FORESIGHT

Your Wealth | Your Life | Your Legacy ™

The Sanibel Captiva Trust Company

The Naples Trust Company

The Tampa Bay Trust Company

Divisions of The Sanibel Captiva Trust Company

FIRST QUARTER | 2022

Current Outlook & Portfolio Strategy

Ian N. Breusch, CFA
Chief Operating Officer

The past year once again proved quite successful for broadly diversified equity investors. Substantial ongoing liquidity provided by monetary and fiscal accommodation has undoubtedly helped spur economic growth, and by extension, stock market returns. Revenues and earnings across S&P 500 companies have risen more than 15% and 45%, respectively, year over year. Clearly, the outsized growth rates are a function of 2020 being rather weak as a result of the COVID-19 pandemic. However, U.S. companies overall are producing substantially more in sales and earnings than in 2019 (prior to the pandemic), despite the fact that some industries have yet to fully recover. Much like the Delta variant of COVID-19, the emerging Omicron variant does not seem likely to pose significant risks to the functioning of global economies. We are learning to live with this virus through practical mitigation efforts, while avoiding some of the more draconian measures first established in 2019. For this reason, we anticipate continued, albeit more normalized, growth going forward.

As we make our way into 2022, the subject of inflation is taking center stage. The latest release of the consumer price index (CPI) on Dec. 10 showed inflation had risen 6.9% year over year, which was the highest rate of increase since the early 1980's. Even when we remove the impact of food and energy from the CPI calculation, which often are viewed as transitory goods, inflation is up 5% year over year. Whether you've purchased or sold real estate, shopped for holiday gifts, or bought a gallon of milk, inflation (higher prices) has become readily apparent in our everyday lives. To be clear, inflation can be a pernicious force for consumers, particularly among those living paycheck to paycheck.

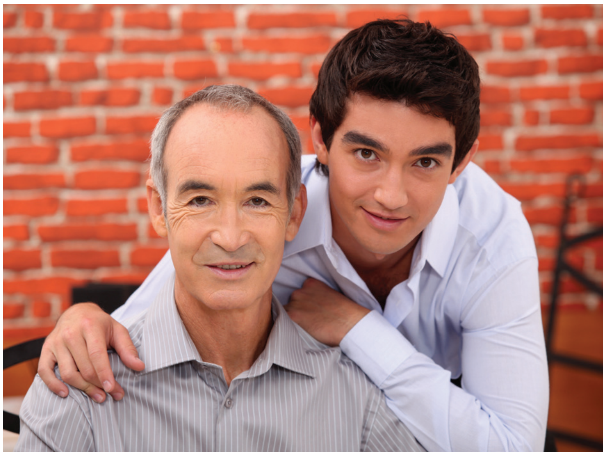
As investors, it's important to remember that many areas of the stock market tend to do quite well during inflationary periods of time. For example, companies with pricing power – the ability to raise prices without hurting demand – tend to perform

quite well. Commodities, real estate, and other hard assets typically increase in value, and owners of those assets hedge themselves against the erosion of value. We also continue to believe that value/dividend-paying companies offer slightly better forward return prospects than many of their growth counterparts. As interest rates move higher on risk-free assets (such as U.S. Treasury bonds), the discount rate on future cash flows increases when valuing stocks. In other words, higher interest rates lead to lower valuations among companies with more of their current valuation tied to unproven future cash flows. Conversely, this is also why longer-established companies that pay dividends are seen as more attractive in a rising interest rate environment, given that their respective valuations don't depend as much on the unknown future.

On Dec. 15, the Federal Reserve Board announced an increase in the tapering of their asset purchase program, by reducing the amount of bonds they are buying by $30 billion per month. They also expect to begin increasing the Federal Funds rate next year. The Fed's removal of economic stimulus and tightening of policy is designed to cause interest rates to move higher, which in turn, reduces inflationary pressures. However, the Fed is just one market participant, and they do not control the entire interest-rate complex. We will be watching closely as capital markets digest policy changes to combat inflation. We should anticipate higher levels of market volatility as investors adjust to changes in monetary policy. However, as long-term investors, we always encourage our clients to stay the course. Inflation is most damaging to investors who insist on holding cash to avoid market volatility. Holding cash during an inflationary period ensures a negative real rate of return. Like any other period of time, there are risks to consider. Inflation is simply another variable to navigate as we make investment choices on behalf of our clients. Our focus will remain on sourcing and managing high-quality investments for our clients, while also considering the associated risks.

An Idea to Help the Young Get Started

West McCann, CFA
Office President – Naples



The following story swathes several crucial financial topics - the importance of an early start to investing; the time value of money; family governance; and the power of compounding. Each of these topics are integrated into the Wealth Management services in which we advise our clients. Here at the Trust Company, we are called upon to explain complex estate planning, investment philosophies and the management of financial goals. From time to time, however, we learn clever and intelligent ideas from our very wise clients, and that is what I am sharing today.

A gentleman with whom I worked offered an idea that is simple, and yet very effective in assisting a young person to begin the journey of saving and investing. This gentleman had a grandson who was working in a summer job – not earning a great deal, but his grandfather was proud of the work ethic that was being established. To encourage the young man, he met his grandson after the boy had received a W-2 for his past summer's work. The grandson had earned a little more than $3,000 – and the grandfather took him to open a Roth IRA. As a reminder, a Roth IRA is funded with after-tax dollars and grows tax free. Completely tax-free withdrawals can start at age 59 ½, and a worker may contribute 100% of earned income to a Roth, up to $6,000.

The grandfather's gesture prompted the first of many discussions about investing wisely, with the grandfather often reinforcing the concepts of thrift and being responsible with wealth. The grandson enthusiastically embraced the newfound bond with his grandfather, and the two have enjoyed a great many conversations about saving for the future and investing wisely. Stock ideas and financial markets became a staple of their mutually enjoyable conversations.

Several years passed with the grandfather making additional gifts to the Roth IRA in amounts of $3,000, $3,500 and $4,000 for a total contribution of $13,500. Another important investment topic now entered the discussion – the effects of compounding. This grandchild was 18 years old at the time of the first gift, and he graduated from college and became fully employed at 24 – at which time he could begin funding a 401k and saving from his own earnings. The mathematical effect of even modest gifts like this can be astounding – not because of high rates of return but because of time. Young investors possess the most important ingredient to building a substantial investment portfolio – time. Many of us realize far too late how difficult it is to build investment wealth with little time. Compounding over time has extraordinary impacts - when the grandson reaches age 65, his Roth IRA – earning an average of 8.5% per year – would reach a value of approximately $415,000. Since the grandson is holding a Roth IRA, he will be able to withdraw those assets tax free or choose to pass the account along to his heirs.

The wise grandfather intended to help his young grandchild establish good savings and investment practices. What he would tell me later, is that those small contributions really transformed into much more. First, he built a bond with his grandson that was very meaningful to both of them. They shared ideas and thoughts and discussed results with enthusiasm. They suffered investment declines and celebrated investment victories together.

Making small gifts to a Roth IRA early in a young worker's life creates the opportunity to share values, opens up topics for discussion and sharing, and is the most tax-effective way of building investment wealth in our planning universe. If you would like to discuss ideas related to planning and family governance, please contact us at sancaptrustco.com.

Donor-Advised Funds: An Efficient Charitable Alternative

James McArthur
Family Office Services

As we make decisions to support charities each year, we want our donations to be efficient and effective in terms of serving those in need. In other words, we want as much of our donation dollar to benefit the intended charity. Donor-advised funds (DAFs) are becoming an increasingly popular method of charitable giving due to ease of administration and favorable tax treatment.

A DAF is essentially an investment account created for the explicit purpose of donating assets to charities where the investments are directed by a third party or a sponsor supporting respective charitable organizations. Donor-advised funds have been around since the 1990s, but their use dramatically increased following the 2017 tax-code changes. These provisions significantly increased the standard tax deduction for individuals and married couples, making it far more difficult to claim deductions for charitable giving.

DAFs can be funded with cash, marketable securities, or other assets and are eligible for immediate tax deductions based on the value donated – even if the fund doesn't disburse the assets to charities for several years. Because these funds can include many types of assets, including unusual and illiquid items such as art or antiques, which are difficult to give to charity, those items can be monetized to increase tax-deductible donations in any given year. This gives donors more flexibility on donations. Donors can also maintain their current investment advisor to manage assets in a DAF.

Historically, Private Charitable Foundations (PCFs) have been used by families with charitable aspirations to channel assets and earnings to qualifying 501(c)(3) organizations. While PCFs have greater administrative control over assets, distributions and grants, they are relatively cumbersome to form and expensive to maintain. Private foundations are responsible for documenting their own governance as well as filing annual federal tax returns. DAFs, conversely, require neither and can be set-up in a matter of days. In addition, DAFs are more tax efficient and private in terms of anonymity compared to PCFs. DAFs do not require disclosure of "public" information included in tax returns. Private foundations are required to distribute 5% of net asset value on an annual basis. DAFs have no annual distribution requirement and are not subject to excise tax on net income. Assets invested in a DAF can appreciate tax-free. Favorable market conditions coupled with a lack of mandatory distributions can make DAFs an appropriate vehicle to facilitate asset growth before distributions are made to charities.

	Donor Advised Fund (DAF)	Private Charitable Foundation (PCF)
Time to Establish	Immediate	30- 120 Days
Start-Up Costs	None	Legal & Accounting Fees - Varies
Privacy	Anonymous	Disclosures - Federal Tax Return
Tax Deductions	60% of AGI	30% of AGI
Required Distributions	None	5% of Net Asset Value
Excise Tax	None	1.39% of Net Income
Admin. Fees	.75% -1.50% Annually	2.0% - 4.25% Annually

While DAFs offer efficiency and flexibility, there are notable restrictions. Donor control is a primary distinction between DAFs and PCFs. When donors make contributions to DAFs, they are gifting assets irrevocably to a qualifying charity. Once gifted, the sponsoring charity cannot return the assets to the donor. By definition, donors have only advisory privileges to grant the assets in their DAF, and the charitable sponsor has the authority to approve or deny their recommendations. PCFs allow donors to control grants and distributions to qualified charities.

The charitable sponsor's policies dictate how the DAF will succeed the donor. Some allow the donors to advise for only one generation, thereby passing the control of the DAF to the sponsoring charity after the death of the original donor. It is not uncommon for the sponsor to permit donors to appoint "Legacy" successors who receive the full advisory privileges on the original donor's death, allowing the DAF to exist in perpetuity. In such cases succession of a DAF is similar to a PCF, allowing generational involvement to maintain a family's giving legacy. Existing PCFs can also be converted into DAFs.

If a family or an organization has generational charitable goals, DAFs can be a very effective method of giving and should be among the charitable donation options you consider. As with any financial decision with tax implications we encourage you to consult your financial and tax professionals.

Thoughts On Inflation & Supply Chains

Timothy P. Vick
Director of Research,
Senior Portfolio Manager

To see the American economy as boisterous as it is today should elicit gladness from wealth managers. After all, this is the first time the United States has emerged from a recession with stock prices near all-time highs, home prices escalating at rapid rates, households' net worth at record levels, and Americans holding more than $2 trillion in excess savings in their bank accounts thanks to stimulus checks.

For those of you planning trips abroad and frequenting your favorite restaurants again, there has been a sense of relief and a pent-up enthusiasm to spend. But for other facets of the economy, there has been a peculiar stagnation unlike any with which we've dealt. Several million workers haven't returned to their jobs in key industries like trucking, shipping, construction, farming, and manufacturing. Record numbers of container ships dock outside our ports waiting to be unloaded. Restaurants close early due to a lack of cooks. Store shelves aren't as fully stocked as you remember. You're paying 50% more to fill the gas tank or remodel a kitchen.

Indeed, our economy and stock market were tested in new ways in the second half of 2021. Economic conditions were generally buoyant and pointed to continued higher-than-average economic growth into 2022 on the back of strong demand across most industries. Now that most of the economy is open for business again, the savings that Americans socked away throughout 2020 and early 2021 was spent aggressively, and the swell in demand for consumer goods, property and other assets was unlike any we've seen in about 15 years. Demand for automobiles, new and used homes, furniture, clothing, cosmetics and restaurant food, for example, surged 15%-25% in the middle of last year, and even exceeded levels that would have been predicted had COVID-19 not occurred. Inventories of homes for sale fell to 1-2 months' supply in major cities last summer, and sellers enjoyed receiving full-price offers within hours of listing.

As a counterforce, many industries were caught flat-footed by the surge in demand and have struggled to supply enough goods due to the logistical problems that arose from a lack of shipping capacity worldwide. It's a classic supply and demand imbalance that should prove to be transitory, though economists and business leaders now admit that conditions will prevail longer than expected due to the ongoing dearth of workers. We forget that many of the goods we want to consume originate in countries where most workers still aren't vaccinated. Certain businesses and industries, particularly professional services and high tech, have operated as normal since before COVID-19 shutdowns. They provide the best clues that the U.S. economy sits on a strong foundation for future growth once everybody is back to work.

We're guided, too, by historical factors that keep us optimistic.

The solution to higher prices, in economics at least, often is higher prices. High prices for finished goods, raw materials and commodities tend to decrease demand and cause prices eventually to settle back. Indeed, we already experienced a 70% decline in lumber prices from their peak in May through September, over which time we also noted an increase in inventory of homes for sale and a slowdown in new construction and mortgage applications. The cost to rent a shipping container or buy a ton of iron ore likewise has fallen 40%-50% from recent peaks.

Prices and demand for goods seem to be reverting back to pre-COVID-19 levels. While headlines tout the extraordinary year-over-year price increases experienced for metals, materials, food, and energy in 2021, lost among the commentary was the fact that prices were rebounding off extraordinary lows of mid-2020, but yet are not much higher than we experienced in 2019. Should the supply and demand for goods even out again, we would expect prices for most goods to settle back onto the trendline that existed before COVID-19.

This time, and all times, is different. It's a bold statement to make, but no two economic landscapes throughout American history have been identical. Every economic peak and trough was fed by different employment conditions, policy responses from Washington, and catalysts from the banking sector. Those looking for parallels between the stagflationary 1970s and today are looking past obvious changes in the economy that took place the past four decades. For one, there has been a massive transformation from a high-cost industrial economy (steel, aluminum, autos, refining, chemicals), to a low fixed-cost service economy (health care, retailing, and professional services). Since the 1970s, giant pools of cheap labor were unleashed after the breakup of the Soviet Bloc and the opening of economies in India and China. Labor unions don't hold as much power to lock in inflationary pay and benefits packages as they once did. And the arrival of online purchasing has greatly diminished the ability of firms to charge more than competitors. All these forces are still working behind the scenes to keep inflation in check.

Corporate Leadership
S. Albert D. Hanser
Founder and Chairman
Terence M. Igo
Chief Executive Officer
Ian N. Breusch, CFA
Chief Operating Officer

Portfolio Management
Andrew Vanderhorst, CFA, CAIA, CFP®
Chief Investment Officer
Edwin C. Ciskowski, CPA
Senior Vice President, Senior Portfolio Manager
Gary W. Dyer, CFA
Senior Vice President, Senior Portfolio Manager
Craig J. Holston, Executive Vice President
Senior Portfolio Manager
Timothy P. Vick
Director of Research, Senior Portfolio Manager

Trust & Estate Services
David F. Port, J. D., Executive Vice President
Peter Knize, J.D., LL.M., Senior Vice President
T. John Costello, Jr., J.D., Senior Vice President

Family Office Services
F. Hood Craddock, CPA
Director of Family Office Services
Allison Constant, Vice President
The Tampa Bay Trust Company
James McArthur, Senior Vice President
The Tampa Bay Trust Company
Louis N. Pappas, Vice President
The Tampa Bay Trust Company

Client Services
Beth Weigel
Chief Operations Officer

Compliance
Darryl S. Gordon, CFIRS®, AFIM®, CFE
Chief Compliance Officer

Finance
Nancy Hackett
Chief Financial Officer

Wealth Services
Harriett S. Bankston, Vice President
The Tampa Bay Trust Company
Michael R. Dreyer, CPA, Office President
The Tampa Bay Trust Company
Steven V. Greenstein, J.D., CTFA
Executive Vice President
The Sanibel Captiva Trust Company
Krista J. Hinrichs, Vice President
The Tampa Bay Trust Company
West McCann, CFA, Office President
The Naples Trust Company
Connie McMullen, Community Advocate
The Tampa Bay Trust Company
Jeffrey A. Muddell, CFP, Office President
The Sanibel Captiva Trust Company
Carolyn C. Rogers, CTFA, CFRE, Senior Vice
President, The Sanibel Captiva Trust Company
Cherry W. Smith, Executive Vice President
The Naples Trust Company
Jeannine Stetson, CTFA
Senior Vice President, The Naples Trust Company