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January 17, 2024

As 2023 began, the outlook was gloomy, and many predicted more pain to come. Markets had just come off a bruising 2022 with both stocks and bonds dropping by double digits. Since March of 2022, the Fed raised interest rates at the fastest pace in forty years to address rampant inflation. In 2023, the Fed still wasn't backing down. They declared they were ready to increase rates further, if necessary. According to the Wall Street Journal, strategists at investment banks and even musical artist Cardi B. agreed, a recession was coming. It is surprising the nuggets you come across when you read as much as we do.

Even given this sentiment, equity markets pushed higher. The bad news, however, just kept coming. In March, rising investment losses coupled with fleeing depositors led to some banks being seized by regulators. Stocks sold off but recovered as the failures were contained.

Soon another threat surfaced. Interest rates spiked over fears bond markets would be overwhelmed by the amount the government was issuing. Fearing the beginning of another rout, stock and bond markets erased much of their gains. Again, markets struggled back.

**2023 Returns and Economics**

Despite the pessimism, markets turned in a banner year. Or perhaps it was partially *because of the pessimism* since our experience tells us when the broad consensus is for one outcome, there is often a surprise coming. Inflation, that was running over 8%, has declined to a current 3.1%. Bond yields, which move inversely to price, declined from over 5% to 3.9% in the fourth quarter. For 2023 bonds, as measured by the Barclays Aggregate, rose 5.5% for the year.

A recession, which many believed was unavoidable, began to look less likely. The Dow Jones Industrial Average jumped over 16% for the calendar year. The S&P 500 bolted over a 26% gain. The S&P return comes with a bit of a caveat. The return of the index was largely driven by just seven high-volatility, tech stocks. Still, the average stock still produced solid returns.

As inflation and interest rates declined, other asset classes joined the party. Smaller companies, which are often seen as more susceptible to higher interest rates, surged in the fourth quarter. They ended up 17% for the year. International stocks turned in similar returns, up 18%.

**Our Approach to Market Advances and Declines**

Market movements, particularly over the last few years, have made several things clear. Markets are risky and usually defy short-term predictions. It has always been that way. That doesn't mean we are helpless. We believe that successful investing is about managing risk; not avoiding it. This is done by the careful examination of goals and prudent risk-aware portfolio construction. It involves mathematics, discipline, and a healthy dose of common sense. This process can manage the inevitable highs and lows to help get you where you want to go, rather than wherever you happen to wind up.

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**An Acknowledgment**

While this doesn't directly have much to do with market movements of 2023, we wanted to acknowledge someone special. Charlie Munger, master investor and Vice-Chairman of Berkshire Hathaway, passed away recently, just short of his 100th birthday. Over the years, we listened to him carefully and quoted him often. He was wise and didn't mince words. We will miss him.

Here are a few Charlie quotes on investing, business, and life:

> "It is remarkable how much advantage we have trying to be consistently not stupid, rather than trying to be highly intelligent."
>
> "The big money comes not from the buying and selling, but from the waiting."
>
> "Pick your clients as you would pick your friends."

Thank you, Charlie.

While we are gratified by the generous rewards that principled investing brought in 2023, we are not letting our guard down. There will be great years and challenging ones to come. We will strive to be disciplined and restrained in both.

We play the long game.

We appreciate the opportunity to serve you and your family. We will be in touch to review the year, the key financial decisions you face, and discuss any adjustments that need to be made to ensure those decisions remain aligned with your goals. In the meantime, if there is anything you need, just let us know.