Fall 2021

As the economy opens up, what does our future look like?

UMPQUA
Private Bank

Just as our friends and family were beginning to enjoy their summers again – and the economy was opening back up in-full – reinforced mask mandates have swept the nation as the number of new cases of COVID-19 and the Delta variant has continued to rise. Though there is uncertainty stemming from these ongoing changes, we still believe there are many reasons to be optimistic for the future.

We hope you will continue to stimulate the economy by supporting restaurants and small businesses whenever you can, and we are confident you will have open, honest conversations with your family, as this fall may be shaping up to feel a bit familiar.

But what does this announcement mean **for our economy?**

What do changes in the economy mean **for your family?**

What do conversations with your family mean **for you?**

State of the Union: A review of the interest rate environment

In what has been more than a year of seemingly constant fluctuations to every corner of our daily lives, it appears that one thing, at least, is here to stay: **low interest rates.**

Covering 90% of the world's economy, Bloomberg's quarterly review of global monetary policy showed that not a single major Western central bank was expected to increase interest rates in 2021.[1] In this review, the assumption is that central bankers will want to play it safe due to many factors and unanswered questions. Is the economic recovery real? Will unemployment remain as elevated as we've seen it? Are the virus and its mutations slowing their spread as more people become fully vaccinated?

In the future, as these questions find their answers, interest rates will likely rise again. But for now, we ask:

> What should you do to take advantage of these historically low interest rates?

Though your goals should remain at the center of your portfolio and be the driving force behind the strategies you've employed, reexamining those strategies may be worthwhile. For some, this may mean there's an opportunity to mitigate federal transfer taxes – like estate taxes and gift taxes – by way of annuity trusts, for example. And for some others, the choice may depend on whether you are an investor or a borrower.[2]

Article continued on following page

If you're an investor, consider...

...buying property.

Even if you already have a home, now is as good a time as any to secure a good mortgage rate on another home or piece of real estate.

...investing with interest savings.

If the interest rate on your mortgage or loan has dropped significantly, rather than paying it off, you can use the difference in interest to invest in your retirement or a child's education fund.

...selling bonds.

Typically, when interest rates are low, bond prices are high. Therefore, when newly issued bonds pay lower interest, higher-yield bonds become more attractive, meaning you can sell them for a greater profit.

If you're a borrower, consider...

...refinancing your loans.

When paying off an old loan by taking out a new loan, you'll have a loan with a lower interest rate. If possible, consider a fixed-rate loan so that you can lock in at current low rates.

...applying for a home equity line of credit (HELOC).

Using a portion of the available equity already in your home, HELOCs can be a low-rate, flexible way to pay for things like remodeling fees or consolidate high interest rate debt.

Whichever path you take, if you plan on reexamining your portfolio due to this low interest rate environment, we recommend meeting with your Umpqua financial professional before making any decisions. Taking advantage of changes in the economy is worth examining closely. ◇

Sources: 1) Bloomberg News, "Ultra-Low Interest Rates Are Here to Stay: 2021 Central Bank Guide," January 4, 2021. 2) Business Insider, "How to take advantage of low interest rates – the best financial moves for investors and borrowers," January 27, 2021.

FYI: For Your Inflation

When the economy gets hot, what's the potential of getting burned? As we're hopefully rounding the corner to the other side of a global pandemic, several interconnected factors of the economy are pushing and pulling – interest rates remain historically low while the GDP continues to grow. Add in widespread government aid via stimulus packages, and you create a national environment suited for inflation.

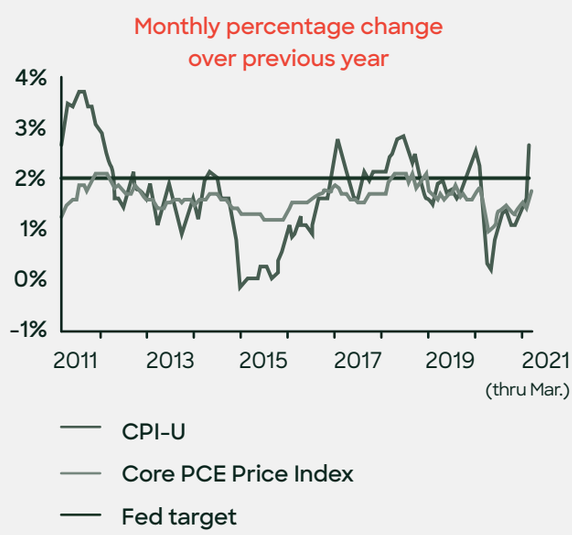
The question is: Will the inflationary effects be long-term?

It's difficult to tell at this point, but here's what we do know: As of May 2021, the Personal Consumption Expenditures (PCE) Price Index – i.e., what the Feds uses to measure inflation – came in at 3.1%, which is 0.2% higher than the inflation level recommended by the Federal Reserve.[1]

In March, we saw the PCE rise 1.9%, and over the past month, it has risen 0.7%, which was also one-tenth faster than the Fed expected.[2]

Consumer Price Spike

Although the Consumer Price Index (CPI-U) spiked in March, the core PCE Price Index – the Fed's preferred inflation measure – remained below the 2% target for healthy inflation.



Sources: U.S. Bureau of Labor Statistics, 2021; U.S. Bureau of Economic Analysis, 2021

Low interest rates
+ Stimulus aid
+ High consumer demand
= Increased money supply

Money supply growth outpaces economic growth

=

Sustained inflation

Put simply, a hot economy is a perfect breeding ground for inflation, and once we enter the post-pandemic world, inflationary pressures may be heightened with revitalized consumer demand for goods (e.g., gas, hotels, restaurants), in addition to trillions of dollars in stimulus money for individuals and businesses.

What does all this mean for your personal financial plan?

- ✓ **Your purchasing power:** By definition, inflation erodes purchasing power, meaning that the assets you've already purchased or plan to purchase could be affected by increasing inflation levels.
- ✓ **Your income:** If your portfolio relies on fixed income assets for regular payments, keep an eye on the rising inflation trend, as higher inflation rates tend to decrease the value of the annual yield produced by fixed income assets.
- ✓ **Your principal preservation:** Depending on your current life circumstances, you may be especially averse to loss of capital. If you utilize more "conservative" strategies for capital preservation, long-term inflation can have negative effects on return rates.

We encourage you, no matter where you are in your wealth planning journey, to keep these things in mind as you approach your personal plan:

1 The market is a future indicator, not your boss. Inflationary environments don't always require you to take immediate action on your portfolio. Don't be misled with gloom and doom reports that make the headlines, and don't let market environments boss you around.

2 Know Thyself: The old adage never fails, even (or especially) when it comes to your financial plan. Remember your goals, your phase of life, and your income level. Keep these things central, even as factors that are out of your control change.

3 Speak to a professional. Talk with your Umpqua professional today. If you're concerned that inflation will have disproportionate effects on your portfolio, don't continue to go it alone. We can help review your wealth plan and guide you along your path. ◇

Sources: 1) U.S. Bureau of Labor Statistics, Consumer Price Index Summary, May 2021. 2) CNBC, "A key U.S. inflation gauge rose 3.1% year over year, higher than expected," May 28, 2021.

Potential tax law changes on the horizon

As we've seen in decades past, a new presidential administration can bring about all types of changes. However, there's one we're keeping a particularly keen eye on as it relates to you and the rest of our clients: **tax policy.**

More specifically, we're observing to what extent – if any – Congress will put changes in place for gift, estate, and income tax laws. Some potential changes might include those in the table to the right.[1]

Reducing the gift exemption

- The lifetime gift exemption would be reduced to $1 million per individual and $2 million for married couples

Increasing the estate and/or income tax rate

- For estate tax rates, Senator Bernie Sanders' proposal would establish a progressive taxation system for estates transferred upon death[2]
- Regarding income tax rates, the highest marginal income tax rate would increase from 37% to 39.6%, the level it was reduced from in 2017

Increasing the capital gains tax rate

- For those with taxable income of $1 million or greater, the applicable tax rate for capital gains and qualified dividends would be raised to the highest proposed marginal income tax rate of 39.6%

Some of the other proposed changes are wide-ranging, and though they require approval from both houses of Congress and President Biden's signature, there's nothing wrong with gaining a better understanding today of what could happen tomorrow.

If any of the following apply to you, you may be affected by the proposed changes.

- ✓ You earn in excess of $400,000 as a household
- ✓ You have an estate valued at greater than $3.5 million
- ✓ You have IRAs or workplace retirement plans
- ✓ You make annual gifts to one or more individuals
- ✓ You are a recipient of annual gifts
- ✓ You are in a position to inherit future assets

It's important to know that our checklist is far from comprehensive. For instance, you may also want to consider conversations around capital gains tax, estate and gift tax rates, annual exclusion gifts, grantor trusts, annuity trusts, and much more.

These potential changes will likely be complicated and could have a significant impact on your tax liability. If you have any concerns about how these changes could affect your portfolio or your legacy, we encourage you to call us so we can help empower you to have an in-depth discussion with your estate and tax advisors.

As we've said in the past, changes to your surroundings should not impact the goals you've set for yourself and your loved ones. Change is a constant, and by proactively preparing for change, you can help set your family up for less turbulence on the road ahead. ◇

Sources: 1) "The American Families Plan," proposed by President Joe Biden, April 28, 2021. 2) "For the 99.5 Percent Act," introduced by Senator Bernie Sanders, March 25, 2021.

Banking & credit management

If you haven't already taken advantage of the low interest environment, now's the time. Low interest rates are very kind to real estate, so sellers, buyers, and homeowners alike have reaped the benefits of the booming industry. Inventory is low, so sellers are receiving multiple above-list offers, while buyers are taking out loans for mortgages at record-low interest rates.

But beyond purchasing a house or refinancing your mortgage, how have you optimized your complete balance sheet?

Yes, this includes your debt.

Credit management is an essential part of the conversation within your overall financial plan. It goes further than wondering how fast you can pay off your debt to get rid of it. Maybe it begins with reframing how you think about debt to begin with – not as the enemy but as a structural part of your plan that can maximize your overall benefits.

Using credit effectively can ensure sufficient liquidity for emergencies and help resolve your short-term cash needs. While it's tempting to view debt as a weak point in your wealth plan, credit can be used to strengthen your portfolio and serve as solutions for accessing capital.

THE

13 Connected Wealth Conversations

- Stay connected with your financial professional by discussing the 13 most important topics surrounding your financial health.
- Stay tuned for our future newsletters as we address each of the other 12 topics and how to get the conversation started.

When discussing debt and lending with your financial professional, be sure to address the following three issues as they relate to your credit:

1 Proper Debt Structure

- Your current debt-to-income ratio
- Your plan for funding future large purchases
- How to leverage debt to protect assets

2 Tax Efficiency

- Using debt strategically to potentially reduce annual tax liability

3 Interest Rates

- Effect of interest rates on your current holdings and cash flow
- Current interest that applies to your loans

Like most other things that involve a plan, your credit management should begin with the "basics." Your Umpqua professionals recommend working through your mortgage and credit cards before moving on to more "advanced" planning.

For example, this may be the perfect time for you to explore if your plan lends itself to private loans that use the Applicable Federal Rate (AFR) as their minimum interest comparison. If you've taken care of your foundational credit needs, and you have excess capital, the low AFR rates[1] could be a great way for you to take advantage of a loan with low interest. Home equity lines of credit are also currently being underutilized as more capital is driven into the economy.

Don't shy away from the credit conversation. Have it today with your Umpqua banker. ◇

Sources: 1) Internal Revenue Service, "Index of Applicable Federal Rates (AFR) Rulings" https://apps.irs.gov/app/picklist/list/federalRates.html

Family Ties

Your kids and COVID

No, we can't go see Grandma. No, we can't take our annual family trip. No, you can't go to school. How many times did your kids or grandchildren hear the word "no" in the past 18 months?

Early in 2020, as the government and businesses experienced severe economic disruptions, family life in all kinds of households also took a hit. Mandatory and voluntary measures meant to limit in-person interactions that could spread the virus also prevented kids from going to school, socializing with their peers, seeing family, and engaging in their normal after-school activities.

Young children and adolescents experienced an abnormal level of "Zoom fatigue" as much of their schooling and social lives could only be experienced through a screen. After the initial excitement of "going to school" in their PJs, kids started feeling a collective fatigue from being "stuck" at home. Most probably watched more TV and lacked physical activity from their normal sports practices and games. Overall, the circumstances of COVID-19 had negative impacts on kids' mental well-being.

Today, we're hearing more good news. As more vaccines roll out and we inch closer to returning to a pre-COVID lifestyle, we're seeing a shift back to "normal." Perhaps many of your kids and grandchildren will be returning to in-person schooling, have seen more of their families, and have seen a little bit more sunshine.

Now is the time, not only for personal reflection, but for a collective reflection with your family about things that have gone right and wrong during the pandemic. Your plans and goals impact those you care about most, and those plans and goals may have shifted as the world around us changed.

Family Talking Points:

How did your goals change as a family?

What has changed for your family since this time last year?

What kinds of challenges did your kids experience in the past 18 months?

How did the challenges you experienced affect your kids?

And perhaps most importantly, how do your kids feel now?

Just like market volatility makes you reassess your financial goals, life volatility makes you reassess your values. This period in your kids' lives is sure to leave an indelible mark, but they are resilient, and you have an opportunity to talk with them about plans for the short- and long-term future. Perhaps you will even have the opportunity to turn some of last year's "no's" into "yes's".

We hope that you see a little less life volatility in the latter half of 2021, and we hope for many more years of "yes" for your kids and for you. ◇

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