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Qtr Notes

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2025 Updated Numbers

The annual gift tax exclusion amount has increased to $19,000 for individuals and $38,000 for couples.

Additionally, the lifetime estate and gift tax exemption has increased to $13.99 million per individual. It is important to note that under the current law, this exemption is set to expire at the end of the year.

If Congress does not act to extend this again or make it permanent, it is scheduled to revert to $7MM per individual in 2026.

Super Catch-Up

For 401(k) participants: If you are turning 50 years old in 2025, you are eligible to make a catch-up contribution to your plan of $7,500 in addition to the 2025 contribution limit of $23,500.

Furthermore, starting this this year, 401(k) participants ages 60 to 63 can make a "super catch-up" contribution of 150% of the regular catch-up contribution limit.

If you fall in this age group, you can contribute an additional $11,250 into your account. This new benefit is intended to provide an additional incentive for older workers to save money ahead of retirement.

2025 Market Outlook

As 2024 comes to an end, we should take a moment to reflect on the year gone by. 2024 was a year of heightened tension across the country and world. War continued to drudge on in Ukraine and then erupted into Israel and the Middle East. Large and enduring political demonstrations across major cities and college campuses highlighted the public's despair and frustration over never-ending wars. Domestic tensions boiled further as the drama of presidential politics escalated each month, reaching a fever pitch in November.

We're monitoring some weakness in the labor market, but also observe the economy has added 2 million new jobs in the past year. The average working wage has increased 4% over the past year, while the average inflation rate has dropped below 3%.

Technology grew exponentially, as it has over the past several decades. The pace of growth has now accelerated as a result of the expansion of AI. Corporate profits jumped 10% in the past year and are forecasted to rise another 12% next year. Overall, 2024 saw stock markets finish at record highs, notching double digit returns in most sectors of the economy.

Corporate America enters the year in a position of strength, suggesting the economy may be able to avoid recession again in the New Year. We remain mindful that recession may come, but it's not our expectation for 2025, and diversified portfolios help us prepare for the unknown.

Index	*12/31/2024*	*YTD*
Dow Industrials	**42,544.22**	**12.9%**
S&P 500	**5,881.63**	**23.3%**
S&P Small-Cap	**1,408.17**	**6.8%**
MSCI EAFE	**2,261.81**	**1.2%**
Bloomberg US Bond	**2,189.03**	**1.3%**
US Treas 10-yr yld	**4.58%**	

Mortgage and Interest Rates

Contracts for home purchases across the country picked up in the last quarter of 2024. Some of the increase is due to a surge in previously owned homes for sale, making it less of a "seller's market." However, there continues to be an undersupply of properties for sale, and both high prices and high mortgage rates remain a limiting factor for many would-be buyers.

First-time homebuyers were looking forward to the Federal Reserve lowering interest rates, with the expectation that these cuts would cause a corresponding drop in mortgage rates. When the Fed made its first cut in 2024, mortgage rates for a 30-year fixed-rate mortgage were just over 6%. Now, after the third rate cut, mortgage rates continue to be well over 6%.

The Fed only controls the short-term rates by setting the rate at which banks make overnight loans to each other. Mortgages have much longer maturity dates, and the rates are set by banks and other market participants. If inflation is expected to be high, mortgage lenders will want higher yields on these investments to compensate for inflation eroding their value.

Significant progress has been made by reducing the high level of inflation experienced post-Covid, but the Fed is still struggling to achieve its initial target of 2%. Since we are in an environment of solid growth, pushing interest rates down too rapidly could ignite inflation again, so it is reasonable to expect the Fed to be cautious.

Paying it Forward: Gifting in 2025

Americans are in a period of "Peak 65", with more Baby Boomers turning 65 this year than ever before. This trend will increase over the next five years, and by 2030, one in five Americans will

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Safety in Numbers: Change Fatigue

During WWII, with the war requiring ever more resources, potential travelers were asked, "Is this trip necessary?"

Nowadays, the question to be asked is: "Is this chip necessary?"

Every device, every product, every service comes with its own app, a new line of grandly touted "smart" features, another control panel with puzzling settings and opaque set-up instructions (or none at all). But do you *want* a teakettle that talks to the internet? Will it boil water better, or just add another tile to the dozens or apps crowding your phone, texting you endless notifications, and requiring regular updates?

The security-minded see each of these as an addition to the "risk surface", a potential threat. But a more immediate and common response may be exhaustion. Change fatigue and tech overload are real.

We can't gut our appliances and pull out the dubious chips, but we can take a moment to pick and choose which apps, which connections, which features we actually find valuable. You can order food without scanning a QR code, or buy new towels without downloading another app, or get a haircut without surrendering your email address and phone number.

Just do it, as the saying goes – or, rather, don't.

Gifting in 2025

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be 65 or older. What does this mean? Hopefully more grandkids!

One planning decision you can investigate this year to benefit your children or grandchildren is a Uniform Transfer to Minors Account (UTMA). These accounts can be useful for family members to easily make small gifts to the child without the complexity of setting up a trust. Whether it's a birthday check from Grandma and Grandpa or a graduation gift from Mom and Dad, a UTMA facilitates an easy transfer of assets to the minor. In addition to monetary gifts, a UTMA can also hold tangible assets such as property, jewelry, art, or vehicles.

The account allows the child to legally own the assets while having an appointed custodian to manage the funds until the child reaches age of majority, which in Florida is 21 years old. Apart from its simplicity, a big upside of a UTMA account is the tax benefit. Any capital gains up to $2,700 are taxed at the child's lower tax rate, rather than at the grantor's presumably higher rate.

A significant difference between a UTMA and a trust is that the trust specifies exactly how and when the grantor wants to distribute the assets to the child. The UTMA, on the other hand, automatically transfers ownership of the account to the minor once they reach the age of majority. As the child grows up, you might want to consider ways to foster financial literacy in preparation for the future. Again, the age of majority in Florida is at 21, but it can be extended to age 25 if you feel that to be more appropriate for your situation.

Post Election Clarity: What to Watch For

With the swift reporting of election results, the markets breathed a sigh of relief, appreciating the absence of any disputes over the winner. The quick outcome was undoubtedly a positive for market stability. Prior to the election, discussions about the American economy were generally optimistic, highlighting its resilience and tendency to power forward, regardless of who occupies the White House. With President Trump and the Republicans now in control, several key themes are emerging that market watchers should keep an eye on as we move into 2025.

Tariffs

Trump has signaled the possibility of implementing more tariffs on imported goods, with a focus on renegotiating trade agreements and protecting American industries. While these actions may be seen as efforts to bolster domestic interests, the impact of tariffs is not without risks. Tariffs on products like steel, electronics, clothing, and cellphones often result in higher prices for U.S. consumers, creating inflationary pressures which in turn complicate the Federal Reserve's efforts to keep inflation in check.

The Fed and Trump

The Federal Reserve has updated its forecast, predicting fewer rate cuts in 2025. While inflation has decreased, it is far from being completely under control. Tensions between President Trump and Fed Chair Jerome Powell were evident during their first term working together as Trump pushed for lower rates at a faster pace than Powell was willing to allow. Despite this pressure, Powell has made it clear that he has no intention to step down as chair and that he plans to carry out his term through its expiration in May 2026. This continuity should help ensure that the Fed will remain insulated from policatl pressure.

The Debt Ceiling

The nation is once again approaching the debt ceiling limit, and the issue has again become a political contest, with each side using it to push its own agenda. Trump is advocating to eliminate the debt ceiling altogether, a sentiment shared by some members of each party. It is, however, important to consider the long-term ramifications of the U.S. borrowing increasingly larger amounts of money. Continued borrowing means higher interest costs and a growing federal deficit, which could strain future economic stability. While these issues are not new, the way they unfold this year under the current administration will have significant implications for market performance and the broader economy.