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PRIVATE WEALTH MANAGEMENT GROUP
of Wells Fargo Advisors

Third Quarter 2023 Update

Global financial markets exhibited volatility in the third quarter amid elevated inflation, rising interest rates driven by aggressive Fed tightening, workforce shortages, and high labor costs. Inflation remains high at 3.7%, above the Federal Reserve's 2% target and up from 3.2% in July, 2023[1]. Labor costs for businesses are continuing to climb. Increasing food, energy and housing costs accompanied by resuming student loan payments could cause further strain on household budgets. With continued persistent effects from the pandemic, the ongoing war in Ukraine, the absence of additional fiscal stimulus, and Fed credit tightening, we anticipate some muted economic growth for the rest of 2023 into 2024.

Despite these challenges, there are a number of positive tailwinds. Increased demand for travel, entertainment, and other economically sensitive services is propelling the economy. Global supply chain issues are on the mend. Unemployment has remained low at 3.8%[2] while real income has grown. U.S. lawmakers reached a temporary bipartisan agreement that staved off a government shutdown.

Global Economic Forces[3]

Tailwinds

- Real income growth supported by renewed disinflation and by elevated wage and job gains
- Healthy employment growth plus productivity-enhancing investment supports growth potential; artificial intelligence (AI) may provide future help
- Still-sizable cash balances among middle- and upper-income groups[1]
- Release of pent-up services demand still supporting growth directly and through its ripple effect on other parts of the economy
- Supportive infrastructure and other investment from fiscal stimulus
- Dollar weakness supportive of commodity producers' exports, emerging market finances

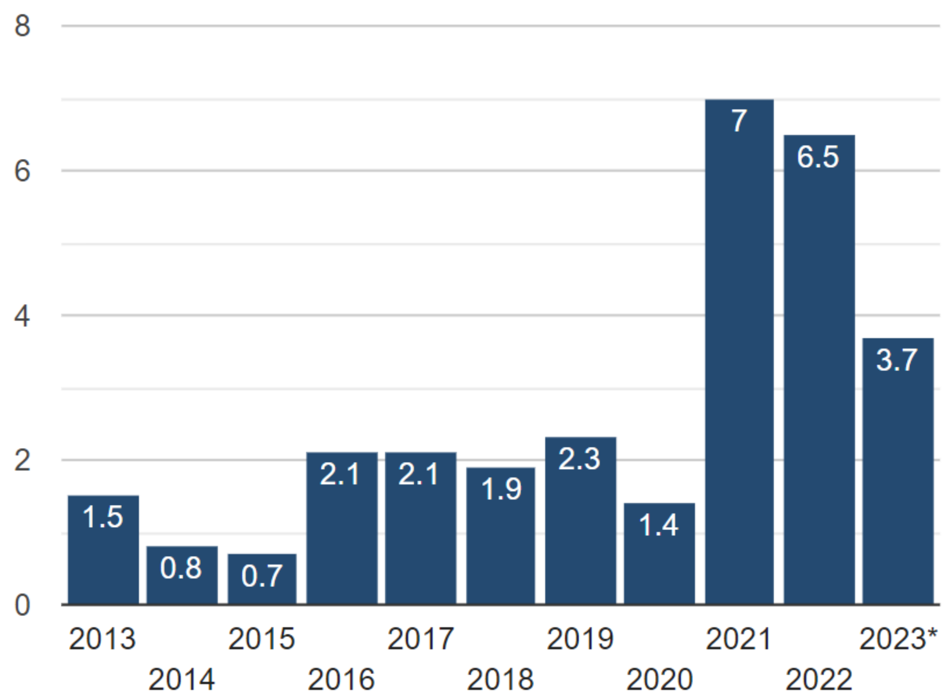
Headwinds

- Household savings rate trending upward on economic uncertainties
- Rising debt and increased distressed borrowing, particularly among lower-income households
- Lagged effect of global central banks' monetary policy tightening
- Credit quality and financing tested by tightening liquidity conditions
- Slumping money supply ultimately a deflationary threat
- Global trade and economic growth losing support from China's struggling economy
- Fiscal "drag" from the recent budget accord renewed student debt repayments, slowing state and local spending

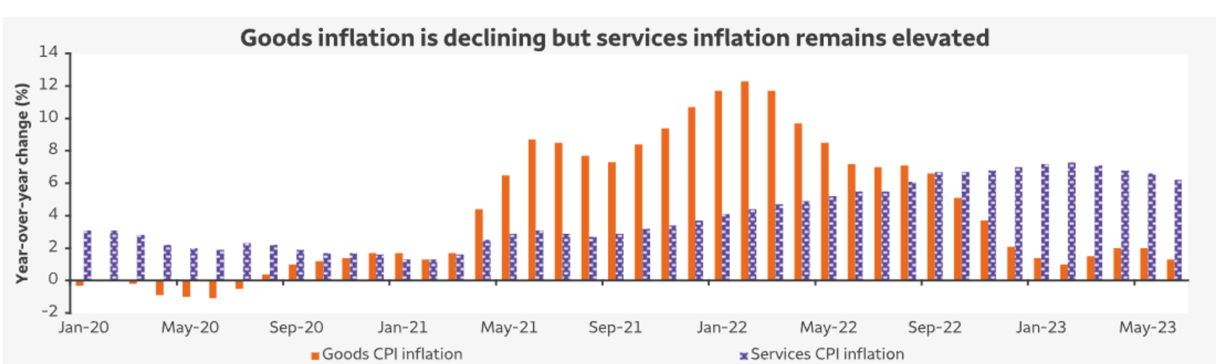
Inflation

United States inflation rates have dropped from a high of 7% in 2021 to 3.7% in August, albeit up from 3.2% in July. The rise from July to August was attributable to a temporary spike in gasoline prices in August. Gas prices jumped 10.6% in August as crude oil, which is refined into gasoline, hit higher prices.[4] Housing is the largest consumer expense, following by transportation including gasoline.

United States Annual Inflation Rates (2013-2023)[5]



More recently, consumer spending has rotated from goods to services. Service spending was led by housing, transportation, and healthcare.[6]



Federal Reserve – Interest Rates

The Federal Reserve moved to pause interest rate hikes during their September meeting keeping interest rates in the 5.25% to 5.50% range. This marks the second time (June and September 2023) the Federal Reserve did not raise rates in their policy-setting meeting since January 2022. With Central bankers still concerned about inflation, they will maintain higher interest rates for the time being. The August U.S. unemployment rate of 3.8% is slightly above the April 50-year low of 3.4%.[7] Low unemployment typically equates to higher spending. However, the Federal Reserves goal is less spending and a decrease in demand which would calm inflationary pressures. Current inflation of 3.7%[x] remains above the Fed's long-term average target rate of 2%. As a result, the Fed may increase rates down the road before the central bank starts lowering them. The Fed signaled they may raise rates another quarter of a percent by the end of 2023. Although there have been eleven increases since the beginning of 2022, interest rates are lagging indicator which takes time to impact the economic cycle.

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%
May 3, 2023	0.25%	5.00% to 5.25%
July 26, 2023	0.25%	5.25% to 5.50%

Source: Federal Funds Rate History 1990 to 2023 (Forbes.com)[7]

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

- From 2017-2022, Americans saved an average 8.3% of their disposable income[8]
- Personal consumption increased an annualized 0.8% in Q2, a weaker rise than expected.[9]
- 28 million student loan borrowers are resuming payments this October after President Biden was unable to forgive $400 billion in student loan debt.[10]
- US consumer confidence declined to 103, a 4-month low.[11]
- US home prices hit a record high in July.12
- Pandemic savings have dropped among the bottom 80% of households since March 2020. The wealthiest 20% by income have cash savings 8% above their level when the pandemic began.13
- On August 1, credit rating agency Fitch downgraded the long-term credit rating of the U.S. to AA+ from AAA.[14]

- The national average for a gallon of gas is $3.789, down slightly from $3.805 a year ago (10/4/23).[15]
- Electric vehicle sales in the 12 months ending June 2023 reached 977,445 and is on pace to sell 1 million in 2023. This compares to it taking 10 years in the US to sell its first 1 million electric vehicles.16
- Global debt swelled to a record of $307 trillion, rising $100 trillion in the last decade. Debt in the US, Japan, UK and France increased the most.[18]

Changes to Required Minimum Distribution (RMD) Start Ages

The SECURE Act 2.0 was signed into law on December 29, 2022, adding new retirement provisions, including **increasing the Required Minimum Distribution (RMD) age depending on birth year:**

Birth Date	Applicable RMD Age
Before July 1, 1949	70 ½
July 1, 1949 – 1950	72
1951-1959	73
1960 or later	75

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)

Tax Planning 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. The catch up is $7,500 for over age 50. The contribution limit will increase to $23,000 in 2024.
- 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, 2024 for 2023 contributions. **Please note the deadline is extended to October 16 in federally declared**

disaster areas (AL. CA, GA) for 2022 contributions. The 2024 contribution limit will increase to $7,000 with a $1,000 catch-up over age 50.

- 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). $68,000 contribution limit for 2024.

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)

Cybersecurity & Identity Theft Recovery

October is National Cybersecurity Awareness month. It is a good time to be reminded of measures you can take to stay safer and be more secure online. Please visit our online Security Center to explore helpful measures and tips.

Many of us have become victims of identity theft. The federal government has a great one-stop resource to help you report identity theft, get a recovery plan and put your plan into action. Please visit their site: www.identitytheft.gov

Team Continuing Education

Eddie Zalayet and Stephanie Werden – Represented the team at the Forbes Top Advisor Summit.

Team Baby News

Rosanna Tokar – Rosanna and Ramon welcomed twins Camila and Valentino in February!

Team New Hire News

Jack Elton – We are thrilled to welcome Jack Elton to the team! Jack has been a Registered Associate for 7 years working at Morgan Stanley and Raymond James. Jack will be part of the New Advisor Development Program.

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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.

No two business and economic cycles are identical. The catalyst behind this cycle has been the pandemic. Initially in 2020, the unexpected pandemic elicited the sharpest economic declines since the 1930s Great Depression. As lockdown ended, savings and income growth unleashed pent-up demand for bigger ticket travel, entertainment, vehicles, and other services. However, inflation was pushed to a 40-year high last year by supply chain interruptions, workforce shortages, aggressive monetary policy and fiscal stimulus. It will take time for these issues to be resolved.

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.

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(1) https://www.usinflationcalculator.com/inflation/current-inflation-rates/
(2) https://www.bls.gov/news.release/pdf/empsit.pdf
(3) Source: Wells Fargo Investment Institute, as of June 30, 2023. Subject to change.
(4) https://gasprices.aaa.com/
(5) https://www.usinflationcalculator.com/inflation/current-inflation-rates/
(6) Sources: Bloomberg, Bureau of Economic Analysis, U.S. Census Bureau, and Wells Fargo Investment Institute. Goods and Services Consumer Price Index (CPI) inflation: monthly data from January 1, 2020 to June 30, 2023. PCE components: monthly data from January 1, 1959 to May 31, 2023. PCE (personal consumption expenditure) tracks overall price changes for goods and services purchased by consumers. Services and all goods spending data is adjusted for inflation
(7) https://www.forbes.com/advisor/investing/fed-funds-rate-history/
(8) https://news.bloomberglaw.com/banking-law/americans-saved-1-1-trillion-less-than-thought-from-2017-2022
(9) https://www.bloomberg.com/news/articles/2023-09-28/us-consumer-spending-rises-at-weakest-pace-in-over-a-year

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