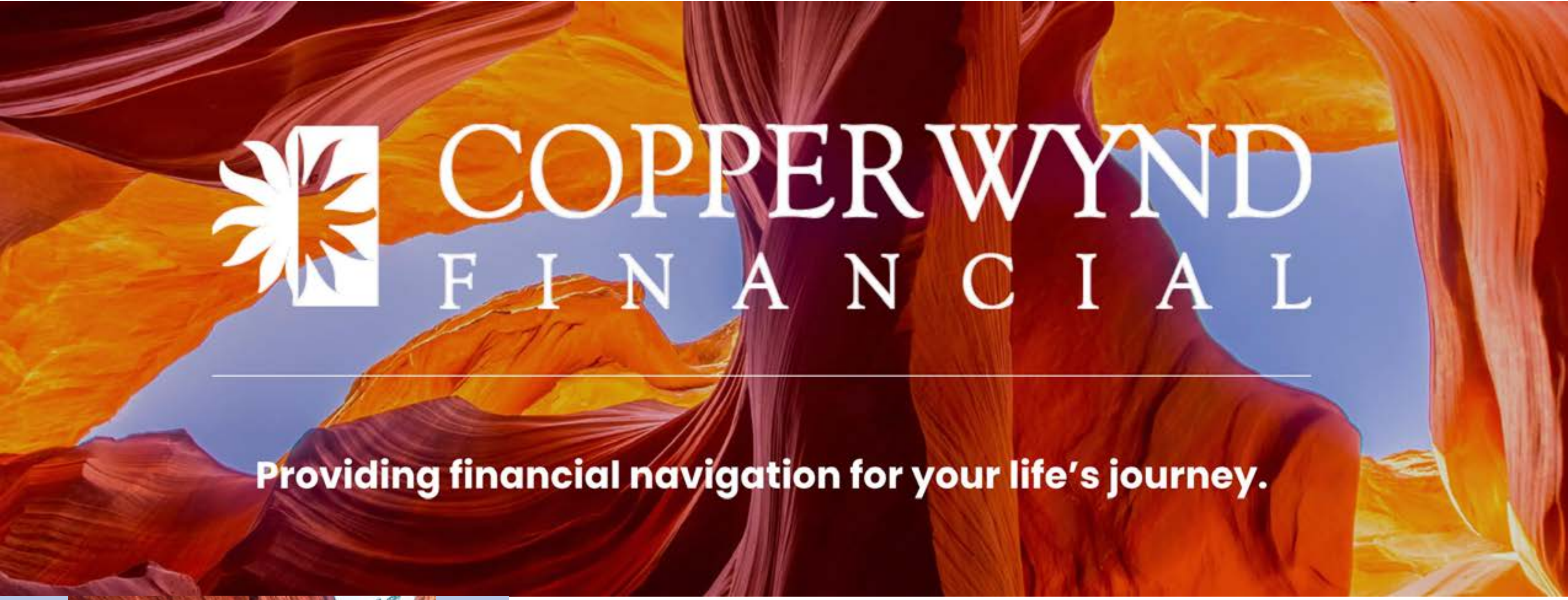


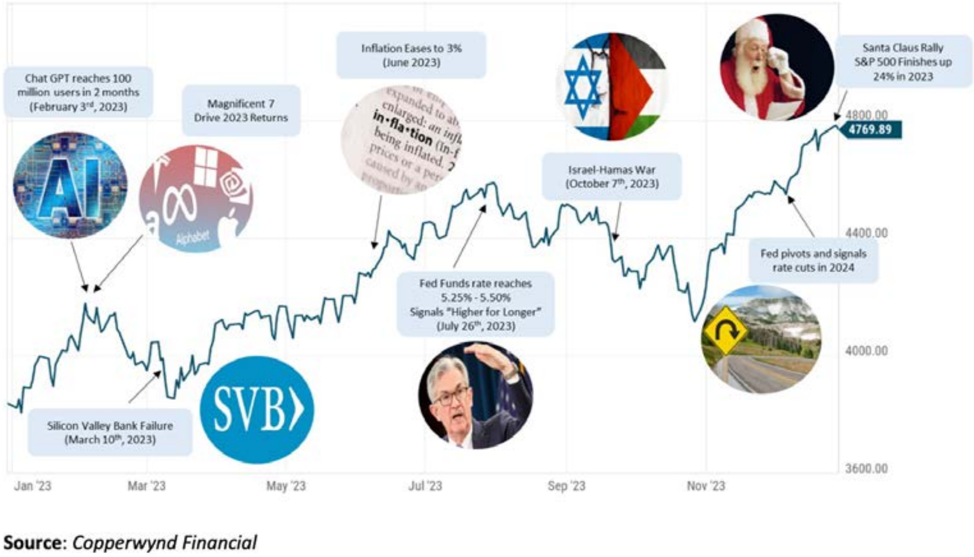
Your Copperwynd Financial Newsletter: January 2024

Market Commentary

2023 Year in Review

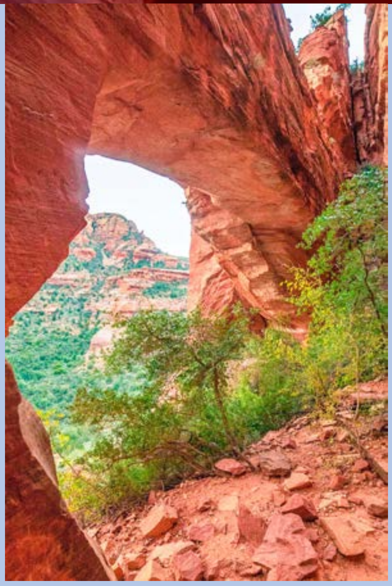
By Jake Eggett

Markets staged an impressive turnaround in the fourth quarter, primarily due to an unexpected shift in the Federal Reserve's stance on interest rates. This, coupled with robust economic activity and decreasing inflation, led to a significant surge in stock prices, propelling the S&P 500 to its highest levels in over two years and resulting in the best annual return since 2021. Let's review the key events of the year.



Source: *Copperwynd Financial*

The strong fourth quarter performance somewhat obscures the fact that stocks and bonds started the year under significant pressure. Heading into 2023, there was widespread concern that the economy would slide into a recession; however, it proved more resilient than anticipated.



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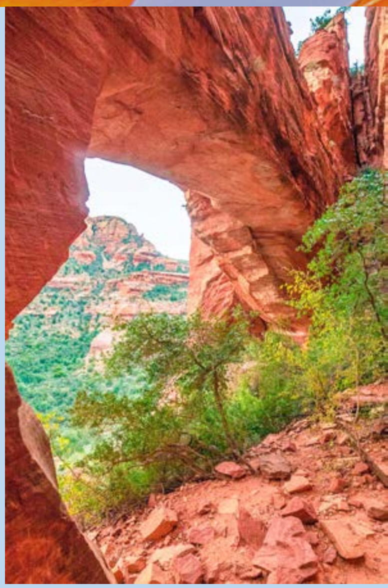

Enthusiasm soared for technology stocks following Nvidia's outstanding first-quarter earnings report, driven by the flourishing chip business for artificial intelligence development. However, some investors remained cautious about the market's rally, particularly because it heavily relied on a few key stocks known as the "Magnificent Seven." For much of the first half of the year, almost all the market gains were concentrated in the top 10 largest stocks, certainly not the sign of a healthy market.

In March, fears heightened after the collapses of Silicon Valley Bank, Signature Bank, and First Republic Bank due to substantial losses in government bond holdings. This raised concerns about a potential regional banking crisis and a credit crunch that could lead to an economic decline. The Federal Reserve swiftly intervened to alleviate pressure on regional banks holding troubled bond portfolios, restoring confidence in the stock market.

By the end of July, the S&P 500 had rallied 20% to a mid-year high. Shortly thereafter an unexpected setback occurred, the Federal Reserve signaled that the fight on inflation wasn't over and that rates would stay "Higher for Longer." This led to a sharp selloff in the bond market causing the yield on the U.S. Treasury 10-year note to reach a 17-year high near 5%.

Then on October 7th, Hamas soldiers infiltrated settlements in Israel, killing and kidnapping more than 1,200 Israelis in the worst attack on Israel in decades. The market fallout was immediate, as oil prices spiked on fears a broader regional war would ensue between Israel, Hamas, Lebanon and, potentially, Iran. Higher oil prices fueled a further increase in Treasury yields as investors priced in a possible oil-driven bounce back in inflation. Between July 31 and Oct. 27, the S&P 500 fell just over 10%, entering formal correction territory.

Once again, sentiment shifted, this time as evidence suggested that inflation was decreasing, and job growth was moderating, and the Israeli-Hamas conflict hadn't spread. Expectations grew that the Federal Reserve had concluded its interest rate hikes in July and was poised to implement rate cuts. By the time the Fed signaled its shift towards rate cuts in 2024, stocks had already embarked on a 17% rally from the October lows, concluding 2023 at its peak for the year. Those factors combined with generally favorable seasonality to fuel a welcomed "Santa Claus Rally."

In sum, 2023 was a year of surprises for the markets as the expectations for a recession never materialized, inflation fell faster than forecasts, corporate earnings proved resilient and the Fed surprised markets by pivoting to a more dovish future policy. The result was substantial gains for the major averages.

Market Performance

Stocks enjoyed a broad and powerful rally in December as all major U.S. stock indices posted strong gains. Investor expectations for rate cuts in 2024 were a major influence on markets in December as the Russell 2000 and Nasdaq 100 outperformed, as companies in those two indices are expected to benefit most from a sustainable decline in interest rates. For the full year, however, the dual influences of 1) Artificial Intelligence (AI) enthusiasm and 2) Rate cut expectations drove performance as the tech-heavy Nasdaq 100 massively outperformed the other major stock indices, surging more than 50%. The S&P 500 also logged a substantial gain of over 20% thanks mostly to the large weighting of technology stocks in the index. The less-tech-stock-sensitive Dow Industrials and Russell 2000 also enjoyed strong returns in 2023, but relatively underperformed the Nasdaq and S&P 500.

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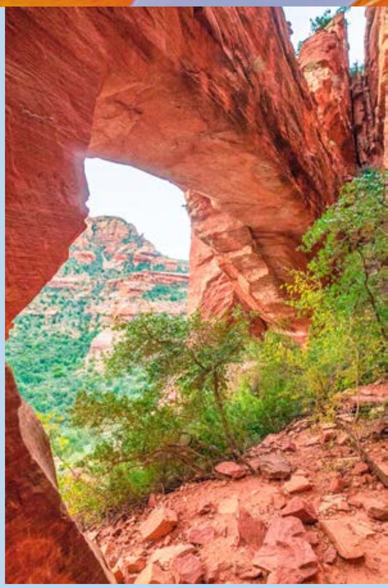

Notably, the primary theme of 2023 was a reversal of fortune. Investment styles and sectors that had been the most buoyant during the bear market of 2022 significantly lagged in 2023, while those that took the biggest beating in 2022, roared ahead with big gains in 2023. That was especially the case with growth and value. Growth outperformed Value by 35%, which is the second largest margin of the past decade.

Bonds wrapped up the year in positive territory, even though by the end of October, it appeared that they were headed for a third consequence year of declines. The primary driving force for this unexpected positive turn in the Aggregate Bond Index was the shift in Fed policy.

Equities	December	2023
S&P 500	4.57%	26.19%
Dow Jones	4.92%	16.03%
Nasdaq	5.59%	54.85%
Mid Cap	8.71%	16.42%
Small Cap	12.13%	16.84%
International Developed	5.36%	18.40%
Emerging Markets	3.33%	9.27%

Fixed Income	December	2023
Bloomberg Aggregate Bond Index	3.69%	5.65%
High Yield Corporates	3.35%	12.41%

Source: *YCharts, 11/30/2023 - 12/31/2023, Total Return Data using SPY, DIA, IJH, IWM, QQQ, EFA, VWO, AGG, and JNK. 2023 returns as of 12/31/2023.*

Looking Ahead in 2024

What a difference a year makes.

At this time last year, the S&P 500 had just logged its worst annual performance since the financial crisis, the Fed was in the midst of the most aggressive rate hike campaign in decades, inflation was above 6% and concerns about an imminent recession were pervasive across Wall Street.

Now, as we begin 2024, the market outlook couldn't be much more positive. The Fed seems to be done with rate hikes and has indicated that cuts are on the way. Economic growth has proven more resilient than most could have expected, and fears of a recession are all but dead. Inflation dropped substantially in 2023 and is not far from the Fed's target while corporate earnings growth is expected to resume in the coming year.

Undoubtedly, that's a more positive environment for investors compared to the start of 2023, but just like overly pessimistic forecasts for 2023 proved incorrect, as we look ahead to 2024, we must guard against complacency because at current levels both stocks and bonds have priced in a lot of positives in the new year. Some of those expectations could prove to be incorrect and if so, that could create some additional volatility.

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Starting with Fed policy, Fed officials are forecasting three rate cuts in 2024 but investors are currently pricing in six rate cuts in 2024 with the first one occurring in March or May. That's a very aggressive assumption and if it is incorrect, we should expect an increase in volatility in both stocks and bonds.

Regarding economic growth, it's foolish to assume just because the economy was resilient in 2023 that it will stay resilient. Obviously, that's the hope, but hope isn't a strategy. The longer rates stay high (and they are still high) the more of a drag they create on the economy. Meanwhile, all the remnants of pandemic-era stimulus are gone and there is some economic data that's starting to point towards reduced consumer spending. Point being, it is premature to believe the economy is "in the clear" and a slowing of growth is something we will be on alert for as we start the new year, because that would also increase market volatility.

Inflation, meanwhile, has declined sharply but it still remains solidly above the Fed's 2% target. Many investors expect inflation to continue to decline while economic growth stays resilient, a concept traders coined "Immaculate Disinflation." However, while that's possible, it's important to point out it's extremely rare as declines in inflation are usually accompanied by an economic slowdown.

Finally, corporate earnings have proven resilient, but companies are now facing margin compression as inflation declines and economic growth potentially slows. Earnings results and guidance in the fourth quarter were not as strong as earlier in 2023 and if earnings are weaker than expected, that will be another potential headwind on markets.

Bottom line, while undoubtedly the outlook for markets is more positive this year than it was last year, we won't allow that to breed a sense of complacency because as the past several years have shown, markets and the economy rarely behave according to Wall Street's expectations.

As such, while we are prepared for the positive outcome currently expected by investors, we are also focused on managing both risks and return potential because the past several years demonstrated that a well-planned, long-term focused and diversified financial plan can withstand virtually any market surprise and related bout of volatility, including multi-decade highs in inflation, historic Fed rate hikes, and geopolitical unrest.

Given the current market trends, our models have us fully invested on the stock side, focused on U.S. Large-Cap and Mid-Cap companies. As for bonds, we are fully invested with an overweight to floating-rate bank loans that continue to yield 7-9%. We also have exposure to high-yield corporates and asset-backed securities which are also sporting attractive yields. We will remain nimble and rely on our models to help mitigate risk of any potential change in trends.

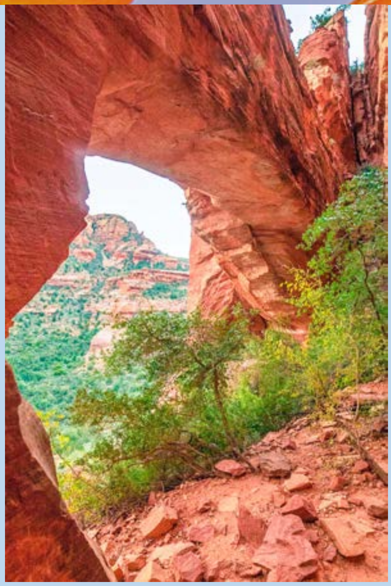
As always, if you are concerned about your risk level, please reach out to us, and schedule a time to review your allocation and financial plan.

Upcoming Events:

Q1 2024 Economic and Market Update – Thursday, February 15th at Noon MDT

Copperwynd Financial is hosting a virtual discussion for our clients to provide insight into the current economic environment and investment trends. The discussion should last 30 minutes with time remaining for additional questions and answers. Please register at the link provided below.

https://us02web.zoom.us/webinar/register/WN_12dwEuPeQx6S1rvbdCaMDA



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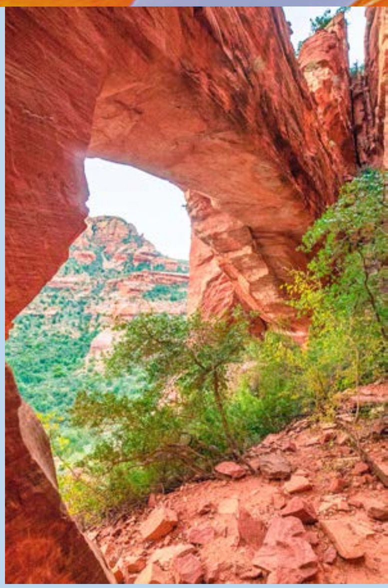

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Goodbye 2023, Hello 2024!

By: Myra Alport

A key question to ask at the onset of a new year is what financial well-being means to you. Is it a long list of financial to-dos that eventually drop off during the year or is it a plan that focuses on your long-term financial health?

We are here to help you create a greater sense of ease along the way! Here are 5 timely tips to incorporate into your thought process.

Turning 73 in 2024? Required Minimum Distributions Begin

If you were born in 1951, the waiting is finally over. 2024 is the first year you will be required to take a Required Minimum Distribution (RMD) from your IRA accounts (Traditional, Rollover, SEP or Simple IRAs, any old 401k's)

For any IRA under Copperwynd oversight we calculate those values for you; they are also available on the Charles Schwab website. You will hopefully receive notifications for accounts held at other institutions; we are happy to discuss best options for taking these RMDs.

What about RMDs from Roth IRAs? They are not required, with certain exceptions.

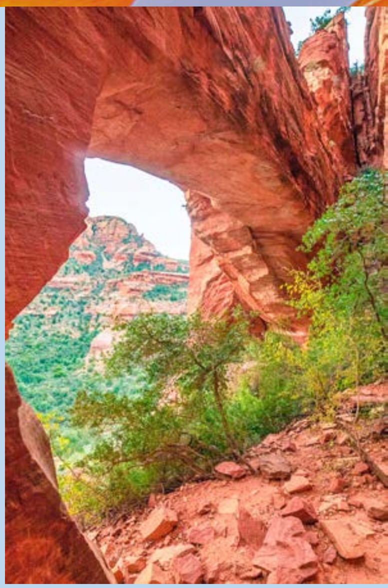
You can take your RMD anytime during the year, no later than December 31, of course! Many clients set up monthly or quarterly withdrawals to better manage their cash flow throughout the year. The ultimate choice is yours.

Qualified Charitable Distributions

If you are charitably inclined and at least 70-1/2 years of age, consider a Qualified Charitable Distribution from your IRA. You can provide us with a list of qualified charities and the amounts you wish to donate, and we will handle the rest for you. The maximum annual amount that can qualify for a QCD is $100,000.

Benefits include:

- The potential to reduce your taxable income. Normally, IRA distributions are taxable to you; with a QCD these distributions are excluded from your taxable income as long as they are paid directly from the IRA to the eligible charitable organization.
- Saves you the time from writing the check and mailing it.
- Helps to keep income below certain thresholds when it comes to the taxability of Social Security and higher Medicare premiums, etc.
- You don't have to itemize deductions on your tax return to make a QCD.
- QCDs pair well with RMDs



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Tax Season Readiness

Before you know it, tax season will be here. With the TD Ameritrade transition to Charles Schwab behind us, we want you to be well-prepared when it comes to your tax documents.

For the 2023 tax year only, Copperwynd clients whose accounts were previously held at TD Ameritrade will receive 2 sets of tax documents, one from each custodian. The most common forms are:

- 1099-R Distributions from retirement accounts
- 1099-DIV Dividend income and capital gains distributions from brokerage accounts (trusts, individual and joint accounts)
- 1099-INT Interest from individual bond holdings

Automate Savings

One way to improve a savings habit is to set up recurring transfers at your bank and/or direct a portion of your paycheck to your savings account without having to remember to do it. Easy peasy! If you consistently find yourself with extra cash on hand after all of your monthly bills are paid, start small and build up from there. As the account grows, you will be more inclined to increase the amount over time.

Payroll Tax Withholding

If you are a W-2 employee, a good reminder in the new year is to determine whether you are withholding too little or too much from your paycheck. Here are some lifestyle changes that that may prompt a review:

- Change in marital status.
- Birth or adoption of a child.
- Job loss.
- Major salary increase or income from a second job.

Owing money at tax time or receiving a large refund could be a sign that your withholding is off. Visit the IRS tax withholding estimator for assistance.

Financial well-being means different things to each of us. What does financial well-being mean to you? I would love to hear your thoughts! Drop me a note at malport@copperwyndfinancial.com

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401(k) Allocation

By: Jake Eggett

No trades.

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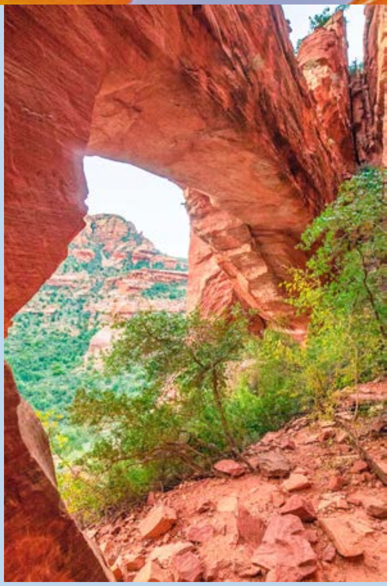
As always, if you have any questions about how to rebalance your 401K, we encourage you to reach out to us!

January 2024

Asset Class	Description	Agg. Growth 100% Equity	Growth	Moderate Growth	Balanced	Conservative
Bonds / Cash		**0%**	**25%**	**40%**	**55%**	**75%**
	Stable Asset - OR - Short Term Bond	0%	0%	10%	15%	20%
	Bond Index	0%	5%	10%	20%	30%
	*Floating Rate Loans***	0%	10%	10%	10%	15%
	*High Yield Bonds***	0%	10%	10%	10%	10%
	Inflation Protected Bonds	0%	0%	0%	0%	0%
Large Cap:		**70%**	**55%**	**45%**	**35%**	**15%**
	Large Cap Growth	40%	30%	25%	20%	10%
	Large Cap Value	30%	25%	20%	15%	5%
Mid Cap:		**25%**	**15%**	**10%**	**10%**	**10%**
	Mid Cap Growth	15%	10%	5%	5%	5%
	Mid Cap Value	10%	5%	5%	5%	5%
Small Cap:		**5%**	**5%**	**5%**	**0%**	**0%**
	Small Cap Growth	2%	2%	2%	0%	0%
	Small Cap Value	3%	3%	3%	0%	0%
International:		**0%**	**0%**	**0%**	**0%**	**0%**
	Developed International	0%	0%	0%	0%	0%
	Emerging Markets	0%	0%	0%	0%	0%
		100.00%	**100.00%**	**100.00%**	**100.00%**	**100.00%**

** If High Yield Bonds or Floating Rate Loans are not an option in your 401k, you can allocate that portion to either your Bond Index or Short Term bond fund



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