

On Edge

By Brian W. Kelly, Publisher

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Markets in February

US stocks were volatile and mostly lower in February amid several unwelcome surprises that shook confidence. One major concern was tariff uncertainty, as analysts noted that tariff-related cost pressures may have influenced hotter-than-expected producer prices in January. This raised fears that trade policy could push inflation higher, squeeze corporate margins, and increase the risk that the Federal Reserve might delay future rate cuts. This combination of policy uncertainty and firmer inflation data made markets more sensitive to negative headlines and fueled day-to-day volatility.

Another major driver of February's market swings was the growing uncertainty surrounding the AI trade, which had powered much of the market's gains since 2023. Investors began questioning whether the massive capital spending related to AI—especially by major tech and semiconductor companies—was sustainable. This skepticism contributed to sharp declines in high-profile tech names, including Nvidia and other AI-linked stocks, which dragged broader indexes lower. As confidence in the sector cooled down, the tech-heavy Nasdaq fell, and weakness spilled into other parts of the market.

Key Takeaways:

- Global equity and oil markets are on edge entering March, as a major joint military operation against the Iranian regime continues. Expect near-term market volatility as a result, but no long-lasting decline in equity prices.
- The US economy remains resilient, despite a loss of momentum in the 4th Quarter. Inflation continues to be an ongoing trouble spot.
- Maintain your long-term approach. Be sure to diversify your fund holdings to manage risk.

There is a lot going on in the world and the markets as we go to press, so let's get right to it. First, let's touch briefly on the events unfolding in Iran and how they might affect your holdings and our investment approach, if at all. Then we'll take a look at what happened in February, before we get into our regular economic analysis.

The major joint US-Israel military operation that began on February 28—Operation Epic Fury—has already inflicted massive damage on the authoritarian Iranian regime, including the death of its Supreme Leader Ayatollah Ali Khamenei. To get some expert perspective, MoneyLetter joined a call this Monday with Derrick Chollet, Head of J.P. Morgan's Center for Geopolitics. Chollet said the most likely political result will be the collapse of the regime. But if that occurs, what fills the void may not be better, or even happen soon. Will the operation spread into a wider, ongoing war? In his area of expertise, Chollet admitted there are significantly more questions than answers at this early point.

Dr. David Kelly, JPM's Chief Global Strategist, took the economic and investment position that we usually take here at MoneyLetter: Geopolitical events happen frequently in today's world—usually with minimal disruptions to US equities—and he doesn't expect a major negative effect on US economic output. Regarding oil, Kelly emphasized that the effect of Middle East disruption on the US economy is not what it once was ... the US is now a net exporter of oil.

The biggest risk that Kelly pointed out was if the Strait of Hormuz was blocked for a long period. This would very likely push oil prices much higher for longer, even if there are strategies to mitigate that risk (for example, US Naval escorts). But again, since the US sells more oil than it buys and approximately 70% of oil going through the Strait ends up in Asia, the result on US economic growth would be contained. The bigger risk of a long-term blockade would be to inflation.

US Gross Domestic Product:

	2026	2025	2024
1Q	+3.0% est.	-0.6%	+0.8%
2Q	—	+3.8	+3.6
3Q	—	+4.4	+3.3
4Q	—	+1.4	+1.9

SOURCES: Commerce Department, Bureau of Economic Analysis (BEA), Federal Reserve Bank of Atlanta GDPNow (1Q '26).

Is economic growth holding up?

Yes, and it's one of the strongest forces keeping the market relatively steady right now. Over the past few quarters, economic growth has quietly become the key driver behind the market's strength. Thanks to several factors, including pro-growth policies and Fed accommodation, the U.S. economy has stayed strong and steady. This stable growth is encouraging investors to shift away from the crowded AI and tech sectors and into more cyclical parts of the market, which tend to perform better when the economy is strong.

It's worth noting, though, that not all forecasts have lined up smoothly. The Atlanta Fed's GDPNow model had predicted fourth quarter GDP at 4.2%, but the official BEA figure came in much lower at 1.4%.

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The recent government shutdown may have made the GDPNow estimate less reliable, reminding investors that even strong trends can experience mixed signals. We will be keeping a close eye on that data point.

Stable economic growth remains the market's biggest advantage in 2026, and its resilience is helping to prevent a major downturn in stocks. This solid foundation is especially important now, as turmoil rages in the Middle East and enthusiasm for AI cools. As long as growth remains steady, it can help guide the market through sector rotations and keep broader conditions from weakening.

What about inflation?

Inflation remains a central market concern. Investors are highly sensitive to any data suggesting that price pressures are re-accelerating, which would potentially delay Federal Reserve interest rate cuts. The January Producer Price Index (PPI) report came in hotter than expected, with headline producer prices rising 0.5% month-over-month, beating the 0.3% consensus forecast. Core PPI—which excludes food and energy—also surprised to the upside with a 0.8% monthly increase, far above economists' expectations.

For the Federal Reserve, the unexpectedly strong PPI report complicates its policy outlook. Because several PPI components flow directly into the Fed's preferred inflation gauge—the PCE price index—the upside surprise raises concerns that consumer-level inflation may also run hotter in the coming months. Economists had been projecting a modest cooling in January PCE, but persistent wholesale inflation challenges that view and could push the Fed

toward a more cautious stance at its upcoming March meeting. Markets now fear that sticky producer-level price pressures may force the Fed to keep rates higher for longer, reinforcing inflation as one of the most consequential drivers of monetary policy and market volatility.

World monetary policy

Stepping back, central banks in the US and abroad continue to support global markets. In the United States, while the Fed is nearing the end of its rate-cutting cycle, investors still anticipate at least a couple more reductions. Even modest rate cuts help create a more favorable financial environment, which is one reason US monetary policy remains a steadying force for the markets in the intermediate term.

Overseas, many central banks are following a similar path, maintaining or introducing policies aimed at easing financial conditions. Together, US and foreign monetary policies create a backdrop that helps reduce financial stress, supports confidence, and makes global equities more attractive. As long as central banks continue leaning toward growth-friendly policies, they should help protect global stock markets from deeper declines.

World Markets: 2026 Returns

Index	February	YTD
Brazil – Ibovespa	4.1%	17.2%
China – Shanghai Comp	1.1	4.9
Europe – Euro STOXX 50	3.2	5.9
India – S&P BSE SENSEX	-1.2	-4.6
Japan – Nikkei 225	10.4	16.9
Mexico – Bolsa IPC	5.6	11.0
U.S. – S&P 500	-0.9	0.5

Indices do not include dividends.

Economic Snapshot

Date	Report	Current	Expectation	Prior
2/10	Retail Sales (Dec)	0.0%	0.4%	0.6%
2/11	Non-Farm Payrolls (Jan)	130K	55k	48K
2/13	*12-Mo CPI (Jan)	2.4%	2.5%	2.7%
2/13	Existing Homes (Jan)	3.91M	4.18M	4.35M
2/20	12-Mo Core PCE (Dec)	3.0%	2.9%	2.8%
2/24	**Cons. Conf. (Feb)	91.2	87.0	89.0
2/27	***PPI (Jan)	0.5%	0.3%	0.4%

* = Consumer Price Index

** = Consumer Confidence

***Producer Price Index

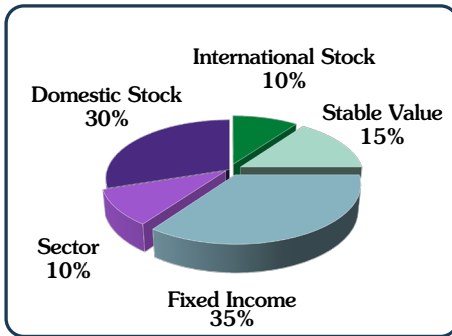
Notes: The December retail sales resulted in a disappointing finish to a solid year for consumer spending. The January jobs report was better than expected and included a slightly declining unemployment rate (4.3%). The cost of goods and services rose at a slower annual pace in January. Inflation is still a wildcard; a relatively hot PPI report last week and tariff uncertainty leave more questions than answers. Poor weather may have affected existing home sales, although low inventory remains an important factor. Core PCE, the Fed's preferred inflation metric, remains well above its goal of 2%. Consumer confidence ticked up in February from an upwardly revised January level but remains well below the four-year peak in November 2024. Wholesale (producer) prices rose faster than expected in January: core PPI was even hotter, rising 0.8%.

What it all means for investors

Maintain your asset allocations. A “stay the course” investment strategy can be especially valuable during periods of uncertainty, and today's environment provides several reasons to remain committed to your long term plan. The US economy has shown remarkable resilience, continuing to grow despite inflation pressures and global volatility. We expect interest rates to gradually move lower, with the Federal Reserve potentially cutting rates later this year. Lower borrowing costs can reward patient investors who avoid reacting to short term market swings.

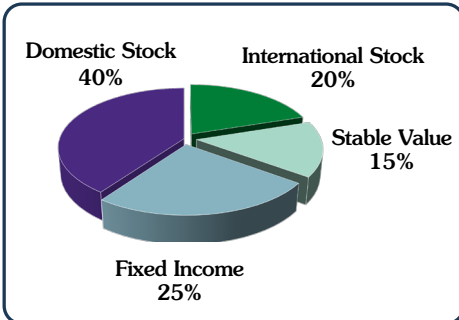
At the same time, staying on the course doesn't mean standing still—it means maintaining a well balanced, diversified portfolio. Diversification across bonds, U.S. stocks, and international markets helps spread risk so that no single downturn derails long term progress. Bonds can provide stability when stocks are volatile, and international equities can offer exposure to different economic cycles and growth opportunities. You'll see evidence of portfolio diversification in action in the trade tables on pages three, four, and five of this issue.

Brian has been a member of MoneyLetter's Investment Committee for nearly 40 years.



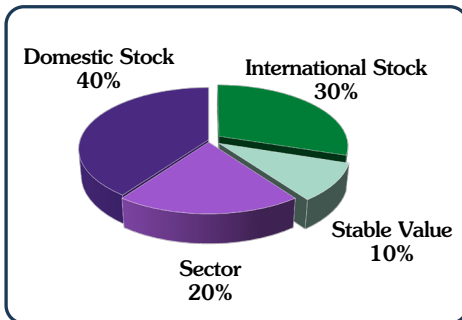
Conservative

The Conservative Model seeks steady long-term growth of capital with limited short-term volatility.



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The Moderate Model seeks greater long-term growth than the Conservative Model by taking prudent risks.



Growth

The Growth Model seeks maximum long-term growth by accepting greater short-term volatility.

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What Taxpayers Should Know About the New OBBB Provisions

By Bruce W. Hardy, MBA

The One Big Beautiful Bill Act (OBBB), signed into law in 2025, introduced some of the most sweeping tax changes in recent years. These updates affect workers, retirees, families with children, and even future generations. Whether you're approaching retirement, raising kids, or gearing up for tax season, understanding these changes can help you make smarter financial decisions.

Below are the most important items taxpayers should know—explained in clear, practical terms.

Ramped up retirement catch up contributions for ages 60–63

One of the major updates linked to the broader tax policy environment in recent years is the expansion of retirement plan catch-up contributions for individuals aged 60 through 63. Starting in 2025, eligible workers in this age group will be allowed to contribute far more to their employer-sponsored retirement accounts. Under the new rules, individuals ages 60, 61, 62, or 63 may contribute an enhanced catch-up amount of \$11,250 to their 401(k), 403(b), or 457(b) plans—significantly higher than the standard \$7,500 catch up contribution for workers 50 and older.

Financial advisors refer to this as the “super catch-up contribution,” and it is designed to help older workers maximize savings during their peak earning years. For many, these years offer the last big chance to build retirement security before required minimum distributions begin later in life. This increased contribution limit is part of ongoing updates under the SECURE 2.0 Act, which reshaped retirement savings rules, including phased in Roth catch up requirements and higher contribution limits.

If you're nearing retirement, it's important to check your plan settings and increase your payroll contributions so you don't miss out on this opportunity. Those four years—ages 60 to 63—can have a meaningful impact on long-term savings.

Introduction of Trump Accounts for children

One of the most talked about features of the OBBB is the creation of Trump Accounts, or 530A Plans—a brand new type of tax-advantaged savings account for minors. Starting on July 4th, 2026, parents and guardians can open these accounts for children under age 18, provided the child has a valid Social Security number. You can also file IRS Form 4547 (Trump Account Election), which is expected to be released early in 2026, and may be filed

with your 2025 federal tax return to elect an account for the child before the contribution window opens. An online portal at www.trumpaccounts.gov is expected to go live by mid-2026 for registrations outside the tax filing process.

How do Trump Accounts work? They function somewhat like a hybrid between a traditional IRA and a 529 college savings plan:

- Eligible children can receive after-tax contributions up to \$5,000 per year, indexed for inflation.
- Employers may contribute up to \$2,500 per child, tax-free.
- Earnings grow tax deferred.
- Funds generally cannot be withdrawn until the beneficiary turns 18, at which point the account converts into an IRA-like structure.

The \$1,000 Federal “Baby Bonus”

Perhaps the most headline-grabbing feature is a one-time \$1,000 federal contribution for children born between January 1, 2025, and December 31, 2028. This automatic deposit is meant to give newborns “a real financial head start.” The IRS will create an account automatically for qualifying children in these birth years if parents haven't opened one themselves.

These accounts aim to encourage long-term household savings for future education, housing, or investment needs—although the rules do limit early withdrawals. As with traditional IRAs, early withdrawals before age 59½ may face penalties, according to tax expert analysis.

New additional \$6,000 deduction for taxpayers age 65+

Another major taxpayer-friendly change under OBBB is the introduction of an additional \$6,000 tax deduction for individuals 65 and older. This is layered on top of the existing standard deduction and the prior senior-specific increase. The provision is meant to offer meaningful tax relief to aging Americans, recognizing their often fixed incomes and increased expenses. The rules include:

- \$6,000 per eligible taxpayer age 65+.
- Income phase outs beginning at \$75,000 for single filers and \$150,000 for married couples.
- The deduction phases out entirely at \$175,000 (single) and \$250,000 (married).
- Unlike the standard deduction, this additional amount is available even if you itemize.
- This provision is temporary and currently expires after 2028.

For many retirees, this will significantly reduce taxable income, potentially increasing refunds or decreasing tax owed.

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Other OBBB provisions taxpayers should be aware of

Along with the changes listed above, the OBBB includes several additional provisions that may affect tax filings beginning in 2025 and beyond. It notably includes new tax free treatment for tips, overtime pay, and interest paid on car loans. These changes are intended to ease financial pressures on working Americans.

To claim these tax-free benefits, taxpayers must use the new Schedule 1 A, released by the IRS for tax years after the bill's passage. Also, the IRS has expanded online tools to help taxpayers understand and claim these new deductions. Key resources include:

- [IRS.gov/Help](https://www.irs.gov/HelpandInteractiveTaxAssistant) and Interactive Tax Assistant (ITA) for personalized Q&A
- Updated forms and instructions online
- Encouragement to use direct deposit, as paper checks are being phased out

Why gathering all tax forms and paperwork matters more than ever

With so many new deductions, credits, and savings programs, it's more important than ever for taxpayers to gather and organize all necessary documents before filing. Missing even a single form could cause you to overlook a major benefit—such as the senior deduction, a retirement catch-up contribution, or a new Trump Account benefit for your child or grandchild. Make sure you collect:

- All W 2 and 1099 forms
- Retirement contribution statements
- Any relevant IRS notices about Trump Accounts or senior deductions
- Documentation for deductions or tax-exempt income (overtime, tips, car loan interest)
- Records of contributions to children's Trump Accounts, if applicable

Proper documentation not only ensures accuracy but also helps prevent delays if the IRS requests verification.

Final thoughts

The OBBB has reshaped many parts of the tax system. Retirees can benefit from higher deductions and more flexible savings options. Older workers can significantly enhance retirement contributions. Parents gain access to a brand new savings vehicle for their children through Trump Accounts. And workers at all income levels may benefit from new tax free categories of income.

Understanding these changes—and preparing your tax documents carefully—will help you take full advantage of the opportunities this law offers.

Bruce is Director of Private Asset Management and Senior Consultant at [Asset Strategy Advisors](https://www.assetstrategyadvisors.com).

If you have any questions about this article, don't hesitate to reach out.

Money Market Funds (2-24-26)

100% U.S. TREASURY FUNDS

	7-Day	30-Day	1-Year
Gabelli US Treasury MMF/CI I	3.67%	3.70%	4.18%
Schwab US Treas MF/Investor	3.45	3.44	3.90
Amer Century Capital Presv Fund/Inv	3.31	3.29	3.80
Fidelity Treasury Only MMF	3.31	3.33	3.84
BlackRock Liquidity: Treas Tr Select	2.76	2.75	3.24

GENERAL PURPOSE TAXABLE FUNDS

	7-Day	30-Day	1-Year
Invesco Premier Portfolio/Inst	3.80%	3.80%	4.30%
Dreyfus MMF/CI A	3.49	3.49	3.94
Putnam MMF/CI A	3.48	3.48	3.99
T Rowe Price Cash Reserves Fund	3.45	3.50	4.03
Fidelity Money Market Fund	3.44	3.44	3.94
Amer Century Prime MMF/Inv Class	3.41	3.38	3.90
Principal MMF/Class J	3.40	3.41	3.95
Victory Money Market Fund	3.33	3.37	3.89
MainStay MMF/Class A	3.28	3.28	3.80
DWS MM Prime Ser/MMF	3.26	3.28	3.83

TAX-FREE GENERAL PURPOSE FUNDS

	7-Day	30-Day	1-Year
Vanguard Municipal MMF/Investor	2.22	—	2.60
Schwab AMT Tax-Free MF/Investor	2.05	2.08	2.42
Fidelity Municipal MMF	2.03	2.03	2.41
T Rowe Price Tax-Exempt MF/Inv	2.03	1.94	2.28
Fidelity T-E MMF	1.98	1.95	2.32
Amer Century T-F MMF/Inv Class	1.93	1.85	2.29
Victory Tax Exempt MMF	1.72	1.69	2.11

TAX-FREE STATE SPECIFIC FUNDS

	7-Day	30-Day	1-Year
Vanguard NY Muni MMF	2.19	—	2.56
Fed/Hermes CA Muni Cash Tr/Wealth	2.18	2.12	2.48
Fed/Hermes NY Muni Cash Tr/Wealth	2.06	2.16	2.54
Schwab NY Municipal MF/Investor	2.02	2.03	2.38
Fidelity NY Muni MMF/Prem	1.97	2.03	2.45
Fidelity MA Muni MMF/Prem	1.89	1.98	2.34
Fidelity NJ Muni MMF/Prem	1.87	1.95	2.34
Vanguard CA Muni MMF	1.81	—	2.12
Fidelity CA Muni MMF/Premi	1.80	1.84	2.20
Schwab CA Muni MF/Investor	1.74	1.73	1.99

Source: iMoneynet's Money Fund Report.

Next Issue: Volume 47, No. 4

Email: April 8, 2026
U.S. Mail: April 10, 2026

Benchmark for Conservative, Moderate and Venturesome Models:

Total Returns — February 27, 2026

	1-mo	6-mo	1-yr	3-yr	YTD
AA Funds:	2.9%	12.5%	22.0%	52.2%	6.4%

Number of Asset Allocation Funds: 2,818



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MyRisk helps you find out what your Risk Tolerance is and see if your portfolio actually fits you. Are you investing wrong, or are you investing right? Apply risk analytics to quickly assess your risk.

<https://assetstrategy.com/my-risk/>