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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 highe

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,

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