GARDECAPITAL

January 2024

Market Monitor: January 2024

It's back! The S&P 500 returned to within a whisper of its previous all-time high in late December of 2023. The problem…the last high-water mark had been set almost exactly two years ago in December of 2021. It has been a long wait, but as we often see in times of market volatility, patient investors have been rewarded. Even better, the latest results in the stock markets have been accompanied by some encouraging economic data and favorable comments by the Federal Reserve about the end of the tightening cycle. For bond investors, the picture has not been quite as rosy. Fixed income instruments have only partially recovered from the lows of 2022, but higher yields, easing inflation, and a less hawkish Fed may open the door for more gains there as well.

4th Quarter Highlights

- After a strong last two months of the year, the S&P 500 Index of large U.S. companies closed out the year near record levels, rising 26.3% for 2023. Non-U.S. developed stocks increased 18.2% for the year, as measured by the MSCI EAFE Index. Small cap U.S. stocks lagged other equities for most of the year, but they led the way in December with a 12.2% gain for the month, with the Russell 2000 Index finishing the year up 16.9%.

- Once again, growth stocks were back in vogue as tech led the way in 2023. The Vanguard Growth ETF was up a staggering 46.8% this year, while the Vanguard Value ETF increased 9.3%.

- Bonds had modest gains in 2023 with a 5.5% increase for the Bloomberg Aggregate Bond Index. Investors might normally be happy about that, but after being down over 13% in 2022, many were expecting a larger recovery.

- Inflation continues to trend closer to the Fed's 2% target with a CPI reading of 3.1% in November after a brief tick up in August and September. The good news for investors though came in the form of comments from the Fed about the end of the tightening cycle at the last meeting. Many analysts are speculating that we could even see interest rate cuts in 2024.

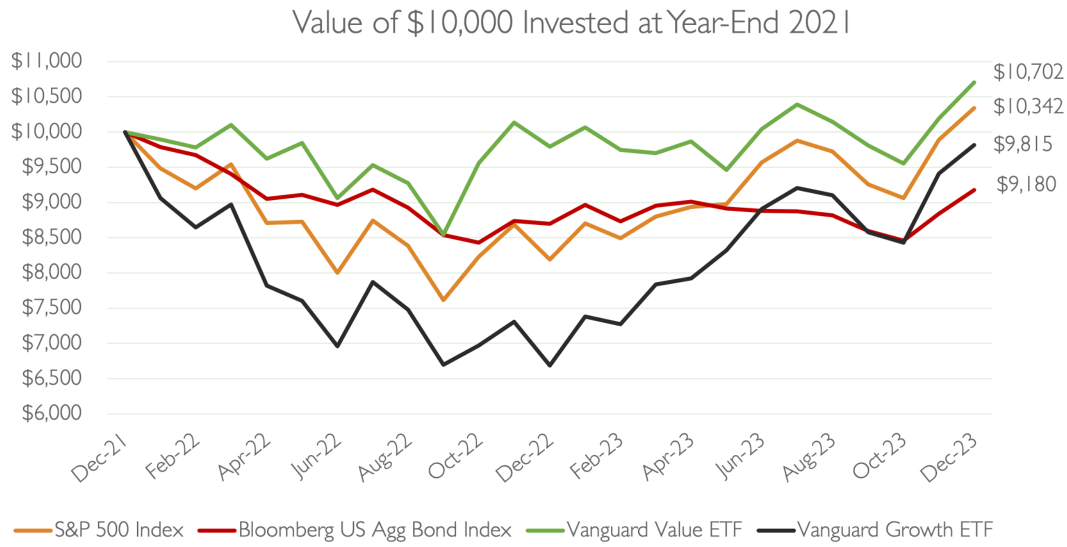
- After touching historical lows below 1.0% in late 2020, the yield on the 10-year U.S. Treasury bond has seen an enormous increase, reaching almost 5% in October of 2023. This shift in yields has been painful, particularly for bond investors who have watched their bond values decline, but the new higher yields mean that a diversified portfolio of bonds is expected to earn even more than 5% going forward. At no time in the last 15 years have investors been able to lock in yields at these levels.
- Through the tumult of the last several years, the economy continued to add more jobs and GDP growth forged ahead in a sign of resilience for the world's largest economy. The unemployment rate stands at 3.7% and GDP growth was an impressive 2.9% in the third quarter compared to one year ago.
- Many analysts got it wrong in 2023, some calling for major declines in the market. Last year will stand as another reminder that predicting short term market behavior is very challenging, and there is simply no substitute for a balanced and diversified portfolio, rebalanced on a regular basis.

Three Big Things

Here we review some emerging trends that may be important for investors and their portfolios. We look at the last two years of performance, the importance of the largest ten companies in the S&P 500, and the surprising volatility in rental rates.

The Great Rebound

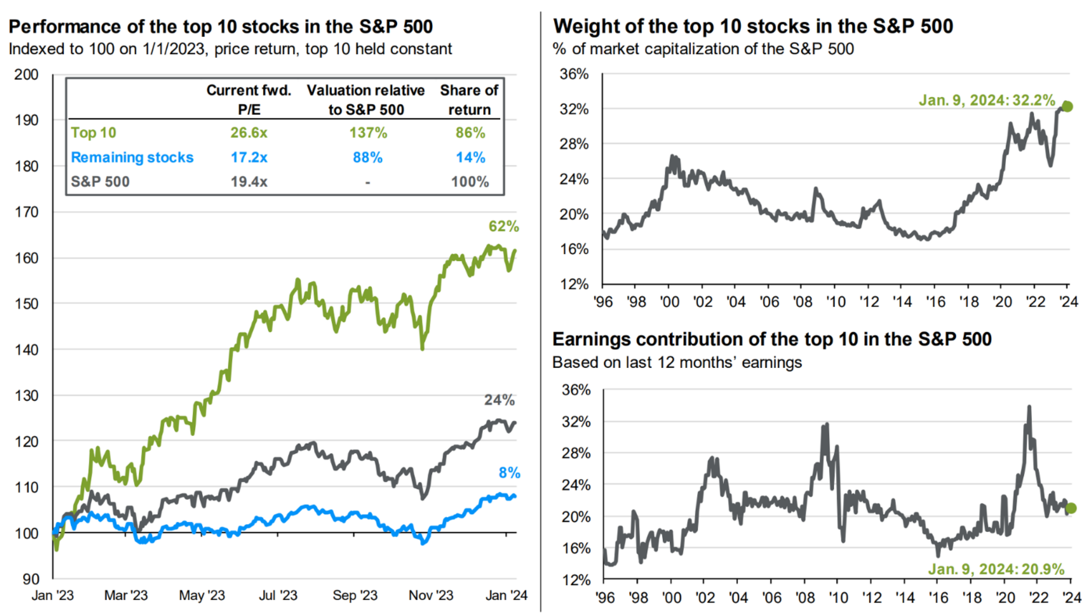
The chart below tracks the return over the last two calendar years of the S&P 500 Index, the Vanguard Large Growth and Value indexes, and the Bloomberg U.S. Aggregate Bond Index. While the S&P 500 Index of large U.S. companies hit a new high in December 2023 (including dividend reinvestment), the bond market has only just begun to rebound from the lows of 2022. Interestingly, value stocks offered the best safe haven in the recent storm. Growth stocks have not quite fully recovered, which may be a surprise to many investors who feel that the group may be overvalued after the recent run.



Source: Morningstar Direct, Vanguard

The Top 10

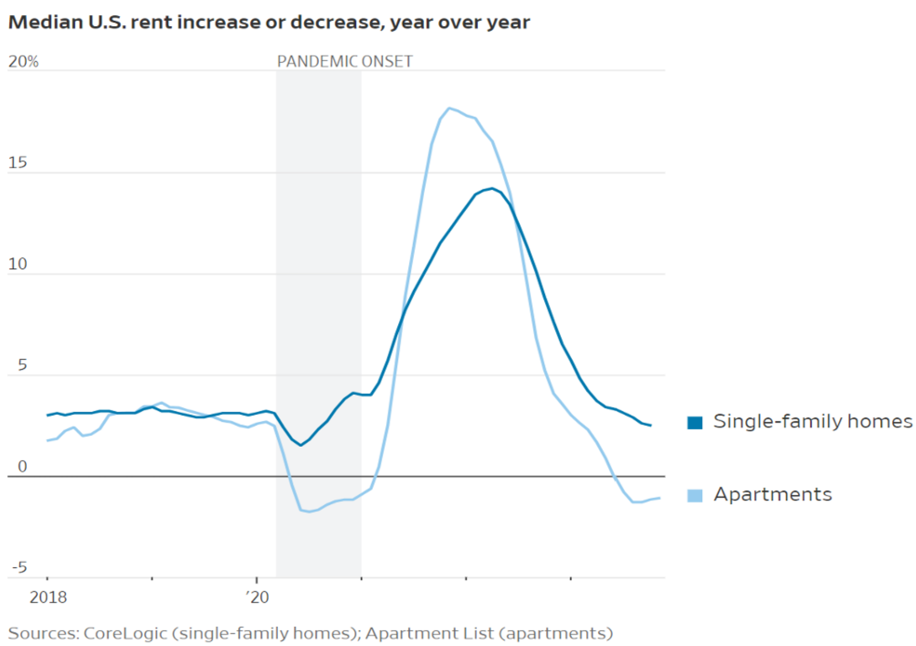
Most investors are familiar with the top 10 names in the S&P 500 Index. After all, we depend on companies like Apple, Microsoft, and Google for much of our work and social life. But those top ten stocks now represent over 32% of the S&P 500 Index itself and carry valuations that are quite a bit higher than the remaining 68%. This may not be predictive of market performance going forward, but certainly something for investors to be aware of.



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.

Rents on the Decline

In the immediate post-pandemic phase, we saw rents for single family homes and apartments skyrocket as the demand for real estate exploded. As higher interest rates have led to tightening economic conditions, we have now seen the opposite effect. While home values themselves have held up well, rents have begun to come down significantly and may offer some relief to the pocketbook of many consumers in the next phase of the cycle.



Once again, it has been our privilege to work with you during the past year. We look forward to 2024 and the opportunity to review your wealth management plan in the coming months. As always, please do not hesitate to reach out to us at any time.

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