



4Q2023

2023 will be remembered as the year of the most anticipated recession that never happened. Despite the Federal Reserve's aggressive rate hikes to 5.25% coupled with cautious rhetoric, the S&P 500 closed up 26.3%, primarily fueled by seven stocks: Apple, Microsoft, Amazon.com, Nvidia, Alphabet, Tesla and Meta Platforms.ⁱ ⁱⁱ During this last quarter we saw the most extreme market volatility in bond prices in decades from the whiplash in interest rates. The yield on the benchmark 10-year Treasury briefly traded through 5.00% in late October before closing at 3.87% at year-end.

The 4th quarter started off with a surprising and horrific attack on Israel by Hamas on October 7 which then exacerbated the sell-off in equity markets that had started at the end of July. Mortgage rates on the 30-year fixed hit a two decade high of 7.79% causing the real estate market to slow. By late October, investors began to feel that not only had interest rates topped out but that the Fed was finished raising interest rates since there were signs that inflation was finally cooling. This spurred the most recent, more broad market rally into the year end.

As this year comes to a close, inflation continues to fall closer to the Fed's 2% goal. Despite the events in the Middle East, energy prices have declined from more than \$90 a barrel to the mid \$70s giving consumers a much-needed boost. Jobs are still abundant keeping the unemployment rate below 4%. The decline in interest rates in the last few weeks will help spur construction spending and manufacturing and strengthen corporate profits. This will lead to higher capital spending and better productivity and thus, a stronger economy in 2024. Consumers have been resilient as buyers of not just services as they have been post Covid, but also of goods. With the decline in rates, the 30-year fixed mortgage rate is back to 7.52%

We continue to think that a positive outlook depends on the Fed not tipping the economy into a deep recession. We will either see higher rates for longer or rate cuts in 2024 as Fed Chair Jerome Powell indicated in mid-December. Sentiment now is better as we enter the new year, but it could easily be derailed if supply chain issues emerge from shipping disruptions in the Red Sea. The U.S., Great Britain and the E.U. are all showing signs of inflation easing. However, China, the second largest economy, is worsening, which could have spillover effects. We are also watching the commercial real estate market, further U.S. political dysfunction, and another chaotic and unappealing presidential election. At Crossvault, we continue to focus on companies with strong fundamentals for an improving economy that can also withstand a precarious geopolitical outlook.

Thank you for your continued confidence in us and we look forward to meeting or speaking soon. We, and our partners at Prime Capital Investment Advisors, wish you a happy and healthy 2024.

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ⁱ S&P Dow Jones Indices, Index Dashboard: US Dec 29, 2023.

ⁱⁱ What Are the Magnificent Seven Stocks and Why Do They Matter; WSJ; Dec 18, 2023.

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