

Equities in Review

Investors received the news they were seeking in Q4, when the U.S. Federal Reserve signaled inflation pressure had softened enough that their next shift could be to monetary easing.

Lower yields in the bond market made equities look relatively more attractive and also contributed to the bullish mood for stocks.

Large capitalization, growth-oriented stocks led the way, with the large cap growth indexes appreciating more than 40% during the full year. This was a sharp reversal of this group's poor 2022 performance.

Following are the quarterly, year-to-date, and 5-year average returns for the three equity indexes that we track:

INDEX	DESCRIPTION	Quarter	Year-to-Date	5-Year Avg.
S&P 500	Large cap stocks	+11.7%	+26.3%	+15.7%
Russell 2000	Small cap stocks	+14.0%	+16.9%	+10.0%
MSCI World (excluding US)	Foreign stocks	+ 9.8%	+15.6%	+ 7.1%
Weighted Index Benchmark*	Diversified Equities	+11.8%	+22.3%	+12.8%

*The Index weighting is 60% S&P 500 Index, and 20% each Russell 2000 Index and MSCI World (excluding US) Index.

Other Important Data

Headline CPI dropped from a recent high of 9% to 3.4% on 12/31/23. While slightly above 3% is closer to the Fed target of 2% (much closer relative to the 9% peak), in recent quarters the year-over-year CPI increases have leveled off above the 2% target. Investors will be watching closely to see if the Fed can manage a soft landing and avoid steering the economy into a recession.

The spread on the yield curve (the difference in yield between the 1-Year and 30-Year Treasury bond) has often been a reliable leading indicator of the likelihood of recession. During the fourth quarter, the spread remained negative (forecasting a recession) and widened a bit from 0.73% to 0.76%. This wider inversion resulted from longer-term rates falling a bit during the quarter and gave hope that the Fed is steering the economy to a soft-landing of either no recession or a mild one.

- December 31, 2023 (0.76%)
- September 30, 2023 (0.73%)
- June 30, 2023 (1.55%)
- March 31, 2023 (0.97%)
- December 31, 2022 (0.76%)
- September 30, 2022 (0.26%)

Equities Looking Forward

Following the strong quarter, we have a cautiously optimistic short-term and long-term view of stocks. Continued profit and stock price growth is surely possible, but valuations are higher, and the market will have to overcome many obstacles – economic, political, and geopolitical – to post a strong 2024 on the heels of a positive 2023.

Hybrid and Hedging Assets

We believe that the Tax Managed Balanced Composite Hybrid Index offers the best benchmarks for hybrid and hedging assets. Returns are as follows:

INDEX	DESCRIPTION	Qtr.	Year-to-Date	5-Year Avg.
Tax Managed Balanced Composite	Hybrid (bonds and stocks)	+9.2%	+15.7%	+9.2%

Since the hybrid assets we own in our portfolios invest in a combination of securities including, but not limited to, bonds and stocks, the hybrid assets typically produce returns close to the average of the bond and stock index returns. This is the case for the quarter and for the annualized returns of the past five years.

Hedging assets like commodities or alternative strategies generally move with little, zero or negative correlation to the bond and stock markets. We believe hedging assets should play a role in diversified portfolios because, over the long-term, their limited or inverse correlation to bonds and stocks should reduce the volatility of overall portfolio returns.

Bonds in Review

As we mentioned in the equity review, inflation fears ticked down in the 4th quarter, which led to buying in the bond market.

The quarterly and historical results for the bond indexes that we track are as follows:

INDEX	DESCRIPTION	Quarter	Year-to-Date	5-Year Avg.
Bloomberg US Universal	US Gov't and Corporate Issues	+6.8%	+6.2%	+1.4%
Bloomberg Municipal Bond	US Municipal Issues	+7.9%	+6.4%	+2.0%
Bloomberg TIPS (0-5 Years)	Inflation Protected Gov't Issues	+4.7%	+3.9%	+3.2%
Weighted Index Benchmark*	Diversified Fixed Income	+6.6%	+5.8%	+0.9%

*The Index weighting is 60% US Universal and 20% each Bloomberg Municipal Bond and Bloomberg TIPS (0-5).

Bonds Looking Forward

The yield on the 10-year treasury topped out at 4.98% before strong bond buying – remember, bond prices and bond yields move in opposite directions – produced a significant drop to 3.88% at year-end. The yields on short-term bonds also fell by a similar amount after peaking in mid-October, but they remain above longer-term yields. Because of this, we continue to believe

shorter term bonds generally provide the best value in the bond market. We feel bond investors are best served to have the majority of their fixed income portfolio in short-term, high quality debt with some combination of inflation protection, floating rate, and longer-term paper (18-20 years) to provide diversification and hedging against rates dropping in the near future.

Our Asset Allocation Philosophy

It is our philosophy that investors with long-term time horizons are best served by using a disciplined, diversified asset allocation approach (investing in bonds, hybrid and other hedging assets and stocks) rather than trying to time the markets. It is important to periodically review your asset allocation and your target allocation and to rebalance your assets among the classes to keep the allocation close to the target. We will address the issues specific to you when we review your situation in the coming months. In the interim, if you would like to discuss these issues, please contact us at howard@kadescheifetz.com or steve@kadescheifetz.com.

Reminders

Please contact Kades & Cheifetz LLC if there are any changes in your financial situation or investment objectives, or if you wish to impose, add or modify any reasonable restrictions to the management of your account. Our current disclosure statement is set forth on Parts 2A and 2B of Form ADV and is available for your review upon request.

Kades & Cheifetz LLC has provided this overview for internal use and for use by our clients. We have prepared it using sources believed to be reliable. We do not guarantee the accuracy of the sources. We reserve the right to change our opinions (expressed above) without notice.

You should be receiving statements at least quarterly from your custodian. If you are not receiving these statements, or you need another copy of a statement, please call us and we will provide one to you. Clients are encouraged to review the information on the statements, especially the amount of fees deducted, and compare that information with any information provided by Kades & Cheifetz LLC. If there are any questions or discrepancies, please contact us as soon as possible.

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1055 Westlakes Drive, Suite 300, Berwyn, PA 19312
Howard Kades: 610.834.1487, howard@kadescheifetz.com
Steve Cheifetz: 610.679.9256, steve@kadescheifetz.com
www.kadescheifetz.com
