



## Newsletter Summary

- S&P 500 reaches an all time high
- Consumer Sentiment improves
- Immigration adding needed supply to labor force

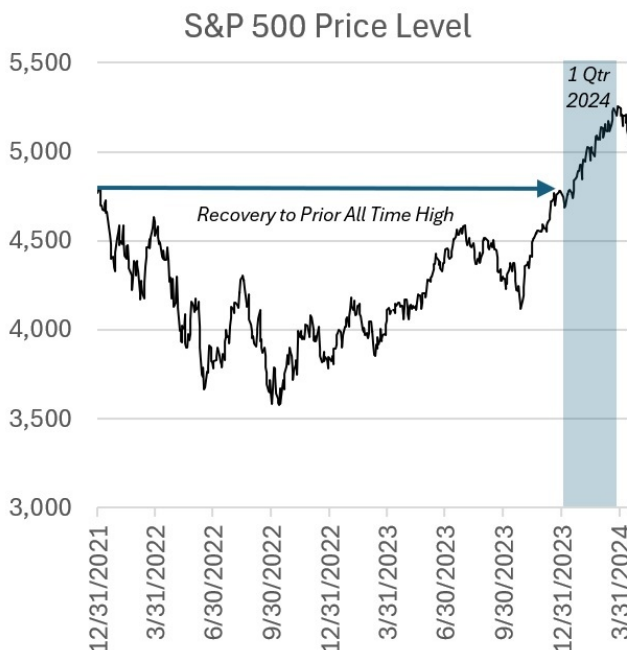
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The S&P 500 U.S. stock index climbed 10.6% in the first three months of 2024. The S&P MidCap 400 index rose 9.9%. The MSCI EAFE international stock index rose 5.8%. Interest rates rose slightly, which hindered bond returns to start the year. The Bloomberg U.S. Aggregate Bond index was down -0.78% year-to-date through March 31, 2024.

### Stocks Rise to Start 2024

The S&P 500 reached an all time high of 5,254 at the end of March. The chart below shows the S&P 500 took about two years to fully recover to its prior all time high. Sticky inflation has caused stocks to pull back in April, but the index was still higher year-to-date through April 17, 2024.



Source: YCharts. Data from 12/31/2021 through 4/17/24.

## Markets Reconsider Inflation Progress

In December, Federal Reserve Chair Jerome Powell indicated interest rates would likely be able to come down in 2024 due to progress on inflation. Investors celebrated this announcement, leading to stock market gains for a second straight quarter.

The excitement may have been overdone. At one point markets were pricing in six interest rate cuts, while the Fed was only projecting three. Throughout the first quarter of 2024, inflation readings were higher than anticipated. On April 16, Chair Powell stated, "more recent data shows solid growth and continued strength in the labor market, but also a lack of further progress so far this year on returning to our 2% inflation goal."

The 10-year Treasury yield began the year at 3.88% and gradually rose throughout the quarter to 4.2% as of March 31. The drift higher in interest rates was digested well by stock markets, supported by better than expected corporate earnings.

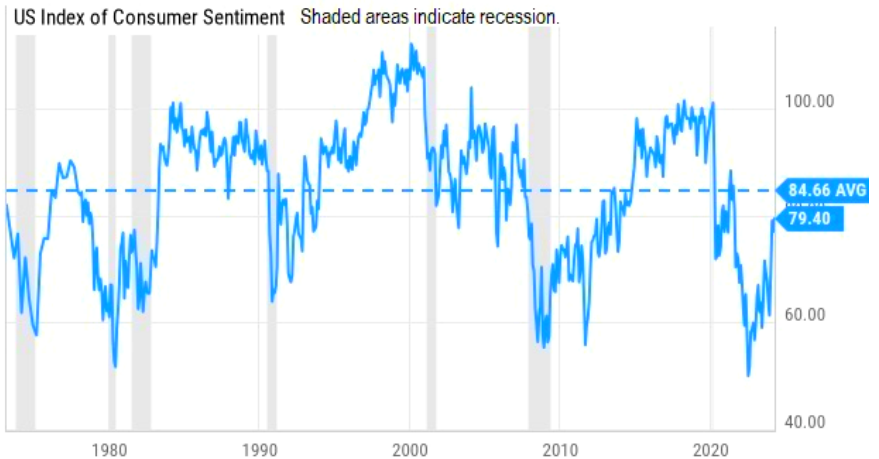
Following Powell's comments on April 16, the 10-year yield closed at 4.65%. The faster rise in yields so far in April has been more difficult for stocks. The S&P 500 is down roughly 4% since the start of the second quarter.

- Three reminders for current market conditions:
- 1) The economy and labor markets remain resilient.
  - 2) Stock market pull-backs of 5-10% are quite common.
  - 3) Stick with your long-term objectives.

## Consumer Sentiment

When consumer sentiment is high, such as in January of 2000, it is often a good time to be cautious. On the contrary, when consumer sentiment is low, it is historically a good time to buy stocks, such as November 2008, August 2011, and June 2022. As of March 2024, consumer sentiment is 79.4, much improved from a record low sentiment in June of 2022, but still below the 50-year average of 84.7. We see this as a sign the stock market rally still has room to run.

## Consumer Sentiment Has Improved



University of Michigan Surveys of Consumers Report based on random samples of U.S. households (1973- Mar, 2024).

## 2-0-2-4 Continues

Dr. David Kelly, Chief Global Strategist from JPMorgan summarized his forecast as "2-0-2-4": 2% economic growth, 0 - no recession, a return to 2% inflation, and 4% unemployment. Overall, he thinks that should be a good environment for stocks and bonds.

## U.S. Debt Levels

The ratio of total U.S. Federal Debt to GDP is near the highest since World War II at close to 100% of GDP (gross domestic product). Current projections by the Congressional Budget Office are for debt levels to reach 116% by 2034, or as high as 124% if the current tax cuts are extended. The tax cuts are set to expire at year end 2025.

For perspective, German debt to GDP is 46%, United Kingdom is 100%, Italy is 140% and Japan is 214%.

Dr. David Kelly does not see the high debt to GDP ratio as an immediate cause for economic trouble. However, he does expect it will eventually be an economic drag as the Federal Government will look to address the issue by spending less or eventually increasing taxes.

For those concerned about the value of the U.S. dollar, it has risen 3% year to date versus other major currencies and 14% in the last three years.

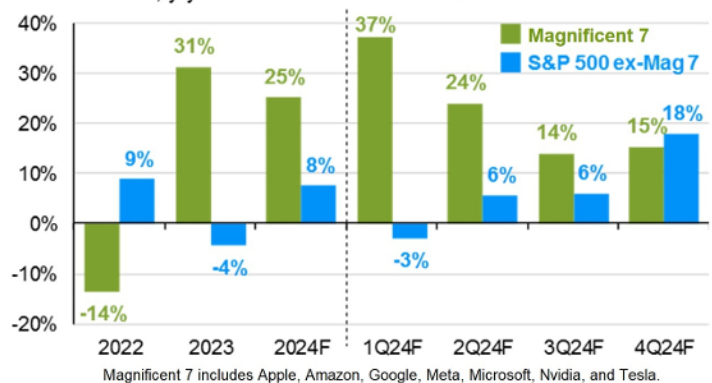
## Corporate Earnings

Several U.S. stock indexes, including the S&P 500, have reached new all time highs. That scenario can leave investors wondering if the run up in stocks is overdone. Rather than focus on the day-to-day price changes, we find it helpful to look at earnings. The chart below indicates that earnings growth for Magnificent 7 companies was up 31% in 2023 and is expected to grow 25% in 2024. That helps explain why those stocks have been so dominant in recent quarters. The forecasts also show why we suggest staying diversified as earnings for the remaining 493 S&P 500 companies are expected to catch up with the Magnificent 7 earnings by the fourth quarter of 2024.

## Earnings growth

Pro-forma EPS, y/y

Source: FactSet, S&P, JPMorgan. Earnings forecasts based on consensus analyst expectations as of 3/31/24.



## Immigration Boosts Labor Force

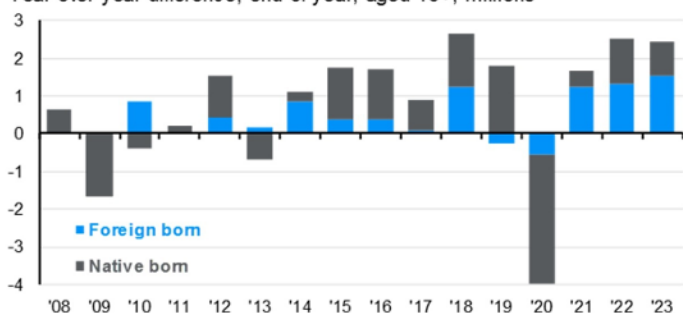
Baby boomer retirement accelerated during the pandemic. Overall labor force participation has not fully recovered to pre-pandemic levels. However, when you look at those between the ages of 18-64, labor force participation is exceeding pre-pandemic levels.

Immigration has helped re-supply the post-pandemic labor force. The chart below shows that over 60% of labor force growth has been filled by people not born in the United States.

This has helped the U.S. economy add workers without greatly accelerating wage growth, which helps ease inflation pressures.

### Labor force growth, native and immigrant contribution

Year-over-year difference, end of year, aged 16+, millions



### Labor force participation

% of civilian noninstitutional population, SA



Source: BLS, Factset, JPMorgan. Labor force data: Current Population Survey. The survey does not ask about immigration status.

## Vote with Your Ballot, Not Your Portfolio

You're going to hear that a lot from us this year with it being a Presidential election year. Remember to think long-term; avoid letting your emotions drive your investment decisions. This mind set also applies to the news surrounding geopolitical tensions.

## Guide to the Markets Turns 20

Throughout this newsletter (and past newsletters) we have referenced Dr. David Kelly, Chief Global Market Strategist from JPMorgan. Twenty years ago, Dr. Kelly helped create the first edition of "Guide to the Markets". Dr. Kelly said the mission of Guide to the Markets has always been to help investors understand markets and make informed investment decisions rather than emotional investment decisions.

While we are always observing a broad collection of views from various investment sources, Dr. Kelly has been one of our favorites. He was a guest speaker at our 2011 Retirement Plan Investment Seminar, co-sponsored by Spectrum and the WICPA (Wisconsin Institute of CPAs). We have attended his quarterly calls for over 14 years and found his views on the markets to be a steadying influence on us and we hope you as well as we have shared his thoughts in our newsletters. In addition to great commentary, the Guide to the Markets offers consistent data to evaluate by simply updating the data rather than showing a whole new set of charts each quarter. We found this to be a better way to monitor markets.

## Woodstock of Capitalism

We'll be visiting our other favorite resource, Warren Buffett, at the 2024 Annual Berkshire Hathaway shareholder meeting. This will be our 19th consecutive year attending the meeting in Omaha. This year won't be the same without his 45-year partner Charlie Munger who passed away at 99 on November 28, 2023. In Berkshire's 2023 Annual Report, Warren said he will be joined on stage by Ajit Jain and Greg Abel. Ajit Jain is Vice Chairman of Insurance Operations and Greg Abel is the heir apparent as the next CEO of Berkshire.

We look forward to sharing Warren's words of wisdom with you in our Annual Woodstock of Capitalism newsletter in May.

# Spectrum Investor® Update

As of March 31, 2024

Morningstar Category Averages	1st Qtr	1 Year	3 Year
Intermediate-Core Bond	-0.51%	2.01%	-2.45%
Moderate Allocation	5.32%	15.19%	4.05%
Large Cap Value	8.83%	20.70%	8.87%
Large Cap Blend	9.95%	27.24%	9.88%
Large Cap Growth	11.92%	36.45%	7.95%
Mid Cap Value	7.75%	20.80%	8.00%
Mid Cap Blend	9.21%	22.48%	6.45%
Mid Cap Growth	9.42%	23.04%	1.14%
Small Cap Value	4.66%	20.14%	5.90%
Small Cap Blend	5.66%	18.93%	3.43%
Small Cap Growth	7.49%	18.05%	-1.95%
Foreign Large Cap Blend	5.24%	13.54%	2.92%
Real Estate	-0.97%	8.45%	1.69%
Natural Resources	2.82%	8.15%	7.72%

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.

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](http://www.spectruminvestor.com).

Data as of 3/31/24 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.

As of March 31, 2024

DOW: 39,764

10 Yr T-Note: 4.20%

NASDAQ: 16,377

Inflation Rate: 3.5% (March)

S&P 500: 5,248

Unemployment Rate: 3.8% (November)

Barrel of Oil: \$83.17

Source: Yahoo Finance, bls.gov, eia.gov



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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.