2023 Year in Review

Stay in the Market—Carefully

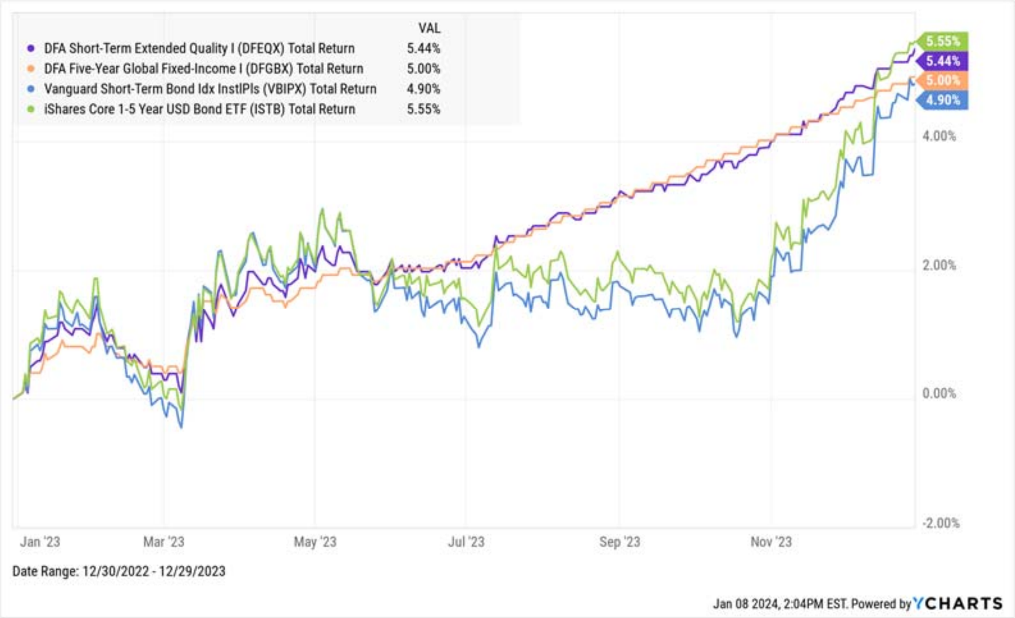
After a disappointing Q3, we discussed how uncertainty pays—and boy did it pay in Q4 2023! Led by a dramatic recovery of the "Magnificent 7", US, Foreign and Emerging Market stocks all ended the year positively, driven largely by 4th quarter growth. While experiencing volatility, bonds also performed well in 2023, particularly outside of the US due to higher yields and interest rates stabilizing.

Looking to 2024, there are attractive opportunities outside of the US as lower valuations provide discounts relative to US Stocks. The foreign stock market offered tremendous returns in 2023 (17.8% for Developed Ex-US Stocks) but were overshadowed by the US Stock performance. With valuations near 20 year lows relative to US stocks, a weakening dollar, and attractive relative fundamentals, we will continue to rebalance to maintain our foreign exposure targets.

Our process is designed to take gains when offered and rebalance them into opportunities (sell high, buy low). This isn't accomplished by forecasting when a certain sector will outperform, but by remaining disciplined in our investment process. We cannot predict what 2024 will offer, but we are positioned to take advantage of opportunities as they arise.

Story of Bonds

When pursuing long-term expected return, ownership in companies (stocks) has a higher expected return than debtors to companies (bonds). The role of bonds in our clients' portfolios is to provide yield while smoothing the more extreme volatility that generally occurs in stocks.



Off the heels of one of the worst years in bond history, 2023 exhibited more volatility in bond markets than in stock markets but with positive returns. Our unique approach to bonds offered a different story on volatility. By utilizing strategies that are constantly varying in terms of credit and maturity (within specific parameters), our bond story for 2023 was far less volatile without sacrificing return. The chart above exhibits the 2023 total returns of two funds we often place in client bonds portfolios (DFEQX and DFGBX) relative to their index fund counterparts and Vanguard and iShares. When using bonds to act as safety nets in a distribution portfolio, not all bonds are created equal.

Key Market Performance 2023

- US Stocks 26.0%
- Developed Ex US 17.8%
- Emerging Markets 12.1%
- Global Real Estate 10.1%
- US Bonds 5.5%
- Global Bonds Ex US 7.2%

Special points of interest

- Diversified Portfolios close to all-time 2021 highs after Q4 rally.
- Inflation (CPI) cools to 3.1% (Nov)
- Economy remains resilient avoiding recession in 2023
- Interest Rate increases paused as inflation cools close to fed target.
- Real estate was the top performing sector of the S&P 500 for Q4
- Small stocks vastly outperform in Emerging Markets

Opportunities

- International Stocks—lower relative valuations offer strong opportunity.
- Small Stocks
- Bonds—variable maturity and credit will take advantage of current higher yields and potential reduction in interest rates
- Cash—in short term situations