

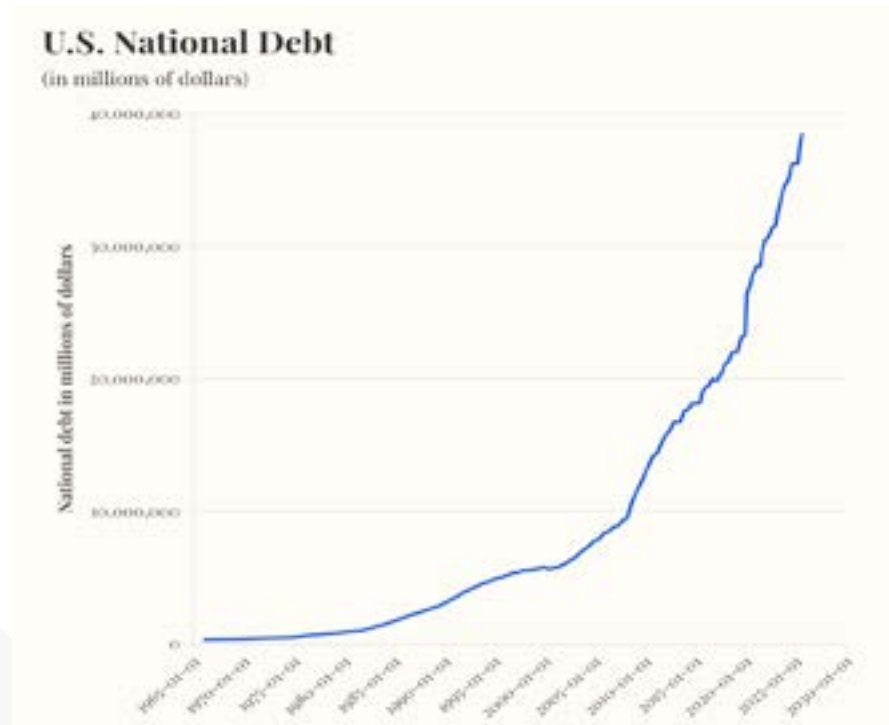
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DEBT AND POLITICS

Looking ahead to the November elections, one headline that is bound to surface is the national debt. According to the Peterson Foundation, the U.S. debt figure will pass \$40 trillion by November, and is now growing by roughly a trillion dollars every five months. Last month, the Congressional Budget Office estimated that this year's balance sheet alone will bleed red to the tune of \$1.9 trillion. Under current law, the annual debt increase will come to \$3.1 trillion in 2036.

Interest payments represent the fastest-growing 'government program' in the federal budget. Over the first three months of the current year, the government will have paid \$270 billion in interest on its debt, which is a higher number than the nation's defense spending for the same period. And if one adds in other long-term government obligations like the promises to make Social Security payments and cover health costs through Medicare, the true fiscal gap exceeds \$100 trillion.

There are two implications to this. The first is that whatever party is in power after the elections will be in a no-win situation; the only way out of the fiscal mess is to cut government



expenses (meaning programs) and, at the same time, raise taxes. That would almost certainly result in a recessionary period as the markets and economy adjusts to awful-tasting medicine.

The other is that the combination of a recession and reduced government spending can lead to a downward spiral. The government's normal process for reducing the impact of a recession is to ramp up spending—obviously not an ideal solution when the goal is to re-

duce the debt. And, of course, a recession often entails lower tax collections, since there are fewer profits and often less wages to tax. That might further exacerbate the debt situation, just in time for a new President to inherit an awful mess with no obvious solution.

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AIRLINE FUEL WOES

The largest single cost on an airline's list of expenses—roughly 30% on average—is jet fuel—a refined kerosene-based oil product that has doubled in price since the war in Iran began in late February. The Strait of Hormuz accounts for about 40% of Europe's jet fuel imports, and has been completely choked off for multiple weeks now. Higher prices and shortages have had an outsized impact on airline balance sheets.

The shortages are most worrisome at present. In Europe, several countries are now relying on less than 20 days of coverage in their fuel supplies, according to the International Energy Agency. What happens after that is anyone's guess, but the most likely outcome is reduced access to air travel.

The United States has recently offered a six-fold in-

crease in its exports of jet fuel to Europe—which, of course, raises prices domestically. The price of jet fuel has more than doubled since the end of February. To compensate, U.S. based airlines are reducing scheduling flexibility and experiencing more schedule volatility, with fewer low-fare options. To make up some of the added costs, Delta, United, American Airlines, Southwest Airlines and JetBlue have recently increased checked baggage fees.

But that will hardly make up the difference. United's CEO Scott Kirby estimates that, if fuel prices remain elevated, it will add \$11 billion in annual costs to the company's balance sheet. To put that in perspective, United's most profitable year netted a total of roughly \$5 billion. American Airlines has estimated that the soaring jet

fuel costs will cost it \$4 billion this year. It was forecasting a \$1.8 billion profit before the bombing started.

The only solution, according to outside analysts, is higher fares, either directly or in the form of attached fuel supplements to fares. This is already happening. According to the Kayak travel site, the average cost of a domestic round-trip flight is up 18% since the war began, while the cost of a round-trip economy flight from the U.S. to foreign destinations has increased by an average of \$115.

Travel agents have a simple piece of advice for air travelers who plan to fly later this year: book now before the prices get worse.

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COLLEGE COSTS IN PERSPECTIVE

Many families consider the cost of sending their kids to college to be a crushing financial burden—and it's not hard to see why. According to the Education Data Initiative, the average cost of attending a 4-year in-state institution is now up to \$27,146 per year.

Attending a private non-profit college costs an average of \$56,628, all-in—but that can be misleading. Private college students receive an average federal grant of just over \$5,000. Moreover, a recent study found that tuition discounting rates are at all all-time high; the average tuition discount last year was 56.3% for full-time undergraduates at private colleges.

Add up the two, and the cost of a private college edu-

cation is, for many students, comparable to the cost of attending a state institution: around \$30,000 a year.

That's still kind of crushing, right? Maybe not, if the cost is put into context. According to the USDA Expenditures on Children by Families report, when you add up food, clothing and other basic living expenses, the average teenage child living at home (pre-college, in other words) will cost the family roughly \$17,000 a year—and the cost frequently exceeds \$20,000 for the higher-income families that expect to send their children to college.

Based on the simple math, the college experience will cost a family an additional \$10,000 to \$13,000 a year, if the family does a careful job

of bargain shopping and is savvy about grants and loans.

The difference obviously varies tremendously depending on the college and how attractive the student will be to the chosen learning institution. But it's possible that many families are scared away from getting their children a college education by the raw numbers that are published in the consumer press, without realizing how much they're paying already.

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INCOME TAXES GALORE

Not many people disagree with the notion that federal income taxes are so complex that few people can actually understand their income tax returns, not to mention state, city, and local taxes. From a federal income tax perspective, Americans essentially have four tax regimes to deal with — ordinary income tax, capital gain tax, alternative minimum tax, and the net investment income tax.

With all of these various income taxes to deal with, you may want to have a basic understanding of the four federal income tax regimes because while one strategy helps avoid one type of income tax, it may result in other income taxes. If a strategy results in lower ordinary income taxes but correspondingly causes alternative minimum tax (AMT) and the 3.8% net investment income tax to increase by a greater amount, you may not be better off. Let's briefly go over the four federal income taxes.

Ordinary income tax

At a high level, ordinary income tax is levied on "ordinary" taxable income. For example, ordinary items of income would include wages, qualified retirement plan distributions, short-term capital gains, and ordinary trade or business taxable income, among many other items of income. Certain deductions are allowed to reduce your gross income and compute your ordinary taxable income. The federal ordinary income tax rates are graduated and depend on your taxable income — rates range from 10% to 37%.

Long-term capital gains tax

Capital gains are income from the sale of capital assets, which, to oversimplify, are nonbusiness assets. The sale of a capital asset is generally subject to ordinary income tax rates. It is only if you own a capital asset for more than 12 months that the preferential and lower long-term capital gain tax rates apply. Note that a donee can add the donor's holding period to the donee's holding period

in determining if the donee has met the 12 month holding period. Also, someone who inherits property from a decedent automatically is treated as having met the 12 month holding period requirement and, thus, will receive longterm capital gain treatment upon a sale of the inherited asset (not including income in respect of a decedent).

Also, qualified dividends are subject to these favorable long-term capital gain tax rates.

The long-term capital gain and qualified dividend tax rates are 0%, 15%, and 20%, depending on your other taxable income. The long-term capital gain tax rates, however, are intertwined and dependent on ordinary taxable income and ordinary income tax rates. Based on the complexity of the tax code, a capital gain tax calculation may result in some of the gain being taxed at 0%, some at 15%, and some at 20%.

Alternative minimum taxable income ("AMTI")

AMTI includes many items of income that are also taxable for or-

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dinary income tax purposes, but probably most important to AMT is that many deductions that are allowed to reduce ordinary taxable income are not allowed to reduce AMTI. Also, some items of income that are tax-free for ordinary income tax purposes are not tax-free for AMT purposes, such as interest income from private activity bonds. This may result in AMTI being higher than ordinary taxable income, which may further result in AMT being more than the ordinary income tax. You must pay the higher of the two taxes.

You are allowed an exemption from AMT, which, for 2025 is \$137,000 for married couples filing jointly and \$88,100 for single taxpayers. The exemption is indexed for inflation annually. Once a single taxpayer has 2025 AMTI of \$626,350 and a married couple who file jointly has a 2021 AMTI of \$1,252,700, the AMT exemption starts to phaseout.

Many items of income and deductions are treated differently for

AMT and ordinary income tax purposes. For example, state income taxes and property taxes are not deductible for AMT purposes. Also, the standard deduction is not allowed for AMT purposes. AMT rates are 26% or 28% of AMTI depending on your AMTI, although the long-term capital gain tax rate used for ordinary taxes is also used for AMT.

Net investment income tax

This surtax is an additional tax on ordinary income and capital gains that meet the definition of net investment income. Net investment income includes interest, dividends, rents, royalties, the taxable amount from an annuity, and passive activity income, as well as the gain from the sale of capital assets. People who have Modified Adjusted Gross Income (“MAGI”) above certain thresholds are exposed to the surtax – the threshold for a single taxpayer is \$200,000 and for married couples filing jointly is \$250,000 (these thresholds are not

indexed for inflation). For purposes of the surtax, MAGI is defined as adjusted gross income (“AGI”) plus foreign earned income that was excluded from AGI. The formula to calculate the surtax for individuals is: **33.8% × the lesser of: (1) net investment income or (2) MAGI – Threshold.**

Conclusion

As you can see, taxes play a significant role in your and in your after-tax investment returns, so it is important to understand how all the income taxes work together — and don’t forget about state income taxes. Tax-deferred investments, such as deferred annuities and permanent life insurance, may be very beneficial if you are currently in a high income tax situation and you may be in a lower income tax situation later on.

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MEDICARE ADVANTAGE: WIGS AND WEIGHT LOSS

Chances are, you know that Medicare's medical insurance program doesn't cover routine dental and vision coverage, but that some Medicare Advantage programs do. Some would say that this is small compensation for the fact that the Medicare Advantage programs require its policyholders to get prior approval if they want to be served by a medical professional outside of the network, and that medical expenses are far more unpredictable in Advantage programs than in traditional Medicare. (Joe Namath might disagree.)

But in actual fact, some Advantage plans have gotten more creative, and added services like meal delivery

and bathroom safety devices. Now, since last summer, six additional supplemental benefits have been given the green light by the Centers for Medicare and Medicaid services. The new list includes wigs for patients who experience hair loss related to chemotherapy (limit: \$500 for one wig a year), weight-management programs (mostly for show, since Medicare already covers intensive behavioral therapy for obesity), home-based palliative care (pain control for people at the end of life), post-discharge in-home medication reconciliation (having a medical professional identify any improper dosing, duplications or potentially dangerous drug interactions, which doctors ought to pre-

vent in the first place), readmission prevention and adult day health services.

Medicare Advantage providers receive \$2,660 a year from the Medicare fund to provide services to their members, which gives them an incentive to hold the line on member costs—or charge extra where they can. It's possible that the extra services will come at the cost of reduced traditional medical care, if the plans expect to make a profit.

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2026 FIRST QUARTER INVESTMENT REPORT

IS THE BULL MARKET OVER?

If you look at the quarterly results as a whole, the returns so far have been roughly flat, with small losses or gains depending on the asset class. But March was a brutal month for the equities markets, which suggests that the markets are experiencing downward momentum that is largely hidden by the quarterly returns.

A breakdown shows that just about every U.S. investment category took just one month to give back the gains of 2026's first two months. The Wilshire 5000 Total Market Index—the broadest measure of U.S. stocks—lost 4.03% in the first quarter of the year. The comparable Russell 3000 index is down 3.96% so far this year.

Looking at large cap stocks, the Russell 1000 large-cap index delivered a 4.18% loss in the first quarter, with all of the loss coming in the month of March (down 4.97%). The widely-quoted S&P 500 index of large company stocks lost 4.63% in the first quarter, due to a 5.09% drop in March.

The Russell Midcap Index, meanwhile, gained 1.29% for the

quarter, but gave up early year gains in March (down 4.91%).

As measured by the Russell 2000 Small-Cap Index, investors in smaller companies are holding onto a 0.89% gain, but this comes with a 5.00% loss in March. The technology-heavy Nasdaq Composite Index lost 7.10% in the first quarter, including a 4.8% drop in March.

Foreign markets followed in near-lockstep with the American return experience. The broad-based EAFE index of companies in developed foreign economies lost just 1.87%, in dollar terms, in the first quarter of 2026. But look closer, and you see that the monthly return in March was brutal: down 10.73%. European stocks, in aggregate, are now sitting on a 3.36% loss for the year, while the Far Eastern index gained a meager 0.79% despite a 12.20% loss in March. Emerging market stocks of less developed countries, as represented by the EAFE EM index, have lost 0.51% of their value in dollar terms in the recent quarter, and once again, the returns in March were solidly negative: down 13.26%.

Real estate securities are still limping along. The S&P U.S. REIT index gained 3.77% in the first quarter, but the month of March was brutal: a loss of 6.45%. Meanwhile, the oil shock and general inflationary environment drove commodities returns through the roof in the first quarter; the S&P GSCI index posted a remarkable 35.85% return for the quarter, pushed ahead by a monthly gain of 21.98%. (If you tease out energy-related returns, the quarterly gain was a still-robust 6.77%.) Utility stocks, as measured by the S&P 500 Utilities index, are up 7.52% so far in 2026.

In the bond markets, yields are largely flat from the previous year, and it's still (this is unusual, but persistent) possible to get higher yields on some shorter-term bonds than longer-term issues. Treasuries of 3-month (3.68%) and 6-month (3.69%) duration are yielding more than government securities with 1-year (3.65%) maturities. 5-year Treasuries are yielding 3.95%, 10-year government bonds are yielding 4.32% and 30-year maturities are generating 4.91% annual cou-

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pon rates. Five-year municipal bonds are yielding 2.59% in aggregate, while 30-year munis are yielding 4.50%.

What's going on? Do you have to ask? The ongoing war in the Middle East has delivered a significant oil shock to the economy (and most notably at the gas pump) and created great uncertainty around the future. The month of March saw markets swing one way when the President spoke belligerently about throwing bombs into Iranian infrastructure (a war crime, as international law defines it) and rose dramatically whenever there seemed to be an off-ramp to the conflict. It's notable that when negotiations were announced on the last day of March, the markets rose dramatically.

It's rare that the markets are focused on one single factor among all the myriad economic data that traders are usually digesting and trying to extrapolate. But this suggests that at the end of the conflict, economists, pundits, soothsayers and various crystal ball readers

will once again turn to the statistics, mostly trying to figure out if the economy is going to tumble into the long-predicted (five years now?) recession.

The inputs into most crystal balls are the rates and trends of inflation, employment and gross domestic product (GDP). The February inflation rate—which captured the inflation picture before war broke out—held steady at 2.4%, largely due to energy prices rising just 0.5%. But of course we can expect that the March inflation number will be higher due to sharply higher costs at the pump. A shocking inflation spike might trigger another bumpy patch in the investment markets, assuming all eyes are not still riveted on Iran. An end to the war should result in lower oil prices and a return to moderate inflation.

The interesting story there is how hard it is to find any impact from last year's tariff and counter-tariff exchanges around the world.

The jobs report is a bit more worrisome. The U.S. economy lost

an estimated 92,000 jobs overall in February, when most forecasts envisioned a slight rise. But part of those statistics can be found in walkout strikes by the United Nurses Association of California (31,000 striking workers) and (more troubling) a decline in warehousing and manufacturing jobs (a combined 23,000 workers). Average hourly earnings rose slightly, at a 3.7% rate, which is a bit above inflation.

Finally, the U.S. economy experienced an annualized 0.7% growth rate in the final quarter of 2025—which would be described as 'anemic' by most economists. The consensus expectation is for the U.S. to experience a 2.1% expansion in the coming quarter, but that depends on how long the war and the consequent oil shock last. The only reliable calculus at this point is to recognize that the longer the conflict in the Middle East lasts, the greater will be the economic damage.

Yes, that makes for a muddy crystal ball, which is probably fine anyway. Quick-twitch traders who are making bets on where the market will go in the next hour, day or

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week are operating in a darker dark than usual. Any move to bail out of the markets based on the panic selling we experienced in March is a bet that the companies you're invested in are simply not capable of navigating higher energy prices in

their daily operations. Those companies might invest and hire a bit more slowly, waiting to see the outcome of the oil spike and the war. They might have locked in lower energy prices on the futures markets when the war began. But you have

to ask: how will any of that diminish their underlying value in any meaningful way?

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