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REVIEW & COMMENTARY

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As everybody probably knows by now, U.S. equity markets did very well in 2023 with the S&P 500 Index up 26.29%.

Is Change Afoot?

Casting about for some catchy way to start another market commentary, I thought about a line iconic character actor Wilford Brimley, uttered in one film. It went something like this: "I get paid to be suspicious when I don't have anything to be suspicious about."

That, in a nutshell, is a decent definition of what a good money manager does for his clients – be suspicious about the current environment and wonder if change is afoot.

As everybody probably knows by now, U.S. equity markets did very well in 2023 with the S&P 500 Index ("S&P 500") up 26.29%. Most people also know the gains mostly came from several mega-cap tech/communications services companies (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla). Dubbed the "Magnificent Seven," they accounted for about 62.20% of last year's gains according to S&P Global while the remaining S&P "493" gained 9.94%. The equal-weight S&P 500 Index (in which all 500 companies have the same weighting) went up a more modest, but still strong, 13.87%.

It is wise to remember the "Seven," generally had a bad year in 2022. It also helps to remember what investors thought of markets a year ago – that we were facing a recession, and probably a banking crisis, and we had little clue as to whether interest rates would stop rising. So, companies that 1: could grow despite a slowing economy and 2: were generally self-funding and had no serious needs for bank financing would do well. This generally describes the "Seven," and they did well in that environment.

The first few days of 2024, at least, have been a different story with the S&P 500 down 1.25% and the "Seven" down 0.29% (Nvidia) to 5.42% (Apple). An immeasurable, but significant, reason for the drop was the result of selling by investors who had big gains in 2023 and wanted to defer them so taxes don't need to be paid on them until 2025.

But we also are facing a different set of assumptions about the year ahead. We seemed to have dodged an imminent recession, the banking crisis didn't spread beyond a few banks, and interest rates seem poised to plateau and fall. There remain a host of things to worry about as we enter the new year. (over)

Here's our list, probably incomplete, of things of concern just in the early part of the year.

- Budget impasse in Congress starting again in mid-January.
- Whether the upcoming Taiwanese election will prompt further aggression by China.
- Fourth-quarter earnings and probably more important, 2024 guidance coming out soon.
- "So goes" market lore – whether the "Santa Claus rally," the "first five days of January" and whether the whole month is up or down could change investor psychology about the full year.
- Iowa caucus and whether Republican presidential field narrows.
- Trump trials beginning in January.
- Rising rates cause debt service issues for the U.S. or result in higher for longer interest rates.
- Mid-East turmoil sparking dramatic rise in price of oil and gas and perhaps other goods.
- Employment figures coming out worse than expected.
- Consumer spending, about 70% of the economy, coming out weaker than expected.
- Inflation remaining above 2% target, causing questions about falling interest rates.
- A major cybersecurity event of some type.

Certainly, markets already reflect some of these concerns and many of them probably won't come to pass as well. It is wise to remember that similar worries have existed for decades and equity markets continue to rise much more often than they fall. Markets always seem to be in battle but ultimately, they are governed by two things: numbers and human emotion. The numbers are pretty obvious: revenues, earnings, cash flows and interest rates. Human emotions that drive investors are pretty obvious as well: fear and greed. As those of you who have trusted us with your investments for years know, we consider both. Studying a company's fundamentals helps us find the "growth at a reasonable price" companies we have long looked for and studying market technical data helps us determine when the time is right to buy or sell.

As always, we are here to help with whatever investment questions you might have.