



**BlackDiamond  
Financial**

# INVESTMENT INSIGHTS

FIRST QUARTER 2024



*Picture by Black Diamond Analyst, Julia Ullrich  
Bend, Oregon*



## Stocks Rally Despite Higher for Longer Rates

The S&P 500 Index rose 10.6% in the first quarter. This surge was fueled by strong earnings growth expectations, which remain well above average at 10% for 2024 and 13% for 2025. Mega cap tech stocks continue to be an outsized force, with five members of the Magnificent Seven (Amazon, Alphabet, Meta, Microsoft, and Nvidia) driving 36% of the S&P 500’s first quarter gain.

Investor optimism was also supported by the Fed’s upwardly revised projections for U.S. GDP growth, now anticipated to be 2.1% in 2024. Notable gains in workforce participation and productivity have counterbalanced the Federal Reserve’s efforts to tighten monetary policies. Investors are largely disregarding possible downside risks. Market volatility, as measured by the VIX index, is well below average. Notably, valuations of large corporations are approximately 30% above their historical averages, as reflected in the P/E ratio of 21x for the S&P 500.

A central question among investors is the pace at which interest rates will decline. Persistent inflationary pressures have tempered expectations for Federal Reserve interest rate reductions. Initially, bond markets anticipated five rate cuts in 2024. Revised forecasts now suggest a more cautious outlook of just three cuts, amounting to a 0.75% reduction, with the initial cut expected in June.

For the last eighteen months, we have observed an unusual trend in the bond market: yields on short-term government bonds have exceeded those on long-term bonds. This phenomenon, known as an inverted yield curve, signals investor concerns over future economic growth and often precedes recessions. The market believes this time is different. It assumes that the Federal Reserve has orchestrated a rare “soft-landing” by moderating inflation while maintaining positive economic growth and low unemployment.

## Comparative Returns

	Annualized Performance				
	Q1 2024	1 Year	3 Years	5 Years	10 Years
Large Cap U.S. Stocks <sup>1</sup>	10.6%	29.9%	11.5%	15.1%	13.0%
Small Cap U.S. Stocks <sup>2</sup>	5.2%	19.7%	(0.1%)	8.1%	7.6%
International Stocks <sup>3</sup>	4.7%	13.3%	1.9%	6.0%	4.3%
Real Estate <sup>4</sup>	(0.6%)	9.0%	2.8%	2.9%	5.3%
U.S. Bonds <sup>5</sup>	(0.8%)	1.7%	(2.5%)	0.4%	1.5%

1 S&P 500 index. 2 Russell 2000. 3 MSCI ACWI ex-U.S. index. 4 MSCI U.S. REIT index. 5 Bloomberg Barclays Aggregate Bond index.



## The Unstoppable Rise of Index Investing

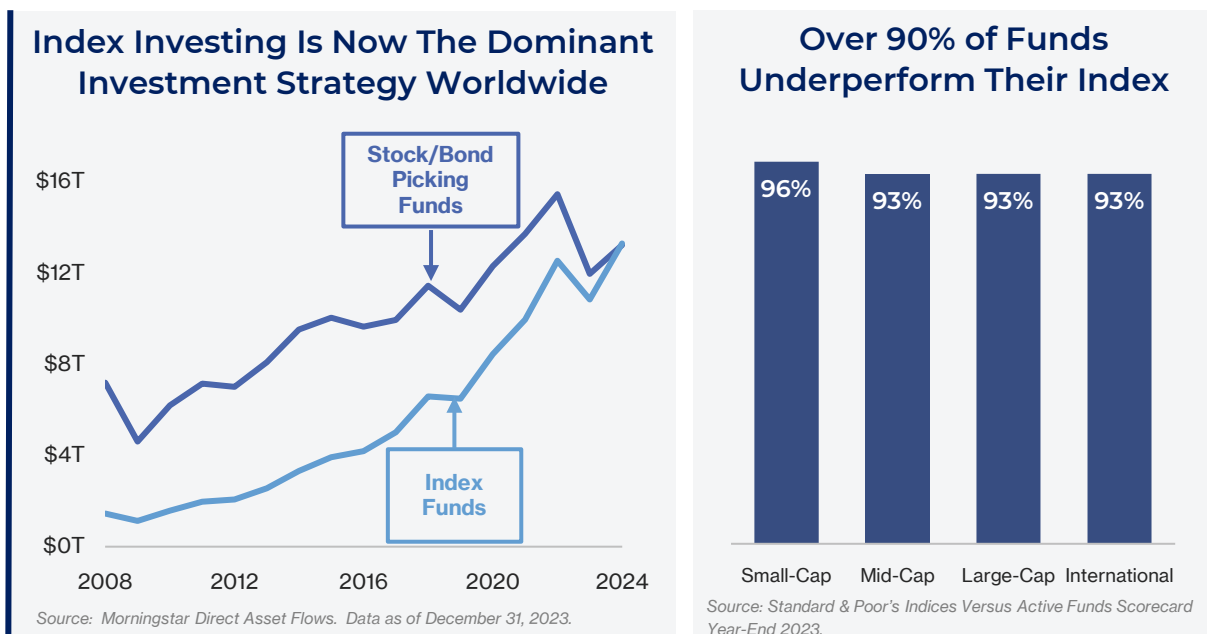
Index investments have significantly increased in prominence over the past five years. There has been a strategic shift towards the adoption of diversified, low-cost index investments as a core component of portfolio management.

Historically, the investment landscape has been shaped by various approaches to achieving superior returns. However, our recent analysis indicates a notable trend: the growing preference for index investments. This preference is underpinned by their ability to provide broad market exposure by asset class, coupled with lower management fees and tax efficiencies. These factors contribute to the outperformance of index investments in comparison to traditional strategies over the long-term.

A landmark development occurred in 2019, when the total assets managed by U.S. equity index funds exceeded those managed by traditional (“stock picking”) equity funds for the first time. This trend continued and expanded globally, with 2023 marking the year when both stock and bond index investments attracted more capital worldwide than their counterparts. This shift is reflective of a broader recognition of the benefits of index investing, including its simplicity, cost-effectiveness, and the potential for reliable long-term returns.

Our analysis, supported by data from S&P Dow Jones Indices, demonstrates the challenges faced by traditional investment strategies in outperforming the broader market over extended periods. The evidence shows that about 93% of all U.S. equity mutual funds have underperformed a comparable index fund over a 20-year horizon. Specifically, an index investment strategy has offered a significant advantage, historically resulting in a 34% higher return over two decades, illustrating the tangible benefits of this approach. In light of these developments, it's important that investors reassess their portfolio strategies in the context of the growing dominance of index investments.

The investment landscape has undeniably transformed. Our commitment to providing forward-thinking investment solutions remains unwavering, as we continue to explore innovative ways to deliver long-term value and exceed the expectations of our clients.





## ABOUT US

Black Diamond Financial, LLC is a fee-only registered investment adviser with a unique and holistic focus on preserving and enhancing wealth. Our mission is to help you achieve your financial goals through the use of low cost, tax-efficient investment strategies. We create individualized investment portfolios for each client that are risk-appropriate, return optimized, and tax-efficient. Where appropriate, we incorporate institutional quality private investments to capture illiquidity premiums or yield opportunities. Furthermore, we believe cost is a critical factor in any successful investment strategy and therefore offer fully transparent pricing that is below industry standard. As an employee-owned firm focused on our fiduciary duty, we make our clients' interests our highest priority.

## CONTACT US

[info@blackdfinancial.com](mailto:info@blackdfinancial.com)



**Baltimore**



**Bend**



**Park City**

---

Black Diamond Financial, LLC is a registered investment adviser. Information presented 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, are not guaranteed and may lose value. Be sure to first consult with a qualified financial adviser and/or tax professional before implementing any strategy discussed herein.