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Pearsall Wealth Management

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July 2023 Pearsall Wealth Management Newsletter

<u>Index¹</u>	<u>2nd Quarter 2023</u>	<u>Year to Date 2023</u>
S&P 500	8.74%	16.89%
Dow Jones Industrial Average	3.97%	4.94%
Russell 2000	5.21%	8.09%
MSCI EAFE	3.22%	12.13%
Barclays Aggregate Bond	-0.84%	2.09%
US Treasury Bill – 3 month	1.22%	2.33%

Thomson Reuters via UBS Portfolio Management Report performance data as of 6/30/2023.

The second quarter continued to build on the gains of the first in most asset classes (bonds fell slightly), but as those of you who watch the markets closely know, it wasn't a straight line as the market reacted to the latest economic news. Many, including UBS, have been expecting a recession and it hasn't occurred yet. At this point our expectation is a "rolling recession" as different sectors of the economy slow down and then reaccelerate at different times; we may or may not see a mild recession ². UBS Global Wealth Management Chief Investment Office recently published "Why hasn't there been a recession?" (available upon request) that outlines why we have so far avoided the recession that was expected, and why it may play out differently than has been expected for the past year. The National Bureau of Economic Research defines a recession as "a significant decline of economic activity that is spread across the economy and lasts more than a few months. The activity measures include declines in real personal income; real personal consumption expenditures; real retail sales; nonfarm payroll employment and employments as measured by the household survey; and industrial production."

A few highlights from the report on why we have yet to see a recession:

- Monetary policy is not restrictive enough to cause a recession, having only recently begun to be moderately restrictive.
- Fiscal policy is marginally expansionary and still fueling investment.

- Strong household balance sheets are supporting spending (or as I learned years ago – never bet against the American consumer’s ability to find ways to spend).
- Though credit conditions have tightened, they are not yet overly tight.
- Demand for labor and supply dynamics are keeping the markets tight.
- The pandemic distorted cycle analysis which has made it challenging to analyze the current data.
- Services dominate the US economy, and continue to grow in a solid fashion; overall spending on goods and services is getting back to normal (services are close to the pre-pandemic trend, goods are still above).

At this time UBS does not expect a standard recession, but rather a rolling recession in different sectors. The manufacturing sector has already mildly contracted, but may start recovering by year end. The net results may be a very modest recession overall, with low job losses due in part to the tight labor market (business owners are less likely to lay workers off if they are uncertain they will be able to rehire them due to a tight labor market). If we see such a recession it is unlikely to start much before year end².

Shifting gears, you may start hearing more about “reinvestment risk”, which is something we’ve not faced for a number of years. Reinvestment risk occurs when the yields on cash and fixed income are higher now than they are expected to be in the future. To provide an example, if you hold a 1 year CD paying 5.30% and the rates are lower a year from now and you were to roll those funds to a new CD when it matures at 3% that is reinvestment risk. UBS, as well as the bond markets are forecasting that yields may be lower in the future than they are currently³. So what might you consider to reduce your reinvestment risk? It all depends on your timeframe for the funds you have in cash, money markets, or shorter term CDs. If you expect you will need the funds short term (0-1 year) leaving it where it is very likely makes the most sense. If you expect you won’t need the funds for 1-3 years you may want to look at longer term CDs; though the rate of a 3 year CD is lower than that of a 1 year currently (4.70% vs 5.30% as of July 5th 2023⁴ due to the fixed income markets expecting interest rates to decrease) you may be protected should yields drop between now and when the CD matures. For funds in cash and CDs that you do not expect to need for some time, if ever, now may be an appropriate time to look at other longer term fixed income investments to take advantage of the sell-off in bonds last year (the worst year in the fixed income market ever⁵) and reduce your reinvestment risk.

Summer reading We’ve enclosed a report that is worth at least skimming through if not reading in its entirety – *Made in America- Protecting US infrastructure and independence* that walks through three recent pieces of legislation, their focus areas, challenges, and potential investment ramifications.



From Melissa-

Seasons of Planning- A few weeks ago UBS Chief Investment Office (CIO) published its quarterly "[Seasons of Planning- Summer](#)" checklist which encourages "important, but rarely urgent" checkups as part of your routine⁶.

Of the three checklist concepts listed, preparing for the transition to retirement was the one I found most interesting. Summers are filled with vacations, some at home and some away. If you are thinking about how your transition to retirement might look, summer is a good time for a practice run.

Take time to think about short term and long term goals- that honey do list you've been putting off, starting to dabble more in a hobby that you've only been able to enjoy on the weekends, volunteering for a cause you care about, working part time on your own schedule, etc. You don't have to dive into those goals on day one. For some, having a vision of how you will spend your time is equally as important as how you will afford it. For more insights on this I encourage you to read UBS CIO's March 2023 full report : [What will your retirement look like?](#) (physical copy also available upon request).

Tax Withholding Updates: As Tara mentioned in our January letter, the Internal Revenue Service required updates to our IRA Distribution forms. We can now only do percentage withholding on any updated distribution forms, dollar amounts are no longer allowed for federal withholding. Anyone with old IRA distribution forms on file is grandfathered in until you have to update the withholding.

If your accountant recommended any withholding changes when they finished up your taxes a few months ago please don't forget to let us know. If you have any big taxable events outside of UBS throughout the year please also keep your tax advisor apprised as well as us so we can make sure to keep that in mind as we get towards year end. Nothing is worse than not paying in enough and being surprised with taxes, possible penalties or being forced into estimated payments going forward.

Mobile App Updates- To keep the UBS Financial Services mobile application up to date with the latest technical and security upgrades, the UBS Financial Services App will only support devices running on iOS 14 and above and Android 11 and above. The change will become effective Friday July 14th with the July mobile release and clients are starting to be notified via in-app messaging. When you have time please double check your updates and make sure you have the latest version so you don't have any login interruptions.



Effective June 26th you can now use the UBS Mobile App to make deposits into 529 college savings plans. This is a great feature and one I am specifically looking forward to for my kids. While its good practice to have a consistent savings plan for your kids/grandkids, you can also now make one time contributions at your leisure. If you have any questions on how to use Mobile Deposit please let us know, all three of us use it regularly.

From Tara-

Trusted Contact Form

You should have received a letter from UBS requesting a Trusted Contact be added to your client profile. The trusted contact is someone who you can rely on to provide us with up to date information on your whereabouts, wellbeing, and any health status changes. Naming a trusted contact can help protect your account from potential fraud and help us get in touch with you if we are unable to reach you. Thank you to everyone who has sent the trusted contact form back. If you have not received this form yet, please let me know and I will be happy to help you get that filled out and sent in.

Qualified Charitable Distributions

Once you turn 72 (73 if you reach the age of 72 after Dec 31, 2022) you must start taking your required minimum distribution (RMD) from your IRA. One way to take your RMD tax free is to make qualified charitable contributions from your IRA. If you have charities in mind and would like to start that process, please contact me and I would be happy to send you an IRA distribution form.

Best wishes for a great summer,

A handwritten signature in black ink, appearing to read "Adam E Pearsall".

Adam E Pearsall, CFP®
Senior Vice President-
Wealth Management
Senior Portfolio Manager

A handwritten signature in black ink, appearing to read "Melissa Battiste".

Melissa Battiste, CRPC®
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Tara Johnson
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¹ Thomson Reuters via UBS Portfolio Management Report performance data as of 06/30/2023

² "Why hasn't there been a recession", Chief Investment Office GWM Investment Research June 29, 2023

³ UBS House View Investment Strategy Guide: Balancing act Chief Investment Office GWM Investment Research July 2023

⁴ UBS CD Weekly Rate Circular

⁵ December 2022: Month and quarter in review Chief Investment Office GWM Investment Research January 4, 2023

⁶ "Seasons of Planning-Summer Edition" Chief Investment Office Ainsley Carbone, June 2023