



Weekly Focus – Think About It

“Normal is an illusion. What is normal for the spider is chaos for the fly.”

~ Charles Addams, Cartoonist

THE MARKETS

IS IT SUPPOSED TO BE DOING THAT?

At the end of last year, economists believed the chance of a recession in 2025 was relatively low. In December, economist Torsten Sløk wrote, “The outlook for the US economy remains strong with no signs of a major slowdown going into 2025.”

The economy has not been performing as expected, though.

“The U.S. Citi Economic Surprise Index, which tracks the difference between economic data and expectations, has fallen to its lowest level in almost six months. The index rises when the surprises are favorable, so the decline means the data are showing a less robust U.S. economy than expected,” reported Jacob Sonenshine of Barron’s.

One surprising piece of data is the slump in U.S. consumer confidence.

The University of Michigan Consumer Sentiment Survey reported that consumers have become less optimistic. Sentiment declined by 9.8 percent from January to February. The Conference Board Consumer Confidence Index showed a 7.0 percent drop over the same period.

“The decrease was unanimous across groups by age, income, and wealth... Year-ahead inflation expectations jumped up from 3.3 [percent] last month to 4.3 [percent] this month, the highest reading since November 2023 and marking two consecutive months of unusually large increases,” reported Surveys of Consumers Director Joanne Hsu.

The slump in sentiment is concerning because consumer spending is the primary driver of U.S. economic growth – accounting for about two-thirds of gross domestic product (GDP), which is the value of all goods and services produced in the country over a certain period. In general, when consumers are uneasy, spending tends to slow and so does economic growth.

Currently, one consumer group has more influence than others do.

When analysts took a closer look at consumer spending, they found a growing wealth gap. “The wealthiest 10% of American households—those making more than \$250,000 a year, roughly—are now responsible for half of all US consumer spending and at least a third of the country’s gross domestic product,” reported Amanda Mull of Bloomberg. “In the 1990s, spending by top-decile earners usually constituted a third or so of annual consumer spending

overall. Now, their spending constitutes the largest share of the consumer economy in data going back to 1989.”

Last Friday, we learned that consumer spending declined 0.5 percent month to month, after inflation, in January. It was the biggest monthly decline in almost four years. “US consumers unexpectedly pulled back on spending on goods like cars in January amid extreme winter weather, and a slowdown in services, if sustained, may raise concerns about the resilience of the economy,” reported Augusta Saraiva of Bloomberg.

While we’ve seen a lot of uncertainty and some softer-than-expected economic data, the likelihood of a recession over the next 12 months remains low. Economists polled by The Wall Street Journal’s Economic Forecasting Survey put the odds at 22 percent, reported Andy Serwer of Barron’s.

No matter where the economy is headed, investors can manage the risks associated with market volatility through asset allocation and diversification. If you have not reviewed your portfolio recently, this is a good time to make sure your asset allocation is appropriate for your financial goals and risk tolerance. If you would like help, let us know.

Last week, the Dow Jones Industrial Average moved higher, while the Standard & Poor’s 500 and Nasdaq Composite Indexes moved lower. Treasuries rallied and the yield on the benchmark 10-year U.S. Treasury moved lower over the week.

Data as of 2-28-25	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-1.0%	1.2%	17.45%	10.8%	15.1%	10.9%
Dow Jones Global ex-U.S.	-2.0	4.4	6.6	1.6	4.9	2.4
10-year Treasury Note (Yield Only)	4.2	N/A	4.3	1.8	1.1	2.1
Gold (per ounce)	-3.4	8.6	39.5	14.1	12.0	8.9
Bloomberg Commodity Index	-3.8	4.0	6.3	-3.6	7.7	0.1

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods. Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

ARE YOU BUNCHING?

The Tax Cuts and Jobs Act (TCJA) introduced a higher standard deduction – \$15,000 for single filers and \$30,000 for people who are married and filing jointly in 2025. While the higher deduction was beneficial to many taxpayers, those who are near the cutoff for itemizing may employ an approach known as “bunching”, which makes it possible for taxpayers to itemize every other year, reported Adam Nash of Kiplinger’s.

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Here's how it works: taxpayers condense two years of tax-deductible expenses into a single tax year. Then, they itemize taxes for that year. In general, three types of expenses can be bunched. They include:

Charitable gifts. Some people choose to bunch charitable gifts into a single year by donating in January and then again in December. This increases the amount that can be itemized in a single year. There are other approaches that can help maximize charitable contributions into a single year, as well.

Medical expenses. Taxpayers can deduct qualified healthcare costs that are not reimbursed, as long as the amount exceeds 7.5% of their adjusted gross income. So, when you know a big medical expense is ahead, if it is possible plan the procedure for a year when you are itemizing.

Property taxes. If a municipality allows it, homeowners can make the previous year's property tax payment in January and make the current year's property tax payment in December. Currently, there is a \$10,000 cap on state and local government taxes (SALT), which include property taxes, reported the Tax Foundation.

Some provisions of the TCJA are set to expire at the end of this year, including the cap on SALT. The administration has yet to decide how SALT deductibility will be modified. The options under consideration include:

- Repealing the SALT deduction, which would raise \$1 trillion over 10 years.
- Making the \$10,000 cap permanent and doubling it for married couples.
- Raising the cap to \$15,000 for individuals and \$30,000 for married couples.
- Eliminating income and sales tax deductibility while keeping property tax deductibility.
- Eliminating the SALT deduction for businesses.

This information is not intended as tax, legal or accounting advice. It is offered for informational purposes only. Talk with a tax professional and your financial advisor before taking action.

Best regards,

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Sources:

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* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

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* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.

* All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client's portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. You cannot invest directly in an index.

* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.

* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

* Gold represents the 3:00 p.m. (London time) gold price as reported by the London Bullion Market Association and is expressed in U.S. Dollars per fine troy ounce. The source for gold data is Federal Reserve Bank of St. Louis (FRED), <https://fred.stlouisfed.org/series/GOLDPMGBD228NLBM>.

* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.

* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.

* The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.

* The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.

* International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

* The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage is often obtainable in commodity trading and can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

* Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

* Past performance does not guarantee future results. Investing involves risk, including loss of principal.

* The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee it is accurate or complete.

* There is no guarantee a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

* Asset allocation does not ensure a profit or protect against a loss.

* Consult your financial professional before making any investment decision.

* To unsubscribe from the Weekly Market Commentary please email us at info@ybpf.com

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