

2023 YEAR END REVIEW

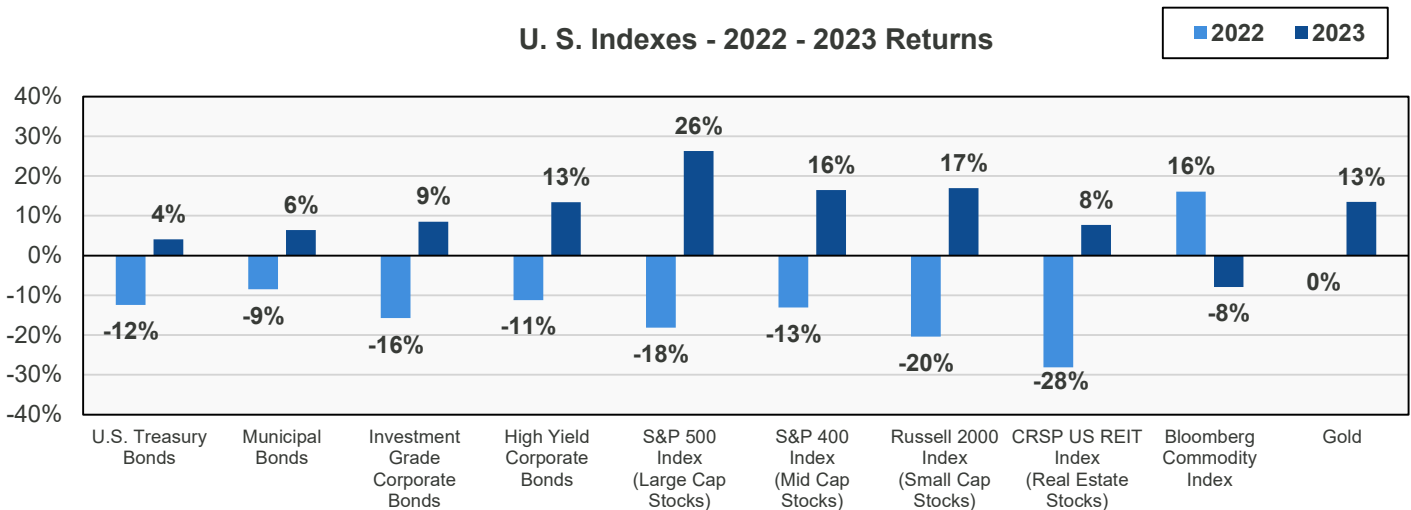
JANUARY 2024



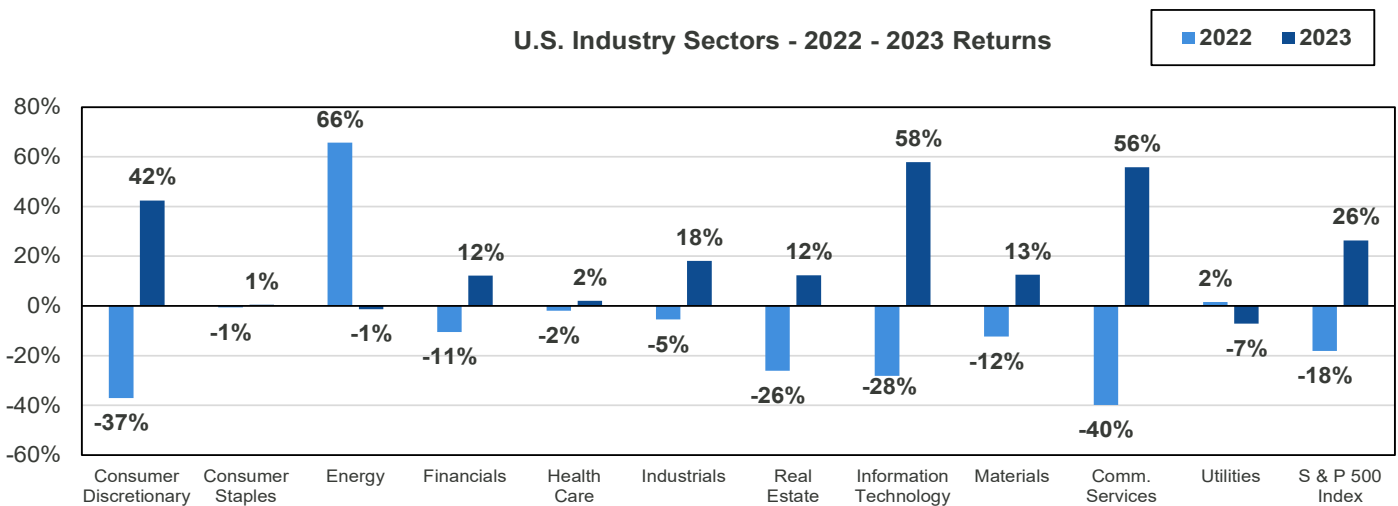
US MARKETS

While the Federal Reserve continued to fight inflation, the markets looked ahead and liked what it saw. Belief in lowering inflation, stable to falling interest rates, and a growing economy caused the markets to rebound in 2023. U.S. Large Cap stocks led the way, and all categories, with the exception of commodities, were up for the year.

The following is a look at the past two years in the U.S. markets:



Sectors that lost the most in 2022 were the largest gainers in 2023, led by Information Technology, Communication Services and Consumer Discretionary stocks.



S&P 500

S&P 500 Price Return: 2023

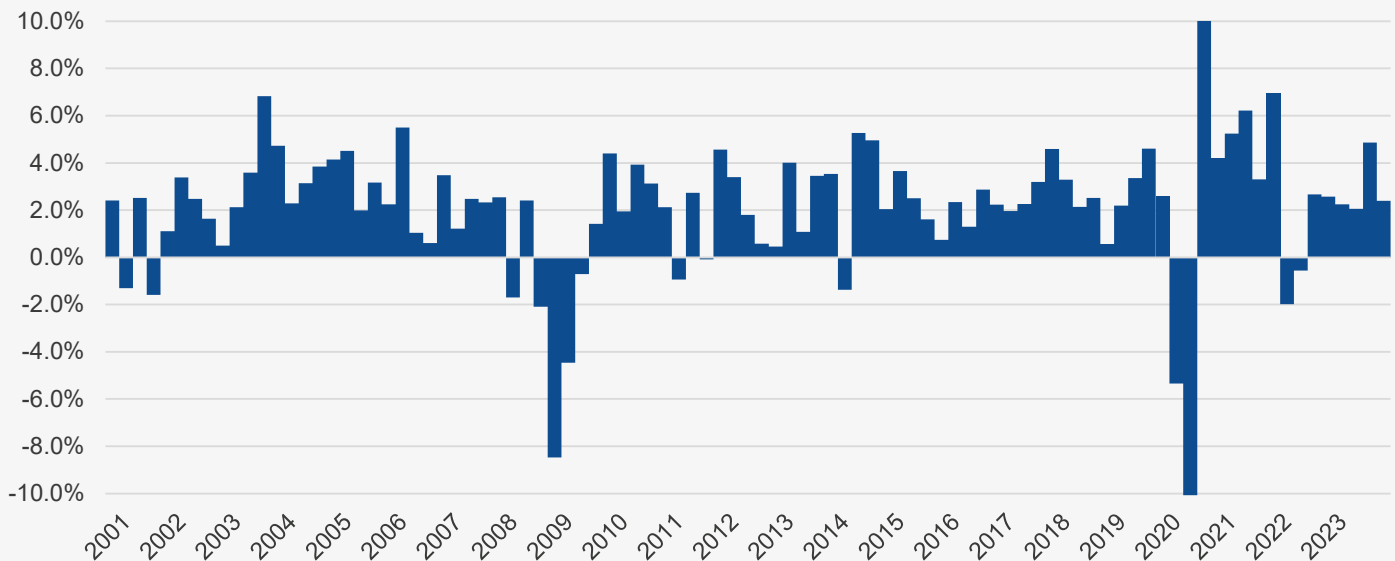
The S&P 500 price only index (excluding dividends) was positive for all but three days, ending the year up 24%.



GDP

The U.S. economy continued its steady growth. The economy, as measured by the Gross Domestic Product (GDP), has increased for the last six quarters. Economists are mixed in their projections for 2024 but most are in the camp of continued low-growth. The biggest question mark is whether we will experience the recession many have predicted for over a year, and if so, when and how severe will it be.

Quarterly Real GDP Growth: 2000-2023

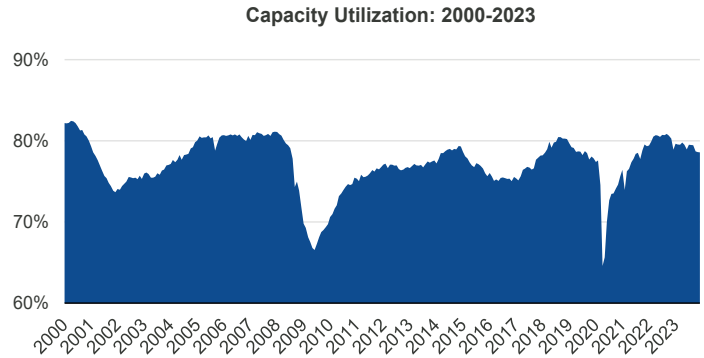
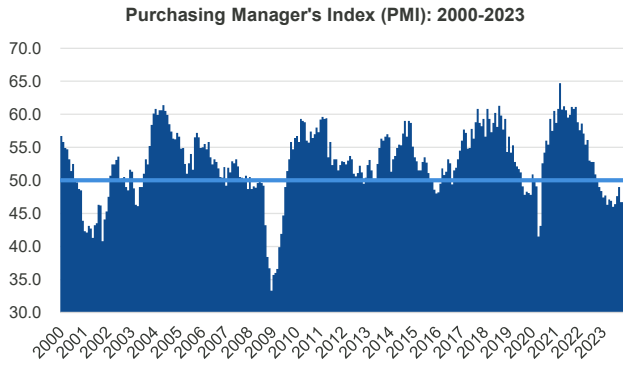


In January 2023 surveyed economists predicted a **61%** chance the US would experience a **RECESSION** within the year.^[7]

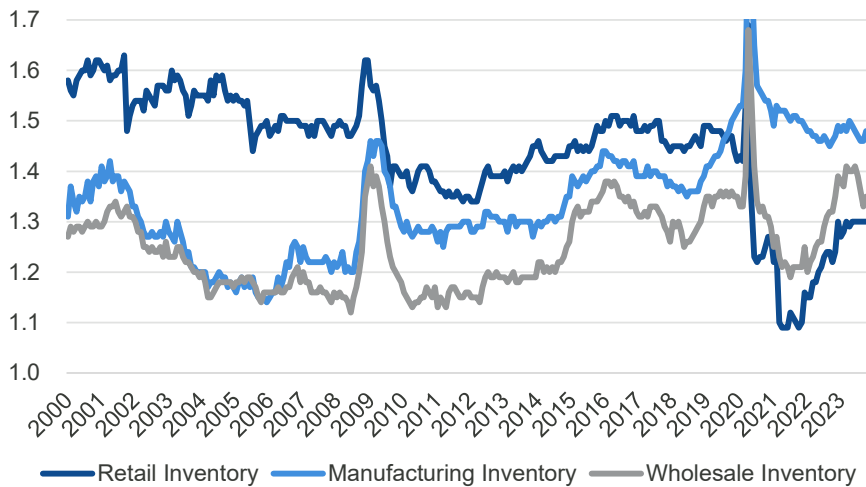
MANUFACTURING

We continue to keep an eye on the PMI reading (Purchasing Managers Index) which has been below 50 for the past fourteen months. When the index is above 50 it signals an expansion in the manufacturing sector, while a reading below 50 indicates a contraction.

The capacity utilization rate stayed above 79 for the entire year. This signals that factories have not yet experienced the slow down projected by the slowing PMI.



Trade Inventories to Sales Ratios: 2000-2023



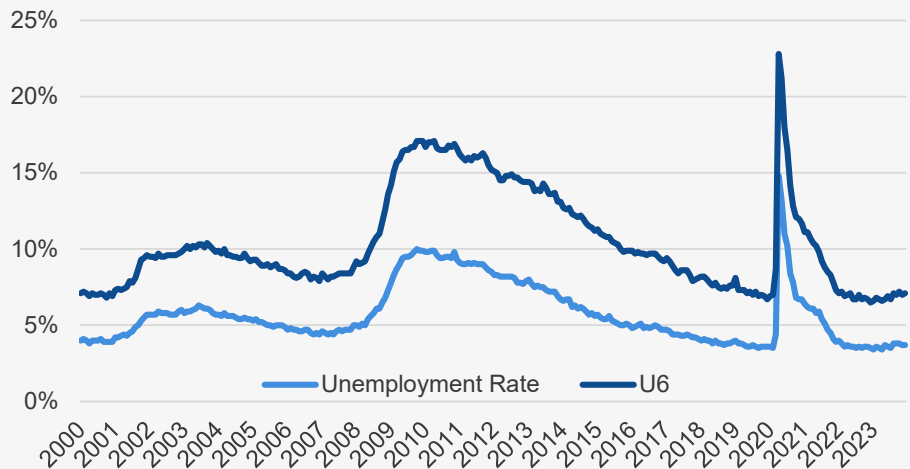
Inventories remained relatively constant during the year, meaning companies have sufficient product on hand relative to their sales and thus could order/purchase/produce less in the next year, if a slowdown arrives.

EMPLOYMENT

Employment continued to be a bright spot in 2023. The U.S. economy added 2.7 million jobs during the year.

The official unemployment rate remained under 4% during the year. The U6 rate, which is the broadest measure of those unemployed, actually rose from 6.5% to 7.1% at year end.

Unemployment Rate & U6 Unemployment: 2000-2023

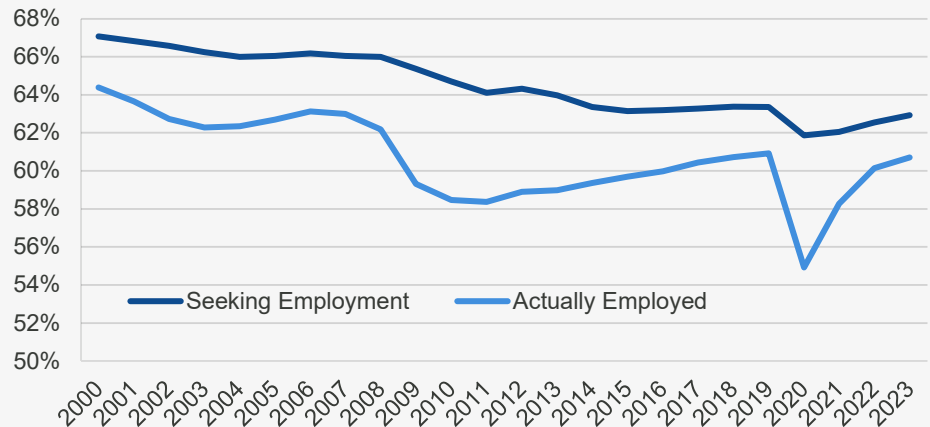


EMPLOYMENT

Another way to analyze the employment situation is to look at the raw data. There are 267 million people in the U.S. of working age. Of those, 168 million “want to work”. Of those 168 million persons wanting to work, 162 million are currently employed, leaving 6 million unemployed. Another way to look at the data is that there are 99 million people of working age who do not “want to work” – the same number as last year - (age, in school, stay at home parent, etc.) plus another 6 million people who want to work but are not employed.

We can also look at the data to view the percentage of individuals wanting to work with the percentage actually employed. Currently, 62.9% of the U.S. eligible population wants to work and 60.7% are working. With 8.8 million job openings and only 6 million unemployed, hiring continues to be a concern for employers.

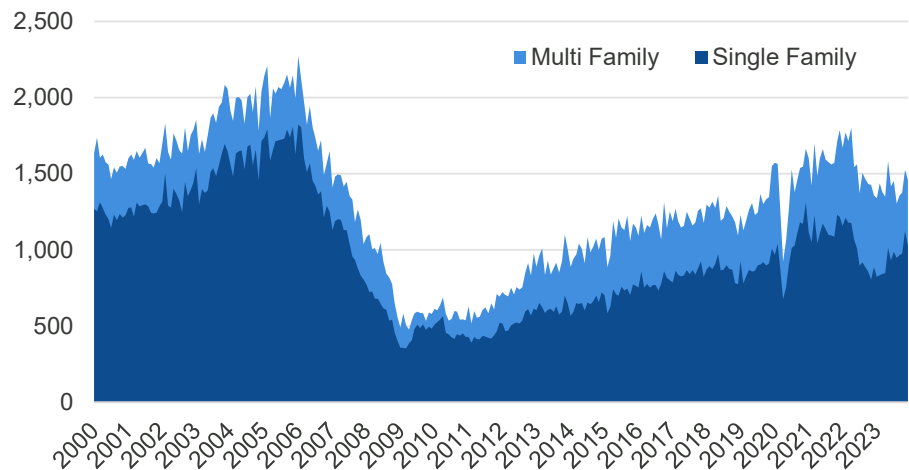
% of Population age 16 and over Seeking Employment vs Actually Employed: 2000-2023



HOUSING

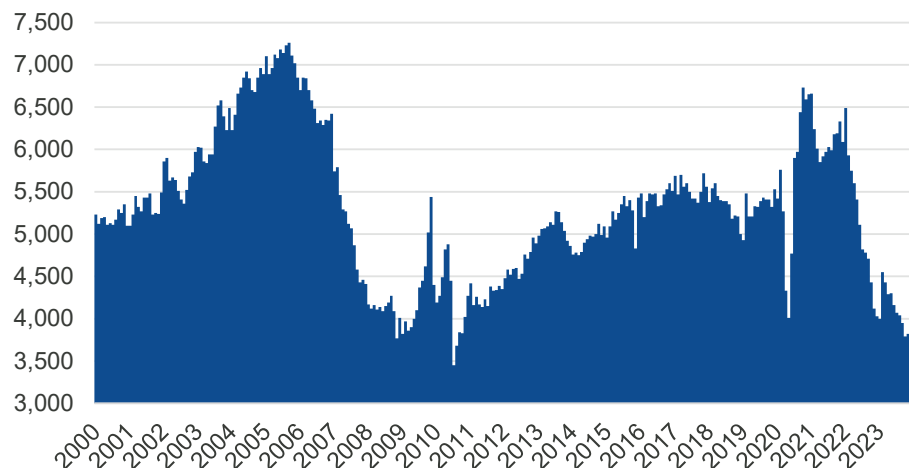
Monthly new home starts continued to slow during the year, dropping 9% from 2022.

New Private Housing Starts (thousands): 2000-2023



Monthly sales of existing homes followed the same pattern, averaging 4.1 million per year down from a pace of 5.1 million last year. This was the weakest year for sales activity since 2010.

Existing Home Sales (thousands): 2000-2023



HOUSING

30 Year Fixed Rate Mortgage: 2000-2023

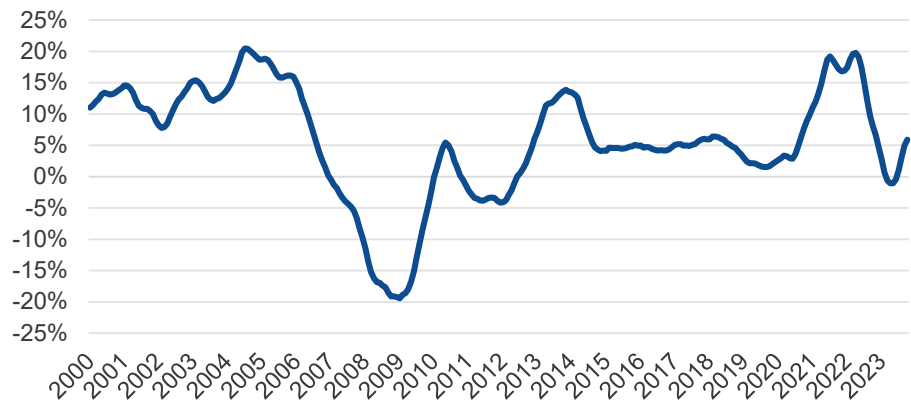


The interest rate on a 30-year fixed rate mortgage started the year at 6.42%, hit a high of 7.79% in late October and finished the year at 6.61%. Mortgage rates continue to be the biggest headwind to the housing market.

30-year fixed mortgage rates reached their highest level since 2001 in October 2023.

Case-Shiller Home Price Index Year over Year Change: 2000-2023

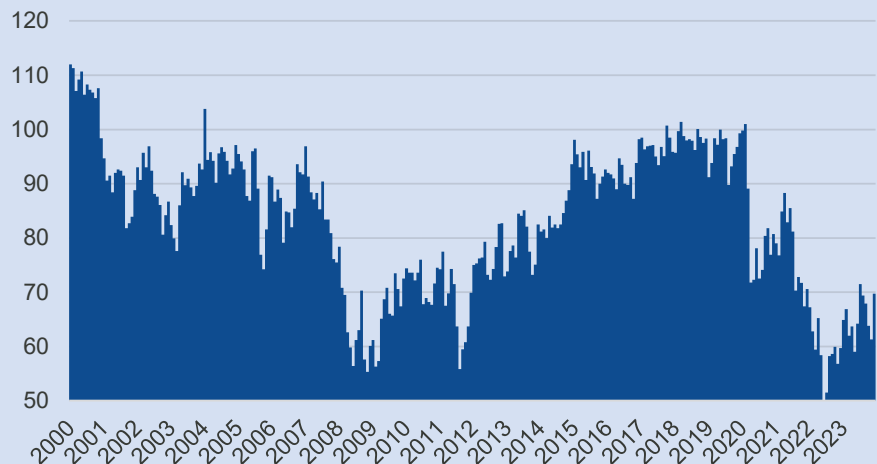
Given the rise in interest rates, the increase in the value of home prices continues to slow. In 2023, the average home price increased 6%. The chart tracks the year over year percentage change in home prices.



CONSUMER SENTIMENT

University of Michigan Index of Consumer Sentiment: 2000-2023

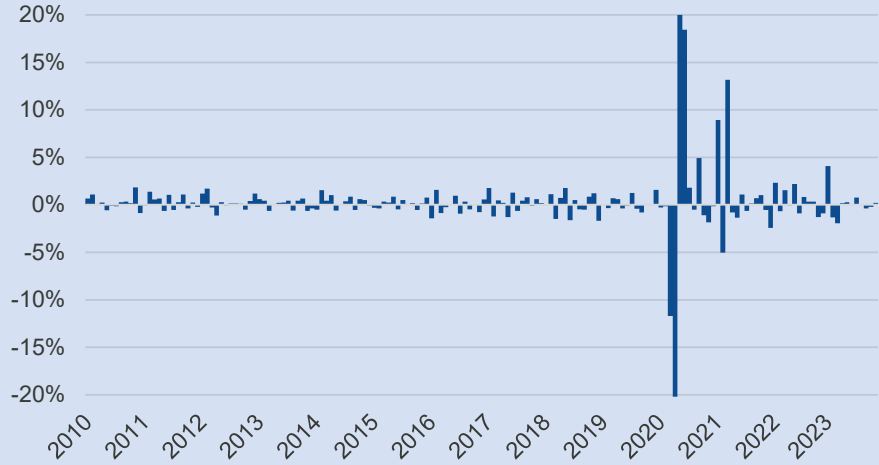
As one might expect, consumer sentiment, as measured by the University of Michigan monthly survey, continued to fluctuate, starting the year at 65, dipping to a low of 59 before ending the year at 70. Readings in the 60's are low by historical standards.



CONSUMERS SALES

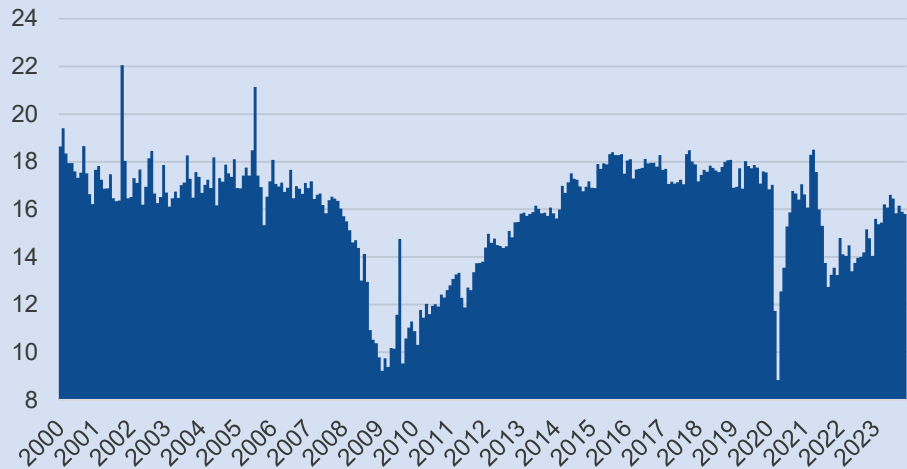
Retail sales were weak during the year, growing less than 2% for the year.

Month over Month Change in Sales: 2010-2023
General Merchandise, Apparel, Furniture, & Other



Sales of new vehicles remained steady during the year. New vehicles sold at an annualized pace of 16 million vehicles during the year.

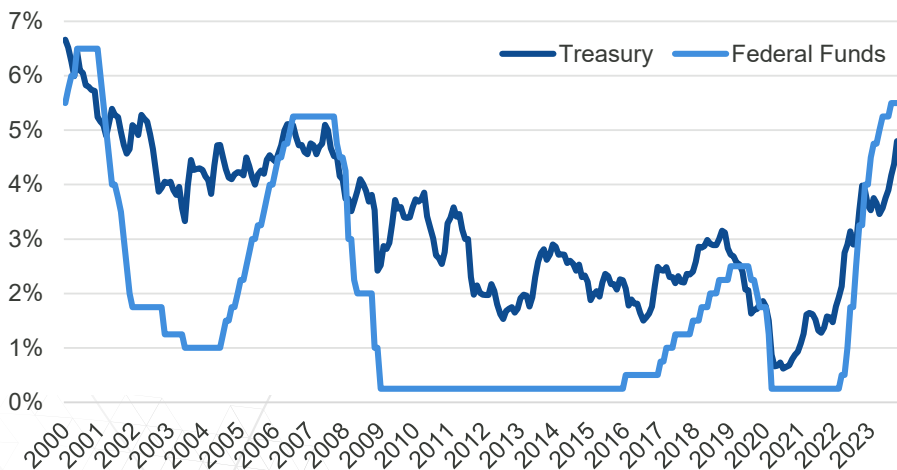
Total Vehicle Sales (millions): 2000-2023



INTEREST RATES

The Federal Reserve raised the Fed Funds rate four times in 2023 increasing it from 4.5% to 5.5%. Longer term rates (10-year Treasury rates) are determined by market forces and rose from 3.62% to 4.02% by the end of the year. The Fed Funds rate (short term rate) exceeded the Treasury rate (long term rate) the entire year – causing an “inverted yield curve”. The Fed has indicated they may be ready to cut rates in 2024 in response to softening inflation concerns.

10 Year Treasury Rate and Federal Funds Rate: 2000-2023

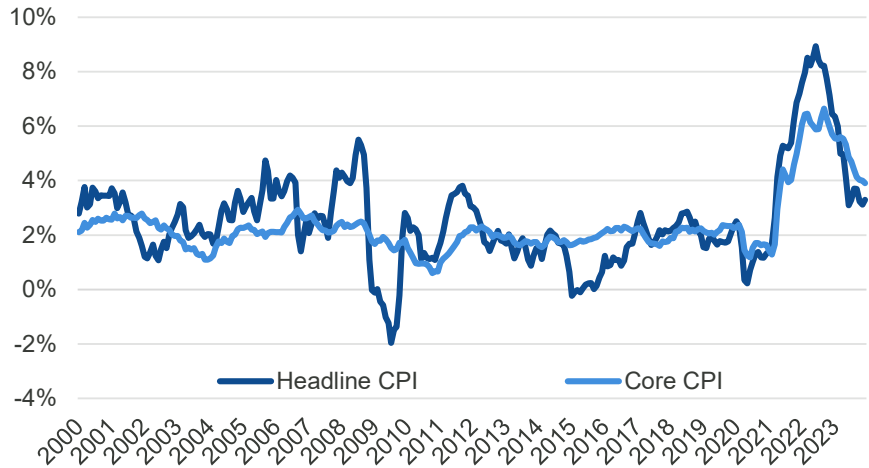


The Federal Reserve
raised rates
FOUR TIMES
in 2023.

INFLATION

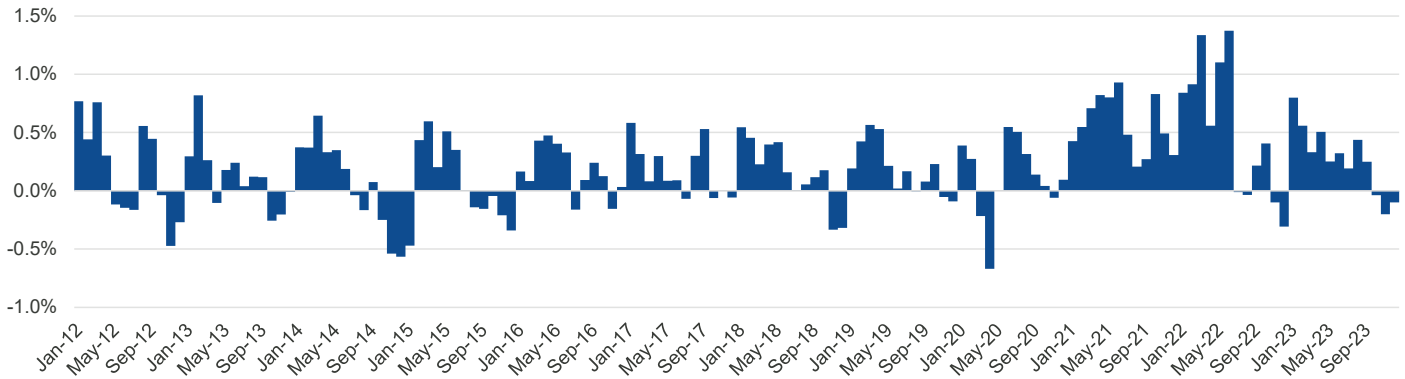
The major economic story of 2023 continued to be inflation. The increase in both headline inflation (which includes food and energy) and core inflation (which excludes food and energy) began to drop but remain above desired ranges, based on year over year rates. Headline inflation started the year at 6.4% but dropped to 3.3% by the end of the year.

Year over Year Change in CPI: 2000-2023



The inflation data above is computed on a year over year basis (ie. December, 2023 to December, 2022) Another way to look at inflation is on a month over month basis which computes how much inflation is continuing to rise (rather than comparing to one year ago). On this measure, inflation data may indicate the worst of inflation is behind us.

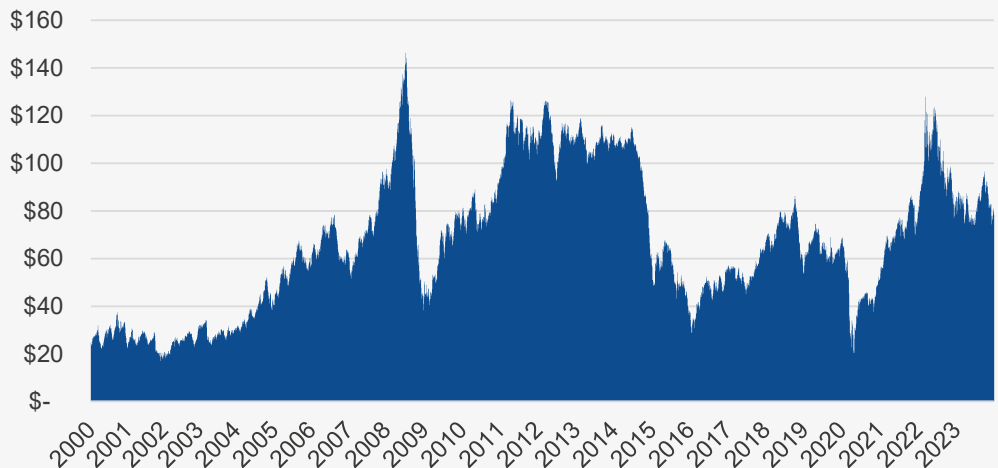
Monthly CPI: 2012-2023



OIL

The price of a barrel of oil started the year at \$86, rose to a high of \$96, and ended the year at \$77.

Brent Crude Price: 2000-2023



US DOLLAR

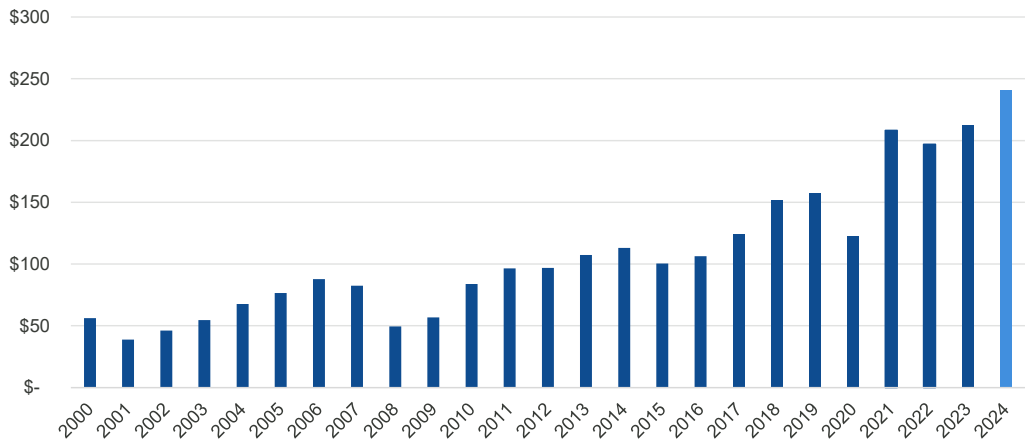
Trade Weighted U.S. Dollar Index: 2006-2023



The U.S. dollar lost 2.3% against other world currencies during the year after rising 5.4% in 2022. A cheaper U.S. dollar makes imported items more expensive to U.S. consumers and our exports more affordable to foreign markets.

STOCKS

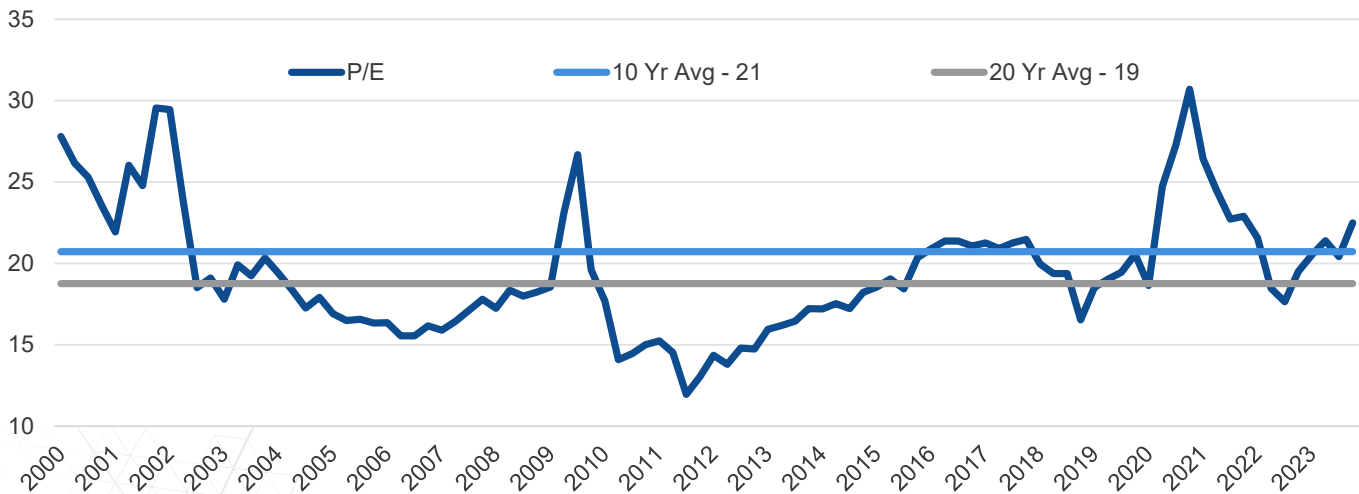
12 Month Operating Earnings: 2000-2024E



Corporate profits are a large driver of the stock market. The S&P 500 Companies' earnings are projected to increase 8% over 2022 earnings. Current projections call for 2024 earnings to increase 13% over 2023. Some believe this may be overly optimistic.

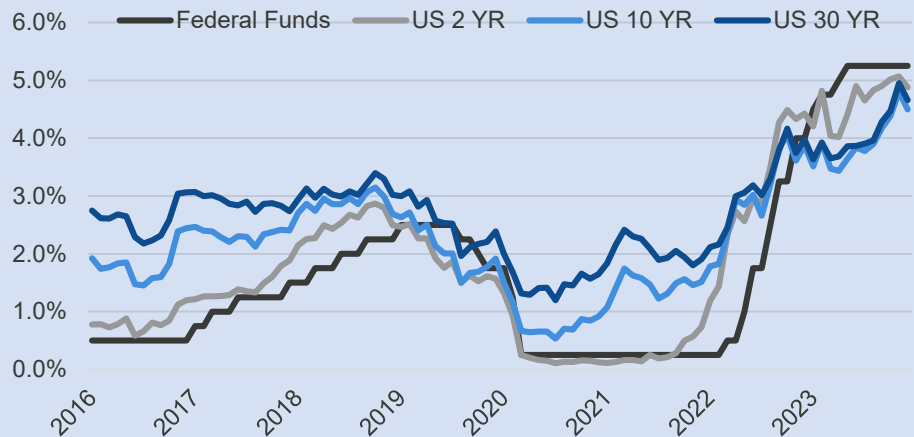
Along with the rise in corporate profits, the S&P 500 Price to Earnings (PE) ratio increased from 19 to 22 during the year. That puts current valuations slightly above both the 10- year and 20-year averages.

S&P 500 P/E Ratio to Historical Averages: 2000-2023



BONDS

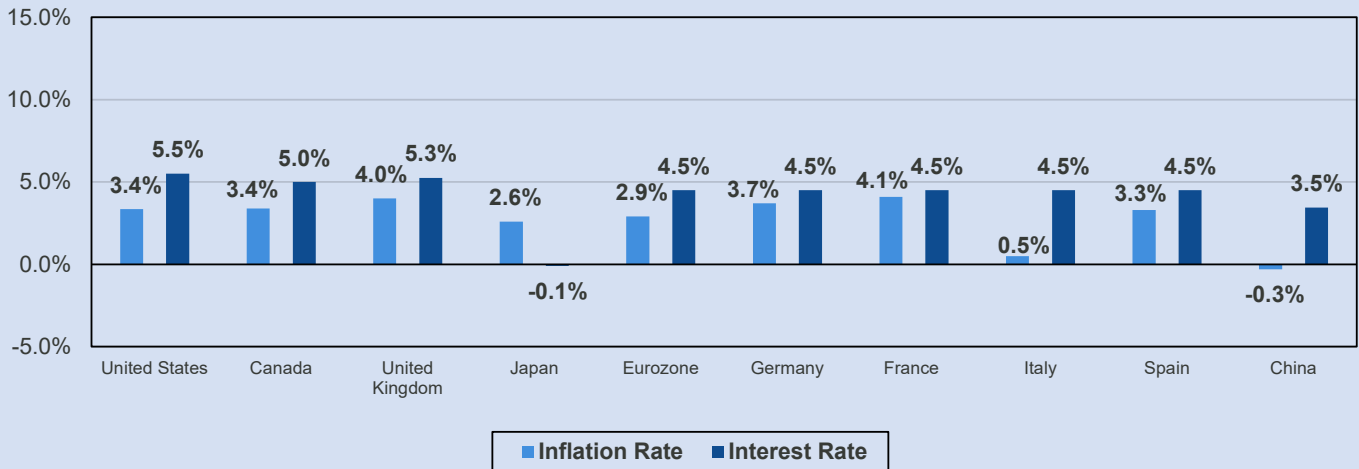
Interest Rate Comparison: 2016-2023



The bond market is a totally different market. Interest rates are high across the board. The yield curve is inverted, meaning short term rates are higher than long term rates. This has never been a good sign for the economy, and has often foreshadowed a recession.

As we look around the globe, we see that all countries around the world are using interest rates to battle inflation. It appears the worst is behind us but there may be more pain ahead. The following table shows the inflation rate vs. the Fed Funds rate (or equivalent) of other countries in comparison to the U.S.

Interest Rates vs Inflation Rates



RECAP

The markets gave back in 2023 much of what it took away in 2022. We continue to monitor market opportunities as they present themselves, looking to take advantage of potentially declining interest rates. We believe in our investment strategies for the long term and stayed the course in the stock market in spite of the worrisome headline news, and were rewarded for that. The year brought wealth transfer opportunities for our clients which we capitalized on as the situation warranted.

At JVL Wealth Strategies our mission is to create a financial strategy that helps our clients withstand the ups and downs of the markets. Our role is to prepare our clients for all economic and market conditions. Our planning and strategies can withstand market uncertainties. While we cannot control the news or the events and actions that affect the markets around the world, we can control the strategies and the planning to prepare our clients for the uncertainties the world has to offer.

We deeply value the trust our clients place in us. If you know of someone who could benefit from our experience, please let us know. You can learn more about us at www.jvlwealth.com. Feel free to pass the link along.

REFERENCES

- [1] Information obtained from YCharts.com
- [2] Information obtained from YCharts.com
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- [7] Torry, H., & DeBarros, A. (2023, January 15). Economists in WSJ Survey Still See Recession This Year Despite Easing Inflation. <https://www.wsj.com/articles/despite-easing-price-pressures-economists-in-wsj-survey-still-see-recession-this-year-11673723571>
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- [17] Information obtained from University of Michigan Survey of Consumers web site: <http://www.sca.isr.umich.edu>
- [18] Information obtained from United States Census Bureau website: <https://www.census.gov>
- [19] Information obtained from Morningstar Direct: "FRED, Total Vehicle Sales, Seasonally Adjusted Annual Rate , U.S. Bureau of Economic Analysis, Millions of Units"
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- [21] Information obtained from Morningstar Direct: "FRED, Consumer Price Index for All Urban Consumers: All Items Less Food and Energy in U.S. City Average, Seasonally Adjusted , , Index 1982-1984=100" & "FRED, Consumer Price Index for All Urban Consumers: All Items in U.S. City Average, Seasonally Adjusted , , Index 1982-1984=100"
- [22] Information obtained from the U.S. Bureau of Labor Statistics website: <https://www.bls.gov>
- [23] Information obtained from Morningstar Direct: Brent Crude Price
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- [25] Information obtained from S&P Dow Jones Indices website: <http://us.spindices.com/indices/equity/sp-500>
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