



MITCHELL SINKLER & STARR

First Quarter 2024 — Economic and Capital Markets Commentary

Gazing Into the Crystal Ball



“There are two kinds of investors, be they large or small: those who don't know where the market is headed, and those who don't know that they don't know.”

– William J. Bernstein, PhD

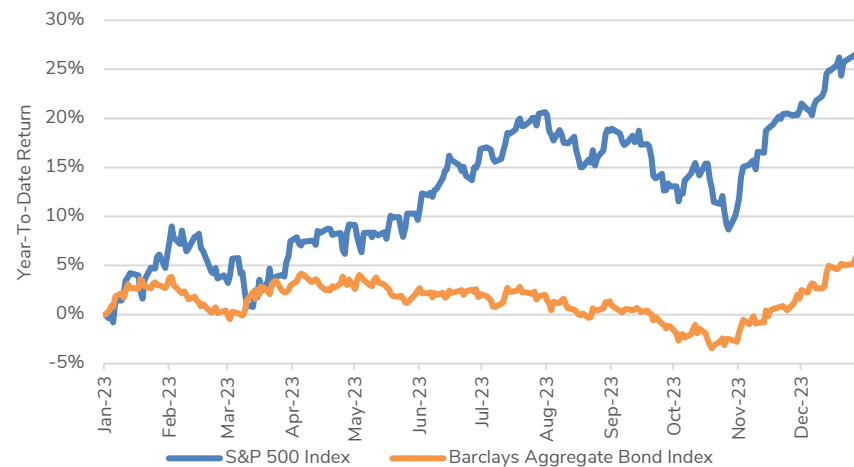
After three years of Covid-influenced markets that saw everything from zero-percent interest rates and sky-high stock valuations to raging inflation and an official bear market in 2022, both equity and fixed-income markets found more steady footing in 2023.

By the end of the year, the S&P 500 Index had risen substantially, while the Barclays Aggregate Bond Index, a proxy for fixed-income returns, climbed as well. The Federal Reserve looked to be done with their current rate hiking cycle, and the market is currently pricing in rate cuts expected to begin in the next six months.

Before the New Year arrived, strategists on Wall Street submitted their annual predictions for 2024. On average, a high single digit percentage advance for equity markets is expected while bond markets are also predicted to do well in a declining rate environment.

Market bulls and bears both have legitimate cases to be made, as the overall macroeconomic picture becomes more attuned to the economic cycle rather than the massive government stimulus payments and once-in-a-generation supply chain bottlenecks of the Covid years. Let's take a look at how each of these camps views key components of the economy as we enter 2024...

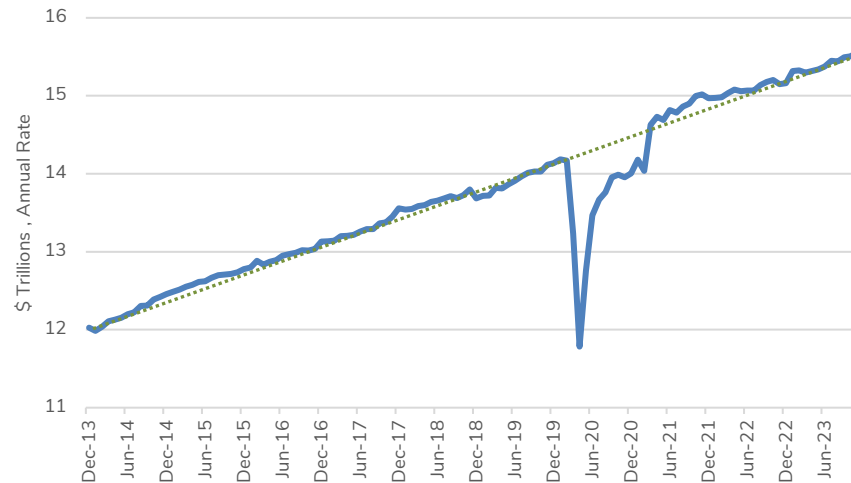
**S&P 500 Index & Barclays Aggregate Bond Index
2023 Returns**





Consumer Spending

Consumer Expenditures (inflation adjusted)



As we've noted in recent commentaries, consumer spending growth, a critical force in both the U.S. and global economies, has been remarkably resilient over the past several years. Consumers shrugged off continued inflation and the drawdown of savings heading into the end of the year, as spending growth remained stable.

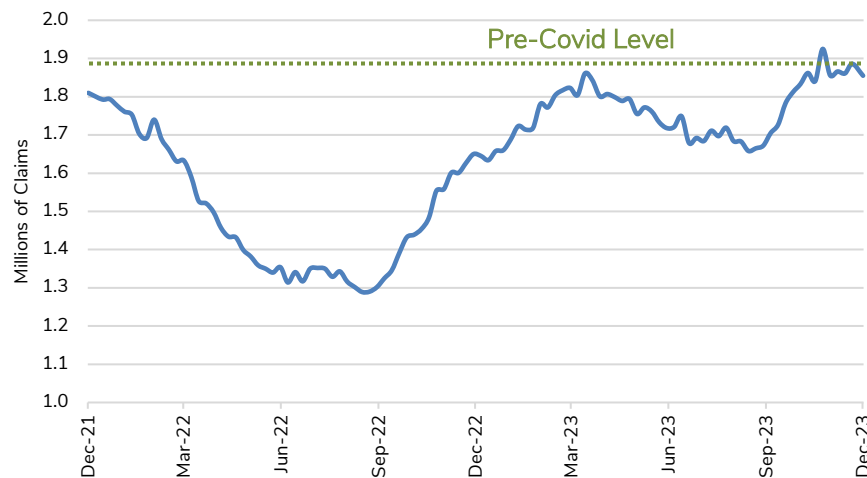
The Bears Say: The jump in consumer spending growth seen after the Covid stimulus payments and the spending of those savings accumulated during that period has now ended, and we would expect far more muted consumer spending growth in the coming year, if not a downright decline, as inflation is still a factor in family spending decisions.

The Bulls Say: Consumer spending growth remains on its positive trajectory, albeit at lower growth rates than during the past several years. Fourth-quarter spending was strong, and companies may adjust their prices downward to meet spending patterns as inflation continues to cool from 2022 levels.



Employment

U.S. Continuing Jobless Claims



Unemployment has continued to sit at its historically low, sub-4% level since 2022. However, the number of people filing continuous jobless claims (continuing to claim benefits after initial layoffs) has sustained its 2022 rise throughout 2023 to return to pre-Covid levels.

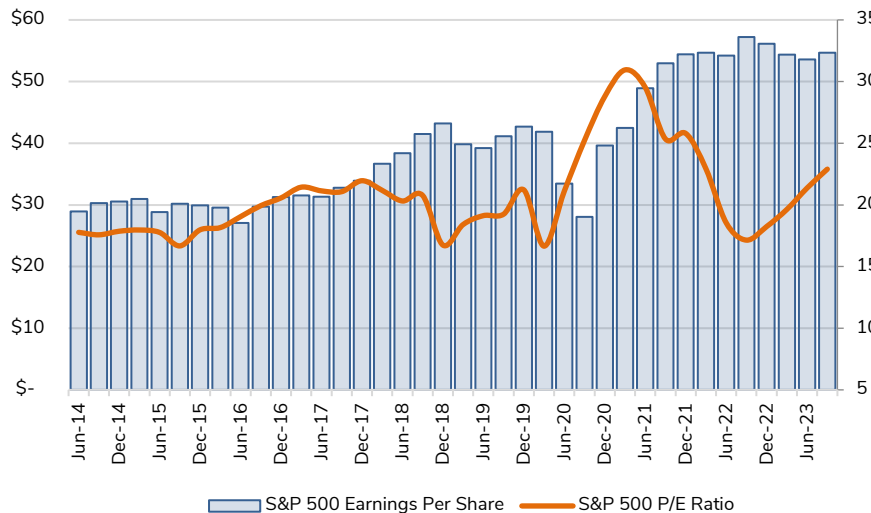
The Bears Say: The rise in continued claims points to further cracks in the economy starting to form, as spending normalizes and the hiring spree that took off after Covid subsides. This weakening jobs picture will continue to develop over the coming year, pushing wage growth down and further denting consumer spending.

The Bulls Say: The recent rise in continued claims is to be expected after the historically low readings in 2022. Continuing jobless claims were around the current level prior to the pandemic without negatively impacting the economy, and this seems more of a return to trend than the beginnings of a recession.



Stock Market Valuation

S&P 500 Index Aggregate EPS vs P/E Ratio



Fourth quarter 2023 S&P 500 Index aggregate earnings per share increased quarter-over-quarter for the first time in a year. The market rose in tandem, with expectations that earnings growth might well continue in 2024. The S&P 500 currently sits at a price-to-earnings ratio of just under 23x, slightly higher than its 5-year average of 22x and 10-year average of 20x.

The Bears Say: As shown above, earnings growth surged in 2018 after corporate tax cuts and again in 2021 after massive Covid-driven stimulus from central banks and governments around the world. Now that central banks have set higher interest rates and tightened the money supply at the same time that governments are attempting to reel in spending, earnings will likely stagnate, and the price-to-earnings ratio of the overall market should normalize as well.

The Bulls Say: Fourth-quarter earnings displayed the strength of this recovery well after the stimulus and easy money periods had ended. Excesses have been worked out of the market, and corporate inventory levels have stabilized for the most part. With continued low unemployment, earnings growth should continue in 2024.



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A Wildcard: Election Year!

Historically, the S&P 500 index has averaged positive returns in election years, perhaps giving the bulls confidence in their predictions. But at this point, as each camp – bulls and bears – postures and postulates in print and other media, the only thing we do know is that no one knows how 2024 will turn out for investors.

At Mitchell Sinkler & Starr, we will continue to take what the market is giving us at any given point in time. As the new year begins the bond market remains attractive, while parts of the broader stock market have not caught up with the high-flying technology stocks of 2023.

And, as always, we will continue to take the long view. While we acknowledge at certain points that different markets may show unfavorable pricing characteristics, we never recommend acting on short-term market predictions or attempting broad-based market timing for clients focused on the long term.

- Mitchell Sinkler & Starr's Portfolio Managers



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Economic and Capital Markets Data

	December 31, 2023	(One Year) December 31, 2022	(Three Years) December 31, 2020	(Five Years) December 31, 2018
S&P 500 Index	4770	3840	3756	2507
Price / Earnings Ratio	22.9	18.5	29.9	17.1
Dividend Yield	1.64%	1.87%	1.57%	2.15%
Federal Funds Rate	5.25%	4.50%	0.00%	2.25%
10-Year U.S. Treasury Yield	3.88%	3.88%	0.92%	2.69%
Gold (\$ per oz)	2,072	1,829	1,898	1,282
Oil (Brent, \$ per barrel)	72	78	52	54
GDP (Annualized)	4.9%	6.9%	4.0%	2.6%
Unemployment	3.7%	3.9%	6.7%	3.9%
Inflation (Annualized)	3.4%	7.0%	1.4%	1.9%

GDP Data as of September 30, 2023; Federal Funds Rate is Lower-Bound

Sources: U.S. Federal Reserve, Bloomberg Finance L.P., Bureau of Economic Analysis



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Decade-by-Decade Market Returns

S&P 500 Index	1960s	1970s	1980s	1990s	2000s	2010s	2020s
Opening Level	60	92	108	353	1469	1115	3231
Closing Level	92	108	353	1469	1115	3231	4770
Beginning Price / Earnings Ratio	17.6	15.1	7.4	14.7	29.3	19.4	21.2
Ending Price / Earnings Ratio	15.1	7.4	14.7	29.3	19.4	21.2	22.9
Earnings Growth	6.0%	9.1%	5.1%	7.6%	1.4%	10.2%	7.5%
Total Return	7.8%	5.9%	17.5%	18.2%	-0.9%	13.6%	12.0%
Price Appreciation	4.4%	1.6%	12.6%	15.3%	-2.7%	11.2%	10.4%
Dividend Return	3.4%	4.3%	5.0%	2.9%	1.8%	2.3%	1.7%
Avg 10-Year U.S. Treasury Yield	4.8%	7.4%	10.4%	6.5%	4.3%	2.5%	2.3%

Returns for each decade are annualized.

Source for table & chart data: U.S. Federal Reserve, Bloomberg Finance L.P.