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Current Outlook & Portfolio Strategy

Ian N. Breusch, CFA
Chief Investment Officer

This past year will undoubtedly be remembered for the global COVID-19 pandemic and its impact on the global economy and capital markets. As we close out 2020 and look forward to a new year, we remain mired in the pandemic, but with a renewed sense of hope and optimism, as the first vaccines are being distributed here in the United States. Frankly, the vaccine developments over the past few months have been crucial for investors and consumer confidence at large. We have viewed a vaccine as the ultimate solution to the pandemic, and it looks as though several will emerge as viable options – an amazing scientific achievement to say the least!

In early November, Pfizer and BioNTech were the first to announce promising efficacy rates (more than 90%) for their COVID-19 vaccine candidate. Moderna followed shortly thereafter with similar results using similar technology. Markets reacted very positively, and we began to see a broadening in the market rally that began in late March. For several months we have been highlighting the dispersion between growth and value stocks. Much of this dispersion was the result of technology-related companies (and other nascent businesses) profiting directly from the pandemic and the stay-at-home/work-at-home environment. The vaccine provided a clear path forward for the more traditional businesses that languished during the pandemic.

Global capital markets continue to perform rather well despite the backdrop of current economic malaise. Investors continue to look toward the expected improvement in economic activity in 2021, instead of focusing solely on the current environment, which remains challenged. Economic activity was significantly curtailed earlier this year, but worst-case scenarios were largely avoided, thanks in part to the aggressive and timely action by the Federal Reserve Board and Congress to provide economic stimulus. With more fiscal stimulus likely, alongside exceedingly accommodative Federal Reserve interest rate policies, we are optimistic as we head into 2021. Over the next few months, we expect renewed pressure on unemployment as local cities and states enact new policies to reduce the spread of COVID-19. As we move closer to spring and summer, a strong resurgence in employment, consumer spending, and corporate earnings is expected to start taking shape.

With interest rates likely to remain exceedingly low, fixed income (bonds) remains a safe-haven asset, but with limited upside potential going forward. If interest rates fall farther, near-term prices will certainly rise across the fixed-income landscape. However, given the amount of fiscal and monetary stimulus made available across the world, we believe there is a greater likelihood that interest rates move higher, not lower, causing bond prices eventually to fall. To be clear, the risk of rising interest rates for now is rather subdued. To the extent bonds are appropriate, we are intentionally favoring shorter-term bonds with good credit quality.

From a stock market perspective, we believe it makes sense for our clients to have a mix of both growth and value stocks that are reasonably well diversified across various sectors of the economy. However, we continue to find good values among many dividend-paying companies in particular. Income-producing stocks have largely been ignored by market participants over the past several years – a trend that only increased during the pandemic. However, with a low interest rate environment and a return to "economic normalcy," these sorts of companies should perform rather well in the months and years ahead.

Understanding Gift Accounts For Minors

Robin L. Cook, CWS
Wealth Services

As our families expand through the birth of children and grandchildren, it can provide a great sense of joy to make financial gifts to those children. But what is the best way to do this? The options are many, including Uniform Transfer to Minors Act gifts (UTMAs), 529 college savings plans, Roth IRAs, or a trust to benefit that child. With each, there are pros and cons.

UTMA accounts are an irrevocable gift to the minor. They are set up with a custodian (often the child's parent) who is vested with the fiduciary responsibility for the minor's account. The pro for UTMAs is the simplicity. While a trust does not need to be drafted, you also have less control over the disposition of the funds. Ready or not, funds are turned over to the child at age 21, though in Florida the age to transfer the funds can be extended to age 25 with some caveats. In addition, the child will be taxed on the income and gains generated in these accounts. UTMA accounts are considered an asset of the child and are considered when applying for college financial aid. The custodian might misappropriate funds from the account. Even well-meaning custodians could be liable for using funds from the minor's account that the court considers a parental obligation such as medical costs.

529 College Savings Plans come with a very attractive feature – tax benefits to the giver and the recipient. Funds gifted into a 529 account grow tax free and remain so if used for qualified educational expenses. The list of allowable qualified educational expenses has grown. Unused assets in the account can be transferred to another qualified family member (often a younger sibling preparing for college) often with no tax consequences federally (state taxes may vary). Some states offer tax advantages for enrolling in their 529 plans. A 529 account can be "Superfunded" with up-front contributions of $75,000 per person or $150,000 per couple, allowing you to use up your annual federal gift tax exclusion for the next five years. The 529 plans can name a parent as the custodian, so the assets would not count as heavily against a student applying for financial aid.

> The choices for helping family members through gifts are numerous.

Roth IRAs are a great way to jump-start retirement savings for those children and grandchildren (minors and adults) who are in the work force. You can fund a Roth IRA for a child up to the lesser of their earnings or the Roth contribution limits for a given year ($6,000 for 2021 if under age 50). Roth IRAs grow tax free and distributions in retirement are tax free, too. This is a great way to illustrate to the child the value of saving and the effects of compounding.

Trust Accounts offer you the most control over the funds, both for disbursements and for irrevocable trust creditor protection. Trusts can help keep assets within the family bloodline should your beneficiary predecease a spouse or become divorced. An irrevocable trust can help lock in federal estate-tax exemptions and help you plan for generation-skipping tax benefits. Trusts require an estate planning attorney to draft the document. Moving funds into an irrevocable account would remove the grantor's access to those funds for future needs.

The choices for helping family members through gifts are numerous. At the Trust Company your Wealth Advisory team stands ready to help you with these discussions and decisions.

Bridging Generational Gaps with Communication

Cherry W. Smith
Wealth Services

I had a long chat with a dear cousin from Minneapolis four years ago. She is the never-married "fun aunt" who for years hosted the extended family Thanksgiving get togethers renown for their conversations and board games. One year, the great nieces and nephews all arrived with their iPhones and used them in exclusion to all others. She was horrified and was about to speak to the parents when she noticed most of the parents had taken out their iPhones too. A new Thanksgiving policy followed: Going forward all iPhones would be checked in the front door basket upon arrival. And guess what – the enjoyable, anticipated conversations and board games are back!

Sound familiar? We now have six generations living side by side in this country, from births in the early 20th century to now. Think about what has transpired in that time – from horses to spaceships, from oral communication to FaceTime. A family member who learned phonics in a one-room schoolhouse can be in the same room with another member who takes virtual classes to create "apps." The technological and communications divide between them is as wide as anytime in history.

Each generation holds different values and attributes concerning communications and careers (see the table). It's no surprise why my cousin struggled – she is an early Baby Boomer dealing with Millennials and Gen Z's!

Many of our clients fall into the "Silent" and "Baby Boomer" generations, and their children and grandchildren are seemingly worlds apart as Gen Xers and Millennials. We are fortunate to oftentimes work with clients' multiple generations and spend thoughtful time discussing sensitive inheritance and estate planning issues. The older generation is concerned not only about the estate plan itself, but how to effectively communicate this information with the children and grandchildren. Often the concerns are centered around family dynamics, particularly when children are being treated fairly but differently.

How to communicate these concerns down the family tree is always an important part of that planning discussion. It is equally important for the children and grandchildren to share with us their desires to get their parents and grandparents into the modern age by coaching them on the tricks of their iPhones or Smart TV's! Discussing generational differences with our clients allows for a more robust planning conversation which ultimately assists in communicating the plan with the family.

In this world of increasingly fast-paced change, we at the Trust Company are always here to assist you and your families to help ensure appropriate planning and effective communication of your desires and goals.

THE GENERATIONS AND VARIOUS CHARACTERISTICS

GENERATION	BIRTH YEARS	CAREER ATTITUDE	COMMUNICATION MEDIA	COMMUNICATION PREFERENCE
MATURISTS: (includes the 3 below) Interbellum Generation The Greatest Generation The Silent Generation	 1890-1915 1910-1924 1924-1945	Jobs are for life	Formal letters	Face to Face
BABY BOOMERS	1946-1964	Workaholics	Telephone	Face to Face, or phone/email if required
GEN X	1965-1979	Work/Life Balance	Email/text message	Text or email
MILLENNIALS	1980-1996	Work "with" and not "for" company	Text or social media	Online and text
GEN Z	1995-2012	Career Multitaskers	Hand held devices	Facetime

Should You Invest in Vaccines?

Andrew Vanderhorst, CFA, CFP®, CLU®
Senior Portfolio Manager

This past year has seen the rapid development and testing of many COVID-19 vaccine candidates. But are vaccines solid investments? Is it worth purchasing the stocks of companies whose vaccines are in development? On the face of it, one can't ignore the rollout of a product that will be demanded by eight billion people. But there's always more to the story. We caution investors against thinking that the rollout of a safe and effective vaccine for COVID-19 automatically leads to an outperforming stock. Several factors need to be considered.

There will likely be more than one approved vaccine. At the time of publication, there has been one vaccine approved by the Food & Drug Administration (FDA), namely Pfizer-BioNTech's version. However, it is very likely that other vaccines will soon win approval. Moderna has already applied to the FDA for emergency approval, and we could expect additional applications to the FDA from Johnson & Johnson and AstraZeneca-The University of Oxford early in 2021 as they gather data from their Phase 3 trials.

Competition will put downward pressure on prices and profit margins. A recent analysis showed that Pfizer-BioNTech are pricing their two-dose treatment for $39, and it costs about $15 to manufacture it. However, there are additional costs that need to be considered such as distribution, which can be quite challenging given the -95 degrees F storage requirements. Furthermore, not every hospital or medical center has the infrastructure in place to receive their vaccine, which reduces the potential market size for Pfizer-BioNTech.

When vaccine developers appeared before Congress earlier this year, many of them pledged to keep the prices of their approved vaccines relatively low. Pfizer stated they would keep their price lower *during* the pandemic. Johnson & Johnson stated they would sell their vaccine on a not-for-profit basis *during* the pandemic while AstraZeneca would sell their vaccine at cost to developing countries. Notably, Merck and Moderna stated they would price their vaccine above cost.

We remain uncertain about the duration of a vaccine's immunization effects. We must certainly acknowledge the amazing speed with which multiple pharmaceutical companies have developed and tested vaccine candidates. However, the long-term effectiveness of these vaccines can't yet be known. Initial studies show promising results, but we do not know if continued vaccinations will be required (booster shots) or if the initial shots will provide lifetime immunization. If the latter, revenues from COVID-19 vaccinations will drop precipitously after enough of the global population has been immunized.

Why would companies invest so much capital and research if the vaccine may not be a huge moneymaker? There are a few possible reasons. First, it is in their own self-interest to help develop a vaccine that could end the pandemic and allow the global economy to normalize. Many pharmaceutical companies have been financially hindered by the pandemic as some patients have avoided seeing their doctors. Second, some of the vaccines that are being developed use a novel approach with messenger-RNA. However, the potential success of this approach could lead to new innovations in the development of future vaccines. Finally, many pharmaceutical companies have been in Congress' crosshairs for the perceived unfairness of drug pricing in the U.S. and may try to gain some goodwill and political capital to help dilute significant changes to drug pricing.

Ultimately, we think investors will benefit from the continued broad recovery in stocks as the pandemic is ended and the global economy is able to normalize. A well-diversified investment strategy will likely help you achieve your long-term financial goals better than guessing who the winners will be vaccinating the globe.

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