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The Financial Solutions Advisor

Inside this issue:

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Economic & Market Perspectives

2021 Returns

S&P 500	*15.25%*
NASDAQ	*13.34%*
Russell Small Cap	*17.54%*
Russell Mid Cap	*16.25%*
MSCI EAFE	*8.83%*
MSCI World	*13.05%*
Barclay US Agg. Bond	*-1.60%*
Barclay Municipal	*1.06%*

In just over a year, the world has gone through incredible change – thrown into a pandemic and plunged into a global recession. We last put out an outlook at the end of last year, sharing our expectations for 2021. In that outlook, our base case anticipated an effective vaccine rollout that improved confidence and lowered infection rates, with the US experiencing a strong economic reopening in the second quarter, followed by the Eurozone. We favored risk assets and preferred cyclicals over defensives in this environment. We have largely seen that expectation come to fruition.

Now as we look to the back half of 2021, to continue to address the breadth of possibilities that may lie ahead in the environment, we are providing a base case scenario, which we believe is highly probable, and two other possible scenarios that explore two different tail risks.

Base case: A strong economic re-acceleration with temporary inflation

Our base case anticipates that economies will likely accelerate as they re-open, but expects any accompanying rise in inflation to be temporary. In our opinion, the US has had a very effective vaccine rollout and is likely to take the lead in the global economic recovery as growth in China moderates. The UK and Eurozone are likely to follow the US recovery, with some emerging markets countries generally lagging behind because of the obstacles they face vaccinating their respective populations, which is likely to result in episodic resurgences of COVID-19. As economies re-open and spending increases, inflation should rise significantly, especially in the US as the Federal Reserve expects, but we anticipate it will moderate to a rate faster than pre-crisis trends but not sufficient to induce aggressive action from central banks. Over the longer term, we expect demographics and innovation to place downward pressure on inflation.

We expect investors to be rewarded for taking on more risk, and so we favor equities, real estate, and industrial metals. Given our expectation of a strong economic recovery, within equities we favor value over growth. In fixed income, we expect high yield and investment grade credit to outperform government bonds.

Tail risk 1: Pandemic resurgence

Our first tail risk scenario contemplates a resurgence of the pandemic as a result of the spread of more powerful virus mutations against which existing vaccines are substantially less effective. In our view, this would have a negative impact on economic growth globally, but we believe the impact would not be nearly as dramatic as the initial wave of COVID-19 because economies have learned to adapt to lockdowns and have developed other tools to control the spread of the pandemic. Emerging markets economies would likely be hit hardest due to relatively limited health care infrastructure as well as lower vaccination levels.

In such a lower-growth environment we would favor gold, sovereign debt, investment grade credit and cash. Within equities, we would favor defensive sectors with stable cash flows and wider margins. Conversely, cyclical sectors should underperform as the recent value rotation comes to a halt, with financials hit by a flattening of the yield curve.

Tail risk 2: High inflation

Our second tail risk scenario describes a strong economic re-acceleration accompanied by a rise in inflation that is more persistent. In this scenario, we believe rapid growth would come with a quickening pace of inflation. Markets would anticipate higher inflation and Fed tightening, causing the yield curve to steepen on the back of rising inflation expectations but no Fed rate hikes in sight over our scenario period, which is one year.

In this scenario we would favor commodities, equities, real estate, and inflation-protected bonds. Within equities, we would expect to find increased dispersion in sector performance, exacerbated by differences in interest rate sensitivity, with financials likely benefitting from a steeper yield curve. Long-duration sectors such as consumer staples, health care and technology should underperform, while sectors with real asset characteristics such as industrials, materials and energy should outperform. In fixed income, we would look for risky credit, except for emerging markets debt, to outperform government bonds.

Looking ahead

Given the unique nature of this economic crisis, many factors will dictate the path of the economic recovery in the second half of 2021 and beyond. We will be closely following vaccination levels and COVID-19 infection rates along with fiscal policy, monetary policy, and economic conditions as we progress through the back half of 2021.

Source: Invesco

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Life Insurance Beneficiary Mistakes to Avoid

Life insurance has long been recognized as a useful way to provide for your heirs and loved ones when you die. Naming your policy's beneficiaries should be a relatively simple task. However, there are several situations that can easily lead to unintended and adverse consequences you may want to avoid.

Not Naming a Beneficiary
The most obvious mistake you can make is failing to name a beneficiary of your life insurance policy. But simply naming your spouse or child as beneficiary may not suffice. It is conceivable that you and your spouse could die together, or that your named beneficiary may die before you do. If the beneficiaries you designated are not living at your death, the insurance company may pay the death proceeds to your estate, which can lead to other potential problems.

Death Benefit Paid to Your Estate
If your life insurance benefit is paid to your estate, several undesired issues may arise. First, the insurance proceeds likely become subject to probate, which may delay the payment to your heirs. Second, life insurance that is part of your probate estate is subject to claims of your probate creditors. Not only might your heirs have to wait to receive their share of the insurance, but your creditors may satisfy their claims out of those proceeds first.

Naming primary, secondary, and final beneficiaries may avoid having the proceeds ultimately paid to your estate. If the primary beneficiary dies before you do, then the secondary or alternate beneficiaries receive the proceeds. And if the secondary beneficiaries are unavailable to receive the death benefit, you can name a final beneficiary, such as a charity, to receive the insurance proceeds.

Naming a Minor Child as Beneficiary
Unintended consequences may arise if your named beneficiary is a minor. Insurance companies will rarely pay life insurance proceeds directly to a minor. Typically, the court appoints a guardian — a potentially costly and time-consuming process — to handle the proceeds until the minor beneficiary reaches the age of majority according to state law.

If you want the life insurance proceeds to be paid for the benefit of a minor, consider creating a trust that names the minor as beneficiary. Then the trust manages and pays the proceeds from the insurance according to the terms and conditions you set out in the trust document. Consult with an estate attorney to decide on the course that works best for your situation.

Per Capita or Per Stirpes Designations
It's not uncommon to name multiple beneficiaries to share in the life insurance proceeds. But what happens if one of the beneficiaries dies before you do? Do you want the share of the deceased beneficiary to be added to the shares of the surviving beneficiaries, or do you want the share to pass to the deceased beneficiary's children? That's the difference between per stirpes and per capita.

You don't have to use the legal terms in directing what is to happen if a beneficiary dies before you do, but it's important to indicate on the insurance beneficiary designation form how you want the share to pass if a beneficiary predeceases you. Per stirpes *(by branch)* means the share of a deceased beneficiary passes to the next generation in line. Per capita *(by head)* provides that the share of the deceased beneficiary is added to the shares of the surviving beneficiaries so that each receives an equal share.

Disqualifying a Beneficiary from Government Assistance
A beneficiary you name to receive your life insurance may be receiving or is eligible to receive government assistance due to a disability or other special circumstance. Eligibility for government benefits is often tied to the financial circumstances of the recipient. The payment of insurance proceeds may be a financial windfall that disqualifies your beneficiary from eligibility for government benefits, or the proceeds may have to be paid to the government entity as reimbursement for benefits paid. Again, an estate attorney can help you address this issue.

Review Each of Your Beneficiary Designations
In addition to life insurance, you may have other accounts that name a beneficiary. Be sure to periodically review the beneficiary designations on each of these accounts to ensure that they are in line with your intended wishes.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased.

Different Inflation Measures, Different Purposes

The inflation measure most often mentioned in the media is the Consumer Price Index for All Urban Consumers (CPI-U), which tracks the average change in prices paid by consumers over time for a fixed basket of goods and services. In setting economic policy, however, the Federal Reserve Open Market Committee focuses on a different measure of inflation — the Personal Consumption Expenditures (PCE) Price Index, which is based on a broader range of expenditures and reflects changes in consumer choices.

More specifically, the Fed focuses on "core PCE," which strips out volatile food and energy categories that are less likely to respond to monetary policy. Over the last 10 years, core PCE prices have generally run below the Fed's 2% inflation target.

Sources: U.S. Bureau of Labor Statistics and U.S. Bureau of Economic Analysis, 2020 (data for the period September 2010 to September 2020)

Considerations When Making Gifts to Children

If you make significant gifts to your children or someone else's children (perhaps a grandchild, a nephew, or a niece), or if someone else makes gifts to your children, there are a number of things to consider.

<u>Nontaxable Gift Transfers</u>

There are a variety of ways to make transfers to children that are not treated as taxable gifts. Filing a gift tax return is generally required only if you make gifts (other than qualified transfers) totaling more than $15,000 per individual during the year.

- **Providing support.** When you provide support to a child, it should not be treated as a taxable gift if you have an obligation to provide support under state law. Parents of minor children, college-age children, boomerang children, and special-needs children may find this provision very useful.

- **Annual exclusion gifts.** You can generally make tax-free gifts of up to $15,000 per child each year. If you combine gifts with your spouse, the amount is effectively increased to $30,000.

- **Qualified transfers for medical expenses.** You can make unlimited tax-free gifts for medical care, provided the gift is made directly to the medical care provider.

- **Qualified transfers for educational expenses.** You can make unlimited gifts for tuition free of gift tax, provided the gift is made directly to the educational provider.

For purposes of the generation-skipping transfer (GST) tax, the same exceptions for nontaxable gift transfers generally apply. The GST tax is a separate tax that generally applies when you transfer property to someone who is two or more generations younger than you, such as a grandchild.

<u>Income Tax Issues</u>

A gift is not taxable income to the person receiving the gift. However, when you make a gift to a child, there may be several income tax issues regarding income produced by the property or from sale of the property.

Transfer by Gift Versus Transfer at Death

Difference in taxable gain when appreciated property is sold at fair market value (FMV) after the transfer.

- **Income for support.** Income from property owned by your children will be taxed to you if used to fulfill your obligation to provide support.

- **Kiddie tax.** Children subject to the kiddie tax are generally taxed at their parents' tax rates on any unearned income over $2,200 (in 2021). The kiddie tax rules apply to: (1) those under age 18, (2) those age 18 whose earned income doesn't exceed one-half of their support, and (3) those ages 19 to 23 who are full-time students and whose earned income doesn't exceed one-half of their support.

- **Basis.** When a donor makes a gift, the person receiving the gift generally takes an income tax basis equal to the donor's basis in the gift. The income tax basis is generally used to determine the amount of taxable gain if the child then sells the property. If instead the property were transferred to the child at your death, the child would receive a basis stepped up (or down) to the fair market value of the property.

<u>Gifts to Minors</u>

Outright gifts should generally be avoided for any significant gifts to minors. For this purpose, you might consider a custodial gift or a trust for a minor.

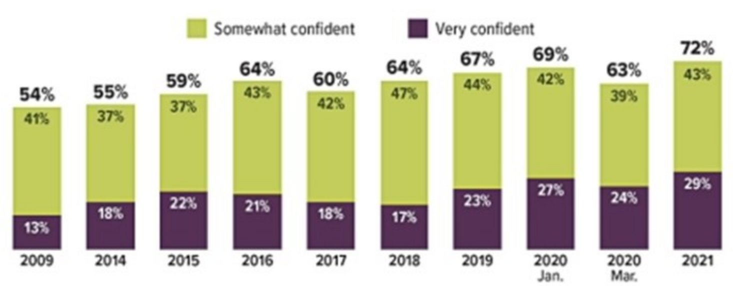
- **Custodial gifts.** Gifts can be made to a custodial account for the minor under your state's version of the Uniform Gifts/Transfers to Minors Acts. The custodian (an adult or a trust company) holds the property for the benefit of the minor until an age (often 21) specified by state statute.

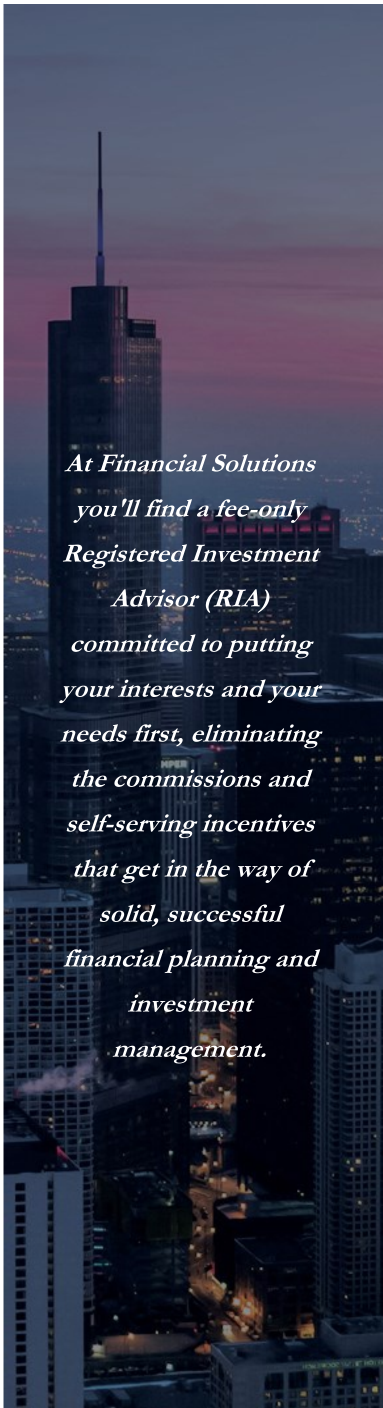
- **Trust for minor.** A Section 2503(c) trust is specifically designed to obtain the annual gift tax exclusion for gifts to a minor. Principal and income can (but need not) be distributed to the minor before age 21. The minor does generally gain access to undistributed income and principal at age 21. *(The use of trusts involves a complex web of tax rules and regulations, and usually involves upfront costs and ongoing administrative fees. You should consider the counsel of an experienced estate professional before implementing a trust strategy.)*

Calculation Steps	Transfer by Gift	Transfer at Death
Sales price (FMV)	$100,000	$100,000
– Income tax basis	– $20,000 (carryover of donor's basis)	– $100,000 (stepped-up to FMV)
Taxable gain	= $80,000	= $0

Can You Fund Your Retirement?

In January 2021, more than seven out of 10 workers were very or somewhat confident that they would have enough money to live comfortably throughout their retirement years. This was the highest confidence level since 2000 and a significant rebound from levels in March 2020 after the pandemic began. Overall, retirement confidence has trended upward since the Great Recession.





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Growing Interest in Socially Responsible Investing

U.S. assets invested in socially responsible strategies topped $17.1 trillion at the start of 2020, up 42% from two years earlier. Sustainable, responsible, and impact (SRI) investments now account for nearly one-third of all professionally managed U.S. assets.[1] This upward trend suggests that many people want their investment dollars to pursue a financial return and make a positive impact on the world.

There is also wider recognition that good corporate citizenship can benefit the bottom line. A favorable public image might increase sales and brand value, and conservation efforts can help reduce costs, improving profit margins. Some harmful business practices are now viewed as reputational or financial risks that could damage a company's longer-term prospects.

ESG Explained

SRI strategies incorporate environmental, social, and governance (ESG) considerations into investment decisions in a variety of ways. ESG data for publicly traded companies is often provided alongside traditional financial data by investment research and rating services. Some examples of prominent ESG issues include climate change, sustainable natural resources, labor and equal employment opportunity, human rights, executive pay, and board diversity.

A simple exclusionary approach (also called negative screening) allows investors to steer clear of companies and industries that profit from products or activities they don't wish to finance. These choices can vary widely depending on the individual investor's ethics, philosophies, and religious beliefs, but alcohol, tobacco, gambling, and weapons are some typical exclusions.

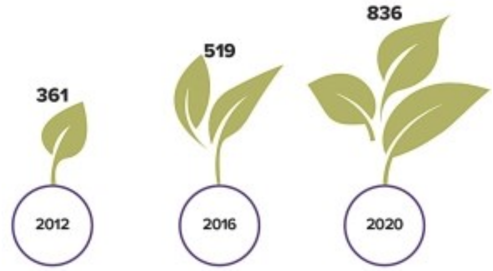
Similarly, positive screening can help investors identify companies with stronger ESG track records and/or policies and practices that they support. Impact investing is a less common strategy that directly targets specific environmental or social problems in order to achieve measurable outcomes.

There are also a variety of integrative approaches that combine robust ESG data with traditional financial analysis. These tend to be proactive and comprehensive, so they are less likely to avoid entire industries. Instead, analysts and portfolio managers may compare industry peers to determine which companies have taken bigger steps to meet environmental and social challenges, potentially gaining a competitive advantage.

Investment Opportunities

The range of investment vehicles used in SRI strategies includes stocks, mutual funds, exchange-traded funds (ETFs), and, to a lesser extent, fixed-income assets. Altogether, there are more than 800 different investment funds that incorporate ESG factors, and the field is expanding rapidly.[2]

Number of ESG Investment Funds



Source: US SIF Foundation, 2020

Many SRI funds are broad based and diversified, some are actively managed, and others track a particular index with its own collection of SRI stocks. ESG criteria can vary greatly from one SRI fund to another. Specialty funds, however, may focus on a narrower theme such as clean energy; they can be more volatile and carry additional risks that may not be suitable for all investors.

Socially responsible investing may allow you to further both your own economic interests and a cause that matters to you. Moreover, recent research suggests you shouldn't have to accept subpar returns in order to support your beliefs.[3]

As with any portfolio, it's important to pay attention to the composition and level of risk and to monitor investment performance. Be prepared to make adjustments if any of your holdings don't continue to meet your financial needs and reflect your values.

The return and principal value of SRI stocks and funds fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. There is no guarantee that an SRI fund will achieve its objectives. Diversification does not guarantee a profit or protect against investment loss.

Investment funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1-2) US SIF Foundation, 2020
3) The Wall Street Journal, March 16, 2020