GATEWAY
INVESTMENT MANAGEMENT
OF
RAYMOND JAMES®

THE COMMUNIQUE

September 2020

MAJOR INDICES	CLOSE	MTD	QTD	YTD
S&P 500	3500.31	7.01%	12.90%	8.34%
Dow Jones Industrials	28430.05	7.57%	10.14%	-0.38%
NASDAQ Composite	11775.46	79.82%	9.59%	17.07%

U.S. TREASURIES	YIELD
5-yr Treasury Note	0.27%
10-yr Treasury Bond	0.70%
30-yr Treasury Bond	1.47%

Information as of August 31, 2020 Source: Thomson Reuter's Thomson One

MARKET COMMENT

The New Fed

Federal Reserve (Fed) Chairman, Jarome Powell, recently announced a major change to the analysis employed when setting interest rates in the United States. In the past, the Fed used an economic theory called the Phillips Curve, which encouraged the preemptive raising or lowering of interest rates based on levels of employment and/or inflation. For instance, if the economy was growing too strong, too fast, with low unemployment, then interest rates were increased preemptively to slow things down and, thereby, avoid inflation. Contrarily, interest rates were consistently lowered as slower economic conditions began to manifest to maintain stable prices and employment throughout the economy. Much to the frustration of the Federal Reserve, the Phillips Curve proved obsolete over the past 10-plus years of monetary policy. During that time the United States experienced mixed signals of both low inflation and low unemployment, despite moderately rising economic activity. This left the Fed hostage to the financial markets as they raised interest rates to a "normalized" levels. For example, the Fed's normalized level versus the market's normalized level were certainly not in sync in December 2018. When the Fed raised rates due to low unemployment and increased economic activity – but without any sign of accompanied inflation – the market disciplined the Federal Reserve with a large and swift stock market decline. So what is going on with low inflation, despite the backdrop of high employment, strong economic activity, and robust financial markets?

Before we look at the new Fed policy change, let's step back to discuss how and why this disinflationary period started. I believe the process evolved over the past 2 decades, originally initiated by the Tech Bubble in 2000, then the collapse in Housing and Financial markets in 2008, and now the COVID-19 pandemic. This trio represents a larger global scenario, including China's rise as the 2nd largest world economy, cost reductions due to technological advances, country demographics, global competition, the declining power of Union workers, the reduction of Defense spending/no major Wars, and the abundance of major commodities like oil. A book could be written on the foregoing deflationary reasons given, but just looking at Technology, we have seen enormous changes that result in business cost reductions (*e.g.* automation, cloud computing, artificial intelligence, etc). These efficiencies lead to less spending on traditional goods and requiring less employment, thereby creating less inflation, despite continual growth for the corporation and its investors. .

So what is the "New Fed" policy? Formally, they will adopted a 2% average inflation target over a long period of time, allowing inflation to run higher and lower than 2% at times. This means that they will no longer be "pre-emptive," but will follow employment and inflation changes over a longer period of time, making adjustments as needed. With current interest rates around 0% amid non-existent inflation, a pandemic driven recession, and high unemployment, rates will likely remain low for quite some time. As investors, we ask, "why is the stock market making new highs if the economy is so challenged?" It would seem the markets believe that interest rates are going to stay low for a long time, the pandemic will subside, the economy will recover by early next year, and all the liquidity going into the economy in the form of government action (low interest rates, government stimulus check, tax adjustments, unemployment surplus, paycheck protection payments, etc) will find its way into the economy in the form of consumer purchases and investments to drive the stock market up. Let's hope the market has is right.

As always, we thank you for your trust, and confidence, please let us know if you have any questions, we are here for you.

PLANNING STRATEGY

Raymond James "Point of View" article. M20-3072431

How Different Types of Investment Income Are Taxed

The federal tax system is not exactly straightforward. There are myriad deductions and credits, various tax brackets, additional payroll and Medicare surtaxes, and a slew of different categories to help us define our income … for tax purposes.

You'd think there'd be only two: regular income and investment income. Regular income would be what you get in your paycheck, and investment income would be the money you earn from investments. But even something as seemingly simple as investment income has subcategories, each taxed differently from the next. Let's break it down.

Interest income

There are certificates of deposit and high-yield savings accounts (rare these days), and bonds. Interest income becomes part of your regular income and is generally taxed at your marginal rate during the year in which you receive it, even if it's reinvested. This is what gets reported on your 1099-INT forms.

Capital gains

When you sell a security, any positive difference between what you paid and what you earned is called a capital gain. If you bought 1,000 shares for example, at $14 each and sold them for $20,000, you'd have a $6,000 gain that would be subject to taxes. For most people, securities held over a year (long-term capital gains) will either incur a 0%, 15% or 20% tax. Short-term capital gains are taxed at your ordinary income tax rate.

Dividends

Dividend income is derived from equities that pay shareholders dividends on a regular basis. Qualified dividends are treated to the same preferred rates as long-term capital gains.

Retirement income

Withdrawals from traditional IRAs, 401(k)s or annuities and pension income are typically taxable, while withdrawals from Roth IRAs or employer-sponsored plans funded with after-tax contributions are not taxable. But some subcategories are trickier. If you make more than $25,000, or $32,000 if married filing jointly, up to 85% of your Social Security benefits will be taxed. Income from an immediate annuity is taxed if the annuity was purchased with money that has never been taxed, say in an IRA. Interest income from municipal bonds is generally exempt from federal taxes, but it could still be subject to state or local income taxes, alternative minimum tax, or partial taxation of the income in certain instances.

These examples are merely guidelines. It's important to remember that taxes aren't the only thing to consider. Your personal tax and financial advisors can help you select appropriate income-generating securities for your needs and determine your exact tax liability.

Next steps

As you plan for what taxes you'll pay on your investments, start by:

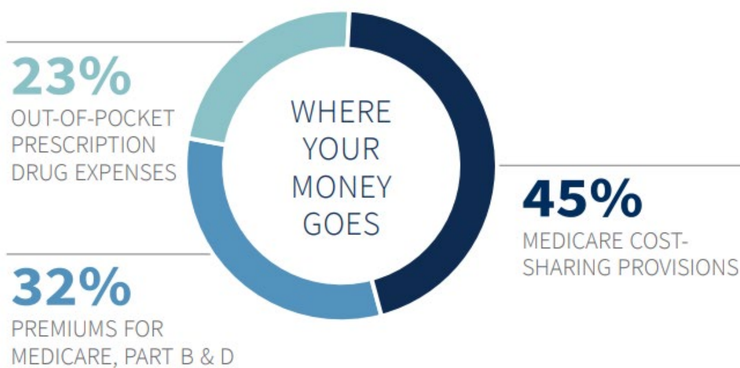
- Understanding the different types of income
- Considering your entire investment portfolio
- Ask us about the tax liability for each of your investments

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

Raymond James "Point of View" M20-3162387

Is it Time For a Change of Plan?

The arrival of fall also marks the arrival of Medicare open enrollment from **October 15** to **December 7**. During this time, you can change from Original Medicare to a Medicare Advantage plan or vice versa or switch from one Medicare Advantage plan to another. You can also join a Medicare Advantage or Medicare prescription drug plan for the first time or drop your drug coverage completely. The point is you've got options.



Open enrollment presents a great opportunity to make sure you're getting the most from Medicare. Every year you should compare your current plan to other plans in your area in case one offers better health and/or drug coverage at lower prices or that better fits your needs.

Reevaluate your needs

The coverage provided by insurance companies often changes each year and could result in paying more on out of pocket healthcare expenses throughout the year. Here are some tips to help you get started.

- Ask important questions. Have your needs changed? Is your current coverage adequate? Is the cost of your current plan going up? Are there comparable, lower-cost plans available?
- Review the annual notice of change from your current plan provider. You should receive this in September.
- If you have a Medicare Advantage plan, make sure your doctor will still accept your plan next year. If your doctor is out of network, you must choose a new plan or pay higher out-of-pocket costs.
- Carefully review your prescription drug coverage and what those copayment and coinsurance costs are.
- If you switch from a Medicare Advantage plan to Original Medicare, you may want to join a standalone Part D plan to get Medicare drug coverage.
- Compare plans using the Medicare Plan Finder at medicare.gov.

Know the risk

If you decide to drop drug coverage, you can rejoin in the future. But, if you go 63 days or more in a row without other creditable prescription drug coverage:

- You'll have to wait for an enrollment period to sign up for coverage.
- You may have to pay a late enrollment penalty. Learn more at medicare.gov.
  Medicare can be complicated, but your advisor can help. He or she has assessment tools to help determine the right coverage if you are transitioning to Medicare or if you are updating current coverage. The choices are numerous and are driven by many factors including personal health, choice of doctors, financial considerations and even ZIP codes.

Next steps

- Mark the Medicare open enrollment dates on your calendar.
- Review the annual notice of change from your current plan provider.
- Set aside time to me with us to assess your current coverage and make adjustments.

Quote of the Month: "The first principle is that you must not fool yourself – you are the easiest person to fool" - Richard Fyenman

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