GATEWAY
INVESTMENT MANAGEMENT
OF
RAYMOND JAMES®

THE COMMUNIQUE

May 2023

MAJOR INDICIES	LAST	MTD	QTD	YTD
S&P 500	4090.75	-1.89%	-0.45%	6.54%
Dow Jones Industrials	33414.24	-2.01%	0.42%	0.81%
NASDAQ Composite	12025.33	-1.65%	-1.61%	14.89%

Information as of May 3, 2023

U.S. TREASURIES	YIELD
2-yr Treasury Note	3.83%
10-yr Treasury Bond	3.34%
30-yr Treasury Bond	3.68%

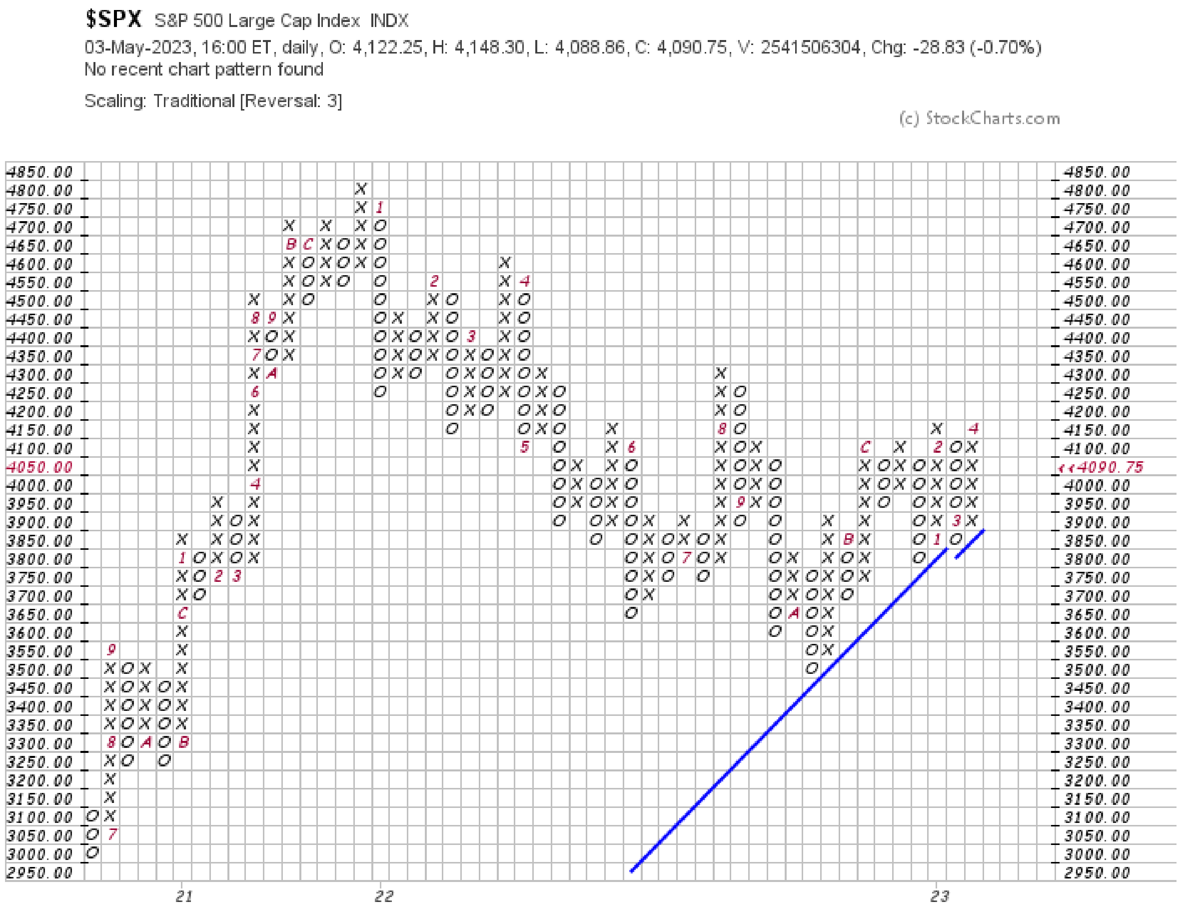
Source: FactSet

MARKET COMMENT

Waiting

As you know, this column is written each month to provide a snapshot of the financial markets and our ideas on the direction they might take in the coming weeks and months. But this month, we thought it might be nice to head out in a different direction. Before we start that adventure, the following chart of the S&P 500 provides all the insight one needs about the current state of the markets.

As you can see, we've been waiting since October 2022 to see if the market will extend the bear market started in January 2022, or if the lows are in and the beginning of a new, extended bull market is in the making. Only time will tell, and we must wait and see with everyone else. So, in the meantime, perhaps looking toward the coming weeks of summer (and any pending vacation plans) may provide a nice diversion. Think of this article a rough draft of our "how I spent my summer vacation" paper that you wrote while in grade school!



The Gateway team has some exciting vacations planned this year, perhaps to provide that much needed diversion from the waiting on the markets. Vickie, and her husband, Mike, will be enjoying the rich culture of Italy in the next few weeks – a trip that will offer a wonderful time of great history, people, culture, and, of course, wine and food. We only hope that they doesn't decide to stay there and trade in their cars for Vespa scooters and a humble villa in Tuscany.

Hunter enjoyed a week on the sunny beaches of Florida with his family in March (Spring Break) and plans to spend some time in Alabama visiting his extended family this summer. Hunter and Grace are not quite at the stage of planning to do what "they" would like to do exclusively – because there are several younger, very vocal, members of the family that must be considered – so nothing too exotic is on the docket.

Lastly, Judy and I have the luxury of planning a couple of get-a-ways! First, we will be off in June to a horse carriage driving competition in Virginia to volunteer as helpers – although we will be working, it will also be great fun watching all the beautiful carriages and horses. Then, for our official vacation, we will be headed to Scotland on a two-part vacation where I am going to participate in my first MacNab Challenge, which has been on the wish-list for many years. It is now or never due to my creaky body. To prepare, this summer is a regimented time of getting in shape – well, as best shape as possible with a creaky body. For those who are unfamiliar with the MacNab Challenge, just google, and click on *The Field's* description, or if you can navigate Youtube, then look up a video titled *Haste Ye Back MacNab*. After the MacNab portion of the trip, we will meet up as a couple and tour around Scotland, enjoying the beautiful countryside, people, and of course some single-malt Scotch.

We hope you all have some wonderful plans for your summer Get-A-Ways or Stacycations. Whether it's near or far, big or small, we hope you enjoy the time while we all are waiting on the markets. As always, thank you for your continued trust and confidence – it is much appreciated and deeply valued.

PLANNING STRATEGY

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How a Dollar Can Add Up to More When it Comes to Taxes

Not only can an extra dollar of income push you into the next highest tax bracket (thankfully, with a progressive tax system, only those excess dollars will be subject to the higher incremental tax), but that dollar can mean you're paying more taxes in other ways. Let's take a look at two of them:

Medicare tax

If your wage or compensation exceed certain thresholds by even $1, you'll be subject to the 0.9% additional Medicare surtax on the excess. While $1 over only means you'll pay an extra cent or so, it can add up quickly the further you are over the limit. Your employer will withhold the tax for you, but you'll still have to file Form 8959 to report the excess income that is subject to this tax. The calculations are a little more complicated if you have self-employment income in the mix, so be sure to discuss this with a qualified tax professional.

And speaking of Medicare and taxes, you'll pay an income-related adjustment in addition to your standard Medicare Part B premium if you made even a dollar over the applicable threshold, which is based on your income from **two years ago**. For example, those who made $97,000 or less (single) or $194,000 or less (married filing jointly) in 2021 pay $164.90 per month for this coverage in 2023. But those who made $97,001 (single) or $194,001 (joint) pay $230.80 per month, an extra $790.80 over the course of the year.

Net investment income tax

Certain individuals, trusts and estates may be subject to an additional 3.8% net investment income tax (NIIT) on the lesser of their net investment income or the amount by which their modified adjusted gross income exceeds the threshold based on their filing status. (Again, that's $200,000 for those filing single or head of household in 2023 and $250,000 for those married filing jointly.)

In general, net investment income includes but is not limited to interest, dividends, capital gains not offset by capital losses, rental and royalty income, and nonqualified annuities; it excludes wages, unemployment compensation, Social Security benefits, alimony, and most self-employment income. So it is possible to be subject to this tax and/or the Medicare surtax since they apply to different income pools.

Another difference is that your employer doesn't withhold anything for this tax. You may request that additional income tax be withheld if you think you'll owe come April. To determine if you are liable, you will use Form 8960 to compute the tax, and will report and pay the tax on the appropriate income tax return form.

For example, let's look at Debra, who files as head of household with $180,000 in wages. She is *not* subject to the Medicare surtax, but she received $90,000 from a passive partnership interest, which the IRS considers net investment income. Now her modified adjusted gross income is $270,000, exceeding the applicable threshold by $70,000. NIIT is based on the *lesser* of the amount that exceeds her modified gross income threshold or the actual net income ($70,000 is less than $90,000 in this case). So she owes $2,660 in NIIT this year ($70,000 x 3.8%).

Note: The real estate market is competitive in many areas of the country. If you've decided to sell your primary residence, please note that up to $250,000 in capital gains from the sale may be excluded from your gross income for regular income tax purposes (if you meet IRS qualifications) and, as a result, is also exempt from the net investment income tax.

Estates and trusts are liable for the tax if they have undistributed net investment income and adjusted gross income over the threshold. As with most tax-related calculations, professional help can be invaluable as computations get complicated for different types of trusts.

Sources: irs.gov; Centers for Medicare & Medicaid Services; Raymond James research
Raymond James does not provide tax or legal services. Please discuss these matters with the appropriate professional.

LIFE & LEISURE

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How to Navigate Inflation While in Retirement

If you're close to or in retirement, recent inflation has likely been unnerving, particularly given that stock markets have experienced significant volatility since early 2022. That is, you're looking at higher prices while parts of your portfolio have lost value and your purchasing power has slipped. So, how should you respond to protect your retirement goals?

When it comes to investing, the best strategy generally is to think long term, develop a plan with your advisor and don't panic. The long-term planning and diversification you and your financial professional have already done were designed to help you weather multiple scenarios, including rising inflation and zigzagging markets.

But what if you're in or nearing retirement? Then do you have cause to panic? No. There's still time to adjust your strategy and/or cut costs, and chances are your current retirement savings (paired with inflation-adjusted Social Security benefits) are already diversified enough to withstand inflation.

Maximize steady income

Social Security benefits and other annuitized income can help you keep pace with inflation during retirement. Most retirees, with a few exceptions, receive Social Security retirement benefits, which include a cost-of-living adjustment (COLA) designed to keep pace with inflation.

Because Social Security benefits are adjusted based on inflation, a portion of your retirement portfolio is already automatically protected from a significant erosion in purchasing power.

You can further strengthen your protection from inflation by including annuities with COLAs in your portfolio. Annuities are insurance contracts that pay out invested funds in defined, guaranteed monthly payments in the future (regardless of how the market is doing). When you choose an annuity, you can select one that includes a COLA to further strengthen this guaranteed source of income. Guarantees are based on the paying ability of the issuer.

Hurry up and wait

A diversified retirement portfolio may reduce inflation risks because some of the asset classes within it may perform well during times of high inflation, balancing out lost value from other asset classes.

But what if you're in or near retirement and fear you don't have enough time to make up for losses? That fear may drive action, but it's likely better to do nothing at first. It's time to use your sounding board. Before you make any changes to your financial plan, it's critical that you consult with your family and financial professionals to temper heightened emotions. Because each person's needs, goals and options are unique, a customized strategy based on your long-term goals is essential.

Next Steps

- Work with your advisor to develop a long-term financial plan.
- Examine your portfolio and research annuitized income sources to determine if they are right for you.
- Avoid making emotionally driven or hasty investment decisions.

There is no assurance any investment strategy will be successful. Investing involves risk, including the possible loss of capital. Diversification does not guarantee a profit nor protect against loss.
Sources: investopedia.com; schwab.com; fidelity.com

Quote of the Month: "I have found that there ain't no surer way to find out whether you like people or hate them than to travel with them" – Mark Twain, Tom Sawyer Abroad

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