We stared 2023 with a wall of worry and bad news everywhere, well the media certainly made it feel like that.

Following is a recap of the year that was 2023:

The wall of worry was a mile high entering 2023.

Why?

Stocks had just suffered their worst year since 2008 (S&P 500: -18.1%) while bonds had their worst year in history by a wide margin (10-year Treasury: -17.8%).

S&P 500, US 10-Year Treasury, and 60/40 Portfolio (Total Returns, 1928 - 2022)

Year	S&P	10-Yr	60/40	Year	S&P	10-Yr	60/40	Year	S&P	10-Yr	60/40	Year	S&P	10-Yr	60/40	Year	S&P	10-Yr	60/40
1928	43.8%	0.8%	26.6%	1947	5.2%	0.9%	3.5%	1966	-10.0%	2.9%	-4.8%	1985	31.2%	25.7%	29.0%	2004	10.9%	4.5%	8.3%
1929	-8.3%	4.2%	-3.3%	1948	5.7%	2.0%	4.2%	1967	23.8%	-1.6%	13.6%	1986	18.5%	24.3%	20.8%	2005	4.9%	2.9%	4.1%
1930	-25.1%	4.5%	-13.3%	1949	18.3%	4.7%	12.8%	1968	10.8%	3.3%	7.8%	1987	5.8%	-5.0%	1.5%	2006	15.8%	2.0%	10.3%
1931	-43.8%	-2.6%	-27.3%	1950	30.8%	0.4%	18.7%	1969	-8.2%	-5.0%	-7.0%	1988	16.6%	8.2%	13.3%	2007	5.5%	10.2%	7.4%
1932	-8.6%	8.8%	-1.7%	1951	23.7%	-0.3%	14.1%	1970	3.6%	16.8%	8.8%	1989	31.7%	17.7%	26.1%	2008	-37.0%	20.1%	-14.2%
1933	50.0%	1.9%	30.7%	1952	18.2%	2.3%	11.8%	1971	14.2%	9.8%	12.4%	1990	-3.1%	6.2%	0.6%	2009	26.5%	-11.1%	11.4%
1934	-1.2%	8.0%	2.5%	1953	-1.2%	4.1%	0.9%	1972	18.8%	2.8%	12.4%	1991	30.5%	15.0%	24.3%	2010	15.1%	8.5%	12.4%
1935	46.7%	4.5%	29.8%	1954	52.6%	3.3%	32.9%	1973	-14.3%	3.7%	-7.1%	1992	7.6%	9.4%	8.3%	2011	2.1%	16.0%	7.7%
1936	31.9%	5.0%	21.2%	1955	32.6%	-1.3%	19.0%	1974	-25.9%	2.0%	-14.7%	1993	10.1%	14.2%	11.7%	2012	16.0%	3.0%	10.8%
1937	-35.3%	1.4%	-20.7%	1956	7.4%	-2.3%	3.6%	1975	37.0%	3.6%	23.6%	1994	1.3%	-8.0%	-2.4%	2013	32.4%	-9.1%	15.8%
1938	29.3%	4.2%	19.3%	1957	-10.5%	6.8%	-3.6%	1976	23.8%	16.0%	20.7%	1995	37.6%	23.5%	31.9%	2014	13.7%	10.7%	12.5%
1939	-1.1%	4.4%	1.1%	1958	43.7%	-2.1%	25.4%	1977	-7.0%	1.3%	-3.7%	1996	23.0%	1.4%	14.3%	2015	1.4%	1.3%	1.3%
1940	-10.7%	5.4%	-4.2%	1959	12.1%	-2.6%	6.2%	1978	6.5%	-0.8%	3.6%	1997	33.4%	9.9%	24.0%	2016	12.0%	0.7%	7.5%
1941	-12.8%	-2.0%	-8.5%	1960	0.3%	11.6%	4.9%	1979	18.5%	0.7%	11.4%	1998	28.6%	14.9%	23.1%	2017	21.8%	2.8%	14.2%
1942	19.2%	2.3%	12.4%	1961	26.6%	2.1%	16.8%	1980	31.7%	-3.0%	17.8%	1999	21.0%	-8.3%	9.3%	2018	-4.4%	0.0%	-2.6%
1943	25.1%	2.5%	16.0%	1962	-8.8%	5.7%	-3.0%	1981	-4.7%	8.2%	0.5%	2000	-9.1%	16.7%	1.2%	2019	31.5%	9.6%	22.7%
1944	19.0%	2.6%	12.4%	1963	22.6%	1.7%	14.2%	1982	20.4%	32.8%	25.4%	2001	-11.9%	5.6%	-4.9%	2020	18.4%	11.3%	15.6%
1945	35.8%	3.8%	23.0%	1964	16.4%	3.7%	11.3%	1983	22.3%	3.2%	14.7%	2002	-22.1%	15.1%	-7.2%	2021	28.7%	-4.4%	15.5%
1946	-8.4%	3.1%	-3.8%	1965	12.4%	0.7%	7.7%	1984	6.1%	13.7%	9.2%	2003	28.7%	0.4%	17.4%	2022	-18.1%	-17.8%	-18.0%

CREATIVE PLANNING @CharlieBilello

At the top of the list of fears: a ***recession***, which nearly everyone was anticipating...

Charlie Bilello @charliebilello · Dec 16

Agree or Disagree?

The US economy is already in a recession or will enter a recession in 2023.

Agree 85%

Disagree 15%

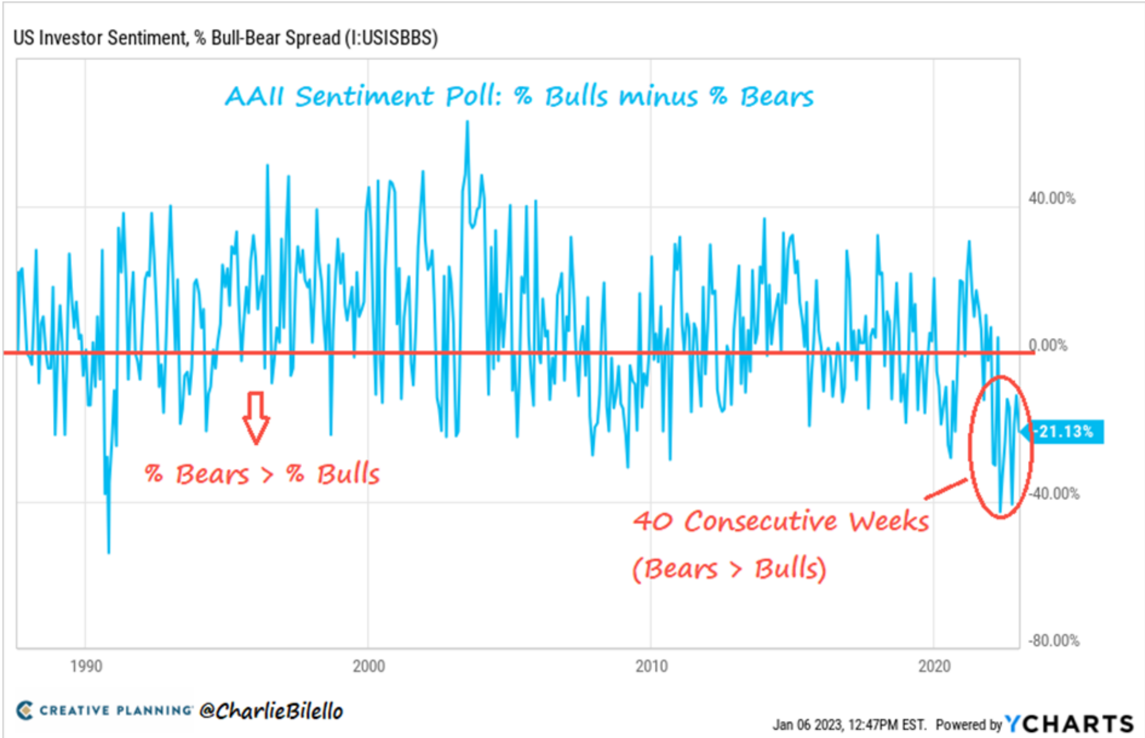
8,968 votes · Final results

Negatives that we saw were: The Ukraine war, Feds tightening monetary policy, and the longest negative retail investor sentiment in recorded history.

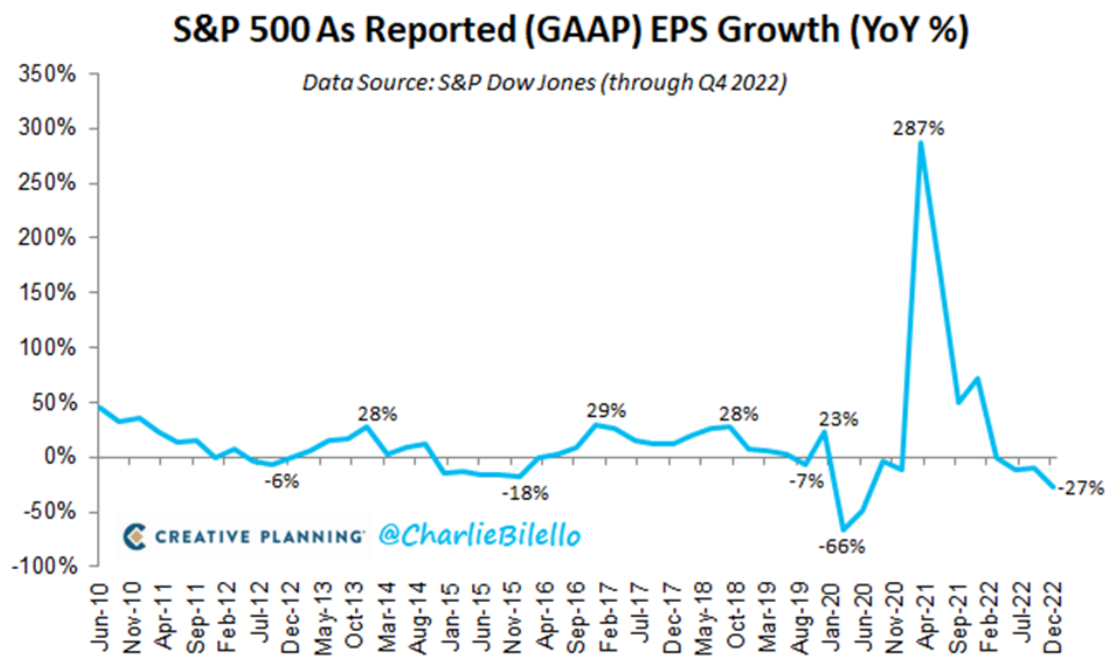
The myriad of other concerns included an inflationary spiral, rising interest rates, falling earnings, the war in Ukraine, and the Fed's ongoing tightening of monetary policy.

And so the wall of worry had been built, with:

- a) the longest streak of negativity in retail investor sentiment that we'd ever seen,

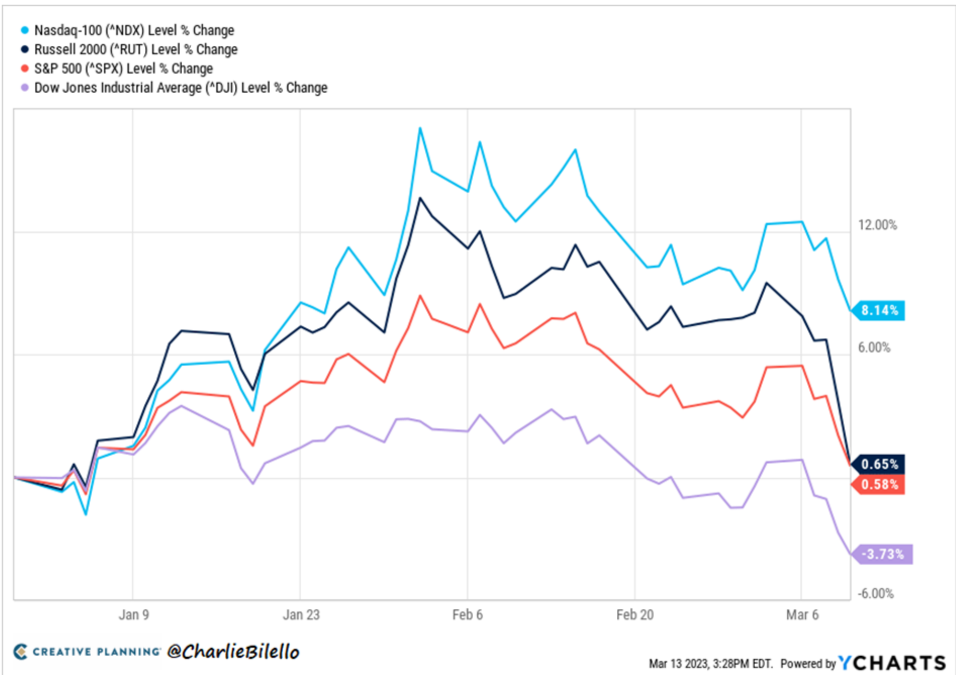


Earnings Per Share (EPS) growth started the year negative but by March things started to turn around.



But falling earnings were a risk that investors were well aware of entering the year, and didn't come as a huge surprise. What would take the market down further would have to be something unexpected - something like a run on the bank.

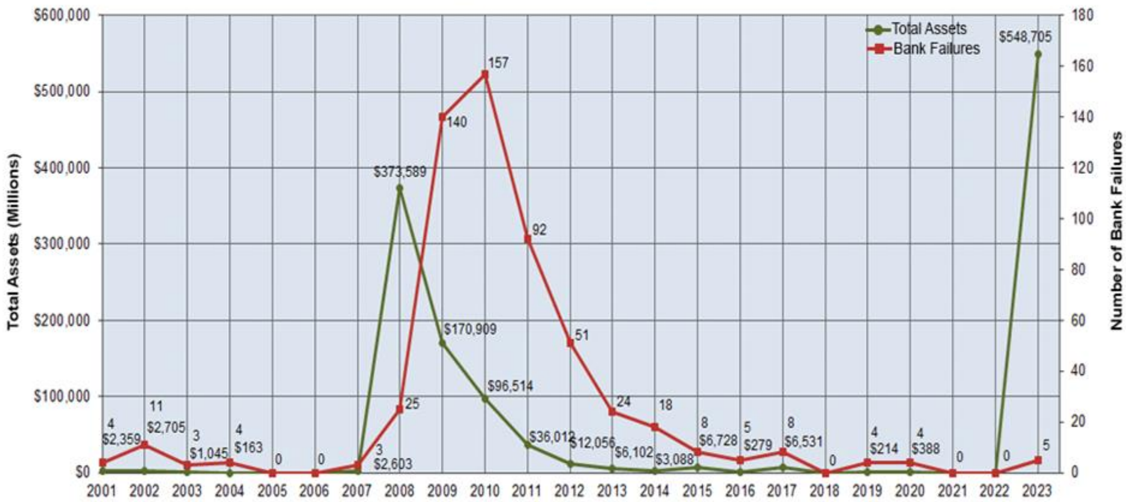
This swiftly quelled fears of a contagion and "another financial crisis." After giving up nearly all of its gains on the year, the S&P 500 would bottom the very next day (March 13) and never look back.



There was a run on some banks:

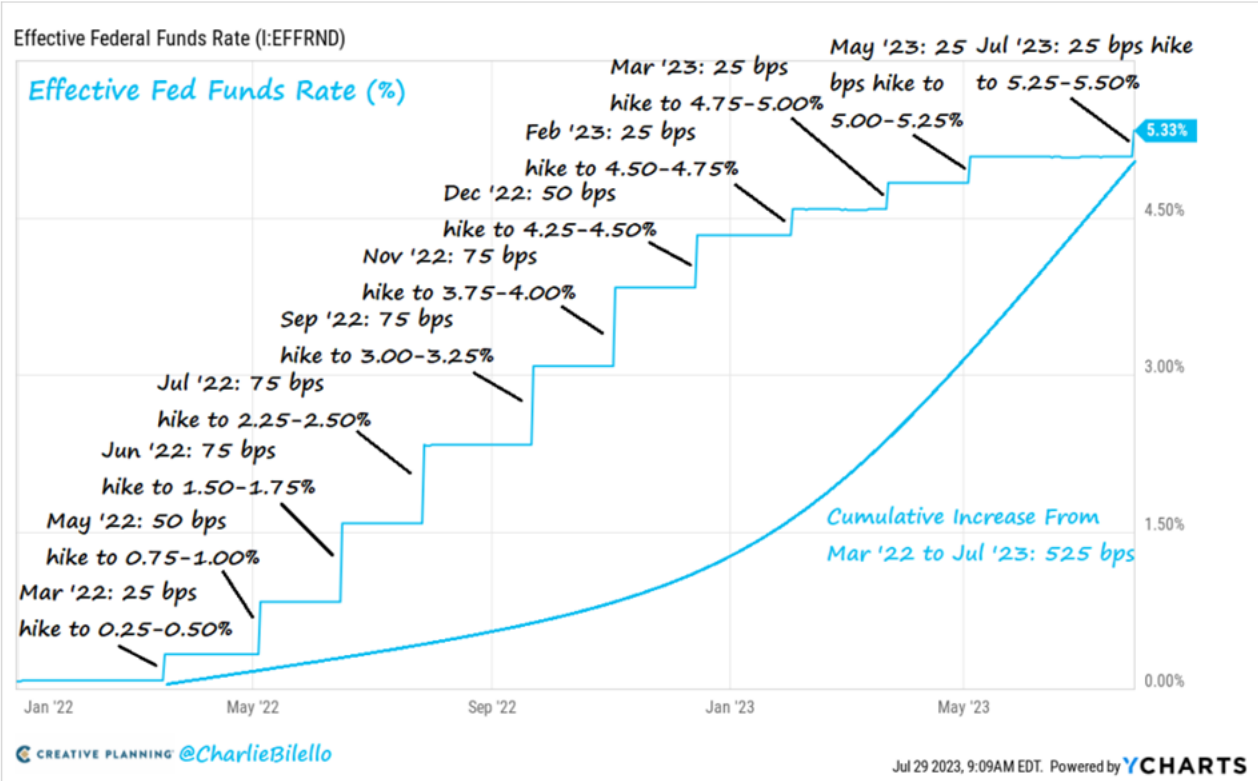
If someone had told you that the total assets of failed banks in 2023 ($548 billion) would exceed 2008's record total by $175 billion, you would probably have assumed that it would have been a disastrous year for markets. But as we would learn once again: every time is different.

Bank Failures in Brief – Summary 2001 through 2023



We saw a 100 basis points (bps) of increases during 2023 and a total increase of 525 bps from 2022-2023. This was the largest two year increase since 1979- 1980.

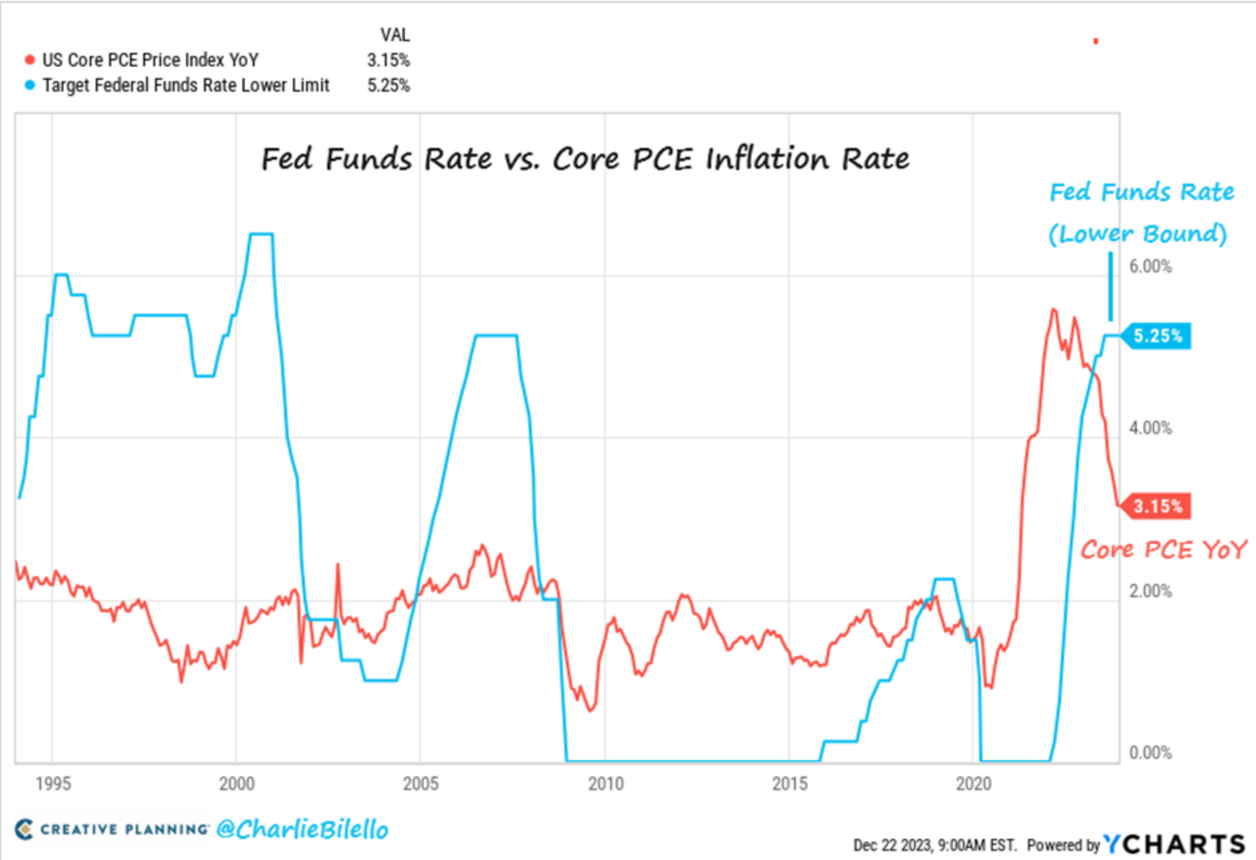
All told, they increased the Fed Funds Rate another 100 bps during the year, with 25 bps hikes in February, March (after the SVB failure), May (after the First Republic failure), and July.



That brought the total spike in rates over 2022-2023 up to 525 bps, the largest 2-year increase since 1979-1980.

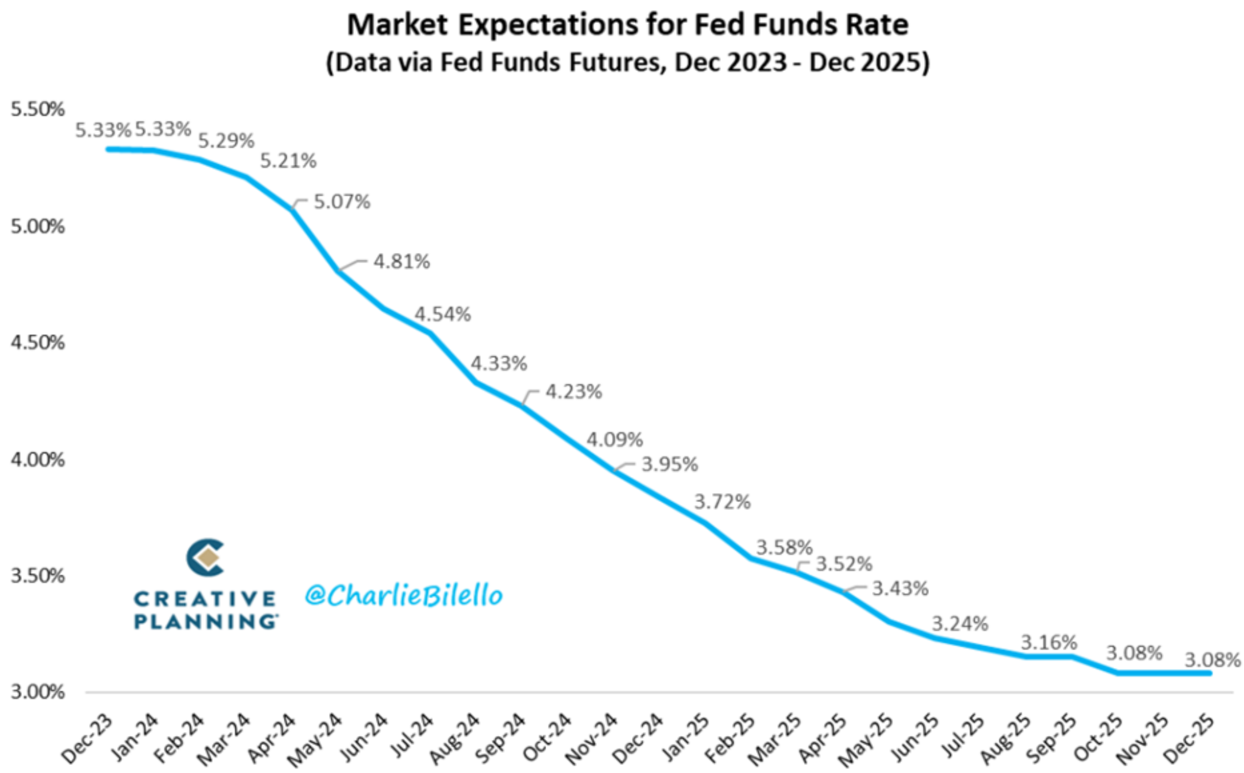
As the following graph shows, the fed has room to move to increase policy to free up should they need to get the economy going in 2024.

The Fed Funds Rate now stands more than 2% above Core PCE (the Fed's "preferred measure of inflation"), the most restrictive monetary policy we've seen since October 2007.



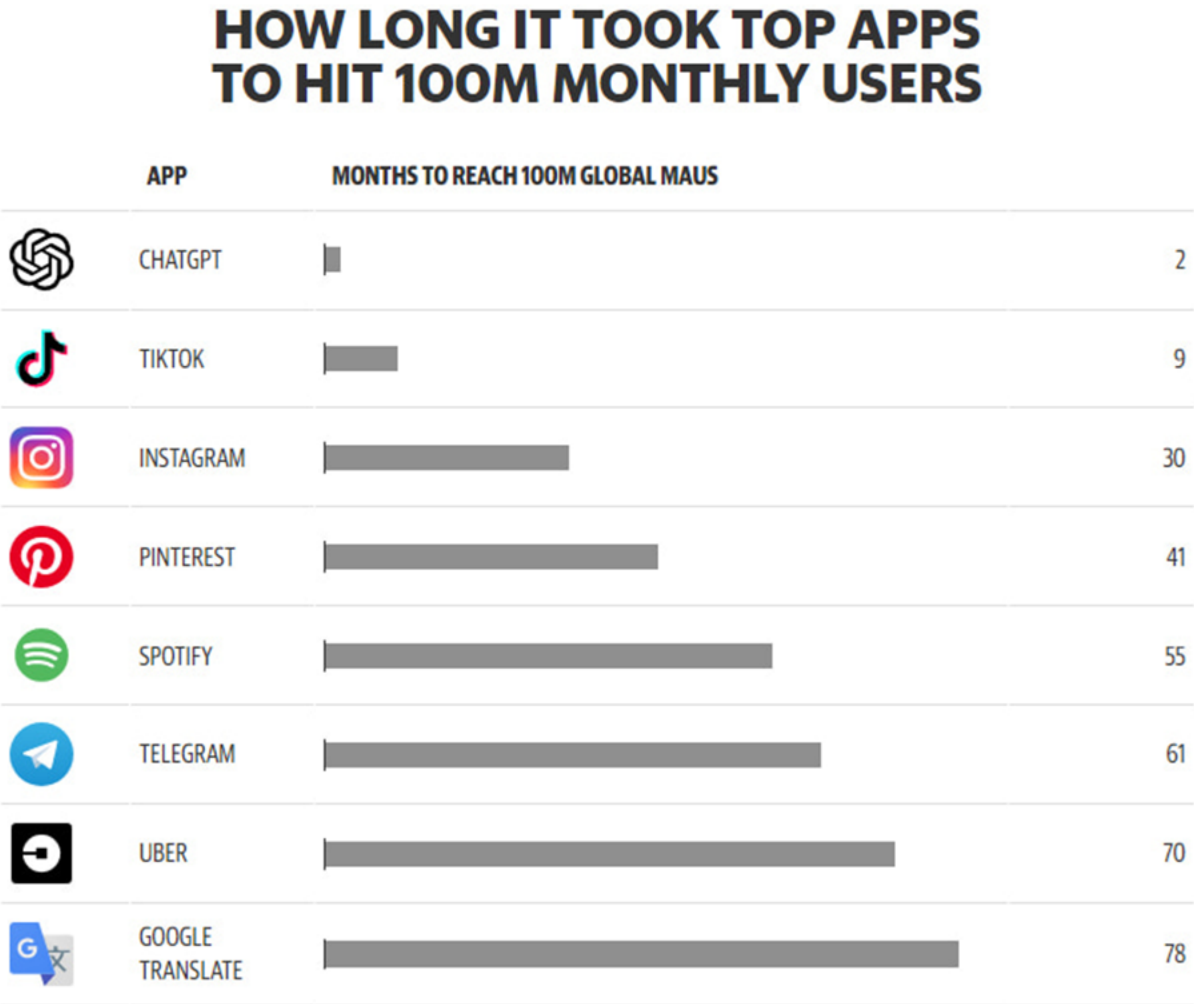
As the following graph shows, the expectations are for rate decreases in 2024.

This tight policy bias, however, is not expected to last much longer. During their December meeting, the Fed projected 3 rate cuts in 2024 and the market is pricing in even more dovishness with 6 cuts. But a lot can change between now and March when the rate cuts are expected to commence. And as we've learned time and again over the last decade, both the market and the Fed are often very wrong when it comes to predicting the direction of interest rates.



You will see some interesting comparisons in human behaviour in relation to how quickly we adopt technology in the following chart.

It started very early in the year when ChatGPT became the fastest product ever to reach 100 million users.



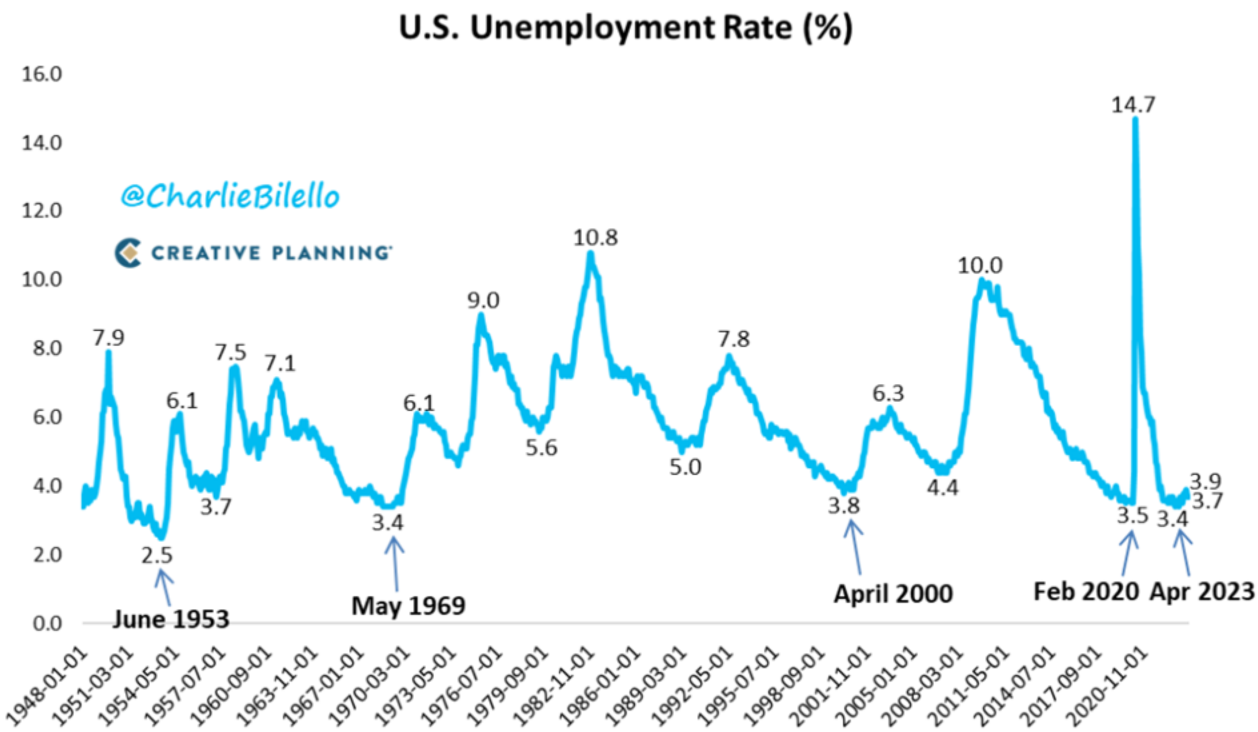
In reviewing the top performing stocks in 2023, Nvdia became the top performer up 239%.

With a gain of 239%, it was the top-performing stock in the S&P 500.

Best Performing Stocks in the S&P 500 (2023)				
Rank	Symbol	Name	Industry	2023 Total Return
1	NVDA	NVIDIA Corp	Semiconductors	239.0%
2	META	Meta Platforms Inc	Internet Content & Information	194.2%
3	RCL	Royal Caribbean Group	Travel Services	162.0%
4	BLDR	Builders FirstSource Inc	Building Products & Equipment	157.3%
5	UBER	Uber Technologies Inc	Software - Application	149.0%
6	CCL	Carnival Corp	Travel Services	130.0%
7	PHM	PulteGroup Inc	Residential Construction	128.8%
8	AMD	Advanced Micro Devices Inc	Semiconductors	127.6%
9	PANW	Palo Alto Networks Inc	Software - Infrastructure	111.4%
10	AVGO	Broadcom Inc	Semiconductors	104.2%
11	TSLA	Tesla Inc	Auto Manufacturers	101.7%
12	CRM	Salesforce Inc	Software - Application	98.5%
13	GE	General Electric Co	Specialty Industrial Machinery	95.8%
14	INTC	Intel Corp	Semiconductors	94.7%
15	FICO	Fair Isaac Corp	Software - Application	94.5%
16	ANET	Arista Networks Inc	Computer Hardware	94.1%
17	LRCX	Lam Research Corp	Semiconductor Equipment & Materials	88.6%
18	JBL	Jabil Inc	Electronic Components	87.4%
19	BX	Blackstone Inc	Asset Management	82.7%
20	NOW	ServiceNow Inc	Software - Application	82.0%

CREATIVE PLANNING @CharlieBilello Data Source: YCharts

The U.S. Unemployment Rate hit its lowest level since 1969 in April (3.4%) and ended the year at an impressive 3.7%.



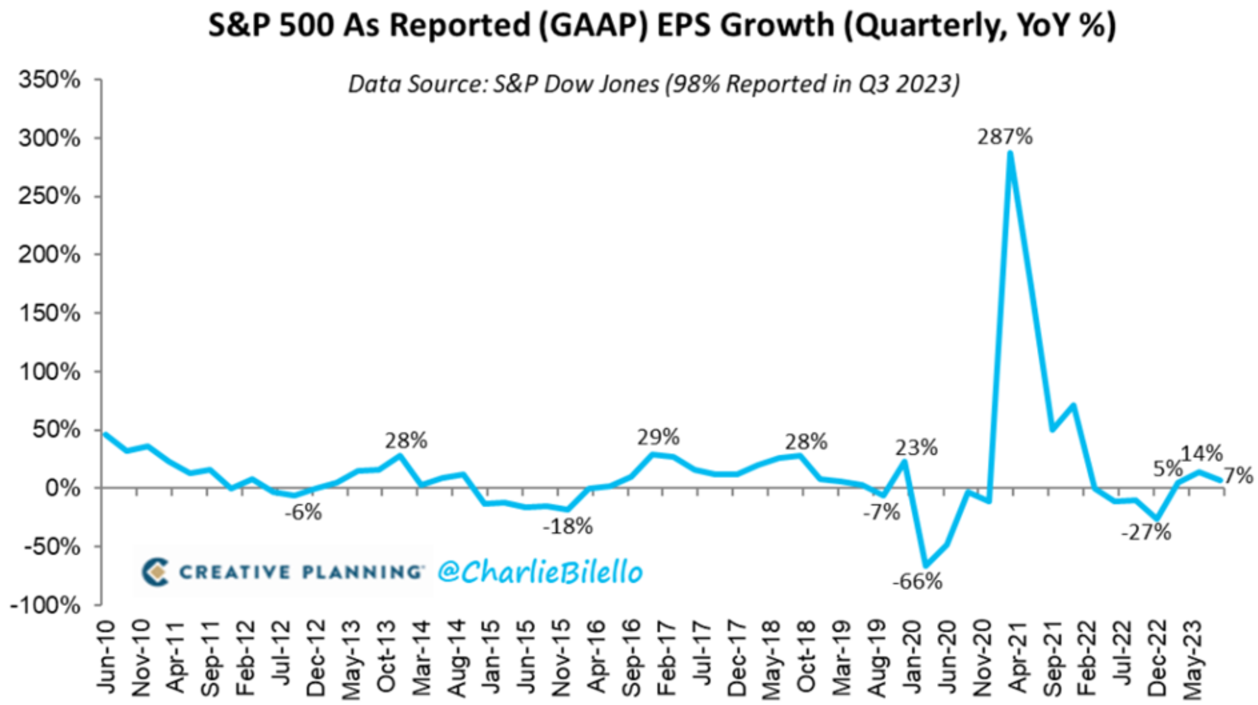
We've now seen an Unemployment Rate below 4% for 23 straight months, the longest streak since the late 1960s.

In 2023, we also saw an earnings rebound.

IX. The Earnings Comeback

The earnings recession that began in 2022 was widely expected to continue in 2023.

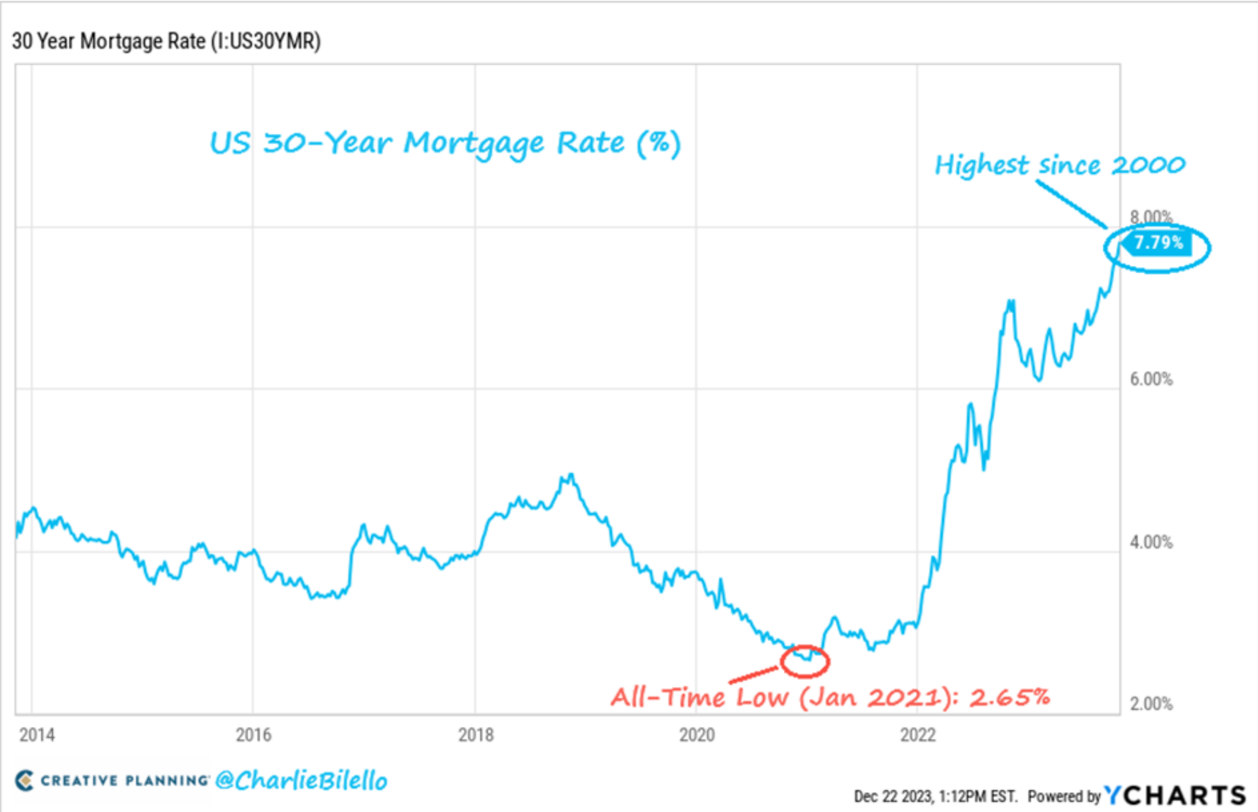
But market participants did not appreciate how rapidly companies would adapt to changing conditions. The S&P 500 returned to positive year-over-year earnings growth in Q1 (+5% YoY) and followed that with upside surprises in Q2 (+14% YoY) and Q3 (+7% YoY).



X. The Frozen Housing Market

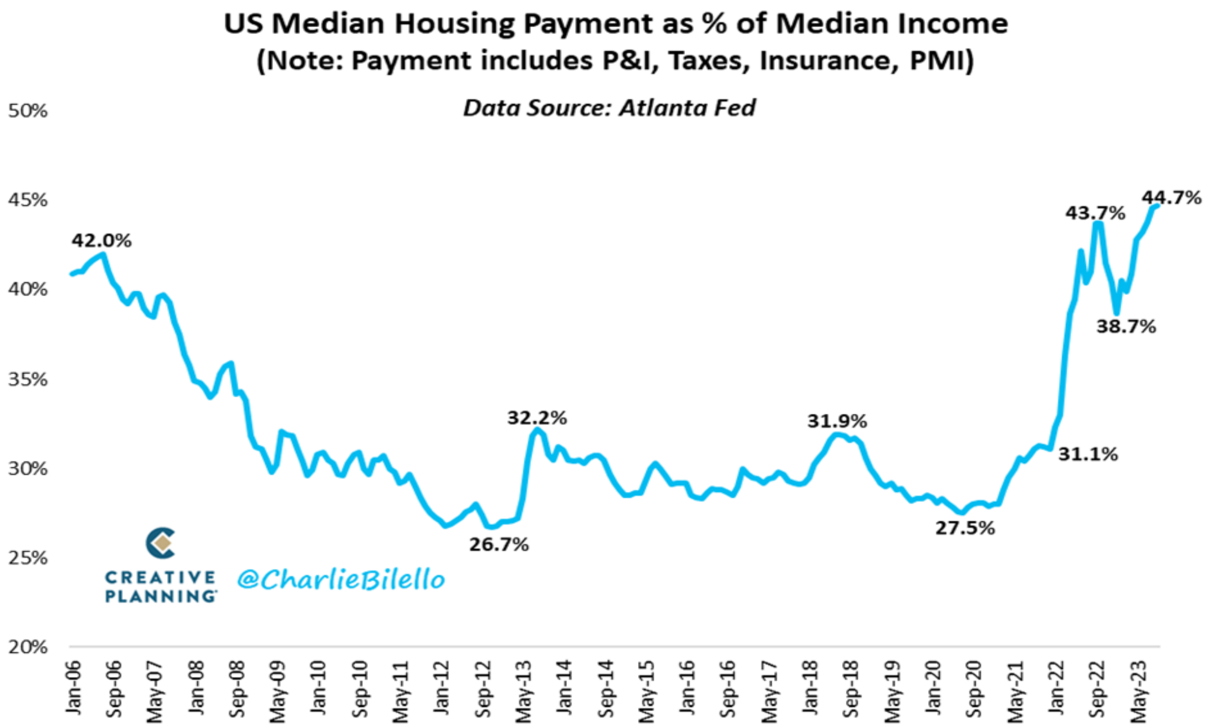
At the end of 2022, all signs were pointing to a sharp decline in home prices, with sky-rocketing mortgage rates leading to a collapse in affordability.

But that decline never materialized even though mortgage rates would move even higher (2023 peak of 7.79%, highest since 2000), and affordability would move even lower.



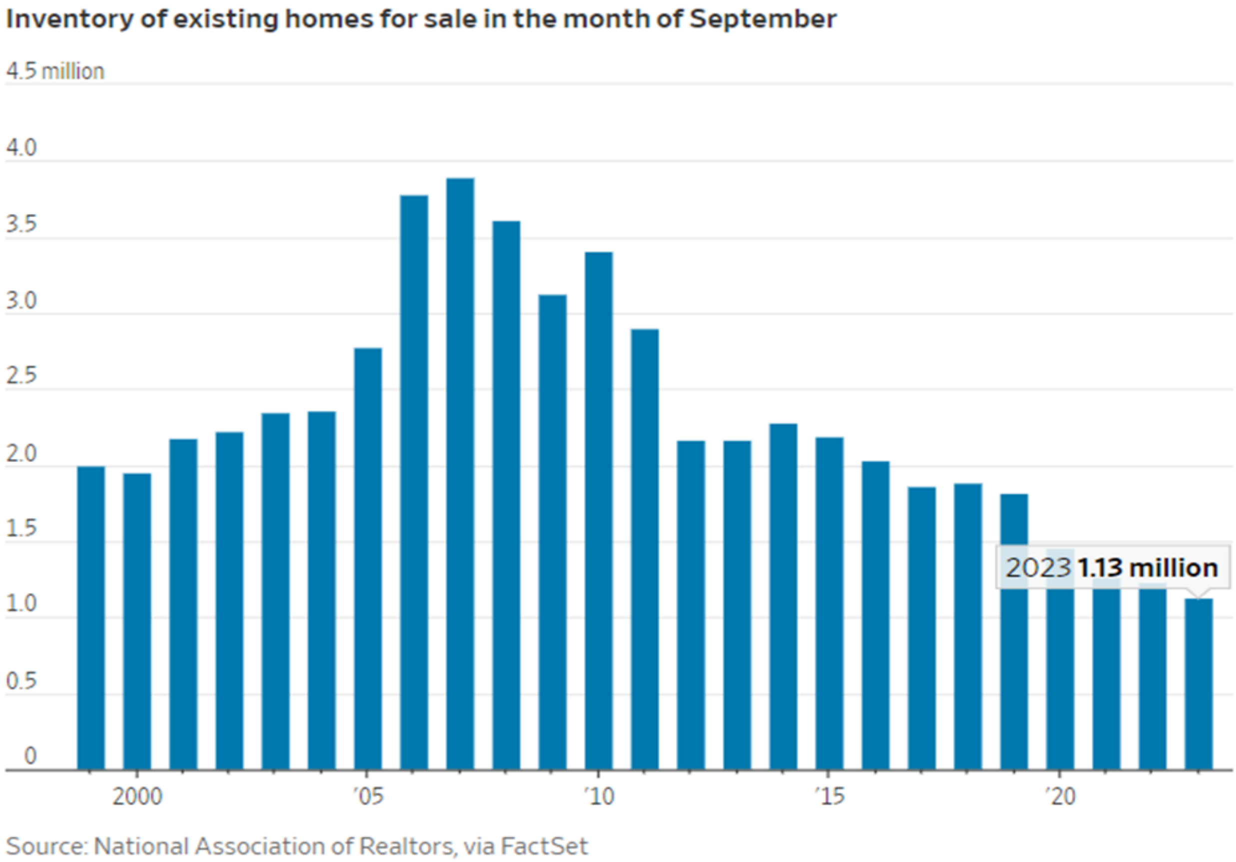
Only 16% US homes for sale in 2023 were affordable based on median incomes, the lowest share on record.

The median American household would need to spend 44.7% of their income to afford the median priced home, a record high.



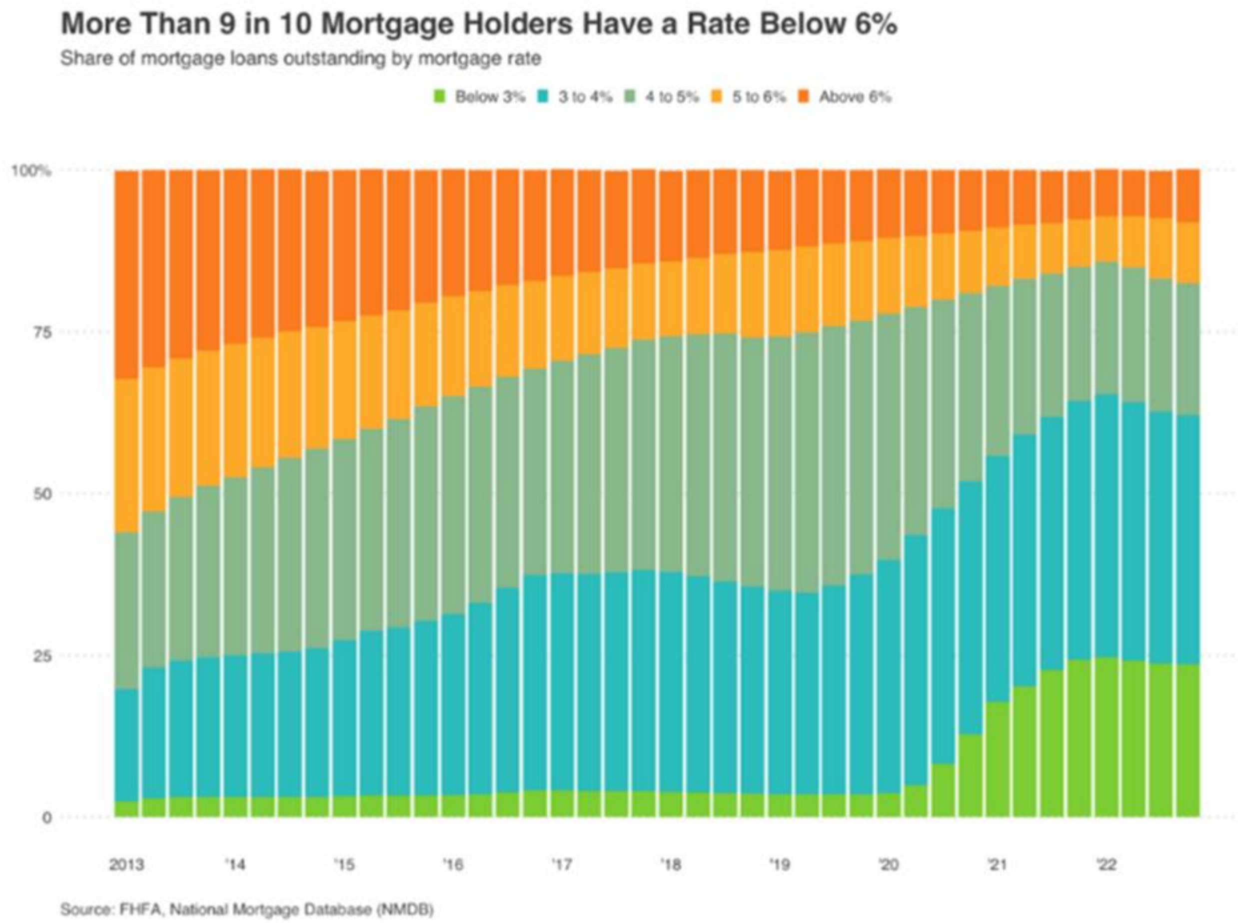
Why didn't this translate into lower prices?

While demand indeed collapsed, supply collapsed even more, and that lack of inventory not only supported prices but boosted them.



Why are inventories so low?

62% of US mortgage holders have a rate below 4% and 92% have a rate below 6%. With current mortgage rates at 6.6%, many existing homeowners are staying put, leading to a dearth of homes for sale.



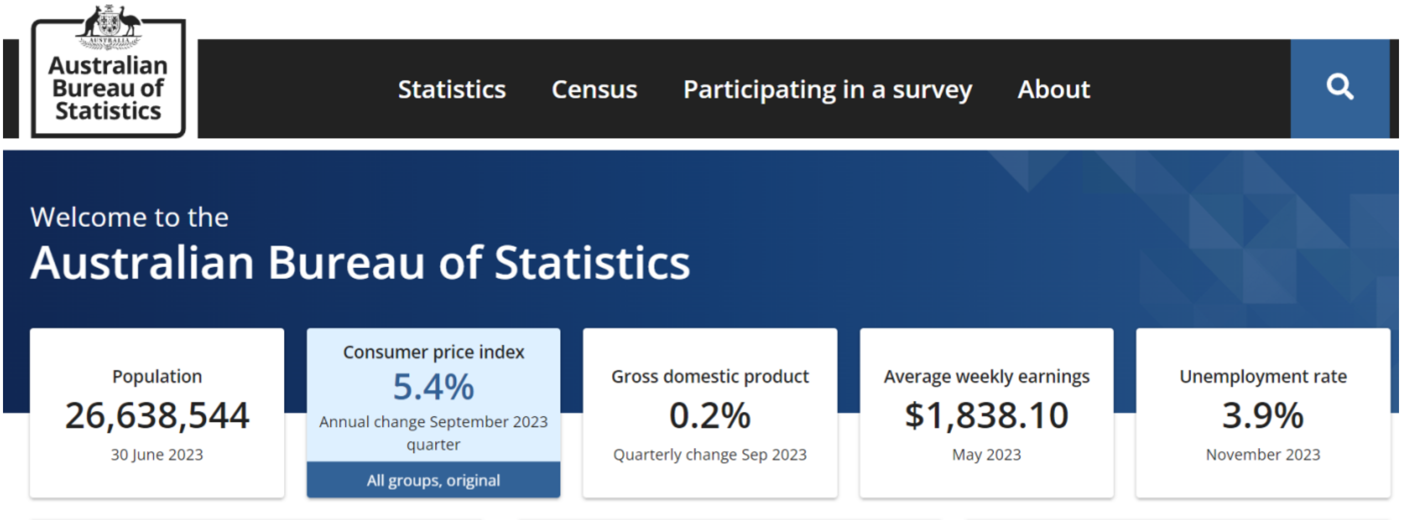
American Housing

In the US, there is a large amount of people that have such low home loan rates they are therefore reluctant to move and pay a higher interest rate.

This results in lower levels of stock, with fewer houses for sale decreasing demand but still enough to increase prices.

Global Inflation Rates (2022 vs. 2023)			
Country	CPI Nov 2022 (YoY % Change)	CPI Nov 2023 (YoY % Change)	CPI Change (2023 minus 2022)
CHINA	1.6%	-0.5%	-2.1%
ITALY	11.8%	0.7%	-11.1%
SWITZERLAND	3.0%	1.4%	-1.6%
PORTUGAL	9.9%	1.5%	-8.4%
SAUDI ARABIA	2.9%	1.7%	-1.2%
JAPAN	3.8%	2.8%	-1.0%
INDONESIA	5.4%	2.9%	-2.6%
US	7.1%	3.1%	-4.0%
CANADA	6.8%	3.1%	-3.7%
SPAIN	6.8%	3.2%	-3.6%
GERMANY	8.8%	3.2%	-5.6%
SOUTH KOREA	5.0%	3.3%	-1.7%
FINLAND	9.1%	3.3%	-5.8%
FRANCE	6.2%	3.5%	-2.7%
SINGAPORE	6.7%	3.6%	-3.1%
IRELAND	5.3%	3.9%	-1.4%
UK	10.7%	3.9%	-6.8%
PHILIPPINES	8.0%	4.1%	-3.9%
MEXICO	7.8%	4.3%	-3.5%
BRAZIL	5.9%	4.7%	-1.2%
AUSTRALIA	7.3%	4.9%	-2.4%
SOUTH AFRICA	7.4%	5.5%	-1.9%
INDIA	5.9%	5.6%	-0.3%
NEW ZEALAND	7.2%	5.6%	-1.6%
SWEDEN	11.5%	5.8%	-5.7%
POLAND	17.5%	6.6%	-10.9%
RUSSIA	12.0%	7.5%	-4.5%
TURKEY	84.4%	62.0%	-22.4%

In Australia we have saw the following statistics:



Key statistics

- The Consumer Price Index (CPI) rose 1.2% this quarter.
- The most significant price rises were Automotive fuel (+7.2%), Rents (+2.2%), New dwelling purchase by owner-occupiers (+1.3%) and Electricity (+4.2%).
- Over the twelve months to the September 2023 quarter, the CPI rose 5.4%.

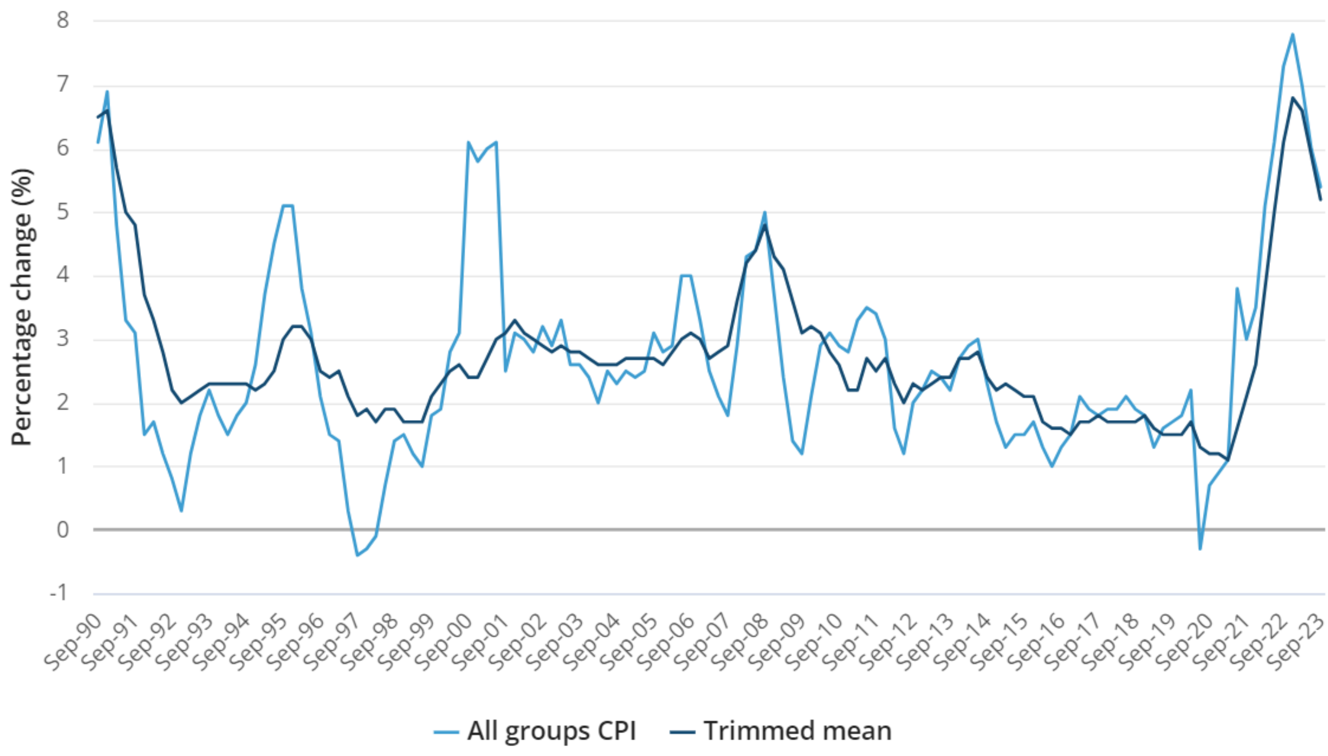
Overview

Annual CPI inflation eases again in the September quarter

Annual CPI inflation was 5.4 per cent in the September 2023 quarter, lower than the 6.0 per cent annual rise in the June 2023 quarter. This marks the third consecutive quarter of lower annual inflation and down from the peak of 7.8 per cent in the December 2022 quarter. Trimmed mean annual inflation of 5.2 per cent was also lower in the September quarter, compared to June 2023 quarter inflation of 5.9 per cent and the peak in December 2022 quarter of 6.8 per cent.

Graph Table Download

All groups CPI and Trimmed mean, Australia, annual movement (%)



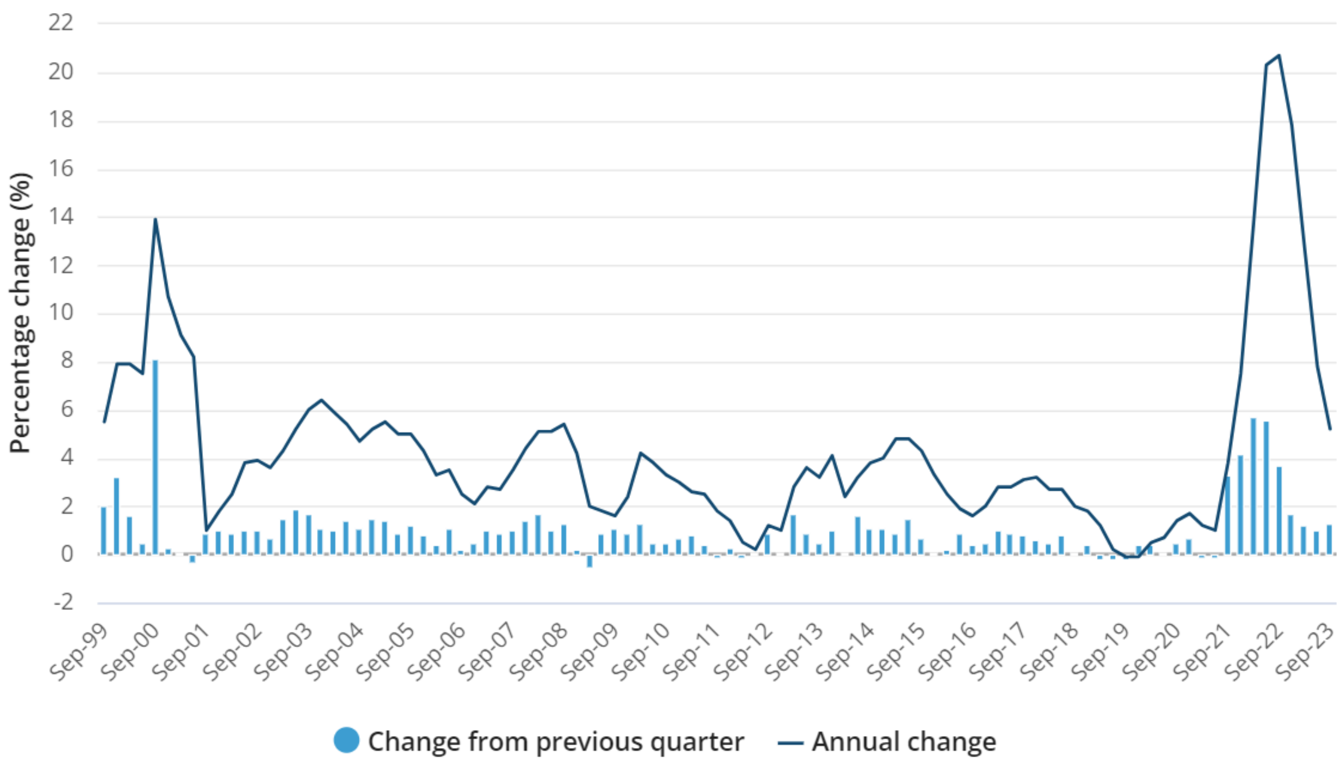
New dwellings annual price growth continues to slow

The rate of annual growth in new dwelling prices continued to slow down in the September 2023 quarter, having peaked in September 2022 at 20.7 per cent. The moderation in price growth over the past 12 months reflects subdued new demand and costs for building materials easing.

Graph Table

Download

New dwelling purchase by owner occupiers, Australia, quarterly and annual movement (%)



Capital city highlights:

At the All groups level, the CPI rose in all capital cities, ranging from 0.4% in Perth to 1.7% in Adelaide.

Sydney (+1.3%)

Melbourne (+1.3%)

Brisbane (+0.7%)

Adelaide (+1.7%)

Perth (+0.4%)

Hobart (+0.9%)

Darwin (+0.9%)

Canberra (+0.8%)

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The Australian new vehicle market has rebounded over the first half of 2023, showing 8.2 per cent growth over the same period in 2022. It's the strongest H1 result since 2018.

Some of the interesting developments, as the tables below will show, include:

- Number-one brand Toyota down 24 per cent in volume due to poor supply, causing its market share to tumble to 15.9 share points – well below its 20 share point benchmark.
- Toyota HiLux and Ford Ranger remain the top two models, with the Isuzu D-Max in fourth. Number three vehicle YTD is the Tesla Model Y.
- Western Australia and Queensland are the two fastest-growing regions on a percentage basis.
- More than 43,000 electric vehicles sold, for a record 7.4 per cent market share. It was just 1.8 per cent at this point last year!
- EVs outsold hybrids (38,313), largely due to Toyota's lack of supply on RAV4, Camry and others.
- Chinese cars up 93.1 per cent to 95,852 units, led by the Tesla Model Y and Model 3, plus domestic brands MG, GWM, LDV and BYD.