CROSSMARK GLOBAL INVESTMENTS

Doll's Deliberations

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SUMMARY:

2023 certainly was a challenging year for investors. Multiple expansion despite flattish earnings confounded most investors even as a much-anticipated recession did not materialize. Investors enjoyed falling long-term interest rates in the back part of the year, even as the Fed raised rates multiple times reaching the 5 ¼% level. Equity concentration accelerated with the Magnificent 7 far outpacing the average stock. Volatility levels were low most all year, especially for stocks. By year's end, investors were counting on Fed rate cuts early in 2024 to validate the multiple expansion.

As things currently stand, we will achieve 5 correct predictions for 2023, one of our worst years and well below our long-term average of 7.0-7.5. Here is a brief rundown of the 2023 predictions.

1. **The U.S experiences a shallow recession as real GDP is in bottom ten of last 50 years.**
   Needless to say, the much-anticipated recession failed to materialize. The typical lead indicators of recession (yield curve, LEIs, and money supply) are still flashing caution. It is possible and perhaps even likely that the maximum impact of the 18-month 0% to 5 ¼% Fed funds rise has yet to be felt. A stronger-than-expected consumer, fueled by a strong (but weakening) labor market and leftover cash resources from the Covid period, kept the economy growing. **(X – incorrect)**

2. **Inflation falls substantially, but remains above Fed's target.**
   Our view at the beginning of the year was that if the Fed really did insist on 2% inflation, a recession would develop. While inflation has fallen from its peak by a large magnitude, the decline from 3-4% to the Fed's 2% goal remains elusive. **(√ correct)**

3. **Fed funds reaches 5% and remains there for the balance of the year.**
   This was a rather bold prediction at the beginning of the year and was tested several times especially during the spring banking crisis when the consensus call was for three Fed cuts by year-end, not a rise to 5 ¼%. This will be a variable carefully watched and discussed as we enter 2024. **(√ - Correct)**

4. **Earnings fall short of expectations in 2023 due to cost pressures and revenue shortfalls.**
   Earnings were one of the fascinating items in 2023. For the first three quarters, earnings came in less bad than feared, but during the interim periods, estimates kept falling as cost pressures made it difficult for companies to meet earnings targets despite legitimate pricing power. **(√ - Correct)**

5. **No major asset class is up or down by a double-digit percentage for only the fourth time this century.**
   We warned ourselves at the start of the year that this prediction only comes true about 20% of the time – nevertheless, our thought that markets would be more range-bound proved inaccurate as stocks catapulted higher, led by the Magnificent 7. If we had said the "average" stock, instead of the cap-weighted index, we would have scored on this one. **(X – incorrect)**

6. **Energy, Consumer Staples, and Financials outperform Utilities, Technology, and Communication Services as Value beats Growth.**
   As stated in our quarterly reviews of the Ten Predictions, this one was way off the mark. Not only did growth beat value, but technology and communication services were the two best sectors, while energy and consumer staples were two of only four sectors that were down for the full year. Not making excuses, but the Magnificent 7 sure skewed sectoral performance. **(X – incorrect)**

7. **The average active equity manager beats the index in 2023.**
Again, the strength of the Magnificent 7, the severe underperformance of the average stock, and active managers trending toward more equal than cap-weighted portfolios rendered this prediction incorrect early in the year. **(X – incorrect)**

8. **International stocks outperform the U.S. for the second year in a row (first time since 2006-2007).**
The sharp outperformance of mega-cap growth (U.S. centric) and the rally in the dollar along with economic weakness in many parts of the globe caused another inaccurate prediction. **(X – incorrect)**

9. **India surpasses China as the world's largest population and is the fastest growing large economy.**
Thankfully, India came to our rescue, surpassing China as the world's most populous country early in the year. China's difficulties with real estate, an aging population and slowing growth were contrasted by India's strong economic growth and continued ascendancy. **(√ - Correct)**

10. **A double-digit number of candidates announce for President.**
A double-digit number of presidential candidates materialized on the Republican side alone. While the election is still nearly a year away, it is hard to believe (and disappointing to many) that it could be Joe Biden vs. Donald Trump again. **(√ - Correct)**

IN SUMMARY:

Looking ahead to 2024, the big investment question is whether or not the consensus view of double-digit earnings growth, no recession, and Fed rate cuts commencing early in the new year can all come together. We are dubious that all these good things can happen simultaneously. Either way, the investment landscape will undoubtedly be exciting and challenging.

The next issue of Doll's Deliberations will be released on December 29 at 4PM ET outlining our 2024 predictions. In the meantime, we at Crossmark wish all of you a very happy holiday season and best wishes for 2024.

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