Market Commentary: Q4 2023

Quarter in Review

Markets shook off one of the worst October performances in years to finish with a flurry in the last few months of 2023.

The "everything rally" at year-end culminated with the S&P 500 finishing the year with an impressive 24% gain, coming oh-so-close to its record high from January 2022. The Dow Jones Industrial Average climbed 14% and surpassed 37,000 for the first time while scoring seven new closing records in the final days of 2023. Meanwhile, the NASDAQ Composite experienced a phenomenal ride fueled by the excitement surrounding artificial intelligence and big technology stocks, skyrocketing up 43% for the year.[1]

Bond markets also participated in the rally, posting one of the best two months on record. The Bloomberg Global Aggregate Total Return Index has seen an impressive rise of nearly 10% over November and December, marking its strongest two-month performance since data collection began in 1990.

Yields on 10-year U.S. Treasuries, a widely recognized global borrowing benchmark, have significantly declined by over 110 basis points since their peak of 5.019% in October to finish the year at 3.87%. Furthermore, investment-grade corporate bonds have experienced a remarkable rally, delivering a return of almost 11% since the start of November and heading toward the best two-month gain on record, according to a Bloomberg Index dating back to 2001.[2]

The year-end rally has been dramatically influenced by the excitement and confidence of market participants, relieved by the absence of a recession that had worried many throughout 2023, the ongoing strength of consumer spending bolstering a remarkably resilient U.S. economy, and declining inflationary pressures leading to changes in interest-rate expectations for 2024, prompted by the Federal Reserve's suggestion of possible rate cuts during its last meeting of the year.

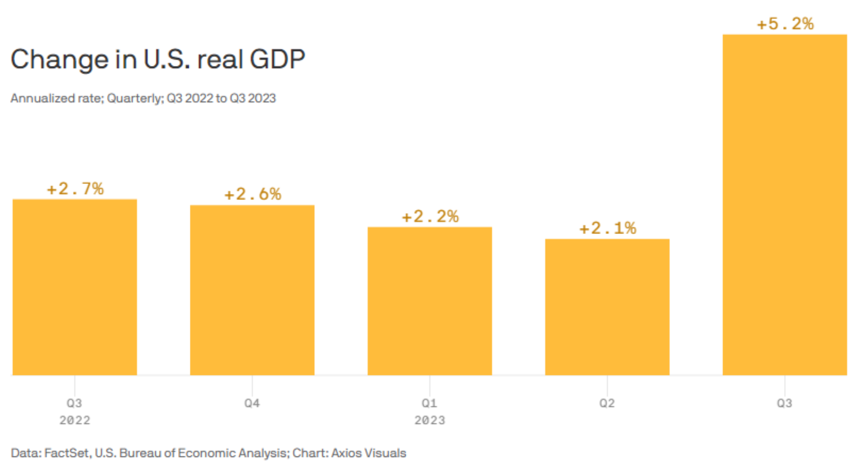
What's Been Driving Markets

The Economy, Inflation & the Fed

The U.S. economy showed steady growth in 2023. It expanded at an average annualized rate of 3.2% in the first three quarters, and another 1.3% is projected for Q4. In November, inflation decreased to 3.1%.

The job growth rate in the United States exceeded expectations, while unemployment dropped lower than anticipated. According to the U.S. Bureau of Labor Statistics, total nonfarm payrolls increased by 199,000 last month, surpassing the consensus survey, which predicted a gain of 185,000.

The ongoing robust job market and decelerating inflationary pressures have market participants feeling optimistic about a "soft landing" without a recession as we roll into 2024.



Vibecession

In early December, Dictionary.com introduced a new word to its lexicon: "vibecession." The term refers to a period when people feel generally pessimistic about the economy, regardless of its actual state.

Despite the economy doing relatively well based on financial data and statistics (back to or exceeding pre-pandemic levels), the public feels pessimistic about the current or future economic situation. While the terminology is new, the disconnect between people's perceptions and objective economic indicators is well documented across time.

Economy Better in 2023 Than 2019 Pre-Pandemic

Variable*	Trump 2019 Annual Average	Biden 2023 Average*
Unemployment rate	3.7%	3.6%
Job creation rate per month (000s)	163	239
Real GDP per capita	$62,606	$66,501
Employment to Population Ratio Age 25-54	80.0%	80.7%
Real Wage, Production & Non-Supervisory Workers (2023 $)	$28.29	$29.10
Real Net Worth Per Household for Bottom 50% (2023 $)	$36,696	$53,153
Real Net Worth Per Household For 50th to 90th Pct. (2023 $)	$717,469	$778,604
Stock Market (S&P 500)	2,913	4,243
Uninsured (Millions)*	32.8	25.0

Source Data: Federal Reserve Economic Data (FRED), CDC
Real = Adjusted for inflation.
*Latest 2023 data as of 12.06.23; quarterly data through Q2 or Q3 2023). Uninsured is Q1 2023 vs. 2019.

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Research has shown that Americans consistently overestimate the negative aspects of various economic measures. By significant margins, they believe that inflation continues to rise (while it is actually falling), that it has outpaced wage growth (when wages have actually outpaced prices), and that they have become less wealthy (even though they have become significantly wealthier).

Overall, the concept of vibecession sheds light on the disconnect between people's perceptions and objective economic indicators. While it seems to have had little to no effect on consumer spending or markets thus far, it bears watching as a potential source of shifting investor sentiment and volatility during a contentious political season in 2024.

1 Banerji, G., "What Did Wall Street Get Right About Markets This Year? Not Much," Wall Street Journal, December 29, 2023. https://www.wsj.com/finance/stocks/what-did-wall-street-get-right-about-markets-this-year-not-much-7d4368fe

2 Carson, R. & Kondo, M., "Global Bond 'Carnival' Sets Stage For Record Two Months," Bloomberg.com, December 28, 2023. https://www.bloomberg.com/news/articles/2023-12-28/global-bonds-eye-biggest-ever-two-month-gain-amid-rate-cut-bets

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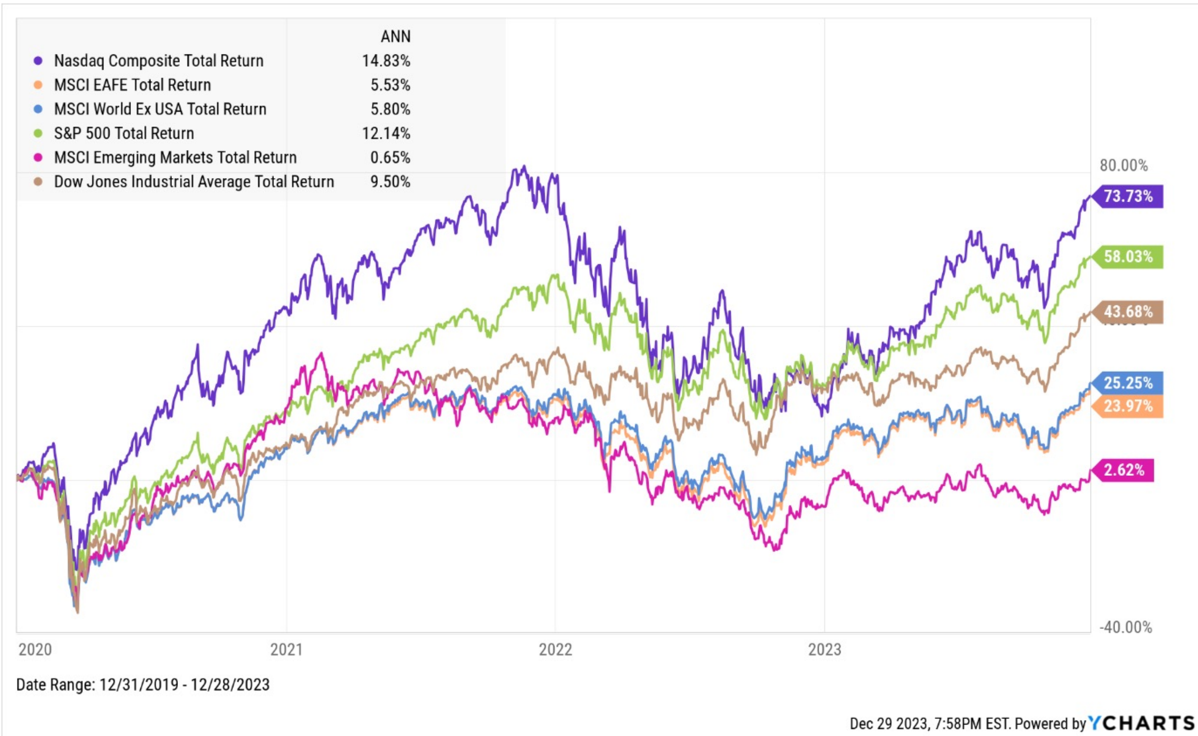
Final Thoughts

The past four years have been a rollercoaster ride for markets as the world has reacted to a pandemic, inflationary aftershocks, wars in Europe and the Middle East, and historic central bank activity.



The subsequent volatile swings have left investors, at times, feeling both euphoric and depressed. This isn't irrational. It's an observable phenomenon across time. As humans, we're prone to focus on what is happening at the moment and place a good deal of weight on the importance of recent events.

2023 has been a good year for investors. 2024 may not be as good. Or it may be better.

Like a rollercoaster, trying to time the ups and downs of the ride and getting off while it's in motion is how you get hurt. The best action is to stay on the ride until you reach the final destination.

Enjoy the highs, endure the lows, and focus on your long-term goals.

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