Weekly Market Update

March 20, 2023

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"When life seems hard, the courageous do not lie down and accept defeat; instead, they are all the more determined to struggle for a better future."

~ Queen Elizabeth II's Christmas Broadcast, 2008

Market Watch

Week Ending Mar. 17, 2023

(Source: Briefing.com)

• DJIA: *2023 YTD -3.90%*	31,861.90	-47.70
• NASDAQ: *2023 YTD 11.10%*	11,630.50	491.70
• S&P 500: *2023 YTD 2.00%*	3,916.64	55.05
• Russell 2000: *2023 YTD -2.00%*	1,725.89	-46.81
• 10 Year Treasury:		3.395%

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Dave's Weekly Commentary

Good morning, everyone, I will get right to the elephant in last week's room. What a week with all the news about the banking industry. We have had a few questions and heightened concerns, but we feel the recent events in the banking industry are currently nothing like what we faced in 2008. It is, however, quite serious and unnerving.

Attached to this newsletter are two attachments. One addresses the SVB situation but is quite detailed. The second helps answer the question "How safe are my investments?" This information comes directly from the website of Pershing, the custodian of most of our clients' investment accounts. If you have further questions beyond what's detailed in these attachments, please call us about your individual concerns and we can answer your questions.

Some of the outcomes of last week's news meant that participants have been clamoring for relief on the interest rate front, and, boy, have they gotten it. The question, though, is at what cost? The 2-yr note yield dropped 79 (.79%) basis points this past week to 3.80% and the 10-yr note yield dropped 31 basis points to 3.39%. A little over two weeks ago, the 2-yr note yield stood at 5.06% and 10-yr note yield hit 4.10%.

The reversal was not precipitated by some unequivocally friendly inflation data. It was precipitated by the shocking failures of Silicon Valley Bank and Signature Bank. SVP's problem was not a good day for look for the Fed Chair and the Federal Reserve's supervisory capacity. They missed it, but to be fair, so did just about everyone else.

The focus on March 8 was whether the Fed would raise the target range for the fed funds rate by 50 basis points at the March 21-22 FOMC meeting. On March 10, before the close of trading, Silicon Valley Bank was taken over by regulators. On March 12 Signature Bank was closed by its state chartering authority, and later that evening Treasury Secretary Yellen, Fed Chair Powell, and FDIC Chairman Gruenberg issued a joint statement noting that all depositors at these banks would be made whole under a systemic risk exception.

The Fed also introduced a Bank Term Funding Program designed to stem possible deposit runs on other banks by accepting high-quality assets as collateral at par value. And just like that, it was evident to the world that the U.S. banking sector had a possible crisis on its hands. The characterization that this is a crisis might be debatable. It certainly doesn't have the same characteristics as the financial crisis of 2008-2009 (thankfully), but the Treasury Department, Federal Reserve and FDIC have themselves deemed it a crisis by invoking the systemic risk exception.

In light of these events, we ask: what do the next 12-month outlook for earnings look like? Better or worse? When banks go into "protection mode", it is not a good for growth prospects. Credit is the lifeblood of economic expansion, and when there is a slowing in the flow of credit, the economy suffers. Accordingly, the news of "we are going to experience a recession" have picked up since last week's events and many are again pointing to the Treasury yield curve as their guide, only not because the 2s10s spread is widening further but because it is steepening. That is, short-term rates are falling more rapidly than long-term rates on the assumption that weak economic conditions are going to force the Fed to cut rates.

We'll be watching how this banking crisis resolves itself both in terms of form (an abatement if deposit concerns) and function (the extent of bank lending activity). Nevertheless, there is little doubt that the economy has heightened concerns last week's events, which has compounded an already high sense of uncertainty and has created excess volatility in the capital markets that should weigh further on consumer and business confidence. Even with all the news, the S&P and Nasdaq were up on the week, the Dow was marginally down, and the Russell 2000 had a down week, but considering all the bad banking news, the market indexes weathered the week well. Source: Briefing.com

We will see what the upcoming weeks bring. Have a good week! Dave

Planning Points *This week's "Planning Points" contains a timely topic about the IRS' guidance on state tax payments. Perhaps a bit boring, but you may be affected. The IRS has determined the federal income tax status of special payments made by 21 states in 2022. Source: Broadridge Advisor Solutions. Copyright 2023.*

IRS Issues Guidance on State Tax Payments

The IRS has identified 21 states that made special payments to taxpayers in 2022. After a review of those special payments, the IRS has determined that taxpayers in many states will not need to report those payments on their 2022 federal income tax returns. Special payments in four of those states should be

Newsletter continues on the next page.

3 Fund Types Every Investor Should Know (part 2 of 2)

Exchange-Traded Funds: ETFs combine elements of mutual funds and conventional stocks to create unique investment opportunities. An ETF is a pooled investment fund (like a mutual fund), but ETF shares are bought and sold at varying prices throughout the day (like conventional stocks). Certain ETFs have tax advantages — you can own ETFs in taxable, tax-deferred or tax-free accounts — so we should discuss how this may impact your overall financial or retirement plan.

Index Funds: Index funds take one of multiple approaches to track the returns of a market index, like the S&P 500. These investment vehicles share similar characteristics with mutual funds and ETFs, but they are designed to mirror the performance of a particular market index (small-cap stocks, emerging markets, etc.). Index funds follow a passive investment strategy, seeking to match the risk, return and long-term performance of an index. Because of this, they usually have lower expense ratios.

You're now armed with a bit more knowledge about a few of the many available investment options that can make up the backbone of your financial plan. However, knowing exactly which option is best for YOUR unique situation is a whole different matter.

Give our office a call today to set up some time to review your plan. We'll make sure everything is on track and can answer any additional questions you may have.

treated as refunds of state taxes paid, and taxation is determined under the general federal income tax rules for state tax refunds. Special payments in 17 states are treated as made for the promotion of the general welfare or as a disaster relief payment and are excluded from income for federal tax purposes. Illinois and New York are listed in this category but seem to have provided a mixture of payments that fell into multiple categories (see below).

If you have already filed your 2022 federal income tax return and omitted one of these special payments when it was required to be included in income, you may need to file an amended tax return and pay any additional tax due. If you included one of these special payments in income when it did not need to be included, you may need to file an amended tax return in order to get a federal income tax refund with respect to the special state tax payment.

Refund of state taxes paid

The IRS has concluded that the special payments from the following states in 2022 are treated as a refund of state taxes paid, and the appropriate analysis under the general state tax refund rules should be made.

- Georgia
- Massachusetts
- South Carolina
- Virginia

Under general rules, if the payment is a refund of state taxes paid, the payment is excluded from federal income tax unless the recipient received a tax benefit in the year the taxes were deducted on the federal income tax return. Thus, the recipient does not need to include the payment in income if the recipient claimed the standard deduction or the taxpayer itemized deductions but did not receive a tax benefit (for example, because the $10,000 tax deduction limit applied) in the year the state taxes were deducted.

General welfare and disaster relief payments

The IRS has determined that the special payments from the following states in 2022 were made for the promotion of the general welfare or as a disaster relief payment and are excluded from income for federal tax purposes. Exclusion is only for the supplemental

State	State Payment Program
Alaska*	Energy Relief Payment (supplementing the Permanent Fund Dividend)
California	Middle Class Tax Refund
Colorado	Colorado Cash Back
Connecticut	Child Tax Rebate
Delaware	Relief Rebate Program
Florida	Pandemic Temporary Assistance to Needy Families
Hawaii	Act 115 Refund
Idaho	2022 Tax Rebate
Illinois**	Individual Income Tax Rebate/Property Tax Rebate
Indiana	Automatic Taxpayer Refund #1/Automatic Taxpayer Refund #2
Maine	Pandemic Relief Payments
New Jersey	ITIN Holders Director Assistance Program
New Mexico	Multiple rebate and relief programs
New York**	Supplemental Child Credit and Supplemental Earned Income Tax Credit
Oregon	One-Time Assistance Payments
Pennsylvania	One-Time Bonus Rebates
Rhode Island	2022 Child Tax Rebates

**Energy Relief Payment received in addition to the annual Permanent Fund Dividend.*

***The IRS stated that "Illinois and New York issued multiple payments and in each case one of the payments was a refund of taxes, which should be treated as noted above, and one of the payments is in the category of disaster relief payment." It seems that additional guidance from the IRS is needed here to identify the tax treatment of specific payments.*

Other payments

The IRS adds that other payments that may have been made by states (e.g., payments from states provided as compensation to workers) are generally includable in income for federal income tax purposes.