



## AI Enthusiasm and Rate Cut Expectations Power Stocks Higher in 2023

Markets staged an impressive reversal in the fourth quarter thanks to a surprise dovish pivot by the Federal Reserve, which combined with solid economic activity and declining inflation to push stocks sharply higher and send the S&P 500 to two-plus-year highs, resulting in the best annual return since 2021.

The strong fourth quarter performance somewhat obscures the fact that stocks and bonds started the fourth quarter under significant pressure. First, Treasury yields continued to move higher in early October which weighed on stocks and bonds, just like in the third quarter. Then on October 7th, Hamas soldiers infiltrated settlements in Israel, killing and kidnapping more than 1,200 Israelis in the worst attack on Israel in decades. The market fallout was immediate, as oil prices spiked on fears a broader regional war would ensue between Israel, Hamas, Lebanon and, potentially, Iran. Higher oil prices fueled a further increase in Treasury yields as investors priced in a possible oil-driven bounce back in inflation. Those factors, combined with a lackluster earnings season, resulted in the S&P 500 falling to the lowest levels since mid-May while the 10-year Treasury yield touched 5.00% for the first time since the mid-2000s. However, markets reversed when Fed Governor Chris Waller made comments that implied rate hikes were over and rate cuts may be coming in 2024. The market reaction was immediately positive as stocks and bonds rallied hard into month-end to finish well off the lows and with just a 2% decline.

That positive momentum continued in November as the S&P 500 posted its best monthly return of 2023, rising more than 9%. There were several factors that fueled this rally. First, numerous Fed officials echoed Waller's commentary and investors priced in rate cuts as early as May, substantially earlier than previously expected. Additionally, the Israel/Hamas conflict did not spread and remained contained between Israel and Hamas and oil prices declined as a result, easing inflation concerns. Finally, inflation metrics continued to decline. The year-over-year increase in the Consumer Price Index dropped to 3.14% and that further fueled investor expectations that rate cuts would come in the first half of 2024. Those factors combined with generally favorable seasonality to fuel a welcomed "Santa Claus Rally."

The Santa rally continued and accelerated in December courtesy of the Fed. At the December 13th FOMC meeting, Fed officials clearly signaled that rate hikes were over and forecasted three rate cuts in 2024, one more than previously forecasted. Additionally, Fed Chair Powell did little

to push back against the markets' expectations for rate cuts. Put plainly, the Fed surprisingly pivoted to a more dovish policy stance and that fueled a continuation of the rally that started in late October. The S&P 500 rose to the highest level since January 2022 while the Dow Industrials hit a new all-time high.

In sum, 2023 was a year of surprises for the markets as the expectations for a recession never materialized, inflation fell faster than forecasts, corporate earnings proved resilient and the Fed surprised markets by pivoting to a more dovish future policy. The result was substantial gains for the major averages.

### **Q1 and 2024 Market Outlook**

What a difference a year makes.

At this time last year, the S&P 500 had just logged its worst annual performance since the financial crisis, the Fed was in the midst of the most aggressive rate hike campaign in decades, inflation was above 6% and concerns about an imminent recession were pervasive across Wall Street.

Now, as we begin 2024, the market outlook couldn't be much more positive. The Fed is done with rate hikes and cuts are on the way, likely in early 2024. Economic growth has proven more resilient than most could have expected and fears of a recession are all but dead. Inflation dropped substantially in 2023 and is not far from the Fed's target while corporate earnings growth is expected to resume in the coming year.

Undoubtedly, that's a more positive environment for investors compared to the start of 2023, but just like overly pessimistic forecasts for 2023 proved incorrect, as we look ahead to 2024, we must guard against complacency because at current levels both stocks and bonds have priced in a lot of positives in the new year.

Starting with Fed policy, Fed officials are forecasting three rate cuts in 2024 but investors are currently pricing in six rate cuts in 2024 with the first one occurring in March or May. That's a very aggressive assumption and if it is incorrect, we should expect an increase in volatility in both stocks and bonds.

Regarding economic growth, it's foolish to assume just because the economy was resilient in 2023 that it will stay resilient. Obviously, that's the hope, but hope isn't a strategy. The longer rates stay high (and they are still high) the more of a drag they create on the economy. Meanwhile, all the remnants of pandemic-era stimulus are gone and there is some economic data that's starting to point towards reduced consumer spending. Point being, it is premature to believe the economy is "in the clear" and a slowing of growth is something we will be on alert for as we start the new year, because that would also increase market volatility.

Inflation, meanwhile, has declined sharply but it still remains solidly above the Fed's 2% target. Many investors expect inflation to continue to decline while economic growth stays resilient, a concept traders coined "Immaculate Disinflation." However, while that's possible, it's important to point out it's extremely rare as declines in inflation are usually accompanied by an economic slowdown.

Finally, corporate earnings have proven resilient but companies are now facing margin compression as inflation declines and economic growth potentially slows. Earnings results and guidance in the fourth quarter were not as strong as earlier in 2023 and if earnings are weaker than expected, that will be another potential headwind on markets.

Bottom line, while undoubtedly the outlook for markets is more positive this year than it was last year, we won't allow that to breed a sense of complacency because as the past several years have shown, markets and the economy rarely behave according to Wall Street's expectations.

As such, while we are prepared for the positive outcome currently expected by investors, we are also focused on managing both risks and return potential because the past several years demonstrated that a well-planned, long-term focused and diversified financial plan can withstand virtually any market surprise and related bout of volatility, including multi-decade highs in inflation, historic Fed rate hikes, and geopolitical unrest.

At ACM, we understand the opportunities and risks facing both the markets and the economy, and we are committed to helping you effectively navigate this challenging investment environment. Successful investing is a marathon, not a sprint, and even intense volatility is unlikely to alter a diversified approach set up to meet your long-term investment goals.

Therefore, it's critical for you to stay invested, remain patient, and stick to the plan, as we've worked with you to establish a unique, personal allocation target based on your financial position, risk tolerance, and investment timeline.

We thank you for your ongoing confidence and trust and please rest assured that our entire team will remain dedicated to helping you successfully navigate this market environment.

Please do not hesitate to contact us with any questions, comments, or to schedule a portfolio review.

Sincerely,

**Laura N. Christofferson, CFP®, CDFA®**

**Matthew B Wigren CFP® CIMA®**

**RAYMOND JAMES®**  
ALDEN CAPITAL MANAGEMENT LLC  
*An Independent Registered Investment Adviser*  
310-120th Avenue N.E. // Suite 200 // Bellevue, WA 98005 // 425-451-8508  
AldenCapital@RaymondJames.com



**To opt out of receiving future emails from us, please reply to this email with the word "Unsubscribe" in the subject line.** The information contained within this commercial email has been obtained from sources considered reliable, but we do not guarantee the foregoing material is accurate or complete.

© 2024 Raymond James Financial Services, Inc., member [FINRA](#) / [SIPC](#). Securities offered through Raymond James Financial Services, Inc., member [FINRA](#) / [SIPC](#). Investment advisory services offered through Raymond James Financial Services Advisors, Inc. Alden Capital Management LLC is not a registered broker dealer and is independent of Raymond James Financial Services.

Raymond James Financial Services does not accept orders and/or instructions regarding your account by email, voice mail, fax or any alternate method. Transactional details do not supersede normal trade confirmations or statements. Email sent through the internet is not secure or confidential. Raymond James Financial Services reserves the right to monitor all email. Any information provided in this email has been prepared from sources believed to be reliable, but is not guaranteed by Raymond James Financial Services and is not a complete summary or statement of all available data necessary for making an investment decision. Any information provided is for informational purposes only and does not constitute a recommendation. Raymond James Financial Services and its employees may own options, rights or warrants to purchase any of the securities mentioned in this email. This email is intended only for the person or entity to which it is addressed and may contain confidential and/or privileged material. Any review, retransmission, dissemination, or other use of, or taking of any action in reliance upon, this information by persons or entities other than the intended recipient is prohibited. If you received this message in error, please contact the sender

immediately and delete the material from your computer.

---