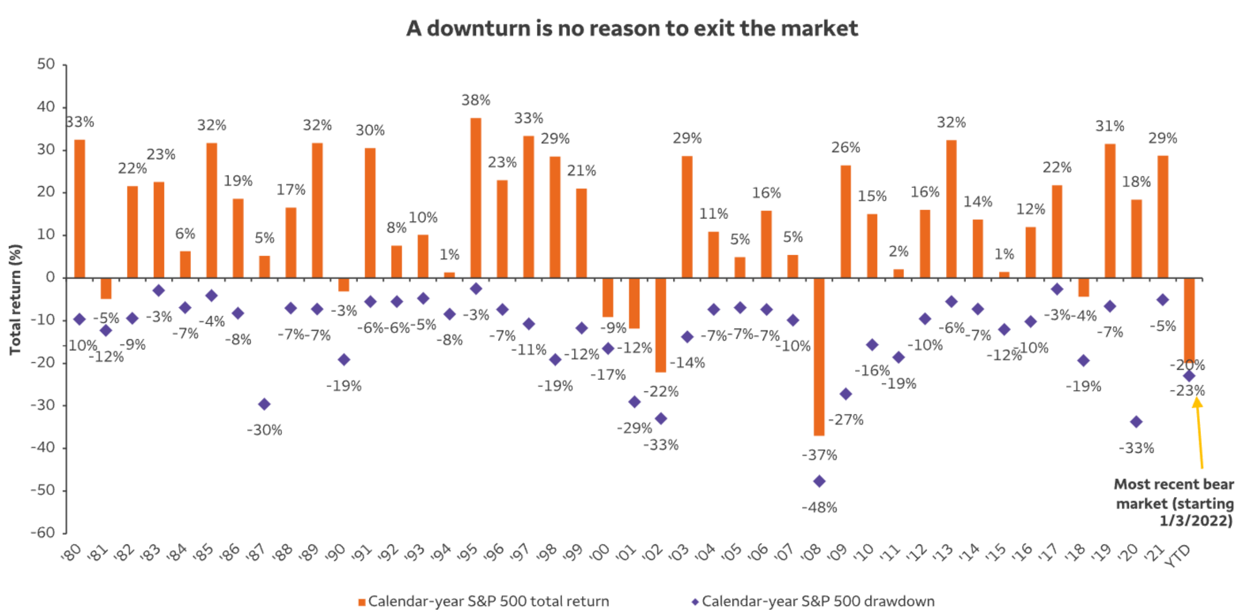
ZALAYET, ADLER & SUBA
PRIVATE WEALTH MANAGEMENT GROUP
of Wells Fargo Advisors

Third Quarter 2022 Update

"The stock market is a device for transferring money from the impatient to the patient."
– Warren Buffet

Global financial markets including stocks, bonds, silver, gold and cryptocurrency continued to trend downward in the third quarter as inflation persisted and outpaced economic growth. A number of economic headwinds remain as the US continues to face supply-chain disruptions, flat to declining household income and higher borrowing costs. Moreover, household savings rates have dropped to pre-pandemic levels. As investors measure the future progression of rate hikes and the potential for a recession, we anticipate continued volatility in global markets.

Despite these challenges, September's Conference Board Consumer Confidence Index rose reflecting the strong labor market and falling gas prices, which have dropped more than $1 per gallon off their highs. Likewise, world food raw material prices including staples such as corn, wheat, and soybeans have decreased the last few months. With the strong dollar, American consumers have benefited from less expensive imports and foreign travel. The Inflation Reduction Act (IRA) is addressing inflation through its goals of paying down national debt, lowering healthcare costs and increasing domestic energy production. Significantly, GDP has been mainly been down due to lack of supply of caused as opposed to low demand.



Source: Morningstar Direct and Wells Fargo Investment Institute

Investment and Insurance Products:

NOT FDIC Insured	**NO Bank Guarantee**	**MAY Lose Value**

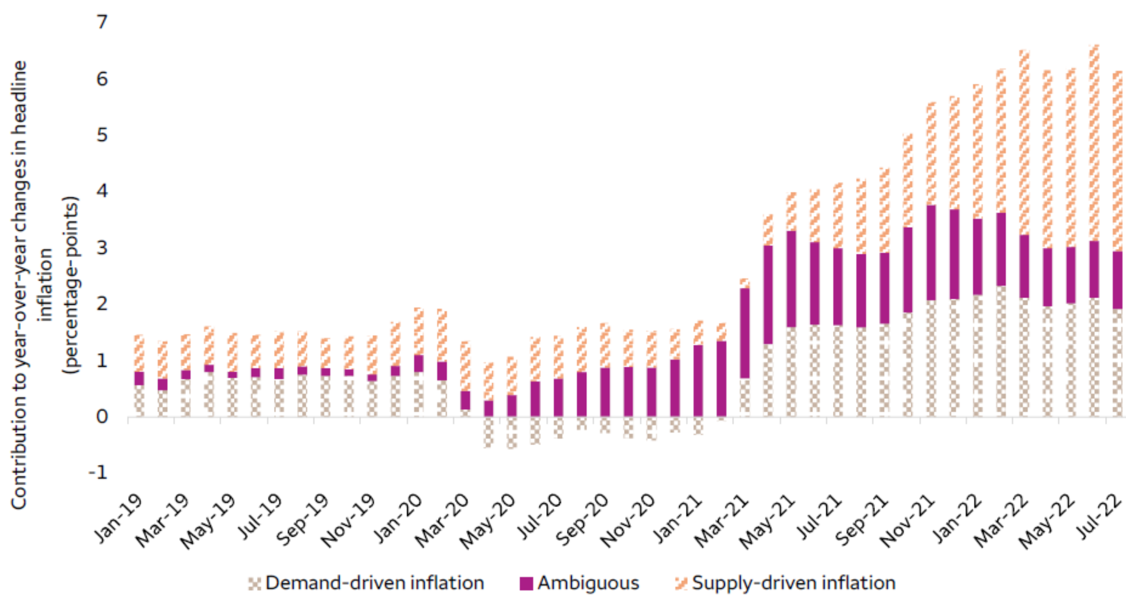
To reiterate investor Warren Buffet's message, patient investors have historically been rewarded in the long-run. A downturn is no reason to exit the market as investors who allow their emotions to dictate strategy can suffer lower returns. It is critical to align investments with goals and needs and then continue to stay on course towards your financial goals (i.e. retirement, college) even through volatile markets.

Inflation

The Federal Reserve can take multiple paths to combat inflation. In the current inflationary cycle, the Fed has decreased the money supply through quantitative tightening and has raised interest rates. The Federal Reserve began quantitative tightening in September changing from monthly purchases of $120 billion of bonds to shrinking its balance sheet by $95 billion in bonds.(1) The Fed hopes by decreasing money supply, consumer's will demand fewer goods leading to decreased inflation. With fewer goods at increased costs, there is less demand to buy items on credit, dampening economic growth and associated inflation. The rate increases also sway borrowing costs.

Consumers are continuing to spend, particularly on services. Services include items like airfares, rental cars, theater tickets, theme parks, cruises, healthcare, housing, education, haircuts and repairs. While food and fuel continue to contribute to high global inflation, gasoline prices have declined by more than $1 per gallon the last few months and some raw food prices (corn, wheat, soybeans) have fallen from their highs. Despite increased capacity for goods on ships, supply-chain bottlenecks continue at crowded warehouses and railyards. These disrupted supply chains impact prices. Unlike with past inflationary pressures, supply chain issues account for more than half of the current elevated inflation whereas demand accounts for less than a third.

More than half of current inflation is driven by supply factors, while less than a third is driven by demand factors



Sources: Federal Reserve Bank of San Francisco and Wells Fargo Investment Institute, as of August 2022. Headline inflation = Personal Consumption Expenditure inflation.

Inflation Reduction Act

The Inflation Reduction Act (IRA) of 2022 was signed into law by President Biden on August 16, 2022. Encouragingly, the Inflation Reduction Act aims to address inflation by paying down national debt, lowering healthcare costs and increasing American energy production. According to the White House, the Act would make "the single largest investment in climate and energy in American history." The Inflation Reduction Act contains tax reform measures and efforts to bring down health care costs by allowing Medicare to negotiate with pharmaceutical companies on the price of prescription drugs. The federal bill also affords $369 billion toward climate and energy provisions to fight climate change.

Interest Rates

On September 21st, the Federal Open Market Committee (FOMC) announced a third-straight 75-basis point (0.75%) rate hike. This increase brings the benchmark rate to a range of 3% to 3.25%, its highest level since 2008.

Federal Reserve Chair Jerome Powell signaled more hikes in the future stating, "We are moving our policy stance purposefully to a level that will be sufficiently restrictive to return inflation to 2%." Powell added, "we will keep at it until the job is done." Mr. Powell indicated bringing inflation down requires a softer labor market "I wish there was a painless way to do that. There isn't." [2]

Following the 2007/2008 credit crisis and housing market crash, the Fed gradually increased rates 0.25% at a time between 2015 to 2018 before making downward mid-cycle adjustments in 2019. At the onset of the global pandemic in March, 2020, the Federal Reserve presented two large rate cuts at unscheduled emergency meetings reverting the federal funds target rate range of zero to 0.25%.

2020 Fed Rate Cuts: COVID-19

FOMC	Rate Change	Federal Funds Rate
March 3, 2020	-0.50%	1.0% to 1.25%
March 16, 2020	-1.00%	0% to 0.25%

The rate hikes are the steepest since the last time the Fed, under Paul Volcker's guidance, battled super-high inflation in the 1980s. Fed Chair Jerome Powell is optimistic that the projected rate path will do the job, allowing him to avoid the sacrifices imposed by Volcker's actions, including 10.8% unemployment.

2022 Fed Rate Increases

FOMC	Rate Change	Federal Funds Rate
March 17, 2022	0.25%	0.25% to 0.50%
May 5, 2022	0.50%	0.75% to 1.00%
June 16, 2022	0.75%	1.5% to 1.75%
July 27, 2022	0.75%	2.25% to 2.5%
Sept 21, 2022	0.75%	3.00% to 3.25%

ZALAYET, ADLER & SUBA
PRIVATE WEALTH MANAGEMENT GROUP
of Wells Fargo Advisors

Recession and Bear Market
The US economy contracted 1.6% in Q1 followed by a contraction of 0.9% in the 2nd quarter. This is the eighth time the US experienced 2 or more consecutive down quarters since 1960. While this meets the traditional definition of a recession, the first quarter contraction was misleading in that orders would have been fulfilled if there was sufficient supply.

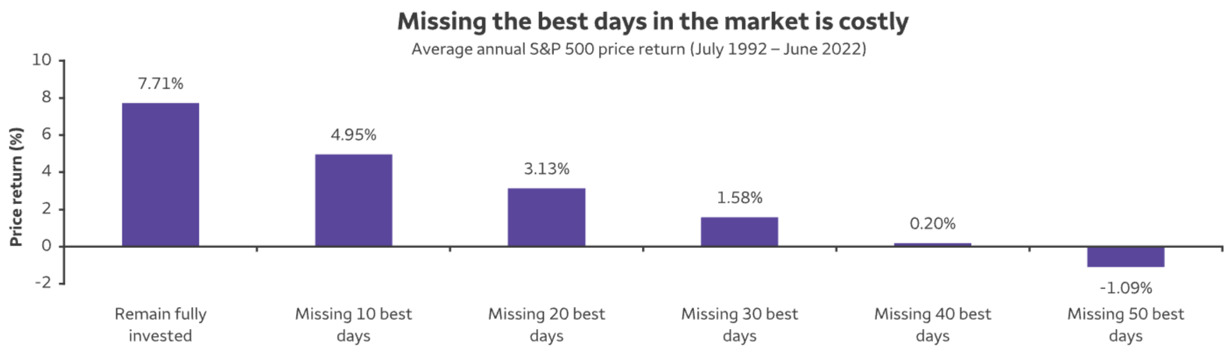
The S&P 500 Index has recorded 12 bear markets since World War II, including the 2022 bear market this year. A stock bear market is defined as a decline of 20% or more and is relatively uncommon.

S&P 500 Index Bear Markets

Bear market start	Bear market length (years)	Overlapping recession?	Bear market returns	6-month returns after bear end	12-month returns after bear end	From the bear bottom, time to recover previous market peak (years)
1946	3.04	Yes	-29.6%	22.8%	42.1%	0.99
1956	1.22	Yes	-21.6%	9.8%	31.0%	0.92
1961	0.54	No	-28.0%	20.5%	32.7%	1.19
1966	0.66	No	-22.2%	22.1%	32.9%	0.57
1968	1.49	Yes	-36.1%	22.8%	43.7%	1.78
1973	1.73	Yes	-48.2%	30.9%	38.0%	5.79
1980	1.70	Yes	-27.1%	44.1%	58.3%	0.23
1987	0.28	No	-33.5%	19.0%	21.4%	1.64
2000	2.55	Yes	-49.1%	11.5%	33.7%	4.64
2007	1.42	Yes	-56.8%	52.7%	68.6%	4.05
2020	0.09	Yes	-33.9%	44.7%	74.8%	0.41
Average overall	1.34	-	-35.1%	27.4%	43.4%	2.02
Average w/o recession	0.49	-	-27.9%	20.5%	29.0%	1.14
Average w/ recession	1.65	-	-37.8%	29.9%	48.8%	2.35

Sources: Bloomberg and Wells Fargo Investment Institute, August 24, 2022. An index is unmanaged and not available for direct investment. Index returns do not represent investment performance or the results of actual trading. Index returns represent general market results, assume the reinvestment of dividends and other distributions and do not reflect deduction for fees, expenses or taxes applicable to an actual investment. See end of report for specific return dates. **Past performance is no guarantee of future results.**

During a bear market, there are fits and starts. There will be continued market volatility and occasional market rallies. When a bear market ends, stocks can recover quickly and increase to higher levels offering higher returns to patient investors. Volatility is a normal part of the capital markets and requires a long-term focus and view.



Source: Bloomberg and Wells Fargo Investment Institute. Data from July 1, 1992 to June 30, 2022.

These topics as wells as other economic and geopolitical concerns may continue to weigh on markets and add to higher market volatility. Some of the items we are monitoring include:

- Although some Russian troops have withdrawn from Ukraine, the Russia-Ukraine war has yet to subside.
- The unemployment rate in August grew to 3.7% from 3.5% the prior month. [3]
- Median household income was $71,200 in 2020 (inflation adjusted) and only $70,800 in 2021.[4]
- U.S. railroad and unions reached a tentative deal on September 15^{th} to avoid a labor strike that risked additional supply chain disruptions. [5]
- U.S. holiday sales growth may slow as inflation leads consumers to cut back on discretionary spending.
- The U.S. housing market slowed in August for a seventh straight month in a row. This is a longest period of declining sales since 2007.
- Americans borrowed a record high of $1.61 trillion in 2021 from lenders to buy homes. [6]
- Across the pond, on September 28^{th} the Bank of England (BOE) announced they will temporarily purchase U.K. longer-dated government bonds in an effort to steady markets and lift the British pound.
- Corporate cash has declined in most sectors with the exception of energy and financials. [7]

ZALAYET, ADLER & SUBA
PRIVATE WEALTH MANAGEMENT GROUP
of Wells Fargo Advisors

Do you have access to a Health Savings Account (HSA)?
If you have a high deductible health plan at work, you may have access to a Health Savings Account (HSA). A Health Savings Account is a tax-advantaged savings account for medical expenses. This means you can use the tax-free money you contribute to the plan as well as the interest or growth it accumulates to pay for medical expenses now and in retirement. Below are the features and benefits to contributing to an HSA:

- Maximum contribution amounts for 2022 are $3,650 for individuals and $7,300 for families. The annual "catch-up" contribution amount for individuals age 55 or older is $1,000.
- Money goes into and out of an HSA tax-free as long as funds are used to pay for qualified medical expenses.
- Contributions to HSAs are not subject to federal income taxes.
- Earnings to an HSA from interest, dividends and investment growth are tax-free.
- Distributions from an HSA to pay for qualified medical expenses are tax-free.
- Contributions do not have to be used within a specific timeframe. Any unused money in an HSA rolls over from year to year. HSA funds can continue to grow and accumulate to and through retirement until the funds are spent.
- Funds in an HSA can be invested to help them keep pace with inflation.

Keeping Information Secure/Identity Theft
As a reminder as we go into the holiday season, do not provide your bank details over the phone or online. If you get a phone call requesting personal information, hang up and call your bank directly. Attached is an identity theft repair kit for reference.

Retirement Plan Contributions
For those still working, we want to make sure you are maximizing deferrals into retirement plans and taking advantage of other employer options to save like Stock Purchase Plans and deferred compensation. Tax tables can be found on our website and please consult your tax preparer with deduction questions.

Important Dates
Please note the contribution limits and plan funding deadlines below:

- 401k - For 2022, the maximum contribution under age 50 is $20,500. The catch up is $6,500 for over age 50.
- Traditional and Roth IRA funding for 2022 - The maximum allowable contribution for 2022 is $6,000 with a $1,000 catch-up over age 50. We have until the tax filing deadline of April 15, 2023 for 2022 contributions.
- SEP IRA - $58,000 contribution limit for 2021 – deadline to contribute is 4/18/22 (or tax filing date). $61,000 limit for 2022 with 4/15/23 contribution deadline (or tax filing date).

ZALAYET, ADLER & SUBA
PRIVATE WEALTH MANAGEMENT GROUP
of Wells Fargo Advisors

Milestones

- 50: Catch-up contributions to IRAs and qualified retirement plans
- 59 ½: Can take distributions from qualified retirement plans and possibly in-service withdrawals to IRA without penalty. Can also take distributions from IRAs without penalty
- 62-70: Can apply for Social Security benefits (we will help you estimate the best age to begin Social Security to maximize lifetime benefit)- With good health, social security benefits increase greatly every year you wait.
- 65: Can apply for Medicare
- 72: Must begin RMDs (Required Minimum Distributions) from Traditional IRA accounts (excluding Roth IRAs)

Quarterly Team News

In addition to day-to-day portfolio reviews, research, investing and financial life planning, our team is active in Continuing Education via extra credentials, conferences and webinars. Below are recent examples. If any of the following topic areas are of interest to you, please let us know:
Berit Suba and Stephanie Werden – Attended National Women's Summit

Congratulations to the following team members on promotions and accolades:
Stephanie Werden – Completed Masters of Science in Personal Financial Planning degree from the College for Financial Planning.

Conclusion

As we move into the last quarter of 2022, we anticipate continued elevated inflation, interest rate increases, slow economic growth and market volatility. The Federal Reserve's determined drive to bring inflation down to its 2% target will likely take years to complete and may come at a cost of higher unemployment and slower economic growth.

In the long run, the stock and bond markets are appreciating assets intended to keep pace with inflation for patient, long-term focused investors. As a leading indicator, stocks tend to recover ahead of other economic metrics as conditions improve.

As always, we are available to discuss any questions you may have and review your goals, needs and current plan. When reviewing your goals and needs, it is important to keep in mind that investments in equities/stocks are intended for 3-5 years and beyond. We re-evaluate plans when investor goals, liquidity needs and time horizons, not financial markets change. Historically, long-term investors have been rewarded for staying invested despite more volatile times and diversification and asset allocation have historically helped to reduce long-term portfolio volatility.

ZALAYET, ADLER & SUBA
PRIVATE WEALTH MANAGEMENT GROUP
of Wells Fargo Advisors

Asset allocation and diversification do not ensure a profit or protect against a loss in a down market.

Wells Fargo Advisors did not assist in the preparation of this report, and its accuracy and completeness are not guaranteed. The opinions expressed in this report are those of the author(s) and are not necessarily those of Wells Fargo Advisors or its affiliates. The material has been prepared solely for information purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Past performance is no guarantee of future results. Additional information is available upon request.

Wells Fargo Advisors is not a tax or legal advisor.

Eddie Zalayet, CFP®
Managing Director - Investment Officer
PIM Portfolio Manager
MA International Economics and Finance

Howard Adler
Managing Director - Investment Officer
Senior PIM Portfolio Manager

Berit Suba, MBA, CFP®
Senior Vice President – Investment Officer
Fundamental Choice Portfolio Manager
Chartered SRI Counselor™
Chartered Retirement Planning Counselor℠

Stephanie Werden, CFP®, CSRIC™, CRPC®
Financial Advisor

Zalayet, Adler & Suba Private Wealth Management Group
of Wells Fargo Advisors
555 California St Ste 2300
San Francisco, CA 94104
(415) 395-2716
https://www.zasprivatewealthmanagement.com/

(1) https://www.bloomberg.com/news/articles/2022-08-29/qt-to-hit-full-stride-with-fed-shrinking-9-trillion-portfolio?leadSource=uverify%20wall
(2) https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20220921.pdf
(3) https://www.forbes.com/sites/jonathanponciano/2022/09/02/unemployment-rate-unexpectedly-rose-to-37-in-august-as-layoffs-continue-to-spike/?sh=1d6b36296566
(4) https://www.wsj.com/articles/u-s-incomes-were-flat-last-year-census-figures-show-11663079099
(5) https://www.cnn.com/2022/09/15/business/railroad-strike-averted-tentative-deal
(6) https://www.wsj.com/articles/red-hot-housing-market-fuels-mortgage-borrowing-record-11641033003
(7) “The Fed speaks, and the market pivots – Stay Defensive” by Paul Christopher, CFA, Wells Fargo Investment Institute, First Analysis Institute Alert 8/30/2022

Wells Fargo Investment Institute, Inc. is a registered investment adviser and wholly-owned subsidiary of Wells Fargo Bank, N.A., a bank affiliate of Wells Fargo & Company.

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC, Member SIPC, a registered broker-dealer and non-bank affiliate of Wells Fargo & Company.