

OUT OF THE BOX



INVESTMENT COMMITTEE UPDATE

Faith | Trust | Excellence | Care

OUR TEAM

This quarter, members of our team came together for a service project to pack food at Feed My Starving Children (FMSC).

FMSC is dedicated to providing nutritious meals to children worldwide. For more information about this organization, please visit www.fmsc.org.



5 INSIGHTS TO UNDERSTAND MARKETS IN 2024

2023 marked an inflection point for markets with strong gains across both stocks and bonds. The Dow was up 13%. The S&P has come full circle and is now above the all-time high from exactly two years ago. The U.S. 10-Year Treasury yield climbed as high as 5% in October before falling to end the year around 3.9%, pushing bond prices higher in the process. What drove these results and how could they impact investors in 2024?

Perhaps the most important lesson of 2023 for everyday investors is that news headlines and economic events don't always impact markets in obvious ways. Last year's positive returns occurred despite historic challenges including the worst banking crisis since 2008, rapid Fed rate hikes, debt ceilings and budget battles in Washington, the ongoing war in Ukraine, the conflict in the Middle East, cracks in China's worsening economy, and many more. If you had shared these headlines with an investor at the start of 2023, they would probably have assumed there would be a worsening bear market or a deep recession.

Our Mission is to help people with complex financial needs experience an **EXCEPTIONAL** life.

Our Investment Committee meets each quarter to review the markets and economy. Three voting members review significant market data and hear from current advisors and appropriate support staff. When necessary the Committee adjusts the model portfolios managed by the firm.

Our Quarterly Newsletter represents the Committee's general thoughts behind any adjustments.

INSIGHTS CONTINTUED...

Why isn't this what happened? At the risk of oversimplifying, the key factor driving markets the past few years has been inflation. High inflation affects all parts of the markets and economy including forcing the Fed to raise interest rates, slowing growth, hurting corporate profits, dampening consumer spending, and acting as a drag on bond returns. This is exactly what occurred in 2022 but many of these effects reversed in 2023 as inflation rates improved.

The headline Consumer Price Index (inflation), for instance, jumped 9.1% in June 2022 on a year-over-year basis but only grew 3.1% this past November. Unfortunately for consumers and retirees, this does not mean that prices will fall back to pre-pandemic levels - only that they will rise more slowly. For markets, however, what matters is that the rate of change is slowing and that core inflation could gradually approach the Fed's 2% long run target.

Thus, the recession that was greatly anticipated by markets a year ago has not yet occurred. While many still expect economic growth to slow this year, it's not unreasonable to suggest that the Fed could achieve a "soft landing" in which inflation stabilizes without causing a recession. This is why both markets and Fed forecasts show that they could begin to cut policy rates by the middle of the year.

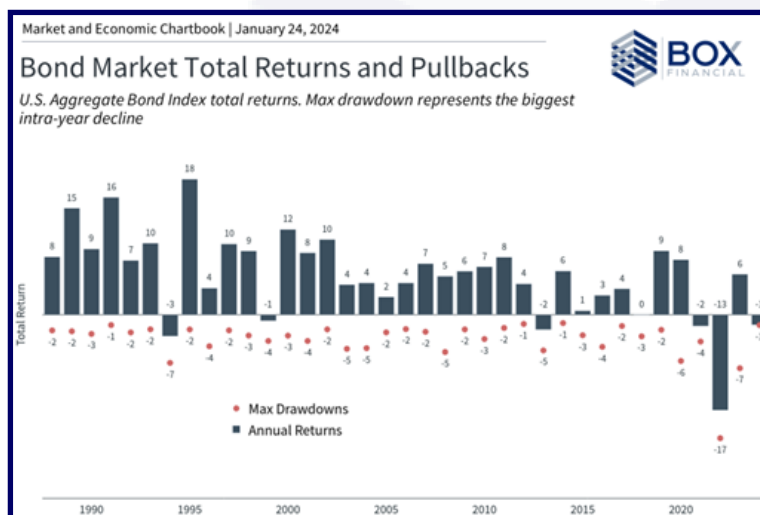
What does this mean for the year ahead? If 2022 was characterized by the worst inflation shock in 40 years, leading to a bear market in stocks and bonds, 2023 saw many of these factors turn around. These trends could continue if the Fed does begin to ease monetary policy. Of course, much is still uncertain and investors should always expect the unexpected when it comes to market, economic, and geopolitical events. After all, markets never move up in a straight line and even the best years experience several short-term pullbacks.

The past year has shown us that it's important to stay invested and diversified across all phases of the market cycle, rather than try to predict exactly what might happen on a daily, weekly, or monthly basis. Below are five key insights into the current market environment that will likely be important in 2024.

1. Many asset classes performed exceptionally well in 2023

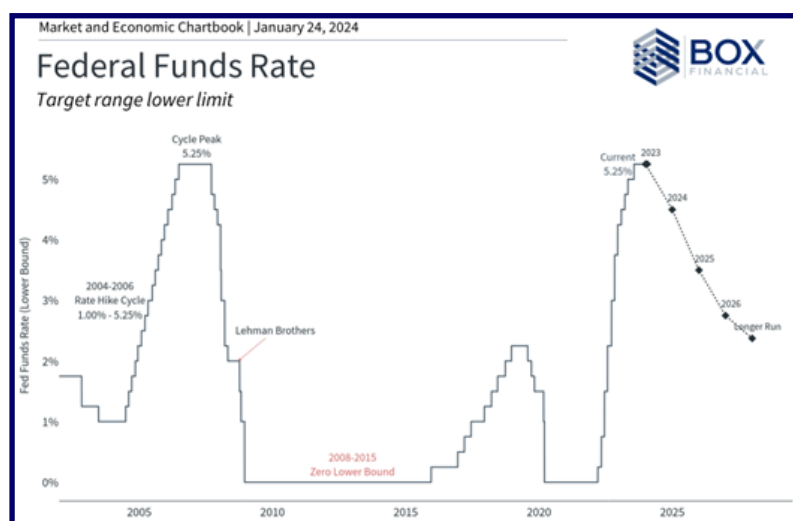
Strong economic growth and falling rates propelled many asset classes higher last year. Most importantly, there are signs that earnings growth is recovering. Earnings-per-share for the S&P 500 are expected to have been flat in 2023, but Wall Street consensus estimates suggest that they could grow by double digits each of the next two years. While this will depend on the path of economic growth, any increase in earnings will help to improve valuations and support the stock market.

2. Bonds have rebounded as interest rates have stabilized



Bonds had a much better year with interest rates rising through October then falling on positive inflation data. While bonds have not recovered their 2022 losses after a historic spike in inflation, recent performance shows that bonds are still an important asset classes that can help to balance stocks in diversified portfolios. This is true across many sectors including high yield, investment grade, government bonds, and more.

3. The Fed is expected to cut rates in 2024



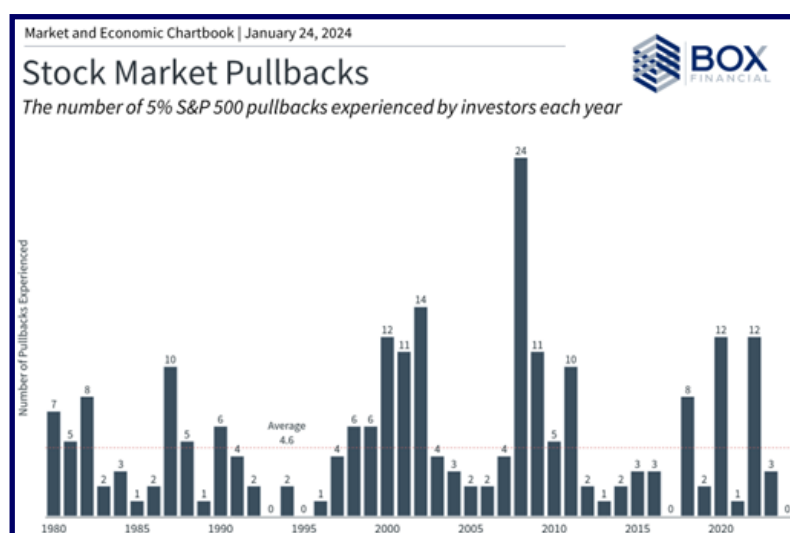
Improving inflation coupled with a historically strong job market have helped the Fed to achieve its policy objectives. While it's too early to declare victory, many expect the Fed to begin cutting rates in 2024. The Fed's own projections suggest they could lower rates by 75 basis points by the end of the year. Market-based expectations are much more aggressive and are expecting twice as many cuts. While it's hard to predict exactly what the Fed may do this year, the fact that rates could begin to fall could help to support financial markets and the economy.

4. The economy has been remarkably strong

The economy has been stronger than many expected over the past twelve months. GDP grew by 4.9% in the third quarter, one of the fastest rates in recent years. Consumer spending helped as did a rebound in business investment as the interest rate outlook stabilized. Unemployment is still only 3.7% and while monthly job gains have slowed somewhat, the labor market is still far stronger than economic theory would have predicted given the sharp increase in interest rates.

5. The most important lesson for investors is to stay invested

While the past twelve months have been positive for investment portfolios, investors should not become complacent. Volatility in the stock market is both normal and expected with even the best years experiencing short-term swings, as shown in the accompanying chart. Rather than trying to predict exactly when these pullbacks will occur, it's more important for investors to hold diversified portfolios that can withstand unforeseen events. The past few years are a reminder that holding an appropriate portfolio is the best way for investors to achieve their long-term financial goals.





SOURCES

- A. 1/23/2024 — Bond Market Totals Returns & Pullbacks, Clearnomics, Bloomberg. ©2024 Clearnomics, Inc.
- B. 1/2024 — Federal Funds Rate, Clearnomics, Federal Reserve. ©2024 Clearnomics, Inc.
- C. 1/2024 — Stock Market Pullbacks, Clearnomics, Standard & Poor's. ©2024 Clearnomics, Inc.

Douglas R. Box, Cyrus S. Shabaz, Chris Hasling, Jeff Severtson, Eric Hedberg, Matthew Bearth, and Michael Box are registered representatives offering securities and advisory services through Cetera Advisor Networks LLC, member FINRA/SIPC, a Broker-Dealer and a Registered Investment Advisor. Some advisory services are also offered through AdvisorNet Wealth Partner. Cetera is under separate ownership from any other entity. The views stated in this letter are not necessarily the opinion of Cetera Advisor Networks LLC and should not be construed directly or indirectly as an offer to buy or sell any securities mentioned herein. Due to volatility within the markets mentioned, opinions are subject to change without notice. Information is based on sources believed to be reliable; however, their accuracy or completeness cannot be guaranteed. Past performance does not guarantee future results. This newsletter is designed to provide accurate and authoritative information on the subjects covered. It is not, however, intended to provide specific legal, tax, or other professional advice. For specific professional assistance, the services of an appropriate professional should be sought. Additional risks are associated with international investing, such as currency fluctuations, political and economic stability, and differences in accounting standards. Investors cannot invest directly in indexes. The performance of any index is not indicative of the performance of any investment and does not take into account the effects of inflation and the fees and expenses associated with investing. stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. political and economic stability, and differences in accounting standards. All investing involves risk, including the possible loss of principal. There is no assurance that any investment strategy will be successful. The charitable entities and/or fundraising opportunities described herein are not endorsed by or affiliated with Cetera Advisor Networks LLC or its affiliates. Our philanthropic interests are personal to us and are not reviewed, sponsored or approved by Cetera.

Copyright (c) 2024 Clearnomics, Inc. All rights reserved. The information contained herein has been obtained from sources believed to be reliable, but is not necessarily complete and its accuracy cannot be guaranteed. No representation or warranty, express or implied, is made as to the fairness, accuracy, completeness, or correctness of the information and opinions contained herein. The views and the other information provided are subject to change without notice. All reports posted on or via www.clearnomics.com or any affiliated websites, applications, or services are issued without regard to the specific investment objectives, financial situation, or particular needs of any specific recipient and are not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. Past performance is not necessarily a guide to future results. Company fundamentals and earnings may be mentioned occasionally, but should not be construed as a recommendation to buy, sell, or hold the company's stock. Predictions, forecasts, and estimates for any and all markets should not be construed as recommendations to buy, sell, or hold any security—including mutual funds, futures contracts, and exchange traded funds, or any similar instruments. The text, images, and other materials contained or displayed in this report are proprietary to Clearnomics, Inc. and constitute valuable intellectual property. All unauthorized reproduction or other use of material from Clearnomics, Inc. shall be deemed willful infringement(s) of this copyright and other proprietary and intellectual property rights, including but not limited to, rights of privacy. Clearnomics, Inc. expressly reserves all rights in connection with its intellectual property, including without limitation the right to block the transfer of its products and services and/or to track usage thereof, through electronic tracking technology, and all other lawful means, now known or hereafter devised. Clearnomics, Inc. reserves the right, without further notice, to pursue to the fullest extent allowed by the law any and all criminal and civil remedies for the violation of its rights.

A diversified portfolio does not assure a profit or protect against loss in a declining market.

The Bloomberg U.S. Aggregate Total Return Value Unhedged, also known as "Bloomberg U.S. Aggregate Bond Index" formerly known as the "Barclays Capital U.S. Aggregate Bond Index", and prior to that, "Lehman Aggregate Bond Index," is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).



901 Marquette Ave, Ste 2800 | Minneapolis, MN 55402
Branch Phone: 612.347.7809
www.boxfinancialadvisors.com