WestStar
Wealth Management

Wealth Watch

Your Wealth, Well Managed

As we enter the new year, the lyrics of Michael Bublé's 2005 hit song, "Feeling Good," ring true. Indeed, following 2023's strong market finish and given 2024's relatively optimistic economic outlook, in Bublé's words "it's a new dawn, it's a new day…and I'm feeling good!"

2023 Q4 Review & 2024 Outlook

Last year was a study in expectation vs. reality. As the year began, 85% of economists polled by the Financial Times predicted a recession would occur in 2023. Their expectations were justified following a dismal 2022 marked by high inflation, an aggressive Fed, low consumer confidence, slowing economy, and an early-year banking crisis. Yet the economy proved much more resilient than near anyone imagined, and persistently low unemployment, lower gas prices, and wage growth exceeding a declining inflation rate led to a strong consumer and record highs in the stock market.

We noted in the last edition of the Wealth Watch that much of the stock market strength was relegated to a mere handful of companies colloquially dubbed "The Magnificent Seven," and a broadening of market strength was needed to maintain momentum in 2024. Fortuitously the late-year rally accomplished this feat, with nearly 90% of stocks in the S&P 500 Index surpassing their 50-day moving average.

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What You Need To Know:

- 2023 had a strong year in the stock market
- The number of stocks performing well has expanded beyond what had been a mere 7 companies for most of 2023
- Projected returns are higher for diversified investment strategies
- 2024 on track to avoid recession
- Inflation is expected to continue downward trend to the 2% range by year-end
- Election years have historically been positive 70% of the time, though gains have come in the second half of the year
- Remain focused on your long-term strategy and stay invested despite short-term volatility

Asset Class Index Performance* 2023

STRONGEST

US Large Cap Stocks
26.29%

International Developed Market Stocks
18.24%

US Small Cap Stocks
16.93%

High Yield Bonds
13.45%

Real Estate
10.85%

International Emerging Market Stocks
9.83%

International Bonds
5.72%

US Investment-Grade Bonds
5.53%

Money Market (Cash)
5.03%

Alternative Investments
4.42%

Commodities
-7.91%

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Strategic Asset Allocation Strategy

Every January, in collaboration with our consultants, we update long-term projections for the economic environment and the risk/return profiles of the various types of investments we utilize in portfolios. We are pleased to report that the results of our 2024 projections indicate that expected returns of core strategic asset allocation strategies are at least +0.50% higher despite a similar level of expected volatility. A summary of this update is shown below:

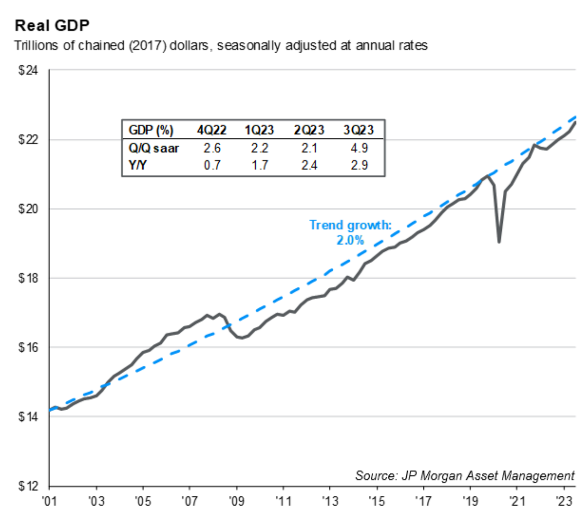
	All Fixed Income	Conservative	Moderately Conservative	Balanced	Moderately Aggressive	Aggressive	All Equity
2023 Target Return	4.0%	5.0%	6.0%	6.5%	7.0%	7.5%	7.5%
2024 Target Return	5.0%	6.0%	6.5%	7.0%	7.5%	8.0%	8.0%
2024 Return Range	-4% to +13%	-4% to +14%	-8% to +20%	-14% to +27%	-20% to +35%	-24% to +40%	-28% to +44%

Tactical Strategy for Actively-Managed Portfolios

In January of 2023 we anticipated a rebounding stock market, a declining inflation rate, and income opportunities in bonds that had not been available in over a decade. Accordingly, at that time we implemented an "overweight" to stocks, an "underweight" to Real Assets and Alternatives, and a "neutral-weight" to Fixed Income. We have maintained this tactical positioning since that time and continue to do so as we enter 2024. We stand ready to proactively adjust our strategy should market conditions warrant.

Economic Growth Outlook

As previously mentioned, the US economy proved much more resilient than what might have been expected given the seeming myriad headwinds it faced in early 2023. Indeed, real GDP growth exceeded the trend rate throughout 2023. As previous prognostications of imminent recession failed to materialize, the sentiment of erstwhile gloomy investors reversed and led to a late-year market rally. Meanwhile the consumer—whose spending represents two-thirds of economic growth—remains strong amid persistently low unemployment, positive wage growth, and improving outlook.

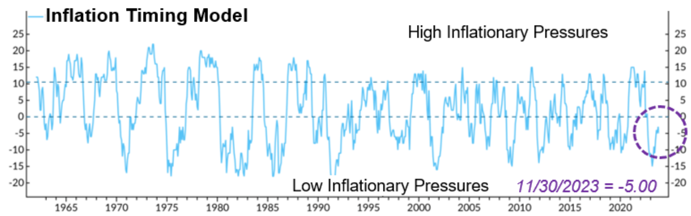


It is for these reasons that a soft-landing scenario remains the most likely path of the US economy as we enter 2024, avoiding a recession, a 2% growth rate, and a 4% unemployment rate. The largest risk facing the economy at this point is an overzealous Fed that maintains an overly-restrictive policy for too long. It is with this in mind that we must consider inflation and the Fed's policy related thereto.

*Large Cap: S&P 500 Index; Small Cap: Russell 2000 Index; Int'l Developed: MSCI EAFE Index; Int'l Emerging: MSCI Emerging Markets Index; US Inv-Grade Bonds: Bloomberg Aggregate Index; Int'l Bonds: Bloomberg Global Aggregate ex-USD Index; High Yield: Bloomberg US Corporate High Yield Index; Cash: BofA Merrill Lynch 3-Month US Treasury Index; Real Estate: FTSE EPRA/NAREIT Developed Index; Commodities: Bloomberg Commodity Index; Alternatives: Wilshire Liquid Alternatives Index

Inflation Outlook

Inflation has declined precipitously over the past year. The factors that caused the rapid acceleration were related in large part to supply and demand dislocations following the pandemic. Currently global supply chain pressures are at their lowest levels since 1998, and the Fed's aggressive hikes have dampened demand. But how likely is the continuation of the downward trend?



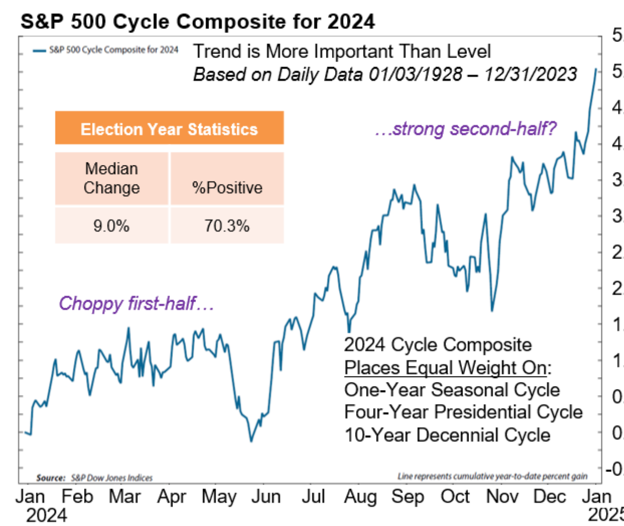
The chart on the upper right reflects twenty-two indicators that measure the rates of change among various fundamentals such as commodity prices, consumer prices, producer prices, etc. When this "inflation timing model" measure is above 10.5 it indicates inflationary pressures are high and when below 0 inflationary pressures are low. When low, the stock market tends to perform much better, with an average annual gain of nearly 13%. The model's current reading of -5 suggests both a continued downward inflationary trend and a positive market response. Coupled with positive developments on the underlying segments of inflation and moderating wage growth expectation, the Fed may begin to cut rates as early as the second quarter of 2024.

When Inflation Timing Model is	DJIA %Gain/ Annum	% of Time
Above 10.5	-3.26	22.79
0.0 – 10.5	5.32	32.19
Below 0.0	12.88	45.02
Buy/Hold = 6.57% Gain/Annum		

Source: Ned Davis Research

2024 Election Year Outlook

To summarize the current economic outlook, Dr. David Kelly (Chief Global Strategist for JP Morgan Asset Management) cleverly used the number "2024" as a reference: this year we might expect 2% growth, 0 recessions, 2% inflation by year-end, and 4% unemployment. It is true, however, that it being a presidential election year can lead to heightened market volatility.



The chart at right combines historical average stock market performance based on the presidential election cycle, the 10-year business cycle, and the 1-year seasonal cycle to project the possible market trend over the coming year. This analysis, examining typical market action going back to 1928, would suggest that 2024 might see a relatively choppy first half followed by a second-half rally. This would be expected during a presidential election year, as the uncertainty surrounding the ultimate outcome of the election causes investor unease. As primary election season resolves by summer, we see investor uncertainty begin to wane. It is the resolution of this uncertainty factor that leads to a market rally post-election. That said, and while certainly not guaranteed, historically presidential election years are positive 70% of the time and return a median +9.0%.

WestStar's Strategy

Hearkening back to Michael Bublé's song lyrics, investors may indeed be "feeling good" given the strength of the economy, 2023's market rally, and updated expectations of better future returns. It is important, however, to not become complacent regarding risk—particularly in what may be a more volatile presidential election year. As we always note, separating near-term noise from long-term strategy is key to achieving objectives. Though at times it can be difficult, one must avoid the temptation to dramatically alter one's portfolio by making wholesale shifts into or out of entire categories. Instead, adhering to a well-structured investment strategy that has incorporated projections of volatility is the most effective approach to successful investing. WestStar will continue to monitor developments and is committed to prudently guiding our clients through any market or political environment.

WestStar
Wealth Management

The Team You Can Trust.

As true fiduciaries, our focus isn't on selling products to our clients. Instead, we focus on providing personalized service and real financial solutions.

Our team of wealth management professionals has the valuable depth of expertise you need to navigate life's events.

From retirement planning and investment management to trust services and estate settlement, we can help you devise the most effective plan to meet your financial goals.

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