

Trust Company Oklahoma

INVESTMENT PERSPECTIVES

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A WELCOME RETURN TO NORMALCY

Navigating the Economic Landscape: A Recap of 2023 and a Glimpse into 2024

In the past few years in America, the investing landscape has been anything but normal, kicking off with pandemic stimulus policies in 2020 and 2021, supply chain troubles, drastic swings in supply and demand between goods and services, and a booming housing market. Meme stocks proliferated, and valuations in many parts of the market became overheated, especially technology and venture capital. This excess peaked in late 2021 and brought unwelcome inflation and higher interest rates in 2022 and through much of 2023. Ask the average person on the street, and they would likely agree that they have experienced an increase in hardship and living costs over the past few years. A return to normalcy would be very much appreciated.

The good news is that after more than two years of rampant inflation, many parts of the economy and market are, in fact, returning to normal. While two-plus years was a very long time, a look back at similar historical periods of inflation spikes shows that the most recent episode was, in fact, fairly average. A dozen historical examples from 1940 to the present show the average length of time from a period



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of below 2% inflation to peak inflation is approximately 21 months, then an additional 24 months to return to 2% inflation.

This time, official CPI inflation rose from a low of just 1.2% in 2020 to a peak of 9.1% in June 2022. (See the chart "U.S. Inflation Measures, 2020-23" on page 3.) While official CPI continues to trend downward because of lagged effects in the calculation, inflation has been near 3% year over year since May 2023, according to the website Truflation.com, a service that aims to track inflation in real time. After three years of pain during which consumers saw inflation rise a cumulative 17.7% from the end of 2020 through 2023, this is a welcome reprieve.

Most importantly, the inflation outlook is much improved, with the average economist expecting CPI to rise 2.6%

this year, followed by a 2.3% rise in 2025. If inflation continues on the path of deceleration, the Federal Reserve will be able to ease the brakes of high interest rates, which were raised to a range of 5.25% to 5.5% at the end of July 2023. Along with higher Federal Reserve rates, the 10-year U.S. treasury yield also increased from 3.9% at the beginning of last year to a peak of 5.0% in October 2023.

However, history shows that after the last Federal Reserve rate increase, intermediate-term interest rates typically decline modestly over the next one to two years by 0.5% to 1.0%.

With inflation stabilizing, this normalization of interest rates would also be welcome news to investors. More likely than not, the Fed is done raising interest rates this cycle – the bond market currently implies that the first Federal Reserve rate cut will occur in March of this year.

Stock Market

Meanwhile, compared to the slower-moving bond market, the outlook for the stock market is far less certain after a Fed rate pause. Over the past 90 years, stock market performance after a pause has ranged from -40% (during the Great Depression) to +30% 1 1/2 years after the rate pause. The performance of stocks this year will depend on the shape or severity of the economic recovery or slowdown, change in interest rates, and any wild card factors, such as unforeseen geopolitical events. If the ideal economic "soft landing" comes to fruition, a strong market rally

MARKET RECAP

The U.S. economy defied recession expectations for 2023. The combination of resilient economic growth and disinflation resulted in returns for a traditional 60% stock/40% bond portfolio rebounding +18% after last year's historic decline of -16%.

	Past 3 Months	Past 12 Months
S&P 500	11.7%	26.3%
EAFE (International)	10.4%	18.2%

Continued on page 2



Michael Hopper
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President & Chief
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The change to a new year brings news of Pantone's color of the year. Pantone chose Peach Fuzz for 2024's color, stating that the hue communicates "a message of caring and sharing, community and collaboration." It's a message I've been reflecting upon in this time of celebration and transition.

We at Trust Company of Oklahoma take pride in caring for our clients and hope to share our community of collaboration with all. As we move into 2024, I am happy to share the following promotions and additions to our team.

Michael Abboud was promoted to Executive Vice President. **Michael Hairston** was promoted to Chief Operating Officer. **Ryan Short** was promoted to Director of Personal Trust Administration, and **Whitney Stauffer** was promoted to Director of Investment Management Services.

Vicky Brown, Madelaine Hawkins, Andrew King, and Julissa Uriarte were promoted to Vice President. **Taylor Jarrell** was promoted to Controller and Assistant Vice President. **Sara Shaklee** was promoted to Assistant Vice President, **Emilee Bloomfield** was promoted to Accounting Officer, and **Vanessa Fox** was promoted to Marketing Officer.

I'm also excited to introduce four new employees who have joined our team:

Michael Fogarty has joined our Tulsa Investment Management team as Vice President. Before joining TCO, he was a Senior Portfolio Manager with Bank of America. He has previously worked in the investment fields of private equity and international equity.

We are happy to welcome **Jessie Medina**, who has joined our Tulsa office as Tax Manager, taking over responsibility for our internal tax processes. A native of Tulsa, she previously worked for Windes, a CPA firm out of California. Prior to that, she was a Senior Tax Associate for Grant Thornton.

Joseph Mobley has taken a position as Investment Officer with our Tulsa Investment Management team. Joseph most recently held the role of Portfolio Manager at BOK Financial.

Kathryn Sawyer is our newest addition to our Tulsa Personal Trust team, joining as Assistant Vice President. Kathryn came to TCO from Swanson Law Firm, where she served as Associate Attorney.

Thank you for being a part of Trust Company of Oklahoma's community. We look forward to collaborating with you to make 2024 another successful year.

Continued from page 1

similar in magnitude to 1984 or 1995 is possible, with continued strong market gains. It's worth noting that beginning in 1994 and 1995, the internet and associated technology boom took off in earnest, leading to five years of strong U.S. stock market gains.

Conversely, if the U.S. slips into recession and corporate earnings decline, the market could experience a -20% correction. While we don't have the magic crystal ball to predict the future with certainty, history tells us the outlook for the market is relatively normal again, in that it will most likely be determined by economic growth and corporate earnings, rather than abrupt and substantial changes in the inflation outlook or interest rate environment. As one former colleague used to say, "Earnings are the mother's milk of stock performance."

Turning the page to 2024, American politics may not yet be returned to normal, but the possibility exists that this year's may be less dramatic. Stock market performance is typically different in presidential election years than in

other years. (See the chart "S&P 500 Performance - Presidential Election Years vs. Average Years" on page 3.) The market usually experiences more than average volatility, particularly in the early months of late winter and early spring, when uncertainty is high regarding the challenging party's nominee for the election. A bumpy spring is often followed by better market performance over the summer, with additional market weakness in the fall right before the November election.

The last two months of presidential election years often end on a strong note once uncertainty is clarified with a winner.

Adding this all up, 2024 is shaping up to be perhaps the first relatively normal year for the markets in quite a while: moderate inflation, normalized interest rates, stock valuations close to long-term averages, and performance driven by earnings growth. With a little luck, maybe politics will return to a sense of normalcy after the excessive division of the past few years. We can all hope for the best.

What could surprise in 2024?

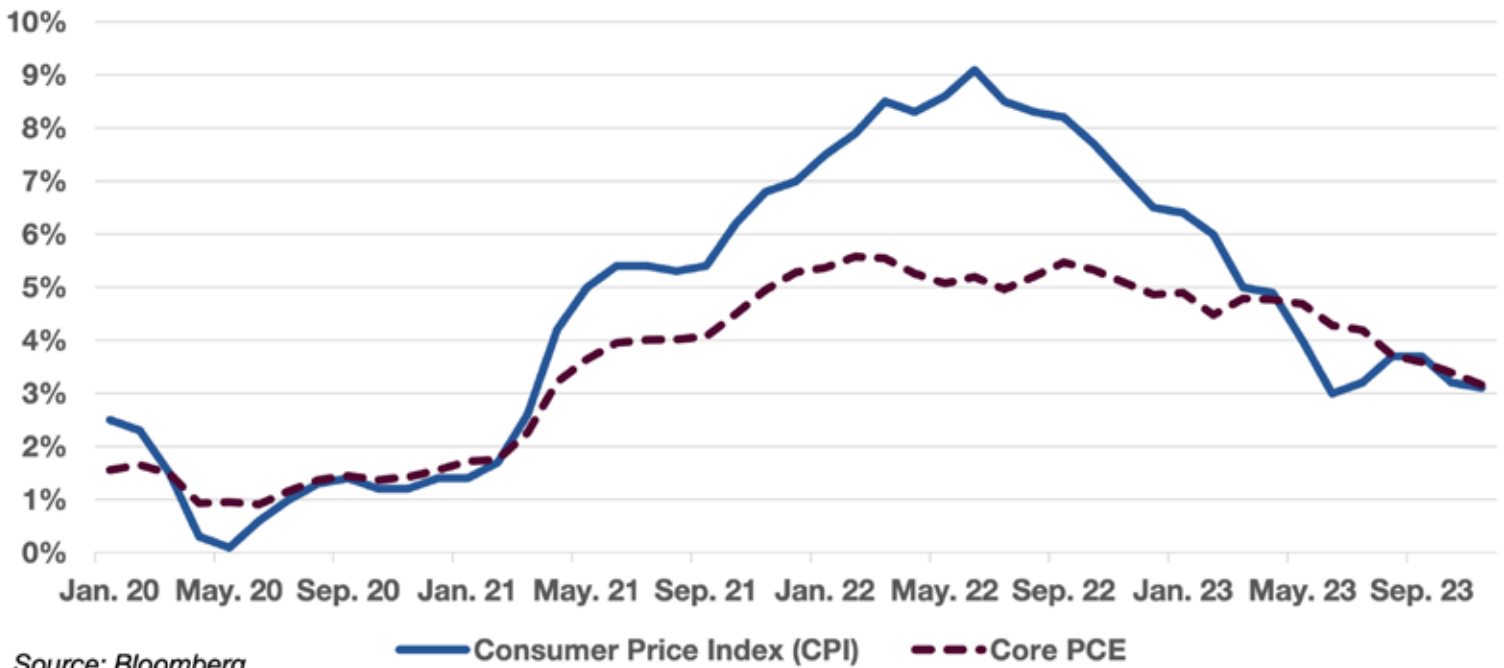
While it's nice to think that market conditions will be normal again this year, what could surprise markets in the year ahead? There will undoubtedly be some surprises in 2024, as always, but hopefully those surprises will be much more manageable than in recent years.

Resurgent Inflation / The Fed Pivot

In mid-December, the Federal Reserve held their final meeting of 2023, surprising markets by indicating they expect to cut interest rates three times in 2024 after raising rates to over 5.25% in July 2023. As of this writing, markets expect interest rates to end the year at 3.75%. While we commend the Fed for looking forward and anticipating the impact of recent interest rate increases on bringing down inflation, this raises concerns that the Fed may be letting off the brakes too soon. Real-time measures of inflation have hovered around 3% since mid-May 2023, while core PCE (the Fed's preferred measure of inflation) was up 3.2% year over year in November. Although the pace of deceleration is

Continued on page 3

U.S. Inflation Measures, 2020-23



Continued from page 2

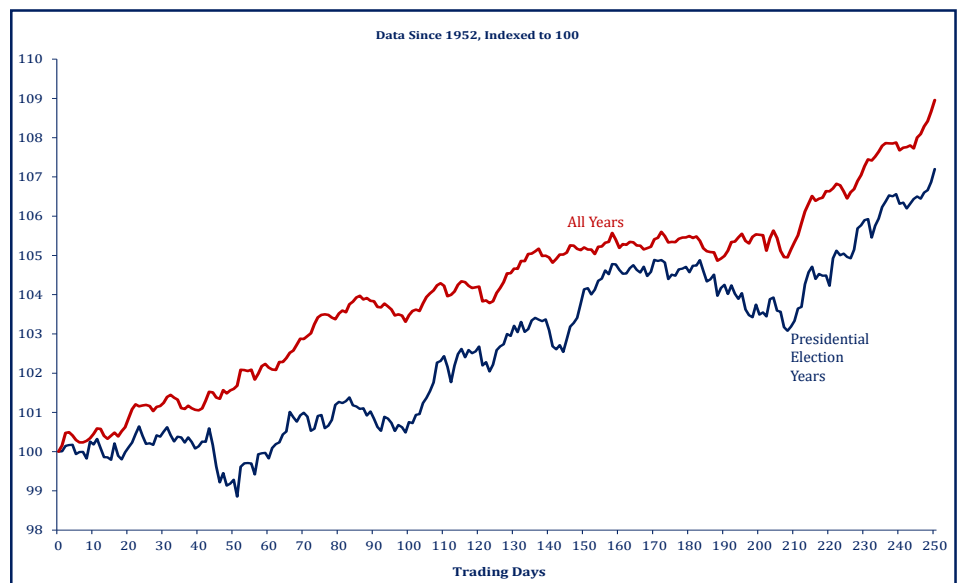
encouraging, one would expect a period of below 2% inflation following a two-plus yearslong spike before settling near the Fed's stated 2% long-term target. Easing too quickly raises the risk that an unwelcome rebound of higher inflation returns later in 2024 if the economy remains strong and the labor market stays tight.

Continued Technology Gains

While a rebound of inflation appears to be the biggest risk in 2024, the biggest potential positive surprise for markets could be a continuation of the artificial intelligence spending boom that began in 2023. The magnitude of stock returns (Magnificent 7 stocks up over 100% in 2023) has been surprising, but one cannot help but compare the current AI trend to the internet boom of the late 1990s or the golden era of mobile growth in the 2010s. In both cases, the trends in shifting consumer preferences lasted a decade or more. At the same time, the dominant technology companies leading the charge outperformed broader market indices for several years as earnings surprised investors to the upside.

While the AI trend has been stealthily building steam for several years via tools such as recommendation engines on Amazon and Netflix, this next round of

S&P 500 Performance - Presidential Election Years vs. Average Years



Source: Strategas Technical & Macro Research

software built with large language models could be game-changing regarding worker productivity. For example, the initial adoption of ChatGPT, and associated capital expenditures of the technology industry on semiconductors, data centers, and software tools has been staggering. Microsoft, Amazon, and Alphabet, all of which have large and growing cloud/AI businesses, are collectively expected to spend \$137 billion on long-term capital expenditures in 2024. This is an incredible number, and it only accounts for three of the largest companies in the technology

industry. Furthermore, this figure also does not include ongoing research and development expenses. Surprisingly, large companies' AI spending is in a lull while many companies organize and prepare internal data for future use in tools/models. The larger ramp in AI spending may be yet to come as 2024 progresses and we move into 2025. Stay tuned for further development in this area.

There is a risk in investing in technology: What is hot at one point in time can turn

Continued on page 4

FDIC INSURANCE: NAVIGATING NEW RULES FOR TRUST-OWNED BANK DEPOSITS IN 2024

As we look back on 2023, the anxiety we felt as we watched multiple banks fail over a few weeks will stick in our memories. The safety of our bank deposits often is taken for granted. But over those few weeks, even those without large balances in their bank accounts wanted to find out a little more about how their hard-earned money is protected should their bank become insolvent.

Many of our clients specifically sought information about FDIC insurance limits for bank deposits owned by trusts. The answer to this question is not a straightforward one. The answer depends on many factors, including the type of trust (revocable or irrevocable), the number of beneficiaries, and the type of interest each beneficiary holds in the trust. Fortunately, the FDIC recognized the need to simplify how insurance coverage is calculated for trust accounts, and new rules will go into effect on April 1.

At the highest level, the new rules provide that a grantor's (the individual who creates the trust) trust-owned bank deposits will receive FDIC insurance of \$250,000 per beneficiary, up to five beneficiaries, for maximum FDIC



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insurance coverage of \$1.25 million at any banking institution. The new rules no longer distinguish between revocable and irrevocable trusts. There is now just one category: "trust accounts" (note that "trust accounts" also include bank accounts with a pay-on-death designation). What does this mean? Let's take a common trust scenario and apply these rules.

James creates a revocable trust to benefit himself during his lifetime and his four children at his death. James opens a bank account titled in the name of his revocable trust at Bank A. To calculate the FDIC insurance coverage for this account, we only need to identify the number of trust beneficiaries. Under the new rules, because James is the grantor of the trust, he is not counted as a beneficiary, even though he can receive funds from the trust. However, all four of James' children

are beneficiaries. Therefore, the deposits in the trust-owned account at Bank A will be insured for up to \$1 million (four beneficiaries x \$250,000).

Let's take another common scenario. George and Martha create an irrevocable trust for the benefit of their two children. George and Martha open a bank account titled in the name of the irrevocable trust at Bank B. The bank deposits in this trust-owned account at Bank B will also be insured up to \$1 million. This is because the irrevocable trust in our scenario has two grantors. Under the new rules, each living grantor of a trust is treated as separately insured. George and Martha are still not counted as beneficiaries, but their two children are effectively counted twice (\$250,000 x two grantors x two beneficiaries).

Even though the new rules will be easier to apply than prior versions, there are still complexities that can come into play beyond this article's scope. Your advisor at Trust Company of Oklahoma is here to help you with your questions about FDIC insurance for your trust-owned bank accounts.



Continued from page 3

out to be a fad and peter over the next few years. Examples of such fads include 3D printers and virtual reality sets, such as Oculus. However, we don't think this is the case with AI tools. In a recent study performed by the Boston Consulting Group, younger career consultants experienced a 25% improvement in their productivity and a 40% improvement in work quality when trained using ChatGPT-4, compared to a control group not using the AI tool. If tools such as ChatGPT can make highly paid white-collar workers significantly more productive, enormous sums of corporate dollars will surely follow in the years ahead, boosting worker productivity and corporate profits.

Longer-Term Implications

Lastly, while inflation and AI may seem unrelated, the potential for meaningful long-term positive impact from AI on worker productivity could spill across much of the economy and markets. Thinking through potential long-term implications:

1. AI tools could increase worker productivity, easing wage-related inflation pressures as companies capture the benefit of AI while also being able to pay workers more.
2. GDP growth could accelerate, growing the economic pie for all Americans.
3. Increased worker productivity could

reduce the need for higher interest rates in the face of a tight labor market and persistent government deficit spending.

4. Many of the early winners from AI spending are U.S.-based technology companies, which could drive continued strong stock performance and a positive feedback loop for workers, companies, the market, and the economy in aggregate.

Whatever happens this year, investing is always an intriguing endeavor with surprises. Hopefully, 2024 will be more "normal" than in recent years. We hope you had a wonderful holiday season, and we are looking forward to what the future brings. 🎉

SAFETY IN THE DIGITAL AGE: TIPS TO PROTECT AGAINST SCAMS AND IDENTITY THEFT

Empower yourself against digital risks with practical tips to safeguard yourself and loved ones in today's interconnected financial landscape.

We can deposit checks using a smartphone, check our retirement account balances in the middle of the night, file our taxes online from the kitchen table, and even pay for groceries with a digital credit card. The internet and smartphones have revolutionized how we manage our financial lives and brought us many conveniences, but they have also brought new risks and challenges.

When so much personal and sensitive data resides online and in the palm of our hands, it's easy to become a target for scams and frauds, which can lead to identity theft, financial loss, and other serious consequences. It can be overwhelming.

Keeping your information safe is essential. Here are some tips to protect yourself:

Emails

Scammers are becoming more sophisticated in their efforts, and it's easy for a fraudulent email to appear legitimate. These emails might have company logos in the body of the email, and a sender address may appear valid at first glance, but often they are not. These emails may tell you something is wrong with your account, such as a payment method that needs updating or another billing issue. Actual companies you do business with might contact you by email, but they usually will not provide a link in the email for you to remedy the situation. To stay safe, always visit the company's website directly, never by clicking a link in an email.

Consider keeping a clean inbox. While it's not recommended to send or receive sensitive information in emails, it will happen. Regularly clean out your "sent" email folder and clear your "trash" or deleted email folder.

Phone Calls

Be very skeptical of calls from "your bank" or "the IRS" or anyone claiming to have details on your accounts. Let these calls go to voicemail, and if you find



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yourself still concerned after listening to the message, call your bank or the institution directly. Do not call the number left on the voicemail or caller ID.

If you answer and speak to someone and you become concerned, NEVER give personal information, EVEN IF the caller seems to have some of your details already. Hang up and call the institution directly at their verified phone number. You can find verified phone numbers on the back of a credit card, on your bank statements, or on a trusted website.

Text Messages

Be wary of unsolicited text messages. If you receive a text message from someone you don't know, or a text message that seems too good to be true, it's probably a scam. Popular text message scams include messages alerting you about a failed delivery notification, a bill payment issue, or even announcing you as a contest winner. Never click on any links or reply to these messages, and never provide personal information. Delete the messages and report them as junk. As with emails, companies may contact you via text message, but they will never request personal information.

If you receive unsolicited messages such as advertisements or political campaign messages, you can reply with "STOP" to unsubscribe from that distribution list.

To Err Is Human

Unfortunately, we are all human, and even if we try our hardest to be prudent with these devices, we sometimes will let our guard down and fall victim to these scams.

What should you do if you believe

your information is compromised? First and foremost, don't be embarrassed or ashamed. Act immediately if you think your bank account or sensitive information has been stolen.

- Contact your bank and credit card companies immediately, via a trusted phone number (listed on the back your debit and credit card), to notify them of the suspected fraud and to begin the process of closing your account(s). They can help you review recent transactions and monitor activity.
- File a report with the Federal Trade Commission (FTC) at [IdentityTheft.gov](https://www.ftc.gov/identitytheft) or by calling 1-877-438-4338. The FTC will provide you with a recovery plan and help you take the necessary steps to protect your identity.
- Place an alert or freeze your credit. Contact one of the three major credit bureaus (Equifax, Experian, or TransUnion) to place an alert on your credit reports. This will help prevent someone else from trying to open up a new account in your name.
- Change your passwords and PINs. Choose passwords containing challenging phrases with numbers and characters. Do not use PINs that include your address, social security number, or phone number. If you are not doing so already, begin monitoring financial accounts often.
- If you'd like to take the extra step of securing a Personal Identification Number from the IRS to use when you file your taxes, navigate to the "Get an IP PIN" tool on their official website. You will receive this PIN in the mail and will need it in order to file your taxes.

At TCO, your security is of utmost importance. Among other security measures, we ensure your funds are secure in your TCO account, even if your identity is stolen. Talk with your TCO professional for more information on how we keep your account safe. We are here to help you keep your identity and property protected.



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