55ip Tax Harvest Indicator

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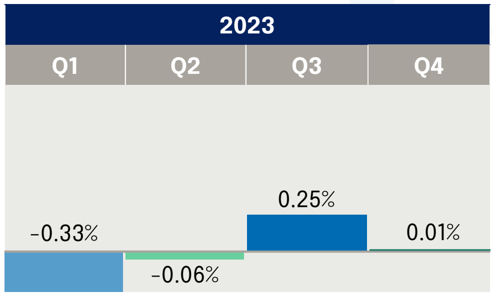
A quarterly view of tax-loss harvesting activity for Model Portfolios

As of December 31, 2023

Key Takeaways

- A strong fourth quarter for both stocks and bonds helped generate attractive returns for the year; yet 55ip delivered a quarterly tax savings of 0.01%.
- While all major markets finished the year in positive territory, intra-year volatility and dispersion across and within markets created harvesting opportunities
- These broad opportunities were concentrated in specific months, highlighting the benefits of a systematic ongoing approach to tax-loss harvesting.

Estimated Quarterly Tax Savings Results



Estimated Annual Tax Savings Results

2020	2021	2022	2023	Since Inception
2.58%	0.02%	2.70%	0.05%	1.96%

* Inception date is as of 12/31/2019 – 12/31/2023

Thankfully 2023 was a bounce back year for investors, especially given the stark contrast to the volatility experienced in 2022. The fourth quarter was especially kind to investors. The Fed announcing the potential for lower rates sent the Bloomberg U.S. Aggregate Bond Index (the Agg) up 6.8% as the S&P 500 rose 11.2%.

For the year the S&P 500 returned 26.52% while the Agg returned a healthy 5.6%. Bond investors were rewarded with a positive return for a full calendar year for the first time since the end of 2020.

Intra-year volatility and dispersion within asset classes provided additional tailwinds for tax-aware investors. For equities, 2023 was a story in three acts–the S&P increased from about 3,800 to 4,600 through August, fell to 4,100 between August and November, and then rallied strongly to 4,700 at the end of the year. All major asset classes finished in positive return territory in 2023 but, as is often the case, the path for most of them was far from a straight line. Depending on the month, high yield bonds, emerging markets, and small cap stocks vacillated between being the best or worst performers for much of the year.

Intra-year asset class volatility was seen in February, May, August, September, and October resulting in 85% of loss harvesting in those five months. Bond markets generated nearly 60% of our harvesting trades for the year, similarly, concentrated in August, September, and October. While, past performance is never a guarantee of future returns, the disappointing bond market of 2021 remains a valuable lesson of the performance improvements that can potentially be generated by automated harvesting.

One note about the Tax Harvest Indicator's composition: Rebalancing and other changes within accounts included in the composite will impact The Indicator's results. For example, if a model replaces a small cap manager with a different manager there can be a realized gain. Automated harvesting continually scans for loss harvesting opportunities but, as happened this year, account-level allocation movements can have a negative effect on the overall benefit.

The fourth quarter, and 2023 overall, once again validated the benefit of an automated ongoing approach to tax-loss harvesting. Although small, 55ip delivered value by taking advantage of pockets of opportunities whenever they arose.

As we look forward, key inflation measures continue to improve while economic uncertainty and geopolitical risk remain. The only constant, as is usually the case, being change.

About the Tax Harvest Indicator

Published quarterly, the 55ip Tax Harvest Indicator measures the percentage of estimated tax savings generated by our Tax-Smart Technology℠. The aggregate tax savings are based on all eligible ETF and Mutual Funds Model portfolio accounts powered by 55ip.

In total, the model strategies across providers, objectives, and risk tolerances are reviewed by the 55ip Tax-Smart Technology to capture tax benefits for clients and advisors. Each quarter's score is impacted by market returns, security returns, and realized harvesting activity in each account.

Advisors can refer to this document for views into recent market activity which 55ip has seen drive tax-loss harvesting opportunities. These insights can help inform meaningful client conversations.

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About 55ip

55ip is a financial technology company purpose-built to break down barriers to financial progress. Setting the industry standard for automated, personalized, and optimized tax outcomes, the 55ip platform delivers efficient implementation of the investment process to the financial services industry. Combined with leading trading and rebalancing capabilities, we offer a full-service solution that meets the unique needs of advisors. At the heart of 55ip's seamless, intuitive user experience is 55ip's ActiveTax Technology℠, including elevated portfolio design and delivery, tax-smart transitions, management, and withdrawals, all helping advisors save time and achieve better outcomes for their clients.

Disclosure

55ip is the marketing name used by 55 Institutional Partners, LLC, an investment technology developer, and for investment advisory services provided by 55I, LLC, an SEC-registered investment adviser. 55ip is part of J.P. Morgan Asset Management, the brand for the asset management business of JPMorgan Chase & Co. and its affiliates worldwide.

The quarterly savings numbers reported here (-0.33%, -0.06%,0.25%, and 0.01%) reflect the estimated average tax savings for all accounts which received a Tax Savings Report for the quarter indicated, using 55ip's tax-smart technology. The estimated average tax savings is based on the aggregate of all account's value saved in comparison to the aggregate of average account values through the above referenced period. 1.96% reflects the estimated average tax savings for all accounts which received a Tax Savings Report for period from Q12020 through Q42023 using 55ip's tax-smart technology.

0.05% reflects the estimated average tax savings for all accounts which received a Tax Savings Report for period from Q12023 through Q42023 using 55ip's tax-smart technology. 2.70% reflects the estimated average tax savings for all accounts which received a Tax Savings Report for period from Q12022 through Q42022using 55ip's tax-smart technology.

0.02% reflects the estimated average tax savings for all accounts which received a Tax Savings Report for period from Q12021 through Q42021 using 55ip's tax-smart technology. 2.58% reflects the estimated average tax savings for all accounts which received a Tax Savings Report for period from Q12020 through Q42020 using 55ip's tax-smart technology. The estimated average tax savings is based on the aggregate of all account's value saved in comparison to the aggregate of average account values through the above referenced period.

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Past performance does not guarantee or indicate future results and there can be no assurance that any investor will achieve comparable results or that any return objectives will be met. No representation is made that any investor will, or is likely to, achieve results comparable to those shown. All investments involve risk, including loss of principal.

Notes and sources:
https://www.reuters.com/markets/us/coal-feds-stocking-last-year-turned-sugar-plums-2023-2023-12-18/
https://jfswa.com/insights/market-comments-q4-2023

Calculation methodology:
Average tax savings are calculated by comparing the client's actual account activity with a shadow account created by 55ip. The shadow account has the same inception date and is invested in the same model as the client's actual account, but does not incorporate 55ip's tax-smart technology for rebalancing. Gains and losses are accrued for both the client's actual account and shadow account to produce the estimated tax bill. The tax rate applied to the client's actual account and the shadow account are provided by the client's advisor. If no tax rate is provided, then the highest applicable federal tax rate (20% for long-term gains/losses and 37% for short-term gains/losses) is assumed and an additional 3.8% net investment income tax rate is applied to both accounts. The estimated tax bill of the client's actual account is then compared to the estimated tax bill of the shadow account, and the shortage of the former amount is the client's estimated tax savings. There is no guarantee that the estimated tax and subsequent projected tax savings will equal the actual tax liability or tax savings achieved by the client. J.P. Morgan and its affiliates and employees do not provide tax, legal, or accounting advice. You should consult your own tax, legal, and accounting advisors before engaging in any financial transactions.

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