

A Matter of Trust

3RD QUARTER 2021 NEWSLETTER



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Vice President
Trust Portfolio Manager

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HAPPY TRUST COMPANY
Wealth Management & Trust Services



Quarterly Economic Update

In this Q3 recap: Inflation picks up steam causing stocks to be flat over the quarter. China economy showing sign of slowing.



Scott Richardson, AIF[®]
Vice President
Trust Portfolio Manager

Scott has been in the financial services industry for over 17 years of which the last 15 years has been spent as a financial planner helping clients meet their financial goals. He has a Bachelor of Business Administration from Texas Tech University. Scott's role with Happy Trust Company includes research and security selections, portfolio management. Scott is the Vice President of Endowments for the Golden Spread Council of the Boy Scouts of America. He also serves as the President of the Amarillo Downtown Kiwanis.

The Quarter In Brief

Overcoming rising Delta variant infections, a slowing economic expansion, and growing inflation worries, stocks raced higher through the course of the first two months of the third quarter, propelled by strong corporate earnings, the absence of compelling investment alternatives to stocks, and a “buy on the dip” investor mentality. Investors, however, turned more cautious in September, wary of the season's rocky reputation, persistently high levels of COVID-19 cases, the length of time that the market has gone without a meaningful retreat, and the fiscal and tax policies under discussion in Washington, D.C.

Amid this caution and absent any positive catalysts, September turned volatile, with stocks retracing their earlier gains as seasonal weakness was exacerbated by the mounting financial difficulties of a debt-laden, large property developer in China and rising bond yields.

Stocks steadied briefly following a Federal Reserve announcement that its bond buying would continue, with tapering of monthly purchases beginning in November and extending into mid-2022. However, a surge in bond yields in the closing week of the quarter unsettled investors and led to steep declines, especially in the technology and other high growth stocks. (Higher interest rates decrease the value of future cash flow, often resulting in lower current stock price valuations.)

In the end, September erased the gains built over the previous two months, leaving major indices largely flat for the third quarter.

Investors saw another quarter of exceptional corporate earnings growth. Second-quarter earnings exceeded Wall Street estimates for 87% of the companies comprising the S&P 500 index. Anticipating continued strength in earnings growth, market analysts have increased earnings estimates by 3.7%, expecting that the earnings growth rate will come in at 27.9% for the third quarter. If these estimates are realized, this would represent the third highest year-over-year earnings growth rate in over a decade.^{1,2}

The U.S. Economy

The momentum of the U.S. economic recovery slowed in the third quarter as a surge of Delta variant infections led to a deceleration in economic activity in industries such as travel,

restaurants, and tourism. Economic expansion was further affected by supply bottlenecks and labor shortages. These supply bottlenecks were felt in multiple ways, from semiconductor chip shortages that limited auto production to delays of import deliveries from abroad due to factory and port closures in a number of Asian countries.

Labor markets improved over the course of the last three months to the degree that employers were having difficulty finding workers. The Federal Reserve Bank ascribed a range of reasons for the worker shortage, including increased turnover, early retirements, childcare needs, challenges in negotiating job offers, and enhanced unemployment benefits.³

Supply shortages, rising transportation costs, and wage increases have combined to create price pressures that have led to higher consumer costs in recent months. Reflecting these inflationary pressures were an 8.3% year-over-year jump in producer prices in August and a 5.3% 12-month increase in consumer prices.^{4,5}

The Federal Reserve Bank of Atlanta, which tracks economic data in real time, predicted a 3.2% annualized real rate of GDP growth in the third quarter, a sharp retreat from its model's prediction of 5.3% on September 1.⁶ However, the degree to which economic growth slowed in the third quarter surprised many with an initial reading of only 2.0%.

The Federal Open Market Committee's economic projections issued in September also reflect a more cautious view of the economy in the near-term. GDP growth projections for 2021 were revised lower from June estimates, from 7.0% to 5.9%, while inflation estimates jumped from 3.4% to 4.2%.⁷

Global Economic Health

The outlook for economic growth in European Union (EU) countries grew more positive with widening vaccinations, an improving health situation, and the easing of lock down measures. The European Commission expects that output will return to pre-crisis levels by the fourth quarter of 2021. GDP growth estimates were lifted to 4.8% for 2021, while 2022 growth is expected to be 4.5%. Inflation estimates were raised to 2.2% for 2021 and 1.6% in 2022.⁸

After recording two successive quarters of strong economic growth, China's economy is showing signs of slowing down. Flooding, higher input prices, and a surge in COVID-19 infections have all weighed heavily. A regulatory crackdown on

INDEX RETURNS

	U.S. Stock Market	International Developed	Emerging Markets	Global Real Estate	U.S. Bond Market	Global Bond ex U.S.
Q3	STOCKS				BONDS	
	-0.10%	-0.66%	-8.09%	-0.08%	0.05%	0.09%
						
1 YEAR	STOCKS				BONDS	
	31.88%	26.50%	18.20%	31.61%	-0.90%	-0.54%
						

KNOW SOMEONE WHO COULD USE INFORMATION LIKE THIS?

Please feel free to send us their contact information via phone or email. (We'll request their permission before adding them to our mailing list.)

a number of industries did nothing to improve conditions on the ground. It's estimated that China will end the year with GDP growth rate of 8.5%, with a drop-off in 2022 to 5.5%.⁹

Despite a pick-up in the pace of vaccinations, the Bank of Japan pared its economic growth estimate to 3.8% from 4.0% for its fiscal year ending in March 2022, though it raised its estimate for the following year to 2.7%, from 2.4%. Encouragingly, Japan announced in late September that it would be lifting the coronavirus state of emergency that was in place since April 2021. Finally, it's unclear what the impact may be of the decision by Prime Minister Suga not to seek reelection, but it has created an overhang of political uncertainty.¹⁰

Looking Back, Looking Forward

The third quarter was a reminder of how difficult it is to project the future amid a global pandemic. Investors entered July increasingly optimistic about an acceleration of the economic recovery, the prospect of rising vaccination rates, the reopening of schools, an easing in labor shortages, and a return to the office. By September, with the Delta variant lingering, employers delayed their plans for a return to the office, some mask mandates were reinstated, and consumers pulled back on spending and travel.

If the market is to add to its year-to-date gains in the fourth quarter, it will need to climb a wall of worry. The worries include the expected start of tapering, global central bank tightening, fiscal and tax policy uncertainties, Covid infection levels, inflation, and whether corporate earnings can continue to impress in the wake of this quarter's economic slowdown.

With the Federal Reserve's November announcement that it will begin tapering, the Fed joins a growing number of global central banks that have begun winding down the accommodative monetary policies that were put in place in response to the pandemic.

Inflation has touched levels not seen in over 40 years. Supply chain constraints continue to be a major factor in higher prices for businesses and, in turn, consumers. Especially troubling is that these bottlenecks may last for another year or longer. For now, the credit and equity markets seem to agree with Fed Chair Jerome Powell's argument that inflation is transitory.

While Washington may have been a tailwind for the market since hitting pandemic lows, it may turn out to be a headwind in the months ahead. Investors are wary of the impact on investments and corporate profits included in the proposed infrastructure plan and the new, higher taxes under discussion to pay for such spending.

Lastly, corporate profits and sales have exceeded market expectations in recent quarters, laying the foundation for the markets to move higher. As earnings were reported over the course of October and November, American businesses continued to show earnings growth that should help support current price levels and provide the rationale for higher valuations.

It's a formidable wall to climb. Still, many of the conditions for continued stock market strength remain in place, specifically, a financially healthy consumer, an accommodative monetary policy (the Fed is not expected to hike rates until late 2022), strong corporate earnings, healthy economic expansion, and improving corporate cash balances. Keeping a long-term focus of the markets will continue to benefit investors. •

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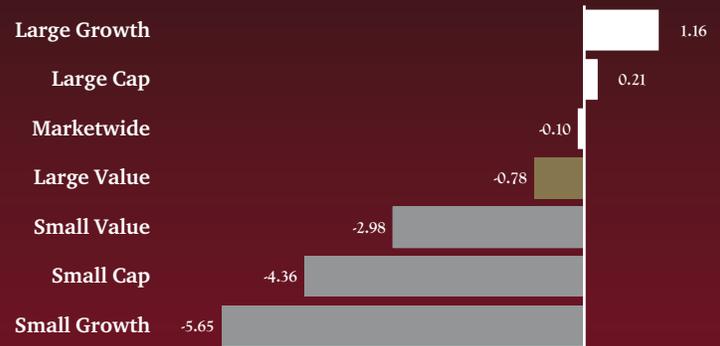
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3rd Quarter Market Summary

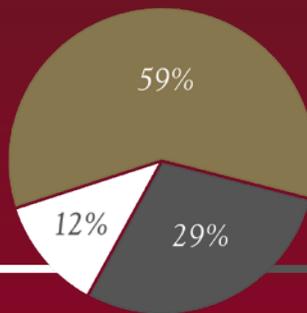
Most major equity market indices around the world were down slightly for the third quarter. The U.S. and International Developed markets were down less than 1%, however Emerging Markets were down over 8%. The Value and Small Cap stock premiums were mixed. Value only outperformed in the Emerging Markets, while Small Cap stocks outperformed in the International Developed and Emerging Markets. Bonds were slightly positive again as yields remained fairly steady. For a more detailed quarterly report please visit HappyTrust.com.

US STOCKS

RANKED RETURNS FOR THE QUARTER (%)

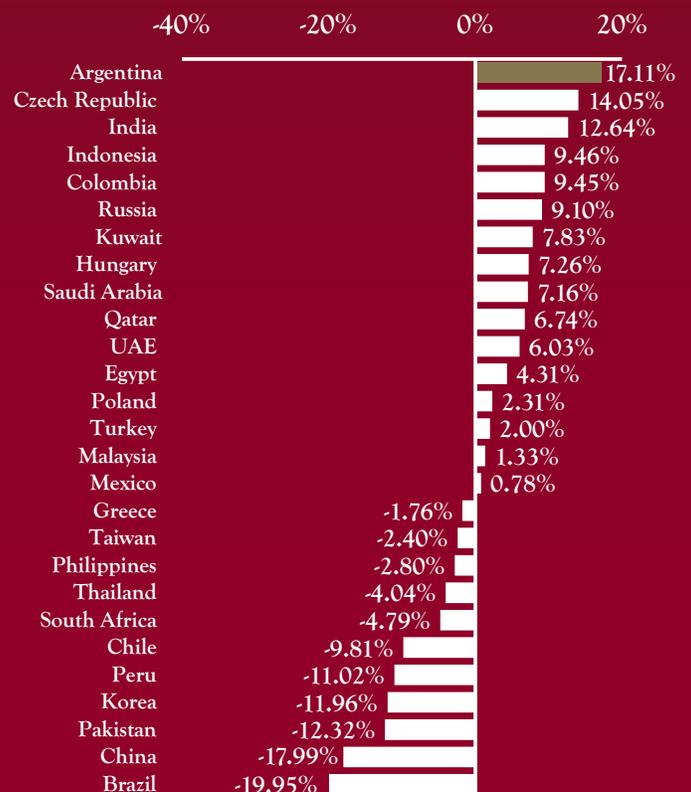
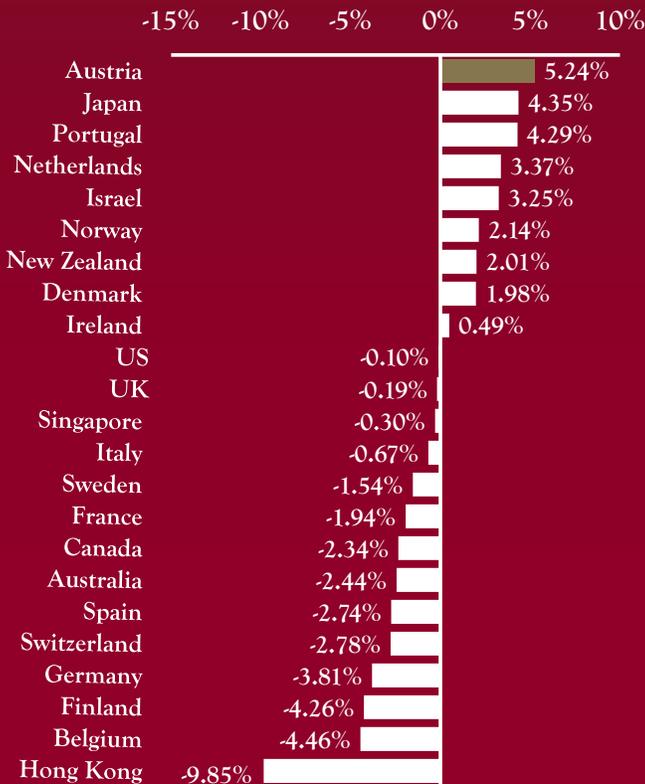


WORLD MARKET CAPITALIZATION



EMERGING MARKETS

INTERNATIONAL DEVELOPED



Meet the Team



Alisa Fox, J.D., CTFA

Senior Vice President
Senior Trust Officer

Amarillo Office

Alisa joined Happy State Bank in August 2013. She was born and raised in Amarillo and remains a proud supporter of her Tascosa High School Rebels. Prior to joining Happy, she lived in several different areas of the country and has a total of 18 years of banking and trust experience.

Alisa's responsibilities include account administration of trusts, investment accounts, retirement accounts and estates. She enjoys getting to know her clients to help solve problems and make their lives a little easier. Alisa also leads the trust department's regulatory and compliance efforts.

She earned her Bachelor of Arts in Political Science from the University of Denver, and her Juris Doctor from Syracuse University College of Law. She is also a Certified Trust and Financial Advisor (CTFA). Alisa currently serves as Treasurer of the Board of Trustees of the Don Harrington Discovery

Center. Additionally, she is a member of the Potter County Appraisal Review Board, Amarillo Executive Women, and the Amarillo Area Estate Planning Council.

Alisa may shoot a basketball two-handed, but that doesn't take away from her love of the game. In fact, she chose her law school based on who had the best basketball team. Fortunately, Syracuse won the national championship in her graduation year. She still takes vacation time every March to watch the national tournament and cheer on her beloved Orange.

When she isn't with her HAPPY family, she enjoys spending time with her husband, Andrew, and their son, Nick. She is extremely proud that Nick is a Tascosa High School Rebel as a member of the class of 2025. Alisa and Andrew are also parents to their three cats and one dog. Alisa also enjoys practicing yoga and sampling whiskey, though not at the same time.



Thelma Williams

Vice President
Trust Officer

Dallas Office

Thelma Williams has over 30 years of banking and trust experience and currently serves as a Vice President and Trust Officer for Happy State Bank and Trust Co. in Addison. While originally from New Mexico, Thelma relocated to the West Texas area and after five years accepted a new role in the Dallas/Fort Worth metroplex where Thelma and her family have been since 1989.

After ten years managing a trust operations team, she decided she wanted to work directly with clients and therefore transitioned to the administrative side of the trust industry. Thelma's wide-ranging experience is multi-faceted having administered trusts for small and large trust divisions. She was involved in the effort to establish the Dallas trust office for a local bank and lead a team of Trust Officers serving the Texas market revitalizing an internal volunteer Associate Enrichment Team bringing additional training

and further growth and development opportunities. As a Trust Officer, she has administered various types of trusts including special needs trusts and charitable trusts. She has worked with estates, IRAs, and investment management relationships and has enjoyed working directly with personal trust clients.

Thelma is currently a member of the Estate Planning Council of North Texas as well as the Dallas Estate Planning Council and has previously served as a Texas Bankers Association Trust Division Committee member and Co-Chair.



Sue Turnage

Senior Vice President
Senior Trust Officer

Sue Turnage has over 35 years of experience managing wealth management relationships for individuals, families and nonprofit organizations. Given responsibility for developing Happy Trust in Fort Worth, she joined Happy in 2020 as the market leader and senior trust officer. Sue earned a BBA from the University of North Texas where she concentrated in banking and finance. She is currently a member of the Fort Worth Business and Estate Planning Council and the Tarrant County Probate Bar. Active in the community, Sue currently serves as an advisory director of Kids Who Care and volunteers for several organizations. She is particularly interested in programs that help children and teens develop financial life skills.



The Perfect Plan

by Sue Turnage

World Series, Game 7, bottom of the ninth, home team is up by one run — this is the scenario the seasoned home team manager has played out in his head over and over again. For years he has said to himself, “Give me the chance, I’ll be ready with the perfect plan. Just waiting for our time.”

Years to imagine, years to revise strategy. Things change, players come and go, competition gets better, different superstars to manage and compete against. The perfect plan must be reviewed and flexible over time if the goal is to be realized.

You are the manager and your perfect plan is your estate plan.

Everyone Needs an Estate Plan

More than half of American adults do NOT have a will and less than 40% have any kind of estate plan in place. Perhaps these numbers are high because of procrastination, perception that planning is too expensive, doesn’t apply to them and/or no one really likes discussing his own mortality. However, over the last 18 months or so, COVID increased awareness because we realized any one of us could succumb to it with little warning. Many had wills written for the first time and others reviewed their existing plans. The pandemic prompted us to consider, “What if?” Fear and the unknown are great motivators that cause us to think about **what would happen if...**

Your Plan, Your Way

While some think only the very rich or very old need an estate plan, the reality is we all have

“stuff”; a car, home, other real estate, bank accounts, investments, life insurance, retirement accounts, furniture, personal possessions, debts, pets... We have people we care about and causes we support. If we die without any plan, what happens? The result will be chaos of some kind which is avoidable with an estate plan.

You want assurance that your assets are given to the people and organizations you care the most about. You control what happens because you plan for it. You provide instructions to ensure your wishes are followed in a timely and cost-efficient manner. Your unique plan is the caring and thoughtful way to let your loved ones know what you want regarding the disposition of your estate. Your plan also addresses how decisions are made about your health care and financial matters if you are unable to make these decisions yourself.

Each Year, October Raises Estate Planning Awareness

This is a good time to review your plan and general financial security. If you don’t have a plan, now is the best time to get started. It is never too early to start the planning, but it can be too late.

An estate plan typically includes several legal documents:

- Will
- Living or Revocable Trust
- Personal Property Memorandum
- Durable Power of Attorney
- Healthcare Power of Attorney
- Living Will

Your estate plan will change over time and is only effective if it is kept current. New tax laws need to be evaluated to see how they affect your situation. Families change. What you want to accomplish may change, too.

- **Define or refine your goals.** This is valuable information to share with your attorney and other financial advisors. Consider how your family has changed. Marriages, divorces, children, grandchildren? How well do you think your heirs will work together? Are there particular philanthropic causes that you want to provide for? Has anything changed what you consider important?

Special situations to address are blended families and beneficiaries with special needs. You may also want to consider using trusts to address your beneficiaries to whom you do not want to leave an outright financial distribution.

- **Gather and organize data.** Take inventory of all assets and how they are currently titled. Are the beneficiary designations correct? Do you have life, disability and long-term care insurance? Any reason to add coverage? Review property and liability coverages to make sure they are still appropriate.

Leave this organized list for your heirs, executor or trustee so that they will know where to start.

- **Special note about digital assets:** Crypto-currency is becoming a more widely owned asset. Managing it and transferring ownership is much different than the financial assets we are most familiar with.

Less complex yet important are things as simple as login usernames and passwords. These should be documented and available to your estate representatives. Someone at the Apple Store won't be able to help unlock that phone, iPad or computer!

Takeaway

Use your team of financial, tax and legal professionals to help guide you through this process and to provide advice that is specific to you. Your trusted advisors at Happy Trust Co. can add valuable perspective and assistance regarding your particular situation. Their experiences may help you make decisions about naming trustees and executors, specific use of trusts, general planning concepts and ideas you have.

Thoughtful and comprehensive planning will leave you confident that your loved ones are taken care of and that your legacy is the one YOU want. And, no matter how large or modest your estate is, the end result is the same for all of us—we can't take it with us.

Bottom of the 9th. And, just as you have imagined and planned ... **call in the best closer. You've planned a lifetime for this moment.**

WHO NEEDS AN ESTATE PLAN?

ANYONE WITH STUFF

How important is a will?

59% of adults say it is "very or somewhat important" to have a will or living trust

67% still don't have a will

35% say that COVID-19 caused them to see a need for estate planning, but nearly 1/3 of those still say they haven't taken action

Reasons people don't have a will:

34% of adults say they just haven't gotten around to it

28% believe they don't have enough assets

7% say they don't know how



Source: Caring.com

https://www.caring.com/caregivers/estate-planning/wills-survey/?_ga=2.163254779.619561265.1633720136-394723759.1633720136

WHEN ITS TIME TO FACE THE MUSIC

Aretha Franklin

The "Queen of Soul" passed away at the age of 76 with only an invalid, hand-written will. She left behind four children, including one with special needs. Sadly, her family are still in court battling over an estate valued at approximately \$80 million.

Prince Rogers Nelson

Also known simply as Prince, the Grammy award winning musician collected 32 major music awards during his career but never put together an estate plan. At the time of his death, he was only 57. Multiple individuals including an ex-wife, unknown children, siblings and other distant relatives have joined the fight over his \$200 million estate.

James Marshall "Jimi" Hendrix

One of the most influential electric guitar players of all time, Jimi Hendrix, passed away in 1970 with an approximate net worth of \$20,000. As of 2015, his estate had grown to approximately \$80 million after receiving royalties for nearly 40 years. There is currently an ongoing legal battle between the musician's brother and niece.

Source: usatoday.com, August 22, 2018

<https://www.usatoday.com/story/life/people/2018/08/22/legendary-stars-who-died-without-wills-aretha-franklin/83550424/>

*If you have a question that you would like answered in a future "Matter of Trust" newsletter, please share it with us at **TrustInvestments@HappyBank.com.***

