

# The Compass

Second Quarter 2017

## Executive Summary

- ❑ Markets continue to be driven by geopolitical events and policies both domestically and abroad.
- ❑ The U.S. economy chugs along with 4Q16 GDP coming in at 2.1%.
- ❑ U.S. markets are making new highs since November; stocks trading near full value based on earnings growth.
- ❑ The Fed increased rates at its March meeting to the 0.75-1.00% range, its third rate hike in 10 years.
- ❑ 10 year U.S. Treasury yields remain at historically low levels at 2.42%.
- ❑ Continued volatility can be expected in the equity markets but several factors point to a positive outlook.
- ❑ *In this issue:* Preparing your estate plan.
- ❑ *In this issue:* Be cyber-aware. Stay cyber-safe.



## Cypress Trust Company Investment Committee

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Theresa Strickland

S&P 500 One-Year Price Chart



Source: FactSet

Yield Curve (U.S.)



Source: FactSet

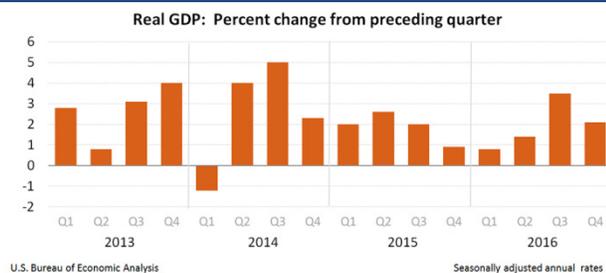
## Economic Backdrop

You can do it. You can do it!!!

In the quarter, we saw enough events to last a complete year. A new U.S. president was sworn in, Britain invoked Article 50 of the EU treaty, repeal and replacement of the ACA was attempted, the Fed funds rate increased for the third time in 10 years, all across a backdrop of historic win and loss streaks in the U.S. equity market.

Through all of this the U.S. economy continues to chug along. This is consistent with what we have seen over the last several quarters. The latest release for 4Q16 GDP came in at 2.1%, upwardly revised from 1.9%, and reflecting strength in personal consumption expenditures and private inventory investment (**Chart 1**). Although it is another positive number and one of the longest expansions in history, we want and expect a lot more. First estimate for 1Q17 GDP, which we will get later in April, is expected to come in around 2%.

Chart 1. Real GDP Growth



Source: U.S. BEA

The markets are also anticipating further expansion and most strategists/economists feel that the U.S. markets are trading at or near full value based on earnings and growth. Washington also plays an important role on where we go from here, as some promises have been made about increased defense and infrastructure spending, in addition to the potential personal and corporate tax cuts. This could accelerate growth of the U.S. economy along with additional gains in the equity markets. The global economy appears to be picking up steam, even while they have their own situations of uncertainty to deal with – Brexit, elections.

Can fiscal policy take over for monetary policy?

## Equities

While the S&P is up almost 6% in the quarter, this lagged the 8% year over year earnings growth that was reported in the 4<sup>th</sup> quarter 2016. Technology, financials, and utilities were the standouts with double digit earnings growth, while telecom and industrials showed contraction in the quarter. Revenue growth was a solid 4.2% with telecom reporting the only red number. S&P earnings are expected again to show high single digit growth, but look to the commentary and outlook from CEOs on their comfort level for growth, both domestically and internationally over the remainder of the year. This is even as they deal with the expected tax relief and regulatory reform, which could materially affect their business and outlook.

## Fixed Income

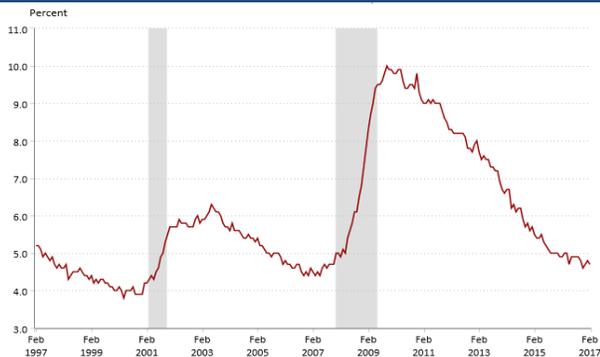
While the economy continues to grow at less than an acceptable rate, U.S. interest rates have moved higher with the 10 year U.S. Treasury at 2.42%, which is still historically low, but 34% higher than where they were just 1 year ago. With the Fed increasing the Fed Funds rate for the third time in 10 years, short rates are also higher. The 1 year U.S. Treasury now yields over 1% (don't get too excited) and is 66% higher than the 62 bp yield a year ago. New issuance continues to be gobbled up by investors even as most expect rates to increase. Liquidity in the credit markets is not an issue, as there is demand across all maturities and risk levels.

## Outlook

The expectations are for increased volatility in all markets, but many of the following factors make the case for a positive outlook. Washington looks to cut taxes and boost spending even as we deal with uncertainty around U.S. tariffs, healthcare legislation, and immigration. Higher spending and lower taxes should boost economic growth, but can that outweigh the risks with higher deficits and even higher debt levels? The American economy should continue its growth even if it is at a snail's pace. The U.S. has averaged 2% growth since coming out of the recession but expectations are that we could see an acceleration to 2.5% this coming year or even 3% in 2018.

The unemployment rate (**Chart 2**) should continue to fall as productivity growth has slowed. This typically leads to additional wage increases. Corporate earnings continue to show high single digit growth and could be boosted by lower corporate taxes, even as the dollar continues to be a drag on earnings for companies with overseas exposure. Inflation continues to drift higher, but remains low as it does approach the Fed's 2% target. The inflation target in combination with strong jobs growth and increased wages may put the Fed in play for more than the 2 additional increases indicated for 2017 or the 7 increases expected over the next 21 months. The global economy is even seeing signs of increased growth after years of stagnant results.

**Chart 2. Unemployment Rate, seasonally adjusted**



Source: U.S. Bureau of Labor Statistics

So as the markets around the world have seen outpaced gains since November 2016, are the promises carried out and do they live up to expectations? When do our expectations get us in trouble?

*"The stock market is a device for transferring money from the impatient to the patient." Warren Buffett*

### **Our Commitment to You**

Our commitment to you is that we will continue to navigate your portfolio through both calm and turbulent times in an effort to meet your goals and objectives.

### **Decisions, Decisions, Decisions**

By Anita Calabro, Vice President and Trust Officer

While preparing your estate plan, picking out someone to draw up your plan and finally finishing and implementing your plan is tough enough; however, before any of that can be done the decision of who to choose to carry out your wishes can become a challenge. For some, this may be your children, trusted friend, neighbor, advisor or trust company. While this decision is difficult enough to come to, one must take into account the additional duties and responsibilities bestowed on the person you appoint as your Personal Representative, Trustee and other personal agents you appoint. Here are some considerations as you think about your representative:

- Does my appointee live where I do or where most of my assets are? If not, can they legally serve?
- Will my children all agree to a decision to choose one child over another to serve as my personal representative or trustee? Should I designate all my children jointly?
- Since I have business partnership interests, real estate or other assets (not counting cash or investments), will my estate representative have knowledge as to the proper disposition of these items?
- Should a disagreement arise among any beneficiaries of my estate – whether it's an individual or one or more charities - will my estate representative be able to work through the issues in a timely manner?
- If I opened and maintained an on-line business for personal and professional reasons will my estate representative understand how to obtain my computer passwords and settle online accounts? Have I directed their ability to do so in my estate plan?

Starting with a good attorney will also serve you and your loved ones well as the laws change more frequently than you imagine. You also want to think about those you appoint in other planning documents such as your power of attorney, healthcare documents and living will as these documents may appoint different people than those listed in your will and trust.

Of course we cannot predict any of these things and no plan is entirely perfect, but sitting down with your spouse and family ahead of time letting them know your intentions might possibly make your decision easier on everyone.

Questions? Give us a call.

## **Be Cyber-Aware. Stay Cyber-Safe.**

By Jim Parry, Vice President IT Services  
Cypress Trust Company

Social engineering has become the primary way hackers exploit people's computers and online accounts. Using a variety of techniques, including phone calls and information from social media, these attackers trick people into giving them access to sensitive information. Here are two common examples of 'social engineering' attacks.

### **Hoaxes**

We've all probably received the e-mails stating that little Tommie is dying of a serious disease and wants his e-mail forwarded to 10,000 people, or that Apple computer will give you a free iPad if you forward the e-mail to 10 of your friends. You've probably also seen e-mails asking you to provide bank account information so that a deposed prince or forgotten relative can deposit millions of dollars into your bank account to save their fortune. These are, of course, hoax e-mails. Occasionally, however, hoaxes can be used to carry out more serious, sophisticated attacks. For example, a chain e-mail hoax could also contain a virus, and by forwarding it to 10 friends, you are, in fact, spreading the virus.

### **Phishing**

Phishing is designed to get personal or sensitive information from an individual, such as a Social Security number, credit card information, usernames, and passwords. The attack typically involves an e-mail sent to an individual claiming that they need to connect to or log on to a site (with the link provided, of course) to verify an account or some other pretext. The user clicks the link in the e-mail and is directed to a site that might mirror a real site. The unsuspecting user inputs his credentials or information as the e-mail requests, not knowing that instead of passing on this information in a secure way to a legitimate site, he is actually typing it right into the attacker's website.

Of course it is good practice to install a good antivirus program on your computer and make sure it stays updated, but it is equally important to always remain "Cyber Aware" when opening e-mails from people you don't know, and especially when clicking links contained in these e-mails.

At Cypress Trust Company, protecting our clients' privacy is a top priority. We take precautions to protect your information and believe that such protection is vital to our business. We maintain physical, electronic, and procedural safeguards to store and secure client information to protect against unauthorized access. It is important for clients to implement similar precautions when using their personal computers. As part of our commitment to help you stay cyber-aware, look for tips and recommendations in each issue of The Compass newsletter that you can implement to help keep your personal information safe.



Cypress Trust Company is a boutique corporate fiduciary that focuses exclusively on providing customized trust and investment management services for successful individuals and their families, non-profit organizations, foundations and endowments. As an independent Florida-chartered trust company, we are governed by an elected board of directors and regulated by the Florida Office of Financial Regulation. Cypress Trust Company maintains full-service offices in Palm Beach, Naples, Vero Beach, and Winter Haven, with additional representation in Sarasota and The Villages.

### **Important Notes**

This does not constitute an offer or solicitation. Opinions expressed are current opinions as of the date appearing in this material only. This information should not be considered investment advice or a recommendation to buy or sell any particular security. While every effort has been made to verify the information contained herein, we make no representations as to its accuracy. The information in this material and specific securities mentioned are not representative of all securities purchased, sold or recommended for advisory clients. Actual portfolio holdings will vary for each client and there is no guarantee that a particular client's account will hold any, or all, of the securities identified. It should not be assumed that any of the securities or recommendations made in the future will be profitable or will equal the performance of the listed securities. Past performance does not predict future results.

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