MACRO & MARKET

PERSPECTIVES

2024 PREDICTIONS
A FIRST LOOK AT THE ROAD AHEAD

SPECIAL REPORT
UNDERSTANDING THE FEDERAL DEFICIT

A YEAR IN REVIEW
NOTABLE EVENTS THAT SHAPED 2023'S MARKETS

HEADWINDS, TAILWINDS &
KEY TAKEAWAYS FROM 2023

OAKWORTH
CAPITAL BANK

2023

ANNUAL ECONOMIC OUTLOOK & OVERVIEW

JANUARY 2024

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JOHN NORRIS

Chief Economist

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A letter from our

CHIEF ECONOMIST

At the start of 2023, the threat of recession loomed over the markets, and investors hoped the Fed would start cutting the overnight rate. Fortunately, despite all of the worry, the economy continued to expand, almost in spite of itself. Perhaps as a result, not only did the Fed not cut rates, it continued to increase them through the middle of the year.

Interestingly, the markets didn't seem to mind these hikes in 2023 as much as they did in 2022. The fact that we were closer to the end of the tightening cycle than the beginning was apparently some type of solace. By the start of the 3rd quarter, investors finally felt comfortable that the Fed's next move would be a cut.

Even still, at the start of the year, it appeared as though the Fed might have gone too far and too fast with its rate hikes than in the previous years. While it almost seems like ancient history, everyone held their collective breath when Silicon Valley Bank, and others, essentially failed at the start of the year.

Would this be the start of another financial crisis like the one in 2008-2009?

Fortunately, the answer was no, and the markets and economy were able to put the biggest wobble in the banking system in over a decade behind them surprisingly quickly. By the end of the year, it was almost as though it had never happened, at least as far as the markets were concerned.

Then, we had the various debt ceiling imbroglios, and let's not forget the removal of the Speaker of the House of Representatives, a first. The never-ending war in Ukraine was never far from the headlines. The Chinese continued to cause trouble in the South China Sea, and Hamas started yet another conflict in the Middle East.

There seemed to be no end to the bricks in our wall of worry.

In a lot of ways, the world stumbled and fumbled its way through 2023. Still, thanks to a strong labor market, the U.S. economy continued to thrive, much more so than virtually anyone had predicted at the start of the year. As a result, investors were finally able to put away the worst of their worries by the start of November, and the stock markets soared.

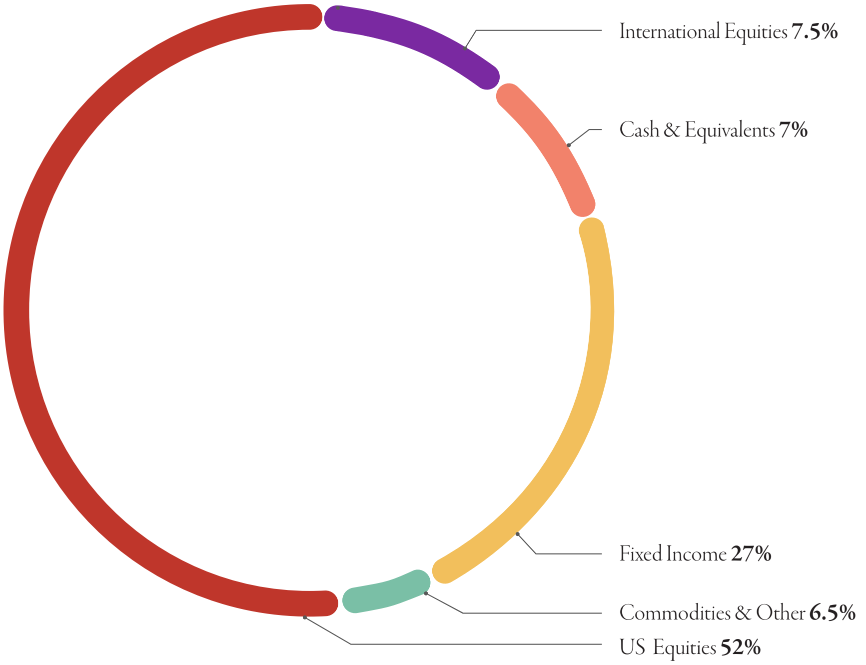
It was a fitting end to what had been a confounding year.

In the end, while 2023 provided a lot of angst, it also produced a lot of economic activity and positive market returns. As we enter 2024, one can only hope we get a repeat of last year, at least in their stock portfolios.

Thank you for your continued support,

John Norris
Chief Economist

Our Investment Committee distributes information on a regular basis to better inform our clients about pending investment decisions, the current state of the economy and our forecasts for the economy and financial markets. Oakworth Capital currently advises on approximately $1.9 billion in client assets. The allocation breakdown is in the chart below.



RYAN BERNAL

Analyst

CHRIS COOPER

Portfolio Manager

2023: THE YEAR IN REVIEW

Investment Committee

The year 2023 was a year when things ultimately worked out for domestic investors, somehow. From high-profile bank failures to war in the Middle East to domestic labor strife to higher interest rates to discord in Washington and general societal malaise, it would have been easy to make a worst-case scenario for the past year.

Instead, given all the turmoil in the world, it ended up being close to a best-case one.

Throughout 2023, Oakworth's Investment Committee was very active making tactical shifts to asset allocation. As the timeline below suggests, it had to be that way in order to stay ahead of the news and business cycles.

As the old expression goes: "you skate to where the puck is *going to be* and not where it currently is."

Blocking out the noise in the media, and focusing on what really matters to the economy, is extremely important when making investment decisions. The key is determining what is noise and what isn't.

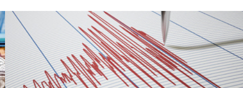
Fortunately, Oakworth's Investment Committee was effective in doing that last year. If you would like to know some of the primary shifts we made in our clients' portfolios, please feel free to contact your Oakworth client advisor or investment portfolio manager, or set up a time to meet with one.

JAN

1st
Croatia adopts the euro as its currency

5th
Funeral for Pope Emeritus Benedict XVI in Rome

8th
China reopens its borders after nearly 3 years



FEB

1st
Tom Brady retires, for good this time

4th
U.S. shoots down Chinese high-altitude spy balloon

6th
Massive 7.8 earthquake strikes southern Turkey

MAR

8th
1st bank falls: Silvergate Bank liquidates

10th
Another bank falls: Silicon Valley Bank collapses

19th
UBS buys Credit Suisse for about $3.2 billion

APR

12th
U.S. EPA proposes regulations making electric vehicles 67% of new passenger car sales by 2032

15th
Germany ends its use of nuclear power

24th
India surpasses China as the world's most populous country

MAY

1st
Another bank falls: First Republic Bank collapses

4th
WHO declares COVID-19 over as a global health emergency

6th
Coronation of King Charles III at Westminster Abbey

JUN

1st
Congress raises the $34 trillion debt ceiling

21st
U.S. approves first lab-grown meat, chicken

30th
U.S. Supreme Court rules against President Biden's student debt forgiveness plans

JUL

9th
"Barbie" premieres

14st
Actors' union SAG-AFTRA goes on strike

26th
Fed Funds Rate reaches 5.50%

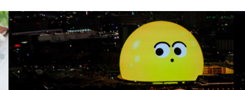
28th
Scientists genetically engineer fruit flies to reproduce without a male

AUG

1st
Fitch downgrades U.S. Treasury debt from AAA to AA+

17th
U.S. 30-year fixed rate mortgages rise above 7% for the first time in over two decades

24th
BRICS group of countries agrees to invite Argentina, Ethiopia, Egypt, Iran, UAE and Saudi Arabia



SEP

15th
UAW union goes on strike at 3 locations

21st
Rupert Murdoch retires from the boards of Fox and News Corporation

29th
The MSG Sphere in Las Vegas opens with a U2 concert

OCT

4th
Kevin McCarthy becomes first U.S. House Speaker voted out of the office

7th
Hamas launches a major surprise attack on Israel from Gaza

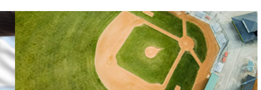
13th
Microsoft completes its acquisition of Activision

NOV

1st
Texas Rangers win their first World Series title in franchise history

9th
SAG-AFTRA ends its 118-day actors' strike

19th
Argentina elects far-right President Javier Milei



DEC

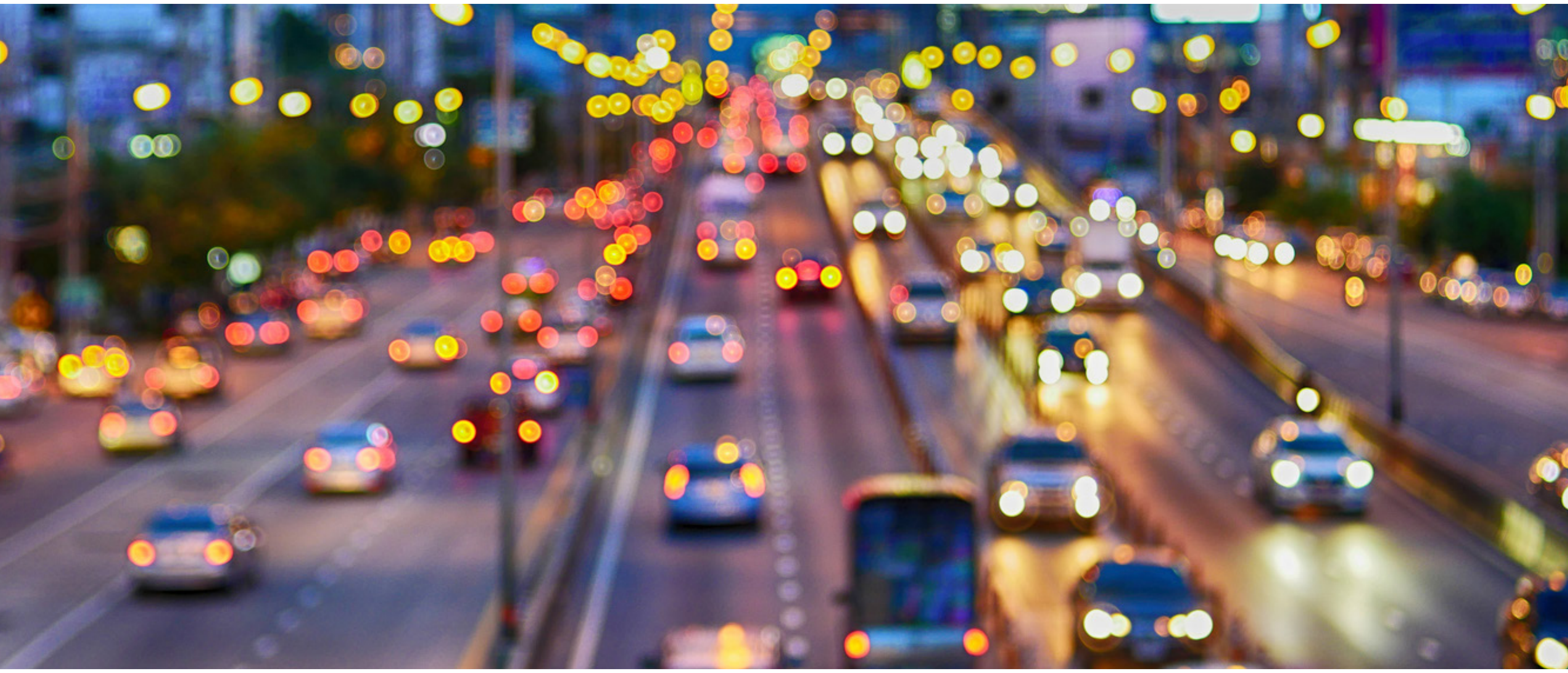
9th
Baseball superstar Shohei Ohtani signs 10-year $700 million deal with the LA Dodgers

19th
Shipping firms suspend Red Sea activity hampering global trade

28th
Gold crosses an all-time high

2023 KEY TAKEAWAYS

As 2023 drew to a close, threats of a looming recession subsided. However, prices remain elevated, employers struggle to find workers, gridlock reigns in Washington, and our massive annual deficit balloons into 2024.



LABOR MARKETS
The much-feared recession that was supposed to happen in 2023 never came to fruition. Despite a lot of economic data suggesting slower growth, the surprising strength in the labor markets provided enough of a tailwind to keep the economy growing.

POLITICAL GRIDLOCK
As usual, dysfunction and gridlock reigned in Washington. Fortunately, investors tend to love political gridlock, as it limits new constraints on the economy and the markets.

ELEVATED PRICES/ INFLATION FRUSTRATION
Inflation came down in 2023, but most prices didn't. This caused some confusion for many Americans, as they didn't see any real improvement in their monthly costs even though the experts were saying things were getting better.

LABOR SHORTAGES
Employers continued to have difficulty in finding workers. More specifically, they had trouble finding dependable people willing to work the necessary hours at the wages companies wanted to pay.

RATE EXPECTATIONS
The Federal Reserve didn't cut the overnight lending target rate the way many thought it would in 2023. However, that didn't seem to deter investors. It seems simply knowing there wouldn't be any more rate hikes was enough to send stocks soaring at times during the year, especially in November and December.

GEOPOLITICAL CHALLENGES
Global conflicts tested both American resolve and military stockpiles. By the end of the year, it wasn't clear whether the U.S. will have the desire or industrial ability to continue to support its allies, both new and old, in the manner with which they have become accustomed.

LARGE CAP GROWTH STOCKS

After a disastrous 2022, large cap growth stocks (read: technology and communications) rebounded sharply in 2023. The strength of the advance, however, led many investors to wonder whether the pendulum had swung back too far by year end.

GREEN ENERGY

The market limitations of the administration's green energy initiatives became increasingly apparent as the year progressed. U.S. manufacturers are behind in the EV race, and consumer demand has failed to meet idealistic expectations. It reminded one of the old expression: "wanting something to happen doesn't mean it will."

THE BANKS

Although the banking system teetered during the 1st quarter of 2023, it didn't fall. The reason? There is a significant difference between a non-performing asset and a repriced one. The former leads to a permanent erosion in capital, whereas the latter usually only leads to a temporary one. After all, if you hold an "underwater" bond long enough, it should mature at par.

MARKETING 101

A number of companies learned a powerful lesson the hard way in 2023. It is always a best practice to market a company's product or service instead of senior management's perceived political positions.

GEOPOLITICAL SHIFT

Asia and even Africa's relative indifference to the war in Ukraine underscored the growing gap between the so-called Global North and Global South. The latter essentially being the former Third World. This will have long lasting implications, as the geopolitical landscape continues to shift from Eurocentrism to Asiacentrism.

MILITARY STOCKPILE LIMITATIONS

In 2023, the Pentagon found out boring, conventional munitions like 155mm artillery shells still matter, and in a big way. The drawdown on these stockpiles is showing the limitations of our military industrial complex, especially relative to the Russians and Chinese. While our material is more advanced, it is also more expensive and time-consuming to produce.

THE DEBT CEILING

No matter who is in the White House, Congress must periodically raise the debt ceiling. It doesn't really have any choice, that is, if it wants to continue paying Social Security, Medicare, Medicaid, the Department of Defense and servicing the debt. To that end, we could eliminate all other discretionary expenditures in Washington and still run a massive annual deficit.

HOLLYWOOD DERIVATIVES

By the end of the year, it seemed Americans were finally growing weary of yet more comic book movies, reboots, prequels and endless sequels. Hollywood can blame whatever it wants for consumer indifference, however, its own lack of originality has to be in there somewhere.

ARTIFICIAL INTELLIGENCE

One of the biggest buzz phrases for 2023 was "artificial intelligence" or AI. It seemed to be on everyone's mind, with some even speculating how it could lead to the extinction of human beings. However, if and when it ever gets to that worst-case scenario, we should all unplug our machines and pick up a book instead.

TRENDING RIGHT

In 2023, right-of-center political parties performed well in national elections around the world. This will likely continue, as voters increasingly reject the globalism which arguably hasn't produced the results their leaders had promised.

ELECTION AHEAD! NORMALCY AVERTED!

We ended 2023 just like we did 2020, 2021 and 2022, hoping for a return to some type of normalcy. Unfortunately, we then remembered 2024 is an election year, one that could devolve into a circus pretty quickly.

ECONOMIC OVERVIEW

2024 won't be a bloodbath, but it should be a slowdown.

JOHN NORRIS

At the start of 2023, analysts and investors were very worried about the prospects for a recession. They also believed the Federal Reserve would start cutting the overnight lending target rate at some point during the year. Neither of these things happened.

Although these predictions were wrong, this past year was yet another confusing year for economic data. I suppose you could call it a post-pandemic hangover of some sort. Let's hope it isn't the so-called "new normal" The industry will have to learn a whole new set of correlations if it is, as a lot of the tried & true from the past no longer seems to work.

However, I have the luxury of writing this piece at the end of the year. During the 1st quarter of 2023, things were decidedly more uncertain than they are now. After all, a few nice-size bank collapses will tend to fray nerves and send people running for their bunkers.

In March, when the problems at Silicon Valley Bank (and others) became too great to ignore any longer, the risk of another financial system collapse seemed very real.

If these firms were failing because of the damage higher interest rates were causing to their balance sheets, why wouldn't everyone else have experienced the same issues?

It is just math and Accounting 101. When rates go up, the value of the bond holdings on the asset side of the balance sheet **falls**. When this happens, assuming liabilities stay the same, the firm's equity **decreases**. Obviously, if assets decline to the point where liabilities exceed them, the bank(s) could collapse.

Frankly, it didn't take too much of a mental leap to imagine a domino effect of failing financial firms taking down the U.S. economy.

This, however, didn't happen. Here's why:

- Not all banks were as interest-rate-sensitive as the troubled ones were.
- The wobbly ones tended to have larger bond portfolios, which they had to "mark to market" as interest rates were rising.

So, what about banks that had a small amount of short-term bonds, say 10-15% of their assets? They were never in any real danger of failing. Conversely, those that had a large allocation to long-term bonds? Yes, they were in some trouble at the start of the year.

Fortunately, the worst-case scenario didn't materialize.

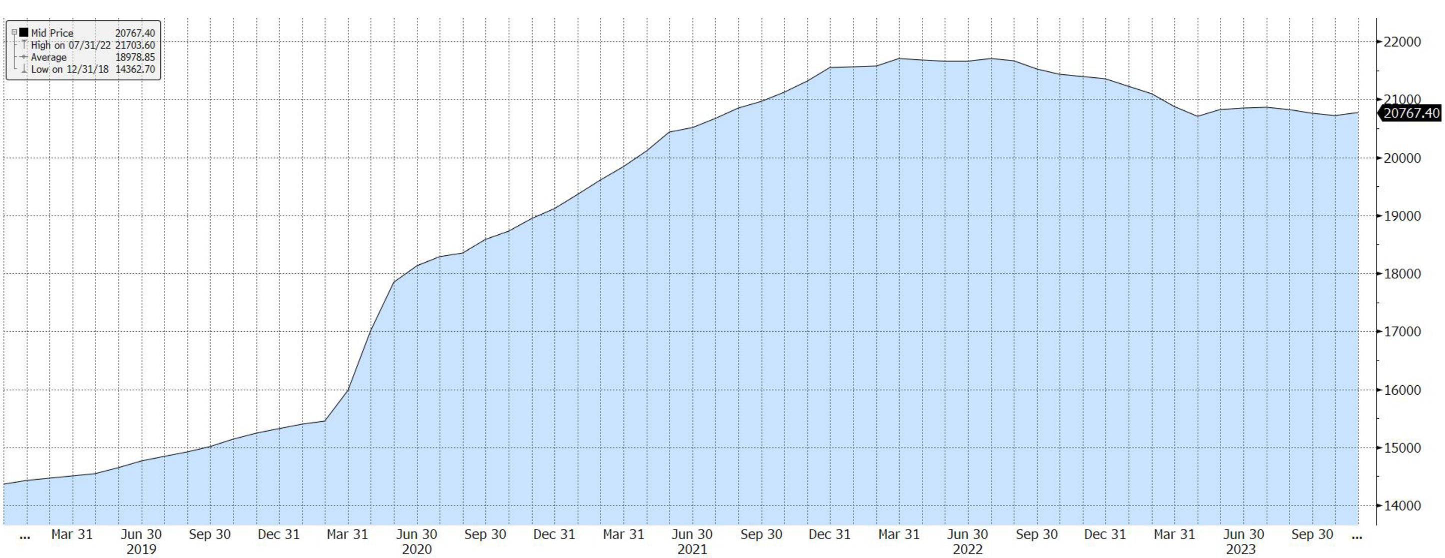
The banking system didn't fail. There wasn't a repeat of the 2008-2009 Financial Crisis, at least not yet. But there were still other problems with which to contend.

THE MONEY SUPPLY

First, there is the decline in the money supply.

Intuitively, a decrease in the amount of money sloshing about in the economy isn't conducive for growth. Further, it almost never happens. Surely, this would cause problems. After all, M2, the most commonly used supply gauge, fell almost a trillion dollars throughout the year, as is evidenced in the chart below:

GROWTH IN THE MONEY SUPPLY – OR LACK THEREOF



Source: Bloomberg Financial

Going all the way back to 1959, there had never been a year-over-year decline in the money supply until 2022, when it fell 0.9%. However, at times in 2023, it got even worse. In April 2023, the trailing 12-month decrease in the amount of money in the system was 4.5%. By October, the last observation as of the time of this writing, it was 3.3%, or roughly $708 billion in absolute terms.

Surely, this would put a dent in activity, right? Apparently not, as the Bureau of Economic Analysis (BEA) continued to report surprisingly decent quarterly Gross Domestic Product (GDP) numbers.

But how could this be?

Apologists pointed to the massive increase in M2 in 2020 and 2021 as the primary reason. While the supply of cash was indeed falling, it was doing so from artificially high levels thanks to Washington's largesse during the pandemic and immediate aftermath. As such, there was, and still is, a lot of 'excess' liquidity sloshing about the financial system, more than enough to keep the economy's wheels well oiled.

While that is an extremely logical explanation, and possibly very accurate, it still leaves a little head scratching for people who have been watching the markets for an extended period of time.

THE YIELD CURVE

Then there is the issue of the inverted yield curve. This is when short-term rates are higher than long-term ones. Thanks to the Federal Reserve's attempts to quell inflation, short-term rates have skyrocketed over the last two years.

Since March 2022, the Fed has raised the overnight lending target a whopping 525 basis points (5.25%). This is the most aggressive it has been in doing so since the early 1980s.

Conversely, while they have gone up, longer-term rates haven't increased by the same amount as short-term ones, either in absolute or relative terms. As a result, as of 12/22/2023, the yield to maturity on the 3-Month U.S. Treasury bill was 5.39%, whereas the yield on the 30-Year U.S. Bond was only 4.05%.

This is important.

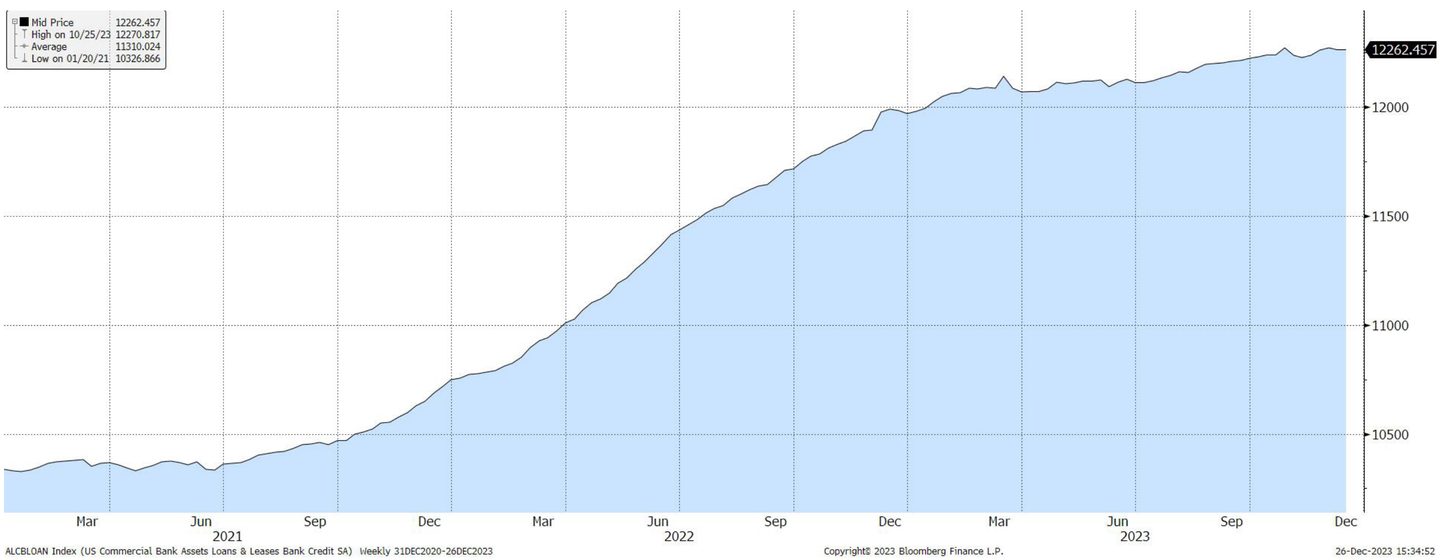
You see, banks borrow short, in the form of deposits, and lend long. Typically, there is a nice, positive spread between what they pay and what they charge. However, if what banks have to pay depositors increases faster than what they can charge for loans, they make less money. As a result, they become pickier, if that is right word, about to whom they lend money, at what rate and for what length of time.

As was the case at times this past year.

IN OTHER WORDS, WHEN THE YIELD CURVE INVERTS, BANKS TEND TO SLOW DOWN THEIR EXTENSION OF CREDIT. WHEN THAT HAPPENS, THE MONEY SUPPLY SLOWS, OR SHRINKS AS IT HAS RECENTLY, AND ECONOMIC ACTIVITY COOLS. SOMETIMES, THIS IS ENOUGH TO SEND THE ECONOMY INTO RECESSION, BUT NOT ALWAYS.

LOAN GROWTH

LOANS & LEASES IN BANK CREDIT



Source: Bloomberg Financial

During the worst of the banking turmoil at the start of the year, loans and leases on bank balance sheets actually fell.

- After reaching a high of $12.139 trillion for the week ending on 3/15/2023, banks reined in their credit until the end of July.
- It wasn't until the week ending on 07/26/2023 that loans and leases finally eclipsed where they had been in March.

That is a four-month stretch of not much happening in the banking industry. Trust me, this isn't the norm. But, did it have a negative impact on the economy?

As you know by now, it didn't, at least not officially. After all, the BEA reported the U.S. economy grew at a 2.1% annualized rate during the 2nd quarter of 2023. While there were some weaknesses in the report, it didn't appear the quarter's slowdown in loan creation was the problem it might have been in a simpler time.

- Bank failures? Check.
- A decrease in the money supply? Check.
- An inverted yield curve? Check.
- Stagnant loan growth? Check.
- Declining economic activity? Not so fast.

PURCHASING MANAGERS' INDEX

If this isn't, let's call it, interesting enough, there is the case of the regional purchasing managers' reports. These are surveys some of the regional offices of the Fed take to gauge economic activity in their area. Bluntly, the majority of them have been bad over the last 12 months, as in below zero, which would ordinarily portend contraction.

For example, the "Dallas Fed Manufacturing Outlook Level of General Business Activity" closed the year at (-9.3). While still bad, it was an improvement on the (-29.1) reading for May. Whew. If Texas isn't growing, who is? Eerily similar, the "Philadelphia Fed Business Outlook Survey Diffusion Index General Conditions" was (-10.50) in December 2023, which seemed robust after the (-31.3) observation in April. Finally, the Kansas City Fed posted a (-1.0) number in November. Although that was much better than June's (-12.0) data, it was a massive decline from the +32.0 reading in March 2022.

As such, it was safe to say a lot of the Federal Reserve's regional information wasn't exactly meshing with a lot of the official data. Most of the household and small business data wasn't either.

HOUSEHOLD AND SMALL BUSINESS DATA

The University of Michigan Consumer Sentiment Index, a gauge of the average American's thoughts about the current and future states of the economy, was 69.7 for December 2023. While that number might be Greek to many, **the 30-year historical average, from 1993-2023, is 86.4**. To be sure, it was higher this year than in 2022 when inflation was at its most crippling. However, it is safe to say the American consumer hasn't been as ebullient as usual.

Neither have small businesses. To that end, the National Federation of Independent Business (NFIB) Small Business Optimism Index almost mirrors the University of Michigan data. The former's reading for November 2023 was 90.6, which is a slight improvement from where it ended in 2022. However, the 30-year average for this series is 97.8, suggesting America's small business owners don't feel as confident as they would, could or should be.

So, with all of this negative news, how was it the economy's GDP grew at 2.2%, 2.1% and 4.9% for the first 3 quarters of 2023, respectively? How was it actually able to accelerate so late in a Fed tightening cycle? From where is all of this strength coming? Especially when people were worried about a recession at the start of the year?

THE LABOR MARKETS

The easy answer to that question is the almost bizarre continued strength in the U.S. labor markets. They seem to have a life of their own. If not that, they are coated in Teflon.

Fed rate hikes can't stop the jobs machine. Wars in Eastern Europe and the Middle East can't either. Weak consumer and small business optimism? That isn't a problem. Inverted yield curves, slowing credit creation, decreases in the money supply, and the heretofore unmentioned burgeoning Federal budget deficit are all so much child's play.

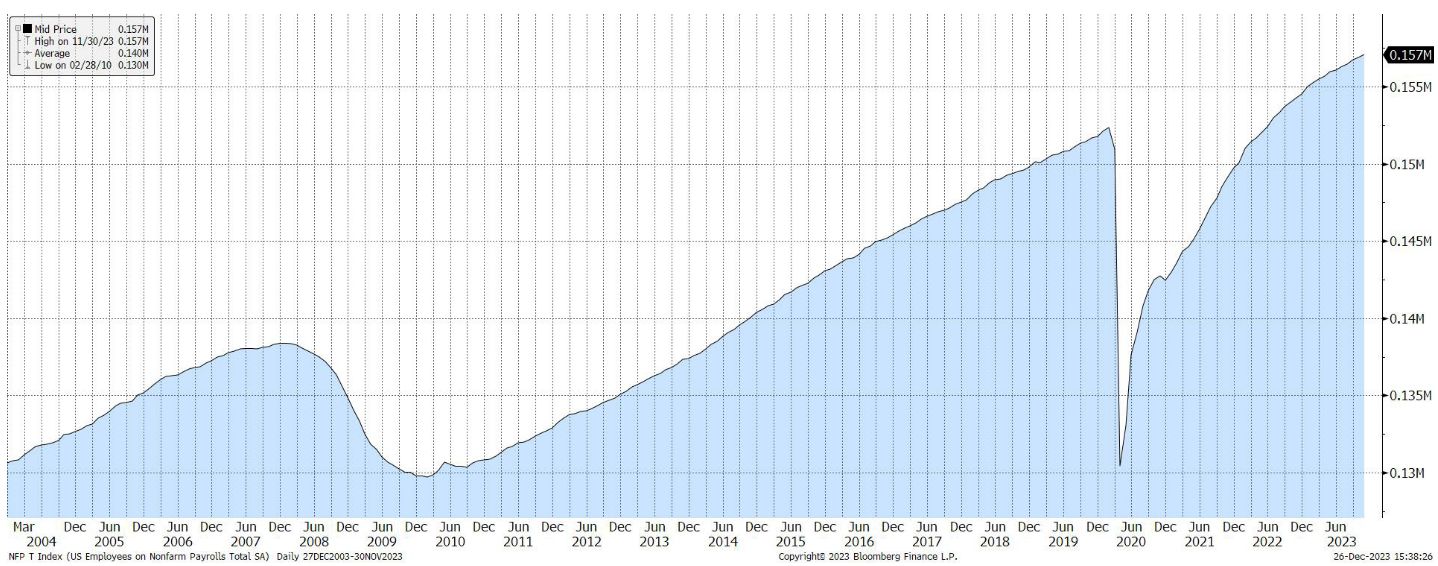
U.S. EMPLOYERS ARE STILL HAVING TROUBLE FINDING ENOUGH CAPABLE WORKERS TO MEET THEIR DESIRED CAPACITY.

- The Bureau of Labor Statistics (BLS) reported that the U.S. economy created 199,000 net, new payroll jobs during November 2023.
- For the 11 months ending in November 2023 employers added an impressive 2.81 million workers to their payrolls.
- The economy has now added back all of the jobs it lost during the pandemic plus about 4.4 million additional ones.

As a result, the official Unemployment Rate was a miserly 3.7% this past November. Further, and perhaps more importantly, the Labor Force Participation Rate has increased to 62.8%, which is up sharply from the low of 60.1% it had reached in April 2020.

Basically, firms are hiring and folks are returning to the workforce.

TOTAL PAYROLL JOBS IN THE UNITED STATES



Source: Bloomberg Financial

Employers are prone to be more reactive to economic conditions than proactive. So while the jobs numbers are arguably lagging economic indicators, their continued strength is providing a tailwind for the economy.

WHETHER THIS TAILWIND WILL BE STRONG ENOUGH TO FORESTALL ANY POTENTIAL ECONOMIC SLOWDOWN IN 2024 IS STILL ANYONE'S BEST GUESS. HOWEVER, IT WILL CERTAINLY MITIGATE ITS SEVERITY, PERHAPS SIGNIFICANTLY.

The reason is simple. The U.S. consumer drives the U.S. economy. To that end, Personal Consumption Expenditures account for over two-thirds of the total GDP equation. As such, you can't talk about the U.S. economy without talking about the U.S. consumer. Since paychecks are the primary source of income for the vast majority of U.S. households, you can't talk about the U.S. consumer without talking about the job markets.

THE BOTTOM LINE

Essentially, when the economy is creating jobs, it is creating consumers. When it creates consumers, good things tend to happen in terms of economic activity. Such was the case in 2023. This continued (and somewhat surprising) strength in consumer spending spurred businesses to reinvest a little bit more in their companies and inventories than they would have otherwise.

That is, had the labor markets behaved the way one would have expected them to do so this past year.

How can 2024 possibly improve upon it?

In truth, it probably won't, at least not at the first of the year. That isn't to say the economy is going to falter. It shouldn't. However, it probably won't post another 4.9% quarterly observation, as it did in the 3rd quarter of 2023, for the foreseeable future.

IF YOU HAD TO WAGER MONEY ON IT, THE EASY BET WOULD BE TO ASSUME GDP WON'T BE AS ROBUST DURING THE FIRST TWO QUARTERS OF 2024 AS IT WAS THE FIRST TWO OF 2023.

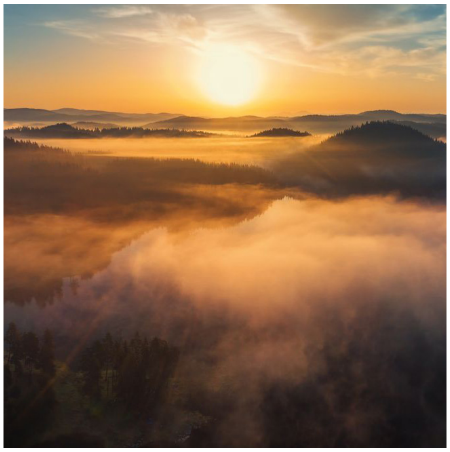
It won't be a bloodbath, but it should be a slowdown. The rates of inflation will continue to trend lower, even as prices remain high, and the employment picture will likely be a little softer than it has been.

All of it will be just enough for the Federal Reserve to start cutting the overnight lending target rate.

So, there you have it. In a lot of ways, we are ending 2023 similarly to how we ended 2022. A lot of folks are expecting a slowing in the economy, but not necessarily a recession. Further, virtually everyone believes the Fed will finally start cutting rates.

I suppose you can say everyone wasn't wrong. They were just early.

CATCH MORE FROM OUR INVESTMENT COMMITTEE EXPERTS



FIXED INCOME:
The Rising Class of 2024?

The year 2024 is expected to be different, with lower inflation rates, higher interest rates affecting consumers, and the U.S. government dealing with significant debt issuance from 2023. Market expectations include declining rates and a potential increase in demand for safer assets. Bonds, once considered boring, may offer higher yields and attractive price appreciation in 2024. Once deemed safe but dull, fixed income is now seen as a secure and strategic investment choice.

Scan to Read Fixed Income

MEET THE MEMBERS OF OUR INVESTMENT COMMITTEE

Our Investment Committee experts are responsible for overseeing the investment decisions on behalf of Oakworth Capital Bank. Their objective is to manage investment strategy, monitor the performance of all portfolios and conduct research to identify key opportunities.

Want to meet them? Scan here for our Investment Committee's Video Library.

Scan to View our Video Library

LISTEN TO OUR PODCAST:
Trading Perspectives

In this weekly podcast, Chief Economist John Norris and Portfolio Manager Sam Clement exchange perspectives on the driving factors influencing our economy. Trading Perspectives can be found on Apple Podcasts, Spotify, Google Play, YouTube, and all other major podcast outlets.

Listen to Trading Perspectives

SPECIAL REPORT

The Federal Budget Deficit & Accumulated Debt

John Norris

This year, the Investment Committee and I have received more questions about the Federal budget deficit and accumulated debt than the rest of my career combined. For good reason.

The public debt has exploded by over $10 trillion since the end of 2019.

While much of the increase was due to pandemic-related relief and stimulus efforts, Washington continues to demonstrate an almost-shocking inability to live within its means. For instance, the total public debt outstanding grew an almost $2.5 trillion in 2023. This after an additional $1.8 trillion in red ink in 2022.

At an estimated $33.9 trillion and counting, is there any end in sight to the mountain of debt Washington is amassing? Surely, this will have a negative impact on the economy moving forward, right?

Before I answer that last question, it is important to understand on what the U.S. Treasury currently spends money and how it intends to spend money in the future. For that, we need to take a look inside the administration's proposed budgets.

As of November 2023 it costs $169 billion to maintain the debt, which is 16% of the total federal spending.

Page 137 (out of 176) in the most recent budget shows "top of the house" outlays and receipts. In 2024, the White House is estimating the Treasury will **take in $4.721 trillion** and **spend $6.584 trillion.**

That would result in an annual deficit of $1.863 trillion for 2024.

Now, consider that revenue figure, $4.721 trillion.

- To put it into perspective, that number is greater than the IMF's 2023 estimate for the nominal Gross Domestic Product (GDP) for South America, the entire continent in aggregate.
- If that doesn't seem like much, it is also greater than the nominal GDP of any of the other countries in the G7.

$33,900,000,000,000 is Roughly the Value of the Combined Economies of:

CANADA + FRANCE + GERMANY ITALY + JAPAN + THE UK

That is a lot of money, and we still can't make ends meet. Why?

HOW THE DEBT ACCUMULATES

To answer that question, take a look at the table below:

2024 LINE ITEM	ESTIMATED BILLIONS ($)
National Defense	$ 992
Social Security	$ 1,459
Medicare	$ 842
Medicaid	$ 556
Other Mandatory Programs	$ 1,060
Debt Service	$ 796
Discretionary Other	$ 992
TOTAL	**$ 6,584**
ESTIMATED DEFICIT	**$ 1,863**

If you are curious what "other mandatory programs" are, page 140 outlines them in excruciating detail. While some of these might seem like so much fluff to many, they all represent promises Washington has made and intends to fulfill. For "discretionary" outlays, please take a look at Table S.8 on page 164.

As for the rest of it, Washington can eliminate all discretionary expenditure outside of the National Defense and still run an annual deficit of roughly $900 billion.

STATED SIMPLY, THE FEDERAL GOVERNMENT COULD EFFECTIVELY SHUT DOWN ALL CABINET DEPARTMENTS AND MAJOR AGENCIES, AND THE TREASURY STILL WOULDN'T HAVE ANYWHERE CLOSE TO ENOUGH MONEY TO BALANCE THE BUDGET.

If that seems frustrating, consider how the numbers might look in 2033:

2024 LINE ITEM	ESTIMATED BILLIONS ($)
National Defense	$ 1,141
Social Security	$ 2,371
Medicare	$ 1,844
Medicaid	$ 926
Other Mandatory Programs	$ 1,220
Debt Service	$ 1,393
Discretionary Other	$ 1,141
TOTAL	**$ 9,954**
ESTIMATED DEFICIT	**$ 2,535**

I've got news for you. Given current levels of spending, and the apparent lack of concern about it, we will be lucky if the deficit is only $2.5 trillion in 2033. After all, the vast majority of the estimated increases in payouts are in Social Security, Medicare, Medicaid and the Debt Service.

In fact, 'discretionary other' shrinks to less than 12% of all outlays in 2033 from 15% in 2024. Exclude them from the budget in the future, and the Treasury will still have a, get this, $1.4 trillion annual deficit.

So, the $64,000 Question is this: what do you want to cut?

- Defense? This doesn't seem terribly likely with all of the turmoil in the world.
- Social Security and Medicare? Oh boy, who has the nerve to tackle those two sacred cows? Further, older people tend to vote, you know?
- Medicaid? That sort of seems a little mean spirited, doesn't it?
- The debt service? While that might be tempting for many, defaulting on the public debt would cause a massive financial system collapse and global recession.

It's daunting, and undoubtedly the reason few of our elected officials seem to be taking this problem very seriously. It is too overwhelming and would be extremely unpopular to tackle. Besides, we seem to be able to finance our deficit quite nicely, all things considered.

Therein lies the problem.

FINANCING THE DEBT

For years, Washington has been able to borrow for essentially free, less than the accepted rates of inflation. So, there was little reason not to do so. Now, however, interest rates have normalized, and the folks on Capitol Hill will be facing a new reality, whether they like it or not.

Borrowing money is going to be more expensive moving forward, which should limit the amount the Treasury will be able to borrow at favorable terms.

As a result, you can expect those 'other mandatory programs' and 'discretionary other' expenditures to grow even slower than the current budget projects. Obviously, this will have an impact on how much the Federal government will be able to purchase or spend on so-called pet projects and pork.

In other words, it means Washington won't be as forthcoming with fiscal stimuli or largesse as it has been over the last 15 years.

PUT ANOTHER WAY, WE CAN EXPECT THE GOVERNMENT TO SHRINK AS A PERCENTAGE OF GDP EVEN AS ANNUAL DEFICITS GO THROUGH THE ROOF.

I understand this might not make any sense. However, the G variable of the GDP equation represents what the government actually purchases or invests back into infrastructure. It doesn't reflect Social Security payments, salaries, etc., which are included in the C (consumer) variable.

GDP = Private Consumption + Gross Private Investment + Government Investment + Government Spending + (Exports – Imports) Or: (C+ I + G +/- Net Exports)

As a result, we can expect the government to officially add less to the overall GDP equation than it has in recent memory. It just simply won't have the means to buy as much stuff because the bulk of the money is going to entitlement and other mandatory program payments to individuals.

Voila. Which is the primary reason how all of this debt is going to drag down the economy. Fiscal stimuli will, or should, be less in the future, especially in relative terms. Of course, this assumes there isn't a major global conflagration which would require a military mobilization.

So, what can be done?

Over the next decade, there will be no shortage of proposed tax schemes proffered to raise additional receipts for Washington. All of them will be the equivalent of "pushing on a string." A not terribly exhaustive study of our nation's economic history suggests tax receipts tend to go up when the economy expands. The greater the economic growth, the greater the revenue in Washington.

As such, the best way to make a dent in the budget deficit is grow the domestic economy as rapidly as is possible. This would require unfettering the private sector in a way which might be socially distasteful to many. Untold regulations would have to go out the window. We would need to be more realistic about how mandates actually impact economic decision making.

Frankly, we would have to have more people in the halls of power who have run a business, had to make a payroll and actually took risks with their own capital. After all, it is much easier to make decisions about other people's money than it is your own.

Personally, I believe a logical first step would be to eliminate the capital gains tax, and I mean scrap it. It is little more than a capital constraint, as it negatively impacts the free flow of investment throughout the economy. Essentially, it effectively forces investors to hold on to underperforming assets when there are more attractive alternatives.

How can that possibly be good for economic activity? Intuitively, it isn't.

Admittedly, there is little chance of this happening. However, a meaningful reduction in the capital gains tax rate would allow money to flow to its highest and best use and potentially even raise revenue for Washington. It would be a good start, even if it would be politically unpopular for many.

In the end, unfortunately, there doesn't seem to be an end in sight to our deficits. Fortunately, they likely won't crush the economy as much as constrain it. If we are serious about reducing them, we need to be serious about growing the economy. Putting more regulations, constraints and higher taxes on both businesses and capital is not the solution, and never was.

That is what I tell people when they ask me about the public debt.

EQUITIES IN 2023: A YEAR IN REVIEW

We are officially right back where we started.

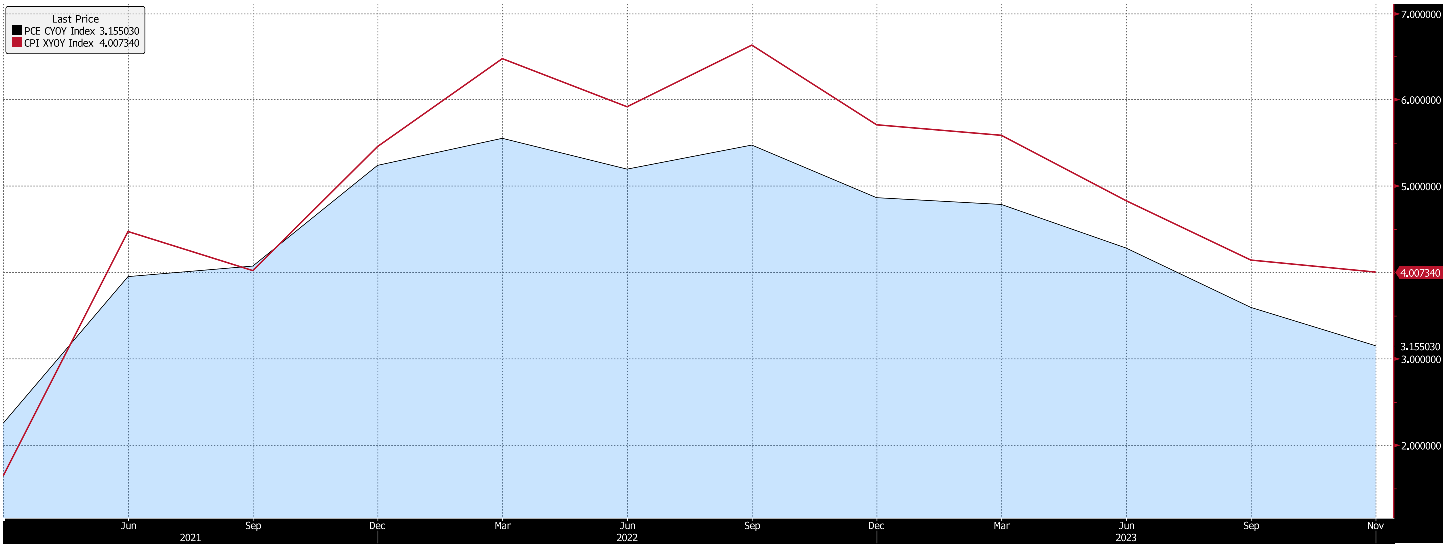
DAVID MCGRATH

Most predictions for stock performance in 2023 did not include large gains. The consensus predicted that we would see some form of a recession during 2023, and that a period of massive inflation would slow down the consumer, and the stock market along with it.

Well, the consensus was wrong.

- Economic activity actually picked up.
- The consumer continued to spend.
- Both happened with core inflation numbers coming down closer to the 2% target from the Federal Reserve.

Volatility in the Markets

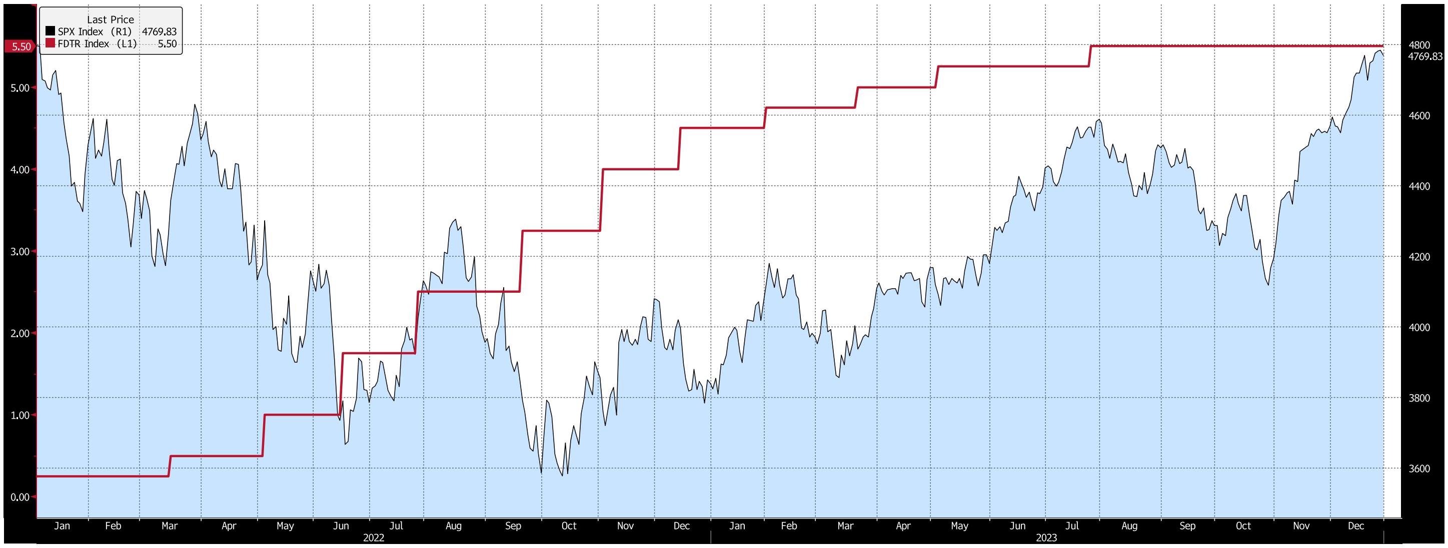


Source: Bloomberg Financial

The year before 2023 ended up being a year made up of three strong rallies and two periods of rather large declines. First Rally: The first six weeks of 2023 had the S&P 500 up almost 9%. First Decline: The collapse of Silicon Valley Bank and Signature Bank led to the fear of more banking problems, and by mid-March the S&P 500 was all the way back to flat for the year. Second Rally: From that mid-March low until the end of July, stock prices moved up again. Stronger-than-expected (or feared) earnings and continuously falling inflation numbers allowed the S&P 500 to approach a 20% gain. The fear of a recession began to disappear, and hope of an economic soft landing became more believable. Falling inflation numbers gave markets belief that the Fed was at the conclusion of their interest rate hiking cycle. Second Decline: September and October are traditionally difficult months for stocks; 2023 was no different. As the calendar flipped from July to August, the mood of the equity markets started to change. The culprit? The bond market. The yield on the 10-year Treasury moved from 3.85% on July 26 all the way to a peak of 5% on October 18. During that time, the near 20% return for the S&P 500 had eroded to a 7% gain. Final Rally: That rising yield on the 10-year Treasury turned dramatically in November and December. The yield on the 10-year Treasury fell all the way back to 3.86% by the end of the year. We also received some lower-than-expected inflation numbers and dovish comments from the Fed that gave equity markets hope – not only that we have seen the last rate hike of this difficult cycle, but also that a rate cut may finally be coming. The last two months of 2023 gave us our most powerful rally of the year, with the return for the S&P 500 climbing all the way up to a 24% gain for the year. The S&P 500 ended 2023 on a nine-week winning streak.

In Retrospect

For even more perspective, let's look back a bit further. As the Waterford Crystal ball dropped in Times Square on December 31, 2021, the stock market was just weeks away from the start of what would become the most aggressive tightening cycle from the Federal Reserve in decades. That last trading day of 2021, the S&P 500 closed at 4,766.18. As that same ball dropped this New Year's Eve, the S&P 500 closed 2023 at 4,769.83. So, over the course of two years, the S&P 500 provided a price change of a whopping 3.65 points, or 0.076%.



Source: Bloomberg Financial

That price move for the S&P 500 would normally be associated with one very slow trading day, not two extremely volatile years. As a matter of fact, in only a few of those 504 trading days comprising the past two years of trading would the S&P 500 show a price change of less than 3.65 points.

Not only have we traveled through the rising interest rate cycle from the Fed these past two years, we have seen wars break out in both Eastern Europe and the Middle East and countless stories of political disfunction out of Washington.
We are officially right back where we started.

The S&P 500 was not the only index that showed this type of performance. It's important not to confuse the lack of price change over the past two years with a lack of volatility. The years 2022 and 2023 were mirror images of each other, with the first year showing large losses, and 2023 providing significant gains.

ENDING VALUES ON				2 YEAR PRICE CHANGE
	12/31/2021	12/31/2022	12/31/2023	
S&P 500	4,766.18	3,849.28	4, 769.83	0.08%
Year over Year % Change		-19.2%	23.9%	
Dow Jones Industrials	36,338.30	33,147.25	37, 689.54	3.72%
Year over Year % Change		-8.8%	13.7%	
NASDAQ	15,644.97	10,466.48	15,011.35	-4.05%
Year over Year % Change		-33.1%	43.4%	
S&P 400 Mid Cap	2,842.00	2,441.17	2, 781.54	-2.13%
Year over Year % Change		-14.1%	13.9%	
S&P 600 Small Cap	1,401.71	1,157.53	1,318.26	-5.95%
Year over Year % Change		-17.4%	13.9%	

Equity index prices are not the only thing that has not changed dramatically over the past two years, as corporate earnings also seem to be stuck in neutral.

- S&P 500 earnings moved from roughly $215 in 2021 to $220 in 2022.
- With only the 4th quarter earnings season left, it does not appear that earnings for 2023 will be much above the $220 earned in 2022. Companies found it much more difficult to pass along all of their increased costs to their customers.
- As sales increased almost 3% in 2023, earnings were flat.

Sector Specifics

The worst performing indexes in 2022 were the best performing in 2023. The same pattern held for sector performance. Technology, Consumer Discretion and Communication Service sectors recovered from miserable 2022 performances to show the best returns in 2023.

ECONOMIC SECTORS	2022	2023
Communication Services	-39.9%	+51.5%
Consumer Discretion	-37.0%	+38.1%
Technology	-28.2%	+54.5%

The strength of the largest stocks in the S&P 500, dubbed the "Magnificent Seven," led the strong market performance all year.

These stocks (Apple +49%, Microsoft +56%, NVDIA +349%, Alphabet +67%, Meta +68%, Amazon +194% and Tesla +59%) accounted for 63% of the entire return of the S&P 500 this year.

It is not surprising that all seven of these companies are members of the three best performing sectors.

By the end of 2023, those seven stocks now provide just over 30% of the weight of the S&P 500, and even a larger weight of the NASDAQ composite index. It was only the equity rally in November and December that saw a broad advancement of stocks, and not one led by the Magnificent Seven. The average stock from the S&P 500 was not nearly as strong as the index returns. These few eye-popping individual stock returns turned a good year of equity performance into a great one.

With recession fears front and center as we entered 2023, the three defensive sectors ended up being a surprisingly bad place to try to get through 2023. Healthcare (0% return in 2023), Consumer Staples (-4%) and Utilities (-11%) all significantly underperformed the broad market. The only other sector that provided a loss last year was the Energy sector (-3.5%). In 2022, Energy was the only sector that provided a positive return (+65%).

Looking Ahead

So how did most experts get their 2023 economic and market predictions so wrong?

We ended up with strong economic activity instead of the feared recession. The labor market did not weaken, it somehow got even stronger. This, in spite of the fact that the Fed raised interest rates even more than most market experts predicted.

In more normal times, rising interest rates and ever-increasing prices (inflation) would be met with a consumer who would limit their spending. This was likely a factor contributing to concerns about a recession at the beginning of 2023.

However, the unexpected resilience and strength of the consumer was driven from two main components.

1. Labor Markets

First, the labor market remained red hot, and with low unemployment rates and increasing wages, the consumer felt compelled to keep on spending. And indeed, they did.

Will the labor market finally cool off some in 2024 and see the unemployment rate move back up to more typical levels? Will corporate leadership try to stop the decline in profit margins and trim down their number of employees? Many companies have maintained higher staffing levels due to concerns about their ability to rehire in the future. If that fear of not being able to rehire subsides in 2024, we may finally observe the anticipated weakening in the labor markets.

2. Excess Cash

The other component that may have changed the normal reaction to a period of extreme inflation was the amount of excess cash, around $4 trillion, the consumer had saved from the COVID economy of 2020 and 2021. Higher interest rates did not matter to a consumer spending saved cash. Why? They weren't borrowing money they were then spending.

A Return to Normal?

At the end of 2023, we started to see some signs that the consumer was starting to return to more normal patterns. Airlines and hotels that have been slammed since the lifting of COVID travel restrictions in 2021 are starting to see future booking return to a more normal level. The vast majority of that excess "COVID cash" has finally been spent.

How all of these changes play out will have a direct impact on corporate earnings. Will we finally break out and see growth in corporate earnings? Current estimates for S&P 500 earnings for 2024 are $245, or an 11% increase from 2023. These earnings predictions usually end up being a bit optimistic, so something around $235 may be more realistic. Based on the current S&P 500 level of 4,769, we are trading just over 20x earnings.

Currently, the futures market expects the Fed to cut the Fed Funds rate from its current level of 5.5% down to 4% by the end of the year. If that were to happen, we could see slight multiple expansion over the next 12 months for another positive year of equity returns.

As a reminder, 2024 also gives us a presidential election. This one should be interesting! Typically, the stock market likes certainty. By the first week in November, we should know what political party controls the White House and both chambers of Congress.

Do not be surprised if the incredible performance of the Magnificent Seven can't continue into the new year. Smaller stocks and more value names may finally have their day in the sun. In this scenario, the average stock may outperform the overall index. Another mirror image.

The year 2024 looks to be a decent-but-not-great year for equity performance. The second half of the year may be where we see better performance. That gives us some time to see inflation numbers continue to get closer to the Fed target of 2%, and (hopefully) the November elections will give us some political certainty.

2023 ALLOCATION

"Don't fight the Fed."

Sam Clement

Well...maybe sometimes fight the Fed.

2023 will always be looked at as a year that puts a little asterisk next to the adage that famed investor, Marty Zweig, coined in 1970. The saying makes sense. All too often, the Fed seems to follow the famous saying in the tech space of "move fast and break things," as their policies both under-and overshoot frequently. Be it their inability to hit 2% inflation for most of the last (pre-COVID) decade, or the continued loose post-covid policy that at least didn't help tame the rampant inflation to come.

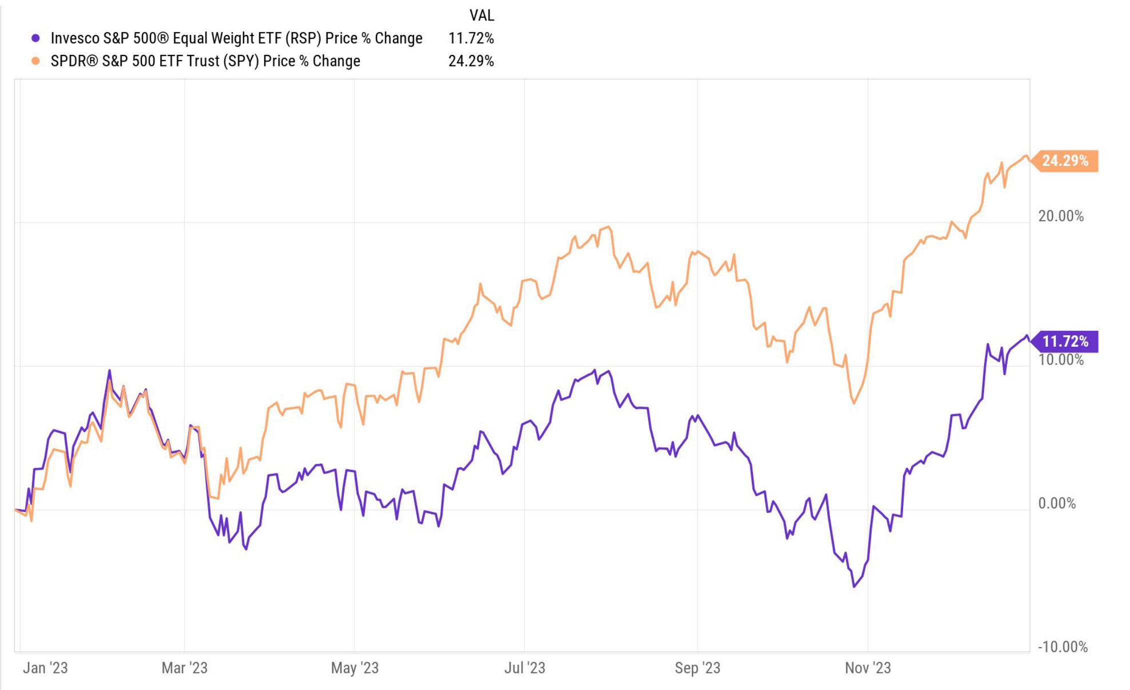
Basically, when the Fed shows up to cool things off, don't stand in their way.

THE STOCK MARKET

Not only was 2023 a tough year for the "Don't fight the Fed" crowd, but it was also a tough year for the stock-picking crowd. Never in this century has there been more names within the S&P 500 underperforming the index. Shockingly, the equal-weighted version of the S&P 500 underperformed the standard S&P 500 by over 12%!

In fact, that same equal-weighted index was down for the year, as recently as November 10th. That is, if your portfolio didn't have at least a market weighting to what is now being called the Magnificent Seven (Apple, Amazon, Microsoft, Alphabet, Tesla, Nvidia, Meta) then you likely underperformed 'the market'.

EQUAL-WEIGHTED S&P 500 VS STANDARD S&P 500



Source: Bloomberg Financial

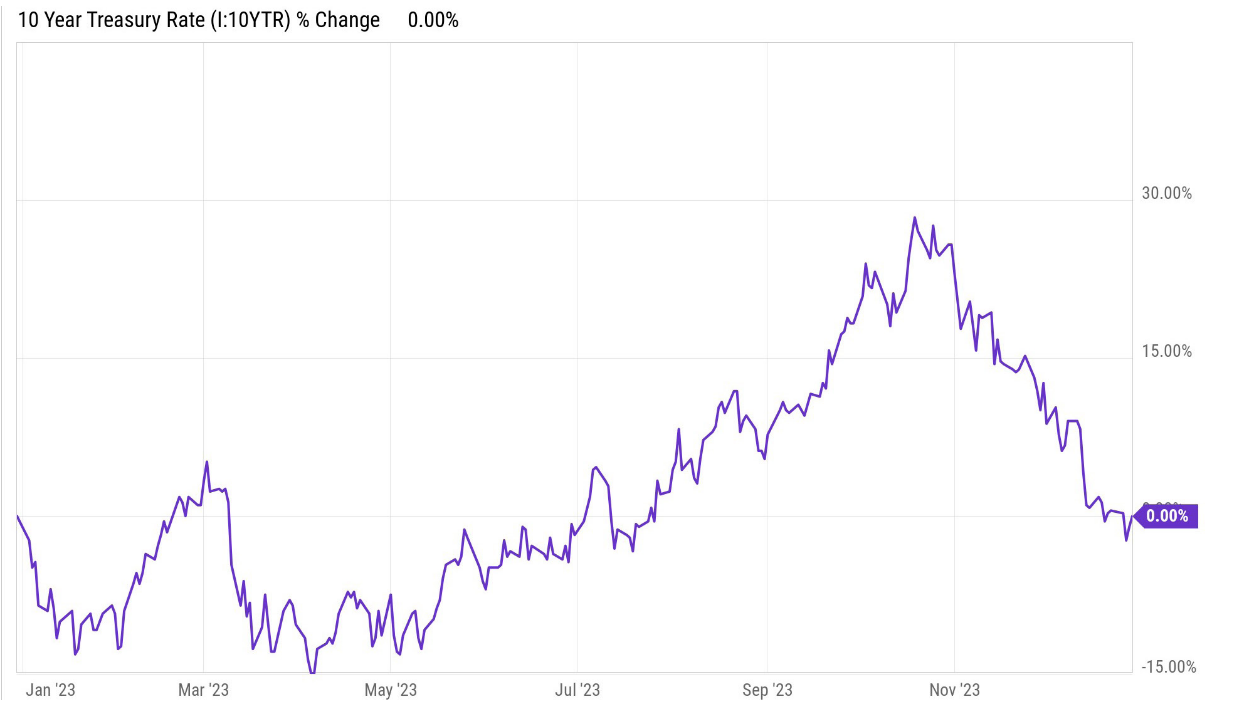
As good of a year as this was on the surface, things were not, and continue to be, far less smooth underneath.

That begs the question, what does this mean for our Investment Committee's thoughts, and subsequently our allocation?

If you have been asleep since the beginning of the year and just woke up to check the bond market (highly unlikely but not impossible), you would have probably thought this was a pretty uneventful year.

The 10-year treasury is *exactly* where it was to start the year. However, this has involved a low of 3.30% and a high of nearly 5%. That is a wildly volatile year.

10-YEAR TREASURY



Source: Bloomberg Financial

THE BOND MARKET

The bond market had a tough time deciphering things this year. With varying messages coming from Federal Reserve officials, a mix of weak and strong economic data, and a substantial influx of new treasury bonds, the interest rates pendulum swung drastically. What this meant for us and our allocation was to keep duration short to start the year.

This short duration bond portfolio insulated us as best as possible from the rate hikes that we expected and subsequently saw. In the 3rd quarter, however, it became pretty clear. The Fed was done even though they didn't say it as clearly. Much like a birthday wish that, if said out loud, won't come true.

This meant if they flipped so dovish, the market would front run them entirely and not give them the chance to loosen policy as they may have desired.

We saw through this though.

The Fed was and is done, and with that, we had the green light to shift duration out. Not exponentially, but to around neutral, enabling us to "lock in" those higher rates that were clearly not set to last with the Federal Reserve taking their foot off the pedal. This was the right call. At the time of our trades, the ten-year treasury was over 4.80%, and is currently nestled around 3.90%.

There are two main ways to make plays on fixed income: Changing duration and changing credit quality. We have leaned on the former, as credit spreads have not widened, making the risk reward unattractive by our estimation.

But you can't talk about stocks without discussing the Magnificent Seven, as mentioned earlier. These names, funny enough, are often viewed as tech stocks; however, only three of them technically are (Apple, Microsoft, and Nvidia).

- All seven were up tremendously with Nvidia and Meta leading the way both up over 200% for the year.
- All seven contributed to the Nasdaq being up over 50% for the year.

These names emerged as leaders for a whole host of reasons that I could expand on; however, I will focus on one particular trend that has been, and will likely continue to remain, significant – the swinging of the pendulum. As much as all of these names were up this year, the pendulum swung in the opposite direction in 2022, with the Nasdaq experiencing a decline over 32%. This decline was led by the likes of Meta and Tesla, down over 60% each.

Up until the last two months, the market under the surface of these names did not have a good year. As I mentioned earlier, the equal weighted was down for the year as recently as the beginning of November. Small and mid-caps were down as well. This was the opposite of the "everything rally". I'll call it the "almost-nothing rally". For us and our allocation, we have maintained a roughly-neutral-weighting to the large-cap growth stocks leading the "almost-nothing rally".

With this, as the year has gone on and the rally has largely continued, we have found opportunities to add to some of the more value-oriented cyclical sectors that have not contributed to the rally. This included things such as small-cap stocks, as well as Energy and Financials.

WE HAVE FOUND OPPORTUNITIES TO ADD TO SOME OF THE MORE VALUE-ORIENTED CYCLICAL SECTORS THAT HAVE NOT CONTRIBUTED TO THE RALLY. THIS INCLUDED THINGS SUCH AS SMALL-CAP STOCKS, AS WELL AS ENERGY AND FINANCIALS.

ENERGY

The case for Energy can be made as complex as one would like; however, it can also be made simple. The demise of oil dependency has been greatly exaggerated; most barrels of oil are bought and sold in U.S. dollars. As the Fed begins to cut rates, the dollar should weaken... meaning it will take more dollars to purchase the same barrel of oil. Oh, and the sector is largely cheap (undervalued) and has robust cash flow generation. See? It's quite simple, really.

FINANCIALS

Financials on the other hand have become the boogeyman of sectors, ever since the Silicon Valley Bank collapse. One that scared analysts into having to actually do their due diligence and understand the assets of the companies they track.

It was not necessarily elevated interest rates that hurt banks, rather it was the rapidity at which rates increased and the unexpectedness that caught many off guard. Higher rates are frankly not bad for banks. Regional and Money Center banks have large amounts of non-interest-bearing deposits, meaning they have very healthy margins, especially when the rates they charge on their loans go up.

As long as the balance sheet is healthy, and the investments made are wise, banks can continue to turn a healthy profit.

SMALL-CAP STOCKS

Small-cap stocks are attractive for several reasons. First of all, they're cheap. The companies in the S&P 600 small-cap index are trading at forward earnings multiple of 12x.

This is the case, even after the 20+% rally the sector experienced during the last two months of the year. Secondly, this sector is more diverse across sectors than large-cap, with the three largest sector weightings being Financials, Industrials, and Consumer cyclical. All areas we think will do well.

OUR THOUGHTS

Take all of this and put it together, and it means in our view, the pendulum should swing back slightly. This doesn't mean Tech will fall apart, or even that it demands a pull back, rather the "almost-nothing rally" should continue to broaden out and include more names outside of the Magnificent Seven. With the large recoveries we have seen in those names, it is our view that a broader range of companies will begin generating stronger returns. If the Fed is able to cut rates due to lower inflation rather than an economic slowdown, as currently anticipated, it is expected to have a positive impact on market confidence and will continue to broaden out.

As always, we will remain open minded to the incoming data and how it fits into the mosaic of the overall economic outlook, with a focus on generating the best possible risk adjusted returns for our clients.

2024 PREDICTIONS

Federal rate cuts, cheaper money, labor markets, college football, the presidential election and other projections from our Investment Committee.

- Due to the strength of the stock market rally to end 2023, investors start 2024 wondering what equities will do for an encore. **Unfortunately, stocks give back some of their gains during the 1st quarter,** as large foundations, endowments and fund complexes rebalance their portfolios back to their target allocations.

- After a historic run in terms of absolute and relative performance over the last decade, **large cap growth stocks are poised to underperform their value counterparts in 2024.** This has more to do with current valuations more than long-term economic growth prospects. Essentially, value stocks have become too cheap to continue to ignore.

- If the futures market is anywhere close to accurate, **the Federal Reserve could cut the overnight lending target rate by as many as 150 basis points during 2024.**

- If the Fed is as aggressive in cutting the overnight rate as investors believe it will be, **the U.S. dollar should fall in value relative to other major trading currencies.** This should bode well for commodities' prices and international investments.

- If past is prologue, and we are supposed to say it isn't, **the anticipated Fed rate cuts should cause the yield curve to steepen and make variable rate debt less expensive.** Historically, this has benefitted small and mid-cap stocks, and should do so again in 2024.

- U.S. investors could have a dilemma on their hands in the upcoming year. **Would it be better to play the weaker dollar trade by buying commodities, precious metals and materials OR would it be better to buy international investments?** Due to continued economic sluggishness in the remainder of the world's major developed economies, U.S. investors opt slightly more for the former.

- **The continued depletion of U.S. munitions stockpiles becomes more serious in the upcoming year.** Despite constraints on the Federal budget, the Pentagon has no choice but to ask for and earmark more funds for procurement. The most immediate concern is replenishing "conventional war" material, things like 155mm artillery shells and smaller arms.

- At the start of the year, the presidential candidates for both major political parties seem set. However, **after the primaries get underway in earnest, what were thought to be foregone conclusions turn out not to be so.** Of particular note, both Nikki Haley and Ron DeSantis make serious dents in Donald Trump's commanding lead in the polls.

- Although the economy seemed to ignore the inverted yield curve, shrinking money supply, persistently negative leading indicators, housing unaffordability, the higher cost of capital and weaker business sentiment in 2023, these **things finally come home to roost at the start of the year.**

- The U.S. will likely post weaker Gross Domestic Product (GDP) numbers for both the 1st and 2nd quarters, but they won't be the worst-case scenarios. **Investors can expect roughly 1-1.5% economic growth for the first two quarters, with stronger activity to close the year.**

- **Belligerents in the "global south," especially the Middle East, continue to push back against the Western World.** Attacks against United States' military installations and naval vessels persist during the year until the administration has to make a decision. Eliminate the problems at their sources and risk a wider escalation? Or keep on handling the attacks on a piecemeal basis? Unfortunately, the Pentagon will attempt an approach which is neither, to no one's great satisfaction.

- **Cheaper money in the U.S. economy in 2024 should benefit the real estate sector.** However, mortgages will still be more expensive than they were a few years ago. As such, the boost probably won't be as great as your local real estate agent/broker would like. Regardless, the worst is likely over for this economic cycle.

- The U.S. labor markets will remain tight on a relative, historical basis. However, they should weaken from their surprising strength in 2023. The reason is relatively simple. **Cheaper money will allow U.S. employers to invest more in technology and systems in order to increase capacity. This reduces the need for additional employees.** The change will be extremely gradual, but it will be happening nonetheless.

- In 2024, **it becomes increasingly more apparent that reports of the death of the fossil fuel industry in the United States were greatly exaggerated.** U.S. automakers are too far behind in the EV race to meet the Administration's aggressive goals. U.S. consumers don't want EVs in the quantities which might make them profitable for manufacturers. The necessary infrastructure simply doesn't exist across the country, and the U.S. has all of this energy already at its disposal.

- As wars continue to wage across the globe, **Americans increasingly wonder whether it is in our nation's best interests to continue to be the world's policeman.** It is extremely expensive. It costs American lives, and there doesn't seem to be an end in sight. Not surprisingly, the U.S.'s increasing isolationism becomes a major election topic by November.

- Despite adding Shohei Ohtani during the off-season, **the LA Dodgers won't win the World Series.**

- No later than halfway through the Fall, **college football fans will come to the conclusion they liked their old conference and rivalries better than their new ones.**

HERE TO SERVE YOU

Meet Our Wealth Advisors

Managing both the broad view and the complexities of our clients' wealth management and trust needs is our hallmark. Our holistic approach allows us to manage assets not just for today, but for generations. Your client advisor works to understand deeply your values and goals, then coordinates an elite, multidisciplinary team of financial experts to preserve your invested dollars, provide a readily accessible stream of liquidity and generate a competitive rate of return – all based upon a statement of investment policy we have defined uniquely for you.

We advise clients on the appropriate asset allocation and execute this strategy through the use of an open-architecture investment platform. We then work closely to achieve their generational financial objectives.

Learn more about our wealth team at: oakworth.com/our-team/wealth-team
Learn more about our wealth services at: oakworth.com/our-approach/wealth-management

Investment Management | Wealth Strategies | Fiduciary Services

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LEE BANKS
Client Advisor
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LUKE FARGASON
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JOHN T. HENSLEY
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