First Carolina Wealth

April 1, 2024

THOUGHTS TO START YOUR WEEK

Smart Philanthropy

We have discussed before the importance of having receipts to justify amounts claimed on our Form 1040s for deductions or credits.

- Of particular importance is the need for receipts and/or appraised values of goods we donate to charity and then seek to deduct the value as an itemized charitable deduction.
- Cash or other monetary gifts are easily established by an official dated receipt from the charity or some other official transaction record. Canceled checks or credit card statements satisfy if under $250.
- The IRS requires proof of any contribution of $250 or more in cash and $500 or more in non-cash items.
    - Cash contributions over $250 require a contemporaneous written acknowledgement, together with a statement as to whether the charity provided any goods or services to the donor in exchange for the contribution.
    - Non-cash items valued at over $5,000 must also include an expert appraisal.
    - Taxpayers must file a Form 8283 for each non-cash charitable contribution over $500, with official appraisals attached if over $5,000.
- Remember the tax benefit of gifting appreciated publicly traded stocks rather than selling the stocks, paying the capital gains tax and contribution the remainder.
- Publicly traded securities are valued at the FMV at the time of gifting, rather than historic cost basis. You get the full charitable deduction, while avoiding the capital gains tax.

As an aside, **the IRS just issued a Private Letter Ruling giving all US taxpayers until MAY 15, 2024 to file their tax returns!!** [You guessed it… **April Fools !]**

Weekly Economic Insights From Our Investment Managers

During the holiday-shortened week, the primary equity indices (such as the S&P 500, Dow Jones Industrial Average, NASDAQ, etc.) mostly absorbed the gains from the previous week. Several factors influenced trading: Firstly, the release of the Core PCE, which is the Federal Reserve's preferred inflation indicator, occurred on Good Friday when the markets were closed. Secondly, there was quarterly rebalancing following a fairly significant market surge. Lastly, many traders were leaving their desks ahead of the Easter holiday (I am writing this report on Thursday afternoon, as I too am heading off for a family vacation). It's common for traders to adjust their positions before major events, resulting in sideways movement in the markets, which is essentially what we witnessed, as most economic data met or exceeded investor expectations.

Of particular interest were the rotations occurring behind the scenes. Money appeared to be coming out of the relatively higher growth areas and rotating into value and cyclicals. Some of this can be explained by the month/quarter-end rebalancing (where profits get trimmed and allocated to other areas of the market) this week, but the trend of this rebalancing may be beginning to take shape.

Key Takeaway:

Markets with broad participation offer something for everyone to enjoy and are historically better suited to continue advancing than markets where just a few big stocks are doing well. Measures of internal strength, such as the advance decline line, advancing volume, and new highs vs. new lows, are all seemingly expanding.

The Week Ahead:

This week is all about employment with a sprinkling of ISM Manufacturing data. The Manufacturing PMI has been in contraction territory for a while now, but one must note that the services sector is larger and really the more important of the two. Barring any major employment surprises, next week's data shouldn't be too market-moving (last Friday's PCE data should set the tone once futures begin trading at 6pm Sunday evening—this is being written on Thursday).

Current Headwinds:

- Valuations are frothy given the current rate environment, leaving the markets subject to a potential swift pullback
- "Higher for Longer" – Risk that the Fed waits too long to begin lowering rates and threatens economic growth
- Seasonally weak period lasts through the end of March

Current Tailwinds:

- Optimism surrounding Artificial Intelligence (AI)
- Fed pivoting from raising rates to potentially cutting in the future
- Strong labor market
- Solid economic growth
- Continued earnings growth (the pace of which may be slowing)
- Momentum
- ***Participation is broadening with value, cyclicals, and smaller-sized companies beginning to show a strong upward bias***

Sentiment:

- Credit spreads remain tight, signaling the bond market (aka "smart money") is not worried about a recession in the near future.
- The VIX (CBOE Volatility Index) is trading near cycle lows (note: periods of low volatility for a long time are often subject to change.

- The CNN FEAR & Greed Index remains above neutral in the "Greed" category, showing investors' current appetite for risk is strong.

Intermarket Trends:

- The major indices (Dow Jones Industrial Average, S&P 500, and NASDAQ) all posted new highs last week or the week before.
- Bond investors have been pricing in the idea of "Higher for Longer" recently, with 10-year treasury yields flirting with the upper-middle part of this year's trading range.
- The US dollar rallied towards the upper end of this year's trading range last week due to foreign central banks being the first to cut rates and others taking further rate hikes off the table.
- Gold has recently made all-time highs.
- Industrial metals caught a bid recently, and copper recently broke out of a multi-month trading range.
- Oil is nearing the top of its 2024 range but remains well below last year's highs.

Tying it all together:

What's not to love about a market that keeps making new highs supported by a positive economic backdrop, strong employment, and a consumer that wants to get out and spend? We recently noted that Fed Chair Powell seemed not-so-concerned about inflation, and the board has telegraphed lower rates in the future via their "Dot Plot" tool. AI (Artificial Intelligence) has provided the catalyst, momentum has taken control, and optimism is strong. While we must acknowledge valuations have become frothy and be weary of becoming overly complacent should the environment change, this appears to be one of those times where wealth is created in the markets. Should Core PCE (last Friday) meet or exceed expectations, I would expect further advances to come in those areas of the markets mentioned above that are beginning to perk up. On the flip side, a strong inflationary print would likely result in profit taking, but I wouldn't expect one bad data print to spoil the bull market we are in.

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