

outlook

A Financial Newsletter / January 2025

Our economy currently is humming along

Reflecting on 2024 and Preparing for 2025

Reflecting on 2024, I'd like to thank all our clients for your support and confidence. The best part of our job is getting to know you and helping you achieve your goals and dreams. It was an excellent year for the markets. Despite catastrophic wars in the Middle East and Ukraine, and geopolitical tensions around China, North Korea, and Iran, our economy and our markets have been incredibly resilient. We're preparing for a volatile, yet prosperous 2025 as our economy continues to lead the world. Did



Bob Hofmann
President

you know, of the ten largest companies in the world, eight are American: Apple, Nvidia, Microsoft, Amazon, Alphabet (Google), Meta Platforms (Facebook), Tesla, and Berkshire Hathaway. America continues to lead the world in innovation and wealth creation. The only foreign companies that cracked the top ten are Saudi Arabian Oil Company and Taiwan Semiconductor Manufacturing. Over the last 50 years, Europe has created some impressive companies. They've made 14 companies worth more than \$10 billion over this period, worth a combined \$400 billion. Over the same time period, however, America has created over 250 companies worth more than \$10 billion, with a combined market capitalization of \$30 trillion!

Considering Europe has a combined population of over 740 million people, it's incredible that the U.S., with a population less than half the size of Europe, continues to lead the world in innovation and wealth creation.

Our economy currently is humming along. Regarding Gross Domestic Product (GDP) output, we've had nine consecutive quarters of stable growth. In the third quarter of 2024, GDP grew at an annual rate of 3.1%,

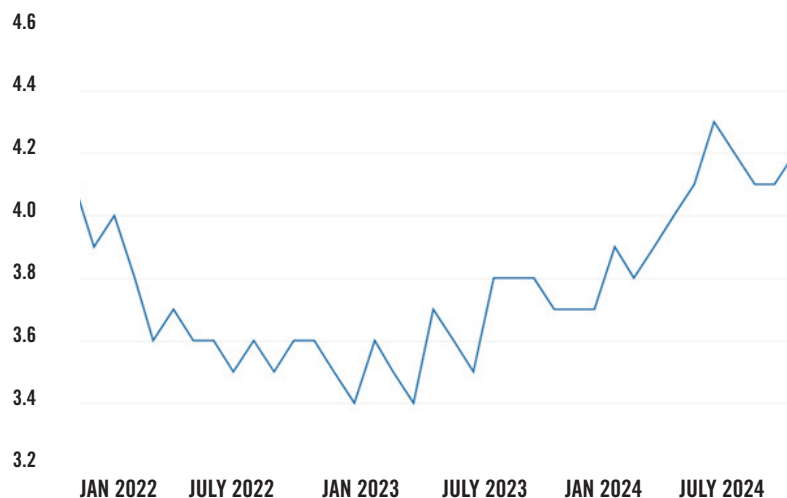
and we haven't had a negative print since the first quarter of 2022.

Economists have incorrectly expected our economy to cool down and prices to decrease by now. However, our economy continues to defy those expectations. The Fed released a document in mid-December stating that they don't believe we'll see a 2% print on the inflation report until 2026. Reflecting on this, in the December meeting, Jerome Powell said, "The U.S. economy has been remarkable. . . if you look around the world, there is a lot of slow growth and continuous struggle with inflation. So, I feel very good about where the economy is."

Since June of 2022, the rate of change in prices has been declining, but prices continue to go up. On December 20th, the November Personal Consumption Expenditures (PCE) report ticked up to 2.4% from 2.3% a month earlier, but it was still less

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UNEMPLOYMENT RATE



SOURCE: U.S. BUREAU OF LABOR STATISTICS

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than expected. The PCE report is the Fed's preferred measure of inflation. The PCE measures how people spend money on goods and services and whether those prices have increased or decreased. It's no surprise that prices are still increasing, although the rate of change is much lower than the peak PCE we experienced in June 2022, of 7.249%. The Fed wants prices to increase, but ideally, it would like to cap PCE at 2%. Given our most recent PCE report, the Fed will likely be more cautious about future interest rate cuts.

In my July Newsletter, I thought the Fed didn't need to decrease interest rates until 2025. Nonetheless, in mid-December, the Fed announced its third rate cut of 2024 with a reduction of 0.25%, bringing the central bank's target rate down to 4.25%–4.5%. The market has been widely anticipating three or four rate cuts in 2025; however, Jerome Powell recently tempered expectations when he signaled he expects only two rate cuts this year. Unemployment is still very low, and inflation is higher than ideal. I never thought rate cuts were necessary in the first place, and now it seems the Fed may have gone a little over their skis. Although unemployment is low, it has been rising since January of 2023. Our unemployment rate sits at a low 4.2%. To

put this in perspective, unemployment never fell below 5% in the 1970s or 1980s. But there appear to be some cracks in the labor market. A recent Gallup poll showed that U.S. workers are seeking new job opportunities at the highest rate since 2015, and employee satisfaction is now at a record low. The Bureau of Labor Statistics (BLS) reported that layoffs remain low, but the hiring rate is low, too. The hiring rate hasn't been this low since our economy emerged from the Great Financial Crisis of 2008. So, if you have a job, you're likely to keep it, but if you're looking for a job, it's a tough job market.

Coming out of the pandemic, we entered the Great Resignation phase where employees were job hopping and salaries were skyrocketing. (Note: Roffman Miller Wealth Management did not lose a single employee!) Now, employers have the upper hand, as job openings are few and far between. Even though payrolls for November increased by 227,000, a lot of the job growth has come from sectors like health-care and state and local governments. These sectors don't reflect the health of our economy. The industries that give us insight into our economic strength, like manufacturing, business, and professional services, have flatlined.

Another reason the Fed would be wise to pause any rate cuts for the foreseeable future: we'll need to see the economic policies of the Trump administration. Currently, it seems Trump is trumpeting tariffs every day. He has given himself the nickname Tariff Man. I believe he's just negotiating in public, and like most politicians, what they say is often different from what they do. Trump has been talking about increasing tariffs on China. He has warned China to live up to its promises to use the death penalty on fentanyl producers or face even more tariffs. Furthermore, he stated that he'll use tariffs as a punitive measure to force Mexico and Canada to do more on border security.

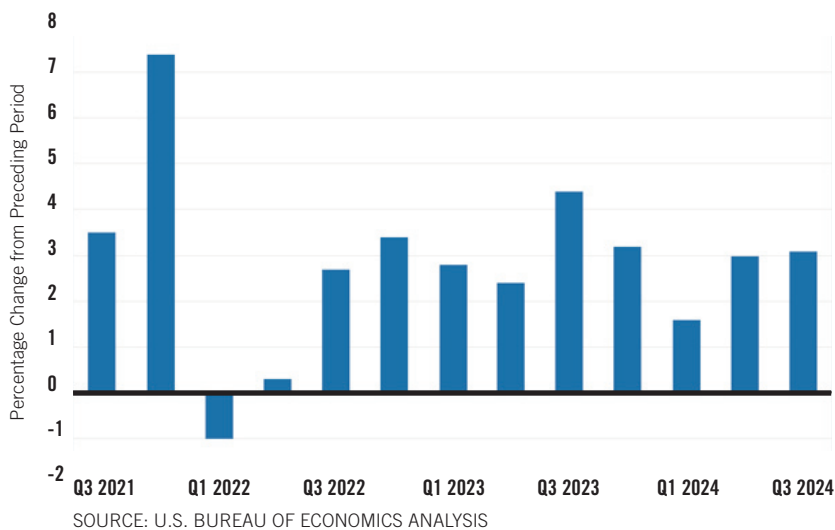
How much of this is public negotiating or reality, time will tell. However, if mass tariffs hit Mexico, Canada, and China, there's no possible way it won't be inflationary. These are our three most significant trading partners. Also, there are two sides to every coin. Although we buy a great deal from these three, Canada and Mexico are the largest buyers of U.S. goods, followed by China. They can also impose tariffs as retaliation for any tariffs we impose.

In late December, Trump warned the E.U.

"I told the European Union that they must make up their tremendous deficit with the United States by the large-scale purchase of our oil and gas. Otherwise, it is TARIFFS all the way," Trump posted on his Truth Social platform.

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REAL GROSS DOMESTIC PRODUCT



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Are there things left on your bucket list you haven't done?

A New Look at Resolutions

With the New Year comes new promises. A fresh start, a clean slate, new resolutions - weight loss, exercise, and of course financial resolutions. But this year, it may be time to look at your finances a bit differently. Some of the most commonly mentioned financial resolutions are of course to save more, to spend less, and to pay off debt. But what if you are no longer working? What if all your debt is paid



Robert Riegen
Investment Advisor

off and you worked for 40 years to accumulate a substantial sum of money? Now what? Is it time to rewrite this narrative and look at things from a different perspective? Could it be that your resolution this year should be to spend more?

"Well then, maybe I can go buy that airplane I always wanted," remarked an anonymous Roffman Miller client during a recent financial plan review. He was kidding, but the truth is, this client *could* spend more and chooses not to - his greatest fear, the same as most: running out of money. On the day of the review, the planning software showed his net worth doubling over his remaining years despite conservative estimates of an inflated budget with lower-than-expected rates of return on his portfolio.

If you are a Roffman Miller client, you should take comfort in knowing that you are in the top tier of investors in the US and there is a good chance you got there by saving. But to change your mindset in retirement so you can enjoy your hard-earned savings *is* a skill and it *does* require work.

"If you don't spend it someone else will," says Bob Hofmann almost daily. It's uncommon to hear a client state that the purpose of their saving and investing is to leave behind a substantial amount of money. More commonly, people tell us they are ok with leaving *something* to family or charity -

whatever unused cushion they left for health-care, or maybe even just the proceeds from the sale of their home, and they'll enjoy spending the rest in retirement. But when it comes to our observations of actual spending habits it seems the opposite is true. Those who are great at saving continue to save, even in retirement. It's not easy to change those habits of the working years, and if this describes you, you are not alone. The change from being a saver to a spender can be a daunting undertaking. But if you don't make this change, before you know it you can't get to that bucket-list trip because of your health, or it seems like too much work to pull together the plans for that dream kitchen, or you skip buying those golf clubs because the fear of running out overwhelms you.

Maybe you are already accomplishing all of your retirement goals, or you are past an age when you can travel. If you are still seeing your savings grow and you are looking for a place to turn, perhaps the gift of giving can help. Warren Buffett has inspired many to gift after death, but gifting while alive also can have its advantages (Buffett, too, has given plenty during his lifetime). You can see the joy you bring to those you gift to while you are still alive - pay for college, help with downpayments on homes, or just take the financial pressure off the younger generation. Not to mention the possibility of some great potential tax savings with charitable giving.

Are there things left on your bucket list you haven't done? Travel to new places, home improvements you have put off, gifts you wanted to give but where unsure if you could? If you are in retirement and watching your assets grow, but are afraid of spending the money, it is time to reconnect with your advisor to see if you can set new resolutions to put the life back in your years and enjoy the savings you worked so hard to accumulate.

Robert Riegen, Investment Advisor

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The U.S. is the world's top oil producer, and we account for about 22% of global supply. Unfortunately, some European countries are still buying energy from Russia. Slovakia, Hungary, and the Czech Republic still purchase significant quantities of Russian oil. A shift to U.S. energy can not only help our trade deficit, but it could also cut off European money from funding Russian war efforts. I don't believe massive tariffs are in our future, and this tough tariff talk is more of a negotiation tactic. Well, at least with Canada, Mexico, and the E.U. Nonetheless, tariffs and runaway inflation concern many consumers and business leaders. In a recent earnings call, the CFO of Costco, Gary Millerchip, in addressing tariffs and increased costs, said: "When it rains, it rains on everybody."

At the end of 2025, many of the provisions of Donald Trump's Tax Cuts & Jobs Act from 2017 (TCJA) are set to expire. Big-ticket items like the current individual tax brackets and the standard deduction will sunset unless lawmakers extend the TCJA. This legislation provided a tax break for almost everyone. Trump campaigned to

expand and improve the TCJA. Also, an essential provision of the TCJA was the nearly doubling of the standard deduction. For 2025, the standard deduction for individuals will increase to \$15,000 and \$30,000 for couples filing jointly. If this provision sunsets, in 2026 the standard deduction for single filers will be cut to \$8,350 and \$16,700 for joint filers. When Trump takes office, the Republicans will have a majority in the House and Senate, just as they did when the TCJA was passed in 2017. Trump will likely prioritize the extension of the TCJA before the midterms when history shows it will be unlikely that Republicans keeps a majority in both the House and Senate.

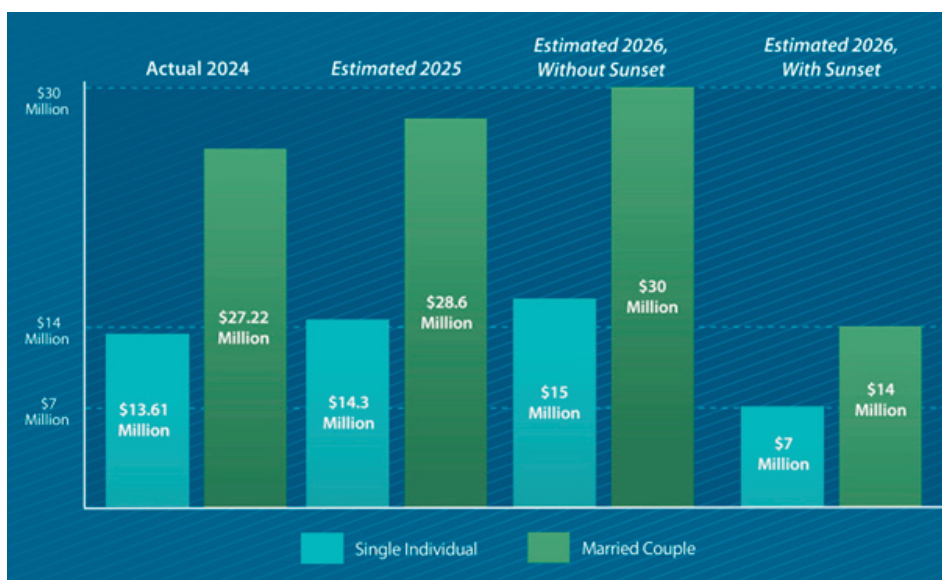
Moreover, if the TCJA expires, we'll see a dramatic drop in the lifetime estate and gift tax credit exclusion. Under the current TCJA rules, an individual can give or leave to an estate \$13,610,000 without paying federal estate tax. A married couple can leave \$27,220,000. If TCJA sunsets, the exclusion will fall to around \$7 million for individuals and \$14 million for married couples in 2026.

As much as most people loved the tax cuts, they did add to our deficit. To rein in our deficit, Trump is creating the Department of Government Efficiency (DOGE) in the hope of slashing \$500 billion in costs. Heading up DOGE will be billionaires Elon Musk and Vivek Ramaswamy. Can this work? Who knows. DOGE will not be a federal agency, so I question its ability to effect change. Then again, bet against Elon at your own risk. Just ask Bill Gates, who reportedly has a significant short position in Tesla. Ouch!

If you would like to review your overall allocation and financial plan or discuss how to put additional cash to work, please get in touch with your Roffman Miller Investment Advisor. On behalf of our whole team, thank you for your trust and confidence and Happy New Year!

Bob Hofmann, President

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