COPPERWYND FINANCIAL

Providing financial navigation for your life's journey.

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Your Copperwynd Financial Newsletter: October 2023

Market Commentary

High Elevation Struggles

By Jake Eggett

A few years ago, I embarked on an early morning trail running adventure with a group of friends, setting our sights on a breathtaking natural wonder known as Red Castle. This awe-inspiring formation of crumbling red rock rises majestically around four pristine alpine lakes, their crystal-clear waters nourished by the perpetual snowmelt of the high Uinta Mountains.
The starting point for our ambitious 20-mile trail run began at the China Meadows trailhead, nestled at an elevation of ~10,000 feet. The trail itself presented a gentle incline, with a gradual ascent of ~1,000 feet to Lower Red Castle Lake. Our plan was to maintain a leisurely pace, jogging for most of the journey.

The trail run started off well, but after about 5 miles an unexpected shift occurred. It felt as though all my energy had been sapped away. Despite being in shape and having plenty of food and water, I found myself unable to maintain a consistent run of more than a few hundred yards at a time, necessitating frequent stops. Walking remained manageable, but running or jogging seemed an insurmountable task. It was a clear case of succumbing to the effects of high elevation.

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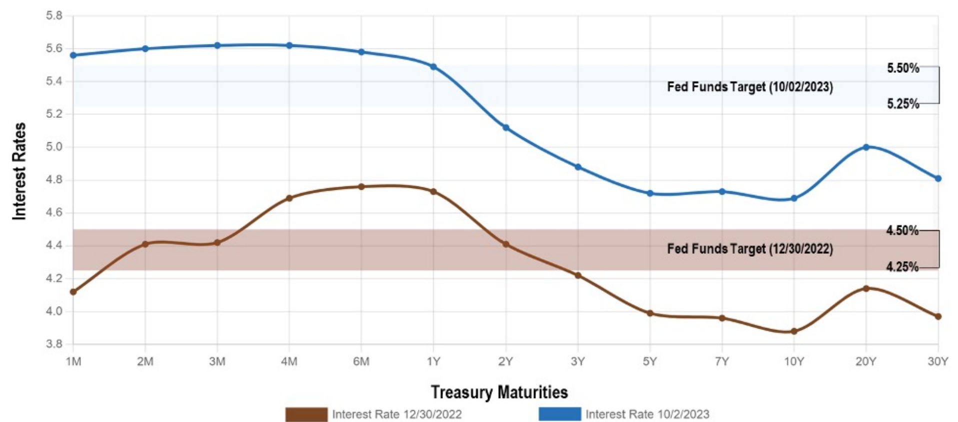
High elevation can have various adverse effects on the human body due to the decreased atmospheric pressure and lower oxygen levels. These effects, often collectively referred to as altitude sickness, can range from mild discomfort (headache, nausea, dizziness, or fatigue) to severe health conditions (shortness of breath, fluid in the lungs or swelling in the brain) that require immediate medical attention. At 10,000 feet, with roughly 30% less air pressure and oxygen than sea level, it's no surprise that my strength waned that day.

The Effects of Escalating Interest Rates

Just as higher elevation can lead to adverse consequences for the human body, higher interest rates can negatively impact the economy and the financial markets. Let's discuss a few adverse consequences of higher interest rates.

After raising rates 4.5% last year, the Fed has raised rates another 1% this year. Remember, the Fed controls the short-term rates, but the market will mainly influence longer term rates. Recently, the concern has been the rise in the 10-year treasury, as it's nearing 5%, up from 3.8% to start the year. (see chart below) The primary consequence of a higher Fed Funds target rate has undoubtedly been the escalation of borrowing costs, affecting every sector of the economy.

U.S. Treasury Yield Curve



Source: Copperwynd, UStreasuryyieldcurve.com

The single largest borrower in the world is the US Government and unfortunately, we are on an unsustainable path with our national debt. The growing debt is caused by a structural mismatch between spending and revenues and one of the main drivers of this is interest costs. Rising interest rates won't help this imbalance!

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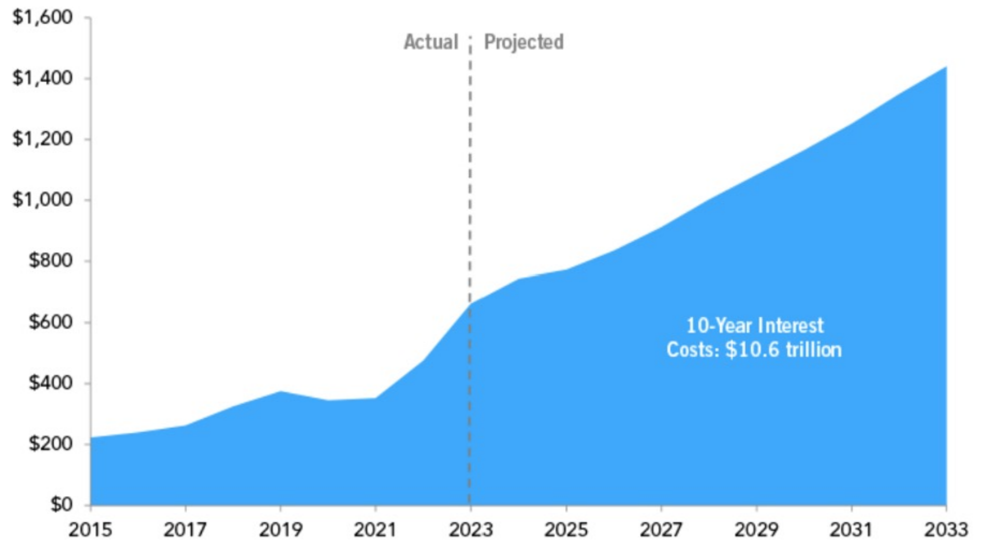
Interest Expense of US Government Debt



SOURCE: Congressional Budget Office, *An Update to the Budget Outlook: 2023 to 2033*, May 2023.
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Another harmful outcome of the higher Fed Funds Rate has also led to soaring interest rates for auto loans, credit cards, mortgages and even an uptick in commercial bankruptcies. Unfortunately, this trend shows no signs of immediate reversal. An encouraging aspect is that many companies seized the opportunity to lock in low rates from 2020 to 2022, much like consumers did with their mortgage rates.

Of course, the Fed's primary mandate isn't to prevent corporate defaults but to control inflation. They have made it clear that they want to see inflation at 2% before considering rate reductions, which could take a while. Inflation, as measured by the Consumer Price Index (CPI), stood at 3.7% for August, marking its second consecutive monthly increase after hitting a cycle low of 3.0% in June. Reducing inflation from 9% to 4% is a far easier task than bringing it down from 4% to 2%, and it seems that further challenges in the battle against inflation are on the horizon. Lastly, higher interest rates make stocks become less attractive relative to bonds. As the 10-year treasury marches higher, the valuations of stock are pressured and that is one of the reasons we have seen stocks come off their highs during the last two months.

Although the rise in rates can negatively impact the economy and markets, this is a huge benefit to savers like our clients. We are finally back to more normal rates when you could earn a reasonable rate without taking any risk, something we haven't seen for 15 years. Also, with yields of 7-9% in our bond strategy, the risk reward is also the most attractive it's been in long time. This has led to improved interest and dividend payments for our clients that rely on their portfolio for income. (*see tax alert at the end of the article)

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Market Performance

Although the first half of September saw a relatively sideways market, volatility picked up after the Fed delivered a "hawkish" surprise, despite not increasing interest rates. Specifically, the majority of Fed members reiterated that they anticipated the need for an additional hike before the end of the year and forecast only two rate cuts for all of 2024, down from four rate cuts forecasted at the June meeting. The "higher for longer" interest rate outlook prompted a repeat of the 2022 price action across most asset classes, leading to falling bond prices and placing downward pressure on stock valuations, resulting in widespread declines.

Equities	September	YTD 2023
S&P 500	-4.74%	13.03%
Dow Jones	-3.44%	2.62%
Nasdaq	-5.08%	35.13%
Mid Cap	-5.22%	4.28%
Small Cap	-5.85%	2.50%
International Developed	-3.65%	6.94%
Emerging Markets	-2.47%	2.05%
Fixed Income	**September**	**YTD 2023**
Bloomberg Aggregate Bond Index	-2.59%	-1.03%
High Yield Corporates	-1.68%	4.90%

Looking Ahead

Markets begin the fourth quarter decidedly more anxious than they started the third quarter, but it's important to realize that while the S&P 500 did hit multi-month lows in September and there are legitimate risks to the outlook, underlying fundamentals remain generally strong.

First, while there are reasonable concerns about a future economic slowdown, the latest economic data remains solid. Employment, consumer spending and business investment were all resilient in the third quarter and there simply isn't much actual economic data that points to an imminent economic slowdown. So, while a future economic slowdown is certainly possible given higher interest rates, the resumption of student loan payments and declining U.S. savings, the actual economic data is clear: a recession isn't happening yet.

Second, fears that inflation may bounce back are also legitimate, given the rally in oil prices in the third quarter. But the Federal Reserve and other central banks typically look past commodity-driven inflation and instead focus on "core" inflation and that metric continued to decline throughout the third quarter. Additionally, the leveling off in shelter cost from the recent peak are only now beginning to work into the official inflation statistics, and that should see core inflation continue to move lower in the months and quarters ahead.

Finally, regarding monetary policy, the Federal Reserve's historic rate hike campaign is nearing an end. And while we should expect the Fed to keep rates "higher for longer," high interest rates do not automatically result in an economic slowdown. Interest rates have merely returned to levels that were typical in the 1990s and early 2000s, before the financial crisis, and the economy performed well during those periods. Yes, the risk of higher rates causing an economic slowdown is one that must be monitored closely, but for now, higher rates are not causing a material loss of economic momentum yet.

In sum, there are real risks to both the markets and the economy as we begin the final three months of the year. But these are largely the same risks that markets have faced throughout 2023 and over that period the economy and markets have remained impressively resilient. So, while these risks and others must be monitored closely, they don't present any new significant headwinds on stocks that haven't existed for much of the year.

Given the current market trend, our models have started reducing risk on the stock side. On the bond side, we have reduced our exposure to high yield corporates and moved those positions into treasuries that are yielding north of 5%. The floating rate bank loans have held up relatively well but are starting to be pressured also by the rise in the longer-term rates. We continue to see attractive yields of 7-9% in the bond positions but we believe the key is to remain nimble so that we can navigate an ever-changing landscape.

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.

Tax Alert

Interest income earned on your portfolio may be significantly higher than what you may have earned last year. If you are doing estimated taxes, make sure you consult with your CPA. You may need to increase your estimated tax payment to account for the higher interest earned. This will help you avoid any potential underpayment penalties!

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Medicare News

By: Myra Alport

It seems like yesterday when I wrote the 2022 Copperwynd newsletter article about my experience enrolling in Medicare for the first time. Has the year gone by at lightning speed or what? Alas, the 2024 Medicare enrollment season is here (bells and whistles)!

The 2024 Medicare Open Enrollment period runs from October 15, 2023 through December 7, 2023. Between these dates you can choose to disenroll or switch your Medicare Advantage plan or Part D Prescription Drug plan. Any changes will become effective on January 1, 2024. The Annual Enrollment Period is NOT the time to apply for a new Medicare supplement plan (aka Medigap or Part B). When you first turn 65 **and** enroll in Part B there's a 1-time window during which you can purchase any Part B policy without the need for underwriting. After that 6-month enrollment period ends, to make any changes you will need to pass the carrier's underwriting standards. This can be done anytime.

If you are a current Medicare enrollee, by now you have hopefully received your "Annual Notice of Change Letter" from your Medicare Advantage or Part D carrier. This letter will announce any changes to copays, deductibles, drug formularies or pharmacy networks so you can compare them with other carriers. If you have questions, reach out to your Medicare insurance agent because they have tools at their disposal to help you make the best decision for your health care. If you are completely happy with your current Medicare insurance plan, then there's nothing you need to do! The plan will automatically renew, and you will receive a new ID card by January 1, 2024.

What's New for 2024

Pending Medicare's official announcement expected any day, here is what we are hearing regarding monthly premium costs:

Average **Medicare Advantage** premiums will rise minimally or not at all if staying with the same plan. Prescription drug plans are included in the Medicare Advantage overall premium cost.

Medicare Part B premiums are projected to increase from $164.90 to $174.80.

Medicare Part D plans will see the elimination of the 5% coinsurance requirement in the catastrophic coverage phase. Plans will be required to pay 5% more of total drug costs in this phase, up from 15% in previous years. The out-of-pocket spending threshold is capped at $8,000. Insulin cost will be capped at $35/month per covered prescription.

Given the overwhelming number of Part D plans for a given zip code it's hard to get a good read on what Part D premiums will be. I'm going to ask my Medicare agent to do the heavy lifting for me; I suggest you do the same!

Protect Yourself from Medicare Fraud in These 3 Ways

1. Never give your Medicare Number to anyone except your doctor or trusted parties. Medicare will never randomly call/text/email you to request your Medicare Number or personal information.
2. Review your Medicare Summary Notices for any unusual charges for services or products you did not order or receive.
3. Report fraudulent activity by notifying Medicare at 1-800-633-4227. Learn more on the Medicare website here.

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Copperwynd Medicare Luncheon Event
During October we host Medicare Lunch N Learn events in Utah and Arizona. By the time you receive this newsletter, the Utah event will have already occurred. If you reside in Metro Phoenix, give us a call if you are interested in attending our October 10 event in Scottsdale.

401(k) Allocation

By: Jake Eggett

There are changes.

This week we've witnessed a stunning rise in longer-term Treasury yields (and a drop in prices), with 10- and 30-year Treasury rates nearing 5%. This has impacted the prices of both stocks and bonds, similarly to what we saw in 2022. There are real risks to both the markets and the economy as we begin the final three months of the year. But these are largely the same risks that markets have faced throughout 2023 and over that period the economy and markets have remained impressively resilient. The difference between now and earlier this year is the market's expectations of how long rates will stay elevated.

Given the current market trend, our models have started reducing risk on the stock side, so you'll see some slight adjustments to your stock allocation. On the bond side, we have reduced our exposure to high yield corporates and moved those positions into treasuries that are yielding north of 5%. The floating rate bank loans have held up relatively well but are starting to be pressured also by the rise in the longer-term rates. We continue to see attractive yields in the bond positions; however, we believe the key is to remain nimble, so you'll see some changes to the bond allocation as well.

Asset Class	Description	Agg. Growth 100% Equity	Growth	Moderate Growth	Balanced	Conservative
Bonds / Cash		**5%**	**25%**	**45%**	**55%**	**75%**
	Stable Asset - OR - Short Term Bond	*5%*	*10%*	*25%*	*30%*	*30%*
	Bond Index	*0%*	*5%*	*10%*	*15%*	*30%*
	*Floating Rate Loans***	*0%*	*10%*	*10%*	*10%*	*15%*
	*High Yield Bonds***	*0%*	*0%*	*0%*	*0%*	*0%*
	Inflation Protected Bonds	*0%*	*0%*	*0%*	*0%*	*0%*
Large Cap:		**65%**	**55%**	**45%**	**35%**	**15%**
	Large Cap Growth	*35%*	*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%**	**0%**	**0%**	**0%**
	Small Cap Growth	*2%*	*2%*	*0%*	*0%*	*0%*
	Small Cap Value	*3%*	*3%*	*0%*	*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 f