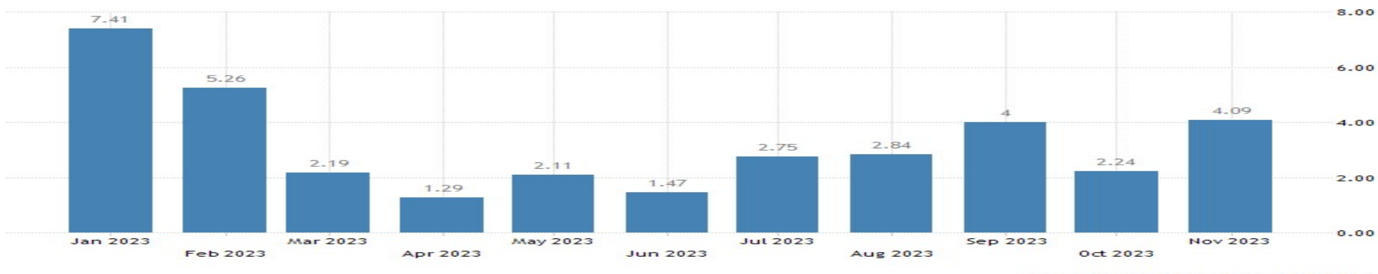
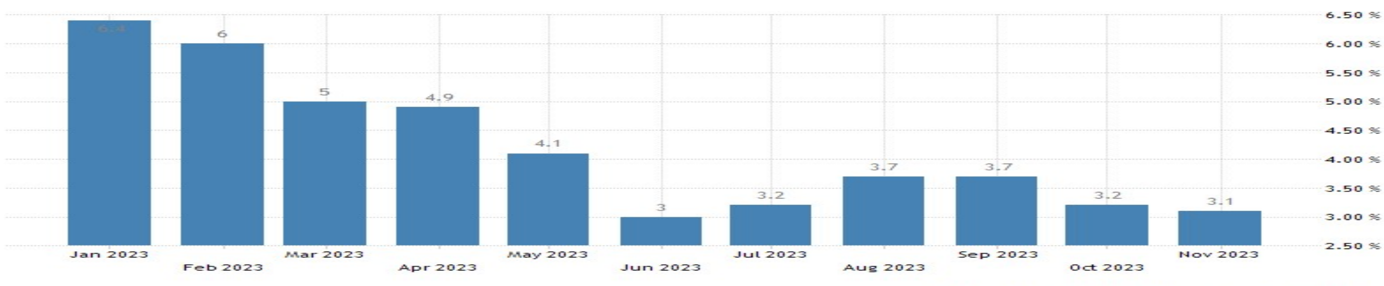
ECONOMIC AND INVESTMENT OUTLOOK
Winter 2024

Economy The stock and bond markets reached crescendo lows near the end of October as investor sentiment and confidence declined. With the release of positive third-quarter economic data and business activity reports coupled with better than feared corporate earnings results, markets began to turn. The resilience in the domestic jobs market led to a healthier consumer which fueled better than expected consumer spending and economic growth. Additionally, inflation data softened faster than expectations and neutral monetary policy guidance from the Federal Reserve led to a rapid change in investor confidence. As a result, both stock prices and long-term interest rates reversed direction, and we experienced one of the more powerful rallies in both stock and bond markets. In all, there are many signs that the economy can continue to grow as the shocks of inflation and interest rates continue to stabilize.

Sales and Spending Online sales rose 1.0% in November, reflecting strong Black Friday receipts. That helped core retail sales to rise 0.3%, a better-than-expected result. Online sales have risen at an 11% annual rate since March. Department store sales continued to suffer with a 2.5% drop. Consumer spending on services rose nicely for the months of October and November and more than likely December. Restaurant sales for November continued their strong trend, jumping 1.6%. Strong consumer spending will keep the economy out of recession, but we expect a slowdown, perhaps after the holidays. (See chart Retail Sales 1yr)



Inflation Large declines in gasoline prices in the past few months have dropped inflation in a hurry, from 3.7% in September to 3.1% in November. Gasoline prices fell 6.0% in November, and grocery prices only edged up slightly. The Federal Reserve will likely keep short-term interest rates the same at its next few policy meetings, but it is unlikely to cut rates until June. It's an election year so the Fed is likely to stand pat later in the year. (See chart Inflation Rate 1yr)



Monetary Policy comprises the Federal Reserve's actions and communications to promote maximum employment, stable prices and moderate long-term interest rates. The Federal Reserve has eight meetings a year starting January 31, 2024. The Fed chair Jerome Powell will most likely keep the rate steady in a range between 5.25% to 5.50%. Members indicated they expect a three-quarter-percentage point cut by the end of 2024. The meeting will be data dependent.

Fiscal Policy President Biden signed the Fiscal Responsibility Act of 2023 into law on December 21, 2023, ending for now the threat of economic calamity from a default on the nation's debt and putting limits on spending for two years. The legislation Mr. Biden signed suspends the nation's debt ceiling, allowing the government to borrow what it needs to meet its obligations. When federal impact is positive, the Government is contributing to GDP growth. Fiscal policy increased US GDP growth by 4% in the third quarter of 2023.

The Dollar A gauge of the dollar's strength fell to a three-month low before a US inflation report that may reinforce bets the Federal Reserve is nearing the end of its tightening campaign. The greenback is approaching its weakest against the Swiss franc since 2015, while the pound is on the cusp of hitting $1.30 for the first time in over a year. This past Wednesday's inflation print could add to the view that the US economy is headed for a soft landing, which would eventually stoke demand for riskier assets and weigh on the dollar.

Corporate Profits in the United States rose by 3.7% from the previous period to USD 2.698 trillion in the third quarter of 2023, less than the preliminary estimates of a 4.1% surge. Meanwhile, undistributed profits soared by 15.3%. In addition, net dividends fell by 1%.

MARKETS

Uncertainties, The United States inflation problem along with Chinese–U.S. tensions. The Ukraine/Russian war and the possible escalation in the Israeli war with Hamas.

Positives Looks like inflation is declining as well as interest rates. Economic data remained resilient, reducing fears of a near-term recession.

Negatives Possibility of economic slowdown coming and the risk of inflation keeping interest rates high. Geopolitical tensions and mild recession fears.

Interest Rates the Federal Reserve's newly released Summary of Economic Projections raised the possibility of three interest rate cuts this year, but many bond investors expect the Federal Reserve to start cutting by March, which we think is a little optimistic. The next Federal Reserve meeting is on January 31. The current 10-year Treasury trades over 3.90% and the fixed rate mortgage is now below 7%.

Common Stocks Wall Street wrapped up the year of 2023 with a gain of over 24%, finishing the year at 4,770 on the S&P 500. The fourth quarter started out with low expectations as rising long-term rates extended the late summer decline in the S&P 500, taking assets and portfolio values down. As rates on the US Treasury started to come down to the current 3.9% and the economic environment was improving, the impact was realized by the markets in short order as both the stock and bond markets rallied in the final quarter of the year, taking the S&P 500 to near all-time highs. In the end, 2023 turned out to be a good year for the stock market. We hope your year has gotten off to a great start! As always, we will remain patient and stick to the long-term investment plan as we navigate this global market environment.

January 11, 2024