

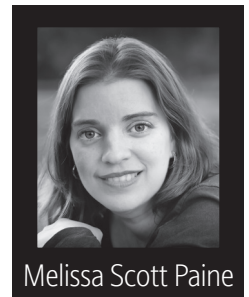


Andrew Krosnowski



Krosnowski & Scott LLC

Investment & Retirement Planning Specialists



Melissa Scott Paine

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“IT’S A MAD, MAD, MAD WORLD”



The stock market had a robust rally from November to March led by the technology stock sector. During this time, technology stocks moved rapidly higher propelled by the future potential of AI and Wall Street’s hopes for six interest rate cuts by the U.S. Federal Reserve. More recently the U.S. economy has been stronger than expected and inflation remained a little higher than the Fed would prefer. As a result, Wall Street’s interest rate cut euphoria has been significantly diminished. The current expectation is for the Fed to cut interest rates twice this year or not at all. The rally that we experienced earlier this year could be described as moving around three steps higher over a short period of time. Over the next quarter or two it would not surprise us if the stock market entered a choppy phase or took a step backward. This would provide some time for corporate earnings to catch up with stock prices. Looking further out toward the end of the year we believe that the stock market is going to work through the usual ups and downs and grind higher. The economy is growing in a good way. The outlook for corporate earnings

growth this year is healthy. And the stock market historically performs well during Presidential election years because the economy gets a boost from campaign spending.

The following is an essay titled “*What’s Right with the World*” which was written by the Capital Group’s Jared Franz, Martin Romo, Jonathan Knowles, Jeff Garcia, and Carl Kawaja.

A daily diet of negative news can lead even the most experienced investors to lose conviction in their long-term investment plans. Bad news often overshadows more favorable events. Even after the U.S. avoided a recession and the inflation picture brightened in 2023, many Americans



remain downbeat about the economy and markets. With wars in Ukraine and the Mideast, simmering U.S.-China tensions, and a contentious U.S. presidential campaign underway, it is understandable that investors may be anxious. Yet positive trends across technology, health care, and other areas are transforming lives and driving opportunities for companies and patient investors.



HERE ARE FIVE REASONS WE'RE FEELING CONFIDENT ABOUT THE FUTURE.



1. THE U.S. MAY BE STRONGER THAN YOU THINK

Investors spent 2023 bracing for a recession that never materialized. In the face of elevated inflation and rising interest rates, GDP, a measure of total economic output tracked by the U.S. Department of Commerce, expanded at a stunning 3.3% annualized rate in the fourth quarter. Indeed, the U.S. may be even stronger than you think. First, the American consumer sector continues to flex its muscles. In January, the economy added 353,000 jobs and wages increased 4.5% year over year, a robust pace that is likely to slow. That said, continued, albeit more moderate labor and income gains can continue to support consumer spending growth. Moderating inflation should also bolster real income growth, particularly among lower-income workers.

What's more, the U.S. housing market appears to be recovering as mortgage rates ease, and there are early signs manufacturing is heating up as businesses begin restocking inventories. The U.S. federal government has committed \$1.4 trillion for capital projects, including the construction of manufacturing facilities as American companies seek to diversify supply chains. The Federal Reserve's efforts to achieve a soft landing for the economy, bringing down

inflation while maintaining growth, have thus far been successful. Inflation remains above the Fed's 2% target, and it is unclear when the central bank may begin to lower rates. But with what it has managed thus far, the central bank may have laid the groundwork for an extended period of economic expansion.

2. THE AI PRODUCTIVITY BOOM IS JUST BEGINNING

The introduction of ChatGPT and other artificial intelligence (AI) tools has garnered wide attention for the technology's potential to drive vast gains in productivity across industries, reducing costs and creating efficiencies for companies and consumers. Of course, we often overestimate technology's impact in the short term and underestimate its impact over time. The key for investors is to distinguish between what is hype and what represents tangible investment opportunity. That said, little more than a year since ChatGPT was released it is no longer just a buzzword.



Companies in the healthcare, financial services, and retail sectors have already begun to harness its potential to automate complex tasks, streamline workflow, and accelerate technological advancements. For example, credit card companies are using generative AI to streamline their employee recruiting process and for the detection of payment fraud across their networks. An online retailer, which has long used a form of AI for its product listings and recommendations, is using AI at its physical locations that enables consumers to take items



and pay on its' app while avoiding checkout lines. In health care, AI is being adopted by hospitals and medical providers to streamline documentation and other administrative tasks, helping to reduce the number of patient visits that require physician notes and address staffing shortages.

3. MORE STOCKS ARE POISED TO JOIN THE MARKET RALLY



Stock markets defied investor expectations last year and delivered surprisingly robust returns. The S&P 500 Index, a broad measure of U.S. stocks, soared 26.29% in 2023. The MSCI All Country World Index (ACWI) ex-USA Index advanced 15.62%. But examples of investors who think they've missed the market rally may want to take a deeper look. *The Magnificent Seven* accounted for an overwhelming proportion of the market's total return in 2023. In fact, a look at returns over the past two years reveals that returns for the other 493 companies in the S&P 500 and more than 2,900 other stocks in the MSCI ACWI were generally flat. Observers can detect a similar pattern across international markets.

The brighter economic backdrop in the U.S. is providing tailwinds for corporate earnings across a broader range of companies. In fact, Wall Street analysts expect earnings growth across major markets this year. The stunning success of the Magnificent Seven may have been warranted. These

companies have been responsible for creating a great deal of economic value and continue to be on the cutting edge of AI and other innovations. However, examples of innovators can be found across markets and industries that are adopting strategies to grow their businesses. A U.S. air conditioning maker has seen demand for its energy-efficient systems soar amid record temperatures in regions around the world. An Irish insulation maker has designed synthetic siding panels to help improve the energy efficiency of buildings. In Japan, there is a leader in factory automation components.

4. EMERGING MARKETS ARE EMERGING AS GLOBAL TRADE EVOLVES

Two major developments in recent years prompted governments and companies to rethink the contours of global trade. Escalating tensions between the U.S. and China triggered tariffs and trade restrictions that adversely impacted the flow of goods around the world. This was amplified by the COVID-19 pandemic, which exposed serious vulnerabilities in supply chains as shutdowns and labor shortages led to bottlenecks and delays. But global trade isn't dead; it's just transforming. To reduce the risk of over-dependence on a single global supply chain, governments and companies are developing more trade relationships, many of them regional.





Mexico has surpassed China as America's largest trade partner

Increasingly, American companies have turned to neighboring Mexico as an alternative trade partner.

There are several reasons Mexico can be an appealing trade partner for U.S. companies. Labor costs are attractive relative to China and other major manufacturing regions. The country has ample natural resources, and its proximity to the U.S. limits logistical challenges. The relationship also helps

boost the regional economy overall. Indeed Mexico recently surpassed China as the top trade partner with the U.S. Even as China's economy slows and its relations with the U.S. cool, infrastructure growth, improved government balance sheets, and global supply chain shifts are generating opportunities across other emerging markets, including India, as well as Thailand, Indonesia, Singapore, and other economies.

5. ONGOING BREAKTHROUGHS IN HEALTHCARE

Pharmaceutical and biotechnology companies have entered a golden age of drug discovery in the last few years, advancing therapies for a wide range of major diseases and extending and improving lives. Perhaps the most widely talked about advancement has been the introduction of drugs to tackle obesity. Life-threatening health problems linked to obesity include cardiovascular disease, diabetes, and kidney failure, to name a few. Several treatments have been introduced in recent years to treat and manage diabetes. In decades past, diabetics had to prick themselves several times a day to test blood sugar levels and determine whether they needed to inject themselves with insulin. Medical device companies have developed continuous glucose monitors that track blood sugar and deliver insulin through a pump. A Boston biotech firm, which developed a therapy for the treatment of cystic fibrosis, today is working on developing a cure for type 1 diabetes.

Advances in genetic sequencing have allowed innovative biopharmaceutical companies to develop gene and cell therapy cancer treatments to compete with more traditional treatments like radiation therapy. A Japanese pharmaceutical company has been developing a class of cancer therapies called antibody-drug conjugates (ADCs) genetically engineered to target cancer cells while leaving healthy cells alone. While innovation is an essential driver of value in the healthcare sector, not all innovations will succeed. Investors must consider other factors, including the potential of a company's overall pipeline of developments, the quality of its management, and the potential addressable market for its therapies.

STAY FOCUSED ON WHAT MATTERS.



Distractions and discouraging news are always around us. There are challenges we are aware of and unknown setbacks that will inevitably occur throughout the year. Bad news can drive market volatility in the near term, but company fundamentals drive long-term value. Investors who remain focused on their financial objectives will be better positioned to participate in long-term investment opportunities when they arise.

In the April 11 edition of the Wall Street Journal, there was an article written by Aaron Back titled "*Buy the Stock Market's Inflation Freakouts*" that provided insight into factors that are influencing the stock market.



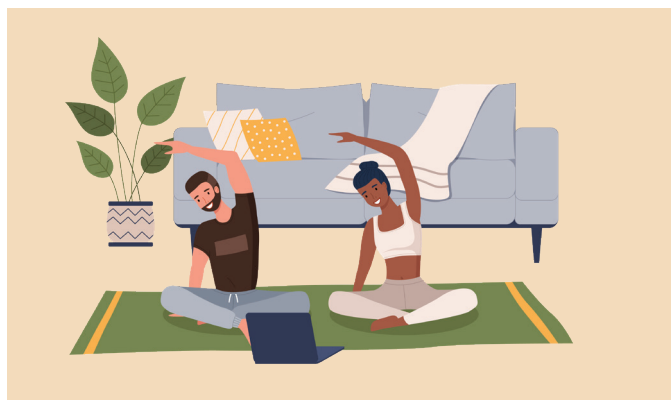
Hot inflation sent stocks plunging again, but investors' panicked first reaction overlooks some underlying reasons: Inflation failed to come down in March, dealing a blow to stocks. But taking a step back, what is remarkable is actually how resilient equities have been to a changing inflation story. At the start of this year, inflation appeared to be fading fast. The core consumer price excluding food and energy was up 3.9% from a year earlier in December, but that was down from a 5.7% pace in December 2022. Markets were pricing in six interest-rate cuts by the Federal Reserve in 2024. Now it is clear that the pace of disinflation has slowed with the core consumer-price index still up 3.8% on-year in March, unchanged from February's pace. Expectations have moved to perhaps just two rate cuts this year. The yield on the 10-year U.S. Treasury note has risen to 4.56% from 3.86% at the beginning of February.

Stocks fell on Wednesday's news, with the S&P 500 declining 1%. Similarly in February, when a surprisingly high January CPI reading shocked the market, the index fell 1.4% on the day. And yet the S&P 500 remains up 8.2% so far this year, with the tech-heavy Nasdaq Composite up 7.7%. That is an encouraging sign that the market is being driven not by anticipation of central bank liquidity but rather by strong economic fundamentals. Expectations for loosening have been dialed back due to warmer-than-expected inflation readings, but also by surprisingly strong economic data, including last month's creation of 303,000 jobs. Economic optimism is also reflected in rallying commodities, with crude oil and copper prices both up double digits this year. True, these prices feed into inflation concerns, but they also indicate rising demand in the real economy.

Investors are also still betting on transformative changes in the U.S. economy, most notably the rise of artificial intelligence but also surging electricity demand and new advances in biotechnology. Of the 10 biggest gainers in the S&P 500 this year, five are tech companies—not something normally seen when interest-rate expectations are being reset higher.

A seller of cloud computing servers and semiconductors tops the list with increases of 220% and 76%, respectively. Four others are in energy, led by a nuclear plant operator, which is up 64%. A maker of revolutionary weight-loss drugs is up 31% this year on top of a 59% rise last year. Evidently, higher-for-longer rates aren't a barrier to these trends. It is enough to remind one of the good old days, before ultralow rates and quantitative easing, when economic optimism alone was enough to propel bull markets, even when rates were high.

HEALTH & NUTRITION – The following is McKinsey's latest *Future of Wellness* research—which surveyed more than 5,000 consumers across China, the United Kingdom, and the United States—examines the trends shaping the consumer wellness landscape.



Five trends shaping the consumer health and wellness space in 2024 Fifty-eight percent of US respondents to our survey said they are prioritizing wellness more now than they did a year ago. The following five trends encompass their newly emerging priorities, as well as those that are consistent with our earlier research.

1 Trend one: Health at home

At-home diagnostic tests are appealing to consumers because they offer greater convenience than going to a doctor's office, quick results, and the ability to test frequently.

Implications for companies: Companies can address three critical considerations to help ensure success in this category

- A. Determine the right price value equation for at-home diagnostic kits.
- B. Second, companies should consider creating consumer feedback loops, encouraging users to take action based on their test results, and then test again to assess the impact of those interventions.
- C. Third, companies that help consumers understand their test results.

2 Trend two: A new era for biomonitors and wearables

Wearable makers and health product and service providers in areas such as nutrition, fitness, and sleep can explore partnerships that try to make the data collected through wearable devices actionable, which could drive greater behavioral change among consumers. One example: a consumer interested in managing stress levels might wear a device that tracks spikes in cortisol. Companies could then use this data to make personalized recommendations for products related to wellness, fitness, and mindfulness exercises.

3 Trend three: Personalization's Gen AI boost

Implications for companies: Companies that offer software-based health and wellness services to consumers are uniquely positioned to incorporate Gen AI into their personalization offerings. Other businesses could explore partnerships with companies that use Gen AI to create personalized wellness recommendations.

4 Trend four: Clinical over-clean

To meet consumer demand for clinically proven products, some brands will be able to emphasize existing products in

their portfolios, while other businesses may have to rethink product formulations and strategies. While wellness companies that have built a brand around clean or natural products—particularly those with a dedicated customer base—may not want to pivot away from their existing value proposition, they can seek out third-party certifications to help substantiate their claims and reach more consumers.

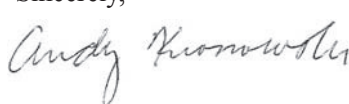
5 Trend five: The rise of the doctor recommendation

The proliferation of influencer marketing in the consumer space has created new sources of wellness information—with varying degrees of credibility. As consumers look to avoid “healthwashing” (that is, deceptive marketing that positions a product as healthier than it really is), healthcare provider recommendations are important once again.

Doctor recommendations are the third-highest-ranked source of influence on consumer health and wellness purchase decisions in the United States. Consumers said they are most influenced by doctors' recommendations when seeking care related to mindfulness, sleep, and overall health (which includes the use of vitamins, over-the-counter medications, and personal- and home-care products).

We hope that you and your family are enjoying the start of the Spring season and look forward to talking with you soon.

Sincerely,



Andrew J. Krosnowski, CWS®
Senior Financial Consultant
akrosnowski@1stallied.com



Melissa Scott Paine, CFP®
Financial Consultant
mscott@1stallied.com

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Andrew J. Krosnowski and Melissa Scott Paine
Krosnowski & Scott, LLC, Investment & Retirement Planning Specialists
123 Rowell Ct, Falls Church, VA 22046 | 1-888-901-8310 | 703-506-6886