Q1 2024 Market Update

THE QUARTER IN BRIEF

The stock market rally that ensued in late 2023 continued into the first quarter of 2024. Even the threat of interest rates staying higher for longer didn't trip up its solid performance. Stocks staged impressive returns in the first quarter, gaining over 10%, taking total returns to just shy of 30% over the last 12 months for the S&P 500. Gains were led by technology stocks, especially the companies seen as most likely to benefit from the artificial intelligence boom. Value stocks also joined in the rally. Meanwhile, the bond market's performance was dented by the prospect of the Fed putting off rate cuts until the middle of the year.

	1M	QTD	YTD	1-YR	3-YR	5-YR	10-YR
S&P 500	3.22%	10.55%	10.55%	29.86%	11.47%	15.03%	12.94%
NASDAQ	1.85%	9.32%	9.32%	35.14%	8.21%	17.24%	15.80%
Dow Jones Industrial	2.21%	6.14%	6.14%	22.18%	8.65%	11.31%	11.75%
MSCI EAFE	3.40%	5.94%	5.94%	15.94%	5.40%	7.94%	5.40%
MSCI EM	2.50%	2.41%	2.41%	8.50%	-4.73%	2.57%	3.32%
U.S. Barclays Agg.	0.92%	-0.78%	-0.78%	1.70%	-2.46%	0.36%	1.54%
Investment Grade Bonds	1.56%	-0.72%	-0.72%	4.02%	-2.41%	1.54%	2.78%
High Yield Bonds	1.24%	1.26%	1.26%	10.29%	1.92%	3.54%	3.85%

Source: Bloomberg. Data as of 03/31/2024. Returns include Dividends. Returns over 1YR are Annualized.

DOMESTIC MARKETS

As falling inflation and rising real wages offset dwindling excess savings and tighter credit conditions, moderate consumption growth should carry the U.S. economy to a soft landing. However, with a U.S. election on the horizon, higher policy rates and elevated geopolitical tension, risks remain that could knock the U.S. economy off its path.

Strong growth in the U.S. labor supply, driven by increased labor force participation and a surge in immigration, has supported impressive job gains without higher inflation. With job openings still elevated, moderate economic growth should support steady job gains ahead. While this should put downwards pressure on the unemployment rate, the continued influx of migrants adding to labor supply could keep the unemployment rate within a narrow range of 3.5% to 4.0%.

After a lackluster 2023, profits could experience healthy growth in 2024, although downbeat management commentary and falling inflation present downside risks to analyst expectations for double digit earnings growth. However, after the "Magnificent 7" drove the lion share of earnings growth last year, broadening profit leadership should present opportunities in other parts of the market.

The Federal Reserve has made meaningful progress on taming inflation, although stronger data in recent months kept them on pause at their March meeting. The committee still has a clear bias to cut rates, however, they will remain data dependent looking for more evidence that inflation is sustainably moving toward their 2% target before taking action.

FOREIGN MARKETS

While the global economy struggled last year, 2024 could see better performance for places like Japan and some European countries while others, like China, may continue to weaken without meaningful policy action. With U.S. consumer activity expected to slow, growth differentials between the U.S. and other economies could still narrow and allow global markets to surprise to the upside.

With the exception of China, strong returns from global equity markets since the beginning of 2023 have pushed valuations higher. However, international markets continue to look attractively priced compared to the U.S. This, combined with improving earnings expectations and margins, presents an attractive opportunity for U.S. investors to diversify abroad.

FIXED INCOME MARKETS

Bonds have struggled in the early stages of 2024 as resilient economic data reigned in market expectations for rate cuts. That said, with market and Fed expectations now aligned, interest rate volatility should fade. While resilient economic activity may keep rates from moving meaningfully lower, fixed income can still play its traditional role of providing income and diversification in portfolios.

The rise in yields has made Investors feel tempted to lock in cash yields above 5% before they move lower. However, there is an opportunity cost to holding much short-term cash. In fact, history shows that there has always been a better asset than cash, or short-term instruments, to deploy capital after a peak in interest rates. Instead of sitting on the sidelines, investors should put long-term money to work in long-term opportunities.

LOOKING FORWARD

A word of caution about the '24 market rally (the S&P 500 is +10.6% YTD). The equity market seems as convinced about a soft landing today as it was convinced of a recession in 2022. In both cases, the short-term lesson is not to stand in the way of a market that wants to express an opinion, while the longer-term lesson is that the economy is a tortoise, and no matter the conviction level the equity market wants to have, the economy will take longer than most think to reveal its ultimate answer.

At OPWM, we continue to focus on providing portfolios that can navigate a wide range of environments while keeping your long-term planning goals in mind. Please reach out to your advisor if you have questions or concerns.

CoreSat Model Update

Core Allocation

The core allocation has been redesigned to unlock the benefits of diversification by using capital more efficiently and effectively. This allows our risk allocations to maintain their core stock and bond exposure while simultaneously introducing new, diversifying return streams in our satellite allocation. Essentially, we can introduce diversifying assets and strategies without sacrificing exposure to the traditional asset allocation. This creates the potential for outperformance, which may be particularly attractive in an environment where expected returns for traditional assets may be muted. Also, by thoughtfully introducing differentiated return streams, the models may gain a diversification advantage with the potential to reduce portfolio volatility and drawdowns.

Currently, the domestic allocation is tilted toward quality names, those with stable earnings and trading at fair value. Outside the US, we continue to focus on broad index exposure with a tilt toward value and quality. In fixed income, we continue to focus on short duration where yields have been more stable.

Satellite Allocation - Tactical

During the quarter global equities produced positive returns, while bonds were flat. Managed futures – as measured by the returns of the S&P Strategic Futures Index ("SPSFA") – posted a 3.17% return. While global equities and U.S. Bonds make up the core of the portfolios, the managed futures overlay contributes the majority of the portfolio's active risk. The satellite allocation consists of managed futures and tactical trend following strategies. The combination provides diversified returns outside of traditional equities and bonds, along with volatility management. We prefer using tactical strategies due to their all-weather go-anywhere approach, which will typically produce better risk adjusted returns over time.

Andrew Corradetti, CMT
Chief Investment Officer

CITATIONS: Newfound Research, JP Morgan Asset Management, YCharts, Bloomberg

Disclosures

Oregon Pacific Wealth Management, LLC is a registered investment adviser. Information presented herein is for educational purposes only and does not intend to make an offer or solicitation for the sale or purchase of any specific securities, investments, or investment strategies. Investments involve risk and unless otherwise stated, are not guaranteed.

Before you invest in the Oregon Pacific Wealth Management (OPWM) CoreSat Model Portfolios, you are strongly encouraged to consult with your financial advisor. OPWM has not made any determination as to the suitability of these model portfolios for any specific investors and OPWM expects that an investor's financial advisor will perform any and all appropriate suitability analysis and determine whether these model portfolios are appropriate for his/her clients. This information should not be relied upon as investment advice, research, or a recommendation by OPWM regarding (i) the funds, (ii) the use or suitability of the CoreSat Model Portfolios or (iii) any security in particular. Only an investor and their financial professional know enough about their circumstances to make an investment decision.

These model portfolios are one of many approaches in which an investor might consider in seeking to achieve his objectives. OPWM makes no representation that these model portfolios will perform better than any other approaches that may be available to investors. These model portfolios set forth an example of how different mutual funds and alike securities might be utilized in combination with each other and with different weights to seek to achieve a desired objective.

Carefully consider the Funds within the model portfolios' investment objectives, risk factors, and charges and expenses before investing. This and other information can be found in the Funds' prospectuses or, if available, the summary prospectuses which may be obtained by visiting the applicable Fund provider website. Read the relevant prospectus carefully before investing.

The information in this report is made available on an "as is," without representation or warranty basis. There can be no assurance that the CoreSat model portfolios will achieve any level of performance, and investment results may vary substantially from year to year or even from month to month. An investor could lose all or substantially all of his or her investment. Both the use of a single adviser and the focus on a single investment strategy could result in the lack of diversification and consequently, higher risk. The information herein is not intended to provide, and should not be relied upon for, accounting, legal or tax advice or investment recommendations. You should consult your investment adviser, tax, legal, accounting, or other advisors about the matters discussed herein. These materials represent an assessment of the market environment at specific points in time and are intended neither to be a guarantee of future events nor as a primary basis for investment decisions. The hypothetical performance results and model performance results should not be construed as advice meeting the particular needs of any investor. Past performance (whether actual, hypothetical, or model performance) is not indicative of future performance and investments in equity securities do present risk of loss. The ability to replicate the hypothetical or model performance results in actual trading could be affected by market or economic conditions, among other things.

These model portfolios were first created in January of 2016. Neither OPWM nor any other party has invested in these model portfolios prior to such date. OPWM makes no guarantees, representations, or covenants regarding the ability of these model portfolios to achieve their objectives or to achieve any particular results.

All investment strategies have the potential for profit or loss. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment strategy will either be suitable or profitable for a client's investment portfolio. Diversification does not guarantee a profit or eliminate the risk of loss. Past performance is not a guarantee of future results. Actual results could differ materially from those anticipated.

Model Performance Disclosure: The performance shown represents only the results of Oregon Pacific Wealth Management's (OPWM) CoreSat model portfolios for the relevant time period and do not represent the results of actual trading of investor assets. Model portfolio performance is the result of the application of the OPWM's proprietary investment process. Model performance has inherent limitations. The results are theoretical and do not reflect any investor's actual experience with owning, trading, or managing an actual investment account. Thus, the performance shown does not reflect the impact that material economic and market factors had or might have had on decision making if actual investor money had been managed.

Portfolio performance is shown net of the advisory fees of 1%, the average fee charged by OPWM. Performance does not reflect the deduction of other fees or expenses, including but not limited to trade commissions, brokerage fees, custodial fees and fees and expenses charged by mutual funds and other investment companies. Performance results shown include the reinvestment of dividends and interest on cash balances where applicable. The data used to calculate the model performance was obtained from sources deemed reliable and then organized and presented by OPWM.

The performance calculations have not been audited by any third party. Actual performance of client portfolios may differ materially due to the timing related to additional client deposits or withdrawals and the actual deployment and investment of a client portfolio, the length of time various positions are held, the client's objectives and restrictions, and fees and expenses incurred by any specific individual portfolio.

The index / indices used by OPWM have been selected to represent an appropriate benchmark to compare an investor's performance. The indices allocation will differ from the model allocation from time to time due to the tactical nature of the models. Indices are typically not available for direct investment, are unmanaged and do not incur fees or expenses.

The model portfolios are subject to specific risks. OPWM's CoreSat model portfolios are subject to management risk and an investor's return and principal value of investment may fluctuate such that an investment, when liquidated, may be worth more or less than their original investment. OPWM's model portfolios invest primarily in mutual funds or exchange traded funds (ETFs), which are subject to investment advisory and other expenses. There are numerous risks associated with investing in the underlying mutual funds and ETFs which should be considered prior to investing.

OPWM's model portfolios invest in equity, fixed income, and liquid alternative investments (as classified by OPWM). The more aggressive the OPWM's model portfolios selected, the more likely the strategy will contain larger percentages of riskier asset classes. Equity investments are subject to overall market risk and volatility. Fixed income investments are subject to issuer credit risks and the effects of interest rate fluctuations. Alternative investments typically hold more non-traditional investments and may employ more complex trading strategies including leverage through the use of derivatives. Investors considering alternative investments should carefully consider their unique characteristics and additional risks. Tactical investment strategies may result in the portfolios being more concentrated in a specific asset class, which could reduce overall return if these asset classes underperform.

Accounts and funds managed by an advisor using the OPWM CoreSat model portfolios are subject to additions and redemptions of assets under management, which may positively or negatively affect performance depending generally upon the timing of such events in relation to the market's direction. The Hypothetical Information and model performance assume full investment, whereas actual accounts and funds managed by an adviser would most likely have a positive cash position. Had the Hypothetical Information or model performance included the cash position, the information would have been different and generally may have been lower. While there have been periodic updates and improvements to the OPWM CoreSat models, there have not been any material changes in the objectives or strategies of the model that have occurred that may affect results.

While OPWM believes the outside data sources cited to be credible, it has not independently verified the correctness of any of their inputs or calculations and, therefore, does not warrant the accuracy of any third-party sources or information.

3250 Hillcrest Park Drive, Suite 102
Medford, Oregon 97504

Direct: (541) 902-7272
Fax: (541) 779-1916

www.oregonpacificwealth.com
team@oregonpacificwealth.com