

Maintaining Perspective...

As the first quarter transitions to the second quarter of 2023, we can add banking industry uncertainty to the list of factors that have been on investors' minds and will likely remain so in the weeks and months ahead. These include the trajectory of Federal Reserve policy following the most aggressive pace of tightening in 40 years, the ongoing Russia-Ukraine war and other geopolitical issues, elevated inflation – albeit trending lower – a tight U.S. labor market, and mounting concerns of a looming economic recession.

The banking crisis put a spotlight on some of the unintended consequences of the Federal Reserve's rate hiking cycle. As interest rates surged, the value of bonds that most banks own declined, leaving banks with unrealized losses that can reduce a bank's access to liquidity. The rise in rates also led to some deposits leaving the banking system, putting additional pressure on liquidity positions. These factors, along with specific banks that operated with elevated levels of risk, contributed to the bank failures witnessed in March. While it is unsettling to experience in real time, it is always helpful to put things in perspective. Markets and people are not emotionally flat. It is reasonable and expected to see ups and downs that are often characterized by understandable overreactions – both positive and negative. While we can point to company-specific risks that caused the recent banking industry headlines, the broader concern has been centered on the fear of contagion that is based more on the previously mentioned emotional response rather than a widespread fundamental issue. It is for this reason that we saw intervention at the Federal level.

Global stock and bond markets finished the first quarter in positive territory despite all of the turbulence noted above. That said, we expect volatility to continue into 2023 as investors react to every new piece of information. Here is where, once again, it is important to bring perspective into focus. Successful investing is driven by adhering to long-term goals, processing new information as it becomes known, and not overreacting to short-term news flow.

We believe the Federal Reserve is at or near the end of its rate hiking cycle. It remains to be seen if we will achieve an economic recession or soft landing. Another unintended consequence of the banking crisis is that it has done some of the Federal Reserve's work in slowing economic activity to fight inflation. Regardless, we remain steadfast in our approach that an environment with relatively high interest rates and persistent inflation above the Federal Reserve's target support an emphasis on quality investments. Companies with durable earnings streams and the ability to reward shareholders with dividend growth will provide investors with relative consistency during uncertain times. Within fixed income, we continue to see the most attractive bond yields that we've seen in years, where we are emphasizing quality and a relatively short maturity profile in an environment where the yield curve remains inverted.

During periods of market stress, it's always helpful to reassess short-and-long term goals with your Camden National Wealth Management team. Please reach out to us anytime with questions or thoughts.

The Effective Use of 529 Plans

As we head into the spring and summer months, many families are making final plans for college in the fall. With these plans comes the inevitable conversation about how to pay for the ever-increasing cost of higher education. One of the most popular ways to save for college today is through state regulated 529 Qualified Tuition Plans. These education savings vehicles are tax-advantaged, have attractive estate planning applications, are flexible in both beneficiary designation and education expense treatment and offer a variety of investment management options.



SOME ADVANTAGES OF 529 PLANS INCLUDE:

- Federal taxation: Contributions accumulate tax deferred and earnings are tax free when used to pay qualified education expenses.
- High contribution limits: Most plans have lifetime limits of \$350,000 and up.
- Unlimited participation: Anyone can open a 529 savings plan account.
- Access: Funds can be used to pay the full cost of college or graduate school; some costs for certified apprenticeship programs; limited student loan repayment; and K-12 tuition expenses up to \$10,000 per year.
- Flexibility: Ability to change beneficiaries or rollover to another 529 plan.

529 Plans are offered through 49 states and the District of Columbia. You can join any state's 529 savings plan, however each plan has its own rules and restrictions, including the treatment of state taxation of earnings. It is important to carefully review these rules before selecting a plan to avoid any adverse tax consequences.

Contributions to 529 plans qualify as gifts under the federal tax code. In 2023 gifts up to \$17,000 per person per year fall under the annual gift tax exclusion. A beneficiary may receive contributions from anyone wishing to add to a plan, with total plan contributions subject to a lifetime limit determined by each state.

529 Plans and Estate Planning

In addition to the benefits listed above, 529 plans can also serve as an effective estate planning tool for grandparents or other family members or friends who would like to assist with college expenses.

Under special rules unique to 529 plans, you can make a lump-sum contribution to a 529 plan and avoid federal gift tax if the contribution in 2023 is less than \$85,000 for individual gifts or \$170,000 for joint gifts (five times the annual gift tax exclusion of \$17,000), and you don't make any other gifts to the same recipient in the five-year period. Essentially, you are spreading the gift over five years. You need to make a special election on your federal tax return to do this. There is a caveat, however. If the donor dies during the five-year period, then a prorated portion of the contribution would be "recaptured" into the estate for estate tax purposes.

529 plans can be valuable tools for setting aside funds for educational purposes, and can be used in conjunction with other lifetime gifting strategies.

Reach out to your Camden National Wealth Management team for advice on strategies to help plan for educational expenses.

Camden National Wealth Management's products and services are not deposits or other obligations of the institution and are not guaranteed by the Institution nor are they insured by the FDIC. The products are subject to investment risks, including possible loss of the principal invested. Nothing in this document is intended to convey legal or tax advice. Please address any tax and legal questions with your professionals. Circular 230 Disclosure: To ensure compliance with requirements imposed by the IRS, we inform you that any tax advice contained in this information (including any attachments) was not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein. Trust and investment management services are provided by Camden National Bank, a national bank with fiduciary powers. Camden National Bank is a wholly owned subsidiary of Camden National Corporation. Camden National Bank does not provide tax, accounting or legal advice. Please consult your accountant and/or attorney for tax and legal advice.

Investment solutions such as stocks, bonds and mutual funds are:
NOT A DEPOSIT • NOT FDIC INSURED • NOT GUARANTEED BY THE BANK • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • MAY LOSE VALUE

About Camden National Wealth Management

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.