After a dismal third quarter, stocks and bonds rebounded nicely in the fourth quarter. All in all, 2023 was quite a year. The Federal Reserve raised rates four times (1/4% each time) to help control inflation and it has worked to a certain extent as the rate of inflation growth has come down. But, at the retail level (food, gas, energy, etc.), prices remain high. Both the high interest rates and higher prices have adversely affected the housing market and related industries. Also, the Hamas attack on Israel, the continuing war in Ukraine and increased attacks on shipping in the Red Sea threaten to increase inflationary pressures on the price of oil/gas and goods transported through this area~~.~~

However, through the current and potential gloom, there are a few bright spots. Remarkably, the economy has stayed pretty resilient, consumer spending, in general, has been strong but manufacturing less so. Employment has actually increased per government records and the Federal Reserve has paused its interest rate increase program and is projected to cut rates in 2024.

One additional area that has impacted 2023 is artificial intelligence (AI). Without currently having a detailed understanding of how AI will affect the economy, financial markets and industrial, medical and government sectors, it has been a force in the stock market already. Some of the large technology companies working in the AI arena-NVIDIA, Apple and Microsoft-were major drivers of the 2023 stock market growth.

The numbers for the major categories for the fourth quarter and full year, as noted, were all good. The DJIA was up +12.5% for the quarter and 13.7% for the full year. The S&P 500 was up +11.7% and +26.3% respectively and the NASDAQ composite advanced +13.6% and 43.4% for the quarter and the year, respectively. The bond market also had strong results up+6.8% for the quarter and +5.5% for the full year. With the exception of China, which is in an economic slump, the major international sectors had strong market results. India, in particular, seems promising, +10.3% for the quarter and +24.7% for the year.

Fourth quarter and full year results are detailed below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **QUARTER Ending** **12/31/2023** | **12 MONTHS Ending****12/31/2023** | **THREE YEARS Ending** **12/31/2023** | **FIVE YEARS Ending** **12/31/2023** |
| **DJIA** | 12.5% | 13.7% | 7.2% | 10.1% |
| **S & P 500** | 11.7% | 26.3% | 10.0% | 15.7% |
| **NASDAQ Composite** | 13.6% | 43.4% | 5.2% | 17.7% |
| **Bloomberg Agg. Bond** | 6.8% | 5.5% | -3.3% | 1.1% |
| *Mutual Funds* |  |  |  |  |
| Domestic |  |  |  |  |
|  *Large Cap* |  |  |  |  |
|  Growth | 13.8% | 36.7% | 4.8% | 15.8% |
|  Value | 9.7% | 11.6% | 9.8% | 11.4% |
|  *Small Cap* |  |  |  |  |
|  Growth | 11.5% | 16.7% | -2.3% | 11.0% |
|  Value | 13.0% | 16.9% | 11.3% | 11.9% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| International |  |  |  |  |
|  Europe  | 11.5% | 19.1% | 4.6% | 8.9% |
|  Latin America | 15.9% | 31.1% | 5.6% | 5.3% |
|  Japan  | 6.9% | 21.9% | 2.6% | 7.4% |
|  Pacific ex Japan  | 6.1% | 4.6% | -6.6% | 4.5% |
|  China  | -3.3% | -13.6% | -15.6% | 0.7% |
|  India  | 10.3% | 24.7% | 11.3% |  10.0% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **QUARTER Ending** **12/31/2023** | **12 MONTHS Ending****12/31/2023** | **THREE YEARS Ending****12/31/2023** | **FIVE YEARS Ending** **12/31/2023** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| Corporate Bond |  |  |  |  |
|  Long | 12.2% | 9.3% | -6.7% | 2.1% |
|  Intermediate |  6.5% | 5.6% | -3.2% | 1.1% |
|  Short |  3.4% | 5.7% | 0.1% | 1.9% |
| Government Bond |  |  |  |  |
|  Long  | 11.9% | 3.0% | -11.6% | -1.6% |
|  Intermediate | 6.0% | 4.4% | -3.3% | 0.3% |
|  Short | 2.9% | 4.1% | -0.8% | 0.9% |
| Municipal Bond |  |  |  |  |
|  Long  | 8.6% | 6.9% | -1.1% | 2.0% |
|  Intermediate | 6.4% | 5.6% | -0.5% | 1.9% |
|  Short | 3.0% | 3.7% | 0.4% | 1.3% |

**Market Outlook**

We were cautious in 2023. In 2024, while still cautious in light of all of the plusses and minuses, we are somewhat more optimistic. 2024 is a presidential election year and history suggests markets advance in election years. Nothing is assured, however, as history reveals that economic growth and inflation are the primary factors that drive stock market returns. AI will continue to be a factor as there is potential for huge productivity gains in many areas. How this impacts jobs remains to be seen. Additionally, if China should move to take over Taiwan the production of chips, vital to many industries, could be disrupted with negative market implications.

Regarding current allocations, unless you are substantially under your equity target, we don’t suggest new equity investments now. We will examine this again at the end of the first quarter. Any new fixed income investments should go into short and intermediate bond positions and possibly, depending on your situation, into longer term positions. Twelve-month CDs still have attractive yields in the 4.5% to 5.0% range.

In summary, there will be a lot going on in 2024. There is plenty of reason to be bullish and bearish. Hopefully, it will be another bullish year.

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