ways to improve your business (outsourcing, cash management)	Pivot to longer maturity bonds and higher quality companies with low debt	Elevated borrowing costs will increase future debt ceiling discussions	Industry 4.0
Protect your business and portfolio from volatility – and look for opportunities	Invest in infrastructure and people (talent solutions), strategic M&A	Diversification across public and private markets with total return portfolios	Tax policy changes with estate tax sunset and election cycle	Workforce of the present and future, historic wealth transfer



Thought Leadership Helps You Navigate 2024 and Beyond



Monthly
video
updates



CLA
chartpack



Quarterly
CLA
outlook



Industry
blogs



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