TILIA NEWS

INVESTMENT MANAGEMENT | FIDUCIARY ADVICE | RETIREMENT PLANNING

IRS Announces 2025 Contribution Limits

The IRS recently announced updated contribution limits for 2025, providing greater opportunities for saving and investing.

For 401(k) and 403(b) plans, the employee contribution limit increased to $23,500, with a $7,500 catch-up for those between ages 50 to 59 and 64+, and an enhanced $11,250 catch-up for ages 60–63. SIMPLE IRAs now permit up to $16,500 in contributions, plus a $3,500 catch-up for ages 50 to 59 and a $5,250 catch up for those between 60 and 63. SEP-IRA contributions are limited to the lesser of $70,000 or 25% of gross compensation.

Roth and Traditional IRA contributions are still capped at $7,000, with a $1,000 catch-up for those turning 50 by Dec 31, 2025 and older.

The Investment Landscape Entering 2025

As 2024 winds down and our investment committee goes through the year-end review of our “core portfolio”, it is a good time to take stock of the overall investment landscape. Making predictions or worse - major investment policy shifts, in the immediate aftermath of an election is a dangerous game. Taking politics out of the picture, we feel like there are a few “basic truths” heading into this next year:

1) Large U.S. stocks appear to be expensive. The S&P 500 index is currently priced at 23x projected earnings for 2025. We’re approaching the valuation levels we saw near the end of 2021 (23.5x), which proved to be a short-term market peak. The 10 year average valuation for the index is 18x. Furthermore, the so-called “Magnificent 7” are valued at a loftier 31x, and have grown to represent 31% of the total S&P 500 market capitalization. The other 493 companies in the index collectively trade for a slightly more reasonable valuation of 19.5x.

2) While the election results have been viewed broadly as a positive by the U.S. stock market, the backdrop is much different than it was at the onset of the first Trump administration. Specifically, U.S. corporations were taxed at 35% in 2016, and were poised to benefit enormously from the Tax Cuts & Jobs Act of 2017 that pushed corporate tax rates down to the current level of 21%. Beyond that, the inflation rate (as measured by CPI) averaged 1.3% in 2016 and the Federal Funds rate in December of 2016 stood at 0.75%. This time around, there is likely far less

Roth IRA income phase-outs range from $150,000 to $165,000 for single filers and $236,000 to $246,000 for joint filers.

The annual gift tax exclusion rose to $19,000 per recipient, while Health Savings Account limits increased to $4,300 for individuals and $8,550 for families, with a $1,000 catch-up for those 55+.

Please contact us if you have questions about your particular financial plan.

The Investment Landscape (continued)

3) Diversification will be important again. For the last two years, anything remotely related to the growth of artificial intelligence has been one of the only places to be in markets. While the runway for AI-related investments is likely still long, market enthusiasm will wane at some point - likely sooner than expected.

We continue to be optimistic about the prospects for stock & bond investments, and look forward to guiding you through 2025!

appetite for additional corporate tax cuts, inflation has averaged 2.975% over the last 12 months, and the Federal Funds rate is at 4.75%.

3) Bonds look attractive, but inflation remains a risk. The S&P 500 dividend yield currently stands at 1.22%, while 8-12 year investment-grade corporate bonds yield in the neighborhood of 5%. For retired, risk-averse, or income-focused investors, bonds are well-positioned to deliver solid returns & act as a buffer if/when the economy slows down. In most cases, long-term bond holdings should be balanced out by some short-term holdings as a hedge in case inflation projections move higher & negatively impact the price of long-term bonds.

What does this mean for us as investors? Here are a few key takeaways for us:

1) We need to get pickier about stock valuations within our portfolio. We've rode many of our core portfolio stocks to higher and higher valuations. Better than average companies deserve higher than average valuations, but there is a point where we have to say goodbye to some of our beloved holdings in order to set ourselves up for success going forward.

2) Bonds are back to a "neutral" weighting vs. normal target allocations. For nearly a decade, most clients owned less bonds than they typically would in their portfolios due to the Federal Reserve's zero interest rate policy. More recently, the scale tipped in the other direction, and we recommended that many clients own more bonds than normal, thanks to yields on high-quality bonds hitting the 6% range. With bond rates falling nearly 1% over the last year, we're approaching neutral territory again. Back in 2022, there were a number of articles suggesting that the 60/40 (stocks/bonds) portfolio was dead. Two years later, 60/40 for retirees looks as good as it has in a long time. *(Continued at left)*

Sources: Federal Reserve Bank of St. Louis (fred.stlouisfed.org), Yardeni Reseach (yardeni.com), usinflationcalculator.com, tradingeconomics.com.