SPECTRUM INVESTMENT ADVISORS

Spectrum Investor®

Quarterly Newsletter

Q4 2023

Newsletter Summary

- Economic Growth Defies Expectations
- Stock Market Rallies on Optimism For Avoiding Recession
- The Delayed Impact of Higher Interest Rates

Jonathan Marshall, MBA
Chief Investment Officer

Thomas Shide, CFA
Senior Investment Analyst

After rallying for three consecutive quarters, stocks pulled back in the third quarter. The S&P 500 finished down 3.3% for the three months ending September 30. There were echos of 2022 as bonds also declined 3.2% during the quarter. Year to date, the picture is brighter for returns, with a typical balanced portfolio up 5.6% (see chart to right for details).

Typically bonds rally when stocks fall, but stubborn inflation and rising interest rates can be a headwind for both at the same time.

Total Returns Through 9/30/23	3rd Qtr 2023	YTD 9/30/23	1 Yr	3 Yr*
U.S. Bonds	-3.2%	-1.2%	0.6%	-5.2%
U.S. Stocks	-3.3%	13.1%	21.6%	10.1%
International Stocks	-4.1%	7.1%	25.6%	5.7%
Sample 60/40 Portfolio^	**-3.3%**	**5.6%**	**12.6%**	**3.0%**

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.

Good News, Bad News

The good news is that the overall economy has been resilient in the face of high inflation and sharply rising interest rates. A year ago, many economists expected the economy to fall into a recession in 2023. Instead the economy has grown by an annualized rate of about 2% in the first three quarters (Real Gross Domestic Product, GDP after inflation).

The bad news is that inflation has been slow to cool off. Headline inflation peaked in 2022 at 9.1% but is still 3.7% through September (CPI - Consumer Price Index). The Federal Reserve's inflation target is 2%.

To fight inflation the Fed has raised interest rates 5.25% since March 2022. Fed Chair Jerome Powell has indicated that interest rate hikes may be near an end, but rates may need to remain elevated for some time.

Resilient Labor Market

The challenge for the Federal Reserve is to cool off inflation without tipping the economy into a recession that provokes job losses.

So far, so good. It has been bumpy stretch for investments but unemployment has remained near historically low levels at 3.8% through September vs an average of 5.9% over the last 60 years.

Source: YCharts, BLS

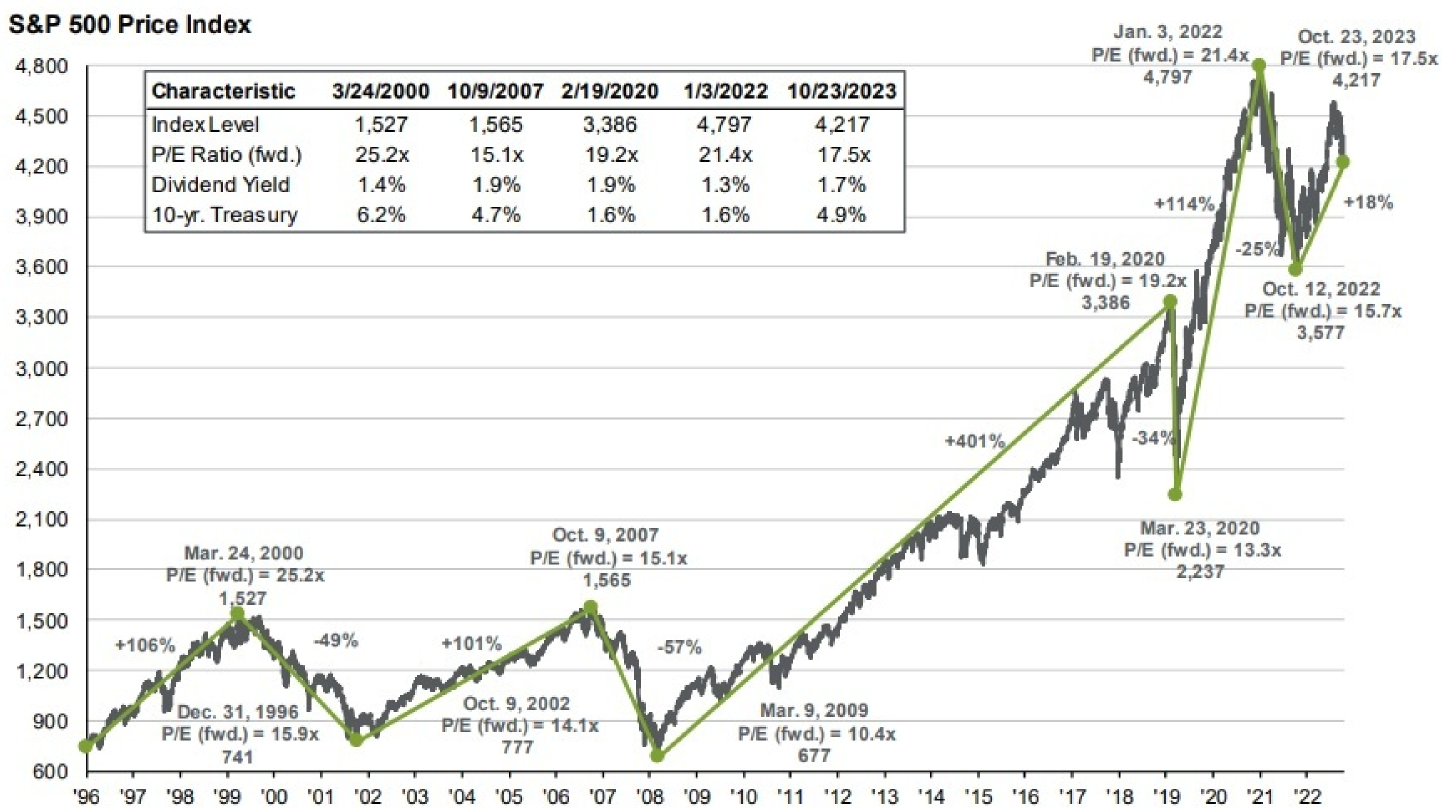
Soft Landing

The chart below shows the S&P 500 since 1996. There have been four significant downturns during that period. The dot-com bubble bursting in 2000-2002, the great financial crisis in 2007-2009, COVID in 2020, and most recently the sharp rise in interest rates in 2022. So far, the downturn in 2022 is the only one of the four that has not also seen a significant rise in unemployment. If the U.S. economy has a "soft landing" where inflation cools and the labor market remains in good shape, then we may have already seen the lows for the stock market in this cycle. Since the Fed began rate hikes in Spring 2022, the low point of the S&P 500 was 3,577 on October 12, 2022.

Unemployment is a lagging indicator; it typically peaks at the end of a bear market for stocks, not the beginning.

Job Openings Remain Elevated

Although high inflation and sharply rising interest rates are typically a recipe for recession, Fed Chair Powell has said from the beginning that a soft landing would be possible. One of the biggest reasons was the excessive imbalance of labor demand relative to available workers. There were two jobs available for every one unemployed person in March of 2022 when rate hikes began. Through September there were 1.5 jobs available per unemployed person. That is still a very strong position for workers as typically its the other way around with two unemployed persons competing for a single job. It is also a sign that employers may be reluctant to lay people off. The average economic forecast is for U.S. unemployment to peak in 2024 at 4.4% (WSJ Economic Survey October 2023).



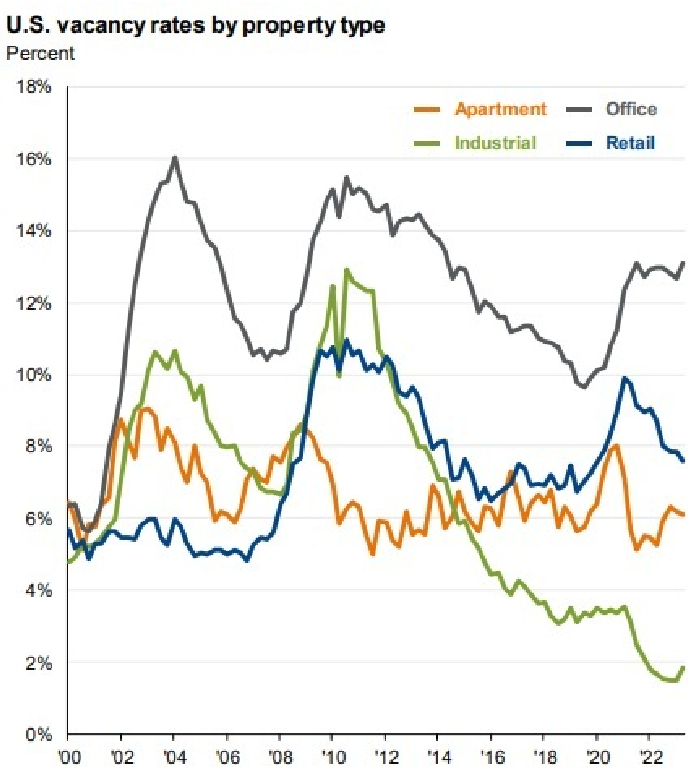
Source: Compustat, FactSet, Federal Reserve, Refinitiv Datastream, Standard & Poor's, J.P. Morgan Asset Management.
Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat. Forward price-to-earnings ratio is a bottom-up calculation based on IBES estimates and FactSet estimates since January 2022. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of October 23, 2023.

Longer Runway For a "Soft Landing"

Another aid for a soft landing is home owners and businesses were able to lock in very low long-term interest rates during to depths of COVID. According to Goldman Sachs, 92% of debt for S&P 500 companies is fixed and the overall interest rate paid will have gone from an average of 3.2% to 3.7% by the end of 2024. For home owners, as of July the majority of outstanding 30-year mortgages were also under 4%.

Real Estate Update

The national average interest rate for a new 30 year mortgage approached 8% in October, the highest since 2000. Higher rates have cooled demand, but even more so cooled supply. Far less homeowners are willing to list their home because it would mean they would be giving up their low interest loan. The lack of supply has supported home prices even though the number of home transactions is as low as it has been since 2009 following the financial crisis. Outside of housing, the chart below shows office space is the only real estate sector that has not yet recovered from COVID in terms of vacancies. Increased interest rates have not yet made a mark on vacancies in other real estate sectors.



Source: NAREIT, NCREIF, Statista, JPMorgan Asset Management
Data as of 06/30/23 from JPMorgan Guide to the Markets 10/23/23.

US Debt

U.S. federal debt to GDP has reached around 100%, the highest levels since World War II. For perspective, Japan's debt to GDP is over 200%, twice that of the U.S. Italy is at 140% and the U.K. is also near 100% (Source: IMF). In August 2023, ratings agency Fitch downgraded U.S. debt from its highest quality level to the second highest quality rating. They cited the high debt burden as a cause but also the "erosion of governance" relative to other AAA rated peer countries. This is referring to the governments handling of the debt ceiling, pushing negotiations to the last possible moment and a lack of cohesive plan to improve the debt picture. The recent removal of House Speaker Kevin McCarthy after he reached an a deal to avoid a government shutdown is a sign of the current struggles in Washington. (Speaker McCarthy was replaced on 10/25/23 by Mike Johnson from Louisiana). The bottom line is that the debt itself is not a dire situation, but controlling it will present challenges, most notably that the tailwind of government spending following COVID is likely to fade.

The advantage that the U.S. has is that the U.S. dollar is still a dominant global reserve currency. Relative to other currencies, the dollar remains near the strongest levels since 2002.

Geopolitics

War in Ukraine and now Gaza are very unsettling, yet in terms of markets, the initial invasion in Ukraine has had a greater impact. Russia and Ukraine are extremely large countries and important global suppliers of natural resources. The war has restricted many of those supply chains, partly keeping overall inflation elevated. Similar to Ukraine, the biggest fear with Gaza is that it spreads to a broader conflict. So far that does not seem to be the case, but tensions are elevated. Both conflicts add costs to an already expansive budget in the U.S. President Biden has asked congress for a defense package that allocates $61 billion of military aid to Ukraine and $14 billion to Israel. Combined, that would amount to 9% of overall defense budget based on 2023 spending.

Spectrum Investor® Update

As of September 30, 2023

Morningstar Category Averages	3rd Qtr	1 Year	3 Year
Intermediate-Core Bond	-2.97%	0.77%	**-5.02%**
Moderate Allocation	-2.67%	10.58%	3.65%
Large Cap Value	-2.52%	14.87%	11.84%
Large Cap Blend	-3.24%	19.13%	9.31%
Large Cap Growth	-3.59%	**23.46%**	4.26%
Mid Cap Value	-3.25%	14.25%	13.89%
Mid Cap Blend	-3.89%	14.02%	9.74%
Mid Cap Growth	-5.32%	13.25%	1.64%
Small Cap Value	-2.09%	15.00%	16.71%
Small Cap Blend	-4.18%	12.46%	11.01%
Small Cap Growth	-6.52%	9.12%	2.25%
Foreign Large Cap Blend	-4.48%	22.92%	4.33%
Real Estate	**-7.45%**	**0.51%**	3.20%
Natural Resources	**-1.71%**	14.83%	**17.30%**

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, 2023

DOW: 33,507

NASDAQ: 13,219

S&P 500: 4,288

Barrel of Oil: $90.77

10 Yr T-Note: 4.59%

Inflation Rate: 3.7% (September)

Unemployment Rate: 3.8% (September)

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 9/30/23 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.

SPECTRUM[SM]
INVESTMENT ADVISORS

Spectrum Investment Advisors

6329 West Mequon Road Mequon, WI 53092

262-238-4010 | **www.spectruminvestor.com**

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.