KEETH, KOPPLIN AND RHODES
WEALTH MANAGEMENT GROUP
*of Wells Fargo Advisors*

COMMENTARY

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## Our Philosophy

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# *The 2023 Landscape*

To say that 2022 was an "Un-Fun" year in the markets is an understatement. Inflation's pace of growth accelerated in the first part of the year. This forced the Federal Reserve to respond with tightening monetary policy in the form of a series large rate hikes. More restrictive capital meant names that had performed well for investors over the last decade became negative contributors in 2022. Energy costs, labor costs, continued supply chain issues, and a strengthening U.S. dollar were headwinds for every industrial sector. Rising rates also meant that the traditional "safe haven" status for bonds wasn't there as low coupon issuances dropped below par. It had been over a decade since investors had to face these kinds of challenges.

It's important to keep perspective in times like this and realize things for what they are. This is not 2008-2009, the "Great Financial Crisis", where credit markets seized up globally and there was genuine worry about major banks collapsing. Consumers, while under increased pressure, have remained resilient due to increased savings and upward wage pressure. Energy prices increased in the U.S., but our own resources kept us in much better shape than Europe or Asia. Higher quality names, such as the ones we look to use in our strategies, are adapting and taking the necessary actions to preserve shareholder value. Put simply, we are navigating the lower part of the economic cycle. The good news is it is a cycle and there will be a future upswing.

We wanted to discuss three areas we believe will impact markets in 2023: a divided U.S. government; future actions from the U.S. Federal Reserve; and the potential for a Chinese economic re-opening.

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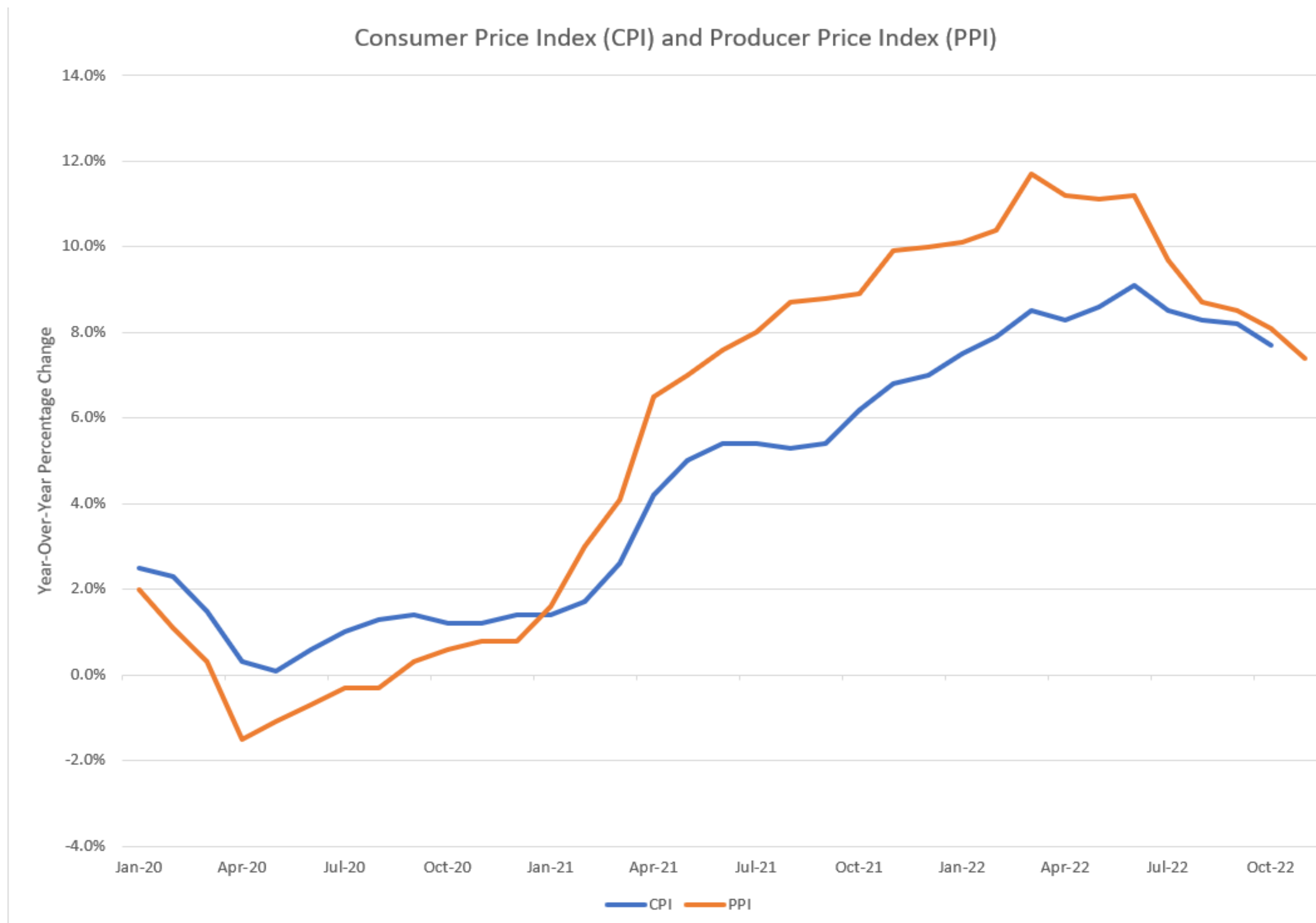
We believe a divided U.S. government can potentially benefit markets in 2023. A Republican House could slow the pace of future inflationary spending by the federal government. Less additional dollars being put into the economy can make the U.S. Federal Reserve's inflation fight easier. There may be the opportunity to alter current U.S. energy policy, allowing for easier permitting and approvals for fossil fuel projects. We think there is the opportunity for "horse trading" on the energy front as legislation seeks to move through a Democratic Senate and Republican House. A divided House and Senate may also mean that the threat of tax increases abates. Our hope is that the new Republican House majority will address issues that will benefit the economy and can find areas of consensus with the Senate.

At the end of November, Federal Reserve Chairman Powell reiterated the need to continue the fight against inflation. He followed up with an indication the central bank may be ready to downshift its rate of increases. Shortly after his comments the S&P rose 3.1%. This appears to be exactly what the stock market wanted to hear.

Some of the economic data suggests that the U.S. Federal Reserve, "the Fed", is making progress on its inflation fight as evidenced by year-over-year changes in both the "Consumer Price Index" (CPI) and the "Producers Price Index" (PPI). That said, inflation on an absolute basis remains historically high and well above the Fed's long term CPI target of 2%.




*Source: United States Bureau of Labor Statistics*

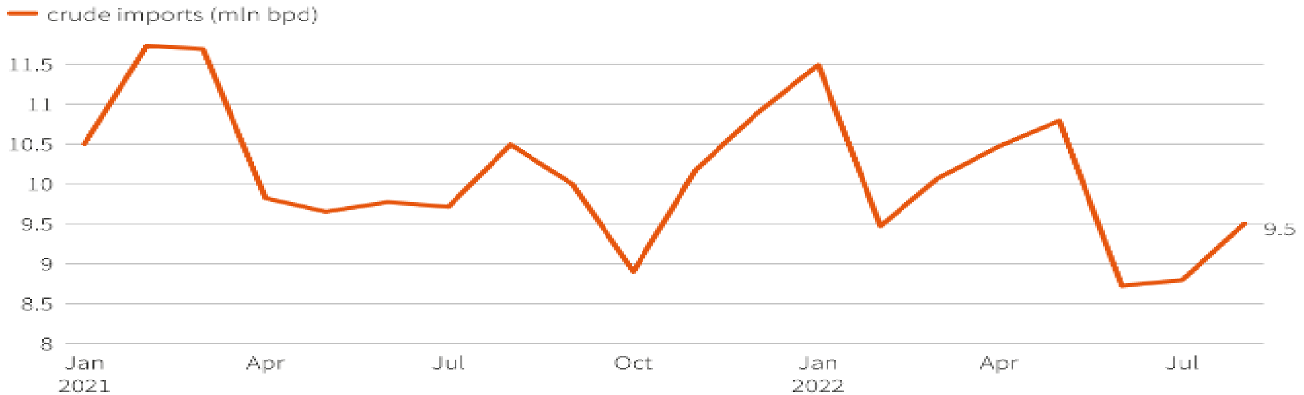
The Fed also uses the number of unemployed workers as a percentage of the participating labor force, the "Unemployment Rate", as an indicator of demand. The Fed is trying to cool demand for goods and services with its rate increases. It sees a higher unemployment rate as a byproduct of these rate increases and a way to achieve this goal. So far, we have not seen a material increase in the employment rate.

*Source: U.S. Bureau of Labor Statistics*

The economic picture for the Fed contains mixed signals. That said, the November comments leave open the possibility that the worst of the Fed's "medicine" may be behind us.

Whether or not China re-opens will have a large effect on capital markets in 2023. The Chinese government's policy of "Zero Covid" has led to mass lockdowns and an exacerbation of global supply chain issues. China continues to play a large role in the goods that come into the U.S. In an earlier article we defined inflation simply as "Too many dollars chasing too few goods". Our conclusion is continued Chinese Covid related lockdowns are not helpful to the Fed's efforts to combat U.S. inflation.

A potential Chinese re-opening should place upward pressure global energy prices. Asia's largest consumer of petroleum has shown reduced demand during 2022, approximately 2.0MMBbls/d below pre-pandemic levels in August.




*Source: China's General Administration of Customs*

Depending upon the source, global daily crude demand is between 99.5MMBbl/d and 100.5MMBbl/d. This means that a re-opened China could cause an approximate 2% rise in daily crude demand. This would also come at a time of reduced U.S. production and potential restrictions being imposed on Russian crude.

We highlighted three major things we will be watching in 2023. It is a certainty 2023 will have many more issues for investors to navigate. Our bias towards higher quality, future potential, and reasonable valuation served us well on a relative basis in 2022. We believe it will continue to in 2023. CAR-1222-01627

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# Questions you're asking: Can I Retire Early?

**Your ability to enjoy an early retirement could depend on how soon you identify and address any gaps you may have in your plan. Here's what to consider next.**

Retiring early might be something you've daydreamed about — or something you're planning. Even if it isn't your goal, it can be smart to prepare for it so you can feel empowered to make the best decision for you in case of an unexpected event such as a late-career layoff or even a health crisis.

How do you define early retirement? Is it prior to age 62 when Social Security benefits can begin? Maybe early means before age 65 when Medicare coverage begins. Based on your birth date, your full retirement age as defined by Social Security may not be until age 66 or later. In order to develop a plan, it is helpful to define a retirement age that makes sense for you.

Being able to retire at your desired retirement age could depend on identifying and addressing any gaps in your retirement plan sooner versus later. "Effective planning is often the key to helping ensure that someone's resources will fund a happy, secure retirement," says John Knowles,

lead strategy consultant at Wells Fargo Wealth & Investment Management.

Knowles offers these five considerations.

### 1. Know your goals — and where you can be flexible

Well-rounded retirement planning is about more than managing money. “I always talk about managing a portfolio of goals,” Knowles says. That means outlining what you hope to accomplish with early retirement, understanding what you’ll do with your time, and making sure that you and your partner, if you have one, are on the same page. For example, do you hope to enjoy your winters on a beach? Tour the United States in an RV? Or spend more time cooking, creating art, or volunteering?

Before retirement, many people simply focus on accumulating lots of assets and assume that those assets will pay for whatever they decide to do, Knowles says. Don’t assume, Knowles counsels. Targeting a certain amount of assets isn’t enough, as health care costs or other needed expenses might take priority over recreation. The key is to create a retirement plan based on how you want to spend your time but includes built-in flexibility

In other words, what goals are you willing to change? And how will you change them? “It’s having options for the trade-offs that could arise,” Knowles says.

### 2. Understand your spending

Many financial advisors now recognize that spending in retirement can be the same as — or even higher than — what individuals spent before retirement. This is due to more active lifestyles in retirement and to the increasing costs associated with health care and other necessities.

To prepare, Knowles suggests establishing a baseline budget before retirement that you keep updated over time. This will help you understand and plan for the amount of income you need to live, pay for health care, and meet other obligations. Doing this can also help you see places where you can cut expenses to help you save more for retirement.

“I can’t control market volatility,” Knowles says. “I can’t completely control my health. I can’t control inflation. But I can control what I spend on things other than necessities.”

### 3. Take health care costs into account

Identifying possible retirement planning gaps could also involve weighing health expenses if you retire early. Even if you become eligible for Medicare soon (coverage starts at age 65), a younger partner could need another form of coverage.

If you have a spouse who will continue to work for an employer who provides health insurance, one option may be to get coverage under that plan. Otherwise, paying for health coverage until you qualify for Medicare at age 65 will be an important expense to consider in your retirement planning.

This will also be a time to explore costs associated with long-term-care insurance to help cover costs associated with in-home health care, assisted living facilities, or nursing homes. These costs aren’t covered by traditional health insurance, making them a common planning gap that can be costly: Today, the median annual cost of a private room in a nursing home is more than $100,000.[1]

### 4. Carefully consider when to start collecting Social Security

You can opt to take Social Security payments as early as age 62, though delaying can mean bigger checks in future years. However, postponing receiving Social Security isn’t always the best choice.

“What a lot of people don’t consider is what effect that has on their overall plan,” Knowles says. Delaying Social Security could mean you would need to live entirely off your savings and investments for several years. “That’s less money that might potentially be there at the back end of your life

expectancy — less money that you might need or may want to go to your kids."

Once you've retired, Knowles recommends reevaluating your situation annually before deciding whether to continue delaying these payments. One item you need for that annual review in retirement: a current copy of your Social Security benefit estimate from ssa.gov.

### 5. Explore ways to fill potential income gaps

Understanding your anticipated expenses allows you to begin to identify the income sources to help pay for them in retirement. With your income sources clearly defined, you can have a plan in place to offset potential disruptions from market volatility.

So what happens if you find a gap between your retirement goals and your expected or actual retirement income? It mostly boils down to two main choices: Reduce your spending or find more income.

Knowles shares the example of an airline pilot who was retiring in his 50s; he planned to get a job at a home improvement store, which he saw as a win-win because it would bring in extra income and be less stressful than flying passenger jets. Some retirees start new jobs or careers based on hobbies and interests — giving music lessons or overseeing operations at a golf course, for example.

"Earn a few bucks to supplement what you want to do," Knowles says. "If it's something you enjoy at the same time, that's great." (CAR-1022-03560)

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