EQUITABLE Trust

Trustees and Investment Advisors

THIS ISSUE

MARKETS RIDING A WAVE OF STIMULUS

2020 continued to be one of the most unpredictable years in memory as U.S. stocks mounted the strongest two-quarter rally since 2009. Markets rose to new all-time highs in the third quarter despite a resurgence in coronavirus cases. Stocks rallied thanks to a combination of even more accommodative Fed policy, hopes for a COVID-19 vaccine and a stronger-than-expected economic rebound. The S&P 500 ended September down modestly from its mid-month peak (see chart below).

S&P 500

Source: Strategas

As in the previous two quarters, the tech-heavy Nasdaq outperformed the other major indices. Those gains were once again driven by the performance of some of the largest, most well-known tech companies in the world, as they are viewed as the longer-term beneficiaries of changing personal and professional behavior in response to the pandemic. Stocks such as Apple (AAPL), Amazon (AMZN), Alphabet (GOOGL) and Netflix (NFLX) helped send the Nasdaq to new all-time highs in July, August and early September.

Large cap stocks outperformed small cap stocks, a reversal from the second quarter. The large companies outperformed primarily because doubts remain about how quickly the U.S. economy will return to pre-COVID 19 levels, especially with the expiration of economic stimulus in late July. Since small caps are historically more sensitive to changes in broad economic growth, that uncertainty weighed on small cap indices, although they still finished with a positive return for the quarter. Growth outperformed value plays, once again, because of strength in large cap tech.

International markets rallied in the third quarter as European and Asian economies continued to re-open. But many foreign developed markets closed well off the highs of the quarter as coronavirus cases spiked in parts of Europe, particularly in

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"In the old legend the wise men finally boiled down the history of mortal affairs into a single phrase: 'This too will pass.'"

– Benjamin Graham

MARKETS RIDING A WAVE ... *(continued)*

Great Britain. Emerging markets outperformed developed markets thanks to a continued decline in the U.S. dollar paired with strength in Asian markets, as the coronavirus outbreak remains broadly contained in that region of the world.

Commodities also moved higher in the third quarter thanks to a declining U.S. dollar, combined with cautious optimism for an eventual global economic rebound. Oil prices were volatile in the third quarter but still finished with a positive return as OPEC maintained discipline on supply cuts, which helped offset concerns about global oil demand expectations. Gold, meanwhile, added to the gains of the second quarter thanks to the continued weakness in the U.S. dollar, still-recovering inflation expectations and steady bond yields amid the historic global central bank stimulus.

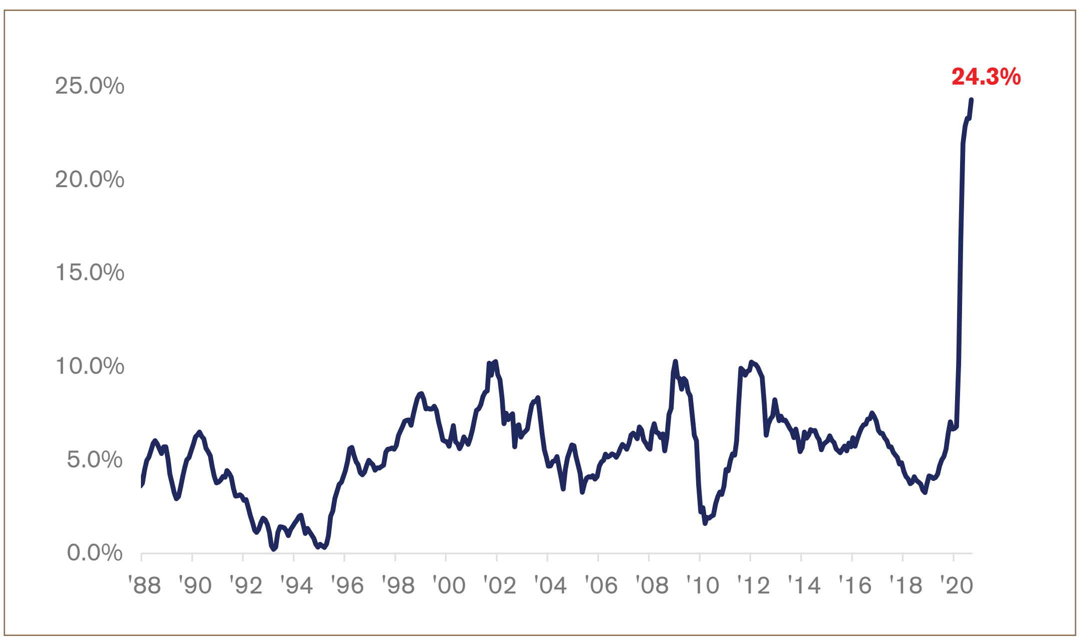
The total return for most bond classes was again positive in the third quarter, as bonds now have realized a positive return for each quarter so far this year. The leading benchmark for bonds, the Bloomberg Barclays US Aggregate Bond Index, saw slightly positive returns in the third quarter, marking the eighth consecutive quarterly gain.

When we published our last letter in July, continuing unemployment claims were around 17 million. They are just under 11 million now and falling. The sheer magnitude and speed of the fiscal and monetary response from the Federal government, far exceeding the effort during the Great Financial Crisis, has gone a long way to help the economy recover (see chart below). However, an increasing number of layoff announcements, along with a rapid decline in the savings rate, suggest that more fiscal aid will be needed before too long to maintain economic momentum.

The resiliency of the U.S. economy and markets is both admirable and encouraging, as the economic and market recovery from the worst pandemic in 100 years has been nothing short of extraordinary. However, our experience has taught us not to be complacent simply because the market has been resilient. So, while we have all welcomed the strong market rebound in Q2 and Q3, the fact remains that a lot of important unknowns will be resolved in Q4, and because of that, there is the possibility for more market volatility during the final three months of 2020.

While short-term volatility might reappear between now and year-end, the markets this year have once again demonstrated that a long-term approach combined with a well-designed and well-executed investment strategy can overcome periods of elevated volatility, market corrections, bear markets and even global pandemics.

U.S. Federal Reserve M2 Money Supply
(SA Y/Y Pct. Chg.)



Source: Strategas

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Market Diary Period Ending September 30, 2020

RATES OF RETURN

FIXED INCOME	Last 3 Mo.	YTD	1 year	3 years	5 years	10 years
90 Day U.S. Treasury Bills	0.03	0.32	0.71	1.54	1.12	0.58
Barclays Aggregate	0.62	6.79	6.96	5.25	4.18	3.64
Barclays Municipals	1.08	3.22	4.09	3.41	2.92	2.96
Barclays High Yield	4.60	0.62	3.24	4.21	6.80	6.48
EQUITIES	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**	**10 years**
Global Stock Market (MSCI All Country World)	8.13	1.37	10.40	7.13	10.31	8.56
U.S. Stock Market (S&P 500)	8.93	5.57	15.08	12.30	14.16	13.75
U.S. Mid-Cap Stocks (S&P 400)	4.77	-8.62	-2.15	2.90	8.11	10.50
U.S. Small-Cap Stocks (S&P 600)	3.17	-15.25	-8.26	-0.33	7.20	10.58
International Stocks (MSCI AC World ex US)	6.25	-5.44	2.99	1.16	6.24	4.01
ALTERNATIVES	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**	**10 years**
Hedge Funds (Wilshire Liquid Alternatives)	2.32	-1.15	0.36	0.82	1.44	1.58
Commodities (Bloomberg Commodity)	9.04	-12.41	-8.87	-5.70	-4.21	-6.61
Gold (S&P GSCI Gold Total Return)	3.63	21.38	25.32	12.38	9.97	2.92

Rates of Return for periods longer than 12 months are annualized. Data is provided by Black Diamond.

2020 VISION: MAPPING OUT OPTIMAL TAX AND ESTATE PLANNING STRATEGIES BEFORE YEAR-END

With an ongoing global pandemic, cataclysmic weather events, civil unrest, the death of Supreme Court Justice Ruth Bader Ginsburg and President's Trump's recent positive COVID diagnosis, the 2020 hits seem to keep on coming. In a recent piece for the New York Times, Matt Flegenheimer aptly summarizes the scene: "the iron rule of 2020 seems to be that every Chekhovian gun will be fired – and then a few more, scattershot into the night."

Many continue to wait impatiently for the remaining days of the year to pass quickly, eager for a fresh start – and a resumption of normalcy – in 2021.

But before the curtain drops on 2020, there are still important matters at hand: we are urging all of our clients to take a detailed look at their estate and financial planning. The current pandemic-based recession has created an advantageous planning environment. Interest rates remain historically low. And while major market indices have appreciated significantly off March lows, many businesses and select sectors of the market remain adversely affected by the pandemic. Some temporarily depressed assets may present attractive transfer opportunities under the right circumstances. Given low tax rates by historical standards, and a consequential election year, the waning months of 2020 are ripe for action.

Despite former Vice President Biden's current lead in the polls, recent electoral history tells us that anything can happen. Polls and predictions are instructional, but certainly not determinative. In addition, control of the Senate will dictate the effectiveness of implementing a Democratic policy agenda. Regardless, it is important to consider the effect a Biden presidency could have on the current tax environment. Vice President Biden's campaign has released a tax plan that proposes restoring the highest marginal tax rate to 39.6% (including taxing long-term capital gains at this rate for high earners), raising the corporate income tax rate to 28%, and eliminating the capital gain cost basis fair market value "step-up" that occurs under current law at an owner's death.

While gift and estate taxes are not expressly addressed as part of the Biden tax plan, reviewing other policy documents endorsed by the Biden campaign may be illustrative. The current estate and gift tax exemption of $11.58 million, which is set to sunset to around $6 million in 2026, could be reduced much sooner, and other popular estate planning techniques could also be significantly curtailed.

So what to do now? One thing is certain: we do NOT advise impulsive, knee-jerk reactions based on economic and electoral speculation. However, it is never a bad idea to have a conversation and map out a plan with your advisors.

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Along these lines, there are some broad recommendations that we would make to our clients:

1. **Review estate plans.** COVID has led many of us to consider our mortality. Are your documents up to date? Do your assets pass at your death as you intended? Who is named to manage your affairs after you are gone? Does that individual know where your important documents are kept?

2. **Draft trusts.** For those considering significant lifetime gifts, consider drafting trusts as soon as possible. Even if never funded, it can take time to finalize these documents, so getting a head start is important. Gift tax exemption can be allocated to pass assets in trust to spouses, children, grandchildren or even, in certain very specific circumstances, to oneself. GST exemption can be utilized to allow these trusts to pass tax-free for multiple generations. The administrative and dispositive terms of trusts are often overshadowed by tax planning, but should be reviewed closely. GRATs and CLATs remain effective, and may provide additional gifting leverage.

3. **Plan for funding.** While trusts do not have to be funded immediately, consider an optimal funding plan. Temporarily depressed assets should be considered. Shares of closely-held or private companies may gain further leverage by the use of minority-interest discounts. Funding may be structured initially as a loan to a trust, which may be forgiven as a gift (or repaid) depending on changing circumstances.

4. **Consider a Roth conversion.** For income tax planning, clients should analyze the cost of a Roth IRA conversion for any traditional tax-deductible IRA accounts. If tax rates eventually increase, a Roth conversion, which requires paying a tax bill on the IRA now so distributions come out tax free later, may be a good long-term play. For those that are charitably inclined, the tax bill in the year of a conversion may be mitigated by accelerating planned gifts or bunching a series of annual charitable contributions in a donor advised fund.

While the results of the election should provide some clarity on the path forward, we urge a conversation sooner rather than later. A well-crafted financial plan should eliminate at least one item of worry as we move into what we all hope is a relatively uneventful 2021.

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