

~ Prevailing Winds ~

A Quarterly Market Update

December 31, 2023

Quarterly Recap:

Our editions of "Prevailing Winds" typically provide a recap of market events over the past calendar quarter. For this edition, we wanted to take a step back and comment on the major themes that have emerged over the past two years. Think about where the world was two years ago- We were just beginning to put the pandemic behind us; no one was sure what the "new normal" would look like; the risk of inflation was dismissed as something that was transitory. There was a sense of optimism and yet the future was unknown (and remains so!).



The Bond Market:

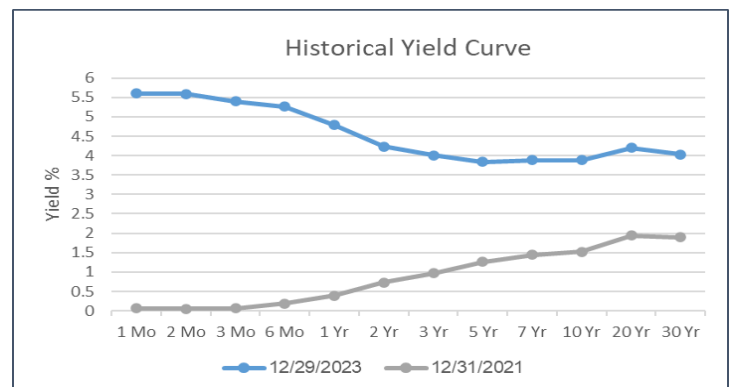
The bond markets arguably went through the most dramatic transformation. As you recall, interest rates were capped at very low levels since the financial market collapse in 2008. Now, both the Fed and the market seem to be resolved that short term rates will not return to zero. There is wide disagreement on what "normal" interest rates will be going forward and interest rates will continue to be volatile. Still, investing in fixed income has become fundamentally more attractive and more of a viable option for investors in nearly a generation.

Two Years Ending December 31, 2023

Equity Indexes	Close	% Change
DJIA	37689.54	3.7%
S&P 500	4769.83	0.1%
NASDAQ	15011.35	-4.0%
Treasuries	Close	Change
10-Year Yield	3.88%	2.36
2-Year Yield	4.23%	3.50

The Stock Market:

Stock investors spent a good portion of 2022 fearing the possibility of runaway inflation and the pain caused by higher interest rates. In 2023, this intensified into a belief that a recession was unavoidable. A handful of stocks rose higher fueled by the prospects for artificial intelligence ("AI"). The remaining majority of stocks languished in comparison. Almost like a fairy tale, these concerns lifted in the final months of 2023. The fear of an inevitable recession was replaced by dreams of a soft landing. Despite all of the drama, trepidation, and speculation, the stock market has changed only modestly over the past two years!



Looking Ahead:

Reviewing the past two years highlights the importance of focusing on the long term. The future is never simply the extrapolation of near term trends. It is also unwise to assume that one can accurately predict the many variables that drive financial markets, including the shifts in investor sentiment. It is more important to #1-Know where you are, #2-Know where you want to be, #3-Have a coherent plan on how to get there, #4-Have confidence that despite the unknowns and ups and downs, a prudent strategy and time-tested investment principles win out. This is a four-point plan as we enter a new year. May you all enjoy a healthy and prosperous 2024.