GATEWAY
INVESTMENT MANAGEMENT
OF
RAYMOND JAMES®

THE COMMUNIQUE

January 2024

MAJOR INDICIES	LAST	MTD	QTD	YTD
S&P 500	4742.83	-0.57%	-0.57%	-0.57%
Dow Jones Industrials	37715.04	0.07%	0.07%	0.07%
NASDAQ Composite	14765.94	-1.63%	-1.63%	-1.63%
New York Stock Exchange	16841.62	-0.07%	-0.07%	-0.07%

U.S. TREASURIES	YIELD
2-yr Treasury Note	4.32%
10-yr Treasury Bond	4.93%
30-yr Treasury Bond	4.08%

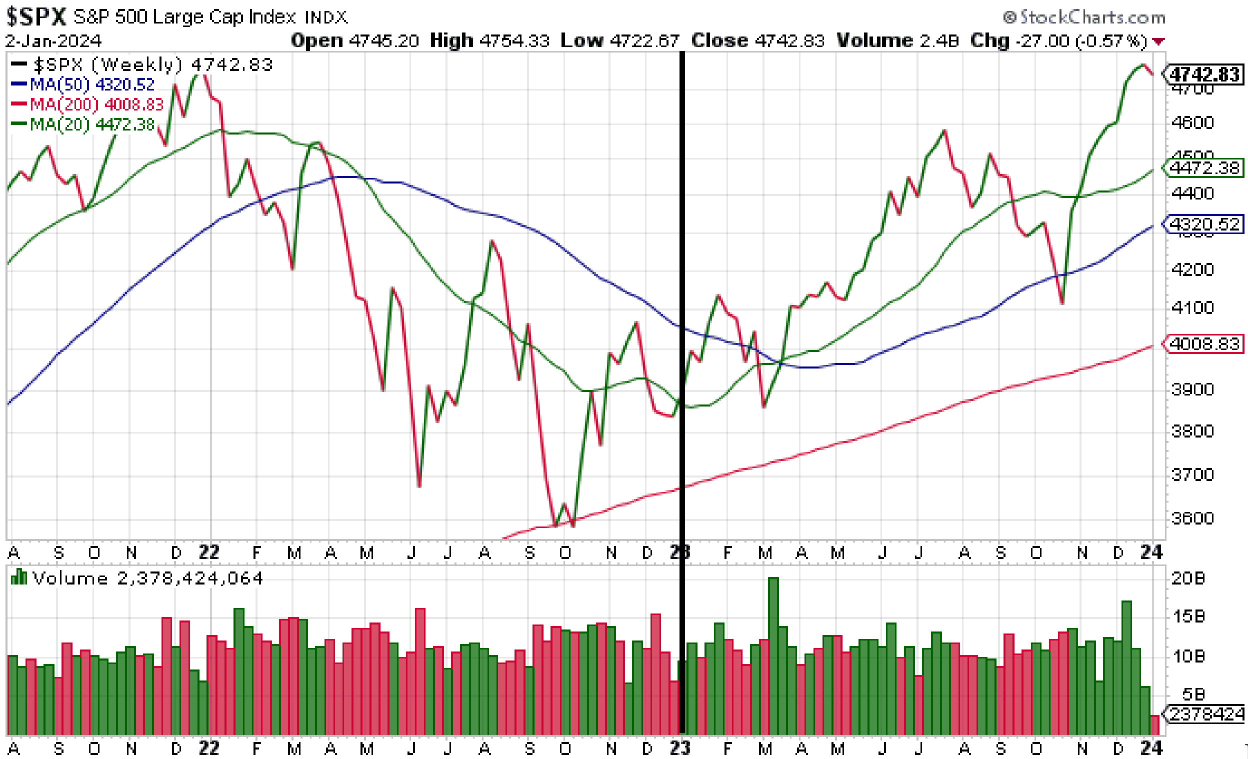
Information as of January 2, 2024 Source: FactSet

MARKET COMMENT

Lessons From 2023

A quick review of the major stock market indices would proclaim that 2023 was a banner year, but from our risk adverse perspective, it has been anything but! One must always remember that the "stock market will do what the stock market wants" … and not what we think it should to do. As such, we thought a reflection of the past 12-months might provide us all with some new and old lessons to consider in the new year. It is quite amazing how investing is always teaching those who are willing to learn.

Let's start with a quick glance at a chart of the S&P 500 index (below). As you can see, following the large declines in 2022, the market moved up in January 2023 (~ +8%) just to give back all its gain a month later (~-8.5%). The index then made a substantial advance into July (~ +18%) but experienced another large pull back into October (~ -11%). The index then exploded to the upside in December as we approached year-end. Despite the stringy of the late year rally, we still haven't broken the 2022 intra-day high. In fact, until October's advancement, the market didn't seem to display the normal conviction of a new bull market. However, this recent move up has provided much boarder participation among stocks, but the M-7 stocks (Amazon, Apple, Google, Microsoft, Meta, Nvidia, Tesla) still carried the bulk of the return for the S&P 500 (~70%) in 2023.



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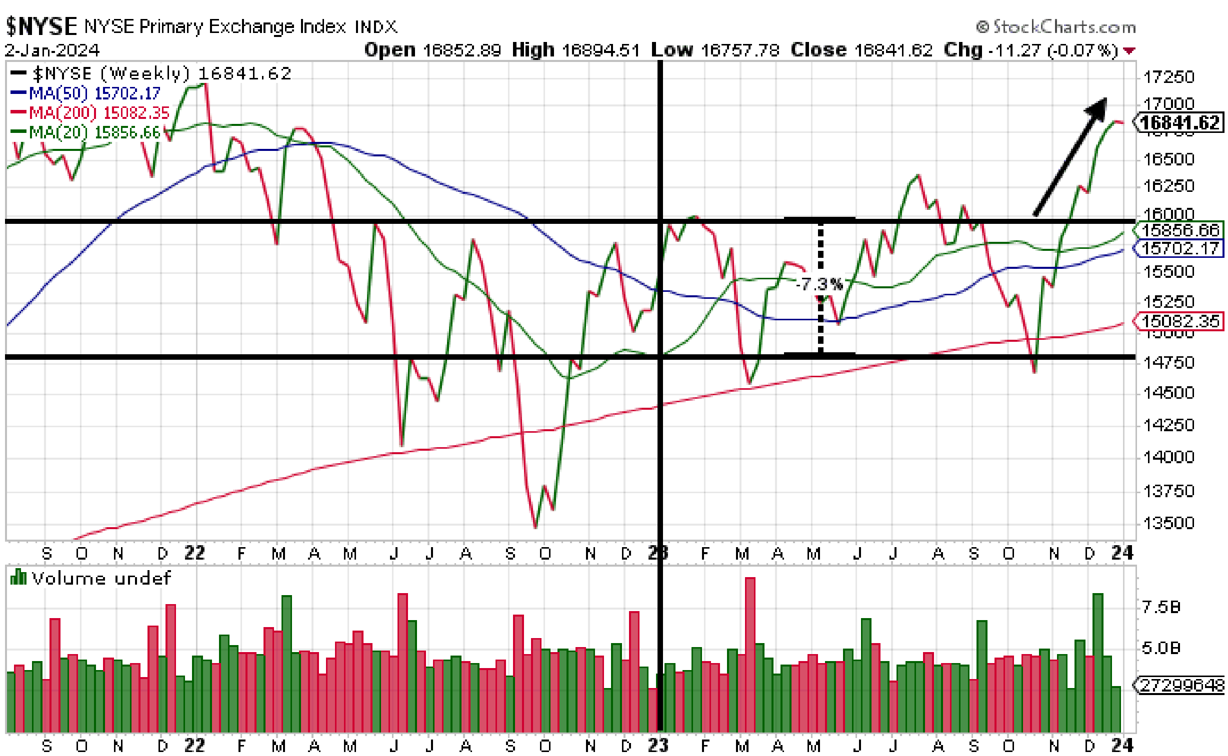
It usually helps to scan the much boarder New York Stock Exchange index for a comparison with the S&P 500 chart above. As you can see, after bottoming in October 2023, the NYSE index traded in a tight range (~8%) for most of the year until it eventually surged in October 2023 (nearly a year later). So, as you can see, this past year has been a rather challenging for a diversified stock portfolio until October.



History is always a useful measuring tool when considering the future – whether in life or investing. Those who do not know history usually end up short-changed. However, this past 18-months has shown that history doesn't repeats itself – and only occasionally rhymes. We saw, and have written extensively about, the inverted yield curve. When the 3-month yield moves higher than the 10-year yield, we have *always* had a recession in the future. Well, no recession happened in 2023. Perhaps it may take longer than normal? Perhaps it may never come? Either way, our economy seems to be humming along quite nicely, so taking a prudent investment position by using 5% yielding money markets provided a strong and safe return but was ultimately insignificant compared to the recent stock market action. Investing is always best when stacking the odds in your favor, and with the long history of the inverted yield curve, one felt comfortable staying more liquid in safe investments – and holding lower allocation in stocks. However, hindsight signaled a risky portfolio would have fared better – but hindsight makes investing so easy.

Secondly, the Federal Reserve prescribed a strong medicine of rising interest rates to slow the economy and reduce inflation. The Fed's delicate balance between "sufficiently restrictive," and not so restrictive to write your own economic death wish, has historically thrown our economy into a recession, which sends the stock market into a bear market retreat. Again, this time seems to be different. Over the past 18-months the Fed raised interest rates 11 times, from 0% to the current 5.5%. This substantially increased borrowing costs for housing, cars, consumer credit, and commercial real estate. Despite these headwinds, home builder's stocks are currently pegged to all-time highs. So, with home buyers slowing purchases due to higher mortgage rates, does the stock market know something about future of the housing market? This past spring saw several banks become insolvent due to the rate increases, yet the yellow flag was quickly brushed aside. Similarly, despite the interest rate turmoil, the stock market continued to rise after the October pullback as the Fed merely hinted that rate increases maybe over (and possible rates cuts next year). History has proven that the Fed rarely creates "soft landings" for our economy, but perhaps this time it is different. Ah, history has proven that phrase to be the most dangerous (and expensive) words in the English language, but maybe it's different this time.

Lastly, 2023 was wrought with global geo-political strife that had investors constantly on edge. There was China's talk of aggressive global dominance, Russia's war with Ukraine, and Israel's war with Hamas. These events historically have provided an opportunity for the stock market to pause and reflect on the potential disruptions to global trade. However, even the "poster child" of energy prices has not risen but held steady or declined – despite original calls for the doubling of natural gas bills in winter of 2023. We seem to be in an investment environment where the glass is always ½ full and problems find a way to get worked out without economic damage. However, this type of Goldilocks scenario works until it doesn't – and then the trap door springs open with falling stock market prices.

Regardless of whether this time is truly different or not, there is no doubt that 2024 will be a very interesting year. If the Fed does lower interest rates, or at least continues to promote that as their next move, then this could be very supportive of our economy and broader stock market advancement.

As always, your trust and confidence are highly valued and deeply appreciated. Thank you and we hope you have a wonderful New Year!

PLANNING STRATEGY

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Turn IRA Assets into Charitable Contributions

Donations are more crucial than ever. In response to recent natural disasters, global inflation, war and a worldwide pandemic, givers stepped-up and expanded the charitable landscape. And now, the SECURE Act 2.0 could bring about a fresh shift in generosity thanks to its new incentive for charitable giving.

Since 2006, philanthropically inclined IRA holders who are 70 1/2 or older have been able to transfer up to $100,000 each year directly from one or more IRAs to qualified charities without being taxed on the withdrawal. The donation is classed as a tax-free qualified charitable distribution or QCD.

Signed into law last December, the SECURE 2.0 Act incentivizes charitable donations by expanding the QCD rules. First, beginning in 2024, the $100,000 annual IRA QCD limit will be indexed for inflation. Within that annual QCD limit, you can now make a one-time-only distribution of up to $50,000 (also indexed for inflation) from one or more IRAs to a qualified "split-interest" entity – in this context, a charitable annuity trust (CRAT), charitable remainder unitrust (CRUT) or charitable gift annuity (CGA).

At first glance, the new split-entity QCD provision may appeal to tax-conscious donors who'd like to continue generating income from their donated assets. However, several critical caveats apply, so consult your team of professionals to understand the requirements and tax implications fully.

Three types of split-interest entities

Charitable remainder annuity trust (CRAT): The CRAT empowers you to fulfill your philanthropic intentions while capitalizing on immediate tax savings, and it provides a steady income for an extended period. You (or your beneficiaries) receive a fixed amount each year, and the remainder of the donated assets go to your chosen charities. To qualify within the new split-entity QCD provisions, the CRAT must be funded exclusively by QCDs, and the only income beneficiaries can be you, your spouse or the two of you.

Charitable remainder unitrust (CRUT): The CRUT also allows you to take advantage of immediate tax savings and provides income for you or your beneficiaries. The CRUT shares the same stipulations as the CRAT. It differs only in that the annual distribution is a set percentage of the trust, between 5% and 50%. Your named charities get the remainder.

Charitable gift annuity (CGA): Many large nonprofits offer charitable gift annuities. You donate to a single charity, which is set aside and invested. You get immediate tax savings and a fixed monthly or quarterly payment from the charity (supported by the investment account) for the rest of your life. At the end of your life, the charity receives the remainder of the gift. As with the CRAT and CRUT, the CGA needs to be funded exclusively by QCDs; fixed payments must exceed 5% of the contributed amount and begin within one year.

Other ways to contribute

There are other ways to use your IRA to make a difference to charities. From an estate planning perspective, consider putting your favorite charities as beneficiaries of your IRA.

Or you can name a donor advised fund (DAF) as the beneficiary of your IRA and list your children, grandchildren, or both as DAF advisors to reap the tax benefit of the donation while empowering your heirs to make grants from the DAF. This is one way to help your legacy live on.

A QCD could be a smart strategy to enhance your giving and win significant tax savings. Of course, it's wise to take a holistic look at your entire estate and determine which assets you should leave to charities and which to your heirs, and then consider which strategies best fit your intentions. Talk to your advisor to learn about your options and how to take advantage of the SECURE 2.0 Act provisions.

Sources: *fidelitycharitable.org; charitynavigator.org;* irs.gov; forbes.com

LIFE & LEISURE

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Tax Efficient Strategies for Investment Properties

One of the benefits of purchasing property as an investment is the tax benefits that can come with it – both while you own it and after you sell. Applying tax-efficient strategies will help you make the most out of your investment property.

Most such strategies require planning and preparations to be put in place, so you'll want to do your due diligence and consult with your advisor and other professionals before you assume these strategies apply to your situation.

How to defer capital gains taxes

There are three strategies to consider if you're seeking ways to defer capital gains taxes upon the purchase or sale of your investment property.

Qualified opportunity zones (QOZ): QOZs are economically distressed communities where new investments, under certain conditions, may be eligible for preferential tax treatment. They're designed to spawn economic development by providing incentives to individual investors or businesses putting capital into the locality. There are more than 8,700 QOZs to invest in across the United States. To get the tax deferral, you must invest through a Qualified Opportunity Fund. Once the property is sold, the seller has 180 days to invest the gains in the fund, and the investment must not be in exchange for debt interest, only equity interest.

1031 like-kind exchange: A 1031 (as they're commonly called) is a strategy to defer taxes by reinvesting the capital in a "like-kind" property. Proceeds from the sale of a property are held in escrow by a third-party intermediary and used to buy a new property. There are several qualifications that must be met for this exchange. First, the new property must be within the United States and be of similar nature and character to the old property. It must also have a value that is equal to or greater than the old property for maximum benefit and to avoid capital gains taxes completely. The new property must be identified in writing to the intermediary within 45 days of the original property's sale and you must close on the new property within 180 days of the sale of the original property. These exchanges must be performed without error to avoid owing taxes, so consult your financial advisor and tax professionals.

Installment sales: Another way to help maximize tax efficiency on the sale of an investment property is a payment agreement with the buyer where the buyer makes payments in installments with interest over time. This breaks up the income earned and defers taxes until later years. Installment sales start with partial payment the year following the actual sale. Typically, you can get a higher selling price than you would with an all-cash sale, and you'll be collecting interest. Of course, there are some risks for extending payments over time, like risk of default on the arrangement, capital being tied up for a period of time and market and interest rate fluctuations, which could lead to lost income. But the tax benefits may outweigh these risks.

Other investment property tax strategies

There are other opportunities to make your investment property purchase or sale tax efficient. A simple strategy with less formality is to sell your property during lower income years. This will allow you to be taxed in a lower tax bracket than usual, saving on capital gains taxes.

If charitable giving is in your heart and part of your financial strategy, you could contribute to a donor advised fund (DAF). You can make a contribution and enjoy the tax break immediately but decide which nonprofits to donate to later on.

There's also an opportunity to qualify for a low-income housing tax credit (LIHTC) by developing housing targeted at lower income tenants. LIHTC gives investors a dollar-for-dollar reduction in their federal tax liability for providing financing to develop affordable housing for low-income individuals.

One of the benefits of owning investment property is flexibility when it comes to taxes. With a bit of preparation and knowledge, you can decrease your tax burden and maximize your investment. It's wise to speak with your advisor and other professionals to determine which tax strategies make the most sense for your situation.

Sources: opportunityzones.hud.gov; irs.gov; investopedia.com; seracapital.com; forbes.com; novoco.com

Quote of the Month: "You're never too old to set a new goal or dream a new dream" C.S. Lewis

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