Condor Capital
WEALTH MANAGEMENT

Condor Capital Reviews 1st Quarter 2023

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Domestic equities posted a second consecutive quarter of gains despite the concerns regarding the banking sector in March. Blue-chip tech stocks were some of the top performers.

International equities moved higher as well, with developed nations generally outperforming emerging markets and the U.S. dollar slightly weakening.

Most fixed income subsectors were positive as well, and the 10-year Treasury yield fell by over 0.40% in the quarter.

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Markets posted their second consecutive quarter of gains to start 2023, with the S&P 500 Index returning 7.48%. This may come as a surprise to some given the headlines out of the banking sector this March, but 1Q 2023 was a broadly positive one for the diversified investor. Specific banks did experience some real problems, but as we laid out in our note here, all indications are that these were one-off issues rather than systematic ones. For example, Silicon Valley Bank (NYSE: SIVB) was particularly exposed to high-risk early-stage startups, Silvergate Bank (NYSE: SI) was very cryptocurrency-focused, and many of the banks that struggled did a notably poor job mitigating interest rate risk. To illustrate how company-specific these issues were, financials outside of banks were barely negative as a sector despite these extreme cases, with strength in credit card and insurance companies helping to offset the weakness in certain bank stocks within financial indices. Technology stocks were major contributors to quarterly returns, and blue chips like Apple, Microsoft, and Meta posted stellar quarters, with Meta bouncing back to post a whopping 76% gain. As a result, the tech-heavy Nasdaq outperformed strongly, posting its best return since the second quarter of 2020.

International markets posted positive performance in the first quarter as well. In fact, developed international markets as measured by the MSCI EAFE Index outperformed the S&P 500, with the Eurozone driving returns and the U.K. and Japan posting smaller but still positive performance. The European Central Bank and Bank of England both raised interest rates significantly over the course of the quarter in efforts to combat inflation. Emerging markets underperformed on a relative basis but still posted positive returns as well.

Within fixed income markets, most asset classes generated another quarter of gains. Corporate, municipal, government, and securitized assets all moved higher, as yields fell on all but the very shortest portions of the yield curve. This effect was particularly pronounced on the longer end of the curve, as the 10-year Treasury fell by over 40 basis points in the quarter. There is an inverse relationship between price and yield, so prices on longer-dated bonds rose as yields fell, and longer-dated bonds generally outperformed.

Outlook

Given the events of the first quarter, investors will obviously be keeping a close eye on the banking sector in the coming months. We have laid out our thoughts here in more detail in previous notes, but to reiterate a few of the main points: The banks that have struggled were not large enough to be subject to CCAR stress testing. The largest, most systemically important banks (and the banks like Schwab that you may have some exposure to with us) have better balance sheets with far more mark-to-market securities to maintain their liquidity in the case of large withdrawals. Additionally, governments and regulators in the U.S. and abroad have been quick to provide support to prevent broader contagion. If they were willing to do so for Silicon Valley Bank, there is almost no chance they would let a larger, more systemically important institution go under without the same make-whole protections.

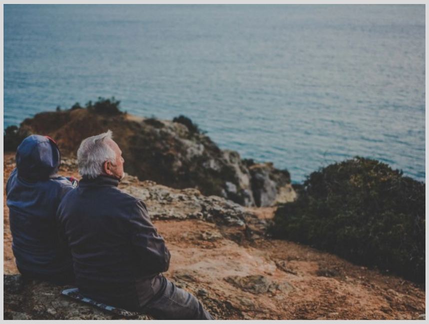
Inflation data continues to come down, but at a notably slow pace. A surprise output cut by OPEC members last week will not help matters here, although the Fed's preferred measure of inflation does exclude energy prices. Wages are also taking the spotlight moving forward given the tight labor market and several companies citing rising wage costs in their earnings. That said, while higher wages are inflationary, we do not view this as a significant negative as more money in workers' pockets is also beneficial for their consumption and in turn overall economic growth. The leisure and hospitality, healthcare, and government sectors showed notable job gains, while we have seen some limited job cuts in the technology sector that will bear watching.

There is still a disconnect between the market's expectations for the Federal Reserve and the Fed's own signaling around rates. Amid the increased uncertainty during recent bank runs, markets have once again turned to expect rate cuts later this year. In contrast, the Fed remains adamant it will remain data-dependent and will not cut until inflation is tamed. The Fed's dot plot shows expectations for the Fed Funds rate to end the year above 5%, while surveys place investor expectations for the year-end rate closer to 4%. This is a disconnect that will need to be addressed in coming quarters.

Attention will also turn to the debt ceiling later in the second quarter. This is always a tricky situation to discuss, as we are neither political commentators nor Beltway insiders. Ultimately, however, the ramifications of a U.S. default would be so severe and well-known that political actors should be highly incentivized to avoid the economic damage and reach an agreement. While we may see plenty of brinkmanship and alarmist headlines, and even a deadline down to the final days or hours, markets have (unfortunately) grown accustomed to these political games and can weather the storm.

Internationally, European data and expectations have strengthened, and the World Bank has increased its 2023 GDP estimates for China now that that country is moving away from its zero-Covid policies. China has become increasingly important as the country develops and expands its middle class, and strength there could prove important in providing the next leg of global growth in coming quarters.

The market's performance in the first quarter provides a welcome reminder of the importance of staying invested. No one would argue that there were no risks to domestic equities to start this year, but returns were still quite positive. While there are legitimate concerns that markets are pricing in, consumer spending has proven durable as evidenced most recently by strong retail data for March, and the labor market remains strong with a 3.6% unemployment rate and 1.7 job openings for every unemployed person. Regardless of short-term prognostications, a long-term investment horizon and diversified asset allocation will remain key drivers of long-term financial success.



The SECURE 2.0 Act added new exceptions to the 10% federal income tax penalty for early withdrawals from tax-advantaged retirement accounts.

The material for this article has been prepared by Broadridge Advisor Solutions.

SECURE 2.0 Adds New Early Withdrawal Exceptions

The SECURE 2.0 Act, passed as part of an omnibus spending bill in December 2022, added new exceptions to the 10% federal income tax penalty for early withdrawals from tax-advantaged retirement accounts. The Act also expanded an existing exception that applies specifically to employer plans. These exceptions are often called 72(t) exceptions, because they are listed in Section 72(t) of the Internal Revenue Code.

The 10% penalty tax generally applies to withdrawals prior to age 59½ from IRAs, employer-sponsored plans [such as 401(k) and 403(b) plans], and traditional pension plans, unless an exception applies. The penalty is assessed on top of ordinary income taxes.

New Exceptions

Here are the new exceptions with their effective dates. Withdrawals covered by these exceptions can be repaid within three years to an eligible retirement plan. If repayment is made after the year of the distribution, an amended return would have to be filed to obtain a refund of any taxes paid.

- Disaster relief — up to $22,000 for expenses related to a federally declared disaster if the distribution is made within 180 days of the disaster occurring; included in gross income equally over three years, beginning with the year of distribution, unless the taxpayer elects to report the full amount in the year of distribution (effective for disasters on or after January 26, 2021)
- Terminal illness — defined as a condition that will cause death within seven years as certified by a physician (effective 2023)
- Emergency expenses — one distribution per calendar year of up to $1,000 for personal or family emergency expenses to meet unforeseeable or immediate financial needs; no further emergency distributions are allowed during the three-year repayment period unless the funds are repaid or new contributions are at least equal to the withdrawal (effective 2024)
- Domestic abuse — the lesser of $10,000 (indexed for inflation in future years) or 50% of the account value for an account holder who certifies that he or she has been the victim of domestic abuse (physical, psychological, sexual, emotional, or economic abuse) during the preceding one-year period (effective 2024)

Expanded Exception for Employer Accounts

The 10% penalty does not apply for distributions from an employer plan to an employee who leaves a job after age 55, or age 50 for qualified public safety employees. SECURE 2.0 extended the exception to public safety officers with at least 25 years of service with the employer sponsoring the plan, regardless of age, as well as to state and local corrections officers and private-sector firefighters.

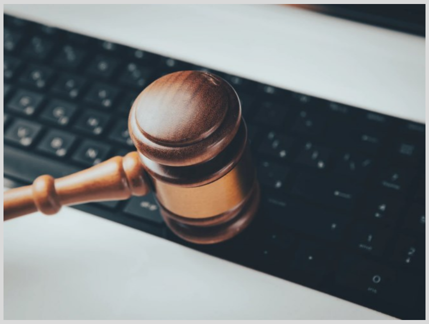
Previously Established Exceptions

These exceptions to the 10% early withdrawal penalty were in effect prior to the SECURE 2.0 Act. They cannot be repaid unless indicated. Exceptions apply to distributions relating to:

- Death or permanent disability of the account owner
- A series of substantially equal periodic payments for the life of the account holder or the joint lives of the account holder and designated beneficiary
- Unreimbursed medical expenses that exceed 7.5% of adjusted gross income
- Up to $5,000 for each spouse (from individual accounts) for expenses related to the birth or adoption of a child; can be repaid within three years to an eligible retirement plan
- Distributions taken by an account holder on active military reserve duty; can be repaid up to two years after end of active duty to an individual retirement plan
- Distributions due to an IRS levy on the account
- (IRA only) Up to $10,000 lifetime for a first-time homebuyer to buy, build, or improve a home
- (IRA only) Health insurance premiums if unemployed
- (IRA only) Qualified higher education expenses

These exceptions could be helpful if you are forced to tap your retirement account prior to age 59½. However, keep in mind that the greatest penalty for early withdrawal from retirement savings may be the loss of future earnings on those savings. Some employer plans allow loans that might be a better solution than an early withdrawal.

Retirement account withdrawals can have complex tax consequences. Consult your tax professional before taking specific action.



Although you may be one of the fortunate few who've never been a party to a lawsuit, that could change. Should you find yourself in this position, here are a few things you'll want to know.

Lawsuits: What Every Driver Needs to Know

Legal battles often bring new meaning to the word stress. Knowing what to expect is half the battle of getting through the process. Although you may be one of the fortunate few who've never been a party to a lawsuit, that could change. Should you find yourself in this position, here are a few things you'll want to know.

What Are the Chances You'll See the Inside of a Courtroom?

Whether you're the plaintiff (the party that brings the lawsuit) or the defendant (the party that's being sued), don't assume that you'll have your day in court. It's quite likely your case will settle early in the pretrial phase. In fact, nearly 90 percent of all cases settle before trial to avoid costly and time-consuming litigation.

The Plaintiff's Case

As the plaintiff, you'd have the burden of filing the complaint and proving your case. The complaint is the document that begins a lawsuit--it tells the court what you intend to prove at trial. The burden of proof in a civil case is "a preponderance of the evidence" (51 percent). Although your burden is much lighter than the prosecution's burden in a criminal case (beyond a reasonable doubt), you will still have your work cut out for you. Even though you do have the right to represent yourself, you should consider consulting or hiring an experienced attorney.

Don't Take the Law Into Your Own Hands

If your case is small (e.g., $1,000) and you can't afford an attorney, you may be able to bring your case to small-claims court. Your eligibility will be based on the subject (e.g., real estate, property damage) and value of your case.

Small-claims court is also known as the people's court. Much like the television show of the same name, ordinary people tell their case to a judge, who then makes a decision after hearing from both sides and seeing all the evidence. Although attorneys generally aren't prohibited from small-claims court, their participation isn't encouraged. The purpose of small-claims court is to provide a speedy and inexpensive place to resolve the less-complicated, lower-value cases. Remember, though, that as the plaintiff, you chose the forum (small-claims court), and if you lose, you may not be allowed to appeal.

You've Been Sued... Now What?

If you're involved in an accident, and someone is injured or property is damaged, you may find yourself defending a lawsuit. Whether or not you're at fault, you need to act. If you're served with court papers that say you're being sued (summons and complaint), don't just ignore them, thinking that the lawsuit will go away. The complaint needs to be answered within the time period stated on the summons (this differs from state to state). You'll probably need an attorney, so be sure to contact your insurance company as soon as possible, since your insurance company will often pay your legal defense costs.

Who Is Your Attorney?

If your insurer takes over your defense, you may still have a choice in selecting the attorney who will defend you. However, this will depend on the type of insurance coverage that you've selected. Typically, you'll be assigned counsel by your insurer. Some companies have their own in-house counsel to represent insureds, while other companies retain private law firms on a case-by-case basis.

You're also entitled to retain your own attorney (at your own cost), in addition to the attorney appointed by your insurer. Some of the reasons why you might want two attorneys are:

- Any claims not covered by your insurance (e.g., intentional acts) won't be defended by the assigned attorney
- Plaintiff's damages may be greater than the amount of insurance you have--you'll be responsible for the excess
- You may feel more comfortable having your own attorney on hand

Keep in mind that litigation can be very expensive, and the attorneys assigned by your insurer tend to specialize in insurance defense, so additional counsel is often unnecessary.

You're the Star of the Show

It's important to keep in mind that your cooperation is essential to winning your case. And, even more important, if you don't participate when you're needed, your insurer may be able to deny coverage. If that's the case and the court rules against you, the money will end up coming out of your pocket.

The Endless Search

After your attorney has answered the plaintiff's complaint, the next step is to complete discovery (the fact-finding part of the case). This is probably the biggest and most important part of the case, because you'll find out how strong the plaintiff's case is in comparison to yours, and whether there is a possibility for settlement.

Depositions are one method of discovery. As a party to the lawsuit, you're likely to be deposed. Typically, attorneys will depose all parties and relevant witnesses. In general, depositions take place in the office of one of the attorneys. All of the attorneys will be present, and a stenographer will be there to record everything that is said (the plaintiff

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may or may not be present). Also, you'll be asked to testify under oath about what happened in the accident. Your attorney will want to prepare you before the deposition. Pay attention--this is sure to be good advice.

In addition to depositions, you'll be asked to provide answers to interrogatories (written questions) and respond to document requests. Some states limit the amount of information you'll need to provide. Give the information to your attorney and let your attorney deliver it to the plaintiff. Remember, if you have an attorney, neither the plaintiff nor the plaintiff's attorney is allowed to contact you directly, and vice versa. All communication should go only through the attorneys.

On With the Show

If settlement negotiations are unsuccessful, the case will proceed to either a jury trial or a bench trial (the judge decides who wins). This will depend largely in part on which state you live in. Also, you'll probably be called to testify (similar to the deposition, except you'll be in the courtroom) on the witness stand.

Keep Your Umbrella Handy

In 2021, the U.S. had a record 24.5 million millionaires, up from 20.2 million in the previous year. An increase in personal wealth may bring greater financial flexibility; it may also bring greater liability. Individuals with high net worth, or those who are perceived to have high net worth, may be more likely to be sued. And personal injury claims can cost millions.[1]

Umbrella liability insurance is designed to put an extra layer of protection between your assets and a potential lawsuit. It provides coverage over and above existing automobile and homeowners insurance limits.

For example, imagine your teenage son borrows your car and gets in an accident, seriously injuring the other driver. The accident results in a lawsuit and a $1 million judgment against you. If your car insurance policy has a liability limit of $500,000, that much should be covered. If you have additional umbrella liability coverage, your policy can be designed to kick in and cover the rest. Without umbrella coverage, you may be responsible for paying out of pocket for the other $500,000, which could mean liquidating assets, losing the equity in your home, or even having your wages garnished.

Umbrella liability insurance is usually sold in increments of $1 million and generally costs just a few hundred dollars a year. It typically covers a broad range of scenarios, including bodily injuries, property damage caused by you or a member of your household, and even libel, slander, false arrest, and defamation of character.

Deciding whether liability coverage is right for you may be a question of lifestyle. You might consider buying a policy if you:

- Entertain frequently and serve your guests alcohol
- Operate a business out of your home
- Give interviews that may be published
- Drive a lot of miles or have teenage drivers
- Live in a manner that gives the appearance of wealth
- Have a dog, especially if the breed is known to be aggressive
- Own jet skis, a boat, motorcycles, or snowmobiles

Even if you don't yet have a tent in the millionaire camp, you may want to consider the benefits of liability insurance. You don't have to be a millionaire to be sued for a million dollars. Anyone who is carefully building a financial portfolio may want to limit their exposure to risk. Umbrella liability can be a fairly inexpensive way to help shelter current assets and future income from the unexpected.

This is a simplified description of coverage. All statements made are subject to the provisions, exclusions, conditions, and limitations of applicable insurance policies. Please refer to actual policy documents for complete details regarding coverage.

Who's Got What?

In 2021, there were over 74 million adults in the United States whose net worth was in the $100,000 to $1 million range (excluding primary residence). Less than 25 million adults had a net worth of $1 million or more.[1]

1. Credit-Suisse.com, 2022