DIVERSIFIED PORTFOLIOS, INC.

Investment Insights

A Resource for Investors, Attorneys and CPAs

May 2024
at a glance

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DIVERSIFIED PORTFOLIOS, INC.

Market Update

May 2024

Asset Class	3 Month Return	YTD Return
Large U.S. Stocks: S&P 500 Index	4.1%	8.0%
Small U.S. Stocks: Russell 2000 Index	5.5%	0.9%
Developed International Stocks: MSCI EAFE Index	5.6%	4.4%
Emerging Market Stocks: MSCI Emerging Markets Index	8.7%	4.4%
Bonds: Bloomberg Barclays U.S. Aggregate Index	-0.7%	-2.1%
Cash: FTSE 3-Month Treasury Bill Index	1.4%	1.8%

Source: Schwab - as of May 5th, 2024

Global markets are starting 2024 much like 2023

Several macroeconomic themes that dominated 2023 continue to exist four months into 2024 as most global equity markets are at or near their all-time highs.

In the United States, investors continue cheering on better-than-expected economic data. Jobs are plentiful, asset prices are higher, growth is beating economists' expectations while inflation recedes from the blistering pace of 2022 (although at a slower pace than many of us would like).

Around the world, there is still pent-up demand and consumption in the wake of the Covid pandemic. The past few months have shown a nice rebound out of China. Chinese equities have been trading at depressed levels for quite some time for a myriad of reasons, including a “relief rally” as the Chinese Government softens its tone towards anything related to capitalism. China is the largest component of emerging markets indices, and overall emerging markets are leading the way in terms of the return over the last three months. As economies mature in places like Southeast Asia, there will be more consumption and more GDP as a result.

On the other hand, bond investors are not as thrilled at results thus far in 2024 in fixed income.

Interest rates have drifted higher across the curve so far this year. Hopes for rate cuts from the Federal Reserve have been dashed in the short-term as further progress on the inflation front has stalled. CPI in the United States is at 3.5% over the last twelve months, higher than the Federal Reserve’s stated target of 2%. As a result, intermediate and longer-term bonds have struggled, whereas short-term bonds, having less sensitivity to changing interest rates, have performed well as expected. As a firm, we welcome higher interest rates as it allows for us to capture higher forward-looking returns when buying bonds for clients.

It has been a fairly normal start to the year in terms of returns and volatility. While there are plenty of newsworthy items weighing on investors’ minds such as the Middle East, inflation, or U.S. politics, global commerce continues to chug along. All together, some asset classes have performed better than others, and a balanced and diversified portfolio is faring well year-to-date.

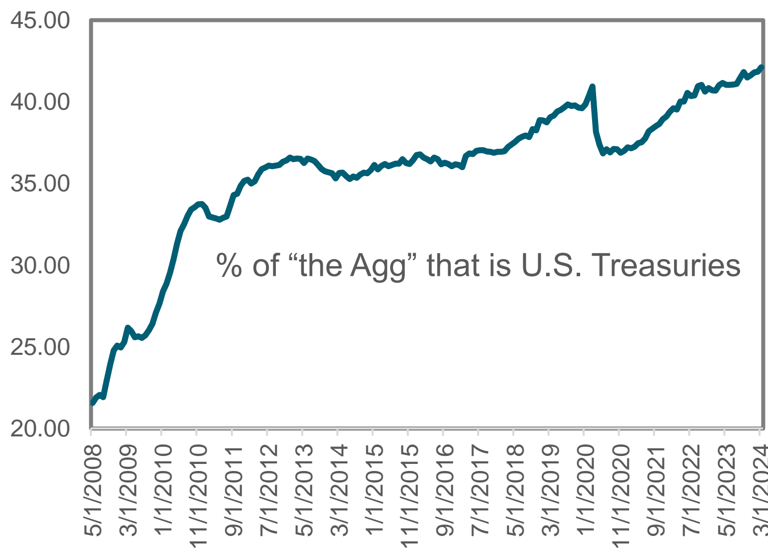
All performance data represents total returns for the stated period. Past performance is no guarantee of future results. Indices are not available for direct investment, and index performance does not reflect expenses associated with the management of an actual portfolio.

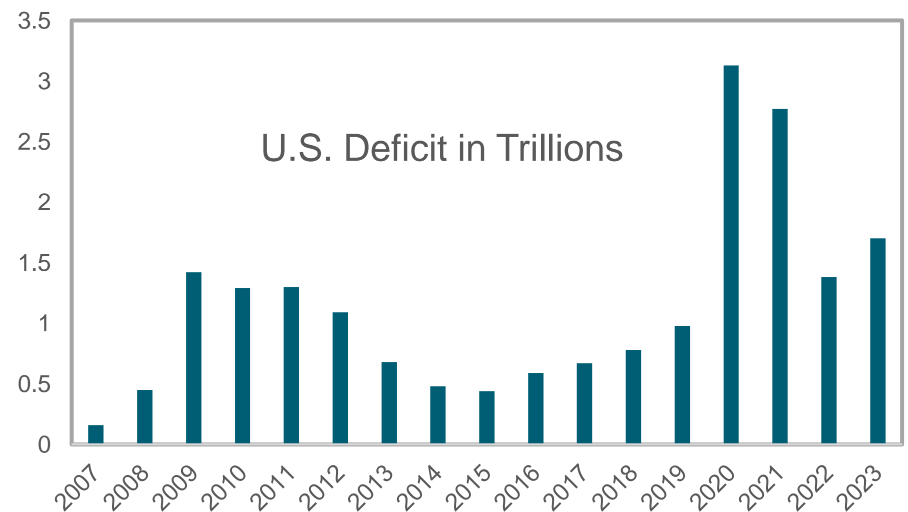
Deeper Dive: Bond Buyers Beware

The Bloomberg Barclays U.S. Aggregate (''the Agg'') is the Dow Jones for fixed income investors across the United States. As U.S. Federal deficits rise, so does the allocation in this key benchmark to U.S. Treasuries.

The Bloomberg Barclays U.S. Aggregate is the key benchmark for asset managers making their living in fixed income investments. This bond index is made up of publicly traded, investment-grade-rated debt issued in the United States. Most of the index is comprised of residential mortgages (qualifying mortgages backed by Fannie Mae and Freddie Mac), corporate debt from companies like Apple, Coca Cola, Bank of America and Verizon, and Treasury Bonds issued by the Federal Government.

As the U.S. Government's yearly deficits have increased significantly over the years, especially since 2008 (no politics here, as deficits have been large and growing under all administrations!), so has the proportion of the benchmark exposed to U.S. Treasuries. This plays a role on how bond investors try to build diversified and sustainable long-term portfolios that are a part of an overall asset allocation strategy. The charts below illustrate the rising percentage of "the Agg" comprised of U.S. Treasuries and the total value of the U.S. Deficit. To dive deeper into this topic, feel free to reach out to us.





Source: U.S. Treasury, Bloomberg, JPMorgan as of 2024

Financial Planning

Secure Act 2.0 & The Tax Cuts and Jobs Act (TCJA)

An update for those inheriting IRAs after December 31st, 2019: Once again, the IRS has continually kicked the can down the road on enforcing penalties for not taking Required Minimum Distributions (RMDs) from these accounts. This decision has been made yet again for 2024, and individuals can delay taking RMDs from those accounts through the end of the year, penalty free. This does not necessarily mean that it makes sense to delay withdrawals from inherited IRAs for as long as possible. As cash needs arise, certainly in years where you may be in a lower marginal tax bracket, it may make sense to reduce future taxes by withdrawing funds now. In certain circumstances, it can even make sense to make withdrawals and then reinvest the after-tax dollars back in the taxable portion of your portfolio.

In less fortunate news tax-wise, without any additional government changes, the "sunset" of the Tax Cuts and Jobs Act (TCJA) is coming at the end of 2025. This means that marginal tax rates are expected to increase for everyone for the 2026 tax year. We recommend working closely with your advisory team to help determine the strategy that makes the most sense for your comprehensive financial plan.

2024 Reminders

- In 2024, participants in 401k, 403b, and other employer sponsored plans can contribute a maximum of $23,000, ($30,500 over the age of 50).

- In 2024, IRA contribution limits have increased to 7,000, ($8,000 over the age of 50).

- Michigan residents benefited from a reduced state taxes in 2023 with rates dropping from 4.25% to 4.05%. In 2024, the Michigan state tax rate will move back to 4.25%.

- In 2024, individual annual gift exclusions increased from $17,000 per year per person to $18,000. This includes "super-funding" 529 college education plans where an individual can gift up to $90,000 per person in one year.

We're Here to Help

The team at Diversified Portfolios is wishing you and your families a great 2024. We are here to help with any investment or financial planning questions. Please don't hesitate to reach out.

Sources: www.irs.gov – www.Michigan.gov ·

Disclosures

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