

QUARTERLY MARKET COMMENT Fourth Quarter 2023



Could it be if we have patience and wait long enough things are bound to look better? For the markets, that was the case over the last two years. Experiencing a -19.4% return in the S&P 500 in 2022 accompanied by negative returns for all sizes, styles, and 10 of the 11 sectors, it's no wonder there was concern heading into 2023. Yet history hinted, given certain parameters, that a year following a year like 2022, is typically a very positive year. Given the returns experienced in the 3rd quarter of 2023, it may have been difficult to see any historical pattern emerging. But then we entered the 4th quarter and the last two months were straight up. All the broad areas of the market experienced positive rates of return except U.S. Commodities. For 2023, the S&P 500 was up 24.23% accompanied by positive returns in all sizes, styles, and 7 of the 11 sectors. The three best sectors were communication services, consumer discretionary, and information technology. The two areas experiencing negative returns were US Long-Term Government Bonds, -0.35%, and US Commodities. -5.56%.

What is the outlook for 2024? The crystal ball may need some polishing at this point. There are several concerns and events we know about. We've had a market advance driven by a concentration of tech-oriented stocks (The Magnificent Seven) and US large-cap stocks are sitting at higher valuations. Consumers have a greater amount of debt coming into this year than last. The Federal Reserve may have stopped rate-hiking, but they have repeatedly said, "higher for longer" to tame inflation. The risk of a looming recession is still present, signaled by a variety of indicators, such as the inverted yield curve. Geopolitical risks are present with Russia's invasion of Ukraine and the additional expansion of the Mid-East conflict. The upcoming presidential election is also on the minds of many.

There are several bright spots that may outweigh some of these concerns. The large-cap stocks are elevated but not over-extended at this point. Additionally, the advance in the markets last quarter broadened and valuations look very positive in the mid and small-cap areas of the markets. The concern of a recession has eased. It is still too early to tell if we have already been experiencing a rolling recession or if a true recession will materialize. If the latter, the current thinking is that it will be mild to a soft landing. The growth of the economy is slowing, but it's not stalling. Unemployment may tick up from 3.7% (4Q 2023) to possibly 4.2%, but well below 5% which is considered full employment. The Federal Reserve appears to have stopped raising rates and the general consensus is that they will begin reducing rates in the 2nd quarter with a total of three cuts. Inflation bumped from 3.1% to 3.4% in December, but is projected to decline through 2024.

As we know, investing in anything is not without risk. Even though we have entered the 2nd year of a bull market (raising market), it does not mean it will be smooth sailing. Pullbacks (defined as a decline of 5 to 10%) or a correction (10% to 19%) cannot be ruled out. There are times when the markets get ahead of themselves (price is greater than valuation) or do not digest news well (i.e. rate cut announcements timing or amount). It is ultimately the long-term upward trend of the markets that we need to stay focused on. The last two years have provided a great case study in the benefits of patience.

Asset Index Category	4Q 2023 %	YTD Average %	5-Year Average %	10-Year Average %
S&P 500 Index-Large Companies	11.24	24.23	13.73	9.94
S&P 400 Index-Mid-size Companies	11.17	14.45	10.83	7.56
Russell 2000 Index-Sm Companies	13.56	15.09	8.49	5.71
US Real Estate Funds	15.71	12.03	6.83	6.82
Gold	11.38	12.82	8.88	4.70
US Commodities	-4.39	-5.56	8.05	-0.63
Global Real Estate Funds	15.09	10.24	3.58	3.68
MSCI EAFE-Developed International	10.09	15.03	5.39	1.56
MSCI EM Index-Emerging Markets	7.45	7.04	1.17	0.21
Barclays US Aggregate Bond Index	6.82	5.53	1.10	1.81
Long US Government Bond Index	11.65	-0.35	-3.93	-0.77
Emerging Market Bond Index	9.13	11.83	1.57	1.30

We appreciate and value the trust you have placed in us to help guide you through your financial life. Let us know if you have any questions or concerns.

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