

March 14, 2022 – Weekly Notes

Economic Commentary:

Against the background of the on-going war in Ukraine, the FOMC will conduct a critical meeting on Wednesday. Chairman Powell has pre-announced the decision to raise the Fed Funds rate 25bps at this meeting, but this does not reduce the importance of the FOMC meeting statement – and Chairman Powell's press conference which will follow. Specifically, attention has shifted from the immediate issue of the March rate increase to the much bigger question: What will be the trajectory (speed, magnitude, end-point) of future Fed actions? The Fed has stated that the strength of the US economy dictates that monetary policy move as quickly as possible to a neutral (non-expansionary) stance, but has been very unclear as to the actual metrics of "neutral." Furthermore, with the Ukrainian war and related sanctions imposing economic costs on Europe and the US, it will be useful to understand the Fed's view of any current and future loss of economic growth due to sanctions and high energy costs, or both.

Data to Watch:

- US Producer Price Index for February, YOY and MOM, released Tuesday, March 16
- US Retail Sales for February, released Wednesday, March 17
- FOMC Economic Projections, released Wednesday, March 17
- US Industrial Production for February, released Thursday, March 18

Suggested Reading:

- <https://thehill.com/homenews/state-watch/597919-record-revenues-pour-into-states>
- <https://www.theguardian.com/world/2022/mar/14/west-putin-sacred-cash-cow-russia-ukraine-gas>
- https://www.wsj.com/articles/ukraine-war-oil-gas-prices-inflation-federal-reserve-11647268257?mod=hp_lead_pos5
- https://www.wsj.com/articles/ncaa-bracket-picks-baylor-gonzaga-11647274355?mod=hp_lead_pos13

Investment Commentary*:

The combination of geopolitical and central bank policy uncertainty continues to push investor sentiment back and forth between hope and fear. Investors will have to prepare to withstand volatility and resist the urge to materially adjust their long-term investment strategy absent material changes in their financial plan.

As central banks focus on price stability there are increasing concerns regarding the growth outlook as rising inflation expectations are driven by energy, food and shelter. The Investment Office is monitoring several market signals of a possible recession or stagflationary environment including yield curve inversion, where yields on shorter term bonds exceed those on longer-term bonds. However, the signaling is complicated by the "risk off / risk on" market sentiment due to the Russian invasion which may trigger a "false positive" indicator.

Last week, yields increased on the back of increasing inflation fears. In the US, the 2 year and 10 year Treasury yields increased 26 bps and 28bps to 1.75 and 2%, respectively. The 2-10 year Treasury spread is just 25 bps, a problematic recessionary harbinger. By contrast, the 3 month-10 year spread (considered by some as a superior indicator) is 160 bps.

Finally, the market weakness may provide opportunities to take tax losses today that can be used to offset future capital gains. Given the weakness in both the equity and fixed income markets, these opportunities may be significant.

Wealth Planning Commentary:

Inherited IRA Distribution Changes

The IRS recently proposed changes to Inherited IRA distributions. If enacted these changes may have an impact on your estate plan.

Currently IRAs that are inherited by non-spouses after 2020 are required to be distributed within 10-years following the death the owner. In many cases it is best for the inheritor to keep the assets in the IRA until the 10th year to take full advantage of tax-free growth.

The IRS's proposed rules require non-spouse inheritors to take annual withdrawals from the account during the 10-year period if the original owner died on or after his or her required beginning date for RMD. Simply put, if the deceased was eligible for RMD the inheritor will need to take distributions each year over a 9-year period and empty the account by the 10th year. It is likely that these rules will be enacted by the end of 2022. The good news is that there are no planned changes to the Inherited Roth IRA 10-year rule: inheritors may keep the assets in the Roth and grow them tax free for 10 years.

With regards to leaving the IRA to heirs these proposed rules may make a Roth conversion more attractive. Please reach out to us if you would like us to evaluate how the proposed rules may impact your plan.

**Source: Bloomberg*

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