

QUARTERLY INSIGHT

LETTER FROM THE CEO



It's been said that stocks often climb the "wall of worry," and that was certainly the case in 2023. Coming off a difficult 2022, there was plenty to be concerned about during the year. Multiple wars, higher interest rates, bank failures, and political unrest all served as headwinds, but in the end, the resiliency of the markets overcame those concerns. Much of the stock market resurgence was led by large tech stocks, but softening inflation data and the prospect of lower interest rates led to a broader market rally later in the year that also lifted bonds. Through it all, we remain committed to delivering financial peace of mind amidst the ups and downs of the markets and life as well.

This past year marked some important milestones for our firm as we celebrated the anniversary of a few innovative service offerings. Johnson Trust Company was formed 25 years ago to assist our clients with managing wealth across generations, settling estates, and trust administration. It has been a huge success. We also celebrated the 30-year anniversary of the Johnson Mutual Funds. It was initially an offering of two mutual funds for smaller portfolios, providing diversification and cost efficiency. It has now grown into a family of nine mutual funds with over \$3 billion in assets, serving individuals and institutions across the country. 2024 will also mark the 20-year anniversary of the Johnson Charitable Gift Fund, a public charity that facilitates philanthropic giving through donor advised accounts and endowments. The Gift Fund's mission is consistent with our core value of helping others and giving back to the greater community. We have always focused on the needs of our clients and how to best meet them even if the solutions are somewhat unconventional to our industry.

Our firm is doing well, and the number of families and institutions that we serve continues to reach new highs. At the same time, we're never complacent and are always looking for ways to enhance our service with more depth, expertise, and better technology. Our team of 160 talented and dedicated people has never been stronger, and I recognize and appreciate that our success is entirely dependent on our people and their dedication to serving you.

From each and every one of us here at Johnson Investment Counsel, thank you for your confidence and loyalty. We are humbled and inspired by the pivotal role we have in our clients' lives, and we look forward to serving you in the year ahead.

Jason Jackman, CFA
Chief Executive Officer

2023
FOURTH
QUARTER

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TOTAL RETURNS

	4Q 2023	2023
S&P 500	11.7%	26.3%
Dow Jones Industrial Average	13.1%	16.2%
NASDAQ	13.8%	44.7%
Russell 2000	14.0%	16.9%
MSCI EAFE (International)	10.4%	18.8%
Barclays Aggregate Bond Index	6.8%	5.5%

» WEALTH MANAGEMENT

» FAMILY OFFICE SERVICES

» TRUST COMPANY

» ASSET MANAGEMENT

MARKET UPDATE



MARKET UPDATE

FROM THE DESK OF CIO

CHARLES RINEHART, CFA, CAIA



Successful investing is as much about temperament as it is about analysis. Often quoted legend of value investing, Ben Graham, cited erratic behavior as a source of many of the opportunities and dangers that emerge for investors. Graham personified the market as a symbolic trading partner, “Mr. Market.” People say that Mr. Market is sometimes greedy and sometimes fearful. Last year he couldn’t make up his mind.

The year started with a January rally on hopes that a widely feared recession might be avoided. That was followed by panic in March as we navigated the unexpected, and sudden, collapse of several large banks. March’s fear was swiftly replaced with a wave of AI optimism, as the market anticipated Chat GPT and its successors would make the task of writing this article obsolete. The third quarter saw fear swell again as concern arose around ever-increasing interest rates and the stability of the US budgetary situation. And finally, we experienced a surge of optimism in December, as the market interpreted last month’s Fed comments to mean that the tightening cycle has ended and the much-doubted “soft-landing” for the economy had been achieved. Put it all together, and you end up with bond returns around 5%, an S&P 500 up 26%, and an author ready to join Mr. Market at his next therapy session.



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With the passage of time, details will fade from memory and the erratic and ever-changing attitudes of the market in 2023 will be forgotten. What will likely be remembered will be the strong returns of stocks and bonds, and the tech enthusiasm that drove them. Before that happens, I thought it would be wise to enshrine some lessons learned for the historical record.

LESSON ONE BEWARE A UNIFORM CONSENSUS

At the beginning of the year, everyone with a financial calculator was sure a recession was imminent. As a result, pessimism was abundant, and the stage was set for positive surprises to have a big impact. Today that the same legion is convinced the Fed has threaded the needle and recession will be avoided. The result? Risk assets are priced for perfection. Stock multiples are elevated, earnings growth estimates are high, and yield spreads on bonds are tight. All of this is against the trend of economic activity, which has continued to slow.

LESSON TWO THE STARTING POINT MATTERS

We, being fellow owners of financial calculators, also expected the economy to slow this year. This turned out to be accurate. Leading economic indicators bounced between -7% and -8% for most of the year. Job openings and hire rates declined. Earnings growth for the S&P 500 was slightly negative. And yet, the US economy avoided recession and stock returns were robust. In hindsight, the most likely explanation was the starting point for growth and market sentiment for the beginning of the year. The economy has been boiling hot in recent years as activity has normalized from the 2020 shutdowns. The Fed’s restrictions have been put in place with the intention of

MARKET UPDATE



bringing the pot to a mere simmer. We were right that things would cool off, but there was a lot of room for the soup to cool before turning to gazpacho. Meanwhile, sentiment was uniformly negative, creating the opportunity for modest positive surprises to have a meaningful impact.

LESSON THREE AVOID MARKET TIMING

To be fair, this isn't so much a lesson, as a reminder. Mr. Market is fickle in the best of times and market timing is hard, if not impossible. It's for these reasons that we stay invested throughout the market and economic cycle as a matter of discipline. Despite our pessimism about the economy, we kept portfolios fully invested in stocks and bonds throughout the year. This was true when banks were failing in March, when interest rates were surging in September, and when stock and bond markets rushed higher in the fourth quarter. We've been more defensive at the margin, but we never bet the farm on our economic call. You've got to keep dancing while the music plays, even if it's not your favorite song.

TURNING OUR SIGHTS TO 2024

With those lessons in mind, let's turn our sights to 2024. The recent surge in optimism has emerged from the Fed's December message that they are growing more concerned with the potential damage of their restrictive policy. The consensus has taken this to mean that easier policy is imminent, and the trend of economic growth will change. Yet, the starting point of economic activity suggests there's not a lot of room for policy errors. The index of Leading Economic Indicators has remained negative for a year and a half. There are some early signs of weakness emerging in the labor market. The yield curve is still inverted, and the Fed Funds rate is a full percent higher than it was a year ago—signals that monetary policy is still a slowing force on the economy.

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It is normal for market sentiment to improve at the end of a Fed tightening cycle. Unfortunately, it is also normal for that sentiment to shift again when the focus changes from easing policy to the slowing economic activity that demands it. We can hope the consensus is accurate but, from our vantage point, optimism is high and so are risks. Our path remains clear: stay the course with diversified portfolios of high-quality stocks and bonds.

Said more colloquially, the music plays on. Look for us on the dance floor with Mr. Market—wearing helmets with our dancing shoes.

Thank you all for your continued trust and confidence. We wish you all a happy, healthy, and fruitful 2024. 🍀



Chief Investment Officer, Charles Rinehart, CFA, CAIA, leads our dedicated team of research analysts and portfolio managers as they manage our investment strategies to deliver financial peace of mind to our clients.

IN THE NEWS



The expertise of our Johnson team members is often sought after by local and national media sources. Scan the QR code to see recent articles and videos featuring our employees.

Disclaimer: Any expectations presented should not be taken as a guarantee or other assurance as to future results. Our opinions are a reflection of our best judgment at the time this presentation was created, and we disclaim any obligation to update or alter forward-looking statements as a result of new information, future events or otherwise. The material contained herein is based upon proprietary information and is provided purely for reference and as such is confidential and intended solely for those to whom it was provided by Johnson Investment Counsel. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for, tax, legal or accounting advice. You should consult your own tax, legal and accounting advisors before engaging in any transaction.



Our annual Wealth Management Forum will be available to view on Thursday, February 8th at 4:00 pm EST. This year you will not need to register ahead of time to view the forum. Once recorded, the presentation will be immediately available online for you to watch at your convenience. We will send an email once the recording is available and you will also be able to access the recording on our website, JOHNSONINV.COM.

In this year's Wealth Management Forum, CEO Jason Jackman will provide firm highlights from 2023, and CIO Charles Rinehart and Managing Director Brandon Zureick will share insights on the market and economy. In addition, we welcome special guest Andy Laperriere, Head of U.S. Policy Research for Piper Sandler in Washington, DC. He and Jason Jackman will discuss the market implications of policy and political developments.

USE YOUR SMARTPHONE CAMERA TO SCAN THE QR CODE TO VIEW THE FORUM OR VISIT JOHNSONINV.COM!



2023 RETIREMENT

Johnson Investment Counsel congratulates Michelle K. Stroh, CFA, CFP® on her retirement. Michelle joined the Johnson team in 2009 when Johnson acquired Mead Adam. Since then, she has served clients and their families as a Senior Portfolio Manager.



Stroh

"It's been a blessing working with Michelle over the years. While we'll miss the love and care she brought to clients and colleagues at JIC, we know that she'll thrive in retirement as she pursues new opportunities and exciting adventures." says Jarett Levitsky, Senior Managing Director of Wealth Management Services.

Michelle and her husband look forward to more time with family and friends, volunteering, and traveling.

NEW DESIGNATION

Johnson Investment Counsel is committed to continuing education to provide personal development for our employees and better service to our clients. Congratulations to Credit Analyst Emilia J. Connor-Brady, CFA, CAIA, on earning her Chartered Alternative Investment Analyst designation.



Connor-Brady

NEW ADDITIONS TO THE TEAM

We are pleased to announce that these individuals have joined our team over the last several months:

- > **Maria Seffrin**
Trust Associate
- > **Lisa Tague**
Client Support Assistant & Office Manager



Seffrin



Tague

ABOUT US

Johnson Investment Counsel is one of the nation's largest independent wealth management firms, managing more than \$18 billion in assets for clients in 49 states. Johnson Investment Counsel is an employee-owned firm, offering a full range of fee-only, integrated wealth management services, including: investment portfolios, education and retirement planning, cash management, estate planning, trust services, charitable giving, mutual funds, 401(k) plans, IRAs, and more. Johnson Investment Counsel has built strong, long-term relationships with individuals, families, charitable organizations, foundations, and corporations through four integrated divisions.

➤ WEALTH MANAGEMENT

➤ FAMILY OFFICE SERVICES

➤ TRUST COMPANY

➤ ASSET MANAGEMENT

LOCATIONS

CINCINNATI - KENWOOD
CINCINNATI - WEST
CLEVELAND - AKRON
COLUMBUS
DAYTON
METRO DETROIT

If you are a client of Johnson Investment Counsel, you should receive account statements on at least a quarterly basis directly from the qualified custodian that holds and maintains your assets. You are urged to carefully review all custodial statements for accuracy. If you are not receiving custodial statements, please contact our Chief Compliance Officer, Scott Bischoff at (513) 661-3100.