From the desk of GS Wealth Management

MONTHLY ECONOMIC UPDATE

MONTHLY QUOTE

"There is no writing that is writing without teachers."

- David Bartholomae

MONTHLY TIP

Most homeowner insurance policies do not cover damage from floods and earthquakes. You will need to purchase separate coverage for protection from those calamities.

September 2022

THE MONTH IN BRIEF

U.S. Markets

Renewed fears of higher rates and economic weakening, coupled with a tough talk by Fed Chair Jerome Powell and other Fed officials, sent stocks lower in August.

The Dow Jones Industrial Average dropped 4.06 percent whereas the Standard & Poor's 500 Index fell 4.24 percent. The Nasdaq Composite lost 4.64 percent.[1]

A Strong Start

August started off well enough, building on the summer rally over the course of the month's first two weeks. Investor sentiment was lifted by a surprisingly strong employment report that saw the economy add 528,000 jobs in July and later by a better-than-expected Consumer Price Index (CPI) report that saw inflation decelerate slightly.[2,3]

Earnings Update

A fresh batch of positive earnings surprises provided an additional boost for stocks. Overall, the earnings season turned out to be better than what many investors had expected. With 97 percent of the companies comprising the S&P 500 reporting, 78 percent reported earnings that exceeded Wall Street analysts' estimates.[4]

The fuel for the stock market's rebound since the mid-June low was, in part, the belief that the Fed may ease up on the pace and magnitude of interest rate hikes owing to early signs that inflation may be cooling.

Powell's Hammer

But Fed Chair Powell's much-anticipated speech at the Jackson Hole Economic Symposium rattled investors. By the time Powell finished his speech on the morning of August 26th, the market was in full-on retreat. Powell's comments did not include anything investors hadn't already heard, but the forcefulness with which he communicated the Fed's commitment to lowering inflation struck many investors as especially hawkish.

The market's month-to-date gains disappeared following the speech as Powell appeared to end any investor hope of a pivot by the Fed. Stocks added to their losses in the month's final days as investors confronted a monetary policy landscape that potentially offered little relief from further Fed interest rate hikes.

Sector Scorecard

Most industry sectors ended lower for the month, including Communications Services (-3.53 percent), Consumer Discretionary (-4.50 percent), Consumer Staples (-1.85 percent), Financials (-1.96 percent), Health Care (-5.77 percent), Industrials (-2.83 percent), Materials (-3.48 percent), Real Estate (-5.62 percent), and Technology (-6.21 percent). The Energy (+2.65 percent) and Utilities sectors (+0.53 percent) registered a monthly gain.[5]

What Investors May Be Talking About in September

In the month ahead, all eyes will be on the Fed again when it meets in late September. After two consecutive 75 basis point hikes in June and July, the Federal Open Market Committee (FOMC) will once again be meeting to consider what's next for short-term rates.

The outcome of this meeting, scheduled for September 20–21, appears more certain following Fed Chair Powell's Jackson Hole speech. But the Fed has indicated that any potential rate hike will depend upon the economic data leading up to the meeting.

Some see the second consecutive quarter of GDP contraction and declining energy, metals, and food input costs influencing the Fed's decision. Others believe that comments in August by Powell and other Fed officials that the inflation fight is not over may have thrown cold water on that hope.

Should You Prepare to Retire on 80% of Your Income?

Examining a long-held retirement assumption.

A classic retirement preparation rule states that you should retire on 80% of the income you earned in your last year of work. Is this old axiom still true, or does it need reconsidering? Some new research suggests that retirees may not need that much annual income to keep up their standard of living.

The 80% rule is really just a guideline. It refers to 80% of a retiree's final yearly gross income, rather than his or her net pay. The difference between gross income and wages after withholdings and taxes is significant to say the least.[6]

The major financial challenge for the new retiree is how to replace his or her paycheck, not his or her gross income.

So concluded Texas Tech University professor Michael Finke, who analyzed the 80% rule and published his conclusions in *Research,* a magazine for financial services industry professionals. Finke noted four factors that the 80% rule does not recognize. One, retirees no longer need to direct part of their incomes into retirement accounts. Two, they no longer involuntarily contribute to Social Security and Medicare, as they did while working. Three, most retirees do not have a daily commute, nor the daily expenses that accompany it. Four, people often retire into a lower income tax bracket.[6]

Given all these factors, Finke concluded that the typical retiree could probably sustain their lifestyle with no more than 77% of an end salary, or 60% of his or her average annual lifetime income.[6]

Retirees need to determine the expenses that will diminish in retirement. That determination, rather than a simple rule of thumb, will help them realize the level of income they need.

Imagine two 60-year-old workers, both earning identical salaries at the same firm. One currently directs 25% of her pay into a workplace retirement strategy. The other directs just 5% of her pay into that strategy. The worker deferring 25% of her salary into retirement savings needs to replace a lower percentage of their pay in retirement than the worker deferring only 5% of hers. Relatively speaking, the more avid retirement saver is already used to living on less.

This is a hypothetical example used for illustrative purposes only. It is not representative of any specific investment or combination of investments.

New retirees may not necessarily find themselves living on less. The retirement experience differs for everyone, and so does retiree personal spending. A recent Employee Benefit Research Institute survey found that over a third of retirees report spending *more* than they had originally expected. Only 9% reported that they were spending less than they had expected.[7]

A timeline of typical retiree spending resembles a "smile." A 2013 study from investment research firm Morningstar noted that a retiree household's inflation-adjusted spending usually dips at the start of retirement, bottoms out in the middle of the retirement experience, and then increases toward the very end.[8]

A retirement budget is a very good idea. There will be some out-of-budget costs, of course, ranging from the pleasant to the unpleasant. Those financial exceptions aside, abiding by a monthly budget (with or without the use of free online tools) may help you to rein in any questionable spending.

Any retirement income strategy should be personalized. Your own strategy should be based on an accurate, detailed assessment of your income needs and your available income resources. That information will help you discern just how much income you will need when retired.

The Fed

Minutes from July's Federal Open Market Committee (FOMC) meeting reflected a broad consensus among Fed officials that additional rate hikes were still required to combat elevated inflation, though acknowledging economic weakness may temper the size and pacing of such hikes.[9]

"Regarding developments abroad, central banks in advanced foreign economies had quickened the pace of policy tightening in order to address above-target inflation," according to the July meeting minutes. "Eight advanced-economy central banks raised their policy rates over the period."[10]

MARKET INDEX	Y-T-D CHANGE	August 2022
DJIA	-13.29%	-4.06%
NASDAQ	-24.47%	-4.64%
S&P 500	-17.02%	-4.24%

BOND YIELD	Y-T-D	August 2022
10 YR TREASURY	1.62%	3.13%

Sources: Yahoo Finance, August 31, 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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