UBS The Choy Group Quarterly

Quarter 1 2024

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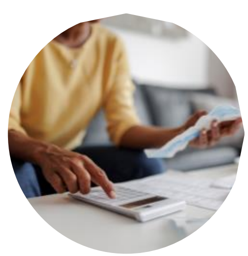

Overview

The Choy Group Quarterly Newsletter First Edition

We are delighted to introduce the first edition of UBS The Choy Group Quarterly. Created by The Choy Group at UBS, this publication aims to provide valuable insight and best practices for clients. Our goal is to deepen understanding of the current market conditions and plans to move forward through these conditions.

Throughout this endeavor, we will concentrate on a broad market overview, the implications of these events, and how to navigate through the economic terrain. Each section will have articles linked for further expansion upon each topic. Topics covered will encompass market performance, top-performing sectors, investor sentiment, current interest rate implications, investment strategies, and tax considerations.

This publication will incorporate insights from UBS, members of The Choy Group, and other reputable sources that will be cited.

Furthermore, you will be provided with some life updates from each group member. With each member's voices and experiences showcased, with the intention to further deepen relationships and foster our community.

We would love to hear your input and encourage you to share topics of interest or areas you would like us to explore. Our commitment is to drive the industry forward, adapting and improving alongside its evolution. Enjoy the first edition of The Choy Group Quarterly, we look forward to hearing back from you.

Best regards,

Peter Y. Choy, AIF®, CRPC™, CRPS™
Senior Vice President- Wealth Management

Group Update

What's New?

Peter Y. Choy, AIF®, CRPC™, CRPS™
Senior Vice President- Wealth Management

Adjusting to life after Ella's departure to college at Vanderbilt and Grace transitioning from softball to starting up her very own non-profit. We just finished touring colleges in Texas and Tennessee, with a visit with Ella; and planning our summer itinerary to include Rosemary Beach and Amelia Island, Florida (President's Council, Fall 2024).

Ryan Cox
Wealth Strategist Associate

Looking forward to spring and summer travel with friends and family - I am starting the season by heading to Hilton Head Island, SC to serve as best man at a friend's wedding in the coming months. In the interim I am enjoying as much time as possible outdoors soaking up the last of the cool Arizona weather.

Lori Brannigan
Senior Client Associate

With the weather warming up, the urge to get out in nature is great. My husband John and I have an RV and plan to visit a few desert lakes in the next two months. We're looking forward to having our nine months old German Shepard siblings, JD and Sis travelling with us for the first time.

Weston Zierer
Intern

Currently, looking forward to graduation this December. Throughout the summer months, I will be volunteering as the Wide Receiver Coach at Ben Franklin High School in my pass time. Meanwhile, I'm continuing to grow by becoming immersed in the world of wealth management, while completing my preparation for the Series 66 exam.

Current Market Conditions

Market Soars to All Time High

All Time Highs

In the opening quarter, US equities embarked on a robust trajectory, marked by the S&P 500 and Nasdaq 100 indexes achieving historic peaks on March 1. The S&P 500's notable growth, showcasing four consecutive months of profitability, reflects its most substantial expansion since 1971, with gains recorded in 16 of the preceding 18 weeks, according to UBS CIO. Despite these unprecedented highs, the Russell 2000 small-cap companies find themselves ensnared in a bear market, trading 16% below its peak reached in November 2021 as of March 5th. This performance discrepancy between small-cap and large-cap companies is a result of the heightened susceptibility of small-cap companies to elevated debt costs, shifts in monetary policy, and fluctuations in inflationary dynamics.

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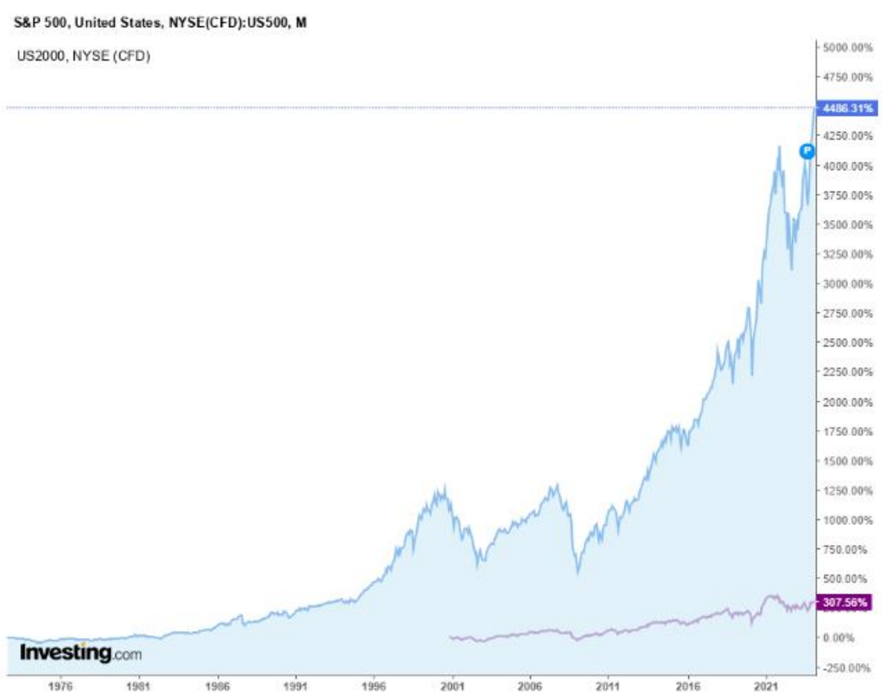
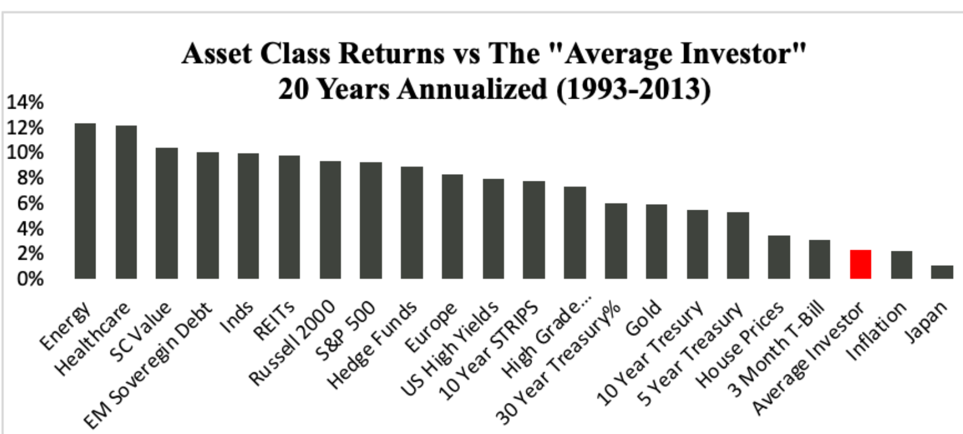


S&P 500 vs Russell 2000

The Power of Time in the Market

Buy-low, sell-high. An intuitive investment principle that arithmetically yields positive earnings. Nonetheless, historically, the average annualized returns of the typical investor have lagged behind those of all major financial asset classes, marginally surpassing the average inflation rate, predominantly due to efforts to time the market, as displayed by business insider.

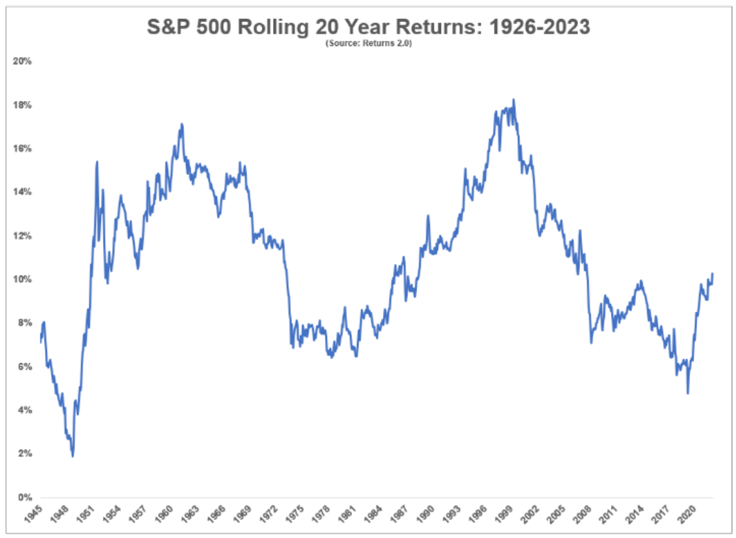


business insider

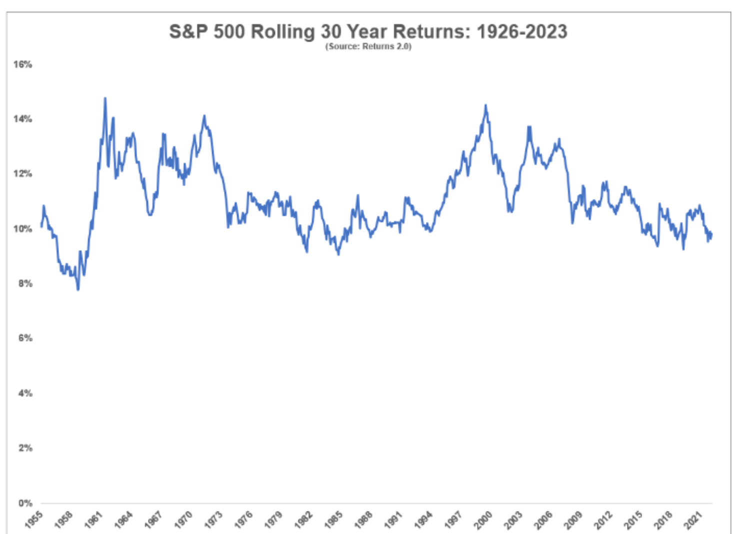
The inherent psychological force known as "FOMO" dictates much of our irrational behavior, compelling us to acquire investments at peak prices out of a fear of missing out, only to divest these holdings when prices have already declined due to a fear of further losses. Nevertheless, historical evidence underscores the efficacy of adopting a long-term investment perspective. Over a two-decade span, the S&P 500 has consistently yielded positive returns, exemplified by its best 20-year period (1980-1999), worst 20-year period (1929-1948), and median annual returns for 20-year periods since 1928, standing at 13.2%, 0.6%, and 7.3%, respectively; in conformity to four pillar freedom.

Attempting to time the market and the compounded impact of missing the most favorable daily returns can substantially detrimentally affect one's portfolio. Over a two-decade period within the S&P 500, the disparity between full investment and the omission of the top 60 days of market returns on a USD 10,000 investment amounted to USD 54, as per business insider. Additionally, adhering to a standard S&P 500 index has revealed an escalating likelihood of positive returns over the years, with the first year boasting a 72.96% probability, the second year showcasing an 80.05% probability, and the twentieth year achieving a 100% probability.

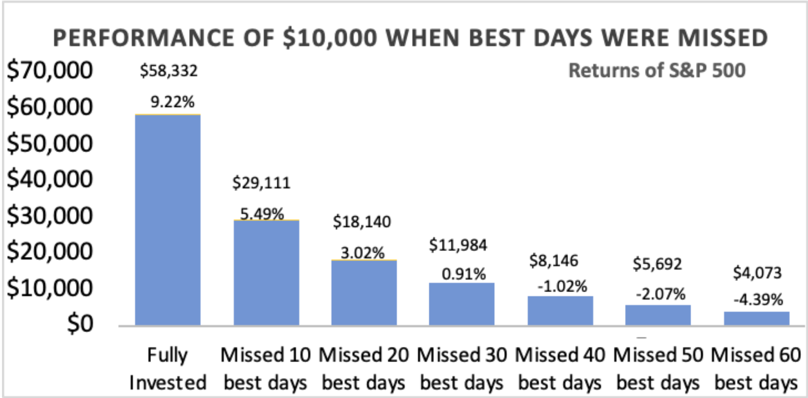
four pillar freedom



four pillar freedom



four pillar freedom



business insider

Since 1950, the average bear market has declined 35%, taking approximately 381 days to fully contract and about 1,100 days to establish a fresh all-time high as specified by a wealth of common sense. It is crucial to acknowledge the market's achievement of new highs since its most recent bear market, which bottomed on October 12, 2022, 506 days ago as of March 1, 2024. Despite the diverse array of unique conditions influencing past performance, the one, three, five, and ten-year returns after stock market peaks following previous bear markets have consistently yielded positive results. Therefore, the current expansion following the bear market is early. And Historically, a market peak followed by a bear market has been succeeded by a subsequent ascent to a new market high and the onset of a bull market in the following year.

Returns From New All-Time Highs After a Bear Market

Peak	Trough	% Decline	New Highs	+1 year	+3 Years	+5 Years	+10 Years
7/15/57	10/22/57	-20.7%	9/24/58	17.3%	47.0%	68.5%	183.3%
12/12/61	6/26/62	-28.0%	9/3/63	21.1%	17.5%	17.5%	108.5%
2/9/66	10/7/66	-22.2%	5/4/67	14.4%	-5.2%	44.8%	54.3%
11/29/68	5/26/70	-36.1%	3/6/72	7.8%	-14.6%	13.2%	66.4%
1/11/73	10/3/74	-48.2%	7/17/80	20.5%	71.8%	115.0%	377.3%
11/28/80	8/12/82	-27.1%	11/3/82	27.9%	62.9%	131.1%	354.8%
8/25/87	12/4/87	-33.5%	7/26/89	6.5%	35.4%	54.8%	396.5%
3/24/00	10/9/02	-49.1%	5/30/07	-6.7%	-23.9%	-4.5%	95.5%
10/9/07	3/9/09	-56.8%	3/28/13	21.9%	39.8%	86.8%	217.4%
2/19/20	3/23/20	-33.9%	8/18/20	31.2%	35.0%	TBD	TBD
1/3/22	10/12/22	-25.4%	1/19/24	TBD	TBD	TBD	TBD

a wealth of common sense

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Investment Outlook

Top Performing Sectors

Magnificent 7

In the current conditions of potential lower interest rates and a backdrop conducive to productive markets, the predominant force attributing to the S&P 500's expansion is the ascent of what many consider the 'Magnificent 7'—comprising Nvidia, Tesla, Apple, Microsoft, Amazon, Meta/Facebook, and Alphabet/Google. Amidst the rising demand fueled by the development of artificial intelligence (AI), tech behemoths such as Amazon, Google, Meta, Microsoft, and NVIDIA have seen a surge in their market capitalization. While the S&P 500 has exhibited a 21% ascent since November 2023 as of March 1, the Magnificent 7 experienced a more substantial 34% surge. Particularly noteworthy, the chip systems manufacturer, NVIDIA, rose an extraordinary 94% growth since November 1 and achieved a milestone with a market capitalization exceeding USD 2 trillion on March 1. Throughout 2023, the Magnificent Seven's stock prices appreciated at an unparalleled return of 111%. In stark contrast, excluding the formidable performance of the Magnificent Seven, the S&P 500 index would have experienced a mere 8% growth in 2023. This immense performance has resulted in an extraordinarily high concentration of holdings by these seven entities reaching a significant 29% in the S&P 500, according to Investopedia.

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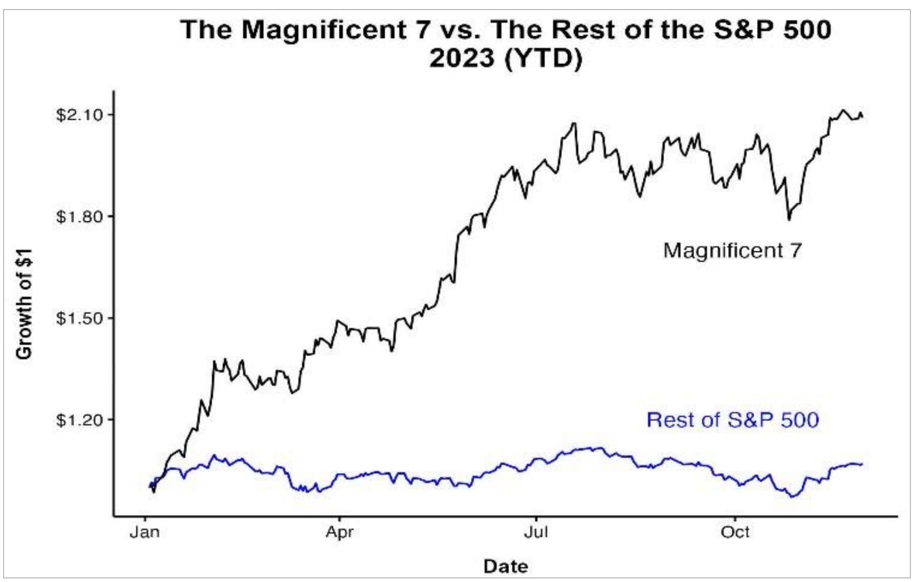

The Irrelevant Investor

Top Performers: U.S. Large-Cap Tech Equities

The inception of the AI revolution in conjunction with the recent performances from the Magnificent Seven indicates promising growth from U.S. large-cap tech equities.

Why consider U.S. investments? U.S. equities constitute slightly over 60% of the Vanguard Total World Stock Market Index Fund, as mentioned in a wealth of common sense. The current valuation of the U.S. consumer market, estimated at around USD 19 trillion , as per UBS , underscores the attractiveness of investing in U.S. stocks, given their exposure to resilient consumer markets. Furthermore, the U.S. equity market has consistently provided a conducive environment for technology firms to either sell or raise capital, with generative AI startups securing a substantial USD 27 billion in funding in 2023 alone, as per Pitchbook data, with notable contributions from industry giants like Amazon, Microsoft, and Google. Examining performance trends from March 2009 to January 2024, U.S. stocks, as represented by the S&P 500, outpaced their ex-U.S. counterparts (MSCI ACWI ex-US) by a significant margin—712% compared to 216%. This converts into an average annualized total return of 15% for U.S. stocks, compared to 8% for non-U.S. stocks, according to UBS. Notably, Morning Star data indicates that 22% of the returns for the U.S. index versus the non-U.S. index between 2010 and 2022 can be attributed to the top seven performers, further illustrating the broad influence of the U.S. market beyond a handful of stocks. While past performance is not a guarantee of future success, this historical track record underscores U.S. companies as consistent wealth creators for investors.

"US large-caps: Despite recent big gains, we think investors still need a core allocation to US large-caps as a key building block of their portfolio. Diversify exposure: International stocks and small-caps offer exposure to a broader range of potential growth drivers."

Mark Haefele Chief Investment Officer, UBS Global Wealth Management

Why consider investing in technology? At the forefront of the AI revolution are U.S. tech giants. As highlighted by UBS CIO generative AI is poised to be a significant growth theme over the next decade, with anticipated industry revenue growth of around 70% per year until 2027. Given that many leading players in the AI landscape are already substantial tech powerhouses, these firms are strategically positioned for further expansion. When assessing the growth potential of companies involved in generative AI, it becomes crucial to leverage opportunities across all stages of its value chain—spanning from cloud infrastructure and connected hardware to large language model development to applications. Projections for this year's earnings for the Magnificent Seven indicate a potential increase of 20% or more, attributed to their involvement in AI development, as per UBS CIO. While maintaining proper diversification in one's portfolio is essential, the significance of exposure to AI cannot be overstated, particularly with an emphasis on software and semiconductors as the most favorable avenues for gaining short-term exposure.

Why consider investing in large-cap companies? Large-cap enterprises in the U.S. benefit from enhanced access to capital, allowing them to manage higher-cost debt stemming from the preceding year's interest rates. Consequently, the Magnificent Seven's large-cap companies have demonstrated dominance in earnings over the past year, showcasing both reliability and substantial growth potential for the upcoming year. On the flip side, introducing diversification in equity exposure by incorporating small-cap and international stocks alongside large-cap ones provides an additional dimension to one's portfolio. This is especially pertinent given the current attractive valuations in non-U.S. markets and small-cap stocks with appealing 12-month forward price-to-earnings ratios, in addition to potential rate cuts which will expedite this process, according to UBS. Seizing the opportunity presented by these stocks trading at a discount provides a timely exposure to these opportunities, considering that large-cap U.S. markets do not consistently overshadow other market segments.

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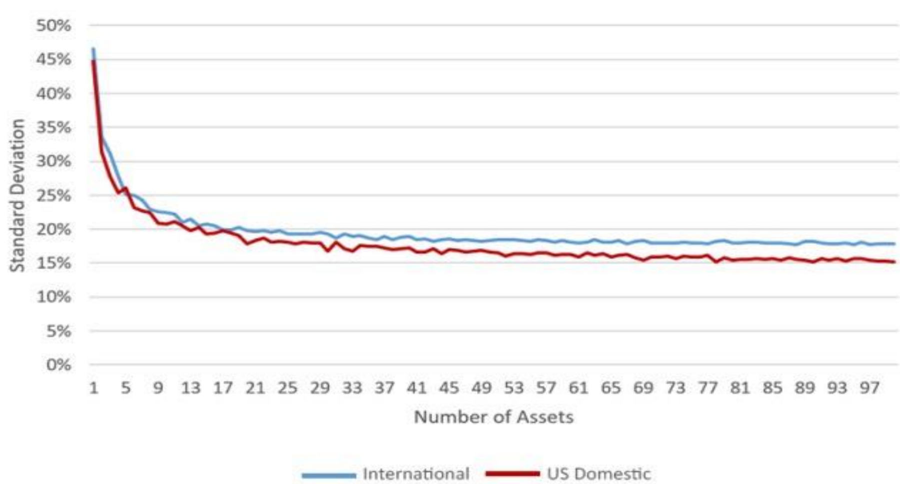
Investor Sentiment

Are We in a Market Bubble?

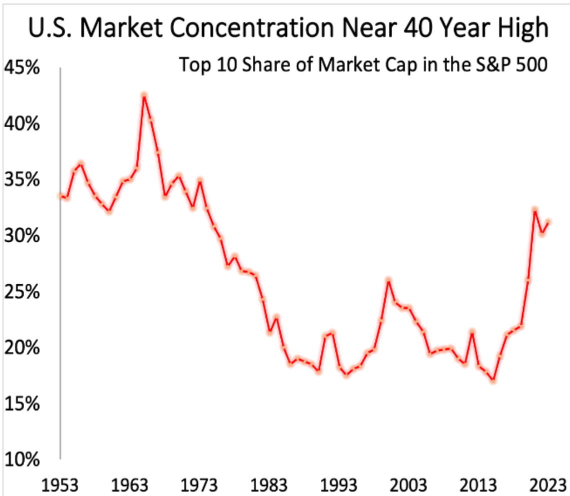
Is the S&P 500 Too Concentrated?

As the wise Warren Buffet advises, "Never bet against America,". Over time, the S&P 500 stock market index has stood out as a remarkable approximation of the U.S. stock market. Over the period from 1973 to 2023, it has maintained an average annual total return of 11.1%, showcasing its prowess as an investment option. Additionally, the S&P 500 covers an estimated 80% of the available market capitalization and boasts approximately USD 5.7 trillion indexed to the index as of December 2022, according to S&P Global, nearly doubling its market capitalization since 2018. Despite the consistent performance of the S&P 500 index, concerns arise among some investors regarding its contribution to inflating the values of the seven big-tech companies, known as the Magnificent Seven, which currently account for 29% of the index's composition and exhibit exponential growth in market capitalization.

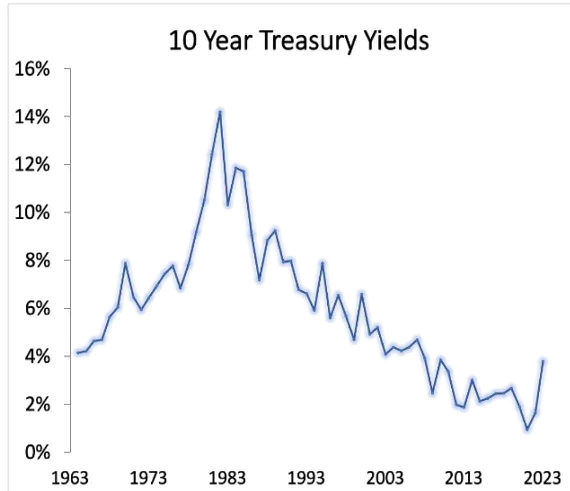
In light of the prevailing concerns among investors regarding heightened concentration observed in the top seven companies by market capitalization within the S&P 500, it is imperative to maintain confidence in the resilience of the U.S. market. With a total of 500 companies represented from the approximately 4,000 publicly traded entities in the U.S., the index is strategically diversified, prompting discerning investors to recognize the marginal benefits in portfolio diversification beyond involvement with 20-30 companies, as per CFA Institute.



CFA Institute



fs investments



fs investments

It is worth noting that historical analyses reveal instances of even greater concentration in the top 10 shares within the S&P 500. As of February 20, the current concentration stands at 31.5% according to Investopedia, a figure that appears standard when compared with the more substantial market concentration exceeding 40% found in the mid-1960s, persisting above the 30% concentration threshold until the mid-1970s, as exemplified by fs investments.

Furthermore, contextualizing the S&P 500's concentration within a global perspective demonstrates its comparatively less concentrated than being portrayed. When compared to international constituents, the top 10 companies in countries such as China account for 42%, Germany at 57%, the UK at 50%, France at 57%, and Canada at 45%, as of February 23 according to CNBC. Solidifying the S&P 500's relative diversification is favorable relative to the broader global landscape.

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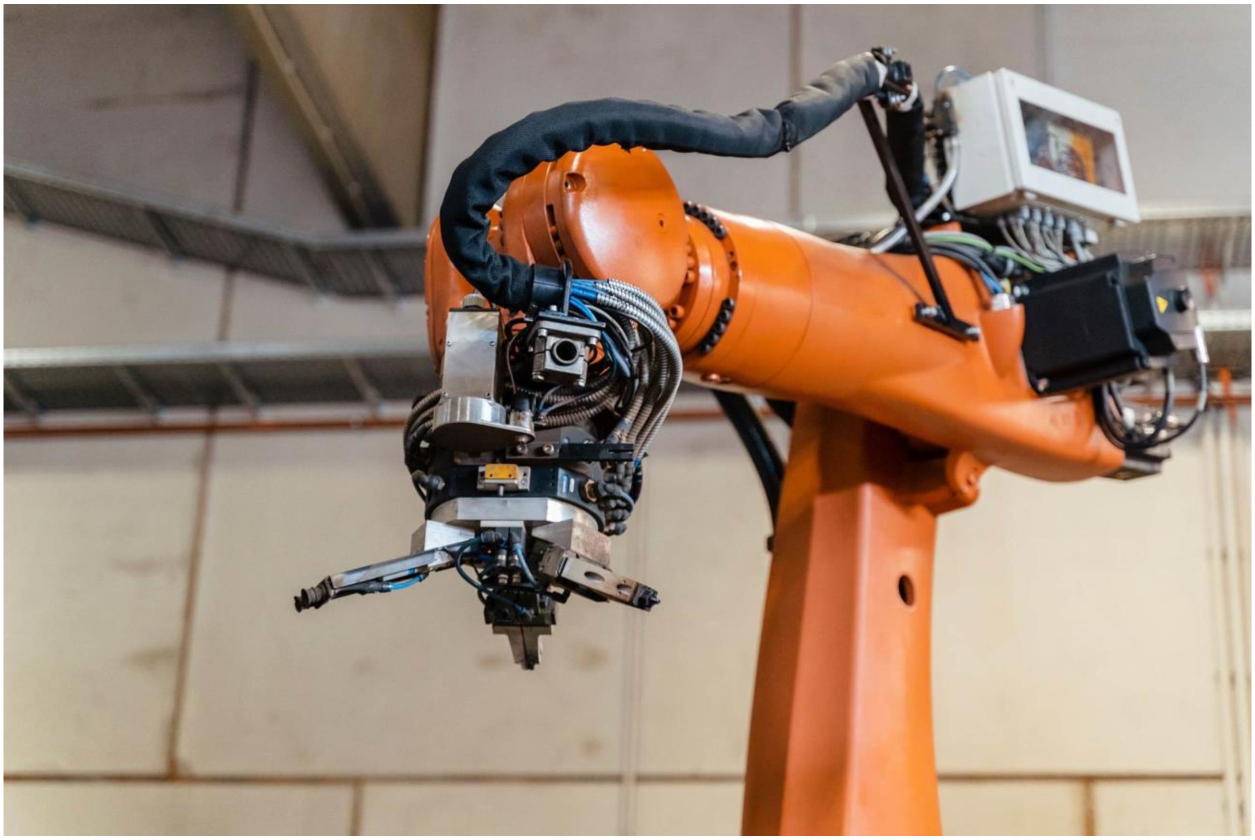

How AI Development Will Fuel the S&P 500

The landscape of US large-caps reveals promising indications of potential growth, with recent months showcasing exceptional performance in this sector. In contrast, numerous stocks in Europe and Asia persistently lag behind their strategic target weightings when compared to their US large-cap counterparts. As per insights from the Chief Investment Officer at UBS, the December 2024 target for the S&P 500 index has been revised upward to 5,200, a shift from the previous projection of 5,000. This adjustment is attributed to the fourth-quarter earnings of 2023 surpassing expectations. Furthermore, the CIO at UBS asserts that achieving a year-end level of 5,500 for the S&P 500 is within reach if growth, inflation, and interest rates continue to align favorably, creating a "Goldilocks" scenario due to an additional surge in small-cap European, mid-cap Swiss, and emerging market equities.

This performance would be evident if the long-term gains from AI were felt early. Considering AI's anticipated long-term societal advancements corresponded with the current market sentiment, there is a strong likelihood that the valuation of this technology could be sufficiently factored in the short term. Therefore, many of the potential gains that could be made from AI technology, could materialize sooner rather than later.

Fundamentally, the U.S. equity valuations are promising. Fueled by the magnificent seven and other tech entities, the S&P 500 currently commands a premium, trading at a forward price-to-earnings (P/E) ratio of 20 times as stated by UBS CIO Officer. However, the tech valuations reflect the anticipation of robust earnings growth in the forthcoming years. Despite the high P/E ratios, the potential gains stemming from future AI infrastructure and tech companies reflect a positive sentiment amongst investors in the U.S. markets.

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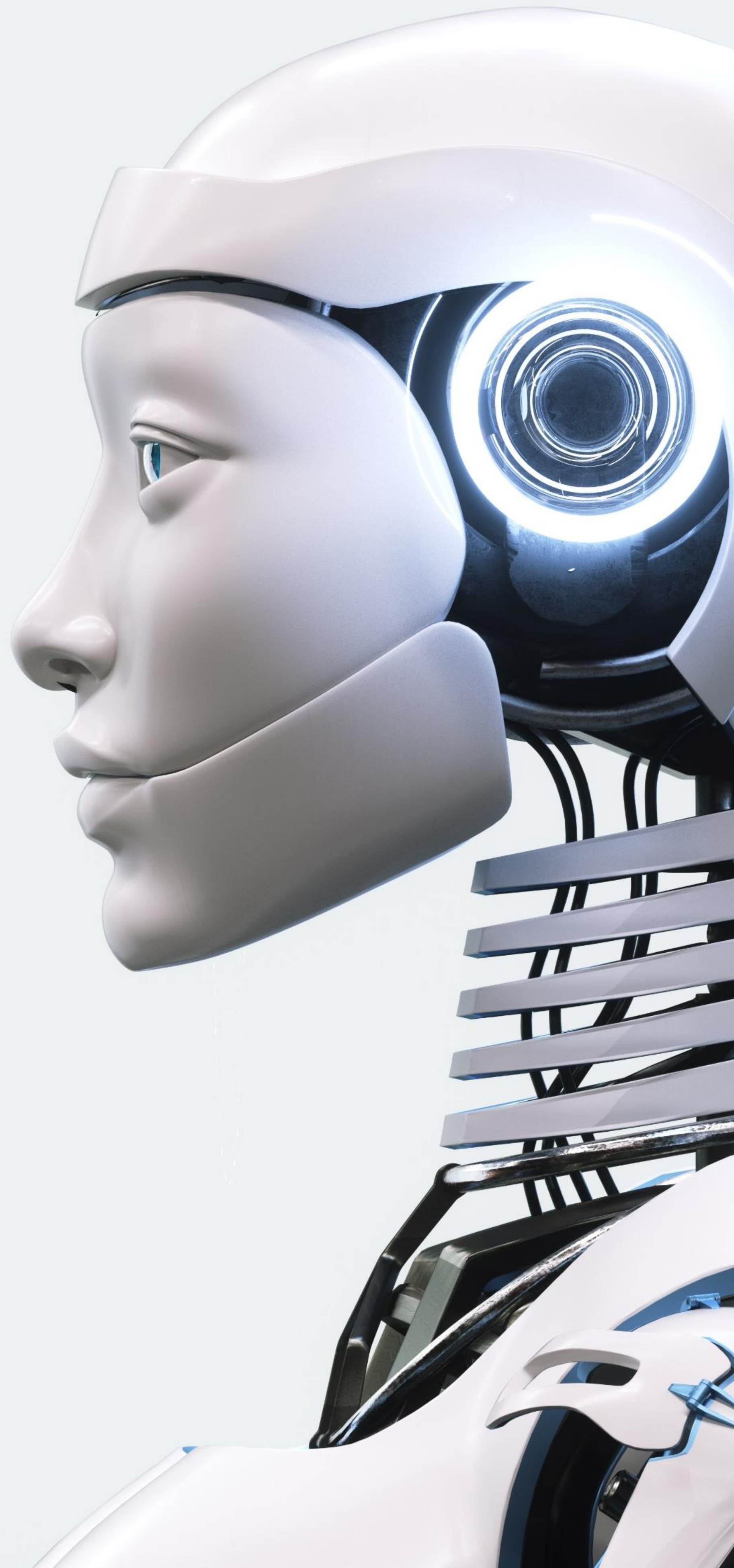

Diversification

The diversification of one's portfolio is a dichotomy to be balanced. Diversify too narrowly, then take on unnecessary unsystematic risk. Diversify too broadly with overlapping assets, then minimize potential returns. While there is no secret formula to an adequately diversified portfolio, there are basic principles to implement for the mitigation of a potential Magnificent 7 bubble.

What level of complexity is necessary when a portfolio's diversification? As the complexity could be endless, through their investment vehicles (active funds, index funds, ETFs, closed-end funds, or individual securities), asset classes (Equities, Fixed income, Cash and cash equivalents, Real estate, Commodities), and sub-asset classes (large-cap, mid-cap, small-cap, growth, value, momentum, yield, international, emerging markets, REITs, liquid alts, treasuries, corporates, TIPs, junk bonds, commodities), the fundamentals can be the most reliable. At times a simple stock/bond portfolio with a conservative 60/40 distribution or slightly more aggressive 70/30 ratio can be an investor's most well-grounded strategy. With the recent bond performance and technological innovation driving large-cap equity performance, a simple stock/bond diversification approach can provide the degree of performance and risk mitigation required for a well-balanced portfolio. However, there are additional measures investors can benefit from.

As previously stated, adequate diversification can incorporate a vast variety of investment options, here are three investment alternatives in addition to large-cap equities to keep in consideration according to

UBS CIO Officers' 4 core components of a portfolio according to UBS CIO Officers' 4 core components of a portfolio.

Core Components:

1. Maintaining a mix of stocks in Europe, Asia Pacific, emerging markets, and small-caps should represent another core building block of a portfolio.
2. Maintaining quality bonds, including high-grade (government) and investment-grade corporate bonds, is another key building block for one's portfolio.
3. Consideration of some alternative investments should be a core component of one's portfolio, along with their inherent risks including illiquidity, long lockup periods, high fees, leverage, and concentration. The addition of small allocation to hedge funds, private equity, private debt, private real estate, and private infrastructure, could potentially add 1–2% of return per year to a portfolio while maintaining a similar level of expected portfolio volatility

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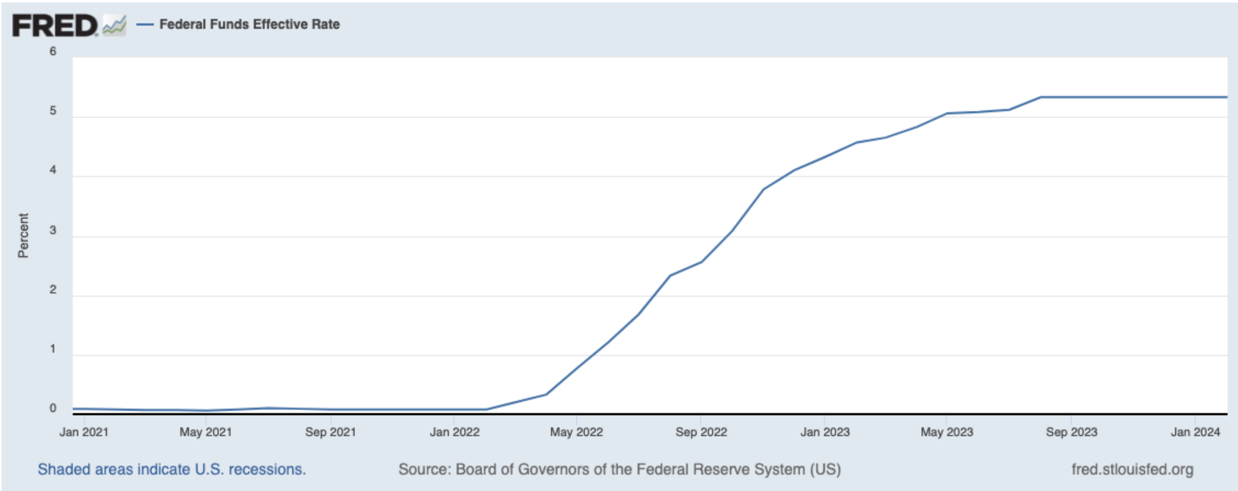
Interest Rates

Will the Fed Cut Rates?

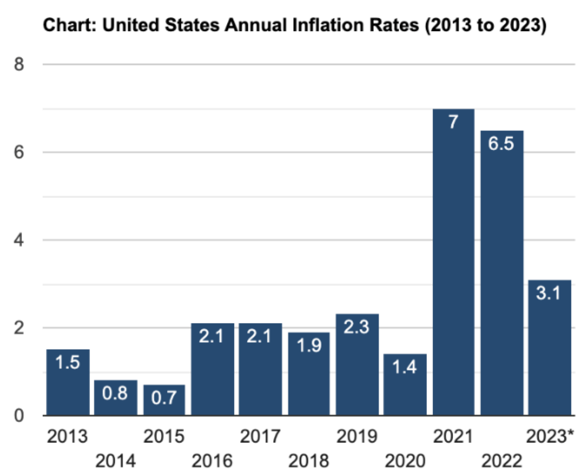
Federal Reserve Rate Cuts?

After the prolonged interest rate hikes since February 2022, interest rates have remained paused since August 2023 at an effective federal funds rate of 5.33%. According to UBS, rates will most likely remain unchanged until the middle of the year. This confidence is reinforced through UBS's Core Savings program offering an attractive 5.40% Annual Percentage Yield (APY), remaining effective through June 9, 2024.



FRED

With inflation brought under control to 3.1% in January 2024 through aggressive rate hikes and the improving economy, the Federal Reserve faces new challenges. As current monetary policy is restrictive, the aim is to slow the economy and reduce inflation. However, signs of persistent economic strength, including robust GDP growth, low unemployment, and increased consumer spending, raise questions about the actual restrictiveness of contemporary monetary policy. Factors such as technological advancements, labor mobility, and business formation are contributing to higher productivity, which is potentially a primary cause for the stronger economic growth. Yet, now the Fed is cautious about prematurely cutting rates, signaling a need to better understand the impact of innovation on the supply side of the economy. According to WSJ, the Fed should focus on learning more about how innovation influences real economic performance rather than solely considering its impact on demand management.



US Inflation Calculator

With investors facing potential declines in yields due to this year's highly anticipated interest rate cuts by the Federal Reserve, investors are left eager to capitalize on higher yields with alternative investment options. With comparable rates to CDs, longer terms, and non-taxable interest, annuities can offer some competitive reliable returns. However, these products are not FDIC insured and are illiquid with potentially hefty surrender charges. Considering historical evidence shows that bonds serve as an effective portfolio hedge during turbulent equity market periods, high-quality bonds continue to serve as a reliable diversification tool in portfolios. Given the issuer is highly creditworthy, high-quality bonds are an efficient means to preserve capital, minimize volatility, and provide stability to portfolios as per UBS. Another option would be defined-maturity bonds offer the certainty of holding individual bonds to maturity with the liquidity and low costs of exchange-traded funds (ETFs). With some of the best performing yielding 5.6% iShares iBonds Dec 2024 Term Corporate ETF (IBDP). Exchange Traded Bonds (EBD)("baby bonds") are debt instruments traded like equities on a brokerage account that offer competitive yields, but obtain inherent call risk at yields ranging from 8% to 9%, according to Damon Southward, chief market strategist at Briefing.com. Alternatively, a high-yield savings account offers attractive returns with FDIC insurance and no call risk, providing a secure environment for earning guaranteed interest with slightly lower yields. Creating the perfect environment for uninvested capital with the guarantee of safety while eliminating opportunity costs. For instance, a bank offering 4.9% in savings accounts would equate to a risk-free income of USD 49,000 annually or USD 4,083 monthly on USD 1,000,000. A high-yield savings serves as a liquid haven to park money while remaining vigilant for suitable investment opportunities. Investors need to assess their choices in alignment with their respective risk tolerance, time horizon, and financial plans; understanding their potential risks such as a lack of FDIC coverage, illiquidity, and call features built within specific investments.

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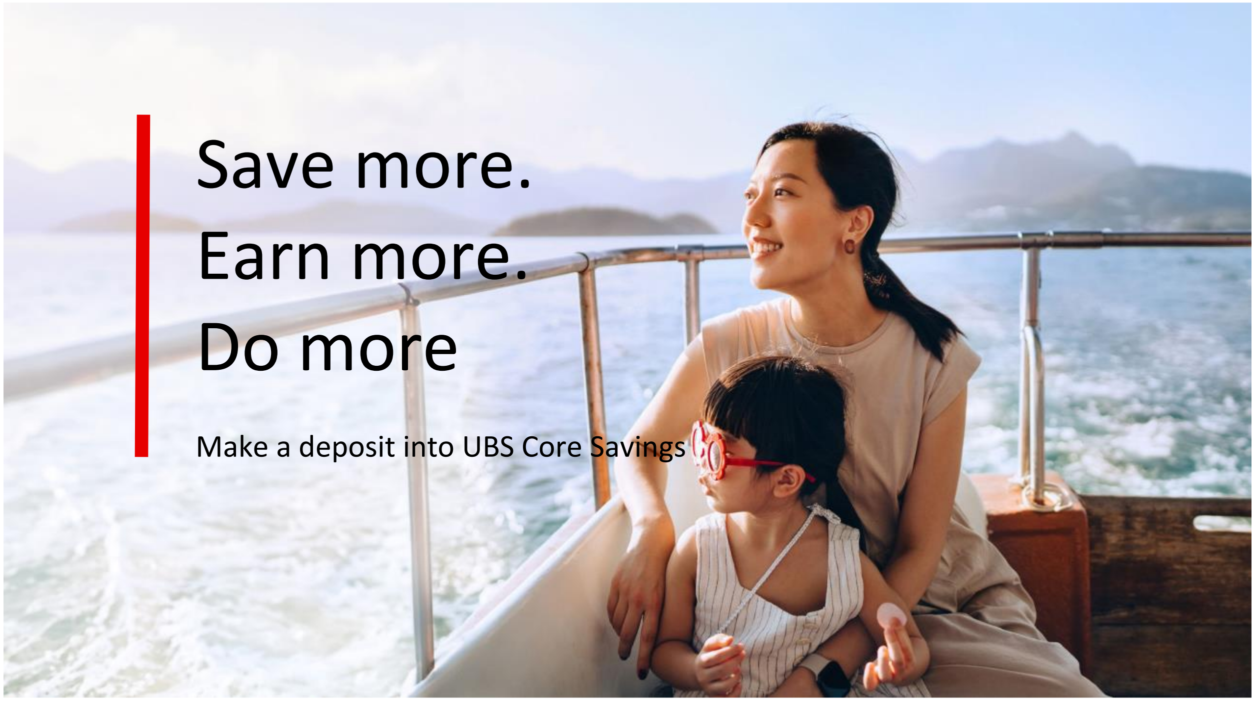


UBS Core Savings Account

Limited-time promotional offer for UBS clients

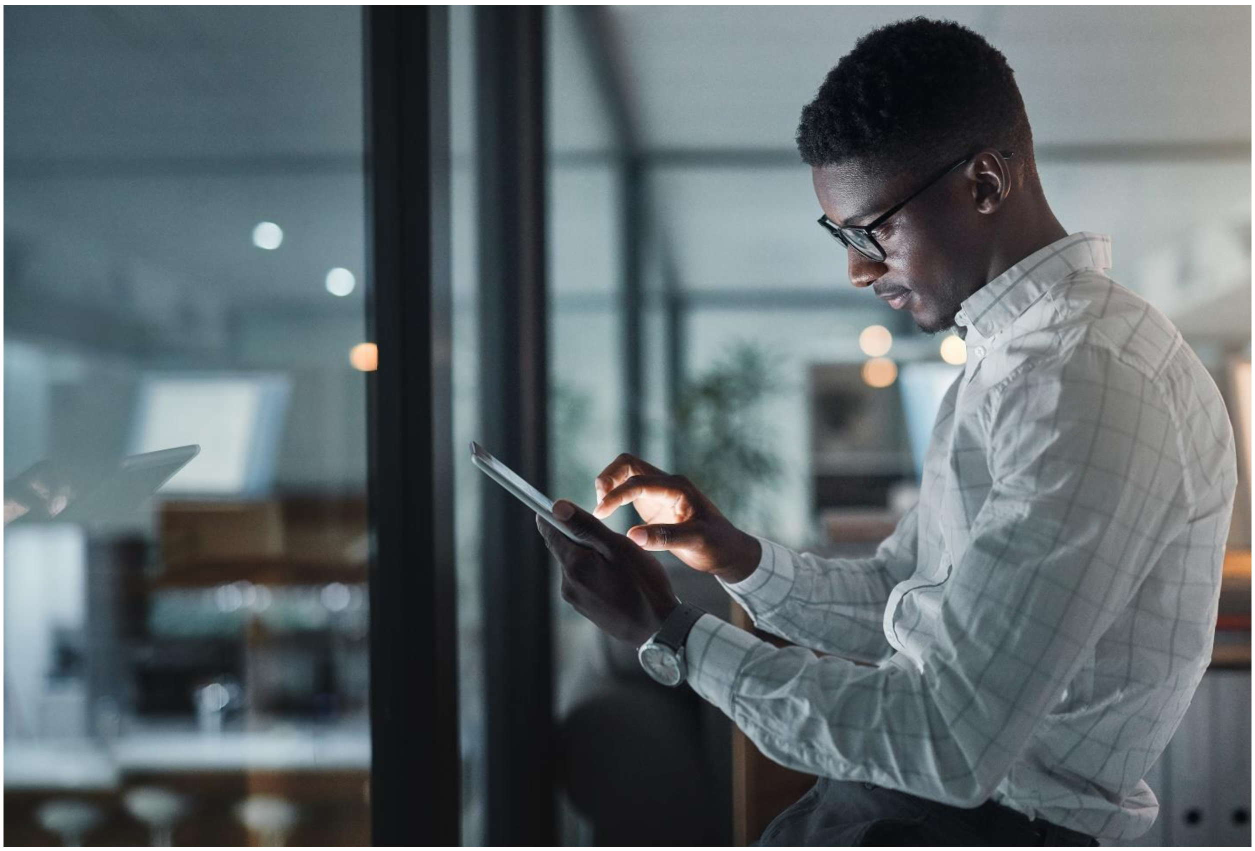
As a UBS client, you can enjoy an attractive 5.40% Annual Percentage Yield (APY) with a net new cash deposit of $100 or more into UBS Bank USA Core Savings (UBS Core Savings) by May 24, 2024. The rate is valid only during the promotional period that ends on June 9, 2024. UBS Core Savings must be funded entirely with net new cash in an eligible UBS account. Net new cash is the total amount of new cash inflows from an external account deposited into your eligible UBS account minus cash outflows from the same UBS account starting February 12, 2024 through the date of your deposit into UBS Core Savings.

Guaranteed Returns through:

Tier 6 - $5,000,000 and above	5.35%
Tier 5 - $2,000,000 to $4,999,999	5.30%
Tier 4 - $1,000,000 to $1,900,000	4.90%
Tier 3 - $500,000 to $999,999	4.60%
Tier 2 - $250,000 to $499,999	4.50%
Tier 1 – Less than $250,000	4.50%

Tax Season

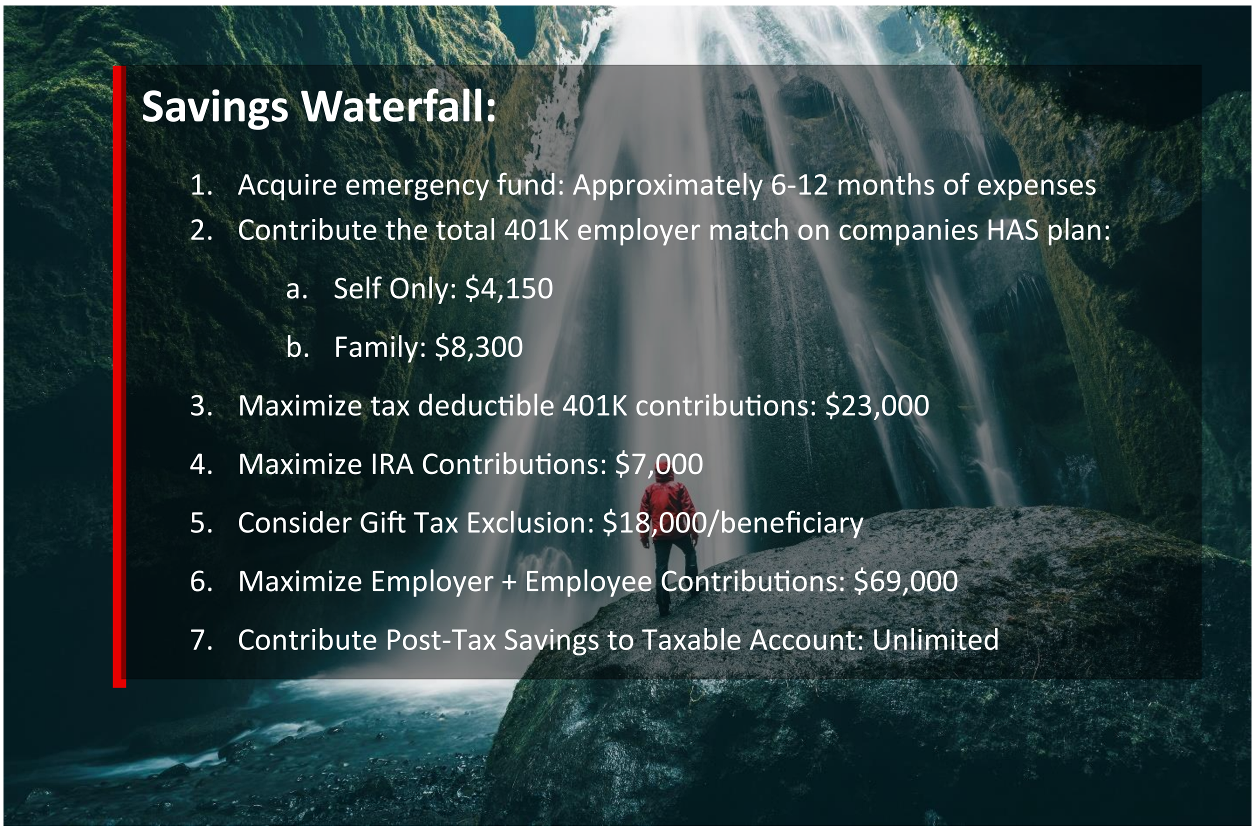
Tax Updates and Strategies



Recently, there has been advocations for a heightened taxation on the world's most affluent figures. With political support and the U.S.'s substantial holdings of global wealth, the emergence of amplified taxation on the wealthy population in the U.S. can seem inevitable. With propositions such as enacting a new wealth tax, titans of wealth such as Elon Musk and Jeff Bezos have recently changed residences to states with favorable tax environments, according to UBS. Such escalating tax obligations raise an emphasis on the vital implementation proper tax management for retirement planning.

As per UBS CIO, there are two important dimensions in regard to tax considerations. With the contribution phase, during one's working years, comprised of prioritizing savings across various account types to effectively navigate taxable income and capital gains. And the distribution phase, in retirement, encompassing an adequate withdrawal strategy calibrated to everchanging tax brackets and rates.

The UBS methodology provides a Savings Waterfall Worksheet provides a prioritization list for individuals to maximize savings while minimizing tax burdens. However, one should precede tax-deferred investments with caution due to likely elevated future tax obligations. This approach consists of considering Roth contributions, nurturing tax-exempt assets poised for sustained growth, and developing a proper estate plan unencumbered by income tax liabilities.



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Key Takeaways

An Approach to Current Conditions

With the opening quarter of the year having an unprecedented surge in U.S. equities represented by the S&P 500 and Nasdaq 100, it has been a pivotal moment in market history. Yet, amidst this excitement, small-cap companies have grappled with elevated interest rates and winds of inflation, creating a lethargic the Russell 2000 in the shadows of a bear market and representing a divergence in the market.

Enter the "Magnificent 7" tech titans, encompassed by powerhouses such as Nvidia and Microsoft, whose stellar performance has become the underpinning of the S&P 500's significant rise. Fueled by the relentless emergence of artificial intelligence, these companies have capitalized and propelled the market along with them. With the exploitation of AI development, alongside the resilient U.S. consumer markets and a the tech-friendly environment, large-cap U.S. equities sustain promises of continual prosperity.

Despite the positive trajectory of the U.S. equity market, maintaining a healthy dose diversification is vital. As markets can be less predictable than perceived, the virtue of diversification remains. As many investors raise concerns of an overly concentrated S&P 500 and inflated large-cap U.S. tach stock values, seeking refuge in a healthy dose of small-cap stocks, international stocks, bonds, and alternative investments alleviates these concerns. By evaluating one's personal risk tolerance, one can achieve a proper balance between unsystematic risk and returns in a tax efficient manner.

As the Federal Reserve wrestles with the contradictory forces of economic improvement and inflationary pressures, investor must chart a course with care. While capturing opportunities in the high interest rate environment through high-quality bonds and large-cap equities in a bullish market, respecting diversification and long-term investment strategies to mitigate risk. In the pursuit of higher yields and returns, allow caution and wisdom to navigate you on the journey to financial well-being.

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