MONEYLETTER Hi-Lites
Part of the Wealth Journey

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Investor Determination Paying Off (So Far)

By Brian W. Kelly, Publisher

Don't be swayed by all the doom and gloom in the financial press.

It's true, a recession may happen after all. But the resilience we've seen from the economy leads us to believe it will be shallow if it does occur. We do not see an abrupt economic drop-off – the so-called "hard landing" – which is a huge risk factor for those in the stock market. That view is reflected in our model portfolio returns, with all models up moderately year-to-date.

Better yet for investors, we are very close to the end of the Fed's interest rate hiking cycle. Historically, when the Fed stops hiking interest rates, stocks respond positively over the intermediate term. Our bond fund holdings are in a much better place than they were a year ago, as they are now sporting decent yields and the price risk is now lower. Through all this, corporate profits have been decent (80% of S&P 500 companies reporting so far have beaten (lowered) expectations.

The case for optimism

It's been a long haul for equity investors since the Fed started increasing interest rates in March 2022. By mid-October, the S&P 500 had declined by about 20%. Add in a regional banking scare starting in March 2023 and the result has been heightened volatility. All that said, the benchmark is only off about 7% since the start of the hiking cycle.

Why has the market done as well as it has? Two related factors have been crucially important: the sturdiness of the labor markets and the strength of consumer spending. While both have softened a bit recently, it has come as we approach peak yields and peak Fed hawkishness.

True, inflation and higher interest rates mean recession looks like the most likely scenario later this year. The consumer has depleted much of their savings over the past year amid historically high prices. Credit is tighter due to higher interest rates and the condition of the regional banking sector. This means consumers are paying more for credit card interest and other loans, reducing available funds for discretionary spending. Layoffs, especially in the tech sector, are starting to add up, and job openings have declined.

While these factors are important, none of them have gone through a precipitous decline. Much of the economy's weakness has been in the manufacturing sector, which accounts for only about 12% of the US economy. Services represent a much bigger portion.

Our friends at the Seven's Report recently made the case for the so-called "soft-landing." They analyzed the three biggest factors, in their view, for whether the economy will drop off suddenly or ease through the slowdown. Looking at the ISM Manufacturing report,

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US Gross Domestic Product

	2023	2022	2021
1Q	*+1.1% est.*	- 1.6%	+6.3%
2Q		- 0.6	+7.0
3Q		+3.2	+2.7
4Q		+2.6	+7.0

1Q gross domestic product rose 1.1% at an annualized pace for the first quarter. Economists surveyed by Dow Jones had been expecting growth of 2%. Source: Commerce Department, Bureau of Economic Analysis.

Economic Snapshot – "Mixed Bag"

Date	Report	Current	Expected	Prior
4/12	12-Mo Consumer Prices (Mar)	5.0%	5.1%	6.0%
4/14	Retail Sales (Mar)	-1.0%	-0.4%	-0.2%
4/20	Existing Homes (Mar)	4.44M	–	4.55M
4/25	New Homes (Mar)	683K	–	623K
4/26	Durable Goods (Mar)	3.2%	0.7%	-1.2%
4/25	Consumer Confidence (Apr)	101.3	104.0	104.0
5/1	ISM Manufacturing (Apr)	47.1	46.8	46.3

Notes: The March headline 12-month CPI reading declined by a full percentage point in the last month; the 5.6% "core" reading (which excludes volatile food and energy) came in as expected. Retail sales showed a pullback in March as consumers worried about the banking crisis and the potential of recession. Existing home sales resumed their decline in March after jumping 14.5% in February, the first gain in 12 months. Prices were up slightly compared to February. New home sales climbed for the fourth consecutive month. Durable goods orders surged in March after declining for three of the prior four months. April consumer confidence fell to a nine-month low and is now at a level which often signals a recession in the near term. The ISM Manufacturing survey bounced off a three-year low but is still in contraction territory as higher borrowing costs and tighter credit prevail.

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the ISM Services report, and job additions from the Labor Department, only one (manufacturing) is pointing to a hard landing. In addition, they reviewed retail sales, business spending, and jobless claims. All of these are slowing but are not in a sharp negative trend, which would be indicative of a hard landing.

If there is a soft landing, that means we will avoid a recession, or it will be mild at worst. This does not point to the Fed decreasing interest rates aggressively as some analysts (and the markets) currently think. But it does signal the end of the higher interest rate cycle and that, as our readers know, is what we've been looking for.

World Markets: 2023 Returns

Index	March	2023 YTD
Brazil – Ibovespa	2.5%	-4.8%
China – Shanghai Comp	1.5	7.6
Europe – Euro STOXX 50	1.0	14.9
India – S&P BSE SENSEX	3.6	0.4
Japan – Nikkei 225	2.9	10.6
Mexico – Bolsa IPC	2.3	13.7
U.S. – S&P 500	1.5	8.6

Indices do not include dividends.

Value still has upside

Value or growth? It's an important question, especially after seeing some of the big tech stocks pop after better-than-expected earnings in the last couple of weeks. It's important to remember that if our economic outlook is correct, we are currently in the middle of an extended period of higher interest rates. Without the ultra-low interest rates that companies have gotten used to, growth stocks are less attractive (well, maybe not the FAANGs like Facebook, Alphabet, Apple etc.). Cheap debt helped lower-quality companies prosper … that is no longer the case.

Higher quality companies with lower stock prices can survive an economic downturn and gain market share while smaller growth companies struggle. We recently came across the story of Lithia Motors, an Oregon-based chain of automobile dealerships. Lithia has the largest inventory of cars for sale online in the US. It has been undervalued because of the threat of recession and the worry that demand for cars will decline. As the Motley Fool pointed out, legendary value investor Bill Nygren (Oakmark Select) has held this stock even though its earnings appear to make it a "growth" stock. It's price-to-earnings ratio – because of the macro-economic outlook – made it an unlikely but profitable value play.

Models and recommendations

All subscribers should maintain their asset allocations given our intermediate (6-12 month) outlook for peaking

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Debt Showdown Looms as Interest Rates Continue to Rise

$31.7 Trillion. With a "T."

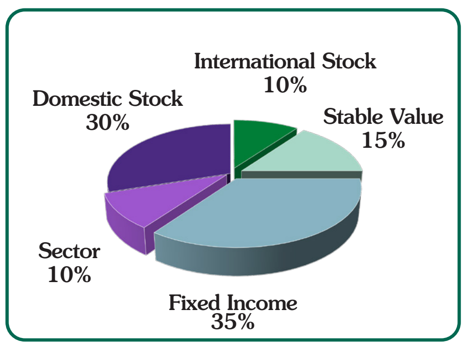
That's how much the federal government is currently in hock, and if you've ever checked out https://usdebtclock.org it's crystal clear that number isn't headed lower. In fact, very soon Congress will have to raise the "debt ceiling" which will allow the government to continue to borrow and keep many services from grinding to a halt. With a divided Republican caucus and Democrats satisfied to let their rivals "own" a potential shutdown, it's a tricky time in Washington. The Republican House passed a bill, 217-215, but it has virtually no shot in the US Senate. Adding to the drama there is no solid deadline. Although it had been previously assumed to be in early August, weak tax collections suggest the debt ceiling deadline – according to Treasury Secretary Janet Yellen – could come as early as June 1.

But how does deficit spending affect inflation? We first must consider how spending is funded. Higher government spending can be backed either by taxes or debt (which likely means issuing more currency). Support for increasing already high taxes – especially with razor-thin margins in Congress recently – has been hard to come by. The alternative, spending backed by the issuance of new currency instead of taxes, is typically inflationary because you have more dollars chasing the same amount of goods and services.

U.S. government spending has risen from $4.4 trillion in 2019 to an estimated $6.4 trillion for 2023 (source: whitehouse.gov). Due to the COVID-19 pandemic, the government provided huge fiscal stimulus to the economy, including checks to individuals and easy-to-qualify loans to corporations. While this emergency action was in response to an unforeseen 100-year event, it occurred at a time when we were experiencing a global supply chain crisis. People now had more money to spend without a commensurate increase in the supply of goods and services. It's hard to dispute that the surge in spending ultimately added to a growing inflation problem. And when fiscal stimulus is accompanied by accommodative monetary policy, as we saw in 2020 and 2021, the impact on inflation is even more severe.

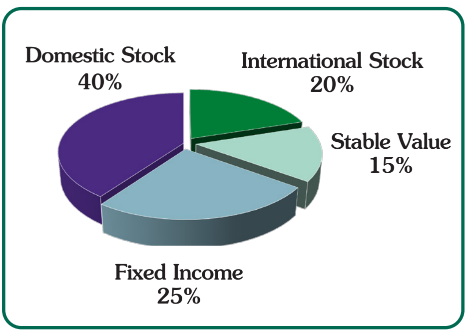
The solutions aren't easy. Cut the number of government employees? There is some potential savings there for sure, but most people don't realize that payroll is only about 12% of government spending. Cut fraud and waste? Again, potential savings but you need employees and technology to accomplish this, and the government demonstrably struggles with information technology. The biggest programs – social security and health benefits (including Medicare, Medicaid, ACA etc.) – make up about half of the budget but are considered the "third rail" for politicians.

Fed policy changes are clearly easier to implement politically. (Chair Jerome Powell may not completely agree.) That is why the blunt tools used by the Fed Open Market Committee are the front line in the battle against inflation. And it's why we spend so much time talking about the Fed and interest rates. The markets are starting to put this issue into focus, and it is another reason we are calling for increased volatility in equity prices.



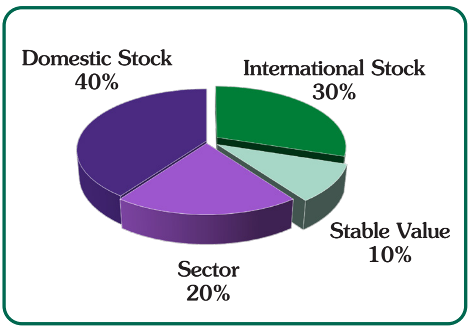
Conservative

The Conservative Model seeks steady long-term growth of capital with limited short-term volatility.



Moderate

The Moderate Model seeks greater long-term growth than the Conservative Model by taking prudent risks.



Venturesome

The Venturesome Model seeks maximum long-term growth by accepting greater short-term volatility.

What is MoneyLetter *Hi-Lites*?

- ✓ MoneyLetter Hi-Lites is a free educational and guidance resource for all retirement plan participants.
- ✓ It will enhance your experience as you move along your MyWealth Journey.
- ✓ MoneyLetter Hi-Lites is an important component of Asset Strategy's holistic approach to your overall financial health.

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inflation, peaking interest rates, and a soft landing for the economy. We expect volatility in the equity markets to continue until we get more confidence in the trend and speed of disinflation and clearer signals from the Fed. Through four months, our models are all positive and have returned between +2.2% (Vanguard Conservative) and +5.9% (Fidelity Venturesome).

Bond and money market funds are contributing to returns. Most bonds are less risky alternatives to stocks right now, especially with the likelihood of interest rates peaking soon. You should fund these positions if you have free cash.

We have two fund upgrade trades to report: In the April 20 Hotline we Sold Fidelity Mid Cap Value (ticker: FSMVX) out of the Fidelity Conservative model; proceeds Bought Fidelity New Millennium (FMILX). In the MoneyLetter Conservative and Venturesome models we Sold Muhlenkamp (MUHLX) and Bought Artisan Value Investor (ARTLX). Details are in our model reports on pages three and five.

Brian has been a member of MoneyLetter's Investment Committee since 1986.

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Rates as of 5/1/23. *While every effort is made to maintain the accuracy of the information provided, all information should be verified with the insurance companies. For more information, including state availability, company, and product detail, call 800-890-9670.*

With the Fed nearing a pause in the current interest rate hiking cycle, the rates on MYGAs and Caps on all annuities will likely be reaching their highest point in the near future.

Indexed Annuities:

Floor = 0%
Uncapped Participation Rate = 35% - 60%

Money Market Funds

100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Gabelli US Treasury MMF/Cl AAA	4.90	4.80	2.57
Amer Century Capital Presv Fund/Inv	4.48	4.40	2.15
Schwab US Treas MF/Investor	4.36	4.31	2.28
Fidelity Treasury Only MMF	4.17	4.26	2.27
BlackRock Liquidity:Treas Tr Select	3.79	3.75	1.75

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
Invesco Premier Portfolio/Inst	5.01	4.99	2.78
Victory Money Market Fund	4.80	4.75	2.56
T Rowe Price Cash Reserves Fund	4.72	4.66	2.58
Fidelity Money Market Fund	4.66	4.64	2.56
Putnam MMF/Cl A	4.65	4.63	2.49
Principal MMF/Class J	4.63	4.60	—
Amer Century Prime MMF/Inv Class	4.58	4.53	2.38
DWS MM Prime Ser/DWS MMF	4.51	4.50	2.39
MainStay MMF/Class A	4.32	4.36	2.30
Fed/Hermes Capital Reserves Fund	4.26	4.24	2.08

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	
Vanguard Municipal MMF/Investor	2.67	—	1.73
Fidelity Municipal MMF	2.49	2.93	1.57
BNY Mellon National Muni MMF/Cl M	2.46	2.94	1.60
T Rowe Price Tax-Exempt MF/Inv	2.45	2.79	1.44
Fidelity Tax-Exempt MMF	2.44	2.83	1.48
Amer Century T-F MMF/Inv Class	2.37	2.85	1.46
Victory Tax Exempt MMF	2.33	2.75	1.37

TAX-FREE STATE SPECIFIC FUNDS

	7-Day	30-Day	
Vanguard NY Muni MMF	2.65	—	1.68
Fed/Hermes CA Muni Cash Tr/Wealth	2.61	2.96	1.63
Fed/Hermes NY Muni Cash Tr/Wealth	2.55	2.97	1.64
Fidelity NY Muni MMF/Prem	2.47	2.84	1.59
Fidelity MA Muni MMF/Prem	2.44	2.63	1.48
Vanguard CA Muni MMF	2.44	—	1.47
Fidelity NJ Muni MMF/Prem	2.42	2.72	1.52
Fidelity CA Muni MMF/Premi	2.36	2.66	1.50
Amer Century CA T-F MMF/Inv Class	2.11	2.47	1.31

Taxable equivalent yield = yield / (1-total effective tax bracket). 7-day and 30-day yields are compound yields as of 4/25/23. The third column refers to the 1-year total return. Criteria for inclusion: top-yielding unrestricted retail funds only, with a minimum initial investment of < $25,000 and assets > $50 million.

Source: iMoneynet's Money Fund Report.

10 Estate Planning Considerations

By Kent A. Fitzpatrick, AIFA, GFS

It's easy to put off … no one likes to think about death or how things will be when you're gone. But comprehensive estate planning is essential when it comes to arranging and distributing your assets after you pass. The peace of mind that comes to you when you know your assets will efficiently flow to the people you choose, in a tax-efficient manner, can be priceless.

Estate planning is an important topic, so this month MoneyLetter provides you with ten planning considerations to keep in mind when doing estate planning:

1. Creating a will: A will is a legal document that outlines your wishes regarding the distribution of your assets after your death. It is important to create a will to ensure that your wishes are carried out. Start with taking an inventory of all the assets that you own. It is important to have a clear understanding of what you own, its value, and how you want it to be distributed. Ensure that it is properly drafted, executed, and kept up to date with changes in your life. In the absence of a will, the court will appoint an executor, which may not settle the estate as you intended. Best to document that in a properly written will.

2. Choosing an executor: The executor of your estate is the person responsible for carrying out the instructions in your will. It is important to choose someone who is responsible and trustworthy. Consider the age of that person, the location of that person, their capacity to serve, and their level of expertise. Conflicts can be avoided if this selection is carefully thought out in advance.

3. Designating beneficiaries: Beneficiaries are the people or organizations who will receive your assets after your death. You should designate beneficiaries for all your assets or use a "transfer on death" or TOD, where applicable. Make sure all your beneficiary designations are up to date on your life insurance, retirement accounts, and other assets that pass outside of probate.

4. Considering estate taxes: Estate taxes can reduce the amount of your estate that is passed on to your beneficiaries. Proper planning can minimize their impact. Speak with an attorney or financial advisor to discuss tax planning strategies. It is important to consider the potential estate tax consequences of your estate plan. Consider leaving a portion of your estate to charitable organizations that are important to you -- this can also provide tax benefits. Don't forget state estate tax implications.

5. Planning for incapacity: Incapacity planning involves preparing for a situation where you become unable to make decisions for yourself. You should consider creating a durable power of attorney, or POA, and healthcare directive to appoint someone to make decisions on your behalf. A POA allows you to appoint someone to make financial or medical decisions for you if you become incapacitated. Health Care Directives, such as a Living Will or Health Care Proxy, allow you to express your wishes about medical treatment and end-of-life care.

6. Protecting assets from creditors: Asset protection planning involves taking steps to protect your assets from creditors. This can include creating trusts or structuring your assets in a way that makes them difficult for creditors to reach.

7. Planning for business succession: If you own a business, you should consider how it will be passed on to your heirs after your death. This may involve creating and funding a buy-sell agreement or setting up a trust. It is important to have a plan in place for its succession, whether it is passing it on to family members, selling it, or shutting it down.

8. Minimizing probate: Probate is the legal process of distributing your assets after your death. It can be time-consuming and expensive. You should consider taking steps to minimize probate, such as creating a living trust. Trusts can be an effective way to protect and distribute assets, especially for those with large estates or special needs beneficiaries. Speak with an attorney to determine if a trust is appropriate for your situation.

9. Reviewing and updating your estate plan: Your estate plan should be reviewed and updated regularly to ensure that it still reflects your circumstances, your wishes, and meets your needs.

10. Seeking professional advice: Estate planning can be complex, and it is important to seek the advice of a professional, such as an attorney or financial planner, to ensure that your estate plan is effective and meets your goals.

It is important to review and update your estate plan regularly, especially after major life events such as marriages, divorces, births, deaths, or significant changes in your financial situation. Improper estate planning can lead to costly mistakes that can cause significant financial and emotional distress for your loved ones. It is essential to consult with an experienced estate planning professional to help you avoid these mistakes and ensure that your wishes are carried out.

Kent is a Contributing Editor for MoneyLetter, the Managing Director of Asset Strategy, and an Accredited Investment Fiduciary Analyst

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