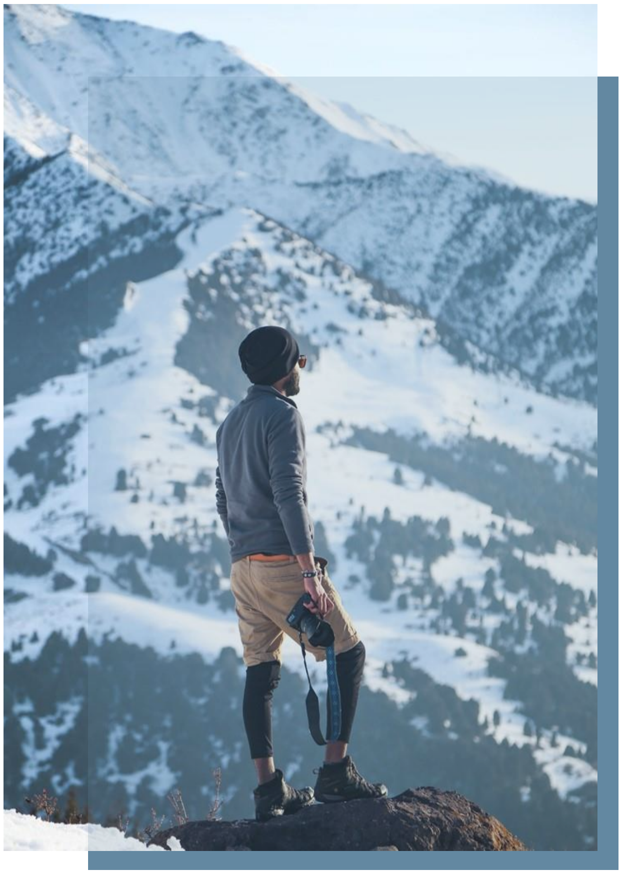
PERSPECTIVES

Benefit Financial Services Group Newsletter

Quarter Ending September 30, 2023



What's New

Market Recap

Patrick Powers, CFA®, CPA/PFP, CFP® (Managing Principal)

After a stellar first half, with the S&P 500 Index[1] up 15.91% at the end of the second quarter, markets reversed in the third quarter (Q3). However, the S&P 500 is still up a respectable 11.68% year-to-date. The most significant reasons for the change in investor attitude was due to a continued increase in the Fed Funds target to a range between 5.25% - 5.50% and, most importantly, a consistent mantra from Federal Reserve (the "Fed") governors that rates will remain higher for longer. Investors were expecting rates to begin falling early next year. Their acute disappointment was reflected in the markets in Q3 – especially in September. The 10-year U.S. Treasury interest rate reached 4.60% during Q3 and the increase during the quarter was the largest in any quarter dating back to 1790!

Also on investors' minds: oil prices rose nearly 28% (though they are still 30% below where they were when Russia invaded Ukraine); the dysfunction in the U.S. House of Representatives was on full display as they nearly shut down the government because they could not agree on a budget for the next fiscal year (they passed a 45-day extension at the 11th hour on September 30th); and, the writers, actors and autoworkers strikes did not help sentiment either. The latter two unions are still on strike.

The good news is that the 4th quarter of the year is usually one of the best. October and November have been the second and third best performing months for the S&P 500 over the past 10 years - rising an average of 2.3% and 3.2%. On average since 1957, there has been a 4% increase in the S&P 500 in Q4.[2] We are also enjoying a resilient economy with low unemployment; inflation that is moving in the right direction (though that does not mean prices are falling, just that they are not rising as fast); and GDP that is holding up well and surprisingly on the upside.

The U.S. dollar just posted its best quarter since last year and has gained nearly 6% since mid-July, driven largely by higher Treasury yields. The dollar's persistent rally is taking a toll on other currencies and has been a headwind for international stock returns.

Bonds are just slightly negative this year, after their worst year in history last year. Rising interest rates are always a headwind for bonds and that is true again this year. The good news is we are now seeing 5-6% yields from high quality bonds (historically, your starting yield is the best predictor of forward 5-year returns explaining nearly 90% of the total return) and the representative U.S. Aggregate Bond Index is trading at $86 (a discount to par at $100).[3]

We are looking forward to what has traditionally been the strongest 6 months in the markets (October – March) and hopefully to a Santa Claus rally.

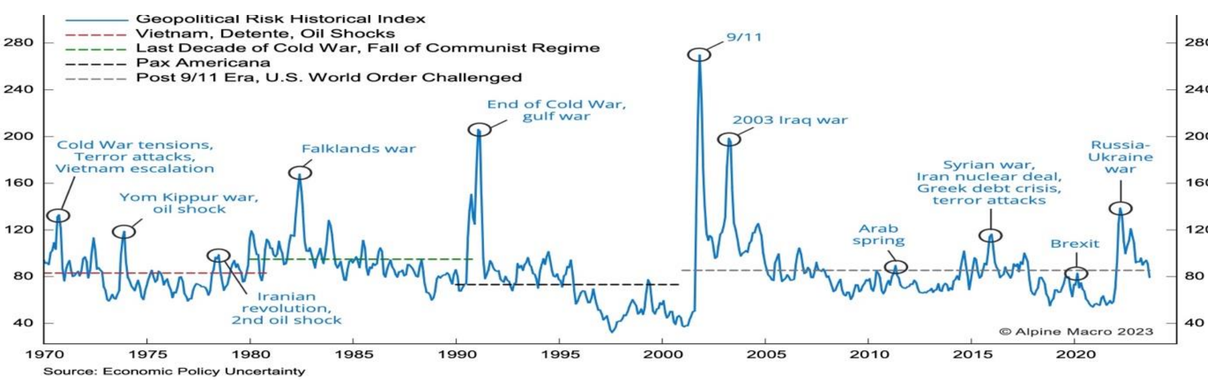
Forecast

Steven Yamshon, Ph.D. (Managing Principal)

It isn't often that we talk about geopolitical events in our *Perspectives* newsletter, but it has great relevance because geopolitical events affect economies. Until shortly, after World War II, the economic courses taught in the universities were not split into macroeconomics and microeconomics. It was taught as just plain economics and was often labeled political economy. Why on earth were the courses separated because micro and macro are dependent on each other.

Private sector and business interests in geopolitics is high. Look at the major geopolitical events since 2000 and it would not be hard to understand why. We had 9/11, policy responses to the great financial crisis, COVID-19, the war in Ukraine, trouble with Iran and now the Chinese-American rivalry. They all affect markets and prices. For example, the supply chain issue caused by COVID-19, pushed up prices as shortages began to appear in many goods, especially automobiles. The War on Ukraine has helped contribute to higher food and gas costs pushing up inflation. Geopolitical events can act as a tailwind or headwind and that assessment is important. The problem with geopolitical assessments is that events are unpredictable and could be hard to assess. That is why many geopolitical analysts assign probabilities to a certain event. A good example of this was that one major economic think tank had an 80% probability that the government would shut down, which it didn't! However, there is no excuse for investors not to think about things such as this because if the government did shut down for a lengthy period, combining that with all the strikes going on in the U.S., it could lead to a recession. A recession would trigger a decrease in corporate profits, leading to lower stock prices. I think one can see how geopolitical events could cause a chain reaction.

As we can see in the chart below, geopolitical risk has increased since 9/11 and coincidently so has the volatility of the stock market.



All these events will have impacts on investors as the rise of nationalism, populism, government deficit spending weigh on the economic principles that drive investors.

Portfolio Management

Michael Allbee, CFP® (Partner/Senior Portfolio Manager)

We often hear from clients of why not allocate one's bond portfolio exclusively to short-term Treasuries (T-Bills) and cash equivalents (i.e., CDs, money markets, etc.) that are yielding more than 5% today to avoid the potential volatility of stocks and bonds?

There are a few considerations. First, the goal of the portfolio matters. T-Bills and cash equivalents may be better suited for investors seeking extreme stability within their portfolio than for investors aiming for growth. As we all know, cash hidden under a mattress can't keep up with inflation. Second, investors must contemplate reinvestment risk. If rates fall before these short-term bonds mature, buying new bonds may not produce the same level of return that an investor could lock in for longer with an intermediate bond today (more on that below). Finally, it may also mean forgoing the potential price appreciation from falling bond yields that longer-duration bonds may realize (bond prices rise as rates fall).[4]

We think investors should consider that attempting to precisely time interest-rate changes is, at best, a difficult game to play as markets incorporate expectations ahead of the news. History shows that high yields on cash and CDs could evaporate rather quickly. Since 1973, there were eight instances when cash yields dropped by at least 4% over periods ranging from three months to two years; the average decrease was 5.06%.[5]

We believe a better course of action for our clients is to allocate to a mix of bonds at a duration and level of credit quality that makes sense for their long-term goals and make small adjustments as goals and circumstances change. For investors who have shortened duration in the face of uncertain markets or perceived opportunities that have arisen from aggressive Fed action, we think it’s worth considering whether the allocation they have today fits their goals for tomorrow.

Talk With Us!

Arash Navi, CPA, CFP® (Controller/Wealth Manager)

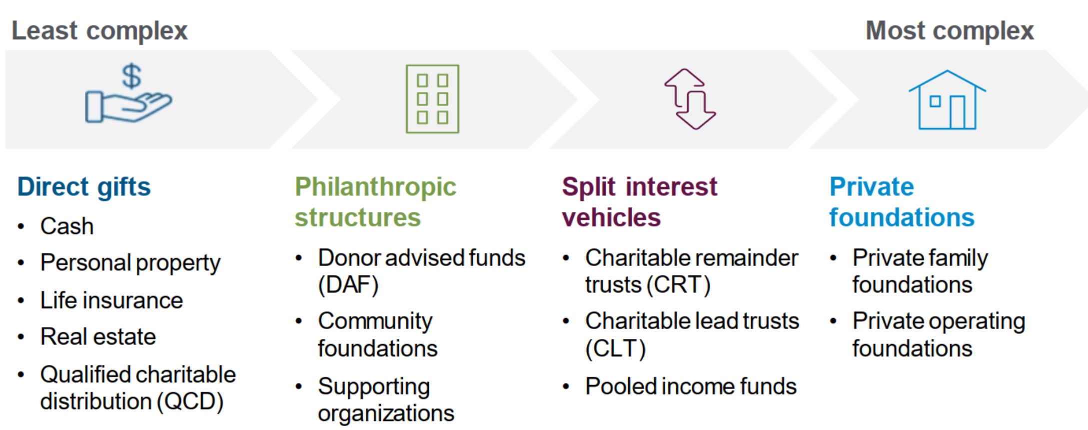
America has been recognized as the most generous country in the last decade according to the Charities Aid Foundation’s World Giving Index.[6] Charitable giving is deeply ingrained in American culture, reflecting the spirit of philanthropy and the desire to contribute to the greater good. Americans don’t just donate money to charities but 42% also volunteer their time to various organizations.[7] Philanthropy does not just benefit the recipient; scientific evidence has shown that we become better humans by being philanthropic. The positive effects include greater overall happiness, lower stress level, better physical health, and improved sense of connection with others.[8] Aside from these wonderful positive benefits, there are also various tax saving incentives to those who donate that can lower their tax bill and increase their ability to give.

Like any other aspect of the U.S. tax code, taking advantage of the tax breaks associated with charitable contributions can get complex. You can generally deduct charitable contributions, which reduces your taxable income, only if you itemize deductions on your federal income tax return. The deduction is currently limited to 60% of your adjusted gross income (AGI) for cash contributions to public charities. Otherwise, limits of 50%, 30%, or 20% of AGI may apply, depending on the type of property you give and the type of organization to which you contribute. (Note: Excess amounts can be carried over for up to five years.)

If you claim a charitable deduction for a contribution of cash, a check, or other monetary gift, you should maintain a record such as a cancelled check, a bank statement, or a receipt or letter from the charity showing the name of the charitable organization and the date and amount of the contribution. Donations of $250 or more must be substantiated with a contemporaneous written acknowledgment from the charity. Additional requirements apply to noncash contributions.

Below is an illustration that demonstrates many ways that an individual can contribute to charities and I am going to discuss the three most common strategies for charitable contributions:

Giving Strategies



Source: GivingUSA 2022: The Annual Report on Philanthropy for the Year 2021

Bunch or time gifts and deductions

The Tax Cuts and Jobs Act (TCJA) roughly doubled the standard deduction beginning in 2018 and indexed it annually for inflation through 2025 ($13,850 for single taxpayers and $27,700 for joint filers in 2023). The result was a dramatic reduction in the number of taxpayers who itemize, now only about one out of ten.[6]

If you find that the total of your itemized deductions for 2023 will be slightly below the level of the standard deduction, it could be worthwhile to combine or "bunch" 2023 and 2024 charitable contributions into one year, itemize on your 2023 tax return, and take the standard deduction on 2024 taxes.

Another option is to increase your charitable giving in years when you expect higher annual income. For example, charitable deductions could help offset the tax liability resulting from a business sale, capital gains, stock options, or a Roth IRA conversion.

Utilize a donor-advised fund

Another way to bunch contributions or generate a large charitable deduction for the current year — possibly before you know where you want the money to go — is to open a charitable account called a donor-advised fund (DAF). Donors who itemize deductions on their federal income tax returns can write off DAF contributions in the year they are made, then gift funds later to the charities they want to support. DAF contributions are irrevocable, which means the donor gives the sponsor legal control while retaining advisory privileges with respect to the distribution of funds and the investment of assets. DAFs have fees and expenses that donors giving directly to a charity would not face. (Note: BFSG can assist you with opening a DAF.)

Donate from an IRA

If you are an IRA owner who is 70½ or older, you can give to charity without itemizing and still get a tax break through a qualified charitable distribution (QCD). A QCD must be an otherwise taxable distribution from an IRA (generally, distributions from traditional IRAs are subject to federal income tax). QCDs are excluded from income and won't affect your tax obligation. Moreover, a QCD can satisfy all or part of your required minimum distribution. To make a QCD, you would direct your IRA trustee to issue a check made out to a qualified public charity. You may contribute up to $100,000 from your IRA; if you are married, your spouse may also contribute up to $100,000 from his or her IRA. Beginning in 2024, the QCD limit will be linked to inflation.

Here at BFSG, we recognize that each of our clients have their unique charitable goals and passion for causes including education, poverty, religion, and environmental conservation. We collaborate with our clients and their CPAs to make the most of their charitable giving and we incorporate it as part of their financial planning and tax planning strategies. If you are interested in learning more about these strategies, please **Talk With Us**!

In the News

- Watch a short video to learn more about BFSG's philosophy.
- BFSG ranked in Financial Advisor's (FA) Magazine for a 4th consecutive year. Read the press release here.
- Check out the recent Plan Sponsor article with Chad A. Noorani, a BFSG Retirement Plan Consultant, where he discusses steps to improve retirement plan engagement and outcomes.

The Score Board

	09/30/2023	YTD Change
Dow Jones Industrial Average	33,507.50	2.73%
S&P 500*	4,288.05	11.68%
NASDAQ Composite*	13,219.32	26.30%
MSCI EAFE (USD)*	2,031.26	4.49%
Bloomberg Commodity Index	104.84	7.06%
U.S. Aggregate Bond Index	2,024.02	-1.20%
10 Yr U.S. Treasury Bond Yield	4.57%	70bps
30 Yr Fixed Mortgage Rate	7.74%	108 bps
Prime Rate	8.50%	100 bps
Crude Oil ($ / Barrel)	$90.79	13.12%
Gold ($ / Oz.)	$1,848.63	0.49%
U.S. $ / Euro €	$0.95	0.88%
Core Inflation (excluding food / energy)		4.30**
Inflation (including food / energy)		3.70**

**Without Dividends; **Unadjusted 12-Months ended August 2023; bps (1 Basis Point = 1/100%); UNCH (Unchanged)*
Sources for Score Board and quoted statistics: WSJ, US Dept. of Labor, Federal Reserve

Sources:

1. The S&P 500 Index is designed to be a leading indicator of U.S. equities and is commonly used as a proxy for the U.S. stock market. Price return only.
2. Source: The Barron's Daily (as of 10/02/23)
3. The Bloomberg U.S. Aggregate Bond Index is a broad-based index used as a proxy for the U.S. bond market. The index was created on July 7, 1973.
4. Duration measures a bond's price sensitivity to interest rate changes.
5. Source: FactSet (data points from 01/1973 – 08/2023), Hartford Funds.
6. Charities Aid Foundation (CAF). (October 2019). https://www.cafonline.org/docs/default-source/about-us-publications/caf_wgi_10th_edition_report_2712a_web_101019.pdf
7. America the generous: U.S. leads globe in giving - Axios. (n.d.). https://www.axios.com/2022/03/09/america-charitable-giving-stats-ukraine
8. What is a philanthropist? Fidelity Charitable. (n.d.). https://www.fidelitycharitable.org/guidance/philanthropy/what-is-a-philanthropist.html

categories. **Please Also Note**: (1) performance results do not reflect the impact of taxes; (2) comparative benchmarks/indices may be more or less volatile than your BFSG accounts; and, (3) a description of each comparative benchmark/index is available upon request.