Spectrum Advisors

1Q 2024 Market in Review

Q1 2024 Executive Summary

The momentum from 2023 carried over into the new year, resulting in a strong start to 2024. The upward rise can be mostly attributed to the market's expectations that the Federal Reserve is done raising interest rates and the prospect of an AI-driven productivity boom. These factors have outweighed concerns around higher-for-longer inflation and upcoming US elections. Despite continued volatility over fears of inflation and geopolitical conflicts, the market regrouped and refocused on stronger-than-expected corporate earnings and the idea that rates are far more likely to go down this year than up, a positive for the overall market.

Hopes that the Fed would begin reducing interest rates were dashed mid-quarter, after Fed Chair Jerome Powell dismissed the idea that rate cuts would begin before mid-summer and indicated the Fed would only entertain three rate cuts this year, down from an expected six rate cuts. After nursing its wounds for a bit, the market decided not to dwell on this news — and continued its upward rise to finish the quarter around record levels.

Inflation has remained an obstacle for the Fed. While inflation dropped steadily from its 40-year high of 9.1% in June 2022, it has been stuck between 3.0-3.7% for nearly a year — well above the Fed's target of 2%. Employment, one of the Fed's measures to determine when it's time to raise or lower rates — was still relatively strong this quarter, with the unemployment rate ranging from 3.7-3.9%. While the labor market has remained strong, the Fed likely wants the unemployment rate at 4.0 - 4.5% before cutting interest rates, a number we haven't seen since November 2021. Unemployment at this level along with reduced inflation will indicate to the Fed that the economy is not overheating, allowing for reduced interest rates.

Markets also have been spurred by the economy's ongoing strength. Gross domestic product (GDP) for the fourth quarter of 2023 came in strong at 3.2%, with GDP for the year at 3.1%. Higher interest rates haven't resulted in a significant economic slowdown or recession as predicted. This data encouraged markets to keep moving upward; the reasoning was that if the economy keeps growing with higher interest rates, then stocks should continue to perform well no matter how many rate cuts we see this year. Equities ended the quarter in much the same way it began, with benchmark indexes breaking records nearly every week.

As we enter the second quarter, some economic data has started to weaken. The 10-year treasury yield remains above 4%. Short-term rates on securities with maturity under one year are still higher, leading to an inverted yield curve, which is signaling long-term economic uncertainty will continue to stick around in the short-term. Markets are now expecting rate cuts to begin in June, and any deviation from that expectation could spur volatility for investors. The Fed will keep a close eye on unemployment and inflation, especially energy prices. If both numbers stay steady, the Fed has a timing dilemma: if they wait until too close to the election to cut rates, it could be perceived as influencing politics. But if they cut rates too soon or too aggressively, it could spur new challenges for investors and the economy.

Despite these uncertainties, the first quarter set us up for a strong 2024. In the last 40 years, the S&P 500 delivered 28 positive first-quarter results, which are a good predictor for how the rest of the year will go. There likely will be bumps along the way, but the economy is still solid, and we should be in good shape for at least the next few months. We will stick to our long-term focus on providing our clients with diversified portfolios to meet stated risk and return expectations. Our use of Treasury securities will likely continue while rates for the securities still provide strong performance for any short-term funds.

Quarterly Market Summary

Index returns

Q1 2024	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
	STOCKS				BONDS	
	10.02%	5.59%	2.37%	-1.19%	-0.78%	0.58%
Since Jan. 2001						
Average Quarterly Return	2.4%	1.6%	2.5%	2.2%	0.9%	0.9%
Best Quarter	22.0%	25.9%	34.7%	32.3%	6.8%	5.4%
	2020 Q2	**2009 Q2**	**2009 Q2**	**2009 Q3**	**2023 Q4**	**2023 Q4**
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-5.9%	-4.1%
	2008 Q4	**2020 Q1**	**2008 Q4**	**2008 Q4**	**2022 Q1**	**2022 Q1**

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.
Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]).

Long-Term Market Summary

Index returns as of March 31, 2024

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
	STOCKS				BONDS	
1 Year	29.29%	15.29%	8.15%	7.44%	1.70%	5.92%
5 Years	14.34%	7.48%	2.22%	1.21%	0.36%	1.03%
10 Years	12.33%	4.81%	2.95%	3.89%	1.54%	2.64%

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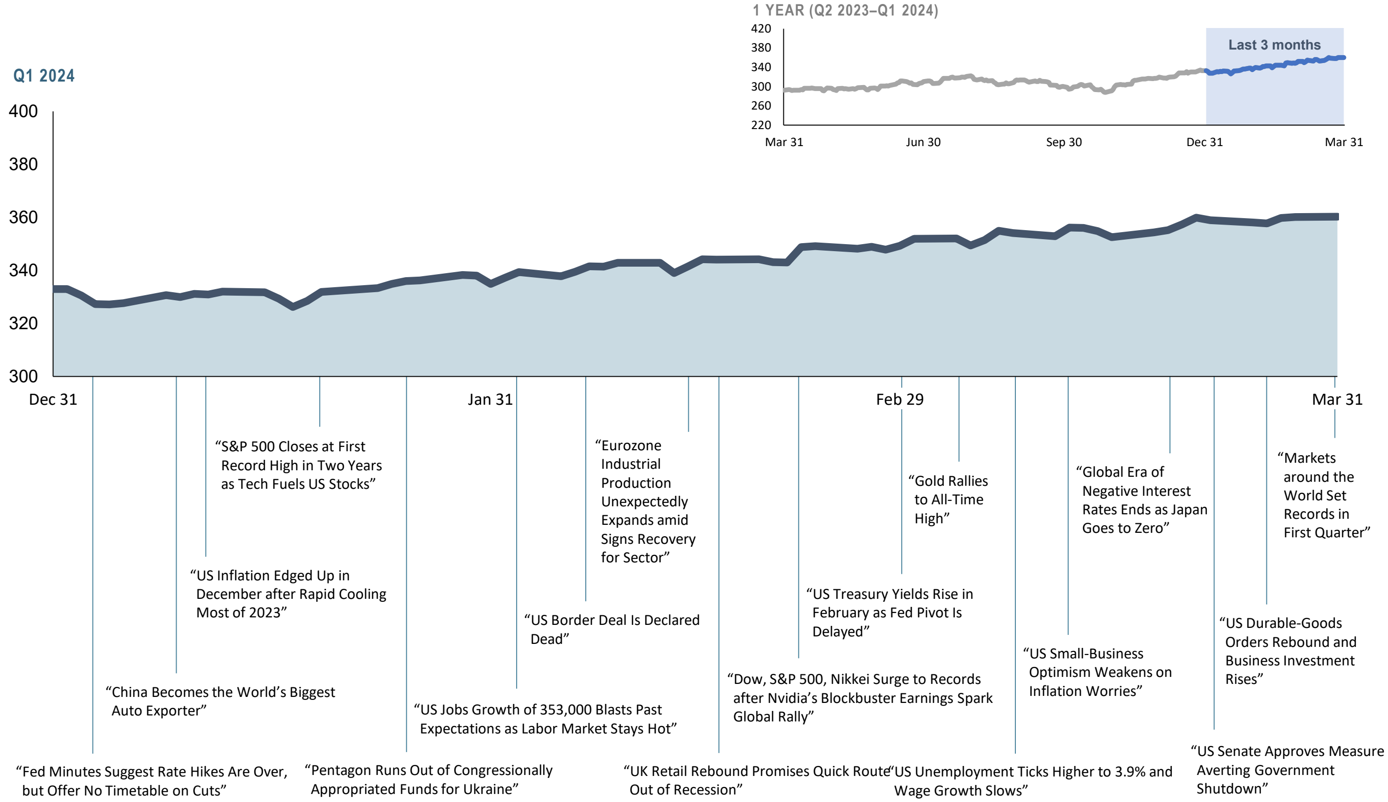
World Stock Market Performance

MSCI All Country World Index with selected headlines from Q1 2024

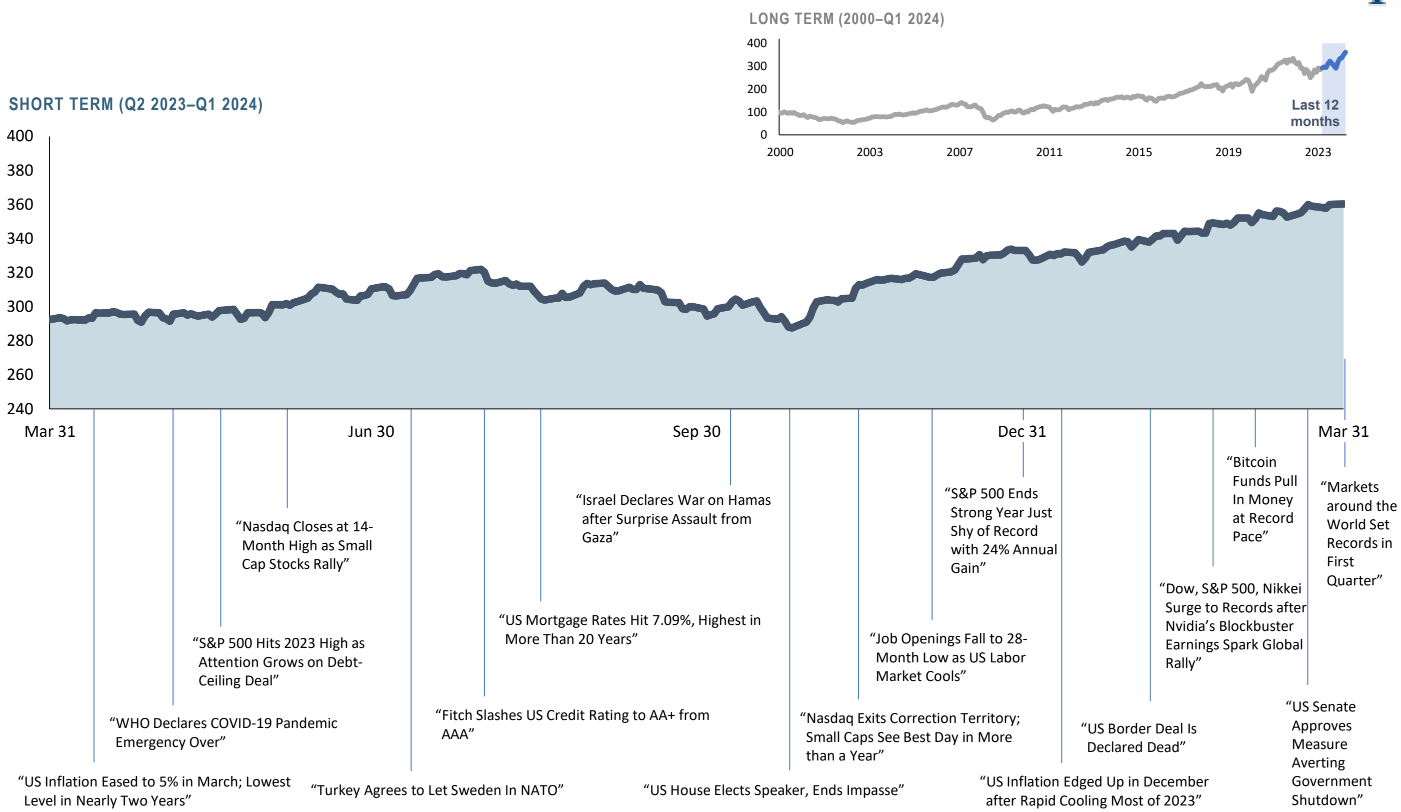


These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2024, all rights reserved. Index level based at 100 starting January 2000.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



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In USD. Source: Dimensional Fund Advisors, FactSet.

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