Trust NEWS

F&M BANK
Division of CBI Bank & Trust

A newsletter for customers and friends of F&M Bank Winter 2025

Three Market-Moving Economic Indicators to Watch

Among all of the economic indicators released each month, three reports in particular can move the market: the Employment Situation, gross domestic product, and Personal Income and Outlays.

The Employment Situation

Each month, the Bureau of Labor Statistics (BLS) publishes the Employment Situation Summary report based on information from the prior month. The data for the report is derived primarily from two sources: (1) a survey of approximately 60,000 households, or about 110,000 individuals (household survey), and (2) an establishment survey of over 650,000 worksites. The information contained in each report includes the total number of employed and unemployed people, the unemployment rate, the number of people working full time or part time, average hourly and weekly earnings, and average hours worked per week.

According to the BLS, when workers are unemployed, they, their families, and the country as a whole can be negatively impacted. Workers and their families lose wages, and the country loses the goods or services that could have been produced. In addition, the purchasing power of these workers is lost, which can lead to unemployment for even more workers.

Investors pay particular attention to the information provided in this report. For instance, a rising unemployment rate may indicate a slowing economy. In this scenario, stock values may decline with falling corporate profits, while bond prices may rise as yields fall in response to lower interest rates. Slower wage growth may also be a sign of lower inflation and interest rates, and reduced economic productivity.

Gross domestic product

Gross domestic product (GDP) measures the value of goods and services produced by a nation's economy less the value of goods and services used in production. GDP offers a broad measure of the nation's overall economic activity in the U.S. and serves as a gauge of the country's economic health. GDP contains a vast amount of economic information, including gross domestic income (the net of incomes earned and costs incurred in the production of GDP); gross output (the value of the goods and services produced by the nation's economy); gross domestic purchase price index (measures the value of goods and services bought by U.S. residents); personal consumption expenditures (PCE) price index (costs of consumer goods and services); and profits from current production (corporate profits).

GDP can offer valuable information to investors, including whether the economy is expanding or contracting, trends in consumer spending, the status of residential and business investing, and whether prices for goods and services are rising or falling. A strong economy is usually good for corporations and their profits, which may boost stock prices. Increasing prices for goods and services may indicate advancing inflation, which can impact bond prices and yields. In short, GDP provides a snapshot of the strength of the economy over a month and a year and can play a role when making financial decisions.

Other Important Economic Indicators

- **Unemployment Insurance Weekly Claims report** — provides data on new claims filed, total claims paid, and the unemployment rate

- **Consumer Price Index** — measures changes in the average price of goods and services purchased by consumers

- **Federal Reserve's monthly industrial production index** — measures monthly and annual changes in output in manufacturing, mining, and utilities

Personal Income and Outlays

The Personal Income and Outlays report measures household income, expenditures, and savings. It also includes data on consumer prices for goods and services. In particular, this report includes data on personal income, disposable (after-tax) personal income, personal consumption expenditures, personal savings, and prices for consumer goods and services as measured by the PCE price index.

In general, consumer spending, which accounts for more than two-thirds of the economy, usually influences market performance. Knowing what consumers are buying (i.e., durable goods, nondurable goods, or services) may offer insight into how various market sectors might perform. Changes in income and spending can have a direct impact on the market. Greater spending usually enhances corporate profits and stock values and vice versa. While the Consumer Price Index may be the more recognized measure of inflation, the PCE price index is the Federal Reserve's preferred measure of inflationary (or deflationary) trends. The rate of inflation and interest rates often move in the same direction because interest rates are the primary tool used by central banks (including the Federal Reserve) to manage inflation. Rising inflation usually prompts the Fed to increase interest rates, while falling inflation (and slowing economic growth) might lead to a decrease in interest rates to promote borrowing and stimulate the economy.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Annual Market Review 2024

The year 2024 was extraordinary for the economy and the markets. High interest rates, rising unemployment, turmoil in the Middle East, and the ongoing Russia/Ukraine war, were some of the many factors that should have signaled economic contraction and a downturn in the stock market. Yet, the opposite occurred. Gross domestic product expanded by 3.1% in the third quarter and 2.9% year over year. Each of the major stock market indexes listed here posted solid year-end gains. Inflation came down. Corporate earnings grew, despite the unemployment rate inching higher.

While data showed price pressures slowed in 2024, consumers faced the stark reality of the overall high cost of living. According to the Consumer Price Index (CPI), prices for food rose 2.4% for the 12 months ending in November, while shelter prices rose 4.7%. Prices at the wholesale level rose 3.0% for the year, the largest increase since moving up 4.7% for the 12 months ended February 2023.

The economy grew in 2024, proving that it was able to withstand the Federal Reserve's aggressive policy of interest rate hikes from the previous year. Consumer spending remained strong, despite rising unemployment, which provided a boost to the overall economy.

In March 2022, the Federal Reserve began to aggressively raise interest rates as part of a restrictive policy aimed at reining in escalating inflation. In 2023, there were signs that the Fed's monetary policy was paying off. Price growth slowed without triggering a recession. The progress in moderating price pressures, coupled with economic resilience, allowed the Fed to lower interest rates by 100 basis points by the end of the year. Nevertheless, interest rate projections for 2025 were tempered as the Fed signaled only two rate cuts, depending on inflation and economic data.

The housing sector, which cooled in 2023 on the heels of higher interest rates, rebounded somewhat in 2024. Although the Fed reduced the federal funds rate, mortgage interest rates remained elevated. According to Bankrate, the 30-year fixed-rate mortgage was 7.03% as of December 30. That's down from a high of 7.39% in May. With the Fed tempering its projections for interest rate cuts in 2025, the consensus is that mortgage rates will remain at or near their current levels. Purchase prices for both new and existing homes also increased year over year. Despite rising lending rates and higher home prices, both new and existing home sales rose over the course of the year.

The U.S. economy proved to be resilient in 2024. Gross domestic product expanded during each of the first three quarters of the year, culminating in a 3.1% increase in the third quarter. Consumer spending, the linchpin of the economy, also showed strength, climbing 3.7% in the third quarter. Consumer spending on both goods and services rose throughout the year.

The employment sector, expected by some to slow with rising interest rates, maintained strength throughout the year. While the number of new jobs trended lower during the second half of the year, job growth averaged 186,000 per month through November. The number of employed persons changed little from a year earlier. The total number of unemployed rose by 883,000 since November 2023, while the unemployment rate, at 4.2%, was 0.5 percentage point above the year-earlier rate.

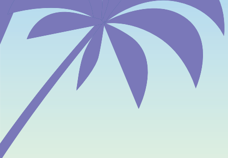
One of the primary factors in the drop in overall inflation was a decline in energy prices. According to the CPI, energy prices fell 3.2% over the 12 months ending in November. Gasoline prices dropped 8.1% over the same period. Food prices, on the other hand, rose 2.4%, while prices for shelter increased 4.7%.

Total industrial production declined 0.9% for the year. Manufacturing, which accounts for about 78.0% of total production, decreased 1.0%. There was little optimism from purchasing managers about the state of the manufacturing sector, which saw falling output and higher prices. On the other hand, purchasing managers reported that the services sector expanded at the steepest rate in 33 months amid growing optimism about business conditions under the incoming Trump administration.

As 2024 drew to a close, there were some positives to consider upon entering the new year. By the end of 2024, Wall Street enjoyed the best two-year run since 1997-1998. If corporate earnings continue to grow, that will bode well for stocks in 2025. There are factors that will come into play next year, but how they impact the economy and markets is open to speculation. How much longer will the Russia/Ukraine war last, and how much more financial aid will be coming from the United States? The Hamas/Israel conflict could expand to include other countries, impacting other lives and economies.

Eye on the Year Ahead

Looking forward to 2025, several questions arise. The federal funds rate was reduced by 100 basis points in 2024. What impact will lower interest rates have on the economy, labor, and consumer prices? If the incoming administration moves toward deregulation, how will that affect the concentration of economic strength, and will it promote more widespread income disparities? Will the conflicts in the Middle East continue into 2025, and if so, what impact will they have on crude oil production? Will increased import tariffs drive consumer prices higher and/or strengthen domestic businesses? These are just a few of the many issues to consider entering the new year.



Would You Be Prepared for an Unplanned Early Retirement?

Most of us would prefer not to think about an unexpected (and unwelcome) early retirement, but it does happen frequently. In fact, nearly half of current retirees retired earlier than planned, and of that group, more than 60% did so due to changes at their company or a hardship, such as disability.[1] For that reason, it's a good idea to take certain steps now to help prepare for the unexpected.

What you can do now

Save as much as possible in tax-advantaged accounts. If you're forced to retire earlier than planned, your work-sponsored retirement plans, IRAs, and health savings accounts (HSAs) could become critical resources. HSA assets can be used tax-free to pay for qualified medical expenses at any time, and you can generally tap your retirement plan and IRA assets after age 59½ without penalty. Although ordinary income taxes apply to distributions from pre-tax accounts, qualified withdrawals from Roth accounts are tax-free.[2]

In addition, the IRS has identified several situations in which retirement account holders may be able to take penalty-free early withdrawals. These include disability, terminal illness, leaving an employer after age 55 (work-based plans only),[3] to pay for unreimbursed medical expenses that exceed 7.5% of your adjusted gross income, and to pay for health insurance premiums after a job loss (IRAs only).

Pay down debt. Generally, it's wise to enter retirement (especially when unexpected) with as little debt as possible. Ensuring that your financial plan includes a strategy for paying down student loans, credit card debt, auto loans, and mortgages can help you minimize your income needs later in life.

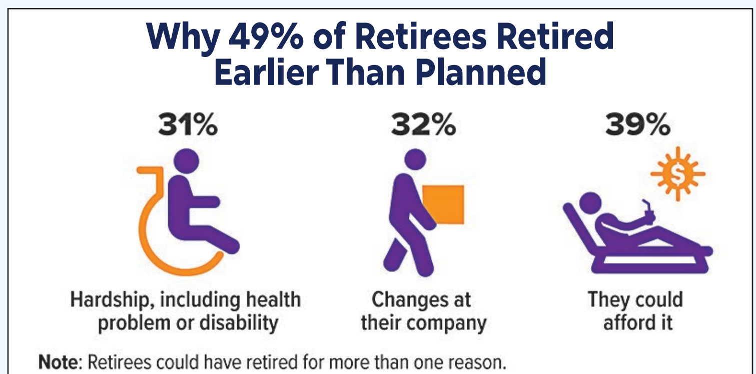
Know your bare-bones budget. Another way to help cushion the shock of an unexpected early retirement is knowing exactly how much you spend each month on your basic necessities, including housing, food, utilities, transportation, and health care. Maintaining a written budget throughout life's ups and downs will help you quickly identify how much income you'd need over the short term while you work on a longer-term income-replacement strategy.

Maintain adequate levels of disability insurance. Your employer may offer group coverage at reduced rates; however, you lose those benefits if your employment is terminated. Private disability income insurance can help you secure coverage specific to your needs, and since the premiums are typically paid with after-tax dollars, any benefits would generally be tax-free (unlike work-sponsored coverage that is paid with pre-tax dollars).

Understand Social Security benefits. If you stop working due to disability, you may qualify for Social Security Disability Insurance benefits if you meet certain requirements. You must have earned a certain number of work credits in a job covered by Social Security and have a physical or mental impairment that has lasted or is expected to last at least 12 months or result in death. If you remain eligible, benefits may continue up to age 65 and then convert to Social Security retirement benefits.

If you need to retire earlier than planned for reasons unrelated to disability and are eligible for Social Security retirement benefits, you can apply as early as age 62. However, starting payments prior to your full retirement age (66 or 67, depending on year of birth) will result in a permanently reduced monthly benefit.

Consider your health insurance options. Terminating employment prior to age 65 could leave you without health insurance. You may opt to continue your employer-sponsored health coverage for a limited period (permitted through COBRA, the Consolidated Omnibus Reconciliation Act), although this can be quite expensive. If you're married and your spouse works, you may get coverage under their plan. You may also seek coverage through the federal or a state-based health insurance marketplace. If you receive Social Security disability benefits, you'd automatically qualify for Medicare after 24 months.



Don't be caught off guard

Don't wait for an unwelcome surprise. Take steps now to help ensure your overall financial plan considers the "what-if" of an unexpected early retirement.

1) Employee Benefit Research Institute, 2024

2) Qualified Roth withdrawals are those made after a five-year holding period and after the account owner dies, becomes disabled, or reaches age 59½. The penalty for early retirement account distributions and nonqualified withdrawals from Roth accounts is 10%. Nonqualified withdrawals from HSAs will be subject to ordinary income tax and a 20% penalty. After age 65, individuals can take money out of HSAs penalty-free, but regular income taxes will apply to funds not used for qualified medical purposes.

3) Age 50 or after 25 years of service for public safety officers

WHAT'S NEW FOR 2025

To help you stay informed, here are five changes you can look forward to in the new year.

Higher catch-up contributions for some. As of January 1, individuals ages 60 through 63 may be able to make increased catch-up contributions (if offered) to their workplace plan. The catch-up amount for people age 50 and older is $7,500 for 2025, but for people ages 60 through 63, the limit will be $11,250.[1]

Cap on out-of-pocket Medicare drug costs. A bit of welcome news for people with Medicare Part D prescription drug coverage — a $2,000 annual cap on out-of-pocket prescription costs takes effect on January 1.[2] People with Part D will also now have the option to pay out-of-pocket costs in monthly installments over the course of the plan year instead of having to pay all at once at the pharmacy, which may help make it easier to manage prescription drug costs.

Automatic enrollment for new workplace retirement plans. Businesses that have adopted 401(k) and 403(b) plans since the passage of the SECURE 2.0 Act in December 2022 are now required to automatically enroll eligible employees at a contribution rate of 3% to 10%. After the first year, this rate will increase by 1% each year until it reaches 10% to 15%. New companies in business less than three years and employers with 10 or fewer employees are excluded, and other exceptions apply. Employees may opt out of coverage or elect a different percentage.

REAL ID deadline. The deadline for getting a REAL ID is May 7 (although the TSA has announced that enforcement may be phased in). As of that date, every air traveler who is at least 18 years old will need a REAL ID-compliant drivers license or identification card or another TSA-acceptable form of identification for domestic air travel and to enter certain federal facilities. Other TSA-acceptable documents are active passports, passport cards, or Global Entry cards. Standard drivers licenses will no longer be valid ID for TSA purposes, but enhanced drivers licenses from certain states are acceptable alternatives. Travelers who don't have a REAL ID by the deadline could face delays at airport security checkpoints. Visit the TSA website at tsa.gov for updates and information.

New credit scoring risk model for mortgages. In late 2025, lenders are expected to begin using VantageScore 4.0 and FICO Score 10 T (instead of Classic FICO) to qualify borrowers. These new credit scoring models will provide a more precise assessment of credit risk.[3] Models will consider trended credit data (an analysis of a customer's behavior over time or historical payment and balance information) and other data not previously considered as part of the Classic FICO score, such as rent, utility, and telecom payments. This change will potentially help more applicants qualify for mortgages.

1–2) These are indexed annually for inflation so may rise each year.
3) Fannie Mae and Freddie Mac, 2024

Contact a Trust Department Staff Member at F&M Bank

As estate planning and investment management can be complex and influenced by a number of factors, we like to start with a personal appointment where we get to know you and your needs. Contact any of the F&M Bank Department staff members to arrange an appointment today.

JONATHAN D. HOLTHE
Senior Vice President
& Senior Trust Officer
(563) 262-3124
Jon.Holthe@cbibt.com

TOM MCINTIRE
Vice President & **Regional Senior** Trust Officer
(309) 344-2450
Tom.McIntire@thefmbank.com

JENNA SWEARINGEN
Trust Administrator II
(309) 344-2451
Jenna.Swearingen@thefmbank.com

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