

# Quarterly Insight

## Market update

FROM THE DESK OF CIO CHARLES RINEHART, CFA, CAIA

Warren Buffett once said, “In the short term, the market is a voting machine, but in the long run, it is a weighing machine.” The wisdom of that quote is that sentiment drives markets in the short term, while business results determine outcomes in the long run. That dynamic can create interesting, and at times seemingly contradictory, market environments when investors sense a potentially huge, but not yet fully visible, weight approaching the scales.

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- Warren Buffett

Extending the metaphor, the unknown “weight” investors have been wrestling with is the long-term business opportunity in artificial intelligence (AI). Evaluating AI’s future impact is a bit like estimating the size of a partially buried boulder: we can tell it’s large, but not how large, and each shovel of dirt removed gives us only a bit more information. Early in the year, investors grew concerned that large technology companies might be nearing the peak of their infrastructure spending. Markets extrapolated that worry forward, and fears that the boulder might be smaller than investors hoped contributed to the pullback we saw earlier in the year.

Second-quarter earnings largely put those concerns to rest for now. The major players in the AI race not only maintained strong demand backlogs for AI processing services but also raised their capital spending guidance across the board. In other words, what some thought was the bottom of the boulder was just a ledge – and for now, there still seems to be plenty of rock to uncover.

As a result, sentiment surged and market returns were broadly positive in the third quarter. The S&P 500 rose 8.1%, the MSCI ACWI ex-USA Index (international stocks) climbed 6.9%, and the Bloomberg U.S. Aggregate Bond Index gained 2.0%. Returns remained concentrated among the largest technology names, reflected in the gap between the market-cap-weighted S&P 500 (+8.1%) and the equal-weighted S&P 500 (+4.8%). By sector weight, technology, media, and telecom stocks together now exceed their prior highs from the early 2000s, a sign of just how far sentiment has rebounded. Despite tech leadership in the United States, international markets, which are less technology-heavy, have been the leaders on a year-to-date basis. The ACWI ex-USA Index is up 26% year-to-date, with a weak dollar adding to solid underlying market performance abroad.

Technology wasn’t the only story of the quarter. The Federal Reserve was back in the spotlight with a 0.25% cut to the federal funds rate and signaled that more could follow. This policy shift fueled renewed optimism among smaller, more leveraged companies. The Russell 2000 Value Index, a benchmark for smaller

## 2025 THIRD QUARTER

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### Total returns

|                                     | 3Q 2025 | 2025  |
|-------------------------------------|---------|-------|
| S&P 500                             | 8.1%    | 14.8% |
| DOW JONES INDUSTRIAL AVERAGE        | 5.7%    | 10.5% |
| NASDAQ                              | 11.4%   | 17.9% |
| RUSSELL 2000                        | 12.4%   | 10.4% |
| MSCI EAFE (INTERNATIONAL)           | 4.8%    | 25.1% |
| BLOOMBERG U.S. AGGREGATE BOND INDEX | 2.0%    | 6.1%  |

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## Market update

public companies trading at lower valuations, rose 12.6% for the quarter. More broadly, small-cap stocks, as measured by the Russell 2000, reached new highs for the first time since 2021, as investors priced in the potential benefits of lower borrowing costs.

Overall, the rally off the April 8 lows has been remarkable – comparable in strength to the snap-back following the pandemic fears of 2020 and surpassed in recent memory only by the 2009 rebound after the global financial crisis. While these gains have been welcomed by investors, it's worth remembering that short-term swings are often driven by sentiment, and it will take time for the "weighing machine" to sort it all out. As of today, risk appears less well compensated by traditional valuation measures. Market multiples are near cycle highs and credit spreads, a measure of the extra yield available in the bond market for lending to risky borrowers, are historically tight – neither of which necessarily signals an imminent downturn, but both suggest that expectations are running hot and room for error is limited.

Looking ahead, we continue to see opportunity across market sizes and geographies. Our focus remains on identifying investments that can compound wealth over time while being mindful of the unique risks created by today's concentrated market and elevated expectations. As always, we thank you for your continued trust and partnership. If you have any questions, please don't hesitate to reach out to our team.



*Chief Investment Officer, Charles Rinehart, CFA, CAIA, leads our dedicated team of research analysts and portfolio managers as they manage our investment strategies to deliver financial peace of mind to our clients.*

JIC BLOG: BEYOND THE NUMBERS

### The 2026 Roth mandate for catch-up contributions

#### A SUBTLE BUT SIGNIFICANT SHIFT IN RETIREMENT SAVINGS

The leaves on trees are starting to change, and Christmas décor is already in stores. This serves as another reminder that 2026 will be here soon. With the new year comes a new, and under-the-radar, tax regulation that could have a meaningful impact on some paychecks.

Beginning in 2026, a new provision within the SECURE 2.0 Act will mandate a significant change for the higher-earning

employees over the age of 50: catch-up contributions (including the "super catch up" contribution for those age 60-63) must be made on a Roth (after-tax) basis. Though this shift has not been well publicized since the law was passed in 2024 but delayed implementation until 2026, it could carry substantial implications for both near-term tax strategy and long-term wealth planning. To net it out in dollar terms, a taxpayer in the 37% tax bracket fully maximizing the "super catch up" contribution of \$11,250 (2025 amount) in 2026 will see their federal tax liability increase over \$4,100!

For those with retirement on the near-term horizon, it's likely the decades-long inertia of contributing to a 401(k) on a pre-tax basis was the default option. The appeal is straightforward: someone aged 50 or older can contribute the annual maximum, plus "catch up" dollars, to employer-sponsored retirement plan before tax, which reduces current income tax liabilities in what is typically the highest marginal brackets of the earning years.

The more recent availability of mixing in Roth (after-tax) contributions, coupled with the benefit of a thorough multi-year tax strategy, can allow some mix of pre-tax and after-tax contributions to make sense. This determination depends on individual tax rates and the mix of pre-tax and after-tax investment accounts and retirement income projections. Until now, the decision on this "mix" was up to the employee and their wealth & tax advisor. But this change is not simply a logistical adjustment, it is a reorientation of how tax liability is distributed over what could be a 30+ year retirement. For many, it may feel like a legislative intrusion into what was previously a personal, strategic decision. As with most changes in the tax code, the true impact depends on a broader financial plan—and each person's ability to respond with foresight rather than reflex.

#### DEFINING THE NEW LAW: WHAT CHANGES IN 2026?

Effective January 1, 2026, employees who are **50 years or older and earned \$145,000 or more in wages from their current employer in the preceding year** will be required to direct any catch-up contributions into a Roth 401(k), Roth 403(b), or equivalent after-tax retirement account. The \$145,000 wage threshold will be indexed for inflation, meaning it will likely rise modestly in future years and could be higher, even for tax year 2026.

Catch-up limits are not going away. For 2025, individuals age 50 or older may contribute an additional \$7,500 to their retirement plan, beyond the standard limit (\$23,500 for 2025). That extra room will persist, but high earners will no longer receive the immediate tax deduction that traditionally accompanied these contributions in 2026.

Importantly, if an employer does not offer a Roth option within its retirement plan, affected employees will be prohib-

# The 2026 Roth mandate for *catch-up contributions*

ited from making catch-up contributions at all—an unambiguous nudge from Congress to employers to modernize plan offerings.

## WHY WAS THIS PROVISION ENACTED?

As with many aspects of the SECURE 2.0 Act, this provision is less about optimizing retirement outcomes and more about revenue recognition for federal budgeting purposes.

By mandating the shift of catch-up contributions from pre-tax to Roth, the federal government accelerates its tax collections. Roth contributions are taxed in the year they are made, providing a near-term boost to the Treasury, an attractive feature for legislators working under pay-as-you-go rules. However, that does not mean it should be dismissed as punitive or unhelpful. In fact, with proper planning, this shift may present underappreciated opportunities



## POTENTIAL DRAWBACKS: WHY THE CHANGE MAY BE DISRUPTIVE

1. **Loss of Immediate Tax Relief:** As previously mentioned, for high earners in the 32%, 35%, or 37% marginal brackets, the catch-up contribution offered a meaningful current-year deduction. Mandating that the \$7,500 catch-up be contributed into a Roth account results in a direct increase in taxable income. In addition to the higher tax liability, this loss of flexibility also incurs collateral tax damage for some individuals over income thresholds that could trigger Medicare IRMAA surcharges (if close to 65), the net investment income tax (3.8% on investment income for high earners), and phaseouts of other deductions or credits.
2. **Coordination Complexity:** For many people engaged with a tax-sensitive wealth planner who engages in sophisticated Roth conversion planning, filling up low tax brackets post-retirement can be very efficient. Forcing Roth contributions while still in peak earning years introduces complexity—and potentially less-than-optimal timing—for when tax is paid on retirement savings.

3. **Plan Limitations and Employer Readiness:** Despite Roth options being commonplace among larger retirement plans, not all employers, especially smaller firms, have implemented them. Absent that option, high-wage employees lose access to catch-up contributions altogether unless their plan is updated before the end of 2026.

## STRATEGIC ADVANTAGES: WHY ROTH CATCH-UP ISN'T ALL BAD

Despite the drawbacks, a Roth catch-up contribution can offer meaningful long-term advantages—especially when viewed through the lens of tax diversification, legacy planning, and retirement income flexibility.

1. **Tax Diversification in Retirement:** Many affluent retirees face a common challenge: a high mix of tax-deferred assets in the portfolio. Required Minimum Distributions (RMDs), beginning at age 73 or later, can create significant taxable income in retirement, which could lead to higher capital gains tax, more social security taxation, higher Medicare premiums, and other impacts. Building a Roth “bucket” creates valuable optionality. Distributions from Roth accounts are tax-free, not subject to RMDs, and can be strategically timed to manage taxable income, which is particularly useful in managing these ancillary impacts.
2. **A Hedge Against Higher Future Tax Rates:** Given the high and growing federal deficit, many believe tax rates are more likely to rise than fall over the coming decades. In this context, being “forced” to pay tax now at today’s rates on catch-up contributions, may compound tax-free for 20+ years and could ultimately result in a lower effective tax burden over the long term.
3. **Enhanced Legacy Benefits:** Under the SECURE Act, most non-spouse beneficiaries must fully deplete inherited retirement accounts within 10 years, which creates significant tax compression for heirs who are in their peak earning years. Roth assets are not exempt from this 10-year rule, but since distributions are not taxable, Roth accounts are inherently more tax-efficient assets to leave to the next generation.

## WHAT TO DO NOW:

The implications of this rule warrant proactive planning, especially for those over 50 with income approaching or over the \$145,000 threshold.

1. **Check in with your employer’s plan:** Ensure Roth 401(k) contributions are available. If not, begin discussions now with HR or plan sponsors.
2. **Model future tax scenarios and coordinate with Roth Conversions:** A higher Roth allocation now could reduce

(article continued)

# The 2026 Roth mandate

your long-term tax burden—particularly if you anticipate higher rates and larger taxable RMDs. This change means the strategy of future Roth conversions in low-income, post-retirement years should be reassessed and refreshed.

3. **Manage the tax liability:** If close to \$145,000 in earnings, consider offsetting strategies—such as charitable giving, Donor Advised Funds, or capital loss harvesting—to mitigate the increased taxable income in the catch-up years.

## ROTH READ THROUGH: ROTH ACCOUNTS AREN'T GOING ANYWHERE

We often hear concerns from clients about the potential for the US government to change the rules on availability of Roth accounts given the long-term tax advantages, but this ruling implies that Roth accounts aren't going anywhere. Why? With massive budget deficits and historically high debt, Uncle Sam is more than happy to take in tax revenue up front (by reducing tax deferral availability) to pay the country's bills. While this could diminish tax revenue at the margin in later decades, some short-sighted lawmakers are more than happy to kick that can down the road to collect higher tax revenue in the near term.

## CONCLUSION: A MANDATE WITH MIXED IMPLICATIONS

In isolation, this Roth catch-up requirement may seem punitive and a nuisance, a legislative footnote that complicates otherwise straightforward retirement savings. However, when integrated thoughtfully into a long-range financial plan, it becomes a powerful opportunity to rebalance tax exposure, improve flexibility, and strengthen wealth transfer outcomes.

As with most shifts in tax policy, the most prudent response is not to resist but to adapt. For affluent individuals entering the final phase of accumulation, this change should serve as a prompt: revisit your assumptions, revise your projections, and ensure your strategy is calibrated for the decades ahead.

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## New designations

We are committed to continuing education to provide personal development for our employees and better service to our clients. We are pleased to announce that this individual has earned a new designation. Congratulations to Michael Prebles, CFP®, MBA who has earned the CERTIFIED FINANCIAL PLANNER™ (CFP®) designation.



PREBLES

## New additions to the team

We are pleased to announce that these individuals have joined our team over the last several months.

- **LETA HACKLER | CINCINNATI**  
Trust Associate
- **ALEXIS KOTHAWALA | CINCINNATI**  
Equity Research Associate



HACKLER



KOTHAWALA

## Upcoming webinars

Are you a current or former Procter & Gamble employee? This webinar, led by Michael Stanis, CFA, CFP®, MBA, a former P&G employee, is designed to help owners of the P&G Profit Sharing Trust (PST) understand how the proceeds may be distributed and invested, and how taxes are impacted. Johnson Investment Counsel has helped hundreds of P&G employees navigate PST distribution options. We want to share what we know so that you can make the best decisions for your family.



**SCAN TO REGISTER**

Your Guide to  
P&G PST  
Distributions &  
Tax Implications

 **JOHNSON**  
INVESTMENT COUNSEL

Nov 11, 12-1pm (EDT)  
Nov 11, 6-7pm (EDT)  
Dec 3, 12-1pm (EDT)  
Dec 3, 6-7pm (EDT)

## In the news

The expertise of our Johnson team members is often sought after by local and national media sources. Scan the QR code to see recent articles and videos featuring our employees.

Recent highlights include:

- **TONY KURE, CFP®** in Barron's
- **CHARLES RINEHART, CFA, CAIA** in The Wall Street Journal
- **JOE ABBOTT, CFA** in the Cincinnati Business Courier
- **TONY KURE, CFP®** in Forbes



## About us

Johnson Investment Counsel is one of the nation's largest independent wealth management firms, managing more than \$21 billion in assets for clients in 50 states. Johnson Investment Counsel is an employee-owned firm, offering a full range of fee-only, integrated wealth management services, including: investment portfolios, education and retirement planning, cash management, estate planning, trust services, charitable giving, mutual funds, 401(k) plans, IRAs, and more. Johnson Investment Counsel has built strong, long-term relationships with individuals, families, charitable organizations, foundations, and corporations through four integrated divisions.

## Our divisions

**WEALTH MANAGEMENT**

**FAMILY OFFICE SERVICES**

**TRUST COMPANY**

**ASSET MANAGEMENT**

*If you are a client of Johnson Investment Counsel, you should receive account statements on at least a quarterly basis directly from the qualified custodian that holds and maintains your assets. You are urged to carefully review all custodial statements for accuracy. If you are not receiving custodial statements, please contact our Chief Compliance Officer, Scott Bischoff at (513) 661-3100.*

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We are thrilled to be recognized as a top firm by the following publications.

- **FORBES / 2025**  
America's Top RIA Firms
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- **FINANCIAL ADVISOR / 2025**  
RIA Survey Ranking
- **CINCINNATI BUSINESS COURIER / 2025**  
Largest Cincinnati Money Management Firms
- **COLUMBUS BUSINESS FIRST / 2025**  
Largest Central Ohio Financial Planners
- **DAYTON BUSINESS JOURNAL / 2025**  
Dayton Area Money Management Firms

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*Barron's – Advisors who wish to be ranked fill out a 102-question survey about their firm. Data is collected as of 6/30/2025. Barron's verifies the data against regulatory databases then applies their own rankings formula to generate a ranking. The formula features three major categories of calculations: (1) Assets, (2) Revenue, and (3) Quality of Practice. Each category contains multiple subcalculations. Barron's ranking is based on a variety of quantitative and qualitative factors. Quantitative factors include, but are not limited to, amount of assets, type of assets, growth, and client retention. Qualitative factors include, but are not limited to, experience levels, advanced degrees, industry designations, the size, shape and diversity of teams, charitable and philanthropic work and the compliance records of the firm and its associated employees.*

*Financial Advisor – FA's RIA survey is a ranking based on assets under management at year end of independent RIA firms that file their own ADV with the SEC. FA's RIA ranking orders firms from largest to smallest, based on AUM reported by firms that voluntarily complete and submit FA's survey by the deadline. To be eligible for the ranking, firms must be independent registered investment advisors and file their own ADV statements with the SEC and provide financial planning and related services to individual clients. Firms must have at least \$500 million in assets under management as of December 31, 2024, to be included in the print edition of Financial Advisor magazine's 2025 RIA survey. Firms with under \$500 million will be included in the FA's expanded online RIA survey.*

*Cincinnati Business Courier – The ranking is based on assets under management as of 5/1/25 reported by individual firms via an online survey.*

*Columbus Business First – Firms are ranked based on regulatory assets under management by Central Ohio offices. The ranking is based on assets under management reported by individual firms via an online survey conducted as of 12/31/24.*

*Dayton Business Journal – The ranking is based on assets under management as of 6/1/24 reported by individual firms via an online survey.*