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

Year-End 2022 Update

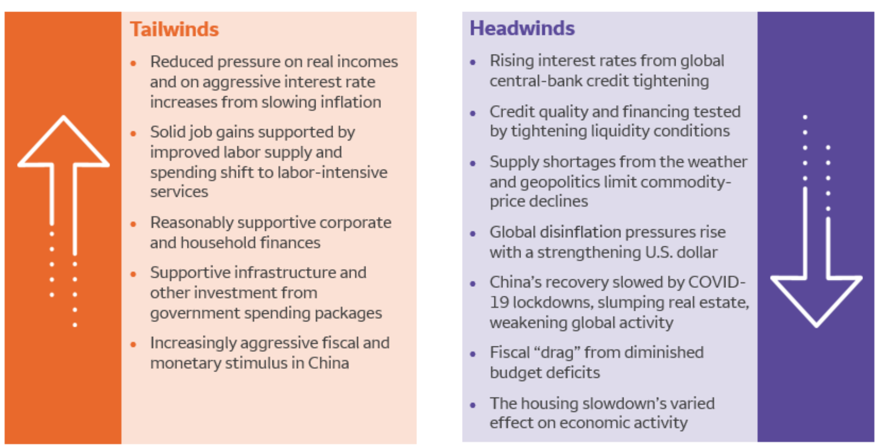
From elevated inflation and aggressive rate hikes to geopolitical concerns with the Russian invasion of Ukraine and a commodity price shock to continued fallout from COVID-19, 2022 presented numerous challenges. All three of the major averages (Dow Jones, S&P 500, and Nasdaq) suffered their worst year since 2008 and were down after three consecutive years of gains. Despite the annual declines, both the Dow and S&P 500 posted gains in the fourth quarter as inflation eased. The U.S. Treasury market suffered its worst-ever annual loss in 2022 powered by inflation pressures that prompted the Federal Reserve to lift its benchmark over 4 percentage points during the year. Bitcoin lost over 60% of its value in 2022. With worldwide markets confronting substantial challenges, including energy shortages, muted growth and high inflation, the accommodating US government spending and infrastructure packages as well as China's reopening could deliver a necessary and opportune global economic boost.

Historically, on an annual basis stocks and bonds have rarely posted negative returns in the same year. The last occurrence was over 50 years ago in 1969.

Year	S&P 500 Return	10 Year Treasuries Return
1931 [1]	-43.84%	-2.56%
1941 [1]	-12.77%	-2.02%
1969 [1]	-8.24%	-5.01%
2022	-18.11% [1A]	-13.80% [1]

Countries around the world including the U.S. face the possibility of a recession in 2023 due to surging inflation, labor shortages, supply chain disruptions and rising interest rates. Despite these challenges, there are reasons to be optimistic as we ring in the new year.

Global economic forces



Source: Wells Fargo Investment Institute, as of September 30, 2022. Subject to change.

Investment and Insurance Products:

NOT FDIC Insured	NO Bank Guarantee	MAY Lose Value

Positive tailwinds include the easing of severe lockdown policies in China, a strong U.S. labor market and continued government investment. Consumer confidence improved in December as high inflation eased from 9.1% (June) to 7.1% (November). Annual wage growth rose to 5.1% in November from 4.9% in October.[2] Although wage growth is rising, real wages are still negative due to inflation.

Covid/Global Reopening

The reopening of China on January 8th is expected to reintroduce vitality to the world's second-largest economy. Under its "zero-covid" policy, China was closed for 1,016 days to the outside world having imposed a blanket ban on overseas travel. China will no longer ask inbound travelers to quarantine after January 8th, readying the country to emerge from three years of voluntary global isolation that battered the economy. China's lockdown disrupted worldwide supply chains and marred the flow of global trade and investment.

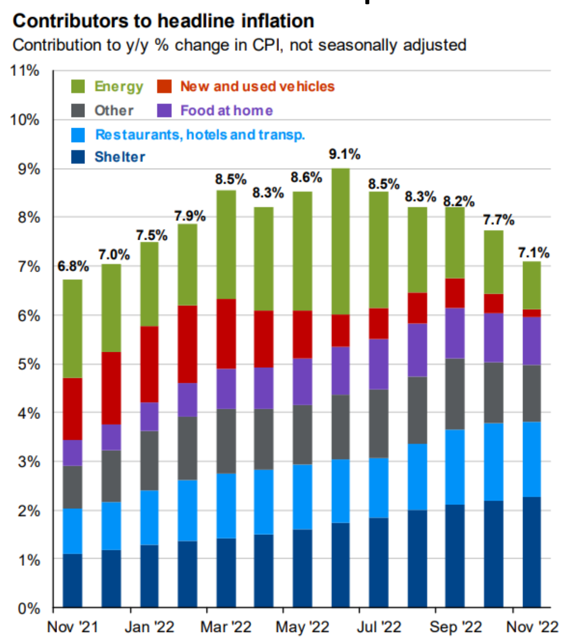
There will likely to be substantial short-term impediments as the country of 1.4 billion quickly reopens with little preparation. China's elderly population is under-vaccinated and with the colder weather and rapid reopening, the country is on the brink of a major COVID-19 surge. As new cases emerge, fewer Chinese inhabitants can shop and go to restaurants. Furthermore, factories and companies are being pushed to close or reduce production as employees become infected. These factors will likely create initial hurdles for China's medical and manufacturing systems in the short-term. However, in the long-term, reopening portends a positive outlook for China's GDP and currency as travel and production are boosted.

Inflation

A major challenge facing Federal Reserve policymakers is the surge in inflation witnessed over the last 1.5 years. Given the inflation rate has been well above the Federal Reserve's 2% inflation target, the central bankers made 7 interest rate adjustments in 2022 to combat inflation. Supply and demand factors have contributed to the elevated inflation. On the supply side, there were production and shipping obstacles and worker shortages caused by COVID-19. There were also spikes in energy and food prices instigated by the Russian invasion of Ukraine.

Spending on goods (appliances, clothing, furniture) slowed in 2022 as consumers shifted spending to services (food, dining out, travel), a change from earlier in the pandemic. Soaring prices for autos, furniture and other goods led the earliest wave of inflation, as strong consumer spending—powered by low interest rates, government stimulus and a reopening economy—intersected with backed up supply chains. Russia's invasion of Ukraine this year further drove up already higher prices for food, energy, and other commodities. The U.S. Consumer Price Index hit a 40 year high in June of 9.1%.

Inflation Drivers and Expectations[3]



Interest Rates

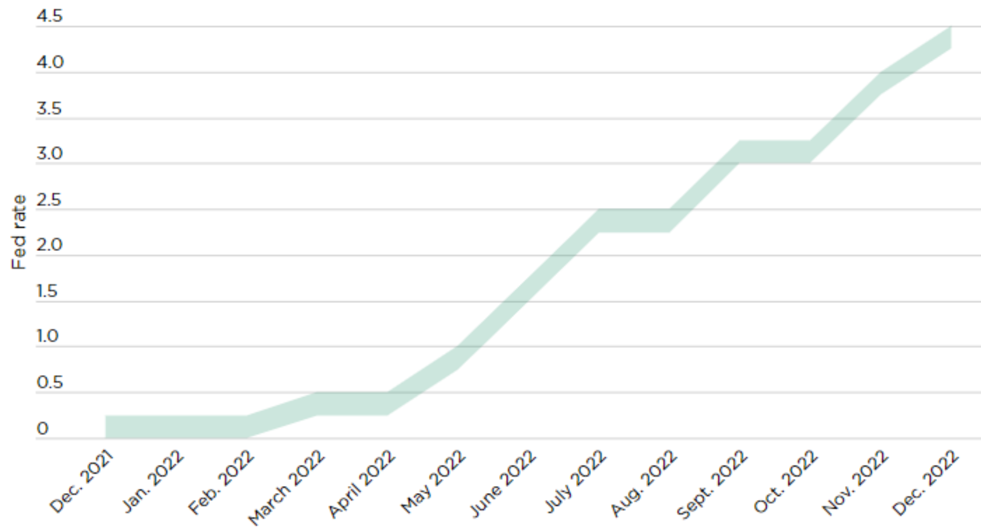
While the Federal Reserve took decisive action and rapidly raised rates seven times in 2022, it takes time for those adjustments to affect the economy. Raising the federal funds rate makes credit more expensive for consumers and businesses and it is one of the only tools the Fed can control to combat inflation. This in turn discourages consumers and businesses from spending, lowering demand for goods and services and ultimately prices.

2022 Fed Rate Increases[4]

FOMC Meeting Date	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%
Nov 2, 2022	0.75%	3.75% to 4.00%
Dec, 14, 2022	0.50%	4.25% to 4.50%

There are some signs that the rate increases are mitigating inflation. According to the December 13th Consumer Price Index (CPI) report, the inflation reading of 7.1% was down from a peak of 9.1% in June[5,6]. Home sales have dropped. Buyers are spending more to repay debt on variable rate loans including mortgages, vehicles, personal and credit card debt. These higher payments leave less money for discretionary spending and may dissuade consumers from spending. However, other metrics show the rate increases have not reached their full impact. The jobs market is still strong with the economy adding more jobs than anticipated in November[7] and the unemployment rate sitting at a low 3.7%[8], the lowest level since 1969. Moreover, although consumer spending has slowed, consumers have not cut back on spending considerably due to wage growth. That said, the Federal Reserve will continue to increase the federal funds rate into 2023 as policymakers work towards their 2% inflation target.

The Federal Reserve has been raising rates at a steady clip to combat inflation[9]



Prior to 2022, there had not been a 75-basis point increase since 1994. Interest rates were 4%+ from the 1990s-2001, down from almost 20% in 1980. The Fed stated high inflation due to supply and demand imbalances from the pandemic, higher food and energy prices and broader price pressures as reasons for the December rate hike.

The health of the economy will predict future fed moves as central bankers want to see inflation easing and the job market weakening "The labor market … shows only tentative signs of rebalancing, and wage growth remains well above levels that would be consistent with 2% inflation," Jerome Powell said. He went on to say, "Despite some promising developments, we have a long way to go in restoring price stability." Powell reiterated policymakers will slow the rapid pace of tightening in 2023. The central bank anticipates raising rates to 5.1% by the end of 2023 and lowering rates to 4.1% by late 2024.

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.
- Globally central banks raised interest rates collectively over 200 times in 2022. (Source: Wells Fargo Advisors, State of the Markets, December 21, 2022)
- Manufacturing activity contracted for the first time in 2.5 years in November as factories described languishing demand.
- The Inflation Reduction Act will invest $369 billion over the next decade into climate and energy programs. The anticipated effect is to reduce US greenhouse gas emissions by 42% (below 2005 levels) by 2030.[10]
- 2022 midterm elections witnessed tight congressional races. Republicans won control of the House while Democrats retained control of the Senate. We will monitor executive and legislative priorities for the coming year.

- A record number of holiday shoppers, 196.7 million, made purchases between Thanksgiving and Cyber Monday, up from 179 million in 2021.[11]

SECURE 2.0 Act of 2022 (SECURE 2.0)[12]

The SECURE Act 2.0 was signed into law on December 29, 2022, adding new retirement plan provisions, most notably:

- Increasing the **Required Minimum Distribution (RMD)** age to:
  - **73 starting in 2022**
  - 74 starting in 2029
  - 75 starting in 2032
- The penalty for failing to take an RMD will decrease to 25% of the RMD amount (from 50% currently), and to 10% if corrected in a timely manner
- **Catch-up contributions** will increase to $10,000 (from $5,000) for older savers invested in workplace retirement plans
  - 2023 401(k) contribution limit is $22,500 (up from $20,500 in 2022)
  - Age 50+ savers can contribute an additional $7,500 (up from $6,500 in 2022)
  - *Starting in 2025, a special catch-up contribution of up to $10,000 for savers between 60-63 is allowed. The $10,000 will be indexed to inflation.*
- **Roth 401(k)s** will be exempt from RMD requirements beginning in 2024
- Employees can elect their **employer match vest in a Roth 401(k)** (once employers update their payroll systems)
- **Qualified charitable distributions (QCDs)** can be made to some charities up to $50,000 coming directly from an IRA account. This amount counts toward the annual RMD.
- **529 Plans.** 529 plan assets can be rolled into a Roth IRA for the beneficiary after 15 years. This is subject to annual Roth contribution limits and there is an aggregate lifetime limit of $35,000.
- **Student loan debt.** Beginning in 2024, employers can "match" employee student loan debt payments with matching payments to a retirement account, enabling workers to save while paying off educational loans.
- Beginning in 2024, **IRA catch-up contributions** will be indexed to inflation and may rise each year based on cost-of-living.
- More **part-time employees** with at least 500 hours of annual service who have worked two consecutive years (the previous requirement was 3 years of service) will gain access to workplace retirement plans starting in 2025
- Mandating **auto-enrollment** for eligible employees in new retirement plans starting in 2025

Turning 72 in 2023?

You can take your first Required Minimum Distribution (RMD):

- Either by December 31, 2024 -or-
- Delay until no later than April 1, 2025

Recall, if you delay your first RMD to April 1, 2025, you will be required to take 2 RMDs in 1 tax year:

- The first by April 1, 2025 (satisfies 2024 required withdrawal) -and-
- The second by December 31, 2025 (satisfies 2025 required withdrawal)

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Investors should not make portfolio reallocations or substantial changes to long-term investment plans based solely on current events. Our investment planning extends throughout 2023 and well beyond and we continue to align portfolios with economic trends that we believe should continue. It is important to keep unique planning, time horizons and financial goals into focus.

Tax Season and Retirement Plan Contributions

For those still working, we want to make sure you are maximizing deferral 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 2023, the maximum contribution under age 50 is $22,500 (up from $20,500 in 2022). The catch up is $7,500 for over age 50.
- Traditional and Roth IRA funding for 2022 and 2023 - The maximum allowable contribution for 2022 is $6,000 with a $1,000 catch-up over age 50. The maxium allowable contribution for 2023 is $6,500 with a $1,000 catch-up over age 50. We have until the tax filing deadline of, April 15, 2023 for 2022 contributions and April 15, 2024 for 2023 contributions.
- SEP IRA - $61,000 limit for 2022 with 4/15/23 contribution deadline (or tax filing date). $66,000 contribution limit for 2023 – deadline to contribute is 4/15/24 (or tax filing date).

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

Zalayet, Adler and Suba Private Wealth Management Group – Selected for Forbes Top Wealth Management Teams in America for 2022. The 2022 Forbes Top High-Net-Worth Wealth Management Team List distinguishes teams meeting numerous quantitative and qualitative metrics. The final 100 teams were chosen from a list of over 37,000 advisor and 6,000 team nominations.

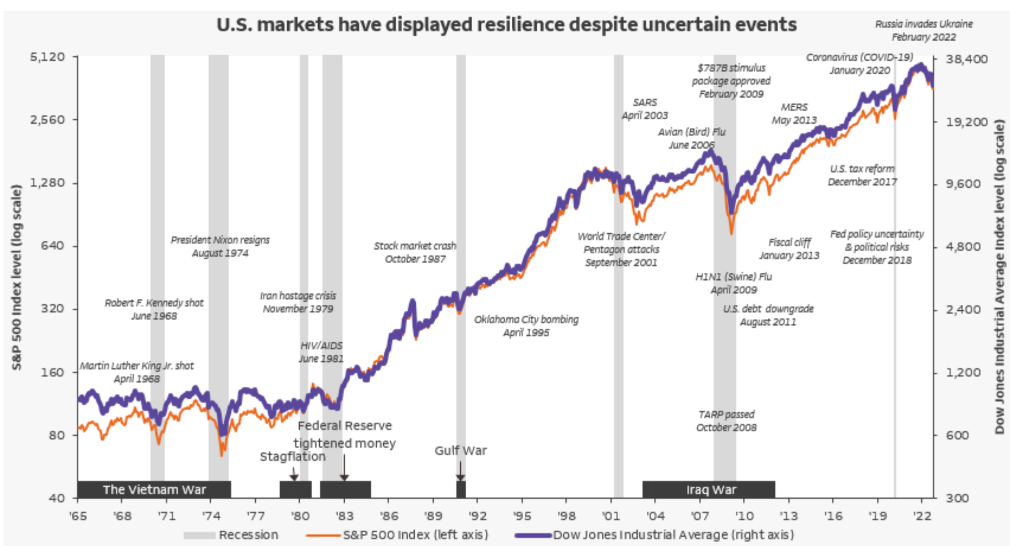
The Forbes Top Wealth Management Teams rating algorithm is based on the previous year's industry experience, interviews, compliance records, assets under management, revenue and other criteria by SHOOK Research, LLC, which does not receive compensation from the advisors or their firms in exchange for placement on a rating. Investment performance is not a criterion. Self-completed survey was used for rating. This rating is not related to the quality of the investment advice and based solely on the disclosed criteria.

Team Website Update
Please note tax planning tables and archived newsletters can be found on our team website: www.zasprivatewealthmanagement.com Full biographies of each financial advisor and client associate can be found on our website. Our website also includes wealth planning areas our team implements as needed, detailed examples of services we provide, articles, newsletters, financial calculators and an account log-on link.

Conclusion

"Successful investing takes time, discipline and patience."
Warren Buffett

Financial markets are resilient and have continued to reach higher levels after short-lived market disruptions including geopolitical crises, terrorist attacks, economic recessions, epidemics, and significant central-bank policies. After enduring 10 bear markets between 1950 and 2021, the S&P 500 recuperated and attained a new all-time closing each time. The fastest recovery was 3 months in 1982 while the longest took 70 months between 1974-1980.



Sources: Wells Fargo Investment Institute and Bloomberg. Monthly data from January 1, 1965 to September 30, 2022. Shaded areas represent recessions. TARP = Troubled Asset Relief Program. Fed = Federal Reserve. SARS = Severe Acute Respiratory Syndrome. MERS = Middle East Respiratory Syndrome. For illustrative purposes only. A price index is not a total return index and does not include the reinvestment of dividends. The **S&P 500 Index** is a market capitalization-weighted index composed of 500 stocks generally considered representative of the U.S. stock market. The **Dow Jones Industrial Average** is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. Index returns do not represent investment performance or the results of actual trading. Index returns represent general market results and do not reflect deduction for fees, expenses or taxes applicable to an actual investment. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.** There is no certainty that U.S. markets will continue to show resilience despite crisis events. Investing in stocks involves risk and their returns and risk levels can vary depending on prevailing market and economic conditions. There is no guarantee equity markets will perform similarly during other periods of uncertainty. All investing involves risk including the possible loss of principal.

While the Federal Reserve makes every effort to engineer a "soft landing" for the economy and avoid a recession, that is a herculean task to calibrate a $22 trillion economy and we anticipate continued elevated volatility. Volatility is a normal part of market cycles and behavior and can offer opportunities for building wealth to patient long-term investors. 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.

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

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) "How Often is the Market Down in Consecutive Years?" A Wealth of Common Sense, 12/13/2022
(1A) "Capital Market Index Return," Wells Fargo Investment Institute, 12/2022
(2) "U.S. labor market shrugs off recession fears; keeps Fed in tightening path," Reuters, 12/2/2022
(3) Source: Bureau of Labor Statistics, FactSet, Federal Reserve Bank of Philadelphia, University of Michigan, J.P. Morgan Asset Management. Contributions mirror the BLS methodology on Table 7 of the CPI report. Values may not sum to headline CPI figures due to rounding and underlying calculations. "Shelter" includes owner's equivalent rent and rent of primary residence. "Other" primarily reflects household furnishings, apparel, education and communication services, medical care services and other personal services. *Reflects the latest daily 5yr/5yr breakevens, preliminary or final Consumer Sentiment survey, and the quarterly Survey of Professional Forecasters interpolated to a monthly series. The Survey of Professional Forecasters reflects the median estimate by professional forecasters of average CPI inflation over the next 5 years. The series has been adjusted by J.P. Morgan Asset Management to exclude realized inflation readings within the forecast window. *Guide to the Markets – U.S.* Data are as of December 31, 2022.
(4) "Federal Funds Rate History 1990 to 2022," Forbes Advisor 12/14/2022
(5) "Consumer prices up 9.1 percent over the year ended June 2022, largest increase in 40 years," U.S. Bureau of Labor Statistics, 7/18/2022
(6) "Inflation slows to 7.1% for November, another sign the economy is cooling off," NBC News, 12/13/2022
(7) The Federal Reserve Bank of New York
(8) "US economy added a robust 263,000 jobs in November," CNN Business, 12/2/2022
(9) "Unemployment rate 3.7 percent in November 2022, U.S. Bureau of Labor Statistics, 12/6/2022
(10) "Treasury Announces Guidance on Inflation Reduction Act's Strong Labor Protections," U.S. Department of the Treasury, 11/29/2022
(11) "Record 196.7 Million Consumers Shop Over Thanksgiving Holiday Weekend," National Retail Federation, 11/29/2022
(12) "SECURE 2.0 Act of 2022," United States Senate Committee on Finance