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*Frank*ly Speaking©

Welcome to the Q1-2024 issue of *Frank***lySpeaking**©, now in its 32nd year. The purpose of this newsletter is to keep you informed of current issues and global events that could impact your finances. Please feel free to share your thoughts with us, as we welcome your comments.

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In This Issue

Economic and Market Commentary

Economic pain is likely to return in 2024, but that doesn't mean stocks will struggle all year, especially if there is a continuation of the "rolling recessions" that have been characteristic of the recent economy.

In essence, several key segments of the economy, including housing, manufacturing, and many consumer-oriented areas, have experienced recession-level weakness, while other segments, such as services, have not been hit to the same degree.

Looking ahead to 2024, the best-case scenario for the economy is for those rolling recessions to morph into more durable rolling recoveries.

It's possible that recent cracks in formerly stable segments will lead to recession-level weaknesses, hopefully offset by potential stability and/or recovery in segments that already have taken their hits.

However, recession risk is still a distinct possibility via a formal declaration by the National Bureau of Economic Research, the official U.S. recession arbiter since the late 1970s.

Federal Reserve monetary policy remains a wild card for 2024, as it was in 2023, although Fed Chair Jerome Powell's comments after the December policy meeting suggested the rate-hiking cycle is over and now investors are looking toward when the Fed will begin to cut the federal funds rate.

The Federal Reserve unanimously kept the federal funds rate unchanged at its latest meeting.

While the decision to hold the fed funds rate steady was in line with expectations, the accompanying statement and projections point to a shift toward easing in 2024.

Additionally, Fed Chair Jerome Powell's comments in his press conference confirmed that most members of the committee believe that the hiking cycle is over, and they discussed the path to lower rates. Inflation being the key to the policy pivot.

Encouraged by declining inflation, the Federal Reserve's Open Market Committee (FOMC) signaled that more rate hikes are unlikely in this cycle and that there could be 75 basis points in rate cuts in 2024.

The statement that accompanied the Fed's decision indicated that "growth of economic activity has slowed since the third quarter" and "inflation has eased over the past year."

In the accompanying Summary of Economic Projections (SEP), the median estimate of Fed officials suggests three rate cuts of 25 basis points each in 2024, bringing the fed funds rate to 4.6% compared to an estimate of 5.1% as recently as last September.

The Fed's quarterly economic projections suggest declining inflation. ***Source: Federal Reserve Board, as of 12/13/2023.***

The Fed appears on track to "normalizing" interest rates from a tightening stance to a more neutral stance.

At neutral, the Fed hopes to have rates at a level consistent with slowing growth and inflation at 2%. Progress appears to be encouraging the Fed to begin rate cuts sooner rather than later. ***Source: Bloomberg, monthly data as of 10/31/2023.***

The prospect of lower short-term interest rates is positive for the economic outlook and financial markets. However, the Fed does plan to continue to reduce the size of its balance sheet by allowing bonds it holds to mature without reinvesting the principal.

Along the lines of the warning, "be careful what you wish for," it may be that if the Fed is cutting rates by mid-2024, it's because of further deterioration in the economy, specifically the labor market.

The Fed operates under a dual mandate to promote both stable prices and maximum sustainable employment.

One of our key expectations for 2024 is that the Fed will begin to shift its focus from the inflation side to the employment side of that dual mandate.

The unemployment rate has started to move higher, now approaching 4%, having bottomed out at 3.4% in early 2023.

Keep in mind that a high unemployment rate doesn't bring on a recession, it's recession that ultimately causes the unemployment rate to jump.

The leading market theme in 2023, and likely heading into 2024, has been the dominance of the "Magnificent 7" group of mega-cap stocks: Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla.

These giants pushed market-cap-weighted

indexes like the S&P 500® higher during 2023, but keep in mind that that they also contributed to the bear market plunge in 2022.

This highlights an important aspect of the mega-cap highfliers worth noting for the future. They are not immune to the business cycle and can also be a drag on cap-weighted indexes.

That, in turn, emphasizes the importance of diversification when it comes to the mega caps and the rest of the market.

It might sound odd when they're leading the charge, but it comes in handy when they're falling behind.

There will be a shift towards artificial intelligence (AI). AI has both captured investors' hearts and minds and contributed to the outperformance of both the Magnificent 7 and technology stocks more broadly.

It is believed that in 2024 there will be less about the creators of AI versus the adopters across the spectrum of industries and sectors as companies increasingly focus their capital spending on productivity-enhancing investments.

Key to the shape of the market landscape in 2024 is how the economy reacts to the lagged effects of tighter monetary policy and accepting a long-term shift away from low interest rates.

There will be a focus in 2024 for quality companies with strong free cash flow, lots of cash on the balance sheet, high interest coverage, and healthy real revenue growth, as debt servicing costs will likely grow in importance.

The case for lower interest rates in 2024 is straightforward, but the path is likely to be rocky.

Bond yields are expected to decline in line with falling inflation and slower economic growth, but uncertainty about the Fed's policy moves will likely be a source of volatility.

In 2023, 10-year Treasury yields have covered a huge range, from as low as 3.25% in April, in the wake of the banking crisis, to as high as 5.02% in October, on surprisingly strong third-quarter economic growth.

In simple terms, Treasury yields, which move inversely to prices, tend to rise when the economy appears to be strengthening and tend to fall when economic growth appears to be slowing.

Short and long-term yields likely have peaked for the cycle and will continue to fall assuming inflation declines in 2024.

It appears that much of the inflation driven by supply shortages early in this cycle has been corrected, but the full impact of the tightening in monetary policy by major central banks is still working its way through the global economy. Slower growth and less inflation pressure should be the result.

There will be lower yields and price volatility along the way, as markets continue to try to anticipate shifts in Fed policy.

In 2024, global markets are likely be begin a shallow U-shaped recovery rather than the V-shape seen in the last two global recessions of 2008-09 and 2020.

Global economic and earnings growth may be sluggish for much of next year which would mean that stock prices are more determined by valuations than earnings.

International stock valuations are already braced for an interesting 2024, with investor sentiment surveys in Europe not far from decade lows and the price-to-earnings ratio for the (Morgan Stanley Capital International and Europe, Australasia, and Far East Index) MSCI EAFE 15% below its 10-year average.

As the global economy transitions to a new cycle, markets are experiencing new leadership.

In 2023, the average international stock outpaced the average U.S. stock through late November.

The MSCI EAFE Equal Weight Index (where each stock in the index gets an equal weighting, as opposed to a market-capitalization-weight index), has outperformed the S&P 500 Equal Weight Index by nearly 5% in 2023, adding to the 15% of outperformance since the bear market ended in October 2022.

The reason many investors haven't noticed the outperformance of international stocks is that the seven mega-cap stocks (the Magnificent 7 mentioned above), which make up about 30% of the cap-weighted S&P 500, have prevented the S&P 500 index from underperformance in 2023. ***Source: Schwab Center for Financial Research. Commentary as of 12/31/2023.***

Mortgage Rates On Downward Trend

MCLEAN, VA, December 28, 2023 (GLOBAL NEWSWIRE) - Freddie Mac (OTCQB: FMCC) today released the results of its Primary Mortgage Market Survey® (PMMS®), reporting that the average 30-year fixed-rate mortgage averaged 6.61%.

The 30-year fixed-rate mortgage (FRM) averaged 6.61% for the week ending December 31, 2023 down from the previous week when it averaged 6.67%. A year ago, at this time, the 30-year FRM averaged 6.42%.

The 15-year FRM averaged 5.93%, down from the previous week when it averaged 5.95%. A year ago, at this time, the 15-year FRM averaged 5.68%.

(Beginning in November 2022, they no longer publish fees/points or adjustable rates.)

The PMMS is focused on conventional, conforming, fully amortizing home purchase loans for borrowers who put 20% down and have excellent credit.

Average commitment rates should be reported along with average fees and points to reflect the total upfront cost of obtaining the mortgage.

(Borrowers may still pay closing costs which are not included in the survey.)

Sam Khater, Freddie Mac's Chief Economist stated that rapid descent of mortgage rates over the last two months had somewhat stabilized this week but are continuing to trend down.

He added that, heading into the new year, the economy has remained on firm ground with solid growth, a tight labor market, decelerating inflation, and a promising rebound in the housing market.

U.S. Wealth Drops

According to a new report from UBS, for the first time since the 2008 financial crisis, the U.S. experienced the largest shrinkage in wealth around the world, shedding $5.9 trillion, but is still home to most of the world's richest individuals.

The decline was the largest decline of any country, following a rise of $19.5 trillion in 2021, according to UBS Global Wealth Report 2023, which, according to UBS, draws from estimates of the wealth of 5.4 billion adults around the world.

Mean wealth per adult in the U.S. shrank $27,700, to $551,350, however, that put mean U.S. wealth only behind Switzerland, at $685,230, and slightly ahead of Hong Kong, at $551,190.

The number of U.S. millionaires, shrunk by 1.8 million, and the number of ultra-high-net-worth individuals, those with wealth exceeding $100 million, shrunk by 17,260, to 123,870.

The U.S still has the most millionaires, 22.7 million, or 38.2% of the world total.

China, which is in second place, only has 10.2% of all global millionaires.

The U.S. represents 51% of the entire group of the 123,870 ultra-high-net-worth individuals worldwide, UBS said.

Global wealth, meanwhile, fell by $11.3 trillion in 2022, or 2.4%, to $454.4 trillion, while wealth per adult dropped 3.6%, to $84,718.

“Much of this decline comes from the appreciation of the U.S. dollar against many other currencies,” UBS wrote in the report.

They added, “Financial assets contributed most to wealth declines in 2022 while non-financial assets (mostly real estate) stayed resilient, despite rapidly rising interest rates.”

Meanwhile, UBS said that the biggest wealth increase last year was recorded in Russia, whose oligarchs have faced severe sanctions and sweeping asset freezes in response to the country’s invasion of Ukraine.

Cryptocurrencies: What Are They?

***The following is for informational purposes only. We do not own, nor do we offer or recommend cryptocurrency as an investment alternative to our clients*.**

In the past five years or so, interest has soared in cryptocurrencies like bitcoin, ethereum, BNB, and others.

In only a few years' time, the cryptocurrency industry has exploded.

The price of one bitcoin has ranged from $1,000 in early 2017 to more than $68,000 in November 2021, before falling back to around $16,000 by late 2022, but with intense volatility, including periodic drawdowns of more than 50% along the way.

Understandably, there are many questions so here are answers to some of the most commonly asked.

Let’s start with: What is a bitcoin?

Bitcoin is a virtual, digital, or "crypto" currency, so called because of the cryptography, or unchangeable coding techniques, involved in the blockchain code on which they exist.

The intent of bitcoin is to allow online payments to be made directly from one party to another through a worldwide payment system, without the need for a central third-party intermediary like a bank.

Bitcoin is not issued by any central bank or government and is still not considered legal tender, meaning a national currency established by statute, in most countries.

Similar to physical gold, bitcoin's value stems from a combination of its perceived scarcity and the perception that it can be a store of value, an untraceable anonymous means of payment, or a hedge against inflation, although none of these characteristics have yet established a long-term track record.

What is blockchain and what is its relationship to bitcoin?

Blockchain, the underlying technology that supports cryptocurrencies, is an open-source, public record-keeping system operating on a decentralized computer network, such as the internet, that records transactions between parties in a verifiable and permanent way.

Blockchain provides accountability because the records are intended to be irreversible, which presents potential applications for many businesses.

While blockchain has often been associated with cryptocurrencies, it has many other uses beyond payments, including smart contracts, supply chain management, and financial services.

Note: ownership of bitcoin or other cryptocurrencies is not an investment in blockchain, the technology, or its current or future uses.

What is cryptocurrency, and how is it valued? Currencies like U.S. dollars and euros are forms of money issued by governments to serve as legal tender.

Cryptocurrencies like bitcoin, on the other hand, are non-governmental forms of digital cash to be used for electronic payments.

The idea of digital cash isn't new, it started with credit cards, PayPal, Venmo, and others to satisfy the need for easy, traceable electronic payments. But those payments are tied to actual currencies managed by central banks, whereas cryptocurrencies are managed by technology, specifically cryptology.

Proponents believe the value of a cryptocurrency is based on the quality of the cryptology, the number of cryptocurrency units created, and the technology that limits the creation of additional units.

Like any traded item the value depends on supply and demand: The fewer units available, the higher the price potential buyers are willing to pay.

Like many new technologies or products, bitcoin’s popularity has attracted followers interested in innovation and the perceived absence of governmental control.

Traders saw it as an alternative to traditional investments like stocks, bonds, and cash, and trading momentum led to a rising, if highly volatile, price.

All this attracted media attention, which has driven mainstream awareness and ultimately increasing acceptance and a market to trade it.

While companies as varied as PayPal, Microsoft, Starbucks, and AT&T accept bitcoin as a form of payment, such transactions typically involve a third-party processor, thus, its use in everyday commerce remains far outside the mainstream.

So, who oversees bitcoin? NOBODY!!

Bitcoin was created based on a paper written in 2008 by a "founder" who goes by the pseudonym Satoshi Nakamoto, but no person or agency currently regulates it to ensure that it maintains value and liquidity and works as a means of payment.

It's governed by consensus of a private digital community according to guidelines based on the community, cryptology, and a network of computers.

While individual countries may allow bitcoin to be used as a means of payment, regulate the terms under which its citizens can trade or mine bitcoin, and authorize the operation of cryptocurrency exchanges, they don't regulate or control the existence or value of bitcoin itself or the blockchain code on which it operates.

Bitcoin is promoted by the Bitcoin Foundation, but the foundation does not control or manage bitcoin's trading or value.

The number of bitcoins in circulation is limited by and managed by the original computer code and traded through one of several digital, decentralized exchanges.

No one knows for sure how many investors actually own bitcoin.

Bitcoin was the first cryptocurrency and is the best known, most widely held, representing about 48% of the total cryptocurrency market cap.

As of June 2023, there were more than 25,000 digital currencies in the marketplace, but only about 40 had a market capitalization exceeding $1 billion.

Federal Reserve Chair Jerome Powell and SEC Chair Gary Gensler both have stated that they don't intend to outlaw cryptocurrencies, but by mid-2023, both the SEC and the Commodity Futures Trading Commission had initiated formal charges against Binance and Coinbase, two of the largest crypto exchanges, for operating unlicensed broker dealers, exchanges, and clearing agencies, as well as violating numerous federal securities laws intended to protect investors.

Cryptocurrencies are not going away any time soon.

China launched a digital yuan in 2021, and it's estimated that at least 100 different countries around the world, including the United States, are exploring the idea of launching their own proprietary Central

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Bank Digital Currency.

In April 2023, European lawmakers approved the world's first comprehensive package of rules aimed at regulating cryptocurrencies, and in June 2023, the U.S. House Financial Services Committee and the House Agriculture Committee released a joint bill that creates a broad regulatory framework for cryptocurrency.

This bill is expected to be taken up by Congress in 2024. ***Source: August 23, 2023 Schwab Center for Financial Research***

Important Birthdays Over 50

At age 50, workers in certain qualified retirement plans are able to begin making annual catch-up contributions in addition to their normal contributions.

Participants in 401(k), 403(b), and 457 plans can contribute an additional $8,000 per year in 2024.

You can make a catch-up contribution of up to $3,500 in 2024 in your Simple Individual Retirement Account (IRA) or Simple 401(k) plans and those who participate in traditional, or Roth IRAs can contribute an additional $1,000 a year.

At Age 59½ you can begin making withdrawals from your qualified retirement plan without incurring a 10% federal income tax penalty but keep in mind that these distributions are taxed as ordinary income.

At age 62, workers are first able to draw Social Security retirement benefits. However, if a person continues to work, those benefits will be reduced by $1 of benefits for each $2 of earnings above the 2024 annual income limit of $22,320.

At age 65, individuals can qualify for Medicare. The Social Security Administration recommends applying three months prior to reaching age 65.

If you are already receiving Social Security benefits, you will automatically be enrolled in Medicare Part A (hospitalization) and Part B (medical insurance) without an additional application.

Between age 65 and 67, you will become eligible to receive 100% of your Social Security benefit. The age varies, depending on birth year.

Born between 1955 and 1959, you become eligible to receive 100% of your benefits when you reach age 66 years and 2 months. Those born in 1960 or later need to reach age 67 before they'll become eligible to receive full benefits.

In most circumstances, once you reach age 73, you must begin taking required minimum distributions from a traditional Individual Retirement Account and other defined contribution plans.

You may continue to contribute to a traditional IRA past age 70½ as long as you meet the earned-income requirement.

Understanding key birthdays may help you better prepare for certain retirement income and benefits and avoid penalties.

Frankly Funny

Kevin has been extremely anxious person for most of his years and it got to the point where his compulsive worrying was ruining his life. He eventually went to a psychiatrist, who recommended that he hire a professional worrier.

After he'd been working with the specialist for a few months, Kevin's friend John noticed a major change is his behavior.

"What happened buddy?" John asked. "You don't worry about anything anymore. Nothing bothers you"

"I hired a professional worrier!" Kevin answered.

"Incredible, but that must cost you a fortune," John said.

"Yes, he charges $4,000 a month," Kevin said awkwardly.

"Four thousand dollars a month, how can you ever afford to pay him?" John exclaimed.

"I have no idea." Kevin said. "That's his problem."