

December 12, 2023

Dear Friends and Clients,

Solid gains for both stocks and bonds gave investors a November to remember. As financial markets continue to defy skeptics, I'm reminded of a quote from Warren Buffett's long-time partner and one of the greatest investors of our time, Charlie Munger, who passed away last week. "The world is full of foolish gamblers, and they will not do as well as the patient investors." We couldn't agree more at LPL Research. Patient investors have been rewarded in 2023 and will continue to be.

Increasing confidence in a soft landing for the U.S. economy has shifted the focus away from rate hikes and toward eventual cuts, helping to pull long-term interest rates down and encouraging market participants to pay higher prices for stocks relative to expected earnings.

A good start to holiday shopping season supports the soft landing narrative. Online sales since Black Friday are up 5% over the same period last year according to Adobe. Lower prices at the pump, falling goods prices, higher stock values, and rising wages should help keep the momentum going.

The other key piece of the soft-landing equation, inflation, is well on its way to the Federal Reserve's 2% target. Remarkably, the preferred inflation measure, the core personal consumption expenditures (PCE) deflator, rose at just a 2.2% annualized pace over the past three months, down from 5.3% in the year prior.

Looking ahead, we think the combination of corporate America's solid fundamental foundation and the support from lower interest rates sets the stage for more stock gains in the coming year. The slowing economy will help ease inflation. Less inflation will help promote interest-rate stability. And earnings are entering their sweet spot following an excellent third quarter earnings season.

Sure there are risks. Some of the impact of higher rates is yet to come. Consumers have drawn down most of their excess savings. U.S. government debt is getting more expensive. Wars overseas have heightened geopolitical risk ahead of what will likely be a divisive 2024 U.S. presidential election.

But as Mr. Munger told us, patience will be rewarded. No one knows exactly what will happen through the end of the year, but history shows that stocks tend to produce above-average gains in December and rise much more often than they fall—even after strong gains the month prior. This would be a fitting end to what's truly been a remarkable year.

Please reach out to me if you have any questions.

Best regards,

Victor

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