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The Markets

Federal Reserve (Fed) Chair Warsh shakes the market's confidence.

Former Fed Chair Ben Bernanke has said that "monetary policy is 98 percent talk and only 2 percent action." He meant that public statements are powerful tools that can shape the market's expectations around future Fed actions. That proved true last week, when the Fed appeared to lose credibility during a relatively brief press conference held by its new Chair Kevin Warsh.

The Fed did what markets expected, but the new Chair did not

The Federal Open Market Committee (FOMC) met last week to determine a path for interest rates. In its post-meeting statement, the committee confirmed:

- Inflation remains high.
- The Fed is committed to bringing it lower.
- Most voting members were not ready to raise the federal funds rate yet.

That was exactly what Wall Street expected, and stocks experienced a brief relief rally, reported Connor Smith of Barron's. Then, during the press conference, "Federal Reserve Chairman Kevin Warsh explained his decision to keep rates steady with a series of contradictory, confounding, and supremely confident answers to reporters' questions," reported Alex Rosenberg of Barron's.

Bond markets pushed Treasury rates higher

After Chair Warsh's comments, the bond market expressed its opinion. Yields on longer U.S. Treasuries moved sharply higher. "Benchmark 30-year Treasury bond yields, the market's best representation of long-term inflation risks and expanding government deficits, are trading at the highest levels since 2007," reported Baccardax.

Higher interest rates can help slow the rate of inflation by making borrowing more expensive and reducing demand for goods and services. Often, the FOMC increases the federal funds rate to accomplish this. In this case, it was the work of bond vigilantes, investors who think inflation risks are greater than the rest of the market assumes, and who act on that belief, reported Martin Baccardax of Barron's.

Higher rates mean higher interest payments on the national debt

Since the U.S. government borrows to fund the national debt by issuing Treasuries, higher rates also will increase the amount of interest the U.S. government pays to finance the debt. The Peter G. Peterson Foundation reported:

"As the national debt grows and interest rates rise, the United States will spend more of its budget on the cost of servicing that debt — crowding out opportunities to invest in the economy. Interest costs are set to become the fastest-growing part of the federal budget and will total \$16.2 trillion in the next 10 years alone, according to the CBO [Congressional Budget Office]."

It was a tumultuous week for U.S. stocks, too. Major indexes moved lower during the week before rebounding to finish the week high.

Data as of 7/31/26	1-Week	YTD	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 Index	1.1%	9.4%	18.2%	17.7%	11.3%	13.2%
Dow Jones Global ex-U.S. Index	1.8	11.6	24.2	14.4	5.8	6.7
10-year Treasury Note (yield only)	4.8	N/A	4.4	4.0	1.2	1.5
S&P GSCI Gold Index	-0.6	-5.4	22.7	26.9	17.7	11.7
Bloomberg Commodity Index	-2.1	20.4	30.5	7.2	6.6	4.8

S&P 500, Dow Jones Global ex-US, S&P GSCI Gold Index, Bloomberg Commodity Index returns exclude reinvested dividends. The three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance; MarketWatch; djindexes.com; U.S. Treasury.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable

THE RETIREMENT BALANCING ACT. The amount of income you receive in retirement will depend on a lot more than your Social Security benefits and distributions from your retirement savings accounts. The rules governing Medicare, Social Security, and taxation are complex and can have unexpected effects on retirement income for those who are unfamiliar with how they work together.

Some Medicare costs are deducted from Social Security benefits

While most of the changes to Medicare and Social Security for 2026 and 2027 are relatively modest, they illustrate how one program can affect another. Take Social Security. The average monthly retirement benefit is projected to increase by about \$75 in 2027 if the projected 3.6 percent cost-of-living adjustment (COLA) holds, according to Deirdre Shesgreen of AARP. The purpose of the annual COLA is to help benefits keep pace with inflation over time.

Medicare costs also are expected to increase in 2027. The Medicare Trustees Report projects that the standard Medicare Part B premium will increase by \$6.60 a month in 2027. In addition, many beneficiaries will pay higher deductibles, prescription drug premiums, and out-of-pocket costs. Since the Social Security Administration can automatically deduct Part B and Part D premiums from your monthly benefits, those increases take a bite out of the larger Social Security check.

Taxes add another layer of complexity.

The amount of taxable income you receive as a retiree will affect the taxability of your Social Security benefits and the cost of your Medicare benefits. Here's how it works:

- **Almost 50 percent of retirees pay taxes on Social Security benefits.** Over the past few decades, the number of retirees whose Social Security benefits are taxable has risen significantly because the income levels that determine benefit taxability have not changed for decades. As a result, today, a single taxpayer with taxable income of \$25,000 or more, and joint filers with taxable income of \$34,000 or more, usually owes taxes on a portion of their Social Security benefits.
- **Higher-income Medicare enrollees pay surcharges.** If you fall into the higher-income category for Medicare, you may pay Income-Related Monthly Adjustment Amount (IRMAA) surcharges on Medicare Part B and Part D premiums. Because IRMAA is based your most recent federal income tax return, a large withdrawal from a traditional IRA, a sizeable required minimum distribution (RMD), or other taxable income distributions can increase both federal income taxes and future Medicare premiums.

Retirement income planning requires a thorough understanding of the rules and changes that affect Social Security benefits, Medicare costs, and taxation. Knowing how one change influences another can help retirees make informed decisions and gain a clearer understanding of how to maximize retirement income. The timing and source of retirement income can be just as important as the amount received.

There are strategies that can help retirees effectively manage retirement income. They may spread withdrawals over multiple years or transform taxable income into tax-free income by converting traditional IRAs to Roth IRAs during lower-income years. The strategy that's right for you will depend on your personal financial circumstances. If you would like to learn more, please get in touch.

WEEKLY FOCUS – THINK ABOUT IT

“Words have no power to impress the mind without the exquisite horror of their reality.”

— *Edgar Allen Poe, Author*

Best regards,

A handwritten signature in black ink that reads "Ann Marie Etergino". The script is cursive and fluid, with the first name "Ann" starting with a large capital 'A' and the last name "Etergino" ending with a long, sweeping tail.

Ann Marie Etergino, CIMA®

Managing Director – Financial Advisor

The Etergino Group at
RBC Wealth Management
5425 Wisconsin Avenue, Suite 301
Chevy Chase, MD 20815
Tel: (301) 907-2772 | Toll: (800) 368-3880
Website: www.eterginogroup.com



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- Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.
- Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.
- The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
- All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client's portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. You cannot invest directly in an index.
- The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
- The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
- Gold represents the 3:00 p.m. (London time) gold price as reported by the London Bullion Market Association and is expressed in U.S. Dollars per fine troy ounce. The source for gold data is Federal Reserve Bank of St. Louis (FRED), <https://fred.stlouisfed.org/series/GOLDPMGBD228NLBM>.
- The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.
- The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.
- International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
- Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
- The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage is often obtainable in commodity trading and can work against you as well as for you. The use of leverage can lead to large losses as well as gains.
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