DECEMBER 2023 MARKET REVIEW

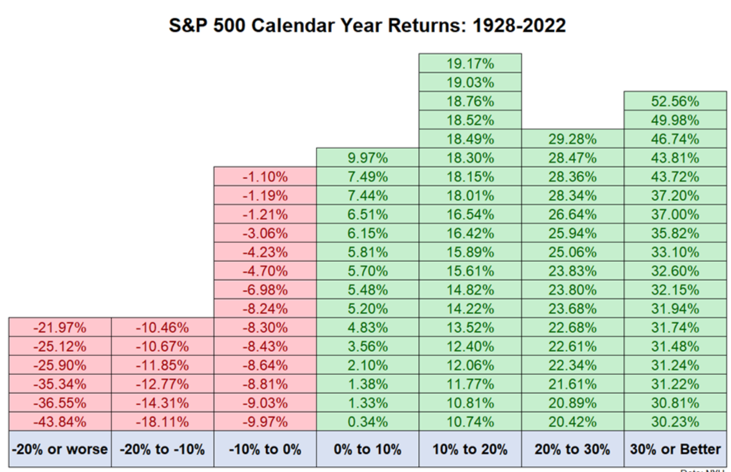
	12/31/2023 Level	QTD Change	1 Year Change
S&P 500	$4,770	11.7%	26.3%
MSCI ACWI Ex USA	$290	9.8%	15.6%
MSCI Emerging Markets	$534	7.9%	9.8%
Bloomberg US Aggregate	$2,162	6.8%	5.5%
10 Year Treasury Rate	3.88%	-70 BP	0 BP
Bloomberg Commodity Index	$226	-4.6%	-7.1%
Bitcoin	$42,221	56.3%	153.7%

Stock markets peaked in value two years ago on January 3rd, and the wild ride over the past 24 months has essentially returned us back to that same level. If you have been reading this newsletter or following the financial news over this time period, you know the story well. Markets suffered in 2022 as inflation was soaring and the Fed was caught flat-footed. Markets rebounded and completed the roundtrip in 2023 as inflation peaked and investors snapped up stocks, especially companies innovating in the artificial intelligence space. We noted in our market review 12 months ago that we were cautiously optimistic about the outlook for 2023. We touched on a handful of reasons supporting this viewpoint, the most important being that it was becoming clearer that inflation had peaked, and the economy was less sensitive to monetary tightening than it had been in previous cycles. In hindsight, we were correct about the path of inflation, but what caught us by surprise was that the US economy proved to be far stronger than our expectations. It is safe to say that markets also exceeded most investors' expectations. Global equities returned approximately 24%, and US bonds returned 5.5%, thanks to a year-end rally in both asset classes. Investor returns are quite impressive on a one-year basis, although balanced portfolios have returned just 2% per annum over the past three years, which is below long-term averages. In this annual review, we will touch on four themes that we think tell the story of 2023 and in addition will shed some light on how the next year could possibly play out.

Theme I: Climbing the wall of worry:

In 2023, there were so many reasons justifying a pessimistic outlook of the world and financial markets. We have endured multiple wars, a banking crisis, an inflation and interest rate shock, and deteriorating global geopolitics. Yet, today markets are at or near all-time high levels. Just as it seems we have put the Covid crisis in the rearview mirror, our media outlets continue to focus on all that has gone wrong in the world, and as 2024 is an election year in the US, this trend is unfortunately likely to persist. Markets struggled when the regional banking crisis occurred in March, and when the Israel/Hamas war began, and again when the 10-year US treasury hit 5% for the first time in over 15 years. But what receives less airtime are all of the positive storylines that occurred during the year that propelled markets, despite bumps in the road. Fear sells, I suppose. The lesson here is to ignore all of the noise and focus on what actually matters. There will always be tail-risks in markets, but they need to be weighed against countering positive attributes that may exist. For equity markets, what matters in the long-term is the growth of aggregate earnings, and for bond markets it is interest rates.

Theme II: The return of the 60/40 portfolio:



Source: "A Wealth of Common Sense" 1/19/2023

A standard balanced investment portfolio holding 60% global equities and 40% bonds came roaring back in 2023, returning over 15%. Both equities and bonds struggled in 2022 such that a 60/40 portfolio fell -16% which had investors questioning whether this type of portfolio construction made sense in a new post-Covid landscape. It is important to understand that returns in any year rarely approximate long-term averages, and that one negative year is not a reason to completely overhaul a portfolio. Depending on the time frame, we know that stocks compound high single digits per year on average, although it is quite common that stocks perform either substantially better or worse than the average in any given year. It is also apparent from the bar chart to the right that the number of years with significantly positive returns outnumbers the years with significantly negative returns. This positive skew should be unsurprising, as markets go up over time. We have continued to hold our belief that the standard 60/40 portfolio should and will continue to be used by investors, large and small. The simplistic nature of these portfolios improves the likelihood that investors will be able to maintain their market exposure, even in times of market stress. We also believe that portfolios can be improved through the inclusion of other uncorrelated assets and through tweaking allocations. The changes we make to portfolios are typically marginal moves focused on holding more of what we perceive as attractive, while never drastically changing the riskiness of a portfolio (whether that portfolio holds 60% equity or 95% equity).

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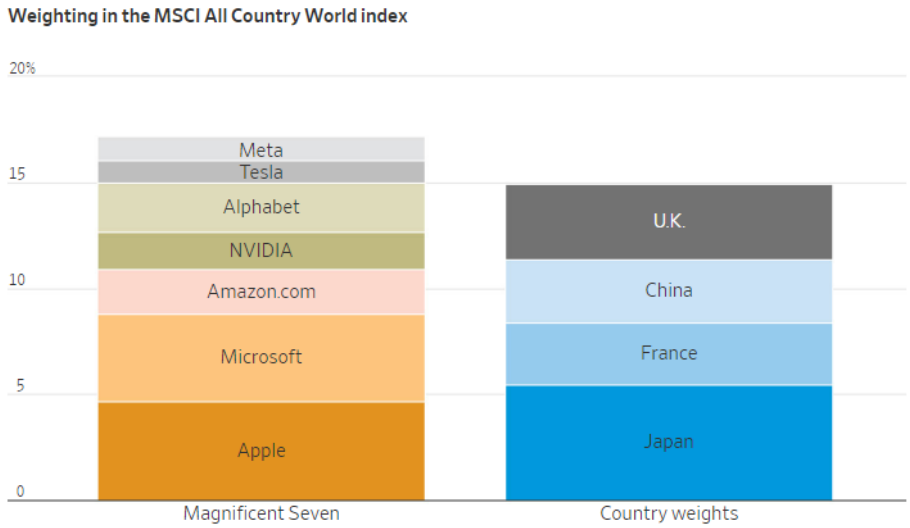
Theme III: The winners keep winning:



Sources: MSCI; Allspring Global Investments

Within equity markets, the companies that have performed best in recent years continued to drive outsized returns in 2023. The moniker of this group of companies has changed from "FANG" to "Magnificent 7" in 2023, but what has not changed is that global equity markets are highly concentrated by company, and by industry. These technology giants have earnings growth expectations that far exceed the average stock, and in addition also have pristine balance sheets (which is the fundamental basis for owning them). The growth in Nvidia's earnings, for example, has been so strong, that the company's price-to-earnings ratio has fallen in 2023 despite a 239% return over the past 12 months. The two non-tech companies that garnered the most attention in 2023 are Eli Lilly and Novo Nordisk, both of which have developed highly priced obesity drugs. These two companies have also performed exceedingly well in recent years and are becoming larger components of global equity indices. While it is difficult to see lower demand for any of these companies' products in the future, there are, however, reasons to diversify into other parts of the market. Sky-high expectations will make it hard for the Mag 7 to outperform in line with recent periods, and the average stock is much cheaper on valuation metrics. Our client portfolios continue to own these tech giants, but we have begun diversifying further into their smaller peers. The market has recently exhibited narrow leadership and wide dispersion between winners and losers. Moving forward, we expect broader leadership, and narrower dispersion as laggards close the gap on the leaders.

Theme IV: Focus on what you can control:

Individual investors should attempt to find a middle ground between staying up to date with how markets are impacting their financial picture and obsessing over daily moves in XYZ stock or focusing on the recent inflation data point. More attention should be placed on areas of personal finance that are controllable; things like proper asset allocation and asset location, saving versus spending, estate planning, and having appropriate insurance coverages. Ensuring you work on the items that are actually within your control will tee you up to better achieve your goals. Our job is not solely to manage investment portfolios. Most of our clients live busy lives, and sometimes neglect their finances. While we focus on the intersection of wealth planning and investment management, we partner with other advisors to ensure a solid foundation across investments, wealth and estate planning, banking and lending, and insurance.

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