

It's Not How you Start – It's How you Finish

Q4 2023 Commentary

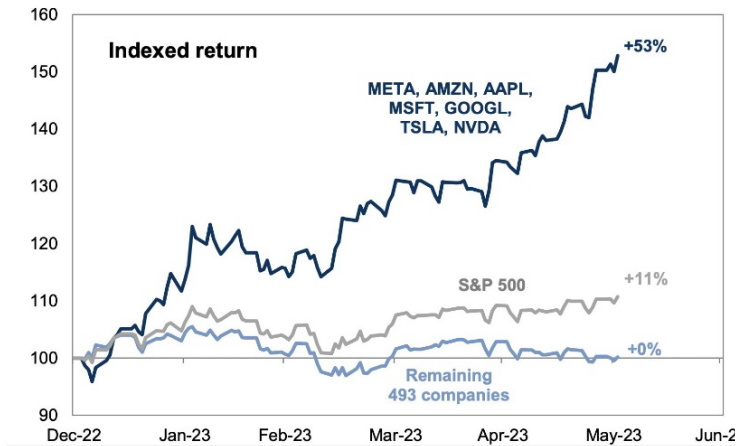
Life is a marathon, not a sprint. We have all heard metaphors for managing obstacles and setbacks, and keeping our eye on the end-game. Investing is no different when it comes to focusing on your long-term goals, risk tolerance, and allocation. As we saw over the last two years, near-term volatility, economic challenges, and rising interest rates and inflation can result in less than ideal market conditions and portfolio returns.

2022 resulted in pain for nearly all investors, both in stocks and bonds, as interest rates increased 10-fold and the S&P 500 declined more than 18%. 2023 seemed to be an encore of further disappointment for investors with the exception of the Magnificent Seven stocks. This narrow market began the year, driven almost exclusively by seven mega-technology companies that drove the S&P 500 index up 11% through June. However, without those seven leaders, the remaining 493 stocks were flat for the first half of the calendar year.

Federal Reserve took on a more dovish tone (softer on rates), and the last 8 weeks of the year saw a tremendous rally in stocks and bonds. The ten-year treasury yield fell from over 5% to 3.9% in just 8 weeks. After 2022 showed the largest decline in bond prices in history, 2023 showed them swinging from negative returns to slightly positive for the calendar year.

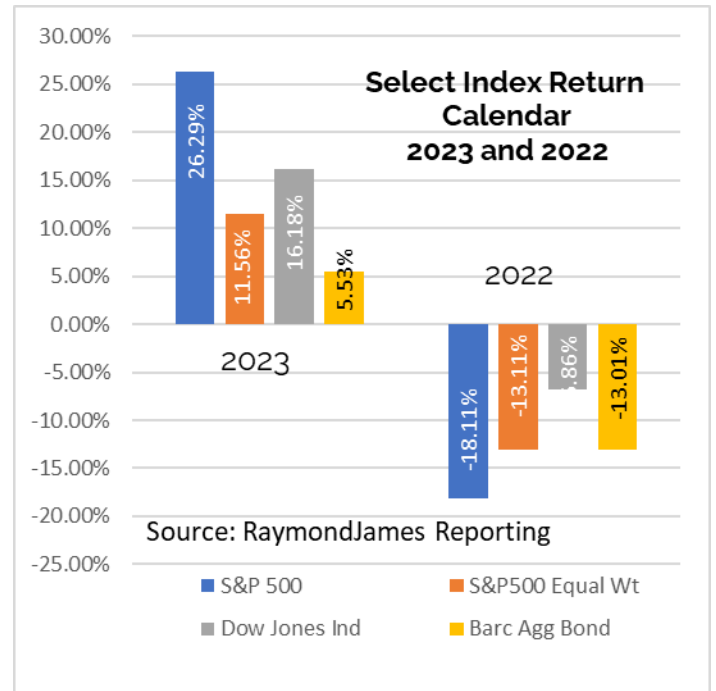
The S&P remained very narrow with the few tech names leading the index up 26%, but as the chart below shows, the equal-weight S&P 500 was up just over 11.5%. Dividend/value stocks still lagged significantly as their appeal seemed far behind the Artificial Intelligence theme driving the tech leaders.

Exhibit 2: Mega-cap tech has led the market higher YTD
as of June 1, 2023



Source: FactSet, Goldman Sachs Global Investment Research

Inflation hit a 40 year high in late 2022, and the U.S. Treasury reached a peak of 5.02% on October 23, 2023. Like a switch, the inflation numbers began softening, the



The year-end rally across asset classes seemed like a Christmas present as the majority of the calendar year returns were earned in the last 8 weeks of the year. The continued core principal of staying the course for the

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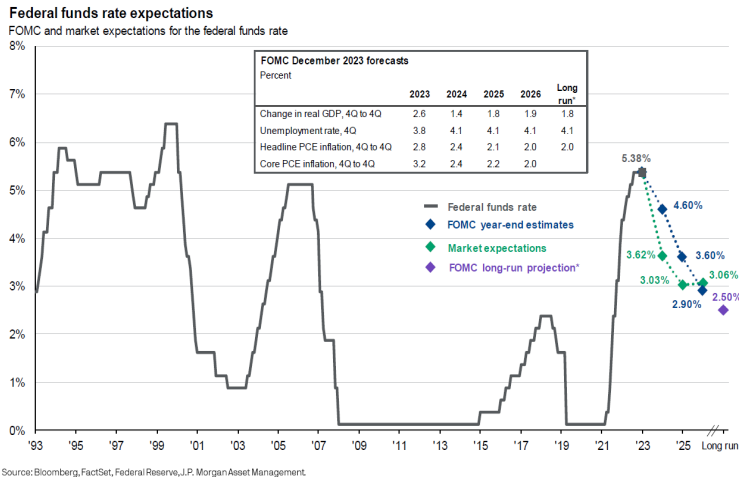
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long run rang true for 2023, as investors were rewarded for their patience if they stayed the course.

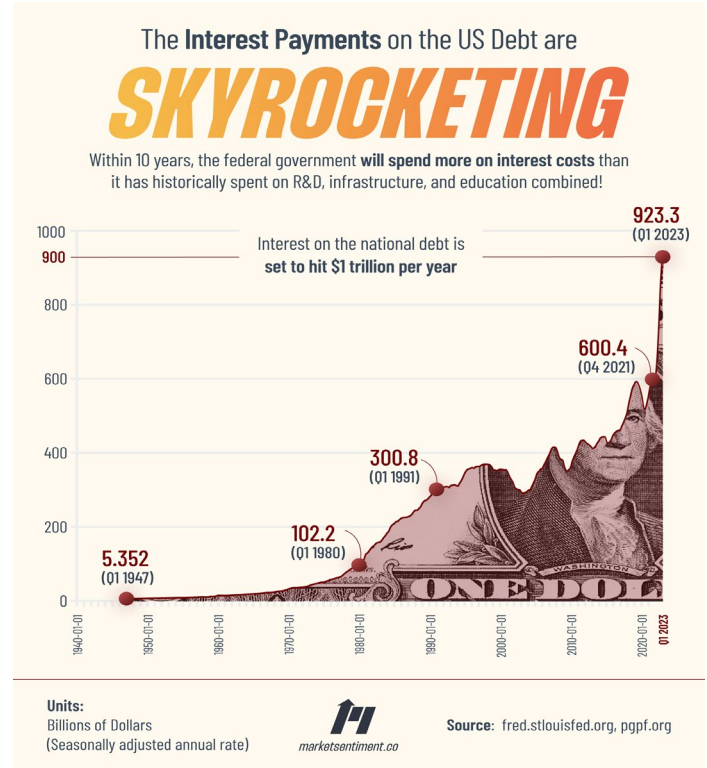
The Federal Reserve made clear that their goal and intent was to lower short-term interest rates multiple times in 2024. The dotted lines below illustrate the committee's expectation (blue) and the market expectation (green). There are many potential obstacles to this tidy rate cut plan by the Fed, such as a resurgence of inflation, weakening of the dollar, and soft demand for Treasury securities. Remember that the biggest buyer of our debt is the Fed itself, and they have had to back away from the table.

The Fed has a strong desire to see interest rates decline for a multitude of reasons. Both equity and fixed income markets perform much better in a declining rate environment, but longer-term, and more importantly the Federal debt, is soaring, and the debt service is at a critical point.

100% of our entire economic output (GDP). The national debt, which is now of \$34 trillion, equates to more than \$259,000 for each American household. Just as excessive debt can choke out discretionary spending of an individual household, the same can happen for our government. Every 1% higher cost of debt service equates to \$34 billion extra interest expense (without compounding). This extra interest expense squeezes out budget items like social programs (social security and welfare), military, education, infrastructure, and healthcare.



The stimulus programs from various covid programs, which, in our opinion, continued far too long after the covid-shutdown, have seen our debt climb to nearly



The magnitude of debt addiction underscores the Federal Reserve's incentive to bring interest rates down, and the importance of some fiscal prudence. We seem to continue kicking the can down the road, but when will



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America lose the confidence of investors as the gold standard of debt?

The pain that all fixed income investors endured in 2022, and the first half of 2023, was the most volatile decline in bond prices in history over a short period. The headwind of rising rates seems to have hit a pinnacle in the fall, as eluded to earlier. Investors will hopefully continue to enjoy the tailwind of improving bond prices long-term. However, there are sure to be re-tests and head-fakes, as financial markets rarely move in a straight line in any direction.

The much-ignored large-cap dividend/value space, as well as small and mid-cap allocations, are beginning to see some love. We feel the rotation from narrow leadership will continue, and that eventually the saying “trees don't grow to the sky” should apply.

As always, the team at the Brechnitz Group appreciates your trust and confidence. We value each of you, and wish your family a great 2024.

The Team of the Brechnitz Group



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All investments are subject to risk, including loss. There is no assurance that any investment strategy will be successful. Asset allocation and diversification does not ensure a profit or protect against a loss. It is important to review the investment objectives, risk tolerance, tax objectives and liquidity needs before choosing an investment style or manager.

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Equities: Investors should be willing and able to assume the risks of equity investing. The value of a client's portfolio changes daily and can be affected by changes in interest rates, general market conditions and other political, social and economic developments, as well as specific matters relating to the companies in which the portfolio has invested. Companies paying dividends can reduce or cut payouts at any time.

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You cannot invest directly into any index and past performance doesn't guarantee future results.

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