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A Brighter Outlook After Three Years Of Crises

For three years, it's been one crisis after another. Surprisingly, despite the confluence of crises, the outlook for the U.S. is very bright. Glimmers of optimism are on the horizon. Here's perspective for investors on the tectonic economic shifts under way, as the crises recede and we emerge from the tumultuous post-pandemic era.

Crises. In February 2020, the Covid crisis began. After partially shutting down the economy, the U.S. government authorized trillions in cash payments to consumers and businesses in 2020 and 2021. In early 2022, as Covid-19 subsided, an inflation crisis erupted. It's well on its way to ending.

In 2023, however, yet another crisis threatened to wreck the economy: a default by the U.S., on its debts clouded the outlook until June, when the debt ceiling crisis was resolved with a temporary fix, delaying a permanent solution until after the national election

in November 2024.

Inflation. The inflation crisis peaked when the Federal Reserve's benchmark index of inflation hit an annual rate of 7% in the 12 months ended June 30, 2022. The worst inflation in four decades was initially sparked by government stimulus payments in 2020 and 2021, along with pandemic-related supply chain disruptions. Inflation worsened after Russia invaded Ukraine in February 2022 and the U.S. imposed sanctions on imports of Russian oil, which led to a spike in energy prices.

In March 2022, U.S. central bankers abandoned their contention that inflation was transitory and acted to halt inflation from further infiltrating the American financial psyche by raising lending rates 10 times in 13 months.

The effects of Fed rate hikes are delayed by several months, which complicates the Fed's delicate task of allowing growth to continue while

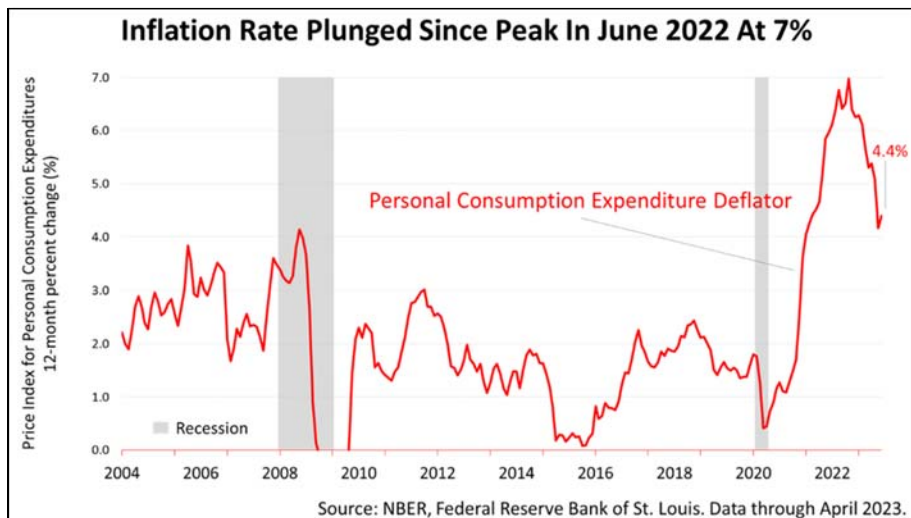
A Sign Of Progress In Solving U.S. Economic Problems

The Federal Reserve appears to be pulling off a feat most experts did not believe it could: ending its aggressive inflation-fighting campaign of 11 interest rate hikes without tipping the U.S. economy into a recession.

The Covid-19 pandemic was followed by two huge federal stimulus programs and supply-chain disruptions in 2020 and 2021. Then, oil prices soared in 2022 after Russia invaded Ukraine. In response, the Fed hiked the lending rate it charges the nation's largest banks from a quarter of 1% in March 2022 to 5.25% in July 2023.

It was the most aggressive monetary tightening crusade implemented by the U.S. central bank in modern history. Inflation erodes consumer buying power and undermines confidence in an economy. Once inflation infiltrates the financial psychology of the masses, it's hard to eradicate. The last inflation crisis, during the 1970s and early 1980s, was ended only after then-Fed chair Paul Volcker famously hiked rates so much that it caused a deep recession.

The success of the Fed campaign makes it likely that the economy will not fall into a recession and will continue to grow at about a 2% rate in 2024, while inflation continues to fall toward the target rate of 2%. It demonstrates that the U.S. central banking system has grown more effective in fighting inflation and other financial economic crises, and it is a sign of the progress of the United States in solving problems..



(Continued on page 4)

Reversal Of Tax Cuts And Jobs Act Deals A Financial Blow

When the Tax Cuts And Jobs Act (TCJA) was signed into law on December 22, 2017, it was the most sweeping rewrite of U.S. tax law since the Tax Reform Act of 1986. Now, it's about to be undone.

On December 31, 2025, tax rules changed by TCJA affecting individuals will expire. Reversal of the seismic shift wrought by TCJA is widely expected because TCJA increased the U.S. Government debt and materially weakened the nation's balance sheet. Now, two years before expiration of TCJA, it is time to begin financial planning moves to minimize the impact of the coming reversion to pre-TCJA tax rules.

In the financial press and among tax nerds, the expiration at the end of 2025 is often referred to as a "sunset" of TCJA, misleadingly conjuring up a proverbial day at the beach. Far from it, the expiration will be jarring financially for many wealthy individuals.

To appreciate the depth and breadth of the changes just ahead, consider these key reforms ushered in by TCJA:

¹ Before TCJA, 68.7% of individual filers claimed the standard deduction, and about a third of all

individual returns itemized deductions. After TCJA became effective in tax-year 2018, IRS data show nearly 90% of individuals claimed the standard deduction; only 11% of individual filers itemized deductions — vastly simplifying tax-filing.

- TCJA permanently slashed the maximum corporate income tax rate by 40%, from 35% to 21%, but tax cuts for individuals would be temporary, lasting from 2018 through 2025.

- Most income-tax brackets for individuals were reduced, but only from 2018 through 2025.

- For high-income earners, TCJA reduced the top marginal tax bracket from 39.6% to 37%.

- The amount exempt from estate tax doubled to \$11.2 million, and after annual adjustments for inflation, now is \$12.9 million.

- Owners of sole proprietorships, partnerships, S corporations, and some trusts and estates, have been eligible to deduct up to 20% of income from a qualified trade or business, but reversion to pre-TCJA rules ends that tax break after 2025.

The nonpartisan Congressional Budget Office (CBO), the research

arm of Congress, has projected TCJA will increase U.S. budget deficits by about \$1.5 trillion between 2018 and 2027, raising the federal debt from 91.2% of annual gross domestic product (GDP) in June 2017 to 97.5% of annual GDP in 2027.

CBO estimates TCJA reduced federal revenue by \$0.47 trillion over 10 years, before accounting for the modest GDP growth it spawned.

TCJA's negative impact on the long-term federal debt makes it more likely reversion to pre-TCJA laws will spur Congress to enact new legislation to reduce the impact on some taxpayers while hiking taxes for others. Examining the impact on your personal situation of the expiration of TCJA will better prepare high-income-earning and high-net-worth individuals for any new tax rules.

The rewards of planning for expiration of TCJA's sweeping changes are significant for many clients and prospects, as are the consequences of failing to plan. ●

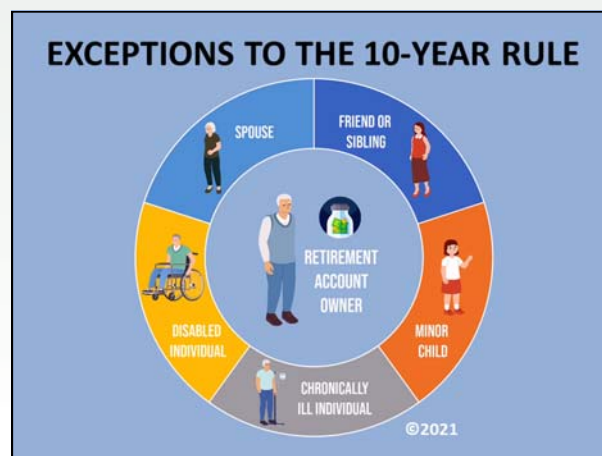
Making A Life-Changing Financial Difference To A Spouse And Needy Loved Ones

Tax law and estate planning might bore you to death, but this brief tip could make a life-changing financial difference to your surviving spouse, and other loved ones, including disabled and chronically ill family or friends, as well as any minor children in your life.

These individuals are among the five exceptions to the usual distribution rules on the inheritance of assets in IRA, 401(k), or other federally qualified retirement plans.

New rules, that went into effect on January 1st, 2020, with the enactment of The Secure Act, require the beneficiary of a

retirement account to inherit an IRA or 401(k) accounts to deplete the money in those accounts



within 10 years. It was a technical change that many overlooked in the rush of tax law changes that occurred in 2020 during the pandemic. But it made a big difference in tax planning.

To be clear, until 2020, beneficiaries of an inherited IRA or 401(k) were not required to liquidate an inherited account within 10 years, as is now required, which had left open a major tax break: They had the option to stretch out distributions over their actuarial life expectancy, thus, leaving the assets to compound tax-free for a

Office Space Reckoning Expected In 2024

Office-space delinquencies tripled in the first six months of 2023, and landlords and investors in office space through mutual funds, retirement plans, and other packaged products face a tough period ahead. Delinquencies on office-space mortgages averaged 10 times the rate of five subcategories of commercial real estate (CRE).

Lodging, second-worst of the five segments, in the first six months of 2023, experienced a 1.41% delinquency rate. That's bad, but less than half the 3.1% delinquency rate on office-space mortgages. Comparatively, multifamily homes, industrial production, and retail CRE delinquencies, were fractional.

Post-Covid America needs much less office space. With 46% of officespace mortgage loans maturing between 2023 and 2025, the cost of a

mortgage post-pandemic has soared as banks tightened loan standards, putting more financial pressure on landlords and investors at a tough time.

These are some of the key observations of Erin McLaughlin, an expert on office-space and commercial real estate and senior economist at The Conference Board. "We've had a cultural shift in how people work," she said in an October 11 briefing for corporate leaders at many of the world's largest companies. Ms. McLaughlin painted a grim outlook for the officespace segment of CRE.

Smaller Banks (Total Assets \$100M-\$10B) Have the Highest Exposure to Commercial Real Estate and Office Markets

Bank Size	# of Banks	CRE as a % of Total Assets	Office as a % of Total Assets
25 largest, \$160 B+	25	4.3%	0.5%
\$10 B - \$160 B	135	16.2%	2.0%
\$1 B - \$10 B	829	24.3%	3.2%
\$100 M - \$1 B	2,965	18.3%	2.6%
< \$100 M	761	7.2%	1.1%
Total / Average	4,715	9.3%	1.2%

Source: FDIC, Cohen & Steers, The Conference Board, 2023

mortgaged in variable rate loans with five- to 10-year terms. The rise in lending rates that began in March 2021 is now impacting many more office-space landlords and CRE investors, at the same time they are facing tougher lending standards. Recapitalizing now is much harder and more expensive.

Converting office space into residential apartments is a pipe dream –literally. While it sounds like a great idea, TCB's economics team says windows, plumbing, and HVAC systems make it too expensive about 90% of the time. Only about 10% of U.S. office space can be converted to residences profitably.

A flight to quality is likely. Companies will be seeking high-end office space to motivate workers to show up. "If you're leasing 30,000 square feet of office space, you may decrease the size but increase amenities." Expect a flight to the best addresses downtown, the ones with rooftop facilities, pickleball courts, and scenic panoramic views.

Small and regional bank exposure. The 25 largest U.S. banks have 4% of their assets in CRE loans, while small and regional banks have about 25% of their assets invested in CRE. Bank of Ozarks is located in Arkansas but heavily invested in New York City office space. Warning of a second leg of the banking crisis experienced in March 2023, TCB members, senior executives at many of the world's largest companies, were told some banks may fail and large banks opportunistically will buy troubled smaller banks. ●

Background.

Office-space accounts for 18% of the total value of U.S. CRE. McLaughlin said the turmoil expected may be largely contained to the office space segment of CRE. Office space generally is

OFFICE-SPACE LANDLORD AND INVESTOR ALERT

CRE Asset Type	Jan. 2023	Feb. 2023	March 2023	April 2023	May 2023	June 2023	July 2023	% Increase Jan. 2023 to July 2023
Office	1.83%	2.38%	2.81%	3.27%	4.82%	4.86%	4.86%	+5.13%
Multifamily	1.56%	1.82%	1.91%	1.82%	1.48%	1.59%	1.82%	+0.27%
Retail	0.58%	0.75%	0.22%	0.11%	0.07%	0.48%	0.08%	+0.28%
Industrial	0.40%	0.40%	0.37%	0.40%	0.29%	0.42%	0.31%	-0.09%
Lodging	4.44%	4.40%	4.41%	4.23%	4.25%	5.35%	5.85%	+1.41%
Overall	2.94%	3.12%	2.89%	3.09%	3.62%	3.96%	4.41%	+1.47%

Source: Trigg, The Conference Board, 2023

EXPECT TURMOIL IN COMMERCIAL REAL ESTATE

much longer period. The 10-year mandatory distribution rules carved out some key exceptions for certain individuals that now require attention, if you intend to pass on your retirement plan, IRA, or other qualified plan assets to a spouse, chronically ill or disabled individual or minor child.

For a disabled individual, who inherits federally qualified retirement assets, for instance, stretching out distributions over decades could transform the inheritance into an income stream for life. The same is true for a widower, chronically ill individual, or minor child that inherits your retirement account.

In addition, a fifth exception to the usual distribution rules applies to a

beneficiary that is less than 11 years younger than the retirement account owner. A sibling or friend who is 10 years or less your junior, who inherits qualified retirement account assets, also may use their life expectancy -- instead of taking required distributions over 10 years.

If you own a sizable IRA, 401(k) or other qualified account, and your beneficiary is your spouse, a friend or sibling 10 years or less younger, an individual with a disability, chronic illness, or a minor child, the five exceptions to the 10-year rule pose complicated tax planning as well as legal and investment issues requiring personal advice from a professional that is beyond the scope of this article. ●

Have You Logged Into Social Security?

Creating an online account at SSA.gov is an important first step in understanding your retirement income situation. However, only about 60 million of the 160 million individuals in the labor force have Social Security accounts have signed up for online access.

At SSA.gov/my account, it's easy to create an account, even if you have no patience for online machinations. Logging in allows you to see how much you've paid into Social Security every year since you first began working. Checking the accuracy of your earnings report is essential because it ultimately determines the amount of your benefits.

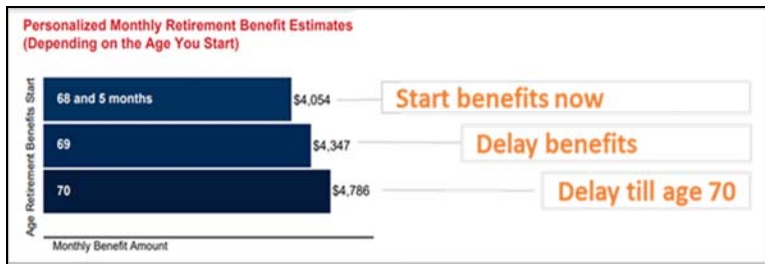
You need to choose from three methods to create a username and password to log in to your account. Logging in using Login.gov, for instance, is simple: Check a box to accept the terms of use and verify your email address by clicking a link that's emailed to you. Fill in your social security number, address, and phone number. Then verify your contact information by responding to an email and text message.

For an added layer of security, download an authentication application

to your smartphone using the iPhone app store or Google Play. Google's Authenticator is free and it generates secure, six-digit codes that you use each time you sign into your account.

Once you've set up your account, you can download your Social Security benefit statement and your Primary Insurance Amount (PIA). Social Security benefits are calculated based on your highest 35 calendar years of earned income.

Your PIA is the benefit you would receive if you elected to begin receiving retirement benefits at your normal retirement age, which is generally between age 65 and 67 for most individuals. On the home page of your personal social security account, you can review your Social Security statement. Your statement shows an estimate of the benefit you will monthly receive as well as the maximum benefit you and your spouse are eligible to



receive.

A blue bar chart on your statement shows the benefit you'd get if you started collecting retirement benefits immediately. The bottom bar shows your benefit amount if you delay taking benefits as long as possible by waiting until age 70. The middle bar shows the impact of waiting to take benefits between now and age 70.

Page 2 of your Social Security statement includes a table summarizing your earnings history. For a full earnings history report, scroll down on your personal social security account home page.

Creating an online Social Security account is a good starting point in retirement planning, particularly since you're paying for the government to provide this service. ●

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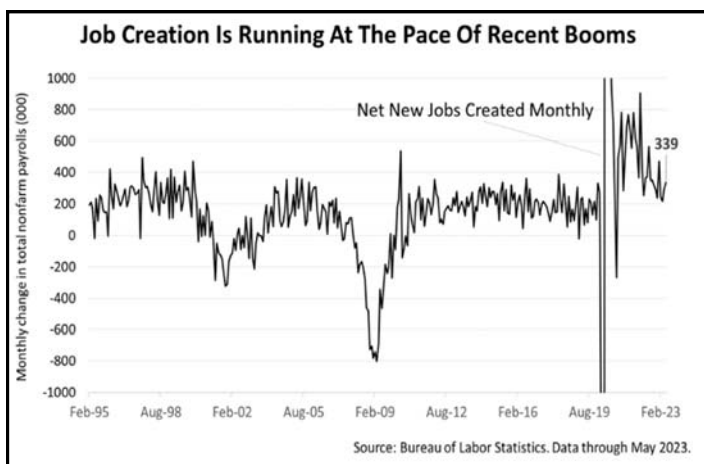
simultaneously hiking rates to snuff out inflation. Fed monetary policy mistakes caused every recession in post-War U.S. history except for the Covid-19 recession. However, evidence is strong that the Fed is winning its battle to reduce inflation without causing a recessionary cycle.

Recession Unlikely. According to the U.S. Bureau of Labor Statistics, 339,000 new jobs were added to the economy in May, nearly twice what was expected. Moreover, the pace of job creation is on par with the dot-com boom and comeback after the 2008 financial crisis, as is shown in the dotted line in the chart. This indicates the Fed's effort to eliminate inflation

without causing a recession is working.

The Outlook.

Amid a bear market that began in June 2022, investors should be prepared for the next bull market. The confluence of crises in the last three years makes it hard to remember that Covid-19 in February 2020 ended the longest bull market in American history. The record-long 128 month bull market began in March 2009, following the 2008 global financial crisis. The U.S. led the world out of



that calamity and, with the widespread adoption of artificial intelligence (AI) already boosting the U.S. economy, the country is poised to lead the world once again from the back-to-back crises of the post pandemic era. ●