A Matter of Trust

4TH QUARTER 2022 NEWSLETTER

Be Financially Prepared

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Scott Richardson, AIF®
Vice President
Trust Investment Officer

HAPPY TRUST COMPANY
A DIVISION OF CENTENNIAL BANK

Happy Trust Company
Wealth Management & Trust Services
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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.

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.

U.S. Economic Overview

Economic expansion, as measured by Gross Domestic Product (GDP), staged a mild recovery in the third quarter of 2022, up from two consecutive quarters of negative GDP growth. Some analysts believe that the bounce may be short-lived, as ongoing challenges are expected in 2023. A lingering recessionary environment is still a concern for the markets and consumers, instilling a more cautious approach to investing and spending. The recent growth numbers are not expected to mean that the nation has rebounded, but rather GDP is simply treading water. With consumer spending accounting for nearly 70% of GDP, inflation is placing additional pressure on American consumers.

The supply chain constraints that existed this same time last year, have nearly been eliminated. Production, shipping, labor, and material shortage issues were critical concerns during the height of the constraints. The alleviation of supply constraints has led to deep discounts by retailers which were widespread as retailers mark down prices on numerous items heading into the holiday season. Lower prices tend to dampen retail stock margins yet allow stores to reduce inventory and bring in consumer traffic. Falling commodity prices and a strong U.S. dollar helped to slightly alleviate inflation toward the end of 2022. Lower commodity prices along with a strong dollar make imported products less expensive for consumers and businesses.

The Federal Reserve has continued its steepest rate increase since the early 1980s. Political pushback against the Fed has been building as criticism surrounding the rate hikes has become a focal issue. Recent comments indicate that it may consider a more cautious pace of rate hikes as economic activity begins to react to the rapid rise in interest rates. With uncertainty regarding the raising of interest rates and the growing expectation for them to pivot, the dollar has slightly fallen from all-time highs versus the euro and pound. A weaker U.S. dollar helped U.S. multinationals trim currency constraints as well as offered U.S. exporters to become more competitive globally.

The Fed's most recent survey of economic activity nationwide, known as the Beige Book, revealed weakening economic growth, tighter bank lending standards, and easing inflation. Slowing wage growth has also become more apparent as some companies announce layoffs and trim positions. Some analysts view these dynamics as deflationary as well as indicative of an ensuing economic slowdown. Markets reacted to indications that the Fed might slow its pace of rate increases heading into the new year. Such a change in monetary policy would likely be positively received by financial markets with the anticipation of eventual lower rates.

A closely followed inflation indicator by the Fed, the Personal Consumer Expenditure Price Index (PCE), has been falling consistently since June. Data released by the BEA revealed a drop from 7 in June to 6 in October, signaling a drop in overall prices and inflation.

Recession fears continued to hinder markets from additional expansion, with growing concerns surrounding the labor market. John Williams, Federal Reserve President from the New York district, said that unemployment could reach 5% in 2023, up from 3.7% this past month. Regardless, the Fed's primary objective of stamping out inflation remains key, meaning any further rate increases could slow hiring and raise unemployment even more.

Inflation hindered both consumers and businesses in 2022, as rising prices for food and fuel shifted spending away from non-essential items. Higher labor costs along with elevated operating expenses reduced company margins and profit projections. Optimistically, the labor market remained resilient as unemployment stood below 4% at the end of 2022, still at historically low levels. Over 11 million positions were open heading into 2023, solidifying a buffer for millions of workers searching for employment. Conversely, many companies that over-hired since the start of the pandemic began to reduce jobs and trim staff as economic headwinds have become more prominent.

Global Economic Overview

The 2022 World Economic Outlook revealed that the global economy's future is "gloomy and more uncertain." The key economies of China, Russia and Europe all have critical issues in the near term, with a continued slowdown predicted by the International Monetary Fund (IMF). The Ukraine war also contributes to uncertainty and has slowed the global economy. It has prompted the OECD to revise its global growth projections. Even before the war began, supply chain issues were already dampening economic growth estimates. China is facing COVID-19 outbreaks and lockdowns, European countries have been enforcing tighter monetary policy and face the

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	
	7.18%	16.18%	9.70%	6.88%	1.87%	0.18%
1 YEAR	STOCKS				BONDS	
	-19.21%	-14.29%	-20.09%	-24.36%	-13.01%	-9.76%

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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.)*

possible end of the Russian gas supply, and Russia's invasion of Ukraine has no end in sight.

Looking at the IMF's projections for key economies across the globe is crucial to understanding this slowdown. Compared to previous projections made in April, projections for GDP growth in 2023 are down across the board. This means that countries' economies will grow less than planned for nearly all the major economies such as the United States, Russia, Germany, France, China, and more. Of the 30 countries that make up over 80% of the World's output, 24 now have lower expected GDP growth for 2023 than they previously did in April of this year.

IMF Economic Counsellor and Director of Research Pierre-Oliver Gourinchas recently stated, "The world may soon be teetering on the edge of a global recession." Global growth predictions and economists point to a slowdown.

The U.S. represents roughly 62% of the global market capitalization while the US economy only represents 26% of the global economy. Emerging market capitalization accounts for 11% of the global economy while its economic representation is about 35%. International equity markets reacted positively to the lower U.S. dollar, outperforming U.S. equities.

4th Quarter Equity Overview

For the year the S&P 500 index was down 19.44% and the Dow Jones Industrial average fell 8.74%.

After struggling all year, U.S. equity markets rebounded in October with the Dow Jones, S&P 500, and Nasdaq indices all posting positive gains for the month. Technology, health care, and financial stocks were the largest contributors to the S&P 500 Index.

A weaker U.S. dollar added to gains as equity earnings are expected to improve because of a weaker dollar. Overseas sales are more profitable for U.S. companies when the U.S. dollar is weaker.

In November the US equity markets continued its upward trajectory as stabilization in rates and inflation stirred optimism that lower rates would eventually materialize. The Dow Jones Industrial Average, S&P 500 Index, and the Nasdaq all climbed modestly adding valuation to numerous stocks. Developed and emerging market equity markets outperformed U.S. equities in November, propelled by lower global interest rates.

December saw increased volatility in the global equity markets which led to increased uncertainty surrounding growth and earnings expansion for companies. Inflationary pressures and higher labor costs weighed on stocks, with only two sectors of the S&P 500, energy and utilities, posting gains for the year. The consumer discretionary, real estate, communications, and technology sectors underperformed the most for the year.

Corporate earnings forecasts remain a focal point as companies increasingly struggle with tighter margins and a slowing economic environment. Optimistically, the challenges of the post-pandemic supply constraints have eased significantly.

4th Quarter Fixed Income Overview

Federal Reserve rate hikes to combat 40-year highs in inflation played havoc on bonds throughout 2022, sending short and long terms rates to levels not seen in years. Short-term Treasury bonds continued to post higher yields than longer-term Treasury bonds. Six-month maturity bonds yielded 4.57% at the end of October, higher than 30-year maturity bonds at 4.22%. Analysts term this dynamic as an inverted yield curve, which is indicative of a recessionary environment. In November, shorter-term maturity yields for Treasury bonds were still higher than longer-term Treasury bond yields, representing possible slowing economic activity. Yields on the 1-year Treasury note was 4.74% compared to 3.68% on the 10-year Treasury bond on November 30th. The 10-year Treasury note yield started 2022 at 1.52%, peaked at 4.25% on October 24th, and closed the year at 3.88%. The three-month Treasury bill started the year at 0.06% and closed the year at 4.42%.

Mortgage and consumer loan rates held steady which have been hindering the housing and consumer markets. FreddieMac reported the average rate on a 30-year fixed mortgage above 7% at the end of October, a level not seen since 2002.

In 2023, the Fed is expected by many analysts to begin slowing its rate hike trajectory. Currently, the Fed Funds Rate range is 4.25%-4.5%, up dramatically from its two-year stint at 0%.

For the first time in modern history both the equity and fixed income markets fell double digits in the same year. 2022 was a challenging year to say the least. Experience has shown that working with a trusted advisor can help you stay the course and weather difficult times like these. We would be HAPPY to serve you by being that guide in your investing journey. •

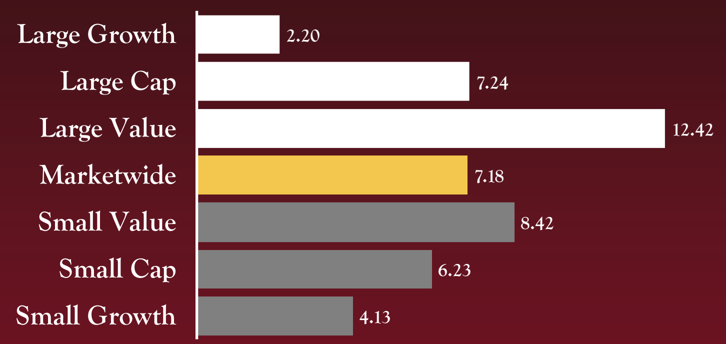
Sources: U.S. Department of the Treasury, Freddie Mac, U.S. Federal Reserve Bank of New York, U.S. Bureau of Economic Analysis, U.S. Federal Reserve Bank of St. Louis, IMF, BLS, Bloomberg, Dow Jones, S&P, Nasdaq, Bloomberg, Reuters, New York Stock Exchange

4th Quarter Market Summary

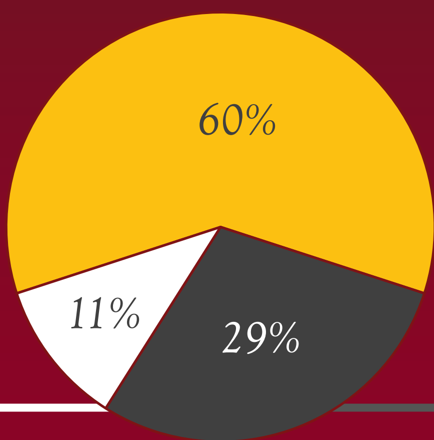
The fourth quarter was the only bright spot for the year. Equity markets seemed to bottom in early October and had a very strong run through early/mid December. The primary driver of the news cycle and market returns was the efforts by the Federal Reserve to fight inflation with rate increases. Equities across the globe rose significantly in Q4 but were negative for the year. Value significantly outperformed in most markets, particularly in the U.S. While the Federal Reserve raised the Fed Funds Rate all year, market driven interest rates began to cool slightly in November. Falling rates brought some welcome relief to bond holders. For a more detailed quarterly report please visit HappyTrust.com.

US Stocks

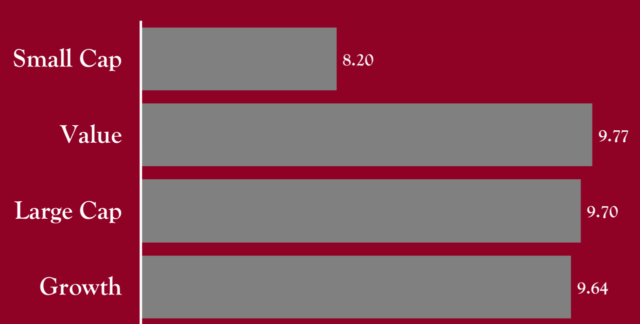
Ranked Returns for the Quarter (%)



World Market Capitalization



Emerging Markets



International Developed

Meet the Team

Bruce Larson, AIF®

Senior Vice President
Senior Trust Officer

Lubbock Office

Bruce joined Happy State Bank in July 2022. He was born and raised in Northern Illinois before relocating to West Texas in 2010. He has over 20 years' experience focusing primarily in trust administration and retirement planning.

Bruce currently serves as the Senior Trust Officer in Lubbock, Texas. His responsibilities include account administration of trusts, investment accounts, retirement accounts and estates. He enjoys getting to know his clients and takes great pride in helping them solve problems to improve their lives and achieve their financial goals.

He earned his Bachelor of Arts in Economics from DePaul University in Chicago, and his MBA from Benedictine University in Lisle, Illinois. Bruce also earned his Accredited Investment Fiduciary (AIF) designation to improve his ability to serve non-profits, endowments, foundations, individuals and retirement plans. Additionally, he is a member of the South Plains Trust and Estate Council.

When he isn't with his HAPPY family, he enjoys spending time with his wife, Kassi, and their five children and four dogs. As you can imagine his family keeps him busy, but he still manages to make time to help others in the community, particularly focusing on the needs of children. He enjoys volunteering as a mentor to kids for the YWCA organization and numerous other endeavors for the United Way. He is also a self-described college basketball junkie who never misses a Texas Tech game. •

Laura J. Brown, CAP, CTFA

Senior Vice President
Senior Trust Officer

Fort Worth Office

Laura J. Brown joined Happy State Bank & Trust Company in 2022 as a senior trust officer and market director for Fort Worth and the Mid-Cities. She previously served as a trust and client advisor with The Northern Trust Company and managed agency and trust relationships utilizing comprehensive wealth management services for ultra-high-net-worth individuals, families and charitable entities.

Laura's background includes 16 years in the philanthropic sector working with families as they created their legacy plans to include charitable organizations, endowments, trusts and donor-advised funds. She led planned giving, major gifts and capacity building campaigns for nonprofit organizations including The Dallas Foundation, Boys & Girls Clubs of Greater Dallas, Dallas Black Dance Theatre and The Dallas Symphony. Laura values providing exceptional service and fiduciary expertise to clients and their advisors through a holistic and proactive approach. She has a heart for educating the next generation and working with community-focused families.

Laura graduated from Texas Christian University with a Bachelor of Science degree in Advertising/Public Relations and a minor in Business. While attending TCU, she interned for six months at a public relations firm in London, England, U.K. Laura went on to earn her Master of Business Administration from the University of Dallas in Irving, TX. She holds the Certified Trust & Fiduciary Advisor (CTFA) designation, Chartered Advisor in Philanthropy® (CAP®) designation, is a member of the Tarrant County Bar Association, past board member of the Dallas Estate Planning Council (DEPC), and past president of the DEPC Emerging Professionals. Laura is actively engaged with local community organizations, her children's schools and her church. In her free time she enjoys traveling and spending time in the outdoors with her family. •

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Be Financially Prepared

by Mike Klein

While 2022 was indeed a challenging year for investors, *it is now more important than ever to "keep your eye on the ball". What do we mean by that? In years where markets really struggled, we have noticed that many of our clients forgot about – or ignored – some basic financial planning tenets.*

So, as we enter a new year, let's revisit six core financial principles that we encourage our clients to pay close attention to:

1. **Protect what is important to you!** Maintain proper levels of insurance coverage on things like life, health, disability, long term care, auto, home, personal articles and umbrella liability. Few things can erode wealth and upset your financial apple cart as quickly as being under-insured.
2. **Budget!** This is another often overlooked item. We urge you to create and follow a monthly budget for you and your family. This is the best way to help you spend less than you earn, control where your money goes, help you differentiate between needs and wants and help you pay yourself first (savings and investments). As part of this exercise, be sure to keep up with your credit score and credit reports. There are several sites out there where you can access your free credit report annually.
3. **Emergency Fund!** It is not a matter of "if" – but – "when" you will need funds for some sort of unplanned event. When these things happen, the last thing you want to do is borrow funds or increase credit card debt to handle it. We recommend three to six months' worth of committed expenses in a savings or other guaranteed account. Set up auto funding to it (budget) and fund it before any other investment.
4. **Save early for Retirement!** Save at least 10% of your income in your employer plan and/or IRA. Stay committed to it (budget) and increase your contribution percentage as your pay increases. Time is your biggest ally, so the earlier you start, the better off you will be at retirement. Don't forget to fund your IRA, as well. For 2022, you can contribute up to 100% of your earned income not to exceed $6,000 ($7,000 for those age 50 and above) and you have until your tax filing deadline in April to fund it (for 2023, those limits will be $6,500 and $7,500 respectively).*
5. **Estate Planning Documents!** Everyone, regardless of age, income, familial status, or net worth, needs a Will, Durable Power of Attorney, Health Care Power of Attorney and Physician's Directive. Please don't use online forms here, as this is one area where you want it done right! In addition, your attorney and CPA can assist with asset titling to ensure it coincides with your estate plan. This plan should be updated every time there is a significant life event in your family (i.e. birth, death, marriage, divorce, job change or retirement).
6. **Build your Financial Plan!** You should have a written plan that sets specific and attainable goals, realistically assesses your situation and creates a financial "to-do" list for you and your family.

Experts at Happy Trust Company can assist in the complexity that come with building a written financial plan. We will build out a customized plan that will show you how close you are to realizing your financial goals. Please contact us to discuss how we can make your financial dreams a reality.

We hope this financial planning reminder is helpful to you and your family. At Happy State Bank, a Division of Centennial Bank, we are honored to be the financial provider of choice in the communities we serve. We work hard every day to earn and keep your trust. Thank you for your business and a very Happy New Year to you all. •

*Income limits apply to the deductibility of Traditional IRA contributions. Please consult your CPA.

Mike R. Klein
Senior Vice President & Trust Investment Officer

Mike earned his MBA in Finance from the University of Texas at San Antonio and holds numerous professional designations. Prior to joining the Bank in 2019, Mike spent over 38 years at several major financial and wealth management institutions. Positions held include Trust Sales Director, Financial Planner, Retirement & Advice Director, Wealth Manager and Compliance Director. Mike is passionate about helping clients and co-workers achieve their financial goals and objectives.

In his spare time, Mike volunteers at his church, Sunshine Cottage School for Deaf Children and Christy's Hope for the Battered Women's & Children's Shelter of San Antonio. He also enjoys golfing and spending time with his daughter.

A Year in Review
& Cheers to 2023!

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

Joby Mills has 22 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 Immediate Past 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.

Happy New Year to all and I hope each of you have a great and very memorable 2023! The year 2022 was definitely a year to remember at Happy State Bank. As most of you know, we became part of the Home Bancshares, Inc. family (the holding company of Centennial Bank and headquartered in Conway, Arkansas) on April 1, 2022. I have met a lot of new colleagues and, more importantly, good people in our multi-state locations. I want to thank the leadership team at the Home Bancshares Holding Company, its Executive Management team at Centennial Bank, and our new and extended Trust family members in Jonesboro, Arkansas, for all being extremely supportive of our Happy Trust family and our continued growth trajectory. Without their support, I would not be telling you that we had our best financial year of record at Happy Trust Company and the future is very bright.

I am honored and so proud of our Trust family and wanted to share some 2022 highlights about the Happy Trust Team:

- **7 New Happy Trust Teammates Joined Our Family**
  Laura Brown (Trust Market Manager in Fort Worth & Mid-Cities of the Metroplex); Jordan Gamino (Trust Assistant in Fort Worth); Bruce Larson (Trust Market Manager in Lubbock); Jamie Edwards (Trust Assistant in Lubbock); Tobey Mata (Trust Assistant in Kerrville); Dylan Miller (Trust Real Estate Associate in Amarillo); and Connie Bradford (Trust Operations Specialist in Amarillo). We are fortunate to have a lot of new talent joint the team and I am excited to watch each of them grow as Trust professionals.
- **Promotion Announcement!**
  Congratulations to Jareli Fernandez for being promoted to Trust Officer. She's done an outstanding job on our team and is a rising star at Happy Trust Company.
- **Congratulations to Scott Richardson for Passing the Certified Financial Planner exam!**
  Scott joined our Happy Trust family almost 5 years ago and he continues to excel as a trusted investment manager for our clients. Now, Scott is a CFP® professional too!
- **New Trust Location in Round Rock**
  I am excited to announce that Jareli has helped us launch our Round Rock/Austin Trust office in January 2023. We intend to hire additional Trust professionals to join Jareli at our new location soon.
- **New Wealth Services & Accounting Platforms**
  Infovisa Maui: In February 2023, we are launching a new back-office trust accounting platform called "Infovisa Maui". We believe this platform will offer our clients additional valuable services, including investment performance reporting, a downloadable App to access your account, and additional client-friendly features.

  Financial/Wealth Planning: We have a new relationship with E-Money, a leading financial & wealth planning provider. If you have an interest in creating or updating your financial/legacy plan, please give us a call.

As I always try to mention in client meetings and newsletters, we want your feedback in order to always make sure we are providing the highest level of professional services to you. 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 on the client experience. We greatly value your business and thank you for choosing Happy!

All the best in 2023! •

We're here to help.

HAPPY STATE BANK

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

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