January 2024 Market Update

- Market Commentary
- The Independent Advisors Podcast
- Special Holiday Hours

Market Update

Stocks closed out 2023 strong in the final month of the year. The strength spilled over from November (the strongest month of the year and the 18th best month since 1950, according to The Carson Group!). Once again, seasonal strength showed up exactly where it was supposed to (Q4). Below are the December returns for the popular benchmarks that investors track (Data provided by Y-Charts & Commonwealth Financial Network):

- S&P 500 Index: +3.81%
- Dow Jones Industrial Average: +3.98%
- Nasdaq Composite Index: +4.94%
- Russell 2000 Index: +8.83%
- S&P Target Moderate Risk Index: +4.22%

I apologize for this market update being longer than it usually is. I want to make sure I recap 2023 and look forward to 2024.

2023

If you had gone to bed on 12.31.2022 and woke up on 12.31.2023, you would think it was a pretty smooth ride for markets last year. However, 2023 was all but smooth. Like most other years in recent history, the market, economy, and the world faced some challenges and events that had to be overcome. I have listed a few of those below:

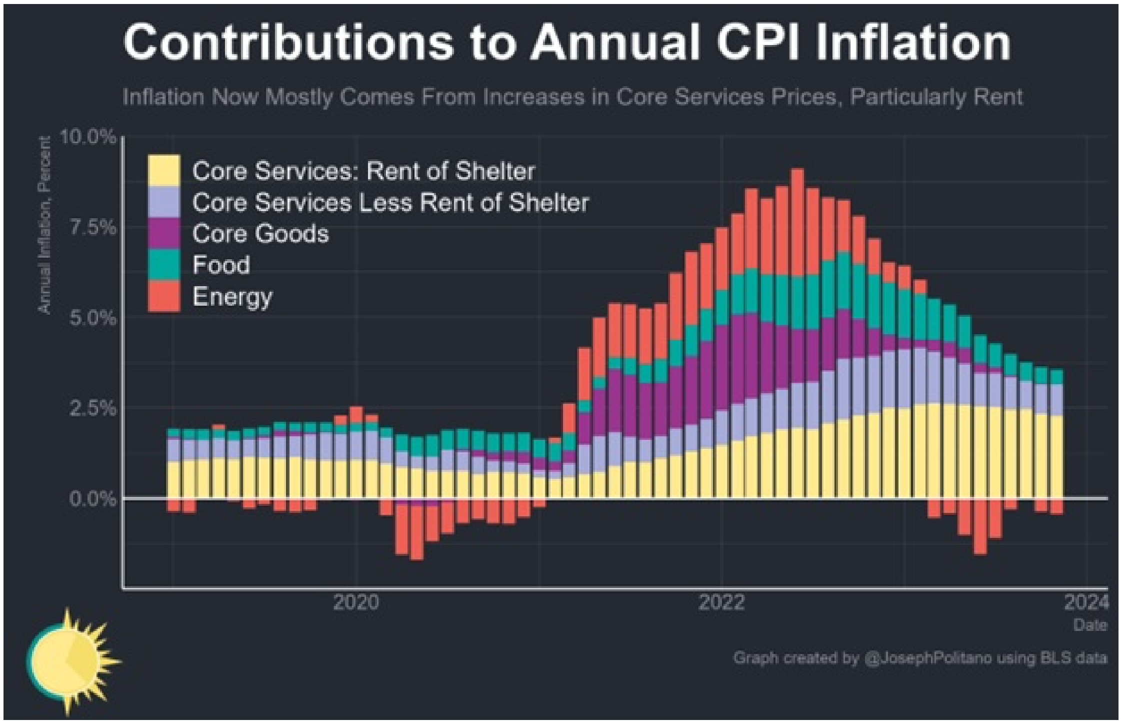
- Recession fears that lasted ALL year, but the US never entered into a formal recession, according to experts
- Several regional banks failed
- Explosion of AI (Artificial Intelligence)
- Conflict in the Middle East between Hamas and Israel
- Presidential elections across the globe
- The Ukraine/Russia war continued on
- Chinese spy balloons
- Natural disasters
- Interest rate hikes and inflation moderating
- House Speaker McCarthy removed (first time a speaker of the house has been removed from office)
- Major mergers and acquisitions

If someone gave you this list of events before the beginning of 2023, you probably would have guessed that the market would struggle and finish the year negative or at least struggle to eke out a small gain. It's a good thing we follow the data and information we have at the time rather than the week's hottest news headline when allocating client portfolios. This is a prime example of why we "stay the course" and stick to our client plans.

Even with everything that took place in 2023, the economy has not slowed down as many analysts and self-proclaiming experts anticipated. Consumer spending remained strong, GDP (Gross Domestic Product) grew faster than estimates, and unemployment remained near record lows. That doesn't sound like an economy on the brink of a recession, does it?

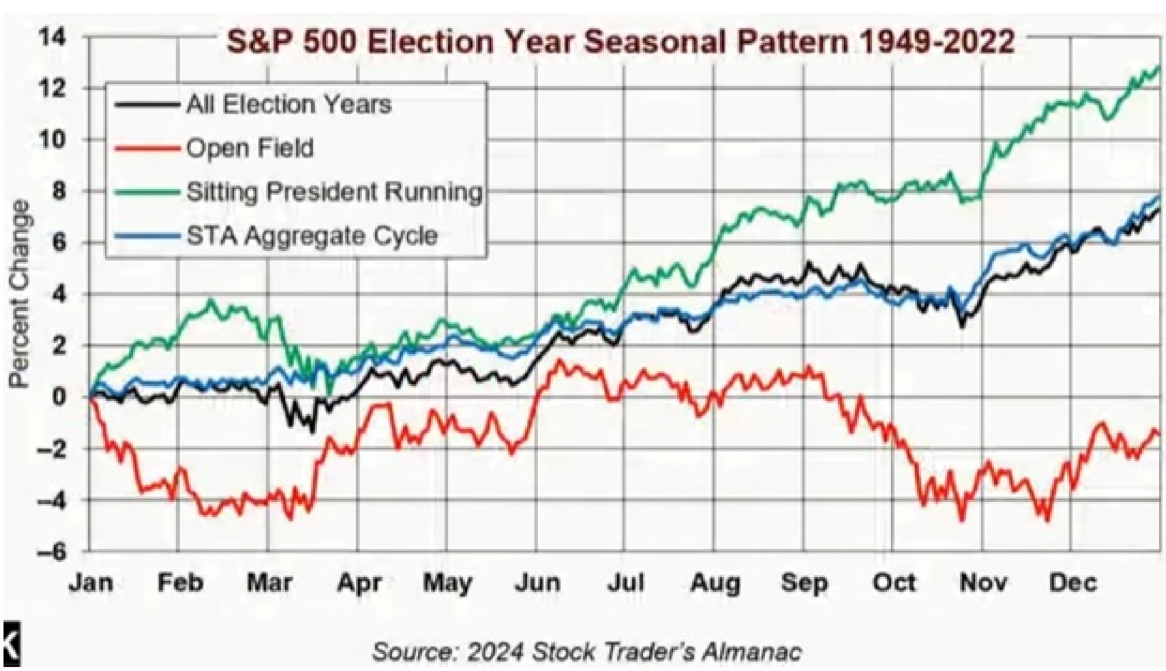
Since COVID, the only thing that mattered to financial markets was inflation and the subsequent global rise in interest rates to combat it. Much to the surprise of the majority, stock markets around the globe were able to post positive returns in a rising interest rate environment. Something many people thought was impossible.

Inflation continued to moderate for most of 2023. The largest current contributor to inflation (as of November 2023) is rent, which is calculated using lagging data. If inflation was calculated with real-time rent, we believe it would be much lower and possibly even below the Federal Reserve's target of 2%.



2024 Outlook

Politics:
The major event on the horizon for this year is the next US Presidential Election, which is set to take place in November. As always, we strongly advocate against political views impacting the allocation of client portfolios. What we ARE interested in is how the market tends to fare in election years. Below is a graphic that shows the average performance of the S&P 500 going back to 1949 in all election years.



As you can see, the strongest election years for the market are when the sitting president is running for reelection (green line), which is the case as of now.

US Dollar:
As I highlighted several times throughout the year on the podcast and in other market update newsletters, the US dollar has had a near-perfect inverse correlation with stocks for quite some time. If the US dollar continues to fall, stocks will remain strong in 2024 and vice versa. Below is an updated chart of the US dollar:

Stocks:
The S&P 500 index finished the year up +24.23% (Source: Y-Charts). I thought it would be a good exercise to examine how stocks performed in the year following a 20% + up year. Below is a graphic from Ben Carlson's blog "A Wealth of Common Sense" on 12.7.23. The summary from the chart that Ben created is also listed below.

Year	Return	Next Year
1954	52.56%	32.60%
1933	49.98%	-1.19%
1935	46.74%	31.94%
1928	43.81%	-8.30%
1958	43.72%	12.06%
1995	37.20%	22.68%
1975	37.00%	23.83%
1945	35.82%	-8.43%
1997	33.10%	28.34%
1955	32.60%	7.44%
2013	32.15%	13.52%
1936	31.94%	-35.34%
1980	31.74%	-4.70%
1989	31.48%	-3.06%
1985	31.24%	18.49%
2019	31.21%	18.02%
1950	30.81%	23.68%

Year	Return	Next Year
1991	30.23%	7.49%
1938	29.28%	-1.10%
2021	28.47%	-18.01%
2003	28.36%	10.74%
1998	28.34%	20.89%
1961	26.64%	-8.81%
2009	25.94%	14.82%
1943	25.06%	19.03%
1976	23.83%	-6.98%
1967	23.80%	10.81%
1951	23.68%	18.15%
1996	22.68%	33.10%
1963	22.61%	16.42%
1983	22.34%	6.15%
2017	21.61%	-4.23%
1999	20.89%	-9.03%
1982	20.42%	22.34%

Data: NYU

- The stock market was up 22 out of the 34 years following a 20% gain (65% of the time).
- The stock market was down 12 out of the 34 years following a 20% gain (35% of the

time).

- The average return following a 20% up year was 8.9%.
- The average gain was +18.8% in up years.
- The average loss was -9.1% in down years.

As a follow-up to my comments at the beginning of this newsletter, I wanted to see how stocks performed after an abnormally strong month (similar to November 2023). Below is a graphic that shows the best 20 months EVER for the S&P 500 and how the index performed over the next 1 month, 3 months, 6 months, and 12 months. As you can see, returns tend to be stronger than average.

The Best 20 Months For The S&P 500 And What Happened Next

		S&P 500 Index Returns			
Month	Return	1 Month	3 Months	6 Months	12 Months
10/31/1974	16.3%	-5.3%	4.2%	18.1%	20.5%
1/30/1987	13.2%	3.7%	5.2%	16.3%	-6.2%
4/30/2020	12.7%	4.5%	12.3%	12.3%	43.6%
1/31/1975	12.3%	6.0%	13.4%	15.3%	31.0%
1/30/1976	11.8%	-1.1%	0.8%	2.6%	1.2%
8/31/1982	11.6%	0.8%	15.9%	23.9%	37.3%
12/31/1991	11.2%	-2.0%	-3.2%	-2.1%	4.5%
10/29/1982	11.0%	3.6%	8.7%	23.0%	22.3%
10/31/2011	10.8%	-0.5%	4.7%	11.5%	12.7%
11/30/2020	10.8%	3.7%	5.2%	16.1%	26.1%
8/31/1984	10.6%	-0.3%	-1.9%	8.7%	13.2%
11/28/1980	10.2%	-3.4%	-6.6%	-5.6%	-10.1%
11/30/1962	10.2%	1.3%	3.3%	13.7%	17.6%
3/31/2000	9.7%	-3.1%	-2.9%	-4.1%	-22.6%
4/30/2009	9.4%	5.3%	13.1%	18.7%	36.0%
5/31/1990	9.2%	-0.9%	-10.7%	-10.8%	7.9%
7/29/2022	9.1%	-4.2%	-6.3%	-1.3%	11.1%
11/30/2023	8.9%	?	?	?	?
7/31/1989	8.8%	1.6%	-1.7%	-4.9%	2.9%
9/30/2010	8.8%	3.7%	10.2%	16.2%	-0.9%
10/31/2002	8.6%	5.7%	-3.4%	3.5%	18.6%
Average		0.9%	3.0%	8.5%	13.3%
Median		1.1%	3.7%	11.9%	12.9%
% Higher		55.0%	60.0%	70.0%	80.0%

All Years (1950 - 2022)

	1 Month	3 Months	6 Months	12 Months
Average	0.7%	2.2%	4.4%	8.9%
Median	0.9%	2.5%	4.8%	10.1%
% Higher	59.8%	64.9%	68.7%	72.6%

Source: Carson Investment Research, FactSet 12/03/2023 (1950 - Current)
@ryandetrick

CARSON

Even though we have a positive outlook on stocks for 2024, we must be prepared for things to not work out as planned. Interest rates have risen sharply over the past year and the last time rates rose this fast was in 1999 – 2000 and from 2005 – 2006. The years that followed were not fun for investors.

In addition, the yield curve (the interest rate of the 10-year US Treasury bond minus the rate of the 2-year US Treasury bond) has been inverted (negative) since the middle of 2022. As shown in the chart below, when the yield curve un-inverts, stocks typically struggle in the months and years ahead. So, in 2024.

- Yield Curve (Green Line)
- S&P 500 (Black Line)

Interest Rates:
Where are rates headed in 2024? My guess is as good as yours. As a reminder, at JWM, we do not like to make predictions because we believe it does more harm than good. Be wary of individuals who tell you they know exactly what will happen to a specific market over a certain period of time.

Currently, the market is betting on four .25% rate cuts. If this came to fruition, interest rates would end in 2024 with a target range of 4.25% - 4.50%, which fits the “higher for longer” theme that we have recently heard throughout the major media outlets. We view this as a strong possibility; however, we know better than anyone that the things that influence rates can change extremely quickly. Bonds should have a strong year if rates continue to fall.

In summary, 2023 was a good year (in general) for investors in global equity markets. More stocks are now making new highs rather than new lows, which bodes well for the new year. We want to continue to see strength among a broad and diverse set of stocks throughout the year.

As always, don't hesitate to reach out to our team with any questions you may have.

From the JWM family to yours, Happy New Year!

Regards,
Mark McEvily
Chief Investment Officer

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Special Holiday Hours

- Our office will be closing early on Friday, January 12th. We will be in the office from 9:00 am to 12:00 pm. From 12:00 pm to 4:00 pm, you can reach us remotely via our office phone.
- Our office will be closed Monday the 15th in observance of Martin Luther King Jr. Day.

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