



NEWS

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Third Quarter 2020

ADAPTING TO CHANGE AS LIFE GOES ON

Adaptation is changing to be better suited to your environment. As we navigate a global pandemic, we've had to adapt in multiple ways to carry on with work, school and life.

The Trust Company of Tennessee team continues to impress me with creative ways to serve our clients, serve our community and help each other – even when we're working apart. We've been able to see success as we conduct business in a much different way than just a few months ago.

Having guiding principles, knowing the values that we stand on, having great people and clients to serve – those things haven't changed. A strong foundation keeps us connected and together.

As a personal example, our family recently celebrated my son's wedding. Nuptials originally planned in April had to be postponed to July. Distancing practices, venues, caterers – everything – had to be rescheduled and reimagined. Yet on that happy day, life moved forward. Our family grew and, although different than originally expected, it remained a life-affirming event.



Daniel K. Carter
President

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STAY DISCIPLINED AND DIVERSIFIED: Q2 IN REVIEW

While the COVID-19 pandemic marches on, so do the ups and downs in the market. Breaking down some of the events that happened in the second quarter of 2020 (Q2) reconfirms our guidance during this unusual time: Stay disciplined with a long-term mindset and keep your portfolio diversified.

Markets rallied in Q2 almost as fast as they declined in the first quarter. Economic data was considerably weak, yet asset prices continued to climb. Worldwide, policymakers implemented support measures to bridge the gap for businesses and individuals most impacted by the shutdown of economic activity. Opportunities arose in international markets since countries have been impacted differently. These circumstances underscore the importance of investing in a diversified



Miranda Carr, CFA®
Chief Investment Officer

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In our communities



The Trust Company of Tennessee earns 2020 Top Workplace recognition



To provide excellent client experiences, we first must provide our team members the tools and support that they need to thrive. The Trust Company of Tennessee is honored to again be named a Top Workplace by the Knoxville News Sentinel.

This distinction is based solely on anonymous surveys about the workplace

that measures 15 drivers of organizational success completed by our team members. We've been named a Top Workplace by the program since 2017.

We're grateful for the support of our team members who are the key to our continued success.

Allison Kidd Cross is a Game ChangeHer

Allison Kidd Cross, a relationship manager in our Chattanooga office, recently graduated in the inaugural class of Game ChangeHer, Chattanooga Women's Leadership Institute's (CWLI) mentoring program with the Chattanooga Girls



Leadership Academy.

The 16-session series included a personal and professional development curriculum that strengthens the skills and abilities of women and provides them with tools to serve as effective mentors and leaders in the Greater Chattanooga community. We congratulate Allison and the entire Game ChangeHer class and look forward to the impact they will continue to have in our community.

There's no place like home

Zoo Knoxville's top fundraising event, Zoofari, moved to a virtual format this year and encouraged smaller remote viewing parties. The Trust Company of Tennessee was a co-presenting sponsor of the event, along with Boyd's Jig & Reel. CEO and Founder Sharon Pryse and President Daniel Carter held watch parties at their homes. Attendees could view the program, bid in an online auction and see what was happening at other watch parties thanks to some production savvy.

The theme, Journey to Oz, reminded us that in a pandemic, there's "no place like home." The event had more bidders in the auction than ever before and raised more critical funds for Zoo Knoxville than previous Zoofari events. We are glad to support this great community gem.



Zoofari viewing parties at the homes of Daniel and Diane Carter (above) and of Sharon and Joe Pryse.

Two team members elected to national financial technology advisory board

It is important to us that we utilize our time and expertise both in the community and within our industry. Two of our team members were recently elected to board positions with industry nonprofit InnoTrust Users Group.

Neil Patel, vice president of information technology, will serve as product development chair, and Libby Gourley, business analyst, is a board member at large. Gourley is a past president of the group.

Founded in 2004, InnoTrust Users Group is an independent nonprofit composed of clients of financial accounting solutions provider Innovest Systems, developer of InnoTrust, a software



solution used by trust companies, private banks, retirement plan administrators and other financial services companies. The group shares information and lends direction regarding future development of InnoTrust software.

We appreciate Neil and Libby taking active roles and advocating for our team and clients by helping to shape future tools that provide excellent client experience.

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It struck me that it parallels our business mission of helping clients make better decisions with money. Despite the circumstances, we adapt, carry on, and thankfully, normalcy and solutions can still be found.

Our experts have contributed some great content for this newsletter that I hope paints a clearer picture and provides answers to some questions you may have. Of course, we're here to serve you. Feel free to reach out to me at dcarter@thetrust.com with questions or concerns.



Courtney, Callie, Chase, Diane, Daniel and Catherine Carter.

OUR GROWING TEAM



KEVIN S. FILLERS Relationship Manager, Knoxville

Kevin works with clients and their families to create and realize their visions for retirement.



ALEX BUTLER Systems Analyst, Knoxville

Alex implements efficient business solutions utilizing technology to support our team and clients.

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portfolio for the long haul. We encourage our clients to ignore the short-term noise and stay disciplined to the long-term investment strategy that meets individual goals.

Divergence: Unemployment versus market

Unemployment hit some of the worst levels ever recorded in Q2, yet equity markets and other assets rallied. Why?

Part of the reason is because sectors that are most impacted by the virus are not well represented in the S&P 500. Hair salons, local restaurants and small businesses hard hit by the pandemic make up about 19 percent of GDP but just 7 percent of operating earnings of the S&P 500. In fact, the performance of the S&P 500 has been dominated by big tech names that have weathered the crisis well.

Additionally, the amount of fiscal aid and monetary stimulus available has increased both household incomes and the savings rate in the U.S. More stimulus is expected as we weather the deepest downturn since the Great Depression, softening the blow to the population.

Business cycle at home and abroad

In June, the National Bureau of Economic Research announced that the U.S. entered a recession in February. By the end of July, however, most economists believed the recession was over, giving way to new expansion. While we may see the technical end of the recession in Q3, we expect it to take a while to regain the level of economic output and employment we saw at the end of last year. We expect the Federal Reserve will remain accommodative since part of its dual mandate is full employment, which will likely take years to resume.

Looking abroad, we see countries that have taken different approaches to managing the pandemic reopening their economies. In East Asia, many economies are open, and companies doing business there have seen a rebound in profits. In Europe, countries in the north have agreed to a relief package for other countries hit hardest

by the pandemic, creating optimism around a more fiscally unified bloc. As we grapple with long-term issues domestically, we believe it is as important as ever to stay diversified and benefit from the differences in policies and growth rates around the world.

Disciplined investing

If the last few months have taught us anything in investing, it's that markets are volatile and trying to time the market to avoid big dips and still benefit from the upturn is not a sound strategy. In March, at the darkest height of uncertainty, the idea of markets rallying by the end of July seemed highly improbable. Volatility can be caused by several factors, including overreaction by investors focusing on the current situation; optimism about the future; and other dynamics such as activity by central banks.

We expect the market to continue to rise and wane as we balance headlines about a vaccine to prevent COVID-19 with rising rates of infection. Catalysts for inflection points are only visible in hindsight, so we continue to encourage clients to remain disciplined to their investment strategy.

If you would like to explore how your investment portfolio lines up with your personal long-term plans, please reach out to your relationship manager at The Trust Company of Tennessee.

WHERE DO WE STAND?



Economic Growth

In June, the National Bureau of Economic Research announced that the U.S. economy had entered a recession in February as economic activity came to a halt due to lockdowns and social distancing measures imposed because of the pandemic. Economists expect economic growth for the second quarter to be deeply negative and then to rebound in the second half of the year.



Monetary Policy

Since the COVID-19 crisis emerged, the Federal Reserve has fired cannon after cannon and has truly become the mass buyer of last resort in an unprecedented manner. The Fed has provided liquidity to keep the financial system operating and help bridge the gap for companies struggling with falling revenues.



Fiscal

Trillions of dollars of spending already has been approved and more is expected to help mitigate the effects of the downturn. Furthermore, trillions in lost tax receipts to the Treasury will be lost. We believe we will have massive budget deficits not seen since perhaps World War II, and this crisis will alter the path of debts and deficits for decades.



Inflation

Near-term, demand destruction and massive unemployment increases will keep inflation modest. However, necessary fiscal and monetary policy enacted to combat COVID-19 may be planting the seed for higher future inflation levels.



Currency

Given the extreme uncertainty, it is likely the U.S. dollar will continue to serve as a global safe haven. We may still see a weaker dollar environment as the United States struggles to curb the pandemic, more so than other countries around the globe.

SAVING TOOLS FOR EDUCATION

As education costs increase, understanding what investment vehicles are available and what to consider when saving for college is something you should prioritize. Bank savings is important for many reasons but putting back a little extra each month may not provide enough growth for a college education. Fortunately, there are multiple ways to save for college and even K-12 expenses.



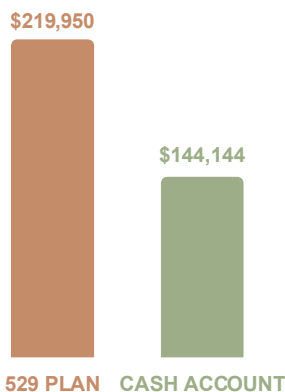
Kelci Slagle, CFP
Wealth Specialist

Consider the following when choosing investments:

- **Taxes** – determine if there are any tax consequences now or at the time of distribution.
- **Contribution limits** – there may be yearly contribution limits associated with some investments.
- **Financial aid eligibility** – understanding the Expected Family Contribution (EFC) formula is key. You can learn more about it and find worksheets at studentaid.gov. Child-owned assets or income are considered at a much higher rate than parent-owned assets and income.
- **Income phaseouts** – some savings vehicles are only available within certain income limits.

DON'T JUST SAVE, INVEST

Growth over 18 years ¹



1. J.P. Morgan Asset Management. Illustration assumes an initial \$10,000 contribution and monthly contributions of \$500 for 18 years. Chart also assumes an annual investment return of 6% and an annual cash return of 2%, both compounded monthly. Investment losses could affect the relative tax-deferred investing advantage. This hypothetical illustration is not indicative of any specific investment and does not reflect the impact of fees or expenses. Each investor should consider his or her current and anticipated investment horizon and income tax bracket when making an investment decision, as the illustration may not reflect these factors. These figures do not reflect any management fees or expenses that would be paid by a 529 plan participant. Such costs would lower performance. This chart is shown for illustrative purposes only. Past performance is no guarantee of future results.

Popular investment vehicles for college expenses:

529 plan

These are the most popular tool for education planning, providing tax-free growth if used for qualified education expenses, including K-12 tuition. With no contribution limits and no income phaseouts, saving to a 529 account is available to everyone. Additionally, 529 plans are usually owned by a parent, which means they have a low impact on the EFC formula.

Coverdell ESA

Coverdell accounts provide tax-free growth for qualified expenses and have a more liberal definition for qualified education expenses than 529 plans. However, these plans have a \$2,000 annual contribution limit that must be made before the recipient turns 18 years old, and there are income phaseouts for contributors.

UTMA/UGMA (Uniform Transfer to Minors Act/Uniform Gifts to Minors Act)

While a UTMA or UGMA is not generally thought of as an education savings tool, they still can be used for college or private school tuition. These are investment accounts, so the recipients gain full control at the age of majority, generally 21 in Tennessee for a UTMA or up to age 25 if the transferor chooses. Depending on the size of the account, this could have a significant impact on your child's EFC as it is considered your child's asset and income received is your child's. That also means there could be tax implications now for this investment, as it is subject to kiddie tax.

Roth IRA

Roth IRAs are becoming a popular way to save for college because they provide parents with flexibility. They're generally attractive to parents that do not want to invest in a traditional education vehicle in case their child takes a different path. Typically, distributions taken before age 59½ would be subject to tax penalties, but an exception exists for qualified education expenses. Since this is a retirement asset and generally owned by a parent, Roth IRA savings have a very low impact on your child's EFC.

To learn more about education savings options for your family, contact one of our relationship managers.

Tastes of the season:

WATERMELON SALAD

Packed with water and electrolytes, watermelon is the perfect treat in warm weather. This is a great side dish for barbecue — and for midnight snacks, too!

Ingredients

- 7 cups cubed watermelon
- 1 Vidalia or red onion quartered and thinly sliced
- ¼ cup red wine vinegar
- Salt and pepper
- ½ cup extra-virgin olive oil
- 2 tablespoons chopped fresh mint (or basil)
- 4-8 ounces crumbled feta cheese



Instructions

Make the dressing by mixing the vinegar, salt and pepper in a medium bowl, then slowly whisking in the olive oil.

In a large bowl, mix the melon, onion, mint (or basil) and feta. Pour the dressing over and gently toss until combined.

If you're making it in advance, put the feta in a zip top bag, then mix it in just before serving.