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Annual Market Insights

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The summary below is for educational purposes only. Please call us with any questions and if you would like to schedule a review or discuss other financial matters.

The blockbuster year few expected

A Wall Street Journal article titled "What Did Wall Street Get Right About Markets This Year? Not Much" did a good job summarizing the year.

In December 2022, Moody's Chief Economist Mark Zandi captured the prevailing sentiment at the time. "Usually, recessions sneak up on us. CEOs never talk about recessions," Zandi said. "Now it seems CEOs are falling over themselves to say we're falling into a recession. ... Every person on TV says recession. Every economist says recession. I've never seen anything like it."

Index	Q4 Return*		2023 Return*
DJIA[1]	+12.48%		+13.70%
NASDAQ Composite[2]	-13.56%		+43.42%
S&P 500 Index[3]	+11.24%		+24.23%
The Global Dow[4]	+9.35%		+17.63%
Bond Yields	**Yield as of Dec 29 & Q4 Change***		**2023 Change***
3-month T-bill	5.40%	-0.15%	+0.98%
2-year Treasury	4.23%	-0.80%	-0.18%
10-year Treasury	3.88%	-0.71%	+0.00%
30-year Treasury	4.03%	-0.70%	+0.06%
Commodities	**Price as of Dec 29 & Q4 Change***		**2023 Change***
Oil per barrel[5]	$71.65	-$19.14	-$8.61
Gold per ounce[6]	$2,071.80	+$205.70	+$245.60

*Sources: U.S. Treasury, MarketWatch *Q4: Sept. 29, 2023 - Dec. 29, 2023, and 2023: Dec. 30, 2022 - Dec. 29, 2023*
Chart reflects price changes, not total return because it does not include dividends or splits.

In the absence of a profit-killing recession, a moderation in Fed rate hikes, and a growing interest in artificial intelligence pushed the Dow Jones Industrials to a new all-time high, while the S&P 500 Index ended the year just shy of a record. Concerns about potential market disruptions following the failure of Silicon Valley Bank were unproven.

Recession MIA

Projecting turning points in any economic cycle is difficult, and it's not unusual for economists to miss their targets.

Economic models are complex, and each cycle has its own unique characteristics. Only in hindsight do we usually identify them. Without the foresight to recognize the emergence of new economic influences, economic forecasting models can provide false signals.

The Fed shifts its stance

The economic story of 2022 was high inflation and sharply higher interest rates, both punished stocks.

In 2023 the rate of inflation began to slow, and the Fed adjusted its response, raising rates by a total of one percentage point compared to 4.25 percentage points in 2022 – Figure 1.

Today most economists believe rate hikes are over. While forecasts can change, the Fed projected 0.75 percentage points in rate cuts this year when it released its quarterly Economic Projections in December.

Fed Funds Rate
Percent

Fig. 1

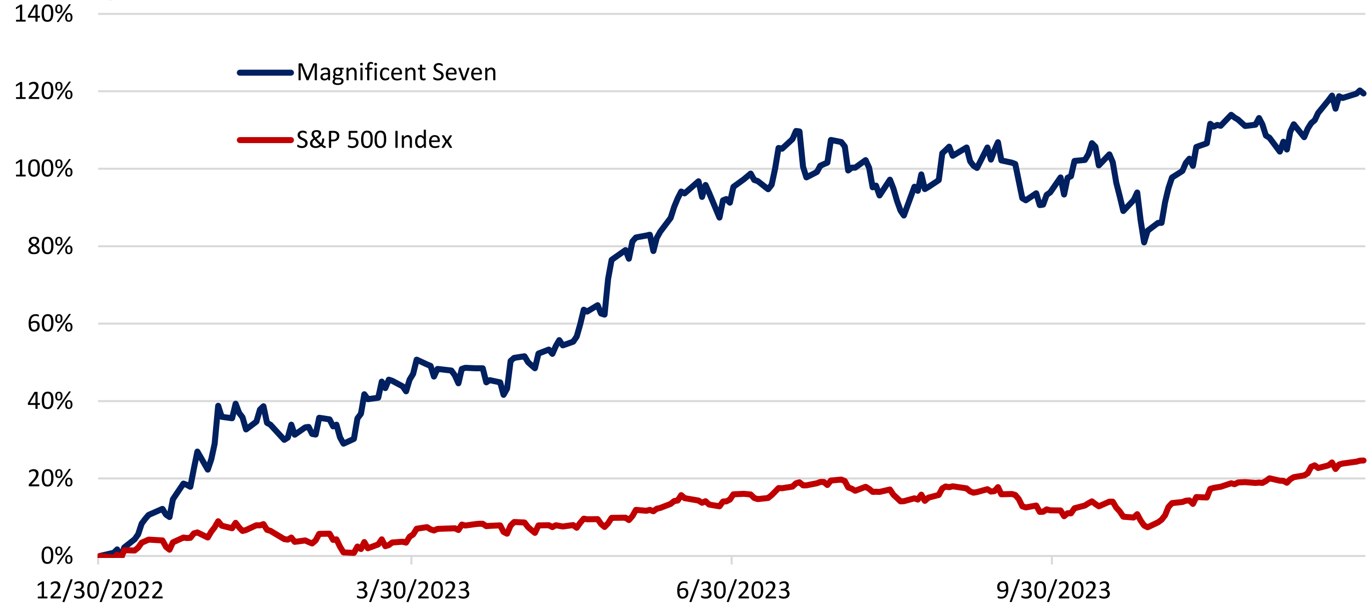
Data Source: St. Louis Federal Reserve 12/29/2023
Starting 12/16/2008, graphic represents the middle of a 25 bp range for the fed funds rate.

The Magnificent Seven

Not all rallies are created equal. Coined the "Magnificent Seven" by a Bank of America analyst, Microsoft (MSFT), Amazon (AMZN), Meta Platforms (META, formerly Facebook), Apple (AAPL), Alphabet (GOOG, formerly Google), Nvidia (NVDA), and Tesla (TSLA) significantly outperformed as Figure 2 illustrates.

Collectively, the "Magnificent Seven" accounted for about 30% of the performance of the S&P 500 Index, according to the Wall Street Journal (as of December 17, 2023). Excluding those seven stocks, the S&P 500's increase would have been roughly half, according to the Wall Street Journal.

The Magnificent Seven & the S&P 500 Index **Fig. 2**

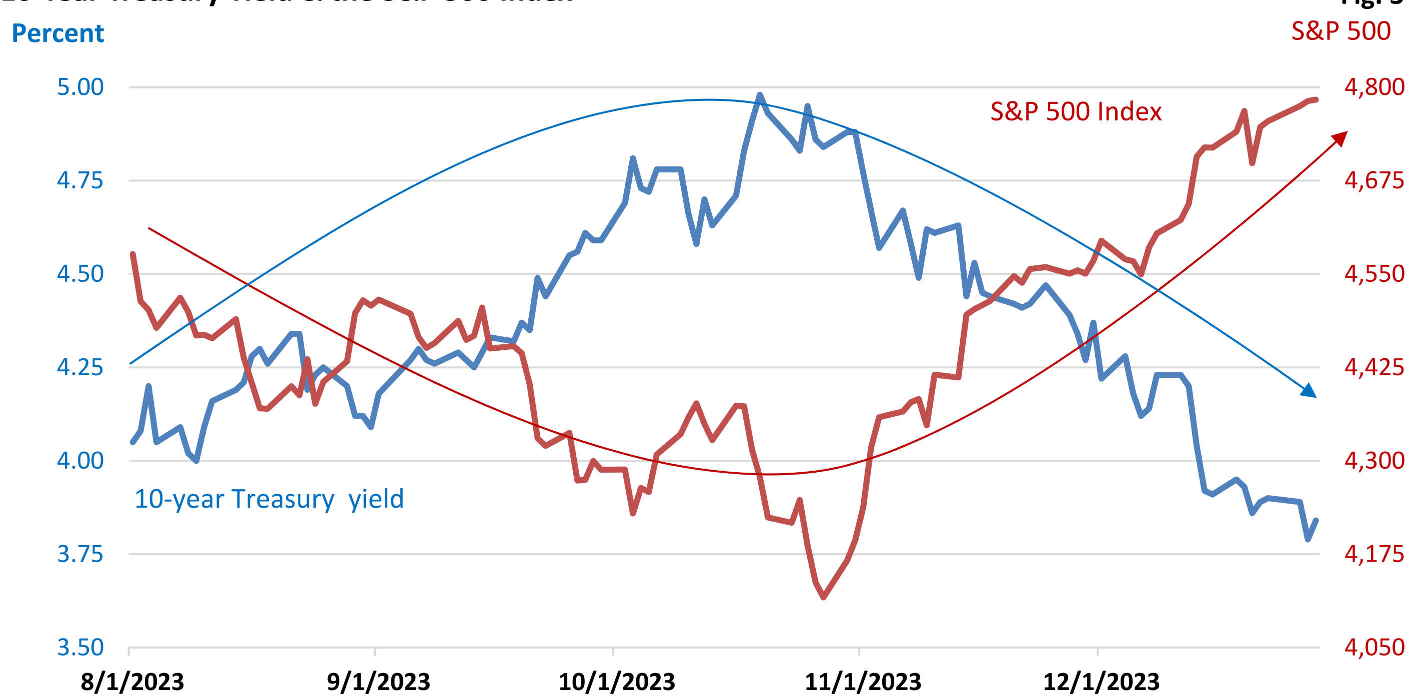


Data Source: Yahoo Finance 12/28/2023
Magnificent Seven and S&P 500 returns do not include reinvested dividends.
The S&P 500 Index is an unmanaged index that cannot be invested into directly.
Past performance is no guarantee of future results.

Yields turn the wheels

Figure 3 demonstrates that bond yields have played a crucial role in driving the stock market over the past five months. As yields increased from August into late October, the S&P 500 Index pulled back about 10%. Following the peak in yields, the market rallied.

10-Year Treasury Yield & the S&P 500 Index **Fig. 3**



Data Source: St. Louis Federal Reserve 12/28/2023
Past performance is no guarantee of future results.

Over time, however, these correlations usually break down.

Treasuries are sometimes viewed as a safe haven in times of economic uncertainty. Treasury bond prices and yields move in the opposite direction, so falling yields simply mean bond prices are rising.

If yields decline too quickly, investors may start to fret over a potential economic slowdown, creating headwinds for stocks.

The preferred scenario for investors is one where economic growth is slow enough to keep inflation in check but not so slow that it hinders corporate profit growth. This would likely allow the Fed to slowly reduce interest rates because it "can," not because the economy slips into a recession and it "must."

A New Year

We have access to the brightest minds on Wall Street, but is it always wise to seek their counsel?

At the end of 2022, many strategists were pessimistic about 2023. Analysts, on average, were predicting a small decline of about 2% in the S&P 500 Index, according to Bloomberg.

Market weakness was predicated on a 2023 recession that failed to materialize.

However, let's not completely discount commentary. Strategists bring unique observations to our attention, and we are better informed due to their diligence and insights. They really are brilliant men and women, but they grapple with the unknown, and no one knows precisely how the future will unfold.

Yet, the unknown encourages us to get comfortable with some degree of risk. It allows us to become better and more disciplined investors.

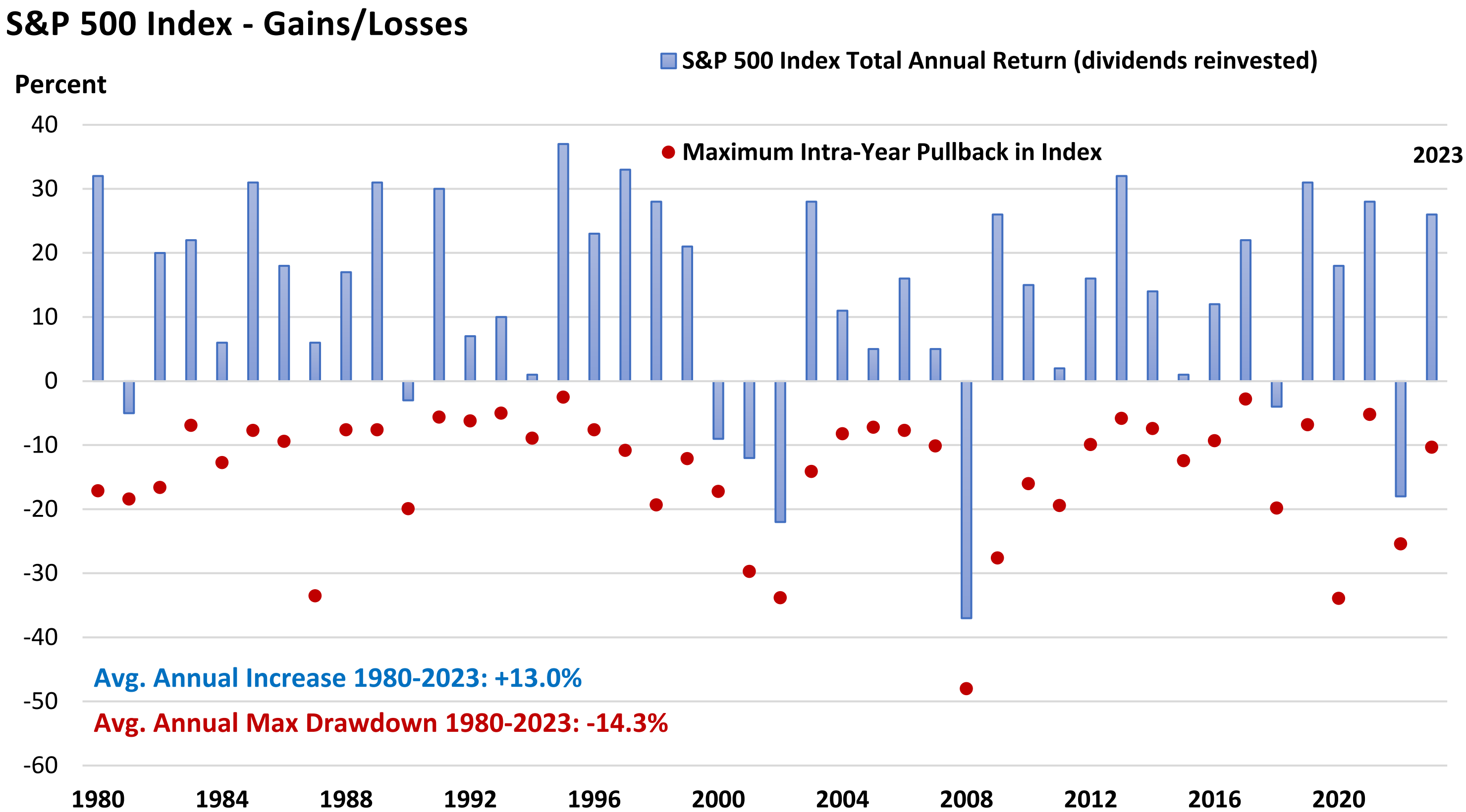
Over the long term, stocks have a solid track record, but progress is uneven, and downturns are to be expected. According to data from Macrotrends, the S&P 500 Index (excluding reinvested dividends) has finished lower seven times since 1999.

Figure 4 highlights that stocks have a long-term upward trend, and long-term investment plans are customized to participate in that trend, but pullbacks are common.

Last year, the S&P 500 posted a return of 26% (blue bar, including reinvested dividends). During the period, the maximum pullback was 10% (red dot) – Figure 4.

Since 1980, the S&P 500 Index finished higher 82% of the time. When the index ended the year in positive territory, the average gain was 19%. When the index finished lower, the average loss was 13%.

Fig. 4



Data Source: S&P DJ Indicies, LPL Research 12/29/2023
The S&P 500 Index is an unmanaged index which cannot be invested into directly.
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As we bid farewell to 2023, may the new year bring you excitement, adventure, and be filled with joy. Happy New Year!

We recognize that you have a choice of financial advisors, and we appreciate the opportunity to work with you. Our goal is to provide you with the absolute best service, and we are always pleased to assist you in any way we can.

Please let us know if you have any questions and if you would like to schedule a review or discuss other financial matters.

[1] The Dow Jones Industrials Average is an unmanaged index of 30 major companies which cannot be invested into directly. Past performance does not guarantee future results.

[2] The NASDAQ Composite is an unmanaged index of companies which cannot be invested into directly. Past performance does not guarantee future results.

[3] The S&P 500 Index is an unmanaged index of 500 larger companies which cannot be invested into directly. Past performance does not guarantee future results.

[4] The Global Dow is an unmanaged index composed of stocks of 150 top companies. It cannot be invested into directly. Past performance does not guarantee future results.

[5] CME Group front-month contract; Prices can and do vary; past performance does not guarantee future results.

[6] CME Group continuous contract; Prices can and do vary; past performance does not guarantee future results.

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We would be honored if you would

- ✓ **Add a name to our mailing list,**
- ✓ **Have someone come in for a complimentary financial checkup.**

Please call us at (314) 394-2354 and we will be happy to assist you!