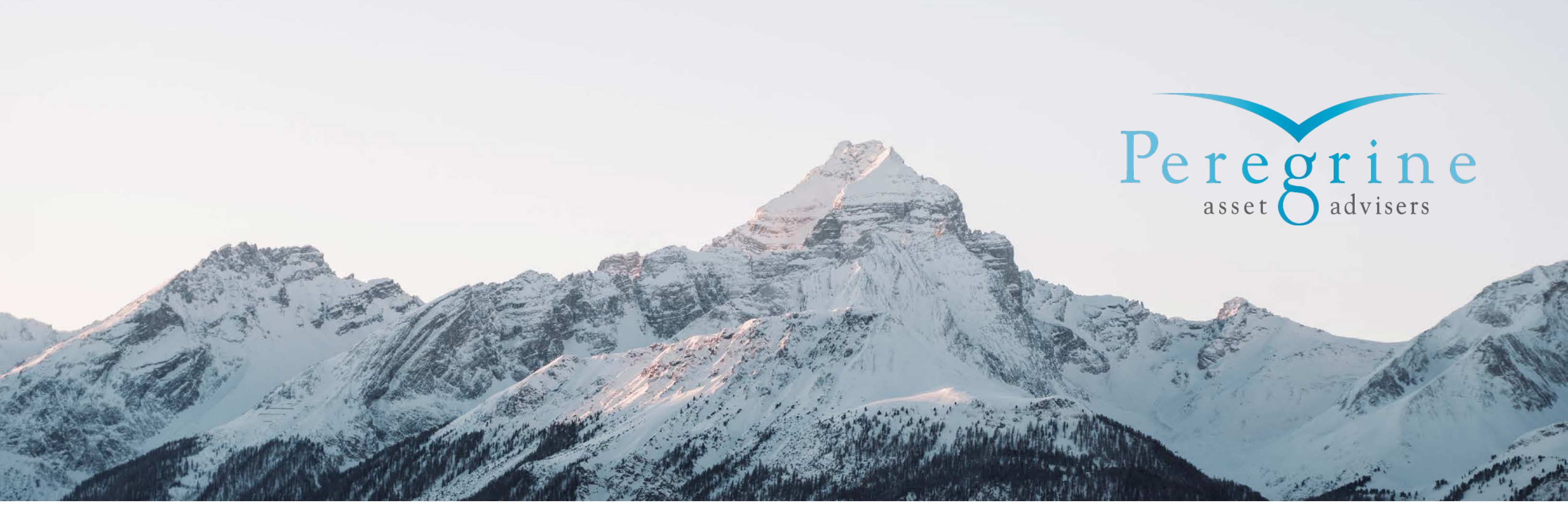

4TH QUARTER 2023 MARKET OVERVIEW

TOPSY TURVY

The stock market bolted higher in the final two months of the year, ending a topsy turvy 2023 with sizeable gains. After enduring a decline of almost 10% from August to October, the S&P 500 rose 13.36% in November and December.

It was a topsy turvy year. Following the bludgeoning from 2022, the year began with dour economic forecasts. The Fed's pledge for higher interest rates were sure to cause a recession. The notion of "don't fight the Fed" would keep the bears in control of the stock market, it was believed. There were vast and negative repercussions from Fed tightening. In March, it was revealed that US banks were losing billions of dollars managing customer deposits. Progress against inflation was begrudging. By July, the Fed had lifted the overnight lending rate to its highest in 22 years. During this time, Congress also narrowly avoided a government shutdown. At one point, mortgage rates hit almost 8%. Then Hamas invaded Israel in a surprise attack in October.

Artificial Intelligence emerged as the most popular theme for investing but there were limited ways to effectively invest in this technology.

Ultimately, negative factors contributed to jitters, but the stock market shrugged these off to close near the record levels that were set two years ago.

It was remarkable that over one half of the S&P 500 gain in 2023 was attributed to just seven stocks (Magnificent Seven). These happen to be the largest companies in the S&P 500, by valuation. They are Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta, and Tesla. The dichotomy of fortunes between the Magnificent Seven and the other "493" was well noticed. In fact, there was a time, during the fourth quarter, when the 493 were in the red for the year!

We cheer for the 493 because if this group rises, it means there is a strong appetite for stocks, which means there are increasing ways to make money in the stock market. Conversely, if the Magnificent Seven continue to prop up the overall market, these stocks will become stretched to unsustainable levels, which precipitated their steep slide during 2022.

While the overall market managed to regain almost all of its 2022 losses against the conventional wisdom that permeated last year, it is most reasonable to expect the topsy turvy nature of investing to continue in the year ahead. Can the market hold its recent gains? We are sorely reminded that it is much riskier to buy and hold stocks after the kind of run we saw in November and December.

WHAT'S NEXT

Currently, the Fed has stepped aside while markets increasingly price in a soft landing for the economy. Inflation has returned to the Federal Reserve target of 2%. Chair Powell may have been vindicated when he made the highly controversial remark about inflation being "highly transitory" back in early 2021. Core inflation, excluding rent, has now receded to less than 1%. According to The United Nations food agency and The Food Agriculture Organization, food prices are now trending 10% below their 2022 levels. Gas prices are also in a downward trend. Tightness in the labor market are being relieved. The bond market is reacting to these signals and interest rates have declined sharply in recent months.

David Kostin, chief US Equity Strategist at Golman Sach, recently said with respect to interest rates, "Instead of higher for longer, it's lower and sooner." This seems to be the current crowd view.

CONDITIONS ARE STILL SET FOR GOOD INVESTING IN 2024

It continues to be a solid environment for investing, with a better blend of risk-reward for diversified investment accounts than pre-2022.

First of all, our clients continue to earn near 5% on risk free cash money market balances. This was absent, pre-2022. Next, the stock market (sans the Magnificent Seven), is steadily becoming seasoned so that price levels of stocks have been able to withstand numerous economic factors, both good and bad. This contributes to lowering the short term risk of investing in equities. It helps that stocks are not extended to the extent they were in early 2022, before the big downdraft.

Across the spectrum of names and industry sectors in the stock market, there is a wide divergence in the performance of prominent stocks. While the entire market advanced in November and December, many industry groups, and promising stocks are at favorable levels. Names, such as CVS, Hershey, Target, Tesla, and UPS are at sharp discounts from their historic highs. Indexes for banks are 30% below their pre 2023 crisis levels. It is hard to imagine banks not having an improved operating environment in 2024 and these stocks could be the leaders this year.

There are always possible disruptive and unpredictable events, but steady interest earnings from cash investments, combined with opportunistic gains from the stock market, offer good prospects for continued gains for our client accounts

PEREGRINE STRATEGY

- A risk free 5% will keep managed accounts with a high percentage of cash equivalents. The recent bond market rally, along with suggested Fed rate cuts, recently triggered investing in longer term Treasuries extending two years.
- Stocks of companies with large balance sheets that have long runways in which to improve their current conditions are the most interesting to us. This includes companies like CVS Health, Verizon, and many bank stocks.

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