

# Santa Claus Rally Rewards Many Investors

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**Daniel Wildermuth**  
Portfolio Manager, Asteria  
Strategies

Almost no one – including me – thought 2023 would be a great year for stocks, but the markets certainly proved most everyone wrong. For the year, the S&P 500 was up 24.6%, the NASDAQ surged 43.4%, while the Dow trailed with gains of 13.7%. During the fourth quarter, the S&P 500 was up over 11%, while both the Dow Jones and NASDAQ indexes recorded even

stronger returns of 12.5% and 13.6%, respectively (all returns are without dividends). The end of the year surge resulted largely from the growing belief that the Federal Reserve is likely to manage the impossible and deliver a “soft landing”.

Yet, as usual, the complete picture is more complicated. The University of Michigan’s sentiment index remains far below pre-pandemic levels and lately has been near low readings experienced after the 2008 financial crisis. Despite their pessimism, Americans increased their spending during the holiday season. People are still adjusting to prices which were 19% higher in November than they were before the Pandemic. It also appears that increased political polarization is hurting people’s outlooks. Americans are still sitting on a cash pile remaining after the pandemic, but they’re seeing the cash steadily decline. All these factors provide people with cash to spend, but they don’t seem to be happy spending it.

Looking overseas, the eurozone is almost certainly in a recession with the downturn in business activity deepening in December. Various surveys showed

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Expectations for a recession have steadily decreased, although growth is slowing. At this time a year ago, recession was seen as a virtual certainty. Now, less than half of corporate CEOs see a recession occurring and two thirds of investors have a “soft landing” as their base case. More importantly, only 23% of investors expect a “hard landing” or recession, according to a global fund managers’ survey from Bank of America in mid-December. This reversal of expectations recently propelled the S&P 500 to within only 5 points of its all-time high reached January 3, 2022.

deteriorating activity in both Germany and France and across services and manufacturing. China seems to be falling further into a pit of its own making with no plans to reverse its heading. Globally, the US remains one of the few countries with a near-term positive outlook.

A strong US jobs market, consumers apparently in a funk, loosening fed policy, a slowing economy and various other factors highlight two general contradictory signals; weaker expected growth, which is typically bad for stocks, and lower future rates, which

are typically good for stocks.

Looking forward into 2024, the market can certainly continue its upward march. However, given the current price to earnings ratio (PE ratio) of over 26, today's S&P 500 remains expensive. Historically, the market's average PE ratio is just over 16 going back about 100 years and above 20 over the past 25 years. The S&P 500 is ending the year on a nine-week winning streak, its longest such rally since January 2004. The market may keep heading up but, with U.S. stocks already expensive by historical measures, 2024 growth potential looks somewhat muted.

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