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Letter from Dan

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A big upward finish for both the stock and bond markets to end 2023 and a positive start in 2024! Somewhat unexpected, but we will take it! At the December meeting of the Federal Reserve, Chairman Powell announced that they were most likely done raising interest rates. This statement was not surprising, but the next one was- he said that the Fed would likely lower interest rates three times in 2024. This was a surprise and the markets reacted. It is a sign that inflation is slowing.

The economy is still growing, and consumers are still spending. Unemployment is low but there are more people looking for work, helping to stimulate the economy. Manufacturers are seeing a rise in orders. Mortgage interest rates have peaked for now, sparking home sales. All of this helps to keep us out of a recession.

Do we need to worry about a resurgence in inflation? Not yet and hopefully not at all. While wages are increasing, they are mostly catching up to meet the levels of inflation that we experienced in the last few years. Prices are not rising as quickly as in the recent past, resulting in lower year over year inflation figures. This is the news that the Fed has been hoping for, to be able to stop raising rates. However, the Fed will not be in a hurry to lower short term interest rates either. I expect to see short terms rates stay at current levels until at least June.

What threats are out there? It was just announced that defaults on consumer credit card debt have risen sharply. It is no wonder, as credit card interest rates have shot up- some over 20% annually. The war in the Middle East could expand and Ukraine is running low on munitions to hold off the Russians. China is watching all of this, while trying to get ahead of their real estate crisis. Our political turmoil does not inspire confidence in government.

We think that falling interest rates, strong employment and continued spending on goods and services by Americans will likely result in an increase in the stock market and appreciation in bond values. New breakthroughs in AI will lead to discoveries in medical care and efficiencies in technology that we could not see in the past. The stock market recovery will not be a smooth path, but we are confident that 2024 will be another good year.

Dan



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