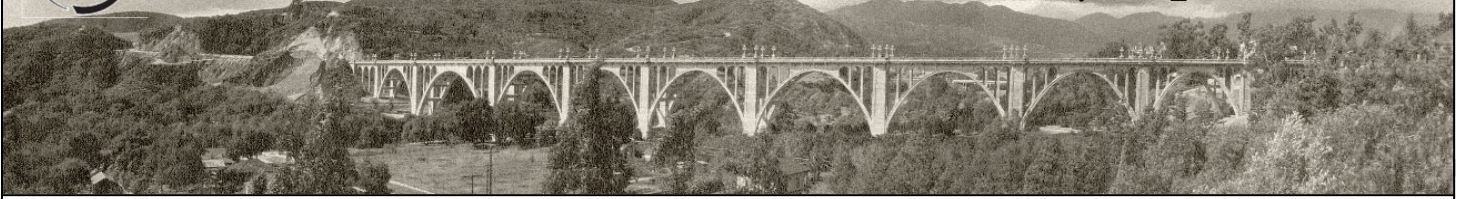




Osher Van de Voorde Quarterly Update



Outlook 2024

January 2024

Powered by spectacular gains in the so-called “Magnificent Seven,” the stock market delivered surprisingly strong gains in 2023, with the S&P 500, Dow Jones Industrial Average and NASDAQ Composite sporting respective gains of 24.23%, 13.70% and 43.42% for the year. After a dismal 2022 took the same indices down -19.44%, -8.78% and -33.10% respectively, these important market barometers are now flattish over the last two years. Indicative of the extraordinary concentration of this year’s gains in a limited number of mega-cap technology stocks, an astounding 72% of S&P 500 constituents underperformed the index in 2023. Indeed, the approximate 75% collective jump in Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla and Meta trounced the average stock and the Magnificent Seven now account for almost 30% of the market capitalization of the S&P 500, the highest concentration of any seven companies on record.

While this heavy tech concentration harkens memories of the late 1990s dot-com bubble, the potential for artificial intelligence (AI) to usher in an era of productivity not seen since the advent of the internet seems like the real deal to us. According to Wedbush Securities, corporate spending on AI is expected to increase from just 1% of the overall IT budget to 10% in the coming year. With global spending on IT pegged at \$4.7 trillion in the current year, the stock market seems to have appropriately sniffed out the budding winners in the rapidly growing AI space. UBS similarly sees corporate revenues associated with AI to increase 15x over 2022 levels by 2027 and views AI as the “the key theme driving global tech stocks again in 2024 and the rest of the decade.” While valuations of the Mag Seven may be stretched, especially in comparison to the many other constituents of the S&P 500, this premium may be warranted considering unparalleled balance sheet strength, tremendous cash flow generation and accelerating earnings growth in the wake of the ongoing AI revolution.

While AI stole the show in 2023, we expect market breadth to widen in 2024 as the rest of the market plays catch-up to the renewed bullish trend. In addition to AI enthusiasm, the stock market is increasingly pricing in a Fed-engineered soft landing. Having held interest rates steady for the third consecutive meeting of

the FOMC in December, it has become clear that the Fed now has a more balanced view of the tradeoff between tightening rates enough to curb inflation and monetary policy that may be too restrictive. The final 2023 meeting of the Fed gave investors much to cheer about. Indeed, the Fed telegraphed that the federal funds rate has reached its peak and FOMC consensus projections call for three quarter-point rate cuts in 2024. While it remains premature to “declare victory” over inflation, Fed Chair Powell did not push back on market expectations for an easing of rates to commence as soon as March of the New Year. Powell also testified that “inflation keeps coming down, the labor market keeps getting back into balance, and it’s so far so good. We kind of assume it will get harder from here, but so far, it hasn’t.”

The personal-consumption expenditures (PCE) price index fell 0.1% in November, the first decline in PCE since April 2020. Core PCE, which excludes volatile food and energy prices and is the Fed’s preferred inflation gauge, rose just 0.1% in November and is now up only 1.9% on a six-month basis, below the Fed’s 12-month 2% target. This very encouraging news on inflation has been accompanied by consumer spending that surprised to the upside in November and a resilient labor market. The U.S. added 216,000 jobs in December, while unemployment held steady at 3.7% and the labor-force participation rate ticked lower to 62.5% from 62.8%. Somewhat remarkably, the collective data indicates that the Fed may have succeeded in bringing inflation to the cusp of its long-range target without too much disruption to the labor market and overall economy. The demand for labor has clearly cooled with previous monthly gains revised lower and the current pace well below the average monthly gain seen over the last two years. With yields on the benchmark ten-year Treasury bond having fallen from 5% to approximately 4% since mid-October, the bond market has taken notice. All of this should be viewed as welcome news for the Fed and investors alike.

Supply chains disrupted by the pandemic are again running smoothly. Durable goods inflation, spiked higher by supply shortages, combined with higher demand from consumers flush with stimulus cash, has abated and prices have fallen year-over-year for five consecutive months. The surge in supply of goods and services accompa-

nied with post-pandemic normalization has helped bring balance back to the economy without need for any massive disruption in demand. Now within the market’s crosshairs, the Federal Reserve may be able to cut rates because inflation is falling faster than expected, not because of imminent economic danger. As inflation continues to ease, *real* rates become overly restrictive, giving the Fed more leeway to cut.

To be sure, it’s not all peaches and cream on the economic front. Credit card delinquencies have risen above pre-pandemic levels, manufacturing has slowed, the national office vacancy rate at 18.2% sits at a 30-year high, and unemployment is penciled to increase to over 4% this year. The lag effect of the rate hike cycle is finally reverberating throughout the economy. While the ability to avert recession remains to be seen, the data thus far is very encouraging and bodes well for the potential return of the Goldilocks economy.

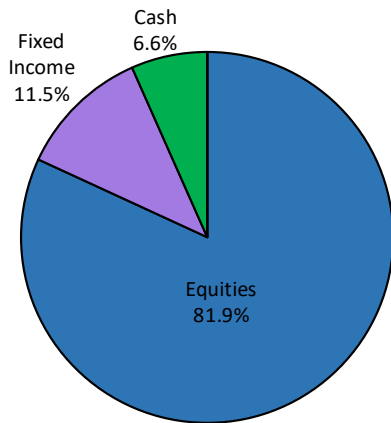
Meanwhile, continued turmoil in Ukraine and Israel and a looming U.S. Presidential election will give markets plenty of headline risk in the coming year. In addition, incoming economic and inflation data points will be carefully examined over the coming months for any sign that the economy is cooling faster than anticipated. Especially since the year-end stock market rally leaves valuations towards the higher end of their historical range, we expect to see continued volatility in the year ahead. However, with approximately \$6 trillion invested in money markets, there is ample cash on the sidelines to fuel a buy-the-dip mentality.

With the Fed on the path to accommodation from restriction and with consensus 2025 earnings expectations at \$274 for the S&P 500, we see the stock market trading to and through new all-time highs in the coming year. If we apply the same present-day earnings multiple to the forward 2025 consensus, we can see the S&P 500 reaching 5,400 with a range of 4,200 to 5,700, implying approximate 10% downside risk and 20% upside potential over the coming year or two. As reversion to the mean kicks in for the vast majority of companies and as the Mag Seven catches a potential breather, we believe an equally weighted strategy will outperform the indices in the coming year.

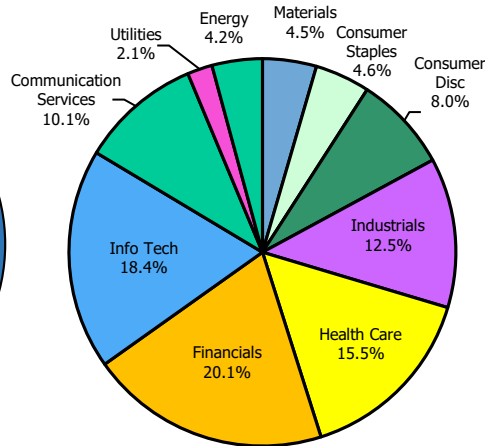
Investment Strategy Summary

As of December 31, 2023

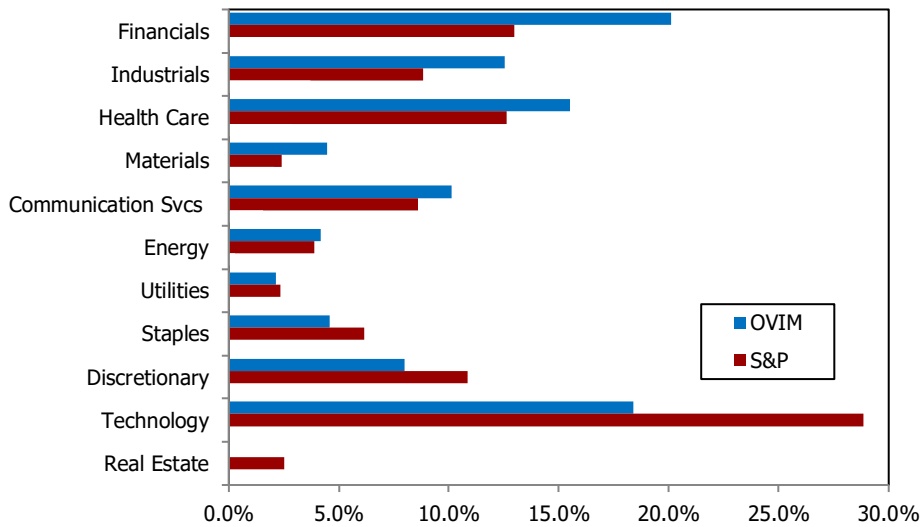
Firmwide Asset Allocation



Equity Sector Allocation



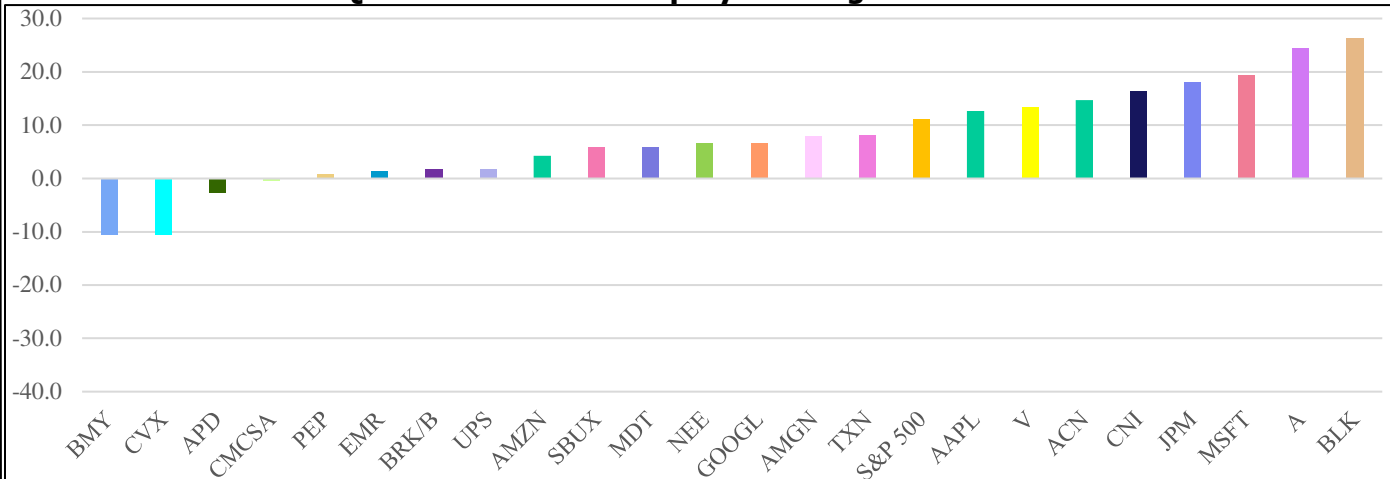
Sector Weightings Relative to S&P 500 Ranked by Largest Overweight



Top Core Global Equity Holdings

BlackRock Inc.	BLK
Alphabet Inc. Class A	GOOGL
JP Morgan Chase & Co.	JPM
Visa Inc.	V
Amgen Inc.	AMGN
Microsoft Corp.	MSFT
Comcast Corp.	CMCSA
Berkshire Hathaway Inc. Cl. B	BRK/B
Air Products & Chemicals, Inc.	APD
Accenture PLC Class A	ACN
Emerson Electric Co.	EMR
PepsiCo Inc.	PEP
Medtronic PLC	MDT
Canadian National Railway Co.	CNI
Chevron Corp.	CVX
Starbucks Corp.	SBUX
Texas Instruments Inc.	TXN
Apple Inc.	AAPL
United Parcel Service Inc.	UPS
Amazon.com Inc.	AMZN
Bristol-Myers Squibb Co.	BMJ
NextEra Energy, Inc.	NEE
Agilent Technologies Inc.	A

Q4 2023 OVIM Core Equity Rankings vs. S&P 500



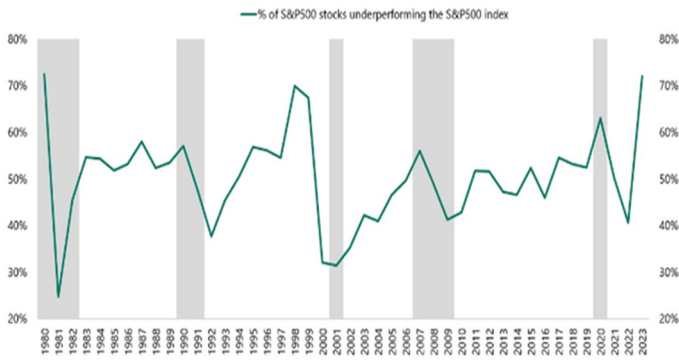
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The S&P 500 Index or the Standard & Poor's 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. The S&P 500 is a float-weighted index, meaning company market capitalizations are adjusted by the number of shares available for public trading. Note: Investors cannot invest directly in an index. These unmanaged indices do not reflect management fees and transaction costs that are associated with most investments.

Charting the Markets

72% of stocks in the S&P 500 have underperformed the index this year

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Big tech stocks have jumped 75% in 2023—and now make up about 30% of the S&P 500

Cumulative return

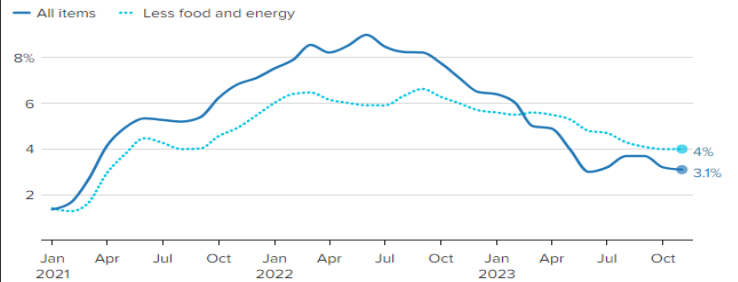


Personal-consumption expenditures price index, annual rate of change

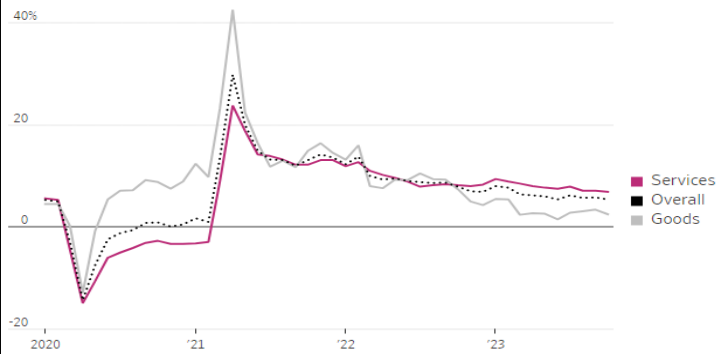


U.S. consumer price index

Year-over-year percent change as of November 2023



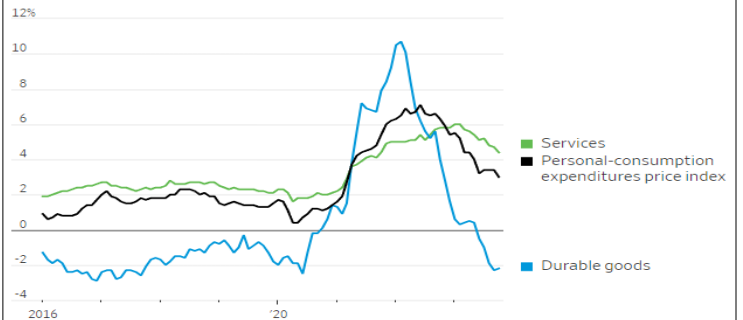
Consumer spending, change from a year earlier



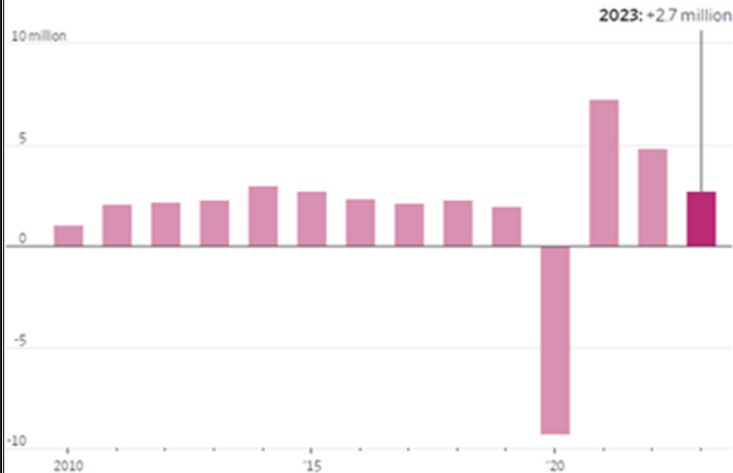
Coming Back to Earth

Durable-goods prices are falling, helping ease overall inflation.

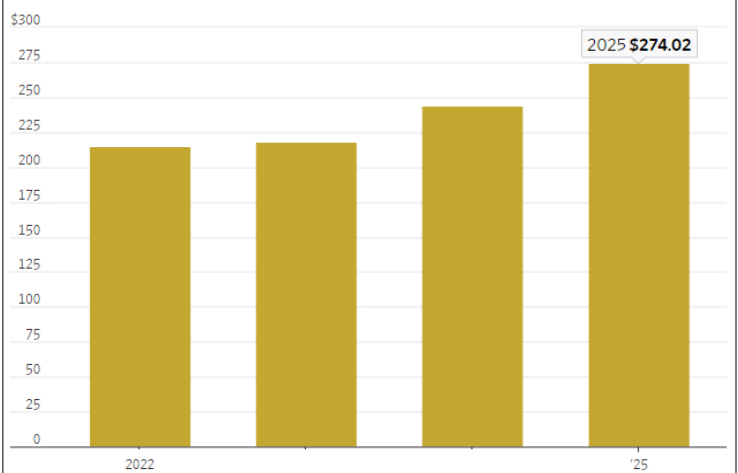
Year-over-year change



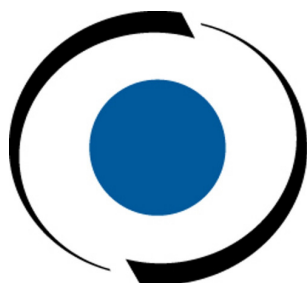
Annual change in nonfarm payrolls, for December of each year



S&P 500 earnings per share



*Empowering clients to realize
lifelong goals with confidence
and peace of mind.*



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Financial Resolutions for the New Year

The New Year is a time of great hope and optimism and serves as a wonderful opportunity to assess your current financial situation, give focused thought to long-term goals and priorities, and create a clear direction about how to move forward. Being intentional about creating plans and taking steps to implement those plans increases the prospects of attaining financial security and helps create tremendous peace of mind.

Create a Budget: Know What You Earn, Spend, Save, and Invest

Every person should be aware of how much they are earning, spending, saving, and investing. Committing to a long-term, consistent saving and investing program during your working years and beyond is a reliable method to boost your net worth and secure your financial well-being.

Create a budget to direct how you will spend your income. Your budget will guide you in determining how you will pay your monthly bills, purchase luxury or discretionary items or experiences, and save for retirement. Having a detailed budget will be the basis for your spending decisions and will provide clarity about the things that are most important to you.

Other important considerations include paying off any non-deductible high-interest consumer debt, creating an emergency fund, setting aside funds for large non-recurring expenses such as home repair or a new car purchase, and creating a plan to pay off your primary residence mortgage before retirement.

After the above items have been considered, we recommend making the maximum possible contribution to your employer-sponsored plan for the benefit of tax deferral and the security of knowing that you are providing for your retirement. The IRS recently announced that the limit on elective deferrals to 401(k) and other qualified employer-sponsored plans increased to \$23,000 in 2024, up from \$22,500 in 2023. The 2024 limit on catch-up contributions for those over age 50 remains at \$7,500 making the maximum 2024 elective deferral \$30,500 for those 50 or over.

Know Your Net Worth

We recommend calculating your net worth by accounting for all assets and liabilities, at least once annually. If you are in your working years, you will want to see an upward trend in your net worth as your working years progress. If you are in retirement, you will want to create a retirement income distribution strategy that will support your financial objectives while preventing you from running out of money.

Create a Financial Plan

Creating a financial plan helps you clarify and quantify realistic financial goals and then create a plan to meet those goals. Clarifying your goals will allow you to decide what you want to save and invest for, whether that is an advanced education, a home, or an early or secure retirement. Your plan will determine how you'll spend your income now and in the future. By updating your financial plan annually, you will monitor your progress toward your goals and have current information to course correct if necessary.

Focus on a Diversified, High-Quality Investment Portfolio with an Appropriate Asset Allocation

How you invest can make a significant difference in your ability to meet your financial goals. Review your asset allocation (your mix of stocks, bonds, and cash) periodically to be sure it is in line with your risk tolerance, time horizon, and long-term financial goals. Evaluate your investment portfolio's performance periodically noting that long-term progress toward meeting your goals is much more important than short-term investment returns. As you approach your goal, such as retirement, consider adjusting to a more conservative allocation of assets.

Prepare for the Unexpected

Prepare for the unexpected by reviewing your ability to self-insure against various types of losses. If your assets are not sufficient to cover certain losses, be sure to have adequate insurance coverage to protect against unforeseen events such as disability, death, natural disasters, or liability. Review your insurance coverage regularly for health, life, disability, property, casualty, and liability. Consider your ability to self-insure for long-term care and if your assets are inadequate, consider a long-term care insurance policy.

Protect your Estate by Reviewing your Estate Plan

Keep your beneficiary designations up to date by regularly reviewing beneficiary designations on beneficiary-eligible accounts such as life insurance policies, annuities, retirement accounts, employer-sponsored plans, and bank accounts. The beneficiary designations apply to each specific account and will generally supersede instructions left in your will. Consider creating a trust to articulate how your assets will be distributed and managed to support your dependents upon your death. Consult with an estate planning attorney to be sure that your assets are properly titled to ensure that they are distributed according to your wishes. Create durable powers of attorney for health care and finances to appoint a trusted agent to make decisions on your behalf should you become incapacitated. Be sure that a trusted family member or friend knows the location of your estate planning documents and have your trust reviewed every three to five years to be sure it is up to date with current estate tax laws and reflects your current wishes.

DeLynn Russell and James Van de Voorde

Sources: Schwab, CNBC, Empower, Experian, SEC, IRS