KS Trust
Wealth & Investment Management

Quarterly Economic Commentary

January 2024

Market Returns

	12/31/2022	12/31/2023	% Gain/Loss
Dow	33,147	37,690	15.90%*
S&P 500	3,840	4,770	26.00%*
NASDAQ	10,466	15,011	44.50%*

**Total Return Including Dividends*

By Jim Watts, KS Trust Senior Portfolio Manager

Despite rapidly rising interest rates, political uncertainty, and geopolitical unrest, the stock market provided some excellent returns for 2023. While the "Magnificent Seven" provided basically all of the returns for the first ten months of the year, November and December broadened out the rally. The Technology sector led the way, up 57.8%; next was Communication Services, up 55.8%; and Consumer Discretionary, up 42.4%. Utilities were the worst performing sector, down 7.1%; Energy was the second worst, down 1.3%; and next was Consumer Staples, up just 0.50%.

The Federal Open Market Committee (FOMC) kept the market in check for most of the year, pushing interest rates higher, with the current Fed Funds Target at 5.50%. Over the past several meetings, the tone of the decision has been more dovish, giving the stock and bond markets a reason to rally. The bond market had a good year following a devastating year in 2022. The 10-year Treasury closed up 3.2%, with a closing yield of 3.86%, US Bonds were up 5.3%, and Muni's were up 6.4%.

Should interest rates trend lower during 2024, we feel Technology will continue to increase based on the Artificial Intelligence revolution. However, other sectors, like Financial, Utilities, and Energy, should perform well. These sectors tend to be very interest rate sensitive, and with lower interest rates, they should be the beneficiaries of this trend. I expect some slowing in the economy, but with the current GDP at 4.90%, I don't expect a recession.

I was on an Argus research call recently, and they have termed 2024 a "certain-to-be-unpredictable investing environment." In addition, they stated the following: "The start of 2024 may be difficult, as the Federal Reserve keeps rates high, the economy flirts with recession (despite the robust employment environment), and geopolitical issues remain unsolved. But earnings growth is expected to accelerate to 8%-10% year-over-year during the first half. And should the Fed start cutting interest rates by mid-year, the outlook for the second half should improve. We believe the stock market will take its cues from the Fed in 2024, as it did in December 2023 when the Dow Jones Industrial Average soared to a new all-time high after the central bank signaled an upcoming rate pivot. Should inflation turn stubborn, keeping the Fed from cutting until year-end, stocks could come under pressure. Moreover, 2024 is the fourth year of the presidential cycle, which is historically a weak year due to uncertainty over the future leader of the U.S. The election in November seems almost certain to be decided by a very small margin."

Tuesday, Phillip Orlando, CFA at Federated Hermes, offered this assessment: "The Federal Reserve last hiked interest rates on July 26, and stocks typically rally when it holds them steady. Despite lower inflation, we expect a cautious Fed to remain on pause into the back half of next year, with perhaps one to three strategically timed cuts. Historically, policymakers have avoided altering monetary policy in presidential election years from Labor Day through Election Day. So, it might ease at the FOMC meeting on July 31, November 7 (two days after the presidential election, and December 18."

Now, let's review my ten expectations for 2023, and how they turned out:

1. Volatility will continue, at least through the first half of the year. *Correct, with volatility running well into the fourth quarter.*
2. The Fed will continue to raise rates through at least the first quarter. *Correct, they raised into the second quarter.*
3. The inflation number, CPI, will show at least one increase instead of continuing the downward trend. *Correct, September showed an increase year-over-year, taking the stock market down.*
4. The Fed will pause but not pivot in 2023. *Correct, they paused the last three meetings.*
5. Energy prices will rise, with oil reaching at least $100 per barrel and prices at the pump at roughly $4 per gallon driven by increased demand from Europe and China. *Incorrect. Oil prices in October were in the mid-$90s but did not top $100.*
6. The war in Ukraine will continue to wreak havoc on the international community and economy. *Correct.*
7. We expect the bond market to turn around and see a strong 2023 performance. *Correct.*
8. North Korea will become more emboldened in its military endeavors. *Correct.*
9. Iran will again come to the forefront as a global threat. *Correct.*
10. The stock markets will end the year with a mid-to-high, single-digit return. *Incorrect, it*

was a very nice double-digit return.

What are my ten expectations for 2024?

1. Interest rates will trend lower, but the Fed will be reluctant to lower rates until at least the second half of the year.
2. Bonds will perform better in 2024 than in 2023.
3. Oil prices will remain in the $75-$95 range.
4. 2024 will remain precarious geopolitically, with no resolution in Israel or Ukraine.
5. China will make a proposed annexation of Taiwan.
6. Iran and North Korea will continue to push the envelope militarily.
7. The U.S. stock market will end the year with a high, single-digit, or low, double-digit return.
8. The U.S. will not go into a recession.
9. Gridlock will continue in domestic policies, but there will be no government shutdown.
10. I will not make any predictions for the 2024 Presidential election!

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We are committed to maintaining a clear focus on building and preserving client's wealth and enhancing their quality of life, both now and in the future. Working in a fiduciary capacity, the KS Trust team provides a single point of contact for a full array of investment services.

Our team's collective knowledge and experience forges our ability to serve our clients more extensively and develop a clear path. It allows us to address the increasingly complex challenges of today's landscape and provide comprehensive financial advice with a clear vision for the future.

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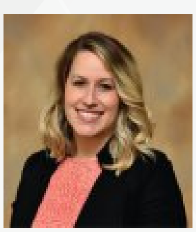

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