Raymond Capital Advisors, LLC

January 21, 2024

Stock & Bond Benchmark Total Returns (%) For Periods Ending December 29, 2023	QTR	1-Year	3-Years	5-Years	10-Years
Standard & Poor's 500	11.69	26.29	10.00	15.69	12.03
Bloomberg Barclays U.S. Aggregate Bond	6.82	5.53	-3.32	1.10	1.81
60% Stocks / 40% Bonds TAA Composite Index	9.74	17.67	4.71	9.98	8.10
3-month Treasury Bills	1.18	4.70	2.20	1.78	1.21
Inflation (CPI)	-0.34	3.35	5.60	4.07	2.79

Returns (%) include capital gains, dividends and interest. All data **annualized** for periods greater than one year.

60% Stocks / 40% Bonds TAA Composite Index is rebalanced monthly. Sources: S&P Dow Jones Indices, Morningstar, Federal Reserve.

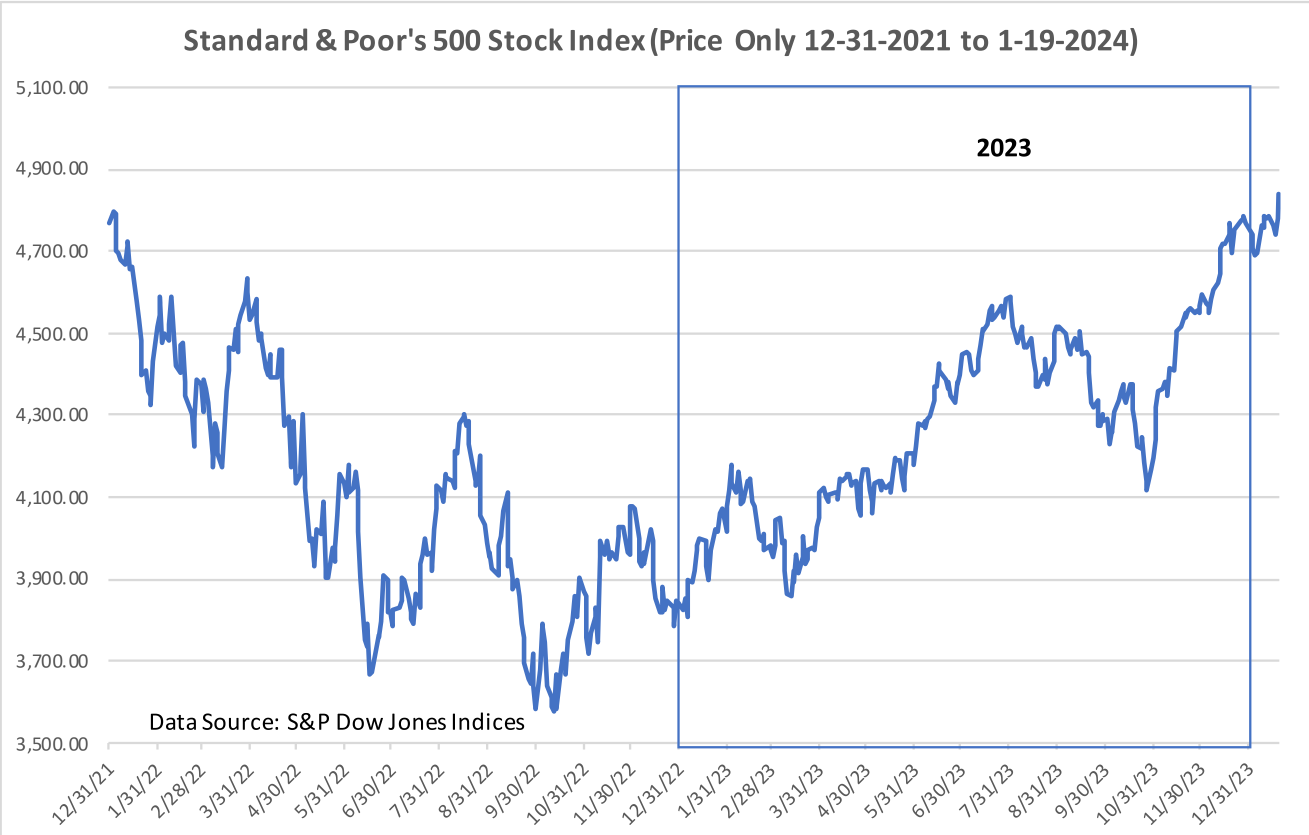
Review: A Lot of Bad Things that Never Happened

"I've had a lot of worries in my life, most of which never happened." — Ascribed to Mark Twain

As we reflect on 2023, these words of wisdom resonate profoundly. The year unfolded with numerous apprehensions, many of which, much like Mark Twain's worries, never materialized. Concerns over stubborn inflation, a banking crisis that never spread, the looming threat of recession, and the specter of a Federal Reserve-induced economic stall were all shadows that dissipated in the face of impressive economic resilience.

Inflation, which exhibited a remarkable descent, played a crucial role in outpacing the weakening economy. **In a surprising turn at their December press conference, the Federal Reserve signaled they were willing to let up on their hawkish stance and announced the contemplation of interest rate cuts, with the soft economic landing scenario as the favored outcome.** Turns out, they now believe the surge of inflation over the past year and a half was largely transitory after all!

The Fed's late-year pivot helped propel the markets out of their indecisive slump with a broad-based rally. For the full year, the Standard & Poor's 500 Stock Index Total Return gained 26.29%, while the Bloomberg Barclays U.S. Aggregate Bond Total Return gained 5.53%. In all, it was a very good year for stocks and an "ok" year for bonds. The year also stands in sharp contrast to the strong negative returns of 2022. The S&P 500 Index has now essentially "round-tripped" over the past two years and set an all-time record high as of Friday's close. Bonds, however, under inflation and funding concerns, have not fully recovered, even with interest included.



During the quarter, RCA made adjustments to client portfolios with an emphasis on a shift to Value over Growth. Among sector adjustments, both Technology and Financials were shifted to overweight from underweight, while positions in Industrials, Healthcare, Consumer Staples, and Energy were reduced. Also maintained were broader market exposures to mid-cap and small-cap Value stocks, as well as international stocks through Exchange Traded Funds. For balanced portfolios, we allowed equity exposure to modestly drift upwards beyond their benchmark targets.

Outlook: Moderate Headwinds in 1H, Tailwinds in 2H?

For the year ahead, Wall Street strategists, the Federal Reserve's renewed openness to interest rate reductions, and analyst earnings estimates all suggest a favorable outlook for stocks, although with more subdued returns than last year. Most strategists' forecasts we've seen expect the Standard & Poor's 500 to return between 6% to 13% in 2024 (some give about a 10% chance of turning a negative return). The Fed's willingness to lessen their restrictive grip reduces the likelihood of recession, while consensus analyst earnings estimates are predicting a 13% increase for the Standard & Poor's 500 Index. Typically, earnings estimates come down about 8% during the year, but this still leaves room for respectable returns for stocks, especially if profit margins can improve, as is often the case at this point in the cycle. Additionally, decreasing inflation is a positive factor for bonds.

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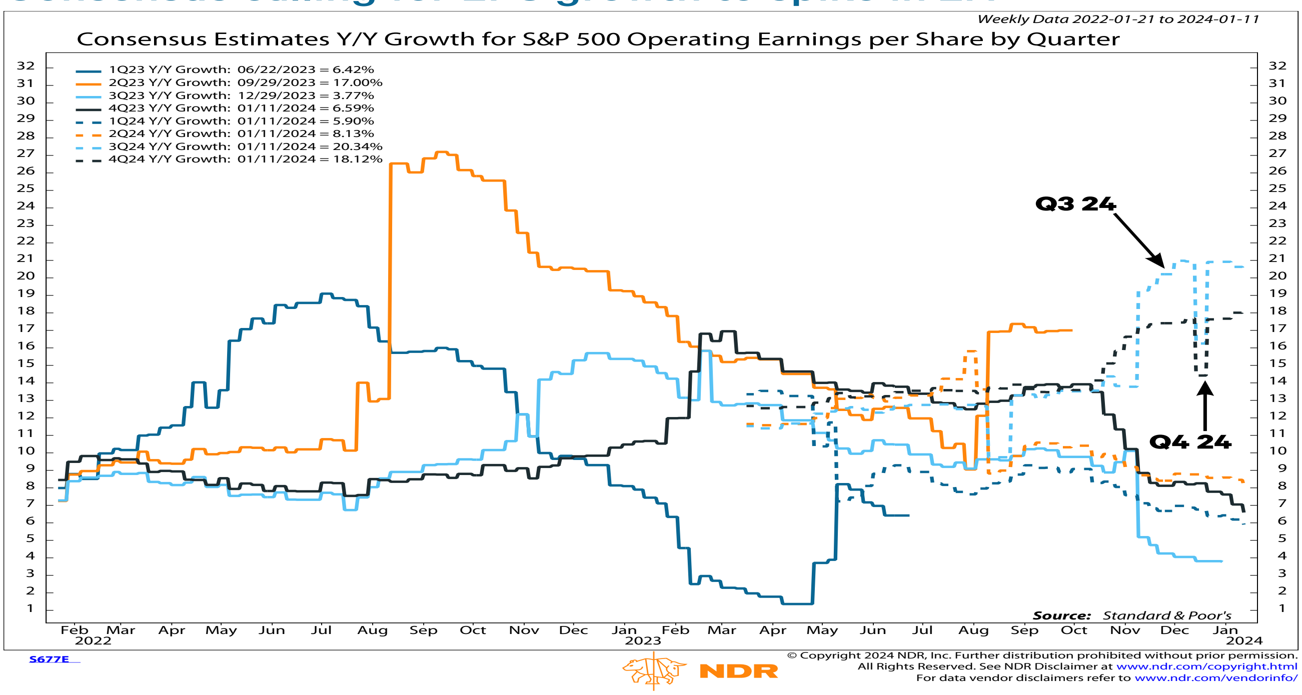
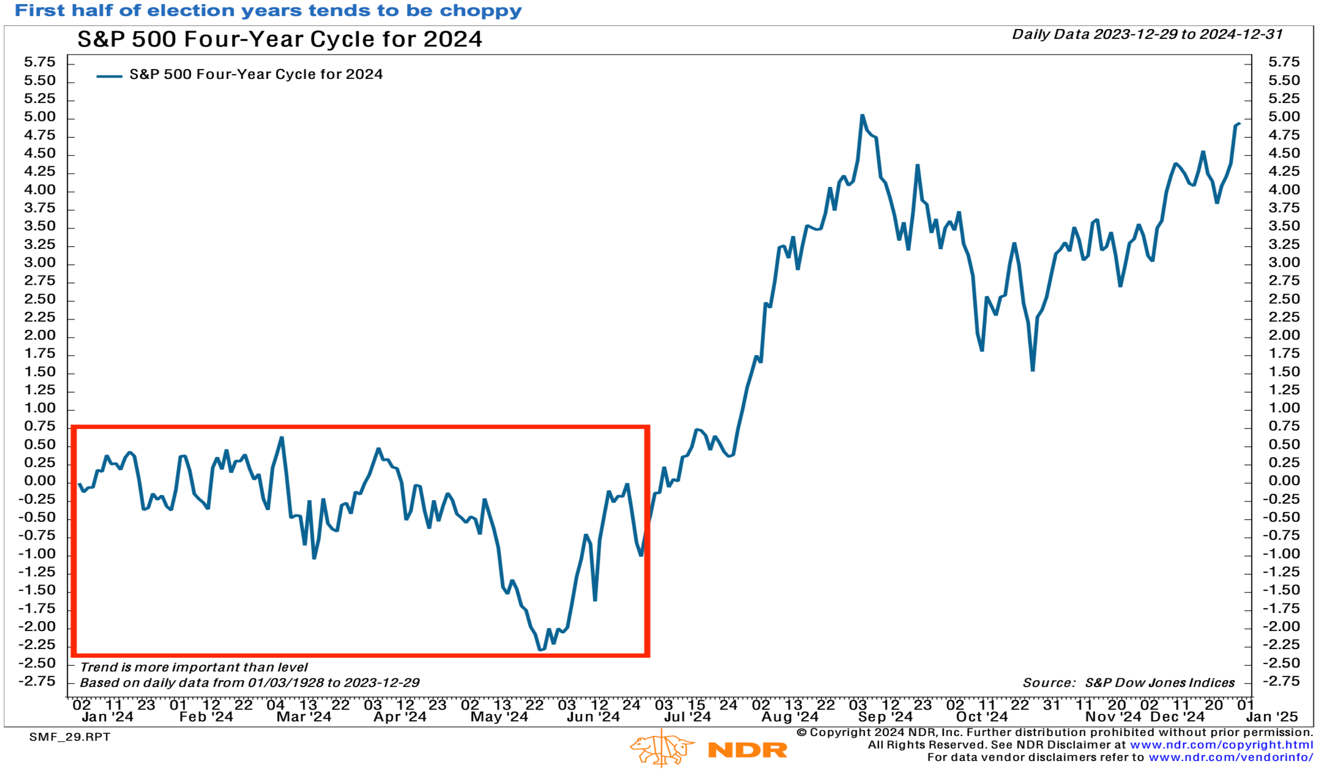
Some indicators also suggest greater headwinds in the first half of the year than the last half. Last year's late broad-based rally in stocks and bonds left many of our investor sentiment indicators in their "too much optimism" zone, suggesting moderate vulnerability for stocks over the coming months. Analyst earnings estimates also show lower growth rates in the first half of the year before accelerating at double-digit levels in the latter half of 2024. Finally, the typical election year pattern also shows a tendency for election uncertainty to weigh on stock prices before rallying into the election.

Consensus calling for EPS growth to spike in 2H



First half of election years tends to be choppy



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For portfolio selection, we see significant potential for a shift in internal market dynamics with favorable selection broadening beyond the "magnificent seven" mega-cap tech stocks that have embodied the popular artificial intelligence theme (AI). Last year, these seven stocks returned an average of 111%, accounting for a whopping 62% of the S&P 500's return! While we believe AI is a significant transformative technology, we also believe that all companies will have the opportunity to benefit from these productivity and cost-cutting tools, thereby supporting profit margins across the board. Given that the magnificent seven now sport expensive valuations (i.e., price to earnings ratio magnificent seven = 50x vs. S&P 500 = 22x), less expensive stocks that will also benefit from AI should support more diversified portfolios with better risk-adjusted returns.

As for risks (i.e., "known unknowns"), upcoming battles over the federal deficit, the presidential election, overleveraged commercial office space, market vs. Fed rate cut expectations, as well as international concerns over the escalation of war in the Middle East, Russia and Ukraine, and tensions between China and Taiwan are on the horizon. When such risks are widely known, they also tend to be at least partially priced in. [Of course, one never knows what black swans may be swimming in the sea of "unknown unknowns" as many events simply are not predictable (e.g., terrorist attacks, pandemics, etc.). To protect against such black swans, we encourage clients to set their longer-term strategic allocations ahead of time. Such strategic allocations are specific to each client's risk capacity and risk tolerance, and we invite you to contact us to help set and review them.]

In conclusion, our outlook for the year ahead remains grounded in the economic landscape with bullish although more subdued expectations for stock and bond returns than last year. As we navigate the ever-evolving economic and market dynamics, our quantitative indicators will incorporate new information and adjust portfolios in our efforts to maximize returns with reasonable risks.

Financial Planning Tips:

- Traditional and Roth IRA contributions for 2023 can be made on or before April 15th. The contribution limit for those over age 50 is $7,500 for 2023, and $8,000 for 2024 (under age 50 contribution limits are $1,000 less). You must have earned income (e.g. wages or self-employment income) at least equal to your contribution amount.
- Roth IRA contributions as well as the deductibility of traditional IRAs are subject to income limits.
- Spousal IRAs: Each spouse can make an IRA contribution up to the maximum contribution amount, as long as the total of your combined contributions aren't more than the taxable compensation reported on your joint return.
- SEP IRAs: Contribution limit is 25% of an employee's total compensation, up to $66,000 for 2023, and $69,000 for 2024. Contributions may only be made by employers—though those who are self-employed may make employer contributions on their own behalf. The maximum compensation that can be considered for contributions in 2023 is $330,000, and $345,000 in 2024. Depending on your SEP IRA plan, you (as an individual) may be able to make additional individual contributions up to the IRA contribution limit each year.
- There is no age limit for making regular contributions to traditional and Roth IRAs.

- If you expect tax rates to increase during your lifetime, consider a conversion from a traditional IRA to a Roth IRA to potentially save on taxes further down the road. Often, the best time to do this is when you're experiencing a low income year.

Geoff and I are available to answer questions about your investments and provide guidance for your retirement planning. These services are free of charge to our clients with assets under management. Feel free to email us! (Referrals are also always appreciated.)

Thank you for your continuing support,

Geoff & Lance

Raymond Capital Advisors, LLC
A Retirement Wealth Advisor