Stock Focus List Update: Fourth-Quarter 2023

Quarterly Newsletter

Stock Focus List Performance Review:

The Stock Focus List (SFL) delivered a total return of 26.3% in 2023, which was in line with the S&P 500. What's more important is the longer-term performance of the SFL, and the results have been favorable. The total return of the SFL since its inception in 1993, along with its three-, five- and 10-year total returns, has exceeded the S&P 500 benchmark.

Fourth-Quarter 2023 SFL Changes:

Additions:
Meta Platforms (META)
Essential Utilities (WTRG)
Analog Devices (ADI)

Removals:
NVIDIA (NVDA)
Aliant Energy (LNT)

For more information:

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Market Review:

U.S. stocks finished the year on a very strong note, with the S&P 500 gaining 13.2% in the fourth quarter. For the full year of 2023, the S&P 500 posted an impressive 26.3% total return. 2023 started with depressed expectations and fears of a recession, but it ended with optimism that the Federal Reserve will be successful in engineering a "soft landing" scenario where interest-rate hikes will push inflation down to its long-term target without also driving a meaningful economic downturn.

While stocks had a solid year, there were plenty of issues that popped up and created volatility along the way, including the highest borrowing costs in more than two decades, a regional-bank crisis, and rising geopolitical uncertainty. But economic resilience, a trend of disinflation, the perceived end of Fed tightening, and excitement around artificial intelligence (AI) more than countered those headwinds.

2023 sector-performance leadership reversed last year's trends, with 2022's laggards –technology, communication services, and consumer discretionary –leading the market higher **(Figure 1).** These three sectors all contain more growth stocks, which attracted investor interest amid headlines that economic growth could be poised to slow. Market leadership was narrow, with only three sectors outperforming the broader S&P 500, while eight underperformed. Leadership within the strongest sectors was also narrow, with a few mega-cap names driving the majority of the gains. Utilities and real estate stocks were among the biggest market laggards due to their sensitivity to higher interest rates. Energy, another strong performer in 2022, was also one of the weakest sectors.

Figure 1:

2023 S&P 500 Sector Performance	
Technology	58%
Communication Services	56%
Consumer Discretionary	42%
S&P 500	**26%**
Industrials	18%
Materials	13%
Real Estate	12%
Financials	12%
Health Care	2%
Consumer Staples	1%
Energy	-1%
Utilities	-7%

Source: Bloomberg. The S&P 500 is based on the average performance of 500 widely held common stocks. The sector indexes are subsets of the S&P 500 Index. For example, the S&P 500 Technology Index consists of 65 technology companies within the S&P 500 Index. An index is unmanaged and unavailable for direct investment. Past performance does not guarantee future results.

Stock Focus List Performance Review:
The Stock Focus List (SFL) delivered a total return of 26.3% in 2023, which was in line with the S&P 500. What's more important is the longer-term performance of the SFL, and the results have been favorable. The total return of the SFL since its inception in 1993, along with its three-, five-, and 10-year total returns, has exceeded the S&P 500 benchmark (**Figure 2**). We consider the SFL's performance an important measure of our success. We tie a portion of the compensation of the analysts to the SFL performance objectives to be aligned with client outcomes.

Figure 2

Annualized Total Returns	1-Year	3-Year	5-Year	10-Year	Since Inception (1/1/93)
Stock Focus List	26.3%	10.8%	16.5%	12.8%	10.4%
S&P 500	26.3%	10.0%	15.7%	12.0%	10.1%
Difference	0.0%	0.8%	0.8%	0.8%	0.3%

Source: Morningstar. All periods show annualized returns. All data is for the period ending December 31, 2023. Past performance is not a guarantee of future results. Total returns assume reinvestment of dividends, capital appreciation and an annual management fee of 0.30% (prior to 2009 a transaction fee of 1% was assessed). The investment return and principal value of an investment will fluctuate. An investor's equity, when liquidated, may be worth more or less than the original cost. Performance results do not represent actual trading or the performance of an actual account. The S&P 500 is an unmanaged index and is unavailable for direct investment.

The SFL is managed as a list of our analysts' best investment ideas within each of the 11 S&P sectors (**fig. 1**). The impact of our stock selection within sectors was mixed in 2023. Our technology, consumer discretionary, financials, and energy stock selections outperformed their sector averages. Underperformance was primarily driven by our stock selections in consumer staples, industrials, materials, communication services and real estate. While we closely monitor all of our recommendations, we maintain a long-term perspective and do not focus on short-term quarterly performance.

Fourth-Quarter 2023 SFL Changes:

Technology: Removed NVIDIA (NVDA) and added Analog Devices (ADI)

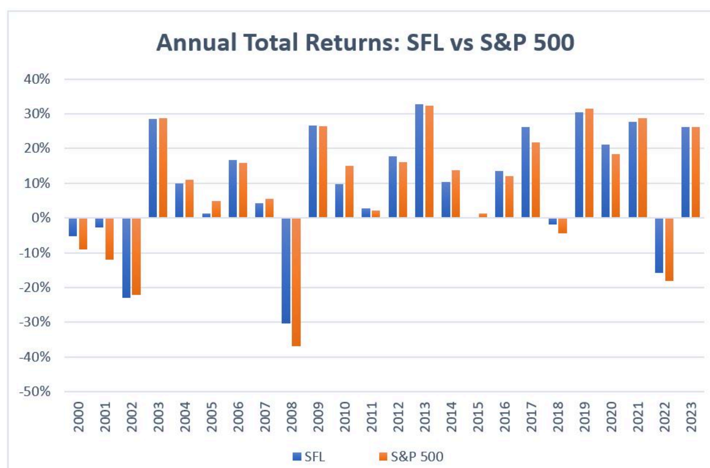
Utilities: Removed Alliant Energy (LNT) and added Essential Utilities (WTRG)

Communication Services: Added Meta Platforms (META)

Our Investment Style:
Management of the SFL is aligned with the three key principles of the Edward Jones investment philosophy: staying diversified, maintaining a long-term perspective, and focusing on quality companies. The SFL is a diversified list of over 50 stocks with recommended allocations to all major economic sectors, and it is organized this way to help minimize the potential of a disappointing impact from any single investment. We manage the list with relatively low turnover, and we typically target a four- to five-year holding period (or longer) unless something changes our outlook sooner. We focus on quality companies with strong business models, solid financial position to sustain the tough times, and competitive advantages that we feel make the growth stories durable.

Realistically, the SFL's quality-focused style won't be in favor all of the time. Not all market rallies are led by the quality names, and beaten-up stocks of companies with challenged businesses or weak financial positions can see periods of strong outperformance if things change for the better. In such a market environment, we would expect the SFL to underperform. 2010 was an example of such a low-quality rally, as companies with stressed financial positions that survived the credit crisis rallied sharply, leading the SFL to underperform **(Figure 3)** in that year.

Figure 3



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Outlook:

By all accounts, 2023 proved to be a positive year for investors, with strong gains across sectors, styles and market caps, a good reminder for investors of the importance and value of staying invested, even as headlines might paint a less-than-rosy picture. No doubt 2024 will bring its own twists and turns in the market narrative, but there are reasons for optimism as we head into the new year. Interest rates have likely peaked as the Fed starts paving the road for rate cuts, inflation continues to moderate, corporate earnings are rebounding, and valuations outside of the big year-to-date gainers remain reasonable.

We would expect periods of volatility, and we will focus on being opportunistic when these moments arrive to identify ideas that could contribute to the performance of the SFL. Our analysts are constantly looking for new ideas for the SFL, as well as how to implement them in various market scenarios as the market evolves.

*Bloomberg, price performance of the S&P 500 index.

**FactSet

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