ST. JOHN & ASSOCIATES
INTEGRATED FINANCIAL SERVICES

2024 1st Quarter Financial & Investment Management General Commentary

This commentary serves as a 1st quarter report of 2024. As usual, we do apologize for the length, but there is a lot of material to cover. If you would like to discuss anything in this report**,** please feel free to call us.

Financial Planning

5 Funding Reminders for Roth IRAs

The Roth rules create multiple tax-saving opportunities for Roth funding. Here are a few items to consider.

1. **After-tax 401(k) contributions: an opportunity for tax-free conversions**
   Once you are eligible to take withdrawals from your 401(k), eligible amounts may be rolled over to an IRA or another eligible retirement plan. For those who want to continue tax deferral until they are ready to take distributions, a traditional IRA is a common choice for rolling over assets from 401(k)s. However, if the 401(k) account **includes after-tax amounts**, that after-tax balance is an opportunity for a tax-free conversion.
2. **Micro conversions for tax management**
   Roth conversions are included in income, with any pre-tax amount being taxable for the year the conversion occurs. However, converting small amounts over time can mitigate the tax impact. For example, an individual who wants to convert $500,000 could make $50,000 yearly conversions over ten years instead of converting the entire $500,000 all at once. This strategy is commonly referred to as micro-conversions. This strategy can also be used to stay within a tax bracket in cases where a conversion could cause some of the individual's income to be taxed at a higher tax bracket.
3. **Tax withholding is not conversion**
   If the Roth IRA owner asks to have taxes withheld from the requested conversion amount, *the withholding tax is not included in the conversion*. So, it becomes a distribution and could subject you to additional taxes or an early distribution penalty unless an exception applies.

4. **Roth conversion amounts must be rollover eligible**
   A Roth IRA conversion is a two-part transaction: (1) a distribution from the traditional IRA, and (2) a rollover to the Roth IRA- which is treated as a conversion. Consequently, like a rollover, only eligible amounts can be included in the amount credited to the Roth IRA. RMDs for example are not eligible.
5. **Let conversion amounts sit and stay for at least 5-years**
   A Roth IRA conversion is not subject to the 10% early distribution penalty, regardless of the age at which it occurs. However, *a distribution from a Roth conversion amount* is subject to the 10% early distribution penalty if it occurs before it has aged in the Roth IRA for at least five years.

If you have questions on any of these, please let us know.

When is Medicare Part A Enrollment Mandatory?

You wouldn't think a government benefit would be mandatory. Shouldn't you be able to decline something like insurance coverage if you don't want it? That's not how it works with Medicare Part A, the portion of Medicare that covers hospitalizations, skilled nursing facility care, home health care following hospitalization, and hospice.

Here's the rule: **If you are 65 or older and receiving Social Security, you must be enrolled in Medicare Part A**. If you applied for Social Security before age 65, you will automatically be enrolled in Medicare Parts A and B when you turn 65. You can decline Part B if you are covered by an employer group plan and do not wish to pay for Part B.

You may not decline Part A. If you are not receiving Social Security at 65, you will not automatically be enrolled in Medicare when you turn 65. In this case it will be up to you to decide when you want to start Medicare and you will have to proactively enroll through SSA. You will also want to arrange for supplemental coverage, including drug coverage, through a private insurance company in order to have complete insurance. If you apply for Social Security benefits sometime after turning 65, you will automatically be enrolled in Medicare Part A at that time. The application will be backdated six months or back to age 65 if shorter. If you have paid into Social Security the required ten years to qualify for benefits, you would also have contributed to Medicare the required ten years to qualify for premium-free Part A. And the two go hand-in-hand. If you take Social Security, you must take Part A. (It doesn't go the other way, however; you can take Part A without being required to take Social Security.)

Remember: it is possible to withdraw your application for Social Security benefits if it is done within 12 months of after you became entitled to benefits. This is a good option for clients who realize how much more they could receive in benefits by filing at a later date. A client who withdraws their application for Social Security will be required to repay all benefits received. Once this is done, they are free to refile at a later date**.**

Health Savings Accounts (HSAs) and Medicare

If your employer health plan is a health savings account (HSA) paired with a high-deductible health plan (HDHP), you may have a problem when you turn 65. Why? Because once you enroll in Medicare at 65, you (or your employer) may no longer contribute to your HSA. That's just a rule.

When you can keep your HSA after age 65

If you are 65 or older and: 1) your employer's HSA/HDHP plan covers 20 or more employees; and 2) you are not receiving Social Security, you are not required to enroll in Medicare. This means you can stay on the HSA/HDHP and continue to have HSA contributions made on your behalf. Do be aware, though, that if you enroll in any part of Medicare, those HSA contributions would have to stop.

Also be aware that the high-deductible health plan that is paired with your HSA may not offer creditable drug coverage as defined by Medicare. If it doesn't, you may have to pay a late-enrollment penalty when you eventually do enroll in Medicare Part D.

6 Financial Planning Issues to Cover Before the Wedding

We have a number of clients who have listed as a goal in their financial plan to help pay for a child's wedding. If this is you, do yourself and your son or daughter a favor and consider these premarital financial planning issues.

1. **Budget planning**. Once married, your expenses will likely change. Sit down and figure out what your expenses are likely to be and decide whether you'll maintain separate accounts, with each being responsible for certain household expenses, or throw all your income into one pot. You may also want to assign roles: who will pay the bills, who will handle the investments, what process you will use to make major financial decisions
2. **Credit/debt.** Generally, debts incurred prior to marriage belong to the spouse who incurred them. Credit scores are assigned to individuals, not couples, so a person's

credit rating doesn't usually change much after marriage unless there's a lot of borrowing activity (e.g., wedding bills). If each partner has a significantly different credit score, the challenge will be not letting the spouse with the lower credit rating drag down the other spouse's high score. At the same time, some maneuvering may be necessary to get the best rates on loans; this may mean putting loans (and the assets serving as security for them) in the high scorer's name.

3. **Beneficiary planning.** Beneficiary planning is a subset of estate planning and deals specifically with who gets what after death. Marriage usually changes a person's intentions in this regard, but not always. If two wealthy individuals are marrying late in life, they may not want to make any changes to the beneficiaries named in their wills, trusts, and beneficiary designations…although they should execute new documents after marriage to make it clear that these are still their intentions. More likely, two people entering into marriage will each want to include the other in their wills and beneficiary designations. It's usually best to see an estate-planning attorney to coordinate your estate plan, execute documents, and draft any customized language you may need for your beneficiary designation forms
4. **Benefits planning.** Younger couples who both work will need to coordinate benefits after marriage. For example, if one employer's health plan offers generous spousal benefits, the other spouse can consider dropping any workplace coverage that costs extra. Both spouses will need to inform their human resources departments of their marriage and sign new beneficiary designation forms.
5. **Tax planning.** With the abolition of the marriage penalty, two people earning roughly the same amount should pay the same amount in income tax, whether married or single. However, when certain phaseouts are factored in, it doesn't always work out that way. Couples considering marriage may want to consult with their tax advisors to see how their tax picture might change and to adjust their withholding or quarterly estimated payments, if necessary.
6. **Asset protection.** The classic asset-protection instrument for a couple planning to marry is the prenuptial agreement. But despite their increasing popularity and mainstream use, many couples still have a hard time planning for divorce and marriage at the same time. An alternative instrument—or one that is ideally used in conjunction with the prenuptial agreement—is the premarital trust. This is a special type of trust that holds the assets owned by a wealthy spouse prior to marriage. It can also receive inheritances, which are not technically marital property but may become so if they are commingled with joint assets during marriage. Legal counsel is required to execute both the premarital trust and prenuptial agreement.

College Deposit Deadline Reprieve

Due to the incredibly troubled rollout of the redesigned Free Application for Federal Student Aid (FAFSA), a growing number of colleges and universities have pushed back their enrollment deadlines and deposit dates for students planning to enroll in the fall of 2024.

The National Association for College Admission Counseling has created a public directory of fall enrollment commitment deadlines. At least 190 colleges have postponed their deposit deadlines for the 2024–2025 school year.

Financial Services

If you are a full-service client, please see that we receive your 2023 tax return once it is available. Best practice is to send a complete pdf copy using our secure web portal. Go to our website and you'll find logins on the Client Portal tab.

BTW, while on the Client Portal tab have a look at Everplans. Everplans is an organizer tool that helps you to store and share all your important files and data in and from one place.

The intent is to provide an all-in-one document storage platform that enables the user to save all their necessary data over the cloud. You can store all the Wills, digital accounts, pet information, healthcare documents, life Insurance policies amongst a list of many other essential documents.

By providing an online storage solution the aim is to eliminate the need for storing or carrying your necessary documents physically and replaces them with digital documents on the go. You can make some or all of these documents accessible to the person or persons of your choosing.

Everplans ensures maximum security while handling your data as it maintains AES-256 encryption and provides a uniquely delivered key to each and every user for maximum security.

This is available at no cost to our clients. Let us know if you need any assistance.

Introducing Asset Map

We design comprehensive financial plans and have been for almost 30 years now. With this level of comprehension comes the challenge of presenting lots of data to a client in the form of a user-friendly financial plan. We're always looking to streamline the financial planning process. Can we combine the myriad of details included in designing a fully developed financial plan into a summarized report of just a few necessary pages?

The answer is yes, and Asset Map is the tool we're incorporating with this end in mind. Asset map is designed to quicken the client's journey to their financial goals with simplified workflows and an intuitive map to see all their assets and liabilities. We use these visual maps to boil down complex information into "people-friendly" knowledge that eliminates confusion that sometimes arises from reviewing pages and pages of financial planning information.

Asset map is an add-on to our gold standard financial planning platform MoneyGuide by Envestnet. Since 2001 we've used MoneyGuide (MG) and it is the best in class. Asset map integrates with MG. So, we continue to build initial plans over in MG, then transition the plan over to Asset Map later in the planning evolution for use in updates and reviews. Planning clients will start seeing Asset Map more often as we ramp up our usage in the months ahead.

Cybersecurity Checkup

From home title theft to good old fashioned telephone scams, internet phishing, hacks and spoofs…the bad guys remain hard at work trying to separate you from your money.

To thwart this onslaught, we have our Savvy Cybersecurity Quick Reference Guide available to you just by asking. This two-sided reference includes a personal Savvy Cybersecurity Scorecard that you can complete to measure your cybersecurity levels; a Cybersecurity Checklist for actions to take to boost security; and a "My Action Plan" for you to follow with the next steps you'll take to immediately boost protection against frauds. Drop an email to btotri@stjohnfinancial.com with the words Cyber Checklist in the subject box and we'll get a copy emailed to you.

Property & Casualty Insurance reviews

P&C insurance stands for "property and casualty insurance." It is a type of insurance that covers physical property, such as homes, cars, and businesses, as well as liability for damages and injuries caused to others.

We offer a no-cost review of our full-service client's P&C insurance using an objective and independent insurance group who we've worked with for many years.

When should you review your current coverage? Here are some guidelines.

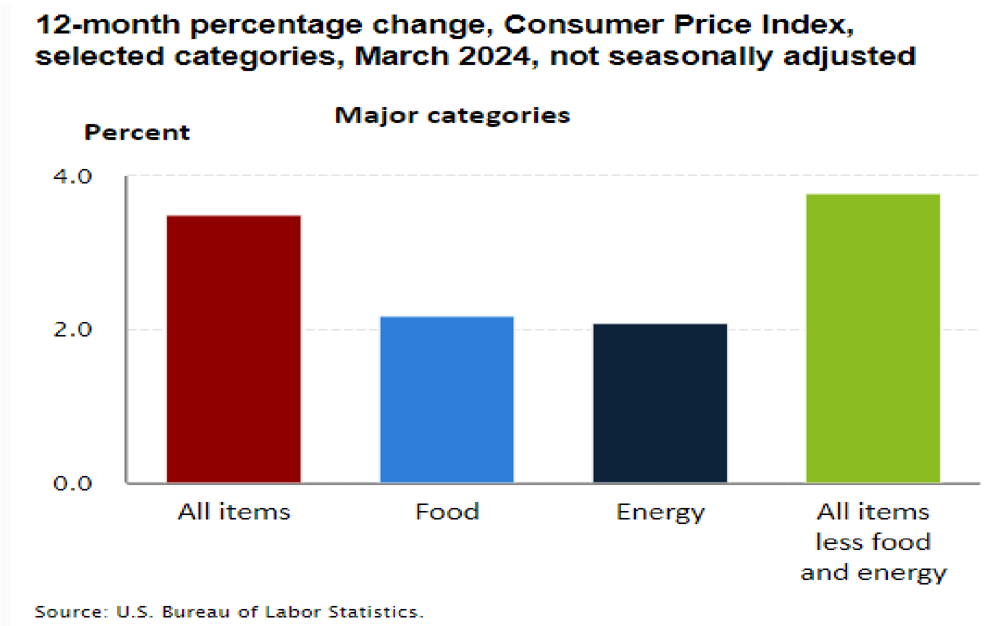
1. When your policy comes up for renewal- Don't just automatically send a check to your insurance company especially if it's been years since you've shopped your coverage.
2. When you've made major purchases or improvements to your home- Adding a new room, enclosing a porch, renovation work, received an expensive piece of jewelry, bought expensive artwork or computer…time for a review.
3. When you've made your home safer- If you have installed a state-of-the art fire/burglar alarm system or upgraded your heating, plumbing or electrical system, make sure that your insurance company knows about these improvements. You may qualify for a discount.
4. When you experience major lifestyle changes- Marriage, divorce, or adult children who move back into the family home, can all affect your homeowner's insurance.

Investment Market Overview

Various overall investments remained mixed. The performance of the global equity markets in the first quarter of 2024 was decidedly positive. The S&P 500 increased by over 10%. European and Japanese equities also kept pace with the performance of the S&P 500 during the first three months of the year. As we begin the second quarter, all eyes remain on the Federal Reserve as investors contemplate when the Fed may start to lower short-term interest rates. Recent data show that the U.S. economy and labor market remain strong, and inflation remains stuck above the Fed's 2% target, at least for now. A 20% increase in oil prices in 2024 has not helped the Fed's efforts to tame inflation. In the final days of March and the early days of April, bond yields rose sharply, with the yield on the 10-year U.S. Treasury reaching its highest level in 2024 though still below the peak of nearly 5% in Q4 last year. A backup in yields amid investor concerns may have prompted Fed Chair Powell's recent comments where he insisted that the Fed still plans to lower short-term interest rates in 2024. The longer the Fed waits to begin to cut rates, the higher the probability of recession later this year, and all else being equal, lowering rates during an economic slowdown too close to an election is something that the Fed presumably would like to avoid.

Inflation

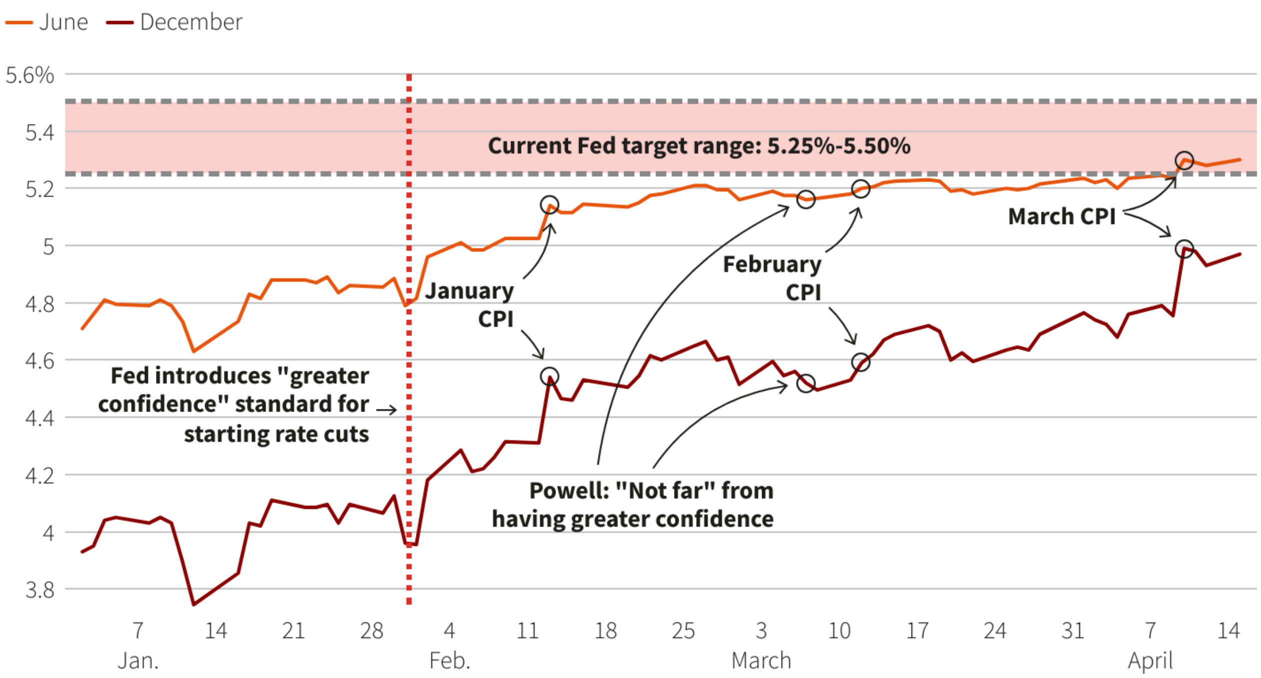
In March, the Consumer Price Index for All Urban Consumers increased 0.4 percent, seasonally adjusted, and rose 3.5 percent over the last 12 months, not seasonally adjusted. The index for all items less food and energy increased 0.4 percent in March (SA); up 3.8 percent over the year (NSA).



Expectations given last year by the FED that inflation would settle and as many as 6 rate decreases would come in 2024. Most analysts have dropped that down to 2 or less now. Some concerns are that the FED is inclined to reduce interest rates to stimulate the economy before the election, but this would in itself be inflationary and would most likely need a rate increase after the election to offset the reduction.

Fading confidence in rate cuts

Investor confidence in when the Federal Reserve will start rate cuts and how many it will deliver has been shaken by sticky inflation, a strong job market and hawkish commentary from central bank officials.



Note: Figures are implied yields at contract expiration of CME federal funds futures contracts for June and December
Source: LSEG

A few things to keep in mind regarding inflation:

▶ Even if inflation comes down to the FED's goal of 2%, the inflation that has been built into consumer costs over the past 3 years is not going to go away. High prices for food and energy will remain, just not going up from this level as fast.

▶ Oil prices bleed into every aspect of consumer goods from farming costs to shipping to heating and cooking. An already high oil cost could grow higher as new drilling has been limited by regulation and war in the middle east typically causes global supply shortages and pushes prices up. Therefore, oil prices may be a main catalyst for continuing inflation. Those old enough to remember can look back to the 70s for what effects oil can have on an economy.

▶ High inflation for too long hurt the young and poor the most. As the rich can adjust spending, those adjustments will have an effect on economics. Spurred on by AI and new technology, lower paying jobs may go away and small businesses may close. Even larger companies may streamline and close unprofitable departments or stores. Forced wage increases will eventually put strains on businesses to make these changes. Long term high inflation can be a very bad thing for an overall economy.

▶ Reductions in interest rates are typically a bad thing. It is required when the economy stalls and the FED is trying to make cash more easily available and more cheaply available. The idea of 6 rate reductions insinuated the FED's expectation that the economy was going to stall and needed stimulus. This would typically be a good thing for the stock market. So far, the stock market has not had much of an effect from the reduced expectations. We believe they are more concerned about continued inflation than getting rate reductions.

Equities:

▶ U.S. Equities: After a very strong first quarter, our model research indicates that U.S. equities could be at risk of at least a temporary pullback and a profit-taking correction due to recent changes in behavioral factors.

▶ European Equities: While European economies face many challenges, European equity markets rose, supported by positive investor psychology and declining inflation, and finished the first quarter of 2024 approximately on par with the performance of the S&P 500 index. Investors in Europe are now closely watching the European Central Bank (ECB), which, thanks to declining inflation, could be in a position to begin to cut interest rates in the coming months. The current shape of the yield curve, as we calculate it, indicates a potential for an economic slowdown though rate cuts at the short-end may help the yield curve move in a steepening direction which may provide a boost to the outlook near-term.

▶ Japanese Equities: Japanese equities kept pace with the S&P 500 in the first quarter. However, on a hedged basis, the return on Japanese equities nearly doubled the performance of the S&P 500 with the Japanese yen falling nearly 7% against the U.S. dollar, despite the Bank of Japan finally putting an end to its negative interest rate policy. 3EDGE believes the decline in the yen is, in considerable measure, a result of stronger-than-expected growth of the U.S. economy, which has meant that the Fed hasn't been able to begin lowering interest rates yet. So, now investors are watching to see if the Bank of Japan may need to hike interest rates to defend the yen's value. Therefore, monetary policy could significantly influence Japanese equities in the coming months

▶ Emerging Market / Chinese Equities: As is the case in Japan, a robust U.S. labor market and strong GDP growth make it appear that the Fed may need to leave short-term interest rates higher for longer and reduce the number of rate cuts in 2024. This scenario is supportive of the U.S. dollar, which could present a headwind for China and other emerging markets in the short-term. Although the Chinese government has now taken steps to support the economy and the stock market through stimulus programs and market intervention, it is uncertain whether these efforts will be sufficient to satisfy investors and boost Chinese equities.

► Indian Equities: Similar to many global equity markets, India's equity markets are benefiting from positive investor psychology and market momentum thus far in 2024. Although India's equity market remains overvalued by our measure, some exposure to Indian equities could be warranted, given its longer-term growth prospects. Also, the Reserve Bank of India, India's central bank, may be inclined to lower short-term interest rates in the near term with inflation measures back in their target range which could provide a boost to the near-term outlook for Indian equities.

Current Pricing

There are still some concerns regarding current pricing. People used the same, "this time it is different" sentiment in 1929, 1972, 1999 and in 2007, and suffered dramatically. The stock market is overpriced by any historical standard, and this time it is not different; it is just another mania, and it can certainly be argued that it will end just like the others with stock prices producing negative, actually large negative returns. The poster child for this mania is Nvidia. It was trading at over $900 a share as of the end of the first quarter, which is 36 times sales. That is not expensive, it is insane. To put that in perspective, the highest the large cap stock market index has ever traded at is 3.1 times sales, and Nvidia is trading 11.5 times higher.

While it is true that we do not have data on how Artificial Intelligence will change our lives for the better, we do have history of what happened to the stock leaders after 1929, 1972 1999 and 2007. The best example is the history of Microsoft after 1999, and the mania was crazy then as well. Back then, the idea was that the cell phone and the internet were going to change our lives for the better, and they did. The problem was investors were asking the wrong question. The right question was what is the best investment strategy in a high-priced stock market environment. You may recall that the stock market was up over 50% in total during 1998 and 1999, and Microsoft led that market. Over the next 10 years, Microsoft fell over 50%. Now it did start to pay a dividend, so all was not lost. But over 10 years the price of a stock being cut in half tests anyone's resolve. Now Microsoft did work out in the long run. If you had bought Microsoft at the end of 1999 and still hold it, your return would have been 10.5% for the entire period. All you needed to do was live through a 10-year 50% decline! It would be cynical to say that no one did hold, but we think not many did.

We have data on the price to sales ratio of large cap domestic securities dating back to 1871 thanks to one of our managers, 3EDGE Asset Management. They use price to sales data rather than price to earnings data because price to sales is harder to manipulate than price to earnings, and we agree with that analysis. Students of the markets will remember the late 1990s when earnings needed to rise every quarter or companies were punished by institutions selling their stock. That seemed crazy to us then and it was finally dropped as a thought in the early 2000s as the stock market declined by over 50%. It demonstrates how earnings can be manipulated for a purpose other than explaining to the investment community how a company performed in any quarter.

There are 1,838 months in the data we analyzed from January 1871 through February 2024. During this time, the Price to Sales Ratio has ranged from 0.40 to 3.10, a remarkable range. While we know that emotional factors dramatically influence stock prices, both positively and negatively, this range is dramatic. As of the end of February of this year, the Price to Sales Ratio of domestic large cap stocks was 2.73. So, let us put that in historical perspective to see if we think stocks are fairly priced, underpriced or overpriced today. The chart below shows the frequency the Price to Sales Ratio of the domestic large cap stocks have been in four categories, over 3.0 times sales, between 2.99 and 2.50 times sales, between 2.50 and 2.00 times sales and under 1.99 times sales.

Price to Sales Ratio	Number of Months	Percent of Total Months
Above 3.0	7	0.4%
Between 2.99 and 2.50	26	1.4%
Between 2.49 and 2.00	152	8.3%
Under 2.00	1653	89.9%

So, today, with stocks priced at 2.73 times sales, they have only been more highly priced less than 2% of the time, 1.8% to be exact. That is rare by anyone’s standard and if it turns out that if we are right and this time is not different, future returns from indices will be abysmal. They will not solve the investment return needs of any clients, just like the decade of the 2000s when the same phenomenon existed.

The Domestic Equity Portfolio

If stocks are overpriced, why are we remaining in them? The honest answer is that we are not without worry. Any time stock prices are high, everyone should wonder about future returns. Historically, our dividend strategy has fared very well when markets produce low or negative returns. In 2022, when the S&P 500 was down 18%, our domestic dividend portfolio was down only 2%. The same was true in 2000-2002 as well as 2008. So, we are confident we have the right strategy, but declines are difficult for everyone, even in times when we have protected very well. We invest to achieve our long-term goals, and down 2% in 2022 protected well. We still need a time of positive returns to achieve our client investment goals.

The source we use for thinking about future returns is Research Affiliates. They publish daily their projected future returns 10 years out. Today they are projecting an annualized, compounded return over the next decade of 0.8% for domestic large cap stocks. That makes sense, if stock prices are high, future returns are projected to be very low. Today is no exception. So, even with all of the optimism of Artificial Intelligence, stocks projected low future returns. Is this just because the general market does not understand AI and the impact it will have on our lives and so many companies? The answer is that sentiment is very unlikely. The real reason is there is too much optimism. Now we are optimistic as well, but our optimism is a different kind of optimism. If you thought of optimism on a continuum with realism at one end and blind optimism on the other end, we are at the realistic end and the buyers of Nvidia are at the blind optimism end. So, we like our position.

In addition, we have allocations to domestic small cap and international stocks, and their projected returns at Research Affiliates are 6.3% and 4.6%. Now, those numbers are for the indices, and we have performed and expect to continue to perform much better than the indices. Historically, dividend strategies outperform in low or medium return markets. These dividend strategies also help those living on the portfolio meet cash needs whether the stocks are up or down. So again, we like our position.

Bitcoin, the Halving and Expected Returns

Only a portion of our clients have a small position in Bitcoin. We have made this decision due to the price volatility and overall unpredictable nature of the asset, but we continue to monitor activity in this space. You may be aware of the launch of the 11 Bitcoin ETFs in January of this year. The anticipation of the new ETFs was at a very high pitch, but the accumulation of assets into these ETFs has been beyond belief. More assets have been invested in Bitcoin ETFs than in any new investment in history. Today, there is more than $35 billion in Bitcoin ETFs. It is hard to put that in perspective, no one projected or anticipated this, and the accumulation seems to be continuing.

It is hard to keep up with the new stories of who is buying and in what quantity. Our favorite headline was that the Harvard endowment was investing 7% of its assets in Bitcoin. The story was incorrect, it was the part of the endowment run by its students that was investing 7% in Bitcoin, not the endowment in total. Michael Saylor, Executive Chairman and Co-founder or MicroStrategy has led its company's investment into Bitcoin, and today they own 1% of the outstanding Bitcoin. So, there are plenty of good news stories on Bitcoin and why one should own it. We agree! That said, no one should invest in Bitcoin who cannot withstand dramatic volatility. Periods of time when Bitcoin declines over 75% are common, and we do not think that will change.

Approximately every four years, the rewards that go to miners of Bitcoin is cut in half. This month will be another halving. Historically, this has been a time when the price of Bitcoin rose. We expect that to happen this year and next as well. Bitcoin has been both the highest returning asset since its inception, but it has also been the most volatile asset as well. Now there are projections of returns on Bitcoin over the next 18 months of as high as 10 times its present value to only 3 times its present value. Any investment that returns 3 times its present value over 18 months is unusual and to be treasured. So, we have no way of knowing what might happen over the next 18 months, but we do think if we are going to put Bitcoin in clients' portfolios, you need to expect volatility at very high levels. If you had bought Bitcoin 4 years ago, you would have paid slightly less than $10,000 per coin. The price then went to $65,000, and at the end of 2022 it was trading at $15,000. It is trading around $70,000 today, and many analysts think it will rise from here. Will it go to $200,000 or even $700,000 a coin? The easy answer is no one knows, but we feel confident if it does rise over the next 18 months, it will correct from there just like it has in all cycles.

With all of that said, we do think Bitcoin represents a store of value and has appreciation potential, and long-term investors may be rewarded.

Please give us a call if you have any questions regarding this asset class.

Real Assets

► Gold: Gold bullion has kept pace with the performance of the S&P 500 index year-to-date. It has benefitted from positive investor psychology and momentum, an increase in central bank purchases, rising geopolitical tensions, and short covering. The prospect of a decline in real (inflation-adjusted) U.S. interest rates could support continued gains in the price of gold.

► Commodities: Based on our model research, the general outlook for most commodities remains negative as investor sentiment in China weighs on the commodities complex. However, one area of the commodities market that has risen over the course of the year is the price of oil, thanks in large part to heightened tensions in the Middle East. Should the value of the U.S. dollar decline, dollar denominated assets such as commodities may benefit.

Fixed Income

Rates: U.S. Treasury markets have struggled thus far in 2024. U.S. Treasuries with intermediate and longer-term maturities declined in the first quarter. The strength of the U.S. economy and labor market, along with inflation readings above the Fed's 2% target, have investors concerned about when the Fed may begin to lower short-term interest rates. Market pricing indicates that investors believe the Fed could begin to lower rates at their FOMC meeting in June. The backup in yields may have prompted recent comments from Fed Chair Powell, who insisted that the Fed is still planning to lower interest rates in 2024. However, given the risks that inflation may persist along with an increasing supply of government debt issuance, shorter maturities that continue to provide attractive yields remain the more attractive position on the yield curve.

From this, fixed income returns have remained negative the further out the maturity. Although losses have lessened this year the losses from past years continue. While FED rates have stopped increasing, the longer maturity bond such ads Treasuries and mortgages have continued to rise. The inverted yield curve will typically try to fix itself. The FED was hoping to bring short term rates down, but rises in longer term rates also fixes the issue. As longer term rates continue to rise, even slowly, we would expect returns for bonds to remain negative even at these higher coupons.

Patience and Impatience

There are no secrets to long tern investing success, you need a proven long-term investment strategy and patience. The patience part is really hard! Every market tests our patience, and when you have an equity strategy like our rising dividend strategy you can look foolish at times. Now historically the times you look foolish is when very high-priced stocks are being rewarded like they were last year and through Q1 this year. So, today we find ourselves impatient with stocks like Nvidia that are at insane levels, and patient that our dividend strategy will see its day to shine soon.

Below are the returns for index categories making up the broader markets. Morningstar sourced these index returns. Returns beyond one year are annualized.

	1st Qtr. 2024	1 Year Average	5 Year Average Return	10 Year Average
S&P 500 Growth	12.75	33.73	15.78	14.56
S&P 500 Value	8.05	25.58	13.26	10.62
S&P Midcap 400 Growth	15.60	29.30	12.04	10.40
S&P Midcap 400 Value	4.12	17.20	10.88	9.18
S&P SmallCap 600 Growth	4.77	20.12	9.19	9.46
S&P SmallCap 600 Value	0.14	11.64	8.76	7.96
DJIA	6.14	22.18	11.31	11.76
S&P 500	10.56	29.88	15.05	12.96
S&P 500 Equal Weighted	7.91	19.38	12.35	10.92
S&P Mid-Cap 400	9.95	23.33	11.71	9.99
S&P Small Cap 600	2.46	15.93	9.15	8.80
Russell 1000	10.30	29.87	14.76	12.68
Russell 2000	5.18	19.71	8.10	7.58
Russell 3000	10.02	29.29	14.34	12.33
MSCI EAFE	5.78	15.32	7.33	4.80
MSCI EAFE Large Growth	7.66	13.75	8.62	6.35
MSCI EAFE Large Value	4.91	18.44	7.03	3.47
MSCI Emerging Mkt	2.37	8.15	2.22	2.95
MSCI World	8.88	25.11	12.07	9.39
MSCI US IMI Gold	-10.22	-21.04	4.04	6.21
DJ Real Estate	-1.17	9.22	3.77	6.68
Bloomberg Commodities	2.19	-0.56	6.38	-1.56
Bloomberg Agg US Bond	-0.78	1.70	0.36	1.54
Bloomberg Agg US Interim	-0.42	2.30	0.60	1.45
Fidelity Money Market	1.29	5.11	2.54	1.30