Digest

NEWS AND PERSPECTIVE FOR GROWING
AND PRESERVING YOUR WEALTH

Winter 2023

The Next Evolution in Wealth Planning

Building Your Legacy

LETTER FROM LEADERSHIP

Beyond the Broker

Where Wealth Management Is Headed

IT'S OFTEN SAID that the one constant in life is change. That's certainly been true of wealth management over the 100-plus years that Baird has been serving our clients.

Once upon a time, people relied on tips from their stockbroker and thought that was sufficient for building their financial future. When people became aware that they need to be better prepared for things like retirement and college planning, financial planning was born.

At Baird, we're always trying to look ahead to what our clients might need for the future. That's why we've been developing new solutions in recent years, like Baird Family Wealth, with an eye toward thoughtful multi-generational planning for clients with more complex estates. And it's one reason why we merged with Hilliard Lyons in 2019; we knew their trust company, now Baird Trust, would be a tremendous asset to our clients in protecting their legacy. You can read more about these and other initiatives in this issue's cover story on page 4.

We understand that your financial picture is always changing, with both your growing family and estate. And we at Baird Private Wealth Management will always be ready to serve you, no matter what your needs are.

Mike Schroeder
Chairman
Private Wealth Management

Erik Dahlberg
President
Private Wealth Management

In this issue...

What Could Cause a Recession in 2023?

In the name of fighting inflation, the Federal Reserve has been tamping down the economy. Here's what to watch for in the coming year.

Donald Rissmiller

Chief Economist at Strategas

WHILE THE PAST YEAR has been defined by high inflation, rapidly rising interest rates, and geopolitical instability, one of the big questions facing investors heading into 2023 is around the potential for recession. What are the odds of a U.S. recession happening? What would it take for one to occur? And critically, how do the actions of the Federal Reserve impact those odds?

All important questions, but first, let's take a look at how we got here.

Let's begin with inflation. While the ultimate goal of economic policy is to help balance supply and demand, this has been very difficult to achieve over the past three years amid the many significant global shocks (e.g., Covid-19, geopolitical events). Demand has exceeded supply and generated the highest domestic inflation pressure in the past 40 years.

Enter the Federal Reserve. The Fed is an institution which, by mandate, is tasked with managing ▸

WHAT COULD CAUSE A RECESSION IN 2023?

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inflation (i.e., balancing supply and demand). They do so primarily by adjusting interest rates. Lower rates (or easier monetary policy) stimulate demand by making borrowing cheaper, while higher rates (or tighter monetary policy) bring demand down. At this point, it is important to make a key observation: the Fed only controls the demand side of the economy. It can influence activity by changing interest rates, but it cannot create supply of scarce goods or services. Therefore, if inflation needs to be reined in, the Fed will respond by raising interest rates to reduce demand. That is their job, and that is exactly what they've done over the past year.

The key issue is that bringing demand down, when done at extreme levels, risks sending the economy into a recession. That is the precipice we sit on today. So where to from here? First, it is likely that the Fed will need to tighten policy further. At this point, interest rates are still below the rate of inflation. We think that needs to reverse – at a minimum – before the Fed can ease off the brake.

Second, monetary policy generally acts with a lag, meaning the rate hikes that have already occurred will continue to impact the economy over the coming years.

So while some sectors of the U.S. economy are already feeling the effects of higher rates (such as housing), others, like the labor market, have been slower to respond. Thus far, we have seen a slowing in the growth of employment, but not an outright decline. In fact, the labor market remains quite strong as of this writing. Unfortunately, we expect this to change in 2023. Eventually, tighter monetary policy should lead to less demand for labor and rising unemployment.

Bottom line: risks to economic growth skew to the downside and are likely to do so for some time. Inflation must be reined in.

With tighter monetary policy, inflation should come down, but the cost is likely to be rising unemployment and a potential recession. In fact, we put the odds of a U.S. recession next year at 50%, and we believe the odds of recession in future years remain elevated until there's confidence that inflation is re-anchored around the Fed's target.

Still, there are several cushions that could help limit the damage in 2023. There remains some excess cash savings left over from the pandemic-era fiscal stimulus. Additionally, the U.S. labor market is so tight that there are nearly two job openings for every unemployed person. The Fed's hope is that they can tighten policy just enough to destroy job openings without destroying too many actual jobs. This would limit the economic damage typically associated with recessions.

History teaches us that inflation should be symmetrical – the steeper the increase in price pressure, the steeper the decline on the back end. While there are always one-off events that could change this in the short run (e.g., oil price volatility), this should be the underlying trend in 2023. That is to say, the Fed should eventually feel less urgency in their fight against inflation, and that's key for getting past the downside risk to economic growth and corporate earnings. But, for now, we're still waiting.

About Strategas

Strategas – a Baird Company provides Market Strategy and timely perspective to help you better understand what's happening in the world today and what it means for your portfolio and plans. These premier insights combine investment strategy, macroeconomic perspective, government policy research, technical analysis and a deep understanding of the fixed income and equity markets. This comprehensive Market Strategy complements and enhances our investment and planning solutions for you.

Changing the Conversation on Women's Well-Being

With an eye toward improving women's health, Baird is fostering a look toward the future

THE WOMEN'S WELLNESS market has grown exponentially in recent years, driven by an increasing focus on health and wellness in a holistic manner and a greater interest in women's overall well-being. In addition, the Covid-19 pandemic brought health awareness to an entirely new level and accelerated the importance of wellness-related activities.

With all those factors in play, Baird has been proud to further this important conversation. Baird Global Investment Banking recently sponsored a Women's Health & Wellness Showcase to highlight a diverse array of brands, business models and teams that are tackling real issues women are facing related to their health and welfare. More than 20 brands across the spectrum of health & wellness participated, including skincare, haircare, vitamins & supplements, period care, fertility, postpartum/maternity, menopause and sexual wellness.

Among the key findings from the showcase:

- **Self-care is a significant driver of spending for millennials, who spend an average $300 per month on items like workouts, self-improvement and productivity/ mindfulness apps – twice as much as baby boomers**
- **Two-thirds of women search for healthcare information online, and they're 75% more likely to turn to digital resources for healthcare information than men**
- **Nearly 60% of consumers reported making more ecofriendly, sustainable or ethical purchases since the start of Covid-19.**

"I think women's problems have been ignored or dismissed for a long time, and women are no longer accepting that kind of response, said Katie Sturino, founder and CEO of the personal-care firm Megababe, one of the brands featured at the showcase. "They're going out and finding solutions for themselves. That is really a powerful movement."

To see the top takeaways from the showcase, scan the QR code below.

COVER STORY

The Evolution of Wealth Planning

Once upon a time, wealth management was an investment portfolio that would get you to retirement. Now it looks forward to multiple generations.

AS WE EMBARK on a new year, it's worth reflecting on how much has changed in the world of wealth management. Years ago, people turned to brokers for stock market advice and felt that was enough. And as clients' needs became more complex, financial planning served as the solution to help prepare for college tuitions, retirement, and other life needs.

Just as all industries evolve to meet the needs of those they serve, it's time for the next era of wealth management, one in which we're not solely focused on protecting your wealth through retirement, but also accounting for what the future will look like for generations to come. It's a world where protecting and transferring wealth becomes as important as growing your assets. And as an employee-owned firm that's not beholden to quarter-by-quarter thinking, Baird is uniquely positioned for this shift that has your family's best interests in mind. In fact, we have been making strategic investments over the last few years to deliver on that promise to you and your future generations.

One of the greatest tools in multi-generational wealth management is in estate planning. When trusts are used as part of the estate, it can help protect and grow assets for future generations and make charitable giving more effective.

Over the course of last year, Baird Trust was integrated into Baird Private Wealth Management, promising seamless estate planning advice for our clients, all housed under one roof. Whatever the situation requires – whether it be accounting for a family business or establishing a private foundation – our partnership with Baird Trust can support you in ensuring your wishes and legacy are realized.

While carefully constructed estate plans, wills and trusts support legacy preservation, it's just the beginning. In fact, one of the main reasons wealth fails to transition successfully across generations has little to do with making sound financial decisions – and much more to do with how the family interacts with one another.

It's well known that most wealthy families will lose their wealth by the end of the third generation, a phenomenon known as "shirtsleeves to shirtsleeves in three generations." A 20-year study of over 2,500 global

families who had gone through estate planning and generational wealth transfers revealed three factors accounting as the most significant reasons:

- **Breakdown in communication and trust (60%)**
- **Not properly preparing heirs (25%)**
- **Lack of shared purpose within a family (10%)**

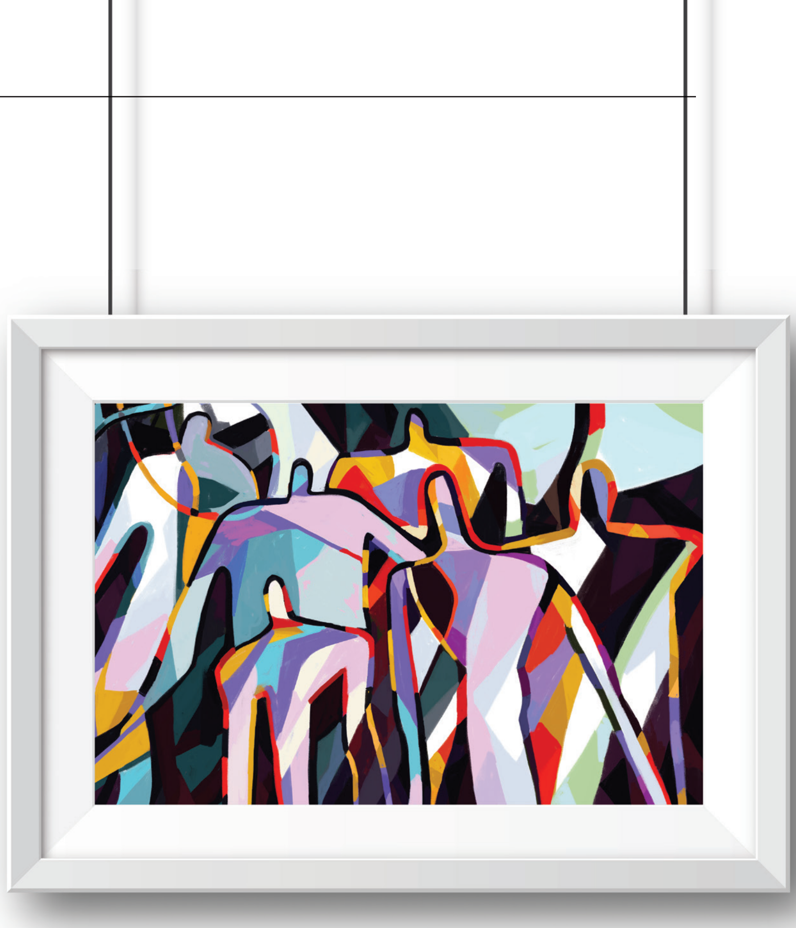
So 95% of the reasons why generational wealth transfers fail have nothing to do with finance. Instead, they pertain to people – the people we love the most – our families.

To that end, we have made investments in advice, talent, and resources in our Baird Family Wealth team. In partnership with our advisors, they facilitate family meetings and prepare the next generation to be stewards of the family's wealth and legacy. While this group primarily supports clients with a high degree of complexity, such as private business owners and families with legacy wealth, we recognize that this focus will be of increasing importance to all of our clients.

We know your financial picture is getting more complicated every day, as well as your ambitions to do more for your family and your community. In fact, in our recent client survey, we heard over 50% of our clients are interested in learning more about estate planning. That's why Baird Private Wealth Management has been evolving so that we may be fully prepared to serve you and your family well into the coming generations.

Put a Picasso in Your Portfolio

Collectibles like art, classic cars, sports cards, and vintage wines have become an asset class of their own. Before you invest in them, here are some guidelines to keep in mind.



WITH THE MARKETS STRUGGLING and inflation surging, many investors have begun wondering about the collectibles market. Could a classic car have a place not just in your garage but in your portfolio? While collectibles are high-risk, illiquid investments, with additional costs to acquire and maintain, they have the potential for substantial appreciation.

Here are some ups and downs to keep in mind:

THE UPSIDE

- While there are no guarantees, there is the potential for tremendous appreciation. A 1952 Topps Mickey Mantle baseball card sold for $12.6 million in August 2022, setting a record for a sports card. The owner had bought it in 1992 for $50,000.
- When prices rise, the value of your coin or stamp collection may rise along with it – providing a hedge against inflation.
- Collectibles do not move up and down in lockstep with the stock and bond markets. In fact, commodities like artwork can sometimes move opposite to the markets, as investors flee more traditional investments in times of turbulence.

Planning Calendar

January 1 – March 31	January 17	January 31	January 31
General enrollment period for Medicare for those who missed their initial enrollment period.	Fourth-quarter federal estimated tax payments for 2022 are due.	Baird issues Form 1099-R and 1099-Q for retirement and/or Coverdell Education Savings accounts with reportable distributions.	Baird issues Form 5498 to report Year-end Fair Market Value, Total Contributions and Required Minimum Distributions for IRA accounts. Any contributions for 2022 made in 2023 will be confirmed through an updated 5498 delivered in May.
January's Wealth Strategies webinar: Market Outlook			

- There are companies that offer fractional ownership of collectibles, allowing you to invest in things like century-old artwork or classic cars without having to buy an entire piece. Unfortunately, you can't take your 10% of a vintage Porsche out for a spin.

THE DOWNSIDE

- The value of a collectible is almost entirely dependent on what the market will bear. While certain items, such as original Van Goghs, can be assumed to hold their value well, that doesn't necessarily apply to all collectibles. According to the consulting firm Arts Economics, a piece of art returns to the market an average of once every 30 years, so it can be very hard to anticipate what their prices will be like decades from now.
- The mechanics of collectibles markets can also work against you. What a dealer is willing to pay for your piece or collection is likely to be quite different from what it costs to buy at retail. As an investor, expect to pay the advertised price when you buy, but receive substantially less if you sell to a dealer.
- Collectibles, particularly artwork and items like stamps, can be susceptible to fraud and forgery. This means you may have to pay some upfront fees to verify the provenance of your piece, raising the cost of your investment.
- Unlike with many other investments, gains on collectibles held for over a year are taxed at a top rate of 28%. Collectibles, although technically capital assets, are considered an asset class of their own for tax purposes.
- You'll also need to insure your investment, adding to your upfront costs. It's possible that your homeowners insurance will cover your collections' full value, but you may also need to add them as an endorsement to your policy.

Most importantly, if you're making a significant investment in the collectibles market, consider how it fits into your overall wealth management and estate plans. Your Baird Financial Advisor team can help you sort out a strategy that's right for you – and for your collection.

February 15	March 1	March 15
Baird issues the first wave of Consolidated 1099s (1099-DIV, 1099-INT, 1099-OID, 1099-B and 1099-MISC) for accounts holding individual equities, bonds or early-reporting mutual funds whose final tax information has been provided.	Baird issues the second wave of 1099s for accounts holding mutual funds, ETFs and REITs whose final tax information was provided after the previous date.	Baird issues the final wave of 1099s for remaining accounts with late-reporting adjustments or income reclassifications as well as REMICs or WHFITs.

March's Wealth Strategies webinar: Roth IRA Planning

Scan the QR code to access our *Wealth Strategies* webinar series

Protecting Retirement Income Against Market Volatility

Is it time to give fixed income a second look?

THERE'S AN OLD SAYING on Wall Street: When faced with a bear market, the best thing you can do is play dead. Making sudden, poorly thought out movements will likely only make your situation worse.

That's easier said than done for those who are in or nearing retirement. Retiree investors counting on their investment portfolio to provide steady income over the course of their non-earning years have reason to feel alarmed – nothing disrupts even the best retirement income strategies as much as selling equities during periods of market decline. Talk about digging a hole that's hard to climb out of.

But history has shown that it takes on average roughly seven years for most of the volatility surrounding equity returns to work itself out. To avoid the pitfalls of selling stocks while they're down, retired investors might consider funding the next several years of spending with fixed income securities. Bonds used to be expensive in the post-financial crisis regime of accommodative monetary policy and ultra-low interest rates.

> "History has shown that it takes on average roughly seven years for most of the volatility surrounding equity returns to work itself out."

But now that interest rates have risen, the bond market has become a lot more attractive.

A laddered seven-year portfolio of municipal bonds in today's market yields about 2.6%. That's after tax – cash you can spend. Projecting spending needs (taking inflation into account) and using principal and interest from a laddered bond portfolio to fund those needs can give you the time needed for the equity portion of your portfolio to rebound. Better still, it can protect you from having to draw down during periods of market volatility.

Given historical returns of 7.5%, the value of a diversified stock portfolio can be expected to grow by more than 50% over the next seven years – long enough to rinse, repeat and start the process of building a new ladder all over again. While exposure to bonds is no guarantee to keep the bear at bay, those near or in retirement who are worried about market volatility might want to give fixed income a second look.

John Taft

Vice Chairman

A Vice Chairman of Baird and member of the firm's Executive Committee, John Taft has been providing investors with trusted perspective on the financial industry for more than 35 years.

For more of John's insights, subscribe to his blog, Finance for the Greater Good, at johntaft.rwbaird.com.

Welcome to the Pickleverse!

Baird's first year as official sponsor of pickleball has been a smash

GETTING OUTSIDE, moving around, spending time with family and friends and making new memories – for many of our clients, that's what makes life meaningful. And we're proud to have been a part of it as the official wealth management sponsor of the Professional Pickleball Association for 2022.

Last year Baird sponsored more than 20 PPA Tour events across the country and served as the title sponsor for both the Baird Wealth Management Open, a Grand Slam event in Cincinnati this past September, and the Baird Wealth Management Texas Open in Dallas in November. We also organized several demonstration clinics led by PPA instructors and hosted hundreds of Baird clients, families and guests.

Our involvement in the pickleverse extended off the court as well. We teamed up with several local organizations in Louisville to transform a downtown redevelopment site into Baird Urban Sports Park, where pickleball beginners and enthusiasts alike can take in a match. The Baird Henderson Pickleball Classic in Kentucky attracted more than 150 players while benefiting local charities. And our partnership with the PPA even led the organization to present at Baird Global Investment Banking's new Travel & Leisure Symposium in September, highlighting the emergence of pickleball as the country's next up-and-coming sport.

All of us at Baird are looking forward to continuing this momentum with the PPA and the greater pickleball movement in 2023.

BY THE NUMBERS

Last year Baird sponsored more than 20 PPA Tour events across the country. This investment is good not just for Baird, but also for this rapidly growing sport.

NATIONWIDE THERE ARE

4.8 million

active pickleball players

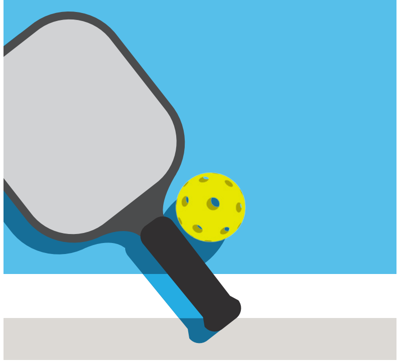
Not just for the young

29.6%

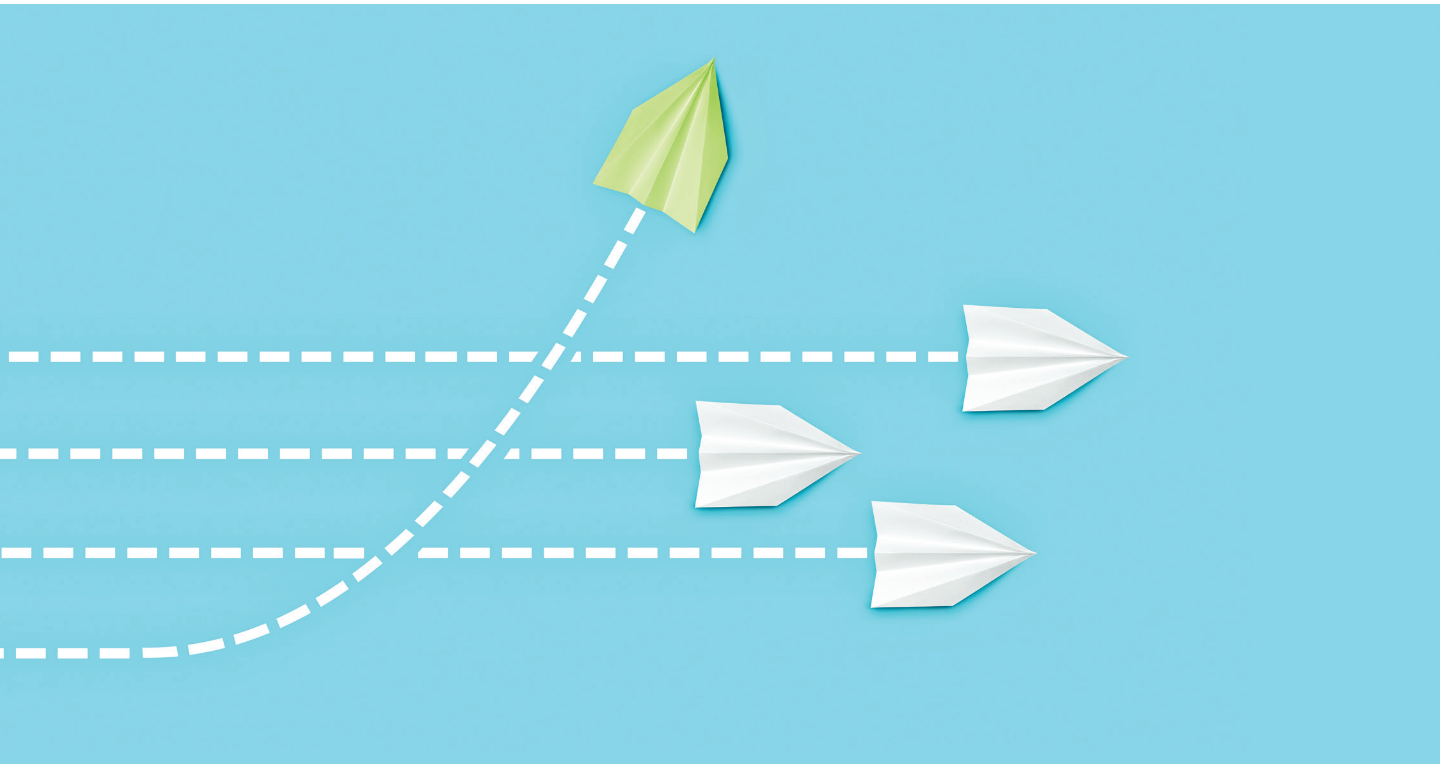
of pickleball players are 55 or older

38,000

Pickleball courts across the U.S. – and growing!



Data provided by usapickleball.org.



Investing in a Cleaner Future for Old Planes

BAIRD'S GLOBAL PRIVATE EQUITY GROUP is proud of its significant investment in St. Athan, Wales-based ecube, Europe's largest aircraft end-of-life service provider which recently expanded into the US. Baird Capital makes venture capital, growth equity and private equity investments in B2B technology & services-focused companies around the world. ecube focuses on disassembling and recycling end-of-life aircrafts, an important environmental concern in a world where roughly 700 aircraft retire each year. ecube reuses or recycles 93% of every aviation vehicle they process, meaning less resources will be needed for the next generation of aircraft and less waste ends up in a landfill.

Discover the *Baird Difference*

Want More?

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

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