Condor Capital Reviews 4th Quarter 2022

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Domestic equities ended up for the quarter, with value outperforming growth, as inflation continued to ease.

International and emerging market equities outpaced domestic equities as the U.S. dollar weakened since the start of the quarter.

Fixed income gained in the quarter as the market expected the Fed to soon end its aggressive rate hiking policy.

In the fourth quarter of 2022, equity prices staged a rally to recover some of their losses for the year. The S&P 500 was up 7.55% in the fourth quarter, though the index still ended the year down 18.13%. Uncertainty surrounding inflation, the Federal Reserve's course of action, and upcoming economic growth data have left the market range bound below its all-time highs. With the focus turned to the data, slightly lower inflation numbers were received positively, while strong labor market data was viewed more negatively, as many market participants expect that data needs to change before the Fed ends its hiking. In the quarter, the Fed increased the federal funds rate two more times, increasing the current target range to between 4.25% and 4.5%. In this high-rate environment, value outpaced growth in the quarter, with the Russell 3000 Value Index up 12.16% compared to a 2.31% return for the Russell 3000 Growth Index.

International equities outpaced domestic equities in the quarter. The MSCI EAFE Index surged 17.40%, surpassing the performance of the S&P 500 by almost 10%. After steadily strengthening throughout the first three quarters of 2022, the U.S. dollar reversed course in the fourth quarter, easing a headwind that had weighed on international markets. Additionally, some of the worst concerns regarding European energy stemming from the Russia-Ukraine war have not played out, as a warmer-than-usual winter and voluntary demand cuts have eased the hardship. European nations like Germany, Italy, and France all gained more than 20% in the period. Meanwhile, the MSCI Emerging Markets Index increased by 9.62%. The reversal of China's zero-covid policies gave investors hope for the country's re-opening, and the falling dollar provided benefits for emerging markets as well.

Fixed income also performed well in the quarter, with the Bloomberg U.S. Aggregate Bond Index ending up 1.87%. Corporate and municipal bonds both outperformed Treasuries, with high-yield corporate bonds returning over 4.75% in the period. The Fed has made it clear that it will continue its aggressive stance to bring down inflation, but the market seems to expect rates to come down a bit sooner. Inflation data has been slowly but consistently falling since June, with November's CPI reading coming in at 7.1%.

Outlook

With domestic equities up from their lows of the year, opportunity remains for investors focused on the long-term, though near-term volatility remains likely. Inflation continues to be a major concern for investors. While certainly still elevated, the last few readings have started to come down and the market's positive responses to these readings have been notable. Additionally, interest coverage ratios are hovering around pre-pandemic levels, meaning companies are still financially well-positioned. While we expect corporate earnings will come down in the coming quarters, many high-quality securities do already seem oversold. We believe more opportunity exists for profit-making companies rather than the unprofitable growth names that thrived under the easy monetary conditions of the last few years.

While fixed income had a difficult year in 2022, the current environment is creating an attractive entry point for investors. While there is still debate as to how high the Fed will hike, interest rates are at levels not seen in years, allowing investors to earn a meaningful yield on their invested capital.

Much of the U.S. economic data does suggest that the Federal Reserve's tightening is working. Home prices have slightly declined since June. Retailers have seen supply gluts rather than shortages. High inflation has stuck around for longer than the Federal Reserve and others had anticipated but has been cooling recently. However, the labor market remains strong, which is objectively a good thing, but does run counter to the historical relationship between inflation and unemployment. It also runs counter to the idea that the economy is slowing, which would allow the Fed to reverse its hikes. Wages continue to increase, and consumers are in good financial health regarding their use of credit. Delinquency rates remain at historical lows, and credit card balances, though increasing, have only risen to 2019 levels. The unemployment rate, a key macroeconomic indicator, is at its pre-pandemic level, while job openings are above their pre-Covid level but falling gradually. All told, the state of the labor market and its impact on the Federal Reserve's decision-making will be an important development to watch in early 2023.

The housing market will likely continue to stall as long as mortgage rates remain as elevated as they are, and the same likely holds true for construction activity as well. There are signs of pent-up demand from potential buyers who have sat out in recent years waiting for prices to come down. These buyers should be ready to step in if prices fall further and this demand should limit any potential downturn, but housing does represent an area that could remain range-bound in the current rate environment as well.

The end to China's zero-covid policy has the potential to be a boon for the global economy. The change in policy could cause economic activity in the country to rebound sharply, which could be very important in helping to offset the effect of slowing growth elsewhere in the world. However, China's policy changes have been notoriously hard to predict and model. Even though the Chinese economy is massive, their policy unpredictability lends to our overweight view of domestic investments.

Moving into 2023, we remain cautiously optimistic. There is no denying that we are not fully out of the woods on inflation yet, and the global economy faces the threat of slower growth at least temporarily in the near future. However, due to the strength of the consumer, we believe that a recession may be avoided, and if there is a recession, it will likely be mild. It's also important to consider that the market is a discounting mechanism and has spent the better part of the past year trying to price in a lot of this bad news. As we saw in the fourth quarter with positive returns across U.S. equities, international equities, corporate bonds, and municipal bonds, prices have come down and markets could be primed to rebound on any news that suggests that things are not as bad as expected. As always, we will continue to closely analyze economic data and corporate earnings as they come out and search for bargains throughout the market volatility to keep our clients best positioned for whatever the future may hold.

See disclaimer on final page

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The material for this article has been prepared by Broadridge Advisor Solutions.

Estate Planning and 529 Plans

When you contribute to a 529 plan, you'll not only help your child, grandchild, or other loved one pay for school, but you'll also remove money from your taxable estate. This will help you minimize your tax liability and preserve more of your estate for your loved ones after you die. So, if you're thinking about contributing money to a 529 plan, it pays to understand the gift and estate tax rules.

Overview of gift and estate tax rules

If you give away money or property during your life, you may be subject to federal gift tax (these transfers may also be subject to tax at the state level).

Federal gift tax generally applies if you give someone more than the annual gift tax exclusion amount, currently $17,000, during the tax year. (There are several exceptions, though, including gifts you make to your spouse.) That means you can give up to $17,000 each year, to as many individuals as you like, federal gift tax free.

In addition, you're allowed an "applicable exclusion amount" that effectively exempts around $12,920,000 in 2023 for total lifetime gifts and bequests made at death.

Note: State tax treatment may differ from federal tax treatment, so look to the laws of your state to find out how your state will treat a 529 plan gift.

Contributions to a 529 plan treated as gifts to the beneficiary

A contribution to a 529 plan is treated under the federal gift tax rules as a completed gift from the donor to the designated beneficiary of the account. Such contributions are considered present interest gifts (as opposed to future or conditional gifts) and qualify for the annual federal gift tax exclusion. In 2023, this means you can contribute up to $17,000 to the 529 account of any beneficiary without incurring federal gift tax.

So, if you contribute $25,000 to your grandchild's 529 plan in a given year, for example, you'd ordinarily apply this contribution against your $17,000 annual gift tax exclusion. This means that although you'd theoretically need to report the entire $25,000 gift on a federal gift tax return, you'd show that only $8,000 is taxable. Bear in mind, though, that you must use up your federal applicable exclusion amount (about $12,920,000 in 2023) before you'd actually have to pay gift tax.

Special rule if you contribute a lump sum

Section 529 plans offer a special gifting feature. Specifically, you can make a lump-sum contribution to a 529 plan of up to five times the annual gift tax exclusion ($85,000 in 2023), elect to spread the gift evenly over five years, and completely avoid federal gift tax, provided no other gifts are made to the same beneficiary during the five-year period. A married couple can gift up to $170,000.

For example, if you contribute $85,000 to your grandchild's 529 account in one year and make the election, your contribution will be treated as if you'd made a $17,000 gift for each year of a five-year period. That way, your $85,000 gift would be nontaxable (assuming you don't make any additional gifts to your grandchild in any of those five years).

If you contribute more than $85,000 ($170,000 for joint gifts) to a particular beneficiary's 529 plan in one year, the averaging election applies only to the first $85,000 ($170,000 for joint gifts); the remainder is treated as a gift in the year the contribution is made.

What about gifts from a grandparent?

Grandparents need to keep the federal generation-skipping transfer tax (GSTT) in mind when contributing to a grandchild's 529 account. The GSTT is a tax on transfers made during your life and at your death to someone who is more than one generation below you, such as a grandchild. The GSTT is imposed in addition to (not instead of) federal gift and estate tax. Like the basic gift tax exclusion amount, though, there is a GSTT exemption (also about $12,920,000 in 2023). No GSTT will be due until you've used up your GSTT exemption, and no gift tax will be due until you've used up your applicable exclusion amount.

If you contribute no more than $17,000 to your grandchild's 529 account during the tax year (and have made no other gifts to your grandchild that year), there will be no federal tax consequences — your gift qualifies for the annual federal gift tax exclusion, and it is also excluded for purposes of the GSTT.

If you contribute more than $17,000 in 2023, you can elect to treat your contribution as if made evenly over a five-year period (as discussed previously). Only the portion that causes a federal gift tax will also result in a GSTT.

Note: Contributions to a 529 account may affect your eligibility for Medicaid. Contact an experienced elder law attorney for more information.

What if the owner of a 529 account dies?

If the owner of a 529 account dies, the value of the 529 account will not usually be included in his or her estate. Instead, the value of the account will be included in the estate of the designated beneficiary of the 529 account.

There is an exception, though, if you made the five-year election (as described previously) and died before the five-year period ended. In this case, the portion of the contribution allocated to the years after your death would be included in your federal gross estate. For example, assume you made a $50,000 contribution to a 529 savings plan in Year 1 and elected to treat the gift as if made evenly over five years. You die in Year 2. Your Year 1 and Year 2 contributions of $10,000 each ($50,000 divided by 5 years) are not part of your federal gross estate. The remaining $30,000 would be included in your gross estate.

Some states have an estate tax like the federal estate tax; other states calculate estate taxes differently. Review the rules in your state so you know how your 529 account will be taxed at your death.

When the account owner dies, the terms of the 529 plan will control who becomes the new account owner. Some states permit the account owner to name a contingent account owner, who'd assume all rights if the original account owner dies. In other states, account ownership may pass to the designated beneficiary. Alternatively, the account may be considered part of the account owner's probate estate and may pass according to a will (or

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through the state's intestacy laws if there is no will).

What if the beneficiary of a 529 account dies?

If the designated beneficiary of your 529 account dies, look to the rules of your plan for control issues. Generally, the account owner retains control of the account. The account owner may be able to name a new beneficiary or else make a withdrawal from the account. The earnings portion of the withdrawal would be taxable, but you won't be charged a penalty for terminating an account upon the death of the beneficiary.

Keep in mind that if the beneficiary dies with a 529 balance, the balance may be included in the beneficiary's taxable estate if it is distributed because of the beneficiary's death. If the account owner names a new beneficiary, however, the 529 balance would not be included in the beneficiary's estate since there would not be a distribution.

Note: Before investing in a 529 plan, please consider the investment objectives, risks, charges, and expenses carefully. The official disclosure statements and applicable prospectuses, which contain this and other information about the investment options, underlying investments, and investment company, can be obtained by contacting your financial professional. You should read these materials carefully before investing. As with other investments, there are generally fees and expenses associated with participation in a 529 plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated. Investment earnings accumulate on a tax-deferred basis, and withdrawals are tax-free as long as they are used for qualified education expenses. For withdrawals not used for qualified education expenses, earnings may be subject to taxation as ordinary income and possibly a 10% federal income tax penalty. The tax implications of a 529 plan should be discussed with your legal and/or tax professionals because they can vary significantly from state to state. Also be aware that most states offer their own 529 plans, which may provide advantages and benefits exclusively for their residents and taxpayers. These other state benefits may include financial aid, scholarship funds, and protection from creditors.

Important Birthdays Over 50

Most children stop being "and-a-half" somewhere around age 12. Kids add "and-a-half" to make sure everyone knows they're closer to the next age than the last.

When you are older, "and-a-half" birthdays start making a comeback. In fact, starting at age 50, several birthdays and "half-birthdays" are critical to understand because they have implications regarding your retirement income.

Age 50

At age 50, workers in certain qualified retirement plans are able to begin making annual catch-up contributions in addition to their normal contributions. Those who participate in 401(k), 403 (b), and 457 plans can contribute an additional $7,500 per year in 2023. Those who participate in SIMPLE Individual Retirement Accounts (IRA) or SIMPLE 401(k) plans can make a catch-up contribution of up to $3,500 in 2023. And those who participate in traditional or Roth IRAs can set aside an additional $1,000 a year.[1,2]

Age 59½

At age 59½, workers are able to start making withdrawals from qualified retirement plans without incurring a 10% federal income-tax penalty. This applies to workers who have contributed to IRAs and employer-sponsored plans, such as 401(k) and 403(b) plans (457 plans are never subject to the 10% penalty). Keep in mind that distributions from traditional IRAs, 401(k) plans, and other employer-sponsored retirement plans are taxed as ordinary income.

Age 62

At age 62 workers are first able to draw Social Security retirement benefits. However, if a person continues to work, those benefits will be reduced. The Social Security Administration will deduct $1 in benefits for each $2 an individual earns above an annual limit. In 2023, the income limit is $21,240.[3]

Age 65

At age 65, individuals can qualify for Medicare. The Social Security Administration recommends applying three months before reaching age 65. It's important to note that if you are already receiving Social Security benefits, you will automatically be enrolled in Medicare Part A (hospitalization) and Part B (medical insurance) without an additional application.[4]

Age 65 to 67

Between ages 65 and 67, individuals become eligible to receive 100% of their Social Security benefit. The age varies, depending on birth year. Individuals born in 1955, for example, become eligible to receive 100% of their benefits when they reach age 66 years and 2 months. Those born in 1960 or later need to reach age 67 before they'll become eligible to receive full benefits.[5]

Age 73

In most circumstances, once you reach age 73, you must begin taking required minimum distributions from a traditional Individual Retirement Account and other defined contribution plans. You may continue to contribute to a traditional IRA past age 70½ as long as you meet the earned-income requirement.

Understanding key birthdays may help you better prepare for certain retirement income and benefits. But perhaps more importantly, knowing key birthdays can help you avoid penalties that may be imposed if you miss the date.

1. If you reach the age of 50 before the end of the calendar year.
2. IRS.gov, 2023
3. SSA.gov, 2023
4. SSA.gov, 2022. Individuals can decline Part B coverage because it requires an additional premium payment.
5. SSA.gov, 2022

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Insurance Needs Assessment: For Empty Nesters and Retirees

With the children now out of the house, financial priorities become more focused on preparing for retirement. At this stage, you may very likely be at the height of your earning power and fast approaching peak savings as you lay the groundwork for retirement. During this final leg to retirement—and throughout your retirement period—wealth protection is critical.

The preservation of your assets may not be solely a function of your investment strategy, but may include a comprehensive insurance approach to protect you against an array of financial risks, most especially health care.

In addition to wealth protection, you can also now be seriously contemplating a number of important estate and legacy objectives.

Home

Even though your mortgage may be paid off—and thus released of the lender's requirement to have homeowners insurance—it remains important to consider coverage against property loss and exposure to personal liability. Now is an ideal time to review your policy as the cost of replacing your home and the belongings contained therein may have grown over the years.

Also, consider an umbrella policy, which is designed to help protect against the financial risk of personal liability.

Health

There are several key health insurance issues facing empty nesters and retirees.

If you retire prior to age 65 when Medicare coverage is set to begin, you will need coverage to bridge the gap between when you retire and when you turn 65. If your spouse continues to work, you may want to consider getting yourself added to his or her plan, though you may need to wait until the employer's annual enrollment period.

Alternatively, you also may purchase coverage through a private insurer or through HealthCare.gov (or your state's program, if available).

Once you enroll in Medicare, you should consider purchasing Part D of Medicare, the Medicare Prescription Drug Plan, which can help you save money on prescriptions.

Additionally, you may want to consider other Medigap insurance, which is designed to pay for medical care not covered by Medicare. Medigap plans are bought through private insurance companies and best purchased within the first six months of turning age 65 in an effort to get the best price and the most choices.

Disability

This coverage may continue until you retire. When you stop working, you should consider canceling your disability insurance as the need for it has expired.

The information in this material is not intended as tax or legal advice. It may not be used for the purpose of avoiding any federal tax penalties. Please consult legal or tax professionals for specific information regarding your individual situation.

Life

The financial obligations that drove your life insurance needs while you were raising a family may have evaporated. However, you may find new needs arising from estate issues, such as liquidity, creating a legacy, etc.

Several factors will affect the cost and availability of life insurance, including age, health and the type and amount of insurance purchased. Life insurance policies have expenses, including mortality and other charges. If a policy is surrendered prematurely, the policyholder also may pay surrender charges and have income tax implications. You should consider determining whether you are insurable before implementing a strategy involving life insurance. Any guarantees associated with a policy are dependent on the ability of the issuing insurance company to continue making claim payments.

Extended Care

For some, extended care insurance is a priority in this stage of life. With the expense of children in the rearview mirror, you can now turn your focus to buying protection against potentially the most significant health-care expense you are likely to face in retirement.

Designed to pay for chronic, long-lasting illnesses and regular care, whether in-home or at a nursing home, extended care insurance coverage is critically important since most of these costs are not covered by Medicare.