A View from the Bevy – 4Q23

Market Review

Following a rough October, which saw investors spooked by the emerging war in the Middle East, stocks regained momentum in November and ended the year with a much-hoped-for Santa Claus rally. The S&P 500 rose for each of the final 9 weeks of the year and the NASDAQ composite had its best year since 2020. Volatility remained in check even in the face of the usual slow-volume days at the end of December, a reassuring confirmation of the market's overall resilience.

Stocks were buoyed by declining interest rates and the apparent end to the U.S. Federal Reserve's (Fed) tightening cycle. The Fed ended the year by holding interest rates steady at its last three meetings, following a string of 11 straight increases which began in March of 2022. The Fed has been able to tame inflation and seemingly engineer a soft landing for the economy.

As shown below, the strong fourth quarter capped off a great year for stocks overall, led by U.S. stocks. While Emerging Markets trailed the rest of the world, these stocks were up almost 10%, nevertheless. Most impressive was the comeback the markets mounted following the summer correction.

Stock Market Indices	4th Quarter 2023	2023
S&P 500	4.5%	26.3%
S&P 500 (Equal-Weight)	6.9%	13.9%
Dow Jones Ind. Average (DJIA)	4.9%	16.2%
NASDAQ Composite	5.5%	43.4%
Bloomberg US Aggregate Bond	6.8%	5.5%
Russell 2000	12.2%	16.9%
MSCI World	4.9%	23.8%
MSCI World ex U.S.	5.5%	17.9%
MSCI Emerging Markets	3.9%	9.8%

Source: AJO. Data supplied by FactSet Research Systems.

Technology ruled the market in 2023, rebounding from a 33% loss in 2022. Most of the year was dominated by the stellar performance of the Magnificent 7 stocks – Amazon, Apple, Alphabet, Meta Platforms, Microsoft, Nvidia and Tesla. Positively, the fourth quarter did see a broadening of the rally, with more sectors participating in strong performance and smaller cap stocks (Russell 2000).

Within the S&P 500, the best performing sectors were information technology and communications. Cybersecurity and consumer discretionary stocks outperformed as well. Utilities and consumer staples stocks underperformed. Finally, cryptocurrencies had a great 2023 as well, led by a more than 150% gain in Bitcoin.

Market Outlook

We enter 2024 with positive market sentiment and economic optimism. While we would not be surprised to see some short-term consolidation in stocks given the magnitude of the recent run-up and some lofty valuations, any such pullbacks would be normal and healthy, and could present a buying opportunity.

Lest we get too optimist, we must ask ourselves what could derail this rosy outlook. On the economic front, inflation could begin to accelerate again forcing the Fed to keep interest rates high for longer. It is also possible that the lagged impact of rapid rate increases pushes the economy into recession in 2024. We don't think it is likely that we will see either of these things happen, but even if there were to be a recession, we anticipate it would be short and mild. Interestingly, a recession does not necessarily mean a bad year for stocks (see the accompanying article details on that topic).

The outlook for corporate America, the real driver of stock prices, remains positive, as does the outlook for corporate earnings. Balance sheets remain strong in general, as many companies benefited last year from the cost-cutting measures put in place to focus on efficiency and bolstering profit margins. As always, it is important to remember that we don't really have a stock market as much as we have a market of stocks. As always, we search for those stocks that are fundamentally strong and positioned to excel in a variety of market conditions.

One of the concerns facing the global economy is political, where several hotspots around the world could ignite further and spook investors. Top of mind is the war in Gaza and worries that the fighting spreads and intensifies in the West Bank, Northern Israel, and the Red Sea, and broadens out into a larger regional conflict. The other current global hotspot is of course Ukraine, and the threat that Russia poses to other NATO countries should it gain more momentum in the current conflict. Both of these conflicts have limited economic impact right now, but are worth monitoring in case of escalation.

Speaking of political issues, 2024 headlines will likely be dominated by the Presidential election. Traditionally, however, presidential election years have been good for the stock market. For example, between 1937 and 2022, the S&P 500 has returned on average 9.9% during presidential election years, according to research by Janus Henderson Investors. The index has not declined in a presidential re-election year since 1952.

This push and pull between potentially positive and negative influences is not new. If happens every year – just in different forms. We constantly monitor everything that impacts client portfolios, and we will make strategic changes as necessary.

We wish you all a Happy and Healthy 2024!

Of Interest: How do Stocks Perform During Recessions?

One of the great economic debates since the Fed began raising interest rates in March of 2022 has been whether the U.S. economy will fall into recession. It is now generally believed that the Fed will be able to engineer a soft landing for the economy. While economic growth may slow in 2024, a recession is not widely expected. If there is one, it is expected to be shallow and short-lived.

The National Bureau of Economic Research defines the start and end dates of recessions by analyzing various indicators with no fixed rules or weights. A look at the performance of the S&P 500 during recessions since 1950 shows some intriguing patterns. Let's look at the numbers.

How Stocks Perform Before, During & After Recessions

Understanding how the S&P 500 performs before, during, and after recessions can help investors make informed decisions even if this data can't predict the future.

Recession Start	12 Months Before	During Recession	12 Months After
Jul '53	-3.15%	18.28%	30.78%
Aug '57	-5.47%	-7.64%	34.86%
Apr '60	-2.4%	11.56%	12.95%
Dec '69	-14.45%	-7.5%	10.09%
Nov '73	-11.38%	-17.86%	20.67%
Jan '80	11.22%	8.03%	7.76%
Jul '81	7.76%	6.97%	19.62%
Jul '90	8.48%	3.4%	9.42%
Mar '01	-17.78%	-4.74%	-19.45%
Dec '07	4.43%	-37.39%	16.98%
Feb '20	18.97%	-15.72%	49.94%
Average Return	-0.03%	-3.87%	17.6%

Source: Robert Schiller Online Data

Before Recessions: The S&P 500 typically experiences a period of growth and optimism. During this phase, the index often achieves record highs. As signs of an impending recession emerge, such as declining corporate profits or weakening consumer sentiment, markets often experience increased volatility and a gradual slowdown and potential corrections in the index.

During Recession: The S&P 500 faces significant challenges: falling corporate earnings, reduced consumer spending, and increased uncertainty. As a result, stock prices tend to decline, and the index often enters bear market territory. The recession's severity plays a crucial role in determining the magnitude of the market decline.

After Recessions: Following a recession, the S&P 500 has likely already benefited from an expected recovery phase. The market and the index can be forward-looking, so the stock market sometimes recovers before we see an economic rebound. The duration and speed of the recovery can vary based on several factors, including the recession's severity and the economy's overall strength.

The stock market's recovery after a recession may happen quickly or take some time, however, the S&P 500 tends to have an upward trend over long time periods.

What Does the Data Tell Us?

- 5 out of the 11 recessions studied resulted in an increase in stock values during the recession. Additionally, the year before a recession began averaged a loss in value, despite this period leading up to the relative "peak" before the slump kicked in.

- With one exception, the 12 months after recessions end are marked with considerable growth—a 17.6% gain, on average. Reacting impulsively to the unrealized losses experienced before and during a recession may result in missing out on the rebound.

- The stock market is a component of the larger economy. They aren't the same. The value of the S&P 500 isn't necessarily correlated with the health of the economy at large.

Understand that each recession unfolds differently—and it's always a good idea to consult with us before making any changes to your portfolio. We can help you understand historical trends and provide comfort and reassurance to stick with your long-term investment strategy.

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