



## Perspective

Markets closed out the year with strength as inflation concerns abated. CPI moved toward a normalized level and the Fed became less hawkish with Federal Reserve Chair Jerome Powell stating, “There’s little basis for thinking that the economy is in a recession now. I think there’s always a probability that there will be a recession in the next year. It’s a meaningful probability no matter what the economy is doing. So it’s always a real possibility.” Markets rallied on the news with the 10-year Treasury falling below 4%.

The late year rally was enough to push the Dow Industrial Average over its previous high of 36,799 posted on 1/4/2022, yet the other major indices fell short of reaching their previous highs before year-end. The S&P 500 came within 3.26 points of its 1/2/2022 high of 4,796.56 but the market traded off the final day of the year. While much of the S&P’s return was attributed to those stocks dubbed as “The Magnificent Seven”, which includes Apple, Amazon, Alphabet, Meta, Microsoft, Nvidia and Tesla; but the breadth of stock performance increased in December which provides optimism as we move into 2024.

The pace and magnitude of the Fed’s rate hiking cycle had most economists projecting a recession in 2023, yet it appears the Fed may have threaded the needle and accomplished their “soft landing.” In fact, they may have engineered a “touch-and-go” as S&P earnings look to be on track for a mid-single digit earnings growth for the year. The low unemployment numbers and a strong consumer may have sustained the economy during the Fed’s tightening cycle but it will require a stable interest rate environment moving into 2024 to encourage investment. An environment conducive to private investment along with the productivity gains associated with innovations around AI would provide another leg up in economic growth.

Of course, as we stated last month, investors prefer an environment of certainty! The geopolitical events in the Middle East and Ukraine may be enough to provide short-term uncertainty, but we do not believe they will have a significant impact on the U.S. economy. As we kick off the presidential primary schedule this month though, there may be plenty of uncertainty around the direction of the elections and those sectors targeted by presidential candidates. Another question will be around the political motivation of the Fed. Specifically, will Powell decrease rates to spark economic activity and thereby preserve his own future as Fed Chair. We do not believe this is a likely scenario, but do believe inflation will continue a downward trend allowing relief in interest rates, creating a favorable environment for economic expansion in mid to late second quarter.



## Monthly Recap

- Inflation continued to soften with CPI down to 3.1% in November vs. 3.2% the previous month. Core CPI was steady at 4.0%
- PCE (the Fed’s preferred inflation measure) was down to 2.6% vs. 2.8% forecasted and 3% in October. Core PCE was down to 3.2% from 3.5% in October
- Federal Reserve left Fed Funds Rate unchanged at 5.25% - 5.50%
- In an effort to restore safe shipping routes, a united coalition was formed to conduct joint patrols in the Red Sea. In response to a distress call from a Danish container ship, the U.S. Navy sank 3 of 4 boats that attacked the ship.
- Israeli forces maintained patrols targeting Hamas troops in Gaza.



## Markets

Total Return as of: 12/31/2023

Market Indices	MTD %	YTD %	1-Year %
S&P 500 Index	4.53%	11.68%	26.26%
NASDAQ Composite	5.62%	13.84%	44.70%
Russell 2000 Index	12.23%	14.02%	16.88%
MSCI EAFE Index	5.47%	10.51%	17.94%
MSCI Emerging Markets	3.91%	7.87%	9.83%
BBG US Aggregate Bond	3.83%	6.82%	5.53%
WTI Crude Oil	-5.67%	-21.08%	-10.73%
Gold	1.30%	11.60%	13.10%



## Interest Rates

	Close 12/31	Prior Month	Year Ago
Fed Funds Target	5.50%	5.50%	4.50%
6-Month US Treasury	5.26%	5.40%	4.75%
2-Year US Treasury	4.25%	4.68%	4.43%
10-Year US Treasury	3.88%	4.33%	3.87%

### *The Month Ahead*

#### January 5<sup>th</sup>

Unemployment Rate & Average Hourly Earnings

#### January 11<sup>th</sup>

Treasury Budget & Consumer Price Index Report

#### January 25<sup>th</sup>

4th Quarter GDP (First Reading) & Imports/Exports

#### January 26<sup>th</sup>

Personal Spending & Personal Consumption Expenditures Index Report

#### January 31<sup>st</sup>

Federal Open Market Committee Announcement

# Questions?

Your Wealth Management team is here to answer.

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