Monthly Commentary 3rd of January 2024

2023 started with low and declining expectations for global growth and heightened fears of a recession. However, against all odds, 2023 has been a splendid year for markets. The S&P 500 index rose 24%, MSCI Euro index was up 18% and Nikkei index up 28%. The only laggard was the U.K market with the FTSE 100 index reporting a gain of only 3.78% for the year. Emerging Market equities did not fare much better. The bond market has perked up after a historic downturn, one that briefly sent yields to highs not seen since before the 2008-09 financial crisis. Government bonds in the U.S, EU and UK were up by 4.11%, 7.15% and 3.62% respectively. Commodities were mixed for the year with Oil down 10.7% while Gold up 13%. The dollar as measured by the DXY Index was slightly down (-2.11%) while Bitcoin was up 157%.

December, the month of market predictions.

Predictions come and go in December. Every year this month investment strategists produce their forecasts for various indices and economic indicators. Below is the summary of Wall Street views produced by JP Morgan investment team.

Street Outlook Year-End 2024

	Fed Funds Q4 '24	10Y Q4 '24	Real GDP Q4 '24	Core PCE Q4 '24	SPX $ YE 2024
JPM PB	4.50-4.75	3.90	1.00	2.20	4,850
JPM IB	4.50	3.75	0.70	2.40	4,200
Bank of America	4.75	4.25	0.60	2.80	5,000
Morgan Stanley	4.50	3.95	1.60	2.40	4,500
Goldman Sachs	5.25	4.30	1.80	2.40	4,700
Wells Fargo	3.75	3.50	-0.20	2.30	4,625
UBS	2.75	3.60	1.10	1.80	4,600
Average (ex-PB)	4.25	3.89	0.93	2.35	4,604

Source: Individual sell-side 2024 outlook reports. Data as of November 29, 2023.

According to the above, Wall Street expects a 2024 growth slowdown (rather than a recession), with a Fed that will be cutting rates in 2024. On average, Wall Street firms expect positive total returns in both bonds and stocks, with an outperformance of bonds on a volatility-adjusted basis.

Similarly, Barron’s, one of the world’s premier investing publications recently canvassed six market strategists and chief investment officers about their market and economic forecasts for 2024. Their average year-end S&P 500 target: 4838.

Barron's : Wall Street Analyst Predictions

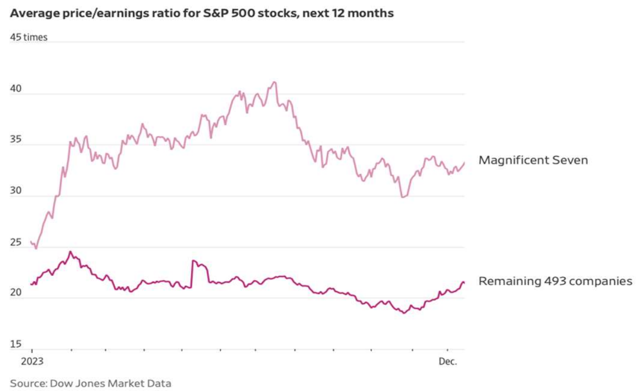
	Investor	2024 S&P 500 Target	2024 S&P 500 EPS Target	2024 10-Year Treasury Yield	Federal-funds Rate Target Range	Overweight	Underweight
	**Ed Yardeni** *President, Yardeni Research*	5400	$250	4.0%	4.75% - 5.00%	Energy, Financials, Industrials, Technology	Consumer Sta Utilities
	**Saira Malik** *Chief Investment Officer, Nuveen*	4950	$235	3.5%	4.75% - 5.00%	Materials, Real Estate	Consumer Dis Financials
	**Gargi Chaudhuri** *Head of iShares Investment Strategy Americas, BlackRock*	4850	$237	3.8%*	4.50% - 4.75%	Health Care, Quality, Large Cap	Consumer Sta Utilities
	**David Kostin** *Chief U.S. Equity Strategist, Goldman Sachs*	4700	$237	4.3%	5.00% - 5.25%	Energy, Health Care, Technology	Consumer Sta Estate, Utilitie
	**Chris Harvey** *Head of Equity Strategy, Wells Fargo Securities*	4625	$235	3.8%*	4.50% - 4.75%	Communication Services, Health Care, Technology Software, Utilities	Energy, Indus Technoogy H
	**Mike Wilson** *Chief U.S. Equity Strategist, Morgan Stanley*	4500	$229	3.95%	4.25% - 4.50%	Consumer Staples, Health Care, Utilities	Consumer Discretionary

Source: Barrons

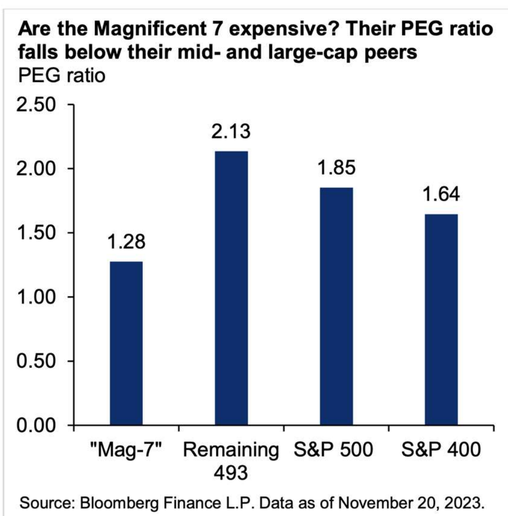
While it's good to be aware of these predictions, we cannot take them too seriously. According to a FactSet report, for the 20-year period of 2002 to 2021, the average S&P 500 calendar year-end price estimates, based on bottom-up stock forecasts, were off by an annual average of 8.3%. This is a huge margin of error and a timely reminder to not trade the markets but invest with a long-term strategy in mind.

The Magnificent Seven (Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta & Tesla)

These technology stocks were responsible for the bulk of index returns in 2023. One universal skepticism amongst the analyst community is that they are very expensive, and thus do not have much runway to grow. While it is true that by the most common valuation metric, the Price-to-Earnings Ratio (P/E), they are indeed very pricey versus the rest of the market (P/E of 33 vs 22).



On the other hand, these stocks have always been expensive. The main reasons are that they have high barriers to entry, very solid balance sheets, a large and growing total market that they sell their services to, good management and huge spending on R&D. If we also consider their growth prospects, they might be less dear than one might think. One metric that should be followed is the Price-Earnings to Growth (PEG) Ratio. The lower the ratio, the more attractive a company is. Bloomberg did an analysis of PEG ratios and the results below clearly point to decent value for these seven stocks.



We still believe there is long term value in many of these stocks, and that is why the top 5 (Apple, Microsoft, Alphabet, Amazon and Nvidia) have always been and continue to be a large part of our Best Ideas portfolios.

The Elgin Analysts Team

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