Camden NATIONAL WEALTH MANAGEMENT

NEWSLETTER | SUMMER 2021

Financial Planning Tips

Taxes are perennially top of mind for clients, and this year has been no different.

A proposed tax plan announced earlier this year impacts a number of tax policies, including income tax, capital gains tax, corporate tax rates, and estate tax. We expect to see many iterations of this plan as it navigates its way through the legislative process.

Focusing on the estate tax, the proposal is to reduce the federal estate tax exemption amount to $5.3 million per person and increase the top estate tax rate from 40% to 45%.

For historical context—since the Taxpayer Relief Act of 1997, the exemption has steadily increased from $600,000 to the current rate of $11.7 million per person, while the top estate tax rate has fluctuated between 35% and 55%.

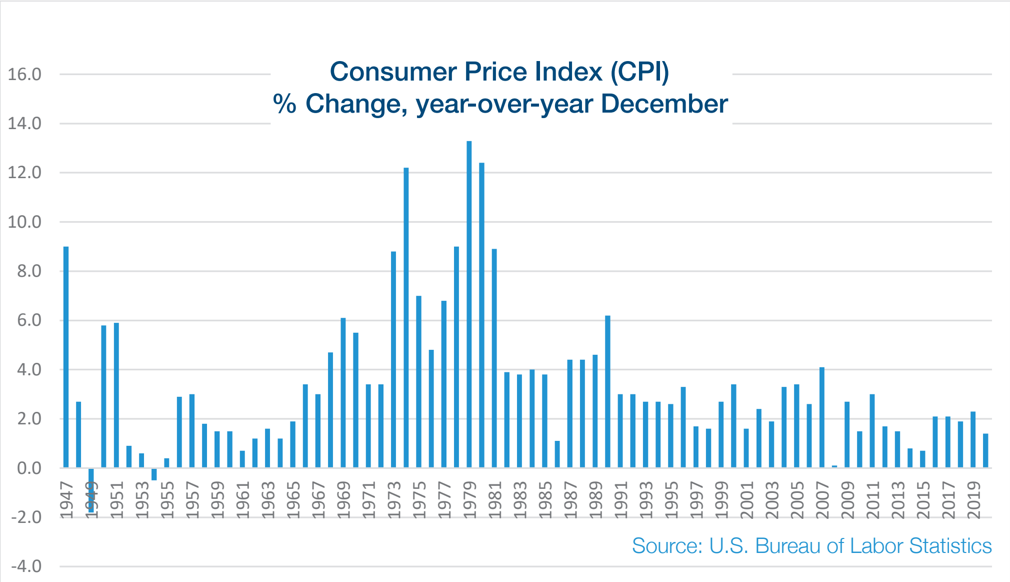
Over the years, Congress has been presented with the choice of reducing the exemption amount (or letting increased exemptions sunset), but it has opted to pass legislation that avoided that outcome. This may serve as an indicator that the current proposed reduction in the exemption amount is unlikely to be included in final legislation.

The Inflation Genie

News of a record-breaking federal budget deficit—that is destined to continue growing with the roll-out of the $1.9 trillion American Rescue Plan—has prompted questions and concerns about inflation. July's reported inflation of 5.4%, the highest since 2008,[1] has only added to the concerns. Many have asked us: *Is the U.S. on the verge of a bout with inflation the likes of which we have not seen in decades?*

While there are different types and drivers of inflation (such as rising input costs, supply shortages, and rising demand), an unexpected and prolonged rise in inflation would likely have a negative impact on investment results for both stocks and bonds. Given the extreme economic data readings experienced during the start of the pandemic, atypically high year-over-year readings were expected—and are coming to fruition. Additionally, the drivers of inflation are consistent with the narrative of a re-opening economy: pent-up demand, supply chain shortages, and bottlenecks. This can certainly be concerning for investors; however, understanding the causes and duration of inflation are key to assessing the longer term impact on markets and the economy.

To better understand the impact of inflation, we took a look back in time. The chart below illustrates year-over-year change in inflation, as measured by the Consumer Price Index (CPI), going back to 1947.



The U.S. economy hit its post-war inflation peak in 1979 at 13.3%,[2] and the driver for that peak as well as the previous peak of 12.1% in 1974, was the same: Oil embargoes pushing prices at the pump to record highs.

But even before the 1973 OPEC embargo, inflation was an issue, prompting President Nixon to impose a temporary wage and price freeze in 1971. Looking at inflation in the years leading up to Nixon's freeze, and applying the Federal Reserve's current-day 2% inflation policy threshold, what stands out is the jump in inflation from 1.9% in 1965 to 3.4% in 1966, when Vietnam expenditures ballooned.[3]

Continued on reverse side

This spending was not offset by revenue-raising measures, resulting in budget deficits during the late 1960s.[4] Historians and economists have linked the failure to enact adequate revenue-raising measures to the rise of inflation during the Vietnam War years.

In light of the 1960s experience, one might be wondering—*given today's federal deficit, are we about to repeat history?* We believe, however, that the situation today is much different—for two primary reasons:

1. War-related deficit spending continued for an extended period during the 1960s, more than five years. Today's deficit spending, though inherited from the previous administration, has not persisted for such an extended time.
2. The late 1960s was a period of economic expansion at near-full employment. Deficit spending under such circumstances is likely to lead to inflation. In 2020, the U.S. experienced the single greatest decline in employment and output since the Great Depression. The economy has yet to fully recover from the COVID-induced 2020 bust. Under such circumstances, there is spare capacity in the economy, and as new money pours in, economic activity rises. Inflation is not likely to result.

While we do not anticipate that inflation will head back to 1970s levels, we are cognizant of the change in trend compared to the recent past and larger structural changes, as we transition to a post-pandemic environment. We believe inflation should moderate later this year and in 2022, as stimulus measures expire, tax increases likely take effect, the initial demand surge abates, and supply chain and bottleneck issues are resolved. That said, continued economic growth is likely to lead to longer-term inflation trending above 2% for the foreseeable future.

We do not, however, advise a major change of course in terms of long-term investment strategy. Our process and approach are designed to achieve long-term, tax-managed goals by making quality investment choices that take the current market environment and future expectations into consideration. As always, we continue to monitor economic trends and market conditions with a view to early detection of changing trends, not just in inflation, but across a broad spectrum of financial measures.

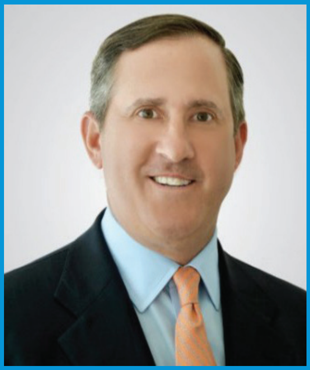
1. Source: U.S. Dept. of Labor, Bureau of Labor Statistics, year-over-year figure

2. Consumer Price Index, All Urban Consumers (CPI-U), 1967 = 100, year-over-year December– U.S. Dept. of Labor, Bureau of Labor Statistics

3. U.S. Dept. of Defense, Comptroller's Office

4. Congress enacted and President Johnson signed a temporary income tax surcharge of 10%in 1968 as a partial offset to Vietnam spending.

Welcome, Ned Muskie!



We're pleased to share that Edmund "Ned" Muskie, Jr., has moved back to Maine to join our team of 21 professionals as Senior Vice President, Senior Wealth Advisor. With more than 35 years of experience in banking and wealth management, Muskie brings extensive knowledge in investment management, multigenerational wealth transfer, retirement and estate planning, tax strategies, and more. The son of former Maine Governor and U.S. Senator Edmund S. Muskie, Ned has enjoyed many summers in Kennebunkport, Maine. He is deeply committed to public service in the local community and has served on numerous nonprofit boards, including the Edmund S. Muskie School of Public Service at the University of Southern Maine. He currently lives in Portland, Maine, and we look forward to introducing you to him!

"I have always been proud of my deep roots in Maine. It is an exciting time to come back to New England to work with business and community leaders in a vibrant, dynamic economy that continues to grow. After working in wealth management and banking for my entire career, I chose to join a community-focused company and a highly successful wealth management business with great professionals. I have found both in Camden National Wealth Management." – Ned Muskie

Camden National Wealth Management provides investment management, goals-based financial planning, and trust and estate services to individual and institutional clients in Maine and throughout the United States. Our highly credentialed team averages 25 years in the business and includes Chartered Financial Analysts, estate planning attorneys, CTFA trust specialists, and financial planners. Together, we bring a customized investment and planning approach to meet each client's unique financial needs.

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