GATEWAY
INVESTMENT MANAGEMENT
OF
RAYMOND JAMES®

# THE COMMUNIQUE

## January 2023

| MAJOR INDICIES | LAST | MTD | QTD | YTD |
|---|---|---|---|---|
| S&P 500 | 3824.14 | -0.40% | -0.40% | --0.40% |
| Dow Jones Industrials | 33136.37 | -0.03% | -0.03% | -0.03% |
| NASDAQ Composite | 10386.98 | -0.76% | 0.76% | 0.76% |

| U.S. TREASURIES | YIELD |
|---|---|
| 2-yr Treasury Note | 4.37% |
| 10-yr Treasury Bond | 3.77% |
| 30-yr Treasury Bond | 3.87% |

Information as of January 3, 2023 Source: Thomson Reuter's Thomson One

# MARKET COMMENT

## Liquidity

At the start of a new year many individuals reflect on the events of the previous year for insights or gleanings that may help them improve their approach or lifestyle going forward. As such, we thought it would be helpful to review a previous newsletter from May 2020 for some of those gleanings of our own. At the time the article was written, the domestic economy was quickly emerging from Covid-19 pandemic. Although there was still considerable uncertainty regarding the virus, and how long it would affect our lives, government stimulus was plentiful and fueled the quickest bear market recovery in our nation's history. In just one year, Congress allocated ~$4.0 trillion of capital outlay for economic relief and stimulus measures. Simultaneously, the Federal Reserve slashed interest rates to 0% and created several funding sources for businesses and individuals alike (*e.g.* Paycheck Protection Program, Main Street Lending Program, and Primary Market Corporate Credit Facilities, etc.). Money was cheap and access to large sums of it was prevalent thanks to stimulus payments, interest free loans, and moratoriums against defaults or repayments. With excess liquidity in the economy, and bonds yielding nothing due to the Federal Reserve's stimulating policy, money flowed into the stock market for no other reason than the lack of alternatives.

The juxtaposition to the current state of the economy and monetary policy couldn't be starker. The Federal Reserve increased interest rates 4.25% in 2022 – one of the fastest tightening cycles in its history – and their projections continue to reinforce a commitment to "higher for longer" going into the new year. This has dramatically increased the cost of credit for consumers and businesses alike (*e.g.* higher rates on mortgage, auto loans, credits cards, and lines of credit). Simultaneously, inflation has eroded the buying power of consumers at the gas pump, grocery store, and restaurants. Liquidity that fueled the recovery in May 2020 has evaporated like water on a blacktop in July. As always, we will wait see what the new year has in store, but a review of the past usually offers some gleanings about the future.

<u>May 2020 Newsletter</u>

Foreboding

> "There is no doubt that the world is a different place than it was a few months ago. Over the past 4 weeks our routines, experiences, interactions (or lack thereof) have been anything but normal. There's no more handshaking or traffic jams. There's a constant army of dogs being walked, and online shopping has emerged as the new Sears catalog. Getting groceries requires more preparation than open-heart surgery – hand sanitizer, a face mask, gloves, and social distancing (and, for some, the additional step of clothes dropped in the washer and a mad dash to the shower). We've also adjusted our social lives. We now do Zoom meetings and virtual wine tasting with friends. There's been a revival of jig saw puzzles, reading, and new/old games like Gin Rummy and Monopoly. It's easy to imagine that some of these adaptations will be permanent, but as we are allowed to resume our previous lifestyles, some of the familiar habits will return as well. Although the world will forever be different, it will also be similar.
>
> The present bear market found a current bottom and, with a rocket like trajectory, the major indices have continued their move upwards (see chart below). All the while, investors continue to ignore the negative news of the impending recession, rising unemployment, business struggling to stay financially solvent, and, of course, the massive healthcare problem caused by the COVID-19. Since WWII, our country has not experienced such a physically and economically devastating event. So why is market confidence lifting so quickly? In one word, "liquidity". As much as the coronavirus outbreak has been a novel event, the response of international governments and central banks is truly unprecedented. Never in our country's history have we witnessed such fast reaction by our own central bank, much less Congress, providing financial relief to individuals, business, and the global economy. What the Federal Reserve has accomplished in these past weeks has provided a safety-net for investors to venture out into the unknown economic future of consumers and businesses. The massive debt created by the Federal Reserve will be dealt with in the future, but for now, its job is to save the economy from a depression. As a result, investors feel comfortable walking further out on the stock market's shaky limbs.


These things are known but figuring out what's next for the market is much trickier. The market is likely assuming that corporate earnings for the 1st quarter will be spotty, and 2nd quarter will be horrible, but there seems to be an expectation for a rebound in the 3rd and 4th quarters of this year. This hope is tied to the unprecedented financial assistance by the Federal Reserve and Congress. But what if the second half of 2020 continues to limp along? What if painful market declines occur again or if the earnings rebound is already priced into the market? According to the charts, we haven't yet received the "all clear" signal, but the recent bottom does provide an opportunity to add long-term investments dollars over the coming weeks and months ahead – especially in declining periods. We believe it is better to be risk conscious during these historic times, but we will remain nimble investors.

As always, if you have any questions or concerns, please feel free to call or email us anytime. We appreciate your patience and trust in this most challenging times. Like all difficulties, opportunities will unfold in the coming weeks and months ahead. Thank you.

## PLANNING STRATEGY

*Raymond James "Point of View" M22-4867495*

### How Does SECURE Act 2.0 Change Saving for Retirement?

The year-end fiscal 2023 government funding bill contained legislation that makes the most significant changes to the U.S. retirement savings system in decades. The SECURE Act 2.0 legislation builds on retirement savings changes passed in 2019 and contains new provisions that further raise the required minimum distribution (RMD) age, shift to automatic plan enrollment and provide for new matching/emergency withdrawal opportunities. Most of the key provisions are effective in the 2024-2025 timeframe, but smaller adjustments (such as an increase in the RMD age to 73) will be effective in 2023. See below for a detailed overview of the key provisions in the legislation and the effective timelines.

## SECURE Act 2.0 is the second bipartisan bill designed to boost access to retirement savings

The SECURE Act 2.0 is a follow-up bill to the original SECURE Act passed in 2019, which began the process of increasing the RMD age from 70 1/2 and increasing participation in retirement savings plans through various tax incentives and eased administrative rules for employer-sponsored retirement plans.

The new legislation goes well beyond the original iteration and seeks to expand participation in retirement savings plans through mandatory enrollments as well as increased flexibility in the individual use of advantaged savings accounts. The new legislation will also extend the savings timeframe before RMDs are required to 75 by 2033 – an almost five-year increase from the original RMD distribution age. Overall, the changes enacted by the legislation (to be phased in over a multi-year period) are likely to boost the asset base for asset managers through increased participation and interest in retirement savings plans.

## Key changes will be phased in over a multi-year period

The most significant changes to the U.S. retirement savings system enacted as part of the recent legislation include a higher RMD age (rising to 75 by 2033), a shift to automatic enrollment for new retirement plans, an allowance for matching contributions to be made for student loan payments (expanding the retirement savings of younger adults), higher catch-up limits for those ages 60-63, and additional opportunities for penalty-free withdrawals/lower penalties for missed RMDs that are corrected.

Starting in 2025, eligible employees will be automatically enrolled into new employer-sponsored retirement plans. Contributions will be set with enrollment between 3-10%, rising by 1% each year unless employees elect to opt out. Under-the-radar provisions include an expansion of multiple employer plans (MEPs) and pooled employer plans (PEPs) to include 403(b)s, 529 to Roth IRA rollovers (max $35,000), and employer-offered de minimis financial incentives (such as gift cards or other financial awards) to increase employee participation in retirement plans.

Detailed descriptions of the key provisions as follows:

- **Automatic enrollment:** Eligible employees are required to be automatically enrolled in new 401(k) and 403(b) retirement savings plans with a contribution between 3-10%, rising by 1% annually (up to 15%) unless employees opt out. Automatic enrollment is effective starting 2025.
- **Higher RMD age:** The RMD age is raised to 73 in 2023 and 75 starting 2033.
- **MEP and PEP access for 403(b) plans:** Access to multiple employer plans (MEPs) and pooled employer plans (PEPs) is expanded to include 403(b) plans.
- **Matching contributions for employee student loan payments:** Plan sponsors may make matching contributions to 401(k), 403(b), and simple IRA plans for qualified student loan payments made by employees effective 2024.
- **Expanded emergency expense distribution allowances:** Emergency distributions of up to $1,000 are permitted for unforeseeable or immediate financial needs relating to personal or family emergency expenses once per year, to be paid back within three years (effective 2024).
- **Tax and penalty free rollover from 529 to Roth IRA:** Beneficiaries of 529 college savings accounts are permitted to rollover up to $35,000 from a 529 account in their name to a Roth IRA account. Rollovers are subject to IRA annual contribution limits and are available for 529 accounts which have been open for more than 15 years. Rollovers are permitted starting 2024.

- **Reduced penalty for failure to take RMDs:** A tax penalty of 50% for failure to take RMDs is reduced to 25%. For IRAs, the tax is further reduced to 10% if corrected. Reduction is effective as of the bill's signing.
- **Higher catch-up contribution allowances:** For those ages 60-63, the catch-up contribution limit is raised to the greater of $10,000 or 50% higher than the regular catch-up amount. The higher allowance is effective starting 2025.
- **Emergency withdrawals for domestic abuse survivors:** Emergency withdrawals for the expenses of individuals escaping domestic abuse situations are provided at the lesser of $10,000 or 50% of the value of the account, to be repaid over three years with a refund of income taxes paid on the repaid amount. Withdrawals permitted starting 2024.
- **Emergency withdrawals for disaster relief:** Withdrawals of up to $22,000 from employer retirement accounts or IRAs are permitted for individuals affected by a federally declared disaster. These emergency-related withdrawals are permitted for disasters occurring on or after January 26, 2021.
- **Expanded administrative cost tax credit for new businesses:** A 50% tax credit for administrative costs incurred by new businesses is raised to 100% for companies with 50 or less employees effective 2023.
- **Employer-offered incentives:** De minimis financial incentives (such as gift cards or other financial awards) are permitted for sponsor efforts to boost employee participation in retirement savings plans, effective as of the signing of the bill into law.

# LIFE & LEISURE

*Raymond James "Point of View" article.*

## Counting on the Social Security COLA

Retirees will get their biggest "raise" from Social Security in 40 years. The cost-of-living adjustment, often called COLA, came in at 8.7% for 2023, significantly higher percentage-wise than its historical average, in a bid to keep pace with stubbornly high inflation. For context, Social Security and Supplemental Security Income (SSI) recipients saw a 5.9% increase for 2022, and the highest increase on record was 14.3% back in 1980.

COLA is based on the year-over-year increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers by the U.S. Bureau of Labor Statistics, though many argue this isn't representative of retirees' costs.

The 2023 COLA will apply to 70 million Americans – including 52.3 million people over age 65, as well as a broader group that encompasses survivors of beneficiaries and people receiving disability benefits and SSI, the program for low income people.

The average increase of about $140 per month will likely be a welcome bit of relief for many, although it may not go far enough for the high number of seniors who rely heavily on Social Security as their primary source of income. According to a survey by The Senior Citizens League, inflation has eroded buying power and caused many to dip into emergency savings. Social Security benefits have lost 40% of their buying power since 2000, according to a new analysis by the same group.

“People who have been retired the longest have really been impacted the most, because they’ve had a cumulative effect where their COLA hasn’t been keeping up,” Mary Johnson, Social Security and Medicare policy analyst at The Senior Citizens League, told CNBC.

### Three things to keep in mind

The 2023 COLA increase might be a double-edged sword for some, as it could be enough to trigger undesirable tax implications and other financial considerations. Those who receive needs-based income assistance, for example, should confirm whether the COLA increase could have any potential negative impact to their benefits eligibility.

COLA increases potentially could trigger larger income-adjusted Medicare premiums if they’re enough to push some higher earners into the next tax bracket. For 2022, individuals whose 2020 income exceeded $91,000 ($182,000 for couples) had to pay more for Medicare Parts B and D. In previous years, higher Part B premiums reduced or eliminated the benefit of a COLA increase for some recipients.

It is worth noting that premiums for Medicare Part B, which covers things like outpatient services, were higher than expected in 2022, climbing 14.5% over 2021. Thankfully, that will not be the case for 2023. Standard Part B premiums for 2023 are expected to be about 3% lower than 2022 levels, so the COLA increase should feel more impactful overall.

For people who are worried about owing the IRS a bit more as a result of the income increase, you have a few options to talk through with your financial advisor and accountant. For example, if you’re collecting benefits but not old enough for Medicare, you can try a high-deductible healthcare plan that allows couples to sock away $8,300 into a health savings account, removing that money from their overall taxable income. Those still working may be able to increase contributions to a work-sponsored retirement plan and/or contribute to a traditional IRA to reduce their taxable base.

One last thing to keep in mind: All federal benefits must be direct deposited. So, if you haven’t already started receiving benefits, you need to establish electronic transfers to your bank or financial institution.

*Sources: verifythis.com; seattletimes.com; cnbc.com; barrons.com; gobankingrates.com; nytimes.com*

**Quote of the Month:** “Time is what we want the most, but use the worst” – William Penn

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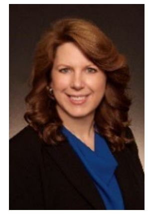

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**Planning** - https://www.raymondjames.com/commentary-and-insights/retirement-longevity/2022/11/23/to-convert-or-not-to-convert-to-roth-ira-tax-is-the-question

**Life & Leisure** - https://www.raymondjames.com/commentary-and-insights/retirement-longevity/2022/12/28/counting-on-the-social-security-cola

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