Condor Capital

WEALTH MANAGEMENT

Condor Capital Reviews 4th Quarter 2023

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Domestic equities finished 2023 strong, with the S&P 500 Index rising 11.68% in the fourth quarter and gaining 26.56% on the year. Technology outperformed as the so-called "Magnificent Seven" posted significant gains.

International equities posted a very good fourth quarter as well but continued to lag behind their domestic counterparts. China continues to drive investor concerns.

Fixed income markets bounced back as yields moved significantly lower in the fourth quarter of 2023.

January 2024

Domestic equities advanced in the fourth quarter of 2023, with the S&P 500 Index rising by 11.68% to cap off a strong year-end rally that saw the S&P 500 gain 26.56% in 2023. The main driver of the quarter's positive performance was a shift from the Federal Reserve's hawkish stance on monetary policy to a more accommodative stance after fourth quarter inflation data showed continued progress in bringing prices back toward the Federal Reserve's target goal. The Federal Reserve's signaling of rate cuts in 2024 resulted in a sharp rally in Treasuries and a subsequent decline in interest rates. The 10-year U.S. Treasury yield peaked to near 5% in October and quickly retreated, ending the year below 4%. Equity markets rallied while the dollar weakened, leading to a risk-on environment to cap off 2023. Falling energy prices helped to further ease inflation due to weakening demand amid global growth concerns. Technology significantly outperformed over 2023 driven by an Artificial Intelligence (AI) frenzy, but the rally broadened out to end the year, bolstered by a rally in financial services and healthcare in the fourth quarter.

International equities participated in the global risk asset rally to finish 2023 but fared slightly worse than their domestic counterparts, as the MSCI EAFE Index posted a 10.47% gain in the fourth quarter. China was a drag on emerging markets as its economy continued to face weak demand, high youth unemployment, and a material decline in foreign direct investment. China's economic problems have resulted in a tempered outlook for global growth. After strengthening earlier in the year, the U.S. dollar weakened against most major currencies, reflecting expectations of easier monetary policy.

Fixed income markets rallied as bond prices rose, and yields fell in response to improved inflation data and a dovish-sounding Fed to close out 2023. Yields sharply declined in the quarter, and both investment-grade and high-yield credit rallied, resulting in tightening credit spreads. The Bloomberg U.S. Aggregate Bond Index rose by 6.82% in Q4, and corporate bonds outperformed government bonds. International and emerging market debt performed worse than domestic bonds, as higher U.S. interest rates and the strong dollar reduced the relative attractiveness of foreign bonds.

Outlook

Moving forward, investors will keenly observe economic indicators to gauge their influence on central bank policies and market dynamics. Risk markets finished the year strong, but after the December Federal Open Market Committee (FOMC) meeting, the market is now pricing in six 25-basis-point interest rate cuts in 2024, three more than the FOMC's December dot plots signaled. Inflation is still at the forefront of investor concerns, but the material improvement during the second half of 2023 shifts investors' focus to employment data. The health of the labor market will be pivotal in determining the Fed's next steps as it weighs the balancing act between its dual mandate of stable prices and maximum employment.

While oil prices fell in the fourth quarter due to increased U.S. production and global growth concerns, geopolitical tensions in the Middle East remain a potential headwind in 2024 and could be a driving force for energy price volatility throughout the year. Core CPI, which excludes energy and food, continues trending down towards the Fed's desired level, and the market waits for continued dovish policy. Meanwhile, in the broader economy, there are emerging signs that the Fed's tightening measures are achieving their desired impact to slow activity down without a large uptick in unemployment. Excess savings have begun to dry up, and delinquencies on credit cards, which were previously at historical lows, have reverted to pre-pandemic levels. Higher mortgage rates have slowed an otherwise hot housing market, and looking ahead into 2024, mortgage rates should begin to decline. Slowdowns in venture capital fundraising and tech startups are further evidence that the Fed's rate hikes are having the intended cooling effect on at least some areas of the economy. Overall CPI is expected to fall below 3% by the first quarter of 2024, moving the Fed closer to its 2% long-run target.

At the same time, consumer spending, a primary driver of the U.S. economy, has persisted despite some more selective behavior in specific areas. The beginning of holiday spending started strong, but retailers and other consumer discretionary companies signaled weak guidance, hinting at a more selective consumer to start 2024. The labor market remains strong, and wage gains grew to outpace inflation towards the end of the year, indicating that the consumer may enter 2024 with more buying power. This wage growth is now moderating at a rate to keep fears of a wage-price spiral at bay, leading to a potential best-case scenario for the economy more broadly. Notably, analysts are projecting corporate earnings growth of 11.5% and revenue growth of 5.5% in 2024. Quarterly GDP estimates remain positive over the next six quarters and have increased. These improvements support the idea that the elusive soft landing is becoming more likely.

On the international front, China's economic stability raises concerns, particularly about its property sector, domestic consumption, and high unemployment. The theme of a strong Chinese consumer, especially in the travel and leisure sector, finally regained its footing by the end of 2023, but the rate of spending was more subdued relative to pre-pandemic spending. Although the Chinese government has always been intent on stimulating the economy to keep up appearances during downturns, it may be increasingly more challenging to counterbalance foreign investor concerns and domestic economic problems.

Over the coming quarters, inflation and employment data will continue to guide the market. The ever-important holiday shopping season readout will provide important context on the health of the U.S. consumer looking forward to 2024. Here at Condor, we continue to believe in the soft-landing narrative that has become a consensus among Wall Street economists. However, we are not yet out of the good-news-is-bad-news cycle, where positive data may be received less positively than one might expect (because investors expect it will keep rates higher for longer), and weaker data may be viewed positively (since it may lead the Fed to ease sooner). While the short-term path forward can be unpredictable in this type of environment, as always, we urge investors to take a longer view. In the meantime, we will continue to lock in attractive yields in safer areas of the market while we can and would view any market pullbacks as opportunities to benefit in positions we believe in for the longer term.

What happens when you're set to inherit something that may be more trouble than it's worth?

White Elephant Inheritance

Have you ever had to deal with a "white elephant"? Not the actual pachyderm, but what Merriam-Webster calls "a property requiring much care and expense yielding little profit" or, more simply, "something of little or no value." Of course, we're not talking about the sort of "white elephants" you might get in a humorous gift exchange over the holidays, like a tacky t-shirt that isn't even your size or an inexplicable kitchen gadget.

Not everyone has a rich uncle who will present them with a simple cash gift in his will. A "white elephant" is a gift that may cause more issues than it resolves, much as an elephant might eat an unwitting recipient out of house and home. It's an asset that comes to you via gift or inheritance and needs to be quickly sold, liquidated, or transferred to avoid further expenses of time or money. In such cases, it is crucial to understand how to disclaim an inheritance properly and avoid holding the burden. The average American household stands to inherit $46,200. Not all those bequeathments are straight cash, and some might prove inconvenient or troublesome.[1]

There are several reasons why someone might not want to accept an inheritance:

- **Income:** If the inheritance generates income, such as a business or rental property, it may push you into a higher income tax bracket. This might be good in many cases, but there are situations where this might prove inconvenient, such as—
- **Litigation or Bankruptcy:** If you face a lawsuit or anticipate bankruptcy, disclaiming the inheritance may be wise. However, it's important to note that if you are currently undergoing bankruptcy proceedings, you may be unable to deny the inheritance.[2]
- **Inability to Maintain:** If the inheritance includes property or assets that require ongoing maintenance and you cannot fulfill those obligations, disclaiming may be the best choice. This could be real estate, a business, or perhaps even a literal white elephant.
- **Honoring the Decedent's Wishes:** Circumstances may have changed since drafting the will, and accepting the inheritance may no longer align with the decedent's original intentions.

Remember, this article is for informational purposes only and does not replace real-life advice, so consult with us and a legal professional before deciding on an inheritance.

To officially disclaim an inheritance, you must meet the following requirements set forth by the Internal Revenue Service:

- Provide written notice to the executor or administrator of the estate, clearly stating that you are disclaiming the assets and that the decision is irrevocable.
- Submit the statement within nine months of the decedent's death (minors have until they

1. Finance.yahoo.com, September 15, 2023
2. NasonLawFirm.com, September 27, 2023
3. GreatAOakAdvisors.com, September 27, 2023

reach the age of majority).

- Ensure that you do not benefit from the disclaimed property, either directly or indirectly. Example: What if you were to live with the new recipient in a house you declaimed? The IRS might perceive this as you benefiting indirectly.

Notably, once you disclaim an inheritance, you have no say in who receives it. The estate will be treated as if you died before accepting it and will go to the contingent beneficiary named in the will. If there is no will, the distribution will resume according to the next person, in line with state law.[3]

However, disclaiming an inheritance may not be the best choice for individuals receiving Medicaid benefits. If you reject an inheritance while on Medicaid, it could be considered a transfer of assets, potentially making you ineligible for Medicaid for a certain period. It is crucial to seek guidance from us or a legal professional with information specific to your situation if you receive Medicaid benefits.

Again, you may not have the choice or inclination to refuse this inheritance. Let's look at a few options open to you.

Donating Assets: Several tax strategies exist for charitable contributions. One method is to donate assets to charity. By doing this, you may be able to manage capital gains taxes and receive an income tax deduction for the full fair market value of the assets. This is an overview and is not intended as tax or legal advice. Please consult us as well as legal or tax professionals for specific information if you want to donate the assets you received as part of an inheritance.

Real Estate: Unwanted land can become a financial burden. Selling land can be difficult if it has been on the market for months or years without any offers. The most common reason for this is that the price is too high. Determining the value of land can be challenging, so setting a realistic price is essential. Another reason for a property's failure to sell is poor marketing. Undesirable features or location can also contribute to a property's inability to sell, as can title issues such as liens or property boundary problems.

If you need help selling your inherited land, there are several strategies you can try. Listing the land for sale online on various platforms can provide maximum exposure. Contacting neighboring property owners may also be effective. Other options include donating the property to a charity. Several charities accept land donations, but they typically have a screening process and often sell land to raise funds for their organizations.

Collectibles: Perhaps the most common of these white elephant inheritances include collectibles, esoteric items that future heirs have no wish to inherit, such as stamps, baseball cards, comic books, figurines, or dishware. The inheritance may also require more thought or consideration, such as an art collection that includes several large canvases or a cache of ephemera, such as old letters that may have historical value and require special preservation.

Most metropolitan areas have resources for liquidating collectibles or helping you get in touch with collectors who might purchase these items wholesale. Holding an estate sale is another common step for quick movement. If you believe you can earn more, you might list these items for sale online. However, in most cases, you may have to decide whether this is worth the effort or whether donating the items to a charity might be simpler.

In short, don't let the elephant gobble up your time and money! Another step, when possible, is to speak to your relative in advance if you anticipate inheriting something you can't handle or don't want. Conversations with your relatives might go a long way toward averting more work later and give them the satisfaction of knowing they are caring for you in the present.

Do Your Kids Know the Value of a Silver Spoon?

You taught them how to read and how to ride a bike, but have you taught your children how to manage money?

The average debt for student borrowers is $40,499. And nearly 11% of new graduates will default within the first twelve months of repayment.[1,2]

For current college kids, it may be too late to avoid learning about debt the hard way. But if you still have children at home, save them (and yourself) some heartache by teaching them the basics of smart money management.

Have the conversation. Many everyday transactions can lead to discussions about money. At the grocery store, talk with your kids about comparing prices and staying within a

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budget. At the bank, teach them that the automated teller machine doesn't just give you money for the asking. Show your kids a credit card statement to help them understand how "swiping the card" actually takes money out of your pocket.

Let them live it. An allowance program, where payments are tied to chores or household responsibilities, can help teach children the relationship between work and money. Your program might even include incentives or bonuses for exceptional work. Aside from allowances, you could create a budget for clothing or other items you provide. Let your kids decide how and when to spend the allotted money. This may help them learn to balance their wants and needs at a young age when the stakes are not too high.

Teach kids about saving, investing, and even retirement planning. To encourage teenagers to save, you might offer a match program, say 25 cents for every dollar they put in a savings account. Once they have saved $1,000, consider helping them open a custodial investment account. You might even think about opening an individual retirement account (IRA). Some parents offer to fund an IRA for their children as long as their children are earning a paycheck.[3]

As you teach your children about money, don't get discouraged if they don't take your advice. Mistakes made at this stage in life can leave a lasting impression. Also, resist the temptation to bail them out. We all learn better when we reap the natural consequences of our actions. Your children probably won't be stellar money managers at first, but what they learn now could pay them back later in life – when it really matters.

1. EducationData.org, August 20, 2023
2. EducationData.org, August 27, 2023
3. Once you reach age 73 you must begin taking required minimum distributions from a Traditional Individual Retirement Account in most circumstances. Withdrawals from Traditional IRAs are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty. Contributions to a Traditional IRA may be fully or partially deductible, depending on your adjusted gross income.

And the Executor Is

U.S. Supreme Court Justice Warren Burger is famous for more than just his time on the bench. When he died in 1995, he left a 176-word will that gave no specific power to his executors. As a result, he reportedly cost his estate tens of thousands of dollars in attorney's fees.[1]

Judge Burger's case shows that even law-savvy individuals can make mistakes when it comes to writing their own legal documents. But giving executors the proper power is only one piece of the puzzle. How do you choose an executor? Can anyone do it? What makes an individual a good choice?

Many people choose a spouse, sibling, child, or close friend as executor. In most cases, the job is fairly straightforward. Still, you might give special consideration to someone who is well-organized and capable of handling financial matters. Someone who is respected by your heirs and a good communicator may also help make the process run smoothly.

Above all, an executor should be someone trustworthy since this person will have a legal responsibility to manage your money, pay your debts (including taxes), and distribute your assets to your beneficiaries as stated in your will.

If your estate is large or you anticipate a significant amount of court time for your executor, you might think of naming a bank, lawyer, or financial professional. These individuals will typically charge a fee, which would be paid by the estate. In some families, singling out one child or sibling as executor could be construed as favoritism, so naming an outside party may be a good alternative.

Whenever possible, choose an executor who lives near you. Court appearances, property issues, and even checking mail can be simplified by proximity. Also, some states place additional restrictions on executors who live out of state, so check the laws where you live.

Whomever you choose, discuss your decision with that person. Make sure the individual understands and accepts the obligation – and knows where you keep important records. Because the person may pre-decease you – or have a change of heart about executing your wishes – it's always a good idea to name one or two alternative executors.

The period following the death of a loved one is a stressful time and can be confusing for family members. Choosing the right executor can help ensure that the distribution of your assets may be done efficiently and with as little upheaval as possible.

1. Washingtonpost.com, 2023