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WEEK IN REVIEW: OIL- BIGGEST WEEKLY GAIN OF YR.

Review of the week ended July 28, 2017

- **Oil has biggest gain of the year**
- **Nasdaq and S&P 500 down for the week, Dow is up**
- **US growth sees modest Q2 bounce-back**
- **Fed ready to cut balance sheet**
- **US Senate debates Obamacare changes**
- **Trump backs corporate, middle-class tax cuts**

The yield on the US 10-year note rose six basis points to 2.30% on the week while the price of West Texas Intermediate crude oil rose over $3 a barrel to $49.65. Volatility, as measured by the Chicago Board Options Exchange Volatility Index (VIX), rose to 11.00 from 9.9 a week ago. Gold prices rose 0.7% to settle at $1,268.40 an ounce.

US GDP rebounds from sluggish start to year

US economic growth accelerated in the second quarter, rising 2.6%, up from the first quarter's 1.2% pace. Economists had expected a slightly stronger rebound, and the bounce is well short of expectations from earlier in the quarter. Wage pressures remain muted as hopes for sustained faster growth fade, given that pro-growth policies from Washington are looking less likely by the day. Modest growth averaging around 2% looks to be in the cards again in 2017. This should keep the US Federal Reserve on a gradual rate-hiking path.

Fed signals it's ready to cut balance sheet soon

In a statement released after Wednesday's Federal Open Market Committee meeting, the Fed indicated it is ready to begin trimming its balance sheet, which mushroomed in the wake of the global financial crisis. In a statement, the Fed said it expects to begin allowing some of its bond holdings to mature "relatively soon." This is a shift from earlier language, released after the June FOMC meeting, that indicated a move by the end of the year. Many expect an announcement to come at the September FOMC meeting. The Fed held rates steady while acknowledging that inflation is running below its 2% target.

US health care push fizzles

Despite their effort being pronounced dead on several occasions, US Senate Republicans took up health care reform again this week after a dramatic return to the Capitol by Senator John McCain, who was recently diagnosed with brain cancer. Vice President Mike Pence broke a 50–50 tie to allow the Senate to begin debate on several Republican-sponsored legislative options. Ironically, McCain helped scuttle the final alternative, a "skinny repeal" bill that would have ended Obamacare's individual mandate, among other provisions. Now that the health care bill has been defeated, Senate leaders hope to move on to tax reform and to passing a spending bill in order to avoid a government shutdown at the end of September.

Trump talks taxes

Amid a swirl of controversy, US president Donald Trump, in an interview with the Wall Street Journal this week, reiterated his desire to slash the US corporate tax rate to 15% from 35% while lowering the tax burden on the middle class. Additionally, Trump kept open the option of raising taxes on upper-income earners. The president did not rule out reappointing Fed chair Janet Yellen, but said that economic advisor Gary Cohn, former president of Goldman Sachs, is also under consideration for the post. In a press release on tax reform on Thursday, congressional leaders and administration officials agreed to table the border-adjustment tax that would have taxed US imports.

GLOBAL NEWS

Moody's sees less China bank risk

Credit rating agency Moody's has upgraded its outlook on the Chinese banking system to stable from negative. Moody's sees receding concerns over China's massive shadow banking sector following action from regulators to curb systemic imbalances. It also expects nonperforming loans to stabilize near current levels.

Greece returns to bond market after three-years

Having recently secured another bailout tranche from European creditors, Greece returned to the bond markets with a €3 billion five-year offering. Greece is the rare country that issues sovereign debt at a higher yield than some Greek corporates. The new issue yields 4.65% versus some recently issued corporate debt with a 3.1% yield. The extra yield reflects the political risk posed by Greece's relatively market-unfriendly government.

THE WEEK AHEAD

Mon, Jul 31	Eurozone	Unemployment report, consumer price index
Tue, Aug 1	US	Personal income, spending, personal consumption expenditures
Thu, Aug 3	Eurozone	Retail sales
Thu, Aug 3	UK	Bank of England rate-setting meeting
Fri, Aug 4	US	Employment report

Ways to Pay Less Taxes on Retirement Account Withdrawals. There are several ways to minimize taxes as you pull money out of your retirement accounts. Consider these strategies to decrease taxes for your retirement account withdrawals.

Avoid the early withdrawal penalty. If you withdraw money from your traditional IRA before age 59 1/2, there's a 10 percent early withdrawal penalty, and that's in addition to the income tax due on each withdrawal. However, you can take penalty-free 401(k) withdrawals beginning at age 55, if you leave the job associated with that 401(k) account at age 55 or later.

Roll over your 401(k) without tax withholding. If you withdraw money from your 401(k) when you change jobs, 20 percent will be withheld for income tax. However, you can avoid the tax withholding, and the potential to trigger penalties and fees, if you transfer the money directly from your 401(k) to the trustee of another 401(k) or IRA.

Remember required minimum distributions. You are required to withdraw money from your traditional 401(k) and IRA after age 70 1/2. The penalty for missing a required withdrawal is 50 percent of the amount that should have been withdrawn. You can take a lump sum or set up monthly or quarterly transfers. Tax-wise it doesn't matter as long as you meet the requirements. You will be taxed on how much comes out in the calendar year whenever it comes out. However, if you are still working after age 70 1/2 and don't own 5 percent or more of the company you work for, you can continue to delay 401(k), but not IRA, withdrawals until you actually retire.

Avoid two distributions in the same year. Your first required minimum distribution is due by April 1 of the year after you turn 70 1/2. Your second and all subsequent distributions must be taken by Dec. 31 each year. If you delay your first distribution until April you will be required to take two distributions in the same year, which could result in an unusually high tax bill or even bump you into a higher tax bracket. It's probably better to do them in individual years so you are not doubling up on the taxes.

Start withdrawals before you have to. While you don't have to begin traditional retirement account withdrawals until after age 70 1/2, taking smaller distributions beginning during your 60s spreads the tax bill over more years and could allow you to stay in a lower tax bracket and reduce your lifetime tax bill. While most people consider deferring retirement account withdrawals to the latest possible time -- 70 1/2 -- it may be wise to consider spreading out the tax consequences over many years beginning sooner.

Donate your distribution to charity. Retirees who are age 70 1/2 or older can avoid paying income tax on IRA withdrawals of up to $100,000 per year that they directly transfer to a qualified charity. An IRA charitable contribution will also satisfy the minimum distribution requirement.

Consider Roth accounts. Putting some of your retirement savings in an after-tax Roth account could set you up for tax-free investment growth and tax-free withdrawals in retirement. If you expect to be in a higher tax bracket in retirement, a Roth account also allows you to lock in today's low tax rate.

Keep tax-preferred investments outside retirement accounts. Investments that generate long-term capital gains receive preferential tax treatment when held outside of a retirement account. However, if put in a retirement account, you will pay your typically higher regular income tax rate when you withdraw the money from the account. In contrast, you can lower your tax bill by holding more highly taxed investments, including Treasury inflation-protected securities, corporate and government bonds and funds that generate short-term capital gains inside retirement accounts. Move any income producing securities like bonds into the IRAs. You get a higher after-tax return because of the lower tax rates.

For more ways to implement tax-saving strategies, contact:

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