*From the desk of GS Wealth Management*

# MONTHLY ECONOMIC UPDATE

February 2023

MONTHLY QUOTE

*"Don't try to solve serious matters in the middle of the night."*

*- Philip K. Dick*

MONTHLY TIP

*If you're financing a new car, look for the best interest rate before setting foot in the dealership. It could be to your advantage to take a cash rebate and get a loan elsewhere.*

## THE MONTH IN BRIEF

***U.S. Markets***

Stocks rallied in January as moderating inflation, a better-than-feared earnings season, and healthy economic data put investors in a buying mood.

For the month, the Dow Jones Industrial Average rose by 2.83 percent, the Standard & Poor's 500 Index jumped by 6.18 percent, and the Nasdaq Composite vaulted by 10.68 percent.[1]

***Shift in Sentiment***

The stock market opened the new year the way it ended the previous year, moving lower with high-growth names bearing the brunt of selling. Particularly troublesome to investors was the continued strength of the labor market, which heightened worries that the Fed would hike rates higher for longer to bring inflation to its target rate of 2.0 percent.

But market sentiment took a sharp U-turn after another cooling consumer inflation number reinforced the disinflationary trend of the last six months. Suddenly, investors appeared to adopt a different view of the future–one characterized by continued disinflation, a rate hike cycle nearing its end, and a fading probability of a near-term recession.[2]

***The Power of Earnings***

Corporate earnings provide some much-needed support for the rally. Investors were looking for insights to gauge the state of the U.S. economy through corporate reports and the guidance that management was offering on forward earnings prospects.

As of January 27th, with 29 percent of the companies comprising the S&P 500 Index reporting, 69 percent reported earnings above Wall Street estimates, less than the five-year average of 77 percent but strong enough to bolster confidence.[3]

### *A Winding Road Higher*

The march toward higher stock prices did not follow a straight line. The month's trading was choppy, with stretches that saw the resurfacing of recession fears and anxieties over future Fed rate hikes. For instance, stocks retreated midmonth on weak retail sales and manufacturing data that raised concerns that the Fed might have gone too far in raising rates.

As the month ended, stocks wavered ahead of a busy week for earnings and the scheduled Fed meeting. But they regained their footing on the final day of trading to close out a strong month.

### *Sector Scorecard*

Most industry sectors ended higher in January, including Communications Services (+14.77 percent), Consumer Discretionary (+15.13 percent), Energy (+2.81 percent), Financials (+6.81 percent), Industrials (+3.71 percent), Materials (+8.97 percent), Real Estate (+9.91 percent), and Technology (+9.26 percent). Three sectors posted losses: Consumer Staples (-1.09 percent), Health Care (-1.83 percent), and Utilities (-2.00 percent).[4]

### *What Investors May Be Talking About in February*

In the month ahead, investors are expected to dig into the details of the January inflation report scheduled for release on February 14.[5]

Investors cheered when the December update showed that inflation dropped again, confirming a six-month downtrend.

While the cost of goods has dropped over that time, the cost of services has stubbornly remained high.

In gauging how the Fed is viewing inflation progress, investors may keep an eye on the labor market, a major contributor to service costs. The Fed has expressed that a tight labor market, with its attendant wage gains, places upward pressure on inflation.

Consequently, wage trend reports, including the monthly Employment Situation Summary and the Atlanta Fed's monthly Wage Growth Tracker, along with the services inflation number, may become the real headlines going forward.

# 5 Retirement Concerns Too Often Overlooked

*Baby boomers entering their "second acts" should think about these matters.*

**Retirement is undeniably a major life and financial transition.** Even so, baby boomers can run the risk of growing nonchalant about some of the financial challenges that retirement poses, for not all are immediately obvious. In looking forward to their "second acts," boomers may overlook a few matters that a thorough retirement strategy needs to address.

**RMDs.** The Internal Revenue Service directs seniors to withdraw money from qualified retirement accounts after age 72. This class of accounts includes traditional IRAs and employer-sponsored retirement plans. These drawdowns are officially termed Required Minimum Distributions (RMDs).[6]

**Taxes.** Speaking of RMDs, the income from an RMD is fully taxable and cannot be rolled over into a Roth IRA. The income is certainly a plus, but it may also send a retiree into a higher income tax bracket for the year.[6]

Retirement does not necessarily imply reduced taxes. While people may earn less in retirement than they once did, many forms of income are taxable: RMDs; investment income and dividends; most pensions; even a portion of Social Security income depending on a taxpayer's total income and filing status. Of course, once a mortgage is paid off, a retiree loses the chance to take the significant mortgage interest deduction.[7]

**Health care costs.** Those who retire in reasonably good health may not be inclined to think about health care crises, but they could occur sooner rather than later – and they could be costly. A report by HealthView Services found that even with additional insurance coverages such as Medicare Part D, Medigap, and dental insurance, a healthy 65-year-old couple can expect to pay almost $208,000 out-of-pocket for their healthcare expenses.[8]

**Eldercare needs.** Those who live longer, or face health complications will probably need some long-term care. One month's stay in a private room in a nursing home costs an average of $9,000 nationally, so it's important to consider these when preparing for retirement. Long-term care insurance is expensive, though, and can be difficult to obtain.[9]

One other end-of-life expense many retirees overlook: funeral and burial costs. Preparing to address this expense may help surviving spouses and children.

**Rising consumer prices.** Historically, healthcare costs inflation has risen between 1.5-2 times the Consumer Price Index. For a 65-year-old couple, this equates to an additional projected $85,917 in lifetime retirement healthcare costs. Retirees would be wise to invest in a way that gives them the potential to keep up with increasing consumer costs.[10]

**As part of your preparation for retirement, give these matters some thought.** Enjoy the here and now, but recognize the potential for these factors to impact your financial future.

***The Fed***

Minutes from December's meeting of the Federal Open Market Committee (FOMC) reflected concerns that investors' hopes of near-term easing in short-term rate hikes could make the Fed's job of combating inflation more difficult.[11]

These minutes also indicated that additional rate hikes are likely, at least through the spring, with any potential cuts not expected to occur until sometime in 2024.

Fed officials welcomed the recent cooling in monthly inflation numbers but would require more sustained progress before they felt confident that inflation was under control.[11]

| MARKET INDEX | Y-T-D CHANGE | January 2023 |
|---|---|---|
| DJIA | 2.83% | 2.83% |
| NASDAQ | 10.68% | 10.68% |
| S&P 500 | 6.18% | 6.18% |

| BOND YIELD | Y-T-D | January 2023 |
|---|---|---|
| 10 YR TREASURY | 3.53% | -0.35% |

Sources: Yahoo Finance, January 31, 2023.

The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid.

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