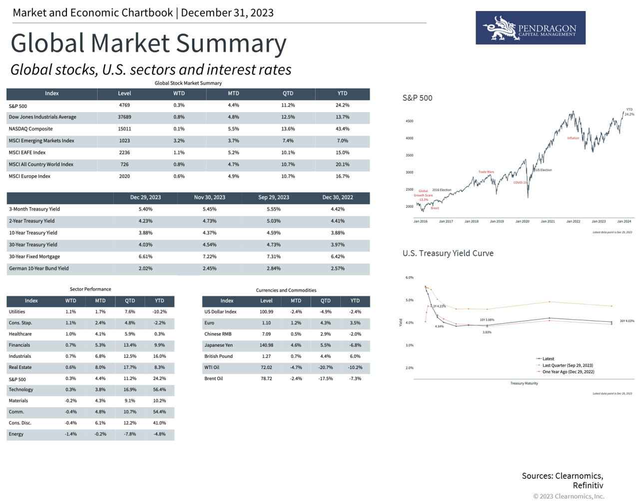
Year-End 2023 & Looking Forward to 2024

Ian Green | December 31, 2023

2023 was a difficult year for investors but as we take a breath and assess, it can best be summarized as The Bard wrote, "All's well that ends well."



Market and Economic Chartbook | December 31, 2023

Global Market Summary

Global stocks, U.S. sectors and interest rates

Global Stock Market Summary

Index	Level	WTD	MTD	QTD	YTD
S&P 500	4769	0.3%	4.4%	11.2%	24.2%
Dow Jones Industrials Average	37689	0.8%	4.8%	12.5%	13.7%
NASDAQ Composite	15011	0.1%	5.5%	13.6%	43.4%
MSCI Emerging Markets Index	1023	3.2%	3.7%	7.4%	7.0%
MSCI EAFE Index	2236	1.1%	5.2%	10.1%	15.0%
MSCI All Country World Index	726	0.8%	4.7%	10.7%	20.1%
MSCI Europe Index	2020	0.6%	4.9%	10.7%	16.7%

	Dec 29, 2023	Nov 30, 2023	Sep 29, 2023	Dec 30, 2022
3-Month Treasury Yield	5.40%	5.45%	5.55%	4.42%
2-Year Treasury Yield	4.23%	4.73%	5.03%	4.41%
10-Year Treasury Yield	3.88%	4.37%	4.59%	3.88%
30-Year Treasury Yield	4.03%	4.54%	4.73%	3.97%
30-Year Fixed Mortgage	6.61%	7.22%	7.31%	6.42%
German 10-Year Bund Yield	2.02%	2.45%	2.84%	2.57%

Sector Performance

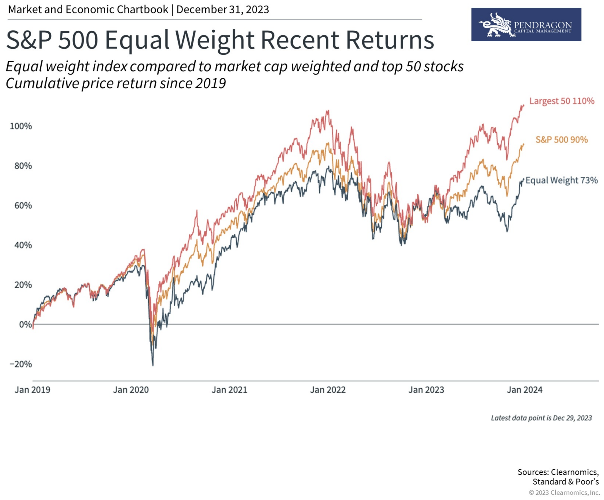
Index	WTD	MTD	QTD	YTD
Utilities	1.1%	1.7%	7.6%	-10.2%
Cons. Stap.	1.1%	2.4%	4.8%	-2.2%
Healthcare	1.0%	4.1%	5.9%	0.3%
Financials	0.7%	5.3%	13.4%	9.9%
Industrials	0.7%	6.8%	12.5%	16.0%
Real Estate	0.6%	8.0%	17.7%	8.3%
S&P 500	0.3%	4.4%	11.2%	24.2%
Technology	0.3%	3.8%	16.9%	56.4%
Materials	-0.2%	4.3%	9.1%	10.2%
Comm.	-0.4%	4.8%	10.7%	54.4%
Cons. Disc.	-0.4%	6.1%	12.2%	41.0%
Energy	-1.4%	-0.2%	-7.8%	-4.8%

Currencies and Commodities

Index	Level	MTD	QTD	YTD
US Dollar Index	100.99	-2.4%	-4.9%	-2.4%
Euro	1.10	1.2%	4.3%	3.5%
Chinese RMB	7.09	0.5%	2.9%	-2.0%
Japanese Yen	140.98	4.6%	5.5%	-6.8%
British Pound	1.27	0.7%	4.4%	6.0%
WTI Oil	72.02	-4.7%	-20.7%	-10.2%
Brent Oil	78.72	-2.4%	-17.5%	-7.3%

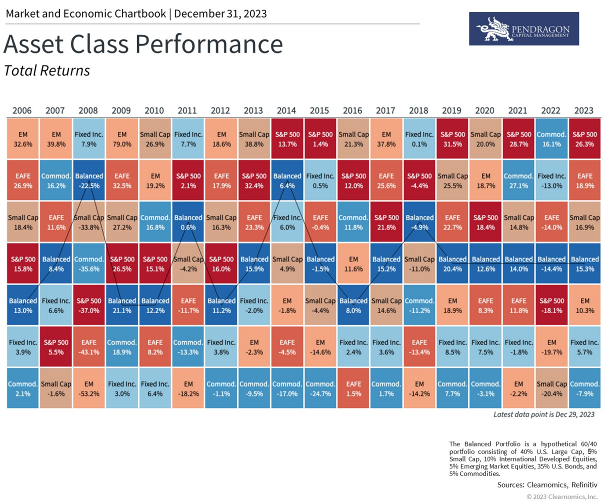
In 2023, the Bears controlled the narrative - inflation and interest rates were going to move unstoppably higher, recession was inevitable, political turmoil would unravel markets and that investors now have an alternative with a newfound love of money markets. However in reality, as we see from the accompanying slide, equities moved HIGHER, inflation and interest rates after rising sharply, moved back LOWER. The economy was strong, political deals were made to keep the government open, and while flows to money markets were incredible, when stocks stabilized, money did flow back to equities.

In 2023, large-cap stocks, led by Technology and the "Magnificent Seven" (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla), dominated the action. The heavy market weighting of the M7 in the S&P 500 helped the index post a 26% total return. In contrast if you gave an equal-weighting to all the stocks in the S&P500, the return would have been a much lower 14%. As you can see from the chart below, the difference between returns of the big companies versus the smaller companies is not new.



Many market strategists are calling for the trend to change with the 493 other stocks in the S&P500 catching up to the Magnificent 7. Many also are predicting that small-cap stocks could outperform large-caps. The analysts could be right but given recent history, the "burden of proof" is high.

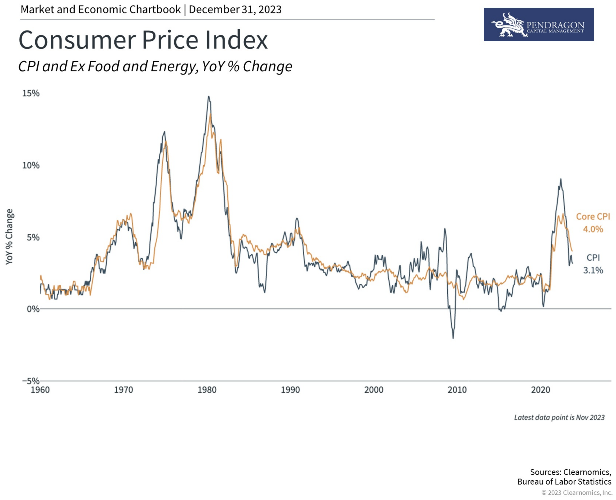
Having said that, different market sectors tend to move around on the "Best Performing List". Small-Caps and Emerging Markets have been so discounted in recent years that they might surprise.

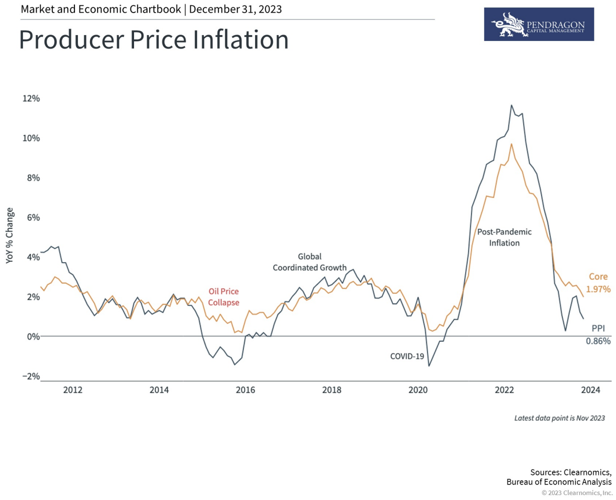


2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
EM 32.6%	EM 39.8%	Fixed Inc. 7.9%	EM 79.0%	Small Cap 26.9%	Fixed Inc. 7.7%	EM 18.6%	Small Cap 38.8%	S&P 500 13.7%	S&P 500 1.4%	Small Cap 21.3%	EM 37.8%	Fixed Inc. 0.1%	S&P 500 31.5%	Small Cap 20.0%	S&P 500 28.7%	Commod. 16.1%	S&P 500 26.3%
EAFE 26.9%	Commod. 16.2%	Balanced -22.5%	EAFE 32.5%	EM 19.2%	S&P 500 2.1%	EAFE 17.9%	S&P 500 32.4%	Balanced 6.4%	Fixed Inc. 0.5%	S&P 500 12.0%	EAFE 25.6%	S&P 500 -4.4%	Small Cap 25.5%	EM 18.7%	Commod. 27.1%	Fixed Inc. -13.0%	EAFE 18.9%
Small Cap 18.4%	EAFE 11.6%	Small Cap -33.8%	Small Cap 27.2%	Commod. 16.8%	Balanced 0.6%	Small Cap 16.3%	EAFE 23.3%	Fixed Inc. 6.0%	EAFE -0.4%	Commod. 11.8%	S&P 500 21.8%	Balanced -4.9%	EAFE 22.7%	S&P 500 18.4%	Small Cap 14.8%	EAFE -14.0%	Small Cap 16.9%
S&P 500 15.8%	Balanced 8.4%	Commod. -35.6%	S&P 500 26.5%	S&P 500 15.1%	Small Cap -4.2%	S&P 500 16.0%	Balanced 15.9%	Small Cap 4.9%	Balanced -1.5%	EM 11.6%	Balanced 15.2%	Small Cap -11.0%	Balanced 20.4%	Balanced 12.6%	Balanced 14.0%	Balanced -14.4%	Balanced 15.3%
Balanced 13.0%	Fixed Inc. 6.6%	S&P 500 -37.0%	Balanced 21.1%	Balanced 12.2%	EAFE -11.7%	Balanced 11.2%	Fixed Inc. -2.0%	EM -1.8%	Small Cap -4.4%	Balanced 8.0%	Small Cap 14.6%	Commod. -11.2%	EM 18.9%	EAFE 8.3%	EAFE 11.8%	S&P 500 -18.1%	EM 10.3%
Fixed Inc. 3.9%	S&P 500 5.5%	EAFE -43.1%	Commod. 18.9%	EAFE 8.2%	Commod. -13.3%	Fixed Inc. 3.8%	EM -2.3%	EAFE -4.5%	EM -14.6%	Fixed Inc. 2.4%	Fixed Inc. 3.6%	EAFE -13.4%	Fixed Inc. 8.5%	Fixed Inc. 7.5%	Fixed Inc. -1.8%	EM -19.7%	Fixed Inc. 5.7%
Commod. 2.1%	Small Cap -1.6%	EM -53.2%	Fixed Inc. 3.0%	Fixed Inc. 6.4%	EM -18.2%	Commod. -1.1%	Commod. -9.5%	Commod. -17.0%	Commod. -24.7%	EAFE 1.5%	Commod. 1.7%	EM -14.2%	Commod. 7.7%	Commod. -3.1%	EM -2.2%	Small Cap -20.4%	Commod. -7.9%

Small-caps were last the best performing asset class in 2020. You have to go back to 2017 to have Emerging Markets as the best performer. Interestingly, Emerging Markets were #2 in 2020. If the Fed eases rates and financial conditions, perhaps the 2024 environment would be similar enough to 2020, when the Fed worked to offset the impact of COVID, to get Small-caps and Emerging markets going up. Again, we need to realize that what has been working is likely to keep working so while small stocks and Emerging Markets are a contrarian play worth exploring, the big NASDAQ stocks are still the horses to beat.

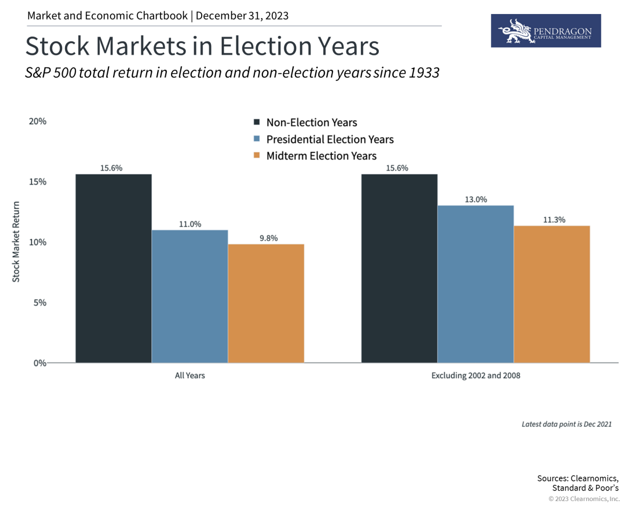
Speaking of the Fed and interest rates, I don't think anyone would have thought that the 10-year Treasury would bear an interest rate at the end of 2023 unchanged from that at the beginning. (see the first chart in this letter) The surprise was driven by the fact that inflation has cooled off. The following charts show CPI and PPI declining rapidly after the sharp rise post-Ukraine/Russia conflict and COVID disruptions. The PPI has declined to levels we had prior to the Pandemic





As we move from a difficult 2023 climate for investors we will have other challenges in 2024. Of course, most challenges are yet to be known but one that will be cluttering the airwaves is the US election. Despite the all the talk from the 24/7 media, according to Birinyi Associates, "Since 1928 there have been 24 Presidential elections and the S&P500 has risen 75% of the time." They go on to say that when there has been a change in the party in power, the market has been positive 4 times and negative 4 times. One of those negative years was 2008 which coincided with the great Financial Crisis so we could discount that year.

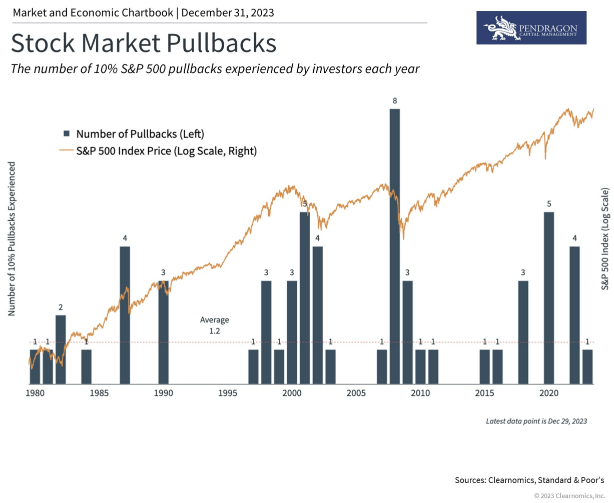
The following graph shows election year stock market performance as compared to non-election years. The returns are lower in election years but still nicely positive.



Obviously elections have consequences but their impact on the markets is much less. Investors should not be looking at a one-year timeframe anyway so an election year is just another year in what should be a long-term investment and financial journey.

Both the stock market and the bond market had strong rallies in the 4th quarter 2023 and ended the year in over-bought territory. The markets do not go up in straight lines and there is a process of up-moves followed by retracements and back-filling.

The US stock market could easily have a pull back in January. Market pull-backs are common occurrences and do not mean that stocks will go into a bear market or give up all of the recent gains. The next chart illustrates the number of corrections that have occurred since 1980.



It does appear that we are in a bull market that began in 2023. If this is the case and until proved otherwise, a pull-back in January would be a buying opportunity.

The markets are a journey and decisions are made along the way. It's pointless to make broad predictions about a year ahead. What we will do is what we always do. That is, continually assess the investment environment and invest where the risk and return relationship seems best for our clients. We do our best to keep clients on-track towards their financial plan and goals.

We wish everyone a happy, healthy and prosperous new year.

PENDRAGON
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