KEYES & ASSOCIATES, INC.

Keyes & Associates, Inc.

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Dear client

% Return as of 12/31/2023			
Equity Indexes	**4th Q**	**1 Yr**	**3 Yr**
S&P 500	11.7	26.3	10.0
Russell 2000	14.0	16.9	2.2
MSCI EAFE	10.4	18.2	4.0
Emerging Market	7.9	9.8	-5.1
Wilshire REIT	16.3	16.1	7.5
Bond Indexes			
TIPS	4.7	3.9	-1.0
Aggregate	6.8	5.5	-3.3
Government	5.6	4.1	-3.7
Mortgages	7.5	5.0	-2.9
Investment Corporate	8.5	8.5	-3.3
Long Corporate	14.0	10.9	-6.6
Corporate High-Yield	7.2	13.4	2.0
Municipals	7.9	6.4	-0.4

As 2023 began, the outlook was gloomy, and many predicted more pain to come. Markets had just come off a bruising 2022 with both stocks and bonds dropping by double digits. Since March of 2022, the Fed raised interest rates at the fastest pace in forty years to address rampant inflation. In 2023, the Fed still wasn't backing down. They declared they were ready to increase rates further, if necessary. According to the Wall Street Journal, strategists at investment banks and even musical artist Cardi B. agreed, a recession was coming. It is surprising the nuggets you come across when you read as much as we do.

Even given this sentiment, equity markets pushed higher. The bad news, however, just kept coming. In March, rising investment losses coupled with fleeing depositors led to some banks being seized by regulators. Stocks sold off but recovered as the failures were contained.

Soon another threat surfaced. Interest rates spiked over fears bond markets would be overwhelmed by the amount the government was issuing. Fearing the beginning of another rout, stock and bond markets erased much of their gains. Again, markets struggled back.

2023 Returns and Economics

Despite the pessimism, markets turned in a banner year. Or perhaps it was partially *because of the pessimism* since our experience tells us when the broad consensus is for one outcome, there is often a surprise coming. Inflation, that was running over 8%, has declined to a current 3.1%. Bond yields, which move inversely to price, declined from over 5% to 3.9% in the fourth quarter. For 2023 bonds, as measured by the Barclays Aggregate, rose 5.5% for the year.

A recession, which many believed was unavoidable, began to look less likely. The Dow Jones Industrial Average jumped over 16% for the calendar year. The S&P 500 bolted over a 26% gain. The S&P return comes with a bit of a caveat. The return of the index

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was largely driven by just seven high-volatility, tech stocks. Still, the average stock still produced solid returns.

As inflation and interest rates declined, other asset classes joined the party. Smaller companies, which are often seen as more susceptible to higher interest rates, surged in the fourth quarter. They ended up 17% for the year. International stocks turned in similar returns, up 18%.

Our Approach to Market Advances and Declines
Market movements, particularly over the last few years, have made several things clear. Markets are risky and usually defy short-term predictions. It has always been that way. That doesn't mean we are helpless. We believe that successful investing is about managing risk; not avoiding it. This is done by the careful examination of goals and prudent risk-aware portfolio construction. It involves mathematics, discipline, and a healthy dose of common sense. This process can manage the inevitable highs and lows to help get you where you want to go, rather than wherever you happen to wind up.

An Acknowledgment
While this doesn't directly have much to do with market movements of 2023, we wanted to acknowledge someone special. Charlie Munger, master investor and Vice-Chairman of Berkshire Hathaway, passed away recently, just short of his 100th birthday. Over the years, we listened to him carefully and quoted him often. He was wise and didn't mince words. We will miss him.

Here are a few Charlie quotes on investing, business, and life:
"It is remarkable how much advantage we have trying to be consistently not stupid, rather than trying to be highly intelligent."
"The big money comes not from the buying and selling, but from the waiting."
"Pick your clients as you would pick your friends."
Thank you, Charlie.

While we are gratified by the generous rewards that principled investing brought in 2023, we are not letting our guard down. There will be great years and challenging ones to come. We will strive to be disciplined and restrained in both. We play the long game. We appreciate the opportunity to serve you and your family. We will be in touch to review the year and discuss any adjustments that need to be made. In the meantime, if there is anything you need, just let us know.

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Sincerely,

Chris Keyes, CFP®   Scott Keyes, CRPC®   Bobby Weaver, MBA, CFP®

The performance of an unmanaged index is not indicative of the performance of any particular investment. It is not possible to invest directly in any index. Past performance is no guarantee of future results. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Three-year performance data is annualized. Bonds have fixed principal value and yield if held to maturity and the issuer does not enter into default. Bonds have inflation, credit, and interest rate risk. Treasury Inflation Protected Securities (TIPS) have principal values that grow with inflation if held to maturity. High-yield bonds (lower rated or junk bonds) experience higher volatility and increased credit risk when compared to other fixed-income investments. REITs are subject to real estate risks associated with operating and leasing properties. Additional risks include changes in economic conditions, interest rates, property values, and supply and demand, as well as possible environmental liabilities, zoning issues and natural disasters. Stocks can have fluctuating principal and returns based on changing market conditions. The prices of small company stocks generally are more volatile than those of large company stocks. International investing involves special risks not found in domestic investing, including political and social differences and currency fluctuations due to economic decisions. Investing in emerging markets can be riskier than investing in well-established foreign markets. The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The Russell 2500 Index measures the performance of the 2,500 smallest companies (19% of total capitalization) in the Russell 3000 index. The S&P 500 index measures the performance of 500 stocks generally considered representative of the overall market. The Wilshire REIT Index is designed to offer a market-based index that is more reflective of real estate held by pension funds.

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