Market Commentary

December 2023

- Stocks and bonds closed out the year on a high note, with all major indices finishing in positive territory for the month. The Nasdaq Composite TR Index returned 44.64% on the year, the S&P 500 TR Index rallied 26.29%, and the Dow Jones industrial Average TR Index added 16.18%.
- The Dow Jones Industrial Average Index and the Nasdaq Composite Index hit all-time highs during the month while the S&P 500 Index trailed closely behind its all-time high.
- The Federal Reserve has begun to chart out a path towards rate cuts in 2024.

MARKET RETURNS AS OF DECEMBER 31, 2023[1]

	December %	QTD %	YTD %	1 Year %	3 Year %	5 Year %	10 Year %
S&P 500 TR	4.54	11.69	26.29	25.97	10.30	15.89	12.08
DJ Industrial Average TR	4.93	13.09	16.18	15.93	9.71	12.73	11.14
NASDAQ Composite TR	5.58	13.79	44.64	44.48	6.15	18.94	14.86
Russell 2000 TR	12.22	14.03	16.93	16.60	2.50	10.15	7.18
MSCI EM GR	3.95	7.93	10.27	10.14	-4.10	4.14	3.10
MSCI EAFE GR	5.33	10.47	18.85	18.15	4.35	8.79	4.82
Bloomberg US Agg Bond TR	3.83	6.82	5.53	5.28	-3.27	1.15	1.82

MARKETS

In the month of December, all major equities and fixed income markets rallied. Small cap stocks led the charge, with the Russell 2000 Index returning 12.2%, followed by the Nasdaq Composite Index +5.58%, the Dow Jones Industrial Average Index +4.93%, and the S&P 500 Index + 4.54%. The Dow Jones Industrial Average TR Index and the Nasdaq Composite TR Index hit fresh all-time highs during the month, while the S&P 500 TR Index closed the month less than 1% away from an all-time high previously set on January 3rd, 2022.

Small cap stocks have been rallying on the back of falling consumer price index (CPI) data and bond yields. Small cap stocks have underperformed during the recent rate hiking cycle due to their sensitivity to interest rates. They tend to have a higher percentage of debt and less fixed-rate debt, compared to their large market-cap peers. We are now seeing a bit of a catch-up trade as the markets return-adjust to the changing environment.

For the full year, the Nasdaq Composite TR Index returned 44.64%, the S&P 500 TR Index rallied 26.29%, and the Dow Jones industrial Average TR Index added 16.18%.

THE FED AND RATES

After a tumultuous year of interest rates, the US 10-Year Treasury ended 2023 almost exactly where it started. The US 10-Year Treasury yield closed the final trading day of 2023 at around 3.879%, whereas it closed 2022 at around 3.875%. It is somewhat surprising given that the yield on the US 10-Year Treasury reached 5% for the first time in 16 years just a few months ago.

The reversal was driven by the Federal Reserve's commentary that it is appropriate to begin looking ahead to lowering interest rates in 2024 because of how much inflation has improved over the course of the year. November inflation data showed that the consumer price index (CPI) increased 0.1%, whereas over the last 12 months the all-items index increased 3.1% before seasonal adjustment. Rate cuts would be appropriate to prevent inflation-adjusted or "real" rates from rising by holding nominal rates steady as inflation declines.

WHAT'S NEXT?

- **The new year is a great time to revisit your goals.** If you were fully invested towards your goals this year, congratulations. If you still have investable cash sitting on the sidelines, it is never too late to start putting it to work.
- **There is still time to max out any eligible IRA contribution for the year.** IRA contribution deadlines are by the tax filing deadline (without extensions) – so you have until April 15, 2024 to potentially make a tax-deductible contribution for 2023.
- **Extend, expand, and enhance the traditional 60/40 portfolio.** According to JPMorgan Asset Management's 2024 long term capital markets assumptions (LTCMAs), investors might want to consider extending out of cash and delving deeper within core assets, expanding the opportunity set and enhancing portfolio outcomes through active allocation and manager selection.

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FOOTNOTES:

Past performance is no guarantee of future returns.

The graphs and charts in this commentary are for illustrative purposes only and not indicative of any actual investment. Index returns do not reflect any fees, expenses, or sales charges. Stocks are not guaranteed and have been more volatile than other asset classes. Historical returns were the result of certain market factors and events which may not be repeated in the future. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgement in determining whether investments are appropriate for clients.

The information here is not intended to constitute an investment recommendation or advice.

Sources:

1. Data from Morningstar. Returns over one year are annualized.

Returns are based on the S&P 500 Total Return Index, an unmanaged, capitalization-weighted index that measures the performance of 500 large capitalization domestic stocks representing all major industries. Indices do not include fees or operating expenses and are not available for actual investment. The hypothetical performance calculations are shown for illustrative purposes only and are not meant to be representative of actual results while investing over the time periods shown. The hypothetical performance calculations for the respective strategies are shown gross of fees. If fees were included returns would be lower. Hypothetical performance returns reflect the reinvestment of all dividends. The hypothetical performance results have certain inherent limitations. Unlike an actual performance record, they do not reflect actual trading, liquidity constraints, fees and other costs. Also, since the trades have not actually been executed, the results may have under- or overcompensated for the impact of certain market factors such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. Returns will fluctuate and an investment upon redemption may be worth more or less than its original value. Past performance is not indicative of future returns. An individual cannot invest directly in an index.

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