

## January 2024

### Market Update

Markets ended on a positive note in December as every broad asset class except commodities and Mastered Limited Partnerships (MLPs) rose. Investors became more excited as thoughts of interest rate cuts danced in their heads and inflation remained near a recent low of 3%. As interest rates dropped asset prices moved higher. The 10 year treasury yield, which briefly touched 5% in late October, ended the year at 3.9% and many investors are going into 2024 hoping for the Fed to cut rates so valuations can increase even more.

Commodities and energy MLPs were negative for the second month in a row and this was one reason inflation has been tame recently. Interest rate sensitive assets like longer term bonds and real estate did very well, but also some assets that are more sensitive to recessions like small caps did better as investors began thinking the US economy will manage a soft landing after all. For the month intermediate to long-term bonds were up 3.5%-8.0% and US large cap stocks both value and growth were up 5% as were international large cap stocks. The biggest winners were Real Estate Investment Trusts (REITs), up 8.9% and US small caps which were up 12%.

We enter 2024 in a different environment than the one in which we entered 2023. Then, investors were worried about high interest rates and a hard economic landing into a recession. Now investors are pricing in interest rate cuts and are betting the US avoids recession altogether. Markets and prices were depressed in early 2023 after the worst year for bonds in a century and the biggest prolonged stock market downturn since 2008. In early 2024 investors are in a good mood and prices are much higher.

This is where our attention is. Investment assets are no longer broadly cheap. While there are some assets and sectors that do still appear attractively priced there are several areas of the market that appear expensive relative to their historical valuations. We are working to manage our exposure to the most expensive areas of the market while increasing our weights to those areas and assets we believe are more attractively priced. This has meant tilting away from market cap weighted indexes like the S&P 500 that became very concentrated in 2023.

Our base case for 2024 is that Gross Domestic Product (GDP) will slow from 2023's level. While we didn't experience the recession many feared, higher interest rates and higher debt pressure on US households will begin to have a slowing effect on spending and growth. Household net worth will remain bolstered by home values which have remained high and higher investment account balances. Inflation should continue receding but may not get to the 2% target. The Fed will be under pressure from politicians and large investors to lower interest rates, but we hope they hold the line to drive inflation lower and disincentivize rampant 2021 style market speculation.

### Performance Summary – 2023 Full Year

The S&P 500 was up 26.3% while small caps were up 16.9%. Developed international markets were up 18.2% while core bonds were up 5.5%. Growth stocks outperformed value stocks in the US but int'l value slightly outperformed int'l growth. REITs were up 11.4%, MLPs were up 26.6%, and gold was up 12.8%. Commodities were the only negative returning asset at -5%.

## **Disclosures**

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*All earnings data comes from Standard and Poors' S&P 500 Earnings and Estimates Report as of 12/31/2023. Asset class performance numbers come from Morningstar as of 12/31/2023.*

*The S&P 500® is widely regarded as the best single gauge of large cap U.S. Equities. There is over USD 9.9 trillion indexed or benchmarked to the index, with indexed assets comprising approximately USD 3.4 trillion of this total. The index includes 500 leading companies and covers approximately 80% of available market capitalization.*

*GDP is the final value of the goods and services produced within the geographic boundaries of a country during a specified period of time, normally a year. GDP growth rate is an important indicator of the economic performance of a country.*

*REITs, or real estate investment trusts, are companies that own or finance income-producing real estate across a range of property sectors.*

*A master limited partnership (MLP) is a business venture in the form of a publicly traded limited partnership. It combines the tax benefits of a private partnership with the liquidity of a publicly traded company.*