3Q23

The Financial Solutions Advisor

Inside this issue:

Economic & Market Perspectives 1

As Your Parents Age, Help Them to Protect Their Finances 2

Keep an Eye Out for IRS Related Scams 2

More Americans Embrace the Cashless Economy 3

Inflation Gauges Don't Always Paint the Same Picture 3

Economic & Market Perspectives (continued) 4

Future Four-Year College Costs 4

Contact us:

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

Economic & Market Perspectives

Investors in 2023 have been waiting for a negative. Waiting to see if economic growth will turn negative. Waiting for a well-established negative trend on inflation. And waiting for the Federal Reserve to perceive enough general negativity to stop raising interest rates. As the first half of the year came to a close, the wait continues.

Waiting for Recession

The economy continued to grow in the second quarter at a 2% annualized pace – still avoiding the recession that many had called inevitable due to the Fed's aggressive monetary tightening. New home sales data confirm that even with mortgage rates above 6.5%, a chronic lack of inventory is preventing a further decline in homebuilding.

So how has the economy been able to fend off recession so far? Part of the answer is that there is no real excess in the cyclical sectors of the economy. A second, more important reason, however, is an extraordinary excess demand for labor. As of the end of April, there were 10.1 million job openings in the United States. While that is down from a peak of 12.0 million in March of 2022, it is still far above its pre-pandemic peak of 7.2 million in January 2020. If, going forward, job openings continued to fall at the same pace as over the past 13 months, it would take another 20 months, or until the end of 2024, to fall to that old peak.

This has allowed hiring to stay much stronger than would normally be the case given slowing economic growth. While initial unemployment claims have risen in recent weeks, continuing claims have remained at historically low levels as laid-off workers have been quickly able to find alternative employment. This strong job growth, feeding through to rising personal income, has provided the economy with a degree of protection from recession and could continue to do so into 2024.

All of this being said, however, the economy continues to face threats. Consumer spending is still excessive relative to disposable income and this problem will worsen with the resumption of student loan repayments in the fall. Fiscal policy is tightening, following the passage of the debt-ceiling agreement and the Fed's aggressive monetary tightening is acting as a drag on business spending.

And then there is the issue of commercial real estate and the regional banks.

Many office buildings, particularly in city centers, remain half empty as businesses have adapted to work-from-home or hybrid work schedules. Many regional malls have empty space, due to a consumer switch to on-line purchases during the pandemic. This is resulting in a slow-motion slump, with rising vacancy rates as leases expire and a demand for more equity and higher interest rates in order to roll over maturing loans on these properties. This is a particularly serious issue for smaller banks which have, proportionately, a much greater exposure to commercial real estate.

As pressure on these lenders grows, they could continue to tighten credit standards, as they have done over the past year. We could also see a repeat of the regional banking turmoil of the first quarter. However, it needs to be emphasized that this is a slow-motion slump. Both the leases and the loans are stretched out over a number of years. Equity stakeholders in these properties will take the first hit, moderating the impact on bank balance sheets. Other areas of commercial real estate, such as multi-family housing, warehouses and data centers are growing. And construction of offices, shops, malls, and restaurants, all added together, only accounted for 0.6% of GDP in 2019.

2023 Returns

S&P 500	*16.89%*
NASDAQ	*39.35%*
Russell Small Cap	*16.17%*
Russell Mid Cap	*9.01%*
MSCI EAFE	*11.67%*
MSCI World	*15.09%*
Barclay US Agg. Bond	*2.09%*
Barclay Municipal Bond	*2.67%*

In short, the commercial real estate/regional banking problem doesn't look enough to tip the economy into recession on its own. Sluggish growth seems certain…recession does not.

The Negative Trend on Inflation

While prospects for recession remain unclear, the downward trend on inflation is now well established. Since peaking at 9.1% last June, year-over-year CPI inflation has now fallen for 11 consecutive months and stood at 4.0% as of May. We expect this to decline further to 3.2% year-over-year for June and then move sideways for the rest of the year.

Moreover, it is important to recognize that in May, shelter, which accounts for 34.6% of the CPI, was up 8.0% year-over-year. Everything else rose just 1.9%. In addition, while the Federal Reserve seems particularly focused on the consumption deflator for core services ex shelter, even this measure appears to be slowing, with its CPI equivalent falling from 5.4% year-over-year in April to 4.7% year-over-year in May. Finally, even this 4.7% doesn't reflect a broad tide of inflationary pressures – in fact over 70% of it reflects a surge in auto insurance and repair costs which, in turn, are largely a lagged response to last year's surge in new and used vehicle prices. Interestingly, both auto insurance and repair costs

Continued Page 4

As Your Parent Age, Help Them Protect their Finances

It's heartbreaking to hear stories of people losing money (even their life savings) as a result of fraud or financial exploitation, especially if they are older and financially vulnerable. In fact, it's quite common. People age 70 and older reported losses of $567 million in 2022.[1] You know your parents could be at risk, and you want to protect them, but how?

One place to start is by looking for warning signs that your parents have been victimized, or are at risk of being influenced, manipulated, or coerced by a stranger or someone they know.

- Unusual bank account activity, including large or unexplained withdrawals, and nonsufficient fund notices
- Missing checks, credit cards, or financial statements
- Unpaid bills
- Lost money or valuables that can't be located after a thorough search
- Relationships with people who seem to have undue influence
- Unexplained changes to important legal documents
- Declining memory and declining decision-making skills

Regularly checking in with your parents may help you spot some issues that possibly need to be addressed. If your parents have fallen victim to a financial scam or are being pressured for money from someone they know, they may be embarrassed or reluctant to tell you, even if you ask. Do your best to remain objective and nonjudgmental, and patiently listen to their views while expressing your own concern for their well-being.

Laying some groundwork to help prevent future incidents is also important. For example, talk to your parents about how they might handle common scams. Let them know it's a good idea to get a second opinion from you before acting on any request for information or money, even if it seems to come from their financial institution, a well-known company, law enforcement, a government agency such as the IRS or Social Security Administration, or even a grandchild in trouble.

Encourage them to set up appointments with their elder law attorney or financial professional to talk about concerns and legal and financial safeguards. They might also want to add layers of protection to their financial accounts, such as naming a trusted contact or setting up account alerts.

People are often reluctant to report financial fraud or exploitation, either out of embarrassment or fear of being wrong. But if you suspect your parents have been victimized, you can get help from many sources, including the National Elder Fraud Hotline, sponsored by the U.S. Department of Justice. You can call (833) 372-8311 to be connected with case managers who will assist you and direct you to additional resources.

1) Federal Trade Commission, 2022

Keep an Eye Out for IRS-Related Scams

One of the more common IRS scams involves phishing emails. These scams involve unsolicited emails that pose as the IRS to convince you to provide personal information. Scam artists then use this information to commit identity or financial theft. Another dangerous type of phishing, referred to as "spear phishing," is targeted towards specific individuals or groups within a company or organization. Spear phishing emails are designed to get you to click on a link or download an attachment that will install malware in order to disrupt critical operations within your company or organization.

Another popular IRS scam involves fraudulent communications that appear to be from the IRS or a law enforcement organization. These scams are designed to trick you into divulging your personal information by using scare tactics such as threatening you with arrest or license revocation. Be wary of any email, phone, social media, and text communications from individuals claiming they are from the IRS or law enforcement saying that you owe money to the IRS.

A relatively new IRS scam involves text messages that ask you to click on a link in order to claim a tax rebate or some other type of tax refund. Scammers who send these messages are trying to get you to give up your personal information and/or install malware on your phone. Watch out for texts that appear to be from the IRS that mention "tax rebate" or "refund payment."

The IRS will not initiate contact with you by email, text message, or social media to request personal information. The IRS usually contacts you by regular mail delivered by the U.S. Postal Service. Here are some steps that may help you avoid scams.

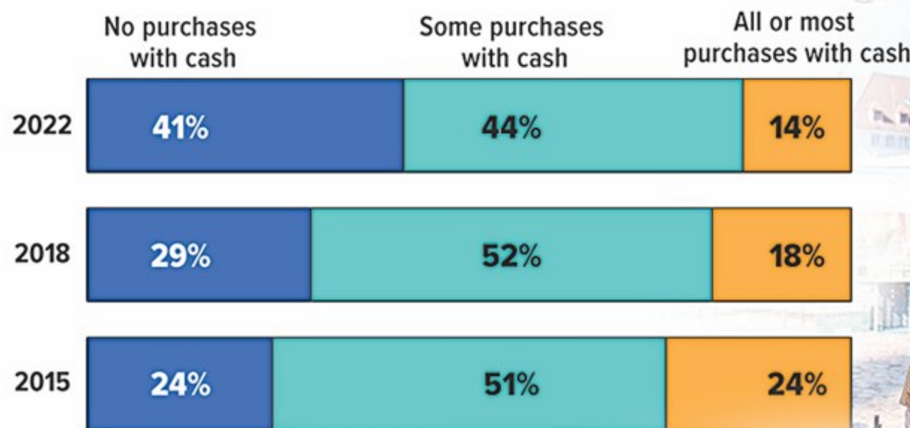
- Never share your personal or financial information via email, text message, or over the phone.
- Don't click on suspicious or unfamiliar links or attachments in emails, text messages, or instant messaging services.
- Keep your devices and security software up to date, maintain strong passwords, and use multi-factor authentication.

1) Internal Revenue Service, 2022

More Americans Embrace the Cashless Economy

A growing number of Americans are going "cashless" for everyday purchases like groceries, gas, services, and meals compared to previous years. A cashless payment might be made using a debit or credit card, or a payment app or mobile wallet on a smartphone.

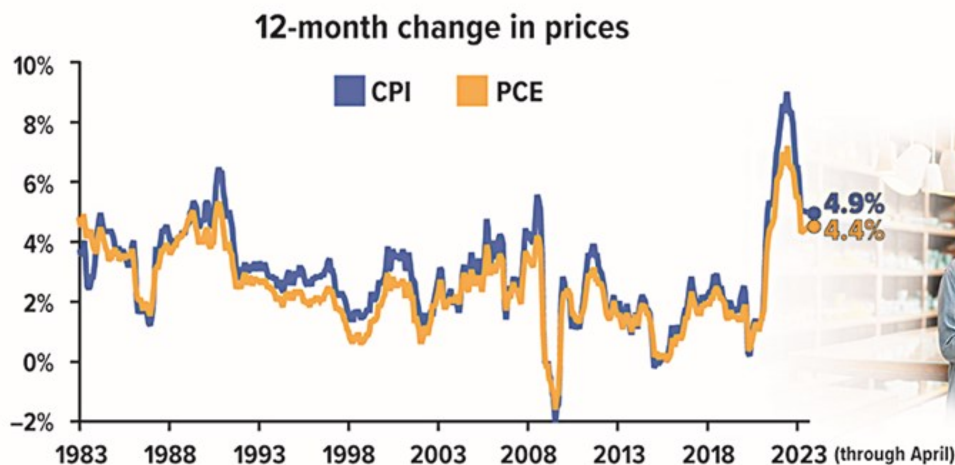
In 2022, about 41% of Americans said none of their purchases in a typical week were paid for using cash, up from 29% in 2018 and 24% in 2015. Among affluent households, 59% said they didn't use cash for any typical weekly purchases. The trend of not carrying cash varies by age, with 54% of people under age 50 saying they don't worry much about whether they have cash on hand compared to 28% of people 50



Source: Pew Research Center, 2022 (numbers do not equal 100% due to rounding)

Inflation Gauges Don't Always Paint the Same Picture

Economists and investors rely on the Consumer Price Index (CPI) and the Personal Consumption Expenditures (PCE) Price Index to track the path of inflation over time. The two indexes use different formulas and data sources — CPI gets data from consumers and PCE data comes from businesses. PCE is broader in scope and some expenditure categories are weighted very differently. In late 2022, the difference between annual inflation as measured by CPI and PCE was the widest it has been since the 1980s.



Sources: U.S. Bureau of Labor Statistics, 2023; U.S. Bureau of Economic Analysis, 2023 (data through April 2023)

Economic and Market Perspectives (continued)

saw very large monthly increases from June through September of last year. This suggests that Chairman Powell's favorite inflation measure is going to take a nosedive on a year-over-year basis in the months ahead.

Still waiting for a Negative Trend on Policy Rates
Despite mounting evidence that inflation is headed back to its low pre-pandemic levels, the Fed has maintained a very hawkish tone, with 12 of 18 FOMC members projecting at least two more 25-basis point rate hikes before the end of the year. The Fed's position is somewhat strange since their own forecasts must show roughly the same moderation in inflation that we expect. A gradual decline in inflation, from just over 3% year-over-year in June 2023 to approximately 2% in December of 2024, doesn't imply surging uncertainty and economic instability. This being the case, it hardly seems worthwhile to risk sparking a banking crisis or triggering a recession to achieve their inflation goals faster.

However, having laid out this path, the Fed may well try to follow it to maintain their credibility. Consequently, we could well enter 2024 with peak short-term interest rates. Thereafter, however, the Fed's own forecasts suggest easing, with the dot plot showing a median decline in the federal funds rate of 1.00% in 2024 and 1.25% in 2025.

As the Fed starts this process, the impact on the economy could be quite negative as many prospective borrowers would want to wait for even lower rates and worry that the Federal Reserve may see more economic weakness than is apparent to them. This could easily result in an accelerated easing process.

Investing while waiting for a Negative
For economists, the Fed's reluctance to believe in an inflation slide is frustrating since it increases the risk that millions could lose their jobs in fighting a war on inflation that has mostly been won already. However, for investors, it presents an opportunity.

First, if inflation continues to fall and the economy falters, it is likely that short-term interest rates will come down more quickly in 2024 than the Fed currently anticipates. This should allow long-term interest rates to also decline, providing gains on long-term bonds. U.S. stocks should also benefit in this scenario, as investors begin to price in a recovery in corporate profits but not inflation. Finally, the dollar could resume the decline it started last fall, with foreign central banks staying hawkish for longer in response to a more intractable inflation problem in the UK and the euro area.

So, while the Fed waits for more definitive negative signals on the economy and inflation, investors could benefit from assuming that these signals are coming and position their portfolios accordingly.

Source: David Kelly, Chief Global Strategist at J.P. Morgan Asset Management

At Financial Solutions you'll find a fee-only Registered Investment Advisor (RIA) committed to putting your interests and your needs first, eliminating the commissions and self-serving incentives that get in the way of solid, successful financial planning and investment management.

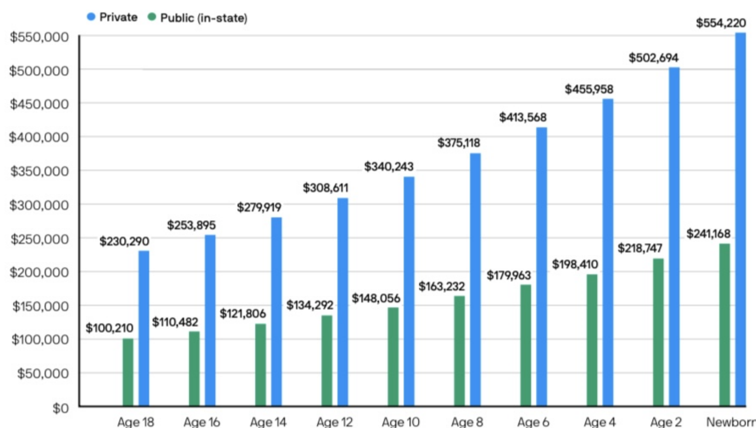
Please contact us if you would like to receive this publication by e-mail.

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

Future Four-Year College Costs

The younger the child, the more college is likely to cost. Add up four years per child, and it equals one of a family's largest expenses.

Projected cost of a four-year college education
based on child's current age[1]



One-year costs for 2022-23[1]

$23,250 Public

$53,430 Private

81% of families have to **rule out some colleges because of cost.**[2]

1. J.P. Morgan Asset Management, using The College Board, *Trends in College Pricing and Student Aid 2022*. Future college costs estimated to inflate 5% per year. Average tuition, fees, and room and board for public college reflect four-year, in-state charges.
2. Sallie Mae, *How America Pays for College*, 2022.

Financial Solutions' newsletter is published for the exclusive use of our clients and friends and is not intended as investment, legal or tax advice. This newsletter was prepared using information from third-party sources, which we believe to be reliable; however, we have not audited the data from these sources and are not responsible for its accuracy.