BRIAN D. LOWDER, INC.

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FINANCIAL MARKET OVERVIEW

The fourth quarter performance for stocks was positive for all stock indexes ranging from 6% to 17%. For three of the index categories, the spectacular fourth quarter performance was the only reason why the index was positive for the year. Basically, 4th quarter returns ALONE ranged from nearly 9% to 14.5% in each index category. None of the index categories shown below had negative returns for 2023.

The overall broad stock market index and the **S&P 500 Index** were both up about over 11% during the fourth quarter and up 26% year-to-date. Consider this: If we measured performance by giving **equal weight** to all 500 of the stocks in the S&P 500 index, then the 2023 performance would have been only 11.7% for the year – not 26%. Again, about 25 tech stocks are dominating the stock market performance numbers for 2023.

The NASDAQ stock index, which is dominated by technology stocks, was up 13.5% during the fourth quarter, and up about 43% year-to-date.

The Dow Jones Industrial Average was up 12.5% during the fourth quarter but was up only 13.79% for the 2023 year. The small-company stock index, the Russell 2000, was up over 11% during the fourth quarter and up only 15% for the year.

Large-company ***growth*** stocks (dominated by tech stocks) were up 14% during the fourth quarter and up 42% for the 2023 calendar year. Large-company ***value*** stocks (older and established companies) were up less than 9% during the fourth quarter and up only 10.7% for the entire calendar year. Once again, performance is 2023 was dominated by about two dozen large-company tech stocks.

Mid-size ***growth*** stocks were up over 14% during the fourth quarter and up just over 25% for the calendar year. Mid-size ***value*** stocks were up 11.45% during the fourth quarter and only up 11.96% for the entire calendar year.

International stocks were up only 9% during the fourth quarter and emerging markets (smaller-country international stock indexes) were up less than 6% during the fourth quarter.

Investment real estate prices (real estate investments trust) would have posted a negative return for the year, but the fourth quarter jump of nearly 17% brought the 2023 calendar year return to 10.49%. Interest rates moved lower during the fourth quarter and began to positively impact real estate values. Water utility stocks were up about 10% during the fourth quarter, however, energy stocks were down over 10% as gas prices fell during the fourth quarter. Gold price performance was flat until the fourth quarter – but gold rose 11.5% during the fourth quarter.

Fixed income or bond prices for intermediate and long-term bonds were up 2.5% - 3.0% during the fourth quarter as interest rates fell with continued hope that the Federal Reserve will lower interest rates in 2024. Short-term bonds and Certificates of Deposit with 6-12-month maturities pay just over 5% which is more than all other bonds with maturities up to 30 years. The inverted yield curve is still here – short term bonds pay more interest than long-term bonds.

The following chart displays sample returns of various asset categories for the calendar year and during the fourth quarter of 2023:

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Yr-To-Date 2023	4th Qtr. 2023	Index Return (*includes dividends reinvested*)
+ 13.79%	+ 12.48%	**Dow Jones Industrial Average (^DJI)**
+ 25.67%	+ 11.19%	**Standard & Poor's 500 Index (^GSPC)**
+ 26.05%	+ 11.68%	**DJ U.S. Total Stock Market (VTI)**
+ 42.31%	+ 13.98%	**Large-company stock-Growth (IWF)**
+ 10.70%	+ 8.85%	**Large-company stock-Value (IWD)**
+ 25.52%	+ 14.35%	**Mid-Size Stocks – Growth (IWP)**
+ 11.96%	+ 11.45%	**Mid-Size Stocks – Value (IWS)**
+ 18.24%	+ 12.52%	**Small-company stock- Growth (IWO)**
+ 13.89%	+ 14.59%	**Small-company stock- Value (IWN)**
+ 16.89%	+ 9.33%	**International (EFA)**
+ 6.91%	+ 5.96%	**Emerging Markets (EEM)**
+ 10.49%	+ 16.79%	**Real Estate Investment Trusts (VNQ)**
		Fixed Income (includes appreciation)
+ 2.96%	+ 1.32%	**Short-term U.S. Treasury (SHY)**
+ 2.51%	+ 5.24%	**Intermediate U.S. Treasury (IEF)**
		Alternative Investment Category
+ 12.69%	+ 11.50%	**Gold (GLD)**

**All returns calculated using adjusted historical quotes from finance.yahoo.com*

FINANCIAL MARKET OUTLOOK

Well, it's been over a year and a half since the financial press, traders, and some forecasters have continuously held that the Federal Reserve Board is done raising interest rates and will begin lowering rates. After raising interest rates repeatedly over the past 12 months, it appears the Federal Reserve is either pausing or is done raising interest rates. Now, the prediction is the Federal Reserve may consider an interest rate decrease as early as March or June 2024... at least that's the "story" out there. Stocks have already moved up significantly in 2023 – when interest rates do finally begin to fall, don't expect a second stock market rally anywhere close to the 25% gain in stocks in 2023. Simply stated, the expected increase in stock prices due to lower interest rates are already reflected in the stock price performance in 2023.

Consider all of the changes we have experienced since 2020. 2019 was a great year for stocks -up over 30% and the economy / corporate America was finally back on track and moving forward in the right direction. Then, the Black Swan event hit – COVID.

Suddenly, we experienced greatly reduced employment and working remote was born. Supply chains were clogged and many necessary items (masks, prescriptions, infant formula, toilet paper etc.) were hard to find as the economy began to shut down. The Federal Reserve began to reduce interest rates quickly and dramatically under a new weakened and partially shutdown economy. At the same time the Fed was reducing interest rates, prices on many items were skyrocketing. Oil prices soared along with grocery items.

Under this uncertain economic scenario, Crypto and Bitcoin made a big splash. People bid the prices of Bitcoin up to insane levels during 2021. The price of Gold began to rise and the price of the U.S. Dollar and other currencies plummeted. Crypto, Bitcoin, gold, rare minerals etc. all began to rise rapidly – which is typical when currencies (U.S. Dollar) are falling.

Amazingly stocks were up 25% in 2021 and at the same time, Crypto currencies and Bitcoin were up more than 50%. Both stocks and Bitcoin prices were soaring and were doing so at the same time (2021). This is highly unusual and not sustainable. During 2022, Crypto and Bitcoin crashed. Inflation began to rise quickly in 2022 and peaked at 9% 2023. Before the peak in inflation, Russia invaded Ukraine in February 2022 adding more uncertainty. At the same time, a new theme – artificial intelligence - takes over the stock market and sends stock prices soaring on a limited number of about 20 tech stocks.

There is more …. the Federal government is now 34 trillion dollars in debt after years of spending far more than what it receives in income tax revenue. This overspending is magnified as the U.S. decides how much more money – deficit spending – to help Ukraine and Israel. And now, the Israeli-Hamas conflict boils over into war.

Simply stated, I don't have a good explanation about 2023, nor the current and immediate future of the financial markets. During 2023, insurmountable risks did not prevent significant gains in asset classes that normally do not move in the same direction. Bitcoin, gold and stocks moved significantly higher at the same time. Bottom line: the 2023 well-above average financial market performance doesn't make sense. The stock market's current valuation assumes the U.S. economy will have a soft landing (while Europe and China are stagnating or in a slight recession). It assumes the geopolitical crises (Russia/Ukraine and Israel-Hamas) will not involve other countries and simply end uneventfully.

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And finally, as we enter the 2024 year with an economic outlook that is both uncertain and unclear, we will have to ponder how positive change can possibly be sustainable during a Presidential election year with two polarizing parties slinging stinky mud at each other. Neither side will support the other's efforts to improve our financial circumstances. When gold, stocks, Bitcoin and Crypto currencies are all increasing at the same time, don't be surprised - rather be prepared for volatility and uncertainty.

INVESTMENT OUTLOOK AND RECOMMENDATIONS

In summary, in early 2022 we began reducing the overall allocation of stocks in our managed accounts and we are continuing to hold a higher proportion of short-term U.S Treasuries and certificates of deposits with very short maturities (6-12 months) in the fixed income section of client portfolios. In 2023, the stock portion of client portfolios hold less equities than normal and some portion of the Treasuries/certificate of deposits will go back into stocks sometime in the future.

The yield curve is still inverted – meaning investors holding a short-term Treasury, Certificates of Deposits, or any bond with a 6–12-month maturity is receiving more interest income than bondholders holding the same investments with 1-30-year maturities. Investors are still receiving a 5% safe rate of return in this category (compared to just 1% in early 2022).

We are still taking a middle-of-the-road stance and are cautious over the short-term. A broad-based stock market rally is still elusive and is necessary before we can experience a *sustainable* rally. Lastly, the 2024 Presidential election is underway adding another smothering layer of uncertainty. Even if either party came up with a roadmap to move toward a more responsible spending budget, the other side (party) would instinctively fight it. Expect higher volatility and price swings in 2024.

When a sustainable stock market arrives, the easiest way to participate is to first re-allocate funds back into the broad market stock indexes. Small-company U.S. stocks are even more attractive. This category has lagged in performance due to last year's stock market decline, but this category excels above the market averages when sustainable stock market advances are underway.

Emerging markets that exclude China (small-company stocks of smaller international companies) will also be on the list for new purchases as well as mid-cap stocks.

We have identified several stock investments that we intend to add to client portfolios outlined on your blue recommendation sheets, but the timing of when to purchase is still uncertain. Ideally, we will begin adding additional stocks to client portfolios carefully and slowly within the next 12 months.

NEW TAX BRACKETS & INDIVIDUAL RETIREMENT ACCOUNT CHANGES

New Federal <u>Income Tax Brackets</u> for 2024:
The IRS has increased the income thresholds by raising each tax bracket +5.4% for 2024. There are seven federal income tax rates – the more you earn, the more you pay.

<u>Single Taxpayers:</u>
10% on taxable income up to $11,600
12% on taxable income $ 11,601 - $47,150
22% on taxable income $ 47,150 - $100,525
24% on taxable income $100,525 - $191,950
32% on taxable income $191,950 - $243,725
35% on taxable income $243,725 - $609,350
37% on taxable income $609,350 or more

<u>Joint Filers:</u>
10% on taxable income up to $23,200
12% on taxable income $ 23,201 - $94,300
22% on taxable income $ 94,301 - $201,050
24% on taxable income $201,050 - $383,900
32% on taxable income $383,900 - $487,450
35% on taxable income $487,450 - $731,200
37% on taxable income $731,200 or more

The **<u>Standard Deduction</u>** will increase by **$750 for Single filers** and **$1,500 for Joint filers. Seniors (65+)** may claim an ***additional standard deduction*** of $1,950 for Single filers / $1,550 for Joint filers.

<u>Standard Deduction</u>
Single: $14,600
Married Filing Jointly: $29,200
Additional Amount for Single 65+: +$1,950
Additional Amount for Married Filing Jointly 65+: +$1,550 per qualifying individual

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Social Security Benefits will increase 3.2% in 2024.
Regular and Roth IRA Contribution Limits will increase by $500 in 2024.
Under age 50 - $7,000 Age 50 and Older: $8,000

Annual Gift Tax Exclusion will increase from $17,000 per person to $18,000 per person. Gifts of $18,000 or less do not have to be reported and there are no taxes to the donor or recipient.

Required Minimum Distributions from qualified retirement plans (IRA, 401(k), 403(b), 457b, SEP-IRAs) have been moved up from age 72 to age 73. The age at which you must start taking required minimum distributions is determined by your birth year. If you were born in 1950 or earlier, you must have taken a distribution in 2023 (please note, in the FIRST YEAR of the requirement, you can defer the 1^{st} distribution to April 15^{th} of the following year (2024)). However, if you were born on or after January 1, 1951, you were not required to take the RMD in 2023. Lastly, INHERITED qualified retirement plans (such as IRA's) by non-spouse beneficiaries – only have 10 years to withdraw all of the inherited money – surviving spouses can use their life expectancy to make withdrawals.

ANNOUNCEMENTS

Pam is retiring in the 1^{st} Quarter of 2024 after 26 years. We are all sad to see her go but excited for her next adventures in retirement.

Baby (Boy) Dodge is expected to arrive in late April 2024. If he is anything like his parents, he will be long distance running before he knows it.

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