Condor Capital Quarterly Newsletter

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Stocks Continue to Surge, Fed Cuts Again but Future Uncertain, Trump Wins Second Term

The S&P 500 Index rose by 2.39% in the fourth quarter of 2024. The index finished 2024 gaining 25% and posting 57 new all-time-high closes in 252 trading days, one of the strongest years on record dating back to 1929. Drilling down into the index, the market narrowed in the fourth quarter. Growth stocks outperformed their value counterparts, and large caps outperformed small caps. Quarterly market moves were impacted by the November 5th election for the 47th president of the United States. President Trump won the election, and the market began pricing in the potential impacts to President Trump's second term. Throughout the quarter, the Federal Reserve Open Market Committee (FOMC) had two meetings and cut interest rates by 0.25% at both meetings, finishing the year with a federal funds target rate range of 4.25% - 4.50%. The U.S. Economy continued its strong 2024 in the fourth quarter, and corporate earnings followed suit.

International equities underperformed domestic equities in the fourth quarter of 2024. The MSCI EAFE Index returned –8.06% in the quarter, while the MSCI Emerging Markets Index returned –7.85%. Global economies continued to underperform the U.S. economy, with Europe generally faring slightly better than Asia but still posting negative returns. Trump's election during the quarter brings international trade back to the forefront, and the uncertainty surrounding the incoming administration's trade and foreign policy regimes may have been a factor in the quarter's international equity performance.

In fixed-income markets, one of the biggest stories of the fourth quarter was a normalization of the yield curve. The curve, which had been inverted for over a year, saw rates fall on the short end thanks to the FOMC's rate cut decisions, while the longer end of the curve saw rates rise notably. The 10-year Treasury yield jumped by over 0.75% in the period from 3.781% up to 4.569%. In a negative quarter for bonds across the board, high-yield corporates held up much better than their investment-grade counterparts.

The S&P 500 Index posted another tremendous year, gaining 2.39% in the fourth quarter and 25% on the year.

International equities struggled in the fourth quarter after outperforming domestic stocks in Q3.

The yield curve further normalized in the fourth quarter, with rates coming down on the short end and the curve steeping on the long end.

Condor Capital's Outlook

Looking forward to 2025, there are a few key uncertainties we will be monitoring to see how they play out. The path of inflation and the Federal Reserve's resulting monetary policy decisions will be one area of importance. Inflation finally began to ease in 2024 but never reached the Fed's ultimate 2% target, and expectations are that inflation could be a bit stickier in the coming year. Rate cut expectations have tempered accordingly, and the market is now expecting just one or two rate cuts in 2025. This trajectory will be highly dependent on economic data: primarily inflation but also labor market data. If inflation does continue to fall and the Fed is able to lower rates further that would be a boon for markets, but if employment weakens and the Fed is forced to cut rates to stimulate the economy, those rate cuts would be viewed much less positively. As a result, the contributing factors and Fed commentary around any rate decision may be almost as important as the central bank's decisions themselves.

The return of President-elect Trump will obviously be a major storyline as well. Market participants anticipate Trump 2.0 to be similar to his first term. There has been some concern over the Federal Reserve's autonomy in the past, but Chairman Jerome Powell is still expected to complete his term ending May 2026. If the Fed does not see the U.S. economy as being in a position to cut rates further, that could draw Trump's ire, but the central bank's dual mandate of price stability and full employment remains unchanged.

On the fiscal policy front, the impacts of Trump's proposed policies could be mixed. Tariffs would be inflationary and could increase uncertainty for large-cap stocks with global supply chains, and immigration reform would have some level of impact on labor supply. At the same time, deregulation and corporate tax cuts would be unambiguously beneficial for the corporations that make up the stock market, and any income tax cuts should spur increased economic activity. We at Condor are not in the business of policymaking predictions, and our broad note here would be that political debates are historically not a primary driver of the performance of financial markets.

One thing that *is* an extremely important driver of the stock market is corporate earnings growth. On this front, prospects for 2025 look strong. The earnings of the companies that make up the S&P 500 Index are expected to grow by 14.8% this year, which is well above the historical average. This is after earnings already grew by 9.5% in 2024, so the business environment has been and remains quite strong. At Condor, we always strive to maintain a cautious and data-driven approach, and we are focused on reconciling the uncertainties in the macroeconomic environment with these high expectations for corporate earnings. For example, onerous tariffs could make these earnings growth estimates harder to hit, while tax cuts could lead to even better results. We will be monitoring developments as they occur to price them into our outlook. Overall, heading into 2025 we see a market environment with some question marks, but also a strong foundation.

How the SECURE Act 2.0 Changed RMDs

In the final days of 2022, Congress passed the SECURE Act 2.0, a new set of rules designed to help investors who wanted to contribute to retirement plans. Many of these changes were intended to give investors more flexibility and new ways to enhance their retirement strategies. It was a follow-up to the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019, which was also an important piece of legislation aimed at helping investors save more effectively.

Both the SECURE Act and SECURE Act 2.0 have dozens of provisions, including new rules that may impact retirement. Here are a few things you might want to know about how the SECURE Act 2.0 changed required minimum distribution (RMD) rules and how qualified charitable distributions (QCDs) may fit into how you choose to take these distributions.

Remember, this article is for informational purposes only and is not a replacement for real-life advice. We encourage you to consult your tax, legal, and accounting professionals before modifying your retirement income strategy.

RMDs are the amount of money that investors must withdraw each year from certain retirement accounts. These withdrawals are taxed as ordinary income. You can begin taking penalty-free withdrawals at 59½ or earlier in some cases if you have experienced a qualifying life event.

In the past, retirement distributions were required beginning at age 70½. Under SECURE Act legislation, investors can wait until age 72 or age 73 if they turn 72 after December 31st, 2022.[1]

Forgetting to take these required distributions can come with penalties! The penalty was previously a 50% excise tax. Still, the SECURE Act 2.0 reduced that penalty to 25%, or 10%, if the minimum distribution oversight is corrected within two years and the proper paperwork is filed. In some cases, that penalty may be waived altogether if the account owner made a "reasonable error" and took documented steps to correct the oversight.[1]

QCDs can offer an opportunity to support your favorite causes and manage your retirement income. They allow those who are obligated to take RMDs to donate those funds directly from specific retirement accounts to qualified charities without recognizing the distribution as taxable income.

Here's how it works: Individual retirement account (IRA) withdrawals are generally taxable, but QCDs are excluded from taxable income, meaning they do not increase your adjusted gross income. For some, this may be a strategy to consider when balancing supporting a charitable organization with managing taxes.

You must be at least 70½ years old to qualify for a QCD. The distribution can be made from an IRA. You can also donate from a SEP IRA or SIMPLE IRA as long as they are inactive, meaning that you've made no contributions to the account in the year the QCD is distributed. However, remember that 401(k)s and other non-IRA retirement vehicles do not qualify for QCDs.

The maximum annual limit for QCDs is currently set at $105,000 for 2024, an amount that adjusts annually for inflation. Therefore, staying updated on the annual cap is important, as it can influence your donation strategy.

It's prudent to confirm the status of your chosen charity through the IRS Online Search Tool or by consulting a professional who can speak to the tax status of the organization. If you withdraw and then donate the funds, it does not count as a QCD and becomes taxable.

As with many financial strategies, your state may have specific rules impacting how QCDs are treated. It's vital to check with a tax professional about state-specific regulations.

A financial professional can help you take your RMDs or set up QCDs. In addition, if you have any questions or concerns about how the changes enacted by the SECURE Act or SECURE Act 2.0 might affect your retirement strategy, please don't hesitate to reach out. We're here to help you make the most of these updates and navigate your retirement strategy.

1. IRS.gov

What If Your Kids Decide Against College?

As a parent or grandparent, you may have diligently saved money in a 529 account to help fund your child's or grandchild's college education. But what happens if they decide college isn't the right path for them? It's a valid question that many families are facing as more and more people choose alternatives to traditional four-year colleges.

It's a more common situation than you might think. Fewer students are going to college, and the expenses continue to climb. American undergraduate enrollment rates peaked in 2010 and have steadily declined since. During the same period, college costs have risen over 12 percent.[1,2,3,4]

A 529 plan is a college savings plan that allows individuals to save for college on a tax-advantaged basis. The state tax treatment of 529 accounts is only one factor to consider before committing to this savings plan. You should also consider any fees and expenses associated with a particular plan. Whether or not a state tax deduction is available will depend on your state of residence. State tax laws and treatment may vary, and state tax laws may differ from federal tax laws. Earnings on nonqualified distributions will be subject to income tax and a 10 percent federal penalty tax.

First and foremost, it's important to remember that having a 529 account doesn't mean that the funds are reserved only for a four-year college education. Several choices are available for using the money saved in the account.

One option is to use the funds for a two-year program, such as those for an associate's degree or at a trade school. Many vocational schools offer programs that can lead to careers that don't require a four-year degree. When you use the funds in a 529 account for these programs, you are still investing in your child's or grandchild's future and providing them with skills that may help them succeed.[5]

Another option is to use the funds for education expenses outside the United States. Many countries have educational institutions that offer programs that may interest the student in your life. By using the funds in a 529 account, you can help support their academic goals, no matter where they choose to pursue them. Certain restrictions apply, so you will need to explore this option more thoroughly if you decide to pursue it.[5]

The rules for 529 accounts allow paying up to $10,000 per year in tuition expenses at elementary, middle, or secondary schools with 529 assets. Furthermore, a lifetime maximum of up to $10,000 of 529 assets can repay existing student loans. Also, if the student doesn't use the 529 plan, it could be used by a different beneficiary. This means that you can transfer the funds to another family member who may be preparing to attend college, or you might even use the funds for your education if you decide to return to school.[5]

It's important to note that taking the money out of a 529 account for nonqualified expenses comes at a cost. Doing so may result in federal income taxes and a 10 percent penalty on the earnings portion of the withdrawal. However, 529 plans allow money to be taken out for the exact amount of the scholarship or grant that has been awarded.

As part of 2022's SECURE Act 2.0, which went into effect in 2024, a 529 account holder can move money to a Roth IRA account under certain conditions, including:

- The 529 plan must have been open for a minimum of 15 years.
- Changing beneficiaries to another student may restart the 15-year clock.
- The owner of the Roth IRA must be the beneficiary of the 529 plan (meaning the student).
- Any money moved from a 529 plan into a Roth IRA account will be subject to the Roth IRA annual contribution limits. The Roth IRA contribution limit in 2024 is $7,000, with an extra $1,000 allowed for individuals over 50.
- The lifetime limit is $35,000.

To qualify for the tax-free and penalty-free withdrawal of earnings, Roth IRA distributions must meet a five-year holding requirement and occur after age 59½. Tax-free and penalty-free withdrawals can also be taken under other circumstances, such as the owner's death. The original Roth IRA owner is not required to take minimum annual withdrawals.

As you are guiding and advising the student in your life through these complicated decisions, it's important to remember that a 529 account offers you a great deal of versatility and is designed with these variables in mind.

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Condor Capital Wealth Management), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from Condor Capital Wealth Management. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. Condor Capital Wealth Management is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of the Condor Capital Wealth Management's current written disclosure statement discussing our advisory services and fees is available upon request.

1. Education Data Initiative, August 13, 2023

2. Pew Research Center, October 3, 2023

3. World Economic Forum, January 19, 2023

4. Deloitte Insights, May 17, 2023

5. Schwab.com, May 5, 2022