Cambridge ADVISORS inc.
INVESTMENT MANAGERS

INVESTMENT PERSPECTIVE — MARCH 2024

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MARKET COMMENTARY

Stock indices rallied to new highs in the first quarter of 2024. Large cap stocks in the S&P 500 gained 10.56% while small cap stocks in the Russell 2000 Index rose 5.18%. International stocks in developed markets returned 5.67% while stocks in emerging markets were only up 2.09%. Yields rose during the quarter so the Barclays U.S. Aggregate Bond Index had a loss of -0.78%.

Growth stocks dominated in 2023. In the first quarter of 2024, communication services and technology outperformed the S&P 500 again, but so did energy, financials, and industrials. Real estate was the only sector with negative returns. The cap weighted S&P 500 had a 10.6% return while the equal-weighted S&P 500 index had a return of 7.9% which shows that stock market performance is broadening out and not as concentrated in the megacap growth stocks as it was in 2023. Currently, 86% of S&P 500 stocks are above their 200 day moving average—this is the highest percent in three years—further showing that participation is broad. Gold also reached an all time high in March.

Bitcoin also had astronomical performance in the first quarter. The SEC finally approved the bitcoin ETF structure which instantly increased its accessibility to investors. Investors had a strong appetite for the 11 new bitcoin ETFs; net inflows of $12.1 billion were reported by BitMEX Research. The iShares Bitcoin ETF (IBIT) was the fastest growing ETF in the history of ETFs according to Blackrock CEO Larry Fink. We chose the Fidelity Bitcoin ETF (FBTC) for clients which was up 48% from it's first trade January 11th until March 31st. Each of the bitcoin ETFs were up similar amounts.

Corporate earnings rose 7.0% in 2023 which is actually quite good considering for much of the year, earnings were expected to be flat. Technology company earnings have been a key driver of earnings growth and that is expected to continue in 2024. The technology sector is the biggest earnings contributor to the S&P 500 so it has a big impact on overall growth. Zacks estimates full year earnings growth will be 8.3% as they believe margins will expand again.

Stock prices rising faster than earnings growth has resulted in price/earnings (PE) multiples expanding again. The S&P 500 now has a PE of 21 times earnings which is much higher than its 30-year average PE of 16.6 times. Earnings growth is needed to support stock prices.

Recession fears are pretty much non-existent now as confidence in the Federal Reserve's ability to manage a soft landing is rising. Fourth quarter GDP growth was 3.4% making full year 2023 growth 3.1%. This year is expected to be slower but the Federal Reserve's projections are still close to 2%. If there were a recession, it would likely be shallow.

Strategas Research argues that since it is an election year, Washington will do whatever it can to keep the economy strong and consumers afloat until after the election. Possible means include increasing Treasury liquidity, releasing some of the Strategic Petroleum Reserve to keep gas prices low, tax cuts, and student loan forgiveness. Strategas notes these actions could spur a second wave of inflation in 2025.

Unemployment has inched higher and is currently at 3.9%. Although this is very low historically, it is the highest it has been in more than 2 years. The Fed is

2024 BENCHMARK RATES of RETURN

INDEX	FIRST QUARTER	YTD
S&P 500	10.56%	10.56%
Russell 2000	5.18%	5.18%
International	5.67%	5.67%
Fixed Income	-0.78%	-0.78%
JPMorgan Diversified*	4.00%	4.00%

*25% S&P 500 large cap stocks,10% Russell 2000 small cap stocks, 15% MSCI EAFE international stocks, 5% MSCI EME emerging market stocks, 5% REITs, 25% Barclays US aggregate bonds, and 5% each in short term Treasuries, high yield global bonds, and commodities.

We value our relationship with you, and we are always available to meet with you in person, virtually or by phone. Please do not hesitate to call or email us with any questions that you may have. Also, if your situation has changed, please contact your advisor so we can determine if any changes are needed in your account.

projecting unemployment to reach 4.0% in 2024; their long-term projection is for 4.1%.

Inflation continues to fall and the Fed's favorite measure—the Core PCE deflator—is down to 2.8%. The Fed is currently projecting inflation to be 2.4% by the end of the year. They expect to reach their 2% target in 2026. Some categories of inflation are still hurting consumer budgets. Car insurance prices are up 20% over the past year. Shelter is up almost 6%. Even tickets to sporting events are up 11%. Although the inflation rate is much lower than the peak in 2022, actual prices are not going lower and remain 20% higher than before the pandemic.

After fighting higher inflation by raising short term interest rates, the Federal Reserve has again left rates unchanged at its March meeting. This is the fifth consecutive meeting where they have held rates steady. The Fed Funds rate resides between 5.25% and 5.50%. In December, their commentary changed and they are now projecting that they will cut rates in 2024. The market had initially been pricing in 6 rate cuts but the Fed and the market are only projecting 3 in 2024 at this time. Vanguard believes the Fed may not even cut rates at all in 2024. Most analysts we follow believe the first rate cut will happen in the summer.

Even though the Fed is expected to cut short-term rates, the 10-year Treasury bond yield rose from 3.86% at year end to 4.21% at the end of March. Money markets are continue to earn around 5.25%, but if the Fed lowers rates as expected, the short-end of the yield curve will likely move lower and money markets won't continue to earn these enticing rates.

Diversification continues to be prudent. Also, the "target outcome" or "buffer" ETFs can add protection to portfolios and still provide upside potential if stock prices rise. Dividend income is also attractive in equity and premium income funds. In these funds, managers own dividend paying stocks and sell out of the money call options to collect extra income. The dividends help with total returns or with income needs depending on the account.

Measuring risk tolerance and investing accordingly is important in this environment. Timing the market or chasing returns may work in the short-term but is more difficult over longer periods. We use Nitrogen (formerly Riskalyze) software to help us measure your risk tolerance and make sure you have the appropriate risk in your accounts. If you would like to check or revisit your risk score or if you have any questions about your account, please do not hesitate to contact your advisor.

IMPORTANT CLIENT UPDATE

We have been voting proxies as a service to our clients since our inception. We outsource this to Eagan-Jones and proxies are voted according to their Standard Policy. All proxies are voted identically. However, our clients are diverse in their views and so we recognize that you may have a desire to vote your own proxies so that your views will be represented. If you would like more information about their Standard Policy or if you would like to vote your own proxies, please let your advisor know.

CAMBRIDGE ADVISORS NEWS

We are excited to welcome **Jonathan Spangler** to Cambridge Advisors! Jon has spent the last 16 years wholesaling retirement solutions to financial advisors. He wanted to work more closely with individual clients and families to help them reach their financial goals and we are excited to have him as an advisor. Jon is a Retirement Income Certified Professional. The RICP® designation focuses on retirement income planning, maximizing Social Security and other income sources, minimizing risks to the plan, and managing portfolios during the asset distribution phase. Jon and his wife, Mikayla, have a daughter and son who keep them busy driving to dance and baseball practices. If he has any free time, you may find him on the golf course or behind the grill.

If you haven't already, check out our new website! The address is still www.cambridgeadvisors.net but we have overhauled it to make it more useful to prospective clients and easier to navigate. Existing clients have a direct link to the client portal and to their Schwab login. We hope you enjoy it and that you will share it with others who may benefit from our services.

We are committed to remaining independent as we believe that is best for our clients. Jon is an important part of our strategic plan as we prepare for the next generation of advisors at Cambridge Advisors. We appreciate the trust you place in us. If you have friends or family who would benefit from a relationship with Cambridge, please do not hesitate to share our contact info and our website. We are accepting new clients right now and want to help the people who are important to you. We waive our $500,000 minimum for these referrals or offer the financial planning services on a stand alone basis. Thank you for your referrals!