Market Commentary

KMR Financial Advisory, Inc.

4th Quarter 2023 Market Review & 2024 Outlook

4th Quarter and Full Year 2023 Market Review

	BENCHMARK	Q4 2023	1-Year
U.S. Large-Cap Stocks	S&P 500® Index	11.7%	26.3%
U.S. Small-Cap Stocks	Russell 2000® Index	14.0%	16.9%
International Developed Stocks	MSCI EAFE Index	10.4%	18.8%
Emerging Market Stocks	MSCI Emerging Markets Index	7.8%	10.0%
U.S. Bonds	Bloomberg US Aggregate Bond Index	6.8%	5.5%
Treasury Inflation Protected Securities	Bloomberg US Treasury Inflation Protected Securities (TIPS) Index	4.7%	3.9%
High Yield Bonds	Bloomberg US Corporate High Yield Bond Index	7.2%	13.4%
International Developed Bonds	Bloomberg Global Treasury ex-US Index	9.9%	6.2%
Commodities	S&P GSCI Index	-10.7%	-4.3%
REITS	Dow Jones U.S. Select REIT Index	16.3%	14.0%

2023 turned out to be a nice surprise to both stock and bond investors, especially after the turmoil in the markets during 2022. We started this past year with plenty of pessimism, built upon the poor performance in the markets, especially in the bond markets, which endured their worst year on record. The question was- when is the recession going to hit, with few not seeing recession on the horizon. And investors felt resided to live with high inflation and high interest rates. 2022 ended with the CPI inflator being at a 6% annual rate, and no real consensus on whether the fight against rising inflation was being won. Then 2023 began…

Inflation continued to come down. Remember that inflation had hit 9.1% in June of 2022, but the trajectory was definitely downward by the beginning of the year and continued in that direction. And the economy continued to expand. The 4th quarter of 2022 GDP grew at 2.6% and by the 3rd quarter it was at 4.9%. The consumer kept spending, even as the prognosticators kept predicting doom & gloom. And the unemployment rate remained in the 3% range, not what one would expect with an impending recession.

A remarkable backdrop to this was what was going on here and around the world during the year. Remember the “banking crisis” in the late winter, early spring, where some poorly managed banks failed because they were not ready for a higher interest rate environment? And the war in Ukraine was continuing to dominate the international headlines. And more recently the horrible events of October 7 in Israel would shock the world.

And bond yields started climbing to levels not seen in some time. The 10 year Treasury yield almost broke thru 5% in October. The market had a pullback in Q3 with this going on.

But then a theme that had been working well all year-Artificial Intelligence-came to the forefront and vaulting the "Magnificent 7" technology stocks to new heights and pulling the market along with it. Those 7 stocks would make up about 30% of the total S&P 500 market value. Euphoria ensued, and a broad-based rally started in early November and lasted until the last week of the year.

S&P 500 Sectors

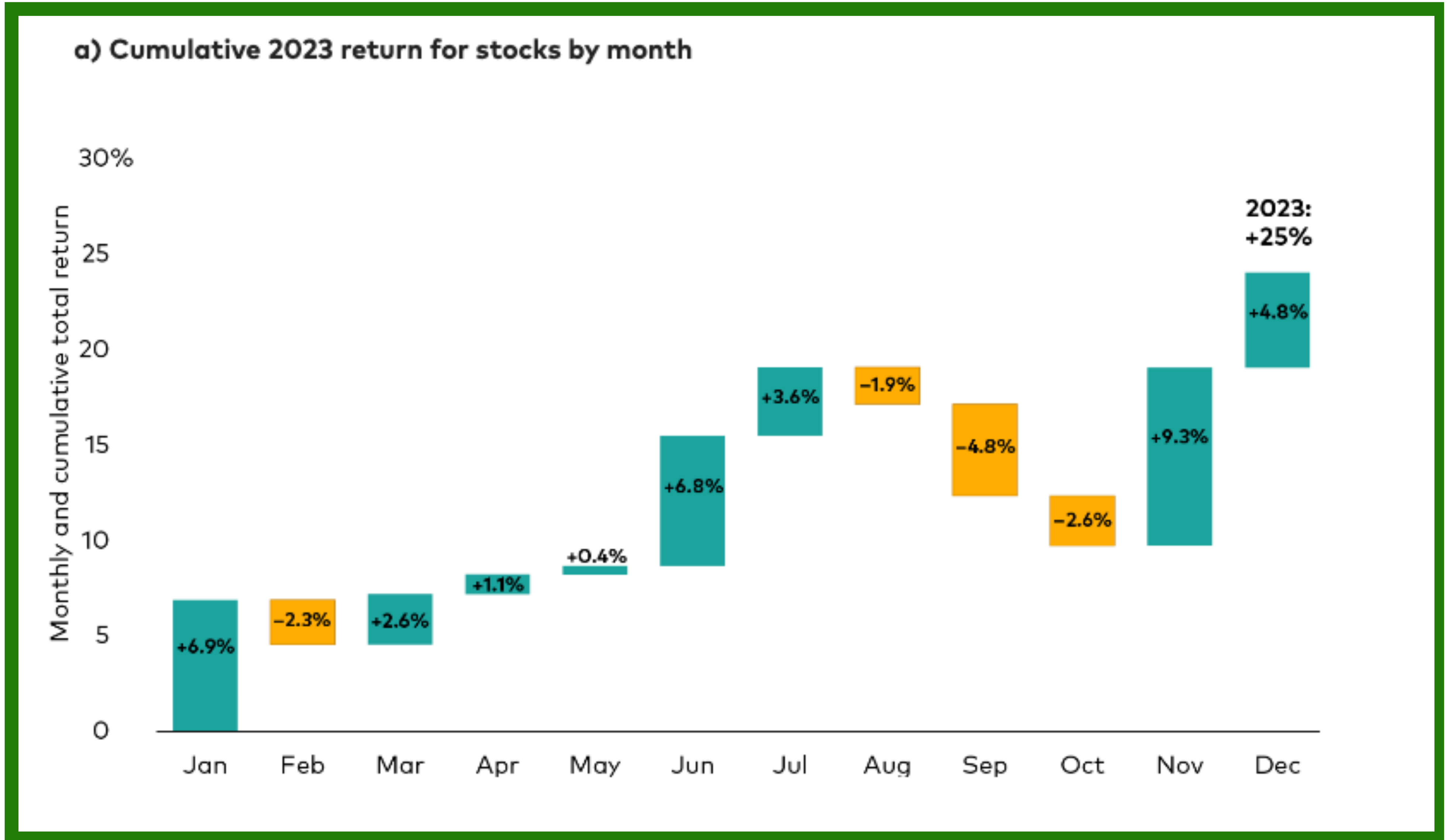
Index	S&P Weight	3-month Total Return	1-year Total Return
S&P 500 Index	100.0%	11.7%	26.3%
Information Technology	28.3%	17.2%	57.8%
Financials	12.9%	14.0%	12.1%
Health Care	12.7%	6.4%	2.1%
Consumer Discretionary	10.8%	12.4%	42.3%
Industrials	8.8%	13.0%	18.1%
Communication Services	8.5%	10.9%	55.8%
Consumer Staples	6.2%	5.5%	0.5%
Energy	3.9%	-7.0%	-1.4%
Real Estate	2.5%	18.8%	12.3%
Materials	2.4%	9.7%	12.5%
Utilities	2.3%	8.6%	-7.1%

For the full year 2023, the S&P 500 was up over 26%, and the NASDAQ, full of technology names, was up over 43%. The tech and communication services sectors were up over 55%. Energy and utilities were the only negative growth sectors for the year. And on the bond front, the broad-based bond index **AGG** was up 5.5%, and the investment grade corporate bonds were up over 8%.

Core Bonds	3-month	1-year
Bloomberg U.S. Aggregate	6.8%	5.5%
Treasuries	5.5%	3.9%
Municipal Bonds	7.9%	6.4%
Mortgage Backed	7.5%	5.0%
Agency Bonds	3.7%	5.1%
Investment Grade Corporate	7.9%	8.4%
Commercial Mortgage Backed	5.2%	5.3%
Asset Backed	3.5%	5.5%

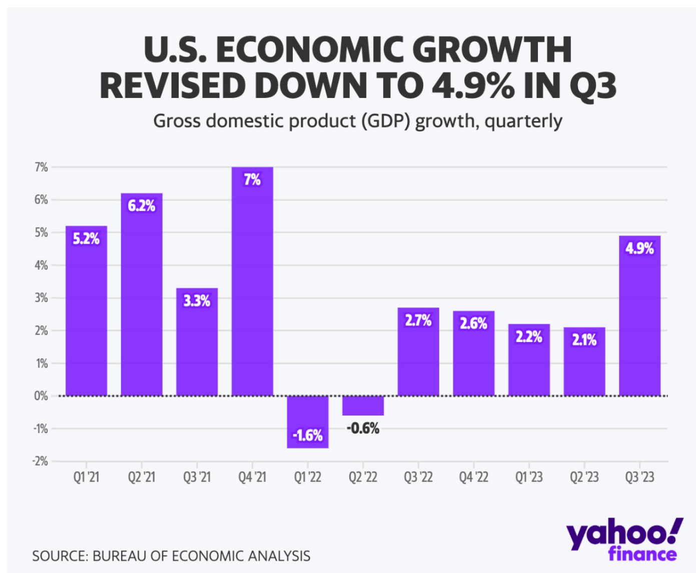
The chart on page 3 shows just how hard it is the try to time the market. Over-reacting to the "banking crisis" early in the year would have missed out on some impressive returns later on, and bailing out on the market during the Q3 pullback would have missed the impressive returns of the last 2 months of the year. We are reminded again that investing in the market is a long-term proposition, and trying to get in and out at the right time is difficult and hard to replicate. Long-term investing is still the best way for success.

Roller coaster of a year ending with an incredible rally during the 4th quarter



2024 Market Outlook

As I am writing this, the Dow Industrial and S&P 500 are at all-time highs, after breaking through last week to new record highs. So, for the large-cap S&P 500 index, we have completed the round trip to record highs from just over 2 years ago (January 3, 2022, to be precise). After a painful year, we just finished an upward grind during 2023 to get to where we are now. So, will the trend continue, stall, or reverse course? The prognosticators are at full tilt now, and many hedging their bets after a rather turbulent start of 2024, but now, with the winds seemingly at our backs, how do we perceive the future?



I went last week to a meeting that had an analyst from the Atlanta Federal Reserve bank, and of course he was peppered with questions about how the Fed (or at the least the Atlanta Fed) thought the economy and rate changes were going this year. Surprisingly, the fellow was pretty open about it, saying that they felt that growth would slow in the economy from here (though it's hard to keep up with a 4.9% growth rate for Q3 of 2023), that there would be some rate cuts (Chairman Powell has said as much-the only real question is how many), and that inflation is being brought under control, though the full effect of that would not be seen until next year. We will learn a lot about where we are now this week with the GDP number (which came in at 3.1% year-over-year today) and the PCE (Personal Consumption Expenditures) reading -The Fed's favorite barometer of inflation, being published later this week. But on the hold, I believe that the U.S. economy is in pretty good shape, and that employment will continue to hold up and continue relatively good wage growth.

The consumers are beginning to feel better about the economy and their own prospects in it, and this could be good to keeping them spending and corporate profits growing. Bond rates have fallen from the highs of last year and have mostly held steady so far in 2024. But with the economy slowing, there may not be too much pressure to move rates drastically higher from here, and the bond market may do relatively well. And the over- exuberance in predicting rate cuts will come back to reality and there will be some, possibly starting in the 2nd half of the year. All-in-all, a good year for the markets, and one that it is best to stay

invested.

Are there risks to that somewhat sunny outlook? Of course, and this year is full of them! Look no further than on the geo-political front (read: Ukraine and the Middle East), and the world is arguably in as dangerous place as it has been in decades. And we should always keep China and Taiwan on our radar, because that could evolve into the mother-of-all conflicts. And last, but certainly not least, our country will be going through uncharted waters with the 2024 presidential election and all the noise that will surround it for the rest of this year.

How these domestic and international events will impact investing markets remains to be seen, but the market has proven itself as being able to rise above a lot if these extraneous events and look at things that really matter about investing, like earnings and economic growth. But this will be a contentious year no matter what, and may God help our county to get through it well.

So, now more than ever, stay tuned!

Frank Brannon, CFP®
January 25, 2024

Latest Model Portfolio Changes - Target Allocation ETF Models

Blackrock just made changes to their **Target Allocation ETF** models on **1/25/24**. Below is Blackrock's commentary explaining the changes made to their **Target Allocation ETF** models, and charts showing their current allocations and position changes for their models:

Key Takeaways:

- **Move two-percent overweight stocks and cautiously "risk-on",** seeking to capitalize on the recent market pullback and position for potential upside surprises in U.S. economic growth and corporate earnings
- **Lean further into U.S., growth, and technology overweights,** expressing a high-conviction preference for the largest cap stocks in the U.S. that appear to have attractive growth profiles
- **Decrease exposure to Europe,** moving underweight international Developed Market (DM) stocks due to weakening corporate earnings signals and more pronounced downside vulnerability to potential rising energy prices and geopolitical turmoil
- **Prune underweight to Emerging Markets (EM),** increasing exposure to a carve-out of EM countries with the most attractive earnings prospects (like Taiwan) while also seeking to insulate the portfolio from a litany of mounting headwinds in China
- **Slightly add to credit risk for potential upside in bond-heavy portfolios,** locking-in elevated yields and maintaining a modest overweight to duration for diversification purposes

Trade Rationale:

The ghost of Septembers past haunted markets once again in 2023. This notoriously weak seasonal period - combined with rising rates and declining liquidity - saw stock and bond prices press lower but this also creates opportunity. We believe this pullback is exploitable, supported by growing strength in U.S. economic activity that may prove less fragile than many suspect.

U.S. corporate earnings have surprised to the upside and analyst earnings estimates have steadily been revised higher since July. Both time-tested signals have been predictive leading indicators to future stock returns. Fed GDPNow growth estimates in the U.S. have also blossomed higher, doubling from an average of 2.5% through midyear, to an average of 5% since. Reinvigorated growth expectations are also the likely culprit for the latest leg higher in real rates (and less so expectations for higher inflation). As this distinction becomes more apparent to investors, the repricing of this phenomenon could especially benefit U.S. stocks, with the most pronounced effect in large cap stocks.

Further fuel to the "risk-on" trade could also come from a potentially under-appreciated source - the Federal Reserve. While such moves are not our base case, we believe there's more upside than downside risk to changes in Fed temperament. The "higher for longer" theme appears to be consensus opinion among investors. But with easing supply chain constraints pushing inflation lower and growing geopolitical strife amidst a coming election year, the Fed may be more sensitive to shifts in sentiment and any whiffs of weakness in the jobs market. The Fed has multiple levers at its disposal that could reignite animal spirits – without having to resort to cut rates. More encouraging forward guidance, alongside the possibility of slowing or even ending QT, could deliver stimulative wonders.

Our cautious bullishness is mostly contained to the U.S., but a temporary reversal in the dollar's historic winning streak wouldn't be outlandish. In such a scenario, EM stocks could sharply outperform - we have reduced our underweight accordingly. Another plausible curve-ball to our risk-on thesis is higher oil prices, so we add a hedge in global energy stocks. Wartime disruptions and structurally lower global supply raise risks of $100+ per barrel oil, which could hamper consumer demand and weigh on this year's growth-heavy winners.

Target Allocation ETF Model - Latest Allocations as of 1/25/24

Latest Holdings (%)

Allocation as of 1/25/24

		As of Date	0/100	10/90	20/80	30/70	40/60	50/50	60/40	70/30	80/20	90/10	100/0
Net Expense Ratio (%)		11/30/23	0.10	0.10	0.11	0.11	0.11	0.12	0.12	0.13	0.14	0.14	0.15
Gross Expense Ratio (%)		11/30/23	0.12	0.11	0.11	0.12	0.12	0.12	0.13	0.13	0.14	0.14	0.15
US Equities			**-**	**11.0**	**17.0**	**24.0**	**31.0**	**38.5**	**44.5**	**52.0**	**59.5**	**66.0**	**71.0**
DYNF	BlackRock U.S. Equity Factor Rotation ETF		-	-	-	1.5	2.0	2.5	3.0	3.5	4.0	4.5	5.0
ESGU	iShares ESG Aware MSCI USA ETF		-	-	-	-	-	-	-	3.0	3.5	4.0	4.0
IVE	iShares S&P 500 Value ETF		-	-	1.0	2.0	2.5	3.0	4.5	4.5	5.0	5.5	6.0
IVV	iShares Core S&P 500 ETF		-	11.0	16.0	20.5	24.5	30.0	34.0	36.0	41.0	45.5	49.0
QUAL	iShares MSCI USA Quality Factor ETF		-	-	-	-	2.0	3.0	3.0	5.0	6.0	6.5	7.0
International/Global Equities			**-**	**1.0**	**4.0**	**6.5**	**8.5**	**10.5**	**12.5**	**15.0**	**17.0**	**19.5**	**20.5**
EFG	iShares MSCI EAFE Growth ETF		-	-	1.0	1.5	2.5	3.0	4.0	5.0	5.5	6.0	6.5
EFV	iShares MSCI EAFE Value ETF		-	1.0	2.0	3.5	4.0	5.0	5.5	6.5	7.5	8.5	9.0
EMXC	iShares MSCI Emerging Markets ex China ETF		-	-	-	-	-	-	1.0	1.0	1.5	2.0	2.0
IEMG	iShares Core MSCI Emerging Markets ETF		-	-	1.0	1.5	2.0	2.5	2.0	2.5	2.5	3.0	3.0
Sector Equities			**-**	**-**	**1.0**	**1.5**	**2.5**	**3.0**	**5.0**	**5.0**	**5.5**	**6.5**	**6.5**
IFRA	iShares U.S. Infrastructure ETF		-	-	-	-	-	-	1.0	1.0	1.0	1.5	1.5
IXC	iShares Global Energy ETF		-	-	-	-	1.0	1.0	1.0	1.0	1.0	1.0	1.0
IYW	iShares U.S. Technology ETF		-	-	1.0	1.5	1.5	2.0	3.0	3.0	3.5	4.0	4.0
US Fixed Income			**96.0**	**84.0**	**74.5**	**64.5**	**55.0**	**45.0**	**35.0**	**26.0**	**16.0**	**6.0**	**-**
BINC	Blackrock Flexible Income ETF		3.0	2.5	2.5	2.0	1.5	1.5	1.5	-	-	-	-
GOVT	iShares U.S. Treasury Bond ETF		5.0	2.5	2.0	1.5	-	-	-	-	-	-	-
HYDB	iShares High Yield Bond Factor ETF		2.0	2.0	1.5	1.5	-	-	-	-	-	-	-
ICVT	iShares Convertible Bond ETF		1.0	1.0	1.0	-	-	-	-	-	-	-	-
IUSB	iShares Core Total USD Bond Market ETF		45.0	40.5	35.0	31.5	29.5	23.5	22.0	17.5	10.5	4.5	-
LQD	iShares iBoxx $ Investment Grade Corporate Bond ETF		5.0	4.5	4.0	3.5	3.0	2.5	-	-	-	-	-
MBB	iShares MBS ETF		15.0	13.0	11.5	9.5	8.0	7.0	6.0	3.5	2.0	-	-
TFLO	iShares Treasury Floating Rate Bond ETF		10.0	8.5	8.0	7.0	6.0	5.0	2.5	2.5	1.5	-	-
TIP	iShares TIPS Bond ETF		4.0	3.5	3.0	3.0	2.5	1.5	-	-	-	-	-
TLT	iShares 20+ Year Treasury Bond ETF		6.0	6.0	6.0	5.0	4.5	4.0	3.0	2.5	2.0	1.5	-
International/Global Fixed Income			**2.0**	**2.0**	**1.5**	**1.5**	**1.0**	**1.0**	**1.0**	**-**	**-**	**-**	**-**
EMB	iShares J.P. Morgan USD Emerging Markets Bond ETF		2.0	2.0	1.5	1.5	1.0	1.0	1.0	-	-	-	-
Cash & Cash Alternatives			**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**
CASH-USD	UNITED STATES DOLLAR		2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0

Latest Model Portfolio Changes - Target Allocation Tax-Aware ETF Models

Blackrock last made changes to their **Target Allocation Tax-Aware ETF** models on **10/19/23**. Below is Blackrock's commentary explaining the changes made to their **Target Allocation Tax-Aware ETF** models, and charts showing their current allocations and position changes for their models:

KEY TAKEAWAYS

- **Move two-percent overweight stocks and cautiously "risk-on",** seeking to capitalize on the recent market pullback and position for potential upside surprises in U.S. economic growth and corporate earnings
- **Lean further into U.S., growth, and technology overweights,** expressing a high-conviction preference for the largest cap stocks in the U.S. that appear to have attractive growth profiles
- **Decrease exposure to Europe,** moving underweight international Developed Market (DM) stocks due to weakening corporate earnings signals and more pronounced downside vulnerability to potential rising energy prices and geopolitical turmoil
- **Prune underweight to Emerging Markets (EM),** increasing exposure to a carve-out of EM countries with the most attractive earnings prospects (like Taiwan) while also seeking to insulate the portfolio from a litany of mounting headwinds in China
- **Recalibrate fixed income sleeve,** maintaining duration overweight to balance risk being taken on equity side of portfolios

Trade Rationale:

The ghost of Septembers past haunted markets once again in 2023. This notoriously weak seasonal period - combined with rising rates and declining liquidity - saw stock and bond prices press lower but this also creates opportunity. We believe this pullback is exploitable, supported by growing strength in U.S. economic activity that may prove less fragile than many suspect.

U.S. corporate earnings have surprised to the upside and analyst earnings estimates have steadily been revised higher since July. Both time-tested signals have been predictive leading indicators to future stock returns. Fed GDPNow growth estimates in the U.S. have also blossomed higher, doubling from an average of 2.5% through midyear, to an average of 5% since. Reinvigorated growth expectations are also the likely culprit for the latest leg higher in real rates (and less so expectations for higher inflation). As this distinction becomes more apparent to investors, the repricing of this phenomenon could especially benefit U.S. stocks, with the most pronounced effect in large cap stocks.

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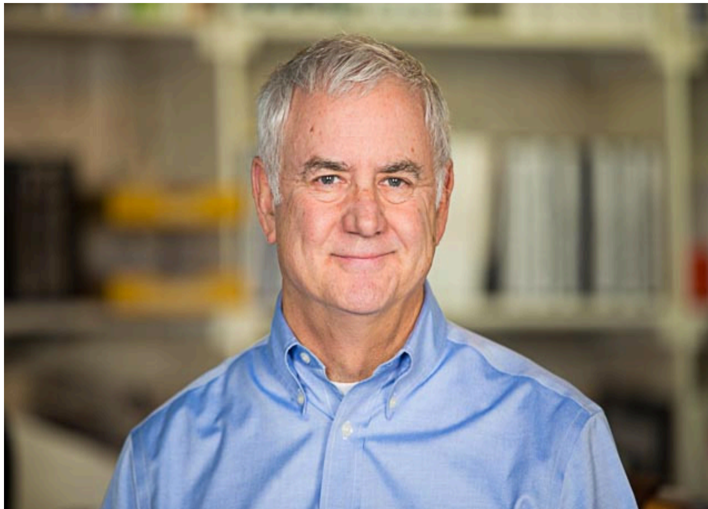
Target Allocation Tax-Aware ETF Model - Latest Allocations as of 10/19/23

		As of Date	0/100	10/90	20/80	30/70	40/60	50/50	60/40	70/30	80/20	90/10	100/0
Net Expense Ratio (%)		8/31/23	0.08	0.09	0.10	0.11	0.12	0.13	0.13	0.14	0.10	0.16	0.16
Gross Expense Ratio (%)		8/31/23	0.08	0.09	0.10	0.11	0.12	0.13	0.13	0.14	0.10	0.16	0.16
US Equities			**-**	**10.0**	**15.5**	**22.5**	**29.0**	**36.0**	**42.5**	**49.5**	**57.0**	**63.0**	**68.0**
ESGU	iShares ESG Aware MSCI USA ETF		-	2.5	2.5	5.0	5.5	8.5	10.0	12.0	13.5	15.0	16.5
IVV	iShares Core S&P 500 ETF		-	5.0	9.5	11.5	15.5	18.5	22.5	26.0	30.0	33.5	36.5
IVW	iShares S&P 500 Growth ETF		-	-	1.0	1.0	1.5	2.0	2.5	3.0	3.5	3.5	4.0
OEF	iShares S&P 100 ETF		-	1.0	1.0	2.0	2.5	3.0	3.0	3.0	3.0	3.5	3.5
QUAL	iShares MSCI USA Quality Factor ETF		-	1.5	1.5	2.0	2.5	2.5	2.5	3.5	4.5	4.5	4.5
USMV	iShares MSCI USA Min Vol Factor ETF		-	-	-	1.0	1.5	1.5	2.0	2.0	2.5	3.0	3.0
International/Global Equities			**-**	**2.0**	**5.5**	**8.0**	**10.0**	**12.5**	**15.0**	**18.0**	**20.0**	**23.0**	**24.0**
EFG	iShares MSCI EAFE Growth ETF		-	-	2.0	2.5	3.5	4.0	5.0	6.0	6.5	7.5	8.0
EFV	iShares MSCI EAFE Value ETF		-	1.0	2.0	3.5	4.0	5.0	6.0	7.0	8.0	9.0	9.5
EMXC	iShares MSCI Emerging Markets ex China ETF		-	1.0	1.5	2.0	2.5	3.5	4.0	5.0	5.5	6.5	6.5
Sector Equities			**-**	**-**	**1.0**	**1.5**	**3.0**	**3.5**	**4.5**	**4.5**	**5.0**	**6.0**	**6.0**
IXC	iShares Global Energy ETF		-	-	-	-	1.0	1.0	1.0	1.0	1.0	1.0	1.0
IYW	iShares U.S. Technology ETF		-	-	1.0	1.5	2.0	2.5	3.5	3.5	4.0	5.0	5.0
US Fixed Income			**98.0**	**86.0**	**76.0**	**66.0**	**56.0**	**46.0**	**36.0**	**26.0**	**16.0**	**6.0**	**-**
MUB	iShares National Muni Bond ETF		71.0	65.0	57.5	50.5	43.0	37.0	31.0	22.0	14.0	6.0	-
SUB	iShares Short-Term National Muni Bond ETF		12.0	8.0	7.0	5.5	4.5	2.0	-	-	-	-	-
TLH	iShares 10-20 Year Treasury Bond ETF		15.0	13.0	11.5	10.0	8.5	7.0	5.0	4.0	2.0	-	-
Cash			**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**
CASH-USD	UNITED STATES DOLLAR		2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0

About KMR Financial Advisory, Inc.

KMR Financial Advisory is an independent, fee-only registered investment advisor specializing in the development of comprehensive financial plans and developing & managing investment portfolios.



Frank R. Brannon, CFP ®, is the president of KMR Financial Advisory, Inc. Frank's educational background includes:

- The Lovett School
- Tulane University, BA, Economics
- Georgia State University, Master of Decision Sciences

Frank is a Certified Financial Planner™ professional and achieved his license in 1996. Frank has worked most of his career in corporate financial planning for a Fortune 200 company. He has lived his entire life in Atlanta.

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