# December 2023: Market Review

Global equity markets continued the holiday rally in December to finish 2023 on a high note. For the month, the S&P 500 Index grew +4.5% (YTD: +26.3%), the Dow Jones Industrial Average was up +4.9% (YTD: +16.2%), and the tech-heavy NASDAQ Composite Index climbed +5.6% (YTD: +44.6%). The S&P 500 Index closed the year just shy of an all-time high as investors expressed confidence that the Federal Reserve can produce the "soft landing" of the economy it has been hoping to achieve. The Fed held short term rates steady at their December meeting but signaled to the market a more balanced outlook on rates, which includes potential rate cuts in the new year. The Fed sees three quarter-point rate cuts in 2024 but the market has priced in six, which contributed to the year-end rally for stocks and bonds.

All domestic equity market segments recorded positive returns in December. However, small cap names surged during the month with the Russell 2000 Index climbing +12.2% versus the S&P 500 +4.5%, as the market rally broadened. Large cap value stocks (Russell 1000 Value Index, +5.5%) outpaced growth stocks (Russell 1000 Growth Index, +4.4%) for the month. However, for the year, growth stocks topped value stocks by a wide margin, +42.7% vs. +11.5%. In smaller cap equities value stocks modestly outperformed in the month but, similar to large cap stocks, growth outperformed for the full year.

Developed international equities also rose in the month and modestly outperformed domestic stocks as the MSCI EAFE was up +5.3%, despite ongoing geopolitical tensions. Small cap international companies (MSCI ex USA Small Cap Index, +6.4%) outperformed large cap international companies (MSCI ex USA Large Cap Index, +4.9%) in December. Value stocks outperformed growth stocks in the international space with the MSCI ex USA Value Index beating the MSCI ex USA Growth Index, +5.3% versus +4.8%. Emerging Markets (+5.4%) modestly outperformed developed markets for the month despite continued economic struggles from index heavyweight China (-2.2%).

The Bloomberg U.S. Aggregate index extended its significant two-month rally in December (+3.8%), as longer term interest rates continued to decline. The 10-year U.S. treasury yield fell 45 basis points for the month and finished the year at 3.88%. The Aggregate Bond Index finished the calendar year with a gain of +5.5%. Investment grade bonds equaled the return of high yield bonds in December as both the Bloomberg Investment Grade Index and Bloomberg U.S. High Yield Index were up +3.7%. High yield bonds (+13.5%), however, outgained investment grade bonds (+7.9%) by a sizable amount during the year. The yield curve remains inverted with 2-year treasuries yielding 35 basis points more than 10-year treasuries at year end; roughly in-line with the November month-end inverted spread.

Global financial markets capped off 2023 with a powerful rally in the final two months of the year, backed by softer inflation readings and an expected "Powell Pivot" from interest rate tightening to interest rate cutting. Investors' euphoria was reflected in the VIX, an index measuring expected market volatility, as it finished the month at its second-lowest level since 2006. Looking forward, earnings are expected to grow 11-12% over the next two years, yet the market generally reflects this optimism with a rich price-to-earnings multiple of 19.5x for the S&P 500 Index, leaving corporate America little room for error. Financial conditions have eased considerably in anticipation of lower Fed Fund rates, which ironically may keep the Fed from cutting rates as early as investors are expecting. While economic data continues to imply support for continued equity market gains, investors seem to have priced much of this "soft landing" into current market valuations. This soft landing may well be the outcome for the economy and markets in 2024. However, high year-end equity market valuations also imply moderate deviations from this outcome will likely increase interest rate volatility and provide a headwind to further significant equity price appreciation.

*See footnotes on the following page.*

# Disclosures

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