Market Commentary

As of December 31, 2023

Economy & Market Review

Fourth Quarter 2023

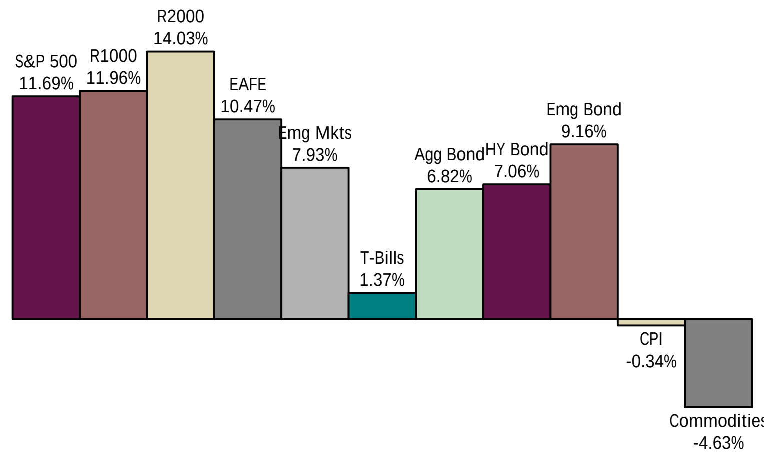
With 2023 in the rearview mirror, a quote from Forrest Gump's mama comes to mind, "Life was like a box of chocolates. You never know what you're gonna get." This adage also applies to US economic growth. Most economists believed the US would already be in a recession after a 5% increase in the Federal Funds rate. Now, many market prognosticators have delayed their recession expectations and currently anticipate a mild recession if one even occurs. GDP (Gross Domestic Product) grew 4.9% in the third quarter surpassing the second quarter growth of 2.1%. Current Atlanta Fed GDPNow estimates are 2.2% for the fourth quarter.

The Inflation problem was a result of imbalances between supply constraints and excess demand. It's not shocking that pouring massive monetary and fiscal stimulus into a supply constrained economy led to price increases. Inflation seems to be abating and growth continues to slow, but not collapse. The 12-month CPI inflation rate has declined from 6.4% in January of 2023 to the most recent reading of 3.4% through December. Keep in mind, that means prices are still increasing over 3%, but on a positive note, wages grew 5.2% during the same period for some parts of the economy. With reduced inflation, the Federal Reserve (Fed) paused rate increases and even acknowledged possible rate cuts. Both the bond and stock markets cheered this scenario. So far, a favorite chocolate candy from the box of economic possibilities has been selected and enjoyed. The volatile bond market continued its unpredictable path as the 10-year yield fell precipitously from a 2023 high of 4.98% in mid-October to 3.88% at year end. This drop in rates provided a tailwind to the Bloomberg Aggregate Bond Index which increased 6.8% during the quarter and ended the year in positive territory. With further anticipation of a "soft landing", the S&P 500 large cap stock index increased 26.3% in 2023 while adding 11.7% during the quarter. Mega-cap stock domination continued. The market cap percent that the "magnificent 7" represents is at an all-time high, and they accounted for most of the equity market gains in 2023. US small caps based upon the Russell 2000 Index roared back to life with a 14% return for the quarter, but still meaningfully lagged their large cap brethren over the year. During the quarter, developed market international stocks increased 10.5% lagging US performance for the quarter and the year.

Global Market Performance

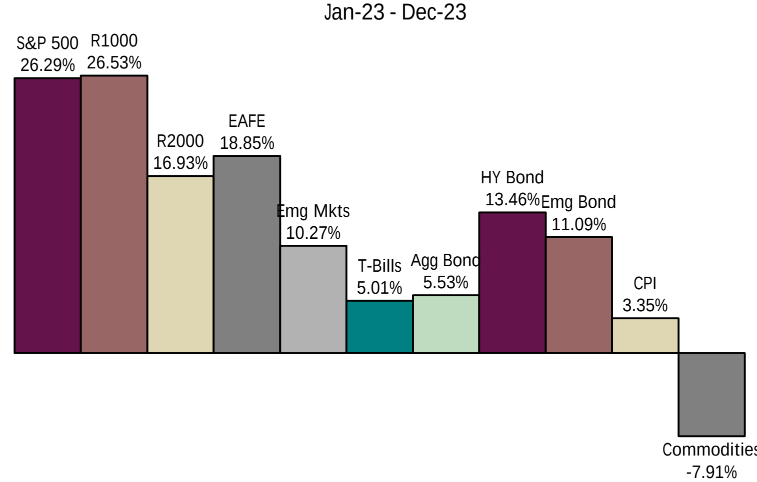
Quarter Performance

Oct-23 - Dec-23



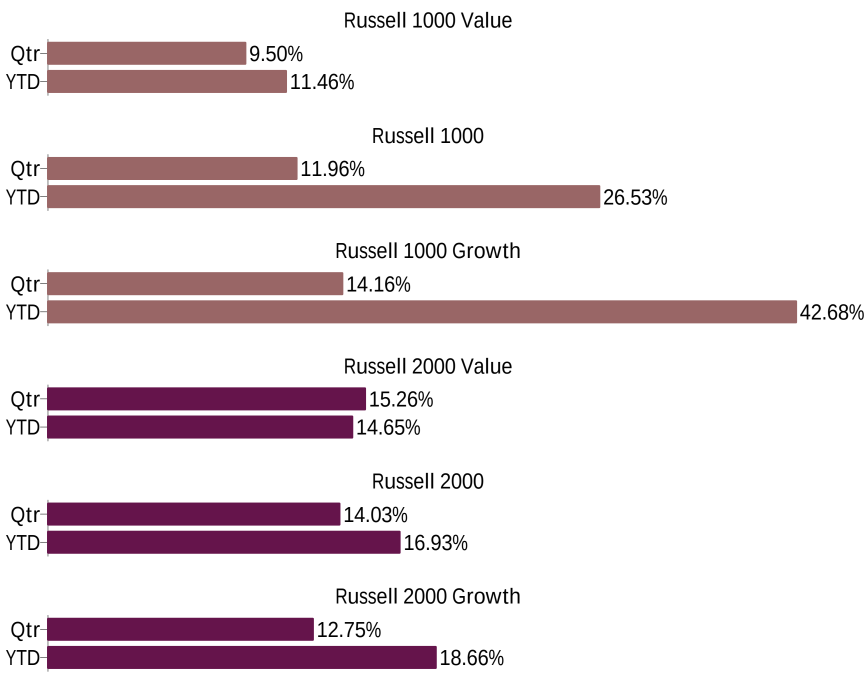
Year to Date Performance

Jan-23 - Dec-23



U.S. Equity Markets

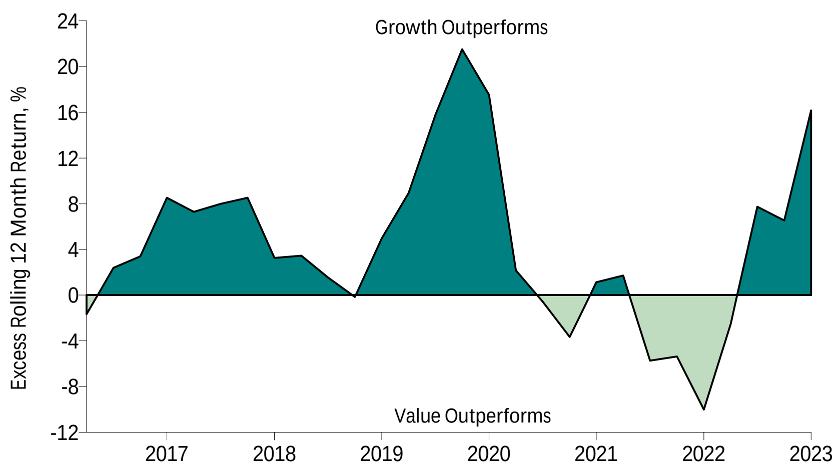
U.S. Equity Style Performance



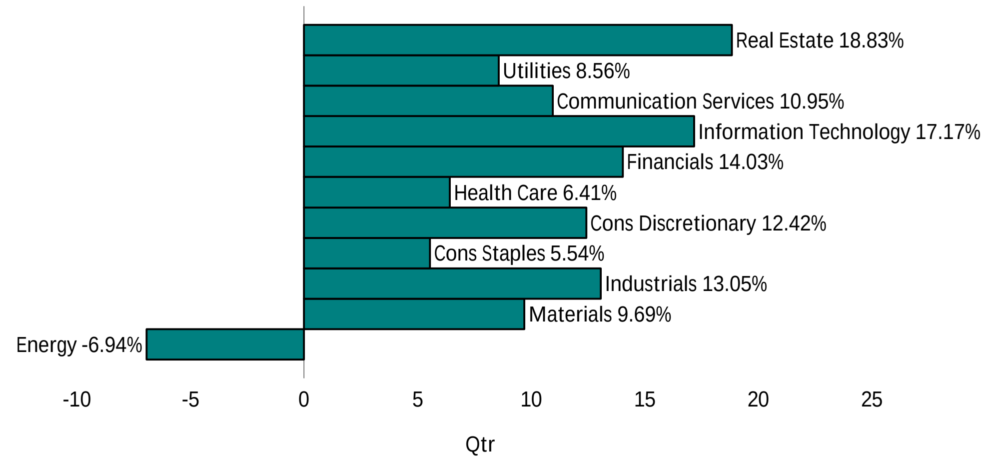
The stock market ended the year with a bang. With the market's hope of a "soft landing", more economically sensitive small caps shined in the quarter. Small cap value (Russell 2000 Value Index) increased 15.3% and small cap growth (Russell 2000 Growth Index) was up 12.8% during the quarter. Only small cap value stocks trade at a discount to their 20-year average Price-to-Earnings ratio (P/E). Large cap growth stocks trade at 26.5x their earnings with the 20-year average at only 18.9x. Although still seemingly expensive relative to the market, mega-cap stock valuations reflect their higher margins and strong free cash flow which translates into higher earnings growth expectations. As the stock market sits at nearly an all-time high, the S&P 500's current Price-to-Earnings ratio (P/E) of 19.5x is above the 30-year average of 16.6x. This premium only increased further versus historical norms in the last quarter.

All sectors except Energy had a positive performance in the last quarter of the year. The best performing sectors were Real Estate and Information Technology. Real Estate benefited from the decrease in yields as Real Estate valuations are heavily impacted by general interest rate levels. Energy sector performance was hampered by a decline in WTI crude oil prices from over $89/barrel at the beginning of the quarter to nearly $70 at year end.

Growth Relative to Value (Russell 1000)

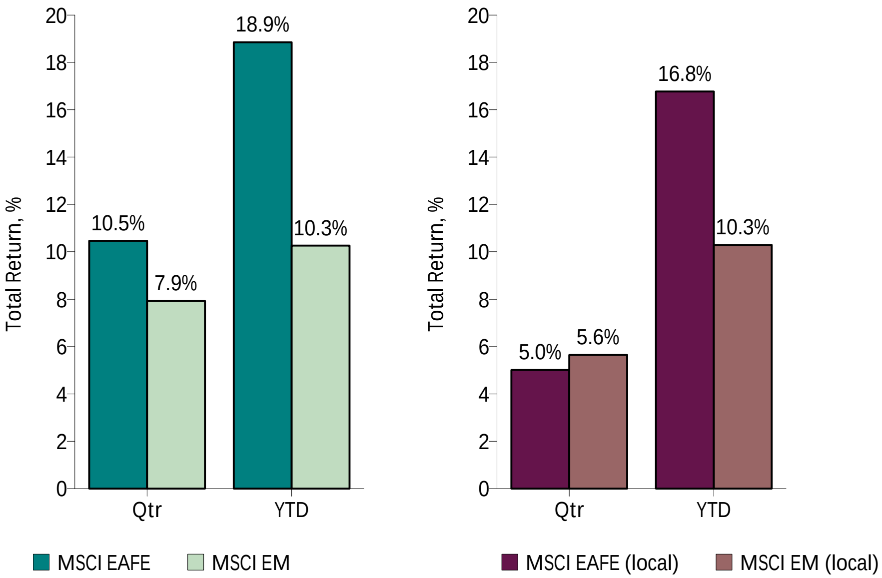


U.S. Equity Sector Performance (S&P 500)



International Equity Markets

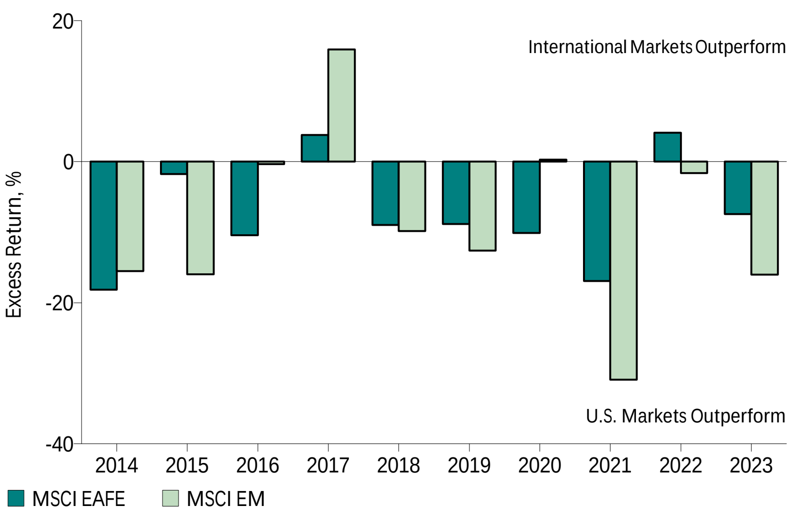
Non-U.S. Equity Performance



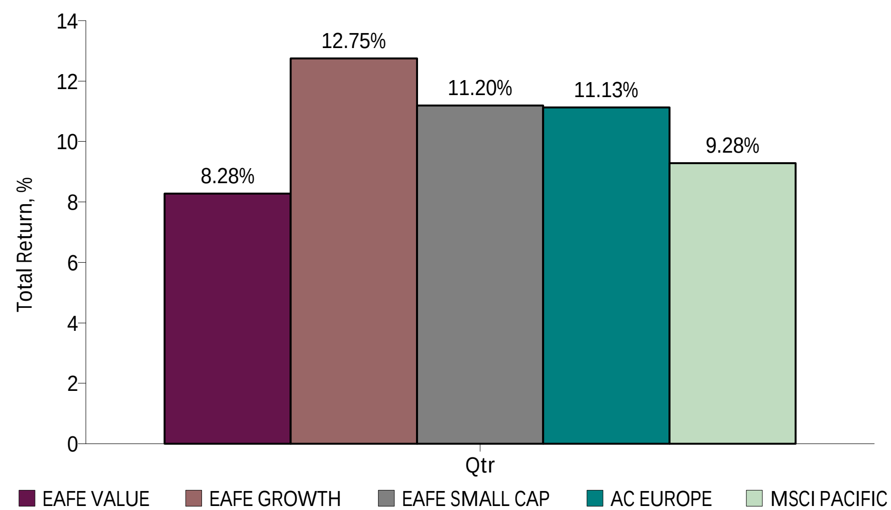
The resilience of Emerging Market (EM) economies even under the largest synchronized hiking cycle in monetary policy history, is not to be overlooked. EM economies benefited from a combination of comparatively low debt and high private sector savings. After enduring what many thought would negatively impact EM, some EM central banks have begun easing already, just another positive sign for their markets. The MSCI Emerging Markets Total Return Index was up only 10.3% for 2023 trailing other markets but it didn't crash. Much of the underperformance was due to China's lackluster market and economic growth. China's growth outlook continues to be a concern.

The MSCI EAFE (Europe, Australasia, and Far East) Index, a proxy for large international developed equity markets, was up 10.5% during the quarter and 18.9% for 2023. Europe a serial underperformer relative to the US underperformed again. Lower European market valuations, which have been consistent over the last few decades or so, haven't translated into improved stock market performance. Japan an all but forgotten economy struggling with low growth and deflation finally may have exited deflation, but slow growth and demographic issues remain. Japan's market was up over 20% and recent corporate governance reforms create a better foundation for investing.

Non-U.S. Equity Returns Relative to U.S. (S&P 500)

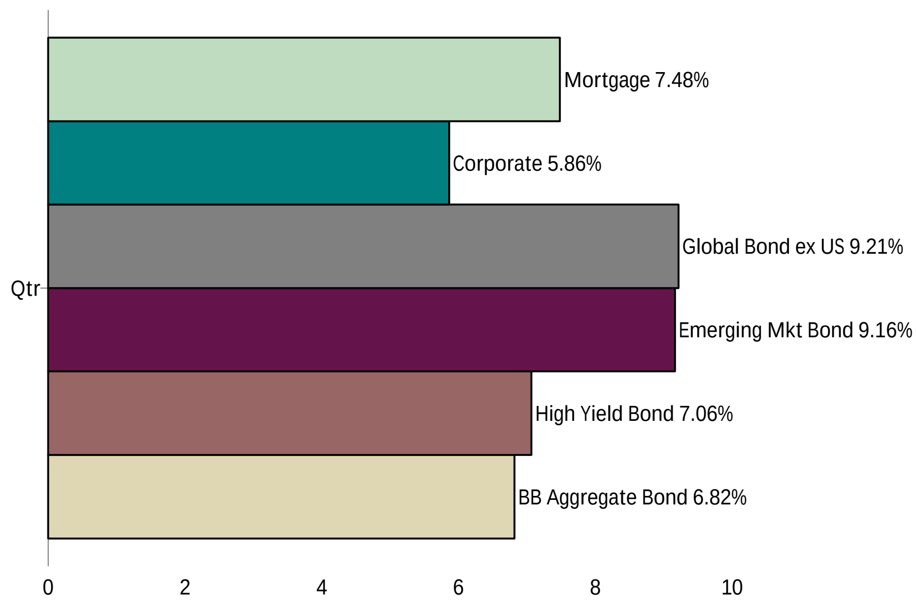


Style and Regional Non-U.S. Equity Performance



Fixed-Income Markets

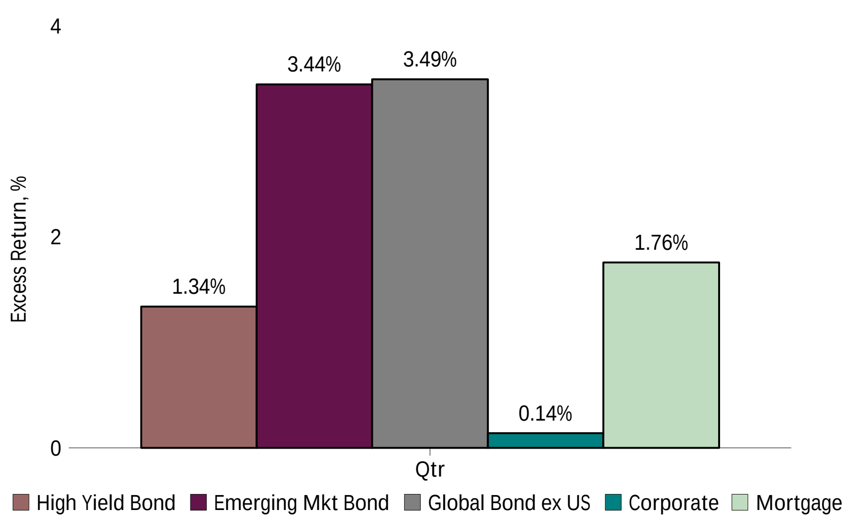
Fixed Income Performance



Much higher cash (money market) rates than in the recent past have left investors very pleased. Many have become enamored with the idea of building a large cash allocation. Remember cash (money market) rates are variable; they can decline just as quickly as they rise. Maybe more importantly, cash yields have traditionally not kept up with inflation. Therefore, although safer than most investments, investors can lose purchasing power over time to inflation. Some may benefit from locking in higher rates with bonds which may also provide some portfolio diversification if stocks fall. Often when stocks fall the economy is struggling and commonly interest rates decline to aid the economy. Bonds normally increase in value as rates fall, cash only holds its value.

As mentioned earlier, the US 10-year Treasury yield recently reached 4.98% and set a 16 year high. The yield curve is still inverted (higher yield on shorter term treasuries than longer dated treasuries), but not as inverted as it was early in the year. The curve has been inverted since July of 2022, which usually bodes poorly for economic growth. The 10-year minus 2-year yield curve was inverted over 1% in July of this year and now is only 0.4%.

Excess Performance to Treasuries



Yield Curve

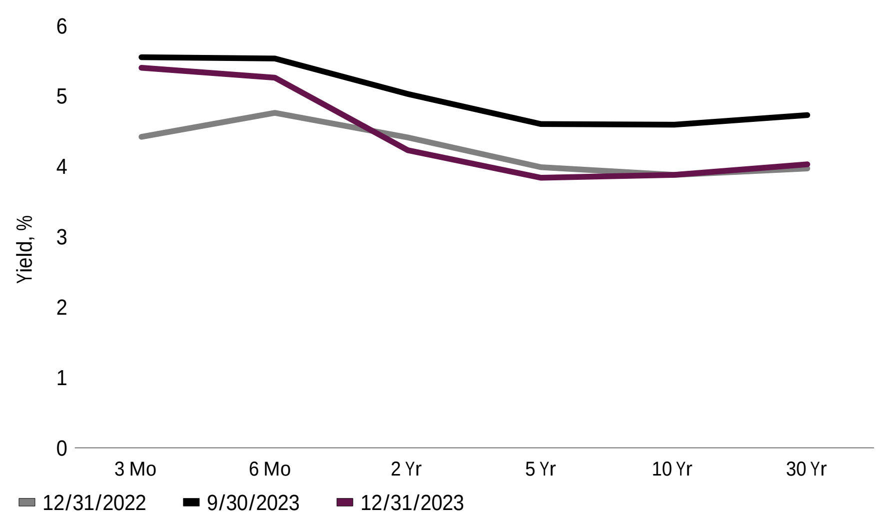
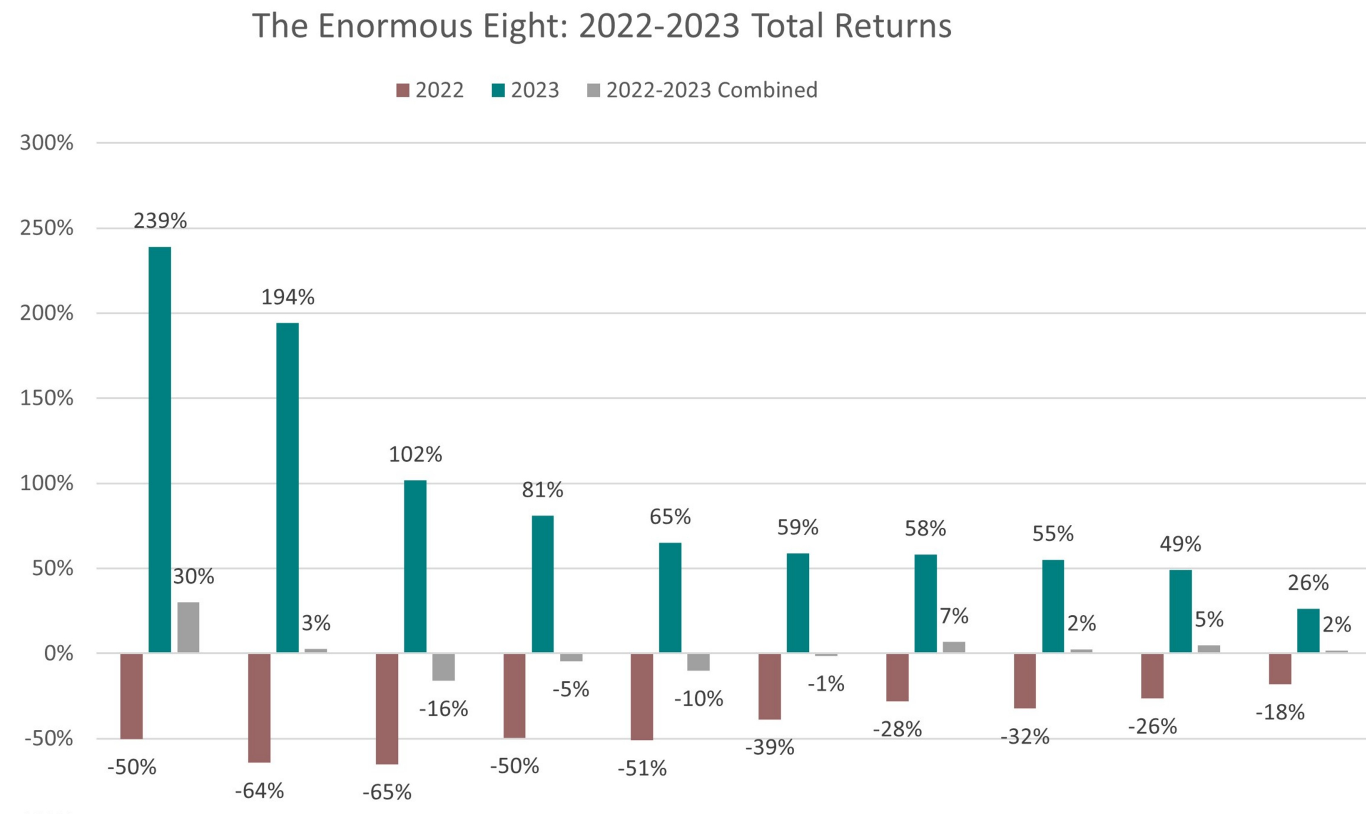


Chart of the Quarter



	Nvidia	Meta	Tesla	Amazon	Netflix	Alphabet	Microsoft	Nasdaq-100	Apple	S&P 500
2022	-50%	-64%	-65%	-50%	-51%	-39%	-28%	-32%	-26%	-18%
2023	239%	194%	102%	81%	65%	59%	58%	55%	49%	26%
2022-2023 Combined	30%	3%	-16%	-5%	-10%	-1%	7%	2%	5%	2%

Whatever anyone wants to call them, the “magnificent seven”, the “enormous eight”, or the “gilded group”, those companies have become an ever-increasing percentage of the market and impacted both index and active performance returns alike. But, if you are experiencing FOMO (Fear of Missing Out), many companies in the chart have either negative performance over the last two years or have just barely outperformed the S&P 500. Only Nvidia has been a standout, providing a 30% combined return over the last two years.

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Annualized Return
			Small Cap Stocks 21.31%	Emerging Mkt Stocks 37.75%		Large Cap Stocks 31.43%					
			High Yield 17.49%	International Stocks 27.77%		Small Cap Stocks 25.52%	Gold 24.61%				
			Large Cap Stocks 12.05%	Large Cap Stocks 21.69%		International Stocks 22.13%	Large Cap Stocks 20.96%			Large Cap Stocks 26.53%	13.59
	Large Cap Stocks 13.24%		Commodities 11.77%	Small Cap Stocks 14.65%		Emerging Mkt Stocks 18.90%	Small Cap Stocks 19.96%			Small Cap Stocks 16.93%	9.71
	Real Estate 12.49%		Emerging Mkt Stocks 11.60%	Gold 12.66%		Gold 18.43%	Emerging Mkt Stocks 18.69%	Commodities 27.11%		International Stocks 16.21%	5.31
Small Cap Stocks 38.82%	US Bonds 5.97%		Real Estate 8.76%	60/40 Blended Index 12.07%		60/40 Blended Index 16.50%	60/40 Blended Index 12.24%	Large Cap Stocks 26.45%		Gold 14.59%	2.08
Large Cap Stocks 33.11%	60/40 Blended Index 5.51%		Gold 8.10%	Intl/EM Bonds 10.41%		High Yield 14.41%	International Stocks 11.13%	Real Estate 22.18%		High Yield 13.46%	4.78
International Stocks 15.78%	Small Cap Stocks 4.89%	Real Estate 15.01%	60/40 Blended Index 7.85%	Real Estate 7.62%		Intl/EM Bonds 9.98%	Intl/EM Bonds 7.90%	Small Cap Stocks 14.82%		60/40 Blended Index 13.42%	6.71
60/40 Blended Index 14.85%	High Yield 2.50%	Large Cap Stocks 0.92%	Intl/EM Bonds 5.77%	High Yield 7.48%		US Bonds 8.72%	US Bonds 7.51%	60/40 Blended Index 10.05%	Commodities 16.09%	Emerging Mkt Stocks 10.27%	2.55
Real Estate 13.94%	Intl/EM Bonds 2.08%	US Bonds 0.55%	International Stocks 5.01%	US Bonds 3.54%	Real Estate 8.35%	Commodities 7.69%	High Yield 6.17%	International Stocks 8.29%	Real Estate 7.46%	Intl/EM Bonds 8.4%	0.75
High Yield 7.42%	Gold 0.12%	60/40 Blended Index 0.11%	US Bonds 2.65%	Commodities 1.70%	3-month T-Bills 1.87%	Real Estate 5.35%	Real Estate 1.17%	High Yield 5.36%	3-month T-Bills 1.46%	US Bonds 5.53%	1.45
3-month T-Bills 0.07%	3-month T-Bills 0.03%	3-month T-Bills 0.05%	3-month T-Bills 0.33%	3-month T-Bills 0.86%	US Bonds 0.01%	3-month T-Bills 2.28%	3-month T-Bills 0.67%	3-month T-Bills 0.05%	Gold 0.44%	3-month T-Bills 5.01%	1.14
US Bonds (2.02)%	Emerging Mkt Stocks (1.82)%	Intl/EM Bonds (2.42)%			Gold (0.93)%		Commodities (3.12)%	US Bonds (1.54)%	High Yield (11.22)%	Commodities (7.91)%	-1.91
Emerging Mkt Stocks (2.27)%	International Stocks (3.44)%	Small Cap Stocks (4.41)%			High Yield (2.26)%			Emerging Mkt Stocks (2.22)%	60/40 Blended Index (11.35)%	Real Estate (12.02)%	7.87
Intl/EM Bonds (4.13)%	Commodities (17.01)%	High Yield (4.64)%			Intl/EM Bonds (3.17)%			Gold (4.33)%	US Bonds (13.01)%		
Commodities (9.52)%		International Stocks (5.25)%			60/40 Blended Index (3.71)%			Intl/EM Bonds (4.44)%	International Stocks (15.57)%		
Gold (27.33)%		Gold (12.11)%			Large Cap Stocks (4.78)%				Intl/EM Bonds (18.17)%		
		Emerging Mkt Stocks (14.60)%			Small Cap Stocks (11.01)%				Large Cap Stocks (19.13)%		
		Commodities (24.66)%			Commodities (11.25)%				Emerging Mkt Stocks (19.74)%		
					International Stocks (13.78)%				Small Cap Stocks (20.74)%		
					Emerging Mkt Stocks (14.25)%						