Condor Capital
WEALTH MANAGEMENT

Condor Capital Reviews 2nd Quarter 2023

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Domestic equities posted their third consecutive quarter of gains, once again fueled by outperformance in the tech sector.

International equities moved higher as well, but overall, have underperformed the U.S. market.

Fixed income markets were subdued, and saw relatively flat returns for the quarter.

July 2023

The domestic equity market demonstrated strong performance in the second quarter of 2023, with the S&P 500 increasing by 8.74%. A familiar narrative emerged as the technology sector led the charge, with the tech-heavy Nasdaq posting its best first half of a year since 1983. Giants such as Apple, Microsoft, Alphabet, and Meta once again dominated performance, while the surging interest in artificial intelligence (AI) helped fuel returns as well. The consumer discretionary sector also stood out, bolstered by solid performance from Amazon, Lowe's, and Home Depot. These companies have benefited from robust consumer spending and a more resilient economy than some had expected. In contrast, value stocks underperformed during the quarter. The consumer staples, utilities, and energy sectors saw negative returns, reflecting investors' continued preference for growth over value.

Internationally, developed markets underperformed compared to their U.S. counterparts but remained in positive territory. The MSCI EAFE Index, which gauges the performance of developed markets outside North America, advanced by 3.19%, while the MSCI Emerging Markets Index, reflecting emerging markets' performance, increased by 0.97%. The European Central Bank (ECB) raised rates twice during the quarter, both by 0.25%, in response to economic indicators. Meanwhile, the Bank of England adopted a more aggressive approach, raising rates by 0.25% in May and hiking by 0.50% in June.

Fixed income markets exhibited relatively flat performance during the second quarter. Municipal bonds generally outpaced corporates, and investors seeking yield found solace in lower-rated debt, with high-yield bonds outperforming their investment-grade counterparts. However, the general sentiment (and returns) in fixed income remained subdued. The U.S. Federal Reserve raised rates by another quarter point in May, bringing the benchmark rate range to 5% to 5.25%. Notably, signals from the Fed indicated that the cycle of rate hikes may be nearing its end, shown by the Fed's decision not to raise rates in June for the first time in ten meetings. This comes as inflation, housing starts, and employment are moving in the right direction. Policymakers do still expect that they might need to raise rates again at some point to combat persistent inflation, though the central bank's new policy will be more focused on assessing how the economy is reacting to recent changes before making further adjustments.

Outlook

Looking forward, investors will be closely monitoring economic indicators and their impact on central bank policies and market dynamics. Inflation will remain the key data point here: the Consumer Price Index (CPI) has declined slowly but consistently, and how that data bears out will be the most critical determinant of the Fed's course moving forward.

The consumer remains strong, but there are hints that the Fed's tightening measures are beginning to have the intended effect. Delinquencies on credit cards, which have been historically low, have now returned to levels seen before the pandemic. Additionally, while wage growth remains high, it has been gradually softening since the beginning of the year, a trend that continued throughout the second quarter. Slower borrowing and a cooling labor market are important disinflationary factors for the Fed and will be key in the fight to finally tame inflation.

Despite the U.S. central bank leaving the door open for additional rate hikes in the short term, the market is still holding onto the possibility of rate cuts by the year's end. The persistent disconnect here should be resolved soon, and we are more inclined to believe the Fed's dot plot, which indicates any rate cuts are still relatively far off.

As we expected, the turmoil that plagued the regional banking sector last quarter did not proliferate into other areas of the banking sector. The industry's resilience can be attributed to robust capital levels and risk protocols at large U.S. banks. This was evidenced by recent annual stress test results released in June, where all large institutions received passing grades. While it is possible a new round of capital flight could cause issues for banks that are not as well-capitalized, balance sheets at systemically important institutions are strong and our base case is not for such problems to materialize.

AI became a focus for investors in the second quarter. While this technology has revolutionary potential, some caution is advised. The AI market is volatile, and some valuations have become quite stretched. We find it prudent to stick with established players like Microsoft and Alphabet in such an environment. Their scale provides them with a significant advantage in accumulating the data necessary to advance AI technologies. We are keeping an eye on the sector and may make a more targeted investment should one present itself, but are approaching investments in the space with our guards up.

We will also be monitoring the tech sector more broadly given the outsized moves in some stock prices in the sector year-to-date. While the historic outperformance in the Nasdaq is undoubtedly welcome, we will look to see other sectors catch up and provide some more breadth to the market. We were encouraged to see the consumer discretionary sector contribute notably to Q2 returns as well and would view any additional broadening of the equity market as a further positive.

On the international front, China's economy has shown some red flags shortly after its post-Covid reopening had started to provide a boost to global trade. Manufacturing has contracted for three consecutive months, job shortages for young people have emerged, and the country's property market has once again raised concerns. The Chinese government is typically willing to provide stimulus to bolster growth in these situations, though we will continue to monitor the situation and its impact on the global economy.

Compared to Q1, the second quarter tracked some similar patterns but saw fewer extreme events. Security performance during Q2 was strong, and the underlying economy has held up well. Despite the challenges and headwinds discussed, equity markets remain resilient, and we maintain a pragmatic but positive long-term outlook.

The "sandwich generation" may face many challenges as their children grow up and their parents age. Here are a few considerations as you prepare for the future.

The Sandwich Generation: Juggling Family Responsibilities

At a time when your career is reaching a peak and you are looking ahead to your own retirement, you may find yourself in the position of having to help your children with college expenses while at the same time looking after the needs of your aging parents. Squeezed in the middle, you've joined the ranks of the "sandwich generation."

What Challenges Will You Face?

Your parents faced some of the same challenges that you may be facing now: adjusting to a new life as empty nesters and getting reacquainted with each other as a couple. However, life has grown even more complicated in recent years. Here are some of the things you can expect to face as a member of the sandwich generation today:

- Your parents may need assistance as they become older. Higher living standards mean an increased life expectancy, and you may need to help your parents prepare adequately for the future.
- If your family is small and widely dispersed, you may end up as the primary caregiver for your parents.
- If you've delayed having children so that you could focus on your career first, your children may be starting college at the same time as your parents become dependent on you for support.
- You may be facing the challenges of "boomerang children" who have returned home after a divorce or a job loss.
- Like many individuals, you may be incurring debt at an unprecedented rate, facing pension shortfalls, and wondering about the future of Social Security.

What Can You Do to Prepare for the Future?

Holding down a job and raising a family in today's world is hard enough without having to worry about keeping the three-headed monster of college, retirement, and concerns about elderly parents at bay. But if you take some time now to determine your goals and work on a flexible plan, you'll save much stress—and expense—in years to come. Planning ahead gives you a chance to take the wishes of the entire family into account and to reduce future disagreements with your siblings over the care of your parents.

Here are some ways you can prepare now for the issues you may face in the future:

- Start saving for the soaring cost of college as soon as possible.
- Work hard to control your debt. Installment debts (car payments, credit cards, personal loans, college loans, etc.) should account for no more than 20 percent of your take-home pay.
- Review your financial goals regularly, and make any changes to your financial plan that are necessary to accommodate an unexpected event, such as a career change or the illness of a parent.
- Invest in your own future by putting as much as you can into a retirement plan, where your savings (which may be matched by your employer) grow tax-deferred until you retire.
- Encourage realistic expectations among your children; their desire to attend an expensive college will add to your stress if you can't afford it.

Talk to your parents about the provisions they've made for the future. Do they have long-term care insurance? Adequate retirement income? Learn the whereabouts of all their documents and get a list of the professionals and friends they rely on for advice and support.

Caring for Your Parents

Much depends on whether a parent is living with you or out of town. If your parent lives a distance away, you have the responsibility of monitoring his or her welfare from afar. Daily phone calls can be time-consuming, and having to rely on your parent's support network may be frustrating. Travel to your parent's home may be expensive, and you may worry about being away from family. To reduce your stress, try to involve your siblings (if you have any) in looking after Mom or Dad, too. If your parent's needs are great enough, you may also want to consider hiring a professional geriatric care manager who can help oversee your parent's care and direct you to the community resources your parent needs.

Eventually, though, you may decide that your parent needs to move in with you. If this happens, keep the following points in mind:

- Share all your expectations in advance; a parent will want to feel part of your household and may be happy to take on some responsibilities.
- Bear in mind that your parent needs a separate room and phone for space and privacy.
- Contact local, civic, and religious organizations to find out about programs that will involve your parent in the community.
- Try to work with other family members and get them to help out, perhaps by providing temporary care for your parent if you must take a much-needed break.

Do you live in an area prone to earthquakes? If so, you may want to purchase coverage that includes earthquake insurance.

Be sympathetic and supportive of your children—they're trying to adjust, too. Tell them honestly about the pros and cons of having a grandparent in the house. Ask them to take responsibility for certain chores, but don't require them to be the caregivers.

Considering the Needs of Your Children

Your children may be feeling the effects of your situation more than you think, especially if they are teenagers. At a time when they are most in need of your patience and attention, you may be preoccupied with your parents and how to look after them.

Here are some things to keep in mind as you try to balance your family's needs:

- Explain what changes may come about as you begin caring for your parent. Usually, children only need their questions and concerns to be addressed before making the adjustment.
- Discuss college plans with your children. They may have to settle for less than they wanted or at least take a job to help meet costs.
- Avoid dipping into your retirement savings to pay for college. Your children can repay loans with their future salaries; your pension will be the only income you have.
- If you have boomerang children at home, make sure all your expectations have been shared with them, too. Don't be afraid to discuss a target date for their departure.
- Don't neglect your own family when taking care of a parent. Even though your parent may have more pressing needs, your first duty is to your children, who depend on you for everything.

Most importantly, take care of yourself. Get enough rest and relaxation every evening, and stay involved with your friends and interests. Finally, keep lines of communication open with your spouse, parents, children, and siblings. This may be especially important for the smooth running of your multi-generation family, resulting in a workable and healthy home environment.

Earthquake Insurance

Most homeowners policies have very limited coverage for earthquake damage—excluding direct loss from earth movement but covering loss by a subsequent fire, explosion, breakage of glass, or theft. As a result, if you live in an area prone to earthquakes, you may want to purchase additional coverage with earthquake insurance.

What is Earthquake Insurance?

Earthquake insurance policies cover loss to your home and your possessions. Coverage can also include costs incurred to minimize further damage after the earthquake, and costs of additional living expenses. The cost of earthquake insurance varies, depending on the scope of coverage and your location (e.g., earthquake zone). You can purchase earthquake insurance through an insurance company, and some states even offer earthquake insurance to their residents.

Should You Buy Earthquake Insurance?

It depends on a variety of factors. Consider the following questions before you buy earthquake insurance:

- What are the chances of an earthquake occurring near your home? If you live in a seismically active area, you may want to consider purchasing earthquake insurance.
- What is the likelihood of an earthquake causing considerable damage to your home? The construction of your home, the strength of your walls, how well your home is attached to its foundation, and the number of stories in your home all play a role in how well your home will fare during an earthquake.

If you're unsure of the answers to these questions, ask your insurer or visit the Federal Emergency Management Agency website at www.fema.gov for more information.

The Claims Process

You'll want to report your losses to your insurance agent or company as soon as possible. Remember to be patient, since your insurance agent or company is probably receiving hundreds of similar claim reports at the same time.

Depending on the severity of the earthquake and number of claims in the area, you may receive a claim form in the mail or a personal visit from your insurance adjuster. If an adjuster comes to your house, he or she will study the damage to your home and possessions and assign a dollar value to it. The more information you can give the adjuster (e.g., inventory of damaged or lost possessions, photographs, receipts), the faster and more accurately your claim will be settled.

After the earthquake, you may also be contacted by a public adjuster. Public adjusters do not work for an insurance company. They work for you and charge a fee for their services, which can be up to 15 percent of your settlement and is not covered by your insurance. These types of adjusters maintain that because they are independent, they can more effectively negotiate your claim settlement. If you use a public adjuster, you can check his or her qualifications by contacting your state's department of insurance.

Earthquake Safety Tips

Although no one is ever prepared for a disaster such as an earthquake, there are some steps you can take to ensure your safety:

- Know the areas in your home that you should go to during an earthquake (e.g., underneath strong desks or tables, sturdy doorways) and the areas that you should avoid (e.g., windows, bookshelves).
- Know how to turn off the gas, water, and electricity.
- Make sure that your house is properly structured (i.e., the roof is attached securely to the walls, the walls are attached strongly to each other, and the walls are braced and firmly attached to the foundation). A building inspector or contractor can help you determine if the structure of your home needs to be strengthened.
- Reinforce your chimney to the house.
- Bolt down water heaters, gas tanks, and large appliances.
- Anchor large pieces of furniture to the floor or wall.
- Place large items on lower shelves.
- Make sure you have enough water and food to last three days. Have a first-aid kit and a fire extinguisher readily available.
- Keep an inventory of your possessions, including model and serial numbers, and keep a copy outside of your house.

Filing Final Tax Returns for the Deceased

When a family member passes away, there are many decisions that need to be made and many emotions to handle. The last thing anyone thinks about is taxes.

Unfortunately, even the deceased can't escape taxation. If the departed family member earned taxable income during the year in which they died, then federal taxes may be owed. An executor or a survivor must, therefore, file a final federal income tax return (Form 1040).[1]

Similarly, if the deceased individual had a sizable estate or assets that might generate income in the future, the estate may owe taxes. Federal estate tax forms pertaining to the decedent's estate may need to be filed (Form 1041, Form 706).[2,3]

The information in this material is not intended as tax or legal advice. It may not be used for the purpose of avoiding any federal tax penalties. Please consult a professional with tax expertise if you find yourself in this situation.

Income Taxes

The Internal Revenue Service generally gives you until April 15 of the year following the taxpayer's death to file a final 1040 form. If the deceased was married, a surviving spouse has the option to file a final joint federal tax return for the last year in which the deceased lived.[4]

If you file the return online, the IRS provides instructions on all of this. If you are filing a paper return, you must write "Deceased," the decedent's name, and the date of death at the top of the 1040 form. An appointed personal representative and/or surviving spouse must sign this return per IRS guidelines. If a refund is due, you may need to file a Form 1310 (Statement of Person Claiming Refund Due a Deceased Taxpayer).[4,5]

Estate Taxes

If an estate is large enough, Form 706 (the United States Estate Tax Return) is due to the IRS within nine months of the death of the deceased, with a 6-month extension permitted. The individual federal estate tax exemption is $12.92 million for 2023, so an estate smaller than $12.92 million may not be faced with estate taxes unless the deceased individual made substantial monetary gifts before their passing.[6,7]

When the decedent's estate has an executor or administrator (in IRS terminology, an "appointed personal representative"), they must sign the return for the decedent. For a joint return, the spouse must also sign. Alternatively, a survivor of the deceased can file the return.[4]

If an estate generates more than $600 in gross yearly income within 12 months of that taxpayer's death, it will also be necessary to file Form 1041 (U.S. Income Tax Return for Estates and Trusts), usually by April 15 of the year after the year in which the individual died. Should 100% of the income-generating assets of the deceased be exempt from probate, the need to file Form 1041 is removed. Estates required to file Form 1041 should consult a tax professional.[8]

Lastly, there are some cases where expenses paid before death can be deductible. Under certain circumstances, part of the cost of treating a final illness may be deducted on the deceased's final federal tax return.[1]

You Are Not Alone

A death in the family can take a heavy toll. In the event of such a tragedy, the last thing you may want to do is deal with the related financial issues. Contact us – we are here to help.

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