

Market Commentary – Fourth Quarter of 2023

The markets ended 2023 with a nice rally. After a lackluster October, November and December went on to lead the S&P 500 to a nice double-digit return for the year. The table below shows fourth quarter and year to date returns as of 12/31/2023 (percentages are for total returns):

Time Period	Dow Jones Industrial Average	S&P 500 Index	Nasdaq Composite	Barclays U.S. Aggregate Bond
Fourth Quarter	13.1%	11.7%	13.8%	6.8%
Year of 2023	16.2%	26.3%	44.6%	5.5%

Behind the Numbers

For the majority of 2023 the equity market gains were limited to the seven largest (based upon market capitalization) stocks, the so-called Magificent-7, which include the likes of Apple, Microsoft, Amazon, Nvidia, Alphabet, Tesla, and Meta. These stocks accounted for two-thirds of the gains of the S&P 500 Index. The rally that started in November was instrumental in broadening out the gains within the markets to include most sectors and market capitalizations. The utilities and energy (2022 winner) sectors were this year's lowest returns. Small and mid-cap stocks rallied going into the year's end but failed to make up for last year's losses. The largest sector of the S&P 500 is the technology sector, making up over 25% of the index. This sector is even more pronounced in the Nasdaq Composite, making up over 55% of the index. The out-sized gain of 45% for 2023 of the Nasdaq Composite is impressive but the two-year return of the index was negative 1.0%. This illustrates the volatility associated with the stocks that comprise this index.

Fixed Income Markets

The Federal Reserve (FED) has the dual mandates to keep prices stable and maintain a healthy economy. It has both inflation and unemployment targets. To fight inflation, the FED raises short-term interest rates, which in turn increases the cost to borrow money that ultimately results in slowing demand in the economy. With the rise in interest rates, many fixed income investments (bonds, CDs, US Treasuries, etc.) have again become viable alternatives to equities. However, the FED's actions do not directly impact long-term (over ten years) interest rates, which are used to price home mortgages. Long-term interest rates broadly reflect current economic conditions and expectations of inflation and growth. The FED successfully increased short term rates in 2023 and inflation has moderated. The interest rate of the 10-year US Treasury note was virtually unchanged in 2023. Currently, interest rates are higher for shorter duration instruments than longer term bonds, this is an inversion that has historically been a precursor to a recession.

Outlook for 2024

Many factors will ultimately impact financial markets in 2024. Our strongest convictions are inflation will continue to moderate from lower energy prices and more balanced supply/demand sourcing; the economy will soften with higher unemployment and less labor shortages; and the Fed will move to lower short-term rates as needed to avoid recession but still fight inflation (a delicate balance); and, the news cycle relating to the current armed conflicts and possible escalations, November US elections, geopolitical events, and polarization of the Legislative branch of the US Government will dominate the nightly news. Our view is that these trends continue and therefore there is a runway for equities to go higher if a recession is avoided. We assess the value of an investment based upon its fundamentals (dividends, strong free-cash flows, and lower leverage and proven management). Many individual winners of this year are likely to consolidate next year and a rotation to other sectors often occurs. These market reversions are historical and predictable. We stress periodic rebalancing by adding at low prices and trimming (selling) at high prices. We thank you for your ongoing confidence and trust. We look forward to connecting with you soon via a live meeting, voice, or video call.