

# Quarterly perspectives

“Yesterday is not ours to recover, but tomorrow is ours to win or lose.”

LYNDON B. JOHNSON



UMPQUA

Private Bank

The key to living your best life now while planning for the future is to have meaningful yet clear conversations with your most trusted partners. The Quarterly Perspectives newsletter brings you our most insightful ideas coupled with our most recent and relevant market analysis. This proactive guidance is designed to help with a wide array of financial decisions.

## 2021 Economic Outlook<sup>1</sup>

In our Q1 2021 Quarterly Perspectives newsletter, we covered the severe economic disruptions that began last year as households, governments, and businesses adopted a variety of mandatory and voluntary measures to limit in-person interactions that could spread the virus. The impact was particularly focused on specific sectors of the economy, such as travel and hospitality, and job losses were concentrated primarily among lower-wage workers.

### Some of the CBO's projections for 2021



Real GDP will **increase by 7.4%** and surpass its potential level by the end of this calendar year.



Employment will **grow quickly** in the second half of this calendar year and will surpass pre-pandemic levels in mid-2022.



Inflation will rise sharply in the second half of this year and will **level out around 2.0%** by 2022.



Feds will maintain a Fed Funds **rate near zero** through the year.

For the remainder of 2021, widespread vaccination – particularly among the most vulnerable amongst us – has reduced the number of new cases of COVID-19. As a result, the extent of social distancing has declined across the country. In its new economic forecast, which covers the period from 2021 to 2031, the bipartisan Congressional Budget Office (CBO) projects that the economic expansion that began in mid-2020 is likely to continue. Specifically, real (inflation-adjusted) gross domestic product (GDP) is projected to continue growing and surpass its potential level by the end of 2021. The CBO projects that unemployment rates will continue to decline for the rest of this year and through the first half of 2022.

With President Biden signing the **\$1.9 trillion relief package** – also known as the American Rescue Plan – on March 11, much needed support was provided for vaccines, schools, small businesses, and countless struggling families. This package has not only provided some relief in the face of a global medical crisis, but sources say it could also potentially boost the U.S. economy to a recovery level higher than we saw in November 2020 and even immediately before the pandemic.<sup>2</sup>

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Sources: 1) Congressional Budget Office, “An Update to the Budget and Economic Outlook: 2021 to 2031” July 1, 2021. 2) Deutsche Bank, “America’s US\$1.9trn kick start” March 19, 2021.



Let's take a look at the **13 key provisions<sup>3</sup>** of the **American Rescue Plan** and the cost associated with each type of aid:

COVID-related relief	Aid to individuals	Aid to businesses	
<b>\$415 billion</b> the national vaccination program	<b>\$1,400</b> for individuals and each qualifying dependent	<b>\$7.25 billion</b> Paycheck Protection Program (PPP)	<b>\$1.5 billion</b> added to the \$15 billion in shuttered venue operators grants
<b>\$360 billion</b> state, local, and territorial governments	<b>\$2,800</b> for joint filers	<b>\$15 billion</b> Economic Injury Disaster Loan (EIDL)	<b>\$86 billion</b> supporting approx. 185 failing multi-employer pension plans
<b>\$20 billion</b> public transit systems	<b>\$300</b> as weekly unemployment compensation benefits	<b>\$25 billion</b> Restaurant Revitalization Fund	<b>\$10.4 billion</b> agriculture support
<b>\$176 billion</b> education, especially K-12 schools			

Source: 3) Mondaq, "Summary of the American Rescue Plan Act of 2021" March 15, 2021.

## 3 key considerations for business owners in 2021

As more and more businesses open their doors and lift restrictions, now is the time for business owners to seek out strategies that will promote their growth. Small business owners need a true partner who understands their company and their needs, as well as easy and direct access to the resources that will help them forge through the uncertainty of 2021 and beyond.

### 1 Employee stock ownership plans

Employees typically serve as the foundation of any business, and this is likely even more accurate for a business if its employees own more than one quarter of the company's common stock. In the current economic environment, employee stock ownership plans (ESOPs) provide a creative alternative to sustaining and growing a business for the long-term.

In fact, Deloitte has found that many ESOP companies are still gaining capital market interest, with some even showing signs of resilience.<sup>4</sup>

Here are a few additional lessons we've learned regarding the current importance of ESOPs:

- ✓ There is continued capital market interest in existing ESOP companies
- ✓ ESOP companies show interest in reviewing strategic alternatives
- ✓ There are acquisition opportunities available to strongly positioned ESOPs

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## 2 The M&A environment

As we begin to embrace the other side of the pandemic with a warm welcome, we see positivity in the current mergers and acquisitions environment. In the first quarter of 2021, companies and investment firms made the most of the ways in which we've changed over the course of the past year:

- ✓ How we work
- ✓ How we trade
- ✓ How we shop
- ✓ How we take care of ourselves

This spike in number of deals was only 6 percent year-to-date, but the total value of pending and/or completed deals elevated to \$1.3 trillion. That's a 93 percent increase in total value, accounting for the second-biggest quarter on record.<sup>5</sup> The expectations are that this growth will continue as businesses begin to feel even more confident in pursuing deals due to low borrowing costs.

## 3 Credit management and leveraging lending

For business owners, we offer a wide variety of business loans and credit management resources with convenient features – and our internal business experts specifically tailor these offerings to you, so these are coming from partners we know and, more importantly, we trust. These loan offerings expand to every corner of your life, helping to ensure your lending strategy meets your needs.

### SBA Loans

Government-guaranteed loans offer options to finance business needs with fast turnarounds.

### Credit Lines

Get a line of credit for short-term working capital, seasonal purchases, inventory, or payroll.

### Real Estate Loans

Perfect for the expansion, relocation, or purchase of real estate property.

### Commercial Cards

Employees can receive travel and entertainment cards, vendor payables solutions, and fleets, all supported by advanced technology solutions.

### Term Loans

Get a fixed interest rate for just about anything you need to keep your business in business.

### Equipment Leasing/Financing

Financing for new or used equipment with flexible payment plans along the way.

Sources: 4) Deloitte, "ESOP considerations in the COVID-19 environment," 2020. 5) Reuters, "Global M&A sets first-quarter record as dealmakers shape post-COVID world," March 31, 2021.

## Don't just survive – thrive

Like many business owners during the pandemic, it has never been more important to explore and identify opportunities and financial solutions to survive and thrive. Many have made strategic pivots for growth and are feeling more optimistic in 2021.

But the needs of you and your business are just that – they are uniquely yours. The solutions that have worked for other businesses may not be the ideal solutions for your business, and with that in mind, our offerings are vast and extensive.

Learn more by visiting:

[A GUIDE TO RECOVERY](#)

**66%**

of businesses expect profits to remain stable or increase

**70%**

of mid-size businesses are thinking about expansion



# Credit where credit is due<sup>6</sup>

Just as business owners must take extra care to work through their credit management in the aftermath of the pandemic, it's important that individuals consider their use of debt within the context of their personal finances.

When it comes to owning a business, credit and lending are almost taken for granted as an integral part of funding. After all, most businesses rely on borrowing to get off the ground, and PPP loans have helped businesses across the country stay afloat during the pandemic. But from the individual perspective, "debt" can seem like a 4-letter word - a concept that implies that you owe, and you'll pay until you don't owe.

## But could your debt be an opportunity for leverage?

Managing credit is just as important for individuals as it is for business owners, and debt that is used properly can further strengthen your portfolio and serve as a solution for accessing capital. The strategic use of credit within your overall financial plan is essential to maximizing your personal benefits. Using credit effectively can ensure sufficient liquidity for emergencies and can help resolve your short-term cash needs. And due to the current inflationary environment, your dollar today is worth more than your dollar tomorrow - so taking on more debt today may help you in the long-run.

Depending on your risk tolerance and time horizon, short-term and long-term debt could make a difference for your overall wealth plan. Short-term debt is typically paid off within a year with a floating interest rate, while long-term debt takes several years to pay off and typically has a fixed interest rate. Due to their differing maturation rates, these types of debts tend to be used for distinct purposes. You would typically utilize short-term debt to fund urgent needs and long-term debt to offset long-term ventures and goals.

Your wealth management plan is unique to you - it should account for all facets of your financial ecosystem, including every part of your balance sheet. Do not overlook the value of having a clear plan for your debt, and give your credit some credit. There may be borrowing options available to you that help you access cash for large purchases, home-buying, renovations, commercial real estate purchases, or other quick-cash needs.

At Umpqua Private Bank, there are a variety of solutions available to individuals in regard to credit opportunities:

Opportunities	Solutions
Ready access to capital for large purchases	✓ Securities-Based Lending
Home-Buying	✓ Residential Mortgages
Property-Buying to produce income	✓ Investor Commercial Real Estate Lending
Access to cash for homeowners for large purchases, renovations, or debt repayments	✓ Home Equity Lines of Credit
Borrowing for lifestyle	✓ Aircraft and yacht financing
Capitalizing your practice	✓ Professional practice financing (e.g. attorney, physician)

When discussing debt and lending with your Umpqua Bank financial professional, it's important to address the following three issues as they relate to your credit:

### 1 Proper Debt Structure

- What's your current debt-to-income ratio?
- How should you fund significant purchases in the future?
- What are your options for leveraging debt to protect assets?

### 2 Tax Efficiency

- Are you using credit strategically to potentially reduce your annual tax liability?

### 3 Interest Rates

- How are interest rates affecting your current holdings and cash flow?
- What types of interest apply to your loans?
- What is your potential for taking on more debt while interest rates are low?

# The “new” 529 Plan and its advantages<sup>7</sup>

As we’re heading into the 2021–2022 school year, many parents have been forced to reimagine what constitutes a quality education for their children. The traditional education model has been flipped on its head from pre-K to graduate school. As our views on education evolve and shift, it’s important to understand your education-funding options.

A popular tool for funding your child’s education is a 529 plan. 529 plans are college savings plans that offer significant tax and financial aid benefits. And just like everything in the education space, 529 plans have changed in recent years to meet the ever-evolving needs of parents facing higher and more complex costs. Traditionally viewed as a tool to pay for a 4-year college degree at an in-state university, 529 plans now cover far more options and are more flexible than ever.

Although schooling has posed significant challenges to families during the past year, funding need not be added to the list of concerns. If you’re thinking about your next step for saving for your child’s education, speak to your financial professional at Umpqua Private Bank about recent changes to 529 plans and how this savings plan could benefit your family.

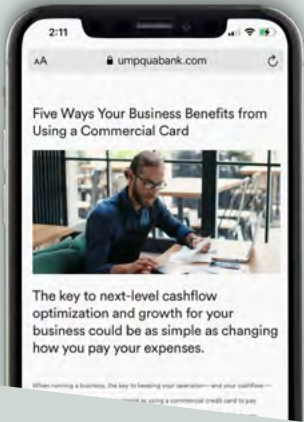
## Evolution of the 529 Plan

- 1996**    **529 plans are created**
  - Tax-free status applies to “qualified tuition programs” – qualifying programs limited to college tuition/expenses at 4-year institutions
  
- 2014**    **Achieving a Better Life Experience (ABLE) Act is passed**
  - Two investment changes allowed per calendar year (instead of one)
  
- 2015**    **“Qualifying program” definition expanded**
  - Tax-free withdrawals can be used for computers for college students
  
- 2017**    **Tax Cuts and Jobs Act (TCJA) is passed**
  - Tax-free withdrawals can be used for K-12 tuition and private colleges
  - Potential for people with disabilities to use 529 funding without affecting Medicaid eligibility
  
- 2019**    **Setting Every Community Up for Retirement Enhancement (SECURE) Act is passed**
  - Tax-free withdrawals can be used to pay off a portion of student loan debt
  - Tax-free withdrawals can be used to pay for certain apprenticeship expenses

## Benefits of 529 plans that haven’t changed

- ✓ State tax deductions/credits
- ✓ Federal tax breaks
- ✓ Funds grow and compound, tax-deferred
- ✓ No income- or age-based restrictions
- ✓ High-maximum contribution limits
- ✓ Low maintenance
- ✓ Beneficiary can be changed without incurring taxes
- ✓ Plans are not counted as income on FAFSA

Sources: 7) Forbes, “8 Benefits of a 529 Plan,” December 11, 2020. Savingforcollege.com, “What is a 529 Plan?” August 24, 2020. Savingforcollege.com, “What Are the Pros and Cons of Using a 529 Plan?” February 9, 2021. The Wall Street Journal, “New Ways to Use ‘529’ College-Savings Plans This School Year,” July 3, 2020.



## Information you need, when you need it

Check out our latest blog on commercial credit, “Five Ways Your Business Benefits from Using a Commercial Card.”

[READ ARTICLE](#)

## We’re here for you


Social distancing doesn’t mean you can’t still get great advice and guidance. Your financial professional at Umpqua Private Bank can help in times like this by:

- ✓ Helping you stay focused on the big picture
- ✓ Bringing specific ideas and strategies to you based on your unique situation
- ✓ Acting as a sounding board as you consider financial decisions
- ✓ Partnering with you to navigate the ever-changing economic and market landscape
- ✓ Providing insight into how current conditions affect your plans by modeling scenarios specific to your situation

As always, our team is here to support you no matter what the future holds. We appreciate being your partner and the opportunity to continue with you on your journey. Now is a great time to contact your financial professional at Umpqua Private Bank to get some additional 2021 ideas. Let’s connect!



For more information, contact your Umpqua Private Bank Relationship Manager or reach out to us at:

 (833) 898-0973

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