

SECURITY NATIONAL BANK

WEALTH MANAGEMENT

2023 Economic Outlook

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



Thank you for attending
both in person and via our
Zoomcast



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- **Are Not a Deposit**
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- **May Go Down in Value**

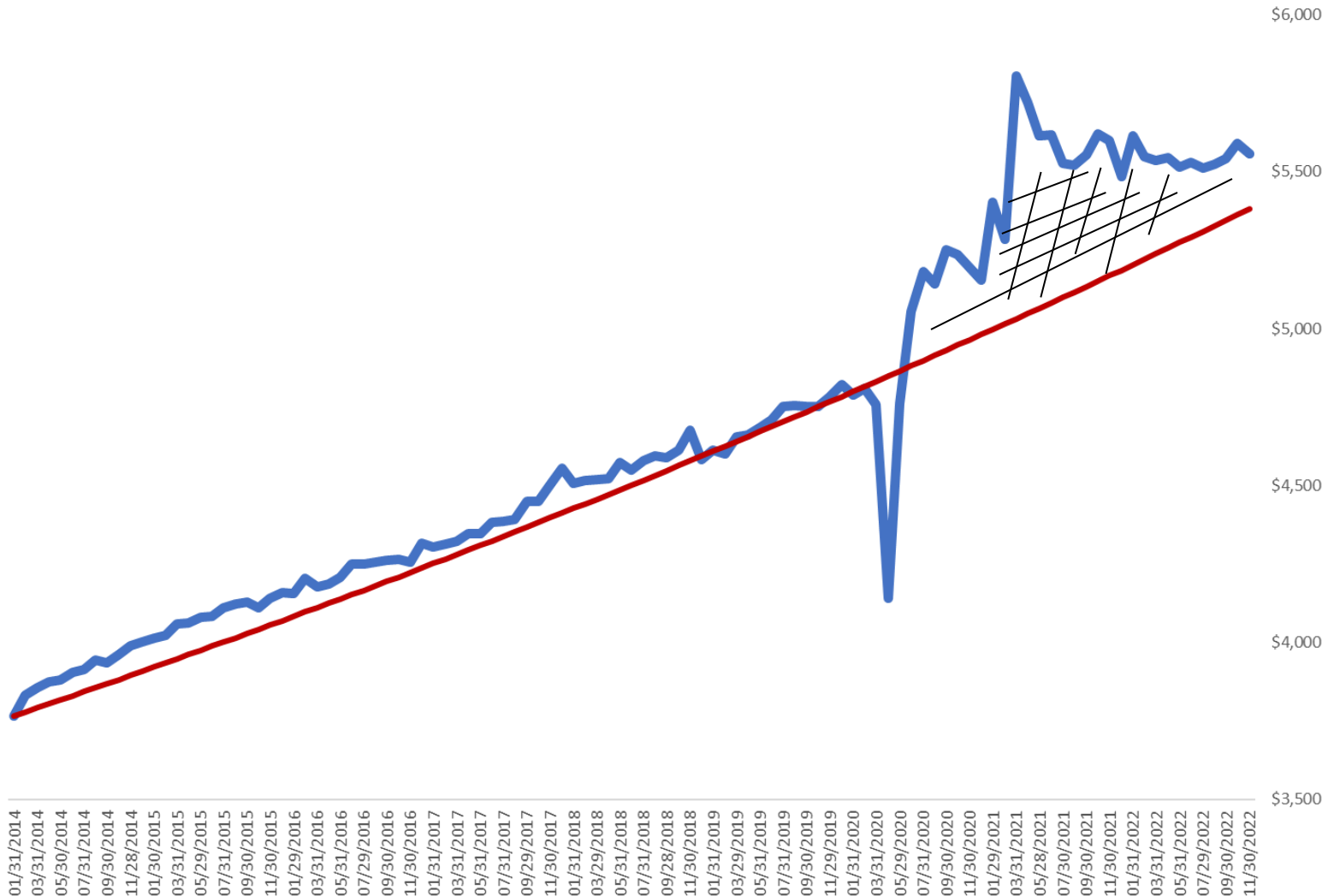


This report reflects the current opinion of the authors and is subject to change without further notice. There can be no assurance that any of the projections cited will occur.



Consumption

Real Goods Purchases



Consumption of goods generally grew at a 4% rate.

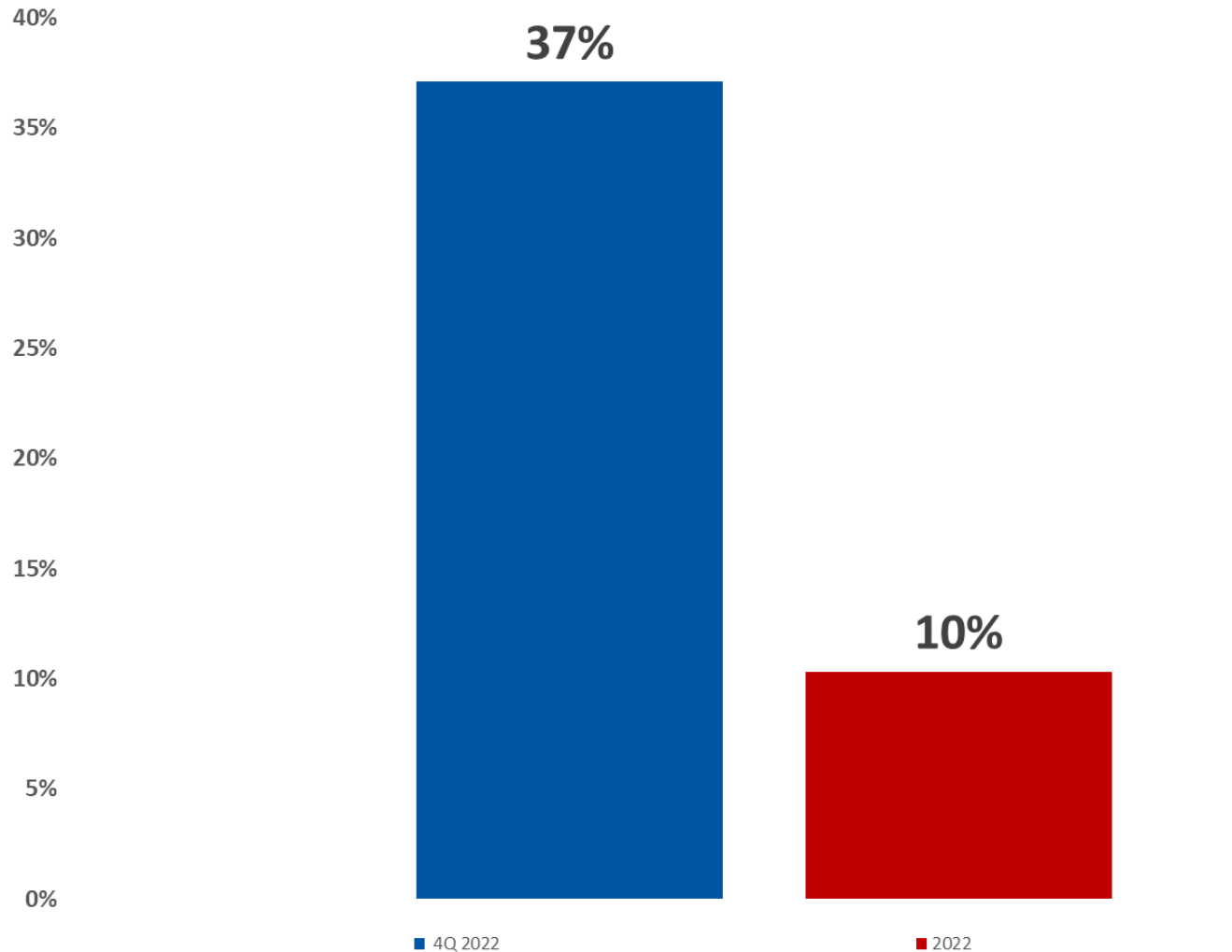
Good consumption is still too high.

Goods consumption can fall a further 3%

Significant pull thru may mean consumption falls below trend.

Employment

% of New Jobs That Go to Multiple Jobholders



Over the last three months, 37% of new jobs were taken by multiple jobholders.

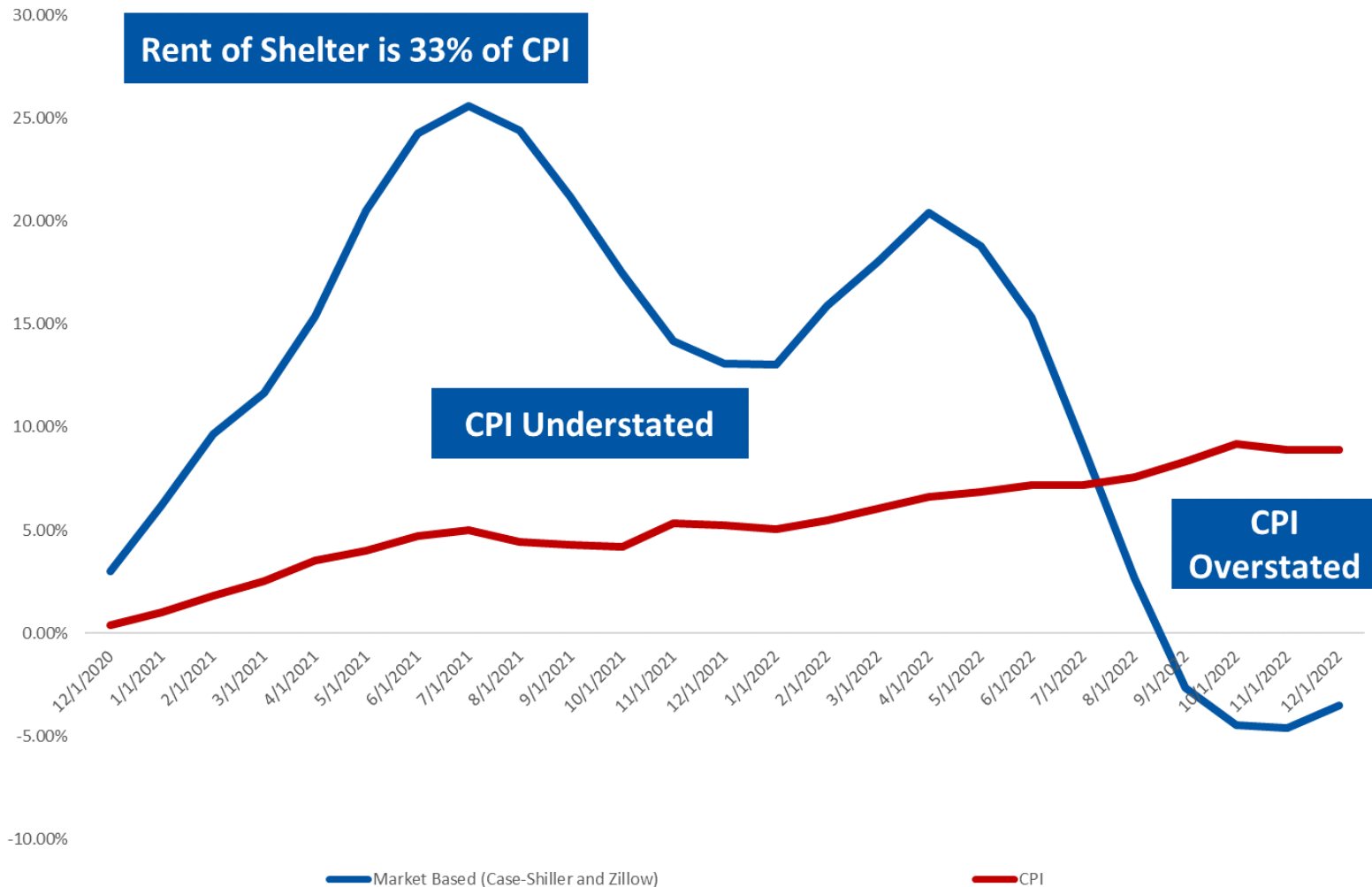
Households are stressed into taking multiple jobs to meet basic household expenses.

Labor availability is less than it seems.

Inflation

Market Rent of Shelter vs CPI Measure

Trailing Three Month Annualized

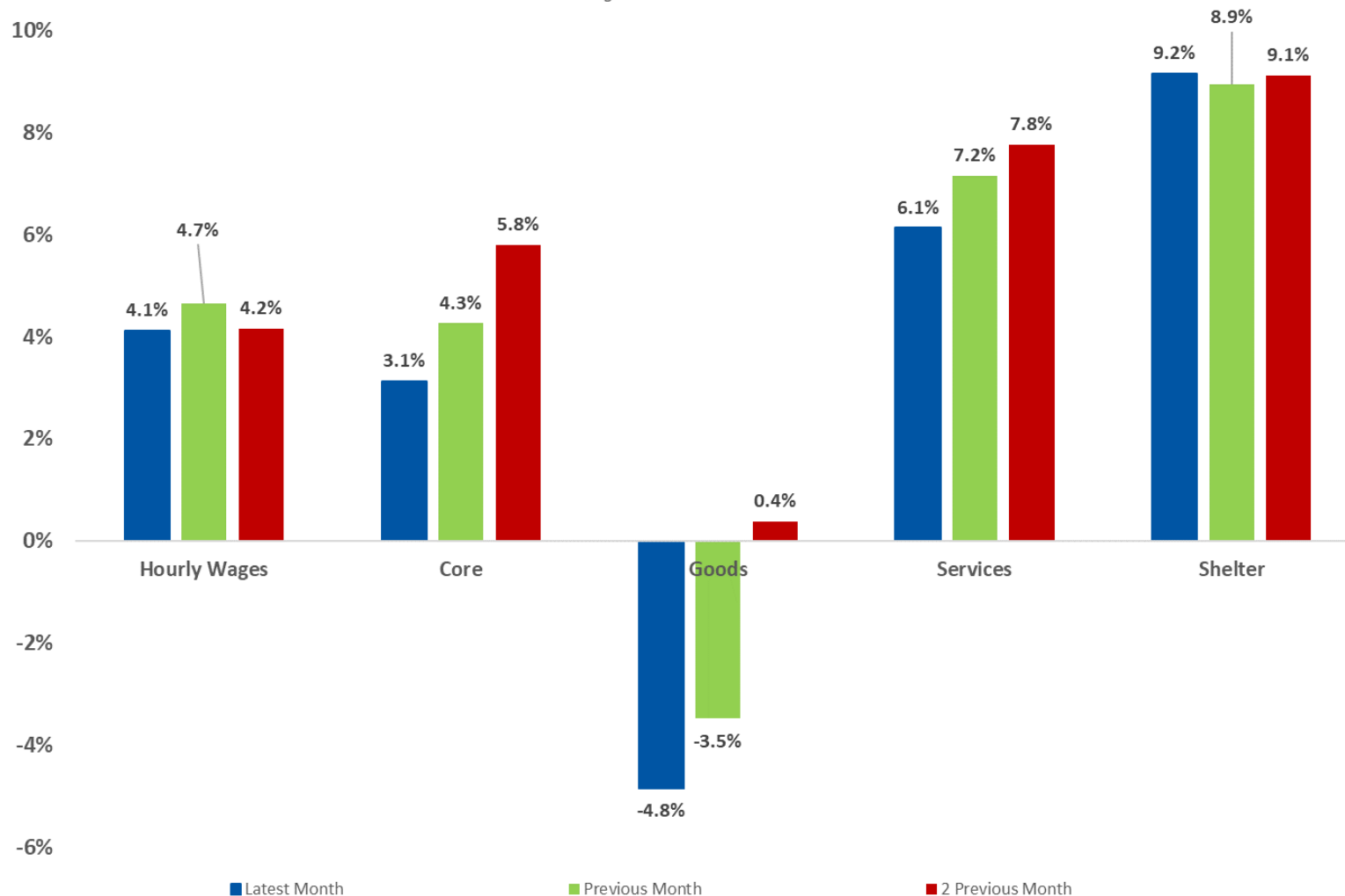


Lags in measurement understated inflation by 5% to 6% summer of 2021 and overstate inflation by 4% now.

Inflation

Inflation and Wages

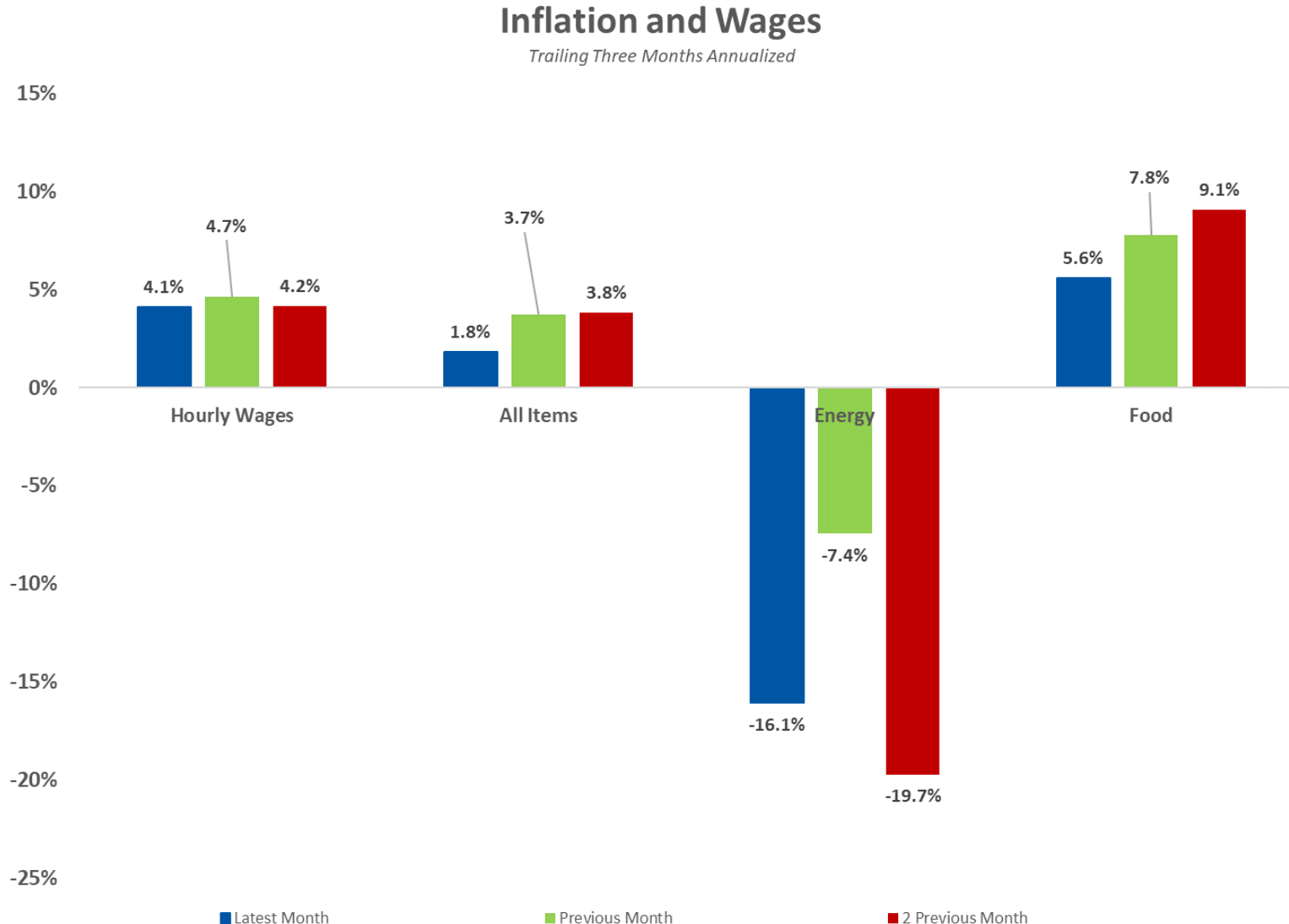
Trailing Three Months Annualized



Shelter inflation overstated by lag in reporting. Shelter is 41% of the core and 33% of the headline CPI.

Goods inflation is likely to continue.

Inflation

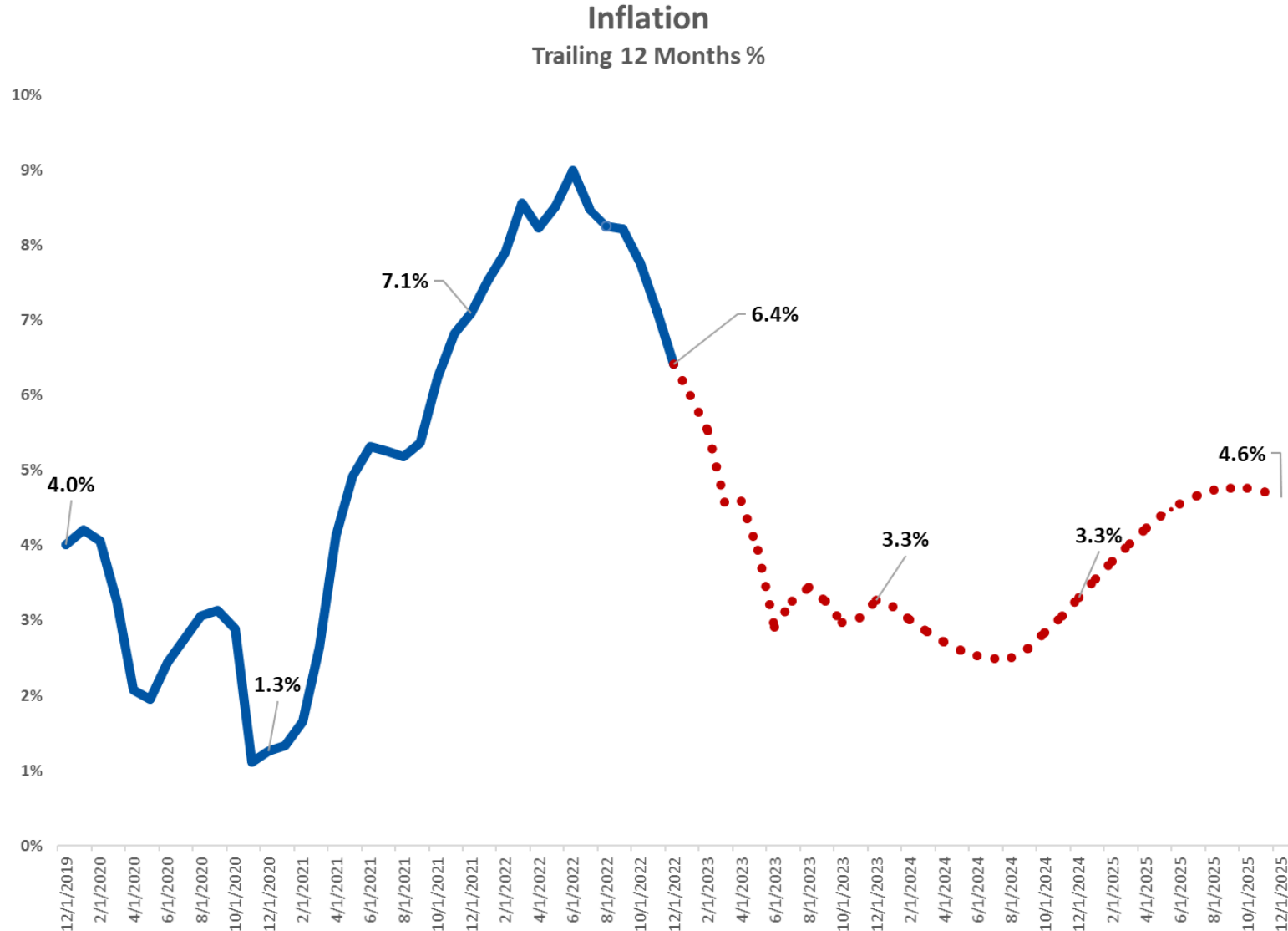


Energy prices have fallen from highs on fears of global recession, warm weather in Europe, and China's lockdown.

Energy may weaken further in a recession.

Wages growing faster than inflation.

Inflation



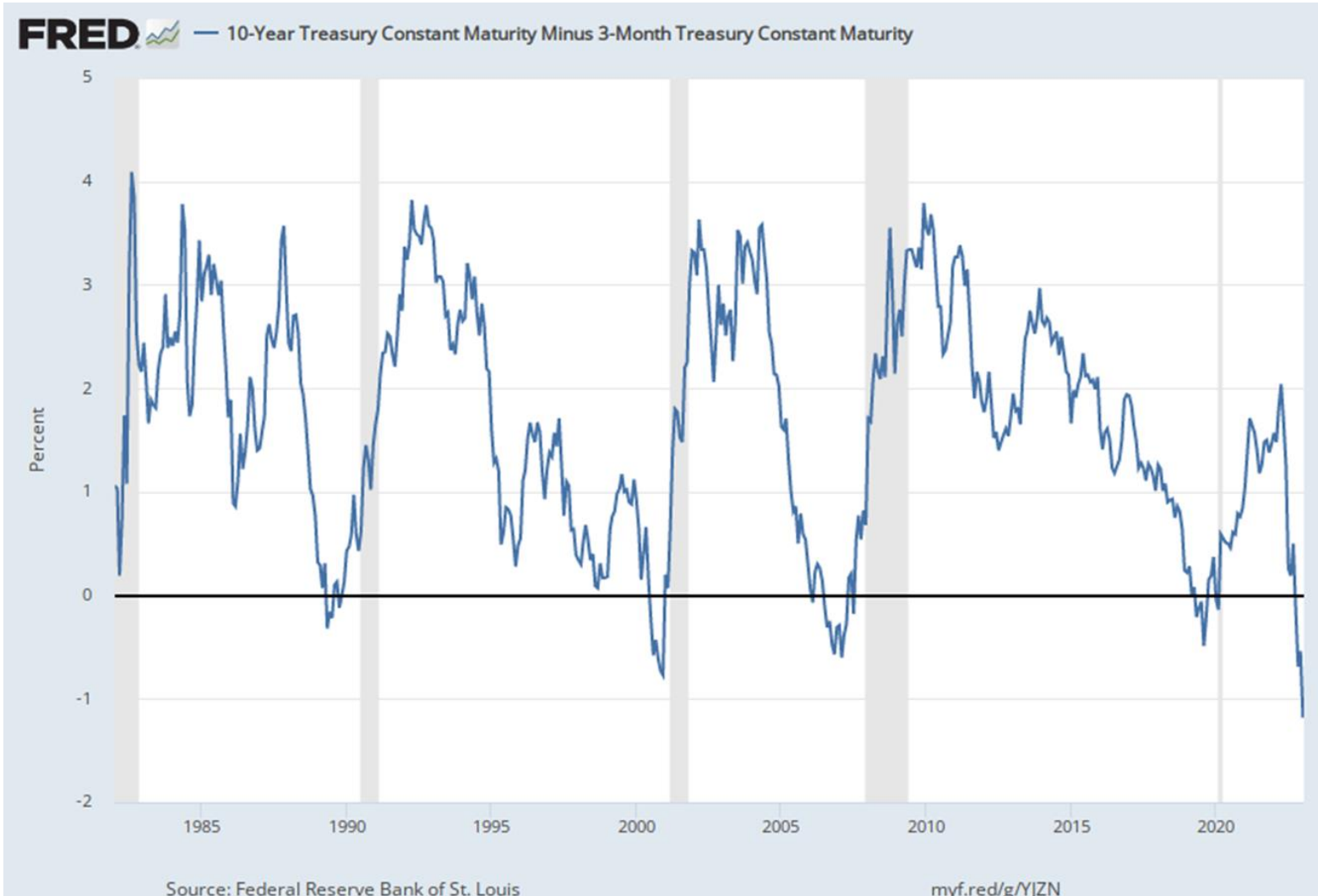
4Q2022 average 1.8%

Pending recession to
reduce inflation to below
2%.

Inflation will be volatile over
the next decade.

Nebraska's inflation is
substantially lower than
national inflation.

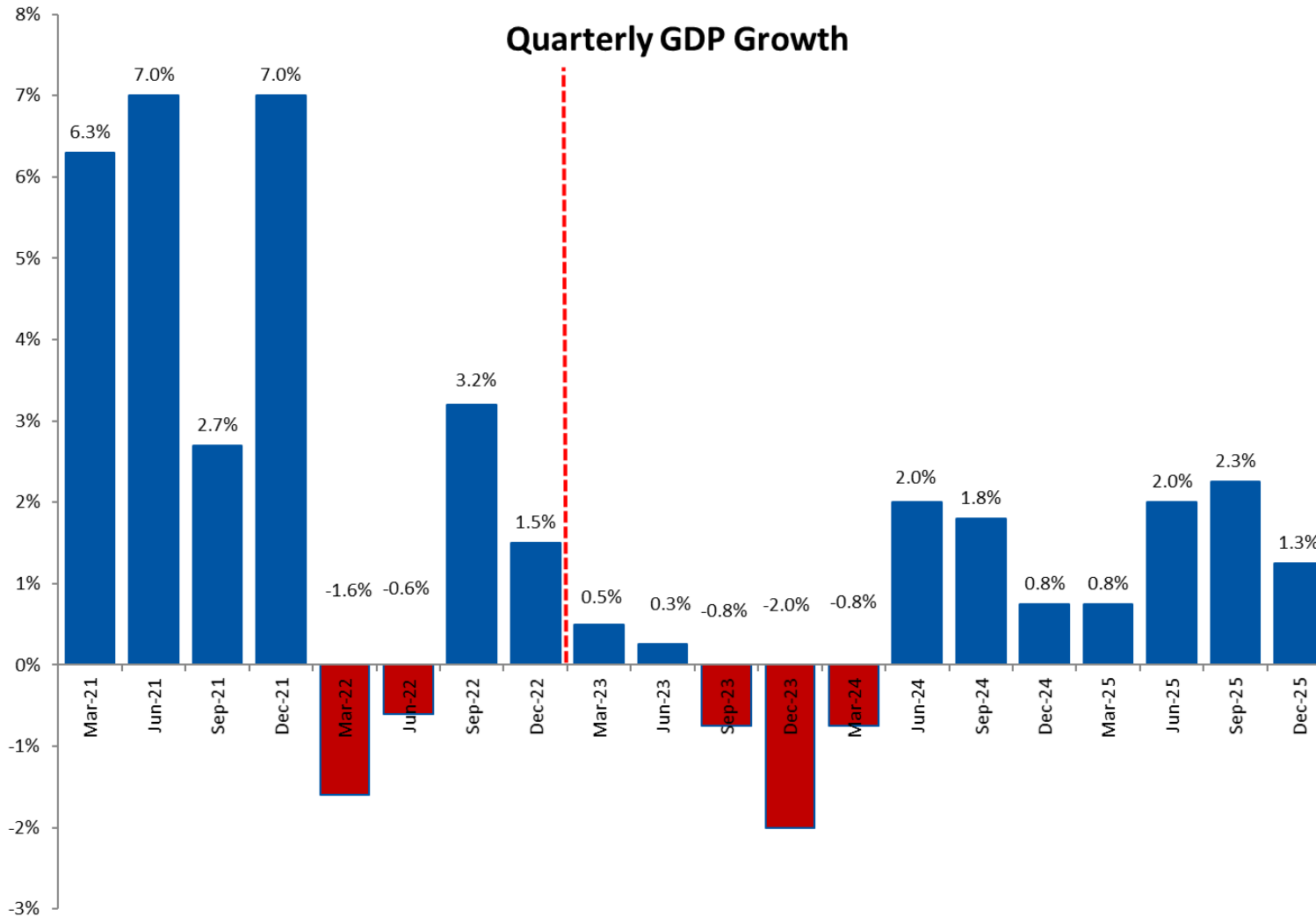
Warning Signs



There are multiple warning signs of a coming recession.

- Yield Curve
- ISM Service
- Shorter Workweek
- Housing
- Leading Indicators
- Money Supply Growth

Economic Growth



1Q & 2Q negative due to trade and inventory -> reversed in 3Q

4Q growth may have been as high as 3% as the core strengthened.

Households earning less than \$50K are in recession-like conditions and will remain there for another year.

Recession later this year.

Economic Outlook

	2021	2022 Est	2023 est	2024 Est
GDP Growth	5.5%	0.6%	-0.5%	0.9%
Change in Consumer Prices	7.1%	6.4%	3.3%	3.3%
Fed Funds Target Rate	0.25%	4.50%	5.00%	3.75%
5-Year Treasury Yield	1.26%	4.00%	3.75%	4.13%
10-Year Treasury Yield	1.51%	3.87%	3.50%	4.50%
S&P 500 EPS	\$206	\$217	\$203	\$232

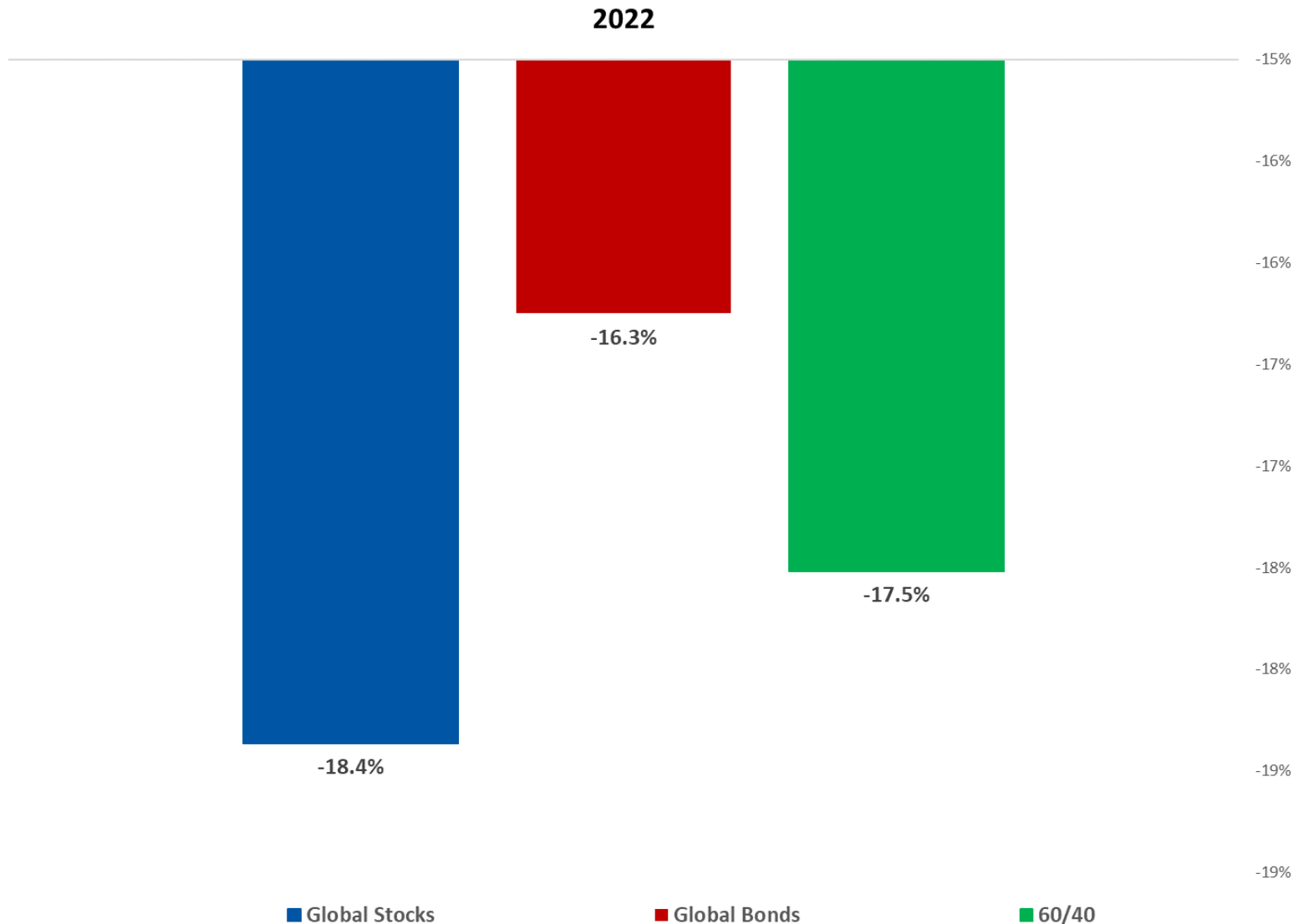
We expect the global economy will fall into a recession by mid-year.

We expect the FOMC will raise rates by 0.25% in February 2023 and March. The FFR will likely stay at 5.00% for all of 2023.

High chance the FRB will drop rates in 4Q2023.

We expect inflation will fall below the FRB's 2% target as the U.S. enters a recession.

Investment Returns



Interest rates are up globally.

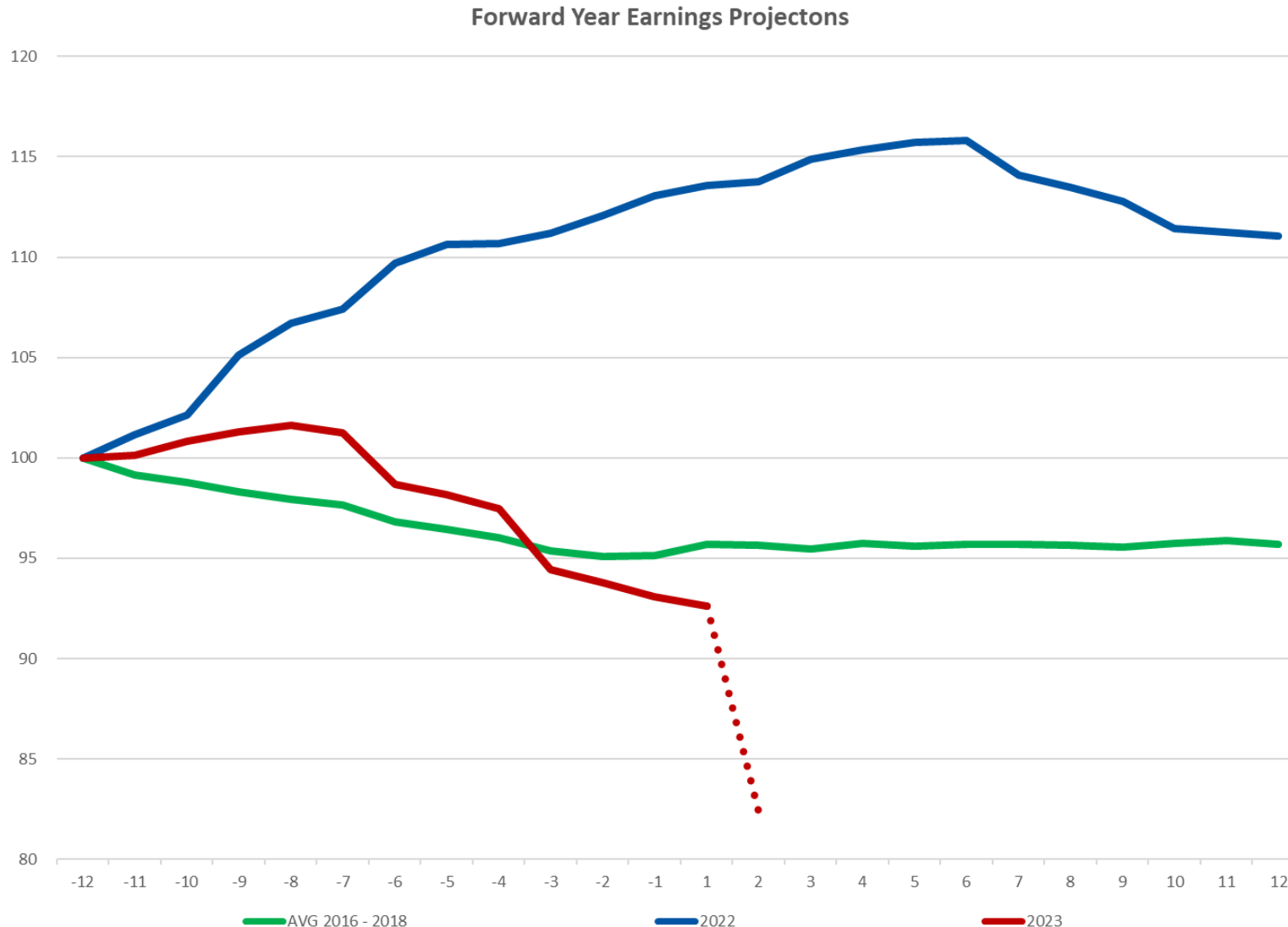
3-Month T-Bill rose from 0.05% to 4.41%.

Mortgage rates doubled.

60/40 portfolio has not worked.

Value outperformed growth by 23%.

2023 Earnings Expectations Need to Reset



Consensus expectations remain too high at \$228.

Our expectation is \$203.

It should reset over the next month.

$228 \times 18 \Rightarrow 4,100$

$203 \times 16 \Rightarrow 3,200$

SNB Adjustments

Balanced toward Growth	January 2021	January 2022	Neutral
Fixed Income			
Short Term	3%	7%	5%
High (Investment) Grade	29%	25%	21%
High Yield	2%	4%	5%
Inflation Protection	0%	2%	0%
Alternative	3%	2%	0%
International	0%	0%	4%
Equities			
Large	45%	40%	30%
Extended	8%	6%	10%
International	7%	7%	20%
Alternative	3%	5%	5%
Cash	0%	2%	0%
Total	100%	100%	100%

Fixed Income is now attractive.

Shortened duration but this will change.

SNB reduced U.S. stock exposure.

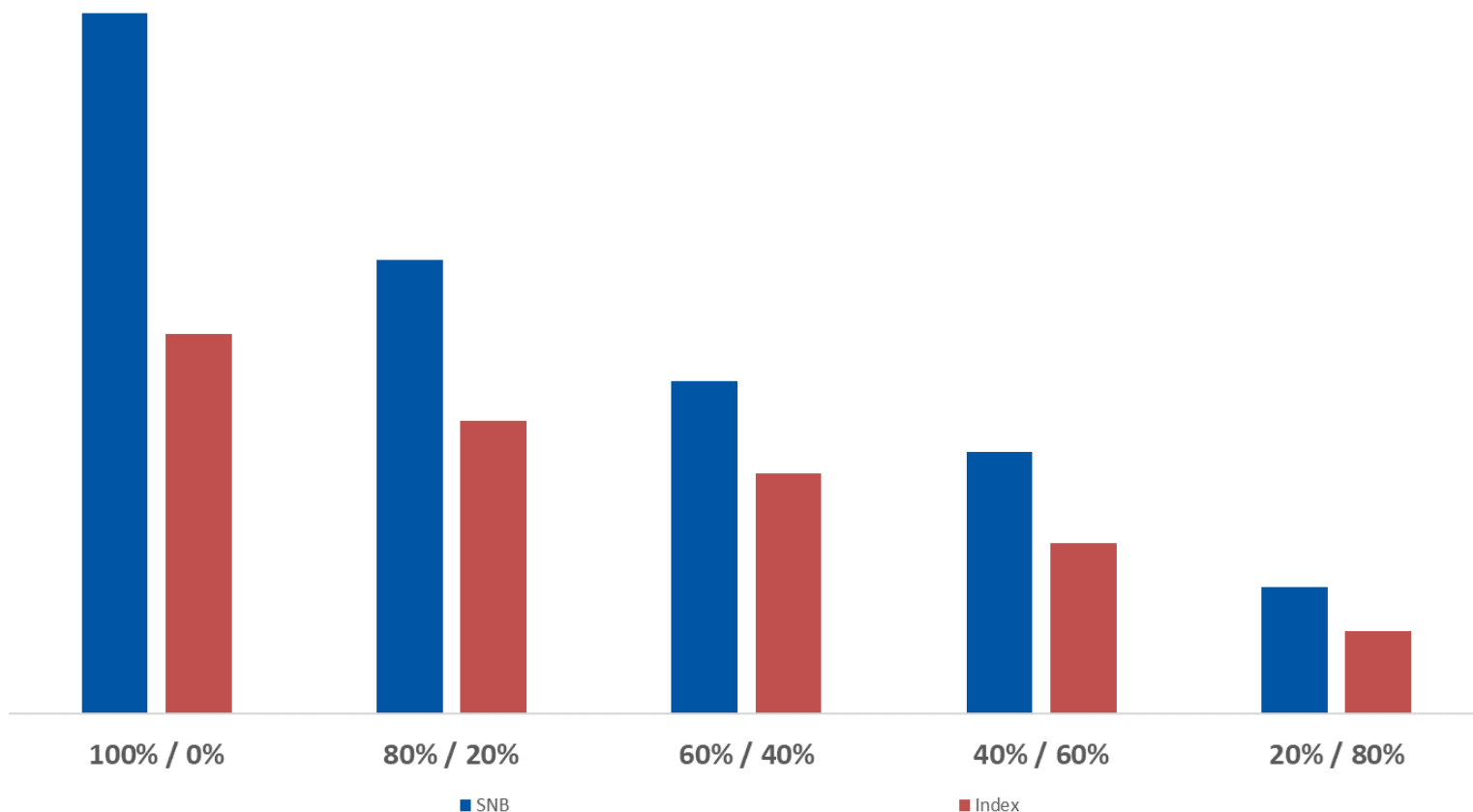
Remain underweight international stocks.

Alternatives are focused on inflation protection.

Longer-Term Portfolio Returns

SNB Wealth Management Returns Compared to Index

5 Years ending December 31, 2022



Despite tough 2022, SNB's long-term returns have been outstanding.

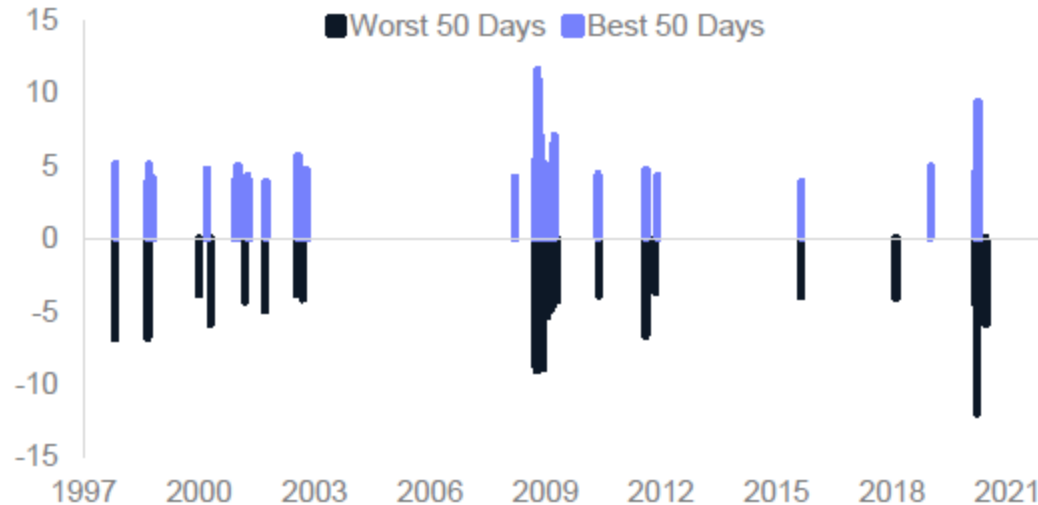
SNB has a GARP/Quality focus.

The 23% Value/Growth differential was too large to overcome.

Why Not All Cash

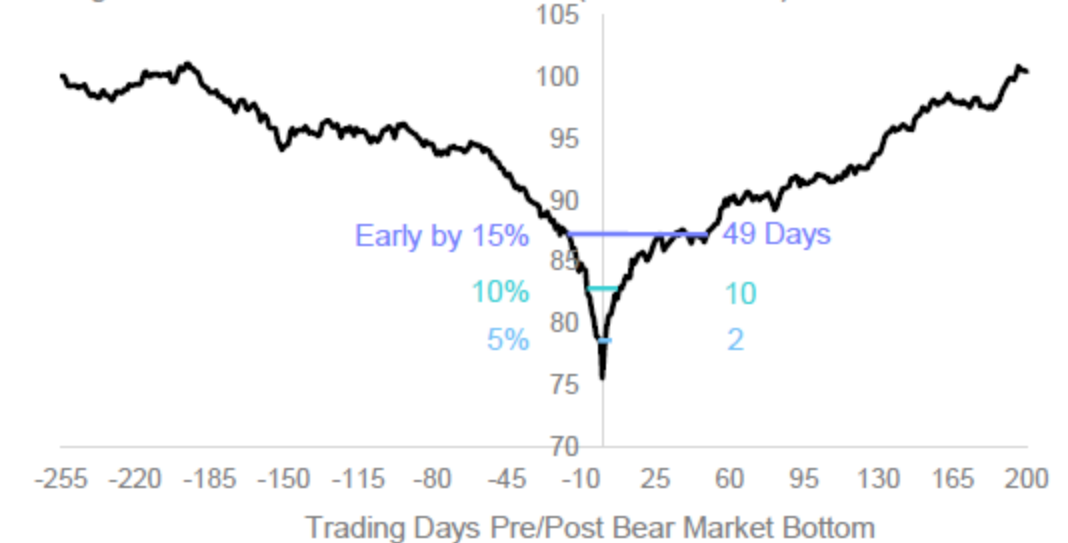
VOLATILITY CLUSTERS ARE TWO-TAILED

Largest Daily Total Returns for the S&P 500 from 1997 – 2021 (%)



COST OF BEING EARLY

Average S&P 500 Bear Market Performance (Growth of \$100)

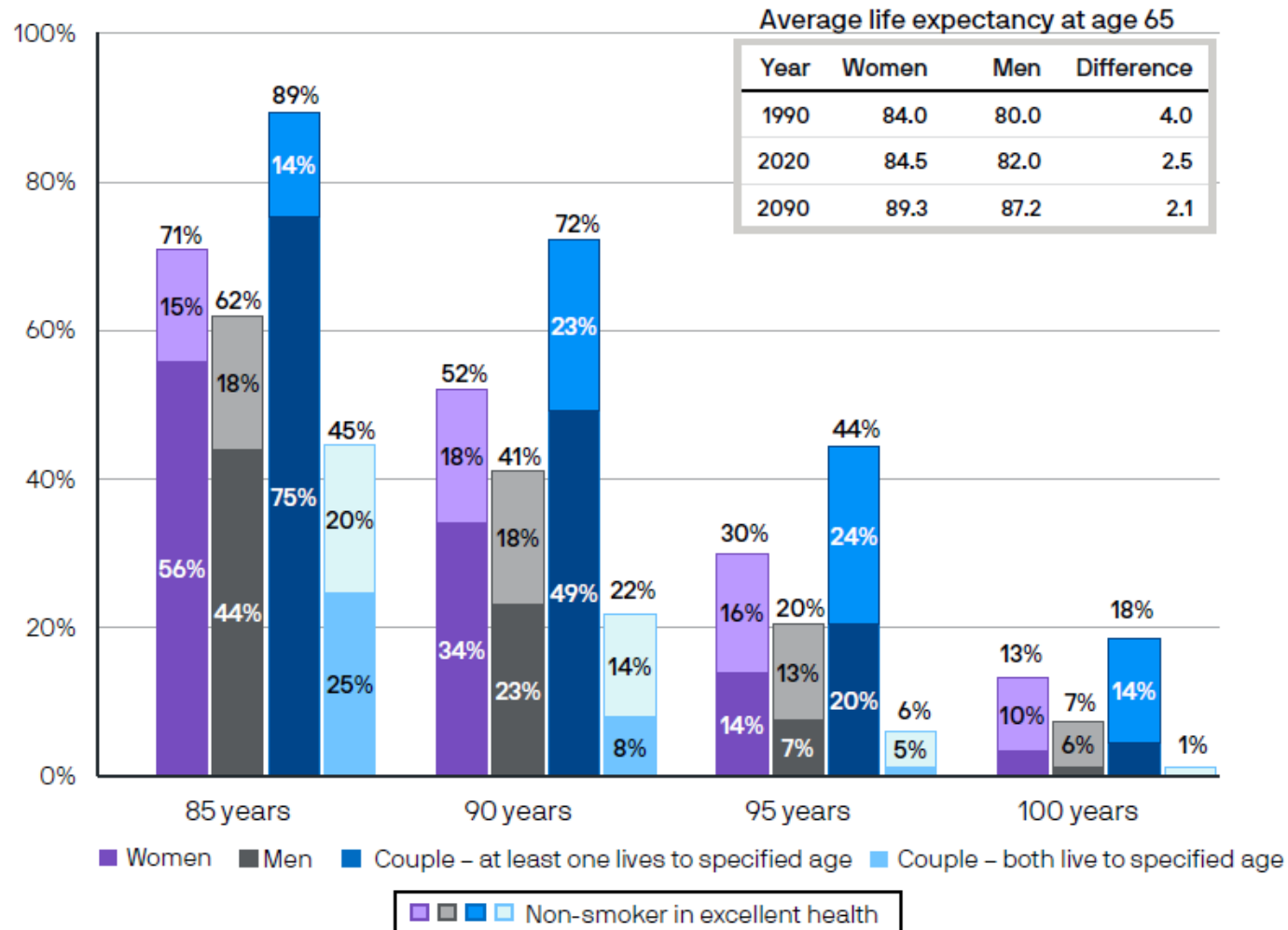


Source: Bloomberg, US Census, FRED, NBER, Goldman Sachs Global Investment Research, and Goldman Sachs Asset Management. Top Right Notes: As of September 30, 2022. "Top-of-book depth" refers to the liquidity of the highest bid and the lowest ask in an order book. Bottom Left Notes: As of December 31, 2021. Bottom Right Notes: As of March 16, 2022. "Bear Market" refers to an S&P 500 peak-to-trough decline of 20% or greater. Please see additional disclosures at the end of this presentation. Past performance does not guarantee future results, which may vary.

When the market turns, it turns fast and hard. The penalty for being early is only a month or so. The penalty for missing the turn is a lifetime.

Retirement

If you're age 65 today, the probability of living to a specific age or beyond



Your nest egg will need to last a very long time.

For a couple 65 today, there is an 44% chance that one will live to be 95 and an 18% chance that one will live to be 100.



The background features a collage of financial data visualizations. On the left, there are several bar charts with white bars on a dark grid. Below these are five pie charts, each divided into four segments of different shades of blue and white. In the center, a large white world map is overlaid on a grid. To the right, there are more bar charts and a line graph. The bottom of the image shows a blurred office scene with desks, chairs, and computer monitors. The overall color scheme is dominated by dark blues, light blues, and white.

Questions

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2023 Economic Outlook

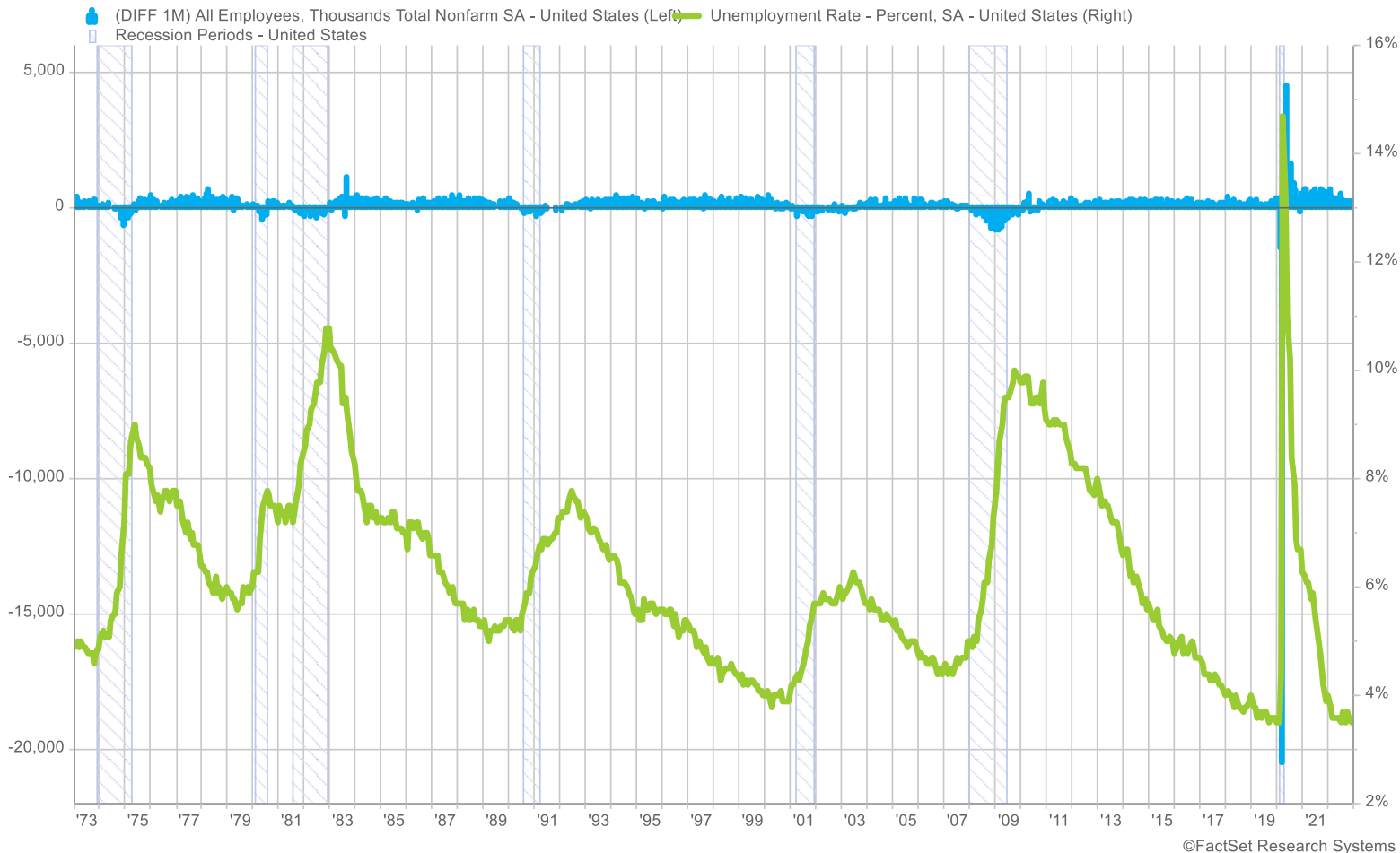
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Unemployment

US Change in NonFarm Employment & Unemployment Rate

[Launch full data release](#)



Tends to rise rapidly and then more slowly fall.

Much like a child's sliding board.

Money Supply

US M2 Money Supply
% Chg vs Year Ago



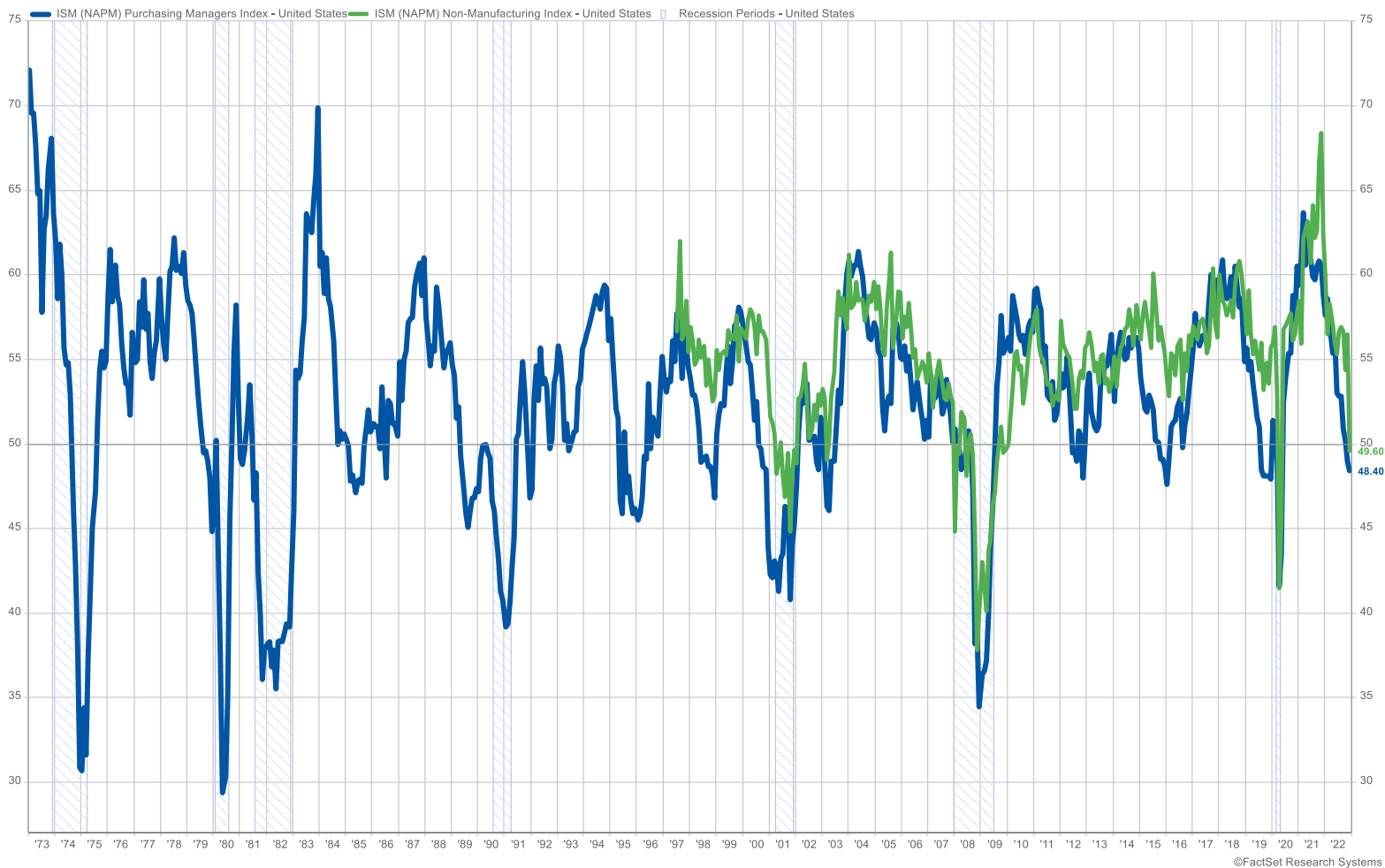
©FactSet Research Systems

Large swings in money supply growth

ISM

ISM Report on Business

[Launch full data release](#)

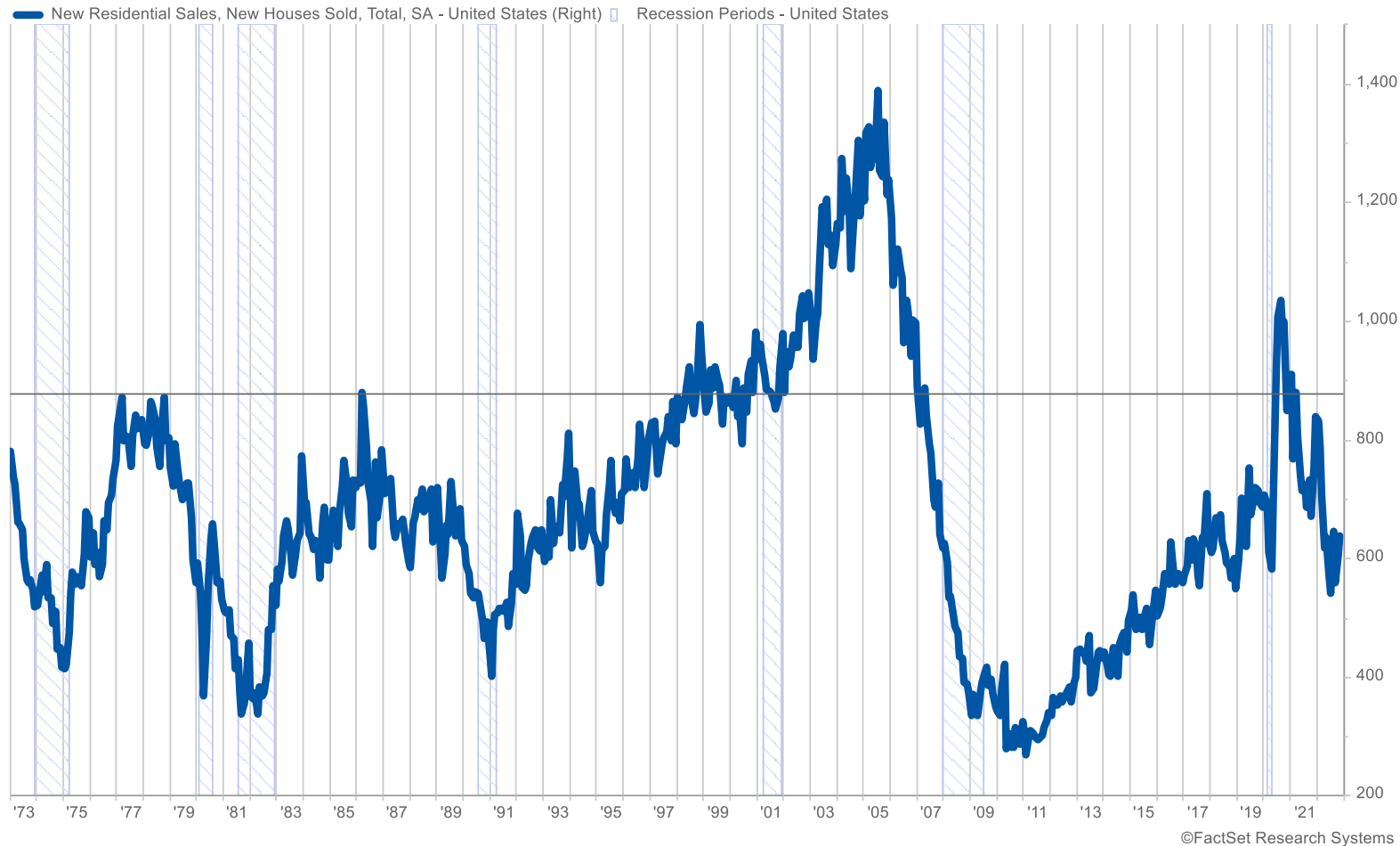


ISM signals recession

Housing

US New Home Sales
%Change vs. Prior Month

[Launch full data release](#)
000's of units

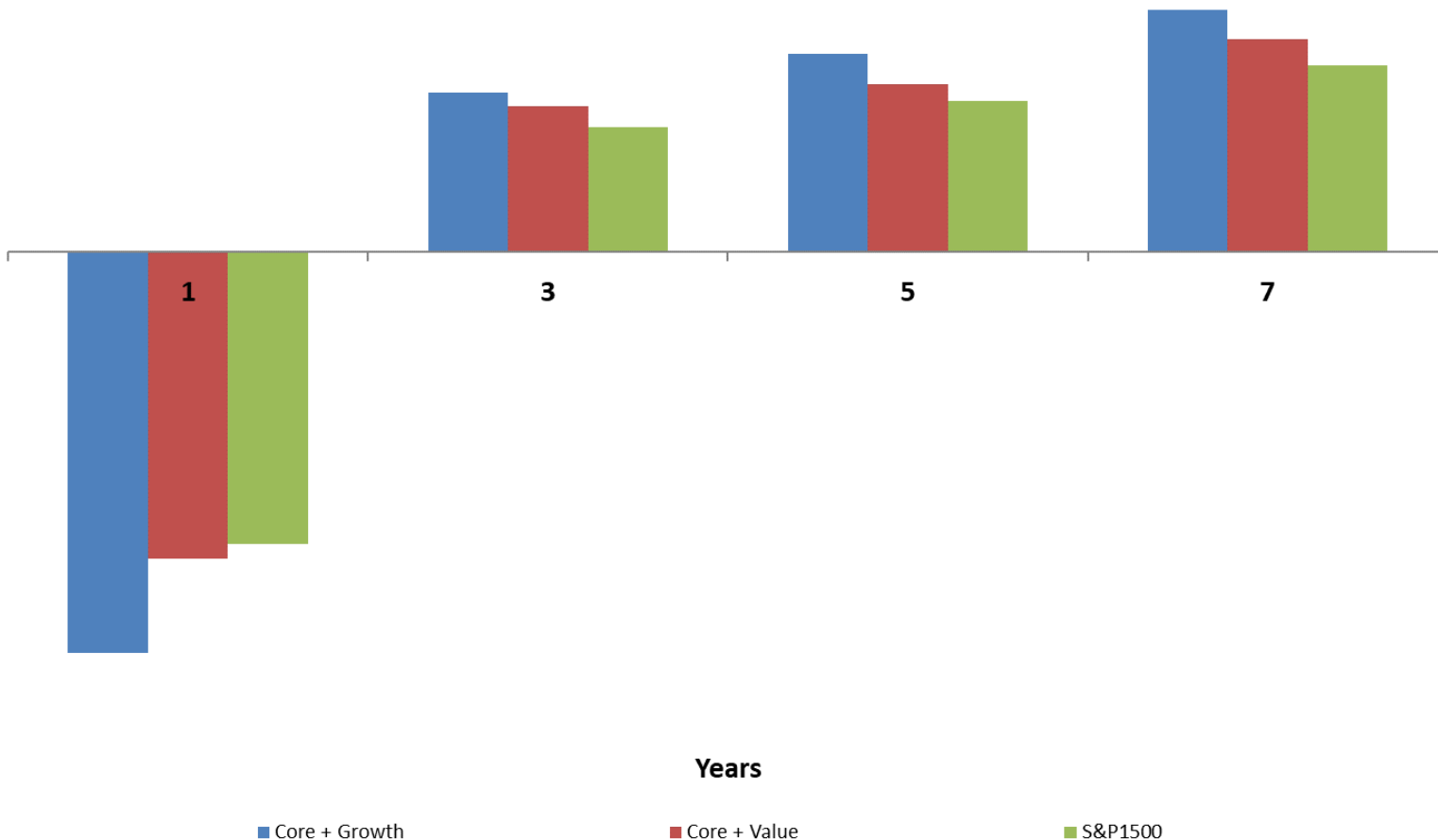


Housing signals recession

Common Stock Returns

SNB Equity Returns

as December 31, 2022



Despite tough 2022, SNB's long-term returns have been outstanding.

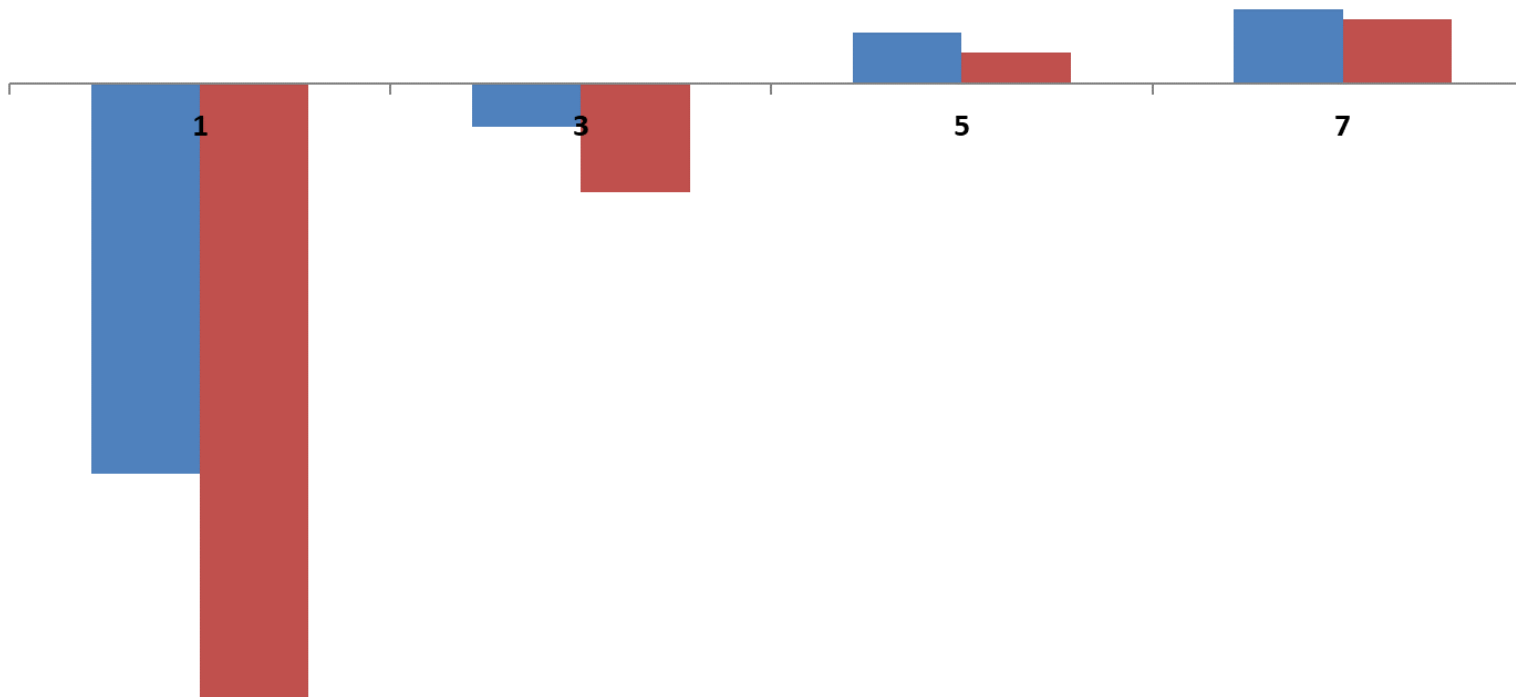
SNB has a GARP/Quality focus.

The 23% Value/Growth differential was too large to overcome.

Fixed Income Returns

SNB Fixed Income Returns

as December 31, 2022



SNB generally has a higher quality and shorter duration portfolio.

Years

■ SNB Fixed Income

■ Index (60 BB Ag and 40% BB Intermediate Muni)

Fed Funds Futures

Futures Market Currently calling for rate cuts in November and December

Meeting Date	Fed Funds Futures	SNB Forecast
Current	4.50%	
February 1	4.75%	4.75%
March 22	5.00%	5.00%
May 3	5.00%	5.00%
June 14	5.00%	5.00%
July 26	5.00%	5.00%
September 20	5.00%	5.00%
November 1	4.75%	5.00%
December 13	4.50%	5.00%
Data as of 01/18/23		
The upper end of the range		