# George McAuliffe – Fourth Quarter 2023 Commentary

Dear Clients,

After an October where uncertainty continued to rule and the market more or less duplicated what it did in September, things suddenly changed. Whatever was in the air, the market decided the Fed was done raising rates, the world was somewhat okay, and that it was time to rally. A "November to Remember" continued modestly into December, after which midmonth Fed meeting the Chairman essentially confirmed easing was now on the menu, and then everyone went away for the holidays. I would like to add that everyone also lived happily ever after – a tempting sentiment after the last three years – but let's talk about that later.

At the end of a year, it is always tempting to do a quick recap, put it all in a box, tie a knot on it, and move on. But markets, like history, do not operate in convenient twelve-month unrelated calendar bites. If 2023 was pretty good, it was partially due to a recovery from a pretty bad 2022. And if 2022 was bad, it corrected from the free-money and post-pandemic euphoria of mid-2020 through 2021. When contemplating one's investments, examining the past quarter has its merits, but one should also always be conscious of the longer term – both in the rear-view mirror, and when regarding what might come next.

Looking forward, as usual, there are a number of positives and negatives. Geopolitically, there are still many open issues, but nothing seems to be too much of a threat, and one can see a scenario, at least in the shorter term, where everything extant continues to slowly drag on without much change or effect. Economically, the Fed, and all related indicators, seem to be on a slow glide path that does not appear aimed at a recession. Global trade problems, US housing affordability, lower-income wage catch-up, may all keep rates "higher for longer" – but if history is any indicator, at this point in the rate cycle, as well as in a presidential election year, the Fed usually starts doing what it can to liven up the economy.

On a more granular level, a number of things have caught my attention. IPO volumes, as measured by proceeds, are at five-year lows. M&A transaction volume, similarly, is at a ten-year low. Private equity exits are down 40% – though this may be more due not wanting to exit at market lows, and "extending and pretending" on commercial real estate investments not yet marked to market. Hedge funds have not performed very well. And on a related note, endowment investment portfolios have their lowest exposure to public equities in 20 years, and one can only wonder how well their alternative selections have been working out for them. Obviously, the reversion to more normal levels of any of the above will be good for public equities, and good for the quality companies I like.

So, as we slowly step into 2024, it would seem there are decent reasons to be cautiously optimistic for the coming year. And for the slightly longer term, as I have mentioned in a couple of recent letters, we are now in the very first chapter of the AI revolution, and only barely beginning to glimpse the productivity gains, technological innovations, and new investments, that this whole cycle will drive. Geopolitical issues take more headline space, but the advancement of humanity is much more important and presents much greater investment opportunities. I think our investments are well positioned here, and I look forward to whatever 2024 may bring. Happy New Year, and thank you.

As always, I would be happy to discuss further with anyone interested.

Thank you -

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