



January 10, 2024

With 2023 in Rear View

After almost a full four years of suffering from long-Covid, this New Year seems to be positioning to be the year our economy and individual behaviors have finally recovered and turned to normal. Disruptions and dislocations caused by the pandemic are fading in the rear-view mirror as the investors are returning to the basics. While the stocks have already rallied off their lows, we still see undervalued areas that provide potential with relative margins of safety.

This past year was exceptional. As far as securities markets are concerned, one that traditional indicators did not predict and many economists and strategists did not see coming. It was concluded with noteworthy advancements in key financial indices, exemplified by the S&P 500 attaining a 26.3% return and the Nasdaq Composite surpassing expectations with a 44.6%. These remarkable returns were primarily driven by a select group of corporations, especially those that capitalized on the burgeoning enthusiasm for AI-driven markets. This trend underscored the profound influence of technological innovation on market dynamics. For most equity investors, it concluded the two-year period of no return. Major indexes are just now coming back to their previous highs reached in the early days of 2022. Fixed income investing returned to style with interest rates reaching close to the Fed's assumed highs, and investors looking to benefit from future interest rate cuts.

However, the most impactful events of the year were all part of a larger story of managing towards a new balance, be it in the post-pandemic economy and finance, or in the geopolitical reshaping of the world and the power/rights/access dynamics of new technologies.



It has been a pivotal year, marked by significant events and policy decisions that have resonated globally. The overarching theme of these developments was centered around "calming the concerns" of various stakeholders, ranging from financial markets to international communities. This year was characterized by strategic economic maneuvering (Central Banks and Treasury policies), geopolitical upheavals (escalations at the lines of future separations), technological advancements (AI entering user stage), and banking sector challenges (regional banks crisis in the US and funding crisis in the UK). These developments not only influenced immediate policies and market reactions but also set the course for future economic and geopolitical dynamics. Each of these themes played a critical role in shaping the global narrative, affecting everything from market performances to international relations.

Fed Policy Decisions and Guidance

The Fed actions were navigating the U.S. economy through a period of uncertainty and change. The Committee's decision to reduce the Federal Reserve's balance sheet from \$8.5 trillion to \$7.7 trillion marked a significant move towards post-pandemic economic normalization. March saw a slight uptick in liquidity lending due to the regional banking crisis, though it quickly subsided resulting in the balance sheet further trending downward during the remainder of the year. This balance sheet reduction reflected a strategic shift from the expansionary policies adopted during the pandemic to a more cautious approach in the face of mounting inflationary pressures.

Moreover, the Fed implemented a series of rate hikes as a continuation of 2022 policy, culminating in a terminal rate of 5.5%. These rate hikes were critical in the Fed's efforts to control inflation, which had become a growing concern for the U.S. economy. The Fed's actions were not without consequences, as they led to increased borrowing costs and impacted consumer spending and business investment decisions. The policy guidance suggested that real interest rates might become restrictive, indicating the Fed's careful balancing act between curbing inflation, and sustaining economic growth.

The FOMC's policy decisions were closely watched by global markets and investors, as they had far-reaching implications beyond the U.S. economy. The Fed's approach towards a restrictive monetary policy was seen as a necessary step to ensure long-term economic stability, but it also posed challenges for emerging markets and global trade dynamics. These off-shoot effects will undoubtedly have ramifications for years to come but in the near term, investors will look to gauge how financial markets are affected.



Geopolitical Tensions

Geopolitical events this year were marked by significant tensions and conflicts. The most notable was the escalation between Hamas and Israel in Gaza, following Hamas's largest terror attack since the mid-1970s. Israel's subsequent declaration of war and continued operations in Gaza led to a tragic loss of civilian lives and heightened international concern. This conflict not only affected the Middle East region but also had broader implications for global security and diplomatic relations.

The Russian invasion of Ukraine continued to strain the international community's resolve. Support for Ukraine, particularly from Western nations, faced challenges as some factions in the U.S. questioned the sustainability of funding Ukraine's defense. This shift in attitude reflected a growing weariness over the prolonged conflict and its economic and political repercussions.

The geopolitical landscape was further complicated by the varying responses from different nations and international organizations. These events underscored the fragility of international peace and security and highlighted the complex interplay of political, economic, and social factors in global geopolitics moving forward towards the next balance of powers and grouping of the larger blocks.

Regional Banking Crisis

The banking sector faced a significant crisis, primarily driven by the challenges encountered by regional banks. These challenges were attributed to such factors as overconcentration in the venture capital market and/or risky balance sheet management. In particular, regional banks' holdings of longer-dated, interest rate-sensitive bonds became a significant concern in an environment of rising interest rates. This miscalculation exposed some regional banks to substantial risks, and ultimately resulted in the downfall of more than one regional bank.

Artificial Intelligence

Amidst these challenges, artificial intelligence stood out as a beacon of technological progress and economic opportunity. AI continued to revolutionize various sectors, particularly technology. These advancements were not just limited to tech giants but also permeated smaller businesses and startups, driving efficiency, innovation, and competitiveness.



The impact of AI was evident in its widespread application across industries. From healthcare to finance, AI technologies were at the forefront of transformative changes, offering new ways to solve complex problems and create value. This growth in AI also spurred discussions about ethical considerations, workforce implications, and regulatory needs, highlighting the need for a balanced approach to technology adoption.

The optimism surrounding AI was palpable in the market performance of technology companies. Investors showed great enthusiasm for AI-driven companies, reflecting a broader belief in the potential of technology to drive future economic growth. This excitement around AI was a key factor in the resilience and growth of tech markets, even in the face of broader economic uncertainties.

Through these turbulent years we helped families move from north to south in search of clearer retirement sky and helped a couple of them move from the south, back north, to be closer to their growing family or aging parents. We helped plan business sales and next generation takeovers. Facing the change in interest rate environment, it offered many of our clients the opportunity to review their current financial picture with opportunities that haven't been available to them over the last decade. Volatility is uncomfortable, but it is good for tax-loss harvesting, and we used the opportunity to improve on the tax lots of many accounts. Many assets were moved to trusts initiated by your attorneys' and our advice in order to simplify and improve the transfer of your legacy to your loved ones and organizations/causes you support. A few retirement plans moved from the planning stage and initiated their first income distribution, and quite a few new ones entered the planning stage. We helped some of your children navigate through their employment benefit choices, starting retirement plans, and even deal with the peer pressure of investing in meme stocks.

I would like to thank Allison Convissar, Private Wealth Client Associate, Mary Makin, Client Service Manager, and Michael Davern, Portfolio Associate, for providing connections, information, and proactive support, constantly improving on delivery of our services, being able to adjust fast and take on the extra work through those four challenging years.

Having spent almost three decades working across the desk from you, I am inspired by the depth of your dedication and the impact you have made creating better lives for you and your families. Each year, and every day brings new challenges, and you return to



your goals with an unwavering commitment. I am proud to have been there with you through this whole cycle, and so excited for the future ahead of us.

Yours,

Emir Culov

Partner, Senior PIM Portfolio Manager

Wells Fargo Advisors Financial Network did not assist in the preparation of this report, and its accuracy and completeness are not guaranteed. The report herein is not a complete analysis of every material fact in respect to any company, industry or security. The opinions expressed here reflect the judgment of the author as of the date of the report and are subject to change without notice. Any market prices are only indications of market values and are subject to change. The material has been prepared or is distributed solely for information purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Additional information is available upon request.