MarketWise

THE FED FINALLY CUT INTEREST RATES

Last month in our introduction, we cautioned that September has a well-earned reputation for being the worst month of the year for the markets. 2024, however, was an exception. September turned out to be more of the same for the major indexes, with all three (the Dow, S&P 500, and NASDAQ), all hitting all-time highs over the course of the month. The S&P 500, our preferred equity index for judging the health of the markets, gained 2.02%, for a year-to-date return of over 20%. The main catalyst, and a slightly buried lede, was the Federal Reserve starting their widely anticipated rate-cutting cycle with a somewhat surprising 0.50% cut, as opposed to the standard 0.25%. This month's article, provided by Broadridge Advisor Solutions, details the Fed's decision and what comes next. For our part, we remain bullish for the rest of the year. Despite geopolitical and election risk on the horizon, we feel confident in the state of the US markets and economy. - **David J Brunswick III (Yahoo Finance Charts as of market close 9/27/24)**

INDEX	YTD	12 MO.
S&P 500	+20.81%	+34.38%
Dow Jones	+12.31%	+26.33%
NASDAQ	+21.17%	+37.60%
Russell 2000	+10.01%	+24.92%

As of Market Close 9/27/2024 Source: Yahoo Finance Charts

The Fed Finally Cut Interest Rates. What Could It Mean for Your Finances?

On September 18, 2024, the Federal Reserve's Federal Open Market Committee (FOMC) lowered the benchmark federal funds rate one-half percentage point to a range of 4.75% to 5.0%. It was the first rate cut since the Fed raised the funds rate aggressively from March 2022 to July 2023 to help control inflation. (1)

The long-awaited policy shift suggests that a soft landing — the rare feat of bringing down inflation without causing a recession — is in sight. It also marks a critical juncture for the economy, with significant implications for consumers, businesses, and investors.

Why Now?

The Federal Reserve operates under a dual mandate to foster maximum employment and stable prices for the benefit of the American public. For a couple of years rising prices have been considered the more serious threat, but the inflation rate has moved much closer to the Fed's 2.0% target.

Officials now see these two risks as "roughly in balance." In his post-meeting press conference, Fed

Chair Jerome Powell said, "The labor market has cooled from its formerly overheated state, inflation has eased substantially from a peak of 7% to an estimated 2.2%, as of August." **(2)**

In recent months, job gains have slowed considerably, and unemployment climbed from 3.8% in March to 4.2% in August. Powell maintained that employment data remains at solid levels, but recent changes suggest the downside risks have increased. **(3, 4)**

"The U.S. Economy is in a good place. And our decision today is designed to keep it there."

- **Fed Chair Jerome Powell**

Relief for Borrowers

Lowering the federal funds rate helps to reduce borrowing costs across the board, creating breathing room in the budgets of many households and businesses.

The prime rate, which commercial banks charge their best customers, typically moves with the federal funds rate. Though actual rates can vary widely, small-business loans, adjustable-rate mortgages, home equity lines of credit, auto loans, credit cards, and other forms of consumer credit are often linked to the prime rate, so the rates on these types of loans should adjust lower relatively soon after a Fed rate cut.

Borrowers with home equity lines of credit, adjustable-rate mortgages, credit card balances, or other outstanding loans with variable interest rates should see their monthly payments fall as well, in many cases within a couple of billing cycles.

Mortgage rates are influenced by a mix of complex factors that includes Fed policies, longer-term inflation expectations, and government bond market dynamics. The rates for 30-year fixed mortgages, which tend to track the yield on the 10-year Treasury note, fell steeply in August after government reports confirmed that inflation and the job market were cooling. **(5)**

The average rate on a 30-year fixed-rate mortgage was 6.09% on September 19, the lowest in 19 months. This is down from a recent peak of 7.22% in early May. Aspiring home buyers have gained significant purchasing power since last spring and mortgage rates may continue to fall gradually, but it's also possible that much of the anticipated decline in interest rates has already been priced in. **(6)**

Too Much Cash on Hand?

Savers have enjoyed being rewarded for holding cash in high-yield savings accounts and short-term certificates of deposits (CDs). Although it may not happen overnight, they should be prepared for the yields on these accounts to follow the Fed funds rate downward.

Investors who have more cash savings than they expect to need in the next couple of years might consider locking into today's relatively high yields by shifting money into CDs or bonds with fixed interest rates and longer terms. For example, someone could purchase bonds that mature when the money is likely to be needed for retirement expenses or to pay for a child's college education.

Moving more money into stocks, which have historically generated higher average returns over time, is a riskier option that may be appropriate for investors who intend to hang on to them for the long haul, but only if they can endure frequent price swings.

Rate Cuts in a Strong Economy

Past rate-cutting cycles have aimed to boost growth when the economy was in trouble, which doesn't appear to be the case this time around. Powell stated

clearly, "The U.S. economy is in a good place. And our decision today is designed to keep it there." **(7)**

In the second quarter of 2024, U.S. gross domestic product (GDP) expanded at a healthy 3.0% annual rate, and recent forecasts based on the Atlanta Fed's GDPNow model indicate that the economy grew at a similar pace in the third quarter. **(8, 9)**

The September rate cut — which officials hope will keep job market conditions from worsening — is presumably a starting point. The Fed plans to keep cutting interest rates until they reach a neutral stance that should no longer impact the economy for better or worse. According to current FOMC projections, the fed funds rate could drop an additional 0.50% by the end of 2024, and another 1.0% over 2025. **(10)**

It can take time for borrowing rates to respond to changes in the fed funds rate and noticeably impact the decisions of consumers and businesses. This "lag" in the effects of monetary policy is one reason that some people fear the economy is not out of the woods.

Whatever happens next, the Committee intends to make policy decisions "meeting by meeting based on the incoming data, the evolving outlook, and balance of risks." **(11)**

The FDIC insures CDs and bank savings accounts, which generally provide a fixed rate of return, up to $250,000 per depositor, per insured institution. The return and principal value of an investment in bonds or stocks fluctuate with changes in market conditions and, when sold, these securities may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk. Forecasts are based on current conditions, subject to change, and may not come to pass.

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GENERATIONAL PLANNING STRATEGIES

DOES A QCD WORK FOR ME?

A qualified charitable distribution (QCD) allows individuals who are 70½ years old or older to donate up to $105,000 total to one or more charities directly from a taxable IRA instead of taking their required minimum distributions. As a result, donors may avoid being pushed into higher income tax brackets and prevent phaseouts of other tax deductions, though there are some other limitations.

GENERATIONAL PLANNING STRATEGIES CONTINUED

How do qualified charitable distributions work?

Understanding qualified charitable distributions begins with understanding required minimum distributions. People who hold Individual Retirement Accounts (IRAs) are required to take RMDs each year beginning at age 73—even if they don't need or want the funds. That same required minimum distribution increases the IRA holder's total taxable income.

This income increase could potentially push the taxpayer into a higher income tax bracket. It can also trigger phaseouts, which limit or eliminate some kinds of tax deductions, such as personal exemption and itemized deductions, and sometimes trigger high taxes on Social Security income.

How QCDs Work:

QCDs are also called IRA charitable distributions or IRA charitable rollovers. They enable individuals to fulfill their required minimum distribution by a direct transfer of up to $105,000 to charity. They can also be used support multiple charities, as long as the sum of the distributions is within the $105,000 limit. But because QCDs don't increase taxable income, both higher tax rates and phaseouts can be avoided.

In addition, because QCDs reduce the balance of the IRA, they may reduce required minimum distributions in future years. QCDs are also not counted toward the maximum amounts deductible for those who itemize their giving on their taxes—the $105,000 can be above and beyond those limits. For these reasons, a QCD can potentially enable a donor to give a bigger charitable gift than they could if they just donated cash or other assets.

How QCDs Are Made:

Qualified charitable distributions are made directly to the eligible charity from a traditional IRA, inherited IRA, inactive Simplified Employee Pension (SEP) plan and inactive Savings Incentive Match Plan for Employees (SIMPLE) IRAs. (Inactive SEP and SIMPLE IRAs are accounts that no longer receive employer contributions.)

GENERATIONAL PLANNING STRATEGIES

CONTINUED

Who can make a qualified charitable distribution?

An individual donor can contribute up to $105,000 per year in QCDs, as long as that individual is 70½ years old or older. For married couples, each spouse can make QCDs up to the $105,000 limit for a potential total of $210,000.

Type of charity that can receive a QCD

Qualified charitable distributions can be made only to certain qualified charitable organizations, as defined in the tax code.

Currently, QCDs cannot be made to donor-advised fund sponsors, private foundations and supporting organizations, though these are categorized as charities. NOTE: Donors should check before making a gift to ensure the organization is qualified to accept QCDs.

Tax limitations of QCDs:

A donor can make a qualified charitable distribution that exceeds the individual's required minimum distribution for a given year; however, that extra distribution can't be carried over—i.e., used to meet the minimum distributions for future years.

Additionally, donors cannot receive any benefit for making a qualified distribution to a charity. So, for example, a QCD cannot be used to purchase something in a charity auction or purchase tickets for a charity golf tournament.

If you would like to explore the possibilities of a QCD, please contact us. We would love to assist!

Source: https://www.fidelitycharitable.org/guidance/philanthropy/qualified-charitable-distribution.html?immid=PCD&account=&campaign=18605581889&adgroup=141122375926&keyword=qcd%20meaning&gad_source=1&gclid=CjwKCAjwgfm3BhBeEiwAFfxrG8B15TDzpok9lTYQ1-nuC1QtoP-36xBVkpdVaq-a4XzbhLaDwpvxnBoCcDIQAvD_BwE

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The Fed Finally Cut Rates?

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3) U.S. Bureau of Labor Statistics, 2024

5) *The New York Times*, August 8, 2024

6) Freddie Mac, 2024

8) U.S. Bureau of Economic Analysis, 2024

WHO WE ARE

Kingdom Financial Services is a full-service, family owned and operated, Christian rooted financial firm located in Wake Forest, North Carolina. We are associated with G.A. Repple & Company, which is a prominent Christian owned Broker/Dealer in the Southeast. We are trained Planned Giving Consultants with expertise in the areas of investment and financial insurance products and services.



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