MarketWise

AFTER A SURPRISING 2023, A CAUTIOUSLY OPTIMISTIC ECONOMIC OUTLOOK FOR 2024

This month's main article will be a look ahead at economic projections for 2024, but first, a brief note looking back at 2023. The stock market staged an incredible year-end rally, fueled by a Federal Reserve pivot from continuing to warn that interest rates may need to go higher and stay there for longer to a more dovish position: that rates are likely where they need to be, and that cuts are on the horizon sometime in 2024. Although the markets (once again!) seemed to get over-excited and start pricing in cuts for March (our position has been and remains mid-to-late 2024 for cuts), the overall performance of the major indexes ranged from very good to incredible, as can be seen in the Index Performance box above. From the beginning of 2020, inclusive of the awful 2022 we slogged through, the S&P 500 is up a little over 47%, or around 15.9% per year for the past 4 years. This illustrates why we believe it is important to stick with your investment objectives and goals through good times and bad, and why we frequently write about our long-term optimism and bullishness in the US markets. Our stock markets have proven time and time again to be resilient and, over a long enough period, to consistently go up. As always, we see no reason to think differently going forward. **(Source: Yahoo Finance Charts)**

INDEX	YTD	12 MO.
S&P 500	+24.23%	+24.23%
Dow Jones	+13.70%	+13.70%
NASDAQ	+43.42%	+43.42%
Russell 2000	+15.09%	+15.09%

As of Market Close 12/29/2023 Source: Yahoo Finance Charts

Finally, we want to wish all of you a Happy New Year, and hope that you all enjoyed a very Merry Christmas with those you love. Thank you for being our clients, readers, and friends. Now on to this month's article: provided, written, and prepared by Broadridge Advisor Solutions. You can find articles by Broadridge on a wide variety of topics at our website: www.kingdomfs.net.

– David J Brunswick III

Despite high interest rates and unsettling geopolitical conflict, the U.S. economy outperformed the expectations of most economists in 2023. Inflation-adjusted gross domestic product (Real GDP) accelerated to an annualized rate of 5.2% in the third quarter, after growing 2.1% in Q2 and 2.2% in Q1. Inflation, as measured by the 12-month change in the price index for personal consumption expenditures (PCE), was 3.0% in October 2023, after beginning the year at 5.5%. The labor market stayed strong in 2023, though it has cooled off a bit. The unemployment rate edged up from 3.4% in January to 3.9% in October, but is still quite low by historical standards. (1-3)

That is all good news considering that a majority of economists polled in January 2023 believed the United States would enter a recession by the end of the year. But whether you are an investor, a business owner, or an employee thinking about your career prospects, you may be more interested in what lies ahead for the economy in 2024. **(4)**

Economic projections are essentially educated guesses. Economists in the public and private sectors are tasked with trying to predict the future based on a wide range of indicators, potential risks, and their overall impressions of market conditions. And so far, forecasts for 2024 seem to suggest the economy is kicking off the new year in a more stable position. **(5)**

Fed Policies and Official Forecasts

Since March 2022, the Federal Open Market Committee (FOMC) of the U.S. Federal Reserve has raised the benchmark federal funds rate aggressively in an effort to control inflation, which had climbed to its highest levels in 40 years. Raising interest rates is meant to slow economic activity by making it more expensive for consumers and businesses to borrow money, which discourages spending. **(6-7)**

In November 2023, the Fed paused its rate hikes for the second meeting in a row, leaving the federal funds rate in a range of 5.25% to 5.5% — a 22-year high. **(8)**

Economic projections released at the FOMC's September meeting indicated that slower GDP growth is expected, with a median projection of 1.5% in 2024. This was an improvement from 1.1% in the previous forecast. The committee expected PCE inflation to continue declining and end the year at 2.5%, which would still be higher than the Fed's 2.0% target, and that the unemployment rate would tick up to 4.1% (based on median projections). **(9)**

Polling the Pros

In October 2023, The Wall Street Journal's Economic Forecasting Survey found that a recession is no longer the consensus view of 65 top business and academic economists polled by the publication on a quarterly basis. On average, the group expects real GDP growth will slow to 1.0%, the unemployment rate will rise slightly to around 4.0%, and inflation (measured by the consumer price index) will fall to 2.4% by the end of 2024. **(10)**

Nearly 60% of the economists believed the Fed was finished hiking interest rates, and roughly half thought that rate cuts would begin in the

second quarter of 2024, in response to signs of weakening growth. **(11)**

At the same time, some economists were still not convinced that the U.S. economy is out of the woods. As recently as November 2023, the Conference Board predicted that a very short and shallow recession will begin early in 2024. **(12)**

Global Growth Trends

According to the Organization for Economic Co-operation and Development's September forecast, the global economy is expected to grow 3.0% in 2023 before slowing to 2.7% in 2024. In China, the growth rate is forecast to weaken from 5.1% in 2023 to 4.6%, due to its struggling property market and reduced domestic demand. Growth in the Euro area is expected to improve from 0.6% in 2023 to 1.1% in 2024. Inflation is expected to decline gradually, but to remain above central bank objectives in most economies. **(13)**

The Problem with Projections

Forecasts such as these may be helpful in making some kinds of financial decisions, but it's also important to consider their limitations and remember that it's not unusual for economists to change their minds. Recent years have shown how difficult it can be for forecasters to account for the impact of unforeseen economic disruption. Wild cards that could test economists in 2024 include losses from severe weather, fluctuations in oil prices, political conflict in the United States, and expansion of the war in Israel, which could harm an already fragile global economy.

In fact, Fed Chair Jerome Powell called on Fed forecasters to remain flexible in his November 2023 press conference. "Of course, even with state-of-the-art models and even in relatively calm times, the economy frequently surprises us." He continued, "Our economy is flexible and dynamic, and subject at times to unpredictable shocks, such as a global financial crisis or a pandemic. At those times, forecasters have to think outside the models." **(14)**

The financial markets could continue to react — and occasionally overreact — to economic news and policies announced by the Federal Reserve. But that doesn't mean you should do the same. As always, it's important to maintain a long-term perspective and invest strategically based on your financial goals, time horizon, and risk tolerance.

Forecasts are based on current conditions, are subject to change, and may not come to pass. All investments are subject to market fluctuation, risk, and loss of principal. When sold, investments may be worth more or less than their original cost.

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GENERATIONAL PLANNING STRATEGIES

BY DAVE BRUNSWICK, JR.

SHOULD I DO A BACK DOOR ROTH IRA?

What It Is

"Backdoor Roth IRA" is simply a term to describe a strategy used by high-income earners who can't contribute to a Roth IRA **(1)** because their income is above certain limits. Rather than contribute directly to a Roth, you contribute to a traditional IRA, and then convert it to a Roth.

A Roth IRA is a popular retirement savings account to which you contribute after-tax dollars, and if you meet certain requirements, you can withdraw both the invested money (principal) and earnings accrued on the money tax-free in the future. You might be a good candidate if you think you'll be in a higher tax bracket when you retire. The benefit of a Roth IRA is that it offers tax-free growth.

Backdoor Roth IRA Income Limits

If your modified adjusted gross income (MAGI) is above certain income limits **(2)**, then the amount you can contribute to a Roth IRA is phased out. The phaseout occurs between $146,000 and $161,000 for single filers and $230,000 and $240,000 for joint filers in 2024. The backdoor method allows those with higher incomes who can't contribute in the typical manner to still take advantage of a Roth IRA.

This column has written extensively about the benefits of QCD's, Donor Advised Funds, Gift Annuities, and Charitable Trusts. All of these tools are effective for saving tax dollars and supporting your favorite non-profit. Some are very easy to implement.

How to Set Up a Backdoor Roth IRA (3)

There are 2 ways to set up a backdoor Roth IRA:

1. Contribute money to an IRA, and then roll over the money to a Roth IRA. For this strategy to work, you should contribute to a traditional IRA with no balance. If there's a balance in the IRA, there could be a taxable event when you convert.

GENERATIONAL PLANNING STRATEGIES

CONTINUED:

Once you contribute to the account and wait for any required holding period, you'll then convert the account to a Roth IRA. Any money earned due to market performance before the conversion takes place is subject to taxes. The contribution is considered nondeductible once you fill out IRS Form 8606 and complete your tax return. Note that there's no tax benefit for the year you establish a backdoor Roth IRA.

2. If your 401(k) plan allows, you may be able to do a mega backdoor Roth conversion. Some 401(k) plans permit automatic Roth conversions, which means you can make after-tax contributions and have them automatically convert to Roth within their accounts. Check with your plan to see if this option is available to you.

When Should You NOT Consider This Strategy?

A backdoor Roth IRA doesn't make sense for everyone. If you're able to make a Roth IRA contribution the standard way, then you don't need to use the backdoor method.

If you have a balance in a rollover IRA and plan to contribute to that account, you may not want to make a backdoor Roth conversion because of the "pro rata" rule. This rule requires all IRA distributions to be taken proportionally from your pre-tax and after-tax contribution sources. This could limit the tax benefits you'd receive from a Roth conversion. For example, if you have a total of $1 million in IRA assets, and $100,000—or 10%—is after-tax money, then 10% of any withdrawal must be taken from after-tax money. For a $10,000 withdrawal, $1,000 would have to be after-tax money.

It's important to keep in mind when you plan to use the money. If you're looking to withdraw the money within 5 years, you may not receive all the Roth tax benefits. Also, when creating a backdoor Roth IRA, you'll have to work with an accountant to file tax forms to ensure you complete it accurately.

If you would like to explore the benefits of a back door Roth IRA, please contact us as we would love to help!

Disclosures

The opinions in this newsletter are those of the author unless otherwise stated. The information in these articles is provided only as a summary of complicated topics and does not constitute investment or financial advice on the subject matter. Further, the information is not all-inclusive and should not be relied on as such. Securities & Investment Advice through G.A. Repple & Company, A Registered Broker/Dealer and Investment Advisor, Member FINRA & SIPC. Supervisory Office: 101 Normandy Rd., Casselberry, FL 32707; (407) 339-9090

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After a Surprising 2023…

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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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