



Crescent Grove  
Investment  
Committee



Complex Needs

Important Goals

Independent Advice

Q4 2023

Market Perspectives

Andrew Krei, CFA  
Co-Chief Investment Officer



*All charts and data from Bloomberg*

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Lake Forest, IL  
Milwaukee, WI  
Atlanta, GA

## Bond Index Returns

	Annualized				
	Q4	YTD	1 Yr	3 Yr	5 Yr
Bloomberg Municipal 1-10Yr Index	5.5%	4.6%	4.6%	0.0%	2.0%
Bloomberg US Aggregate Bond Index	6.8%	5.5%	5.5%	-3.3%	1.1%
Bloomberg US High Yield Index	7.2%	13.4%	13.4%	2.0%	5.4%

## Treasury Yields

	1 Yr	2 Yr	5 Yr	10 Yr	30 Yr
Yield by Maturity	4.8%	4.2%	3.8%	3.9%	4.0%

## FX and Commodity Returns

	Annualized				
	Q4	YTD	1 Yr	3 Yr	5 Yr
Bloomberg Dollar Index	-4.2%	-2.7%	-2.7%	2.7%	0.3%
Bloomberg Commodity Index	-5.9%	-12.6%	-12.6%	8.1%	5.2%
WTI Crude Oil	-17.5%	-2.0%	-2.0%	25.6%	5.6%
Natural Gas	-24.6%	-65.3%	-65.3%	-19.1%	-28.0%
Copper	4.3%	4.7%	4.7%	4.8%	8.8%
Gold	11.4%	12.8%	12.8%	2.3%	8.9%

## Equity Index Returns

	Annualized				
	Q4	YTD	1 Yr	3 Yr	5 Yr
<b>US Equities</b>					
Russell 3000	12.1%	26.0%	26.0%	8.5%	15.2%
S&P 500	11.7%	26.3%	26.3%	10.0%	15.7%
Russell 2000	14.0%	16.9%	16.9%	2.2%	10.0%
<b>Non-US Equities</b>					
MSCI All Country World ex. US	9.8%	15.6%	15.6%	1.5%	7.1%
MSCI EAFE	10.4%	18.2%	18.2%	4.0%	8.2%
MSCI Emerging Markets	7.9%	9.8%	9.8%	-5.1%	3.7%

## US Equity "Style Box" Returns\*

\*Uses Russell indexes

	Q4			1 Yr		
	Value	Core	Growth	Value	Core	Growth
Large	9.5%	12.0%	14.2%	11.5%	26.5%	42.7%
Mid	12.1%	12.8%	14.5%	12.7%	17.2%	25.9%
Small	15.3%	14.0%	12.7%	14.6%	16.9%	18.7%

### Macro

- The Fed made a “dovish pivot” in Q4, signaling that its rate hiking cycle was over and that it may cut interest rates three times in 2024 as inflation readings continued to trend lower.
- The consensus call for a recession in 2023 never materialized as labor markets remained healthy and corporate earnings proved resilient.

### Fixed Income

- On the heels of a rapid move higher in Q3, interest rates reversed course in Q4. The benchmark 10-year Treasury yield fell nearly 70 basis points during the period. Investors responded quickly to the Fed’s dovish rhetoric and began aggressively discounting rate cuts in 2024 and beyond.
- Credit spreads tightened to their lowest levels in nearly two years, indicating healthy investor risk appetite and limited concern about default risks over the coming quarters.

### Equities

- Stock indices posted dramatic gains in the quarter, boosted by the Fed’s dovishness and lower interest rates. The Q4 rally saw broader participation from smaller cap and value stocks, but a handful of megacap growth names continued to account for an outsized portion of the market’s YTD gains.
- A weaker US dollar and early signs of a cyclical bottom for global growth helped non-US stocks advance smartly in the quarter—albeit still underperforming the broad US market in Q4 and full-year 2023.



# Chart of the Quarter – 2024 Rate Cut Expectations



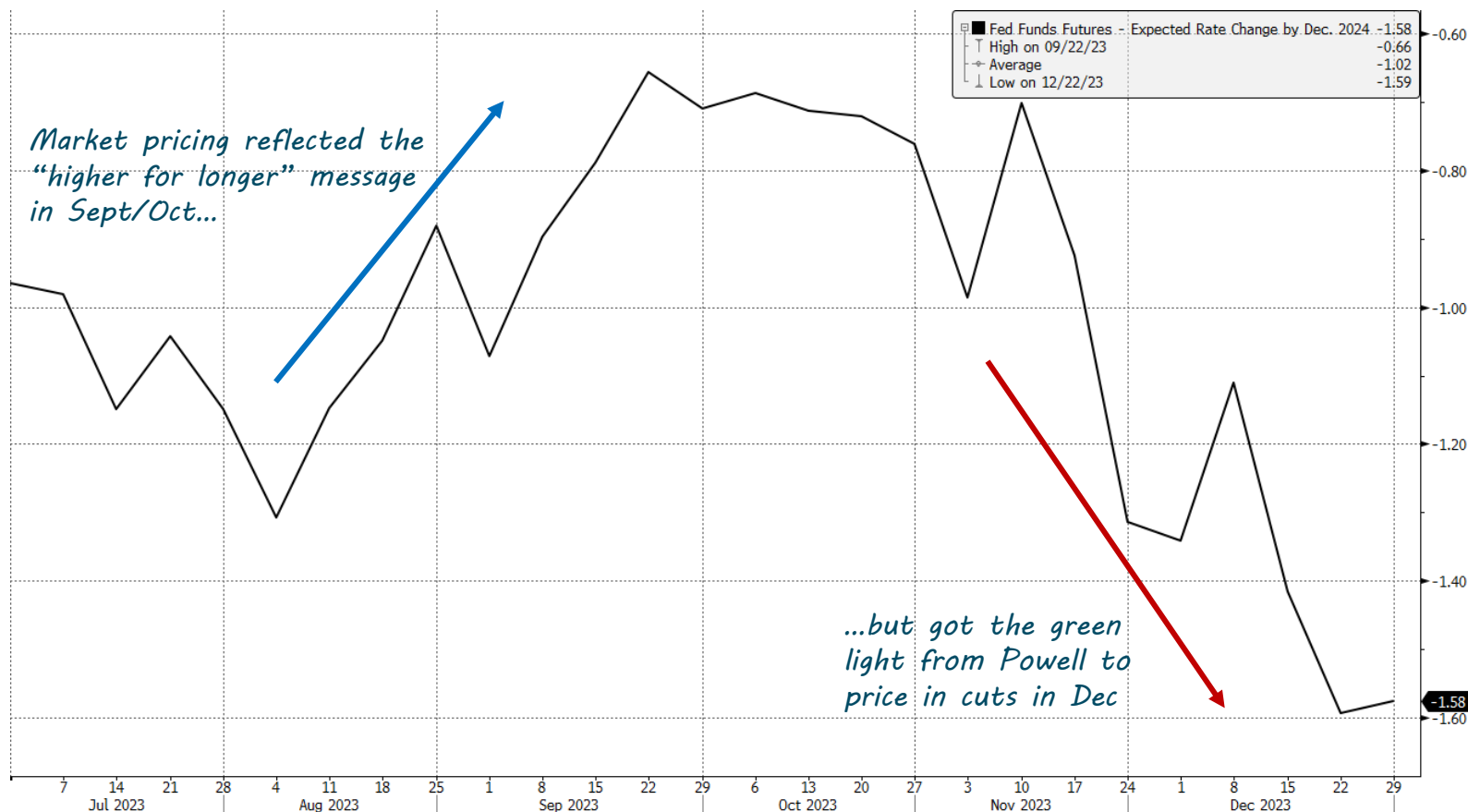
Overview

Chart of the Qtr.

Macro

Fixed Income

Equities



- The chart above shows market expectations for the change to the Fed Funds rate by Dec. 2024 (lower = more rate cuts). After pushing back on the market in Q3, Federal Reserve Chair Powell took a much more dovish approach at the Fed's December meeting. Feeling confident about inflation's slowing trajectory, Chair Powell did little to dissuade speculation the Fed would begin cutting rates in 2024 – perhaps meaningfully if the "soft landing" scenario continued to unfold. Risk assets celebrated the Fed signaling the end of its hiking cycle and a more accommodative approach going forward.

# The “Soft Landing” Trifecta: #1 Inflation



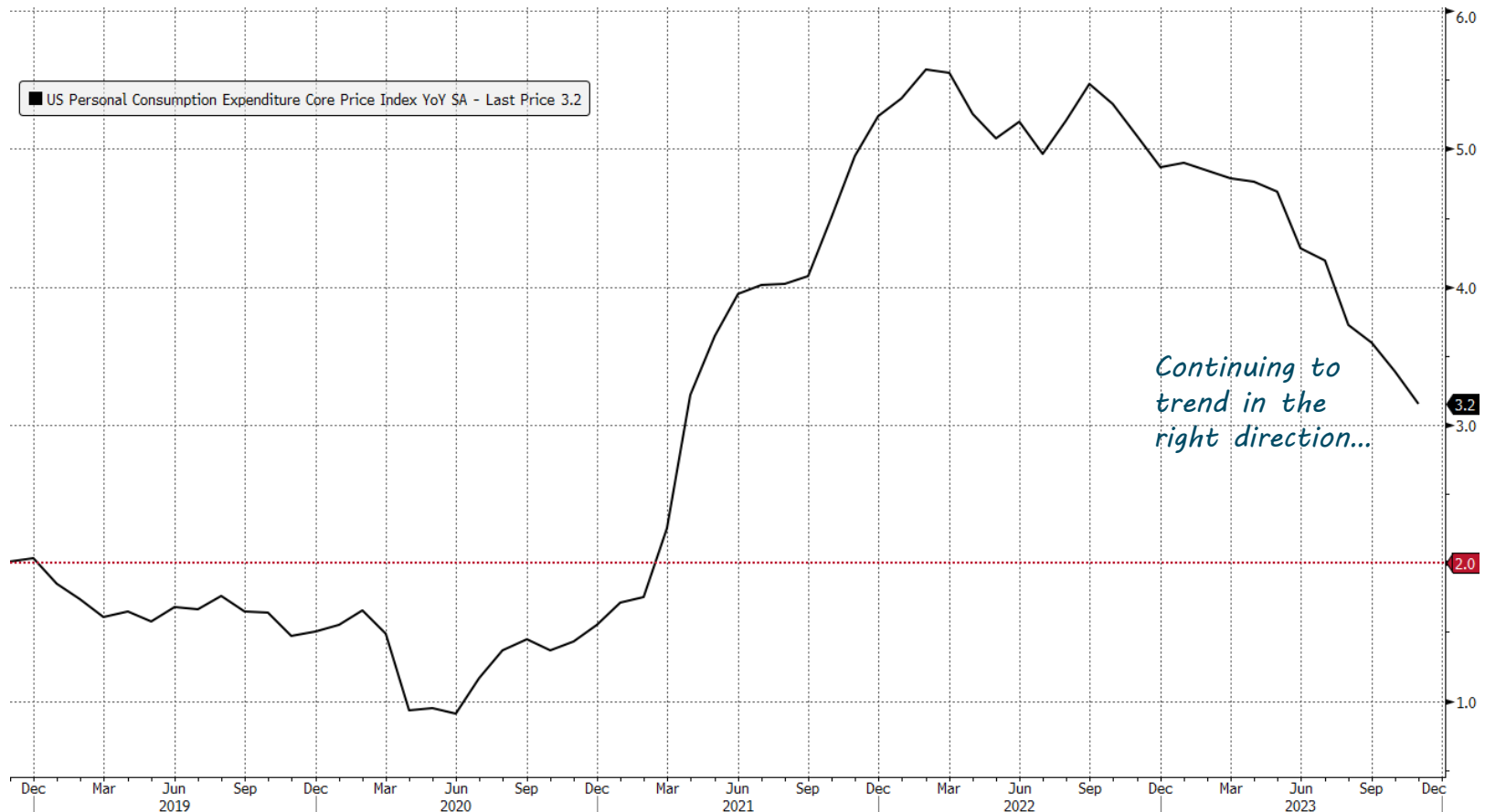
Overview

Chart of the Qtr.

Macro

Fixed Income

Equities



- The Fed’s preferred measure of inflation, the core PCE Index (black), saw an accelerated slowdown since mid-year and has been trending lower since Q4 2022.
- Inflation reverting to the Fed’s 2% target (red) without dramatically overshooting is a key variable in the “soft landing” equation.

# The “Soft Landing” Trifecta: #2 GDP Growth



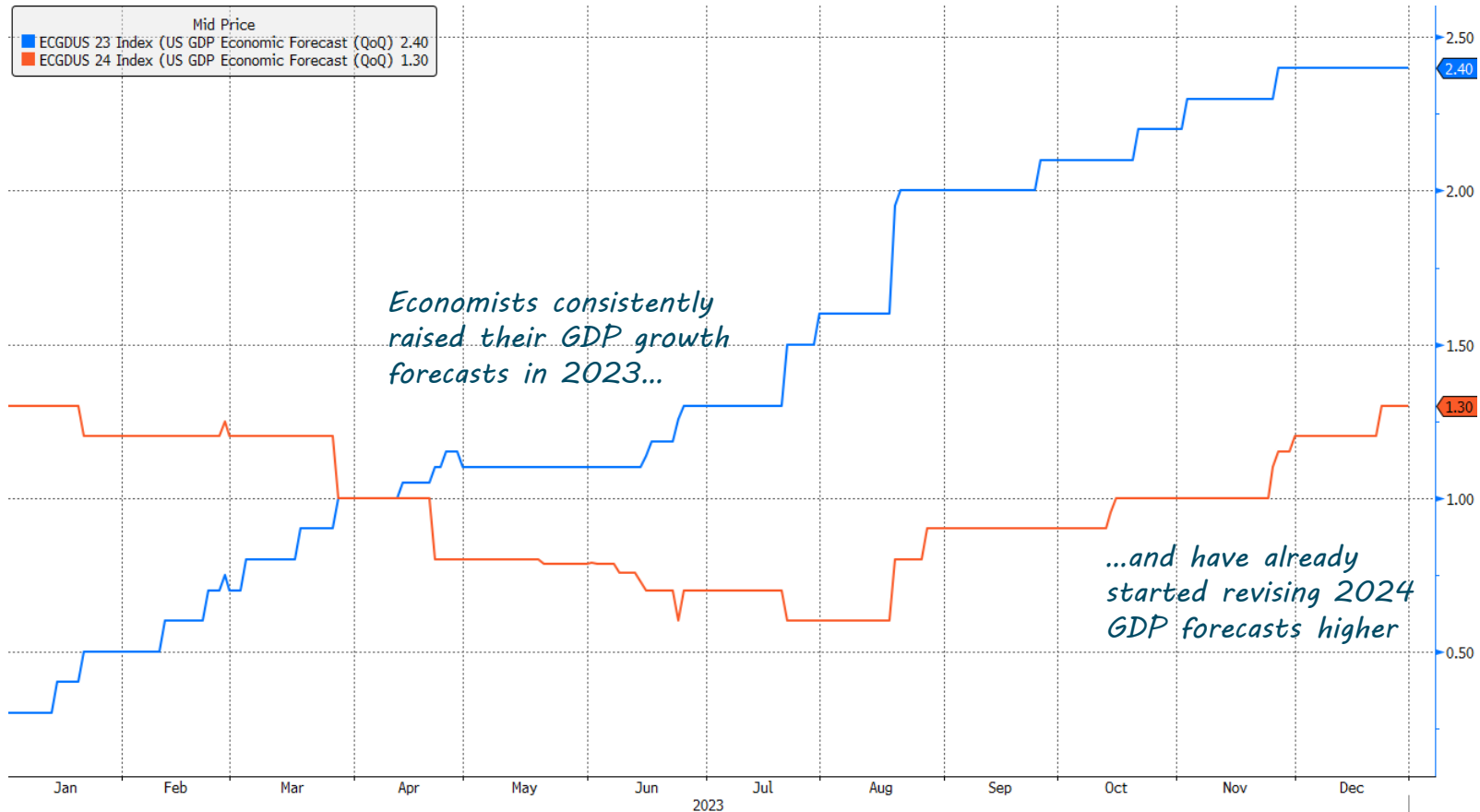
Overview

Chart of the Qtr.

Macro

Fixed Income

Equities



- The chart shows 2023 (blue) and 2024 (orange) consensus economist forecasts for US GDP growth. Despite recessionary concerns coming into 2023, growth expectations were revised upward throughout the year. Economists have been upgrading their calls for 2024 since August.
- Resilient GDP growth is the second, key element of the “soft landing” story.

# The “Soft Landing” Trifecta: #3 Labor Market



Overview

Chart of the Qtr.

Macro

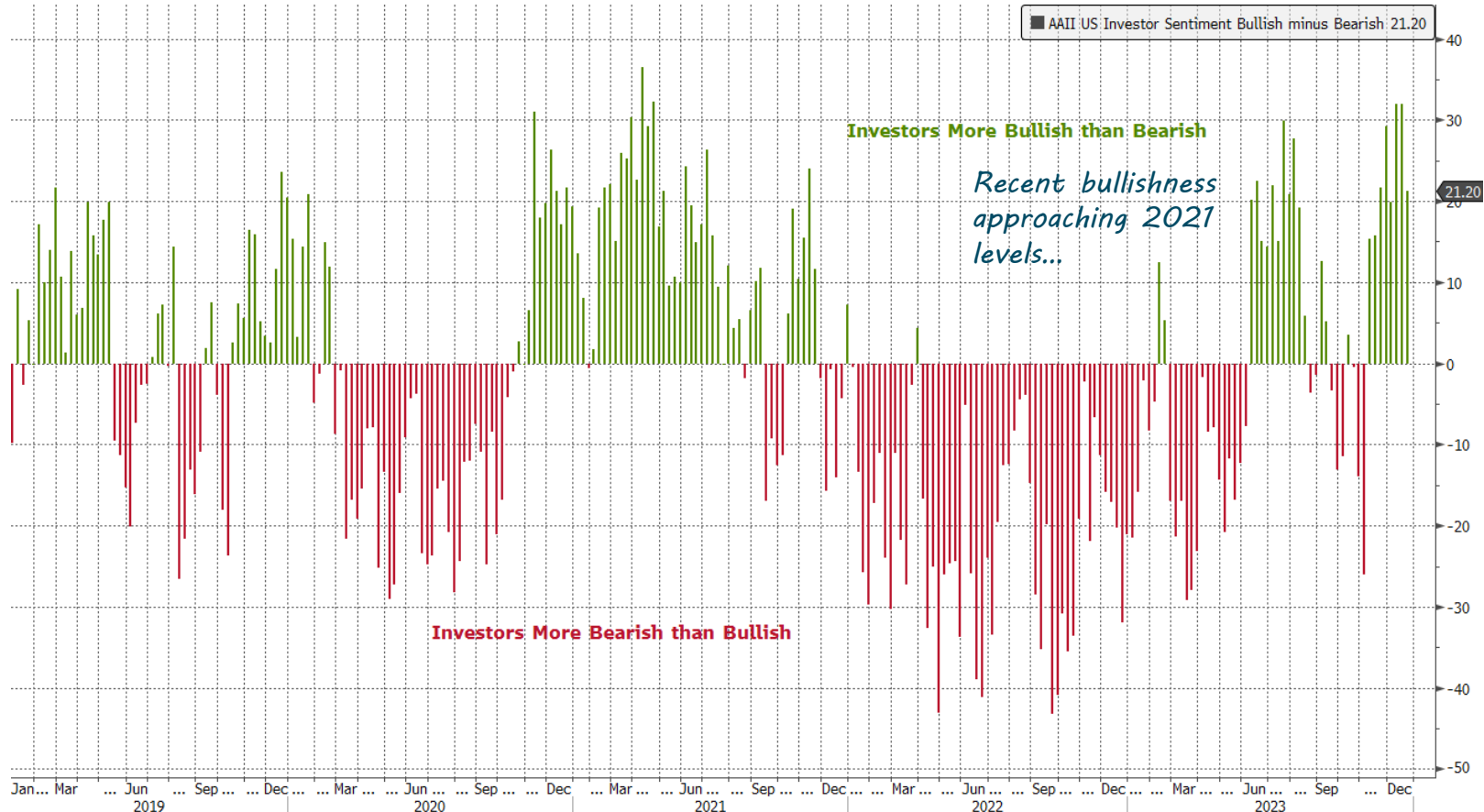
Fixed Income

Equities



- The 4-week average of US jobless claims (black) is approaching historically low levels again. The job market may not be as tight as last year and wage gains have slowed, but hiring remains healthy.
- The final component of the “soft landing” is a solid-but-balanced employment backdrop, supporting consumer activity while avoiding dramatic wage inflation.





- Sentiment was bearish entering 2023; investors reeled from a difficult 2022. Investors became more optimistic as inflation trended lower and the economy skirted recession. The Fed's dovish pivot in Q4 reinforced the upbeat outlook.
- Historically, extended periods of extreme investor sentiment have been a contrarian indicator. Lofty expectations and elevated valuations may leave little margin for error in 1H 2024 – a key risk to watch.

# Bond Market Returns



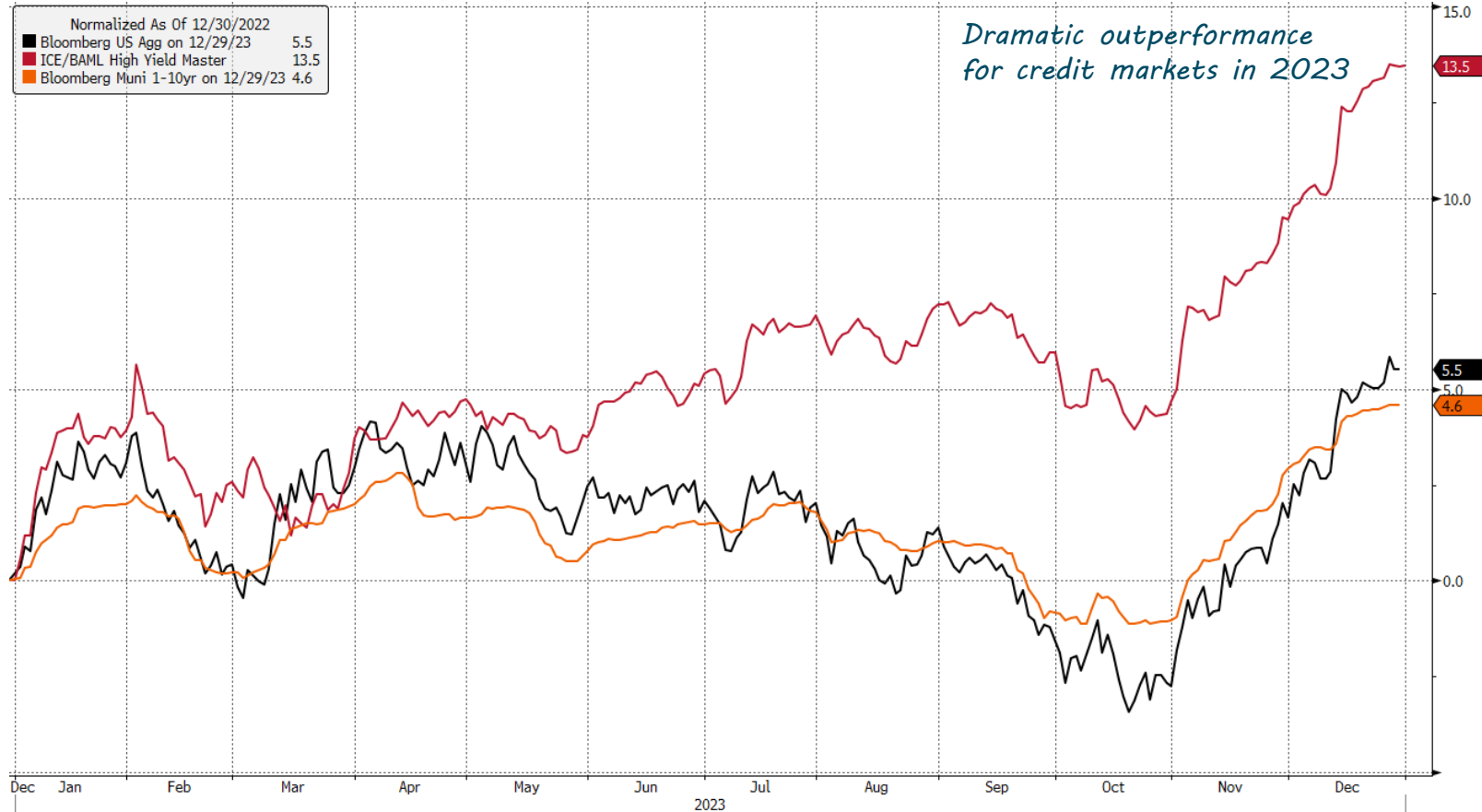
Overview

Chart of the Qtr.

Macro

Fixed Income

Equities



- Taxable and tax-exempt bonds posted strong price gains in Q4 as yields plunged, bringing their YTD returns into positive territory. The Bloomberg Aggregate Index had its best quarterly return in the last 30 years, gaining 6.8%. The Muni 1-10yr Index advanced 5.5% during the period.
- The ICE/BAML High Yield Index (red) returned 7.0% in Q4 and capped off an annual advance of nearly 14.0% thanks to tightening credit spreads and a shorter duration profile.



- After rising nearly 1.6% from April to October, the 10-year Treasury yield (blue) dropped dramatically in November and December. Cooling inflation data and the Fed's dovish pivot catalyzed demand for longer duration bonds. Despite the interim volatility, 10-year yields ended virtually unchanged from a year prior.
- Short-term rates (black) also fell as investors priced in Fed rate cut expectations and abandoned the "higher for longer" narrative from Q3.

# 10-Year Treasury Yield – Monthly Change



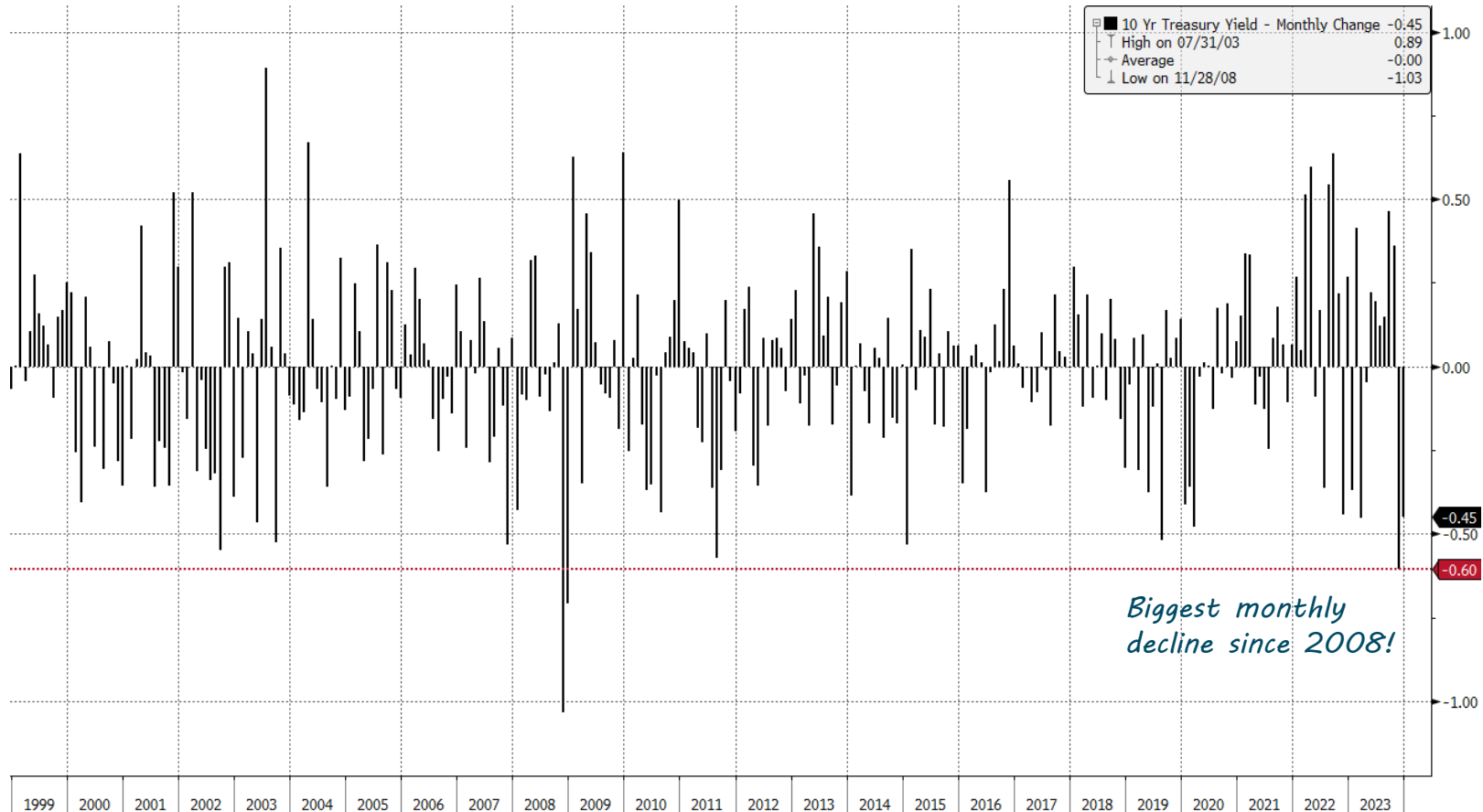
Overview

Chart of the Qtr.

Macro

Fixed Income

Equities



- To emphasize Q4's extraordinary market moves, the chart above illustrates the 10-year Treasury yield change by month over the last 25 years. November's decline was the largest since the GFC (3<sup>rd</sup> largest overall), and December's was similarly extreme (13<sup>th</sup> largest decline).



- Investor risk appetite was reinvigorated in Q4, leading to a material tightening of credit spreads. The incremental yield investors command for owning risky bonds over Treasuries hit its lowest levels since late 2021/early 2022.
- Investors showed little concern about corporate defaults heading into 2024 and were buying credit to generate higher yields relative to risk-free assets.



# Stock Market Returns



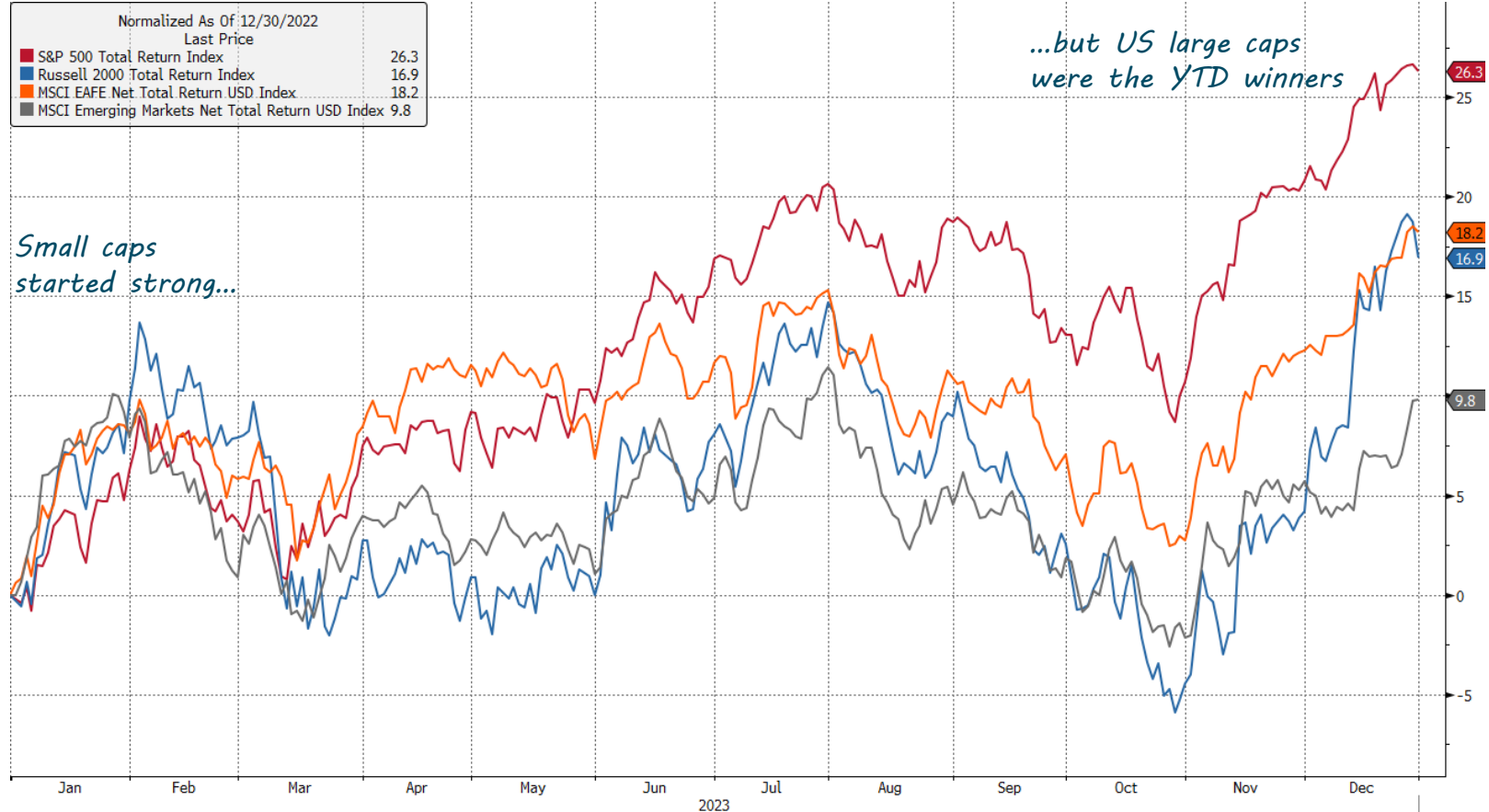
Overview

Chart of the Qtr.

Macro

Fixed Income

Equities



- Equity markets around the globe advanced in Q4 as the “soft landing” narrative took hold. Stocks historically enjoy “Goldilocks” phases where growth and inflation are neither too hot nor too cold. China was the notable exception, with the MSCI China Index posting a 4.2% loss during the period that weighed on EM returns.
- The S&P 500’s 26.3% return bested other indices in 2023, led by a handful of megacap tech names.

# US Stocks – “Mag 7” and Everyone Else



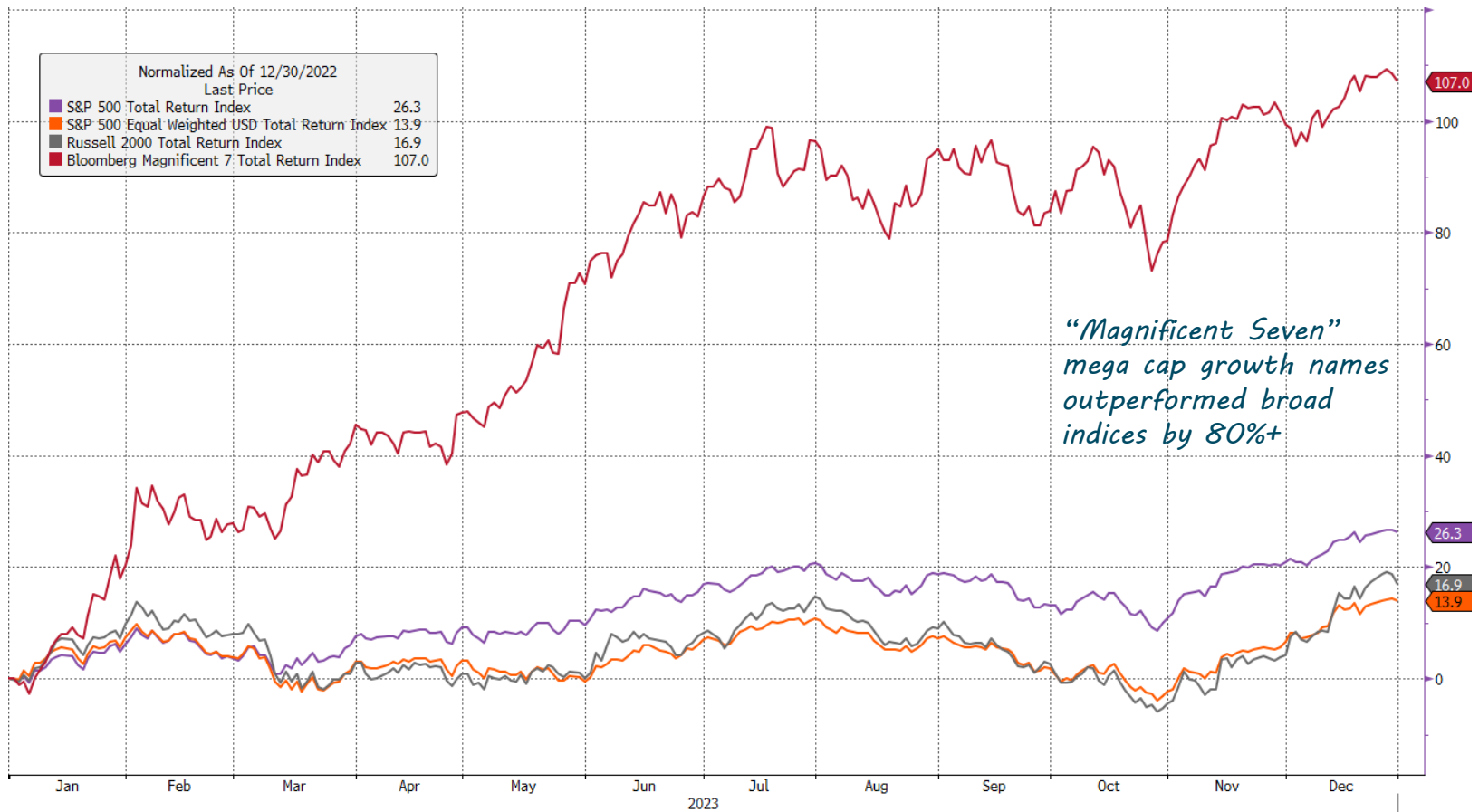
Overview

Chart of the Qtr.

Macro

Fixed Income

Equities



- An index of the “Magnificent Seven” megacap tech names returned 107.0% in 2023 (red), dramatically outperforming the S&P 500 at 26.3% (purple). The two top-performing names in the large cap index, Nvidia and Meta, were also in the “Mag 7”; they returned 239% and 194%, respectively.
- An equal-weighted version of the S&P 500 that adjusts for the large tech allocations only advanced 13.9% for the year, underperforming the market capitalization-weighted index by more than 12.0%.

# Valuation-Driven Rally



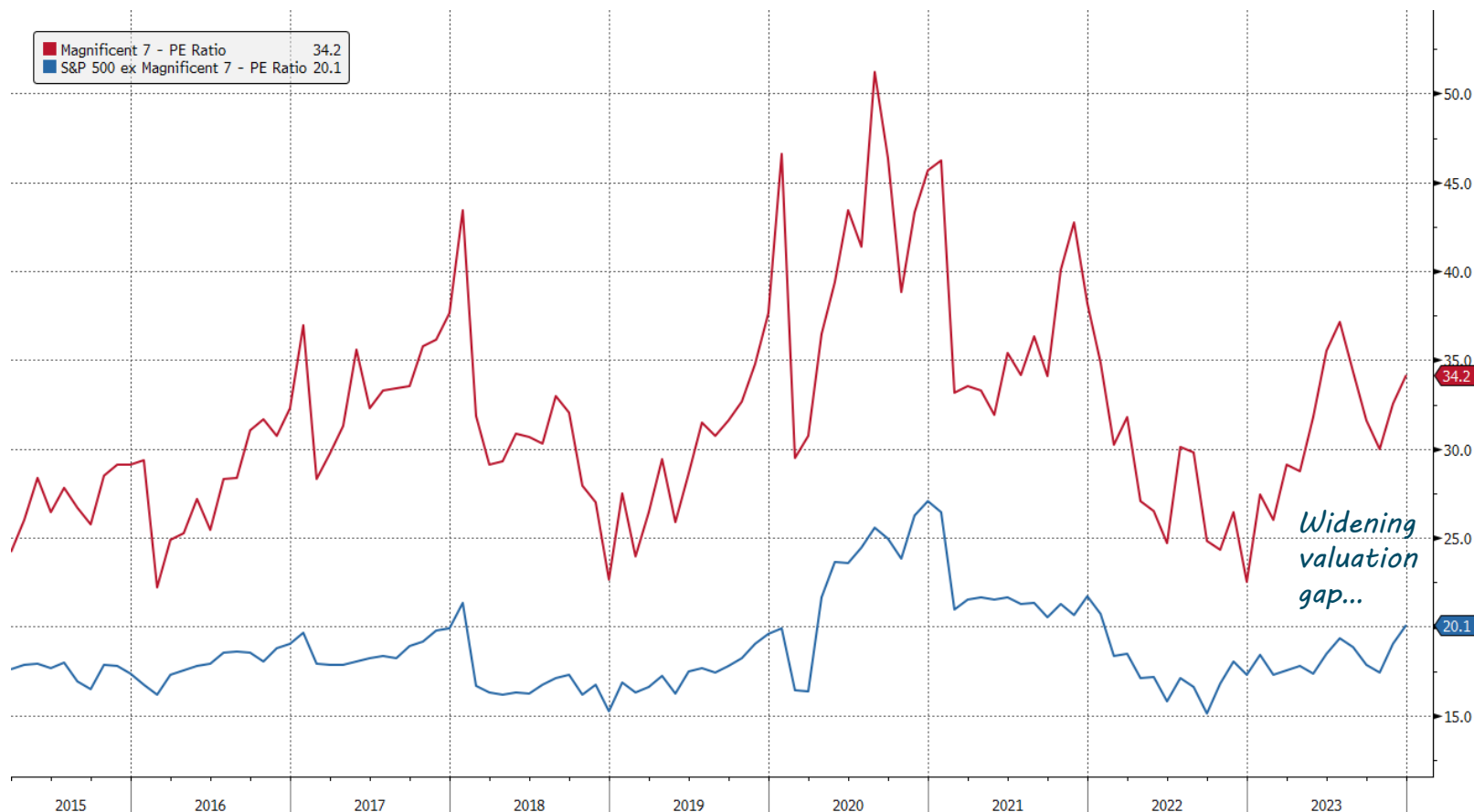
Overview

Chart of the Qtr.

Macro

Fixed Income

Equities



- The Magnificent Seven rally was underpinned by a dramatic re-rating. The megacap tech cohort went from trading at roughly 23x earnings at the beginning of the year to nearly 34x by the end of the year (red).
- Excluding the Magnificent Seven, the S&P 500 experienced a much more modest re-rating from roughly 18x earnings to 20x earnings (blue), perhaps offering investors better relative value going forward.

# Non-US Stock Market Returns



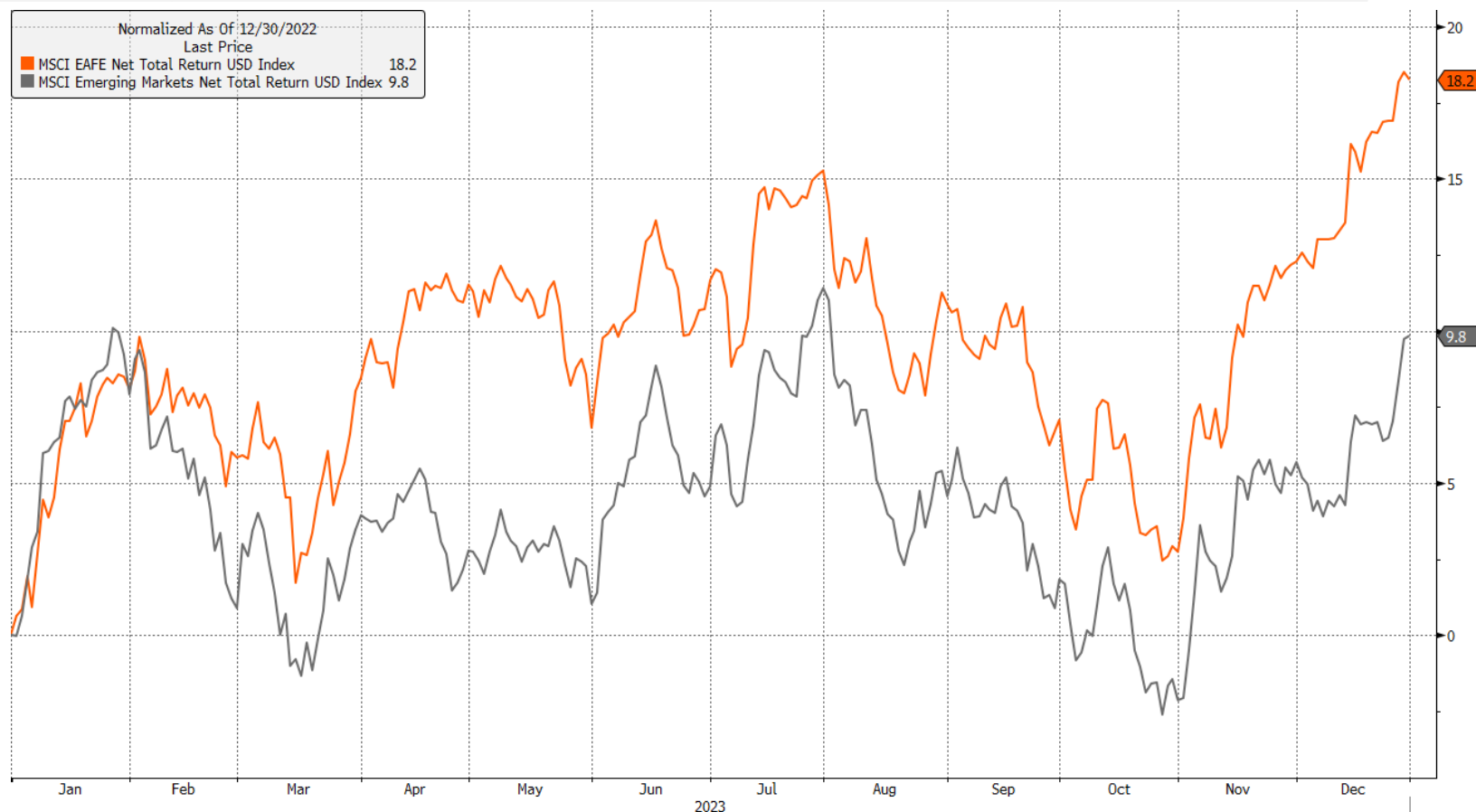
Overview

Chart of the Qtr.

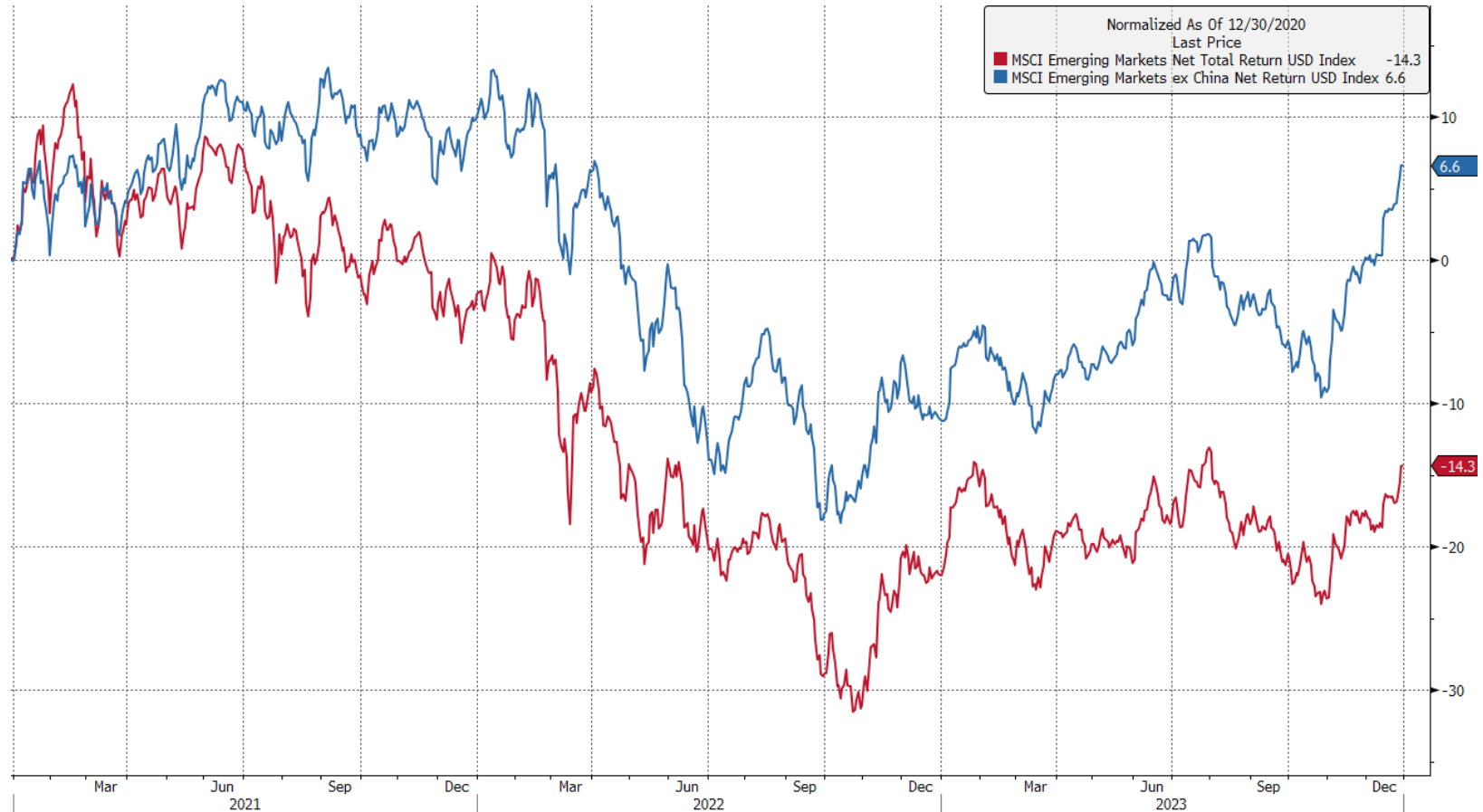
Macro

Fixed Income

Equities



- Developed international stocks (orange) gained 10.4% during Q4 as the US dollar weakened and looser financial conditions boosted investor risk appetite. The MSCI EAFE Index closed the year up 18.2%.
- EM stocks (gray) continued to lag despite a 7.9% gain in Q4. The MSCI EM Index remains nearly 30% below its February 2021 high water mark on a price basis.



- The chart above shows the performance of the MSCI Emerging Markets Index (red) relative to the same index excluding China (blue) over the last three years. Given its large index weight, China's growth headwinds—zero COVID policy, deleveraging, property market, etc.—have dramatically weighed on EM returns.
- China's GDP growth estimates may have finally bottomed during Q4, but investor sentiment continues to be depressed after an extended period of underperformance.





**Blake Karls, CFA, MBA**  
Director – Investments & Media  
Communications

**Dave Keevins, MBA**  
Co-Chief Investment Officer  
Managing Director

**Andrew Krei, CFA**  
Co-Chief Investment Officer

**Eric Schmitz, CFA**  
Director – Public & Private Markets  
Institutional Portfolio Manager

**Blake Durham, MBA**  
Client Advisor

**Chris Jauch, MBA**  
Client Advisor

**Mitchell Prosk, JD, MBA**  
Senior Client Advisor

**Dustin Wolk, CFP**  
Wealth Advisor

**Gary Gawryleski, MBA**  
Senior Client Advisor

**Nick Kochanski, CFA, MBA**  
Managing Director

**Shanna Venne, CPA**  
Wealth Advisor

**James Wood, JD**  
Senior Client Advisor

**Gregg George, JD, LLM**  
Managing Director

**Robert Peterson, JD**  
Senior Wealth Advisor

**Elizabeth Watkins, IACCP**  
Chief Operating Officer  
Chief Compliance Officer

**Tony Wright, JD**  
Senior Client Advisor

## Crescent Grove Advisors, LLC

100 North Field Drive, Suite 215, Lake Forest, IL 60045 | 847.752.0292

313 North Plankinton Avenue, Suite 216, Milwaukee, WI 53203 | 414.386.5340

3920 Northside Parkway NW, Suite 610, Atlanta, GA 30327 | 678.585.6625

[www.crescentgroveadvisors.com](http://www.crescentgroveadvisors.com)

[www.linkedin.com/company/crescent-grove-advisors](http://www.linkedin.com/company/crescent-grove-advisors)

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