



Why We Remain Cautious

Led by the “Magnificent Seven,”* we are coming off a surprisingly strong 2023, fueled by consumers still flush with COVID cash. As we navigate the complex economic landscape, it’s crucial to maintain a cautious outlook. Several factors warrant our attention and vigilance. Let’s delve into why we remain cautious.

1) Inverted yield curve: A warning signal

Short-term treasury interest rates have been above long-term rates since November 2022. The inverted yield curve has historically been a reliable harbinger of economic downturns. Seven out of the last eight times, when the yield curve inverted it eventually led to a recession. With short-term rates nearly 2% above the recent inflation numbers, the Federal Reserve firmly has the brakes on. The yield curve’s predictive power demands our vigilance.

2) Recession risk remains high

Despite recent economic rebounds, the specter of recession looms. Several factors contribute to this risk:

- Debt levels: Both government and corporate debt have surged. High debt burdens can constrain economic flexibility and amplify shocks.
- Leading indicators: U.S. leading economic indicators have been negative for over a year, pointing to a potential slowdown.
- Money supply (M2): Annual growth in the money supply has been slowing since November 2022. For the first time in over 70 years, total money supply actually declined in 2023.

*Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla.



Client Seminar March 7 —>

3) Overvalued markets

U.S. equity markets have soared, but valuations appear stretched. The price-to-earnings (P/E) ratios of many stocks exceed historical averages. The Shiller P/E ratio, which considers inflation-adjusted earnings over a decade, signals potential overvaluation.

4) Global slowdown and interconnectedness

The U.S. economy is intricately linked to global dynamics. At year end, Japan, Germany and Great Britain were experiencing negative growth. The Chinese economy is slowing down. All of this affects U.S. exports, supply chains, and investor sentiment. The interconnectedness demands caution.

Conclusion: prudent vigilance

While optimism abounds, we advocate for prudent vigilance. The U.S. economy is proving resilient, but vulnerabilities exist. As investors, policymakers and citizens, let’s remain cautious, monitor indicators and prepare for potential headwinds. A proactive approach today can mitigate risks tomorrow.

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What we know, what we think

	What we know	What we think
MARKET	Oil prices are down nearly 50% from the highs of the Ukrainian invasion.	Oil appears to be searching for a near-term bottom.
INTEREST RATES	2023 was led by the NASDAQ, up more than 40%, the S&P up 25% and the Dow up more than 15%. By year end 2023, the Dow was the only market index to reach new highs.	The market may be broadening out, and we could see the beginning of a rotation out of the large technology stocks.
INFLATION	The CPI has fallen from its peak of 9.1% to below 4%.	With the Fed reluctant to lower rates too quickly, inflation is likely to continue down.

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March 7, 6:00 p.m.
Malone's

The Road Ahead
Navigating Inflation,
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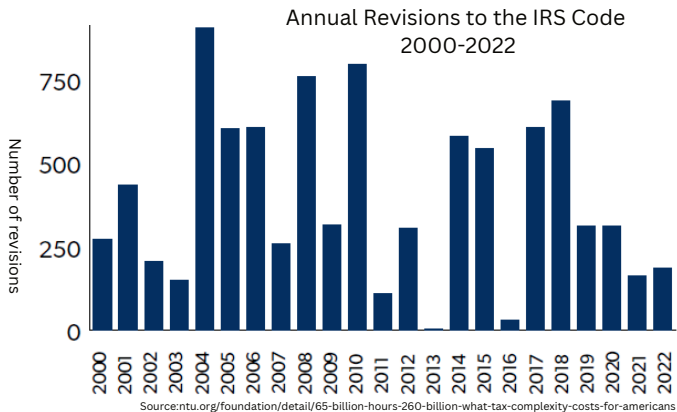
This year, look for 1099s from both RAYMOND JAMES and RBC

REMINDER

Tax Planning Is Vital for 2024

by TC Falkner, CFP®

Tax planning is one of the most important aspects of your financial plan. Ensuring that you, your family, and your business have proven strategies to save on future taxes is key. Plus, tax laws change every year, so we are here to help keep you up to date.



The more in-depth tax planning strategies we help with go beyond a single tax year. To name a few:

- Making decisions on contributing to a traditional tax-deductible account versus a Roth account (IRA or 401k).
- Contributing to a SEP or SIMPLE IRA through your business, using the deduction to lower taxes and save for retirement.

- Executing a Backdoor Roth IRA strategy to increase your “tax-free bucket” for retirement.
- Taking distributions from an IRA versus a Roth IRA or taxable account to better control taxable income each year.
- Careful timing of Required Minimum Distributions from your IRA.
- Charitable giving strategies, such as a Donor Advised Fund or Qualified Charitable Distributions, which can save thousands in taxes with money you were already planning to give away.

We ask every one of our clients to send us a copy of their tax return so we can work with you and your tax professional to implement an efficient tax strategy. We don't file your tax returns, but we are here to provide you with a comprehensive overview of your finances so more of your money is going where you want it to go.

At Legacy Financial, we provide peace of mind for your financial future.

Legacy Financial

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