



Newsletter Summary

- Inflation Cools, Remains Well Above Average
- Stocks and Bonds Advance Off of 2022 Lows
- Key for 2023: Can U.S. Control Inflation Without Recession

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Stock and bond markets posted positive returns in the first quarter of 2023. High inflation continues to come down, giving markets a tune of optimism even as risks of recession remain elevated.

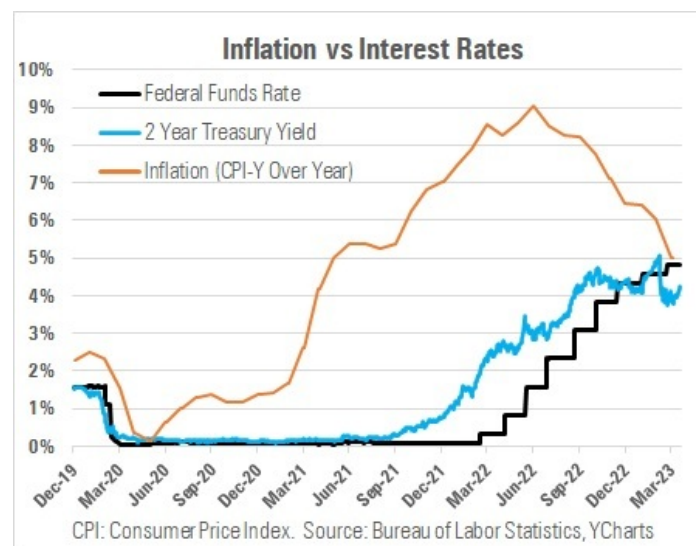
Total Returns Through 3/31/23	1st Qtr 2023	1 Yr	3 Yr*
U.S. Bonds	3.0%	-4.8%	-2.8%
U.S. Stocks	7.5%	-7.8%	18.6%
International Stocks	8.5%	-1.4%	13.0%
Sample 60/40 Portfolio [^]	5.9%	-5.4%	9.3%

U.S. Bonds: Bloomberg US Aggregate Bond Index U.S. Stocks: S&P 500 Index. Int'l Stocks MSCI EAFE TR USD. *3 year return is annualized. [^]Portfolio 60% stocks (70% S&P 500/30% MSCI EAFE) 40% Bloomberg US Aggregate Bond.

Long-term perspectives:

There is an important lesson in the table above: short-term uncertainty can create long-term opportunity.

The three year return looks so strong in part because of the starting point: April 1, 2020. That was a very challenging moment for stock markets and really the world overall. It was just days after stay-at-home orders were issued by many countries during the onset of COVID-19. The S&P 500 had fallen 20% in the first quarter of 2020, making it very difficult to stay the course and stay invested in stocks. The three-year returns above shows the reward for those who did.



Inflation is cooling, but still too high:

It took time to get through the pandemic. Likewise, it is taking time to cool off inflation.

The chart above shows inflation starting to surge in spring of 2021 during the reopening from COVID. The black line shows that the Federal Reserve raised interest rates nine times in an attempt to bring down inflation. They raised the Federal Funds rate from near 0% to 4.75% in the past 12 months. As you can see, inflation (orange line) has come down, but it is still well above the Fed's 2% target for inflation.

Nevertheless, inflation is cooling and the Federal Reserve is expected to be near the end of their hiking cycle. This expectation has helped stocks and bonds rally for two consecutive quarters.

Banking Sector Update:

The Federal Reserve quickly stepped in to calm fears among depositors after the failure of two regional U.S. banks (Silicon Valley Bank and Signature Bank) and the government forced takeover by Credit Suisse of UBS in Switzerland.

This also calmed fears in the stock market. The S&P 500 had given up nearly all year to date gains in early March, but rallied up 6.5% through the end of March, advancing back near year-to-date highs by the end of April. The Russell 2000 Small Cap Value index has the highest exposure to smaller regional banks. That stock index was down 3.1% year to date through April 30, 2023.

In the longer run, the impact may be that banks become more conservative in their lending practices, which can have a cooling effect on economic growth.

Federal Reserve Chair Jerome Powell indicated in his March press conference that tighter lending by banks may reduce the need for further interest rate increases.

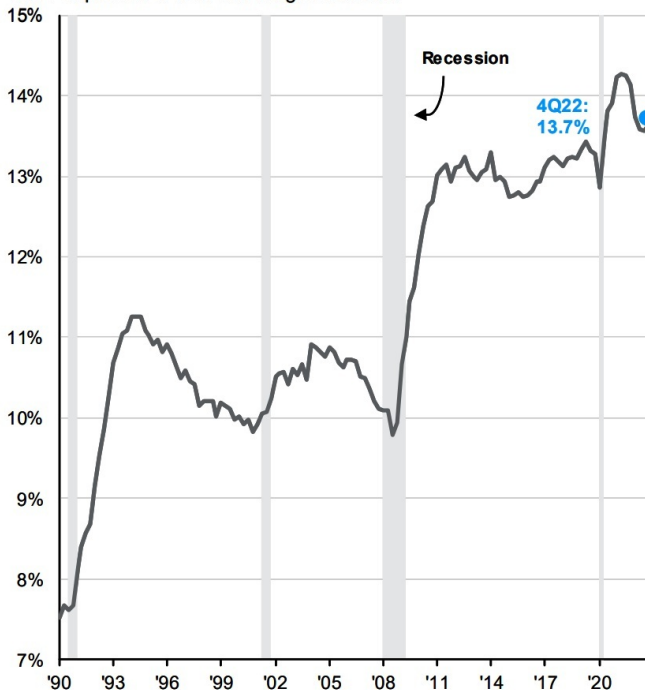
On May 3rd, the Fed raised rates by 0.25% for the second time in 2023. Expectations for the remainder of 2023 are that the Fed will hold there through summer, with a 75% chance the first rate cut will occur by November 2023 (CME FedWatch Tool, 4/19/23).

Below, the chart on the left shows that banks are generally well capitalized with a healthy 13.7% tier 1 capital ratio, nearly twice that of 1990. On the right, you can see that 44.8% of U.S. banks are currently tightening lending standards.

Bank capitalization and lending sentiment

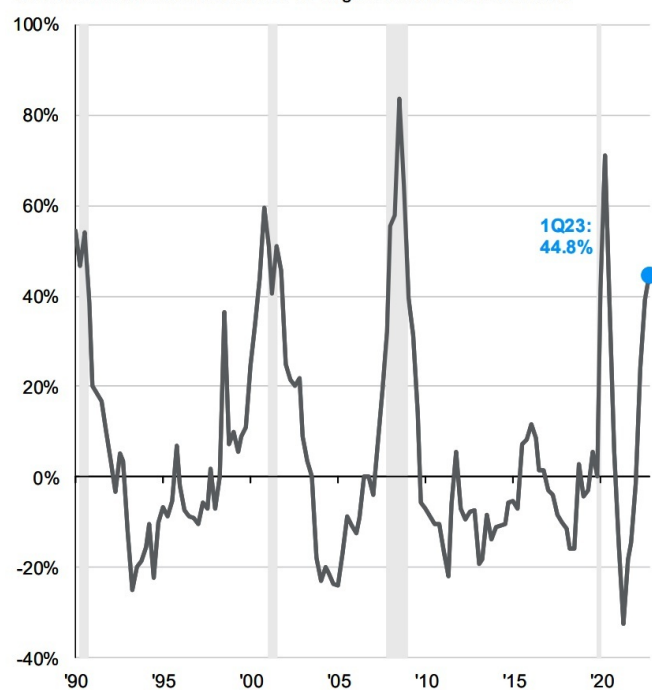
U.S. bank tier 1 capital ratio

Tier 1 capital as a % of risk-weighted assets



Net percentage of banks tightening lending standards

Commercial and industrial loans for large and middle-market firms



Source: Bloomberg, FDIC, Federal Reserve, J.P. Morgan Asset Management. The tier 1 capital ratio is the ratio of a bank's core tier 1 capital (equity capital and disclosed reserves) to its total risk-weighted assets. It is a key measure of a bank's financial strength that has been adopted as part of the Basel III Accord on bank regulation.

Guide to the Markets – U.S. Data are as of April 19, 2023.

One year later...

There were two major turning points in the first quarter of 2022, just over one year ago. On February 24, 2022 Russia invaded Ukraine. A few weeks later on March 16, the Federal Reserve kicked off the first of nine interest rate increases.

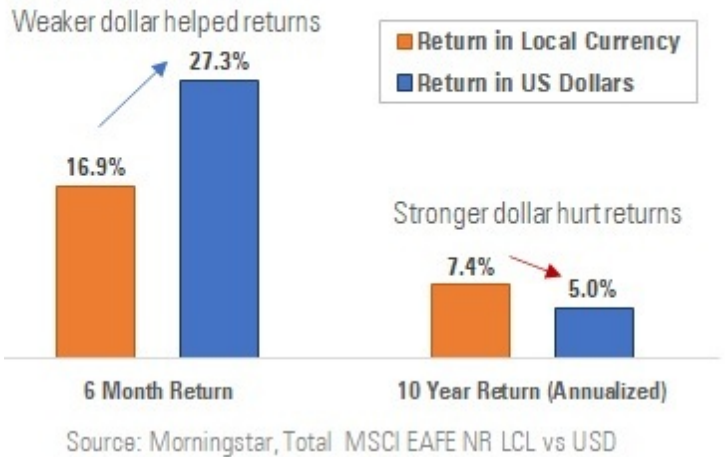
What Russia mis-read in the decision to invade Ukraine is the value of freedom and the willingness of the Ukrainian people to fight for it; something that America did 245 years ago during the Revolutionary War. What helped the U.S. win that war, was the aide received from France, much like the support Ukraine is now receiving from the U.S. and NATO allies.

As the war goes into a second year, food and energy exports from Russia and Ukraine will be limited and remain an inflationary challenge.

As discussed on the the first page, the Fed raised interest rates nine times over the last 12 months through March. It has been the fastest rate hiking cycle since the late 1970s.

In spite of both of these major events taking place over the last 12 months, the S&P 500 U.S. stock index finished down 7.7% and the Bloomberg U.S. Aggregate Bond Index finished down 4.8% ending March 31, 2023.

Impact of Currency on International Returns: MSCI EAFE International Stock Index

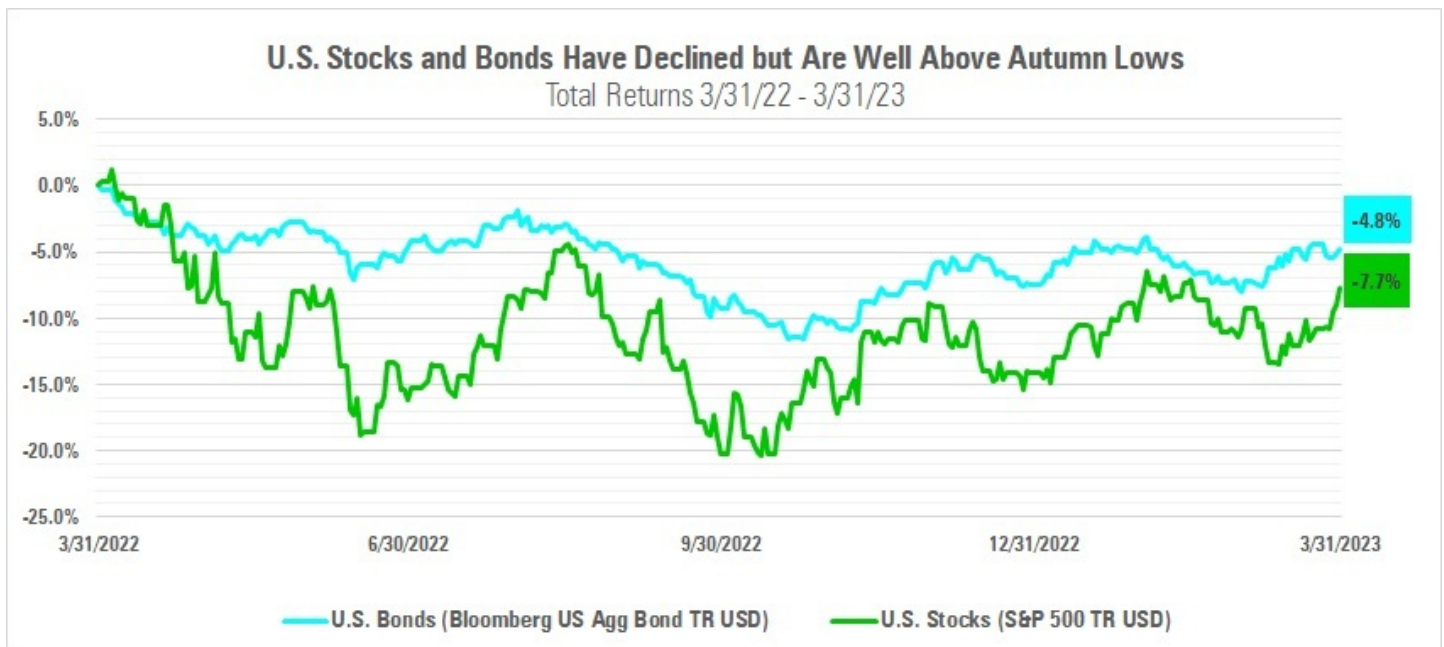


A Weakening Dollar Helps International:

The chart above shows the difference between the MSCI EAFE international stock index in local currency vs the U.S. dollar.

The U.S. dollar peaked last fall (2022) at multi-decade highs against several currencies such as the Euro, Japanese Yen and British Pound.

A weakening dollar adds to returns for U.S. investors owning foreign stocks. In the last six months the weakening dollar added 11% to international returns.



Source: Morningstar, Total Return

Consumer Sentiment:

High inflation, rising interest rates and a risk of recession have consumers feeling less confident about the economy.

Ironically, the chart below shows that may be good news for stock markets. As Warren Buffett says "be greedy when others are fearful, and fearful when others are greedy."

The chart shows forward 12-month stock market returns were typically much better when people were feeling lousy about the economy, such as 1975 and 1980 when the U.S. had high inflation and interest rates. When sentiment bottomed in those years, the S&P 500 gained over 20% in the next 12 months.

Compare that to when sentiment peaks, the forward returns are often low or even negative (see January of 2000).

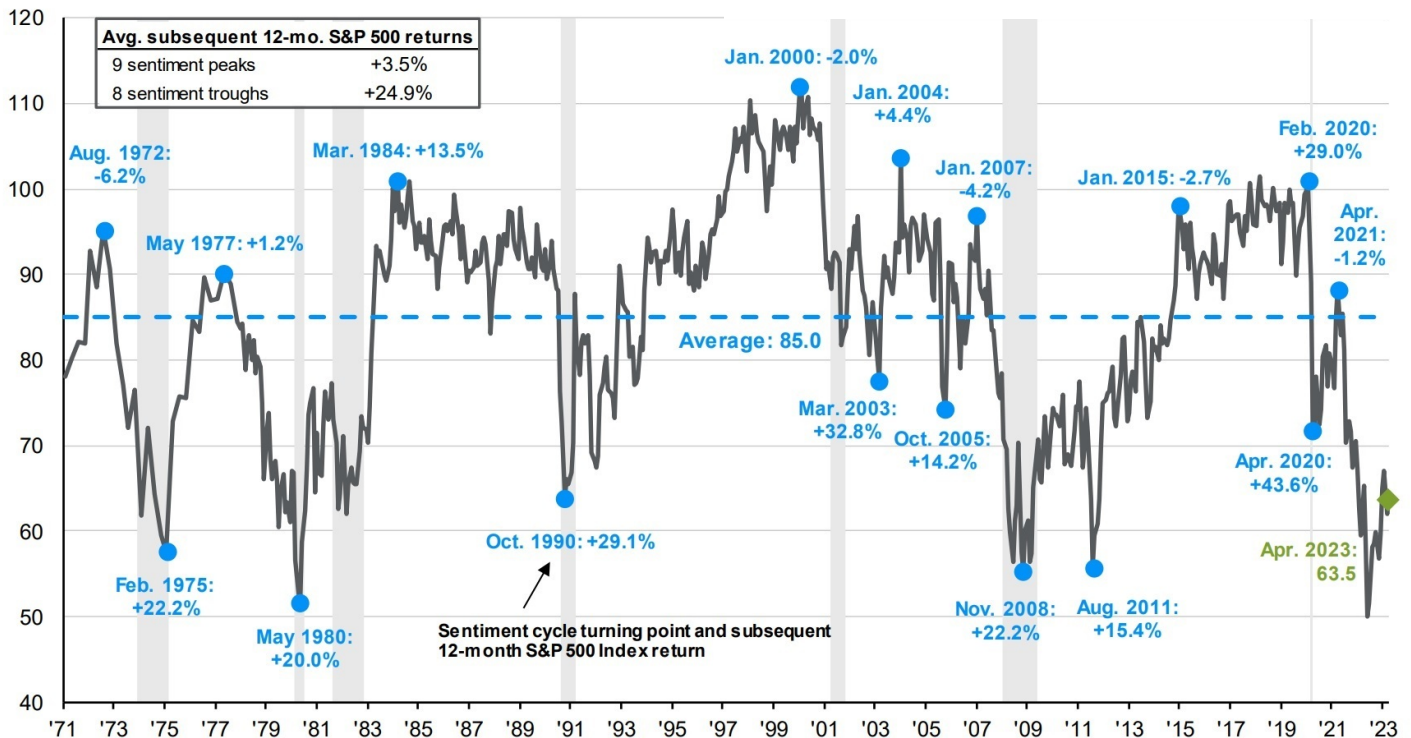
Stay Balanced:

The hope is that inflation will cool, the Fed can lower interest rates and we will avoid recession. In past instances, that has not been the case. Former Treasury Secretary Larry Summers likens the idea of avoiding recession to a second marriage: "second marriage is the triumph of hope over experience."

Stocks typically bottom during recession, not before it. So if a recession is on the way, we could see new lows in stocks. If that should happen, remember, the stock market doesn't settle down, it settles up. Stay balanced and avoid the temptation to sell during tough times.

On May 6, 2023 a team from Spectrum will be attending the Berkshire Hathaway shareholder meeting in Omaha for the 18th consecutive year. The meeting, as always, will be hosted by Warren Buffett (92) and Charlie Munger (99). We look forward to sending you our "Woodstock of Capitalism" review of the event in May.

Consumer Sentiment Index and subsequent 12-month S&



Source: FactSet, Standard & Poor's, University of Michigan, J.P. Morgan Asset Management. Peak is defined as the highest index value before a series of lower lows, while a trough is defined as the lowest index value before a series of higher highs. Subsequent 12-month S&P 500 returns are price returns only, which excludes dividends. Past performance is not a reliable indicator of current and future results. Guide to the Markets – U.S. Data are as of April 19, 2023.

Spectrum Investor® Update

As of March 31, 2023

Morningstar Category Averages	1st Qtr	1 Year	3 Year
Intermediate-Core Bond	2.99%	-5.07%	-2.26%
Allocation 50%-70% Equity	3.78%	-6.50%	9.83%
Large Cap Value	0.87%	-5.10%	18.93%
Large Cap Blend	5.67%	-7.36%	17.68%
Large Cap Growth	11.65%	-12.67%	14.80%
Mid Cap Value	1.42%	-6.31%	22.61%
Mid Cap Blend	3.37%	-6.85%	19.55%
Mid Cap Growth	7.65%	-11.95%	14.85%
Small Cap Value	1.66%	-6.65%	25.45%
Small Cap Blend	3.20%	-7.94%	20.92%
Small Cap Growth	6.10%	-12.05%	16.23%
Foreign Large Cap Blend	7.79%	-2.32	12.54%
Real Estate	2.31%	-19.94%	10.47%
Natural Resources	2.56%	-8.53%	30.22%

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 on pg. 5

As of April 30, 2023

DOW: 34,098

10 Yr T-Note: 3.44%

NASDAQ: 12,227

Inflation Rate: 5.0% (March)

S&P 500: 4,169

Unemployment Rate: 3.5% (March)

Barrel of Oil: \$76.78

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 recent downturn. 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 3/31/23 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.