



Weekly Focus – Think About It

“It isn’t where you came from, its where you’re going that counts.”

—Ella Fitzgerald, singer

THE MARKETS

INFLATION AND GEOPOLITICS AND EARNINGS. OH, MY!

It was a rough week for stock markets. “The S&P 500 closed 1.5% lower on Friday, while the Nasdaq Composite dipped 1.6%. Every S&P 500 sector closed lower—and just about 40 stocks in the index finished the day with gains,” reported Connor Smith of *Barron’s*.

A trio of issues caused investors to reassess their expectations for the year. Here’s what many were thinking about:

Prices rising at home. Early last week, the Consumer Price Index showed prices had moved higher in March. Headline inflation was 3.5 percent year-over-year, up from 3.2 percent in February. Higher prices for gasoline and shelter were the primary drivers of the increase. Inflation, in tandem with strong economic data, dashed investors’ hopes that the Federal Reserve will lower rates soon, reported Augusta Saraiva and Matthew Boesler of *Bloomberg*.

Tensions rising overseas. One of the drivers behind rising prices is geopolitics, reported Rita Nazareth of *Bloomberg*. Oil markets have been responding to the possibility of escalating tensions in the Middle East, as well as the damage done by drone strikes on Russian oil infrastructure. Equities moved lower and gold moved higher as investors sought so-called safe-haven investments, last week.

Corporate earnings growth. Last week, banks began reporting on their performance during the first quarter of 2024. Some banks reported net interest income (the profit earned from lending money) that was lower than analysts anticipated. The gap in expectations was due, in part, to the fact that bank accountholders were seeking higher returns on their savings, reported Sridhar Natarajan of *Bloomberg*. Despite disappointment over bank’s interest income, earnings grew by 3.2% for the handful of S&P 500 companies that have already reported, according to John Butters at FactSet.

By the end of the week, major U.S. stock indices were lower. U.S. Treasury yields moved higher over the week.

Financial markets are likely to be volatile as investors adjust to U.S. economic strength and changing expectations for Fed rate cuts and geopolitical events. While market turbulence can be unsettling, price swings can create opportunities to invest in quality assets at attractive levels.

| Data as of 4-12-24 | 1-Week | Y-T-D | 1-Year | 3-Year | 5-Year | 10-Year |
|---|--------|-------|--------|--------|--------|---------|
| Standard & Poor's 500 (Domestic Stocks) | -1.6% | 7.4% | 25.2% | 7.5% | 12.0% | 10.8% |
| Dow Jones Global ex-U.S. | -1.0 | 2.1 | 7.4 | -2.0 | 2.6 | 1.8 |
| 10-year Treasury Note (Yield Only) | 4.5 | N/A | 3.4 | 1.7 | 2.6 | 2.6 |
| Gold (per ounce) | 4.5 | 15.6 | 19.6 | 11.5 | 13.2 | 6.1 |
| Bloomberg Commodity Index | 0.0 | 4.3 | -4.4 | 7.2 | 4.5 | -2.8 |

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods. Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

TO PLAY OR NOT TO PLAY?

Whenever lottery jackpots swell, a wave of interest seems to roll across the United States. It happened this month. After the numbers were drawn, someone in Oregon had won \$1.3 billion.

Prizes like that make lotteries tempting – and there are plenty of lotteries selling tickets. In the United States, government-operated lotteries are active in 45 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. The profits earned by lotteries:

“...benefit different programs in different jurisdictions. In many cases lottery profits are combined with tax and other revenues in a government's general fund. In other cases, lottery proceeds are dedicated to a wide range of causes, including education, economic development, the environment, programs for senior citizens and veterans, health care, sports facilities, capital construction projects, cultural activities, tax relief, and others,” reported the North American Association of State and Provincial Lotteries.

The odds of winning a lottery, typically, are astronomically low. In April, the odds of winning were 1 in 292 million, according to Khristopher Brooks of CBS News. Despite the poor odds, people spend an enormous amount of money on lottery tickets. In 2023, people in the U.S. spent more than \$110 billion on lottery tickets. *The Economist* reported:

“In the poorest 1% of zip codes that have lottery retailers, the average American adult spends around \$600 a year, or nearly 5% of their income, on tickets. That compares with just \$150, or 0.15%, for those in the richest 1% of zip codes. In other words, the poorest households spend roughly 30 times more on lotteries than richer ones, as a share of income.”

If people saved and invested instead of spending on lottery tickets, they could have more to show for it. For example, 30-year-olds who save:

- \$150 a year might have about \$35,000 at full retirement age, if they earned 8 percent on average each year.
- \$600 a year might have about \$142,000, at full retirement age, if they earned 8 percent on average each year.

The bottom line is that saving and investing is more likely to help people reach their financial goals than buying lottery tickets is.

Best regards,

Andrew Zittell
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Sources:

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* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.

* All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client's portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. You cannot invest directly in an index.

* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.

* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

* Gold represents the 3:00 p.m. (London time) gold price as reported by the London Bullion Market Association and is expressed in U.S. Dollars per fine troy ounce. The source for gold data is Federal Reserve Bank of St. Louis (FRED), <https://fred.stlouisfed.org/series/GOLDPMGBD228NLBM>.

- * The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- * The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- * The Dow Jones Industrial Average (DJIA), commonly known as “The Dow,” is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.
- * The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.
- * International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
- * The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage is often obtainable in commodity trading and can work against you as well as for you. The use of leverage can lead to large losses as well as gains.
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