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WEALTH MANAGEMENT

The Good Year That No One Seemed to Like

"Prediction is very difficult, especially if it's about the future!" – Niels Bohr

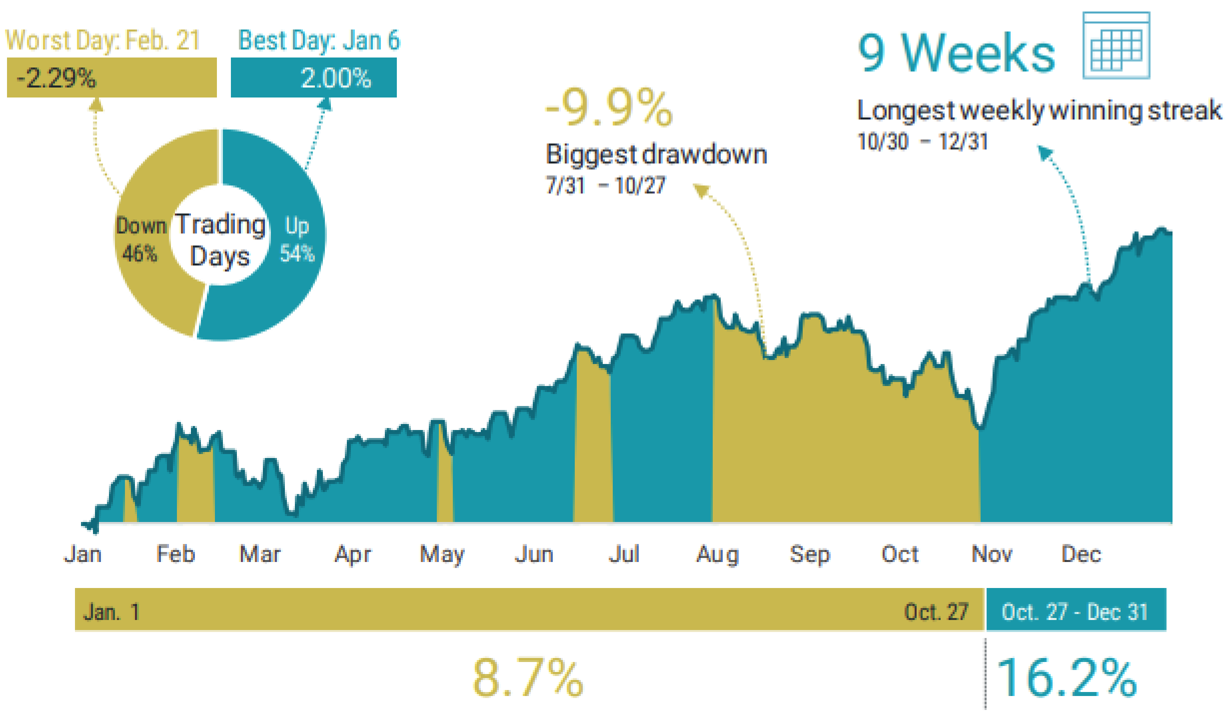
Let's take inventory of what happened in 2023.

- A Chinese spy balloon was shot down over US territory.
- The second-, third-, and fourth-largest banking collapses in US history occurred within a month.
- The Federal Reserve hiked interest rates above 5%.
- Congressional brinksmanship created a US debt default crisis and US creditworthiness was downgraded.
- Open war was sparked in the Middle East.

Bleak year, huh? For so much of the year, there was this gaping disconnect between general sentiment, consumer confidence, or "vibes" and the actual performance of both economy and financial markets.

Well, S&P 500 ended the year up over 20%. The Dow Jones Industrial Average notched several new all-time highs in the year's waning days, and every notable asset class was positive on the year, many posting double-digit gains, as well.

The market went on a nine-straight week winning streak to close out 2023. That hasn't happened in twenty years!

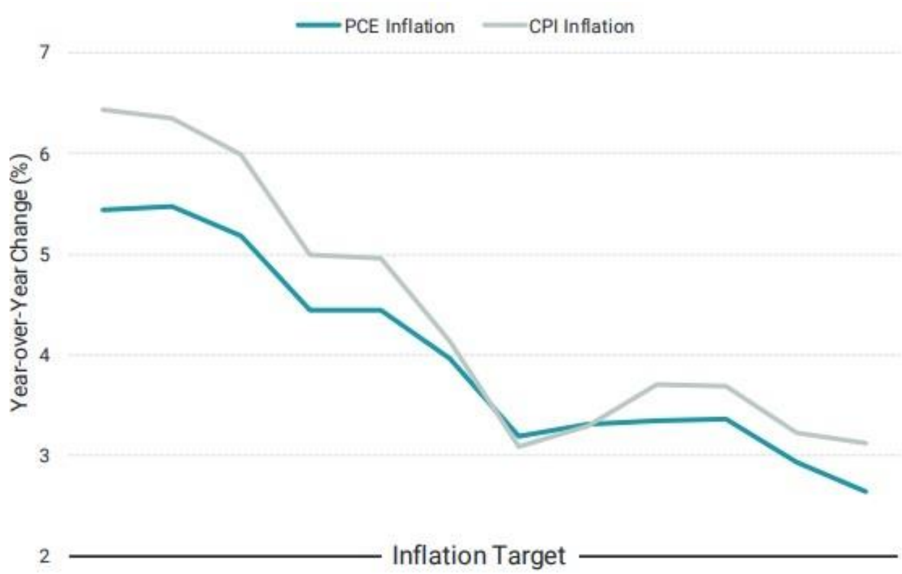


Source: Chart – Avantis; Data – US Bureau of Economic Analysis from FRED, 12/1/2022 – 11/30/2023

Bloomberg ran a piece at the end of 2022 with the headline *"Forecast for US Recession within Year Hits 100%"* in which their forecasting models illustrated that a recession was "certain" to occur within the 12 months following publication[1]. The Financial Times ran a survey of economists that showed 85% believed a recession would occur before the end of 2023[2]. How was everyone so wrong?

The Federal Reserve has a dual-mandate - 1. Stable prices; 2. Full employment. With the aggressive hiking of interest rates, it sure seemed like they were punting on #2 to try and get #1 under control. Historically, when interest rates have risen, companies had reduced hiring and suppressed wages which then led to reduced demand which fed into economic contractions. So, when interest rates rose, it was only natural for most students of economic history to believe that we were on a collision course with a recession.

I will admit to (privately) indulging in the pessimism that was swirling around a year ago. At times, it sure seemed like a recession may be the necessary evil to tame inflation. But, then a funny thing happened. Inflation gradually subsided throughout the year, employment didn't retract, and the Fed took its foot off the pedal on interest rates.



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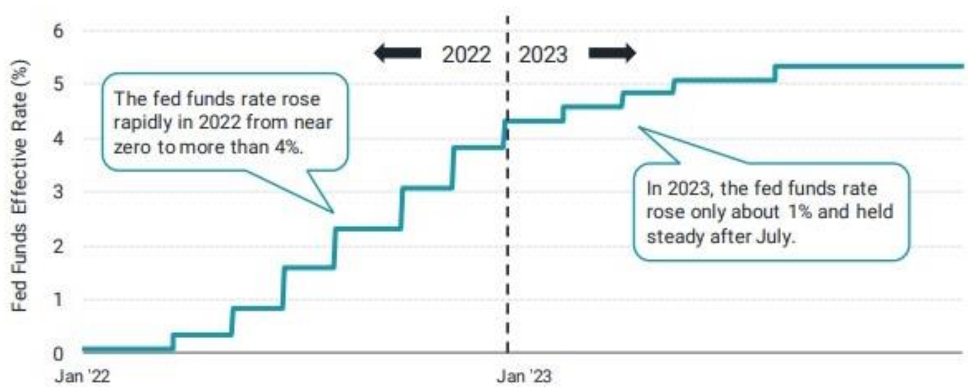
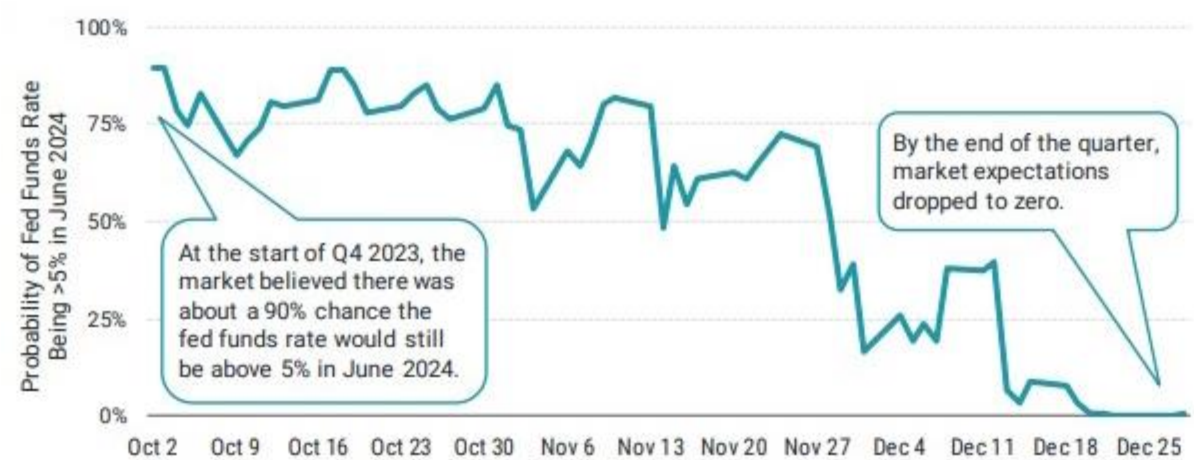


Source: Chart – Avantis; Data – FRED, 1/1/2022 – 12/31/2023

Not only that, but comments made by Fed Chairman Jay Powell late in the year, makes it seem like rate cuts are on the table throughout 2024.



Source: Chart – Avantis; Data - CME FedWatch, 10/1/2023 – 12/31/2023

The thing about economics and markets and human nature in general, honestly, is that no one really knows anything… ever. If predicting the future were as easy as picking the obvious low-hanging fruit trends that are readily apparent to anyone who has opened an issue of The Wall Street Journal in the past month, then we'd all be fabulously wealthy. The things that move markets or that truly change the economy are the unknown-unknowns – COVID, for instance. There's a lesson here about diversification and not trying to time markets, but I've beaten that drum enough recently.

So, what's in store for 2024? Well, if you want the answers, you haven't been listening. The only certainty has always been uncertainty.

Already in the early days of 2024 we have seen the SEC approval of spot Bitcoin exchange-traded funds. And in the week since, Bitcoin has *fallen* by about 10%[3] - countering consensus predictions for the cryptocurrency following a presumed SEC clearance.

I'm sure I don't need to remind anyone that there is a US presidential election this year. I'm sure it will be as awful as ever. Someone will win and a lot of people will be angry and concerned about how four more years of Biden/Trump will impact their portfolios. We'll have plenty of graphs and charts to share in the coming months about how the president or party in power has historically shown very little impact on market returns.

The great news about markets and investing is that you don't need to make predictions to have a good investment experience. We build portfolios and financial plans knowing that we don't know what will happen. Our focus remains on thoughtful strategies, long-term goals, and being ready for the unexpected.

I hope you had a happy holiday season and are ready for whatever 2024 may hold.

[1] Wingrove, Josh. "Forecast for Recession within Year Hits 100% in Blow to Biden". Bloomberg. October 17, 2022. Accessed January 10, 2024.
[2] Temple-West, Patrick & Fedor, Lauren. "Recession will hit a third of the world this year, IMF chief warns." Financial Times. January 1, 2023. Accessed January 10, 2024.
[3] Price Source: Binance, 1/10/2024 – 1/18/2024.

Past performance is no guarantee of future results.