TC Wealth Partners

Trust Company of Illinois

BUILDING YOUR FUTURE

QUARTERLY MARKET COMMENTARY
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Exclusively for Retirement Plan Participants

FROM THE DESKS OF

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2021 WAS “THE YEAR OF THE ROTATION”

In 2021 investors transitioned between growth and value, as risk on and risk off sentiments shifted with periods of re-opening, “peak growth” headlines, COVID fears, robust demand and Fed policy uncertainty. The markets rewarded discipline and conviction in attractive valuation, quality balance sheets and secular growth opportunities. In 2022, we anticipate elevated inflation, less stimulus and a tighter Fed policy. Through the first half of 2022, we believe growth will be above-trend, but at a slower rate compared to 2021.

Market Volatility

The year has started with a significant amount of economic uncertainty which has fueled market volatility. Investors are concerned about higher interest rates, the velocity of the move higher, significant headline inflation and the Fed’s path toward normalizing monetary policy. To put the recent market moves in perspective, on average, a stock market pullback greater than (5%) occurs about three times per year and a stock market correction greater than (10%) occurs once per year.

OUR VIEW

We believe that the Fed is behind the curve, as its thesis that inflation was transitory was proven largely inaccurate especially in rents and wages but also by the persistent strength in commodities across the spectrum. Timing of supply chain fixes are an unknown, and we believe they will take longer than expected until the second half 2022, and more likely, 2023. This will mean elevated inflation that is higher for longer, and that the Fed might have to act more swiftly on raising rates.

ISM Services

ISM Services shows business activity, new orders and backlogs (leading indicators) continuing to expand. New orders are a leading indicator of earnings, and future capex intentions are at record highs which we see as good news for growth, as services represent nearly 70% of GDP. In addition, manufacturing is having a renaissance with strong demand, lean inventories and pricing power. Higher rates of personal consumption indicate that consumers maintain liquidity and they're spending on goods and services are driven by pent up demand.

OUR VIEW

We believe that supply-chain constraints are still elevated but are starting to ease. A surge in COVID infections due to the omicron variant has likely slowed spending as more people stayed home. In our view any slowdown in spending is likely to be short-lived because of the strong labor market and continued wage increases.

Retail Sales

Retail sales are +16% above pre-pandemic levels, with strong consumer demand fueled by higher personal income and elevated savings. Retail sales in 2021 have been driven by investments into homes (due to higher property values) and do-it-yourself trends. Investments toward omnichannel services also contribute to higher sales.

OUR VIEW

We believe that falling price-adjusted wages, dwindling savings and the end of the government's pandemic-related financial programs suggest a more moderate pace of retail sales. We expect retail sales to get worse before they get better because inflation and omicron case have yet to peak. If economic activity follows the COVID case count trajectory we believe a fast and furious rebound in retail sales will occur as healthy wage gains support solid gains.

Inflation

Inflation has accelerated to rates not seen in decades CPI started the year +1.4% y/y and November hit +6.8% y/y. Core CPI (excluding food and energy) started the year +1.6% y/y and in November hit +4.9% y/y. Soaring producer prices reflect higher business costs. Higher costs are broad-based and include energy, transportation and warehousing, construction and food. Housing prices have risen more than +19% y/y. Limited supply of homes and high prices have led to more significant rental demand. Rental costs, which tend to follow housing costs and are typically a significant and sticky component to inflation, are also soaring. Rents have already grown +20% y/y in parts of the country.

OUR VIEW

We believe the stickier components (e.g., rents and wages) will keep upward pressure on inflation albeit probably lower than current levels. We see inflation as above trend; not runaway but enough to expect the Fed to move with its taper and higher Fed Fund rates throughout 2022.

Labor Market

In the face of robust consumer demand, companies have had to compete for additional labor capacity. Unemployment continues to move lower (4.2% in November) because jobs are plentiful (there are over 11 million job openings as of October), and wages are rising. Abundance of job openings has contributed to declining initial claims for unemployment throughout 2021. Quit rates have also risen as employees use leverage to gain more attractive jobs. The labor force – measured by labor participation rate – has not returned to its pre-pandemic level, contributing to tight labor markets. Lower participation can be attributed to continued labor impacts from COVID-19 and elevated savings/stimulus. A smaller pool of applicants has driven companies to offer higher wages, leading to a stronger consumer, but also higher inflation.

OUR VIEW

With job openings at record levels and improving COVID-variant trends, we think that hiring will pick up in the coming months, but the path towards returning to full employment will not be a straight line. We believe that the near-term path of employment growth depends firmly on the availability of labor, as job openings and hiring plans indicate demand for workers remains robust.

Productivity

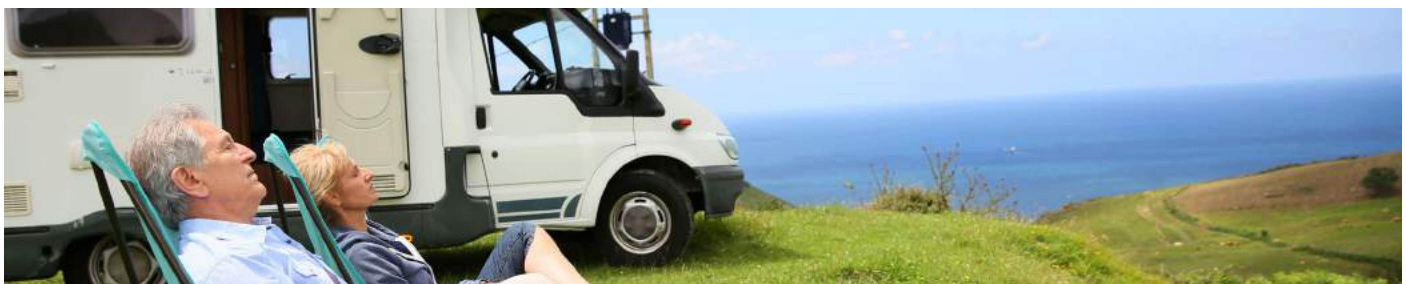
Productivity, measured as the output per hour of work, slowed in Q3. Higher labor costs, tight labor markets and supply chain challenges all contributed to the lower productivity, but we expect to recover somewhat in 2022. Q3 unit labor costs reached its highest y/y increase since 1982, reflecting the limited capacity and inflationary cost pressures that businesses are experiencing in their effort to meet demand. Progress towards full employment and investments into new capacity will support better productivity, which should help to slow the rate of inflation.

OUR VIEW

We believe that Federal Reserve officials will watch the productivity data closely for its impact on inflation. Low productivity levels tend to boost inflation as companies are forced to raise prices as unit labor costs increase and profit margins come under pressure.

FINAL THOUGHTS

All of us at TC Wealth Partners/Trust Company of Illinois are so appreciative to continue to serve you through this unprecedented time. We will continue to keep you updated with our views as new events unfold. We urge you to keep a long-term perspective, review your financial plan and have conversations with your advisor about plotting your course. Please take care and be safe!



RETIREMENT PLANNING INSIGHTS

NEW YEAR, TIME TO REVIEW YOUR 401(K) BENEFICIARY DESIGNATIONS

Beneficiary Designation Forms Are Not One-and-Done Documents

When you set up your 401(k) or 403(b) account, you are asked to choose your before-tax or after-tax deductions, investment choices, and **plan beneficiaries**. These are any individuals or entities whom you want to designate to receive assets from your retirement plan in the event of your death. Most people only worry about adjusting the first two options for a high savings rate with pay raises or better investment choices based on performance or risk tolerance while neglecting beneficiary designation.

While your beneficiary designations need not be reviewed every year, they should be reviewed as often as you review or update your last will and testament—which is a process that should be done at least every few years. **At a minimum, review and update beneficiaries following life-changing events, such as a marriage, divorce, birth, or death.**

Designating 401(k) Plan Beneficiaries

When you first set up your 401(k) or 403(b), you will be given the opportunity to designate beneficiaries on a beneficiary form. On this form, you must indicate a primary beneficiary and a contingent, or secondary, beneficiary for your retirement plan.

Primary and Secondary Beneficiaries

A primary beneficiary is the first to receive your account balance in the event of your death. A contingent beneficiary or beneficiaries, in contrast, is designated if the primary beneficiary of your 401(k) dies before you. Since a deceased person can't inherit assets, your 401(k)-account balance would go to the contingent beneficiary you identified only if your primary beneficiary is no longer alive.

When deciding who to name as a 401(k) primary or contingent beneficiary, keep in mind that under the beneficiary rules for most defined-contribution plans such as 401(k) plans, your surviving spouse will be the first to receive your retirement benefits by default. You must get your spouse's formal consent through a waiver if you want to choose a different beneficiary. If you're single, you're generally free to name any beneficiary.

If you want to name a minor child as beneficiary, you should consider consulting with an estate planning attorney. Typically, the Trustee will make the distribution to the minor beneficiaries' guardian, conservator, trustee, custodian, or other legal representative, upon furnishing evidence of such status satisfactory to the Plan Administrator and to the Trustee. The custodian is then responsible for managing the assets in the child's best interest until they reach a certain age, usually 18 to 25.

No Beneficiary Form – Now What?

Unfortunately, this issue comes up quite frequently. Let's start with touching on several documents that are usually not relevant in making this determination. Estate planning documents such as wills and prenuptial agreements are typically ignored. The reason is that they are subject to state laws, while retirement plans are subject to specific federal laws that override the states.

So, where do we look for guidance? The good news is that plan documents specify what to do in the event the participant did not affirmatively designate a beneficiary. Usually, the order goes something like this:

1. Surviving spouse,
2. Children in equal shares,
3. Surviving parents in equal shares, then
4. Estate.

While that seems straight-forward, there are several words of caution. The passing of a loved one can be quite an emotional situation for all involved, so it is critical for plan sponsors to act in strict accordance with the plan's provisions and not to allow a heated situation to tempt them into making the wrong determination.

KEY TAKEAWAYS

- Your 401(k) or 403(b) contains a beneficiary designation that names who will receive your assets after your death.
- It's important to review this designation regularly to make sure you are satisfied with who is named as the beneficiary.
- The beneficiary designation, not your will or any other document, specifies where that money will go.
- If you fail to update your beneficiary designation, your assets could get tied up in probate or be passed to someone you no longer wish to receive them, such as an ex-spouse.

Ensure Your Wishes Are Upheld

While treating your beneficiary designation form as a one-and-done exercise might work out, often it can cause problems.

Let's say that you first named your spouse as a primary beneficiary and later get divorced. Years after that, you remarry. You update your will so that your new spouse will inherit your home and other assets upon your death. Being thorough, you also contact your life insurance agent and provide them the necessary updates. But you don't change your retirement account beneficiaries.

Years later, you die. Your home will pass to your new spouse, following the terms of your will. Life insurance proceeds will also go to your new spouse, thanks to that call you made to your life insurance agent. The 401(k)-beneficiary designation form is the guiding document, which is a disadvantage in this case. Your 401(k) plan may go to your former spouse because you never updated the 401(k)-beneficiary designation form.

To avoid similar scenarios, make sure that you regularly review those 401(k) beneficiary designation forms, especially if you've had any major family changes since you set up the plan. You and your loved ones will be grateful that you did.

Final Thoughts On 401(k) Beneficiary Designations

Most people hesitate to consider their eventual death, particularly when enrolling in a 401(k) plan for an exciting new job and making decisions about contributions and investments.

But because the transfer of your 401(k) account assets does not follow the terms of a will like your other assets, neglecting to name beneficiaries may unwittingly subject your loved ones to the emotional toll of the probate process. There's also the financial toll it can take on your loved ones to not receive assets in a timely fashion.

Planning for the worst now by naming beneficiaries for your 401(k) plan assets can ensure a smooth transition of assets to the people who need them when you're gone.

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