FOURTH QUARTER 2023

Matt's Market Update

IN THIS REPORT

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Market Review

Global equity markets rallied strongly in Q4 as interest rates plunged and investors grew increasingly confident that the Fed is done with interest rate hikes. While lagging their large-cap peers throughout the year, small-caps rallied the most as the Russell 2000 index gained +14.03% in Q4 which included a +12.22% gain in the month of December. Equities gained even more momentum following the Fed's mid-December meeting after the Fed once again held rates steady, but also forecast expectations for rate cuts in 2024.

The S&P 500 gained +11.69% in Q4 to finish with a total return of +26.29% for the year. This was the fourth gain in the last five calendar years for the key equity benchmark. While investors are in a jubilant mood to end the year, it must be noted that the 2-year return for the index is +3.42%, most of which has been generated by dividends. The index finished 2023 just 0.56% away from an all-time high. Investors are hoping that the positive momentum continues and a new high can be achieved in Q1. Performance within the S&P 500 was dominated by large-cap technology stocks, otherwise known throughout 2023 as the magnificent seven (Nvidia, Apple, Microsoft, Meta, Amazon, Tesla and Alphabet). These stocks inhabit two industry sectors of the S&P 500 index (Information Technology & Communication Services) which account for a 38% weighting in the index. These sectors gained +56.39% and +54.35% respectively in 2023. Exposure to the large-cap growth segment of the market (and these seven stocks in particular) was a determining factor in the final performance results for active managers last year.

Looking ahead to 2024, market consensus seems to favor a soft landing economic scenario that avoids recession, double-digit earnings growth for the S&P 500 and a favorable environment for interest rates as inflation continues to cool down with the Fed starting rate cuts by mid-year. Will the year play out this way? Likely not. Signs of economic deceleration, continued geopolitical concerns and an upcoming election season like no other would suggest that it makes more sense to expect the unexpected in 2024.

Charts of the Year

Presented with limited comment, here are several key charts that stood out to us as the best of 2023. Courtesy of YCharts and Charlie Bilello. By the way, if you're on X (formerly Twitter), Charlie is a great person to follow if you like charts and analysis.

The Fed raised rates four times in 2023, the last hike coming in July. The market consensus feels that the Fed is done hiking rates and that rate cuts are on the way in 2024.

The S&P 500 index (a market cap weighted index that is influenced most by the largest companies in the index) outperformed the S&P 500 Equal Weight index (an index that gives equal influence to each of the 500 stocks in the index).

S&P 500 vs. S&P 500 Equal Weight (EQ) (Total Returns 1971 - 2023)							
Year	S&P	EQ	S&P - EQ	Year	S&P	EQ	S&P - EQ
1971	14.2%	16.6%	-2.4%	1998	28.6%	12.2%	16.4%
1972	18.8%	9.8%	9.0%	1999	21.0%	12.0%	9.0%
1973	-14.3%	-21.5%	7.2%	2000	-9.1%	9.6%	-18.7%
1974	-25.9%	-22.9%	-3.0%	2001	-11.9%	-0.4%	-11.5%
1975	37.0%	54.4%	-17.4%	2002	-22.1%	-18.2%	-3.9%
1976	23.8%	35.7%	-11.9%	2003	28.7%	41.0%	-12.3%
1977	-7.0%	-2.0%	-5.0%	2004	10.9%	17.0%	-6.1%
1978	6.5%	8.2%	-1.7%	2005	4.9%	8.1%	-3.1%
1979	18.5%	28.7%	-10.1%	2006	15.8%	15.8%	0.0%
1980	31.7%	30.2%	1.5%	2007	5.5%	1.5%	4.0%
1981	-4.7%	4.8%	-9.5%	2008	-37.0%	-39.7%	2.7%
1982	20.4%	30.2%	-9.8%	2009	26.5%	46.3%	-19.8%
1983	22.3%	30.3%	-7.9%	2010	15.1%	21.9%	-6.8%
1984	6.1%	3.6%	2.6%	2011	2.1%	-0.1%	2.2%
1985	31.2%	30.6%	0.6%	2012	16.0%	17.7%	-1.7%
1986	18.5%	17.9%	0.6%	2013	32.4%	36.2%	-3.8%
1987	5.8%	4.9%	0.9%	2014	13.7%	14.5%	-0.8%
1988	16.6%	20.2%	-3.6%	2015	1.4%	-2.2%	3.6%
1989	31.7%	25.8%	5.9%	2016	12.0%	14.8%	-2.8%
1990	-3.1%	-11.9%	8.8%	2017	21.8%	18.9%	2.9%
1991	30.5%	35.5%	-5.0%	2018	-4.4%	-7.6%	3.3%
1992	7.6%	15.6%	-8.0%	2019	31.5%	29.2%	2.2%
1993	10.1%	15.1%	-5.0%	2020	18.4%	12.8%	5.6%
1994	1.4%	1.0%	0.4%	2021	28.7%	29.6%	-0.9%
1995	37.6%	32.0%	5.5%	2022	-18.1%	-11.4%	-6.7%
1996	23.0%	19.0%	3.9%	2023	26.3%	13.9%	12.4%
1997	33.4%	29.0%	4.3%	*As of 12/31/2023*			

The gains in the S&P 500 were largely driven by performance from the "Magnificent Seven" technology stocks. Each of which staged a huge comeback following the declines of 2022. Growth stock performance dominated value in 2023. The 2nd biggest outperformance on record with data going back to 1979 (only 2020 was bigger). In 2022, they had underperformed Value stocks by 21.6%, the most since 2000. Left for dead one year ago, the 60/40 portfolio rebounded strongly in 2024.

Food for Thought – Equities

The broad Russell 3000 index of U.S. equities rallied for a gain of +10.89% in Q4 to finish 2023 with a gain of +25.96%. Very impressive indeed considering most equity market strategists polled by Bloomberg in late 2022 were predicting a down year for stocks.

Here are a few interesting data points related to equities in 2023:

- US stocks (S&P 500) have outperformed international stocks (MSCI ACWI ex US) in 8 out of the last 10 years with a cumulative 10-year return of +211% (12%/year) vs. +61% (4.8%/year) for international equities.
- The S&P 500 outperformed the equally weighted index by 12% last year, the 2nd biggest outperformance on record with data going back to 1971 (only 1998 was bigger @ 16%).
- The S&P 500 gained +24.2% in 2023 while S&P 500 earnings grew +8.6%, leading to a +14.4% multiple expansion and a year-end trailing P/E ratio of 22.3. The average S&P 500 P/E ratio since 1989 is 19.3.
- Growth stocks outperformed Value stocks in 2023 by +31%, the 2nd biggest outperformance on record with data going back to 1979 (only 2020 with a margin of 35.7% was bigger).

Russell 1000 Growth vs. Russell 1000 Value (Total Returns 1979 - 2023)							
Year	Growth	Value	G-V	Year	Growth	Value	G-V
1979	23.9%	20.5%	3.4%	2002	-27.9%	-15.5%	-12.4%
1980	39.6%	24.4%	15.2%	2003	29.7%	30.0%	-0.3%
1981	-11.3%	1.3%	-12.6%	2004	6.3%	16.5%	-10.2%
1982	20.5%	20.0%	0.4%	2005	5.2%	7.1%	-1.8%
1983	16.0%	28.3%	-12.3%	2006	9.1%	22.2%	-13.2%
1984	-1.0%	10.1%	-11.1%	2007	11.8%	-0.2%	12.0%
1985	32.9%	31.5%	1.3%	2008	-38.4%	-36.8%	-1.6%
1986	15.4%	20.0%	-4.6%	2009	37.2%	19.7%	17.5%
1987	5.3%	0.5%	4.8%	2010	16.7%	15.5%	1.2%
1988	11.3%	23.2%	-11.9%	2011	2.6%	0.4%	2.3%
1989	35.9%	25.2%	10.7%	2012	15.3%	17.5%	-2.3%
1990	-0.3%	-8.1%	7.8%	2013	33.5%	32.5%	1.0%
1991	41.3%	24.6%	16.7%	2014	13.0%	13.5%	-0.4%
1992	5.0%	13.6%	-8.6%	2015	5.7%	-3.8%	9.5%
1993	2.9%	18.1%	-15.2%	2016	7.1%	17.3%	-10.3%
1994	2.6%	-2.0%	4.6%	2017	30.2%	13.7%	16.5%
1995	37.2%	38.4%	-1.2%	2018	-1.5%	-8.3%	6.8%
1996	23.1%	21.6%	1.5%	2019	36.4%	26.5%	9.8%
1997	30.5%	35.2%	-4.7%	2020	38.5%	2.8%	35.7%
1998	38.7%	15.6%	23.1%	2021	27.6%	25.2%	2.4%
1999	33.2%	7.3%	25.8%	2022	-29.1%	-7.5%	-21.6%
2000	-22.4%	7.0%	-29.4%	2023	42.7%	11.5%	31.2%
2001	-20.4%	-5.6%	-14.8%	*As of 12/31/2023*			

Looking forward to 2024, it would be fair to ask if the strong momentum can continue. We expect some moderation in returns ahead. The S&P 500 index finished the year on a 9-week winning streak and is approaching a high P/E valuation of 20X. The NASDAQ soared +43.4% in 2023, the best performance for this index in 20 years. Can the magnificent seven stocks maintain the torrid pace of gains in 2024 or will other sectors of the market play catch up?

Russell 1000 Growth vs. Russell 1000 Value (Total Returns 1979 - 2023)					
Year	Growth	Value	G-V	Year	Growth
1977	-3.0%	1993	9.9%	2009	18.2%
1978	4.5%	1994	-0.4%	2010	11.7%
1979	11.9%	1995	29.9%	2011	4.4%
1980	20.1%	1996	15.2%	2012	11.3%
1981	-0.3%	1997	23.9%	2013	18.6%
1982	25.3%	1998	20.6%	2014	10.6%
1983	16.7%	1999	12.3%	2015	1.1%
1984	9.7%	2000	-0.8%	2016	8.2%
1985	27.6%	2001	-3.8%	2017	14.5%
1986	17.2%	2002	-9.2%	2018	-2.6%
1987	4.6%	2003	18.8%	2019	22.4%
1988	13.1%	2004	8.3%	2020	14.0%
1989	24.8%	2005	3.9%	2021	13.8%
1990	1.7%	2006	11.2%	2022	-16.1%
1991	24.7%	2007	6.1%	2023	18.0%
1992	7.5%	2008	-20.1%	*As of 12/31/2023*	

Our Portfolio Strategy & Allocation Outlook

Briefly stated, here's where we stand across the various portfolios we manage:

- Within fixed-income, we've taken steps in recent months to add duration (interest rate sensitivity) to our fixed-income holdings. This has primarily been accomplished by altering the mix of managers we utilize in portfolios. By adding duration, we hope to be better positioned to both capture higher yields in the market, but also to better participate if bonds continue to rally from market interest rates moving lower. We believe that the Fed is all but done with interest rate hikes and that the path of least resistance for CPI inflation is lower in the near-term. Our biggest concern is that potential returns have been pulled forward due to the large rally in fixed-income to end the year. We're not in the camp of six rate cuts by the Fed in 2024 as it is an election year and the Fed is also very unwilling to prematurely declare victory over inflation.
- Within the equity segment of portfolios, we're maintaining neutral positions and not making any large tilts. On the one hand, momentum is very strong coming out of Q4, but that's certainly balanced by high valuations and most of the performance being generated by a small number of mega-cap technology stocks. Despite some broadening of equity performance in Q4, this is still a stock market that's very top heavy. Being diversified with a core holding of index funds with some complimentary active management is our preferred approach.

Please let us know if you'd like to discuss your personal investing and financial planning needs.

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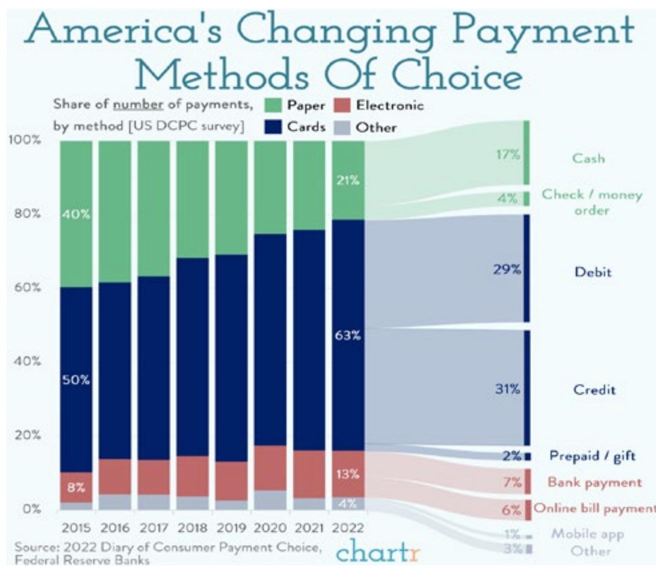
When I sit down with a new client or prospect, one of the first topics we discuss is budgeting. For existing clients, I usually revisit this after the holidays or in January. I also think that the way we consume and purchase goods now makes it harder to track our budget, mainly because it is so easy to spend money now. You don't even need to reach for your card or pay with cash in many instances. You can pay with your phone at the checkout counter or save your preferred payment method on a retailer's website to expedite the process. The speed with which you can purchase increases the likelihood of making mistakes (I myself am guilty of ordering things online and shipping them to an old address). It can wreak havoc on our budgets and our finances.

The share of plastic payments is up 13% in the last 7 years, with almost all of that coming from people paying with credit cards, sending total credit card debt soaring above the $1 trillion mark for the first time ever in 2023. At the same time, the share of older Americans with debt has been increasing in recent decades, growing from around 40 percent in 1989 to over 60 percent in 2019. What's particularly alarming is the amount of growth in unsecured debt, 85% of which consists of credit cards. This has been exasperated over the last several years with the precipitous rise in interest rates, which makes holding this kind of debt even more detrimental.



Here are some rules of thumb to determine if you currently hold too much debt:

1. Consumer debt should be 20% or less of net monthly income.
2. Housing Costs should be 28% or less gross monthly income.
3. Total debt should be 36% or less of gross monthly income.

If your debt exceeds these levels, here are some techniques that can help you manage your debt:

1. Set a monthly savings goal for yourself. Ideally, you should be able to set aside 20% of your income for different savings goals (including retirement). It's okay if you're not able to do that right now, but you should identify action steps to get you to that target.
2. If you use multiple credit cards, restrict yourself to using one. This will make it easier to track how much you're actually spending.
3. Set a budget. Budgeting is the cornerstone of any financial plan. With a budget, you know how much you should have in an emergency fund and how much you'll be able to save over the course of the year. You will also be able to set expectations for goal planning. This is probably the hardest part of the financial plan because it is tedious and time consuming (think about how differently you might spend money if you did some mental accounting with every transaction! You might be doing that already).
4. Once you set your budget, you should be able to monitor it relatively easily (monthly or quarterly should be sufficient). If you'd like to discuss any of the strategies above or work with someone to get back on track, feel free to reach out to your Sentinel financial planner.

Market Scoreboard

Index Returns (%)	Q4 2023	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	11.69	26.29	26.29	10.01	15.69	12.03
DJIA	13.09	16.18	16.18	9.39	12.48	11.08
NASDAQ	13.56	43.42	43.42	5.22	17.74	13.65
Russell 2000	14.03	16.93	16.93	2.22	9.97	7.16
MSCI ACWI Ex USA	9.75	15.62	15.62	1.55	7.08	3.83
Barclays Aggregate Bond	6.82	5.53	5.53	-3.32	1.10	1.81

Source: Morningstar
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[1] Chen, Anqi, Siyan Liu, and Alicia H. Munnell. 2023. "What Are the Implications of Rising Debt for Older Americans?" Issue in Brief 23-20. Chestnut Hill, MA: Center for Retirement Research at Boston College.

Dollar cost averaging does not ensure a profit and does not protect against loss in declining markets. It involves continuous investing regardless of fluctuating price levels. Investors should consider their ability to continue investing through periods of fluctuating market conditions. This information is intended to be educational and is not tailored to the investment needs of any specific investor.

Diversification and asset allocation do not ensure a profit or protect against loss.

S&P 500 TR: A market capitalization-weighted index of 500 widely held stocks often used as a proxy for the large-cap segment of stock market.

Russell 2000 TR: Consists of the smallest 2000 companies in the Russell 3000 Index, representing approximately 7% of the Russell 3000 total market capitalization often used as a proxy for the small-cap segment of the stock market.

Barcap Aggregate Bond TR: The Barclays Capital Aggregate Bond Index is a market capitalization-weighted index, meaning the securities in the index are weighted according to the market size of each bond type. Most U.S. traded investment grade bonds are represented. The index includes Treasury securities, Government agency bonds, Mortgage-backed bonds, Corporate bonds, and a small amount of foreign bonds traded in U.S.

MSCI EAFE NR USD: Widely accepted as a benchmark for international stock performance, the EAFE Index is an aggregate of 21 individual country indexes that collectively represent many of the major markets of the world.

DJ US Industrials TR USD: Computed by summing the prices of the stocks of 30 U.S. companies and then dividing that total by an adjusted value--one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies.

NASDAQ: Measures the performance of all issues listed in the Nasdaq Stock Market and is often used as a proxy for the large-cap technology segment of the U.S. stock market.

DJ/UBS Commodity: The DJ-UBSCI is composed of futures contracts on physical commodities and is often used as a proxy for broad-based exposure to the commodity markets.

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