Greetings! I hope this note finds you and your family well in April as we head into a spring season that’s much-needed on so many levels. First, given the downward trajectory of the Covid-19 pandemic and the rapid dissemination of vaccinations that has occurred this year, it would appear that brighter days are ahead. We can only hope that the progress that we have collectively made portends an even better summer for our country and the world.

Second, from a business perspective, we recently “celebrated” the one-year anniversary of the stock market lows of March 23, 2020. And of course, on the heels of the market plunge was an extraordinary recovery.

Indeed, by almost any measure, the past year was unprecedented, but my team and I hope that you feel well-served however you have chosen to work with us: in investments, banking, and planning. That said, this time of year always requires a review of the prior year as we complete our taxes and put a proverbial financial ribbon on 2020. As you would imagine, many of our clients also use this time to look ahead from a planning perspective, and if there were ever a year that underscored the importance of planning for the future, it was 2020.

To that end, we’ve all learned many lessons over the years—some relatively straightforward but others complex and esoteric. These lessons can be implemented, by us and by you, to your financial advantage and your emotional sense of peace. I would argue that the old adage of focusing on things you can control has never been more true. As you page through this quarter’s Outlook, I hope you’ll see that my colleagues and I have tried to cover this spectrum of controllable actions from adopting a long-term investment perspective to perhaps even creating a ‘future file’ of key information for your heirs.

Again, I hope this note finds you well—and, for many, vaccinated—and confident that my team and I are here to help you and your family secure financial security. And, as always, please let me know how we’re doing. Rest assured that every day we value the trust you’ve placed in us. Happy spring!

Michael M. Boardman
President,
People’s United Advisors
Robust economic growth as the pandemic recedes and the economy normalizes should provide a favorable environment for most companies, but equities are not cheap, as valuations are above average. The return to normal is likely to favor cyclical stocks over large-cap growth stocks.

**Fixed Income**

The Fed is committed to a near-zero policy rate through 2022. Recent increases in long-term rates in response to concerns about potential inflation have not prompted any Fed action or apparent concern. With a near-term but temporary spike in inflation likely, bond returns should be marginally positive to negative.

**Cash and Real & Alternative Assets**

With low long-term inflation prospects, the continuation of near-zero short-term interest rates, and an accelerating economy, real assets generally offer unfavorable risk/return prospects. Real-estate valuations are too high and cash returns are too low.

The economic and market views and forecasts above reflect People’s United Advisors’ judgment as of the date of this publication and are subject to change without notice. Views and forecasts are estimated based on assumptions, and may change materially as economic and market conditions change.
It has been refreshing that our recent conversations with clients have become dominated by news of rising vaccinations, increased stimulus packages, and improving economic statistics. The year ahead should continue to bring more positive headlines than we suffered with over the last 12 months. As the U.S. and global economies emerge from their COVID cocoons, we will see consumers, students, and business owners re-engage with their former lives.

Rather than listen for an ever-elusive all-clear whistle, we should do as we have always done when emerging from prior tragedies and tough times: learn from the past, incorporate those lessons into our actions, and move forward.

The road ahead for the economy, the financial markets, and COVID looks clear compared with the pea-soup fog that clouded our lives last year. Still, the road will remain bumpy as we navigate concerns over rising interest rates, increasing inflation, and global political challenges.

As we peer ahead, our focus will be on the three pillars supporting the current economic rebound: the unprecedented fiscal stimulus, the low-rate Fed policy, and the increase in the vaccinated population. These three pillars will help determine the winners and losers in the post-pandemic world. We began repositioning portfolios last year based upon our expectations for the economy, and we’ll continue to make changes carefully, with humility: As legendary investor Sir John Templeton warned, “An investor who claims to have all the answers doesn’t even understand all the questions.”

**Fiscal Stimulus: More Spending than in WWII**

The $1.9 trillion American Rescue Plan is expected to provide enormous support to struggling families. By one estimate, the poorest one-fifth of U.S. households will see their incomes rise by 20% this year. To put the fiscal spending over the last year in perspective, the government spent $5.5 trillion fighting the effects of the pandemic—more than the $4.8 trillion in today’s dollars we used fighting World War II, according to a Manhattan Institute estimate. All this money should support consumer spending, especially as the economy reopens later this spring.
The Fed: “Refilling the Punch Bowl”

In mid-March, Fed Chairman Jerome Powell reaffirmed the Fed’s commitment to aggressively encouraging economic growth. Indeed, the Fed has embarked on a subtle but momentous shift in the way it conducts monetary policy: Overturning years of proactive policy of acting preemptively to slow the economy at the slightest hint of growing inflation, the Fed will now act reactively only when it looks as though inflation may rise to a risky level. The Fed is also continuing to buy bonds, currently at a pace of $120 billion every month. Rather than “taking away the punch bowl”, it’s refilling the bowl with a potent brew.

Vaccinations: 100 Million Doses in 58 Days

Not only is the U.S. a leader in global vaccinations, but it appears that initial apprehension about the vaccine is declining, which increases the likelihood that we’ll achieve herd immunity. President Biden set a goal of 100 million doses administered within the first 100 days of his administration. This goal was achieved in 58 days and his new goal is 200 million vaccines in 100 days. As of this writing in late March, more than 130 million people have received the vaccine. We may even return to a semblance of normal life by July 4, if we’re lucky.

These three pillars of growth, in combination, have convinced the Fed to raise its GDP forecast for 2021 to 6.5% from 4.2% in December. They also predict that the current 6.2% unemployment rate will fall to 4.5% by year-end. That would be the highest rate of growth since 1983 and a notable decline in unemployment. In that environment, we expect inflation to increase from the extremely low levels of last year—to or slightly above the Fed’s 2% target into 2022: not alarming levels.

Implications for our Portfolios

In this environment of renewed economic growth, societal reopening, and rising inflation we see two broad trends emerging that affect how we’ll position our portfolios.

The first trend is one we have discussed in prior notes: a broadening of market participation beyond the largest technology stocks. As you can see in Figure 1, for the first eight months in 2020, the FANMAG (Facebook, Apple, Netflix, Microsoft, Amazon, and Google/Alphabet) stocks dramatically outperformed the equal-weighted S&P 500 Index. These stocks were viewed as primary beneficiaries of the work-from-home environment. As vaccinations increased and fear of economic collapse was replaced with greater confidence in a recovery, the tech darlings stalled and the “other 494” stocks in the S&P 500 began to outperform. Many smaller companies and cyclically-oriented value stocks have been winners since last September: trends that we see continuing. We have positioned our portfolios accordingly.

Another trend we see continuing is the switch from standing “on line” in a local retail store to shopping “on-line” via the internet. This shift from an analog to a digital world was accelerated in 2020 but has been taking place over the last 25 years. In the U.S., retailers are the largest private-sector employers, providing jobs to more than 32 million—primarily women and young people. Those jobs are increasingly at risk because of the digital transition we’re living through. As an example of how retailers need to adapt, consider how U.S. stores differ from their global counterparts. In America we currently have 24 square feet of retail space for every man, woman, and child. That’s three times more space than in the U.K. and six times more than in China. As our economy increasingly moves from analog to digital, we will need to rethink what our Main Streets look like and how we invest on Wall Street.

The road ahead will present opportunities and challenges. We expect increasing clarity on the economic front but lingering uncertainties in the financial markets. However, those uncertainties are exactly what we look for because they create opportunities. As Voltaire said, “Uncertainty is an uncomfortable position. But certainty is an absurd one.” In other words, we at PUA can’t know everything. But as intrepid investors, we can exploit ambiguities for their potential to grow your wealth.
PUBLIC HEALTH
Mass vaccination may end the large-scale threat from Covid-19 by the third quarter of this year.

ECONOMIC GROWTH
Rapidly improving public health and substantial fiscal stimulus will boost 2021 growth to 6%.

JOBS
Strong economic growth will bring strong job growth and reduce unemployment to 5% by year end.

INFLATION
Prices are likely to rise throughout 2021 before settling back to near the Fed’s 2% average target.

THE DOLLAR
2020’s slow erosion in the dollar’s value will likely continue in 2021.

INTEREST RATES
The Fed will keep the policy rate at near zero throughout 2021, but economic growth and short-term inflation will raise longer-term interest rates.

OIL
Global economic growth will raise demand and push crude prices higher subject to increased Saudi and U.S. shale oil production.

last year was a classic reminder that the economy and the capital markets can and frequently do go in different directions. The economy shrunk 3.5% in 2020, but U.S. stocks returned more than 20% and bonds returned 7.5%, as measured by the Russell 3000 index of U.S. stocks and the Bloomberg Barclays US Aggregate Bond index, respectively. Six months ago, we explained the divergence by pointing out that capital markets are not driven by near-term conditions but by longer-term perspectives.

Keeping the proper perspective is especially important today as the economy continues to recover from the impact of the Covid-19 pandemic and a return to normal appears near. What the new normal will be remains to be seen, but we expect it will be free of the restraints on social gatherings and travel that have depressed jobs and the economy. A sense of optimistic relief appears to be widespread—which has led to expectations of robust economic growth and strong revenue and earnings acceleration. These expectation spurred a broad increase in stock prices along with some inflation worries and higher interest rates. But as we detail below, we foresee nothing like runaway inflation.

Why We’re Optimistic About This Year
Two factors support our hopeful expectations. The first is the rapid progress being made to suppress the pandemic here and abroad. Multiple vaccines have proven highly effective at eliminating serious illness due to the coronavirus and appear to be effective at suppressing virus transmission by the vaccinated. The United States may achieve herd immunity by the third quarter, much sooner than expected at the start of the year.

The second factor is the $1.9 trillion American Rescue Plan, passed into law in March, which will provide up to $1,400 per person in stimulus payments for Americans making less than $75,000 per year in AGI or married couples making less than $150,000 (and partial payments for those making more, up to certain income limits). On top of the more than $1 trillion of savings Americans
stockpiled last year, these stimulus checks are likely to stoke a substantial acceleration in consumer spending, including a rebound in expenditures on services—the hardest-hit industries in the pandemic.

Not surprisingly, recent market performance has reflected these economic expectations. Stock prices have moved higher, albeit not uniformly: Tech stocks, which drove the market in 2020, are relatively out of favor, at least for the time being (the Nasdaq tech-heavy index was in correction territory in early March). But importantly, market gains have not been concentrated in a small number of growth stocks (see John Traynor’s feature article), as they were recently. Rather, they’ve been shared by a broad range of equities, including small-cap and value (bargain-priced) stocks that were laggards throughout most or all of 2020.

**Is Growth a Double-Edged Sword?**

Growth expectations have not been without concerns, and the dominant one is that demand will be so strong that prices will rise sharply and the resultant pick-up in inflation will cause bond prices to fall and interest rates to rise. The bond market has already anticipated this, with 10-year Treasury yields rising from 0.91% at year-end 2020 to above 1.50% at mid-March—though the most-recent inflation readings remain well below 2.0%.

So, where are we headed?

Barring the emergence of a vaccine-resistant coronavirus variant, we believe that the U.S. economy is in for rapidly accelerating growth in 2021. Real U.S. economic output is likely to grow by 6% in 2021 and exceed its pre-pandemic peak level by nearly $700 billion by year-end 2021. This growth will replace many of the jobs still missing from the Covid-19 recession—which number in the many millions. But it is likely to raise the inflation rate as demand outstrips supply in the near term.

**A Golden Age Ahead? Time Will Tell**

The challenge for investors is to look beyond the near term, just as it was last year—even if it is easier to see the other side of a valley than a mountain. Two key questions pose themselves: What will happen to growth following the 2021 surge? And will the higher inflation we expect to accompany the growth surge persist?

The answer to the second question is clearer. The long-term prospects for inflation remain low. Even if growth pushes inflation above 2% in 2021 after being very subdued (Figure 1), it’s unlikely to remain there. The same factors that kept inflation low before the pandemic will keep it subdued after the economic surge: technology, automation, communication, declining union participation, and globalization. The weight of some of these factors will be different in the new normal, but all will likely remain significant, and after supply conditions adapt to the surge in demand, they will continue to keep prices in check.

Once the growth push from pent-up demand and stimulus checks subsides, will the U.S. slide back into the slow-growth pattern that prevailed before the pandemic? If so, investors will need to be prepared to shift the orientation of their investments back toward the large-cap and growth stocks that drove the market prior to the pandemic. We can’t rule out that scenario. And indeed, the economy faces challenges in sustaining a high growth rate—an aging population, a slow-growing labor force, and an uncertain future for productivity.

The first two of those challenges are subject to little or no change. But paradoxically, the changes wrought by the pandemic may prove to have made the economy more efficient and labor more productive, thereby ushering in a new regime of higher growth (though not 6% long-term), revenues, and earnings. This would be a true Golden Age for investors. The next two years will tell the tale. For now, investors can look forward to robust growth in at least 2021.

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**FIGURE 1: U.S. INFLATION: SUBDUED FOR DECADES NOW**

PERSONAL CONSUMPTION EXPENDITURES CORE PRICE INDEX

Source: Federal Reserve Economic Data

INVESTMENT OUTLOOK — SECOND-QUARTER 2021
This quarter we sat down with four members of our portfolio-management team to discuss how their backgrounds help them craft unique client solutions.

**WHAT IS YOUR FAVORITE HOBBY?**

**Tim Woolston**: With the COVID-19-related restrictions on so many outside activities over the past 12 months, I’ve increased the time I spend reading biographies and other non-fiction. I always have a lot of unread books in the house, and despite my best efforts, I never seem to get through them all; instead, I’ll buy a new book after reading a review of it, or I’ll receive one as a gift.

But a silver lining in the current environment is that I’ve been able to at least whittle down the list. For example, I finally finished a bio of J.P. Morgan that I started several years ago. I also recently completed a bio of John Adams. Both books provide perspectives and insights that are applicable today. Morgan’s on disruptive technologies that created new industries (steel and railroads), Adams’s on politics and human nature (as they say, the more things change, the more they remain the same).

**John Conlon**: The answer would be golf. I’m not very good at it, but I find it relaxing and therapeutic. It allows me to zone out. And since I’m not the kind of golfer who throws his clubs away—or at something—after missing an easy shot, it’s actually a calming influence on me. I can sort of mentally cancel out the world when I play, which can be a good thing, especially today.

**Ashvin Viswanathan**: My favorite hobby is to practice MMA (mixed martial arts). It’s a great workout, and the technical aspects of jiu-jitsu are challenging. It’s a time when I can shut out the noise, like what John just said, and focus on honing my skills. It’s also a good way to channel frustration into fitness.

**Karissa McDonough**: Running. Half-marathons are my favorite distance, but I’ve also done 10ks, 10 milers, marathons, and 50ks. I have been transitioning to trail running and ultra-running over the past year or so. Endurance running, which is most of what I do, requires physical strength, but it’s really more about mental capacity: the ability to weather the highs and lows that come with each challenge. The benefits from distance running—giving you more clarity, discipline, and perspective—carry over into every part of my life, very much including work.
HOW HAS YOUR BACKGROUND LED YOU TO BECOME A PORTFOLIO MANAGER AT PEOPLE’S UNITED ADVISORS?

Tim Woolston: Less than a handful of years after college, I entered the financial-services industry by becoming a registered representative. Developing a clientele, providing recommendations, and placing trades were the key components of my job; I also learned along the way about the many disciplines—security analysis, investment management, securities underwriting, investment banking, and so forth—that brokers may call upon to help serve their clients’ needs. And I cultivated a passion for research and portfolio management. After a brief hiatus to attend business school, I became an equity analyst and subsequently a portfolio manager working with private clients and institutions, helping identify, implement, and manage customized financial strategies.

John Conlon: It was my training as a research scientist for the U.S. Army working at NASA. I did theoretical and experimental work on state-of-the-art aircraft. It sounds like a world away from financial services, but research is research. It’s the discipline that’s important—the focus on extracting data, separating the message from the noise, knowing whom to talk to. At a high level, it’s the same for securities and aircraft.

Ashvin Viswanathan: My educational background is in math and computer science. This gave me a foundation for working with large datasets and formulating quantitative models. So it was a direct line from my background to my responsibilities here at People’s. It was a matter of translating theory into practice.

Karissa McDonough: My professional training was as a bond analyst and portfolio manager for mutual-fund and insurance companies, selling investment-grade and high-yield bonds when they got expensive relative to their default, duration, and liquidity risks, and buying them when they offered above-market compensation relative to risk.

The most valuable experiences I have had are during periods of extreme market stress. I never forgot what the 2008 market debacle felt like, and I think it made me a better risk manager. I experienced firsthand how bad a bond default cycle can get, and so I understand that “left-tail” risks are real and that clients look to bonds for protection that can sometimes be elusive.

HOW DO YOU ALIGN YOUR JOB AS A PORTFOLIO MANAGER WITH EACH CLIENT’S UNIQUE OBJECTIVES?

Tim Woolston: Aligning my role as a portfolio manager with the aspirations of clients means having a clear understanding of their objectives and risk tolerance and appropriate asset allocations. While each client’s objectives are unique, we often find that the allocation for meeting his or her objective falls within a category ranging from most-conservative, typically all-fixed-income, to most-aggressive, typically all-equity.

Every investment objective on that continuum has a target weight for each asset class based on historical asset behavior and current market conditions. With that information, we’re able to provide each client with a sense of what is reasonable to expect from the allocation most likely to achieve his or her risk/return objectives. Since portfolio returns are driven largely by asset allocation, getting it right for each client is one of our most important responsibilities. Communication and follow-up are also critical.

John Conlon: That is my job, or role, as a portfolio manager: finding investment solutions to client objectives. All people save/invest their money to meet certain needs unique to them. My job is to help them meet those needs or objectives. Of course, it’s never one-size-fits-all. Solutions tend to bunch up at certain points on the continuum that Tim described. But the details of each solution count at least as much.

Ashvin Viswanathan: My goal as a portfolio manager is to eliminate emotion as much as possible from the investment process, which enables clients to make prudent decisions. I would say that over the years clients have come to expect tailored investment solutions that fit not only their financial needs but their ethical and social values as well.

My technology background has enabled me to help deliver on both aspects, because tech connects with the broad outside world—not only asset and market numbers.

Karissa McDonough: When I think about managing portfolios to achieve client goals, I start from a perspective of downside-risk protection because I know that the preservation of capital is my Job #1: Growing total return and generating income follow on the heels of establishing security. But the weight of each of these goals varies with the client.
A 529 Plan for funding the costs of higher education (with contributions potentially front-loaded for extra leverage, allowing five years of annual-exclusion gifts to be made in one year).

- Specially designed trusts often qualify for the gift-tax annual exclusion, but are subject to certain conditions designed to help the beneficiaries over time. Often, they limit the control the beneficiary has over the assets.

Donors can choose to give in excess of $15,000 to a single beneficiary in a given year; those gifts need to be reported to the IRS and are subject to gift taxes, or a reduction in the donor’s lifetime exemption. Such gifts may resolve issues about real estate or art, for example, during donors’ lives, assuring them that valuable property will go to the beneficiaries of their choice.

In addition, there are “gifts” that the IRS doesn’t consider as gifts. So they don’t need to be reported and will not reduce a donor’s unified credit or count toward the annual-exclusion limit. Those “gifts,” of great value to the donor and the recipient, pay for certain medical or educational expenses, as long as they go directly to the providers and not pass through the hands of the beneficiaries.

The emotional benefits of making gifts may be as important to many donors as the economic benefits. The satisfaction that comes from giving to recipients directly—and often immediately—and short-circuiting possible inheritance disputes should never be underestimated.

Because gifting is a powerful and complicated tool, it’s often best undertaken with the advice of financial and trust-and-estates professionals, including annual monitoring and reviews. If you’re thinking of making gifts, talk with your PUA Advisor.
The Future File: What It Is
And Why You Should Have One

Things change. Life happens. The best laid schemes of mice and men, as Robert Burns famously wrote, often go awry. Or, to tweak Shakespeare’s Hamlet, the plan’s the thing: We need to plan, to organize, to communicate.

But as you move forward in life, you may find that your important information is increasingly scattered here and there—some of it in the Cloud, some backed up on a hard drive, other bits handwritten in a notebook, and still others buried behind codes and passwords in your digital address book or contact file.

Nobody sets out to leave their heirs in a state of confusion. It’s everyone’s genuine goal to deliver to the next generation a set of well-organized, well-tended files and lists and phone numbers and account numbers. Alas, reality often intervenes, and our plan goes awry.

You Need a Future File

Exactly what is a “future file”? Imagine a scenario where all the details in your financial plan seem to be in order: Wills and trusts, estate instructions and a medical power of attorney—the cornerstones are set. All the ingredients are present and accounted for. You’re quietly congratulating yourself on the completeness of your preparations. And then, the unthinkable happens: You never get around to conveying the information to your heirs.

And so, you’ve created a mystery. You’ve bequeathed to your family and loved ones a challenge worthy of the savviest sleuths in a Nordic Netflix mystery.

Ah, but your future file would answer their questions:

- What are your brokerage account numbers?
- What are your brokerage passwords?
- What about the life insurance trust that’s held away from your main custodial account?
- What’s the password for that insurance account?
- What are the phone numbers of your attorney, financial advisor, insurance agent, and accountant/tax preparer?
- What are the answers to the security questions on your websites, including where you have your banking, money-market, and CD accounts?

- What are the locations of all your assets—including your safe deposit box, if you have one?
- What’s the phone number of the folks who maintain your HVAC, so it can be shut down when the time is right?
- And more...

Begin Your List Now

The best time to start assembling your future file was yesterday. The second-best time is now. (But after you’ve finished reading this article.) In addition to the very specific information above, you might consider including a “family love letter” wherein you express your wishes for the disposition of your assets. In it would be a heartfelt explanation of what matters most to you, along with your values and priorities.

So, let’s get going. If perfect is the enemy of done, then start your future file now, compiling the essential information first. Make it easy on your family: Sort through your contacts, identifying the “must-haves” for your loved ones, with the crucial information on each person.

If you’re building an Excel sheet, which may be the easiest way to get started, you might create separate tabs for investments, household maintenance, insurance, key advisors, and so on. And print out your files as a back-up for you and your family. If you’re working with a simple Word file, don’t be shy about writing out some detailed explanations of your plan and the role of each of your advisors.

Finally, think about access. Let two or three members of your family know where your file is kept. If it’s partly or completely online, be sure you supply the password. To paraphrase another line we all know, the plan must go on.
Giving Them a Head Start: Roth IRAs for Your Kids

et’s talk about retirement security for our children. This may seem like a novel notion, and it’s probably one that you haven’t spent much time on. But it’s never too early to start building a retirement nest egg. And isn’t providing your kids with a leg up on their retirement years one of the most precious gifts you can give them?

In that vein, Roth IRAs can be a great vehicle for starting your kids off on the right path—indeed, not only for retiring but more broadly for succeeding financially and appreciating the power of saving and investing.

Why a Roth

With a Roth, taxes are paid on contributions, not on withdrawals, provided that certain requirements are met. And if you set up a Roth for a child, any taxes on contributions are based on his or her income, not yours. Since most kids pay little or nothing in taxes, the Roth benefit of tax-free growth is magnified. (If taxes are due on contributions, it’s better if they’re taken from another source, not the Roth IRA money, to maximize growth.)

If you open a Roth for your child, the current maximum annual contribution is $6,000 for those under 50, just as for a traditional IRA. Equally important, contributions are limited to earned income—whether the contributions are made by the child, by you, by anyone else, or any combination thereof.

Meanwhile, Roth IRA contributions can be taken out at any time with no taxes or penalties. The earnings in the account can also be taken out tax- and penalty-free at age 59½—or sooner for expense carve-outs, including certain educational, home-buying, and medical outlays. And while income limits still apply, they’re based on the kid’s income, not yours: Rare is the child who has annual income in excess of the Roth cut-offs.

Thirty-Fold Growth?

If a Roth IRA were set up for a 15-year-old who held onto it for 50 years until retirement, he or she would enjoy tax-free compounding for a half-century. Assume that such an account were established with $5,000 and never again enhanced by further contributions—as unlikely as that is. The account value would grow to more than $50,000 at a 7% annual return, which is not unreasonable for a stock-heavy balance. All of that money could be withdrawn without paying a dollar in taxes and with no required minimum distributions.

What’s the Catch?

There really isn’t a catch, but parents need to think about the following:

• Again, only the child’s earned income can be contributed—not investment income, gifts, or allowances, and probably not money you give him or her for doing household chores. But working in a store or a company; baby-sitting, dog-walking, lawn-tending, and such; and taking a position in a parent’s business for reasonable pay are all fair game. While a W-2 is ideal, it is not required, but you need to make sure that accurate records are kept.

• No matter how many people choose to contribute, the total contributions in any given year by all parties, including the child, cannot exceed the child’s earned income.

• The account will be managed by a custodian—typically parents—until the child reaches his or her majority: age 18 in almost all states. At that point, the account moves wholly to the child. If you’re unsure about your child’s maturity level, it may be best to choose a savings option that’s more in your control.

Easy to Set Up

If you’re interested in establishing a Roth IRA for your child, we can help: We’ll discuss an investment schedule, asset allocation, and annual contribution level that’s appropriate for you and your child. And we can set up the custodial account that will be necessary. We also encourage you to speak with your tax advisor.

1. Any contributions made to the child’s IRA by parents or other parties count against their limits for tax-free gifts.
2. We’re assuming throughout this article that the current tax laws on Roth IRAs remain as they are.
3. The child may need to pay a federal self-employment tax, currently at 15.3%, on his or her earnings (regardless of whether he or she is the beneficial owner of an IRA).
ESG: “Doing Well and Doing Good” Is Picking Up Even More Steam

Over the past few decades, ESG investing—aligning portfolios with investors’ values in the Environmental, Social, and Corporate-Governance spheres—became increasingly, then explosively, popular. In the two years alone between year-end 2017 and year-end 2019, U.S. assets tied to ESG offerings surged from $12 trillion to $17 trillion—an incredible 33% of the $51 trillion in total assets under professional management.

On the Right Side of History

While ESG and its predecessors were once confined to screening out stocks like those of tobacco and firearms companies, ESG today (essentially an umbrella term that includes Socially-Responsible Investing, Sustainable Investing, and Impact Investing) encompasses comprehensive portfolio strategies. In increasing numbers, investors, company executives, money managers, and political leaders are supporting initiatives in areas such as climate change, social justice, inclusiveness, and more-equitable corporate pay. This trend will not be reversed.

Does ESG Sacrifice Performance?

Like all prudent investment, ESG is focused on buying the highest expected returns for the least risk. But is the risk/reward trade-off as good for ESG investments as for traditional options? The verdict isn’t final, but a consensus is emerging that ESG keeps pace, or does even better. In fact, many investment managers now incorporate ESG analysis into their risk assessment: The distinction between ESG and other strategies seems to be blurring.

Last year was particularly good for ESG strategies, probably in part because many of the tech-related companies that outperformed had strong commitments to ESG principles: Three out of four Sustainable-Equity funds beat their category averages compiled by Morningstar fund evaluators. The longer-term record is slightly more nuanced. But though some (particularly younger) ESG investors may even be willing to accept lower returns, the evidence suggests they won’t have to settle for less.

Industry Trends Are Favorable...

Across the industry spectrum, companies are changing their business models in line with ESG realities. This applies to some of the industries traditionally seen as hostile:

* In utilities, for example, American Electric Power, a large supplier, says it plans to reduce its carbon-dioxide emissions by 60% from their levels in 2000 by 2030 (it’s almost there already) and by 80% by 2050.
* Many big oil-and-gas producers are investing with surprising speed in solar and wind energy—though oil and gas aren’t going to disappear from our economy.
* And in autos, GM surprised the world when it announced a goal of completely phasing out internal-combustion engines in cars, SUVs, and light trucks by 2035 in favor of electric vehicles. The company has also made diversity in its ranks a priority, including appointing a female CEO. Meanwhile, Ford has developed the largest network of public charging stations in North America.

...And Biden Is On Board

With the Democrats in control in Washington, the odds of ESG-driven policies being enacted are high. President Biden has announced that combating climate change is a priority for him, and signaled that his Administration will mandate more-extensive ESG reporting for companies and investment managers, toughen regulations on business, encourage development projects for disadvantaged communities, and promote diversity in the workplace.

He’s already brought the U.S. back into the Paris Climate Agreement, and targeted net-zero greenhouse-gas emissions by 2050. He won’t fully succeed in all these initiatives, but his goals are good news for ESG investors.

Our Conversation with You

Not every investor is interested in ESG-driven portfolios. But if you are, we have ESG services across all investment objectives, and we can help you build a portfolio that is wholly or partly ESG-directed. In all cases, of course, we’re aware that your primary financial goal is assuring security, growth, and income in the years ahead.

Should You Take More Risk In Your Portfolio?

Ashvin Viswanathan, CFA
Director of Quantitative Strategy

It’s no secret that the yields available today on quality bonds such as Treasuries, Agencies, and Municipals are miserly. Even with the recent rise in Treasuries, investors are asking whether they should continue to hold or to purchase such bonds. We believe quality investment-grade fixed income, even at today’s low yields, still plays an important role in a well-diversified portfolio.

However, to grow wealth at rates similar to what they were when bond yields were higher, investors are essentially faced with two rather unpleasant choices: spend less and save more or increase the potential investment return (and risk) of their portfolios.

To understand how an increase in potential return impacts portfolios, a good starting point is to examine the shifting investment landscape in recent decades for pension funds, which resemble an individual’s portfolio allocations when investing for retirement. Historically, pension funds have often aimed for a 7.5% annualized return. We conducted research over the past 45 years (i.e., 1976 through 2020) to determine what these retirement funds needed to do in different investment environments to achieve a 7.5% annualized portfolio return.

Figure 1, which incorporates asset-class valuations (including interest rates for fixed income), illustrates how dramatically the investment landscape has shifted in recent decades. The chart shows the pension fund allocations (and risk) required to meet the return target during three trailing 15-year periods. Given the current rock-bottom interest rates, it may be difficult for investors today to imagine, but during the 15 years ending in 1990, a portfolio 100% invested in short-term Treasuries would have easily exceeded the total portfolio’s 7.5% threshold, with extremely low volatility (measured by the standard deviation of returns). That 15-year time span, of course, was marked by a high interest-rate regime.

During the next 15-year period, ending in 2005, a portfolio of 50% stocks (including international) and 50% Treasuries would have met the return requirement, but with nearly double the risk. Finally, looking back over the 15 years to 2020, our research reveals that a portfolio of 80% stocks was required to reach the target of 7.5% annualized return. Tellingly, this stock-dominated portfolio needed to take more than three times the risk of the 1990 counterpart and about twice as much as the 2005 portfolio.

In sum, investors—including those nearing or in retirement—are faced with the difficult decision of whether to take more risk in their portfolio to increase return potential. Everyone’s situation is different, but a modest increase in equities may be prudent, given the current low-yield environment and the potential headwinds bonds face from future rate increases.

There is no simple answer or universal advice, but we encourage you to meet with your Advisor to discuss whether it makes sense to add more equity risk to your portfolio.

**FIGURE 1: DIFFERENT PERIODS, DIFFERENT ALLOCATIONS TO EARN SIMILAR RETURNS**

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</tr>
<tr>
<td><strong>INTERNATIONAL STOCKS</strong></td>
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<tr>
<td><strong>SHORT-TERM U.S. TREASURIES</strong></td>
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<td><strong>15-YEAR TRAILING RETURN</strong></td>
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<td><strong>15-YEAR TRAILING STD. DEV.</strong></td>
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Sources: Bloomberg, Standard & Poor’s, Morgan Stanley Capital International, Russell Investments, Dow Jones & Company, and PUA Research
Putting Good Financial Habits Into Action in 2021

We’ve written before about cultivating good financial habits that can help you ensure long-term financial security. In the current market environment of heightened anxiety (even as stocks continue to outperform), we think it’s more important than ever to translate good intentions into tangible action. We’d highlight four broad areas:

1. Estate and Trust Planning: Changes Ahead?
   Review the basics: making sure you have a will, a health-care proxy, and a financial power of attorney, and that your beneficiaries are still who you want them to be. But go further than that.
   With the Democrats in control of both Congress and the White House, the likelihood of higher estate taxation has increased. While the unified gift- and estate-tax exemption is currently a high $11.7 million for an individual and $23.4 million for a married couple, President Biden has indicated that he’d like to see exemptions at $3.5 million/$7 million, the marginal estate-tax rate at 45% rather than the current 40%, and elimination of the step-up in cost basis for heirs of estates. But don’t restructure any financial plans yet if you have substantial assets: No one knows which, if any, of Biden’s proposals will find their way into law and what they’ll look like when final. Rather, this is a time to talk with your financial and tax advisors.

2. Retirement: A 401(k) Review Is in Order
   Check on your retirement savings, of course. But here’s something that investors sometimes forget: locating all their prior 401(k) plans and deciding what to do with them. You can let them ride, roll them over into an IRA, roll them over into your current 401(k) if you have a new plan that allows for it, or cash them out. But take that last option only if you need the funds desperately and immediately, because the distribution will be taxed as ordinary income, with a 10% penalty attached for good measure unless you’re at least 59½ years old.

3. Insurance: Do You Need More, or Less?
   How much life insurance should you buy and should you go for “pure” term insurance or a permanent policy that accrues cash value? Or maybe you don’t need life insurance anymore because you can provide protection for your dependents through other means. If so, you can cancel the policy, or perhaps sell it. Make sure you speak with a life-insurance expert about issues like these, and see our paper, https://www.peoples.com/wealth/articles-and-perspectives/articles/advice/the-meaning-of-life-insurance.
   Health insurance is as important as life insurance for most of us, and not just basic medical coverage. You might look into long-term-care, critical-illness, and disability policies.

4. Investing: Stay in the Market
   You’ve heard it before: Investing is highly emotional, often ruled by greed (when the markets are ebullient) and fear (when they’re sliding). If you let these emotions guide your investing, you’ll probably buy near market highs and sell near lows.
   And emotions may tempt you into market-timing. But to be a successful timer, you’ll need to pinpoint when to sell and when to get back into the market. Doing either one, let alone both, is impossible for most investors. Who, for example, would have called the last market trough on March 23, 2020—or the surge between then and the end of February 2021? A professional advisor can help take the emotional biases out of investing.

Rome Wasn’t Built in a Day
   Taking only the best financial actions isn’t something you can expect to do in a day. Rather, it’s an ongoing, evolving process that ideally you’re involved in every day. We’ll help you get a long-term plan together that will chip away at the challenges and position you well to achieve your goals.
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INVESTMENT OUTLOOK
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