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SPRING 2023

THE QUARTERLY

Banking Turmoil Puts the Fed at a Crossroads

BY JAMES WALDEN, CFA
Partner and Chief Investment Officer

As if the Fed's job wasn't difficult enough, recent banking turmoil has made it even tougher.

The closure of Silicon Valley Bank (SVB) in March was due to a classic run-on-the-bank, made much worse by specific mistakes by the bank's management. Like many banks, SVB was the beneficiary of a spike in customer deposits from all the Covid stimulus put into the system. Instead of keeping those deposits safe in cash and/or short-term bonds with relatively low interest-rate risk, SVB made the bad decision to buy an outsized amount of long-term bonds at generation-low interest rates.

As the Fed increased its shorter-term rates over the past year, yields on safe, short-term bonds became more attractive for savers than the deposit yields offered by SVB and other banks. Importantly, SVB was uniquely reliant on the venture-capital industry for its customer base, which was undergoing its own turbulence, rather than stickier retail depositors. As customers withdrew deposits, SVB was forced to sell bond investments at a loss to raise cash. (Remember, as interest rates go up, bond prices go down.) Further, almost 90% of SVB's customer deposits were above the FDIC-guaranteed limit of $250,000, greatly exacerbating the problem as panic among SVB's depositors spread. All this ultimately led to SVB's insolvency.

We think it's highly unlikely this event will lead to another Global Financial Crisis. The failure of SVB, the subsequent closure of Signature Bank, and the shotgun marriage between Swiss banks USB and Credit Suisse were all largely driven by issues specific to them. Importantly, the finances of large global banks (those deemed "systemically important") are in much better shape than in 2007, and

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TAKE NOTE!

Our office will be closed on the following dates:

FRIDAY, APRIL 7
Good Friday

MONDAY, MAY 29
Memorial Day

MONDAY, JUNE 19
Juneteenth National Independence Day

TUESDAY, JULY 4
Independence Day

they all regularly undergo rigorous "stress tests." And just as importantly, federal regulators stepped in quickly this time by guaranteeing all deposits of those troubled banks and providing a mechanism for other institutions to receive cash to meet deposit outflows so they don't have to sell bonds at a loss.

However, we think it's likely that there will be some lingering fallout for banks and another economic headwind. To prevent further deposit outflows, banks may have to raise their deposit rates to be more competitive. Or they may have to access more expensive funding elsewhere to meet deposit demands. Both could lead to lower bank profitability. And as small and regional banks, in particular, work to manage their cash, they may be increasingly discerning in their lending. (Bank lending standards had already been tightening.) The result is potentially less funding available for commercial real estate and industrial projects, an outsized part of their lending activity, specifically.

All this puts the Fed at a crossroads in determining future policy. The Fed has made progress in reducing inflation, but it isn't yet at their 2% target. Continuing to raise rates could help the Fed get there, and more quickly. But this could make the current banking environment worse, as higher rates on short-term government securities would make current bank deposit rates even less attractive. If the Fed cuts rates, it could alleviate pressure on the banks. But the potential downside is that with lower rates, the Fed loses momentum in its fight against inflation.

We continue to think that now is not the time to take on undue risk. We remain positioned defensively across most client portfolios. Of course, we will stick to our philosophy and process and make any necessary changes. In the meantime, please don't hesitate to call with any questions or concerns.

Secure Act 2.0 Changes for Employer Retirement Plans

BY BARBARA DUNCAN, CFP®
Partner and Senior Wealth Advisor

The large piece of legislation passed on December 23, 2022—known as Secure Act 2.0—has many changes. Today, we will focus on the primary changes regarding current employees who have employer-provided retirement plans.

SIMPLE ROTH IRAS AND SEP ROTH IRAS

Previously, a Roth option was not available for employees who participated in these two types of employer retirement plans. However, there is now the ability to create Roth versions of these plans. It will likely take some time for these new Roth options to become available with custodial platforms and for employers to implement, but more information should be coming about these options.

EMPLOYER CONTRIBUTIONS ELIGIBLE FOR ROTH TREATMENT

Employers can now allow for employer contributions to be deposited into Roth accounts (rather than remaining pre-tax dollars). The advantage for employees is the ability to have long-term tax-free growth on these funds. However, if an employee elects for this treatment, the employer contribution will be included in the employee's taxable income (pay the taxes now). While this can still be a significant advantage in the long run, the employee will need to make sure to plan for the additional taxable income (and subsequent income taxes) at tax time.

REQUIRED ROTH OPTIONS FOR CATCH-UP CONTRIBUTIONS

Starting in 2024, for earners who have wages in excess of $145,000 in the previous calendar year (from the employer sponsoring the plan), their catch-up contributions must be Roth contributions—not pre-tax. This only applies to catch-up contributions for 401(k), 403(b), and governmental 457(b) plans. It does not apply to Simple IRAs. This change does not apply to self-employed individuals (sole proprietors and partners). Because not all employer plans offer a Roth option, if a Roth option is not added it means no employees would be permitted to make catch-up contributions. We would anticipate seeing many employers adding the Roth option soon to keep the catch-up options available.

INCREASED CATCH-UP CONTRIBUTIONS FOR LIMITED AGES

Starting in 2025, catch-up contribution limits are increased for certain participants. For 401(k) and 403(b) participants aged 60, 61, 62, and 63, their catch-up contribution limits will be increased to the greater of $10,000 or 150% of the regular catch-up contribution amount (indexed for inflation). SIMPLE IRA participants of those same ages will have catch-up contribution limits increased to the greater of $5,000 or 150% of the regular catch-up contribution amount (indexed for inflation).

INCREASED ACCESS TO RETIREMENT FUNDS DURING HARDSHIP

The list of exceptions to the 10% penalty for early withdrawals has been expanded. The exceptions focus on type of employment, length of time with employer, living in a qualified disaster zone, terminal illnesses, victims of domestic violence, and other emergency withdrawals. The details can be quite complex, so if you believe you have a need, make sure you work with your advisor to find out if one of these exceptions applies to you.

STUDENT DEBT PAYMENTS

Starting in 2024, employers can amend their plans to allow employer-matching retirement plan contributions to instead be paid toward the participant's student debt balance.

Keep in mind that many of these changes require an employer to amend their current plan, so they may not be available yet within your plan. To find out, you should look at your plan's Summary Plan Description (SPD) and talk with your advisor.

ADV Part 2A Brochure

As SEC-Registered Investment Advisors, we are required to annually deliver to each client, without charge, either a current Brochure (ADV Part 2A) that includes a Summary of Material Changes, or the Summary of Material Changes to the Brochure (i.e., Item 2) that includes an offer to provide our current Brochure without charge. Following is our delivery of the 2023 Summary of Material Changes:

SUMMARY OF MATERIAL CHANGES

There are no changes for 2023

From time to time, CWP may amend this Firm Brochure to reflect changes in business practices, changes in regulations, and routine annual updates as required by the securities regulators. This complete Firm Brochure or a summary of Material Changes shall be provided to each client annually or if a material change is made.

A copy of the complete Firm Brochure may be requested, at any time, by contacting CWP at messages@claytonwealthpartners.com or at (785) 232-3266 or sending a request to Clayton Wealth Partners, 716 South Kansas Avenue, Topeka, KS 66603-3808.

Baby Announcement

Colton Walker, Wealth Advisor, and his wife, Megan, are excited to announce the birth of Zella Rose. Zella made her appearance on March 17 and gave everyone a bit of a scare, spending 10 days in the NICU. Her family and friends were very relieved she was such a fighter, and her parents are so happy to have her home and healthy! Welcome to the CWP family, Zella!

Welcome, Magi Jacques!

We hope you will join us in welcoming Magi Jacques as a Wealth Advisor Intern at Clayton Wealth Partners this summer. Magi is finishing her sophomore year in the Personal Financial Planning program at Kansas State University. She will start with CWP on May 30 and is looking forward to interacting with CWP staff and clients.

Fidelity Updates

Effective for 2023, CWP is required to provide an email address and mobile number to Fidelity when establishing new accounts. Cyber fraud attempts are on the rise industrywide. Fidelity already has a range of safeguards and multiple layers of security in place, and adding digital credentials (email addresses and mobile numbers) will allow further client account authentication when needed. Fidelity is also strongly encouraging the electronic delivery of documents. If you have questions or concerns about your delivery options on your Fidelity accounts or any mailings you receive, please do not hesitate to contact us.

QUARTERLY SEMINAR & WEBINAR

Our in-person seminar will be held on Wednesday, May 10, at noon at The Foundry Event Center. Lunch will be served. For those who do not live locally or prefer to attend virtually, our live webinar will be held on Thursday, May 11, at noon. We will email out the webinar registration details in advance. As usual, our team will speak on current financial planning and economic topics. Please RSVP if you plan to attend in person so we can be sure to have enough food prepared.

We hope you will plan to join us in person or virtually or enjoy the recorded version of our quarterly presentation. We look forward to seeing you!

Dates and Times:

WEDNESDAY, MAY 10
Noon
In Person, Lunch Provided
LOCATION:
The Foundry Event Center
400 SW 33rd St., Topeka, KS 66611

THURSDAY, MAY 11
Noon — Live Webinar Only
(Registration information will be sent via email)

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