GATEWAY
INVESTMENT MANAGEMENT
OF
RAYMOND JAMES®

THE COMMUNIQUE

December 2023

MAJOR INDICIES	LAST	MTD	QTD	YTD
S&P 500	4569.78	0.04%	6.57%	19.02%
Dow Jones Industrials	36204.44	0.71%	8.05%	9.22%
NASDAQ Composite	14185.49	-0.29%	7.31%	35.53%
New York Stock Exchange	16232.80	0.89%	5.42%	6.91%

U.S. TREASURIES	YIELD
2-yr Treasury Note	4.62%
10-yr Treasury Bond	4.25%
30-yr Treasury Bond	4.41%

Information as of December 4, 2023   Source: FactSet

MARKET COMMENT

Ask and Ye Shall Receive

Well, we certainly received our answer to the following question that we asked in last month's newsletter: "Is this stock market decline (August-October) a standard correction or the start of an extended bear market?" As we discussed whether the decline might be signaling a potential economic slowdown in 2024, the market quickly rallied up, breaking out to a new annual high. This may provide confirmation that the economy still has room to grow into 2024 – avoiding a slowdown or, worse, a recession. Let's look at some of the facts to consider.

The bond market seems to think the Federal Reserve may be finished raising interest rates for this economic cycle. As such, the U.S. Treasurer yields have declined while stocks have risen on the thought that the Fed's next move will be to hold rates steady or, if the economy continues to decline, lower rates to re-stimulate the economic growth. The thought of lower rates is likely premature, but for now, steady rates are enough to keep the economy out of a slowdown or something worse. Also, with lower bond yields, the interest rate sensitive sectors like Real Estate and Utilities have rallied up but are still substantially off their highs from early 2023, offering another positive factor to a steady economy.

The small-capitalized stock sector has seen three previous rallies up this year, but each has fallen back to a baseline area shortly after the rally. The recent fourth rally offers another positive outlook, but only if it can sustain itself to form a new, higher base. Most small-cap companies are sensitive to interest rates due to their need to borrow. So, if rates are going to be steady, or perhaps declining sometime next year, then this would be a strong benefit to these companies and provide continued advancement of their stocks. We don't normally see a healthy rising stock market without the small-cap sector participating in the advancement (year-to-date the asset class is down ~ -15%), but maybe the fourth rally will be the charm!

Lastly, our economy is still growing, corporate earnings were positive/growing in Q3 2023, employment is stable, and the consumer remains engaged. However, there are signs that unemployment is rising and that companies are more cautious with their hiring decisions than they were over the preceding twelve months. This, along with dwindling savings and higher interest rates, has made consumers more cautious, but certainly not deterred. The current positives seem to be outweighing the negatives, but the market generally focuses on the future (usually 6 - 9 months out). So, once we get passed year-end and the "Santa Claus affect", January may tell a different story of a more cautious consumer, slowing corporate earnings, and the economic slowdown that everyone has been predicating for the last twelve months. Finally, I would be remiss if I didn't mention that 2024 is a Presidential election year, which always offers its own challenges. So, we should be in store for an exciting year coming up.

As always, we thank you for continued trust and confidence, especially over this past year. We wish everyone a blessed Holiday season, a Merry Christmas, and a prosperous New Year.

PLANNING STRATEGY

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Trim Your Future Tax Bill by Thinking Ahead

The tax code can be a labyrinth to navigate. Nevertheless, taking action now – while you, your financial advisor and accountant have time to think through the possibilities and maximize your 2023 tax savings – could be more than worth the effort. Consider adding one or more of these four tax-mitigating moves to your capital gain/loss harvesting and year-end charitable giving.

Tip 1: Defer your year-end bonus or postpone income

Who can benefit? Those who think they'll be in the same or lower tax bracket next year.
What is it? Save on this year's higher taxes by withholding your bonus or postponing income until next year when you may be in a lower tax bracket.

Tip 2: Accelerate deductions

Who can benefit? Those who think they'll be in a lower tax bracket next year.
What is it? If you anticipate higher taxes this year, accelerate deductions (e.g., philanthropic donations, property taxes) to get a larger percentage tax benefit.

Bonus: Reducing this year's adjusted gross income also may keep you under the threshold for the 3.8% net investment income tax, which is also known as the Medicare surtax.

Tip 3: Accelerate income and/or postpone deductions

Who can benefit? Those who think they'll be in a higher tax bracket next year.
What is it? If you anticipate higher taxes next year, perhaps due to an increase in income, accelerating income and postponing deductions may help reduce your 2023 tax bill. Consider selling assets at a gain, billing in advance or deferring deductions until next year.

Tip 4: Be very generous

Who can benefit? High-net-worth families who want to donate significant amounts.

Did you know you can use a credit card to make a charitable gift in December and you can still claim the deduction for 2023, even if you pay the bill in January 2024?

What is it? If you want to make a generous charitable gift, consider doing so before year-end or establishing a donor advised fund*, which allows you to receive an immediate federal income tax deduction even if the funds will not be disbursed until later years. If tax rates do go down in 2024, you'd receive a larger tax benefit from the deduction due to the current higher rates.
Keep in mind that if you itemize your 2023 charitable giving, the CARES Act allows you to deduct up to 60% of your adjusted gross income in cash contributions.

If you won't have sufficient itemized deductions to exceed the standard deduction ($13,850 for single filers; $27,700 for married filing jointly), you may wish to bunch deductions by making a large charitable gift, equal to the total donations you would have made over several future years. This could help you take advantage of the ability to itemize this year, while in other years you would take the standard deduction.

Please note, changes in tax laws or regulations may occur at any time and could substantially impact your situation. While familiar with the tax provisions of the issues presented herein, Raymond James financial advisors are not qualified to render advice on tax or legal matters. You should discuss any tax or legal matters with the appropriate professional.

**Donors are urged to consult their attorneys, accountants, or tax advisors with respect to questions relating to the deductibility of various types of contributions to a Donor-Advised Fund for federal and state tax purposes. To learn more about the potential risks and benefits of Donor Advised Funds, please contact your financial advisor.*

LIFE & LEISURE

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Where Should You Retire?

Hint: It's about more than the weather and scenery.

Dreaming of a sunny retirement? Or one with a mountain view? Where you retire depends on more than the weather and the scenery. Different states have different tax considerations – and taxes can have a major effect on the quality of your retirement. Among other financial factors, local taxes should be considered as you decide where you'll spend the next chapter of your life.

Tax considerations

One way to cut your tax bill is by moving to a state that doesn't have an income tax. There are seven U.S. states that do not have an income tax: Alaska, Florida, Nevada, South Dakota, Tennessee, Texas, and Wyoming. Washington state taxes investment income and capital gains, but only for certain high earners, and New Hampshire taxes investment and interest income but is phasing out those taxes.

Keep in mind that wherever state taxes are lower or absent, state-funded programs may be similarly lacking. If you expect you may one day depend on certain government-supported services, you may find a state with higher taxes a smarter move in the long term.

Avoiding destinations with a state income tax isn't a surefire way to minimize your tax burden. WalletHub conducts an annual analysis of the total tax burden by state, measuring the proportion of total personal income that residents pay toward state and local taxes – including state income taxes, property taxes and sales and excise taxes. There are a few additional states on WalletHub's list that keep their tax burden low, even while taxing residents' income. According to WalletHub, the 10 states with the lowest overall tax burden, lowest to highest, are Alaska, Delaware, New Hampshire, Tennessee, Florida, Wyoming, South Dakota, Montana, Missouri and Oklahoma.

Other financial factors

A lower tax bill shouldn't be the only consideration when it comes to location-specific expenses in retirement. The biggest expense in retirement is housing cost, which fluctuates drastically by location. Even if you've paid off your mortgage, other homeowners' expenses like property taxes, insurance, maintenance, and repair costs are higher in some regions and cities than others. Moving where housing costs are low – even if taxes are high – can help your overall budget significantly.

If you plan on working in retirement, you'll want to take note of the second-act career opportunities in some areas. (Of course, with remote working becoming widely available, job location is not as important as it used to be.) Also important is the accessibility of quality affordable healthcare where you plan to retire – healthcare ranks third on the list of biggest expenses in retirement and may be the most important consideration as you age.

While warm weather and a gorgeous view are the makings of an ideal retirement, don't overlook taxes and other location-specific financial factors. Considering these may ultimately lead to a higher-quality retirement.

Next steps

As you approach retirement and consider where you want to live:

- Survey retired friends in different locales about their quality of life.
- Do your research on tax burden for your top contenders list.
- Let us help you create a sample retirement budget.

Quote of the Month: "The best way to spread Christmas cheer is singing loud for all to hear" – Buddy the Elf

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Planning - https://www.raymondjames.com/commentary-and-insights/tax-planning/2023/10/06/trim-your-future-tax-bill-by-thinking-ahead

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