

A Matter of Trust

1ST QUARTER 2022 NEWSLETTER



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Scott Richardson, AIF®

Vice President
Trust Investment Officer

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HAPPY TRUST COMPANY
Wealth Management & Trust Services



Scott Richardson, AIF®
Vice President
Trust Investment Officer

Scott has been in the financial services industry for over 20 years of which the last 16 years has been spent as a financial planner helping clients meet their financial goals. He has a Bachelor of Business Administration from Texas Tech University. His role with Happy Trust Company includes research, security selection, portfolio management and financial planning. Scott is the Treasurer for the Golden Spread Council of the Boys Scouts of America. He also serves as the President of the Amarillo Downtown Kiwanis.

Quarterly Economic Update

In this Q4 recap: U.S. economy confronts a new COVID-19 variant amid continuing inflation and supply chain bottlenecks; Europe institutes new social restrictions in response to a surge in Delta and Omicron variant infections; Investors turn cautious as uncertainties increase.

The Quarter in Brief

The stock market kicked off the fourth quarter with a powerful rally in October. It added to those gains into November – until investors were blindsided by news of the emergence of a new COVID-19 variant, Omicron, and testimony by Fed Chair Jerome Powell that escalating inflation and an improving labor market warranted consideration of an acceleration of its bond purchase tapering plans.

Markets, as a rule, do not like surprises. Between uncertainty, and the combination of a new variant and a suddenly more hawkish Fed. Stocks were sent into a skid that largely erased the November's accumulated gains.

In its mid-December meeting, the Federal Open Market Committee (FOMC) announced plans to speed up its bond purchase tapering schedule. This signaled that, once tapering is concluded in March 2022, up to three rate hikes may follow.

Markets settled down into the final weeks of the quarter as early indications suggested that Omicron's health impact was less severe than the Delta variant. Relieved that its economic impact may be less significant than initially feared, reinvigorated investors jumped back into the market, pushing stocks higher into the end of December and capping a strong year of performance.

Corporate profits for the third quarter were solid. In fact, 82 percent of the companies comprising the Standard & Poor's 500 Index reported earnings above Wall Street analysts' expectations, posting an average earnings growth rate of 39.8% in the third quarter. If the fourth quarter numbers indicate the anticipated 20.9% earnings growth forecast is realized, this will mark a historically high watermark in corporate profits.¹

The U.S. Economy

After a Delta variant-induced slowdown in the third quarter, signs are pointing to a strong economic rebound in the fourth quarter and solid growth into 2022. Though the official economic growth rate for the fourth quarter won't be reported until January's Gross Domestic Product (GDP) report, according to the Federal Reserve Bank of Atlanta, which tracks economic data in real time, their model is indicating a 7.2% annualized real rate of Q4 GDP growth.²

The labor market showed considerable recovery as initial jobless claims fell steadily, while the unemployment rate shrank to 3.9% in December.³

The nation's manufacturing sector gathered momentum in the fourth quarter. The Institute for Supply Management (ISM) Manufacturing Index rose in November for the 18th straight month, with the trend pointing toward a faster acceleration in that growth.⁴

Looking ahead, one survey of economists conducted by the Federal Reserve Bank of Philadelphia shows a median forecast of 3.9% in GDP growth in 2022, with stronger growth in the first half of the year and a moderating expansion in the final two quarters.⁵

Especially noteworthy is the American consumer, the primary driver of economic growth. Americans have stockpiled \$2.3 trillion of excess savings (i.e., savings above pre-pandemic levels), providing a strong underpinning to fuel future economic activity.⁶

Perhaps the most concerning potential financial risk is inflation, which has persisted at an elevated rate for longer than the Fed expected. December's Consumer Price Index (CPI) provided little comfort, as prices jumped at a rate not seen in nearly 40 years, rising 7.0% year-over-year. It was the seventh consecutive month that inflation exceeded 5%.⁷

Shaky consumer confidence is another possible risk. In the University of Michigan's November consumer sentiment survey, Americans expressed less optimism than at any time since the credit crisis years, largely due to rising inflation and perceived government inaction to address it.⁸

While additional risks may present further challenges, the overall expectation, nevertheless, is for continued economic expansion in the near-to intermediate-term.

Global Economic Health

The economic outlook in European Union (EU) countries remains encouraging despite the rise in Delta and Omicron variant infections and instances of some countries instituting fresh economic restrictions. Maintaining this economic growth momentum has been primarily a result of continued progress in the region's vaccination efforts. As a consequence, the EU economy is projected to grow by 5.0% for the full year 2021 and by 4.3% in 2022. Domestic demand and an improving labor market are expected to drive this economic improvement, but inflation, ongoing supply chain bottlenecks, and the Omicron variant are the main risk factors that could upend this otherwise strong forecast.⁹

INDEX RETURNS

| | U.S. Stock Market | International Developed | Emerging Markets | Global Real Estate | | U.S. Bond Market | Global Bond ex U.S. |
|--------|-------------------|-------------------------|------------------|--------------------|--|------------------|---------------------|
| Q4 | STOCKS | | | | | BONDS | |
| | 9.28% | 3.14% | -1.31% | 12.35% | | 0.01% | 0.07% |
| | ↑ | ↑ | ↓ | ↑ | | ↑ | ↑ |
| 1 YEAR | STOCKS | | | | | BONDS | |
| | 25.66% | 12.62% | -2.54% | 31.38% | | -1.54% | -1.40% |
| | ↑ | ↑ | ↓ | ↑ | | ↓ | ↓ |

KNOW SOMEONE WHO COULD USE INFORMATION LIKE THIS?

Please feel free to send us their contact information via phone or email. (We'll request their permission before adding them to our mailing list.)

The Bank of England is less sanguine about the prospects for the United Kingdom's economic growth going forward. While GDP growth in 2021 was expected to be a very healthy 7.0%, the estimated growth rate for the fourth quarter was shaved due to supply chain disruptions. For 2022, the U.K.'s central bank is forecasting a 5.0% expansion in GDP.¹⁰

Economic growth in China slowed considerably in the latter part of 2021. In fact, GDP growth in the third quarter (+4.9%) was the slowest growth rate in a year, and materially lower than the second quarter growth rate of 7.9%. Economic growth is expected to further decelerate and remain weak into the first half of 2022. There are a variety of factors that are weighing on China's economy, including its zero-COVID-19 policy, power shortages, massive debts held by property developers, and the drag of government regulation on private sector businesses.¹¹

The Bank of Japan cut its forecast for economic growth in 2021 from 3.8% to 3.4%, but raised its estimate for GDP expansion in 2022 to 2.9%, up from 2.7%, citing the effects of COVID-19 infections and the expectation that the Japanese economy would rebound as the COVID-19 overhang wanes.¹²

The MSCI-EAFE Index, which tracks developed overseas markets, rose 2.40% in Q4, while emerging markets, as measured by the MSCI-EM (Emerging Markets) Index, fell 1.68%.¹³

Looking Back, Looking Forward

One overlooked feature of the stock market's 2021 performance was the successive waves of rotational corrections. From the view of major indices, stocks enjoyed a steady rise throughout the year without a correction (i.e., a decline of 10%-20%), suggesting a generally stable, even placid, stock market.

However, beneath this smooth ascent were periods of volatility for specific industry groups. For example, as of November 26, the year-to-date return on the S&P 500 was 22%, yet 92% of its constituent stocks experienced at least a 10% decline from their YTD highs, with an average drawdown of 18%. Similarly, the technology-heavy NASDAQ Composite, which was up by 20%, saw 89% of stocks with a drawdown of at least 10% and an average retreat from YTD highs of 40%.¹⁴

It is unrealistic to expect a repeat of the 2021's outsized gains, but the consensus of

Wall Street analysts is one of modest price gains in 2022 amid continued economic growth and low, though rising, interest rates.

The Federal Reserve began to pivot toward monetary normalization, announcing in December an acceleration of bond tapering and the possibility of up to three interest rate hikes. If the Fed finds itself behind the inflation curve and needs to increase the number of rate hikes or accelerate their pace, it may unsettle investors.

Corporate earnings growth is anticipated to moderate in 2022. If 4Q 2021 earnings forecasts materialize, the 2021 full-year earnings growth will be 45.0%. For 2022, Wall Street analysts are projecting an 8.8% jump in corporate profits. This is a substantial drop, but it represents healthy growth from a high watermark. If companies exceed these expectations, it may help support higher valuations.¹⁵ •

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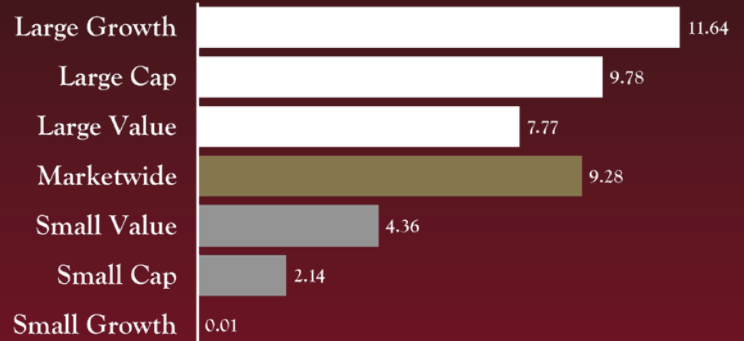
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4th Quarter Market Summary

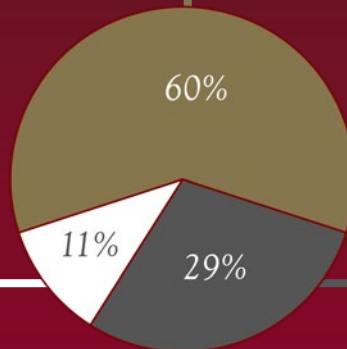
The U.S. market led the way during the final quarter of 2021, rising over 9% while finishing the year up over 25%. International Developed stocks had a respectable quarter and closed out the year up 12.6%. Emerging Markets struggled throughout the year ending up down 2.5%. The Value and Small Cap stock premiums were again mixed. Value outperformed in International Developed, Emerging Markets and U.S. Small Caps, while Small Cap stocks outperformed only in Emerging Markets. Bonds were slightly positive again as yields remained fairly steady. For a more detailed quarterly report please visit HappyTrust.com.

US STOCKS

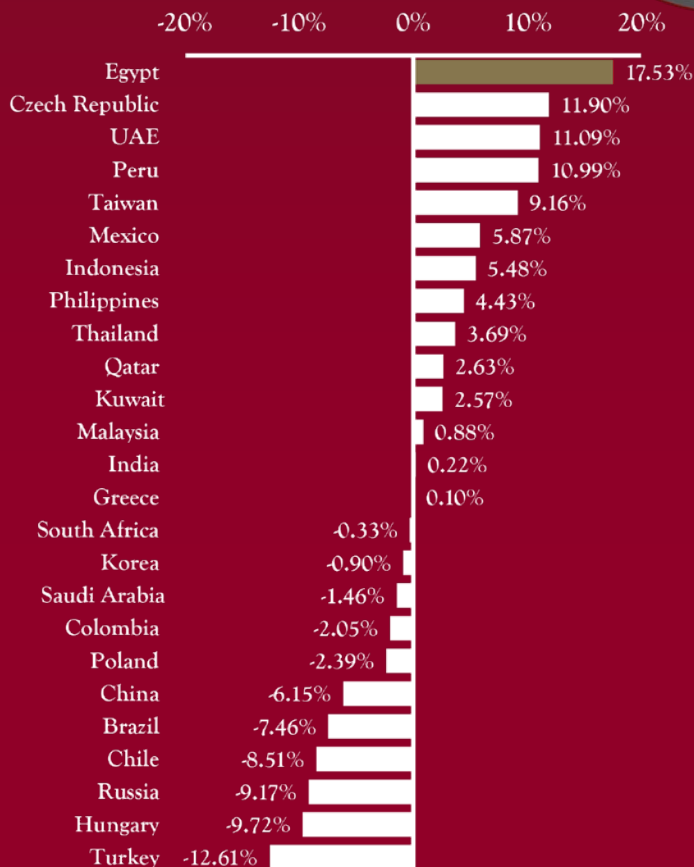
RANKED RETURNS FOR THE QUARTER (%)



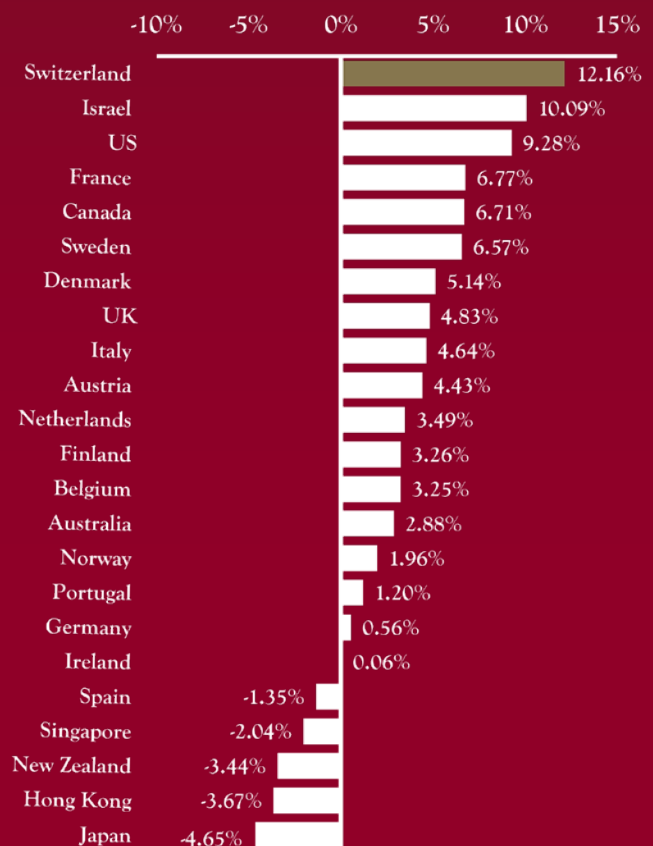
WORLD MARKET CAPITALIZATION



EMERGING MARKETS



INTERNATIONAL DEVELOPED



Meet the Team



Todd Wetsel

Senior Vice President
Senior Trust Investment Officer

Amarillo Office

Todd began his banking career while attending West Texas A&M University in 1999. After graduating from WTAMU with a Bachelor of Business Administration in Finance in 2001, he went to work in a local trust department as an assistant trust administrator. Todd took a detour from his banking career by enlisting in the United States Army in 2005 as a Cavalry Scout. While deployed to Iraq twice, he served as a gunner on a Bradley Fighting Vehicle and a Humvee (HMMWV) crew, as well as a vehicle commander and dismount team leader.

In 2010, Todd joined Happy State Bank where his principal duties as the senior portfolio manager, include oversight of the investment management process, market research and portfolio management. He enjoys working

with clients to achieve their financial goals whether that is saving for retirement or providing a lasting legacy for their family. Todd has attended the Texas Trust School and Texas Graduate Trust School offered by the Texas Bankers Association.

Todd is a member of the Amarillo East Rotary Club and serves on the board of the Wesley Community Center Foundation, the Texas Panhandle War Memorial, and the Catalyst Committee with the Amarillo Area Foundation. He is recently engaged to his fiancé Amanda. They, along with their two daughters, Natalie and Avi, enjoy supporting the local Amarillo Sod Poodles Double-A baseball team and exploring the outdoors while hiking, fishing and camping.



Chris Klemme

Senior Vice President
Senior Trust Officer

Dallas Office

Chris Klemme has been a licensed, practicing attorney since 1991. During his 20 years in private practice, Chris spent the first 13 years in a litigation practice and spent the next 7 years running his own estate planning, probate and probate litigation practice.

In 2011, Chris entered the bank side of trust practice with Regions Bank, where he served as a Vice President and Sr. Trust Officer. Chris joined Happy State Bank in June 2014 to expand the bank's trust practice into the Dallas-Fort Worth Metroplex, and currently serves as the Dallas Market Director for the trust department.

He received his B.A. in Political Science from Austin College in Sherman, Texas, and received his J.D. from Baylor University School of Law in Waco. His wife Kelly has been employed by the Federal Reserve Bank of Dallas since 1990. They have two children: Caitlin (26) of Charlotte, North Carolina and Kyle (21) a senior at the University of Texas at Austin. In his spare time, Chris enjoys playing golf and tennis and binge watching the latest popular TV streaming series.



Hunter Vagrosky
Assistant Vice President
Trust Officer

Hunter joined Happy State Bank in 2015. He was born and raised in Amarillo, Texas, where he was a proud Amarillo High School Sandie. Hunter graduated from West Texas A&M University with his Bachelor of Business Administration in Finance and Economics. Since joining Happy State Bank, Hunter has worked as a Teller, Trust Operations Specialist, and now as a Trust Officer. Hunter serves as a board member for the Amarillo Area Estate Planning Council and One Chair at a Time. Hunter and his wife, Katie, have a one-year-old daughter, Carter, and two wild dogs.

Ways to Fund Special Needs Trusts

by Hunter Vagrosky

A look at the different choices & strategies. Due to the complex nature of a special needs trust, it is important to have the right professionals involved in creating and managing the trust. Special needs trusts can be created to manage assets for an individual that cannot manage the assets themselves or to avoid being disqualified from receiving government assistance.

If you have a child with special needs, a trust may be a financial priority.

There are many crucial goods and services that Medicaid and Supplemental Security Income might not pay for, and a special needs trust may be used to address those financial challenges. Most importantly, a special needs trust may help provide for your disabled child in case you're no longer able to care for them.

Remember, using a trust involves a complex set of tax rules and regulations. Before moving forward with a trust, consider working with a professional who is familiar with the rules and regulations.

When it comes to funding the trust, there are several choices to consider.

There are four basic ways to build up a special needs trust.

One method is simply to pour in personal assets, perhaps from immediate or extended family members. Another possibility is to fund the trust with life insurance. Proceeds from a settlement or lawsuit can also serve as the core of the trust assets. Lastly, an inheritance can provide the financial footing to start and fund this kind of trust.

Families choosing the personal asset route may put a few thousand dollars of cash or other assets into the trust to start, with the intention that the initial investment will be augmented by later contributions from grandparents, siblings or other relatives. Those subsequent contributions can be willed to the trust, or the trust may be named as a beneficiary of a retirement or investment account.^{1,2,3}

When life insurance is used, the trustor makes the trust the beneficiary of the policy. When the trustor dies, the policy's death benefit is left to the trust.^{1,2,4}

Several factors will affect the cost and availability of life insurance, including age, health, and the type and amount of insurance purchased. Life insurance policies have expenses, including mortality and other charges. If a policy is surrendered prematurely, the policyholder also may pay surrender charges and have income tax implications. You should consider determining whether you are insurable before implementing a strategy involving life insurance. Any guarantees associated with a policy are dependent on the ability of the issuing insurance company to continue making claim payments.

A lump-sum settlement or inheritance can be invested while within the trust. With a worthy trustee in place, there is less likelihood of mismanagement, and funds may come out of the trust to support the beneficiary in a measured way that does not risk threatening government benefits.

Care must be taken not only in the setup of a special needs trust, but in the management of it as well. This should be a team effort. The family members involved should seek out legal and financial professionals who are well versed in this field, and the resulting trust should be a product of close collaboration.

Happy Trust Company works with a variety of special needs trust clients with unique situations and requirements. We pride ourselves in administering special needs trusts in such a way that the client is not in jeopardy of losing benefits and can prolong the life of the assets that fund the trust. •

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A Year in Review & Cheers to 2022!



Happy New Year to all and a much better and pandemic-free tomorrow for everybody! It is truly hard to believe that 2021 is in the books already. I am proud of the efforts of the entire Trust team as we continue to grow in the Amarillo, Lubbock, Dallas, Fort Worth and Kerrville markets. We started 2021 with approximately \$913 million in Assets under Management (“AUM”) and, thanks to our customers and referral partners, I am very proud to say that Happy Trust Company is now \$1.04 billion in AUM as of December 31, 2021. An amazing accomplishment by the team as we continue to grow at a substantial rate, while always focusing on remembering that “the highest level of client service is our #1 goal.”

Now for the biggest news as we move into 2022! As many of you know, Happy State Bank is being acquired by Centennial Bank (Home BancShares, Inc., is the holding company) out of Conway, Arkansas.

Centennial Bank is a very large \$18 billion community bank with a focus on both rural and metro banking. As some of you might have felt the urge to look-up the population of Conway, Arkansas, it’s great to note that Centennial’s headquarters is in a small to mid-size community with a population of around 60,000 folks. We are excited about a community bank like Centennial Bank wanting to join arms with Happy State Bank and make Happy the flagship of Texas.

Centennial also has an \$800 million AUM trust department out of Jonesboro, Arkansas, and we welcome the additions of our future trust family members from Jonesboro. With the joining of forces, our Trust group will be close to \$2 billion in AUM. No matter the size of our Trust Department, I know I speak for the team in saying “we always want to remain a community bank trust department that is dedicated to finding solutions to meet each and every client’s long-term needs.”

Last and most importantly, I want to ask our clients how we can always improve our level of service to you. We want your feedback to continue to raise our service level and product delivery. Please call me directly at 806-349-9893 or email me at jmills@happybank.com to let me know if there are any areas where we can improve the client experience.

Thank you in advance for your time, and we greatly appreciate your business! On behalf of the Happy Trust team, we wish each of you all the best in 2022! •

Joby Mills, J.D.
*Senior Vice President
Director of Trust Services*

Joby Mills has 21 years of experience in the trust industry as an in-house attorney, trust administrator, and department manager. Joby’s primary responsibility is the overall management of Happy State Bank’s Trust Department. He earned his B.A. in Finance from the University of Northern Iowa and his Juris Doctor from Baylor University School of Law. He serves as the Chairman of the Administrative Council of the Texas Bankers Association Wealth Management & Trust Division, Past President and Member of the Amarillo Area Bar Association and is also a Past President and Member of the Amarillo Area Estate Planning Council.

If you have a question that you would like answered in a future Matter of Trust newsletter, please share it with us at
TrustInvestments@HappyBank.com.

We're here to help.



Happy Trust Company, established in 2002, is a division of Happy State Bank dedicated to creating value, improving wealth and protecting your assets.

Amarillo

806-356-8787

Dallas

972-407-4944

Lubbock

806-798-4805

Fort Worth

817-989-3945

Kerrville

830-353-6755

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