Schaper, Benz & Wise
INVESTMENT COUNSEL
Trusted Advisor for Generations

40 Jewelers Park Dr., Suite 200 | P.O. Box 628
Neenah, WI 54957-0628 | 920.727.1137

Economic & Market Summary
January 2024

Entering 2023, many forecasters anticipated a recession. The economy was absorbing the highest interest rates in decades. US consumers were thought to be burning through their pandemic savings. But no recession came, underscoring why economic forecasts should play little role in stock selection. As of the third quarter, inflation-adjusted economic growth was up a healthy 2.9% over the previous twelve months. A vibrant labor market supported the economy all year. Abundant job openings and rising wages drew in a significant number of new workers. This pushed prime age labor force participation above pre-pandemic levels. Consumer purchasing power improved with wage growth finally surpassing inflation. Economic growth was likely helped by a burst of pent-up demand as life normalized after the pandemic. Also, supply chains untangled, and shipping costs fell. The growth we saw in 2023 is probably not sustainable, and we expect a more moderate pace in 2024. The economy won't benefit from the same re-opening tailwinds, and consumer balance sheets are becoming stretched. The savings rate is falling and the delinquency rate on credit card loans has steadily increased since late 2021.

Presently, the Federal Reserve is on-approach for their "soft-landing" and is likely done raising interest rates. Inflation moderated all year without a commensurate deterioration in the economy even as monetary policy tightened. In December, Fed officials publicized their independent assessments of where the Fed's target rate will be over the next two years. The median projection reflected 0.75% of cuts this year and 1.0% of cuts next year. The Fed Fund futures market implies even more rate cuts by year-end, a view widely embraced by financial markets. Since late October, stocks rallied sharply, and long-term bond yields declined. We agree the Fed will likely begin cutting rates this year as inflation continues its downward trajectory. However, we think markets are too sanguine about the size and pace of rate cuts. Through the whole rate-hiking process, the Fed emphasized the importance of bringing inflation under control, even warning that "economic pain" might be required to complete the task. This suggests the bar is high for reducing interest rates. Inflation is still above the Fed's 2% target and may come down more slowly than expected. Beneath the downward trend in the headline figures, some measures of sticky inflation have gone sideways or ticked up. Stock prices may come under pressure if the Fed doesn't cut as much as markets expect. Also, a widening of the conflicts in the Middle East and Ukraine, more tension between the US and China, and a volatile 2024 election could disrupt markets.

The S&P 500 had a strong year returning 24% including dividends. The index has become incredibly concentrated making it a poor proxy for the broader stock market. The seven largest companies currently make up close to 30% of the index, the highest concentration in about 40 years. Driven by strong fundamentals and Wall Street's infatuation with technology companies, especially those exposed to AI, the "magnificent seven" significantly outperformed the rest of the index. Through 12/15, they returned about 75% while the remaining 493 returned only about 12%. It's frustrating to see stock prices of high quality, but smaller and less popular companies lag for no good reason. However, being a successful long-term investor occasionally requires a contrarian approach and a willingness to own businesses that are temporarily out of favor. It's impossible to be right all the time, but if the analysis is correct, the market will eventually price undervalued companies fairly. For the patient investor, this can lead to consistent and satisfying results.

Mark J. Sprtel, CFA

If your financial situation has materially changed or you would like to discuss your accounts in detail, please contact your investment manager. To request our SEC Form ADV Part II, please contact Mark J. Sprtel, Chief Compliance Officer, at the address above.