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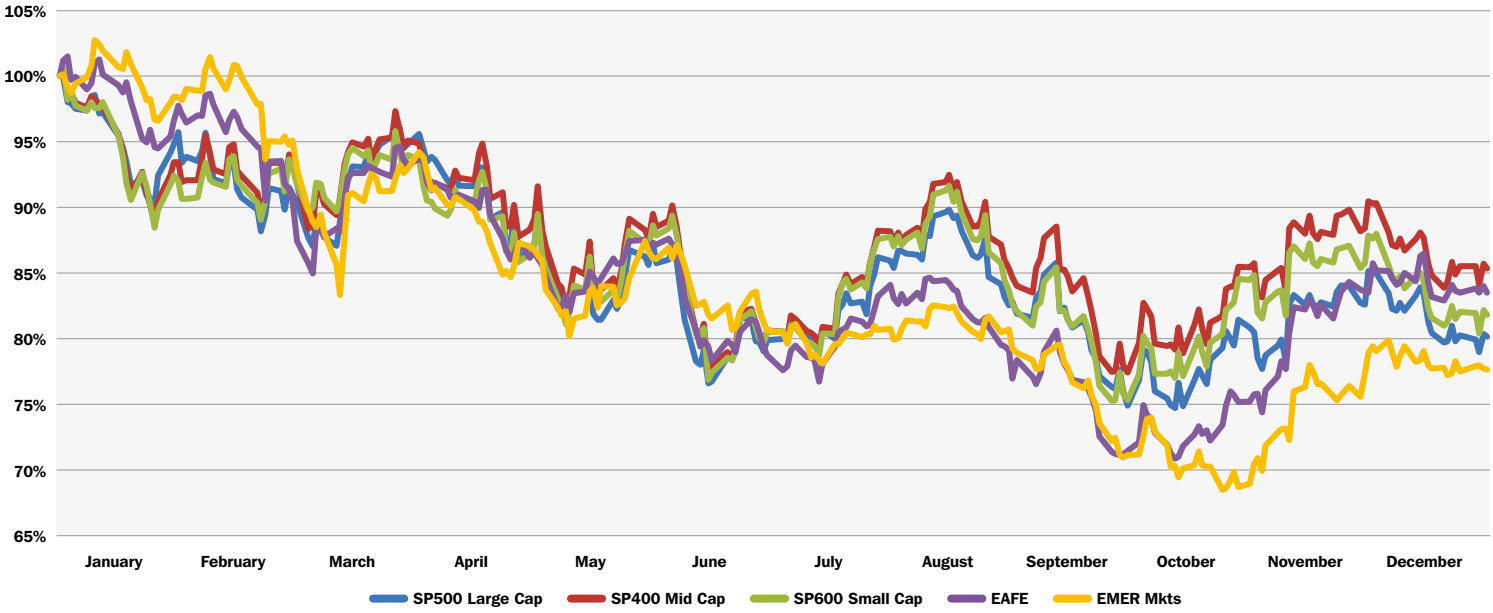
2022 MARKET ANNUAL REVIEW

By **Richard A. Hewitt**

This past year saw the markets attempt (several times) to find a bottom to the correction and set the stage for the beginning of a new bull market. It has been unsuccessful. In some ways this feels like the first quarter of 2009 — a series of gut punches in 2008 caused many to move to the sidelines. Subsequently, when markets turned, some missed the train's departure. Markets are ***always*** forward looking, generally in the 9-12 month range and will react to what is coming even though the current state of the economy may still look grim.

The only way to capture that is to fasten your seat belt and not listen to the voices in your head (we all have them….) that say, "this time is different".

2022 U.S. & International Equity Market Performance



Source: Yahoo! Finance & MSCI

The sector "heat map" for 2022 was significantly negative for Technology, Consumer Discretionary and Communication Services, weighing heavily on the S&P 500's negative return of 19% overall. All sectors were impacted by the sharp rise in interest rates. Only one sector was positive: Energy (Utilities had very small negative returns).

Speaking of the Federal Reserve, the Fed Funds rate is currently set at 4.25% to 4.5%. We expect another 0.5% increase at the first meeting ending February 1st with 2-3 more rate hikes of 0.25% through the June 14th 2023 meeting (and then a pause with the target rate of 5.5%). By the June Meeting, we will have experienced a 16-month tightening cycle and should be seeing the rate of inflation decreasing (a slowing in price increases, NOT a decrease in the overall price level).

IMPORTANT TAX CONSIDERATIONS FOR 2022, 2023, AND BEYOND

By **Joseph P. Clark**

2022 is the year when a lot of pandemic related tax benefits disappeared, and this could potentially lead to reduced refunds or larger payments due to the IRS. However, the loss of these tax benefits could be offset by the changes in tax brackets and deduction limits that are tied to inflation. Here are some important tax considerations for this 2022 tax season and the year ahead in 2023:

1. For your 2022 tax return, the standard deduction for single tax filers has been increased to $12,950 (up by $400), and it has increased to $25,900 for those married filing jointly (up by $800). For 2023, the increases will be even larger as the married filing jointly standard deduction will jump by another $1,800 due to increased inflation in 2022.

2. While the 2022 tax brackets remain the same as 2021 — 10, 12, 22, 24, 32, 35 and 37 percent — the income level for each tax bracket has increased 3% from 2021 in order to account for inflation. Therefore, any dollars you had at the bottom of a higher tax bracket in 2021 may have dropped down to a lower rate for your 2022 tax return. This shift could lower your tax burden. The same will be true for 2023 as the income levels are set to increase another 7.1% based upon even higher inflation in 2022.

3. For 2023, the IRS increased the amount you can contribute to a 401(k) by $2,000 (from $20,500 to $22,500). Those 50 and older get an increase to the catch-up amount to $7,500 for a $30,000 maximum contribution. The amount you can contribute to IRAs increased to $6,500 with an additional $1,000 catch up for those 50 and older. You should coordinate with your payroll department and your financial advisor to ensure you are maximizing these retirement savings vehicles.

4. The per-person federal estate tax exclusion for someone who dies in 2023 has increased to $12.92 million (up from $12.06 million in 2022). The impact is that an additional $860,000 of a person's total estate will be shielded from the 40% federal estate tax on amounts exceeding the IRS threshold.

5. The annual exclusion for gifts increases from $16,000 in 2022 to $17,000 in 2023, which allows for more gifting opportunities to non-spouses.

6. The inflation adjustment to Social Security taxes will cost you more in 2023. Employees pay 6.2% of their income to fund Social Security, and employers pay the same. The maximum amount of earnings subject to the Social Security tax will increase in 2023 from $147,000 to $160,200 (a 9% increase year over year).

7. In 2022, the IRS is increasing its effort to track cryptocurrency (crypto) sales and trades. Whenever you sell or trade your crypto or purchase an item with crypto, you trigger a taxable event. Currently, crypto is taxed like property, making it subject to short-term or long-term capital gains taxes (or losses). This means you may report any crypto losses to help offset any gains in sales of capital assets if you sold or traded your crypto at a loss in 2022 (which is very possible given the value of cryptocurrencies like Bitcoin and Ethereum fell 60% or more in 2022). The same goes for NFTs (Non-Fungible Tokens).

8. The temporary suspension of the 60% AGI limit on charitable cash donation deductions in 2020 and 2021 is now back, limiting the amount you can claim in charitable contributions for 2022 and going forward.

9. If your student loans were forgiven in 2022, you may owe state taxes. Although the Biden Administration's federal student loan relief remains on hold, you may have received student loan forgiveness through the Public Service Loan Forgiveness program or a similar program. Due to a provision in the 2021 American Rescue Plan, if you had any balances forgiven in 2022, you won't owe federal taxes on the canceled amount through 2025. However, forgiven loan balances may be taxed in several states and counties so consult your tax advisor.

Finally, we are assessing the impacts of the recently signed omnibus bill to see how it affects our client families. Most notably, this bill increases the age at which individuals must begin taking required minimum distributions (RMDs) from their retirement account from 72 to 73 starting in 2023. The RMD will increase again to 75 in 2033. The bill also increases catch-up contributions in workplace retirement accounts for individuals ages 60 through 63 beginning in 2025. Individuals who qualify could contribute an additional 50% of the regular catch-up contribution limit, which begins at age 50. In addition, the individual retirement account (IRA) catch-up contribution limit is now indexed to inflation beginning in 2024 so the current $1,000 catch-up provision will rise annually to keep pace with inflation. Beginning in 2024, employers have the option to match student loan payments with a contribution to the employee's retirement plan account. The goal is to help workers who are burdened by student loans and can't afford to make contributions to their retirement plan by ensuring they are accumulating some retirement savings even as they pay down their loan. Starting in 2024, individuals can roll over up to $35,000 from a 529 to a Roth IRA in the name of the student beneficiary as long as the 529 has been in existence for at least 15 years.

HIGH YIELD SAVINGS ACCOUNTS: ADVANTAGES & DISADVANTAGES

By **Marc A. Wehmeyer**

Interest rates for borrowers on credit cards, car loans, and mortgages all increased dramatically throughout 2022 in response to the Federal Reserve's series of hikes to the federal funds rate. Unfortunately, many savers have not seen a corresponding rise in the interest rates paid on savings accounts. Many large banks, including Chase, Bank of America, and USAA currently pay only 0.01% annual percentage yield (APY) on their basic savings accounts. Wells Fargo pays 0.15% APY but imposes a $5 monthly service fee unless you meet a qualifying condition each fee period. Citi pays 0.05% APY but imposes a $10 monthly service fee unless you meet a qualifying condition each fee period.

It may be worth your time and effort to find an alternative location to hold some (or all) of your liquid savings, such as the funds in your emergency account or short-term goals account. One possibility is opening a high-yield savings account (HYSA) linked to your existing bank account. Here are some of the advantages and disadvantages of making a change:

ADVANTAGES:

1. Interest rates are much higher than those currently offered by traditional banks. Currently you can earn 3.30% APY with an American Express High Yield Savings Account, a Capital One 360 Performance Savings Account, a Discover Bank Online Savings Account, and a Marcus by Goldman Sachs Online Savings Account. SoFi offers a combined checking and savings account that offers 2.50% APY on checking balances and 3.50% APY on savings balances, but you have to set up and maintain direct deposit in order to earn those APYs. Otherwise, SoFI pays 1.20% APY on all balances. Other providers may offer even more competitive interest rates.

2. Many HYSAs are also insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA). As long as your financial institution is a member of the FDIC or NCUA, your account is insured up to $250,000 per depositor, per insured bank or credit union respectively, per account ownership category.

3. HYSAs are relatively easy to open and maintain. You can typically open a HYSA online and fund it electronically from an existing bank account. Once your account is open, you should be able to manage your account online using the financial institution's webpage and/or mobile app (if they have one).

DISADVANTAGES:

1. You may not have as many options to access your funds as you do with a regular checking account. HYSAs typically do not offer ATM cards, debit cards, or checks.

2. HYSAs may limit the number of withdrawals you can make during a statement cycle without risk of penalty or account closure. Prior to April 24, 2020, the Federal Reserve's Regulation D limited most types of withdrawals from savings accounts (including HYSAs) to six per statement cycle. Regulation D was suspended in response to the COVID-19 crisis and has not yet been reinstated. However, individual banks or credit unions may still have withdrawal limits in place.

3. The interest rates on HYSAs are variable. The financial institution can change the rate at any time, and it may not be as attractive as it first appeared.

Feel free to reach out to us if you would like to discuss HYSAs in more detail and whether or not opening one would make sense in your situation. Depending on the amount involved, the additional complexity of adding a new account to your finances may be worth the effort.

PRESIDENT'S COMMENTARY

By **Richard A. Hewitt**

The sight of 2022 in the rear view mirror is a welcome one on many fronts. The stock market challenged us all to remember that returns go both ways and that none of us are as "bold" on the way down as we thought we were on the way up. The Federal Reserve is doing a solid job of communicating its plans and that is the one economic highlight for the past 9 months. Our thinking on the future path of rate hikes is outlined in the 2022 market review commentary.

THE MIDTERMS & INFLATION: WHAT'S GOING ON?

By **Drew W. Nelson**

At the time of publishing, the party breakdown of the Senate is simultaneously known and not known: Raphael Warnock (D) won Georgia's runoff election to bring the Senate to 51 (D) – 49 (R), and Kirsten Sinema (D-AZ) has left the Democratic Party to become an Independent, and it's unknown with whom she will caucus. With Kamala Harris being the tiebreaker vote, Sinema's decision is largely irrelevant, as the Democrats will still retain control of the Senate.

The massive Republican underperformance in the 2022 midterms tells us two things: the Trump influence is waning, and a good candidate is still ultimately required to win an election. Weak candidates in Pennsylvania (Oz) and Georgia (Walker), and Trump-backed candidates in Arizona (Lake) and New Hampshire (Bolduc) lost races they arguably should've won, while strong candidates in Florida (DeSantis) and Texas (Abbott) won in landslides. Where the Republicans provided reflections of reliable leadership, they triumphed; and faltered where they didn't. The GOP would be wise to keep this in mind as they field Presidential candidates for 2024.

This past year has been economically characterized by many things: 42-year high inflation driving up gas and grocery store prices to new records, low unemployment, rising interest rates, and a down stock market. The Federal Reserve stood by their "transitory inflation" stance far too long, but they eventually realized they must act and take away the cookie jar of zero interest rates for the better part of a decade. Chairman Powell has been very consistent in his messaging, notifying the public of the Fed's intentions and then following through, which helps to instill some certainty into markets.

YEAR	INFLATION	S&P 500 SAME YEAR	S&P 500 1 YEAR LATER
1947	14.4%	0.0%	-0.7%
1980	13.5%	25.8%	-9.7%
1979	11.3%	12.3%	25.8%
1974	11.0%	-29.7%	31.5%
1942	10.9%	12.4%	19.4%
1981	10.3%	-9.7%	14.8%
1975	9.1%	31.5%	19.1%
1946	8.3%	-11.9%	0.0%
2022	8.0%	-19.4%	TBD
1948	8.1%	-0.7%	10.5%
1951	7.9%	16.3%	11.8%
1978	7.6%	1.1%	12.3%
Average	**10.0%**	**2.5%**	**12.3%**

Source: Historical data of S&P 500 (ticker: ^GSPC) from 1/1/1928 to 12/31/2022. Historical inflation data is the average annual inflation percentage as measured by the Consumer Pricezz Index, calculated by the Bureau of Economic Analysis (BEA). Index performance is for illustrative purposes only. It is not possible to invest directly in an index. Past performance does not guarantee or indicate future results.

This chart is intended to give a historical, long-term perspective on previously high inflationary environments and corresponding market returns. While it was a difficult economic year in 2022, we continue to believe the U.S. economy will always persevere through tough economic conditions and be successful in the long-term.

Price stability and full employment are the two mandates for the Fed and they are full steam ahead on trying to bring down prices. In theory, high prices deter economic spending and rising rates deter economic borrowing, ultimately slowing down the economy to try and reach the Fed's stated goal of 2% inflation.

But it is always a delicate balance raising rates (forward-looking) to combat inflation (backward-looking) when you only know the results of your actions in hindsight. The Fed began to slow their rate increases in December's meeting, pivoting from 0.75% to 0.50% increases for the foreseeable future. Markets will react negatively in the short-term, but it is important for the economy to realize it can function at 5% interest rates. It has previously, and it will again. If another economic downturn hits and the Fed does not have the "interest rate arrow" in its quiver, it will be a difficult situation to manage.

Mark Twain is famously quoted for saying, "History does not repeat itself, but it does rhyme." Praetorian Guard has long held this view as well, with the belief that betting against America has never proven to be fruitful long-term.

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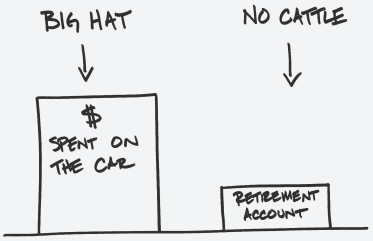

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CLOSING THOUGHT

"Cowardice asks the question, is it safe? Expediency asks the question, is it politic? Vanity asks the question, is it popular? But conscience asks the question, is it right? And there comes a time when one must take a position that is neither safe, nor politic, nor popular, but one must take it because it is right."

—Martin Luther King Jr. (1929-1968)

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