

**The Novelli Group  
At Morgan Stanley  
Private Wealth Management**



David A. Novelli, CFP®  
Managing Director- Wealth  
Management  
Private Wealth Advisor  
Portfolio Management Director

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In 1973, Bob Dylan wrote the iconic song *Knocking on Heaven's Door*, which was later covered by the likes of Eric Clapton, Guns N' Roses and Avril Levigne. I guess I'm partial to Bob Dylan's original arrangement and have found my mind replaying the 'knock, knock, knockin' on Heaven's door' lyrics as we've watched the S&P 500 broad market index recently continue to try and break through to new highs last set in the first days of 2022, two years ago.

**Bull Market?**

The possibility of a soft landing has given bullish investors a narrative that is betting on the Federal Reserve to begin cutting rates this year and further drive intermediate and long-term interest rates lower while also achieving their target inflation rate of 2%, all without tipping the economy into recession. As I've penned these words in the later half of January 2024, we have just barely broken out to new highs, but Mr. Market's action seems constructive. Listening to the market is one of the pieces to our ongoing research and due diligence, and the market looks poised to break out.

When markets decline 20% or greater, we usually conclude we've entered a bear market which often aligns with other economic struggles. In 2022, the market dropped more than 20% as the Fed was aggressively raising interest rates to fight inflation that at one point topped 9%! Most would agree with me that the subsequent bull market can only be confirmed when indices break out to new highs.....so here we are, knock, knock, knockin' at all time market highs.

**Cautiously Optimistic**

We see plausibility in the bull outlook that a soft landing might actually materialize and are focused specifically on unemployment through the course of this year relative to GDP growth, to ensure we don't enter into a destructive cycle of rising unemployment slowing growth so much as to lead to a recession.

But there are risks of which we need to be keenly aware. In addition to two military conflicts waging war in Israel and Ukraine, this month has witnessed military strikes between Pakistan and Iran as well as the US engaging in strikes against Yemeni based Houthi's in the Red Sea and Yemen to protect commercial shipping lanes, all widely reported across news media outlets.

And while inflation seems to be moderating, the echo of higher interest rates can cause struggles for a while. Just consider -7% fewer existing home sales recorded in 2023 according to Redfin as housing costs are climbing out of reach for many. Housing has always been a critical engine in the US Economy.

**Chip Shot**

There remains one easy chip shot investors should consider seriously. With over \$8 trillion in US money market funds as reported by the Wall Street Journal, and the likelihood that the Fed will *at some point* begin lowering rates, intermediate term bonds remain a wise choice over cash. We've been especially interested in encouraging investors to consider repositioning from cash to lock in these higher rates before the Fed pivots to cutting. If there

was ever a chip shot for investors, we'd consider this one a pretty good bet, especially for those who want to be prudent and thoughtful!

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