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

First Quarter 2023 Update

"In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts; the Depression; a dozen or so recessions and financial panics; oil shocks; a flu epidemic; and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497."
-Warren Buffet

The second largest bank collapse in U.S. history overshadowed a notable start to 2023 with low unemployment, falling gas prices, more affordable home prices, and tamer inflation. Financial markets had a robust start to 2023 with the S&P 500 rising 6.2% in January after declining -5.9% in December 2022.[1] Simultaneously, the US Aggregate Bond Index rallied 3.1% in January after falling in 2022.[2] Meanwhile, China, the world's second largest economy reopened after three years in lockdown demonstrating signs of strength in the global economy. While strong spending helped lift the economy out of the pandemic, continued elevated inflation, rising interest rates and tighter financial conditions from the banking fallout could result in a recession of varying magnitudes as these events unfold in real time. The first quarter closed positive near the highs of January.

Source: Wells Fargo Investment Institute, as of December 31, 2022. Subject to change.

Banking troubles have remained contained and a number of tailwinds continue to bolster the economy including abating inflation, substantial household savings, and a strong labor market.

U.S. and European Banking Sector
United States financial institutions, especially larger ones, are better capitalized with more diverse deposit sources and types of assets now compared to the 2008-2009 Financial Credit Crisis.

The Covid-19 lockdowns left many U.S. banks with larger than expected cash balances that needed to be put to work. The Federal Reserve's tightening has had the most impact on smaller financial institutions that mismanaged interest rate and deposit concentration risk. The larger banks with their size and scale are able to offer more capital and product breadth.

In response to the banking fallout, the Federal Reserve may require banks to show unrealized gains and losses on some securities that will yield more transparency into banks regulatory capital ratios which measure strength. Powell reassured consumers and businesses "You've seen that we have the tools to protect depositors when there's a threat of serious harm to the economy and we're prepared to use those tools." He continued "I think depositors should assume that their deposits are safe."[6]

Federal Reserve – Interest Rates
The responsibility of the Federal Reserve (Fed) is to oversee the macroeconomy as well as the financial and banking system. On March 22, the Fed raised interest rates a quart-percentage-point to bring down inflation lifting the federal-funds rate to 4.75% to 5%.

A little over one year ago, the Federal Reserve incepted the first of what would total nine interest rate hikes. The impetus was to tame heightened inflation which peaked at 9.1% in June of 2022.[7] During the course of the year, the consumer price index measure of inflation has come down to 6%.[8] Although progress is being made in the inflation fight, the Fed's target inflation rate is 4% lower at 2% with Fed Chair Powell stating … "inflation remains too high and the labor market continues to be very tight."[9]

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%
February 1, 2023	0.25%	4.50% to 4.75%
March 22, 2023	0.25%	4.75% to 5.00%

Source: Federal Funds Rate History 1990 to 2023 (Forbes.com)

In the March meeting, Fed Chairman Jerome Powell said "We no longer state that we anticipate that ongoing rate increases will be appropriate to quell inflation." Powell went on to say "Some additional policy firming may be appropriate." The comments underscore a possible change of course on rate hikes given the turbulence in the banking sector. Despite the banking turmoil, the FOMC described "The U.S. banking system is sound and resilient."[9] The Fed anticipates one more quarter percent rate hike in June. Future rate adjustments will depend on incoming economic data.

These topics as wells as other economic and geopolitical concerns may continue to impact markets. Some of the items we are monitoring include:

- The price of a barrel of oil has dropped from $121 a year ago to $77.[10] Energy is a critical input into most goods and services. Lower energy prices have the dual effect of lowering inflation while potentially encouraging higher consumer spending.
- Although wage growth is up from pre-Covid levels, it has slowed since March 2022 particularly amount low-wage workers (Source: Indeed)
- Unemployment ticked higher to 3.6% in February, up from 3.4% in January while average hourly earnings growth declined. (Source: Bureau of Labor Statistics)
- There were 102,943 domestic layoffs in January, 41% in Technology. In February, U.S. employers made 77,770 job reductions with 28% in Technology.[11]
- The national average for gas prices is $3.435 down from $4.246 a year ago.[12]
- The housing market witnessed both historic highs and historic lows during the course of 2022. Housing prices in the national index have seen 4.4% declines from the 2022 highs.[13]
- After 3 years of Covid-19 restrictions, Chinese consumers are returning to restaurants, hotels and stores. In 2022, Chinese households deposited an additional $2.6 trillion into banks, the country's largest annual savings amount.[14]
- The European Central Bank (ECB) raised interest rates by 50 basis points in March to combat high inflation.
- Global smartphone shipments declined 4.3% in 2022, the largest drop since 2013 due to supply chain issues as wells as economic volatility. (Source: IDC)
- Bloomberg predicts by 2030 over 50% of US vehicle sales will be Electric Vehicles (EVs). Electric vehicle sales comprised 5.8% of US car sales in 2022. (Source: Bloomberg)

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

Changes to Required Minimum Distribution (RMD) Start Ages
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

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)

Welcome back Mia Manahan!
We are thrilled to welcome back Mia Manahan to the team as a Senior Client Associate. Mia began her career at Prudential Securities in 2000 (becoming Wells Fargo Advisors in 2009) where she worked in Operations and as a Client Associate. Mia and her husband have two fur babies. Away from the office, Mia enjoys crafting, archery and travel to new places and beautiful beaches.

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 4/17/23 contribution deadline (or tax filing date). $66,000 contribution limit for 2023 – deadline to contribute is 4/15/24 (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
- 73-: Must begin RMDs (Required Minimum Distributions) from Traditional IRA accounts (excluding Roth IRAs)

April is Financial Literacy Month

Articles on Investing, Tax Planning, Retirement and Estates & Trusts can be found in the Resources tab of
our team website:
www.zasprivatewealthmanagement.com
Please contact us with any questions. We are also happy to consult with your children and grandchildren as they embark on their careers and financial life planning journey.

Quarterly Team News

Zalayet, Adler and Suba Private Wealth Management Group – Selected for Forbes 2023 Best-in-State Wealth Management Teams
Eddie Zalayet, Howard Adler, Berit Suba – Recognized as Wells Fargo Advisors 2023 Platinum Council Advisors
Stephanie Werden – Promoted to First Vice President – Investment Officer
Berit Suba – Promoted to Managing Director – Investment Officer
Berit Suba – Selected for Forbes 2023 Top Women Wealth Advisors Best-in-State
Berit Suba – Attained PIM Portfolio Manager certification

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.

The Platinum Council (previously known as Premier Advisor) distinction is held by a select group of Financial Advisors within Wells Fargo Advisors as measured by completion of educational components, business production based on the past year, and professionalism. Additional criteria, best practices and team structure, may also be used to determine recipients.

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

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.

Despite the turmoil in the banking sector, the labor market remains steady and disinflation or the deceleration in the pace of inflation has begun. Falling gas prices are keeping more money in consumers' pockets. We do not perceive the recent financial institution pain is symptomatic of a larger industry wide issue. Increasing interest rates, declining money supply growth, and stringent liquidity will work together to calm inflation.

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, financial markets are resilient and 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.

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®
Managing Director – Investment Officer
PIM Portfolio Manager
Chartered SRI Counselor™
Chartered Retirement Planning Counselor℠

Stephanie Werden, CFP®, CSRIC™, CRPC®
First Vice President – Investment Officer

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) "US Stock Market Update January 2023: Five Key Highlights," Financial Express 2/20/2023
(2) Market Update January 2023, USI Consulting Group. usicg.com/publications
(3) "Silicon Valley Bank Fails After Run on Deposits," New York Times, 3/10/2023
(4) "North Carolina-based First Citizens Bank buys Silicon Valley Bank assets," CBSnews.com, 3/27/2023
(5) "Silicon Valley Bank leaders 'failed badly,' Fed Chair Jerome Powell Says," CBSnews.com, 3/22/2023
(6) "Bank deposits have stabilized in last week, Powell says," Reuters.com, 3/22/2023
(7) "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

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

(8) Consumer Price Index Summary, Bureau of Labor Statistics, 3/14/2023
(9) Fed Minutes, https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20230322.pdf
(10) https://tass.com/economy/1588727
(11) https://www.challengergray.com/blog/job-cuts-hit-77770-in-february-2023-highest-ytd-since-2009/
(12) https://gasprices.aaa.com/
(13) https://www.corelogic.com/intelligence/us-corelogic-sp-case-shiller-index-down-by-4-4-from-peak-in-december-but-still-up-by-5-8-year-over-year/#:~:text=Cumulatively%2C%20home%20prices%20in%20the,by%20the%20spring%20of%202023.
(14) “China’s record $2.6tn rise in savings fuels ‘revenge spending’ hope”, Financial Times 1/23/2023