Navigating 2024: Economic Forecast and Insights for Nonprofits

As rapid economic change and uncertainty continue, nonprofit leaders can take a strategic approach to minimizing negative outcomes. We discussed the current economic forecast and the potential implications for nonprofits during the CapinCrouse National Nonprofit Virtual Seminar in February 2024.

During the session, Stan Reiff, Partner and Professional Practice Leader – Consulting at CapinCrouse, moderated a panel discussion with:

- Robert (Bob) Doll, President, CEO, and Chief Investment Officer – Crossmark Global Investments
- Bryan Taylor, CEO and Chief Investment Officer – Cornerstone Management
- Jerry Bowyer, Economist and Author

Here are highlights from the conversation.

Stan Reiff: What should we expect with the economy and investing in 2024?

Bryan Taylor: The challenge for everyone is that there are a lot of unknowns in the economy this year. Many economists are expecting a “soft landing” like we last saw in 1994 – 1995. Our view at Cornerstone is more nuanced. We think a soft landing is certainly possible, but we also believe we should prepare for the possibility of a shallow recession later this year.

With so many moving parts, plus the U.S. presidential election, significant conflicts around the world, global economic challenges, and a Federal Reserve that has interest rates pretty high and probably is not going to lower them as quickly as the market expects, it is a good idea to be cautious with your investment program this year.

Bob Doll: I believe only God knows what this year will bring. But we are also cautious. Our view is that we will have a shallow recession sometime this year. The Fed raised interest rates from 0 to 5.25 in 18 months, and I don’t think the consequences are all in the rearview mirror. Could we have a soft landing? Of course. But there are many different variables.

The dilemma of 2024 is that on one hand, the consensus is that the economy will be strong enough to produce 12% earnings growth. On the other hand, the Fed has enough leeway, and there will be enough of a decline in inflation, that the Fed will cut interest rates.

Jerry Bowyer: We’re in a very different situation than we’ve ever been in before. Historically, private sector actors have been the biggest investors. But since 2008, the biggest investor in the world has been the Fed, which moves markets more than any other entity. What we see from day to day, and even minute to minute, is markets responding to what they think the Fed is going to do.

The Fed has two conflicting mandates: to fight recession with inflation to stimulate the economy *and* to fight inflation with recession. This causes volatility that I don’t think can allow for a soft landing.

Stan: Bob, you mentioned the U.S. presidential election. What are the unique attributes of this presidential election year that may affect the economy?

Bob: In election years, there typically is weakness early in the year and the markets are choppy, and then there is a rally after the election. Interestingly, when there hasn’t been a recession in the two years before a presidential election, the incumbent has always been re-elected. When there has been a recession in the two years before an election, the incumbent has never been re-elected.

Bryan: It’s important to note that both political parties have overseen good market environments, so the party in power doesn’t necessarily impact the state of the market. The best market environments have been during years when the executive and legislative branches were led by different parties. The bottom line is that we do not need to panic.

Jerry: I am of the opinion that we had a recession from the third quarter of 2022 to the first quarter of 2023, even though it didn't meet the criteria for a recession in terms of gross domestic product (GDP). However, because of inflation people kept spending money and we didn't feel the recession as much as we would have in times of lower inflation. I think the volatility of the presidential candidates is causing uncertainty, and it is hard to make predictions.

Stan: Are there other indicators nonprofit organizations and churches should consider?

Bob: I'm keeping my eye on interest expense. Prior to the last couple of years, debt was going up but interest rates were very low or falling, so interest expense didn't jump higher and people didn't talk about it. In the last couple of years, though, debt has been increasing and interest rates are increasing, too. So, interest expense — servicing your debt — is catapulting higher and I think it will overtake defense spending as the largest expense in the federal budget before long.

Bryan: Many organizations have been slow to reposition their cash, so we want to highlight that there are disintermediation opportunities in banking and investing that could provide for interest and cash management. There are opportunities in both the banking sector and in the investment sector in ultra-short duration and money markets. If your organization hasn't looked at your cash management strategies recently, we recommend doing that.

Stan: What about global markets?

Bob: There is a lot of momentum in the U.S. markets and economy, particularly compared to most other parts of the world, but many Americans have all their investments in the U.S. It is a good idea to slowly diversify some of your investments to international markets.

Jerry: If the dollar loses value, that home-country bias will lead to exposure if all your investments are in the U.S. Emerging markets outperform over time, but they also are more volatile and you should be selective. Just understand that it can be a bumpy ride, but equity is more for the long term.

Bryan: There is still a home-country bias at organizations because they aren't sure if it is prudent to invest internationally. The valuation argument has gotten stronger, and it is wise to protect yourself from a currency standpoint by not being reliant on the dollar.

Stan: Are there any concerns with the banking sector for 2024?

Bob: We recommend money center banks over local or regional banks for stability, but you should always check the balance sheets of the banks you use to make sure they are strong. We are also seeing more and more lending taking place outside of traditional banks. Private lending has been getting far more active in terms of equity and debt capital.

Stan: What about regional banks — how stable are they right now? What risks do we need to be aware of?

Bryan: The big money center banks are relatively healthy, although banks are collectively paying the bill from the FDIC for last year's bank failures. A bank that is heavily invested in commercial real estate could be risky because of the volatility of commercial real estate in the post-pandemic era of remote and hybrid work. I would also exercise caution in using smaller community-based banks in larger metropolitan areas because they could be involved in commercial real estate as well. Most of these banks are probably fine, but it's important to stay aware of what's going on with your bank.

Jerry: Regional banks are correlated to their region, so their health is usually as good or bad as the economies they serve.

Stan: Jerry, what are your recommendations for engaging in proxy voting if your organization invests through a fund managed by a third party?

Jerry: If you are using an exchange-traded fund (ETF) or mutual fund, you've given away your vote. But it is still important to be engaged, particularly in evaluating who you have given your vote to. Not everyone is equally good or bad. If you want to take control of your proxy voting, look into investing through a separately managed account (SMA) or direct indexing.

The challenge for everyone is that there are a lot of unknowns in the economy this year.

Stan: What effect do you think the current global uncertainty and conflict will have?

Bob: A record number of national elections are occurring around the world during this calendar year. As we noted earlier, elections create uncertainty and usually a little volatility. The list of geopolitical struggles is expanding in part because the U.S. has lost its position of hegemony. When the U.S. can't keep everyone in line, the hot spots are going to multiply.

Jerry: This is also fueling trade disruptions and capital interruptions. Only prayer is effective in facing what may come this year.

Bob: I would add that globalization is flagging a bit. For decades, the fastest-growing parts of almost every economy were imports and exports as companies traded more with each other. This is changing and causing less trade, less growth, and more inflation.

Bryan: There has been an increased shift to a populism format, with each country being more insular and not relying on other nations. That tends to raise prices around the globe. No one seems to have any interest in solving conflicts except the people in them. These global conflicts can affect trade. However, we should remain engaged and not panic.

Stan: I am reminded of Romans 13, which talks about God placing leaders in places of authority. With all the elections taking place around the world this year, we must trust that God is in control. Jerry, why don't you start us off with some parting words before we conclude today?

Jerry: When the world is shaking, those things that are unshakable will remain, so this is a great opportunity for Christian ministries to provide stability. This is a bull market when it comes to being peacemakers and providing social cohesion.

Bob: God is sovereign, and we know how the book ends. Even so, Lord Jesus, quickly come.

Bryan: We are not called to act out of a spirit of fear but of a strong mind. Let's respond out of the wisdom and knowledge that comes from God's backing.

Stan: Thank you all for joining us.

Please contact us with any questions.

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