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

Year-End 2023 Update

In contrast to 2022 where all the major indices (stock and bond markets alike) posted negative losses, 2023 was a positive year in the financial markets. The uptick in the stock and bond markets was driven by a stronger than expected economy, the recovery and expansion of big technology companies and most recently the outlook for possible interest-rate cuts in 2024. Fervent consumer spending, a robust labor market and business capital expenditures drove the resilient economy. The Federal Reserve continued to raise interest rates four times in 2023 following seven hikes in 2022 to calm the highest inflation in 40 years. The labor market continued to be strong in 2023 with unemployment at 3.7%, down significantly from the 13% level seen in 2020.[1, 2]

Factors that affect the global economy[3]

TAILWINDS

- Disinflation supporting economy through lower interest rates, easing financial conditions, boost to real income growth
- Added support to consumer-led growth from solid wage and job gains
- Healthy employment growth plus productivity-enhancing investment, including artificial intelligence, supports growth potential
- Lingering post-pandemic excess cash balances among the richest 20% of households by income[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 pullback, price-supportive supply-demand balance underpins commodity producers' exports and EM finances

HEADWINDS

- Rising debt and increased distressed borrowing, particularly among lower-income households
- Lagged effect of global central banks' monetary policy tightening and elevated real (inflation-adjusted) interest rates
- Household, small-business credit quality and financing tested by banks' tight lending standards
- Historically low housing affordability a threat to home sales and construction
- Deflationary threat from weakening money supply, sluggish loan growth
- Global trade and economic growth losing support from China's struggling economy, recession in Europe
- Threatened budget restraint, responding to the latest debt downgrade and market pushback against rising federal interest expenses, slowing state and local spending

Consumer confidence rose as Americans became more positive about the inflation forecast, labor market, future salaries, and business conditions. The crucial consumer accounts for two-thirds of economic activity in the U.S. and has been spending pandemic savings and stimulus aid.[4] Although more Americans expressed they would make big ticket purchases in 2024 on items like major appliances, automobiles, and vacations, consumer pent up spending from the pandemic savings has largely been drawn down.[5]

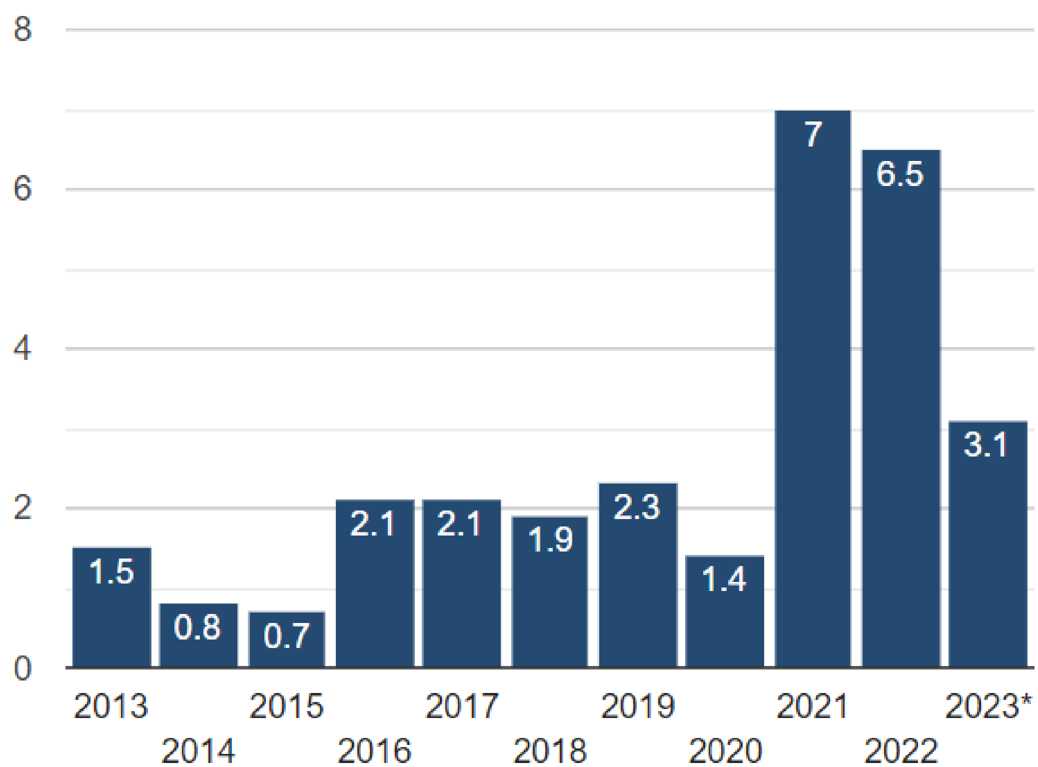
The year witnessed several devastating economic and geopolitical events. Three U.S. banks failed with inflation-adjusted balances totaling more than the 25 bank collapses during the 2008 credit crisis.[6] The Russian invasion of Ukraine that recommenced in 2022 continues to be waged squeezing food and energy commodities. The also tragic conflict between Hamas and Israel began in October when Hamas launched an attack on Israel from the Gaza Strip. Globally, direct foreign investment into China, the world's second largest economy, dropped to the lowest level in four years.[7] As a result of geopolitical events, we anticipate potentially lower trade and higher commodity prices.

Moving into 2024, disinflation will likely lead to rate reductions. In response to the cost of living increasing, Social Security benefits will increase by 3.2% in 2024. A number of headwinds remain that may move economic metrics, corporate earnings and consumer spending lower including tight and costly borrowing, a cooling jobs market, and sagging leading indicators.

Inflation

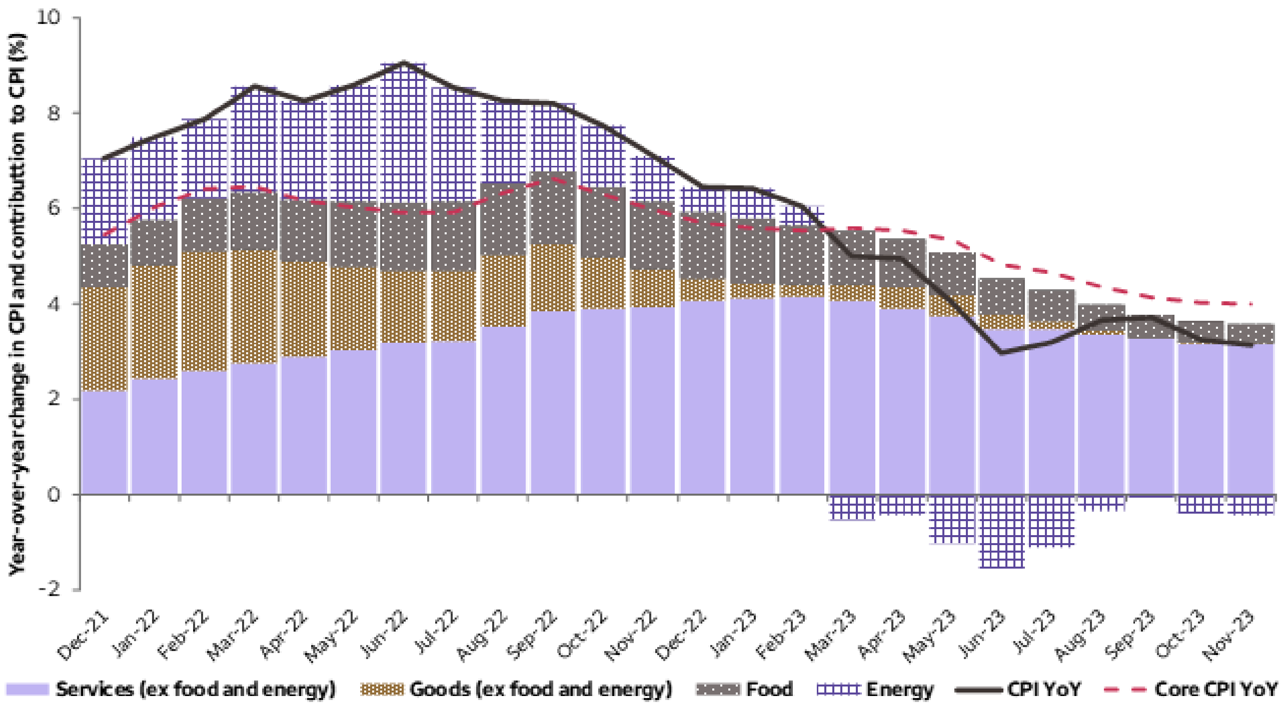
A major challenge facing Federal Reserve policymakers has been the surge in inflation witnessed over the last 2.5 years. Given the inflation rate has been well above the Federal Reserve's 2% inflation target, the central bankers made 7 interest rate adjustments in 2022 and 4 in 2023 to combat inflation. 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.

United States Annual Inflation Rates (2013-2023)[8]



Inflation for goods, food and energy is declining, however, services and core inflation remain elevated. Despite recent declines, if geopolitical events persist, the road to lower inflation may be choppy with potential supply constraints on food and fuel. More recently, consumer spending has rotated from goods to services. Service spending was led by housing, transportation, and healthcare.

Components of the Consumer Price Index (CPI)[9]



Federal Reserve – Interest Rates

Since March 2022, the Federal Reserve increased their benchmark federal funds rate eleven times by 5.25% to combat inflation. This marked the fastest pace of credit tightening in forty years. No rate hikes occurred at the September, November or December meetings leaving the federal funds rate at a 22 year high of 5.25%-5.50%[8]. The Federal Reserve left rates unchanged due to low unemployment, a slight cooling from third quarter economic growth and inflation at 3.1% which is still above the U.S. Federal Reserve's 2% target. The U.S. Central Bank continues to reduce its holdings of U.S. Treasury securities, agency mortgage-backed securities, and agency debt.

With inflation easing, the Fed is forecasting three or more decreases each of a quarter of a percentage point in 2024. When addressing questions on the timing of rate cuts, Cleveland Fed President Loretta Mester said "It's about how long do we need monetary policy to remain restrictive in order to be assured that inflation is on that sustainable and timely path back to 2%."

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%

No rate hikes
June 14, 2023
September 20, 2023
November 1, 2023
December 13, 2023

Source: Federal Funds Rate History 1990 to 2023 (Forbes.com)[10]

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

- The November 2024 U.S. Presidential election. At least 64 countries (49% of the global population) are scheduled to hold national elections making it the largest voting year ever in the history of the world.[11]
- Many technology companies focusing on Artificial intelligence or AI could lead to growth in digital markets such as cloud and advertising.
- AAA's national average gas price as of 1/3/24 is $3.094 which is down from the national average of $3.228 on January 3rd of 2023.[12]
- The Consumer Confidence Index increased to 108.3, the highest the level since April of 2022.[13]
- Retail spending in the 2023 Holiday Season rose just over 3% year-over-year, marking a return to pre-pandemic consumer spending trends from the years 2011-2019.[14]
- The annual United States inflation rate in the month of November was slightly down from the previous month at 3.1% on a 12 month basis. Although lower than recent numbers, this rate is still 1-2% higher than pre pandemic levels.[15]
- The 2023 US housing market declined with the number of existing-home sales dropping 19.1% from 2022 and 33.5% from 2021 nationally.[16]
- According to the New York Fed, Americans' total credit card debt balances in December of 2023 added up to a record $1.08 trillion, a 40 percent increase since Q1 of 2021.[17]

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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 73 in 2024?

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 2024, the maximum contribution under age 50 is $23,000. The catch up is $7,500 for over age 50.
- Traditional and Roth IRA funding for 2023 and 2024 - 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. The 2024 contribution limit will increase to $7,000 with a $1,000 catch-up over age 50.
- SEP IRA - $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)

Team Website

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

"Uncertainty is actually the friend of the buyer of long-term values." Warren Buffett

Investors should not make portfolio reallocations or substantial changes to long-term investment plans based solely on current events. Our investment planning extends throughout 2024 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.

The new year will likely be volatile given possible interest rate cuts, the 2024 Presidential elections, as well as earnings and geopolitical uncertainty. There could be supply chain risk attributed to war and geopolitical tensions. With inflation at 3.1% still above the Fed's 2% target, it may take time for the Fed's previous tightening to have any effect on the economy.

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.

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

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(2) https://www.bls.gov/news.release/pdf/empsit.pdf
(3) Wells Fargo Investment Institute, as of June 30, 2023. Subject to change.
(4) https://www.whitehouse.gov/cea/written-materials/2023/10/30/as-the-u-s-consumer-goes-so-goes-the-u-s-economy/#:~:text=Consumption%20spending%20makes%20up%20two,so%20goes%20the%20U.S.%20economy
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(8) Current US Inflation Rates: 2000-2023 (usinflationcalculator.com) https://www.usinflationcalculator.com/inflation/current-inflation-rates/#:~:text=The%20annual%20inflation%20rate%20for%20the%20United%20States,Labor%20Department%20data%20published%20on%20Dec.%2012%2C%202023
(9) Sources: Bloomberg, Bureau of Economic Analysis, and Wells Fargo Investment Institute. Monthly data from December 1, 2021 to November 30, 2023. Consumer Price Index (CPI) measures the price of a fixed basket of goods and services purchased by an average consumer. Core CPI excludes food and energy. YOY = year-over-year.
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(14) Holiday spending is up. Shoppers are confident, but not giddy : NPR
(15) Current US Inflation Rates: 2000-2023 (usinflationcalculator.com)
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(17) Debt Dominates The 2023 Credit Cards Year In Review | Bankrate