Ropes Wealth Digs Into the 'Grandaddy of Them All' and Other News

Over the weekend, my family and I traveled to Pasadena for a trip to see the so-called 'Grandaddy of Them All'—the Rose Bowl. For those of you who were not among the 95,000 in the stands, it was a very close game, won in overtime by the Wolverines much to the ecstatic joy of my boys. While I am no connoisseur of football like they are, even my amateur eye could see both teams did not play their best game. There were many sloppy technical moments, but defense and a heroic overtime offensive push by Michigan saved the day and propelled them to the national championship game (sorry Alabama fans).

This game made me think about you, and how investing, like football, can be a messy business. There are glorious moments, and heartbreaking losses, and everything in between. Playing better defense than your opponents often puts you ahead, as does not losing composure, or giving up, even when all the odds seem stacked against you.

As we start off 2024, markets are taking a bit of a breather, after being off to the races in the final weeks of the year. One of the market's darlings, Apple, was hit by Wall Street analyst downgrades due to worries about headset inventories and poor prospective sales in China. The stock fell over -5% this week through market close on Thursday.

In addition to fears that some of the Magnificent Seven technology stocks might be overpriced, we also received some of the softening economic data points we have been expecting. To wit, reports on construction spending, manufacturing activity, mortgage applications, and vehicles sales were all softer than hoped. In contrast though, December's employment report was downright steamy, as non-farm payrolls rose by 216k in December, more than the 175k gain expected according to Bloomberg, and the strongest pace of job creation since September. For the full year, U.S. employers added 2.7 million jobs, a solid level of job creation, albeit down from the 4.8 million jobs added in 2022 and the 7.3 million jobs added in 2021 following the pandemic plunge in 2020. Also noteworthy, average hourly earnings rose 0.4% in December, a tenth of a percentage point more than expected and following a similar increase in November. Over the past 12 months, wages rose 4.1%.

No surprise then, minutes from the Fed's December meeting echoed their inflation-fighting messaging often heard over the past year. While the Fed's benchmark short-term rate was described as *"likely at or near its peak"* for the recent tightening cycle, the actual path of rates *"will depend on how the economy evolves,"* according to the minutes. Richmond Fed President Thomas Barkin maybe said it best in public comments: *"A soft landing is increasingly conceivable but in no way inevitable."* As such, expectations of rate cuts in the first quarter are cooling off, and bond yields continue to oscillate up and down as a result.

Notably, Barkin also said that investors better *"buckle up"* as he *"can't give more guidance from the flight deck."* Whelp.

Last week I mentioned I expected markets to rock, and then roll, into year-end with a positive finish, a little bit like the Wolverines. We are positioned with a strong defense, including short-term individual bonds locked in with high yields, diversification, some equity exposure that is explicitly hedged against losses, and an overall quality bias. We are playing offense too, though, mixing in some smaller cap exposure, some active managers with more concentration, and maintaining overseas exposures that are by comparison cheaper than domestic stocks but bear a higher level of geopolitical risk. Market broadening is happening, and as long as there are no nasty surprises on inflation. and economies stick to their current path of a soft landing, investors may feel even more confident exploring other parts of the market. However, it is difficult to see a scenario where big tech moves in a different direction to the broader market. While their valuations are high, these companies can still make progress in the year ahead and for the most part, they are delivering high earnings, have a strong pipeline of growth, and are likely to be supported by wide AI adoption over the next twelve months.

My kids sweetly said to me that they will never forget their trip to the Rose Bowl for the rest of their lives, which of course made all the travel, expense, and four days of nonstop football discussion worth it. I hope you find that moment this year with someone you love, which makes all the hard work, planning, market stamina, and careful decisions worthwhile. Cheers to 2024!

Thank you for your interest in our investment commentary and for your relationship with us. If you would like to speak personally with a member of our team at any time, please click **here**.

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