PATIENCE & MONEY

THE 282 GROUP OF WELLS FARGO ADVISORS

"WHOEVER WISHES TO WIN IN THIS GAME MUST HAVE BOTH PATIENCE AND MONEY" – JOSEF DE LA VEGA, DUTCH TRADER, 1688

SPRING ISSUE • 2nd QUARTER 2023 UPDATES

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5 REASONS TO BUY STOCKS, REVISITED

Equities

Ryan Culpepper

Senior Vice President, Investment Officer | PIM Portfolio Manager

With 2022 now firmly in the rearview mirror, we are welcoming the positive first quarter stock market results with a renewed sense of bullishness. In fact, I am not surprised to see stock markets up after the first quarter of 2023. Remember, we entered this year giving our friends and family **Five Reasons to Buy Stocks in 2023**. As we begin the first week of April, we have the S&P 500 up over 7% for the year. We have the NASDAQ 100 up over a whopping 16% to start 2023. In fact, don't look now, the NASDAQ 100 has entered a new bull market with this first quarter run.

The first quarter stock market results have even taken my bullishness by surprise. What didn't work last year seems to be working well this year. What worked well last year could be down in the first quarter of 2023. A great example is the best performing sector of the S&P 500 for 2022, the Energy sector. Today, Energy is still firmly in negative ground for Q1 2023. The "conservative stocks" of the S&P 500, the value index, is negative while S&P 500 growth stocks have had a very nice start. Truly, an interesting start to market returns. We have experienced almost the opposite investor experience of what we were being told by financial news pundits just 3 months ago.

When I wrote my article last quarter, I wanted to push back against the fear driven connotations coming out of the news media. Talks of a deep recession were loud. We wanted to be that voice that said stay calm and think long term about your stocks. It was our case coming in in 2023, that at least a mild recession was already priced into the stock market. We felt and continue to feel the surprise is to the upside for stocks. As I turn on the TV this morning… the news media is loud and at it again. Not only are they continuing to paint the same fearful picture of high inflation, a mega hawkish Fed, rising gas prices and the Russia-Ukraine war; they are also piling it on with continuing talk of a global banking crisis. Fear and greed are what the news media likes to lead with. "If it bleeds it leads" is what the news is about.

If they told you things like our banking system is solid and the economy is very strong, we wouldn't tune in as much. If they reported that we are not only in the best country in the world but that we have so many things to be thankful for, we would never tune in. Guess what, in our opinion, our banking system is solid. Our economy remains strong. We are living in the best country in the world. We believe we should all be thankful for the amazing lives we have. The phone calls we've received over the last few months have been telling. With the questions received, we can even tell what news media my clients are listening to. No matter which side of the aisle, we can tell our client base is fearful today. If you are fearful today because of what "they" say, step away from the TV. Enjoy the sunshine while stuck in a traffic jam. A sad day is coming for all of us. We will have a reason to be truly upset. We don't need the news media to scare us into making a great day, a bad one. We

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don't believe it's ever as bad as it seems. We feel that may be the case for our economy and stocks as well…maybe it's not as bad as it seems.

First quarter 2023 stock market results are in. The S&P 500 is on pace to return over 30% this year. That's a big number. We are bullish on stocks but not that bullish. I am starting to think perhaps the bulk of the returns on the S&P 500 are in. I do believe stocks will finish the year on positive ground, but a 30% rate of return would make even my jaw drop. Think about it, after the first quarter, the NASDAQ 100 is on pace to return over 60%! I'd love to think that's what we are in store for, but we all know that's not our most probable outcome.

Even with stocks up nicely to start the year, we are not ready to wave the all-clear signal. In fact, we are still preparing ourselves for a very volatile stock market. Let's revisit our five reasons to buy stocks from last quarter. Let's see how our 2023 bullish scenarios are taking shape in the markets today.

1). Inflation could fall much faster than everyone thinks.
We do have incoming data from various fronts, all pointing to inflation slowing down. The idea that we may be passed peak inflation seems to become more and more a reality. We are seeing manufacturing contract. Commodity prices have fallen and are beginning to stabilize. Home prices have fallen for the first quarter of 2023 and continue to moderate across the country. Indeed, disinflationary pressures are building across the board. Just not enough…

So far…The gauge we use for inflation, CPI, is still up too high at 6% year over year. That is not slowing at the pace we would like to see to wave an "All Clear" signal. Inflation is proving to be very sticky. Too sticky for what we want to see as stock investors.

2) The Fed could pause rate hikes much sooner than expected. Our most bullish case: that the Fed would stop raising rates after February has already proven to be too optimistic. We got a 25-basis point interest rate hike in March. We do believe once the Federal Reserve stops raising interest rates, the outlook for stocks gets much more positive.

So far…Unemployment, and the overall health of our economy remains incredibly strong and resilient in the face of these historic interest rate hikes. Even after a couple prominent banks failed impart because of the pace of interest rate hikes, the Federal Reserve remains on course to continue its interest rate hiking cycle. If we continue to see unemployment remain strong and inflation remain sticky, the Federal Reserve will most likely continue raising rates…longer than our bullish scenarios call for.

3). The economy could avert a deep recession.
Coming into this year families have been saving at an above average rate for years. Today the consumer is still spending robustly. Unemployment levels remain uncharacteristically strong. This could mean that companies will continue to see earnings grow more than expected and will largely maintain their work forces. This could create an economic backdrop that will keep the US economy out of a deep recession in 2023.

So far…The idea of a shallow recession is still a high probability event for us. A deep recession scenario seems too bearish for us and today less popular among many economists than at the beginning of the year. It looks more and more like we will need to see some type of black swan event for the US economy to enter a truly deep recession.

4) The case for a 20% return from the S&P 500.
This is a bullish view that we still support as a long shot probability. Although we can see this happening, we see it happening for a different reason than coming into the year. In December, I felt we could begin to see disinflationary pressures come into the economy while earnings continue to expand leading to higher stock prices. We still believe we could see PE expansion in 2023 but maybe not because of disinflation.

So far…PE expansion has occurred mainly because stocks and the economy are much stronger than previously believed. The consumer is healthier, and companies are earning more than what we thought just 6 months ago. This is naturally pushing stock prices higher. To take it one step further, maybe this economy can not only handle higher interest rates but continue to grow with higher rates.

5) We could see the housing market stage a huge rebound. By all accounts, the housing market was hit hard in 2022 and in the first quarter of 2023. We have seen house price declines across the country as we are entering into what is usually thought to be the best season for selling your home. Remember, as a country, we practically didn't build a new home between 2008-2012. This has contributed to a very tight home supply environment today. The oldest millennials are now in their 40s and moving to the suburbs. Because of this dynamic we continue to believe there is a lot of pent-up demand on the sidelines. If we continue to see mortgage rates steady or even move lower, we could see demand come flooding back into the housing markets. As the millennials continue to move from the city to the suburbs, we could see strong demand in the housing market. A healthy housing market would only fuel economic growth. With the main season for home selling around the

corner, we will be on the edge of my seat to see how this one turns out.

It's not out of the question to think 2023 could lead to higher stock market prices. Coming into this year investor sentiment was at lows that we have not seen since the 2008 financial crisis. Maybe, just maybe, stocks and our US economy won't be as bad as advertised by the news media outlets of today.

After reviewing our reasons to buy stocks this year, we continue to feel this surprise could be to the upside for stocks in 2023.

Stay Bullish.

Stocks offer long-term growth potential but may fluctuate more and provide less current income than other investments.
Index returns are not fund returns. An index is unmanaged and not available for direct investment.
The S&P 500 [Standard & Poor's 500] is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy.

MUSIC TO OUR EARS

Fixed Income

Sam Pennell, Jr.

First Vice President, Investment Officer | PIM Portfolio Manager

As a kid, my dad put me on a steady diet of music's greats from a bygone era. Sam Cooke, Otis Redding, The Temptations and Four Tops were always on in the car. We also cranked up the Beatles, Byrds, Buddy Holly, Beach Boys, too. In a word, you can say the music I was raised on was and still is quality. My father-in-law continued this tradition of great music taking me on deep dives into Blind Faith, Cream and Derek and the Dominos. Fast forward to today and my penchant for independent rock and [real] country music has one thing in common: quality. Regardless of genre, everyone knows the difference between a memorable melody and noise.

Since the beginning of the year, I've developed a ringing in my ears. To call this subtle noise irritating would be an understatement. That little *hmmm* is in the background of every conversation, every call, and takes the lead when I finally go to bed each night. A temporary relief is playing music in the background. My ears focus on the songs and not the hum. About 5 years ago I bought a turntable and began collecting vinyl LPs. Yes, in an era where you can download music for free, occasionally, I pay for my music. I've taken more time to spin a few records lately because of the discomfort of my tinnitus.

It feels as though there's a collective ringing in our ears as market participants as we have jumped from one perceived crisis to another. The daily noise on the news is maddening. In a recent conversation someone asked me if I was worried about the crisis. I had to clarify which one they were talking about. The old curse, "may you live in interesting times" seems apropos for our day and age.

From our last *Patience & Money* we talked about the idea that rising rates would create a market environment of winners and losers; some companies could thrive, while others may go out of business. **The interest rate risk of last year is now replaced with credit, or default, risk this year.** Little did we know that prediction would manifest itself so quickly, and the losers would come from the financial sector.

The turmoil du jour in the mid-sized banks came to a head in March. Some experts blame the loosening of regulation on middle tier banks; others have blamed the Federal Reserve's unprecedented tightening of financial conditions for the banks' demise. Some have pointed the finger at the banks themselves for poor management of their own balance sheets and not hedging risks. While others point to the fact influential people went to social media to tell depositors to take their money out of the now failed banks. A bank run seems self-fulfilling at that point. We will let time and the court of public opinion decide who is culpable. We will keep our focus on what to do next and cut through the noise as best we can.

With the lack of confidence shown in CEO and consumer sentiment surveys, and in our private client conversations, you would think markets were in a tailspin. Quite the opposite is true right now. The stock market is decidedly higher since bank failure news came out, and as for bonds, the "risk-off trade" of buying US Treasuries has pushed yields down from multi-year highs and bond prices are up to end the 1st quarter**. It's important to remember markets do not trade on averages, but rather probabilities**. Many have credited improved probabilities in market outcomes to swift action by the Fed, FDIC and US Treasury. This action does not come without unintended consequences. More on that in a moment.

The Fed's Discount Window was one of the readily available resources. This is where banks can borrow from the Fed overnight for needed liquidity. In "normal times" using the window is seen as sending the wrong signal to the markets. That stigma went bye-bye in recent weeks with usage at its highest since 2008's Great Financial Crisis. Our group by no means thinks this is a repeat of 2008.

The FDIC expanded its coverage of depositors guaranteeing everything for the now failed banks. An interesting note, 94% of all Silicon Valley Bank deposits were above the FDIC's $250,000 threshold. That ranks #1 of all banks. The now failed, Signature Bank was 89%, ranking 4th. Both banks are now being purchased for pennies on the dollar by other banks. Their loss is another bank's gain.

This swift action has given the markets a salve to temporarily treat its waning confidence. It does come at a cost though. Since 2008, the biggest banks in the country had to adjust and grow accustomed to the regulatory reach that comes with these liquidity bailouts. Mid-sized banks will have to figure it out. Since they serve a different purpose in the markets, such as a focus on small business loans, commercial real estate financing, and they are typically more regional in scope; time will tell the impacts on our local economies.

We can surely count on market noise continuing. We do not know where the next "crisis" will emerge. But as probabilities move markets, the probability of a failure in quality names is inherently lower than other pockets of the market. Again, interest rate risk of last year is now replaced with credit risk this year.

Consistent income from quality companies is music to our ears, especially in this noisy environment. "Clipping coupons" is a good thing in the fixed income markets. We have specifically designed this portion of the portfolio to take less risk than the stock market. So, in noisy, uncertain times our ears and efforts are keenly tuned to keeping your safe money safe. If the probabilities continue to favor quality – we'll echo Sam Cooke's sentiment, saying, "*what a wonderful world this would be*."

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.

Bond laddering does not assure a profit or protect against loss in a declining market.

Duration is an estimate of how a portfolio or bond will react to changes in interest rates, representing the approximate change in price for a 1% change in yield.

WILL THE SECURE ACT 2.0 AFFECT YOUR RETIREMENT PLANNING?

Financial Planning

Staci Mills

CERTIFIED FINANCIAL PLANNER ™ Professional | Financial Advisor

More than ever, people want to enjoy their lives and retire earlier. *How soon can I retire* is one of the most common questions I am asked by clients. You may want to review your retirement planning strategies because of key provisions in the Secure Act 2.0, which was signed into law in December 2022.

Currently effective

You may want to consider potential opportunities to adjust your retirement savings and distribution plans and charitable giving strategies.

1. Should you wait an extra year to take distributions from your retirement accounts?

The required minimum distribution (RMD) age has increased to age 73 for individuals who turn age 72 in 2023. This means they do not have an RMD due in 2023. Individuals who turned age 72 in 2022 or earlier must continue taking their RMDs as scheduled.

2. Does making qualified charitable distributions (QCDs) make sense?

QCDs are available to those age 70½ or older and have a Traditional IRA and/or Traditional Inherited IRA. Beginning in 2023, you may distribute a one-time $50,000 QCD paid directly from your IRA to certain split-interest entities that qualify under the new rule. The $50,000 is part of the $100,000 QCD annual limit. The rules governing what split-interest entities are allowed to receive the one-time $50,000 amount are complex, so consult a planning

or philanthropic specialist who can provide more information.

3. Should you direct employer matching contributions to your before-tax qualified retirement plan (QRP) account or designated Roth account?
Your employer may now offer you the option of receiving vested matching contributions in a QRP designated Roth account instead of a QRP before-tax salary deferral account. Contributions to a designated Roth account are made with after-tax dollars and qualified distributions are tax-free.[1]

Starting January 1, 2024

1. Should you delay taking distributions from a designated Roth account?
Currently, if you have a Roth IRA, you are not required to take RMDs while you're alive, but you do have to take them from a designated Roth account. Starting in 2024, you will no longer have to take RMDs from either type of Roth account.

2. Would a 529 plan designated beneficiary get a head start on saving for retirement by transferring their unused balance to a Roth IRA?
Beginning in 2024, a 529 designated beneficiary may make a rollover contribution from their 529 to their Roth IRA if certain conditions are met. Distributions are subject to annual Roth contribution limits, the 529 beneficiary must have equivalent earned compensation, and the aggregate distributions are limited to a $35,000 lifetime amount.
To qualify, the 529 account must have been in existence for at least 15 years and the amount rolled over to the Roth IRA may not exceed the aggregate amount contributed (plus earnings) before the five-year period ending on the transfer date.

3.Will you get credit for your student loan payments?
If you are paying off qualified student loans, your employer will have the option to match your loan payments with contributions to a retirement account, offering you an additional incentive to save for retirement. For this purpose, matching contributions can be made into a 401(k), 403(b), governmental 457(b), or SIMPLE IRA plan.

4. Should you take advantage of employer-sponsored emergency savings accounts linked to individual account plans?
Your company will have the option to automatically sign you up for an emergency savings account for up to 3% of your salary or up to $2,500, indexed for inflation, to your retirement plan if you earn less than a certain amount of money. These contributions would be made on an after-tax basis with the potential for an employee match. If your company participates, you will be allowed at least one withdrawal per month and the first four withdrawals in a year cannot be subject to any plan fees.

Starting January 1, 2025

Should you take advantage of higher retirement catch-up contributions?
Currently, if you're age 50 or older and want to increase your tax-advantaged retirement savings, you can make an additional $7,500 contribution annually to your QRP and $3,500 to a SIMPLE IRA. Beginning in 2025, if you're aged 60 – 63, you will be able to increase that amount to the greater of $10,000, indexed for inflation, ($5,000, indexed for inflation, for a SIMPLE IRA) or 150% of your catch-up contributions for the year.
The increased catch-up amounts will be adjusted for inflation beginning in 2025. If your wages exceed $145,000, indexed for inflation, in the preceding calendar year, you will be required to make your catch-up contributions to a designated Roth account.

[1] Distributions are qualified when a designated Roth account has been funded for more than five years and the employee is age 59½, or disabled, or taken by their beneficiaries after the employee's death.

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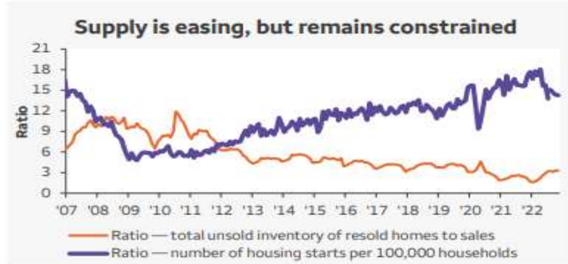
HOUSING UPDATE

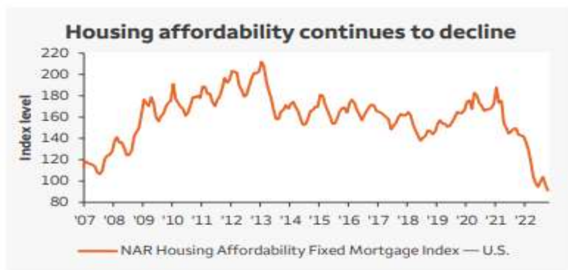
Everyday Economy

The 282 Group

U.S. housing market has a supply problem

WELLS FARGO
Investment Institute





Sources: Bloomberg, U.S. Census Bureau, and Wells Fargo Investment Institute. Monthly data from January 1, 2007 to November 30, 2022. NAHB/Wells Fargo Housing Market Index: monthly data from January 1, 2007 to December 31, 2022. NAR Housing Affordability Index: monthly data from January 1, 2007 to October 31, 2022. SAAR = seasonally adjusted annual rate. NAHB (National Association of Home Builders)/Wells Fargo Housing Market Index is a widely watched gauge of the outlook for the U.S. housing sector. The NAR (National Association of Realtors®) Housing Affordability Index measures whether or not a typical family could qualify for a mortgage loan on a typical home.

Key takeaways

- Housing activity is slumping in response to higher mortgage rates and a resulting decline in affordability to a 33-year low.
- A loss of housing momentum is undercutting important support to economic activity, directly and indirectly, through its large ripple effect on other parts of the economy.

Disclosures on next page.

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