Quarterly Market Summary – Q4 2023

Market Results as of the Fourth Quarter of 2023

Selected Index Results for Q4 – 2023

Index(1)	**%Growth For FY 2022**	**%Growth For FY 2023**	**%Growth For Q4 2023**
DJIA	-8.78%	13.70%	12.48%
Core U.S. Aggregate Bond Index (U.S. multi-sector bond)	-14.98%	2.33%	5.54%
S&P 500 (large cap)	-19.44%	24.23%	11.24%
S&P 400 (mid cap)	-14.48%	14.45%	11.17%
Russell 2000 (small cap)	-21.56%	15.09%	13.56%
MSCI EAFE Index (developed international)	-28.81%	14.79%	9.33%
iShares MSCI Emerging Market Index	-28.60%	6.09%	5.96%
iShares Dow Jones US Home Construction	-37.24%	67.86%	29.61%
MSCI US REIT Index	-30.15%	8.96%	15.44%
Amex Oil Index	27.65%	4.21%	-3.69%
Barclays Global Agg ex-US Corp Bond Index	-27.46%	7.97%	10.32%

(1) These results do not include reinvestment of dividends.

Q4 Quick Summary

- The U.S. Federal Reserve signaled it is likely to hold interest rates at current levels for some period of time, and then start to cut rates later this year. The timing and extent of rate cuts is uncertain, and the subject of intense market speculation.
- The U.S. economy performed better than expected in 2023, with full-year growth estimated to be 2.4%. The growth forecast for 2024 is not as upbeat, as the impact of higher interest rates weighs on demand, and business profit margins come under increasing pressure. Pricing power is starting to diminish while the labor market remains strong.
- Inflation has slowed from its multi-decade highs and is expected to continue to drift lower over the next several quarters; however, core inflation (excluding food and energy) is expected to remain above the Fed's 2% target well into 2025.
- Global tensions continue to impact markets and economic growth in Q4. In addition to the ongoing war in Ukraine, the conflict between Israel and Hamas threatens to expand to a wider arena, potentially impacting oil prices and impeding important shipping lanes.
- U.S. consumer spending has proven to be very resilient in 2023; however, the risks stemming from higher interest rates and geopolitical tensions should not be dismissed. Although wage gains have been significant over the past two years, higher prices and rising consumer debt levels could test that resiliency in 2024.

The Federal Reserve Pivots to Easing

As expected, the Federal Reserve kept the target range for the federal funds rate unchanged at 5.25% to 5.5% at its December meeting with a unanimous decision. While the decision to hold rates steady was in line with expectations, the accompanying statement and projections point to a shift toward easing in 2024. In addition, Fed Chair Jerome Powell's comments in his press conference confirmed that most members of the committee believe the current hiking cycle is over, and they discussed a path to lower rates. This change in tone was notable and was reflected in strong rallies in the stock and bond markets.

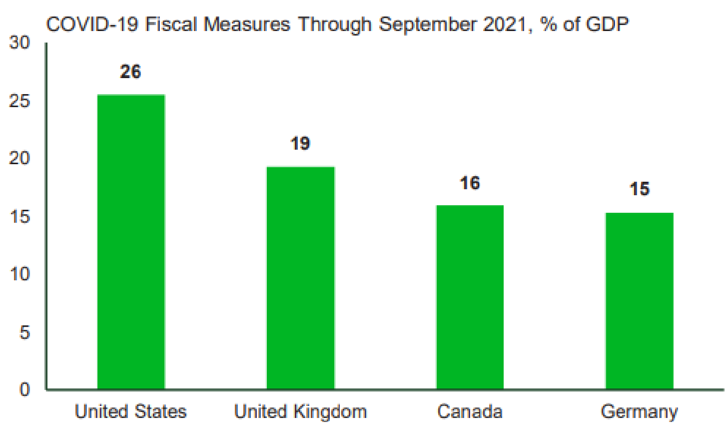
Encouraged by declining inflation, the Fed signaled that more rate hikes are unlikely in this cycle and that there could be 75 basis points (0.75%) in rate cuts in 2024. The statement that accompanied the Fed's decision indicated that "growth of economic activity has slowed since the third quarter" and "inflation has eased over the past year." The median estimate of Fed officials suggests three rate cuts of 25 basis points each, bringing the Fed funds rate to around 4.6%.

The shift in the Fed's projections brings them closer to what markets had been expecting; however, bond markets are currently pricing in six 25-basis point cuts in 2024, starting as early as the March Fed meeting. This combined with a slight uptick in the December inflation reading could signal a significant disconnect between Fed projections and market expectations, which could result in higher bond market and stock market volatility as we move through the year.

The U.S. Economy Continues to Exceed Expectations

The U.S. economy expanded by a blistering 4.9% quarter-over-quarter (annualized) in the third quarter and is on track to grow by 2.4% for 2023 as a whole. This will far surpass any of its G7 peers, and essentially matches its 2019 performance despite having a federal funds rate 2.5 times higher. There are a few actors underpinning this outperformance. The first and most significant is a resilient consumer. In two of the last three quarters, consumer spending expanded by just under 4%, as households continue to unwind excess savings, complemented by healthy wage growth in a historically tight labor market.

The U.S. implemented some of the largest fiscal support measures during the pandemic and was also one of the only G7 countries to send direct payments to households, irrespective of whether their employment situation was impacted by the pandemic. This windfall for households has cushioned the blow from high inflation and rising borrowing costs.



Note: Includes additional spending or foregone revenues, not liquidity supports or contingent liabilities. Source: IMF Fiscal Monitor, TD Economics.

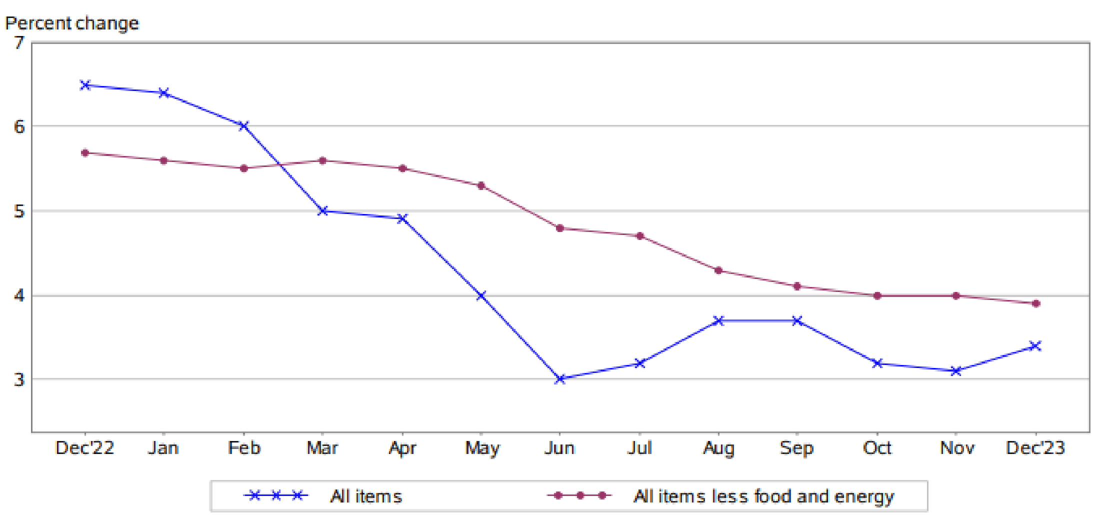
U.S. households have also benefited from the fact that their mortgage structure is very different than most of their peers. Because Americans tend to lock-in to a 30-year fixed rate mortgage in great numbers, homeowners have been insulated from higher interest rates, with mortgage debt accounting for two-thirds of overall household debt holdings. Moreover, it is estimated that 14 million borrowers – or one-third of the outstanding mortgage balances –refinanced between Q2 2020 and Q4 2021 at ultra-low rates. In addition to lowering their monthly mortgage payments, borrowers also used refinancing as a tool to cash in on the equity in their homes, freeing up money to spend. The story is very different across other advanced economies, where debt burdens are higher and mortgages tend to reset more frequently, thereby exposing homeowners to higher interest costs and creating a more meaningful headwind to household spending.

Beyond the consumer, business investment has remained surprisingly resilient through the tightening cycle. Much of this is due to generous incentives in legislation enacted in late-2022 aimed at greening the economy, reshoring the production of semiconductors, and improving America's infrastructure. While other countries have also implemented tax incentives and subsidies to compete in similar areas, they have not rivaled the lucrative incentives offered in the United States.

Inflation Is Down, But Still Sticky

Over the past three years, Americans have faced the biggest increase in prices since the early 1980s. Thankfully, the pace of inflation has slowed substantially since the peak in mid-2022, but headline CPI inflation remains above 3% year-over-year. The Fed focuses on core inflation (excluding food and energy), which remained around 4% year-over-year in December. Despite meaningful improvement, there is a real risk progress stalls in the months ahead as it has in other countries. This is due to two factors. First, core goods prices have already seen heavy discounting, with the resolution of supply chain snarls increasingly in the rearview mirror. So it is likely there will be less downward thrust coming from goods prices.

12-month percent change in CPI, not seasonally adjusted, December 2022 – December 2023



Second, on the services side, price pressures have been more resilient recently. Rent inflation in particular has been sticky, with the shelter index rising in December and presenting an upward risk to inflation in the coming months. Services inflation excluding shelter, which is known to have long lags to market prices, is still above 4%

on a year-on-year basis as of December. The tight labor market has left wage inflation measures in the 4% to 5% range, which presents a challenge to downward pressure on inflation from services. Given these trends, we expect both headline and core inflation in the U.S. to remain above 3% for the rest of 2023 and into early 2024, supporting the Fed's stance to keep rates at current levels for the time being.

Another Conflict Weighs on Global Growth

Global economic growth has largely slowed in line with expectations, as the lags from high interest rates snake their way through domestic demand to cool inflation. Although Chinese authorities recently upped deficit-funded infrastructure spending to provide a floor under that economy, it only offers a modest lift to our global growth expectations in 2024. However, the global landscape has certainly become a more difficult space to navigate under the weight of another war. The human toll of the conflict in Israel and Gaza is heart-wrenching, but thus far the economic impacts for the global economy have been limited. Geopolitical instability in the region typically propagates to the global economy through oil markets and a rise in the risk premium on prices.

The mere existence and persistence of the conflict raises the risk profile on oil and the global economic outlook. Escalation can take many forms, including a tightening of U.S.-imposed sanctions on Iranian oil exports all the way to a broader regional conflict restricting shipping traffic in the Strait of Hormuz (a thoroughfare for nearly 20% of the world's oil) or the Gulf of Aden, a key leg for Suez Canal traffic. In the event of a wider regional conflict, oil prices could surge and in turn, the supply side constraint would dominate the potential for weaker demand and higher inflation.

Will Consumers Continue to Spend?

As discussed above, the U.S. consumer has already been a key contributor to strong economic performance; however, we shouldn't dismiss the risks stemming from the largest increase in interest rates in forty years and an increasingly worrying geopolitical backdrop. So far, spending has been supported by three pillars – a drawdown of pandemic-era savings, a strong job market with accompanying real wage gains and access to credit.

Consumers are estimated to still hold around $800 billion in excess savings depending on the measure used. Based on the current speed of drawdown, however, it is estimated these reserves would be depleted by mid-2024. Furthermore, that cushion is concentrated in wealthier households with lower marginal propensities to consume out of savings and wealth. Combining this factor with an absence of pent-up demand and an uncertain economic environment, the excess savings may not translate into such robust spending in the future.

The second source for consumers' spending power is a tight labor market. It has been cooling recently but remains strong enough to support healthy income growth. Both average hourly earnings and the employment cost index show that workers are still receiving raises, even if not as sizeable as last year. Even so, consumer spending has been outpacing income growth in recent months, and this could force some to rein in spending despite wage gains.

The third support to consumer spending, credit, is definitely under pressure and the winds have changed direction. New York Fed data shows that credit card balances experienced a large jump in the third quarter, as consumers relied on credit to boost expenditure. This occurred simultaneously with banks tightening lending standards in response to higher interest rates. More worrisome is the fact that delinquency rates, particularly for credit cards and auto loans, are rising, suggesting some consumers are increasingly stretched. Putting the pieces together, consumers' contribution to economic growth should lessen gradually as we move through 2024.

Conclusions

We believe economic uncertainty and market volatility will remain high well into 2024. It's important during this period to maintain a well-balanced, diversified portfolio, with a risk profile consistent with your goals. Your portfolio should contain an appropriate mix of investments, including cash, bonds, and various types of stocks (large cap, mid cap, small cap, domestic and international) in appropriate allocations based on your goals, investment time horizon and tolerance for market risk.

Projecting stock market direction is always rife with problems, doing so in an environment like this can quickly make even the most thoughtful projections irrelevant. This highlights the benefits of a well-diversified portfolio and a consistent investment strategy to navigate through the volatility. Fundamentally, stock valuations are based on long-term expectations for dividend payments and price appreciation. In periods of higher market volatility, maintaining investment discipline will be more difficult emotionally. However, we need to remember that market timing as an investment strategy has never worked consistently (and results in lower longer-term yields). Trying to time markets has a high probability of creating permanent losses in your portfolio. As always, stay with a consistent and disciplined investment strategy; it is the only course of action with a consistent track record of success (in any investment environment).

At the most fundamental level, match your investment time horizon to your spending timeline – if you have short term cash needs then those funds should be in short term investments. These are simple asset/liability matching principles practiced by the most sophisticated investment managers every day (but far too complex to explain in sound bites and not conducive to selling products). Additionally, don't try to solve short-term financial problems with long-term equity exposure. If you try to chase returns, you may get lucky sometimes but, if pursued long enough, it always ends in extreme frustration and often with serious financial losses.

As always, if your personal or family situation has changed (or is likely to), a discussion with us as to how this may impact your financial plan and your overall asset allocation is warranted. Or, if you simply feel a need to discuss any aspect of your portfolio and/or financial plan, or you haven't had a planning update within the last 12 months, please contact us to review your financial plan and investments.

Risks

Investors should be aware of the risks associated with all portfolio strategies and variable market conditions. Monetary policy changes, military activity abroad, the level and change in market interest rates, corporate earnings, domestic and foreign governmental policies, global economic data, and other geopolitical events can have a substantial effect on portfolio performance and the effectiveness of strategic and tactical portfolio approaches.

Your financial plan is the most important financial document that you possess! Keep it updated and use it.

Please note that you are entitled to receive Fullen Financials' Form ADV whenever you would like to. This document outlines many details of who Fullen Financial is, their investment methodologies and their advisor's education and experience. You may do so by contacting Paula Miller (paula@fullenfinancial.com) and requesting such. Alternatively, you can go to the Fullen Financial website at www.fullenfinancial.com and click on "Resources" in the top menu bar, and then on "Client Forms."

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Appendix: Economic Indicators and Outlook

Economic Indicators: G7 & Europe

	2022	2023F	2024F	2025F
Real GDP (Annual Per Cent Change)				
G7 (35.3%)*	2.2	1.7	0.9	1.4
U.S.	1.9	2.4	1.5	1.7
Japan	0.9	1.9	0.5	1.0
Euro Area	3.4	0.5	0.3	1.2
Germany	1.9	-0.1	0.2	1.3
France	2.5	0.8	0.4	1.3
Italy	3.9	0.7	0.2	0.9
United Kingdom	4.3	0.5	0.2	1.1
Canada	3.8	1.1	0.5	1.5
Consumer Price Index (Annual Per Cent Change)				
G7	7.3	4.7	2.7	2.1
U.S.	8.0	4.2	3.0	2.3
Japan	2.5	3.4	2.3	1.5
Euro Area	8.4	5.4	2.4	2.0
Germany	8.7	6.1	2.5	2.0
France	5.9	5.7	2.4	2.0
Italy	8.7	6.0	2.1	1.8
United Kingdom	9.1	7.3	2.8	1.9
Canada	6.8	3.8	2.7	2.1
Unemployment Rate (Per Cent Annual Averages)				
U.S.	3.6	3.6	4.2	4.1
Japan	2.6	2.6	2.5	2.3
Euro Area	6.7	6.5	7.1	6.9
Germany	5.3	5.7	6.1	5.6
France	7.3	7.3	7.8	7.3
Italy	8.1	7.8	8.6	8.2
United Kingdom	3.7	4.3	4.9	4.4
Canada	5.3	5.4	6.5	6.6

F: Forecast by TD Economics, December 2023.
* Share of 2021 world gross domestic product (GDP) at PPP.
Source: National Statistics Agencies, TD Economics.

Global Economic Outlook

[Annual Per Cent Change Unless Otherwise Indicated]

	2021 Share*	Forecast		
Real GDP	**(%)**	**2023F**	**2024F**	**2025F**
World	**100.0**	**3.1**	**2.6**	**2.9**
North America	**19.0**	**2.4**	**1.5**	**1.7**
United States	15.8	2.4	1.5	1.7
Canada	1.4	1.1	0.5	1.5
Mexico	1.8	3.4	2.1	2.0
European Union (EU-27)	**14.8**	**0.5**	**0.5**	**1.4**
Euro Area (EU-20)	12.0	0.5	0.3	1.2
Germany	3.3	-0.1	0.2	1.3
France	2.3	0.8	0.4	1.3
Italy	1.9	0.7	0.2	0.9
Other EU Members	2.8	0.4	1.6	2.2
United Kingdom	2.3	0.5	0.2	1.1
Asia	**44.0**	**4.7**	**4.3**	**4.1**
Japan	3.8	1.9	0.5	1.0
Asian NIC's	3.5	1.4	2.5	2.2
Hong Kong	0.3	3.3	2.1	2.5
Korea	1.7	1.3	2.1	2.1
Singapore	0.4	0.9	2.7	2.5
Taiwan	1.0	1.0	3.2	2.1
Russia	3.1	2.0	2.5	1.1
Australia & New Zealand	1.2	1.9	1.6	2.4
Emerging Asia	32.5	5.7	5.2	5.0
ASEAN-5	5.5	4.4	4.9	5.0
China	18.5	5.5	4.9	4.4
India**	7.0	7.1	5.9	6.8
Central/South America	**5.5**	**1.6**	**1.3**	**2.3**
Brazil	2.4	3.1	1.8	2.1
Other Emerging Markets	**13.3**	**3.1**	**2.3**	**3.1**
Other Advanced	**1.1**	**1.4**	**1.7**	**2.2**

F: Forecast by TD Economics, December 2023.
* Share of 2021 world gross domestic product (GDP) at PPP.
** Forecast for India refers to fiscal year.
Source: International Monetary Fund, TD Economics.

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Investors should consult with their investment advisor to determine the appropriate investment strategy and investment vehicle. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance.

Except for the historical information contained in this report, certain matters are forward-looking statements or projections that are dependent upon risks and uncertainties, including but not limited to such factors and considerations such as general market volatility, global economic risk, geopolitical risk, currency risk and other country-specific factors, fiscal and monetary policy, the level of interest rates, security-specific risks, and historical market segment or sector performance relationships as they relate to the business and economic cycle.