Economic Summary

Investors entered 2023 with recessionary fears, as corporate earnings, inflation, and a hawkish Federal Reserve (THE FED) were top-of-mind. In the early part of the year, a few regional banks ran into trouble as the inverted yield curve stressed bank business models and forced the government to intervene (CHART 1). The Fed continued to increase short-term interest rates through the first half of the year to keep inflation in check. By the beginning of the fourth quarter, inflation had slowed to a crawl (CHART 2). This enabled the Fed to hold rates steady for the balance of the year, and rhetoric from the Fed late in the year implied that rates might be decreased multiple times in 2024. Dovish Fed sentiment, the strength of consumer spending, and higher corporate earnings propelled a rally in stocks and bonds to end the year.

Moving into 2024, investors are anticipating multiple interest rate cuts from the Fed as inflation looks to be moderating. Corporate earnings, according to FactSet, are expected to increase 12% in 2024. Unemployment remains extremely low, consumers are becoming more optimistic, and D.C. continues to run massive fiscal deficits. Additionally, 2024 is an election year, and politicians are already planning a $100 billion tax cut ahead of the election. While preliminary, it looks like the bill will consist of a combination of the expansion of the child tax credit and reinstating corporate tax deductions that have lapsed.

Equity valuations entering the year are in line with 5-year averages, implying equity valuations are neither

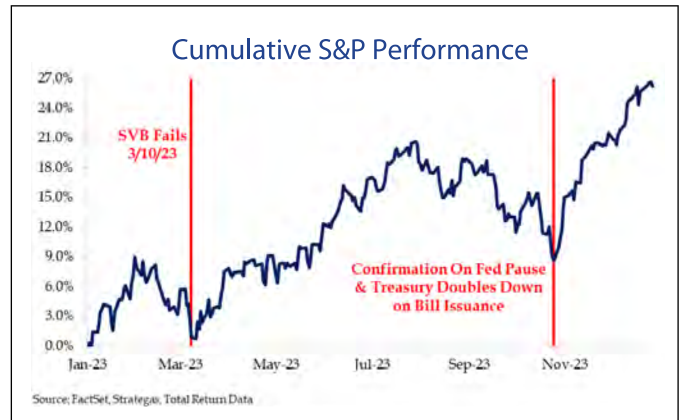

Chart 1

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS" – JANUARY 3, 2024

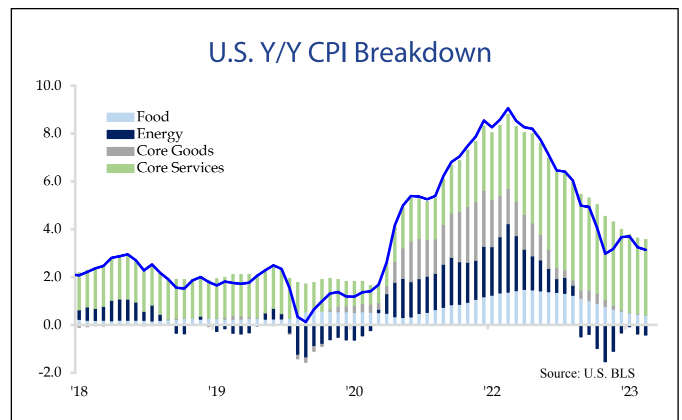

Chart 2

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS" – JANUARY 3, 2024

Past performance does not guarantee future results.

extended nor undervalued. While the stock market looks reasonable overall, there are segments that look overvalued. In particular, large-cap tech stocks have rallied on the hype of artificial intelligence, as well as a group of stocks dubbed the Magnificent 7.

The Stock Market

Equity returns were positive across all major indices in 2023, as the S&P 500® was up 26% (CHART 3) and the technology-heavy NASDAQ finished the year up 45%. Large-cap stocks once again outperformed small- and mid-cap indices as the Russell 2000® index closed the year up 17%, nearly 10% below the S&P 500®. Growth stocks vastly outperformed value, as the Russell 1000® Growth Index (CHART 4) was up 43% vs. 12% for the Russell 1000® Value Index. Performance within the S&P 500® was extremely bifurcated, as the Technology and Communication Services sectors were both up over 50%, and the Utilities and Energy sectors posted negative returns.

The Magnificent 7 grabbed headlines, as they drove performance in multiple indices due to their size and outstanding relative performance. The Magnificent 7 consists of technology-heavy, mega-capitalization stocks Apple, Inc., Alphabet, Inc. (PARENT OF GOOGLE), Microsoft Corporation, Amazon.com, Inc., Meta Platforms, Inc. (PARENT OF FACEBOOK), Tesla, Inc., and

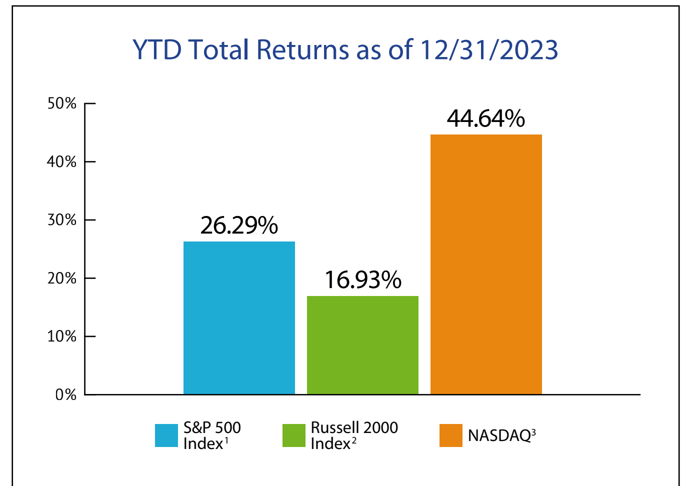

Chart 3

SOURCE: MORNINGSTAR DIRECT

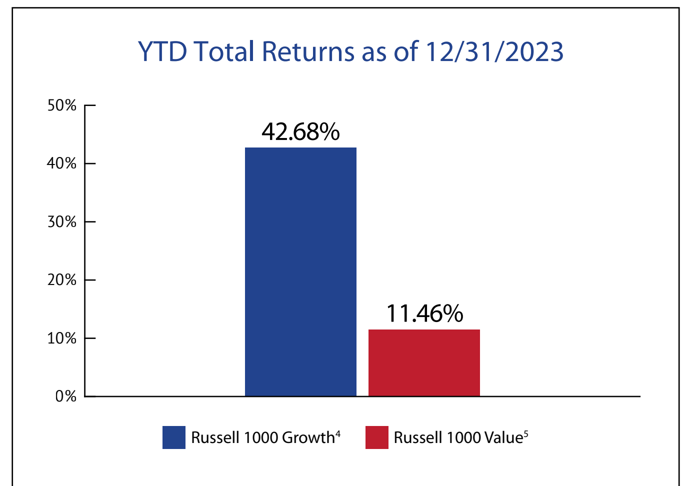

Chart 4

SOURCE: MORNINGSTAR DIRECT

Past performance does not guarantee future results. You cannot invest directly in an index.

[1] The S&P 500® Index is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general.

[2] The Russell 2000® Index is an unmanaged index of the smallest 2,000 stocks in the Russell 3000® Index.

[3] The NASDAQ Composite is a stock market index that includes almost all stocks listed on the Nasdaq stock exchange (more than 2500 stocks).

[4] The Russell 1000® Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values.

[5] The Russell 1000® Value Index Measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000® companies with lower price-to-book ratios and lower expected growth values.

NVIDA Corporation. At year-end these behemoths made up 28% of the S&P 500® and were responsible for 60% of the performance during the year (CHART 5). Investors should be aware that indexes are not as diversified as they once were, as concentration in a few names is alarmingly high.

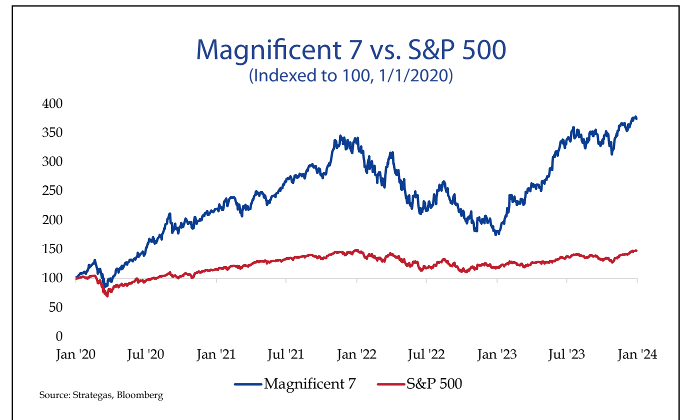

Chart 5

SOURCE: STRATEGAS RESEARCH PARTNERS
"QUARTERLY REVIEW IN CHARTS" — JANUARY 3, 2024

The Bond Market

U.S. Treasuries saw the most movement on the short end of the yield curve, as the Fed increased short-term rates four times during the year. The 10-year U.S. Treasury yield whipsawed, as it went as low as 3.3% in April, when three regional banks failed, and as high as 5.0%, when investors feared the Fed would need to increase interest rates further to tame inflation. Ultimately, the 10-year Note ended the year where it started, yielding 3.9%. The yield curve at year-end remained steeply inverted, as short-maturity bonds yielded more than long-maturity bonds. Typically, this happens when investors anticipate lower interest rates in the future and if inflation continues to subside the Fed will have the propensity to do so.

Corporate credit spreads tightened significantly in 2023, as investors became more optimistic about the economy and corporate profits. Currently, spreads are slightly tighter than historical averages. Therefore, prudence should be taken when adding additional exposure to corporate credits.

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