Tillotson Kenefick

Private Wealth Management
of Wells Fargo Advisors

Sticking the Landing

2023 Review and 2024 Forecast Newsletter

The economy and the capital markets ended 2023 much better than they started. (She said with a big sigh.) While the largest *anything* AI stocks performed well all year, the broader market, didn't show up to the party until the fourth quarter. Not only did equities perform at yearend, but the bond market, as defined by the AGG (Aggregate bond index) had its best quarter in history! It is hard to overstate the significance in performance of stocks and bonds in the fourth quarter with solid gains for both foreign and domestic securities. Three catalysts for performance in 2023 included the stunning speed and transformation of Artificial Intelligence on the technology sector and all of its tenacles, the dramatic decline in inflation and a dovish federal reserve indicating they will lower interest rates in 2024.

Directionally, things look constructive for the New Year. We see 2024 as a year requiring finesse. We are in a new paradigm. The economy is no longer in a low and declining interest rate environment with sub 2% inflation as it was for ~20 years post the dot com bubble. Nor are we combatting uber high inflation created from the pandemic and the extraordinary policy responses that raised interest rates to the highest they have been since 2007. This places the economy in a category not seen in a generation…The transition to normal. The turn of this century was marked by major black swan events including 9-11, the Great Financial Crisis and a pandemic. The move to normal will be fraught with volatility as the behavioral and emotional tug of war between what we are accustomed to with extremes and what we will likely transition to, which is normal. The construction of an economy where the Central banks of the world must battle out low growth, sticky and stubborn inflation, higher borrowing costs and a changing world order. Along with the US national elections and their impact on the economy, there are many consequential elections worldwide, including India, who is arguably becoming more prominent than China.

By normal, we do not mean easy. In some ways it may be more challenging, as we live in a time that does not require a heavy hand to counterbalance extremes, but rather a steady, vigilant hand illustrating discipline and wisdom. Domestically we see policy and politics turning from calamity to deficits, taxes, housing costs, population decline and maintaining sustainable growth. Internationally, the drama of the European union and the UK is mostly in the rearview mirror.

China will learn the hard way that capitalism is a superior economic system as it watches money move like water, finding a path, a crack or overtaking the dam to move where it is treated best.

So, what does this mean for the next year or the next couple of years? We believe recession will be a greater risk than inflation. Asset allocations should look to bonds to be additive. The projected earnings growth for the S&P 500 is ~11% or $245 per share with an 18 PE ratio. The projected good news is currently reflected in valuations and therefore warrants some restraint on our part in this moment or some additional good news to continue. We look for the 10-year treasury to move in a wide range from 3.5%- 5% and cash to move below the rate of inflation.

Artificial Intelligence will be an investment theme we talk about throughout 2024 and beyond. It has the power to increase both productivity and unemployment. It will change the way we interact with technology in profound ways that also impact the profitability of companies who lean in or away.

As professional money managers and advisors it is our responsibility to sift through innovation, politics, and policy to discern what will be profitable or problematic. The roller coaster of the last several years may portend a period of relative banality instead of the extremes brought on by the pandemic.

In 2024 we will continue to employ a three-legged stool approach to equities that includes ETFs, stocks, and mutual funds to best capitalize on trends that shift from favoring active management to passive management to defensive strategies. We will include a fixed income allocation that opportunistically extends duration on high grade securities as well as a nod to hybrid fixed income. We are cautiously optimistic about returns in 2024, but not naïve about the volatility that is likely during a transition to what we call late cycle. The investing landscape will be different than the last cycle and policy and politics may play catch-up to the will of capitalism and the flow of money. Experience dictates that regardless of our preparedness and research, we will be surprised by something. The best protection from unpleasant surprises is a diversified, disciplined approach to investing.

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We remain grateful for your trust and confidence! Our singular focus is to provide order, counsel, communication, and performance to every aspect of your financial lives. It is an awesome privilege and responsibility that we work hard every day to continue to earn.

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