KELLEHER FINANCIAL ADVISORS

Newsletter

January 2024

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“ The best armor of old age is a well spent life perfecting it.” - Charlie Munger

2024: THE YEAR AHEAD

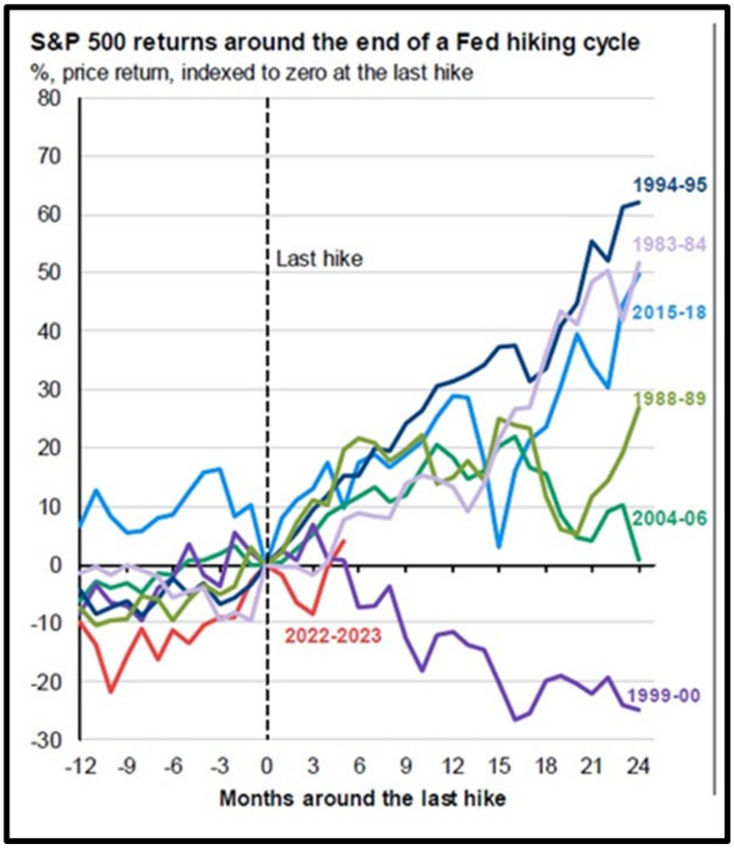
Analysis and Review written by ***Neil Cataldi****, Chief Investment Officer, Starboard Advisors, a Division of Kelleher Financial*

NYSE, Photo by A. Ambrosino

Happy New Year from Kelleher Financial Advisors! As we move into 2024, most investors feel a sense of surprise following an eventful 2023 which represented a resilient period for markets in the United States. Investors digested interest rates continuing to rise (counter to market consensus at the beginning of the year), the failure of multiple large banks (during the March/April time period) and heightened geopolitical tensions across Israel and the Ukraine. Despite the risks associated with each, the major market indices marched higher. We will provide more thoughts on the year that passed later in this letter. Looking forward, we remain constructive on equities in 2024 for a variety of reasons which we will share below.

1. The cycle of higher interest rates has likely come to an end and rates have returned to more normal historical levels. A 0% interest rate environment was not sustainable and while we lived with that for a period of time, we are now near a healthy medium where money comes at a cost, but not one that will restrict economic growth significantly.

Equity returns historically have been above average after the last hike as seen in the image below.



Source: FactSet, Federal Reserve, S&P Global, LSEG Datastream, J.P. Morgan Asset Management 12.31.2023

2. The Consumer remains healthy with strong purchasing power in the United States. This is enabled by a tight labor market where jobs are aplenty and job security remains high. The post Covid excess cash dynamic may be running off, but people appear able to continue to spend, and wages/personal income are near record highs.

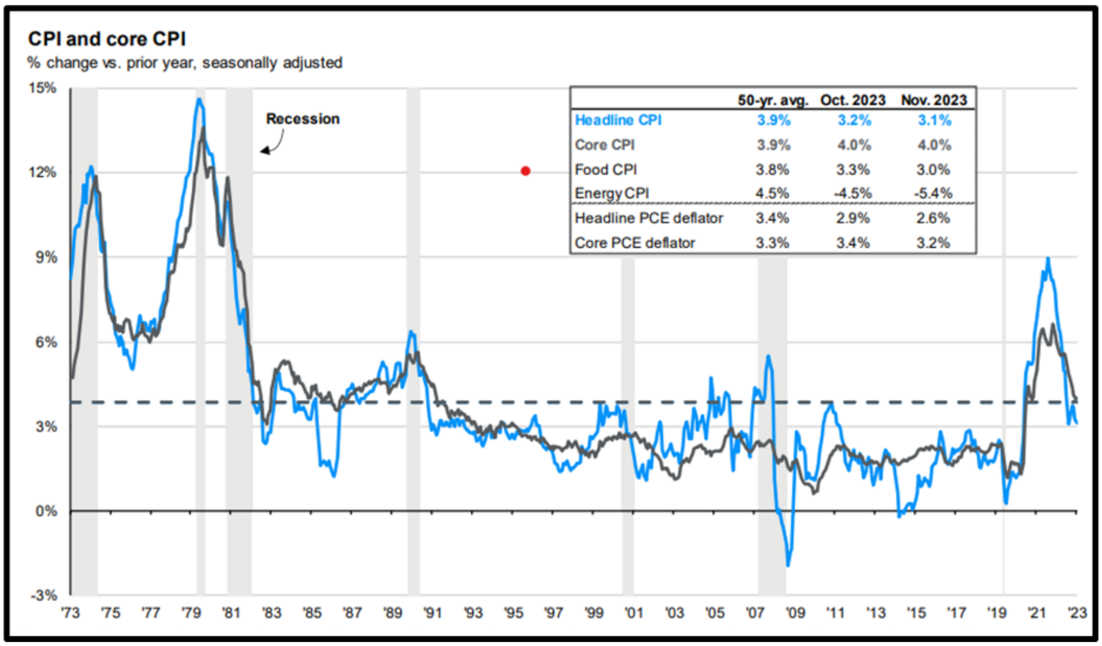
3. Regarding household wealth, the net worth of American households is a record $151 trillion at the end of Q3 2023. $5.9 trillion is in money market funds. Eighty-six million households own their own homes and 40% of them have no mortgages.

4. Corporate earnings were approximately flat in 2023 but are expected to grow double digits in both 2024 and 2025, per FACTSET estimates. Corporate cash flows and profit margins are at record highs. The high-tech revolution is boosting productivity

(increasing margins) and with the emergence of artificial intelligence tools, this dynamic is likely to continue.

5. The American economy is experiencing an onshoring boom due to supply chain disruptions post pandemic with companies now placing a higher priority on bringing manufacturing back to the United States. This is boosting capital spending and creating jobs.

6. And lastly, inflation has declined (see image below). The Federal Reserve has achieved its goal in part and while pockets of inflation will persist, especially on the services side, we are experiencing a more normalized inflation environment again.



Source: BLS, FactSet, J.P. Morgan Asset Management 12.31.2023

Each of the bullets above has a varying degree of influence on the markets. Some affect the fundamental results of our biggest and best companies. Some simply affect sentiment. While we expect volatility to persist in the new year, the market has currently priced in a significantly lower median interest rate in the quarters ahead. Time will tell if the Federal Reserve in fact begins cutting rates, but in the meantime, as noted above, earnings estimates remain strong, and those results are what best justify higher equity prices.

In terms of portfolio allocation, we continue to stress the importance of high-quality equity exposure, balanced portfolios, and taking advantage of U.S. Treasuries which yield about 5% annually. The combination of high-quality equities with Treasuries enables us to construct portfolios that will participate in the growth elements of the market, while maintaining a relatively lower risk profile in the event of unforeseen dynamics emerging. As fiduciaries of your capital, we are always looking to balance protecting your portfolios, while seeking out attractive growth opportunities. To that point, in the year ahead, we look forward to introducing new investments that will further expand our strategy to drive diversified and quality performance streams. As a preview, we believe there is an opportunity in smaller capitalized companies going forward. **The small cap universe of equities currently trades at a significant discount to large cap valuations and is poised to perform well if the Federal Reserve begins lowering interest rates again.** We look forward to speaking with all of you about this opportunity and more in the months ahead.

My very best regards,
Neil

2023: A REBOUND YEAR FOR GLOBAL MARKETS

Analysis and Review co-written by Thomas Burnett, CFA, Vice Chairman & Director of Research and Neil Cataldi, Chief Investment Officer, Starboard Advisors.

As mentioned previously in the letter, we are pleased to report that 2023 delivered a broadly positive performance for markets in the United States as well as those globally, reversing the sharp declines witnessed in 2022. This recovery was largely driven by:

INDEX	% Change YTD as of 12/31/2023
Dow Jones Industrial AVG. (TR)	15.7%
S/P 500 Index (TR)	25.7%
NASDAQ Composite	43.2%
Nikkei 225 (Japan)	28.2%
China (Shanghai)	-3.7%
EURO STOXX 600	8.7%
GOLD $ per oz.	12.3%
Crude Oil $ per bbl.	-10.7%

Source: WSJ.com January 2, 2024

- **Easing inflation:** A decline in key commodities like food and energy (-30.5% to -43.8%) contributed significantly to easing inflationary pressures. This shift fueled optimism for milder central bank policies and potentially lower interest rates, particularly in the final quarter.

- **Resilient corporate profits:** Despite economic concerns, U.S. companies, as measured by S&P 500 forecasts, managed to maintain profit levels near 2022's record highs. With a projected 11% growth in 2024, investor sentiment remains upbeat for continued progress.

- **Improved market confidence:** As anxieties receded, the VIX volatility index dropped from 22.1 to 12.5 during 2023, reflecting an improved risk appetite among investors.

However, we must acknowledge the notable exception of **China**, where COVID-related lockdowns impeded economic growth and dampened investor interest.

Commodities presented a mixed picture, with food and energy prices falling while gold gained 13.3%.

Thomas Burnett, CFA®
Vice Chairman and Director of Research

Neil Cataldi
Chief Investment Officer, Starboard Advisors

RECENTLY PUBLISHED

Colleen Kelleher Sorrentino, CFA®
Managing Director

Colleen Kelleher Sorrentino, CFA, addresses *Avoiding Fear-based Decision Making* in this month's **Advisor Perspectives**. You can read the full article co-written by Colleen and colleague Stacey Mankoff by clicking here: **Advisor Perspectives Article 12.27.2023**

ABOUT US

Since 1995, our firm has provided clients with thoughtful and personalized solutions in many areas of financial planning. At KFA, we place our clients at the center of everything we do. And while situations and experiences differ, our belief is that every client deserves the very best of what we have to offer.

Our firm acts as both an adviser, formulating long-term strategies, and as a manager, making specific recommendations and implementing decisions in areas such as portfolio construction, estate planning and investment management.

KFA educates our clients, communicating with them and sharing our rationale and analysis about issues that should be considered on an ongoing basis and ensuring that appropriate actions are taken. We do not sell proprietary financial products and are paid solely by our clients. In this way, KFA is able to recommend and incorporate independent investment vehicles and managers into a portfolio as needed.

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