

FINANCIAL MARKETS UPDATE

JANUARY 2024

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www.goodmanfinancial.com



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This firm is not a CPA firm

WHAT WE WILL COVER TODAY

**EQUITY
MARKETS**

**FIXED
INCOME
MARKETS**

**THE
ECONOMY**

**FISCAL &
MONETARY
POLICY**



OUR VIEWS COMING INTO 2023

- ✓ **“We believe a core inflation rate of 4.0% for 2023 is possible, but importantly, also believe the inflation rate might glide down to the low-mid 3% range exiting the year.”**
- ✓ **“...the Fed will have cover to begin an easing cycle possibly later this year and into 2024.”**
- ✓ **“We now think that we will see a U.S. economic recession to begin around the middle of 2023, but believe the odds are for a shorter and shallower one rather than a deeper and longer one.”**
- ✓ **“We believe stocks will be higher for the year...”**



OUR VIEWS AS WE ENTER 2024

- ✓ **“We would not be surprised if we saw a 10% correction in early 2024”**
- ✓ **“We believe stocks will end up higher for the year, but...gains will be more muted than those we saw in 2023”**
- ✓ **“We believe that gains will broaden out among stocks, especially small and mid-cap ones relative to mega-cap stocks”**
- ✓ **“We believe core inflation is probably going to be sticky near the current 3% level for a while”**
- ✓ **“We expect the 10-year Treasury rate to top 4% in 2024 and...exceed 5% before the year is over”**
- ✓ **“Our current view...is that the U.S. will see a recession in 2024”**

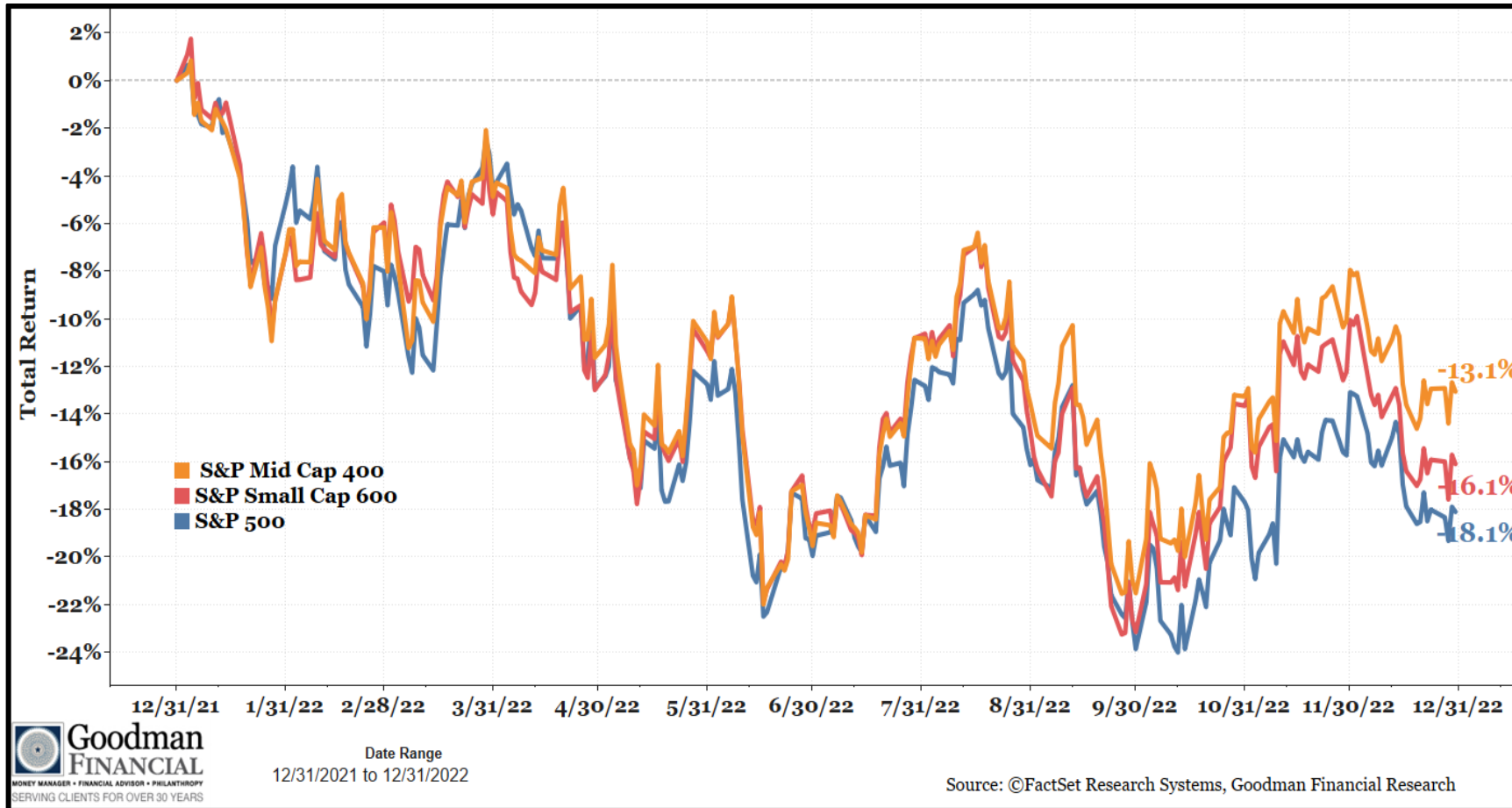


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EQUITY MARKETS

RECALL THAT 2022 WAS A VERY UGLY YEAR!



Including dividends

“We believe stocks will be higher for the year...” WERE THEY EVER EVER!!

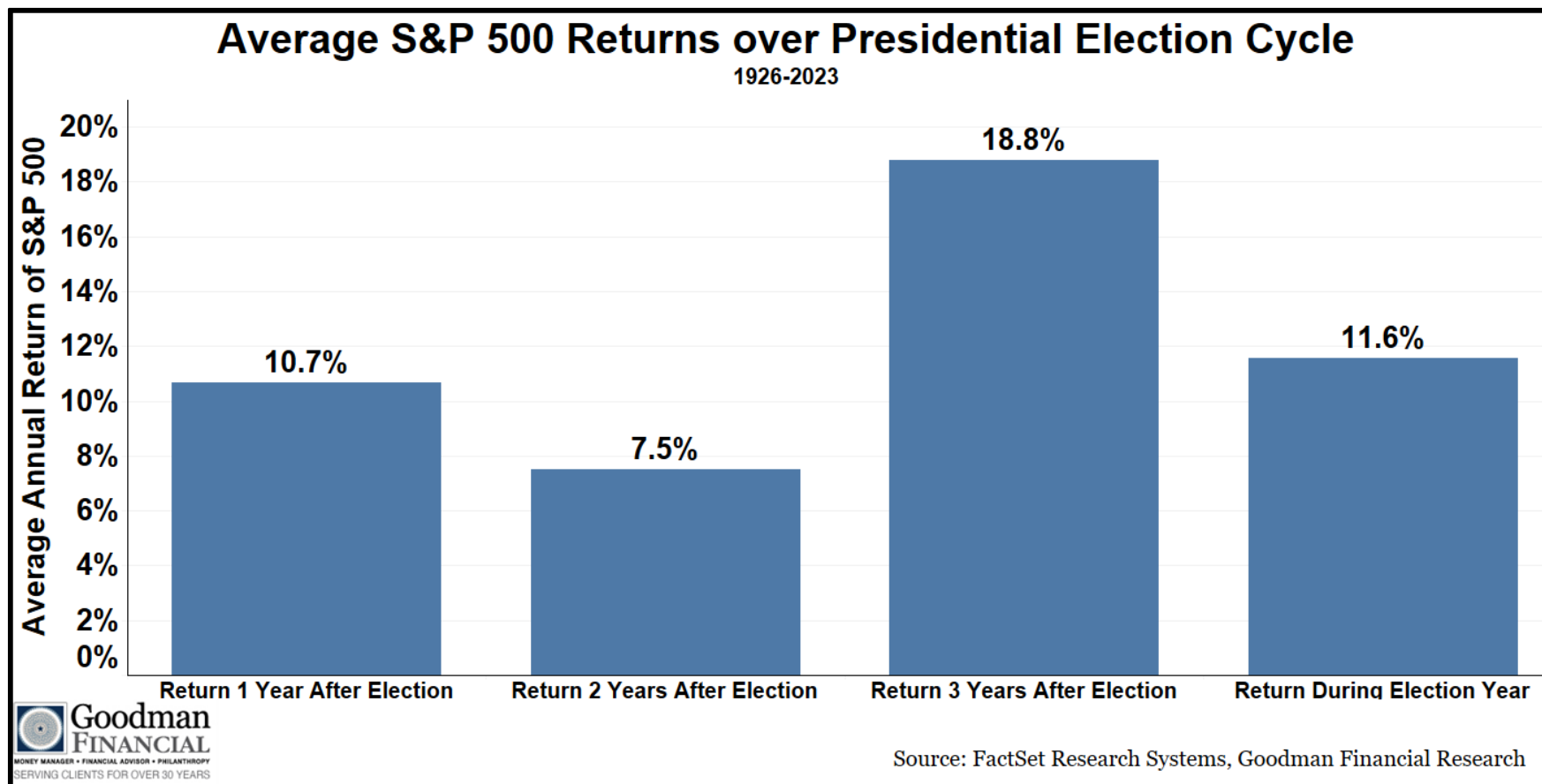
Table Comprised of the Following Indexes:

- S&P 500 Large-Cap Total Return Index
- S&P 500 Large-Cap Value Total Return Index
- S&P 500 Large-Cap Growth Total Return Index
- S&P 400 Mid-Cap Total Return Index
- S&P 400 Mid-Cap Value Total Return Index
- S&P 400 Mid-Cap Growth Total Return Index
- S&P 600 Small-Cap Total Return Index
- S&P 600 Small-Cap Value Total Return Index
- S&P 600 Small-Cap Growth Total Return Index

	Value	Blend	Growth
Large	22.2%	26.3%	30.0%
Mid	15.4%	16.4%	17.5%
Small	14.9%	16.1%	17.1%

Data as of 12/31/23; Including dividends

PRESIDENTIAL ELECTION CYCLE 2023 RETURNS WERE TRUE TO CYCLE!



DOUBLE DIGIT LOSSES TYPICALLY FOLLOWED BY GAINS – 2023 NO EXCEPTION!

Year	S&P 500 Annual Return	Subsequent Year Return
1937	-34.7%	30.8%
1941	-11.6%	20.1%
1957	-10.7%	43.1%
1966	-10.0%	23.9%
1973	-14.7%	-26.3%
1974	-26.3%	37.1%
2001	-11.9%	-22.1%
2002	-22.1%	28.7%
2008	-37.0%	26.5%
2022	-18.1%	26.3%
Average		18.8%

Source: S&P Dow Jones Indices LLC. Data as of 12/31/23

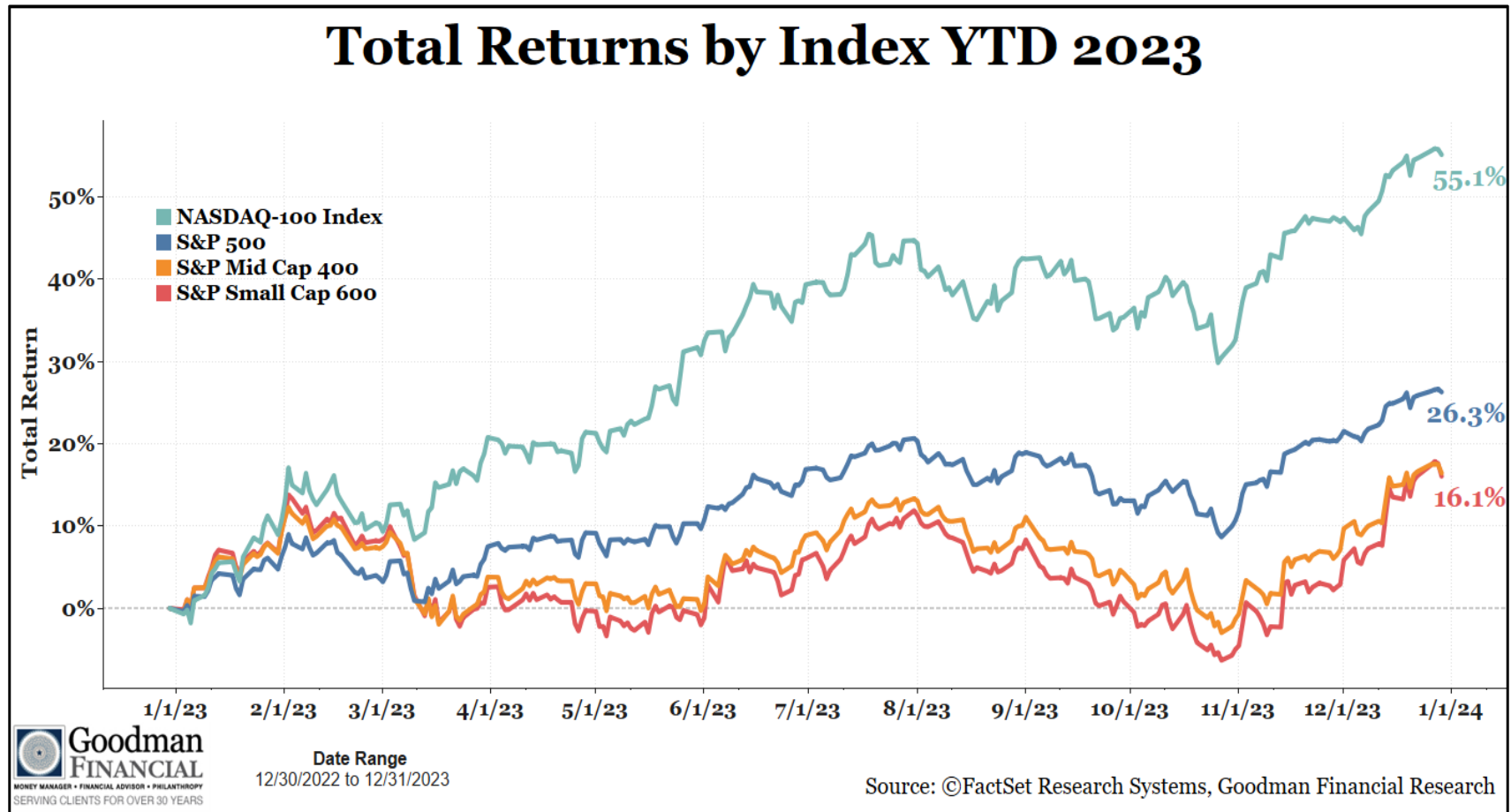
WHAT A LONG, STRANGE (ROUND TRIP) IT'S BEEN



Data as of 12/31/23

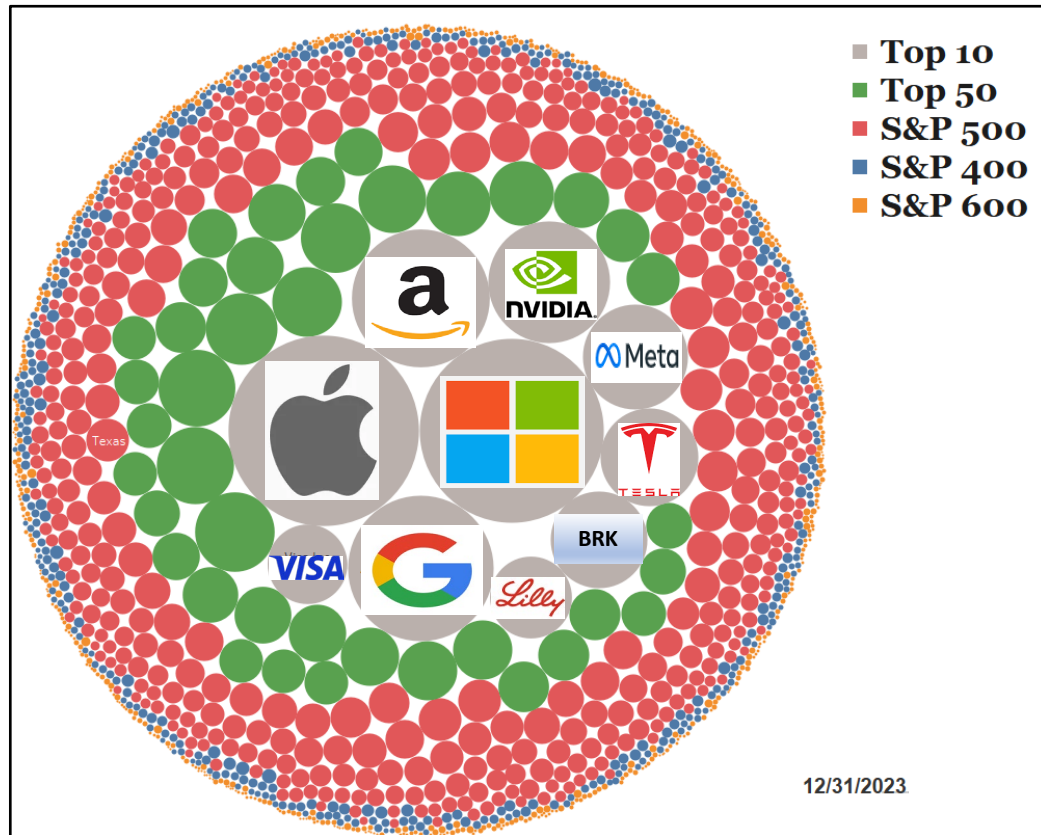
VARIOUS INDEX RETURNS

MEGA-CAP STOCK RETURNS SKEW S&P 500



Data as of 12/31/23; Including dividends

TOP HEAVY? S&P 1500 COMPANIES BY MARKET CAP



10 Largest Companies

32% of S&P 1,500

50 Largest Companies

54% of S&P 1,500



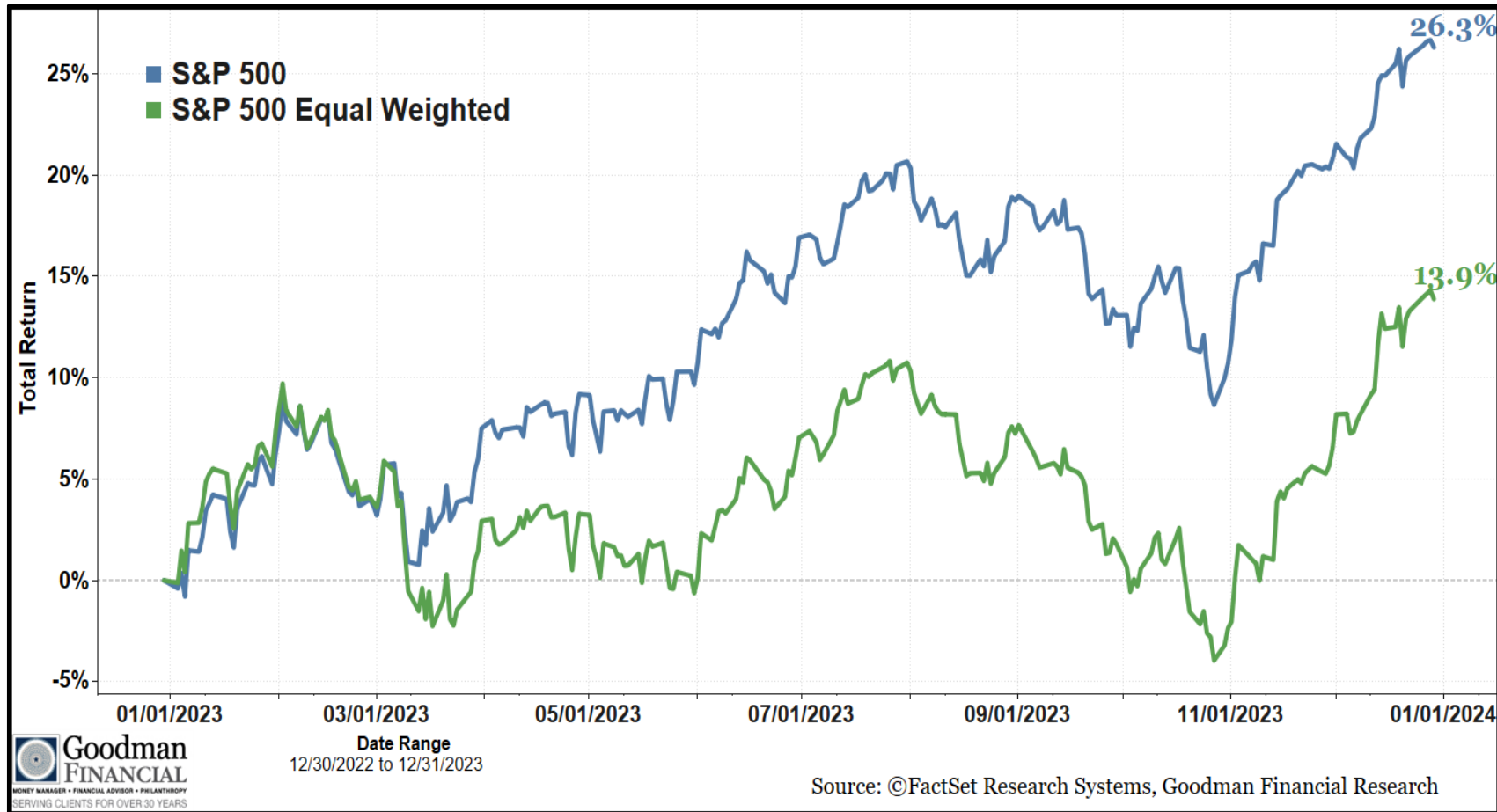
Source: PiperSandler

Market capitalizations are as of 12/31/2023

Source: FactSet

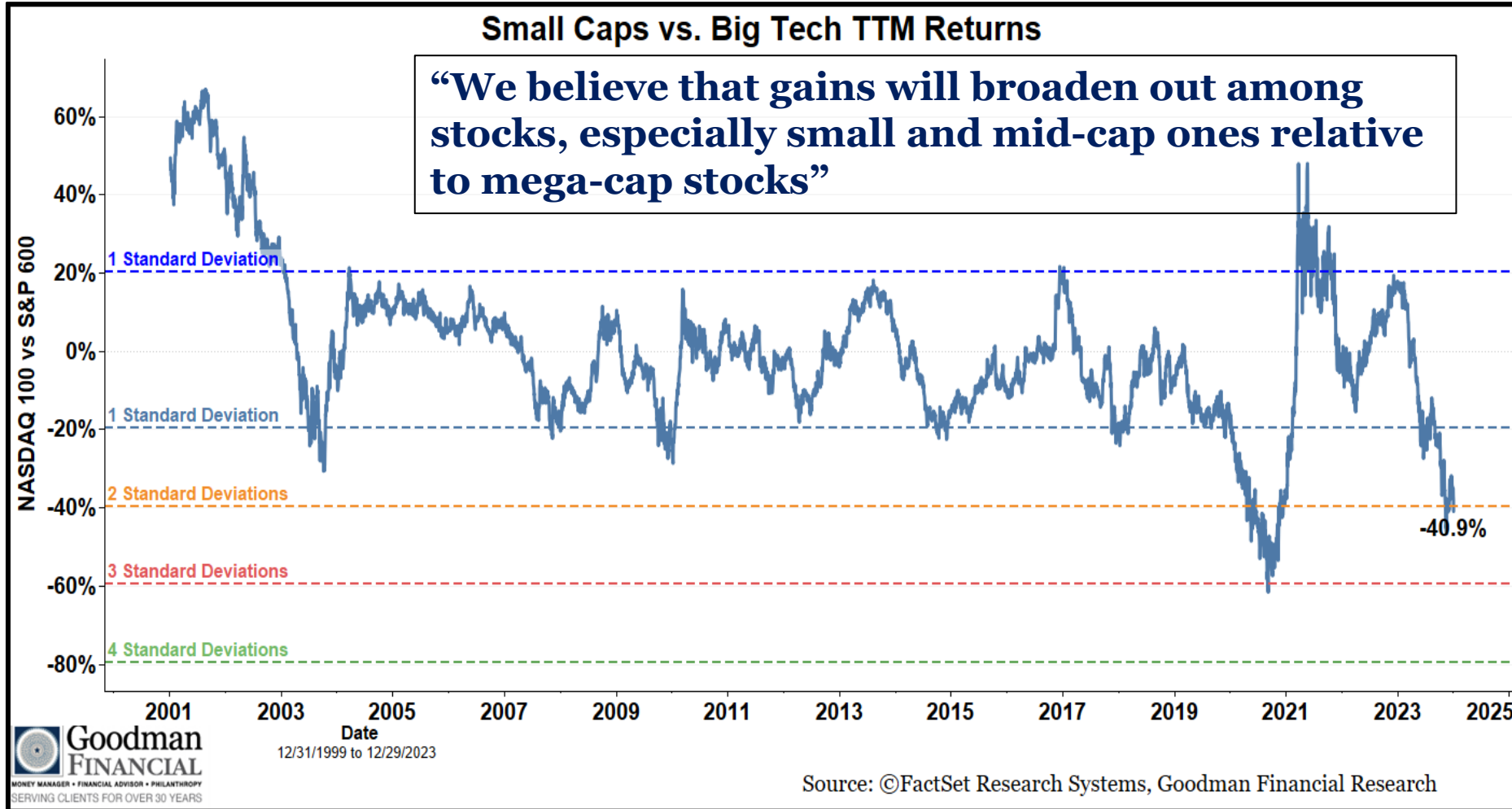
Note: Companies by market capitalization shown to scale

S&P 500 MARKET CAP VS. EQUAL WEIGHTED TWO VERY DIFFERENT INDICES



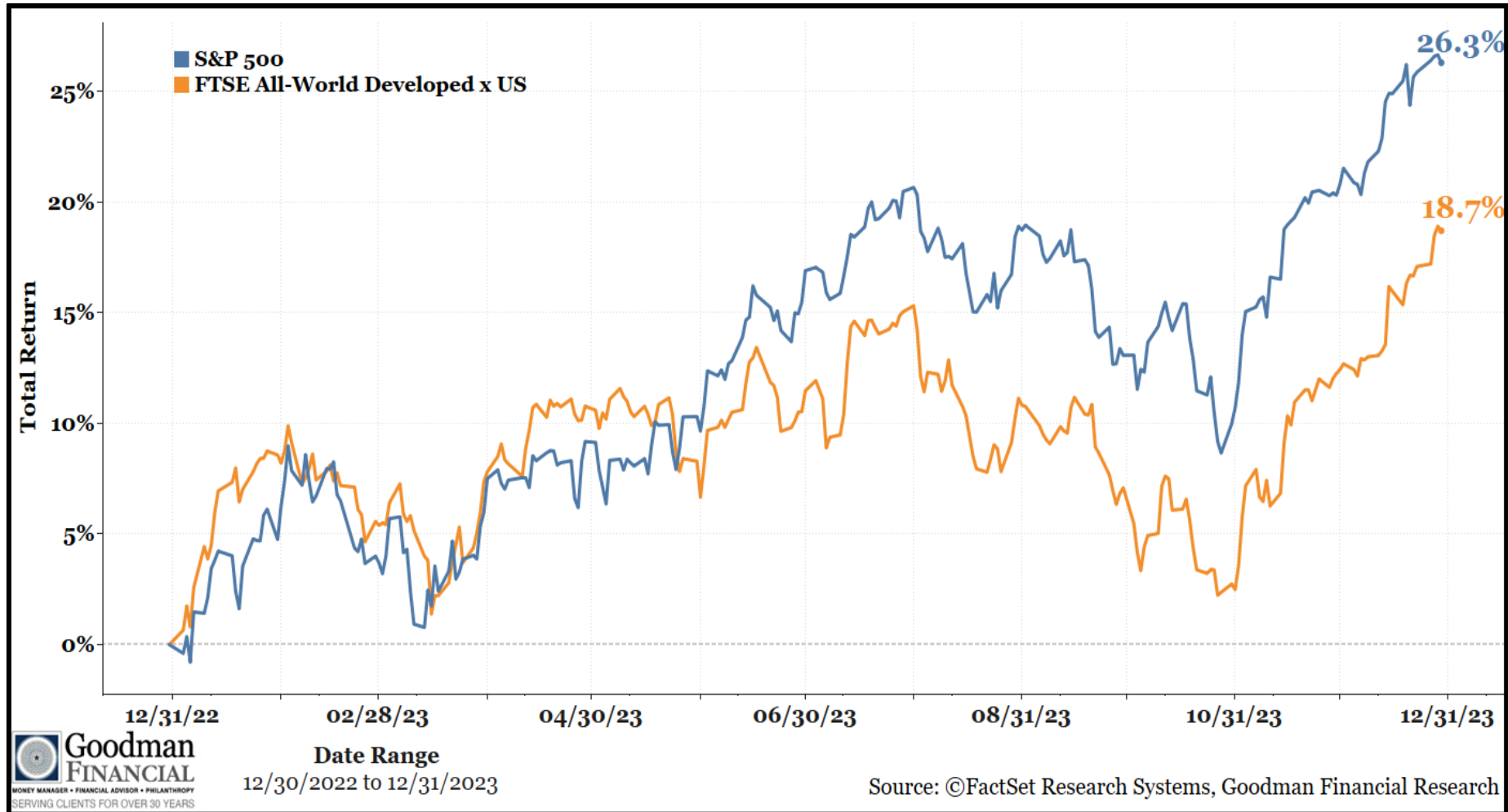
Data as of 12/31/23; Including dividends

SMALL CAPS POISED TO OUTPERFORM



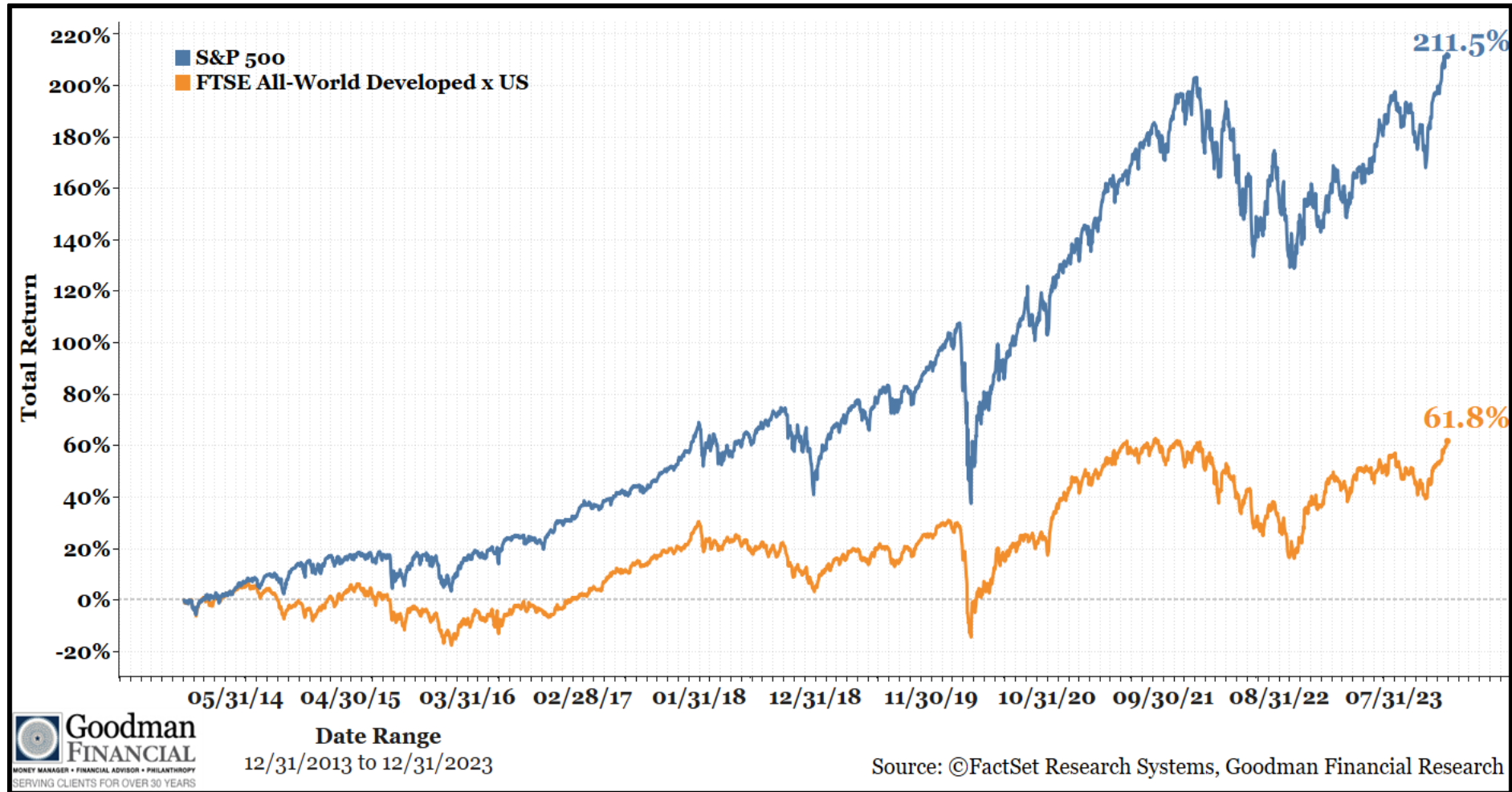
Data as of 12/31/23

INTERNATIONAL STOCKS LAGGED THE U.S. IN 2023



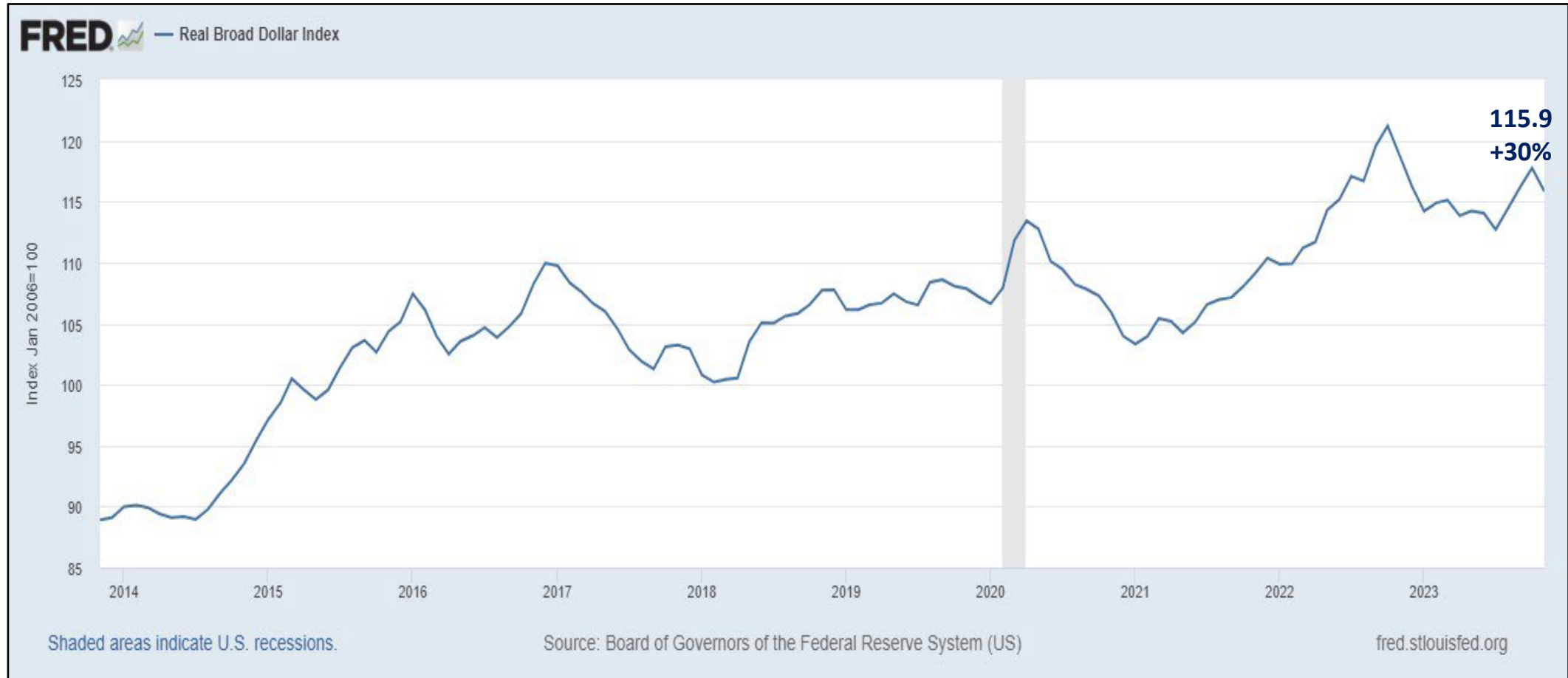
Data as of 10/31/23

AND, TROUNCED OVER THE LAST TEN YEARS



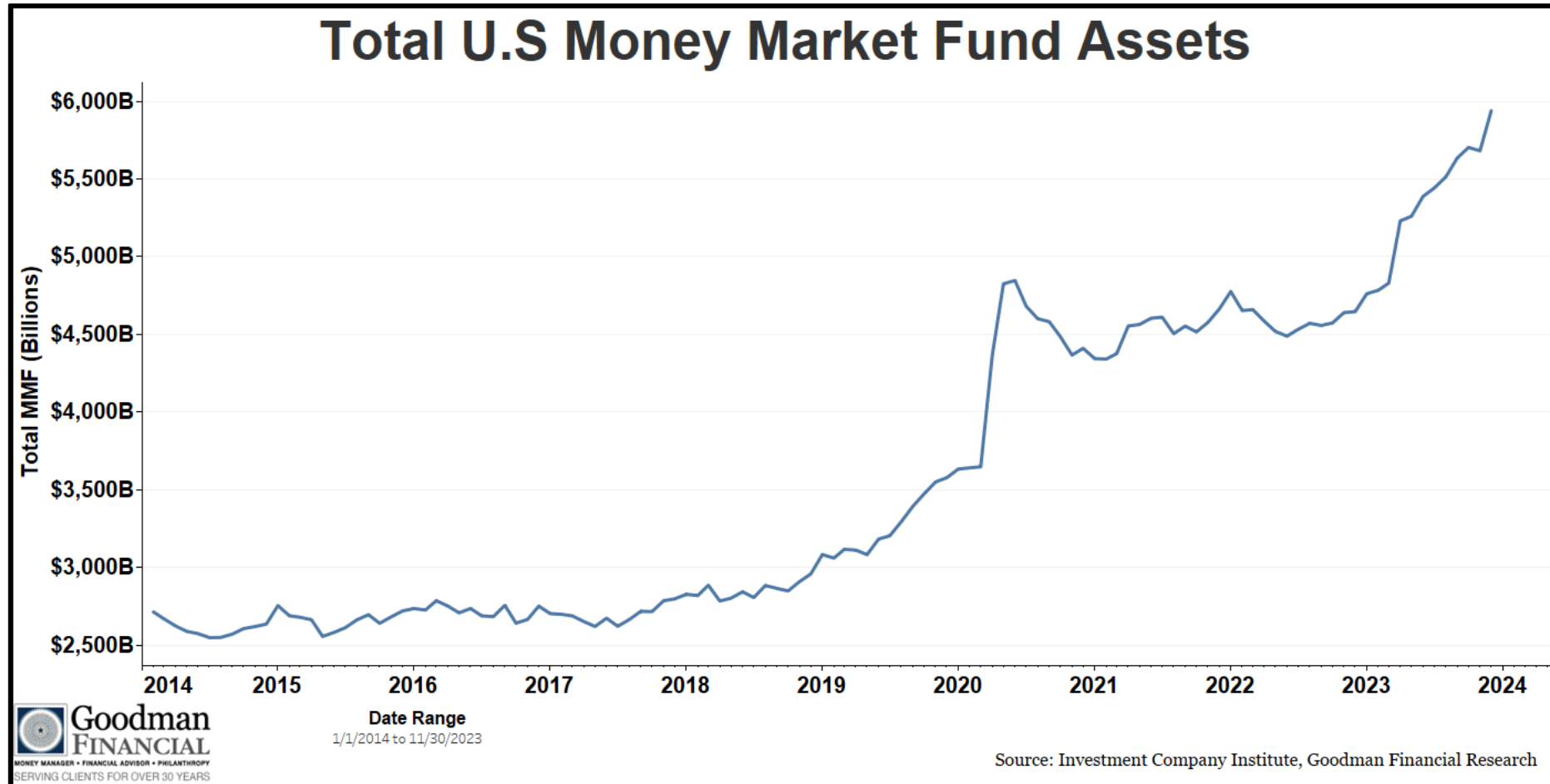
Data as of 12/31/23

PARTIALLY DUE TO A STRONG U.S. DOLLAR (November 2013 – November 2023)



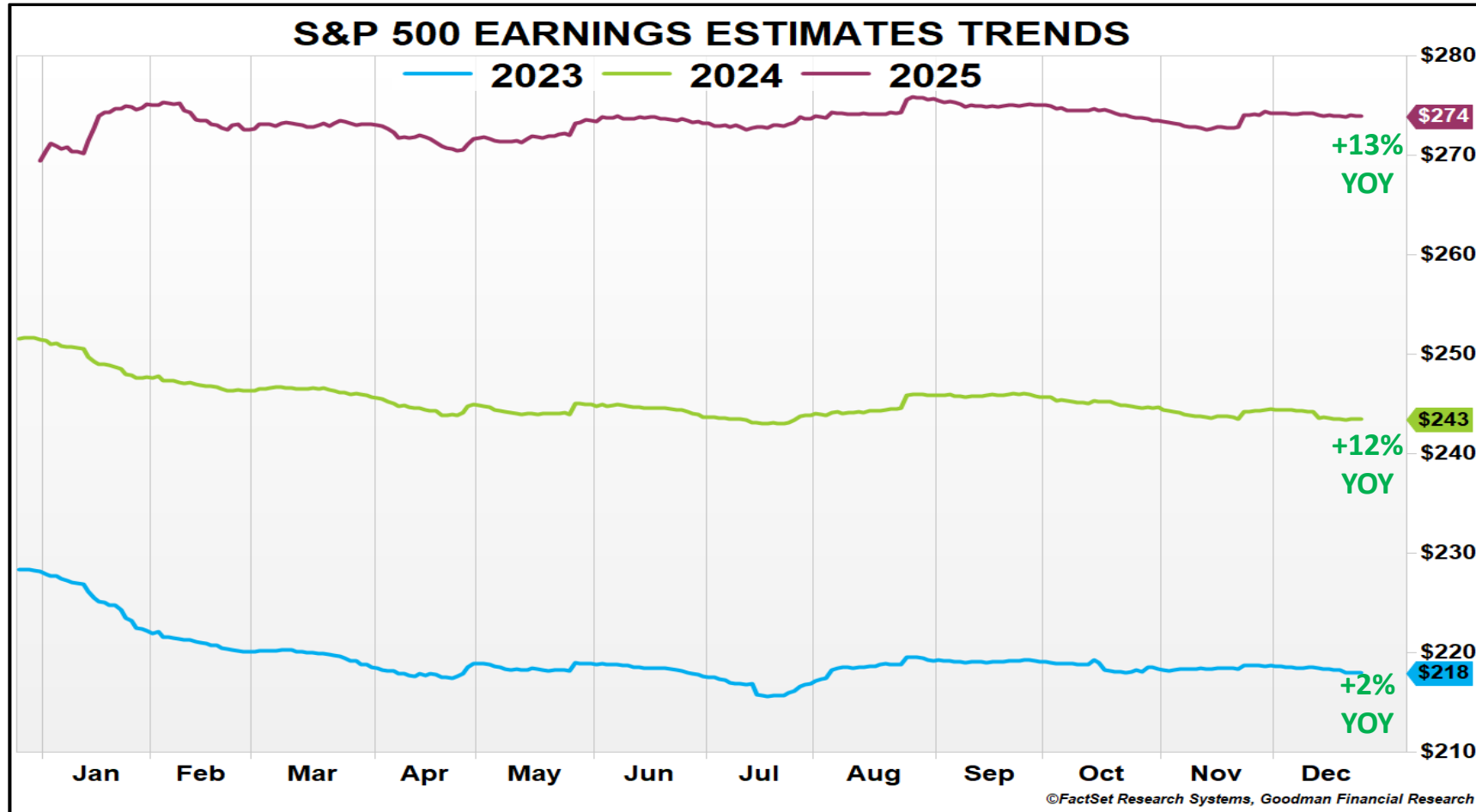
Real Trade-Weighted U.S. Dollar Index: Broad, Goods & Services, January 2006=100

LOTS OF BUYING POWER LEFT



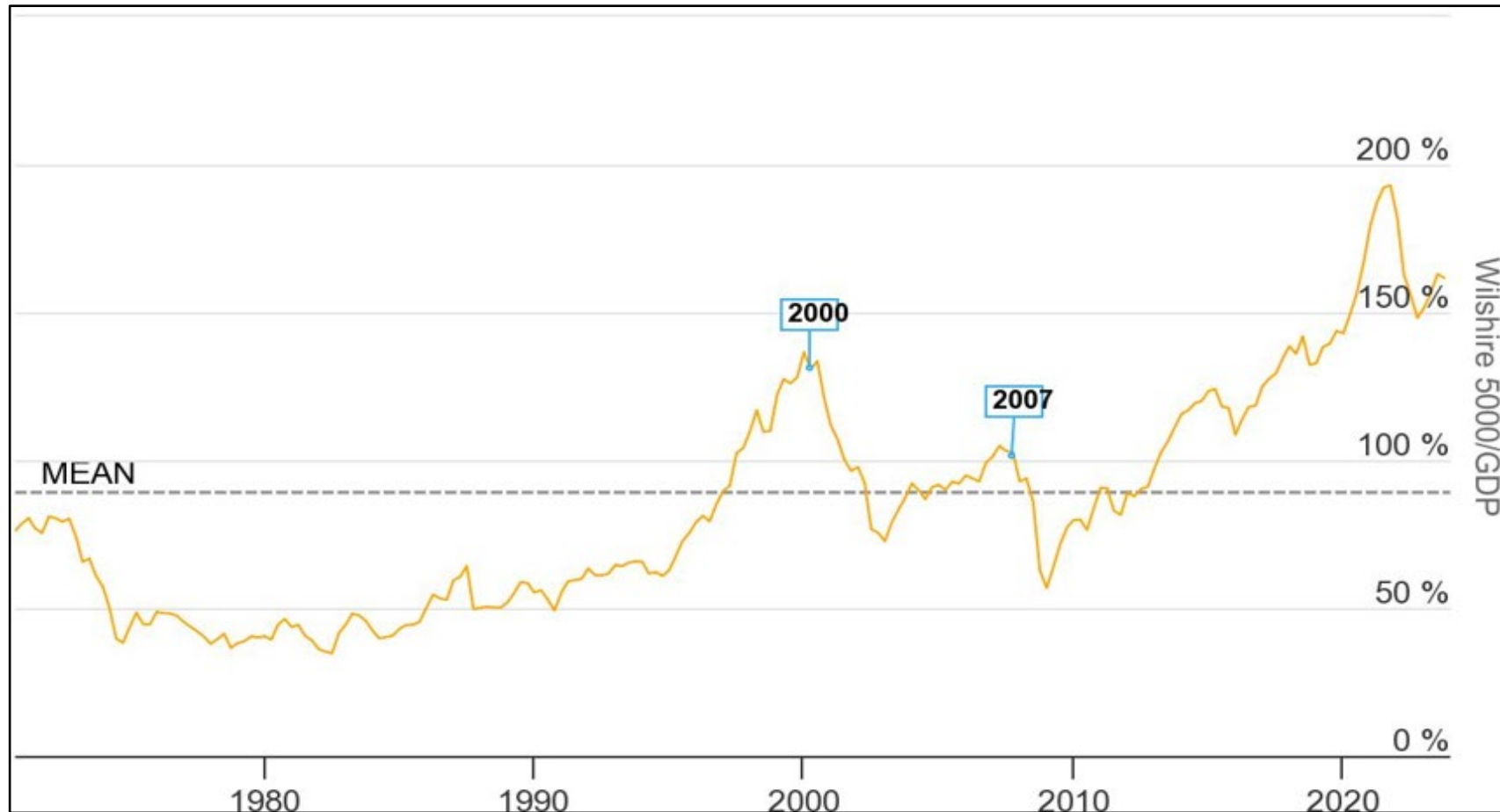
Data as of November 2023

S&P 500 EARNINGS ESTIMATES *NOT PRICING IN A RECESSION*



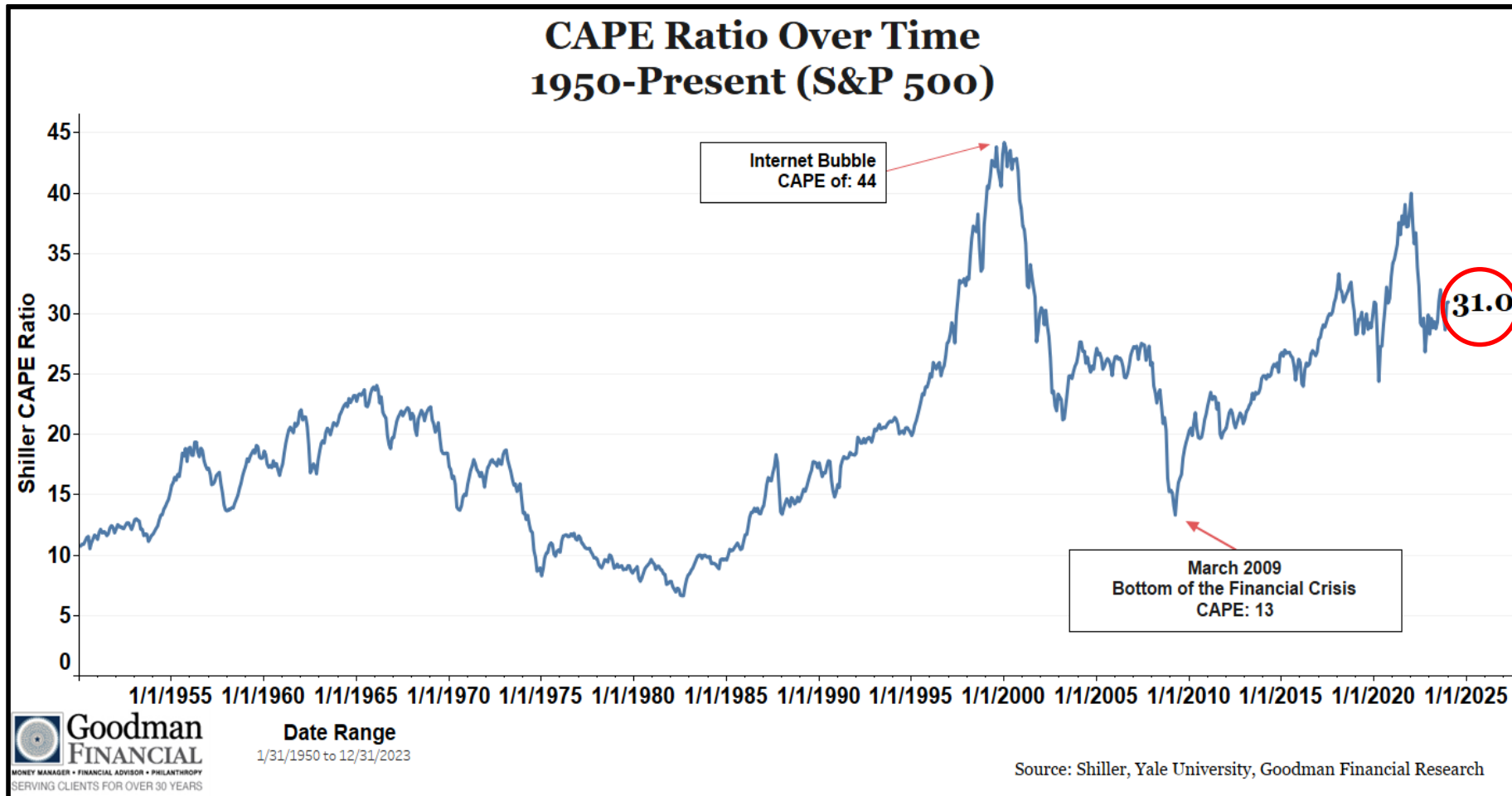
Data as of 12/26/23

“BUFFET INDICATOR” NEAR HISTORIC HIGHS TOTAL U.S. MARKET CAP/GDP



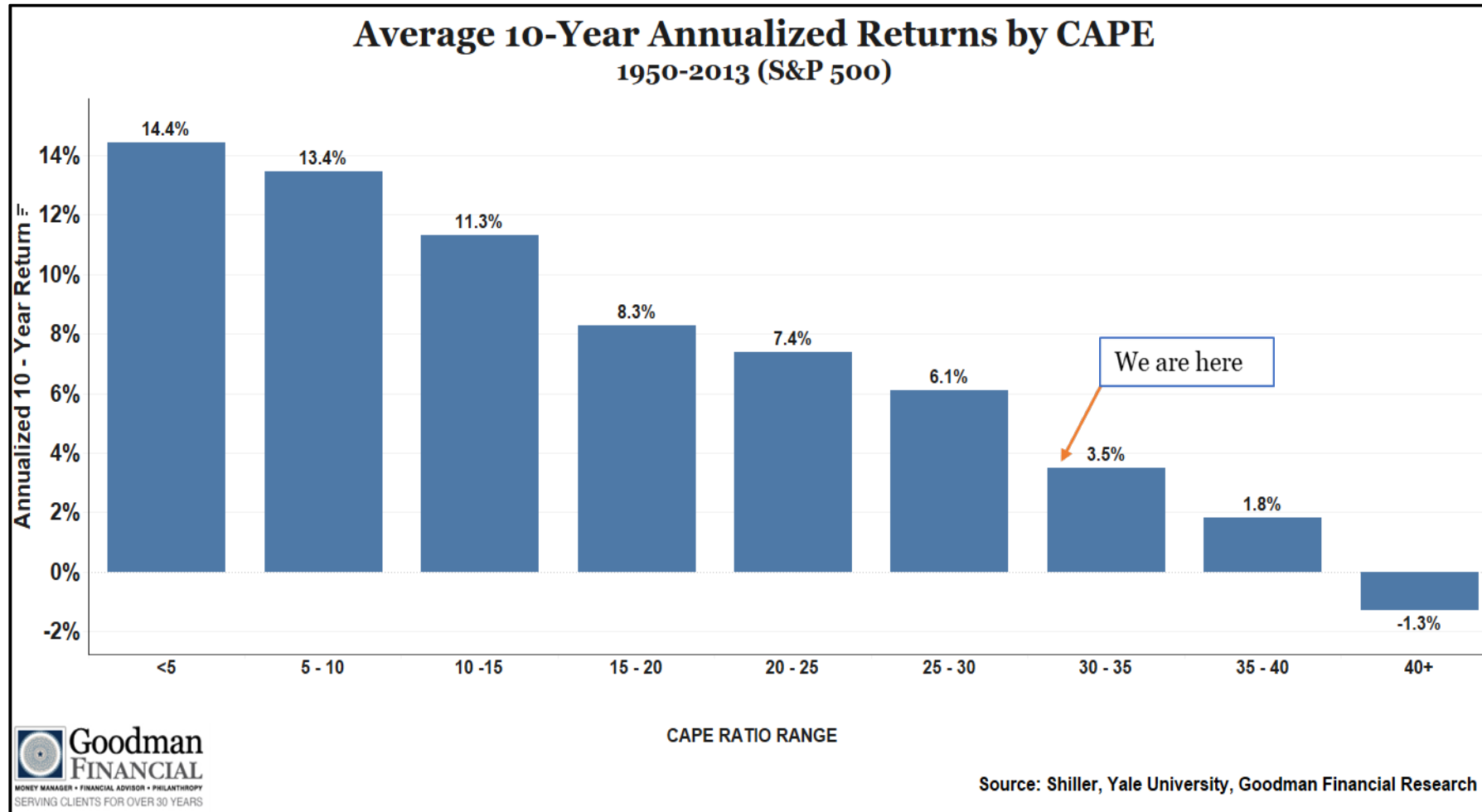
Source: Longtermtrends.net; December 1970 – December 2023

SHILLER CAPE RATIO



Data as of 12/31/23

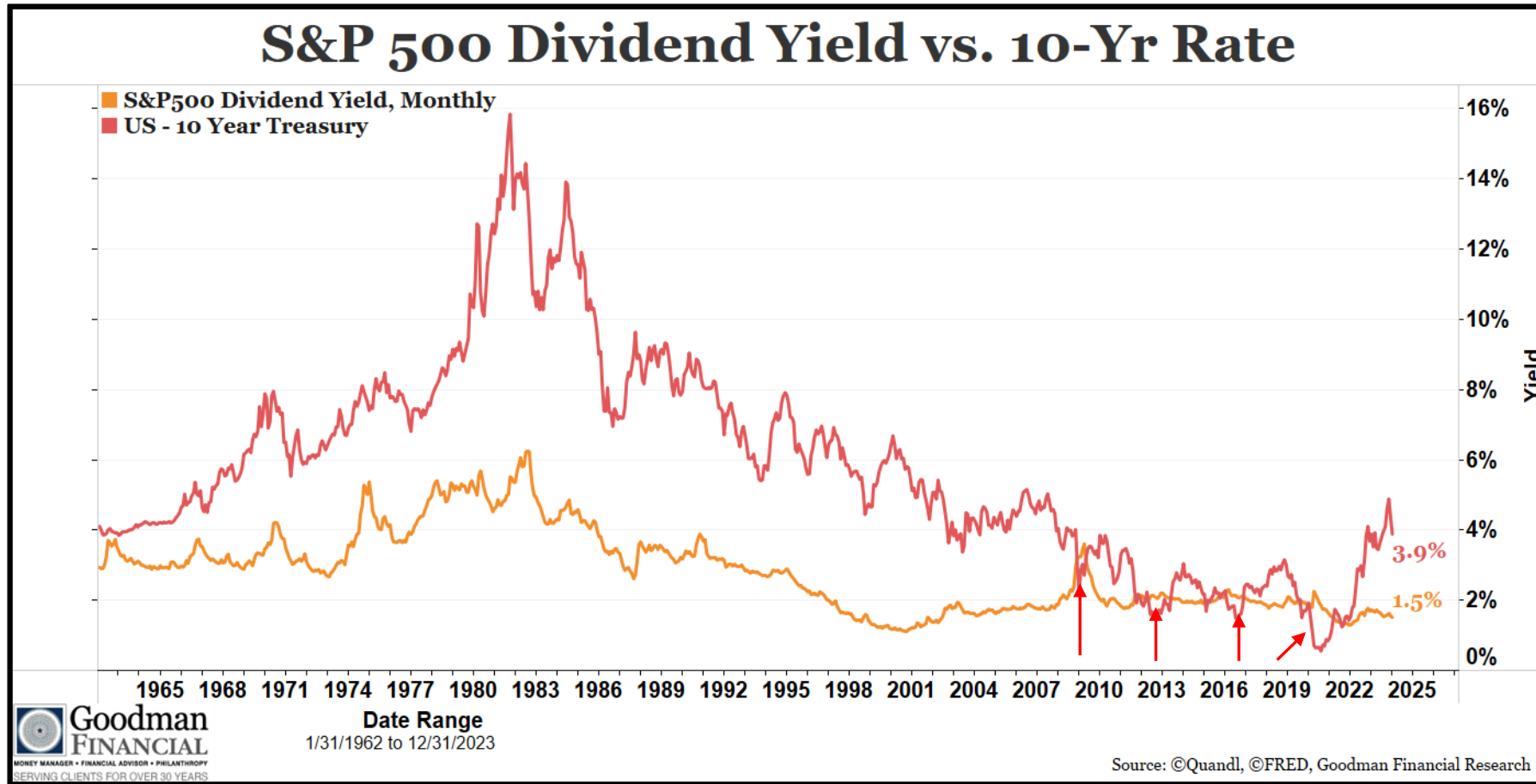
CAPE RATIO & 10-YEAR FORWARD RETURNS



Data as of 10/31/23

TINA IS DEAD!

“**T**HERE **I**S (WAS!) **N**O **A**LTERNATIVE”



Data as of 12/31/23

A LOOK AT ELECTION YEARS SINCE 1928

S&P 500 RETURNS ARE POSITIVE IN 20 OF 24 ELECTION YEARS

Historical U.S. Presidential Election Results		
Election Year	President Elected	S&P 500 Index Total Returns
2020	Biden	18.3%
2016	Trump	12.0%
2012	Obama	16.0%
2008	Obama	-37.0%
2004	Bush W	10.9%
2000	Bush W	-9.1%
1996	Clinton	23.1%
1992	Clinton	7.7%
1988	Bush HW	16.8%
1984	Reagan	6.3%
1980	Reagan	32.4%
1976	Carter	23.8%
1972	Nixon	19.0%
1968	Nixon	11.1%
1964	Johnson	16.5%
1960	Kennedy	0.5%
1956	Eisenhower	6.6%
1952	Eisenhower	18.4%
1948	Truman	5.5%
1944	Roosevelt	19.8%
1940	Roosevelt	-9.8%
1936	Roosevelt	33.9%
1932	Roosevelt	-8.2%
1928	Hoover	43.6%

S&P 500 Index Total Returns During Presidential Election Years (1928-2020)	
U.S. Presidential Election Results	Average Return
A Republican was Elected (11)	15.3%
A Democrat was Elected (13)	8.5%
A Republican Incumbent was Re-elected (4)	10.7%
A Democrat Incumbent was Re-elected (5)	16.6%

Returns including dividends

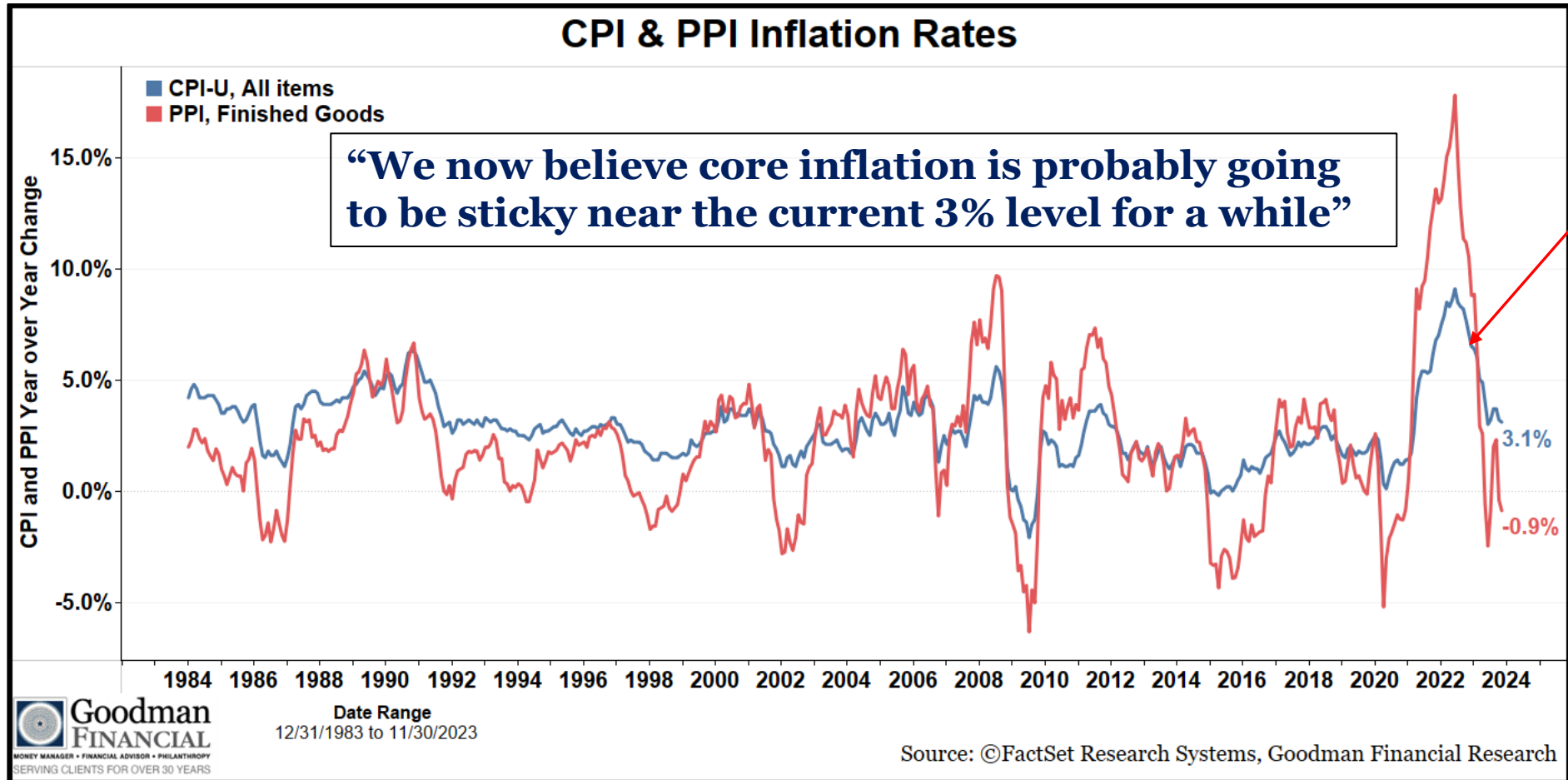


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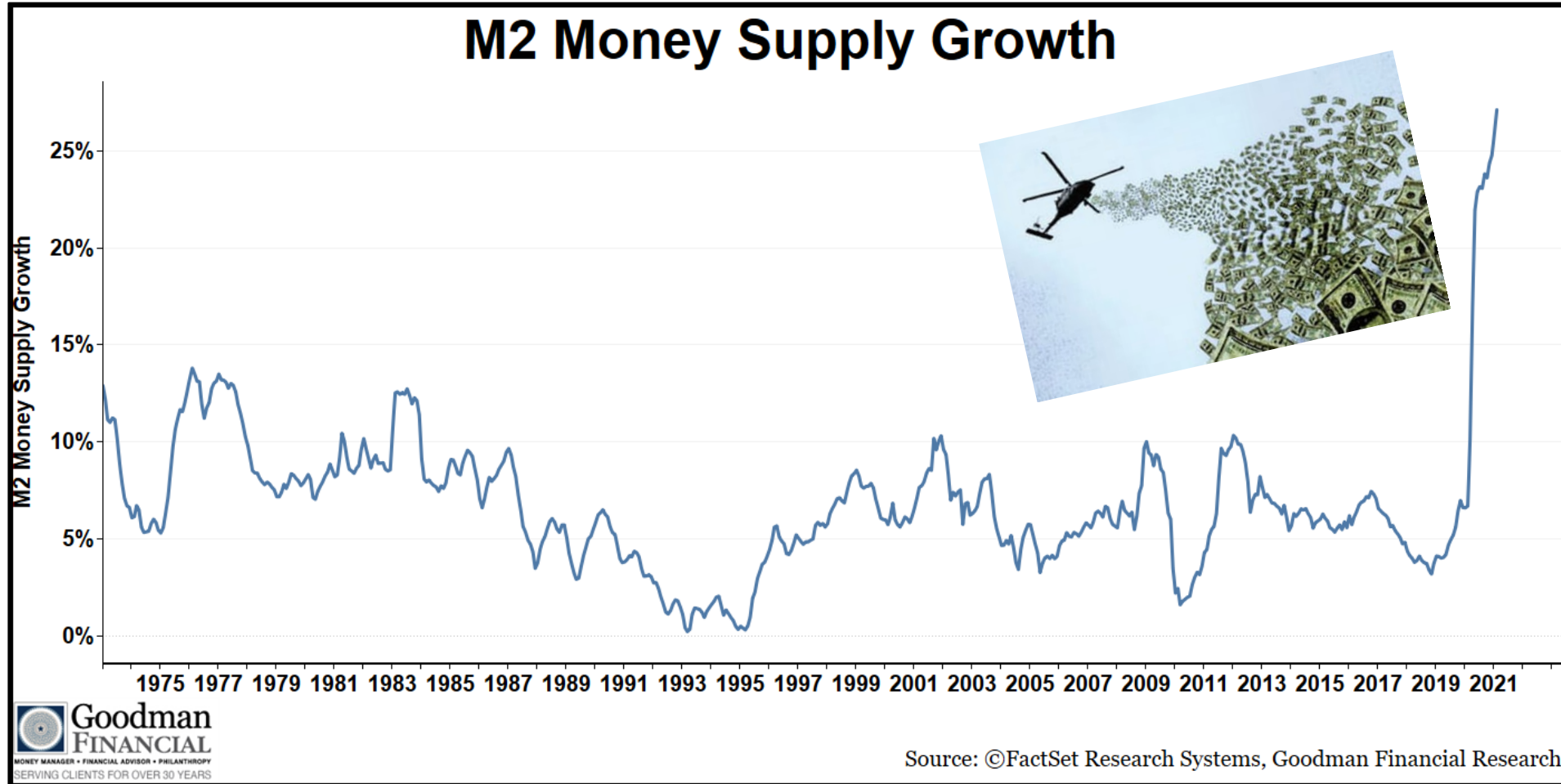
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“We believe a core inflation rate of 4.0% for 2023 is possible, but importantly, also believe the inflation rate might glide down to the low-mid 3% range exiting the year.”

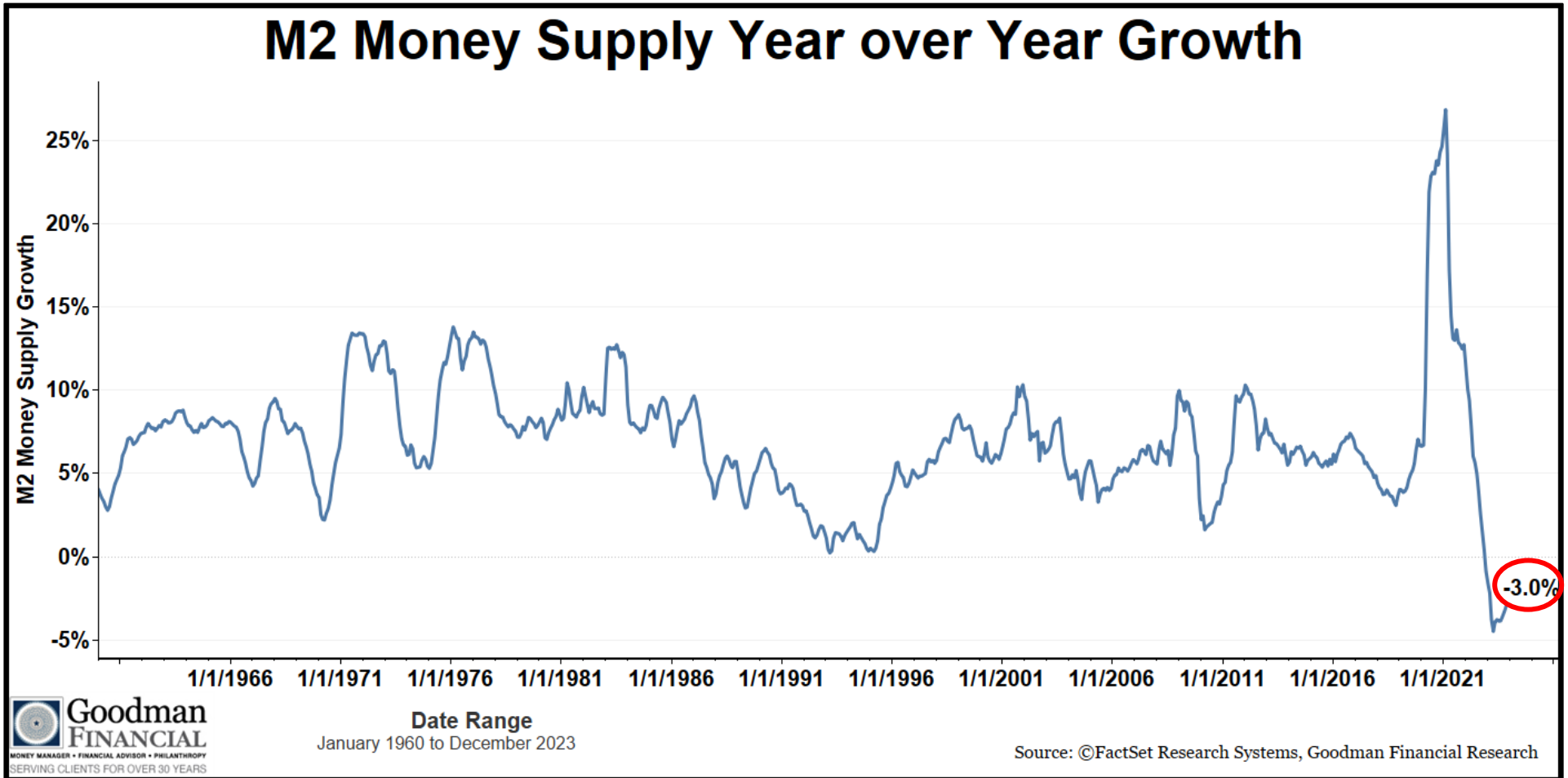


BIGGEST INCREASE IN MONEY SUPPLY SINCE WWII



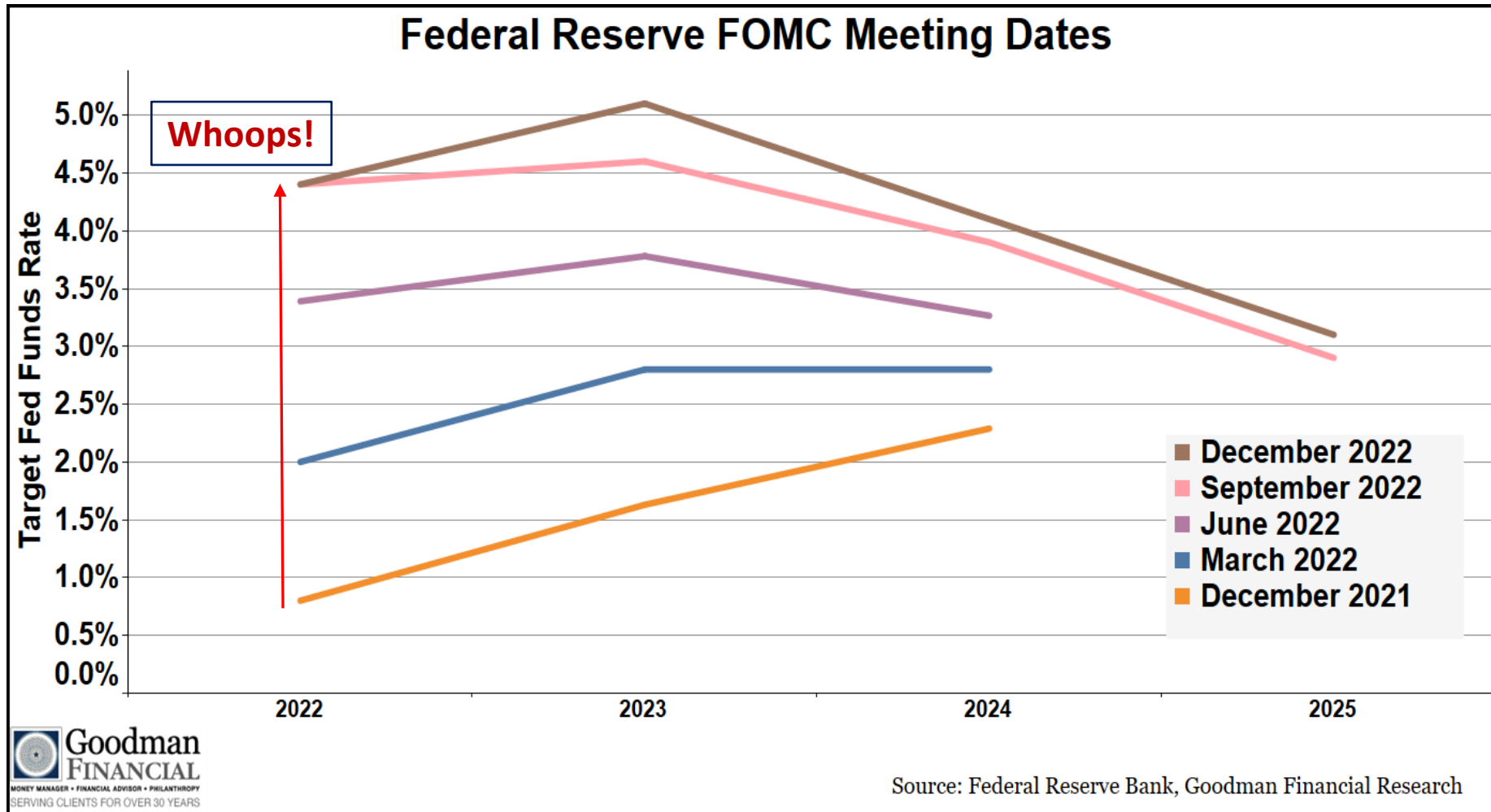
Data as of **May 2020**

MONEY SUPPLY IS NOW SHRINKING

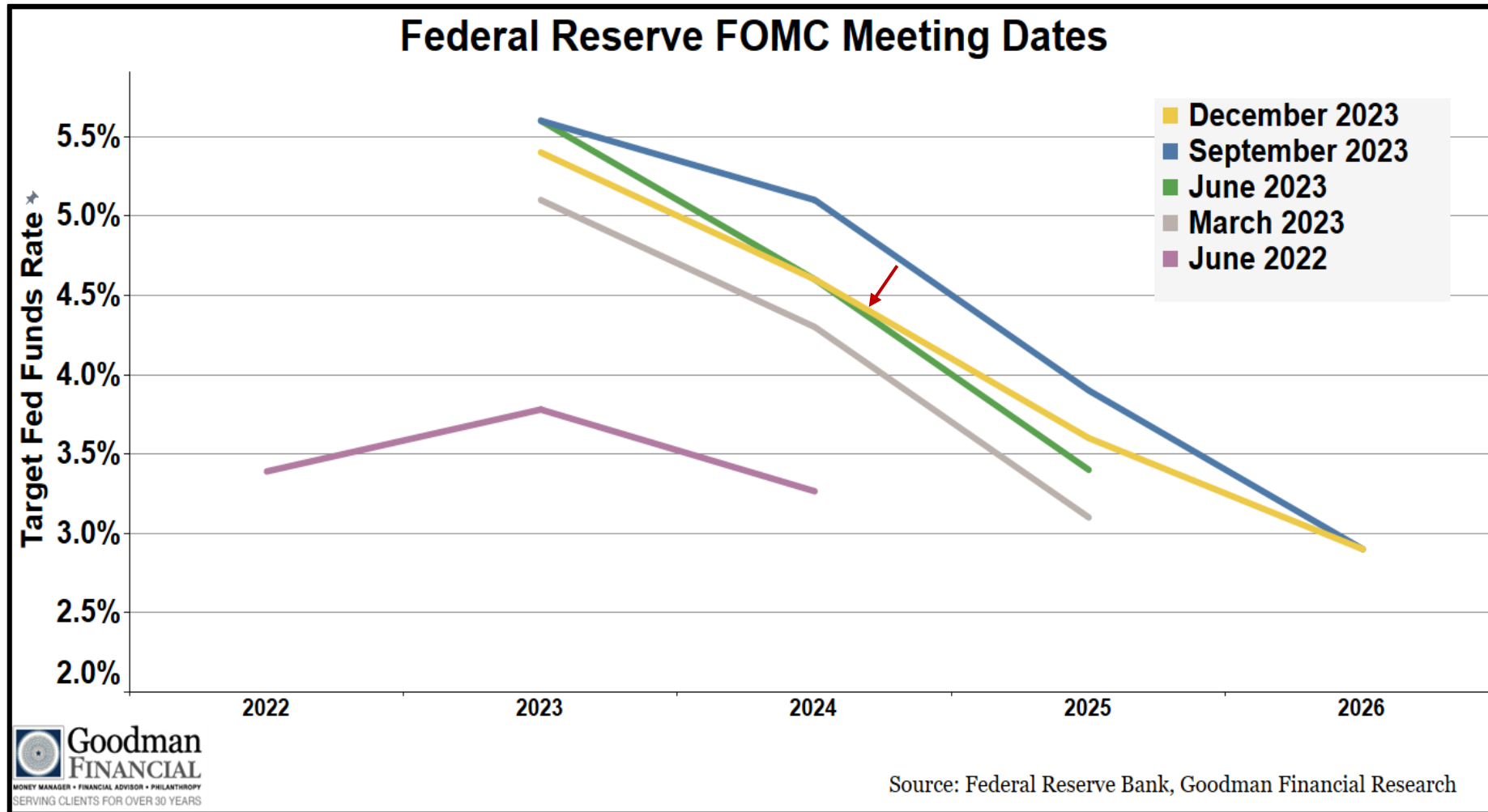


Data as of December 2023

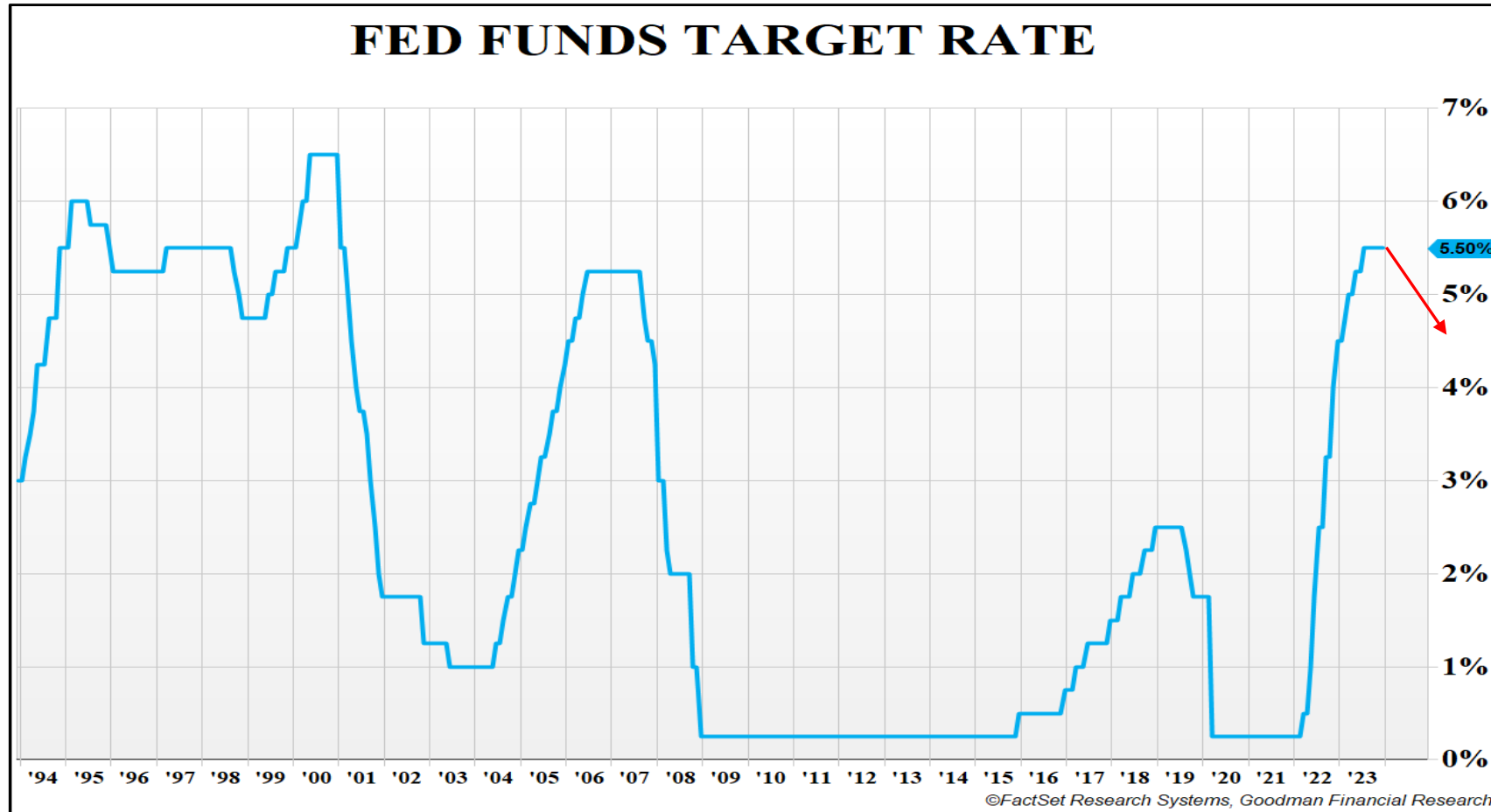
JUST A REMINDER HOW BAD THE FED MISSED IT



NOW, THE FED IS ON PAUSE AND SIGNALING CUTS IN '24

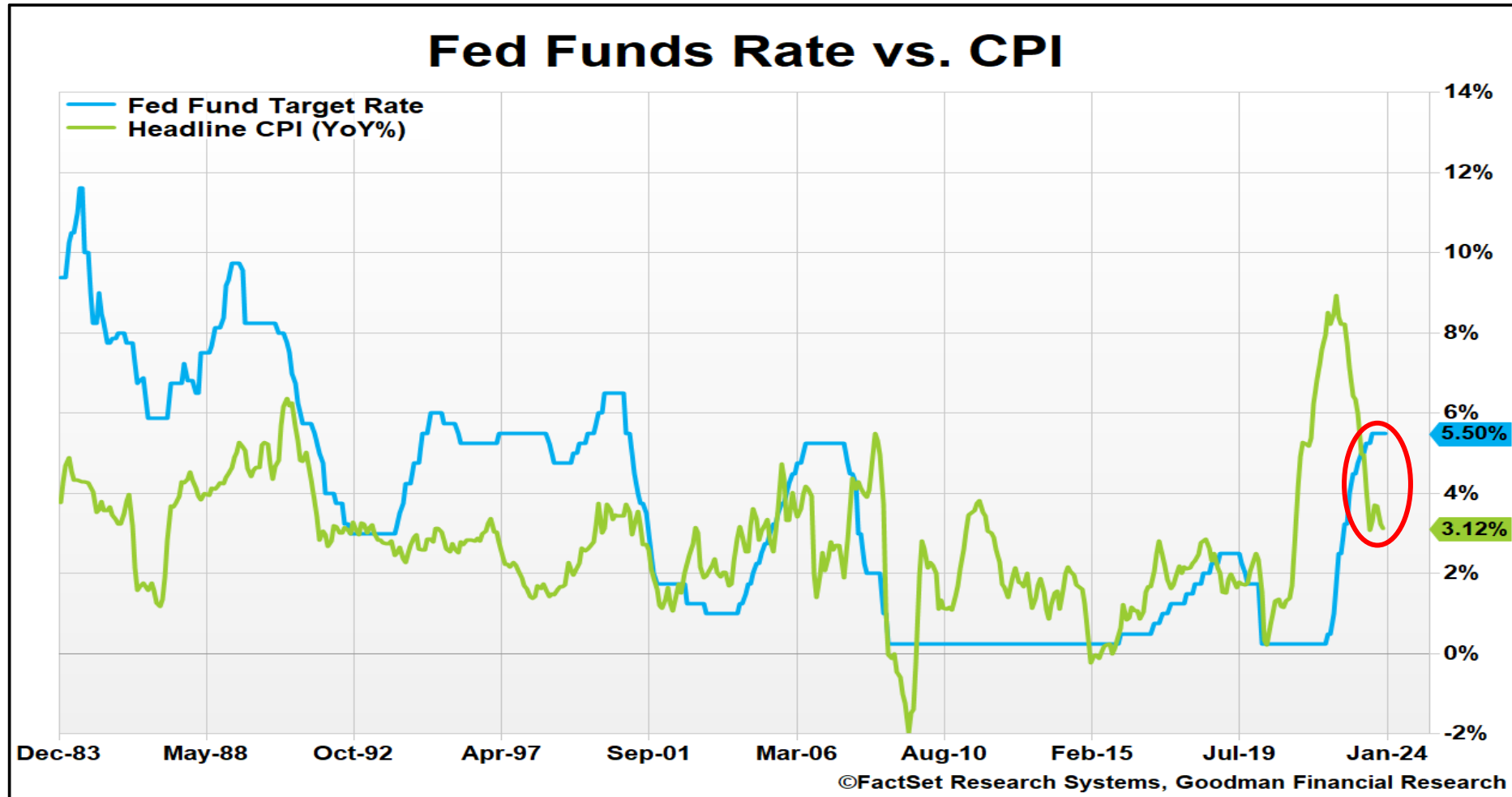


“...the Fed will have cover to begin an easing cycle possibly later this year and into 2024.”



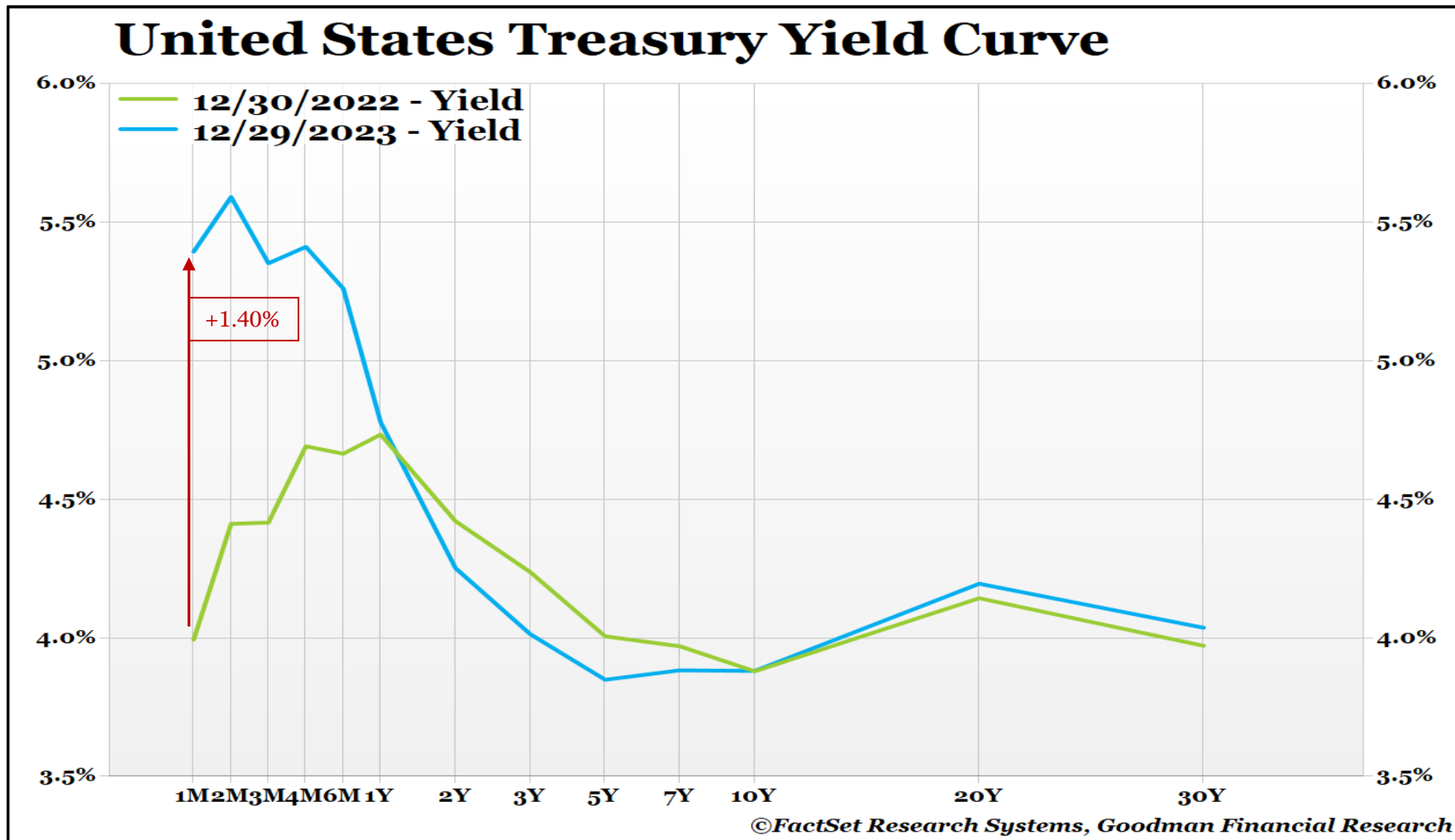
Data as of 12/31/23

FINALLY, BACK TO POSITIVE “REAL” RATES



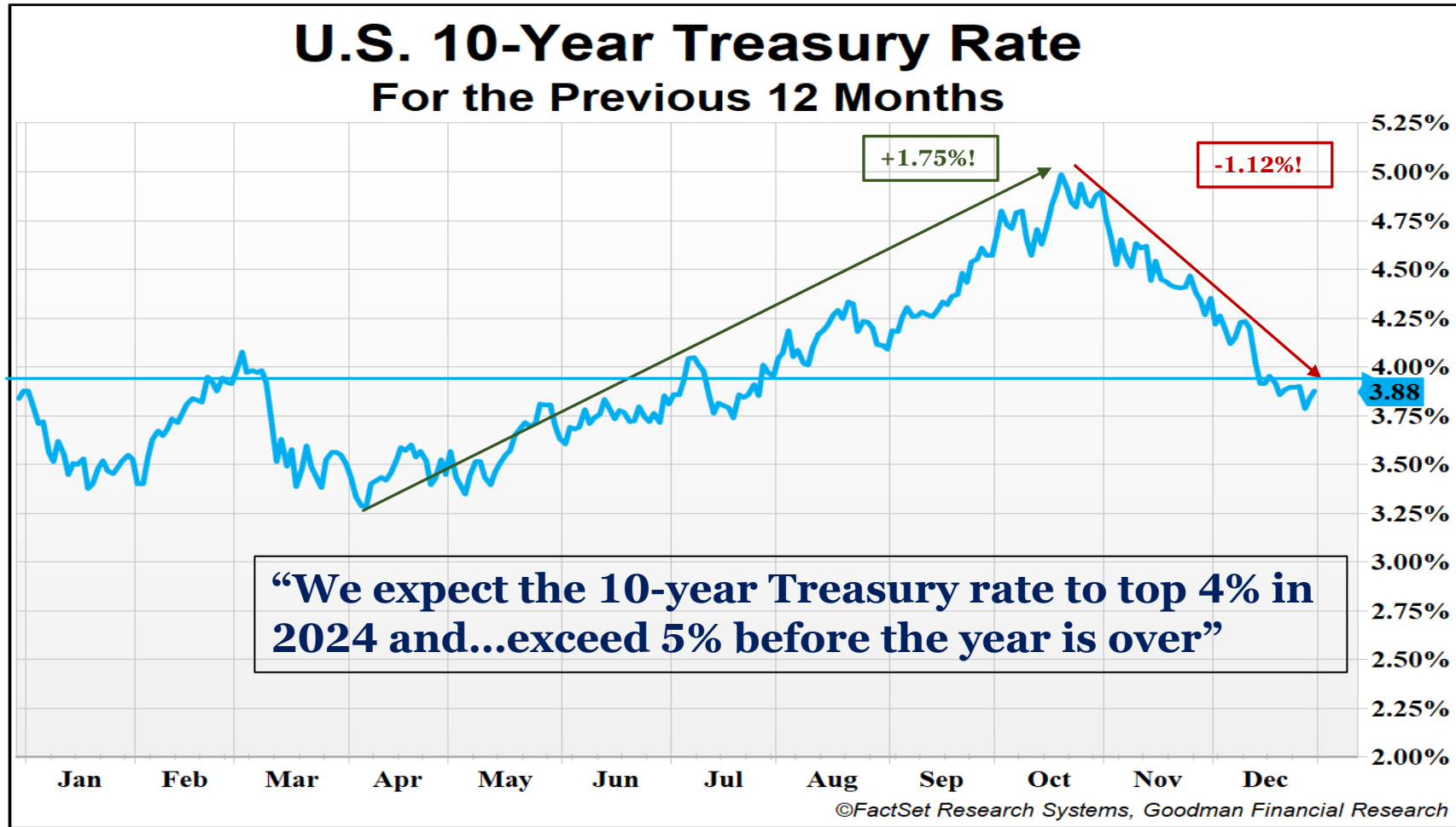
Data as of December 2023

LONG RATES UNCHANGED IN 2023



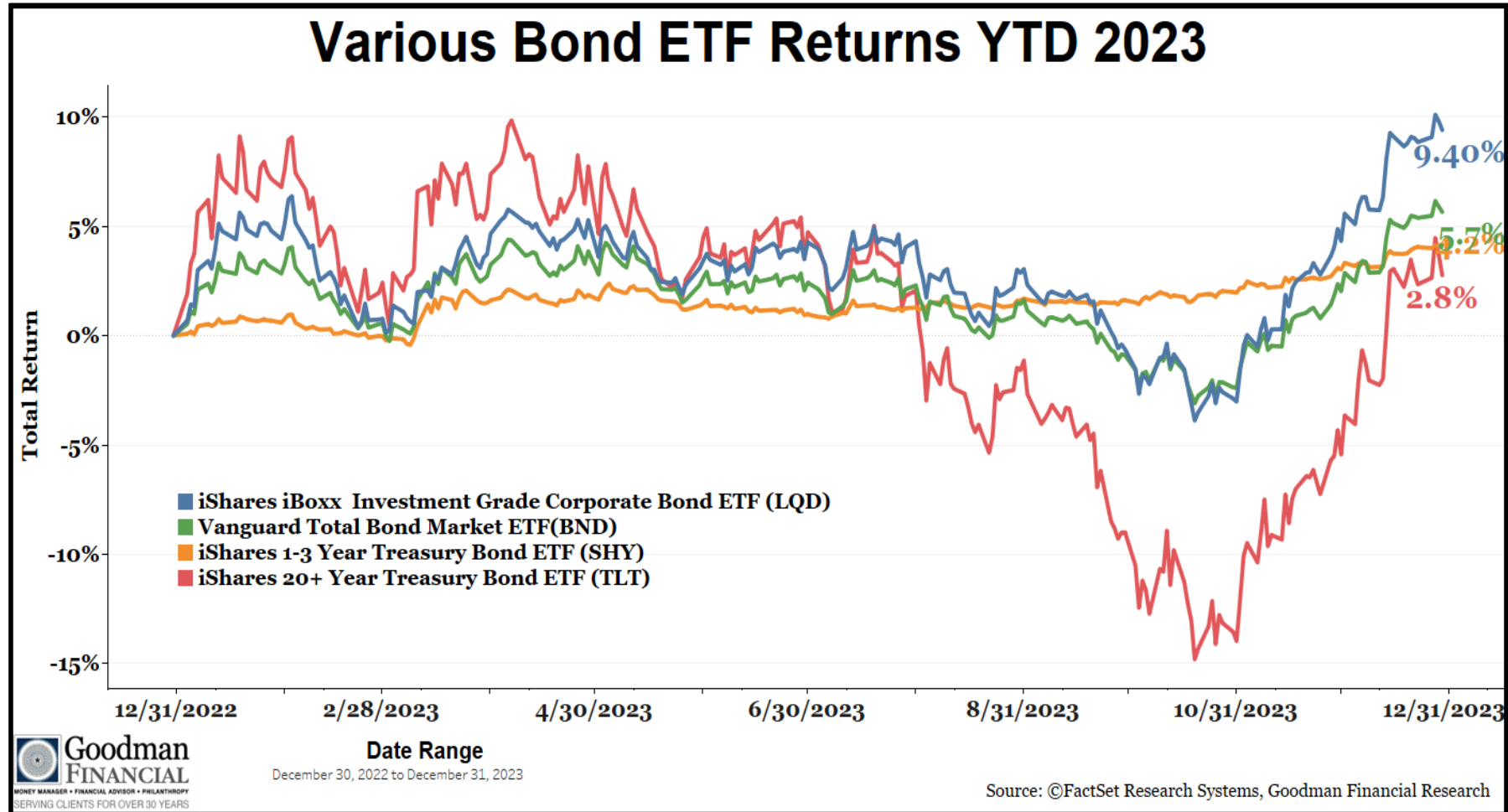
Data as of 12/31/23

1 YEAR CHART OF THE 10-YEAR TREASURY YIELD – QUITE A ROUND TRIP!



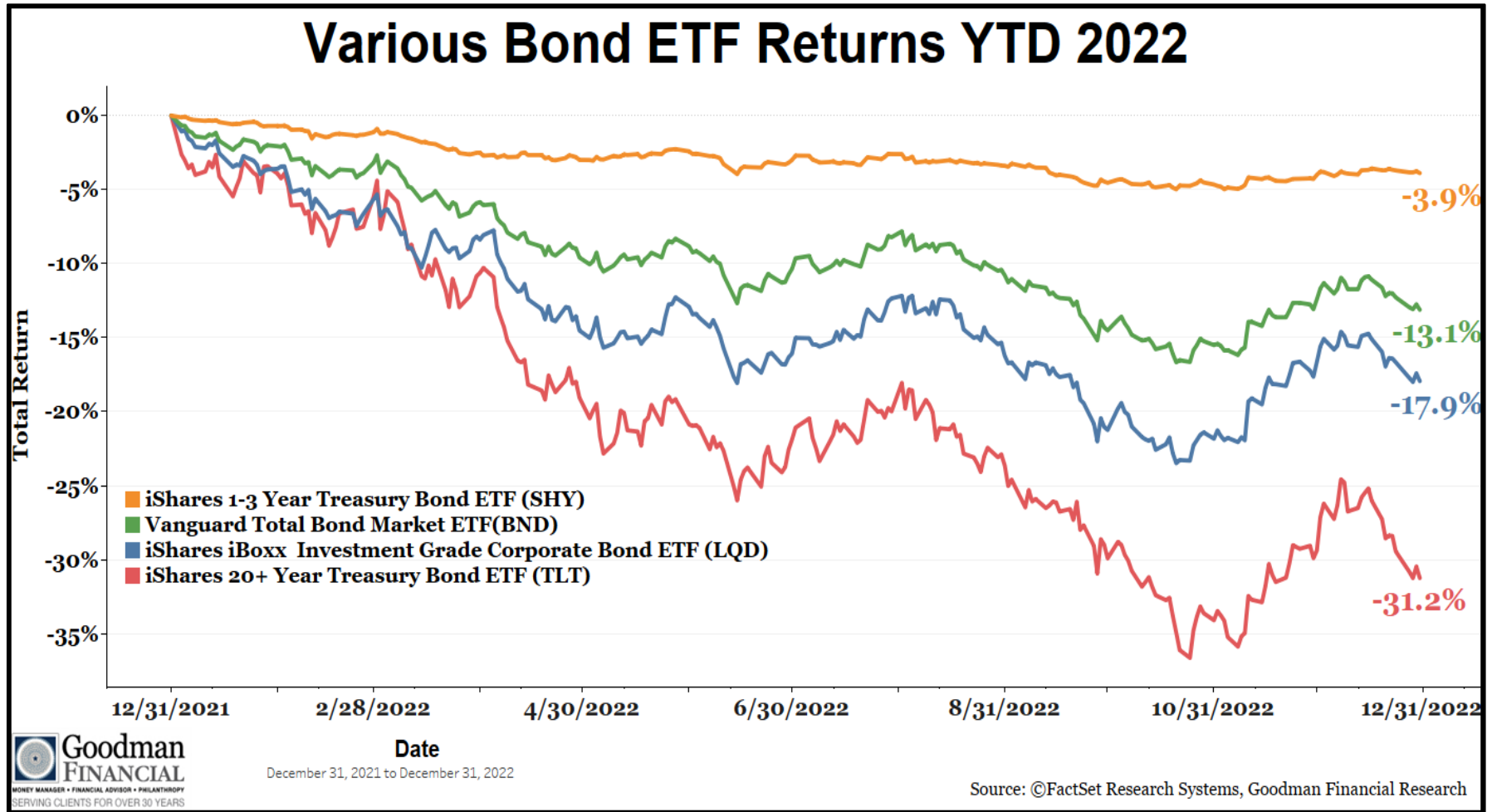
Data as of 12/31/23

BOND RETURNS IN 2023



Data as of 12/31/23

AS A REMINDER, 2022 WAS WORST YEAR EVER FOR BONDS



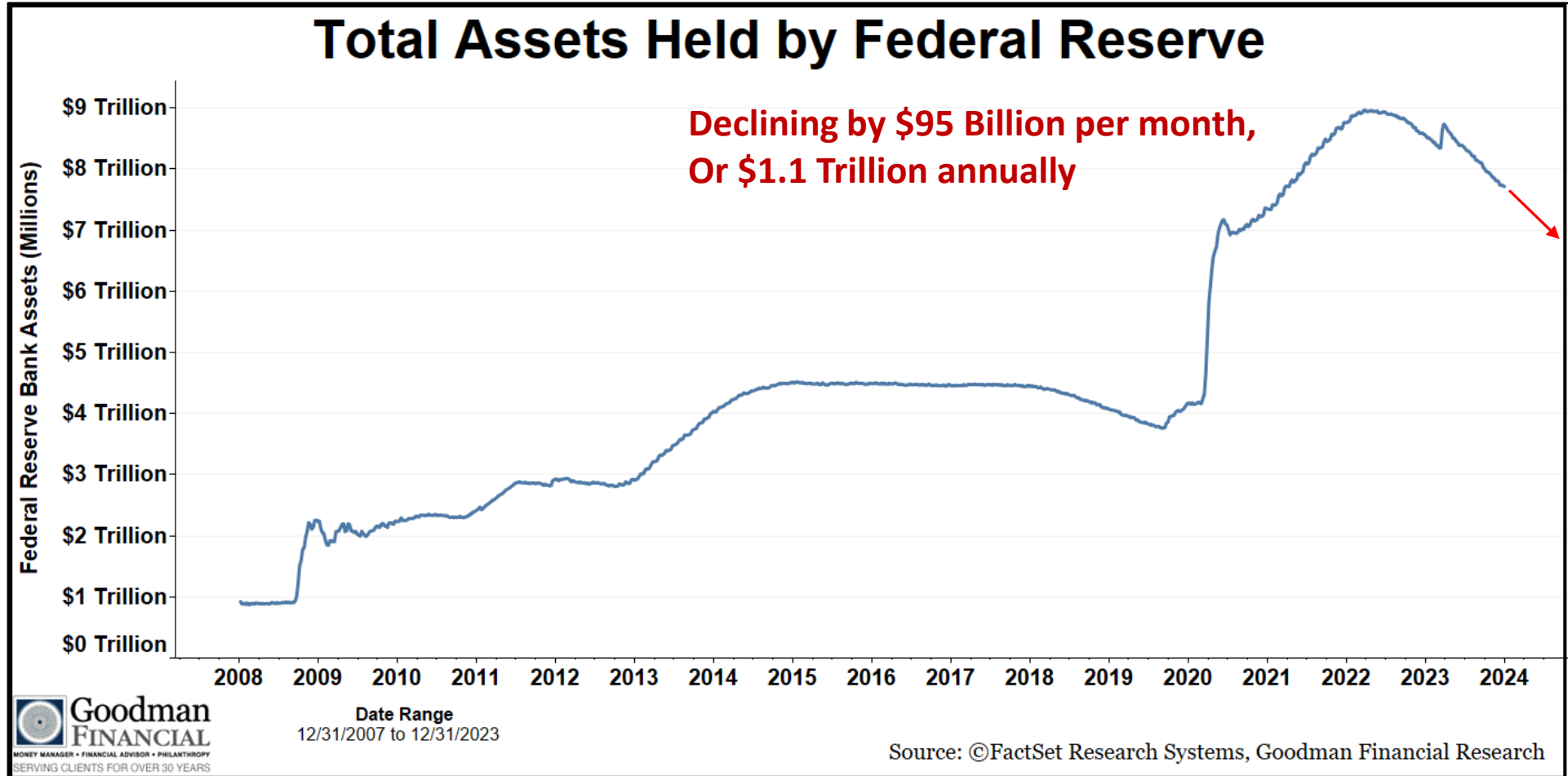
Data as of 12/31/22

HISTORICAL TREASURY RATES A NEW REGIME?



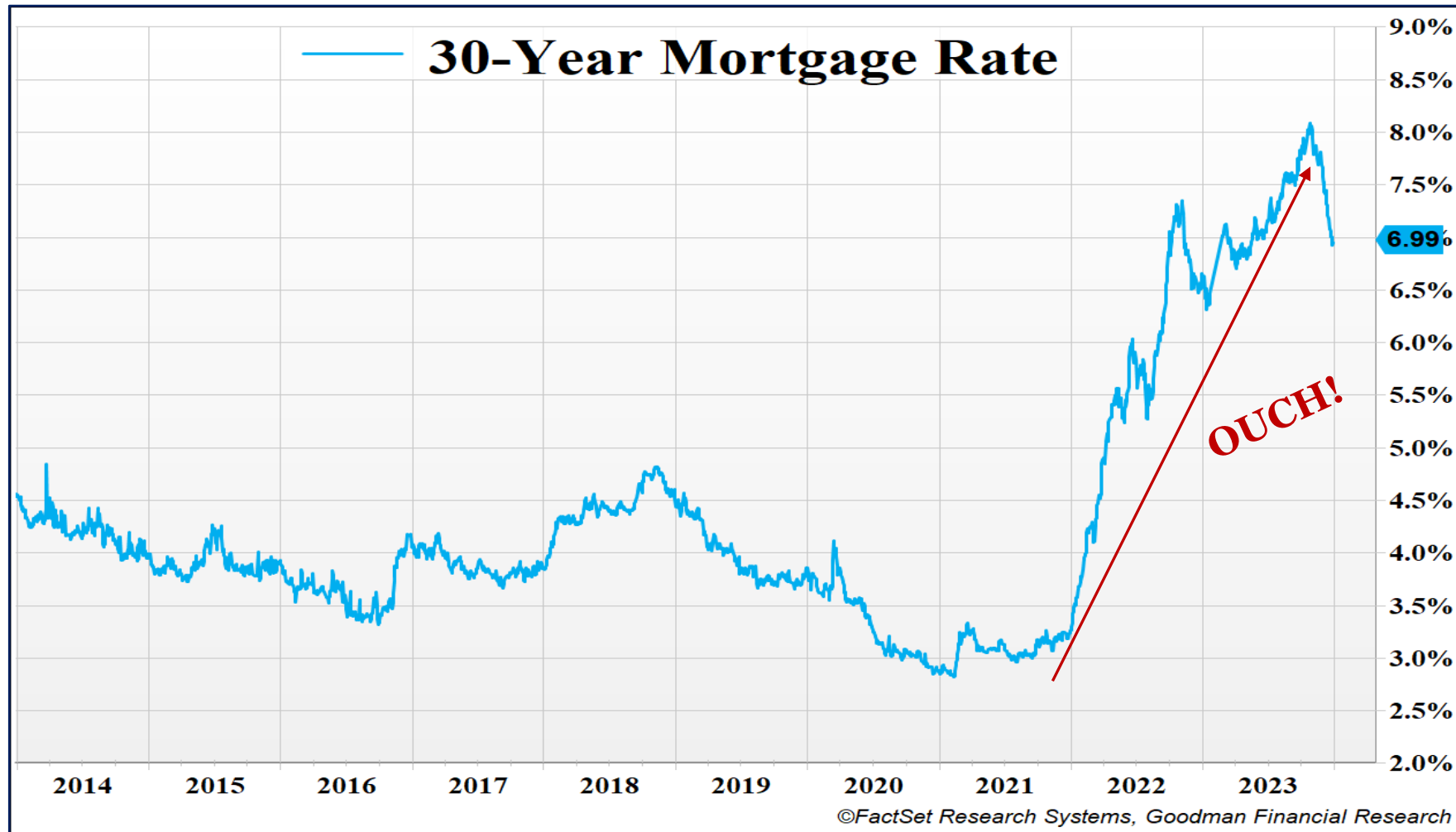
January 1954 – December 2023

A BIG BOND BUYER IS NOW A SELLER



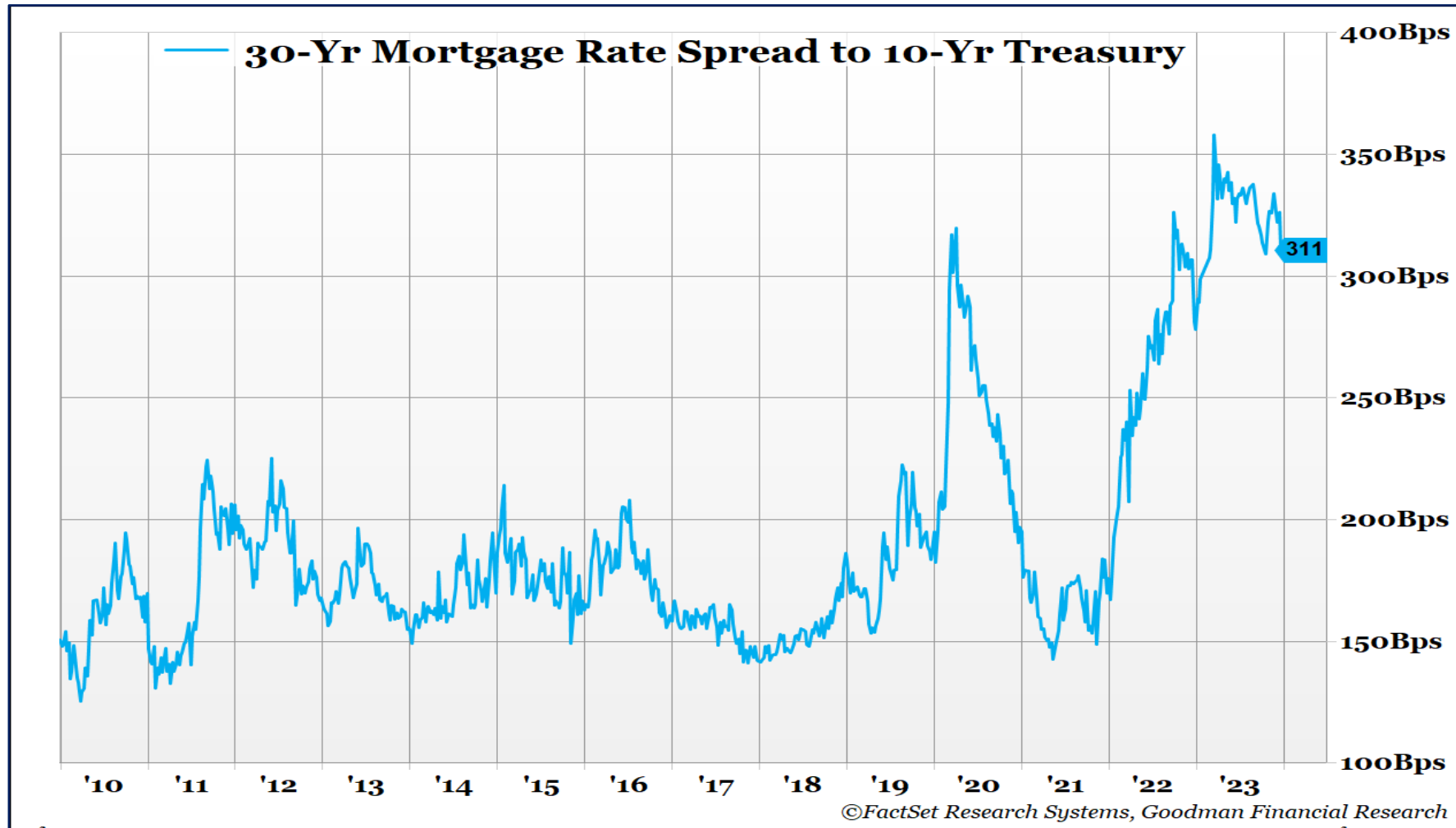
Data as of 12/31/23

WHAT ABOUT 30-YR MORTGAGE RATES? MAGNITUDE OF INCREASE IS A SHOCK TO BORROWERS



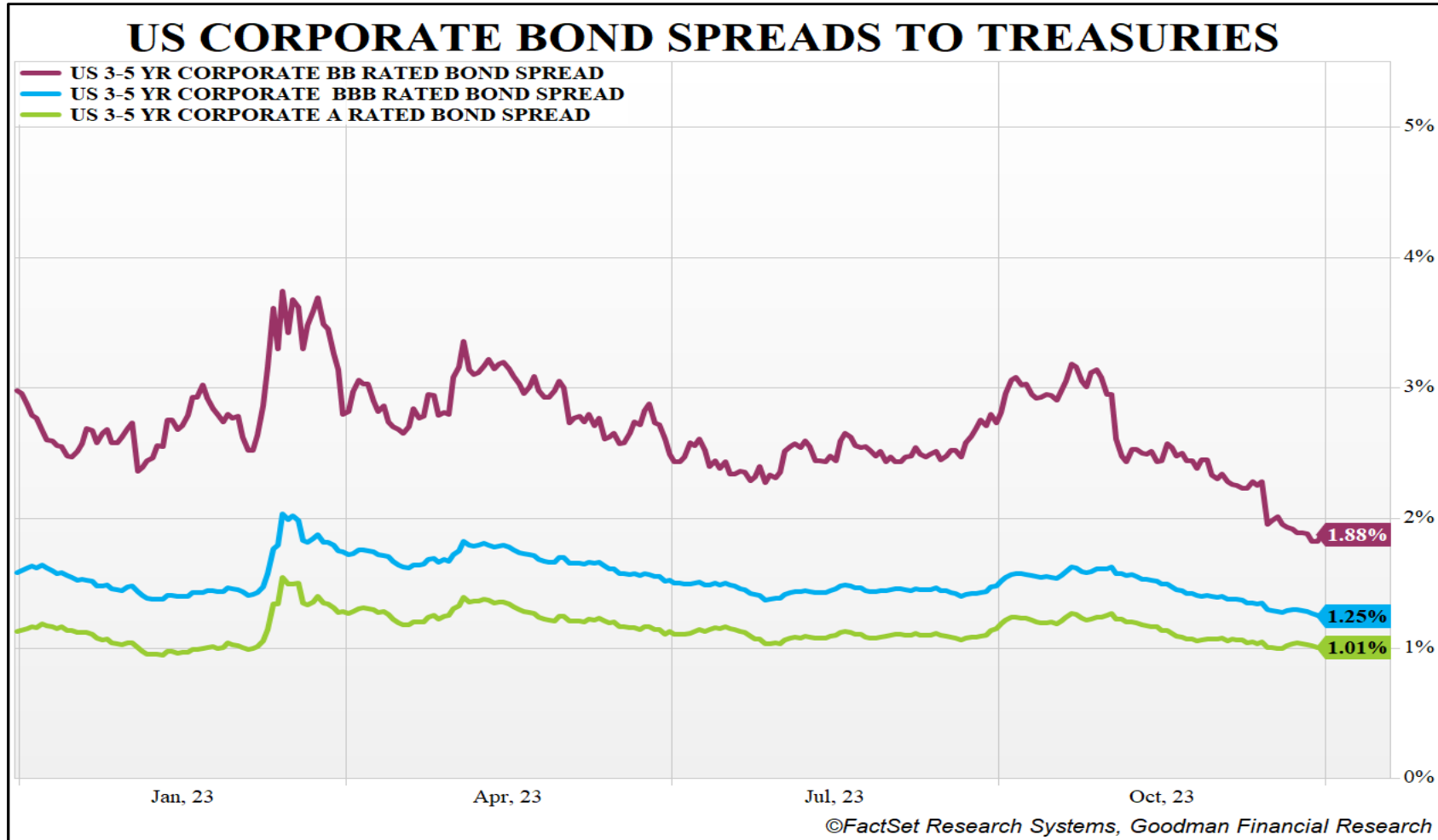
Data as of 12/31/23

MORTGAGE SPREADS TO TREASURIES AT MULTI-YEAR HIGHS



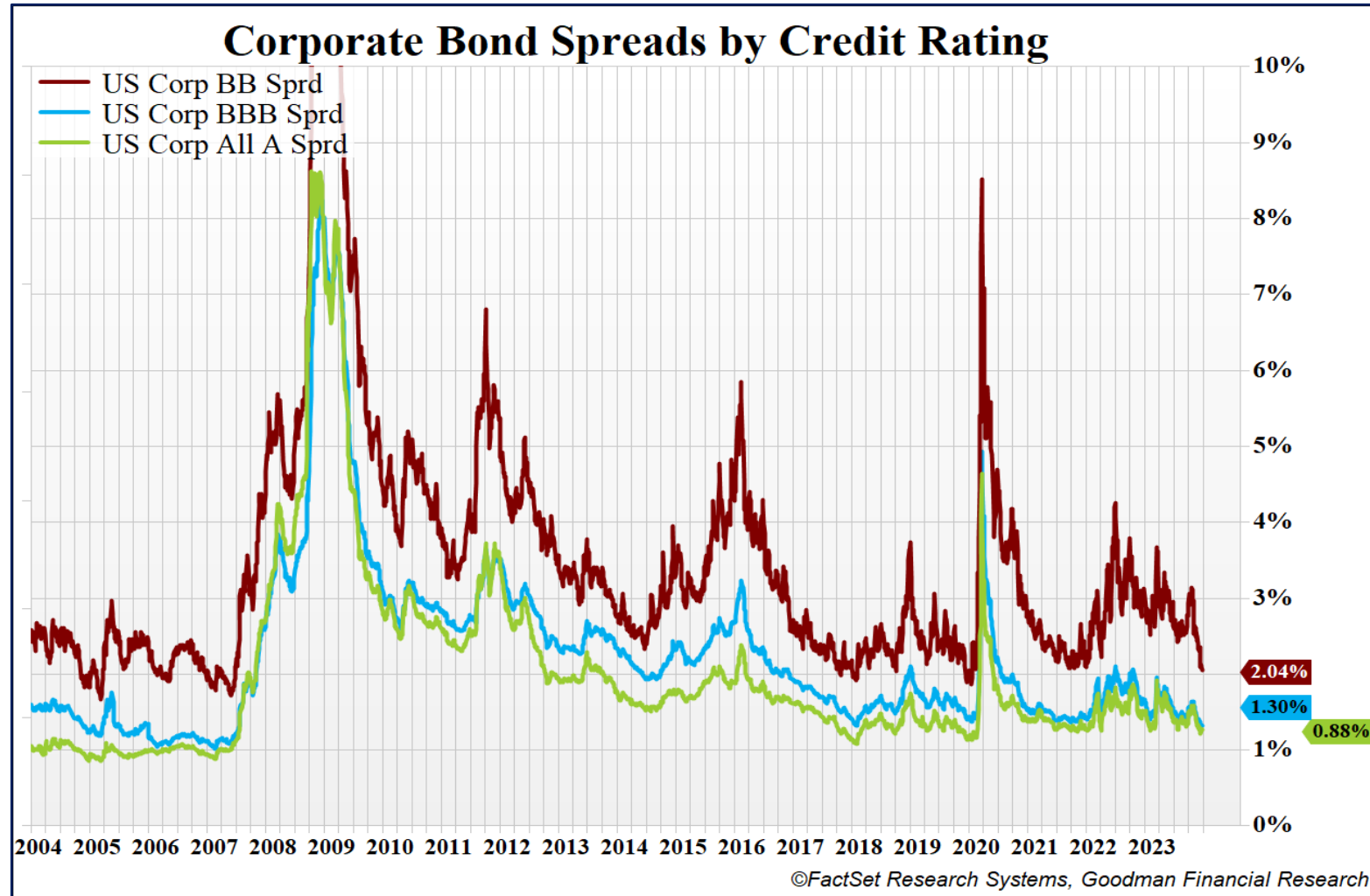
Data as of 12/31/23

CORPORATE YIELD SPREADS NO RECESSION FEARS HERE



Data as of 12/31/23

CORP YIELD SPREADS – LONGER TERM



Data as of 12/31/23

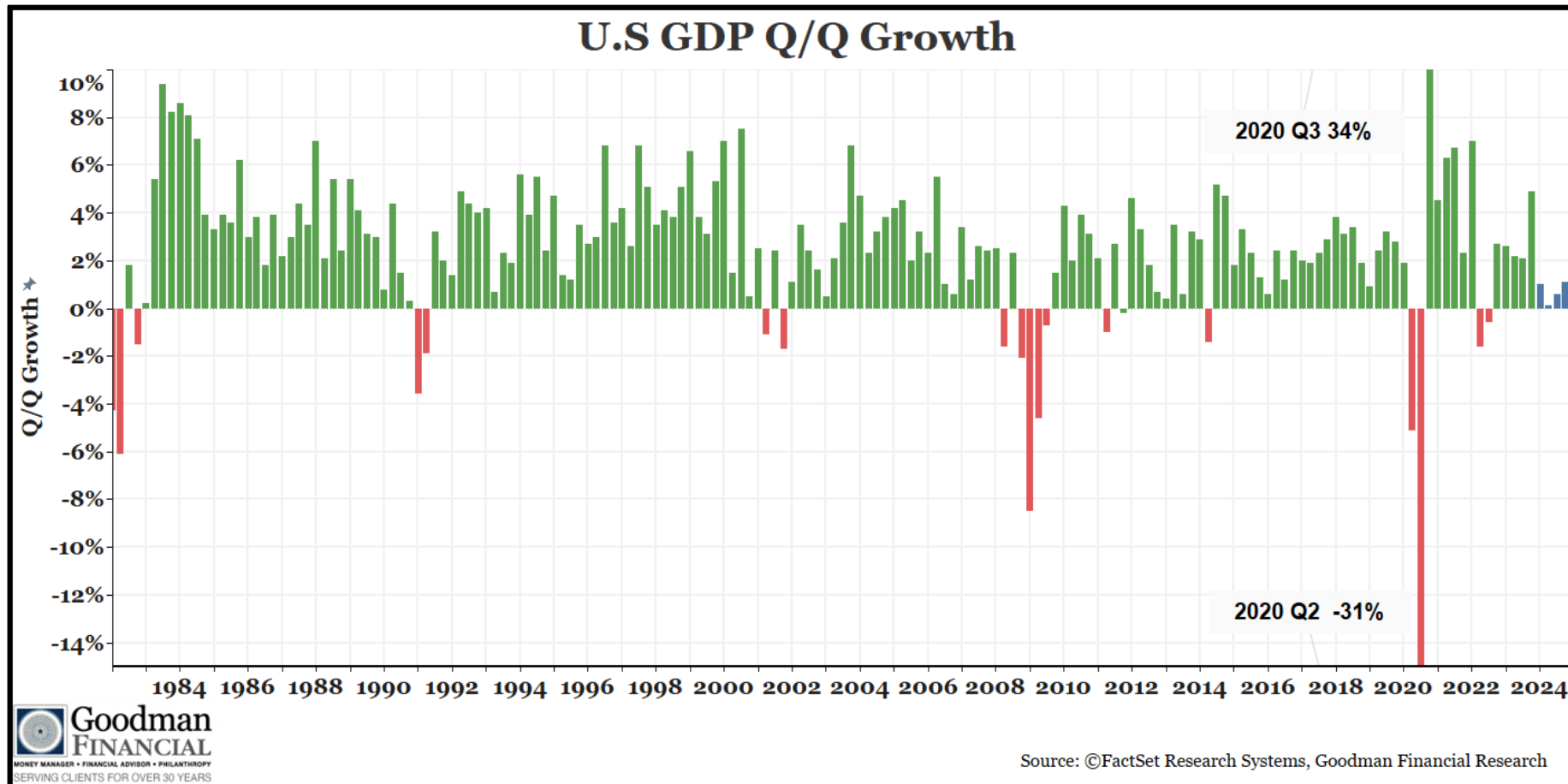


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THE ECONOMY

“We now think that we will see a U.S. economic recession to begin around the middle of 2023, but believe the odds are for a shorter and shallower one rather than a deeper and longer one.”



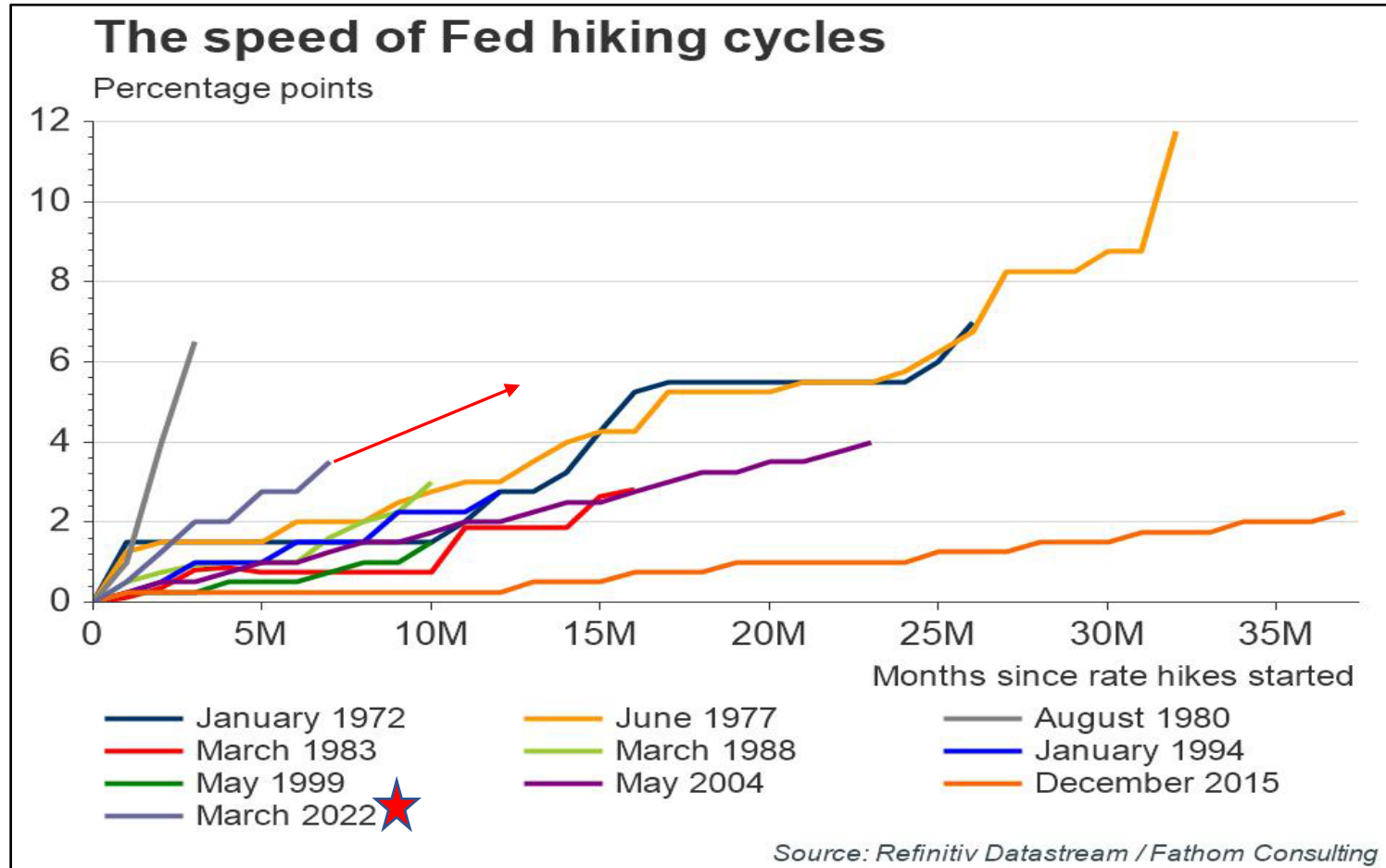
RECESSION INDICATORS FLASHING RED

- ✓ **Restrictive Fed Funds rate**
 - ✓ **Steepest & fastest hiking cycle since 1980**
- ✓ **Inverted yield curve**
 - ✓ **Most inverted 10-yr – 3-mo curve since 1980s**
- ✓ **Leading economic indicators in recession territory**
- ✓ **Banks tightening lending**
 - ✓ **Percent of banks tightening lending standards in recession territory**

“Our current view...is that the U.S. will see a recession in 2024”

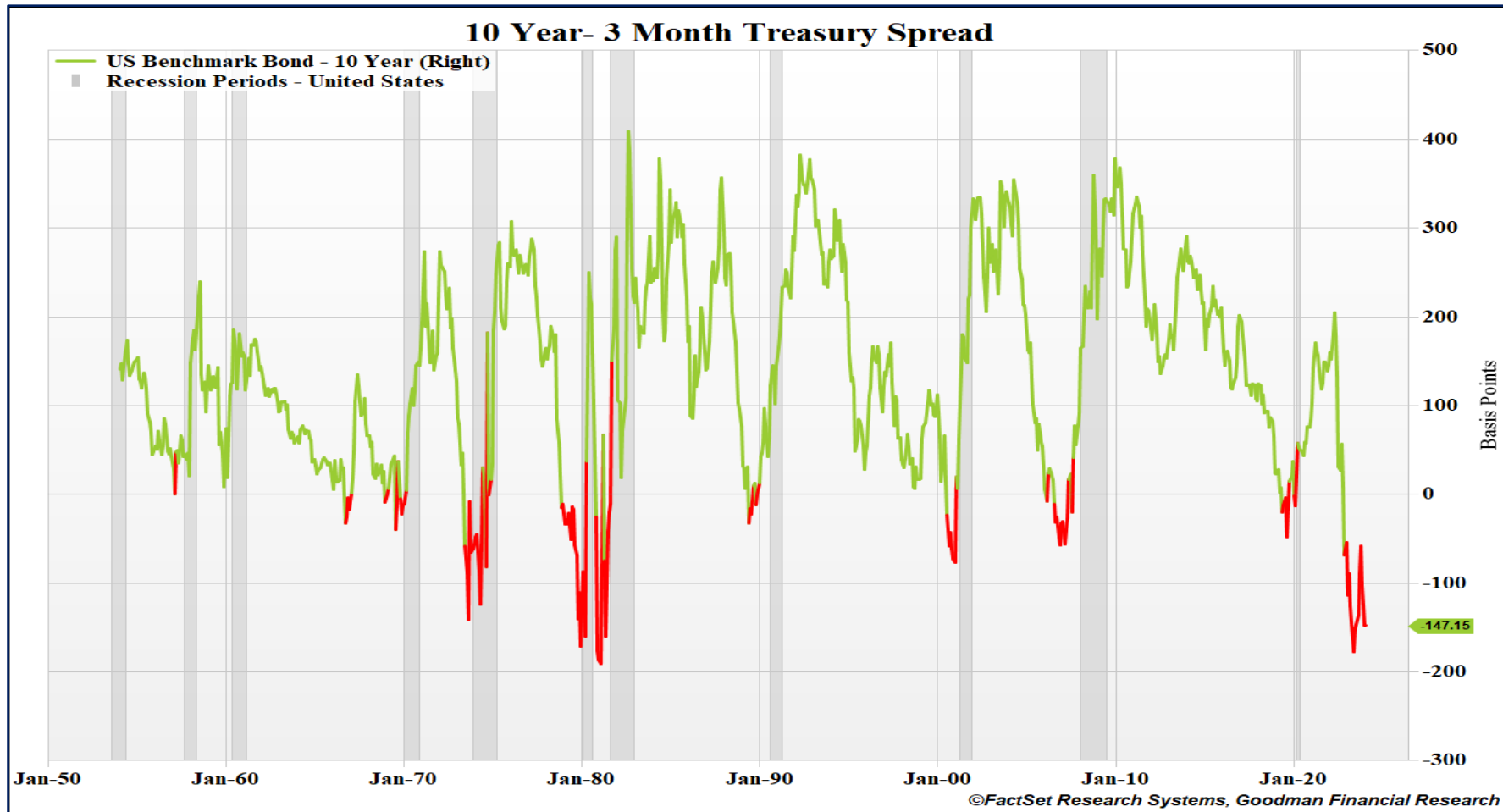


STEEPEST & FASTEST HIKING CYCLE SINCE 1980



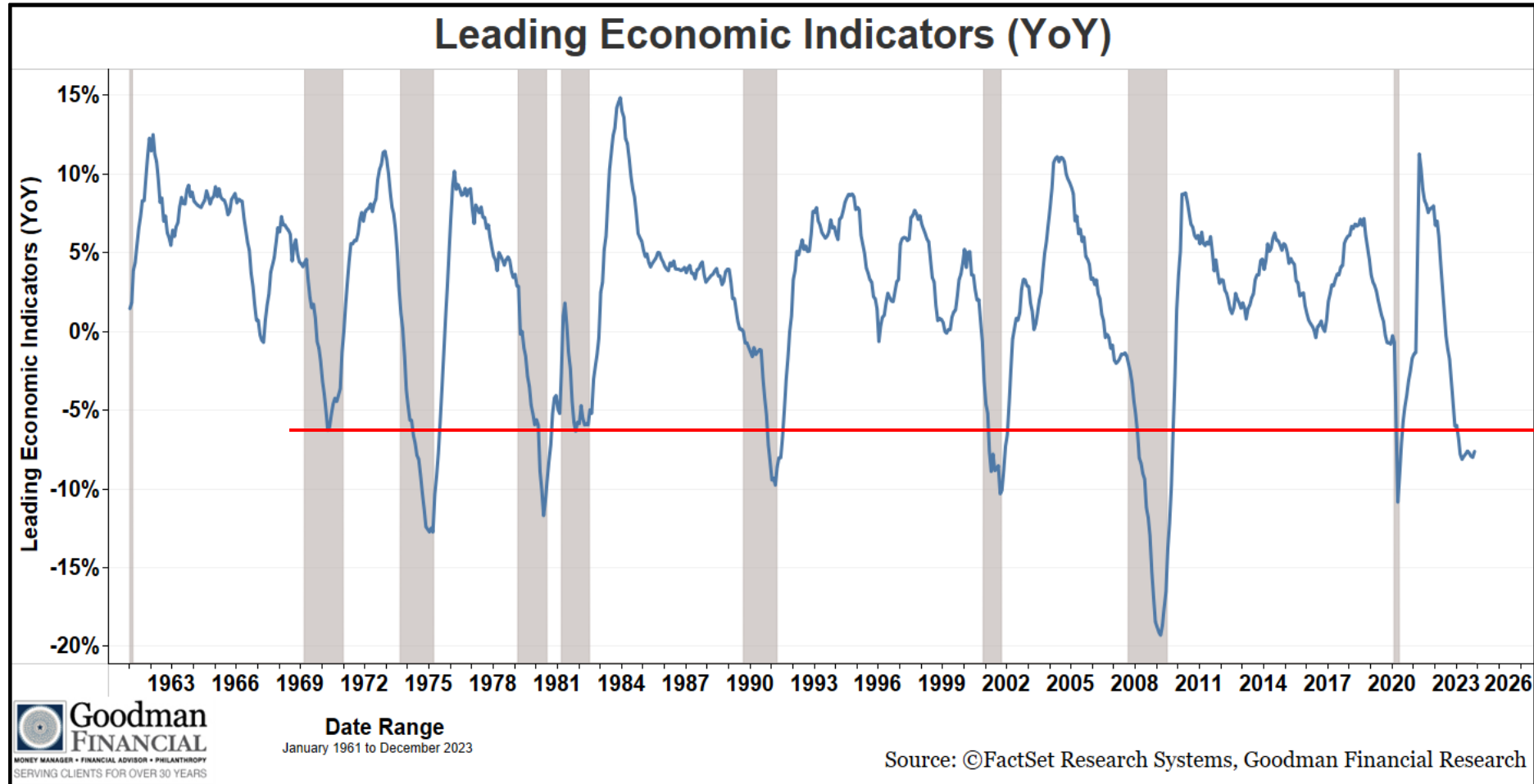
Data as of 11/8/22

YIELD CURVE IS NOW PREDICTING RECESSION MOST INVERTED CURVE SINCE 1980



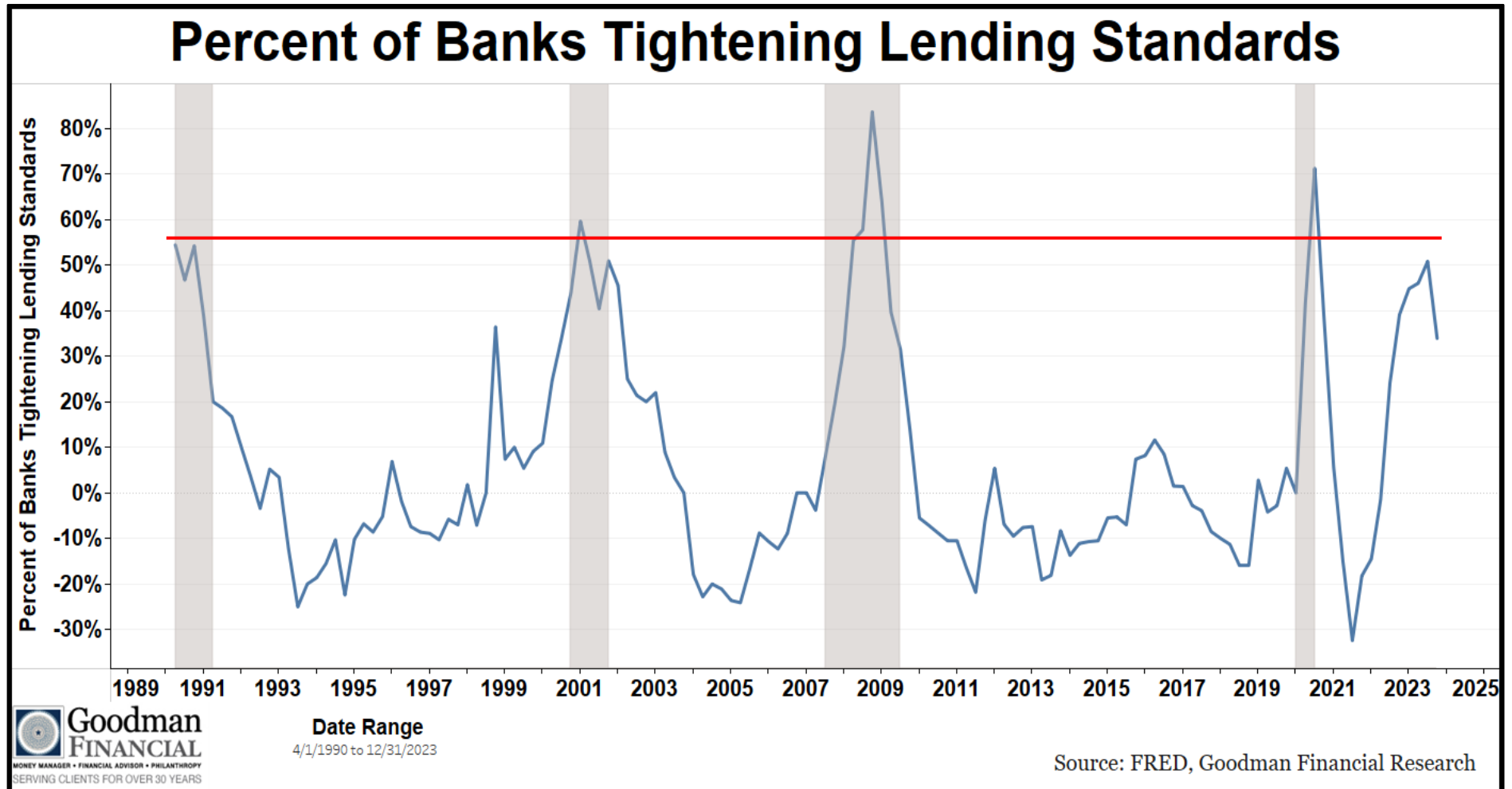
January 1954 – December 2023

LEADING ECONOMIC INDICATORS IN RECESSION TERRITORY



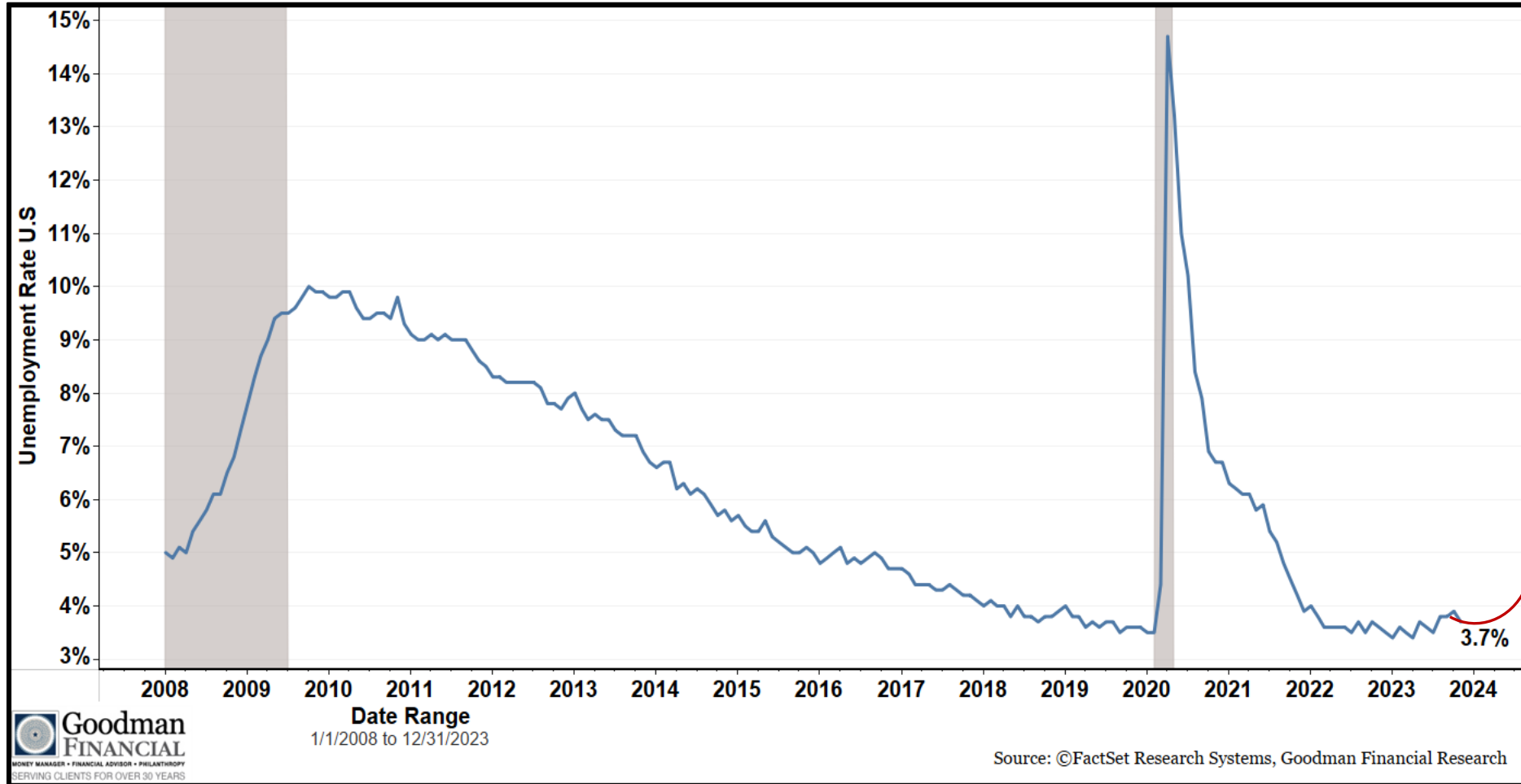
Source: The Conference Board; Data as of December 2023

BANKS ARE TIGHTENING TO RECESSION LEVELS



Data as of December 2023

U.S. UNEMPLOYMENT NEAR 50-YEAR LOWS...FOR NOW



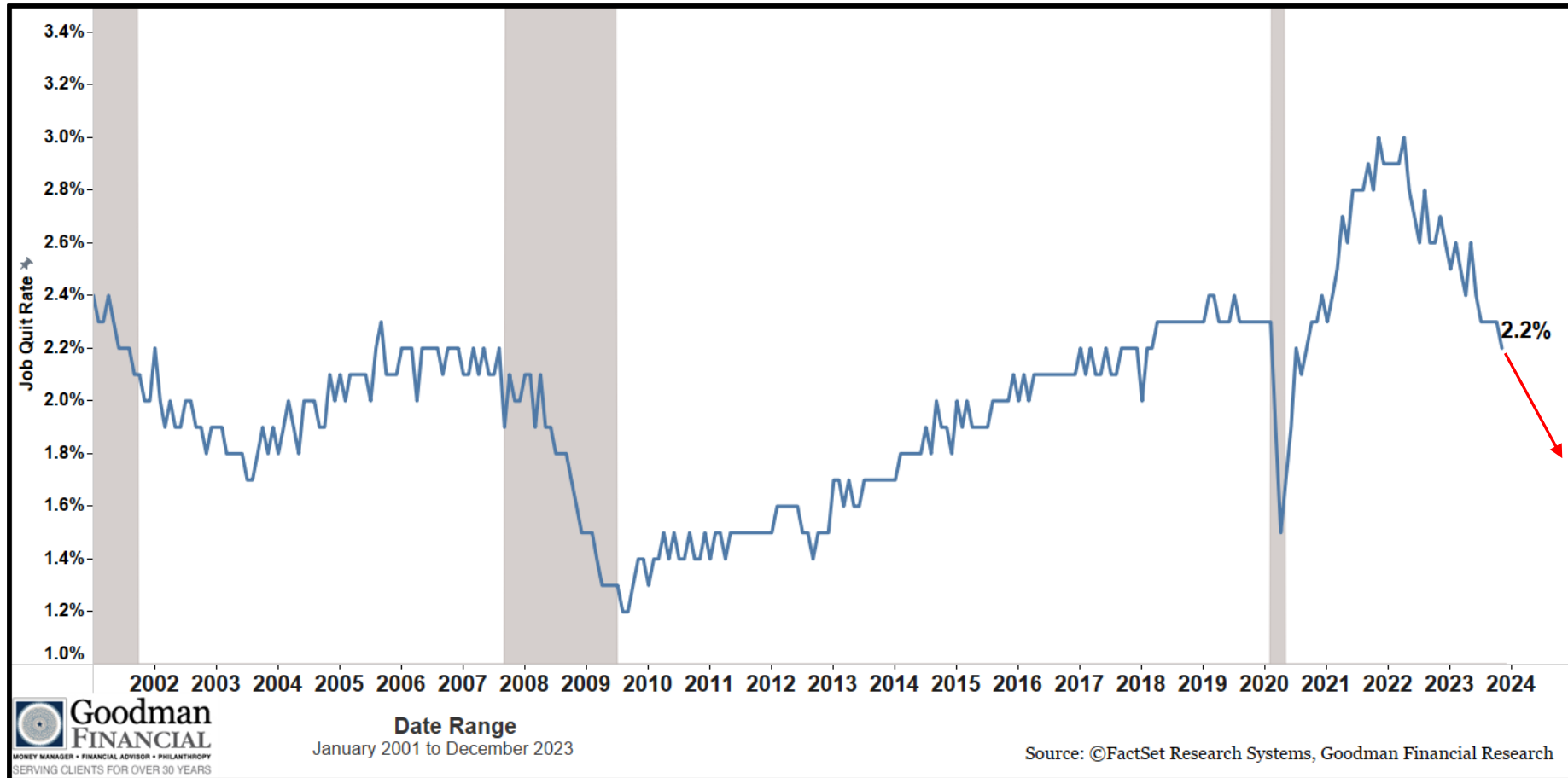
Data as of December 2023

JOB OPENINGS ARE COMING DOWN FAST



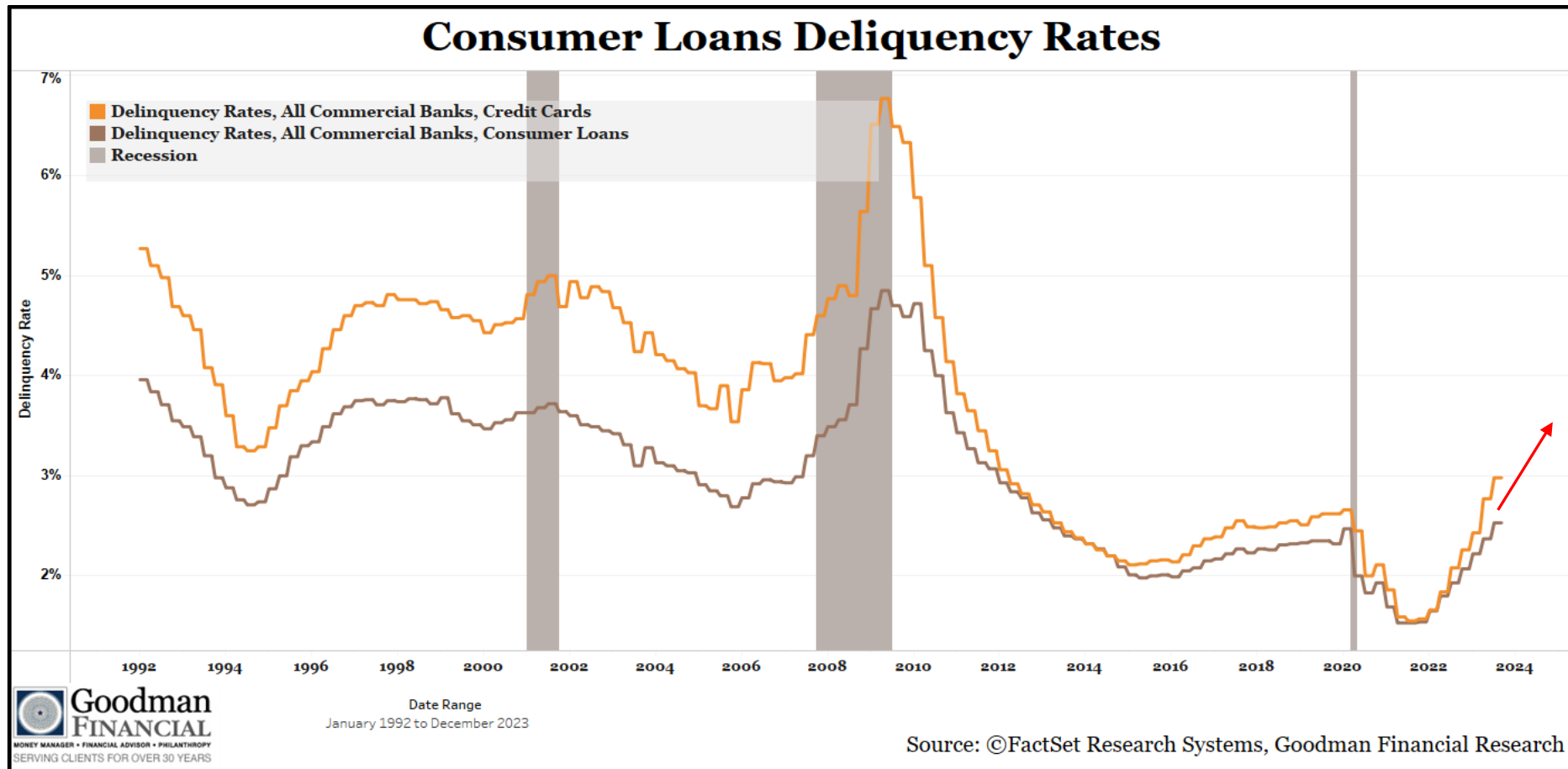
Data as of December 2023

CAUSING THE JOB QUIT RATE TO DROP



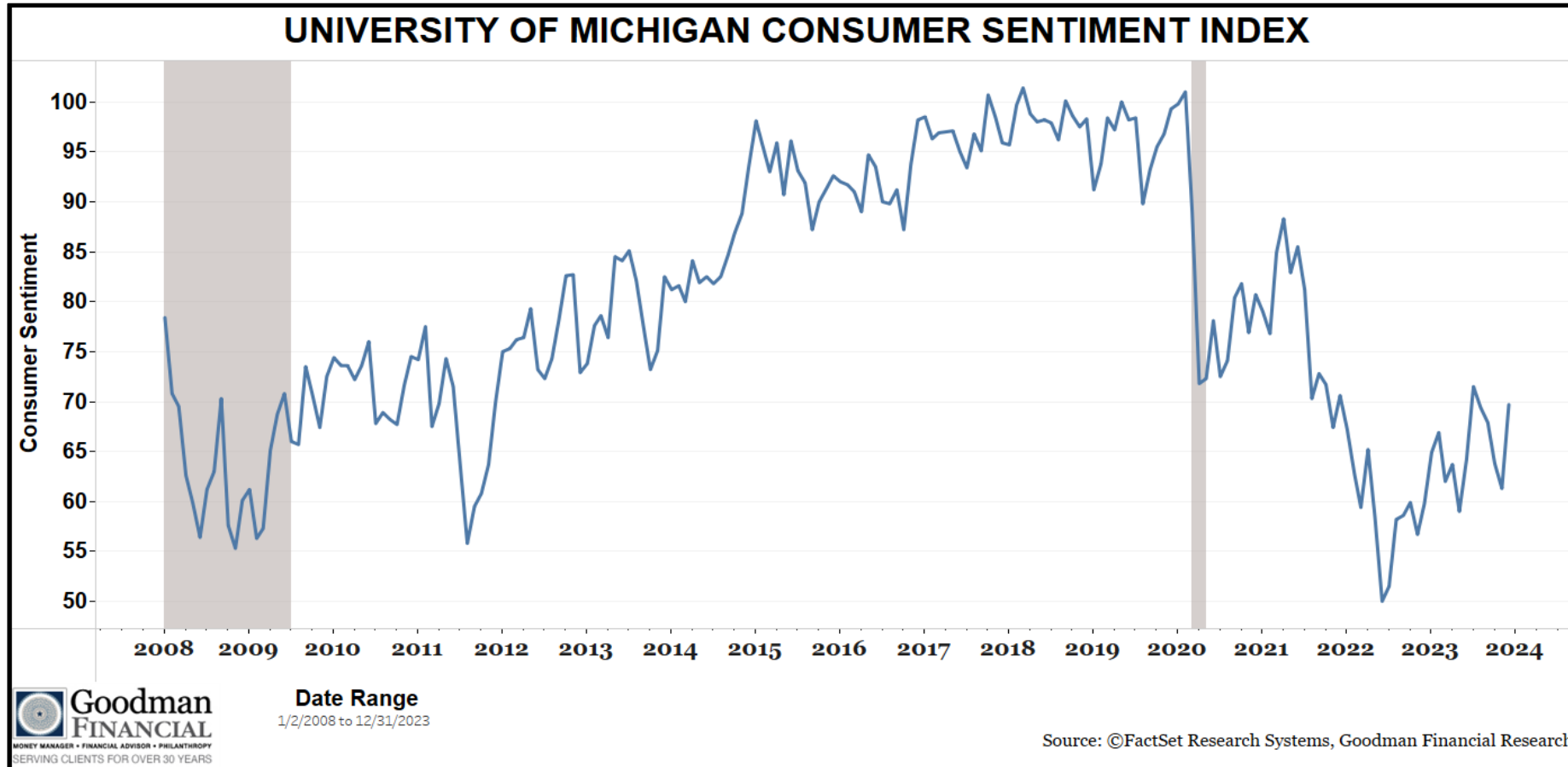
Data as of December 2023

CONSUMERS DELIQUENCY RATES RISING FAST



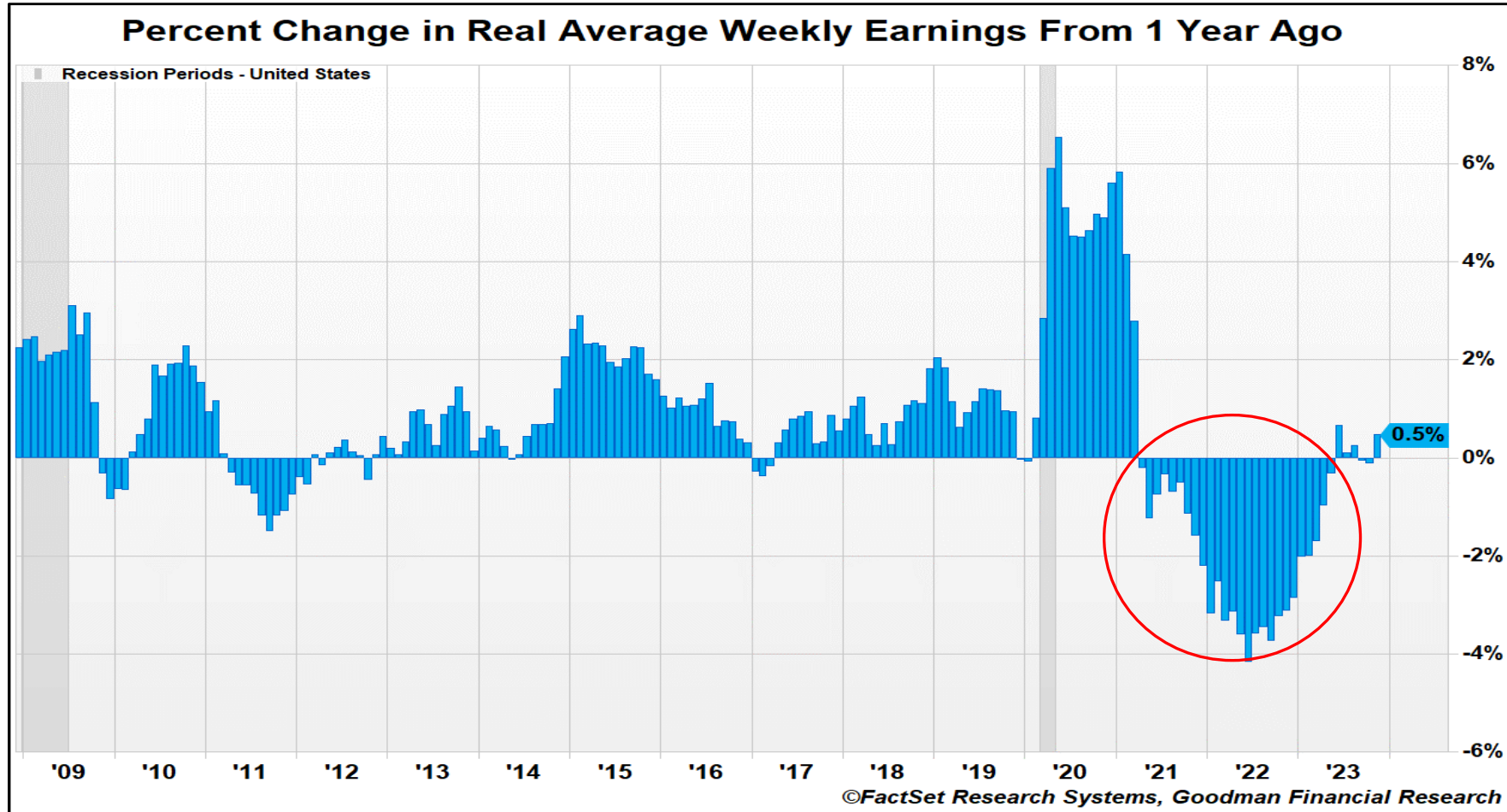
Data as of December 2023

CONSUMER SENTIMENT IS IMPROVING OFF LOWS



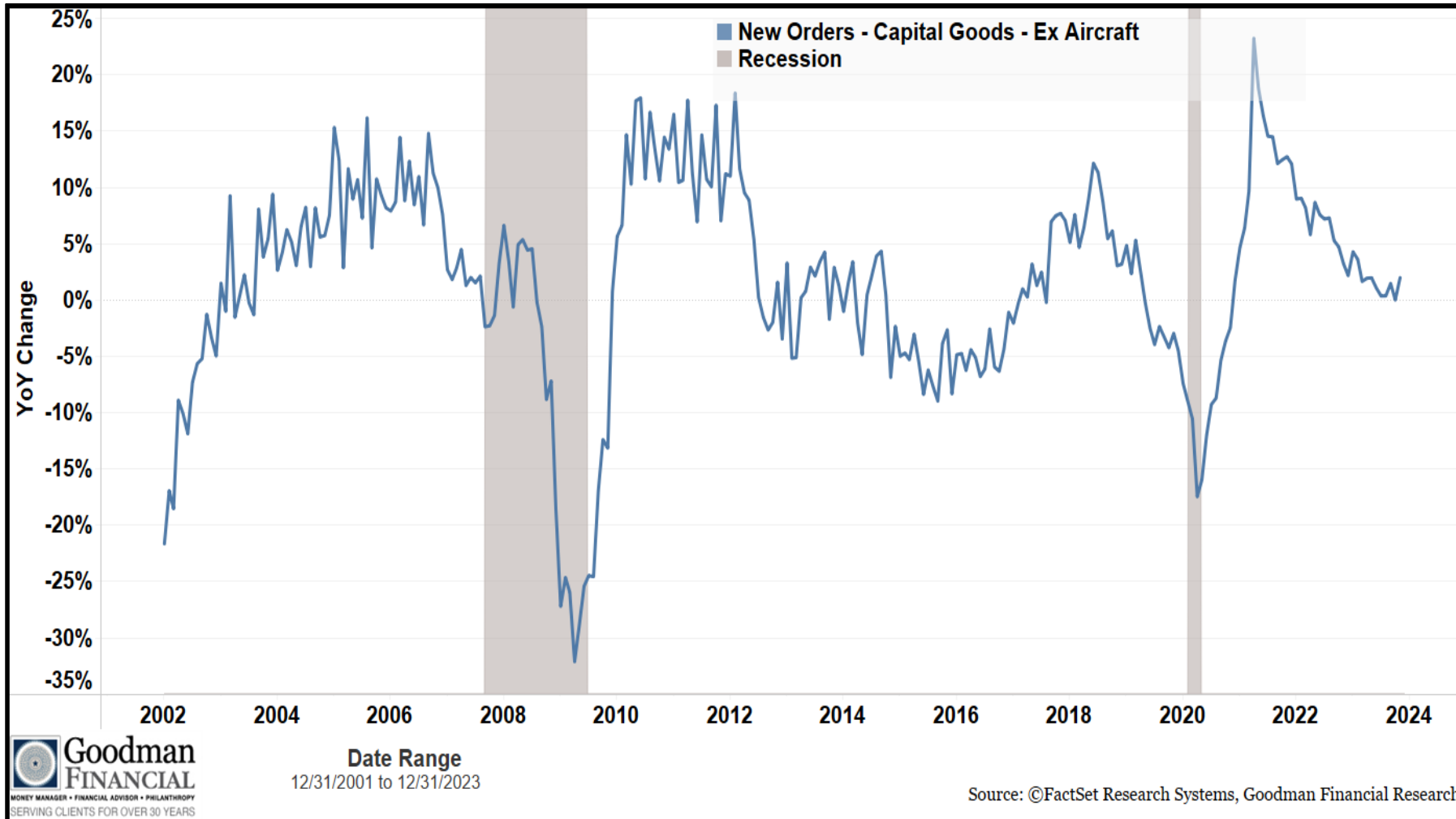
Data as of December 2023

AS REAL WAGES HAVE FINALLY TURNED POSITIVE



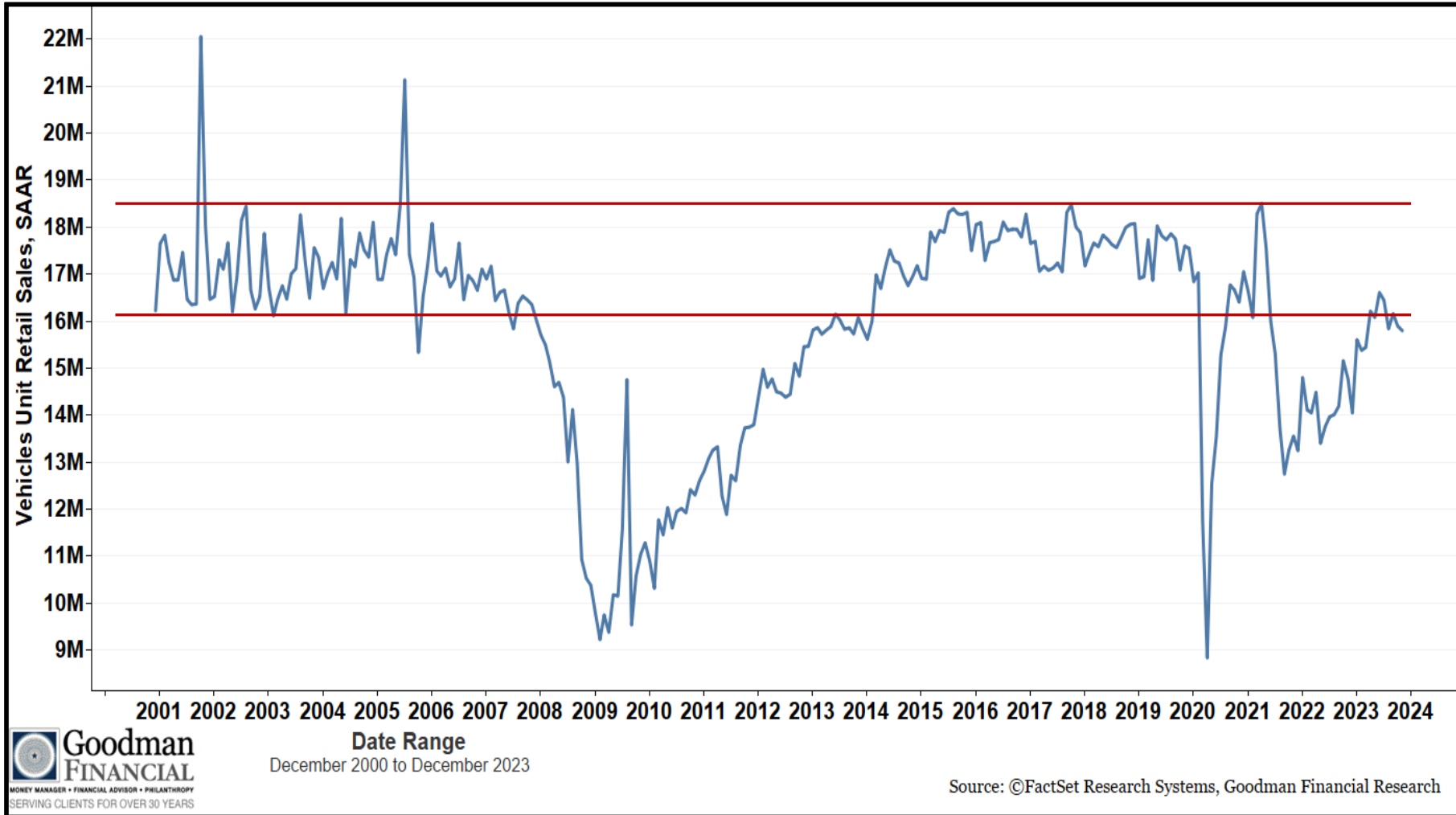
Data as of November 2023

CAPITAL GOODS ORDERS SLOWING



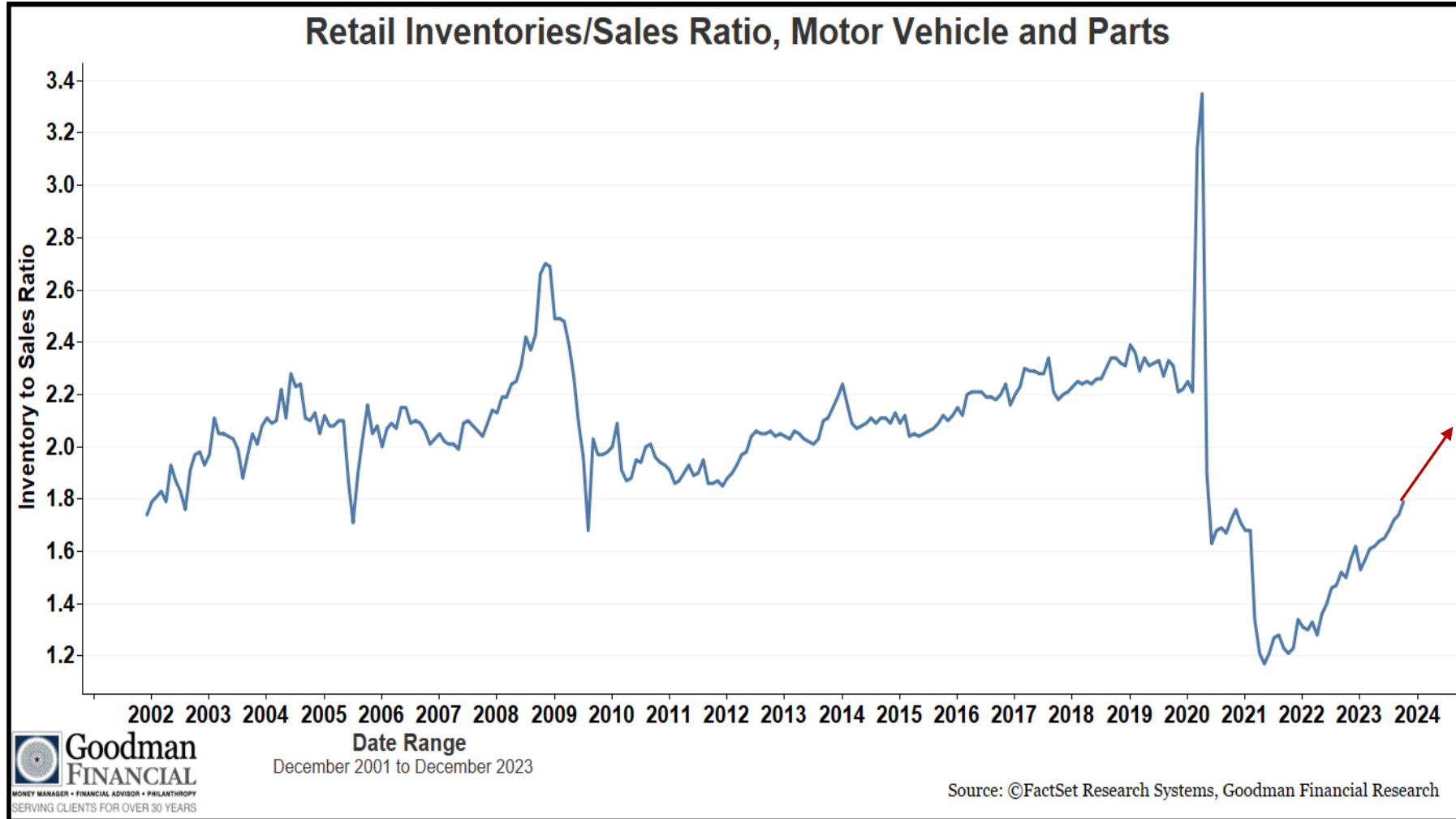
Data as of December 2023

AUTO SALES FINALLY RECOVERED, BUT STALLING



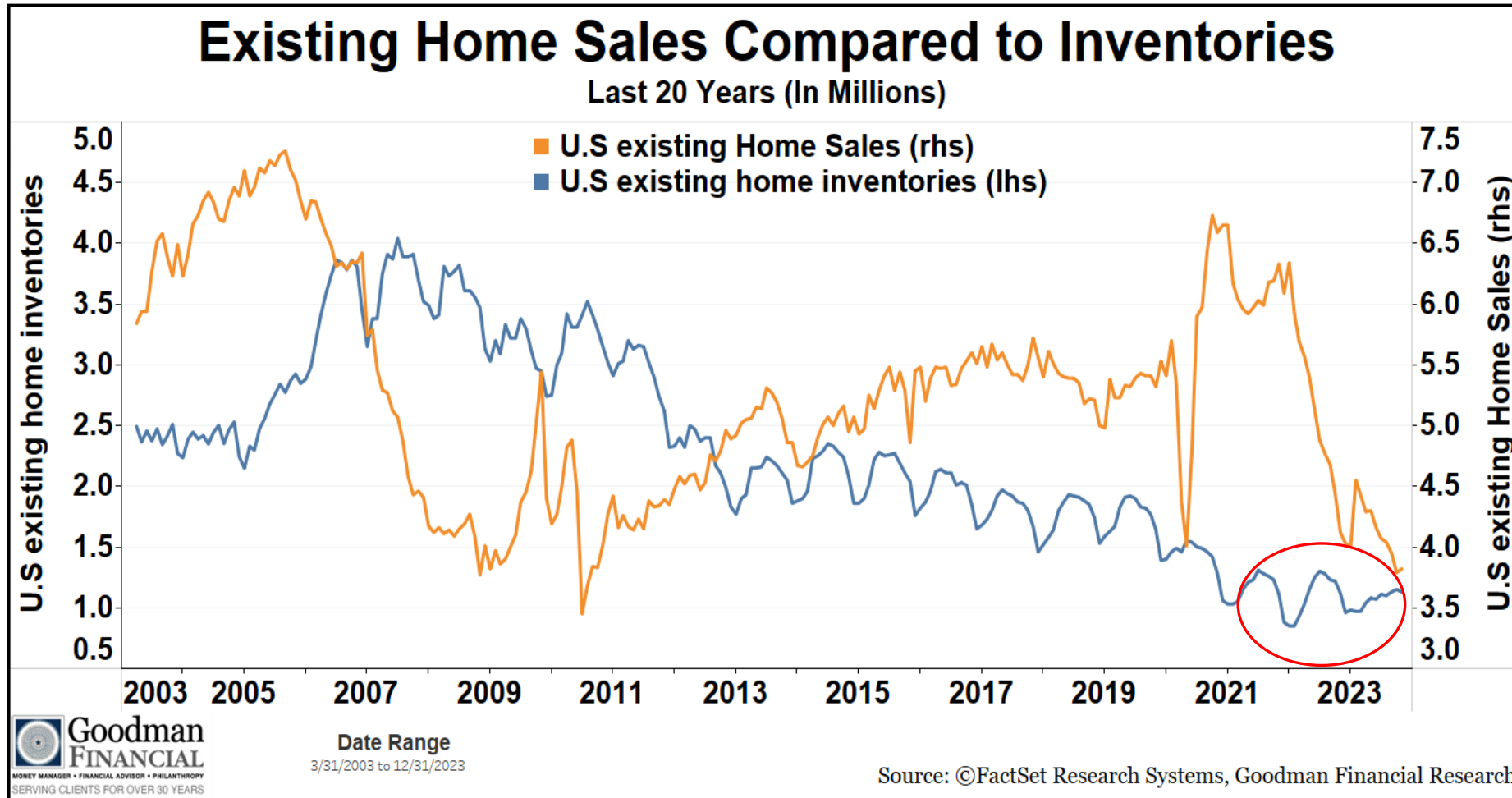
Data as of December 2023

CAR LOTS ARE *SLOWLY* GETTING REPLENISHED

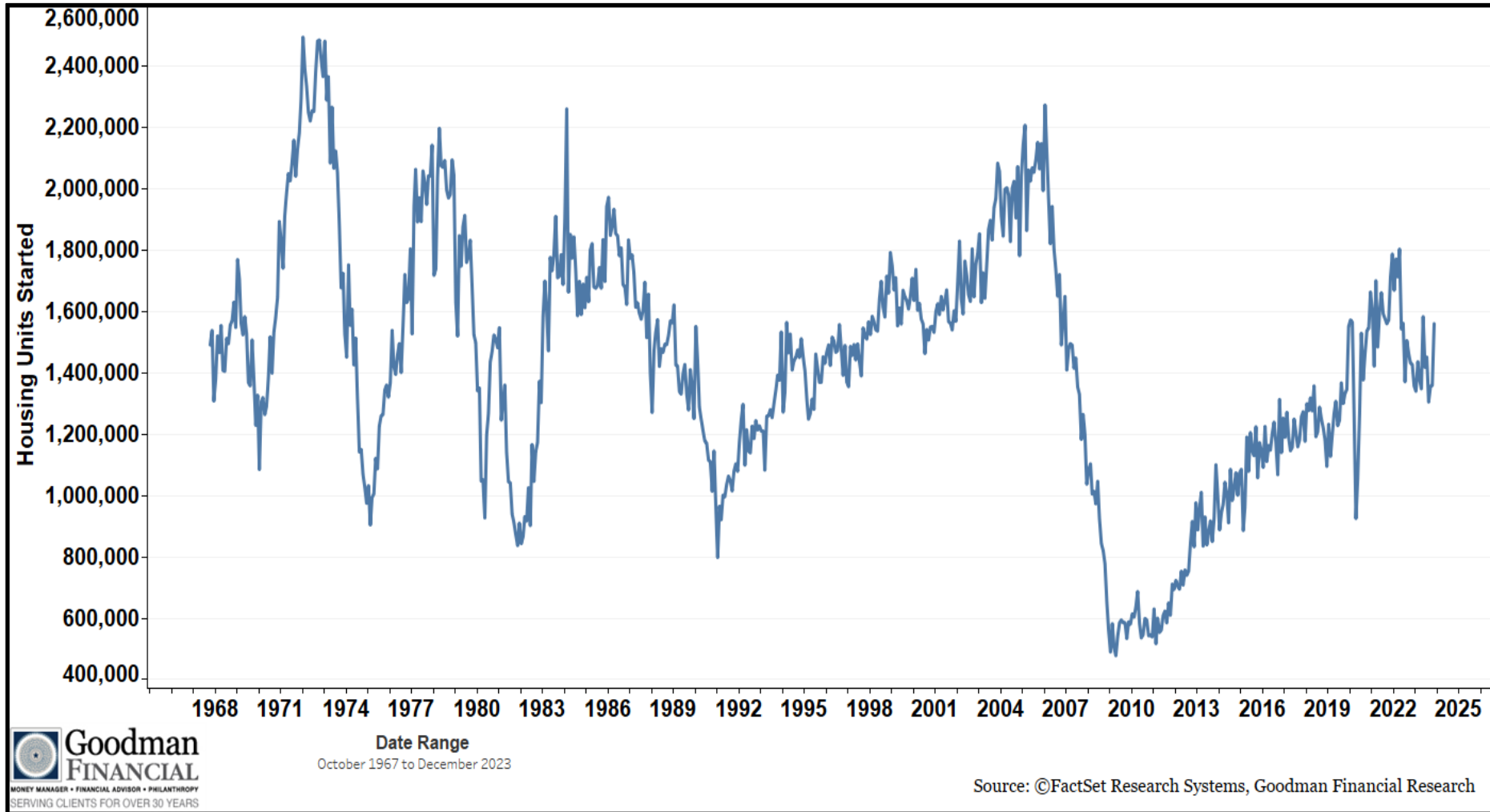


Data as of December 2023

EXISTING HOME SALES ARE BOTTOMING ...BUT HOUSES ARE STILL HARD TO FIND

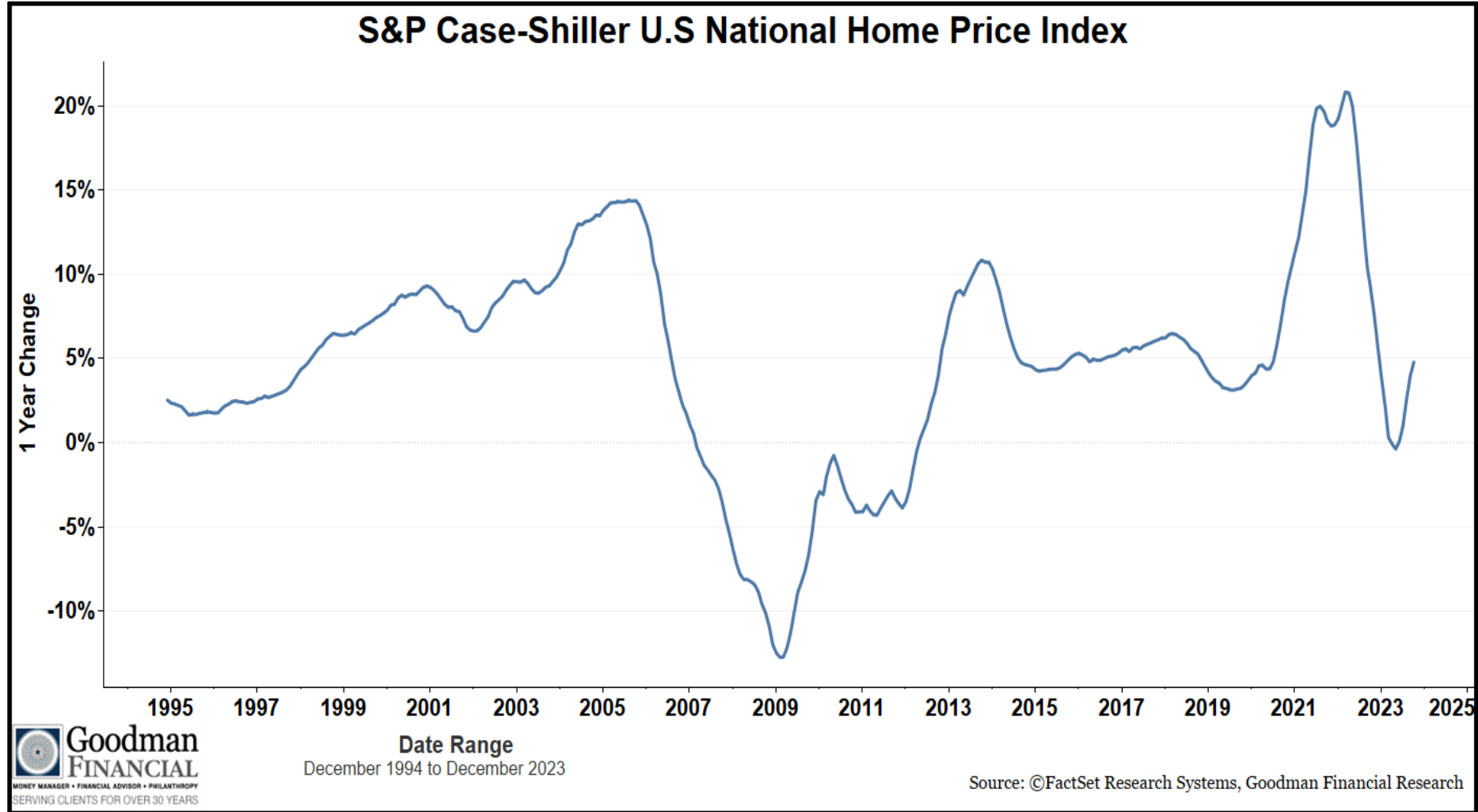


HOUSING STARTS COMING DOWN



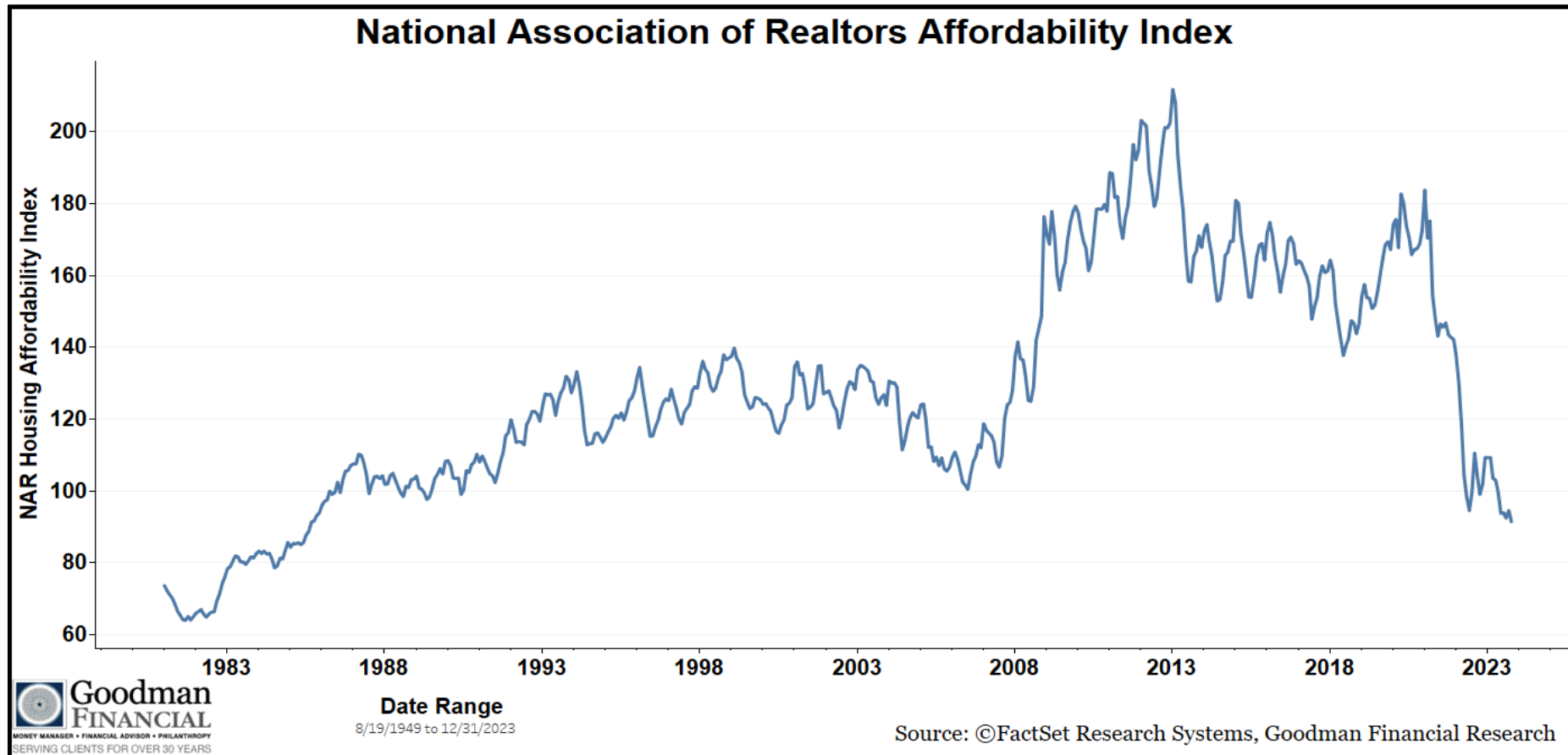
Data as of December 2023

HOME PRICES ARE RISING, SURPRISINGLY



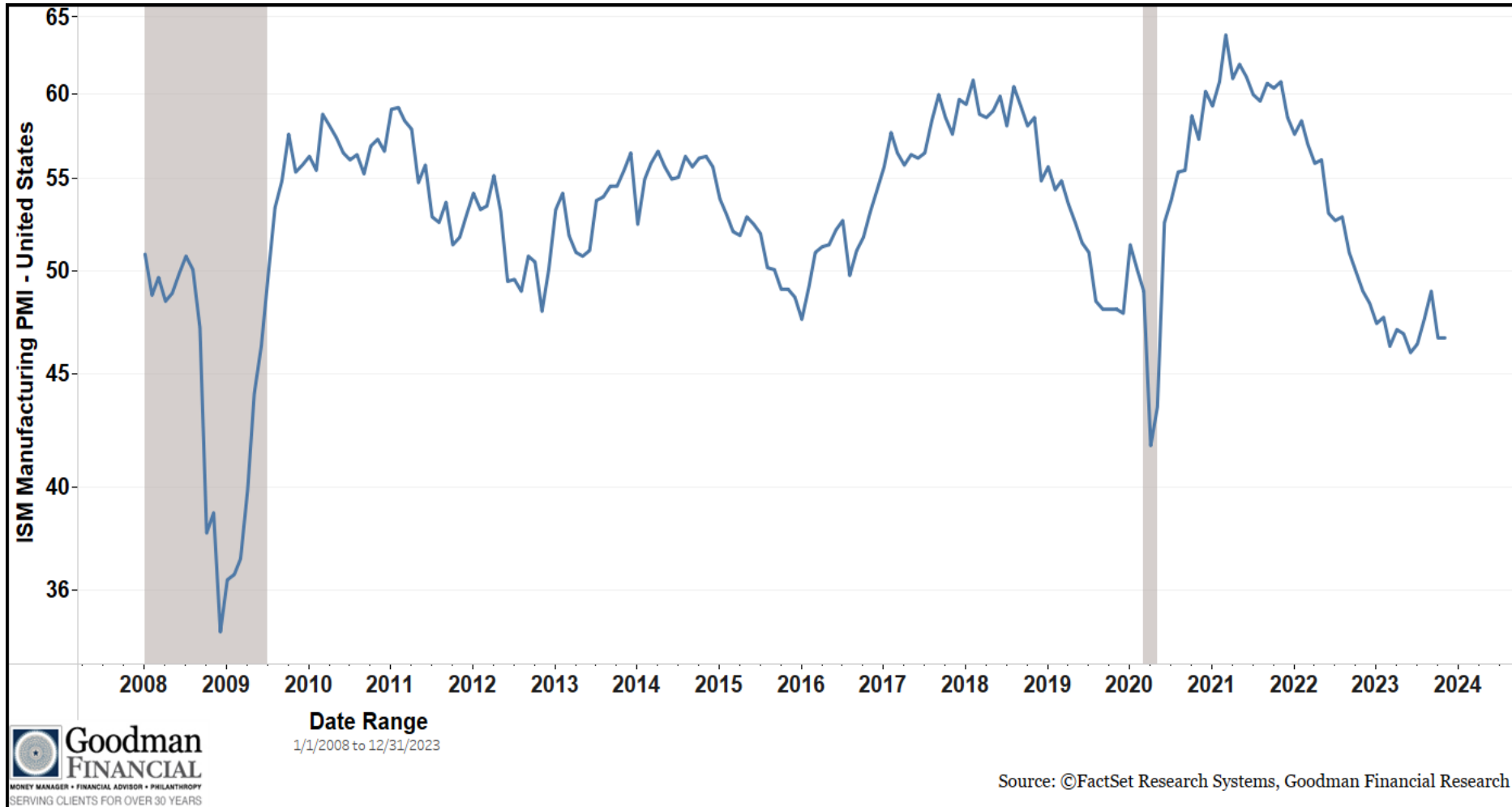
Data as of December 2023

AS HOME AFFORDABILITY WORST SINCE 1980's



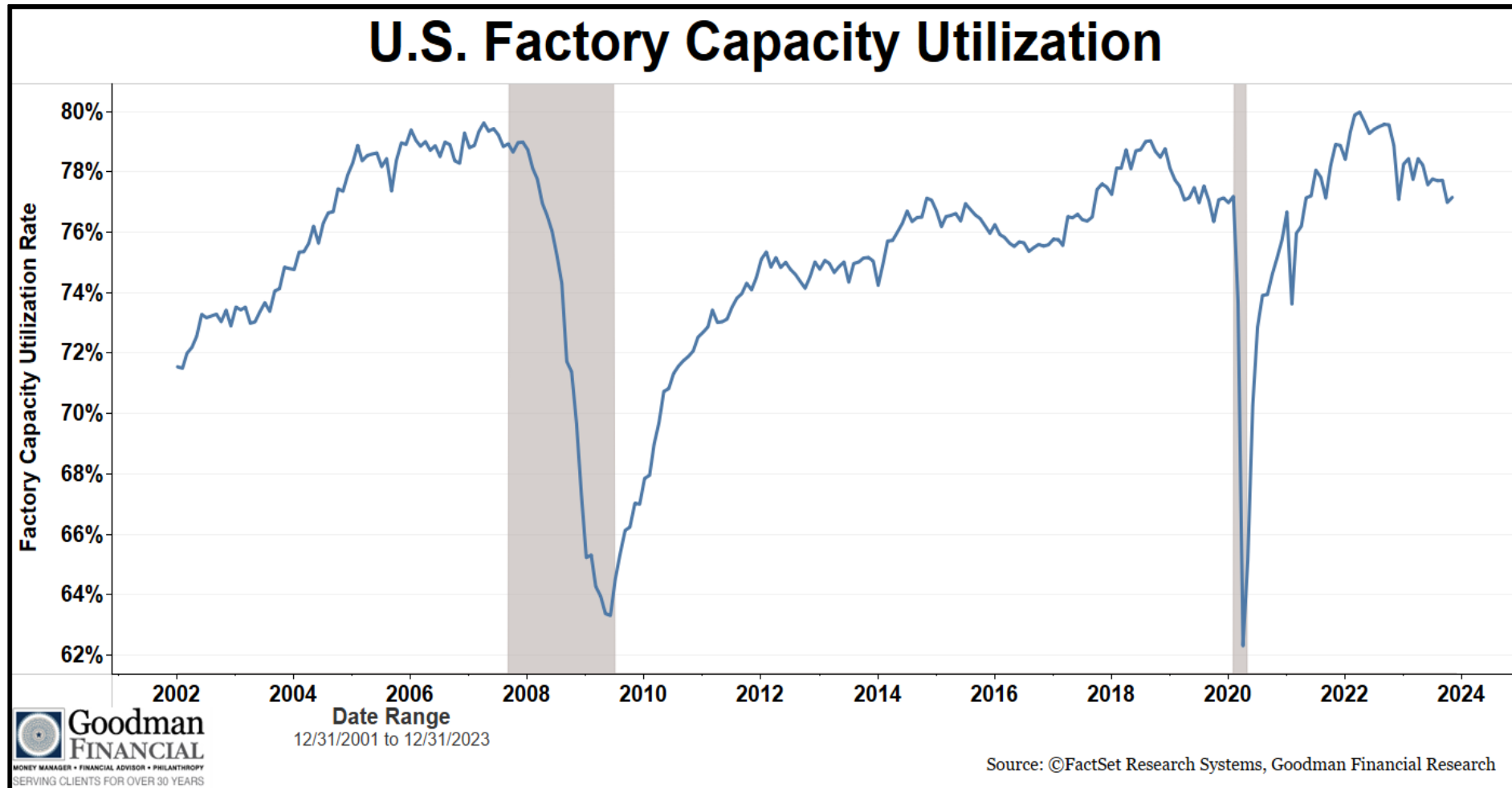
Data as of December 2023

PURCHASING MANAGERS INDEX FALLING



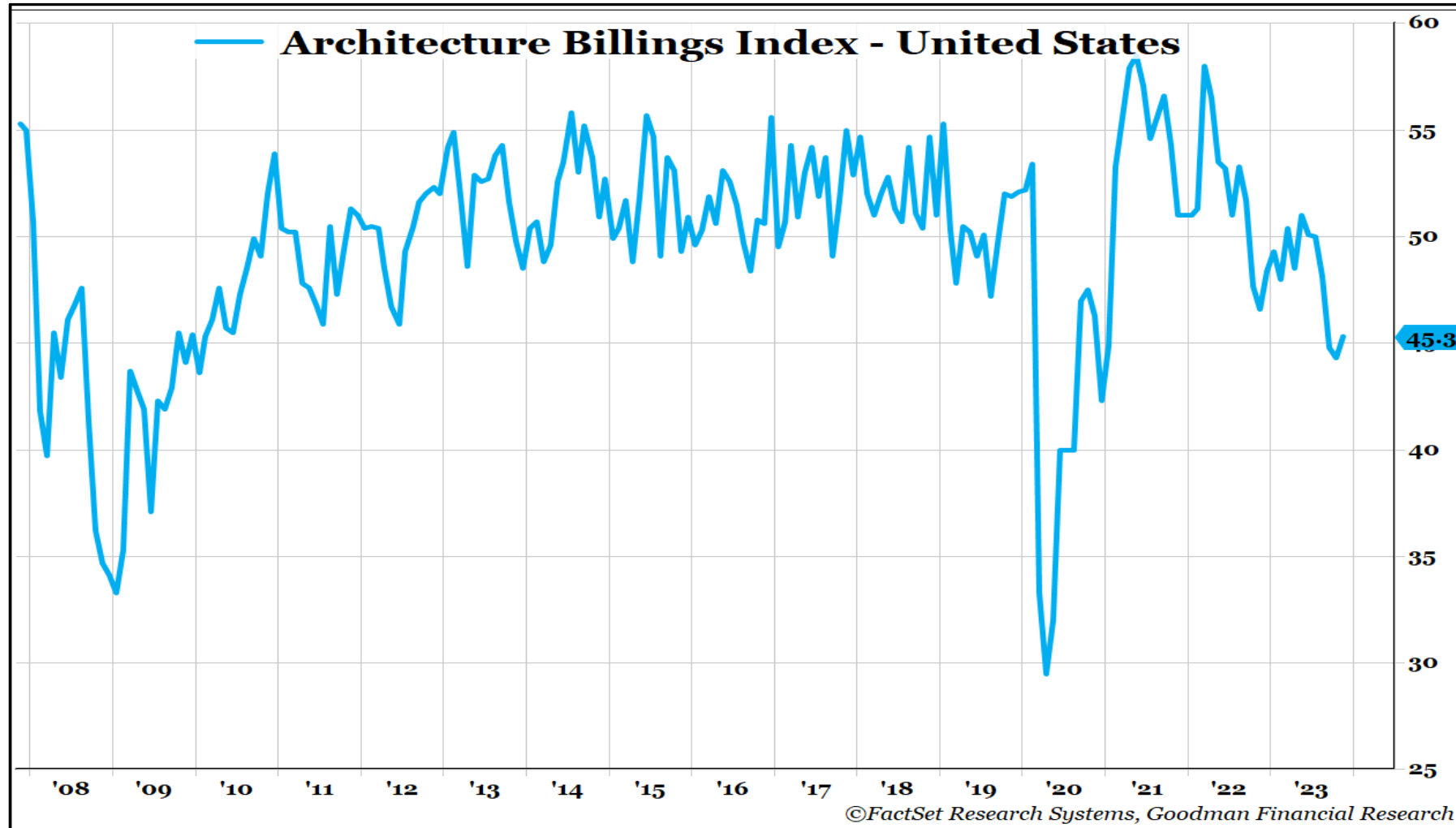
Data as of December 2023

FACTORY UTILIZATION IS STILL STRONG, BUT SLOWING



Data as of December 2023

COMMERCIAL CONSTRUCTION OUTLOOK IS FALLING



Data as of November 2023



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FISCAL POLICY

Fitch's Warning About America's Fiscal Future

NATIONAL DEBT

U.S. Credit Rating Downgrade Is a Sign of Government Dysfunction

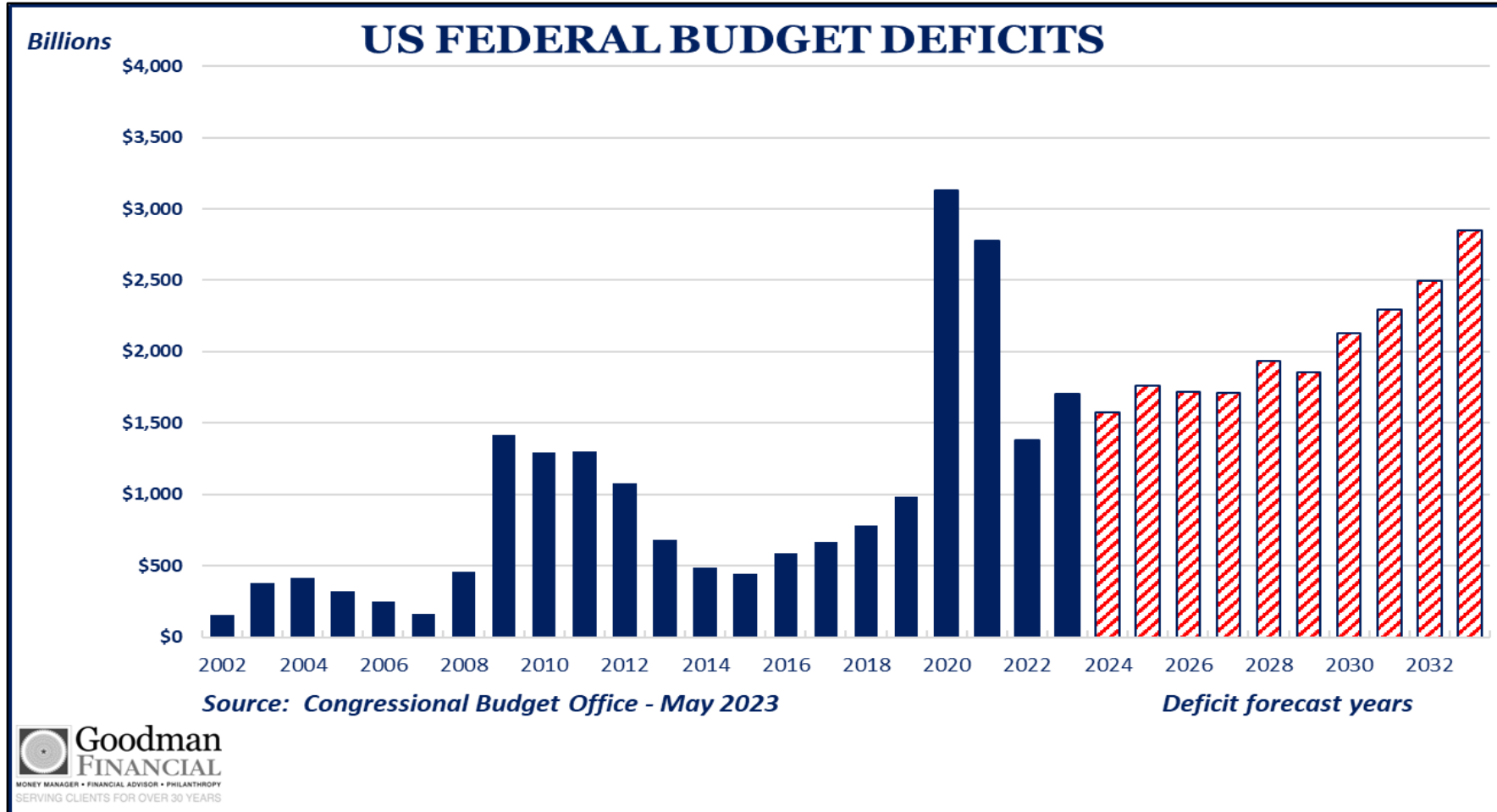
The national debt has ballooned from \$14 trillion to \$32 trillion in a little over a decade.

Fitch cuts US credit rating to AA+; Treasury calls it 'arbitrary'

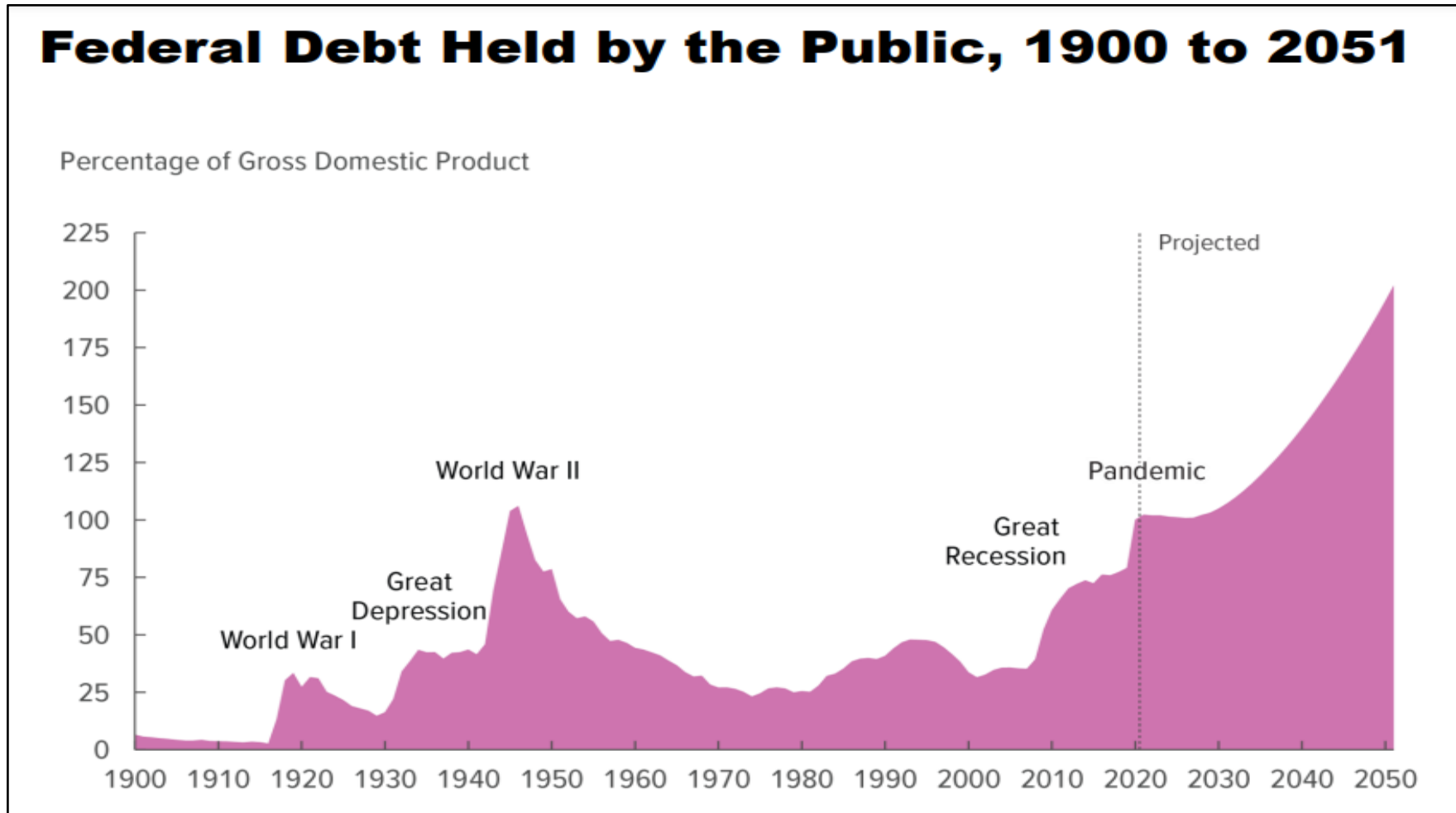
Fitch Downgrades America

The rating agency may be too optimistic about the U.S. fiscal future.

LARGE AND INCREASING BUDGET DEFICITS AS FAR AS WE CAN SEE

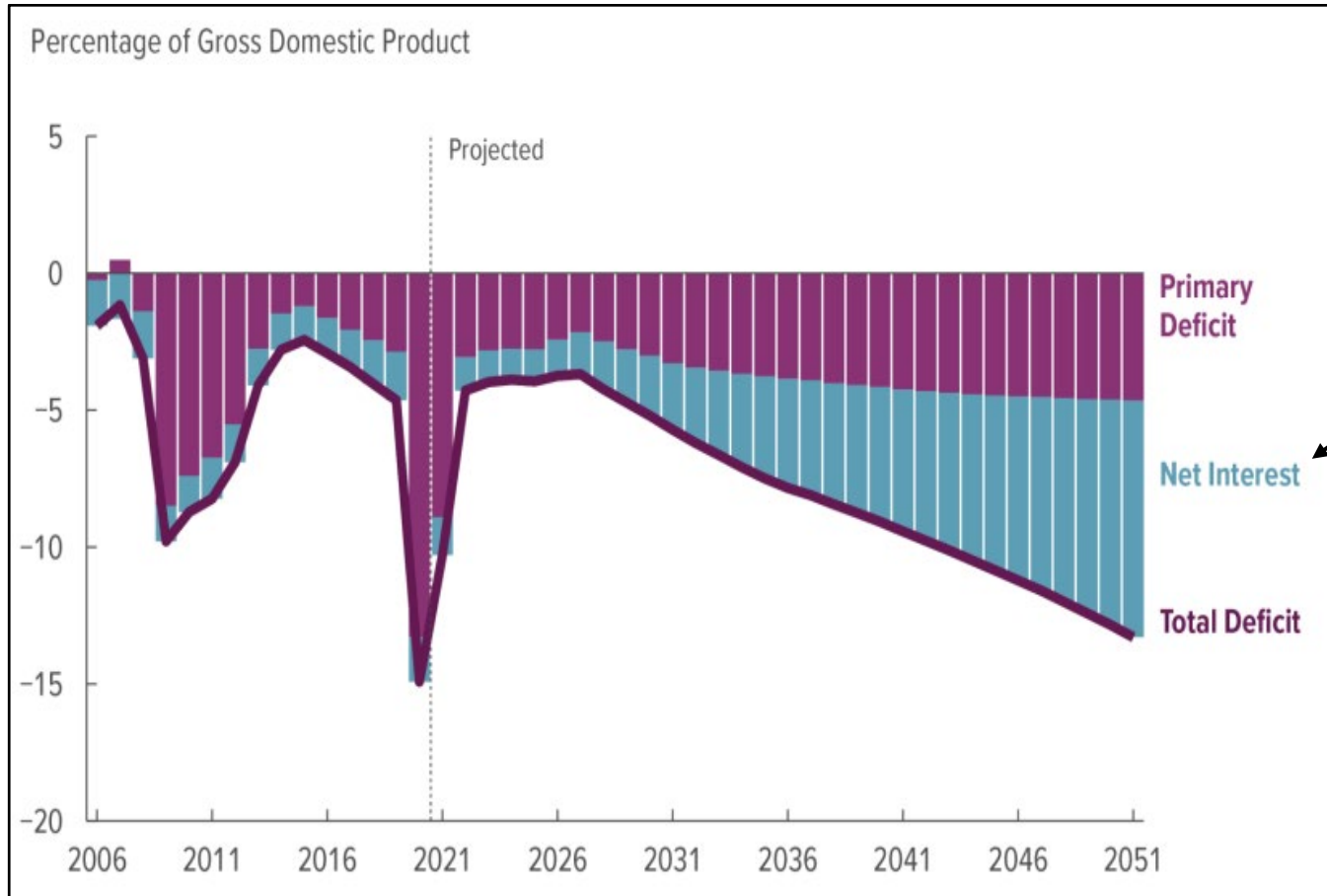


FORECASTED DEBT AS % OF GDP



Source: Congressional Budget Office; Data as of May 2022

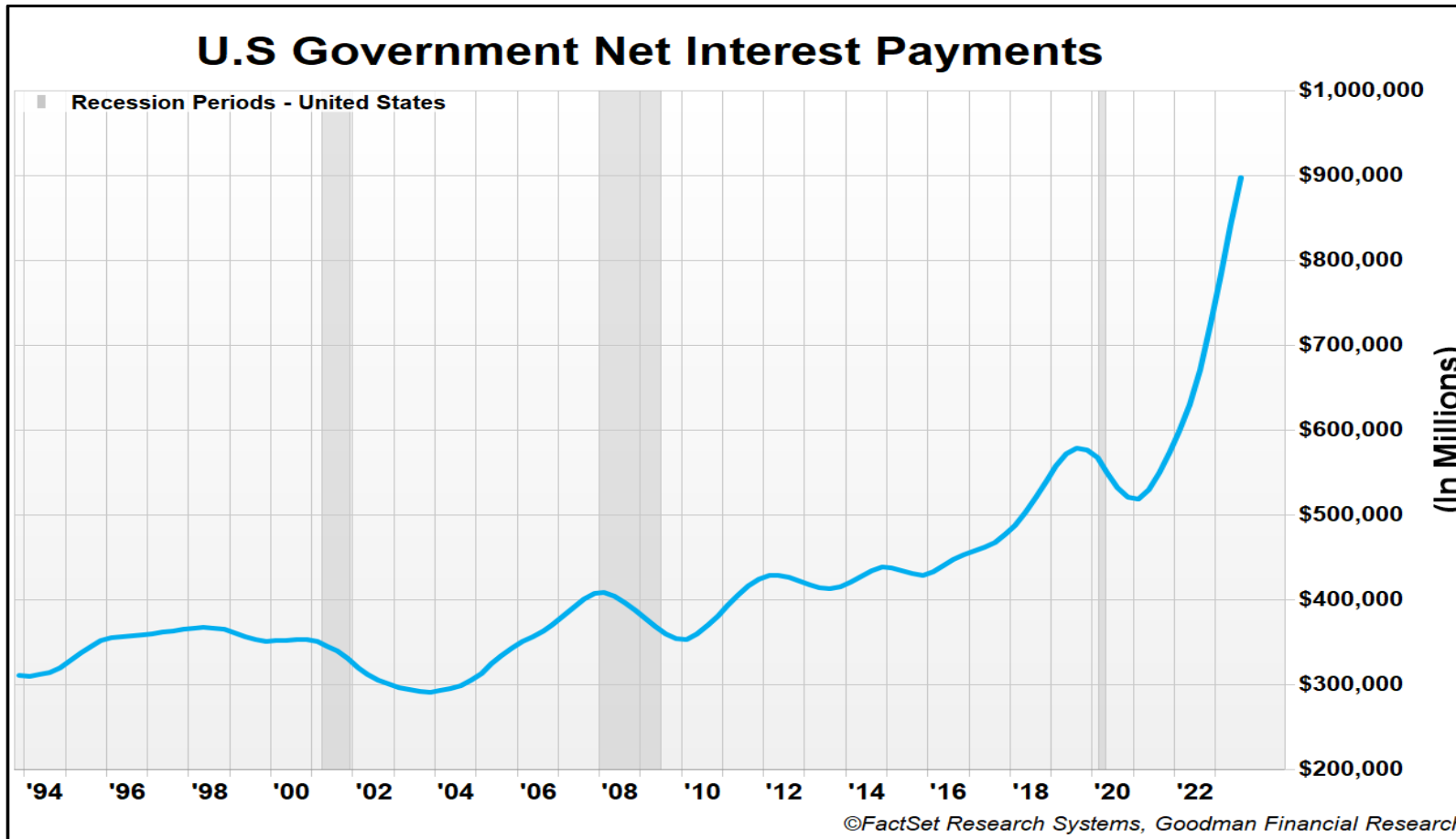
INTEREST RATES WILL BECOME A PROBLEM



CBO expects interest rates to rise as the economy recovers and then continues to expand, particularly in the latter half of the coming decade. The agency expects the interest rate on 10-year Treasury notes to average 1.6 percent over the 2021–2025 period and 3.0 percent over the 2026–2031 period. After 2031, the interest rate on 10-year Treasury notes is projected to rise steadily, reaching 4.9 percent by 2051. (Though higher than current rates, the projected interest rates are lower than they have been historically.)

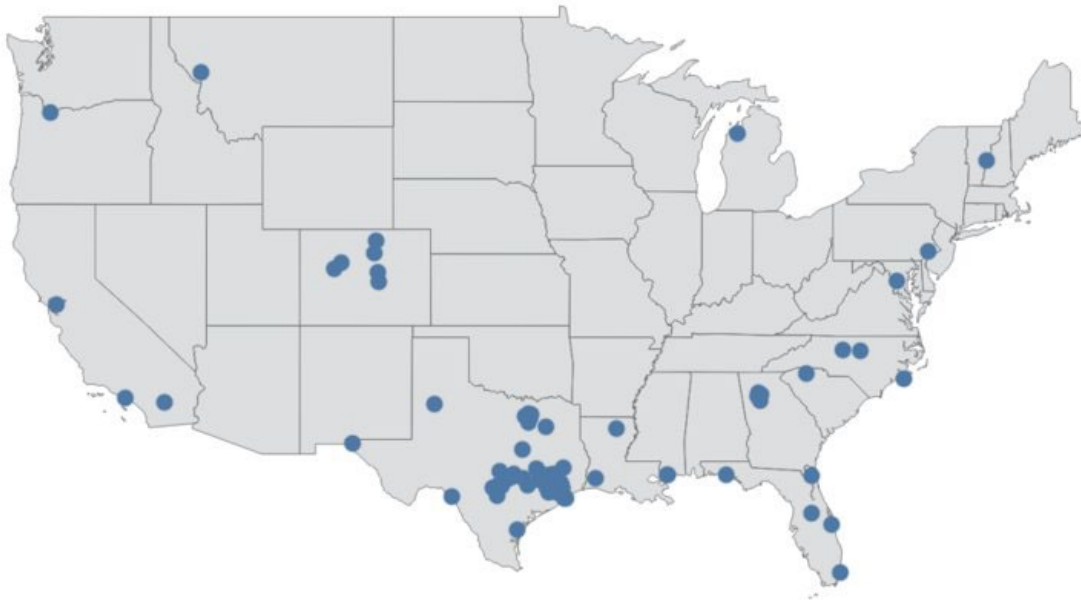
Source: Congressional Budget Office, as of May 2021

INTEREST RATES ARE A PROBLEM! INTEREST COSTS HAVE DOUBLED SINCE COVID



Data as of September 2023

Goodman Financial Corporation Serving Clients in Texas and Across the U.S.



As of December 31, 2022

Thank you

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