

## Lessons from 2023 and Outlook for 2024

### Important Lessons from 2023

Stocks defied the skeptics in a very unpredictable 2023. Bond portfolios, which struggled mightily along with stocks in 2022, staged a furious late-year rally. Last year was especially gratifying given the pessimism at the outset. It also offers some important lessons for investors:

- **Don't always follow the herd.** They're right at times, but wrong more often than you think. As recently as May 2023, Wall Street strategists forecasted 4,017 for the S&P 500 at year end—about 19% too low. Stocks rise about three times as often as they fall, so be wary of bearish herds.
- **Consider cycles and trends.** Stocks rarely fall two years in a row. Year three of the four-year presidential cycle (e.g., 2023) has been the best over time. Bear markets tend to recover losses in under a year in the absence of recession (the last bear ended in October 2022). Historical cycle averages point to mid-to-high single-digit gains for stocks in 2024.
- **Don't bet against the U.S. consumer.** Every economic cycle is different, but the post-pandemic recovery distorted the economy such that traditional economic indicators misled many economists. One takeaway here is stimulus matters—for example, low interest rates, stimulus checks, student loan forgiveness, and even infrastructure spending. Another takeaway is that consumers with jobs will spend. The unemployment rate remains near 50-year lows.
- **Focus on the long term.** This unusual economic cycle made it extremely difficult to predict where stocks were going, reminding us that "time in the market" is a better mantra than "timing the market." Waiting it out through the down periods, even through wars, a banking crisis, and widespread calls for recession, is the best approach for nearly all investors.

These are all great lessons to tuck away as we turn to 2024.

### Outlook 2024: A Turning Point

In 2024, we believe markets will make a definitive turn to a more recognizable place. Where the last two years had investors focused on inflation, market volatility, and striving for a sense of economic balance, we expect to see some return to the previous status quo, characterized by more familiar and steadier economic and market patterns. We've seen indications of this reset—receding inflation, rates stabilizing, more modest stock market performance, and go-forward economic forecasts that have been dwindling.

It doesn't mean that 2024 won't have its own surprises or potential challenges. Reflecting on 2023, we certainly experienced our fair share of unexpected events. There were positives, such as the strength of the U.S. economy and the stock market, despite the Federal Reserve (Fed) raising interest rates. On the downside, we faced a regional banking crisis driven by interest rate risk and saw escalating conflict in the Middle East, reminding us that markets are seemingly constantly overcoming obstacles.

So where does that leave us for the first half of 2024? We do expect the economy to soften mildly, which is what the Fed has been looking for over the past two years. The uncertainty surrounding a potential recession may limit stock gains as 2024 begins, but it could also provide a silver lining if the Fed eases rates as a result.

The rate and earnings cycles are likely to have a greater impact on stocks, as investors focus on the anticipated decline in interest rates and return of growth in earnings. With this in mind, we see growth opportunities in bonds, which should offer decent returns with lower risks compared to stocks. Ultimately, we expect both stocks and bonds to perform well and provide ample opportunities.

With inflation down, unemployment low, corporate fundamentals in good shape, and the Federal Reserve poised to cut interest rates, the ingredients for another profitable year are in place. We will help you navigate this turning point and work toward achieving your goals. And at the end of the day, that's what it's all about.

We wish you a joyful and prosperous 2024. As always, please reach out with questions.

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