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Weekly Wire

Cherry on Top

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What a great year for the stock market in 2023 and last week was just a cherry on top as the Santa Rally continued and the S&P 500 finished higher last week for the ninth week in a row. This is its best win streak for consecutive weekly gains since 2004. With the gains last week, the S&P finished the year higher with a total return of over 26%.

Who would have guessed that market performance 12 months ago? Not many. Let's consider some of the events from last year. At the beginning of 2023, nearly all economists were predicting a recession. We did have consecutive quarters of negative year-over-year earnings growth at the beginning of the year. Inflation was stubbornly higher than many investors wanted early in the year and the Fed maintained a rate hike program to fight higher consumer prices. Investors also faced a regional banking crisis as well as wars in Ukraine and the Middle East. In addition, the Treasury's decision on August 1st to issue more long-term debt for the first time in three years tightened financial conditions. That decision in August was a market mover. From July 31st until October 31st, the S&P lost nearly 9%, small-cap stocks lost 17%, and 10-year Treasury bond yields moved higher by nearly 1%.

On November 1st, however, the Treasury reversed this decision. Match that with Federal Reserve chair Jerome Powell acknowledging on the same day that the Fed Funds rate increase campaign was over, financial conditions then loosened. From November 1st until the end of the year, the S&P gained nearly 14%, small-cap stocks gained nearly 22%, and 10-year bond yields moved lower by nearly 1%. It was indeed an incredible end to the year.

The coming holiday-shortened week will likely start the week on the quiet side but look for potential notable market action with Friday's unemployment report. The current expectation is for a 3.8% unemployment rate (last month was 3.7%).

Needless to say, investor optimism is running high entering the new year. It's useful to remember, however, that the market often moves counter to the dominant narrative and expectations. Currently, we do have a Goldilocks Economy, and many investors expect that to continue.

With that in mind, let's consider the year-end consensus views from the last four years. At the end of 2022, a recession was coming. The end of 2021 was how IPOs/SPACs/technology would continue racing higher. At the end of 2020, it was that the pandemic winners were here to stay. At the end of 2019, most investors were underestimating COVID.

Add it all up...

Stay invested. Stay diversified. Stay disciplined.

If you have any questions or comments, please let us know at strategists@brinkercapital.com or at Rusty@Orion.com.
We wish you a happy and prosperous New Year.

Key Economic Data This Week

Data Point	Expectation	Release Date
US Job Openings	8.8M	1/3/2023
ISM Manufacturing	47.3%	1/3/2023
ADP Employment	--	1/4/2023
Nonfarm Payrolls	170,000	1/5/2023
US Unemployment Rate	3.8%	1/5/2023
ISM Services	52.5%	1/5/2023

Source: MarketWatch

Key Economic Data Last Week

Data Point	Expectation	Actual
NA	--	--

Mind Over the Market

An understanding of markets that fail to account for humans that drive them will be of limited use.

The Behavioral Investor, Dr. Daniel Crosby

Trivia

Bonds are often rated based on their credit quality. What is the highest credit rating assigned by major rating agencies to indicate the lowest risk of default?

AAA