

YEAR END 2023 INVESTMENT WRAP-UP

LETTER FROM OUR CIO

JANUARY 6, 2024

2023 YEAR IN REVIEW

As we usher in a new year, we find it pertinent to reflect on the key economic issues that shaped 2023 and how the markets reacted. Let's start by looking at what we put together in last year's outlook. The most overused word in financial media last year was "RECESSION". The good news is, this much anticipated and forecasted recession did not play out. As we had expected, it appears that a soft landing is the path that the US and global economies will take. However, the jury is still out. The economic landscape witnessed significant shifts, presenting both challenges and opportunities for investors, businesses, and policymakers alike. Some key items include:

- The ongoing global supply chain disruptions in the aftermath of the COVID-19 pandemic continued to cause elevated prices. However, the US experienced a slowing of inflation as we progressed through 2023. In January, the CPI year-over-year reading was 6.4% but we ended the year with a reading of 3.4%. Moving in the right direction.
- People remain employed at a very strong rate. The unemployment rate has remained stubbornly low, hovering between 3.5% and 3.7% for most of the year. In addition, we have seen solid payroll and wage gains. The Fed has been concerned about a strong labor market causing an uptick in inflation.
- As a result of the cooling inflation numbers, the Fed was able to slow the pace of rate hikes in 2023, only raising rates by 1.0% in the year. The last rate hike in July would seem to be the final rate hike of this cycle that began in March of 2022 and saw rates rise by 5.25%.

So, what impact has this had on the markets? Escaping the dreaded recession that was priced into the markets in 2022 was a positive for global stock markets. However, not all markets fully participated in the rally at the same level. In fact, 2023 is really a tale of two types of markets. We coined a new phrase last year, the "Magnificent Seven". This refers to the seven largest mega cap stocks in the S&P500. Here are some interesting items that we observed in the markets in 2023:

- While the S&P500 returned 24% in 2023, it was largely driven by the Magnificent Seven. Just the basket of those stocks was up over 100% last year! If you look at an equal weighted index of the S&P500, which measures the breadth of the US stock market, that calculation was +10% for 2023. So roughly 60% of the return in the S&P500 was driven by the 7 largest stocks!
- The rest of the global markets did not quite participate at the same level as the S&P500. The Dow Jones Industrial Average was +14%, same as the Russell Small Cap index. Foreign stocks lagged slightly, with Europe +13%.

In addition to the strong stock market in 2023, the Bond market in the US also returned to positive total return performance after a very difficult 2022. The Bloomberg Aggregate Bond index was up over 5% in 2023 thanks to a drop in interest rates during the 4th quarter of the year.

2024 OUTLOOK

As we head into 2024, we can't help but look at the numbers. Here are a few key statistics that we are relying on as we think through the forecast for 2024 and how to position portfolios accordingly:

- Market multiples in the US are priced for the base case economic scenario of a soft landing with the potential for 3-6 rate cuts from the Fed. The 12-month forward-looking P/E multiple of the S&P500 is 20X, which is generally higher than the average (16X) but not alarmingly high. It is just a bit higher than the level we entered 2023 at 19X.
- Analysts are projecting over 11% earnings growth in the S&P500 index for 2024, which should provide a solid foundation for positive returns.
- Value stocks once again look cheap after a resurgence in the growth stock performance in 2023. The P/E ratio of the Russell 1000 Value is 17X while the P/E ratio of the Russell 1000 Growth is 33X.
- International stocks continue to look cheap on a relative basis, trading at 14X earnings.

While trends and data can change, we believe that the above trends are positive. Corporate America proved to be resilient in 2023, and we believe that earnings will hold up reasonably well in 2024. Portfolios were well positioned in 2023, having added to growth in September. Looking ahead to 2024, here are some thoughts:

- With interest rates having come back down a bit in Q4 2023, we have probably seen the last of the rising rates. The question in 2024 will be when we see the rate cuts from the Fed. Our guess is that we will see approximately three rate cuts, but they will likely be a quarter of a point and spread out over a few quarters. So floating rate fixed income still has some value, and we are sticking with the preferred exposure.
- We will look for an opportunity throughout the year to shift out of the Growth overweight and into Value. We are still leaning portfolios to Quality over Core. Quality represents companies with high return-on-equity and low debt-to-equity. We are targeting specific growth through Technology, Industrials and Healthcare. And we recently added a fund that is designed to benefit from the global buildout of the energy grid.
- US and Asia should continue to outperform Europe and Japan. We remain overweight US vs. International, though the foreign markets continue to trade cheaply vs. the US on a valuation basis.

In summary, 2024 will likely be a continuation of 2023, as the US economy continues to glide towards a soft landing and corporate profitability remains strong. At Legacy Edge Advisors, we have positioned portfolios to reflect not only the risks inherent in today's economy, but to take advantage of the potential that exists. We are nimble enough to react quickly if anything should change. We are here to help grow your wealth and protect your legacy. Happy New Year and we look forward to speaking soon!

Regards.

Jason



Jason Kass, CFA, CFP®
Chief Investment Officer & Sr. Portfolio Manager
Legacy Edge Advisors

DISCLOSURE

The information contained herein is for informational purposes only, is not personalized investment advice and should not be construed as a recommendation to purchase or sell any particular security, sector or strategy to any individual person or entity. The decision to review or consider the purchase or sell of any security, sector or strategy mentioned should not be undertaken without consideration of your personal financial information, investment objectives and risk tolerance with your financial professional. Past performance should not be considered as an indicator of future results. All market quote data sourced from Yahoo Finance. Investment advice offered through Legacy Edge Advisors, LLC, a registered investment adviser.