ISSUE
10
QUARTERLY NEWSLETTER
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James River Wealth Advisors™

Recession Odds, Series I Bonds and Health Care Planning

In This Issue:

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Our Values.

- To treat each client as they want to be treated.
- To give back to our community.
- To live by the principles of our faith.

Our Actions.

- Every client now receives a complimentary financial plan.
- We act on a model of service: to our clients, to our community, and to each other.

Investors Weigh Odds of a Recession

We know the major market indexes have a longterm upward bias, as economic growth fuels corporate profit growth. We don't know if the economy will be larger next year, but it expands over a longer period, and a diversified stock portfolio allows us to tap into that growth.

Since the beginning of the year, the economic fundamentals have shifted. Inflation has soared and interest rates have jumped. Furthermore, Russia's invasion of Ukraine has added to stiff headwinds for investors.

Yet, the S&P 500 Index has managed a modest rally off its most recent June 16 bottom of 3,667.

Investors believe that peak inflation, which has proven to be elusive so far, is within sight. And fed funds futures suggest we could see rate cuts next year amid a weaker economy.

Others suggest that the bears are simply in hibernation right now and will awaken as more bad news, possibly weak earnings, filters in.

However, one significant challenge for the Fed remains: How can it engineer a soft landing, guiding inflation back to 2% without a recession?

Such a feat could bode well for investors: 1985, 1995 and 2019 saw outsized returns when a recession was avoided and the Fed went on hold.

But, if the Fed lets up on the monetary brakes too soon, could we see a resurgence in commodity prices (and stocks), which could delay a return to price stability. The Fed is well aware of what happened in the 1970s, when a stop-and-go monetary policy failed to put the economy on a path toward price stability.

Based on current commentary, that's a mistake it would like to avoid.

1 . Recession or expansion

- Have we ever had a time when a recession was so widely expected?
- It is not the consensus, but several well-known analysts and investors argue we have already entered a recession.
- GDP declined at a 1.6% annualized pace in Q1 and the model Atlanta Fed's GDPNow is tracking Q2 at -1.6%.
  - o Moody's High Frequency. GDP Model: -0.9%
- The NBER is the official arbiter of U.S. recessions and expansions, not simply GDP performance.
  - o Maybe Q1 will be revised upward with the annual revisions that are released with Q2 GDP.
  - o Maybe Q2 will be positive.

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Investors Weigh Od

- Yet, if the U.S. registers two consecutive declines in GDP, we'd be in a technical recession that produced 2. 7 million new jobs during a six-month period.
  - o That's one unusual recession!

Arguments in favor of a recession

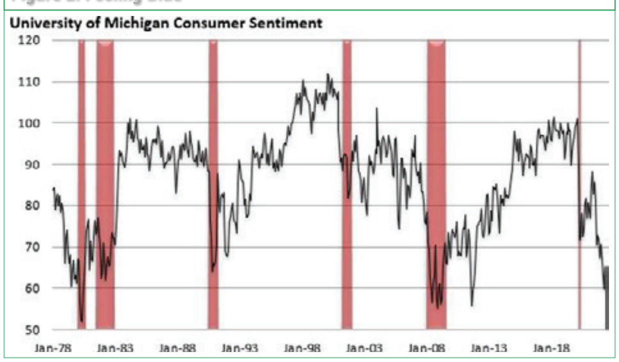
- Housing is a leading economic indicator.
- Anecdotal reports of housing weakness are plentiful.
- Existing home sales are down four straight months through May to the lowest since June 2020.
- New home sales are down five of the last six months.
- July's decline in homebuilder sentiment was the worst in the survey's 37-year history, with the exception of the early 2020 lockdown.
- Layoffs remain historically low, but are climbing.
  - o Layoffs are among the clearest signs of a pullback in business activity.

Figure 1: Pink Slips Rise

Source: St. Louis Federal Reserve 7/9/2022

- Consumer confidence has plunged.
- Historically, consumer confidence peaks in front of a recession.
- The University of Michigan's consumer sentiment survey hit a record low of 50 in June and edged up just 1.1 points at the mid-July reading.

Figure 2: Feeling Blue



Source: St. Louis Federal Reserve, NBER
Shaded areas mark recessions July 2022

- The Conference Board's Consumer Confidence Index hit a 15-month low in June.
- The granddaddy of recession indicators-the yield curve-has inverted.

Figure 3: Upside Down

Source: St. Louis Federal Reserve 7/18/2022

- The early April inversion was brief; the latest inversion is more pronounced.
- A 10-year below the 2-year suggests that over a longer period, rates will fall amid future economic weakness.
- Reviewing the last six recessions back to 1980, the economy slipped into a recession 18 months after the curve inverted.
- The 10-year/3-month remains positive. It is a reliable indicator. As the Fed raises rates, it may soon invert, too.
- We are in a bear market-we must travel back to 1966 to find a bear market that didn't signal a recession. Instead, growth slowed significantly, and a recession didn't occur until 1970.
  - o Exception: 1987 stock market crash did not lead to a recession.
- The Conference Board's Leading Index has fallen two-straight months, April and May, signaling sluggish growth.
  - o It is forecast to slide in June when the report is released on Thursday.

Signs of a continuing expansion

- Interest rates are stimulative.
- The fed funds rate is at 1.50-1.75%. The Fed believes the neutral rate neither stimulating nor restricting economic growth-is about 2.50%.
- If the Fed were to lift rates above neutral, monetary policy works with a lag. It wouldn't begin hurting growth immediately.
- Given today's high rate of inflation, the real fed funds rates, assuming a nominal rate of 2.50%, would be well below zero, which theoretically would still encourage consumers and businesses to borrow.
- Consumer flush with stimulus cash.
- From the start of the pandemic to the end of 2021, U.S. households built up $2.7 trillion in extra savings, according to Moody's Analytics.
- Families have tapped about $114 billion of their pandemic savings so far, according to Moody's Analytics, which analyzed government data.

dds of a Recession

- Plenty of cash remains in accounts to support spending, even in the face of higher prices.
- Bank of America CEO Brian Moynihan said, "Consumers are in good shape, not over leveraged," following Q2's earnings release.
- Job growth has been spectacular.
- Nonfarm payroll growth has moderated but remains very strong.
  - o Averaging 457,000 per month over the last six months.
  - o Up 372,000 in June.
- Job openings have probably peaked but remain very high.

Figure 4: Help Wanted

Source: U.S. BLS, St. Louis Federal Reserve May 2022

- Job openings are down 600,000 from the peak two months ago to 11.3 million but remain well above the high in the prior expansion.
- Companies need workers. If we were in a recession, we'd expect openings to be coming down at a much faster pace.
- Financial conditions have tightened but are not worrisome.

Figure 5: Rising Spreads Signal Caution but Not a Recession

Source: St. Louis Federal Reserve 7/18/2022

- The spread between junk bonds and Treasuries is 5.25 percentage points. It remains well below past peaks that failed to signal a recession was imminent.
- The Conference Board's Coincident Index remains in an upward trend.

Bottom line

- The data point to a significant slowdown in economic growth, with one exception: strong job growth.
  - o Maybe companies in some industries (not all) are so far behind in hiring, a portion of job growth is simply catchup.
- The NBER's definition of a recession is that it is "a significant decline in economic activity that is spread across the economy and that lasts more than a few months."
  - o That has yet to occur.
  - o As the debate rages, the economy is descending into stagflation–stagnant economic growth with high inflation.

2. Higher prices lift headline retail sales

- Retail sales in June surprised to the upside, rising a robust 1.0%.
  - o It allayed recession fears and suggested resiliency among consumers.
- However, retail sales are not adjusted for inflation.
- It would have been a strong number in the 2010s.
- Today, higher prices are playing a critical role in driving top-line nominal (before adjusting for inflation) sales.
- Table 1 highlights retail sales over the last six month, roughly adjusts for inflation using the CPI. It includes real consumer spending, which is provided by the U.S. BEA.
  - o Consumer spending is a broader review of overall spending and includes spending on services that aren't included in retail sales.

Table 1: Headwinds of Inflation

	Retail sales	Real* retail sales	Real consumer spending
January	2.7%	2.1%	1.3%
February	1.7	0.9	0.0
March	1.2	-0.1	0.3
April	0.7	0.4	0.3
May	-0.1	-1.1	-0.4
June	1.0	-0.3	--

Data Source: St. Louis Federal Reserve, U.S. BEA
**Real retail sales = Monthly change in retail sales minus the monthly change in the Consumer Price Index*

- On the surface, the numbers appear favorable-before inflation adjustments for the retail sales.
  - o Inflation-adjusted retail sales, however, are down in three of the last four months.
  - o Retail sales are more focused on consumer goods.
- Consumers are facing headwinds with inflation, which ran 1.3% in June.
- Wages gains aren't keeping up with inflation.
- So far, consumers are willing to dip into savings to maintain most of their spending. Plenty of stimulus cash remains in the bank.

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Investors Weigh Odds of a Recession

3. A peek ahead
I. 75 or 100?

- The Fed gathers on July 26-27 to decide on interest rates.
  - o There will be no economic projections or dot-plot, which are released quarterly.
  - o Fed Chief Powell will follow with a press conference.
  - o While there are some signs inflation may be peaking, including cautiously encouraging signs buried in the Producer Price Index, the headline CPI and the core CPI continue to accelerate.
- Following the disappointing June CPI, investors quickly priced in a 100-bp rate hike.
  - o If it were to occur, it would be the largest hike since a 112-bp rate hike in March 1984, when the Fed raised its target to 10.5%.
- As of Monday, fed funds futures are pricing in a 30% chance of 100 bp, but recent remarks from Fed officials suggests another 75-bp increase is more likely-70%.
  - o While sentiment can shift, there is currently no chance of a 50 bp.
- Today, odds favor another 75-bp rate increase in September.
- Three consecutive 75-bp rate hikes, if they were to occur, would be the most aggressive series of rate hikes since the early 1980s.

Charles Sherry, MSc, is a financial writer who is passionate about delving deep into the markets and leveraging communication to improve the client experience. He has almost 25 years of industry experience, including six years authoring the highly-rated Schwab Market Update. Charles is a writer and speaker who works primarily with financial advisors, providing timely content for newsletters, biogs and social media. The goal: bolster client engagement and increase advisor visibility. Learn more at www.financialjumble.com or contact him at charles@financialjumble.com.

Savvy Seminar Series

Virtual workshops designed to educate and provide practical solutions. **Detailed descriptions and sign-up at www.jamesriverwealth.com/savvy.**

Savvy IRA Planning *August 23, 2022 • 6:30 pm*

Savvy IRA Planning for Baby Boomers. You know, a lot of people have a plan for accumulating money for retirement, but far too often, that's where the planning stops. That's not good enough. The reality is that a sound distribution strategy – in other words, a plan for taking money out of your retirement accounts – is just as important, if not more so.

Baby Boomers are asking ... What type of retirement account is right for me? Can I still contribute to a retirement account and if so, how much? When do I need to take withdrawals and how much do I have to take? How are my IRA withdrawals taxed? How does my IRA fit into my overall plan? What happens to my IRA when I die? How can I minimize taxes so I can spend more of my hard-earned money? The decisions you make today can have an impact on your overall retirement plan.

Savvy Medicare Planning *October 25, 2022 • 6:30 pm*

Managing Health Care Expenses in Retirement, What Baby Boomers Need to Know About Medicare and Long-Term Care and 3 Key points expanded.

Now is the time to start planning for health care expenses in retirement. Find out what you need to do to obtain the coverage you need and protect against rising costs. You should attend this workshop if you are concerned about retirement health care expenses, you are age 60 or over, you plan to take Medicare soon, you are already taking Medicare and if you are ready to start planning.

Savvy Cybersecurity *November 8, 2022 • 6:30 pm*

Are you one of those 14 million? Has your personal information been exposed in a data breach or hack? The statistics say, "Most likely." The past few years have given us record-breaking breaches. Solution: A Personal Cybersecurity System.

Identity theft is one of the fastest growing crimes with data breaches, computer hacks, phishing, and more. Learn the top 10 tactics used by fraudsters and the ways you can start to protect yourself, your family, and your business today.

Please let us know what you think about some of these newest efforts to keep our clients informed and connected, we would love to have your feedback! You can share your thoughts to our new dedicated email for clients customerappreciation@jrwealth.com

Helping exceptional families and business owners make wise decisions since 1982

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James River Asset Management, LLC is a separate entity from J.W. Cole Financial, Inc.

James River Wealth Advisors™

Series I Savings Bonds

NEWS: The initial interest rate on new Series I savings bonds is 9.62 percent. You can buy I bonds at that rate through October 2022. Learn more.

KEY FACTS: I Bonds can be purchased through October 2022 at the current rate. That rate is applied to the 6 months after the purchase is made. For example, if you buy an I bond on July 1, 2022, the 9.62% would be applied through December 31, 2022. Interest is compounded semi-annually.

REMEMBER! You can only purchase up to $10,000 in electronic I bonds each calendar year. If you buy I Bonds exceeding that limit, we will process a refund, which may take up to 16 weeks.

Use I bonds to:

- save in a low-risk product that helps protect your savings from inflation
- supplement your retirement income
- give as a gift
- pay for education

What is an I bond? A savings bond that earns interest based on combining a fixed rate and an inflation rate.
Comparing I Bonds to EE Bonds
Comparing I Bonds to Treasury Inflation-Protected Securities (TIPS)

What interest does an I bond earn? A combination of a fixed rate that stays the same for the life of the bond and an inflation rate that is set twice a year. For bonds issued from May 2022 through October 2022, the combined rate is 9.62%.
How do I bonds earn interest?

Is it taxable? Federal income tax: Yes
State and local income tax: No
Tax Considerations for I bonds
Using the money for higher education may keep you from paying federal income tax on your interest. See "Education Planning."

Paper or electronic? Both. (You can buy a paper I bond only when filing a federal income tax return.)

Minimum purchase Electronic: $25 Paper: $50

Maximum purchase Electronic: $10,000, total, each calendar year Paper: $5,000, total, each calendar year

Available bonds Electronic: Any amount, to the penny, from $25 to $10,000. Paper: $50, $100, $200, $500, $1,000

How long must I keep an I bond? I bonds earn interest for 30 years unless you cash them first. You can cash them after one year. But if you cash them before five years, you lose the previous three months of interest. (For example, if you cash an I bond after 18 months, you get the first 15 months of interest.)

How do I buy an I bond? Electronic: Online in TreasuryDirect (including through payroll direct deposit)
Paper: By mail when you file your federal tax return

NOTE: Tax questions? We have answers!

How do I bonds earn interest?

Interest on an I bond is a combination of two rates:

1. A fixed rate of return which remains the same throughout the life of the I bond

   and

2. A variable inflation rate which we calculate twice a year, based on changes in the nonseasonally adjusted Consumer Price Index for all Urban Consumers (CPI-U) for all items, including food and energy (CPI-U for March compared with the CPI-U for September of the same year, and then CPI-U for September compared with the CPI-U for March of the following year).

Interest is earned on the bond every month. The interest is **compounded semiannually**: twice a year, the interest the bond earned in the previous six months is added to the bond's principal value; then, interest for the next six months is calculated using this adjusted principal.

The interest and principal are paid to you when you cash the bond.

Do You Need to Sign Up for Medicare at 65 if You're Still Working?

For the past four decades, age 65 marked the time when you would leave your job, start your pension, file for Social Security, and enroll in Medicare. Not anymore.

Since then, the retirement landscape has changed. Full retirement age for Social Security is 66 or 67. The traditional corporate pension has given way to the 401(k) plan, which is generally taken as a lump sum upon leaving employment at any age, rather than monthly payments beginning at age 65. Even more significant is the fact that many baby boomers are continuing to work well into their late 60s and even 70s.

The one thing that hasn't changed is the eligibility age for Medicare. It remains 65. In fact, most people are required to sign up for Medicare at 65 or face possible penalties. Why is this? It's because the only way this national health insurance system can work is if everyone, the healthy and the sick, participate. It doesn't work if everyone waits until they get sick to sign up. This is why Medicare imposes late-enrollment penalties on people who fail to enroll in Medicare when they are supposed to.

Employer-Based Coverage

Now, there is one exception to the requirement to sign up for Medicare at age 65. If you are still working, or your spouse is still working, and you are covered by an employer group plan that covers 20 or more employees, you do not need to enroll in Medicare at 65. You may continue to be covered by your employer group plan as long as you or your spouse is still working. But once that employer coverage ends, you must enroll in Medicare or face possible penalties.

This means that if you are retired and covered by a retiree plan or COBRA when you turn 65, you must enroll in Medicare. If you are retired or self-employed and covered by an individual health insurance policy when you turn 65, you must enroll in Medicare. If you are still working and covered by an employer plan that covers fewer than 20 employees when you turn 65, you must enroll in Medicare. The only exception to the requirement to enroll in Medicare at 65 is if you are covered by an employer group plan that covers 20 or more

What will happen if you don't enroll in Medicare when you are supposed to?

Two things. One, you may be charged a late-enrollment penalty when you eventually do sign up. This penalty will be added to your regular Part B premium and continues for the rest of your life. The penalty is 10% of the Part B premium for every 12 months you should have had Part B but didn't.

The second consequence is more dire. You may not have health insurance. In the United States today, Medicare is the primary payer for everyone over age 65 unless they are covered by an employer group plan that covers 20 or more employees. If you are not covered by such a plan and you incur a medical expense, the bill will be sent to Medicare. If you are not enrolled in Medicare, Medicare won't pay the bill. And any other insurance you might have, such as an individual health insurance policy or a small group health plan, won't pay the bill either because it is Medicare's responsibility. And they may not even pay their own share of the bill (typically the 20% that remains after Medicare pays its share).

If you are still working past age 65 and wondering how your health insurance works with Medicare, talk to your benefits administrator or current health insurance company. Even if you remain covered by an employer group plan, you may be advised to sign up for Part A. Or you may need to sign up for Part A and B transition to a different type of health insurance policy that works with Medicare. The thing you can't do is ignore Medicare once you turn 65.

Elaine Floyd, CFP®, is the Director of Retirement and Life Planning, Horsesmouth, LLC., where she focuses on helping people understand the practical and technical aspects of retirement income planning. employees.