Weekly Market Update

September 25, 2023

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"The weather just went from 90 to 55 like it saw a state trooper."

– Unknown

Market Watch

Week Ending Sept. 22, 2023

(Source: Briefing.com)

• DJIA: 2023 YTD 2.50%	33,963.80	-654.40
• NASDAQ: 2023 YTD 26.20%	13,787.92	-496.50
• S&P 500: 2023 YTD 12.50%	4,320.06	-130.26
• Russell 2000: 2023 YTD 0.90%	1,776.50	-70.53
• 10 Year Treasury:		4.44%

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Dave's Weekly Commentary

Good morning, everyone. What a wonderful weekend. The weather was fantastic and it was nice to start to see some of the leaves turn. Unfortunately, this also means Ohio's winter weather is right around the corner. Nancy and I along with a group of friends headed down for some Octoberfest cheer Friday night for the premier Dayton Art Institute preview night. It was nice seeing friends, family members, clients, and some Wright State Arts Gala committee members. It was also a nice weekend for golf and yardwork. Nancy and I went to a friend's small get together for the Ohio State game. A great evening watching the game outside on their patio with a fire burning, under the stars. The outcome (while nerve racking) with a last-minute win by the Buckeyes added to the evening.

Let's circle back around to the Federal Reserve. There was no action taken on their part this past Wednesday. The Federal Reserve has a dual mandate of maximum employment and price stability; however the Federal Reserve is consumed with a single mandate at this point and that would be price stability, which in the Fed's mind equates to a 2.0% inflation target. Fed Chair Powell's press conference to explain the FOMC's decision to leave the target range for the fed funds rate unchanged at 5.25-5.50% and the updated Summary of Economic Projections, there was much ado about the fact that he said several times the Federal Reserve is able to "proceed carefully."

In fact, he said "proceed carefully" six times, and the word "inflation" was uttered in his prepared remarks and responses during the press conference 81 times. The Federal Reserve has inflation on its mind, which is somewhat surprising Fed Chair Powell said the increase in yields across the Treasury curve in recent weeks is not because of inflation. "It's not because of inflation. It's because probably it has something to do with stronger growth, I would say, more supply of treasuries, you know, the common explanations that you hear in the markets kind of make sense." Other forces also are present to rising treasury yields, such as what buyers are willing to pay for treasuries and the those who have been selling.

As an example, one of those forces is China, which has been reducing its holdings of Treasury securities for the better part of the last 10 years, and there has been an accelerated those efforts since Russia invaded Ukraine. China has reduced its holdings of Treasury securities by more than $200 billion since Russia invaded Ukraine. That covers a span of just 17 months based on the latest TIC Flow report, and prior to that, it took roughly six years for China to trim its holdings from $1.3 trillion to $1.1 trillion. China might be feeling the need to sell Treasuries in a bid to support its currency and/or to bolster fiscal stimulus needed to support its economy. China is a major foreign buyer that doesn't appear to be as active in buying Treasury securities as it has been in the past. At the same time, there are plenty of domestic buyers, as well as other foreign buyers, who are looking at a budget deficit problem in the U.S., and a flood of supply needed to fund the deficit, as a basis to keep to the sidelines. Also please keep in mind, as of January 2023.1 the public holds over $24.53 trillion of the national debt. 1.Treasury Department. "Debt to the Penny."

Not to dimmish the Fed's chief's concern and it has been suggested by the Fed that it will raise rates further if need be, and of particular note Fed Chair Powell said at his press conference is that it is certainly plausible that the neutral rate is higher than the longer run rate, which is part of the explanation, he said, for why the economy has been more resilient than expected. In other words, the Fed may not be at a peak funds rate that it considers to be sufficiently restrictive. If the policy rate has further to go, then Treasury yields have further to go. The hang-up is that, if the policy rate does not have further to go, there are other forces at work out there that suggest market rates will not be quick to ratchet lower when the Fed's tightening cycle is done. The major indices registered declines this past week. Mega caps had a disproportionate downward influence on index performance, but there was no effort to rotate anywhere else so many stocks came along for the decline.

All 11 S&P 500 sectors finished in the red this week. The consumer discretionary (-6.4%), real estate (-5.4%), and materials (-3.7%) were the top laggards while the health care sector (-1.2%) saw the slimmest loss. The catalyst for the weakness was another big jump in Treasury yields. The 2-yr note yield climbed eight basis points this week to 5.12%. The 10-yr note yield climbed 12 basis points this week to 4.44%. Including this week's move, the 10-yr note yield is up 35 basis points this month.

As expected, the FOMC voted unanimously to leave the target range for the fed funds rate unchanged at 5.25-5.50%. There were few changes to the directive itself, but the market was focused on the Summary of Economic Projections which conveyed two key takeaways: (1) Policy rates are anticipated to remain higher for longer and (2) Fed officials are not expecting to cut rates in 2024 as much as they were anticipating when they updated their forecasts in June. Source: Briefing.com.

Have a good week. Hopefully we reverse course upward this week and finish the quarter on a high note!

Newsletter continues on the next page.

Planning Points *This article was prepared and legally licensed for use by AdvisorStream. The Wall Street Journal By Laura Saunders*

A Tax Break Worth the Hassles

Ever since the tax overhaul of 2017, millions of Americans haven't gotten key tax breaks for giving to charity. But a growing group of seniors can still reap remarkable benefits from donations—if they put up with hassles.

First, some back story. One of the overhaul's biggest changes was to nearly double the standard deduction, which is the amount filers subtract from income if they don't list, or "itemize," deductions on Schedule A. Since then, far fewer taxpayers have itemized.

As a result, only about 12.2 million filers deducted gifts to charity on Schedule A for 2021 compared with nearly 40 million for 2017, according to the latest Internal Revenue Service data.

Yet charitably minded seniors have a way around this. They can donate funds from their traditional IRAs directly to charities using a strategy called a qualified charitable distribution, or QCD.

This technique has a double benefit: IRA donors who are at least 70 ½ can take the larger standard deduction, and they get charitable tax breaks as well.

The process isn't simple, however, and deters many givers. "Every year I urge my retirees to use QCDs, and every year they decide it's not worth the aggravation," says Adam Markowitz, a licensed tax preparer who has clients in the Florida retirement communities known as The Villages.

That's often a mistake. But given the potential complications, donors who plan to make these donations for 2023 should begin the process as soon as possible.

While QCDs aren't itemized deductions, the distribution of the IRA funds isn't taxable, as it would be normally. This means the payouts don't add to adjusted gross income, or AGI.

That matters because AGI is a key threshold: It's used to determine so-called Irmaa Medicare surcharges based on income, the 3.8% surtax on net investment income, and medical-expense deductions, among other things.

So QCD benefits can cascade by preventing increases in AGI. The result can be especially dramatic with Irmaa surcharges, where even a dollar more income can trigger higher payments.

For example, a married couple with AGI just above $246,000 for 2021 will owe about $4,000 in Irmaa charges for Medicare Part B for 2023. Say this couple had made small QCDs with IRA funds in 2021 that reduced their income below the $246,000 threshold. That could have saved them $2,400 this year. (Yes, it's hard to predict Irmaa thresholds, but some websites publish estimates.)

In addition, QCDs can count toward the IRA owner's annual required minimum distribution, or RMD, if there is one, up to the QCD limit of $100,000. For people who have oversaved in traditional IRAs, switching their donations to QCDs can be a tax-smart way to shrink the accounts.

So what's not to like? The complications. Unlike giving via credit card or donor-advised funds, QCDs often have many steps. Donors typically must track donations, and claiming them on tax returns is tricky.

Roberton Williams, a retired tax economist in Virginia who donates over $20,000 annually using QCDs, says he has had several issues. Recently he called a charity about a check sent directly from an IRA sponsor that was cashed but not acknowledged. "We didn't know how to get in touch with you," said a staffer, because the check gave his name but not his address.

The QCD process can be less daunting for IRA owners with financial advisers, because many shepherd clients through it—but donors still have work to do. Other IRA owners are on their own. For all, here's more information.

Know the basics IRA owners must be at least 70 ½ to make QCDs. Each eligible owner can donate a total of $100,000 of IRA funds a year, so some couples can donate up to $200,000 annually.

The first dollars out of the IRA are considered the required minimum distribution, or RMD. (RMDs currently take effect at 73.) So if an IRA owner with a $25,000 RMD withdraws that amount before making $5,000 in qualified donations of IRA funds, the donations will be allowed but won't count as part of the RMD. To count, they would have to be part of the first $25,000 out of the IRA.

QCDs must be to 501(c)(3) charities, including many churches and schools, and they can't be to donor-advised funds. The funds must be transferred directly from the IRA to the charity, so the owner can't withdraw funds and later decide to send them.

Start early Advisers recommend making QCDs in January if possible. In that way, the gifts can be part of the required withdrawal if there is one, and there's a long time to work out glitches.

Check your options These vary by sponsor, but QCDs must be made by Dec. 31 for the donation to be part of that year's 1099-R report to the IRS. In some cases the check must clear by Dec. 31, while in others the charity can cash it after that.

At Fidelity, Vanguard, and Charles Schwab the donor can request QCDs either online or over the phone. Then the firms cut checks and mail them to the donor, who delivers them to the charity. Some donors enjoy delivering the check themselves, say by putting it in the church collection plate.

Some sponsors will send the check directly to the charity instead, or process forms the customer mails in. Customers of Schwab and Fidelity have an additional option—an IRA checkbook they can use to write checks to charities.

Track the donation—and get the tax letter Make sure the charity receives the check. As with other deductible donations, the giver of a QCD of $250 or more also needs a letter from the charity before filing the tax return. The letter must say that no goods or services were provided in return for the donation.

Get your tax break! Often the biggest glitch arises because the 1099-R form that IRA sponsors send the donor and the IRS reporting IRA withdrawals doesn't have to break out the total for QCDs vs. taxable withdrawals. So it's easy for the giver to wind up paying tax on nontaxable donations.

Caveat: Be sure to track total QCDs and enter them properly on Lines 4a and 4b of the 1040 form.