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The Financial Solutions Advisor

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Economic & Market Perspectives

2024 Performance Highlights:
• U.S. consumer spending stayed strong, but labor markets softened later in the year, prompting the Federal Reserve to cut interest rates by an additional 50 basis points, totaling a full 1% reduction for the year.
• Inflation declined but remained above the Fed's 2% target.
• Equity markets outperformed expectations, driven by mega-cap tech and growth stocks, with mixed sectoral performance.

Geopolitical Changes:
• Donald Trump's 2024 presidential win and Republican Congress leadership introduced policies like tax cuts, deregulation, and stricter immigration, creating mixed economic growth prospects.

2025 Predictions:
1. Slower economic growth with unemployment exceeding 4.5%.
2. Persistent inflation above the Fed's target and limited rate cuts.
3. Treasury yields stabilize between 4%-5%, with wider credit spreads.
4. Corporate earnings underperform consensus expectations.
5. Higher stock market volatility (VIX near 20).
6. A 10% equity correction as valuations contract.
7. Equal-weighted and value portfolios outperform cap-weighted and growth portfolios.
8. Financials, energy, and consumer staples outperform other sectors.
9. Congress extends Trump tax cuts but implements milder tariffs and deportation policies.
10. Government efficiency initiatives fall short of ambitious savings targets.

Conclusions:
• Policy Uncertainty: Pro-growth measures (e.g., tax cuts) and disruptive policies (e.g., tariffs) may increase market volatility and inflation risks.
• Sector Opportunities: Financials and energy may benefit from deregulation and increased production.
• Market Risks: Elevated equity valuations could lead to a 5-10% pullback in early 2025.
• Investor Strategy: Caution is advised due to stretched valuations and potential near-term market weakness after 2024 gains.

Source: Bob Doll, Chief Investment Officer, Crossmark Global Investments

2024 Returns

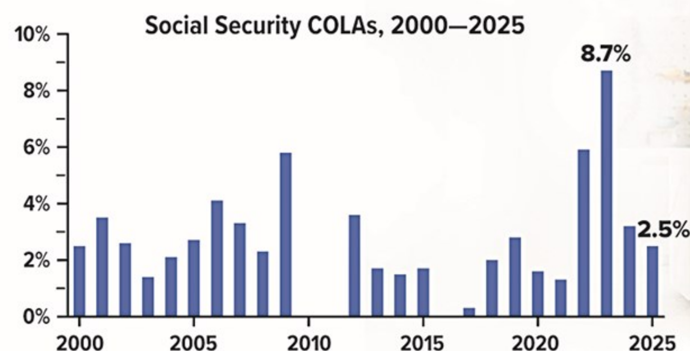
S&P 500	*25.02%*
NASDAQ	*25.88%*
Russell Small Cap	*11.54%*
Russell Mid Cap	*15.34%*
MSCI EAFE	*3.82%*
MSCI World	*18.67%*
Barclay US Agg. Bond	*1.25%*
Barclay Municipal Bond	*1.05%*

Social Security COLA Lower for 2025

The 2.5% Social Security cost-of-living adjustment (COLA) for 2025 continues the return to a more typical adjustment after high inflation resulted in big COLAs in 2022 and 2023. The COLA will take effect with December 2024 benefits payable in January 2025. The percentage is based on the Q3 to Q3 change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

Despite these annual adjustments for inflation, a recent study found that the buying power of Social Security benefits declined by 20% from 2010 to 2024, in part because the CPI-W is weighted more heavily toward items purchased by younger workers than by Social Security beneficiaries.

Sources: Social Security Administration, 2024; The Senior Citizens League, July 18, 2024



There was no COLA in 2010, 2011, and 2016.

Contact us:

8700 W. Bryn Mawr Ave.
Suite 410-N
Chicago, Illinois 60631
773.714.1540 *Main*
773.714.1550 *Facsimile*
www.fsadvisorygroup.com

Three Market-Moving Economic Indicators to Watch

Among all of the economic indicators released each month, three reports in particular can move the market: the Employment Situation, gross domestic product, and Personal Income and Outlays.

The Employment Situation
Each month, the Bureau of Labor Statistics (BLS) publishes the Employment Situation Summary report based on information from the prior month. The data for the report is derived primarily from two sources: (1) a survey of approximately 60,000 households, or about 110,000 individuals (household survey), and (2) an establishment survey of over 650,000 worksites. The information contained in each report includes the total number of employed and unemployed people, the unemployment rate, the number of people working full time or part time, average hourly and weekly earnings, and average hours worked per week.

According to the BLS, when workers are unemployed, they, their families, and the country as a whole can be negatively impacted. Workers and their families lose wages, and the country loses the goods or services that could have been produced. In addition, the purchasing power of these workers is lost, which can lead to unemployment for even more workers.

Investors pay particular attention to the information provided in this report. For instance, a rising unemployment rate may indicate a slowing economy. In this scenario, stock values may decline with falling corporate profits, while bond prices may rise as yields fall in response to lower interest rates. Slower wage growth may also be a sign of lower inflation and interest rates, and reduced economic productivity.

Gross domestic product
Gross domestic product (GDP) measures the value of goods and services produced by a nation's economy less the value of goods and services used in production. GDP offers a broad measure of the nation's overall economic activity in the U.S. and serves as a gauge of the country's economic health. GDP contains a vast amount of economic information, including gross domestic income (the net of incomes earned and costs incurred in the production of GDP); gross output (the value of the goods and services produced by the nation's economy); gross domestic purchase price index (measures the value of goods and services bought by U.S. residents); personal consumption expenditures (PCE) price index (costs of consumer goods and services); and profits from current production (corporate profits).

GDP can offer valuable information to investors, including whether the economy is expanding or contracting, trends in consumer spending, the status of residential and business investing, and whether prices for goods and services are rising or falling. A strong economy is usually good for corporations and their profits, which may boost stock prices. Increasing prices for goods and services may indicate advancing inflation, which can impact bond prices and yields. In short, GDP provides a snapshot of the strength of the economy over a month and a year and can play a role when making financial decisions.

Personal Income and Outlays
The Personal Income and Outlays report measures household income, expenditures, and savings. It also includes data on consumer prices for goods and services. In particular, this report includes data on personal income, disposable (after-tax) personal income, personal consumption expenditures, personal savings, and prices for consumer goods and services as measured by the PCE price index.

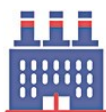
In general, consumer spending, which accounts for more than two-thirds of the economy, usually influences market performance. Knowing what consumers are buying (i.e., durable goods, nondurable goods, or services) may offer insight into how various market sectors might perform. Changes in income and spending can have a direct impact on the market. Greater spending usually enhances corporate profits and stock values and vice versa. While the Consumer Price Index may be the more recognized measure of inflation, the PCE price index is the Federal Reserve's preferred measure of inflationary (or deflationary) trends. The rate of inflation and interest rates often move in the same direction because interest rates are the primary tool used by central banks (including the Federal Reserve) to manage inflation. Rising inflation usually prompts the Fed to increase interest rates, while falling inflation (and slowing economic growth) might lead to a decrease in interest rates to promote borrowing and stimulate the economy.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Other Important Economic Indicators:

- **Unemployment Insurance Weekly Claims report** — provides data on new claims filed, total claims paid, and the unemployment rate

- **Consumer Price Index** — measures changes in the average price of goods and services purchased by consumers



- **Federal Reserve's monthly industrial production index** — measures monthly and annual changes in output in manufacturing, mining, and utilities

What's New for 2025?

To help you stay informed, here are five changes you can look forward to in the new year.

Higher catch-up contributions for some. As of January 1, individuals ages 60 through 63 may be able to make increased catch-up contributions (if offered) to their workplace plan. The catch-up amount for people age 50 and older is $7,500 for 2025, but for people ages 60 through 63, the limit will be $11,250.[1]

Cap on out-of-pocket Medicare drug costs. A bit of welcome news for people with Medicare Part D prescription drug coverage — a $2,000 annual cap on out-of-pocket prescription costs takes effect on January 1.[2] People with Part D will also now have the option to pay out-of-pocket costs in monthly installments over the course of the plan year instead of having to pay all at once at the pharmacy, which may help make it easier to manage prescription drug costs.

Automatic enrollment for new workplace retirement plans. Businesses that have adopted 401(k) and 403(b) plans since the passage of the SECURE 2.0 Act in December 2022 are now required to automatically enroll eligible employees at a contribution rate of 3% to 10%. After the first year, this rate will increase by 1% each year until it reaches 10% to 15%. New companies in business less than three years and employers with 10 or fewer employees are excluded, and other exceptions apply. Employees may opt out of coverage or elect a different percentage.

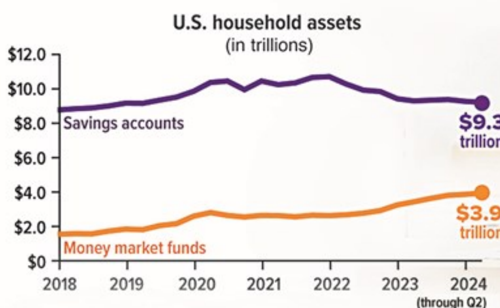
REAL ID deadline. The deadline for getting a REAL ID is May 7 (although the TSA has announced that enforcement may be phased in). As of that date, every air traveler who is at least 18 years old will need a REAL ID-compliant drivers license or identification card or another TSA-acceptable form of identification for domestic air travel and to enter certain federal facilities. Other TSA-acceptable documents are active passports, passport cards, or Global Entry cards. Standard drivers licenses will no longer be valid ID for TSA purposes, but enhanced drivers licenses from certain states are acceptable alternatives. Travelers who don't have a REAL ID by the deadline could face delays at airport security checkpoints. Visit the TSA website at tsa.gov for updates and information.

New credit scoring risk model for mortgages. In late 2025, lenders are expected to begin using VantageScore 4.0 and FICO Score 10 T (instead of Classic FICO) to qualify borrowers. These new credit scoring models will provide a more precise assessment of credit risk.[3] Models will consider trended credit data (an analysis of a customer's behavior over time or historical payment and balance information) and other data not previously considered as part of the Classic FICO score, such as rent, utility, and telecom payments. This change will potentially help more applicants qualify for mortgages.

1–2) These are indexed annually for inflation so may rise each year.
3) Fannie Mae and Freddie Mac, 2024

Where Americans Are Stashing Their Cash

The level of the federal funds rate affects many short-term interest rates, including the yield on money market funds, which invest in high-quality, short-term debt instruments and cash equivalents. Investors often use money market funds as "sweep accounts" for clearing brokerage transactions. They can also be a good place to keep cash set aside for emergencies or large purchases such as a vacation, car, or home — especially now that they tend to offer higher yields than most savings accounts.



Source: Federal Reserve, 2024

Money market funds are neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in such a fund. Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

A Registered Investment Advisory Firm
Financial Solutions Advisory Group

8700 W. Bryn Mawr Ave.
Suite 410-N
Chicago, Illinois 60631
773.714.1540 *Main*
773.714.1550 *Facsimile*
www.fsadvisorygroup.com

Older Workers Can Now Supersize 401(k)s

Older workers can put more money than ever in their 401(k)s starting next year under a new law meant to boost retirement savings for people in their early 60s.

The maximum amount savers can put in retirement accounts is adjusted each year for inflation, along with the extra catch-up contributions available to anyone 50 and up.

Starting next year, workers between 60 and 63 can make a super catch-up contribution of up to $11,250, the IRS said Friday. People who turn those ages sometime during the year will be able to put up to $34,750 into their workplace retirement plans. That is about 14% more than in 2024 and marks the biggest change to 401(k) contribution rules in two decades.

Catch-ups are meant to help older workers who didn't save early or save enough during their careers, often because they dipped in and out of the workforce. Even big savers take advantage of the catch-up.

In Vanguard's workplace retirement saving plans during 2023, 14% of participants saved the maximum, including catch-ups. Roughly half of participants with income over $150,000 contributed the maximum. And one in six older than 65 did so.

"I'll keep doing the maximum catch-up contributions I can do now, and if there's a higher number when I'm 60, I'll do that as well if we can afford it," said Jeff Sturman, a 54-year-old bank examiner in Winston-Salem, N.C.

The IRS makes annual inflation adjustments to the maximum amounts people can put in their retirement accounts based on formulas in the tax law. Inflation adjustments have also lifted tax brackets and estate and gift tax thresholds.

Contribution levels

Most workers will be allowed to put up to $23,500 into their 401(k)s and similar workplace retirement plans in 2025, up $500 from this year. Workers 50 to 59, or 64 and older, can make an additional catch-up contribution of up to $7,500, the same as last year.

The change for those turning 60 to 63 is called the super catch-up. Congress added it as part of a 2022 retirement law but made it effective starting in 2025.

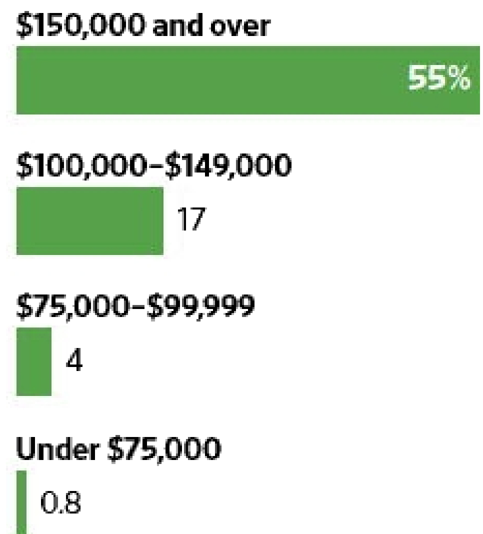
For workers of all ages at companies that allow special after-tax contributions, there is an even bigger total $70,000 contribution limit for 2025, up from $69,000 this year. That limit includes the basic $23,500, employer contributions, and any additional after-tax contributions. Combined with the new catch-up provision, those in their early 60s can get up to $81,250 in these plans.

Nearly all employers offer catch-ups. Most will want to offer the super catch-up, too, said Kari Jakobe, an employee benefits leader at Milliman.
That said, it takes a lot to hit the max. A 60-year-old who earns $150,000 would have to save 23% of her or his salary to max out the basic limit and new super catch-up amount.

Michael Alania, a 53-yearold advertising technology executive in Fair Lawn, N.J., is contributing the maximum $23,000 this year, split 75% pretax and 25% Roth, and has contributed the full catch-up since turning 50.

"I started saving what I was able to afford that would leave me with what I needed for the month," said Alania. "When you get to retirement age, that's going to be your income."

Some people will retire before becoming eligible for the super catch-up. You can take money out of a 401 (k) from a former employer at age 59 ½ without incurring a penalty.



Pretax versus Roth

The limits are the same if you choose pretax or Roth savings. Pretax contributions reduce your taxable income, and you pay taxes when you eventually take the money out of the account.

With Roth accounts, you pay the taxes upfront, and the money grows and can be withdrawn tax- free.

The retirement law that created the super catch- up added another wrinkle: Catch- up contributions will have to be Roth for those who made more than $145,000 the previous year. That rule was supposed to go into effect in 2024, but the IRS has delayed it until 2026.

Unlike the 401(k) adjustments, the contribution limit for individual retirement accounts and Roth IRAs will remain the same in 2025 at $7,000, with a $1,000 catchup for those 50 and older.

Source: Ashlea Ebeling, Wall Street Journal

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