Condor Capital

WEALTH MANAGEMENT

Condor Capital Reviews 2nd Quarter 2024

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Domestic large cap equities rose by 4.28% in the second quarter of 2024, while mid– and small-caps posted slightly negative returns.

International developed equities lagged the U.S., with Japan slowing down, and emerging markets outper-formed. China's economic woes showed some signs of improvement.

Fixed income markets were slightly down as rates again rose across the board. Investors appear to be coming to terms with a slower rate cutting schedule.

July 2024

The S&P 500 Index rose by 4.28% in the second quarter of 2024, finishing the period just shy of all-time highs. The so-called Magnificent Seven stocks once again outperformed the broader market, though the performance of those seven individual stocks did have more dispersion than in prior quarters. The artificial intelligence theme continued to fuel large cap growth stocks through the second quarter. Small and mid-cap indices declined in the quarter, as more rate-sensitive sectors of the economy began to feel the effects of the Federal Reserve's prolonged campaign of higher interest rates.

Economic activity remained robust, and predictions for U.S. GDP growth and consumer spending exceeded initial forecasts. U.S. inflation data was mixed though the three months, eventually showing signs of falling to close out June 2024. Although the Federal Reserve is still forecasting more accommodative monetary policy by the end of 2024, persistent inflation has led to some questions over the pace and timing of rate cuts. The Fed is monitoring stronger-than-expected economic growth and job market resilience as well. As a result, market expectations have shifted over the course of 2024 from up to six rate cuts this year to just one or two.

International equities were mixed in the second quarter. The MSCI EAFE Index declined 0.20% in the quarter, while the MSCI Emerging Markets Index returned 5.03%. China's economic woes showed signs of improvement while the rally in Japanese equities stalled in the second quarter. The Topix lagged U.S. equities, gaining 1.69%. The dollar rose moderately in the quarter, and its elevated levels continued to weigh on some foreign currencies.

In fixed income markets, the second quarter remained a somewhat difficult period as rate cuts continue to be delayed. While lower rates would boost bond prices due to the inverse relationship between price and yield if the Fed were to cut rates, investors are coming to grips with the idea that the central bank's fight against inflation is not quite over yet. As a result, the Bloomberg U.S. Aggregate Bond Index posted a slightly negative return in the period and yields rose once again. The longer end of the yield curve moved up for the second quarter in a row, with the 10-year rising almost 20 basis points to 4.39%. High yield credit did not fare any better than investment grade after recent periods of outperformance.

Outlook

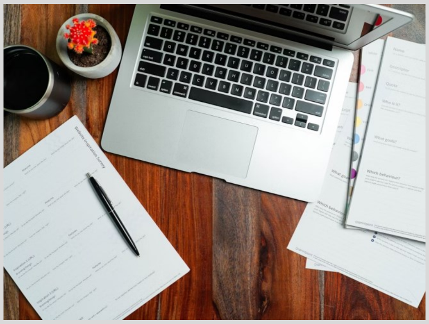
Looking forward, inflation and interest rates appear likely to continue to drive the narrative for markets. In a similar story to previous quarters, inflation data has been trending in the right direction but very slowly so, and we may not see a major policy change until it comes all the way down to the Fed's 2% target. Fortunately, other economic data remain more cooperative. Most importantly, GDP is still growing nicely and we have not seen a major spike in the unemployment rate. While unemployment has ticked back up from 3.5% to 4% over the last year, each month we have more data pointing to the idea that this is more of a normalization to its long-run natural rate than a deterioration in the labor market. As a result, the economic conditions for a soft landing remain very much intact.

As November approaches, focus will turn more towards the upcoming presidential election. This will surely bring a lot of noise and distraction, but history has shown us that whoever is president is typically not a major driver of markets in a long-term way. In this particular election, despite the volatility and emotion involved, both candidates have already held the presidency and markets performed well under both administrations. If anything, the Federal Reserve's attempts to be viewed as apolitical may lead them to avoid cutting rates during the election cycle and could defer a cut by a meeting or two, but despite the short-term noise that the election cycle is likely to bring, we do not view either result as a material event for client portfolios in the long run.

Artificial intelligence will also remain in the headlines and could continue to drive the performance of some tech names. As major investments turn into deliverable products, benefits of the technology could soon become more tangible to earnings for companies not named Nvidia. As we have already seen with the rollout of Adobe's Firefly, Microsoft's Copilot, and others, there is a good case for the broadening of the market from just the chipmakers to the firms that have built out early-stage AI products or can drive productivity higher through better data analysis. Non-tech sectors such as utilities (which stand to benefit from the increased power demand that AI will require), REITs (particularly Data Center REITs), and even some industrials (such as the firms that make backup generators for these data centers) are feeling the benefits as well, and the focus broadening away from being so tech-heavy should bode well for equities.

Moving forward, Condor will continue to focus on the long-term needs of our clients and prioritize quality. We will continue to seek opportunities as they present themselves, whether trimming from equity at market highs, rotating out of high yield bonds when spreads are exceptionally tight, or buying a dip in a position we have conviction in when the market becomes overly pessimistic.

Disability and Your Finances



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The Social Security Disability Insurance program paid out over $140 billion in benefits in 2021. And with new applicants each year, the system is expected to exhaust its reserves at the end of 2034 if changes aren't made.[1,2]

Rather than depending on a government program to protect their income in the event of a disability, many individuals prefer to protect themselves with personal disability insurance.[3]

Disability insurance provides protection by replacing a portion of your income, usually up to 60 percent, if you become disabled as a result of an injury or illness. This type of insurance may have considerable benefits since a disability can be a two-fold financial problem. Those who become disabled often find they are unable to work and are also saddled with unexpected medical expenses.[4]

What About Workers Comp?

Many people think of workers compensation as a disability safety net. But workers compensation pays benefits only to individuals who become disabled while at work. If your disability is the result of a car accident or other off-the-job activity, you may not qualify for workers compensation.

Even with workers compensation, each state makes its own rules about payment and benefits, so coverage may vary considerably. You might consider finding out what your state offers and plan to supplement coverage on your own, if necessary, especially if you have a high-risk profession. Likewise, if you have an active lifestyle that puts you at a higher risk of disability, considering an extra layer of protection may be a sound financial decision.

If you become disabled, personal disability insurance can be structured to pay a benefit weekly or monthly. And benefits may not be taxable if you have paid the premiums in full with after-tax dollars.[4,5]

When you purchase a policy, you may be able to tailor coverage to suit your needs. For example, you might be able to adjust benefits or elimination periods. You might opt for comprehensive protection or decide to define coverage more specifically. Some policies also offer partial disability coverage, cost-of-living adjustments, residual benefits, survivor benefits, and pension supplements. Since coverage is designed to replace income, many people choose to purchase protection only during their working years.

Even as changes are made to federal disability programs, they typically provide only modest supplemental income, and qualifying can be difficult. If you don't want to rely solely on Uncle Sam in the event of an unforeseen accident or illness, disability insurance may be a sound way to protect your income and savings.

Out of Commission

According to the most recent data available, about 19.1 percent of working-age disabled Americans are employed.

Source: BLS.gov, 2022

1. SSA.gov, 2022

2. SSA.gov, 2022

3. Disability insurance is issued by participating insurance companies. Not all policy types and product features are available in all states. Any obligations are dependent on the ability of the issuing insurance company to continue making claim payments.

4. Investopedia.com, 2022

5. 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. Federal and state laws and regulations are subject to change, which would have an impact on after-tax investment returns. Please consult us or a professional with legal or tax experience for specific information regarding your individual situation.

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Choosing a Retirement Plan that Fits Your Business

If you have yet to develop a retirement plan for your business, or if you're not sure the plan you've chosen is the right one, here are some things to consider.

How Much Can My Business Afford to Contribute?

The cost of contributions may be managed by the plan type.

A simplified employee pension plan (SEP) is funded by employer contributions only. SEP contributions are made to separate IRAs for eligible employees.[1]

Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) IRAs blend employee and employer contributions. For example, some employers match employee contributions up to 100% of the first 3% of compensation. Others may contribute 2% of each eligible employee's compensation. It's up to the employer to decide the formula based on what works best for the business.[2]

A 401(k) is primarily funded by the employee; the employer can choose to make additional contributions, including matching contributions.[3]

What Plan Accommodates High Employee Turnover?

The cost of covering short-tenured employees may be managed by eligibility requirements and vesting.

With the SEP-IRA, only employees who are at least 21 years old, earn at least $750 in compensation, and have been employed in three of the last five years must be covered.[4]

The SIMPLE IRA must cover employees who have earned at least $5,000 in any prior two years and are reasonably expected to earn $5,000 in the current year.[5]

The 401(k) and defined benefit plan must cover all employees who are at least 21 years of age. These retirement plans are open for employees who have either worked 1,000 hours in the space of one full year or to those who have worked at least 500 hours per year for three consecutive years.[6,7]

Vesting is immediate on all contributions to the SEP-IRA, SIMPLE IRA and 401(k) employee deferrals, while a vesting schedule may apply to 401(k) employer contributions and defined benefits.

Do I Want to Maximize Contributions for Myself (and My Spouse)?

The SEP-IRA and 401(k) offer higher contribution maximums than the SIMPLE IRA. For those business owners who are starting late, a defined benefit plan may offer even higher levels of allowable contributions.

My Priority Is to Keep Administration Easy and Inexpensive

The SEP-IRA and SIMPLE IRA are straightforward to establish and maintain. The 401(k) can be more onerous, but complicated testing may be eliminated by using a Safe Harbor 401(k). Generally, the defined benefit plan is the most complicated and expensive to establish and maintain of all plan choices.

1. Like a Traditional IRA, withdrawals from a SEP-IRA are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty. In most circumstances, once you reach age 73, you must begin taking required minimum distributions.

2. Like a Traditional IRA, withdrawals from a SIMPLE IRAs are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty. In most circumstances, once you reach age 73, you must begin taking required minimum distributions.

3. In most circumstances, you must begin taking required minimum distributions from your 401(k) or other defined contribution plan in the year you turn 73. Withdrawals from your 401(k) or other defined contribution plans are taxed as ordinary income, and if taken before age 59½, may be subject to a 10% federal income tax penalty.

4. IRS.gov, 2024

5. IRS.gov, 2024

6. IRS.gov, 2024

7. Congress.gov, 2024

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Tax Efficiency in Retirement

Will You Pay Higher Taxes in Retirement?

It's possible. But that will largely depend on how you generate income. Will it be from working? Will it be from retirement plans? And if it does come from retirement plans, it's important to understand which types of plans will be financing your retirement.

Another factor to consider is the role Social Security will play in your retirement. When do you plan to start to take Social Security benefits? If you have a spouse, when do they plan on taking benefits? It's critical to answer key Social Security benefits questions so you have a better understanding of how it will affect your taxable income.

What's a Pre-Tax Investment?

Traditional IRAs and 401(k)s are examples of pre-tax investments that are designed to help you save for retirement.

You won't pay any taxes on the contributions you make to these accounts until you start to take distributions. Pre-tax investments are also called tax-deferred investments, as the money you accumulate in these accounts can benefit from tax-deferred growth.

For individuals covered by a retirement plan at work, the tax deduction for a traditional IRA in 2024 is phased out for incomes between $123,000 and $143,000 for married couples filing jointly, and between $77,000 and $87,000 for single filers.[1]

Keep in mind that once you reach age 73, you must begin taking required minimum distributions from a traditional IRA, 401(k), and other defined contribution plans in most circumstances. Withdrawals are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty.

What's an After-Tax Investment?

A Roth IRA is the most well-known. When you put money into a Roth IRA, the contribution is made with after-tax dollars. Like a traditional IRA, contributions to a Roth IRA are limited based on income. For 2024, contributions to a Roth IRA are phased out between $230,000 and $240,000 for married couples filing jointly and between $146,000 and $161,000 for single filers.[1]

To qualify for the tax-free and penalty-free withdrawal of earnings, Roth IRA distributions must meet a five-year holding requirement and occur after age 59½. Tax-free and penalty-free withdrawals can also be taken under certain other circumstances, such as the owner's death. The original Roth IRA owner is not required to take minimum annual withdrawals.

Remember, this article is for informational purposes only and is not a replacement for real-life advice, so make sure to consult us or your tax or legal professionals before modifying your retirement strategy.

Are You Striving for Greater Tax Efficiency?

In retirement, it is especially important – and worth a discussion. A few financial adjustments may help you manage your tax liabilities.

1. IRS.gov, 2024