MITTELMAN WEALTH MANAGEMENT

A MULTI-FAMILY OFFICE

INVESTMENT UPDATE

Fourth Quarter 2023

Planning

Investing

Advising

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MARKET REVIEW

US Equities climbed meaningfully higher for 2023, initially driven by a select few very large "Magnificent 7" benchmark names and Artificial Intelligence enthusiasm. After pulling back in the fall, markets rallied once again in the fourth quarter amid better-than-feared economic and geopolitical headlines as well as a dovish Fed pivot that bolstered investor confidence. Encouragingly and in stark contrast with earlier in the year, the year-end market rally enjoyed much broader stock participation.

In the fourth quarter, US Equities outperformed Non-US Equities with strength especially pronounced among Small Cap names. Promising Federal Reserve signaling, strong labor markets, and continued inflation easing contributed to the higher beta rally. At the sector level, high-yielding REITs bested other sectors due to the fundamental and technical tailwinds of falling rates – economic stimulus and bond proxy attractiveness respectively. Energy was the only negatively performing sector which sold off in concert with cratering oil prices.

Outside the US, progress on inflation and structural reforms in Japan enabled double digit International Equity returns. Emerging Markets also moved higher, but lagged other major equity asset classes as continued China struggles post-Covid weighed heavily on the region.

In a marked change in tone and tenor from the summer, evolved Fed messaging about rate direction and timing pushed bond prices up and yields down, with the 10-year falling below 4% by year-end from 5% just a few months prior. Furthermore and in concert with improved economic prospects, credit spreads tightened across sectors as prospects for default improved.

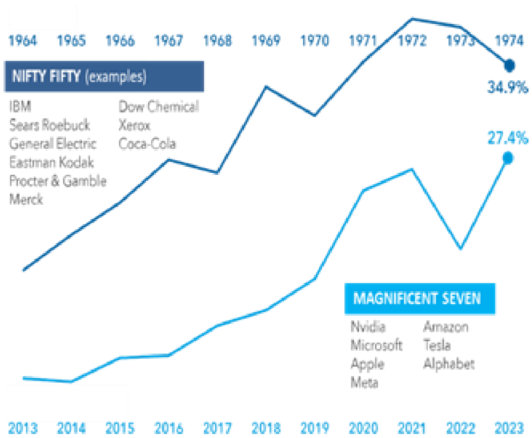
> *A handful of mega-cap stocks branded "The Magnificent Seven" accounted for 58% of the S&P 500's return in 2023 due in part to their perceived favorable A.I. positioning.*

Among commodities, Gold rallied to the very high end of its trading range at over $2,000/ounce as it attracted flight-to-safety buyers. Given the tragic events in the Middle East, oil counterintuitively reversed course from the prior period and meaningfully sold off, with Brent & WTI falling ~20% for the quarter amid non-OPEC oil production increase concerns.

OUTLOOK

Heading into 2024, there are certainly no shortages of potential investor catalysts – both positive and negative. On balance, "cautious optimism" is a fair characterization of the outlook, with arguably "cautious" better suited for the US equity market potential, and "optimism" a more apt descriptor of the economic prospects.

COMBINED MARKET VALUE AS A % of S&P 500



Source: *Capital Group*

Following a surprisingly strong 2023, US GDP growth seems likely to cool but not contract. Corporations have been disciplined about balance sheet management and are well-positioned for a potential overseas economic recovery and/or a domestic manufacturing renaissance.

Accounting for two-thirds of the US economy, the consumer warrants especially close monitoring. While pent-up Covid spending on goods and services has run its course and savings levels have fallen, debt service levels remain manageable, prices have moderated, and the labor market remains robust.

Against such a backdrop, investor sentiment towards US Equities appears elevated and stocks look expensive, most notably among larger cap growth names. And despite long-term market performance not materially impacted by the political party in power, short-term volatility is likely to intensify heading into November elections.

In contrast, overseas markets offer superior valuations and tend to be under-owned by many retail investors; this despite the fact that the average Non-US stock has outperformed the average US stock, suggestive of a healthier overall market environment. Furthermore, with the Fed likely to lead other major central banks in cutting rates, the resulting interest rate disparity should weigh on the US dollar, further enhancing non-US returns for a US investor.

Lastly of note, investors who have grown accustomed to higher deposit, CD, and money market rates might be better served by exploring other asset classes as the enhanced cash cohort has historically produced underwhelming returns following a central bank rate cutting campaign.

Q4 Market Performance

US Large Cap	11.7%
US Small Cap	14.0%
Non-US Developed	10.4%
Emerging Markets	7.8%
Treasuries	5.5%
Investment Grade	7.9%
High-Yield	7.2%
Oil	-21.1%
Gold	11.6%