GWM GREENE WEALTH MANAGEMENT

Your Journey Towards Financial Independence Begins Here

GWM Monthly Minute - February 2023

Economic and Market Update

- Following an incredibly challenging year for all traditional stock and bond markets in 2022, January was an excellent month for markets. Global equity and bond markets rebounded strongly in January. For the month, US Stocks (Russell 3000) were up 6.8% and Developed International Stocks (MSCI ACWI ex-US) up 8.9%. The Total US Bond market (Bloomberg Agg. Bond) was up 3.3%.

- Upward momentum for markets in the month were driven by optimism around cooling inflation and slowing interest rate hikes. Investors have become more confident that aggressive Fed rate hikes over the last year have achieved the desired effect of slowing inflation. Sentiment for risk assets has improved with hopes that the Fed will discontinue interest rate hikes during the first 6 months of the year and eventually turn to rate cuts, with differing opinions on the timing of future rate reductions.

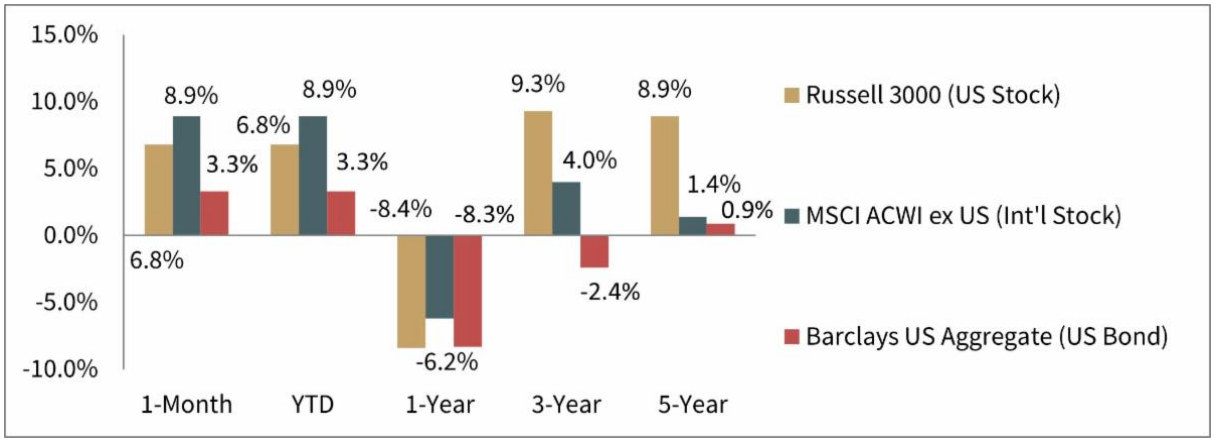
- As many market forecasters and economists are lowering their near-term growth targets both in the US and abroad, and are affirming the likelihood of a recession in the next 12-months, it is important to keep some perspective. As Vanguard astutely notes in a recent market update, "When a recession occurs, we don't know how long it will last or precisely when equity markets will recover, making it virtually impossible to time the markets. But equity prices have frequently begun to fall prior to the start of a recession and hit their low point sometime during the recession. They have typically started to recover before the end of the recession." Practically speaking, market action and the timing of a recession are not directly correlated.

- Despite a myriad of challenges, there has also been stability in the economy amidst the market drawdown with encouraging strength across key factors including: US consumer remains resilient; Strong balance sheets at both a household and corporate level; Labor market strength; Earnings and profits remain stable but slowing, despite a challenging economic landscape.

- While recession risks are clearly rising, we continue to see factors that may help to mitigate the depth of a downturn. In the US, labor markets remain strong and the housing market appears to pose far fewer systemic risks compared to problems that led to the global financial crisis. Abroad, government support measures should help to moderate the threats to disposable income posed by soaring energy bills.

- The Fed concluded its two-day meeting at the start of February by announcing a 25 basis point rate hike, bringing the Fed Funds range to 4.5% to 4.75%. While it is likely that the Fed will announce another moderate hike in March, the current market consensus is that the Fed Funds rate will top off in the 5% range for this cycle. Any surprises to future inflation readings could cause the Fed to revisit strategic decisions for future hikes.

Market Index Performance - as of January 31, 2023



Strategy Corner - SECURE Act 2.0

President Joe Biden signed into law the Consolidated Appropriations Act of 2023 on December 29, 2022, which contains within it the SECURE 2.0 Act of 2022. The act is notable for the significant impact to retirement plan rules and savings. The goal of the act is to encourage long-term retirement savings and promote opportunities for all individuals to secure long-term financial health. Below are a few of the most important changes clients should know about as you continue to save retirement and eventually draw on savings:

- **Required Minimum Distributions (RMDs) Age Requirements** - Previously RMDs were required to begin in the year which you turn 72. If you turned 72 in 2022 or earlier you will need to continue taking RMDs as scheduled. Beginning this year, the starting age for RMDs has increased to 73. By 2033, the starting RMD age will have increased to age 75.

- **RMD Penalties Reduced** - Beginning in 2023, the penalty for failing to take an RMD will decrease to 25% of the RMD amount not taken, from 50% currently. This can be further reduced to 10% if the IRA account owner that was in error submits a corrected tax return in a timely manner.

- **Higher Catch-up Contributions** - Beginning January 1, 2025, individuals age 60 to 63 will be able to make catch-up contributions up to $10K annually to a workplace plan. One caveat: If you earn more than $145K in the prior calendar year, all catch-up contributions at age 50 or older will need to be made to a Roth account in after-tax dollars.

- **Roth RMDs from Qualified Plans Eliminated** - Beginning January 1, 2024, participants will no longer be subject to a mandatory RMD from a qualified Roth plan (Roth 401K, Roth 403b, Roth 457, etc.).

- **Tax-Free Rollover from 529 Plan to Roth IRA** - After 15 years, 529 plan assets can be rolled into a Roth IRA for the beneficiary. The rollover is subject to annual Roth contribution limits (currently $6.5K/year) and an aggregate lifetime limit of $35K. This change further elevates the value of opening a 529 plan to save for educational goals.

- **Student Loan Debt** - Beginning January 1, 2024, employers will be able to "match" employee student loan payments with matching payments to a retirement account, giving workers an extra incentive to save while paying off student loans.

While SECURE 2.0 provides increased opportunities to save for retirement, all client financial situations are different. As always, consult your tax professional to understand how SECURE 2.0 changes apply to you. This is a huge bill and this summary only highlights a few aspects of the SECURE Act 2.0.

We will consider these changes and those to come as we navigate strategic financial decisions in partnership with clients. Our team looks forward to enjoying meaningful conversations in optimizing wealth strategies.

What We're Reading

SECURE Act 2.0 - What New Legislation Means

Diversification is not Dead - Bonds Poised to Offer Balance

Dealing with the Debt Ceiling - Goldman Sachs

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