



CAPITAL MANAGEMENT GROUP

The Hefter Report – December 2023

A year ago, we were dealing with high inflation and a heated economy that needed government action to slow it down and avoid a recession. The Fed's monetary policy became more restrictive as they increased rates by a total of over 5% in a relatively short period of time. The resulting effect was declining inflation (albeit slowly) and no recession. Looking forward we see a likely soft landing. We believe that the financial markets essentially underestimated the strength of the US consumer. Even with higher rates across the yield curve, equity returns have been positive this year due to improvements in commodity and labor supply, productivity gains from AI and strong demand from both the private and public sectors. It's important to note that the rally this year was led almost entirely by mega-cap stocks such as Microsoft, Nvidia, Google, Meta, etc. The average stock in the S&P 500 has seen no gain. It's also notable that while Treasury Bond yields have increased significantly with the 10-year yield near 4.35%, bond market total returns have been near zero and for longer duration bonds, negative.

Looking to 2024, we believe that the Federal Reserve has probably concluded its rate hike cycle. US equities could continue to enjoy positive returns with both US and Global growth expected to come in around 2.5% and inflation as measured by PCE (Personal Consumption Expenditure) to end 2024 around 2 – 2.5%. With money market yields over 5%, it is currently posing a high hurdle rate for investors. We believe that equities will do better than that over the next 12 months. We currently favor high quality stocks with strong balance sheets and some of the core S&P stocks that have lagged in 2023.

On the fixed income side, the jury is still out and the inverted yield curve is still providing plenty of opportunities for high income on the short end of the curve.

Apropos of the season, we would like to thank you for the trust you place in us. We value you and are grateful for our partnership. We are always here to answer questions and discuss your portfolios at your convenience.

Investment products and services are offered through Wells Fargo Advisors Financial Network, LLC (WFAFN), Member SIPC. HLM Capital Management is a separate entity from WFAFN. PM-05282025-6124590.1.1

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