Good morning. I hope you are having a great holiday season so far. Here in the Northeast, we just had what I would describe as a nasty combination of a Nor'easter & a tropical storm. The flooding in some parts of Northern New England (look up Sunday River) was pretty severe. It could be a little while before some of the ski mountains regain their footing. Too bad since this was a great start to an industry that has had a tough go of things in the past few years.

Since we are heading in to one of the slowest weeks on the calendar, I thought I would share a brief market update about what has happened over the past 6 weeks or so and why the market has surged so much. The market rally can really be traced back to one thing: Falling Bond Yields. The 10 Year Treasury Bond, per CNBC, topped out on 10/19/23 at just above 5%. Around that same time, Federal Reserve Governor Chris Waller made comments that strongly suggested that the Fed was done hiking rates. In fact, around that time, many market commentators were saying effectively the same thing that the bond market had done the Fed's work for it by way of rates being so high that inflation and growth would be stopped in its tracks.

Last week Fed officials finally provided what the market has been waiting for all year - the so-called Fed Pivot. At last week’s Federal Reserve meeting, the Fed formally signaled they are done raising interest rates and are not only forecasting rate cuts next year but are forecasting more than they signaled during their last meeting. One thing the capital markets love is lower interest rates! This also ties directly into our theme of higher quality, long duration fixed income. Long bond duration is not what you want in an increasing interest rate environment, but when rates begin to go down, it is a great asset class to own. You collect a good coupon while getting capital appreciation on your bond through an increase in price. This is the type of bond market investors became accustomed to in the prior decades. I am not sure that we are on the cusp of a multi-decade run in the bond market but locking in yields make sense when reinvestment risk from shorter dated bonds of say, 1-3 years, is high.

So, the big question going forward is: Can It Continue? Markets have priced in aggressive rate cuts and now it's going to be about earnings (the first earnings for Q4 2023 are only weeks away), economic data & Immaculate Deflation. There are still fears of an economic slowdown catching up to the market but so far, those fears have not come to pass. Inflation is still declining (although the pace of the decline is slowing) and the jobs market is strong. With lower rates, sectors of the market that have been in a deep Bear Market such as Small/Mid Cap stock, finally have room to breathe. We favor those sectors in a lower rate, growth market.

Our team will be available next week as we wind down 2023. If you have any year-end needs, please feel free to reach out to us at any time. The sooner the better. Otherwise, we look forward to a prosperous and profitable 2024! Merry Christmas & Happy New Year!

Regards,

Tim

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