APRIL 2024

MORAN MONTHLY DIGEST

Insights From Our Founder

Dear Valued Client,

By the end of 2023, there was growing optimism that the Fed may have successfully orchestrated a 'soft landing'—a scenario where the economy slows enough to curb inflation without triggering a recession. The Fed's interest rate hike campaign from 2022 to 2023 seemed to be reigning in the intense inflation that began post-pandemic; however, this year has unveiled a new twist. Rather than cooling, the economy is instead expanding more vigorously than anticipated, with robust job gains and persistent inflation. These developments complicate the Fed's next move significantly, particularly because the economic data from different sectors are illustrating wildly different trends. In this month's commentary, I will explore the reasons behind the ongoing uncertainty about the economy's direction, the equity market's upcoming performance and the complexity of the Federal Reserve's forthcoming decisions.

The Bifurcated Economy

Overall, core inflation has decreased from its peak but is still relatively high at 2.8%, above the Federal Reserve's target of 2% annual inflation. Coupled with a strong annual Gross Domestic Product (GDP) growth of 5.9%, it may appear that the Fed is on the verge of achieving a soft landing of sustained growth and controlled inflation. However, the Fed's decision becomes complicated when you examine the economy more closely. There is a clear bifurcation in economic growth between sectors that are sensitive to interest rates and those that are not. For example, the manufacturing sector, which heavily depends on capital financing, is experiencing significant downturns.

Thomas M. Moran AIF®

Chairman | CEO | CIO

WHAT'S INSIDE

Insights From Our Founder Cont.

This is evidenced by the Purchasing Managers Index (PMI) which has receded to 47.8, marking a prolonged phase of contraction—the longest since the early 2000s. In parallel, the housing market and capital expenditures are similarly strained as rising interest rates elevate borrowing costs.

Conversely, the service sector, which constitutes a substantial portion of the employment base (approximately 72% to 80% of U.S. GDP), is exhibiting robust growth and persistent inflationary pressure. This sector's lesser reliance on borrowing costs and stronger dependency on consumer demand shields it somewhat from the adverse effects of high interest rates. Consumer demand for services remains high due to the lingering legacy of liquidity from pandemic-era government programs. Consequently, this is keeping the labor market tight, pushing wages even higher and hurting corporate profits. As a result, achieving a soft landing seems increasingly difficult for the Fed, making their next decision on whether to reduce interest rates—a move that could lead to unchecked inflation—appear even riskier.

The 1967 Economy: Déjà vu?

At last Wednesday’s meeting, the Fed opted to maintain their target fund range of 5.25% to 5.50% and delay any rate cuts. Notably, this range is arguably still too low when compared to the nominal year-over-year GDP growth of 5.9%. Historically, the only instances of economic "soft landings" occurred in 1985 and 1995, during which the Federal Funds rate was higher than the nominal GDP growth rate. However, the current economic environment is more reminiscent of 1967, when the nominal GDP growth remained above the Fed’s target rate, which subsequently led to significant inflation spikes. Much like today, inflation was just over 3% in 1967, following aggressive Federal Reserve easing the previous year. Similarly, the stock market increased by 50% from late 1966 to early 1968, reflecting a cautiously optimistic outlook reminiscent of the recent stock market rally we have experienced since October. Additionally, the labor market in 1967 was tight, with an unemployment rate below 4%, mirroring current conditions. Given this historical precedence, it behooves us to brace for more turbulence as the effort to rein in inflation may be more than anticipated.

Insights From Our Founder Cont.

The U.S. Fiscal Complications

The economic outlook is further complicated by the fiscal challenges the U.S. is facing, particularly the risk of a credit downgrade for our treasury debt. The Congressional Budget Office (CBO) forecasts the U.S. debt-to-GDP ratio to rise from 98% at the end of 2023 to 181% over 30 years, placing it on par with Italy, which has a lower BBB credit rating. Notably, the U.S. already surpasses Italy in terms of net interest payments as a percentage of GDP. This risk is further compounded by a continued decline in demand for Treasuries, with the high debt-to-GDP ratio and growing deficit likely making U.S. debt issuance less attractive to central banks. This may keep interest rates elevated as the Treasury competes for capital in a crowded global debt market. The Federal Reserve is confronted with the challenge of managing these high interest payment costs, which are at record levels, while considering the Treasury's need to continue issuing debt to pay for growing government spending. The forecasted government deficit is $1.66 trillion and there is an anticipated need to issue over $10 trillion in bonds in 2024 alone.

A Broader Market

On the financial markets front, there has been a noticeable convergence in performance between the 'Magnificent 7 (Mag-7)' tech giants and the broader market this year. In contrast, the difference in performance was stark in 2023: the tech giants surged by 76%, while the rest of the market (excluding these stocks) grew by only 8%. This year, however, the gap between them has narrowed. The top 7 tech stocks have risen 13% year-to-date (YTD), whereas the S&P 500, excluding the Mag-7, has increased by 6%. We view this as a sign of overall market strength, demonstrating the broadening out of market participation we anticipated would occur. Meanwhile, the valuations of these leading tech companies remain incredibly elevated compared to the broader market. The Mag-7 are currently trading at a 30.0x forward-looking price-to-earnings (P/E) ratio. This is significantly higher than the rest of the market's P/E ratio of 18.3x, which aligns more closely with the historical norm of 16.5x. As such, value stocks, which are priced at 16.1x P/E, may present favorable opportunities for investors seeking assets at a discount.

Insights From Our Founder Cont.

Overall, we expect greater market volatility this year and tempered equity returns, primarily due to the potential for slower economic growth, persistent inflation, prolonged higher interest rates and rising fiscal debt. To mitigate these risks, we advise clients to increase diversification with assets that have historically low correlation with economic cycles like private lending and commodities.

In response to these challenges, investment strategies must be agile and well-informed. The importance of continuous assessment of economic indicators cannot be overstated. Our commitment is to guide our clients' portfolios with strategic decision-making that is both informed and forward-looking. By staying attuned to the shifts in economic dynamics and maintaining flexibility in investment approaches, we aim to capitalize on opportunities and mitigate risks effectively. This balanced approach is essential for navigating an economy that, while growing, faces multiple pressures that could alter its trajectory significantly.

Warm regards,
Tom

We'd be honored to have your support!

Please consider nominating us under the **Finance** category for the best **Financial Planning Services** and the best **Investment Firm**.

Write in the firm's name, **Moran Wealth Management**, along with your email address, first and last name, state, and postal code, then click the **NOMINATE** button.

CLICK TO NOMINATE!

Voting is open now through April 24th!

We’d be honored to have your support, again!

Please vote for us under **The Best in Business Finance**, **Insurance and Law** category for best **Financial Advisory Firm**.

Write in the firm's name, **Moran Wealth Management**, along with your first and last name, email address, and postal code, then click the **VOTE** button.

CLICK TO VOTE!

Voting is open now through April 30th!

RECOGNITION

Barron's: America's Top 1200 Financial Advisors

We are proud to announce that our Chairman, CEO, and CIO, Thomas Moran, has earned a top spot in Barron's prestigious America's Top 1200 Financial Advisors list for 2024, ranking #1 in SWFL and #3 statewide.

His leadership and dedication to excellence continue to set a benchmark in the financial industry.

Congratulations to Tom on this remarkable achievement!

RECOGNITION

InvestmentNews: Best Places to Work for Financial Advisors

We are excited to announce that Moran Wealth Management® has earned the distinction of being ranked one of InvestmentNews Best Places to Work for Financial Advisors for 2024!

Thank you to our team members for sharing your insights to make this recognition possible. Your loyalty to our firm plays a crucial role in creating a positive atmosphere, and we are passionate about providing benefits and programs that support a strong workplace culture.

CLIENT UPDATE

Digital Privacy & Protection

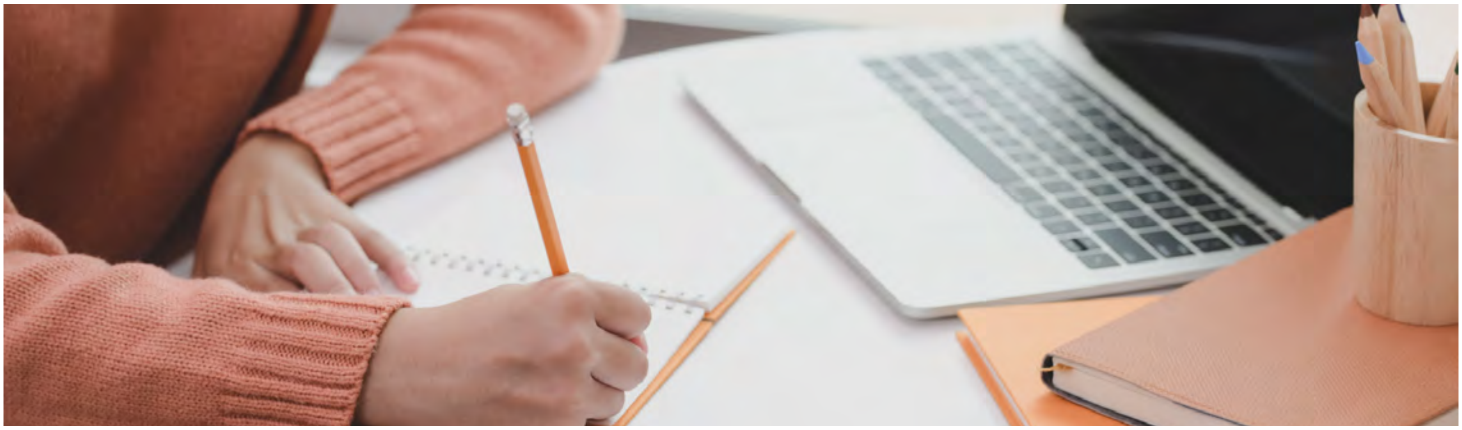
In today's era of advancing technology and the prevalence of artificial intelligence, it's crucial to take a proactive approach towards enhancing your digital security.

Digital Privacy & Protection aims to safeguard not only your cyber security but also your online privacy by offering a range of services, including cyber education courses, property registration to shield you from fraud, opt-out services for pre-approved credit and insurance mailers, vigilant monitoring of the Dark Web to detect potential information breaches, and much more!

This offer is exclusively for Moran Wealth clients. We strongly recommend utilizing these services to fortify your digital defenses and enjoy a worry-free online experience. To access these valuable services, Moran Wealth clients will need to sign up for an initial yearly subscription, starting at $35 a month*. This will include protection for three devices. For more information please contact one of their Cyber Protection Experts at https://www.dpripro.com/contactus. Check out the video linked below on how you can best protect yourself and your family.

This introduction is provided for your convenience. Neither Moran Wealth Management® nor any of its affiliates receives any compensation for this introduction.*$35 per month for the first three devices (i.e., mobile phones, tablets, laptops, and desktop computers) covered under your subscription. $5 per month more for up to an additional three devices. All devices share one password manager and private email account. The initial subscription is for one year, quarterly thereafter. Please see DPP Sublicensing and Services Agreement for all terms.

CLIENT UPDATE



Annual Disclosure Updates

We recently sent out an email and a letter regarding our Annual Disclosure Updates.

You can find the full disclosure booklet on the home page of our website or by calling our office to obtain a copy via email or USPS.

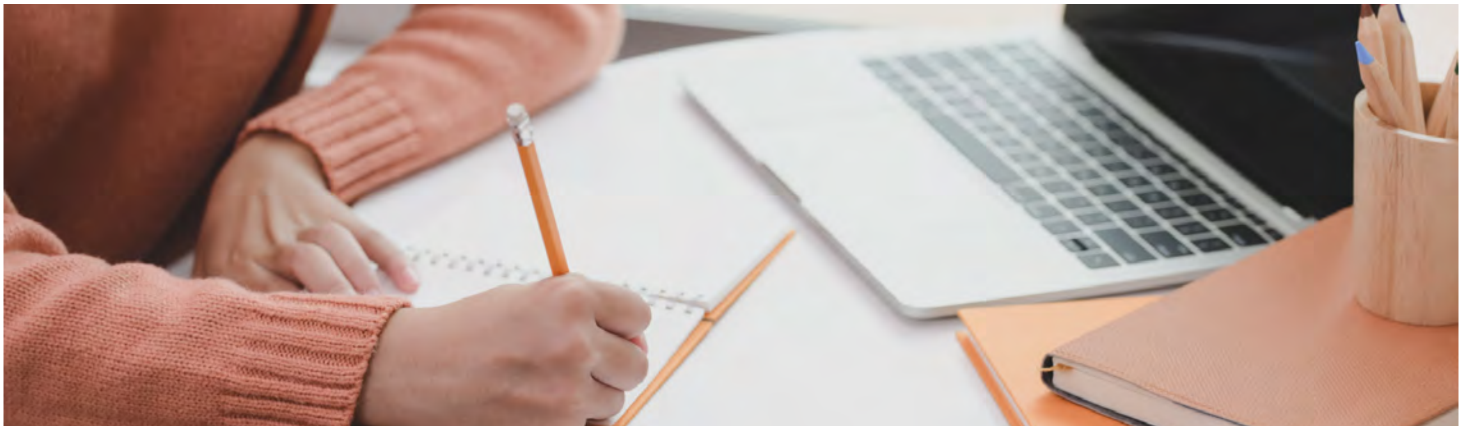
Address Changes

Before we say “see you next season” to many of our beloved clients, if you have two residences, we will initially require a signed Pershing dual change of address form prepared by our office.

Once this form is on file, the seasonal mailing address change will only require your **verbal authorization** with one of our team members each time you need to update your address going forward.

If you use mail forwarding with the United States Postal Service, there is no need to notify our office.

CLIENT UPDATE



Form 5498

Another tax season has come to a close.

While talk of 1099s may be a thing of the past, there is a chance you may still receive Form 5498 before the annual filing **deadline of May 31st.**

How will you know if you are scheduled to receive a 5498?

Form 5498 will be generated in the event you perform any of the following actions on a retirement account for the prior tax year:

- Contributions
- Conversions
- Rollovers/transfers

This form is generated for the purpose of reporting on any rollovers or transfers to a retirement account from another account of similar designation. It will also specify the type of retirement account such as Roth, Simple, SEP, or traditional IRA as well as encapsulating total contributions made for the previous calendar year.

Please consult your CPA or certified tax expert to confirm if Form 5498 applies to your tax situation.

FEATURED STRATEGY

Moderate Value (MVAL)

This month we would like to highlight our **Moderate Value (MVAL) strategy:**

The Moderate Value strategy seeks capital appreciation by investing in high quality companies with below average valuations.

What is MVAL?

- Invests in mid- to large-capitalization companies that are undervalued relative to their peers.
- Utilizes a quantitatively based ranking system to identify stocks for inclusion in the strategy.

The strategy is a complex investment vehicle and may not be suitable for all investors. It does not represent a complete investment program.

For more information on **MVAL** and other strategies, please visit: Moran Wealth Strategies

Your financial advisor will begin building your portfolio by first identifying your unique investment style based on a variety of factors, such as income, risk tolerance, diversification, investment and financial goals, and preferred market exposure. This will help us select a suitable strategy for you, allowing us to use a personalized approach to asset allocation and securities selection that meets your needs and yields the desired short-and long-term results.

PHILANTHROPY

Featured Charity

Philanthropic giving is one of the many ways we can make a difference in our community. At Moran Wealth Management®, we are privileged to have served over 30 charities and counting through financial donations and volunteer efforts.

We seek to bring awareness, advocacy, and resources to those in need. Today we would like to highlight **Youth Haven**.

Youth Haven serves as an emergency and residential shelter for children aged 6 to 20. Collaborating with diverse community stakeholders, including child protective services, courts, and law enforcement, Youth Haven is dedicated to equipping youth with the resources and resilience needed to navigate their journey toward healing and restoration. Through a holistic approach focused on fostering secure connections with family or caring adults, Youth Haven cultivates lasting change, empowering children to rebuild trust, confidence, and joy as they strive towards a brighter future.

To learn more about this organization, please visit: https://youthhavenswfl.org/.

UPCOMING SEMINARS

As the season comes to a close at the end of April, this is your last chance to attend one of our educational seminars.

Visit: The Moran Wealth Seminar Calendar to check out our upcoming seminar dates.

You can register online or call our seminar reservation line at 239-513-2511 to reserve your seat.

We look forward to hosting you!

Follow Us Anytime - Anywhere

Click Here To Request More Information

Click here for our Facebook page

Click here for our LinkedIn page

Click Here To Schedule A Consultation

Moran Wealth Management, LLC is a registered investment adviser. Registration does not imply a certain level of skill or training. For additional information about Moran Wealth Management, LLC, including its services and fees, request the firm's disclosure brochure using the contact information above or visit adviserinfo.sec.gov.

Visit https://moranwm.com/disclosures/ to access the complete list of methodologies and disclosures for the referenced financial accolades. Moran Wealth Management, LLC is a separate entity and not affiliated with any other entity or practice that uses the same name.