



## January 2023 Pearsall Wealth Management Newsletter

<u>Index</u> <sup>1</sup>	<u>4<sup>th</sup> Quarter 2022</u>	<u>Year End 2022</u>
S&P 500	7.56%	-18.11%
Dow Jones Industrial Average	16.01%	-6.86%
Russell 2000	6.23%	-20.44%
MSCI EAFE	17.40%	-14.01%
Barclays Aggregate Bond	1.87%	-13.01%
US Treasury Bill – 3 month	0.87%	1.50%

**As I've commented to many of you** academics will enjoy picking apart 2022 for years to come. Last year we experienced:

- The 3<sup>rd</sup> time in 50 years that both the stock and bond markets were negative<sup>2</sup>
- The worst year for fixed income (bonds) on record<sup>3</sup>
- The 7<sup>th</sup> worst year for the stock market (S&P500) going back to 1929<sup>4</sup>
- The Federal Reserve raising interest rates 8 times from target range of 0-0.25% to 4.25-4.5%<sup>5</sup>

Though we expected interest rate increases this year, we did not anticipate inflation remaining this high for this long. We expected the fed to slow a booming economy to fight high inflation which was caused by supply chain disruptions and fiscal stimulus during the pandemic, leading to more dollars chasing fewer goods. We did not foresee the invasion of Ukraine, which caused additional inflationary pressure, particularly on energy prices and supply chains that were only beginning to normalize. As fascinating a year as it has been market wise, it has not been enjoyable for any of us nor our portfolios.

**So where might we go from here?** As we mentioned in our October newsletter, thankfully there are several events that have a good chance of impacting the market in a positive way should they come to pass:

- Currently UBS expects the Federal Reserve will pause their rate increases after the February or March Fed meeting, potentially with a total additional increase of 0.50%<sup>6</sup>. The point the Fed pauses increasing rates will be partially informed by the unemployment level – the latest job opening data showed



that there are still 1.74 jobs available for each unemployed person<sup>7</sup>. The Fed is likely to continue trying to slow the economy until the ratio is more even however this is not an exact process. Any change in interest rates may take several months to impact the economy, and even longer to measure that impact. If inflation (particularly wage inflation) cools more quickly than the Federal Reserve expects we may see the markets pop up in anticipation of the Fed pausing sooner than expected.

- A cessation of hostilities in Ukraine would likely benefit the global markets as supply chains ease and the price of oil and natural gas potentially decrease as well as if supply to Europe resumes closer to historic levels.

For the first half of the year we expect continued volatility as the Fed reaches their interest rate target and observes how the economy responds. We expect a combination of “disinflation” (inflation decreasing but not going negative (deflation)), with the market reacting to how durable profit growth remains given the higher interest rate environment<sup>8</sup>, potentially resulting in market softness. Though a “soft landing” is certainly possible we are more likely to have a mild recession. Another down wave in the market may present a good buying opportunity – UBS expects the 2<sup>nd</sup> half of the year to be stronger<sup>9</sup>.

**This year it may be particularly important to update your financial plan**– There have been changes in the past few years that are crucial to incorporate into your plan:

- For many the past few years have been busy with changes in your life or rethinking your goals, given what you or your families have experienced.
- The financial planning software we use includes difficult years in the markets – it can be helpful for your peace of mind to see if you remain on track, or if you are not on track to understand what various paths exist to shore up your financial plan – small changes today can have a big impact over time.
- The Secure Act 2.0 that was signed into law at the end of December includes several items that may impact your plan, such as the age you are required to withdraw minimum distributions from your IRA. Melissa will cover a few of the important changes below, and we’ve enclosed the UBS 2023 Retirement Guide for additional detail.

As usual, we will contact you the same month we have historically met to review your financial plan and portfolio. Similar to going to your doctor or dentist, if something significant changes in your life please give us a call rather than waiting for your annual “checkup”. If you have never completed a financial plan and are interested in learning more, please give us a call and we can explain the process.

**We appreciate your trust and partnership –we are here to help guide you and provide perspective -**

Please give us a call if you’d like to discuss your financial plan, portfolio, or catch up in general.



**From Melissa-**

**10 Money Resolutions-** December 2019 UBS Chief Investment Office (CIO) put out a great piece titled "10 Money Resolutions for 2020". Given the craziness of what transpired a few months later and life finally returning to a "new normal", I thought it might be a good time to share and revisit. Sticking to a few of these resolutions might be easier than eating more vegetables or getting to the gym. For the full piece see our website or let me know and I can send you a copy.

1. I will get to know my spending habits
2. I will create (and try to stick to) a budget
3. I will invest in my retirement
4. I will max out my HSA
5. I will get rid of my debt
6. I will invest in long-term trends
7. I will give to a cause I care about
8. I will engage with my friends
9. I will stay informed
10. I will enjoy my money

By far I believe one of the most important resolutions is the last one. Money is just a tool to help along the way in life and it makes sense to know how to use it, care for it, and enjoy it. Money should not be a source of stress. As it says in the article "Money should help us feel empowered, especially when we've taken the proper steps to become comfortable with our spending, saving, and investing goals"

**Government Updates:** There were a few notable updates from the US Government this past year. The most noticeable was the increase in Social Security Payments. Here are just a few updated figures from UBS Chief Investment Office<sup>10</sup> and the Internal Revenue Service (IRS)<sup>11</sup>

- Cost of living adjustments for those receiving Social Security will be 8.7% in 2023.
- Medicare part B premiums will decrease slightly for 2023. The standard monthly premium will decrease to \$164.90 from \$170.10
- While the income tax rates themselves (10%, 12%, 22%, 24%, etc.) are not changing for 2023, the tax brackets for 2022 and 2023 are different (the beginning and ending dollar amounts for each bracket) and will be increasing by approximately 7% to account for inflation.
- Estates of decedents who die during 2023 have a basic exclusion amount of \$12,920,000, up from a total of \$12,060,000 for estates of decedents who died in 2022.
- The annual exclusion for gifts increases to \$17,000 for calendar year 2023, up from \$16,000 for calendar year 2022.



**Secure Act 2.0-** President Biden signed retirement legislation into law on December 29, 2022. There has been talk about these changes since the Secure Act “1.0” came out in December 2019. Enclosed you will find our popular Modern Retirement Monthly Publication that dives into more detail. Here are a few key provisions:

Effective January 1<sup>st</sup> 2023

- IRA Required Minimum Distribution (RMD) age increases to age 73 for those who attain age 72 in 2023 or later (and to age 75 starting in 2033)
- Penalty for missed RMDs decreases from 50% to 25%, and to 10% if corrected in a timely manner.
- Qualified Charitable Distributions (QCD) for IRA- There is now a one-time election permitted for a \$50k QCD to a charitable remainder unitrust (CRUT), charitable remainder annuity trust (CRAT), or charitable gift annuity (CGA) and \$100k QCD limit is now indexed.

Effective January 1, 2024 or later

- 529 rollovers to Roth IRAs: Beneficiaries of 529 accounts opened for 15+ years can transfer \$6.5k per year (indexed) from their 529 to their Roth IRA, subject to a lifetime total of \$35k.
- Indexed IRA catch-up: The \$1k IRA catch-up contribution limit for those age 50+ will be indexed.
- SIMPLE IRA plan changes: Up to a 10% additional employer nonelective contribution. Effective 1/1/2025, among other provisions, catch-up limits raised from \$3k to \$10k for ages 60–63.

**From Tara-**

**New IRA distribution form effective Jan 1, 2023:**

What has changed? Federal Withholding will only be accepted as percentages (0% to 100%). The dollar amount entry field for Federal tax withholding will be removed. This will affect on demand requests, new periodic instruction, and instructions that require modification. What does this mean for you? If you need to do anything with your IRA make sure you leave extra time for us to process the new form.

Best wishes for a great winter,

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<sup>1</sup> Thomson Reuters via UBS Portfolio Management Report performance data

<sup>2</sup> <https://www.cnbc.com/2022/10/18/stocks-and-bonds-both-down-what-to-do-with-your-money.html>

<sup>3</sup> December 2022: Month and quarter in review Chief Investment Office GWM Investment Research January 4, 2023

<sup>4</sup> <https://www.macrotrends.net/2526/sp-500-historical-annual-returns>

<sup>5</sup> <https://www.washingtonpost.com/business/2022/12/14/fed-rate-hike-december/>

<sup>6</sup> Global Forecasts, UBS Chief Investment Office GWM January 5, 2023

<sup>7</sup> Tight US labor market points to further Fed rate hikes, UBS House View Daily- Daily US, Chief Investment Office GWM Investment Research January 6, 2023

<sup>8</sup> 2023 outlook: From inflation to growth, Chief Investment Office GWM Investment Research December 16, 2022

<sup>9</sup> Word of the year II, Jason Draho, Head of Asset Allocation, CIO Americas, UBS Financial Services December 16, 2022

<sup>10</sup> "Social Security's COLA for 2023 is 8.7%" UBS Editorial Team, Justin Waring & Ainsley Carbone October 14, 2022

<sup>11</sup> <https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2023>