

# CORE

## Q4 | 2023 Commentary

The fourth quarter of 2023 overall brought some very welcome trading activity, with most equity and bond assets forging higher. 2023, as compared to 2022, brought much more inviting and calmer waters overall, but also sustained concentration of winners in the overall market. Large cap growth took the crown for the top performing asset class in 2023 by a significant margin.

2023 goes down in the books as a year that brought many clues to the mystery of persistent inflation, as well as a Fed determined to squash any remaining traces of inflation at any cost. Markets digested this information and spoke decisively as most major equity indices wrapped up the year near their historical highs.

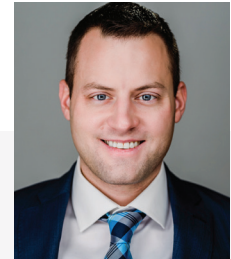
2023 will officially be defined by an acute banking liquidity crisis, mixed economic data points, and general global turmoil. Most market participants at this point are trying to decipher the Fed's next move, as well as interpret rumors of slowing economic growth, rumblings of global unrest, and in some pockets of the market, frothy valuations. The Fed still holds the key to any rate changes, but, as we start a new year, wagers on lower forward rates seem like the correct, albeit lonely place to be.

2023 saw asset prices gain considerable ground back from the lows in the fall of 2022, with a market trend overall of leading economic data. We can attribute most of this directly to what appears to be predictable and measurably slowing inflation data aligning with expectations. The mythical Fed soft landing and pivot that many investors are holding onto tightly for may be near.

The new normal now appears to be here with higher rates and markets in general seem to have adapted to this reality and digested some if not all inflation concerns. It is likely that the full effects of this tightening cycle have yet to be seen, and this is partly a reason that the markets may run even higher into 2024 if participants feel that more wrinkles are getting ironed out.

The individual asset class winners in the fourth quarter of 2023 on the equity side were small and mid-cap value stocks, as well as small-cap growth securities. On the fixed income side, intermediate and longer duration bonds outperformed, as well as mortgage-backed securities.

We started to see some general underlying strength in domestic value and international equities, as both continued to hold their ground against their US peers on a quarter over quarter basis. As far as absolute total return, small cap value performed the best last quarter, as the Fed's pause in rates brought some relief to smaller cap stocks in general. Value started to shine, likely due to higher upfront coupons, a shorter overall equity duration against higher rates, and a continued strong economy. Growth has been struggling with rising and sustained higher rates and saw outsized volatility depending on whichever way the Fed seemed to be leaning at the moment. Monthly sentiment swings persist between euphoria on a possible victory in the inflation battle and doom and gloom on the concern that higher rates will weaken and deteriorate the economy.



**Lead Portfolio Manager**  
**Mitch Ehmka, CFA®, CIPM®**  
*Chief Trading Officer*

Mitch has worked with Kingsview since 2010 and has assumed increasing responsibility during his tenure, serving as Head Trader for 3 ½ years, and then as Director of Trading for the last five years.

Mitch oversees all trading operations within the firm from Chicago and runs the day-to-day trading operations of Kingsview Investment Management. He will also continue to sit on the investment committee.

Mitch helps Advisors, fellow Portfolio Managers and the Investment Committee implement investment strategy, and assists in guiding portfolio implementation within Kingsview's systems. Mitch also spearheads the GIPS efforts of Kingsview Investment Management and oversees its claim of compliance with the GIPS standards in investment performance reporting.

Treasury consensus expectations continue to point towards rates undergoing a steady decline shortly and, thereafter, a possible sustained decline over the next few decades. The yield curve has remained significantly inverted for all of 2023 – although we are starting to now see this inversion alleviate and the famed 2/10 may soon return to positive territory. However, credit spreads on average continue to remain slightly elevated from normal historical ranges. There will continue to be pockets of opportunity and it may be likely fixed income will continue to provide some significant opportunity in the quarters ahead as the yield curve normalizes. At this point, bonds remain very inexpensive with attractive forward rates of return possible over the next few years.

In general, monetary policy tends to have long and variable effects. These effects are sometimes slow to manifest and can persist for some time once they do surface. It is likely that we are only starting to see the beginning effects of the Fed tightening and there may continue to be further challenges ahead as the extent of the Fed's tightening takes hold in all aspects of the economy. We have, however, continued to see a strong and resilient US consumer and the prospects of a soft landing is not yet out of the question.

In the CORE Portfolio Series ("CPS"), our general strategy is to own a bit of everything in weights reflective of the optimized forward market opportunity. Much of this work generally means acquiring more of asset classes that appear to be out of favor on a forward return basis. 2023 was a very narrow performing market that may have left behind many asset classes. One of the key pillars of CPS is rebalancing asset classes to normalize overweight winners and add to those that are not performing as well. This means that CORE portfolios may both benefit from reversion to the mean over time and increased volatility. While 2023 was a difficult year for diversified portfolios in general, we feel that the markets ahead will be more balanced and provide benefits via inter-asset class rebalancing over time.

Specifically, in the fourth quarter, within equities, the portfolios benefited from small and mid-cap securities against our global equity benchmark. Longer dated bonds and mortgage-backed securities continued to outperform relative to our domestic fixed income benchmark. It is possible bonds will continue to see improved performance into 2024 if rates truly have peaked and may even start to gain some upward traction if the Fed actually cuts rates. According to yield curve consensus information, this is the likely outcome for 2024 with three rate cuts currently priced into bond valuations.

Overall, we continue to believe key risks are well controlled and appropriate within all the portfolios and we expect to maintain similar relative performance to our benchmarks with the potential to outperform if this volatility continues.

We at Kingsview Investment Management appreciate your continued support of the Core Portfolio Series. Should you wish to speak with one of our portfolio managers, please email [investments@kingsview.com](mailto:investments@kingsview.com).

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