Investment Advisors, Inc.
Integrity • Independence • Insight

4th Quarter, 2023

Markets At A Glance

Period	S&P 500	DJIA	MSCI EAFE	MSCI Emerging Markets	Barclays Intermediate Govt/Credit	Barclays 1-15 Yr Muni	INFLATION (CPI)
4th Quarter	11.7%	13.1%	10.4%	7.9%	4.6%	6.4%	0.5%
12 Months	26.3%	16.2%	18.2%	9.7%	5.2%	5.3%	3.6%

Stock and bond markets finished 2023 with very strong fourth quarter gains as investors shifted gears and started pricing in expectations for lower interest rates in 2024. The broad stock index gains were heavily impacted by extremely strong returns from a handful of mega cap stocks. Outside of this small group, the rest of the large cap stock universe provided solid gains. The yield on the 10-year U.S. Treasury note reached 5% in 2023, but ended a very volatile year at 3.9%, right where it started.

The U.S. economy held up much better than anticipated and has avoided the very widely predicted recession. Strong consumer spending helped by a tight labor market has been one of the keys to the unexpected economic strength. The Fed continued to raise rates through mid-year. The interest rate hikes are having the intended effect of slowing the economy and lowering inflation, which, while still elevated, has declined meaningfully from the recent peak in mid-2022. Corporate earnings held up better than expected and headed into 2024 on the upswing. We may look back on 2023 as the year the economy finished climbing out of the hole created by the pandemic.

As always, there are many potential risks in 2024 including a possible government shutdown early in the year and the U.S. election later this year. And it is not just the U.S., as by one count over 40% of the world's population will vote in national elections this year. The impact of politics on the markets is hard to predict and rarely follows consensus expectations. Our experience has been that the best way to achieve your financial objectives is to focus on long-term fundamentals for the economy and corporate earnings. Trying to trade or position portfolios to reflect political views almost never works and quite often misses out on substantial market gains.

Expectations were quite low heading into 2023 and markets surprised to the upside. Expectations are very positive heading into 2024, which may be setting markets up for a near-term pullback. The U.S. economy is slowing, the Fed is on hold, and inflation continues to moderate. It appears that there is a good chance that growth will remain positive, and a recession can be avoided. Corporate earnings have come in better than anticipated so far and the outlook is for continued solid growth in 2024. Solid growth in earnings combined with more certainty around the path for interest rates would provide the basis for further market gains in 2024.