GATEWAY
INVESTMENT MANAGEMENT
OF
RAYMOND JAMES®

# THE COMMUNIQUE

## March 2025

| MAJOR INDICIES | LAST | MTD | QTD | YTD |
|---|---|---|---|---|
| S&P 500 | 5738.52 | -3.63% | -2.43% | -2.43% |
| Dow Jones Industrials | 47579.08 | -2.88% | 0.08% | 0.08% |
| NASDAQ Composite | 18069.26 | -4.13% | -6.43% | -6.43% |
| New York Stock Exchange | 19506.34 | -2.61% | 2.14% | 2.14% |

| U.S. TREASURIES | YIELD |
|---|---|
| 2-yr Treasury Note | 3.97 % |
| 10-yr Treasury Bond | 4.29% |
| 30-yr Treasury Bond | 4.59% |

Information as of March 6, 2025 Source: FactSet

# MARKET COMMENT

## Tug of War

Since December 2024 the Bulls and the Bears have been in a stock market tug of war, where the bulls buy into a rising market and the bears sell it back down, thus creating a tight up and down price range without any strong conviction on either side. So, with a backdrop of strong corporate earnings, historically reasonable interest rates, and low unemployment, why is there such weak investor conviction over the past 3 months?

Many investors were looking for another "Trump Bump," which we saw during the first Trump administration, but has not yet materialized. In fact, it seems President Trump is on a path to create an unstable economic environment, with tariffs on many of our global trading partners, large reductions in the U.S. Government work force, and no clear discussion on budget deficits and government spending. The tariffs, if implemented, will raise consumer prices and lead to potentially more inflation for the Federal Reserve to handle (future interest rate increases?). They will also produce confusion for businesses planning for rising costs or disruption of their supply chain, and possibly, a more isolated global market causing unrest and uncertainty between countries. As investors, we know the stock market prefers gridlock in Washington DC compared to the current uncertainty and rapid changes in government policies, but these are the seeds of a tug of war or range bound stock market.

Secondly, with current administration policies, the market might be leaning towards a possible economic slowdown versus increasing growth. This could cause a decline in corporate earnings, especially in a currently high valued stock market, which could lead to rising unemployment, higher consumer prices, and a stagnation of our economy. The market tug of war is a product of an uncertain economy, and we must remember today's stock market action is based upon what might happen in the next 6 -9 months. Lastly, strong, growing economies create peaceful global trading partners, but when economies slowdown, countries start pointing fingers of blame at one another. As we are seeing today, tariffs are implemented and breed distrust and global unrest in a world already tense from wars in the Ukraine and Middle East. These may be the ingredients of global isolation, which leads to economic uncertainties and challenging markets. Hopefully, cooler heads will prevail, and we will work through this bumpy path to a reenergized global economy and profitable markets.

As always, we thank you for your continued trust and confidence.

## PLANNING STRATEGY

*Raymond James "Commentary & Insights" – M25-731418*

### Mitigating Surtaxes Faced by High-Income Earners

Every investor should have a thoughtful tax strategy, and for those that exceed certain income thresholds, proactive planning is all the more important.

Individual taxpayers with modified adjusted gross income (MAGI) of $200,000 face a 3.8% net investment income tax on the lesser of their net investment income amount or the amount by which their MAGI exceeds that $200,000 threshold. For couples filing jointly, the threshold is $250,000. These taxpayers are also subject to a 0.9% additional Medicare tax on wages and self-employment income over the same amount.

Talk to your financial advisor, along with your accountant or tax advisor, to identify and implement the strategies that are most advantageous for your situation.

Here are some options to consider.

## Improve your portfolio's tax efficiency

To get a sense of your annual tax liability, review your portfolio's turnover ratio (the percentage of your holdings that have been replaced in a given year) and historical distributions. Then, work with your advisor to evaluate your investments, review your after-tax returns and consider opportunities to improve efficiencies.

Steps that may help to reduce taxes include tax-loss harvesting – selling securities at a loss to offset capital gains taxes – and rebalancing your portfolio to include more tax-advantaged investments, such as municipal bonds, in higher-taxed locations.

# Capitalize on employer benefits

If your employer offers a salary deferral plan like a 401(k), SIMPLE IRA, 403(b) or 457 plan, maximize your contributions to reduce your adjusted gross income and taxes over the long term. Similarly, if you're eligible, maximize contributions to an employer Supplemental Employee Retirement Plan (SERP) to reduce your taxable income now and defer the compensation into later years when your tax rate may be lower.

Another often-overlooked benefit is an employer health savings plan or flexible spending account. Contributions use pre-tax dollars, reducing your taxable income.

# Develop a charitable giving plan

Charitable giving can reduce your tax burden while benefitting your favorite causes. Consider:

- Giving appreciated securities to avoid capital gains, which increase your net investment income
- Bunching several years' worth of donations into one year to exceed the standard deduction, making itemizing advantageous, and taking the standard deduction in the years that follow
- Establishing a donor advised fund to make future donations and claim the current income tax deduction
- Contributing highly appreciated assets to a charitable remainder trust (CRT) to defer recognition of income over time

While these tax planning strategies may help you to reduce your overall tax bill, don't lose sight of your risk tolerance and long-term financial goals.

*Raymond James does not provide tax advice. Please discuss these matters with your tax professional. The process of rebalancing may result in tax consequences. Withdrawals from qualified accounts may be subject to income taxes, and prior to age 59½ a 10% federal penalty tax may apply. This material is being provided for information purposes only and is not a complete description, nor is it a recommendation. Investments or strategies mentioned may not be suitable for all investor.*

# LIFE & LEISURE

*Raymond James "Commentary & Insights" – M25 - 718462*

## Putting More Life Into the 10-Year Rule

With the recent finalization of the 10-year rule for IRAs, introduced by the SECURE Act, beneficiaries of qualified retirement accounts now need to think more strategically about what they're inheriting.

"Historically, the strategy was simple: owners would put as much money as they could into qualified accounts, because beneficiaries could then roll those funds into inherited IRAs and take distributions over their life expectancies," says Jim Kidney, CPWA®, who supervises the financial planning consulting practice at Raymond James. "Then the SECURE Act comes along, and what could've been payments over multiple decades is now payments over one."

The rule requires that non-eligible beneficiaries – broadly, non-spousal beneficiaries of an account – deplete the funds inherited from a qualified account within 10 years of the owner's passing.

But even with the addition of a countdown clock, there are ways for beneficiaries to make the most of the time they have.

**The rules of the rule**

As we covered in [another recent article on the 10-year rule](), it applies differently to different beneficiaries. There are two overall categories: eligible designated beneficiaries and non-eligible designated beneficiaries. For the eligible set, the rule doesn't actually change much. Most can still open an inherited IRA and elect to take distributions over their life expectancies, with children being eligible until they reach 21, at which point the 10-year rule kicks in.

For non-eligible heirs, however, the 10-year rule is universal, but the way in which distributions can or must be taken differs.

If an account owner passes away before reaching their required beginning date, the day they must take their first RMD, a beneficiary has more distribution flexibility. They can elect consistent or graduated distributions over all or some of the 10 years. Or, they can take a lump sum in the 10th year.

In cases where an account owner has already taken one or more RMDs before death, the beneficiary must also take RMDs. They can elect to take more than the minimum, but the RMD must be taken each year.

There's also the most clear-cut option: An heir could opt to take a lump-sum payment in lieu of opening an inherited IRA with the funds. For substantial accounts, however, this would generate a significant tax bill and is generally to be avoided.

Planning, Jim says, is now a critical factor for beneficiaries. "Things have gotten much more complex. It's really important for all the parties involved to be aware of the requirements and to have strategic discussions that include professional advisors."

**To maximize, start by minimizing**

Jim also emphasizes the outsized role taxes play in these situations.

There are some steps account owners can take pre-emptively to benefit their heirs, like converting a traditional IRA to a Roth account and paying taxes up front so beneficiaries can inherit the account tax-free, if certain criteria are met. But once a qualified account changes hands, strategic timing becomes key.

Beneficiaries are often in their prime earning years and sitting in the attendant higher tax brackets, so taking larger distributions or a lump-sum could launch them into an even higher one.

If a beneficiary's tax picture is unlikely to change much in the coming years, one option would be for them to take distributions proportionally over the 10-year window – in the first year, take one-tenth, then one-ninth, then one-eighth, etc.

Those closer to retirement might consider taking the minimum distribution or, if it's an option, taking nothing while they're still working, and then once they retire, begin taking distributions or begin taking larger ones.

Whatever the strategy, having one is now an important part of the conversation. And having conversations, Jim says, especially those between account owners and their beneficiaries, is crucial.

**Saving it forward**

Today's beneficiaries are tomorrow's benefactors. And what they're learning about the process of inheriting an asset like this now, can be used to help set their own heirs up for success.

"It's about being more mindful of what you'll be passing along," Jim says. "The chairs have been rearranged to a degree, so it's important to take the time to think about what you want for your heirs and plan accordingly."

One area where he recommends extra deliberation is who an account owner names as their beneficiary in the first place.

People typically name a spouse or significant other. In the case of a large IRA, a more strategic approach would be to split things up, leaving 80% to a spouse and 20% to children, for example. The spouse could then name the children as their beneficiaries and potentially extend the account's life across two 10-year clocks.

A potential beneficiary's tax position is also important. For example, if an account owner has heirs in different tax brackets, those in the lower bracket might be better candidates to inherit a large IRA.

"The worst thing you can do here is ignore it," Jim says. "It's important as an owner and as a beneficiary to consider this as part of your overall finances and to have a plan."

*This material is being provided for information purposes only and is not a complete description, nor is it a recommendation. Raymond James does not provide tax or legal advice. Please discuss these matters with the appropriate professional. Withdrawals from tax-deferred accounts may be subject to income taxes, and prior to age 59.5 a 10% federal penalty tax may apply.*

*Converting a traditional IRA into a Roth IRA may involve additional taxation. When converted to a Roth, you pay federal income taxes on the converted amount, but no further taxes in the future. Unless certain criteria are met, Roth IRA owners must be 59½ or older and have held the IRA for five years before tax-free withdrawals are permitted. Each converted amount is subject to its own five-year holding period, unless the owner is 59.5 or older.*

**Quote of the Month:** "Love has no age, no limit, and no death" John Galsworthy

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**Planning** - https://www.raymondjames.com/commentary-and-insights/tax-planning/2025/03/05/mitigating-surtaxes-faced-by-high-income-earners

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