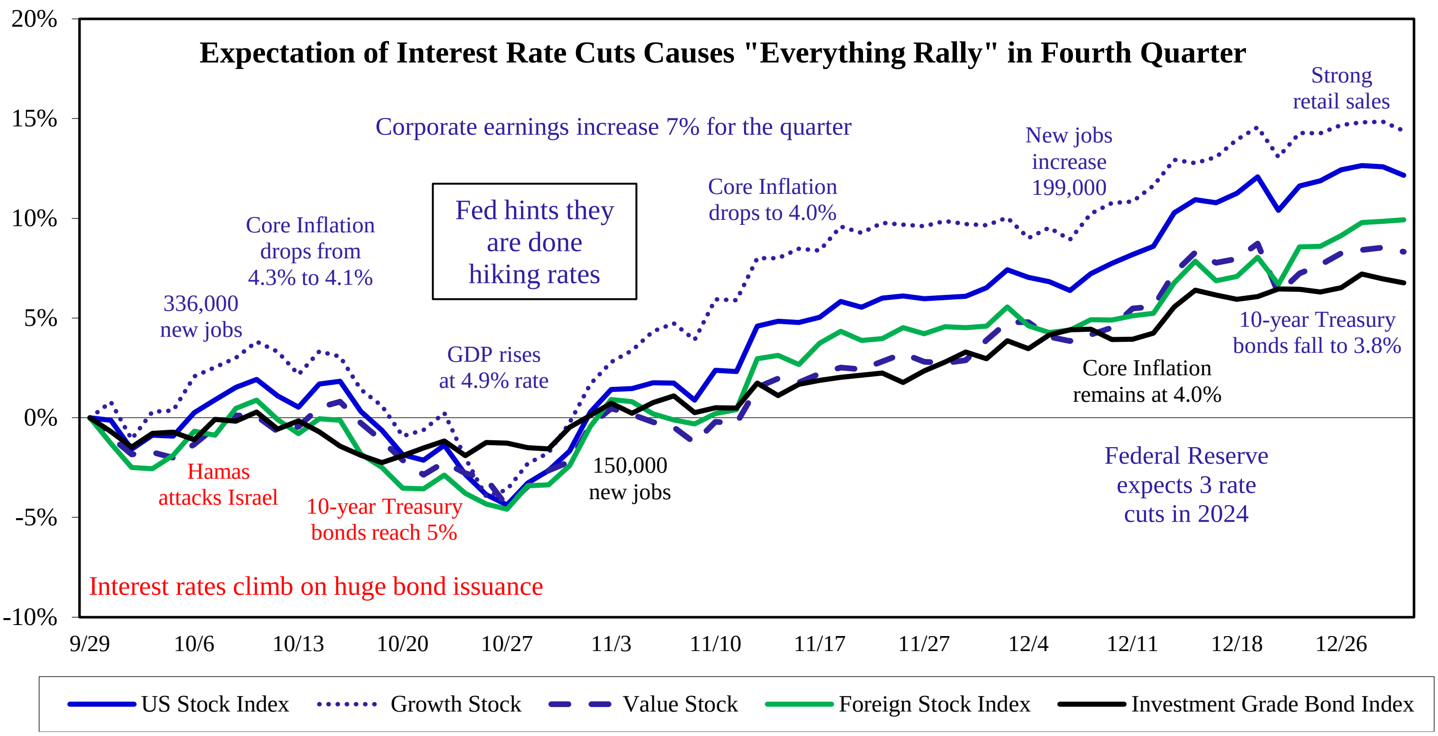
Economic and Financial Market Summary
Fourth Quarter 2023

Disciplined Investors LLC

Since the Federal Reserve started hiking interest rates almost two years ago, investors have been searching for hints that the rate increases were ending and cuts were coming. After inflation reports showed further declines and the number of new jobs being created moderated, Fed officials started to express concerns that they could leave rates too high for too long which could sink the economy. In early November, the Federal Reserve held rates steady and said they might be done raising rates. In December, the Fed Governors projected three rate cuts in 2024. This pivot by the Fed was a green light to investors and started what some people have called the "Everything Rally" because U.S. stocks, foreign stocks, bonds, gold, and bitcoin all surged.

The strong fourth quarter completed a very surprising year for stocks. Investors began 2023 in a gloomy mood after the sharp losses for both stocks and bonds in 2022. Most economists predicted a recession in 2023, but the economy was resilient despite the much higher interest rates that caused a banking crisis in March. Global conflicts and the political dysfunction in Washington were shrugged off and U.S. consumers kept spending. Excitement over Artificial Intellegence boosted technology stocks. The markets were led by the "Magnificent Seven" (Apple, Microsoft, Amazon, Alphabet, Nvidia, Tesla, and Meta Platforms). U.S. stocks soared 11% in the fourth quarter and 24% for the year. Foreign stocks gained 9% for the quarter and 13% for 2023. Bonds returned nearly 7% for the fourth quarter after being fairly flat through September.



Achieving a "soft landing" is still not guaranteed and several economists remain pessimistic saying a recession is possible. Some think investors have gotten too bullish and valuations are more expensive than a year ago especially for the Magnificent Seven that has nearly doubled. This narrow market leadership concerns more than a few on Wall Street, but the recent rally broadened to include value stocks and small and mid-cap companies. A key factor will be if corporations can achieve the expected double-digit earnings growth in 2024 despite the economy only expanding by 1% or 2%. With investors holding $6.1 trillion in money market funds (29% more than pre-Covid), there is the potential for more buying. This type of resilience by the economy and the markets is rarely achieved after the Fed hikes rates so aggressively, but the recent positive trends give reasons for optimism.

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