



## Fourth Quarter 2023 Update

January 24, 2024

2023 ended on a strong note with the S&P 500 returning 11.7% for the quarter and 26.3% for the full year. However, aside from the mega-cap growth companies in the US market (Microsoft, Alphabet, Tesla, and the like), stock price performance was a mixed bag and generally much more muted.

Although senior Federal Reserve officials continue to say that the benchmark short-term interest rate needs to stay high for an extended period to effectively fight inflation, Wall Street apparently believes the central bank will pivot in 2024 and begin cutting rates later this year. We note that many market pundits also predicted rate cuts in 2023 which never came to fruition. Lower rates typically translate into higher stock valuations, and so it is hard to be displeased by the market's assumptions regarding interest rates.

Even so, we have been in this business too long to accept the Fed "dot plot" of short-term interest rate moves in the year ahead, or market assumptions, at face value. In a volatile environment, conventional wisdom can be upended quickly, and the last few years have proven that regularly. Accordingly, we will continue to invest the only way that we know how; purchasing stocks in attractive companies, run by rational management teams, at prices that we think represent a discount to business value, based on traditional methods of business valuation.

As we contemplate the coming year, we see a reasonable number of attractive business trading at moderate prices. We currently see deeper valuation discounts in smaller companies, some of which are domiciled outside of the US. You might see us fishing more in those waters in 2024. One domestic industry, however, where we believe stocks went on sale in 2023 is the healthcare sector. In 2023 the S&P 500 Health Care components realized a 2.1% total return against an aggregate S&P 500 total return of 26.3%.

We like healthcare because demand is relatively steady through the economic cycle. Many treatments cannot wait for rosier economic times, and the various forms of health insurance ensure a high level of payment for services and products. Both the necessity of size to control costs, and the scientific know-how to produce products, often translate into these businesses generating reasonable returns on their invested capital.

One would think that the stability of healthcare would attract investors in uncertain times, but 2023 yielded the opposite. A more in-depth look at our health care viewpoint can be found in the attached “Opportunities in Healthcare?”.

Given the era in which we live, we hold few deeply held convictions about what 2024 will bring. Our strategy is to adhere to our principles, prepare for surprises and act when we are presented with opportunities.

We remain grateful for your trust, appreciative of your friendship, and wish you a happy, healthy and prosperous New Year.

The Lawson Kroeker Team

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