

The logo for Security National Bank, featuring the word "SECURITY" in white on a blue background, with "NATIONAL BANK" in white on a black background below it.

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**NATIONAL BANK**

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A large, dark blue horizontal banner with the text "2024 Economic Outlook" in white, bold, sans-serif font.

# 2024 Economic Outlook

A dark blue horizontal banner with white text providing a disclaimer for investment products.

**Investment products are: • Not FDIC Insured • Not a Deposit • Not Insured by Any Federal Government Agency  
• Not Guaranteed by the Bank • May Lose Value**

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## Thank You



We will speak for 45 minutes.  
This should allow time for questions.



If you have any questions and are  
joining via Zoom, please submit  
them through the Q&A feature.



If you'd like to have a further discussion  
to receive an in-depth analysis or review,  
please contact Damian, Clint, or Lauren.





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# Disclaimer

**This material is intended for informational purposes only and does not constitute an invitation or solicitation to invest in any particular investment product. Information contained herein has been obtained from sources believed to be reliable but may change without notice. We do not guarantee its accuracy or completeness. Security National Bank accepts no liability for the results of any action taken on the basis of this information.**

**Financial commentary discussed in this report may not be applicable or suitable for all investors, and investors must make their own independent legal, tax, accounting, and financial evaluations of their risks and merits. Past performance is not indicative of future results. Investments offered by Security National Bank:**

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- **May Go Down in Value**

**This report reflects the current opinion of the authors and is subject to change without further notice. There can be no assurance that any of the projections cited will occur.**



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**Last Summer's Forecast**

## Last Summer's Forecast

- Growth was stronger than expected, due to fiscal stimulus and interest rate resistance.
- FRB halted raising rates as expected.
- Interest rates and earnings close to expectation.
- Yet to be seen if the U.S. experiences a recession in 2024.

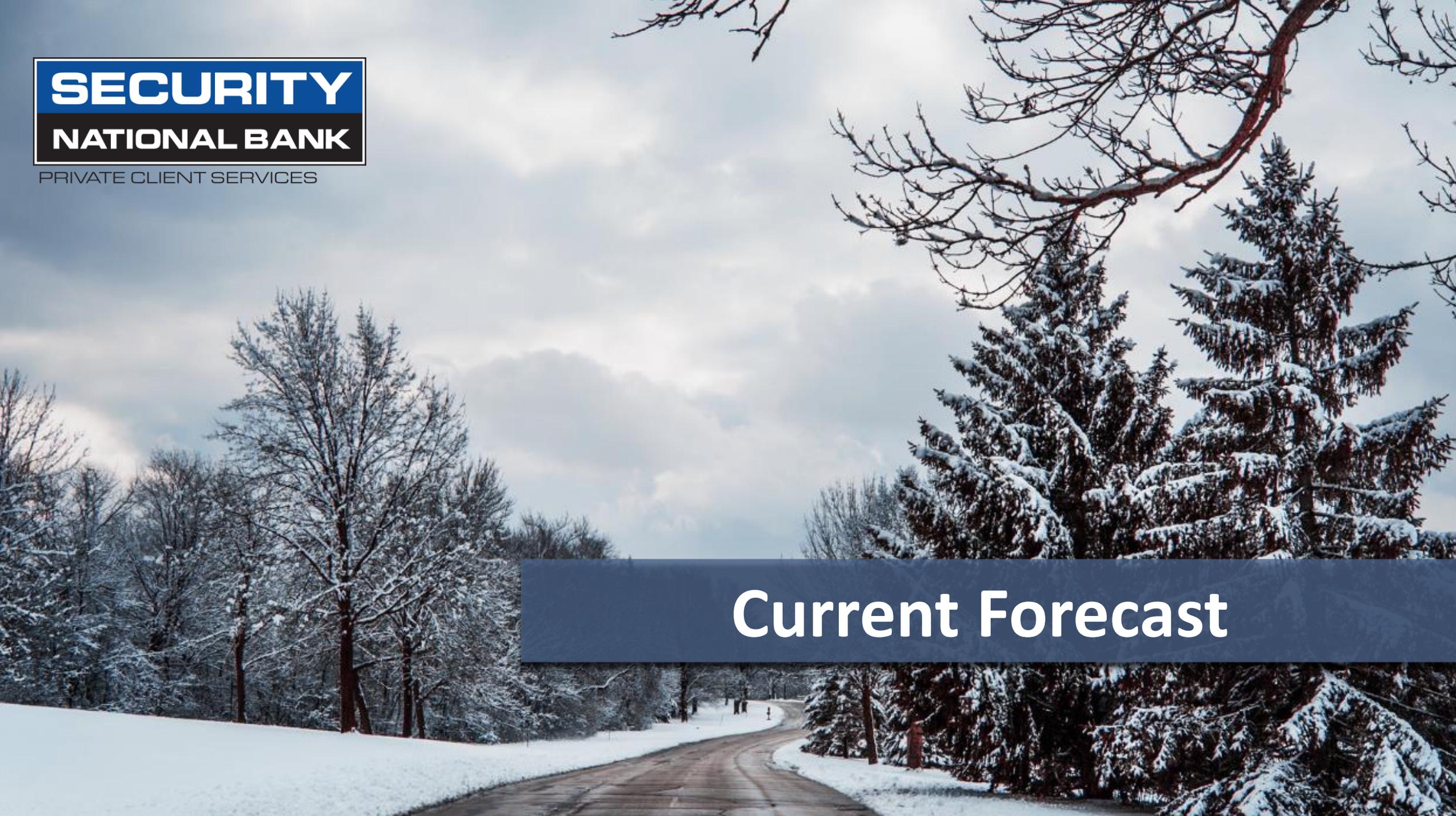
	2023 Forecast	2023 Est
GDP Growth	1.00%	2.6%
Change in Consumer Prices	2.50%	3.1%
Fed Funds Target Rate	5.50%	5.50%
5-Year Treasury Yield	3.75%	3.85%
10-Year Treasury Yield	3.75%	3.84%
S&P 500 EPS	\$214	\$219



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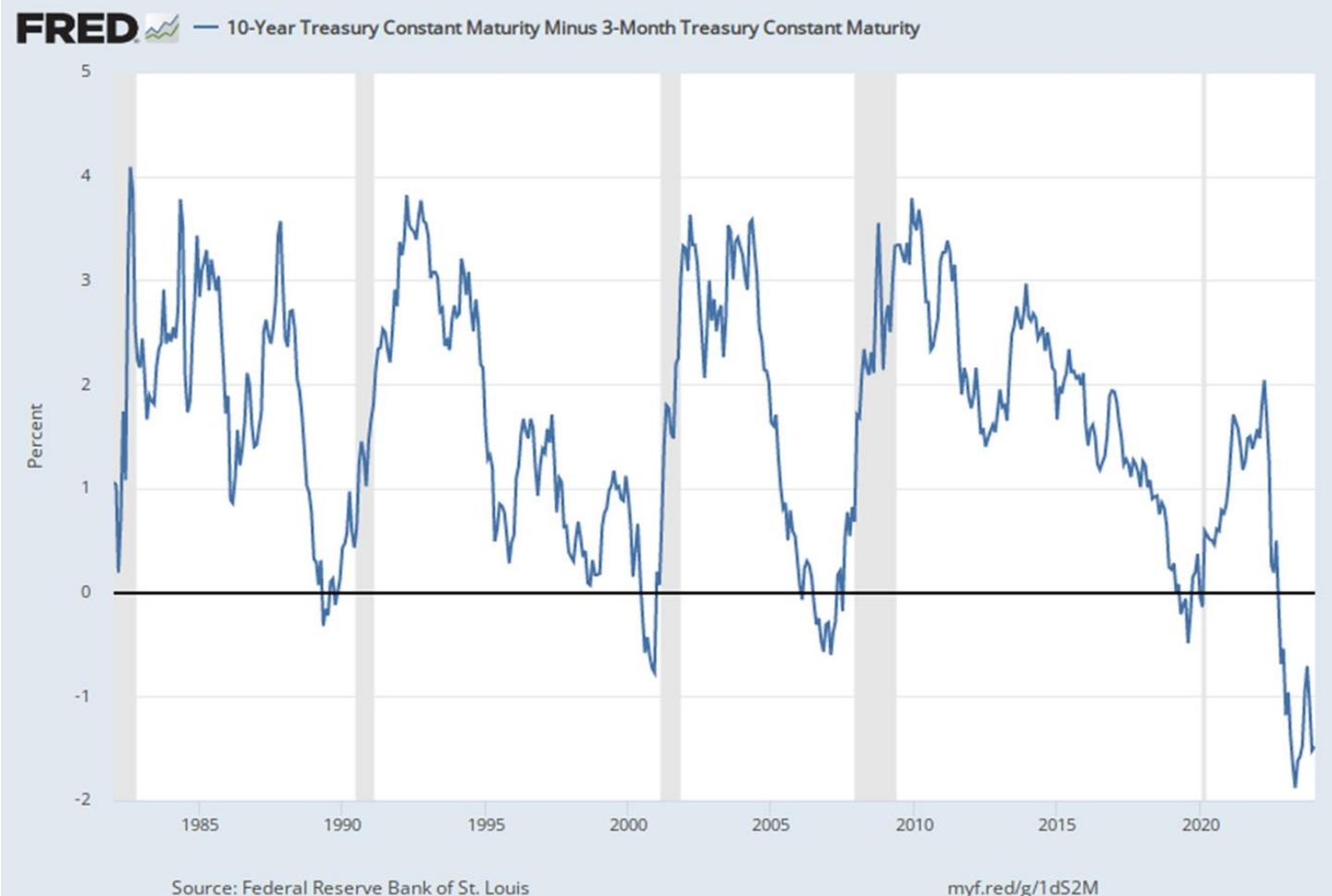
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**Current Forecast**

## Is This Time Different?

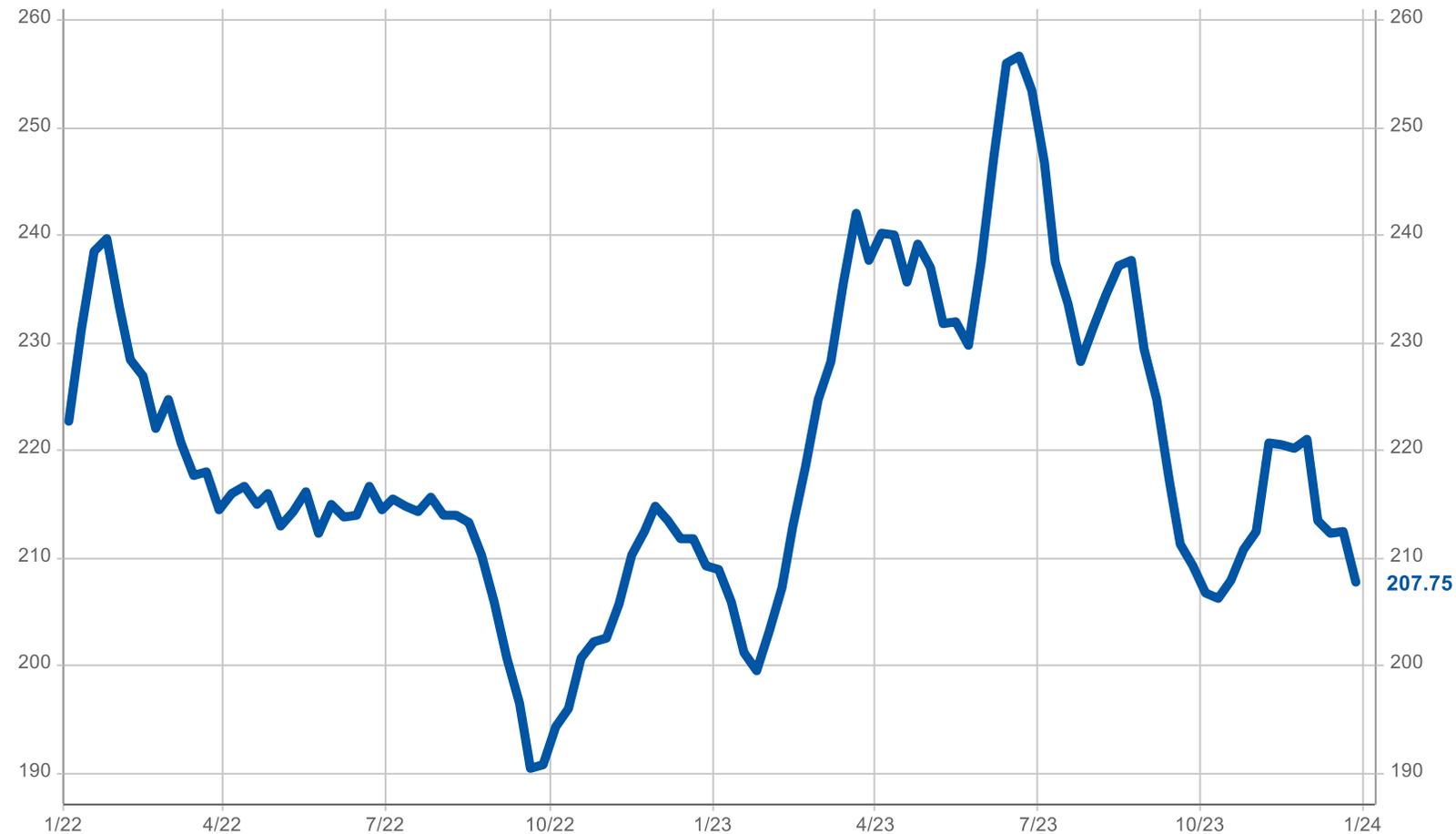
- The most dangerous phrase in investing.
- Numerous studies show that the 10Y/3M curve is the most accurate predictor.
- The curve forecasts a recession at the turn of the year.
- Money supply, leading economic indicators (LEI), and ISM manufacturing index point to a recession.
- Impact of previous hikes yet to impact.



## Employment

- Labor market weathering higher rates surprisingly well.
- Unemployment claims are historically low. 300K to 400K is normal.
- Job growth averaging 160K. It needs to fall to 100K.
- Wage growth is 4.3%. It needs to fall to 3.5%.
- Unemployment rates usually do not rise until a recession is underway.

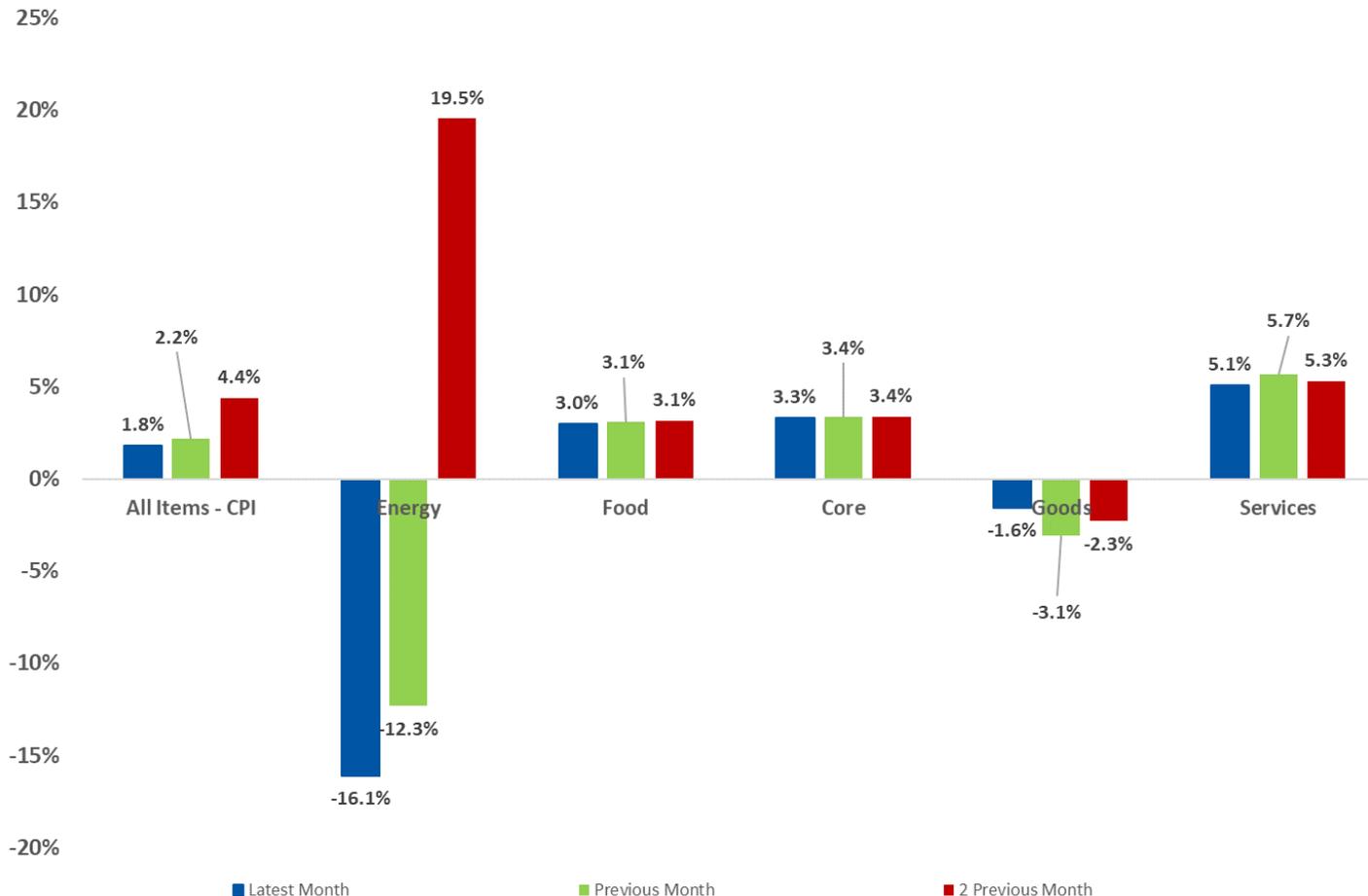
US Initial Claims for Unemployment Insurance - 4 Week Moving Avg (000's of persons)



## Inflation and Wages

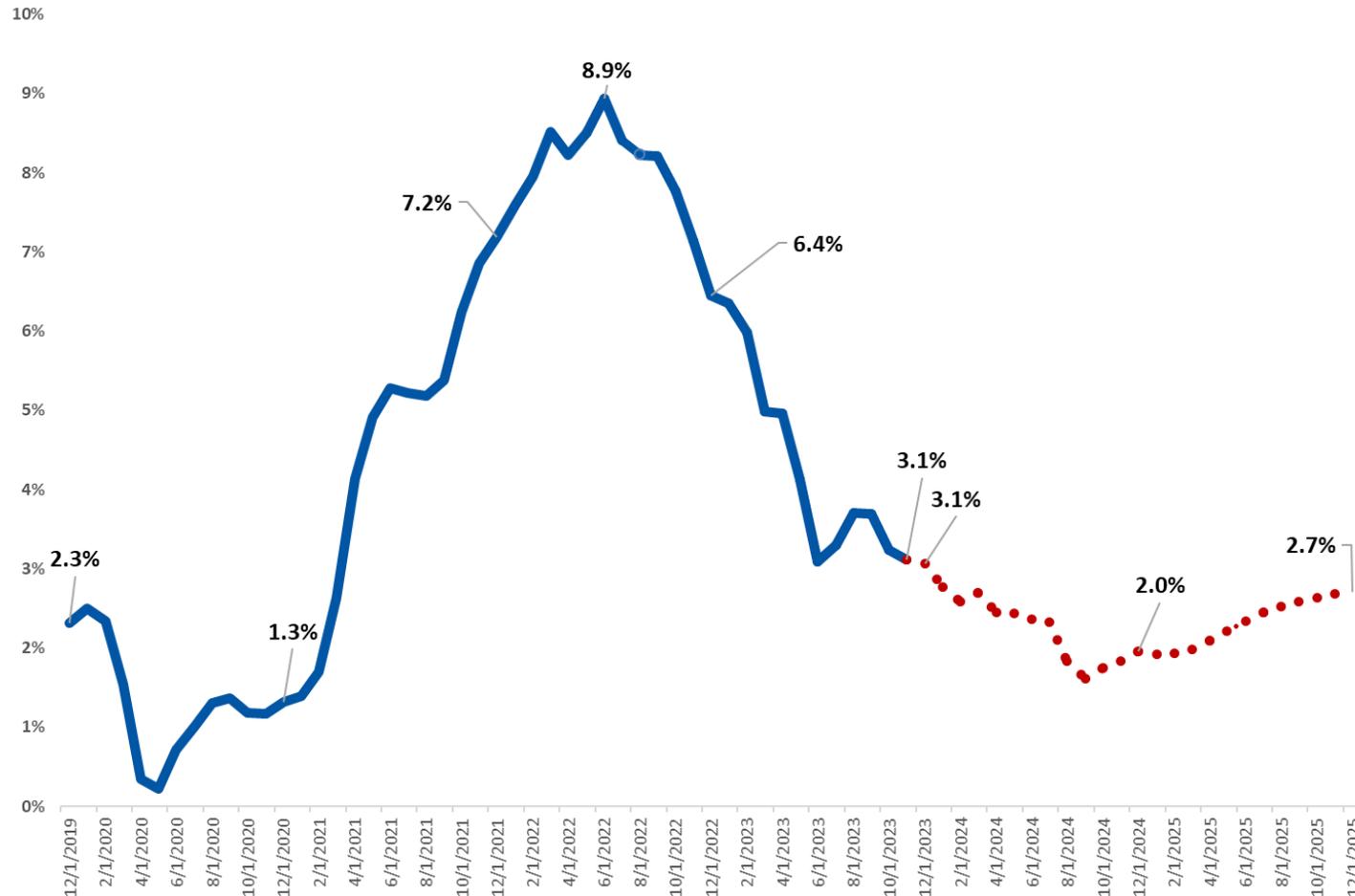
### Inflation and Wages

Trailing Three Months Annualized



- Headline inflation is running 2% to 4%.
  - Lowest since early 2021.
- Core inflation is running at about 3.5%.
- Wages are running at about 4.3%.
- Wage growth > Inflation
- Real disposable income per capita was flat over the last three months.

Trailing 12 Months %

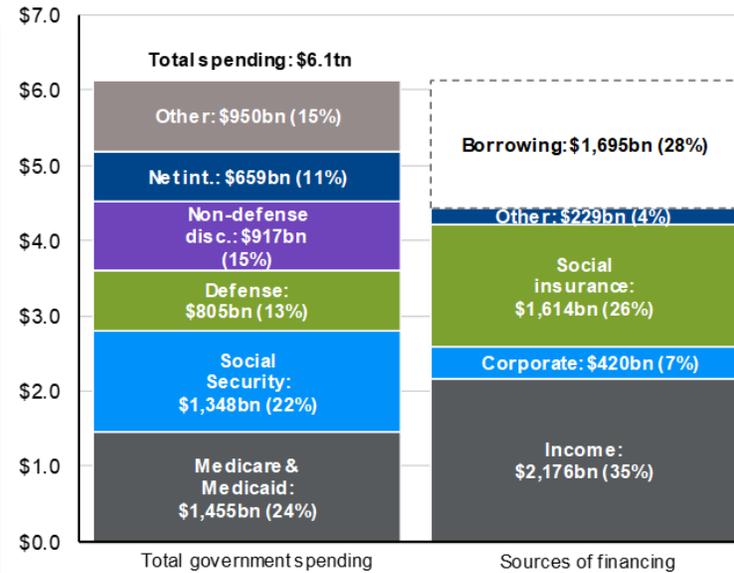


- 4Q 2023 Inflation 1.8%
- Inflation briefly falls to 1% if there is a recession.
- Long-run inflation is closer to 3% than 2% and is more volatile.
  - Decoupling from China
  - Hot and Cold Wars
  - Green Transition
  - Federal Deficit
- Federal funds rate (FFR) remains at 5.5% till mid-2024, then falls to 3.50%.

- 2023 borrowing of \$1.7 trillion.
- Long-term interest rates are rising in response to structural deficits.
- Interest expense is 11% of the budget or 15% of taxes collected, a level that sparked previous austerity measures.
- U.S. borrows 28% of spend.

### The 2023 federal budget

USD trillions

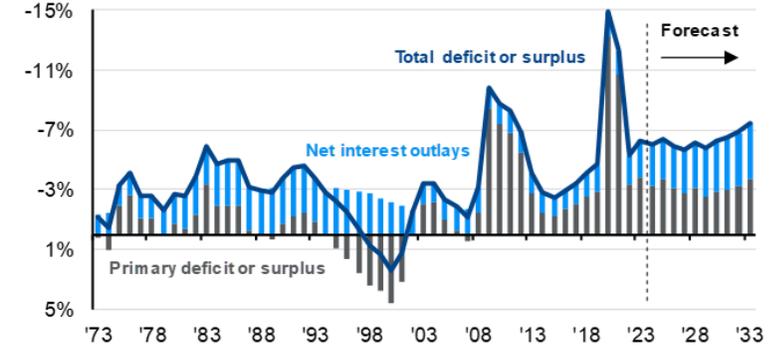


### CBO's Baseline economic assumptions

	2023	'24-'25	'26-'27	'28-'33
Real GDP growth	0.9%	2.0%	2.4%	1.9%
10-year Treasury	4.0%	3.8%	3.8%	3.8%
Headline inflation (CPI)	3.3%	2.5%	2.1%	2.2%
Unemployment	4.1%	4.6%	4.5%	4.5%

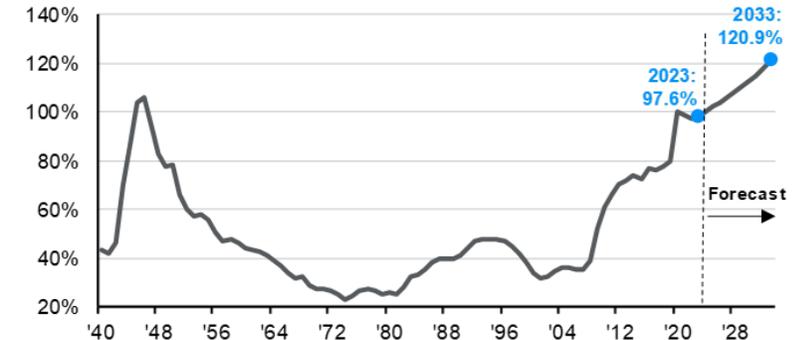
### Federal deficit and net interest outlays

% of GDP, 1973-2033, Adj. CBO Baseline Forecast\*



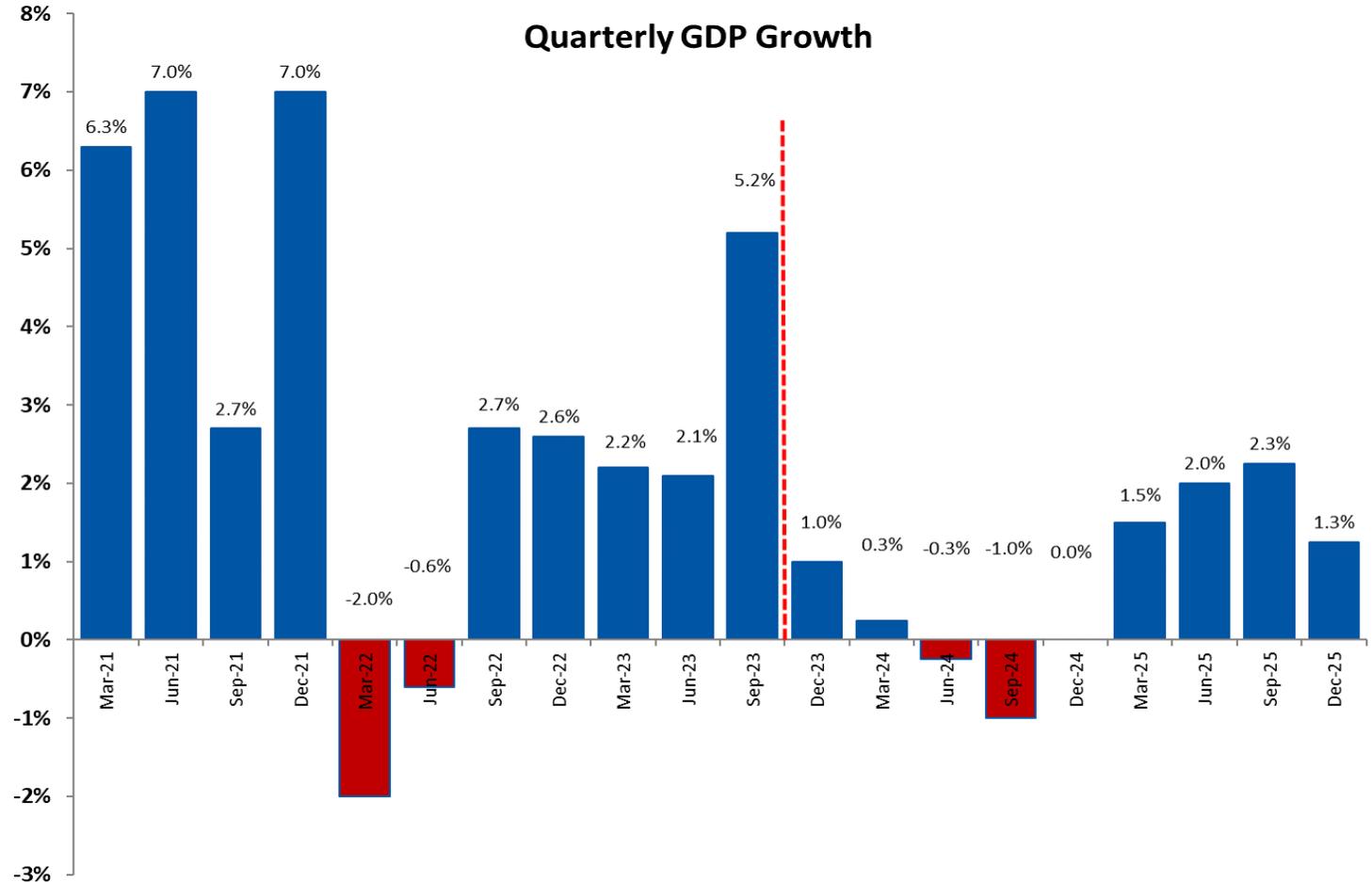
### Federal net debt (accumulated deficits)

% of GDP, 1940 – 2033, Adj. CBO Baseline Forecast\*, end of fiscal year



# Economic Growth: Quarterly GDP

- Still forecast a shallow recession for 2024.
- Housing is no longer a detractor to growth.
- The risk to our forecast is a stronger economy.
- Excess pandemic savings are spent.
- 4Q might be as high as 2.2% helped by government spending and IRA/CHIPS.



## Economic Growth

	2022	2023 est	2024 Est	2025 Est
GDP Growth	0.7%	2.6%	-0.3%	1.7%
Change in Consumer Prices	6.4%	3.1%	2.0%	2.7%
Fed Funds Target Rate	4.50%	5.50%	4.50%	3.50%
5-Year Treasury Yield	4.00%	3.85%	4.50%	4.25%
10-Year Treasury Yield	3.87%	3.84%	4.50%	4.75%
S&P 500 EPS	\$216	\$219	\$227	\$242

- We expect a shallow recession this year.
- FRB will cut rates starting in July.
- Earnings growth for the S&P 500 will be modest.

If we are wrong, growth stronger -  
> higher rates.

Political pressure to cut.



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**Financial Markets**



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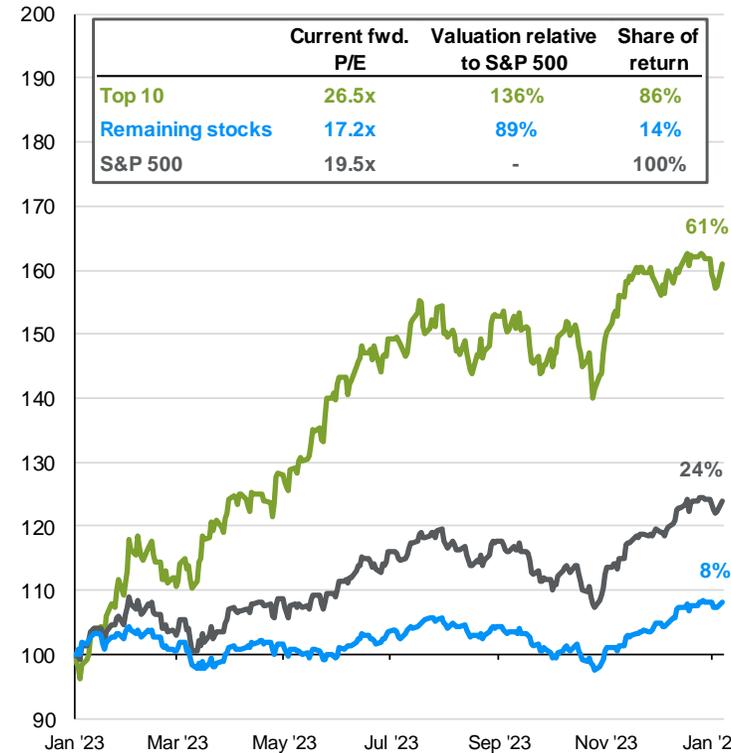
# Concentrated Market

- 2023 performance was heavily influenced by the 10 largest companies in the S&P 500.
- The top 10 companies accounted for 86% of the total return of the S&P 500 last year.
- The 10 largest firms account for 32% of the total market capitalization of the S&P 500 (the highest level in more than 40 years).

### Performance of the top 10 stocks in the S&P 500

Indexed to 100 on 1/1/2023, price return, top 10 held constant

	Current fwd. P/E	Valuation relative to S&P 500	Share of return
Top 10	26.5x	136%	86%
Remaining stocks	17.2x	89%	14%
S&P 500	19.5x	-	100%



### Weight of the top 10 stocks in the S&P 500

% of market capitalization of the S&P 500



### Earnings contribution of the top 10 in the S&P 500

Based on last 12 months' earnings



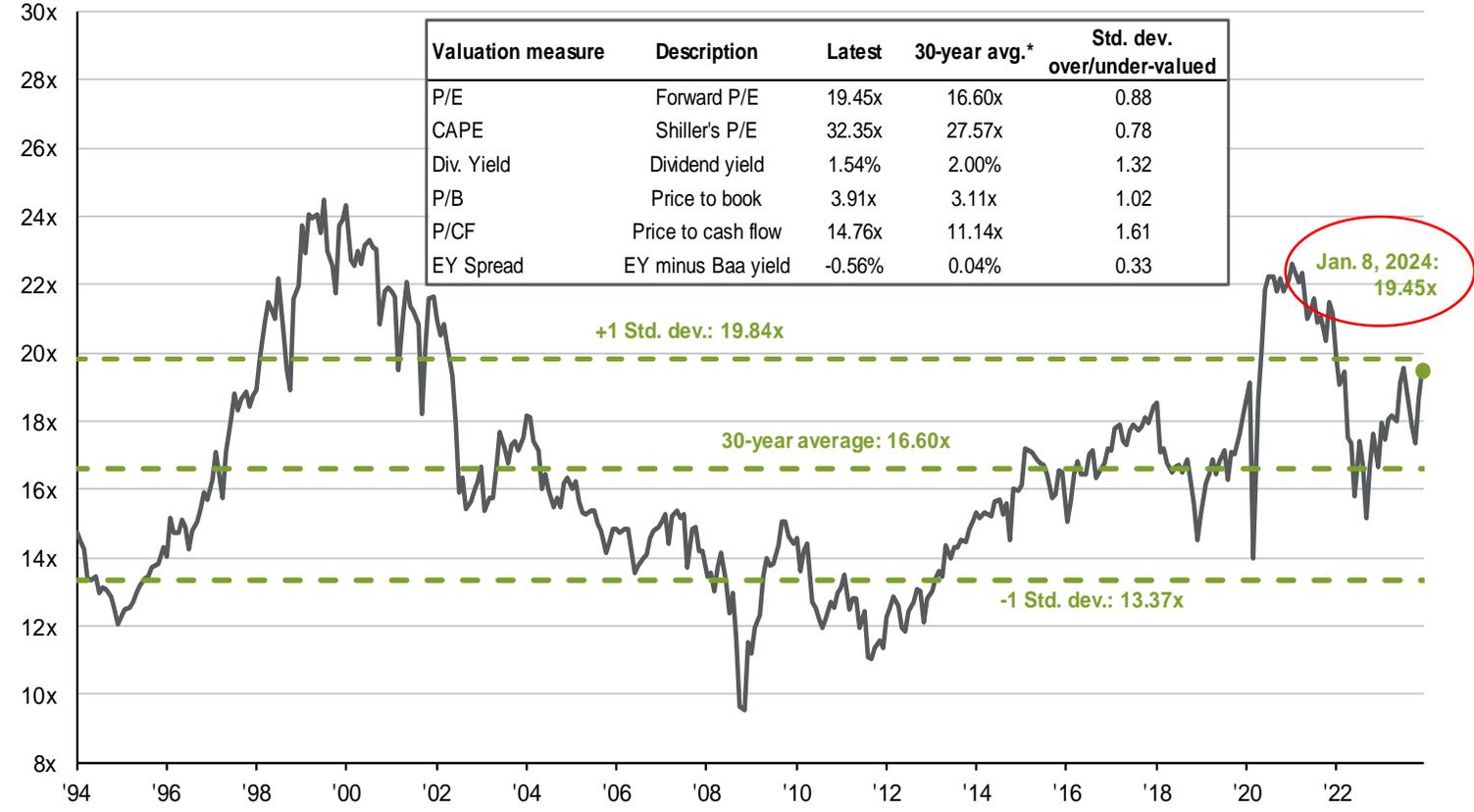


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# Valuation Insights

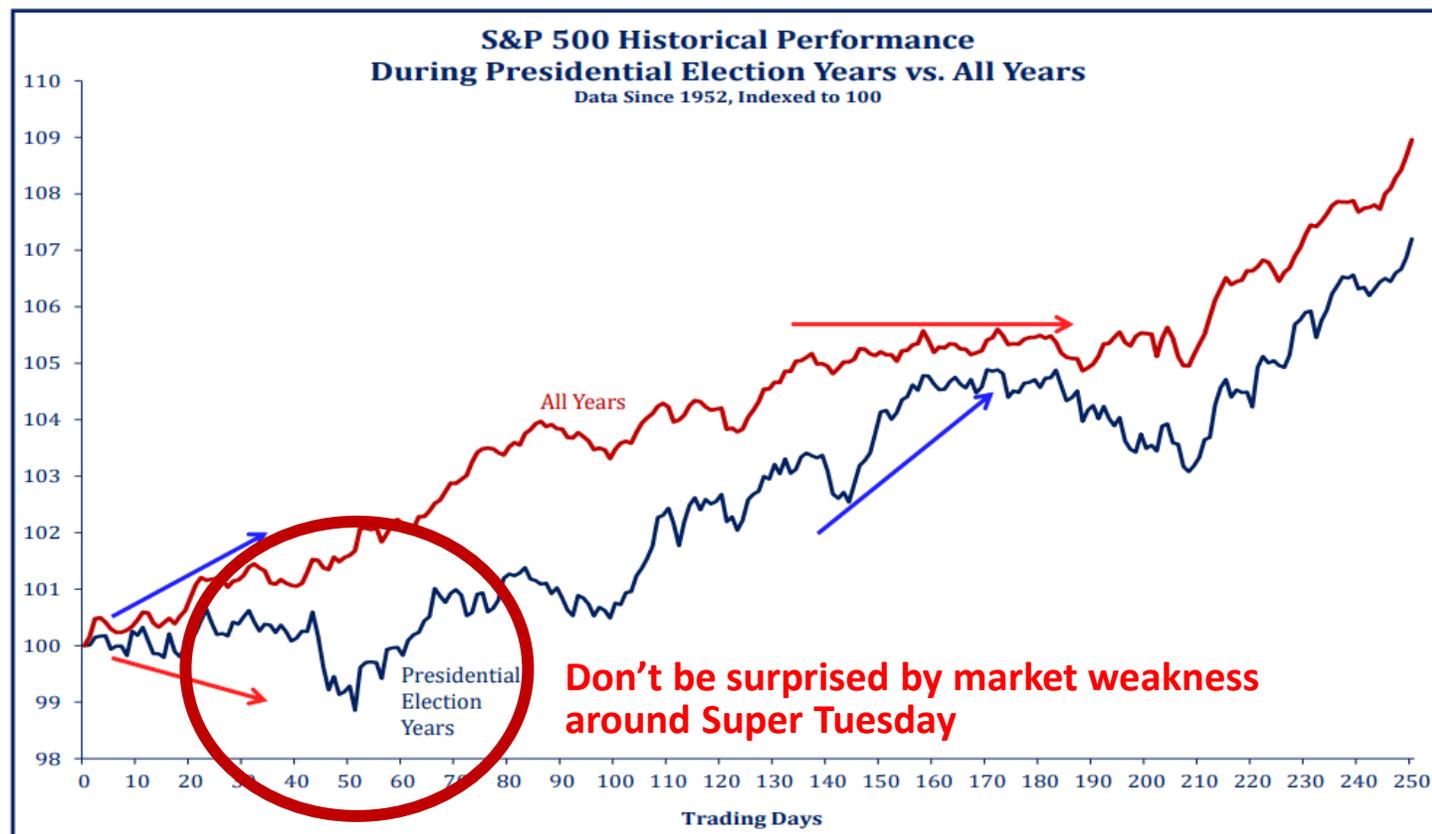
- The S&P 500 Index is trading at approximately 19.5x earnings.
- During the past 30 years, the S&P 500 Index has traded at an average P/E ratio of 16.6x, thereby suggesting stocks remain expensive relative to historical levels.
- Ten largest stocks trade at 27x earnings.

### S&P 500 Index: Forward P/E ratio



## Presidential Election Set To Add Volatility to 2024 Market Landscape

- 2024 marks a year in which important elections will take place in the U.S. and other parts of the world.
- 40 countries representing 41% of the world's population and nearly 80% of the global stock market capitalization will host elections during 2024.
- The first several months of an election year have historically proven to be weak, but markets tend to regain their footing during the second half of the year as investors gain better insight into the election results.



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A winter landscape photograph showing a snow-covered road winding through a forest of snow-laden evergreen and deciduous trees under a cloudy sky.

# SNB Portfolio Management

- Fixed income remains attractive.
- Lengthened duration in past several months via higher allocation to investment grade bonds.
- Money market yields are attractive, but likely to move lower by end of 2024 with Fed rate cuts.
- SNB remains underweight international equities.
- Increased allocation to large-cap stocks in latest year with several new purchases.

Balanced toward Growth	July 2023	January 2024	Neutral
<b>Fixed Income</b>			
Short Term	8%	6%	5%
High (Investment) Grade	26%	27%	21%
High Yield	1%	1%	5%
Inflation Protection	3%	3%	0%
Alternative	2%	3%	0%
International	0%	0%	4%
<b>Equities</b>			
Large	40%	42%	37%
Small and Mid	6%	6%	3%
International	7%	7%	20%
Alternatives	5%	5%	5%
<b>Cash</b>	2%	0%	0%
<b>Total</b>	100%	100%	100%



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## Managing the Nuances of a Concentrated Investing Landscape

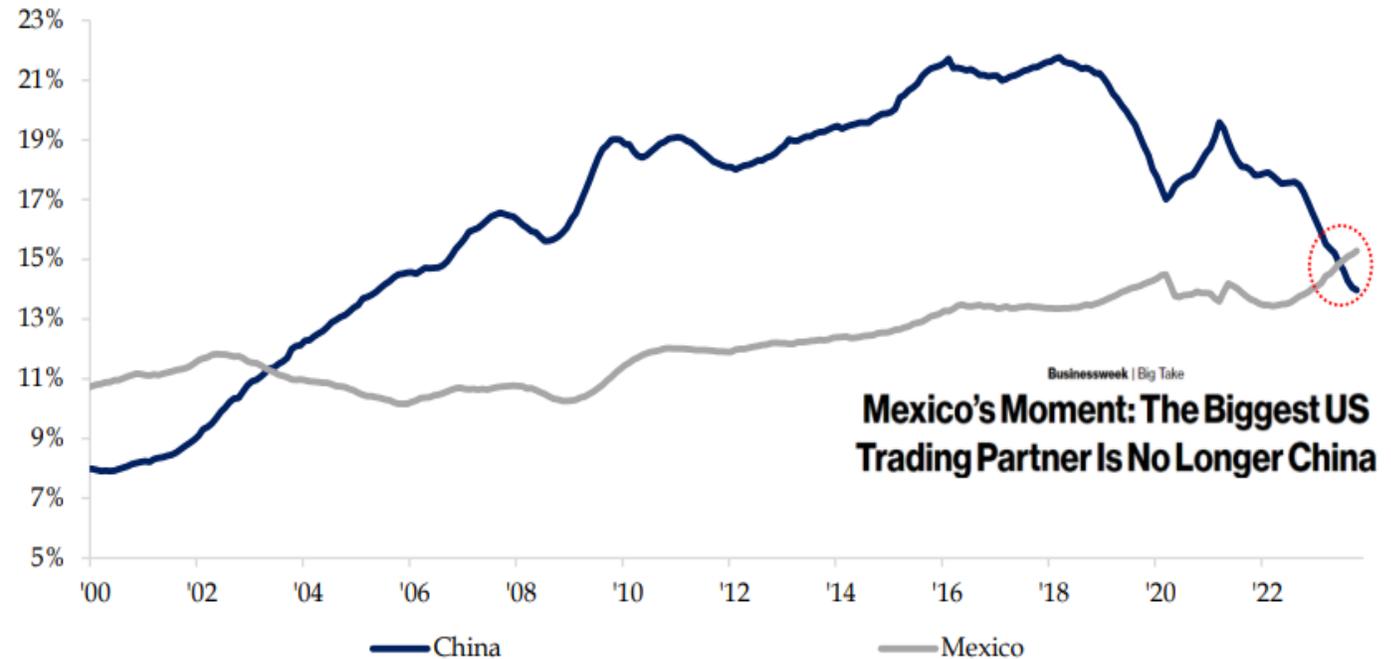
- The investment team at SNB continues to assist clients in dealing with the unique portfolio management issues stemming from the concentrated nature of the stock market, including:

- Portfolio concentration
- Managing capital gain taxes
- Gifting and charitable donations



- Since the emergence of the pandemic in 2020, global trading patterns and relationships have undergone meaningful changes relative to history.
- SNB made changes to international funds this past year, reducing exposure to China due to ongoing geopolitical threats and economic challenges for the country.
- Our equity exposure to China is just one fourth of a percent, versus 4% for the benchmark.

### US Top Import Origin Countries, % Total US Goods Imports (12 Month Rolling)



Source: Strategas, Census Bureau

**Mexico's Moment: The Biggest US Trading Partner Is No Longer China**

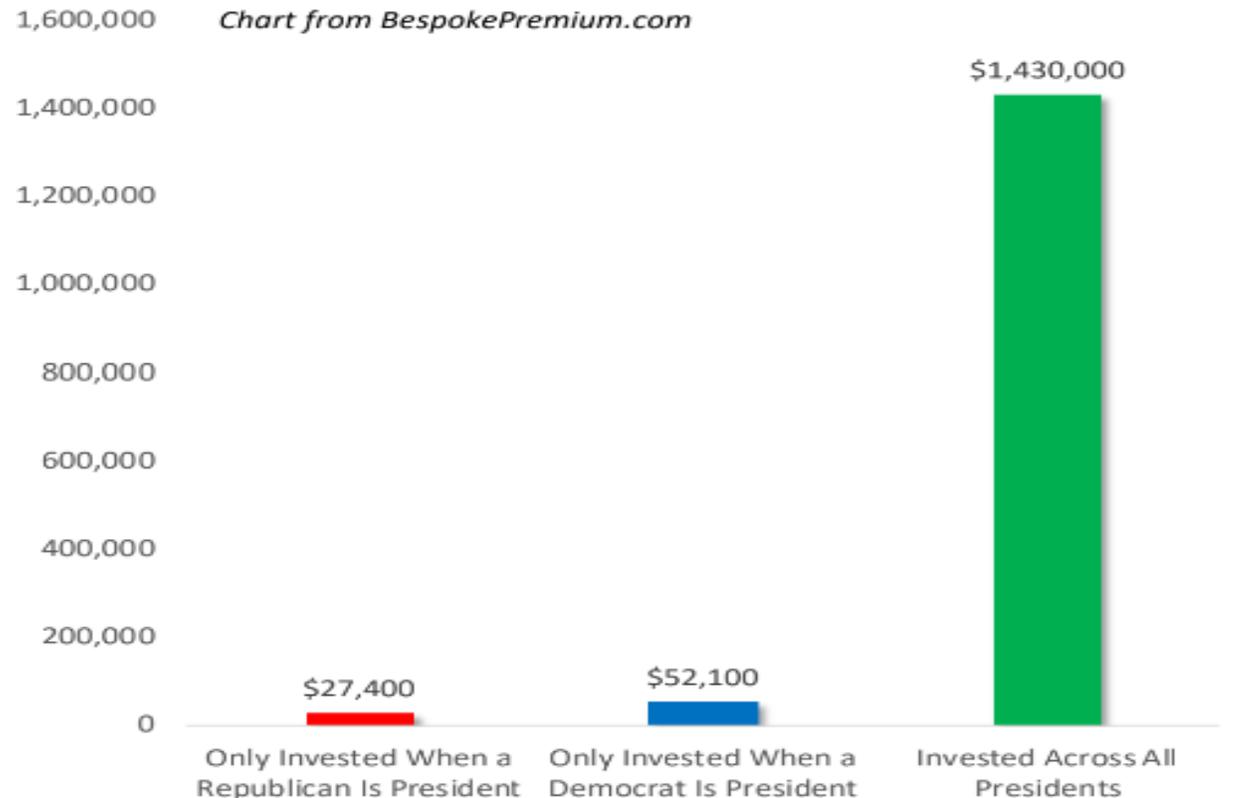
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## The Importance of Maintaining a Long-Term Perspective in Investing

- Letting political beliefs get in the way of “Buy and Hold” has been extremely costly to investors.
- Going back 70 years, \$1,000 invested in the US stock market only when a Republican is President would be worth \$27,400 today.
- \$1,000 invested only when a Democrat is President would be worth \$52,100.
- But that \$1,000 would be worth \$1.43 million today for those who put politics aside and stayed invested regardless of who’s in charge in Washington DC.

### \$1,000 Invested in S&P 500 Since Eisenhower Inaugurated in 1953



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Questions?

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