STABLEPOINT PARTNERS

MARKET UPDATE

SANTA CLAUSE RALLY LED BY THE BULLS!

It has been the incredibly strong year-end rally (7-weeks straight of gains, going for eight) and a huge pivot to a rosier outlook on inflation, Fed cuts and earnings in 2024.

This has been the classic "Santa Claus rally" that happens when bearish outlooks get proved wrong and capital flows back into the markets to play-catch up. Let's not forget our former firm predicted 3300 for the S&P 500 year-end close and we now sit at over 4700 in the U.S. Index of the 500 largest publicly traded stocks.

Why did so many experts get it wrong in 2023?

Well, there are several factors to be sure, however the primary factor, in our opinion, has been the relationship of interest rates to the impact on equity risk premiums in the market. In our November 2 e-mail, *"It's all about interest rates,"* we mentioned the outlook for rates to start to decline in 2024 as deflationary pressures show-up in consumer prices, allowing the Fed to begin to hint at a pivot on their fight against inflation to supporting the U. S. Economy in the New Year.

The 10-year US Treasury rate has dropped from a 2023 peak above 5% in September, all the way down to 3.95% as of this writing in mid-December. Over that same time frame, we have received stronger than anticipated corporate earnings, a significant decline in oil and commodity prices and a consumer that is poised to spend through the holiday season. Tack-on a Fed meeting last week in which the path to rate cuts in '24 was finally articulated the U.S. Public and you get the Dow Jones Industrial Average having jumped 4,000 points to new heights.   This provided the perfect backdrop for a holiday season rally when over $5 trillion was in cash and money markets across the country.

Further, if you look closely on the drivers of performance the number of weeks, the "unloved" sectors that had been rate sensitive in '22 & '23 (regional banks, real estate investment trusts, U.S. Multi Nationals) have all provided leadership in a broadening of market breadth. From a market-cap perspective, large-cap stocks had had outperformed their small-cap counterparts by the most significant margin in decades through the 3Q, then drop in yields, and small-caps have had their best return month of the year.

With that in mind, our clients should be reminded that capital markets in general often have short-memories and leadership changes from a performance standpoint happen quickly, therefore timing such moves is a guessing game. Rather, one should stay diversified and work towards risk related returns to achieve your personal planning needs.

As our team attempts to forecast the New Year, our outlook is one of optimism for diversified investors, but we remain cautious in the short-term given global economic growth is slowing and the landscape around real interest rates (inflation adjusted) has not defined itself yet. The geo-political landscape will be a focal point and distraction for market participants again, and earnings growth will be essential to keep the bulls charging at today's valuations.   This past year's huge jumps in areas like the "magnificent 7" tech stocks and AI related companies may be presenting an opportunity to rebalance to sectors and take gains and asset classes that were underappreciated this year should be considered if producing free-cash flow and have reasonable balance sheets.

Bonds and various debt instruments should continue to offer a very appealing risk/reward scenarios relative to the prior years as continued declines in interest rates should be very supportive of bond prices. Finally, we believe investors should place a greater emphasis on other alternative assets outside of stocks and bonds, such as private credit, infrastructure, and global real estate to lower correlations in their portfolio.

Bottom line let's keep the gum drops and candy canes coming as the Bulls may be in charge for those with the appropriate allocation and patience to stay invested.

Please explore the 2024 Macro outlook from Goldman Sachs linked to our site here: https://stablepointpartners.com/news-insights/

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