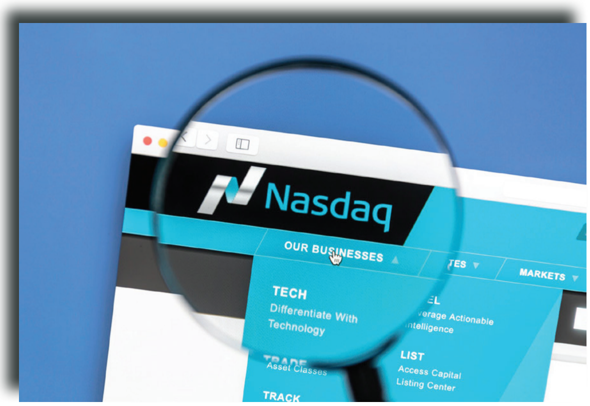
BIONDO PERSPECTIVES

FOURTH QUARTER REVIEW

Scott A. Goginsky, CFA®

Happy New Year! The holiday season capped off an outstanding 2023 for the financial markets. A strong December saw the S&P 500 gain over 4% for the month, concluding the year with an impressive total return of more than 26%, teetering on the edge of new all-time highs.

Entering 2023, investors were grappling with concerns about elevated inflation, escalating interest rates, and anticipating a recession in the latter half of the year. Contrary to these apprehensions, inflation exhibited a cooling trend, and the economy remained robust, despite the regional banking crisis in the first quarter, which initially raised fears of a credit crunch. Despite the Federal Reserve implementing four interest rate hikes throughout the year, the December meeting brought a reassuring message – no further increases are expected, and there's a likelihood of rate reductions in the coming year.



Credit: IB Photography/Odersun Sweden -stock.adobe.com

As a result, some of the investor anxieties that persisted in 2023 eased during the year. The surge in investor enthusiasm for artificial intelligence technology propelled the Nasdaq Composite to one of its most outstanding annual total returns in the past two decades. Technology stocks, growth stocks, and cryptocurrencies emerged as top performers, marking a resurgence in appetite for risk assets in 2023.

The technology sector experienced a remarkable turnaround from the challenges of the previous year. Following a 33% plunge in 2022, the tech-heavy Nasdaq surged by 43% in 2023, marking its best year since 2020 and closely rivaling the gains observed in 2009. These two years stand out as the most significant in terms of gains dating back to 2003, post the dot-com crash.

The so-called "Magnificent Seven" stocks, including Nvidia, Tesla, Meta, Apple, Amazon.com, Microsoft, and Alphabet, played a pivotal role, contributing nearly half of the stock market's overall gain. Large-growth stocks outperformed large-value stocks by a significant margin, with a 47.3% gain, marking the second-largest advantage for growth in 25 years. Nvidia, a semiconductor chip designer, emerged as the poster child for the 2023 rally, witnessing an extraordinary 239% surge in its stock value. This surge was fueled by the growing influence of artificial intelligence technologies, reshaping the landscape for tech stocks.

Even bonds made a noteworthy comeback, although gains were modest for most investors. The key catalyst for this reversal was the Federal Reserve's shift in policy, from interest rate increases to cuts for 2024. Despite market misinterpretations of this shift throughout the past year and a half, by the end of 2023, inflation pressures had tilted

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strongly toward disinflation, aligning with the market's expectations.

Certain sectors did face challenges, however, with utilities stocks experiencing a 7% loss, their worst year since 2008, attributed to higher interest rates. Dividend stocks also lagged, with the Morningstar US Dividend Composite Index rising by 11%. In the bond market, volatility remained high, and credit-sensitive segments, such as high-yield bonds, performed strongly, gaining 13.5%, marking their best year since 2019. Small-company stocks struggled for most of the year but rallied in the final months, marking their best quarterly performance since early 2021.

Maintaining a preference for value over growth stocks, and small caps over large caps, seems like a prudent strategy.

As we enter 2024, there is a noticeable downward trend in inflation. However, analysts express apprehensions about the potential challenges in the final phase of the Federal Reserve's battle against inflation, with lingering fears of an impending US recession.

Inflation and interest rates will continue to be focal points for Wall Street in early 2024. The consumer price index rose by 3.1% year-over-year in November, a significant drop from the peak inflation levels of 9.1% observed in 2022. The Federal Reserve's efforts to combat inflation have been aided by a consistent decline in energy prices for nine consecutive months.

In December, the Federal Open Market Committee (FOMC) chose to maintain its fed funds target rate range between 5.25% and 5.5%. Despite having raised interest rates 11 times since March 2022, the FOMC's latest hike in July 2023 appears to be the final one in the current cycle.

The coming months are anticipated to be crucial for the Federal Reserve and the economy. Although inflation is on a downward trajectory, concerns remain that it might prove more persistent than anticipated. The Fed's aggressive rate hikes have not yet tipped the economy into decline; nevertheless, US corporations face increased pressure as higher interest rates elevate the cost of their debt, leading to a rise in default rates.

These higher rates have increased borrowing costs for both consumers and corporations, impacting investment and economic growth. Inflation has also led to higher input costs for US companies, squeezing profit margins and affecting earnings.

As the fourth-quarter earnings season kicks off, analysts anticipate modest growth, with consensus estimates predicting 2.4% earnings growth and 3.1% revenue growth for S&P 500 companies.

Looking farther ahead in 2024, some analysts predict limited upside for the S&P 500 after its strong performance in 2023. Market catalysts in 2024 include the actions of the Federal Reserve, geopolitical events such as wars in Israel and Ukraine, and the US presidential election. Deliberations pivot around whether the economy will persist in avoiding a recession, if inflation will continue its moderating trajectory, and the extent to which the Federal Reserve will align with investors' expectations by cutting rates.

Stock valuations are a key factor for the market this year. The current forward price/earnings ratio of the S&P 500 stands at around 20x, compared to approximately 17x at the same time last year. S&P earnings are estimated to be around $242 per share, assuming continued profit margin expansion. This consensus estimate seems overconfident, considering the likely tapering of US economic growth from the previous year's rapid pace. A decline in sales volume and pricing power for companies is anticipated, and factors like lower input costs and falling oil prices may have already contributed to recognized benefits.

These current market factors lend to the importance of stock-picking for outperformance. Adding exposure to US equities beyond the "Magnificent 7" makes sense at this point in the market cycle. Market participation from the rest of the stocks in the overall indices seems inevitable after several years of underperformance. Maintaining a preference for value over growth stocks, and small caps over large caps, seems like a prudent strategy. Cyclical companies seem poised to rebound after this current cycle of rate hikes.

However, there is no such thing as a "typical" reaction to Fed moves, particularly in the short term. Falling energy prices and significantly lower mortgage rates are definitely plausible over the course of 2024. This would be a boon to consumers and begin a possible "early cycle" environment that would benefit the stock market. Financials, healthcare, and small-cap stocks typically perform well with these types of market dynamics.

As always, we will continue to focus on our long-term investment strategy and will not be swayed by short-term market fluctuations. We are confident that by staying disciplined and remaining patient, we will be able to identify and capitalize on opportunities as they arise. Given the current backdrop and sense of uncertainty, there is no better time to review your goals, revisit your future expectations, and evaluate your overall asset allocation and risk tolerance. We strongly encourage you to take advantage of all the capabilities that our firm brings to bear, which will help you to live with increased financial confidence.

Please feel free to reach out to us to review your personal situation, so we can ensure that we have built your portfolio to accommodate your various needs, and address any concerns that you may have. We appreciate the opportunity to serve you, and appreciate the trust and confidence that you have placed in our firm.

Scott A. Goginsky, CFA®
Partner, Research Analyst & Portfolio Manager

Sources: Index returns – Bloomberg, CNBC; Stock/bond market performance – Morningstar; Inflation, Interest rate data – Forbes; Earnings data – Forbes, Morgan Stanley; Market outlook – Wall Street Journal

The information set forth regarding investments was obtained from sources that we believe reliable but we do not guarantee its accuracy or completeness. Neither the information nor opinion expressed constitutes a solicitation by us of the purchase or sale of any securities. Past performance does not guarantee future results.

Aligning Your Goals and Risk Tolerance

Now is a good time to reflect, reassess and prepare for the year ahead. Aligning your investments with new financial objectives can alter the focus of strategies implemented to accommodate your plans. Understanding your risk tolerance is important to your overall well-being when establishing an investment approach to achieve your goals, whether they involve home improvements, travel, savings for a significant family event, wealth accumulation, or preserving capital for the unexpected.

The Chartered Financial Analyst (CFA) Institute, defines investment risk profiling as the process of determining an investor's risk tolerance and risk capacity, which are then used to construct an investment portfolio that aligns with the investor's objectives. It is important to ascertain the degree of risk, or risk need, that might be necessary to achieve defined financial objectives. The process also involves establishing your risk-taking ability and behavioral loss tolerance. Investment time-horizon and liquidity needs can affect your risk-taking ability, while factors such as financial knowledge and investing experience can affect your behavioral loss tolerance. Touching base with your advisor is important whenever current events test your tolerance for loss, and alter your perception of risk.

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There are some notable emotional and psychological benefits to identifying your risk tolerance. An accurate risk perspective can help you with:

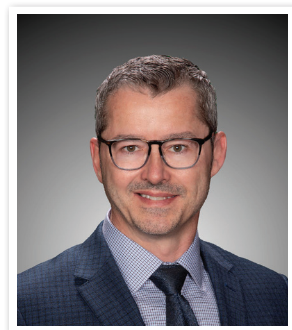
- Decision-making: Avoid making emotional decisions that could negatively impact your investments, such as market timing or fear of missing out (FOMO).
- Maintaining discipline: Staying on track with your objectives during market volatility.
- Investment expectations: Establish more realistic expectations for your investments and guide you to avoid taking on too much risk.
- Financial stress: Reduce stress by understanding what motivates your investing anxieties.

Establishing your risk tolerance and having a strategy to achieve your future objectives are similar to starting a road trip, after you have outlined your route and allocated your resources to ensure you reach your destination. The key to a successful journey is proper planning and careful consideration of your comfort level along the way. While there are a variety of tools and methods to assess an investor's risk tolerance, we find that leveraging technology, and above all, maintaining communication with our clients, yields the best results. Changes in perspectives, family dynamics, goals, and many financial circumstances might affect one's risk tolerance, and necessitate reassessing your objectives and strategies related to achieving them.

Source: cfainstitute.org

As your trusted advisor, we welcome the opportunity to discuss these matters throughout the year. We look at your assets holistically when aligning your objectives and investments to your risk tolerance, and make adjustments accordingly. We want you to feel confident that you aren't taking on an uncomfortable level of risk, or conversely, investing too conservatively to achieve anticipated returns.

At Biondo Investment Advisors, building strong client relationships is one of the most fundamental aspects of our business. Through portfolio reviews, ongoing communication and the utilization of intuitive technologies, we strive to recognize what you value most and provide investment guidance that suits your personal financial profile. We look forward to continuing that journey with you, or with your friends, family, and colleagues as well. They may reach out to me, or any member of the Biondo team, to learn more.



Luke Barbalich, MBA
Wealth Advisor

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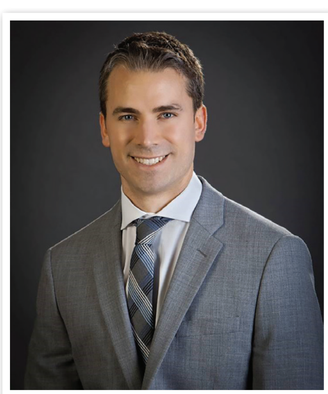

Congratulations Casey!

Please join us in congratulating **Casey Pisano, CFP®, AIF®** on his promotion to Senior Wealth Advisor.

Casey joined Biondo Investment Advisors in 2019. He is involved in the analysis, planning, and strategy development for individuals and families approaching and at retirement. Casey holds the CERTIFIED FINANCIAL PLANNER™ (CFP®) and the Accredited Investment Fiduciary® (AIF®) designations and is currently completing a Master's of Science in Taxation degree.

His dedication and professional development reflect our commitment to providing exceptional financial guidance to our clients, and we proudly acknowledge this achievement.

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