

Can Stocks Close 2023 at New Highs?

'Tis the season for holiday parties, and last week Fundstrat Head of Research Tom Lee related his anecdotal experience at the parties this season: "In my conversations, I've found that most institutional investors remain cautious," he observed. He suggested that **"those with a bearish take are retaining an anchoring bias"** – this despite many data points showing that inflation has fallen "like a rock" this year. Friday gave us yet more evidence of this, with Nov. Core PCE Deflator released and coming in at +0.06% MoM. This was in line with the forecast of our Head of Data Science, "Tireless" Ken Xuan, and well below Street consensus expectations of +0.20%. Housing accounted for +0.09% of the MoM increase, so **if we exclude housing, Core inflation is actually negative.** To put it another way, there is so much goods deflation that overall core inflation ex-housing is falling below 0%.

Some bears are citing valuation as a concern, but Lee discounts this. Although equities are indeed up by about 25% YTD, he points out that PE for the S&P 500 ex-FAANG is now around 15.3x, compared to 14.5x at the beginning of the year, as shown by our Chart of the Week (below). In Lee's opinion, "that's barely any increase." The PE for the S&P 500 is also significantly lower now (17.1x) than it was at the beginning of 2022 (21.7x). So to our Head of Research, **"we are at a great launching point for stocks** heading into 2024."

As we enter the Santa Claus rally period, Lee said, "We are buyers of dips into year-end," and that's a view with which Mark Newton, Head of Technical Strategy, agrees. Last week, Newton said, "Pullbacks into Friday of this week and/or next Tuesday (December 26) likely should prove buyable for an S&P 500 move back to exceed 4,818." **On a more cautious note, however,** Newton's technical work tells him that "if a pullback fails to materialize until January, then a larger-than-normal correction likely will occur heading into February 2024."



 Webinar

Tom Lee's 2024 Market Outlook

[Watch the Replay Now](#)



Tom Lee, CFA
Head of Research



Chart of the Week

VALUATION: Now vs Start of 2023

Forward PE Ratio (Year + 1)

Today vs Start of 2023.

Sector	PE Ratio (Year + 1)		Delta
	1/3/2023	12/21/2023	
S&P 500	15.3x	17.1x	1.9x
S&P 500 ex-FANG	14.5x	15.3x	0.8x
Russell 2000	18.9x	21.7x	2.8x
S&P 600	10.2x	12.2x	1.9x
Cyclicals			
FANG+	18.8x	24.9x	6.1x
Tech ex-FANG+	15.4x	19.0x	3.6x
Industrials	16.4x	17.1x	0.7x
Discretionary ex-FANG+	15.5x	16.3x	0.7x
Comm. Services ex-FANG+	10.1x	9.4x	-0.7x
Materials	15.2x	17.0x	1.8x
Near-Cyclicals			
Financials	11.7x	12.8x	1.2x
Real Estate	15.9x	16.7x	0.8x
Energy	11.0x	10.4x	-0.7x
Defensives			
Healthcare	16.4x	15.7x	-0.7x
Consumer Staples	18.9x	17.4x	-1.5x
Utilities	17.4x	14.5x	-2.9x

PE 15X 2025 = Great starting point

Market not expensive

Source: [Fundstrat](#), [Bloomberg](#), [Factset](#)

Though some assume that stocks are expensive because they are up 25% year to date, the price-equity ratio for the S&P 500, ex-FAANG, has barely risen this year to 15.3x. To us, this means equities have ample room to expand in 2024.

Recent *Flash Insights*

[fsi-flash-insights]

FSI Video: Weekly Highlight



Key incoming data

- 12/18 8:30am ET December New York Fed Business Activity Survey **Tame**
- 12/18 10am ET December NAHB Housing Market Index **Tame**
- 12/19 9am ET Manheim Used Vehicle Index December Mid-Month **Tame**
- 12/20 10am ET December Conference Board Consumer Confidence **Tame**
- 12/21 8:30am ET 3QT 2023 GDP **Mixed**
- 12/21 8:30am ET December Philly Fed Business Outlook Survey **Mixed**
- 12/22 8:30am ET November PCE **Tame**
- 12/22 10am ET U. Mich. Sentiment and Inflation Expectation December Final **Tame**
- 12/26 9am ET December S&P CoreLogic CS home price
- 12/26 10:30am ET Dallas Fed December Manufacturing Activity Survey



▶ Live Webinar

Technology & AI Outlook with Tom Lee & Dan Ives

Tuesday, January 9 @ 2pm ET

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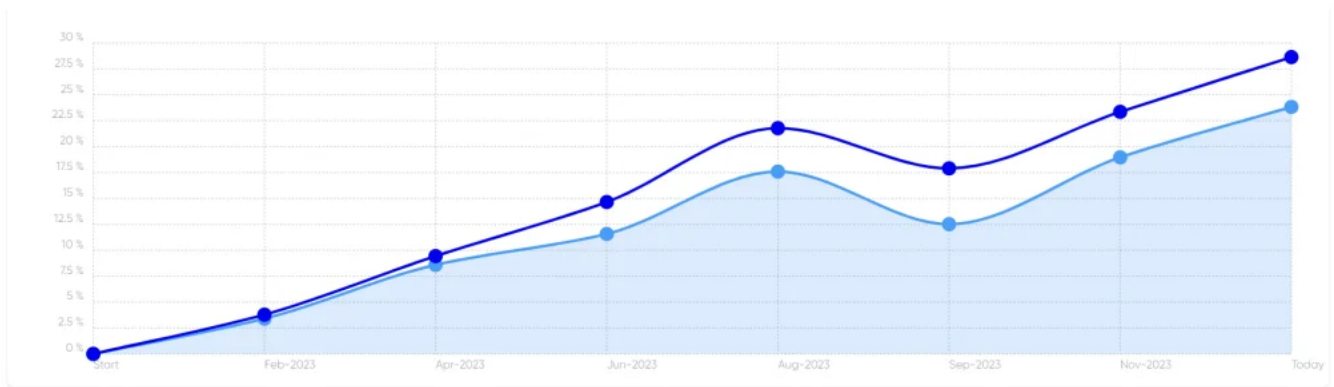
Dan Ives
Managing Director,
Equity Research
@ Wedbush Securities



Tom Lee, CFA
Co-founder,
Head of Research
@ Fundstrat

Stock List Performance

Year to Date Granny Shots Performance



Performance as of market close December 22, 2023

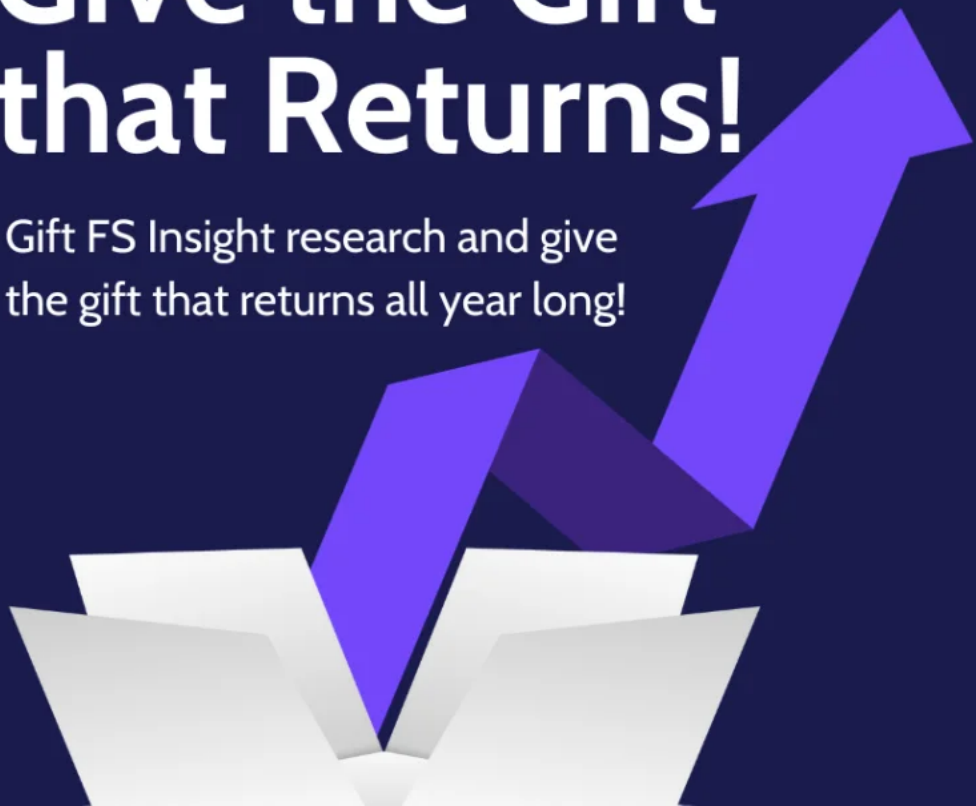
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[fsi-in-the-news]



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