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The Markets

2023 was a big year for U.S. stocks.

The story of 2023 has its roots in 2022, when the Standard & Poor's (S&P) 500 Index lost almost 19.5 percent amid rising inflation and aggressive Federal Reserve rate hikes. As 2022 ended, many on Wall Street predicted further pain in the new year. Economists forecasted a 70 percent chance of recession in 2023, and consumer and investor confidence were both low.

Pessimism persisted well into 2023. Some of the negativity may have been due to loss aversion. Behavioral economics has found that the pain of losing is far more powerful than the pleasure of winning. Overall, investors were less bullish than usual for much of 2023, according to the AAII Investor Sentiment Survey. In addition, consumer sentiment fluctuated significantly over the year, often reflecting expectations for inflation and interest rates.

U.S. Stock Markets Finished the Year Higher

The S&P 500 trended higher from March through July. Early on, the rally was driven by just a few technology stocks; however, the gains became more widespread as inflation slowed, economic growth remained healthy, and the likelihood of recession receded. The rally cooled in August as investor confidence slipped when inflation data moved in the wrong direction, opening the door to additional Fed rate hikes. However, bullish sentiment improved again in October and remained above average throughout most of November and December.

In December, Jacob Sonenshine of *Barron's* reported, "The main driver of the gains has been the decelerating pace of inflation, which has led the Federal Reserve to refrain from further interest-rate hikes over its past two meetings…That would enable the economy to continue growing and keep companies' sales and profits on the rise. Lower rates also make future profits and dividends more valuable, lifting valuations for all sorts of companies from high-dividend payers to high-growth technology firms."

In the United States, major stock indices finished 2023 with double-digit returns. The S&P 500 was up 24.2 percent for the year, the Dow Jones Industrial Average gained 13.7 percent, and the Nasdaq Composite rose 43.4 percent, reported Samantha Subin and Jesse Pound of CNBC.

A Brief Review of 2023

The year was filled with geopolitical uncertainty, including wars in Ukraine and the Middle East, and political divisions at home that led to a debt ceiling standoff and a failure to pass funding for the 2024 budget. Here are a few key events from last year:

- **The great AI rally**. In 2023, artificial intelligence (AI) captured the public's imagination. More companies mentioned AI on their quarterly earnings calls than ever before and those that did sometimes saw above-average stock price performance.

- **Slowing inflation**. Inflation was top of mind for consumers and investors last year. Fed rate hikes did what they were supposed to do, and inflation slowed from 6.3 percent in January to 3.1 percent in November.

- **Bank closures**. In March, we saw heightened market volatility after Silicon Valley Bank and Signature Bank failed in the United States, and Credit Suisse bank collapsed in Switzerland. Quick action by authorities in both countries reassured investors and helped global stocks recover.

- **Economic resilience**. The United States did not have a recession in 2023. Instead, the economy grew steadily and proved remarkably resilient. At year-end, unemployment remained near multi-decade lows, and consumer spending was solid with retail sales up 3.1 percent over the holidays. In addition, wage growth exceeded inflation during the latter half of the year.

- **Economic fizzle**. Many anticipated China's economy would boom after COVID-19 restrictions were lifted. Instead, it fizzled. Amid China's property crisis, the MSCI China Index dropped by more than 14 percent in 2023, reported Tassia Sipahutar, Eliza Ronalds-Hannon, John Cheng and Ye Xie of *Bloomberg*.

- **Tour de force**. "Taylor Swift, Beyoncé and 'Barbenheimer' fever are giving a serious boost to the U.S. economy," reported Augusta Saraiva of *Bloomberg* in late August. "The megastars' tours and blockbuster films are expected to add up to $8.5 billion to U.S. growth in the third quarter…The nearly 50 U.S. concerts…could add $5.4 billion [to economic growth], while the films Barbie and Oppenheimer are projected to add about $3.1 billion in consumer spending and exports from international ticket sales."

- **A refreshing pause**. Investors and consumers breathed a sigh of relief when the Fed paused its rate hiking cycle in July. The Fed left the effective federal funds rate in a 5.25 to 5.5 percent range for the remainder of the year.

With inflation nearing the Fed's target, some think the U.S. central bank may have managed to tame inflation without leading the country into recession, an achievement known as a "soft landing". If so, 2024 will indeed be a happy new year!

Data as of 12/29/23	1-Week	YTD	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 Index	0.3%	24.2%	23.9%	8.6%	13.7%	10.0%
Dow Jones Global ex-U.S. Index	1.6	12.6	12.2	-1.0	4.6	1.6
10-year Treasury Note (yield only)	3.9	N/A	3.8	0.9	2.7	3.0
Gold (per ounce)	1.1	14.7	14.6	3.5	10.2	5.6
Bloomberg Commodity Index	-0.7	-12.6	-12.2	8.6	5.2	-2.5

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance; MarketWatch; djindexes.com; U.S. Treasury; London Bullion Market Association.
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

WE COULD CELEBRATE A HOLIDAY ALMOST EVERY DAY OF THE YEAR. Many people are ready for some peace and quiet after the busy holiday season. If you're not ready for the festivities to end, though, January is chockful of little-known holidays (and some well-known ones). See what you know about post-New Year's holidays by taking this brief quiz.

1. On January 2 (the day after National Hangover Day), some people celebrate creativity. "Use this day to develop and test new ideas, concepts, and theories," advises *Holiday Insights*. What is the holiday called?
    a. National Celebrate Creativity Day
    b. Run It Up the Flagpole Day
    c. National Vibealacious Day
    d. The Road Less Taken Day

2. January 7 is known as Old Rock Day. What does this holiday celebrate?
    a. Geologists
    b. Earth
    c. Rocks and fossils from long ago
    d. The Rolling Stones

3. On Martin Luther King Jr. Day, Americans celebrate a Baptist minister who was an advocate for equal rights and the youngest winner of the Nobel Peace Prize. What day is the holiday celebrated this year?
    a. The third Monday of January
    b. January 15, 2024
    c. Martin Luther King, Jr.'s birthday
    d. All of the above

We hope you had wonderful winter holidays.

Answers: 1) b 2) c; 3) d

Best regards,

Angela M. Bender

P.S. Please feel free to forward this commentary to family, friends or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

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* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.
* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.
* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
* All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client's portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. You cannot invest directly in an index.
* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
* Gold represents the 3:00 p.m. (London time) gold price as reported by the London Bullion Market Association and is expressed in U.S. Dollars per fine troy ounce. The source for gold data is Federal Reserve Bank of St. Louis (FRED), https://fred.stlouisfed.org/series/GOLDPMGBD228NLBM.
* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
* The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.
* The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.
* International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
* The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage is often obtainable in commodity trading and can work against you as well as for you. The use of leverage can lead to large losses as well as gains.
* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
* Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.
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* The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee it is accurate or complete.
* There is no guarantee a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.
* Asset allocation does not ensure a profit or protect against a loss.
* Consult your financial professional before making any investment decision.

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