DEVON BANK

We Speak Chicago

WealthWise

A look back. A look forward.
A look at the market
through the eyes of an expert.

JANUARY 2024

The Devon Bank Wealth Management team wants to help you stay on top of the most important news related to finance and investing. See below for the latest edition of WealthWise.

January 2024 Stock Market Report

Last week, we read a Bloomberg article that made a very interesting observation about Wall Street research firms. In it, they concluded that most of these firms had made very similar predictions about how to play the markets at the beginning of 2023. What strategy were they recommending 12 months ago?

Sell US stocks, buy US Treasuries, and buy Chinese stocks.

And as it turned out, this turned out to be*dead wrong!*

Instead of falling, as many banks had predicted, US stocks (as measured by the S&P 500) were actually *up* about 24%. Treasury notes gained essentially nothing. And Chinese stocks ended up being among the biggest *losers* of the year.

Despite the millions of dollars and thousands of hours these firms devoted to creating their 2023 forecasts, they were still staggeringly inaccurate. They failed to predict that, despite 72% of the stocks in the S&P 500 underperforming the index last year (the highest percentage to do so since 1980, by the way), the **"Magnificent 7"** stocks would more than make up for the shortcoming. They completely whiffed on noticing that problems in China (a macro real estate crisis, weak consumer spending, high youth unemployment, etc.) might put that economy in jeopardy. And they all, for the most part, failed to accurately anticipate how the **Federal Reserve** was going to handle US inflation and interest rates.

Yes, a major world power floundered; a few gigantic tech stocks drove almost all of the US stock market's gains… and apparently, none of the experts saw it coming.

"You were supposed to tell our clients to buy Apple stock, not… actual apples!"

It's not that the big Wall Street firms aren't smart (they are), nor is it that they don't have the proper resources. The problem is that whether you're talking about who's going to win the Super Bowl (hint: my Detroit Lions) or what tomorrow's weather in Chicago is going to look like, predicting the future is… hard! And the main takeaway here shouldn't be to ignore all research but to instead take it with a grain of salt. Always assume that, despite their best efforts, there's something big on the horizon that the big brains might be missing.

So, with all that in mind, it obviously makes sense at this point to…. Check out what Wall Street is saying this year!

Goldman Sachs forecasts the S&P 500 index will end 2024 at 4,700, an increase of about 5% from where we are right now (6% if you include dividends) and slightly below the typical 8% return during presidential election years. They see the US economy continuing to expand at a modest pace and avoiding a recession while earnings rise by 5%.

Bank of America, on the other hand, says the S&P 500 could rise as much as 16% in the next year as their proprietary 'buy' signals are flashing brightly. Their Sell Side Indicator model suggests a 15.5% gain in the S&P 500 over the next year.

JP Morgan says (cleverly, I have to admit) that the U.S. economic forecast for 2024 can be summed up by the number "2024": 2% growth, 0 recessions, 2% inflation, and unemployment staying around 4%. They predict a soft landing for the economy remains in reach, as the Fed now appears satisfied with its progress.

As for **Devon Bank Wealth Management's** opinion, we suggest that a couple of key drivers are being largely ignored. Despite the slowish start to 2024, the markets have been rallying lately following the Fed's December announcement of no rate hike. But since this action was fairly widely anticipated already, why the big reaction? We'd look no further than a recent Barons report, which describes there being a "mountain of money on the sidelines." Money market funds alone hold nearly six trillion dollars. With money market yields in the 5% range, accumulation of such enormous cash balances makes sense, as like no time in recent memory have investors been so well rewarded for taking zero market risk. But this era is coming to a close, and investors who continue to play it safe will likely miss out. Yields will fall when the Federal Reserve begins to cut interest rates, something many are predicting will happen "early" this year, whatever that means. At that point, investors who pulled their money out of the markets over the last couple of years should begin to return.

And when there's more buyers than sellers…..

Investing 101:
New Years Resolution: Be More Contrarian in 2024!

"Oh contraire, mon frere."
-Bart Simpson, 1988

Having an active contrarian viewpoint and a healthy skepticism toward investment market trends is a natural (although counterintuitive) and highly effective tool in optimizing portfolio gains during good times and helping to mitigate as much risk as possible during bearish periods.

Real Estate Investment Trusts (REITs) were a great example of this in 2023. Early in the year, the worst-case scenario had been built into this group. Investors saw that trends in office building vacancy rates were bad and *might* get worse. So they sold. And sold and sold and sold. And all this selling knocked even the highest quality REITs down to the point that their share prices reflected a far *worse* scenario than was actually likely to play out. Astute investors recognized this "oversold" condition, and bought REITs on the cheap. And within a few months, they're faith was rewarded with phenomenal returns and ridiculously good dividend yields.

AT&T (NYSE: T) was another good example. Early in 2023, the stock had gotten beaten down badly based on unrealistically gloomy expectations for the company. By the end of the year, the stock had rebounded significantly, paying off big for astute buyers who had bought when everyone else was selling.

Intel (NASDAQ: INTC) may be the next example. Barrons recently highlighted the fact that of the 56 Wall Street analysts that cover the stock, only eight have a buy rating on it. They didn’t highlight all the amazing things happening at the company and the incredible $40 billion+ in free cash flow the company will generate next year. While we’re not necessarily recommending the stock per se, a contrarian strategy might be to buy shares soon, in large part because those research analysts can’t take their ratings any lower. They can essentially only go up from here.

On the flip side, sometimes taking profits in areas that have had good gains (in other words, selling what everyone else is buying) can be a profitable contrarian investing strategy, too. Regardless of the situation, always remember that **pendulums tend to swing too far.** Stocks don’t tend to move in one direction forever, so always be ready to employ the Al Czervik (Rodney Dangerfield’s character from *Caddyshack*) mentality that we’ve quoted before (and will undoubtedly quote again):

“Buy, buy, buy! Oh, everyone's buying? Then sell, sell, sell!"

Misc...

The Funniest Movies of All Time!

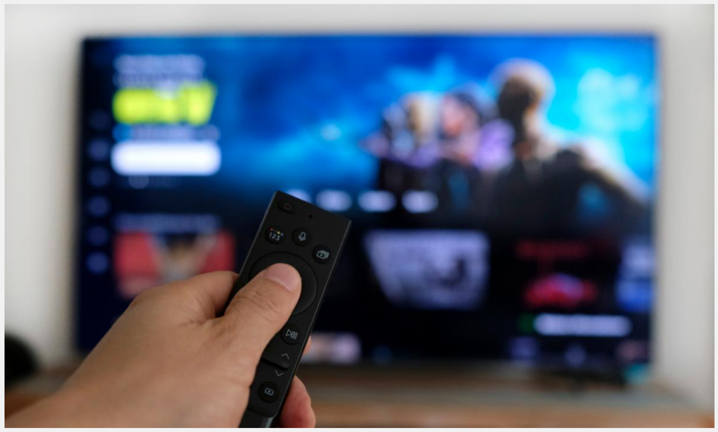
According to scientists who apparently have nothing better to study, 1980’s Airplane! is the funniest movie of all time, garnering an average of 3 laughs per minute. The Hangover clocked in at the #2 spot with 2.4 laughs per minute. Others in the top 10 included Naked Gun at 2.3 LPM, Borat at 1.7, Anchorman at 1.5, and one of my personal favorites, Shaun of the Dead, at 1.3

“Classic” Pizza Hut Locations are Still a Thing!

There are only a dozen or so Pizza Huts that still feature the retro 1974 signage, those super comfy retro booths, and red roofs left on the planet. And one of them is a mere 164 miles from Devon’s Chicago headquarters. Conclusion: I think it just became a no-brainer where our next company retreat needs to be held!

Paul's Picks: The Sopranos.

As hard as it is for us old-timers to wrap our minds around, HBO's *The Sopranos* turned 25 years old this month. And since, thanks to a nasty virus, I had a free weekend recently, with nothing to do but lay on the couch and binge, I rewatched the series for the first time since its original release. My main takeaway? While many of the show's themes and jokes— at one point Tony looks at a friend's rather large stomach and comments "You should seriously consider salads"— wouldn't fly in today's more sensitive climate, I can still see why many consider it the greatest show of all time. Yes, it's often crude and cringe-inducing, but it's also incredibly well written, acted, and directed, and well worth a significant time investment.



See you next month!

Ready to build wealth for tomorrow?
Call Paul Manelis, VP Trust and Wealth Management, at Devon Bank today at (773) 423-2356.