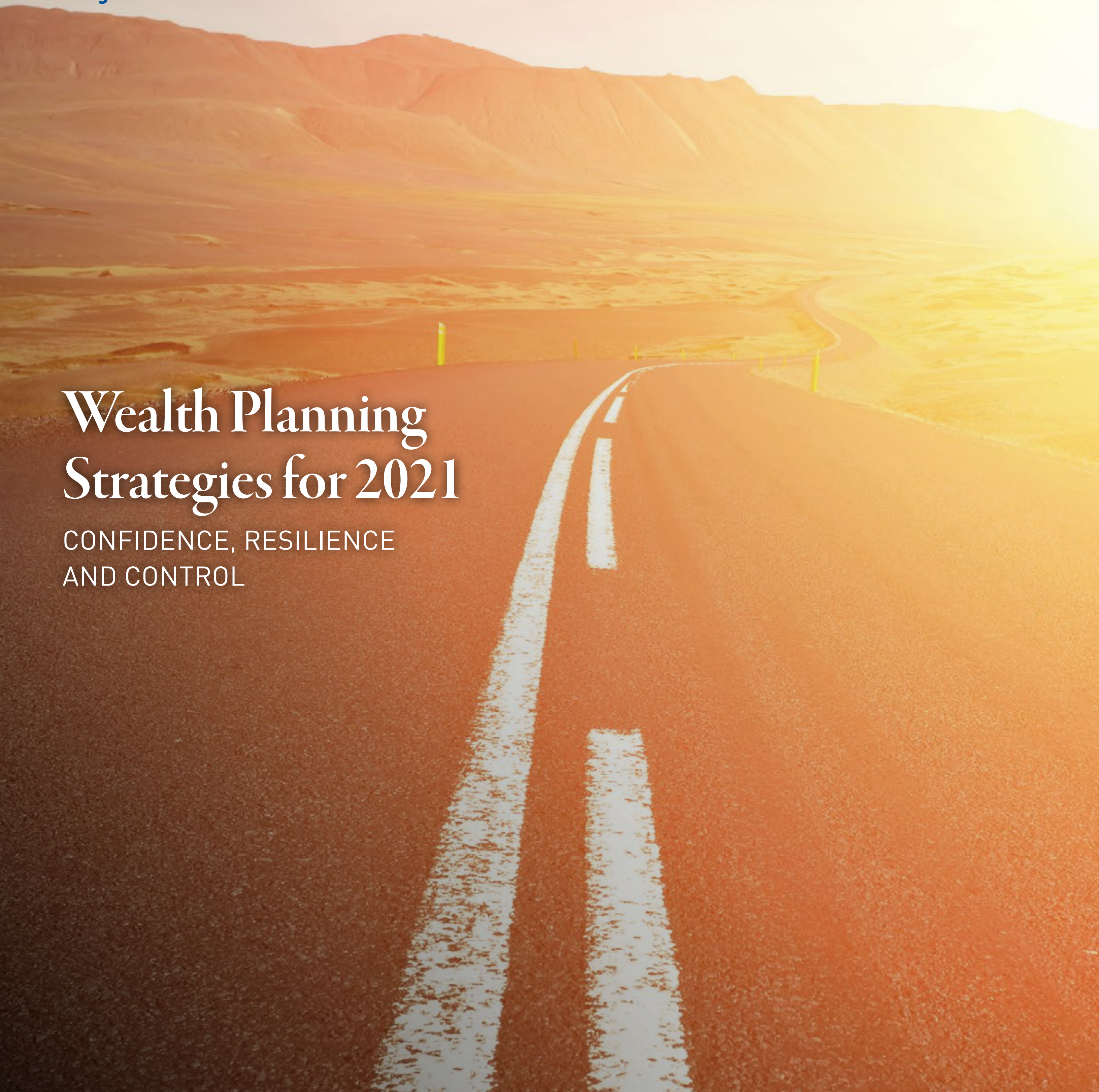
BAIRD

Private Wealth Management

DIGEST

NEWS AND PERSPECTIVE FOR GROWING AND PRESERVING YOUR WEALTH

WINTER 2021



Wealth Planning Strategies for 2021

CONFIDENCE, RESILIENCE AND CONTROL

Letter From Mike Schroeder

A year ago, none of us had heard the phrase "social distancing," but now it's become a normal part of our lives.

For those of us who pride ourselves on personal service, social distancing has forced us to be creative in the ways we interact with our clients.

Baird's Financial Advisors have been more than up to the task. Through the use of careful safety procedures, video conferences, and a commitment to staying in touch, we've been able to maintain the personal touch that Baird's PWM clients have come to appreciate. Anything we can do to keep the dialogue flowing is beneficial for both of us.

Now we're taking this even further. The cover story for this issue of *Digest* was derived from retirement questions that clients have been asking us in the tumult of the recent months. If there are questions you'd like to see Baird's wealth management experts answer, post them on Twitter with the hashtag #BairdDigest. We'll try to answer your questions here in *Digest* or at bairdwealth.com.

For the past century, Baird has remained strong for our clients by keeping their interests first – always. The current environment has made it important for us to reinforce that commitment to you, no matter how socially distanced we are.

MIKE SCHROEDER
PRESIDENT
PRIVATE WEALTH MANAGEMENT

IN THIS ISSUE...

Want More?

Additional information is available at **bairddigest.com**, or contact a Baird Financial Advisor at **800-79-BAIRD**.

Market Mailbag

YOU'VE ASKED, WE'VE ANSWERED. BAIRD'S MARKET EXPERTS WEIGH IN ON CLIENTS' QUESTIONS.

New message

To: Baird

Subject: Stimulus

Do you expect runaway inflation due to government stimulus?

Probably not near-term. The Fed's own research has found fiscal spending has little effect on inflation,[1] and though prices may spike when pent-up demand is unleashed post-vaccine, short-term price volatility isn't inflation. Rather, inflation occurs when prices on the whole basket of goods and services are perpetually rising. One-time cash injections (e.g., stimulus checks) aren't likely to create an inflationary trend.

And while aggressive monetary easing needs an exit strategy at some point, that's likely years away given the economic damage done. This is particularly true in labor markets, where high unemployment should limit wage hikes that can lead to price inflation. Structural factors like technology / productivity improvements, aging demographics and globalization can also rein in inflation.

Ross Mayfield
Investment Strategy Analyst

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New message

To: Baird

Subject: 2020 Economy

Why didn't financial professionals predict the 2020 economic upheaval?

If there's one thing I want you to remember about investing, it's this: The only certainty you'll have is uncertainty. If someone tells you they can predict the future, you should run away, quickly.

No, no one predicted what would happen to the stock market in 2020, just like they didn't predict previous selloffs. Are there people who claim the market is about to sell off and then declare they were "right" when it does? Sure – but that's called a guess, and they are wrong 99% of the time.

Let me tell you a secret: You don't have to know the future to be a good investor. You just have to wield your most powerful advantage – patience. Your edge is surviving the unpredictable scary moments so you can grow your wealth over the long run.

Mike Antonelli
Market Strategist

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For more responses to actual client questions, check out our mailbag features on bairdwealth.com/insights.

[1]Federal Reserve Bank of St. Louis: How Does Government Spending Affect Inflation?

Women at Baird

OUR STORY IS YOUR STORY

For more than 100 years, we've focused on getting to know each of our clients personally so we can help them make smart, informed financial decisions.

With that guidance comes an understanding that women often face different challenges and have different priorities than their male counterparts.

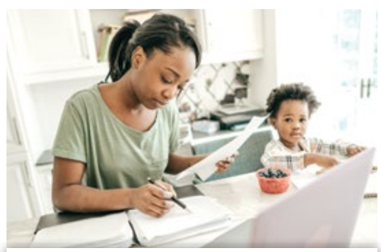
Whether they are Financial Advisors serving individuals and families or executives leading the firm, women have been integral to the success of our clients and the growth of our business. With diverse perspectives and experiences and a personal commitment to your best interests, all of us at Baird are dedicated to helping you achieve success in all areas of your life.

That's why we've launched womenatbaird.com, with sage financial advice focused on women, profiles of women who have built strong careers with Baird, and stories about some of the community organizations our associates support. Some highlights include:

Kathy Carey, Baird's PWM Director of Research and Planning, discusses Baird's approach to wealth management.

Preparing for the Unexpected

Planning ahead is important, but the greatest value a Financial Advisor can offer is peace of mind when the markets aren't doing well and life isn't going according to your plans. Be prepared with the right financial partner.



Planning for Your Future

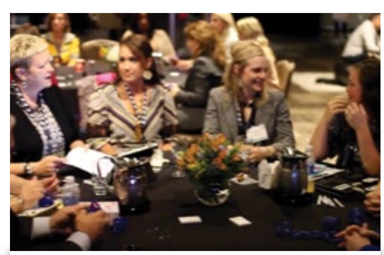
Whether you're paying off student loans, saving for retirement or just thinking about what you want from life, planning is essential – and it begins with making sure your money is working for you today.

FORTUNE BEST WORKPLACES FOR WOMEN™ 2020

Our commitment to addressing gender issues and promoting inclusion for all our associates are among the reasons Baird is recognized as one of the 2020 Best Workplaces for Women™ by Fortune®.

A Passion for Giving Back

Baird is proud to honor Kim Haws Falasco, Baird Private Wealth Management Director and Branch Manager for the Haws Falasco Group, with our 2020 Rupple Citizenship Award.

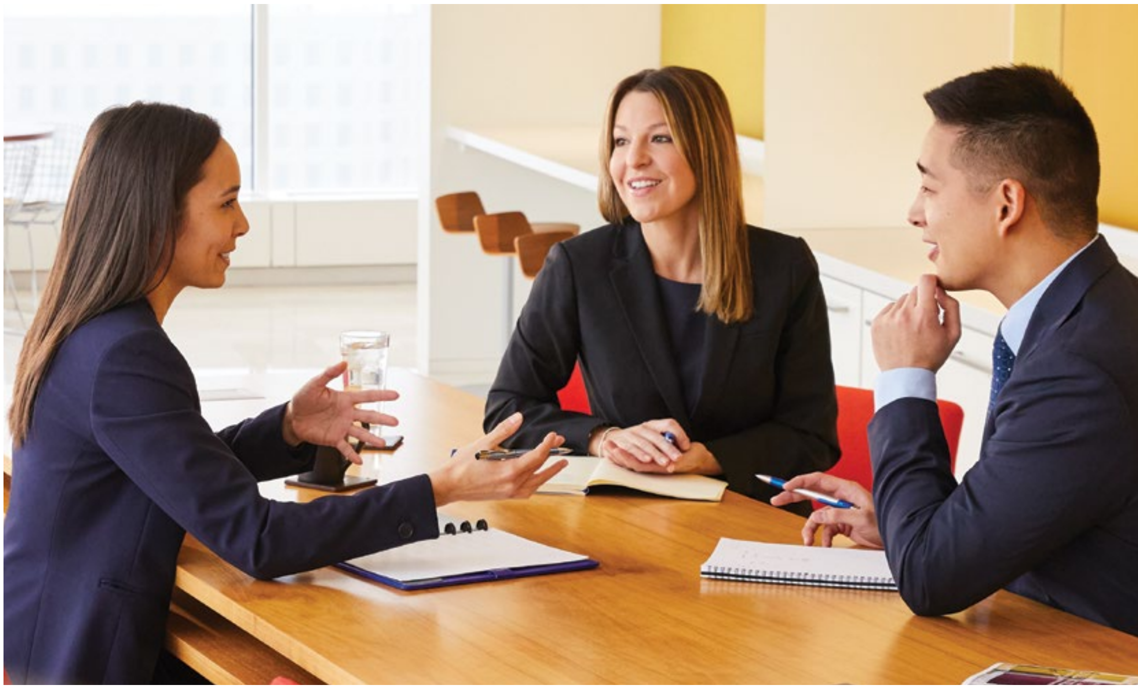


Baird's Associate Resource Groups support women in our business and in our communities.

Building a Future at Baird

ONE WOMAN'S STORY

For decades, women have been building rewarding careers at Baird, with no limits on their ability to advance in the organization. Katie Jackson, an Associate Branch Manager in Milwaukee, talks about her career at Baird, the advice she got from Mike Ditka, and the time she shared a stage with Willie Nelson.



From left: Victoria Ferguson, Katie Jackson, Kayji Arai

WHY DID YOU CHOOSE A CAREER IN FINANCIAL SERVICES?

The financial services industry combines the opportunity to connect with people on the most human, emotional level and make a difference in their lives by helping them maximize their impact and legacy. By providing the best financial advice, service and solutions, our teams deliver meaning beyond money.

WHAT IS YOUR FAVORITE PART OF YOUR JOB?

Every day, I get to work with exceptional people, who work hard, are kind and intelligent, and do the right things for each other and for our clients. I am challenged in the right ways to connect with and motivate people to give their best.

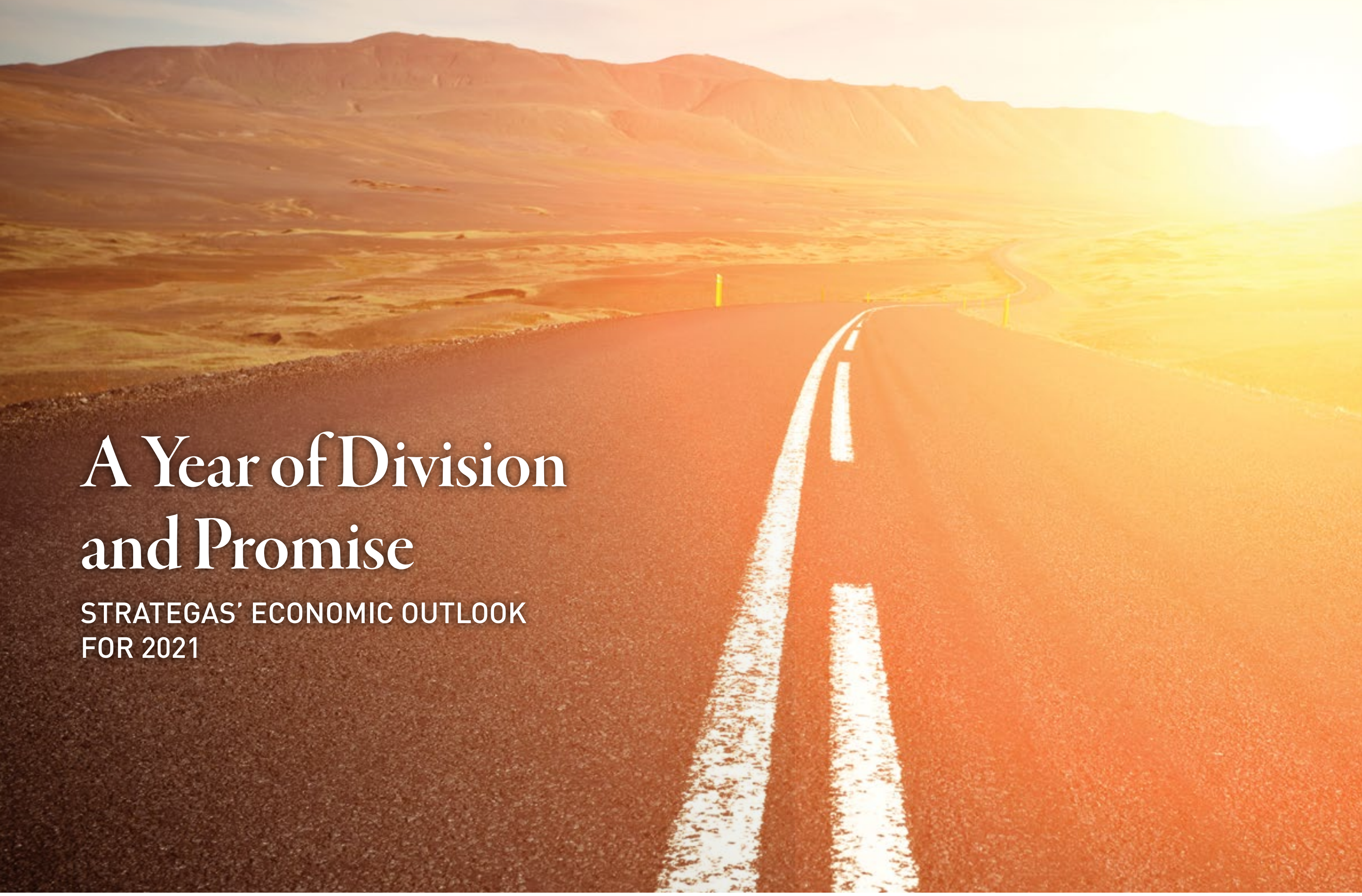
WHAT'S THE BEST ADVICE YOU'VE EVER GOTTEN?

I once heard Mike Ditka say in his big, booming voice, "Shame on you if you don't use your God-given talents." I think about that a lot: It is up to all of us to give our best effort and strive toward excellence, every day. Every moment is an opportunity.

TELL ME SOMETHING ABOUT YOU THAT HAS SURPRISED PEOPLE.

I grew up in Champaign, Illinois, home of the original Farm Aid Concert in 1985. I was just a toddler, but my dad worked at the concert, and at one point, I got onstage and Willie Nelson held me up, in the middle of the show. D

For more profiles, see womenatbaird.com



A Year of Division and Promise

STRATEGAS' ECONOMIC OUTLOOK FOR 2021

Many of us are happy to leave 2020 in the rearview mirror. Last year, the COVID-19 pandemic touched nearly every facet of our lives, roiling societies across the globe, devastating economies, and challenging us in ways we have not experienced before.

Intertwined with the pandemic, politics affected nearly everything related to investing and the economy in 2020. Not only did the year feature one of the more contentious elections in modern history, but Congress passed one of the most important pieces of legislation in recent memory (the CARES Act), which was both historic in size and scope and will have ripple effects for years to come.

What awaits us in 2021? Here's how we expect the economy and the political scene to unfold in the year ahead:

ECONOMIC OUTLOOK

The economic impact of the COVID-19 recession was severe in 2020, and the ramifications will linger for years to come. As we reflect on the past year and the months ahead, we've found it useful to key in on three themes by which to examine the state of our economy:

Growth Rates vs. Levels

Given the fast and dramatic changes in economic activity this year as the economy shut down and reopened, the rates of change for key data series have become warped. To get a better sense of the economy, we need to look at the actual levels for the data, particularly GDP, which broadly measures the country's output. In the second quarter, GDP fell at an annual pace of 31%, a record for any quarter since these figures have been kept. But it went on to rally 33% the very next quarter, another record-setting number.

However, though the growth rate recovered, the levels of nominal GDP were still well off pre-pandemic figures. GDP declined by $2.0 trillion in the second quarter, but rebounded to add only $1.7 trillion in the third quarter.

The same can be said of many labor market data sets. Growth rates have been strong, but we need to continue on that pace for several more months to return us to pre-COVID trend (or better). This seems likely, as we are forecasting strong GDP growth in both 2021 and 2022, based on pent-up demand and the progression of the vaccine rollout.

Manufacturing vs. Services

This has been a unique recession. Business cycles are usually driven by volatility in goods sectors (cars, home appliances, factory equipment, etc.). These areas tend to be more cyclical, featuring inventory build-ups in times of expansion and drawdown in contractions. On occasion, this weakness spreads and generates a financial crisis, like the spread of the housing crash into a full-blown economic crisis in 2008.

This cycle was different because the weakness in the economy has been from the usually stable services sector. Though this is no surprise given the nature of the pandemic and recession, it goes to show that we needed a medical solution to begin economic healing. Now that several highly effective vaccine candidates have us on a path to widespread inoculation in 2021, we expect the services sector to rebound strongly on the back of pent-up demand (particularly from higher income households, which felt less pain from the COVID-19 recession and also represent a higher percentage of discretionary spending). Because this cycle was unique, the recovery will likely be as well.

Short Run vs. Long Run

As with anything in investing, time horizon matters greatly. In the short run, the pandemic has been deflationary, forcing prices down as demand dried up. High unemployment and falling output reinforce these disinflationary and anti-growth forces. As the virus continues to challenge our society, these factors are likely to remain the dominant players, even with multiple vaccines imminent.

The longer run, however, paints a much different picture. First, though there may be lingering scars from the recession, the vaccine rollout should return us to pre-pandemic levels of growth, bolstered by pent-up demand in service sectors and continued policy boost from both Congress and the Fed. Though this would seem inflationary (and still may be over time), we think the inflation discussion remains a little premature – we need to see a strong recovery in labor markets first, where wage inflation may lead to some price inflation down the road. That will be difficult with unemployment still quite high and the output gap so large.

Additionally, the monetary policy tailwind should, in theory, pull back as the recovery strengthens. Monetary policy is meant to be symmetrical – easing now to battle a recession should lead to tightening later. Though the Fed does not seem to be in any hurry to raise rates (and recently ▶

Continued from page 5

changed their mandate with regards to inflation), an exit ramp is still required. Though these are longer-term concerns, we must manage for both the short- and long-term time horizons.

POLITICAL OUTLOOK

Economic Volatility Begets Political Volatility

One theme we've noticed since the financial crisis began is that economic volatility tends to lead to political volatility. With an uneven recovery following 2008's financial crisis, the U.S. is experiencing the most political volatility we can find over the past 100 years. November's election marked the eighth federal election since that financial crisis began unfolding, and voters have now removed the party in power in seven of those eight elections. This instability has led to more contentious rhetoric and more bifurcated party platforms. Heading into the 2020s, this theme should remain dominant. The recovery from the COVID-19 recession has been choppy, with some sectors recovering quickly and others still in the depths of a recession. Should the COVID-19 recession amplify the trend of economic inequality across the country, we expect political volatility to persist.

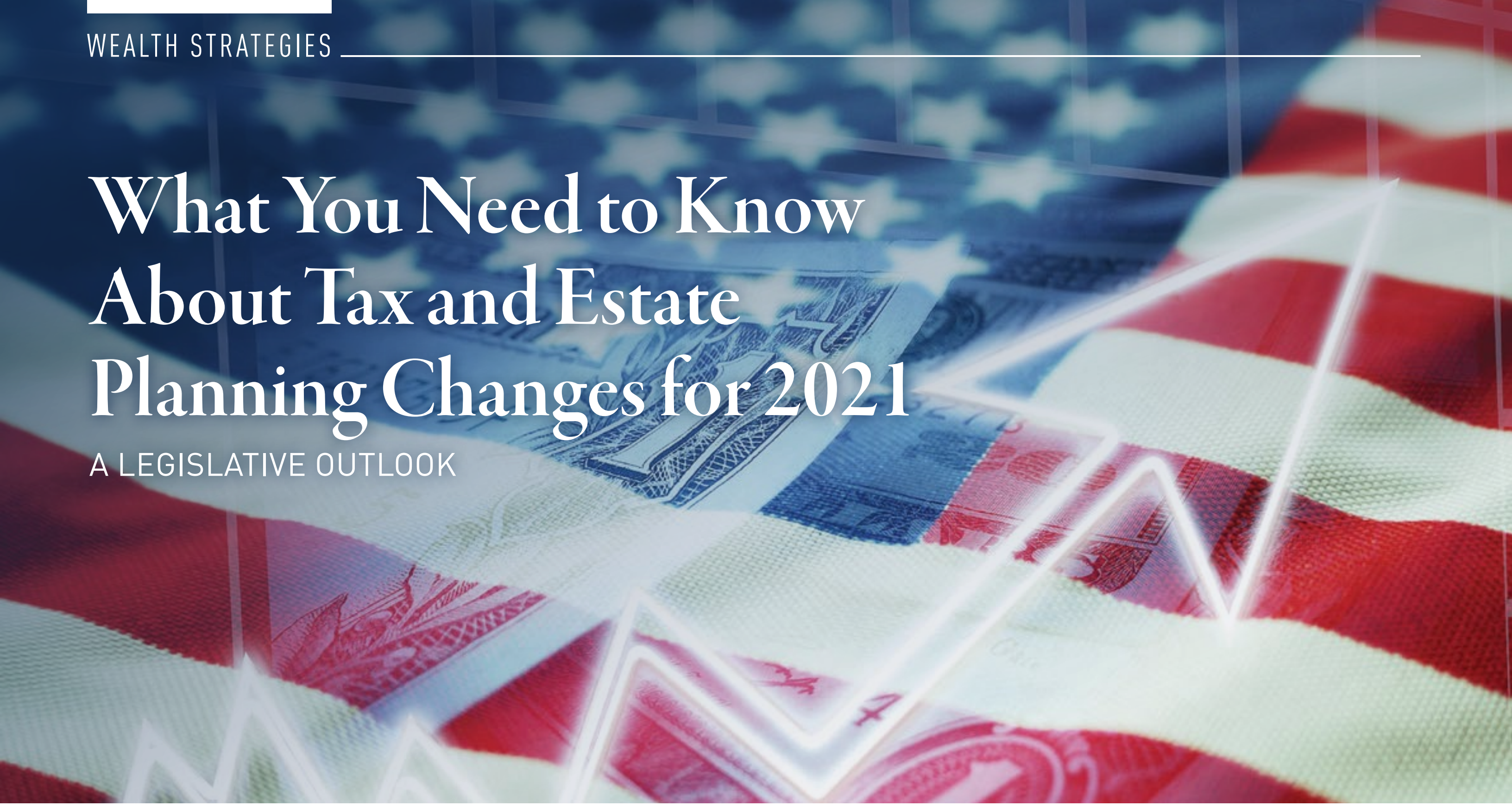
Narrow Majority Will Limit Policy Options

Though Joe Biden won the election, the Blue Wave did not materialize in the way that polling had suggested it might, limiting the gains for Democrats in the House and Senate races. In fact, Democrats lost 12 seats in the House and will hold their smallest House majority over the past 140 years. Similarly, the Democrats will hold their smallest Senate majority with a new Democratic president since 1884. Currently, the Senate is divided 50-50 between Republicans and Democrats with Vice President Harris breaking any tie, giving Democrats the slimmest of majorities. The 2020 election continues the trend since the 2000 election of a narrowly divided country that swings slightly center left or center right depending on the dynamics of the current election.

This outcome will limit the actions that President Biden can take on key policy initiatives, particularly since there does not seem to be much appetite to eliminate the filibuster in the Senate. However, the Democrats do hold a majority and winning two seats in January's Georgia special election boosts the odds of some near-term spending initiatives, particularly on coronavirus relief, additional income support, and infrastructure. The Democrats' majority in the Senate also increases the probability of some tax changes to individual and corporate income, though that's likely not to be debated until later this year. We further expect Democrats to push for new health care legislation later in 2021 and into 2022.

With legislation restricted to largely fiscal policy issues, we expect President Biden to lean more heavily on areas where executive authority can be wielded – trade and tariff policy, climate change, global relations, and geopolitics, to name a few.

Overall, the introduction of the coronavirus vaccine is exactly the shot in the arm our economy needed and limits the need for the most aggressive Congressional actions in 2021. With the acknowledgment that the economy is still suffering from serious problems that will take a long time to heal, we are optimistic about the prospects for 2021 - and beyond. D



What You Need to Know About Tax and Estate Planning Changes for 2021

A LEGISLATIVE OUTLOOK

The results of the 2020 elections have left the federal government in the hands of the Democratic Party, albeit by very slim margins. That means Americans should expect some of the Democrats' core financial proposals to be enacted, but the party's more ambitious plans will likely be tabled for the time being.

Given what new president Joe Biden and Democratic congressional leaders have proposed, here are some changes you might expect in 2021 that could affect your tax and estate planning:

TAX PLANNING

Income Tax Rates: There are now seven tax brackets: 10, 12, 22, 24, 32, 35, and 37 percent. The Democrats have proposed increasing the top marginal bracket to 39.6 percent for taxpayers earning more than $400,000 per year.

Capital Gains and Dividends: Democrats have proposed to increase the top capital rate for individuals, currently at 20%, to 39.6% for taxpayers with total income of more than $1 million. In other words, the capital gains for these taxpayers would be treated as ordinary income.

Payroll Taxes: FICA or Social Security taxes are levied on the first $142,800 of an employee's wages, and any additional income is not subject to Social Security taxes. Biden has proposed levying additional payroll taxes on earnings of more than $400,000, thus creating a "donut hole" between $142,800 and $400,000, where that income would not be subject to Social Security taxes.

Limits to Itemized Deductions: Biden has proposed a 28% cap on itemized deductions and to restore the Pease limitation on itemized deductions for taxpayers with taxable income over $400,000.

Expiring Tax Deductions: There are also over 30 tax provisions that automatically expired at the end of 2020, such as the tuition and fees deduction, the mortgage insurance premium deduction, the exclusion for mortgage debt forgiveness, and other deductions and credits. These are generally expected to be rubber-stamped into renewal by Congress, but they are worth keeping an eye on. ▶

Planning Calendar

JANUARY 1 – MARCH 31

General enrollment period for Medicare for those who missed their initial enrollment period

FEBRUARY 15

The New York Stock Exchange is closed in observance of Presidents Day.

FEBRUARY 16

The first wave of 1099s will be issued by Baird for those accounts holding individual equities, bonds or mutual funds whose final tax information has been provided.

MARCH 1

The second wave of 1099s will be issued by Baird for accounts holding mutual funds, ETFs and REITs whose final tax information was provided after the previous update.

MARCH 15

The final wave of 1099s will be issued by Baird for the remaining accounts holding mutual funds, as well as for any accounts holding REMICs or WHMTs.

APRIL 2

The New York Stock Exchange is closed in observance of Good Friday.

APRIL 15

2020 tax returns and 2021 first-quarter federal estimated tax payments are due.

Contributions to 2020 IRAs, Roth IRAs and Coverdell Education Savings Accounts are due.

WHAT YOU NEED TO KNOW ABOUT TAX AND ESTATE PLANNING CHANGES FOR 2021

Continued from page 7

Your Move: Keep in mind that tax hikes can be made retroactive to the first of the year. With those increases in the offing, consider converting a traditional IRA to a Roth. Paying the taxes now may be more beneficial than having the IRA be subject to income taxes later.

ESTATE PLANNING

Estate Tax Rates: Biden's plan would reduce the gift and estate tax exemption to $3.5 million from the current $11.58 million level. This limit applies to generation-skipping trusts (GST) as well, so if you have included one of those as part of your estate planning, you should consult with your estate attorney on how to proceed. In addition, Biden has proposed increasing the top tax rate from 40% to 45% for estate, gift and GST taxes.

Step-Up Basis: Biden has also proposed eliminating the step-up basis at the taxpayer's date of death, which values assets at the time they get passed on to the heirs rather than at the time the decedent acquired them. Under current law, the tax basis of property transferred to an heir is its current market value, and if the heir sells the asset, any gain would be assessed on the new basis. The appreciation of the asset during the decedent's lifetime goes untaxed. If this rule is repealed, it could leave some heirs owing significant capital gains taxes on inherited property.

Business Transfer Regulations: The Obama administration had proposed several regulations that would have restricted the ability to take valuation discounts on intrafamily transfers of business interests, such as a discount for lack of marketability. This would increase the tax burden for family businesses in the midst of a succession plan. The Trump administration withdrew these proposed regulations, but a Biden administration may be interested in bringing them back to life.

Your Move: Wherever you are in your estate planning, it's not too early to consider whether the reduction in the estate tax exemption will affect you in the long term. If you're worried that a change in step-up basis might result in a sizable tax bill for your heirs, talk to your Baird Financial Advisor team about ways to get in front of that.

All of these items remain just proposals, but there is generally a flurry of activity when control of the government switches parties. All of these could take effect in 2021, alongside even further legislation. To keep on top of how all this affects your tax and estate planning, reach out to your team of Baird Financial Advisors. D

Doing Well by Doing Good

At Baird, our commitment to the communities we serve is what drives our business. Through our Public Finance division, Baird supports charter schools in 20 different states, providing financing or refinancing for much-needed capital expenditure projects at more than 100 schools. Since 2009, Baird has been the No.1 underwriter of charter school financings nationwide, according to Refinitiv.

For more on how Baird makes a difference, see **bairddifference.com**

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Additional information is available at **bairddigest.com**, or contact a Baird Financial Advisor at **800-79-BAIRD**.