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The Financial Solutions Advisor

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Economic & Market Perspectives

The S&P 500 suffered its first quarterly decline since the depths of the pandemic in Q1 of 2020 (-5%). Growth (-8.6%) meaningfully lagged value (-0.6%). The biggest development in Q1 was the dramatic repricing of the Fed rate hike path and expectations for an earlier start to and more aggressive balance sheet runoff phase. This shift was driven by concerns about elevated and persistent inflation pressures. A 40 year high in Consumer Price Index (CPI) highlighted such concerns.

Investor attention has pivoted over the past few weeks from the war in Ukraine back to the accelerated unwinding of global monetary accommodation. As the war settles into an apparent stalemate accompanied by improving odds of a ceasefire agreement, rallying risk assets suggest that underlying global growth conditions are much better than a flat yield curve forecasts.

The hawkish Fed policy shift drove a big increase in bond yields, and Treasuries suffered one of their worst quarters on record. Curve inversion drove worries about potential recession and a Fed policy mistake. Q4 earnings season marked a fourth straight quarter of 20+% earnings growth. Geopolitical tensions became a much bigger issue for the market as the quarter witnessed Russia's invasion of Ukraine. Energy stocks surged nearly 40%, its biggest rally on record. Treasuries sold off sharply, with 2-year yields up over 150 basis points to 2.30% and 10-year yields up over 80 basis points to 2.33%. WTI crude oil rallied more than 30%.

It remains to be seen whether stocks can sustain recent advances against a backdrop of high and rising bond market volatility. During the last economic expansion, stocks benefited from low inflation and central banks' prompt policy support whenever investor confidence sagged. Central banks have no such latitude today and now face the uncomfortable prospect of having to engineer slower growth to tame inflation.

We believe there is a low probability of a US recession developing in 2022. Despite high inflation, US consumer spending should remain strong in the year ahead, supported by a strong job market, healthy balance sheets, and the reopening of the service sector as Covid headwinds fade. The outlook for investment spending is also solid given robust corporate profits, a still low cost of debt, and the ongoing need to upgrade technology and modify supply chains.

2022 Returns

S&P 500	*-4.60%*
NASDAQ	*-8.91%*
Russell Small Cap	*-7.53%*
Russell Mid Cap	*-5.68%*
MSCI EAFE	*-5.91%*
MSCI World	*-5.15%*
Barclay US Agg. Bond	*-5.93%*
Barclay Municipal Bond	*-6.23%*

Worries about Fed rate hikes killing the expansion anytime soon are misplaced. The real Fed Funds rate is deeply negative, and the nominal rate is far below the consensus estimate of nominal potential GDP growth for the next several years. The yield curve is an important indicator of a recession that briefly flashed a warning signal in late March. Fed Chair Powell recently downplayed the 2-10 yield curve (we prefer the 90-day/10-year curve) as a recessionary indicator, instead pointing investors to the market-implied change in the fed funds rate over the coming 18 months.

Source: Bob Doll | Crossmark Global Investments

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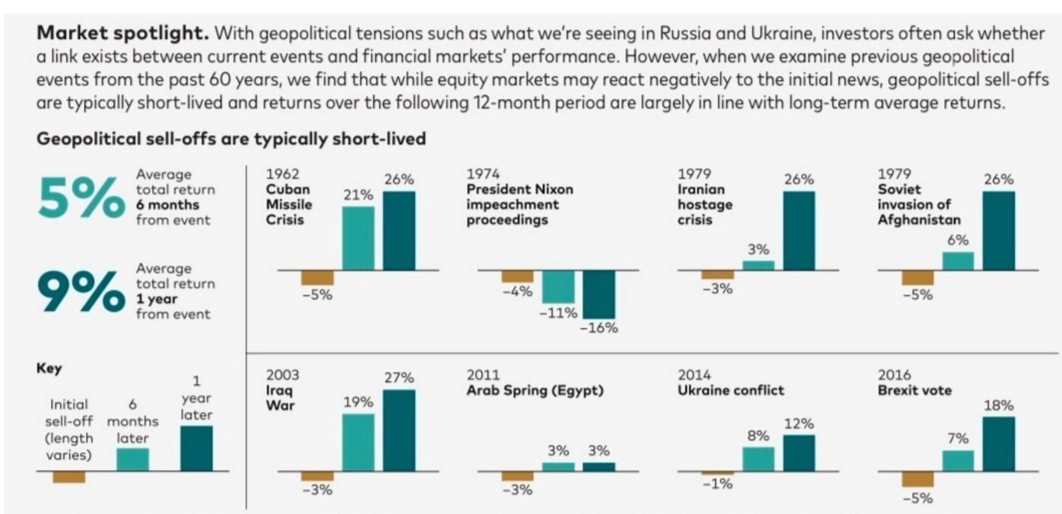


Key Retirement and Tax Numbers for 2022

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2022.

Estate, Gift, and Generation-Skipping Transfer Tax

- The annual gift tax exclusion (and annual generation-skipping transfer tax exclusion) for 2022 is $16,000, up from $15,000 in 2021.
- The gift and estate tax basic exclusion amount (and generation-skipping transfer tax exemption) for 2022 is $12,060,000, up from $11,700,000 in 2021.

Standard Deduction

Standard Deduction	2021	2022
Single	$12,550	$12,950
HOH	$18,800	$19,400
MFJ	$25,100	$25,900
MFS	$12,550	$12,950

Taxpayers can generally choose to itemize certain deductions or claim a standard deduction on their federal income tax returns. In 2022, the standard deduction is:

- $12,950 (up from $12,550 in 2021) for single filers or married individuals filing separate returns
- $25,900 (up from $25,100 in 2021) for married joint filers
- $19,400 (up from $18,800 in 2021) for heads of household

The additional standard deduction amount for the blind and those age 65 or older in 2022 is:

- $1,750 (up from $1,700 in 2021) for single filers and heads of household
- $1,400 (up from $1,350 in 2021) for all other filing statuses

Special rules apply for those who can be claimed as a dependent by another taxpayer.

IRAs

The combined annual limit on contributions to traditional and Roth IRAs is $6,000 in 2022 (the same as in 2021), with individuals age 50 or older able to contribute an additional $1,000. The limit on contributions to a Roth IRA phases out for certain modified adjusted gross income (MAGI) ranges *(see chart)*. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA also phases out for certain MAGI ranges *(see chart)*. The limit on nondeductible contributions to a traditional IRA is not subject to phaseout based on MAGI.

MAGI for Traditional IRA	2021	2022
Single/head of household (HOH)	$66,000 - $76,000	$68,000 - $78,000
Married filing jointly (MFJ)	$105,000 - $125,000	$109,000 - $129,000
Married filing separately (MFS)	$0 - $10,000	$0 - $10,000

MAGI for Roth IRA	2021	2022
Single/head of household (HOH)	$125,000 - $140,000	$129,000 - $144,000
Married filing jointly (MFJ)	$198,000 - $208,000	$204,000 - $214,000
Married filing separately (MFS)	$0 - $10,000	$0 - $10,000

Employer Retirement Plans

Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $20,500 in compensation in 2022 (up from $19,500 in 2021); employees age 50 or older can defer up to an additional $6,500 in 2022 (the same as in 2021).

Employees participating in a SIMPLE retirement plan can defer up to $14,000 in 2022 (up from $13,500 in 2021), and employees age 50 or older can defer up to an additional $3,000 in 2022 (the same as in 2021).

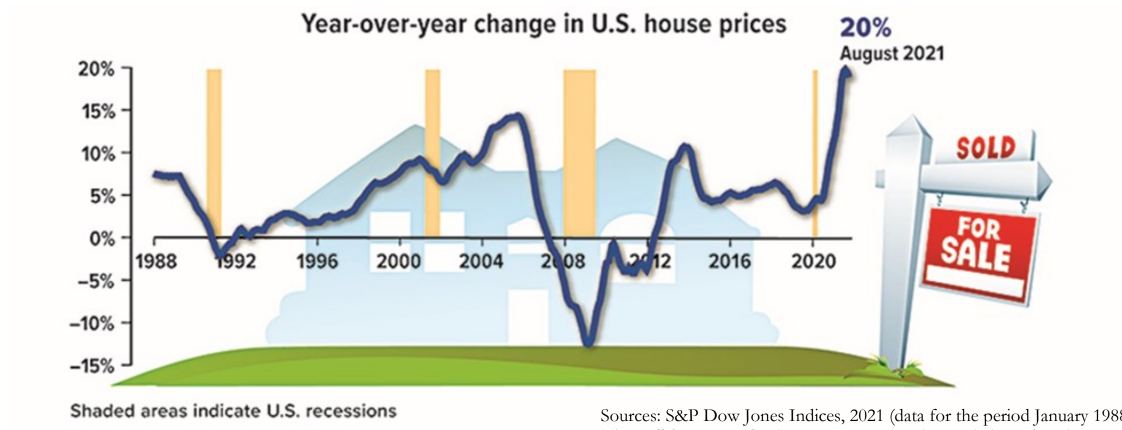
Kiddie Tax: Child's Unearned Income

Under the kiddie tax, a child's unearned income above $2,300 in 2022 (up from $2,200 in 2021) is taxed using the parents' tax rates.

Home Prices Have Risen at Record Pace

U.S. home prices rose 20% during the 12 months ending in August 2021 as buyer demand far exceeded the supply of dwellings for sale. This was the largest annual price increase in the history of the monthly S&P/Case-Shiller U.S. National Home Price Index going back to 1988. The index continued strong growth at a slightly slower pace in the fall, typically a time when the market takes a breather.

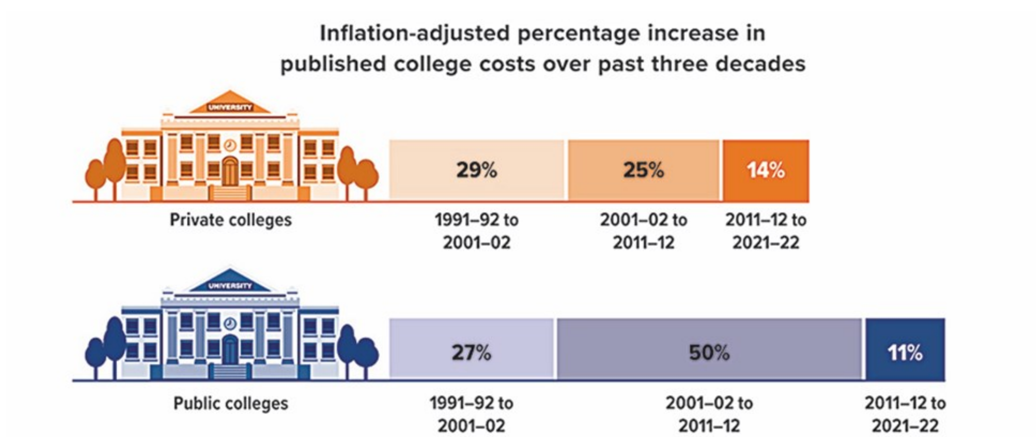
Home prices fell during most past recessions, but the housing market has been anything but normal since the pandemic began in 2020. In many cities, builders struggle to build enough homes to meet the demand driven by low interest rates, a desire for more space while working and schooling at home, and the aging of millennials into homeownership. This was amplified by labor shortages and spiking material costs in 2021.



Sources: S&P Dow Jones Indices, 2021 (data for the period January 1988 to October 2021) *The Wall Street Journal,* July 27, 2021; National Association of Realtors, November 17, 2021

Three Decades of College Cost Increases

Over the past 30 years, the cost of college tuition, fees, room, and board has increased 85% at private colleges and 111% at public colleges *above and beyond* the rate of general inflation. After significant cost increases during the 1990s and 2000s, colleges have made a concerted effort over the last decade to rein in cost hikes. This is especially true for public colleges, as states have generally allocated more money to their higher-education budgets after years of cuts. (Source: Trends in College Pricing and Student Aid 2021, College Board)



Inflation Cuts into Wage Gains

Driven by labor shortages, median hourly wages increased at an annual rate of 5.2% in December 2021, the highest level since June 2001. However, inflation cuts into buying power, and *real wages* — adjusted for inflation — actually dropped as inflation spiked in 2021. By contrast, negative inflation (deflation) during the Great Recession sent real wages skyrocketing temporarily even as non-adjusted wage growth declined.

Sources: Federal Reserve Bank of Atlanta, 2022, and U.S. Bureau of Labor Statistics, 2022, data 1/2001 to 12/2021. (Wage growth is calculated by comparing the median percentage change in wages reported by individuals 12 months apart; real wage growth is calculated by subtracting CPI-U inflation from wage

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Working While Receiving Social Security Benefits

The COVID-19 recession and the continuing pandemic pushed many older workers into retirement earlier than they had anticipated. A little more than 50% of Americans age 55 and older said they were retired in Q3 2021, up from about 48% two years earlier, before the pandemic.[1]

For people age 62 and older, retiring from the workforce often means claiming Social Security benefits. But what happens if you decide to go back to work? With the job market heating up, there are opportunities for people of all ages to return to the workforce. Or to look at it another way: What happens if you are working and want to claim Social Security benefits while staying on your job?

Retirement Earnings Test

Some people may think they can't work — or shouldn't work — while collecting Social Security benefits. But that's not the case. However, it's important to understand how the retirement earnings test (RET) could affect your benefits.

- The RET applies only if you are working and receiving Social Security benefits *before* reaching full retirement age (FRA). Any earnings after reaching full retirement age do not affect your Social Security benefit. Your FRA is based on your birth year: age 66 if born in 1943 to 1954; age 66 & 2 months to 66 & 10 months if born in 1955 to 1959; age 67 if born in 1960 or later.
- If you are under full retirement age for the entire year in which you work, $1 in benefits will be deducted for every $2 in gross wages or net self-employment income above the annual *exempt amount* ($19,560 in 2022). The RET does not apply to income from investments, pensions, or retirement accounts.
- A monthly limit applies during the year you file for benefits ($1,630 in 2022), unless you are self-employed and work more than 45 hours per month in your business (15 hours in a highly skilled business). For example, if you file for benefits starting in July, you could earn more than the annual limit from January to June and still receive full benefits if you do not earn more than the monthly limit from July through December.
- In the year you reach full retirement age, the reduction in benefits is $1 for every $3 earned above a higher annual exempt amount ($51,960 in 2022 or $4,330 per month if the monthly limit applies). Starting in the month you reach full retirement age, there is no limit on earnings or reduction in benefits.
- The Social Security Administration may withhold benefits as soon as it determines that your earnings are on track to surpass the exempt amount. The estimated amount will typically be deducted from your monthly benefit in full. *(See example.)*
- The RET also applies to spousal, dependent, and survivor benefits if the spouse, dependent, or survivor works before full retirement age. Regardless of a spouse's or dependent's age, the RET may reduce a spousal or dependent benefit that is based on the benefit of a worker who is subject to the RET.

Back to Work

In this hypothetical example, Fred claimed Social Security in 2021 at age 62, and he was entitled to a $1,500 monthly benefit as of January 2022. Fred returned to work in April 2022 and is on track to earn $31,560 for the year — $12,000 above the $19,560 RET exempt amount. Thus, $6,000 ($1 for every $2 above the exempt amount) in benefits will be deducted. Assuming that the Social Security Administration (SSA) became aware of Fred's expected earnings before he returned to work, benefits might be paid as illustrated below:

In practice, benefits may be withheld earlier in the year or retroactively, depending on when the SSA becomes aware of earnings.

The RET might seem like a stiff penalty, but the deducted benefits are not really lost. Your Social Security benefit amount is recalculated after you reach full retirement age. For example, if you claimed benefits at age 62 and forfeited the equivalent of 12 months' worth of benefits by the time you reached full retirement age, your benefit would be recalculated as if you had claimed it at age 63 instead of 62. You would receive this higher benefit for the rest of your life, so you could end up receiving substantially more than the amount that was withheld. There is no adjustment for lost spousal benefits or for lost survivor benefits that are based on having a dependent child.

If you regret taking your Social Security benefit before reaching full retirement age, you can apply to withdraw benefits within 12 months of the original claim. You must repay all benefits received on your claim, including any spousal or dependent benefits. This option is available only once in your lifetime.

1) Pew Research Center, November 4, 2021