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Divisions of The Sanibel Captiva Trust Company

MARKETWATCH

Deeply Rooted in the Community | First Quarter 2020

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Current Outlook & Portfolio Strategy

Ian N. Breusch, CFA
Chief Investment Officer

The past year has proven to be very profitable for most investors regardless of their specific asset allocation. U.S. stock and bond markets rallied throughout most of the year. International stock markets also performed well in 2019. Stock markets were propelled higher as a result of a strong economic underpinning highlighted by low unemployment, modest wage increases, and continued GDP growth.

Year over year, while corporate earnings slowed through the middle part of 2019, results were slightly better than what analysts expected late last year. As we look to next year, expectations for corporate earnings growth are increasing, particularly in the latter half of 2020. These expectations can obviously change, but we must acknowledge the progress made on two important risks we've highlighted over the past year – monetary (interest rate) policy and tariff discussions.

Twelve months ago, we were operating under a monetary policy regime that indicated continued, methodical movements higher in the Federal Funds rate. The broader bond market clearly disagreed and sold off longer-term bonds creating an inversion in the yield curve (meaning shorter-term bonds were yielding more than longer-term bonds). This caused additional worry that a recession was likely given the correlation between inverted yield curves and economic recessions throughout history. There was much conjecture about what the Federal Reserve's response should have been, but ultimately the Fed decided to take action by lowering interest rates on three separate occasions during 2019. Stock markets and interest rates responded, which in turn, re-inflated the yield curve. We do not expect further rate decreases during 2020.

Tariff discussions between the U.S. and China were a roller coaster ride through much of 2019. However, progress seems to have been made when the U.S. and China agreed to a "Phase One" deal. While this is certainly positive news, implementation ultimately matters. At the risk of sounding cynical, it remains quite possible that China sees very little incentive to acquiesce during an election year. Nonetheless, we acknowledge there is less uncertainty now than there was at the beginning of 2019, which bodes well for 2020.

Given the improving landscape and the reduced risk tied to monetary policy and tariff discussions, we are cautiously optimistic as we head into next year. While there is much to be optimistic about, we also know that global equity markets have rallied by more than 20% over the past year. Undoubtedly, 2020 will bring its own set of challenges. At a minimum, we expect more volatility given the overhang of the election year. Therefore, we will be focusing our efforts on the things we can control, such as our clients' asset allocations among high-quality stocks and bonds, as well as our individual research efforts. Our research process will remain focused on sourcing high-quality investments trading at attractive prices relative to the overall opportunity set.

Asset allocation, an emphasis on quality, and attention to pricing will be even more vital in 2020 to ensuring we achieve (and hopefully exceed) our clients' long-term investment goals.

Why Have a Family Meeting?

Robin L. Cook, CWS
Wealth Services

Everyone has faced situations that seem too emotionally draining or projects that are complex and laborious - both of which are easy to put off until another day. It's human nature. We find this is often the case when clients are reviewing their estate plans and considering whether to talk with their heirs about their intentions.

Sometimes when a family meeting is suggested, we hear, "Why do we need to do this?" or "I won't be here; they can sort things out after I'm gone," or "I'd rather my children didn't know."

We tend to feel more at ease once we understand why things have been established in a certain way. Your family's understanding of your wealth transfer plan, likewise, can translate to a more harmonious and successful transition for all involved.

Perhaps your assets will flow into irrevocable trusts to protect heirs for their lifetimes. Perhaps your estate plan was drafted to minimize taxes and maximize the ultimate payouts to beneficiaries and charities. You may have designed a trust to protect inherited assets in case a family member divorces or remarries. There are numerous scenarios that, when explained at the family meeting, can ease tensions and prepare the next generation for success.

Whether or not you disclose the amount of your estate, having the conversation now, in advance of you or a spouse passing, generally assures a smoother transfer of family assets. Often your estate planning attorney is at this meeting explaining the plan and spelling it out with flowcharts and graphics. These meetings provide children with the opportunity to ask questions, gain clarification about expectations, and seek guidance about how to manage the inheritance. Learning your children's views and wishes related to various assets in your estate, even years in advance, can be valuable as well.

A critical part of the family meeting entails discussing with your children Successor Trustee responsibilities and the duties of a Personal Representative (PR) in settling an estate. Being named Trustee or PR as an individual is not an award. Rather it is a somber role that requires significant knowledge and oversight and can expose the individual to personal financial liability. Trustee roles and responsibilities include management and investment of all the assets, accounting procedures, bill paying, making disbursements to family members for years, compliance, and tax reporting.

Once family members understand the many duties and requirements of these roles, they will often redirect that burden to a corporate trustee or arrange for a corporate co-trustee. Since it's founding, The Trust Company has been serving as corporate trustee or co-personal representative for an increasing number of families to protect their assets and ensure they are properly managed for beneficiaries.

A family meeting is a comfortable, effective forum to introduce your estate plan and the vision that brought you to this point. It is an opportunity to bring your children and other family members into the process of preparing for inherited wealth that could substantially change their lives.

As your advocates, we are here to assist in conveying whatever details you wish to share about your estate – including your preferences and the reasons behind your wealth transfer decisions.

Contact your Relationship Manger today to assist you in developing your first family meeting.

Giving Your Assets Life After Death

Jeffrey A. Muddell
Wealth Services

You've worked hard in your life. You've amassed a wonderful level of wealth. You are doing all the right things with your money today and planning well for the future. Great work!

But then, someone tells you it's time to have that conversation that no one likes to have – the one where you need to talk about what happens to your assets when you leave this world. Not a fun topic to consider, right?

The accompanying article on family meetings details the reasons why you should have an open dialogue with your loved ones about this topic. You should also think about having a conversation with us, your trust company, about how we can serve a critical role in protecting your assets after you're gone.

A trust is a wonderful tool to help protect your assets after death for the benefit of your beneficiaries. In many cases, having an independent trust company serving as your trustee may help to ensure your administration and investment goals are met and all your carefully worded plans carried out.

We're proud to serve many of our families as an independent trustee, and we can do the same for you when you set up your trust. The benefits are numerous, but here's a quick look at three:

Protection from the creditors of your beneficiaries. After you die, there are protections afforded by the law to allow you as grantor to set up trusts for your beneficiaries that can protect your assets from your beneficiaries' future and yet unknown creditors. This is good for your estate, but also good news for your beneficiaries.

Let me give you an example: Your daughter is a physician. If she is a defendant in a malpractice case, a trust is one of the best ways to protect your assets from her potential creditor. Now, some state laws do create variation in the extent of protection. However, the protections afforded by a properly drafted spendthrift trust created for your beneficiaries can be invaluable.

Money management and account services. As trustee, we are responsible for managing your assets and will care for them while continuing to grow and preserve your trust assets through careful and thoughtful management of investment portfolios after your death. Our team is fortunate to have earned the trust of hundreds of clients through the years. Our investment approaches are professional, transparent, and highly regulated.

Protection against your beneficiaries spending or pledging too much. Are you worried your beneficiaries would burn through your inheritance too quickly? You can establish a trust to be administered after your death, directing how the trust funds may be spent for the benefit of the beneficiary.

When you have that conversation about what happens after your passing – and we encourage all our families to begin or review plans for their estate – consider creating a trust and appointing an independent trustee. Our team is always ready to have that talk and advise you on what's best for your situation.

Yields – A Lower for Longer Tightrope

Timothy P. Vick
Director of Research

I'll lend you 100 cents today, provided you pay back 99 cents next year. Any takers? Truth be told, investors are making such counterintuitive bets with their money, as more than $13 trillion of the world's bonds are priced to yield less than zero. In certain countries, bonds are being issued with no coupon, and banks are being charged a fee to deposit their excess cash with a central bank rather than collect interest on those deposits. A half-joking term for this phenomenon, "return-free risk," no longer evokes laughs.

Interest rates plunged globally last year, and for several weeks pundits even in the U.S. contemplated "negative rates," something thought not possible a couple of years ago. The central banks that have pushed their nations' interest rates to zero or below (first Sweden and Demark followed by the European Central Bank, Switzerland and Japan), strive to force consumers to spend, businesses to invest, and banks to lend.

Negative rates run counter to all principles of finance. Putting money at risk, even cash, has always required a bit of faith that the underlying economy can grow and boost the value of assets. But when investors accept interest rates at or below zero, they're essentially afraid to risk their money. They view losing money on cash or bonds as a viable option; and believe other investments can lose even more money. Like gold investors who pay to have their bars stored in a vault, they are willing to pay a storage fee to protect their cash in the bank.

We can easily make the case today for lower rates for longer – here and abroad – although we recognize there has to be a tipping point between sound and reckless rate policies. The chances that Japan and Europe lift themselves from sluggish economic growth seem small given their aging, declining populations, lack of productivity growth, and struggling banking systems. Low rates there will continually make U.S. bonds and stocks attractive to own and will help keep our bond yields low too. Further, the free flow of capital and merchandise, and abundant cheaper labor in China, southeast Asia and India has stifled the type of wage pressures that used to cause inflation and push up interest rates. Shopping by Internet has likewise removed a natural prop for inflation – buyers can instantly compare prices everywhere and opt for the cheapest.

Negative rates, however, are not to be desired. View them instead as a temporary desperate tool by policy makers to stop deflation and to weaken their currency enough to promote exports. On that front, it's still unclear whether this experiment has worked overseas. Otherwise, there are potential adverse consequences. Retirees, savers and pension plans get unduly punished – nest eggs cannot compound as planned when part of that egg yields zero. Second, banks eventually feel the pressure to lower rates on loans and mortgages, which can wipe away enough of their profits that they stop lending. Depositors may be quicker to pull cash from banks if the interest on those deposits disappears.

For investors, negative rates in the U.S. would further distort the value of assets, artificially propping up the value of businesses and mortgaged homes while encouraging excessive borrowing to buy those assets. Rates near zero have the perverse effect of encouraging more government deficit spending to take advantage of cheap money. It is no coincidence in the U.S., for example, that leading candidates for president have pressed for quantum leaps in social spending as interest rates approached zero. Indeed, the belief that money can stay free well into the future is not a mentality we'd like to see take root.

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