# The Crescent Group


(214) 775-6401
us.rbcwm.com/thecrescentgroup

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**RBC Wealth Management**

**The Crescent Group**

**Carsten Frederiksen, CFP®**
Senior Vice President
Financial Advisor
Senior Portfolio Manager
Portfolio Focus
Direct: 214-775-6401
NMLS#: 1321563 City National Bank

**Paul Hendershot**
Senior Vice President
Financial Advisor
Senior Portfolio Manager
Portfolio Focus
Direct: 214-775-6430
NMLS # 1370978 City National Bank

**Lindsey Vickers, MBA**
Senior Registered Client Associate
Direct: 214-775-6458

The Crescent Group website



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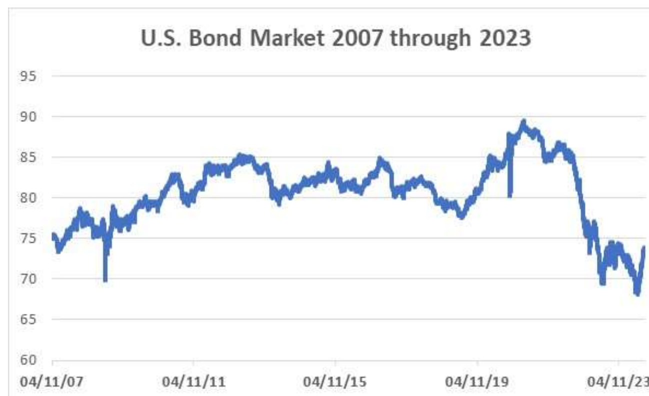
# December 2023 Crescent Commentary

Happy new year! We hope you had a great holiday season with your loved ones. During 2023, financial markets provided their share of twists and turns. As the two charts below show, financial markets have experienced large swings over the past several years.




Source: Yahoo Finance

The ultimate result of those swings has been no appreciation in stocks for over two years. Bond prices remain at the same level they were at 16 years ago. Let's dive into public and private investment markets in more detail. By the end of 2023, U.S. stocks remained below their high levels set more than two years ago. Despite an attempt at recovery last year, stocks did not fully recover to high levels set in 2021. And that means U.S. stocks remained in a correction as of the end of 2023. Bond prices staged a recovery towards the end of the year, but remain far below the peak levels set in 2020. In other markets, we saw signs of stress in a previously frothy venture capital market. WeWork filed for bankruptcy. Popular start-up investments dealt with fraud convictions for their founders and experienced large layoffs as cash flow failed to materialize. Other private investments showed signs of strain, as Blackstone's BREIT fund – designed for retail investors – decided to limit investor withdrawals as it faced large cash requests from investors. All of these signs of stagnation and strain in financial markets came about as a result of the Fed increasing interest rates in order to reduce inflation. Interest rates act as gravity to lower the value of all assets. So rising interest rates have put pressure on asset values. Higher interest rates also have the opposite effect of stimulus. Individuals and institutions have to pay more to borrow money, which reduces demand for products and services and has the effect of slowing the economy.[1][2][3]

Of course, the big question on everyone's mind as we begin the new year is where do we go from here? Given the current mix of uncertainty in our economy, our team is cautiously optimistic. In addition to challenged financial markets over the past three years,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our economy showed signs of strain in the form of bank failures in March of last year. The factors that led to those failures have not gone away. But the failures led to speculation that the Fed would have to reduce interest rates, which fueled a return to irrational exuberance in some sectors of financial markets last year. This irrational exuberance makes some segments of financial markets vulnerable to a correction, similar to what we saw after the irrational exuberance of 2021.[4]

One of the main risks on the horizon is whether our economy will experience a hard or soft landing – or something in between – as a result of the Fed's interest rate increases. A soft landing means that the interest rate increases don't have an adverse impact on our economy, and the economy keeps growing. A hard landing means the opposite, and our economy enters a recession. Over the past sixty years, the Fed has experienced a hard landing somewhere between 50% and 90% of the time. It depends on who you ask. So it's impossible to know at this point in time which type of landing our economy will experience. Interest rate changes also have a lag effect on an economy, and it takes years to see the eventual impact. Media outlets obsess over daily, weekly, and monthly data to try to determine whether we'll have a soft versus hard landing. But looking at such short-term data is unhelpful. Short-term data have led economists to incorrectly predict a soft landing prior to past recessions, such as in 2000 and 2007.[4][5][6]

Given the uncertainty our economy has always faced and does face, the most intelligent investment strategy is to allocate your assets in a manner that gives you the best chance of success no matter what happens. And then you must stick to that allocation through good times and bad. Some investors try to move in and out of investment strategies based on what they think will do well. But the data show that won't work. For the 20 years ending 2017, investors who tried to move in and out of investment strategies earned a 2.6% annual return. Those investors who stuck with their strategy, and remained fully invested at all times, earned a 6.8% annual return. It's also important to point out that this means investors who stuck to their allocation through two of the worst market corrections in U.S. history (2000 and 2008) earned a 6.8% annual return. Market corrections, even the worst, won't hurt you if you're properly allocated and advised.[7]

To determine what types of assets have the best chance of doing well no matter what happens, we've looked at historical data going back decades and centuries. And a major focus of our investment strategy is owning investments that: (1) have held up well during hard times, and (2) have shown strong gains over the decades encompassing both good and bad times for our economy. This will continue to represent the focus of our investment strategies.[8]

On a final note, we'd like to thank all of our clients for the trust you've placed in us. Our team shares a commitment to excellence, integrity, work ethic, and intellectual rigor. We're excited to announce that Forbes named us a 2024 Best-In-State Wealth Management Team, reflecting the quality of the work we do for you.

The Crescent Group: Paul Hendershot | Carsten Frederiksen, CFP® | Lindsey Vickers, MBA
**Forbes** Best-In-State Wealth Management Team 2024

Sources:
(1) Yahoo Finance
(2) CNBC
(3) Barron's
(4) The Wall Street Journal
(5) Journal of Economic Perspectives
(6) The Financial Times
(7) RBC Wealth Management
(8) Lindsell Train

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