Investment Insights

A Resource for Investors, Attorneys and CPAs

May 2023
at a glance

Market Update

Markets have rebounded to start the year, led by International Equities

The Positives of Banking Concerns

We take a look at a potential silver lining of the recent financial instability from regional banks in the United States

Financial Planning

New rules for Inherited IRA's and their impact on planning

DIVERSIFIED PORTFOLIOS, INC.

Market Update

May 2023

Asset Class	April Return	YTD Return
Large U.S. Stocks: S&P 500 Index	+1.6%	+9.2%
Small U.S. Stocks: Russell 2000 Index	-1.8%	+0.9%
Developed International Stocks: MSCI EAFE Index	+2.9%	+11.5%
Emerging Market Stocks: MSCI Emerging Markets Index	-1.2%	+2.8%
Bonds: Bloomberg Barclays U.S. Aggregate Index	+0.6%	+3.8%
Cash: FTSE 3-Month Treasury Bill Index	+0.4%	+1.4%

Source: Fidelity - as of April 30, 2023

Markets have rebounded after a tough 2022

The first four months of 2023 provided plenty of market moving headlines for investors to digest. Equity investors celebrated the new year with a strong start in January and early February as evidence that inflationary pressures were abating helped to alleviate some broader macroeconomic concerns. However, news of the failure of Silicon Valley Bank and Signature Bank in the United States, along with Credit Suisse in Europe, interrupted that strong start. Financial stability became the focus as a relentless rise in interest rates seemed to start to show stresses in the overall health of the financial system, with banking and commercial real estate in the cross hairs. Following some intervention to shore up liquidity in the financial system, markets regained their footing, aided by a better-than-expected earnings season.

Returns overall were dependent on the sub-asset class, with large U.S. growth stocks and international stocks leading the way so far this year. International equities have also been lifted thanks to the declining strength of the U.S. Dollar. Smaller U.S. stocks, as measured by the Russell 2000 index, had a more difficult time due to a heavier weighting in financials, while value-oriented stocks also struggled for the same reason.

In Fixed Income, returns have been slow and steady. Bond math is back in style—the silver lining of a higher interest rate environment is the ability for bond investors to enjoy these higher yields during times of market stress. While bond returns were more in line with historical norms, interest rates have been volatile as markets tried to adapt to an ever-changing macroeconomic picture, coupled with uncertainty over future central bank policy.

The U.S. economy continues to avoid recession, with GDP growth coming in above 1% in the 1st quarter and the unemployment hovering near an all-time low of 3.5%. Inflation is still a topic that is top of mind. The most recent headline Consumer Price Index (CPI) number in the United States is 5%, significantly higher than the Federal Reserve's goal of 2%. While the inflation rate peaked last summer at 8.9%, recent inflation readings suggest that we are not seeing disinflation at a rate that will get us towards 2% in the long term. The economy simply cannot function well without price stability, and the Federal Reserve has attempted to manage this issue by rapidly increasing interest rates to slow down demand in the economy.

All performance data represents total returns for the stated period. Past performance is no guarantee of future results. Indices are not available for direct investment, and index performance does not reflect expenses associated with the management of an actual portfolio.

Deeper Dive: Credit Crunch?

May 2023

Over the last couple of months, there have been high profile bank failures from Silicon Valley Bank in March to First Republic Bank in April. While financial instability is cause for concern, there is a potential silver lining…

In a counter-intuitive way, many market commentators have suggested that the recent banking instability may help to create overall financial stability once the dust settles. Inflation has been the number one concern of both Wall Street and Main Street over the last year, and for good reason. Price stability is a necessity for a well-functioning economy. The Federal Reserve has been raising interest rates aggressively as their main tool to fight inflation, but CPI remains stubbornly high at 5% as of April.

Inflation has been high as demand for goods and services in the economy has been higher than the supply following the pandemic. However, financial conditions in the United States have tightened over the last two months as banks start to pull back on lending to help heal their balance sheets. If there is less credit availability for big things like real estate projects and business investment, and smaller things like car purchases, then the result will be less demand. Some have speculated that this "credit-crunch" may help get inflation back under control on its own. The chart below shows how quickly banks have pulled back, and it remains to be seen if this credit crunch does what Federal Reserve rate hikes could not do—tame inflation back towards more tolerable levels.

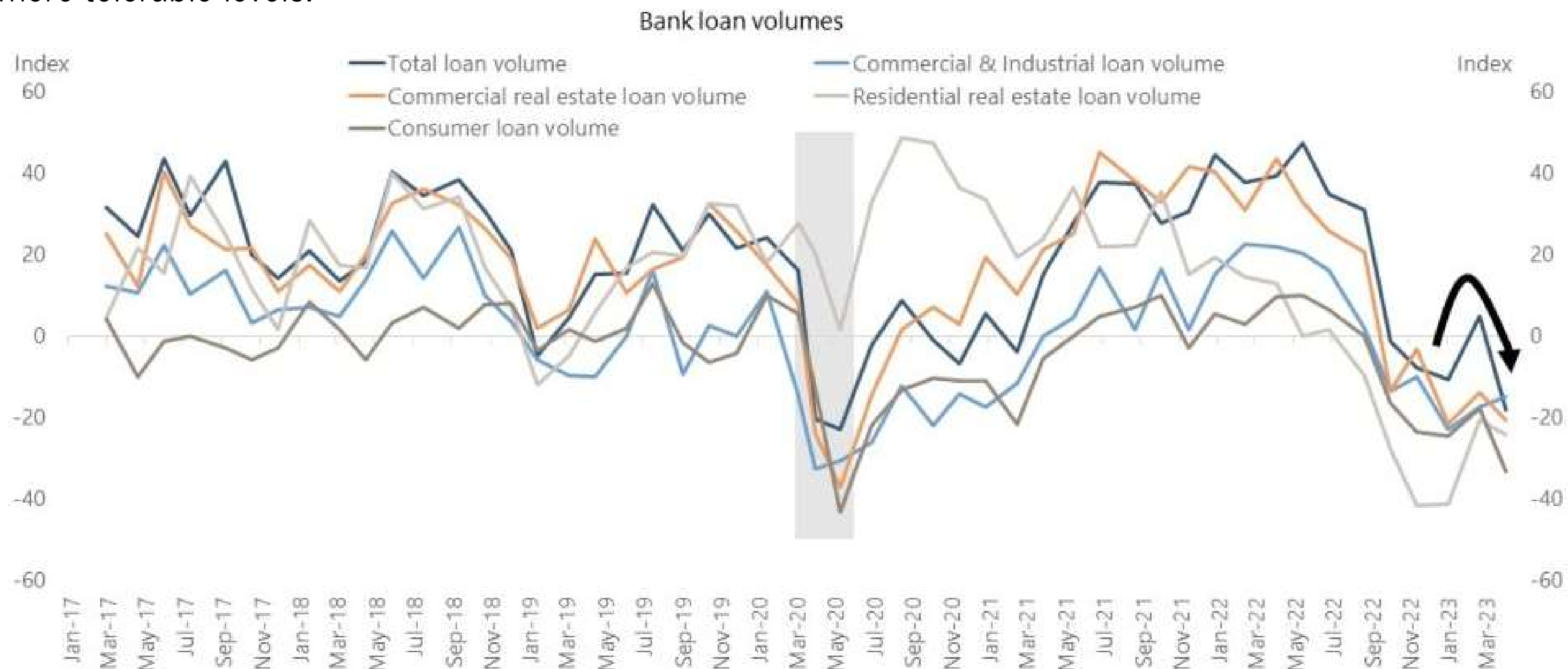

Chart from Apollo Academy as of April 2023

Secure Act 2.0 – Inherited IRA RMD Updates

As a refresher, for those who inherited IRAs starting in 2020, the IRS delayed enforcement of the rules for taking required minimum distributions through the end of year 2022. As a result, penalty for not taking these RMDs has been waived. If you already paid the penalty, you are eligible to request a refund from the IRS.

The IRS has made clear that there will be no Inherited IRA RMD waiver for the year 2023 and onward. Starting this year, your RMD schedule must "resume" as if there had never been a delay. It is still unclear whether beneficiaries must take retroactive RMDs for years prior to 2023. Please speak with your trusted financial professional about calculating your Inherited IRA RMD payment.

Based on the current rules for non-eligible designated beneficiaries (EBDs), an Inherited IRA must be completely distributed by the end of the 10th year from inheritance. For example, if you inherited an IRA on April 1st, 2020, the IRA must have a value of $0 by December 31st, 2030.

Because RMDs are minimum payments, this will likely leave you with a hefty balance going into your 10th and final year. Speak with a tax advisor at your earliest convenience to potentially reduce your tax burden.

IRAs inherited before the original owner's Required Beginning Date (RBD) are subject to the 10-year rule, but they are not subject to the annual RMD rule. To clarify, if the original owner did not begin taking RMD's, it is likely that the new inherited owner will not be required to take RMD's either. However, the account will need to be emptied by the end of the 10th year following the original owner's death.

EBDs are entitled to original stretch IRA provisions and are not subject to the 10-year rule. This includes spouses, the original owners' minor children, a disabled or chronically ill individual, and individuals not more than 10 years younger than the original IRA owner.

An EBD may however elect to use to the 10-year rule if they choose. Once the choice is made, they cannot revert to a stretch IRA, or vice versa.

We're here to help

The team at Diversified Portfolios is wishing everyone a great start to the spring season. We are here to help on any investment or financial planning question.

Ed Slott's IRA Advisor: Tax & Estate Planning for you Retirement Savings – IRS Waives 50% RMD Penalty for Missed 2021 and 2022 RMDs Within the 10-Year Payout Period – November, 2022 https://www.irahelp.com/sites/default/files/newsletters/73080/IRA%20Advisor%202022-11-1.pdf?a=769
Ed Slott's IRA Advisor: Tax & Estate Planning for you Retirement Savings – Non-Spouse Inherited IRA FAQs – May, 2023 https://www.irahelp.com/sites/default/files/newsletters/75611/May%202023-1.pdf?a=560

Disclosures

The information, statements and opinions expressed in this material are provided for general information only, are based on data we believe to be accurate at the time of writing, and are subject to change without notice. This material does not take into account your particular investment objectives, financial situation or needs, is not intended as a recommendation to purchase or sell any security, and is not intended as individual or specific investment, legal, or tax advice. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances. Investing involves risk and possible loss of principal capital. Diversification does not ensure a profit or protect against a loss. Past performance is not indicative of future returns.

Advisory services are only offered to clients or prospective clients where Diversified Portfolios, Inc. and its representatives are properly licensed or exempt from licensure. No advice may be rendered by Diversified Portfolios, Inc. unless an investment advisory agreement is in place.

Indices or benchmarks are used to track current and historical market performance by specific market segment (e.g., large/small capitalization) or investment style (e.g., growth/value) and are meant to provide a basis for comparison. Indices are not available for direct investment. The indices performance reflects the reinvestment of dividends or income but does not reflect the expenses associated with the management of an actual portfolio, an incurrence of which would have the effect of decreasing indicated historical performance results.

39520 Woodward Avenue, Suite 200
Bloomfield Hills, MI 48304
248.644.3030