Quarterly Economic Update
Fourth Quarter 2023

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ETHOS CAPITAL ADVISORS
COMPREHENSIVE RETIREMENT STRATEGIES

We entered the fourth quarter with strong momentum, including a healthy labor market and easing inflation pressures. The S&P 500 was up nine weeks straight in the fourth quarter and ended the year with a gain of more than 24%. The Dow Jones Industrial Average (DJIA) reached an all-time high and ended the quarter at 37,689, up more than 13% for the year.
(Source: Barron's 1/1/2024; cnbcnews.com, 12/29/23)

These increases were primarily attributed to the Federal Reserve signaling a pivot from its aggressive monetary position and indicating that interest rates could be cut several times in 2024. The Federal Reserve left interest rates unmoved in the fourth quarter due to the continued slowdown of inflation. "Inflation has eased from its highs, and this has come without a significant increase in unemployment. That's very good news," stated Fed Chair Jerome Powell during a news conference following the December FOMC meeting. Fed officials see core inflation finishing 2023 at 3.2%, and 2.4% in 2024, then to 2.2% in 2025, resting at a final destination of 2% in 2026.
(Source: cnbc.com, 12/12/23)

The last quarter of 2023 could have been a pivoting point for equities. Over the past few years, the primary focus for investors has been inflation and interest rates, and many hunkered down with a focus on retention, not gains. If interest rates begin to stabilize, this could help support higher stock valuations and provide potential reentry points in 2024.

While 2023 rewarded our focus of being disciplined with our long-term equity investments, we enter 2024 with our continued mantra of "proceed with caution." Now is a good time to review your investments and confirm they are still congruent with your time horizon, risk tolerance, and goals.

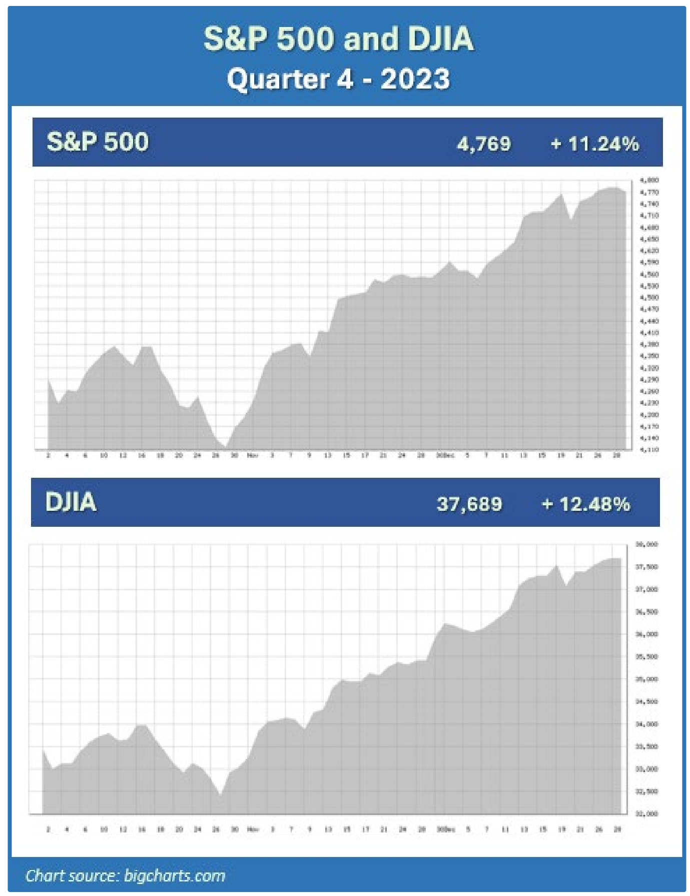


Chart source: bigcharts.com

MONEY RATES

(as posted in Barron's 12/25/2023)

	LATEST WEEK	YR AGO
Fed Funds Rate*	**5.31%**	**4.34%**
Bank Money Market^z	**0.60%**	**0.25%**
12-month Certif^z	**1.94%**	**1.35%**

*Z – Bankrate.com; * - Average effective offer*
(Source: Barron's; bankrate.com)

Inflation & Interest Rates

Inflation pressure continued to ease in the fourth quarter. November's rate came in at a 3.1% increase compared to a year earlier. While we have seen a significant improvement from the 9.1% peak in June of 2022, there is still a way to go to reach the Federal Reserve's target of 2%.

The November core CPI (which excludes food and energy prices), which is used by many economists as a better indicator of future inflation, was up 4% from the year prior. While this is not the best of news, it is still well below its recent historical peak of 6.6% in September.

As a result of inflation easing and the economy maintaining its strength, the Federal Reserve held rates steady at their final meeting of 2023. The Fed had raised interest rates a whopping eleven times since March of 2022, so a three-time consistency of rate stagnancy was well received by investors. Even better news was the minutes shared that the Feds suggested rate cuts in 2024.

Interest rates and inflation are integral to financial planning so we will continue to keep a close eye on their movements. While the efforts of the Fed's stringent monetary tightening policies the last few years are now being seen, the Fed still maintains their willingness to raise rate again should inflation reverse direction. Although we cannot predict what the Fed's next move will be, we will continue to follow key economic indicators for our clients.

The Bond Market and Treasury Yields

Thanks to a year-end surge, bond prices had a historic rally and after two straight years of losses, bond investors saw a positive year-end. Bonds were still in the negative until mid-November, and the closing rally in the fourth quarter ended their two-year losing streak.

Deutsche Bank Research's Jim Reid stated, "It was a positive year for most financial assets, but in several cases the gains were almost entirely driven by the final two months." He continued, "If we'd have stopped in late-October, then bonds would still have been on track for a third consecutive annual loss."
(Source: marketwatch.com; 1/2/2023)

2023 was a significant year for treasury yields. In October, the 10-year treasury yield reached 5%, the first time in 16 years, before tempering back down. On December 29, the 10-year note was 3.88%, as compared to the end of the third quarter, where it reached 4.59%. The 20-year treasury ended the fourth quarter at 4.20% and the 30-year note closed at 4.03%.
(Source: treasury.gov)

With the Feds anticipating interest rate cuts in 2024, this may narrow the opportunity to get lower-risk, higher yielding bonds.

KEY TAKEAWAYS

- The Fed has held their federal funds rate range steady at 5.25 – 5.50%, with no changes in the fourth quarter.
- Inflation pressures continue to ease, with November clocking in at a 3.1% increase compared to a year earlier.
- Bonds broke a 2-year losing streak due to a late quarter rally and Treasury yields began to drop on the potential of several possible interest rate cuts in 2024.
- Several key factors, including a presidential election and geopolitical unrest in 2024 could bring uncertainty for investors.
- Staying the course and maintaining the consistency of a well-devised, long-term focused plan has historically served investors well.

We are here for you to discuss your unique situation.

Investor's Outlook

The end of the fourth quarter brought investors to the new year with optimism and anticipation. Looking forward to 2024, recession fears have significantly diminished, and a "soft-landing" or a shallow recession appears to be more possible. It is believed that real GDP growth will regress but remain healthy and the labor market will remain strong. It's also anticipated that inflation will continue to lose steam and will decline to about 2.5% in 2024.
(Source: stlouisfed.org,11/28/23)

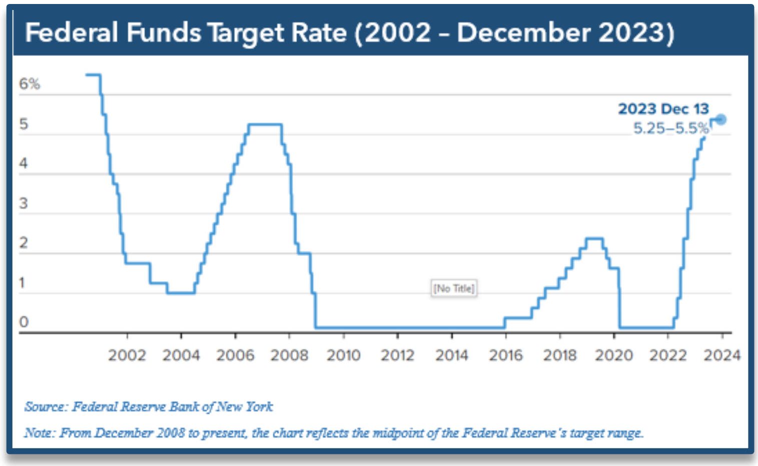
The interest rate hiking cycle currently seems to be coming to an end with the 5.25–5.5% rate as a high point until the Fed potentially commences with an interest rate cut cycle. This can be good news for the investor, and overall, 2023 was a healthy year.

The biggest question now is - will this rally continue during the new year?

Some things to keep an eye on in the coming months include energy and housing costs. There was good news at the gas pump this quarter, as gas prices were down 8.9% over the past year. Shelter costs are still historically high, but on a slow downtrend with mortgage rates dropping. Geopolitical unrest is still a major concern with the ongoing Russia-Ukraine war, conflict in the Middle East, and continued tensions with China. Also, the upcoming U.S. presidential election can be one of the major influencers of the market movements in 2024, since a new cabinet could signal major changes to the economy and tax laws.
(Source: nytimes.com 12/11/23)

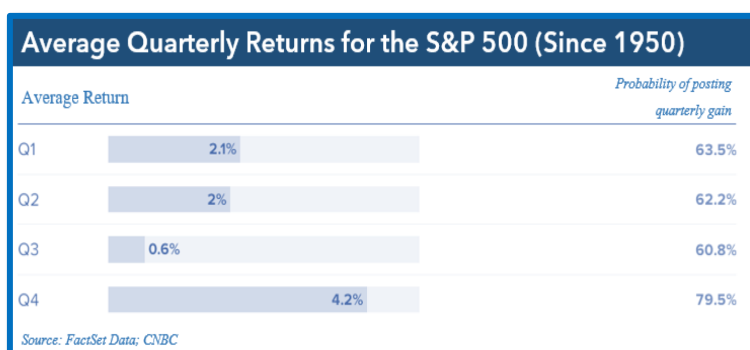
Since 1952, the average gain in the S&P 500 during a presidential election year is 7%. During a re-election year, the average annual gain is 12.2%. The average is 10% annual total returns for this major index in a non-election year. However, please remember that past performance does not guarantee future returns. ***(Source: money.usnews.com, 12/11/23)***

While we are not in the business of trying to predict the future, Wall Street's top strategists have released their forecast for the year ahead, with the average consensus that the S&P 500 will climb by about 10%, the historical average in this major index.
(Source: finance.yahoo.com; 12/3/23)



2023 rewarded long-term investors and regardless of what 2024 will bring, it is always prudent to make smart money and investment decisions. We believe in proactive preparation and our goal is to provide you with a solid financial strategy that is carefully designed to withstand any market environment. From an investor standpoint, we stand by our belief that investing in equities is a long-term commitment. Heading into a new year, which is also the election year for one of the most raucous races we have seen in recent history, we believe that volatility could still be prevalent and that investors should be cautionary in any financial decisions. A long-term strategy needs to be a benchmark goal for smart investors.

We always recommend discussing any changes, concerns, or ideas that you may have with us prior to making any financial decisions, so we can help weigh the benefits and drawbacks of each course of action. There are often other factors to consider, including tax ramifications, increased risk, and time horizon changes when altering anything in your financial plan.



We are accepting new clients in 2024!

Do you feel your advisor is fully aware of your financial situation?	☐ Yes	☐ No	☐ Not Sure
Are you satisfied with how your advisor is keeping you updated?	☐ Yes	☐ No	☐ Not Sure
Has your advisor reviewed your tax forms to understand how to coordinate your investments with your taxes?	☐ Yes	☐ No	☐ Not Sure
Has your advisor discussed tax planning strategies that could help you keep more of what you make?	☐ Yes	☐ No	☐ Not Sure
Is your advisor updated and current on tax planning strategies?	☐ Yes	☐ No	☐ Not Sure
Would you like a complimentary review of your financial situation?	☐ Yes	☐ No	☐ Not Sure

If you answered **No** or **Not Sure** to any of these questions, we would like to offer you a **Complimentary Retirement Evaluation** at absolutely no cost or obligation to you.
To schedule your complimentary financial check-up, please call us at **215-968-1820.**

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Phone: 609.336.3023 Fax: 267.573.4602

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