

Economic Update

A Closer Look at Q4 2023 Data

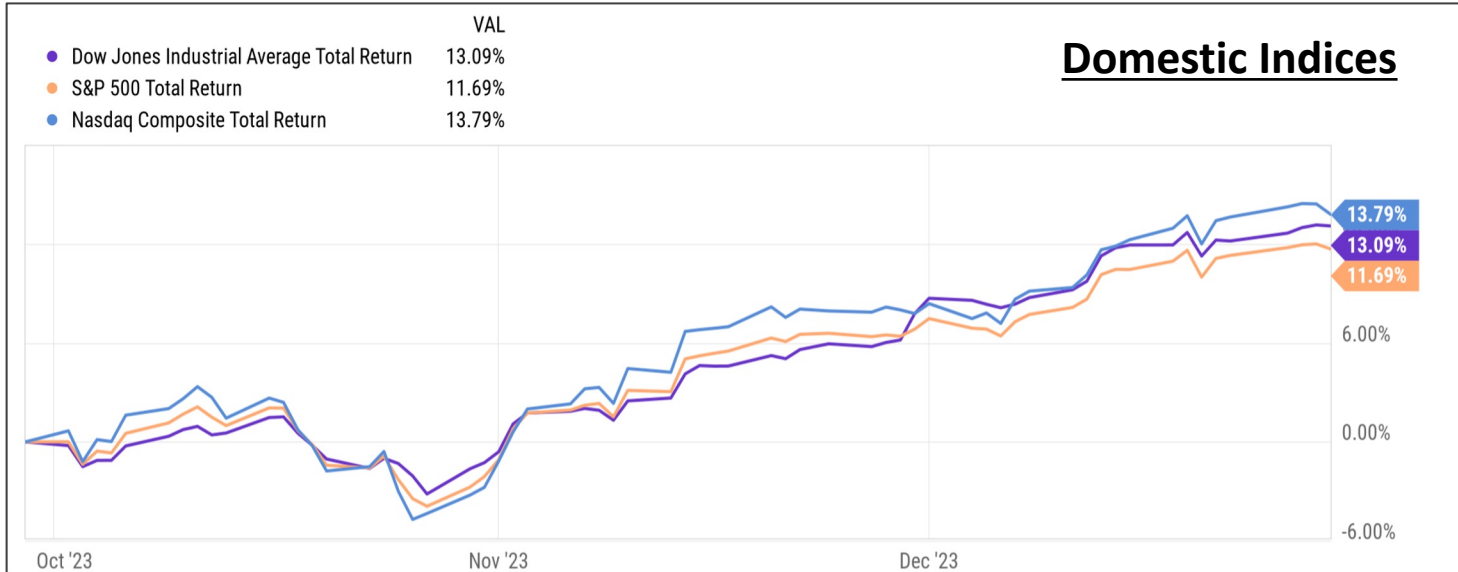
Released: January 2024



RIVERGLADES
A MULTIFAMILY OFFICE



Stock Market Performance

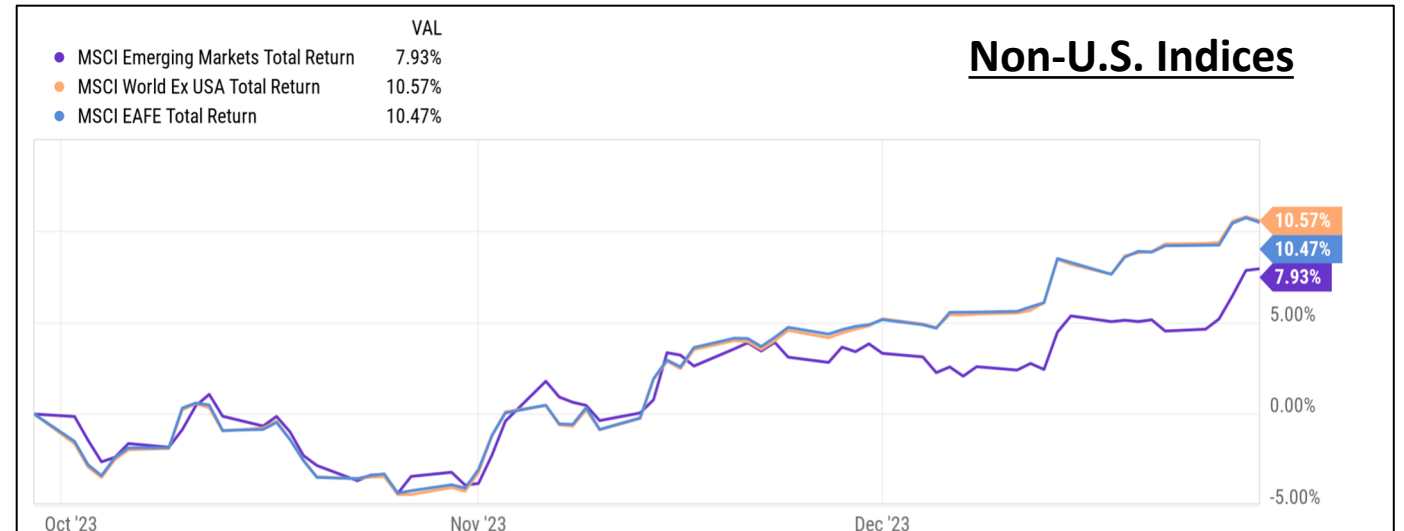


US stocks rallied during the fourth quarter of 2023 following the weakness of the prior few months. The Dow Jones Industrial Average jumped 13.1%, the S&P 500 climbed 11.7%, and the Nasdaq Composite led the way returning 13.8%.

During the 4th quarter, the 10-year U.S. Treasury rate reversed course following a move up to 5% and quickly dropped to 3.8% by late December. This buoyed the markets and sent stocks higher into year-end.

Outside the U.S., global markets followed a similar trend. The Emerging Markets index ended the quarter up 7.9% while both the World Ex-USA and EAFE indexes moved higher by around 10.5%.

2023 turned out to be a strong year for the major equity indexes. While there were many doubters entering the year, there was good reason to believe the worst case inflation scenario was off the table, the economy remained fairly strong, and it was the third year of a presidential election cycle – all reasons RiverGlades had cited encouraging investors to stay invested.





U.S. Sector Performance

Sensitive Sectors	Q4 2023 Return
Energy Select Sector SPDR® ETF	-6.36%
Communication Services Select Sector SPDR® ETF	11.08%
Industrial Select Sector SPDR® ETF	13.05%
Technology Select SPDR® ETF	17.67%

Defensive Sectors	Q4 2023 Return
Health Care Select Sector SPDR® ETF	6.41%
Consumer Staples Select Sector SPDR® ETF	5.47%
Utilities Select Sector SPDR® ETF	8.48%

Cyclical Sectors	Q4 2023 Return
Financial Select Sector SPDR® ETF	13.91%
Materials Select Sector SPDR® ETF	9.66%
Consumer Discretionary Select SPDR® ETF	11.27%
Real Estate Select Sector SPDR® ETF	18.83%

Ten of the eleven S&P Sectors posted positive returns in Q4 of 2023. The Energy sector was the only one to decline. This was the opposite of Q3 when Energy was the only sector to post a gain. The reversal in market interest rates saw the Real Estate and Technology sectors benefit the most, with each rising almost 20% during the quarter.

Broadly speaking, the Cyclical Sectors performed the best followed by the Sensitive Sectors and then the Defensives.

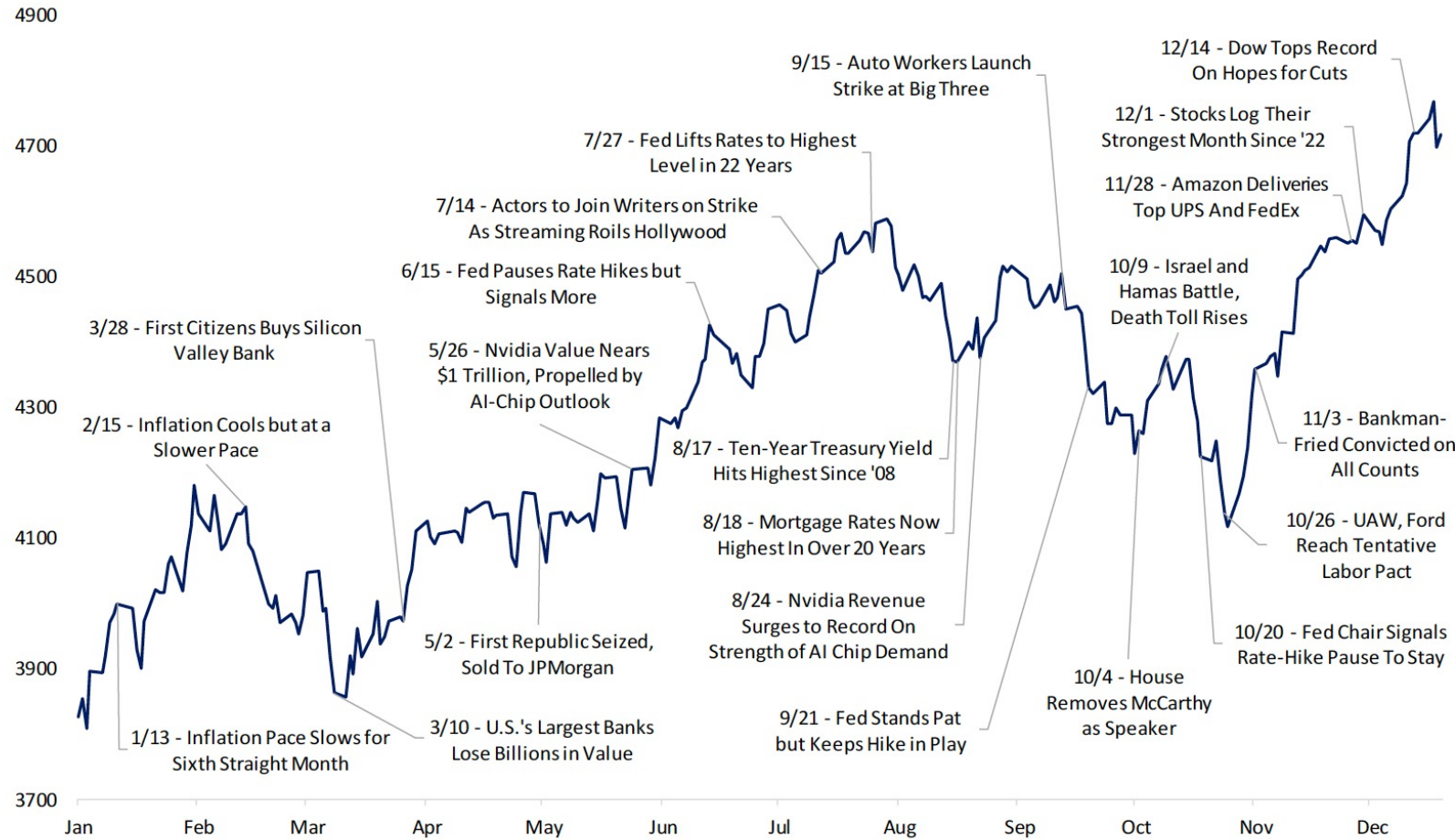
Throughout the year we noted that the sharp rally in sectors with highest valuation sensitivity and greatest dependence on corporate spending was counterintuitive given that many investors believed a recession was looming on the horizon.

Instead of one “traditional” recession, it appears that various industries and geographies have been impacted in differing ways and at different times over the past 18-24 months. We had referred to this type of scenario as a series of rolling recessions. As of now, this looks like how things played out and while there are always issues facing the market, we might already be on the other side of what many investors are still waiting to arrive.



U.S. Equity Market and Headlines

S&P 500: The Year in Headlines - 2023



I have included this 2023 chart of the S&P 500 Index overlaid with various headlines from the year to remind us that as it often does, the market “climbed a wall of worry” in 2023.

Following the market correction in 2022, the year began with an overwhelmingly negative outlook from Wall Street strategists with most calling for further declines in 2023. The range of estimates for the S&P 500 was from 3,675 to 4,575 with an average of 4,097. It ended the year at 4,770 after starting at 3,839.

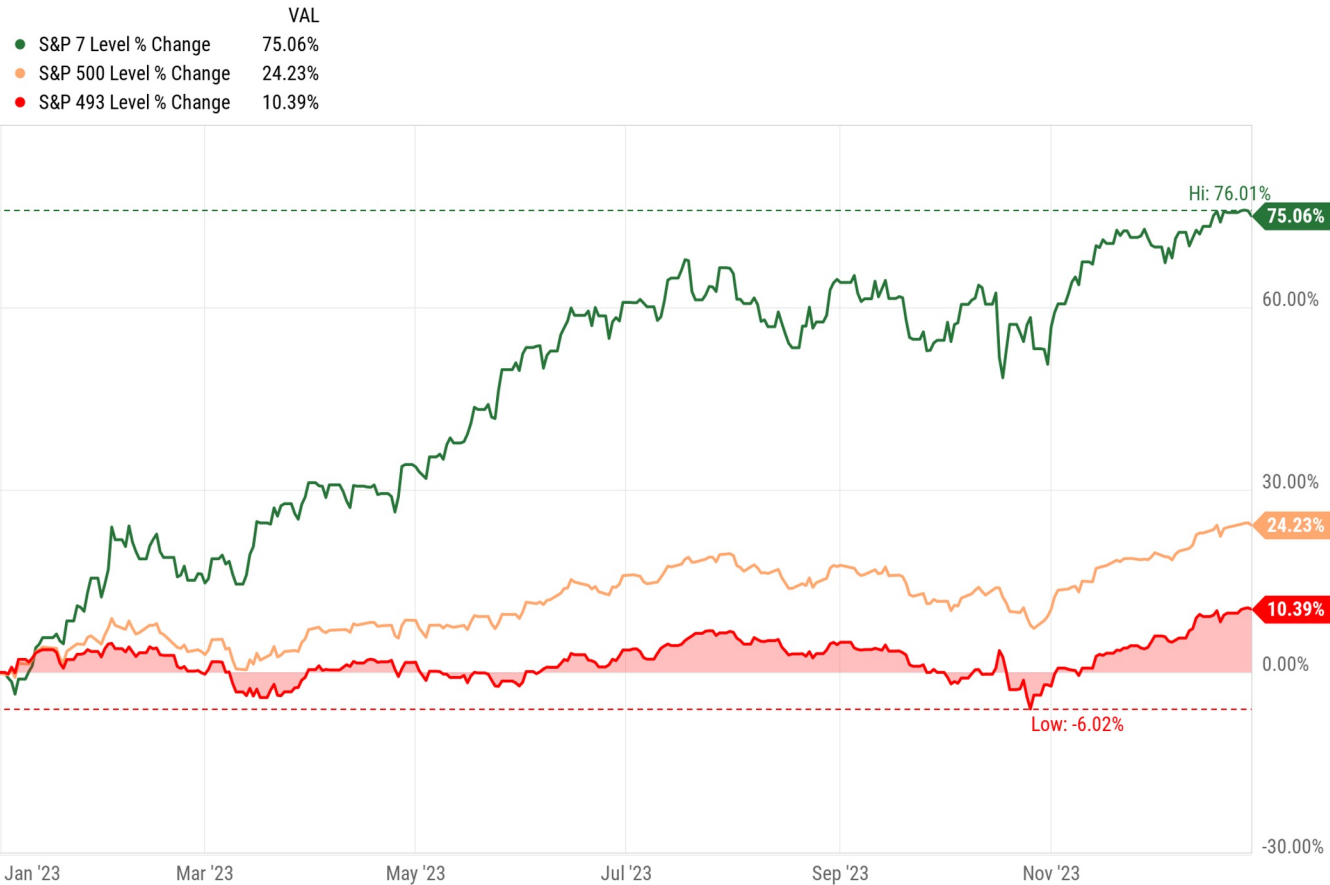
Their forecasts seemed validated in March when several banks collapsed seemingly overnight. By the end of July, Fed Funds rates were the highest they had been in 22 years! In early October, the Speaker of the House was removed, and Israel suffered an unthinkable terrorist attack.

However, October 20th Federal Reserve Chair indicates rate hikes may be done and the market rallied further into year-end.



S&P 7 vs. S&P 493

S&P 500 vs. S&P 493 vs. S&P 7



Date Range: 12/30/2022 - 12/29/2023

Jan 17 2024, 2:08PM EST. Powered by YCHARTS

In last quarter's commentary we introduced "The Magnificent Seven" comprised of Apple, Amazon, Alphabet, Meta Platforms, Microsoft, NVIDIA, and Tesla. These 7 companies were accounting for almost all of the performance of the S&P 500 index through September.

Looking at the chart, you can see that the S&P 7 (top line) significantly outpaced the S&P 493 (bottom line) throughout 2023. The line in the middle is the S&P 500 index.

What does this show? First, that "The Magnificent Seven" gained over 75% for the year. This can be largely attributed to rebound from last year's overreaction selling and the growth of "AI" in 2023.

Second, the rest of the market, the S&P 493, had a good year returning over 10% but nothing close to the 75% of the S&P 7.

Finally, that the S&P 7 represent such a large component of the S&P 500 overall, they were able to drive the index's return up to almost 25% for the year.



S&P 500 Performance

S&P 500 Biggest Positive Contributors in 2023

Ticker	Company Name	Sector	Market Cap (bn USD)	2023 YTD % Chg	S&P 500 Contribution	
					Points	Percent of Total
MSFT	Microsoft	Technology	2,754.55	54.54	118.69	12.78
AAPL	Apple	Technology	3,030.14	49.95	116.87	12.58
NVDA	NVIDIA	Technology	1,188.34	229.21	99.02	10.66
AMZN	Amazon.com	Cons. Discret.	1,572.01	81.10	72.78	7.84
META	Meta Platforms	Comm. Svcs.	897.60	190.24	61.05	6.57
TSLA	Tesla	Cons. Discret.	785.64	100.63	39.60	4.26
GOOGL*	Alphabet	Comm. Svcs.	1,739.60	56.79	67.24	7.24
AVGO	Broadcom	Technology	519.81	98.59	28.69	3.09
LLY	Eli Lilly	Health Care	541.30	55.86	19.70	2.12
CRM	Salesforce	Technology	251.92	96.28	15.10	1.63
ADBE	Adobe	Technology	271.39	77.12	14.21	1.53
AMD	Advanced Micro Devices	Technology	218.85	109.16	13.62	1.47
JPM	JPMorgan Chase	Financials	481.50	24.20	12.70	1.37
COST	Costco Wholesale	Cons. Staples	293.30	44.80	11.03	1.19
NFLX	Netflix	Comm. Svcs.	214.14	65.92	10.31	1.11
INTC	Intel	Technology	192.92	73.14	9.95	1.07
BRK/B	Berkshire Hathaway	Financials	775.82	15.04	9.93	1.07
V	Visa	Financials	530.17	23.75	9.91	1.07
INTU	Intuit	Technology	172.36	58.19	7.70	0.83
GE	General Electric	Industrials	134.27	88.68	7.59	0.82
MA	Mastercard	Financials	393.35	20.63	7.43	0.80
NOW	ServiceNow	Technology	142.23	78.69	7.42	0.80
BKNG	Booking	Cons. Discret.	121.04	72.15	6.51	0.70
AMAT	Applied Materials	Technology	130.41	61.14	6.17	0.66
ACN	Accenture	Technology	226.52	27.23	5.81	0.63
Top 5			9,442.64	121.01	468.40	50.43
Top 25			17,579.19	74.12	779.02	83.88
Rest of S&P 500			24,479.26	9.94	152.45	16.41

Continuing to analyze the S&P 500's return last year, you can see that the top 5 names provided over half the index's return, while the top 25 accounts for over 80% of the benchmark's performance. The other approximately 475 positions in the S&P 500 only generated 16.4% of the returns.

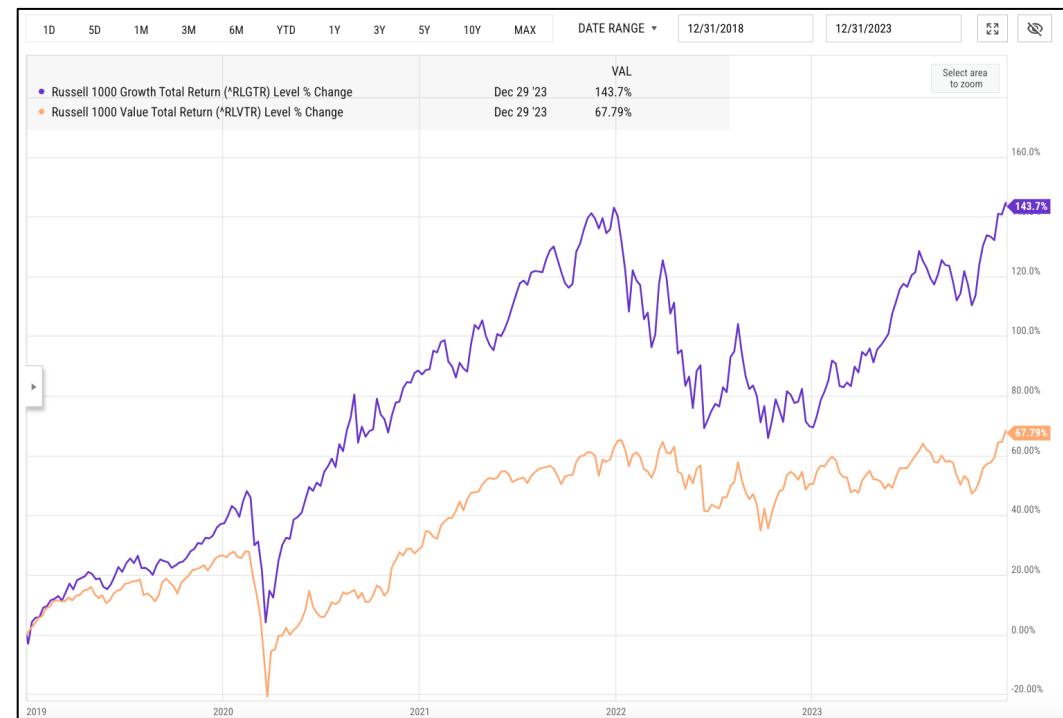
You have likely already heard the negative rhetoric around this narrow leadership from various "financial gurus" and "professional money managers." Much of this is them just trying to explain why their forecasts at the beginning of the year were so wrong and why their actively managed portfolios trailed their benchmark yet again this year.

While the impact of the 7 large tech companies is certainly disproportionate, it highlights less what is wrong with the market than it does what is wrong with so many advisory firms approach to portfolio construction. If you owned less than the benchmark exposure or perhaps your money manager eschewed owning those names at all, your portfolio likely trailed the market by a significant margin last year.

At RiverGlades, we believe in thoughtful allocation and prudent diversification through the use of low cost, indexed exchange traded funds. This ensures our clients have adequate exposure to the broad markets at any given time. That strategy works in years with narrow leadership as well as years when the gains are more broad-based.



Growth vs. Value



As the outperformance of the Technology sector continues, so does the outperformance of Growth style of investing compared to Value investing. In our past commentaries RiverGlades has described a preference for avoiding the growth/value distinction. Instead favoring a sector level allocation or embracing the index as a whole.

As captured in the chart above left, those investors that focused on Value over Growth last year saw their performance trail by almost 4 times! Over the past five years, Growth stocks have outperformed Value by more than double on a cumulative basis (above right).

Many investors have been anticipating a recovery in Value for years and have only experienced short periods of relative outperformance by Value.



Asset Class Performance – Trailing Periods

YTD Total Return	1 month Total Return	3 month Total Return	6 month Total Return	1 year Total Return	3 year Total Return	5 year Total Return	10 year Total Return
US Growth 42.7%	US Small 12.2%	US Real Estate 18.0%	US Growth 10.6%	US Growth 42.7%	Commodities 19.2%	US Growth 19.5%	US Growth 14.9%
S&P 500 26.3%	US Real Estate 9.0%	US Growth 14.2%	US Small 8.2%	S&P 500 26.3%	S&P 500 10.0%	S&P 500 15.7%	S&P 500 12.0%
World exUSA 18.6%	US Value 5.5%	US Small 14.0%	S&P 500 8.0%	World exUSA 18.6%	US Growth 8.9%	US Value 10.9%	US Value 8.4%
US Small 16.9%	World exUSA 5.5%	S&P 500 11.7%	US Real Estate 7.9%	US Small 16.9%	US Value 8.9%	US Small 10.0%	US Real Estate 7.7%
US Real Estate 12.2%	S&P 500 4.5%	World exUSA 10.6%	World exUSA 6.1%	US Real Estate 12.2%	US Real Estate 5.3%	World exUSA 9.0%	US Small 7.2%
US Value 11.5%	US Growth 4.4%	US Value 9.5%	US Value 6.0%	US Value 11.5%	World exUSA 5.0%	Commodities 8.7%	World exUSA 4.8%
Emerging Markets 10.3%	Emerging Markets 3.9%	Emerging Markets 7.9%	Emerging Markets 4.9%	Emerging Markets 10.3%	US Small 2.2%	US Real Estate 7.3%	Emerging Markets 3.0%
Muni Bonds 6.4%	Aggregate Bonds 3.8%	Muni Bonds 7.9%	Muni Bonds 3.6%	Muni Bonds 6.4%	Muni Bonds -0.4%	Emerging Markets 4.1%	Muni Bonds 3.0%
Aggregate Bonds 5.5%	US Treasuries 3.4%	Aggregate Bonds 6.8%	Commodities 3.5%	Aggregate Bonds 5.5%	Aggregate Bonds -3.3%	Muni Bonds 2.3%	Aggregate Bonds 1.8%
US Treasuries 4.1%	Muni Bonds 2.3%	US Treasuries 5.7%	Aggregate Bonds 3.4%	US Treasuries 4.1%	US Treasuries -3.8%	Aggregate Bonds 1.1%	US Treasuries 1.3%
Commodities -4.3%	Commodities -3.3%	Commodities -10.7%	US Treasuries 2.4%	Commodities -4.3%	Emerging Markets -4.7%	US Treasuries 0.5%	Commodities -3.6%

This table shows the performance of various asset classes over different time frames. As noted by the sector returns, US Real Estate led the way in the fourth quarter helped by declining interest rates while Commodities tumbled, losing 10.7%.

For the year, most equity categories saw returns between 10% to 20%. Bonds managed to rebound following a terrible 2022 and posted a reasonable 5.5% total return.

Commodities were the sole asset class to decline in 2023 dropping 4.5%.

Asset	Index
US Real Estate	Dow Jones US Real Estate Index Total Return
US Growth Stocks	Russell 1000 Growth Total Return
Commodities	S&P GSCI Total Return
US Small Cap	Russell 2000 Total Return
S&P 500	S&P 500 Total Return
US Value Stocks	Russell 1000 Value Total Return
World ex USA	MSCI World Ex USA Total Return
Emerging Markets	MSCI Emerging Markets Total Return
Aggregate Bonds	Barclays US Aggregate Total Return
Muni Bonds	Barclays Municipal Bond Total Return
US Treasuries	Barclays US Treasury Total Return

The take-away from this chart is that despite the volatility of various asset classes and all the uncertainty both in the U.S. and around the world, returns have been roughly in-line with what an investor might expect given an asset class's historical risk/return profile.



Asset Class Performance – Quarter by Quarter

12/31/2023 Qtr Return	9/30/2023 Qtr Return	6/30/2023 Qtr Return	3/31/2023 Qtr Return	12/31/2022 Qtr Return	9/30/2022 Qtr Return	6/30/2022 Qtr Return	3/31/2022 Qtr Return	12/31/2021 Qtr Return	9/30/2021 Qtr Return	6/30/2021 Qtr Return	3/31/2021 Qtr Return	12/31/2020 Qtr Return	9/30/2020 Qtr Return	6/30/2020 Qtr Return
US Real Estate 18.0%	Commodities 16.0%	US Growth 12.8%	US Growth 14.4%	World exUSA 16.3%	US Small -2.2%	Commodities 2.0%	Commodities 33.1%	US Real Estate 14.6%	Commodities 5.2%	Commodities 15.7%	Commodities 13.6%	US Small 31.4%	US Growth 13.2%	US Growth 27.8%
US Growth 14.2%	Emerging Markets -2.8%	S&P 500 8.7%	World exUSA 8.2%	US Value 12.4%	Muni Bonds -3.5%	Muni Bonds -2.9%	US Value -0.7%	US Growth 11.6%	US Growth 1.2%	US Growth 11.9%	US Small 12.7%	Emerging Markets 19.8%	Emerging Markets 9.7%	US Small 25.4%
US Small 14.0%	US Treasuries -3.1%	US Small 5.2%	S&P 500 7.5%	Emerging Markets 9.8%	US Growth -3.6%	US Treasuries -3.8%	S&P 500 -4.6%	S&P 500 11.0%	US Real Estate 0.9%	US Real Estate 11.7%	US Value 11.3%	US Value 16.3%	S&P 500 8.9%	S&P 500 20.5%
S&P 500 11.7%	US Growth -3.1%	US Value 4.1%	Emerging Markets 4.0%	S&P 500 7.6%	US Treasuries -4.3%	Aggregate Bonds -4.7%	World exUSA -4.7%	US Value 7.8%	S&P 500 0.6%	S&P 500 8.5%	US Real Estate 7.7%	World exUSA 15.9%	US Value 5.6%	Emerging Markets 18.2%
World exUSA 10.6%	US Value -3.2%	World exUSA 3.3%	US Treasuries 3.0%	US Small 6.2%	Aggregate Bonds -4.8%	Emerging Markets -11.3%	US Treasuries -5.6%	World exUSA 3.2%	US Treasuries 0.1%	World exUSA 5.9%	S&P 500 6.2%	Commodities 14.5%	World exUSA 5.0%	World exUSA 15.5%
US Value 9.5%	Aggregate Bonds -3.2%	US Real Estate 2.4%	Aggregate Bonds 3.0%	US Real Estate 4.4%	S&P 500 -4.9%	US Value -12.2%	Aggregate Bonds -5.9%	US Small 2.1%	Aggregate Bonds 0.1%	US Value 5.2%	World exUSA 4.2%	S&P 500 12.1%	US Small 4.9%	US Value 14.3%
Emerging Markets 7.9%	S&P 500 -3.3%	Emerging Markets 1.0%	Muni Bonds 2.8%	Muni Bonds 4.1%	US Value -5.6%	World exUSA -14.4%	Muni Bonds -6.2%	Commodities 1.5%	Muni Bonds -0.3%	Emerging Markets 5.1%	Emerging Markets 2.3%	US Growth 11.4%	Commodities 4.6%	US Real Estate 13.9%
Muni Bonds 7.9%	Muni Bonds -3.9%	Muni Bonds -0.1%	US Small 2.7%	Commodities 3.4%	World exUSA -9.1%	US Real Estate -14.5%	US Real Estate -6.5%	Muni Bonds 0.7%	World exUSA -0.6%	US Small 4.3%	US Growth 0.9%	US Real Estate 7.7%	US Real Estate 2.1%	Commodities 10.5%
Aggregate Bonds 6.8%	World exUSA -4.0%	Aggregate Bonds -0.8%	US Real Estate 1.6%	US Growth 2.2%	Commodities -10.3%	S&P 500 -16.1%	Emerging Markets -6.9%	US Treasuries 0.2%	US Value -0.8%	Aggregate Bonds 1.8%	Muni Bonds -0.4%	Muni Bonds 1.8%	Muni Bonds 1.2%	Aggregate Bonds 2.9%
US Treasuries 5.7%	US Small -5.1%	US Treasuries -1.4%	US Value 1.0%	Aggregate Bonds 1.9%	US Real Estate -10.4%	US Small -17.2%	US Small -7.5%	Aggregate Bonds 0.0%	US Small -4.4%	US Treasuries 1.7%	Aggregate Bonds -3.4%	Aggregate Bonds 0.7%	Aggregate Bonds 0.6%	Muni Bonds 2.7%
Commodities -10.7%	US Real Estate -8.6%	Commodities -2.7%	Commodities -4.9%	US Treasuries 0.7%	Emerging Markets -11.4%	US Growth -20.9%	US Growth -9.0%	Emerging Markets -1.2%	Emerging Markets -8.0%	Muni Bonds 1.4%	US Treasuries -4.3%	US Treasuries -0.8%	US Treasuries 0.2%	US Treasuries 0.5%

This visual shows historical quarterly asset class performance for the last 15 quarters.

Looking at the results on a quarterly basis makes a strong case for maintaining a well diversified portfolio especially during periods of market volatility.

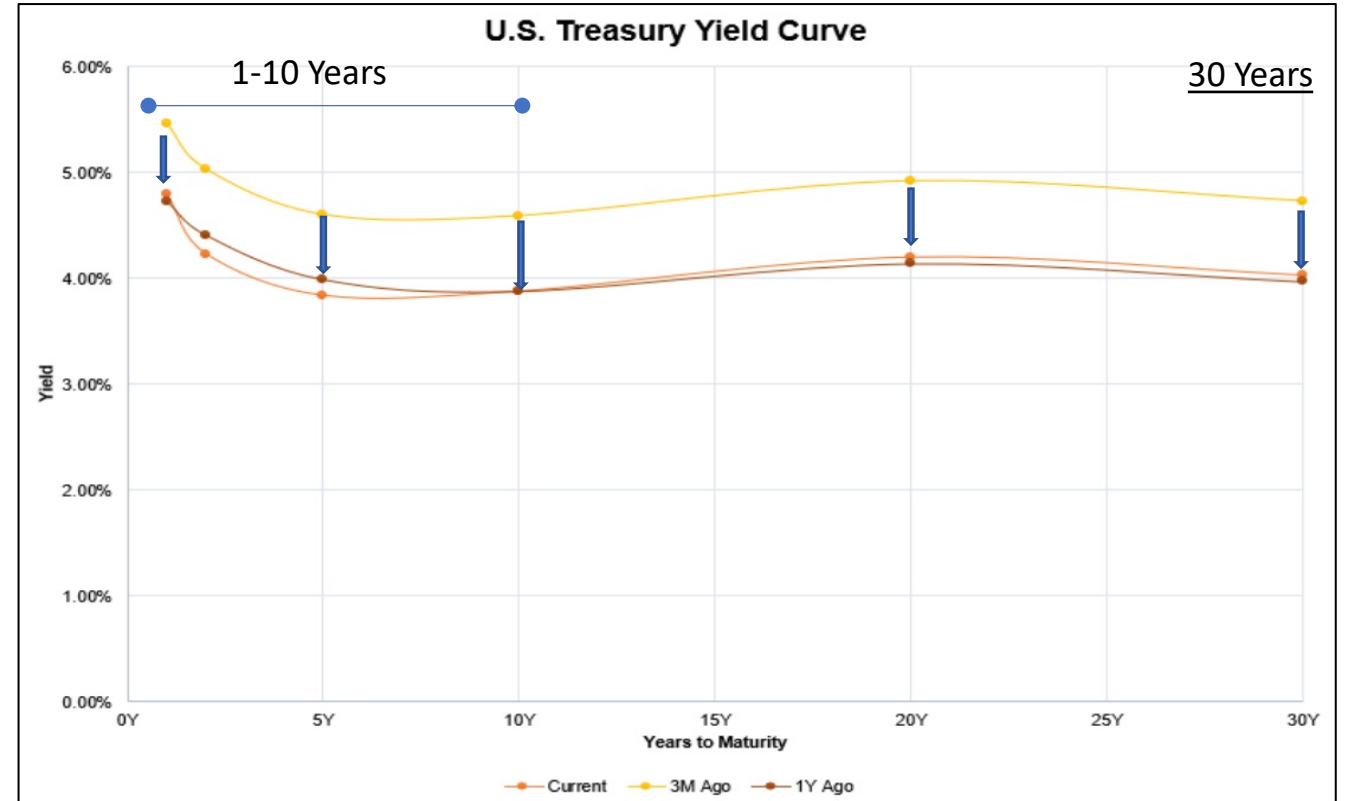
While there may be short-term trends that persist for a while, the market's tendency to shift towards mean reversion makes "timing the market" very challenging.

RiverGlades investment strategy seeks to "own a little more" of the asset classes that have a positive outlook and "own a little less" of the asset classes that might be facing headwinds or have had overly strong recent performance.



Interest Rates

Duration	Rate	QoQ Δ
1-Month	5.60%	▲ 5 bps
3-Month	5.40%	▼ 15 bps
6-Month	5.26%	▼ 27 bps
1-Year	4.79%	▼ 67 bps
2-Year	4.23%	▼ 80 bps
3-Year	4.01%	▼ 79 bps
5-Year	3.84%	▼ 76 bps
10-Year	3.88%	▼ 71 bps
20-Year	4.20%	▼ 72 bps
30-Year	4.03%	▼ 70 bps



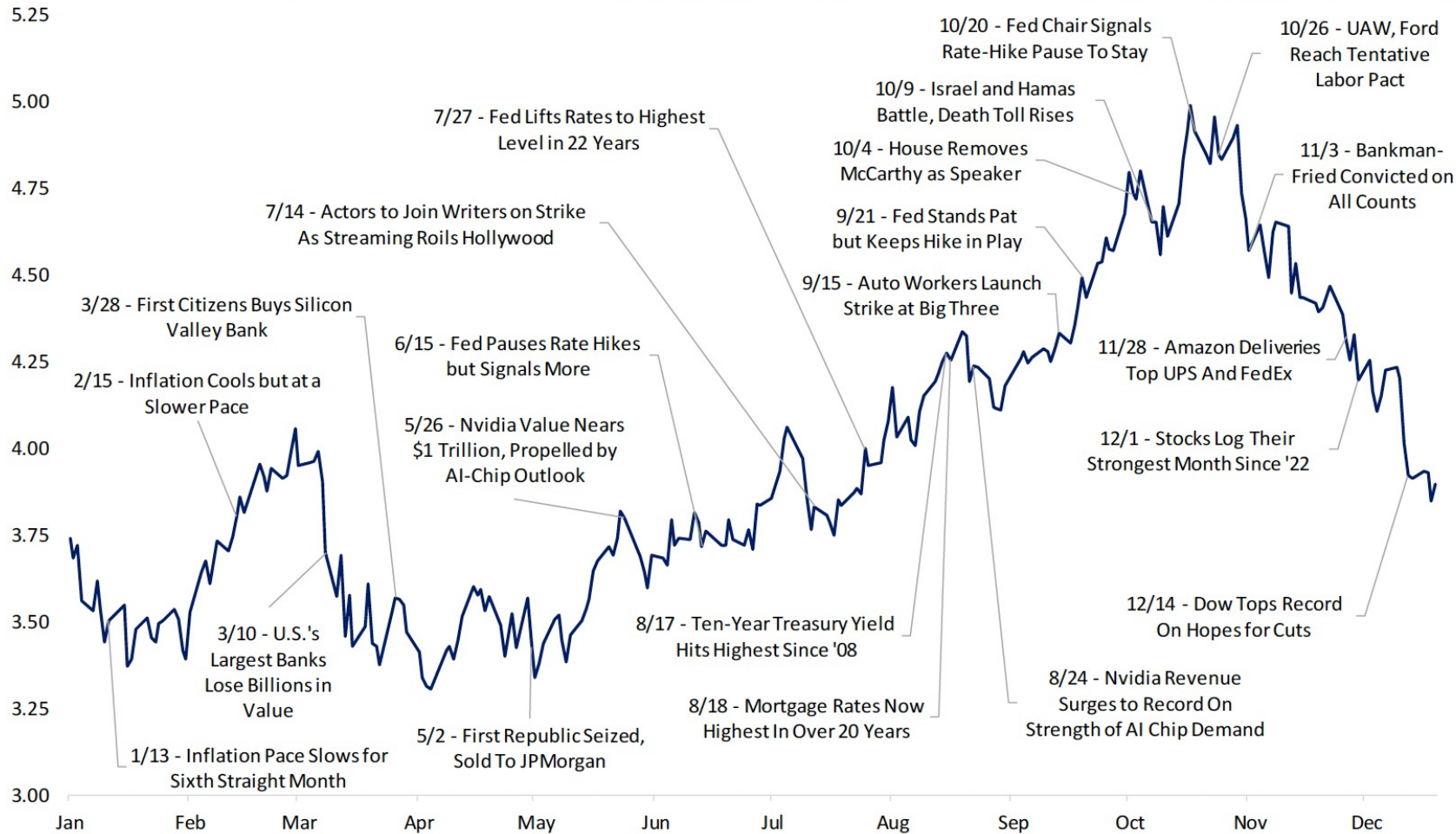
During the fourth quarter, yields dropped across the board, from U.S. Treasuries to high yield bonds. This had the impact of shifting the yield curve down by around 0.70%. This is approximately the same amount the Fed seemed to indicate they might cut in the coming year.

The 2-year to 10-year part of the curve is still inverted (longer maturities have lower yields). As we discussed in the past, this is often viewed as a recessionary indicator.



Interest Rates and Headlines

10 Year Treasury Yield: The Year in Headlines - 2023



I have included this 2023 chart of the 10-year U.S. Treasury yield overlayed with various headlines. Like the earlier chart with the S&P 500, I think this warrants some reflection given all that occurred last year.

Early in 2023 inflation continued to cool but there wasn't consensus around that continuing.

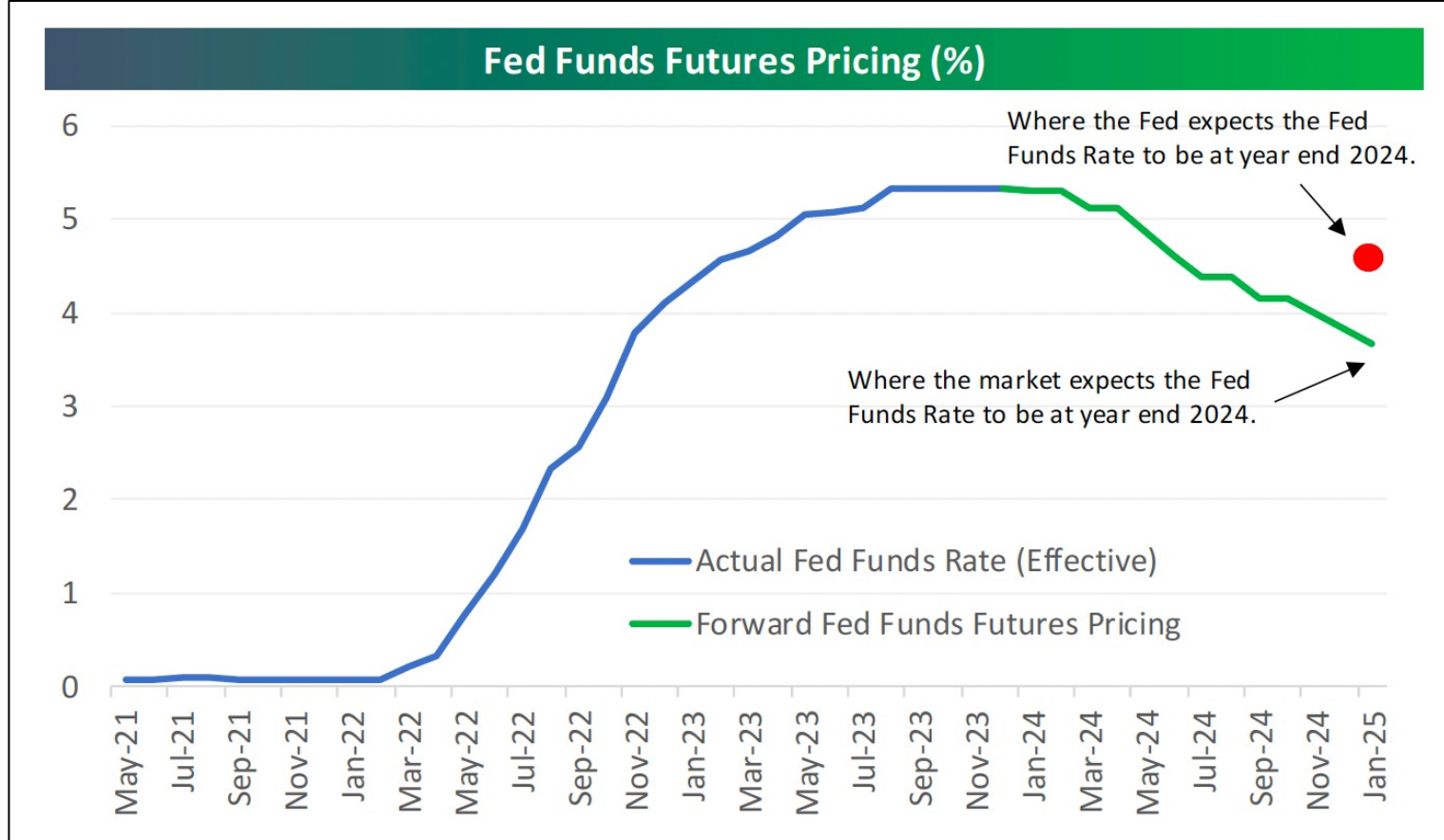
Fed pauses rate hikes in June but raises again in July.

In September, Big Three auto workers launch employment strike. Fed pauses again but indicates future hikes might be warranted.

As 10-year approaches 5% in October, Federal Reserve Chair indicates rate hikes may be done and rates begin to decline to below 4% by year-end.



Where Are Interest Rates Headed?



Over the past 18-24 months, RiverGlades opinion was that the Fed, while late to the game, would appropriately manage some version of a “soft landing.” We remained confident in their ability to take prudent action while talking the equity markets up and down as needed along the way.

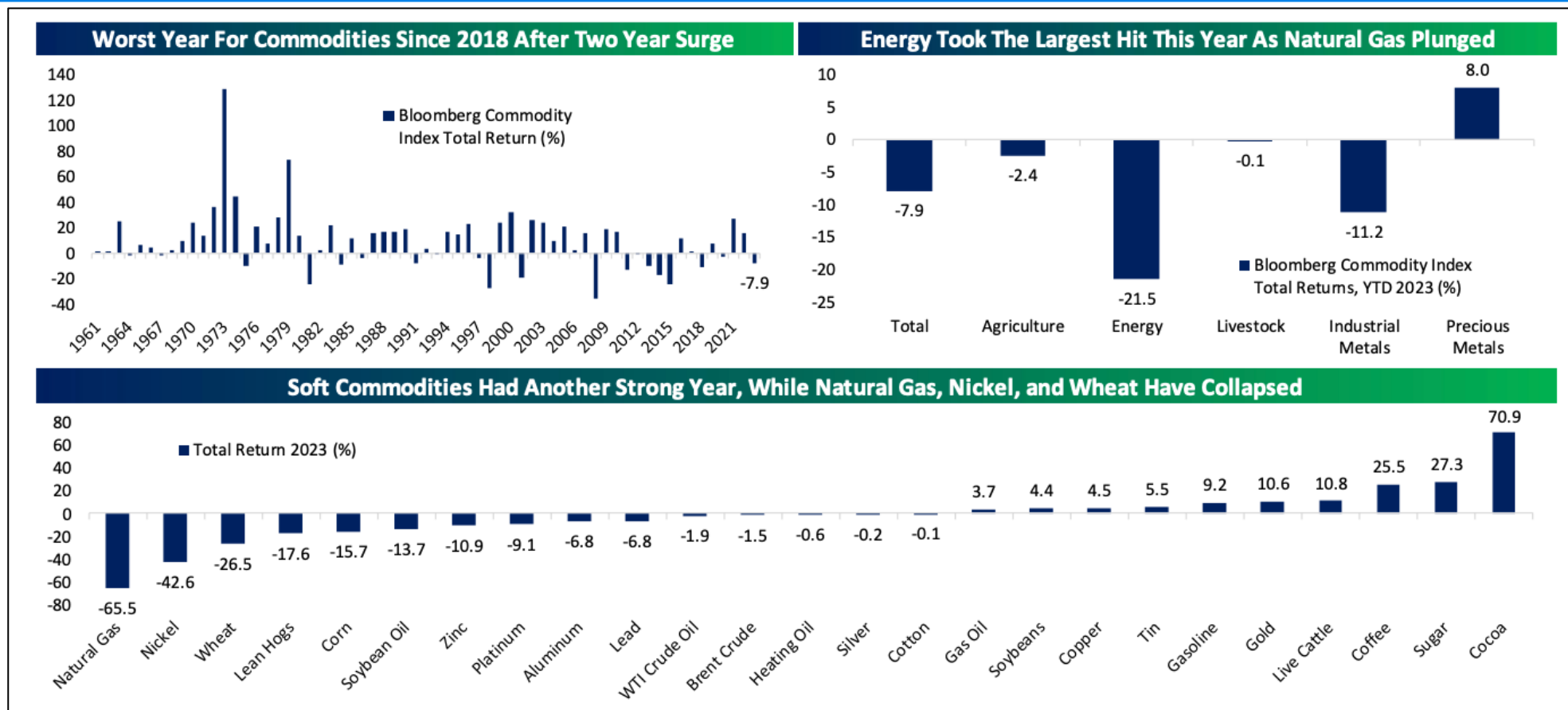
However, throughout the process, investors seemed bound and determined to either go all in on a doomsday recession or were able to convince themselves the Fed will immediately reverse course and begin to aggressively cut rates...

This remains the case in 2024. The chart to the left shows the market expects Fed Funds to drop below 4% by year-end when the Fed itself is indicating rates may only decline to 4.5-4.75%.

Especially in an election year, the Fed will want to maintain the appearance of independence. This means not doing too much and not doing it too close to the election. Ignoring whether or not the Fed even needs to cut, it seems unlikely that the Fed will be able to cut more than 0.50-0.75% by summer.



Commodities



RiverGlades' strategy seeks to identify opportunities to increase expected risk-adjusted return at the margin. This is done by shifting or "tweaking" our asset allocation over time. Incorporating commodity exposure in the mix is one way that this may be achieved. Commodity exposure has been a part of our portfolio strategy since inception and has at times had varying levels of exposure to a diversified bucket of commodities and/or gold. Recently our preference has been for gold, but a broad mix of hard and soft commodities could make sense in the coming years.



Leading Indicator Summary & Trends

Indicator	Q4 2023	Q3 2023	Q2 2023	Q1 2023	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
10-2 Year Treasury Yield Spread	▲ -0.35%	▲ -0.44%	▼ -1.06%	▼ -0.58%	▲ -0.35%	▼ -0.53%	▼ 0.79%	▲ 0.80%	▲ 0.34%	▼ 0.21%	▼ 0.51%	▲ 1.25%	▼ 1.21%	▼ 1.50%	▲ 2.66%	▼ 1.53%
NY Fed Business Leaders Survey Current Business Activity	▼ -14.6	▲ -3.0	▲ -5.2	▲ -10.1	▲ -14.6	▼ -17.6	▲ 14.4	▼ -26.9	▼ 3.0	▼ 5.6	▲ 16.7	▼ -0.6	▼ 2.0	▼ 7.8	▲ 7.89	▼ -6.4
Philly Fed Manufacturing Activity Index	▲ -12.8	▲ -13.4	▲ -13.6	▼ -22.4	▲ -12.8	▼ -15.2	▲ 13.8	▲ 11.2	▼ 2.4	▼ 10.9	▲ 29.3	▲ 22.6	▼ -9.0	▲ 21.6	▲ 3.8	▲ 2.4
S&P 500 Return	▲ 11.69%	▼ -3.27%	▲ 8.74%	▲ 7.50%	▲ 26.29%	▼ -18.11%	▲ 28.71%	▼ 18.40%	▲ 31.49%	▼ -4.38%	▲ 21.83%	▲ 11.96%	▼ 1.38%	▼ 13.69%	▲ 32.39%	▲ 16.00%
US Index of Consumer Sentiment	▲ 69.7	▲ 67.9	▲ 64.2	▲ 62.0	▲ 69.7	▼ 59.8	▼ 70.6	▼ 80.7	▲ 99.3	▲ 98.3	▼ 95.9	▲ 98.2	▼ 92.6	▲ 93.6	▲ 82.5	▲ 72.9
US Change in Business Inventories (YoY)	▼ 0.39%	▼ 1.01%	▼ 1.84%	▼ 6.18%	▼ 0.39%	▼ 12.57%	▲ 13.81%	▼ -2.75%	▼ 2.06%	▲ 4.39%	▲ 3.14%	▲ 1.95%	▼ 1.87%	▼ 3.64%	▼ 4.17%	▼ 5.79%
US Housing Starts (Latest TTM)	▲ 16,978	▼ 16,833	▼ 17,060	▼ 17,618	▼ 16,978	▼ 18,615	▲ 19,288	▲ 16,741	▲ 15,492	▲ 14,968	▲ 14,456	▲ 14,125	▲ 13,281	▲ 12,003	▲ 11,138	▲ 9,405
US Building Permits (Latest TTM)	▲ 17,542	▼ 17,448	▼ 17,825	▼ 18,675	▼ 17,542	▼ 19,994	▲ 20,938	▲ 17,709	▲ 16,628	▲ 15,933	▲ 15,425	▲ 14,468	▲ 14,129	▲ 12,625	▲ 11,856	▲ 9,942
US Change in Retail Sales (YoY)	▲ 4.78%	▲ 3.11%	▼ 0.39%	▼ 0.86%	▲ 4.78%	▼ 4.70%	▲ 14.73%	▲ 6.53%	▲ 5.04%	▼ 0.63%	▲ 5.06%	▲ 4.02%	▼ 2.32%	▼ 3.08%	▼ 3.34%	▼ 4.21%

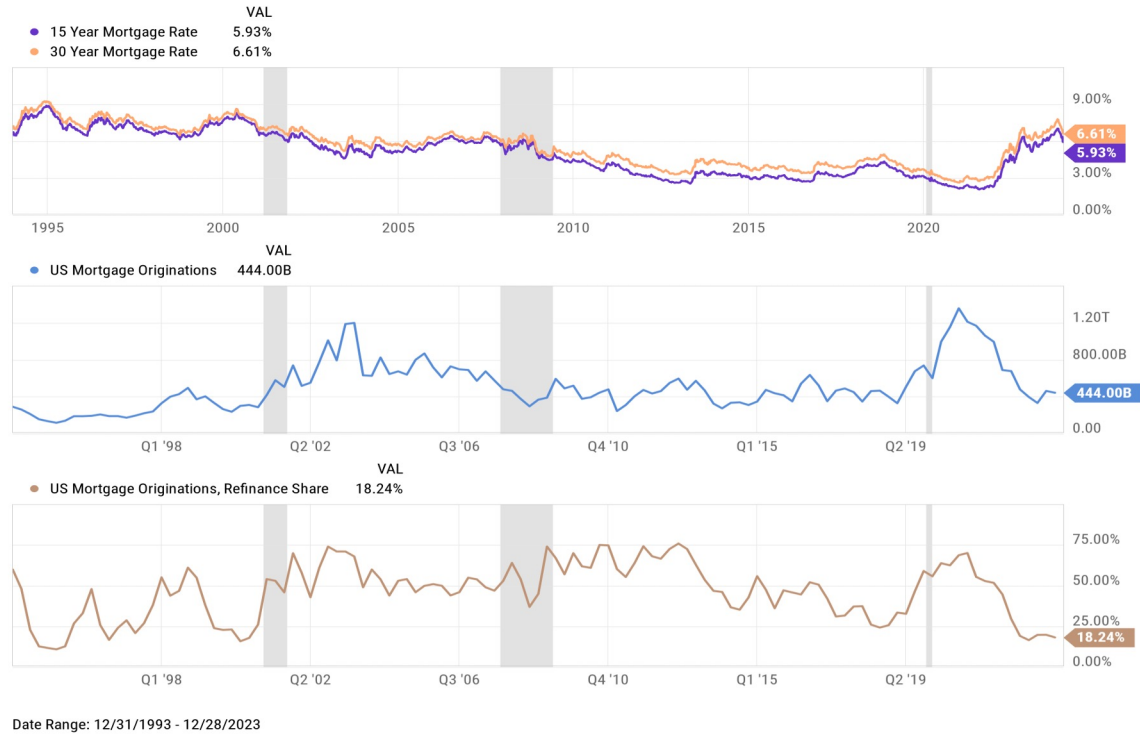
This table is a heatmap of various economic data points which are considered leading indicators and shows their trends over time. The first four columns show a quarter-by-quarter change, whereas the following columns show annual changes in the data.

Economic data remains mixed, but overall, the U.S. economy continues to do well. Many Wall Street strategist expected an impactful recession in 2023 and while the economy was somewhat muted, recession was avoided. RiverGlades continues to see the economy growing in the coming year and does not anticipate a widespread recession.



Housing Indicators

Mortgage Rates and Originations, 30Y View



Jan 18 2024, 6:02PM EST. Powered by YCHARTS

Mortgage rates spiked last year as interest rates rose. However, in the past few months, mortgages appear to be topping out, at least for now.

At left, the middle chart shows a slight uptick in mortgage originations as rates have eased off recent highs. Increased activity is likely to remain if rates settle in around this levels or potentially decline further in the coming months.

While many homeowners now feel trapped due to their extraordinarily low mortgage rates that were locked in over the past few years, one can expect that with time homeowners looking to move, move-up or access the growing equity in their homes will accept these higher rates.

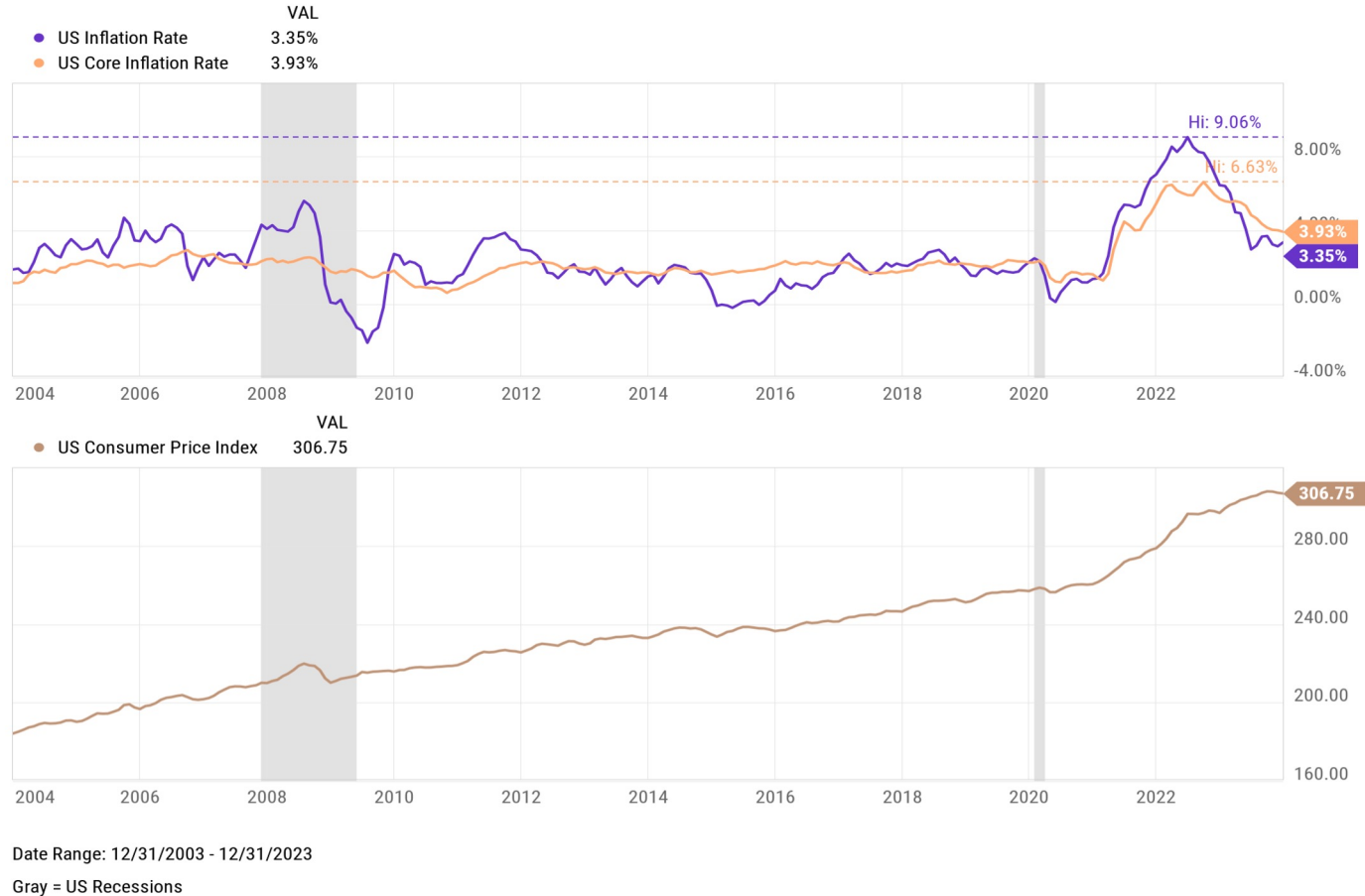
How long it takes for the mortgage market to adjust to these new rates is unknown, but life goes on and as much as those with unusually low interest rates won't like it, they will need to move. As this begins to occur, more homeowners will feel comfortable making similar decisions.

Housing Indicator Review										
Overall	Indicator Name	Latest Period	Frequency	Value	1 Mo. Ago		3 Mo. Ago		1 Yr. Ago	
					1 Mo. Ago	% Change	3 Mo. Ago	% Change	1 Yr. Ago	% Change
▲	Case-Shiller Home Price Index: National	10/31/2023	monthly	313.3	311	▲ 0.65%	307	▲ 2.11%	299	▲ 4.80%
▼	US Housing Starts	12/31/2023	monthly	1,460	1,525	▼ -4.26%	1,356	▲ 7.67%	1,357	▲ 7.59%
▲	US Building Permits	12/31/2023	monthly	1,495	1,467	▲ 1.91%	1,471	▲ 1.63%	1,409	▲ 6.10%
▼	US New Single Family Houses Sold	11/30/2023	monthly	590	672	▼ -12.20%	654	▼ -9.79%	582	▲ 1.37%
■	US Pending Home Sales Index	11/30/2023	monthly	72	72	■ 0.00%	72	▼ -0.28%	76	▼ -5.17%
▼	30 Year Mortgage Rate	12/31/2023	weekly	6.61%	7.22%	▼ -8.45%	7.31%	▼ -9.58%	6.42%	▲ 2.96%
▲	US Households	9/30/2023	monthly	130,593	130,287	▲ 0.23%	130,179	▲ 0.32%	128,667	▲ 1.50%



Inflation

Inflation and CPI



Jan 18 2024, 5:37PM EST. Powered by YCHARTS

Year-over-year Inflation rates have been declining since they peaked during the 2022 summer. Core CPI has continued to trend lower to 3.9% and Headline CPI has dropped to 3.4%.

RiverGlades outlook anticipated inflation cooling to the 4-5% range, so 3.4-3.9% is below our expectation. While we certainly welcome this news, we don't want to celebrate as if inflation has been defeated.

One of the major lessons of the 1970's was that inflation can quickly reappear if given a chance. It is important that the Fed remain vigilant and keep the pressure on inflation. This contributes to our opinion that the Fed will likely cut less than most investors think.

Should the Fed become confident that inflation has been beaten and begin to cut rates or signal they intend to cut rates too aggressively, inflation can and likely will resume. Each time the Fed allows inflation to come back they lose credibility with the markets and with U.S. consumers. In the 70's the Fed allowed this to occur, making it increasingly more difficult to curb inflation each time. We should all be hoping the Fed stands its ground, leaves rates unchanged, and talks about being prepared to take further action if necessary.



Where Do Things Go From Here?

Pros: While valuations for the headline S&P 500 are high, outside of the largest stocks, they look much more attractive. Credit markets have seen a massive loosening which historically has translated to strong markets going forward. While economic data has shown some signs of weakness, other areas are holding up well, and if there's no further slowing, the market should hold up just fine. No one besides the media is looking forward to next November's election, but election years have historically been positive. Lastly, semiconductors, our favorite leading indicator of the economy and the market, have broken out to new highs on a relative strength basis after trading in a range for more than two years.

Cons: In the short-term, sentiment has turned bullish (contrarian indicator) and the yield curve is still inverted, so a recession can't be ruled out. Economic data has been showing weaker trends, interest rates are still high, and based on current inflation readings, at restrictive levels. Some have even argued that the Fed is just as behind the curve now (in terms of being too tight) than it was in late 2021 (in being too loose). Lastly, now that the Fed has pivoted, we're back in a market where bad news is bad for the markets.

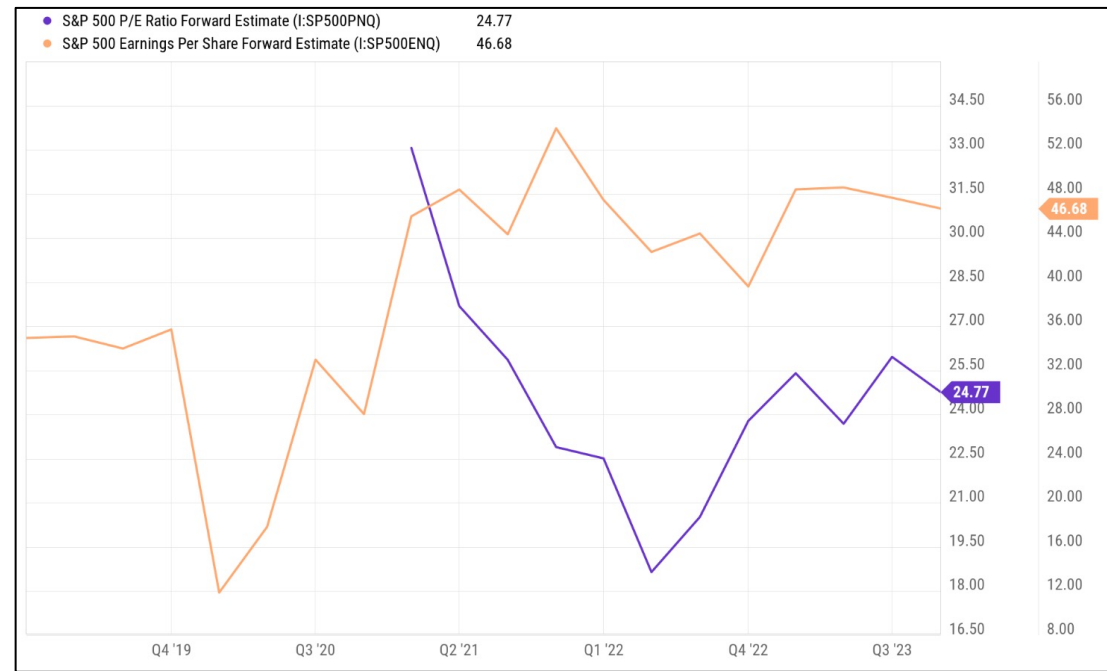
Source: **Bespoke Investment Group**, *The Bespoke Report*, 12/22/23

A recent report from the well-respected *Bespoke Investment Group* (www.bespokepremium.com) summarized their take on the current "Pros and Cons" for the stock market going forward. Many of these have been touched on in this presentation, but RiverGlades' team is always available to elaborate or answer questions.

The Pro's and Con's appear to be fairly even at this time. While an argument can be made for both sides, it also becomes important to take into account the time over which these factors are considered. From where we sit, RiverGlades forecasts that 2024 will be a good but not great year with returns being more in-line with average historical levels. We anticipate some market weakness early in the year, some volatility into the summer, and a rally in equities as the market begins to decipher who will win not only the presidential election but control of the House and Senate.



Where Do Things Go From Here? cont.



The chart to the left shows the S&P 500 Shiller CAPE Ratio going back 20 years. Yale Professor Robert Shiller created this variation of the traditional P/E Ratio to account for the cyclical nature of earnings. Rather than simply taking the trailing year's earnings as is done with the traditional P/E, the CAPE Ratio averages the past 10 years earnings and adjusts for inflation. This provides another lens, a longer term one, through which valuation can be analyzed. The chart shows just how far valuations have declined since the beginning of 2022, dropping from 38.5 to 30.8. While the ratio is still above the 20-year average, it looks much more reasonable than 24 months ago. Above right, you can see the forward P/E ratio at around 24.8 and that forward earnings estimates remain strong.

RiverGlades' outlook remains relatively constructive all things considered. Inflation is moderating, rates are adjusting higher, and earnings remain okay. While there are always plenty of reasons for concern, the economy appears to be taking everything in stride and it is reasonable to expect the broader investment markets to do the same. This suggests that most investors stick to their long-term plan with the understanding that there will always be ups and downs in the market. Investors should be "taking inventory" and putting together a strategy to take advantage of what this year will have to offer.

- All investment strategies have the potential for profit or loss. Changes in investment strategies, contributions or withdrawals may materially alter the performance and results of your portfolio.
- Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will either be suitable or profitable for a client's investment portfolio.
- Economic factors, market conditions, & investment strategies will affect the performance of any portfolio there are no assurances that it will match or outperform any particular benchmark.
- The information contained herein has been obtained from sources believed to be reliable, but the accuracy of the information cannot be guaranteed.
- This is not to be considered a solicitation for the purchase or sale of any individual security or investment strategy.



RIVERGLADES
A MULTIFAMILY OFFICE

For more information, please visit <https://rivergladesfo.com/>

YCharts is not registered with the U.S. Securities and Exchange Commission (or with the securities regulatory authority or body of any state or any other jurisdiction) as an investment adviser, broker-dealer or in any other capacity, and does not purport to provide investment advice or make investment recommendations by or through the Content found on the Site or otherwise. The Site and the Content are provided for the sole purpose of enabling you to conduct investment research. Other uses of the Site and the Content are expressly prohibited. Full disclosure: <https://ycharts.com/about/disclosure>

Q4 2023

Released January 2024