

FARMERS

TRUST COMPANY

NEWSLETTERS



John D. Stewart, CFA
Chief Investment Officer
Farmers Trust Company
42 McClurg Rd. • Youngstown • OH • 44512
330-743-7000
stewartj@Farmerstrustco.com • farmerstrustco.com

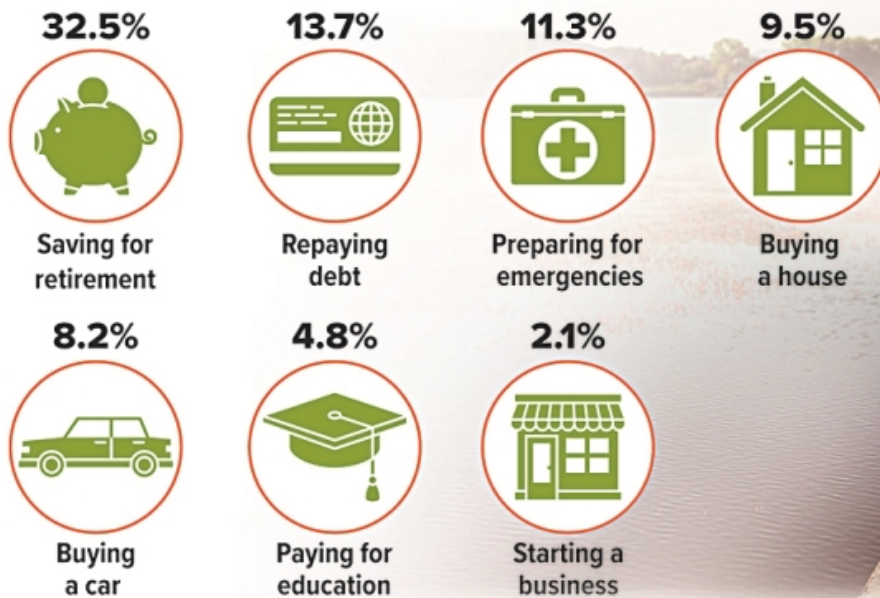


Be sure to read John Stewart's article, "Markets Fade Sentiment" below.

Motivation and Money Goals

According to a survey taken in late 2022, almost 40% of consumers have set "very" or "extremely" clear long-term financial goals — though for different reasons.

Most important motivations cited by consumers for setting financial goals



Source: PYMNTS, December 2022

Markets Fade Sentiment

I mentioned last month that August and September can be particularly tricky for the stock market, and indeed we've seen a bit of volatility in the first half of August with the S&P 500 index down roughly 3% since the end of July. It's no coincidence that the markets have run into headwinds at the same time bullish sentiment has reached its highest levels of the year. When everyone is bearish (like they were at the beginning of the year) the market is more likely to surprise to the upside (like it did during the first half of the year). However, when optimism reaches a fever pitch, stocks can become vulnerable to bouts of volatility. There are fundamental reasons to expect some further turbulence in the stock market as well. Earnings estimates have been drifting lower all year. The silver lining could be that the rate of those estimate reductions has slowed, so the rate of change trend is moving in the right direction. Assuming there is no further deterioration in corporate profit expectations for the next few quarters, it is likely that any equity market volatility could be relatively short-lived.

While everyone is usually focused on the excitement driving stock prices higher or lower, it has been hard to miss the sharp rise in interest rates that has occurred during the past 18 months. This has obviously been welcome news to many conservative investors that went from earning nothing on their money market accounts to roughly 5% currently. Keep in mind that rate signals what you WILL earn over the coming year assuming rates stay at current levels or go higher. If you've been in a money market for the past 12 months you may have earned around 2.5% as the rate has risen steadily from 0% to 5%. On the other hand, the rising rates have been a challenge for borrowers and long-term bond investors. Mortgage rates just reached the highest level in more than 20 years. Combine that with the sharp rise in home values during the past few years and by some measures home affordability is now at the lowest level in history.

Given some of the cross currents in the economy and markets currently, we're adjusting some of our tactical asset allocation positioning. Overall, we still believe it makes sense to err on the side of being more defensive across portfolios by minimizing risk exposures. After a strong move higher in cyclical stocks during the past few months, we're trimming Large Cap Value positions. We're selling all preferred stock exposure, selling long-term Treasuries in favor of intermediate-term high quality corporate bonds, and adding to foreign bonds, commodities and cash positions.

Coming in 2024: New 529 Plan-to-Roth IRA Rollover Option

In December 2022, Congress passed the SECURE 2.0 Act. It introduced two new rules relating to 529 plans and student debt that will take effect in 2024.

The first provision allows for tax- and penalty-free rollovers from a 529 plan to a Roth IRA. The second provision allows student loan payments made by employees to qualify for employer retirement matching contributions.

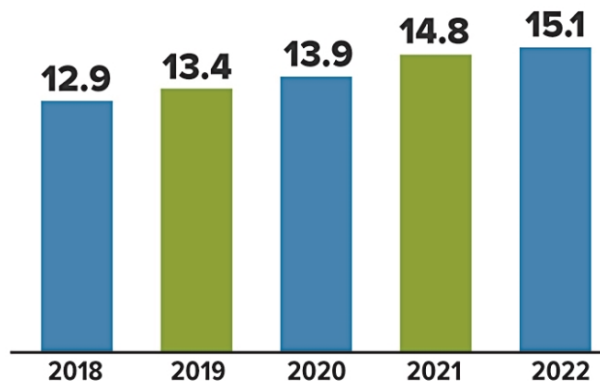
529 Plan to Roth IRA Rollover

529 plans are tax-advantaged savings accounts specifically geared to saving for college. In an effort to broaden their flexibility in situations where families have extra funds in an account, Congress created a new rollover option. Starting in 2024, 529 plan beneficiaries can roll over up to \$35,000 to a Roth IRA over their lifetime. Here are the specific rules:

- Any rollover is subject to annual Roth IRA contribution limits, so a beneficiary can't roll over \$35,000 all at once. For example, in 2023, the Roth IRA contribution limit is \$6,500 (for people under age 50) or earned income, whichever is less. If the limit remains the same in 2024, a beneficiary would be able to roll over up to \$6,500.
- In order for the rollover to be tax- and penalty-free, the 529 plan must have been open for at least 15 years. If the 529 account owner (typically a parent) changes the beneficiary of the 529 plan at any point, this could potentially restart the 15-year clock.
- Contributions to a 529 plan made within five years of the rollover date can't be rolled over — only 529 contributions made outside of the five-year window can be rolled over to the Roth IRA. For more information on determining the date of contributions, contact the 529 plan manager.

Example: Kate opens a 529 account for her son Joe when he is three years old. Kate contributes to the account for 15 years. At age 18, Joe enters college. Kate continues to contribute to the account while Joe is in college. Joe graduates, and there is money left over in the 529 account. Because the account has been open for at least 15 years, Joe is eligible to roll over funds from the 529 account to a Roth IRA in his name. He can roll over an amount up to the annual Roth IRA contribution limit, provided he doesn't transfer any contributions made to the 529 account in the past five years. Joe can continue rolling over funds from the 529 plan to the Roth IRA (consecutive years or intermittent years) until he has reached the \$35,000 lifetime limit.

Number of 529 college savings plan accounts, 2018–2022, in millions



Source: ISS Market Intelligence, 529 Market Highlights, 4Q 2019–2023

Student Loan Payments Can Qualify for Employer Retirement Match

Employees with student debt often have to prioritize repaying their loans over contributing to their workplace retirement plan, which can mean missing out on any potential employer retirement matching contributions. Starting in 2024, the SECURE 2.0 Act gives employers the option to treat an employee's student loan payments as payments made to a qualified retirement plan (student loan payments will be considered an "elective deferral"), which would make those contributions eligible for an employer retirement match (if an employer offers this benefit).

There are generally fees and expenses associated with participation in a 529 plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated. The tax implications of a 529 plan should be discussed with your legal and/or tax professionals because they can vary significantly from state to state. Most states offering their own 529 plans may provide advantages and benefits exclusively for their residents and taxpayers, which may include financial aid, scholarship funds, and protection from creditors. Before investing in a 529 plan, consider the investment objectives, risks, charges, and expenses, which are available in the issuer's official statement and should be read carefully. The official disclosure statements and applicable prospectuses, which contain this and other information about the investment options, underlying investments, and investment company, can be obtained by contacting your financial professional.

On the Move Again: International Travel Tips

With the COVID pandemic receding in most areas of the world, Americans are traveling again. U.S. citizens took more than 80 million international trips in 2022, an increase of almost 66% over the same period in 2021.¹ If you're planning a foreign vacation, here are some suggestions to help keep your trip on track.

Obtain required documents. A passport (or in some cases a passport card) is required to enter and return from all foreign countries, including Canada and Mexico. Your passport should have at least six months of validity beyond the dates of your trip. U.S. citizens can travel to many foreign countries without obtaining a visa in advance, but be sure to follow the rules for all countries on your itinerary. If you need a new or updated passport, check processing and mailing times before booking your trip.

Follow vaccination and testing requirements. Although restrictions have eased, some countries still require COVID vaccination and/or a negative COVID test before entry. Even if there are no requirements, you should protect yourself and be aware of the public health situation in any country you visit.

Alert your bank and credit-card company. Many banks and credit-card companies monitor foreign transactions, so it's wise to inform them in advance and ask about fees for international transactions. Carry a debit card that will allow you to withdraw money from foreign ATMs and a chip-enhanced credit card with a

PIN set up before you leave. Although the credit card may only require a signature in the United States, it might require a PIN overseas.

Check health insurance and carry your meds. Find out whether your medical insurance will cover you overseas. (Original Medicare does not cover care outside of the United States; some Medigap and Medicare Advantage policies may offer such coverage.) If not, consider purchasing a short-term travel policy. Bring enough prescription medicine, plus extras, in original labeled containers in your carry-on luggage. A note from your doctor listing medications may be helpful.

Pay like a local. Know the exchange rate to convert dollars to local currency, and vice versa. Foreign bank ATMs may offer better exchange rates than a currency exchange, but be aware of fees wherever you exchange money. Merchants, restaurants, and hotels might accept payment or quote prices in U.S. dollars, but you will typically get a better price if you pay in the local currency, whether using cash or a credit card.

For in-depth information on foreign travel, including passports, visas, and country-specific vaccination and testing requirements, visit travel.state.gov. For general health guidelines related to foreign travel, including country-specific public health information, see cdc.gov/travel.

1) National Travel and Tourism Office, 2023

IMPORTANT DISCLOSURES

Broadridge Investor Communication Solutions, Inc. does not provide investment, tax, legal, or retirement advice or recommendations. The information presented here is not specific to any individual's personal circumstances.

To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances.

These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable — we cannot assure the accuracy or completeness of these materials. The information in these materials may change at any time and without notice.