INVESTMENT OUTLOOK
THIRD-QUARTER 2020

HELPING YOU NAVIGATE YOUR INVESTMENT, TRUST, RETIREMENT, BANKING, AND PLANNING CHALLENGES

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FOR CURRENT AND PROSPECTIVE CLIENTS

Investment Products & Services

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• May Lose Value
• Not a Deposit or Guaranteed by a Bank or any Bank Affiliate
Greetings. I hope that this note, which I am penning in mid-June, finds you and your families well now in July. As I’ve said many times this spring, what an unprecedented few months it’s been from so many perspectives, including market volatility, economic instability, societal unrest.

In fact, in late February, the Dow Jones Industrial Average nearly reached 30,000 before plummeting almost 40% to a low of 18,500 and ultimately rebounding 40% to our current level of 26,000. As we’ve been on this wild ride (also recall the negative oil futures briefly in April), I remember reflecting in early June, while watching the stock market rise rapidly, on the old Wall Street adage “Sell in May and go away.” I was thinking that that would have been the wrong call, only to see the markets retrace their steps. And now go up again...

Meanwhile, in the broader economy, unemployment claims skyrocketed to 40 million, while unemployment, which was expected to hit 20%, actually reversed course and settled at slightly more than 13%. More recently, many states have been reopening to varying degrees and levels of COVID-19 cases have also varied, while concurrently, civil unrest has been seen in all 50 states for weeks. That leads me to share a personal story that I think captures, at least from one perspective, the interesting arc of history that has unfolded lately.

On the Sunday after Memorial Day weekend, my three children (two college-age and one middle-schooler) were engrossed watching the SpaceX Crew Dragon capsule docking with the International Space Station, which was reminiscent of the Apollo missions of the late 1960s that captivated me as a young boy, and the entire world for that matter. I remember thinking, what else is possible out there in space?

Later that same day, we were all transfixed watching the nationwide demonstrations that followed the death of George Floyd in our adopted home of Minneapolis(where we lived for 10 years and where our youngest was born—as well as in New York City, my actual hometown, while protests and demonstrations raged at a nationwide pace not seen since the late 1960s. On my weekly all-employee conference call following that weekend, I shared with my team how troubling it all was. As I told my family, while there is so much opportunity in space, we still have a lot of work to do down here on Earth.

So, I hope this note finds you well, and please know that my team and I are hard at work down here on Earth, if you will, trying in our own way to sort through the complex issues facing each of us every day. We’re endeavoring to do excellent work for you while remaining totally committed to all of the communities we serve in New York and across New England. Be well.
Market Perspectives

**Equity**

In the next year, the shape, pace, and durability of growth depend on the success of reopening while COVID-19 is still a threat. Looking to a post-vaccine 2022, forecasts put U.S. earnings 50% above today’s levels, with more limited growth for international stocks. Amid continued volatility, investors who wait for the all-clear signal are likely to miss out.

**Fixed Income**

In response to the economic costs of containing coronavirus, the Fed will likely keep interest rates at or near historic lows through 2021. Fed bond-buying should limit bond-market volatility, but prospective bond returns will be well below historical averages—less than 3% for investment-grade corporate bonds and 1% for Treasuries.

**Cash and Real & Alternative Assets**

The COVID-19 pandemic has reduced the outlook for real assets by reducing inflation and growth. Under normal conditions, inflation supports the value of real assets, while low inflation and low growth reduce support. However, low inflation is favorable for cash, as it minimizes the erosion in value that cash suffers from higher inflation.

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**TOTAL EQUITIES**

Stocks are cheaper than bonds and poised for better 12–18 month returns. Federal Reserve (Fed) policy supports risk assets.

**U.S. EQUITIES**

The U.S. remains the best equity market in a global crisis and is likely to see the best earnings recovery.

**GROWTH | VALUE**

We maintain a neutral allocation between growth and value—favoring growth-oriented managers in expectation of a low-growth, post-pandemic economy.

**U.S. LARGE-/MID-/SMALL-CAP**

Relative sector weightings across capitalizations warrant a neutral allocation.

**INTERNATIONAL DEVELOPED MARKETS**

Japan and the EU lack the growth sectors that will drive the post-pandemic economy.

**EMERGING MARKETS**

China faces losses as global supply chains reshape. Poorer EM economies face daunting challenges from the pandemic.

**TOTAL BONDS**

Bonds remain vital for risk management in diversified portfolios, despite their limited return potential. Our allocation to bonds was reduced in April to accommodate an increase to equities, but remains modestly overweight.

**CREDIT RISK**

The yield advantage (credit spread) of corporate and high-yield bonds over Treasuries has declined from last quarter but still offers higher income returns. We have reduced the allocation to the bank loan segment of high yield in anticipation of rising default rates.

**MORTGAGE-BACKED BONDS**

Higher-than-average credit spreads on mortgage-backed bonds warrant an overweight.

**DURATION**

Interest-rate risk is low under current Fed policy at this stage of the recovery. Maintain the average maturity of portfolio bonds close to the benchmark average.

**CASH**

With low return prospects for bonds, cash remains valuable for risk mitigation.

**HEDGE-FUND STRATEGIES**

Selection continues to be critical, given the wide dispersion among hedge-fund strategies and returns.

**REAL ESTATE**

Real estate will likely be challenged by rent defaults and reduced demand in several sectors. Active management in this asset class will be key. We remain underweight.

**COMMODITIES**

We expect commodity returns will continue to track equity returns, thereby not offering their traditional diversification benefit. We maintain an underweight.

**GOLD**

While gold may serve as an effective hedge against volatility amid low real rates, we continue to prefer assets that generate cash.
A poem by Rudyard Kipling that was published in 1910, inspired by a failed raid against the Boers in South Africa, may seem to be an odd reference when beginning a note during a global pandemic. While the times are certainly different, the sentiment expressed in the poem is timeless. The opening of the poem, “If,” is a paean to stoicism in the face of hardship: “If you can keep your head when all about you / Are losing theirs…” is as appropriate for facing the challenges of today as it was 110 years ago.

The first six months of this year will be studied by economists, virologists, and cultural anthropologists for years to come. As the year began, a viral tsunami swept across the globe with fearsome speed and ferocity. The resulting economic storm threatened to undermine the foundations of our economy and the livelihoods of millions of families. Finally, the riots over the killing of George Floyd laid bare the inequities of our society and our failure at addressing them.

As investors, when we look at the market turmoil, one natural reaction could be to hunker down, sell most of our stocks, buy Treasury bills, and hope for better days. But we know intuitively that this is not the answer. For long-term investors it is critically important to stay calm and focus on your goals. During volatile periods, such as the last six months, we have found that reminding ourselves of a few basic investing principles helps keep us on track. Here are four that have stood the test of time.

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John S. Traynor
Executive Vice President,
Chief Investment Officer
1) Volatility is normal, stability is a rarity

One outcome of the zero-interest-rate policy maintained by the Fed for much of the last 11 years is the tremendous dampening of volatility in the equity market. Investors may have become inured to the relatively smooth march higher of the S&P 500 that began in March 2009. The 34% decline in the S&P 500 this year from its February high to the March low was the worst plunge since the 2008-09 financial crisis (see Figure 1). In fact, during the 11-year period from January 2009 through January 2020, we did not experience even one 20% decline. The lesson for the long-term investor is that the path to achieving your goals will be bumpy, but if history is a guide, markets reach new highs—given some time—after they plummet.

2) Have a plan and stick to it

It is axiomatic that successful investors have a plan, an investment policy statement, that clearly spells out their goals and their risk/return profile. Creating such a plan can be time-consuming and sticking to it a challenge that’s easier said than done in the face of market volatility and disturbing headlines. But a good plan will prove its worth.

Plans often encourage investor discipline with rules for rebalancing asset classes on a regular basis. A strategy for selling assets that have risen in value and buying those that have fallen will keep allocation levels in line with your targets and ensure that risk levels do not get too high.

Consider two investors: One is a monthly rebalancer; the other lets the portfolio ride with the market. On January 1, 2016, both had portfolios with a traditional 60% stock-40% bond mix. While both investors saw their portfolios rise over the following years, at the market peak on Feb 19, 2020, the rebalanced portfolio still had a 60/40 allocation, but the roller-coaster portfolio was now 68% in stocks. When the market declined by nearly 34% at its March 23 low, the roller-coaster portfolio had too much in equities and too little in protective bonds. The rebalancing investor was able to sell some bonds at the end of March and scoop up select low-priced equities. In other words, rebalancing helps you buy low and sell high: one of the recipes for investing success.

3) Understand the difference between price and valuation

All too often the market price of an asset can differ greatly from its intrinsic value: The market price of an individual stock is set by buyers and sellers who may not always be acting on a careful analysis of corporate fundamentals but rather reacting to the latest headlines or the actions of fellow investors. The “irrational exuberance” of investors in the dot-com bubble at the turn of the century is just one example of how market prices can be disconnected from underlying earnings power, and hence actual company value.

When trying to assess the true value of an asset, as opposed to its price, it is important to remember some advice attributed to Confucius: “Everything has beauty, but not everyone sees it.” The successful investor must see the value, or beauty, of an asset that others do not. One measure of value that we have found to be an excellent indicator of underlying corporate health is the company’s free cash flow—the money a company generates after paying expenses and reinvesting back into the business. The successful investor buys at a price well below the stock’s value and sells at a price well above. (Of course, a company’s free cash flow will fluctuate but generally not as much as its market value.)

4) Control your emotions

The principle above suggests how important investor emotions are, and indeed, controlling them is the most difficult precept to follow. We are biologically attuned to the world around us, and remaining detached from the ebbs and flows of despair and ebullience among fellow investors is a challenge that few can master. While we may not be able to tie ourselves to a mast, as Homer’s Ulysses did to resist the song of the Sirens, we can acknowledge our own emotional biases and work to temper them. It is unrealistic to expect that we can remain immune to the vicissitudes of the market—but we can mitigate our responses, and even take advantage of the mispricings that inevitably arise.

We hope these principles will help keep long-term investors on a path to achieving their goals. This year, we expect that volatility will continue, especially as we approach the November elections. A coronavirus vaccine or surprisingly good economic news would certainly be welcome, but their absence, at least in the near term, should not hold you back from investing. Indeed, we anticipate a positive investment environment going forward.

We believe that by focusing on an investment plan and controlling natural emotions, investors can achieve what Kipling hoped for his readers: “Yours is the Earth and everything that’s in it.”

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### FIGURE 1: DECLINES ARE A NORMAL PART OF THE INVESTMENT CYCLE

**STANDARD & POOR’S 500 COMPOSITE INDEX (1949-2020)**

<table>
<thead>
<tr>
<th>SIZE OF DECLINE</th>
<th>AVERAGE FREQUENCY</th>
<th>AVERAGE LENGTH</th>
<th>LAST OCCURRENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>-5% OR MORE</td>
<td>ABOUT 3 TIMES PER YEAR</td>
<td>43 DAYS</td>
<td>FEBRUARY 2020</td>
</tr>
<tr>
<td>-10% OR MORE</td>
<td>ABOUT ONCE A YEAR</td>
<td>112 DAYS</td>
<td>FEBRUARY 2020</td>
</tr>
<tr>
<td>-15% OR MORE</td>
<td>ABOUT ONCE EVERY 3.5 YEARS</td>
<td>262 DAYS</td>
<td>FEBRUARY 2020</td>
</tr>
<tr>
<td>-20% OR MORE</td>
<td>ABOUT ONCE EVERY 6 YEARS</td>
<td>401 DAYS</td>
<td>FEBRUARY 2020</td>
</tr>
</tbody>
</table>

Sources: Capital Group, RIMES, Standard & Poor’s. Frequency and length as of 12/31/19. Last occurrence reflects 2/19/20 market peak, and the correction is still ongoing as of 3/23/20. Average frequency assumes 50% recovery of lost value. Average length measures market high to market low.
**ECONOMIC DASHBOARD**

**GROWTH**
Growth resumed in May after a sharp 3-month contraction. Still, total output for 2020 will be lower than in 2019.

**JOBS**
Though GDP growth should restore many jobs lost during the pandemic, high unemployment will likely persist.

**INFLATION**
The COVID-19 pandemic has reduced inflation prospects to well below the Fed’s 2% target.

**INTEREST RATES**
Fed policy will likely keep rates low through 2021 at a minimum.

**OIL**
The recent collapse in global demand will ease gradually. Expect continued pricing below $65/barrel, barring a major Mideast supply disruption.

**THE DOLLAR**
As the world’s reserve currency, the dollar’s value should endure despite the U.S. trade deficit and a ballooning federal deficit.

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The U.S. economy has gone through more radical changes in the first half of 2020 than in any one of the past 100 years. Three months ago, massive parts of the U.S. economy were shut down, the stock market had slid more than -30% from its February peak, and an unexpected recession was setting in, even though none of the classic economic indicators had provided any advance warning. No one foresaw a pandemic.

A recession did start in the first quarter. More than 10 million people filed initial claims for unemployment insurance in just the last two weeks of March. Retail sales and industrial production plummeted in April. Consumer confidence sank. But remarkably, by the middle of May, growth was picking up. The COVID-19 recession is likely to have ended almost as abruptly as it started, one of the shortest recessions in U.S. history.

Unfortunately, it will also be one of the most severe in terms of lost jobs and the overall decline in economic output. The downturn from February to April was so severe that even with the current resumption of growth, 2020 gross domestic product (GDP) is expected to be $1.5 trillion less than in 2019, with nine million fewer jobs at year-end. Though we are in the recovery stage, for many people it will feel like the economy is stuck in recession because of closed businesses, lost jobs, or reduced work hours.

After the financial crisis of 2008-2009, it took over three years for GDP to recover to pre-recession levels and more than six years for jobs to recover. The stock market took more than five years to recover. However, that recovery is not a good model for the current recovery. The economy had serious structural problems in 2009—a housing sector inflated by excessive borrowing and an unsteady financial sector that had facilitated the housing bubble with risky lending. Millions of jobs were permanently destroyed by the financial crisis.

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Albert Brenner, CFA
Director of Asset Allocation Strategy

Compiled with the assistance of John Conlon, CFA, Chief Equity Strategist; Karissa McDonough, CFA, Chief Fixed Income Strategist; and Celia Gazayou, CFA, Director of Investment Solutions.
In contrast, the pre-pandemic economy had no major structural problems. The COVID-19 recession was entirely self-imposed—a byproduct of the social restrictions put in place to limit the spread of the coronavirus. It would seem logical, then, that once the social restrictions are eased, the economy would snap back to its pre-pandemic levels of production and employment. The V-shaped recovery of the stock market, down more than 30% to March 23rd and up more than 40% by mid-June, appears to forecast a similar V-shaped recovery for the economy.

However, while the recovery from the COVID-19 recession is likely to be quicker than the recovery from the financial crisis, it will not be V-shaped. Some of the dislocations from the shutdown will linger and others will be permanent. These dislocations will inhibit economic activity until the population at large achieves immunity through a vaccine, a highly effective therapy, or widespread infection and recovery.

Yet, the recovery will be slowed by more than just the time to acquire immunity to the virus. The COVID-19 recession is likely to cause changes in the U.S. economy because of the impact it has had on consumer attitudes and business models. Now that the world understands the risk of global pandemics, we’ll see changing consumer attitudes regarding where to live, where to work, and where and how to travel. The pandemic has rapidly accelerated the use of technology both at work and at home, changing work patterns and communication channels. We may see a pullback in globalization, to lower dependence on global supply chains both for critical health care supplies and for general manufacturing. Models of education and care for the elderly are being permanently altered.

All of these changes mean that the post-pandemic economy will be different from the pre-pandemic economy. It will be more efficient in some respects—in labor-force utilization and education, for example. It will be less efficient in other respects; for example, the reduced use of global supply chains will require the development of specialized capabilities domestically. Many—if not most—enterprises will conduct their activities differently in the post-pandemic economy, and it will take time for adaptations to take place.

The recovery period we are now in, for as drawn out as it may prove to be, will be a period of creative adaption and opportunity. For investors, this means that a critical eye to the businesses that are successfully adapting will be key. Certainly, some of the recent market enthusiasm has been based not necessarily on expectations of a rapid recovery but in anticipation of the opportunities the new economy will offer.

DON’T FIGHT THE FED

We advised investors last quarter to hold on to equities and rebalance to target weights even as the S&P 500 was sinking more than 30% below its February peak. We got the recession we were expecting and the opportunity recessions typically bring as investors sold stocks based on fear. From the March 23 market low to June 19, the S&P 500 returned 39%.

What should investors do now? We believe a modest overweight to equities makes sense for three reasons. First, stocks are not cheap, but bonds are even pricier. The dividend yield on the S&P 500 as of June 19 was 1.89%, vs. 1.32% on the broad investment-grade bond index, 0.56% on U.S. government bonds, and 1.57% on intermediate-term corporate bonds.

The differential is even larger for taxable investors. Second, equities are likely to outperform bonds over the next 12-18 months as earnings prospects improve. And third, the Fed has signaled it is going to keep rates low, which should boost risk assets including equities. In a word, don’t fight the Fed.

MUNI INVESTING

Investors are taking a closer look at municipal bonds with yields almost 0.5% higher than Treasury yields. Given their tax-exempt status, munis may offer an income boost.

“Some of the issuers are in a stronger position than others,” comments Karissa McDonough, Chief Fixed Income Strategist. “Some have prepared for the proverbial rainy day. It’s worth evaluating individual issues to identify those that can bolster your bond allocation.”

Many states have stronger balance sheets with over 10% of annual expenses set aside in reserve funds, a significant cushion to manage unexpected headwinds.

“Today’s conversation focuses on state and municipality revenues—what’s changed and what’s still there to be counted on,” says McDonough. “We think there are opportunities, but we urge selectivity and careful analysis.”
Is It Time Again for Small-Cap Value?

There’s no question that small-capitalization value (bargain-priced) stocks, as represented by the Russell 2000 Value Index, have been in the doldrums. Year-to-date through the end of May, due in good part to a 36% plunge in the first quarter, small-cap value trailed small-cap growth (Russell 2000 Growth Index) by 19 percentage points, and lagged large-cap growth (Russell 1000 Growth Index) by a cavernous 31 points. Yet our research shows that it may be time to consider adding an allocation to this beaten-down asset class.

Small-Cap Value Shunned

Small-cap value’s slump has been a prolonged one. In the 10 years ending May 31, 2020, the Russell 2000 Value Index returned just 6.5% annualized, behind its small-cap growth counterpart by five percent. And it underperformed the large-cap growth cohort, which contains market darlings such as Apple, Amazon, and Facebook, by a whopping 10 percent.

Not surprisingly, during the same time frame, the valuation discount of small-cap value relative to small-cap growth widened dramatically—which alone should pique the interest of value-oriented investors. For instance, during the past decade, the price-to-book discount of Russell 2000 Value widened from 61% to 73% (small-cap value now trades right around book value, compared to small-cap growth’s 4x book); on a price-to-sales basis, the discount was 60% at the end of May; and the price-to-cash flow discount opened up to 69%. Based on these three metrics in aggregate, value’s discount to growth is the widest it has been in the past 10 years.

Yet, the long-term performance of small-cap value has been solid. If we expand our horizon to the four decades from January 1980 through May 2020, Russell 2000 Value returned 11.7% annualized, compared to 9.6% for Russell 2000 Growth. And small value’s higher return came with 20% less volatility, resulting in a Sharpe ratio (a commonly used measure of risk-adjusted return) of 0.49 vs. only 0.29 for small-cap growth. And so the past decade’s pattern of growth crushing value is something of an anomaly.

Poised for a Turnaround?

On a rolling basis during the same 40-year period, small-cap value bested small-cap growth in 61% of the three-year rolling periods, two-thirds of the five-year periods, and an impressive 73% of 10-year periods (Figure 1). If you’re a long-term investor, you probably like those batting averages. It’s a logical pattern, since investors have demanded higher return over time for taking the higher risk of owning small, out-of-favor companies.

We can’t predict with any certainty when small-cap value stocks will find their place in the sun again. But today’s extreme discounts and small-cap value’s strong long-term history may be good signs. Finally, small-cap value has tended to perform relatively well when the economy is pulling out of a recession, which may be where we are now. Finance theory teaches that investors demand a higher return from small-cap value as compensation for taking higher risk in businesses with very low expectations and often elevated indebtedness. When the economy recovers and the cost of borrowing for riskier businesses declines (i.e., the high-yield interest rate spread over Treasuries narrows), the perception of risk lessens and many of these stocks can beat low expectations and mean-revert in value. We can’t promise that this will happen or that it will turn into a long run change in leadership from growth to value, but at least over the short term, small-cap value looks to us like an investment opportunity.

Sources: People’s United Advisors Research, Bloomberg

FIGURE 1: OVER THE LONG TERM, SMALL-CAP VALUE HAS BEEN A WINNER
ROLLING 3-YEAR EXCESS RETURN OF RUSSELL 2000 VALUE VS. RUSSELL 2000 GROWTH

Ashvin Viswanathan, CFA
Director of Quantitative Strategy
Retirement Planning in 2020

This has been a year marked by an almost unprecedented level of uncertainty about the future of the economy, the markets, and the direction that our businesses and our society will take after the COVID-19 pandemic has passed. One of the most frequent themes we’ve been discussing with our clients is their concerns about retirement in a recession.

Those who are nearing a long-planned retirement, or who have been in retirement for some years, face the prospect of meeting their income needs from a portfolio rocked by one of the sharpest market declines in living memory. Our advice has been guided by both new realities and the evergreen principles of prudent long-term retirement planning.

Today’s Growth/Safety Dilemma

Designing a portfolio for retirement is about turning assets—investments and savings—into a stream of income designed to last a long time. Traditionally, many investors entering retirement relied on a mix of income-generating assets (bonds and dividend-paying stocks) and growth-oriented equities. As investors progressed in their retirement, their portfolios often tilted more heavily toward the income-producing assets. In broad strokes, that’s still the case.

However, in 2020, investors must contend with rock-bottom interest rates: not far from 0%, even at intermediate maturities. Twenty years ago, a retiree could rely on a relatively conservative bond-heavy portfolio to pay 4% or more annually; today, the yield on a 10-year US Treasury is below 1%.

So now, most retirees will need their portfolios to grow more throughout their years of retirement to keep pace with inflation and potentially meet unexpected costs. This is more easily said than done: The diminished return from fixed-income securities forces investors into an unpalatable choice: take more risk in the stock market, with its potentially extreme volatility, or risk losing purchasing power over time from safer bonds. While there is no single answer to this conundrum, there are some key principles that can help retirees navigate a challenging environment.

A Quick Planning Guide

Anticipate Market Volatility.

While the uninterrupted bull market from 2009-2019 led many investors to grow comfortable with their stock portfolios, 2020 has been a sharp reminder that the stock market has the potential to turn negative, and more quickly than you expect. The best protection against the inevitable downturns is to maintain a comfortable allocation to bonds and assure liquidity via cash and short-term fixed income: Keeping one to three years of living expenses in liquid investments is a reasonable baseline for many. Once an investor has this reserve in place, he or she should be able to avoid selling stocks at a loss to meet current expenses when the market is bad.

Build a Portfolio with Multiple Sources of Return.

While there isn’t anything radical about building a portfolio with a mix of stocks, bonds, and alternative investments to diversify risks, today’s retirees need to think about their funds in new ways. They shouldn’t be afraid to trim the principal of their equity investments after strong periods in the stock market. And when stocks turn south, retirees may need to accept relatively paltry returns on low-yielding fixed-income investments until stocks recover. While many retirees may initially hesitate to hold a significant position in riskier assets, they can afford to take that risk if they’ve established a stable foundation of liquid assets.

Keep Focused on Your Goals.

Finances in retirement are never a straight line; we’ve learned that by working with our clients over the years. While numbers and calculators can be helpful tools in retirement planning, ultimately your financial retirement plan needs to be based on your personal goals. And remember: The ups and downs of the markets matter only insofar as they have a direct impact on you and your family. We can work with you to help mitigate that risk.

Properly done, retirement planning acknowledges, and even embraces, the reality that the only constants are change and uncertainty. And so, planning is a process, and a conversation that evolves over the years, not a binder with charts and graphs that purport to forecast the future. Whether a portfolio earns 3% or 10% annually over the next five (or 10) years, if it serves your needs, weathered the bear markets that will come, and takes advantage of the recoveries, it has done its job.
Giving to charity is always fulfilling, but now there are extra benefits for philanthropic donors courtesy of the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

**Expanded Tax Benefits**

If you take the standard income-tax deduction, starting in the 2020 tax year you’ll be able to deduct up to $300 in cash donations to charity “above the line” ($600 for married couples filing jointly). It will come off your gross income in calculating your adjusted gross income (AGI), a significant benefit.

If you itemize in the 2020 tax year, the limit on deductible cash contributions to public charities has been raised from 60% to 100% of AGI. Deductions not fully usable in the 2020 tax year can still be carried forward for five years, albeit at the old 60% limit. Corporate donors giving cash can now deduct up to 25% of taxable income, an increase from the 10% limit.

The rules for donating property are complicated, depending on the property type—it’s often good to give highly appreciated stock, and avoid a potentially burdensome capital-gains tax bill later—and the structure of the charity (a donor-advised fund, for example, a pooled income fund, or a foundation).

**Is a CLAT Right for You?**

Let’s say you’ve decided to give to charity, and you want to address other goals too. One popular choice, to benefit not only charity but a family member, perhaps—a child—or even yourself, is a charitable lead annuity trust, or CLAT, which can be set up to start paying out while you’re alive.

They’re called “charitable lead” because with a CLAT the charity gets paid first, and then your other beneficiaries. You can also do it the other way: pay your non-charitable beneficiaries first and then the charity with a charitable remainder trust. CLATs distribute an “annuity” because you establish a percentage of your donation’s initial value to be paid to the charity in a stream of fixed yearly payments. You pick the annuity’s term—often 10 or 20 years, though it can be for your lifetime or someone else’s (usually your spouse’s). Or you can elect to use a charitable lead unitrust, a CLUT, which pays a fixed percentage of the value of the trust as it changes each year. Once the term of a charitable lead trust has been reached, your children, your spouse—whoever you’ve named—is entitled to the remainder. CLATs are “trusts,” special legal vehicles that hold assets and that are subject to special tax rules.

And with a CLAT, you are entitled to an income-tax deduction based on the amount passing to the charity; the amount and the timing of the deduction will depend on the terms of the trust, the amount funding the trust, the discount rate set by the government, and your individual tax circumstances.

**CLATs Like Low Interest Rates**

Typically, when a CLAT is established, the donor allocates a portion of his or her transfer-tax exemption to the portion of the trust not passing to the charity. If the donor survives the term of the CLAT, the property remaining at the termination of the trust passes transfer-tax-free to the remaindermen.

The Section 7520 Rate (from a section number in the IRS Tax Code) governs the CLAT’s assumed discount rate and is set when the trust is created. If the return on the assets in the CLAT exceeds the Section 7520 Rate, the CLAT’s non-charitable beneficiaries receive more than the government estimates that they would. Likewise, the additional amount avoids transfer taxes.

With today’s low interest rates, the chances of “success” for a CLAT are about as high as they ever get. This May, the Section 7520 rate was 0.8%; by way of comparison, in May 1989 it was 11.6%. Further, while the federal exemption from estate and gift taxes is now at an extremely high level, it’s scheduled to revert to a lower amount in 2026 unless Congress intervenes, and it often doesn’t apply in states that levy their own transfer taxes.

**Don’t Do It Alone**

Like all trusts, CLATs are complicated, and they require that grantors make a set of decisions up front. And if the trust is established to pay out benefits while you’re alive, it’s irrevocable, so you need to be careful in setting it up. You’ll need the counsel of a trusts-and-estates professional and your financial advisor to help you determine whether a CLAT is a good option for you.
Choice and convenience are the operative words in our financial lives today.

With change comes challenge—the vulnerabilities inherent in digital dashboards. We’ve seen it with younger banking customers, with little brand allegiance to the familiar financial service giants, who are moving to new providers delivering convenience, aggregation and increasingly, security. One thing is clear, today’s financial customers seek digital protection.

What Matters Most?

Industry research points to convenience as a key priority. With convenience and the aggregation of data emerges a related priority—security. As the pandemic has driven more and more of the banking public into the digital landscape, protecting one’s digital footprint has become a must. After all, the modern behaviors of online banking and investing have become commonplace since the pandemic arose.

Protecting Your Digital Vulnerability

“Data breach,” a term that has migrated from the political action thriller to our own stay-at-home lives, is center stage. Our socially-distanced lives drive us to more apps; more requests for our most privileged information; more searches for that perfect gift, that article or social media post, and for that site someone referenced earlier on a Zoom call. Identity thieves will continue to find new ways to target and take advantage of victims. Not so fast. The reality of digital fraud can be painful, expensive, and criminal.

Generation Breach

We’ve gone from protecting physical assets in a safety deposit box to digital ones in a virtual safe. But that virtual safe is vulnerable. Our data are displayed in hundreds, even thousands of platforms. When there’s money involved, the predators sharpen their skills. Given that today’s vulnerabilities are technologically complex, it’s more likely that our human errors and missteps invite financial chaos or even ruin.

Our Response:

Introducing AlwaysChecking

People’s United Bank has been polling customers, analyzing the market, and testing consumer attitudes and priorities. Consistent with the trends referred to above, digital identity protection tested very high, particularly among younger consumers but also with wealthy customers. Today’s financial-service customer is no stranger to the breach culture at play among us.

Introducing AlwaysChecking—a digital identity protection service free with any personal checking account. Registration is online and customers can choose what they’d like monitored, including their passports, driver’s licenses, credit cards, social-media accounts and their families Social Security numbers. Protecting what matters most is central to the principle behind AlwaysChecking. We know that There’s Only One You, Let’s Keep It That Way. AlwaysChecking is here to help!

THE LEGEND OF THE MEERKATS

Known to the uninitiated as a charming but somewhat frantic pack animal found in desert regions of southern Africa, the wee meerkat is front and center in the Bank’s introduction of its new digital identity protection service.

Why is that? It is because meerkats are frantically checking for predators. Banking clients and investors with wide and deep digital footprints need to check actively for digital predators.

As AlwaysChecking arrives in the marketplace, you can expect to see advertising and information via your Roku subscription, on cable stations, and on affiliate broadcast stations throughout our region as well as in local newspapers, local radio, and online via digital advertising.

Just as meerkats are always checking for predators, so are we at People’s United Bank.
Working with People’s United Advisors, Inc.

People’s United Advisors brings pragmatic, thoughtful wealth management solutions to individuals, families, and organizations.

For more information on our investment offerings please contact us at:

wealthmanagement@peoples.com
(800) 772-8778
www.peoples.com/wealth
www.linkedin.com/company/peoples-united-advisors/

AN RIA INSIDE A BANK – A GREAT IDEA!

We deliver Uncommon Expertise to all of our clients. As part of an organization with over 175 years of experience, we’re not new to this.

We are fiduciaries, always acting in the best interest of each of our clients.
Our culture is one of prudence and risk-aversion.
We deliver solutions that matter, and do so through honest language.
Experienced and tested, we are focused on delivering complete solutions.

We are stable, secure, and regulated.
We don’t sell. We solve.

FOR ADDITIONAL INSIGHTS AND THOUGHT LEADERSHIP, PLEASE GO TO:
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