Quarterly Investment Review – Q4 2023

Asset Class	4th Quarter 2023 Return	2023
Large U.S. Stocks: S&P 500 Index	11.7%	26.3%
Small U.S. Stocks: Russell 2000 Index	14.0%	16.9%
Developed International Stocks: MSCI EAFE Index	10.4%	18.2%
Emerging Market Stocks: MSCI Emerging Markets Index	7.9%	9.8%
Bonds: Bloomberg Barclays U.S. Aggregate Index	6.8%	5.5%
Cash: Bloomberg 1-3 Month Treasury Bill Index	1.3%	4.9%

The fourth quarter of 2023 started slow in a continuation of many of the themes that dominated markets over the summer. Investors curbed their enthusiasm over stronger than expected U.S. economic data due to concerns over higher interest rates as the benchmark 10 Year U.S. Treasury rate traded at over 5% in late October for the first time since 2007. However, it is not unusual when looking at the history of financial markets, for the returns of an entire year to happen in a couple of weeks, and this ended up being the case in 2023. Once the calendar turned to November, a couple of good inflation reports along with a Federal Reserve that suggested the end to interest rate hikes was the ignition for stocks and bonds to stage an impressive year-end rally. Markets cheered on lower energy prices, lower inflation and lower interest rates by sending U.S. stock prices back towards their all-time highs. The fourth quarter capped a good year for investors. The S&P 500 (Largest U.S. Companies) returned about 12% in the quarter, smaller companies as measured by the Russell 2000 did even better (+14%) and putting it all together, the 4th quarter allowed most corners of the global equity market to enjoy above average returns in 2023.

In Fixed Income, interest rates continued their march higher in October and at that time bond funds were showing losses for the year. This was especially disappointing after a historically poor 2022. We wrote in our last quarterly letter that in a counterintuitive way, we welcomed a higher interest rate environment due to the mathematics of the asset class. Higher interest rates mean higher forward-looking returns for bonds, and it was the best time to buy bonds across the board in about 20 years. When interest rates finally reversed their course late in the year (the 10 Year U.S. Treasury rate fell about 1% in November in December) there was an ability for bond funds to pack a punch and the bond market as measured by the Bloomberg Barclays U.S. Aggregate Index returned about 7% for the quarter, and 5.5% for 2023.

2023 was a testament to taking the long view, not making guesses, and employing a disciplined, time-tested strategy. If an investor had been told at the beginning of the year that:

- The Russia Ukraine war would continue
- The Federal Reserve would hike interest rates at 11 straight meetings
- The banking system would be under duress with the default of a large bank, Silicon Valley Bank
- 30 Year Mortgage Rates would hit 8%
- There would be an increase in significant union strikes, whether in Hollywood or locally in Detroit
- Significant Middle East instability would arise after the Hamas attack in Israel

Most investors would be afraid to participate in markets.

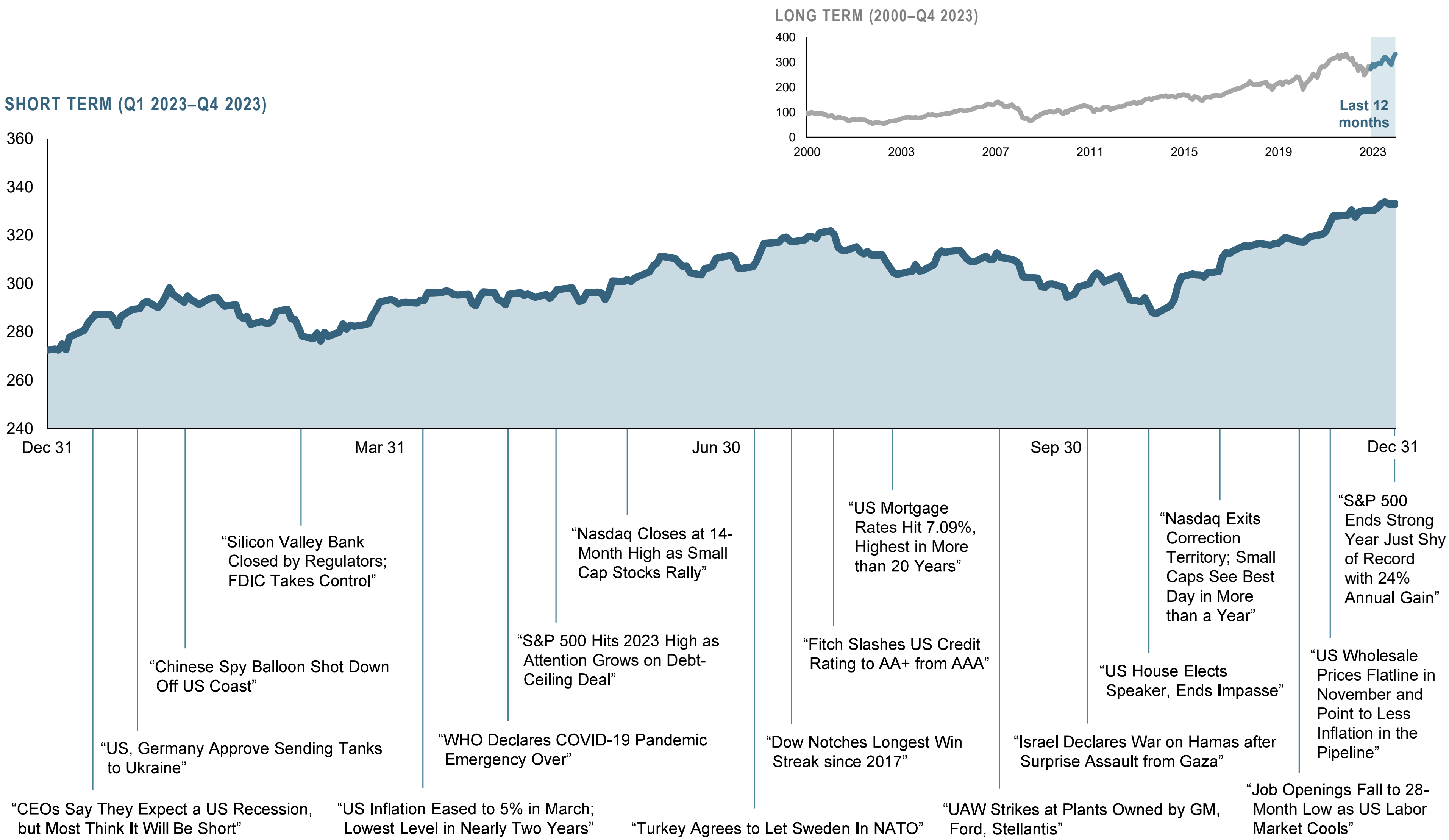
And yet, global commerce continues. GDP is at record levels and corporations are growing their earnings and bond investors eventually earn their yield. It's also worth noting that nobody waves a starting flag when it's a good time to invest, which is highlighted by the fact that the majority of returns in 2023 came during an eight week stretch starting in late October. At Diversified Portfolios, we are always focused on building durable portfolios with uncorrelated components in attempt to access market returns efficiently across the globe with an eye on controlling costs, risks, and taxes. We are students of financial markets and observe the science behind building portfolios, and we are looking forward to continuing with our approach in 2024.

Wishing everyone and their loved ones a very happy and healthy new year!

Diversified Portfolios, Inc.

Selected Headlines from 2023

MSCI All Country World Index Performance



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2024, all rights reserved. Index level based at 100 starting January 2000.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**