# Outlook 2024 | **Michael Clark,** President
**Zack Clark**, Vice President

# Agenda

**Aspect** WEALTH MANAGEMENT
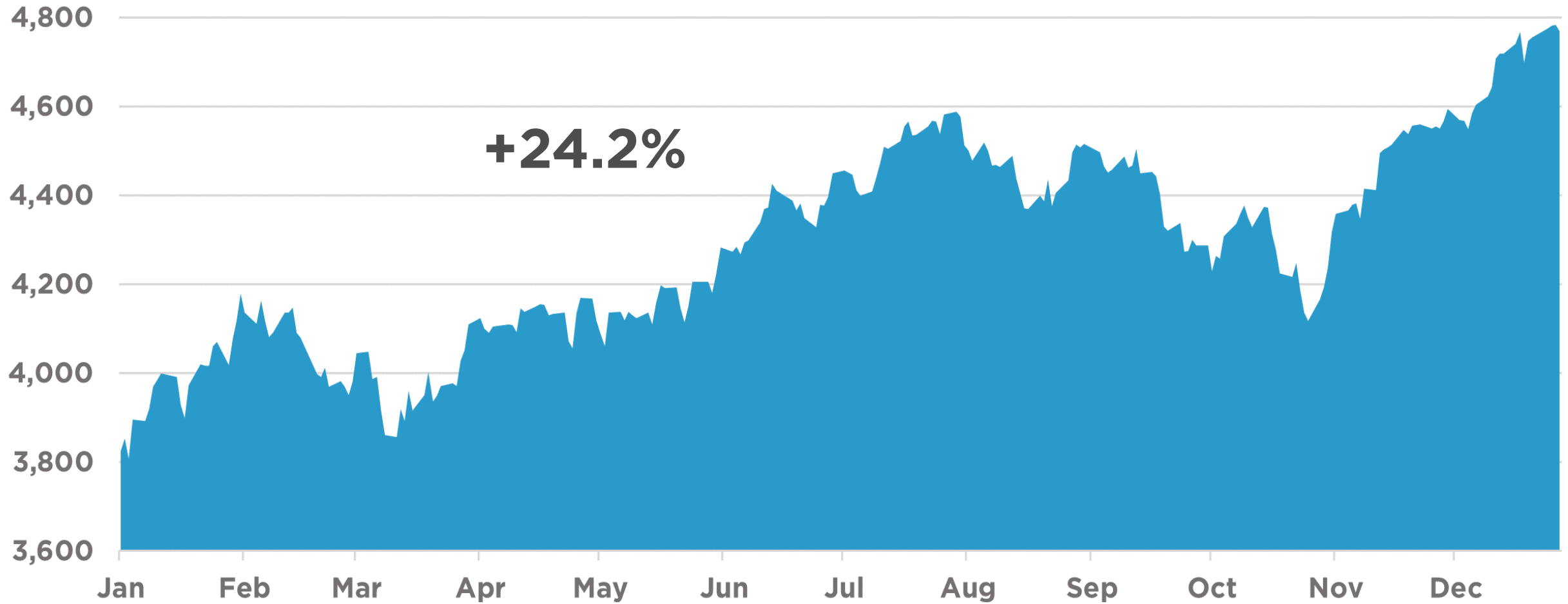
## Review of 2023

## Inflation and the Fed

## Recession and the Stock Market

## Federal Finances and the Consumer

## iPhone Hacks and Cyber Security

# Review of 2023

# S&P 500 2023

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+24.2%

4,800

4,600

4,400

4,200

4,000

3,800

3,600

Jan   Feb   Mar   Apr   May   Jun   Jul   Aug   Sep   Oct   Nov   Dec
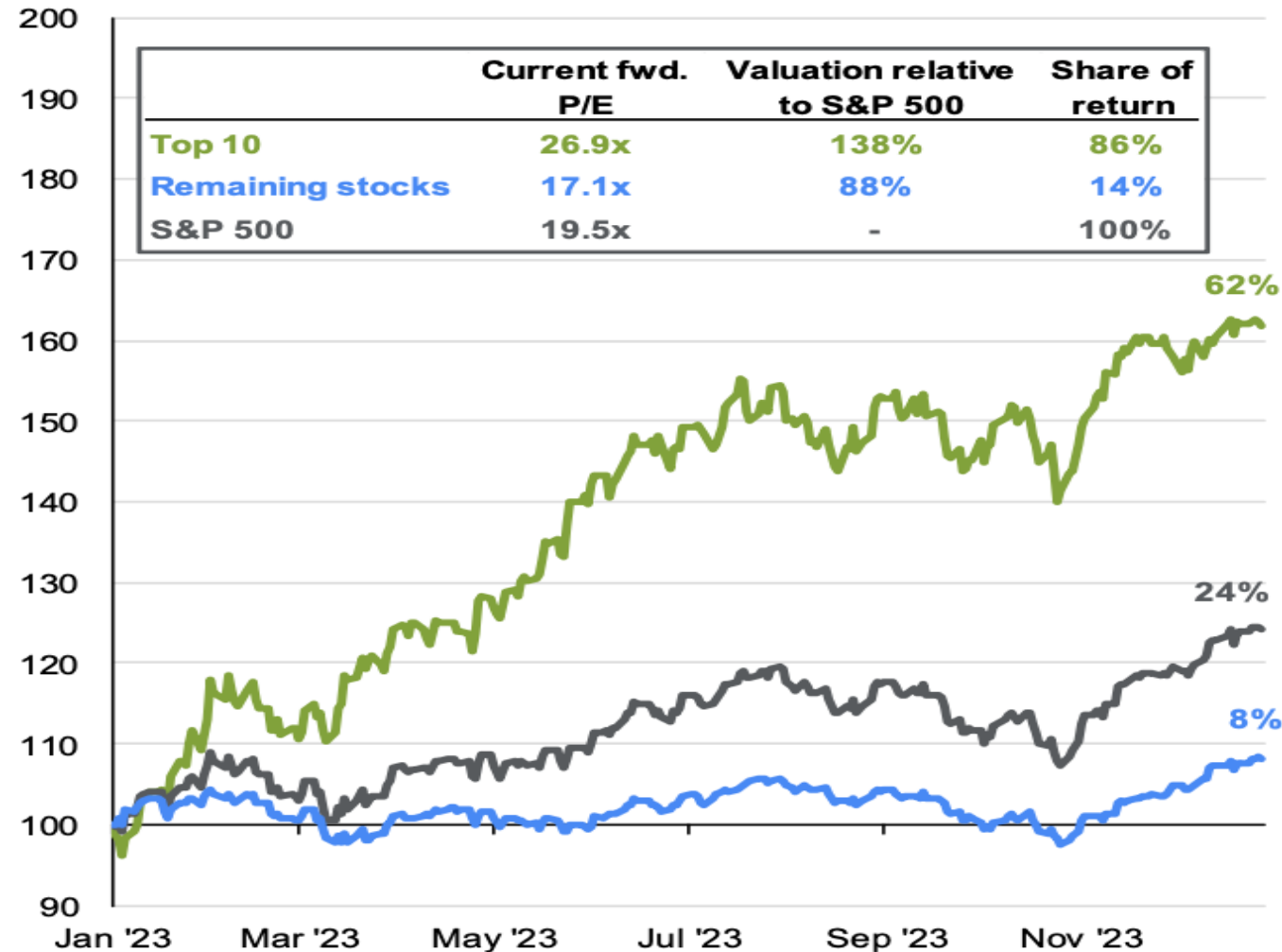
Source: Yahoo! Finance as of 12.31.2023.

# S&P 500 Concentration

## Performance of the top 10 stocks in the S&P 500
Indexed to 100 on 1/1/2023, price return, top 10 held constant

| | Current fwd. P/E | Valuation relative to S&P 500 | Share of return |
|---|---|---|---|
| Top 10 | 26.9x | 138% | 86% |
| Remaining stocks | 17.1x | 88% | 14% |
| S&P 500 | 19.5x | - | 100% |



62%

24%

8%

# S&P Envy?

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| Years | S&P 500 Index | Diversified portfolio |
|---|---|---|
| 2000-2002* | -40.1% | -15.7% |
| 2003-2007 | +82.9% | +87.1% |
| 2008 | -37.0% | -26.6% |
| 2009-2019 | +351.0% | +219.7% |
| Q1 2020† | -30.4% | -23.1% |
| Q2 2020-2021‡ | +119.0% | +66.6% |
| 2022 | -18.1% | -15.5% |
| **Total return** **Growth of $100,000** | **+288.6%** **$388,610** | **+301.6%** **$401,550** |

- ☹ "I lost money"
- ☺ "Diversification worked"
- ☹ "I lost money"
- 😐 "I didn't make as much"
- ☹ "I lost money"
- 😐 "I didn't make as much"
- ☹ "I lost money"
- ☺ "Diversification can work even when it feels like it's losing"

# It pays to stay invested...

**Aspect** WEALTH MANAGEMENT
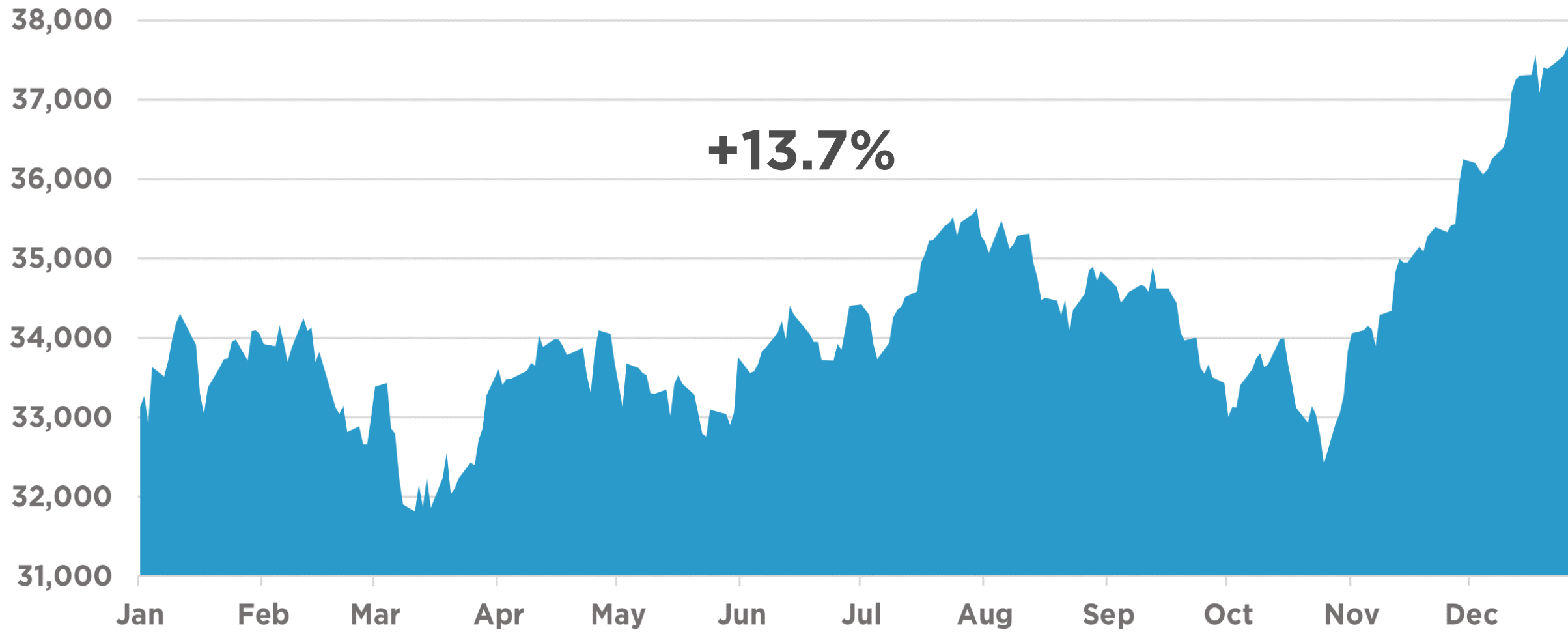
**The longer you stay invested, the greater your likelihood of positive returns**
Rolling returns of stocks (1928-2022)

37.5%        24.9%        11.8%        5.1%

Monthly      1 year       5 year       10 year

62.5%        75.1%        88.2%        94.9%

● Times you made money (positive returns)   ● Times you lost money (negative returns)
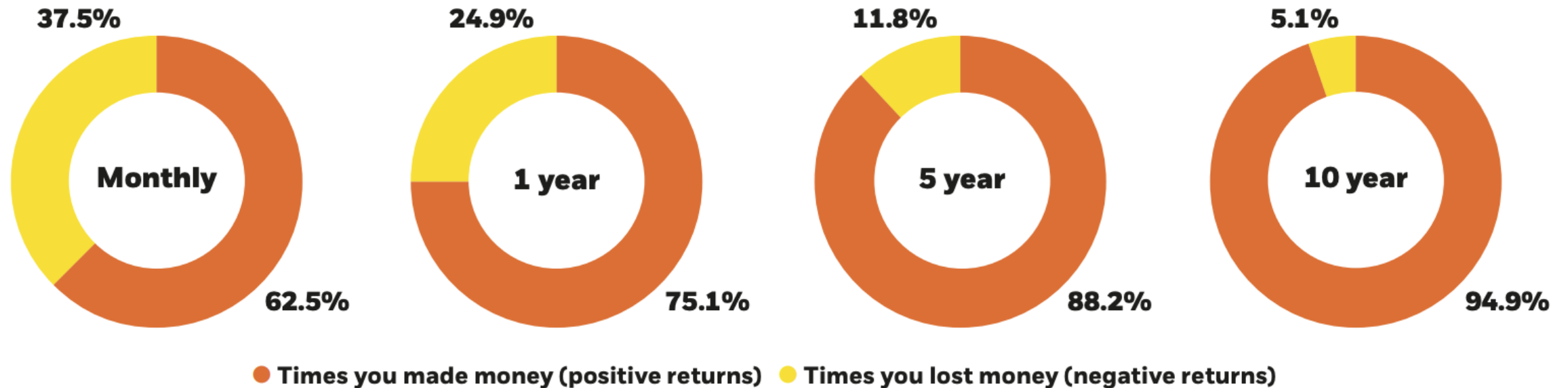
# Inflation and the Fed

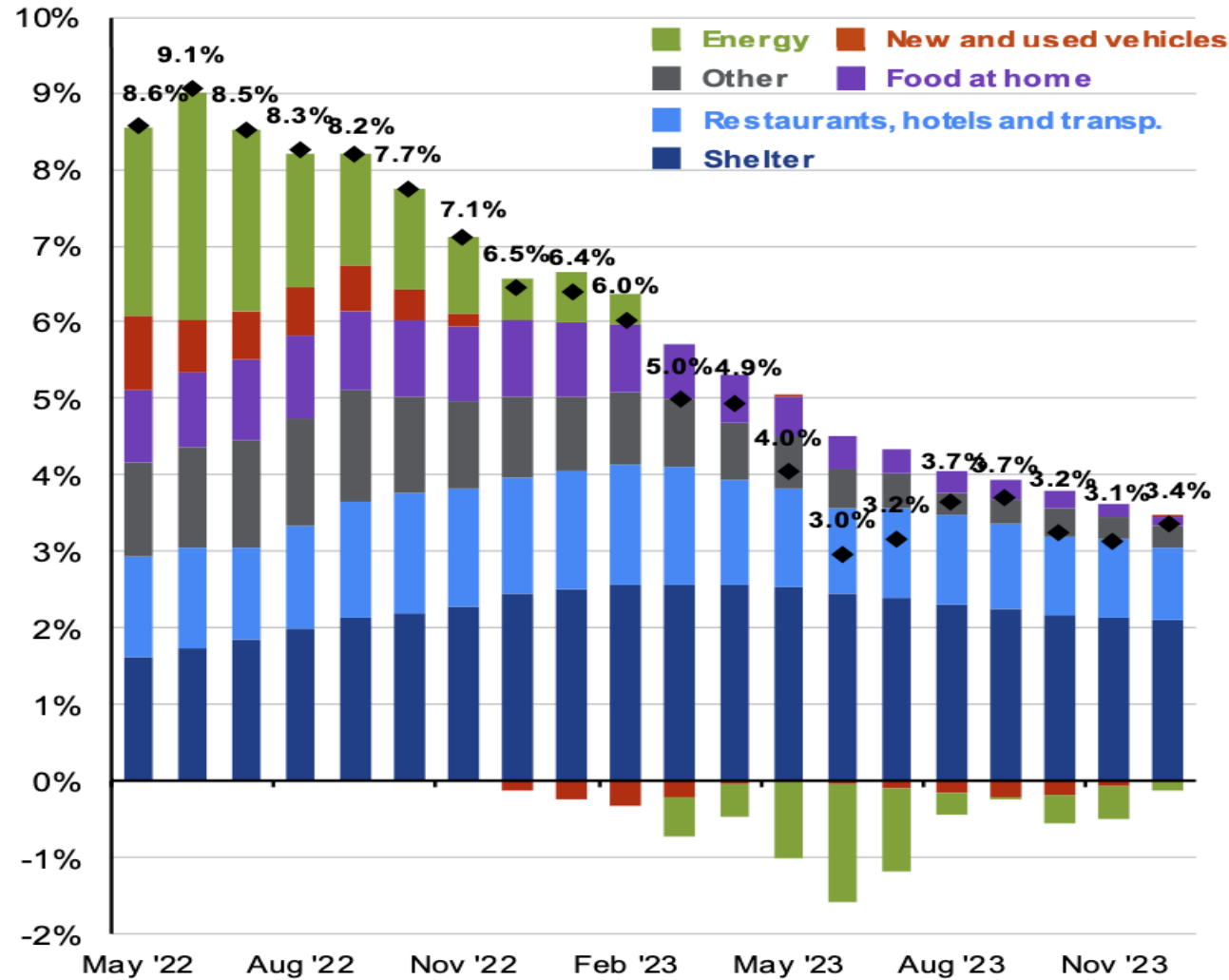# Is it over?

# Drivers of Inflation



**Contributors to headline CPI inflation**

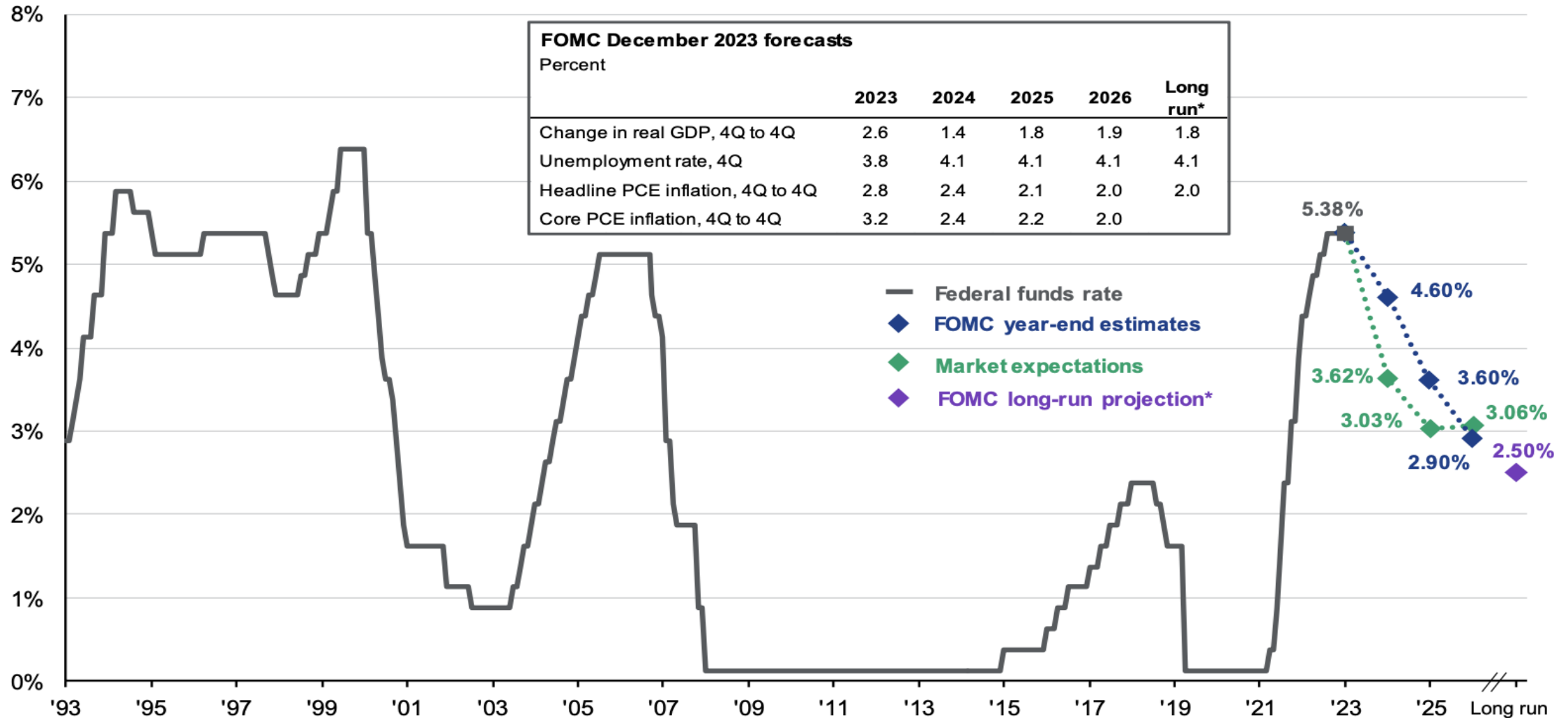Contribution to y/y % change in CPI, non-seasonally adjusted

Legend:
- Energy
- New and used vehicles
- Other
- Food at home
- Restaurants, hotels and transp.
- Shelter

Values shown above bars: 8.6%, 9.1%, 8.5%, 8.3%, 8.2%, 7.7%, 7.1%, 6.5%, 6.4%, 6.0%, 5.0%, 4.9%, 4.0%, 3.0%, 3.2%, 3.7%, 3.7%, 3.2%, 3.1%, 3.4%

X-axis: May '22, Aug '22, Nov '22, Feb '23, May '23, Aug '23, Nov '23

# The Fed and Interest Rates



**Federal funds rate expectations**

FOMC and market expectations for the federal funds rate

| FOMC December 2023 forecasts Percent | 2023 | 2024 | 2025 | 2026 | Long run* |
|---|---|---|---|---|---|
| Change in real GDP, 4Q to 4Q | 2.6 | 1.4 | 1.8 | 1.9 | 1.8 |
| Unemployment rate, 4Q | 3.8 | 4.1 | 4.1 | 4.1 | 4.1 |
| Headline PCE inflation, 4Q to 4Q | 2.8 | 2.4 | 2.1 | 2.0 | 2.0 |
| Core PCE inflation, 4Q to 4Q | 3.2 | 2.4 | 2.2 | 2.0 | |

Legend:
- — Federal funds rate
- ◆ FOMC year-end estimates
- ◆ Market expectations
- ◆ FOMC long-run projection*

Values shown on chart: 5.38%, 4.60%, 3.62%, 3.60%, 3.03%, 3.06%, 2.90%, 2.50%

# US Treasury Yield Curve

Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.
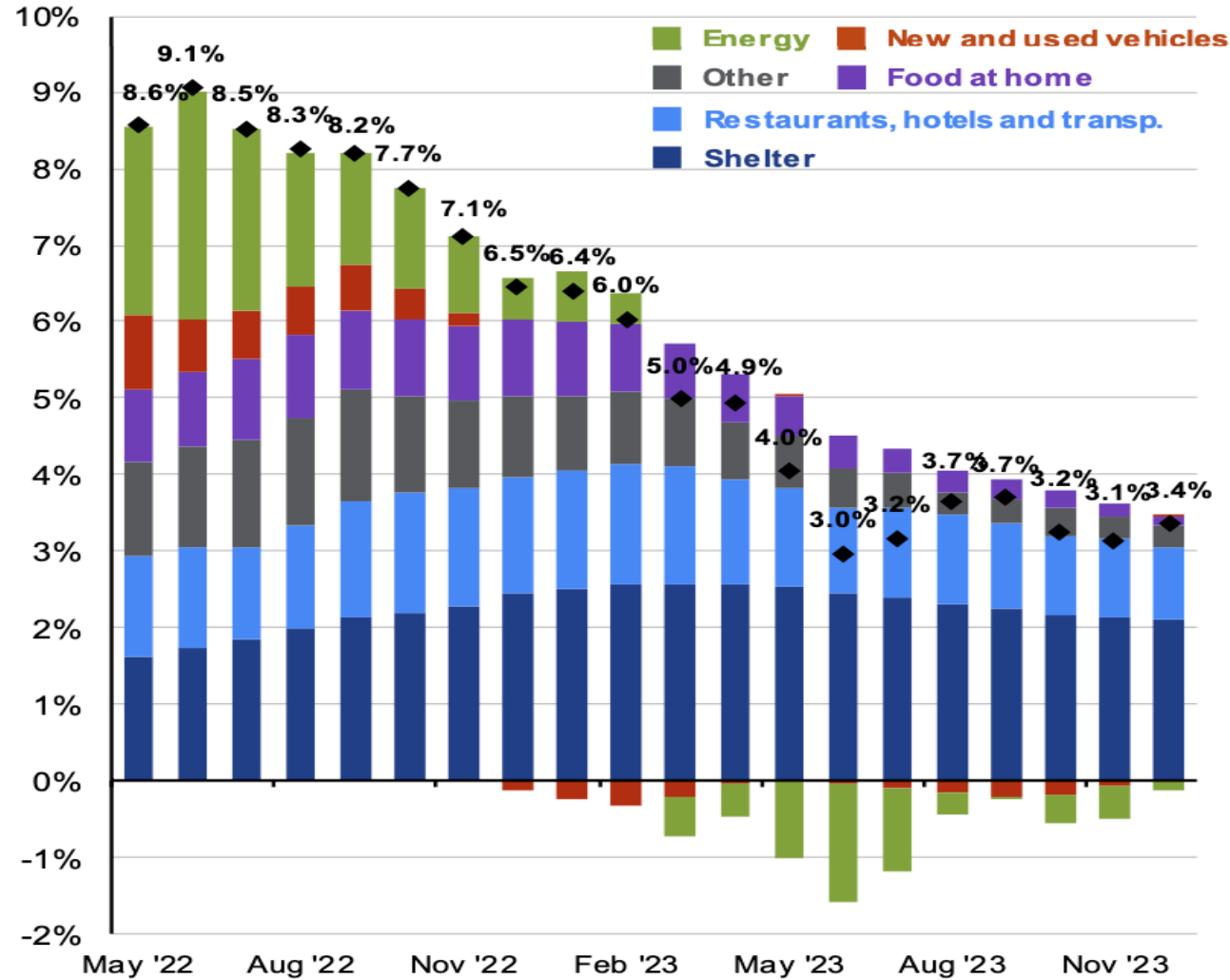Guide to the Markets – U.S. Data are as of December 31, 2023.

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# Drivers of Inflation



Contributors to headline CPI inflation

Contribution to y/y % change in CPI, non-seasonally adjusted

Legend: Energy, New and used vehicles, Other, Food at home, Restaurants, hotels and transp., Shelter
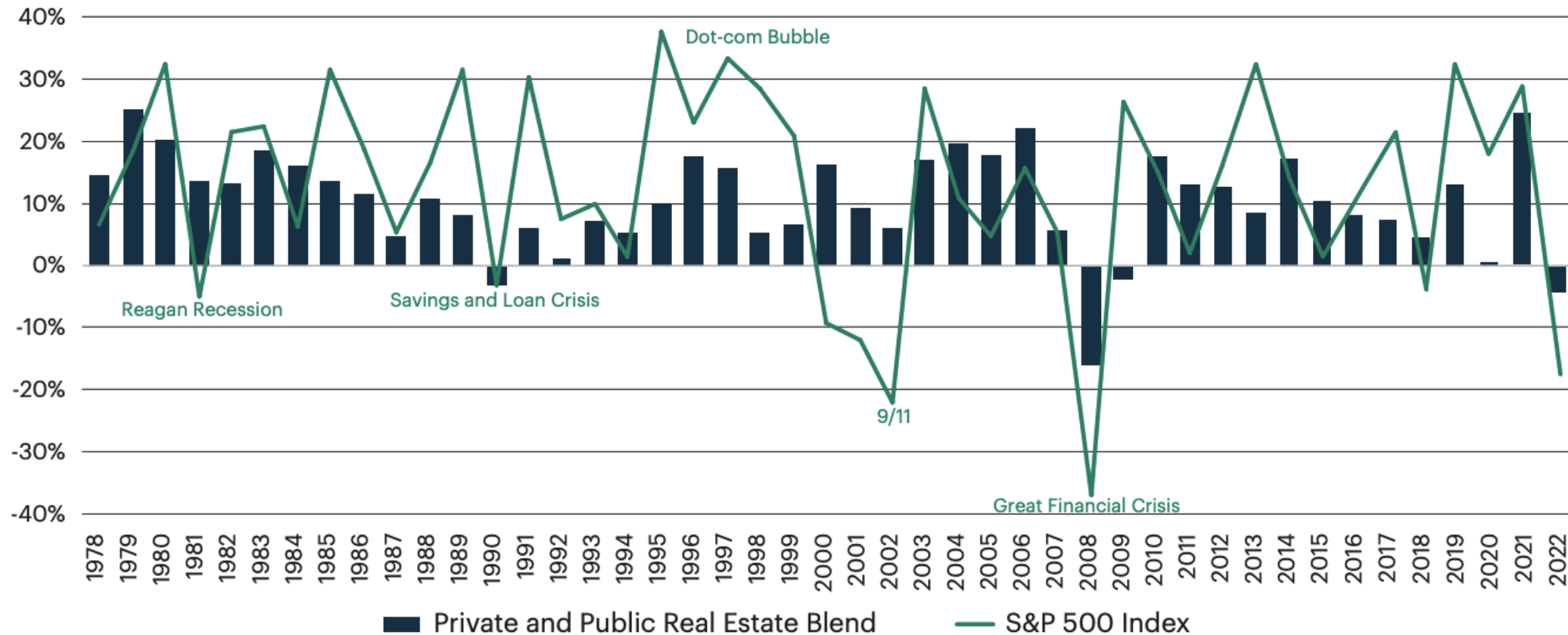
# Commercial Real Estate

# Commercial Real Estate

**Blend of Private and Public Real Estate**

Comparison to the Broader Market 1978–2022



Past performance is not indicative of future results. Source: Apollo Analysts based on data from Morningstar and NCREIF. For discussion purposes only. The information provided herein is based on the views and opinions of Apollo Analysts as of a particular point in time. As such, the analysis is based on certain assumptions which are subject to change without notice. Private and Public Real Estate Blend is a combination of 70% private real estate which is represented by the NCREIF Property Index (NPI) and 30% public real estate which is represented by the FTSE Nareit All Equity REITs Index. This analysis utilizes total returns unless otherwise indicated. There is no guarantee that the investment strategies will work under all market conditions. Please refer to the Glossary for definitions of the indices used in this analysis. An investment cannot be made in an index, which is unmanaged and has returns that do not reflect any trading, management, or other costs. Past performance is not indicative of future returns.

# Why the difficult real estate market?

- Fed rate hikes led to increased debt expense

- Remote work phenomenon caused higher vacancy rates

- Urban protests, retail theft, and homelessness have greatly impacted downtown office property values

- Retail brick and mortar stores hurt by "Amazon effect"
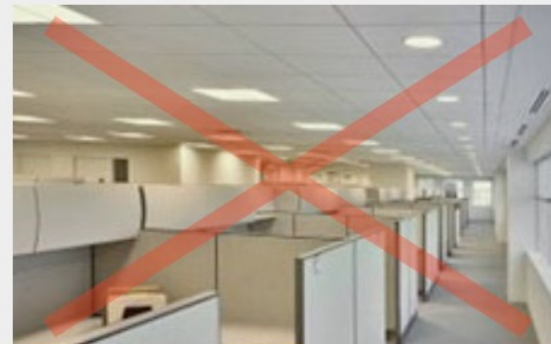
# WHAT you own REALLY matters.

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**Rental Housing** ✓   **Industrial** ✓   **Data Centers** ✓



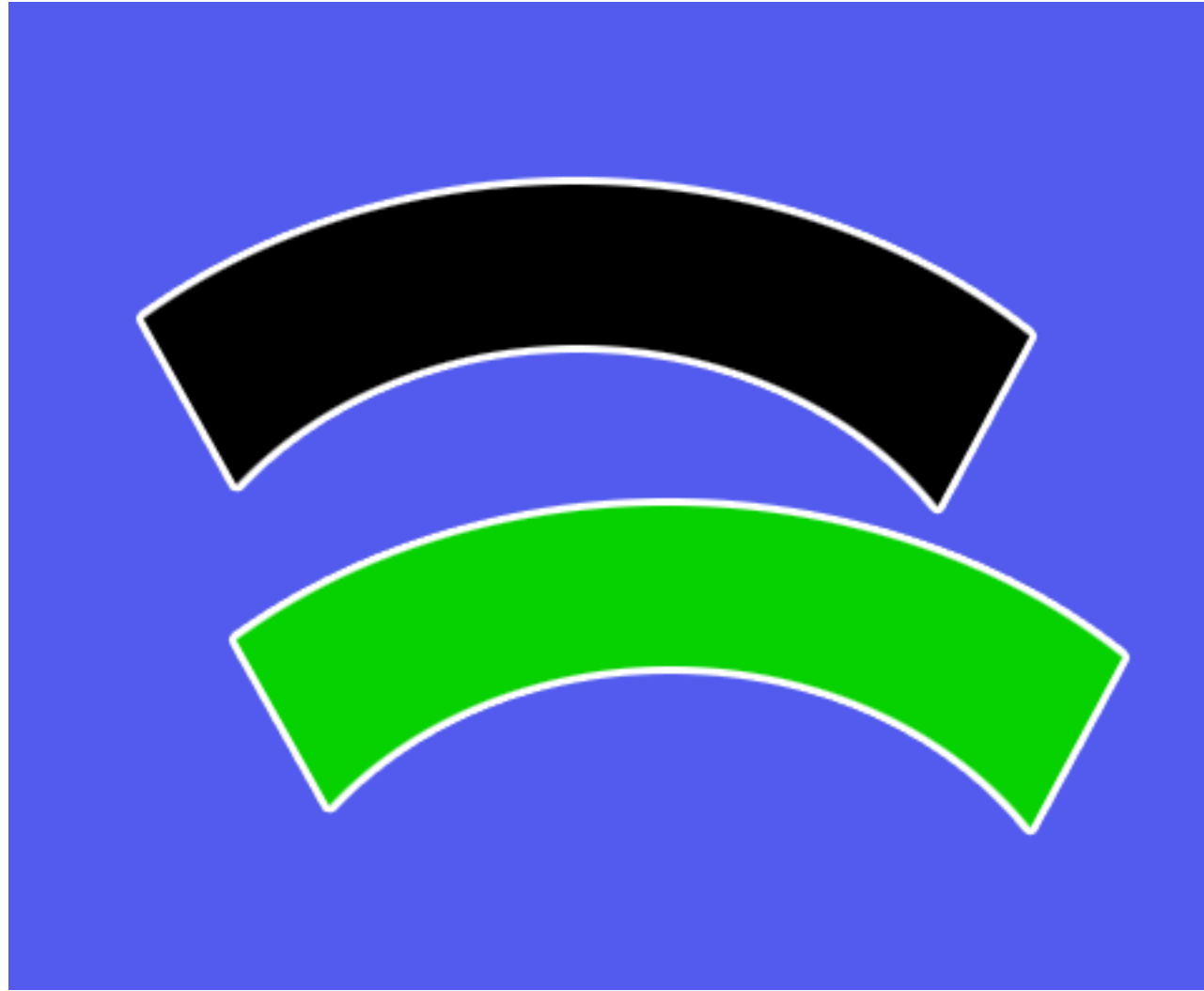**For Sale Housing**   **Commodity Office**   **Malls**
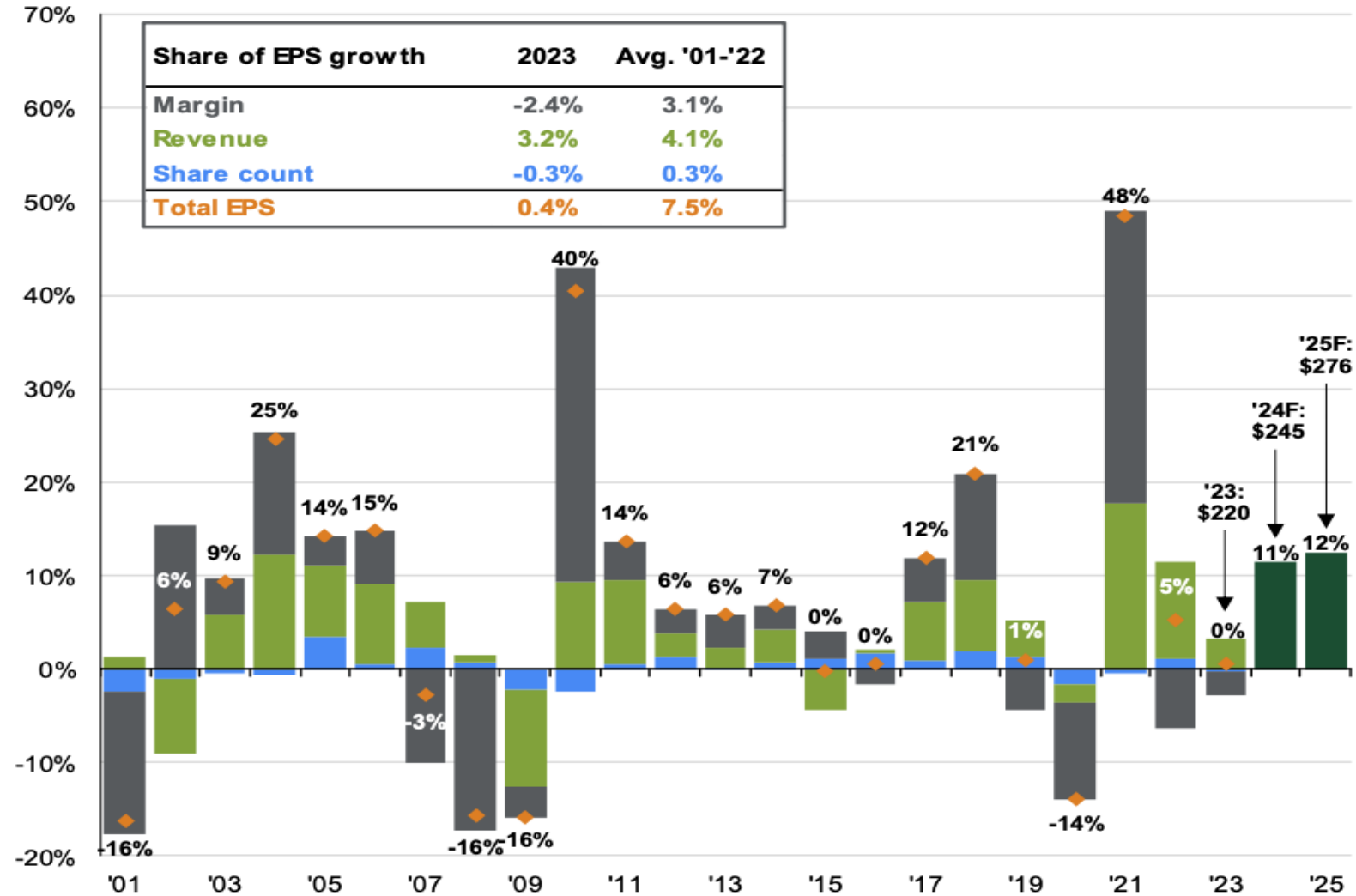
# Recession and the Stock Market

# Are we headed for a recession?

# Corporate Earnings Growth
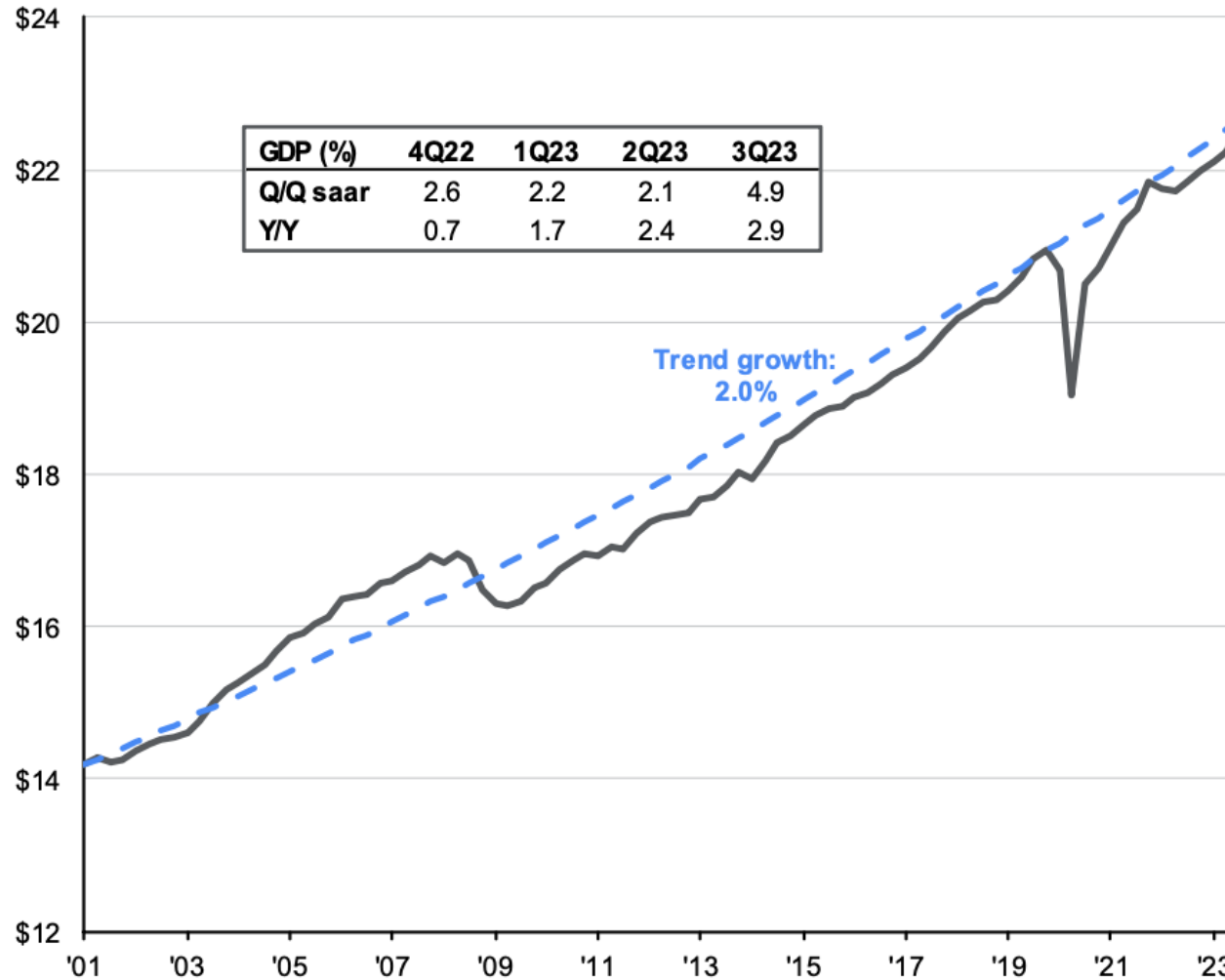
S&P 500 year-over-year pro-forma EPS growth
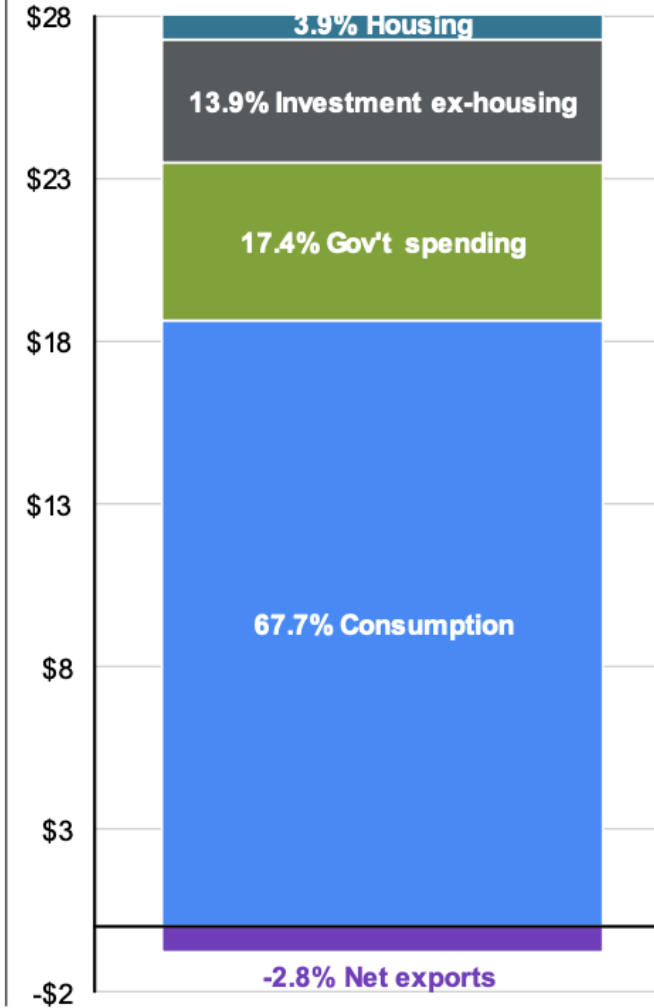Annual growth broken into changes in revenue, profit margin and share count

| Share of EPS growth | 2023 | Avg. '01-'22 |
|---|---|---|
| Margin | -2.4% | 3.1% |
| Revenue | 3.2% | 4.1% |
| Share count | -0.3% | 0.3% |
| Total EPS | 0.4% | 7.5% |

'25F: $276
'24F: $245
'23: $220

# Economic Growth

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## Real GDP
Trillions of chained (2017) dollars, seasonally adjusted at annual rates

| GDP (%) | 4Q22 | 1Q23 | 2Q23 | 3Q23 |
|---|---|---|---|---|
| Q/Q saar | 2.6 | 2.2 | 2.1 | 4.9 |
| Y/Y | 0.7 | 1.7 | 2.4 | 2.9 |

Trend growth: 2.0%

## Components of GDP
3Q23 nominal GDP, USD trillions

- 3.9% Housing
- 13.9% Investment ex-housing
- 17.4% Gov't spending
- 67.7% Consumption
- -2.8% Net exports

# S&P 500 at Inflection Points

## S&P 500 Price Index

| Characteristic | 3/24/2000 | 10/9/2007 | 2/19/2020 | 1/3/2022 | 12/31/2023 |
|---|---|---|---|---|---|
| Index Level | 1,527 | 1,565 | 3,386 | 4,797 | 4,770 |
| P/E Ratio (fwd.) | 25.2x | 15.1x | 19.2x | 21.4x | 19.5x |
| Dividend Yield | 1.4% | 1.9% | 1.9% | 1.3% | 1.5% |
| 10-yr. Treasury | 6.2% | 4.7% | 1.6% | 1.6% | 3.9% |



Jan. 3, 2022
P/E (fwd.) = 21.4x
4,797

Dec. 31, 2023
P/E (fwd.) = 19.5x
4,770

+114%

-25%

+33%

Feb. 19, 2020
P/E (fwd.) = 19.2x
3,386

Oct. 12, 2022
P/E (fwd.) = 15.7x
3,577

-34%

+401%

Mar. 23, 2020
P/E (fwd.) = 13.3x
2,237

Mar. 24, 2000
P/E (fwd.) = 25.2x
1,527

Oct. 9, 2007
P/E (fwd.) = 15.1x
1,565

+106%

-49%

+101%

-57%

Dec. 31, 1996
P/E (fwd.) = 15.9x
741

Oct. 9, 2002
P/E (fwd.) = 14.1x
777

Mar. 9, 2009
P/E (fwd.) = 10.4x
677

# Headwinds and Tailwinds

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Tight Federal Reserve policy

Commercial real estate market

High cost of debt

Strong corporate earnings

High cash on the sidelines

Low unemployment

# Federal Finances and the Consumer

# To sum it up...
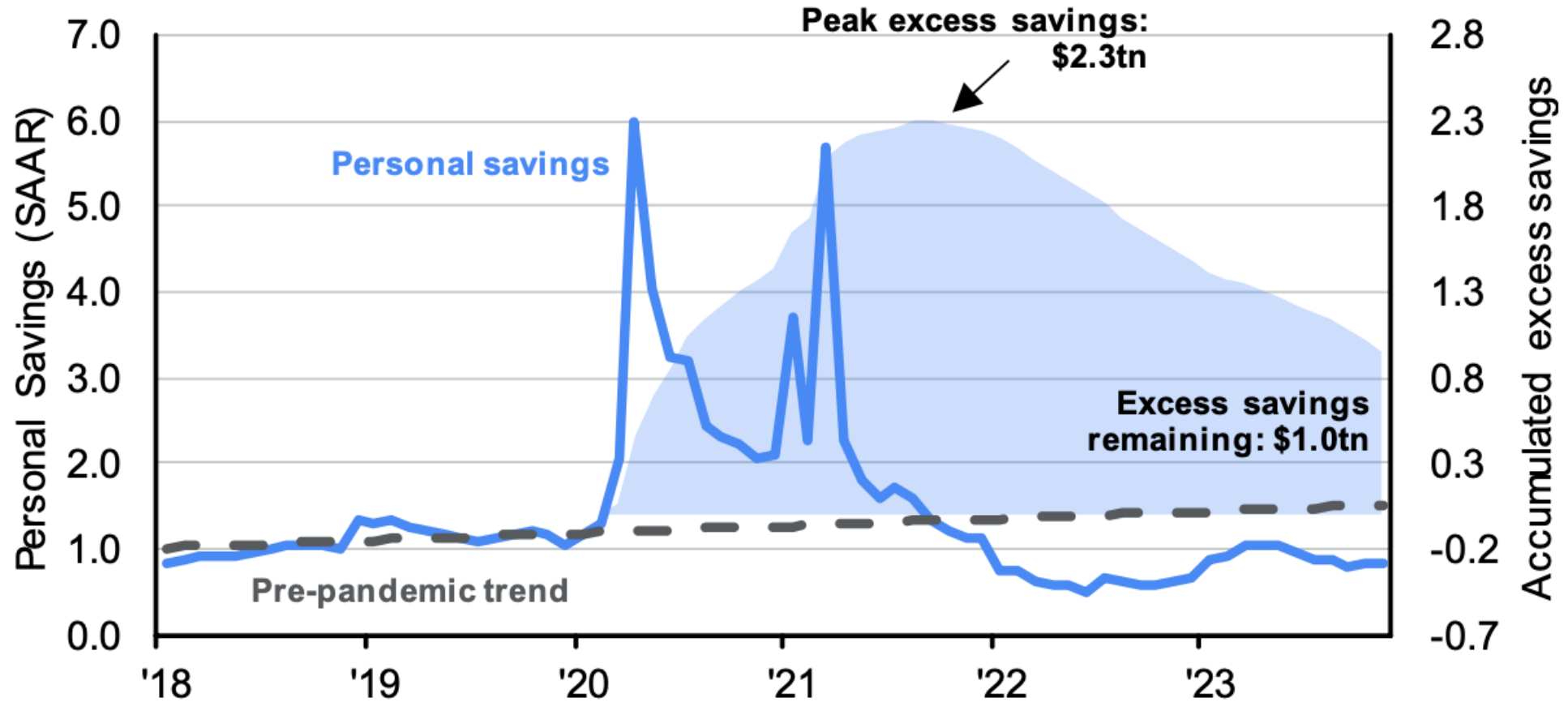
# 2023 Federal Budget

**The 2023 federal budget**
USD trillions

Total spending: $6.1tn

**Total government spending**
- Other: $950bn (15%)
- Net int.: $659bn (11%)
- Non-defense disc.: $917bn (15%)
- Defense: $805bn (13%)
- Social Security: $1,348bn (22%)
- Medicare & Medicaid: $1,455bn (24%)

**Sources of financing**
- Borrowing: $1,695bn (28%)
- Other: $229bn (4%)
- Social insurance: $1,614bn (26%)
- Corporate: $420bn (7%)
- Income: $2,176bn (35%)

# Consumer Finances

## Household excess savings
Trillions of USD



Peak excess savings: $2.3tn

Personal savings

Excess savings remaining: $1.0tn

Pre-pandemic trend

# Consumer Finances



**Flows into early delinquencies**
% of balance delinquent 30+ days

| Loans | 3Q23 |
|---|---|
| Auto | 7.4% |
| Credit card | 8.0% |
| Student loan | 0.9% |
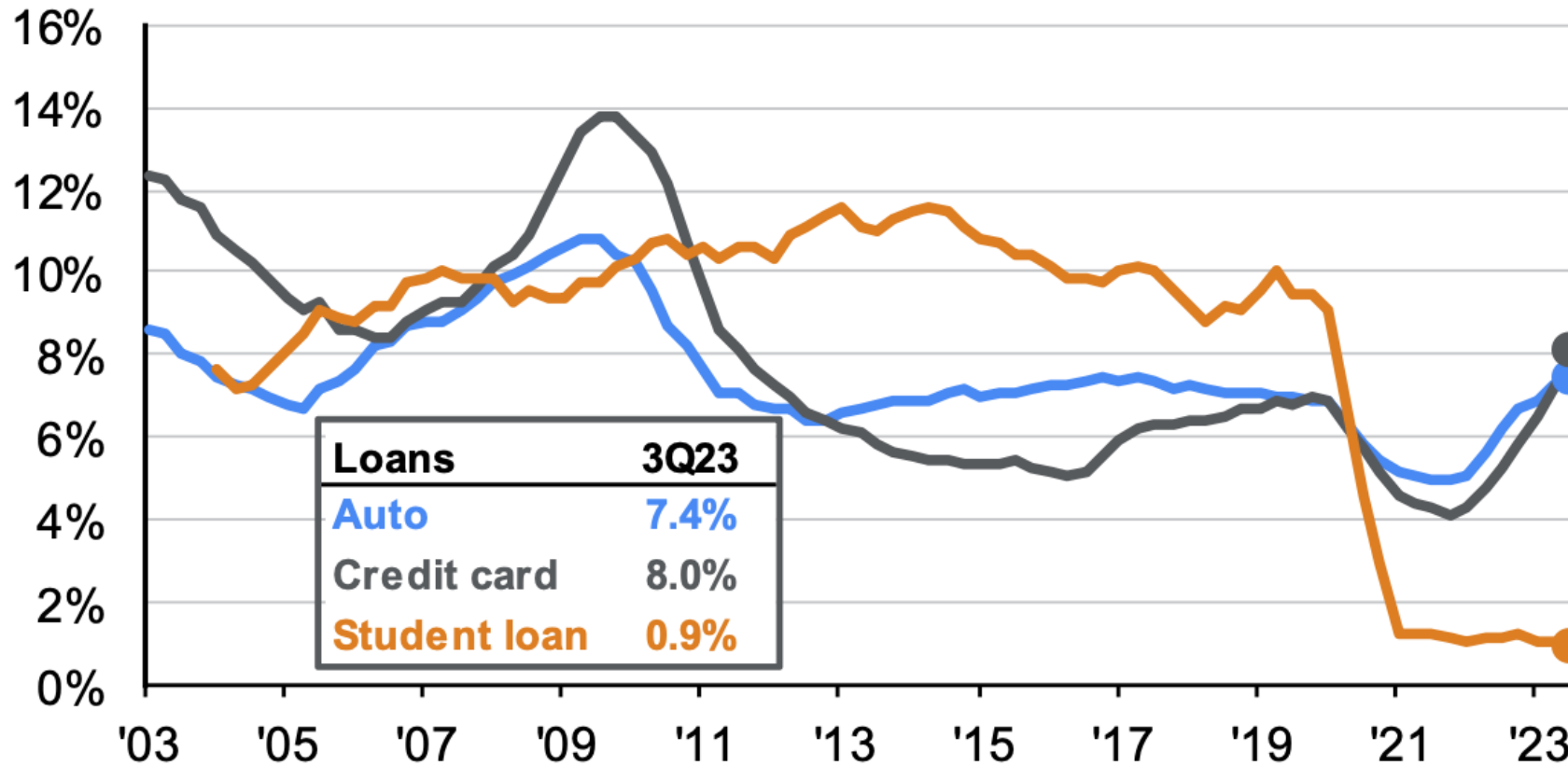
# Unemployment Historically Low

**Civilian unemployment rate and year-over-year wage growth**
Private production and non-supervisory workers, seasonally adjusted, percent

| | 50-year avg. |
|---|---|
| Unemployment rate | 6.2% |
| Wage growth | 3.9% |

Apr. 2020: 14.7%

Nov. 1982: 10.8%

Oct. 2009: 10.0%

May 1975: 9.0%

Jun. 1992: 7.8%

Mar. 2022: 7.0%

Jun. 2003: 6.3%

Nov. 2023: 4.3%
Nov. 2023: 3.7%

Source: BLS, FactSet, J.P. Morgan Asset Management. Private production and non-supervisory jobs represent just over 80% of total private nonfarm jobs. Guide to the Markets – U.S. Data are as of December 31, 2023.
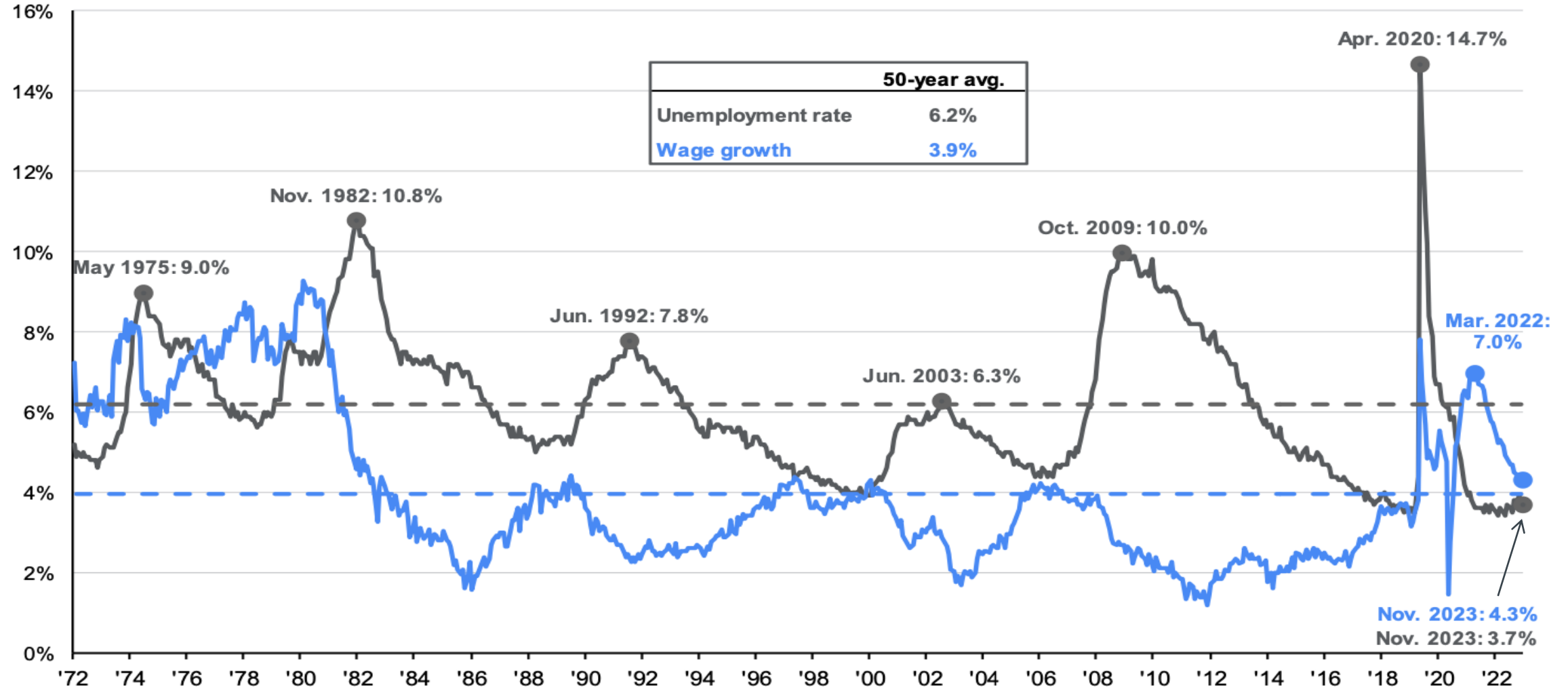
# iPhone Hacks and Cyber Security

# Bridging the generations…

# iPhone Hacks and Cyber Security

Quickly switch between apps...

Scan documents!

Measure and level things.

My keyboard can become a mouse??

Add a recovery contact!

Turn off app tracking...

Erase data if you lose your phone or someone tries to break into it.

Should I add a strong passcode?

# In Summary

- 2024 could be difficult for the stock market, but the bond market is expected to continue to rebound.

- Risk management strategies will continue to be a key tool in mitigating the potential risk going forward.

- The Fed tightening cycle has most likely ended and we expect a pivot in the later half of 2024.

- There may be better entry points to acquire more stock later in the year.

- Through it all, our focus: quality investments, proper diversification and a disciplined process.

# Wealth Management Matrix

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| Investment Management | Retirement Planning | Risk Management | Estate Planning | Tax Planning | Business Planning |
|---|---|---|---|---|---|
| Asset Allocation | Income Distribution | Asset Protection | Document Review | Corporate Benefits | 401(k) Plan Design |
| Manager Research | Scenario Analysis | Liability Insurance | Estate Tax Mitigation | Deferral Techniques | Deferred Comp. |
| Performance Analysis | Benefit Planning | Long-term Care Insurance | Beneficiary Review | Loss Harvesting | Succession Planning |
| Education Funding | Social Security Optimization | Life/Disability Insurance | Charitable Planning | Dividend Strategies | Buy/Sell Agreements |
| Trust Management | Tax Efficiency | Prop/Casualty Insurance | Proper Use of Trusts | "Stretch" Planning | Key Man Insurance |

# Our Team!

Aspect WEALTH MANAGEMENT



| Michael Clark** | Zachary Clark** | Jane Weekley** | Denise Salzman** | Chip Tencza* | Justin Horsman** |
| CIMA®, CRC® | CFP® | MBA | CPA® | Operations Analyst | Financial Advisor |



| Jacqueline Williams | Ghilda Rodriguez | Paola Garza | Evita Hernandez | Jackson Hyytinen | Micah Wakefield |
| Event Coordinator | Office Administrator | Office Administrator | Client Services | Client Services | Portfolio Consultant |

# Thank you!