

GFC Report

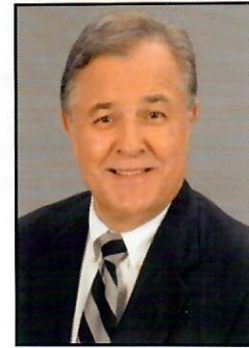
Building Your Wealth & Retirement Income

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Tariffs Drive Decline in Goods Deficit

The U.S. trade deficit in goods began to decline with new tariffs in April 2025. By December 2025, the three-month moving average — which helps smooth monthly variations — was down by 8.5% over December 2023.

Although tariffs substantially decreased U.S. imports from some countries — notably China — U.S. businesses turned to other countries, such as Vietnam and Taiwan, to supply more products and materials.

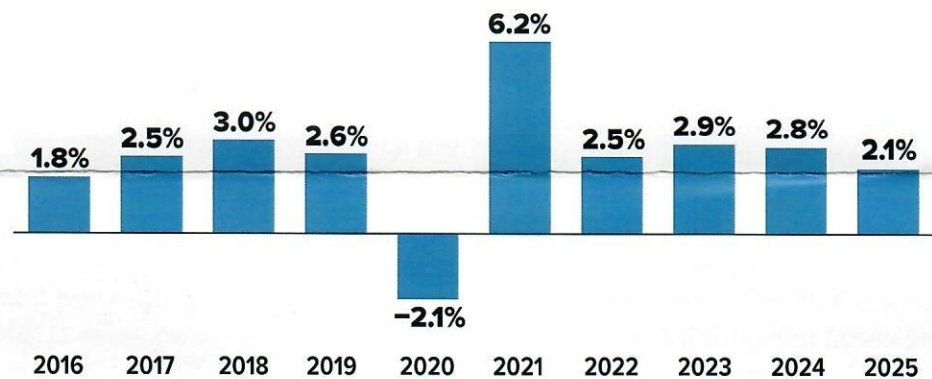
Source: U.S. Bureau of Economic Analysis, 2026

Economic Growth Slower in 2025

As measured by real (inflation-adjusted) gross domestic product, the U.S. economy grew by 2.1% in 2025. This was the lowest annual growth rate since the 2020 pandemic but higher than projected earlier in the year, when the first quarter growth rate was -0.6%.

Consumer spending and private investment — powered by the AI boom — helped drive GDP growth, while the trade deficit (a negative factor for GDP) and decreased government spending slowed the economy. The tariff program reduced 2025 GDP growth by an estimated half percentage point, and the government shutdown had a negative impact in the fourth quarter.

Annual percentage change in real GDP



Sources: U.S. Bureau of Economic Analysis, 2026; Federal Reserve, 2025; *The New York Times*, February 20, 2026; The Budget Lab at Yale, November 17, 2025

PRACTICAL INSIGHTS FOR YOUR FINANCIAL GOALS

Consider Munis for Tax-Free Income

The municipal bond market set a record of \$580 billion in new issues sold in 2025, breaking the previous record of \$510 billion in 2024. Analysts project the trend to continue in 2026.¹

Part of the reason for this sales boom in dollar value is inflation — the cost of municipal projects has risen. But even as inflation has slowed, interest rates have remained on the high side, and new bonds have found enthusiastic investors looking for tax-free income at attractive rates and relatively low risk.²⁻³

Government borrowing

Municipal bonds are debt obligations issued by state and local government entities. They typically fall into one of two categories.

General obligation bonds are issued to raise capital immediately, usually to cover expenses or refinance public debt. They are commonly repaid through taxes levied by the issuing agency.

Revenue bonds are issued to fund specific revenue-generating projects, such as utilities, sports stadiums, redevelopment projects, and toll roads. Revenue bonds are typically repaid from the revenues generated by the finished projects.

Tax benefits

The primary appeal of municipal bonds is that the interest is generally exempt from federal income tax, as well as from state or local taxes if you live in the state where the bond was issued. Munis typically offer lower rates than taxable bonds, but the tax savings can make muni yields higher than those of taxable bonds (see chart). While investors in higher tax brackets benefit the most from this feature, tax-free income can be appealing to investors in lower tax brackets as well.

Risk and ratings

Like all bonds, munis are rated for credit risk. A range of AAA down to BBB (or Baa) is considered “investment grade,” while lower-rated or “junk” bonds carry higher risk. Some lower-rated municipal bonds are insured, with a separate credit rating for the insurer, but it isn’t wise to purchase bonds based solely on the insurance.

Although there have been some high-profile municipal defaults, government entities have the power to raise taxes and fees as needed to pay interest, so munis generally carry lower risk than corporate bonds. During the decade from 2012 to 2021 (most recent data), the five-year default rate for U.S. municipal bonds was 0.1%, compared with 7.2% for global corporate bonds.⁴

Bond funds

Municipal bond funds spread risk across many individual bonds. Some muni funds are national and offer income free of federal income taxes but may be subject to state and local taxes. Other funds focus on bonds from specific states and may also include bonds from U.S. territories such as Puerto Rico and Guam that are not subject to state taxes, making the fund’s interest income tax-free for investors who live in the targeted state.

Other considerations

If a bond was issued by a municipality outside your state of residence, the interest may be subject to state and local income taxes. If you sell a municipal bond for a profit, you could incur capital gains taxes. Some municipal bond interest may be subject to the alternative minimum tax. Tax-exempt interest is included in determining if a portion of any Social Security benefit you receive is taxable.

As interest rates rise, bond prices fall, and vice versa. When redeemed, bonds not held to maturity may be worth more or less than their original cost. Bond funds are subject to the same inflation, interest-rate, and credit risks associated with their underlying bonds. The return and principal value of bonds and fund shares fluctuate with changes in interest rates and other market conditions, which can adversely affect investment performance. Projections are based on current conditions, are subject to change, and may not come to pass.

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.

1-2) *Barron’s*, January 22, 2026

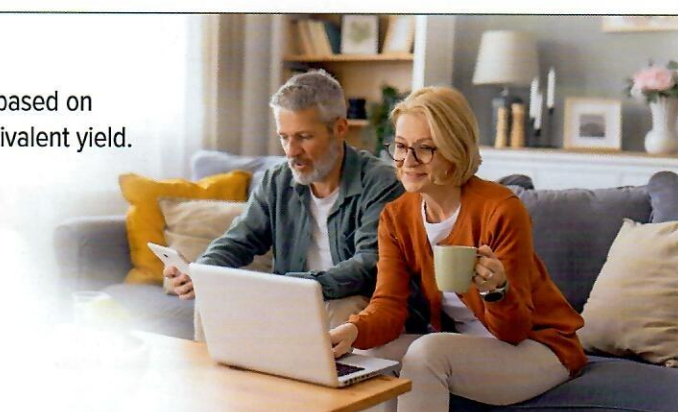
3) *The New York Times*, January 28, 2026

4) Moody’s Investors Services, April 21, 2022

Higher Yields

A municipal bond with a 3% yield would be equivalent to these taxable bond yields, based on federal income tax rates. Exemption from state income taxes would increase the equivalent yield.

Muni bond yield	Taxable equivalent yield				
3.00%	3.85%	3.95%	4.41%	4.62%	4.76%
	22%	24%	32%	35%	37%
	Federal income tax rate				



New Job or Retirement? Take Control of Your 401(k)

When you leave your job or retire, you generally have four options to manage your funds in an employer-sponsored retirement plan, such as a 401(k), 403(b), or 457(b) plan.

Rollover to an IRA

The option that may give you the most control is to roll some or all of the funds to an IRA. IRAs typically offer a wider variety of investments than employer plans and enable you to consolidate your retirement assets in a single account. Moreover, the IRA is yours to keep and control, regardless of your employment situation.

You can generally transfer funds without tax consequences from a traditional employer account to a traditional IRA, or from a designated Roth employer account to a Roth IRA. Employer matching funds may be allocated to a traditional account even if the employer matches Roth contributions; if so, you might consider rolling funds to both a traditional and a Roth IRA.

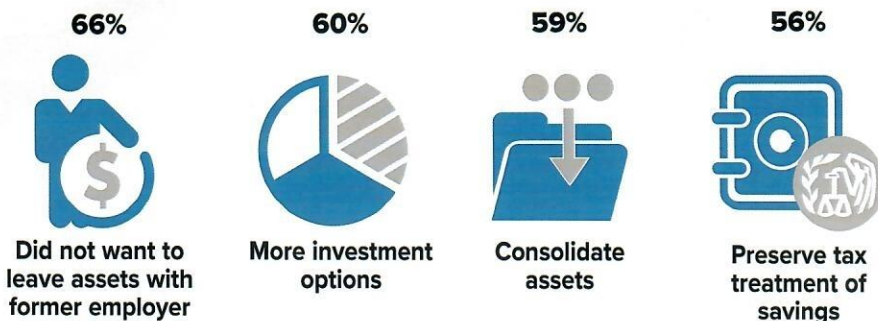
You can convert traditional employer account funds to a Roth IRA, but you would owe income taxes (payable in the year of conversion) on the taxable portion of the conversion amount, generally the whole amount minus any after-tax contributions.

A rollover must be executed properly to preserve the tax-advantaged status of the funds. You can typically arrange a direct rollover, also called a trustee-to-trustee transfer, by contacting the administrators of your employer plan and your IRA. The transfer may be electronic, or you could receive a check made out to the receiving IRA trustee, which you should mail to the appropriate address. There is no withholding, as the money is not considered as passing through your hands.

If you receive a check made out in your name, 20% of the distribution will generally be withheld for federal income taxes. In order to retain the tax-advantaged status, you must roll

Reasons to Roll

Almost three out of five households who owned traditional IRAs in 2024 had executed at least one IRA rollover from an employer-sponsored retirement plan. These were the top reasons for the most recent rollover (multiple responses allowed).



Source: Investment Company Institute, 2025

the distribution, including the 20% withheld, to the IRA within 60 days; otherwise, it will be considered a taxable distribution. You would have to pay the 20% that was withheld out of your own funds and wait for a potential tax refund of the withheld amount.

Rollover alternatives

If you don't want to transfer the funds to an IRA, you typically have three other options.

Leave assets in former employer's plan. If the vested portion of the employer account is more than \$7,000, you generally can keep it in the plan at least until you reach the plan's normal retirement age. This strategy might make sense if fees are low and you are satisfied with the investment options. Your plan may offer investments not available in an IRA, and the cost structure for plan investments may be more favorable than for those in an IRA. Keep in mind that you can no longer contribute to or borrow from the plan.

Transfer assets to a new employer-sponsored retirement plan. You might prefer this if you are moving to a new job. Again, your decision may depend on investment options, fees, and expenses, and whether the new plan allows you to transfer the assets.

Withdraw the money. Cashing out is generally unwise because you would pay current income taxes and lose out on potential tax-advantaged growth. For immediate cash, you could make a partial withdrawal and preserve the tax-advantaged status of the remaining funds through one of the other options, including a direct rollover.

Distributions from traditional IRAs and traditional employer-sponsored retirement plans, and the earnings portion of nonqualified distributions from Roth IRAs and designated Roth accounts, are taxed as ordinary income. Withdrawals prior to age 59½ (or age 55 for an employer plan if leaving the job) may be subject to a 10% penalty, with some exceptions. To qualify for the tax-free and penalty-free withdrawal of earnings, a Roth IRA must meet a five-year holding requirement, and the distribution must take place after age 59½, unless another exception applies. A Roth IRA is not subject to required minimum distributions during the original owner's lifetime.

Generally, employer plan assets have unlimited protection from creditors under federal law, whereas IRA assets are protected in bankruptcy proceedings only (state laws vary).

Community Property vs. Equitable Distribution

Dividing assets can be contentious during a divorce, but even happily married couples may benefit from understanding the laws regarding ownership of property obtained before and during their marriage.

Currently, nine states have community property laws and five others allow a married couple to opt in for community property status (see map). Laws on opt-in provisions and property rights vary by state and jurisdiction.

Under community property statutes, all property earned or acquired by either spouse during their marriage (except for inheritances and gifts) is owned in equal shares by each spouse.

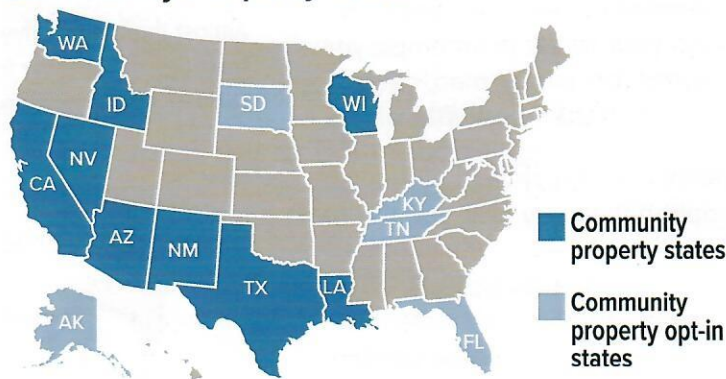
When not covered by community property statutes, ownership is determined by “equitable distribution” laws, which means that property is divided fairly, though not necessarily equally, typically by a judge if the couple cannot agree. Definitions of marital property under equitable distribution laws vary by state.

If you have more than one home, the laws that affect your property ownership will depend on the state where you are officially “domiciled” according to IRS rules.

Separate property

If you live in a community property state, identifying separate property and income can be important when filing separate tax returns or in the event of a divorce. Income derived from separate property may be community or separate, depending on the state. The IRS generally considers the following as separate property. (References to “marriage” include a registered domestic partnership in California, Nevada, and Washington.)

Community Property Laws



- Property owned separately before marriage
- Money earned while domiciled in a non–community property state
- Property received separately as a gift or inheritance during marriage
- Property bought with separate funds, or acquired in exchange for separate property, during marriage
- Property converted from community property to separate property through a valid legal agreement
- The portion of property bought with separate funds, if part was bought with community funds and part with separate funds

There are no restrictions on how each spouse can give away his or her half of the community property, and a spouse is not required to leave his or her half to the surviving spouse. Consider consulting a legal or estate planning professional familiar with your state laws before taking action regarding taxes or property distribution.

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Would you like to consider other options for managing assets in an employer-sponsored retirement plan?

Do you have questions about the potential role of municipal bonds in your portfolio? Call us for an appointment today.

Best Regards,

George F. Cerwin, CFP®, CLU is President of GFC Financial Management and has over 45 years of experience working with retirees and those about to retire. George offers Securities and Investment Advisory Services through **Osaic Wealth, Inc.** member FINRA and SIPC. Insurance Services offered through GFC Financial Management, not affiliated with **Osaic Wealth**. Visit our website: www.gfcfinancial.com. Our office address is 2764 Sunset Point Road, #600, Clearwater, FL 33759, and phone number 727-724-9499.