JOHNSON
INVESTMENT COUNSEL

QUARTERLY INSIGHT

MARKET UPDATE

FROM THE DESK OF CIO CHARLES RINEHART, CFA, CAIA

2024
FIRST
QUARTER

I hope many of you had the opportunity to experience the total solar eclipse earlier this month. I was fortunate enough to be in the path of totality, and it's hard not to be at least a little introspective after such an event. Not to worry, I'm no poet—not even an amateur—so you won't be subjected to any half-rate philosophical stanzas in this missive. I will, however, share with you just one lingering observation. Among all my reflections, I was most struck by the predictability of the timing of such a rare event.

The next total solar eclipse will occur on August 12, 2026. If you're reading this newsletter, chances are you'll need to travel to see it. According to NASA, the viewing path includes Greenland, Iceland, Spain, Russia, and a small area of Portugal. The next total eclipse visible in the contiguous forty-eight states will occur on August 23, 2044. If you live near one of our Ohio offices and prefer not to travel, you'll need to buy some vitamins and hit the gym before marking your calendar for September 14, 2099—the next time a total eclipse will grace our home state. We know all of this with more certainty than we can forecast tomorrow's weather.

As an observer of the markets, it amazes me that something so unusual can be predicted with such precision so far in advance. It seems counterintuitive that forecasting centuries of movements of heavenly bodies is more dependable than estimating next quarter's GDP growth, but that is the world we live in. Nevertheless, in markets, as in eclipse watching, being in the right place at the right time is crucial, so try we must.

We've been cautious about the economic backdrop since the Federal Reserve raised rates to the point of yield curve inversion in late 2022. As esoteric as monetary policy can be, the underlying message of this indicator is straightforward: when short-term interest rates are higher than long-term rates, the bond market is suggesting that the current lending environment is more challenging than can be sustained long-term. This typically indicates that the cost of borrowing is high enough to limit investment and restrict growth.

A yield curve inversion has preceded every recession in the last 50 years. Although the Federal Reserve raises rates to temper overly rapid economic growth and severe inflation pressures, these actions usually do not lead to immediate economic difficulties. It generally takes a year or two after a yield curve inversion for economic trouble to manifest. We're seventeen months into the current inversion, historically a time when the economy is vulnerable to shocks.

The good news is that economic data show early signs of stabilization. Leading economic indicators, negative since 2022, have improved from -8.3% to -6.3%.

FEATURING

TOTAL RETURNS

	1Q2024
S&P 500	10.6%
Dow Jones Industrial Average	6.1%
NASDAQ	8.7%
Russell 2000	5.2%
MSCI EAFE (International)	10.1%
Bloomberg U.S. Aggregate Bond Index	-0.8%

WEALTH MANAGEMENT
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Coincident indicators have remained in positive territory, suggesting resilience. Unemployment has risen slightly but remains controlled.

The market remains optimistic. The S&P 500 was up over 10% in the first quarter, following last year's 26% increase. Gains have been concentrated in a handful of large tech companies benefiting from artificial intelligence enthusiasm, but signs of broadening strength are evident in sectors like industrials, financials, and energy. Unfortunately, the unrelenting rise of the market has left little room for disappointment. Market volatility is low, credit spreads are tight, and valuations are nearing 20-year highs—all signs that the market is pricing in a bright future.

Troublingly, progress on inflation has stalled this year. After decreasing from 9% in mid-2022 to 3% by mid-2023, headline CPI has plateaued above the Fed's 2% target. More recent data has shown signs of increasing inflation. This has caused concerns the Fed may not be able to ease rates as soon as had been expected to start the year. The resulting increase in interest rates is good news for long-term bond investors, who can now reinvest income at higher rates of return.

In summary, we are at a historically vulnerable point in the economic cycle, where restrictive policy leaves the economy susceptible to unexpected shocks. Current data are encouraging and suggest a return to normalcy may be on the horizon. However, the market's optimism presents heightened risks if future data disappoints. Inflation, a key variable for policy decisions, remains higher than desired. We remain in an extended state of limbo. We cannot declare an all-clear until monetary policy changes, but we shouldn't be overly concerned if the labor market remains steady.

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Perhaps the best everyday comparison I can draw to the current economic environment is that of a tornado watch. There's nothing scary happening yet, but some of the preconditions are in place. It's too soon to head to the basement, but it might be a good time to clear off the ping-pong table in case we have to spend some time down there. For now, we'll keep the radio on and go about our business.

Thank you for your continued trust and confidence. Please feel free to reach out to your portfolio manager with any questions or concerns. And most importantly, start saving for that trip to Iceland—2026 will be here before we know it.

Chief Investment Officer, Charles Rinehart, CFA, CAIA, leads our dedicated team of research analysts and portfolio managers as they manage our investment strategies to deliver financial peace of mind to our clients.

HOW TO DESIGN A "PAYCHECK" FOR RETIREMENT

For most of our adult lives, the mantra of "work hard, spend less than you earn, and invest" is a message seared into our minds from the days of our first real paychecks. Then for the next 30 or 40 years of our careers, successfully executing this strategy forms a well-worn habit which becomes ingrained in both our day-to-day lives and our psyche. For this and many other reasons, transitioning to a retirement mindset of spending down savings, the polar opposite of this life-long pursuit, can be uncomfortable at best and disconcerting at worst. To help smooth out the friction associated with this transition from working to retirement, one technique can be very helpful for a multitude of reasons: designing a "paycheck" for retirement.

In its most basic form, the retirement paycheck is nothing more than an automated monthly transfer from the investment portfolio to retirees' checking account to pay for monthly living expenses. Sounds simple enough. But when breaking down all the moving pieces, this strategy does require some technical knowledge and some legwork. Once established, the "paycheck" can provide a sense of normalcy and peace of mind in what can be a very stressful and uncertain period in one's life. So, what are some keys to setting this up? As with many financial matters, it's a mixture of investment, tax, some estimating on the future, and some maintenance to ensure the paycheck amount aligns with the broader picture to maximize the retirees' chances of a sustainable and enjoyable retirement.

THE BASICS

As noted above, setting up a monthly paycheck is relatively straightforward. Estimate annual expenses, divide that

HOW TO DESIGN A "PAYCHECK" FOR RETIREMENT

number by 12 and pick one day a month to set up the automated transfer from the investment account to the checking account. Simple stuff, right? Of course, the devil is in the details as underlying that annual/monthly amount is one of the most critical factors in retirement cash flow planning: the withdrawal rate (annual withdrawal amount divided by portfolio value). Obviously, taking too much out of the portfolio can run the risk of running out of money long before death. Take too little, and the standard of living may suffer. So, there's a balancing act which requires some work to come up with the initial estimate (the dreaded "budget") to at least start the monthly transfer.

Of course, it's always better to start with a conservative amount as it's easier to increase it versus decreasing. But the good news is that this automated transfer quickly clarifies if the estimate is right or wrong with a monthly "reminder" of having excess funds in the checking account or excess "month" remaining after the amount is spent. If after a year or two, the retiree is constantly transferring extra money from savings to cover standard living expenses, the monthly amount is too low and needs to be moved higher. But this is subject to the amount of assets available and market performance. It's much more of an art than a science and a critical piece to the analysis is having a trusted method to project how the cash outflows would impact the portfolio over inevitable market cycles.

CASH MANAGEMENT AND PORTFOLIO CONSIDERATIONS

After the conservative withdrawal amount is decided upon and in place, retirees should then turn to the required cash management steps. This means allocating the portfolio to ensure the monthly amount is available as liquid cash when the time comes for the automated transfer. Given the potential for volatility in equities (and to a lesser extent, fixed income) a good rule of thumb is to have about six months' worth of the monthly amount in a money market fund so there's assurance there's no volatility on the amount and interest income can still be earned. Then every few months or so, the transfers to the checking account are executed. This necessitates a "rebuilding" of the money market funds to the six-month value. This can be done by selling some fixed income or equities, depending on the asset allocation and market moves.

TAX CONSIDERATIONS

Along with the cash, another impactful change for retirees is the fact they will no longer have taxes paid via employer withholdings from the traditional paycheck. Without that withholding, retirees need to project the annual tax liability then pay quarterly estimates to keep pace with the IRS' requirement that tax payments' timing align with the timing of income. This is where it can be very helpful to coordinate tax and wealth management. Very often, there are many moving pieces to the tax projection (Social Security, capital gains, pension, taxable investment income, charity, other deductions) which necessitate the quarterly estimated payments. If retirees are at the age before RMDs are required, the estimated tax payments are more explicit – meaning they can be done by making a cash transfer from a taxable account. When retirees are taking their RMDs, they can work with their advisor or custodian to withhold estimated federal and state (where applicable) income taxes in a pro-rata amount that approximates the liability for the year. This provides a psychological benefit similar to the traditional paycheck, when the deposit to the checking account was net of taxes, the amount taken from an IRA (RMD) can withhold the proper taxes, assuming the tax projection is accurate.

BOTTOM LINE

Transitioning to retirement has many moving pieces, including the nuts and bolts of investing, taxes and money movement, and the psychological aspects of no longer getting paid on a regular basis. As we have seen in helping many retirees over the years, "flipping the switch" over to spending down assets instead of saving can be very difficult to digest. But we have found a helpful bridge for this transition for many is the design, execution, and maintenance of the retirement paycheck, which not only provides a helpful guidepost for spending awareness but also the confidence that all those years of delaying gratification can now be cashed in!

Disclaimer: Johnson Investment Counsel does not provide tax, legal or accounting advice. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for, tax, legal or accounting advice. You should consult your own tax, legal and accounting advisors before engaging in any transaction.

PROMOTIONS

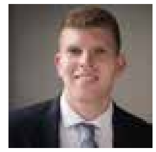
We are pleased to announce that these individuals have been promoted to new positions:

- **Eric Bachus, CFA**
  Portfolio Manager
- **Christian Brandetsas, CFP®**
  Portfolio Manager
- **Danielle DePew, SHRM-CP®**
  Human Resources Specialist
- **Patrick Foy, CFP®**
  Associate Portfolio Manager
- **Evette Maddox, SHRM-CP®**
  Human Resources Manager
- **Kathleen Mahdasian**
  Regional Marketing Manager
- **Landon Peterson**
  Portfolio Analyst

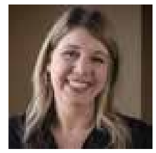

Bachus


Brandetsas


DePew


Foy


Maddox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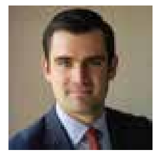
Peterson

NEW DESIGNATION

Congratulations to Trust Counsel Alethea Teh Busken, Esq., on earning the Ohio State Bar Association's certification in Estate Planning, Trust and Probate Law. This rigorous certification allows attorneys to position themselves as specialists in their field. Alethea is one of only 13 lawyers in the state to be newly certified this year. Johnson Trust Company Vice President of Estate Planning, Senior Trust Counsel and Principal, Mary Burns, Esq. said, "Alethea's certification is a testament to her expertise and her determination to meet the highest standards in her field. This achievement also benefits our clients, allowing us to provide a high level of service and expertise."


Teh Busken

UPCOMING WEBINARS

Are you a current or former Procter & Gamble employee? This webinar, led by Michael Stanis, CFA, CFP®, MBA, a former P&G employee, is designed to help owners of the P&G Profit Sharing Trust (PST) understand how the proceeds may be distributed and invested, and how taxes are impacted. Johnson Investment Counsel has helped hundreds of P&G employees navigate PST distribution options. We want to share what we know so that you can make the best decisions for your family.

SCAN TO REGISTER

IN THE NEWS

The expertise of our Johnson team members is often sought after by local and national media sources. Scan the QR code to see recent articles and videos featuring our employees.

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ABOUT US

Johnson Investment Counsel is one of the nation's largest independent wealth management firms, managing more than $19 billion in assets for clients in 50 states. Johnson Investment Counsel is an employee-owned firm, offering a full range of fee-only, integrated wealth management services, including: investment portfolios, education and retirement planning, cash management, estate planning, trust services, charitable giving, mutual funds, 401(k) plans, IRAs, and more. Johnson Investment Counsel has built strong, long-term relationships with individuals, families, charitable organizations, foundations, and corporations through four integrated divisions.

- WEALTH MANAGEMENT
- FAMILY OFFICE SERVICES
- TRUST COMPANY
- ASSET MANAGEMENT

LOCATIONS

CINCINNATI - KENWOOD
CINCINNATI - WEST
CLEVELAND - AKRON
COLUMBUS
DAYTON
METRO DETROIT

If you are a client of Johnson Investment Counsel, you should receive account statements on at least a quarterly basis directly from the qualified custodian that holds and maintains your assets. You are urged to carefully review all custodial statements for accuracy. If you are not receiving custodial statements, please contact our Chief Compliance Officer, Scott Bischoff at (513) 661-3100.

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