

2023: A Magnificent Year

As we bid farewell to the remarkable year that was 2023, we find ourselves standing at the dawn of a new chapter filled with anticipation. At the start of the year, the challenges and uncertainties that cast shadows over 2022 seemed insurmountable. Bearish sentiment was coming down from one of its highest levels in more than 30 years amid deeply negative market returns. Expectations for 2023 were low.

Yet against all odds, 2023 emerged as a banner year for investors. Despite the war in Ukraine, the battle against inflation, and the looming threat of recession, markets flourished.

As the year unfolded, a growing sense of optimism propelled markets higher as inflation continued to moderate, economic data exceeded expectations, and growth in corporate profitability turned positive for the first time in 12 months. Hopes were high that the US economy might successfully sidestep a recession.

Against this backdrop, domestic large cap stocks soared by +26.3% and broad US bond markets deliv-

ered a +5.5% return. International developed and emerging market stocks also delivered gains for the calendar year, up +17.9% and +9.8%, respectively.

The Magnificent 7 Take Center Stage

One highlight of 2023 was the extraordinary performance of a select number of the largest US stocks, which account for nearly 30% of the US large cap universe: the "Magnificent 7." Comprising Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla, these seven stocks played a pivotal role in markets throughout the year, accounting for approximately 60% of the US large cap universe return in 2023. The image below depicts the notable outperformance of the Magnificent 7.

Meanwhile, the rest of the US equity market struggled to keep pace. The question on everyone's mind is whether this rally will broaden to include a more extensive array of stocks or if the concentration will persist.

(Continued on page 2)



Source: Bloomberg. US Stocks represented by the Bloomberg 500 Index, which measures the performance of US large caps on a free-float, market-cap-weighted basis.



Tune In To Our Podcast!

Join Cobblestone's Jesse Cramer and Gabe Chodak on **The Trusted Partner Podcast** where they chat with experts in investing, financial planning, and other areas of wealth management specific to Cobblestone's clients' needs.

You can listen to **The Trusted Partner Podcast** on Spotify, Apple Podcasts, and Cobblestone's website.



Echoes of an Era Gone By

It's worth noting that as the largest US stocks have outperformed, the gains have largely been driven by valuation expansion (as opposed to earnings expansion).

Comparisons with the dot-com bubble have emerged as the dispersion of valuations between the largest stocks and the remaining stocks has reached historic levels not seen since the early 2000s. As of year-end 2023, the largest ten stocks in the S&P 500 were priced at 27x forward earnings, while the remaining stocks were priced at 17x forward earnings.

While some of the dispersion in valuations is certainly warranted, history suggests that such levels of outperformance among the largest companies tend to be short-lived.

A study of stock returns going back to 1927 shows that as companies grow to become among the largest ten companies in the US stock market, they have delivered average annualized outperformance of between 12% and 27% over the 3-, 5-, and 10-year periods prior to becoming one of the largest ten stocks.

After becoming one of the largest ten stocks, however, these same companies underperformed the market over the subsequent 3-, 5-, and 10-year periods. While we are not arguing for an imminent change in market

leadership, we would caution against expecting the heady performance of late exhibited by these stocks to persist indefinitely. Our inclusion of these stocks in client portfolios is selective and measured.

Three Key Themes to Monitor in 2024

With the new year now underway, we anticipate that three key themes will continue to shape market dynamics in 2024: inflation, interest rates, and economic growth. Developments in these three areas were significant drivers of market sentiment in 2023. We expect them to remain pivotal in the quarters ahead.

While not a foregone conclusion, current market expectations call for continued easing in inflation, interest rate cuts, and economic resilience.

Should these market expectations all come to fruition, markets could continue to drift higher from here, all else equal. Conversely, if reality falls short of expectations, the outlook for markets would undoubtedly be less constructive.

We will continue to closely monitor developments across these three key themes and look forward to providing you with updates over the year ahead.

All of us at Cobblestone wish you and your loved ones a happy and healthy 2024!

Total Return (%), Ending 12/31/2023

	Qtr	YTD	1 Year	Annualized		
				3 Years	5 Years	10 Years
S&P 500 Stock Index	11.7	26.3	26.3	10.0	15.7	12.0
Russell 2000 (Small-Cap Stocks)	14.0	16.9	16.9	2.2	9.9	7.1
MSCI World Ex. US (International Developed Stocks)	10.5	17.9	17.9	4.4	8.5	4.3
MSCI EM (Emerging Markets)	7.9	9.8	9.8	-5.1	3.7	2.7
Bloomberg US Aggregate Bond Index	6.8	5.5	5.5	-3.3	1.1	1.8
Dow Jones US Select REIT	16.3	14.0	14.0	7.2	6.1	7.0
Consumer Price Index (% Chg over Period)	-0.3	3.4	3.4	5.6	4.1	2.8

This communication may include opinions and forward-looking statements. All statements other than statements of historical fact are opinions and/or forward-looking statements (including words such as "believe," "estimate," "anticipate," "may," "will," "should," and "expect"). Although we believe that the beliefs and expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such beliefs and expectations will prove to be correct. Various factors could cause actual results or performance to differ materially from those discussed in such forward-looking statements. All expressions of opinion are subject to change. You are cautioned not to place undue reliance on these forward-looking statements. Any dated information is published as of its date only. Dated and forward-looking statements speak only as of the date on which they are made. We undertake no obligation to update publicly or revise any dated or forward-looking statements. Past performance is not indicative of future results. Investment in securities, including mutual funds and ETFs, may result in loss of income and/or principal. Nothing in this article is intended to be or should be construed as individualized investment advice. Investors should consult their Cobblestone advisors for tailored advice. Any references to third-party data or opinions are listed for informational purposes only and have not been verified for accuracy by the Advisor.