WINTER 2024 | VOL. 32 | NO. 1

QUARTERLY PERSPECTIVE

THE MARKETS GIVETH AND TAKETH AWAY

by Will Williams
Chairman, President & CEO

The last two years of equity market returns have been a bit of a roller coaster ride. Stocks in general experienced a steep decline in 2022 in response to the Federal Reserve's policy shift towards dramatically higher short-term interest rates. As inflation measures began to moderate in 2023 and market analysts became more optimistic that the U.S. economy was likely to avoid a recession, markets proceeded to rally. (Despite strong index returns, as we have commented in the past, most of these gains were attributable to a handful of technology stocks influenced by the buzz surrounding Artificial Intelligence.) So, if you feel that your investment portfolio has been treading water over the past two years, it likely has. Based on the data presented below, however, treading water might be considered a very favorable outcome.

					Two-Year	
	% Total Return 2022	Value of $100	% Total Return 2023	Value of $100	% Annualized Return	Value of $100
Equity Indices						
Large Cap						
S&P 500 Index (Market Cap)	-18.11%	$ 81.89	26.29%	$ 126.29	1.70%	$ 103.42
S&P 500 Index (Equal)	-11.45%	$ 88.55	13.87%	$ 113.87	0.42%	$ 100.83
Russell 1000 Growth Index	-29.14%	$ 70.86	42.68%	$ 142.68	0.55%	$ 101.10
Russell 1000 Value Index	-7.54%	$ 92.46	11.46%	$ 111.46	1.52%	$ 103.06
Small Cap						
Russell 2000 Growth	-26.36%	$ 73.64	18.66%	$ 118.66	-6.52%	$ 87.38
Russell 2000 Value	-14.48%	$ 85.52	14.65%	$ 114.65	-0.98%	$ 98.05
International						
MSCI EAFE (DM) USD	-14.45%	$ 85.55	18.24%	$ 118.24	0.58%	$ 101.15
MSCI EM USD	-20.09%	$ 79.91	9.83%	$ 109.83	-6.32%	$ 87.77
Fixed Income Indices						
Short-Term						
BB US Govt/Credit 1-3	-3.69%	$ 96.31	4.61%	$ 104.61	0.37%	$ 100.75
Intermediate-Term						
BB US Agg Bond	-13.01%	$ 86.99	5.53%	$ 105.53	-4.19%	$ 91.80
Long-Term						
BB US Govt/Credit Long	-27.09%	$ 72.91	7.13%	$ 107.13	-11.62%	$ 78.11
Real Estate Index						
MSCI US REIT	-24.51%	$ 75.49	13.74%	$ 113.74	-7.34%	$ 85.86

Data Source: Morningstar

As you can see, a $100 invested in most equity styles ended the period with nearly $100, while a few of the riskier exposures, such as small-cap and emerging markets, showed meaningful declines. Depending on the nature of fixed income held (notes and bonds), the longer dated the securities in the portfolio, the more significant the losses.

It is always a challenge to understand the math behind cumulative returns. While it may seem intuitive that the combination of a negative 29% return and a positive 43% return would yield a positive outcome, it does not. The reduction in your $100 to $71 requires a 41% return to get squarely back to even, which is why it is critical to avoid these significant drawdowns to achieve competitive long-term rates of returns. For nearly five decades, DVI has stressed the importance of managing risk and limiting a portfolio's down market capture ratio. The more capital one can preserve, the more capital to compound into the future.

continued on page 2

The Markets Giveth and Taketh Away *...continued*

As we turn towards 2024, those in the "soft-landing" camp are growing more optimistic about what corporate earnings might look like for the full year. The current consensus forecast of Wall Street analysts is for a percentage growth rate of nearly 11.50%, with much of that growth weighted towards the back half of the year. This marks a material increase from 2023 when corporate earnings were projected to be flat compared to the prior year. Providing an economic tailwind for 2024 is the growing sentiment that the Federal Reserve will begin to lower rates in March to unwind what some are now referring to as an "overly restrictive" monetary policy. If this does indeed come to fruition, the combination of lower interest rates and higher corporate earnings should provide a supportive bid for stock prices in the upcoming year.

Soft Landing:
An economic outcome in which the Fed's more restrictive monetary policy reduces economic activity just enough to cool inflation, but not enough to result in a recession (two consecutive quarters of negative GDP growth).

S&P 500 Index

Earnings Per Share	Actual	Actual	Q4 Estimate	Consensus Estimate	
	2021	**2022**	**2023**	**2024**	**'24 vs '23**
Q1 (Mar)	$ 49.04	$ 54.09	$ 53.33	$ 56.36	5.69%
Q2 (Jun)	$ 52.80	$ 56.69	$ 54.56	$ 59.90	9.80%
Q3 (Sep)	$ 53.87	$ 55.65	$ 58.90	$ 63.63	8.02%
Q4 (Dec)	$ 55.38	$ 53.49	$ 53.94	$ 64.11	18.86%
Cal. Year	$ 208.49	$ 219.19	$ 219.42	$ 244.69	
% Growth Rate		5.13%	0.10%	11.52%	

Source: FactSet

2024 Financial Planning: Annual Limits Overview

Retirement Plans*

Elective deferrals 401(k), 403(b), 457, and SARSEPs $23,000
Catch-up contribution $7,500
SIMPLE plan $16,000
SIMPLE catch-up contribution $3,500
IRA or Roth IRA contribution limit $7,000
IRA or Roth IRA catch-up $1,000

**Confirm IRA deductibility and/or Roth IRA eligibility with your tax professional.*

Estate and Gift Tax

Annual gift tax exclusion $18,000
Estate and gift tax basic exclusion (FEDERAL) $13,610,000

Health Savings Account (HSA) Contribution Maximum

Single $4,150
Family $8,350
Catch-up contributions (age 55 or older) $1,000

Income Tax: Standard Deduction

Single $14,600
Married filing jointly $29,200
Head of household $21,900
Married filing separately $14,600

Source: College for Financial Planning

2024 Outlook

by Brian Christensen, CFA®
Senior Vice President & CIO

The Federal Reserve's cycle of raising interest rates to combat inflation appears to be nearing an end. The Fed has increased interest rates eleven times since March 2022. At its December meeting, the Federal Open Market Committee held its key interest rate steady for the third straight time and set the table for multiple cuts to come in 2024. With inflation easing and the economy stable, the Federal Open Market Committee voted unanimously to keep the benchmark overnight borrowing rate between 5.25% and 5.5%. In addition to their decision to maintain the current rates, committee members projected at least three rate cuts in 2024, each cut assuming quarter-percentage-point increments.

Following the Fed's communique about the future of short-term interest rates, market strategists quickly sought clues about where financial markets may be headed, turning to prior dates when the Fed stopped rate increases. Below are forecasts from fourteen Wall Street firms for where they think the S&P 500 will finish in 2024. The range is wide.

Wall Street's 2024 S&P 500 Predictions

Company	S&P 500 2024 Year-End Price Target	Price Change from 12/31/23 S&P 500 (4769.83)
BCA Research	3,300	-30.82%
JP Morgan	4,200	-11.95%
Morgan Stanley	4,500	-5.66%
Stifel	4,650	-2.51%
Ned Davis Research	4,900	2.73%
Bank of America	5,000	4.83%
RBC	5,000	4.83%
Federated Hermes	5,000	4.83%
Goldman Sachs	5,100	6.92%
Deutsche Bank	5,100	6.92%
BMO	5,100	6.92%
Fundstrat	5,200	9.02%
Oppenheimer	5,200	9.02%
Yardeni Research	5,400	13.21%

Source Article: Fox, Matthew. (2023, December 11). "Stock Market Investment Outlooks..." Business Insider.

Recently, *The New York Times* columnist Jeff Sommer commented on the ability (or inability) of Wall Street to accurately predict markets (2023 December 12). His review of data compiled by Bespoke Investment Group showed that between 2000 and 2023 the median Wall Street forecast indicated the S&P would increase 9% annually; in reality, the annual increase averaged 6%. Further, during these years, the median Wall Street forecast missed its target by an average of 13.8% annually—more than double the actual average annual stock market performance. Clearly, Wall Street forecasts are a mixed bag.

Final Fed Rate Hikes

Final Fed Rate Hike	S&P 500 Performance 6 Mo. Later	S&P 500 Performance 12 Mo. Later
8/9/1929	-17.80%	-28.60%
1/16/1953	-7.20%	-3.20%
8/23/1957	-8.20%	6.30%
9/11/1959	-5.50%	-2.80%
12/6/1965	-5.00%	-11.20%
4/3/1969	-7.40%	-10.50%
4/25/1974	-18.40%	-2.60%
2/15/1980	8.50%	11.10%
5/5/1981	-6.50%	-10.90%
2/24/1989	20.10%	14.20%
2/1/1995	19.00%	32.10%
5/16/2000	-6.80%	-15.00%
6/29/2006	12.10%	18.30%
12/19/2018	17.80%	27.30%
Average	**-0.40%**	**1.80%**

Source: Charles Schwab, Bloomberg, Federal Reserve, 1929-2019

The impact of interest rate cycle changes on market movements is unclear. The table above lists the fourteen prior dates since 1929 when Fed rate hikes ended, noting the impact on stock prices six months and twelve months later. As you can see, the results vary widely. The first seven time periods are decidedly negative while the most recent seven periods were largely positive.

So how do we invest within this context? We stick to our DVI knitting–unapologetically value-focused, dividend-driven, patient, and constantly diligent in managing portfolio risk.

DVI 2023 Promotions:
An Announcement from Will Williams, DVI Chairman, President & CEO

I am pleased to announce the following promotions were approved by the DVILLC Board of Managers, effective January 1, 2024:

Mike Flaherty, CFP®: *Senior Relationship Manager*
Mike joined the DVI Relationship Management team in 2018 after working in a similar role for a small RIA practice in Bloomington, IL. For the past few years, he has chaired the DVI Financial Planning committee, which is responsible for developing best practices with our financial planning tools and strategies. More recently, Mike spearheaded and assumed the supervision of our Assistant Relationship Manager team, and he will continue to play an increasing role as the Lead Relationship Manager for our clients.

Jeremy Hanshaw: *Senior IT Manager*
To acknowledge Jeremy's additional responsibilities in the Information Technology area in 2023, most notably his extraordinary performance with cybersecurity initiatives, Jeremy has been promoted to DVI's Senior IT Manager.

Glenn Maxey, CFA®: *Director, Portfolio Management*
In addition to assuming increased portfolio management responsibilities in 2023, Glenn also successfully completed his Project Management Committee capstone project. He was nominated and approved to join the DVIC partnership and will be made an officer of the company, promoted to Director, Portfolio Management. Effective April 1, 2024, Glenn will become a DVIC shareholder.

Zack Morgenstern, CFP®: *Relationship Manager*
Zack joined the firm in 2021 as an Assistant Relationship Manager and successfully completed his CFP® designation in 2023. In his new RM role, Zack will take on additional Lead and Service RM assignments in 2024.

Mitch Zippay, CPA: *Senior Accounting Manager*
In recognition of the expanded roles and responsibilities that he has taken on since he became DVI's Accounting Manager in 2019, Mitch has been promoted to DVI's Senior Accounting Manager.

Please join me in wishing each of them our sincere congratulations and best of luck in their new roles with DVI. We appreciate their commitment to and accomplishments of these DVI Associates and look forward to their ongoing significant contributions in 2024 and beyond.

Sincerely,

Peoria, Illinois | Winter Park, Florida | www.dviinc.com