Breed's Hill Newsletter

Planning Your Financial Future

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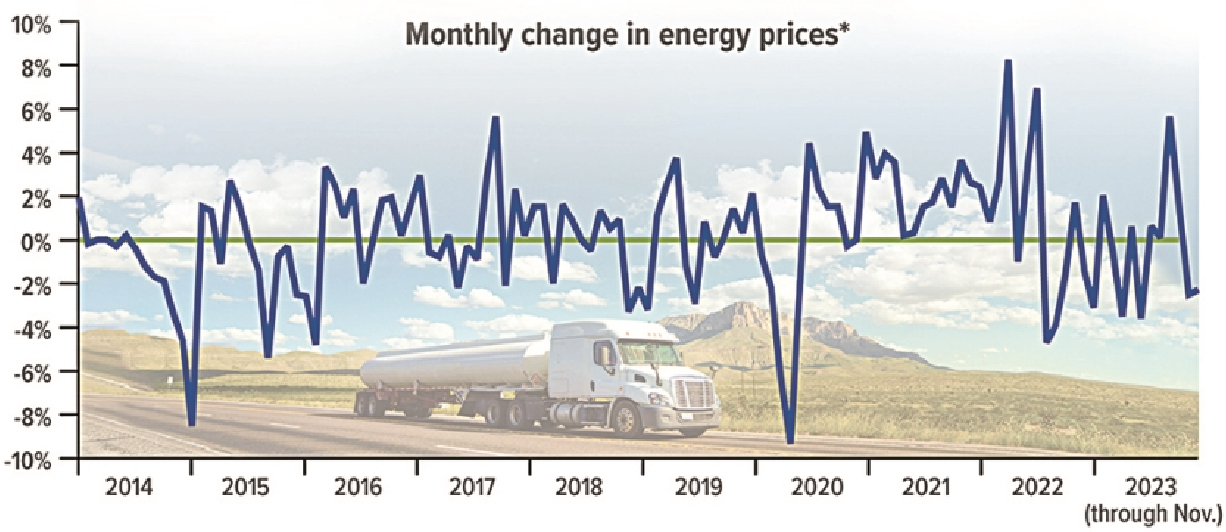
Two Ways That Volatile Energy Costs Fuel Inflation

Energy prices can fluctuate dramatically based on changes in supply or demand. According to the Consumer Price Index (CPI), energy prices across the economy fell 2.5% in October and 2.3% in November, following a surge of 7.2% over the previous two months. Gasoline prices fell 5.0% in October and 6.0% in November, providing relief after a painful summer spike of 14.3%. In fact, rapid swings in gasoline prices were often a key contributor to the monthly changes in CPI in 2023.

When energy costs are high, it can also impact inflation indirectly, as many businesses that rely on energy to produce and transport goods, or to provide services, may have to raise the prices they charge consumers.



***The CPI-U energy index tracks prices for motor fuels such as gasoline and diesel; fuel oil and propane (used for residential heating); and utilities, including natural gas and electricity.**

Source: U.S. Bureau of Labor Statistics, 2023

Key Retirement and Tax Numbers for 2024

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2024.

Estate, gift, and generation-skipping transfer tax

- The annual gift tax exclusion (and annual generation-skipping transfer tax exclusion) for 2024 is $18,000, up from $17,000 in 2023.
- The gift and estate tax basic exclusion amount (and generation-skipping transfer tax exemption) for 2024 is $13,610,000, up from $12,920,000 in 2023.

Standard deduction

A taxpayer can generally choose to itemize certain deductions or claim a standard deduction on the federal income tax return. In 2024, the standard deduction is:

- $14,600 (up from $13,850 in 2023) for single filers or married individuals filing separate returns
- $29,200 (up from $27,700 in 2023) for married joint filers
- $21,900 (up from $20,800 in 2023) for heads of households

The additional standard deduction amount for the blind and those age 65 or older in 2024 is:

- $1,950 (up from $1,850 in 2023) for single filers and heads of households
- $1,550 (up from $1,500 in 2023) for all other filing statuses

Special rules apply for an individual who can be claimed as a dependent by another taxpayer.

IRAs

The combined annual limit on contributions to traditional and Roth IRAs is $7,000 in 2024 (up from $6,500 in 2023), with individuals age 50 or older able to contribute an additional $1,000. The limit on contributions to a Roth IRA phases out for certain modified adjusted gross income (MAGI) ranges *(see table).* For individuals who are active participants in an employer-sponsored retirement plan, the deduction for contributions to a traditional IRA also phases out for certain MAGI ranges *(see table).* The limit on nondeductible contributions to a traditional IRA is not subject to phaseout based on MAGI.

MAGI Ranges: Contributions to a Roth IRA

	2023	2024
Single/Head of household	$138,000–$153,000	$146,000–$161,000
Married filing jointly	$218,000–$228,000	$230,000–$240,000
Married filing separately	$0–$10,000	$0–$10,000

MAGI Ranges: Deductible Contributions to a Traditional IRA

	2023	2024
Single/Head of household	$73,000–$83,000	$77,000–$87,000
Married filing jointly	$116,000–$136,000	$123,000–$143,000

Note: The 2024 phaseout range is $230,000–$240,000 (up from $218,000–$228,000 in 2023) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered. The phaseout range is $0–$10,000 when the individual is married filing separately and either spouse is covered by a workplace plan.

Employer-sponsored retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $23,000 in compensation in 2024 (up from $22,500 in 2023); employees age 50 or older can defer up to an additional $7,500 in 2024 (the same as in 2023).
- Employees participating in a SIMPLE retirement plan can defer up to $16,000 in 2024 (up from $15,500 in 2023), and employees age 50 or older can defer up to an additional $3,500 in 2024 (the same as in 2023).

Kiddie tax: child's unearned income

Under the kiddie tax, a child's unearned income above $2,600 in 2024 (up from $2,500 in 2023) is taxed using the parents' tax rates.

Bond Yields Are Up, but What Are the Risks?

After years of low yields, bonds are offering higher yields that may be appealing to investors regardless of their risk tolerance. While bonds could play a role in any portfolio, they can be a mainstay for retirees looking for stability and income, and near-retirees might consider shifting some assets into bonds in preparation for retirement.

Bonds are generally considered to have lower risk than stocks — one good reason to own them — but they are not without risk. In fact, bonds are subject to multiple risks. In considering the brief explanations below, keep in mind that coupon rate refers to the interest paid on the face value of a bond, whereas yield refers to the return to the investor based on the purchase price. A bond purchased for less than face value will have a higher yield than the coupon rate, and a bond purchased for more than face value will have a lower yield than the coupon rate.

Interest rate risk (or market risk) — the risk that interest rates will rise, making the coupon rate on an existing bond less appealing because new bonds offer higher rates. This typically lowers the value of a bond on the secondary market, but it would not change the yield for a bond purchased at issue and held to maturity. As the Federal Reserve has rapidly raised rates to combat inflation, the potential resale value of existing bonds has plummeted. However, rates may be nearing a peak, which potentially could make it a more opportune time to purchase bonds. If interest rates drop, the value of a bond will typically increase.

Duration risk — the risk that longer-term bonds will be more sensitive to changes in interest rates. Duration is stated in years and based on the bond's maturity date and other factors. A 1% increase in interest rates typically will decrease a bond's value on the secondary market by 1% for each year of duration. For example, a bond with a duration of seven years can be expected to lose 7% of its value on the secondary market.

Opportunity risk (or holding period risk) — the risk that you will not be able to take advantage of a potentially better investment. The longer the term of a bond, the greater the risk that a more attractive investment might arise or other events might negatively impact your bond investment.

Inflation risk — the risk that the yield on a bond will not keep up with the rate of inflation. This might be of special concern in the current environment, but high inflation is the reason that the Fed has been raising interest rates. If inflation cools, bonds with today's higher yields could outpace inflation going forward.

Call risk — the risk that an issuer will redeem the bond when interest rates are falling in order to issue new bonds at lower rates. Investors can avoid this risk by purchasing non-callable bonds.

By the Letters

Bond ratings in descending order of creditworthiness as judged by the three best-known rating agencies (shaded ratings are considered non-investment grade)

Standard & Poor's	Moody's	Fitch
AAA	Aaa	AAA
AA+/–	Aa1–3	AA+/–
A+/–	A1–3	A+/–
BBB+/–	Baa1–3	BBB+/–
BB+/–	Ba1–3	BB+/–
B+/–	B1–3	B+/–
CCC+/–	Caa1–3	CCC+/–
CC/C	Ca	CC/C
D	C	RD/D

Note: Standard & Poor's and Fitch Ratings use the symbols + and - to denote the upper and lower ranges of ratings from AA to CCC; Moody's uses the numbers 1, 2, and 3 to denote the upper, middle, and lower ranges from Aa to Caa.

Credit risk (or risk of default) — the risk that the bond issuer is unable to make promised interest payments and/or return principal upon maturity. Credit-rating agencies analyze this risk and issue ratings that reflect their assessment. Higher-rated bonds are considered "investment grade." Lower-rated bonds, commonly called "junk bonds," are non-investment grade. They generally offer higher yields and are considered speculative with higher credit risks.

Some lower-rated bonds may be insured, so the bond carries two ratings, one for the bond and one for the insurance company. Bond insurance adds a potential layer of protection if an issuer defaults, but it is only as good as the insurer's credit quality and ability to pay. An investor should not buy bonds based solely on the insurance.

The principal value of bonds may fluctuate with market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk.

The Federal Reserve's Key Meeting Dates in 2024

The Federal Reserve's rapid series of interest rate hikes throughout 2022 and 2023 — initiated in an effort to bring down red-hot inflation — rippled throughout financial markets and the broader economy.

People pay attention to the "Fed" to see where interest rates are headed, but also for its economic analysis and forecasting. Members of the Federal Reserve regularly conduct economic research, give speeches, and testify about inflation and unemployment, which can provide clues about where the economy is going. This information can be useful for consumers when making borrowing and investing decisions.

Eight meeting dates in 2024

The Federal Open Market Committee, or FOMC, is the arm of the Federal Reserve responsible for setting monetary policy. It typically meets eight times per year.

Month	Dates	Month	Dates
January	30–31	July	30–31
March	19–20*	September	17–18*
April/May	30–1	November	6–7
June	11–12*	December	17–18*

*Meeting includes a Summary of Economic Projections

Because financial markets often react to FOMC meeting decisions, knowing the scheduled meeting dates ahead of time might be helpful when digesting economic news. The minutes of regularly scheduled FOMC meetings are released three weeks after the meeting date on [federalreserve.gov.](federalreserve.gov)

The Fed's key objectives

The Federal Reserve System was created by the Federal Reserve Act of 1913. The Fed is charged with three main objectives: maximum employment, stable prices, and moderate long-term interest rates. The first two objectives are often referred to as the Fed's "dual mandate." Over the years, the Federal Reserve's duties have expanded and evolved to include maintaining stability of the entire U.S. financial system.

After its brisk series of rate increases in 2022 and 2023, the Fed has held the federal funds rate mostly steady. Going forward, it will continue to monitor economic data — including inflation, employment growth, bank sector stress, and credit conditions — as it determines future moves.

The federal funds rate is a benchmark rate that influences other interest rates throughout the economy, such as for mortgages, credit cards, and business loans. A higher federal funds rate typically drives up the cost of borrowing.

Source: Federal Reserve, 2023