RNL & Associates

Working Toward Reaching Your Financial Goals

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Average number of vacation days private-industry employees have after one year on the job. Employees with 10 years of tenure have an average of 18 vacation days.

Source: U.S. Bureau of Labor Statistics, 2023

Why Do Workers Take Less Paid Time Off Than They Can?

In a 2023 survey, nearly nine out of 10 workers said it was extremely or very important to have a job that offers paid time off (PTO) for vacations, doctor appointments, and minor illnesses. Yet almost half said they take less time off than their employers allow. Here are the top reasons they gave for not using all their PTO.

Source: Pew Research Center, 2023 (survey did not include workers with unlimited paid time off)

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Housing Market Trends: Are They Helping or Hurting the Economy?

In an unusual twist, U.S. home values climbed to an annual record of $389,800 in 2023, even as mortgage rates rose to the highest levels in a generation. The median price of existing homes rose 4.4% for the twelve months ended in December 2023 to reach $382,600. (Buying activity and prices tend to peak during the summer and tick back down when the market slows later in the year.)[1]

Near the end of October 2023, the average rate for a 30-year fixed mortgage climbed to a 23-year high of nearly 8%, before retreating a bit.[2] But despite sky-high borrowing costs, buyer demand exceeded the supply of homes for sale.

As a result, sellers generally fared well, but 2023 was a challenging year for would-be homebuyers.

A market in limbo

Rising mortgage rates and home prices made it harder to afford a home, causing many buyers to be priced out of their favorite neighborhoods and forcing others out of the market altogether. In August 2023, housing affordability dropped to its worst levels since 1985.[3]

Many people who already own homes have been reluctant to sell and move because they would have to finance their next homes at much higher rates than they currently pay — a conundrum that has worsened the inventory shortage.

This persistent lack of inventory combined with low affordability has cut deeply into home sales. For all of 2023, existing home sales fell to the lowest level in nearly 30 years (4.09 million).[4] An estimated 668,000 new homes were sold in 2023, an increase of 4.2% from the previous year, but new construction accounts for less than 15% of the total market.[5]

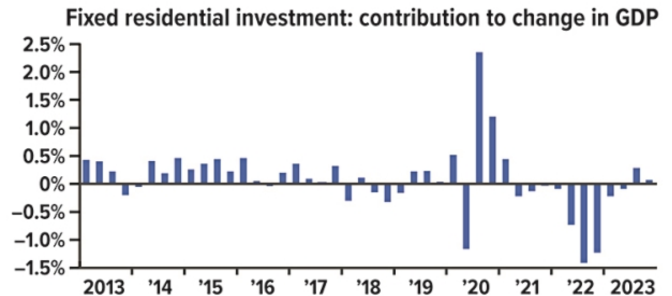
Housing and GDP

Housing contributes directly to the nation's gross domestic product (GDP) in two ways: spending on housing services and residential fixed investment. Housing services include rental payments, imputed rent (the estimated rental value of owner-occupied homes), and utility payments. Residential fixed investment includes new home construction, residential remodeling, production of manufactured homes, and brokers' fees. In the fourth quarter of 2023, housing accounted for $4.4 trillion of U.S. GDP on a seasonally adjusted annual basis or 15.9% (12.0% for housing services and 3.9% for fixed residential investment).[6]

New home construction stimulates local economies by creating higher-wage jobs and boosting property tax receipts. Nationally (and locally), it benefits other types of businesses as well, by spurring production and hiring in industries that provide raw materials like lumber or that manufacture or sell building tools, equipment, and home components such as windows, cabinets, appliances, and flooring. That's why the Census Bureau's report on housing starts, which were up 7.6% from the previous year's level in December 2023, is considered a leading economic indicator.[7]

Home Building Stages a Recovery

In Q3 2023, fixed residential investment added to U.S. GDP for the first time since Q1 2021. But in Q4, an increase in new residential structures was mostly offset by a decrease in brokers' fees.



Source: U.S. Bureau of Economic Analysis, 2024

Consumers are the key

The health of the housing market can also affect economic activity in other industries indirectly. For example, the "wealth effect" refers to how shifts in home prices, up or down, can influence consumer finances, confidence, and behavior. When home values and equity are rising, consumers who own homes tend to feel wealthier and may be more comfortable spending their money.

The "transaction effect" describes the increase in consumer spending that typically occurs when people move into new homes, which tends to generate demand for goods and services such as appliances, furniture, electronics, home improvement, and landscaping. On the other hand, extremely low affordability might influence younger consumers in a different way. When buying a home seems unattainable, it may cause them to give up on saving for that goal and shift to spending on other things.

Given housing's importance to the economy, there is some concern that a prolonged period of high rates could continue to constrain home building and sales, cause home prices to fall, and damage consumer confidence. When the Federal Reserve begins to cut interest rates, mortgages should gradually follow suit, but that's not likely to happen until GDP growth slows and inflation is no longer seen as the larger threat.

1, 4) National Association of Realtors, 2024; 2) Freddie Mac, 2023; 3) National Association of Realtors via Haver Analytics, 2023; 5, 7) U.S. Census Bureau, 2024; 6) U.S. Bureau of Economic Analysis, 2024

Market Measures: Beyond the Dow

When you hear or read that the market is up or down, what does that really mean? More often than not, it reflects movement in the two best-known stock market indexes, the Dow Jones Industrial Average and the S&P 500.

In fact, there are hundreds of indexes that track various categories of investments. While you cannot invest directly in an index, you can buy funds that track specific indexes, and you can look at indexes as a benchmark for certain portions of your portfolio. For example, the Dow or the S&P 500 might be a reasonable benchmark for your domestic stocks and stock funds, but you should not expect your entire portfolio to match the performance of those indexes.

Here are some commonly cited indexes.

The **Dow Jones Industrial Average** tracks stocks of 30 large well-known U.S. companies across a variety of business sectors. Originally a true average of stock prices, it now uses a divisor to adjust for stock splits, distributions, and substitutions — making it a *price-weighted index* rather than a true average.[1]

Unlike the Dow, the following indexes are weighted based on *market capitalization,* the value of a stock's outstanding shares. Market-cap-weighted indexes are skewed toward the performance of the larger companies in the index.

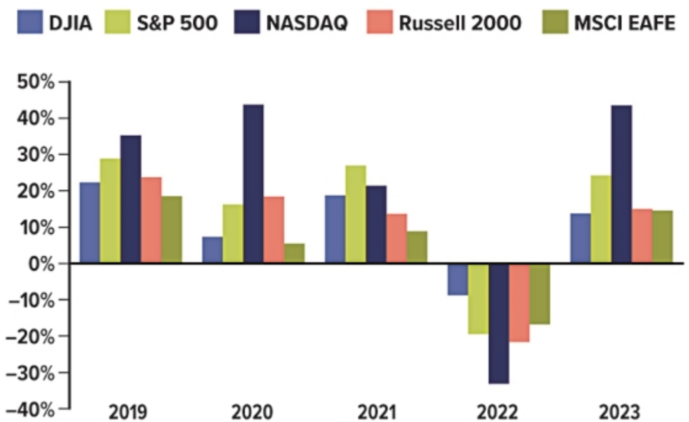
The **S&P 500** tracks a much broader range of large U.S. companies (large caps) than the Dow and is often considered representative of the U.S. stock market in general. However, it does not capture mid-size companies (mid caps) or small companies (small caps), which generally carry higher risk and higher growth potential than large companies and are tracked by the **S&P MidCap 400** and **S&P SmallCap 600,** respectively. Together these three indexes comprise the **S&P Composite 1500.** The number of stocks in S&P indexes may vary slightly from the number indicated in the name.[2]

The **NASDAQ Composite Index** tracks all domestic and foreign stocks traded on the Nasdaq Stock Market (about 3,400 in early 2024). It includes companies of all sizes across a range of industries but is heavily weighted toward technology companies. Many Nasdaq stocks carry higher growth potential but greater risk than the large domestic stocks tracked by the Dow and the S&P 500. The **Nasdaq-100** tracks the largest non-financial companies traded on the Nasdaq.[3]

The **Russell 3000 Index** tracks stocks of the 3,000 largest U.S. companies, ranked by market capitalization. The **Russell 1000 Index** tracks about 1,000 of the largest, essentially a combination of large caps and mid caps. The **Russell 2000 Index** tracks the rest and is the most widely used benchmark for U.S. small-cap stocks.[4]

Five Indexes, Five Years

Annual index performance (price only), 2019 to 2023



Source: London Stock Exchange Group, 2024, for the period 12/31/2018 to 12/31/2023. Dow Jones Industrial Average (DJIA) Price Index, S&P 500 Composite Price Index, NASDAQ Composite Index (price), Russell 2000 Price Index, and MSCI EAFE Price Index. The performance of an unmanaged index is not indicative of the performance of any specific security. Past performance is no guarantee of future results. Actual results will vary.

The **FT Wilshire 5000 Index** tracks the performance of all U.S. stocks with readily available price data, making it the broadest measure of the U.S. stock market. When established in 1974, the index contained around 4,700 stocks, and grew to more than 7,500 in 1998. The number has dropped since then, largely due to corporate consolidation, and the index included about 3,400 stocks in early 2024.[5]

The **MSCI EAFE Index** tracks about 800 large- and mid-cap stocks in 21 developed countries outside the United States and Canada and is a widely accepted benchmark for foreign stocks. The **MSCI World Index** includes the same 21 countries plus the U.S. and Canada and is heavily weighted toward U.S. stocks.[6]

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. Investing internationally carries additional risks such as differences in financial reporting and currency exchange risk, as well as economic and political risk unique to the specific country. This may result in greater share price volatility.

Funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1–2) S&P Dow Jones Indices, 2024; 3) Nasdaq, 2024; 4) FTSE Russell, 2024; 5) Wilshire, 2024; 6) MSCI, 2024

Don't Forget About Credit When Planning for Retirement

As you plan for retirement, you might not give credit a second thought, especially if your plan includes paying off your mortgage and other debts, and relying more on cash than credit. But retirement could last many years, and your need for credit doesn't necessarily disappear on your last day of work. At some point you may want to buy a second home, move to a retirement community, take out a home equity loan, or buy a vehicle; it's also possible you will face an unexpected expense. Keeping your credit healthy may help you qualify for a lower interest rate or better terms on a loan or credit card, or if a credit check is involved, even help you land a part-time job or obtain a better deal on auto insurance.

When it comes to getting credit, it's not growing older that matters — lenders can't deny a credit application based solely on age. The factors that affect your ability to get credit are the same as for younger people and include your debt-to-income ratio (DTI) and your credit score.

Lenders use your DTI to measure your ability to repay money you borrow. This ratio is calculated by totaling your monthly debt payments then dividing that figure by your gross monthly income. For example, if your retirement income totals $6,000 and your debt payments total $2,000, your DTI is 33%. What's considered a good DTI will vary, depending on lender requirements and loan type, but lenders generally look for a DTI of 43% or less.[1]

If there's a reasonable chance you'll be applying for credit after you retire, consider what your DTI might be as you evaluate your retirement income needs or decide which debts to pay off. And think carefully about taking on new debt obligations, including co-signing a loan for a family member.

Another major factor lenders consider is your credit score. Retirement doesn't automatically affect your score, because credit reports only reflect your history of borrowing and repaying money, not your employment status or your salary. The three things that count the most toward your score are your payment history, the amount you owe on credit cards (including the percentage of available credit you're using), and the length of your credit history.[2] So continue to make credit card or loan payments on time (consider setting up autopay or reminders), aim to use no more than 10% to 30% of your credit limits, and consider the possible negative impact of closing accounts that you've had for years but no longer use.

Another way to help keep your credit healthy throughout retirement is to check your credit report regularly to spot errors or fraudulent transactions. You can order free copies of your credit report from Equifax, Experian, and TransUnion at the official site AnnualCreditReport.com.

1–2) Experian, 2023

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