# Sucré-Vail Wealth Advisors®

Achieving Financial Wellness without Unnecessary Risk

As we come into the home stretch of 2023, I hope everyone will get some well-deserved downtime with friends and family over the holidays. Before we do, please find below our partners' latest thinking on the economy, markets, and portfolios. As usual, below is an article that may be interesting to you.

Current events around the world continue to add uncertainty and volatility to markets. Geopolitical tensions, an election cycle heating up in the US, federal debt levels, and inflation are all areas of focus for investors. Our partner SEI Private Trust and the managers such as City National Rochdale remain steadfast in making our investment decisions based on fundamentals, not headline news, and guiding clients to stay focused on their financial plans rather than short-term market movements.

Within the equity markets, the recent rally has certainly been welcomed after an extended period of volatility. The breadth of this recent rally suggests that it may have more lasting power than the gains earlier in the year that were concentrated in a small group of large technology companies, but valuations are now at levels that suggest we may see additional volatility in the coming months. They continue to favor US large cap companies, where the analyst believes the resilience of the US consumer and expanding profit margins will be the main drivers of healthy earnings growth in 2024.

On the fixed income side, interest rates are down from their recent highs, but investment grade bonds continue to look attractive relative to what is being offered in traditional bank deposit accounts. Now might be a time to take advantage of the compelling returns that fixed income still has to offer. Expectations are growing for the Fed to cut rates aggressively in 2024, and the analyst are more restrained here, not expecting rate cuts until the second half of 2024, mostly due to the slow progress of inflation reaching the Fed's desired 2% target level.

Regarding year-end actions, a final reminder to make sure if we don't manage your IRAs to satisfy required minimum distributions (RMDs) from Traditional IRAs, as well as tax strategies such as gifts to charity or Roth IRA conversions. Thank you for your continued trust in and partnership with us.

## CURRENT EVENTS

While the conflict between Israel and Hamas persists, attention has shifted more recently to inflation and expectations for the Federal Reserve's next move with interest rates. The money managers expect that the geopolitical conflicts around the world and the 2024 US Presidential election will continue to grab headlines and drive short term volatility but will not cause a major disruption to economic activity.

Congress has a heavy workload over the coming months, as they'll need to come to a budget agreement for the next fiscal year. If they don't, it will lead to automatic spending cuts that will take effect in May, which could present a headwind to economic growth in 2024. While deficits have run large and boosted economic growth over the past few years, this positive impact from fiscal policy is expected to slow going forward.

It is important for investors to remember that short-term market volatility is normal. The underlying economic fundamentals are the most important driver of financial market performance and should be the center of our focus when making investment decisions.

## ECONOMIC OUTLOOK

Data continues to show that the labor market is strong but slowing. The number of job openings has declined throughout 2023 but is still sufficient to support the growing number of people entering the labor force. This is keeping the unemployment rate low (3.7%), and average hourly earnings slightly above average (4.0%). Consumer spending has been quite strong over the past year, supporting strong economic growth, but the money managers believe this will moderate in the year ahead due to lack of further government stimulus, the impact of higher interest rates, and more cautious lending from financial institutions.

Many market participants believe the Fed will cut interest rates in early 2024, maybe as early as March. However, the analysts are not in that camp and believe the Fed will not cut rates until late 2024 at the earliest. Inflation remains elevated at 4.0% Core and 3.1% Headline, with the cost of housing remaining the biggest hurdle to seeing these numbers move even lower. Housing and other “services” prices tend to be sticky and slow to adjust, further supporting the analysts view that it will take longer for the Fed to achieve their desired 2.0% inflation target.

## FINANCIAL MARKETS

Equity markets have rebounded nicely over the past six weeks, in large part due to anticipation of interest rate cuts by the Federal Reserve. Lower energy prices, resilient consumer spending, and projections of healthy corporate profit growth in 2024 are also reasons for optimism. While the money managers continue to see opportunities in many parts of the equity market, they are keeping a close eye on valuations after this recent rally, and continue to believe that high quality, US large cap stocks are currently the best place to be.

Fixed income markets have also been volatile of late, with interest rates coming down based on expectations of Fed rate cuts next year. The analysts do expect default rates to modestly increase from the historic lows seen in the past couple of years, but these should be manageable without causing major disruption, especially in the US economy. Even with the recent decline in yields, the total return opportunity in both investment grade and high yield fixed income is more attractive than we’ve seen in many years.

## Why the Fed's dire predictions for 2023 didn't come true

The U.S. Federal Reserve started 2023 on a grim note, but it ends with the Fed registering faster-than-expected progress on inflation that occurred with virtually no rise in the jobless rate and an economy that grew fully five times faster than the 0.5% policymakers anticipated a year ago. Rate cuts are now in the offing. What happened?


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