QUARTERLY MARKET COMMENTARY: 2023-Q4

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Watching established high-water marks in portfolio values disappear in the rear-view mirror for almost two years often raised a sense of hopelessness when questioning the possibility and timing of seeing such levels again. Volatility continued throughout 2023 where domestic equity markets occasionally visited both oversold and overbought territories relative to fundamentals. We believed there was a chance of revisiting all-time highs by the end of 2023 as we monitored inflation, interest rates and other economic factors.

The uncertainty surrounding the possibility of a recession was a prominent catalyst driving a directionless stock market for most of the year. Projected fundamentals softened during 2023 making a case for a higher probability of revisiting all-time highs during the early part of 2024. It was a pleasant surprise to see this accomplished sooner than later, noting that we closed out the year in slightly overbought territory with a relatively softer floor. We believe this fundamental base should find better footing when we are able to see 2024 to 2025 projections.

During the significant downturns, we saw value stocks trade below fair market values and growth stocks coming down to meet fair market valuations for the first time since we can recall. Upside potential certainly existed for value stocks based on fundamentals, but we also acknowledged that growth stock upside could be driven by news and not necessarily fundamentals. It was the notion that the Fed was standing firm on holding rates steady that lit the fire to fuel the incredible year-end rally.

The savior for the tech sector after a significant downturn in 2022 has been the current focus on Artificial Intelligence (AI) and its potential positive impact on corporate revenue and earnings. The rise of the "Magnificent Seven" stocks has been beneficial to our client portfolios but we must also be aware of the possible kryptonite to such companies, a failure in improving fundamentals to support lofty price levels and/or a surprise economic slowdown. Again, we shall get a better view beyond the horizon as we start seeing projections for 2025.

Regarding bonds and other fixed-income vehicles sensitive to interest rate fluctuations, we believe these investments have captured 70% to 80% of their upside potential as part of phase I (Fed holding rates steady). We believe rates should be held steady for most of this year and that any upside in fixed-income valuations associated with phase II (Fed lowering rates) would be later, either the last quarter of 2024 or beyond. A combination of upside potential and higher current yields should positively contribute to overall portfolio returns after a disastrous period for bonds attributed to rising interest rates.

We expect 2024 to be on a similar level as 2023 with many of the same questions concerning capital markets being carried over. Monitoring economic variables and the ever-changing geopolitical landscape will certainly provide challenges & opportunities. Please reach out to your advisor should you have any questions regarding your portfolio or your financial plan. We truly appreciate the patience and confidence from our clients throughout 2023 and would like to wish everyone a healthy 2024!