



Weekly Focus – Think About It

“Every child deserves a champion – an adult who will never give up on them, who understands the power of connection and insists that they become the best that they can possibly be.”

—Dr. Rita Pierson, educator

THE MARKETS

Markets Turned – Again

Markets continue to be volatile. Last week, stocks headed north. Nicholas Jasinski of *Barron's* reported the change of direction reflected investors' desire for the market to finally hit bottom. He may be right, but corporate earnings suggest we are not there yet, according to Bob Pisani of CNBC.

Corporate earnings season is underway. It's the time when management tells shareholders how their companies performed during the previous quarter. With 20 percent of S&P 500 companies reporting actual results for the three-month period that ended September 30, the blended* earnings growth rate was 1.5 percent. That's a slower pace of growth than we saw during the previous quarter, but earnings are still growing. The blended net profit margin was 12 percent, which is above the five-year average, reported John Butters of FactSet.

Yields for United States Treasury bonds rose several times last week, too, although they moved a bit lower on Friday. The yield on a two-year U.S. Treasury note was 4.49 percent at week's end. In fact, yields for many maturities of U.S. Treasuries were above four percent last week.

That's important for investors who need their savings and investments to deliver income. During the past decade, with bond yields hovering at very low rates, some income investors added higher-risk bonds and dividend stocks to their portfolios to meet their income goals. Now, those investors may be able to find the income they need in investments with less risk – and that could push the stock market lower as investors move money out of stocks and into bonds.

“Stocks are certainly cheaper than they were at the start of the year, when the S&P 500 traded at 21 times forward earnings. It has since seen its multiple contract to less than 16 times [forward earnings]. But relative to bonds, equities are more expensive than at the start of the year,” reported *Barron's*. “The equity-risk premium – stocks' earnings yields minus Treasury yields – is around 3.5% today. It was 4% in January and nearly 7% during the 2007-09 financial crisis,” reported Nicholas Jasinski of *Barron's*

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An equity risk premium is the additional return an investor receives for taking on the higher risk of investing in stocks.

Last week, major U.S. stock indices finished higher.

**The blended rate combines actual earnings/profits for companies that have reported with consensus estimates for companies that haven't yet reported.*

| Data as of 10/21/22 | 1-Week | Y-T-D | 1-Year | 3-Year | 5-Year | 10-Year |
|---|--------|--------|--------|--------|--------|---------|
| Standard & Poor's 500 (Domestic Stocks) | 4.7% | -21.3% | -17.5% | 7.7% | 7.9% | 10.1% |
| Dow Jones Global ex-U.S. | 0.7 | -28.2 | -29.3 | -4.1 | -3.3 | 0.7 |
| 10-year Treasury Note (Yield Only) | 4.2 | N/A | 1.7 | 1.8 | 2.4 | 1.8 |
| Gold (per ounce) | -0.4 | -9.7 | -7.7 | 3.3 | 5.2 | -0.5 |
| Bloomberg Commodity Index | -2.1 | 12.2 | 7.8 | 12.5 | 5.4 | -2.7 |

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, gjindexes.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.

Looking For the Perfect Holiday Gift for A Child Or Young Adult?

Here's an idea: Give them a great education. Parents and family members are already educators. One way older generations help educate younger generations is by sharing wisdom and offering guidance and emotional support. Another way to provide education is by funding a 529 Education Savings Plans to help with the expense of K-12 school tuition, college expenses and some types of apprenticeship costs, reported savingforcollege.com.

529 Education Savings Plans have been an attractive way to fund education for a long time. Typically, after-tax contributions to the plans are invested and any earnings grow tax-deferred. If distributions are used to pay qualified education expenses, they may be tax-free.

There was a drawback to these plans: qualified distributions from non-parent-owned 529 plans were treated as untaxed income of the beneficiary. Since a student's income plays an important role in determining financial aid eligibility, a distribution from a non-parent-owned 529 plan had the potential to reduce the amount of financial aid a student received by 50 percent, reported *Kiplinger*.

However, the Consolidated Appropriations Act included a simplification of the Free Application for Federal Student Aid (FAFSA). Beginning with the 2024-25 school year, distributions from 529 plans owned by third parties will no longer be treated as untaxed income, so a student's financial aid eligibility remains unaffected.

529 plans also can be effective estate and gift planning tools. From a planning perspective, contributions to 529 accounts are gifts to the beneficiary. In 2022, the annual gift tax exclusion, *LPL Compliance Approval # 1-05340907*

per donee, is \$16,000. So, a 529 plan account owner could contribute up to that amount without triggering gift taxes. Alternatively, the IRS allows larger contributions to be made up front and treats them as though the amount was contributed over a five-year period, without incurring gift tax.

If you would like to learn more or gift an education to a child, get in touch.

Best regards,

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