WealthIQ: December 2023

A Year in Review

Executive Summary: Markets are on track to have a better 2023 than many expected when the year began. S&P 500 returns were led by a recovery in technology stocks, which bounced back after a difficult 2022. However, equity market performance was not equally distributed, with a significant portion of returns attributed to just seven companies (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla). In the bond market, the Barclays US Aggregate Bond Index seesawed between gains and losses as interest rates fluctuated. Within the economy, a vibrant US consumer helped keep the country out of recession, while inflation moderated from 6.5% in December 2022 to 3.1% today.

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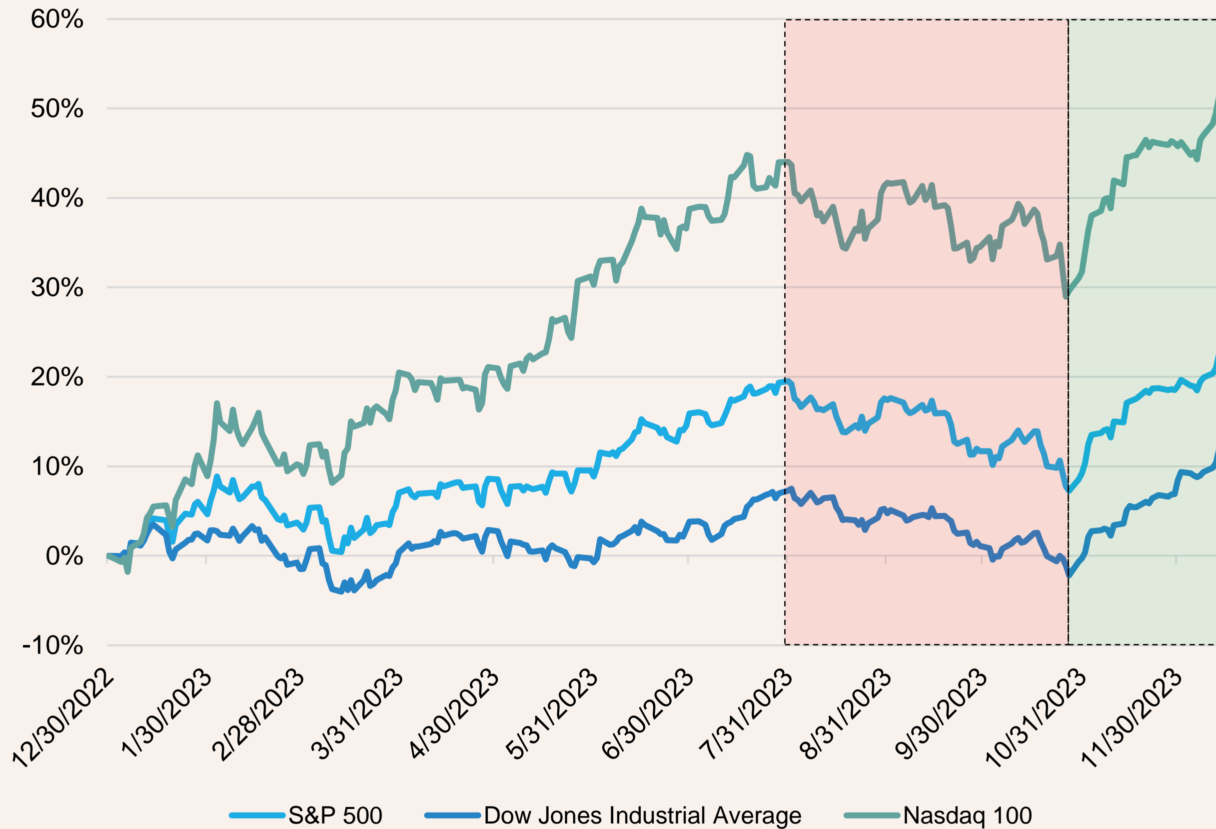
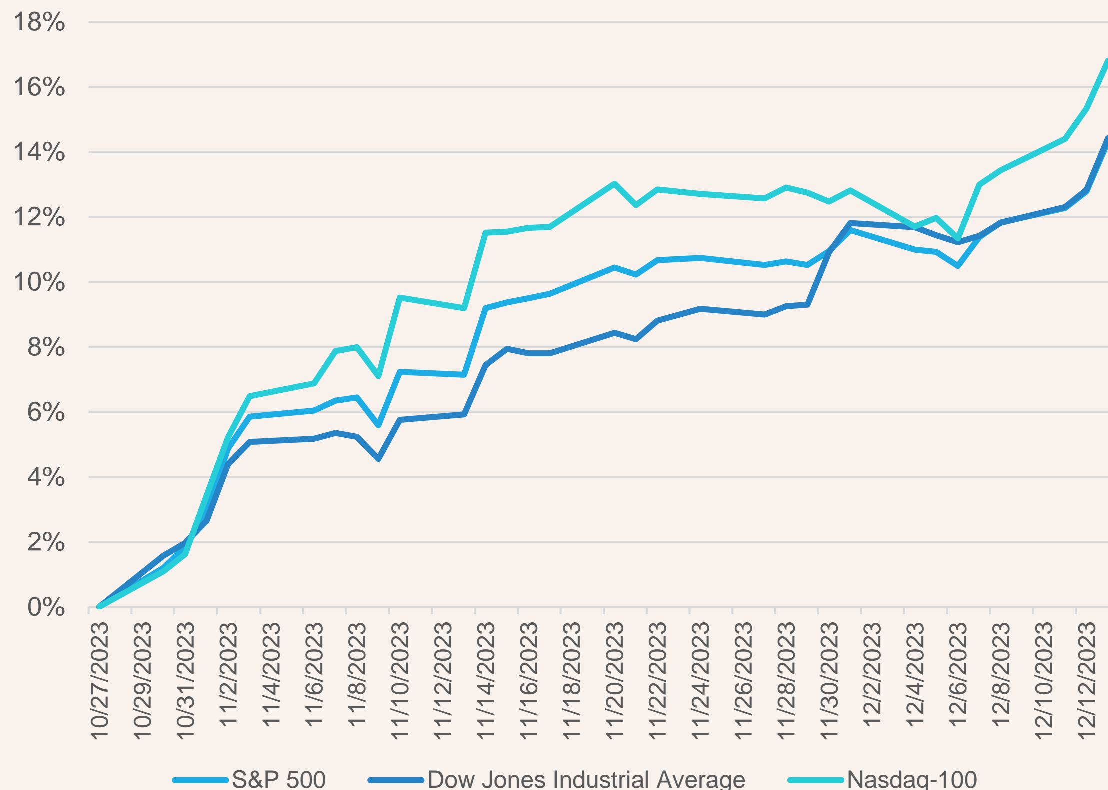
Equities

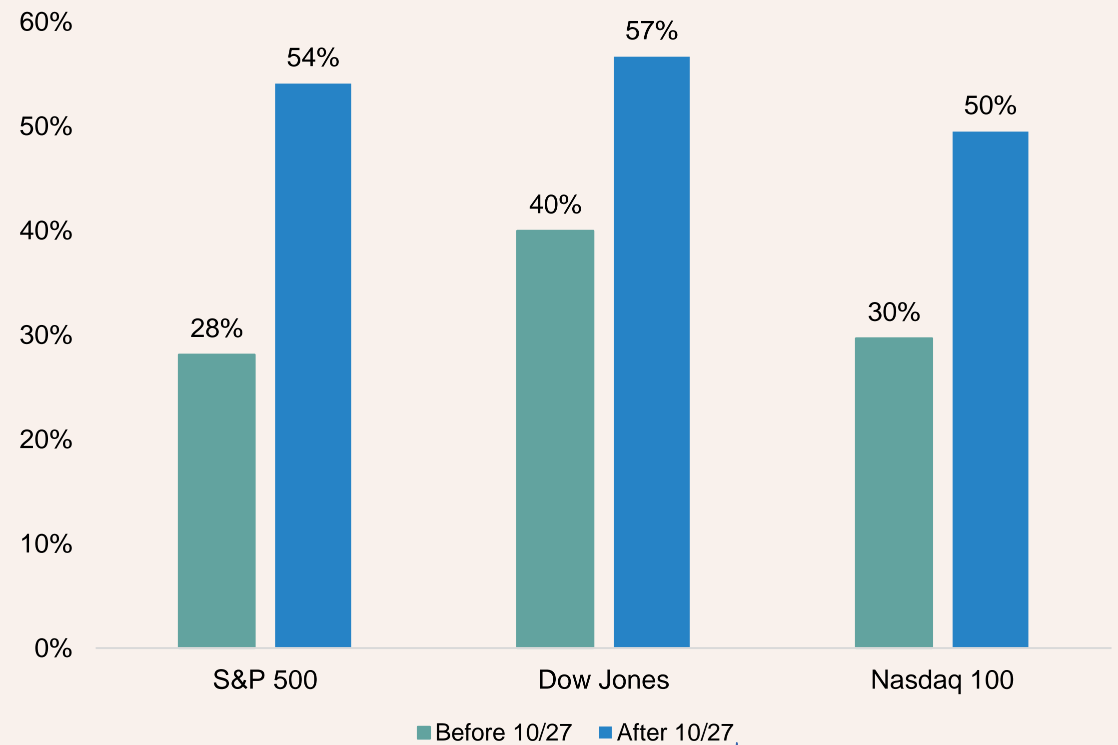
1) In our October WealthIQ, we discussed the (then on-going) pullback in stocks that coincided with rising interest rates (highlighted in red). After a strong first half, stocks took pause as markets grappled with higher bond yields, questions about the path of monetary policy, and concerns about the sustainability of the AI rally. However, just days later and with little warning, markets took a hard right turn, with yields quickly falling and the S&P 500 posting one of its strongest Novembers in the last decade (highlighted in green). From stocks to bonds, several asset classes have experienced a strong rally since the calendar turned from October to November.



Data Source: YCharts, US Department of the Treasury

2) In addition to being broad, the recent rally has also been more even than what was seen earlier in the year. While the tech-focused Nasdaq 100 continues to lead the way, the gap between it and the more balanced S&P 500 and value-focused Dow Jones has remained relatively narrow as of late. Individual stock participation in the rally has also improved within each index. For each of the three major indices, a larger proportion of constituents are outperforming the overall index since October 27th. These broader rallies, in which several stocks lead the index higher rather than a select few stellar performers, are generally considered to be "healthier" for the market.

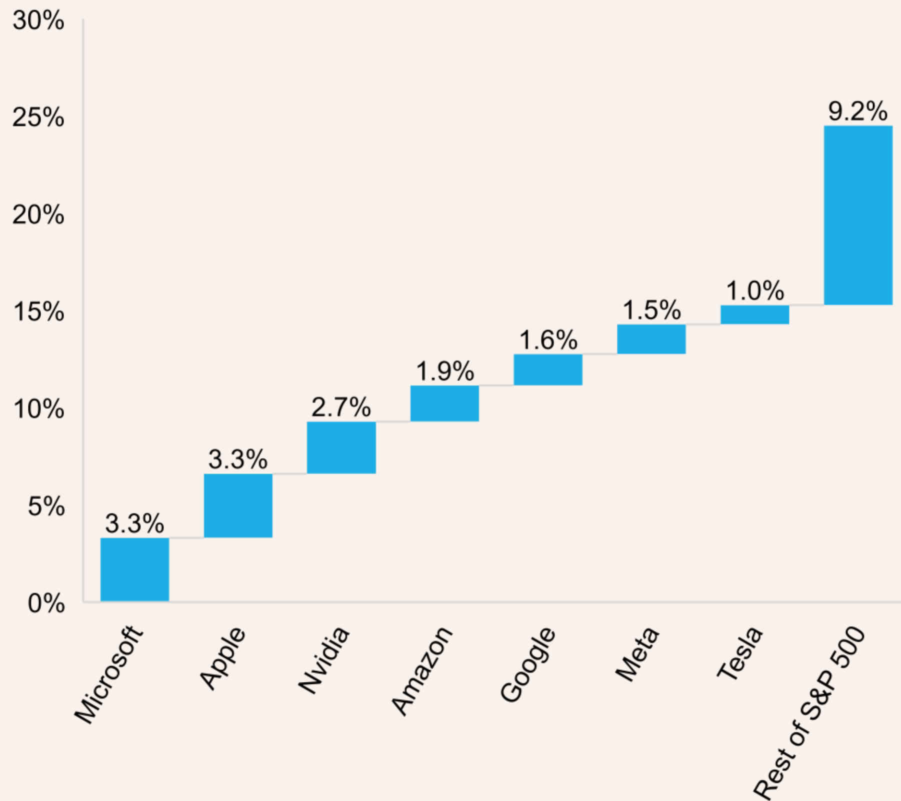


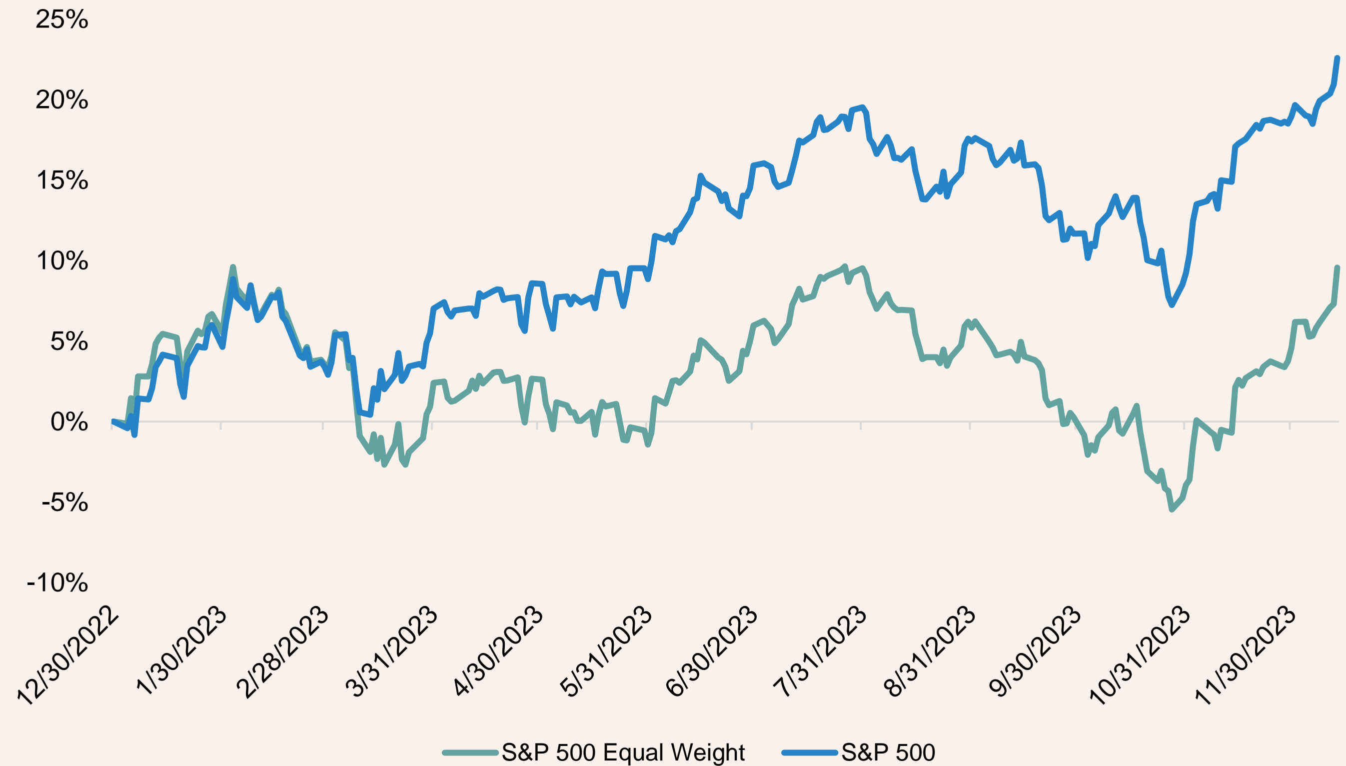


Data Source: YCharts

***: Excludes 2 S&P stocks that were not in the index for the entire period

3) While the performance gap between the S&P 500 and S&P 500 Equal Weight has remained relatively steady in recent weeks, it is still quite large for the year. Much of this gap can be attributed to the "Magnificent 7" tech stocks listed below. Combined, the group has done much of the market's heavy lifting in 2023, accounting for a large portion of the S&P 500's ~24% total return year-to-date. While recent broadening and hopes for lesser reliance on these select high-flyers have been a welcome development, the overall market remains heavily concentrated in, and sensitive to, these large technology stocks.





Data Source: YCharts, Bloomberg, L.P.

4) One drawback of a sharp rally is that it often increases valuations, such as the price-to-earnings ratio (PE). In our October edition, we spoke to the benefits of falling PEs for forward-looking returns as the market fell and earnings grew. However, since the start of the rally, PEs have begun ticking higher once again as prices have risen faster than company earnings. While PEs are not at “concerning” levels just yet for S&P 500 and S&P 500 Equal Weight, it is worth noting they are solidly higher than they were (when we last published a WealthIQ), and the valuation gap between the S&P 500 and S&P 500 Equal Weight remains quite wide.

Forward PE Multiples: S&P 500 & S&P 500 Equal Weight

(12/16/2013 to 12/13/2023)

26
24
22
20
18
16
14
12
10

12/16/2013 12/16/2014 12/16/2015 12/16/2016 12/16/2017 12/16/2018 12/16/2019 12/16/2020 12/16/2021 12/16/2022

S&P 500 BF12 Est — S&P 500 Equal Weight BF12 Est

Data Source: Bloomberg, L.P. Definitions: BF12 Est means Blended Forward 12 Month Estimate

5) As 2024 winds to a close, you are likely to see analyst forecasts for 2024 start to overwhelm financial media. Brash personalities will go on TV to make bold calls, vying for the biggest shock factor and the most eyeballs. In these times, it is important we remember a universal truth of finance: no one knows anything for sure… ever. The loudest voices often are the least informed (or worse, most deceitful), and historically speaking, analysts have an abysmal track record in forecasting short-term stock moves. For the past 3 years, the actual results for the S&P 500 weren't even in the full range of analyst forecasts compiled by Bloomberg. If the market is consistently above the highest, or below the lowest, analyst forecast, how much stock (pun intended) should we put into them when making investment decisions?

S&P 500 Year End Forecasts vs. Actual Results

(2019-2022, YTD 2023)

Actual Year End Result

Analyst Year End Forecast

5400

4900

4400

3900

3400

2900

2020

2021

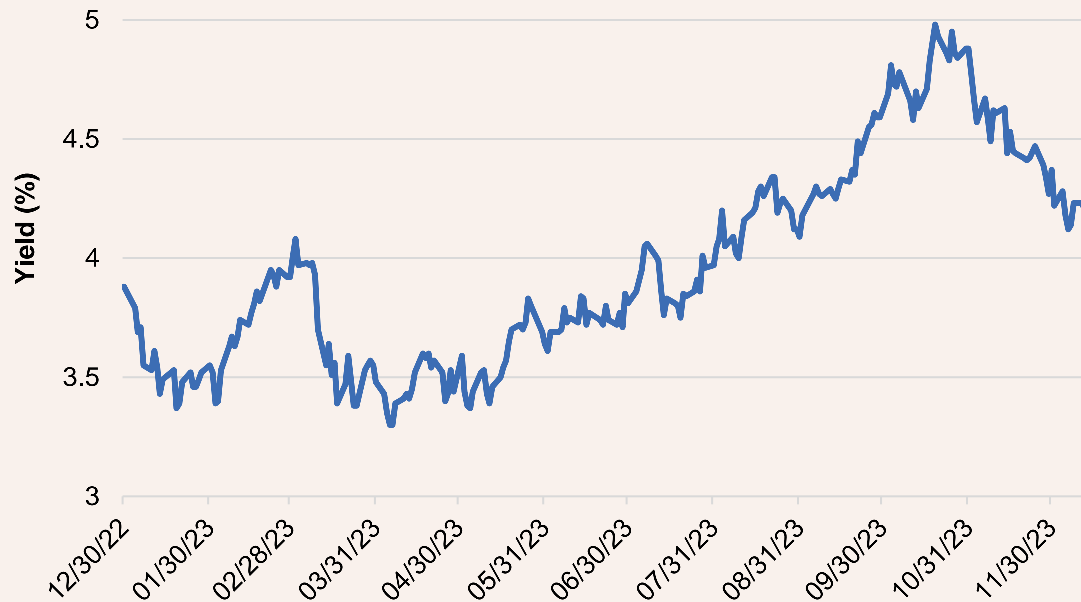
2022

2023***

Data Source: YCharts, Bloomberg, L.P., ***2023 data is year to date

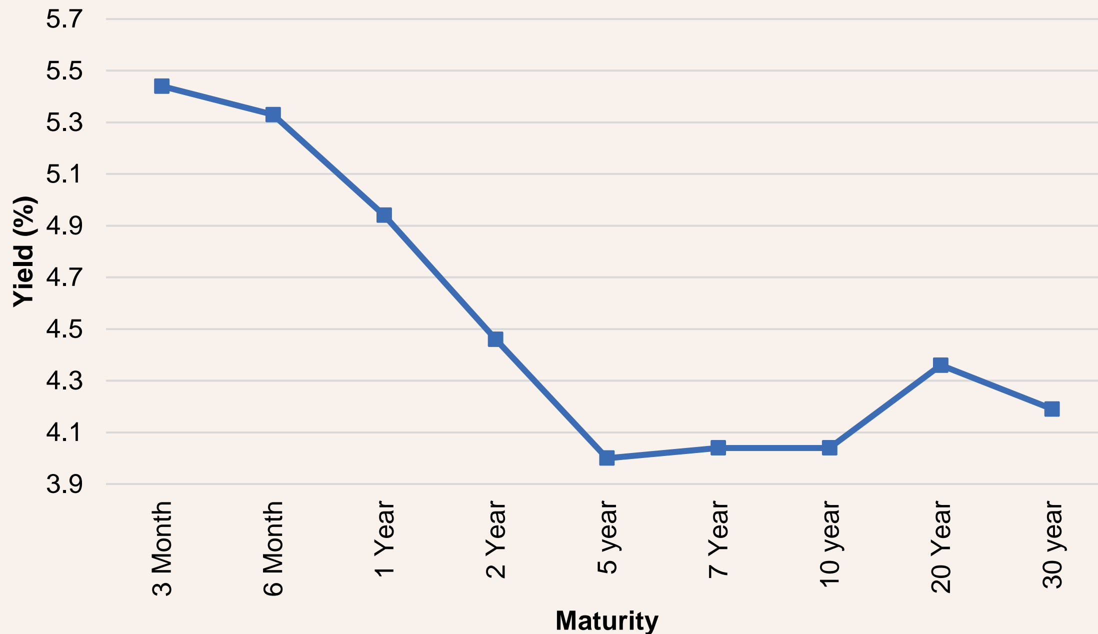
Fixed Income/Economy

1) Interest rates, as measured by 10-year treasuries, fluctuated quite a bit this year. After breaching the 4% level in March, rates quickly fell back to 3.3% in the aftermath of the Silicon Valley Bank failure. From there, yields marched higher, briefly crossing the 5% mark in October. Since then, yields have retreated toward the mid-low 4% range, thanks, in part, to favorable inflation readings, a more balanced labor market, and the belief the Federal Reserve may be done hiking interest rates. For now, the Barclays U.S. Aggregate Bond index is in a position to break a rare two-year losing streak.



Data Source: YCharts

2) As a result of Federal Reserve policy tightening, short-term bonds currently have higher annualized yields than longer-term bonds (left). This is known as an inverted yield curve. As a result, money markets, which typically purchase short-term debt, are offering their highest yields since the 2008 Financial Crisis. This has led to an influx of deposits into these instruments (right). As markets begin to anticipate rate cuts next year, some money market investors may look to transition out of these short-term products and into intermediate-term bonds to 'lock-in' favorable rates for a longer period of time.



Data Source: YCharts; Ycharts; Bloomberg, L.P.; Investment Company Institute (ICI)

3) As noted, markets have started to price in the prospect of rate cuts next year. Current market pricing indicates the highest probability of the first rate cut to occur around mid-year. For markets, the reason behind the rate cuts will likely be important. We believe a rate cut to preserve economic growth as inflation cools will be viewed differently by markets than a rate cut because economic growth has deteriorated. In the meantime, to keep financial conditions from easing too much, the Federal Reserve seems likely to communicate their desire to keep rates higher for longer, with the added promise to do more should inflation reaccelerate.

Fed Funds Futures Implied Rate

(As of 12/13/2023)

Fed Funds rate (%)

5.6
5.4
5.2
5.0
4.8
4.6
4.4
4.2
4.0
3.8
3.6

Market Priced Projection

Current
Jan-24
Mar-24
May-24
Jun-24
Jul-24
Sep-24
Nov-24
Dec-24
Jan-25

Data Source: Bloomberg, L.P.

4) In the meantime, inflation's path back to 2% will likely not be linear. The chart below demonstrates how markets are currently pricing inflation expectations. While the trend is lower, there are likely to be points of choppiness in the next 12 months. This can be seen in the pricing for December 2023 CPI, which is released in January. Markets will likely continue to look at month-over-month readings in addition to the overall trend for signs that abating inflationary pressures are durable. Inflation has fallen from 6.5% in December 2022 to 3.1% today.

Market Implied CPI Inflation Rate

(As of 12/13/2023)

CPI (%)

9.5
8.5
7.5
6.5
5.5
4.5
3.5
2.5
1.5

Market Priced Projection

Jun-21 Jul-21 Aug-21 Sep-21 Oct-21 Nov-21 Dec-21 Jan-22 Feb-22 Mar-22 Apr-22 May-22 Jun-22 Jul-22 Aug-22 Sep-22 Oct-22 Nov-22 Dec-22 Jan-23 Feb-23 Mar-23 Apr-23 May-23 Jun-23 Jul-23 Aug-23 Sep-23 Oct-23 Nov-23 Dec-23 Jan-24 Feb-24 Mar-24 Apr-24 May-24 Jun-24 Jul-24 Aug-24 Sep-24 Oct-24

Data Source: Bloomberg, L.P

5) Food is one area in particular where consumers have felt inflationary pressures over the past couple of years, but relief may soon be here. Futures pricing for many agriculture commodities has declined significantly from highs following the start of the war in Ukraine in 2022. Below, we outline price changes for corn, wheat, and soybeans. As we move into 2024, consumers may start to see more constructive pricing at the supermarket as lower commodity costs should eventually translate to lower prices, or at least, stable prices. In the most recent CPI release, prices for ‘food at home’ rose 1.7% over the past year vs. 12% over the prior year.

Corn Futures

USD/Bu.

850
800
750
700
650
600
550
500
450
400

1/4/2021
1/4/2022
1/4/2023

-44.0%

Wheat Futures

USD/Bu.

1500
1400
1300
1200
1100
1000
900
800
700
600
500

1/4/2021
1/4/2022
1/4/2023

-58.9%

Soybean Futures

USD/Bu.

1900
1800
1700
1600
1500
1400
1300
1200
1100

1/4/2021
1/4/2022
1/4/2023

-26.1%

Data Source: Data as of 12/13/2023; Bloomberg, L.P.

6) Prices have also declined in energy commodities. Retail gasoline is nearing its lowest level over the past two years (far left). Natural Gas, which about 60% of U.S. homes use for cooking, drying clothes, and space and water heating, has also seen significant price declines. Additionally, after years of recovery from pandemic declines, the United States is producing more barrels of oil per day than ever before. These price declines and increased oil supply provide yet another example of improved pricing dynamics for common commodities consumed by many American households.

AAA Daily National Average Gasoline Prices- Regular

$ per Gallon
5.5
5
4.5
4
3.5
3
-38.1%
1/1/2022 3/1/2022 5/1/2022 7/1/2022 9/1/2022 11/1/2022 1/1/2023 3/1/2023 5/1/2023 7/1/2023 9/1/2023 11/1/2023

Natural Gas

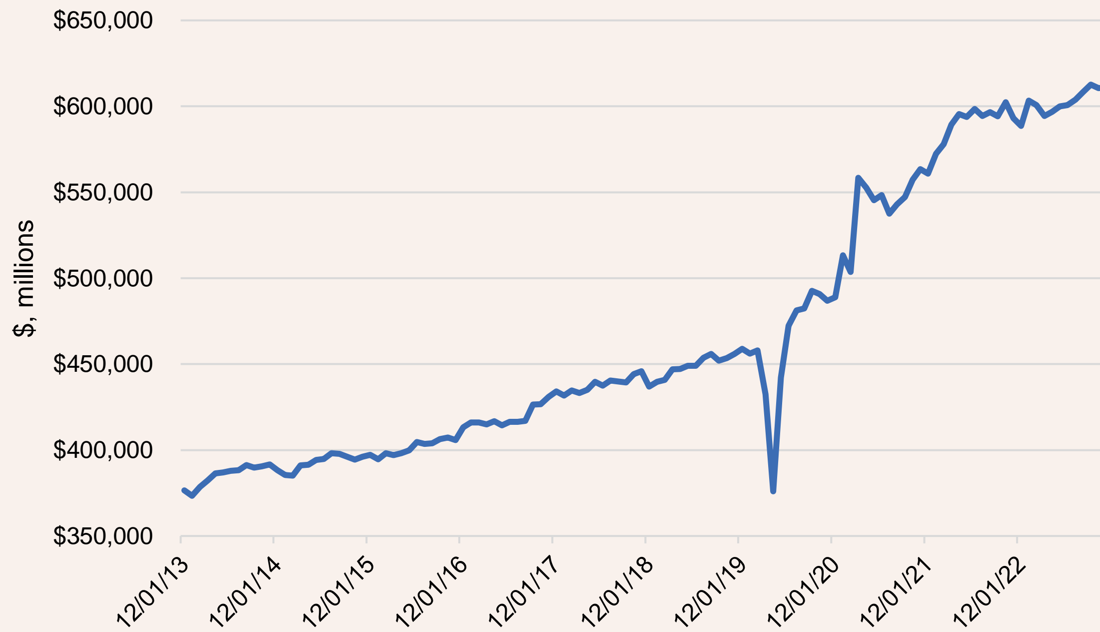
USD/MMBtu
12
10
8
6
4
2
0
-76.1%
1/1/2022 3/1/2022 5/1/2022 7/1/2022 9/1/2022 11/1/2022 1/1/2023 3/1/2023 5/1/2023 7/1/2023 9/1/2023 11/1/2023

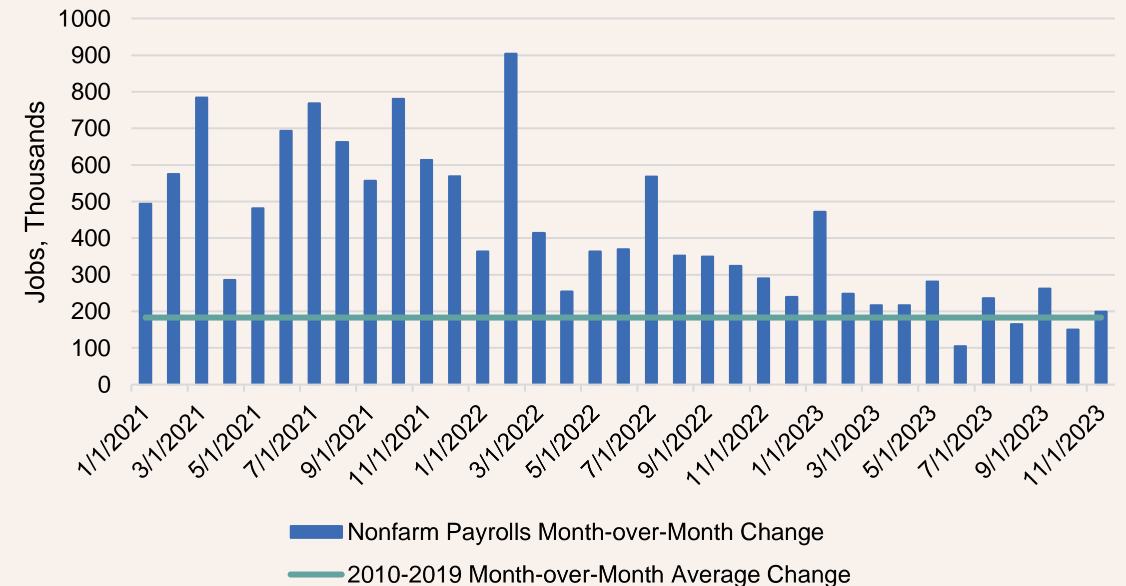
US Oil Production

('000 Barrels Per Day)
13900
12900
11900
10900
9900
8900
7900
6900
5900
4900
3900
3/1/1950 8/1/1953 1/1/1957 6/1/1960 11/1/1963 4/1/1967 9/1/1970 2/1/1974 7/1/1977 12/1/1980 5/1/1984 10/1/1987 3/1/1991 8/1/1994 1/1/1998 6/1/2001 11/1/2004 4/1/2008 9/1/2011 2/1/2015 7/1/2018 12/1/2021

Data Source: AAA Daily National Average & Natural Gas data as of 12/13/2023; Oil Production reported quarterly ending 09/30/2023; Bloomberg, L.P.

7) Consumer strength may be one of 2023's biggest surprises. Retail sales have remained firm thanks in part to a 'fully employed' America, with an unemployment rate of 3.7%. For comparison, the unemployment rate averaged 6.2% from January 2010 to December 2019. While recent labor data has shown signs of cooling (which has been a desired consequence of the Federal Reserve's tightening), metrics such as monthly nonfarm payroll changes have merely returned to 'average' levels pre-pandemic. With personal consumption accounting for roughly 2/3 of U.S. GDP, consumer resiliency will likely remain an important metric to watch in 2024.





Data Source: Retail Sales and Nonfarm Payrolls data as of 11/30/2023; YCharts; Bloomberg, L.P.

8) Time will tell whether the Federal Reserve will be able to cool inflation without causing a recession. Colloquially referred to as a ‘soft landing’ of the economy, search interest for this term has increased as the year has gone on. Recently, in financial media, it has become common to see multiple stories a day mention the prospects of such a scenario. While certainly a rare achievement, it has happened before as the Federal Reserve was able to raise interest rates without triggering a recession during the mid-1990s. Considering where things stood last year, we believe it would be an outstanding accomplishment if this Federal Reserve can pull off a similar feat.

Google Search Interest for Term 'Soft landing'

100
90
80
70
60
50
40
30
20
10
0

12/1/2018 3/1/2019 6/1/2019 9/1/2019 12/1/2019 3/1/2020 6/1/2020 9/1/2020 12/1/2020 3/1/2021 6/1/2021 9/1/2021 12/1/2021 3/1/2022 6/1/2022 9/1/2022 12/1/2022 3/1/2023 6/1/2023 9/1/2023 12/1/2023

Data Source: Google Trends

Bonus Slide:
Holiday Season Edition

Clothing/Apparel: +1.1%

Toys: -2.8%

Books: +0.2%

Video Disks & Other Media: +7.8%

Food: +2.9%

Candy: +6.2%

Personal Care Products: +4.3%

Price Change for Top Holiday Gifts Over The Past Year

Data: November CPI Report, Published December 12, 2023; National Retail Federation

Data Source: Bureau of Labor Statistics, November 2023 CPI Report; National Retail Federation

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Last month, Marshall's Chief Investment Officer, Adam Reinert, CFA, CFP® joined *Trading 360* on the Schwab Network and the *Markets Now* segment on Reuters TV to discuss the current landscape of markets and economy, including the Federal Reserve and U.S. consumer.

You can join Adam and Sean Dann, CFA, weekly on the Off Street Podcast as they discuss current market, economic, and other interesting stories making the news. Off Street is available on Apple Podcasts, Spotify, and most other major streaming platforms.

Interested in sending our investment team a note? Please send an email to wealthiq@marshallfinancial.com.

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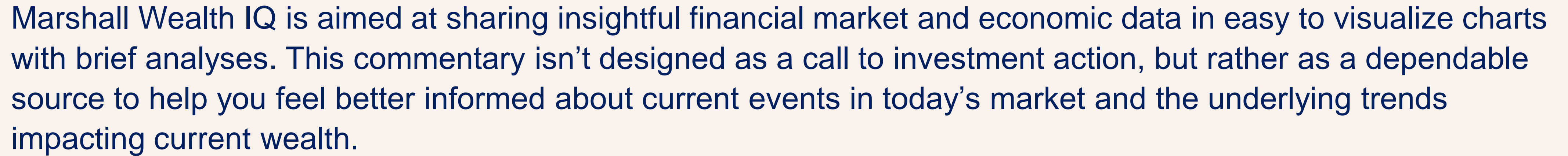

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It’s impossible for anyone to know with certainty what will happen today, tomorrow, or even a minute from now. Investment involves risk and volatility; it’s why long-term investors have historically been rewarded with excess returns relative to cash. Our investment department monitors market data and works with our wealth advisory teams to right-size portfolios should something change relative to long-term trends. In the meantime, we’ll continue to share financial and economic data we believe is insightful and relevant to your wealth to help you feel informed.

Thank you for reading; please be well.

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