MARKIN MICKELSON
FINANCIAL GROUP
of Wells Fargo Advisors

Monthly Market Commentary

December 2023

US Economy

A resilient US economy was on full display in 2023, powered by still-ample liquidity and lingering post-pandemic supports. For most of the year, the all-important consumer (accounting for two-thirds of economic activity) was unphased by the fastest pace of credit tightening in four decades. Investment spending was fueled by the buildout of US infrastructure tied to 2022 government stimulus and private investment. Growth was on track to exceed its 2022 pace, despite a slowdown during the closing months of this year.

Lingering post-pandemic supports contributed to US economic strength this past year, from the release of pent-up travel and entertainment demand; catch-up hiring that fueled job and income growth; and an unusually early break in inflation. Unexpectedly ample financial liquidity also provided support, from the Fed's fresh wave of funds in the spring to limit fallout from the banking crisis and from a drawdown of Treasury cash balances during the standoff over the debt ceiling last spring. The increased availability of liquidity combined with lower interest rates and market expectations for a Fed pivot to rate cuts in 2024. Together, these factors eased financial conditions by the most on record, spurring a swift rally in both stocks and bonds.

US Markets

US markets moved markedly higher in December, with the S&P 500 almost breaching the all-time closing high reached on January 3, 2022. Markets rallied after the Federal Open Market Committee (FOMC) meeting, as policymakers updated their 2024 rate cut forecasts to three rate cuts from their previously anticipated two rate cuts. Furthermore, holiday consumer spending remained robust as inflation cooled and the labor market remained strong. Additionally, in mid-December, it was reported that the Consumer Price Index (CPI) increased 0.1% in November on a seasonally adjusted basis, which was in line with expectations; this reading reinforced the notion that the Fed rate hikes are having their intended impact. We believe equities rallied as market participants appear to be hanging their hats on strong earnings growth, lower inflation, and aggressive Fed rate cuts in 2024.

Fixed Income

The FOMC met in December and kept the federal funds rate unchanged at 5.25% - 5.50% for the third straight meeting. The Fed stated recent indicators suggest that growth of economic activity has slowed from its strong pace in the third quarter. Job gains have moderated since earlier in the year but remain strong, and the unemployment rate has remained low. Inflation has eased over the past year but remains elevated. The FOMC believes the US banking system is sound and resilient. Tighter credit and

Investment and Insurance Products: NOT FDIC Insured/NO Bank Guarantee/MAY Lose Value

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC, Member SIPC, a registered broker-dealer and non-bank affiliate of Wells Fargo & Company.

financial conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects is uncertain, but the Committee remains highly attentive to inflation risks.

Looking ahead, the Fed continues to evaluate "the extent of any additional policy firming that may be appropriate to return to 2% inflation over time." We believe the Fed has softened its stance toward further rate hikes and most likely has reached its terminal policy rate for this cycle. Most of the attention will now focus on the timing and the extent of rate cuts during 2024. The latest federal funds target range projections from the FOMC imply that policymakers expect three rate cuts next year, finishing 2024 at 4.6%; this is one additional cut from their projections in September.

International Markets

Our view is the Europe's economic slowdown gathered enough momentum in the final quarter of 2023 to nudge the economy into a recession. A composite index of business activity in the Eurozone contracted for a sixth straight month in November, led by a downturn in trade-sensitive manufacturing hurt by weak global trade. A year of steady interest rate hikes by the European Central Bank (ECB) is translating to tightening financial conditions, with business lending weathering its first annual decline in eight years. Consumer purchasing power, however, could find support from disinflation, limiting the economic slowdown. Eurozone CPI inflation extended its downtrend in November, however, a stickier core rate (excluding food and energy) likely will prevent imminent rate cuts by the ECB.

As we look to Asia, trade-sensitive economies remained broadly pressured by China's fragile recovery and the broader slowdown in global trade. China's modest growth of manufacturing and services activity, though up slightly, remain weak enough to encourage talk of additional fiscal stimulus in the face of a lowered credit outlook by a US ratings agency. Manufacturing-led weakness persisted in most of Asia, including Japan, where factory activity fell to a nine-month low. Manufacturing activity in Taiwan continued to labor under weak semiconductor demand. Global auto demand helped lift South Korean manufacturing back into expansion for the first time since June 2022. The country joined Indonesia, the Philippines, and leading-edge India in bucking broad manufacturing weakness throughout much of Asia.

Commodities

Since peaking at $93 per barrel in September 2023, West Texas Intermediate (WTI) crude prices have pulled back to $73.75 per barrel (as of this writing). Notably, the fall in prices has coincided with a buildup of oil inventories in the US. This is not necessarily a surprise though, as crude oil prices have typically moved counter to changes in oil inventories.

US inventories have been growing because US refiners entered their fall maintenance season. This is a period from September to December when US refiners shut down large portions of their refining capabilities to undergo routine maintenance. Less purchasing by US refiners has often resulted in more crude oil production ending up in inventories this time of year. The 2023 fall maintenance season has been especially important to oil prices because US oil production recently returned to all-time highs.

Lastly, the growth in US inventories appears to be peaking. If this is indeed the case, crude oil prices could find a floor soon.

What Does This Mean to Me?

We anticipate that economic crosswinds could precipitate a moderate US slowdown by the early part of 2024, followed by a gradual US-led recovery in the latter part of the year. Cascading weaknesses already are apparent from sequential slowing of manufacturing, housing, and overseas growth. We believe the slowdown could cool consumer spending and inflation. Once inflation falls, households could recapture purchasing power. As inflation falls closer to the Fed's 2% target, we anticipate policymakers could cut short-term interest rates, reducing borrowing costs for households and businesses. Lower interest rates alongside households with new spending power should prompt spending, inventory rebuilding, and an economic recovery, at least into year-end 2024, and potentially beyond. Given our base case for the economy, we reiterate our more defensive portfolio guidance, focusing on quality in both equity and fixed-income positions, exercising patience until signs of a new economic cycle emerge, and strategically deploying sidelined cash.

If you have any questions or concerns, please do not hesitate to reach out to us at any time.

Sincerely,

Chad E. Mickelson, CRPC®, CFP®
Managing Director – Investments
Financial Advisor

Clint A. Markin, CRPC®, CFP®
Managing Director – Investments
Financial Advisor

This letter has been prepared for informational purposes only and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Investing involves risk including the possible loss of principal. The opinions expressed in this letter are those of the author(s), are subject to change without notice and are not necessarily those of Wells Fargo Advisors or its affiliates. Statistical information has been obtained from sources believed to be reliable, but its accuracy and completeness are not guaranteed. Past performance is not a guarantee of future results and there is no guarantee that any forward-looking statements made in this letter will be attained.

Stocks are subject to market risk which means their value may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors. Investments in equity securities are generally more volatile than other types of securities.

Investing in commodities is not appropriate for all investors. Exposure to the commodities markets may subject an investment to greater share price volatility than an investment in traditional equity or debt securities. The prices of various commodities may fluctuate based on numerous factors including changes in supply and demand relationships, weather and acts of nature, agricultural conditions, international trade conditions, fiscal monetary and exchange control programs, domestic and foreign political and economic events and policies, and changes in interest rates or sectors affecting a particular industry or commodity. Products that invest in commodities may employ more complex strategies which may expose investors to additional risks, including futures roll yield risk.

Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. Investing in emerging markets accentuates these risks.

Investments in fixed-income securities are subject to market, interest rate, credit and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can cause a bond's price to fall. Credit risk is the risk that an issuer will default on payments of interest and/or principal. This risk is heightened in lower rated bonds. If sold prior to maturity, fixed income securities are subject to market risk. All fixed income investments may be worth less than their original cost upon redemption or maturity.
PM-07032025-6194264.1.1