

The Compass

Second Quarter 2020

Executive Summary

- ❑ After a tremendous year in equity performance, the coronavirus injects uncertainty into earnings and revenue forecasts. Volatility spikes in the equities markets.
- ❑ The Fed cut rates twice in March, bringing it to the 0-0.25% level in an effort to provide liquidity and help prepare for economic downturn.
- ❑ Unemployment spikes in recent weeks after enjoying 50-year lows.
- ❑ Treasury yields continue to trend downward, with the 1- and 3-month Treasury briefly touching negative yields.
- ❑ The US economy started out from a position of strength pre-pandemic. Businesses and households should benefit from low interest rates and lower gas prices.

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- ❑ Estate Planning in Pandemic Times
- ❑ Be on the Alert for Coronavirus Scams



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S&P 500 2-Year Price Chart



Source: FactSet 3/31/20

Yield Curve (U.S.)



Source: FactSet 3/31/20

U.S. Markets	3/31/20	QTD %	1 Year %
	Close	Change	Change
Dow Jones Industrial Avg	28,538	-23.20%	-16.53%
S&P 500	3,231	-20.00%	-9.86%
NASDAQ	8,973	-14.18%	-1.65%
Russell 2000 (small caps)	1,668	-30.89%	-25.90%
Treasury Yields	3/31/19	12/31/19	One Year Ago
2 year	0.23%	1.58%	2.27%
10 year	0.70%	1.92%	2.41%
30 year	1.35%	2.39%	2.81%

Source: FactSet 3/31/20; U.S. Dept. of the Treasury.

Overview

First of all, we hope that you, your friends and family are all healthy.

“It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair” – Charles Dickens, *A Tale of Two Cities*.

It could not have been said better than Dickens as it applies to the current environment. Coming into 2020 we joked about it being the year of greater clarity as to the direction of the market based on where we came from. The previous year was one of tremendous outperformance of the equity markets based on PE (price/earnings) expansion. This year the expectations were that earnings would play catch up to those valuations. That looked like the way it was going to play out until mid-February when the coronavirus pandemic reached the US shores. Given the uncertainties, it is very difficult to forecast future revenues and earnings. As such, it is very difficult to determine whether stocks are over or undervalued.

The focus is clearly one of conquering this virus and then assessing which companies can survive and for how long. During this time the level of volatility has exploded to the upside as many records in the markets have been broken. Investors saw interest rates in the treasury market set all-time lows and saw volatility metrics hit all time highs.

All these issues have made investors uneasy. But as investors who own equities for the long term, we must believe that there will be a remedy for the virus and the economy will recover, both domestically and globally.

Economic Backdrop

2019 saw three rate cuts by the Fed to the 1.50%-1.75% level. In response to the coronavirus outbreak, it cut rates by 50 basis points on March 3, 2020, stating that the “coronavirus poses evolving risks to economic activity.” On March 16, 2020 it cut rates by 1.00%, bringing the Fed Funds rate to the 0-0.25% level. It also announced it would

increase purchases of Treasury bonds and mortgage-backed securities, and take other steps to allow banks, businesses, and households to weather a severe economic downturn. The most recent jobs numbers were negative on all counts. All time lows for monthly payroll employment and rising unemployment claims is not a good sign for the unemployment level and GDP in future months. Fiscal stimulus is attempting to provide funding, while monetary policy is there to add further leverage and support. There is a saying – Don’t fight the Fed – as liquidity has led to lower rates and the expectation for inflation and higher asset prices.

Equities

The S&P 500 was down 20% for 1Q 2020 but that doesn’t begin to tell the story. Things were looking very good through the first half of the quarter, while the second half quickly adjusted to the coronavirus events that continue to affect the entire world. At the most recent lows, the markets contracted around 35%. This took prices back to where they were in 2016.

S&P 500 earnings for 4Q 2019 were up 3.1%, led by Utilities, Financials, and Healthcare, each posting double digit gains. Energy, Materials, and Industrials sectors reported negative numbers. Energy had a staggering 41% contraction in earnings.

Revenues for the 4Q 2019 were up again a solid 5.8%. Financials and Healthcare were the standouts with 23.8% and 12.7% growth, respectively. In addition to those three sectors that reported negative earnings, Utilities also joined that group in reporting negative revenues. Energy was again the leader on the downside, down 6.2%.

Companies will begin to report 1Q 2020 earnings during the next several weeks. Due to the coronavirus, these results are likely to prove not to be meaningful toward the construct of longer term forecasts. Managements are not likely to provide meaningful forward guidance, given the continuing uncertainties.

Fixed Income

Again, while the equity markets get the headlines for volatility, the fixed income markets did not miss out on the party. Long-term rates have continued their move down, a trend that was started more than 30 years ago. Within the last several weeks all yields have printed all time lows with the 30-year US Treasury printing an intraday low of 71 basis points. As investors search for return of capital we have even seen negative yields, briefly, on the 1- and 3-month Treasuries. These lower yields are attributed to coronavirus issues around the world and its effect on the world economy. While the US economy was doing well heading into this pandemic, how long this persists and what it looks like on the other side is unsure.

Outlook

While the current environment can be extremely stressful, both from financial and personal standpoints, we will get through this. What the economy and businesses will look like post-recovery from the virus is unclear. However, based on where the US economy was, there is a level of confidence that we can get back to those levels. Sentiment will improve as COVID-19 cases peak plus any good news on a vaccine. Longer term, barring the emergence of a cure/treatment that significantly reduces the virus threat, the path forward is likely one of a slow return to economic activity with pauses for new coronavirus flareups. When investors see a clearer path to recovery, whether L, W or U shaped, being long risk assets will become attractive.

It will take us time, energy and money to get through this. All consumers and companies should benefit from much lower interest rates, along with lower prices at the pump. It's hard to tell whether the markets have hit their lows, but markets tend to discount events well into the future, and at any hint of progress toward recovery, we should begin to see more positive performance.

Always vigilant, our commitment to you is to navigate your portfolio through both calm and turbulent times in an effort to meet your goals and objectives.

Estate Planning in Pandemic Times

Anita D. Calabro, Vice President and Trust Officer

In a few short months we have had a lot of things happen. Aside from the turmoil in the markets, this time around it's our money that's affected, our day-to-day actions, how we work, who we see, what we do, all while maintaining social distancing with a mask. While working from home, I started thinking about the documents that do not really have anything to do with the disposition of our money and other tangible items but instead those documents that apply if we get sick and can't handle our own affairs. I started thinking about those folks I have listed in my Health Care Surrogate and Living Will. Do I still stand behind my choices for the agents and any alternate agents I picked?

The Health Care Surrogate document is that document that goes into effect when you lack the ability to make health care decisions on your own. Most people choose a spouse then appoint a child or children as secondary agents. Considering the times we're living in, if one spouse were to get COVID-19, most likely both spouses would be affected. In many cases your spouse's documents read the same way as yours. Secondary agents help create an arms-length for planning purposes and adding a tertiary agent may be appropriate depending on your family setup. Keep in mind this document usually applies for short durations of time and lapses when you are on your way to recovery.

The Living Will directs what health care procedures, food, water, or life support you want in an imminent death situation. Again, for purposes of discussion, your appointed agents are most likely similar to the agents we discussed above. Keep in mind if you end up in the hospital or are going for a general procedure you may be asked to sign a standard form your hospital has as part of its admission process.

As we talk to our clients, we often remind them to bring the most current copies of the Health Care Surrogate and Living Will documents with them when they visit with their doctors, for hospital procedures, and when they travel, especially if they do any international travel. Another best practice is to have an envelope containing these documents attached to your refrigerator in case you need help getting out of your home. Generally first responders look at the refrigerator for emergency information. Also, list heart, diabetes and other medical conditions like stints in this package too.

Cypress Trust Company has a Trust Officer and Investment Officer assigned to every relationship and we proudly serve those folks who have accumulated their wealth and are ready to transition what they accumulated to their heirs and/or charities. We also proudly serve the next generations, helping them accomplish their financial goals. We at Cypress Trust Company wish you and your family all the best in health and stay safe.

Cypress Trust Company Trust Administration

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Be on the Alert for Coronavirus Scams

By Jim Parry, Vice President IT Services
Cypress Trust Company

As is usually the case, bad actors will try to leverage anything that's in the news to take advantage of people. Hackers capitalize on public health threats and other high-profile events in order to conduct financial fraud and distribute malware. It is likely this will continue with scams involving the coronavirus. Please be alert for scams related to the coronavirus and to what's going on in the market. Here are just a few items to be aware of to avoid being a victim of a scam:

- Bad actors will post links to fake charities and fraudulent websites that solicit donations for relief efforts, or deliver malware when you click on the link. Never click on a link in an email you received from a sender who is unknown to you.
- Beware of COVID-19 themed phishing emails. These emails may appear to come from legitimate sources such as the Center for Disease Control (CDC) or the World Health Organization (WHO). Bad actors are capitalizing on the fact that everyone wants information about COVID-19 and emails that appear to come from legitimate sources are tempting to open and trust. Only open emails from senders you know.
- The following notification is from the US Secret Service: During the coronavirus outbreak, many companies and organizations have sent emails containing COVID-19 updates to their customers to make them aware of their current response and status. As these types of emails have now become increasingly frequent, criminals have started to use this familiarity to their advantage. The US Secret Service is aware of fraudulent emails, framed as a corporate COVID-19 response, which contain malicious attachments and are targeting individual consumers and corporations alike.
- The U.S. Secret Service has also received information regarding individuals receiving emails disguised as coming from a hospital that inform the recipient they may have come in contact with an individual who tested positive for COVID-19. The email instructs the recipient to download an attached Excel file, complete a form, and bring it to the nearest emergency clinic to be tested. Do not download the file.
- As we enter our new reality, please remember it's more important than ever to be alert for phishing emails and other scams. Now, more than ever, it's a good practice to ignore emails if you don't know the sender. If someone you know sends you an email with attachments that you aren't expecting, call the sender to confirm. Remember that other people and businesses are trying to adjust, and the chances that they could be hacked are higher right now.

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 which you can use to help keep your personal information safe.



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