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HAPPY NEW YEAR

Stocks posted a slight gain last week amid a shortage of news and light holiday trading.

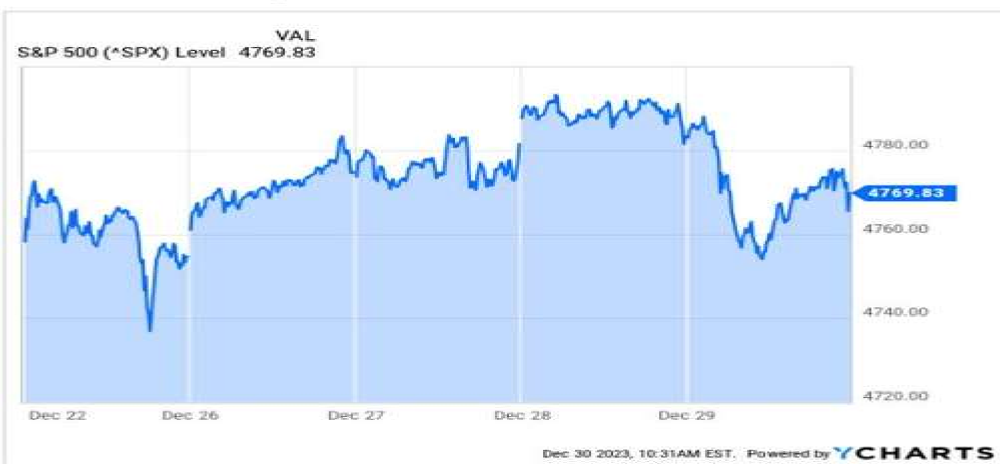
The Dow Jones Industrial Average gained 0.76%, while the Standard & Poor's 500 added 0.49%. The Nasdaq Composite index advanced 0.32% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, increased 1.13%.[1,2,3]

YCHARTS

Major Index Return Summary

Name	ROC 5	1M TR	YTD TR	1Y TR
Dow Jones Industrial Average	0.76%	6.51%	16.18%	15.93%
MSCI EAFE	1.13%	5.42%	18.85%	18.15%
Nasdaq Composite	0.32%	5.36%	44.64%	44.48%
S&P 500	0.49%	4.97%	26.29%	25.97%

S&P 500 Daily Close



10-Year Note Review

Indicator Name Date	Latest Value	1M Ago 3M Ago 1Y Ago	1M Change 3M Change 1Y Change
10 Year Treasury Rate 12/29/23	3.88%	4.27% 4.59% 3.83%	-9.13% -15.47% 1.31%

Source: YCharts.com, December 30, 2023. Weekly performance is measured from the close of trading on Friday, December 22, to Friday, December 29, close. Treasury note yield is expressed in basis points.

Stocks Gain to End Year

The stock market gains in the final trading days of 2023 capped an exceptional year of performance. The last-week rally also mirrored the historical tendency of stocks to rise at this time of year, a propensity known as the "Santa Claus rally." The Santa Claus rally covers the final five trading days of the calendar year and the first two days of trading in January.

The average return of the S&P 500 during this Santa Claus rally is 1.3% during the past 73 years. Remember that past performance does not guarantee future results, and individuals cannot invest directly in an index.[4]

The 2023 week's gains, led by smaller-capitalization stocks and a handful of industry sectors, were partially erased on Friday as light volume and some profit-taking pressured stocks.

Jobless Claims Rise

Initial jobless claims increased by 12,000 to 218,000, which exceeded economists' forecasts. The four-week moving average, which better illustrates jobless claim trends, was little changed, coming in at 212,000; this was the lowest number since late October.[5]

Continuing jobless claims, which measures the number of individuals collecting unemployment benefits, was flat from the previous week at 1.88 million.[6]

This Week: Key Economic Data

Wednesday: Institute for Supply Management (ISM) Manufacturing Index.

Thursday: Automated Data Processing (ADP) Employment Report. Jobless Claims.

Friday: Employment Situation.

"The Federal Reserve has decided that climate change mitigation is under their jurisdiction now that they have gotten control over inflation and dollar debasement."

– David B. Collum

Of Note

A 2023 Recap: Global bond and stock markets added almost $20 trillion in capitalization during 2023, and all of that gain came in the last two months of the year after it had been virtually unchanged through the end of October. The gains were dominated by global stocks (which added $13.3TN) while global bonds rose by $6.1TN. Nasdaq soared to its best year since the peak of the dotcom bubble in 1999 and the rest of the US major equity market indices all rallied. Bonds ended higher in price (lower in yield) on the year. Gold was up, the dollar down, oil was down, and natural gas collapsed as the Fed shocked the world, suddenly flipping from uber-hawk to dove.

And they did all that with 'hard' economic data unchanged in 2023 - no real economic progress - as only 'soft' data (hopes and dreams) provided support for 'goldilocks' narratives. It appears 2023 was dominated by a few themes:

The Magnificent 7 stocks dominated the price action and outsized index gains in 2023. Investors preferred the 'safe haven' of these mega-cap tech names over longer-duration profit-less tech, until the Fed unleashed a 180 degree at the start of November and everything exploded higher, the latter leaving a record 72% of stocks in the S&P 500 having under-performed the index this year.

AI (Artificial Intelligence) - the apparent benefits of AI know no bounds when it comes to investment as Goldman's basket of AI stocks soared over 90% this year.

Banks - SVB's collapse in March sparked an exodus of deposits and demand for Fed bailouts. Regional bank stocks ended the year down just 8% having bounced back from being down around 40% in May, despite record usage of the Fed's bailout facility.

Cryptos - 2023 was a huge comeback year after 2022's 'existential threat' moments from FTX to TerraUSD and so on. Of the larger coins, Solana massively outperformed - up around 1000% on the year - but Bitcoin (+160%) and Ethereum (+100%) also had big years. The big story of the year was the anticipation of a spot bitcoin ETF. Bitcoin's rally in 2023 erased all of the 'existential' crisis crash losses from 2022 (FTX/TerraUSD/3AC etc.), up to its highest level since April 2022.

Bonds - Global bonds ended the year with the largest two-month gain in history. Only the 2Y yield and earlier remain above 4.00%, but the curve is massively inverted from Fed Funds. Real yields ended the year basically unchanged - after soaring to their highest since 2008 in October. Since then 10Y real yields have plummeted almost 100bps. If S&P 500 valuations are to be believed, the market is expecting negative real yields again soon enough. The recent rally pulled the entire yield curve lower on the year with the 5Y the biggest decliner, down 19bps on the year - after being up around 100bps at its highs in October. Bear in mind that Fed Funds added 100bps this year and bond yields are all lower.

Inflation - Some are starting to worry that inflation is beginning to rise again. Gasoline, home prices, and some other goods and services are again on the uptick. While consumers may be concerned about higher prices, implied inflation, as determined by the bond markets, displays no such fear. Since government debt is growing much quicker than tax revenue, lower interest rates are required to keep interest expenses affordable for the government. Further, the burgeoning debt should reduce economic growth and inflation over time.

Liquidity - stocks did what they do - follow the money. As macro data disappointed, stocks charged ahead on a re-emerging wave of global liquidity.

Rate-cuts - It was a very volatile, flip-floppy year for the Fed and Fed-watchers as rate-cut expectations swung wildly from 160bps to less than 60bps to more than 160bps to just 70bps and now back to highs above 160bps (more than 6 cuts, when The Fed 'dots' are calling for 3). Additionally, the odds of a rate-cut as soon as March are now near 90%, up from less than 10% in September.

Financial Conditions - The rally in bonds, stocks, and credit, and collapse in the dollar, since the Fed signaled the end of hikes, prompted the most aggressive easing of financial conditions ever. Financial conditions are now as easy as they were in May 2022 when Fed Funds was 300bps below current levels.

No Recession - expectations heading into 2023 was for a recession but it never came to pass on the backs of exponentially rising government debt throughout the year and Fed jawboning that lifted macro data in the last month.

Cash Is King - Money-market funds saw their largest annual inflows ever.

Gold - A weaker dollar, signals of loosening from The Fed, and a world on fire means no one should be surprised by gold's great year, up almost 14% (the best year since 2020) to a new all-time record high.

Equities - 2023 ended on a down-note with all the US majors tumbling into the red for the week, erasing the Santa Claus rally gains, but the afternoon saw dip-buyers return and rescue the weekly win-streak. Both 'Most Shorted' stocks and the MAG7 were also hit.

Commodities - The broad commodity landscape saw prices plunge in 2023 with Bloomberg's Commodity Index down over 12%, its worst year since 2015. Natural gas started the year poorly and never recovered from its worst year since 2001. Gold outperformed among the major commodities (its best year since 2020 - after two unchanged years) while crude fell year over year for the first time since 2020. China and Russia are dumping bonds and buying bullion.

Finally, if history repeats itself, we probably can expect the current stock buying-panic to continue into Q1 as it did in 2000. In closing, we note 2023 saw the biggest rise in the market's perception of USA's sovereign credit risk since the Lehman crisis in 2008.[7]

Footnotes and Sources

1. The Wall Street Journal, December 29, 2023
2. The Wall Street Journal, December 29, 2023
3. The Wall Street Journal, December 29, 2023
4. Nasdaq.com, December 19, 2023.
5. Bloomberg, December 28, 2023.
6. Bloomberg, December 28, 2023.
7. zerohedge.com/markets/powells-pivot-adds-20-trillion-global-debtequity-markets-2023-fiat-alternatives-fly

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The Dow Jones Industrial Average is an unmanaged index that is generally considered representative of large-capitalization companies on the U.S. stock market. Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of technology and growth companies. The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) and serves as a benchmark of the performance of major international equity markets, as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia. The S&P 500 Composite Index is an unmanaged group of securities that are considered to be representative of the stock market in general.

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