What's Next for Investors?

A Post-Election Discussion

The following is a transcript of the webinar on November 25, 2020.

Sarah Wotherspoon: Hello and welcome to today's webcast. We're really glad you all could join us. I'm Sarah Wotherspoon, the Director of Wealth Management at Private Ocean, and joining me today are Sabrina Lowell, Kevin Gahagan, and Zach Schlaht. Sabrina Lowell is a Senior Advisor and Principal with Private Ocean; she is also the managing partner of our once and future San Francisco office. Kevin Gahagan is also a Senior Advisor and Principal, and a long-time member of our Investment Committee. We also have Zach Schlaht, our Investment Research Analyst, who leads our investment research efforts and works very closely with Fred Dopfel, the Chair of our Investment Committee.

Our topic today is to discuss what's next for investors. We will cover what has happened in 2020 thus far: the current environment, including the economy, the markets, the political landscape, and COVID, as well as what's ahead. Lastly, we'll cover the current and future tax policy.

For those of you that sent questions in advance to us, thank you, we appreciate those and will address some of them today. We have also forwarded them to your Advisor, specifically, to follow up with you after. So again, we thank you for joining us, and let's go ahead and dive in.

Let's start with you, Zach. Could you give us just a brief synopsis of all that has happened so far in 2020?

Zach Schlaht: Yes, absolutely. We've got a couple of slides prepared for today. I know that the last 11 or so months have certainly felt like 11 years or so! I think it's worth diving back into what's happened thus far this year, and we'll go through and highlight some of the key events that happened this year to set the stage for this conversation. Back in January, and really starting in December of 2019, we knew that the virus was coming. We had started to see its impact on Asian markets, particularly in China. We saw it happen in Northern Italy and slowly spread to other parts of Europe and finally made it's way here, to the U.S.

Starting in February, end of February, this is really where we started to see what is now known as the "Corona Crash." There was a lot of volatility happening. Some days, your seeing circuit breakers hit and the markets dropping 10% to 12%; other days, the market is rallying. You started to see the Federal Reserve step in a little bit and offer $700 billion in liquidity help during this period, as they're cutting interest rates, as they're starting to offer some sort of backstop for the rest of the economy, it gets to a point where it just isn't enough to help that liquidity crunch that we saw during this period. Fast-forwarding to March 23rd, that's when the Fed stepped in with unlimited quantitative easing. That signaled the market bottom for the Corona Crash. Investors started to feel a little more confident that the Federal Reserve is going to step in and do whatever it takes to help aid the economy and again be that liquidity backstop.

A couple of days later, we see the CARES Act finally signed into law, and some of that cash being distributed to those that are most impacted. We start to see the beginning of the PPP program for those small businesses that are heavily impacted.

Moving along to April 20th, is when it really starts to feel like a blip on the radar relative to everything else that happened, but essentially oil markets crashed to negative prices, it hit -$37 a barrel, and that was on the back of the demand-shock that we saw from lockdowns. People stopped taking flights, they're not driving into the office any longer, and even things such as cargo ships were being holed up in ports. You really start to see the demand shock ripple through the rest of the economy. Moving along to the summer period, June, there was this idea that maybe warmer weather would help stymie some of the coronavirus spread, and again we were trying to figure out, and really still are, as new information is coming to light, we're really starting to understand things a little bit better. Obviously, back then, the concern regarding a second wave really kicked up. We saw a market sell-off that led into June 26th. We start to see multiple months of economic data. We start to see the unemployment numbers coming out and not really getting better. We start to see that surge in infections, called it the second wave, but it's all really part of the first wave. We start to see the GDP figures, which were obviously pretty bad. Then as we head into September, we really start to get into that election season. We start to get those kinds of pre-election jitters in the market. We saw were the kind that sell-off happened that week before the election as there's uncertainty in the market. Then once the election actually begins to happen, we start to see a rally in the market. That really stems from, "okay, now we have a better idea of what the election outcome might be," volatility starts to subside, and the markets rally. I think there was a little bit of that rally could be attributed to the split Congress that we anticipate being voted in; obviously, we're still waiting on the Georgia special election. But, that really might signal "okay, maybe there won't be additional tax policy put in place," so there's obviously a lot of noise going on in the more recent period. We also saw the markets rally on the back of the positive vaccine news that we saw last week and into this week as well. So again, it's tuning out some of that noise in trying to understand what's going on with the election, what's going on with the vaccine, and the virus itself, but really we're starting to see a market rally where there's some of that uncertainty subsiding

Sarah: Zach, you're so right about this feeling of a very long 11 months. Can you talk a little bit too about what actions we took in clients' portfolios during this time?

Zach: Yes, absolutely. If we just jump back to this period here, this drawdown here, this is where our Investment Operations team and our Portfolio Managers are really busy rebalancing portfolios. When we have large sell-offs like this, investors tend to flock towards less risky assets like fixed income, alternatives, and what you start to see is when we're rebalancing the portfolio, we're selling out of those things that are doing relatively well. Obviously, you know equities are red at this point and doing poorly, but on a relative basis and fixed income and alternatives, they're doing a little bit better. So you might see some sales in fixed income and alternatives.

We're buying into equities at more attractive valuations and sort of buying into that dip in the market. Then, what's also going on here is that during the rebalancing process, we're actually harvesting those losses on those equities. And then we're going to buy back into the market and what you'll have is tax losses that you can write off against future gains, and that really enables our Portfolio Managers and Investment Operations team, more broadly, more flexibility in the portfolio when we're trying to raise cash for distributions or when we're trying to rebalance the portfolio. So, there was a lot of trading going on, and there was a lot of activity in the Investment Operations department, certainly during this downturn. Then, as we have annual client reviews, and as we're going through this period, if there are any opportunities and additional pullbacks like we saw in June or even in early September if there are opportunities there, we're looking to take advantage of that as well.

Sarah: Zach, I know we all appreciate the rebalancing, the buying investments at lower relative prices, and also the banking of those losses that we've been able to harvest. So thank you for that summary.
Let's turn to where we're at currently. Kevin, can you speak to the prospects that you see for the economy just given where we are today?

Kevin: Well, so, let me touch on a few areas if I may. I'll talk a little bit about economic growth, inflation, Fed policies, and defense of their policy posture. In fairness, these comments derive from research and commentaries from our corporate partners as well as a range of economic and market conference calls that we participate in. This said, you know there is a saying that prediction is very difficult, particularly when it's about the future. So I think with that caveat clearly the pandemic, as Zach was pointing out with the slide, has had a tremendous adverse impact on the economy, and while we have seen significant improvement from the trough that we saw on the graph that Zach shared, the fact of the matter is GDP numbers gross domestic product is expected to be in the negative range for the year. We saw a decline in the GDP, and we hit somewhere well below 10% at the trough.

Current projections are a lot of improvement that we've seen; we're still seeing and estimating negative GDP numbers somewhere around 7 to 8% relative to 2019 with optimism that these numbers are going to improve markedly in the coming year. Looking at 2021, the real progress as it relates to the economy is going to be dependant upon our ability to combat the Covid virus successfully. Obviously, in that regard, the news of a vaccine is a game changer even with the surge of infections that we're currently seeing and are concerns as we go forward. Pfizer and Moderna's announcement, both producing a vaccine ostensibly with very high effectiveness rates, is very promising. As it rolls out, it is likely to help alleviate some of the concerns in terms of the surges and hopefully contribute to a further reopening of the economy. So forecasts that we're hearing looking for next year are that real economic growth, that is, economic growth over the rate of inflation is projected to be in the 1 to 2% range. And you know, as a reminder, Feds target for inflation; they're shooting for 2%. We haven't been below that but, currently, inflation is about 1.6%.

So, if we bump up to that 2% level or somewhere perhaps 3 to 3 ½%, in growth overall with 1 to 2% of that being real. As it relates to Fed, what the Fed has implemented, as Zach was showing on the slide, the Fed's interest rate policy has been near zero.

This is part of that quantitative easing that we're talking about in terms of the interest rates. The Fed has signaled that every intention of keeping that rate at or about that near zero is bound for the foreseeable future. Basically, what Chairman Powell has spoken to is maintaining that policy, that interest rate policy, at the Fed rate until the economy is on a solid footing. So they're projecting that this year's zero interest rate policy may well be in place for the next couple of years. It could be beyond that; it's just going to depend on how things play out in the economy on their interest rate target. What they've also indicated, what Powell has also spoken to is, while they have a 2% target, they may well allow that target to rise above that 2% threshold, so they're going to be flexible in their policy practices.

Let me touch on unemployment, clearly a big issue throughout the country today. We at the trough saw unemployment reach a level of 14.7%, which is worse than we saw during the financial crisis. There has been a significant rebound as the economy has reopened. Today, the most recent numbers we saw were somewhat below 7%. Those numbers were published somewhat before this more recent surge, and so projections today are that we may see unemployment numbers at year-end somewhere in the 7 to 8% range. Obviously, that depends upon the success we're going to have in combating the crisis and with the rollout of the vaccine, and, again, a continuing reopening of the economy. On Fed actions, as I said, the Fed is holding their rate policy and anticipates that will continue for the next couple of years.

Finally, let me just touch briefly on trade policy, which is that you know we can expect that there will likely be some shift in trade policy. I think the Biden administration is likely to reduce or eliminate the trade tariffs that were imposed upon China. Now it's not clear what the administration's policy toward China, in general, will be, but I think as it relates to trade policy both with China and other trading partners, perhaps a more liberalization relative to what the Trump administration posture has been to this point. I am going to stop there and turn it back to you, Sarah.

Sarah: Kevin, let's talk a little bit about regulation. How do you see the regulation from the governmental perspective, changing or staying the same going forward?

Kevin: Well, you know the Trump administration eliminated a lot of regulation in a variety of areas. Business responded favorably to many of those; the purpose of elimination of regulation was to free business, and I think much of that will remain in place. However, where we do expect to see a marked shift in policy as it relates to regulation is in the area of environment and climate. I think the Biden administration, Biden, has spoken to the intent to take more measures to protect the environment and re-engage with the global community around climate change and environmental policy, so I think that's really where we can anticipate change.

I think in many other areas, at least in the near term, I don't think regulatory change as it relates to business outside environment and climate is likely to see it be a priority in the first year or perhaps even two of the administration.

Sarah: Thanks for that summary, Kevin. Sabrina, can you talk a little bit about what you're seeing in the markets and how that relates to everything that Kevin was just describing?

Sabrina: Sure. You know, I would say one of the biggest, or most common questions that I get from clients is: gosh, there really seems to be a disconnect with the economy, what Kevin was just talking about, and what's going on in the markets. So, when clients, or folks, are walking around their neighborhood, they're seeing small businesses are closed, restaurants and bars are boarded up, and yet the route of the market continues to rally. So this is really the phenomena that can be described as maybe main street and wall street. The economy is really backward-looking; it's how did we get to where we are today. Whereas the market is forward-looking, what are we anticipating 9 to 12 months out? The market is a voting machine. So for every seller, there must be a buyer, and for every buyer, there must be a seller. As we see prices, at least in the short term, fluctuate, what we're seeing is, essentially, that investors are feeling more positive about where we will be 9 to 12 months from now than where we are today, same as the news that we were just talking about around potential vaccines for Covid. So really, the question becomes, okay then, how do we get from here to there and what will that bridge look like? What needs to happen so that the economy can kind of get back on its feet? If we recall earlier in the year, I think there were some real learnings from the '07 to '09 downturn, so the need to essentially act quickly, swiftly, and meaningfully. So earlier in the year, the Fed had stepped in as prices were declining within the market. The Fed stepped in and was very aggressive on lowering interest rates. So that benefits both individuals, private companies, and publicly traded companies within the market place having access to capital at lower interest rates. The Fed had also stepped in for bond buybacks. So, as there were liquidity concerns and making sure that the market was continuing to operate without liquidity issues so that as people went to go sell securities or sell bonds that they would be able to sell those at a fair price for what was happening within the marketplace. And for the first time ever, the Fed had committed to also doing a high-yield corporate buyback, so that was new this downturn.

The other piece was the government stepping in with a meaningful stimulus package earlier in the year. So unemployment, as Kevin mentioned, was at all-time highs. This included both the $1200 direct dollars in peoples' pockets for those that needed it, so under certain income brackets, as well as for those who are on unemployment an extra, up to an extra, $600 per week and there were also the PPP loans. I think the real question now is, what might be on the horizon between now and next year when we do really have a solid plan for Covid. Part of that is, is an additional stimulus package likely?

I would say before year-end, sort of two reasons that we might see something come about would be, one, the economy needs it, and two, Biden is in favor of it. Although, keep in mind that Congress passes that, not the President, for any stimulus measures. So, of course, the two factors that may prevent it, I know we'll get into more detail on this, are one the delta between what the Democrats and the Republicans are proposing, as well as having a potentially remaining split Congress. So in the meantime, you know the trends that we've seen obviously earlier in the year pretty much equities across the board.

We're in negative territory, double-digits down 20 to 30%. Since then, we've really seen with some of these actions that both the Fed and the government have taken the U.S. markets are leading the rally for the recovery. But more recently, just in the last couple of weeks, we've seen some nice appreciation within foreign markets and especially within emerging markets. The pieces of the portfolio that we're continuing to keep an eye on, especially, are in the real estate area. So this idea of, okay if offices/office space isn't being used in the same way, a lot of people are working from home, people aren't necessarily traveling and going to hotels, or retail in-person shopping malls, so these are all segments of the real estate allocation. Now keeping in mind, real estate was the best-performing asset class coming out of last year, that in the U.S. Markets, and this year they've seen the weakest recovery in that area, although, within our real estate allocation, now, we have roughly about a 1/3 in infrastructure. These are segments like cell phone towers, data centers, laboratories, so areas of the real estate market that will continue to produce returns during this period of time. We don't think real estate is going anywhere, but it is cyclical.

Sarah: That's helpful to hear, and what I'm hearing you say overall, Sabrina, is that the Fed actions in this downturn were significant, had a huge impact, the stimulus packages have been meaningful, and diversification is showing its colors again this year as it does it any given year with some asset classes performing very well and others not performing quite as well, and we'll talk more about opportunities as we talk further. Thank you for that. Zach, I would love to hear a little bit; we've heard this question from clients consistently, why was it that markets responded so positively during the week of the election?

Zach: Yeah, absolutely, and I'm going to go ahead and start back here with this slide and just kind of highlight this period right here, which really encompasses the election, the week before, the election, and the election itself. I think it goes back to markets don't like uncertainty, and leading up to the election, there was this idea that maybe it's going to be a contested election, we don't really know the outcome, we don't know how certain candidates are going to react to the outcome, etc. Then what we really started to see is, again, seeing through some of the noise of yes, there is a vaccine, but also we started to have a more clear outcome in terms of what the election is going to look like and who the winner was going to be. A lot of that election uncertainty subsided, and then, as I previously commented, again it was that split Congress.

I know that we had a question come through here in the Q & A asking about whether or not some of that volatility, whether or not the market rallying, was due in part to there being no clear sort of winner or no one kind of dominating either the administration, or in Congress, either Republican or Democrat. So having that split Congress might have tempered some of those policy expectations that were being priced into the market. I want to move on to these next couple of slides here as well because I think adding some historical context to how the market has moved regardless of who is President, and regardless of who is in Congress, who is in control of Congress, or whether or not it's a split Congress. I think the major takeaway that you could gather from this slide and the next slide is the market has rewarded investors over the long-term and disciplined investors over the long-term.

While the policy does have an impact on the market, and maybe the underlying corporations, the underlying economy, the market has been rather agnostic to who is in power and whether that's the President or looking at this next slide Congress, as well. So again, I think it's important to always fall back on that principle of being disciplined, being strategic in your thinking, and in your investing, and again, the market has rewarded those who have remained invested over the long term.

Sarah: It's reassuring to hear that Zach, just that regardless of who is President, who is controlling Congress, that markets have always found a way to be successful, to be effective, and to grow long term. Speaking of where we're headed going forward, let's talk about COVID. We know a vaccine is coming. We also know cases are going up significantly now. Kevin, tell us about what happens between now and when those vaccines actually arrive

Kevin: Well, I mean the recent surge, obviously, new lockdowns, and in many areas, mask mandates are happening. It seems reasonable to expect that even with the knowledge of a vaccine coming, given where we are today, given the surge in infections throughout much of the country, that those types of initiatives, specifically, the partial lockdowns in some areas of the economy, whether it's gyms, restaurants, etc., along with either encouragement or in some cases, a mandate that people wear masks and socially distance, those are likely to continue for the near term. The rollout of a vaccine is going to take time. There is a lot of encouraging trends, but that's still going to be the dynamic. It does not appear, thinking about at the national level, I think Biden has essentially come out to say that he does not envision any national lockdown. But may, in fact, advocate, recommend, or pursue, in some type, a mask mandate. As to the possibility of future stimulus, right now, with the split Congress that we have, what we don't know is the outcome of the Georgia elections, but what we do have today is a Republican Senate and a Democratic House, and that will remain so to the next year. Given that, and Sabrina touched on this, there is a chasm between what, as an example, Senate leader McConnell has spoken to versus the Democratic House, which passed a two trillion-dollar measure, McConnell is talking about 500 billion, so there is a huge disparity.

It's not clear whether action will be taken to implement a stimulus before the end of the year; obviously, there's a great need, and so that remains an uncertainty. The stimulus will undoubtedly be passed, what the specifics of that look like, and the timing of that still remains uncertain at this point. I commented on the Georgia Senate, as did Sabrina. Right now, if you look at Georgia's voting history, it would be likely that at least one, and perhaps both Georgia Senate seats, will go Republican. The election runoff occurs in January, so we won't know that answer before then, which is one of the things that may play out in terms of delaying a stimulus measure. But unless the Democrats sweep both seats, which at this point seems unlikely, barring that sweep, then the Senate will remain under the control of the Republican party. So, given that, relative to the House measure of 2 trillion dollars of stimulus, it is likely that the stimulus will be more muted than the House's original pass. We'll see where negotiations take place. Both McConnell and Pelosi will negotiate, and they're hard bargainers, so I think it's likely that there will be a great deal of hard bargaining ahead. Having Biden in the presidency will certainly influence that. He has a history of being able to reach across the aisle and successfully could lead to an agreement, so we can probably be somewhat optimistic in that regard.

So, having said that, we need to look at the Federal Reserve's willingness to continue to backstop the economy. There are limitations on what they can do, and I think one of the real benefits, or, if you will, one of the real keys to the recovery that we've had to this point has been the stimulus, and so there's going to be a good deal of pressure on Congress to enact something because there are inherent limits on what the Fed can do. That said, the Fed will continue to, as we discussed earlier, maintain its near zero-bound interest rate policy, along with providing easing in other areas, and Sabrina talked about the purchasing of corporate bonds as one of those key changes that the Fed will continue to pursue to support the economy as much as it can

Sarah: Sabrina, can you again tie in what Kevin is describing as happening out there with what you see happening in the future for markets

Sabrina: For me, I think the keyword for me really is "unknowns." There are still many unknowns. Some of these actions taken by the Fed and government are really propping up the market, so what's happening is that the market isn't necessarily able to move in what we would call a typical market cycle. So, what does that mean for us and portfolios? I think it really underscored the idea that you can't outguess the market, so we believe that markets are efficient and digest information in real-time, and so what that means for us is: continuing to stick with a disciplined approach, setting the targets in the asset classes that we want to be invested in, and with market exposure there and then consistently rebalancing. As Zach was describing earlier, this year, that meant selling bonds and buying stocks as the market was declining in value, so that we had more shares participating. More recently, what it's meant with the run-up in some of the areas that I was describing on the equity side, is selling off those particular asset classes and then reinvesting in asset classes, like real estate, that is undervalued at this time.

So, continuing to look for those opportunities as we move into the New Year. I'd say that the additional piece is making sure that in certain segments of the portfolio, that we're positioned in a way that helps us, regardless of what's going on in the overall environment, specifically, with lower interest rates within our bond allocation, we have domestic bonds, we have international bonds, we have treasury inflation-protected bonds, we have high-yield, and we have emerging market bonds—looking at how we diversify exposure to maximize the amount of interest and income that we're generating for clients in this bond segment of their portfolio. The other piece is the alternatives. We continue to like alternatives from an academic standpoint. We really think of alternatives in the portfolio, so we have traditional bonds and stocks, and this is the third bucket, really to help with downside protection. These are assets that don't necessarily move in tandem with stocks or bonds, so they're not moving in lockstep, they're not negatively correlated, but they have low or no correlation, which means that if stocks are moving in a downward direction, these assets can be producing returns during that time. They may be having positive returns while the market is up or negative, but what they're doing is providing a bit of a buffer. For example, there are a number of different strategies that we employ through the funds that we're holding in the alternative space, but one of the sectors or sleeves, if you will, is mergers and acquisitions.

So in a year where we've had really tough market conditions, one could ask, gosh, mergers and acquisitions haven't those kind of come to a grinding halt? Well, in reality, market conditions that are potentially adverse, it means that some companies aren't doing as well, and other companies that do have really strong balance sheets have an opportunity to step in and purchase those other companies. So that would be an example where merger acquisitions can come into play whether the overall market is up or down

Zach: Sabrina, you mentioned something there, and I kind of want a piggyback off of it; in terms of how we're positioning our portfolio, sometimes we get questions from clients regarding, okay, we know what's doing poorly or what's doing well in this market environment why aren't you tilting our portfolios or why aren't you doing an active overweight to XYZ industry, and one thing that really draws on for me is our multi-factor approach. We don't necessarily take an active overweight to specific sectors. Still, one thing that our momentum premium does in our portfolio is it looks at those things that are doing well relative to the rest of the market, or poorly relative to the rest of the market, and either overweights or underweights those sectors. So what we saw back in Spring, I'd mentioned that kind of oil sell often in the face of that demand shock, our portfolios sort of divested from energy or tilted away from the energy sector which is doing poorly. Then on the flip side of that, we were able to overweight things that we're doing well, like pharmaceuticals or some of those stay-at-home stocks in the technology sector. Another one of the factors that we have in our multi-factor approach is quality or profitability. You had mentioned those companies with stronger balance sheets might be doing better during this period. Well, that's what that factor looks at; those companies that have strong and consistent earnings as well as strong balance sheets. We're going to overweight those securities in our portfolio.

We might not be doing this by buying an ETF that's dedicated specifically to energy, but what we're doing, we're doing in a systematic way, utilizing different indicators and factors to help us tilt that direction. So again, it's more of a systematic process, and it kind of goes on behind the scenes as our fund managers are really in charge of that process, so it is happening in our portfolios, and there are tilts and overweights that we do and act, but it's done through that multi-factor approach.

Sarah: It's helpful to hear about those opportunities that are in the market, and we are taking advantage of them in portfolios too. Can we turn our attention to taxes? I'd love to hear some context from you, Zach, about what U.S. tax policy has been historically, before we look at what it might be going forward.

Zach: Yeah. Absolutely, and I have a couple of slides here that will help frame the historical tax rates. So, looking at some of these earlier periods, we got up to 94%; this was the highest individual tax rate in history. If we look down here in terms of capital gains taxes these are really enacted in the mid-30s, raise throughout more the war period as we're coming out of World War II to help with some of those government programs and the government spending that took place during that period. But even now, looking at this graph relative to history, we're in a relatively low tax environment.

So you have the highest individual tax rate sitting at 37%, the corporate tax rate obviously came down to 21% from 35%, and then the capital gains tax rate for individuals is 20% more recently. So relative to history, capital gains rates are relatively in line with the historical average. Corporate tax rates, obviously, there's a period really starting here in the '70s where there was kind of an increase in the corporate tax rate, but obviously, more recently, that has come back down. So again, I think it's important to look at history and use history as a guide to where we really sit in terms of tax rates. The same can be said too for the estate tax and the estate tax exemption, so looking back over history we really started to see an increase both in the exemption amount and a decrease in the rates. So really starting in the early 1970s and more and that basically, that trend continued through the recent period, so we're, really, again, from a historical standpoint low in terms of estate taxes on a percentage basis but then also relatively high in terms of what that threshold what that exemption amount actually is.

Sarah: So, Kevin, with the existing tax cuts and Jobs Act of 2017 currently in place, what can we expect to see on the tax front?

Kevin: Well, I mean, first off, as a starting point, it's important to remember that the provisions of the 2017 Tax Act, all sunset, at least on the personal side, and I will speak to that. The corporate side: is essentially, the tax changes that were enacted in 2017 on the corporate side are permanent, and there are a couple of provisions that sunset over the next few years, but those are relatively modest; the fundamental rates remain intact and not subject to change without some type of legislative action.

On the personal side, it's a different picture. All of the personal tax deductions and tax changes enacted in 2017 affected 2018 will, in fact, sunset. They will revert back to the 2017 levels beginning in 2025. 2026? Excuse me, 2026. I have to get my years straight on that one. So given this, there's nothing on the horizon and particularly with a split Congress. There's nothing on the horizon where we're likely to see meaningful changes in tax legislation in the near-term, and I would say that's a probability or a likelihood, certainly through to the midterm elections in 2022. There may be some provisions on the margin that are reviewed and subject to change, but basically, you know the personal tax rates, the changes in deductions, all of the changes that were initiated, along with changes in the estate tax exemption, those are all likely to continue certainly for the next couple years and then we will look at that what happens following the midterm elections. So, presuming a split Congress, it's probable the tax landscape is likely to continue as it currently exists into the next few years

Sarah: Might some of those sunset provisions, Kevin, work well for some of our clients, especially those in California?

Kevin: Without question, and in fact, that is an important point to bring up. If we look at the sunset provisions, one of the enacted changes was the significant change in what is deductible and, so, as a reminder, the terminology is state and local taxes or salt taxes, and that would be property tax and state income tax. In a state like California, what we see is that allowance, if you will, for salt tax deductions is $10,000. Unfortunately, for many California property owners, particularly those in the Bay Area, $10,000 doesn't even cover what you're paying in property tax, let alone what you may be subject to in income tax. So the effect of the changes was significant as it related to significantly reducing what California taxpayers, in particular those on the coast, on either coast, is where we saw the greatest change, but what they were able to deduct, that also changed what were allowed, personal exemptions went away. So those kinds of changes, if they impact sunset, and we revert back, actually, will probably have a beneficial effect for the highest-income taxpayers

Sarah: Okay, so it sounds like with a split Congress, it's unlikely that we'll see significant tax legislation or likely the sunsetting of existing provisions. Sabrina, can you speak to that the event of Democratic-controlled Congress, which is you know we see as being less likely

Sabrina: But if it did come into play, some of the tax proposals that Biden has put out there could be enacted. So some of those are around on the individual side, there's been a lot of talk about raising individual rates, especially for those households earning 400k combined and above so, that's really the top 20% of earners. Although, there could be some possible trade-offs, so the tax rates might be higher, but you could get some of those deductions back.

The other piece would be around capital gains. So for those earning a million and more, that could go to ordinary income rate; that would be a pretty significant increase. The other one is on the estate tax exemption amount. So Zach had shown the screen earlier, the chart earlier, right now we're at 11 million + per person, and that could revert as low as there's been talk around bringing that back down to 3.5 million. In 2026 it reverts to be 5 million which was the pre 17 2017 number plus inflation, so we know that we're going to there, but it could go as low as a three and half-million. Then I think it's the final one is around the corporate tax rate. A lot of talk around right now; the rate is at 21%, moving that back up to probably 28% and keeping in mind that it was at 35% previously. But the piece that is really interesting, I think, on the corporate tax side that we don't hear a lot about is that corporations, well we get the question around, gosh, if tax rates go up for corporations doesn't that mean that there could be a pullback in the market at least in short-term? I think that is exactly right. There will be a period of time where companies are digesting that information, but ultimately, publicly traded companies have to deliver shareholder value and be profitable. So what's one way that they can do that? They will manage their expense line items, and one of those is around wages. So what it could imply is, going forward, if corporate tax rates go up, that wages stay low, that we don't see that wage inflation pick up. We've been in this low-wage environment probably for the last, roughly ten years, and moving into 2020.

Unemployment had been low, there had been a lot of pent-up demand, so we were expecting wages to pick up this year, and they just haven't, so I think that is a factor that could be on the horizon as part of potential tax changes. So what does all of this mean? Even though these pieces are pretty unlikely that we will see any change moving into 2021, I think that the opportunities we're coming up here on year-end, within the next couple of weeks, for clients, they'll have a year to date gain-loss information posted into their portals and can access that along with tax projected dividends and distributions through year-end; so for any tax planning that needs to be done before year-end, which could be things like Roth conversions, donating in-kind stock, and taking advantage of any sort of items that may need to be addressed before year-end. Interestingly, before the election, we did see a number of clients with larger taxable estates, so again that's in that 22 million + range, looking to, potentially, accelerate gifts before the exemption amounts were lowered, but I think that we're seeing a bit of pumping of the brakes on that one and it's more of a wait-and-see. As long as you're not looking to make gifts above the, what could revert to 5 million + 5 years out, then gifts could be made moving into next year, but I think the important piece there is being in contact with your attorney and your Advisor to make sure are there any steps that need to be taken before year-end

Sarah: Great advice on what to think about and how to approach things before we get to December 31st. So that wraps up. We've covered 2020 and a brief history of where we have been. We've talked about where we're at currently in the markets, the economic, the political landscape, and also with regard to COVID, and we've also looked forward. What can we expect from markets? What can we expect from an income tax and estate tax perspective given some as-yet-to-be-determined issues around who is passing and making legislation?

I just want to thank you, Sabrina, Kevin, and Zach, for sharing your wisdom and insights today. It has been really helpful to hear your perspectives. For those in the audience, we hope you found this conversation valuable, and we hope you found it helpful. We are sending the questions you sent before today's webcast and also that you submitted on Q&A to your advisors directly. We also encourage you to connect with your Advisor with any follow-up questions that might be on your mind too. We've recorded this session, and we will make it available to you, and as you look forward to spending time with your friends and family next week, even if that's virtually, know that we're here for you, we're here for the people you love too. We have found that many folks are looking for someone to talk with about their finances right now and we're happy to be a resource for them. So thank you for joining us, and Happy Thanksgiving.