

# The Compass

Third Quarter 2020

## Executive Summary

- ❑ The first half of 2020 was marked by extreme volatility as the impact of the coronavirus was felt in every industry. Sharp declines in employment in the first quarter saw dramatic improvement in the second quarter.
- ❑ Following two rate cuts in March, the Fed stepped in with additional measures to maintain order and liquidity in the markets.
- ❑ The S&P 500 rose 20.54% in the second quarter of 2020, following a nearly 20% decline in the first quarter.
- ❑ Treasury yields remain low, with the 10-year treasury ending the 2<sup>nd</sup> quarter at 0.66%.
- ❑ Low yields across fixed income instruments are leading investors to take on additional risk.

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- ❑ Estate Planning is Not Always About Money
- ❑ Hurricane Preparedness



## Cypress Trust Company Investment Committee

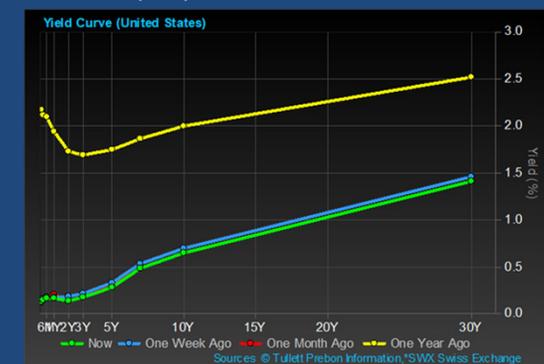
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S&P 500 2-Year Price Chart



Source: FactSet 6/30/20

Yield Curve (U.S.)



Source: FactSet 6/30/20

Past performance is no guarantee of future results. An index is unmanaged and is not available for direct investment.

U.S. Markets	6/30/20	QTD %	1 Year %
	Close	Change	Change
Dow Jones Industrial Avg	25,813	17.77%	-2.96%
S&P 500	3,100	19.95%	5.39%
NASDAQ	10,059	30.63%	25.64%
Russell 2000 (small caps)	1,441	25.00%	-7.99%
Treasury Yields	6/30/20	03/31/20	One Year Ago
2 year	0.16%	0.23%	1.75%
10 year	0.66%	0.70%	2.00%
30 year	1.41%	1.35%	2.52%

Source: FactSet 6/30/20; U.S. Dept. of the Treasury.

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## Overview

We hope that you, your friends, and family are healthy.

“Where do we go from here?” is the question everyone is asking themselves. It was a pretty exciting first half of the year, both good and bad. Businesses and lives around the world shut down in order to deal with the spread of COVID-19, which in turn sent both jobs and income streams in a tail spin downward. This led to reaching economic records we have not seen in decades on the downside. As re-openings began, the economy showed a recovery in jobs and many other financial metrics that we haven’t seen, again, in decades or ever. Each of these situations has to be taken with some additional perspective. In our view, these lows and highs were a result of where we started out. Prior to late February the economy and jobs were firing on all cylinders. While the virus was the excuse for the subsequent downturn, the markets and economy were positioned for a pullback that could have been triggered by most anything. When you throw around records that haven’t been seen since 1987, the 1940s, even dating all the way back to the 1920s, it’s no surprise to see volatility in the markets. We’ve been talking about volatility for some time now. It seems that it just takes a nap, rather than totally go away. These naps are just very inconsistent, and don’t seem to be going away anytime soon.

Scientists around the world, as well as healthcare companies and governments continue to focus on the development of a vaccine and cure for the coronavirus. While the markets brighten up on reports of positive results, they react negatively to news of increases in reported cases.

Either way, investors continue to be uneasy and we all will continue to be so until there is a remedy. But the reality is there will always be some new concern or obstacle for us to address. This is not all bad, as it is said that the markets climb a wall of worry. The saying refers to the market’s ability to show resilience in the face of negative market news that might otherwise spark a sell-off.

*COVID-19 has affected us all in many different ways. Whether or not we, our family, or friends are affected health-wise or economically, life has changed for all of us.*

## Economic Backdrop

In an effort to mitigate risks to the economy posed by the COVID-19 pandemic, the Fed cut rates twice in March, bringing the federal funds rate to the 0-0.25% level, its lowest since December 2008. It increased purchases of Treasury and mortgage-backed securities, and established liquidity through its various credit facilities. It also began purchasing corporate bonds and corporate bond ETFs (exchange-traded funds).

The unemployment rate skyrocketed from a 50-year low of 3.5% in December to peak at 14.7% in April, with weekly initial jobless claims coming in at unprecedented levels of over one million per week. As of this writing, 51 million workers have filed claims since the pandemic began, about 30% of the workforce. The latest June numbers show some improvement, with nonfarm payrolls rising by 4.8 million for the month, bringing the unemployment rate down to 11.1% as businesses began to reopen. Employment in leisure and hospitality rose sharply in June, with gains also seen in retail trade, education and health services, manufacturing, professional and business services, construction and other services. Changes to the SECURE Act (Setting Every Community Up for Retirement Enhancement Act) and the passing of the CARES Act (Coronavirus Aid, Relief, and Economic Security Act) - which established the Paycheck Protection Program - by the federal government offered some relief to households and businesses.

GDP decreased 5% in the first quarter of 2020, following a 2.1% gain in 4Q19.

## Equities

The S&P 500 was up 20.54% in the 2<sup>nd</sup> quarter 2020, following a (19.6%) decline in 1Q2020. The equity markets saw a quick recovery, as the economy began to re-open and many of the “going out of business” concerns were temporarily set aside. It ranked as the 4<sup>th</sup> best quarter since 1950. On 6/30/20 the S&P 500 was only 8.44% below the all-time closing high of 3386 on 2/19/20.

S&P 500 first quarter 2020 earnings were down some (12.8%). 5 of the 11 sectors posted growth in their earnings, led by Technology, Consumer Staples, and Health Care. Out of the 6 sectors that reported a contraction in earnings, only one, Real Estate, posted less than a double digit loss. Energy, Industrials, Financials, and Consumer Discretionary all posted greater than a 30% decrease in earnings.

Revenues were only down 1.4% in the 1Q2020 reporting period. Again, 5 of the 11 sectors reported positive numbers, led by Health Care, up 10.3%. The remaining 6 sectors all reported negative revenues. Energy (-11%) and Financials (-19.8%) were the major contributors to that negative report.

2Q2020 earnings season is right around the corner. While many companies may report sequential improvement, year over year comparable numbers may not look that attractive. Are companies going to get a free pass on past numbers, and how are investors going to view those companies that pulled

## Equities, continued

full year guidance? Certainty is preferred, while guessing will be punished . . . maybe not today, but at some point.

## Fixed Income

The yield on the 10-year US Treasury note closed the end of 2Q2020 at 0.66%, virtually flat from the previous quarter. This yield is historically low; for perspective, it is 161 basis points below its 10-year average of 2.27%. With yields at such low levels on all fixed income instruments, investors have taken on more risk in search of higher returns. This has led to the largest ever single month of speculative-grade debt issuance in one month; in June 2020, \$51.1 billion dollars was issued, which is 25% higher than the \$40 billion issued in September 2012. Both monetary and fiscal policy continues to be very accommodative. The zero percent interest rate policy is expected to be around for years. This as the Fed also began to buy additional fixed income securities it never purchased before, like ETFs.

## Outlook

We continue to live in the “new normal” that may very well continue for the foreseeable future. The light at the end of the tunnel is widely available testing, vaccines, and treatment for the coronavirus and its eventual eradication. The U.S. economy is amazingly resilient. Businesses will reopen, workers will return to employment, people will attend concerts and sports events again. It may look a little different from the old normal, but life as we know it will resume.

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 is Not Always About Money

By Anita Calabro, Vice President and Trust Officer  
Cypress Trust Company

Estate planning should be something we all do at some point in our lives. Estate planning is as important as knowing what your passwords are when you log onto a site you haven't visited in a while. In this busy life we change jobs, we accumulate assets, we day trade and as the years pass, we forget some of the intangible things we accumulate – more importantly, how significant they are as they relate to estate planning. At some point we have to put necessary documents in place to help ease the burden of transferring our property to heirs or charities.

Sometimes we change jobs and sometimes forget about our retirement 401(k), IRA, or 403(b) account and while it's easy enough to transfer some of these plans to a current employer, please keep in mind that retirement or tax deferred plans have different rules and not all of them can be easily transferred from one plan administrator to another. These plans also have pay-on-death designations. It's important to keep track of who you designate and sometimes as time goes on some people designate their children, their trust or favorite charity. Sometimes folks decide to do a combination of all of them.

Life insurance and annuities are other products we often misunderstand, or in some cases lose track of. Lots of folks perceive life insurance or annuities as products you buy once to help with funeral expenses and anything left over is for your appointed beneficiaries to enjoy. With the world moving toward digital storage, it's easy to lose track of these products, not to mention underwriters often bundle these products and sell them to other underwriters. Save any updates as best possible in your digital filings.

Depending on who you talk to, a lot of folks think that the perfect estate plan includes both a Last Will and Testament and a trust to accomplish a complete plan. While no plan is perfect, if you find the right attorney your plan can be as near perfect as possible. Consider for a minute our Florida population. A good portion of our residents have property here and in other states and for those folks complex planning may be necessary, often requiring an attorney with specialized training in tax planning and perhaps qualified to practice law in other states where our snowbirds have other property.

Life is short and goes by quick enough, and to forget to plan for the things we all work so hard for would be a shame. A little planning goes a long way. 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 meet with our clients on a regular basis and listen to help them identify any changes happening in their lives that may affect their estate plan. We also proudly serve the next generations, helping them accomplish their financial goals.

## Cypress Trust Company Trust Administration

Christine Bell | Becky Belt | Scott Button | Anita Calabro | Beverly Flanagan | Jane Goble  
Tia Johnson | Mary Lou Kalisz | Gina Rall | Jamie Reid | Elizabeth Wagner | W. Charles Weir

## Hurricane Preparedness

June 1 marked the official beginning of the 2020 hurricane season that runs through November 30. The National Oceanic and Atmospheric Administration (NOAA) expects above-normal activity this year, with 13-19 named storms, of which 6-10 could become hurricanes, including 3-6 major hurricanes. While hurricanes can be unpredictable, advances in technology including satellite data have enabled NOAA to fairly accurately forecast the formation and path of hurricanes so that governments, the private sector, and the public have adequate time to prepare in advance. With the country focused on a safe reopening of businesses that closed due to COVID-19, it is still important to make necessary preparations well in advance for an active hurricane season. While we hope this will be a year where no hurricane makes landfall anywhere, there are some things we can do now to prepare, just to be safe.

- Assemble a disaster supply kit that includes such things as a battery-operated radio, flashlights, batteries, first aid kit, water (1 gallon per person per day), a 7-day supply of non-perishable food items, coolers, plastic bags, paper items, tarps.
- Purchase a power charger for your cell phone and keep it fully charged.
- Have sufficient cash on hand. If the power goes out, the ATM machines won't operate.
- Keep your gas tank full. Similarly, the pumps won't operate without power.
- If you own a generator, test it ahead of time to be sure it is working properly. Have enough gasoline on hand to operate it if needed. It is important to observe safety precautions when using a generator.
- Refill medical prescriptions for you, your family, and pets.
- Keep important papers such as your insurance policy, birth records, social security cards, advance medical directive, and living will in a waterproof container in a location where you can access it.
- Have a family disaster plan that includes a contact person outside of the area that family members can use as a point person to check in with one another.
- Have a carrier for your pets. If you evacuate, pets should go with you. Never leave them behind. Have enough pet food on hand to last at least 7 days.
- If you are asked to evacuate, please do so as quickly as possible. If you do not evacuate and have an emergency, responders may not be able to get to you.

This list is certainly not exhaustive. Our thought is to get you thinking about hurricane preparations well in advance of when they actually may be needed. Many municipalities have hurricane preparedness guides that you can download online or pick up a hard copy from a county office.

At Cypress Trust Company, our focus and priority is on our clients. We have a comprehensive business contingency plan in place to ensure seamless coverage to our clients in the event of a hurricane or other disaster. With offices located throughout the state of Florida, clients may contact another office should their regular office be impacted by a disaster. For your convenience, below is a list of our office locations and telephone numbers.

All offices (800) 439-8745      Palm Beach (561) 659-5889      Jacksonville (904) 301-2222  
Naples (239) 449-6930      Vero Beach (772) 492-1919      Winter Haven (863) 295-9607

You may also reach representatives in Sarasota (941) 373-1551 and The Villages (561) 310-0767.

In the event our individual email system is down, clients may communicate with us at [info@cypresstrust.com](mailto:info@cypresstrust.com).

While we hope no area is impacted by a hurricane this season, it always helps to be prepared. We wish you and your family health, happiness, and safety, this season and always.



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, Winter Haven, and Jacksonville, with additional representation in Sarasota and The Villages.

### Important Notes

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**NOT FDIC INSURED | NOT GUARANTEED | MAY LOSE VALUE**

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