

# BARRETT CAPITAL

---

# PARTNERS

4<sup>th</sup> Quarter 2023

Newsletter #10

	Q4	2023
<b>S&amp;P 500 TOTAL RETURN</b>	+11.7%	+26.3%
<b>US AGGREGATE BOND TICKER: AGG</b>	+5.0%	+1.85%

## *Optimism Abound*

### **2023 Investment Recap**

There was increasing optimism throughout 2023 that the Federal Reserve would tame inflation while also guiding the economy to the fabled “soft landing,” managing to bring inflation to their 2% target, while somehow avoiding a recession. This confidence led to market [gains of more than 26%](#) for the S&P 500 Total Return<sup>1</sup>, and [1.85% for bonds](#). The technology sector was the best performing sector, gaining 56%.

### **2023 Economic Recap**

The biggest story of the last two years has been inflation, and what steps the Federal Reserve is taking to mitigate it. The Fed has raised interest rates by more than 5%, which has had the intended effect of slowing inflation. The latest report from November showed inflation slowing to 3.1%, a marked improvement over the previous year. It is starting to look like the 2% goal is in sight.

Despite a 5% increase in interest rates over the last two years, [the unemployment rate has decreased over the same time period, from 4.0% to 3.7%](#). The expectation from Wall Street and the government going into 2023 was that unemployment would rise to about 5% due to higher rates. Instead, the U.S. added *2.7 million* jobs during the year. It *appears* that U.S. businesses and consumers are even stronger than anybody thought.

Consumer strength continues to impress. Debt has not increased as a percentage of income, and the savings rate is normalizing after the post-Covid spending spree. Wage growth and low unemployment have buoyed consumers and consumer confidence. As it stands, there is a lot of economic strength going into 2024.

---

<sup>1</sup> This index includes the S&P 500 companies, and the dividends that those companies paid out during the year.

# BARRETT CAPITAL PARTNERS

## Same old lessons learned

*“Far more money has been lost by investors trying to anticipate corrections, than lost in the corrections themselves.”*

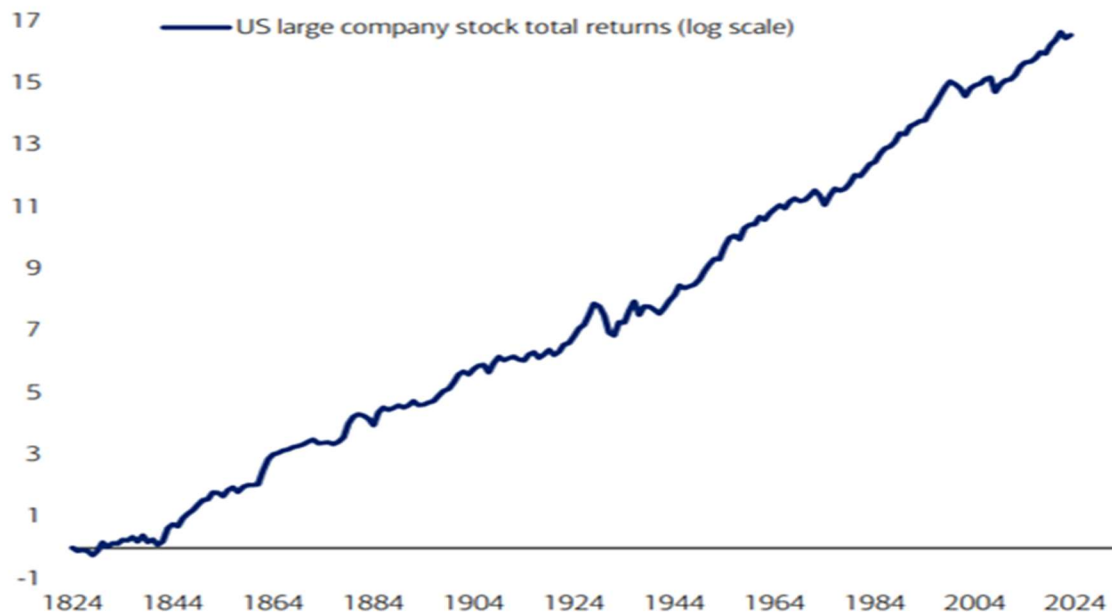
-Peter Lynch, legendary manager of the Magellan Fund

The past few years have been a great example of why having a long-term view, and avoiding emotional decisions, is important for your investments:

- At the beginning of 2020, COVID drove the market down some 30% in the span of just a few weeks, only to rebound and end the year up **over 18%**!
- As the pandemic still raged, the *market returned 28% in 2021*.
- 2022 had losses approaching 20%, only to gain it all back *and more* in 2023 despite a wall of negativity and the highest interest rates in a generation.

The lesson to be learned here is that it's just about *impossible* to forecast what the markets will do in any given year, and it would be a wasted exercise to try and predict any movements over a short period. **Just stay invested.**

**Chart 27: In the long run, stock prices go up**  
US large company stock total returns, log scale



Source: BofA Global Investment Strategy, Ibbotson, Global Financial Data

BofA GLOBAL RESEARCH

# BARRETT CAPITAL PARTNERS

## Every year is weird

Investment gains in 2023 were not evenly distributed across all companies. **Just seven companies accounted for 67% of the S&P 500 gain last year:** Apple, Microsoft, Google, Amazon, Facebook, Nvidia, and Tesla. Palo Alto Networks would have made it the “Magnificent 8” but it only joined the S&P 500 in June.

72% of stocks in the S&P 500 returned less than the index this year. The figure below puts that into historical perspective.



## Long term thinking

The advantage of investing for the long term is that we are able to ignore a LOT of short-term distractions. In December 2022, almost all of the biggest investment banks projected that the market would fall in 2023. Instead, it rallied by 26%.

Bank of America released a study showing that as your investment time horizon increases, the probability of negative returns drops. In other words, **it's very likely that in any short period there may be investment losses but over the course of time, the likelihood of negative returns decreases.**

# BARRETT CAPITAL

---

# PARTNERS

The future by definition is uncertain. Nobody knows what 2024 will hold, but what we *can* do is continue to own great companies that will grow and perform well over the long-term and ignore any short-term noise that may scare the rest of the flock.

Happy New Year and Cheers to a happy and healthy 2024,

Patrick and Joe

*Disclaimer: This content is for informational purposes only, and you should not construe any of the information contained as investment, financial, legal, tax, or other advice.*