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MARKET COMMENTARY

Stock indices recovered and soared during the fourth quarter, ending the year near highs. Large cap stocks in the S&P 500 gained 11.69% during the quarter pushing their full year return to 26.29%. Small cap stocks in the Russell 2000 Index surged 14.03% during the fourth quarter resulting in a return of 16.93% for 2023. International stocks in developed markets had a quarterly return of 10.42% while emerging market stocks were up 7.86% making their year-to-date returns 15.47% and 10.27%, respectively. Yields fell during the quarter so the Barclays U.S. Aggregate Bond Index gained 6.82% which erased its previous year-to-date loss and resulted in a positive 5.53% return in 2023.

Growth stocks continued to greatly outperform value stocks. Growth stocks were up 42.5% year-to-date versus just 10.4% from value stocks. Growth sectors technology, communication services, and consumer discretionary posted returns of 57%, 56%, and 44%, respectively. Because these sectors also have a much higher weighting, the performance of the cap-weighted S&P 500 is greatly impacted. The cap weighted S&P 500 had a 26.3% return while the equal-weighted S&P 500 index had a return of just 13.7%.

Although the S&P 500 Index has gone up, most of the advance in the S&P 500 was because of price/earnings multiple expansion and not earnings growth. Zack's is projecting negative earnings growth for 2023 of -3.9%. Multiples are once again above their long-term averages, currently 19.45x versus the 25-year average of 16.75x on the S&P 500.

2023 BENCHMARK RATES OF RETURN

INDEX	FOURTH QUARTER	YTD
S&P 500	11.69%	26.29%
Russell 2000	14.03%	16.93%
International	10.42%	15.47%
Fixed Income	6.82%	5.53%
JPMorgan Diversified*	9.38%	14.42%

*25% S&P 500 large cap stocks,10% Russell 2000 small cap stocks, 15% MSCI EAFE international stocks, 5% MSCI EME emerging market stocks, 5% REITs, 25% Barclays US aggregate bonds, and 5% each in short term Treasuries, high yield global bonds, and commodities.

Consensus estimates for 2024 earnings is for growth to resume and be around 11.5%.

Recession fears cooled as third quarter GDP growth came in at 4.9%. Fourth quarter GDP growth isn't expected to be as high. Forecasts for 2024 are mixed. Brian Wesbury, chief economist at First Trust, is still projecting a mild recession with 2024 GDP growth of -0.5%. Strategas Research places a 50% chance that the US sees a recession in 2024. David Kelly, chief strategist at JPMorgan, does not anticipate a recession in 2024 and projects 2024 GDP growth around 2%.

Unemployment is still near its 50-year low at 3.7%. This most recent reading marks 25 months of unemployment below 4% which hasn't happened since 1969. The labor force participation rate is the best it has been since 2009 for working age individuals.

Inflation continues to fall and is down to 3.1%. Kelly expects the Fed will reach their 2% target by the end of 2024 and notes we could be there sooner if oil prices stay in check. Wesbury concurs that inflation may finish the year at or below the Fed's target but is concerned that inflation could rise again in 2025 if the Fed cuts rates as aggressively as the market is projecting.

Consumers have continued to spend which has helped the economy. They've been able to do this because unemployment is low and wages have been growing, However, consumers are starting to struggle to keep spending at current levels. Savings are being depleted, credit card balances are rising and some people are even refinancing their homes to take out equity. Unfortunately, mortgage rates are higher now than their original loan which will add to their ongoing expenses. In addition, payments on student loans have resumed, further reducing spendable income.

Kelly doesn't rule out the possibility of a recession noting an unexpected event could derail the economy. Strategas is concerned about the higher interest rates

We value our relationship with you, and we are always available to meet with you in person or by phone. Please do not hesitate to call or email us with any questions that you may have. Also, if your situation has changed, please contact your advisor so we can determine if any changes are needed in your account.

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and lagged effects of the bank tightening. Wesbury is also concerned with the federal budget and deficit.

The Federal Reserve had been fighting higher inflation by aggressively raising short-term interest rates. At their last several meetings they have paused with the Fed Funds rate now between 5.25% to 5.50%. In December, their commentary changed and they are now projecting that they will cut rates in 2024. The market seems to be pricing in 6 rate cuts. Kelly sees just 3 rate cuts starting in June.

Since the pause at the beginning of November, the 10-year Treasury bond yield fell from a high near 4.99% to 3.86% at year end. Prior to the pause, it appeared that bond returns would be negative for the third year in a row—this had never happened before. However, with the rapid decline in longer term bond yields, the Aggregate Bond Index ended the year with a 5.53% return. Money markets are earning around 5.25% currently, but if the Fed lowers rates as expected, the short-end of the yield curve will likely move lower and money markets won't continue to earn these enticing rates.

Other uncertainties remain that can also affect the economy and markets. Congress managed to temporarily avoid a government shutdown but the issues have not been resolved. On the other hand, it is also an election year which is usually positive for stocks and the economy as incumbents are trying to get re-elected.

Diversification continues to be prudent. Also, the "target outcome" or "buffer" ETFs can add protection to portfolios and still provide upside potential if stock prices rise. Dividend income is also attractive in equity and premium income funds. In these funds, managers own dividend paying stocks and sell out of the money call options to collect extra income. The dividends help with total returns or with income needs depending on the account.

Measuring risk tolerance and investing accordingly is important in this environment. Timing the market or chasing returns may work in the short-term but is more difficult over longer periods. We use Nitrogen (formerly Riskalyze) software to help us measure your risk tolerance and make sure you have the appropriate risk in your accounts. If you would like to check or revisit your risk score or if you have any questions about your account, please do not hesitate to contact your advisor.

Important Client Update

In our last report, we had expected that we would cease to vote client proxies. We have been voting client proxies as a service to clients since our inception and many clients value this service. We wanted to provide this service but felt we could not vote according to how all clients wished—we vote all proxies identically but our clients are diverse in their views. We have reconsidered and will continue to vote client proxies. We will be voting according to Eagan-Jones Wealth Focused Policy which has the objective to "protect and enhance the wealth of investors". If you would like to vote your own proxies, please let your advisor know and we can switch your account so that your views are represented.

2024 Retirement Contribution Limits

Retirement Plans	2023	2024
401k and 403b Plans	$22,500	$23,000
Catch up contributions*	$ 7,500	$ 7,500
IRAs		
Traditional or Roth IRA	$ 6,500	$ 7,000
Catch up contributions*	$ 1,000	$ 1,000
SIMPLE IRA	$15,500	$16,000
Catch up contributions*	$ 3,500	$ 3,500

*If you are age 50 or older, you can make additional catch up contributions

Cambridge Advisors News

If you haven't already, check out our new website! The address is still www.cambridgeadvisors.net but we have overhauled it to make it more useful to prospective clients and easier to navigate. Existing clients have a direct link to the client portal and to their Schwab login. We hope you enjoy it and that you will share it with others who may benefit from our services.

Speaking of the client portal, many have not tried to access it but we encourage you to do so. It has up-to-date investment information on your accounts and there is also a document vault where information can be exchanged securely. Please reach out to your advisor so we can help you get access.

We are committed to remaining independent as we believe that is best for our clients. We appreciate the trust you place in Cambridge Advisors. If you have friends or family who would benefit from a relationship with Cambridge, please do not hesitate to share our contact info and our website. We are accepting new clients right now and want to help the people who are important to you. We waive our $500,000 minimum for these referrals or offer the financial planning services on a stand alone basis. Thank you for your referrals!