Market Summary: Fourth Quarter 2023

Seismic shifts in Investor Sentiment. It was a remarkable final Quarter of 2023 with stocks and bonds making rapid, large moves in both directions. October saw the market move to extreme bearishness as stocks declined over -10% on fear of escalating war in the Middle East; and Bond yields briefly breach 5% on concerns of the enormous onslaught of US debt to be underwritten. But November saw sentiment begin to shift as US inflation data softened and hopes the Fed was done raising rates began to take root (despite the Fed reiterating they still plan to raise rates). The big bullish shift came in mid-December, when the Fed did a surprise 'pivot', stating inflation is heading in the right direction and they plan to lower rates 3 times in late 2024. The market rocketed higher with stocks finishing at or near all time highs and 10yr Treasury yields falling 125 bps (basis points) to 3.75%, making this quarter one of the strongest on record. Investor sentiment ended the quarter at extreme bullishness, with stocks and bonds now priced for perfection in 2024.

Index Returns:	QTD	YTD		QTD	YTD		QTD	YTD
US Blend Equity (Equal Weight)	11.81%	13.70%	U.S. Growth	14.23%	50.07%	U.S. Short Bond	3.46%	4.90%
Foreign Developed	10.71%	18.40%	U.S. Value	9.53%	8.95%	Intermediate Corp Bond	7.54%	5.33%
Emerging Equity	8.00%	8.99%	Small Blend	13.99%	16.84%	High Yield Bond	7.10%	11.53%

Market Outlook: Priced for Perfection. The markets are expecting a Goldilocks scenario: economic growth of 2.5%, inflation dropping to 2%, interest rates falling 150 bps (1.5%), and earnings growth +11%. A perfect year for investing! So what could derail this outlook? Though impossible to identify for certain, a few issues do stand out including rising geopolitical risks and the enormous financing of the growing US debt load. On the international front, deglobalization is the new trend with many big countries pulling back (example: China). This retreat will continue to be a challenge as nearly 40% of the S&P 500 earnings come from outside the US. Domestically, the big elephant in the room is the unsustainable growth in US debt which will keep upward pressure on interest rates. The US debt is now a whopping $34 TRILLION, up + $12 TRILLION since 2019. Interest payments alone on US debt are now larger than the defense budget; and over 30% of the total debt will be refinanced this year at much higher rates. Make no mistake, debt growth has been the key driver of the economy and without further fiscal stimulus, what will drive the economy? According to many forecasters, AI will be the next big driver of the economy bringing innovation and efficiencies that will transform how we live (Oh boy!). In sum, the only certainty for 2024 is uncertainty. Expect continued large market swings as investor sentiment rides the waves of fear and greed through an ocean of geopolitical and domestic events, with 2024 being the biggest global election year in history.

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www.huffwealthmanagement.com | 614-216-6139 | 7460 Cummins Ct New Albany Ohio 43054