2023 Year in Review & Market Commentary

A note from our newest team member, Brad Mickelson, Director of Portfolio Management:

I am honored to join the Spectrum family and deliver remarkable service to you and your family. I wanted to start by introducing myself:

My wife Meredith and I are both Texas Natives and are new to the Rockwall area. We have a daughter, Eleanor (6) and son, Nolan (1). I spent six years as an enlisted engineer in the US Navy prior to attending the University of North Texas, where Meredith and I first met. I have spent the past 12 years developing my knowledge of capital markets through research and analyzing investment portfolios.

I hope you enjoy the following review of the past year where I hope to provide an understanding of forces driving the market. I am also looking forward to providing weekly and quarterly commentaries throughout the new year.

A Look at 2023

Nothing better than starting off a new year on a high note following strong market performance in 2023! After a negative year for the economy and capital markets in 2022, 2023 started out with Wall Street largely expecting a recession due to persistent inflation and the Federal Reserve's use of interest rate hikes to try and cool the economy. The capital markets wound up ending the year positive and industry experts now believe the Fed has been successful in their fight against inflation, with little risk of a recession over the next twelve months. See market performance and highlights from the year below:

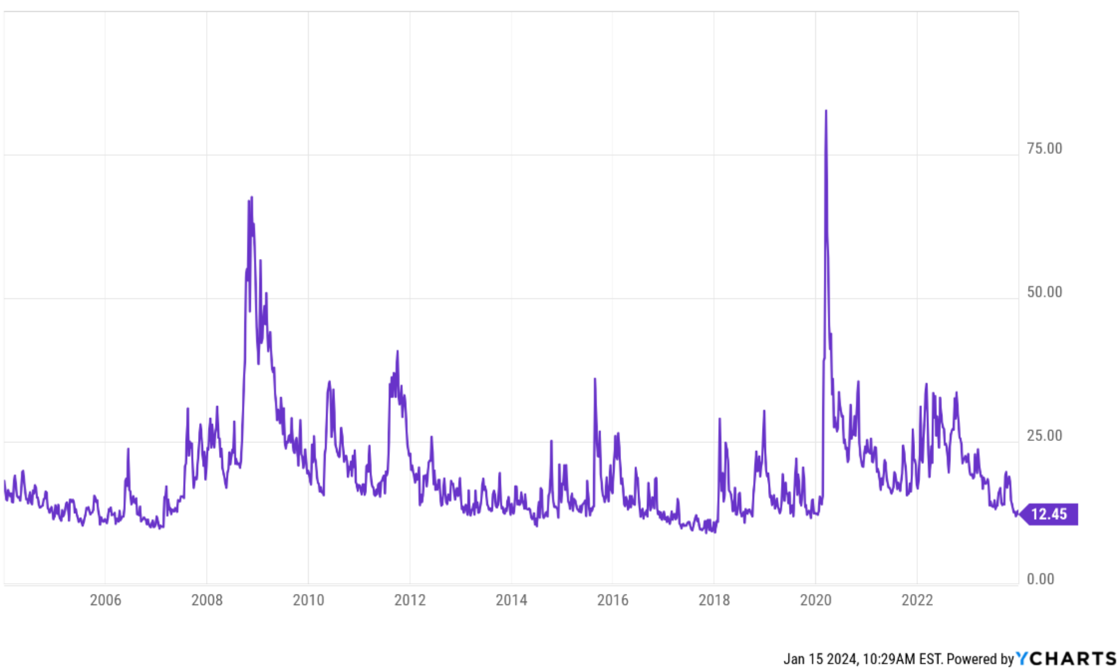
Equity Market Performance as of December 31, 2023*			
Equity Index	1 Year	3 Years	5 Years
S&P 500	24%	8%	14%
NASDAQ	43%	5%	18%
DJIA	14%	7%	10%

**Past performance is no guarantee of future results.*

- While stocks finished the year strong, market movers consisted primarily of the "Magnificent Seven stocks" – Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla as shown in the chart below. The good news here is that our portfolios benefited from the growth of these individual positions as they are held in the large cap funds we select. A word of caution, however, in that the strong performance of these seven *individual* companies may lead to a false sense of positivity in the market, as measured by the S&P 500, while other sectors try to play catch-up to the stretched valuations of these big tech companies.

- Despite the strong stock market performance in 2023, other sectors will have to perform well in 2024 to meet the now stretch valuations of the tech sector. We began to see this in the 4th quarter as cooling inflation helped drive demand for more interest rate sensitive sectors including financials, utilities, and real estate.
- The 10-year Treasury yield finished the year at 3.860%, below the recent peak of 5.021%, in October of this year. Declines in this "risk-free" benchmark are frequently used to measure investor sentiment and typically indicate a cooling economy.

- Gold, which tends to rise during heightened market volatility, ended the year up 15%. Inflation concerns and geopolitical tensions helped push the price of gold up during the year and demand is likely to boost further gains for the commodity in 2024. Although gold can have diversification benefits in an investment portfolio, long-term returns are usually just above inflation.
- Crypto also had a strong year with Bitcoin up 156%, it's best performance since 2020. The Securities and Exchange Commission (SEC) has now authorized the use of a BTC ETF. While these funds make holding BTC more accessible to investors, the ETF will have the same volatility associated with the crypto currency, so a BTC investment may give you a similar experience to an evening in Vegas.
- The Chicago Board Options Exchange (CBOE) Volatility Index, commonly used to track stock market volatility, dropped to a four year low at the end of the year when the Fed indicated it would start cutting rates in 2023, finishing the year at a level of 12.5. Lower index values typically indicate more stable market environments. Historical CBOE Volatility Index:



Our 2024 Outlook

With a Presidential election year upon us, it is worth noting the S&P 500 has been positive 74% of election years since 1929 with an average return of 6%. This is not too far off from the performance of the S&P 500 every year since 1929, with 73% years being positive and an average annual return closer to 10%.

The Fed has projected at least three rate cuts in 2024. However, many market participants are pricing in closer to 6 cuts with interest rates projected to drop by 1.5%. Market volatility in 2024 will be highly dependent on if these expectations are met.

Thank you for reading and please look out for further communication as we seek to provide regular market updates going forward. Happy New Year and God bless!