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MARKET MINUTE

DECEMBER REVIEW 2023

This month's Market Minute reflects the views of our Investment Office and was composed by
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OVERVIEW

The Santa Claus rally that started in October continued with gusto in December. Equity markets posted record highs for the Dow Jones Industrial Average and the NASDAQ indices, while the S&P 500 approached the all-time highs set nearly two years ago.[1] For fixed income investors, the Bloomberg Global Aggregate Total Return Index posted its biggest 2-month gain on record over the November and December period.[1] The impetus for such positive momentum was the market's interpretation of the December 13th Federal Open Market Committee's (FOMC) Summary of Economic Projections, which reflected a Fed that was finished hiking rates and was prepared to lower rates in the new year.

The widely-forecasted economic recession has now been replaced by the seldom achieved soft landing. Moderating inflation and a stable labor market leading to lower interest rates have investors giddy over the prospects for 2024.

U.S. EQUITY MARKETS As of December 31, 2023

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	4.9%	13.1%	16.2%	16.2%
S&P 500	4.5%	11.7%	26.3%	26.3%
Russell 2000	12.2%	14.0%	16.9%	16.9%
Russell 1000 Growth	4.4%	14.2%	42.7%	42.7%
Russell 1000 Value	5.5%	9.5%	11.4%	11.4%

U.S. equities traded higher in December with the S&P 500 notching nine consecutive weeks of gains—the longest streak since 2004—and small cap stocks soaring.[1] The S&P 500 Index gained 4.5% in December, while US small caps (Russell 2000 Index) gained +12.2% in December. Value-oriented stocks outgained growth-oriented stocks during the month (Russell 1000 Value Index +5.5% and the Russell 1000 Growth Index +4.4%). Every sector gained in December except Energy stocks (S&P 500 Energy Sector Index -0.1%) which traded down slightly as oil prices (WTI Crude) traded below $75 per barrel for most of the month.[1]

INTERNATIONAL EQUITY As of December 31, 2023

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	5.0%	9.8%	15.6%	15.6%
MSCI EAFE	5.3%	10.4%	18.2%	18.2%
MSCI Emerging Markets	3.9%	7.9%	9.8%	9.8%
MSCI EAFE Small Cap	7.3%	11.1%	13.2%	13.2%

International equities also rallied in December with the MSCI EAFE Index gaining +5.3% and the MSCI Emerging Markets Index gaining +3.9%. As in the US, international small cap companies outperformed their largest cap peers (MSCI ACWI ex US Small Cap +6.4% vs. MSCI ACWI ex USA +5.0%). Non-US equity returns were aided by a weakening US dollar particularly against developed market currencies like the Euro. Emerging Market equities had positive returns in December but lagged both US and international developed market gains largely due to Chinese equities which declined (MSCI China Index) by -2.4% during the month.

FIXED INCOME As of December 31, 2023

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	3.8%	6.8%	5.5%	5.5%
BarCap Global Aggregate	4.2%	8.1%	5.7%	5.7%
BarCap US High Yield	3.7%	7.2%	13.4%	13.4%
JPM Emerging Market Bond	4.8%	9.3%	10.5%	10.5%
BarCap Muni	2.3%	7.9%	6.4%	6.4%

Since peaking at 5% on October 19th, the 10-year Treasury bond yield declined to close the year at 3.88%, right where we started 2023.[1] December was much like November, in that this was not just a quality rally, since even so called "risk" assets delivered impressive returns – the Bloomberg US Corporate High Yield Index was up +3.73%[1] while the JPMorgan Emerging Markets Bond Index total return was + 4.81%[2]. Again, the real stars in the December rally were long duration assets – the Bloomberg 25+ Year Treasury Index rose 9.32%, while the Bloomberg 25+ U.S. Corporate (Investment Grade) Index was up 8.39%[1]. Given the wild ride we saw in 2023, with 10-year yields declining to a low of 3.31% in April and rising steadily for the next six months to 5%, fixed income investors were relieved to earn a return of 5.53% for the Bloomberg Aggregate Index after declining for an unpresented two consecutive years.[1]

CONCLUSION & OUTLOOK

Investors should not be surprised if we see a repeat of 2023's volatile ride in 2024. Although the Fed's outlook is for an ease in its monetary policy, it is just a forecast, not a declaration. Yes, the Fed is pleased with the low unemployment rate, but the growth in wages (+4.0% - U.S. Average Hourly Earnings (YOY) as of 11.30.2023) well exceeds the Fed's 2% inflation target. The NFIB survey of small businesses asks 10,000 firms if they plan to increase wages over the next three months. The recent acceleration in the share of firms saying yes suggests that wage growth could increase in the first half of 2024.[1] Additionally with housing prices currently rebounding, the risks are rising that the shelter components of inflation will stay elevated and complicate the Fed's path back to the 2% inflation target. The path of inflation is likely to be anything but a straight line to the Fed's 2% target and markets may be setting up for disappointment.

SOURCES

1 Bloomberg LP
2 https://markets.jpmorgan.com/#research.emerging_markets.index