LEGACY
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1st Quarter Commentary

2024

Perspective

Happy New Year!

Many of us end the year reflecting on varying aspects of our lives. This year the word "perspective" stood out.

The Rise of Billionaires

In the early 1990s, a billion dollars seemed magnificent in its size and scope, almost scary, mainly because being a millionaire was so sought after in terms of financial success. Forbes reported that in 1990, there were only 99 billionaires in the world. In the year 2000, the number had increased to 470, and by 2010, there were 1,011 billionaires. In 2020, the number of billionaires had jumped to 2,095, and by the end of 2023, it had risen even further to 2,640.

Almost unthinkable, but who is going to be the first trillionaire? With a net worth of $251 billion, Elon Musk could potentially achieve this milestone in 2024.

The Escalating State of the U.S National Debt

Shifting to the other side of the balance sheet, what does government debt look like? In 1990, the U.S. National Debt eclipsed $4 trillion. In the year 2000, our debts rose to $5.6 trillion, by 2010 we amassed $13.5 trillion. In 2020, the debt reached $26.9 trillion, and at the end of 2023, we have recklessly accumulated $33.9 trillion.

What is ONE TRILLION dollars ($1,000,000,000,000)? It's a million million. It's a thousand billion. It's a 1 followed by 12 zeros. To put it into perspective, a dollar bill is .0043 inches thick, and if you stacked a trillion of them, it would reach approximately 4,300,000,000 inches, about 358,333,333 feet, or approximately 67,866 miles. The U.S. National Debt, $34 trillion, would be 2,307,444 miles or nearly 93 times around the earth.

In light of football season winding down, let's put things into perspective on the field. The NFL football field size is 360 feet by 160 feet (4,320 inches by 1,920 inches). To carpet it with dollar bills would require 703 bills by 736 bills, totaling $517,408. The stack would be 1,932,711 bills high, creating a 230-yard-deep stack covering the entire field. If we multiply this by 34 to represent the current U.S. National Debt, the number becomes staggering.

That is only a small portion of the real debt status. In America, we have a total of $104 trillion in total debt, not including $26 trillion in Social Security liabilities, $40.6 trillion in Medicare liabilities, and a blistering $212.9 trillion in unfunded liabilities (U.S. Debt Clock).

Global National Debt is estimated to be around $200 trillion (World Debt Clock).

The Fragile State of Our Banking System

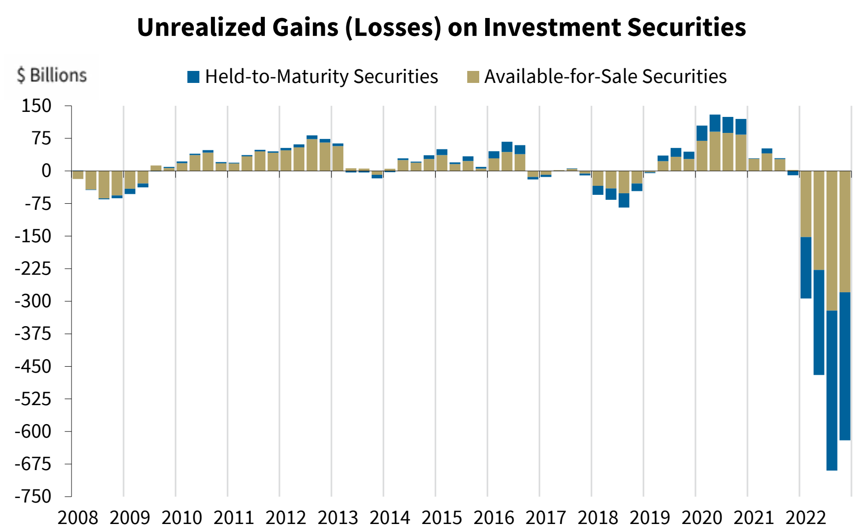
In our 2023 Commentaries, we discussed our fragile banking system. Unfortunately, the current economic environment will likely continue to pose challenges for regional banks. Goldman Sachs reminds us of how important the regional banking system is to our businesses and corporations for capital expenditures.

According to Goldman Sachs, banks with less than $250 billion in assets are responsible for nearly half of all loans made to businesses and corporations for capital expenditures. These smaller banks also account for 60 percent of all U.S. mortgages, 80 percent of all commercial real estate loans, and 45 percent of all consumer loans.

The collective balance sheets of regional banks are fragile to the extent that approximately 200 banks may not survive past 2024. In the third quarter of 2023, unrealized losses on investment securities amounted to $684 billion.

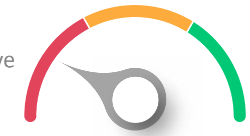
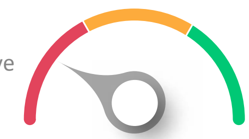
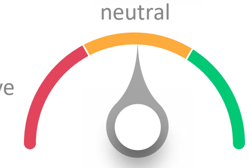
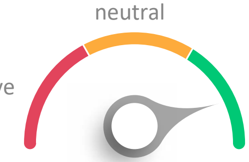
As we look ahead to 2024, regional banks are facing significant pressures from various fronts. These include reduced deposits, significant drops in savings rates, higher interest rates, and increased levels of delinquencies, foreclosures, defaults, and bankruptcies. Additionally, lending restrictions are becoming more stringent, and there is a high likelihood of another credit crunch.

NONPUBLIC//FDIC BUSINESS



Source: FDIC.
Note: Insured Call Report filers only.

Our Trend Reporting

INDICATOR	TREND	COMMENTS/ REMARKS
EXPECTED RETURNS		US Treasuries are priced to outperform the S&P 500 over the next 10 years. Other areas offer more compelling valuations.
BUSINESS CYCLE		Leading indicators have declined for 20 straight months. Coincident indicators are continuing to slow.
MONETARY POLICY		The Federal Reserve has moved to a more neutral stance, suggesting three interest rate cuts in the dot plot.
MARKET TRENDS		Risk sentiment moved back into a positive trend last month on a surge in high beta equities. The Powell Pivot 2.0 may have had something to do with it.

Our framework trends are negative in all four of our major indicators: expected returns, business cycles, monetary policy, and market trends.

Expected Returns

All five of our expected return indicators are negative including the Buffet Indicator and the Hussman Report.

Business Cycle

Eight of our ten indicators are negative with only personal consumption and non-farm payrolls at positive levels.

Monetary Policy

Credit is contracting. Banks are tightening their lending standards. Prices are deflating, and delinquencies, foreclosures, and defaults are all on the rise signaling economic slowing ahead.

Market Trends

Eight of eleven of our trends are negative with high yield to treasuries, stock to bond, and discretionary to staples remaining positive. Overall, the trends have become more and more negative over the last several months.

Trend Reporting is Emphasizing:

- Quality or Risk
- Duration over Short-term
- Private over Public
- Value Emerging Markets over Developed International

If you have any questions, please reach out.

Todd M. Schwartz,CFP®
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