

RIEDEL  
Family Wealth Advisory  
*of*  
**RAYMOND JAMES®**

**January, 2024**

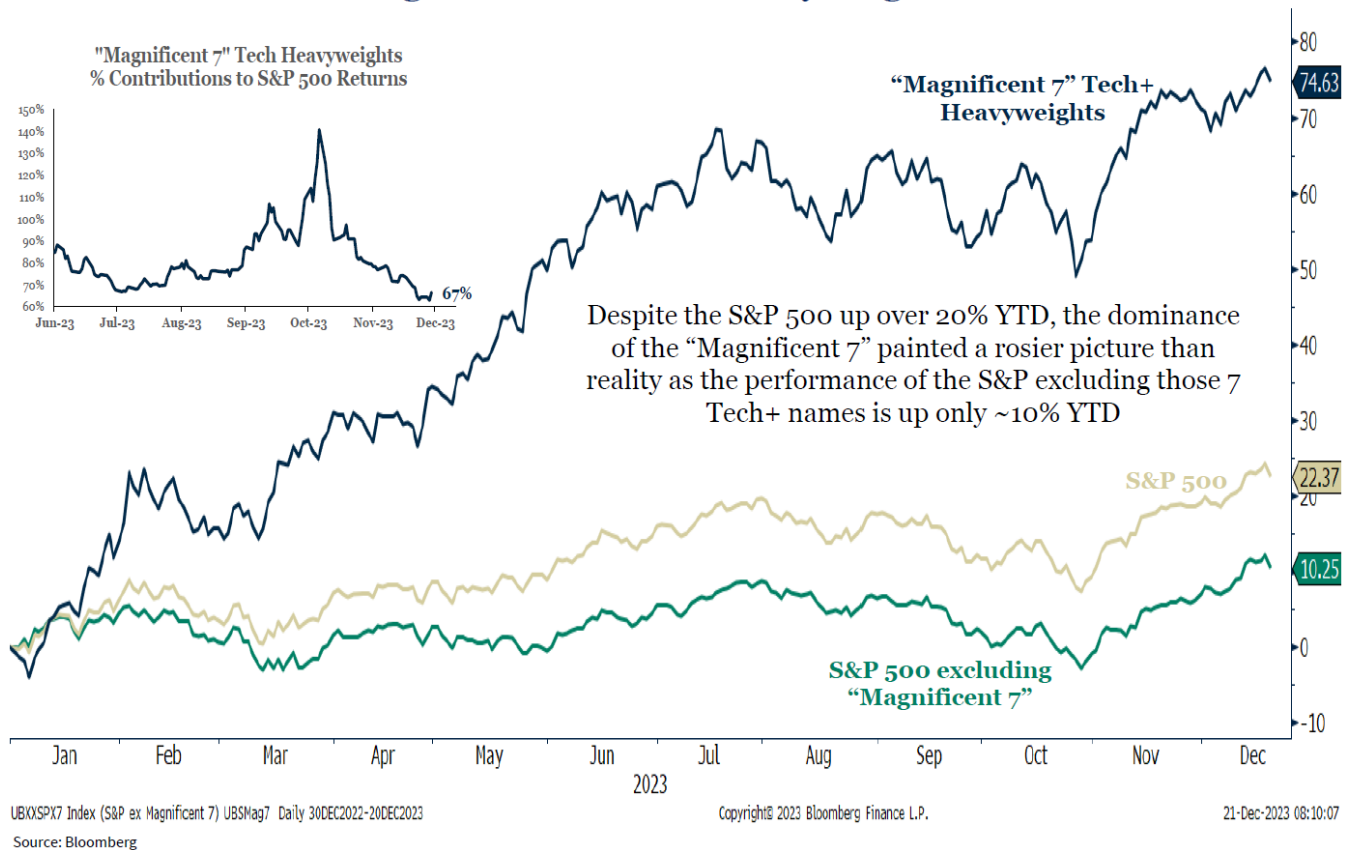
**2023 was a great year for stocks and bonds**, as US growth was resilient, led by a strong labor market and consumer spending. After surging to a 40-year high in 2022, inflation declined throughout the year. Declining inflation and a robust economy were a good combination for the equity markets. The Federal Reserve (Fed) raised interest rates aggressively in 2022 and 2023—eleven times—from 0.0% to their target rate of 5.25% - 5.50% but paused interest rate hikes in July, 2023.

Stocks and bonds reacted positively, and in the last two months of the year, stocks surged and the yield on the 10-year US Treasuries fell from a peak of 5.0% to 3.90%. The performance was staggering given that the general consensus at the beginning of the year was for a recession and muted stock market returns. The average forecast for 2023 by analysts from leading investment firms was for the S&P 500 Index to return 6.0%. The Index returned 26.4% in 2023. An interesting quote by Warren Buffett was found in *Morningstar's 12 Lessons the Market Taught Investors in 2023*. The quote by Buffett is, "We have long felt that the only value of stock forecasters is to make fortunetellers look good. Even now, Charlie [Munger] and I continue to believe that short-term market forecasts are poison and should be kept locked up in a safe place, away from children and also from grown-ups who behave like children in the market." Charlie Munger died in 2023 just shy of his 100<sup>th</sup> birthday—may he rest in peace.

**The 26.4% return of the S&P 500 Capitalization Weighted Index, led by the Magnificent 7, outpaced the 11.65% return of the S&P 500 Equal Weighted Index. Artificial Intelligence (A.I.) was the story of the year**, as the Magnificent 7—Nvidia, Meta Platforms, Amazon, Apple, Alphabet (Google), Microsoft, and Tesla—accounted for over 60% of the return of the S&P 500 Cap-weighted Index. Those 7 stocks now make up over 30% of the value of the S&P 500 Index. Together, the capitalization of five of the Magnificent 7 stocks—Apple, Microsoft, Alphabet, Amazon, and Nvidia—is bigger than the total market capitalization of several countries—Japan, China, France, and the UK-combined.

**While the Magnificent 7 companies are outstanding US companies, they now trade at very lofty valuations. We would look for the market to broaden out in 2024.** There are many great companies trading at reasonable, and in some cases, cheap valuations. Many dividend paying companies look attractive now. They were ignored for the most part in 2023. **It is worth repeating that dividends have added significantly to the long-term return of the S&P 500. For the past 30 years, nearly half of the Index return has come from the reinvestment of quarterly dividends. Dividend paying companies tend to perform well when interest rates decline. We would focus on select, high-quality companies that have the ability to raise dividends over time.** The only companies in the Magnificent 7 that pay dividend are Apple and Microsoft. These two companies have been paying dividends since 2012 and 2003, respectively.

## 2023: Year of the “Magnificent 7” Tech Heavyweights



Company	Closing Price 12/31/2021	Closing Price 12/31/2022	Closing Price 12/31/2023	% Return 2022	% Return 2023	2-Year Return
Alphabet	\$ 144.85	\$ 88.23	\$ 139.69	-39.09%	58.32%	-3.56%
Amazon	\$ 166.72	\$ 84.00	\$ 151.94	-49.62%	80.88%	-8.87%
Apple	\$ 117.57	\$ 129.93	\$ 192.53	10.51%	48.18%	63.76%
Meta	\$ 336.35	\$ 120.34	\$ 353.96	-64.22%	194.13%	5.24%
Microsoft	\$ 366.32	\$ 239.82	\$ 376.04	-34.53%	56.80%	2.65%
Nvidia	\$ 294.11	\$ 146.14	\$ 495.22	-50.31%	238.87%	68.38%
Tesla	\$ 352.26	\$ 123.18	\$ 248.48	-65.03%	101.72%	-29.46%
S&P 500	\$ 4,766.18	\$ 3,839.50	\$ 4,769.83	-19.44%	24.23%	0.08%

Small-, mid-cap companies, value, and dividend-paying companies’, returns lagged throughout 2023 when compared to large Growth companies. It wasn’t until November 2023 that the market started to broaden out. In looking at research from *Bespoke Investment Group*, we were reminded that the 50 worst performing stocks in 2022 had an average gain of 50.2% in 2023. The 50 best performing stocks in 2022, had an average gain of 6.2% in 2023. Among the biggest laggards in 2023 were utilities, consumer staples, and healthcare. Technology, +56%, and Communication Services, +54%, were the top performing sectors in 2023 after being the worst performing sectors in 2022—Technology down 28.2% and Communications Services down 37.0%. It is incredible, given the

outstanding returns of the markets in 2023, that the level of the S&P 500 Index is only slightly above its level in early 2022.

**Growth outperformed Value in 2023 across large-, mid-, and small-cap companies by a wide margin.**

10-year annualized				2023			
	Value	Blend	Growth		Value	Blend	Growth
Large	8.4%	12.1%	14.9%	Large	11.5%	26.3%	42.7%
Mid	8.3%	9.5%	10.6%	Mid	12.7%	17.2%	25.9%
Small	6.8%	7.2%	7.2%	Small	14.6%	16.9%	18.7%
Since market peak (February 2020)				Since market low (March 2020)			
	Value	Blend	Growth		Value	Blend	Growth
Large	31.0%	50.0%	63.5%	Large	111.8%	126.5%	138.6%
Mid	31.3%	34.0%	31.8%	Mid	132.1%	124.4%	105.0%
Small	34.4%	26.2%	15.1%	Small	136.3%	112.6%	87.1%

Current P/E vs. 20-year avg. P/E			
	Value	Blend	Growth
Large	14.9 / 13.7	19.5 / 15.6	26.5 / 18.9
Mid	15.0 / 14.5	17.1 / 16.4	26.4 / 20.5
Small	16.3 / 16.7	21.9 / 21.3	34.5 / 26.6

Current P/E as % of 20-year avg. PE			
	Value	Blend	Growth
Large	108.9%	125.2%	140.3%
Mid	103.4%	104.7%	128.6%
Small	97.4%	102.8%	129.7%

Source: FactSet, Refinitiv Datastream, Russell Investment Group, Standard & Poor's, J.P. Morgan Asset Management. All calculations are cumulative total return, including dividends reinvested for the stated period. Since market peak represents period from 2/19/2020 to 12/31/2023. Since market low represents period from 3/23/2020 to 12/31/2023. Returns are cumulative returns, not annualized. For all time periods, total return is based on Russell style indices except for the large blend category, which is based on the S&P-500 Index. Past performance is not indicative of future returns. The price-to-earnings is a bottom-up calculation based on the most recent index price, divided by consensus estimates for earnings in the next 12 months (NTM) and is provided by FactSet Market Aggregates and J.P. Morgan Asset Management. Guide to the Markets – U.S. Data are as of December 31, 2023.

**J.P.Morgan**  
ASSET MANAGEMENT

**Real Estate Investment Trusts (REITs)**, as measured by the FTSE NAREIT Index, rallied in 2023. After a strong gain of 17.98% in the 4<sup>th</sup> quarter, REITs finished the year with an 11.36% gain.

**International stocks had a good year but returns varied widely by country and region.** The MSCI EAFE Index (Europe, Asia and the Far East) returned 18.24% for the year, led by Japan, France, and Germany in the developed markets, as well as Brazil, India, and Taiwan in the emerging markets. The economy in China continues to struggle and the stock market in China was down 11.0% for the year (in US Dollars). We were listening to Kyle Bass, a well-known expert on China, who reminded us that if one had invested in the Chinese stock market fifteen years ago, today, they would have lost a third of their investment. There may be an opportunity to invest in China at some point, but long-term it is hard to make a case for investing in Communism.

**The bond market**, as measured by the Bloomberg US Aggregate Bond Index, returned 5.53% for the year. **We believe that interest rates have further to fall; however, we aren't expecting a return to the abnormally low interest rates of the past decade. We encourage investors to extend maturities. Cash and short-term Certificates of Deposit have been attractive for the past two years as the Fed has been raising interest rates.** If

we are right, and the Fed lowers interest rates this year, we should see the yield on short-term CDs and Money Market funds decline.

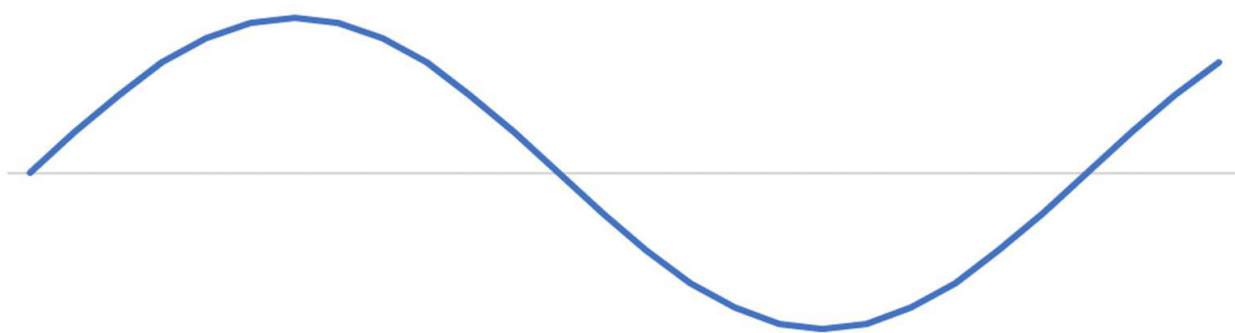
**2023 was an outstanding year for US and foreign markets. We are optimistic going into 2024 and we anticipate lower interest rates and a higher stock market by year end. Given the acceleration in returns in the 4<sup>th</sup> quarter of 2023, we wouldn't be surprised if the market consolidated those gains for a few months in early 2024. It may, again, be a tale of two halves, where economic activity and stock markets are muted in the first half of the year, only to post a strong recovery in the second half. There are multiple reasons for our optimism as we progress through 2024.**

**Inflation has peaked** and should continue its downward trend. With the exception of shelter costs, year-over-year inflation for CPI and Core CPI peaked in the fall of 2022. Shelter costs—rent and the cost of housing—are a lagging indicator, and we expect those costs to continue to decline. There are currently 1.68 million rental units under construction. This should take the pressure of rental prices.

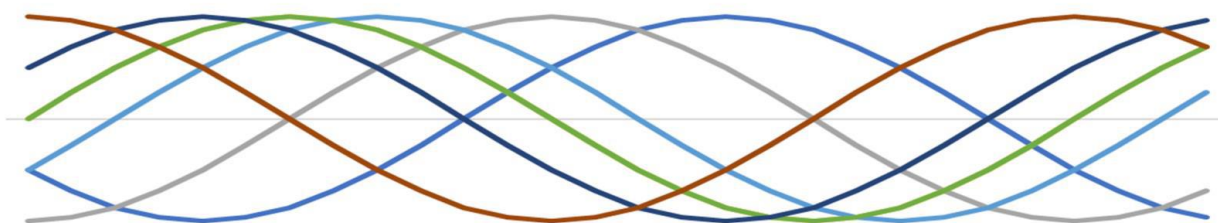
**Food and energy prices are in decline**, although the tragic wars in the Middle East and Ukraine may cause volatility in supply and prices of energy. Economic activity is decelerating; however, we don't believe the economy is headed to recession in 2024. We look for economic growth of 2.0 – 3.0% in 2024. This should keep inflation in check.

Since the Pandemic, we have been in a very different world. **Our economy has historically been one large sine wave**; however, since the pandemic different parts of the economy have been operating through business cycles at different times.

Computer Algos And Humans Are Used To Equities That React To  
An Economy That Is Essentially One Large Sine Wave



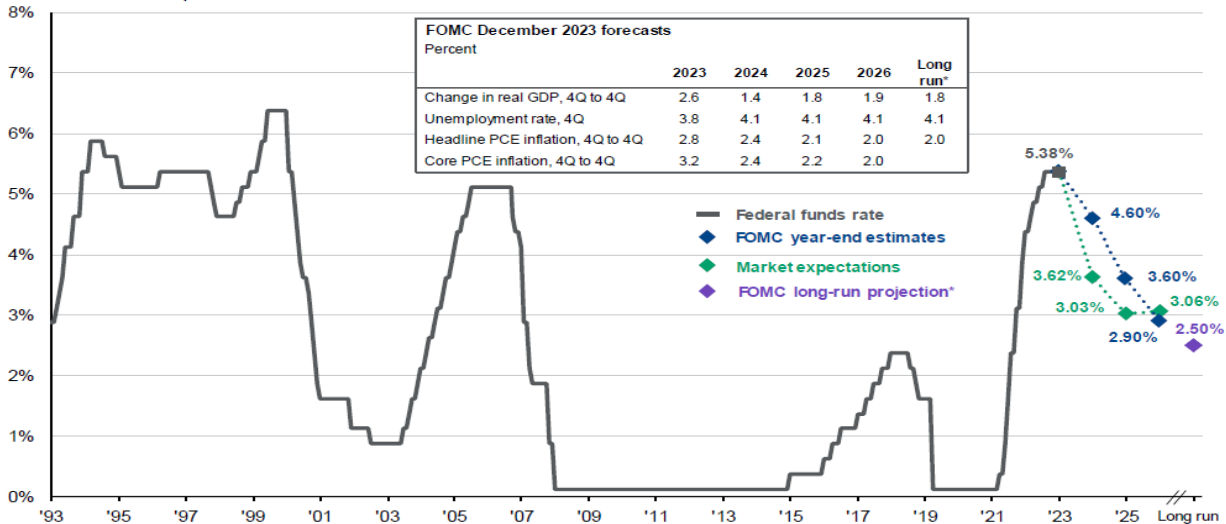
But In The Post Pandemic World We Have This



**The Fed** has signaled that it may be done raising interest rates but is not in a hurry to lower them. We expect the Fed will be in a position to gradually lower interest rates by the middle of 2024, but we expect interest rates to stay higher for longer. We are not anticipating a return to 0.0% interest rates. **The debate over when the Fed will begin to lower interest rates and by how much will continue as the year progresses.**

#### Federal funds rate expectations

FOMC and market expectations for the federal funds rate



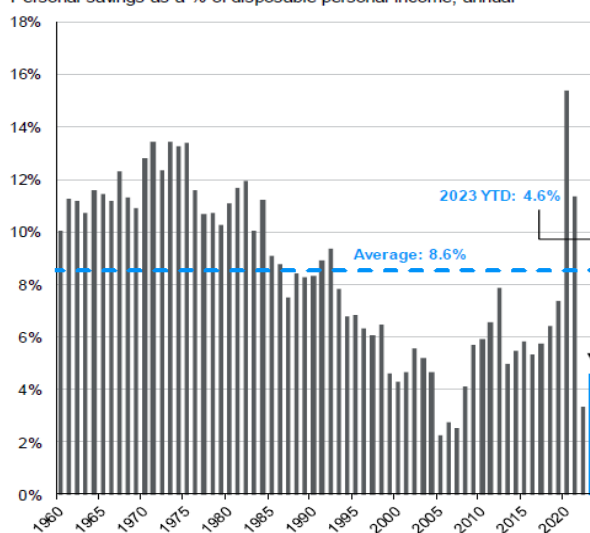
Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management. Market expectations are based off of USD Overnight Index Swaps. \*Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated. Guide to the Markets – U.S. Data are as of December 31, 2023.

**J.P.Morgan**  
ASSET MANAGEMENT

**Consumer spending growth has slowed.** We expect the consumer to continue to spend but at a slower pace. Consumer spending accounts for nearly two-thirds of economic growth in the US. Consumer finances are relatively healthy, but consumer debt is rising, as are default rates on auto loans and credit card debt. Student loan payments, approximately 9.0% of US household debt, are no longer on deferral. It is too soon to tell whether default rates will rise on student loan debt. **Consumer confidence has been rising.**

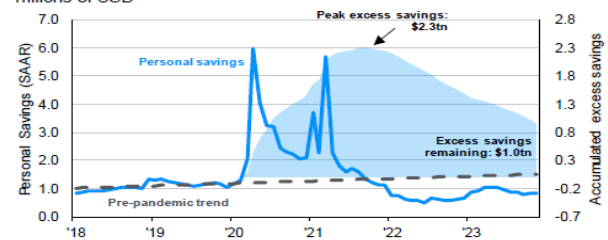
#### Personal saving rate

Personal savings as a % of disposable personal income, annual



#### Household excess savings

Trillions of USD



#### Revolving consumer credit outstanding

% of disposable income, SAAR

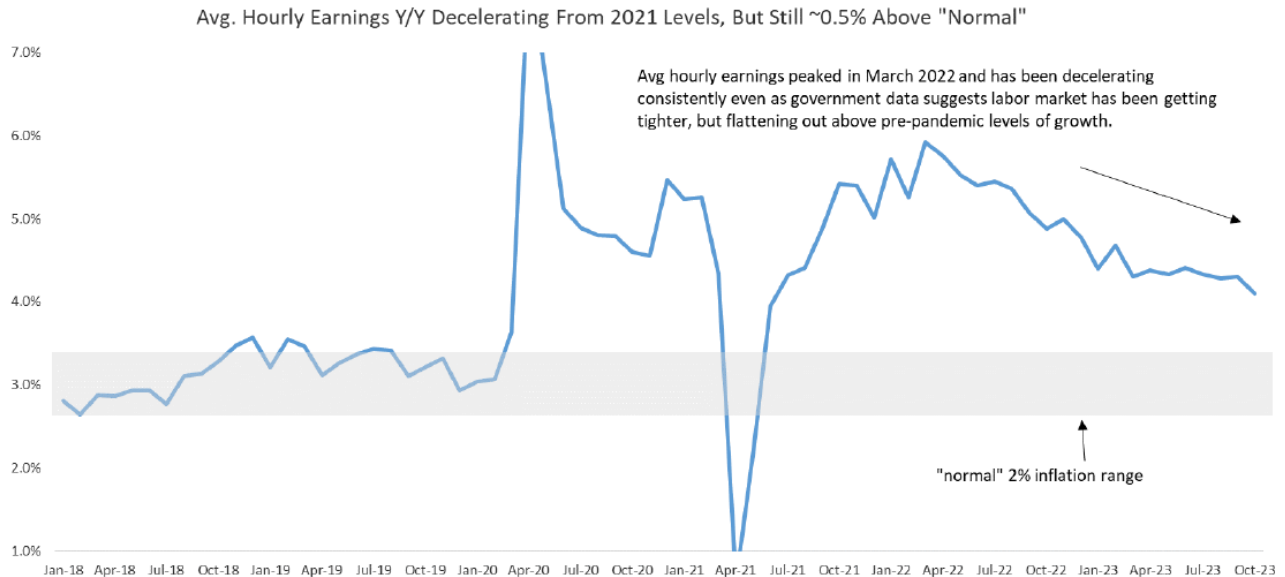


Source: BEA, Federal Reserve, J.P. Morgan Asset Management. From March 2020 to August 2021, consumers amassed a peak \$2.3 trillion in excess savings relative to the pre-pandemic trend. Since August 2021, consumers have drawn down on those excess savings, with the remaining reflected in the chart annotation. Guide to the Markets – U.S. Data are as of December 31, 2023.

**J.P.Morgan**  
ASSET MANAGEMENT

**The labor market remains tight.** There is still significant demand for workers, with 8.7 million job openings as of the end of October 2023. The unemployment rate remains low at 3.7%. The range for the unemployment rate has been 3.4% - 4.0% since the end of 2021. An unemployment rate under 4.0% is considered full employment. Productivity gains have been good over the past year, and we expect this to continue, allowing for economic growth without overheating the economy. Despite the strong labor market, wages have been coming down.

### **Despite Tight Labor Market, Hourly Wages Are Decelerating In 2022 Even Before A Single Job Loss**



Source: Bureau of Labor Statistics, Raymond James research

## **RAYMOND JAMES**

**While we anticipate slower consumer spending growth, government and corporate fixed investment will likely increase,** due to fiscal programs like the CHIPS Act, the Infrastructure Investment and Jobs Act, and the Inflation Reduction Act. All three of these spending incentives have been passed by Congress. This may provide a cushion to the economy as consumer spending growth slows.

**Corporate earnings should continue to grow in 2024, albeit at a slower pace, we believe, than market consensus.** We have seen corporate earnings growth estimates in the 11 – 14% range, but we believe that earnings are trending down. We are expecting less than that, perhaps 5 – 6%. As inflationary pressures ease, the economy and growth in consumer spending slows, corporate revenues are likely to slow.

**The housing market struggled in 2023** due to a lack of inventory and higher mortgage rates. Existing home sales declined 19%, to a 28-year low, as homeowners with low-interest mortgages were reluctant to sell. The majority of outstanding mortgages are under 3.50%. There is pent-up demand for housing, and we would expect activity to pick up as interest rates decline. In addition, home builders are likely to increase production as demand rises further.

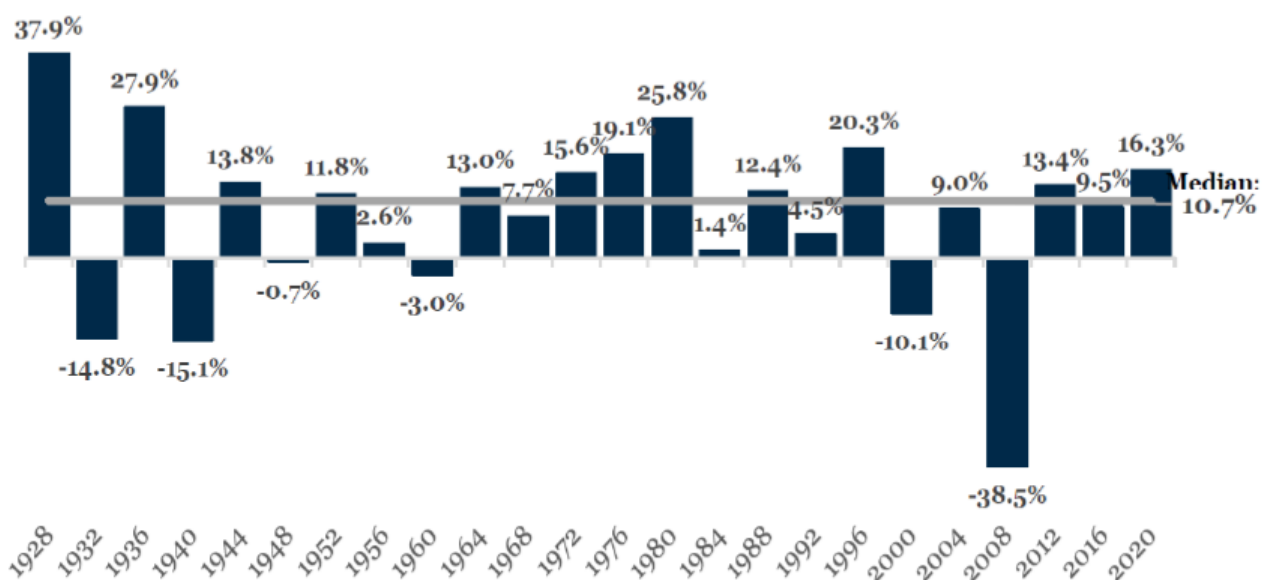


**It's an election year! It is only January—are you tired of the political rhetoric already?** Don't let your political views impact your investment decisions. The market has performed well over time regardless of what political party is in charge. We humans tend to listen to news and opinions that support our own views. Understand that we are influenced by our own biases and make every effort to keep your biases from derailing your long-term investment outcomes.

## Election Year

Historically, presidential election years have been favorable for stock market returns with a median return of 10.7%. Since the 1928 election, 75% of election years have seen positive full-year returns.

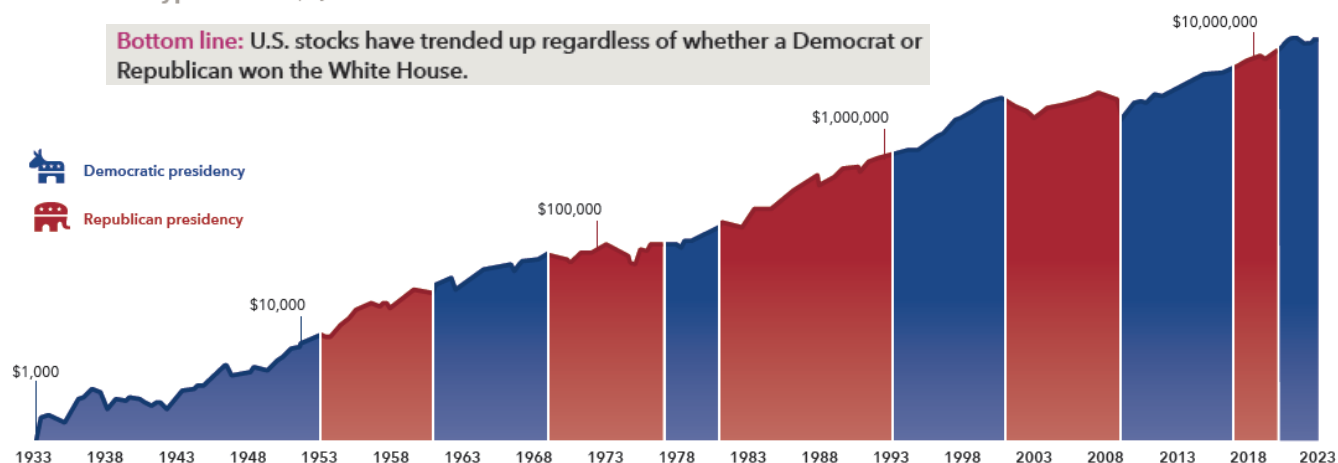
### Returns During Presidential Election Years



Source: FactSet

### Growth of a hypothetical \$1,000 investment in S&P 500 Index

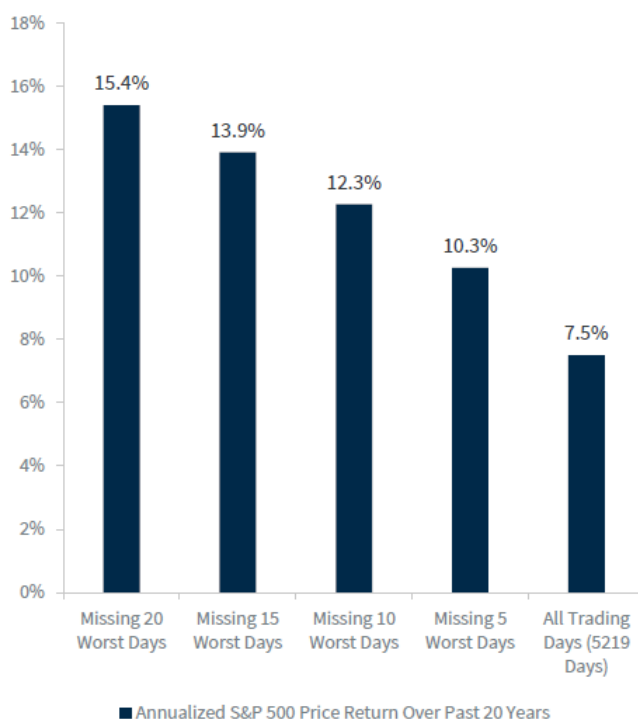
**Bottom line:** U.S. stocks have trended up regardless of whether a Democrat or Republican won the White House.



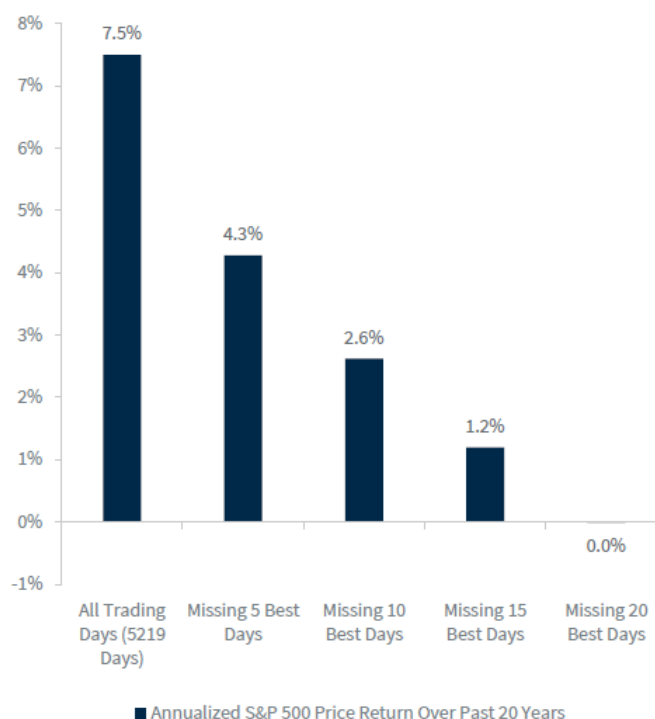
sources: Capital Group, RIMES, Standard & Poor's. Chart shows the growth of a hypothetical \$1k investment made on March 4, 1933 (the date of Franklin D. Roosevelt's first inauguration) through June 30, 2023. Dates of party control are based on inauguration dates. Values are based on total returns in USD. Shown on a logarithmic scale. Past results are not predictive of results in future periods.

**The markets have a way of teaching us important lessons on a regular basis.** Long-term investors have come to realize that trying to time the market is a losing game. Who would have guessed that 2023 would be such a strong year for returns after the poor returns in 2022? Diversification and the discipline to stay invested, along with rebalancing, provide the best offense for achieving your long-term financial goals. **It pays to be optimistic. Missing a few days out of multiple years can dramatically lower your rate of return.** The market can surge suddenly, leaving investors in a position of trying to chase the market. **Capturing returns is only hard because we have to live through the volatility.**

Missing the Worst Days



Missing the Best Days



Source: FactSet, as of 12/31/2023

## RAYMOND JAMES

**There is a significant amount of cash in short-term fixed income investments** like CDs and US Treasuries, as well as money market funds. It has been great to have a risk-free return of 4.5 – 5.0% with some of our money. If the Fed lowers short-term interest rates to 3.5% over the course of the year, that cash could be redeployed into investments with the potential for higher returns, like stocks. Typically, stocks perform well when the Fed is lowering interest rates.



In summary, **Expect the Unexpected.** We are optimistic about the returns for stocks and bonds this year, but we continue to live in challenging times. It could be a volatile year:

- Earnings forecasts are trending down and valuations, especially in large technology companies, are elevated.
- The economy is slowing—focus on quality.
- International markets look compelling. Most regions around the world should benefit from favorable valuations and an improving growth outlook.
- Small- and mid-sized companies look attractive.
- Value stocks, including dividend growers, look attractive. Most investors are underweight value stocks.
- Geopolitical risk, with wars in the Middle East and Ukraine, are fluid and may cause increased volatility in markets. This may also affect energy prices.
- The US has an increasing debt load that is unsustainable. This is a hard problem in the current political climate.
- It is an election year. Don't let emotions or political biases derail your long-term financial goals.

**We wish you peace, happiness, and great health in 2024.** Thank you for your trust in us. We appreciate you and are grateful for the opportunity to work with you.

Our warmest regards,



Debra Riedel  
Senior Vice President – Investments



Zach Bethel, AAMS®  
Financial Advisor



Steve Sackman  
Senior Client Service Associate

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The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

The Dow Jones Industrial Average (DJIA), commonly known as “The Dow” is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal.

Dividends are not guaranteed and must be authorized by the company's board of directors.

Investors should carefully consider the investment objectives, risks, charges and expenses of exchange traded products and mutual funds. The prospectus contains this and other information about mutual funds and ETFs. The prospectus is available from our office, or the fund company, and should be read carefully.

Investing in small cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor. The price of small company stocks may be subject to more volatility than those of large company stocks.

International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility.

Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

Investing in the energy sector involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

Bitcoin issuers are not registered with the SEC, and the bitcoin marketplace is currently unregulated. Bitcoin and other cryptocurrencies are a very speculative investment and involves a high degree of risk.

Bond prices and yields are subject to change based upon market conditions and availability. If bonds are sold prior to maturity, you may receive more or less than your initial investment. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices rise.

CDs are insured by the FDIC and offer a fixed rate of return, whereas the return and principal value of investment securities fluctuate with changes in market conditions.

An investment in a money market fund is neither insured nor guaranteed by the FDIC or any other government agency. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund.

**Investors should consider the investment objective, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other important information, is available from your Financial Advisor and should be read carefully before investing.**

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