AlphaWealth Monthly Brief

January | 2024

> *"…there is nothing new in Wall Street. There can't be because speculation is as old as the hills. Whatever happens in the stock market today has happened before and will happen again."*
>
> *- Edwin LeFevre*

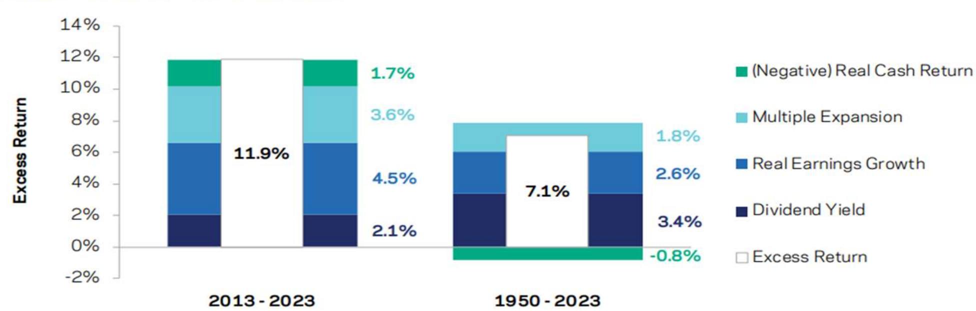
In this month's edition of the brief, we reflect on the robust equity market performance over the last decade and whether this performance is repeatable. We also highlight a few milestones from 2023.

Looking Out Over 2024 and Beyond

We are coming off a tremendous decade to be an investor in the U.S. equity market. While the ride has not always been smooth, U.S. stocks as measured by the S&P500 outperformed cash by 11.9% per year between July 1, 2013 and June 30, 2023 - above the 90th percentile of rolling ten-year performance across global developed equity markets since 1950. Looking out over the next decade, long-term investors need to ask themselves if this performance is repeatable. Making sound investment decisions requires investors to have realistic expectations about future equity market returns.

While not impossible, recent research published by AQR shows that a repeat of the past decade's equity market performance looks improbable. We would likely need to see another decade of both extraordinary real earnings growth and all-time-high valuations. Furthermore, given low current dividend yields and positive real cash rates, even average equity market performance would require PE multiples to expand from already stretched valuations. This scenario is hard to imagine considering elevated macroeconomic uncertainty, persistent inflation, and contractionary monetary policy.

Exhibit 2: U.S. Equity Return Decomposition, Past 10 Years and Long-Term Historical
January 1, 1950 – June 30, 2023



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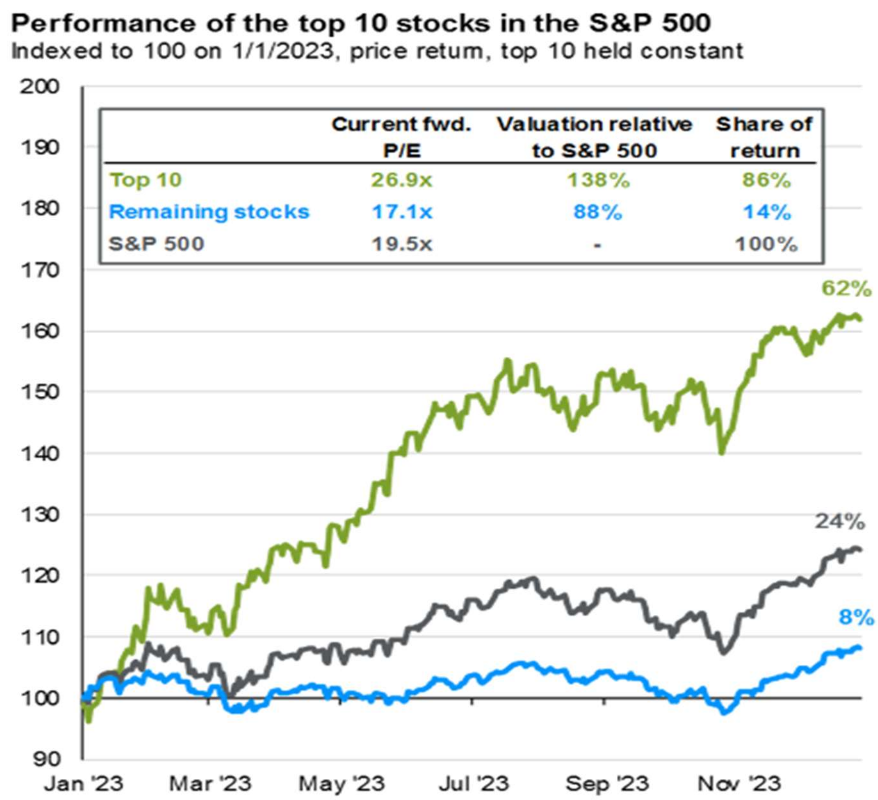
While we are unlikely to see a repeat of the past decade, that does not mean opportunities don't exist. In the U.S. we continue to place emphasis on quality companies with strong balance sheets, low-debt burden, and strong free-cash-flow characteristics. Currently, large cap dividend paying stocks and small and mid-cap value stocks look relatively attractive. If equity market returns over the next decade revert to historical averages, we expect dividends to be a more significant and stable contributor to total returns. Companies that pay steady, above-market dividends can be found in the financials, energy, materials, and health care sectors. These companies trade at valuations in line with historical averages and are under-owned by most of the investing public, especially small and mid-caps.



We want to avoid expensive parts of the market that have seen increased concentration among passive investors. According to macro-expert Felix Zulauf, around 80% of the equity invested worldwide is benchmarked. If you invest in a world index, almost 2/3 of the money flows into the US market, and of that money, 1/3 flows into 7 stocks. While this has been great on the way up, these stocks are at risk of being repriced, exaggerating the move on the way down.

Globally, certain emerging markets still present attractive opportunities. Bad markets over the past decade have led to good policies, coming as a welcome sight to investors. The regulatory environment in India, for example, has made it much easier to set up newly approved factories and production centers. Strong demographics and a growing working age population serve as additional tailwinds. In contrast, the Chinese market faces a variety of challenges ranging from extreme debt overhang to poor demographics and a shrinking working age population.

Outside of equities, the fixed income market is compensating investors with yields not seen in over a decade. An allocation to bonds at these levels serves to both drive total return and diversify equity risk. Furthermore, an allocation to low beta liquid alternative strategies is sensible given the unlikelihood that we see a repeat of the robust equity market performance of 2013-2023. Should the next decade of equity market performance align more with historical averages or if a return to normal valuations results in underperformance, alternatives that offer genuine diversification have the ability to deliver positive returns with little reliance on the performance of the major stock market indices.

2023 Milestones

Marked by a 24% increase in the S&P500, 2023 was a great year to be an investor. It also saw various technological innovations and events that highlighted positive achievements for humanity. In a world inundated with doom and gloom, it’s important to acknowledge the positive aspects and remain optimistic about our future. Let’s look at a few milestones below:

- The first-ever gene-editing (CRISPR) treatment was approved.

- The Las Vegas Sphere opened, serving as a call to action for artists to build beautiful, cool things once again.

- Diabetes drug Ozempic burst onto the scene and could be a solution to the obesity epidemic.

- Elon Musk launched a 400 ft. rocket into space – the most powerful ever launched.

- College tuition prices dropped for the second year running.

- ChatGPT reached 100 million users in record time, just two months after launch.

- America and other countries did a major U-turn on atomic energy.

Fast Facts

Only 26 congressional bills made it into law in 2023, making Congress the least productive in more than 90 years. The previous Congress, the 117th, passed 365 laws during the two-year term, the 116th passed 344, and the 115th passed 443.
- The New York Times

It is estimated that U.S. consumers will return $173 billion in goods between Thanksgiving and the end of January. – Chain Store Age

Humanity will install an astonishing 413 GW of solar this year, 58% more than in 2022, which itself marked an almost 42% increase from 2021. That means the world's solar capacity has doubled in the last 18 months and that solar is now the fastest-growing energy technology in history. – FutureCrunch

The number of "mini-millionaires," or U.S. households with a net worth between $1 million and $5 million, has risen 60% in the past 15 years to 12.7 million.
– Bloomberg

The e-scooter company Bird, which became the fastest startup ever to land a $1 billion valuation, was delisted from the NYSE and is now worth $7 million. That's less than a third of the $22 million its founder paid for a Miami mansion in 2021. - Morning Brew

Around 15 years ago, real estate agents had 2.2 million vacant housing units available to show prospective buyers. That number has dwindled and now sits at just 732,000, despite the country having added 30 million people to its population.
– The Atlantic

Contact Us

As always, feel free to reach out to us if you have any questions regarding your investments or financial plan or would like to schedule a meeting with our advisors.