



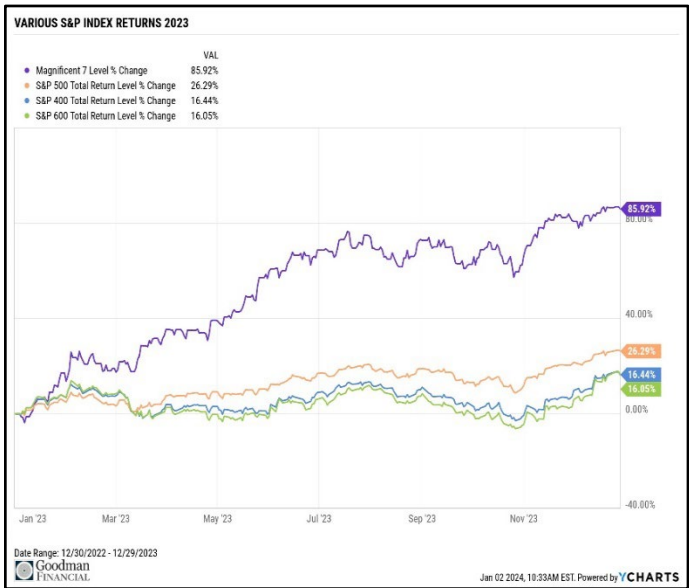
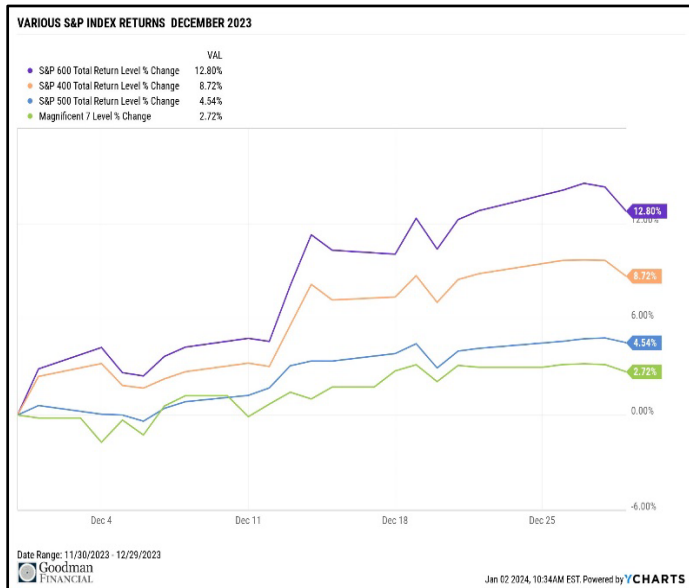
EQUITY & FIXED INCOME MARKETS COMMENTARY

Stocks posted sizable gains in December, following on the heels of similar returns in November, closing the books on a very, very good year. The S&P 500 rose 4.5%, while the Blended Equity benchmark gained 7.4% in December, as the Mid-Cap S&P 400 and the Small-Cap S&P 600 Indices had a fantastic month, up 8.7% and 12.8%, respectively. The Dow Jones Industrial Average Index was up 4.9% and the NASDAQ Composite Index was up 5.6% for the month. International stock indices also posted gains in December, with developed markets and emerging markets up 5.2% and 3.7%, respectively. Bond indices were all higher in December, as the 10-year U.S. Treasury bond yield fell meaningfully to 3.88%, from 4.36% last month.

A DECEMBER TO REMEMBER

As mentioned above, stocks posted solid gains in December, especially small and mid-cap ones, as seen in the attached chart, below left. December's performance was simply a cherry on top of an amazing year for stocks. You will recall that we were positive on stocks coming into the year and believed they would be higher in 2023 – a view that was not consensus at the time, as pessimism reigned following the bear market of 2022. But to be honest, we had no idea that the S&P 500 would end the year with such phenomenal gains - up 26.3% on a total return basis. Of course, the S&P 500 was helped significantly by performance of the "Magnificent 7" stocks (Apple, Amazon, Alphabet, Meta, Microsoft, NVIDIA and Tesla) which were up a whopping 86% as a group, as seen in the chart, below right. As we wrote about last month, the lack of those stocks in other equity indices resulted in less spectacular performance than seen in the S&P 500. For instance, the Dow Jones Industrial Average Index was up only 13.7% for the year, while the S&P 400 mid-cap and S&P 600 small-cap indices were up 16.4% and 16.1% respectively, as seen below.

A big driver of positive stock performance the past two months has been the significant drop in longer-term interest rates. In fact, the 10-year Treasury yield dropped from its high on October 19th of 5.00% to end December at 3.88% – a drop of a full 1.12% in just a few short weeks, a rather amazing feat. This proved to be a nice tailwind for stocks and caused a broadening out in returns for stocks outside the mega-cap stocks that carry such a big weight in the S&P 500. Our Commentary last month that suggested the outperformance of those meg-cap stocks was due for a breather turned out to be a prescient one. We suspect that further outperformance of small and mid-cap stocks is likely to continue for a bit longer. If correct, that should be a nice tailwind for GFC equity portfolios, as it was in December.





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REFERENCED INDICES

You cannot invest directly in an index. Index results assume the reinvestment of all dividends and interest.

- **S&P 500 Index** - a market-cap weighted index composed of the common stock of 500 leading companies in leading industries of the U.S. economy.
- **S&P 400 Mid-cap Index** – a market-cap weighted index composed of the common stock of 400 mid-sized companies reflecting the distinctive risk and return characteristics of the U.S. mid-cap equities sector.
- **S&P 600 Small-cap Index** – a market-cap weighted index composed of the common stock of 600 small-sized companies reflecting the distinctive risk and return characteristics of the U.S. small-cap equities sector.
- **Dow Jones Industrial Average Index** – a price-weighted index composed of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.
- **Nasdaq Composite Index** – an index that measures all Nasdaq domestic and international based stocks listed on the Nasdaq Stock Market.
- **Barclays Intermediate Govt/Corp Index** – the index includes investment grade, US dollar-denominated, fixed-rate treasuries, government-related and corporate securities with less than 10 years to maturity.