

2023 REFLECTIONS

BY IAN HOLDER

Financial Advisor, Branch Office Manager, Managing Director

JAMES E. MORTON, CFP®

Financial Planner

At the beginning of 2023, many analysts were expecting a recession in the economy with the only debates being how severe. Few were expecting the economy and markets to be as resilient as they proved in 2023. This was exhibited by the S&P 500 returning 26.29%, including dividends. International markets, as represented by the MSCI EAFE, rebounded from a subpar 2022, with an 18.85% return in 2023.¹

The Nasdaq Composite posted a return of 26.80% in 2023 after a dismal year in 2022, posting a -33.10% return.² Fueled by the prospects of lower rates and future developments in technology, the Nasdaq led the way in 2023.

It was also a good year for the fixed income/bond market as interest rates peaked in October with the 10-year Treasury hitting 5.0187% and ending the year at 3.88%.³ The proxy for the bond market, the Bloomberg Barclays US Aggregate, was up 5.53% in 2023.⁴

However, the market was not without its scares and soft spots. The market had to contend with an ongoing war in Ukraine, a newly waged war in the Middle East, and a banking crisis that saw the fall of Silicon Valley Bank, First Republic Bank, and others that were on the cusp of insolvency due to their investments in long-dated treasury bonds. This could have had bigger ripples in the broader economy if it weren't for the decisive and bold action from the Fed and Treasury to provide funding for banks. This was a shift from a Fed that was once the lender of last resort and now appears to be the lender of first resort.

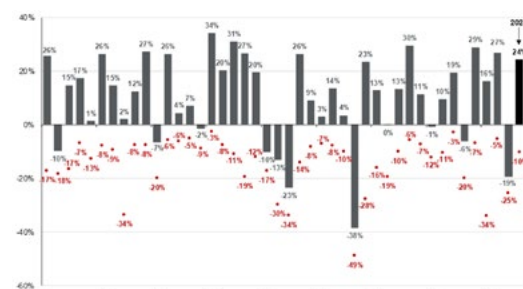
This year reminded us of a couple of phenomena of markets:

1. **Markets are complex.**
2. **Markets are forward-looking.**
3. **Market returns are nonlinear.**
4. **Most things are cyclical.**
5. **Market volatility is normal and tends to be short-term.**

These points reinforce our long-term conviction of investing and belief that time in the market is more dependable and repeatable than timing the market.

In the graph below, you can see that in any given year, there is usually a temporary decline/volatility in asset prices (red dot) which differs greatly from the actual calendar year performance. This oscillation is normal in equity and fixed-income markets but requires the right temperament to endure these bouts of volatility. The late Charlie Munger summarizes this perfectly by saying, "A lot

S&P INTRA-YEAR DECLINES VS. CALENDAR YEAR RETURNS



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2023, over which time period the average annual return was 9.0%. *Guide to the Markets* — U.S. Data are as of December 31, 2023.

of people with high IQs are terrible investors because they've got terrible temperaments. And that is why we say that having a certain kind of temperament is more important than brains."

Trying to forecast next quarter's earnings or the next recession, we believe is a losing proposition, and instead choose to focus on the levers that matter to the economy and businesses. As John Maynard Keynes famously said, we would rather be "roughly right versus precisely wrong."

As we enter 2024, we continue to believe that company fundamentals and earnings are paramount to moving the markets higher, especially given the valuations of the market are above its 30-year average.⁵

We believe there will be increased volatility this year as the markets try to turn uncertainty into certainty around the big-picture themes listed below.

1. FEDERAL RESERVE

When the Fed speaks, the world listens. The Fed has seemingly done a wonderful job in hiking rates just enough to slow the economy but not enough to plunge us into a recession. We will be following the Fed closely in 2024 as it has stopped its rate hiking cycle for now and appears to be framing a couple of decreases in interest rates in 2024. You can see from the chart below the path that the Fed has communicated, but keep in mind that their meetings and notes will be a source of debate in 2024. Historically, there have been positive returns in the market at the end of the

rate hiking cycle (see chart "S&P 500 returns around the end of a Fed hiking cycle").

2. AN ELECTION YEAR

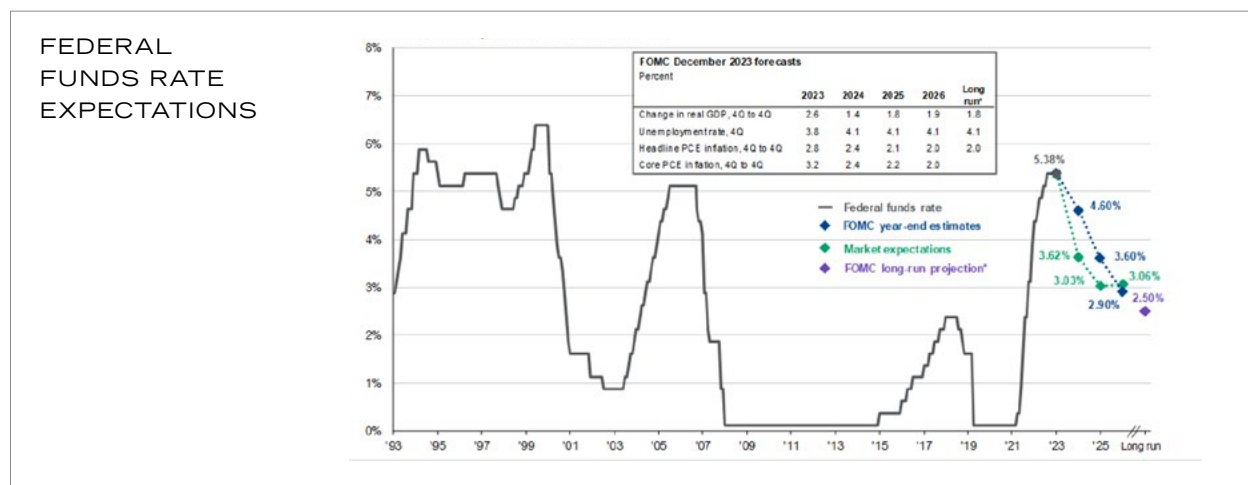
The election will surely be a source of volatility in equity markets regardless of which side of the aisle you associate with. We are focusing on policies that may be implemented under different administrations and how they affect capital expenditures and prospects for growth of businesses in the future. Ultimately, the market shows no allegiance to any one political party, and we remain optimistic about long-term market potential.

3. GEOPOLITICAL RISKS

There remain severe risks around geopolitical tensions in China, the Middle East, and Russia. We are paying close attention to the second and third-order repercussions around trade, currency, and de-globalization in different industries, companies, etc.

4. AI REVOLUTION

In 2023, the market was spurred on by the next technological revolution, the AI revolution. We saw Nvidia, a chipmaker, triple in value in 2023. We intend to curiously watch how this theme plays out and how widespread the gains may be for the overall market. We believe that there will be many winners in the AI revolution, not only in the chipmaking industry but also in manufacturing, healthcare, finance, etc. as they benefit from the use of AI and chips themselves.



Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management. Market expectations are based off of USD Overnight Index Swaps. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated. *Guide to Markets* — U.S. Data are as of December 31, 2023.

On the planning side, we are focusing on these three areas which are foundational to your financial plan. Savings, estate planning, and tax planning are all about keeping more of what you earn, and protecting what you have in the “what ifs” of life.

1. New Years Resolutions: Savings Goal

Whether you want to go on a vacation, retire, or buy a house, it requires savings. Think about how much money you need to accomplish your goal and break up your savings into twelve monthly pieces. Once you know the savings per month, set an automatic transfer to your savings account. That way, you can spend the remaining funds in your checking account and still hit your savings goal.

Savings, estate planning, and tax planning are all about keeping more of what you earn, and protecting what you have in the “what ifs” of life.

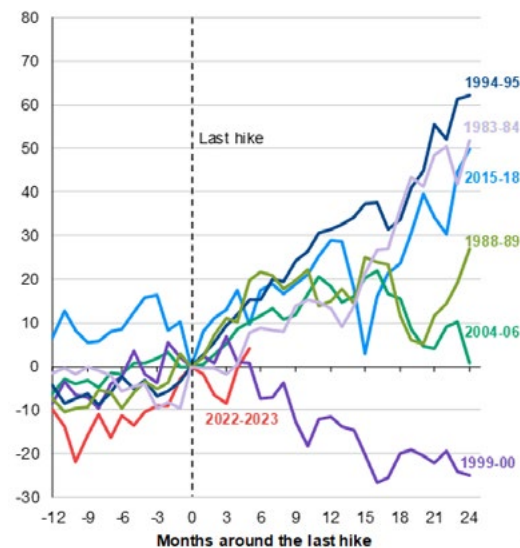
2. Estate Planning Importance

Benjamin Franklin once wrote there are only two certainties in this world, “death and taxes.” However, nobody likes to pay taxes or talk about their own demise. We have found that once you cover the “what ifs” of life, you live more freely. We recommend you revisit your estate plan every 3-5 years or when something materially changes in your desires or financial situation.

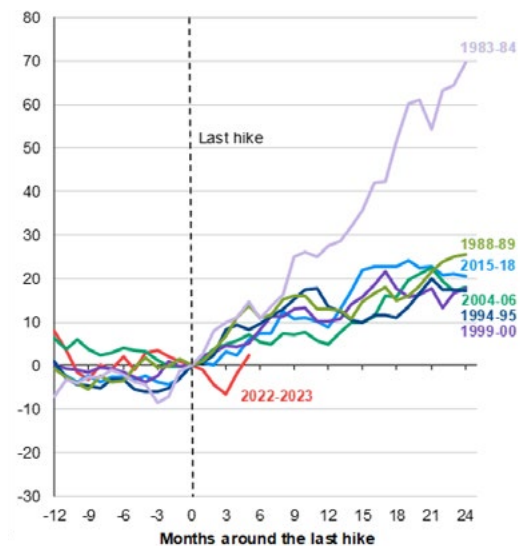
3. Tax Planning

Taxes have typically been a backward-looking topic. We pay the tax bill for the past year four months into the new year. However, we believe in looking beyond just the last twelve months and into the future by teaming up with your tax professional to ensure proper strategies are being implemented to reduce your future tax drag, not only for you but also for your beneficiaries. ■

S&P 500 RETURNS AROUND THE END OF A FED HIKING CYCLE



U.S. 10-YR RETURNS AROUND THE END OF A FED HIKING CYCLE



Source: FactSet, Federal Reserve, S&P Global, LSEG Datastream, J.P. Morgan Asset Management. The 2022-2023 cycle assumes that the last hike of the cycle was in July 2023. Past performance is not a reliable indicator of current and future results. *Guide to the Markets* – U.S. Data are as of December 31, 2023.



HIGHER STANDARD AWARD

We are proud to announce that a member of our team earned one of the firm's highest achievement awards, the "Higher Standard Award" for 2023.

The award highlights a Financial Advisor for their exemplary service to clients and we are proud to recognize Ian Holder for his above and beyond efforts this year. Ian joined the firm in July 2022 and was highly collaborative with colleagues across departments, maintaining a consistently positive solution-oriented mindset. His dedication to clients is unwavering and with his leadership, we have formed a talented team built on the foundations of providing exceptional advice and guidance to clients by focusing on what is important to them.

Thank you for being a tremendous advocate for the firm and your team.

¹ iShares MSCI EAFE ETF return as provided by [ISHARES.com](https://www.ishares.com) for calendar year 2023.

² Data provided by Morningstar

³ Data provided by the ST. Louis Federal Reserve.

⁴ Data provided by Morningstar.

⁵ Data provided by Morningstar through the use of Y Charts.

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Ian A. Holder, CFP®, CRPC®

Susanna A. Dellinger

Lori S. Cochran

Kapre L. Dana

Jamie N. Dunlow

James E. Morton, CFP®

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