MORENO DYE
CERVANTES
WEALTH MANAGEMENT GROUP
of Wells Fargo Advisors

3020 Old Ranch Pkwy., Suite 190
Seal Beach, CA 90740
Office 562-493-3511
Toll Free 844-219-0260
www.morenodyecervanteswmg.wfadv.com

4th Quarter 2023 Moreno Dye Cervantes
Wealth Management Group of Wells Fargo Advisors Quarterly Newsletter

The final quarter of 2023 ushered in a very Happy New Year for investors across both stocks and bonds. We were definitely kept in suspense seeing that through the end of October, the financial markets appeared to be destined for another substandard year. So, what happened? The FED's tone around inflation and interest rates changed, that's what happened. The upward shift in the markets coincided exactly with the FED's November monetary policy meeting, resulting in the belief that the FED had finally reached the end of their interest rate tightening cycle. As a result, the financial markets rallied across the board to end 2023 on a great note.

	2023 4th Quarter	2023 Year-to-Date
Dow Jones Industrial Average	13.10%	16.20%
Russell 1000 Growth Index	14.20%	42.70%
Russell 1000 Value Index	9.50%	11.50%
NASDAQ Composite Index	13.80%	44.60%
Russell Mid Cap Index	12.80%	17.20%
Russell 2000 Index (Small Cap)	14.00%	16.90%
MSCI EAFE – International Index	10.50%	18.90%
Bloomberg Barclays US AGG Bond	6.80%	5.50%

*Wells Fargo Advisors Monthly Major Index Returns

We have been emphasizing over and over the impact that Federal Reserve policy has and will continue to have on the financial markets. At the most recent FOMC policy meetings, the FED commented that they see the benefits of their higher interest rate policy in bringing down inflation and that they are now at a point where they can start to consider reducing rates. It looks like the FED's decision to pause rates in July was the right decision and economic data over the past few months has further supported that decision. Inflation has continued to decline but still has a bit further to go in order to get closer to the FED's 2% target goal.

While the financial markets and investors celebrated the end of monetary policy tightening, we must focus on the reasoning behind the FED's decision to no longer increase interest rates. While inflation has and will likely continue to decline on a year-over-year basis, the economy is facing challenges from the current level of interest rates. Economic growth is easing and we have seen declines in consumer spending, international trade, housing and inventory restocking. All of these declines are to be expected, but we have to make sure that these trends stabilize in order to avoid a recession. Historically, Federal Reserve interest rate hiking cycles result in economic difficulties and "soft landings" are rare. For these reasons, we are cautiously optimistic about the potential for 2024.

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The most shocking result of the November FED announcement has been the sharp decline in long-term bond yields as investors now anticipate interest rate cuts in the second half of 2024. It's hard to believe that in mid-October the 10yr Treasury yield peaked at 5% and finished the year at 3.87%. That is an incredible decline in yields and increase in bond prices over such a short period of time. Our expectation is that yields will be more stable this year, but trying to predict when the FED will begin lowering interest rates and how quickly is going to be tough. We expect that yields will continue to decline throughout the year but at a much slower rate, which could provide some economic tailwinds with lower borrowing costs. The one wild card is how the Federal Reserve's continued reduction in their balance sheet via quantitative tightening will impact rates this year. Nevertheless, our expectation is for less bond market volatility in 2024.

In regards to the equity markets, we are keeping our expectations somewhat tempered based on how strong 2023 finished. Technology growth stocks performed exceptionally well again in 2023, but valuations are definitely elevated. It would not be surprising to see them take a break as earnings need to catch up to valuations. Profit growth expectations for corporations might also be a bit lofty given that we are in an environment where the economy is slowing. Recent increases in wages will likely lead to more layoffs and higher unemployment in 2024, but we think that the overall unemployment rate will remain below the historic long-term average.

International stocks finally outperformed the general US stock market due to a declining US dollar and much more attractive valuations. In particular, we saw very good performance out of Europe and Japan. Emerging Markets continued to lag behind as a result of China's significant weighting, while performance outside of China in countries like India was very robust. While the US dollar should be more stable this year, we are still optimistic on the potential for international equities as valuations, earnings growth and dividends are still favorable when compared to US stocks.

Reflecting on 2023, we are reminded that we must always expect the unexpected, but never abandon our focus on diversification and disciplined asset allocation. While the past year was a great year for investors, it most definitely challenged investor psychology. We faced a number of contradictory situations that quite frankly were hard to make sense of. For instance, consumer confidence declined while consumer spending was robust. We witnessed some of the largest bank failures in US history, yet the FED continued to raise interest rates. Not to mention we still have a war in Ukraine and a new war broke out in the Middle East. Each one of these challenged investor confidence and discipline, but at the end of the day the financial markets delivered a great year. Let 2023 be a lesson to us all that having a long-term investment thought process and maintaining a well-diversified portfolio will give you the best opportunity for success. The old adage is – It's Time in the Market, Not Timing

As we move into 2024, we will continue to maintain a disciplined investment philosophy and process on your behalf. This year is another Presidential election year and will undoubtably provide more excitement and uncertainty for the financial markets. Presidential elections tend to increase uncertainty and anxiety, but no matter which party or candidate wins our expectation is that the financial markets will ultimately look beyond any short-term volatility.

We've said it before, but will say it again. We truly can't thank you enough for the trust and confidence you place in our team to help you navigate the financial markets. Additionally, the continued referrals of family and friends are very greatly appreciated. We will be reaching out to check in and discuss your portfolio, but please do not hesitate to reach out if you have any questions. We hope that you had a wonderful holiday season and that 2024 is off to a great start!

Sincerely,

Jose A. Moreno, CFP®	Michael B. Dye, CRPC®	Oliver A. Cervantes, CFP®, CRPC®, RICP®
Managing Director – Investments	Managing Director – Investments	Managing Director – Investments

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bonds, which have lower ratings and are subject to greater volatility. All fixed income investments may be worth less than original cost upon redemption or maturity.
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The Dow Jones Industrial Average is a price-weighted index of 30 “blue-chip” industrial U.S. stocks.
The S&P 500/Barra Growth Index is an unmanaged capitalization-weighted index stocks in the Standard & Poor’s 500 index having the highest price to book ratios. The Index consists of approximately half of the S&P 500 on a market capitalization basis.
The S&P 500/Barra Value Index is an unmanaged, market-capitalization-weighted index of the stocks in the Standard & Poor’s 500 Index having the lowest price to book ratios. The index consists of approximately half of the S&P 500 on a market capitalization basis.
The NASDAQ Composite Index measures the market value of all domestic and foreign common stocks, representing a wide array of more than 5,000 companies, listed on the NASDAQ Stock Market.
The S&P Midcap 400 Index is a capitalization-weighted index measuring the performance of the mid-range sector of the U.S. stock market, and represents approximately 7% of the total market value of U.S. equities. Companies in the Index fall between the S&P 500 Index and the S&P Small Cap 600 Index in size: between $1-4 billion.
The S&P Small Cap 600 Index consists of 600 domestic stocks chosen for market size, liquidity (bid-asked spread, ownership, share turnover and number of no trade days) and industry group representation. It is a market value-weighted index (stock price times the number of shares outstanding), with each stock’s weight in the index proportionate to its market value.
The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australia, and the Far East, excluding the U.S. and Canada.
Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based measure of the investment grade, US dollar-denominated, fixed-rate taxable bond market.

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