CAMBRIDGE TRUST

PRIVATE BANKING WEALTH MANAGEMENT

What Can We Expect in Q2 and Beyond

May 17, 2023

Moderator:

Jennifer A. Pline, CFA	Executive Vice President | Head of Wealth Management

Presenters:

David Lynch, CFA	Senior Vice President | Chief Investment Officer
Marie DelRossi, J.D., LL.M.	Senior Vice President | Senior Fiduciary & Trust Counsel
Stig Zarle	Vice President | Senior Portfolio Manager
William Fleming, CFP®, CTFA	Vice President | Relationship Manager

Market Update

The US Debt Ceiling: Current Thoughts?

- "Default" is being overused in the current context
  - A "technical default" with some missed/delayed payments is possible
  - A true default of disavowing our debt with no intention or ability to pay is not really on the table

- Bigger risk is potentially ruining our global standing and trustworthiness as a bond and currency safe haven

- There will likely be resolution either before or after the "X-date" which will be a relief…although the length and durability of the resolution remains to be seen

- Any resolution likely brings some degree of concession for less spending or stimulus which is a net negative for the economy (in the short run). Regardless, market sentiment will be glad to have this risk off the list of worries

The Health of the Economy

POSITIVE	NEGATIVE
US consumer tends to find a way to spend in all but the worst of times, and the job market remains strong	US consumer running out of excess savings; end of student loan forbearance; a less rosy labor picture; higher credit card rates, etc.
Inflation is cooling and will cool more	Still too high and sticky for Fed comfort
Lots of cash on the sidelines that could re-enter the market. Pessimism has become "too consensus" which sets up for a rally.	Tighter lending standards and financial conditions stunt growth. Banking and commercial real estate stress is not fully solved. Caution is warranted.
Recession will be mild, and the stock market is already looking across the divide to recovery and better days. The mega tech market leadership is in great shape.	Small cap stocks and small businesses are feeling pain; bankruptcies perking up. (Apple and friends are not directly at risk, but these smaller folks are ultimately customers of the market leadership in one way or another)
Economy (and earnings) moving from great to good is still pretty good…and rate cuts are credibly on the horizon!	The Fed has overdone it and lags will show that the Fed has broken the economy and will have to cut for all the wrong reasons

US Stock Market: Where is Fair Value?

What is fully and fairly priced into the current market?

A. *Lower earnings outlook*
B. *Impact of higher interest rates*
C. *Increased odds of at least a mild recession*
D. *Inflation lingering uncomfortably (though moderating)*
E. *Other geopolitical risks such as the US debt ceiling*
F. *All of the above…?*

- **Last year's correction and the current market have reconciled some of the headwinds above. However, we are moderately underweight stocks overall given the breadth of risks**
- **We increased global diversification in our equity holdings in recent months**
- **Our team is starting to find more opportunities in individual stocks which is a positive sign**
- **Portfolios remain balanced with cash and fixed income positions**

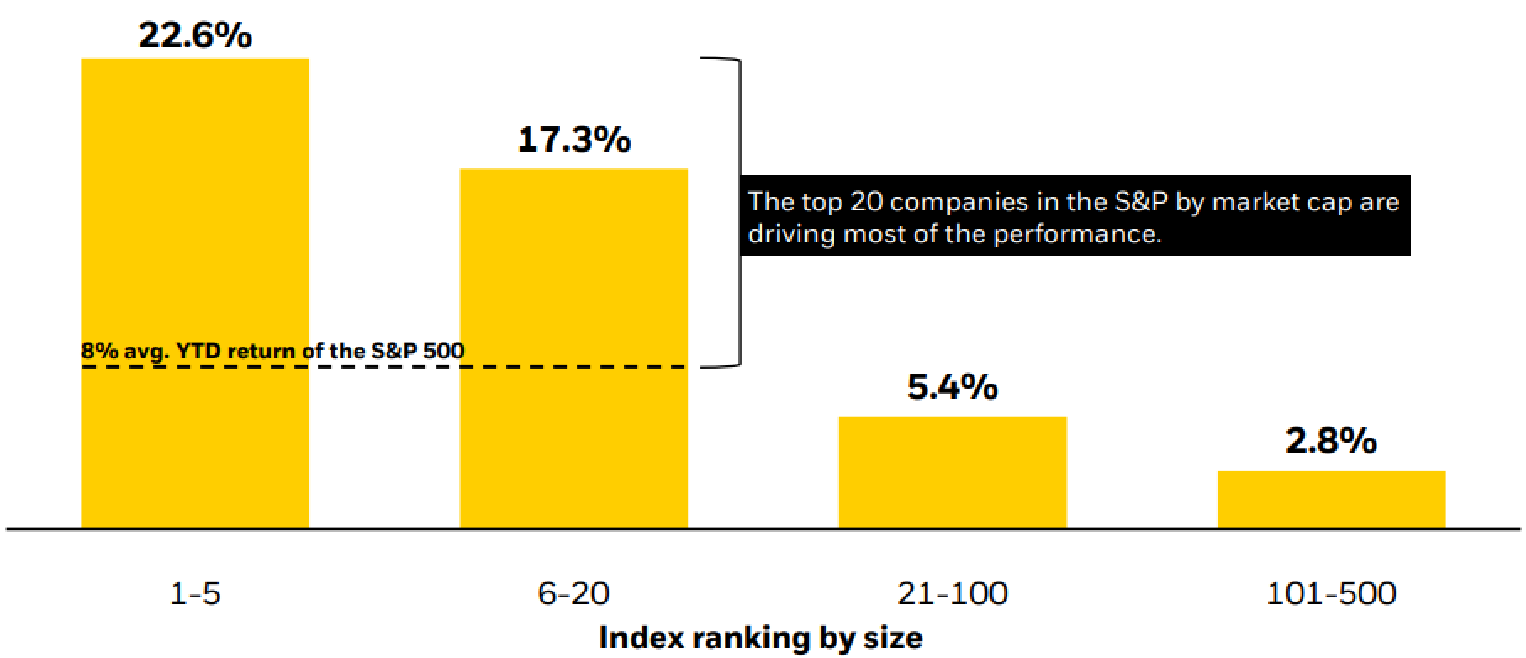
Narrow S&P 500 Leadership

LARGEST STOCKS DRIVING PERFORMANCE

Largest stocks are driving index returns in 2023

Not all stocks within the S&P 500 are the same

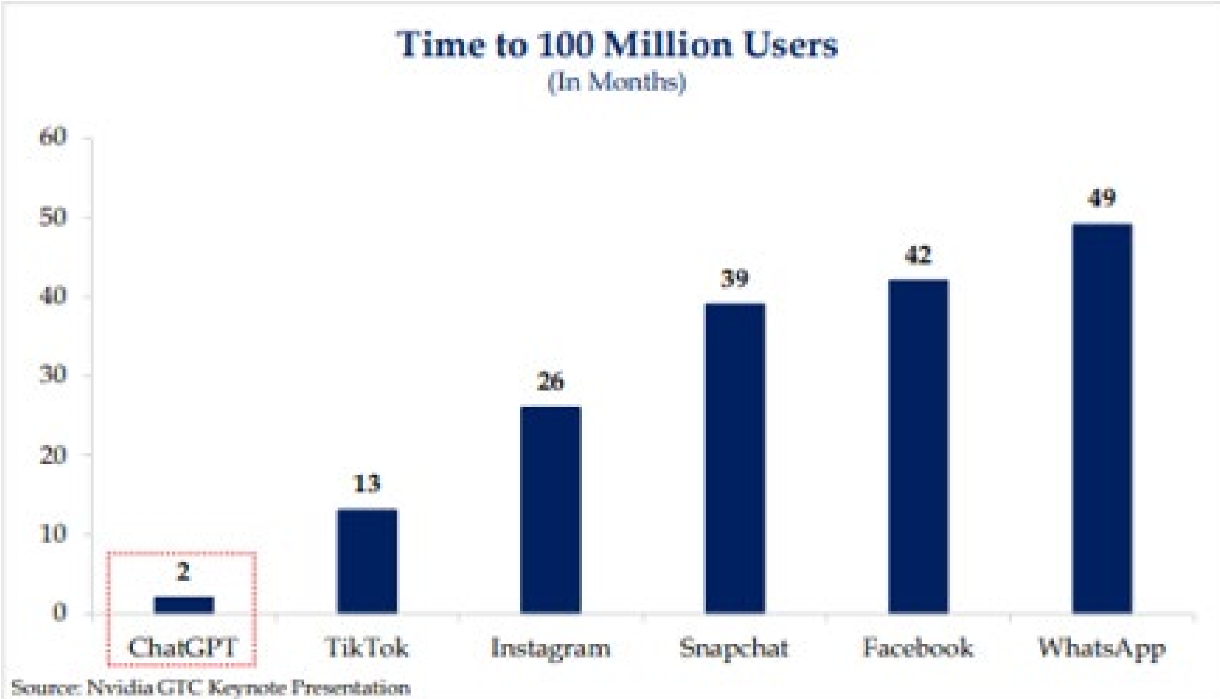
Average 2023 YTD performance of individual companies in the S&P 500 Index, grouped rank according to market cap size (1/1/23 - 4/30/23)



Source: Morningstar as of 4/30/23. Stocks represented by the individual stocks of the S&P 500 Index, non-voting dual-class shares excluded. **Past performance does not guarantee or indicate future results.** Index performance is for illustrative purposes only. You cannot invest directly in the index.

Source: BlackRock Student of the Market – May 2023

AI (Artificial Intelligence): The Next Big Thing?

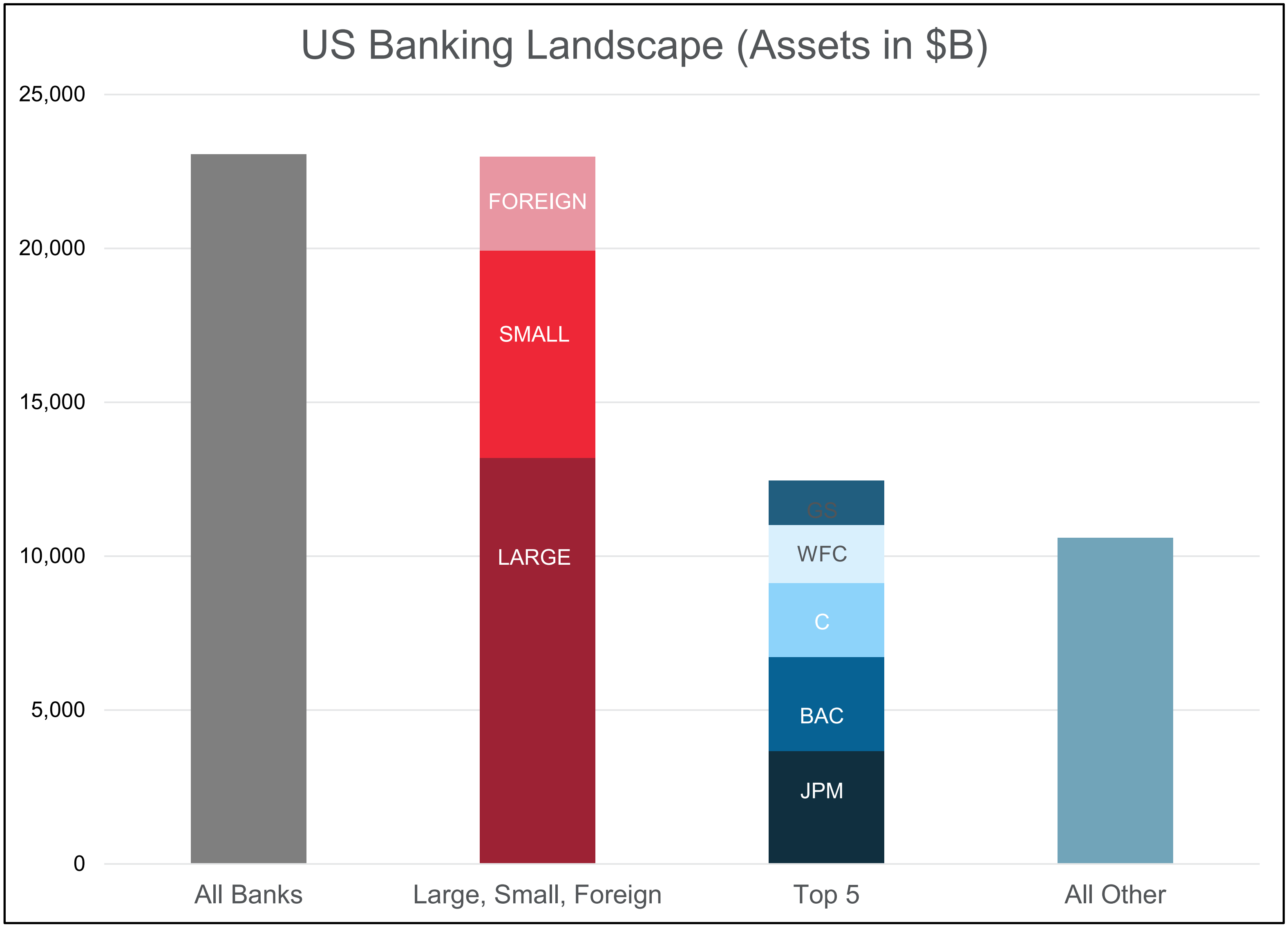


Source: Strategas, The Daily Macro Brief, Ryan Grabinski, May 5, 2023

- Generative AI and ChatGPT have captured the attention of the market
- Still early days, but seems very transformational…
- …and more durable than prior "big trends" craving semiconductor chips and technology such as online gaming, bitcoin mining, and the metaverse
- Mega tech platforms and chip makers are all involved and will be likely beneficiaries
- Yet another reason to own tech, growth and the "new sovereigns"….but let's not overdo it—valuation-wise.
- Longer term issues like efficiency gains versus labor displacement need monitoring

Update on the Banking Industry

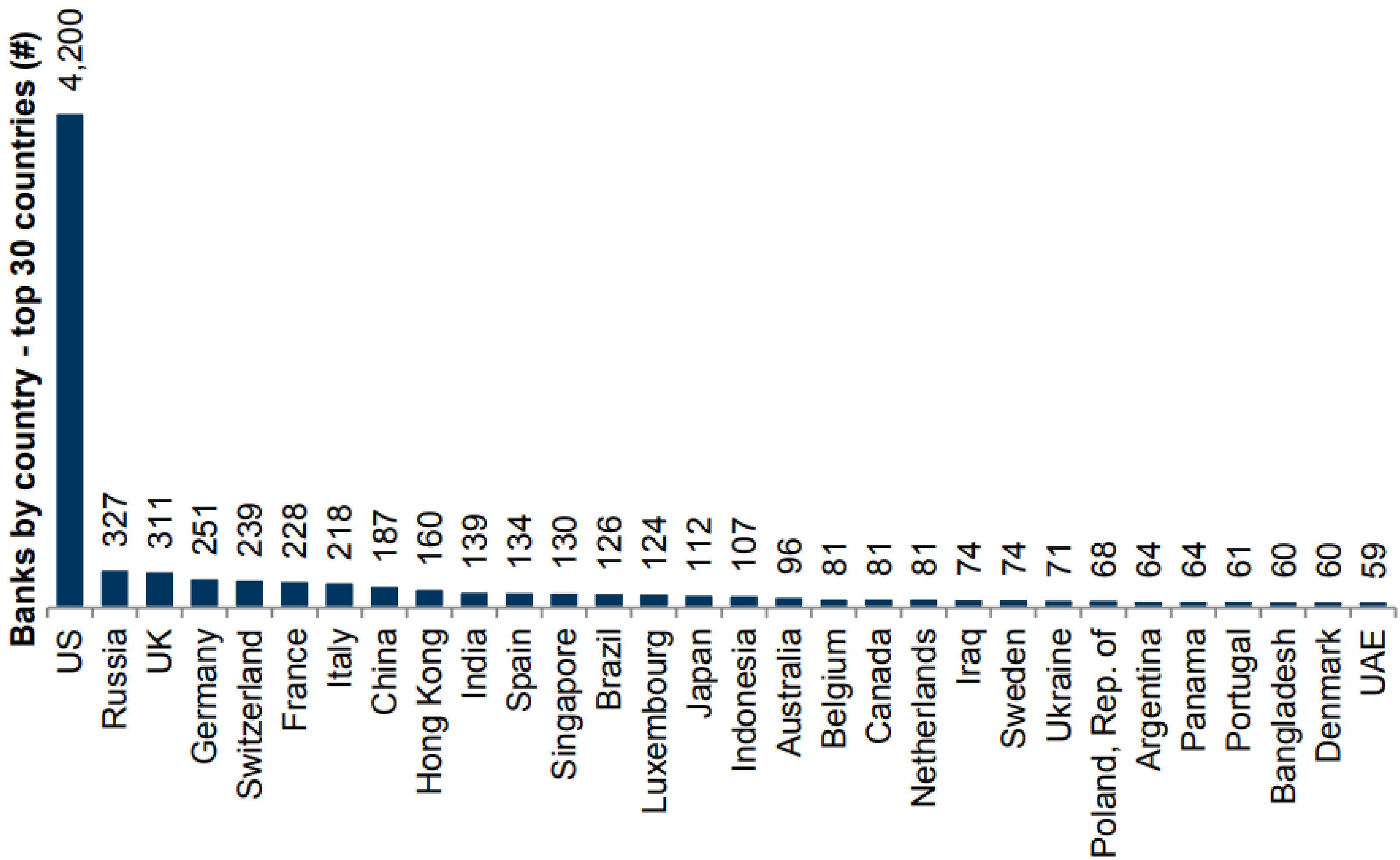
Overview of the US Banking Industry
Asset distribution among bank types



Source: Board of Governors of the Federal Reserve System, Company Reports (note: comparability between data sets may differ)

CAMBRIDGE TRUST
PRIVATE BANKING WEALTH MANAGEMENT

The Role of Banks in the US
Financial regulators seek to avoid concentration risk



Note: includes commercial banks, data are as of 2021, ex. Russia, which is as of 2023.

Source: International Monetary Fund, Goldman Sachs Investment Research

Small/Mid-Size Banks Play a Critical Role in the US Banking System

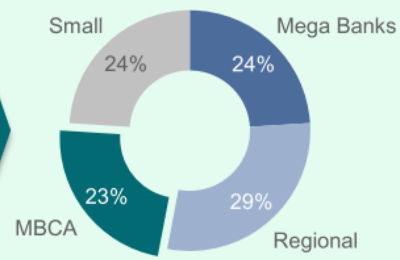
Particularly to local economies

Mid-size banks have traditional supported small business lending and were critical in the Paycheck Protection Program ("PPP")

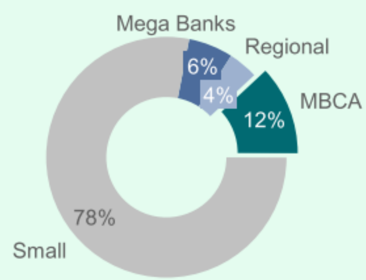
Lending to small business

(share of loans less than $1m at origination at 3Q'22)

Commercial loans



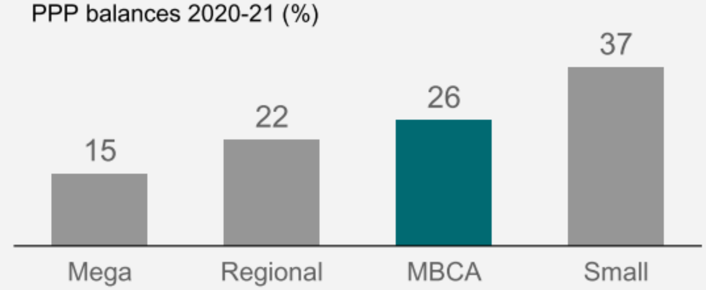
Agricultural production and farm loans



Paycheck Protection Program

- Mid-sized banks lent approximately 25% of the $800 billion program to participating institutions
- Well over 1 million loans were issued

Average share of outstanding PPP balances 2020-21 (%)



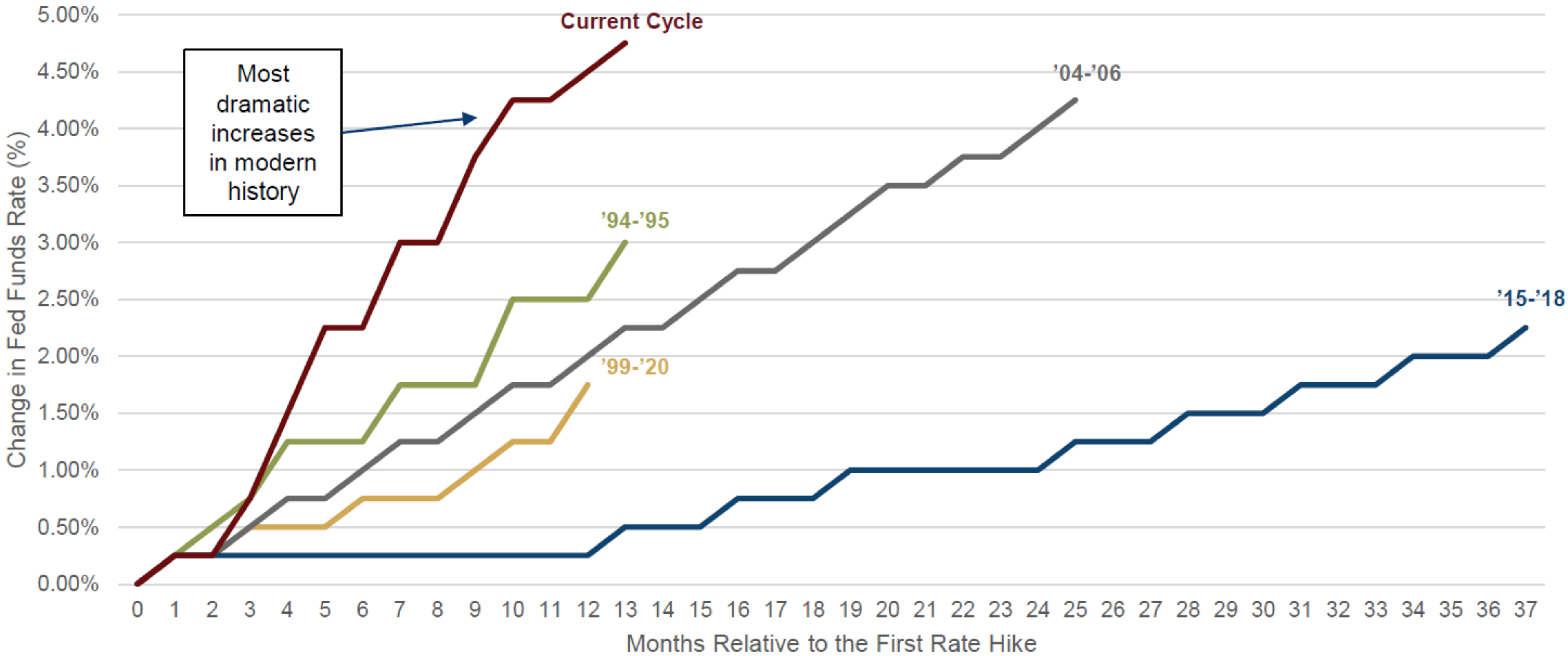
Source: Mid Size Bank Coalition (MBCA), S&P Market Intelligence

(1) Mega banks includes banks with $1 trillion in assets, custody banks and major investment banks (GS and MS)

CAMBRIDGE TRUST
PRIVATE BANKING WEALTH MANAGEMENT

Unprecedented Pace of Fed Rate Hikes

FOMC's Target Federal Funds Rate Changes Over Time

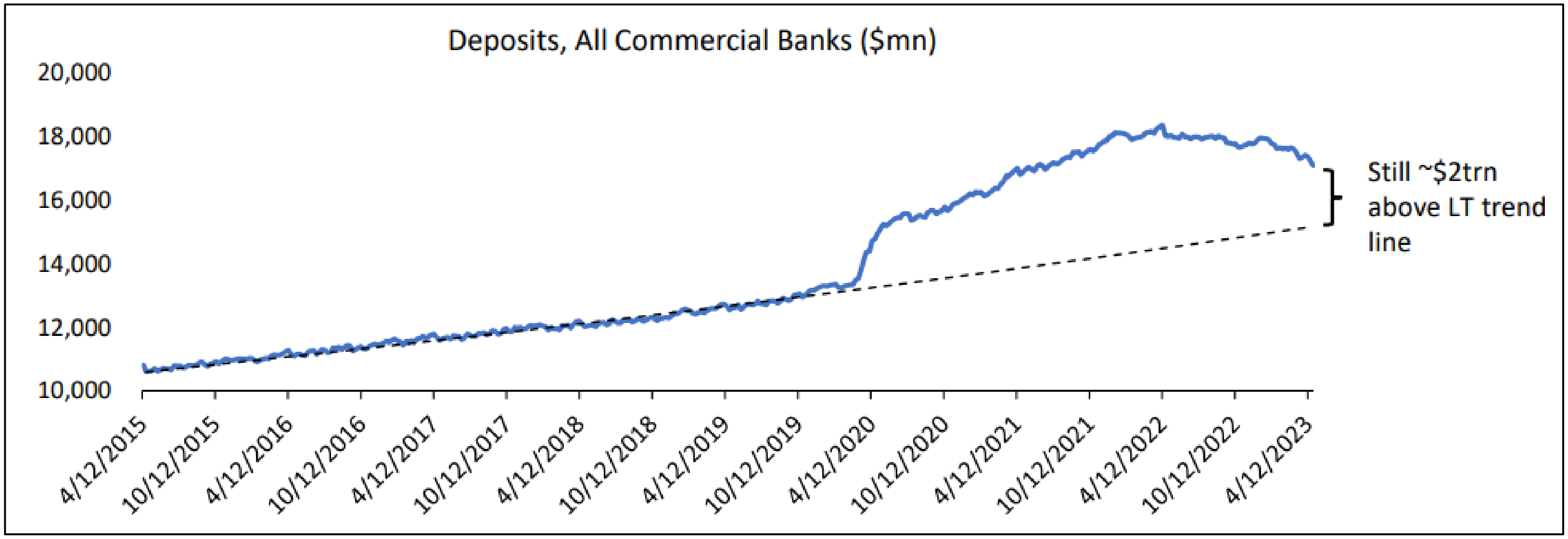


Source: Board of Governors of the Federal Reserve System (as of May 1, 2023)

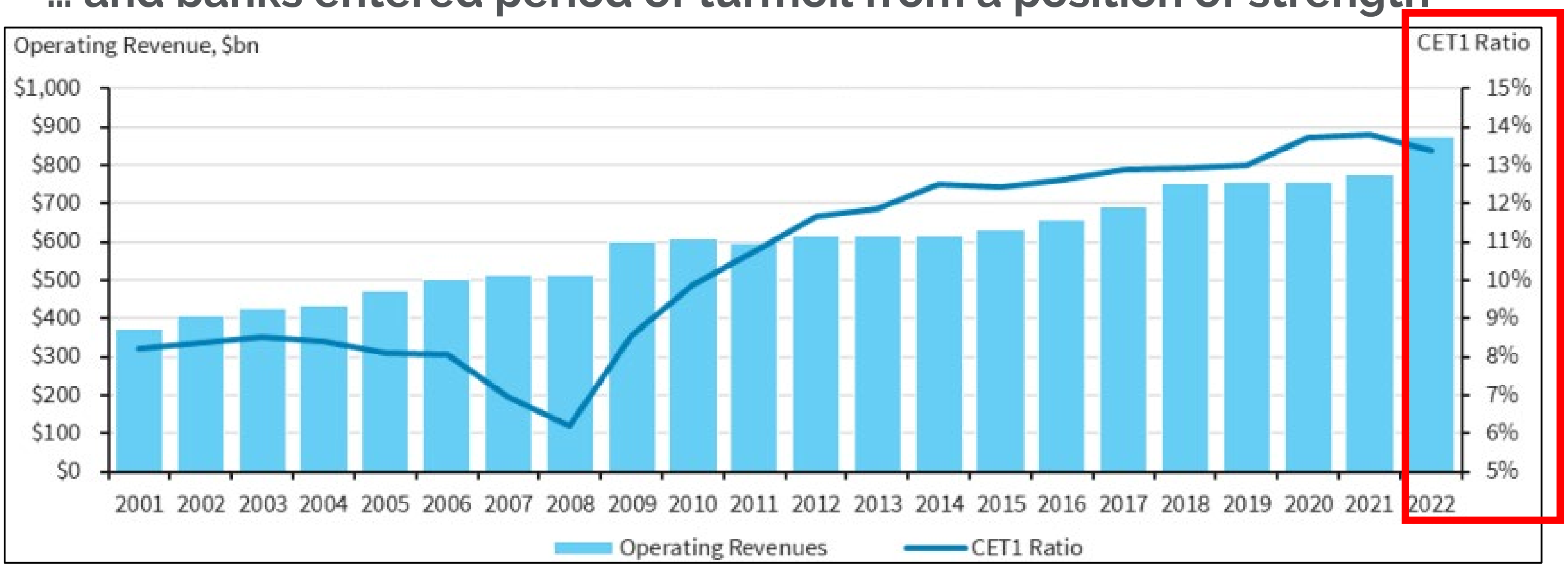
Despite Recent Challenges, US Banking System Strong

Systemwide deposit outflows slowing and capital remains robust

Weekly deposit data showing moderating outflows …



… and banks entered period of turmoil from a position of strength



Source: Evercore ISI (May 2023), Barclays (May 15, 2023)

Strong Industry Response in Face of March Events

Bank Term Funding Program (BTFP) + expanded FDIC coverage for SIVB, SBNY

March 12, 2023

Federal Reserve Board announces it will make available additional funding to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors

For release at 6:15 p.m. EDT

The additional funding will be made available through the creation of a new Bank Term Funding Program (BTFP), offering loans of up to one year in length to banks, savings associations, credit unions, and other eligible depository institutions pledging U.S. Treasuries, agency debt and mortgage-backed securities, and other qualifying assets as collateral. These assets will be valued at par. The BTFP will be an additional source of liquidity against high-quality securities, eliminating an institution's need to quickly sell those securities in times of stress.

After receiving a recommendation from the boards of the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve, Treasury Secretary Yellen, after consultation with the President, approved actions to enable the FDIC to complete its resolutions of Silicon Valley Bank and Signature Bank in a manner that fully protects all depositors, both insured and uninsured. These actions will reduce stress across the financial system, support financial stability and minimize any impact on businesses, households, taxpayers, and the broader economy.

Source: Board of Governors of the Federal Reserve System

Potential Changes in Tax Laws

Tax Law Changes

Potential Impacts and Planning Opportunities

A Call To Action

- Federal Estate and Gift Tax - Sunset and the New Dawn
- State Law Concerns
  - Massachusetts House Passes $1.1 billion Tax Package –The Good News
  - New Hampshire Income Tax and Trust Law favorability
- Secure Act 2.0 – Your Retirement and Your Estate – One Plan to Rule Them All

Federal Estate and Gift Tax

Warm Sunset and a Cool Dawn

- Current Law
  - The Unified Transfer Tax Exemption-the amount a person can transfer tax free during one's lifetime and at death. Any amount beyond the exemption that does not otherwise qualify for deductions, will be taxed at 40%.
  - The 2017 Tax Cuts and Jobs Act (TCJA) amended prior law to allow significant increases to the exemption amount, but there's a catch.
    - On Jan 1, 2026, the exemption reverts back to pre-TCJA levels.
    - The current exemption amount is $12.92 million per taxpayer with rate of 40%.
- The Clock Strikes Twelve--Back to the Future
  - Exemption on 1/1/2026 will be $6.8 million per taxpayer
- An individual's ability to shelter assets from tax will fall by approximately $7 million overnight.
- How do you capture the benefit of this massive exemption? Use it!

Federal Estate and Gift Tax (continued)
Warm Sunset and a Cool Dawn

- Planning for the Past – Use it or Lose It
  - To Gift or Not to Gift – That is the Question
    - Why should I?
    - When should I?
    - What should I ?
    - How should I?
      - Outright Gift
        - Cash
        - Appreciated Stock
      - Gifts in Trust
        - SLAT
        - CRUT
        - GRAT
    - Do I have to? There may be no benefit to you, and you may not want to give up the control necessary to qualify as a gift.

Federal Estate and Gift Tax (continued)

Warm Sunset and a Cool Dawn

- Today's Drill
  - Review terms of your current estate plan
  - Review your assets- Asset Placement, Appreciating or Appreciated, Cash, Business Interests
  - Review your goals, priorities, and achievements.
  - Gut check – "I just made this money and now you want me to give it away!"
- Consult with your trusted advisors—start with someone who is not charging per hour, if possible.
  - Make or revise your holistic plan to be flexible, adaptable, durable.
  - Build it to last.
  - Fund it- It is not enough to have a trust; you need to fund your trust for it to work.
- Check Beneficiary Designations- It's all part of a grand plan:yours!
- Consider Realization Events and Business Succession Considerations for Gifting.
- Do I have charitable intent at this time?

State Law Considerations

- Massachusetts Estate Tax
  - Current Law
  - $1 million exemption on transfers at death
  - Steep cliff if taxable estate exceeds the exemption amount-Entire $1 million plus the excess will be taxed.
  - Graduated estate tax rate
  - There is no tax on lifetime transfer (gifts)
- Proposed Law – Tax Package
  - Estate Tax Proposal
    - $2 million exemption
    - Eliminates Cliff
  - Income Tax Topics
    - Millionaire's Tax – Income Tax Concept
    - Miscellaneous
- New Hampshire Law remains a favorable tax and trust law environment. There are no other relevant proposals or changes.

Highlights from Secure 2.0

Background on SECURE Act

1st iteration signed into law on Dec. 20th, 2019

- Intended to strengthen the retirement system for Americans
- Broad changes affecting a large number individuals & businesses
- **S**etting **E**very **C**ommunity **U**p for **R**etirement **E**nhancement Act

House of Representatives passes Consolidated Appropriations Act of 2023 in Dec. 2022

- Contained 2nd iteration known as "SECURE 2.0"
- Numerous changes but likely impacting fewer individuals & businesses
- Provides new Financial Planning opportunities

Highlights from Secure 2.0 (continued)

Highlight #1 - New Transfer Pathway from a 529 College Savings Plan into a Roth IRA

Criteria:

1) 529 plan must have been maintained for 15 years or longer.
2) Roth IRA must be in the name of the 529 plan beneficiary.
3) Roth IRA owner must be eligible to make an IRA contribution (i.e.. they must have earned income for that year).
4) Annual limit for 529 to Roth transfers is equal to IRA contribution limit for that year, less any other IRA or Roth contributions.
5) Lifetime maximum of $35,000 can be transferred from a 529 to a Roth IRA.
6) Any contributions to the 529 within 5 years of the transfer are ineligible to be transferred into a Roth (as well as the earnings on those contributions).

Highlights from Secure 2.0 (continued)

Highlight #2 – Further Delaying Of RMD Beginning Dates

Tax Reform Act of 1986 first established RMD's at age 70 ½

- SECURE 1.0 pushed this back to age 72
- SECURE 2.0 pushes this back again to:
  - Age 73 if born between 1951 – 1959
  - Age 75 if born in 1960 or later
- Reduction in the penalty for missed RMDs
  - Now 25% of the undistributed amount
  - Penalty lowered to 10% if issue is resolved in a timely manner

Possible Planning Opportunities:

- Increased flexibility in tax-planning around large liquidity events
- Additional tax-deferred growth
- Potential to stave off higher premiums on Medicare parts B&D

Highlights from Secure 2.0 (continued)

Highlight #3 – "Rothification" Of Retirement Accounts

- Employers are now able to make matching contributions to Roth side of employee retirement accounts
- Roth matching is immediately vested
- Subject to income taxes to the plan participant in the year the match is made

CAMBRIDGE TRUST

PRIVATE BANKING WEALTH MANAGEMENT

CambridgeTrust.com