

Ridgetop Wealth Management Market Update - December 2023

“The Market Can Stay Irrational Longer Than You Can Stay Solvent”

– John Maynard Keynes

There are always reasons and narratives as to why the economy and the stock market are about to boom or fall off a cliff. We can hold these outlooks with such conviction. Keynes quote reminds us that no one is bigger than the market and we can be ‘wrong’ for years, missing out or betting against huge compounding market returns while we cling to our narrative.

In our last Market Update we wrote how the fourth quarter was likely to be strong for the equity markets. This played out nicely as the last three months of the year have delivered double digit gains on the Dow, S&P500, and the Russell 2000. We have our concerns about the viability of the infamous “soft economic landing” in 2024, but as always, we have to also follow the weight of technical evidence in the market. As we published our Q3 Update there were obviously a number of factors to consider; but when you have as strong of a start to the year as we did (the strongest since 1997), followed by a crappy (a technical term) few months in the Fall where pessimism was running rampant, the market has a history of advancing nicely to close out the year.

A New High For The Market – Cause for Concern or Celebration?

The S&P 500 is approaching its first record high in two years. It’s been almost 500 trading days (January 3rd, 2022) since the market last saw a high. Does this mean we are overbought and headed for a correction or is it a breakout to a new up leg? History would side with the latter.

The S&P 500 has outperformed its long-term averages three, six, and 12-months after hitting a new high. Also fantastic news is that stretches of more than one year without an all-time high have been more common in secular (very long term) bulls than in secular bears. This bodes well for the notion that we remain in the secular bull which began in 2009 after the conclusion of the housing bubble and credit crisis. Yes, we have had several dismal years or cyclical (short term) bears since 2009, but they have occurred within this long term cyclical bull markets. A meaningful break through the January 2022 high would provide further reinforcement that the secular bull is alive and well.

Short Term and 2024

As optimistic as we are given the technical market outlook and the prospects of a friendlier Federal Reserve, in the short run this market is overbought and too confident in itself. A short period of pain would be welcome amidst a healthy advance. While three, six, and 12-month returns are strong after hitting fresh new highs, often one-month returns are a bit weaker as its overconfidence that finally got us over the resistance of the high. We will be watching for this to play out over the next month or two.

Longer term as we move into next year we expect to see volatility. Shocking, right? The word “volatility” has to be the most overused word in any full year market outlook. In all likelihood though the first half of 2024 will have some fits and starts as the Fed attempts to land this economic plane. The Conference Board’s Leading Economic Index(LEI) just had its 20th consecutive decline. There is no doubt that the Fed has slowed this economy. While a correction or two can be expected, the long-term uptrend should be propelled by the shift toward central bank accommodation and an economy that remains strong enough to support the earnings outlook.

In Summary

We started with a quote, so let's end with a quote by famous investor Martin Zweig, "Its ok to be wrong; it's unforgivable to stay wrong." We believe in and adhere to our objective, analytical approach paired with historical perspective. Right now our discipline tells us that the bulls get the benefit of the doubt. If at some point in the coming months our indicators give us conviction to the contrary we will make a change.

2024 is a year where sizable factors need to align monetarily, economically, and politically both domestically and abroad. Will it unfold neatly or unravel ferociously? Two things are for sure:

#1. Only time will tell #2. We will be there with you each step of the way.

Thank you for a fantastic 2023 and cheers to a prosperous 2024 together.