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INVESTMENT PERSPECTIVES

>> FIRST QUARTER 2020

Are your retirement and estate plans SECURE? New law brings important changes

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In the final days of 2019, Congress passed the Setting Every Community Up for Retirement Enhancement (SECURE) Act. The law made changes to retirement account rules and tax-favored retirement savings for many taxpayers and business owners.

One of the most significant changes is the elimination of the Stretch IRA rule for most non-spouse beneficiaries of IRAs and defined contribution plans. A new 10-year rule replaced this powerful estate planning technique of transferring tax-favored assets to heirs. A retirement account inherited after January 1, 2020, must now be liquidated by the end of the 10th year following the year of death; the rule doesn't apply to the IRA owner's spouse, minor children (until they reach the age of majority), beneficiary who is disabled or chronically ill, or any designated beneficiary who is not more than 10 years younger than the original IRA account owner.

Further, under the new law, the required minimum distribution (RMD) age increased from age 70½ to age 72. For anyone turning age 70½ in 2020 or later, their first RMD will begin in the year in which they turn age 72. Taxpayers will still have the ability to defer their first RMD until April 1 of the year following the year they turn 72; however, they will be required to take two RMDs that year. This age increase won't affect the Qualified Charitable Distribution (QCD) from an IRA. If the individual is at least 70½, the QCD allows up to $100,000 tax-free distribution to qualified charities without including it in the taxpayers' gross income.

For those who are still employed, the Act eliminated the age limit requirement for making contributions to a traditional IRA, as long as the taxpayers have earned income.

To encourage business owners to offer retirement plans to their employees, the SECURE Act created many incentives for establishing employer-sponsored retirement plans, adopting auto-enrollment in the plan, and other provisions to increase employees' participation.

The passage of the SECURE Act is raising numerous retirement, tax, and estate planning questions. To comprehend how these new rules affect your unique situation, please reach out to your Eastern Bank Wealth Management Relationship Manager or your tax advisor.

>> PERSPECTIVES ON THE ECONOMY

Don't expect a rebound in capital goods purchases

By Michael A. Tyler, CFA
Chief Investment Officer,
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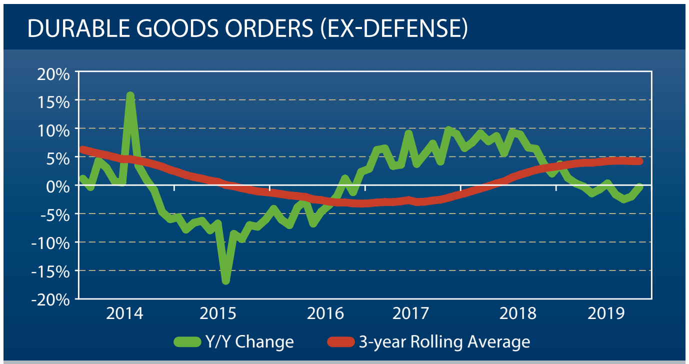
The remarkably durable economic expansion of the past decade has relied primarily on tech companies and consumers for fuel; the manufacturing sector has lately been under pressure, hampered by a strong dollar and especially by weak demand.

Durable goods orders by American firms plunged in 2014-15 due to the collapse in oil prices, but they staged a prolonged recovery through the latter years of the Obama presidency and in the first two years of the Trump presidency as well (spurred by the Tax Cuts and Jobs Act). But as fiscal stimulus diminished in 2019, durable goods spending fell again.

The falloff in spending isn't just a function of tax law, however. Equally important has been a shift in what it is that American companies need to buy. They don't need as much steel and machinery today; their products depend more on software and process knowledge. Technology long ago eclipsed steel as the largest cost component in a new automobile, for example.

The British quartet Traffic once sang, *Dear Mr. Fantasy, play us a tune. / Something to make us all happy. / Do anything, take us out of this gloom. / Sing a song, play guitar, make it snappy.* For capital goods suppliers, to expect a sudden rebound is indeed fantasy: American industry is less capital-intensive than it used to be, so the current "gloom" in durable goods orders may be with us for a long time. Perhaps spending will recover after the next recession (whenever that might occur), but until then the U.S. economy will continue to rely more on consumers and technology for its sources of growth.



Two years after the new tax law, capital goods purchases have slowed again.

Source: Census Bureau

>> FOCUS ON EQUITIES

U.S. equities have a tough act to follow

By Timothy Garvey, CFA
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Last year the longest-running bull market in history turned 10 years old and stocks gained over 30% including dividends — not bad for a late-cycle economy. Equity returns were broad-based, as every sector besides energy gained over 18%. In short, everything worked. (To be fair, the year began at the bottom of the market's late 2018 nosedive; taking the two years together, stocks averaged just over 12% per annum — still slightly better than their long-term average.)

However, the big gains in 2019 came almost entirely from price/earnings (P/E) multiple expansion, not earnings growth; investors paid higher prices but didn't get higher earnings. Can equity markets continue this torrid pace in 2020? A compelling case can be made both for and against another strong year for the stock market.

For — Most market analysts expect a return to earnings growth, driven by steady consumer demand. Borrowing costs have come down, jobs growth remains robust, and personal income and personal spending are tracking quite well. If consumer demand remains resilient, we should see a return to earnings growth. We believe the probability of this scenario is relatively high: The U.S. consumer has been the driving force for the economy for the last several years, and economic data, particularly in housing, has rebounded in response to lower interest rates. Because stock market prices are elevated already, we think rising earnings may be partially offset by lower P/E multiples, resulting in equity returns that will likely be considerably more subdued than last year.

Against — With the S&P 500 starting 2020 trading at 19 times year-ahead earnings, valuations were expensive at the outset; investors had little cushion if corporate earnings were to falter. In addition, business investment has been soft, and geopolitical tensions have risen recently. Uncertainty from slowing global demand and from political issues does present a potentially detrimental impediment for the stock market this year. If these issues intensify, we could see a substantial downward move in the markets. We believe this scenario is less likely to occur.

Given this market environment, we are neutrally positioned with our equity allocation — neither bullish nor bearish. The drivers of long-term performance remain intact, but we are cognizant of the short-term risks in the market.

>> FOCUS ON FIXED INCOME

Corporate credit doesn't offer much value

By Tom Bussone
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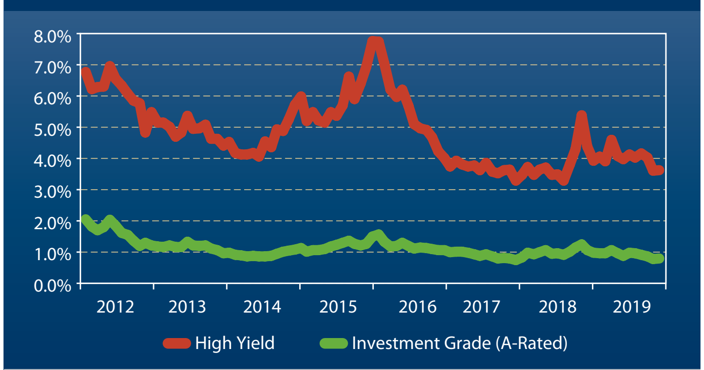
Money flowed into debt markets last year, sending yields lower. In September, the 10-year Treasury yield almost touched its all-time closing low of 1.36% set back in 2016, before ending the year at 1.92%. As investors searched for yield, credit spreads (the difference in yield an investor receives for a corporate credit over a U.S. Treasury instrument with a similar maturity) collapsed from 147 basis points to just under 100.

Narrow credit spreads mean that investment grade and high-yield corporate debt don't look attractive versus other sectors of the fixed income markets. Even if spreads continue to shrink, it's unlikely that such a move would be significant, limiting the upside in owning credit. Investors aren't being fairly compensated for taking on credit risk, so our client portfolios lean away from risk; we are underweight in corporate debt and overweight in both U.S. Treasuries and mortgaged-back securities (MBS).

Investment-grade corporate spreads over MBS are at their tightest in at least a decade. We have selected a SPDR ETF that purchases securities issued by government-sponsored enterprises; Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC). The quality breakdown is rated AAA.

The duration of our portfolios remains in-line with our respective benchmarks at about 4.0 years. We don't expect a large swing in rates, as the Federal Reserve has indicated that it will likely keep key interest rates unchanged this year.

CREDIT SPREADS OVER TREASURY YIELDS



High-yield and investment-grade credit spreads over Treasury yields have compressed.

Source: FactSet