GATEWAY
INVESTMENT MANAGEMENT
OF
RAYMOND JAMES®

THE COMMUNIQUE

November 2022

MAJOR INDICIES	LAST	MTD	QTD	YTD
S&P 500	3759.69	-2.90%	4.85%	-21.12%
Dow Jones Industrials	32147.76	-1.79%	11.91%	-11.53%
NASDAQ Composite	10524.80	-4.22%	-0.48%	-32.73%

U.S. TREASURIES	YIELD
5-yr Treasury Note	4.29%
10-yr Treasury Bond	4.09%
30-yr Treasury Bond	4.12%

Information as of November 2, 2022 Source: Thomson Reuter's Thomson One

MARKET COMMENT

The Three-Legged Economy

The "Principle of Three" is a well-known, yet mysterious, phenomenon that displays the power of three across different elements of nature. For instance, take three thin cords, braid them together, and you have a strong rope (just ask Tarzan), a three-legged stool is more stable than a stool with only two legs (ask anyone who has milked a cow), an advertisement is stickier if put in a sequence of three (Hefty, Hefty, Hefty), and most consider the triangle the strongest building shape in engineering (Egyptian pyramids). There is something naturally strong about a series of three, and even in the Christian faith we have the Father, Son, and Holy Spirit. So, it isn't surprising that the economy is split into three primary areas: housing, consumer disposable spending, and employment. Hence, the Three-Legged Economy. Each area is critical to our domestic economy and has a direct impact on the likelihood of recession.

Housing

The housing market represents over 15% of our country's Gross Domestic Product (GDP), which has a significant impact on the direction of the broader economy, both positive and negative. Presently, we are seeing the affordability of housing negatively affect buyers due to the confluence of very elevated housing prices and higher mortgage rates. Data coming from the National Association of Home Builders, such as Builder Confidence, and Prospective Buyers Index, is in a tailspin and registering deeply declining numbers. So, it would appear the housing market is either in recession mode or going in that direction quickly.

Consumer Spending

Consumer spending continues to be strong following last year's rapid expansion after the pandemic bottom. However, consumers are starting to be affected by rapidly rising prices. Recent data shows that most of the household savings accumulated during the pandemic has been used up and consumer debt is above pre-pandemic levels. Higher home prices and more expensive cars has resulted in larger mortgage balances, auto loans, and a resumption of credit card debts. Moreover, higher interest rates on these loans may eventually affect the discretionary income many individuals enjoyed over the last few years. These data points suggest that future economic activity could be limited into 2023 – especially if anything changes on the third leg of the economy.

Employment

Employment has been very strong, with our country showing some of the lowest unemployment numbers in history – much to the chagrin of the Federal Reserve. There has been no problem finding a job since the economy opened back from the pandemic shutdown and many workers continue to transition to higher paying positions/companies. This leg of the economy will probably be the key to if/when we go into an economic recession. Consumers tend to work through rising prices and increasing debt levels if they feel secure in their jobs. However, we are currently experiencing some fractures in the job market, with many companies announcing hiring freezes and/or layoffs – albeit at low levels compared to the current unemployment rate. According to our historical research, recessions usually don't occur unless employment rates rise significantly, thus causing consumers to feel insecure about their future and rein in their spending. So, this leg must be watched closely, because as we know, "where the economy goes, so goes the stock market."

As always, we appreciate and value your continued trust and confidence. Thank you.

PLANNING STRATEGY

Raymond James "Point of View" raymondjames.com

Review Retirement Plan Contribution Limits for 2023

Even in the wake of complex tax provisions, a key to lowering your tax bill is really quite simple: report lower taxable income.

Since few of us actually want to earn less, the next option to consider is to stash as much income as you can into tax-advantaged accounts. If you haven't contributed the maximum amount to a qualified retirement plan at work, consider adding money while you can.

- Contribution limits for **401(k)** and other retirement plans for the 2023 tax year are $22,500 or $30,000 if you're 50 or older (2022: $20,500 and $27,000).

- Consider making additional salary deferrals if you are eligible to participate in an employer **supplemental employee retirement plan** (SERP). This will enable you to further maximize contributions to reduce your taxable income now and defer more compensation into later years when your tax rate may be lower.

- You can accumulate funds on a tax-deferred basis to pay for healthcare expenses through a **health savings account** (HSA) or **flexible savings account** (FSA). Your workplace may offer one, both or neither of these options, so check with your employer. HSA contribution maximums in 2023 are $3,850 for self-only and $7,750 for families, with an additional $1,000 catch-up contribution allowed for individuals age 55 or older (2022: $3,650 and $7,300). The limit for individual health FSA contributions is $3,050 (note that dependent care FSAs have a higher cap of $5,000); employer contributions do not count toward this maximum.

- Once you maximize employer retirement plans, consider contributing to an **IRA** (still a $6,500/year limit, or $7,500 if you're 50 or over). Traditional IRA contributions are tax deductible if your modified adjusted gross income is under $83,000 for individuals (phase-outs begin at $73,000) or $136,000 for joint filers (phase-outs begin at $116,000). You must establish a new IRA account by April 15, 2024, for 2023 contributions, and you have until then to make 2023 contributions to an IRA.

- If you work for yourself, consider contributing to a **solo 401(k) retirement plan**, **SEP IRA** or **SIMPLE plan**.

Let us know if we can help develop a retirement account contribution strategy that's tailored to your unique situation.

Please note, changes in tax laws may occur at any time and could have a substantial impact upon each person's situation. While we are familiar with the tax provisions of the issues presented herein, Raymond James financial advisors do not render advice on tax or legal matters. You should discuss any tax or legal matters with the appropriate professional.

Contributions to a traditional IRA may be tax-deductible depending on the taxpayer's income, tax-filing status and other factors. Withdrawal of pre-tax contributions and/or earnings will be subject to ordinary income tax and, if taken prior to age 59 1/2, may be subject to a 10% federal tax penalty.

LIFE & LEISURE

Raymond James "Point of View" article. M22 - 16345

The Appeal and Reality of Multiple Home Ownership

The joys of a vacation home, or owning multiple homes in your favorite locations, are many. Spending time with loved ones, in locales near and dear to your heart is a worthwhile pursuit. But of course, they come with maintenance and other considerations, including red tape.

No doubt you've figured out who you can trust in each locale – drafting a team of reliable contractors, home repair and other vendors needed to maintain the property and prepare it for your arrival. There are many ways to do this from formally hiring a house manager at each location, to managing the details yourself from afar with the trusted team you've built over the years. These processes no doubt work well for your personal use – but what else will you need in place to rent the property while you're not there?

That’s where local property managers, real estate agents and even your core team of contractors can help. If you want to monetize your property while away for short- or long-term rentals, there are some general considerations and tax implications you’ll want to explore.

How to find tenants

Local real estate agents who know the market intimately, and have access to networks of potential renters who might be looking for high-end housing in-between purchasing a home, can be a good source for reliable renters. They’ve likely mastered the pre-vetting process, and the art of helping you find qualified, responsible tenants by conducting background checks and more. Often an agent has access to a variety of property management and other teams who can help smooth the process locally. Check regulations in the town where your property is to make sure the house is up to rental code. Some towns or cities might require a rental license and inspection for long-term rentals.

Entering the short-term market

Short-term rentals have higher income potential, but require more handholding – something you will really want to consider if hosting from afar. Design services to showcase the property at its best and command top dollar are often required to enter the high-end short-term rental market. Cleaning services, quick response times and turning over the property at a high volume between guests require people on the ground near the rental. You’ll also need to have your attorney check regulations and requirements on short-term rentals as municipalities can differ even from state or federal regulations. In order to protect your property, you will want to have appropriate insurance coverage in place. Liability insurance for short-term rentals is very different than typical homeowner policies. If you have anything on your property that might fall under an attractive nuisance law, like pools, play equipment or even construction on part of the home or property, you’ll want to speak to your insurance broker about a policy to help mitigate risk. And finally, you may want to consider a home warranty policy to help offset the cost of major repairs or appliance replacement. Home warranties are designed to protect appliances and systems from breakdowns caused by normal wear and tear. Liability insurance pays for damages and loss caused by unexpected events such as fire and weather damage, but it won't help if a washing machine breaks down.

Taxes

Whether or not you will be renting, there are tax considerations that come along with owning multiple homes. First is which home you consider your primary domicile, essentially your home base where you hang your hat. This can encompass a wide variety of factors outside of where you spend the most time, including where your pets reside, if you travel for work, and other considerations. Your domicile will determine in which state you pay income taxes, and you’ll be responsible for any normal property tax.

There are also standard federal deductions on the interest on your home mortgage. Before the Tax Cuts and Jobs Act, the mortgage interest deduction limit was $1 million. Today, the limit is $750,000, but there could be those who still qualify for the $1 million level depending on when they bought the property, and improvements and property taxes. You can deduct up to $10,000 in property taxes each year, but that $10,000 limit also includes whatever state and local taxes you may be looking to deduct. (Ex: If your property tax bill comes to $8,000 but you’re deducting $4,000 in state taxes, it means you can only deduct $6,000 of your property taxes.) Talk with your tax professional about these factors to make sure you’ve clearly established the domicile of your choice for an optimal tax strategy. Secondly, if you do rent your property, you’ll need to walk through the tax implications here as well. You’ll have an opportunity for greater deductions as a home rental, but you also may be subject to higher income tax.

Investment strategy

Finally, have a budget for maintenance, property upkeep and any associated costs as well as a plan as to where you want to channel any profits. We can help you allocate these funds and make sure any residual profits are put to work.

Monetizing multiple homes is doable – and can be profitable. Consider not only the tax implications but how your homes fit into your overall investment strategy – and how much work you want to put into turning your homes into an income stream.

Raymond James does not provide tax or legal services. Please discuss these matters with the appropriate professional.

Sources: roofstock.com; businessinsider.com; bdo.com; nyt.com; latimes.com; worth.com; cnbc.com; jjburns.com

Quote of the Month: "There are three constants in life – change, choice, and principles" – Stephen Covey

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