Trust Company Oklahoma

INVESTMENT PERSPECTIVES

January 2021

Through Thick And Thin

If there is one adjective which best describes 2020, it is *unprecedented*. The impact of the pandemic has been without precedent in its devastation to our families and our way of life. For better or worse, in 2020 we all learned how to work from home, how to use Zoom, and what constitutes an essential business. And let us not forget our collective thankfulness for toilet paper.

For investors, 2020 provided its share of thrills. Seemingly, every market phenomenon was packed into the past year. The highs were high, the lows were low, and they alternated at a lightning-fast clip. The speed of those fluctuations left retail investors and professionals alike peering into their computer screens daily, searching for reason. Like most recession years, staying the course appeared to be the best antidote. From the S&P 500 dropping 34% in five weeks (the fastest bear market in history) to rising up over 18% as of this article, the investors who held steady have been rewarded.

There is no doubt that 2020 will be well documented in the history books. From the pandemic, the election, the market volatility, and the recession, writers will have deep wells of storylines and material. When we reflect on the economy in specific, a few themes emerge which are likely to impact investors for years to come.

MARKET **RECAP**

The S&P 500 had strong returns in the fourth quarter to cap off a most improbable year on favorable vaccine approval news from multiple pharmaceutical companies. International stocks surged as well on the news. A weaker dollar in the fourth quarter helped international stocks outperform U.S. stocks for the quarter, but U.S. equities remained the leader for the year.

	4th Quarter	Last 12 Months
S&P 500	12.14%	18.39%
EAFE (International)	16.05%	7.82%

Up, Up, and...to Zero!

At the start of the year, the Federal Reserve (the Fed) expected to raise interest rates over the next few years. The Fed was also slowly unwinding its balance sheet by reducing the amount of debt instruments held. Meanwhile, the unemployment rate was at a multi-decade low, inflation was gradually appearing and the overall economy was operating at a gentle trot. Not too fast, not too slow—in other word, precisely where economists like it. Yet, some were concerned.

The economic expansion that had lasted 10 years was growing long in the tooth, and the consensus among economists indicated that a recession was probably 18-24 months away. And then there was COVID-19. In response, the Fed rapidly began dropping rates (specifically, Fed Funds Rate) from 1.5% to zero in the span of only two weeks in March.

Given the likelihood we would end up in recession, the decline in rates was warranted, but still shocking considering the abruptness of the pandemic and the Goldilocks economy at the beginning of the year. The forward implications of the decline in rates is no less notable.

PHILIP D. MOCK, CFA, CPA, CFP®
Executive Vice President & Chief Investment Officer

Similar to the decline in short-term (Fed controlled) interest rates, the long-term secular decline in intermediate-term rates reached a record low of 0.5% for the 10-year Treasury bond on

Continued on page 2

VIEWPOINT

A Message From the Desk of Jim Arens

The past year has been a time of profound changes in our society. Yet, despite all the challenges that 2020 has brought to our lives, we can still be grateful for one another, for family and good health.

Thanks to healthcare workers and forthcoming vaccines we are gradually working our way out of the present crisis. So, we would like to invite you to join us in toasting to a healthier and happier 2021. In that spirit, one of the joys of writing this quarterly letter is congratulating TCO employees who have recently earned promotions.

TCO's Board of Directors has approved the promotion of four officers who have served our clients exceptionally well. I am proud to share that **Philip D. Mock, Sean Connolly, Lynn S. Bockmeulen and Brittney N. Adkisson** have earned promotions.

Chief Investment Officer **Philip** is now also an Executive Vice President. Philip has a wealth of experience in the investment management and financial planning industry, and he joined our company in 2016.

Sean, Lynn and Brittney have been elevated to Assistant Vice President. **Sean** is a member of our Real Estate Management division, while **Lynn** serves individuals and families with trust and estate administration. She joined TCO in 2007 and has extensive experience with the wealth management as well as the oil and gas industries.

In the Corporate division, **Brittney** is responsible for a variety of functions, including office manager and payroll. Please help me congratulate these outstanding professionals.

Finally, it is my pleasure to introduce to you **James Maddux**, who has recently joined our professional team. James is a seasoned trust administrator with over 25 years of financial services experience, including trust and estate planning, investments, qualified plan consulting and banking. Prior to joining TCO, James was with BancFirst for over 16 years. He earned his bachelor's degree in Business Administration from The University of Tulsa. James acquired the CFP® accreditation in 2003. He holds additional designations as a Certified Trust and Financial Advisor and as an Accredited Estate Planner™.

As always, we appreciate your confidence and the opportunity to serve you.

JAMES F. ARENS II, CFA - Chairman, President & CEO

August 4. This decline began nearly four decades earlier when the 10-year Treasury reached a high of approximately 15.75% in 1981. Unless U.S. interest rates go negative in the future, it seems likely that the 40-year bull-run in fixed income has come to an end or, at the very least, doesn't have much farther to fall.

Additionally, since the Fed decided in August to modify its policy objective to aim for average inflation of 2%, as opposed to a hardline 2%, future interest rates and actual inflation will be impacted. Historically, the Fed raised the Fed Funds Rate as a way to combat inflation. But now that the Fed is content to let inflation creep up for a while, it is likely to raise rates more slowly than it has in the past.

In the words of Fed Chairman Jerome Powell, "[F]*ollowing periods when inflation has been running below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time*."

The Fed is suggesting that interest rates are likely to stay put for at least the next two years. The dot plot, a graph of the FOMC's voting members' predictions for future interest rates, doesn't indicate a meaningful possibility of rates rising until beyond 2023. This represents about a 2.5 percentage point decline from where the Fed originally expected rates to be in 2022/2023, based on how it voted prior to the pandemic. Lower interest rates will be a continuing theme for years to come.

Borrow Like It's 2020!

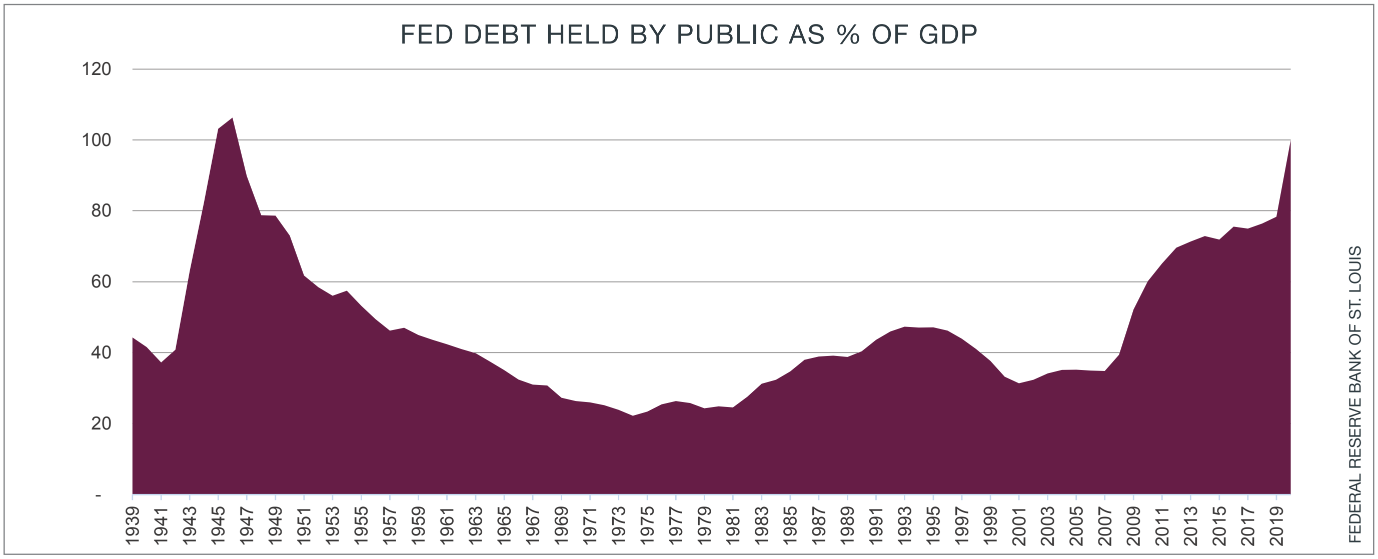
Needless to say, the federal government's response to the pandemic and recession has been expensive. Various forms of fiscal and monetary stimulus plans have resulted in the U.S. taking on a significant amount of debt.

The federal government added about $3 trillion to its balance sheet -- similar to the amount the Fed added to its balance sheet. In addition, Congress recently passed a new $900 billion stimulus package that will further increase U.S. debt. The U.S. is not alone. Virtually every major developed nation borrowed to pump money into their economies to shore up families, companies and municipalities. Furthermore, central banks such as the European Central Bank, the Bank of Japan and the Bank of England all proportionately increased the size of their balance sheets as well.

Although such borrowing has occurred in the past, it is rare. Typically, only wars produce the levels of government borrowing we have seen in 2020. Speaking of wars, after World War II, the Federal debt held by the public as a percentage of our GDP (encompassing all of public debt; not just that held by the Fed) eclipsed 106% in 1946 and fell to a low of 22% in 1974. Since then, we have been on a sustained borrowing spree and are set to end 2020 around 100%, up from 78% at the end of 2019 (**see graph on page 3**).

From an academic sense, the downstream implications of such a large debt load could include higher inflation, a lower

Continued on page 3



U.S. credit rating and stunted future economic growth. Time will tell what is in store for the United States. Regardless of what happens, it will take time to unwind the sheer amount of debt the Fed has taken on in 2020. For perspective, once the Fed began unwinding its balance sheet in early 2018, it took about 21 months to unwind $750 billion dollars. At that same rate, it would take the Fed nearly five years to unwind the debt taken on this year alone. The debt incurred in 2020 will not disappear overnight and will be something the Fed will contend with for several years at least.

The Weakening Dollar

From December 2016 to May 2020, the dollar fluctuated, ending down about 2.7% from the December 2016 level. However, since May of this year, the dollar has weakened about 11%, a substantial change for a currency over a relatively short period.

As a result of the weakening dollar, international stocks, especially in emerging markets, are the recipients of a currency-driven boost they haven't felt for years. In fact, over the last six months, emerging market stocks have outperformed the S&P 500 by almost 8%.

The question is: will this trend continue? We have seen other "head-fakes" over the last 10 years. The value of the dollar is typically dictated by market forces more than economic intervention or activity, which makes it truly a zero-sum game. The future of the dollar is nearly impossible to predict, and betting on it directly has humbled many professional investors over the years. Yet, history does offer some guidance. Additionally, a few developments in 2020 favor the story of a weakening dollar in the months ahead:

1. **Relative Interest Rates:** Over the last several years, interest rates in the U.S. have been superior to those of other developed nations, including Japan, the U.K., Germany, France, Italy and Canada. Although the U.S. still has more attractive interest rates than these countries, the decline in rates over the past year has narrowed the spread considerably. For those looking to invest globally, investing in dollar-based debt is not nearly as attractive as it once was.

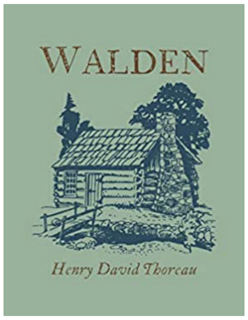
2. **Our Trade Position:** As a result of the pandemic, recession and related factors, our trade deficit has substantially worsened this year. The U.S. relies heavily on trading activity, especially from China, Mexico and Canada. Our trade deficit across all trading partners is at the widest level since 2006. The tariffs implemented several years ago have had a mixed effect in managing the deficit and will likely be unwound by President-Elect Biden. Typically, such a trade position points to a weakening dollar as the amount of money leaving the U.S. to buy imports continues to exceed the amount of dollars entering the U.S. as a result of selling exports.

A weakening dollar isn't necessarily all bad. Manufacturing exporters would benefit from a weaker dollar as it makes their exports more internationally competitive. Companies that have moved operations overseas may consider moving personnel back to the U.S. if it becomes relatively cheaper due to a weakening dollar.

Looking Forward to Next Year

All of the aforementioned economic trends will undoubtedly impact the market. Despite the challenges, it seems reasonable to expect the market to still generate positive returns in the coming year. The actual magnitude of those returns, however, will largely depend on the success of the vaccine rollout and associated return to normalcy. The economy should continue its recovery and will hopefully return to it's pre-COVID track within the next two years. Though 2020 presented many challenges, it also reminded us of our many blessings -- with family, friends and healthcare professionals at the top of the list. While we have always been grateful for you, our clients, the challenges of 2020 made our appreciation for your trust and relationship that much sweeter. Here's to much happiness and health for you and yours in 2021.

Walden, Donuts And Estate Planning



Once upon a time, while getting my teeth cleaned, I received a piece of life advice from my dentist: "I recommend," he said, "that you read *Walden* every year." Later that year, I read Henry Thoreau's book for the first time and have taken to re-reading it whenever I have felt the need to reexamine Thoreau's themes of self-reliance and simplicity. Thoreau wrote this literary work as he spent a season of his life alone and isolated in a cabin by Walden Pond. In the depth of quarantine last year, while encouraging my eighth loaf of sourdough to rise, I once again found myself flipping the pages of this wonderful book.

Estate Planning Recipes

There have been many discussions in the estate community surrounding the estate tax, and the consensus is that the exemption amount will likely decrease in the future. In 2020, a person's estate would have been subject to the federal estate tax if they died with more than $11.58 million in assets. If a spouse passes, and does not fully use their exemption amount, their surviving spouse could take the unused exemption amount for themselves.

These high exemption amounts have decreased the use of creative estate planning techniques in recent history. Those still in use are all clever, usually involve a trust, and often are described with an acronym. In addition, every technique entails a difficult tradeoff, wherein the grantor relinquishes some control over assets in exchange for a tax benefit.

For example, a Grantor Retained Annuity Trust (GRAT) is an excellent tool to minimize taxes. However, the elements necessary to minimize the tax also affect the character of the gift, making the gift less flexible than simply handing the recipient a check with no strings attached.

Thoreau's Choice

Years after picking up Thoreau's book for the first time, I read *The Art of Asking*, by Amanda Palmer. This book added some color to my understanding of Thoreau's time at Walden Pond. Apparently, his cabin was walking distance from the nearby town of Concord. In addition to his walks into town, he received a basket of baked goods, including donuts, from his family – every week. As it turns out, Thoreau did not desire total isolation. Instead, he sought a respectable distance from the bustle of everyday life.

In the future, as more of us use estate planning to avoid estate taxes, we should keep in mind Thoreau's compromise and take the donuts! In other words, we shouldn't allow a desire to reduce taxation overshadow all our other estate planning goals.

As a trust administrator, I know that trust beneficiaries often feel that the strings attached to complicated estate planning are not as sweet as the tax savings. We need to consider both sides of the deal and determine the right balance for each grantor and each beneficiary.

EMILY CRAIN
Senior Vice President

SPOTLIGHT

Every child in foster care is required by law to have an attorney that solely represents the child. With more than 11,000 children in care and a 28-month average length of time spent in care, *a lot* of attorneys are needed.

Founded in 1997, **Oklahoma Lawyers for Children** (OLFC) provides not just adequate, but high-quality legal representation for abused and neglected children. OLFC's work is not subsidized by state or local governmental funding or contracts to support this critical work. Yet, OLFC's services have been conservatively valued at a savings to our state of $4.6 million per year.

Within 72 hours of a child entering the system, an OLFC attorney is assigned to the child.

Each attorney is recruited, trained, mentored and supported by OLFC staff attorneys. The highly confidential juvenile justice system is a quagmire of moving parts. The goal is to heal fractured families so children can be safely returned home, but that is not always possible. The OLFC attorney must find a permanent option specific to each child.

Approximately 70% of children in care are significantly behind in school. OLFC's Educational Guardian Ad Litem Program (Ed GAL) pairs an educational specialist to children suffering educational neglect or who have special needs. OLFC's Ed GAL professionals work directly with children, schools, foster parents, and parents to help children in care succeed educationally.

OLFC makes a difference every day in the lives of abused and neglected children on a child-by-child basis. Learn more at **OLFC.org**.

The Importance of Preventive Financial Care

My husband is a dentist in his rural Oklahoma hometown. In response to COVID-19, many of his patients are reluctant to come in for preventative dental care. In fact, 25-30% of his devoted patient base has foregone a routine dental visit this year.

Professional dental care can help prevent cavities, tooth loss, and even halitosis. Oral cleanings and exams can also provide detection and treatment of mouth, throat, and neck cancers. And, regularly removing active decay and plaque from teeth and gums can decrease saliva transfer of bacteria into the bloodstream and subsequently, the heart, to lower chances of cardiovascular disease.

Just as regular visits to the dentist can help your physical health, a routine evaluation of your estate plan is paramount to your financial health.

Prevention Is Key

A review of your plan may include the following:

1. **Estate Planning Documents:** Locating your original estate documents and confirming they are being safeguarded in a pragmatic storage space.
2. **Recordkeeping:** Ensuring your final estate plan documents have been properly executed and copies are on file with the trustee or custodian of record.
3. **Funding Trusts:** Verifying that your assets are titled properly to fund your trust or to transfer to specified individuals outside of probate, if that is a principal goal of your plan.
4. **Representatives:** Confirming you have notified the individuals you named in your documents as personal representatives, guardians, agents, or trustees, and further, conveying their role in your plan.
5. **Medical POA:** Furnishing a copy of your medical power of attorney document to your primary care physician or trusted specialty providers to be retained in your permanent patient file.
6. **Beneficiary Designations:** Examining primary and contingent beneficiary designations for life insurance policies, retirement accounts, and brokerage accounts so they accurately reflect your current elections.
7. **Digital Assets:** Creating a live inventory of your online account login credentials for your various email addresses, social media platforms, bill pay portals, and financial institutions to ensure your accounts can be accessed by a trusted third-party during incapacity or postmortem.

Estate Planning Checkup

Since there is nothing quite like a pandemic to spur consideration of health and mortality, as you sit down to list your New Year's resolutions, take a moment to review and, if warranted, update your estate documents and beneficiary designation forms.

If perusing your current plan and elections leads to more questions than answers, consider partnering with Trust Company of Oklahoma's experts to review your documents so that you'll have the peace of mind that your plans clearly and accurately reflect your intent for your wealth and legacy.

While you are at it, if it has been a year, or 10, since your last dental visit, call your favorite dentist for an appointment, too.

JESSICA HENDRIX
Vice President

TO OUR HEROES

Once again, we would like to thank the doctors, nurses, first responders, scientists and the entire medical community working around the clock to save lives during this health crisis.

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FORWARDING SERVICE REQUESTED

TRUST COMPANY OF OKLAHOMA

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