Investment Update

Feb 2024

Flower City CAPITAL

The Market

2023 was a surprisingly strong year for financial markets. Global stocks ended the year up 22% with most of the returns coming in November and December. U.S. bonds also had a good year finishing up over 5%.*

What drove the surge into year-end and into 2024?

Inflation is returning to normal

Year-over-year inflation (headline CPI) averaged 3.4% over the last 6 months (through 1/31/24) coming down in line with the Federal Reserve's target. This means short-term interest rates are likely to fall throughout 2024.

The economy remains strong

Real GDP increased at an annual rate of 3.3% in the 4th quarter. This has kept unemployment near record lows for the past 2 years. Corporate earnings are also starting to grow again.

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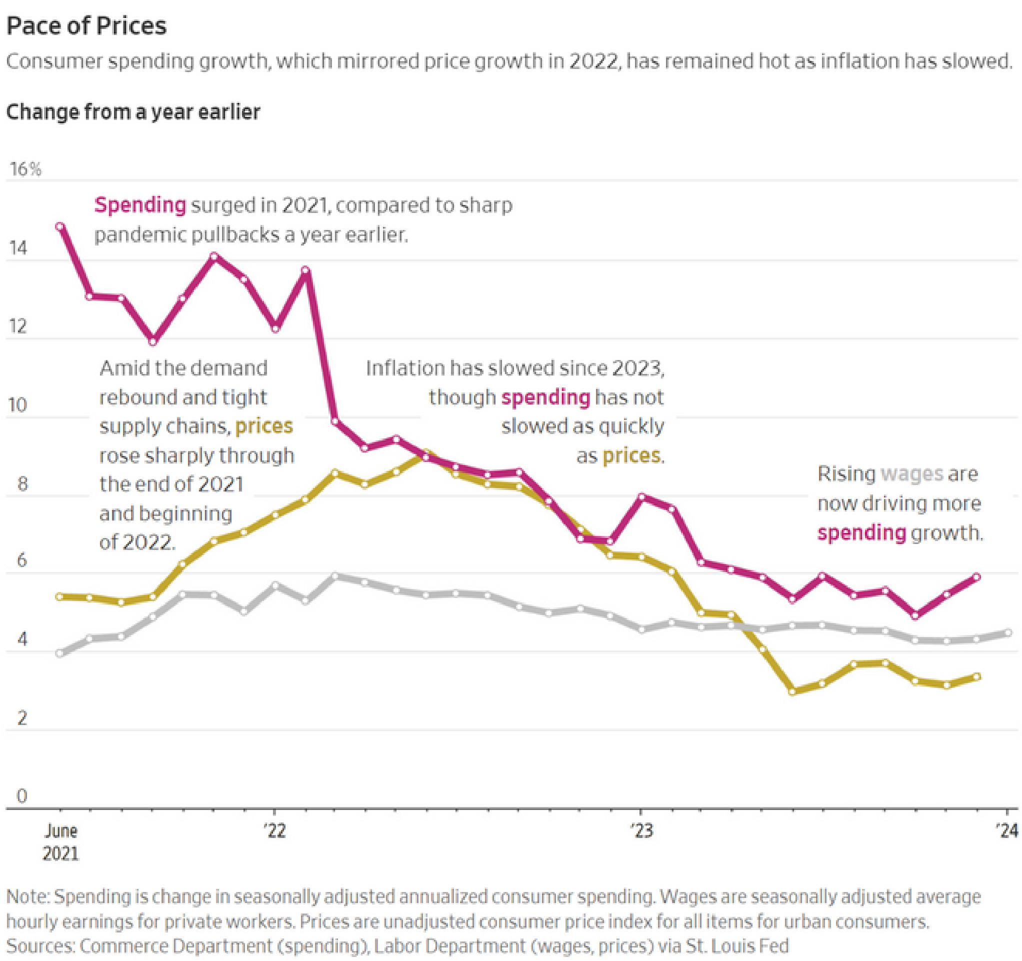
**Global Stocks references Vanguard Total World Stock ETF (VT)*
US Bonds references iShares Core US Aggregate Bond ETF (AGG)

Normally a strong labor market, stabilized inflation, falling interest rates, growing profits, and financial markets at all-time highs would be a cause for celebration.

So why doesn't it feel like a raging bull market? Our simple take on it is that price levels are still significantly higher than just a couple of years ago, especially in certain areas such as food and housing. No one likes paying $18 for a burger and fries even after receiving a raise and larger investment balances.

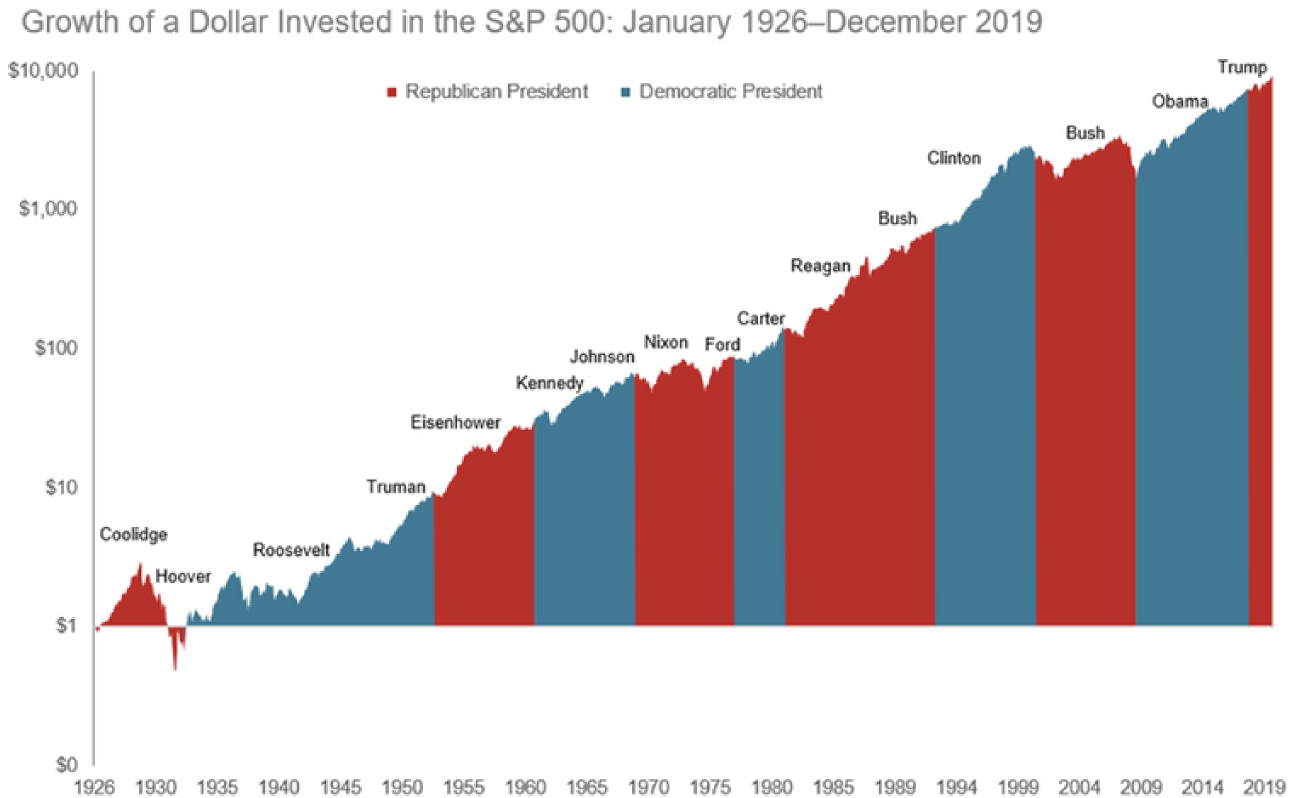
The chart below from the Wall Street Journal does a nice job summarizing the current environment. The pink line shows elevated consumer spending following Covid fueled stimulus. Wages (gray line) have only recently caught up to the surge in price levels (yellow line). It will probably take several more quarters of wages outpacing price increases to restoring purchasing power to pre-pandemic levels.



It doesn't feel good when your income goes up, but prices go up even more

Geopolitics is another significant source of unease and uncertainty. We have wars overseas, polarized domestics politics, and unsustainable government deficits.

This is a good segue to this year's presidential election. Over the long run, there is no discernable difference in stock market performance under democrat or republican administrations. There is just too much going on in the world for one person in a government with checks and balances.



Source: Forbes

Elections are an important part of social discourse, but not a major driver of markets overtime. This should ring true for many of our clients who have focused on working and taking care of their families instead of who was in the white house. We will keep our long-term investment approach in focus accordingly.

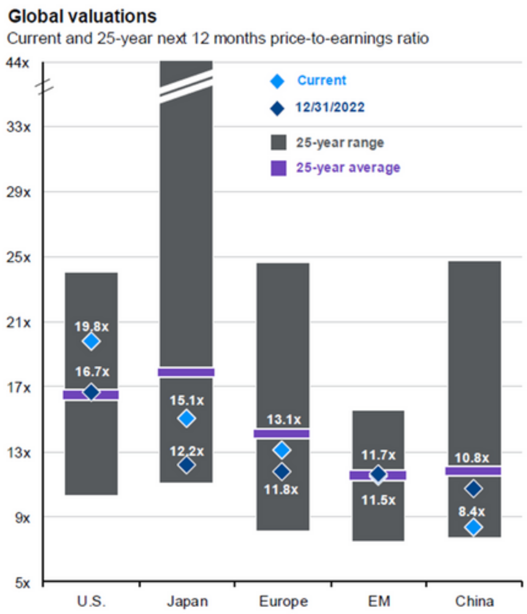
Outlook

Global stocks are sitting near their long-term average valuations (price multiples for a given level of earnings) with the exception of the U.S. where investors are willing to pay more for faster growing and more profitable technology companies. There are likely to be a few more hiccups in certain sectors such as office real estate. These sectors were significantly impacted by Covid and the corresponding policy responses.

Overall, markets have priced in normalized inflation, falling interest rates, and a resilient economy in terms of growth and unemployment. Of course there are risks to this optimistic view. Markets could drop if inflation does not continue to cool or if the economy starts to weaken. We have maintained a slight risk-off positioning between stocks and bonds. We will continue to be patient this year as the final phase of Covid era normalization takes hold.

In the meantime, we will continue to focus on the things we can control. In the coming weeks we will be reviewing and sending your tax documents. We also look forward to sharing more details about our enhanced alternative investments platform for our clients who qualify as accredited investors.

Valuations are higher in the U.S., but otherwise back to long-term averages around the world



Source: JP Morgan Asset Management

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