January 10, 2024

Dear Valued Vision Point Clients & Friends:

Looking back on the past year, real (adjusted for inflation) economic growth ended up weaker[1] than many expected to start 2023. My view that it would continue to be difficult to "fight the Fed" proved accurate, but notably non-linear in a year of significant shifts[2] in monetary policy. The Fed's published Balance Sheet run-off (QT) and interest rate increases[3] introduced a challenging policy injection not seen in recent years. The year began on a sluggish note facing such strong headwinds as rising rates also pressured bank balance sheets[4] which contributed to notable bank sector weakness[5] in the first quarter of the year.

In March, three of the largest bank failures in our nation's history[6] set the stage for expanded Fed involvement and opened the door for announced balance sheet reductions[7] to be fully sterilized by RRO actions.[8] Simultaneously, the launch of the Bank Term Funding Program (BTFP) enabled the offloading of specified collateral from bank balance sheets to the Fed[9] on a temporary (1-year) basis without requiring the typical re-pricing of impaired asset values. In turn, the bellwether S&P 500 Index moved higher through Q2 before returning to early April price levels[10] by late October as hopes of resurgent economic growth dissipated.

As we moved into November, U.S. Government interest rates began to drop[11] and global equity prices rebounded sharply higher. Financial asset prices spiked once Fed Chairman Powell hinted that interest rate hikes were complete.[12] The continued strong correlation between financial asset prices and global central bank policies (see Fig. 4)[13] leads me to believe that the Fed's upcoming decisions on whether to wrap-up or extend the BTFP facility, its Quantitative Tightening (QT) program and the direction of base interest rate levels will each materially impact the direction of global financial asset pricing in the coming year as well.

Exiting 2023, it may prove noteworthy to mention that S&P 500 earnings estimates for Q4 declined 7%[14] from September 30th through December even as the Index jumped more than 11% during the same period. If corporate earnings are able to meet these weaker revised estimates for Q4, then S&P 500 Index earnings will end flat versus 2022.[15] At this point, large-cap U.S. equities appear to be "all in" on the notion that further Fed involvement is forthcoming in 2024. Stagnant earnings coupled with higher equity index levels have led to S&P 500 Index valuations priced for near-perfection.[16] Current Price-to-Sales ratios are at the highest levels of the past 25 years (excepting the two years of emergency fiscal and monetary stimulus measures enacted in 2020 and 2021). Even so, the SPX has risen[17] in 20 of 24 election years since inception with another one presumably ahead.[18]

	Dec 2023	YTD 2023
S&P 500 (broad equity market)	+ 4.54%	+ 26.29%
Nasdaq Comp (tech sector)	+ 5.58%	+ 44.64%
Russell 2000 (small caps)	+12.22%	+ 16.93%
Bbrg Barclays Agg Bond Index	+ 3.83%	+ 5.53%
Int'l Developed Market Stocks	+ 5.33%	+ 18.85%
Int'l Emerging Market Stocks	+ 3.95%	+ 10.27%
WTI Crude Oil	- 5.59%	- 3.79%
Gold	+ 1.14%	+12.82%

Pending further stimulus inputs and the possibility of a reacceleration of inflation pressures,[19] we continue to see potential for an unusually wide range[20] of outcomes in markets. U.S. large cap leadership ("Magnificent 7")[21] looks historically expensive[22] while broad economic growth has been weak.[23] Ongoing concerns surrounding geopolitical hotspots remain and we see nothing to indicate that continuing escalation will stop.

As a result, we believe a prudent response to current circumstances[24] centers around a focus on one's personal financial planning objectives. Specifically, reviewing asset allocations[25] to affirm that risk of capital[26] and loss of purchasing power are properly considered and balanced in portfolios. At the margin, we believe equity allocations should be reviewed and risk monitored[27] where needed to better align with one's specific risk profile. Unless this time is different, we are likely to experience a prolonged period of outperformance in Valuation-centric investing styles over the intermediate term. Of course, new data points continue to emerge. We commit to you that we will continue to monitor developments and keep you updated.

visionpoint ADVISORY GROUP

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IDEAS TO CONSIDER

Similar to comments expressed over the past few quarters, and our expectation for continued uncertainty and volatility in financial markets in 2024, we continue to recommend to clients of the firm stay diversified and scrutinize your long-term financial planning objectives. It is these planning objectives formulated in close consultation with the expertise of your advisor that should largely dictate macro-level asset allocation decisions.

Our current outlook continues to recognize the need for investors to defend against both rising prices and higher than average valuations[28] in large cap US equities. To defend against rising prices, an increased allocation to commodities[29] may prove beneficial as they did in 2020-2021. Furthermore, the Fed has indicated that interest rate hikes are finished, and if so, U.S. interest rates should be flat to lower in the coming year.

Finally, as we look ahead, and as personal circumstances dictate, it may be worth considering a greater tilt toward value-oriented and international (DM and EM) equities, high-quality intermediate duration fixed income, as well as an increased allocation to what are often times referred to as "alternative investments" (commodities,[30] tactical and/or hedged equity strategies as well as selective private credit or equity strategies). Monitoring balance sheet strength remains a focus in 2024.

In closing, on behalf of the entire Vision Point team, thank you for your continued trust and confidence.

Sincerely,

Scott

M. Scott Zachary
Chief Investment Officer

Past performance is no guarantee of future results. Diversification does not guarantee investment returns and does not eliminate the risk of loss. Bonds are subject to interest rate risks. Bond prices generally fall when interest rates rise. The price of equity securities may rise or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. Equity securities are subject to "stock market risk" meaning that stock prices in general may decline over short or extended periods of time.

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