From the desk of GS Wealth Management

MONTHLY ECONOMIC UPDATE

October 2022

MONTHLY QUOTE

"When everything is known, everything acceptable will be accepted."

- Dave Eggers

MONTHLY TIP

Start a file in which you can compile your W-2s, assorted 1099s, and necessary receipts reflecting business and health care expenses and charitable gifts.

THE MONTH IN BRIEF

U.S. Markets

Stocks trended lower in September as investors retreated in the face of rising bond yields and growing recession fears.

The Dow Jones Industrial Average dropped 8.84 percent, while the Standard & Poor's 500 Index fell 7.95 percent. The Nasdaq Composite lost 9.13 percent.[1]

Stubborn Inflation

Investors came into September with optimism that the inflation report would show a meaningful decline in inflationary pressures. But the August Consumer Price Index (CPI) report showed a rise of 8.3 percent in consumer prices from a year ago, which was above consensus. Stocks sagged, and bond yields surged on the news.[2]

Though the CPI number was incrementally lower from June and July, it was the rise in core inflation (excluding energy and food prices) of 6.3 percent (an increase from its 5.9 percent rate the previous two months) that unnerved investors.[2]

Fed's Outlook

The Federal Open Market Committee's (FOMC) decision to hike interest rates by 75 basis points in late September didn't come as a surprise. But what unsettled investors may have been the Fed's message that rate increases were likely to go higher for longer than the markets had anticipated.[3]

FOMC members suggested that interest rates may rise by at least another 1.25 percentage points by year-end, with short-term rates potentially reaching as high as 4.6 percent in 2023 and no rate cut likely until 2024. FOMC members also revised economic forecasts, including raising their estimates for inflation and unemployment.[3]

Global Central Banks Follow Fed's Lead

Following the FOMC news, bond yields rallied. The 10-year Treasury yield increased for the eighth straight week, and the two-year Treasury yield reached yields not seen since 2007. Higher rates prompted recession fears as multiple global central banks raised rates in tandem with the Fed.[4]

Sector Scorecard

All industry sectors ended lower for the month, with losses in Communications Services (-11.93 percent), Consumer Discretionary (-8.40 percent), Consumer Staples (-8.73 percent), Energy (-10.53 percent), Financials (-8.14 percent), Health Care (-2.93 percent), Industrials (-10.86 percent), Materials (-9.81 percent), Real Estate (-13.95 percent), Technology (-12.35 percent), and Utilities (-11.88 percent).[5]

What Investors May Be Talking About in October

In mid-October, China's Communist Party will be holding its five-year planning meeting that will likely elect President Xi to a third term and possibly as "president for life." This meeting will also craft the framework for China's economic and foreign policy for the next five years.[6]
The most immediate issue is whether China will maintain its zero-COVID policy, a decision that has slowed domestic and international economic growth, affected global supply chains and resulted in rising disaffection among its citizens.

Observers also will be watching for any policy statements concerning Taiwan. Any Chinese talk that implies possible military action may add another geopolitical risk for the financial markets.

China is an essential cog in the global supply chain and an important market for Western products and services. The degree to which it pursues cooperation or confrontation will hold implications for global economies and markets in the years ahead.

Annual Financial To-Do List

Things you can do for your future as the year unfolds.

What financial, business, or life priorities do you need to address for the coming year? Now is an excellent time to think about the investing, saving, or budgeting methods you could employ toward specific objectives, from building your retirement fund to managing your taxes. You have plenty of choices.

Remember that this article is for informational purposes only and not a replacement for real-life advice. The tax treatment of assets earmarked for retirement can change, and there is no guarantee that the tax landscape will remain the same in years ahead. A financial or tax professional can provide up-to-date guidance.

Here are a few ideas to consider:

Can you contribute more to your retirement plans this year? In 2023, the contribution limit for a Roth or traditional individual retirement account (IRA) remains at $6,000 ($7,000 for those making "catch-up" contributions). Your modified adjusted gross income (MAGI) may affect how much you can put into a Roth IRA. With a traditional IRA, you can contribute if you (or your spouse if filing jointly) have taxable compensation. Still, income limits are one factor in determining whether the contribution is tax-deductible.[7]

Once you reach age 72, you must take the required minimum distributions from a traditional IRA in most circumstances. The I.R.S. taxes withdrawals as ordinary income and, if taken before age 59½, they may be subject to a 10% federal income tax penalty.

Roth 401(k)s offer their investors a tax-free and penalty-free withdrawal of earnings. Qualifying distributions must meet a five-year holding requirement and occur after age 59½. Such a withdrawal also qualifies under certain other circumstances, such as the owner's passing. Employer match is pretax and not distributed tax-free during retirement. The original Roth IRA owner is not required to take minimum annual withdrawals.

Make a charitable gift. You can claim the deduction on your tax return, provided you follow the Internal Review Service guidelines and itemize your deductions with Schedule A. The paper trail can be important here. If you give cash, you should consider documenting it. A bank record can demonstrate some contributions, payroll deduction records, credit card statements, or written communication from the charity with the date and amount. Incidentally, the IRS does not equate a pledge with a donation. If you pledge $2,000 to a charity this year but only end up gifting $500, you can only deduct $500.[8]

Consult your tax, legal, or accounting professional before modifying your record-keeping approach or your strategy for making charitable gifts.

See if you can take a home office deduction for your small business. You may want to investigate this if you are a small business owner. You might be able to write off expenses linked to the portion of your home used to conduct your business. Using your home office as a business expense involves complex tax rules and regulations. Before moving forward, consider working with a professional familiar with the tax rules related to home-based businesses.

Open an HSA. A Health Savings Account (HSA) works like your workplace retirement account. There are also some HSA rules and limitations to consider. You are limited to a $3,850 contribution for 2023 if you are single; $7,750 if you have a spouse or family. Those limits jump by a $1,000 "catch-up" limit for each person in the household over age 55.[9]

If you spend your HSA funds for non-medical expenses before age 65, you may need to pay ordinary income tax and a 20% penalty. After age 65, you may need to pay ordinary income taxes on HSA funds used for non-medical expenses. HSA contributions are exempt from federal income tax; however, they are not exempt from state taxes in certain states.

Pay attention to asset location. Tax-efficient asset location is one factor to consider when creating an investment strategy. Asset location is different from asset allocation, which is an approach to help manage investment risk. Asset allocation does not guarantee against investment loss.

Review your withholding status. Should it be adjusted due to any of the following factors?

* You tend to pay the federal or state government at the end of each year.
* You tend to get a federal tax refund each year.
* You recently married or divorced.
* You have a new job with adjusted earnings.

Consider consulting your tax, human resources, or accounting professional before modifying your withholding status.

Did you get married in 2022? If so, it may be time to review the beneficiaries of your retirement accounts and other assets. The same goes for your insurance coverage. If you are preparing to have a new last name in 2023, you may want to get a new Social Security card. Additionally, retirement accounts may need to be revised or adjusted.

Are you coming home from active duty? If so, go ahead and check on the status of your credit. Check on any tax and legal proceedings your orders might have preempted, too.

Consider the tax impact of any upcoming transactions. Are you preparing to sell any real estate this year? Are you starting a business? Might any commissions or bonuses come your way in 2023? Do you anticipate selling an investment held outside of a tax-deferred account?

Vow to focus on your overall health and practice sound financial habits in 2023. And don't be afraid to ask for help from professionals who understand your situation.

The Fed

The Federal Open Market Committee (FOMC) announced its third consecutive 0.75 percent hike in the federal funds rate following its September 20-21 meeting.[10]

The FOMC also issued new projections suggesting that interest rates may be increased by another 1.25 percentage points by December. It also said unemployment may rise to 4.4 percent by the end of 2023 (up from August's 3.7 percent level) and that interest rates may reach as high as 4.6 percent in 2023, with a rate cut unlikely until 2024.[10]

MARKET INDEX	Y-T-D CHANGE	September 2022
DJIA	-20.95%	-8.84%
NASDAQ	-31.37%	-9.13%
S&P 500	-23.62%	-7.95%

BOND YIELD	Y-T-D	September 2022
10 YR TREASURY	2.29%	3.80%

Sources: Yahoo Finance, September 30, 2022.
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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