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Year-end 2024 Update

Domestic stock and bond markets ended the year higher supported by an expansive economy (GDP growth up 3.1% year-over-year)[1], a drop in inflation (to 2.7% from 8.3% in 2022)[2,3], U.S. earnings growth, and historically low unemployment. The year also witnessed the first interest rate cuts since the pandemic began as the Federal Reserve reduced the Federal Funds rate by 1% between September through December, 2024. While Fed rate cuts could lead to some choppiness in the short-term, we anticipate they should have a positive effect on the economy and markets in 2025 as consumers will have options for borrowing and refinancing consumer debt including student loans, auto loans, home mortgages, and credit card debt. Going into 2025, the U.S. economy may face headwinds from the timing and magnitude of further interest rate cuts, continued high services inflation, a drop in consumer spending, trade tariffs, global trade tensions, and instability in the Middle East. Moreover, credit constraints, a tight labor market, and lower household savings which had been strong throughout the COVID-19 pandemic, are deterring consumer spending, the largest component of the U.S. economy, particularly for lower- and middle-income households.

Global Economic Forces[4]

Tailwinds

- Federal Reserve (Fed) pivot to more accommodative monetary policy underway
- Still-ample U.S. and global liquidity conditions
- Bank credit standards still tight, but easing
- Adequate real (inflation-adjusted) income growth buoyed by disinflation
- Housing activity supported by pent-up demand and by a drop in mortgage rates
- Productivity-enhancing investment, including artificial intelligence (AI), supports growth potential
- Still sizable cash balances among upper-income groups[1]
- Secular strength in electric grid, data center, AI-related investment

Headwinds

- Lagged impact of past central-bank rate hikes and rising real rates until policy pivots gather momentum
- Post-pandemic supports to employment and pent-up demand dissipating
- "Sticky" wage, rental, and other service-price inflation
- Worsening financial strain among lower- and middle-income households
- Tight supply and elevated home prices hamper housing recovery
- Deteriorating supply chains tied to geopolitical disruptions, weather, market imbalances
- Wider fiscal deficits, potentially higher government bond yields tied to either political party's policy proposals
- Unbalanced, services-centric growth leaves economy vulnerable to "shocks"

Interest Rates

On December 18th, the Federal Reserve completed its third consecutive rate cut of 2024 to a range of 4.25% to 4.50%. The three recent 2024 rate reductions occurred after a long rate change pause since the pandemic began in 2020 followed by an historic 2 year+ tightening cycle starting in March 2022, triggered by rampant inflation. Initially with the September cut, the change signaled a pivot to easier monetary policy and the continuation of a new interest rate cutting cycle. The committee assessed that inflation is gradually moving towards its 2% target. However, with the December reduction, the Fed signaled potentially slowing the pace of rate cuts throughout 2025 while they monitor stickier inflation as well as President-elect Trump's tariff policies. Fed Chair Jerome Powell stated at the December meeting "In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will assess incoming data, the evolving outlook, and the balance of risks. We're not on any preset course."[5]

Federal Funds Rate Changes[6]

FOMC Meeting Date	Rate Change	Federal Funds Rate
March 3, 2020	-0.50%	1.0% to 1.25%
March 16, 2020	-1.00%	0% to 0.25%
March 17, 2022	0.25%	0.25% to 0.50%
May 5, 2022	0.50%	0.75% to 1.00%
June 16, 2022	0.75%	1.5% to 1.75%
July 27, 2022	0.75%	2.25% to 2.5%
Sept 21, 2022	0.75%	3.00% to 3.25%
Nov 2, 2022	0.75%	3.75% to 4.00%
Dec 14, 2022	0.50%	4.25% to 4.50%
February 1, 2023	0.25%	4.50% to 4.75%
March 22, 2023	0.25%	4.75% to 5.00%
May 3, 2023	0.25%	5.00% to 5.25%
July 26, 2023	0.25%	5.25% to 5.50%
September 18, 2024	-0.50%	4.75% to 5.00%
November 7, 2024	-0.25%	4.50% to 4.75%
December 18, 2024	-0.25%	4.25% to 4.50%

Post-Election Recap and Reminders

In November, Donald Trump was elected as America's 47th president, four years after leaving Washington. Moreover, Republicans won the US Senate majority where they will hold 53 of the 100 chamber seats. Republicans will also retain control of the House of Representatives with 220 of the 435 members. President-Elect Donald Trump looks to continue policies from his first term in office including lower taxes, deregulation, trade tariffs, and tighter border control. Trump may target Biden Administration policies including immigration and the environment. Although Republican and Democratic agendas differ, due to internal divisions within each party, passing laws or acts may be slow moving.

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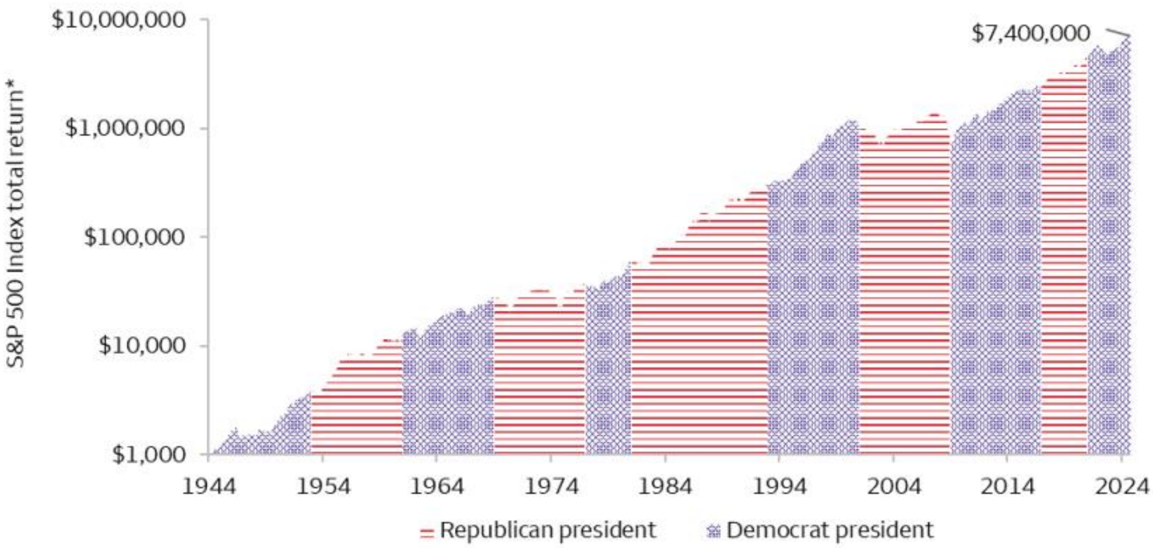
Following closely contested Presidential, Senate, and House elections, investors should not make portfolio reallocations or substantial changes to long-term investment plans based solely on current events such as political outcomes. While policy can impact certain businesses or sectors, campaign pledges are often slow moving due to internal divisions within each party and bureaucratic procedure passing laws or acts.

Stay Invested[7]

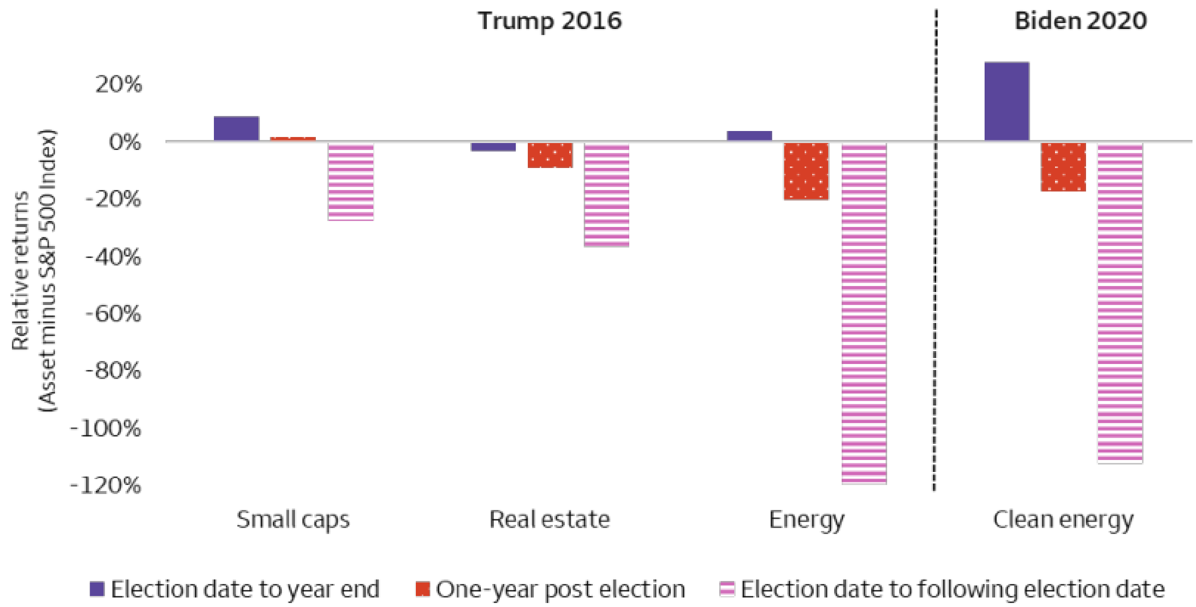


This chart depicts the S&P 500 Index during both Democratic and Republican Presidential administrations. Market volatility and market advances have occurred regardless of party administration. Moreover, being invested, staying the course and reinvesting dividends and interest has been beneficial with either political party at the helm.

Below are some campaign discussion points for 2024 we will continue to monitor:

1. Debts and deficits: Trump would prefer to reduce regulations and increase tax cuts.
2. Tariffs and Trade with China: Both parties support continued investment locally in the states but their specific sectors of the economy they support and how it relates to tariffs and trade with China differs.
3. Energy and Environmental Policies: Trump aims to roll back Biden's supported and created environmental protections to bolster domestic energy supply and growth.
4. Immigration Policy: Trump and the GOP will likely increase funding for a stronger and stricter southern border.

Past Election Trades Lacking Fundamental Support Reversed Sharply[8]



Trying to time campaign issue asset outperformance is not recommended. Policies often change or discerned benefits do not materialize. More specifically, during President Trump's first term in 2016, retail investors who overweighted small caps, real estate, and energy due to expectations around policies, saw a short-term investment upswing followed by underperformance. Likewise, a short-term pop followed by subpar performance occurred in the clean energy sector, an area of Biden's campaign fervor, during President Biden's term.

Policy is not inconsequential; however, it is considered with analysis of the economy, company and sector fundamentals, and stock earnings potential. Speculating on sectors and policy is not recommended as many campaign proposals often unfold differently than expected. Our investment planning extends throughout 2025 and well beyond and we continue to align portfolios with economic trends that we believe should continue. It is important to keep unique planning, time horizons and financial goals into focus. As with many economic and political events, there could be choppiness and market volatility.

We will continue to monitor these topics as wells as other economic and geopolitical concerns that may continue to impact markets:

- Many technology companies focusing on Artificial intelligence or AI could lead to growth in digital markets such as cloud and advertising.
- President Biden signed a deal to extend government funding through March 14, 2025 to avoid a government shutdown. The US spending deal includes over $100 billion in aid for farmers and natural disaster victims.[9]

- The December unemployment rate came in at 4.2% with 7.1 million Americans looking for work. Of the 7.1 million US job seekers, over 40% have been looking 15 weeks or more, an atypically long time period post-World War II until the credit crisis in 2008.[10, 11]
- Per the St. Louis Federal Reserve Bank, the median existing home sales price across the United States was $420,400.[12]
- As of 12/29/24, the national average price of regular gasoline was $3.025.[13]
- The US personal savings rate continues to decline and is now at 4.4% for November, 2024.[14]
- As of November 2024, US consumers collectively owe a record $1.17 trillion in credit card debt per New York Fed research.[15]
- The United States trade deficit contracted from over a two year high as companies imported less consumer goods and business equipment.[16]
- The bird flu may contribute to impact prices of eggs and egg availability as well as other food inventory and prices.[17]
- The budget deficits of major global economies including the U.S. is approximately $1.83 trillion of 6.4% of Gross Domestic Product (GDP).[18]
- Consumer sentiment for the US rose to 74 in December from 71.8 in November, the highest level since April citing "…consumers believe that the economy has improved considerably as inflation has slowed…".[19]
- US small business optimism climbs to a three and a half year high on a surge in consumer confidence and expectations around economic improvements.[20]
- Beijing released a stimulus package to bolster China's $18 trillion economy leading to growing manufacturing.[21]
- China barred metals including gallium, germanium, antimony, and superhard materials for export to the U.S. These metals are components of semiconductors, satellites, and night-vision goggles.[22]

Changes to Required Minimum Distribution (RMD) Start Ages

The SECURE Act 2.0 was signed into law on December 29, 2022, adding new retirement provisions, including **increasing the Required Minimum Distribution (RMD) age depending on birth year:**

Birth Date	Applicable RMD Age
Before July 1, 1949	70 ½
July 1, 1949 – 1950	72
1951-1959	73
1960 or later	75

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Turning 73 in 2025?

You can take your first Required Minimum Distribution (RMD):

- Either by December 31, 2025 -or-
- Delay until no later than April 1, 2026

Recall, if you delay your first RMD to April 1, 2026, you will be required to take 2 RMDs in 1 tax year:

- The first by April 1, 2026 (satisfies 2025 required withdrawal) -and-
- The second by December 31, 2026 (satisfies 2026 required withdrawal)

Tax Planning and Retirement Plan Contributions

For those still working, we want to make sure you are maximizing deferrals into retirement plans and taking advantage of other employer options to save like Stock Purchase Plans, Deferred Compensation, and Health Savings Accounts. Tax tables can be found on our website and please consult your tax preparer with deduction questions.

Important Dates

Please note the contribution limits and plan funding deadlines below:

- 401k and 403b plans - For 2025, the maximum contribution under age 50 is $23,500. The catch up is $7,500 for over age 50.
- Traditional and Roth IRA funding - The maxium allowable contribution for 2024 is $7,000 with a $1,000 catch-up over age 50. We have until the tax filing deadline of April 15, 2025 for 2024 contributions. The 2025 limit remains at $7,000.
- SEP IRA - $68,000 contribution limit for 2024 – deadline to contribute is 4/15/25 (or tax filing date). The 2025 contribution limit is $70,000.

Milestones

- 50: Catch-up contributions to IRAs and qualified retirement plans
- 59 ½: Can take distributions from qualified retirement plans and possibly in-service withdrawals to IRA without penalty. Can also take distributions from IRAs without penalty
- 62-70: Can apply for Social Security benefits (we will help you estimate the best age to begin Social Security to maximize lifetime benefit)- With good health, Social Security benefits increase greatly every year you wait.
- 65: Can apply for Medicare
- 73-: Must begin RMDs (Required Minimum Distributions) from Traditional IRA accounts (excluding Roth IRAs)

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Financial Education Corner

We asked an insurance planning colleague at ABD to help understand why **umbrella insurance** should be implemented as part of an overall financial life plan. The attached piece provides helpful examples. Umbrella insurance is a type of personal liability insurance that covers claims in excess of regular homeowners, auto or watercraft policy coverage. This type of insurance can be worthwhile if your liability limits are less than the total value of your assets.

Do you have access to a Health Savings Account (HSA)?

If you have a high deductible health plan at work, you may have access to a Health Savings Account (HSA). A Health Savings Account is a tax-advantaged savings account for medical expenses. This means you can use the tax-free money you contribute to the plan as well as the interest or growth it accumulates to pay for medical expenses now and in retirement. Below are the features and benefits to contributing to an HSA:

- Maximum contribution amounts for 2025 are $4,300 for individuals and $8,550 for families. The annual "catch-up" contribution amount for individuals 55 or older is $1,000.
- Money goes into and out of an HAS tax-free as long as funds are used to pay for qualified medical expenses.
- Contributions to HSAs are not subject to federal income taxes.
- Earnings to an HSA from interest, dividends and investment growth are tax free.
- Distributions from an HSA to pay for qualified medical expenses are tax-free.
- Contributions do not have to be used within a specific timeframe. Any unused money in an HSA rolls over from year to year. HSA funds can continue to grow and accumulate to and through retirement until the funds are spent.
- Funds in an HSA can be invested to help them keep pace with inflation.

Team Website

Please note tax planning tables and archived newsletters can be found on our team website: www.zasprivatewealthmanagement.com
Full biographies of each financial advisor and client associate can be found on our website.
Our website also includes wealth planning areas our team implements as needed, detailed examples of services we provide, articles, newsletters, financial calculators and an account log-on link.

Conclusion

"Uncertainty is actually the friend of the buyer of long-term values." Warren Buffett

We believe 2025 may be volatile given possible additional rate cuts, the unfolding of the Trump administration policies, as well as earnings and geopolitical uncertainty. There could be supply chain risk attributed to the avian flu, war and geopolitical tensions. With services inflation still high, it may take time for the Fed's previous rate cuts to have the desired effect on the economy.

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No two business and economic cycles are identical. The catalyst behind this cycle has been the pandemic. Initially in 2020, the unexpected pandemic elicited the sharpest economic declines since the 1930s Great Depression. As lockdown ended, savings and income growth unleashed pent-up demand for bigger ticket travel, entertainment, vehicles, and other services. However, inflation was pushed to a 40-year high in 2022 by supply chain interruptions, workforce shortages, aggressive monetary policy and fiscal stimulus. It is taking time for these issues to be resolved.

While the Federal Reserve makes every effort to engineer a "soft landing" for the economy and avoid a recession, that is a herculean task to calibrate a $29 trillion economy and we anticipate continued elevated volatility. Volatility is a normal part of market cycles and behavior and can offer opportunities for building wealth to patient long-term investors. To reiterate investor Warren Buffet's message, financial markets are resilient and patient investors have historically been rewarded in the long-run. Volatility or a downturn are no reasons to exit the market as investors who allow their emotions to dictate strategy can suffer lower returns. It is critical to align investments with goals and needs and then continue to stay on course towards your financial goals (i.e. retirement, college, buying a home) even through volatile markets.

As always, we are available to discuss any questions you may have and review your goals, needs and current plan. When reviewing your goals and needs, it is important to keep in mind that investments in equities/stocks are intended for 3-5 years and beyond. We re-evaluate plans when investor goals, liquidity needs and time horizons change, not due to normal volatility in financial markets. Historically, long-term investors have been rewarded for staying invested despite more volatile times and diversification and asset allocation have historically helped to reduce long-term portfolio volatility.

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(4) Wells Fargo Investment Institute as of September 30, 2024. Subject to change.
    (1) Federal Reserve Board, Financial Accounts of the U.S., as of September 12, 2024.
(5) https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20241218.pdf
(6) Federal Funds Rate History 1990 to 2024 (Forbes.com)
(7) Sources: Bloomberg and Wells Fargo Investment Institute. Monthly data is from January 1944-October 2024.
(8) Sources: Bloomberg and Wells Fargo Investment Institute.
Sources: Bloomberg and Wells Fargo Investment Institute. Bars represent total returns of the asset minus the total return of the S&P 500 Index. Positive bars indicate that the asset outperformed the S&P 500 Index and vice versa. Small caps are represented by the Russell 2000 Index, Real estate by the S&P 500 Real Estate Index, Energy by the S&P 500 Energy Index, and Clean energy by the. The Election date to year end bars show the relative returns from November 8, 2016 to December 31, 2016, on the Trump side and from November 3, 2020 to December 31, 2020, for Biden. The One-year post election bars show returns from November 8, 2016 to November 8, 2017, for Trump and November 3, 2020, to November 3, 2021, for Biden. The Election date to following election date bars show the relative returns from November 8, 2016 to November 3, 2020, for Trump and November 3, 2020 to November 5, 2024, for Biden. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

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(15) Credit card debt hits record $1.17 trillion, New York Fed finds
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