



### Q1 2024: Step into Opportunity






#### Broad equities: Proceed with caution

- We have reached the end of the Fed’s hiking cycle, and our base case forecasts 3-4 rate cuts to come this year. The shape of the yield curve and the trajectory of growth will be key drivers of returns in 2024.
- Investors piled into cash last year, and staying there risks missing the return in both stocks and bonds during the current ‘pause period’ between the last hike and first cut.
- Our expectations are for positive, but slowing, economic growth. We believe that can translate to modestly positive equity index returns – albeit with significant event risk over the course of the year, and with significant differentiation under the hood.
- iShares Investment Strategy therefore believe investors would be well-served to be in risk-management mode in broad U.S. equity exposures, enabling them to take deliberate risk where, and when, opportunities arise.
- Further reading: [ETF implementation guide for 2024](#)

#### Quality: Building Resilience

- Despite expectations of rate cuts in 2024, we believe interest rates would end the year at a level higher than before the rate hike cycle began. Given the backdrop of elevated interest rates, geopolitical risks and the potential for lower economic growth, we continue to prefer high-quality stocks.
- Companies with greater balance sheet strength due to higher profitability and lower leverage are better positioned to navigate an environment where rates stay higher for longer.
- Quality has historically outperformed both in periods of a pause in rate hikes by the Fed, and in the years following the first rate cut.
- Investors looking to maintain exposure to the broad market during uncertain environments can use quality to help build resilience in their portfolio.

### U.S. factors outlook: 6- to 12-month tactical views

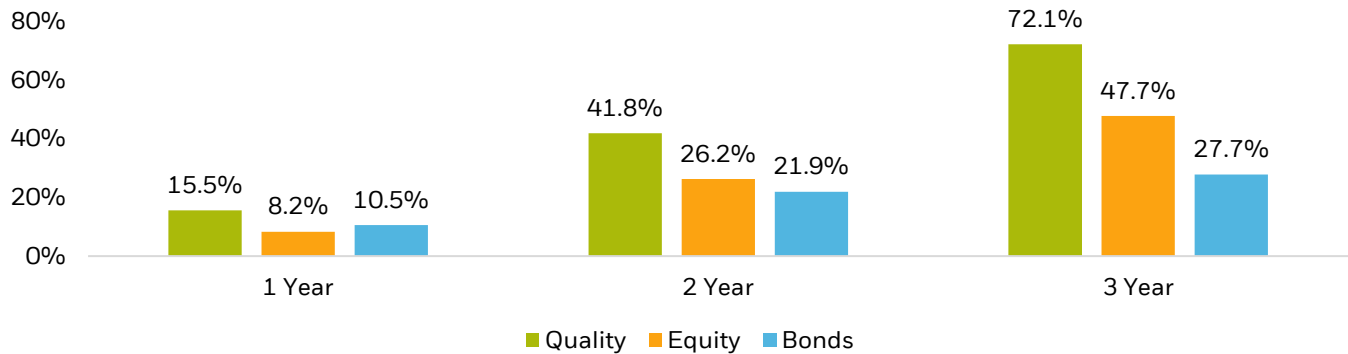
Factor	Views	Commentary
 Quality	<b>Supportive</b>	Quality stocks saw strong performance last year and may continue to be supported in the current environment as we believe interest rates may be slower to come down than what the market is pricing. In a higher rate environment, companies with lower leverage and stronger profits may be preferred.
 Minimum Volatility	<b>Neutral</b>	While 2023 saw strong overall market performance, a choppier market environment this year may lead investors to seek caution in potentially less volatile companies. For bearish investors, min vol continues to be an attractive option over full market cycles.
 Value	<b>Neutral</b>	We believe the current economic environment is less supportive for value which tends to favour a risk on regime. Despite that, we continue to favour value over expensive, unprofitable growth companies.
 Momentum	<b>Less Supportive</b>	While the momentum factor has seen improving sentiment, we remain cautious on the factor as the current economic regime is not typically supportive of momentum. Momentum may be whipsawed should we see a change in trends.
 Low Size	<b>Neutral</b>	In the near term, small size may benefit from a “catch up” trade in Q1; however, we take a neutral stance over the medium term as the factor has typically performed best during an economic recovery.

Key: Less supportive → Neutral → Supportive

# U.S. Factor Views Q1 2024

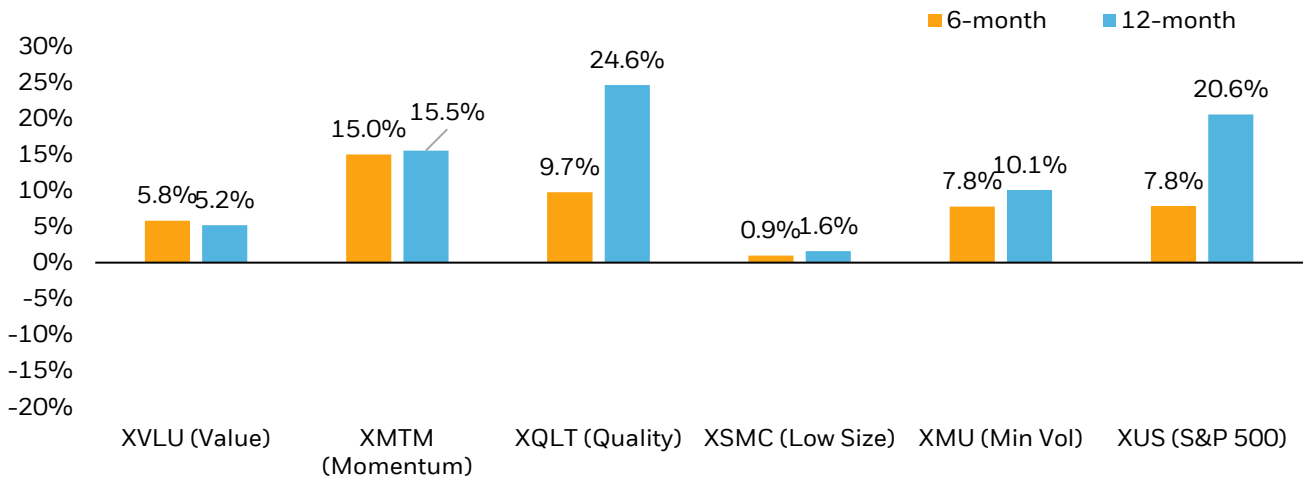
**Figure 1: In a higher for longer environment, look to add in resilience<sup>1</sup>**

Average Returns Post-rate Increase ('84-'19)

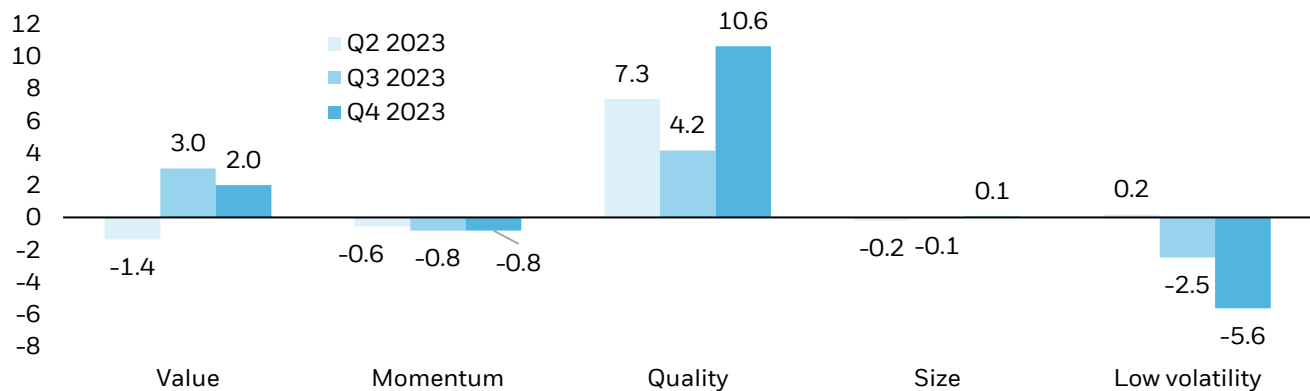


## Factor-specific insights

**Figure 2: iShares factor ETF total return performance<sup>2</sup>**



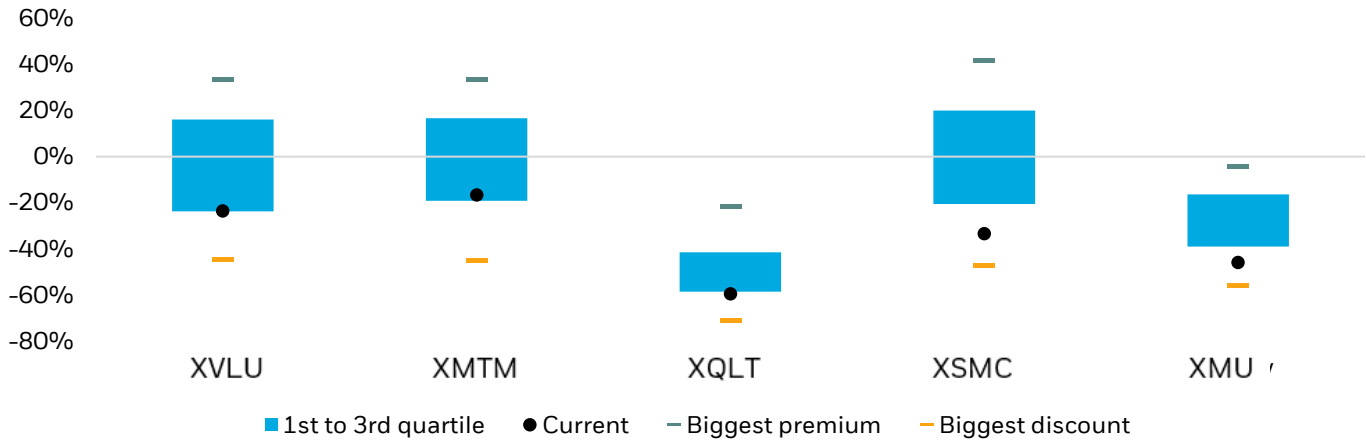
**Figure 3: U.S.-listed factor ETF flows (USD \$bn)<sup>3</sup>**



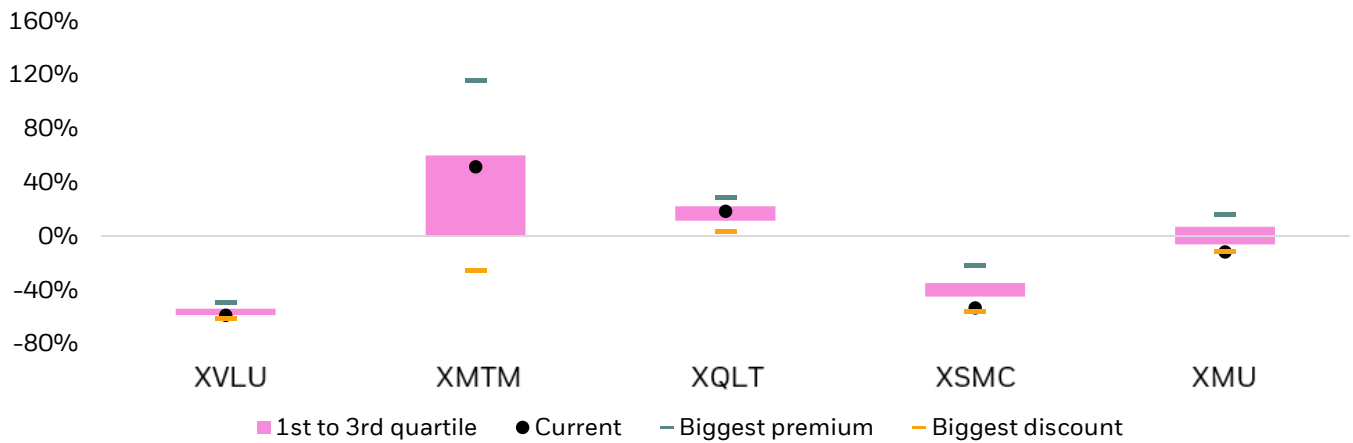
<sup>1</sup>Source: BlackRock, Morningstar as of 12/31/2023. "Quality stocks" are defined as the top quintile of stocks ranked in the Russell 1000 Index using a proprietary research screen that assesses companies on 13 "quality" metrics. Equity represented by the Russell 1000 Index. Bonds represented by the Bloomberg Aggregate Bond Index. Returns are calculated from the month when the Fed stops raising rates for six hiking cycles from 1984 to 2019. **Past performance is no guarantee of future returns.** You cannot invest directly in an index. <sup>2</sup> Source: BlackRock as of 1/31/2024. Performance data represents past performance and does not guarantee future results. Investment return and principal value will fluctuate with market conditions and may be lower or higher when you sell your shares. Current performance may differ from the performance shown. Index returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in and index. <sup>3</sup> Source: BlackRock Global Business Intelligence as of 12/31/2023. Includes US-listed ETFs classified as smart beta with a US geographic focus by iShares GBI. Size includes size factor and equal weight ETFs.

# U.S. Factor Views Q1 2024

**Figure 4: ETF Price to forward earnings premium/discount vs. S&P 500 Index<sup>4</sup>**

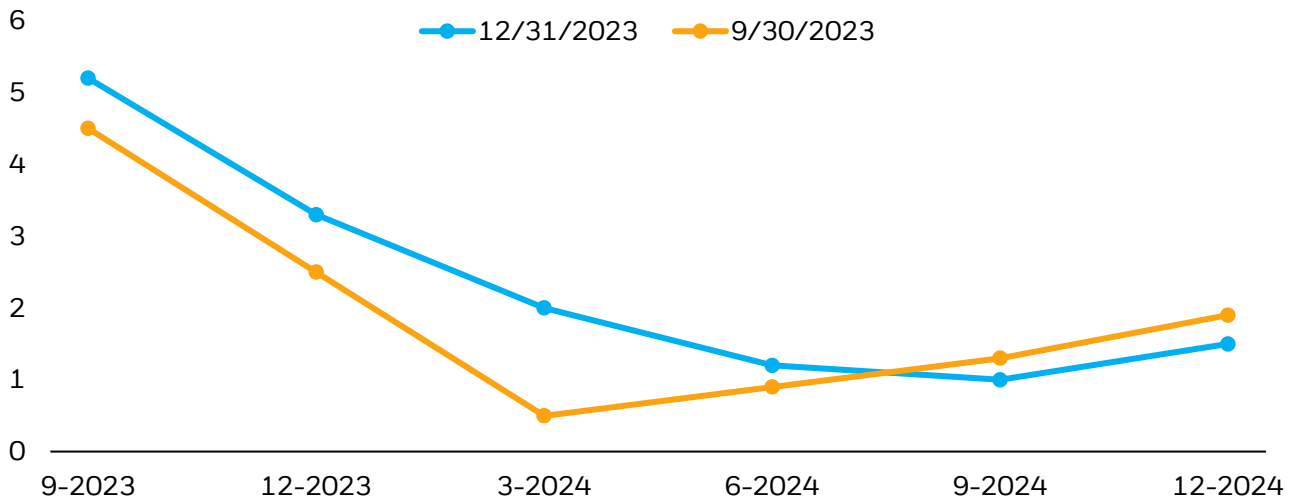


**Figure 5: ETF Price to CFO premium/discount vs. S&P 500 Index<sup>4</sup>**



## Economic insights

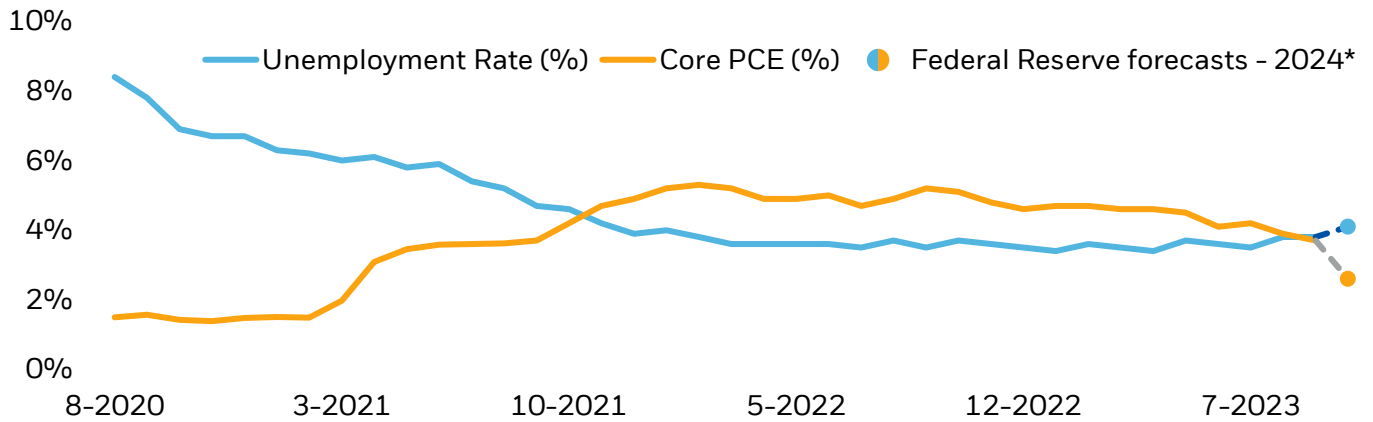
**Figure 6: Consensus economist US GDP forecasts (QoQ, ann. %) <sup>5</sup>**



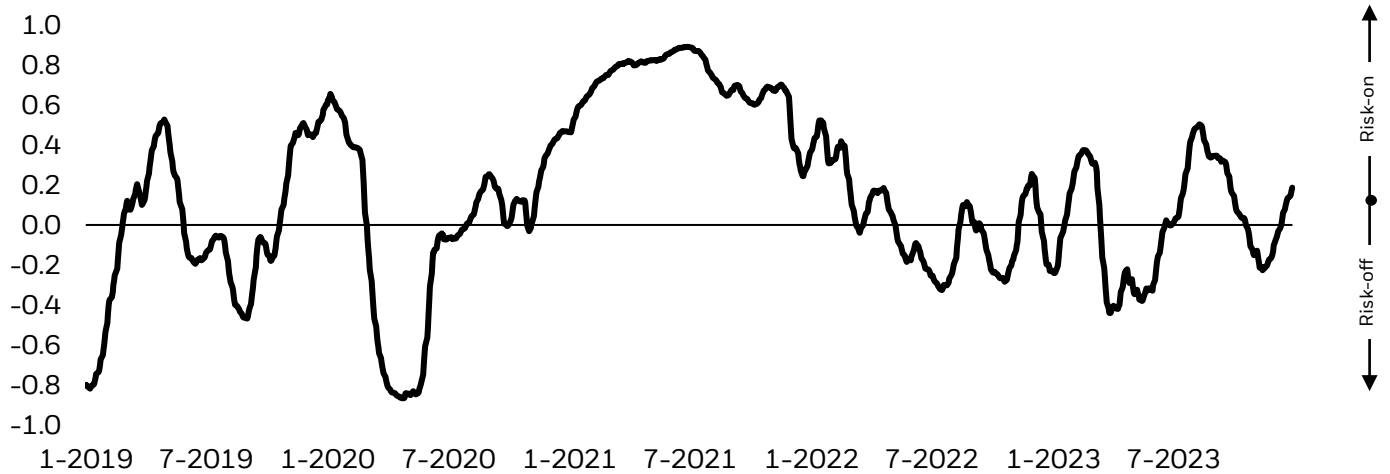
<sup>4</sup> Source: BlackRock, FactSet as of 12/31/2023. Quartile analysis uses 5 years of monthly data from 1/2018-12/2023. <sup>5</sup> Source: BlackRock Investment Institute, Refinitiv Datastream as of 12/31/2023. Reuters economist poll, median response. Forward-looking estimates may not come to pass.

# U.S. Factor Views Q1 2024

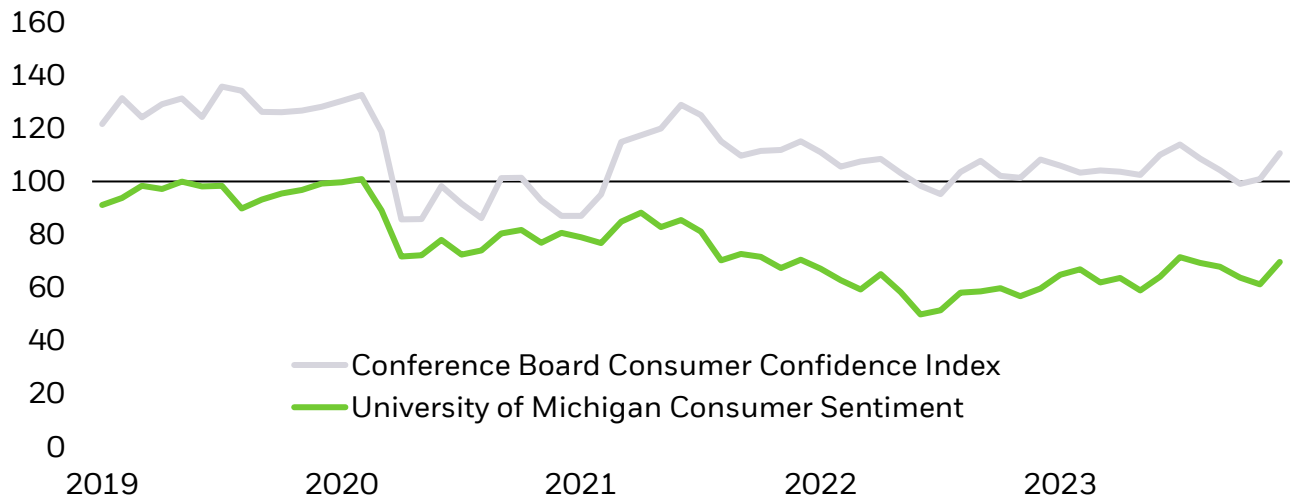
**Figure 7: US Core PCE and unemployment rate (8/2020-9/2023)<sup>6</sup>**



**Figure 8: BlackRock Risk Tolerance Indicator (1/2019-12/2023)<sup>7</sup>**



**Figure 9: US Consumer confidence & sentiment indexes (1/2019-12/2023)<sup>8</sup>**



<sup>6</sup> Source: U.S. Bureau of Labor Statistics as of 9/30/2023. Bureau of Economic Analysis as of 8/31/2023. <sup>7</sup> Source: BlackRock proprietary models as of 12/31/2023. [The Risk Tolerance Indicator](#) is a proprietary measure of investor sentiment. High investor risk appetite is indicated by a score of 1, while -1 suggests high investor risk aversion. <sup>8</sup> Source: BlackRock, Refinitiv Datastream as of 12/31/2023. \*Federal Reserve Summary of Economic Projections as of 9/20/2023.

# U.S. Factor Views Q1 2024

**Figure 10: ETF total returns as of January 31, 2024**

Ticker	Fund Name	MER (%)	Inception Date	YTD (%)	1Y (%)	3Y Ann. (%)	5Y Ann. (%)	10Y Ann. (%)	Incept Ann. (%)
<b>XVLU</b>	iShares MSCI USA Value Factor Index ETF	0.32	Sep 4, 2019	0.45	5.20	7.66	-	-	7.94
<b>XMTM</b>	iShares MSCI USA Momentum Factor Index ETF	0.33	Sep 4, 2019	6.96	15.55	2.84	-	-	8.37
<b>XQLT</b>	iShares MSCI USA Quality Factor Index ETF	0.32	Sep 4, 2019	3.62	24.61	12.87	-	-	13.41
<b>XSMC</b>	iShares S&P U.S. Small-Cap Index ETF	0.22	Sep 4, 2019	-2.66	1.57	4.85	-	-	9.01
<b>XSMH</b>	iShares S&P U.S. Small-Cap Index ETF (CAD-Hedged)	0.22	Sep 4, 2019	-4.06	-0.01	2.29	-	-	7.26
<b>XMU</b>	iShares MSCI Min Vol USA Index ETF	0.33	Jul 24, 2012	3.55	10.07	9.18	9.24	12.27	13.45
<b>XMU.U</b>	iShares MSCI Min Vol USA Index ETF	0.33	Oct 22, 2019	2.20	9.94	7.56	-	-	6.70
<b>XMS</b>	iShares MSCI Min Vol USA Index ETF (CAD-Hedged)	0.33	Apr 5, 2016	2.43	9.89	6.91	7.85	-	8.45
<b>XUS</b>	iShares Core S&P 500 Index ETF	0.09	Apr 10, 2013	3.02	20.56	12.30	14.28	14.24	15.46

Management expense ratio (MER) as reported in the most recent management report of fund performance.

## Authors



**Andrew Ang**  
Head of Factor Based Strategies, BlackRock



**Gargi Chaudhuri**  
Head of iShares Investment Strategy, BlackRock



**Bob Hum, CAIA**  
U.S. Head of Factor ETFs, BlackRock



**Abby Woodham**  
Senior Factor Strategist, BlackRock

Publication date: March 4, 2024

Investing involves risk, including possible loss of principal.

RBC iShares ETFs are comprised of RBC ETFs managed by RBC Global Asset Management Inc. and iShares ETFs managed by BlackRock Asset Management Canada Limited ("BlackRock Canada"). Commissions, trailing commissions, management fees and expenses all may be associated with investing in exchange-traded funds (ETFs). Please read the relevant prospectus or ETF Facts document before investing. The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. ETFs are not guaranteed, their values change frequently and past performance may not be repeated. Tax, investment and all other decisions should be made, as appropriate, only with guidance from a qualified professional.

The iShares ETFs are not connected, sponsored, endorsed, issued, sold or promoted by Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services, Limited ("Bloomberg"), Cohen & Steers Capital Management Inc., London Stock Exchange Group plc and its group undertakings ("LSE Group", ICE Data Indices, LLC., ICE Benchmark Administration Limited, Jantzi Research Inc., Markit Indices Limited, Morningstar, Inc., MSCI Inc., MSCI ESG Research and Bloomberg, NASDAQ OMX Group Inc., NYSE FactSet or S&P Dow Jones Indices LLC. ("S&P"). None of these companies make any representation regarding the advisability of investing in the iShares ETFs. BlackRock Asset Management Canada Limited is not affiliated with the companies listed above. The Prospectus contains a more detailed description of the limited relationship the companies have with BlackRock Asset Management Canada Limited and any related ETFs.

® / TM Trademark(s) of Royal Bank of Canada. Used under licence. iSHARES is a registered trademark of BlackRock, Inc., or its affiliates. Used under licence. © 2024 BlackRock Asset Management Canada Limited and RBC Global Asset Management Inc. All rights reserved.