TJIM QUARTERLY INSIGHT

Fourth Quarter 2023

Tom Johnson Investment Management, LLC

As we enter 2024 economic signposts are overwhelmingly positive. In fact, considering inflation hit a 40-year high of 8% in 2022, leading the Federal Reserve to raise the Fed Fund rate by 5.5%, the economy is in remarkable shape. In June of 2022 former Treasury Secretary Larry Summers made some rather dire prognostications regarding the economic conditions that would be necessary to "contain inflation." Included amongst those conditions was a year of 10% unemployment.

Fast forward to the beginning of 2024 and the inflation picture is much improved, with recent readings reflecting roughly 3.5%. Contradicting Mr. Summers comments, the unemployment rate is nowhere near 10%. Unemployment has remained below 4% for two years now, marking the longest streak of sub-four percent unemployment since the 1960s!

With a "soft landing" in sight, how did we get here and what does the outlook mean for investors? First, let's review what has transpired to this point in this inflationary environment. 2022 was an abysmal year for a balanced portfolio, when all was said and done 2022 turned out to be one of the worst years on record for a 60/40 portfolio (60% stocks and 40% bonds). A passive 60/40 allocation to the S&P 500 and the Bloomberg Government Credit yielded investors a roughly negative 16% total return. TJIM's portfolios fared considerably better as we did see the benefit of downside protection on the equity side and our bond portfolios were more conservatively positioned for a rising rate environment.

The start of 2023 ushered in the return of the 60/40 portfolio; this year, the same allocation would have returned nearly 18% to investors. However, the gains were not evenly shared, at least not on the equity side of the allocation. The gains in the S&P 500 were extraordinarily narrow last year, with only 28% of individuals stocks outperforming the index for the year[1]. Sector performance wasn't anymore broad based, with only 3 of 11 S&P sectors outperforming the index.

Entering 2024, investors are presented with considerable investment opportunities. With interest rates on fixed income remaining relatively high and a potential economic soft-landing coming into frame, the possibility of an attractive total return remains for prudent asset allocators.

Our focus will continue to be on maintaining an equity portfolio diversified across sectors of the economy with holdings concentrated on high-quality companies that we believe will be resilient to, or benefit from, changes in these economic forces, and that have moderate valuations that reasonably correspond to anticipated growth rates. Similarly, we will be looking for opportunities to add value across our fixed income portfolios as rates remain elevated relative to recent history and select corporate bonds continue to offer attractive credit spreads.

We remain concerned about the long-term issues of deficit spending and debt-to-GDP levels. Currently, interest expense on debt represents 11.5% of total government expenditures. As a result, prioritizing and balancing the overall budget becomes increasingly difficult. Secondly, we have deep concerns about Ukraine, Middle East, and Taiwan; believing there is potential for further challenging waves and will be monitoring these arenas closely.

As always TJIM appreciates the trust you place in us, and we will continue to be stewards of your capital by building diversified portfolios of high-quality securities that we believe will provide attractive risk adjusted performance going forward.

Sincerely
TJIM Investment Team

[1] (Smith, J. (2023, December 27). A record share of S&P 500 stocks have underperformed the index in 2023, as weirdest bull market in decades marches on. MarketWatch)

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