SPECTRUM[SM]

INVESTMENT ADVISORS

Quarterly Newsletter

Fourth Quarter 2024

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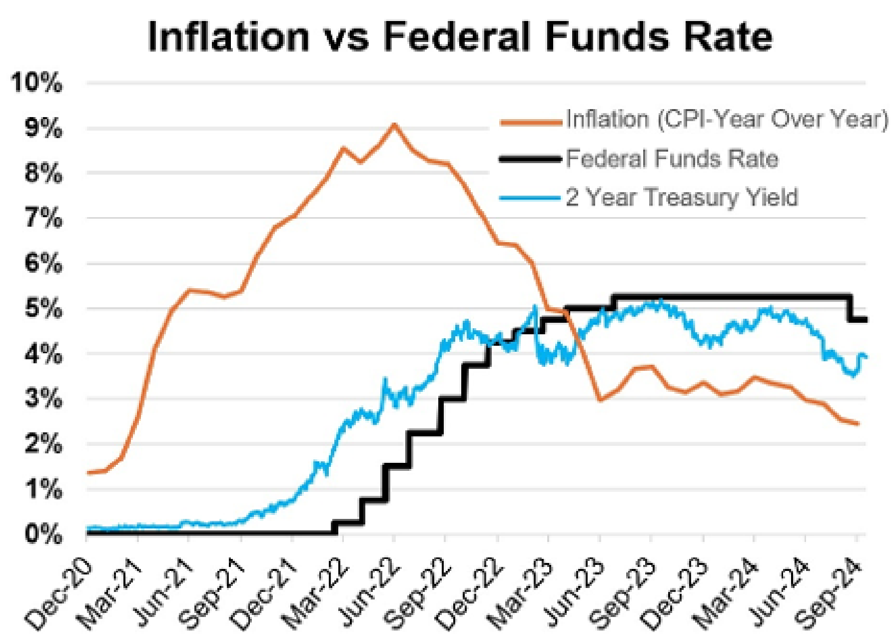
Market Performance Update

Three quarters into 2024, most major asset classes produced attractive returns. The S&P 500 U.S. stock index gained 22.08% year-to-date through September 30, driven primarily by large growth-style equities. International stocks, measured by MSCI All Country World ex US index, returned 14.21%. Fixed income returns improved, as measured by the Bloomberg U.S. Aggregate Bond Index, standing at 4.45% through September 30, 2024. The uptick in fixed income performance can be attributed to falling interest rates during the third quarter in anticipation of the Federal Reserve beginning its rate-cutting cycle.

The First Cut

On September 18, 2024, the Federal Reserve lowered the Fed Funds interest rate by 0.5%. It was the first interest rate cut following a sharp series of rate increases throughout 2022-2023 that were intended to cool off inflation. After holding interest rates just above 5% for 13 months, Federal Reserve Chair, Jerome Powell emphasized "recalibration"; suggesting interest rates needed to adjust to a more balanced labor market and cooler levels of inflation. The economic soft landing appears to be unfolding as intended. In a soft land scenario, it is broadly expected that the Fed will lower interest rates at a gradual pace with a string of 0.25% interest rate cuts. The median Federal Reserve member estimate is that the Fed Funds rate will be near 3% by the end of 2025 (a 2% total decrease including September's 0.5% cut).



CPI: Consumer Price Index, Source: Bureau of Labor Statistics, YCharts 10.16.24

The chart above shows that the Federal Reserve cut interest rates by 0.50% in September. Inflation has been trending lower towards the Fed's target of 2% inflation.

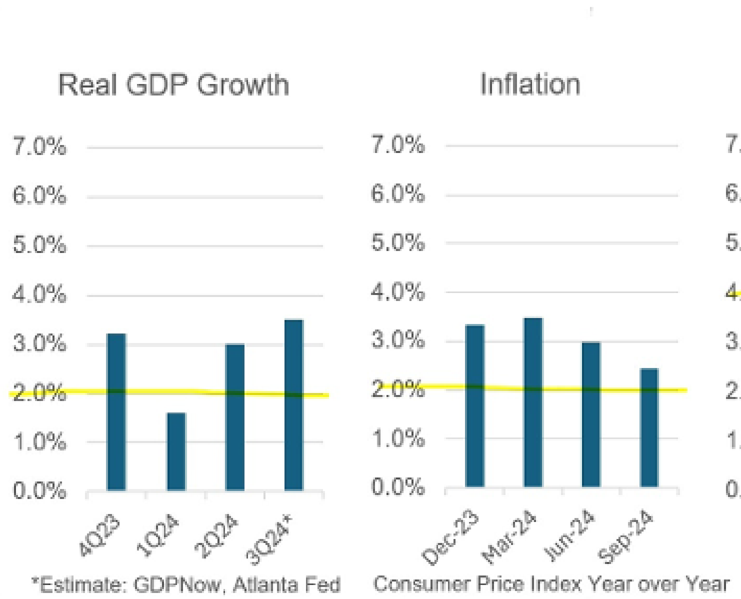
Fourth Quarter 2024

Economy and Inflation

Throughout the year, we have been monitoring JP Morgan's Economist Dr. David Kelly's "2-0-2-4" forecast: 2% economic growth, 0 - no recession, a return to 2% inflation, and reaching 4% unemployment. As shown in the charts below, the forecast is tracking well. Economic growth remained strong with no recession. Inflation drifted lower toward 2% and unemployment is holding near 4%. On October 2nd, Dr. Kelly said he generally expects another 2-0-2-4 type of year in 2025.

With no recession so far in 2024 or on the near term horizon, Dr. Kelly's forecast of 2-0-2-4 is tracking along well. The yellow line indicates his forecast for year-end 2024 levels that were made in January of 2024. At that time he said those conditions would make a good environment for both stocks and bonds.

Source: JPMorgan, YCharts, BLS, BEA.

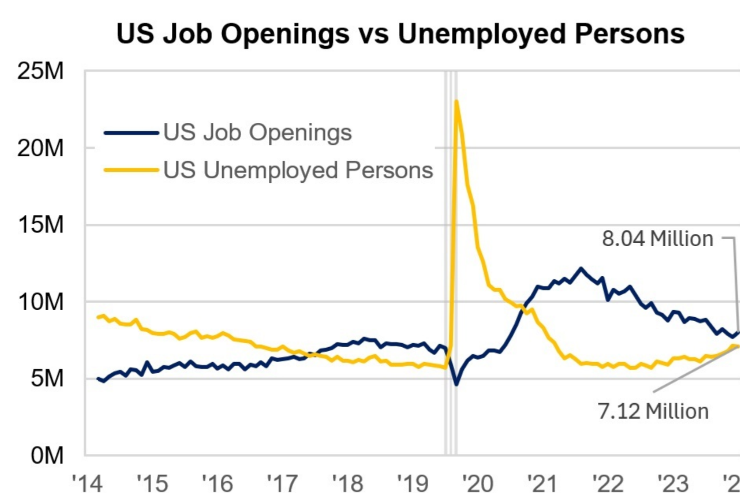


The economy has shown considerable resilience, with growth holding up well. We call it "The Resilience of America". The anticipated economic soft landing remains on track with recession unlikely in 2024. On average, economists see a 26% chance of recession in the next 12 months. That is the lowest estimated recession risk since January of 2022. (Wall Street Journal Survey of Economists, October 2024)

Falling energy prices through the summer helped weigh down overall inflation to 2.5% as of September. Further energy price declines may be hard to come by due to the ongoing conflicts in Ukraine and Israel. Meanwhile, shelter inflation fell below 5% in September for the first time since March of 2022. Rental rates vary considerably based on location, but overall new tenant rents increased by just 1% year-over-year according to Bureau of Labor Statistics (10/17/24). That is a good sign that shelter inflation will continue to ease into 2025.

The U.S. unemployment rate was 4.1% as of September. Job openings have continued to decline, while the number of people looking for work has increased, creating a near-term equilibrium (see chart to the right). In the recent FOMC meeting, Federal Reserve Chairman Jerome Powell commented that risks of inflation and employment are "roughly in balance". It was a shift away from inflation being the top priority and ultimately a sign that lower interest rates may be ahead.

While unemployment has increased, the total size of the workforce has also grown, with more people employed today compared to earlier this year. Typically, an increase in jobs and workforce participation supports GDP growth. Overall, the economy remains resilient as the Federal Reserve begins its rate-cutting cycle.



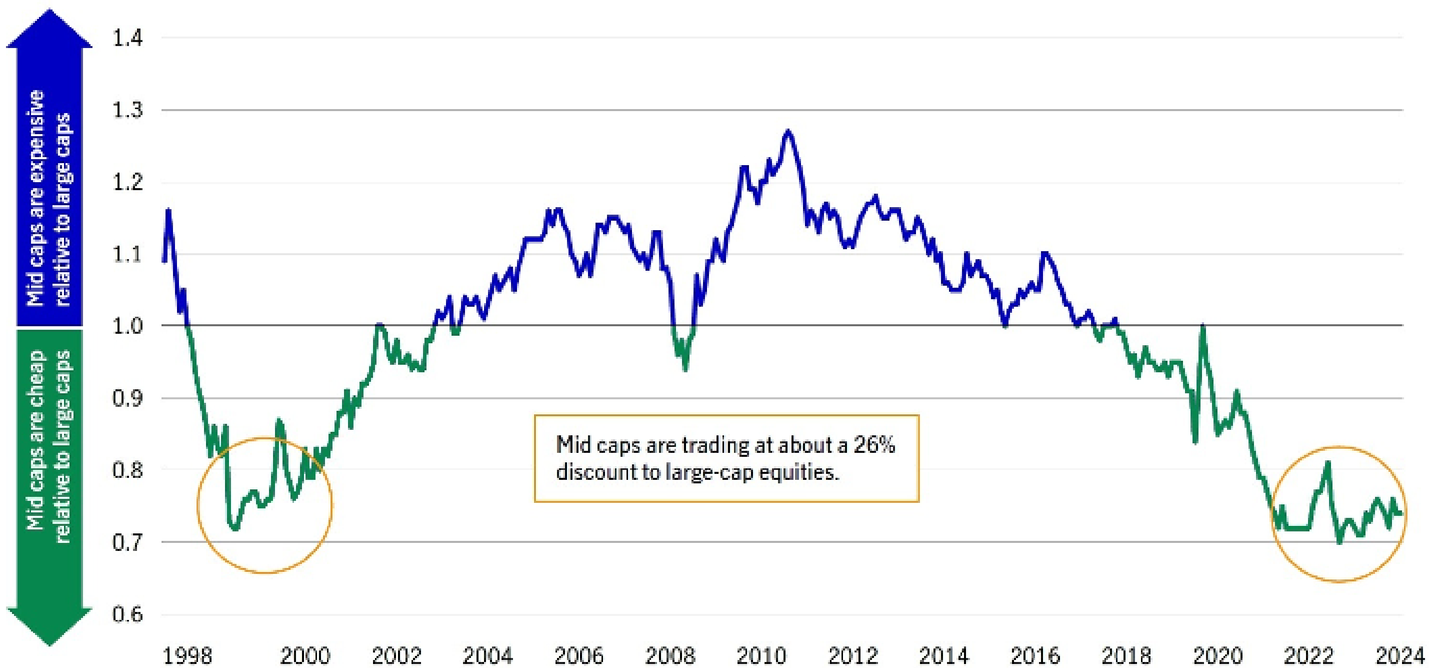
Job openings: total nonfarm. Source: Bureau of Labor Statistics, 9.30.24

Stock Market Performance Broadens Out

Last quarter, we highlighted the unique concentration within the equity markets, with the top 10 companies in the S&P 500 making up 37% of the index—an all-time high. The "Magnificent 7"* drove market returns in the first half of the year. We noted that performance could broaden out given valuations and earnings expectations. In the third quarter, we saw this broadening take place as small-cap (Russell 2000) and mid-cap (S&P 400) stocks delivered returns of 9.27% and 6.94%, respectively, compared to 5.89% for the S&P 500.

According to FactSet, analysts expect earnings growth from the Magnificent 7 and remaining 493 companies in the S&P 500 to be double digits over the next five quarters. Given relatively higher valuation in the Magnficent 7, we could see returns continue to broaden out. The same could be true for mid and small cap stocks. The chart below shows valuations on mid cap stocks are about as cheap relative to the S&P 500 as they have been since the late 1990s.

S&P MidCap 400 Index P/E ratio relative to S&P 500 Index P/E ratio



Source: John Hancock Market Intelligence, Boston Partners, FactSet as of 9/30/24. S&P MidCap 400 tracks the performance of 400 mid-cap publicly traded stocks. These stocks are not part of the S&P 500. Forward P/E is a valuation measure comparing a stocks price to its expected earnings over the next 12 months.

Fixed Income Update

The Federal Reserves fight against inflation has always been expected to be temporary, although without knowing exactly how high rates would go, or how long rates would have to stay elevated to bring down inflation. This set up an unusual circumstance where short-term bonds offered a higher yield than long-term bonds. As the Federal Reserve begins its rate-cutting cycle, the yield curve is expected to "normalize", with shorter-term bonds eventually yielding less than longer-term bonds.

Generally, short-term bonds or money market funds are particularly useful for those with near-term spending goals. For those holding short-term or money market investments with a longer time horizon, it may be worthwhile to consider moving to an intermediate-term type of bond investment. Every individual's financial situation is unique, and we are happy to discuss what might be the best fit for your investment objectives.

Overall, the bond market continues to normalize from the inflation spike we experienced since COVID. Company financials are still healthy, the economic back drop is still positive, all indicating that fixed income should continue to be an efficient way to diversify one's portfolio while receiving a respectable return.

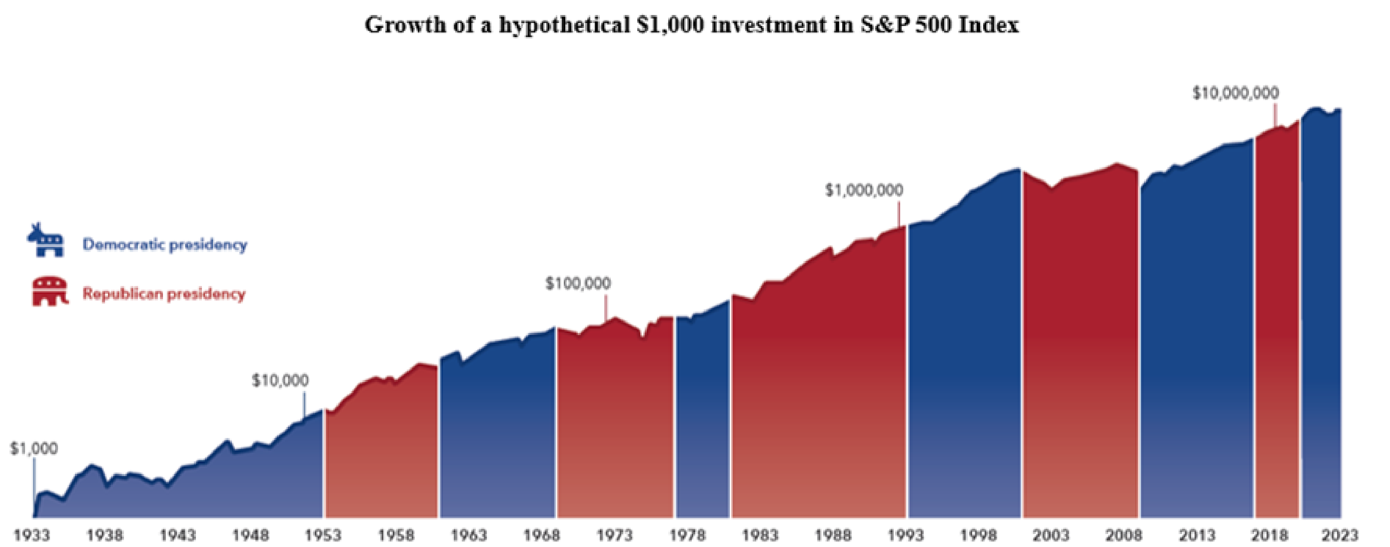
Election Draws Near

Two policy topics we'd like to address, given numerous questions from clients, is the unrealized capital gains tax proposal from presidential candidates Kamala Harris' and Donald Trump's tariff proposals. Harris' plan includes imposing a 25% tax on unrealized capital gains for individuals with a net worth of $100 million or more. This proposal was previously introduced during Biden's presidency but failed to gain traction due to logistical and enforceability concerns.

Regarding Trump's tariff proposal, Dr. David Kelly believes tariffs can be inflationary and reduce overall demand. Both concepts are related to addressing our national debt, which we believe is more critical in the long-term than which person or party wins this upcoming election.

As we said last quarter, do not let your long-term investment and financial goals be influenced by the influx of election news or the current political landscape our great country faces. Corporations and management teams adapt and work to produce shareholder returns over the long term, no matter who has political power. History shows us that sticking to a long-term investment goal will be rewarded.

*Disclosures:Magnificent 7 refers to AAPL: Apple Inc. MSFT: Microsoft Corporation. NVDA: NVIDIA Corporation. GOOGL: Alphabet Inc. AMZN: Amazon.com, Inc. META: Meta. TSLA: Tesla, Inc. References to specific companies or securities should not be construed as a recommendation to buy or sell any such security, nor should they be assumed profitabl



Source:Capital Group, RIMES, Standard & Poor's. Chart shows the growth of a hypothetical $1k investment made on March 4, 1933 (the date of Franklin D. Roosevelt's first inauguration) through June 30, 2023. Dates of party control are based on inauguration dates. Values are based on total returns in USD. Shown on a logarithmic scale. Past results are not predictive of results in future periods.

Spectrum Investor® Update

As of September 30, 2024

Morningstar Category Averages	YTD	1 Year	3 Year
Intermediate-Core Bond	**4.78%**	**11.56%**	-1.39%
Moderate Allocation	12.27%	21.99%	4.89%
Large Cap Value	8.04%	27.14%	9.58%
Large Cap Blend	19.35%	32.84%	**10.14%**
Large Cap Growth	**21.92%**	**38.83%**	7.39%
Mid Cap Value	13.06%	25.80%	8.50%
Mid Cap Blend	14.3%	27.57%	6.70%
Mid Cap Growth	12.68%	26.45%	-0.04%
Small Cap Value	8.74%	22.68%	6.47%
Small Cap Blend	10.91%	25.03%	4.42%
Small Cap Growth	12.69%	25.69%	**-1.41%**
Foreign Large Cap Blend	13.08%	24.17%	4.29%
Real Estate	13.77%	32.06%	2.58%
Natural Resources	6.21%	12.05%	7.24%

Source: Morningstar, 3 yr return is annualized. Morningstar classifies categories by underlying holdings and then calculates the average performance of the category. Past performance is not an indication of future results. Returns in Blue = Best, Returns in Red = Worst. Please see Benchmark Disclosures below.

As of September 30, 2024

DOW: 42,330
NASDAQ: 20,060
S&P 500: 5,762
Barrel of Oil: $68.17

10 Yr T-Note: 3.74%
Inflation Rate: 2.5%
Unemployment Rate: 4.1%
Source: Yahoo Finance, bls.gov, eia.gov

In closing, we always encourage investors to think long-term. The chart to the left shows most categories are still up over the last three years despite the downturn in 2022. For those of you who wish to revisit your portfolio, please contact us at 800-242-4735. For more on the markets, click on the resources tab on our website www.spectruminvestor.com.

Data as of 9/30/24 unless otherwise noted. The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors. The S&P 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. Barrel of Oil: West Texas Intermediate. Inflation Rate: CPI. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index. Indices cannot be invested into directly.

To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

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Benchmark Disclosures: Morningstar Category Averages: Morningstar classifies mutual funds into peer groups based on their holdings. The Category Average calculates the average return of mutual funds that fall within the category during the given time period. The following indexes and their definitions provide an approximate description of the type of investments held by mutual funds in each respective Morningstar Category. One cannot invest directly in an index or category average. Index returns do not reflect trading, advisory and other fees and expenses which are incurred in your actual investment accounts and would reduce your returns. Intermediate-Term Bonds: Bloomberg US Agg Bond Index–Measures the performance of investment grade, US dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS, ABS and CMBS. Allocation 50%-70% Equity–These funds invest in both stocks and bonds and maintain a relatively higher position in stocks. These funds typically have 50%-70% of assets in equities and the remainder in fixed income and cash. Large Cap Value: S&P 500 Value Index–Measures the performance of value stocks of the S&P 500 index by dividing into growth and value segments by using three factors: sales growth, the ratio of earnings change to price and momentum. Large Cap Blend: S&P 500 Index–A market capitalization-weighted index composed of the 500 most widely held stocks whose assets and/or revenue are based in the US. Large Cap Growth: S&P 500 Growth Index–Measures the performance of growth stocks drawn from the S&P 500 index by dividing it into growth and value segments by using three factors: sales growth, the ratio of earnings change to price and momentum. Mid Cap Value/Mid Cap Growth: S&P MidCap 400 Index–A market cap weighted index that covers the complete market cap for the S&P 400 Index. All S&P 400 index stocks are represented in both and/or each Growth and Value index. Mid Cap Blend: S&P MidCap 400 Index–Measures the performance of mid-sized US companies, reflecting the distinctive risk and return characteristics of this market segment. Small Cap Value: Russell 2000 Value Index–Measures the performance of small-cap value segment of Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. Small Cap Blend: Russell 2000 Index–Measures the performance of the small-cap segment of the US equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. Foreign Large Cap Blend: MSCI EAFE NR Index–This Europe, Australasia, and Far East index is a market-capitalization-weighted index of 21 non-US, developed country indexes. Small Cap Growth: Russell 2000 Growth Index–Measures the performance of small-cap growth segment of Russell 2000 companies with higher price-to-value ratios and higher forecasted growth values. Real Estate: DJ US Select REIT Index–Measures the performance of publicly traded real estate trusts (REITs) and REIT-like securities to serve as proxy for direct real estate investment. Natural Resources: S&P North American Natural Resources Index– Measures the performance of US traded securities classified by the Global Industry Classification Standard (GICS) as energy and materials excluding the chemicals industry and steel but including energy companies, forestry services, producers of pulp and paper and plantations. Past performance is no guarantee of future results. This report is for informational purposes only and should not be construed as a recommendation or solicitation to buy or sell any security, policy or investment. PE Ratio is the measure of the share price relative to the annual net income earned by the firm per share.