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1st Quarter 2024 Moreno Dye Cervantes Wealth Management Group of Wells Fargo Advisors Quarterly Newsletter

We are very pleased to report that 2024 is off to a strong start across the financial markets. Not only have the markets been positive, but it has also been uncharacteristically steady and uneventful as the markets have been able reach new highs with very little volatility. Strong earnings and resilient economic data supplied the fuel, driving the positive start to the year. The following index summary gives you a good picture of the start to the 2024:

	2022 Yearly Return	2023 Yearly Return	2024 1 st Quarter
Dow Jones Industrial Average	-6.69%	16.2%	6.1%
Russell 1000 Growth Index	-29.1%	42.7%	11.4%
Russell 1000 Value Index	-7.5%	11.5%	9.0%
NASDAQ Composite Index	-32.5%	44.6%	9.3%
Russell Mid Cap Index	-17.3%	17.2%	8.6%
Russell 2000 Index (Small Cap)	-20.4%	16.9%	5.2%
MSCI EAFE – Intl Index	-14.0%	18.9%	5.9%
Bloomberg US AGG Bond	-13.0%	5.5%	-0.8%

*Wells Fargo Advisors Monthly Major Index Returns

The upward trend that began last Fall has continued to capture a broader swath of the market as opposed to primarily being technology driven. Performance across the capital structure (small, mid and large cap) has performed similarly and all S&P 500 sectors were able to post positive results in the first quarter. This is quite encouraging to see market leadership expanding and gives us more confidence that the financial markets are healthy after weathering the Fed's interest rate hiking cycle. International equities have also done well in spite of a more challenging economic landscape compared to the United States. The US dollar has strengthened a bit again in the first quarter, but for the most part international stock market valuations are still quite attractive.

Ironically, bonds experienced the highest level of volatility in the 1st quarter. Recent economic and inflation data have been higher than expected, which has resulted in yields backing up a bit from their late 2023 declines. The financial markets are having a hard time figuring out how many interest rate cuts to price in for the year. Initially, the markets expected as many a six interest rate cuts, but now we may only be looking at two or three. As we have mentioned before, inflation is sticky and getting inflation below 3% on an annualized basis is going to require the FED to maintain higher interest rates for longer.

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The Federal Reserve is still in the driver's seat when it comes to financial market performance. As it currently stands, we are anticipating the FED to cut rates at some point in the 2nd half of the year, but we couldn't tell you by how much. Again, inflation has been sticky as shelter costs have defied the FED's higher interest rate policy due to a significant supply shortage of both new homes and secondary market homes for sale. This has caused shelter costs to remain stubbornly high and these costs are the largest component of core Consumer Price Index at approximately 40%. As a result, CPI has been higher than anticipated and CPI services ex-housing, food and energy actually accelerated over the 1st quarter. Inflation reports over the next few months are going to be critical in determining near-term financial market performance.

We have received an increase in questions about stock market valuations after the most recent surge to new highs and the possible risks associated with increased volatility. We feel that it is important to point out some differences in valuations when taking into account some of the large technology companies. Currently the S&P 500 has an approximately P/E valuation of 21.5x earnings, which seems expensive and well above the 10-year moving average. When looking at the Information Technology sector alone, those stocks within the S&P 500 have a P/E multiple of approximately 38x forward earnings. Now, if you remove the "magnificent seven" technology companies from the S&P 500, P/E valuations drop to 15.5x, which is historically attractive. Therefore, given the valuation disparities that we currently see in the equity markets, we have been focusing our client allocations to be much broader than we have historically. By spreading risk out more broadly through even greater diversification, we believe that will help protect against possible market volatility if companies within the high P/E tech sector fail to meet their lofty earnings expectations.

Despite our positive feelings about the financial markets, we understand that the financial markets are leading indicators of global economic growth, and we can't ignore potential risks that exist. Recently we have seen inflation-adjusted consumer spending contract, consumer confidence has stagnated, household finances are more constrained as credit card balances are rising and the outlook in the jobs market has been softening. We anticipate that the US unemployment rate will likely rise over 4% for the first time in over 2 years either this quarter or next.

In our opinion, the biggest risks are persistently higher than anticipated inflation that would require the FED to possibly not cut interest rates at all this year or we could potentially experience a faster weakening of economic conditions. Even with these risks, we anticipate that the Federal Reserve is going to wait as long as possible to start lowering interest rates because the risk of cutting rates too early could reignite inflation. The only way that we see the FED cutting more aggressively this year would be if there was another episode within the banking system like what we experienced in the 1st quarter of 2023. For now, we are sticking with the idea that the FED will lower rates a few times in the second half of the year as it is likely we will see additional slowing in economic growth.

Circling back to where we started, we are very pleased with how the financial markets finished 2023 and started 2024. And while we are positive on our long-term outlook, we do have near-term concerns that may cause unwanted turbulence for the financial markets. That said, we are confident that your investment strategies and diversification plans will help to navigate whatever 2024 has in store for us. We will continue to keep you informed of any financial market developments that may impact your portfolio and make adjustments as needed to your diversification strategy. Most importantly, please feel free to reach out to us at any time if you have questions, concerns or inquiries.

We cannot express how grateful we are to work with you and your families. We also cannot thank you enough for the continued support of our team through the referrals of your family and friends. We hope that 2024 is off to a wonderful start and look forward to speaking to you again soon!

Sincerely,



Jose A. Moreno, CFP®
Managing Director – Investments



Michael B. Dye, CRPC®
Managing Director – Investments



Oliver A. Cervantes, CFP®, CRPC®, RICP®
Managing Director – Investments

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All fixed income investments may be worth less than original cost upon redemption or maturity.

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Additional information is available upon request.

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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